# 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)

# Economic Monitor Issue 57/2019

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## First Quarter 2019 in Brief:

- **GDP:** GDP declined during Q1 2019 by 2.5% compared with the previous quarter (at constant prices) reaching USD 3.5 billion. This is attributed to a decline in the West Bank by 3.1% and 0.3% in the Gaza Strip, reflected as a decline in per capita GDP by 3.5% in the West Bank (USD 1,048) and by 1% in the Strip (USD 358).
- **Employment and Unemployment:** The unemployment rate in Palestine increased by 2.6 percentage points over the consecutive quarters Q4 2018 and Q1 2019, reaching 26.8% (16.4% in the West Bank and 46.3% in the Gaza Strip). The average daily wage in Palestine reached NIS 124.9; around NIS 113.7 for workers in the West Bank, NIS 63.0 for workers in the Gaza Strip, and NIS 247.1 for workers in Israel and its colonies. The percentage of private sector waged workers who earn wages below the minimum wage was 30% (37% for females and 29% for males).
- **Public Finance:** Net public revenues and grants declined by 15% in Q1 2019 compared with the previous quarter, reaching NIS 2.8 billion. This is due to the decline in clearance revenues by 21% and foreign aid by 71%, while domestic revenues increased by 35%. On the other hand, public revenues decreased by 33% standing at NIS 2.6 billion (cash basis). During Q1 2019, government arrears reached NIS 1.1 billion, however, public debt fell by about 6% compared with the previous quarter.
- **Banking Sector:** During Q1 2019, credit facilities increased by 1.6% compared with Q4 2018, reaching USD 8.6 billion, 15% of which were granted to the public sector. Banks' profits reached USD 477 million, an increase of 13% compared with the corresponding quarter, and a decline of 2% compared with the previous quarter.
- **PEX:** By the end of 2019, the market value of traded shares was USD 3.8 billion, a drop of 3% compared with the corresponding quarter 2018. Al Quds index closed at 530.5 points, a decrease of 6% compared with the corresponding quarter.
- **Vehicles:** During Q1 2019, the number of new and second-hand vehicles (registered for the first time) in the West Bank was 5,764, which is less by 3,002 cars compared with the previous quarter, i.e. 34%.
- **Inflation and prices:** During Q1 2019, the CPI remained at the same level of Q4 2018. Therefore, the purchasing power for those who receive their salaries and spend them in NIS remained unchanged over the consecutive quarters. Whereas, the purchasing power for those who receive their salaries and spend them in USD has declined by 1.65% compared with the previous quarter. This is due to the drop in the USD exchange rate against the NIS currency.
- **Balance of payments:** The deficit in the current account reached USD 306 million in Q1 2019, (8.3% of GDP), resulting from a deficit in the trade balance (USD 1.5 billion), against a surplus in the balance of income (USD 640 million), and current transfers (USD 517 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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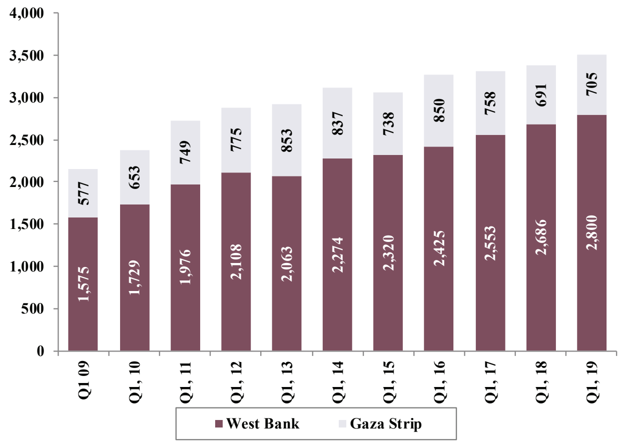
## 1. GDP[1]

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 rose by 3.8% in Q1 2019 compared with the corresponding quarter 2018, reaching USD 3,504.6 million (at 2015 constant prices, Figure 1-1). However, GDP fell by 2.5% in Q1 2019 compared with the previous quarter. This drop distributed as 3.1% in the West Bank and 0.3% in the Gaza Strip. This GDP growth over the corresponding quarters, accompanied by an increase in the population, resulted in an increase in the per capita GDP by 1.2% (2% in the West Bank against its decline by 0.8% in the Gaza Strip). Over the consecutive quarters, per capita GDP decreased by 3% (Table 1-1).

**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.

### The GDP Gap between the West Bank and the Gaza Strip

Figure 1-2 depicts the expansion in the GDP gap between the West Bank and the Gaza Strip during the last quarter. Gaza Strip's share of Palestine's GDP is still less than one-fifth. The figures show, as well, a slight increase in Gaza Strip's share of GDP during Q1 2019 compared with the previous quarter. This is reflected as a modest contraction in the per capita GDP gap between the West Bank and the Gaza Strip of USD 33, equivalent in Q1 to USD 690.

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

| | Q1 2018 | Q4 2018 | Q1 2019 |
|---|---|---|---|
| **Palestine** | 746.2 | 778.9 | 755.4 |
| -West Bank | 1,028.5 | 1,085.2 | 1,048.2 |
| -Gaza Strip | 361.5 | 362.0 | 358.2 |

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

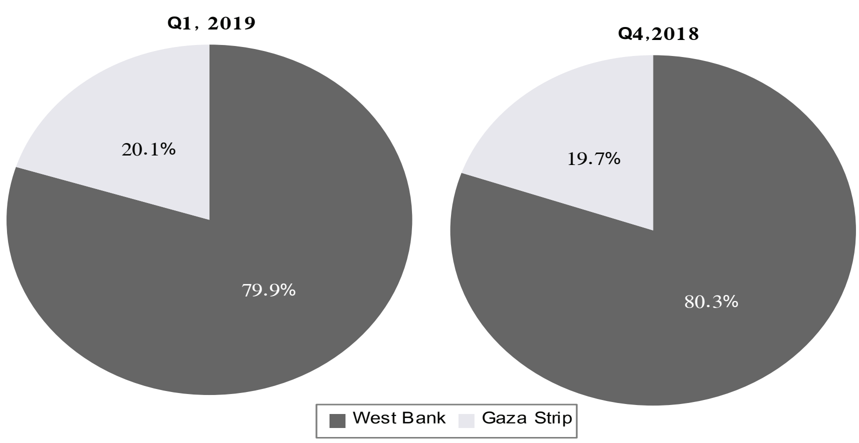
### Composition of GDP

The contribution of the productive sectors to Palestinian GDP increased by 0.8 percentage point between Q4 2018 and Q1 2019, driven by a decline in the share of the construction and agriculture sectors. Additionally, the share of the services, trade, transportation and information, and finance sectors decreased by 0.1 percentage point, against an increase in the share of public administration and security by 0.9 percentage point (Figure 1-3).

### Expenditure on GDP

The absolute increase in the value of GDP between Q1 2018 and Q1 2019 amounted to about USD 127 million. This is the outcome of the rise in private consumption expenditure of USD 329 million, and in investment and exports com

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




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

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

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

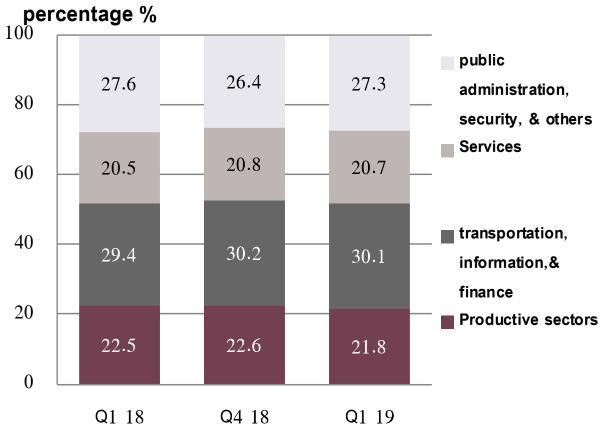



**Table 1-2: Distribution of Expenditure on GDP in Palestine* between Q1 2018 and Q1 2019 (Million USD, 2015 constant prices)**

| | |
|---|---|
| Increase in Private consumption | **329.3** |
| Increase in Investment | 1.2 |
| Increase in Exports | 29 |
| Decline in Public Consumption | -76 |
| Increase in Imports (-) | -200.1 |
| Total GDP Increase | 127* |

bined of USD 30 million. About 70% of the net increase in aggre gate demand (which totaled USD 283 million) was offset by the increase in imports of USD 200 million (as shown in Table 1-2). In other words, the bulk of the increase in aggregate demand was absrbed by the increase in imports (refer to Monitor 52, for definition of components of national accounts).

## Box 1: Israeli restrictions on the import of dual-use goods

World Bank's April 2019 periodic report on the Palestinian economy focused on the restrictions the Israeli occupation imposes on the import of some goods under the so-called "dual-use goods"[1] system. The report reiterated thatapplied by the Israeli government on the movement of goods and labor, as well as the constraints on Palestinians' access to resources in Area C, constitute major reasons behind the growth slowdown in the West Bank and Gaza Strip. "In particular," the authors wrote, "restrictions on dual use goods,…have exacted a significant toll on the economy."

### International list of dual-use goods

Dual-use goods are products or technologies commonly used for civilian purposes but can also have military applications, which justifies international control requirements. There are seven international legal bases for controls on dual-use goods and technologies, including the UN Security Council Resolution 1540 (2004), the 1993 Chemical Weapons Convention, the 1972 Biological and Toxin Weapons Convention, the Treaty on the Prohibition of Nuclear Weapons, and others. The EU has compiled all these agreements and developed a consolidated list of dual-use goods. The list is binding only in the EU; however, several other countries have adopted it, thus making it an internationally accepted reference list.

### Israeli list of dual-use goods

Israel started applying restrictions on access to dual-use goods in the West Bank and Gaza Strip in 1976. The list first included a limited number of chemicals and fertilizers that were considered a threat to Israeli security. The list has been modified over time to increase the number of controlled items and also lower the maximum allowed concentration levels. In 2004, the list was further expanded to include various materials, machinery, and equipment. Following the 2006 legislative elections and subsequent Palestinian division, the list was expanded more. In 2007, the ban was re-institutionalized, with a Military Order specifying the list of dual-use items destined for Palestine, and stating the requirement of a special permitting process and reporting duties for Palestinians to access them. The current dual-use list includes 56 items restricted for both the West Bank and Gaza, including fertilizers (6 types), pesticides (2 types), chemicals (23), in addition to 31 types of materials, machinery, and equipment.

In addition to this lengthy ban list for both the West Bank and the Gaza Strip, there are other 62 items that only apply to the Gaza Strip, including reinforced steel, cement, aggregates, insulating panels, timber (for furniture manufacture), among other items. It is worth noting that some of the restricted equipments are vaguely and loosely defined, allowing for a total ban. "For example, the dual use list includes a category entitled 'communications equipment, communications supporting equipment, equipment containing communication functions'. The broad and vague nature of the definition means that it affects access to most civilian machinery, equipment spare parts, most medical equipment, and most home appliances. The list also includes a number of chemicals that can be found in everyday products, such as nitric acid in toothpaste" (WB, April 2019: pp 15-16).

### Authorization to import items on the dual-use list

Authorization to import items on the dual-use list requires going through a very complicated process. According to the World Bank report, the Palestinian importer first needs to obtain a "dealer" permit from the Israeli Civil Administration, which is issued only after an approval by the Israeli Security Agency (Shabak). Obtaining such permits usually takes months and if rejected, no explanation is provided, according to Palestinian businesses. Second, to import dual use items, the Palestinian importer is required to obtain a special authorization from

1 The World Bank: Economic Monitoring Report to the Ad Hoc Liaison Committee. April 30, 2019: http://documents.worldbank.org/curated/en/942481555340123420/pdf/Economic-Monitoring-Report-to-the-Ad-Hoc-Liaison-Committee.pdf

the Coordinator of Government Activities in the Territories' (COGAT) Exceptions Committee. "Approvals from this committee require a long, nontransparent, and unpredictable bureaucratic process. The transfer license needs to be obtained every time a business wishes to import a shipment of items on the dual use list and is valid for 45 days from the time of its issuance. If for any reason the shipment is delayed beyond that time period, a new license must be obtained."[2]

The regime for allowing entry of goods into the Gaza Strip is different from the one applied in the West Bank. Apart from the long list of banned items, Israel applies a four-level procedure of security checks for all items destined to the Gaza Strip. Israeli security can confiscate goods even when all import documents and permits are available.

### Impact of dual-use restrictions on the Palestinian economy

Israeli restrictions on the import of dual-use goods impact almost all economic sectors and investment in the Palestinian economy, including small enterprises, as well as the maintenance of power grids and water networks, especially in the Gaza Strip. The ban leads to high risks, uncertainty and disruption of infrastructure and modernization of machinery, which limits appetite for new investments and weakens growth. The World Bank report provides examples of the impact of the restrictions on economic activity in three key sectors: manufacturing, agriculture and ICT. In the pharmaceutical industry, manufacturers in need of raw materials from abroad must submit an annual application to import, for example, all glycerin they need over the year, based on their yearly production plans. This process is also controlled by the Israeli authorities, which limits the companies' ability to meet the rising demand throughout the year, compounds costs and causes delays of production. Glycerin is a chemical used as a filler/solvent in a number of drugs (such as cough syrup).

According to the report, there are currently 41 dairy producers in Palestine. These producers suffer shortage of some sterilization chemicals (such as nitric acid). Access to such materials is limited under the dual-use restrictions regime, which harms the competitiveness of Palestinian dairy products vis-à-vis Israeli products (the Palestinian dairy producers report much lower profit margins of a maximum of 8 percent compared to 25 percent for Israeli producers). The report also provides details on the impact of the dual-use items on the stone and marble sector as well as the agriculture sector. According to the report, the dual use restrictions have lowered agricultural yield to half of that in Jordan and only 43 percent of that in Israel. Finally, the report provides a detailed account of the significant obstacles facing the ICT sector due to Israeli restrictions on imports under the so-called dual-use items regime.

Relying on a quantitative model of the Palestinian economy, the World Bank's analysis suggested that easing the dual-use list "would bring about additional cumulative growth of 6 percent to the West Bank economy by 2025, with a bigger impact of about 11 percent in Gaza compared to a baseline scenario." This growth will result from an expansion in existing industries as well as the start of new industries that currently do not exist due to restrictions on dual-use items. The analysis also suggested that there are four chemicals whose ban particularly impacts the performance of West Bank companies, and that lifting the ban on such chemicals could significantly improve the conditions under which manufacturers operate (see Table 1).

The report concluded with a set of recommended actions to alleviate the impact of the dual-use regime on the West Bank and Gaza. Most of the recommendations are addressed to the Israeli government, which is urged to relax restrictions and increase coordination with the Palestinian side to facilitate import and permitting. The report also called on the Palestinian government to do more with respect to building its own administrative capacity to meet international standards for controlling and regulating the use of dual-use goods.

**Table 1: Most important dual-use chemicals needed to improve the economic situation in the West Bank**

| Items | Purpose | Allowed alternatives | Issues |
|---|---|---|---|
| Fertilizer with NPK levels of 20-20-20 (Banned in 2003) | Maintain soil productivity and ensure healthy crops | 16-16-16 (Banned in 2005)<br>14-14-14 (Banned in 2009)<br>13-13-13 (Restricted) | Alternative liquid fertilizers are costlier while other powder fertilizers are less efficient raising costs and reducing soil productivity in the long run. |
| Hydrogen peroxide above 18 percent (Banned) | Antiseptic / sterilizing agent | Hydrogen peroxide below 18 percent (Restricted) | Lower concentration hydrogen peroxide raises health risks and production costs. |
| Nitric acid (Banned) | Sanitizing agent | Phosphoric acid (Restricted) | Companies must obtain a dealer's permit and transfer licenses for the alternative, phosphoric acid, which is less effective, resulting in increased costs. |
| Glycerin (restricted) | Solvent for drugs and cosmetics | No alternatives | Companies are only allowed a pre-agreed quantity resulting in lost opportunities. |

2 COGAT claims that 95 percent of permit requests for the West Bank are approved. The World Bank team, however, found that in 2013, only 126 requests were submitted by Palestinian companies. It is likely that Palestinian traders avoid the complicated procedures for obtaining a permit, and instead prefer finding alternative ways to acquire the materials right from Israeli suppliers, which adds to the cost of the items, the World Bank team reasoned.

## 2- Labour Market[1]

According to the PCBS, manpower (all persons aged 15 years and above) in Palestine amounted to 3,039 thousand persons by the end of Q1 2019. The labor force (all persons qualified to work and actively seeking employment) amounted to 1,347 thousand. The workforce comprises workers/labor force and the unemployed. The difference between the labor force and the actual number of employed (workforce), is the measure of the rate of unemployment. Figure 2-1 shows the relation between these three variables and the size of population in Q1 2019.

As shown in Figure (2-1), the participation rate (ratio of labor force to manpower) reached 44% in Palestine. 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). This is mainly attributed to the low female participation rate in Palestine (refer to Box 2 in Monitor 51).

### Distribution of Workers

The number of workers in Palestine decreased by 1.9% between Q4 2018 and Q1 2019, reaching 986.4 thousand. By region, 61% of workers were in the West Bank, around 26% were in the Gaza Strip and 13% (around 127 thousand) in Israel and the colonies. By sector, the public sector employed one fifth of workers in Palestine, while this ratio rises to 37% in the Gaza Strip (Figure 2-2).

Figure (2-3) presents the sectoral distribution of Palestinians employed (including those working in Israel and the colonies) in the West Bank and the Gaza Strip during Q1 2019. The number of workers in the services sector in Palestine was 37% (30% in the West Bank and 56% in the Gaza Strip). The number of workers in the construction and building sector was 17% (22% in the West Bank compared with less than 3% in the Gaza Strip). The ratio of workers employed in the trade, restaurants & hotels and agriculture sectors in the West Bank is close to that in the Gaza Strip, around 22% and 5% respectively. The ratio of workers employed in mining and manufacturing industries was 14% in the West Bank against less than 6% in the Gaza Strip.

**Figure 2-1: The Total Population, Manpower and Workforce in Palestine (Q1 2019) (Thousands)**

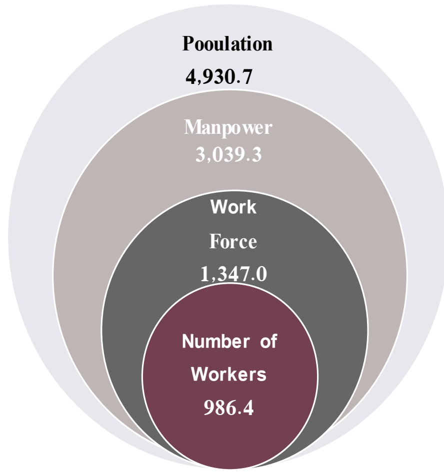



**Figure 2-2: % Distribution of Palestinian Workers by Region and Sector, Q1 2019 (%)**

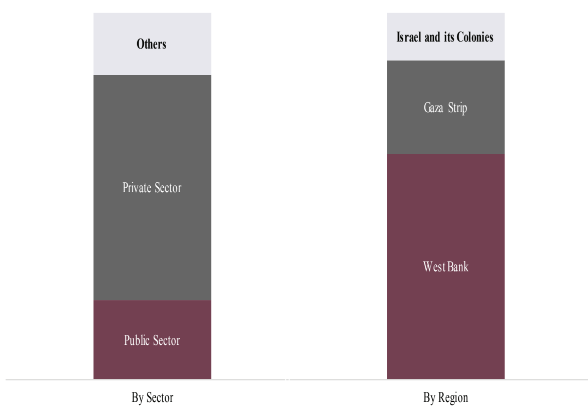
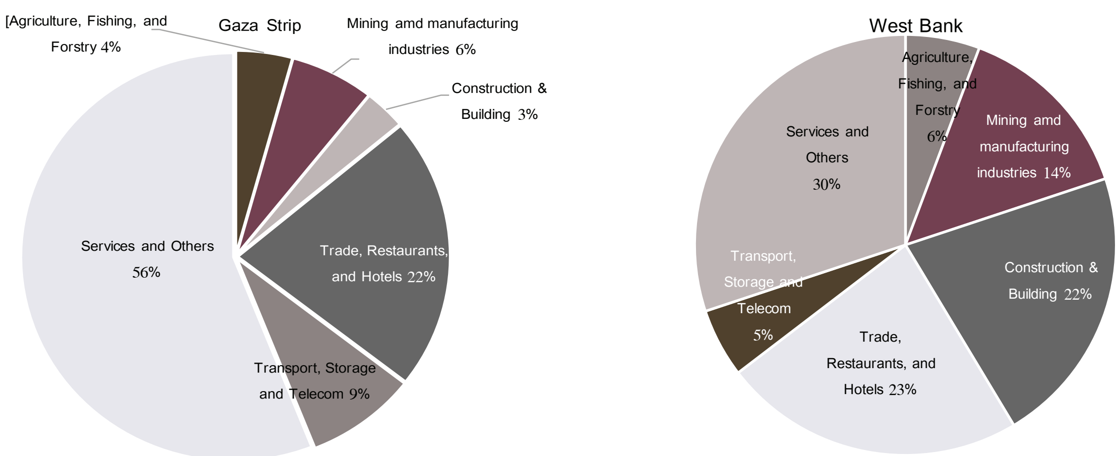



**Figure 2-3: % Distribution of Palestinian Workers by Economic Activity, Q1 2019 (%)**




1 Source of figures: PCBS, 2019. Labor Force Survey, Ramallah- Palestine.

## Unemployment

The number of the unemployed in Palestine stood at 361 thousand by the end of Q1 2019. The unemployment rate (the number of unemployed workers divided by the labor force) was 26.8% in Q1 2019, 0.3 percentage point above the corresponding quarter 2018, and 2.6 percentage points more than the previous quarter. The increase in the unemployment rate over the consecutive and corresponding quarters was owing to the increase in unemployment in the Gaza Strip among both females and males against its drop in the West Bank among both females and males (Table 2-1).

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

| | | Q1 2018 | Q4 2018 | Q1 2019 |
|---|---|---|---|---|
| **West Bank** | **Males** | 15.8 | 13.1 | 14.1 |
| | Females | 28.2 | 27.2 | 25.9 |
| | Total | 18.1 | 15.8 | 16.4 |
| Gaza Strip | Males | 36.9 | 35.9 | 41.0 |
| | Females | 59.7 | 57.4 | 62.8 |
| | Total | 41.7 | 40.9 | 46.3 |
| Palestine | Males | 23.1 | 20.5 | 23.1 |
| | Females | 40.5 | 38.8 | 40.8 |
| | | 26.5 | 24.2 | 26.8 |

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 excludes those who were frustrated and were not looking anymore for jobs ( did not seek an employment during the reference period). The revised unemployment standards has 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 (the unemployment rate declined in Gaza Strip from 52.0% by previous definition to 43.2% by the new definition in 2018). Refer to the statistical annex of the current issue of the Monitor, for a comparison of the rates of participation and unemployment based on the old and new standards.

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

1) It is high among the youth compared with the general average: the unemployment rate in the age group 15-24 years reached 42% (64% for females against 38% for males). This indicates that a large proportion of the unemployed are new entrants to the labor market (see Figure 2-4 and Box 1: Results of the Survey of the Youth Transition from Education to the Labor Market in Issue 47 of the Economic Monitor).

2) The unemployment rate decreases with the attainment of higher educational levels for males, contrary to females (Figure 2-5): The unemployment rate in Q1 2019 reached 25%

**Figure 2-4: Number of Employed and Unemployed in Palestine by Age Group (Q1 2019) (Thousands)**

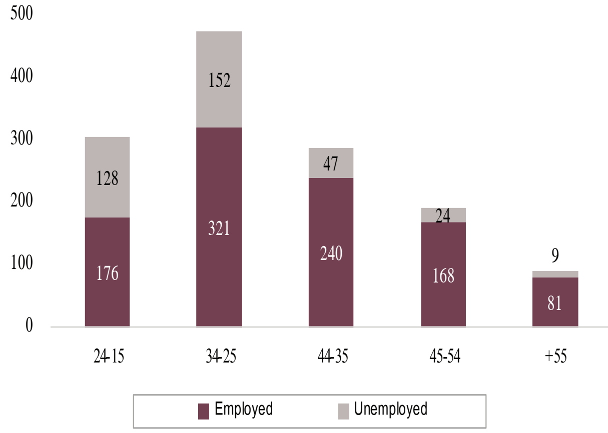



**Figure 2-5: Number of Employed and Unemployed in Palestine by Educational Attainment and Gender (Q1 2019) %**


for males who had not completed secondary education, while it was 20% for males with tertiary education. On the other hand, the unemployment rate for females with a tertiary education was 47%, against 20% for females who had not completed secondary education (see Figure 2-5). This is attributed to the significant increase in educated females' participation rate in the labor market compared with males and uneducated females (refer to Box 1 in Monitor 53).

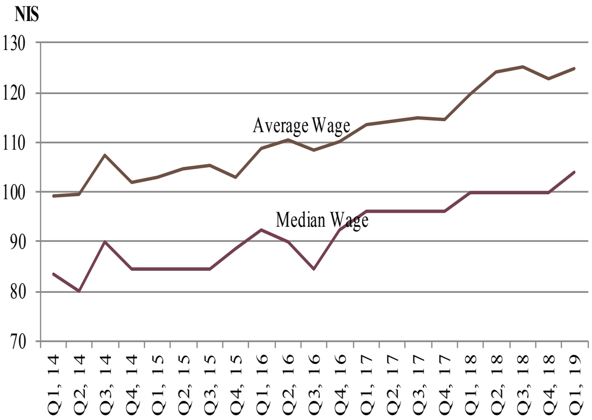
## Wages

The average daily wage for workers in Palestine amounted to NIS 124.9 in Q1 2019, a rise of NIS 2.2 over the consecutive quarters. Yet this figure masks the wide divergence between 1) the average wage for workers in the West Bank and the Gaza Strip on the one hand, and that for workers in Israel and its colonies on the other hand, and 2) between the average wage in the West Bank and that in the Gaza Strip (Table 2-2). As figures demonstrate, the average wage of workers in Israel and the colonies is double the wage of workers in the West Bank and four times the wage of workers in the Gaza Strip. The average wage of workers in the Gaza Strip is 55% 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. Notably, the median wage in the Gaza Strip is less than half that in the West Bank (Table 2-2). Although the average daily wage of workers in the Strip is 55% of that in the West Bank, the median wage is less than half the median wage of workers in the West Bank.

**Table 2-2 : Average and Median Daily Wages of Waged Workers, Palestine, (Q1 2019) (NIS)**

| Place of Work | Average Daily Wage | Median Daily Wage |
|---|---|---|
| **West Bank** | 113.7 | 100.0 |
| Gaza Strip | 63.2 | 42.0 |
| Israel and its colonies | 247.1 | 250.0 |
| Total | 124.9 | 103.8 |

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




## Minimum Wage

During Q1 2019, the portion of waged workers employed by the private sector who earned sub-minimum wages (less than NIS 1,450) was 30%: 37% for females and 29% for males. The average monthly wage of those workers was NIS 747. By region, 12% of the private sector waged workers in the West Bank were sub-minimum wage earners, compared with 76% in the Gaza Strip (Table 2-3).

## Child Labour

During Q1 2019, child labor in Palestine (working children aged 10-17 years) decreased compared with the previous quarter (from 3.1% to 2.4%). By region, child labor constituted 3.6% of the employed labor force in the West Bank and 0.8% in the Gaza Strip (refer to Box 3 in Monitor 53).

**Table 2-3: The Number and Average Wage of Waged Workers Employed by the Private Sector Who Earned Sub-minimum Wages**

| | Number of waged workers in the private sector (Thousand) | | | Average monthly wage for sub-minimum wage earners (NIS) | | | Number of waged workers who earned sub-minimum wages (Thousand) | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Males** | **Females** | **Both** | **Males** | **Females** | **Both** | **Males** | Females | Both |
| West Bank | 198 | 53 | 251 | 1,147 | 955 | 1,038 | 12 | 17 | 29 |
| Gaza Strip | 86 | 17 | 103 | 657 | 496 | 638 | 69 | 9 | 78 |
| Palestine | 284 | 70 | 354 | 732 | 795 | 747 | 81 | 26 | 107 |

## Box 2: Taybeh Conference for Building the Human Capacity of Palestinians in Israel

The High Follow-Up Committee for Arab Citizens of Israel convened its third Conference for Human Capacity Building for Palestinians in Israel on June 10, 2019 in Taybeh. In his introduction to the book of the Conference, its editor Dr. Rafiq Haj wrote that the event focuses on the socio-economic challenges facing the Arab community in Israel and provides suggestions for addressing them. The conference has become an annual tradition that serves to gatherselect political, business, community and social leaders to discuss issues of collective concern, identify challenges, suggest solutions, map out and plan for the future, and consideraction mechanisms needed to achieve the goals. The book includes working papers for the eight working groups covering various sectors covering economic development, education, civil society, land and housing, health affairs, cultural activities, legal advocacyand others. Below, we provide a summary of the working paper on economic development.

### Advancements and persisting & new challenges

The last decade has seen dramatic changes in the socio-economic conditions of the Palestinian community in Israel, the most important of which are the increase in the years of schooling (which helped Arab male population enter new occupations) and women's labor force participation rate, as well as the internal changes in the Palestinian community, such as the increases in standard of living and average monthly income.

The labor force participation rate of Israel's Arab population aged 15 years and over reached 45% in 2017 (63% for males and 28% for females), up from 41% a decade earlier (61% for males and 20% for females). The average monthly income of Arab households reached NIS 10,773 in 2015, a 50% increase over 2007. In terms of higher education enrolment, the paper notes that in 2017, around 17% of undergraduate students and 14% of graduate students in Israeli universities were Arabs, compared to 10% and 6%, respectively in 2007.

The Arab community nevertheless continues to face significant economic challenges. First, it faces inequality from the government of Israel in terms of employment and development in terms of socioeconomic investment in Arab towns. Second, the Arab population has to endure internal challenges related in the first place to the collective culture. Comparing the previous data with figures from the Jewish community, we notice that despite the satisfactory indicators within the Arab community, the gap between the Arab and the Jewish population is still by far wide. For example, although the average monthly income rose to 10,773 NIS for an Arab household in 2015, the average income for a Jewish household was 15,427 NIS that year. This means that an Arab household would save only about half of what the Jewish household could save. What's more, Arab female participation rate in the labor force is less than half of that of the Jewish women, as shown in Figure 1.

**Figure 1: Labor force participation rate for people aged 15 years of age and over by sex and ethnicity (2017)**


## Key challenges in the economic sector

The economic challenges are numerous, but the working group has chosen to focus on three aspects: the role of local government councils in the development of the economy in the Arab towns; the integration and employment of the younger generation and college degree holders in the labor market, and the economic education of the younger Arab generation.

**1. Local government councils as a lever for economic development**

The Economic Development Working Group holds that local government councils have a key role in the development of the economy of Arab towns, so much so that some councils have indeed contributed to advancing their economies. However, some councils have not genuinely supported or invested in existing or new initiatives in the community, let alone the failure to transform the market to accommodate non-traditional, innovative occupations. What's more, the councils have yet to create investment funds; the government aid is not significant; and planning for building industrial zones in Arab towns is almost non-existent.

Data show that only 3.5% of Israel's industrial zones are located in Arab towns. Moreover, areas allocated to industrial zones are disproportionally allocated within Arab and Jewish communities. For example, the industrial zone in Nazareth has an area of 40 dunums and it serves 72,000 Arab citizens. In contrast, the industrial zone in Upper Nazareth is 8,000 dunums and it serves 41,000 Jews.

In addition, the Economic Development Group has attached special importance to setting up support funds within the Arab communities, which would make investment in modern projects and schemes possible. The local government councils have an important role in this regard. In its current state, the labor market within the Arab community is still less diversified in terms of economic activities, modern business patterns and high-paying professions.

While the Arab local government units are the spearhead for addressing these economic challenges, the Economic Development Group is aware that the responsibility lies not solely with local authorities, but also equally with other actors, including the Ministry of Economy, the Ministry of Finance, the Center for Local Government, as well as the personal responsibility of everyone in the community. Therefore, any initiative will first focus on the heads and members of local government units. Later efforts should examine the best methods for demanding budgetary funds for the implementation of projects through the Ministry of Finance and the Ministry of Economy.

**2. The integration and employment of the younger generation in the rapidly evolving labor market**

Deliberation of the issue of Israel's Arab community employment has been going on for many years; yet the Economic Development Group believes that there are three aspects that the discussion has failed to substantially address:

- The unqualified manpower that can cope with the rapid changes in the labor market.
- Lack of awareness and exposure to employment opportunities in sectors of long-term economic returns.
- The employment of many college degree holders in businesses that do not match their academic background.

Since 2017, data have shown that Arab male enrolments in higher education social sciences and engineering programs are particularly significant (14.1% and 14%, respectively). Females, on the other hand, tend to prefer educational sciences and teacher training (37.6%) and medical programs (18.4%). In contrast, enrolments for both sexes in fields such as law, mathematics, statistics, computer science, physical sciences and biology account for only about 5% each.

The data also show that in choosing a major, young Arab men and women are still influenced by traditional and familiarity considerations regarding prospective professions, while modern disciplines are still uncommon, with very low enrolment rates. For example, 16.6% of Arab working population are employers (compared to 82.6% as wage earners). In addition, 59.2% of Arab men have taken blue-collar jobs against 6.5% working in white-collar jobs (compared to 25% among Jews). If anything, these figures highlight the need for professional and academic guidance for the younger generation when they enroll in higher education institutions or join the labor market.

According to a survey carried out by the Galilee Association for 2017, 40.7% of Arab working population worked in their fields of specialization, while 55.5% of them reported that they did not specialize in the first place; the rest either did not find a job in their area of specialization or did not look for such a job. Obviously, the workers with no specific field of specialization make up more than half of the working population, which may well explain the high rate of blue-collar workers.

**3. Economic Education**

The Economic Development Group reckons that educating people on essential economic activities and concepts can create a generation that can adapt more effectively to modern economic developments and to the evolving labor market. In the absence of economic education, young people enter the labor market without being prepared to know their rights or negotiate about their entitlements with their employers. Hence, many working young people are unaware of how to claim their paid holidays/days in lieu, travel refunds, end-of-service benefits, etc. Some employers may take advantage of this ignorance to abuse the rights of workers.

Young people choose their college major based on considerations related to the conventional jobs found in the market, unaware of modern jobs and their good economic returns. Another challenge in this respect is young people's lack of skills needed to manage the economic aspects of the household. Today's Arab households in Israel are unable to manage their monthly budget or overcome the difficulties they find in covering their monthly needs. As a matter of fact, the difference between the average monthly income of the Arab household and average monthly expenditure is hardly enough to justify opening a savings account or to plan for setting up a project that contributes towards the economic development of the household.

### Action Program

The Economic Development Group has developed a detailed action program to address these three challenges. The program identified first the key quantitative indicators of the challenges / problems to be addressed, second the parties responsible for implementing the reform program, and third the activities that should be administered over the next two years to alleviate the constraints of the three challenges. For example, in relation to the third challenge, the group aims to develop an educational program that is later integrated into the different stages of school, which would prepare the younger generation to adapt to work challenges, and manage personal or household budget more effectively.

## 3- Public Finance[1]

### Public Revenues

During Q1 2019, net public revenues and grants dropped by 15% compared with the previous quarter and by 24% compared with the corresponding quarter 2018, reaching around NIS 2.8 billion.[2] This is attributed to the significant increase in clearance revenues by 21% and 37% compared with the previous and corresponding quarters respectively, reaching NIS 1.3 billion. Domestic revenues, on the other hand, rose by 35% compared with the previous quarter, while seeing a marginal drop compared with the corresponding quarter, reaching NIS 1.4 billion. This is ascribed to the rise in tax revenues of 25% and non-tax revenues of 30% compared with the previous quarter, reaching NIS 847.2 million and NIS 437.3 million respectively (Figure 3-1)

On the other hand, foreign aid and grants decreased sharply by 71% and 19% compared with the previous and corresponding quarters, standing at NIS 244.1 million (Table 3-1). During the quarter, Israel implemented a decision to deduct a percentage of the clearance revenues which is equivalent to the amount of money paid to the families of the Palestinian detainees. In response, the Palestinian government refused to receive incomplete clearance revenues (refer to Box 2 of this issue of the Monitor).

Net public revenues and grants were equivalent to 110% of actual public expenditures during Q1 2019 compared with 86% in the previous quarter. However, the ratio dropped to 80% of accrued public expenditures during the quarter (commitment basis) compared with 72% in the previous quarter.

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

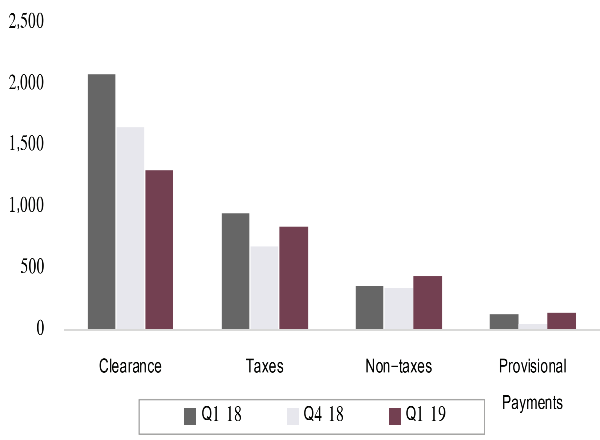



Table 3-1: Grants and Foreign Aid to the PNA (NIS million)

| Item | 2018 | | | | 2019 |
|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 |
| **Budget support** | 157 | 482.1 | 522 | 679.4 | 598.4 |
| **Arab grants** | 140.1 | 236.3 | 303.7 | 410 | 396.3 |
| **Other Countries** | 16.5 | 245.8 | 218.3 | 269.4 | 202.1 |
| **Development funding** | 143.7 | 87.2 | 184.1 | 156.1 | 354.4- * |
| **Total** | 300.7 | 569.3 | 706.1 | 835.5 | 244.1 |

* During this quarter, a sum of NIS 448.1 million was refunded to the US consulate to close an old US grant. This reflected as a drop of NIS 354.4 million in the value of developmental projects grants (refer to Box 6 in the Monitor 56).

1 Source of data: MOF, Monthly Financial Reports: Financial Operations, Expenditure and Revenues, and sources of Funding (Mar, 2019).
2 MOF, Monthly Financial Reports: Financial Operations, Expenditure and Revenues, and sources of Funding (Mar, 2019).

## Public expenditure

By the end of Q1 2019, expenditure on most items began to witness a downward trend, which led to the decline in actual public expenditures by 33% and 23% compared to the previous and corresponding quarters respectively, reaching NIS 2.6 billion. Salaries and wages increased by 13% and 21% compared with the previous and corresponding quarters respectively, reaching about NIS 1.3 billion. In addition, nonwage expenditures decreased by 38% and 25% reaching NIS 1 billion. Net lending and development expenditures, as well, decreased during the quarter by 66% and 62% compared with the previous quarter, reaching NIS 84.9 million and NIS 153.3 million respectively (Table 3-2).

## Government Arrears

During Q1 2019, government arrears reached NIS 1.1 billion, equivalent to about 37% of total public revenues and grants during the quarter. Around NIS 359.9 million of arrears were in wages and salaries, NIS 434.3 million in non-wages, NIS 126.8 million in provisional payments, NIS 102.1 million in developmental expenditures, and NIS 37.4 million in tax refunds (Table 3-2).

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

| Item | 2018 | | | | 2019 |
|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 |
| Tax refunds | 12.3 | 27.6 | 51.1 | 19.1 | 37.4 |
| Wages and salaries | 128.6 | 134.3 | 119.9 | 94.1 | 359.9 |
| Nonwage expenditures | 170.9 | 159 | 287.7 | 468.9 | 434.3 |
| Development expenditures | 10.9 | 10.9 | 35.5 | 237.6 | 102.1 |
| Provisional payments | 104.3 | 8.7 | 28 | (15.4) | 126.8 |
| Total arrears | 427 | 323.1 | 522.2 | 804.3 | 1,060.5 |

Figures between brackets indicate negative value

## Financial Surplus/Deficit

Developments on both the revenue and the expenditure sides during Q1 2019, led to a surplus in the total balance (before grants and aid) of NIS 5.5 million (0.04% of GDP). After grants and foreign aid, the deficit turned into a surplus of NIS 249.6 million (on cash basis), about 1.8% of GDP. On commitment basis, the deficit in the total balance (before grants and aid) reached NIS 1,528.5 million, dropping to NIS 1,282.6 million after grants and aid during the same period (Figure 3-3).

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

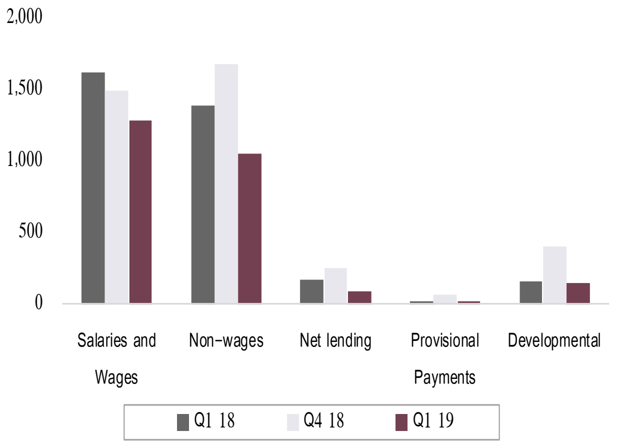



**Figure 3-3: Government's Financial Balance (cash basis) as % to Nominal GDP**

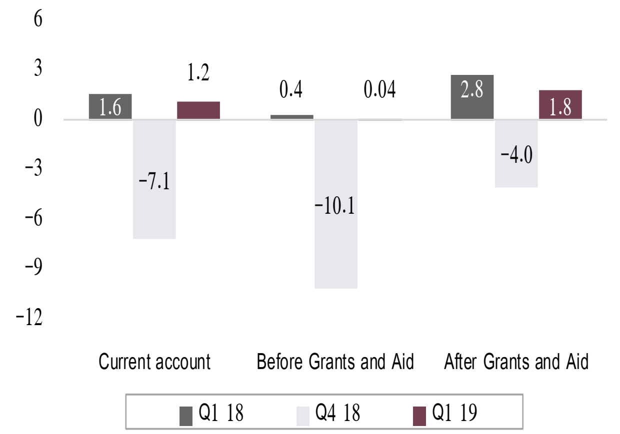



**Table 3-3: Palestinian Government Public Debt (NIS million)**

| Item | 2018 | | | | 2019 |
|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 |
| Domestic debt | 4,913.9 | 4,860 | 4,785.5 | 5,034 | 4,668.0 |
| Banks | 4,863.1 | 4,809.2 | 4,734.8 | 4,983.3 | 4,617.3 |
| Public institutions | 50.8 | 50.8 | 50.7 | 50.7 | 50.7 |
| External debt | 3,674.2 | 3,777.7 | 3,772.1 | 3,882.1 | 3,744.3 |
| Total public debt | 8,588 | 8,637.6 | 8,557.7 | 8,916.1 | 8,412.2 |
| Paid interests | 48.5 | 82 | 66.9 | 48.9 | 28.0 |
| Public debt as % to nominal GDP* | 16.6% | 16.5% | 16.1% | 16.2% | 15.8% |

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

## Total public debt

During the quarter, total public debt (denominated in NIS) decreased by 6% and 2% compared with the previous and corresponding quarters respectively, reaching NIS 8.4 billion (about 15.8% of GDP).[3] About 55% of the debt was domestic and 45% foreign. Debt service during the quarter was NIS 28 million, which was paid on domestic debt only (Table 3-3).

3 It should be mentioned that by the end of Q1 2019, the government's debit denominated in dollars dropped by 2.3% compared with the previous quarter, while it declined by 5.5% compared with the corresponding quarter, reaching USD 2,315.2 million. Figures differ slightly when calculated in USD due to changes in exchange rate.

## Box 3: The Palestinian Budget in the First Three Months of Clearance Revenue Interruption

In July 2018, the Israeli Knesset approved a law delegating the defense minister to submit an annual report to the State Security Cabinet detailing transfers made by the Palestinian Authority to Palestinian detainees in Israeli prisons and their families. The law divided the estimated annual amount by 12 and accordingly provided for deducting that amount from monthly clearance revenue (taxes collected by Israel on behalf of the Palestinian government).

Following the resolution, the Israeli authorites in mid-February 2019 deducted NIS 502 million from clearance transfers, based on estimates that the Palestinian government transfers to detainees and their families a monthly amount of USD 12 million per month. In the deliberations that led to the resolution, the Israeli Prime Minister called on security officials to identify additional payments made by the Palestinian National Authority to "terrorists" and their families, that could be considered for equivalent deduction from clearance revenues.[1]

The Palestinian government refused to receive incomplete clearance revenue. The Israeli decision was the latest episode of a process that previously had provoked repeated protests by the Palestinian side over opaque methods of calculation, arbitrary deductions, and frequent withholding of clearance transfers. In this Box, we look at the impact of the interruption of clearance transfers on the Palestinian budget, focusing on the first three months (March-May 2019).

### Revenue and expenditure

Table 1 records the public revenues in the first three months of the interruption of clearance transfers as compared to the 2018 corresponding three months. The figures are presented on a cash basis, i.e., amounts actually received, not amounts accrued. Clearance transfers in March-May 2019 were only 57% of transfers in the corresponding months of 2018, while public revenues in March-May 2019 were only 53% of those recorded in the 2018 corresponding period. In the three months concerned, local collection was 4% lower than its level in the previous year's corresponding months; yet foreign aid and grants was higher by almost 30%.

In March-May 2019, revenues totaled NIS 1.630 billion, while expenditure (also on cash basis) reached NIS 2.860 billion, which resulted in a nominal deficit of NIS 1.230 billion during the three months.[2]

Despite the large nominal deficit, the budget hardly covered 70% of expenditure during the three months, as shown in Table 2. Salaries and wages drained NIS 4.4 billion (or 46% of total actual budget expenditure), which covered only 82% of the wage and salary bill during the period. [3]

**Table 1: Palestinian Budget Revenues on Cash Basis (in NIS millions)**

| | 2018 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | March | April | May | March | April | May |
| | 1,009.3 | 859.5 | 1,039.6 | 311.3 | 261.2 | 293.0 |
| | 301.9 | 281.4 | 320.0 | 311.3 | 261.2 | 293.0 |
| | 707.4 | 578.1 | 719.6 | 0 | 0 | 0 |
| | 36.6 | 177.6 | 367.8 | 317.6 | 265.9 | 180.1 |
| | 1,045.6 | 1,037.1 | 1,407.4 | 628.9 | 527.1 | 473.1 |

Source: Ministry of Finance, Monthly Financial Reports for 2019: Financial Operations- Revenues, Expenditures, and Financing Sources (May, 2019).

**Table 2: Actual Expenditure on Cash Basis / Expenditure on Accrual Basis (%)**

| | 2018 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | March | April | May | March | April | May |
| | 91 | 93 | 91 | 57 | 60 | 133 |
| | 87 | 78 | 97 | 64 | 49 | 66 |
| | 94 | 97 | 93 | 66 | 56 | 63 |
| | 89 | 89 | 94 | 61 | 53 | 88 |

Source: Ministry of Finance, Monthly Financial Reports for 2019: Financial Operations- Revenues, Expenditures, and Financing Sources (May, 2019).

1 Haaretz, Feb 17, 2019.

2 The deficit on an accrual basis (the difference between the revenues actually generated and the budgetary expenditure commitments) was approximately NIS 2.5 billion during March-May.

3 This does not necessarily clash with the Government's decision to pay 60% of the public employees' monthly salaries, since the decision also provides that an employee's pay should not be less than NIS 2,000 or more than NIS 10,000, in addition to the fixed conveyance allowance for all public servants.

### Arrears and public debt

The budget deficit was financed on a cash basis and also on an accrual basis from two sources.

- First, accumulation of arrears: Arrears (unpaid government obligations to employees, local suppliers, municipalities, etc.) increased by NIS 1.095 billion during March-May 2019. Almost a quarter of this amount was late payments to government employees, and almost half of it was owed to the private sector. By the end of May 2019, the government had accumulated over NIS 4 billion in arrears.
- Second, increased borrowing from banks: Table 3 shows that loans and bank facilities granted to the government increased from NIS 3.6 billion at the end of February to about 4.7 billion at the end of May. This was further compounded by an 11% rise in public sector debt, while external debt remained almost unchanged. The result was an increase in public debt from NIS 8.2 billion to NIS 9.4 billion (NIS 1.2 billion increase).

**Table 3: Public Debt in 2019 (in NIS millions)**

| | Feb. | March | April | May |
|---|---|---|---|---|
| | 4,504.3 | 4,668.0 | 5,108.8 | 5,670.5 |
| | 3,630.2 | 3,789.3 | 4,179.2 | 4,697.2 |
| | 874.1 | 878.7 | 929.6 | 973.3 |
| | 3,727.5 | 3,744.3 | 3,723.8 | 3,733.2 |
| | 8,231.8 | 8,412.3 | 8,832.6 | 9,403.7 |

Source: Ministry of Finance, Monthly Financial Reports for 2019: Financial Operations- Revenues, Expenditures, and Financing Sources (May, 2019).

## 4- The Banking Sector[1]

There are 14 banks operating in Palestine, 7 of which are domestic operating through 356 branches and offices, of which 297 are located in the West Bank and 59 in the Gaza Strip. Around 229 branches and offices are owned by domestic banks while 127 are owned by chartered banks.

By the end of Q1 2019, net assets (liabilities) of the banking sector had increased by 2.3% compared with the previous quarter, and by 3.7% compared with the previous and corresponding quarters respectively, reaching USD 16.5 billion (Table 4-1)

### Credit Facilities

During Q1 2019, the credit portfolio constituted 52% of the total banking assets compared with 52.3% in Q4 2018, reaching USD 8,569.5 million. Credit facilities constituted 69% of total public deposits during the quarter. On the other hand, the private sector received the biggest share of credit facilities (85% of total) against 15% for the public sector.

By region, the West Bank had the lion's share of total credit facilities, 89% compared with 16% for Gaza Strip. Loans were the predominant form of credit facilities (83%), against about 16% for overdraft accounts, and 1% for open-end leases. By currency, the US dollar continued to account for the biggest share of credit (46%) compared with 37% granted in Shekels, and 15% in Jordanian Dinars (Figure 4-1).

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

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

| Item | 2018 | | | | 2019 |
|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 |
| Total assets | 15,916.7 | 15,763.0 | 16,179.4 | 16,125.0 | 16,503.2 |
| Direct Credit Facilities | 8,175.4 | 8,260.0 | 8,293.6 | 8,432.3 | 8,569.5 |
| Deposits at PMA & Banks | 4,093.5 | 3,937.2 | 3,875.2 | 3,763.7 | 3,712.9 |
| Securities Portfolio and Investments | 1314.0 | 1,324.3 | 1,325.4 | 1,385.5 | 1,362.2 |
| Cash and precious metals | 1,294.6 | 1,255.9 | 1,642.6 | 1,582.6 | 1,711.4 |
| Other assets | 1,039.2 | 985.5 | 1,042.4 | 960.9 | 1,147.2 |
| Total liabilities | 15,916.7 | 15,763.0 | 16,179.4 | 16,125.0 | 16,503.2 |
| Total deposits of the public (non-bank deposits)** | 12,002.3 | 11,992.6 | 12,194.2 | 12,227.3 | 12,394.4 |
| Equity | 1,926.8 | 1,819.7 | 1,863.9 | 1,912.0 | 1,931.4 |
| Deposits of PMA and Banks (bank deposits) | 1101.2 | 1006.9 | 1,178.0 | 1,033.6 | 1.116.8 |
| Other liabilities | 330.9 | 293.8 | 263.5 | 269.5 | 361.3 |
| Provisions and depreciation | 555.4 | 650.1 | 680.1 | 682.5 | 699.3 |

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

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

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

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

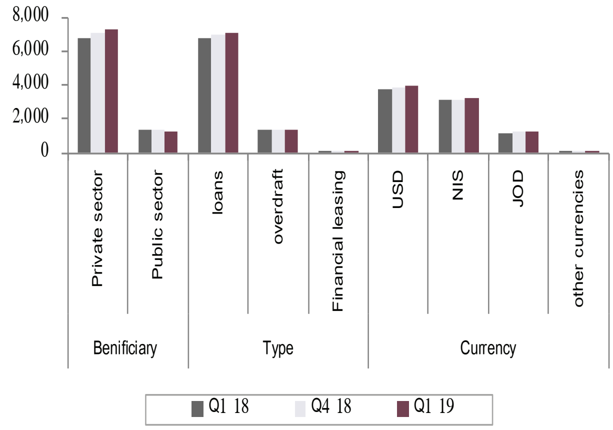
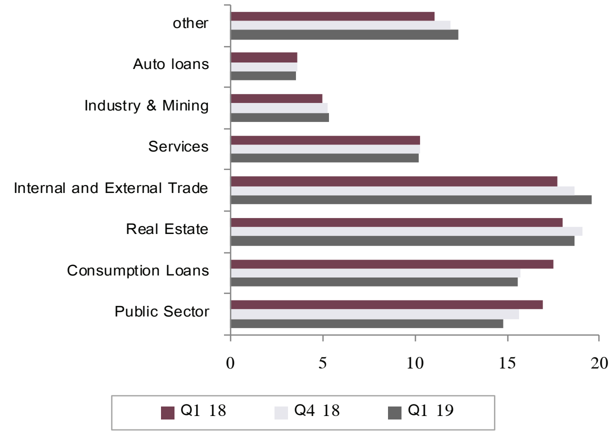


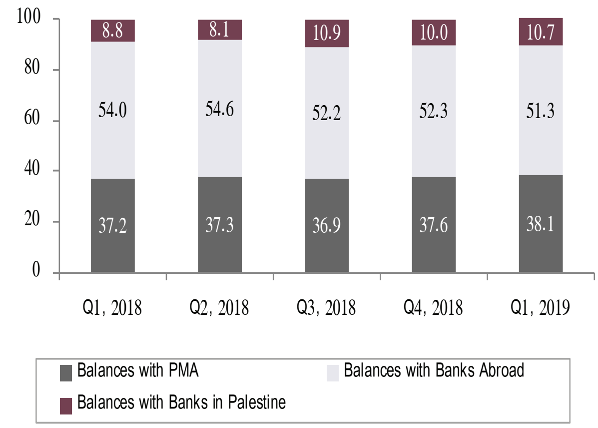

**Figure 4-2: Distribution of Credit Facilities by Sector (%)**




## Deposits at PMA & Banks

During Q1 2019, balances at the PMA and banks continued to decline by 1% compared with the previous quarter, reaching USD 3,712.9 million (around 22% of total bank assets). This decline is attributed to a 3% decline in balances at banks abroad. Meanwhile, balances at local banks grew by 5%. Compared to the corresponding quarter 2018, the quarter witnessed a 14% and 7% decline in balances at banks abroad and at PMA balances in Palestine respectively, whereas balances at banks in Palestine grew by 10% (Figure 4-3).

**Figure 4-3: Deposits at PMA & Banks (%)**

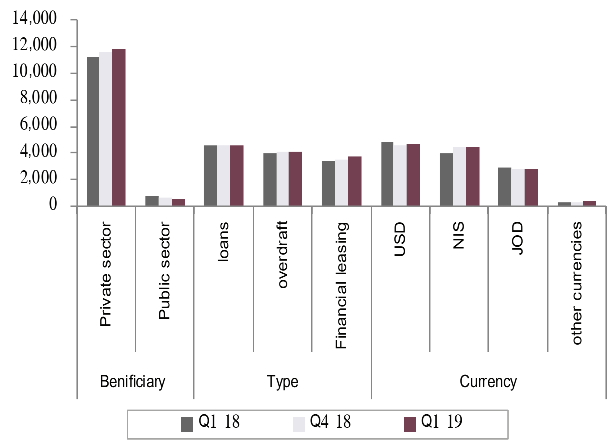



## Deposits

By the end of Q1 2019, total deposits rose by 2% compared with the previous quarter, reaching USD 13,511.2 million. Compared with the corresponding quarter 2018, total deposits increased by 3%. The share of the West Bank of total deposits was 90%, against 10% for the Gaza Strip, Note that the private sector deposits were 95% of the total, compared with 5% for the public sector (Figure 4-4).

Current deposits constituted 37% of total deposits by the public during Q1 2019, while 33% were saving deposits, and 30% 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 (23%), and 3% for the remaining currencies.

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




## Bank Profits

By the end of Q1 2019, bank profits (net income) decreased by 2% compared with the previous quarter, reaching USD 47.7 million. This was driven by a rise in expenditures by 2% (equivalent to USD 3.3 million), reaching USD 183.2. On the other hand, banks' revenues stood at USD 230.9, a rise of 1% or equivalent to USD 2.5 million; as a result net income increased by 13% compared with the corresponding quarter 2018 (Table 4-2).

## Average Interest Rates on Deposits and Loans

Average interest rates on loans in the three currencies in circulation declined during Q1 2019 compared with the previous quarter, reaching 6.66%, 5.87%, 7.23% for JOD, USD, and NIS loans respectively. On the other hand, average interest rates on deposits in the three currencies rose during the quarter, reaching 3.36% for JOD deposits, 2.44% for NIS deposits, and 2.84% for USD deposits.

These changes over the consecutive quarters affected the margins between the deposits interest rates and that of lending facilities, as the margin on the USD decreased from 3.54 percentage points to 3.03 percentage points; from 5.20 percentage pontes to 4.79 percentage points for NIS; and from 3.8 percentage points to 3.3 percentage points for the Jordanian Dinar during the same period (Figure 5-4).

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

| Item | 2018 | | | | 2019 |
|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 |
| Revenues | 216.6 | 218.6 | 214.4 | 228.4 | 230.9 |
| Paid Interest | 152.2 | 156.4 | 158.7 | 164.2 | 163.1 |
| commissions | 33.0 | 32.4 | 32.3 | 31.1 | 30.6 |
| Other Revenues | 31.4 | 29.8 | 23.4 | 33.1 | 37.2 |
| Expenditures | 174.3 | 176.0 | 168.5 | 179.9 | 183.2 |
| Paid interest | 29.4 | 31.7 | 27.0 | 36.2 | 33.0 |
| commissions | 2.6 | 2.8 | 3.2 | 2.4 | 3.0 |
| Other expenditures | 16.5 | 15.5 | 18.9 | 18.8 | 23.9 |
| Operational expenditures | 109.0 | 109.0 | 109.4 | 109.7 | 110.6 |
| Taxes | 16.8 | 17.0 | 10.0 | 12.8 | 12.7 |
| Net Income | 42.3 | 42.6 | 45.8 | 48.5 | 47.7 |

* Others includes expenditures and revenues of financial securities and investments, currency exchange deals, off-budget operations, and other operational expenditures and revenues, in addition to allocations.
* net income = net revenues - expenses

## Clearance

During Q1 2019, the value of cheques presented for clearance decreased by 5% compared with the previous quarter, amounting to USD 3,072.1 million. By region, the value of cheques presented for clearance in the West Bank were USD 2,870.0 million, against USD 202.1 in the Gaza Strip. However, compared with the corresponding quarter 2018, their value dropped by 1% (Figure 4-6).

## Returned Cheques

The value of returned cheques declined by 2% compared with the previous quarter, while it was less by 0.3% compared with the corresponding quarter, reaching USD 286.3 million. The value of returned cheques in the West Bank were USD 272.7 million, against USD 13.7 million in the Gaza Strip. However, the value of returned cheques as a percentage to total cheques presented for clearance, rose slightly during the quarter to 9.3% compared with 9.0% in the previous quarter (refer to Figure 4-7 and Box 4 in Monitor 53).

**Table 4-3: SCIs data**

| Item | 2018 | | | | 2019 |
|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 |
| Total Loans Portfolio (USD millions) | 215.5 | 215.4 | 212.5 | 205.7 | 217.2 |
| West Bank | 149.8 | 153.1 | 154.4 | 151.7 | 163.7 |
| Gaza Strip | 65.7 | 62.3 | 58.1 | 54.0 | 53.5 |
| Active Clientele | 71,759 | 70,922 | 68,942 | 65,458 | 80,314 |
| No. of Offices and Branches | 81 | 81 | 81 | 81 | 93 |

## Specialized Credit Institutions (SCIs)

By the end of Q1 2019, the number of specialized credit institutions (SCIs) licensed by the PMA stood at 7, following the addition of the UNRWA's Microfinance Program announced by the PMA's authorization of 10/2/2019.

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

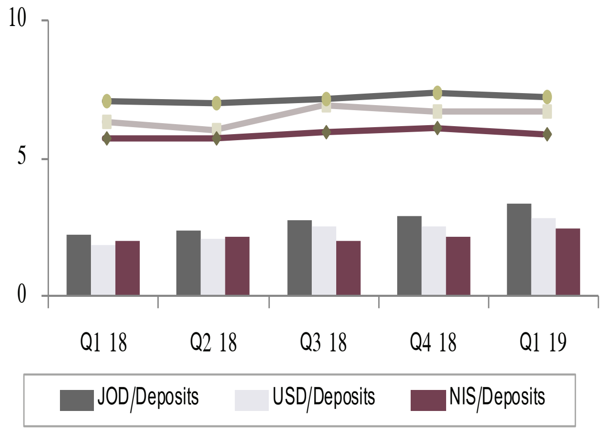



**Figure 4-6: Value of Cheques Presented for Clearance and Returned Cheques (%)**

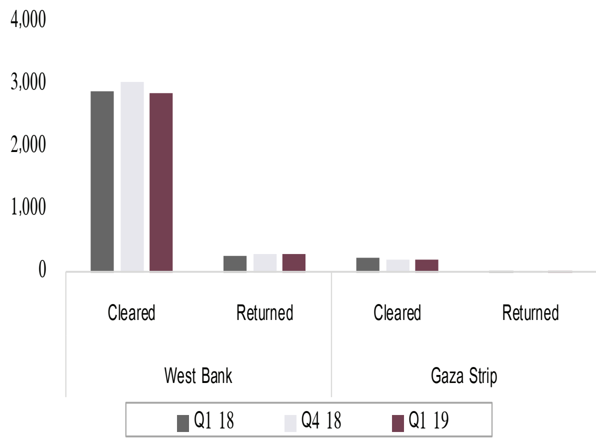
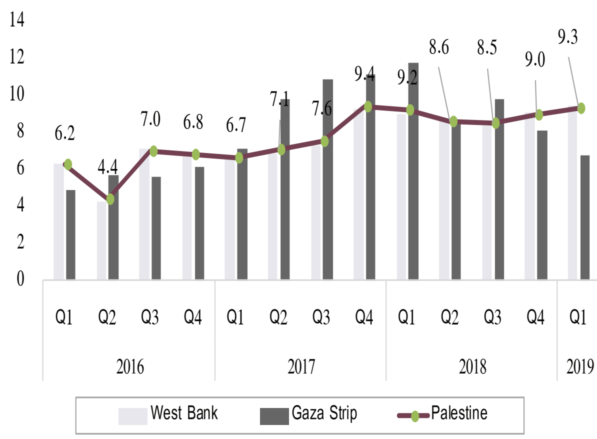



**Figure 4-7: Percentage of Cheques Presented for Clearance to Returned Cheques (%)**




By the end of Q1 2019, total assets of SCIs grew by 3% compared with the corresponding quarter, standing at USD 253.4 million. This resulted from the rise in both cash by 16% and commercial loans portfolio by 6%, deposits (balances) by 56%, against the decline in Islamic loans by 6%. These companies' assets distribute as 68% commercial loans, 7% Islamic loans, and 12% deposits.

The credit portfolio of SCIs increased by 6% compared with the previous quarter and by 1% compared with the corresponding quarter 2018, reaching USD 217.2 million; around 75% of loans were granted in the West Bank against 25% in the Gaza Strip (Table 4-3).

Regarding loans distribution by economic sectors, real estate sector loans continued to dominate with the biggest share of loans, around third (29%), followed by the commercial sector (27%).

## 5- The Non-banking Financial Sector[1]

### The Securities Sector

By the end of Q1 2019, the market value of traded shares in Palestine Stock Exchange (PEX) reached USD 3.8 billion, around 26% of GDP at current prices.[2] Compared with Q4 2018, the market value of traded shares increased by 0.6%, while it decreased by 3% compared with the corresponding quarter 2018. Al Quds index closed at 530.5 points. Whereas it didn't rise compared with the previous quarter, it decreased by 6% compared with the corresponding quarter (Table 5-1).

On the other hand, the total number of market traders stood at 70,660 by the end of Q1 2019, around 5% of whom were foreigners, mostly from Jordan.

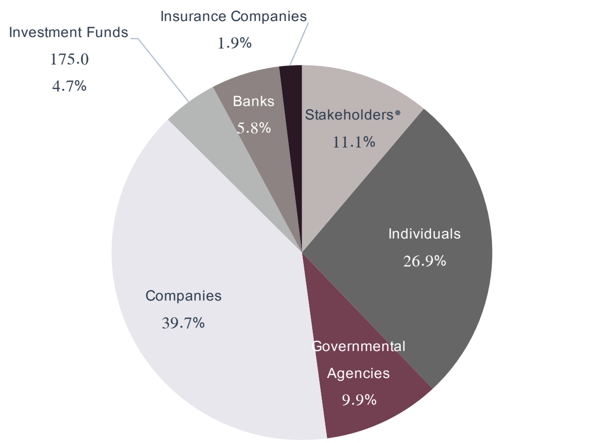
The volume and the value of traded shares increased significantly in Q1 2019 by 139% and 153% respectively, compared with Q4 2018. This is attributed to a group of factors, mainly improvement in the trading activity of listed companies recovering from the contracted trading activity in Q4 2019. In addition, listed companies consolidate their financial positions at the beginning of each year ahead of convening their general assembly meetings and distribution of dividends. On the other hand, the volume and the value of traded shares in Q1 2019 decreased by 30% and 39% respectively, compared with the corresponding quarter 2018 respectively. This is partly due to a big merger deal that took place in Q1 2018, i.e. acquisition of 45% of the Palestine Islamic Bank shares by the National Bank and other investors.

Figure 5-1 shows the distribution of market capitalization by their market shares, showing that the share of corporations was 40% ( USD 1,481.0 million) compared with 27% for individuals (USD 1,003.2 million).

**Table 5-1: Selected Financial Indicators of Trading Activity in PEX**

| Item | Quarter 1 | Quarter 4 | Quarter 1 |
|---|---|---|---|
| Volume of Traded Shares (million share) | 84.3 | 24.7 | 59.0 |
| Value of Traded Shares (USD million) | 170.3 | 40.9 | 103.3 |
| Market value (million dollars) | 3,891.2 | 3,734.9 | 3,757.8 |
| No. of deals | 11,433 | 5,761 | 8,698 |
| Total number of Traders | 71,572 | 70,981 | 70,660 |
| Palestinians | 68,240 | 67,616 | 67,355 |
| Foreigners | 3,332 | 3,365 | 3,305 |

**Figure 5-1: Distribution of Market Capitalization by Trader Type (as of the end of Q1 2019) (USD million)**




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

### Insurance Sector

By the end of Q1 2019, the insurance portfolio (gross written insurance premiums) rose by 38% compared with the previous year, reaching USD 81.9 million. It rose by 38% compared with the previous quarter and by 1% compared with the cor

On the other hand, net compensations incurred by the insurance sector increased by 13% and 5% compared with the previous and corresponding quarters respectively. In addition, the insurance sector investments grew by 4% compared with the corresponding quarter 2018 (Table 5-2).

**Table 5-2: Selected Financial Indicators of the Insurance Sector in Palestine**

| Item | Quarter 1 | Quarter 4 | Quarter 1 |
|---|---|---|---|
| Gross written insurance premiums | 81.3 | 59.3 | 81.9 |
| Total investments of insurance companies | 242.5 | 249.3 | 251.6 |
| Net compensations incurred by the insurance sector | (38.6) | (36.0) | (40.7) |
| Retention ratio | 76.2% | 94.4% | 79.5% |
| Claims ratio | 62.3% | 64.3% | 62.5% |

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

2 The 2017 current prices of GDP are used to reflect the accumulative market value of traded shares.

Table 5-3 presents key insurance indicators that reflect the relative importance of the insurance sector in the Palestinian national economy and in some Arab countries. The insurance penetration rate is the ratio of premium underwritten to GDP at current prices and Insurance Density (the ratio of total premium underwritten to the total population) measures the individual's share of the total insurance portfolio. The Penetration Rate in Palestine (1.8% in 2017) is higher than that in Egypt, Kuwait, Algeria, yet below that in Jordan, Lebanon, and Morocco. However, insurance density (USD 53 in Palestine in 2017) is much less in Jordan, Lebanon, and Morocco.Table 5-3: The spread of Insurance Services and Products in Arab Countries During, 2015 - 2017

**Table 5-3: The spread of Insurance Services and Products in Arab Countries During, 2015 - 2017**

| Country | Penetration Ratio (%) | | | Insurance Density (US $) | | |
|---|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2015 | 2016 | 2017 |
| **Kuwait** | **0.7** | **0.7** | **0.7** | **207** | **199** | **201** |
| **Egypt** | **0.6** | **0.6** | **0.7** | **22** | **22** | **16** |
| **Algeria** | **0.8** | **0.8** | **0.7** | **32** | **30** | **29** |
| **Palestine** | **1.4** | **1.6** | **1.8** | **37** | **44** | **53** |
| **Saudi Arabia** | **1.5** | **1.5** | **1.4** | **308** | **305** | **296** |
| **Jordan** | **2.1** | **2.1** | **2.1** | **85** | **88** | **89** |
| **Lebanon** | **3.1** | **3.2** | **3.2** | **261** | **267** | **276** |
| **Morocco** | **3.1** | **3.5** | **3.5** | **89** | **101** | **104** |

*Source: Sigma magazine issued by the Swiss Re institute, http://www.sigma-explorer.com

As figure 5-2 shows, there is a significant concentration in vehicle insurance in the insurance portfolio in Palestine, which constituted 59% of the total portfolio followed by the health sector by 17%. Figure 5-3, presents the market share of insurance companies, where three companies of the ten operating companies dominated 54% of gross written premiums in the Palestinian insurance sector by the end of Q1 2019.

## Financial Leasing

The number of leasing companies registered with PCMA was 9. The total volume of contracts were 407 valued at USD 20.1 million by the end of Q1 2019. This represents a decline of 21% and 34% in the volume and value of contracts compared with the previous quarter. On the other hand, the volume of contracts increased by 12% compared with the corresponding quarter, which is attributed to widespread marketing campaigns, and increased awareness about the financial leasing sector. Yet, the value of contracts decreased by 3% (Table 5-4).

By region, financial leasing contracts are concentrated in Ramallah (39%), followed by Nablus (14%), then Jenin (12%). Around 35% of contracts distribute among the rest of the Palestinian cities. Financial leasing is still concentrated in motor vehicle leasing (73% of total contracts), which is attributed to the ease of registering ownership of vehicles at the transportation department and therefore the low-risk associated with its leasing.

**Figure 5-2: Distribution of the Insurance Portfolio Components by Insurance Sector Activity (as of the end of Q1 2019)%**

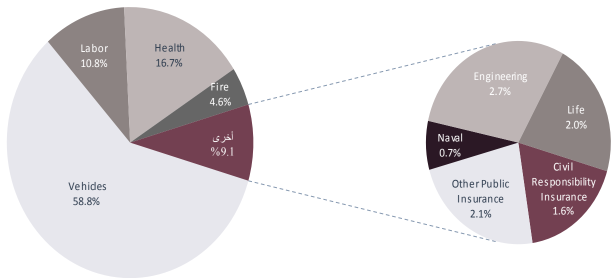



**Figure 5-3: Distribution of the Insurance Portfolio Components by the Insurance Company (as of the end of Q1 2019) %**

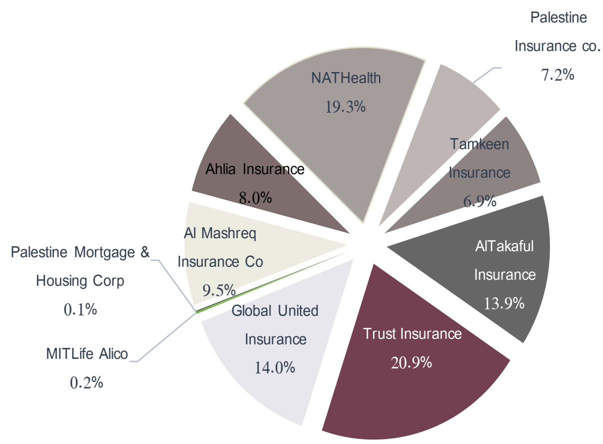



**Table 5-4: Total Value and Volume of Financial Leasing Contracts**

| Quarter | Total Value of Financial Leasing Contracts (USD Million) | Total Volume of Financial Leasing Contracts |
|---|---|---|
| Q1, 2018 | 20.7 | 362 |
| Quarter 4, 2018 | 30.3 | 517 |
| Quarter 1, 2019 | 20.1 | 407 |

## Box 4: PEX performance in 2018 and projections for 2019

### The role of the stock exchange in economic development

A capital market (stock exchange) plays a fundamental role in advancing a national economy. A functioning capital market contributes to economic growth and development through different ways, including the provision of guidelines for investors in areas of greatest production capacity, as well as contributing to raising capital formation rates. Capital markets also play a major role in financing economic development through cooperation with listed shareholding companies. Because of the potentials that such companies have– which some governments cannot provide– the results of such cooperation have now become characteristic of economic progress in the modern world, not only in terms of investment and generating profits, but also regarding the optimal tapping of national resources. For companies' investment initiatives to pay off, they need a sustainable, free market that ensures transparent and efficient trading, which capital markets provide. The existence of a stock exchange ensures a safe investment environment and provides transparent indicators of current and future profitability trends and investment conditions in the country. Capital markets also play an important role at the micro-economic level (individuals and companies) by facilitating the accumulation of capital (savings) from those who do not have prior investment plans, and making this capital available to businesses that need to finance their actual investment plans.

Some economists have questioned the functioning of an economy in the absence of a capital market. They have generally concluded that the absence of such markets would lead to an inefficient market allocation of available resources, which could weaken economic growth and per capita income.

### Securities Sector in Palestine

Despite the hardship Palestinians endure as a result of Israeli occupation, the Palestine Stock Exchange (PEX) is top-tier compared to the Arab capital markets. The PEX has made impressive strides, for example becoming the first electronic market in the Arab region. Starting in 1997 (then called Palestine Securities Exchange), two years before Amman Stock Exchange, the PEX began with just under 10 listed companies. By 2018, the number had grown to 48 companies, and the market witnessed important developments in terms of legislation regulating transactions, companies' disclosures, and measures enhancing efficiency of trading and investor protection.

The Palestine Capital Market Authority (PCMA) has gained full membership in the International Organization of Securities Commissions (IOSCO), the world's highest professional body that sets the standards for the securities sector. Palestine has also joined the states that signed the Multilateral Memorandum of Understanding, thus becoming the 101st member. The PEX also obtained full accession to the World Federation of Exchanges in 2016. These advantages have strengthened confidence in PEX and helped enhance its position in international markets.

### Development of the PEX indices (1997–)

Throughout its history, the PEX has witnessed several episodes of volatility as shown in Figures 1 and 2. Figure 2 demonstrates that stock market activity suffered a downturn in the years of Al-Aqsa Intifada (2000-2004), and then saw a remarkable recovery thereafter until 2008, when it suffered a marked decline in market activity owing to corrective measures and other conditions related to the Palestinian economy. Despite the sharp fluctuations, the indicators show an upward trend over the years.

**Figure 1: Change in PSE market value, 1997-2016 (USD millions)**

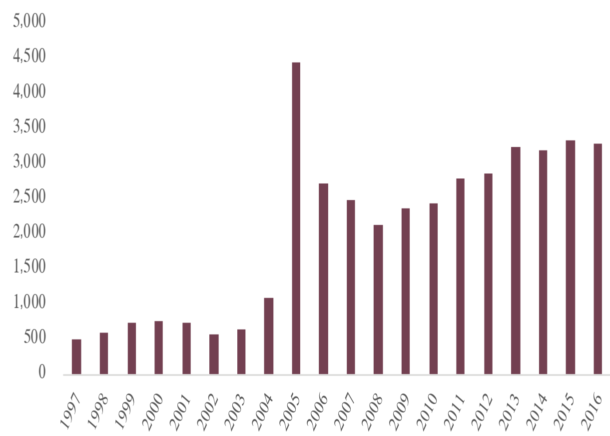
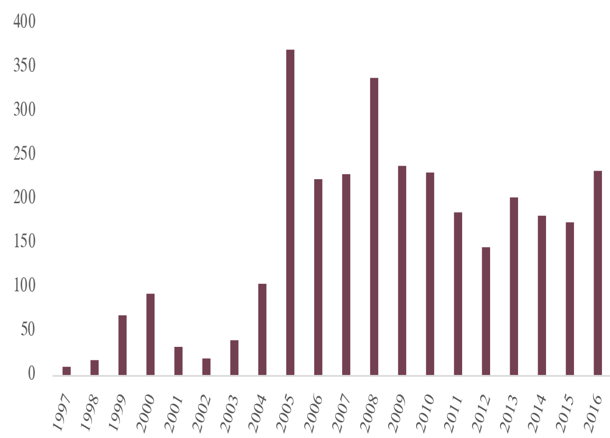



**Figure 2: Number of shares traded, 1997-2016 (in millions)**




### PEX performance in 2018

The PEX performance in 2018 resonated with the macroeconomic conditions prevailing in the West Bank and Gaza Strip. Preliminary estimates by the Palestinian Central Bureau of Statistics (PCBS) reveal a slowdown in economic performance in 2018, with GDP growth at only 0.7% (well under 3%, the rate for 2017), which translated into a 1.5% decline in GDP per capita. In terms of economic activities, the industry, agriculture and construction reported growth in value added by 5%, 4% and 0.7%, respectively. Meanwhile, the value added of services and other branches shrank by 1%. Despite the overall 2% increase in the number of employed, the unemployment rate increased to 31% up from 29% in 2017, as the rate jumped beyond 50% in the Gaza Strip during the first three quarters of 2018.

Table 1 shows overall negative PEX figures in 2018 compared to 2017: a 25% decline in the value of shares traded and a 34% decline in transactions. At the sectoral level, the market value of the banking and financial services sector fell by 7%, while those of the investment sector and services sector fell respectively by 6% and 5%. By contrast, the market value of the insurance sector increased by almost 30%, while it remained unchanged for industrial companies. Meanwhile, the number of shares traded improved only in the banking and financial services sector, which, together with the insurance sector, saw also improvements in the value of the shares traded. Foreign investments listed in the PEX totaled USD 1.37 billion (about 37% of the market value of the stock market), which is 3% lower than in 2017.

The previous analysis exhibits how the performance of the stock exchange is closely linked to overall economic performance. This reasoning is intuitive, as the structure of the stock market and the changes it witnesses are correlatively associated with the developments occurring in the economy, such that the stock exchange performance affects the performance of the economy, and the other way around. In other words, a well-functioning stock exchange tunes in on the overall state of the economy.

### Projections of PEX performance

The performance of the PEX in 2019 is more likely to be impacted by the tense political relationships between the Palestinian and Israeli sides, which is expected to lead to a decline in financial support, a freeze of clearance transfers, and more Israeli constraints on Palestinian various economic sectors. A host of political factors is expected to adversely affect performance of the PEX in different ways, including:

- A decline in household savings due to delays in paying the government employees, which resulted from Israel's witholding of Palestinian clearance revenues.
- A reluctance of the potential Palestinian investors given the uncertain climate and little investor-confidence.
- A decline of foreign investment due to slow economic activity and uncertain political conditions in the regional countries.
- Further deterioration of already poor economic conditions in the Gaza Strip and freeze of investment activities there, which will impact the expansion of companies not only in the Gaza Strip, but also in the West Bank.

Notwithstanding the bleak picture, there is still much to be done to improve the performance of the PEX, even under the current political standoff: encouraging unlisted companies in Palestine to join the PEX; increasing the depth of the financial market, creating new financial instruments, solving the problem of market concentration (which would auger well for the performance of the stock market); enhancing confidence of existing investors in the stock market; and encouraging prospective and potential investors to list their businesses on the PEX.

**Table 1: Palestine Stock Exchange Performance Indicators (2017-2018)**

| Performance Indicator | Number of shares traded | Trading Value (USD) | Market Value (USD) | Al-Quds Index (points) | Number of transactions |
|---|---|---|---|---|---|
| 2017 | 271,163,750 | 469,070,221 | 3,891,495,531 | 574.58 | 53,205 |
| 2018 | 185,071,060 | 353,476,019 | 3,734,921,019 | 529.35 | 35,030 |
| **Change (%)** | -32% | -25% | -4% | -8% | -34% |

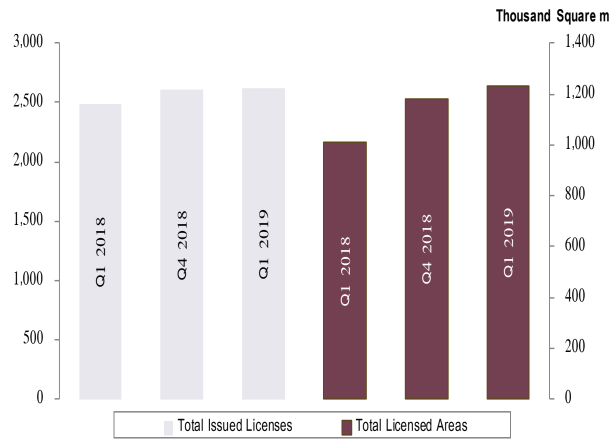
Murad Aljadba, Capital Market Authority

## 6- Investment Indicators[1]

### Building Licenses

Figure 6-1 presents the changes in the number of registered building licenses and licensed areas. The number of issued building licenses reached 2,617 during Q1 2019, a rise of 5% compared with the corresponding quarter 2018. Licenses of non-residential buildings constituted 10% of the total. On the other hand, licensed areas of buildings amounted to 1,232.1 thousand square meters in Q1 2019, which is higher by 22% compared with the corresponding quarter 2018.

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




* Data do not include that part of Jerusalem, which was annexed to the Israeli occupation forcefully by its occupation of the West Bank 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 Q1 2019 fell sharply compared to the previous and corresponding quarters, as it arrived at the 5,764 car mark, which is less than the previous quarter by 3002 cars and by 2,238 cars compared with the corresponding quarter 2018. Second-hand vehicles made up 78% of the total, 12% of which were imported from Israel (Table 6-1).

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

| Month | Vehicles from international market (new) | Vehicles from international market (second-hand) | Vehicles from the Israeli market (second-hand) | Total |
|---|---|---|---|---|
| Q1 2018 | 1,353 | 6,130 | 519 | 8,002 |
| Q4 2018 | 1,755 | 6,560 | 451 | 8,766 |
| Q1 2019 | 1,240 | 3,988 | 536 | 5,764 |
| Jan | 476 | 1,193 | 198 | 1,867 |
| February | 391 | 1,892 | 189 | 2,472 |
| March | 373 | 903 | 149 | 1,425 |

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

## Box 5: A standard VAT rate or differential VAT?

Does adopting different VAT rates on goods, rather than a single flat rate, help reduce income inequality? This is the important question the Bank of Israel tried to answer in a report published in Israel Economic Review.[1]

Unquestionably, the debate in Israel on the advantages and disadvantages of the differential VAT rates compared to a standard rate system is also important for Palestine. First, under the Paris Economic Protocol, the VAT rates in Palestine are linked to those in Israel. Second, Palestine has adopted the main components of the tax system applied in Israel. Third, there are repeated calls in both Israel and Palestine to adopt differential tax rates in order to reduce the cost of living for the poorer segments.[2]

### A standard VAT rate or differential VAT?

Literature in the field agrees that a standard rate of VAT on all goods is simple and with relatively low collection and administrative costs. A standard VAT rate has the additional advantage of relatively little impairment to economic efficiency because it raises all prices by the same percentage and thus does not affect the choices of producers and consumers. Many countries, however, have chosen the differential VAT regime (including a zero rate or an exemption). Countries doing so aim to achieve two things: mitigating economic inequality by making the consumption basket of low-income households less costly (through low rates on basic goods); and encouraging people to consume certain products by lowering the rate of VAT that applies to them (e.g. low rates on books) or certain activities (e.g. low rates on tourism activities). There are 5 countries in the European Union with 4 different VAT rates, and 8 countries with 3 different rates. The main objective is to support low-income household consumption and stimulate (or reduce) the consumption of certain goods.

### VAT in Israel

In 1976, Israel introduced the VAT, then at 8%, but it was increased gradually over the years to 17% now. Revenue from VAT totaled NIS 68 billion in 2009, or about 34% of the total tax revenue that year. This is higher than the average in the OECD countries (19%).

Israel generally applies a uniform VAT rate, but there are reduced VAT rates:

- Differential by product: Exemption on vegetables and fruit as well as tourism products (e.g., tourist hotel stays)
- Differential by incorporation: Reduced VAT rates on non-profit organizations.
- Differential by place of sale: Most sales in the Eilat area are exempted from VAT in order to encourage investment and employment in that area.

1 C. Gotlibovski & N. Yaacobi (2018): Should Israel Adopt Differential VAT? Examining the Expected Implications in View of Theory and International Experience. Israel Economic Review Vol. 16, No. 2 pp. 97–139 https://www.boi.org.il/en/Research/Periodicals/Pages/IsERVOL16NO2.aspx

2 For more information on VAT and its implementation, see The Economic Monitor, issue 51.

- Differential by type of customer (exports–zero VAT).

A report by the State Revenue Administration for 2009 estimated the loss of VAT revenue owing to exempt and zero-rate transactions at about NIS 3 billion (NIS 1.89 billion on account of zero-rate VAT on fruit and vegetables, NIS 590 million due to the exemption of incoming-tourism services, and NIS 540 million due to the exemption in Eilat). These figures suggest that the effective rate of VAT in 2009 was 13.8 percent, compared with 10.5 percent, the average in the EU countries. The questions that the Bank of Israel's study tried to answer are: Have the exemptions from VAT led to tangible benefits for the poor? Should the number of exempted goods be increased or alternatively reconsidered? Are different VAT rates the best way to improve income distribution and reduce inequality?

## Income inequality and utility inequality

To provide adequate answers, the BOI's report used two different approaches to measure social inequality. The first measures inequality using variation in the average share of each population group in the disposable income (for example, the poorest 10% of the population have a monthly disposable income of NIS 12,667, while the average monthly income of the richest 10% of the population is NIS 30,809). In other words, the first approach measures inequality relative to income purchasing power. The second approach provides estimates of utility inequality, which requires taking into account the difference in individuals' earning ability. The difference between the two approaches is reflected in the inclusion of inequality in the level of leisure relative to utility and earning capacity. The assumption is that inequality should be measured not only by the variation in the purchasing power, but also by the difference in utility achieved in relation to the level of leisure. A uniform income tax allows people with high capabilities to reduce their work hours, thereby reducing their tax liability. By reducing work hours, these people enjoy greater untaxed leisure, which creates inequality. The inclusion of leisure in the analysis requires setting different rates on different products depending on the purchasing power of the population segment and its percentage of consumption: high VAT rates on products consumed by individuals with high capabilities (products generating high earnings) and low on products consumed by the underprivileged (products generating low earnings).

## The effect of zero VAT on vegetables and fruits on inequality

The report asked whether exempting fruit and vegetables from VAT mitigates inequality as measured by the variation in the purchasing power of the disposable income of the population. The analysis found that repealing the zero-rate VAT on fruit and vegetables would have several implications. First, the consumption basket of the lower income decile will rise in price by 0.7 percent and that of the uppermost decile will increase by 0.4 percent. Second, the move will induce a slight decrease in vertical inequality (between high-earning and low-earning households). However, this creates many situations in which low-income persons gain nothing from this tool because they do not consume fruit and vegetables on a significant scale relative to their income. In other words, the zero VAT on fruits and vegetables leads to a situation in which households with similar income are subsidized differentially, thus impairing horizontal equality (i.e., between ethnic and cultural groups). Accordingly, the report holds that a uniform VAT system is more effective, such that imposing VAT on vegetables and fruits– and channeling the collected funds (NIS 1.962 billion) to low-income people will help reduce inequality. The report to low [3]the revenue obtained to fund other inequality-mitigating mechanisms: child allowances, an earned income tax credit and spending more on public goods.

## The Effect of zero VAT on vegetables and fruits relative to utility

The study sought to identify the groups of goods consumed more by the high earners (income / hour)– goods on which higher taxes are justified since they serve the purpose of reducing the disparity in income distribution (reducing utility). The report found that vegetables and fruits are among those groups. In other words, the exemption of vegetables and fruit from VAT increases inequality in the economy (as measured by utility distribution). In general, however, there are few products on which expenditure correlates negatively with hours worked (excluding landlords' capital income and on rent payments, as well as capital income and domestic tourism spending). In other words, the analysis did not find evidence as to the effectiveness of different VAT rates in reducing utility inequality.

## Progressive VAT

The findings of the report support the results of several other previous studies, which found other more effective, less expensive methods than differential VAT in reducing inequality. The best possible method would be a single standard VAT rate (repealing exemptions), using the income generated from repealing such exemptions to directly support the poor. An alternative to this would be a progressive VAT regime: a uniform rate on all goods for all households (for example 25%), and then refunding a flat amount at the end of the year, for example 800 NIS to each household. For instance, a household which pays an average NIS 800 in yearly VAT will in practice recover the full amount paid (a zero VAT rate), while affluent households will pay slightly below 25% in VAT. This system does not have negative implications for equality, lowers administrative costs, improves economic efficiency and streamlines calculation.

3 Calculated on the assumption that spending on ffruits and vegetables constitutes 3.1% of total spending. The figure is also based on the 2014 VAT rate (18%).

## 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. Assuming nominal wages and salaries are fixed, an inflation rate of 10% per year means that the purchasing power of families and individuals will decline by the same ratio.

### Price Index

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

During Q1 2019, the CPI remained at the same level of Q4 2018, i.e. 111.12 (over the two quarters inflation equal zero). By subgroups, the prices of garments, cloths and footwear group rose by 4.49%, the food and soft drinks group by 1.25%, whereas the prices of alcoholic drinks and tobacco group by 2.46%, the transportation group by 2.36%, and the telecommunication prices by 1.83%.

### Wholesale Prices and Producer Prices

The wholesale price index -WPI (sale price to retailers) declined by 0.06% between Q4 2018 and Q1 2019, driven by the decline in wholesale prices of local goods by 0.84% and the rise in wholesale prices of imported goods by 0.76%. The producer price index- PPI (prices received by domestic producers) has also risen by 1.52% quarter on quarter. This resulted from the rise in the producer prices of locally-produced and consumed goods of 1.65%, and of 0.42% in the producer prices of locally-produced exports (Figure 7-2).

### Prices and Purchasing Power

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. Since the CPI was stable during Q1 2019 compared with the previous quarter, the purchasing power of the currency of NIS was stable as well quarter-on-quarter (Figure 7-3).

USD Purchasing Power: During Q1 2019, the USD exchange rate against the NIS decreased by about 1.65% compared with the previous quarter. Therefore, the purchasing power of individuals who receive their salaries in USD and spend all their income in NIS has decreased during this quarter compared with the previous quarter by 1.65%. compared with the corresponding quarter 2018, the inflation rate was 0.77%, and the USD/NIS exchange rate rose by 5.26%, which means that the USD purchasing power has increased by 4.49%. Considering that the JOD exchange rate is pegged to that of the USD, the purchasing power of the JOD has seen almost the same developments as that of the USD (Figure 7-3).

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

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

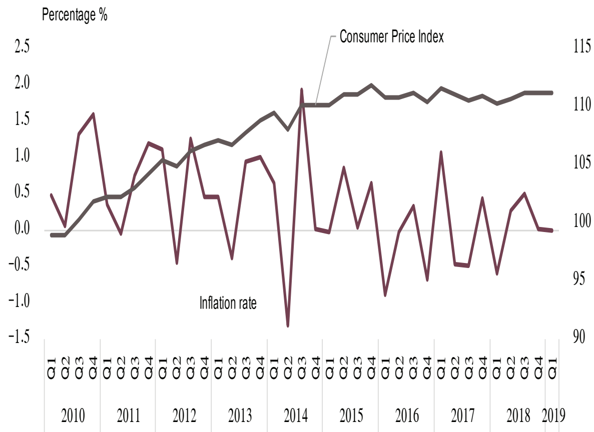



**Figure 7-2: Evolution of WPI and PPI (base year 2007)**

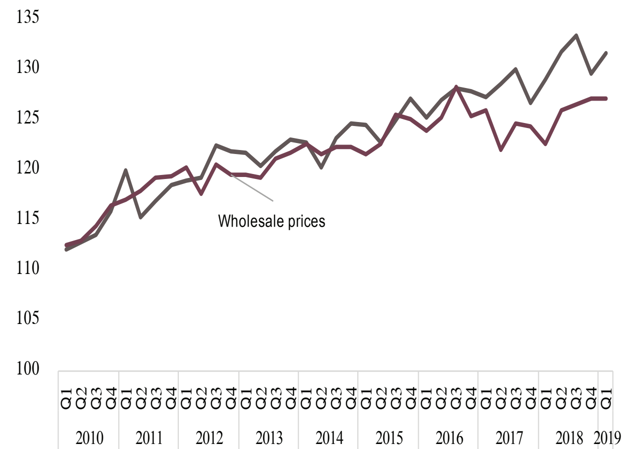
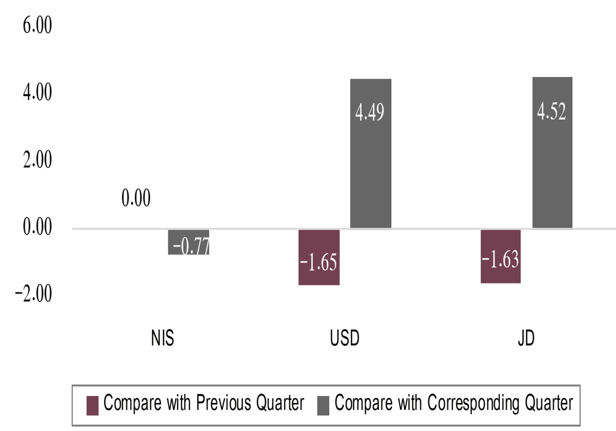



**Figure 7-3: Change in Purchasing Power by Type of Currency (percentage %)**




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

## Box 6: Traffic Congestion in Palestinian Cities: Impact and Solution

This box presents the key factors behind traffic congestion, a topic that The Palestine Economic Policy Research Institute (MAS) discussed in a roundtable session late April 2019. It also touches on its repercussions, drawing on the background paper prepared by Dr. Samir Abu Aiesheh, as a basis for debate on this topic. [1]

The increase in demand for transportation is accompanied with positive and negative repercussions, as this increase is an indicator of the growth and the brisk pace of economic activities. On the other hand, increased demand for transportation is mostly accompanied by increased traffic congestion with its economic and environmental impacts. Traffic congestion in the West Bank is attributed to a number of factors, mainly: The steady increase in the number of registered vehicles on roads exacerbated by limited street capacity inside and outside cities, inappropriate urban planning and network structures, inadequate response to the increasing demand for transportation, and the inefficient transport and traffic management systems. Additionally, the Israeli occupation policies hamper the smooth flow of traffic and development in area "C".

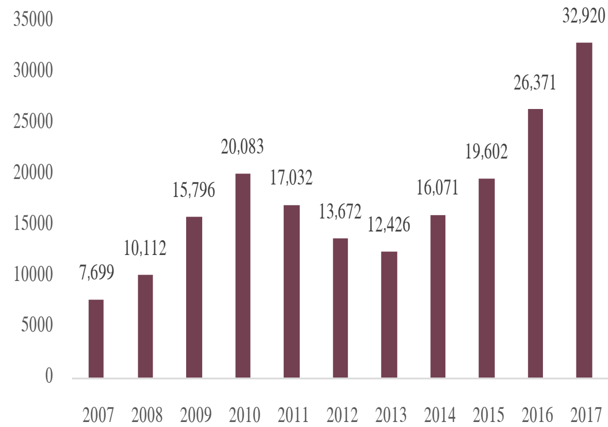
### The increase in the number of vehicles in the West Bank under the limited road capacity inside and outside cities

The number of newly licensed vehicles in the West Bank has increased significantly between 2007 and 2017, as shown in Figure-1. During theperiod studied, the annual growth rate of new vehicles registered in the West Bank was about 18% , i.e. they have tripled over the last decade. This reflected as an annual increase of 14% in the total number of vehicles registered in the West Bank. Compared with the average growth rate of vehicles worldwide during the period 1990-2015, around 3% only, this annual increase is considered high.

The increase in the number of newly licensed vehicles in the West Bank was accompanied by an increase in the ratio of private vehicles to total number of registered vehicles by 9 percentage points. Additionally, the ratio of households who own at least one private car rose from 22% in 2007 to around 38% in 2017. [2]

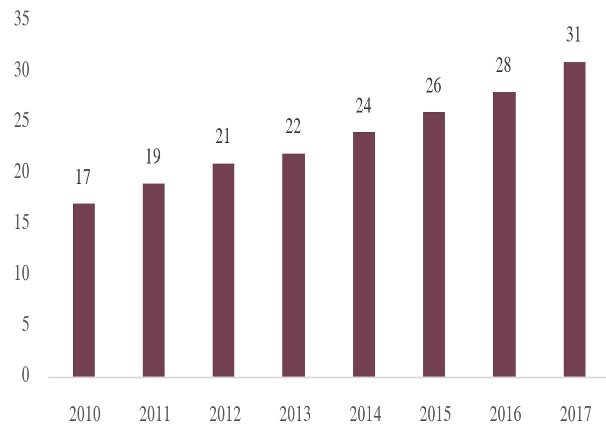
This increase in the number of vehicles in the West Bank during the last decade is ascribed to two factors: The government's policy of lowering purchase taxes on private cars from 75% to 50% in 2011, and the flexible payment plans and credit facilities granted by banks for financing car purchases. As shown in Table-1, banks' car-credit facilities have doubled over the period between 2007-2017, rising from USD 83 million to USD 226.4 million.

**Figure-1: The Number of Vehicles Registered for the First Time in the West Bank**




Source: General Directorate of Roads and Transport Planning, 2018.

**Figure-2: The Number of Vehicles for One Kilometer in the West Bank, 2010-2017**




Source: General Directorate of Roads and Transport Planning 2018

On the other hand, there has been no significant change on road network infrastructure inside and outside cities toexpand its capacity. The road lengths in the West Bank in 2007 were 8.4 thousand kilometers against 8.6 thousand kilometers in 2017, a growth rate of less than 3% over the decade period. This also reflected as a significant increase in the traffic density on roads (the number of vehicles that occupy a kilometer of the road), which has almost

**Table 1: Total Bank Loans Granted for Purchasing Private Cars in the West Bank, 2007-2017 (USD million)**

| Year | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Amount | 83.1 | 93.0 | 133.4 | 225.8 | 170.0 | 191.4 | 219.8 | 246.3 | 329.4 | 210.4 | 226.4 |

Source: Palestinian Monetary Authority (PMA), 2019.

1 https://www.mas.ps/files/server/2019/Round%20Table%203%20Arabic.pdf

2 Population, Housing and Establishments Census , 2017.

doubled over the last decade as shown in Figure-2. The increase in vehicles number while not adapting infrastructure to adjust to this increase by expansion of transport networks, has also spurred an increase in the traffic flow on roads. Available studies show that the annual increase of the traffic flow over the last five years was 4.9% in Ramallah and Al Bireh, and 4% in Nablus city. Considering the steady increase in the number of registered vehicles on roads compounded by limited street capacity, poor public, traffic congestion in the West Bank will exacerbate in the future.

### Inappropriate Urban Plans, Network Structure, and the Growing Demand for Transport

The current situation of buildings and arterial roads in the Palestinian cities compounds traffic congestion, since they were constructed many years ago based on old urban plans and regulatory procedures. Buildings in crowded commercial areas were built without frontal setbacks, without considering how they impact traffic. This has limited space available for changing arterial roads boundaries in the city centers and any expansion plans, in addition to the high costs of acquisition and expansion inside city centers.

### Poor Public Transport System

Amid the growing demand for transportation in the West Bank and the difficulty of expanding road networks and infrastructure needed to adapt to the massive increase in demand, public transportation can play a pivotal role in alleviating traffic congestion. However, developing a road networks in the West Bank on the short term seems a huge undertaking. One obstacle to accomplishing this endevour, is the lack of the government's financial subsidy for public transport, as this service is usually subsidized in many countries. Additionally, public transport depends on the contribution of profitable transport lines in financing the cost of the less profitable lines of transport, which requires high levels of solidarity and organization, both of which are unattainable in the short run.

### Weak Enforcement of Traffic Laws and the Israeli Occupation's Measures

No doubt , traffic chaos and the week enforcement of law, increases traffic congestion. Add to that the insufficient traffic management of roads, and selective enforcement of the law, in addition to other challenges associated with the large number of unlicensed and uninsured cars which are out of the Palestinian police jurisdiction. , Israeli occupation policies prioritize the road netwrok serving the settler population, as well as hampering the smooth flow of traffic, like the closure of roads and obstruction of development in area "C"; constructing permanent or "flying" checkpoints; permanent and temporary closure of cities' entrances and agglomerations.

### Effects of Traffic Congestion

- **Economic Impacts:** There are a number of economic costs associated with traffic congestion :
  First, costs of lost time; there are no official standard method for estimating costs of lost time, however, one case-study of the intersection at the northern entrance of Hebron city, shows that around 540 thousand hours were lost by drivers in 2015. The cost of lost time was estimated at USD 400 thousand.
  Second, wasted fuels costs resulting from the frequent stop-and-go movement of vehicles. The same study shows that around 1.1 million liters of fuels were wasted, equivalent to USD 1.6 million. Based on this, the total economic cost of traffic congestion at the northern entrance of Hebron was estimated at USD 2 million in 2015.
  Third, costs caused by stress, pressure and psychological tension resultant from congestion and delays.

- **Environmental Hazards:** Traffic congestion, especially in cities, has adverse effects on the environment, which has serious effects on humans health, their respiratory system and are considered responsible for many diseases, as studies in different countries show. Additionally, the air is polluted massively with the emission of $CO_2$ from cars' exhausts contributing to global warming and impacting the climate in general, and the associated economic and environmental costs.

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## 8- Foreign Trade[1]

### Balance of Trade

The value of "registered"[2] merchandise imports during Q1 2019 was about USD 1,419.2 million (a drop of 5% compared with the previous quarter), while compared with the corresponding quarter 2018 it rose by 4%. Meanwhile, the value of merchandise exports was USD 260.2 million, a drop of 12% and 5% compared with the previous and the corresponding quarters respectively. The value of exports was close to 18% of the value of imports during the quarter (Figure 8-1). The difference between exports and imports (deficit) amounted to USD 1,159 million. The deficit has dropped slightly because of the surplus in the balance of service imports from Israel (USD 4.7 million) (Figures 8-2).

### Balance of Payments

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

The deficit in the current balance of payments account declined during Q1 2019 to USD 306 million. This is less by 23% compared with the previous quarter. Compared with the corresponding quarter 2018, the deficit fell sharply by 31%. The current account deficit resulted from a deficit in the trade balance (USD 1,462.6 million), against a surplus in the balance of income of USD 639.8 million composed mainly of compensations of Palestinian workers in Israel) and a surplus in the balance of transfers of USD 516.8 million (Table 8-1) .

The balance of payments deficit was financed by a surplus in the capital and financial account, which covered an amount of USD 166.7 million. This item (the capital and financial account) represents a debt on the national economy, as long as its value is positive.

Theoretically, there should be a perfect balance between the current account deficit and the surplus of capital and financial account, i.e. the net value of the two should be zero. However, there is often a difference between the two accounts, usually recorded under "errors and omissions", because of insufficient data and smuggling activities.[3]

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

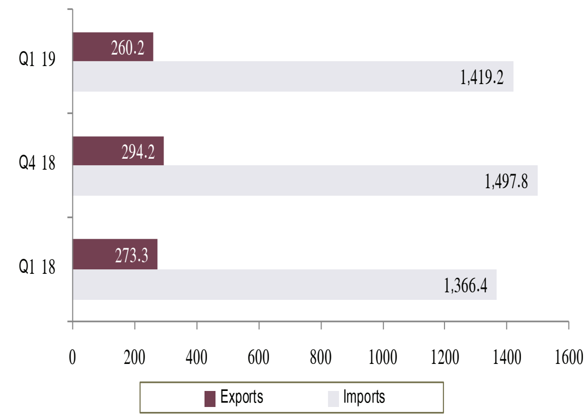


**Figure 8-2: Exports and Imports of Registered Services from Israel (USD million)**

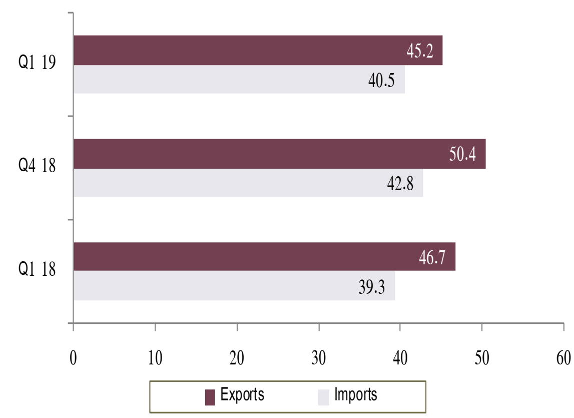


**Table 8-1: Palestinian Balance of Payments * (US $ million)**

| Item | 2018 | | 2019 |
|---|---|---|---|
| | Q1 | Q4 | Q1 |
| 1. Trade balance of goods and services** | (1,359.3) | (1,520.3) | (1,462.6) |
| - Net goods | (1,123.6) | (2.1256) | (8.1207) |
| - Net services | (235.7) | (264.1) | (254.8) |
| 2. Income balance | 568.9 | 612.4 | 639.8 |
| 3. Balance of current transfers | 348.3 | 508.8 | 516.8 |
| Balance of current account (1 +2 +3) | (442.1) | (1399.) | (306) |
| 5. Net capital and financial account | 612.3 | 328.1 | 166.7 |
| 6. Net errors and omissions** | (170.2) | 71 | 139.3 |

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.

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1 The source of data in this section: PCBS, 2019, Registered Foreign Trade Statistics, and PMA & PCBS, 2019, Palestinian Balance of Payment, Q1 2019.

2 Registered imports and exports are those registered in the clearance accounts of trade (between Palestine and Israel) and in the customs data (including direct trade with overseas markets). Add to that the agricultural goods (which are registered by the Ministry of Agriculture). The registered trade figures are significantly lower than the actual figures of the Palestinian foreign trade. The actual figures are placed in the Palestinian balance of payments, mentioned later in this section.

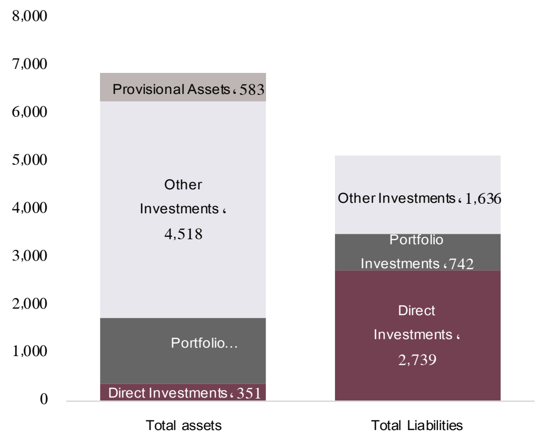
3 Exceptional financing has been calculated within the "Net errors and omission" item. Therefore, net errors and omissions in the table do not equal the difference between the current account and the capital and financial accounts.

### International Investments

By the end of Q1 2019, Palestine's foreign assets totaled USD 6,841 million, 5% of which represent direct foreign investments, and 20% portfolio investments. On the other hand, total external liabilities amounted to about USD 5,117 million, more than 54% of which were direct investments.

The difference between assets and liabilities means that the overseas investments by Palestinians were USD 1,724 million higher than investments of non-residents. A significant portion of these assets (58%) is cash deposits (mostly by domestic Palestinian banks) in foreign banks abroad, or currency circulated in the economy, which are not considered conventional outward investments. When examining foreign direct investments in Palestine, figures show that it outweighed Palestinian investments abroad (by residents in the West Bank and the Gaza Strip) by USD 2,388 million (Figure 8-3).

**Figure 8-3: International Investments Balance (as of the end of Q1 2019) (Million USD)**




## Economic Concepts and Definitions: Bonds vs. Stocks

A bond is a debt security, whereas a stock is an equity security of a certain share in a company. Both generate profits or losses (lost profits in the case of a bond), but a bond is associated with lower risk and lower price volatility than a stock. Because stocks are associated with a higher risk, investing in them often gives higher profits than investing in bonds in the long run. Statistics from the United States show that since 1928, stocks have yielded an average annual return of 10% in the US market, while the annual yield from bonds has not exceeded 5-6%.

A bond is a fixed-rate debt instrument with a fixed interest rate called a coupon and a fixed maturity date. For example, a company (or government) borrows from the public by issuing bonds with a nominal value of JD 100 at an annual coupon rate of 5% and a maturity of 10 years. This means that the company will now receive JD 100 from each person who buys one of its bonds. The company will pay JD 5 to each bondholder at the end of each of the ten years, and pledges to pay each bondholder JD 100 after ten years. In other words, the bondholder will receive a total of JD 150.

### Bonds and interest rate

Suppose that a bondholder in the example above decided to sell the bond in the fifth year, five years before the maturity date, and suppose that the market interest rate has risen over the past five years from 5% to 6%, the potential buyer now wants to receive an interest equal to 6% and will not settle for the fixed coupon in the bond (5%). Therefore, the potential buyer will be willing to buy the bond but at a price lower than its nominal price (JD 100) in order to ensure a rate of 6%. The new equilibrium price of the bond can be accurately estimated at JD 95.73. This amount is equivalent to the present value of the JD 5 that the buyer will receive in each of the remaining years of the life of the bond, in addition to the present value of the nominal price of the bond (JD 100), which will be earned at the maturity date. [1]

This example brings us to two conclusions. First, there is a negative correlation between the fixed-coupon rate bond and the interest rate: once the market interest rate rises, the new buyer of the bond will pay a lower price than the nominal price in order to ensure a higher profit than that of the fixed coupon (i.e., a profit equal to the new interest rate). By the same token, if the market interest rate falls, the bondholder will ask the new buyer a higher price than the nominal price of the bond. Second, the profits generated from the purchase of bonds are of two types: relatively certain profits from the periodic fixed payments (coupon), and potential gains/losses gained/inflicted from the price of the bond at maturity or when sold in the event of a drop/ rise in the interest rate in the market.

### Bonds and Risk

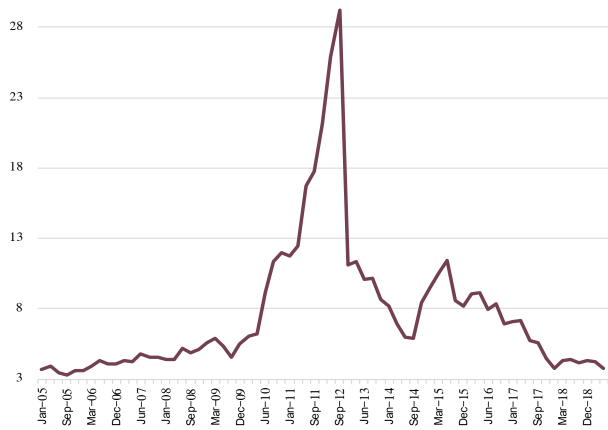
The price of bonds in the market is also affected by the degree and risk shifts associated with the ability of the debtor (i.e. the issuing party) to make periodic coupon payments and/or to amortize the value of the bond when it is due. For this reason, bonds have different prices (varying profit rates) depending on the level of trust in the debtor: government bonds often have lower prices than those issued by the pri-

1 The present value is calculated by discounting the bond's future cash payments by the current market interest rate. The question raised is: If the total future return is equal to JD 125, how much investment (bond purchase price) is needed now to ensure that the profit on this investment will equal 6%?

vate sector– assuming that governments rarely go bankrupt. For example, Figure 1 shows the shifts in the yield on Greek government bonds during 2005-2019. Obviously, the market would demand a return in excess of 25% during the severe financial crisis that plagued Greece, which was then on the edge of bankruptcy. This sharp rise in the yield on 10-year treasury bonds transpired in the sharp fall in the market price of these bonds to € 30.50 in January 2012. The yield fell to relatively low levels (and the bond price rose to € 100.6 in March 2019) when Greece's economic performance had improved.

It is noteworthy that risk is also linked to the type of currency in which bonds are issued. The more the currency is prone to devaluation (against other currencies) and high inflation, the higher the interest rates the market demands for bonds issued in that currency. Thus, bonds issued in US dollars or Euros have higher prices than bonds in other currencies.

**Figure 1: Yield on Greek 10-year government bonds**




Source: Central Bank of Greece, 2019 https://www.bankofgreece.gr/Pages/en/Statistics/rates_markets/titloieldimosiou/titloieldimosiou.aspx?-Year=2017

## Stocks

Companies sell shares to obtain capital necessary to start or expand business activities. A company's move of offering shares to the public for the first time is called "initial public offering" (IPO)– selling certain shares of the company to investors. Shares are traded on local or international bourses around the world. The price of buying and selling shares is determined by the forces of supply and demand, which are, in turn, determined by the company's improved performance, its current ability to achieve profits and positive expectations about its future trajectory. Profit (or loss) from investing in shares depends on the annual dividends shareholders receive and also on the improvement (or falloff) in the share prices. Yet unlike bonds, stocks do not involve pledges of guaranteed annual dividends (coupons), and the stock market is often characterized by high uncertainty and sharp fluctuations that are sometimes difficult to explain. In the worst scenario, the value of investment can be lost when stock prices plunge to very low levels, such as during the global financial crisis of the 1930s or during the financial crisis a decade ago.

## Key Economic Indicators in Palestine, 2014-2019

| Indicator | 2014 | 2015 | 2016 | 2017 | 2018 | 2018[1] | | | | 2019[1] |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Q1 | Q2 | Q3 | Q4 | Q1 |
| **Population (One thousand)** | | | | | | | | | | |
| oPt | **4,429.1** | 4,530.4 | 4,632.0 | 4,733.4 | 4,915.3 | 4,808.8 | 4,838.9 | 4,869.3 | 4,900.0 | **4,930.7** |
| West Bank | 2,696.7 | 2,750.0 | 2,803.4 | 2,856.7 | 2,953.9 | 2,897.0 | 2,913.1 | 2,929.3 | 2,945.7 | **2,962.1** |
| Gaza Strip | 1,732.4 | 1,780.4 | 1,828.6 | 1,876.7 | 1,961.4 | 1,911.8 | 1,925.8 | 1,940.0 | 1,954.3 | **1,968.5** |
| Labor market (based on the new definition adopted by PCBS)[2] | | | | | | | | | | |
| No. of workers (thousand) | **917.0** | **928.9** | **939.6** | **948.7** | **956.3** | **935.4** | **921.7** | **960.7** | **1,005.3** | **986.4** |
| Participation rate (%) | **45.8** | **44.0** | **43.8** | **44.0** | **43.5** | **43.1** | **42.7** | **43.9** | **44.1** | **44.3** |
| Unemployment rate (%) | **26.9** | **23.0** | **23.9** | **25.7** | **26.2** | **26.5** | **27.4** | **26.9** | **24.2** | **26.8** |
| - West Bank | **17.7** | **16.6** | **17.5** | **18.4** | **17.3** | **18.1** | **18.5** | **17.0** | **15.8** | **16.4** |
| - Gaza Strip | **43.9** | **34.8** | **35.4** | **38.3** | **43.1** | **41.7** | **44.3** | **45.9** | **40.9** | **46.3** |
| **National Accounts (USD millions)** | | | | | | | | | | |
| GDP | **12,715.6** | **12,673.0** | **13,425.7** | **14,498.1** | **14,615.9** | **3,689.9** | **3,559.5** | **3,659.8** | **3,706.7** | **3,703.9** |
| - Household expenditure | **11,840.4** | **11,805.1** | **12,337.7** | **12,844.7** | **13,110.3** | **3,182.9** | **3,258.5** | **3,316.9** | **3,352.0** | **3,408.5** |
| - Government expenditure | **3,478.2** | **3,429.5** | **3,530.3** | **3,809.8** | **3,828.1** | **977.5** | **904.3** | **957.7** | **988.6** | **858.0** |
| Gross capital formation | **2,415.0** | **2,677.4** | **2,827.0** | **3,305.6** | **3,536.0** | **876.7** | **837.3** | **916.1** | **905.9** | **841.6** |
| Exports | **2,172.3** | **2,338.1** | **2,381.0** | **2,692.7** | **2,903.5** | **713.0** | **714.3** | **707.0** | **769.2** | **718.6** |
| Imports (-) | **7,208.9** | **7,537.6** | **7,626.7** | **8,066.7** | **8,730.9** | **2,072.3** | **2,141.5** | **2,227.7** | **2,289.4** | **2,181.3** |
| **GDP per capita (USD)** | | | | | | | | | | |
| at Current prices | **3,051.7** | **2,973.1** | **3,080.1** | **3,254.6** | **3,198.4** | **815.4** | **781.5** | **798.3** | **803.2** | **798.4** |
| at Constant prices (base year 2004) | **2,940.7** | **2,973.1** | **3,044.4** | **3,072.4** | **3,021.4** | **746.2** | **735.8** | **760.5** | **778.9** | **755.4** |
| **Balance of Payment (USD millions)** | | | | | | | | | | |
| Trade Balance | (5,036.7) | (5,199.6) | (5,246.2) | (5,374.2) | (5,827.5) | (1,359.3) | (1427.2) | (1,520.6) | (1,520.3) | (1,462.6) |
| Income Balance | 1,482.4 | 1,712.2 | 1,896.0 | 1,992.0 | 2,393.9 | 568.9 | 603.7 | 608.8 | 612.4 | 639.8 |
| Current Transfers Balance | 1,405.3 | 1,421.4 | 1,408.6 | 1,818.6 | 1,774.4 | 348.3 | 450.2 | 467.1 | 508.8 | 516.8 |
| Current account Balance | (2,149.0) | (2,066.0) | (1,941.6) | (1,563.6) | (1,659.2) | (442.1) | (373.3) | (444.7) | (1399.) | (306) |
| **Exchange Rates and Inflation** | | | | | | | | | | |
| USD/NIS exchange rate | **3.577** | **3.884** | **3.840** | **3.603** | **3.593** | **3.461** | **3.573** | **3.635** | **3.704** | **3.643** |
| JOD/NIS exchange rate | **5.046** | **5.483** | **5.418** | **5.083** | **5.067** | **4.881** | **5.037** | **5.127** | **5.224** | **5.139** |
| Inflation rate (%)[1] | **1.73** | **1.43** | **(0.22)** | **0.21** | **(0.19)** | **(0.60)** | **0.26** | **0.49** | **0.01** | **0.00** |
| **Public Finance (cash basis USD million)** | | | | | | | | | | |
| Net domestic revenues (including clearance) | **2,784.8** | **2,890.2** | **3,551.0** | **3,656.5** | **3,469.5** | **991.0** | **862.3** | **938.6** | **677.7** | **711.3** |
| Current expenditure | **3,435.0** | **3,424.3** | **3,659.3** | **3,791.4** | **3,662.4** | **930.8** | **879.3** | **910.5** | **941.8** | **667.9** |
| Developmental expenditure | **164.1** | **176.7** | **216.5** | **255.3** | **277.7** | **45.6** | **59.0** | **63.8** | **109.3** | **41.9** |
| current budget deficit\surplus (before grants) | **(814.3)** | **(710.9)** | **(324.7)** | **(390.2)** | **(470.5)** | **14.6** | **(76.0)** | **(35.7)** | **(373.4)** | **1.5** |
| Total grants and aid | **1,232.0** | **799.0** | **766.9** | **719.8** | **667.3** | **87.2** | **159.8** | **194.2** | **226.2** | **66.7** |
| Total budget deficit\surplus (after grants and aid) | **417.6** | **88.1** | **442.3** | **329.5** | **196.8** | 101.7 | 83.8 | 158.4 | (147.2) | 68.2 |
| Public debt | 2,216.8 | 2,537.2 | 2,483.8 | 2,543.2 | 2,369.6 | 2,448.8 | 2,367.6 | 2,352.3 | 2,369.6 | 2,315.2 |
| **The Banking Sector (USD millions)** | | | | | | | | | | |
| **Banks assets/liabilities** | 11,815.4 | 12,602.3 | 14,196.4 | 15,850.2 | 16,125.0 | 15,916.7 | 15,763.0 | 16,179.4 | 16,125.0 | 16,503.2 |
| Equity | 1,464.0 | 1,461.7 | 1,682.4 | 1,892.7 | 1,912.0 | 1,926.8 | 1,819.7 | 1,863.9 | 1,912.0 | 1,931.4 |
| Deposits at banks | 8,934.5 | 9,654.6 | 10,604.6 | 11,982.5 | 12,227.3 | 12,002.3 | 11,992.6 | 12,194.2 | 12,227.3 | 12,394.4 |
| Credit facilities | 4,895.1 | 5,824.7 | 6,871.9 | 8,026.0 | 8,432.3 | 8,175.4 | 8,260.0 | 8,293.6 | 8,432.3 | 8,569.5 |

Data do not include that part of Jerusalem which was annexed by Israel following its occupation of the West Bank in 1967 (except for data on unemployment and population).
1- Figures for 2017 are preliminary and subject to further revision. Figures between brackets indicate negative values. Figures between brackets indicate negative value
PCBS and the ILO adopted a new revised definition of unemployment stating that unemployment include only those who did not work during the reference period and who actively sought employment or were willing and capable of working. The new standard excluded those who were frustrated and were not looking anymore for jobs ( did not seek an employment during the reference period). The table includes calculations of the Palestinian labor market indicators based on the old and the new definitions.
The inflation rate estimation is based on year-over-year comparisons of the average CPI in the target year (each quarter) with its average in previous year (quarter).
The figures in the table are based on the latest update of data.