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FORWORD

This issue of the Economic Monitor (No. 47) is the first that is published jointly by the four partner institutions following the official joining of the Palestine Capital Market Authority (PCMA). On this occasion, we wish to express our delight at this development, which we trust will contribute to enhancing the analytical content of the Monitor. Indeed, this is an objective that we identified following the most recent assessment that resulted in the changes that the reader can discern as of issue no. 45.

We reconsidered the need to write a foreword, given that the table of contents, which appears on the same page, serves an identical purpose, except for what may be added to draw readers' attention to developments relating to the publication in general and to new ideas that pertain to the specific issue, or to encourage readers to provide feedback on specific proposed ideas. Such feedback would help us in improving the Monitor and making it more responsive to the needs and expectations of the readers.

Yet, the foreword is the right section of the Monitor to extend our gratitude to all our supporters who provide grants that make this publication possible. In particular, we wish to express our gratefulness to the Arab Fund for Economic and Social Development (AFESD) for their generous contribution which covers most of the Monitor's costs for 2017 and 2018. We wish also to thank The National Bank (TNB) for providing supplementary funding for this issue.

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هيئة سوق رأس المال الفلسطينية
Palestine Capital Market Authority

GDP ¹

Gross Domestic Product (GDP) is a monetary measure of the market value of all types of goods and services produced in an economy during a specific period of time. Despite the frequently articulated shortcomings of GDP as an indicator, economists still agree that it is as yet the best available indicator for the performance of economies and welfare of citizens on national and international levels.

The Palestinian GDP (at 2004 constant prices) dropped by 0.4% over Q3 2016 compared with the previous quarter reaching US\$ 2,023.1 million. This drop was the result of a decline by 1.1% in the West Bank compared with a 2.0% increase in Gaza Strip. This is contrary to the second quarter, as the West Bank achieved a growth by 3.8% compared with the preceding quarter, against a decline in Gaza Strip by 2.4% during the same period.² This decline during Q3 resulted in a decline in the per capita GDP in Gaza Strip by about one percentage point compared with the previous quarter, accompanied with an increase in the population. Palestinian GDP grew by 5.2% in Q3 2016 compared with Q3 2015, which accompanied with an increase in the per capita GDP by two percentage points (Table 1-1).

Table 1-1: Per capita GDP* by Region (constant prices, base year 2004)

	Q3 2015	Q2 2016	Q3 2016
Palestine	432.9	447.8	442.9
-West Bank*	565.0	582.8	572.6
-Gaza Strip	244.1	256.0	259.0

(*) Data excludes that part of Jerusalem which was annexed by Israel following its occupation of the West Bank in 1967.

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

Despite the wide gap between the West Bank's and Gaza Strip's contributions to GDP in Q2 2016 compared with the previous quarter, this gap decreased in Q3, as the West Bank's share of GDP decreased by half a percentage point. Meanwhile the gap in the per capita GDP reached US\$ 313.6 (a decline by 4% compared with the previous quarter). Nevertheless the per capita GDP in Gaza Strip is still about 45% of the West Bank's per capita GDP (figures 1-3 and 1-4).

GDP Structure

There was little change in the GDP structure over the consecutive quarters (Q2 and Q3 2016) or between the corresponding quarters. The sectoral change did not exceed 0.4% up or down over the consecutive and correspondent quarters. This means that the services and administrative sector retained their dominance over the primary productive sectors (Figure 1-5).

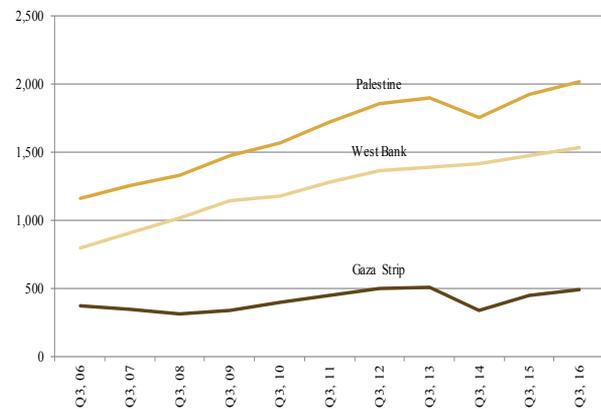
GDP Expenditure

The absolute increase in the GDP between Q3 2015 and Q3 2016 amounted to about US\$ 100.7 million (a growth by 5.2% as mentioned above), which was achieved despite the decline in aggregate consumption expenditure (private and public) by US\$ 23 million. The GDP growth is ascribed to two things: the decline in consumption was covered by the increase in investments by about US\$ 29 million; and a significant decline in the deficit of net exports by US\$ 92 million, resulting from an increase in exports by US\$ 54 million against a decline in imports by US\$ 38 million (Figure 1-6).

1 Source: PCBS, 2017, Periodic Statistics on National Accounts, 2006-2016. Ramallah- Palestine.

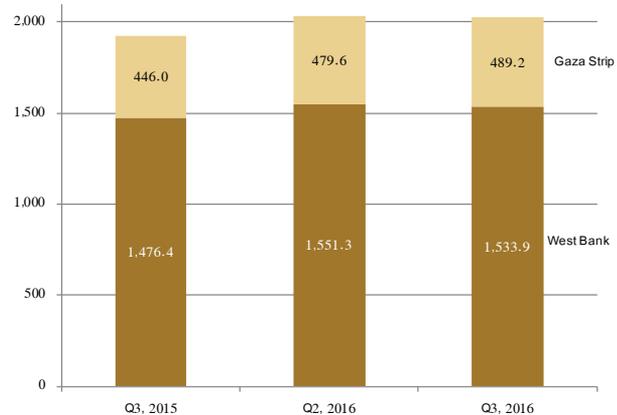
2 Growth rates in this issue of the Monitor diverge from those cited in the previous issue. This is due to PCBS's updated figures.

Figure 1-1: Palestinian GDP* by Region (constant prices, base year 2004) (US\$ million)



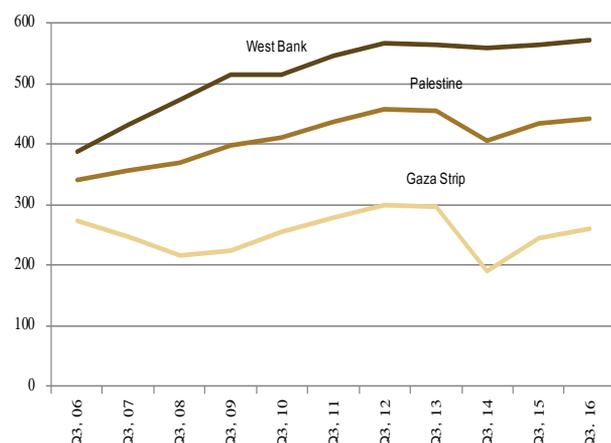
(*) Data do not include that part of Jerusalem which was annexed by Israel following its occupation of the West Bank in 1967.

Figure 1-2: GDP in the West Bank* and Gaza Strip (constant prices, base year 2004)



(*) Data excludes that part of Jerusalem which was annexed by Israel following its occupation of the West Bank in 1967.

Figure 1-3: Per Capita GDP in Palestine* by Region (constant prices, base year 2004) (US\$)



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

This gap between the increased use/consumption and increased production in the economy is the most obvious indicator of deficit in the Palestinian economy. The total use for consumption, investment and exporting amounted to US\$ 3,223 million during Q3 2016, which exceeds total domestic production by about US\$ 1,201 million, equivalent to 59.4% of GDP (Table 1-2).

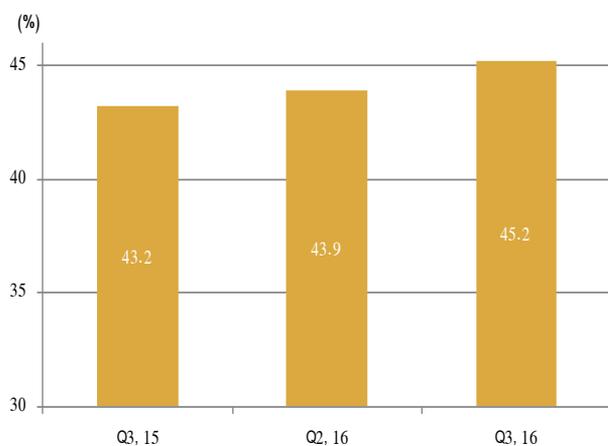
Table 1-2: Expenditure on GDP in the Palestinian Territory *
(constant prices, base year 2004) (US\$ Million)

	Q3 2015	Q3 2016
Private consumption	1,914.2	1,904.2
Investment (capital formation)	359.2	388.4
Government consumption	539.2	526.6
Exports	350.6	404.8
Imports (-)	1,215.1	1,177.2

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

The total of the table does not equal GDP due to 'net errors and omissions' item.

Figure 1-4: Average Per Capita Income in the Gaza Strip Compared to the West Bank *
(constant prices, base year 2004) (Percent %)



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

Figure 1-5: % Contribution of Economic Sectors to Palestinian GDP* (constant prices, base year 2004) (% percent)

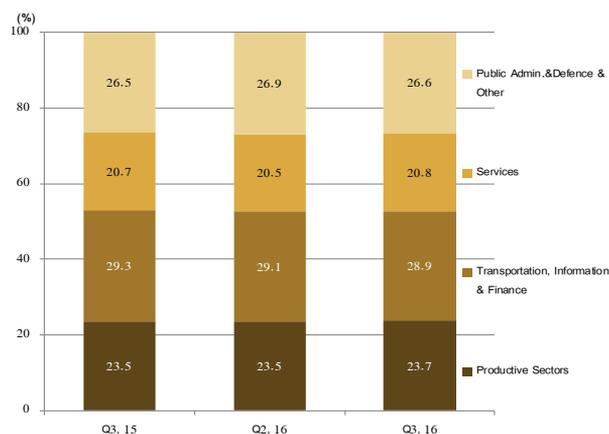
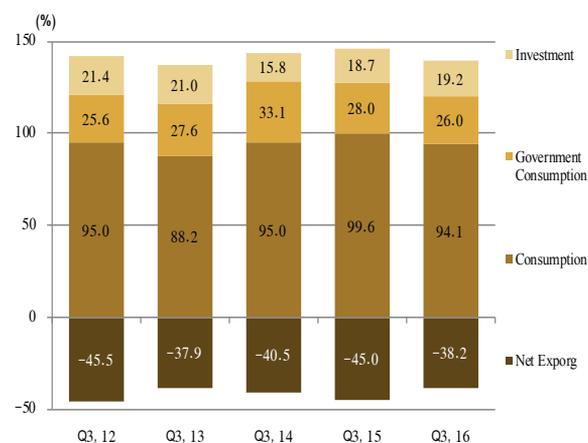


Figure 1-6: Expenditure on GDP in the Palestinian Territory*
(constant prices, base year 2004) (% percent)



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

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

Box 1: A New Study about Palestinian Economy: “Growth in Palestine is Artificial, Low and Unstable”

The study we are discussing in this box is conducted in the context of project “Support to the Palestinian Ministry of National Economy for Trade Policy Formulation and WTO Accession” which is funded by the European Union. It is an analytical study, still unpublished, that discusses the competitiveness of the Palestinian economy, market access, and infrastructure issues.¹ The study’s findings and recommendations may not be new, yet seeing the reality of the Palestinian economy through the eyes of a fresh scholar in this field, is beneficial and worthy of critical assessment. Following we present the main points that were raised in the Executive Summary of the draft study. The Editor.

“Palestine has displayed an economic growth that is artificial, insufficient and volatile. It is artificial because economic growth starts at the lowest level and data is recorded in USD dollars which it is impacted by a favored exchange rate against the local currency (NIS). It is insufficient because high population growth has led per capita gross domestic product to raise a mere 1% year after year. It is volatile because social and political instability greatly affects economic performance and growth therefore, jumps from a 5% in one year to 0.4% and subsequently to 2%. The Palestinian economy is highly dependent on Israel for monetary policy, sourcing for inputs and as an export market. It is also highly impacted by Israeli restrictions imposed by its occupation.

Israeli restrictions hamper access to economies of scale (to justify additional investment, business growth and additional entrants into the market), access to resources (e.g., land, water, electricity, knowledge, cultural heritage and telecommunications, among others), and access to an investment horizon (for potential investors to measure and mitigate risk). Palestine may nevertheless investigate alternative solutions: [1] to build economies of scale by tapping into international opportunities, [2] to overcome the limitation of scarce resources by making productive use of innovation, and [3] to alleviate the impact of political instability by efficiently marketing its strengths and convincing investors of domestic market opportunities.

Below are the main findings of this report.

- Transportation of goods is cumbersome. There is no back-to-back transportation because trucks are downloaded and uploaded at various points. Furthermore, the transportation of perishables has tremendous losses due to packaging, manipulation and storage issues. Transportation via Israel is more efficient and less costly than via Jordan or Egypt.
- Building stones constitutes the bulk of Palestinian exports and Israel is the main destination with over 90% of Palestinian products destined to that market. Energy products is 75% of total imports. Palestine imports 75% of its electricity needs. Foreign inputs are required by 75% of exporting companies.
- Palestinian products compete locally with cheap imports. There is no regulation on dumping and no protection to infant Palestinian domestic industries.
- The Palestinian population is highly educated and English is commonly spoken. The labour market however, is gender biased. 50% of women in the labour force have over 13 years of schooling. Women make up 60% of university graduates. But only 20% of women in the labour force are employed.
- The population is young and 38% of the total labour force has between ages 15 and 19. Companies are also young with 46% of total registered companies having less than 10 years in business. The labour market however, is gender biased. 50% of women in the labour force have over 13 years of schooling. Women make up 60% of university graduates. But only 20% of women in the labour force are employed. The population is young and 38% of the total labour force has between ages 15 and 19.
- Companies are also young with 46% of total registered companies having less than 10 years in business. It is estimated that 60’000 companies are not formally registered and that 36% of total employment is informal.

- Palestinian companies are small with 89% of total registered firms having between 1 and 4 employees. There are only 137 companies with more than 100 employees. Labour laws are not adapted to Palestine’s unstable environment and temporary employment is widely used.
- Credit to the private sector represents only 24% of total and the public sector receives 76% of allocated credit. Small businesses need to provide 230% of their loan amount as collateral. Export credit doesn’t exist. Less than 5% of companies have lines of credit with local banks.
- The transfer of savings from individuals or households to the business sector represents 1.7 billion USD. Per capita fixed capital formation in Palestine however, is rather low at 645 USD.
- Most of registered companies are in wholesale, retail and repair with 70% of total and more than 73’000 active companies (or 56% of total registered companies). Productivity of this subsector is low at 17’000 USD per employee. Overall, productivity is on average low.
- The cost of electricity, water and fuel represents 20% of total cost of manufacturing in Palestine. Global Competitive Benchmarks suggest 6% for the textile and clothing industry, 11% for the food industry, 8% for chemicals and pharmaceuticals and 15% for production activities in metal and non-metallic minerals.
- Manufacturing companies are on average running at 50% of idle capacity.
- Patent, licensing, registration and validation procedures are not well regulated. Existing testing laboratories are not internationally qualified to control quality standards and inspection is not being undertaken. Partnerships with universities and research institutes are also not part of the business environment.
- Agriculture contributes less than 4% of Palestine’s GDP and employs 10% of the total labour force. Only 21% of total agricultural area is under cultivation and only 6.8% is irrigated. The loss from non-irrigation is estimated at 10% of Palestine’s GDP and 110,000 jobs.
- Two-thirds of the cultivated land is for olive production. Olive oil represents one-fourth of Palestine’s agricultural GDP and employs over 100,000 families.
- Agricultural production in Palestine is 64% fruits, 24% field crops and 12% vegetables. There are 32,000 livestock and mixed holdings in Palestine. Furthermore, there are approximately 3,000 fishermen in Gaza and income from that activity is less than 5 million USD.
- Inadequate use of fertilizers due to restrictions based on the dual list adds an extra cost of around 28.6 million USD to Palestinian farmers. It equally reduces productivity by one-third of total output and increases the content of soil inert materials, mainly salt by 61%.
- There is no capital available to invest in agricultural production. Most farmers rely on expensive loans provided by Israeli traders who also leverage the loan to obtain better prices.
- Agricultural products compete locally with imported produce from settlements. It is approximately 500 million USD in products entering Palestine and originating in Israel.
- Lifting restrictions in Area C may contribute an extra 14 billion USD to Palestine’s GDP.

In conclusion, the Israeli occupation is certainly an impediment to achieving Palestine’s full economic potential. Once occupation is resolved and control of its territory restored to Palestine, domestic issues will still obstruct a sustainable economic development. An imminent Palestinian state will be hindered by present economic practices of Palestinian businesses, individuals and politicians. They utilize today the resources that are at the foundations of future economic development and have little concern to creating policies as well as investing in programs that protect resources and guarantee growth potential for generations to come

1 E. Barreto: Palestine: Microeconomic Competitiveness Analysis and Mapping of Market Access and Infrastructure Issues and Concerns. (Memo, 2017).

2- Labor Market

Manpower in Palestine, which comprises all persons aged 15 years and older, amounted to 2,942 thousand persons by the end of Q3 2016. The labor force, which includes only all persons qualified to work and seeking actively to find work, amounted to 1,356 thousand. The difference between the labor force and the actual number of workers provides a measure of the rate of unemployment.

The Participation Rate

The numbers show that the percent of labor force to manpower in Palestine (which is known as the participation rate) was around 46% in recent years. This ratio is close to the participation rate in the labor force (as a percentage of population aged 15-64 years). It is also close to prevailing ratios in other countries in the region (44% in Jordan, for example, in 2014, according to World Bank data), but it is significantly different from those in developed countries, where the participation rate is close to 70% or higher, as in Germany and Norway, for example.

There is a wide gap between the male and female participation rates in Palestine, as the percent rises to 72% for males, and drops to only 19% for females. There is no remarkable disparity between the West Bank and Gaza Strip in this regard. Obviously, the decline in the female participation rate in Palestine is the factor driving the decline in the total participation rate.

Labor Distribution

The number of workers in Palestine decreased slightly by 0.4% between Q2 2016 and Q3 2016 reaching 970.9 thousand workers. The distribution of workers in Q3 2016 was 59% in the West Bank, around 30% in Gaza Strip, and 11% (or about 112 thousand workers) in Israel and the settlements. More than one fifth of workers in Palestine work in the public sector, and this percent rises to about 36% in the Gaza Strip (Figure 2-2).

During Q3 2016, the share of those working in the Palestinian services sector was 34.7%, rising to 52.9% in the Gaza Strip. Trade employed 21.3% of workers in Palestine, while the construction sector employed 21% in the West Bank, and less than 7% in the Gaza Strip. The trade, restaurants and hotels sector, in both the West Bank and Gaza Strip, employed around 21% (Figure 2-3).

Unemployment

The unemployment rate (the number of unemployed people divided by the number of people in the labor force) rose to 28.4% in Q3 2016, one percentage point higher than the corresponding quarter 2015 and one and a half percentage points higher than the previous quarter. This rise between the corresponding quarters was a result of the rise in the unemployment rate in the West Bank (by one percentage point), while in the Gaza Strip it rose half a percentage point. The rise between the consecutive quarters was a result of the rise in the rate by 1.3 percentage point in the West Bank, and by 1.5 percentage point in the Gaza Strip (Table 2-1).

Table 2-1: Unemployment Rate among Individuals Participating in Palestine's Labor Force by Region and Gender (Q3 2016) (Percentage %)

	Males	Females	Total
West Bank	16.8	31.7	19.6
Gaza Strip	35.4	68.6	43.2
Palestine	23.5	47.3	28.4

Figure 2-1: Individuals (aged 15 years and older) and Workers in Palestine (Thousand)

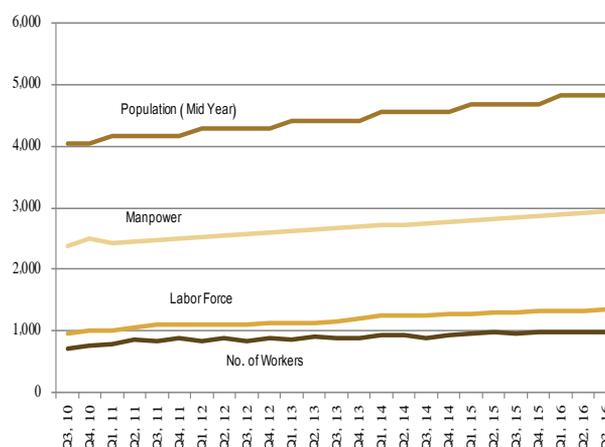


Figure 2-2: % Distribution of Palestinian Workers by Region and by Sector, Q3 2016 (%)

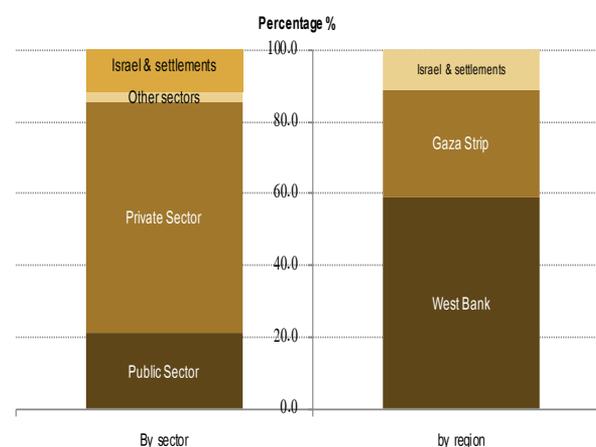
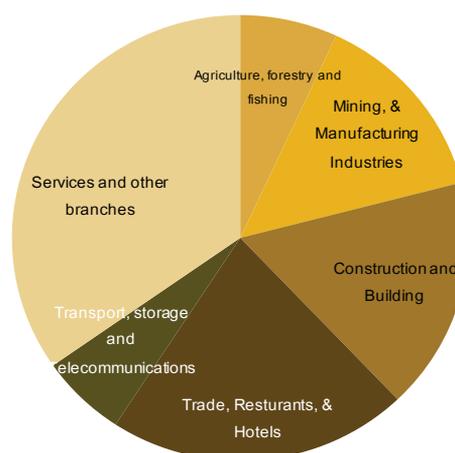


Figure 2-3: % Distribution of Palestinian Workers by Economic Activity, Q3 2016 (%)



Two of the most noticeable characteristics of unemployment in the Palestinian territory are that:

- 1) It is high among the youth: the unemployment rate in the age group between 15-24 years reached 44% (69% for females against 38% for males). This indicates that a large proportion of the unemployed are new entrants to the labor market (Figure 2-4).
- 2) The unemployment rate decreases with the completion of higher educational levels for males, contrary to females (Figure 2-5): The unemployment rate in Q3 2016 amounted to 26% for males who had not completed secondary education, while it was 21% for males with 13 or more years of schooling. On the other hand, the unemployment rate for females with 13 or more years of schooling was 55% while it was only 30% for females who had not completed secondary education..

Production, Growth and the Change in Unemployment

Figure 2-6 shows two curves; one for the rate of growth in production (at constant prices) and the other depicts the unemployment rate for each quarter between Q3 2012 and Q3 2016. The first noticeable aspect of the figure is the sharp fluctuation in the curve of the GDP growth rate. Part of this fluctuation can be explained by the seasonal/cyclical nature of GDP, as economic activity is somewhat reduced in the winter and autumn compared to other seasons. Nevertheless, the impact of political factors and restrictions imposed by the occupation on economic activity explain the sharp and periodic fluctuation of economic growth. Secondly, the figure shows that there is a relation in the behavior of the two curves, i.e. whenever there is an increase in the growth rate of production, there will be a decline in the unemployment rate, and vice versa.

Using a simple exercise to link the two variables during the study period, we find that every increase in the growth rate by 1% was accompanied by a decrease in the unemployment rate by 0.22% during the study period. This simplified and approximate linkage provides a simple estimate of the acceleration needed in the growth rate and the time needed to achieve a significant reduction in the high unemployment rates, in Palestine in general, and in Gaza Strip in particular.

Work Hours and Days

Figure 2-7 and Table 2-2 show the average work hours and days for Palestinian workers. There is a convergence in the average number of the monthly work days in the West Bank and Gaza Strip, but the average number of weekly work hours in the West Bank is higher than in the Gaza Strip by more than 15%. This is more owing to lack of employment opportunities in the Strip than to the productivity or choice of hours of work (comfort preferences), to be observed in developed countries, where such factors explain shorter work hours.

Table 2-2: The Average Weekly Work Hours and the Monthly Work Days by Region (Q3 2016)

Place of Work	Average Weekly Work Hours	Average Monthly Work days
West Bank	44.5	22.9
Gaza Strip	38.7	22.4
Israel and the settlements	40.9	19.7
Palestine	42.2	22.3

Wages

The average daily wage for workers in Palestine amounted to NIS 108.5 in Q3 2016. Yet this number does not show the divergence between the average wage for workers in Palestine on the one hand,

Figure 2-4: The No. of Employed and Unemployed in Palestine by Age Group (Q3 2016)

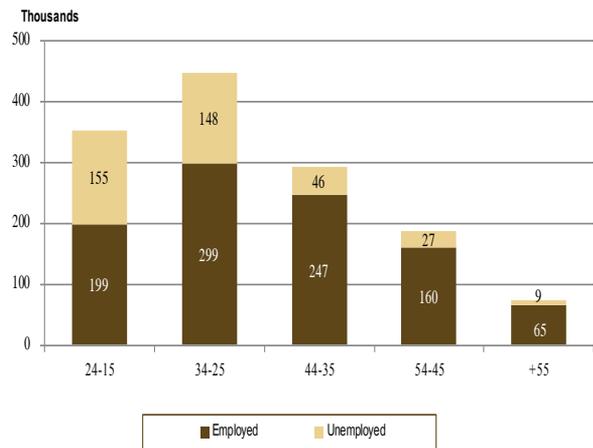


Figure 2-5: The No. of Employed and Unemployed in Palestine by Educational Level and Gender (Q3 2016)

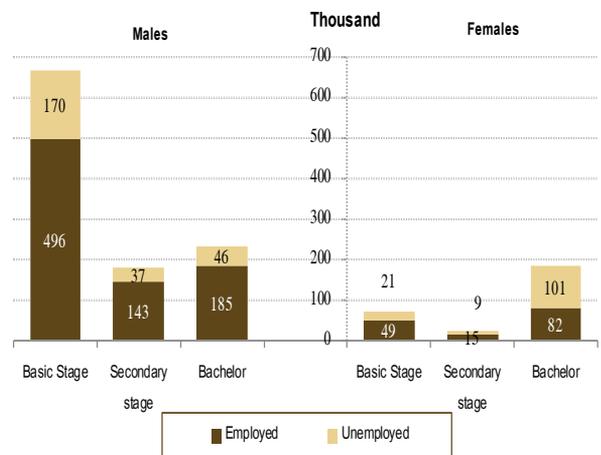
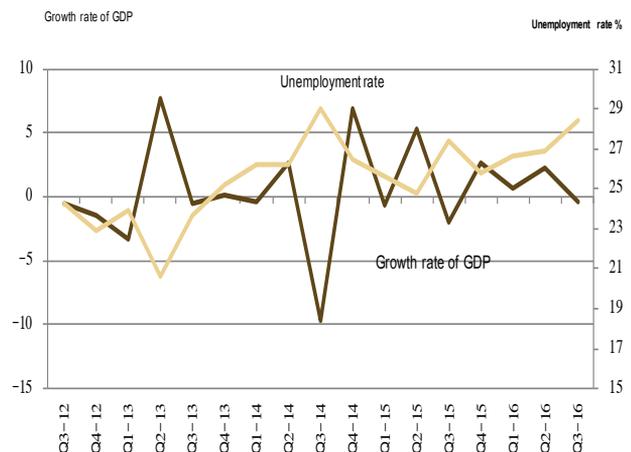


Figure 2-6: Growth Rate of GDP and Unemployment Rate in Palestine



and that for workers in Israel and the settlements on the other hand, and between the average wage in the West Bank and that in the Gaza Strip (Table 2-3). As figures indicate, the average wage of workers in Israel and the settlements is about triple the wage of workers in the Gaza Strip. The gap is even wider when considering the median wage, reaching five times that of workers in Gaza. The median wage is significantly higher than the average wage (the average wage does not show the divergence when a limited group of people get considerably high wages while the majority get very low wages) because it reflects the wage level whereby the wages of half of all workers are above it, and the wages of half of all workers are below it (Figure 2-8 to track the divergence between the average and median wage).

The average daily wage for workers decreased by NIS 1.9 from Q2 to Q3 2016 (as a result of the decrease in the average wage by NIS 2.4 in Gaza Strip, and by NIS 1.4 in the West Bank). Moreover, the median wage decreased by NIS 5.4 between the two quarters (as a result of its decrease by NIS 6 in Gaza Strip and by NIS 3.9 in the West Bank). The sharp decrease in the median wage in Gaza Strip during Q3 (by 13%) widened the gap between the Gaza Strip and the West Bank, where Gaza's median is less than half that of the West Bank.

Table 2-3: The Average and Median Daily Wage (NIS) of Known-wage Workers in Palestine (Q3 2016) (NIS)

Place of Work	Average daily wage	Median daily wage
West Bank	96.9	84.6
Gaza Strip	59.2	40.0
Israel and the settlements	222.3	200.0
Palestine	108.5	84.6

However, additional costs are incurred by Palestinian workers working in Israel, as they are forced frequently to pay for permits and to job brokers (an amount estimated at 1,500 Shekels per month), as well as transportation fees (about NIS 500 monthly). Moreover, they spend long hours waiting at the crossing points, which extends the working day to 16 hours instead of 8 hours. It is also important to emphasize that there is a significant difference between the wages of the workers who work inside Israel and those who work in the settlements in the occupied territory, as confirmed in a statement by the Israeli Minister of Finance in mid-August 2015.

In addition to the high nominal wages of workers in Israel and the settlements, and the discrepancy between the average and median wage among workers in the West Bank and Gaza Strip, the following observations on wages are pertinent:

- The average wage of workers in the private sector is lower than the average wage of workers in the public sector by 17% in the West Bank and by 48% in Gaza Strip.
- There is a gendered wage gap: the total daily wage for females working in the private sector in the West Bank is about 70% of males' daily wage, while the gap is less in the public sector.
- The daily wage of about 78% of private sector employees in Gaza Strip, (and 19.2% in the West Bank) is below the minimum daily wage (NIS 65). For more information about this issue, check Monitor issue no. 45- Box 2, on the application of the minimum wage decree.

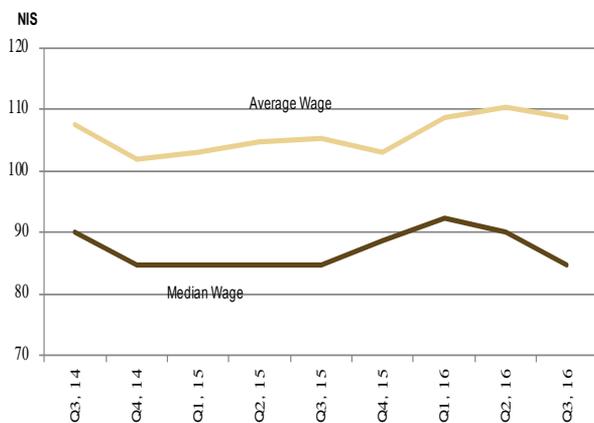
Child Labor

Child labor (aged 10-17 years) increased significantly during Q2 and Q3 2016, from 3.7% to 4.5%; 6.3% in the West Bank and 1.9% in Gaza Strip. This increase is attributed to an increase by 1.3 percentage points in the West Bank and by 0.1 percentage point in the Gaza Strip.

Figure 2-7: the Average Weekly Work Hours and the Monthly Work Days in Palestine



Figure 2-8: The Average and Median Daily Wage (in NIS) of Known-wage Workers in Palestine



Box 2: Palestinian Workers in Israel in relation to Domestic Employment in the West Bank

Unemployment among the Palestinian labor force is high and wages are low. This has caused the flow of a significant proportion of the labor force in the West Bank and Gaza Strip to the Israeli labor market. This trend was first noticed in early years of the Israeli occupation of the West Bank and the Gaza Strip and increased with the intensified restrictions on the expansion of Palestinian economic activities. One source has estimated that the proportion of Palestinian workers in Israel of the total number of Palestinian workers rose from 11.9% in 1970 to 38.8% in 1988.

However, the number of Palestinian workers in Israel and settlements (in the formal and informal sectors) began to decline following the signing of the Oslo accords in the mid-nineties to reach 21% one month before the outbreak of the second intifada, which is the same level recorded in 1970. This decline continued, reaching only 7.5% in Q2 2004.

Figure (1) depicts the ratio of Palestinian workers in Israel and the settlements to the total West Bank workers, the total number of workers in the Gaza Strip, and the total number of workers in Palestine, respectively. The following observations on the behavior of the three curves are pertinent:

First, the ratio of Gaza Strip workers working in Israel dropped steeply from 15% before the second Intifada to 3% by the end of 2000. During the following years the number fluctuated slightly, until 2006 when the flow of workers from the Gaza Strip to Israel has almost stopped to this day.

Second, Figure (1) shows that the proportion of West Bank workers working in Israel was higher than that of Gaza Strip workers throughout the study period (Q1 2000 to Q3 2016). Note that in the pre-Oslo period the situation was reversed, as the percentage of Gaza Strip workers working in Israel and the settlements was higher than that of the West Bank workers over the years, reaching 40% compared with 33% for the West Bank workers during the period 1975-1990. Third, the percentage of West Bank workers who worked in Israel and the settlements declined from 25% of the total number of workers in the West Bank before the second intifada to about 10% in 2004. Despite its continuous volatility, the proportion rose in subsequent years to 16% during Q3 2016 (equivalent to 111,800 workers, or around 12% of the total workers in the West Bank and Gaza Strip). Note that the figures include both the number of registered workers (who have work permits) and unregistered workers. The percentage of informal workers reached 38% of the total number of West Bank workers working in Israel in 2016.

The Relation Between the two Variables

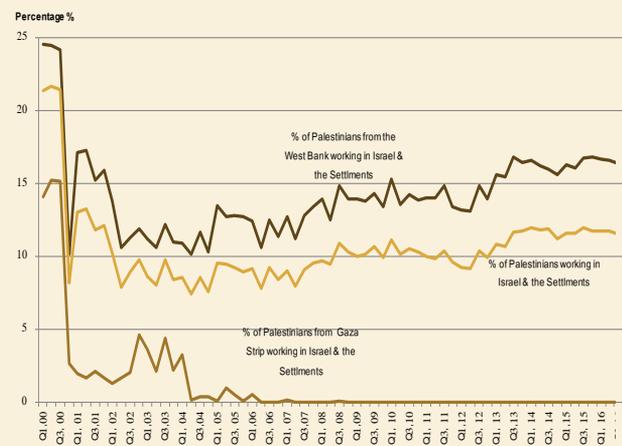
Figure (2), which depicts the development of the number of West Bank workers in Israel and Settlements and the number of workers in the West Bank, shows a positive relation between the two variables. When examining this relationship during Q1 2000 - Q4 2014, and using "Pearson coefficient" to measure the strength of the correlation between the two variables, it appears that the coefficient value is 0.72, which reflects a strong proportional relationship. Also the long run equilibrium relations between the time series of workers in the West Bank and that of workers in the West Bank and Israel were all tested for "Co-integration". The test has proved that the two variables share a long-run steady integration relationship. When applying the Victor Error Correction Model (VEC) to the time series (with one time lag for both variables), the relationship was represented by a coefficient of 4.06, i.e. an increase in the number of workers in the West Bank by 406 workers is accompanied with an increase in the number of the West Bank workers in Israel and settlements by 100 workers.

There are two ways to explain the above correlation. The first suggests a causative relationship between the two variables, where the increased

employment of West Bank workers in Israel increases actual demand in the West Bank markets and accordingly increases local employment. Second, easing of Israeli restrictions on employment of West Bank workers in Israel and the increase in their numbers are often accompanied with easing of restrictions on movement and economic activity in the West Bank, which also generate higher local employment. The econometric analysis showed this correlation but did not show a causal relationship between the rise in the number of West Bank workers in Israel and the rise in employment in the West Bank. Based on this it appears that the second explanation is more valid.

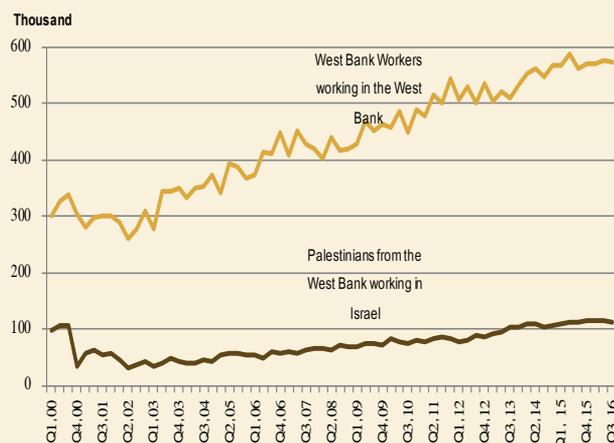
Ali, Jabbarin, Assistant Researcher, MAS.

Figure 1: Percentage of Palestinian Workers Working in Israel and Settlements to Total Number of Workers in the West Bank, Gaza Strip and Palestine



Source: Palestinian Central Bureau of Statistics, Quarterly Labor Force Surveys, Q1, 2000 - Q3, 2016

Figure 2: the Number of West Bank Workers Working in the West Bank and the Number of Workers Working in Israel and the Settlements



Source: Palestinian Central Bureau of Statistics (PCBS), Quarterly Labor Force Surveys, Q1, 2000 - Q3, 2016

3- Public Finance¹

Public Revenues

During Q3 2016, public revenues and grants declined by 24.1% compared to the previous quarter, reaching around NIS 3,412.5 million. This is attributed to the significant decline in clearance revenues earned during the period, despite the increase in the total domestic revenues, specially non-tax revenues compared to the previous quarter. Clearance revenues have declined by about 50.5%, reaching NIS 1,492.6 million, as Q3 clearance revenues were transferred in advance during Q2. Moreover, foreign aid and grants declined by about 15.3%, compared to the previous quarter, reaching NIS 642.7 million. This decline is ascribed mainly to decline in Arab countries grants (Table 1-3).

On the other hand, total domestic revenues (tax, non-tax, and provisional payments) have risen by about 76%, reaching around NIS 1,373.4 million. A big portion of these revenues (NIS 500 million) were transferred to the PA treasury in September following signing the Electricity settlement agreement.²

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

Item	2015			2016		
	Q2	Q3	Q4	Q1	Q2	Q3
Budget support	923.6	447.6	586.4	621.2	627.1	552.7
-Arab grants	204.8	228.8	237.2	345.7	226.8	3.6
-International donors	718.8	218.8	349.2	275.5	400.3	549.1
Developmental funding	85.5	95.6	92.9	76.9	131.9	90
Total	1009.1	543.2	679.3	698.1	758.9	642.7

Public Expenditure

Public expenditure declined by 23.1% during Q3 2016, compared to the previous quarter, reaching NIS 3,492.8 million, due to the decrease in all expenditure items (except for net lending). The wages and salaries bill declined by about 25.5% amounting to NIS 1,830.2 million. Also non-wage expenditure decreased by about 27.3% to reach NIS 1,174.9 million. Furthermore, developmental expenditure decreased by 16.5% compared to the previous quarter reaching NIS 170.7 million, while net lending rose by 39% reaching NIS 300.7 million (Table 3-2).

Government Arrears

During Q3 2016 the government arrears rose significantly reaching around NIS 731.5, in contrast to the previous quarter when the government paid off NIS 3.2 million. During this quarter, the government delayed the payment of NIS 418.2 million of its commitments to the private sector, about NIS 164.7 million from the wages and salaries arrears, and NIS 134.7 million from developmental expenditure, and about NIS 22.8 million of provisional payments. On the other hand, the government paid off NIS 8.9 million of tax rebates (Table 3-2).

- Source of data in this section: MOF, Monthly Financial Reports 2015- 2016: Financial Operations, Expenditure and Revenues, and sources of Funding.
- On September 13, 2016, the Israeli and the Palestinian governments reached a settlement agreement that regulates electricity purchases and schedules the PA's debts to Israeli electricity companies. According to "Al-Hadath" newspaper, which has published the agreement text, total Palestinian debts to the Israeli Electricity Company amounted to NIS 2,030 million (until 12 September 2016). It was agreed that this debt will be reduced by NIS 561.5 million, and that USAID will pay off NIS 100 million of this debt. Per this agreement, Israel agreed to release the PA's withheld revenues of NIS 1,144 million (health insurance payments and equalization levies' deductions from West Bank workers in Israel), while the Palestinian government will take out NIS 572 million of these funds to repay part of its debts to the Israeli Electricity Company. This settlement reduced the debit to NIS 796 million, which should be paid, as agreed, by 48 monthly installments. The Palestinian Ministry of Finance (MoF) has decided to record refunds from Israel, which will also be recovered in the form of monthly installments, under non-tax revenues item instead of being recorded under the clearing items.

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

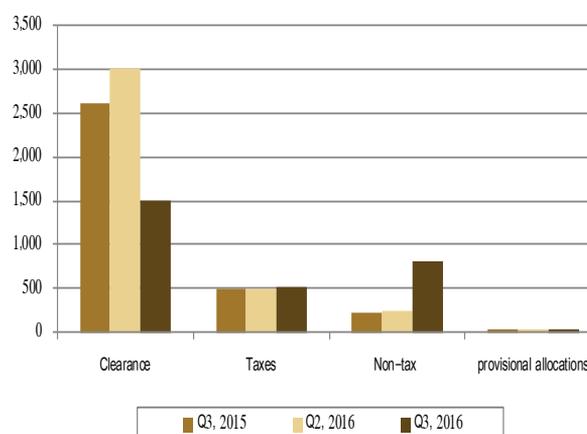


Figure 3-2: Structure of Public Expenditure (NIS million)

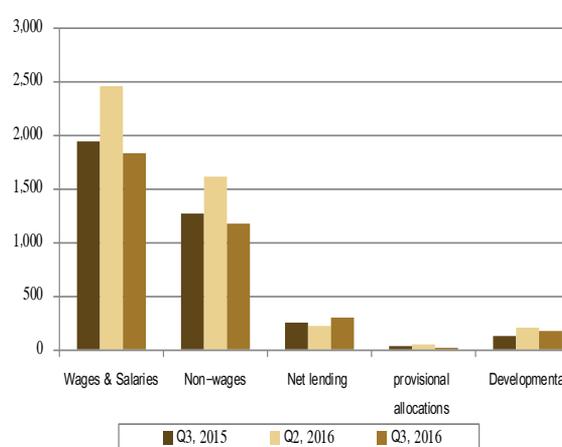


Figure 3-3: Government's Financial Account as % to Nominal GDP, Cash basis

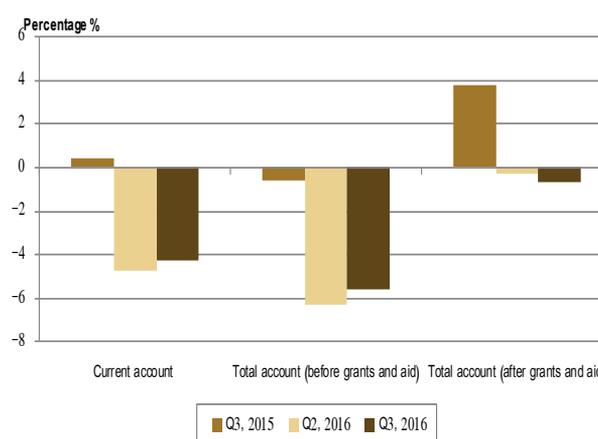


Table 3-2: Palestinian Government Accumulated Arrears (NIS million)

Item	2015		2016		
	Q1	Q2	Q1	Q2	Q3
Tax refunds	158.6	108.9	(28)	13.3	(8.9)
Wages and salaries	852.2	(485.9)	108.9	(487.7)	164.7
Nonwage expenditures (private sector)	269.1	358.7	434.1	381.9	418.2
Development expenditures	48.3	49.0	68.5	100.2	134.7
Provisional payments	107.7	(4.5)	163.6	(10.9)	22.8
Total expenditure arrears	1,435.9	26.2	747.1	(3.2)	731.5

Fiscal Surplus/Deficit

Developments on both the revenue side and expenditure side during Q3 2016, have led to augmenting the total deficit (before grants and aid), which stood at NIS 723.1 million (or 5.5% of GDP).

Grants and foreign aid reduced the deficit to about NIS 80.3 million, equal to 0.6% of GDP on cash basis (figure 3-3). On a commitment basis, the deficit is much larger, equivalent to NIS 144.8 million, according to the Ministry of Finance (MoF) estimation.

Public Debt

During Q3 2016 the public debt reached approximately NIS 9,574.2 million, registering a decline by 1.7% compared to the previous quarter, and a rise by 9% compared to the corresponding quarter of 2015. The percent of debt to GDP was 18.3%. Note that the public debt denominated in USD have risen slightly during Q3 2016 (by 0.9%), achieving a rise by 14.2% compared to the corresponding quarter 2015 amounting around US\$ 2,553.9 million. About 58.6% of the debt was domestic debt against 41.4% foreign debt (Table 3-3). While interest payments during the quarter reached about NIS 57.3 million, NIS 56.7 million of these was interest paid on domestic debt.

Table 3-3: Public Debt (NIS millions)

Item	2015				2016		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
a. Domestic debt	5,207.90	4,805.9	4,577.20	5,726.80	5,490.9	5,606.6	5,606.4
Banks	5,155.60	4,753.7	4,525.00	5,674.50	5,438.6	5,554.4	5,554.1
Public institutions	52.3	52.3	52.3	52.3	52.3	52.3	52.3
b. Foreign debt	4,236.10	4,052.7	4,205.00	4,181.30	4,072.5	4,132.5	3,967.8
Total public debt	9,443.90	8,858.7	8,782.20	9,908.10	9,563.4	9,739.1	9,574.2
Paid interest	62.5	66.0	57	42.6	91.0	81.0	57.3
Public debt as % to nominal GDP	20.4%	17.9%	17.8%	19.1%	18.8%	19.4%	18.3%

Figures between brackets means paid off arrears.

4- The Banking Sector¹

By the end of Q3 2016, there were 294 licensed banks (including all branches) operating in Palestine, 238 banks in the West Bank and 56 banks in the Gaza Strip. The number of accounts was about 1.3 million. The net assets (liabilities) increased by 3.4% compared to the previous quarter reaching US\$ 14,068 million. Table 4-1 shows the evolution of Banks' assets and liabilities.

Table 4-1: Consolidated Balance Sheet for Licensed Banks Operating in Palestine (US\$ millions)

Item*	2015		2016	
	Q3	Q2	Q3	Q3
Total assets	12,462.1	13,599.6	14,068.3	
Direct credit facilities	5,420.4	6,404.9	6,666.4	
Deposits at PMA & Banks	4,109.9	4,117.9	4,055.3	
Other assets	2,931.8	3,076.8	3,346.6	
Total liabilities	12,462.1	13,599.6	14,068.3	
Total deposits of the public (non-bank deposits)	9,506.5	10,202.6	10,432.6	
Equity	1,427.0	1,495.2	1,624.4	
Deposits of PMA and Banks (bank deposits)	901.7	1,103.9	1,152.0	
Other liabilities	626.9	798.0	859.2	

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

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

Credit Facilities

Total direct credit facilities rose by the end of Q3 2016 by about 4.1% compared to previous quarter, and by about 23.0% compared to the corresponding quarter 2015, reaching around US\$ 6,666.4 million. The credit facilities granted to the private sector accounted for 78% of the total against 22% granted to the public sector. By type, 81% of credit facilities were loans, and 19% were overdrafts. The West Bank had the lion's share of these facilities (about 87%) against 13% the share of the Gaza Strip. By currency, the US dollar continued to account for the biggest share of credit facilities (48%), compared to 37% granted in Shekel and around 14% in Jordanian Dinar (Figure 4-1). Once again, consumer goods constituted the highest percentage of private sector facilities reaching around 26%, followed by real estate and construction sector (22%), and then by trade (20%). (Figure 4-2)

In the same context, the other assets component saw an increase by 8.8% by the end of Q3 2016 compared to the previous quarter, reaching around US\$ 3,346.6 million, while deposits at PMA & banks declined by 1.5% compared to the previous quarter, amounting to around US\$ 4,055.3 million during the same period. Box (3) in this issue presents detailed data about the distribution and structure of credit facilities.

Deposits

By the end of Q3 2016, the total deposits of the public (deposits of non-banks) reached about US\$ 10,432.6 million, achieving a growth by 2.3% over the previous quarter. The private sector's share was 94.2% compared to 5.8% the share of the public sector. By region, the West Bank share of total deposits were 89.2%, compared to 10.8% in Gaza Strip. Current deposits (on-demand) represented 38.5% of total public deposits, while saving deposits made up 33.0%, and time deposits accounted for 28.5% of total deposits. The US dollar dominated the public deposits (around 37.4% of the total), followed by the Shekel (33.6%), ahead of Jor-

¹ The source of data in this section: PMA, 2016. The Consolidated Balance Sheet for Banks, List of profits and losses, PMA database.

Figure 4-1: Distribution of Total Direct Credit Facilities (US\$ million)

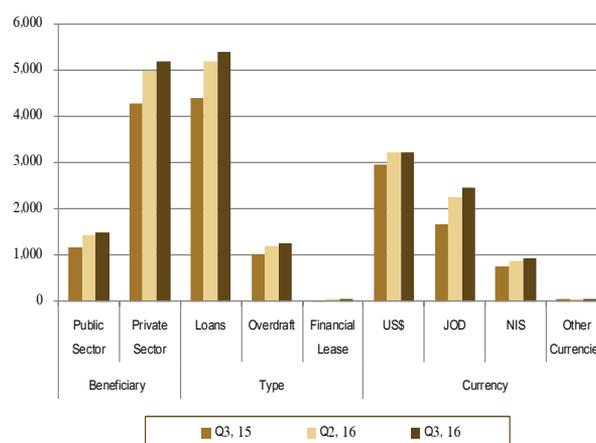


Figure 4-2: Distribution of Total Direct Credit Facilities Granted to the Private Sector by Economic Activity, Q3 2016 (% Percentage)

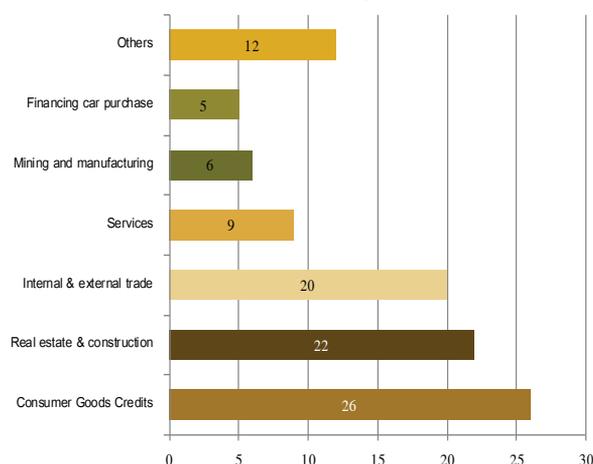
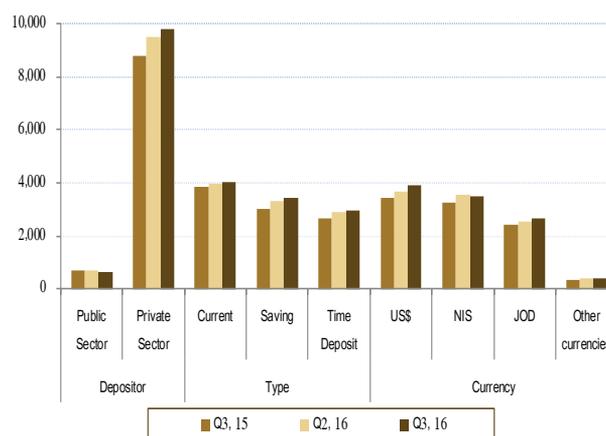


Figure 4-3: Distribution of Public Deposits (US\$ million), by Type, Depositor, and Currency



danian Dinar reaching around 25.5%, while other currencies made the remaining percentage (3.5%). (Figure 4-3).

By the end of Q3 2016 equity rose by 8.6% compared to the previous quarter reaching US\$ 1,624.4 million. As well, deposits at PMA and banks increased by 4.3% reaching US\$ 1,152 million during the same period. To sum up, 63.9% of total credit facilities were public deposits by the end of Q3 2016, compared to 62.8% in the previous quarter. On the other hand, non-performing facilities declined by 1.5% during Q3 compared to 2.0% in the previous quarter.

Profits of Banks

The net income of banks dropped at the end of Q3 2016 by about 9.6% compared to the previous quarter to reach US\$ 35.7 million. This is owing to 5.9% decrease in revenues (equivalent to US\$ 8.2 million) against a decline in expenses by 4.4% (equivalent to US\$ 4.4 million) during the study period. Paid interest contributed about 76.2% of net profits, while commissions contributed about 17.1% of net profits during the quarter, compared to 70.1% and 17.8% in the previous quarter respectively (Table 4-2).

Table 4-2: Sources of Revenues and Expenditure of Licensed Banks (US\$ millions)

Item*	2015		2016	
	Q2	Q2	Q2	Q3
Net revenues	130.1	140.1	131.9	
Interest	92.5	98.9	100.5	
Commissions	22.8	24.9	22.6	
Other operating revenue	14.8	16.3	8.8	
Expenses	97.9	100.6	96.2	
Operating expenses and tax allocations	84.9	89.8	82.4	
Tax	13.0	10.8	13.8	
Net income*	32.2	39.5	35.7	

Interest Rates

Compared to the second quarter of 2016, average interest rates on loans of the three major traded currencies in Palestine rose during Q3 2016, while they declined on deposits of the three currencies. The divergent interest rates on deposit and loans resulted in a marked increase in the interest margin (the difference between loan and deposit interest rates). The Shekel's interest margin rose by 1.11 percentage points reaching 9% during Q3 2016 compared to the previous quarter and by 0.9 and 0.34 percentage points for the Jordanian dinar and US dollar between the two quarters (Figure 4-4).

Clearance

The number of cheques submitted to clearing declined by 2.5% by the end of Q3 2016 compared to the previous quarter reaching 1,365,584 cheques, and their value declined as well by 2.7% during the same period reaching US\$ 3.1 billion. On the other hand, the number and value of returned cheques increased by 10.7% and 12.0% respectively, reaching 156,459 cheques amounting to US\$ 217.2 million. Note that 74.2% of the value of cheques submitted to clearing is in Shekel, and 19.8% in US dollar.

Specialized Credit Institutions (SCIs)

The number of specialized credit institutions (SCIs) during Q3 2016 was 82 (12 institutions and 70 branches). The loans granted through SCIs totaled US\$ 183 million (70.6% in the West Bank,

Figure 4-4: Average Interest Rates on Deposits and Loans in Palestine by Currency, Q3 2016 (% Percentage)

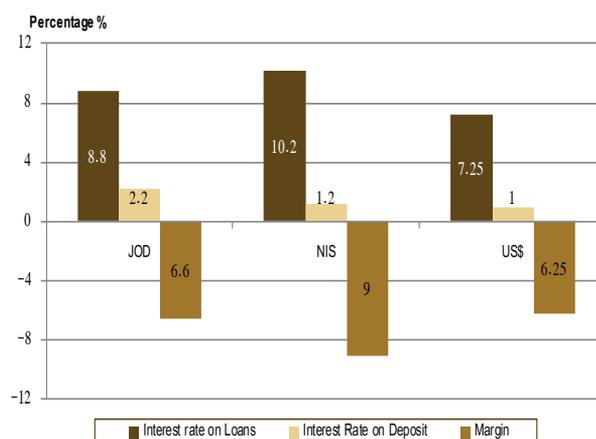


Figure 4-5: Geographical Distribution of SCIs Granted Loans, Q3 2016

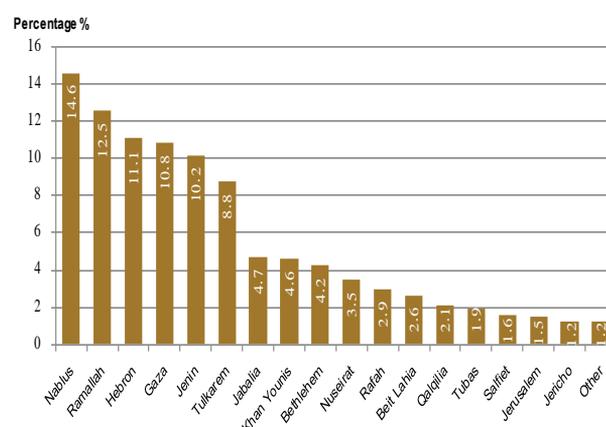


Table 4-3: SCIs data

Item*	2015		2016	
	Q2	Q2	Q2	Q3
Loan portfolio (US\$ millions)	112.8	167.1	183.0	
West Bank	83.2	120.8	129.2	
Gaza Strip	29.6	46.3	53.8	
Clientele	48,109	59,828	64,547	
West Bank	32,611	42,900	45,662	
Gaza Strip	5,4981	16,928	18,885	
Employees	420	554	583	

and 29.4% in the Gaza Strip) to 64,547 clients during the same period. SCIs offered 583 job opportunities.

By region, loans were centralized in three governorates, Nablus, Ramallah, and Gaza respectively, which have together received about half of the total loans portfolio. The biggest share of these loans were invested in the real estate sector (30.3%), followed by the commercial sector (24.1%), then consumption loans (13.7%), agricultural sector (13.2%), public services (9.2%), and finally the industrial and tourism sectors (5.0% and 4.5% respectively).

Box 3: 78% the Private Sector's Share of Credit Facilities for Trade and Consumption

The previous issue of the "Monitor" discussed the geographical distribution of bank deposits and credit facilities in Palestine. In this issue, we address the sectoral distribution of credit facilities.

By the end of Q3 2016, the total direct credit facilities in Palestine amounted to US\$ 6.7 billion, a rise by 4% compared to the previous quarter and by 24% compared to the corresponding quarter 2015.

The Relation between Credit and Real Growth

Figure (1) presents the change in the total credit facilities granted to the public and private sectors, as well as the growth rate of real GDP during the period 2010-2016. It shows that the decline in the real growth rate during the period 2011-2014 was accompanied with a decline in the average increase in facilities granted to both sectors. Whereas the increase in the growth rate concurred with an increase in the private sector's credit facilities during 2013-2016 and in the public sector during 2014-2015. As well data have shown a linear correlation coefficient (with a value of about 0.42) between the private sector's facilities and real growth rate. This finding points to the financial depth of the banking sector and the long-term positive impact that growth rates in Palestine have if accompanied with a growth in the private sector's credit facilities.

Types of Credit Facilities

The data shows that loans constitute the largest share of total credit facilities granted in Palestine, amounting about 55% during 2016. The share of overdrafts were about 15% of total facilities during the same year, while the "cost-plus financing income" (Murabaha or Islamic banking products) amounted to 12% of the total. Figure (2) shows the distribution of credit facilities granted in 2016 by facility type.

Distribution of Credit Facilities by Sector

The private sector accounts for the largest share of credit facilities (about 78%) compared with 22%, the share of the public sector. By September 2016, public sector's facilities amounted to about US\$ 1.5 billion. Figure (3) shows the public sector's shift from short-term (overdraft) loans to long-term loans. The short-term loans declined from 53% at the end of 2010 to about 34% at the end of Q3 2016 against an increase in long-term facilities from 47% to 66% during the same period.

Credit facilities accorded to the private sector reached US\$ 5.2 billion, divided as follows: 42% corporate facilities, 36% facilities for individuals and (22%) for credit card accounts, non-profit institutions providing services to households and others. Table (1) shows the distribution of credit facilities granted to the private sector by economic sector. As shown, consumer loans accounted for the largest share (26%) at the end of Q3 2016, compared with 17% in 2011.

Table 1: Total Credit Facilities Granted to the Private Sector by Economic Sector (2012-2016)

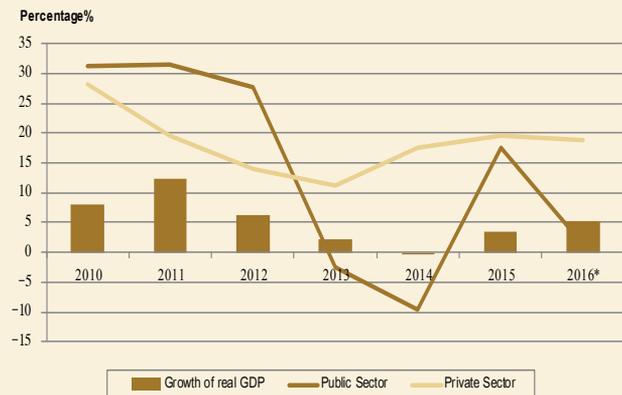
Economic Sector	2012	2013	2014	2015	2016*
Real Estate and constructions	21.1	20.9	21.6	21.8	22.2
Internal & External Trade	18.0	19.7	20.4	21.6	20.4
Business and Consumption services	9.6	7.8	10.2	9.2	9.4
Consumption loans	28.0	28.5	25.2	24.9	25.5
Others\private sector	23.2	23.0	22.6	22.5	22.5
Total (Million USD)	2,791.8	3,106.4	3,655.3	4,368.6	5,190.6

Source: Palestinian Monetary Authority (PMA).

* Data for 2016 covers until the end of September.

The real estate and construction sector facilities accounted for 22% of total private sector facilities (or US\$ 1,153 million) by the end of September 2016. These facilities are divided into 62.4% residential properties loans or improvement of housing conditions loans and 25.8% construction loans. On the other hand, real estate loans for trade and investment purposes, accounted for 11.8% of the total real estate and construction sector facilities.

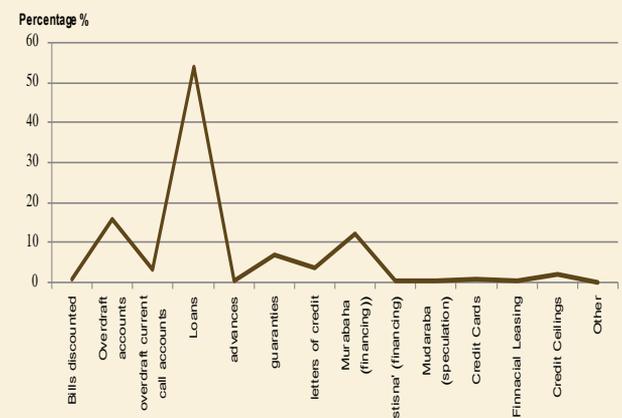
Figure 1: Change in Credit Facilities Granted to Public and Private Sectors and Real Growth Rate, 2010-2016*



Source: Palestinian Monetary Authority (PMA).

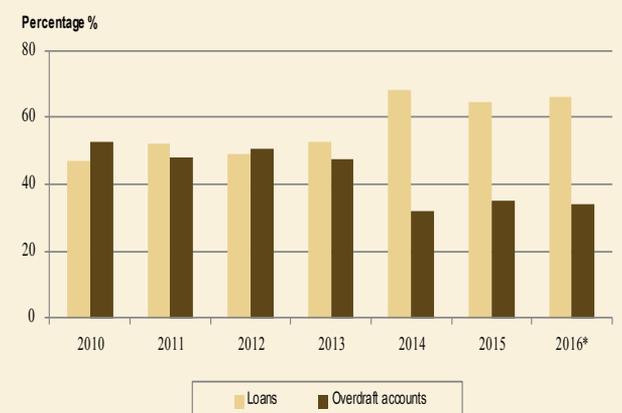
* Data for 2016 covers until the end of September.

Figure 2: Credit Facilities by Type, 2016 (%)



Source: Palestinian Monetary Authority (PMA), unpublished data.

Figure 3: Distribution of Total Facilities Granted to the Public Sector by type, 2010-2016* (percentage %)



Source: Palestinian Monetary Authority (PMA).

* Data for 2016 covers until the end of September.

About 90% of the commercial sector facilities were provided for internal trade. Regarding the real estate sector, the share of loans granted to purchase lands for investment purposes constitute about 75% of the sector's facilities and 25% were lands purchased for personal holding.

5- The Financial Sector (Non-banking)¹

Securities Sector

By the end of Q3 2016 the market value of shares listed on the Palestine Stock Exchange (PEX) amounted to US\$ 3.3 billion, achieving an increase by 3.5% compared to the second quarter 2016. This is equivalent to 26% of GDP at current prices.² The total number of traders in the stock market remained unchanged during Q3 2016, while foreign traders (mostly from Jordan) constituted 4.7% of the total number of traders.

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

	2015		2016	
	Q3	Q2	Q3	
Volume of Traded Shares (million share)	30.89	75.9	55.83	
Value of Traded Shares (US\$ million)	61.34	123.9	96.81	
Market Capitalization (US\$ million)	3,057	3,200	3,313	
Total number of Traders	73,564	72,927	72,661	
-Palestinian	70,092	69,478	69,225	
-Foreigners	3,472	3,449	3,436	

On the other hand, the value of traded shares declined by 21.9% amounting to US\$ 96.8 million compared with the end of Q2 2016. This is ascribed to the decline in the volume of traded shares by 26.4% compared to Q2 2016.

Insurance Sector³

During Q3 2016 the gross written insurance premiums totaled US\$ 45.5 million, reflecting a rise by 9.9% compared to corresponding quarter 2015. This increase is due to a recent order released by the Palestinian Capital Market Authority (PCMA) in 2016, obliging insurance companies to apply the minimum premium for insuring vehicles. Moreover, insurance density (gross written insurance premiums/population) amounted to US\$ 35.2, and the rate of penetration (gross insurance written premiums/GDP at current prices) was 1.3%. These indicators are lower than in other neighboring countries such as Jordan, where insurance density and penetration rate were US\$ 81.4 and 2.1% respectively, as of the end of 2015.⁴

Table 5-2: Some Financial Indicators of the Insurance Sector in Palestine (US\$ million)

	2015		2016	
	Q3	Q2	Q3	
Gross written premiums	41.4	58.0	45.5	
Total investments of insurance companies	186.3	179.1	187.4	
Net compensations incurred by the insurance sector	24.6	27.9	26.1	
Retention ratio	88.4%	73.2%	89.5%	
Claims ratio	59.5%	48.2%	64.0%	

Compared with the previous quarter, insurance sector investments increased by 4.6%, reaching US\$ 187.4 million by the end of Q3 2016. The sector incurred compensations of US\$ 26.1 million, the largest share of which was in vehicle insurance (60.4%), followed by health insurance (24.8%).

The Retention Ratio (which measures the ratio of net written premiums to gross written premiums), increased by 16.3% in Q3 2016 compared

¹ The source of the figures in this section: Palestinian Capital Market Authority (PCMA), 2016. And Palestine Stock Exchange (PEX), 2016.

² The GDP at current prices for the year 2015 was used since the market value of shares is cumulative.

³ The insurance sector data do not include Al Ahllia Insurance company.

⁴ The Insurance portfolio 2015 was used for calculating the insurance density and the penetration rate.

Figure 5-1: Distribution of Market Capitalization by Trader Type (as of the end of Q3 2016) (US\$ million)

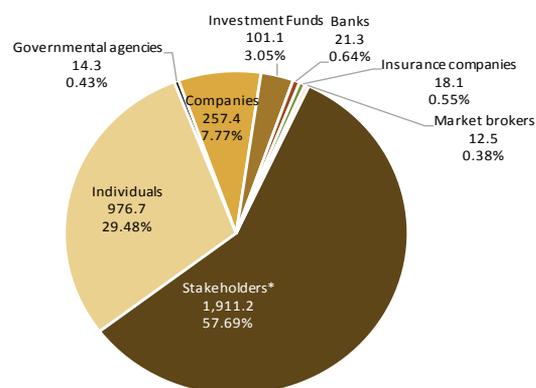


Figure 5-2: Distribution of the Components of the Insurance Portfolio by the insurance sector activities (as of the end of Q3 2016)

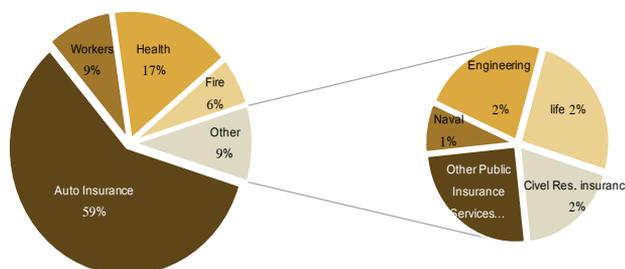
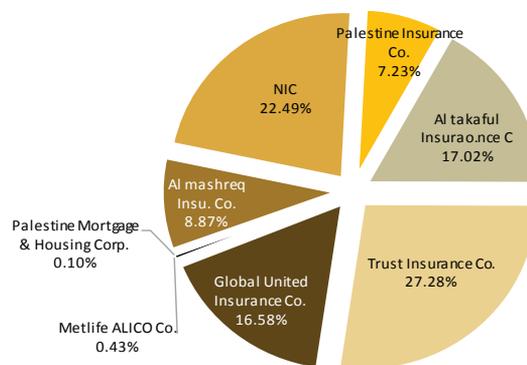


Figure 5-3: Distribution of Insurance Portfolio by Working Company in Palestine (as of the end of Q3 2016)



with the previous quarter. This ratio measures the percentage of written premiums retained by the insurance company after accounting for reinsurance and the level of risk reinsurance companies are exposed to.

On the other hand, the ratio of net incurred claims to net earned premiums, increased by 15.8% compared to Q2. This ratio measures the insurance companies' solvency. A ratio below 50% indicates that the insurance companies are not able to pay the compensations on the long run.

Figure 5-2 and 5-3 show that there is a significant concentration of vehicle insurance in the insurance portfolio in Palestine, constituting 59% of the total insurance portfolio by the end of Q3 2016. By market share, two companies out of the nine working companies dominate 50% of gross written premiums in the Palestinian insurance sector by the end of Q3 2016.

Box 4: Financial Leasing – Prospects for an Infant Sector

Micro, small, and medium enterprises play an important role in the Palestinian economy. These family enterprises constitute the largest share of enterprises operating in Palestine and therefore contribute significantly to stimulating the economy and labor force employment.

However, these institutions are subject to banks' stringent financing terms more than large institutions and companies, as banks consider financing individual institutions with no credit history as highly risky. In this context, the need for lease financing arises to offer a second financing option in addition to banking services. Leasing companies use assets as a guarantee for financing individuals and institutions, i.e. the leasing company buys an asset chosen by the tenant, and provide this asset for the use of the tenant for a specified period of time in exchange for rental payments. At the end of the lease period, the ownership of the asset is transferred to the lessee or is returned to the lessor if the tenant is not willing to purchase the asset, or whatever the two parties agree on in the leasing contract. In this way, the leased asset is used as a main guarantee and as a source of repayment, since the lessor remains the owner of the asset for the duration of the contract. Another advantage of financial leasing is the flexibility in paying installments, as the value of the leasing premium commensurate with the cash flow generated from the leased asset operations. As well, the lease period is linked with the product life of the asset, which encourages lessors to modernize their productive assets and to increase their productive capacity accordingly.

The financial leasing sector started its work officially in Palestine since the issuance of the Capital Market Authority Law in 2004, which regulates, monitors, and supervises the financial leasing sector. This activity began with a minimum number of companies and contracts. The sector growth has faced several obstacles, including the absence of a specific law and instructions for regulating this activity in the different official departments, like the taxation, land registration, and traffic dep. This legal aspect complicates legal procedures for leasing companies to a big extent compared with banks and Specialized Credit Institutions (SCIs) competing with leasing companies.

The Palestinian Capital Market Authority (PCMA) has taken on the challenge of laying the foundations and preparing the legal environment necessary for the work of this sector and to build its legal framework in cooperation with related parties, which would enable the sector to compete and provide its financial services to individuals and institutions. Early in 2008 work on drafting a law governing the work of the sector began. Yet the presidential decree on the law was not issued until 2014. A number of regulations and instructions have been issued following the law, to regulate and facilitate the sector's work procedures in the deferent departments as explained earlier. In 2016 the law on the "Rights of Transferable Assets", under which financial leasing companies are allowed to register their first right of the movable funds that are leased. PCMA is currently working on completing the legal system of the financial leasing sector in cooperation with all relevant bodies such as the Palestinian Investment Promotion Agency (PIPA), the Land and Customs Authority and others.

The financial leasing sector has developed substantially during the last years. Accomplishing a comprehensive legal and regulatory framework had significantly impacted the sector by increasing the number of financial leasing contracts. In 2007, there were no more than 4 leasing contracts, while in 2013 there were 199 registered contracts. Following the issuance of the law in 2014, the number of the financial leasing contracts reached 446 contracts in Palestine, an increase of 124%. By 2016, the number of registered contracts augmented to 2,001 contracts. In terms of value, total investments of financing were US\$ 1,306,398 in 2007, reaching US\$ 97,226,727 by the end of 2016. Currently there are 12 companies working in financial leasing. Eight of these companies are car agencies, three are independent companies and one company is specializing in Islamic leasing. The sector is expected to grow steadily in the coming years.

Regarding the types of leased assets, vehicles accounted for the largest proportion of the number and value of contracts, reaching 89% of the total financing contracts by the end of 2016. This is also evident in the experiences of other countries, which indicate that in early years of financial leasing sector, this activity expands in the field of vehicles leasing. It is anticipated that the recent law on the "Rights of Transferable Assets" and activating the registration of funds, will boost financing of equipment and productive assets. The remaining percent distributed as 5% equipment and machinery leasing and 6% heavy equipment such as bulldozers.

Following the accomplishments in the legal and regulatory environment and the issuance of all instructions that pertain to the registration of leased assets, and enabling investment and development initiatives at the macro level in Palestine, such as the new industrial cities in Jenin, Bethlehem and Jericho, and the alternative energy projects, as well as emerging financing needs, the financial leasing sector is expected to grow. New local and international entrants to the field will increase competition and contribute to improving the quality of the outputs of this sector.

Lina Ghabeeh, Palestinian Capital Market Authority (PCMA)

6- Investment Indicators ¹

Building Licenses

The number of building licenses and licensed areas is an important indicator of investment activity. Figure 6-1 shows the changes in the number of registered licenses and licensed areas of buildings in Q2 and Q3 2016 compared with Q2 and Q3 2015. During Q3 2016 the number of licenses reached 2,406 licenses, 200 licenses of which are for non-residential buildings. The total number of licenses show a slight increase by 0.1% compared with the previous quarter. On the other hand, the licensed areas of buildings in Q3 2016 amounted to around 1,585 thousand square meters, showing an increase of at least 50% compared with the previous quarter (Figure 6-1). Note that the number of registered licenses does not include all building activities in the construction sector, and that a relatively large part of construction activities, especially in rural areas, is not registered or licensed.

Vehicles Registration

The number of vehicles registered for the first time is another indicator of the economic situation and expectations of the population. Since vehicle prices are high and vehicles are often purchased via bank loans, this indicator may be considered to reflect the general economic climate and expectations. During Q3 2016, the number of new and second-hand vehicles (registered for the first time) in the West Bank was 8,011 vehicle, an increase of 601 vehicles compared with the previous quarter, and an increase of 819 vehicles compared with the corresponding quarter 2015 (Table 6-1).

Figure 6-1: Total Issued Building Licenses and Licensed Areas in the Palestinian Territory

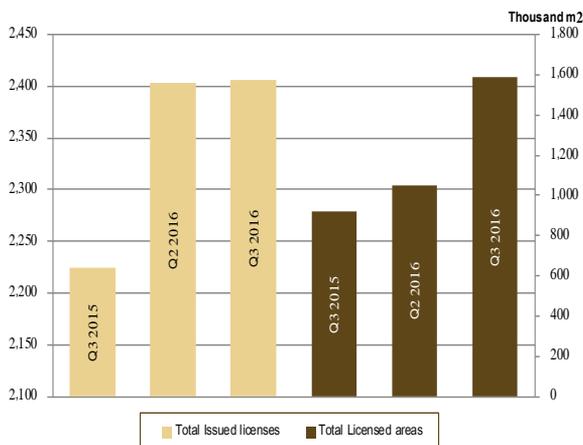


Table 6-1: New and Second-hand Newly Registered Vehicles, West Bank (Q3 2016)

	Vehicles from international market (new)	Vehicles from international market (used)	Vehicles from the Israeli market (used)	Total
July	633	1,465	178	2,276
Aug	783	2,216	269	3,268
Sep	651	1,533	283	2,467
Total	2,067	5,214	730	8,011

¹ The source of figures in this section: PCBS, 2016, Statistics on Building Licenses and the MOF, 2016, Palestinian Customs and Excise Dep.

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 (and this group of goods and services is the “consumption basket”). The average change in the CPI between the beginning and the end of a certain period measures the inflation rate, which reflects the average change in the purchasing power of families and individuals. If we assume that 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 percentage.

Figure 7-1 shows two curves, the first curve measures the average change in CPI (right axis) based on its value in the base year 2010=100. The second curve measures (left axis) the percentile change in the CPI in each quarter compared to its previous quarter, i.e. the quarterly inflation rate. During Q3 2016, the CPI was 111.11 compared with 110.75 in Q2. This means that between Q2 and Q3 2016 the rate of inflation was positive (0.32%). This is contrary to Q2, which witnessed a negative inflation rate (decline in prices) by -0.03%, while it increase by 0.04% between Q3 2016 and the corresponding quarter 2015. The increase in the Palestinian CPI in Q3 is attributed to the increase in food and beverage prices by 1.82%, while the prices of alcoholic beverages and tobacco declined by 6.08%.

Wholesale Prices and Producer Prices

The wholesale price index -WPI (sale price to retailers) rose by 2.53% between Q2 and Q3 2016, as a result of the rise in wholesale prices of local and imported goods by 4.11% and 1.19% respectively. The producer price index- PPI (prices received by domestic producers) has also risen by 1.96% between the two quarters (Figure 7-2).

Prices and Purchasing Power

The purchasing power is “the value of money as measured by the quantity and quality of goods and services that the per capita income can buy”. It is directly dependent on the income of the consumer and the change in prices and currency exchange rate (if the currency of income is different from the currency of spending). The change in Palestinian purchasing power (assuming income is constant) can be measured as: (average change in the exchange rate of the Shekel) minus (the rate of inflation).

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 of their income in that currency. Average prices increased by 0.23% in Q3 2016 compared to the previous quarter, and increased slightly by 0.04% compared with the corresponding quarter 2015. This means that the purchasing power of individuals who receive their wages and salaries in NIS declined between the second and third quarters of the year by 0.32%, and remained stable compared with the corresponding quarter.

US\$ Purchasing Power: In Q3 2016 the US\$ exchange rate against the NIS declined by about 0.24% (down to NIS 3.806 per dollar). Therefore, the purchasing power of individuals who receive their salaries in US\$ and spend all of their income in NIS has declined

¹ The source of figures in this section: PCBS, 2016, Price Indices Surveys. The purchasing power was calculated in cooperation with PMA.

during the third quarter compared to the previous quarter by about 0.56% and declined by about 1.03% compared with the corresponding quarter 2015, as a result of an decrease in the exchange rate of USD by 0.99%. Due to the fact that the JD exchange rate is pegged to the US\$ exchange rate, the purchasing power of the JD has seen almost the same developments as the US\$ with a slight variation compared with the corresponding quarter (Figure 7-3).

Figure 7-1: Average CPI Change and the Inflation Rate Change (%)

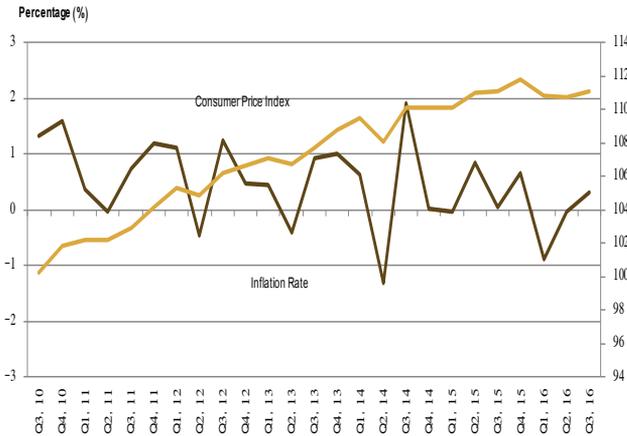


Figure 7-2: Evolution of Wholesale and Producer Price Indices (base year 2007)

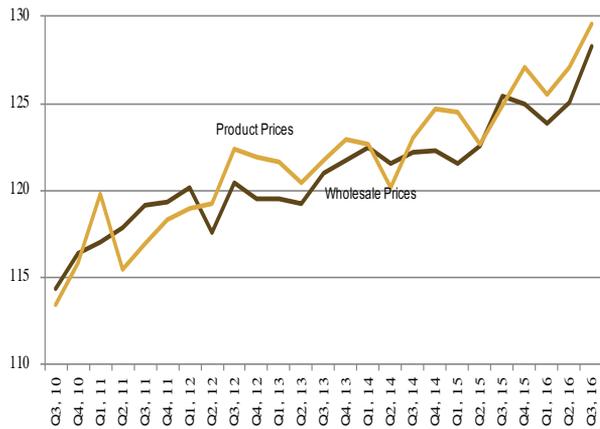
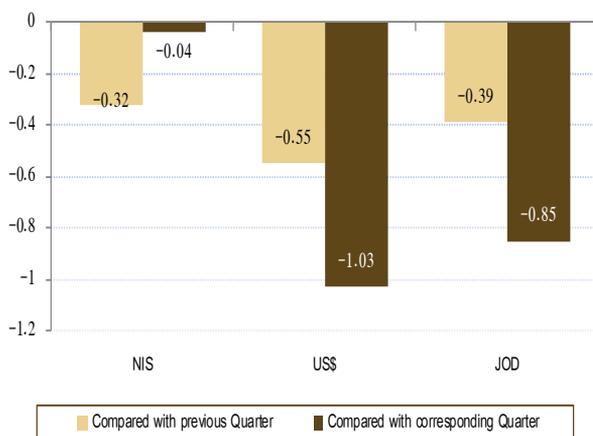


Figure 7-3: Change in Purchasing Power, Q3 2016 (percentage %)



Box 5: PCBS's Economic Forecasts Versus the PMA's Economic Forecasts

The world's official bureaus of statistics, ministries of finance, and central banks use statistical modeling tools to forecast the movement and evolution of macroeconomic indicators in the future. In general forecasts aim to provide timely information to policymakers and investors about the economy's trends. In Palestine, both the Palestine Monetary Authority (PMA) and the Palestinian Central Bureau of Statistics (PCBS) publish such forecasts separately, using simplified and different models from each other. In this box we present a brief review of these models, the forecasts of previous years compared with actual figures, as well as forecasts for 2017 using these models.

Models Employed¹

The PMA has developed its own modeling techniques, using the "Reduced Form Equations", which is used to forecast the trends of macroeconomic variables in the short run, and "Structural Modeling" which is used to forecast the trends of the economy over the medium run. The model relies in its format on the supply side as the driving force in the economy, considering that the growth of labor productivity is the primary source of income, demand, and well-being. The model contains behavioral equations (defined in the light of historic trends), and its "closure" mechanism depends on achieving long-term equilibrium. However, the dynamics of the model are limited to capital accumulation and private investment expenditure. On the other hand, the PCBS' model has been developed in cooperation with the United Nations Conference on Trade and Development (UNCTAD). The Model is based on "Keynesian" economic theory, which mainly emphasizes the demand side as the engine of economic activity. The model is based on time series (historic figures) to derive the values of the coefficients of reduced formulas of behavioral equations (35 behavioral equations and about 256 variables). This model is characterized by its ability to analyze the effects and consequences of policy change, which means that above all it is a "simulation model".

Previous Forecasts of the Two Models

Table (1) compares growth forecasts of a selection of key economic variables in 2014 and 2015 using the PMA's model and the PCBS model. The figures in the table show that the margin of error in the two institutions' forecasts of GDP growth in 2014 was relatively large. Contrary to their close growth forecasts (around 3.5%), GDP in Palestine actually declined by 0.2%. This error reflected in the wide disparity in the expected changes in the components of GDP expenditure. For example, the PCBS forecasted that investment would grow by 3% while the PMA forecasted a zero growth rate, actual figures of investment show a decline by almost 14% during the year.

Regarding growth forecasts for the year 2015, actual figures show that the GDP growth rate was higher than the PCBS and PMA's forecasts for that year. Although the margin of error in the estimation of GDP growth by the two models was close, there was high disparity between the two in forecasting components of GDP expenditure. For example, the PMA expected total final consumption (government and private) to grow by 6.8%, while the PCBS expected it to fall by 1.4%. The actual figure is closer to PMA forecast. The same applies for forecasting the change in net exports, although the error/difference in the PMA forecast of this variable was about 9 percentage points.

Regarding the unemployment rate, comparison of the 2014 and 2015 forecasts with actual figures show that there are different patterns of forecast errors, although the PMA forecasts appear to be closer to the actual figures than the PCBS's model. The absence of a common pattern of error and the arbitrary relation between the expected and the actual figures are mainly due to the fact that the Palestinian economy is affected by political and exogenous variables that fall beyond the scope of conventional economic models. In order to take these factors into account, the PCBS and the PMA expand the margin of expectation through developing pessimistic and optimistic scenarios in addition to the baseline scenario. However, expanding the margin of expectation to this extent limits actually from the usefulness of these forecasts to decision-makers.

Variance in the Base Year Figures

There is a significant variance in the forecasted absolute values of the economic variables forecasted by the PMA and the PCBS. No doubt that part of this disparity is attributed to the different structures and comprehensiveness of the

models they use. However, the variance is also attributed to adopting different base years. It is well known that the absolute forecast figures of each year are based on previous year's figures. Since forecasts are issued at the end of the year preceding the forecast year, primary estimates for base year figures are used. The PCBS and the PMA use different estimates of the base year figures, which results in a considerable variance in the forecast absolute figures. In order to make the comparison possible between the expectations of the two models, we compare the expectations of the growth rates rather than the expected absolute numbers. When comparing the base year estimates with actual figures, we concluded that the preliminary estimates of GDP and the unemployment rate of the PCBS were closer to actual figures than the preliminary estimates made by the PMA.

Table 1: Growth Forecasts in the baseline scenario of the PMA's and the PCBS's models compared with actual figures for some economic indicators in 2014 and 2015

	PMA's Forecasts		PCBS's Forecasts		Actual Growth rates	
	2014	2015	2014	2015	2014	2015
GDP	3.2	2.9	3.8	2.8	-0.2	3.4
Final consumption	0.02	6.8	5.0	-1.4	3.56	6.12
Investment	0.08	15.5	3.0	7.1	-13.91	9.5
Net exports	6.0	22.3	6.9	-6.9	1.44	13.3
Per Capita GDP	1.6	0.2	0.8	-0.2	-3.1	0.4
Unemployment (%)	23.6	27	22	27.9	26.93	25.93

1 When net errors and omissions are included in the calculation, like in the PCBS's forecast, the final consumption growth rate becomes 2.97%

2 When net errors and omissions are included in the calculation, like in the PCBS's forecasts, the final consumption growth rate becomes 5.5%

3 The PCBS forecasts exclude (J1) area of Jerusalem, while the actual unemployment rate excluding (J1) was 27.5% in 2014 and 26.2% in 2015.

Growth Forecasts for 2017

Table (2) below recaps the PMA and PCBS's forecasts of the main economic variables in the Palestinian economy in 2017. As indicated earlier, due to disparity in the absolute values of 2016 variables adopted by the PCBS and the PMA as the basis for the 2017 forecasts, some forecasted figures were converted to growth rates so as to make comparison between the two models' forecasts possible.

Table 2: Growth Forecasts of 2017 in the Baseline Scenario (constant prices 2004)

	Forecasts of the PMA's Model	Forecasts of the PCBS's Model
GDP	3.1	3.6
Final consumption ¹	4.1	3.3
Investment	0.8	8.0
Net exports	4.4	4.9
Per Capita GDP	0.8	0.6
Unemployment rate (%) ²	27.6	27.2

1 PCBS's data on this item includes net omission and error.

2 PCBS's data on unemployment rate exclude area "J1" area of Jerusalem.

The figures in the table show that the difference between the PCBS and the PMA forecasts of the 2017 GDP growth rate is 0.5 percentage points (which equals about US\$ 40 million). This difference is close to that in the forecasted growth rate of GDP per capita (due to identical forecasts of the population growth rates by both institutions). The same applies to unemployment rate. However, the relative convergence in the expected overall growth rate does not reflect on growth forecasts of GDP components. The difference in the forecasts of investment growth is significant (as in previous years), where the PMA predicted 0.8%, compared with 8 percentage points predicted by the PCBS.

Going forward, it is important that both the PCBS and the PMA study carefully the sources and reasons for the discrepancies between their economic models' forecasts and actual figures, and whether this variation is due to external shocks, that these models are unable to take into account, or due to deficiencies and defects in these models. Probably, the first thing the two institutions need to do is to start coordinating their efforts, starting with adopting a unified base year for forecasting.

1 For more information about these models:

Aref, M., Dombrecht, M. and Khalil, S. (2012). "A Structural Model for Palestinian Territory". PMA Working Paper. WP/12/06.

UNCTAD (2009). "Policy Alternatives for Sustained Palestinian Development and State Formation". http://unctad.org/en/Docs/gdsapp20081_en.pdf

8- Foreign Trade ¹

Balance of Trade

The value of registered merchandise imports² during Q3 2016 was about US\$ 1,237.5 million, a decline of 7.2% over the previous quarter and 3.5% compared with the corresponding quarter of the previous year. While the value of merchandise exports did not exceed 18.3% of the value of imports, a decline by 6% compared with the previous quarter and an increase by 3.8% compared with the corresponding quarter of the previous year. The difference between exports and imports means that the deficit in the merchandise balance of trade amounted to US\$ 1,010.8 million. The deficit has dropped slightly as a result of the surplus in the balance of service imports from Israel reaching US\$ 4.3 million (Figures 8-1 and 8-2).

Balance of Payments

The current account in the balance of payments is the net aggregate in three sub-balances: the balance of trade (net trade in goods and services), the balance of income (the net international transactions associated with income on factors of production, i.e. labour and capital), and the balance of current transfers (international aid to the government and private transfers).

The deficit in the Palestinian current account (the balance of payments) reached US\$ 314.4 million in Q3 2016, which is equivalent to 9.1% of GDP at current prices. The current account deficit resulted from a deficit in the trade balance of US\$ 1,288.5 million, against a surplus in the balance of income (generated mainly from the income of Palestinian workers in Israel by 94%) of US\$ 401.3 million, and the surplus in the balance of current transfers (about one quarter of which generated from international aid to the government) by US\$ 572.8 million.

The balance of payments deficit was financed by a surplus in the capital and financial account, which covered an amount of US\$ 281.6 million. This item (the capital and financial account) represents a debt on the national economy, as long as it has positive value. 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 them, usually recorded under "errors and omissions" (Table 8-1).

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

	2015		2016	
	Q3	Q2	Q2	Q3
Trade balance of goods and services**	(1,423.5)	(1,348.6)	(1,288.5)	
Net goods	(1,173.5)	(1,116.7)	(1,066.8)	
Net services	(250)	(231.9)	(221.7)	
2. Income balance	440.6	404.3	401.3	
3. Balance of current transfers	324.8	553.3	572.8	
4. Balance of current account (1 +2 +3)	(658.1)	(391.0)	(314.4)	
5. Net capital and financial account	711.2	274.9	281.6	
6. Net errors and omissions	(55.7)	116.1	32.8	

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

International Investments

At the end of Q3 2016, Palestine's foreign assets totaled around US\$ 6,297 million, 7.1% of which represent direct foreign investment, and 18.4%

- 1 The source of data in this section: PCBS, 2017, Registered Foreign Trade Statistics, and PMA & PCBS, 2017, Palestinian Balance of Payment, Q3 2016.
- 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.

Figure 8-1: Imports and Exports of Registered Merchandise (Q3 2015 and Q3 2016) (US\$ million)

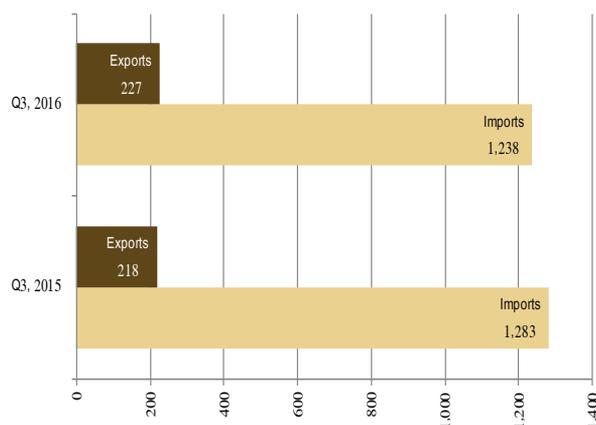


Figure 8-2: Exports and Imports of Registered Services from Israel (Q3 2015 and Q3 2016) (US\$ million)

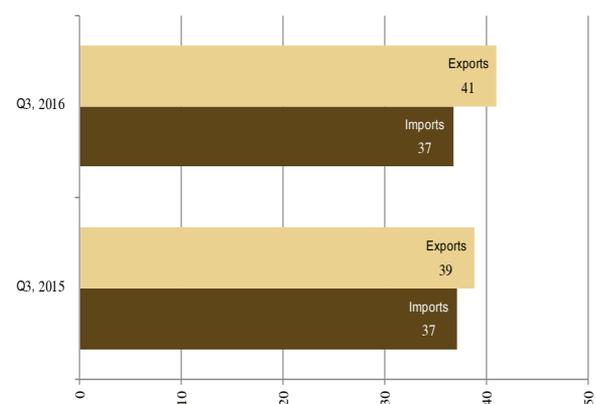
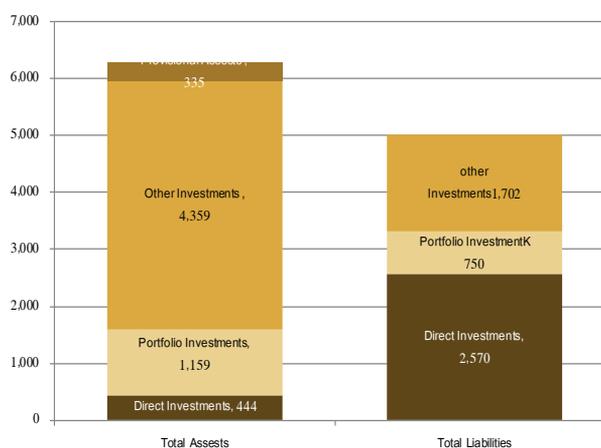


Figure 8-3: International Investments Balance (Q3 2016) (Million US\$)



represent portfolio investments. On the other hand, total external liabilities amounted to about US\$ 5,022 million, more than half of which were direct investments. The difference between assets and liabilities means that the overseas investments by Palestinians were US\$ 1,275 million higher than the investments of non-residents. A significant portion of these assets (64%) are deposits by Palestinian banks abroad. Figures indicate that foreign direct investment in Palestine outweighed actual Palestinian investment abroad by US\$ 2,126 million.

Box 6: Arab Human Development Report 2016: Youth is the Dilemma and the Solution

Late last year the United Nations Development Program (UNDP), issued the “Arab Human Development Report 2016: Youth and the Prospects for Human Development in a Changing Reality”. This report is the sixth in a series of reports addressing the conditions and problems facing development in Arab countries. While previous issues of the report focused on topics such as Knowledge (2003), Freedom (2004) and Human Security (2009), the latest report focuses on Youth.¹

The report begins by explaining the challenges imposed by the changing reality in the Arab region that youth continue to face. It emphasizes that all over the Arab world the young people aged between (15-29 years old) constitute the largest percent, are better educated, more civilized (living in urban areas) and more connected to the outside world. However, the young generation of Arabs are the least active members of the society in elections compared with global average (only 16% of those aged 18-26 years voted in Egypt), and their contribution to voluntary work is very low (only 2% in Egypt). On the other hand, Arab youth are more involved in protests compared with their peers around the world. These protests take place on a periodic basis in the region (almost every five years), and each cycle of violence is often worse than the one preceding it.

The report focuses on the causes of the Arab region failure in exploiting young people’s capacities and in creating new job opportunities for them, stimulating their advancement and building their trust and hope for the future. It is noteworthy that the economic and political failure of the countries in the region is driving young people to enroll in religious, sectarian or tribal groups rather act according to the citizenship principles. A full chapter in the report is devoted to study the values, identity, and civic contribution of the youth in Arab countries, including Palestine.

According to the report, the young Arab cohort aged (15-29 years) are estimated at 105 million, which is growing rapidly, yet unemployment and marginalization are increasing at a faster pace. The rate of youth unemployment in Arab countries is 30%, double the global average of youth unemployment (14%), as well half of the young Arab women seeking to work do not find jobs, compared to the global average of 16%.

The failure of countries and the frustrated development have led to an increase in the number of armed conflicts and confrontations in the Arab region, from 5 in 2002 to 11 in 2014. The report expects that 4 out of 5 Arabs will live in conflict areas in 2020. About 5% of the world’s population is Arab, however their “share” of conflicts, displacement, and victimization is much greater than their proportion of the total population. The military spending in the region on each Arab during the period 1988-2014 is 65% higher than the global average.

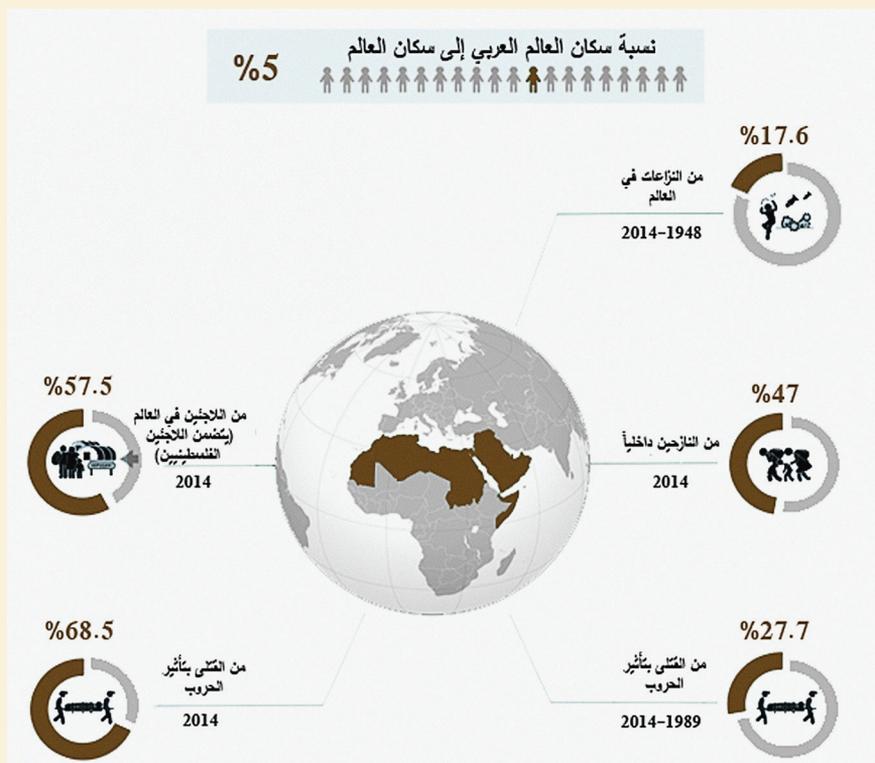
How to end this misery?

The report stresses that this high percentage of young people could be a historic opportunity for growth if Arab states seize it in the best way. On the other hand, sacrificing young people, which is happening now, will have serious long-lasting economic and social consequences. The report calls for adopting a new strategy and a development model that focus on building the capacities of the young on one hand, and creating opportunities for them on the other. The former objective requires reform at sectoral policy level, of basic services in the society, like education (both quantitative and qualitative) and health sector reform. This would enable individuals to find jobs that meet their living needs. The latter objective requires addressing the challenges facing young people as they seek to contribute to political life, express their views and exercise their rights to accountability.

The report concludes that the uprisings since 2011 have shown that there are three interrelated crises in the Arab region: the state crisis, the economic model crisis and the political crisis. Although the overall focus is on the latter, development over the next decade depends on the change of those three. Solutions to these crises are now identified and therefore the challenge will be in the change the youth can achieve. Finally, the report asserts that achieving peace and security, at the national and regional levels, is a necessary prerequisite for a decent future that can stimulate the youth.

(Numan Kanafani, Editor)

Figure: Cost of Conflict in the Arab Region



1 <http://www.arabstates.undp.org/content/dam/rbas/report/AHDR%20Reports/AHDR%202016/AHDR%20Final%202016/AHDR2016En.pdf>

Economic Concepts and Definitions:

Citizen's Income

The traditional idea that the state should provide every adult person with a regular unconditional income and that such payments should be financed from the profits of the public sector institutions or tax revenues has recently been resurrected. The idea of the "citizen's income", or the "Universal Basic Income, UBI" goes back a few centuries. Idealists, utopians, and socialists supported the idea and worked on redistributing agricultural profits that landowners earn to eliminate extreme poverty and the evil it brings, like crime, addiction and social and political tension.

However, contemporary calls for the 'citizen's income' rely on different justifications and goals. It is based on the effects that modern technological advancement have on the labor market, on the evolution of the concept of work, and the role of work in the economic system and in human life. These calls are based on the notion that modern technology, for the first time in history, is destroying more jobs than it creates. And this destructive path will be further deepened with the rise of "Artificial Intelligence" and cognitive functions of machinery and equipment. Modern technology has detached economic growth from job creation. Simply, supporters of the 'citizen's income' contend that in the future there will not be enough jobs for everybody. During the last two centuries, technology has taken over human labor and manual routine work, while contemporary technology has threatened and will further threaten knowledge and intellectual jobs.

Extensive research identified this new economic trend in developed countries. The development of autonomous cars will undermine the employment of 3.5 million truck drivers in the United States. A study by Oxford University and McKinsey Global Institute suggests that the technology of the future could eliminate 47% of jobs in America.¹ In a small country like Denmark, technology is expected to eliminate 800,000 jobs in the next decade, about one third of the country's total job opportunities. A White House report to the Congress states that there is a 83% chance that workers who are paid less than US\$ 20 per hour in 2010 will be substituted by machines in the future, and that the probability for those earning US\$ 40 per hour is 31%. The "Citizen's Income" is the right answer to a world where modern technology is devouring job areas one by one.

Supporters of the "Citizen's Income" argue that contemporary technological advancement have separated growth from labor, and that this separation has social, economic, and philosophical consequences as well. If an economy can no longer and does not need to create jobs for everybody, the definition of work as "necessary for life", "gives a meaning to life" etc. is no longer valid. It has become necessary to develop new concepts: work is good for those who wish to work, which is not a condition for survival, i.e. the condition of consumption, and should not define the social status of persons. Contemporary technology has changed the concept of work from a "necessity" to an "option". The separation between economic growth and human labor necessitate the creation of a separate and independent purchase power. And this is precisely what the "Citizen's Income" provides, unconditional income upon which there are no conditions for receiving or spending.

Referendum and Practical Experiences

Nowadays the idea of "citizen's income" receives growing attention in the academic and political arenas. Supporters of the idea in Switzerland collected 125,000 signatures to hold a referendum on a proposal to include the "citizen's income" in the federal constitution. The proposal states that each Swiss citizen will receive an unconditional monthly lump sum stipend of CHF 2,500 per adult and CHF 675 per child. The referendum was conducted in October 2013, and was rejected by 77% of citizens who voted against the proposal. Proponents attribute this voting score, to the high proposed lump sum, and that a monthly stipend equivalent to US\$ 1,000 could be more acceptable and economically feasible. Despite this defeat in Switzerland, the Socialist candidate for the French presidency, Benoit Hamon, included in his electoral program, a proposal for a monthly income for all French citizens of Euro 750 that will be initiated starting 2022 on a gradual basis.

The renewed debate about the "Citizen's Income" revolves around two basic issues. First, what effects will the lump sum stipend have on work incentives? Will the stipend cause people to completely abstain from work? Most of the proposals, including the most radical, do not present the "Citizen's income" as an alternative to work, but rather as a supplement to the job wage. Yet, it is an unconditional stipend that would allow people to use time in a more meaningful way, which will make them happier and have social benefits. Economic stimulus is not the only incentive that drives people to work. Empirical studies are being conducted across the world to analyze the impact of income availability on labor incentive. A study in Finland, that will be launched early 2017, will make an experiment by granting Euro 560 to 2,000 unemployed person. The study will track those persons' reaction to the labor market; will they continue to seek hiring and seek to increase their income? Or will they withdraw from the labor market compared with other unemployed persons, who did not receive a similar sum of money,

No doubt that the level of the "Citizen's Income" is one of the determinant factors that can affect work incentives. However, according to supporters of the idea, providing a minimum income will free people from the "bondage of work" and will enable them to choose the jobs they dream to do, and will encourage creativity, initiatives and non-profitable moral activities.

Second, the costs of the "Citizen's Income" proposal can be prohibitive and unbearable. It is also clear that the total costs are contingent on the proposed level of the individuals' income. Today there are various cost estimates, some of which are very expensive (full absorption of federal tax revenues in the United States) and some are feasible (as in the case of Finland). Another point related to costs, is that whether the "citizen's Income" should be financed through income distribution (financing from public enterprises' revenues or the taxation system) or through redistribution of income (i.e. financing from certain taxes imposed on high-income earners). An example of the redistribution of income is the so called "Tobin Tax" (a small tax on currency conversion and trading). Supporters of the "Citizen's Income" school argue that the costs issue should be handled at the macro level. The "Citizen's Income" is necessary for creating purchasing power, demand, and absorption of production. In the absence of purchasing power there will be inadequate production. On the other hand, contemporary technology, which has separated production from employ-

¹ McKinsey Global Institute: Disruptive Technologies: http://www.mckinsey.com/~/media/McKinsey/Business%20Functions/McKinsey%20Digital/Our%20Insights/Disruptive%20technologies/MGI_Disruptive_technologies_Full_report_May2013.ashx

ment, has also been accompanied by large increases in capital profits. This justifies the capitals financing of a large part of the “Citizen’s Income” costs. Finally, proponents argue that the “Citizen’s Income” will lead to significant economic gains, such as reducing population concentration in cities, cheap land prices, low rents, reduced transportation, and many other aspects to be taken into consideration when calculating profits and losses.

The “Citizen’s Income” in Developing Countries

Calls to adopt the “Citizen’s Income” are heard also in poor developing countries, and not limited to developed countries. However, the most important justification for these calls, is the positive role of the “Citizen’s Income” in reducing poverty, fighting corruption and averting from bureaucratic structures and complex support programs. The proposal is based on granting an unconditional lump sum to every citizen, since current income assistance programs do not actually reach all the poor. This in fact is attributed to a number of factors: the lack of adequate statistics, the expansion of the informal sector, and the spread of population in rural areas, as well as the complexity, multiplicity and overlapping of existing assistance programs. All these factors can be addressed by adopting a unified lump-sum income. India, for instance, has more than 950 assistance programs run by the central government for supporting the income of the poor, in addition to other programs run by the government. Recently the government had proposed the idea of replacing all these programs with a single unified program which grants US\$ 9 per month for all Indian citizens. The government’s experts estimated that the cost of this unified program would amount to 6-7% of the country’s GDP compared with 5% which is the costs of the 950 programs currently in force. But while one-fifth of India’s population still live below the poverty line despite the running assistance programs, the percent of the poor will fall to less than 0.5 % when applying a common Citizens Income Fund.²

Namibia, in southern Africa, was one of the third world countries where a pilot project of “Citizen’s Income” was initiated in 2008. The project, which lasted for two years, entailed granting every citizen in the region (930 persons) a lump sum income equivalent to US\$ 12.4. Assessment reports show positive results which have exceeded expectations, and did not affect the living conditions of the people merely (especially children), but had positive effects on their incentive to seek paid jobs and engage in income generating activities.³

What about the “Citizen’s Income” in Palestine? According to one survey, more than 56% of families who benefited from social assistance programs in the Palestinian Territory in 2006 were families that should have not qualified to benefit from support programs. At the same time, more than 28% of the families that qualify as a beneficiary did not receive aid.⁴ Such a relatively large leakage, as well as the multiplicity of assistance programs and of agencies that manage social transfer programs, are sufficient justifications for studying the empirical application of the “citizen’s income” idea in Palestine and assessing its practicality and ability to provide solutions for the problems and flaws of the current systems.

Dr. Sobhi Samour contributed to writing this section.

² The source of data in this section: PCBS, 2017, Registered Foreign Trade Statistics, and PMA & PCBS, 2017, Palestinian Balance of Payment, Q3 2016.

³ <http://www.globalincome.org/English/BI-worldwide.html>

⁴ Shalabi, Yasser, and Ladadweh, Hassan. Targeting Palestine’s Poor: Current Criteria and Suggested Approaches. MAS, 2009.

Key Economic Indicators in Palestine, 2010 - 2016

Indicator	2010	2011	2012	2013	2014	2015	2015		2016 2		
							Q3	Q4	Q1	Q2	Q3
Population (One thousand)											
oPt	4,048.4	4,168.9	4,293.3	4,420.5	4,550.4	4,682.5	4,699	4,732.7	4,766.2	4,799.8	
West Bank	2,513.3	2,580.2	4,649.0	2,719.1	2,790.3	2,862.5	2,871.6	2,889.8	2,908.0	2,926.3	
Gaza Strip	1,535.1	1,588.7	1,644.3	1,701.4	1,760.1	1,820.0	1,827.6	1,842.9	1,858.2	1,873.5	
Labor Market											
No. of workers (thousand)	745.0	837.0	858.0	885.0	917.0	963.0	947.0	983.0	974.0	975.0	970.9
Participation rate (%)	41.1	43.0	43.3	43.6	45.8	45.8	45.8	46.2	45.8	45.7	46.1
Unemployment rate (%)	23.7	20.9	23.0	23.4	23.4	26.9	24.8	27.4	25.8	26.6	28.4
- West Bank	17.2	17.3	19.0	18.6	17.7	17.3	18.7	18.7	18.0	18.3	19.6
- Gaza Strip	37.8	28.7	31.0	32.6	43.9	41.0	42.7	38.4	41.2	41.7	43.2
National Accounts (USD millions)											
GDP (USD millions)	8,913.1	10,465.4	11,476.0	12,476.0	12,715.6	12,677.4	3,219.6	3,331.3	3,301.9	3,381.1	3,439.4
Household expenditure	8,354.7	9,602.4	10,158.5	11,062.6	11,840.4	11,795.7	3,146.6	2,957.4	2,987.2	3,134.9	3,170.7
Government expenditure	2,500.8	2,892.3	3,126.9	3,381.7	3,478.2	3,374.9	860.6	919.1	768.8	891.3	879.3
Gross capital formation	1,921.5	1,863.8	2,378.5	2,707.3	2,415.0	2,689.5	632.3	797.7	686.0	718.4	677.8
Exports	1,367.3	1,799.4	1,871.1	2,071.8	2,172.3	2,322.7	562.3	603.0	538.1	627.2	600.1
Imports	5,264.3	5,723.2	6,299.9	6,804.0	7,208.9	7,501.4	1,981.1	1,917.7	1,708.9	1,972.0	1,888.5
GDP per capita											
at Constant prices (USD)	2,338.7	2,664.9	2,787.2	2,992.2	2,960.1	2,865.8	725.4	745.1	733.3	745.5	753.0
at Current prices base year 2004)	1,606.4	1,752.5	1,807.5	1,793.3	1,737.4	1,745.9	433.0	444.8	444.3	448.7	442.9
Balance of Payment (USD millions)											
Trade Balance	(3,897.0)	(3,923.8)	(4,428.7)	(4,732.2)	(5,036.7)	(5,199.5)	(1,418.8)	(1,314.7)	(1,170.9)	(1,345.0)	(1,288.5)
Income Balance	599.1	749.5	857.4	1,160.3	1,482.4	1,712.3	357.4	347.5	364.4	404.3	401.3
Current Transfers Balance	1,991.0	1,104.8	1,750.5	1,188.0	1,405.3	1,421.5	475.1	517.4	528.7	549.2	572.8
Current account Balance	(1,306.9)	(2,069.5)	(1,820.8)	(2,383.4)	(2,149.0)	(2,065.7)	(586.3)	(449.8)	(277.8)	(391.5)	(314.4)
Exchange rates and inflation											
USD/NIS exchange rate	3.70	3.60	3.90	3.60	3.60	3.90	3.80	3.90	3.90	3.80	3.81
JOD/NIS exchange rate	5.30	5.10	5.40	5.10	5.10	5.50	5.40	5.50	5.50	5.40	5.37
Inflation rate (%)	3.75	2.88	2.78	1.72	1.73	1.43	0.04	0.65	(0.90)	(0.03)	0.32
Public Finance (cash basis USD millions)											
Net domestic revenues (including clearance)	1,900.0	2,275.9	2,240.1	2,319.9	2,791.2	2,891.4	923.1	550.4	884.3	993.3	733.0
Current expenditure	2,983.0	2,960.7	3,047.1	3,250.7	3,445.9	3,424.9	911.4	859.2	855.8	1,146.0	879.4
Developmental expenditure	275.1	296.2	211.0	168.4	160.9	176.4	32.6	51.1	37.1	54.1	45.0
current budget deficit\surplus (before grants)	(1,083.0)	(1,081.0)	(1,018.0)	(1,099.2)	(815.6)	(709.9)	(20.8)	(359.9)	(8.7)	(206.8)	(191.4)
Total grants and aid	1,277.0	977.5	932.1	1,358.0	1,230.4	796.8	142.4	174.9	178.7	202.1	168.5
Total budget deficit\surplus (after grants and aid)	(81.0)	(103.5)	(85.9)	258.7	414.8	86.9	121.6	(185.0)	170.1	(4.8)	(22.9)
Public debt	1,882.8	2,212.8	2,482.5	2,376.2	2,216.8	2,537.2	2,236.0	2,537.2	2,527.0	2,530.2	2,553.8
The Banking Sector (USD millions)											
Banks assets/liabilities	8,590.0	9,110.0	9,799.0	11,191.0	11,822.0	12,602.3	12,462.1	12,602.3	13,143.6	13,631.0	14,068.3
Equity	1,096.0	1,182.0	1,258.0	1,360.0	1,464.0	1,461.7	1,427.0	1,461.7	1,483.2	1,497.0	1,624.4
Deposits at banks	6,802.0	6,973.0	7,484.0	8,304.0	8,935.0	9,654.6	9,506.5	9,654.6	10,054.7	10,203.0	10,432.6
Credit facilities	2,825.0	3,483.0	4,122.0	4,480.0	4,895.0	5,824.7	5,420.4	5,824.7	6,137.3	6,405.0	6,666.4

These data do not include that part of Jerusalem governorate which was forcefully annexed by Israel following its occupation of the West Bank in 1967 (With exception to unemployment and population figures).

1. The inflation rate estimation is based on year-over-year comparisons of the average indices of consumer prices (the target year with the previous year).

2. Figures for 2016 are preliminary and subject to further revision.

Figures between brackets indicate negative values.

The figures in the table are based on the latest update of data.