Economic Monitor

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2019

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

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February 2020

Third Quarter 2019 in Brief:

- **GDP:** GDP grew during Q3 2019 by 1% compared with the previous quarter and declined by 0.6% compared with the corresponding quarter 2018 (at constant prices) reaching USD 3.9 billion. This is attributed to a growth of 1.1% in the West Bank and 0.5% in the Gaza Strip, reflected as an increase in per capita GDP by 0.5% in the West Bank (USD 1,191) and a decline of 0.2% in Gaza Strip (USD 348.1) over the consecutive quarters.
- **Employment and Unemployment:** The unemployment rate in Palestine decreased by 1.4 percentage points over the previous quarter, reaching 24.6% (13.3% in the West Bank and 45.1% in the Gaza Strip). The average daily wage in Palestine reached NIS 136.7: around NIS 127.8 for workers in the West Bank, NIS 55.9 for workers in the Gaza Strip, and NIS 261.1 for workers in Israel and its colonies. The percentage of private sector waged workers who earn wages below the minimum wage was 30%.
- **Public Finance:** Net public revenues and grants rose significantly in Q3 2019, reaching NIS 4.2 billion. This was due to the resumption of transferring clearance revenues and a rise in domestic revenues by 19%, and foreign aid by 35%. On the other hand, public revenues decreased by 33%, reaching NIS 3 billion (cash basis). During Q3 2019, government arrears reached NIS 1.1 billion and public debt grew by 8% compared with the previous quarter, reaching NIS 10.2 billion.
- **Banking Sector:** During Q3 2019, credit facilities remained at the same level, standing at USD 8.9 billion, 16% of which were granted to the public sector. On the other hand, deposits increased by 3%, reaching USD 13 billion. Banks' profits reached USD 39.4 million during the quarter, an increase of 7% compared with profits in the previous quarter and a drop of 14% compared with the corresponding quarter.
- **PEX:** By the end of Q3 2019, the market value of traded shares in PEX was USD 3.7 billion, a drop of 0.2% and 0.4% compared with the previous and corresponding quarters respectively.
- **Inflation and Prices:** During Q3 2019, the Palestinian economy witnessed a positive inflation of 0.33% compared with the previous quarter. Therefore, the purchasing power for those who received their salaries and spent them in NIS decreased by the same ratio over the consecutive quarters. Whereas, the purchasing power for those who receive their salaries in USD and JOD and spend them in NIS has declined by 2.08% and 4.81% compared with the previous and corresponding quarters, respectively. This is due to inflation and the drop in the USD exchange rate against the NIS.
- **Balance of Payments:** The deficit in the current account reached USD 387 million in Q3 2019 (9.9% of GDP), resulting from a deficit in the trade balance (USD 1,696 million), against a surplus in the balance of income (USD 770 million), and a surplus in the current transfers (USD 539 million).

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]

By the end of 2019, the Palestinian Central Bureau of Statistics (PCBS) released a new series of revised national accounts (refer to Box-1 in this issue of Monitor). The new series of figures will be used starting from this issue.

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 increased by 1% during Q3 2019 compared with the previous quarter, reaching USD 3,915.3 million (at 2015 constant prices): 1.1% in the West Bank and 0.5% in the Gaza Strip. However, GDP grew by 0.6% in Q3 2019 compared with the corresponding quarter in 2018.

The rise in GDP over the consecutive quarters, accompanied by an increase in the population, resulted in an increase in per capita GDP by 0.3% (increase of 0.5% in the West Bank and a drop of 0.2% in the Gaza Strip). Over the corresponding quarters, per capita GDP declined by 3.1% (Table 1-1).

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

	Quarter 3 2018	Quarter 2 2019	Quarter 3 2019
Palestine*	859.4	830.1	832.9
-West Bank	1,225.7	1185.2	1,191.0
-Gaza Strip	324.9	324.9	318.1

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

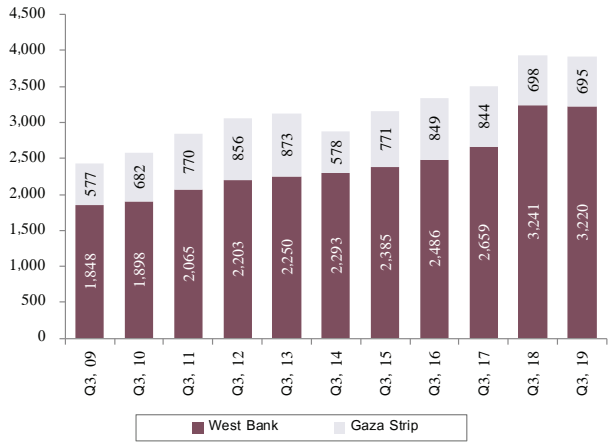
Figure 1-1 depicts the expansion in the Palestinian GDP gap between the West Bank and the Gaza Strip over the last decade. Gaza Strip's share of GDP is still less than one-fifth of Palestine's GDP. The gap in per capita GDP between the West Bank and the Gaza Strip reached USD 842.9 during Q3 2019. This means that per capita GDP in Gaza Strip is only one third of per capita GDP in the West Bank.

Composition of GDP

The contribution of the productive sectors to Palestinian GDP increased by 0.2 percentage point between Q2 and Q3 2019, driven by a rise in the share of the agriculture sector. Additionally, the share of the trade, information, transport, and finance sectors increased by 0.1 percentage point, as well as the share of public administration and security sectors by 0.3 percentage point, while the services sector dropped by 0.5 percentage point. Compared with the corresponding quarter in 2018, the contribution of the productive sectors decreased by 0.6 percentage point as a result of a drop in the share of the mining, manufacturing and construction sectors. Additionally, the share of the trade, information, transport, and finance sectors decreased by 0.8 percentage point, and the services sector by 0.2 percentage point. On the other hand, the share of public administration and security sector increased by 1.6 percentage points (Figure 1-2).

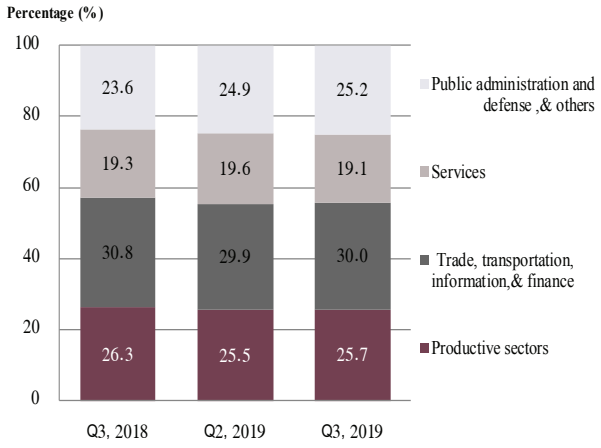
1 Source of figures: PCBS, 2019. Periodic Statistics on National Accounts, 2000-2019. Ramallah, Palestine These are preliminary estimates and are subject to revision and amendment.

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.

Figure 1-2: % Contribution of Economic Sectors to Palestinian GDP* (constant prices, base year 2015)



Expenditure on GDP

The absolute decrease in the value of GDP between Q3 2018 and Q3 2019 amounted to approximately USD 23.5 million. This reflects a decline in public consumption and investment of USD 97 million, while private consumption expenditures, along with a slight increase in exports, rose by USD 70 million. This was accompanied by a decline in imports value by USD 3.2 million, as shown in Table 1-2. The decline in public consumption expenditures and investments combined to reduce GDP growth by 2.5%, while the rise in private consumption expenditures and the drop in imports combined to grow GDP by 1.9%. This resulted in a decrease to net GDP growth by 0.6%, which reflects a decline over the corresponding quarters as mentioned previously (Table 1-2).

Table 1-2: Distribution of Expenditure on GDP in Palestine* and the Shares of Aggregate Demand in Growth (%)

Final consumption	Q3 2019 compared with the previous quarter		Q3 2019 compared with the corresponding quarter	
	Market Value (million USD)	Contribution to GDP growth	Market Value (million USD)	Contribution to GDP Growth
Increase in Private Consumption	25.0	0.6	69.1	1.8
(+) Decline in Public Consumption	30.5	0.8	(47.3)	(1.2)
(+) Increase in Investment	1.5	0.0	(49.6)	(1.3)
Increase in Net Exports	(5.7)	(0.1)	1.3	0.0
(-) Change in Imports	14.8	0.4	(3.2)	(0.1)
Net errors and omissions**	2.2	0.1	(0.2)	0.0
GDP	38.7	1.0	(23.5)	(0.6)

Note: Figures between brackets indicate negative value

However, between Q2 2019 and Q3 2019, GDP grew by USD 38.7 million. This reflects a rise in private consumption expenditure, investment, and decline in exports of USD 51 million. About 29% of the increase was offset by the increase in net imports (totaling USD 14.8 million). Private and public consumption expenditure combined to grow GDP by 1.4%, while the decline in exports and the increase in imports combined to reduce GDP growth by 0.5%, bringing net GDP growth to 1% over the consecutive quarters, as mentioned previously (Table 1-2).

Box 1: Amendments to National Accounts Data in Palestine (2004-2018)

National accounts are an important indicator that helps give economists and politicians a comprehensive picture of the economy and the value of available resources that can be used to increase the welfare of the population. GDP growth is the most widely used economic indicator at all levels for assessing the success or failure of economic policies adopted by different governments in different states. Despite the shortcomings of the GDP indicator, it remains the best indicator for providing a comprehensive picture of an economy and availability of resources in each state, either separately or in comparison with other states.[1]

Statistical bureaus around the world work continuously to develop and revise GDP values in their countries, through expanding the range of activities it covers, or through continuous adjustments and improvements of measurement methods, in line with the adjustment approaches and methodologies of the UN Statistical Division (UNSD). As such, the National Accounts Department at PCBS conducted a reassessment of the value and composition of GDP in Palestine during the period 2004-2018. This amendment came after the previous amendment in 2014. This box will discuss the 2014 revision, the rationale behind the new revision of the national accounts data, and provide an overview of the level of change in the value and composition of GDP.

Amending the values of GDP for the years 1994-2012

In 2014, PCBS issued a series of revised GDP figures at constant and current prices for 1994-2012. The new revised figures, whether at fixed or constant prices, were 1%-8% higher than the older figures over the whole period. The percentage increases became bigger over the years from 1994-2012. Likewise, the percentage of sectors' contribution to GDP changed as well. The estimated contribution of manufacturing industries to GDP rose from 8% to 12% in 2012 at constant prices, while the contribution of the construction sector to GDP rose by three percentage points (to 10%) and the services sector by one percentage point (to 19%).[2]

Justifications for the new GDP amendment

According to the statement by the PCBS's National Accounts Department, there are four direct reasons for amending the Palestinian GDP values for the years 2004-2018:

First: Based on the information provided by the Population, Housing and Establishment Census (2017) and the Household Expenditure and Consumption Survey (2017), PCBS developed input and output tables for the Palestinian economy for the year 2017. The preparation of these tables required examining the linkages between economic sectors, and adjusting transactions between the input and output sides to achieve an economic balance between them. This included providing estimates for informal activities (the informal sector). This was reflected in the need to amend the values of output or GDP.

Second: PCBS conducted the Population, Housing and Establishment Census for the year 2017, following their census of 2012. This requires amending data in the two censuses to reach a coherent and accurate time series representing the economic status of the main economic indicators (number of establishments, number of workers, workers' compensations, output, median consumption, added value, gross fixed capital formation) in the different economic sectors.

1 Refer to Monitor no. 52 for an overview of the National Accounts composition, a differentiating between "domestic" and "national" and the main shortcomings of GDP.

2 Monitor no. 38 includes a more detailed review of the 2014 data revision.

Table 1: GDP in Palestine* before and after amendments (USD million)

Year	At constant prices			At 2015 constant prices		
	Values after Amendments	Values after Amendments	Increase (%)	Values after Amendments	Values after Amendments	Increase (%)
2004	4,329.2	4,603.1	6%	7,107.4	7,853.4	10%
2005	4,831.8	5,125.7	6%	7,874.9	8,740.1	11%
2006	4,910.1	5,348.3	9%	7,567.7	8,653.0	14%
2007	5,505.8	5,815.7	6%	8,066.5	8,980.8	11%
2008	6,673.5	7,310.4	10%	8,556.9	9,648.0	13%
2009	7,268.2	8,085.7	11%	9,298.1	10,477.1	13%
2010	8,913.1	9,681.5	9%	10,051.2	11,082.4	10%
2011	10,465.4	11,186.1	7%	11,298.9	12,146.4	8%
2012	11,279.4	12,208.4	8%	12,008.9	12,886.9	7%
2013	12,476.0	13,515.5	8%	12,275.2	13,492.4	10%
2014	12,715.6	13,989.7	10%	12,252.9	13,471.1	10%
2015	12,673.0	13,972.4	10%	12,673.0	13,972.4	10%
2016	13,425.7	15,405.4	15%	13,269.7	15,211.0	15%
2017	14,498.1	16,128.0	15%	13,686.4	15,426.9	13%
2018	14,615.9	16,276.6	11%	13,810.3	15,616.2	13%

Source: PCBS, 2019. National Accounts at current prices (2004-2008) Ramallah, Palestine
Data do not include that part of Jerusalem governorate, annexed by Israel following the West Bank occupation in 1967.

Table 2: Evolution in the Contribution of Economic Sectors to Palestinian GDP* (Before and After amendments) (%) constant prices) (Base year 2015)

Economic activity	After amendment		Before amendment	
	2014	2018	2014	2018
Agriculture and fisheries	3.8	3.0	8.0	7.0
Mining, manufacturing, water and electricity	14.8	13.2	12.8	13.2
Construction	7.3	6.5	5.2	5.9
Wholesale and retail trade and repair of vehicles and motorcycles	17.7	20.7	18.9	21.4
Transportation & Storage	1.7	1.8	1.5	1.8
Financial and Insurance Activities	3.6	4.0	3.0	4.0
Information and telecommunications	5.9	3.5	4.1	3.2
services	20.8	20.7	19.4	19.2
Public administration, defense and other	24.4	26.6	27.4	24.4
GDP	100.0	100.0	100.0	100.0

Source: PCBS, 2019. National accounts at current and constant prices 2004-2018. Ramallah, Palestine
Data do not include that part of Jerusalem governorate, annexed by Israel following the West Bank occupation in 1967.

Third: PCBS has focused on developing work on the economic survey's series and the gradual transition to obtain private sector data from the lists of companies in the administrative records. When comparing data from the financial lists with data obtained from economic surveys that were conducted directly from the field, there was a noticeable improvement in the levels of coverage of data from companies and registered establishments. This necessitated a reassessment of output figures.

Fourth: Having a database on agricultural output volumes from the administrative records of the Ministry of Agriculture, and matching its output quantities with other sources through the input and output tables, have necessitated important amendments to the values of agricultural median output and consumption. This has raised the value added of the agricultural activities and its contribution to GDP.

The change in the value, distribution, and structure of GDP

The latest revision of the Palestinian GDP time series were reflected in three major indicators:

- Increase in the estimation of GDP: Table 1 shows that the GDP value after modification was higher than its value before modification in each year over the 14 years (from 2004-2018), both at constant prices and current prices. The increased per-

centage of the revised GDP ranged between 6% and15% per year. The average annual growth rate of GDP between 2004 and 2018 at current prices was 9.3% before modification, but reached 10.1% after modification. For example, in 2018, the modification led to a rise in the value of Palestine's GDP at current prices of USD 1,661 million, which is equivalent to an increase of 11% compared with its value before modification.

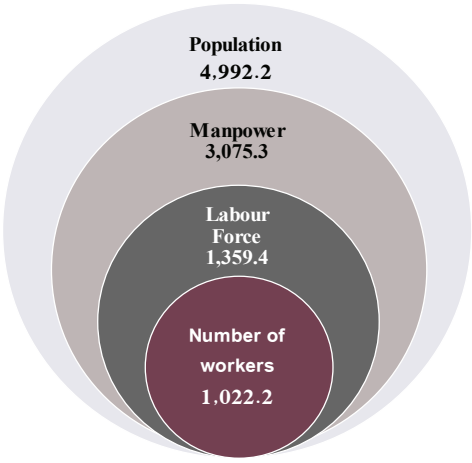
- A drop in the Gaza Strip's share of GDP: The reassessment of the value of GDP has resulted in a drop in the estimated share/contribution of the Gaza Strip over all the years from 2004 -2018. The drop reached 3.7 percentage points in 2013 at constant prices, (against a similar increase in the share of the West Bank). However, in 2018, the Gaza Strip's share dropped from 20% before modification to around 18% after modification. Notably, the drop in the relative contribution of the Gaza Strip occurred despite the value of the GDP in the Gaza strip in 2018 increasing by 52 million after the modification, as compared with its value before modification.
- Change in the GDP structure: The reassessment of the GDP has caused a noticeable change in the Palestinian GDP composition. As Table 2 shows, this appears in the increase in the share of the agricultural sector, in 2018 for example, from 3% to 7%, compared to a decline in the share of the public administration by 2.2 percentage points and a decline in the share of the services sector by 1.5 percentage points between the adjusted and old estimate.

Starting from this issue, the Quarterly Monitor will use the new data series of the revised GDP instead of the older figures.

2- Labour Market[1]

According to PCBS, manpower (all persons aged 15 years and above) in Palestine amounted to 3,075 thousand persons by the end of Q3 2019. The labor force (all persons qualified to work and actively seeking employment) amounted to 1,359 thousand. The difference between the labor force and the actual number of employed (workforce), provides a measure of the rate of unemployment. Figure 2-1 shows the relation between these three variables and the size of population in Q3 2019.

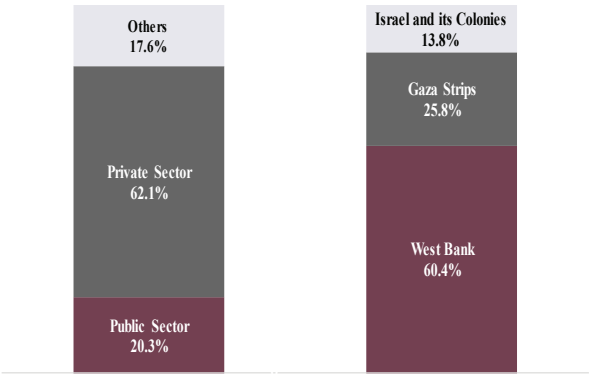
Figure 2-1: The Total Population, Manpower and Workforce in Palestine (Q3 2019) (Thousands)



Quarter 3 2019

As shown in Figure (1-2), the participation rate (ratio of labor force to manpower) reached 44% in Palestine. This ratio represents all employed persons aged 15 years and above. This ratio 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 (63% in Latin America, 61% in South Korea).[2] This is mainly attributed to the low female participation rate in Palestine (refer to Box 2 in Monitor 51).

Figure 2-2: Distribution of Palestinian Workers by Region and Sector, Q3 2019 (%)



Distribution of Workers

The number of workers in Palestine increased by 2% between Q2 and Q3 2019, reaching 1,022 thousand. By region, 60% of workers were in the West Bank, around 26% were in the Gaza Strip and 14% in Israel and its colonies (around 141 thousand including those working without permits {around 22%}). By sector, the public sector employed one fifth of workers in Palestine, while this ratio rises to 36% in the Gaza Strip (Figure 2-2).

Figure (2-1) presents the sectoral distribution of Palestinian workers. The table shows that the main difference between their distribution, whether including or excluding workers in Israel and its colonies, is driven by Palestinian workers in Israel concentrating in the construction and building sector

1 Source of Figures: PCBS Labor Forces Survey, 2019. Ramallah, Palestine.
2 World Bank database.

Table 2-1: Distribution of Palestinian Workers by Economic Activity, Q3 2019 (%)

Economic activity	Including those working in Israel and its colonies				Excluding those working in Israel and its colonies
	West Bank	Gaza Strip	Israel and its Colonies	Palestine	Palestine
	7	4	6	6	6
Agriculture, fishing and forestry	15	6	13	12	12
Quarry and manufacturing	14	3	65	18	11
Building and Construction	25	24	12	23	25
Trade, Restaurants, and Hotels	5	9	1	5	6
Transport, Storage and Communications	35	54	3	35	41
Services and other	100	100	100	100	100
Total					

(65% of workers). The table also presents a discrepancy in the relative distribution of employment between the West Bank and the Gaza Strip. The rise in employment in the industrial and quarrying sector in the West Bank (15% compared with 6% in the Gaza Strip), compared to an increase in employment in the services sector in the Gaza Strip (54% in the Gaza Strip compared with 35% in the West Bank). Finally, figures indicate a significant drop in the proportion of Gazan workers working in the building and construction sector (a mere 3%), which is attributed to the unjustified and tight restriction on the entry of construction materials into the Gaza Strip (refer to Monitor 57, box about dual-use materials).

Unemployment

The number of the unemployed in Palestine stood at 334.1 thousand by the end of Q3 2019. The unemployment rate (the number of unemployed workers divided by the labor force) was 24.6% in Q3 2019, 2.3 percentage points less than the corresponding quarter 2018, and 1.4 percentage points less than the previous quarter. The decline over the consecutive quarters was owed to the decrease in unemployment in the West Bank among both females and males and a decrease in the Gaza Strip among males against an increase among females (Table 2-2).

Two enduring characteristics of unemployment in Palestine during Q3 2019 were:

1) Unemployment was high among the youth compared with other age groups: The unemployment rate in the age group 15-24 years reached 40% (70% for females against 34% for males). This indicates that a large proportion of the unemployed are new entrants to the labor market (see Figure 2-3 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 2-4): The unemployment rate in Q3 2019 reached 22% 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 49%, versus 15% for females who had not completed secondary education (see Figure 2-4 and Monitor 53 -Box 1).

Figure 2-3: Number of Employed and Unemployed in Palestine by Age Group (Q3 2019) (Thousands)

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

		Q3 (2018)	Q2 (2019)	Q3 (2019)
West Bank	**Males**	13.8	12.4	10.6
	Females	31.4	26.4	25.9
	Total	17.0	15.0	13.3
Gaza Strip	Males	40.5	39.7	39.0
	Females	66.0	68.3	66.4
	Total	45.9	46.7	45.1
Palestine	Males	22.7	21.5	20.3
	Females	44.3	43.6	42.3
	Total	26.9	26.0	24.6

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 anymore for jobs (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.

Wages

The average daily wage of workers in Palestine amounted to NIS 136.7 in Q3 2019, a rise of NIS 9.3 over the consecutive quarters. This was the result of a rise in the average wage of workers in the West Bank (NIS 11.2), in Israel and its colonies (NIS 7.1), and in the Gaza Strip (NIS 6.6). Yet average daily wage of workers in Palestine (136.7 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) between the average wage of workers in the West Bank and that of workers in the Gaza Strip.

As figures demonstrate, the average wage of workers in Israel and the colonies is double the average wage of workers in the West Bank and four times the average wage of workers in the Gaza Strip. As figures indicate, the average wage in the Gaza Strip is around 44% of that in the West Bank. 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 2-5). Although the average daily wage of workers in the Gaza Strip is 44% of that in the West Bank, the median wage of workers in the Gaza Strip is 37% of that in the West Bank (Table 2-3).

Table 2-3: Average and Median Daily Wages of Waged Workers, Palestine, (Q3 2019) (NIS)

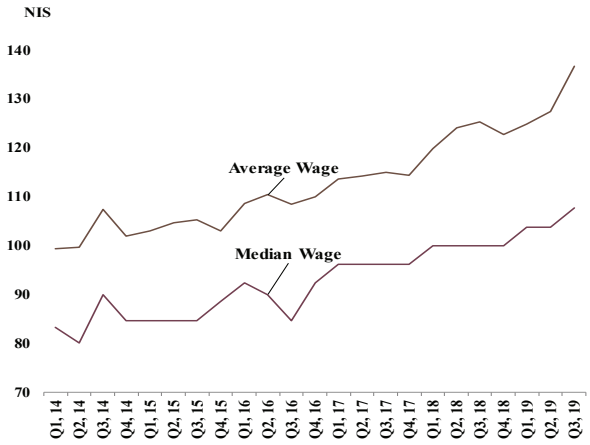
Place of Work	Average Daily Wage	Median Daily Wage
West Bank	127.8	103.9
Gaza Strip	55.9	38.5
Israel and its Colonies	261.1	250.0
Total	136.7	107.7

Minimum Wage

During Q3 2019, the portion of waged workers employed by the private sector who earned sub-minimum wages (less than NIS 1,450) was 30%: 32% for females and 30% for males. The average monthly wage of those workers earning sub-minimum wages was NIS 739. By region, 8% of the private sector waged workers in the West Bank earned sub-minimum wages, compared with 87% in the Gaza Strip (Table 2-4).

Figure 2-4: The percentage of Employed and Unemployed in Palestine by Educational Attainment and Gender (Q3 2019)

Figure 2-5: Average and Median Daily Wages of Waged Workers in Palestine (NIS)



Child Labour

During Q3 2019, child labor in Palestine (working children aged 10-17 years) increased slightly compared with the previous quarter (from 3.0% to 3.3%). By region, child labor constituted 4.4% of the employed labor force in the West Bank and 1.8% in the Gaza Strip (refer to Box 3 in issue 53 of the Economic Monitor).

Table 2-4: 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), Q3 2019

	Number of Waged Workers in the Private Sector (Thousand)			Number of Waged Workers who Earn less than 1,450 (Thousand person)			Average Monthly Wage for workers Earning less than 1,450 (NIS)		
	Males	Females	Both	Males	Females	Both	Males	Females	Both
West Bank	209	40	249	10	10	20	1,088	947	1,017
Gaza Strip	87	10	97	78	6	84	672	699	674
Palestine	296	50	346	88	16	104	718	855	739

Box 2: Interactive Atlas of Poverty in Palestine

In 2018, PCBS launched the "Interactive Atlas of Poverty in Palestine 2017," in cooperation with the World Bank. The Atlas constitutes a group of interactive maps that provide detailed indicators of poverty at a detailed geographical level (small localities), along with a large number of economic demographic and social characteristics of households and individuals, educational and health services, and public utilities available for those localities in the West Bank and the Gaza Strip.[1]

Why is it important?

The Atlas depicts a clearer image of poverty levels and its prevalence in Palestine, and clarifies its causes and consequences. Having such a tool, which presents information through detailed maps, is especially important in countries that exhibit divergent living standards at the regional level, like Palestine. Although Palestine is a small country, it exhibits disparities in the levels of poverty between the different geographic regions, whether at the regional, governorate, or local level. Additionally, there is a discrepancy in poverty levels by the type of locality (city, village, or camp). Therefore, poverty maps would assist policy makers in formulating policies and drafting development plans to combat poverty at the regional and local.

Methodology

The Atlas depended on linking two types of data: data available from the Household Expenditure and Consumption Survey (2017), and the General Census of Population and Housing (2017). The data of the two resources were linked because each source alone does not provide detailed indicators of poverty in order to give a clear picture to users and policy makers. On the one hand, the Household Expenditure and Consumption Survey depends on a sample, not a comprehensive full survey, and covers the national and regional level (West Bank and Gaza Strip). On the other hand, the Census provides information on households and individuals at more detailed levels (at governorate and local levels), however, it does not provide data about poverty or consumption. Therefore, linking the two sources provides poverty indicators at the highest level of detail.

Palestine, as is well known, is divided into two regions: the West Bank (includes 11 governorates) and the Gaza Strip (5 governorates). The Atlas provides comprehensive information about poverty conditions and other socio-economic indicators in 556 localities, 523 of which are in the West Bank (excluding area J1 and J2 in Jerusalem governorate), and 33 of which are in the Gaza Strip.

Indicators and Interactive Maps

The Atlas provides information for 45 indicators that provide information at the level of 556 Palestinian localities, as mentioned earlier. Indicators show poverty ratios based on the size of the reference household (5 members, 2 adults and 3 children) in both the West Bank and the Gaza Strip, and the NIS purchasing power disparity (divergent price trends in populated localities) Additional indicators include:[2]

- Labour indicators: unemployment rate; males of working age; females of working age; percentage of employees in the public sector; number of unwaged employees working in family businesses; percentage of Palestinian workers in Israel of total workers; and others.
- Demographic indicators: Number of population; number of the poor;percentage of refugees of total population; dependency ratio; and others.
- Educational indicators: percentage of females (21 years and older) who obtained higher than secondary education; percentage males (21 years and over) who obtained basic education; and others.
- Health indicators: percentage of individuals with chronic diseases of total population.
- Housing indicators: percentage of households with computers (laptops or/and desktops); percentage of households with access to Palestinian or Israeli internet network; and others.

When a user chooses one of these options (indicators), the Atlas directly presents information about the percentage of each indicator in each of the 556 Palestinian localities compared with other localities. The comparison is shown in the map through using different intensities in color as compared with other localities. Additionally, it is possible to choose two of the 45 variables at the same time. For example, the user can choose the unemployment rate indicator and the educational level indicator. Once the user does so, an image shows the connection (opposite) between the two indicators in all the Palestinian localities.

Two examples on how to use interactive maps:

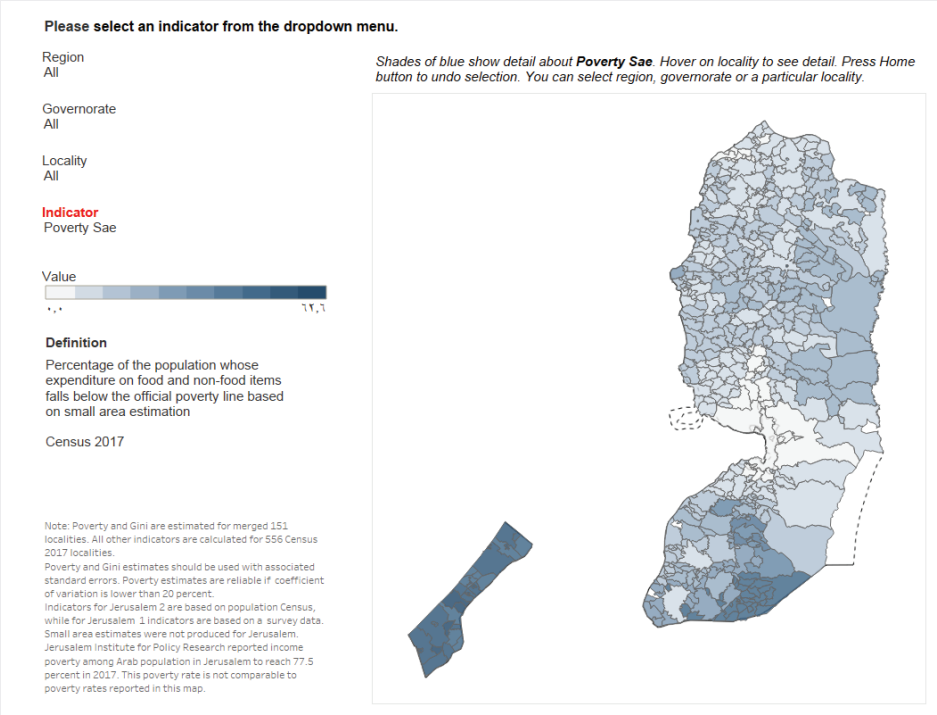
When choosing a single variable (for example, the poverty rate), Figure-1 appears on the screen. The color intensity reflects the variation in the poverty level (between 1.5% to 62.5%) in the different geographical/populated localities. As evident in the figure, poverty rates in the Gaza Strip are higher than those in the West Bank. However, inside each region, poverty rates vary more clearly in the West Bank localities compared with the Gaza Strip. Poverty rates are lower in populated localities in the governorates of Ramallah, Al Bireh, and Bethlehem, relative to higher rates reaching 48.4% in localities to the south of the Hebron governorate. On the other hand, there is a smaller disparity in poverty rates among the Gaza Strip's localities, ranging from 45.5% to 62.6%.

One of the features of the tool is that the user can choose two indicators at the same time. This feature helps the user correlate one indicator with the other; for example, poverty and one of its causes, like the employment rate, which ranges between 0% and 78% in the different Palestinian localities. In Figure-2, the color intensity reflects divergent poverty rates as shown in Figure-1, while the points in the middle of each geographic area represent the unemployment rate. A higher color intensity of a point corresponds with a higher rate of unemployment. It can be inferred from the figure as well that high unemployment rates in the different localities are accompanied with high poverty rates, and that the disparity in the unemployment rates in the different localities is higher in the West Bank than in the Gaza Strip. This is only one example of the conclusions and information that can be drawn from interactive maps, which could be of use to policy makers in formulating economic policies that could stimulate the creation of new jobs in areas with higher poverty rates in particular.

1 Database platform (Atlas of Poverty) is available at: http://www.pcbs.gov.ps/site/lang__en/1220/default.aspx

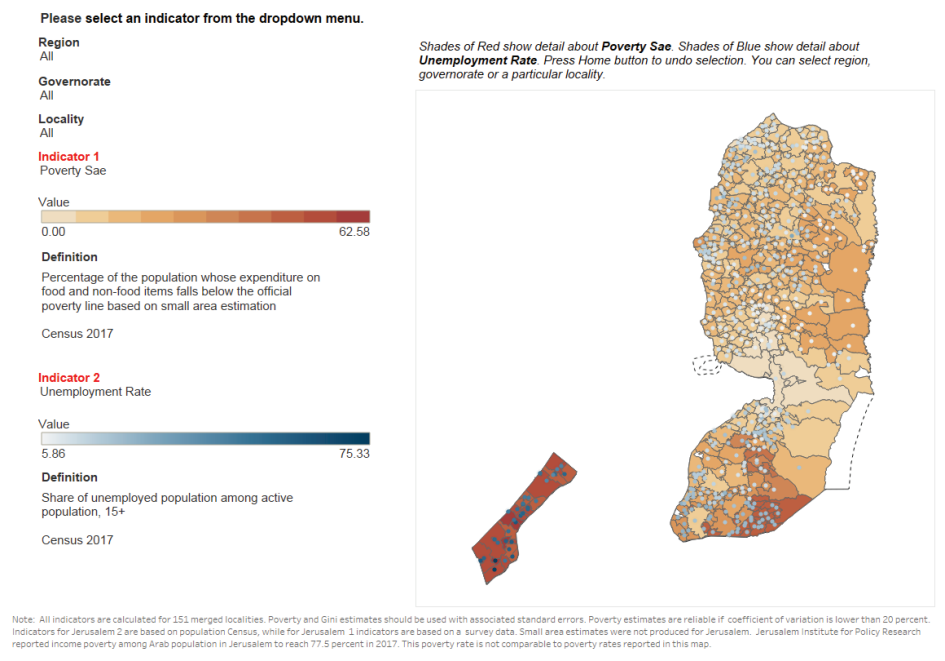
2 The full list of indicators is available at this link: http://www.pcbs.gov.ps/Portals/_Rainbow/documents/pvery_atlas_the_indicators.xlsx

Figure-1: A map of poverty rates in Palestine, 2017 (excluding Jerusalem)



Source: Atlas of Poverty (2017).

Figure-2: A map showing the distribution of poverty ratios and unemployment rates in Palestine, 2017 (excluding Jerusalem)



Source: Atlas of Poverty (2017).

3- Public Finance[1]

Public Revenues

During Q3 2019, net public revenues and grants saw a marked increase of more than three-fold its level in the previous quarter, reaching around NIS 4.2 billion. This is attributed to the fuel taxes withheld by Israel transferred directly to the PNA treasury. Clearance revenues during Q3 2019 reached around NIS 3 billion. Compared with the corresponding quarter, net public revenues and grants rose by 2%.[2]

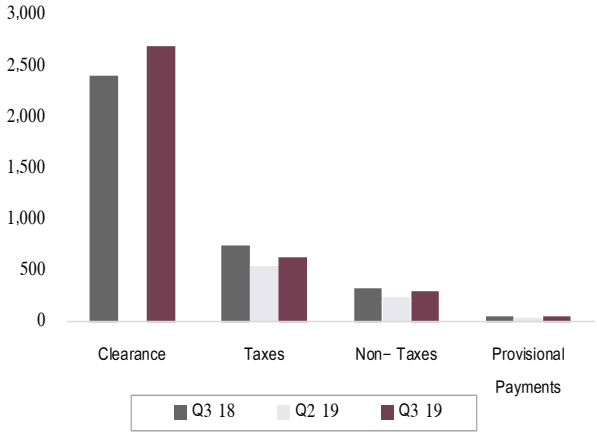
Domestic revenues, on the other hand, rose by 19% compared with the previous quarter, while they dropped by 13% compared with the corresponding quarter 2018, reaching NIS 1 billion. Tax revenues rose by 17% compared with the previous quarter, while they dropped by 15% compared with the corresponding quarter, reaching NIS 0.6 billion. Development expenditures rose by about 24% compared with the previous quarter, yet it declined by 11% compared with the corresponding quarter, reaching NIS 0.3 billion (Figure 3-1). On the other hand, foreign aid and grants to the budget continued fluctuating, increasing by 35% compared with the previous quarter. However, compared with the corresponding quarter, it fell by 12%, reaching NIS 624 million, about 83% of which were allocated to the current budget and the remainder for developmental expenditures (Table 3-1).

Public revenues and grants (net) were equivalent to 139% of actual public expenditures during Q3 2019 compared with 54% in the previous quarter. However, revenues accounted for only 99% of accrued public expenditures (commitment basis) during the quarter compared with 31% in the previous quarter.

Public Expenditure

In light of the partial resolution of the clearance revenues crisis, public expenditure increased by 33% compared with the previous quarter, while it declined by 15% compared with the corresponding quarter, reaching NIS 3 billion. During the quarter, the government paid part of the wages and salaries arrears resultant from the suspension of clearance revenues. This resulted in raising wages and salaries expenditures by 28% compared with the previous quarter, while it declined by 13% compared with the corresponding quarter, standing at NIS 1.3 billion. In addition, non-wage expenditures increased by 12% compared with the previous quarter, while it dropped by 16% compared with the corresponding quarter, reaching NIS 1.3 billion. Net lending expenditures also increased during the quarter to around NIS 258.2 million. Development expenditures rose by about 5% compared with the previous quarter, yet it declined by 30% compared with the corresponding quarter, reaching NIS 166.6 million (Figure 3-2).

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



Government Arrears

During Q3 2019, government arrears declined by 21% compared with the previous quarter, while it was double its level in the corresponding quarter 2018, reaching NIS 1.1 billion, equivalent to 26% of net public revenues and grants in Q3 2019. Around 37% of arrears were in wages and salaries, 49% in non-wages, 11% in developmental expenditures, and 2% in tax refunds (Table 3-2). By the end of Q3 2019, total government arrears reached NIS 15.3 billion (equivalent to USD 4.1 billion)

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

Item	2018				2019		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Budget support	156.6	482.1	522.0	679.4	598.4	368.1	517.6
Arab grants	140.1	236.3	303.7	410.0	396.3	94.0	278.8
Other Countries	16.5	245.8	218.3	269.4	202.1	274.1	238.8
Development funding	143.7	87.2	184.1	156.1	(354.4)*	93.3	106.0
Total	300.3	569.3	706.1	835.5	244.0	461.4	623.6

* During Q1 2019, a sum of NIS 448.1 million was refunded to the US consulate to close an old US grant. This was reflected as a drop of NIS 354.4 million in the value of developmental projects grants.

1 Source of data: MOF, Monthly Financial Reports 2019: Financial Operations, Expenditure and Revenues, and sources of Funding (Sep., 2019).
2 During Q3 2019, government arrears dropped to NIS 111 million, compared with NIS 123 million in the corresponding quarter.

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

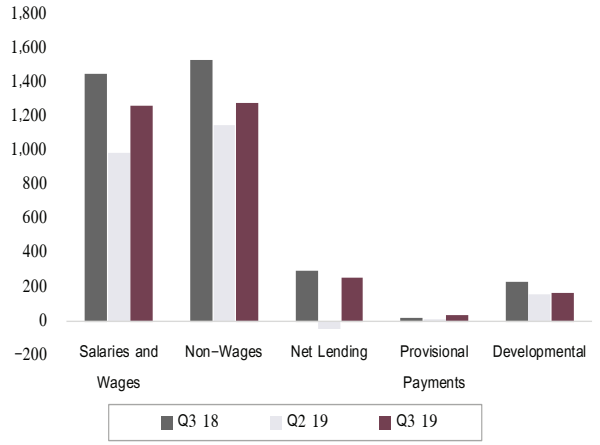
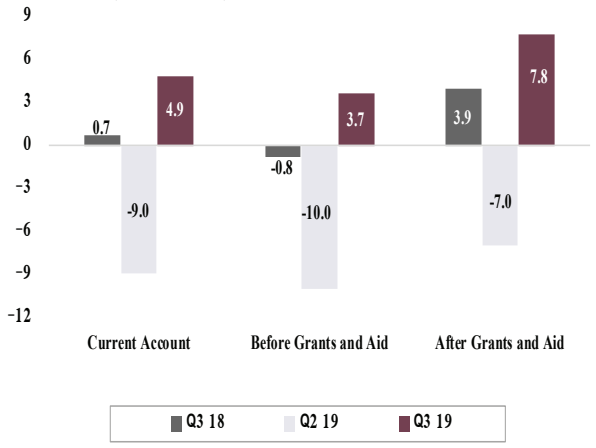


Figure 3-3: Government's Financial Balance (cash basis) as % to Nominal GDP



Financial Surplus/Deficit

Developments on both the revenue and the expenditure sides during Q3 2019, led to a surplus in the total balance (before grants and aid), of NIS 0.6 million. After grants and foreign aid, the deficit was reduced to around NIS 1.2 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 1.9 billion, dropping to NIS 1.3 billion after grants and aid during the same period.

Total Public Debt

During the quarter, total public debt (denominated in NIS) increased by 8% and 19% compared with the previous and corresponding quarters respectively, reaching NIS 10.2 billion (about 17.9% of nominal GDP).[3] About 61% of the debt was domestic and 39% foreign. Paid debt service reached NIS 22.6 million during the quarter, NIS 18.9 million of which was paid on domestic debt, while NIS 3.7 million was paid on foreign debt (Table 3-3).

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

Item	2018				2019		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Tax refunds	12.3	27.6	51.1	19.1	37.4	17.6	19.6
Wages and Salaries	128.6	134.3	119.9	94.1	359.9	593.6	407.0
Nonwage Expenditures	170.9	159.0	287.7	468.9	414.3	626.5	543.2
Development Expenditures	10.9	10.9	35.5	237.6	102.1	130.4	121.3
Provisional Payments	104.3	8.7	28.0	(15.4)	126.8	30.6	13.1
Total arrears	427.0	323.1	522.2	804.3	1,040.5	1,398.7	1,104.2

Figures between brackets indicate negative value

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

Item	2018				2019		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Domestic debt	4,913.9	4,860 0	4,785.5	5,034.0	4,668.0	5,628.8	6,200.2
Banks	4,863.1	4,809.2	4,734.8	4,983.3	4,617.3	5,578.2	6,149.6
Public institutions	50.8	50.8	50.7	50.7	50.7	50.6	50.6
External debt	3,674.2	3,777.7	3,772.1	3,882.1	3,744.3	3,783.7	3,950.2
Total public debt	8,588.1	8,6377	8,557.6	8,916.1	8,412.3	9,412.5	10,150.4
Paid interests	48.5	82	66.9	48.9	28.1	56	22.6
Public debt as % to nominal GDP	14.6%.	14.5%	14.5%	14.6%	14.2%	16.2%	17.9%

* Figures differ slightly when calculated in USD due to changes in exchange rate. It should be noted that the debt to GDP ratio was calculated based on the amended GDP figures published recently by PCBS (refer to Box-1 of this issue of the monitor).

3 It should be mentioned that by the end of Q3 2019, the government's debt denominated in dollars rose by 10.5% compared with the previous quarter, and by 23.9% compared with the corresponding quarter, reaching USD 2,914.8 million. Figures differ slightly when calculated in USD due to changes in exchange rate.

4- The Banking Sector[1]

There are 14 banks operating in Palestine, 7 of which are domestic operating through 362 branches and offices, 304 of which are located in the West Bank and 58 in the Gaza Strip. By the end of Q3 2019, net assets of the banking sector increased by 3.7% compared with the previous quarter, and by 6.9% compared with the corresponding quarter 2018, reaching USD 17.3 billion (Table 4-1)

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

Item	2018		2019		
	Q1	Q2	Q1	Q2	Q3
Total assets	**16,179.4**	**16,125.0**	**16,503.2**	**16,690.2**	**17,303.5**
Direct Credit Facilities	8,293.6	8,432.3	8,569.5	8,941.6	8,947.9
Deposits at PMA & Banks	3,875.2	3,763.7	3,712.9	3,534.5	3,870.5
Securities Portfolio and Investments	1,325.4	1,385.5	1,362.2	1,382.1	1,373.7
Cash and Precious metals	1,642.6	1,582.6	1,711.4	1,620.8	1,883.6
Other Assets	1,042.6	960.9	1,147.2	1,211.1	1,227.8
Total Liabilities	**16,179.4**	**16,125.0**	**16,503.2**	**16,690.2**	**17,303.5**
Total Deposits of the Public (non-bank deposits)**	12,194.2	12,227.3	12,394.4	12,591.4	13,025.5
Equity	1,863.5	1,912.0	1,931.4	1,956.0	1,942.4
Deposits of PMA and Banks (bank deposits)	1,178.0	1,033.6	1.116.8	1,041.8	1,151.3
Other Liabilities	263.5	269.5	361.3	363.5	408.9
Provisions and Depreciation	680.1	682.5	699.3	737.5	775.5

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

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

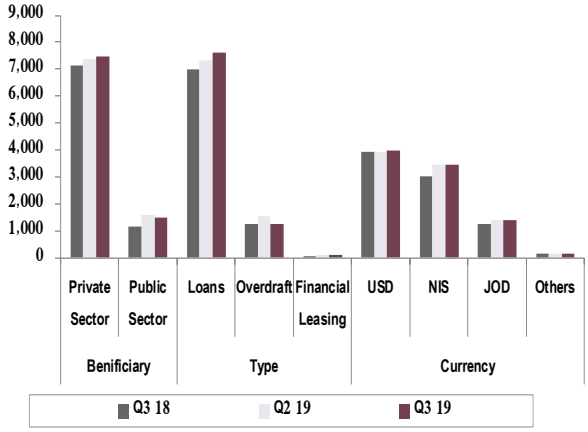
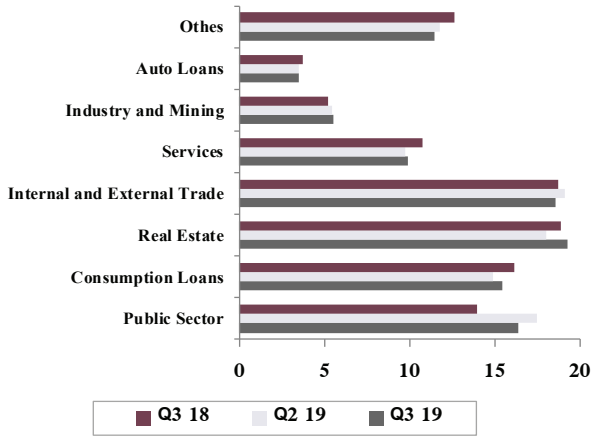


Figure 4-2: Distribution of Credit Facilities by Sector (%)



Credit Facilities

By the end of Q3 2019, the credit portfolio constituted 52% of the total banking assets, reaching USD 8,947.9 million (a meager increase compared with the previous quarter, but an increase of 8% compared with the corresponding quarter). Credit facilities constituted 69% of total public deposits during the quarter. On the other hand, the private sector had the lion's share of credit facilities (84% of total) against 16% for the public sector.

By region, the West Bank had the lion's share of total credit facilities, (90%) compared with 10% for Gaza Strip. Loans were the predominant form of total credit facilities (85%), against about 14% for overdraft accounts, and 1% for financial leasing. By currency, the US dollar continued to account for the biggest share of credit (44%) compared with 38% of loans granted in Shekels, and 16% in Jordanian Dinars (Figure 4-1).

Over the consecutive quarters, credit facilities increased slightly by USD 6.1 million, driven by an increase in facilities granted to the real estate sector and construction sector by 7% (equivalent to USD 109.3 million). Over the corresponding quarters, however, credit facilities increased by USD 654.3 million. This was mainly the result of the rise in credit facilities granted to the public sector by 26% (equivalent to USD 303.4 million), as well as the increase in facilities granted to the construction sector by 10% (equivalent to USD 157.1 million) (Figure 4-2).

Credit facilities reached around 55.0% of GDP by the end of Q3 compared with 51% in the corresponding quarter 2018. This percentage saw a steady increase over the last years, rising from 41% in 2015.

Non-performing Loans

During Q3 2019, the value of non-performing loans increased by 8% compared with the previous quarter, equivalent to USD 26.3 million, and increased by 33% compared with the corresponding quarter 2018, equivalent to USD 86.9 million. The final balance of the non-performing loans stood

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

at USD 347.6 million, equivalent to 3.9% of total loans (Figure 4-3). This increase is mainly attributed to the latest clearance crisis which left the government unable to pay the full compensations for employees and the private sector.

By sector, non-performing loans were distributed as follows: 30% in the trade sector, 21% in real estate and construction, and 17% in consumer loans. By the default period, more than half of these loans (55%) were classified as bad loans, while sub-standard loans made up 16% of the total, and doubtful loans made up 29%.[2]

Deposits at PMA & Banks

During Q3 2019, balances at PMA and banks grew significantly following a sluggish performance/period. Compared with the previous quarter, it grew by 10%, reaching USD 3,870.5 million, constituting 22% of total banks assets, compared with 21% in the previous quarter. This can be attributed to an increase in balances at banks abroad by 18%, and an increase in balances at PMA by 4%. On the other hand, balances at banks in Palestine declined by 7.0% compared with the previous quarter (Figure 4-4).

Deposits

By the end of Q3 2019, total deposits rose by 4% compared with the previous quarter, reaching USD 14,176.8 million. Compared with the corresponding quarter 2018, total deposits increased by 6%. 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 95% of the total, compared with 5% for the public sector (Figure 4-5).

Current deposits constituted 37% of total deposits by the public during Q3 2019, while 33% were time deposits. By currency, the US dollar continued to dominate (38% of the total), followed by the Shekel (36%), and then the Jordanian Dinar (22%), as shown in Figure 4-5. Deposits by the public made up 80% of nominal GDP by the end of Q3 2019 compared with 77% in the previous quarter and 75% in the corresponding quarter.

Bank Profits

By the end of Q3 2019, banks' net income grew by 7% compared with the previous quarter, reaching USD 39.4 million. This was driven by a rise in expenditures by 2%, against a decrease in revenues by 1%. Additionally, net income decreased significantly by 14% compared with the corresponding quarter 2018 (Table 4-2). Banks' net income accumulating over the first nine months of 2019 reached USD 121.

2 Based on PMA instructions, non-performing loans are classified by default period: (1) Watch List facilities: are facilities were one or more of its installments are between 91 to 180 days past due. (2) Doubtful Loans: are loans were one or more of its installments are between 181 to 360 days past due. (3) Bad Loans: are loans were one or more of its installments are more than 360 days past due.

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

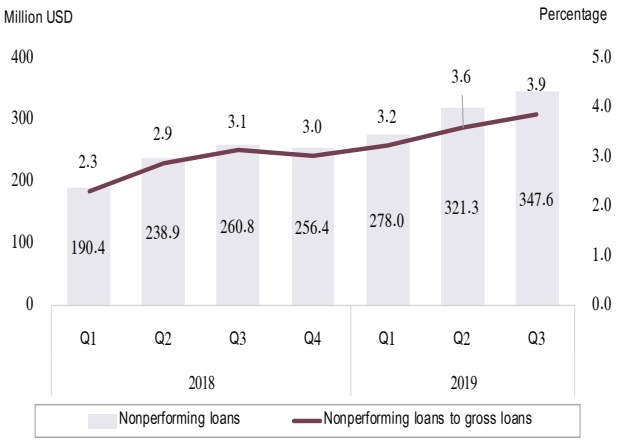


Figure 4-4: Deposits at PMA & Banks (%)

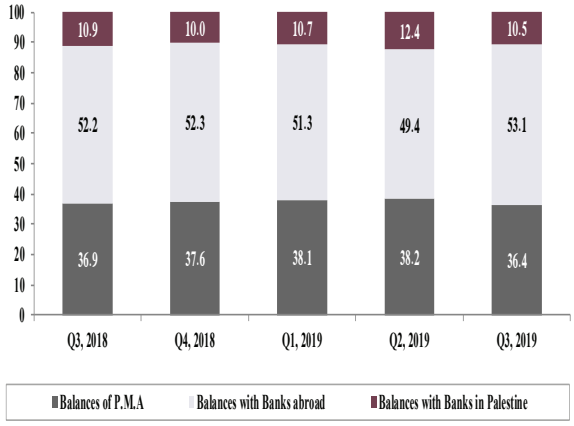
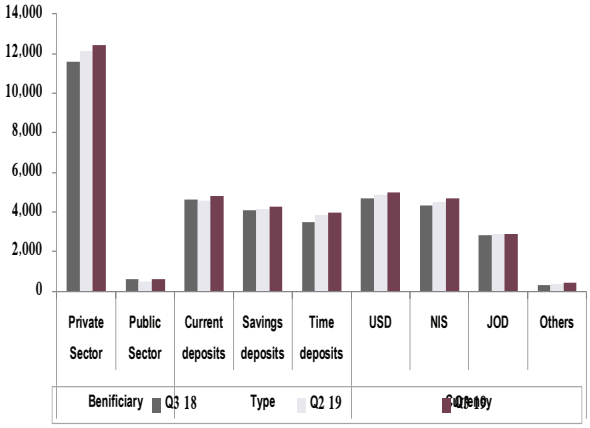


Figure 4-5: Distribution of Deposits (USD million)



Average Interest Rates on Deposits and Loans

Average interest rates on JOD and NIS loans rose during Q3 2019 compared with the previous quarter, reaching 7.06% and 7.04% respectively, whereas the average interest rate on USD loans dropped to 5.82%. On the other hand, average interest rates on USD and NIS deposits rose during the quarter, to 3.0% and 2.87% respectively, whereas the interest rates on JOD deposits decreased slightly to 3.24%.

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

Item	2018	2019	
	Q3	Q2	Q3
Revenues	214.4	234.6	238.7
Paid Interest	158.7	166.0	171.9
Commissions' revenues	32.3	32.3	32.7
Other Revenues	23.4	36.3	34.1
Expenditures	168.5	197.7	199.3
Paid interests	27.0	36.7	37.2
Commissions	3.2	3.0	3.4
Other expenditures	18.9	28.5	35.5
Operational Expenditures	109.4	109.6	113.6
Taxes	10.0	19.9	9.6
Net Income	45.9	3.6.9	39.4

- 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.

These changes over the consecutive quarters affected the margins between the deposits interest rates and those of lending facilities. The margin on the USD decreased from 3.36 percentage points to 2.82 percentage points; decreased from 4.65 percentage points to 4.17 percentage points for the NIS; and increased from 3.59 percentage points to 3.82 percentage points for the JOD during the same period (Figure 5-4).

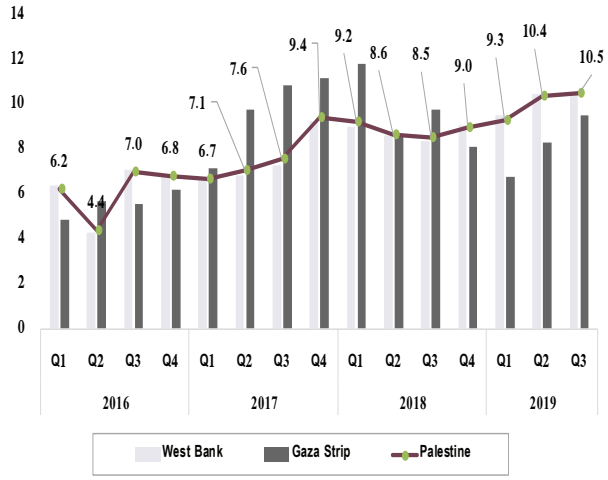
Table 4-3: Average Interest Rates on Deposits and Loans by Currency, (%)

Currency	Interests on deposits %		Interests on Credits %		Margin (percentage points)	
	Q2 2019	Q3 2019	Q2 2019	Q3 2019	Q2 2019	Q3 2019
USD	2.74	3.00	6.10	5.82	3.36	2.82
JOD	3.27	3.24	6.86	7.06	3.59	3.82
NIS	2.38	2.87	7.03	7.04	4.65	4.17

Clearance

During Q3 2019, the value of cheques presented for clearance increased by 4% compared with the previous quarter, amounting to USD 3,212.3 million. By region, the value of cheques presented for clearance in the West Bank were USD 3,031.7 million, against USD 180.6 million in the Gaza Strip.

Figure 4-6 Percentage of Cheques Presented for Clearance to Returned Cheques (%)



Returned Cheques

The value of returned cheques increased by 6% compared with the previous quarter, and by 22% compared with the corresponding quarter, reaching USD 336.5 million. The value of returned cheques in the West Bank rose by 5% (to USD 319.3 million), and in the Gaza Strip by 10% (USD 17.2 million). Refer to Figure 4-6 and Box 4 in Monitor issue 53 "Returned Cheques: 1 out of 9 Cheques"

Specialized Credit Institutions (SCIs)

By the end of Q3 2019, total assets of SCIs grew by 2% and 3% compared with the previous and corresponding quarters, respectively, reaching USD 257.7 million. This resulted from the rise in deposits by 16% and fixed assets by 22%, against the decline in cash by 18% and Islamic loans by 11%. These companies' assets were distributed between commercial loans (69%), Islamic loans (6%), and deposits (13%). The remaining percentage (12%) was distributed between other assets and cash.

The credit portfolio of SCIs stood at USD 213.7 million or 3% of total credit granted to the private sector by the end of Q3 2019. The commercial and real estate sectors had the biggest share of loans (around 30% each), followed by the agricultural sector and public services sectors (12% each). SCIs provided 843 jobs by the end of Q3 2019 (Table 4-4).

Table 4-4: SCIs data

Item	2018			2019		
	Q2	Q3	Q4	Q1	Q2	Q3
Total of Loans Portfolio (USD millions)	215.4	212.5	205.7	217.2	216.3	213.7
- West Bank	153.1	154.4	151.7	163.7	166.5	167.9
- Gaza Strip	62.3	58.1	54.0	53.5	49.8	45.8
Active Clientele	70,922	68,942	65,458	80,314	78,186	76,502
No. of Offices and Branches	81	81	81	93	93	93
Employees	675	680	687	864	843	843

Box 3: Palestinian Banks' Income Compared to Neighboring Countries

In general, there are four recognized indices for measuring the performance of companies, including banks. These indices are: the liquidity index, the solvency index, the operational effectiveness index, and finally the profitability index. Financial experts agree on the need to take a number of indices into consideration, when assessing a company's performance. However, if we had only one index from which to choose, the level and development of profitability would be the best index to use. This is because low profits lead to insufficient growth opportunities for a company and are associated with doubts about its solvency. It is true that profit rates may be fabricated or misleading, thereby hiding high levels of risk and indebtedness. It is also true that the recorded profits may be the result of non-operating activities (such as the increase in property values, or the change in the currency exchange rate). However, as business administration experts emphasized, such fabrication is not sustainable, since the problems experienced by the company must be exposed in the medium term and reflected in its rates of profitability. .

Profitability Indices

In this box, we will discuss the development of profitability index for banks operating in Palestine over the period of a decade (2008-2018). We will seek to compare these ratios with those of the banking sector in a number of countries. We will also compare the profits of banks registered on the Palestine Stock Exchange (PEX) with the profits of the remaining companies listed on the PEX.

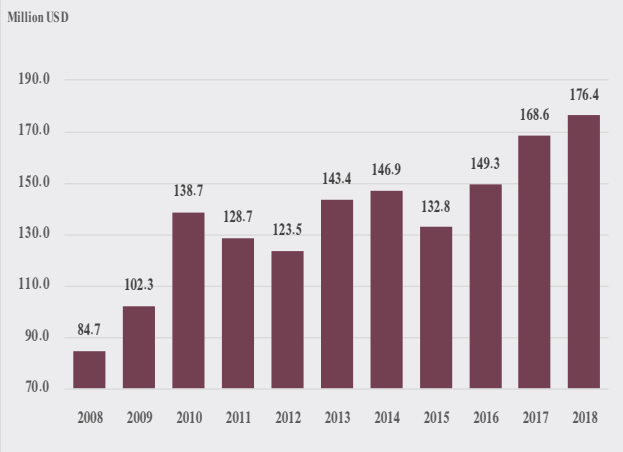
There are three recognized indices to measure the profitability of companies, including banks:

- Net Income (before or after taxes): this is, of course, a significant indicator for demonstrating the development of profits. However, it is not sufficient because the absolute value of profits does not give a clear idea about profit rates, i.e. profits compared to invested money.
- Return on Equity (RoE): this indicator measures the net profits in relation to equity, i.e. the return (profit) on investments of equity-holders in companies or banks. Given that companies can raise the value of this indicator by fabrication, for example by increasing their external debt, business administration experts favor the use of a broader indicator that takes the value of the company's total assets into account.
- Return on Assets (RoA): Calculated by dividing the net profit of a company by its total assets (value of assets), this is a widely used indicator because it reflects the ratio of return for investors in a company and its efficiency in exploiting its assets and controlling costs. In cases where there is a substantial discrepancy between return on equity and return on assets, the liquidity and coverage rates must be evaluated, as this indicates a high level of debt.

Banks in Palestine

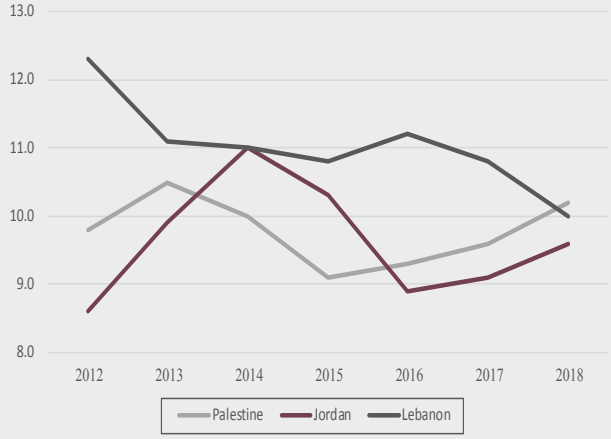
The number of banks operating in Palestine reached 18 in 2008. However, this number declined during the following decade to reach 14 banks in 2018, 7 of which were local banks and the remaining were branches of Arab banks. The Palestinian banking

Figure-1: The Evolution of Banks' Net Profits in Palestine (after taxes), 2008-2018



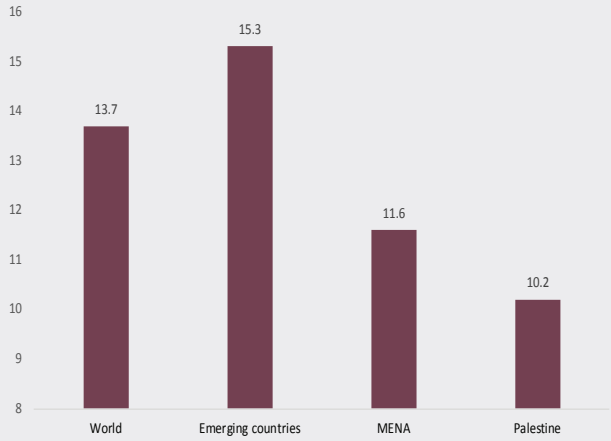
Source: Association of Banks in Palestine, 2019. The financial situation of banks 2008-2018.

Figure-2: Rate of RoE (profit rate) in the Banking Sector in Palestine, Jordan, Lebanon, 2012-2018 (%)



Association of Banks in Palestine, 2019. The financial situation of banks, 2008-2018.
Central Bank of Jordan, 2019 money sector statistics and banks, financial indicators, 2003-2018.
Bank Audi, 2019, Lebanon Banking Sector Report, 2010-2019.

Figure-3: Average RoE at Banks in Selected Groups of Countries, 2018 (%)



Bank Audi, 2019, Lebanon Banking Sector Report, 2010-2019.
Association of Banks in Palestine, 2019. The financial situation of banks 2008-2018.

sector witnessed significant quantitative and structural development during the past decade. Perhaps the percentage that best indicates this operational transformation is the rise in the annual average of the ratio of credit facilities to customer deposits at all banks, from 29% in 2008 to 67% in 2018.

There is a high degree of concentration in banking activity in Palestine, as is the case in most other countries. The share of the two largest banks (Bank of Palestine and Arab Bank) amounts to about 57% of the total revenues of all banks operating in Palestine. The ratio of the total public deposits is similar to this percentage. Additionally, the share of these two banks in the total net profits achieved by the banking sector in 2018 was about 69%.

Net income before taxes (profit) and after taxes (net profit)

The absolute value of total profits of banks operating in Palestine (before taxes) increased from USD 117.2 million in 2008 to USD 232.5 million in 2018, i.e. an average annual growth rate of approximately 10%. On the other hand, the net income of banks after taxes rose from USD 84.7 million to USD 176.4 million during the same period (Figure-1). In other words, the value of taxes paid by banks operating in Palestine increased from about 32.5 in 2008 to 56.1 million in a decade. However, the ratio of taxes to gross profits before taxes decreased from 28% to 24% during this period.

Return on Equity (RoE)

The return on equity (RoE), which reflects the profit ratio, reached its highest levels in the Palestinian banking sector in 2010, with an average of 12.7%. In the following years, however, the rate witnessed a decline of 9.1% in 2015 before rising again to 10.2% in 2018.

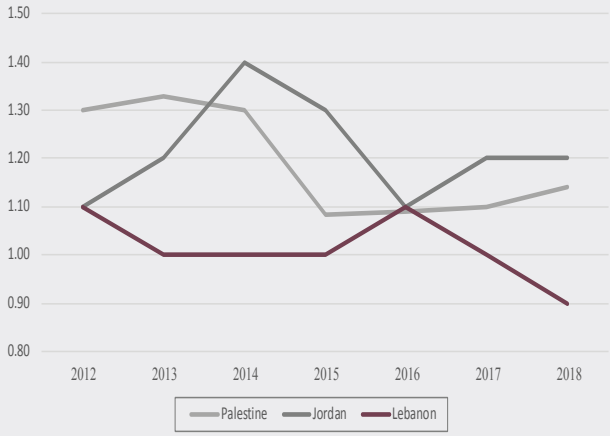
Figure-2 shows that in 2018 RoE in Palestine was higher than the rate among banks operating in Jordan (9.6%) in the same year. It was also higher than the average RoE in Lebanese banks (10.0%). However, in general, average profits of the banking sector were similar in Palestine and Jordan but higher in Lebanon throughout the period 2012-2017.

Figure-3 compares the value of RoE in Palestinian banks with its level in selected sets of countries in 2018. The figure shows that the average in Palestine was lower than the average rates in such countries, including the average in "MENA" countries where it reached 11.6% compared to 10.2% in Palestine. It is worth noting that the average RoE achieved in 3500 banks in 28 countries in the European Union only reached 6.1% nly in 2018. The European average is no more than half of the average achieved in all American banks, which reached 12.2% in Q2 2018.

Return on Assets (RoA)

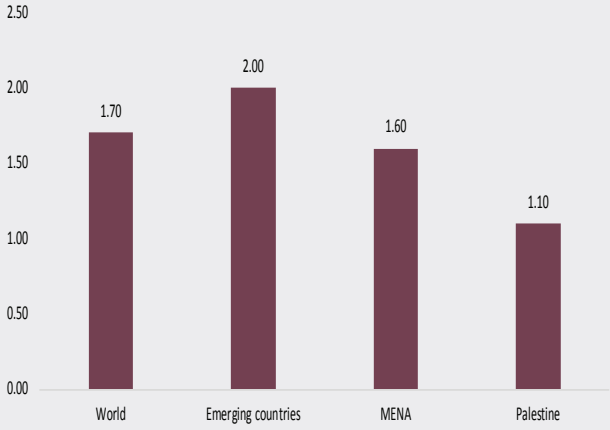
The average rate of return on assets (RoA) in the Palestinian banking sector during the past decade ranged between the lowest level (1.8%) in 2015 and the highest level (1.60%) in 2010. This rate reached 1.14% in 2018. Figure-4 shows that the average rate of RoA in the Palestinian banking sector was higher than that in Jordan from 2012-2013, but the opposite was true in the subsequent years--until 2018, where the average rate in the banks operating in Jordan reached 1.20% compared to 1.14% in the banks operating in Palestine. In Lebanon, the rate reached only 0.9% in 2018, and declined to its lowest level in Palestine and Jordan during the entire period of 2012-2018.

Figure-4: Average RoA in the Banking Sector in Palestine, Jordan, and Lebanon, 2012-2018 (%)



Ref.: Refer to Figure-2 references.

Figure-5: Average RoA at Banks in a Selection of Countries, 2018 (%)



Ref.: Refer to Figure-3 references.

Figure-5 compares the value of RoA at banks in Palestine with its level in selected sets of countries in 2018. The figure shows that the average rate in Palestine was lower than the average rates in all these sets, including the average in the "MENA" countries, which reached 1.60% compared to 1.10% in Palestine.

Palestinian Banks in the PEX

Among the banks operating in Palestine, there are 7 national (Palestinian) banks, six of which are listed on PEX (Al Safa Bank was not listed on the market before 2019). The total net profits of listed Palestinian banks reached USD 99.3 million in 2017, i.e. 53% of the total profits of the Palestinian banking sector that year. On the other hand, Table-1 shows that the average performance of Palestine banks in relation to RoE was better than the performance of non- Palestinian banks operating in Palestine during the years 2016 and 2017. This may be attributed to the weight of "Bank of Palestine" among the national banks (its RoE was 13% in 2018). As for the RoA, the best performance of Palestinian banks was achieved in 2016 before declining in the following year in favor of non- Palestinian banks.

Table-1: RoE and RoA at Palestinian Banks and Banks Operating in Palestine in 2016 and 2017

Item	RoE (%)		RoA (%)	
	2016	2017	2016	2017
Average for Palestinian banks	**11.1**	**10.4**	**1.20**	**1.00**
Average for all banks operating in Palestine	9.30	9.60	1.09	1.10

-The average for Palestinian banks is calculated based on companies' annual disclosure, PCMA.
-Association of Banks in Palestine – average of all Palestinian banks. http://www.abp.ps/

Table -2 shows the average RoE and RoA for the companies listed on the PEX in 2017. The table shows that, on average, industrial companies enjoyed the highest RoE while banks enjoyed the second-highest. As for the RoA and earnings per share, the average of the banking sector was noticeably lower than the average achieved by the services sector and industrial companies.

Table-2: Average RoE, RoA, and Earnings per Share in PEX Companies, 2017

Sector	RoE %	RoA %	earnings per share USD/share
Banking Sector (7 banks) *	8.791	0.016	0.14
Services sector (11 companies)	8.66	0.07	0.44
Industrial sector (13 companies)	18.18	0.06	0.40
Investment sector (10 companies)	2.55	0.02	0.05
Insurance sector (7 companies)	3.29	0.03	0.15

* banks listed on PEX (6 banks) in addition to Palestine Securities Exchange Market.
Source: average for Palestinian banks are calculated based on companies annual disclosure, PCMA.

5- The Non-banking Financial Sector

The Securities Sector

By the end of Q3 2019, the market value of traded shares in Palestine Stock Exchange (PEX) reached USD 3.7 billion, or around 23% of GDP at current prices.[1] Compared with previous and corresponding quarters, the market value of traded shares decreased slightly (by 0.2% and 0.4%, respectively). By the end of Q3 2019, the Al Quds Index closed at 517.7 points, a decrease of 2 percentage points and 11 percentage points compared with the previous and corresponding quarters, respectively (Table 5-1).

The volume and value of traded shares increased significantly in Q3 2019, by 12% and 6% respectively, compared with Q2 2019. On the other hand, the volume and the value of traded shares in Q3 2019 decreased by 27% and 28% respectively, compared with the corresponding quarter 2018. This may be ascribed to a drawdown in the trading activity of listed companies under the difficult political and economic conditions Palestine has been enduring since the beginning of 2019; and also to the latest clearance crisis, in which the withholding of PNA's revenues has led to liquidity shortage. On the other hand, the total number of market traders stood at 70,280 by the end of Q3 2019, around 5% of whom were foreigners (mostly from Jordan).

Figure 5-1 shows the distribution of market capitalization by their market shares, with the share of corporations at 41% (USD 1,512.0 million), compared with 26% for individuals (USD 948.7 million).

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

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

Item	Q3 2018	Q2 2019	Q3 2019
Volume of Traded Shares (million share)	40.9	27.8	31.0
Value of Traded Shares (USD million)	69.6	47.3	49.9
Market Value (million USD)	3,718.7	3,710.1	3,702.7
No. of Deals	9,073	7,653	6,884
Total Number of Traders	71,128	70,540	70,280
Palestinians	67,761	67,170	66,920
Foreigners	3,367	3,370	3,360
Al-Quds Index (point)	528.8	519.8	517.7

Insurance Sector

By the end of Q3 2019, the gross written insurance premiums rose by 8% and 12% compared with the previous and corresponding quarters respectively, reaching USD 76.8 million. This is attributed to fluctuations in the value of written insurance premiums over the year's quarters. Net compensations incurred by the insurance sector increased by 3% and 4% compared with the previous and corresponding quarters respectively, whereas insurance-sector investments rose slightly over the quarter, by 0.5% and 2% compared with the previous and corresponding quarters respectively (Table 5-2).

Table 5-3 presents key insurance indicators that reflect the relative importance of the insurance sector in the Palestinian national economy compared to select Arab countries. The first indicator, the insurance penetration rate, refers to the

ratio of premium underwritten to GDP at current prices. The latter is the insurance density, is the ratio of total premiums underwritten to the total population. By the end of 2018, the penetration rate in Palestine was 1.9%, 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 that in Saudi Arabia, Emirates, Kuwait, and Jordan.

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

Item	Q3 2018	Q2 2019	Q3 2019
Gross written insurance premiums	68.6	71.2	76.8
Total investments of insurance companies	246.2	250.0	251.3
Net compensations incurred by the insurance sector	(43.4)	(43.7)	(45.2)
Retention ratio	90.5%	88.3%	85.1%
Claims ratio	69.9%	69.5%	69.1%

As figure 5-2 shows, in the insurance portfolio in Palestine there is a significant concentration in vehicle insurance, which constituted 66% of the total insurance portfolio and was followed by the health sector at 13%. Figure 5-3 also presents the market share of insurance companies, with three companies of the ten operating companies capturing 53% of gross written premiums in the Palestinian insurance sector by the end of Q3 2019.

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

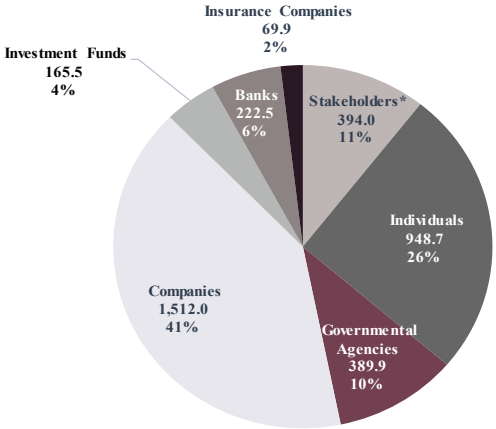
Country	Penetration ratio (%)		Insurance density (US $)	
	2015	2018	2015	2018
Morocco	3.1	3.9	89	127
UAE	2.8	2.9	1,099	1,305
Lebanon	3.1	2.9	261	269
Jordan	2.0	2.1	85	91
Palestine	1.4	1.9	37	58
Saudi Arabia	1.5	1.2	308	283
Kuwait	0.7	1.0	207	315
Algeria	0.8	0.7	32	28
Egypt	0.7	0.6	23	16

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

Financial Leasing

During this quarter, there were nine leasing companies registered with PCMA. The volume of contracts reached 504 and were valued at USD 22.1 million. This represents a drop of 0.4% in the volume of contracts compared with the previous quarter, but a rise of 9% in their value. Compared with the corresponding quarter, the value of contracts dropped by 1% while

Figure 5-1: Distribution of Market Capitalization by Trader Type (as of the end of Q3 2019) (USD million)



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

Figure 5-2: Distribution of Insurance Portfolio Components by Insurance Sector Activities (as of the end of Q3 2019)*

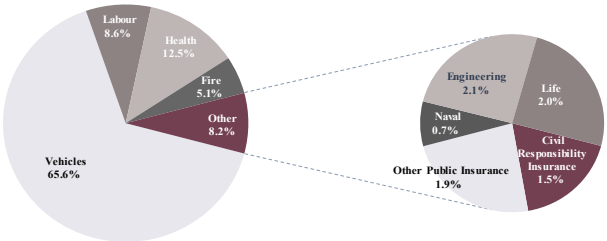


Figure 5-3: Distribution of Insurance Portfolio Components by Insurance Company (as of the end of Q3 2019)

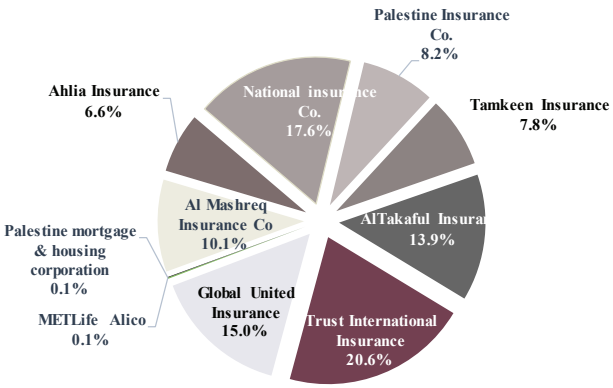


Table 5-4: Total Value and Volume of Financial Leasing Contracts

Quarter	Total Value of Financial Leasing Contracts (USD Million)	Total Volume of Financial Leasing Contracts
Q3, 2018	22.3	384
Quarter 2, 2019	20.2	506
Quarter 3, 2019	22.1	504

their volume rose by 31%. This rise is attributed to an increase in the volume of individual leasing contracts (Table 5-4).

By region, the financial leasing contracts are concentrated in Ramallah (36%), followed by Nablus (15%), then Hebron (14%). Notably, these concentration ratios remained stable over recent years due to the economy's structure and concentration of businesses in certain governorates. By the end of the quarter, the financial leasing portfolio was still concentrated in motor vehicles (84% of total contracts).This is attributed to the ease of registering ownership of vehicles at the transportation department and therefore the low risk associated with its leasing. Heavy trucks constituted 9% of the total portfolio, compared with 7% for movable assets (equipment, production lines, and others).

Box 4: :Mandatory Minimum Insurance Rates: A Joint Interest of the Insurer and Insured

In issuing the mandatory insurance tariff for both vehicles and workers in Palestine, the Palestine Capital Market Authority (PCMA) relied on the Palestinian Insurance Law No. 20 of 2005. This gives it the power to determine the price level or the tariff for any type of insurance it deems appropriate and necessary. Vehicle insurance is of great importance in Palestine due to its large size and market share, compared to the other types of insurance,[1] while the workforce is the main pillar of economic activity. Therefore, after comprehensive study of the tariff and in coordination with partner agencies, the Authority issued recommendations for the minimum levels of vehicle and worker insurance rates to provide the requisite protection for vehicles and the workforce. and The abovementioned recommendation was approved by the Palestinian Cabinet in its Resolution No. (1) of 2008.

The intervention by regulatory authorities in setting minimum limits for certain insurance rates aims to protect the rights of the insured. It does so by ensuring the availability of necessary liquidity among insurance companies, such that they pay claims on time and abide by the rules of financial inclusion. This advances the latter's goals of justice and equity for all citizens by enabling them to receive fair insurance services without fear of unreasonable costs.

The calculation of the vehicle insurance tariff is based on the vehicle's use, its engine size, and the number of passengers. The legal conditions for compensation on vehicle insurance are based on Insurance Law No. (20) of 2005 and waive liability for any error that leads to physical injuries. Each vehicle will be compensated for any physical injuries to the driver and the passengers, without consideration of the driver's error and without any costs falling on the other driver who caused the accident. The legal conditions for compensation employ the principle of unlimited physical insurance for the benefit of the injured person, whereas the tariff for workers' injuries insurance was based on the degree of risk associated with all categories of professions practiced in the Palestinian labor market. The relevant legal coverage relied on the provisions of Palestinian Labor Law No. (7) of 2000.

PCMA is currently working on developing the approved tariff system for vehicle insurance such that it takes into account additional factors in determining insurance rates. In addition to engine size, vehicle type, and the purpose of its use, these factors also include: the driver's traffic record; the number of traffic points and the violations registered with the traffic police; the number of the driver's road accidents;the year of the vehicle's manufacture; and many other risk elements.

The minimum tariff is an incentive for companies and a guarantee for the insured

The minimum tariff was determined in such a way that it allowed insurance companies the opportunity to maintain their financial solvency. Thus they would be able to pay compensations and fulfill their legal obligations on time, thereby protecting policyholders. The determination and imposition of the minimum tariff and prices of vehicle and worker insurance in Palestine should incentivize insurance companies to compete in the quality of services they provide to Palestinian citizens. Therefore, PCMA encourages insurance companies to diversify and improve service quality and to continuously monitor any violations of the minimum insurance prices for vehicles and workers. This is to avoid their negative impact on the stability of the Palestinian insurance market and on these companies themselves, which would otherwise suffer from low levels of liquidity and an inability to fulfill their obligations towards their policyholders and beneficiaries. The Authority imposes punitive measures against any company found to be providing vehicle and worker insurance services without abiding by the adopted and approved minimum price.

The policies of the PCMA and their subsequent application, as well as the commitment by insurance companies to the minimum tariff for vehicle and worker insurance, improved the liquidity levels of these companies. This enabled companies to increase their ability to fulfill their obligations. The total compensation paid by insurance companies to the vehicle insurance branch increased from USD 91.6 million at the end of 2017 to USD 109.5 million at the end of 2018, while the total compensation paid to the labor injuries insurance branch increased from USD 11.10 million at the end of 2017 to USD 12.50 million at the end of 2018.

Minimum limits for the mandatory insurance tariff that are imposed by the supervisory authority on the insurance sector do not in any way mean setting an insurance price. Rather, the objective is that each insurance company sets the prices for hazards above the level of these minimum limits, according to their extensive study of the risks and to its underwriting policy. Insurance companies will thus have the freedom to compete in providing prices according to the company's previous experience with the customer or any technical or actuarial reasons, such that neither the companies' financial positions nor the rights of the insured person are endangered.

Amjad Jadou',
The Palestinian Capital Market Authority (PCMA)

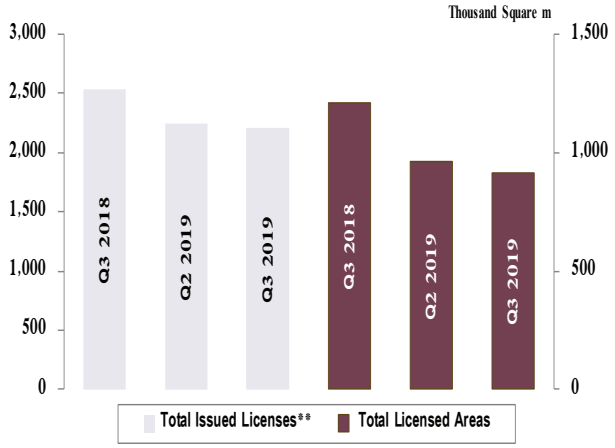
1 based on statistics of the insurance sector for 2018, the Vehicle Insurance branch constituted 66% of the total insurance portfolio in Palestine, while workers Insurance constituted 8.4% of total.

6- Economic Environment[1]

Building Licenses

Figure 6-1 presents the changes in the number of registered building licenses and licensed areas. Around 2,205 building licenses were issued during Q3 2019, a drop of 2% from the previous quarter and 13% from the corresponding quarter 2018. Licenses of non-residential buildings constituted 7% of the total. On the other hand, licensed areas of buildings amounted to around 914 thousand square meters in Q3 2019, falling steeply by 25% compared with the corresponding quarter and by 5% compared with the previous quarter (Figure 6-1).

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 Q3 2019 increased significantly, by 18% compared with the previous quarter, while it dropped sharply, by 14%, compared with the corresponding quarter, standing at 7,167. This figure is higher than the previous quarter by 1,070 cars and lower by 1,194 cars, compared with the corresponding quarter 2018. Second-hand vehicles made up 82% of the total, 7% of which were imported from Israel (Table 6-1).

Table 6-1: New and Second-hand Vehicles Registered for the First Time, West Bank (Q3 2019)

Period	Vehicles from international market (new)	Vehicles from international market (second-hand)	Vehicles from the Israeli market (second-hand)	Total
Q3 2019	1,754	6,153	454	8,361
Q2 2019	1,444	4,292	361	6,097
Q3 2019	1,295	5,469	403	7,167
July	526	2,091	152	2,769
August	385	2,029	93	2,507
Sept.	384	1,349	158	1,891

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

Box 5: Development Impact Bonds: An Innovative Approach to Skills Development and Employment in Palestine

There is a valid question posed in both public and academic circles concerning the absence of tangible, decisive proof that developmental projects funded and executed by international aid actually lead to their desired results, improve the material conditions of the poor, and increase their economic and social empowerment. Further, some academics argue against foreign aid, considering it to be an obstacle to real development in poor countries.[1] International organizations also acknowledge also that there is little evidence that the traditional strategies of the grants and projects they implement have led to sustainable results. For this reason, these bodies are seeking to develop their business techniques and create new methods to increase the efficiency of their projects, such that they could be effectively reflected in tangible and measurable achievements with an actual impact.

Development Impact Bonds

"Development Impact Bonds (DIBs)" are one of the tools that the World Bank has worked on developing in order to improve the effectiveness of the developmental projects under its supervision. These bonds are an innovative financing/executive instrument for employing the financial capabilities and administrative and technical expertise of the private sector, with a view to concrete developmental achievements. The mechanism for implementation of DIBs can be summarized as follows: the grantor (the World Bank, for example) defines and identifies specific developmental goals, such as the retraining of a certain number of unemployed university graduates and ensuring that they are subsequently employed in permanent jobs within the economy. The World Bank then places "tenders" to achieve this goal, inviting private-sector parties with the requisite ability and preparedness. The Bank then issues "bonds" in certain amounts for the party that is awarded the tender. These bonds may only be cashed (i.e. exchanged for funds) when it is verified that the implementing party has actually achieved the desired goals. That is, the private company which was assigned to implement the project should finance its implementation (or the bulk of the costs of implementation[2]) from its own resources. It will be able to recover its investment (at profit, of course) from donor aid (or from the government) if it succeeds in achieving the agreed-upon social and economic outcomes.

The primary objective of DIBs is to exploit the private sector's capabilities to ensure that developmental aid and investments are used in the most efficient and productive manner possible. It does so by linking developmental achievement to the effective and critical incentive structure under which the private sector operates: making profits! In brief, DBIs seek to convert the challenges of development into promising investment opportunities for the private sector. The main advantage of impact bonds, compared to donors' traditional business techniques, is the focus on the achievement of results more than on the expenditure verification and the sequence of implementation mechanisms. This is possible

1 See the following link for a presentation of arguments in favor of and against international aids: http://www.economicsdiscussion.net/foreign-aid/arguments/arguments-for-and-against-foreign-aid/11838

2 One of the conditions set by the world bank is that private investors in the common investment financing fund shall undertake to provide at least 80% of the total investment.

because the recovery of investors' money is conditioned on achieving such results.

The World Bank reports that there are two types of "impact bonds": the social impact bonds (SIBs) and the Development Impact Bonds (DIBs). The first type of bonds has been implemented with the aim of achieving social goals in a number of developed countries, with the first being the United Kingdom in 2010. Since then, more than 40 social impact bonds have been issued in seven countries.[3]

Development impact bonds for skills development and employment in Palestine

Palestine suffers from widespread unemployment among educated youth. About 40 thousand young people graduate from Palestinian universities each year. Three out of every five graduates remain unemployed. Women face higher barriers to entering the labor market than male youth. The probability of a middle school female joining the labor market is only 8% compared to 65% for males.[4]

To address youth unemployment (male and female) in the West Bank and the Gaza Strip, at the end of 2015 the World Bank issued the first DIB. The goal was to exploit the potential and expertise of the Palestinian private sector in addressing the challenge of youth unemployment and bridging the gender gap, under the framework of the "Fund for Youth Employment" project in Palestine. However, implementation of the project was stalled for various reasons. The World Bank is relaunching the project after a number of funders (the European Bank for Reconstruction and Development, the Dutch Entrepreneurial Development Bank, Palestine Investment, and the Palestine Investment Fund) undertook to provide the necessary funds to launch the program. An agreement was made with four private-sector institutions to undertake the impact bonds training programs to develop employment skills. These programs aim to create a link between graduates and available job opportunities, retraining graduates through ad hoc training programs designed in light of the requirements and qualifications necessary for the labor market.

New experience and lessons learned

The impact bonds for skills development in Palestine is the first bond program issued by the World Bank for job creation, and the second impact bonds program sponsored by the Bank in general. Given that it is still a relatively new tool, there is a lot to be learned and tested about whether the results-based financing structure will positively impact the targeted groups or not. The lessons of implementation of this initiative will be used in Palestine to open the way for their implementation in other countries. The World Bank hopes that this initiative will be reflected in an increased concentration in the Bank's agenda on the unemployment of educated young men and women, which is widespread especially in the Middle East and North Africa.

3 http://www.worldbank.org/en/news/feature/2015/12/21/results-focused-impact-bonds-can-improve-development-outcomes-by-involving-the-private-sector

4 https://www.albankaldawli.org/ar/news/feature/2019/11/11/rethinking-job-creation-for-palestinian-youth

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.

Price index

Figure 7-1 shows two curves: the first measures the average change in CPI (right axis) between Q1 2010 and Q3 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.

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

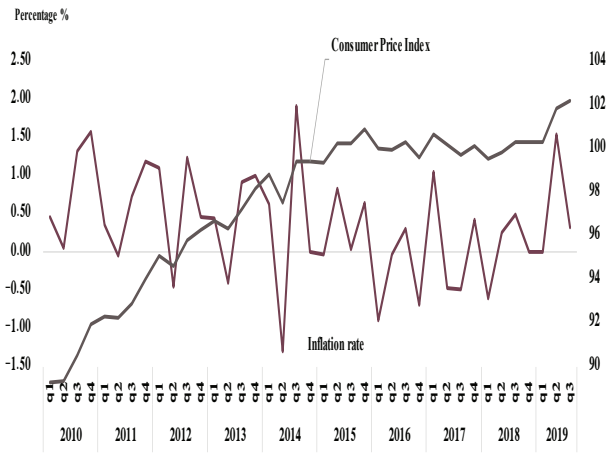
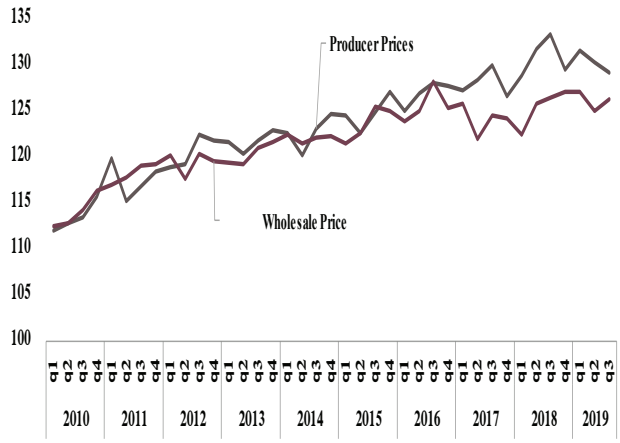


Figure 7-2: Evolution of WPI and PPI (base year 2007) (Base year 2007)



During Q3 2019, the CPI reached 113.21 compared with 112.83 in Q2 2019. This means that the inflation rate was positive over the consecutive quarters (rise in prices) by 0.33%. This rise resulted from the increasing prices of the recreation-

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

al and cultural services group (by 3.94%), the personal care and social protection group (by 2.77%), and restaurants, coffee shops, and hotels (by 1.46%). By contrast, the prices of the garments, clothes, and footwear group dropped by 0.61%, as did the educational services group (by 0.49%) and the transportation group (by 0.42%). During Q3 2019, the Palestinian CPI rose by 1.89% compared with the corresponding quarter.

Wholesale Prices and Producer Prices

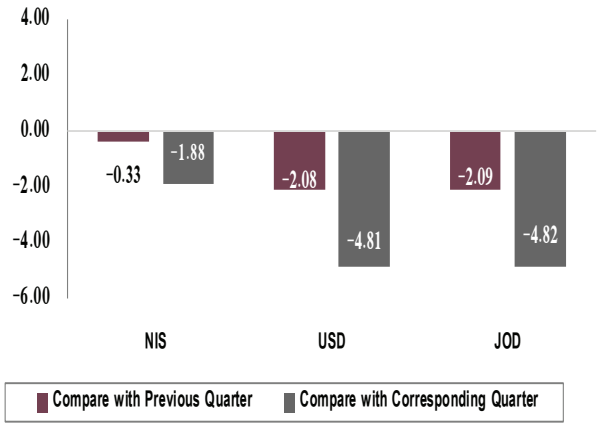
The wholesale price index -WPI (sale price to retailers) declined by 0.94% between Q2 2019 and Q3 2019, driven by the rise in wholesale prices of local goods by 1.18% and of imported goods by 0.52%. The producer price index- PPI (prices received by domestic producers) fell also by 0.86% quarter on quarter. This resulted from the decline in the producer prices of locally-produced and consumed goods by 0.88%, and by 0.72% in the producer prices of locally-produced exports (Figure 7-2). (See Figure 7-2).

Prices and Purchasing Power [2]

NIS Purchasing Power: the rate of inflation in the economy measures the development in the purchasing power of all individuals who receive their salaries in NIS and spend all their income in that currency, i.e. the change in the NIS purchasing power is equivalent to the inflation rate, but in the opposite direction during the same period. The PCBS data indicate that CPI rose during Q3 2019 com pared with the previous quarter by 0.33% and by 1.89% compared with the corresponding quarter, which represents a drop in the purchasing power of the same amount quarter-on-quarter (Figure 7-3).

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

Figure 7-3: Change in Purchasing Power by Type of Currency, Q3 2019 (percentage)



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

USD Purchasing Power: During Q3 2019, the USD exchange rate against the NIS decreased by about 1.75% and 2.92% compared with the previous and corresponding quarters. Accordingly, the purchasing power of individuals who receive their salaries in USD and spend them in NIS decreased during this quarter, compared with the previous and corresponding quarters, by 2.08% and 4.81% respectively. 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).

Box 6: A Pioneering Research Project for the Documentation of Europe's Commitment to Differentiate between Israel and the Occupied Territories

The European Council on Foreign Relations (ECFR) is one of the most important policy research centers in Europe. One of the Council's continuous research projects is a project known as "Differentiation Tracker," which aims to track the differentiation between Israel and the Occupied Territories (East Jerusalem, the West Bank and Golan) by the European Union and individual European countries in their different agreements with Israel. The project aims to document the extent of European countries' compliance with the Security Council's Resolution No. 2334 and the European Union's Resolution, which call for a differentiation between Israel (pre-1967 borders) and the territories it occupied that year. [1]

The research project found that despite significant progress in implementation of the differentiation measures at the European Union level, the implementation of these procedures by EU member states is still slow and behind what should have been achieved. Accordingly, there is a high risk that the European countries appear as "directly supporting the Israeli settlements and their economic and population expansion, contrary to the policy of the European Union and to international law." With Israel moving from de facto land annexation to de jure annexation, the full and effective implementation of differentiation measures is a matter of utmost necessity. The absence of differentiation provisions in the bilateral agreements with Israel exposes third parties to the dangers of contravening international law and allows Israeli settlements to benefit from these agreements. Additionally, it undermines the unity and integrity of the enforcement of laws and measures in these countries.

1 The Security Council's Resolution No. 2334, issued on 23 December with unanimous vote of 14 members and one state abstaining from voting. The Israeli colonies are a flagrant contradiction with the international Law. The resolution calls Israel to stop such activities and to comply with the provisions of the Fourth Geneva Convention, as an occupier.

Methodology

The study's results were based on an examination of more than 260 bilateral agreements between Israel, the European Union, and its member states (in addition to Norway). It focused on determining whether these agreements included a clause specifying the

geographical scope in which the agreement applies or not, if such a clause exists, and how the borders of Israel are defined. The website of the European Council of Foreign Relations displays a comprehensive list of the various agreements between all European countries and Israel, with an evaluation of the extent to which each agreement complies with the requirements of differentiation measures. The study aims also at identifying the measures, pieces of legislation, and official positions of each country in relation to the issue of differentiation. Due to the nature of this ongoing research project, the information on the website is always subject to additions and updates.[2]

The EU is Ahead of Countries

Since 2013, the EU has insisted on including the differentiation provision in all the agreements it concludes with Israel. In November 2015, the EU established rules for labels that must be placed on the products of Israeli colonies when imported to EU markets. Moreover, in July 2013, the EU excluded colonies and institutions that have relations with these colonies from the European Financing Program, and implemented corrective measures to deal with procedural deficiencies in some of the old agreements with Israel (such as the agreement ratifying organic and veterinary specifications). However, a number of agreements in areas such as cross-border digital transfers, cooperation between police agencies, and the standards for fruits and vegetables marketing, -still do not contain provisions that guarantee their application exclusively within the borders of Israel.

Disappointing European Performance, with Exceptions

The performance of individual European countries - in terms of differentiation - is still worse than that of the European Union. These countries have not made efforts to fully commit to applying the Union's directives regarding settlement products s. This is true even for European countries that have supported the Security Council's Resolution and that strongly support the Union's position regarding differentiation. Nonetheless, some notable exceptions should not be disregarded, such as the agreement signed by the Netherlands with Israel in 2016 which excluded the residents of settlements from receiving pensions. The Danish Parliament's Resolution of 2018 also called on the government to exclude settlements from any future agreements with Israel, and for cooperation in research and development to be restricted to pre-1967 Israeli lands. Additionally, Germany decided in 1986 to restrict the activity of the German-Israeli Foundation for Scientific Research and Development to the areas inside the Green Line. The United Kingdom signed a trade and partnership agreement with Israel in 2019 (after Brexit), which excluded settlements from the cooperation framework. Denmark, Finland, France and Norway have passed legislation that requires their companies to take human rights standards into account when operating abroad. This has possible implications for activity in the Occupied Territories. On the other hand, Norway cancelled the tax exemption for charitable organizations that are working against the Security Council's Resolutions. Around 15 European countries have warned their companies of the legal, financial, and ethical consequences of dealing with Israeli settlements. The authors of the research project confirmed that their interviews with officials in a number of countries led them to the conclusion that some draft agreements with Israel, particularly in areas of social security, were stalled due to an insistence on the European side over the inclusion of the differentiation provisions therein.

Recommendations

The research project reached a number of policy recommendations that aim, in general, to enhance European countries' commitment to and implementation of differentiation in their various agreements with Israel. The recommendations stressed the need to create a European consensus, such that every bilateral agreement with Israel must include a differentiation provision to define the geographical scope of its application (within the Green Line). The study confirmed that "in light of the international failure to curb Israel's policy of building and expanding settlements and in light of the annexation policy of the Occupied Territories, the strict implementation of the differentiation measures is one of the few remaining effective policies to protect the geographical scope of the two-state solution." On the other hand, it is worth mentioning that the database developed by this research project. It provides a documented and detailed source that can help Palestinian diplomatic efforts in confronting Israel's violations of international law and holding European countries accountable to their legal and political commitments.

2 Differentiation Tracker, European Council on Foreign Relations: https://www.ecfr.eu/specials/differentiation-tracker

8- Foreign Trade[1]

Balance of Trade

The value of "registered" merchandise[2] imports during Q3 2019 was about USD 1,464.4 million, a 2% rise over the previous and corresponding quarters. Meanwhile, the value of merchandise exports was USD 255.1 million, a drop of 1% and 3% compared with the previous and the corresponding quarters respectively. The ratio of exports to imports reached 17% during Q3 (Figure 8-1). The difference between exports and imports (deficit) amounted to USD 31,209 million. It has dropped slightly because of the surplus in the balance of service imports from Israel (USD 3.7 million) (Figures 8-2).

Balance of Payments[3]

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

1) the balance of trade (net trade in goods and services),
2) the balance of 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 Q3 2019 there was a sharp rise in the current account deficit (referred to as the balance of payments deficit) of 27% compared with the previous quarter, reaching USD 387.3 million. Compared with the corresponding quarter 2018, the deficit rose by 32%. This deficit resulted from a deficit in the trade balance (USD 1,420 million), in addition to a deficit in balance of services (USD 276 million), against a surplus in the balance of income of USD 770 million. This surplus was composed mainly of compensations of Palestinian workers in Israel (reaching USD 734 million) and a surplus in the balance of transfers of USD 539 million. The balance of payments deficit was financed by a surplus in the capital and financial account, which covered an amount of USD 325 million. This item (the capital and financial account) represents a debt on the national economy, as long as its value is positive (Table 8-1).

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.

1 Source of figures: PCBS, 2019, Registered Foreign Trade Statistics, and PMA & PCBS, 2019, Palestinian Balance of Payment, Q3 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 The foreign trade figures in the balance of payments are different from figures in the previous paragraph, as they are estimates of total commodity trade (not only registered trade) and total trade in services (not only services in Israel) .

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

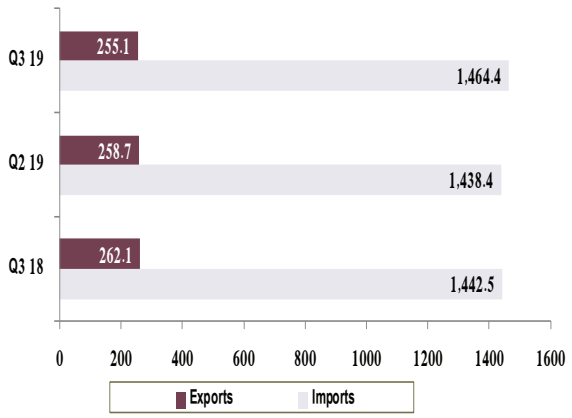


Figure 8-2: Exports and Imports of Registered Services from Israel (USD million)

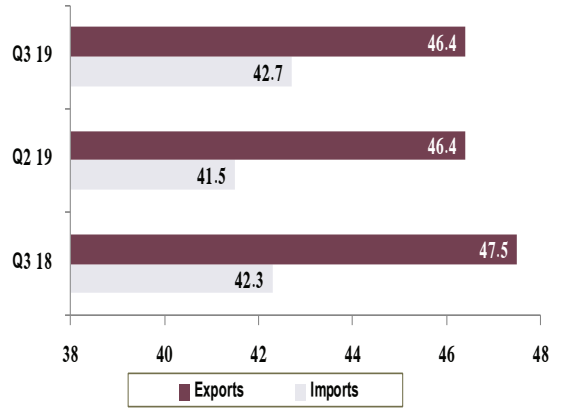


Table 8-1: Palestinian Balance of Payments

Item	Q3 2018	Q2 2019	Q3 2019
1. Trade Balance of Goods and Services**	(1,668.2)	(1,637.7)	(1,696.2)
- Net goods	(1,396.3)	(1,372.8)	(1,419.9)
- Net services	(271.9)	(264.9)	(276.3)
2. Balance of Income	707.2	630.8	770.0
3. Balance of Current Transfers	389.8	478.4	538.9
Balance of Current Account (1 +2 +3)	(571.2)	(528.5)	(387.3)
5. Net Capital and Financial Account	537.3	434.7	324.8
6. Net Errors and Omissions**	33.9	93.8	62.5

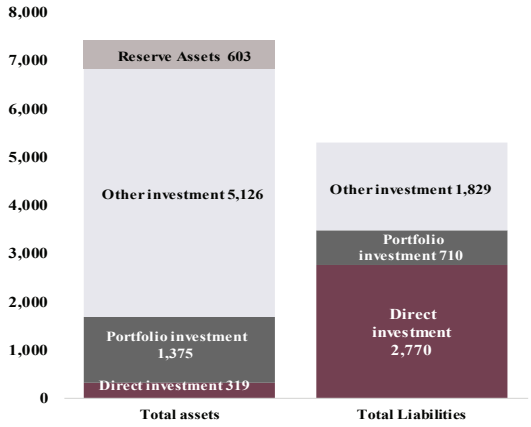
Data do not include that part of Jerusalem governorate, which was annexed by Israel following the West Bank occupation in 1967.
** Exceptional financing has been calculated within the "Net errors and omission" item. Figures between brackets have negative values.

International Investments

By the end of Q3 2019, Palestine's foreign assets totaled USD 7,423 million, 4% of which represented direct foreign investments and 19% represented portfolio investments. On the other hand, total external liabilities amounted to about USD 5,309 million, more than 52% of which were direct investments and 13% of which were portfolio investments.

The difference between assets and liabilities means that overseas investments by Palestinians were USD 2,114 million higher than investments of non-residents. A significant portion of these assets (69%) is cash deposits (mostly by domestic Palestinian banks) in foreign banks abroad, or currency circulated in the economy, neither of which are 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 2,451 million (Figure 8-3). (Refer to Figure 8-3).

Figure 8-3: International Investments Balance (as of the end of Q3 2019) (Million USD)



Economic Concepts and Terms: Rent and the Rentier State

The word "rent" can mean two things: first, rent and renting; and second, "income", or the additional income individuals or states gain without any effort or sacrifice or without any investment or innovation that justifies its acquisition. This means that it is an additional income that individuals or states gain because of specific natural assets (like geographical coincidences, such as the availability of natural resources that other areas don't possess, or a special geographical location) or a private monopoly. A rentier state is a state for which rent constitutes a large portion of its total revenues.

Originally, the concept of rent was coined by classical economists whose analysis focuses on the distribution of income between the feudal class (landlords) and the nascent capitalist class. According to classicists, rent generates from the increase in the population and the need to extend cultivation to less fertile lands. As a result, the prices of agricultural crops are raised to cover higher costs of production in less fertile lands. This means that feudalists (lords of highly fertile lands) gain additional profits, or rents, without any additional effort. Classical economists expect that the continuous increase in population and growing food demand will lead to increases in feudalists' income (rent) at the expense of capitalists' profits and real labour wages. Over time, rent as a concept became interlinked with imperial wealth extracted from colonies, and the wasteful lifestyle led by the leisurely classes on the benefits accrued from their exorbitant wealth.

The "rentier state" concept spread widely during the 1970s following the oil price "shock". It was associated, almost exclusively, with oil-exporting countries with small populations and limited investment absorption capacity, relative to their large financial profits. Much emphasis was placed on the negative economic and social/governmental consequences associated with the flow of rent to those countries. The economic consequences, known as the "resource curse", are evident in the impact of the rent flow on impeding the growth of the productive sectors and the expansion of the services sectors, similar to the "Dutch Disease" (refer to the definition of the "Dutch Disease" in Monitor no. 55).

Regarding the social/governmental consequences of rent flows, they are multiple and include an impact on work ethic, as members of society demand their share from the rent a state earns for free and without feeling that they should make any effort to earn it. Additionally, income flow in "rentier states" is in the opposite direction of the usual flow, as the economy and society depend on the injection of money from the state that earns rents from the land. In other words, the state does not depend on collecting taxes from citizens, but rather grants citizens subsidies by distributing donations, gifts, and "exceptions". This makes the state unaccountable and turns citizens into "clients" of the state, contrary to situations in which governments depend on collecting taxes from the people and are held accountable.

Again, it is important to restate that rent, and the "culture of rent", is not merely an additional income gained from natural and geographical assets. Any activity that generates an additional profit at a significantly higher level than usual, and not does not result from administrative or technical advancement, is rent. Often, rent results from a monopoly which obstructs the emergence of other competitors, in an atmosphere of corruption and privilege for decision-makers. It is well-known that the social, economic, and governmental consequences of monopoly rents are no better than resource rents.

Key Economic Indicators in Palestine, 2014-2019

Indicator	2014	2015	2016	2017	2018	2018[1]		2019[1]		
						Q3	Q4	Q1	Q2	Q3
Population (One thousand)										
oPt	**4,429.1**	4,530.4	4,632.0	4,733.4	4,915.3	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	2,929.3	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	1,940.0	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**	**960.7**	**1,005.3**	**986.4**	**998.1**	**1,022.2**
Participation rate (%)	**45.8**	**44.0**	**43.8**	**44.0**	**43.5**	**43.9**	**44.1**	**44.3**	**44.3**	**44.0**
Unemployment rate (%)	**26.9**	**23.0**	**23.9**	**25.7**	**26.2**	**26.9**	**24.2**	**26.8**	**26.0**	**24.6**
- West Bank	**17.7**	**16.6**	**17.5**	**18.4**	**17.3**	**17.0**	**15.8**	**16.4**	**15.0**	**13.3**
- Gaza Strip	**43.9**	**34.8**	**35.4**	**38.3**	**43.1**	**45.9**	**40.9**	**46.3**	**46.7**	**45.1**
National accounts (at constant prices) (base year 2015) (million dollars)[3]										
GDP	**13,471.1**	**13,972.4**	**15,211.0**	**15,426.9**	**15,616.2**	**3,938.8**	**4,089.7**	**3,956.1**	**3,876.6**	**3,915.3**
- Household expenditure	**11,926.9**	**12,348.3**	**3,342.9**	**13,420.3**	**13,570.1**	**3,459.2**	**3,567.9**	**3,557.5**	**3,503.3**	**3,528.3**
- Government expenditure	**3,285.2**	**3,494.5**	**3,584.7**	**3,093.6**	**3,318.9**	**836.3**	**880.6**	**749.1**	**758.5**	**789**
Gross capital formation	**3,084.4**	**3,505.4**	**3,873.8**	**4,166.9**	**4,260.3**	**1,103.7**	**1,125.6**	**1,035.6**	**1,052.6**	**1,054.1**
Exports	**2,319.6**	**2,244.3**	**2,208.3**	**2,515.6**	**2,578.7**	**634.1**	**700.2**	**641.1**	**641.1**	**635.4**
Imports (-)	**6,929.4**	**7,645.5**	**7,796.3**	**7,901.5**	**8,256.8**	**2,117.1**	**2,229.6**	**2,103.1**	**2,099.1**	**2,113.9**
GDP per capita (USD)										
at Current prices	**3,357.50**	**3,277.90**	**3,534.40**	**3,620.50**	**3,562.30**	**892.30**	**898.60**	**892.20**	**894.5**	**914.8**
at Constant prices (base year 2004)	**3,233.00**	**3,277.90**	**3,489.80**	**3,463.10**	**3,417.70**	**859.40**	**886.40**	**852.70**	**830.1**	**832.9**
Balance of Payment (USD millions)										
Trade Balance	**(5,049.4)**	**(5,400.9)**	**(5,664.5)**	**(5,967.4)**	**(6,425.7)**	**(1,668.2)**	**(1,678.2)**	**(1,610.3)**	**(1,637.7)**	**(1,696.2)**
Income Balance	**1,482.4**	**1,712.2**	**1,896.0**	**2129.0**	**2,786.2**	**707.2**	**709.3**	**572.1**	**630.8**	**770.0**
Current Transfers Balance	**1,666.2**	**1,749.4**	**1,626.2**	**1,708.7**	**1,499.1**	**389.8**	**406.1**	**533.1**	**478.4**	**538.9**
Current account Balance	**(1,900.8)**	**(1,939.1)**	**(2,142.7)**	**(2,129.7)**	**(2,140.4)**	**(571.2)**	**(562.8)**	**(505.1)**	**(528.5)**	**(387.3)**
Exchange Rates and Inflation										
USD/NIS exchange rate	**3.58**	**3.88**	**3.84**	**3.60**	**3.59**	**3.64**	**3.70**	**3.64**	**3.592**	**3.529**
JOD/NIS exchange rate	**5.05**	**5.48**	**5.42**	**5.08**	**5.07**	**5.13**	**5.22**	**5.14**	**5.066**	**4.977**
Inflation rate (%)[4]	**1.73**	**1.43**	**(0.22)**	**0.21**	**(0.19)**	**0.49**	**0.01**	**0.00**	**1.54**	**0.33**
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**	**940.2**	**676.1**	**708.4**	**213.7**	**1,018.0**
Current expenditure	**3,435.0**	**3,424.3**	**3,659.3**	**3,791.4**	**3660.4**	**910.3**	**940.8**	**668.3**	**587.8**	**808.7**
Developmental expenditure	**164.1**	**176.7**	**216.5**	**255.3**	**277.2**	**63.9**	**108.8**	**42.2**	**44.1**	**47.1**
current budget deficit\surplus (before grants)	**(814.3)**	**(710.9)**	**(324.7)**	**(390.2)**	**(468.6)**	**(33.9)**	**(373.4)**	**(2.0)**	**(418.2)**	**162.2**
Total grants and aid	**1,232.0**	**799.0**	**766.9**	**719.8**	**666.5**	**194.4**	**225.9**	**69.3**	**127.8**	**176.6**
Total budget deficit\surplus (after grants and aid)	**417.6**	**88.1**	**442.3**	**329.5**	**197.9**	160.5	(147.6)	67.3	(290.4)	338.8
Public debt	2,216.8	2,537.2	2,483.8	2,543.2	2,369.6	2,352.3	2,369.6	2,315.2	2,637.1	2,914.8
The Banking Sector (USD millions)										
Banks assets/liabilities	**11,815.4**	**12,602.3**	**14,196.4**	**15,850.2**	**16,125.0**	**16,179.4**	**16,125.0**	**16,503.2**	**16,690.1**	**17,303.5**
Equity	**1,464.0**	**1,461.7**	**1,682.4**	**1,892.7**	**1,912.0**	**1,863.9**	**1,912.0**	**1,931.4**	**1,956.0**	**1,942.4**
Deposits at banks	**8,934.5**	**9,654.6**	**10,604.6**	**11,982.5**	**12,227.3**	**12,194.2**	**12,227.3**	**12,394.4**	**12,591.4**	**3,025.5**
Credit facilities	**4,895.1**	**5,824.7**	**6,871.9**	**8,026.0**	**8,432.3**	**8,293.6**	**8,432.3**	**8,569.5**	**8,941.6**	**8,947.9**

Data do not include that part of Jerusalem which was annexed by Israel following its occupation of the West Bank in 1967 (except for data on unemployment and population).
1- 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 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 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.
PCBS revised the national accounts figures at current & fixed prices for the years 2004-2018. Therefore, figures differ from previous quarters and years.
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.