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

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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 the best available indicator for the performance of economies and welfare of citizens on national and international levels.

Quarter 4: Palestinian GDP (at 2004 constant prices) dropped by 1.3% over Q4 2016 compared with the previous quarter reaching US$ 1,997 million: US$ 1,505 million in the West Bank and US$ 492 million in Gaza Strip (Figure 1-1). This drop was the result of a decline by 1.9% in the West Bank compared with a 0.6% increase in Gaza Strip. This is similar to the third quarter, as the West Bank recorded a decline by 1.1% against an increase in Gaza Strip by 2.0%.

This decline during Q4, accompanied with an increase in the population, resulted in a decline in the per capita GDP by about two percentage points compared with the previous quarter. Compared with the corresponding quarter, Palestinian GDP grew by 1.3% in Q4 2016 compared with Q4 2015, which was accompanied with a decline in the per capita GDP by one and a half percentage points (Table 1-1).

Annual Comparison: Real Palestinian GDP reached US$ 8 billion (at 2004 constant prices) during 2016, a rise by 4.1% over 2015 (Table 1-2), 3.0% in the West Bank and 7.7% in the Gaza Strip. Per capita GDP achieved a modest growth by 1.2% in 2016 compared with previous year reaching USD 1,766.

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

	Q4 2015	Q3 2016	Q4 2016
Palestine	**441.0**	**442.9**	**434.2**
- West Bank*	565.9	572.6	558.5
- Gaza Strip	262.7	259.0	258.3

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

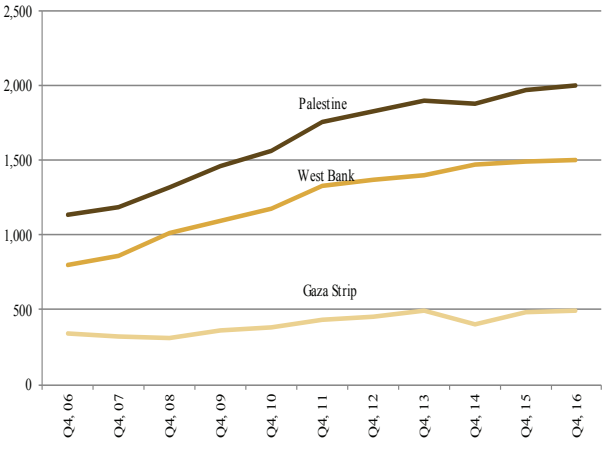
Table 1-2: Palestinian GDP (2004 constant prices)

Indicator	2015	2016	Growth Rate%
GDP (USD million)	7,719.3	8,037.0	4.1
- West Bank *	5,906.1	6,084.9	3.0
- Gaza Strip	1,813.2	1,952.1	7.7
per capita GDP (USD)	1,744.5	1,765.9	1.2
- West Bank *	2,267.2	2,278.9	0.5
- Gaza Strip	996.3	1,037.7	4.2

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

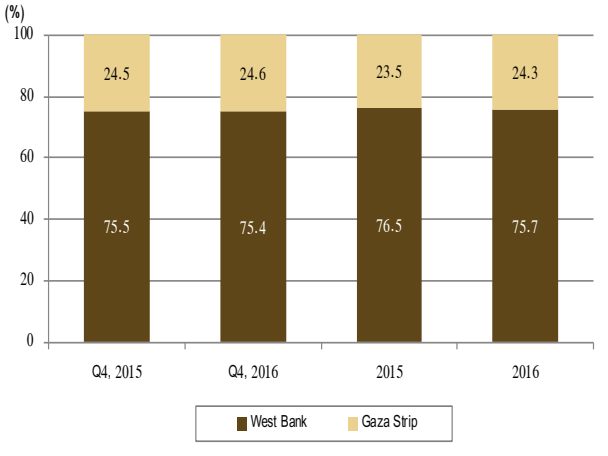
1 The source of data in this section: PCBS, 2017, Periodic Statistics on National Accounts, 2006-2016. Ramallah- Palestine.

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



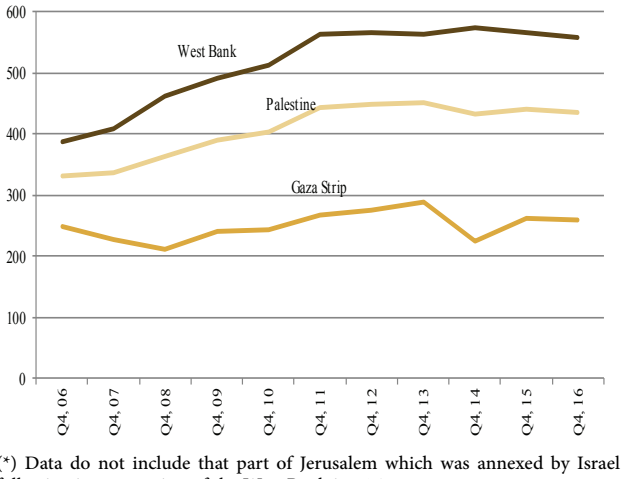
(*) Data do not include that part of Jerusalem which was annexed by Israel following its occupation of the West Bank in 1967.

Figure 1-2: % GDP in Palestine* by Region (constant prices, base year 2004)



(*) Data do not include 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.

The Gap in GDP between the West Bank and the Gaza Strip Even though Gaza Strip's share of GDP increased by one percentage point between 2015 and 2016, its contribution to GDP is still as low as a quarter of the country's GDP (Figure 1-2). Meanwhile the gap between the West Bank and Gaza Strip in terms of per capita GDP reached USD 300 in Q4 (Figure 1-3) and USD 1,241 on average in 2016 (a decline by 2.3% compared with the previous year). Nevertheless, per capita GDP in Gaza Strip is still about 46% of the West Bank's per capita GDP.

Composition of GDP

There was little change in the composition of GDP over the consecutive quarters (Q3 and Q4 2016) and between the average GDP for 2015 and 2016. The sectoral change did not exceed 1.5 points over the consecutive quarters (which is mainly ascribed to the expansion of the construction sector), whereas over the corresponding quarters there was no change. There was a decline in the transportation, information, and finance sectors against a slight increase in public administration, defense and services sectors (Figure 1-4).

Expenditure on GDP

Quarter 4: The absolute increase in GDP between Q4 2015 and Q4 2016 amounted to about US$ 24.5 million (a growth by 1.3% as mentioned above), which is explained by the increased aggregate consumption expenditure (private and public) by US$ 27.6 million, and a decline in investments by about US$ 4.8 million; while net exports remained almost the same as a result of achieving same increase in both exports and imports during the quarter (Figure 1-5).

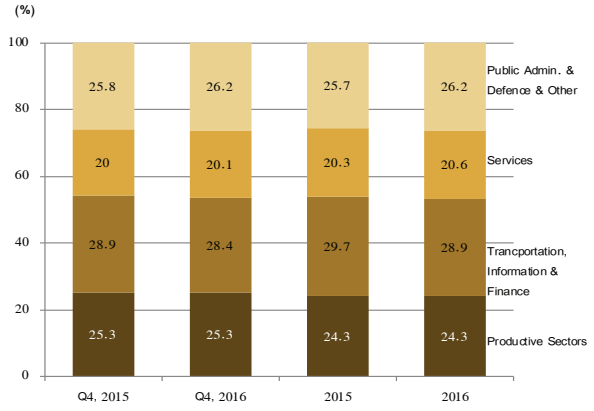
Annual Comparison: The year 2016 witnessed a decline in the share of private and public consumption of GDP by 1.5 percentage points compared to 2015. This was accompanied by a decrease in the share of net exports compared to a relatively minor increase in the share of investments. Despite the decline in consumption, the gap between the increased use/consumption and increased production in the economy is the most obvious indicator of deficit in the Palestinian economy. The expenditure on GDP of consumption, investment and exports amounted to $ 12,840 million in 2016, which exceeds total domestic production by about US$ 4.803 million, or 60% of GDP (Table 1-3 and Figure 1-5).

Table 1-3: Expenditure on GDP in the Palestinian Territory* (constant prices, base year 2004) (US$ Million)

	Q4 2015	Q4 2016	2015	2016
Investment	447.8	443.0	1,549.1	1,638.1
Private consumption	1,800.4	1,814.6	7,209.7	7,466.9
Government consumption	572.3	585.7	2,149.3	2,152.4
Net Exports	(811.5)	(810.9)	(3,126.7)	(3,127.2)
Net errors and omissions	(36.5)	(35.1)	(62.1)	(93.2)
Total=GDP	**1,972.5**	**1,997.3**	**7,719.3**	**8,037.0**

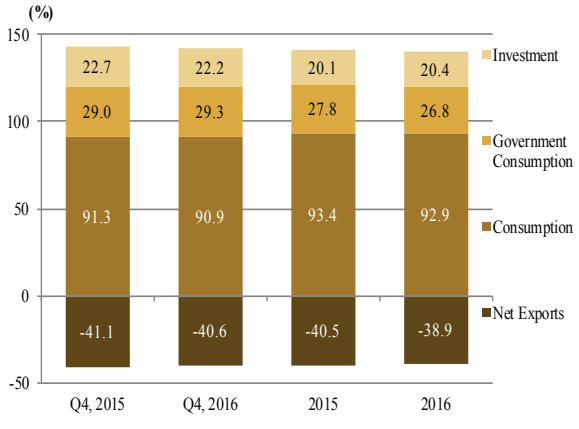
(*) Data do not include that part of Jerusalem which was annexed by Israel following its occupation of the West Bank in 1967.
Figures between brackets indicate negative values.

Figure 1-4: % Contribution of Economic Sectors to Palestinian GDP* (constant prices, base year 2004)



(*) 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: % 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 (refer to table 1-3).

Box 1: 2016 General Budget and 2017 Budget Plan

2016 Public Budget: Target vs. Actual

When the Palestinian Authority planners developed the 2016 Public Budget, they based their target figures on assumptions of unfavorable political and economic conditions, which translated into meticulous discretion in estimating revenues as well as tougher austerity. Yet the actual results (on a cash basis) were better than the plan's forecasts in accounting terms. Below is a summary of the differences between planned and actual outcomes (see Table 1):

• The 2016 public revenues totaled NIS 13.9 billion, which is 19 percent higher than the target. The improvement was mainly due to the rise in non-tax domestic revenues (Israel's release of funds frozen in the wake of the Electricity Agreement - see the previous issue of the Monitor– and licensing fees from the Telecommunications Company). Total current expenditure, including net lending, meanwhile was NIS 13.9 billion, 8 percent lower than estimates.

• The increase in revenues and the drop in expenditure from the planned figures lowered the current budget deficit, before international aid, by about 90 percent compared to the target. Actual developmental expenditure was 40 percent less than estimates, which produced an actual budget deficit of NIS 1.2 billion, which is 77 percent lower than estimates.

• External funding (international aid) for the current budget and developmental expenditure was NIS 2.9 billion in total, which is 25 percent less than the target (and 48 percent lower than its value in 2015). However, due to the significant reduction in the actual budget deficit before international aid, the total budget after aid showed a surplus of NIS 1.684 billion compared to an expected deficit of NIS 1.507 billion.

• All these figures are on a cash basis; i.e., on actual collection and expenditure but not on commitment basis; i.e., what is actually receivable and payable. During 2016, the actual budget accumulated net arrears or outstanding payments of USD 836 million (See the Box on government arrears below).

In short, the variance between the target and the actual figures has helped reduce the actual deficit. However, budget spending has continued to suffer three major chronic impairments. First, the budget has fallen short of cutting net lending, which was 21 percent higher than the plans and continued to drain more than 7 percent of total current spending. The failure to achieve this goal has remained a main feature of Palestinian budgets despite the efforts and costs associated with the installation of pre-payment meters for electricity and water. Second, the modest value and proportion of developmental spending, and the failure to meet the goals of developmental spending– which is mainly funded by international aid– have also become key features of the Palestinian general budgets. Developmental spending in 2016 was, however, 20 percent higher than in 2015. Third, the share of salaries and wages in total expenditure is particularly high. With salaries and wages depleting around 55 percent of net public revenues, it is difficult to use the government budget to implement a fiscal policy with well-defined economic and social goals.

However, the development of public finances is on track and it is progressing as planned. According to the Minister of Finance, the deficit-to-GDP ratio fell from 16.5 in 2013 to 5.6 in 2016, while domestic revenues increased by 66 percent over the past three years at an average annual rate of 17 percent.[1] Progress has also been reported in public debt and arrears. The Ministry of Finance transfers NIS 20 million per month to the Pension Authority. The Ministry has also reduced the private sector arrears by about USD 370 million, and issued NIS 607 million promissory notes to the private sector (see the Box on promissory notes below).

The analysis here was restricted to examining total financial flows of the budget without evaluating the effectiveness and reliability of the sectoral and program-based distribution of revenues and expenditures. Government budgets are policy instruments in the first place rather than arithmetical calculation of revenues and expenditure. Certainly, assessing the extent to which a budget has achieved its economic and social goals requires a detailed study of collection and spending at both the sectoral and program levels.

Table 1: Government Budgets 2016 and 2017 (in Million NIS)

	2016 Budget	2016 Actual Budge	2017 Budge	% Change of 2017 budget over 2016 actual budget
Total public revenues	11,630	13,896	13,821	(0.5)
Net public revenues	11,189	13,524	13,451	(0.5)
- Domestic revenues	3,393	5,023	5,040	0.3
Tax revenues	2,194	2,391	3,141	31.4
Non-tax revenues	1,199	2,309	1,900	(17.7)
Provisional allocations		323		
- Clearance revenues	8,237	8,873	8,780	(1.0)
- tax rebates (-)	441.0	372	370	(0.5)
Total current expenditures	15,212	13,936	16,147	15.9
- Salaries & wages	7,662	7,332	8,093	10.4
- Non-wage expenses	6,700	5,410	7,104	31.3
- Net lending	850	1,029	950	(7.7)
- Provisional payments		165		
Current deficit before financing	4,023	412	2,697	554.6
- Developmental spending	1,365	824	1,639	98.9
Total deficit before financing	5,388	1,237	4,335	250.4
- Total external financing	3,881	2,921	2,496	(14.5)
For budget support	2,925	2,318	1,950	(15.9)
To support developmental expenditure	956	603	546	(9.5)
- Net arrears accumulated		836	(1,170)	(240.0)

FY 2017 Budget

The budget plan for 2017 has maintained a conservative approach, assuming that donor support will decline, and that some payments made last year by Israel and the Palestinian private sector are non-recurring. In the area of reforming the management of public finances, the plan expected the government to continue transferring payments to local government units (NIS 400 million annually) and to the Palestinian Pension Authority (NIS 20 million per month) and to continue issuing promissory notes to the private sector (up to NIS 50-70 million per month) to reduce the accumulation of arrears.

1 Shukri Bishara, Minister of Finance and Planning, at the preparatory session for the donor meeting in Brussels (Wafa News Agency, April 12, 2017).

Table 1 shows the figures for the 2017 budget plan. Despite the optimistic forecasts of 31 percent increase in tax revenues, there is a slight change in gross and net revenue in 2017 compared with actual figures in 2016, On the other hand, the budget expected a 16 percent rise in current expenditure and 90 percent increase in developmental expenditure, which will translate into a 250 percent increase in total deficit before financing over 2016. Obviously, such expectations are untenable (exaggerated rises). It might be the case that the figures for actual revenue and expenditure for 2016 are on a cash basis, while budget plan figures are on a commitment basis. Assuming that the total deficit after external aid will reach NIS 1.8 billion and that the government will pay about NIS 1.2 billion of the total arrears accumulated, the plan implies that the funding gap in 2017 will exceed NIS 3 billion. In economic terms, such a large funding gap (22 percent of net revenue) is a sign of structural weakness and lack of sustainability in the financial position of the PA and the Palestinian government.

The PA Minister of Finance said at the donors' preparatory meeting that the government has reached its maximum limit for increasing revenues and that due to natural factors growth in the coming years will not be as significant as it was in the previous years. Therefore, the emphasis henceforth will be on cutting expenditures through redressing the share of salaries in public expenditure; improving the methods of calculating the funds deducted by Israel for energy, electricity and water bills – which is collected from consumers; and reforming the health sector. [2]

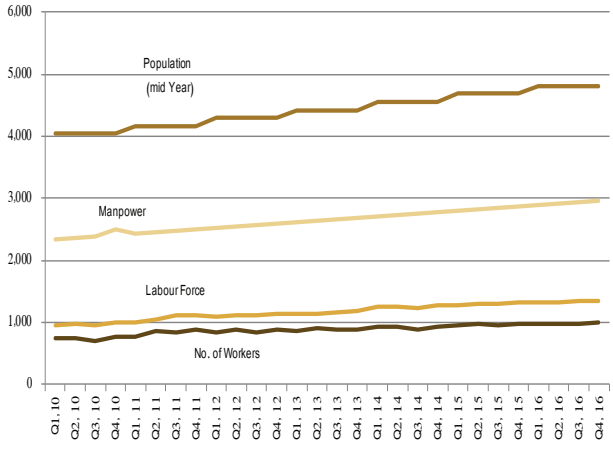
MAS researcher Misyef Jamil

2 Ibid.

2- Labor Market[1]

Manpower in Palestine, which comprises all persons aged 15 years and older, amounted to 2,965 thousand persons by the end of Q4 2016. The labor force, which includes only all persons qualified to work and seeking actively to find work, amounted to 1,348 thousand. The difference between the labor force and the actual number of workers provides a measure of the rate of unemployment. Figure 2-1 shows the relation between the three variables and the development of population.

Figure 2-1: Individuals (aged 15 years and above) and Workers in Palestine, (Q1 2010-Q4 2016) (Thousand)



The Participation Rate

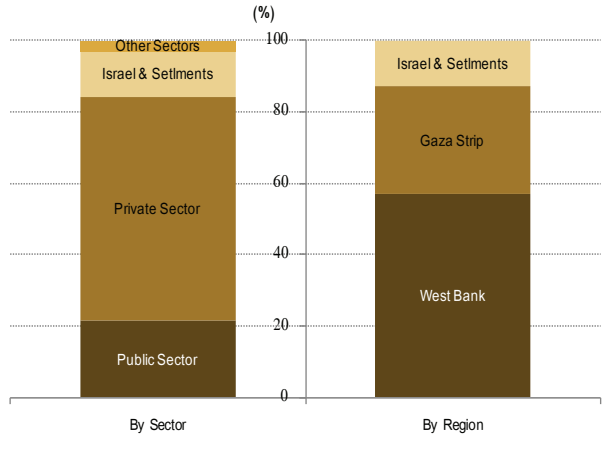
The numbers show that the percent of labor force to manpower in Palestine (which is known as the participation rate) was around 46% in recent years. This ratio is close to prevailing ratios in other countries in the region (42% in Jordan, for example, in 2014, according to World Bank data), but it is significantly different from those in developed countries, where the participation rate is close to 60% 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.

Number of Workers and their Distribution

Quarter 4: The number of workers in Palestine increased by 3.2% between Q3 2016 and Q4 2016 reaching 1,002 thousand workers. The distribution of workers in Q4 2016 was 57% in the West Bank, around 30% in Gaza Strip, and 13% (or about 129 thousand workers) in Israel and the settlements. In Q4 2016 more than 20% of the employed in Palestine worked in the public sector (Figure 2-2), and this percent rises to about 35% in the Gaza Strip. About 35% of the employed work in the services sector during Q4 2016. This percent rises to 52% in the Gaza Strip. About 20% of the employed work in the trade sector which comes in the second place in terms of employment. This percent diverges between the West Bank and Gaza Strip, whereby the building and construction sector employ 23% of workers in the West Bank and less than 7% in Gaza Strip (Figure 2-3).

Figure 2-2: % Distribution of Palestinian Workers by Region and by Sector, Q4 2016 (%)



1 The Source of data in this section: PCBS, 2016, Labor Forces Survey, Ramallah, Palestine.

Annual Comparison: The number of employed rose by 1.8% between 2015 and 2016, reaching 981 thousand workers. By region, about 58.5% of workers worked in the West Bank, 29.5% in Gaza Strip, and 12% in Israel and the settlements during 2016. By sector, one fifth of total workers in Palestine were employed by the public sector, while this percent rises to 36.4% in Gaza Strip.

By economic activity, the share in employment of agriculture, fishing and forestry sectors dropped by 1.3 percentage points in 2016 compared with the previous year. As well services sector employment fell, reaching 35.5% (combining an increase among females (65.4%) with a decrease among males (30%)). In contrast, the percentage of workers in the construction sector increased by one percentage point.

The number of Palestinians working in the Israeli and the settlements reached 116.8 thousand workers, about 17% of the number of workers working in the West Bank. About 61.3 thousand of these workers are registered workers (who hold work permits) and 42.0 thousand are unregistered workers, while 13.6 thousand hold Israeli ID (i.e., Palestinians from Jerusalem who do not require permits to work in Israel).

Distribution of Net Increase in Employment between 2015-2016

Table 2-1 shows that the net number of entrants to the labor force in Palestine between 2015 and 2016 was 42 thousand persons (the net number, is the difference between the number of new entrants minus the number of those leaving the labor force for one reason or another). On the other hand, the net increase in the number of workers in 2016 was about 17 thousand persons in the West Bank and the Gaza Strip, which means that during 2016 the number of unemployed increased between the two years by 25 thousand in Palestine. By region, 5,000 person of the net number of entrants to the labour force in 2016 were in the West Bank and 12,000 in the Gaza Strip. Yet 4,500 persons out of the West Bank's 5,000 new entrants worked in Israel and the settlements, which means that during 2016 the public and private Palestinian institutions in the West Bank created a net of 500 jobs only. This net increase is attributed to a decline in public sector employment between the two years by about 3,500 persons and an increase in private sector employment by 4,000 persons (these figures are approximate as some of them were derived from percentages. It must be stressed once again that the net decline in the public sector employment is the net outcome of the increase (in education and health sectors for example) and decline in other sectors. There is no available data from PCBS on the structure of increase and decline in public sector employment (like statistics on the number of pensioners, and workers contracted with temporary contracts who were dispensed, etc.).

Unemployment

Quarter 4: The unemployment rate is the number of unemployed people divided by the number of people in the labor force. The unemployment rate in Palestine was 25.7% in Q4 2016, similar to that registered in the corresponding quarter 2015, which is two percentage points higher than the previous quarter (Table 2-1).

Figure 2-3: % Distribution of Palestinian Workers by Economic Activity, Q4 2016 (%)

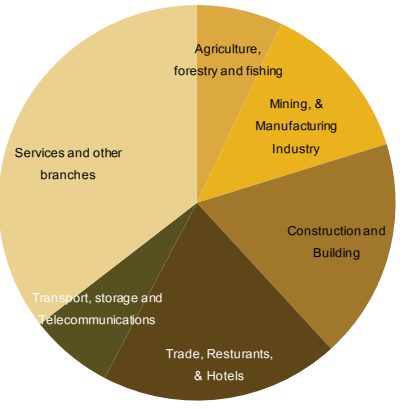


Figure 2-4: Employed and Unemployed in Palestine by Age Group (2016)

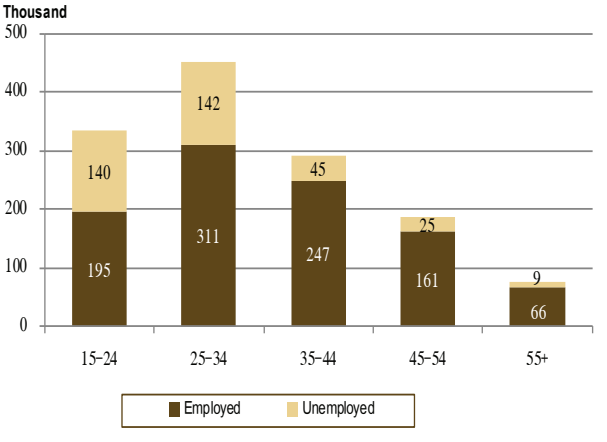


Figure 2-5: Employed and Unemployed in Palestine by Educational Level and Gender (2016)

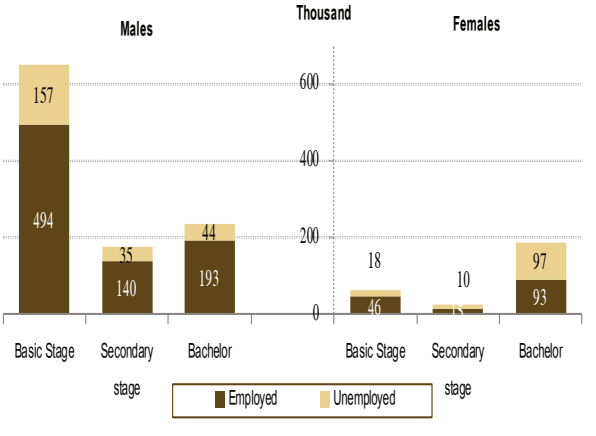


Table 2-1: Unemployment rate among participants in the labour force in Palestine by region and gender, 4th Quarter 2016 (%)

Place of Work	Average Weekly Work Hours		Average Monthly Work days	
	2015	2016	2015	2016
West Bank	43.9	44.3	22.4	22.8
Gaza Strip	37.1	38.3	22.9	22.7
Israel and the settlements	40.4	40.2	19.1	19.6
Palestine	41.4	41.8	22.0	22.2

Source: Palestinian Labour Force Survey: annual Report 2016 and 2015 (PCBS).

Annual comparison: In 2016, the unemployment rate in Palestine stood at 26.9 percent (18.2% in the West Bank and 41.7% in the Gaza Strip), up 1 percentage point from 2015. In Gaza Strip, the rate remained unchanged without any improvement compared with the previous year. Most international organizations sounded alarm bells regarding this very high rate, considered as one of the highest in the world, warning of its socio-economic impacts and its unprecedented incidence for such a long period.

Two of the most noticeable characteristics of unemployment in the Palestinian territory in 2016 are that:

1) It is high among the youth: the unemployment rate in the age group between 15-24 years reached 41.7% (65.9% for females against 36.2% for males). This indicates that a large proportion of the unemployed are new entrants to the labor market (Figure 2-4 and box about school to work transition-monitor 46).
2) The unemployment rate decreases with the completion of higher educational levels for males, contrary to females (Figure 2-5):

The unemployment rate in 2016 reached 24.1% for males who had not completed secondary education, while it was 18.6 % for males with a bachelor degree. On the other hand, the unemployment rate for females with a bachelor degree was 51 %, while it was only 28.1% for females who had not completed secondary education.

Production Growth and Change in Unemployment Rate

Quarter 4: Figure 2-6 shows two curves; one for the GDP rate of growth for each quarter and the other for the unemployment rate for each quarter during Q1 2012-Q4 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, we find that every increase in the growth rate by 1% was accompanied by a decrease in the unemployment rate by 0.27% 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.

Annual comparison: Figure 2-7 depicts two curves; the first traces the annual production growth rate (constant prices) and the second depicts the annual unemployment rate during the period 2007 -2016. By repeating the same exercise above that links the two variables, we find that every increase in the

Figure 2-6: Growth Rate of GDP and Unemployment Rate in Palestine (Q1 2012-Q4 2016)

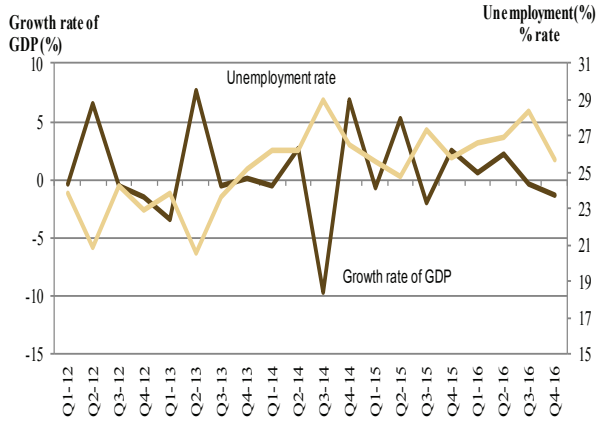


Figure 2-7: Growth Rate of GDP and Unemployment Rate in Palestine, 2007-2016

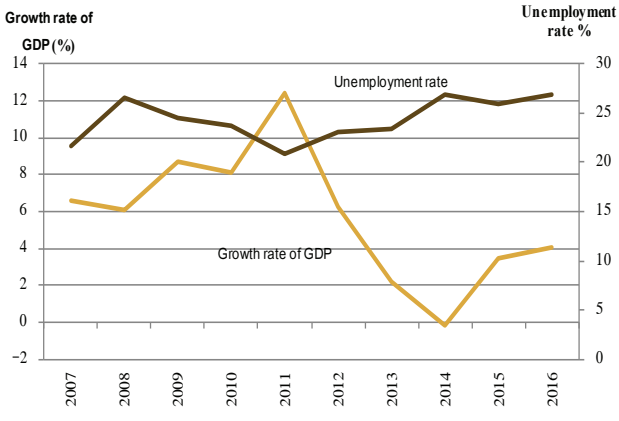


Figure 2-8: Average Weekly Work Hours and Monthly Work Days in Palestine, (Q1 2014- Q4 2016)

Work Hours and Days

Quarter 4: Figure 2-8 shows 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 that in the Gaza Strip by more than 15.1%. This is more owing to lack of employment opportunities in Gaza Strip than to the productivity or choice of hours of work (comfort preferences) observed in developed countries, where such factors explain shorter work hours.

growth rate by 1% was accompanied by a decrease in the unemployment rate by 0.4% during the ten-year period, which is almost double the percent calculated above for the five-year period of 2012-2016.

Annual Comparison: The convergence in the average number of the monthly work days in the West Bank and Gaza Strip was higher in 2016 compared with 2015, as the number of work days increased in the West Bank in parallel with its decline in Gaza Strip, resulting in almost diminishing the difference between the two in 2016. There was a convergence as well in the average weekly work hours in the two regions, recording a difference of 6 hours only (Table 2-2).

Wages

Quarter 4: The average daily wage for workers in Palestine amounted to NIS 110 in Q4 2016. Yet this number does not show the divergence between the average wage for workers in Palestine on the one hand, 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, which is significantly higher and better than the average wage; 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 2-9 tracks the divergence between the average and median wage). Notably, the median wage in Gaza Strip is almost half the median wage in the West Bank.

Annual Comparison: In comparison with 2015, the average daily wage increased in the West Bank and Israel and the settlements during 2016 by 4.3% and 9.6% respectively, while it decreased in Gaza Strip by half a percentage point. Whereas, the median daily wage increased in the West Bank by 10.6% compared with a decrease in the Gaza Strip by 2.6% and remained at the same level in Israel and the settlements (Table 2-4).

However, additional costs are incurred by Palestinians 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 the green line and those who work in the settlements in the occupied territory.

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 in 2016 are pertinent:

- The average wage of workers in the private sector is lower than the average wage of workers in the public sector by 11% in the West Bank and by 50% 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 74% of males' daily wage, while the gap is less in the public sector.
- The daily wage of about 69.2% of private sector employees in Gaza Strip, and 17.4% in the West Bank, is below the minimum wage, which is about NIS 748 monthly in the Gaza Strip compared with NIS 1,068 in the West Bank (For more information about this issue, check Monitor issue no. 45- Box 2, on the application of the minimum wage decree).

Figure 2-9: The Average and Median Daily Wage (NIS) in Palestine, (Q1 2014- Q2 2016)

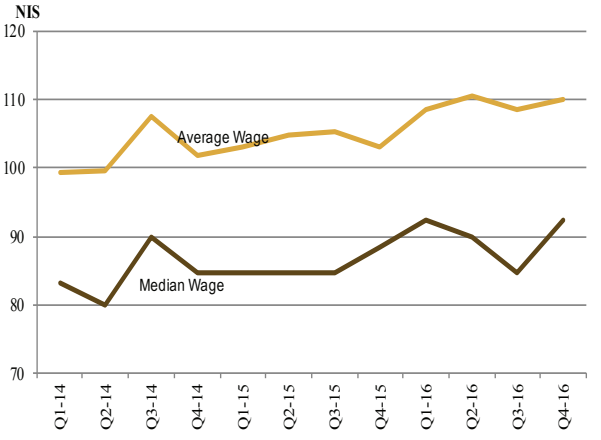


Table 2-2: Average Weekly Work Hours and Monthly Work Days by Region (2015- 2016)

		Q4, 2015	Q4, 2016	2015	2016
West bank	Males	16.7	14.2	15	15.5
	Females	26.7	28.5	26.7	29.8
	Total	**18.7**	**16.9**	**17.3**	**18.2**
Gaza Strip	Males	32.3	33.2	35.9	34.4
	Females	60.5	64.4	59.6	65.2
	Total	**38.4**	**40.6**	**41**	**41.7**
Palestine	males	22.3	21.0	22.5	22.2
	Females	39.7	43.9	39.2	44.7
	Total	**25.8**	**25.7**	**25.9**	**26.9**

Table 2-3: The Average and Median Daily Wage (NIS) in Palestine (Q4 2016)

Place of Work	Average daily wage	Median daily wage
West Bank	97.6	88.5
Gaza Strip	63.8	46.2
Israel and the settlements	215.7	200
Palestine	**110**	**92.3**

Table 2-4: The Average and Median Daily Wage (NIS) in Palestine (2015-2016) (NIS)

	Average Weekly Work Hours		Average Monthly Work days	
Place of Work	**2015**	**2016**	**2015**	**2016**
West Bank	**94.1**	**98.1**	**80**	**88.5**
Gaza Strip	**61.9**	**61.6**	**46.2**	**45.0**
Israel and the settlements	**198.9**	**218.0**	**200**	**200.0**
Palestine	**103.9**	**109.3**	**84.6**	**90.0**

3- Public Finance [1]

Public Revenues

Quarter 4: During Q4 2016, net public revenues and grants increased by 28% compared to the previous quarter, reaching around NIS 4.5 billion. This is attributed to the significant increase in clearance revenues (reaching around NIS 2.2 billion, an increase by 48.2%) and the increase in total domestic revenues by about 28.1%, reaching NIS 3.7 billion. In addition, foreign aid and grants increased in this quarter by about 27.3% compared to the previous quarter, reaching NIS 819.3 million (Table 3-1). Markedly, tax refunds during the quarter reached NIS 118.5 million compared with NIS 96.3 million in the previous quarter. As a result, net public revenues and grants reached around NIS 4.4 billion during Q4 2016, compared with NIS 3.4 billion in the previous quarter.

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

Item	2015	2016	
	Q4	Q3	Q4
Budget support	**586.4**	**552.7**	**516.6**
- Arab grants	237.2	3.6	237.7
- International donors	349.2	549.1	278.9
Developmental funding	92.9	91.0	302.7
Total	**679.3**	**643.8**	**819.3**

Annual Comparison: Total domestic and clearance revenues have risen significantly in 2016 compared with the previous year. A big portion of this increase is attributed to the increase in non-tax revenues by 138.4% (reaching around NIS 2.3 million) compared with previous year. This has been the outcome of the partial settlement of the clearance and electricity agreement with Israel (which was recorded under non-tax revenues item instead of the clearance items- for more information refer to the previous issue of the Monitor), in addition to revenues from licensing fees of the Palestinian Telecom company (NIS 558 million). In addition, clearance revenues increased by 11.6% to around NIS 8.9 billion, whereas tax revenues increased by 1.6%, amounting to NIS 2.4 billion. On the other hand, foreign aid and grants declined by 5.9% during the year compared with the previous year, to NIS 2.9 billion. The overall result was an increase in net public revenues and grants by 14.7% compared with the previous year, reaching NIS 16.4 billion (Table 3-2).

Public Expenditure

Quarter 4: Public expenditure declined by 7.2% during Q4 2016, compared to the previous quarter, reaching NIS 3.2 billion, due to the decrease in the wages and salaries bill and net lending, whereby the former declined by about 32.5% amounting to NIS 1,2 billion, while the latter decreased by about 25.5% compared with previous quarter, reaching NIS 224 million. It should be noted that this quarterly decline in the wages and salaries bill reflected the fact that in September the PA paid in advance the salaries of October, which resulted in this decrease in this item in Q4 compared with the previous quarter. In contrast, non-wage expenditure increased by 20.4% reaching NIS 1.4 billion, and developmental expenditure increased by 79.6% compared with the previous quarter reaching NIS 306.6 million (Table 3-2).

Annual comparison: Public expenditure of 2016 stood at NIS 14.8 billion (an increase of 5.5% over the previous year), as a result of the increase in all public expenditure components, except for net lending (Table 3-2). The wages and salaries bill of NIS 7.3 billion was an increase of 7.2% compared with the previous year. Non-wage expenditure increased by 4.6%, amounting to NIS 5.4 billion, while developmental expenditure increased by 20% during 2016, reaching NIS 824.2 million. Net lending decreased by 12%, reaching NIS 1 billion.

Table 3-2: Summary of the PA Financial Position, 2015-2016 (NIS million, Cash Basis)

	2015	2016	Change (%)
Total public revenues and grants (net)	**14,335.4**	**16,444.3**	**14.7**
Total public revenues (net)	**11,230.7**	**13,523.5**	**20.4**
- Domestic revenues	3,542.2	5,023.2	41.8
- Clearance revenues	7,953.0	8,872.5	11.6
- Tax refunds (-)	264.5	372.2	40.7
Current expenditure and net lending	**13,306.4**	**13,935.9**	**4.7**
- net lending	1,169.2	1,029.3	(12.0)
Current account	**(2,075.7)**	**(412.3)**	**(80.1)**
Developmental expenditure	**686.8**	**824.2**	**20.0**
Total account (before grants and aid)	**(2,762.5)**	**(1236.5)**	**(55.2)**
External grants and aid	**3,104.7**	**2,920.8**	**(5.9)**
- For budget support	2,757.2	2,317.6	(15.9)
- To support developmental projects	347.5	603.0	73.5
Balance of account (after grants and aid)	**342.2**	**1,684.3**	**392.1**

Figures between brackets indicate negative value.

Fiscal Surplus/Deficit

Quarter 4: Developments on both the revenue side and expenditure side during Q4 2016, have led to augmenting the total deficit (before grants and aid), which stood at NIS 333.7 million (or 2.6% of GDP). Grants and foreign aid reduced the deficit to about NIS 1153 million (on cash basis), equal to 9.1% of GDP during the same quarter (Figure 3-3).

Annual Comparison: The growth in net public revenues during 2016 (20.4%) which was larger than that reported in public expenditure (6%), reduced the total budget deficit (before foreign aid and grants) by around 55.2% to NIS 1.2 billion compared with 2015. After grants and foreign aid the total surplus (on cash basis) increased by four times to about NIS 1.7 million, despite a decline in foreign aid and grants by 6% between 2016 and 2015 (Table 3-2). According to the Ministry of Finance (MoF) data, total deficit before grants

1 The source of data in this section: MOF, Monthly Financial Reports 2015- 2016: Financial Operations, Expenditure and Revenues, and sources of Funding.

and aid decreased (on commitment basis) from 11.3% of GDP in 2015 to 8.1% in 2016.

Government Arrears

Quarter 4: During Q4 2016 the government arrears rose significantly reaching around NIS 1.5 billion (Table 3-3), which is more than double of the arrears in the previous quarter. This is due to the wages and salaries arrears amounting to NIS 719.4 million during Q4, noting that the government repaid about NIS 17.6 million in of allocated arrears payments (for the benefit of local government units).

Annual Comparison: Throughout 2016, the government accumulated arrears were NIS 3 billion, whereas the government paid off NIS 2.1 billion of these arrears during the year, which diminished the PA's net arrears to NIS 835.8 million. Thus, the overall PA accumulated arrears increased by the end of 2016 by 7.6% compared with the end of the previous year, reaching NIS 11.8 billion.

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

Item	2015	2016	
	Q4	Q3	Q4
Tax refunds	158.6	(8.9)	6.7
Wages and salaries	852.2	164.7	719.4
Nonwage expenditures (private sector)	269.1	418.2	627.1
Development expenditures	48.3	134.7	159.1
Provisional payments	**107.7**	**22.8**	**(17.6)**
Total arrears	1,435.9	731.5	1,494.7

Figures between brackets indicate negative value

Public Debt

During Q4 2016 public debt reached approximately NIS 9.6 billion, registering a slight decline (0.2%) compared to the previous quarter, and by 3.5% compared to the corresponding quarter of 2015 (Table 3-4). [2] The percent of public debt (excluding accumulated arrears) to GDP was 18.5%. About 58% of the debt was domestic debt against 42% foreign debt. While interest paid on debt reached about NIS 55 million during Q4 2016.

Table 3-4: Palestinian Government Accumulated Arrears (NIS million)*

Item	2015	2016	
	Q4	Q3	Q4
Domestic debt	5,726.80	5,606.4	5,541.4
- Banks	5,674.50	5,554.1	5,489.2
- Public institutions	52.3	52.3	52.3
Foreign debt	**4,181.30**	**3,967.8**	**4,017.7**
Total public debt	**9,908.10**	**9,574.2**	**9,559.2**
Paid interest	**42.6**	**57.3**	**54.8**
Public debt as % to nominal GDP	**19.1%**	**18.3%**	**%18.5**

* figures differ slightly when calculated in US$ due to changes in exchange rate.

2 It should be stated that public debt, denominated in USD has decreased during Q4 2016 by about 2.7% compared with the previous quarter, and by about 2.1% compared with the corresponding quarter 2015, reaching around US$ 2483.8 million.

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

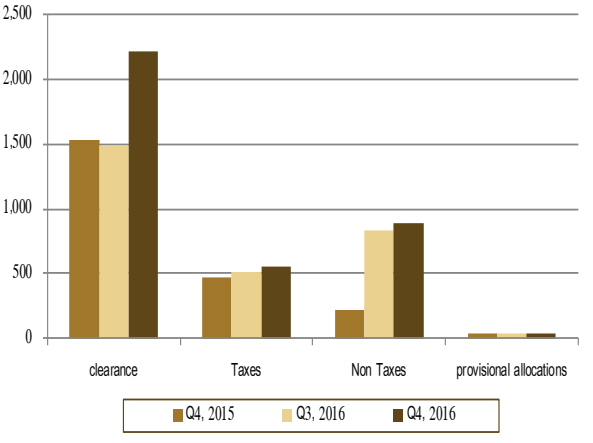


Figure 3-2: Structure of Public Expenditure (NIS million)

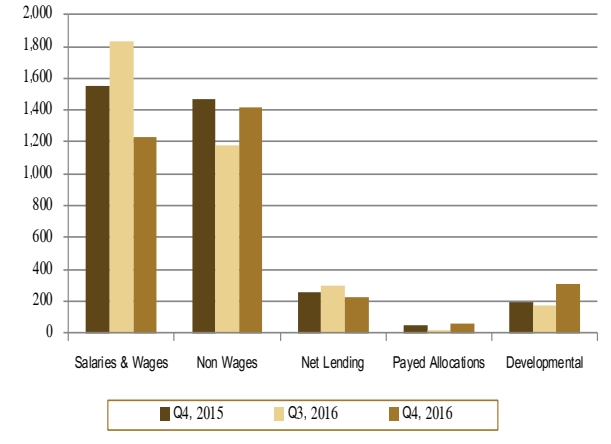
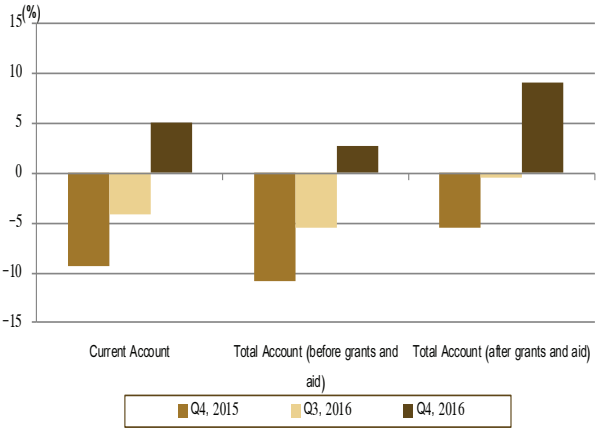


Figure 3-3: Government's Financial Account as % to Nominal GDP 9%



Box 2: Arrears and Public Debt

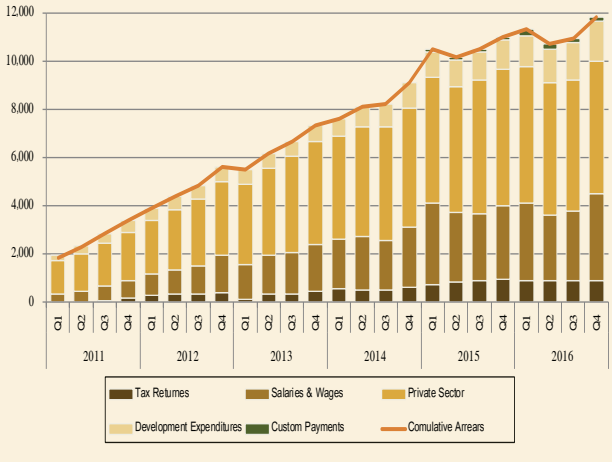
The Palestinian government does not control many of its revenue sources. Israel controls the flow of clearance revenues (which account for about 55 percent of total government revenue) as well as crossings and borders, not to mention its other restrictions to the Palestinian economy. The flow of grants and aid (which make up about 20 percent of government revenues) is closely linked to external conditions as well as the security and political context. Further, the Palestinian government has obligations related to wages, salaries and other current and developmental expenses. As the government always runs a budget deficit (with the domestic revenues lower than expenditures), and as clearance revenues and international aid are usually unstable, the Palestinian government has to accumulate arrears (outstanding debts) and borrow from the banking sector basically to meet its instantaneous obligations.

The Palestinian government accumulated arrears reached NIS 2,970.1 million in 2016, but during the year it repaid around NIS 2,134.3 million (including NIS 1,214.9 million accumulated in previous years). This has lowered the net arrears accumulation to about NIS 835.8 million (or USD 213.8 million).

Figure 1 projects the development of the government net arrears during the 2012-2016 quarters across various sectors. As clearly shown, there has been a steady increase in the net value of arrears over the quarters, with the largest proportion owed to private sector goods and services suppliers, ahead of salary and wage arrears.

The net arrears accumulated in 2016 increased by 7.6 percent over 2015 and reached NIS 11,843.1 million (USD 3.165.1 billion) or 23.6 percent of nominal GDP in 2016. To address the problem, the Government has of late started to issue promissory notes (see the Box on promissory notes below).

Figure 1: Government net arrears (in NIS million)



Government debt at the end of 2016 totaled NIS 9,559.1 million (USD 2,483.8 million dollars) or 18.5 percent of nominal GDP during the same year. Taken together, the accumulated arrears and the government debt produce a public debt ratio of 42.2 percent. This is natural as the arrears are also considered financial obligations the government has to pay. The ratio is higher than the public debt threshold, which the Public Debt Law set at 40 percent of nominal GDP.

Wasim Safi, PMA researcher

4- The Banking Sector[1]

Number of Banks and Accounts

By the end of 2016, there were 309 licensed banks (including all branches) operating in Palestine, 252 banks in the West Bank and 57 banks in the Gaza Strip. The number of accounts was about 3.1 million; 1.9 million account in locally owned banks and 1.2 million in foreign chartered banks. 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.

Assets

The net assets (liabilities) of banks increased by 0.9% by the end of Q4 2016 and by 12.6% compared with the previous year, totaling USD 14.2 billion. 12.6% The main components (PMA deposits, cash and precious metals, investment and other assets) all saw some declines as detailed below (see Table 4-1).

Credit Facilities

Quarter 4: Credit facilities constituted the largest share of banks' assets (about 48.4% of total assets) by the end of Q4 2016. During this quarter total direct credit facilities rose by about 3% compared to previous quarter, reaching around US$ 6.9 billion (Table 4-1).

Annual Comparison: Credit facilities increased by 17.9% year-on year (equivalent to US$ 1 billion) reaching US$ 6,865.9 million. Figure 4-1 shows the distribution of these facilities, whereby 82% of facilities were loans, and 17.4% were overdraft accounts. By currency, the US dollar continued to account for the biggest share of credit facilities (49.1%), compared to 35.8% granted in Shekel and around 14.2% in Jordanian Dinar. Notably, the percent of facilities granted in JOD has declined between the two years, while the West Bank maintained its dominance over 87% of the total facilities, compared to 13% for the Gaza Strip.

The figure 4-1 shows as well, that credit facilities granted to the public sector were 20.7% (compared with 25% in the previous year).

A newly released report by the World Bank shows that loans granted to PA's employees increased by 50% in 2016 compared with 2015, reaching US$ 1.3 billion. Table 4-2 shows exposure of banks operating in Palestine to the PA loans and its employees loans. Bank loans granted to the PA and its employees were US$ 2.7 billion, constituting around 40% of total bank credits. The PA's debt to banks constitute 84% of banks capital, noting that the PMA recommends that credit granted to the PA should not exceed 100% of banks' capital. The PA's debt to banks, together with the value of PA employees' debt, constitute 164% of banks' capital. Although this percent declined by 6.5 percentage points by the end of Q3 and the end of 2016, it is still considered a high level of exposure.[2]

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

2 World Bank, Economic Monitoring Report to the Ad Hoc Liaison Committee May 4, 2017.

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

Item*	2015	2016			
	Q4	Q1	Q2	Q3	Q4
Total assets	12,602.3	13,143.6	13,599.6	14,068.3	14,190.1
Direct credit facilities	5,824.7	6,137.3	6,404.9	6,666.4	6,865.9
Deposits at PMA & Banks	3,870.3	3,976.6	4,117.9	4,055.3	4,270.5
Securities portfolio for trading and investment	952.7	900.6	943.0	1,051.2	1,206.7
Cash and precious metals	1,083.2	1,141.5	1,074.2	1,204.4	991.2
Other assets	871.4	987.6	1,059.6	1,091.0	855.8
Total liabilities	**12,602.3**	**13,143.6**	**13,599.6**	**14,068.3**	**14,190.1**
Total deposits of the public (non-bank deposits)**	9,654.6	10,054.7	10,202.6	10,432.6	10,595.7
Equity	1,461.7	1,483.2	1,495.2	1,624.4	1,683.6
Deposits of PMA and Banks (bank deposits)	852.0	909.1	1,103.9	1,152.0	1,139.9
Other liabilities	182.8	228.8	329.2	358.8	269.6
Provisions and depreciation	451.2	467.8	468.8	500.4	501.3

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

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

Deposits

Quarter 4: By the end of Q4 2016, the total deposits of the public (non-banks deposits) reached about US$ 10,595.7 million, achieving a growth of 1.6% over the previous quarter. Figure 4-3 shows the distribution of public deposits by type, depositor, and currency, showing that there was no significant change over the last consecutive quarters of 2016.

Annual Comparison: By the end of 2016 total deposits of the public increased significantly, by 9.7% compared with 2015. Deposits constituted 74.7% of banks liabilities. This increase is attributed to growth in the private sector's deposits (resident and non-resident) by 10.3% (constituting 93.6% of total deposits), and by 2.7% in the public sector deposits during the year. By region, the West Bank share of total deposits was 90%, compared to a 10% share for the Gaza Strip. The US dollar dominated public deposits (around 37% of the total), followed by the Shekel (33%), ahead of Jordanian Dinar (25%).

Profits of Banks

Quarter 4: Table 4-3 below presents the income of banks and its sources during 2016. It shows that revenues increased during Q4 2016 by about 11% (around US$ 14.4 million), while expenditure increased by 12.9% (around US$ 12.6 million) compared to the previous quarter. This resulted in an increase in banks' profits by 5.4% over the consecutive quarters, and a drop by 12% compared with the corresponding quarter 2015.

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

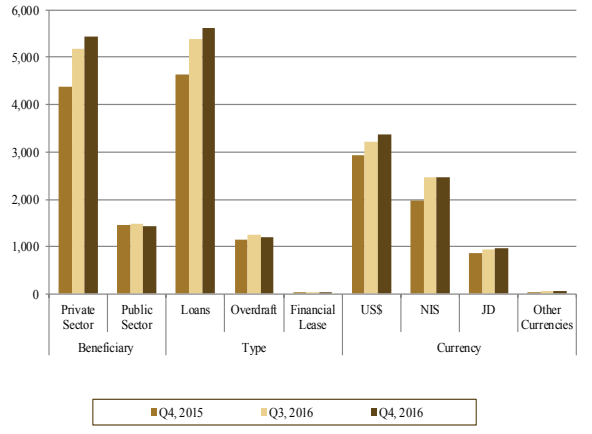


Figure 4-2: Total Credit Facilities by sector, Q4 2016 (%)

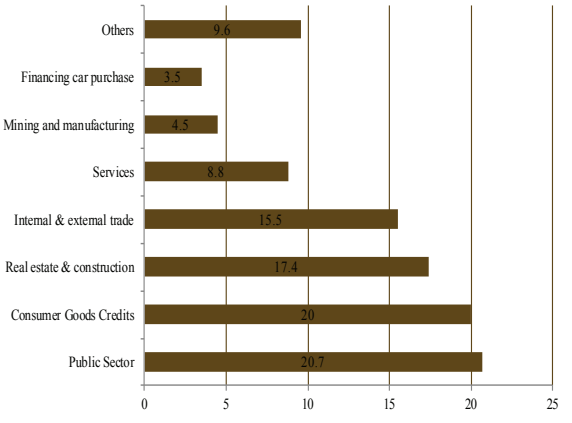


Figure 4-3: Distribution of Public Deposits (US$ million)

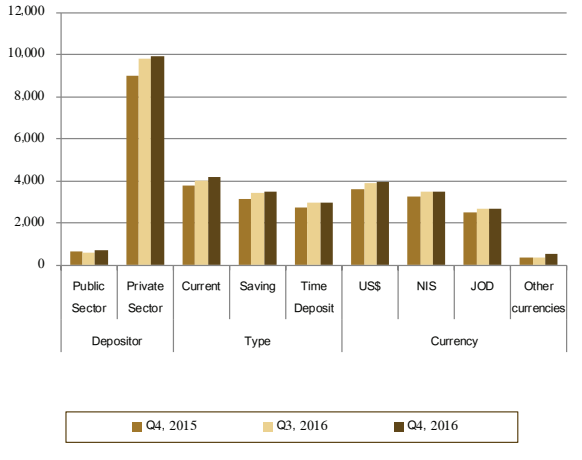


Table 4-2: Banks exposure to PA (% of banks capital)

	Q4 2015	Q3 2016	Q4 2016
Loans to PA	99.4	90.7	84.1
Loans to PA employees	70	76.8	77.2
Promissory notes	-	2.6	2.4
	169.4	**170.1**	**163.7**

IMF - Report to the Ad Hoc Liaison Committee, April 10, 2017

Annual Comparison: Aggregate bank profits increased during 2016 by 11.4% compared with previous year, reaching US$ 148.9 million, equivalent to 9% of banks capital.

Table 4-3: Sources of Revenues and Expenditure of Licensed Banks (US$ millions)

Item*	2015	2016			
	Q4	Q1	Q2	Q3	Q4
Net revenues	**129.8**	**138.4**	**143.5**	**131.0**	**145.4**
Interests	88.3	98.4	101.5	98.0	103.1
Commissions	24.0	24.2	24.6	22.9	26.4
Other operating revenues	16.9	15.8	17.4	10.1	15.9
Expenses	**89.8**	**96.1**	**105.5**	**97.6**	**110.2**
Operating expenses and tax allocations	78.2	86.3	91.3	87.2	97.7
Tax	11.5	9.8	14.2	10.4	12.5
Net income*	**40.0**	**42.3**	**38.0**	**33.4**	**35.2**

*net income = net revenues - expenses

Interest Rates

Quarter 4: Average interest rates on deposits of the three major traded currencies in Palestine rose during Q4 2016, while they declined on loans granted in Dollar and Shekel, and rose on loans granted in Dinner.

Annual Comparison: Figure 4-4 presents average interest rates on deposits and loans of the three traded currencies in Palestine during 2016. The figure shows a decline in average interest rates on loans in the three currencies (JOD, US$, NIS) in 2016 compared with previous year, reaching 6.34%, 5.87% and 6.94% respectively. On the other hand, average interest rates on deposits in Dinars and Dollars increased (reaching 2.28% and 1.01% respectively), while it declined on Shekel deposits to 1.49%.

These changes resulted in a decrease in the interest margin (the difference between loan and deposit interest rates) during the year compared with 2015, reaching 4.06 for Jordanian dinar and 4.86 for US dollar and 5.45 for the Shekel.

Clearence

Quarter 4: The number of cheques submitted for clearance rose by 12% by the end of Q4 2016 compared to the previous quarter reaching 152 billion cheques, and consequently its value increased reaching US$ 3.5 billion. This was accompanied with an increase in the number and value of returned cheques by 8.4% and 9.1% respectively, reaching 170,000 cheques at a value of US$ 237 million.

Annual Comparison: The number of cheques submitted for clearance during 2016 was 5.64 billion cheques rising by 10.8% compared to the previous year. By the end of the year, the value of these cheques increased by 14.0%, reaching around US$ 12,691.5 million. On the other hand, the number and value of returned cheques increased by 13.1% and 24.1% respectively during the study period, reaching 608,601 cheques at a value of US$ 831.5 million.

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

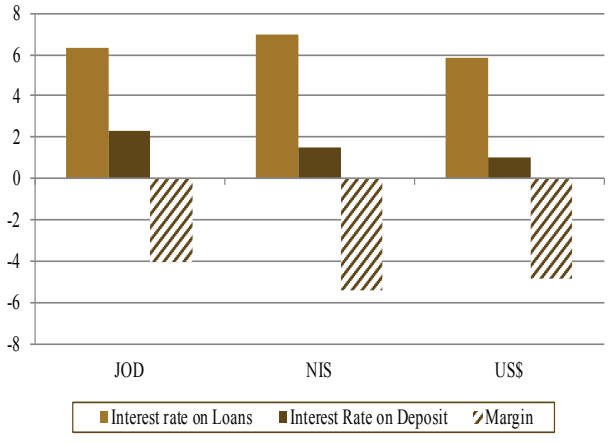
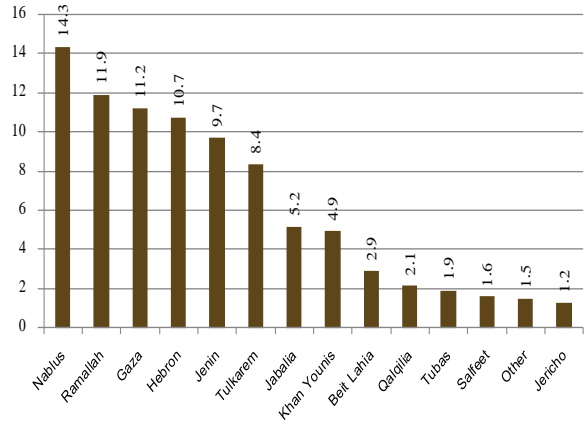


Figure 4-5: Geographical Distribution of SCIs Granted Loans, by the end of 2016 (%)



* Other includes Tubas, Salfeet, Jerusalem, Dora, Deir al Balah, and al Remal governorates, in addition to the main branch.

Specialized Credit Institutions (SCIs)

Quarter 4: The number of specialized credit institutions (SCIs) by the end of Q4 2016 was 85 (13 institutions and 72 branches), an increase of one institution and two branches compared with the previous quarter. The loans granted through SCIs and number of clients increased by 9% and 6.8% respectively between the two quarters (Table 4-4).

Annual Comparison: The value of loans granted through SCIs was US$ 199.4 million during 2016, an increase of 45.9% compared with 2015 (69% in the West Bank, and 31% in the Gaza Strip). SCIs offered 583 job opportunities and the number of active clients increased by 32% during the year reaching 68,912 clients.

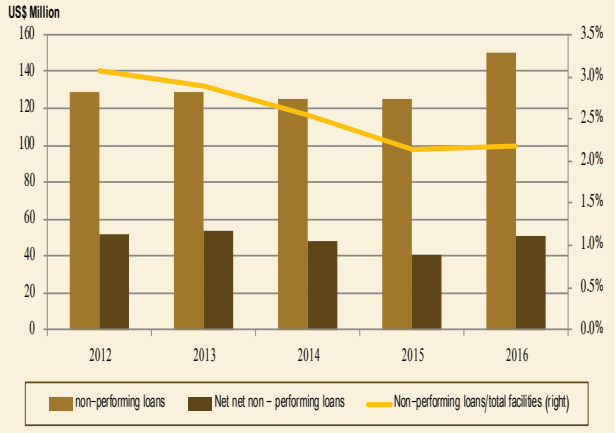
By region, loans were centralized in Nablus, Ramallah and Al Bireh, Gaza and Hebron governorates respectively, which have together received about half of the total loans portfolio (Figure 4-5). The biggest share of these loans were invested in the real estate sector (30%), followed by the commercial sector (25%). The share of the industrial and tourism sectors remained the same (4.9% and 4.6% respectively).

Box 3: Non-performing Loans

A nonperforming loan is the sum of money granted by banks to some of their customers who are unable to pay the debt or interest on time. Based on default time periods, nonperforming loans are classified by the PMA into 1) Substandard loans, upon which the debtor has not made his scheduled payments for a period of 89-180 days, require provisions of 20 percent of their value; 2) Doubtful loans, which are 181 to 360 days overdue, require provisions of 50 percent of their value; and 3) Losses, which are overdue by more than 360 days, require provisions of 100 percent of their value. A distinction is made between the total value of non-performing loans and net non-performing loans, with the latter being the total non-performing loans minus the amounts allocated by banks to meet the risk of defaulting.

Data obtained from banks show that at the end of 2016, the total non-performing loans in licensed banks in Palestine reached USD 149.7 million (a rise of 20 percent over 2015), which is only 2.2 percent of total credit facilities (see Figure 1). This ratio is one of the lowest in the region (in 2015, the ratio was 4.9 percent in Jordan and 7.1 percent in Egypt), owing to the banks efficiency in investing resources and the PMA role in building the infrastructure for the Palestinian banking system.

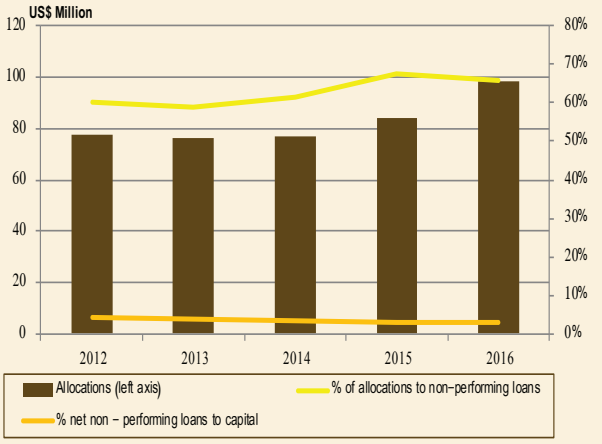
Figure (1): Non-performing loans, 2012-2016



In 2016, the net value of non-performing loans reached USD 51.1 million or 3 percent of banks capital, suggesting that the non-recovery of these loans will not cause solvency problems for the banks. The ratio of provisions to total NPLs was 65.8 percent, another indicator that the banks' credit portfolio is largely immune to expected losses (see Figure 2).

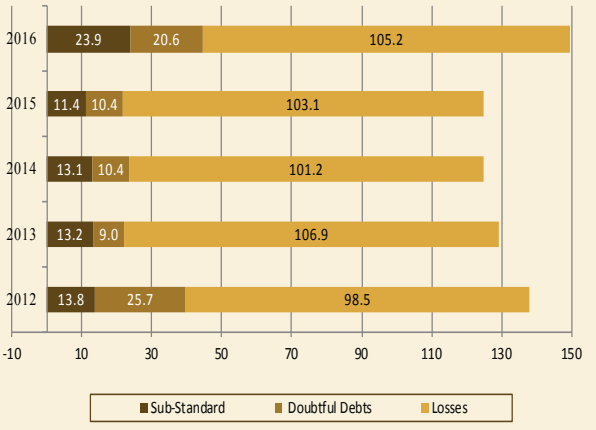
By default time, 70 percent of NPLs in 2016 were classified as losses, which increased in 2016 by USD 2.1 million over 2015. Since the likelihood of recovering a large portion of these loans is very low, reducing the proportion and value of this type of non-performing loans is a challenge that the banks have to address to account for a higher percentage of losses that might ensue in conditions of sharp economic stagnation and a large deficit in the government budget.

Figure (2): Provisions for non-performing loans



The figures indicate that in 2016 the shares of substandard loans and doubtful loans were 16 percent and 14 percent, respectively. Figure 3 shows the distribution of non-performing loans by type.

Figure (3): Non-performing loans by type (in USD millions)



Abeer Abu Zeitoun, PMA researcher

5- The Financial Sector (Non-banking)[1]

The Securities Sector

Quarter 4: By the end of Q4 2016, the volume of shares listed on the Palestine Stock Exchange (PEX) declined by 24% compared to Q3 2016. This accompanied an increase in the value of traded shares (Table 5-1), while the market value of traded shares increased slightly by the end of Q4 by 2.4% compared with Q3.

Annual Comparison: By the end of 2016, the market value of shares listed on the Palestine Stock Exchange (PEX) amounted to US$ 3.39 billion, achieving an increase by 1.6% compared to previous year. This is equivalent to 25% of GDP at current prices. The total number of traders in the stock market remained unchanged between 2016 and 2015, reaching 72,418, mostly Palestinians as Table 5-1 shows.

On the other hand, the value of traded shares increased significantly by the end of 2016 by 39% compared with the end of 2015. This is ascribed to the increase in the volume of traded shares (by 32.9%), the rise in the share prices of some listed companies (specifically the banking sector companies), listing shares of new company on PEX, and finally raising the capital of some listed companies during the year, through secondary issuance or transferring some retained earnings to the capital. Figure 5-1 illustrates the distribution of market capitalization by trader type. The figure shows that companies' share was 40% (amounting to US$ 1,366 million) compared with 29% for individuals (US$ 969 million).

Insurance Sector [2]

By the end of 2016, gross written insurance premiums totaled US$ 195.6 million, rising by 18.7% compared to 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. On the other hand, net compensations incurred by the insurance sector increased by 11.1% by the end of 2016 compared to 2015. Total investments of insurance companies totaled US$ 192.7 million, achieving a rise by 9.1% during the year (Table 5-2).

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

	2015	2016		2015	2016
	Q4	Q3	Q4		
Volume of Traded Shares (million share)	64.75	55.83	42.37	175.23	232.82
Value of Traded Shares (US$ million)	117.32	96.81	105.94	320.39	445.15
Market Capitalization (US$ million)	3,339.2	3,313	3,390.12	3,339.2	3,390.12
Total number of Traders	72,883	72,661	72,418	72,883	72,418
-Palestinian	69,434	69,225	69,007	69,434	69,007
-Foreigners	3,449	3,436	3,411	3,449	3,411

1 The source of the figures in this section: Palestinian Capital Market Authority (PCMA), 2016 and Palestine Stock Exchange (PEX), 2016.
2 The insurance sector data do not include Al Ahllia Insurance company.

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

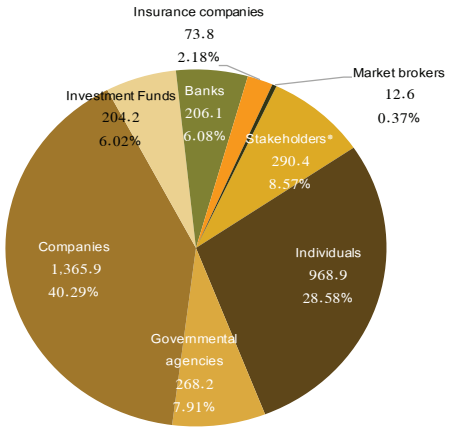


Figure 5-2: Distribution of the Components of the Insurance Portfolio by the insurance sector activities (as of the end of 2016)

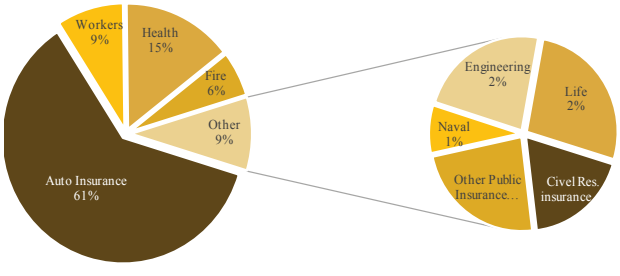


Figure 5-3: Distribution of Insurance Portfolio by Working Company in Palestine (as of the end of 2016)

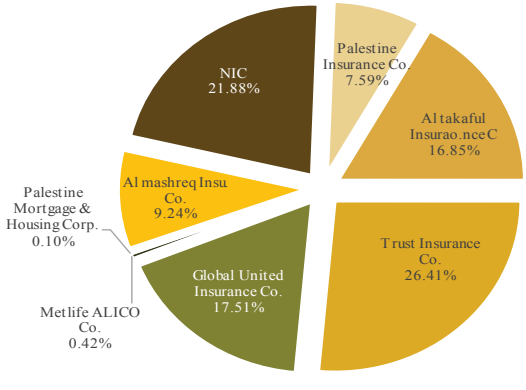


Table 5-2: Some Financial Indicators of the Insurance Sector in Palestine (US$ million)

	2015	2016		2015	2016
	Q4	Q3	Q4		
Gross written premiums	30.2	45.5	43.3	1648.	195.6
Total investments of insurance companies	176.7	187.4	192.7	176.7	192.7
Net compensations incurred by the insurance sector	23.1	26.1	27.1	96.2	106.8
Retention ratio	92.1%	89.5%	95%	83.9%	83.5%
Claims ratio	83.1%	64%	65.7%	69.7%	65.5%

As figure 5-2 shows, there is a significant concentration of vehicle insurance in the insurance portfolio in Palestine, constituting 61% of the total insurance portfolio by the end of 2016. Figure 5-3 on the other hand, presents the market share of insurance companies, where two companies out of the eight working companies dominate 48% of gross written premiums in the Palestinian insurance sector during 2016.

Financial Leasing

By 2016, the number of leasing companies registered with PCMA stood at 11 companies. The sector thrived during 2016 compared with its performance during 2015. Contracts value increased by 54% and their number increased by 66% compared with 2015 (Table 5-3). What makes 2016 a special year is the diversification of leasing portfolio, as the leasing assets included 11% productive assets and heavy machinery, in addition to 89% vehicles.

This trend is ascribed to the increased completion between working companies, and wide campaigns that aimed to increase citizens' awareness about financial leasing activities, in addition to increased role of international organizations providing funding resources to leasing companies at relatively low costs, and the banks increased confidence in this sector, which reflected in the form of increased credit facilities. By region, Ramallah governorate held the largest share of financial leasing contracts (34.9%), followed by Nablus and Hebron governorates as shown in Figure 5-4.

Figure 5-4: Geographic Distribution of Financial Leasing Contracts, by Number (2016) (%)

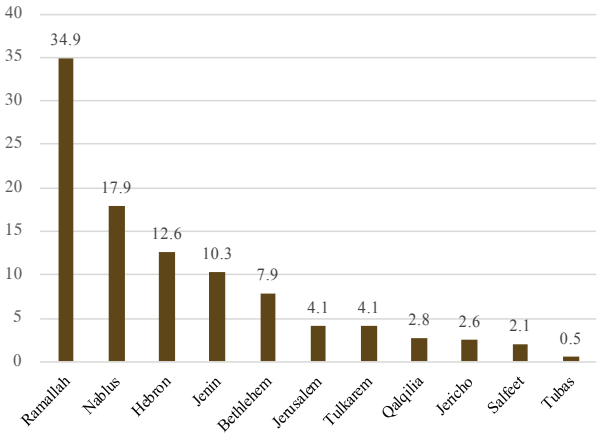


Table 5-3: Total Value and Number of Financial Leasing Contracts

	Total Value of Financial Leasing Contracts (US$ million)		Total Number of Financial Leasing Contracts	
	2015	2016	2015	2016
Q1	11	17	225	374
Q2	16	32	317	637
Q3	20	21	340	466
Q4	16	27	324	524
Total	**63**	**97**	**1,206**	**2,001**

Box 4: Palestinian Insurance Sector: Obstacles and Prospects

The insurance sector is an important component in any economy because of the role it can play in economic development, in addition to its contribution to social protection by providing insurance coverage appropriate to the needs of individuals and economic facilities. Furthermore, the insurance sector plays a development role in terms of direct and indirect organizational investment operations as well as in the generation of liquidity and investment returns required to meet the sector's obligations towards policyholders and those covered by the system according to time frames consistent with the insurance liabilities and the composition of the insurance portfolio.

After the creation of the PA in 1994, the management of the insurance sector in Palestine came under the responsibility of the Ministry of Finance. When four new insurance companies set up in the Palestinian market in 1993-1994, several branches were created and many insurance agents started operating in the West Bank and Gaza Strip. The first Palestinian insurance company had been established before that, the Arab Insurance Company, which had operated as an agent for a foreign insurance company since 1969 before it became an independent insurance provider in 1975.

The Palestinian insurance sector faced many difficulties due to the absence of a legal framework regulating its activities. In 2004, the Palestinian Capital Market Authority was established and became the body authorized by the Insurance Law No. 20 of 2005 and its secondary legislation to regulate and supervise the insurance sector. Today, 9 licensed insurance companies operate in Palestine through 122 branches and offices with 1,163 employees and a network of 216 agents and producers. Since its inception, the Capital Market Authority has developed detailed plans and policies aimed at improving the insurance sector by building the legal and regulatory systems and enhancing supervisory processes.

The Palestinian insurance sector operates in a context of challenges that restrict its growth and contribution to economic development. The challenges can be classified into three types:

Demand side challenges

The weak public knowledge of financial issues, especially insurance, is one of the most important determinants to growth in the demand for insurance services and products in Palestine. The results of the study of financial inclusion in Palestine indicate that 81 percent of the adult population in Palestine has poor financial knowledge. [1]

Insurance products and services are different from other financial services, and thus they directly affect the demand for insurance services. In principle, people pay the price of an insurance policy against a particular risk. In other words, a person pays a sum of money for an indemnity service that becomes due should that type of risk occur, and in most cases that risk does not occur. In the real world, however, what happens does not often correspond to the natural context typical for judging the quality of insurance services. Naturally, the people who pay for insurance services do care about the value of the premium without deliberating the size of the insurance coverage or the conditions and exceptions in the insurance policy. Hence, brand awareness is an important factor in stimulating the demand for insurance products and services. This is one of the biggest challenges facing the insurance sector in Palestine and one of the root causes for the lack of growth in demand for insurance products. The weak insurance awareness may result in inadequate appreciation of the economic value and social protection that figures in risk shifting and risk distribution.

The supply side challenges

The concentration of the Palestinian insurance portfolio in a specific product (vehicle insurance) is one of the main challenges to the sector. This concentration has a negative impact on the financial sustainability, growth and development of insurance companies. In 2016, vehicle insurance accounted for 61 percent of the total insurance portfolio, which reached USD 195.6 million, far ahead of health insurance at 15 percent of the total portfolio. These two types accounted for 76 percent of the total insurance portfolio in 2016.

Because vehicle insurance liabilities are short-term, insurance companies are forced to maintain sufficient liquidity or search for short-term investments to meet their obligations. Vehicle and health insurance products have low profitability as juxtaposed to other insurance products, which threatens the financial sustainability of some companies if they do not pursue prudent public offering policies.

Equally challenging is having recourse to public offering of securities, leading to negative price competition, which is detrimental to both the insurance sector and the rights of the insured. Public offerings often weaken the capability of some companies to meet their insurance obligations because of poor liquidity, which usually makes these companies procrastinate in settling outstanding insurance claims. It is thus the responsibility of the government to regulate the sector and its pricing policies to ensure that companies can meet their obligations, maintain adequate liquidity and possess the required solvency margin.

Challenges related to the environment

The Palestinian insurance sector faces a wide array of challenges largely related to the political situation, the internal political divide, the gaps in the legal framework and law enforcement, particularly those that are outside the direct legal and supervisory control of the Palestine Capital Market Authority.

The Palestinian insurance system of workplace injuries is an example on weak enforcement. Under this compulsory insurance system, the Ministry of Labor is responsible for enforcing the law related to such injuries. Despite the absence of accurate published statistics, it is estimated that a large proportion of facilities do not insure their workers against workplace injuries. Such insurance is critical as it protects the workers and their families and maintains civil peace and social security. When companies do not insure their workers against injuries, they must pay for the treatment for such injuries as they occur, which makes them liable to insolvency when a compulsory insurance system does not exist.

Another example is the spread of junkyard vehicles in the West Bank. Preliminary estimates by the Palestinian Traffic Police, the Palestinian Road Accident Casualties Compensation Fund and the Capital Market Authority show that 30 percent of vehicles on the roads are illegal (90,000 vehicles out of 300,000). [2]

The Palestinian insurance sector possesses promising opportunities for growth and expansion if such obstacles are overcome. The rate of Palestinian insurance penetration (the share of insurance portfolio in GDP at current prices) is barely 1.3 percent, compared with 2.1 percent in Jordan, a country with comparable conditions. The 2015 insurance density (the per capita share of the total insurance portfolio) was USD 53.2, compared to USD 102 in Jordan. Potential opportunities for growth in the Palestinian insurance sector, thus, do exist. This could be possible through vertical expansion (introducing new insurance products and services consistent with the needs of the target groups) and horizontal expansion (targeting specific segments and business sectors).

Bashar Abu Za'rour, Capital Market Authority

1 Financial Inclusion in Palestine, 2016. A study by MAS on behalf of the Capital Market Authority and the Palestine Monetary Authority.

2 "Towards a comprehensive and appropriate legal structure for the transport, communication and insurance sectors", a workshop held in August 2015 in cooperation between the Capital Market Authority, the Palestinian Federation of Insurance Companies and the Ministry of Transport and Communications.

6- Investment Indicators [1]

Building Licenses

Quarter 4: 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 building license registrations and newly licensed areas of buildings. During Q4 2016 the number of licenses reached 2,592, an increase of 7.7% compared with previous quarter of the year. Licenses of non-residential buildings constituted 8% of the total licenses. On the other hand, licensed areas of buildings in Q4 2016 amounted to around 1,233.5 thousand square meters, showing a decline by 22% compared with the previous quarter (Figure 6-1).

Annual Comparison: The number of building licenses issued during 2016 stood at 10,633 licenses, an increase of 15.4% compared with previous year. This increase was accompanied by an increase in licensed areas which amounted to 5,194 thousand square meters, a growth of 30% compared with previous year (Table 6-1). 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.

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

	Number of licenses	Licenses Areas (Thousand m²)
2015	9,214	3,987.5
2016	10,633	5,194.0

Vehicles Registration

Since vehicle prices are high and vehicles are often purchased via bank loans, the number of vehicles registered for the first time is another indicator of the economic situation and expectations of the population.

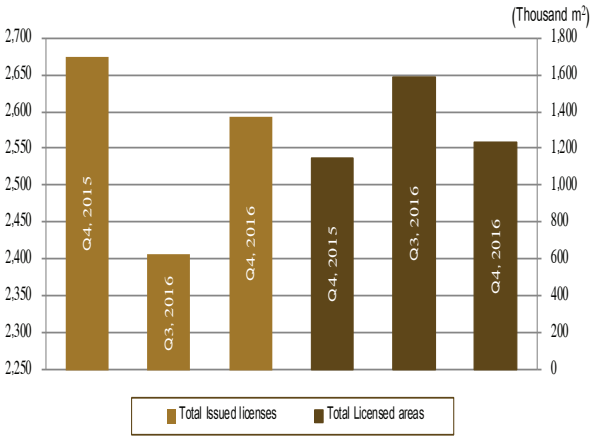
Quarter 4: During Q4 2016, the number of new and second-hand vehicles (registered for the first time) in the West Bank was 8,136, an increase of 125 vehicles compared with the previous quarter, and of 1,136 vehicles compared with corresponding quarter 2015. 60% of registered vehicles during Q4 2016 are second-hand vehicles from international markets, 29% were new vehicles imported from international markets, while 10% are second-hand vehicles imported from Israel (Table 6-2).

Annual Comparison: During 2016, the number of new and second-hand vehicles registered in the West Bank for the first time was 31,000; 65% were second-hand vehicles from international markets, 26% were new vehicles from international market, and 9% were second-hand vehicles from Israel. It is noticeable that the number of new and second-hand vehicles registered in the West Bank increased by 18% in 2016 compared with 2015. This is attributed to the increase in new vehicles from international markets (25%), in second-hand vehicles from international market (18%), and in second-hand vehicles from Israel (3%) (Table 6-2).

Table 6-2: 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
Q4 2015	1,715	4,490	795	7,000
2015	**6,375**	**16,835**	**2,838**	**26,048**
Q3 2016	2,067	5,214	730	8,011
Q4 2016	2,376	4,923	837	8,136
2016	**7,943**	**19,930**	**2,924**	**30,797**

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



1 The source of figures in this section: PCBS, 2017, Statistics on Building Licenses and the MOF, 2017, Palestinian Customs and Excise Dep.

Box 5: Promissory Notes

In 2014, PA cumulative arrears to local suppliers totaled USD 695 million. [1] As a result, many companies (particularly those supplying health services, contracting and raw materials) were forced to borrow from banks with high interest rates to cover government default. This has created several financial problems for these suppliers, brought them close to insolvency and increased their default on paying their debts to the banks.

To tackle this problem, which weighed down on the private sector and weakened domestic production, the government started in March 2016 issuing promissory notes in order to repay part of the private sector's dues. A promissory note is a financial instrument, which involves a written promise by the government to pay private sector creditors a definite sum of money. The payees can wait until the note reaches its maturity date. Alternatively, the payees may cash-in the promissory notes. The Monetary Authority has set an annual interest rate cap on cashing-in activities (8 percent on the NIS notes and a 6-month LIBOR rate plus 3 percent on USD notes).

Since the launch of the promissory notes program, the government has allocated a stock of NIS 704.8 million in deposits at three banks to redeem these notes.[2] The value of the issued 6-month notes at the end of July 2016 was NIS 390 million, while the 2016 12-month notes had a value of NIS 607.9 million, including NIS 365.7 million paid out and NIS 242.2 million pending maturity date.[3] The notes were issued based on specific criteria, most importantly precedence and value of arrears. Claims exceeding NIS 250,000 were deemed to meet the payment requirements. The Palestinian government intends to continue the policy of issuing these notes in 2017 at a monthly rate of NIS 50-70 million, according to the 2017 budget statement.

Forecasts and caveats

These promissory notes are expected to bode well for the private sector and the Palestinian economy in case of government compliance. The new system will increase the demand for government tenders and lower prices of these tenders, which will translate into higher employment and productivity in the private sector. The notes will also have positive effects on the local banking system, which will benefit from repayment of loans as well as from interest paid on cashing-in notes before their maturity date.

Promissory notes, especially when they are cashed-in by banks, [4]increase banks' exposure to the public sector. Data obtained from the World Bank show that as of January 2017, about two thirds of the NIS 230 million total stocks of outstanding notes were cashed-in and transferred to one of the participating banks. On the other hand, the positive effects of issuing notes are largely contingent on the degree of commitment by the Palestinian government in issuing and managing these notes. Covering the obligations when they are due increases the PA's credibility and transparency, which enhances confidence in future financial transactions. However, the ability of the PA to meet its obligations is dependent on generating revenues, with the bulk coming from clearance revenues collected by Israel on behalf of the PA, in addition to grants and foreign aid. These sources are vulnerable to fluctuation and decline depending on the political situation. This prompted IMF experts to call the PA to record the stock in the fiscal accounts to cover payment for these notes, thus ensuring the credibility of these notes and maintaining financial stability.

The PMA Position

The PMA has imposed a USD100 million limit on overall holdings of promissory notes, and plans to increase the risk weight of promissory notes as it implements Basel II. One-third of banks are exposed to the PA or its employees for more than half of their portfolio. Banks held 48 percent of the stock of promissory notes as of end-June 2016. Collectively, these direct and indirect exposures to the public sector represent around 174 percent of banks' capital. This is of particular concern given the current financial position of the government. [5]

Prepared by Wafa' Bitawi, Research assistant at MAS

1 Source: IMF (2015): West Bank and Gaza, Report to the AD_HOC Liaison Committee, May 18. http://www.imf.org/external/country/WBG/RR/2015/051815.pdf

2 These are the Arab Bank, the National Bank and Bank of Palestine. However, the note holder may cash-in the note from any local bank when the note reaches its maturity date or before that date. The local bank will then contact one of the three participating banks and cover the value of the note from the stock.

3 Source: Ministry of Finance, January 2017 (unpublished data).

4 World Bank, Economic Monitoring Report to the Ad Hoc Liaison Committee, May 4, 2017.

5 IMF (2016): West Bank and Gaza, Report to the AD_HOC Liaison Committee, August 26. http://reliefweb.int/sites/reliefweb.int/files/resources/2016WBGRR.pdf

7- Prices and Inflation[1]

The consumer price index (CPI) measures the prices of a selection of primary goods and services that reflect the average consumption pattern of families in an economy (this group of goods and services is 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.

Quarter 4: Figure 7-1 shows two curves, the first 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 Q4 2016, the CPI was 110.34 compared with 111.11 in Q3. This means that between Q3 and Q4 2016 the rate of inflation was negative (0.69%), i.e. decline in prices.

The decline in the Palestinian CPI in Q4 is attributed to the decline in food and beverage prices by 2.4%, and the prices of alcoholic beverages and tobacco by 2.02%. In addition, Q4 witnessed price deflation of 1.29%, compared with the corresponding quarter 2015.

Annual Comparison: In 2016, the CPI declined by 0.22% compared with 2015.This is mainly due to decline in the housing commodity group by 2.61% (prices of house-used fuels decreased by 6.34% for liquid fuel, 4.47% for gas, and 2.84% for electricity) In addition, prices of commodities in the food and beverage group declined by 1.5% (fresh eggs decreased by 15.53%, fresh poultry meats by 9.6%, flour by 6.62%). On the other hand, the cost to consumers of education services increased by 3.09% during 2016 compared with 2015, as well medical services, whose price increased by 1.13% between the two years. The figures show that the inflation rate during the last six years (2010-2016) reached 10.75%, and in 2016 was 42.87% above the annual average of 2004.

Wholesale Prices and Producer Prices

Quarter 4: The wholesale price index -WPI (sale price to retailers) decreased by 2.28% between Q3 and Q4 2016, because of the decline in wholesale prices of local goods by 4.02% and increase in imported goods by 0.68%. The producer price index- PPI (prices received by domestic producers) has risen by 0.13% between the two quarters, a result of the increase in prices of locally produced and consumed goods by 0.14%, and prices of locally produced and exported goods by 0.07% (Figure 7-2).

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

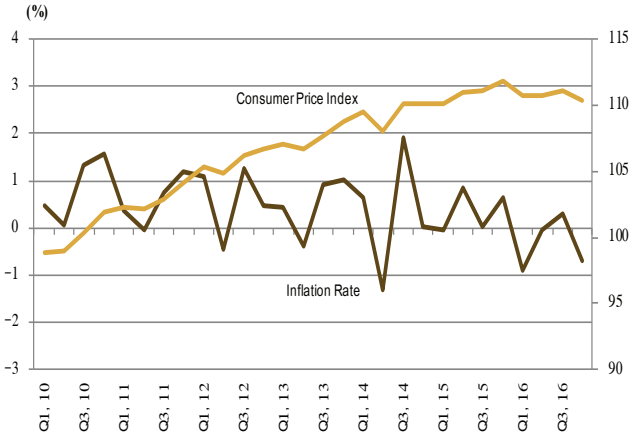


Figure 7-2: Evolution of Wholesale and Producer Price Indices (base year 2007)

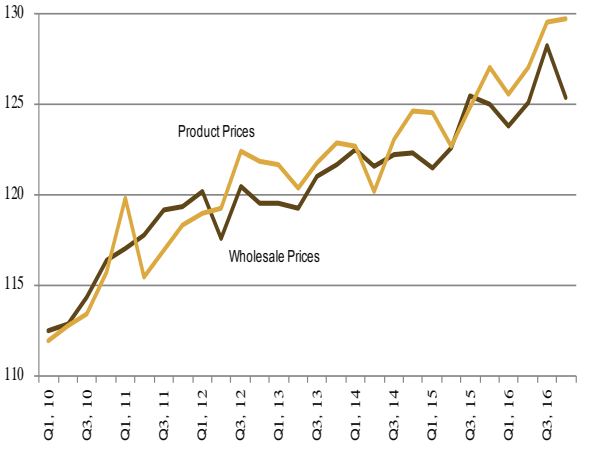
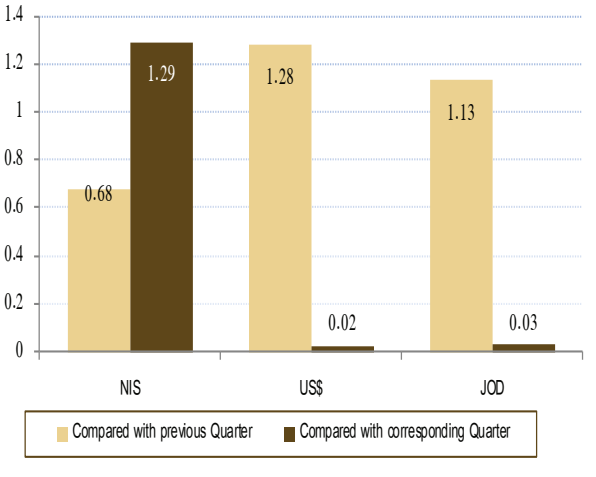


Figure 7-3: Change in Purchasing Power, Q4 2016



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

Annual Comparison: In 2016, the overall wholesale price index -WPI increased by 1.62% compared with 2015. This is due to the increase in prices of commodities in the fishery group by 17.2%, and agriculture group by 2.45%. The increase in wholesale prices is attributed to increase in wholesale prices of local goods by 2.67% and of imported goods by 0.7% compared with previous year.

On the other hand, the producer price index- PPI has risen by 2.57% during 2016 compared with 2015, affected by the increase in prices of electricity and gas and air conditioning by 14.64%, and in the prices of water supply, sewage systems and waste management and treatment by 7.28%. The increase in producer prices is attributed to increase in producer prices of local goods by 2.75% and of locally produced and exported goods by 1.12% compared with the previous year.

Prices and Purchasing Power[2]

NIS Purchasing Power: the rate of inflation in the economy measures the development in the purchasing power of all individuals who receive their salaries in NIS and spend all their income in that currency. CPI decreased by 0.68% in Q4 2016 compared to the previous quarter, reaching 110.35, and decreased by 1.29% compared with the corresponding quarter 2015. This means that the purchasing power of individuals who receive their wages and salaries in NIS improved between the third and fourth quarters of the year and compared with the corresponding quarter 2015, increasing by 0.22% in 2016 compared with 2015.

US$ Purchasing Power: In Q4 2016 the US$ exchange rate against the NIS increased by about 0.60% compared with previous quarter, and declined by 1.26% compared with corresponding quarter. Therefore, the purchasing power of individuals who receive their salaries in US$ and spend all their income in NIS has improved during the fourth quarter compared to the previous quarter by about 1.28% and by 0.02% compared with the corresponding quarter 2015. Since 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$. Regarding year-on-year change, the purchasing power of individuals who receive their salaries in US$ declined by 0.91% in 2016 compared with 2015, because of an improvement in NIS purchasing power by 0.22%, and decline in US$ exchange rate by 1.13% (Figure 7-3).

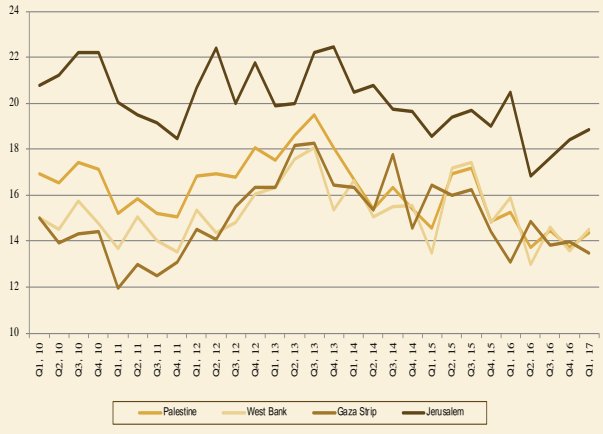
2 The purchasing power is "the value of money as measured by the quantity and quality of goods and services that the per capita income can buy". It is directly dependent on the income of the consumer and the change in prices and currency exchange rate (if the currency of income is different from the 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).

Box 6: Fluctuation of Chicken Prices in Palestine

Fresh chicken prices increased in February 2017 by 13 percent in Palestine (21 percent in the West Bank) compared with the first month of the year. The price of one kilogram of chicken, a major food item in the Palestinian territory especially for the poor, surged to more than NIS 20 in the major cities in the West Bank, which triggered public demands for government intervention.

The poultry subsector (broilers, egg-producing chicken breeds, turkeys and rabbits) contributes about 45 percent to animal production in Palestine. Around 57 million broiler chickens are consumed in Palestine annually (66 percent in the West Bank). Local production in 2012 reached about 32 million chickens (70 percent in the West Bank and 30 percent in the Gaza Strip). Palestine bridges the difference between consumption and production with imports. In 2015, Palestine's import of poultry from Israel was valued at about half a million dollars. [1]

Figure 1: Quarterly consumer prices of fresh chicken (Q1 2010 - Q1 2017) NIS / kg



Palestinian Central Bureau of Statistics, 2017: Consumer Price Survey, 2010 - 2017. Ramallah, Palestine.
* Prices for the first quarter 2017 are the average prices for January and February only.

Figure 1 shows a significant fluctuation in the monthly prices of chicken in Palestine. The statistical analysis shows a cyclic change in prices, with 6 breeding cycles per year on average (the average breeding cycle is 50 days). Prices rise at the harvest time and stabilize at the beginning of a new cycle.

The cyclical causes of price increases

1. Changes in production costs: The cost of raising broiler chickens increases in winter due to the additional heating costs and the high prices of broiler chicks and feed (which combined cost NIS 8-10 per kilo in winter), with the cost of feed alone accounting for 70 percent of the total costs of breeding.[2] Moreover, broiler mortality usually peaks in winter (especially by the Newcastle disease), with mortality reaching 25 percent of new-born and young chicks. [3]

1 Data were obtained from the Palestinian National Information Center: Livestock in the Palestinian Territory, the Palestinian Central Bureau of Statistics 2013: Agriculture Statistics Survey and Palestinian Central Bureau of Statistics 2017: Registered Foreign Trade Statistics.

2 An interview with the sales manager of Palestine Poultry Company, Zahran Kharroub, on March 28, 2017.

3 An interview with the Director General of Marketing at the Ministry of Agriculture, Tarek Abu Laban, on March 23, 2017

2. The demand for chicken increases during holidays and social occasions.
3. Broiler breeding cycle is short, while the costs for entry into and exit from production are low, which creates quick shifts in the domestic supply due to changes in costs.

As shown in Figure 1, the 2016 second quarter saw the prices of broiler chickens dropping to NIS 13.71 per kilogram, the lowest level since early 2010. Poultry hatcheries in Palestine produce only 60 percent of the market needs.[4] From Q2 on, the costs of production rose significantly as farms of broody hens in Europe and Israel were infected with avian influenza. In some accounts, the high cost of production together with the decline in prices in the summer and autumn of 2016 forced around one-third of broiler farmers to exit the industry.[5]

The Israeli factor

However, the instability in the Palestinian chicken market, especially in the West Bank, cannot be understood without accounting for the significant role of chicken smuggling from Israel. The West Bank market is often used as a dumping ground for Israeli surplus agricultural production. Israeli producers try to dispose of chickens that are close to expiration or do not conform to Israeli specifications (in terms of weight and shape) in the Palestinian market through local dealers who sell them at low prices, which forces local farmers to exit the industry. This, in turn, results in higher prices in subsequent production cycles. Due to the large Israeli production of chicken, which is six times the Palestinian production, any small dumping/holding of supply in/from the Palestinian market shakes the stability of prices and domestic production.

This analysis suggests that short-term partial solutions, e.g. through price controls, will not eliminate the root causes of the problem. Natural factors and changes in global prices of feed and broody hens are among the culprits. Also important are the short cycle of chicken breeding and the rapid entry and exit of producers from the market. Finally, smuggling from Israel significantly aggravates any market shake-up. All these determinants require careful assessments that should produce an integrated strategy to ensure higher stability in chicken prices.

Asala Moutair, trainee researcher at MAS

4 Ibid.
5 Ibid.

8- Foreign Trade[1]

Balance of Trade

Quarter 4: The value of registered merchandise imports[2] during Q4 2016 was about US$ 1,334 million, an increase of 7.8% over the previous quarter and 6.0% compared with the corresponding quarter of the previous year. On the other hand, the value of merchandise exports did not exceed 19% of the value of imports, despite an increase of 11.6% compared with the previous quarter and of 7.6% 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$ 1,081 million. The deficit has dropped slightly because of the surplus in the balance of service imports from Israel reaching US$ 4.1 million (Figures 8-1 and 8-2).

Annual Comparison: During 2016, the value of registered merchandise imports was US$ 5,057 million, an increase of 2.3% compared with the previous year. The value of merchandise exports was US$ 929.4, an increase of 1.9% compared with 2015. As a result the trade balance deficit reached US$ 4,128 million. A surplus in the services balance with Israel (US$ 21.4 million) brought down the deficit slightly. (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).

Quarter 4: The deficit in the Palestinian current account (the balance of payments) reached US$ 356.1 million in Q4 2016, which is equivalent to 11% of GDP at current prices. The current account deficit resulted from a deficit in the trade balance of US$ 1,359.1 million, against a surplus in the balance of income of US$ 408.6 million (generated mainly from the income of Palestinian workers in Israel), and the surplus in the balance of current transfers by US$ 585.4 million (about one quarter of which generated from international aid to the government) (Table 8-1).

The balance of payments deficit was financed by a surplus in the capital and financial account, which covered an amount of US$ 354.5 million. This item (the capital and financial account) represents a debt on the national economy, as long as it has positive value.

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 (Q4 2015 and Q4 2016) (US$ million)

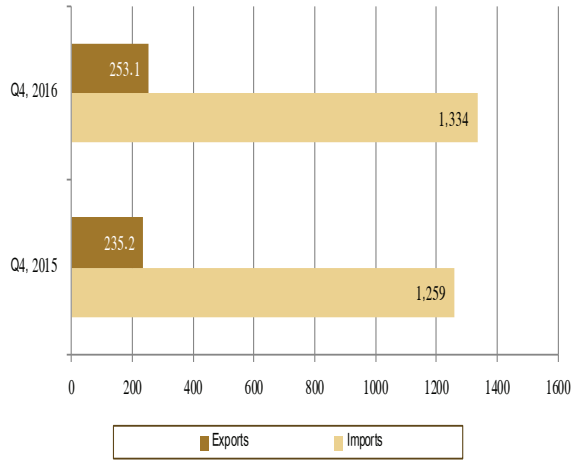


Figure 8-2: Exports and Imports of Registered Services from Israel (Q4 2015 and Q4 2016) (US$ million)

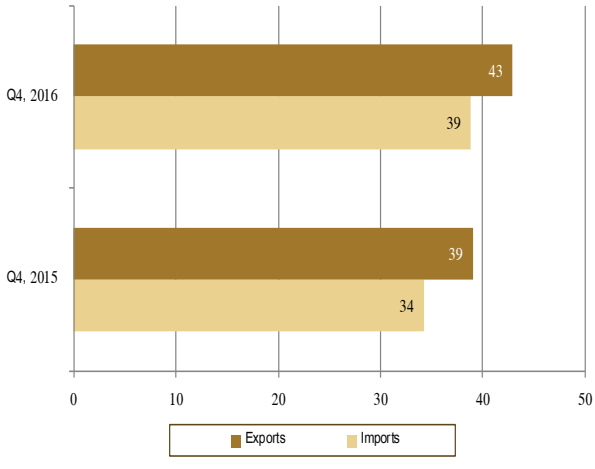
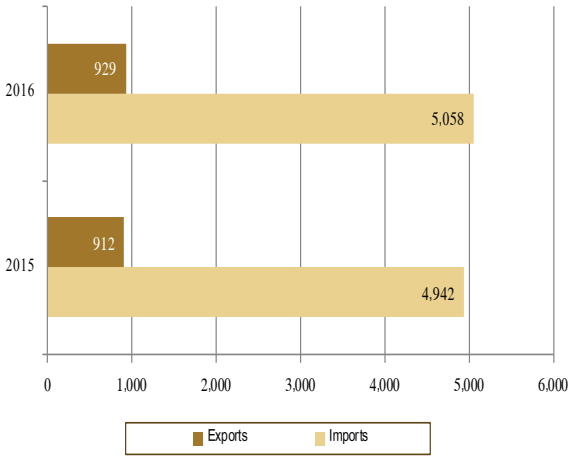


Figure 8-3: Exports and Imports of Registered Goods (2015 and 2016) (US$ million)



Annual Comparison: The deficit in the Palestinian current account stood at US$ 1,348 million in 2016, which is less by 35% compared with last year deficit. This resulted from the increase in current transfers (by 58%) in 2016 compared with 2015. Despite a slight improvement in the trade balance deficit, the balance of income declined by almost 8% (Table 8-1). The balance of payments deficit was financed by a surplus in the capital and financial account, which covered an amount of US$ 1,113.9 million. Theoretically, there should be a perfect balance between the current account deficit and the surplus of capital and financial account, i.e. the net value of the two should be zero. However, because of lack of data or leakage there is often a difference between them, usually recorded under "errors and omissions". It is noticeable that the value of this item has increased considerably during the last two years (Table 8-1). [3]

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

	2015 Q4	2016 Q4	2015	2016
1. Trade balance of goods and services**	(1,319.0)	(1,359.1)	(5,199.6)	(5,170.5)
- Net goods	(1,091.6)	(1,126.6)	(4,300.5)	(4,282.1)
- Net services	(227.4)	(232.5)	(899.1)	(888.4)
2. Income balance	430.2	408.6	1,712.2	1,578.6
3. Balance of current transfers	348.9	585.4	1,421.4	2,243.9
4. Balance of current account (1 +2 +3)	(539.9)	(365.1)	(2,066.0)	(1,348.0)
5. Net capital and financial account	706.6	354.5	2,451.1	1,113.9
6. Net errors and omissions	(168.2)	10.6	(393.2)	231.5

* 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 Q4 2016, Palestine's foreign assets totaled around US$ 6,138 million, 7.2% of which represent direct foreign investment, and 18.1% represent portfolio investments. On the other hand, total external liabilities amounted to about US$ 4,849 million, more than half of which were direct investments. The difference between assets and liabilities means that the overseas investments by Palestinians were US$ 1,289 million higher than the investments of non-residents. A significant portion of these assets (64%) is deposits by Palestinian banks abroad. Figures indicate that foreign direct investments in Palestine outweighed actual Palestinian investments abroad by US$ 2,143 million (Figure 8-3).

Figure 8-4: Exports and Imports of Registered Services from Israel (2015 and 2016) (US$ million)

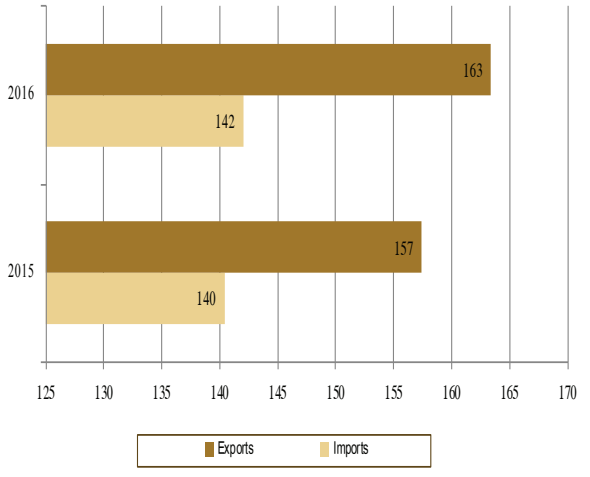
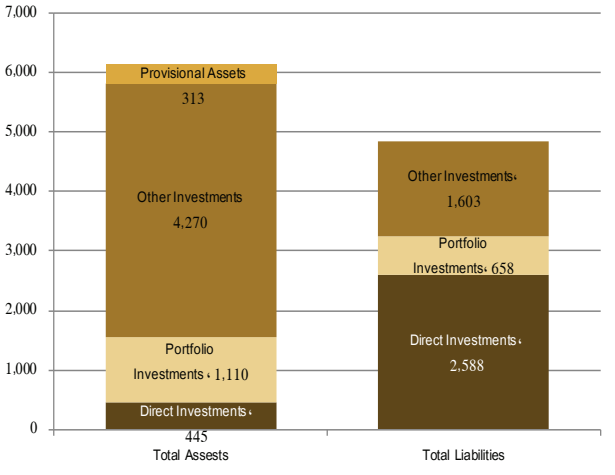


Figure 8-5: International Investments Balance (Q4 2016) (Million US$)



3 Net omissions and errors in the table do not equal the difference between current account and the capital and financial account. This is because the PCBS added "exceptional funding" to "net omissions and errors" item.

Box 7: Palestine's Accession to the Agadir Agreement

In late March, 2017, on the sidelines of the 28th Arab Summit held in Jordan, Lebanon and Palestine joined the Agadir Agreement for free trade between the Arab Mediterranean Countries.[1] The Agadir Pact is a free trade agreement signed in 2004 by Egypt, Jordan, Morocco and Tunisia. Article 30 thereto states that any Arab country, member of the Arab League and the Arab Free Trade Zone and linked to the EU through an Association or Free Trade Agreement, can apply for accession to the Agadir Agreement after the consent of the Committee of Foreign Ministers of the Agreement.[2]

The Agadir Agreement seeks to establish free trade between Arab-Mediterranean counties; develop economic activities and improve employment; coordinate macroeconomic and sectoral policies; and bridge the gaps between legal systems in member states to create a favorable environment that would enable economic integration.

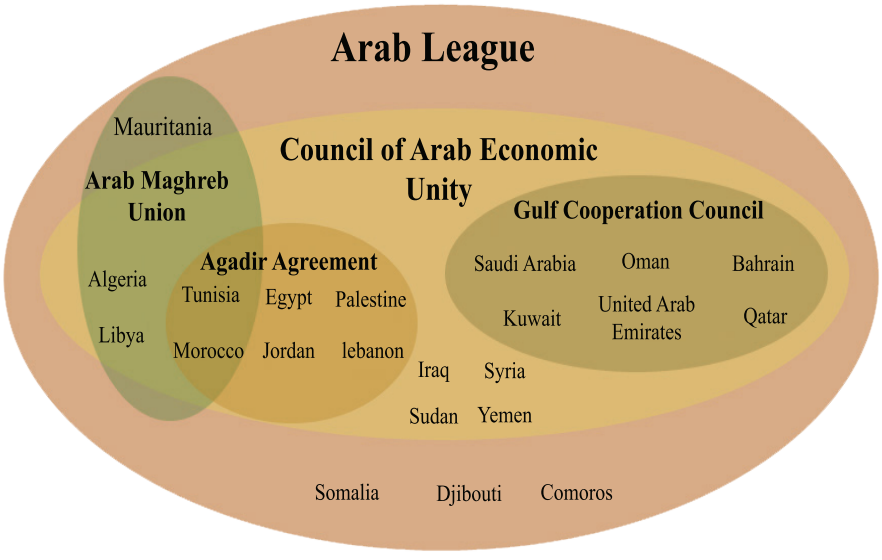
Agadir Agreement, complementary to the Euro-Mediterranean Partnership

The Agadir Agreement is by large complementary to the Barcelona Declaration and the Mediterranean Initiative of the European Union in 1995, which gave rise to the Union for the Mediterranean between the Arab countries in the Mediterranean Basin and the European Union. The partnership agreements between the Mediterranean countries and the European Union,[3] including the EU's 1997 Interim Association Agreement on trade and cooperation with the PLO, provided for setting up free trade zones between the individual countries and the European Union. The agreements included the principle of bilateral accumulation. This principle holds that input originating in one country member of a preferential trade zone shall be considered as originating input in the other partner country and vice versa. For example, if a company in Palestine imported textiles from the European Union countries, manufactured shirts and then re-exported them to Europe, the value added in the fabric and the shirts would be considered as originating in Palestine and therefore the shirts could be exempted from European customs.

However, the individual European partnership agreements with the Arab Mediterranean countries do not allow accumulating added value between the Mediterranean countries themselves. If a Palestinian company imports textiles from Egypt, for example, and manufactures shirts, these shirts will not be exempted from European customs if the value added in Palestine on these shirts is less than 70 percent. This gap is exactly what the Agadir Agreement seeks to bridge.

The Agadir Agreement, once it creates a free trade area between its members, will allow the application of the principle of Diagonal Accumulation with the EU. If an Agadir Agreement State Party used inputs imported from another country to produce a specific product and exported the product to the EU, then the EU would give this product preferential treatment. In other words, the EU would consider the value added for the product the sum of the value for that product traded under the Agadir Agreement. [4]

Figure 1: Distribution of Arab League countries by trade agreements



Retrieved on April 4, 2017 from https://goo.gl/xWikPo

Salam Salah, Research assistant at MAS

1 Technical Unit of Agadir Agreement. "The Committee of Foreign Ministers of the Agadir Agreement Approves Accession of Palestine and Lebanon to the Agreement." Retrieved on April 4, 2017 from http://www.agadiragreement.org/DetailsPage/AghadirAr/NewsDetailsAr.aspx?PID=1003

2 Paltrade, Trade Agreements, Agadir Agreement AA. Retrieved on April 5, 2017 from https://www.paltrade.org/ar_SA/page/trade-agreements

3 A telephone interview with Mohamed Humaidan, Director of the Department of Trade in Services at the Ministry of Economy, on April 10, 2017.

4 For more information on value added accumulation in European partnership agreements, see Kanafani, N (2000)." Associating Palestine with European Eunion: the present framework and the way ahead". Ramallah: Palestine Economic Policy Research Institute-MAS.

Economic Concepts and Definitions: Purchasing Power Parity (PPP)

GDP has several drawbacks as a measure of economic and social progress and welfare. However, it remains the most widely used indicator of economic activity within a certain country and for comparisons between standards of living in different countries worldwide. Arthur Lewis (Nobel Prize Laureate, 1979) explains this paradox. According to his economic theory, the per capita GDP, despite its drawbacks, remains the best available indicator of welfare because it provides an opportunity for the individuals to control their own destiny.

GDP is the monetary value of all types of goods and services produced in an economy over a period of one year. The value of these goods and services is calculated by multiplying their quantities by the market prices. Non-market activity such as household work performed by family members is not included in the calculation of GDP. Another drawback of GDP indicator is the fact that it is a measure of flow rather than of the resources available. In other words, countries can, in principle, increase their GDP or income through depleting their natural and capital wealth.

Fixed prices

Economists have devised dynamic solutions to a number of shortcomings in GDP: the first relates to the comparison of GDP figures at two different time points; and the second involves a comparison of GDPs in different countries. The first drawback is a result of the fact that the change in the value of GDP over years may be generated by a rise in prices rather than an increase in goods and services produced. Governments sometimes use the method of fixed prices to control the rise in prices. For example, if a government had sought an increase in the value of real GDP (the value generated from the increase in production rather than from higher prices) between 2000 and 2010, it would have multiplied the quantities of goods and services produced in 2010 by the prices of these goods and services in 2000. The increase in the value of GDP from its value in 2000 represents the real growth of the economy; i.e. the 2000 fixed-price growth.

Global Comparisons

The second problem– comparisons between GDP levels in different countries– is related to the large gap in the prices of goods and services across the globe. For example, the production of one ton of wheat is included in the GDP figures according to the price of wheat in the local market. This means that the production of the same amount of wheat (and of the same quality) in rich countries (where prices are usually high) adds to the GDP a value that is much higher than in poor economies. This makes comparisons of inter-country current GDP figures inaccurate and unfair as long as they reflect in part the disparity in prices and not only the variation in quantities and quality of production. Drawing comparisons of production and income between countries requires the conversion of different GDP figures to their value in one currency, but exchange rates between currencies do not accurately reflect the disparity in the purchasing power of different currencies. To tackle this problem, economists have developed the concept of 'Purchasing Power Parity.'

Purchasing Power Parity (PPP)

There are basically two types of international exchange rate systems: current exchange rate and the PPP exchange rate. The first is the rate traded in the market, for example 1 U.S dollar is equivalent to 18.7 Egyptian pounds. The second exchange rate (PPP) is based on two components: the cost of living and the difference in inflation rates between two countries. PPP holds that the ratio of two countries' exchange rates should equal the ratio of the prices of identical goods in those two countries. If a certain product is worth USD 10 in the United States and the same product would be worth EGP 50 in Egypt, PPP says that the exchange rate should be USD 1: EGP 5. This means that the PPP exchange rate of the EGP is less than its real value (i.e. undervalued) by nearly 70 percent. The use of the PPP exchange rate will raise Egypt's GDP– as measured by the USD– by about three times its value when measured by the market exchange rate.

International Comparison Program (ICP)

The United Nations has paid great attention to the development of methods that allow international comparisons of national accounts figures. In 1968, the UN developed the International Comparison Program (ICP), which is guided by the World Bank. The program produces periodical data on GDP values in terms of purchasing power parity in 199 countries (including Palestine). The last survey of the program was released in 2014 and covered the exchange rate of the world's purchasing power parity (PPP) in 2011. Table 1 provides a breakdown of the figures for selected countries in that survey. [1]

It is impossible, of course, to arrive directly at an exchange rate with uniform prices of all identical goods and services in two different countries. That is why ICP has chosen an alternative method for calculation. It assumes a uniform price for all goods and services all over the world, with the prices normalized by the corresponding values in the United States. Once there are unified global prices, the next step is to multiply these prices by the quantities of goods and services produced in different countries. This process yields the GDP of these countries measured not only in U.S dollars but also in U.S prices. This would make it possible to compare GDP figures for different countries since price levels are uniform.

The first column in Table 1 records GDP values in different countries in local currencies (e.g. Jordan 20.5 billion Jordanian dinars and Egypt 1,371 billion Egyptian pounds). The second column shows the GDP of these countries denominated in U.S dollars based on the current exchange rate of the local

1 World Bank. 2015. Purchasing Power Parities and the Real Size of World Economies: A Comprehensive Report of the 2011 International Comparison Program. Washington, DC: World Bank. http://siteresources.worldbank.org/ICPEXT/Resources/ICP-2011-report.pdf

currency against the dollar. It is clear that the value of America's GDP remains the same in the first and second columns. The values of Israel's GDP and Palestine's GDP in NIS (column 1) were converted into USD (column 2) at an exchange rate of NIS 3.571 per dollar.

Table 1: GDP (USD) and PPP (USD), 2011

	GDP			Per capita GDP	
	Billions (local currency) 1	USD billions 2	PPP (USD billions) 3	USD 4	USD PPP 5
United States	15,533.8	15,533.8	15,533.8	49,782	49,782
Norway	2,750	490.5	306.5	99,035	61,879
China	47,310.4	7,921.9	13,495	5,456	10,057
Egypt	1,371.1	229.9	843.8	2,888	10,599
Jordan	20.5	28.8	59.8	4,615	11,169
Israel	923.9	258.2	234.2	33,259	30,168
Palestine	35.0	9.8	16.0	2,345	3,833

Source: World Bank. 2015. Purchasing Power Parities and the Real Size of World Economies: A Comprehensive Report of the 2011 International Comparison Program. Washington, DC: World Bank.

The third column records the PPP GDP values in different countries. This is calculated, as mentioned above, by multiplying the quantities of production of goods and services in Palestine, for example, by the prices of these goods and services in the United States. The American GDP figures remain the same as in the previous two columns. However, the GDP measured by PPP (calculated using US prices) in all other countries would be different from the GDP figures calculated by market exchange rates. The exchange rate of Jordan's PPP, for example, can now be calculated indirectly by dividing Jordan's GDP in dinars by Jordan's GDP in U.S. dollars (20.5 / 59.8 = 0.34). This exchange rate is significantly different from the market exchange rate of (0.71 JD per 1 USD).

There is a general rule for the difference between the GDP in USD and the GDP in USD PPP: The higher the prices in a country (e.g. Norway) than the prices in the United States, the lower the value of GDP in PPP than the value of GDP according to market exchange rates, and vice versa. Also, the greater the difference between prices, the greater the difference between GDP measured in both ways.

Let's take Israel and Palestine as an example. Since prices in Israel are 13 points higher than those in the United States (the average price in 199 countries is 100), Israel's GDP in U.S dollar PPP is USD 24 billion less than the figures of GDP at market exchange rate (the U.S dollar exchange rate according to the PPP in Israel is NIS 3,945). In Palestine, where the price level is 50 points lower than in the United States, the PPP GDP is USD 6.2 billion higher than the GDP as measured by the market exchange rate (the U.S dollar exchange rate according to the PPP in Palestine is NIS 2.187; i.e. if a product is worth USD 1 in the United States, the same product– identical in quantity and quality– would be worth NIS 2.187 in Palestine).

The use of PPP exchange rates gives a more accurate and fairer picture of income levels in different countries. For example, Egyptian per capita income in 2011 was barely USD 2,888, but using PPP method, it reached USD 10,599. On the other hand, drawing comparisons of income levels in different countries will not give real results if the disparity in prices of goods and services between these countries is ignored. For example, the Egyptian per capita income in 2011 was only 3 percent of the per capita income in Norway at current exchange rates, while it was 17 percent when measured by PPP.

Key Economic Indicators in Palestine, 2012-2016

Indicator	2012	2013	2014	2015	2016	2015	2016 [2]			
						Q4	Q1	Q2	Q3	Q4
Population (One thousand)										
oPt	4,293.3	4,420.5	4,550.4	4,682.5	4,867.4	4,732.7	4,766.2	4,799.8	4,833.5	4,816.5
West Bank	4,649.0	2,719.1	2,790.3	2,862.5	2,962.9	2,889.8	2,908.0	2,926.3	2,944.5	2,935.4
Gaza Strip	1,644.3	1,701.4	1,760.1	1,820.0	1,904.5	1,842.9	1,858.2	1,873.5	1,888.9	1,881.1
Labor Market										
No. of workers (thousand)	858.0	885.0	917.0	963.0	980.5	983.0	974.0	975.0	970.9	1,002.0
Participation rate (%)	43.3	43.6	45.8	45.8	45.8	46.2	45.8	45.7	46.1	45.5
Unemployment rate (%)	23.0	23.4	23.4	26.9	26.9	27.4	25.8	26.6	28.4	25.7
- West Bank	19.0	18.6	17.7	17.3	18.2	18.7	18.0	18.3	19.6	16.9
- Gaza Strip	31.0	32.6	43.9	41.0	41.7	38.4	41.2	41.7	43.2	40.6
National Accounts (USD millions)										
- GDP (USD millions)	11,476.0	12,476.0	12,715.6	12,677.4	13,397.1	3,331.3	3,301.9	3,381.1	3,439.4	3,327.2
- Household expenditure	10.158.5	11,062.6	11,840.4	11,795.7	12,353.3	2,957.4	2,987.2	3,134.9	3,170.7	2,961.5
- Government expenditure	3,126.9	3,381.7	3,478.2	3,374.9	3,530.2	919.1	768.8	891.3	879.3	964.4
- Gross capital formation	2,378.5	2,707.3	2,415.0	2,689.5	2,837.7	797.7	686.0	718.4	677.8	760.3
- Exports	1,871.1	2,071.8	2,172.3	2,322.7	2,432.4	603.0	538.1	627.2	600.1	658.8
- Imports	6,299.9	6,804.0	7,208.9	7,501.4	7,602.7	1,917.7	1,708.9	1,972.0	1,888.5	2,017.8
GDP per capita										
at Constant prices (USD)	2,787.2	2,992.2	2,960.1	2,865.8	2,943.5	745.1	733.3	745.5	753.0	723.3
at Current prices base year 2004)	1,807.5	1,793.3	1,737.4	1,745.9	1,765.9	444.8	444.3	448.7	442.9	434.2
Balance of Payment (USD millions)										
Trade Balance	(4,428.7)	(4,732.2)	(5,036.7)	(5,199.5)	(5,170.5)	(1,314.7)	(1,170.9)	(1,345.0)	(1,288.5)	(1,359.1)
Income Balance	857.4	1,160.3	1,482.4	1,712.3	1,578.6	347.5	364.4	404.3	401.3	408.6
Current Transfers Balance	1,750.5	1,188.0	1,405.3	1,421.5	2,243.9	517.4	528.7	549.2	572.8	585.4
Current account Balance	(1,820.8)	(2,383.4)	(2,149.0)	(2,065.7)	(1,348.0)	(449.8)	(277.8)	(391.5)	(314.4)	(365.1)
Exchange rates and inflation										
USD/NIS exchange rate	3.90	3.60	3.60	3.90	3.840	3.90	3.90	3.80	3.81	3.829
JOD/NIS exchange rate	5.40	5.10	5.10	5.50	5.418	5.50	5.50	5.40	5.37	5.401
Inflation rate (%)[1]	2.78	1.72	1.73	1.43	(0.22)	0.65	(0.90)	(0.03)	0.32	(0.69)
Public Finance (cash basis USD millions)										
Net domestic revenues (including clearance)	2,240.1	2,319.9	2,791.2	2,891.4	3,552.0	550.4	884.3	993.3	733.0	936.4
Current expenditure	3,047.1	3,250.7	3,445.9	3,424.9	3,661.6	859.2	855.8	1,146.0	879.4	768.2
Developmental expenditure	211.0	168.4	160.9	176.4	216.5	51.1	37.1	54.1	45.0	80.2
current budget deficit\surplus (before grants)	(1,018.0)	(1,099.2)	(815.6)	(709.9)	(326.2)	(359.9)	(8.7)	(206.8)	(191.4)	88.0
Total grants and aid	932.1	1,358.0	1,230.4	796.8	766.3	174.9	178.7	202.1	168.5	214.3
Total budget deficit\surplus (after grants and aid)	(85.9)	258.7	414.8	86.9	440.1	(185.0)	170.1	(4.8)	(22.9)	302.3
Public debt	2,482.5	2,376.2	2,216.8	2,537.2	2,483.8	2,537.2	2,527.0	2,530.2	2,553.8	2,483.8
The Banking Sector (USD millions)										
Banks assets/liabilities	9,799.0	11,191.0	11,822.0	12,602.3	14,190.1	12,602.3	13,143.6	13,631.0	14,068.3	14,190.1
Equity	1,258.0	1,360.0	1,464.0	1,461.7	1,683.6	1,461.7	1,483.2	1,497.0	1,624.4	1,683.6
Deposits at banks	7,484.0	8,304.0	8,935.0	9,654.6	10,595.7	9,654.6	10,054.7	10,203.0	10,432.6	10,595.7
Credit facilities	4,122.0	4,480.0	4,895.0	5,824.7	6,865.9	5,824.7	6,137.3	6,405.0	6,666.4	6,865.9

(*) Data do not include that part of Jerusalem which was annexed by Israel following its occupation of the West Bank in 1967 (except for data on unemployment and population).

1. The inflation rate estimation is based on year-over-year comparisons of the average 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.