



# Economy

## Background & Overview

Although aid organizations have repeatedly stressed that the PA is able to conduct the sound economic policies expected of a well-functioning state, the Palestinian economy remains unsustainable and heavily dependent on support from outside. This is mainly due to restrictive Israeli policies (limiting access to natural and economic resources, closure regime and separation, etc.), but also due to the financial crisis faced by the PA, especially with the dramatic decline in external support, and the negative impacts of the internal divide between the West Bank and Gaza, (e.g., dual regulatory framework) on the economy and the tax base. As a result, the economy is aid-driven, dominated by services, with an underdeveloped industry and a declining agriculture sector.

In 2015, the **value** added for all **economic activities** increased, with the exception of agriculture and industry activities, resulting - after a 0.2% decline in 2014 – in an **overall GDP growth** by 3.5%. While there was a drop from 5.3% to 2.5% in the West Bank, the Gaza GDP reached 6.8% (after a 15.1% drop in 2014), mainly owing to reconstruction efforts in Gaza. The **GDP per capita** grew by 0.5% in 2015 (WB: -0.2%, GS: 3.3%) (PCBS, *Performance of the Palestinian Economy*, 2015, May 2016). In the first quarter of 2016, the real GDP growth rate grew to 8% but is projected at 3.3% by year's end (WB: 2.7%, GS: 5.5%). However, according to the World Bank, the Palestinian economy is not growing enough to keep up with population growth, raise living standards and reduce high unemployment (World Bank, *Palestine's Economic Outlook- Fall 2016*, October 2016).

With regard to **Gaza**, the 2015 *Report on UNCTAD's Assistance to the Palestinian People* warned that the "social, health and security-related ramifications of the high population density and overcrowding" could make Gaza "**uninhabitable** by 2020 if current economic trends persist."

The **inflation rate** remains low and in line with Israeli price trends, averaging 0.19% (WB: 0.24%, GS: 0.02%) during Jan.-June 2016 (World Bank, *Economic Monitoring Report to the AHLC*, Sept. 2016).

It is estimated that a quarter of the Palestinian population lives in **poverty**, with rates in Gaza twice as high (39%) as in the West Bank (16%) (*Ibid.*).

Some 21% of households in the West Bank and 73% in Gaza are currently in need of **humanitarian assistance** (UNCTAD, *Report on UNCTAD's Assistance to the Palestinian People*, 2016).

**Poverty Line** (PCBS, established in 2011):

- **Deep poverty line** (budget for food, clothing and housing for a family of two adults and three children): **NIS 1,832**.

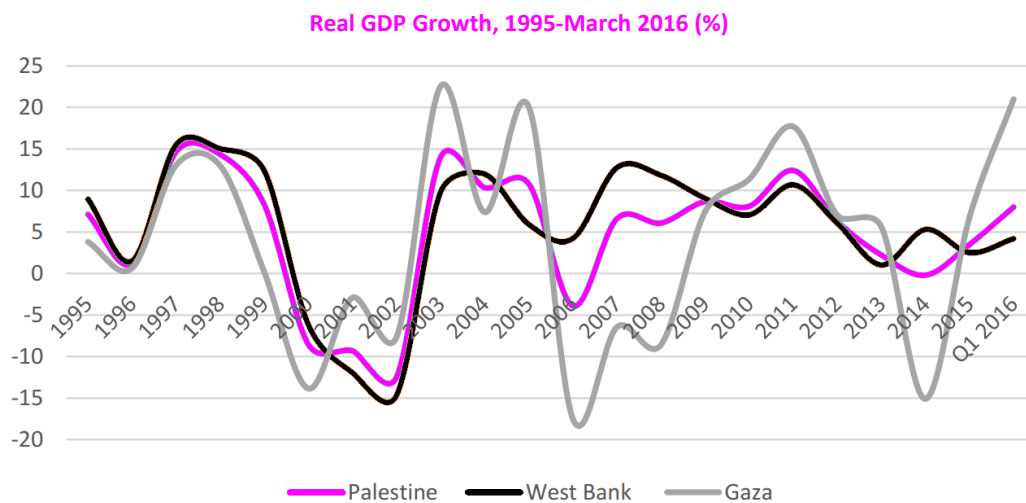
- **Poverty line** (as above plus spending for education, health, transportation, personal care & housekeeping supplies): **NIS 2,293**.

## Key Indicators of the Palestinian Economy (excl. Jerusalem, selected years)

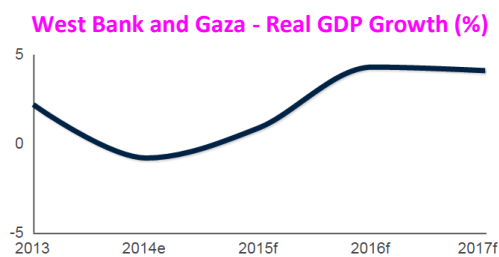
	1995	1999	2002	2006	2009	2012	2014 <sup>1</sup>	2015 <sup>1</sup>
GDP (US\$ million)	3,283	4,271	3,556	4,910	7,268	11,279	12,716	12,677
GNI (US\$ million)	3,723	5,025	3,775	5,333	7,800	12,137	14,198	14,059
GDP per capita (US\$)	1,427	1,553	1,182	1,449	1,963	2,787	2,960	2,866
GNI per capita (US\$)	1,618	1,827	1,255	1,573	2,107	2,999	3,305	3,178
Real GDP growth (%)	7.1	8.3	-12.5	-3.9	8.7	6.3	-0.2	3.5
Real GNI growth per capita (%)	0.5	4.7	-16.1	-5.4	3.2	3.6	-1.9	-0.2

Source: UNCTAD, *Report on UNCTAD's Assistance to the Palestinian People*, Sept. 2016. <sup>1</sup> Preliminary estimates.

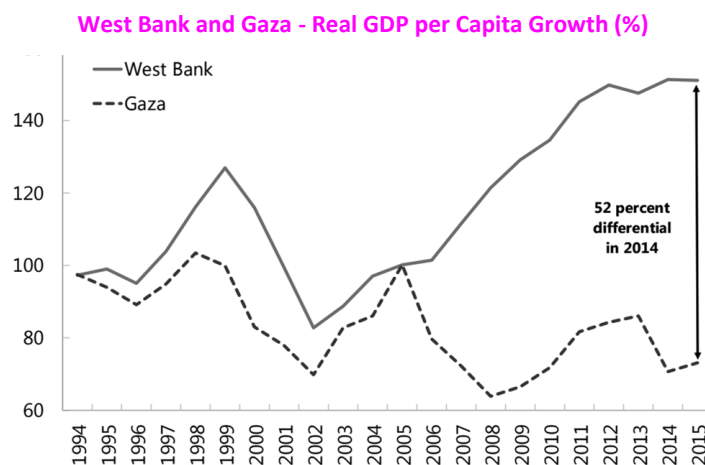




Source: World Bank, *Economic Monitoring Report to the Ad Hoc Liaison Committee*, September 2016.

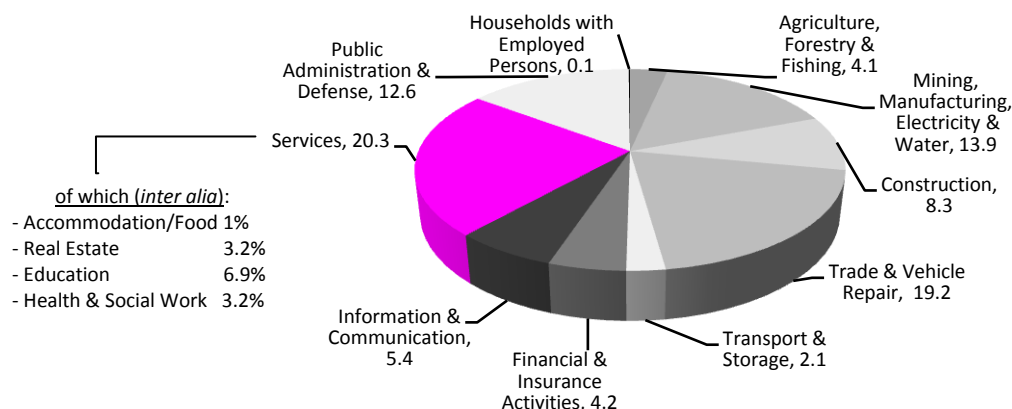


Source: World Bank databank, *Economy and region specific forecasts and data*.



Source: IMF World Economic Outlook and IMF staff calculations, in: IMF, *West Bank and Gaza, Report to the Ad Hoc Liaison Committee*, August 2016.

### WBGs Economic Structure, 2016 (% of GDP)



Source: PCBS, Quarterly National Accounts, Second Quarter 2016 (East Jerusalem excluded).

### GDP by Economic Activity and Activity Shares, WBGs, June 2016

Economic Activity	West Bank	Gaza	Total
<b>Agriculture, Forestry &amp; Fishing</b>	<b>2.8%</b>	<b>3.1%</b>	<b>2.9%</b>
<b>Mining, Manufacturing, Electricity &amp; Water</b>	<b>15.3%</b>	<b>8.1%</b>	<b>13.6%</b>
- Mining and Quarrying	0.5%	0.1%	0.4%
- Manufacturing	13%	4.6%	11%
- Electricity, Gas, Steam, Water Supply, Sewerage	1.8%	3.4%	2.2%
<b>Construction</b>	<b>7.1%</b>	<b>9%</b>	<b>7.6%</b>
<b>Wholesale &amp; Retail Trade, Repair (Vehicles)</b>	<b>17.1%</b>	<b>16.7%</b>	<b>17.0%</b>
<b>Transport &amp; Storage</b>	<b>2.3%</b>	<b>1.4%</b>	<b>2.1%</b>
<b>Financial &amp; Insurance Activities</b>	<b>4.8%</b>	<b>2.3%</b>	<b>4.2%</b>
<b>Information &amp; Communication</b>	<b>7.2%</b>	<b>0.5%</b>	<b>5.6%</b>
<b>Services</b>	<b>18.7%</b>	<b>25.5%</b>	<b>20.3%</b>
- Accommodation and Food Services	0.7%	1.8%	1.0%
- Real Estate	4.6%	2.8%	4.2%
- Professional, Scientific & Technical Activities	1.9%	0.2%	1.5%
- Administrative & Support Services	0.7%	2.4%	1.1%
- Education	6.4%	8.8%	6.9%
- Health and Social Work	2.6%	5.3%	3.2%
- Arts, Entertainment & Recreation	0.3%	1.0%	0.5%
- Other Services	1.5%	3.2%	1.9%
<b>Public Administration and Defense</b>	<b>6.9%</b>	<b>30.9%</b>	<b>12.6%</b>
<b>Households with Employed Persons</b>	<b>0.1%</b>	<b>0.1%</b>	<b>0.1%</b>
Minus: FISIM	-3.2%	-1.8%	-2.9%
Plus: Customs Duties	10.3%	1.2%	8.1%
Plus: VAT on Imports (net)	10.6%	3.0%	8.8%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>GDP at current prices (US\$ million)</b>	<b>2,531.2</b>	<b>849.9</b>	<b>3,381.1</b>
<b>GDP at constant prices (US\$ million)</b>	<b>1,550.8</b>	<b>484.4</b>	<b>2,035.2</b>

Source: PCBS, Quarterly National Accounts, Second Quarter 2016 (2004=base year), Sept. 2016. \*Excl. East Jerusalem.

- The **inflation rate** remains low and in line with Israeli price trends, averaging 0.19% (WB: 0.24%, GS: 0.2%) during Jan.-June 2016 (World Bank, *Economic Monitoring Report to the AHLC*, Sept. 2016).

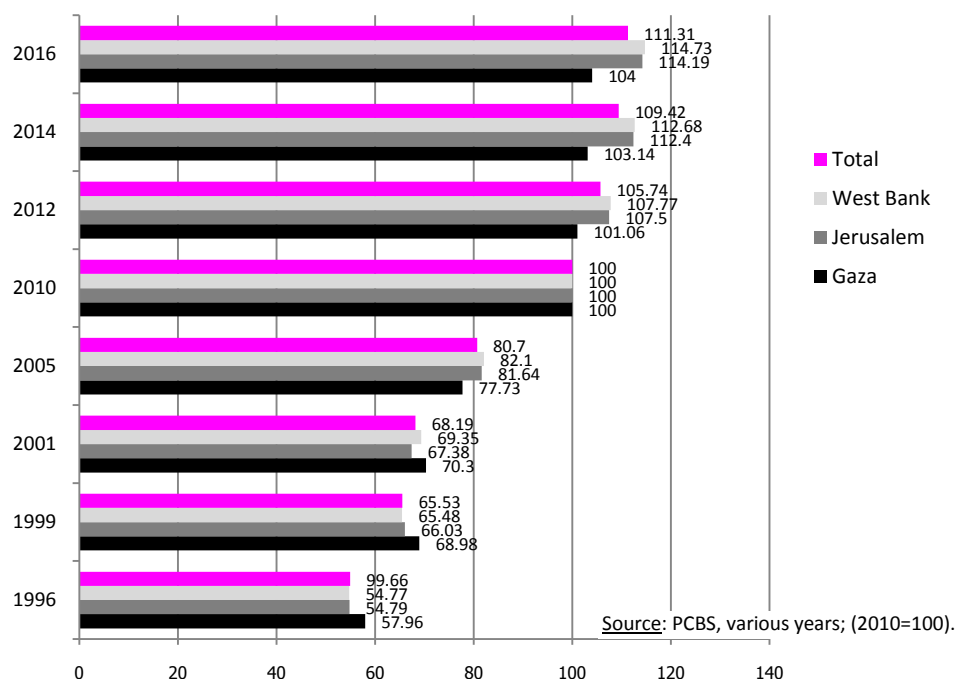


- The **per capita income growth** has almost stagnated and the projected growth rate of 3.3% for 2016 will not support an improvement in living standards (*Ibid.*).

### ■ Consumer Price Index (Yearly Averages)

The **Overall Consumer Price Index** for the WBGs (2010=100) reached 111.31 in September 2016, decreasing by 0.68% compared with Aug. 2015. During the first nine months of 2016 the CPI increased by 0.14% compared with the same period of the previous year (WB: 0.25%, GS: -0.33%, Jerusalem: -1.24%) (PCBS, *Monthly Consumer Price Index Numbers*, September 2016).

During 2015 the CPI had **grown** by 1.43% compared to 2014, mainly due to increased prices for alcohol & tobacco (+10.92%), education services (+4.98%), textiles, apparels & footwear (+4.75%), and furniture & home appliances (+3.41%). In the same year, prices **decreased** mainly for lodging and related supplies (-5.64%) and transportation (-1%) (PCBS/MAS/PMA, *Quarterly Economic and Social Monitor*, #44, May 2016).



## Agriculture

The agricultural sector (which accounted for over half of the GDP in 1968) is suffering from occupation-related actions (e.g., blockades, closures; restricted access to land, especially Area C, and natural resources, mainly water; deterioration of water quality; damages to agricultural assets; restrictions on import of fertilizers and on free trading and movement; confiscation of land and water resources; insufficiency of vaccines; uprooting of trees, difficulty to obtain needed permits for infrastructure, etc.) resulting in inefficiencies and weak competitiveness. Despite the same climate and natural



environments, Palestinian agricultural output and productivity lags behind that of the region: on average, the yield per dunum in the WBGS is half that in Jordan and only 43% of the yield in Israel. (UNCTAD, *The Besieged Palestinian Agricultural Sector*, November 2015).

### Productivity Differences in Palestine and Israel (Selected Crops)

	Israel	OPT	Productivity OPT relative to Israel
<b>Irrigated</b>			
Chickpeas (tons/hectare/year)	3	1.5	0.49
Oranges (tons/hectare/year)	42.5	30.7	0.71
Bananas (tons/hectare/year)	65	32.5	0.5
Dates (tons/hectare/year)	15	5	0.33
Table grapes (tons/hectare/year)	26	6.67	0.26
Tomatoes (tons/hectare/year)	400 (greenhouses)	127	0.32
<b>Rain-fed</b>			
Winter wheat (tons/hectare/year)	2.5–6.2	1.6	0.63–0.25
Barley (tons/hectare/year)	0.5–2.0	1.4	2.8–0.7
Olives (tons/hectare)	1.5–2.5	0.4–2.4*	0.27–0.96
<b>Livestock</b>			
Milk cows (average litres of milk/cow/year)	11 448	4 716	0.41

Source: UNCTAD, *The Besieged Palestinian Agricultural Sector*, November 2015.

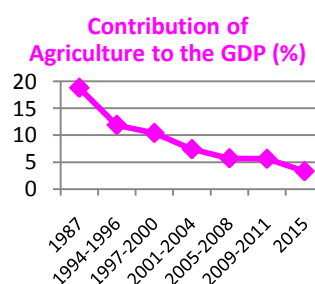
**Agrifood exports** currently account for 21% of Palestinian exports. Israel accounts for over 75% of the total export value, followed by Arab countries (12% in 2013) and Europe (5% in 2013) (UNSCO, *Report to the AHLC*, September 2016).

It is estimated that the **occupation of Area C** (= 60% of West Bank land and over 66% of its grazing land) costs the Palestinian economy the equivalent of 35% of GDP (US\$4.4 billion in 2015). Moreover, since 1967, over 2.5 million **productive trees** (including 800,000 olive trees) have been **uprooted**. Only 35% of **irrigable Palestinian land** is actually irrigated, costing the economy 110,000 jobs per year and 10% of GDP, and at least 10% of the most **fertile** West Bank land has been lost due to construction of the Separation Barrier (UNCTAD, *Report on UNCTAD's Assistance to the Palestinian People*, Sept. 2016).

In 2015, the number of **employed** persons in the sector fell by 14.3% over 2014, comprising only 8.7% of total employment (PCBS, *Performance of the Palestinian Economy*, 2015, May 2016).

The **GDP share** of agriculture has declined by 72% since 1994 (*Report on UNCTAD's Assistance to the Palestinian People*, July 2014). It was estimated at 3.3% in 2015 and at 2.9% in June 2016 (WB: 2.8%, GS: 3.1%) (PCBS, *Quarterly National Accounts*, Q2-2016).

As of June 2016, 7.4% of the **employed persons** in the WBGS were working in agriculture, fishing and forestry (WB: 8.4%, GS: 5.3%), many of them as unpaid family members (37.2% of all unpaid family members in the total work force worked in this field (WB: 42.2%, GS: 18.9%) (PCBS, *Labor Force Survey*, Q2-2016).



Source: UNCTAD, *The Besieged Palestinian Agricultural Sector*, Nov. 2015

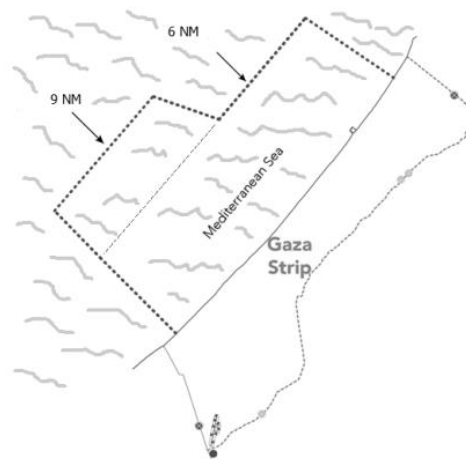


## The Agricultural Sector at a Glance

	WBGS	West Bank	Gaza
<b>No. of Agricultural holdings<sup>b</sup></b>	105,238	85,885	19,353
- plant holdings <sup>b</sup>	71,761 (68.2%)	58,694	13,067
- mixed holdings <sup>a</sup>	20,010	17,107	2,903
- animal holdings <sup>a</sup>	12,167	8,569	3,598
<b>Total Cultivated Land Area (dunums)<sup>c</sup></b>	931,500	843,500	88,000
- of which with permanent crops	659,900	612,700	47,200
<b>No. of cattle<sup>a</sup></b>	33,980	25,612	8,368
<b>No. of sheep<sup>a</sup></b>	730,894	670,332	60,562
<b>No. of goats<sup>a</sup></b>	215,335	204,937	10,398
<b>No. of camels<sup>a</sup></b>	2,058	1,226	832
<b>No. of donkeys, mules and horses<sup>b</sup></b>	21,137	16,160	4,977
<b>No. of broilers<sup>a</sup></b>	31,515,383	23,297,203	8,218,180
<b>No. of layers<sup>a</sup></b>	1,776,778	1,425,579	351,199
<b>No. of turkeys<sup>a</sup></b>	546,413	538,320	8,093
<b>No. of rabbits<sup>a</sup></b>	19,690	18,812	878
<b>No. of beehives<sup>a</sup></b>	46,226	39,211	7,015
<b>No. of greenhouses<sup>b</sup></b>	14,633	10,054	4,579

Sources: <sup>a</sup> PCBS, Livestock Survey, 2013, April 2014, <sup>b</sup> PCBS/Ministry of Agriculture, Agricultural Statistics Survey, 2010/2011, July 2012, <sup>c</sup> PCBS, West Bank Northern Governorates Statistical Yearbook, 2013, 2014.

- **Olives** are the main source of income for some 80,000 Palestinian families; they cover some 48% of the agricultural land in the WBGS and account for 70% of fruit production, contributing around 14% to the Palestinian economy. 93% of the olive harvest is used for olive oil production (JAI Olive Tree Campaign, *Report 2014-2015*). There were 272 operating **olive presses** in Palestine (WB: 248, GS: 24) in 2015, which extracted 21,084.4 liters of oil (PCBS, *Olive Presses Survey*, 2015).
- In **Gaza**, half of the **cultivable area** and 85% of **fishery resources** are **inaccessible** to Palestinians, while the **cost** of the direct **damage** inflicted by Israel between 2008-14 is estimated to be at least three times the size of Gaza's annual GDP (UNCTAD, *Report on UNCTAD's Assistance to the Palestinian People*, Sept. 2016).
- Over 35,000 Palestinians depend on Gaza's **fish-ing industry**. On 3 April 2016, Israel expanded the **fishing area** along the southern coast to 9 nautical miles (NM), while retaining the current 6 NM fishing limit in the north (the Oslo Accords stipulate 20 NM!). As a result, the quantity and diversity of the catch increased by 25%. However, on 27 June Israel reversed the decision, then reintroduced it for two months starting 1 November (UN OCHA, *Humanitarian Bulletin*, May 2016).

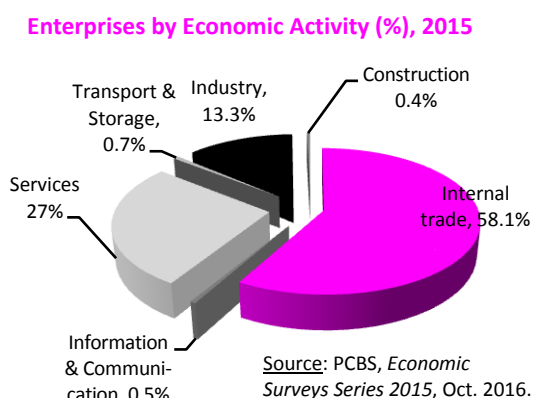


## Industry & Private Sector

### ■ Facts & Figures

- Israeli imposed administrative and movement/access restrictions severely limit private sector activity and discourage **private investment**, which is amongst the lowest in the world. As a result **productive capacity** remains very low and aid dependency increases. In 2013-15, the sector witnessed further **deterioration**, indicated by a 9% drop in the PCBS industrial production index.

- Investment in plant and machinery as a proportion of GDP has fallen from 12.9% in 2000 to 4.8% in 2014. The current annual level of **underinvestment** in plant and machinery amounts to about \$1.4 billion a year (Office of the Quartet, *Report for the Meeting of the AHLC*, September 2016).
- As a result of the ongoing restrictions, the Palestinian economy has been **de-industrialized** with the share of **manufacturing** in GDP dropping from 18% in 1995 to around 10%. Private **investment** levels, averaging about 15% of GDP in recent years, are very low and concentrated in **low productivity** activities less affected by political risk. Some 50% of all private lending is going to construction or consumer loans (World Bank, *Economic Monitoring Report to the AHLC*, September 2016).
- The **industrial** sector's (manufacturing, mining/quarrying) share of the Palestinian **GDP** was estimated at 13.6% in June 2016 (WB: 15.3%, GS: 8.1%) (PCBS, *Quarterly National Accounts*, Q2-2016).
- The number of **newly registered companies** in the West Bank in 2015 was 1524, up 34 (or 2.3%) from 2014 (PCBS/MAS/PMA, *Quarterly Economic and Social Monitor*, #44, May 2016).
- By June 2016, 14.6% of the **employed persons** were working in mining, quarrying & manufacturing (WB: 18.4%, GS: 5.8%), 18% in construction (WB: 23.3%, GS: 5.5%) (PCBS, *Labor Force Survey*, Q2-2016).
- Palestinian **business** is dominated by micro- and small enterprises (90% of firms have less than 20 employees), which is correlated with capital intensity and low labor productivity (World Bank, *West Bank & Gaza: Investment Climate Assessment – Fragmentation and Uncertainty*. Report No. AUS2122, 2014.)
- In 2015, there were 135,880 non-agricultural **enterprises** in Palestine (WB: 94,175; GS: 41,705), the majority of which were active in trade (PCBS, *Economic Surveys Series 2015*, October 2016).
- Most of the **operating establishments** are **sole proprietors** (85.4%) with no further branches (90.9%). Some 90.8% of the establishments are privately **owned**, 5.6% by the government and 2.6% by the NGOs. Hebron is the governorate with most establishments, while Jericho has the least (PCBS, *Establishment Census*, 2013).
- As of Oct. 2016, 48 companies from five main economic sectors (banking/financial services, insurance, investments, industry, services) were listed in the **Palestinian Stock Exchange** (<http://www.pex.ps>), which in September 2016 was listed by global financial index provider FTSE Russell.
- The WBGS ranked only No. 140 (out of 190) on the World Bank's **Doing Business 2017** index (down from 138 in 2016 and 129 in 2015), which lists economies on their ease of doing business (starting/operating a local firm). It ranked No. 101 in paying taxes, No. 70 in getting electricity, and No. 99 in trading across borders, but only No. 158 in protecting minority investors, No. 169 in starting a business, No. 157 in dealing with construction permits, and 169 in resolving insolvency. Among the 20 Middle East/North African states, Palestine ranked No. 14. In comparison, Israel ranked No. 52 on the overall list (<http://www.doingbusiness.org/rankings>).
- In the **UNDP's 2015 Human Development Index**, Palestine ranks 113 (down from 107 in 2014) out of 188 countries with an HDI of 0.677, lying above the average for both countries in the medium human development group (HDI: 0.630) and the Arab states (HDI: 0.686). Israel, in comparison, ranks No. 18 with an HDI of 0.894. (<http://hdr.undp.org/en/countries/profiles/PSE>).





## Labor Market & Employment

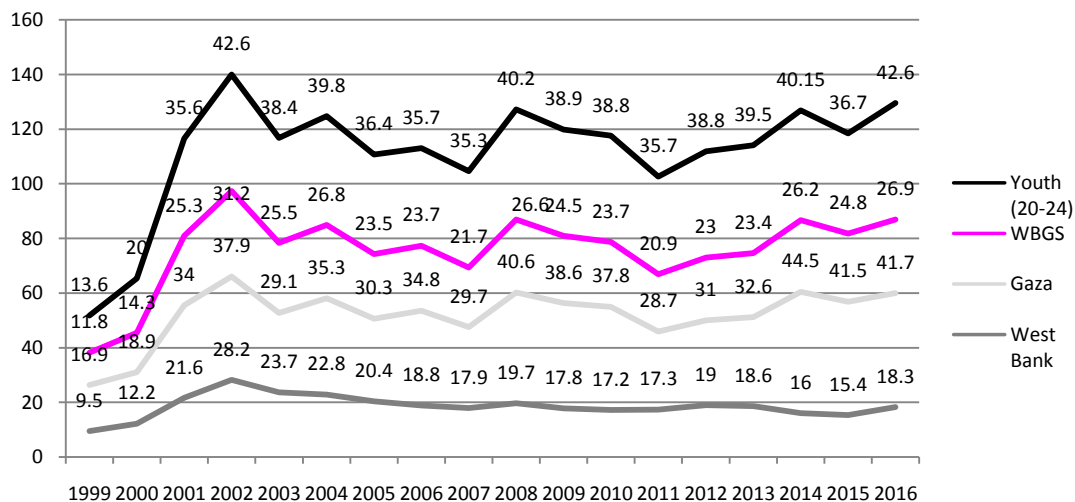
### ■ General Development

- In 2015, the size of the **labor force** increased by 4.3%, the number of **employed** persons grew by 5.1% (WB: 2.3%, GS: 11.4%) and the **labor force participation rate** stood at 46% (down from 46.7%), resulting in an **unemployment** rate of 25.9% (compared with 27.2% in 2014) (PCBS, *Performance of the Palestinian Economy, 2015, May 2016*).
- As of June 2016, the **Palestinian labor force** (working age population of 15+ years) was – by ILO standards - 2,918,000 people strong, of which 1,333,800 (or 45.7% - which is very low by international standards) **participated** in the labor force (WB: 45.8%, GS: 45.5%), while 54.3% or 1,584,200 people remained **outside the labor force**. Of the 45.7% participating, 71.1% were males and 19.6% females (PCBS, *Labor Force Survey Report Series, Q2-2016*).
- The main **reason** for being **outside the labor force** is housekeeping (44.1%), followed by studying/training (32.7%) and age/illness (14.8%) (*Ibid.*).
- Some 83.4% of West Bank and 100% of Gaza workers were working in the **Palestinian territories**, 74.8% and 81.2% of them within the same region. About 16.6% of the West Bankers were employed in **Israel**, incl. settlements (*Ibid.*).
- Of the employed workforce, 64.4% were working in the **private sector** (WB: 67.8%, GS: 56.1%), 21.2% (WB: 14.6%, GS: 37.3%) in the **public sector**, 2.7% in **other sectors** (WB: 1.0%, GS: 6.6%), and 16.6% of the West Bank labor force in Israel or settlements (*Ibid.*).
- As of June 2016, **average daily net wages** for Palestinians were NIS 98.3 (West Bank, excl. settlements), NIS 61.6 (Gaza) and NIS 221.9 (Israel and settlements). The average daily wage in the **public sector** was NIS 103 (WB: NIS 109.9, GS: NIS 91.6) compared to NIS 76.3 (WB: NIS 93.2, GS: NIS 36.6) in the **private sector**. Excluding Israel, the average wage for men was NIS 85.6, for women 85.8. The **highest** average daily wages were paid in services/other branches (WB: NIS 111.4; GS: NIS 84.8) and in Israel in construction (NIS 249.6). The **average monthly wage** in the WBGS was NIS 2,870 (PCBS, *Labor Force Survey Report Series, Q2-2016*).
- On 9 October 2012, the PA adopted a **minimum wage** at the rate of NIS 1,450 per month, NIS 65 per day and NIS 8.50 per hour. However, about 36% (WB: 21%, GS: 67%) of private sector wage employees receive less than the minimum wage (PCBS, *Press Release on Palestinian Child Day, 5 April 2016*). In comparison: the minimum wage in Israel rose to NIS 4,825 and NIS 25.94 per hour in July 2016 and will increase to NIS 5,000 in January 2017.
- At 15% of GDP, the relative size of the **PA's wage bill** is amongst the highest in the world.
- As of June 2016, **unemployment** - by ILO standards - stood at 26.9% (WB: 18.3%, GS: 41.7%). Unemployment among **refugees** was with 34.1% considerably higher than among non-refugees (22.1%), and among **women** (44.7%) much higher than among men (22%). The highest unemployment occurred in the **age** group from 20-24 years (42.6% - WB: 30.2%, GS: 61.9%). **Unemployment figures** do neither include underemployed workers (1.9% of the labor force) who have turned to unpaid family or seasonal agriculture labor, nor discouraged workers who have left the labor force, nor the large number of workers absent from their usual work due to illness, work stoppage, etc. but still receiving their pay).





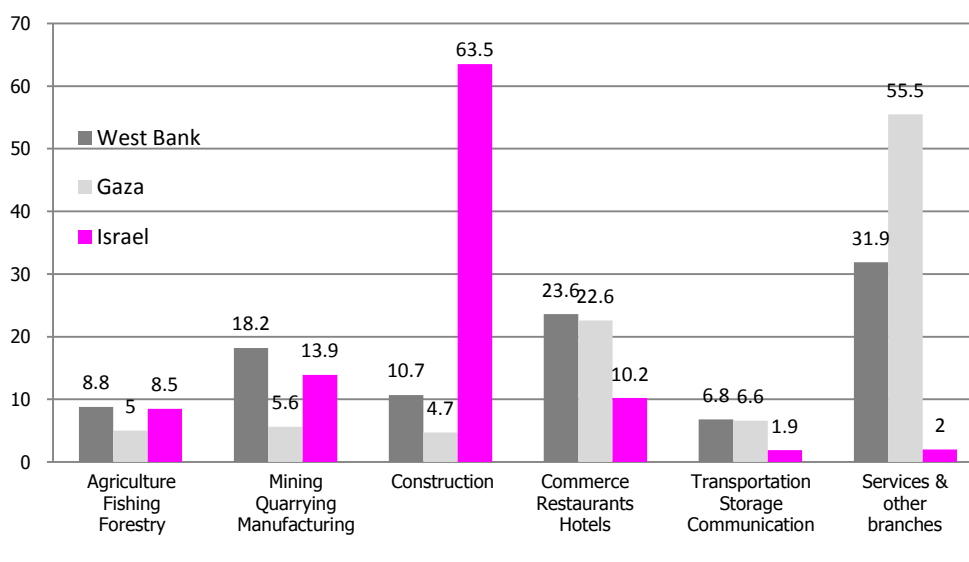
## Unemployment in the West Bank and Gaza Strip, 1999-June 2016



Source: PCBS, Labor Statistics, various years.

- Some 17.5% of the employed persons are affiliated to a **workers vocational union**, far more in the Gaza Strip (30.4%) than in the West Bank (12.2%) (PCBS, *Labor Force Survey Report Series*, Q2-2016).
- Of the private sector wage employees, 53.3% are hired **without a contract** (WB: 45.4%, GS: 69.6%), only 22.9% contribute to a **pension fund**, 22.8% have **annual paid leave** and 37.7% of female employees receive paid **maternity leave**. (*Ibid.*).

## Labor Force Distribution by Sector (%)



Source: PCBS, *Labor Force Survey Report*, Q2-2016.



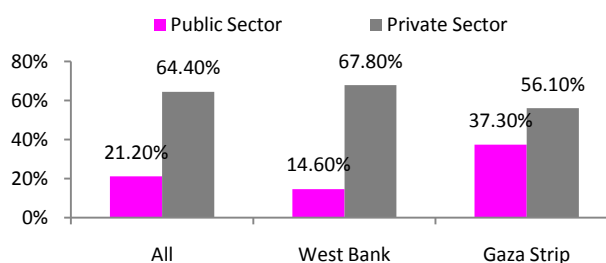
### Palestinian Labor Force – Various Features (by ILO Standards)

By Employment Status (%)	2016 (June)			1997-99	2005	2010
	WB	GS	Total	Average		
Labor force participation rate	45.8	45.5	45.7	42.85	40.4	41.1
Full employment	79.7	56.6	71.2	77.7	69.9	69.2
Underemployment (time related)	2.0	1.7	1.9	6.7	6.6	7.1
Unemployment	18.3	41.7	26.9	15.5	20.4	23.7
<b>By Labor Status (%):</b>						
Employers	7.4	3.3	6.2	5.5	4.3	6.4
Self-employed	21.4	14.0	19.2	20.4	26.1	18.8
Waged employees	64.8	78.5	68.8	65.4	59.5	67.6
Unpaid family members	6.4	4.2	5.8	8.7	10.1	7.2
<b>By Economic Activity (%)*:</b>						
Agriculture, forestry, fishing	8.4	5.3	7.4	12.8	15.0	11.8
Mining, quarrying, manufacturing	18.3	5.8	14.6	15.8	12.9	11.4
Construction	23.3	5.5	18.0	21.2	12.8	13.2
Commerce, hotels, restaurants	22.9	25.2	23.6	17.8	19.2	19.3
Transport, storage, communication	6.6	7.4	6.9	4.7	5.6	6.0
Services and other branches	20.5	50.8	29.5	27.7	34.5	38.3
<b>Working Time and Wages</b>						
	WB	GS	Israel	WBGS average		
				1997-9	2005	2010
Average weekly working hours	44.5	37.8	40.7	44.3	42.4	41.5
Average monthly working days	23.1	23.0	20.1	22.6	23.3	22.2
Average daily net wage – NIS	98.3	61.6	221.9	67.8	77.0	91.7
Median daily net wage - NIS	88.5	46.0	200	53.8	67.0	76.9

\* Including workers in Israel and settlements; Source: PCBS, *Labor Force Survey Report*, Q2-2016, previous rounds.

### Public Sector Employment

- As of June 2016, 21.2% of the employed workforce worked in the **public sector** (WB: 14.6%, GS: 37.3%) as compared to 64.4% in the **private sector** (WB: 67.8%, GS: 56.1%) (PCBS, *Labor Force Survey Report Series*, Q2-2016).



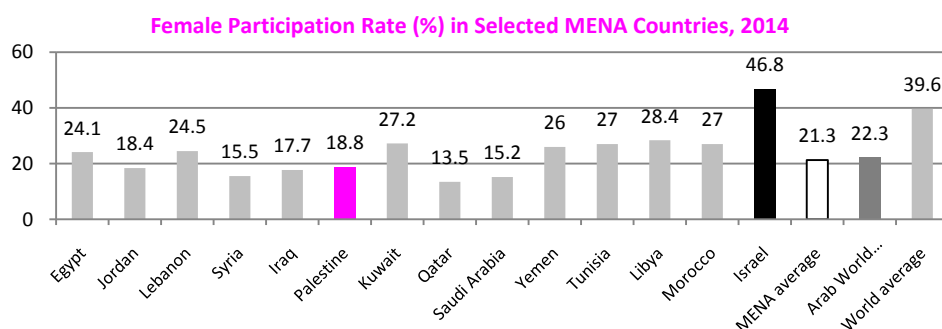
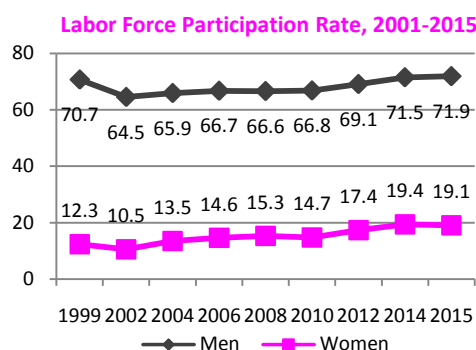
- As of June 2016, the **average daily wage** in the public sector was NIS 103 (WB: NIS 109.9, GS: NIS 91.6) compared to NIS 76.3 in the private sector (PCBS, *Labor Force Survey Report*, Q2-2016).
- At **45% of total expenditures** and **15% of GDP**, the relative size of the **PA's wage bill** is amongst the highest in the world and well above the below 10% of GDP figure that is expected from a country of Palestine's level of development. The high wage bill - a major contributor to the PA's chronic fiscal difficulties - is mainly driven by the high average public sector wage, while other reasons include pay practices, annual 1.25% step increases, and automatic promotions (World Bank, IMF, *Reports to the Ad Hoc Liaison Committee*, September 2016).
- Although the overall number of **civil servants** is not large by international standards, particularly the health, education and security sectors are considered overstaffed. Since 2013, the PA's annual budget has called for a **zero net hiring** policy, but the number of PA employees has increased by 1,453, on a net basis, between 2013 and 2015. **PA employment increased** by

4,306 in the West Bank and by 102 abroad, and decreased by 2,955 in Gaza. The net increase in education, security and health was 1,557, 330 and 14 employees respectively (World Bank, *Economic Monitoring Report to the Ad Hoc Liaison Committee*, September 2016).

- Some **40% of the PA's wage bill** (or 6% of GDP) goes to **Gaza**, although the PA has not received any domestic revenue from there since 2006 (IMF, *West Bank & Gaza - Report to the AHLC*, May 2015).
- Based on the PA pension system, there were **151,646 public sector employees**: 86,359 civil servants and 65,277 security personnel in 2015 (World Bank, *Report to the AHLC*, September 2015).

### ■ Women in the Labor Force

- Despite the high and successful secondary school enrolment of women, which generally correlates positively with female work, women's **labor force participation** (15+ yrs) remains low, accounting for only 19.6% of the formal **labor force** (18.4% in the WB, 21.7% in Gaza) - one of the lowest in the world. As of June 2016, 44.7% of the female labor force was **unemployed** (males: 22.1%), most of them (68.4%) in the 20-24 years age group. (PCBS, *Labor Force Survey Report Series*, Q2-2016). While the female rate has increased over the last 15 years, it is still low by regional comparison (see table below).



Source: World Bank, <http://data.worldbank.org/indicator/SL.TLF.TOTL.FE.ZS?view=chart>.

- Most working women (47.2%) have over 13 or more years of **schooling**. However, the highest unemployment rate was also among those with 13+ years of schooling (50.9%) (PCBS, *Labor Force Survey Report Series*, Q2-2016).
- Of the **women outside the labor force**, 60.4% did not participate due to housekeeping and 25.7% due to studying/training, resulting in a great loss of economic potential (*Ibid.*).
- **Employment of women** is concentrated in services (62.9%, mostly in public administration) and in agriculture (13.1%, often as unpaid family helpers) (PCBS, *Press Release on International Women's Day 2016*, 8 March 2016).
- The vast majority of the female labor force (70.7%) were **wage employees**, 13.5% **self-employed**, 13.4% **unpaid family members**, and 2.4% **employers** (*Ibid.*).
- Of the working women, 19% are from **rural** areas, 19.5% from **urban** areas and 21.5% from refugee **camps**. (*Ibid.*).



## ■ Children & Youth

- In 2015, 2% of children aged **10-14 years** were working (up from 2.1% in 2012) as were 9% of the **15-17 years** old (up from 7.7% in 2012). Of these 15.5% (10-14 years) and 33.7% (15-17) respectively were not enrolled in education (PCBS, *Press Release on Palestinian Child Day*, 5 April 2016).
- The main **reason for child labor** is low economic status of the household. As of June 2016, **3.7%** of children aged 10-17 years were **employed** (WB: 5%, GS: 1.8%) (PCBS, *Labor Force Survey Report Series*, Q2-2016). In 2015, **most** of the working children **worked** in trade/restaurants/hotels (34.8%) or agriculture (27.4) (PCBS, *Press Release on Palestinian Child Day*, 5 April 2016).
- In mid-2016, 41% of **youth** (15-29 years) were economically active, but their **unemployment** rate had reached 39%. The highest unemployment was among 20-24 year olds (43%), followed by the 25-29 years (39%) and the 15-19 years group (35%). Highest unemployment - 55% - was among youth who had not completed school. Unemployment among **youth graduates** stood at 51% (PCBS, *Press Release on International Youth Day*, 12 Aug. 2016).
- In 2015, 16% of youth (15-29 years) had successfully completed the **transition** from education **to the labor market** and worked in stable jobs, while 84% had moved out of the labor force, were unemployed, or worked in temporary jobs (<12 months) (*Ibid.*). The main reasons for not working were **unavailable** jobs (76.4%) or jobs **not matching qualifications** and experience (9.6%). (PCBS, *Palestinian Youth Survey*, 2015, Feb. 2016).
- Of the working youth 83.4% were employed in the **private** and 10.1% in the **public sector**. Some 21% tried to establish their **own businesses** (*Ibid.*).

## ■ WBGS Laborers in Israel

- Prior to the second Intifada, during the third quarter of **2000**, 146,000 Palestinians (116,000 from the West Bank, incl. East Jerusalem, 30,000 from Gaza) **worked in Israel** and settlements (PCBS). The number has significantly declined since then. **Permits for employment** in Israel are limited to security-cleared West Bank Palestinians, who are at least 22 years of age, married and possess a magnetic identification card. Workers from Gaza have not been able to obtain such permits since April 2006. The permit system continues to be subject to ad hoc adjustments (ILO, *The Situation of Workers of the Occupied Arab Territories*, 2016).
- As of June 2016, the number of Palestinians employed in Israel and settlements was **114,200** (up from 112,200 in June 2015, 109,400 in June 2014 and 103,300 in Sept. 2013). Of those, 60,400 had a **permit**, 40,600 worked without a permit, and 13,200 held an Israeli identity card or foreign passport. Some 95,100 worked in **Israel**, 19,100 in **settlements** (PCBS, *Labor Force Survey*, Q2-2016).
- As of June 2016, 16.6% of West Bank employees worked in **Israel and settlements**. The **average daily wage** in Israel and settlements was NIS 221.9, **average monthly working days** 20.1 (*Ibid.*), adding up to an average monthly wage of NIS 4,460. In comparison, the average wage for Israelis was NIS 9,844 as of July 2016 (<http://www1.cbs.gov.il>).
- The vast majority of those working in Israel or settlements worked in **construction** (63.5%), followed by mining/quarrying/manufacturing (13.9%), Commerce/Hotels/ Restaurant (10.2%) and Agriculture (8.5%) (PCBS, *Labor Force Survey*, Q2-2016).
- Employment of **Palestinians in Israel and the settlements** grew in 2015 by 5.1% to reach some 115,000 workers. According to the Israeli Coordinator of Government Activities in the Territories (COGAT), by March 2016, 58,203 Palestinians held permits to work in Israel, out of a total quota of 60,900, with a further 27,632 permits issued for work in the settlements. The quota for permits allowing overnight stays in Israel was increased from 14,000 to 16,000 and the minimum age limit lowered from 24 to 22 years. It is estimated that some 30,000 additional workers seek work in



Israel without permits or with permits issued for other purposes (than employment) (ILO, *The Situation of Workers of the Occupied Arab Territories*, 2016).

## Tourism

While the Israeli tourism industry has flourished in Palestine since 1967, often through the exploitation of Palestinian sites, the Palestinian sector faces unfair competition and discriminatory restrictions. Israel's control over land (especially in Area C), resources and people, as well as its ongoing attempts to subvert Palestinian history, culture and identity, have degenerated many of the positive potentials of tourism for Palestinians.

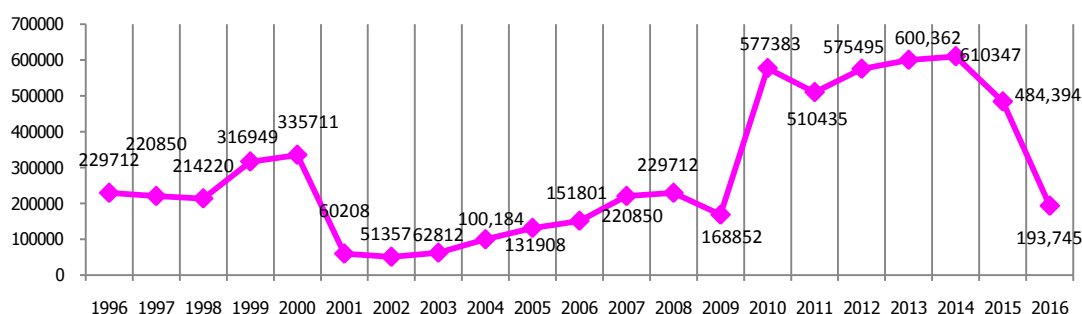
- As of June 2016, 21.7% of the **employed persons** in the WBGS were working in commerce, restaurant and hotels (WB: 21.4%, GS: 22.5%) (PCBS, *Labor Force Survey*, Q2-2016).
- In 2014, 7,064 **establishments** were working in tourism (down from 7,936 in 2013). Of these, 2,634 were restaurants, 1,129 souvenirs and handicrafts shops, 1,667 outlets in beverage serving, 224 working in antiques and wooden handicrafts, 237 car rental services, 108 organizing trips to *Haj* and *Umrah*, 116 hotels, 58 travel and tourism agencies, and 891 engaged in creative arts, entertainment and other recreational activities (PCBS, *Press Release on World Tourism Day*, Sept. 2016).
- **Accommodation and food services** contributed 1% to the **GDP** in the 2<sup>nd</sup> Quarter of 2016 (excl. East Jerusalem) (PCBS, *Quarterly National Accounts*, Q2-2016).

### Hotels and Related Features

	Area	Hotels	Rooms	Beds	Guests	Room Occupancy <sup>1</sup>	Bed	Workers engaged		
								Admin.	Operation	Total
End 1999	WBGS	92	3,752	8,102	316,871	35.5%	30.3%	308	1,399	1,637
End 2013	WB	113	6,072	13,902	600,362	21.4%	31.3%	559	2,391	2,265
as of June 2016	WB all	93	5,451	11,977	148,271					
	-North	21	435	1,212	18,704	13.1%	12.7%			
	-Middle	36	1,634	3,353	29,586	28.3%	18.1%			
	-South	36	3,382	7,412	100,072	9.2%	22.8%			
	J'lem	20	1,259	2,821	45,383	43%	30%			
	<b>Total</b>	<b>113</b>	<b>6,710</b>	<b>14,798</b>	<b>193,745</b>	<b>19.8%</b>	<b>22.4%</b>	<b>636</b>	<b>2,242</b>	<b>2,878<sup>2</sup></b>
June 2012	Gaza	12	619	1,167	2,228	11.5%	6.4%			

<sup>1</sup> Average length of stay: 3.1 days. <sup>2</sup> incl. 667 female (Source: PCBS, *Hotel Activities Surveys*, 2016.)

### Hotel Guests in Palestine, 1996-June 2016



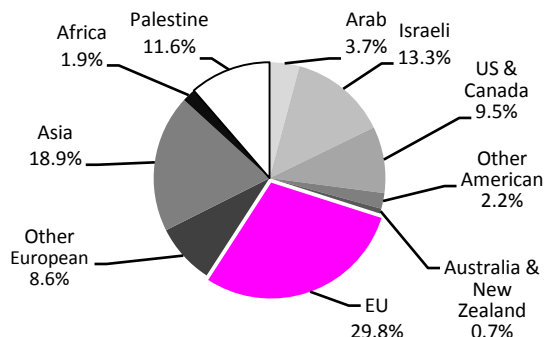
Source: PCBS, *Hotel Activities Surveys*, 1996-2016.



### Guests by Nationality (Jan.-June 2016):

Palestinian (from abroad)	21,991
Arab	8,079
Israeli	26,382
US/Canada	17,988
Other American	4,215
Australia/New Zealand	1,337
EU	56,577
Other European	16,369
Asia	37,211
Africa	3,606
<b>Total:</b>	<b>193,745</b>

Source: PCBS, *Hotel Activities Surveys*, 2016.



## Trade

The trade sector suffers from Israeli restrictions (with some 500 closure obstacles on average in the West Bank), the provisions of the 1994 Paris Protocol, an underdeveloped industrial base, and lack of access to natural resources, markets and investment. The steady increase in the non-tradable sectors (services, to lesser extent construction) and the de-agriculturalization and de-industrialization trends reflect the donor-driven nature of the economy. From 1975-2014, the **GDP share** of the tradable goods sector (agriculture & industry) dropped from 37% to 18%, the **employment share** from 47% to 23% (UNCTAD, *Report on UNCTAD's Assistance to the Palestinian People*, Sept. 2016).

### External Trade (excl. Jerusalem) - Key Indicators (millions of US\$)

	1995	1999	2002	2005	2009	2013	2014 <sup>1</sup>	2015 <sup>1</sup>
Exports of goods and services	562	752	478	736	1,133	2,072	2,172	2,323
Imports of goods and services	2,441	3,364	2,234	3,683	4,943	6,804	7,209	7,323
Trade balance (US\$ millions)	-1,879	-2,612	-1,756	-2,947	-3,810	-4,732	-5,037	-5,179
Trade balance (% of GDP)	-57.2	-61.2	-49.4	-60.0	-52.4	-37.9	-39.6	-40.8
Trade balance with Israel (US\$ million)	-922	-1,598	-886	-1,887	-2,558	-3,167	-2,920	-2,748
Trade balance with Israel (% of GDP)	-28.1	-37.4	-24.9	-38.4	-35.2	-25.4	-23.0	-21.7
PA trade with Israel –								
- as % of total Israeli trade	4.2	3.7	1.8	2.2	2.9	2.9	2.9	3.7
- as % of total PA trade	83.5	67.5	56.9	64.4	65.1	60.4	56.7	55.3

Source: UNCTAD, *Report on UNCTAD's Assistance to the Palestinian People*, September 2016. <sup>1</sup> Preliminary estimates

## Facts & Figures

- Besides food and live animals, main **trade items** of the Palestinian economy are manufactured goods (exports) as well as manufactured investment goods and raw materials (imports). The largest **import items** are mineral products (fuel, lubricants) followed by industrial supplies (mainly machinery, equipment), the largest **export items** are industrial supplies (especially articles of stone, plaster, cement, asbestos, mica or similar materials) (PCBS, *Registered Foreign Trade Statistics, 2015*, Sept. 2016; for a detailed list of trade items see: <http://www.pcbs.gov.ps/Downloads/book2216.pdf> - table 8).

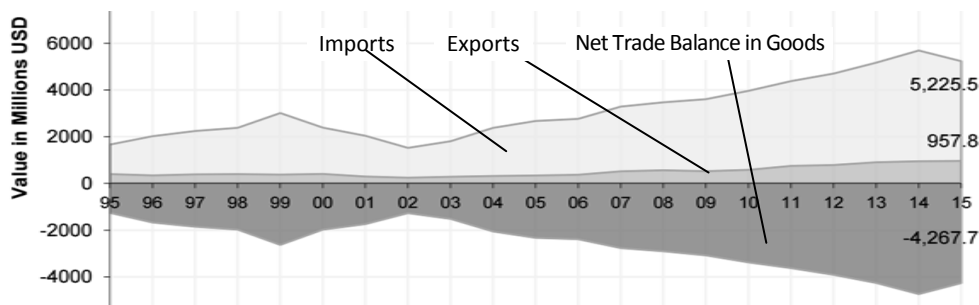


- As of June 2016, **wholesale and retail trade** (including repair) contributed 17% (WB: 17.1%, GS: 16.7%) to the **GDP** (excl. East Jerusalem) (PCBS, *Quarterly National Accounts*, Q2-2016).



- During 2015, the **balance of trade** (for registered goods) suffered a **deficit** of US\$4,267.7 million, vastly accounted to trade with Israel. Imports dropped by 13% and exports by 3.4% (PCBS/MAS/PMA, *Quarterly Economic and Social Monitor*, #44, May 2016).

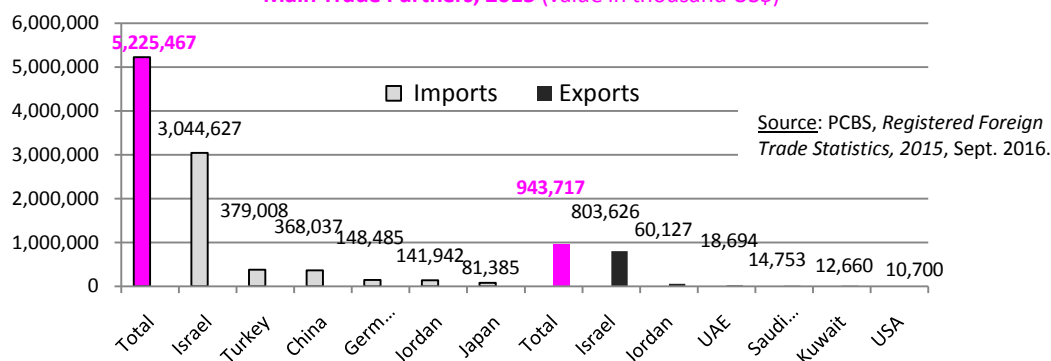
### Trade Balance in the Palestinian Territory, 1995-2015



Source: PCBS, Registered Foreign Trade Statistics, 2015 Sept. 2016.

- In June 2016, **exports** had decreased by 9.8% compared to June 2015 and reached US\$ 77.7 million, while **imports** decreased by 2.0% to US\$ 436.1 million (PCBS, *Preliminary Results of the Palestinian Registered External Trade in Goods of June 2016*, August 2016).
- While **total trade** accounts for 77% of GDP, this is mostly due to **trade with Israel**, which accounts for 55% of total Palestinian trade (which in turn accounts only 3% of total Israeli trade). In recent years, Israel accounted for more than 70% of Palestinian imports and absorbed about 85% of Palestinian exports. In 2015, the Palestinian **trade deficit** with Israel accounted for 54% of the total Palestinian trade deficit and stood at 230% of net current transfers (UNCTAD, *Report on UNCTAD's Assistance to the Palestinian People*, Sept. 2016).
- Trade dependence on Israel** as the only viable foreign market for Palestinian exports and imports persists. By June 2016, **exports to Israel** represented 87.5% of total exports, imports from Israel 52.9% of total imports (PCBS, *Palestinian Registered External Trade in Goods of June 2016*, August 2016).
- The **second most important export** market for Palestinian goods after Israel is the **EU**, which in April 2011 gave all agricultural and fishery products originating in the WBGS immediate duty free access to its market ([http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113382.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113382.pdf)). In 2015, exports to the EU amounted to €14 million (a 1.1% increase over 2014) and imports from the EU to €195 million (a 39.6% increase over 2014), resulting in a trade balance of -€181 million. Exports are mainly agricultural products (79.4%), mostly vegetable products (53.2%), imports are mainly industrial products (75.5%), mostly transport equipment (32.8%).

### Main Trade Partners, 2015 (value in thousand US\$)

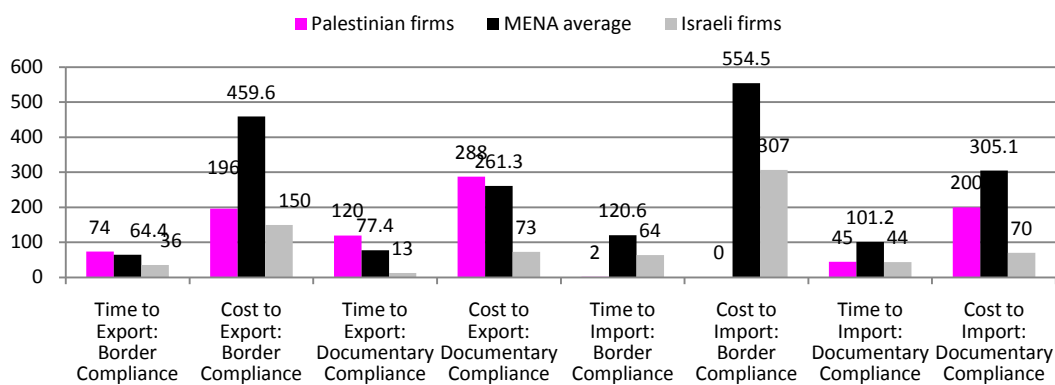


Source: PCBS, Registered Foreign Trade Statistics, 2015, Sept. 2016.



- Due to Israeli restrictions, the Palestinian trade sector is also disadvantaged when it comes to transaction costs and process duration: in the World Bank's **Doing Business 2017** index, the WBS ranked No. 99 (out of 190) in "trading across borders" (<http://www.doingbusiness.org/rankings>).

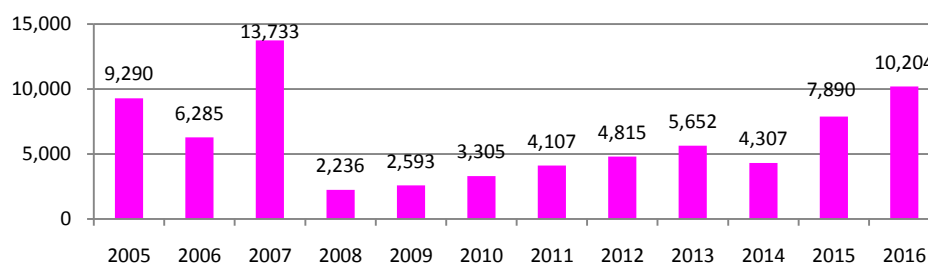
#### Trading Across Borders (in hours and US\$)



Source: World Bank, *Doing Business 2017*, <http://www.doingbusiness.org>.

- As of August 2016, a monthly average of 10,204 **truckloads of goods** had entered **Gaza** (mainly construction materials and human food products), while only 164 truckloads had left (agricultural products, furniture and clothing to the West Bank; agricultural products and scrap metal/aluminum to Israel). (OCHA, *Gaza Crossings' Operation Status, Monthly Updates*).

#### Number of Truckloads Entering Gaza (monthly average)



Source: OCHA, *Gaza Crossings' Operation Status, Monthly Update - August 2016*.

#### Commercial Crossing Points in the West Bank & Gaza

**West Bank Crossings:** *Taybeh* (or Irtah or Sha'ar Ephraim) south of Tulkarm, *Al-Jamaleh* north of Jenin, *Betunia* southwest of Ramallah and *Tarqumia* northwest of Hebron.

**Gaza Crossings:** *Al-Montar/ Karni* southeast of Gaza City, *Sufa* east of Rafah, *Karem Abu Salem/Kerem Shalom* in southeast Gaza, *Beit Hanoun/Erez* in north Gaza, *Rafah*, and *Nahal Oz*, east of Gaza City.



## Finances

### ■ Taxation

- The Gaza-Jericho Accord (May 1994) transferred the authority to organize all tax-related issues to the PA, as outlined in the *Early Empowerment Agreement* of 29 Aug. 1994. Taxation is the PA's main source of income; Israel's repeated refusal to hand over taxes collected on behalf of the PA (VAT, import, fuel, income and health taxes) and inefficiency in collecting taxes domestically have reduced the PA's **fiscal revenues** considerably.

#### Taxes in the Palestinian Territories

- **Individual Income Tax** (withheld by employer)
- **Corporate Income Tax** (for companies)
- **Foreign Dividend Tax** (on dividends distributed to shareholders of a foreign company)
- **Value-Added Tax (VAT)** (consumption-based tax imposed on all local goods and services)
- **Tax for Service Contracts** (Income generated or earned from contracts for the provision of services)
- **Tax on Dividends, Leases & Royalties** (on profit)
- **Purchase Tax** (payable by manufacturers or importers at the port of entry on certain consumer products).

Source: <http://www.pipa.gov.ps/taxation.asp>

- Under the quasi-customs union with Israel, stipulated in the 1994 *Protocol on Economic Relations*, the PA adopted - with minor exceptions - Israel's **tariff** structure and must peg its gasoline prices and **VAT** rate to Israel's (=/- 2%). The standard VAT rate is 16%. Israel collects tariffs and VAT on Palestinian imports on behalf of the PA, levying unjustifiably high **3% collection and processing fees** before transferring them. If these fees were proportional to the share of Palestinian imports in total imports handled by the Israeli tax department, they would drop from 3 to 0.6% and would have prevented \$50 million worth of overpayment to Israel in 2014 (UNCTAD, *Report on UNCTAD's Assistance to the Palestinian People*, Sept. 2016).
- The World Bank estimates that the PA is **losing** US\$285 million in **revenues** (2.2% of GDP) annually under the current economic arrangements with Israel, mainly due to **tax leakages on bilateral trade** with Israel and undervaluation of Palestinian imports from third countries. In addition, revenues currently retained by Israel but owed to the PA and to Palestinian workers (e.g., pension contributions collected from Palestinians working in Israel) is estimated at US\$669 million (5.3% of GDP) (World Bank, *Economic Monitoring Report to the AHLC*, April 2016).
- In April 2015 President Abbas issued a decree to amend the **Income Tax** Law in a bid to ease the tax burden and stimulate more consumption and investment. The annual exemption on salaries has been set at 36,000 NIS (previous: 30,000 NIS), while amended income tax brackets now range from 5-15% (previous: up to 20%). Corporation tax remains at 15% for most companies.
- **Gross domestic tax revenues** have risen continuously since 2007 due to tax collection reforms and accounted for 21.5% of total net revenues in 2015 (= US\$ 605.2 million) (PCBS, *Performance of the Palestinian Economy, 2015*, May 2016).

Old law		Amended law	
Income, NIS	Tax rate, %	Income, NIS	Tax rate, %
<30,000	exempt	<36,000	exempt
30,000-40,000	5	36,001-75,000	5
40,001-80,000	10	75,001-150,000	10
80,001-125,000	15	>150,000	15

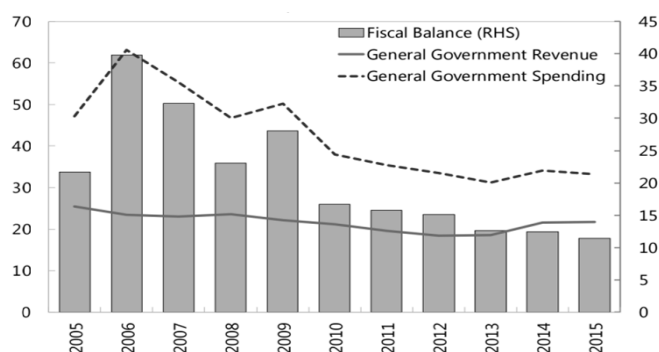
Source: IMF, *Report to the AHLC*, Sept. 2015.

### ■ Budget and Fiscal Accounts

- **Public revenues** grew by 24% in the first half of 2016 (due to domestic taxes and revenue transfers by Israel), but the PA's fiscal situation remains difficult. The **fiscal deficit** (before grants) is projected to decline to 10% of GDP (US\$1.3 billion) in 2016 and **foreign aid** to under US\$700 million, leaving a **financing gap** in excess of US\$600 million (4.7% of GDP), which will be mostly financed through arrears to the private sector and the pension fund. On the external side, the **current account deficit** (excluding official transfers) is expected to slightly decline to 21% of GDP in 2016 due to a decline in imports (World Bank, *Palestine's Economic Outlook, Fall 2016*, Oct. 2016).

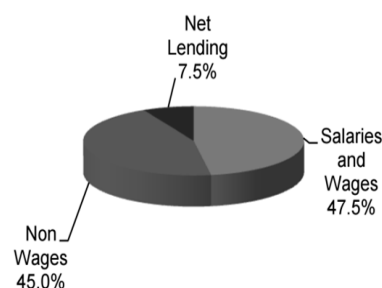


### PA Budget Indicators, 2005-2015 (% of GDP)



Source: IMF, Report to the AHLC, August 2016.

### Total Expenditure & Net Lending in Palestine, 2015



Source: PCBS, Performance of the Palestinian Economy 2015, May 2016.

### General Government Finance (West Bank), 2015

	Central Government	Local Government
<b>Expenses</b>		
<b>Total</b>	<b>US\$ 4,428.1million</b>	
Gross expenses	\$ 3,909.5 million	\$ 518.6 million
of which:- Employees' compensation	53.3%	16.7%
- Social benefits	20.3%	1.4%
- Use of goods/services	17.4%	27.7%
- Others	5.5%	17.7%
<b>Revenues</b>		
<b>Total</b>	<b>US\$ 4,112.2 million</b>	
Government revenues	\$ 3,744.0 million	\$ 638.2 million
of which: -Taxes	73.6%	14.8%
- Social contributions	0.0	0.2
- Grants and aids	21.6%	4.5%
- Other revenues <sup>1</sup>	4.8%	78.7%

<sup>1</sup> includes fees for administration, water/electricity re-sales, fines, etc.

Source: PCBS, Press Release on General Government Finance 2015, 24 Aug. 2016.

### Fiscal Indicators (in million US\$), 2007-16

	2007	2009	2011	2013	2014	2015	2016 budgeted
<b>Total Net Revenues</b>	<b>1,194</b>	<b>1,597</b>	<b>2,046</b>	<b>2,311</b>	<b>2,744</b>	<b>2,754</b>	<b>2,869</b>
Gross domestic revenues	323	585	728	853	870	855	896
Clearance revenues	896	1,103	1,424	1,690	2,049	2,055	2,260
Tax refunds	25	91	116	231	176	154	92
<b>Total Recurrent Expenditures (commitment basis)</b>	<b>2,544</b>	<b>3,190</b>	<b>3,325</b>	<b>3,693</b>	<b>4,068</b>	<b>3,973</b>	<b>3,901</b>
Wages	1,283	1,467	1,783	1,919	2,050	1,912	1,965
Non-wages	725	1,349	1,402	1,564	1,732	1,816	1,718
Net lending	535	374	140	210	286	301	218
<b>Development Expenditure (commitment)</b>	<b>310</b>	<b>430</b>	<b>370</b>	<b>187</b>	<b>262</b>	<b>230</b>	<b>350</b>
<b>Recurrent Balance (commitment basis)</b>	<b>-1,350</b>	<b>-1,592</b>	<b>-1,279</b>	<b>-1,382</b>	<b>-1,324</b>	<b>-1,219</b>	<b>-1,032</b>
<b>Overall Balance (commitment)</b>	<b>-249</b>	<b>-1,771</b>	<b>-1,649</b>	<b>-1,569</b>	<b>-1,586</b>	<b>-1,449</b>	<b>-1,382</b>
<b>Total Financing</b>	<b>249</b>	<b>1,771</b>	<b>1,649</b>	<b>1,569</b>	<b>1,586</b>	<b>1,449</b>	<b>1,382</b>

Source: IMF and Finance Ministry estimates, quoted in IMF, West Bank and Gaza - Report to the AHLC, August 2016.

- While the balance trade deficit increased, the **current account deficit** actually decreased by 20.3% in 2015 compared to 2014 to US\$1,712.9 million, mainly due to a rise of the values of net current transfers and net income (PCBS, *Performance of the Palestinian Economy, 2015*, May 2016).
- At the end of 2015, the PA's total **public debt** amounted to NIS 9.9 billion (=20% of GDP), around 50% of which was owed to the local private sector (PCBS/MAS/PMA, *Quarterly Economic and Social Monitor*, #44, May 2016).
- In 2015, **foreign assets** totaled US\$5.855 billion, 6% of which were direct investment and 18.5% portfolio investment. Total **external liabilities** reached US\$4.956 billion, 50.1% of which in the form of foreign direct investment. **External debt** totaled US\$1.649 billion (PCBS/MAS/PMA, *Quarterly Economic and Social Monitor*, #44, May 2016).
- In 2015, the current Palestinian **budget deficit** decreased by 8.2% in 2015 to US\$ 1,218.8 million compared to 2014, mainly due to a decrease in government expenditure with stable total net revenues (PCBS, *Performance of the Palestinian Economy, 2015*, May 2016).
- In 2015, **net public revenues** and **grants** amounted to NIS 14.3 billion. Aid and grants fell 29.5%, while domestic collection grew by 13.7% and clearance revenue by 8.7% (PCBS/MAS/PMA, *Quarterly Economic and Social Monitor*, #44, May 2016).
- **International aid** made up 21.7% of total **public revenue** in 2015 (*Ibid.*).
- In 2015, **gross domestic revenues** (tax, non-tax and earmarked collections) represented 32.4% of total net revenues, for up to US\$910.6 million (PCBS, *Performance of the Palestinian Economy, 2015*, 2016).
- In 2015, total **clearance revenues** increased to US\$ 2,053.5 million and constituted 73.1% of total net revenues (PCBS, *Performance of the Palestinian Economy, 2015*, May 2016).
- Access to economic activity in **Area C** (mainly agriculture and Dead Sea minerals processing industries) would increase the GDP by as much as 35% and public revenues by an estimated US\$800 million – significantly reducing the need for donor aid (World Bank, *Economic Monitoring Report to the Ad Hoc Liaison Committee*, September 2016).

### PA Expenditures (in thousand NIS), 2015

PA organization (and largest budget item)	Total Expenditure	of which ( <i>inter alia</i> ):		
		Wages & salaries	Use of goods & services	Development Expenditure
<b>Central Administration</b> <i>of which: PLO Institutions</i>	<b>1,268,591</b> 800,962	388,053	205,939	68,230
<b>Security &amp; Public Order</b> <i>of which: Ministry of Interior &amp; National Security</i>	<b>4,250,625</b> 3,847,418	3,307,421	301,143	221,447
<b>Financial Affairs</b> <i>of which: Retirees Pension Allowances</i>	<b>1,800,010</b> 1,098,288	251,552	38,780	55,953
<b>Foreign Affairs</b> <i>of which: Embassies</i>	<b>257,333</b> 206,139	147,966	87,073	83
<b>Economic Development</b> <i>of which: Ministry of Agriculture</i>	<b>362,394</b> 122,471	189,791	26,701	126,141
<b>Social Services</b> <i>of which: Ministry of Education &amp; Higher Education</i>	<b>5,490,355</b> 2,547,530	2,945,009	691,997	162,262
<b>Cultural &amp; Information Services</b> <i>of which: Palest. News Agency - WAFA</i>	<b>233,205</b> 136,813	126,167	70,744	19,046
<b>Transport &amp; Communication</b>	88,543	68,589	9,391	3,743
<b>Grand Total</b>	<b>13,751,056</b> (100%)	<b>7,424,549</b> (54%)	<b>1,431,768</b> (10.4%)	<b>656,904</b> (4.8%)

Source: PA Ministry of Finance, <http://www.pmo.ps/documents/10180/586396/Dec.+2015+v.pdf> (Table 5 B).



## ■ Banking

Data of the Palestinian Monetary Authority as of June 2016 indicate an 11.7% increase in **net assets** compared to June 2015, reaching US\$13.3 billion, and increase in **direct credit** by approx. US\$1 billion to US\$6.4 billion. While the Palestinian banking system remains **stable** and liquid in 2016, with growth in total credits and deposits, the sector's credit exposure to the public sector is a concern. As the PA's reliance on financing from the banking sector has been steadily growing, government loans now account for US\$1.44 billion or 25% of all lending by the banking system. As of June 2016, PA debt is equivalent to 96% of the banking sector's total owners' equity, i.e., the PMA's credit limit for the PA. The PA and public employees account for over 40% of total banking sector credits. (World Bank, *Economic Monitoring Report to the Ad Hoc Liaison Committee*, September 2016).

Before 1967, there were 32 banks in the West Bank and 6 in Gaza. From 1967-1980 there was no banking system at all. In 1981 a Bank of Palestine opened in Gaza; between 1986-1989, the Bank of Palestine and the Cairo-Amman Bank opened further 10 branches. A real boom started with the Oslo process, and currently there are 15 **banks** (7 Palestinian banks, two of them Islamic, and 8 Arab banks) with 158 **branches** in the WBGS, distributed as follows:

Type	Name	Branches	Type	Name	Branches
Local Commercial	-Bank of Palestine P.L.C	19	Arab Commercial	-Cairo Amman Bank	19
	-Palestine Investment Bank	7		-Arab Bank	24
	-Palestine Commercial Bank	6		-Jordan Kuwait Bank	2
	-Al Quds Bank	16		-Jordan Ahli Bank	5
	-The National Bank	5		-Bank of Jordan	12
Local Islamic	-Arab Islamic Bank	9		-Egyptian Arab Land Bank	4
	-Palestine Islamic Bank	14		-The Housing Bank for Trade & Finance	12
				-Jordan Commercial Bank	4

Source: Palestinian Monetary Authority, Fact Sheet, October 2016.

- Banks in the WBGS are governed by and fully-adhered to the **Banking Law** No. 2 of 2002 and comply with the best international banking practices. They have very limited exposure to global markets, and apply conservative lending practices domestically.
- The **Palestine Monetary Authority** (PMA) assumes several functions of a central bank (without own currency) and acts as the PA's financial agent. It manages reserves (deposited all in NIS with commercial banks in Europe), operates as a credit registry and since 2012 a deposit insurance scheme. Besides supervising 15 banks, the PMA is also in charge of 304 **licensed money changers** and 6 **specialized lending institutions** (with 75 branches) in the WBGS (PMA, Factsheet, Oct. 2016).
- The **Palestine Securities Exchange** had its first trading session on 18 Feb. 1997; by Oct. 2016, 48 **companies** were listed. In the first nine months of 2016, transactions had increased by over 23% (compared to the same period in 2015) and the **trade volume** had reached 190,46 million shares (+72.39% over same period in 2015) with a **value** of US\$339,2 million (+67%). The **Al-Quds Index** (comprised of 15 of the listed companies) had started at 139.13 in 1997, had its peak in 2005 with 1128.59 and stood at 507.77 at the end of Aug. 2016, up from 481.81 in Aug. 2015 (<http://www.pex.ps>).

## ■ Donor Assistance

- Since its establishment in 1994, the PA has received far over US\$15 billion in donor aid, with annual per capita aid averaging US\$340. Restrictions on trade and access to resources have eroded the productive capacity of the Palestinian economy over the years and donors have stressed that **aid cannot substitute** for a poor business environment. Following recent trends, **donor aid** was mainly used for **budget support**, with near total neglect for development support (currently only 11%). The **decline** in **donor funding** from 32% of GDP in 2008 to 6% in 2015 has significantly contributed to the recent economic weakening (World Bank, *Economic Monitoring Report to the AHLC*, April



2016). Consequently, PA was unable to reverse the downward trend of **public investment**, which has recently been around 2% of GDP (UNCTAD, *Report on UNCTAD's Assistance to the Palestinian People*, 2016).

- **International donor aid** has significantly **dropped** in the last six years. As of Sept. 2016, only 46% of the US\$3.5 billion **pledged by donors** for reconstruction after the **Gaza 2014** war had been dispersed. The US have given 100% and the EU 85% of their pledges, while the other major contributors (Qatar, Saudi Arabia, Kuwait, Turkey, UAE) ranged only between 15-32% (World Bank, *Economic Monitoring Report to the Ad Hoc Liaison Committee*, April 2016).

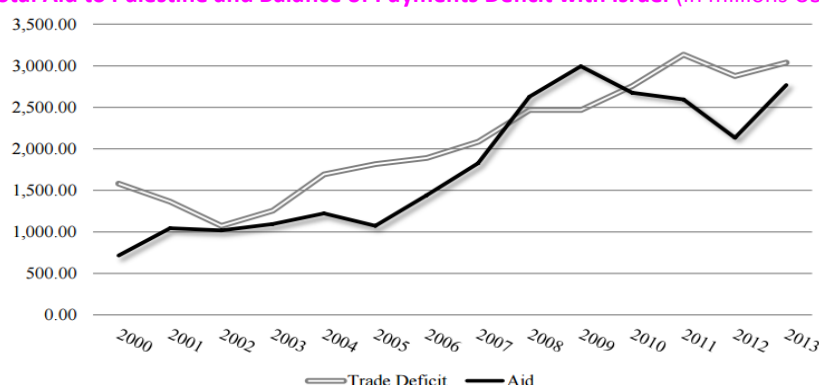
#### External Financing, as of August 2015 (in million NIS)

	Budget 2010	Budget 2012	Budget 2014	Actual Jan.-Aug. 2016 (in % of Budget)	Budget 2016
<b>A. Budget Support</b>	<b>1,243</b>	<b>3,811</b>	<b>4,785</b>	<b>1,801 (61.6%)</b>	<b>2,925</b>
<b>a. Arab Donors</b>				<b>576.1</b>	
- Saudi Arabia				461	
- Algeria				102.5	
- Egypt				12.2	
<b>b. International Donors</b>				<b>1,224.9</b>	
- USA				292	
- France				34.8	
- PEGASE				616.5	
- World Bank				281.2	
<b>B. Development Financing</b>	<b>670</b>	<b>1,140</b>	<b>1,080</b>	<b>258 (27%)</b>	<b>956</b>
<b>Total External Financing</b>	<b>1,913</b>	<b>4,951</b>	<b>5,865</b>	<b>2,059 (53.1%)</b>	<b>3,881</b>

Source: Ministry of Finance, [http://www.pmf.ps/documents/10180/813287/Aug\\_2016+new-Eng.pdf](http://www.pmf.ps/documents/10180/813287/Aug_2016+new-Eng.pdf) (Table 6).

- The Israeli economist Shir Hever recently estimated that at a minimum **78% of foreign humanitarian aid** to Palestine ends up in Israeli coffers, adding to the argument that donor countries are financing the trade imbalance between Israel and the OPT, and contribute to Israel's ability to finance the occupation (Shir Hever, *How Much International Aid to Palestinians Ends Up in the Israeli Economy?* Aid Watch, September 2015).

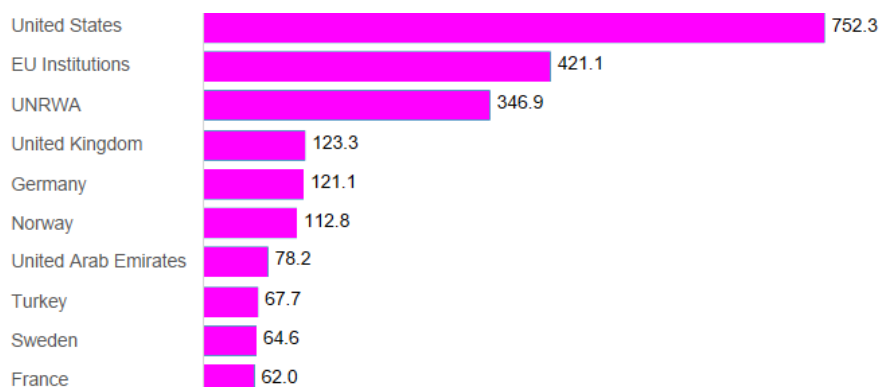
#### Total Aid to Palestine and Balance of Payments Deficit with Israel (in millions US\$)



Sources: UNCTAD, "Balance of Payments," UNCTAD STAT Data Center, 2015; World Bank, "Data: Net ODA Received Per Capita (current US\$)," 2015, quoted in [http://www.aidwatch.ps/sites/default/files/resource-field\\_media/InternationalAidToPalestiniansFeedsTheIsraeliEconomy.pdf](http://www.aidwatch.ps/sites/default/files/resource-field_media/InternationalAidToPalestiniansFeedsTheIsraeliEconomy.pdf).



### Top Ten Donors of Gross Official Development Assistance (ODA) to the WBGS, 2014 average (\$ millions)



Source: OECD - DAC ; <http://www.oecd.org/dac/stats>.

### Recommended Research Sources:

- <http://www.pma.ps> (Pal. Monetary Authority)  
<http://www.pmof.ps> (Finance Ministry)  
<http://www.portlandtrust.org>  
<http://www.imf.org/external/country/wbg/rr/>  
[http://unctad.org/en/PublicationsLibrary/app2016d1\\_en.pdf](http://unctad.org/en/PublicationsLibrary/app2016d1_en.pdf)
- <http://www.worldbank.org/ps>  
<http://www.mas.ps>  
<http://www.unsco.org>  
<http://www.pex.ps> (Stock Market)  
<http://www.mopad.pna.ps/en/>
- ARIJ**, *Palestinian Agricultural Production and Marketing between Reality and Challenges*, March 2015.  
**Arnon, A. & S. Bamyra**, eds. *Economics and Politics in the Israeli Palestinian Conflict*. The AIX Group, Feb. 2015.  
**ILO**, *The Situation of Workers of the Occupied Arab Territories*, 2015.  
**IMF**, *West Bank and Gaza - Report to the Ad Hoc Liaison Committee*, Sept. 2015.  
**Nashashibi, Karim**, *Palestinian Public Finance Under Crisis Management: Restoring Fiscal Sustainability*, UNDP, 2015.  
**Niksic, O., N.Nasser Eddin & M. Cali**, *Area C and the Future of the Palestinian Economy*, A World Bank Study, 2014.  
**Office of the Quartet**, *Report for the Meeting of the AHLC*. September 2016.  
**PA**, *Detailed Needs Assessment (DNA) and Recovery Framework for Gaza Reconstruction*, Ministerial Committee for the Reconstruction of Gaza, August, 2015.  
**PA Ministry of Planning and Administrative Development**, *Deepening Reforms, Strengthening Institutions, The Government of Palestine's Report to the AHLC*, 30 September 2015.  
**Palestinian International Business Forum, Office of the Quartet Representative, International Council of Swedish Industry**, *Palestinian-Israeli Economic Relations: Trade and Economic Regime*, 2015.  
**State of Palestine**, *The National Early Recovery and Reconstruction Plan for Gaza*, Oct. 2014.  
**UNCTAD**, *Report on UNCTAD's Assistance to the Palestinian People*, September 2015.  
**UNCTAD**, *The Besieged Palestinian Agricultural Sector*, November 2015.  
**UNSCO**, *Report to the AHLC*, September 2016.  
**World Bank**, *Economic Monitoring Report to the AHLC*, 27 May and 30 September 2015.  
**Zeira J. & Wolfson T.** *Palestinian Economic Development: Barriers and Obstacles and the Cost of Occupation*. Aix Group, January 2015.