



# Economy

## 8.1 Background & Overview

Economic prospects remain bleak due to negative political and economic trends, with restrictive Israeli policies (limiting access to natural and economic resources, closures, separation, etc.) continuously eroding the productive capacity and causing heavy dependency on external support, which, however, is declining. UNCTAD has denounced that the occupation inflicts a heavy **economic cost** and denies the Palestinian people their human **right to development** (UNCTAD, *The Economic Costs of the Israeli Occupation for the Palestinian People and Their Human Right to Development: Legal Dimensions*, 2018), as a result of which the economy is aid-driven, service-dominated, with an underdeveloped industry and a declining agriculture sector. UNCTAD deplores that successful bold fiscal reform efforts of the State of Palestine were not matched by positive donor engagement nor by Israel's easing its restrictions.

Israeli measures have distorted the structure of the economy and fostered a huge **resource gap** due to which domestic production is far lower than domestic consumption and investment, leading to **deficits** in trade, the government budget and in national investment-saving (*Ibid.*). A recent World Bank report warned that due to the decade-long blockade and declining aid flows, the **economy in Gaza is collapsing** with unprecedented **unemployment** (53.7%, over 70% for youth and 78% for women) and **poverty** rates (53%), and a -6% growth in the first quarter of 2018. While the West Bank economy is not as dire, it is also expected to slow considerably and an overall 5% contraction of real GDP is projected for 2018. So far the economy has been kept afloat to avoid a full collapse by large amounts of transfers (aid, remittances, and PA and UNRWA expenditures), but while neither foreign aid nor the private sector can counteract the steady decline, it could be easily reversed by "**ending economic isolation and easing the blockade**" which would lead to cumulative growth around 32% by 2025, with relaxing the dual-use restrictions adding another 11% (World Bank, *Economic Monitoring Report to the AHLC*, Sept. 2018).

Over the past decade, real GDP growth in Gaza has been significantly lower on average (3.1% against 5.5% in the West Bank) and more volatile. In 2017, **overall GDP growth** slowed to 3.1% and further to 2% in the first quarter of 2018. According to IMF projections it will languish at around 1.5% in 2018-19, and only slightly higher in subsequent years. Gaza's share in the Palestinian economy has fallen from over 35% in the 1990s to less than 25% today, with **real GDP per capita** in Gaza being less than half of that in the West Bank (IMF, *Report to the AHLC*, Sept. 2018). World Bank forecasts a real GDP growth of 1.7% in 2018 (WB: 3.8%, GS: -5%) and 1.9% in the medium term (World Bank, *Economic Monitoring Report to the AHLC*, Sept. 2018).

### For comparison:

#### GDP per capita (2017)

**Palestinian:** \$ 3,094.7

**Israeli:** \$40,270.3

Source: data.worldbank.org/  
indicator /NY.GDP.PCAP.CD).

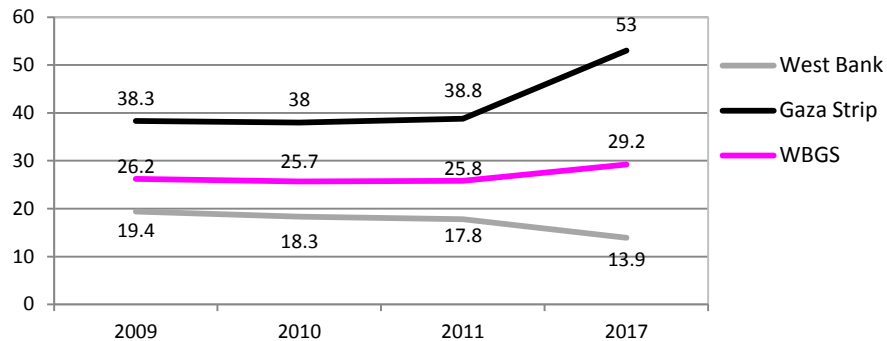
Under the baseline scenario, **inflation** is projected to remain close to 2% annually in 2018-19 and over the medium-term (IMF, *Report to the Ad Hoc Liaison Committee*, September 2018).

In 2017, 29.2% of the Palestinian population lived in **poverty** (WB: 13.9%, GS: 53%) and 16.8% in **deep poverty** (WB: 5.8%, GS: 33.8%) after receiving assistance. Without assistance, poverty rates were 33% and 21% respectively (PCBS). However, PovcalNet (the World Bank's tool for analyzing national poverty data), implies that poverty - as measured by an internationally comparable poverty line - is below 1%. (USAID, *West Bank & Gaza Inclusive Growth Diagnostic*, May 2017).

### Poverty Lines (PCBS, 2017)

- **Deep poverty** (budget for food, clothing and housing for a family of two adults and three children): **NIS 1,974**.
- **Poverty** (as above plus spending for education, health, transportation, personal care & housekeeping): **NIS 2,470**.

## Poverty Rates (Individuals, in %), 2009-2017



Source: PCBS, *Household Expenditure and Consumption Survey: Main Findings of Living Standards in Palestine (Expenditure, Consumption and Poverty)*, 2017, May 2018.

**Highest poverty** prevailed among people living in **refugee camps** (45.4%), followed by those living in urban (29.4%) and rural areas (18.7%), as well as among people whose households' **main source of income were transfers and assistances** (53.6%), followed by those with private sector (29.0%) and public sector salaries (26%). The **income** of 41.1% of individuals was beneath the poverty line (WB: 24%, GS: 67.6%) and that of 30.3% beneath the deep poverty line (WB: 15.1%, GS: 53.9%) (*Ibid.*).

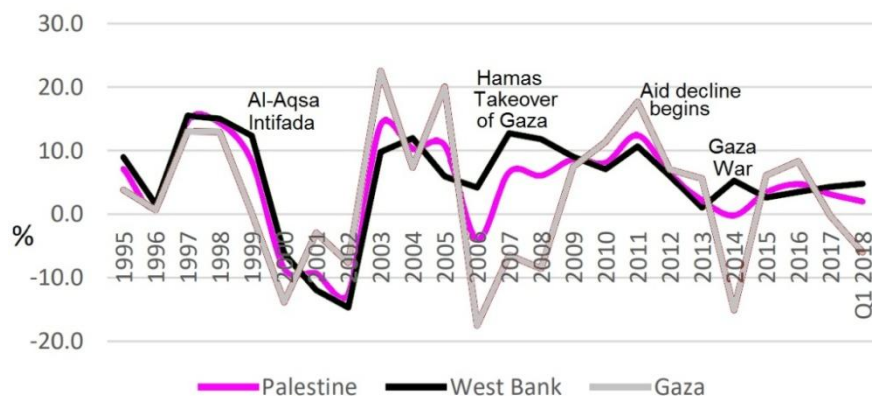
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## Key Indicators of the Palestinian Economy (excl. Jerusalem, selected years)

	1995	1999	2002	2006	2009	2012	2016	2017 <sup>1</sup>
GDP (US\$ million)	3,283	4,271	3,556	4,910	7,268	11,279	13,426	14,498
GNI (US\$ million)	3,723	5,025	3,775	5,333	7,800	12,137	15,322	16,490
GDP per capita (US\$)	1,427	1,553	1,182	1,449	1,963	2,787	2,957	3,097
GNI per capita (US\$)	1,618	1,827	1,255	1,573	2,107	2,999	3,375	3,522
Real GDP growth (%)	7.1	8.3	-12.5	-3.9	8.7	6.3	4.7	3.1
Real GNI growth per capita (%)	0.5	4.7	-16.1	-5.4	3.2	3.6	1.4	-1.0

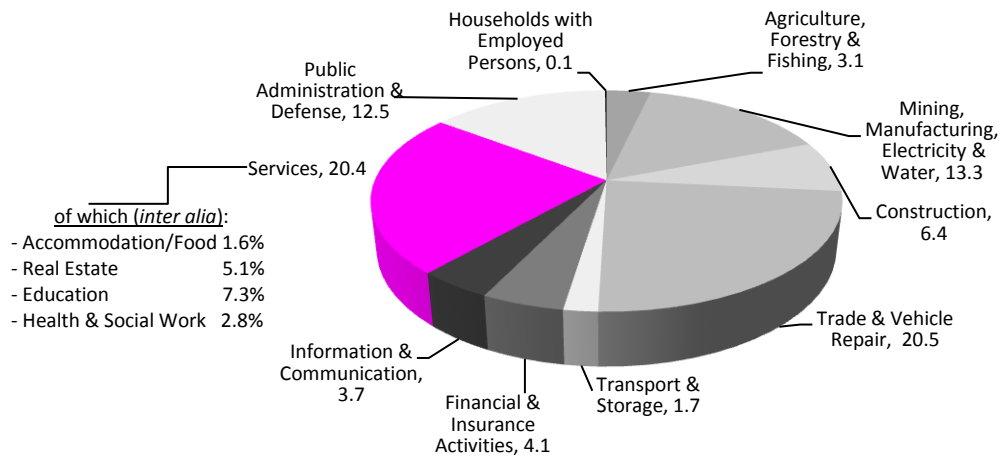
Source: UNCTAD, *Report on UNCTAD's Assistance to the Palestinian People*, 2018. <sup>1</sup> Preliminary estimates.

## Real GDP Growth, 1995-2017 (%)



Source: World Bank, *Economic Monitoring Report to the Ad Hoc Liaison Committee*, September 2018.

## WBGS Economic Structure, 2018 (% of GDP)



Source: PCBS, Quarterly National Accounts, Second Quarter 2018, Sept. 2018. Excl. East Jerusalem.

## GDP by Economic Activity and Activity Shares, WBGS, June 2018

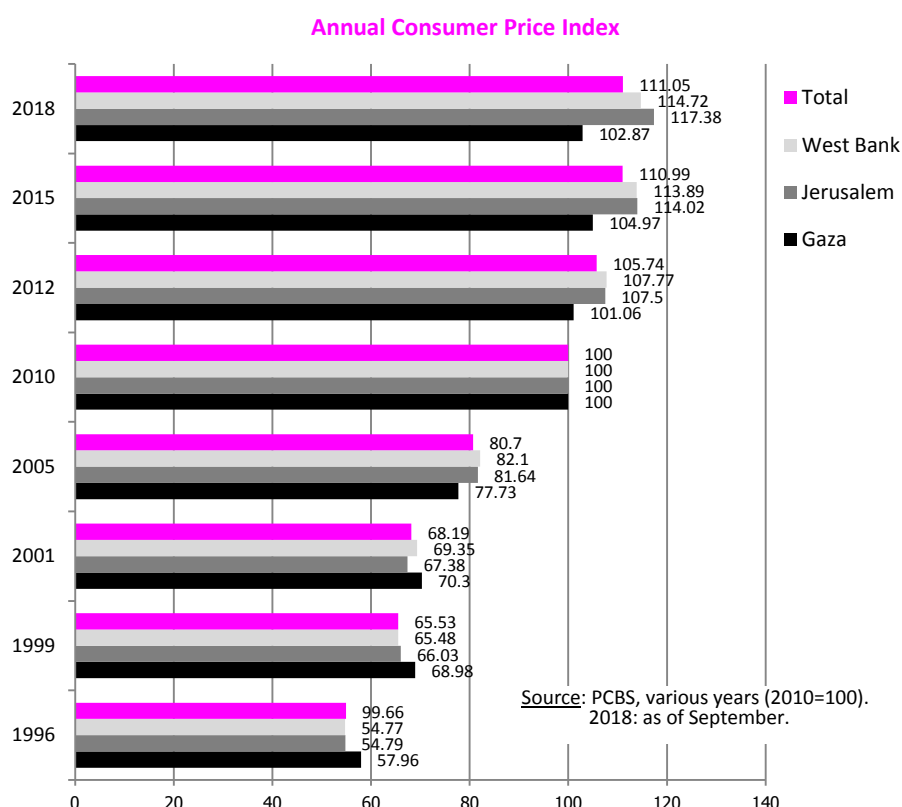
Economic Activity	West Bank	Gaza	Total
<b>Agriculture, Forestry &amp; Fishing</b>	<b>2.8%</b>	<b>4.1%</b>	<b>3.1%</b>
<b>Mining, Manufacturing, Electricity &amp; Water</b>	<b>14.8%</b>	<b>8.8%</b>	<b>13.3%</b>
- Mining and Quarrying	0.6%	0.2%	0.5%
- Manufacturing	12.2%	7.0%	10.9%
- Electricity, Gas, Steam, Water Supply, Sewerage	2.0%	1.6%	1.9%
<b>Construction</b>	<b>6.6%</b>	<b>5.6%</b>	<b>6.4%</b>
<b>Wholesale &amp; Retail Trade, Repair (Vehicles)</b>	<b>20.5%</b>	<b>21.5%</b>	<b>20.5%</b>
<b>Transport &amp; Storage</b>	<b>1.7%</b>	<b>1.6%</b>	<b>1.7%</b>
<b>Financial &amp; Insurance Activities</b>	<b>4.9%</b>	<b>1.7%</b>	<b>4.1%</b>
<b>Information &amp; Communication</b>	<b>4.7%</b>	<b>0.5%</b>	<b>3.7%</b>
<b>Services</b>	<b>18.8%</b>	<b>25.5%</b>	<b>20.4%</b>
- Accommodation and Food Services	1.6%	1.4%	1.6%
- Real Estate	4.8%	6.1%	5.1%
- Professional, Scientific & Technical Activities	1.6%	1.5%	1.6%
- Administrative & Support Services	0.8%	0.2%	0.6%
- Education	6.5%	9.7%	7.3%
- Health and Social Work	2.4%	3.9%	2.8%
- Arts, Entertainment & Recreation	0.3%	0.5%	0.3%
- Other Services	0.8%	2.2%	1.1%
<b>Public Administration and Defense</b>	<b>8.3%</b>	<b>26.3%</b>	<b>12.5%</b>
<b>Households with Employed Persons</b>	<b>0.1%</b>	<b>0.1%</b>	<b>0.1%</b>
Minus: FISIM	-3.2%	-1.1%	-2.7%
Plus: Customs Duties	8.7%	1.6%	7.0%
Plus: VAT on Imports (net)	11.8%	3.8%	9.9%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: PCBS, Quarterly National Accounts, Second Quarter 2018 (2004=base year), Sept. 2018. Excl. East Jerusalem.

## Consumer Price Index (Yearly Averages)

In 2017, **prices** increased by 2.18% in Jerusalem, by 0.11% in Gaza, and slightly decreased by 0.01% in the West Bank. Consumer prices in Jerusalem rose mainly due to prices for goods and services (7%), education (5.64%) and housing (2.44%) and in Gaza due to prices for housing (2.4%) and medical care (2.12%) and in the West Bank, prices decreased in food and soft drinks by 1.73%, and textiles, clothing and footwear by 1.40% (PCBS, *Performance of the Palestinian Economy, 2017, May 2018*).

Between September 2017 und September 2018, the consumer price index only decreased slightly by 0.09% (PCBS, *CPI Statistics*).



## 8.2 Agriculture

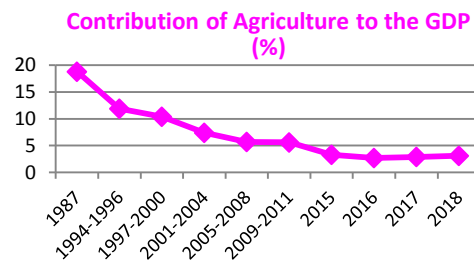
The agricultural sector, which accounted for over half of the GDP in 1968, is **suffering from occupation-related actions**: blockades; closures; restricted access to land, especially Area C, and natural resources, mainly water; deterioration of water quality; damages to agricultural assets; restrictions on import of fertilizers and on free trading and movement; confiscation of land and water resources; insufficient vaccines; uprooting of trees; difficulty to obtain permits for infrastructure; etc. All these have caused inefficiencies, sub-optimal crop allocation, and weak competitiveness. In 2017, agriculture activities declined further: in the West Bank by 5.4%, in Gaza by 6.2%, now only contributing 2.8% to the **GDP** (WB: 2.6%, GS: 3.7%) (PCBS, *Performance of the Palestinian Economy, 2017, May 2018*).



Only 21% of the cultivable land is **utilized** and 93% of it is **not irrigated**. The **loss** from non-irrigation is estimated at 10% of GDP and 110,000 jobs. In addition, Israeli restrictions on the import of suitable **fertilizers** cost the Palestinian agricultural producers US\$ 28.6 million and cut one-third of land productivity, while Israeli producers enjoy subsidized imports (E. Barreto, *Palestine: Microeconomic Competitiveness Analysis and Mapping of Market Access and Infrastructure Issues and Concerns*. Memo, 2017, quoted in: PCBS/MAS/PMA/PCMA, *Economic Monitor*, #47, March 2017).

The **GDP share** of agriculture has declined by 72% since 1994 (*Report on UNCTAD's Assistance to the Palestinian People*, 2014). It was estimated at only 3.1% in June 2018 (WB: 2.8%, GS: 4.1%) (PCBS, *Quarterly National Accounts*, Q2-2018).

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). (UNCTAD, *Report on UNCTAD's Assistance to the Palestinian People*, 2016).



Sources: UNCTAD, PCBS.

Currently, of the 76 gates designated for **agricultural access** along the completed 465 km of the separation barrier only 12 open daily, 56 require access permits and 20 operate via prior coordination. (OCHA, *oPt Humanitarian Bulletin*, August 2018).

In June 2018, 6.7% of the **employed persons** in the WBGS were working in agriculture, fishing, and forestry (WB: 7.2%, GS: 5.7%), often as unpaid family members (36.9% of all unpaid family members in the total work force worked in this field (WB: 38.6%, GS: 30.7%) (PCBS, *Labor Force Survey*, Q2-2018).

### The Agricultural Sector at a Glance

	WBGS	West Bank	Gaza
<b>No. of Agricultural holdings<sup>a</sup></b> - mixed / animal holdings	20,010 / 12,167	17,107 / 8,569	2,903 / 3,598
<b>Total Cultivated Land Area (dunums)<sup>b</sup></b> - of which with permanent crops	931,500 659,900	843,500 612,700	88,000 47,200
<b>No. of Operational Cooperatives<sup>c</sup></b>		213	
<b>No. of licensed nurseries<sup>c</sup></b>	178	128	50
<b>No. of slaughterhouses<sup>c</sup></b>	28	21	7
<b>No. of hatcheries<sup>c</sup></b>	40	22	18
<b>No. of slaughtered cows<sup>c</sup></b>	33,285		
<b>No. of slaughtered sheep<sup>c</sup></b>	37,365		
<b>No. of slaughtered goats<sup>c</sup></b>	4,384		
<b>No. of slaughtered camels<sup>c</sup></b>	7		
<b>No. of produced broilers<sup>c</sup></b>	86,739.0	53,420.1	33,318.9
<b>No. of produced layers<sup>d</sup></b>	761,100		761,100
<b>Caught fish (kg)<sup>c</sup></b>	3,305,740		3,305,740
<b>No. of fishing boats / fishermen<sup>c</sup></b>	1,261 / 3,617		1,261 / 3,617
<b>No. of beehives<sup>a</sup></b>	46,226	39,211	7,015

Sources: <sup>a</sup> PCBS, Livestock Survey, 2013, April 2014, <sup>b</sup> PCBS, *West Bank Northern Governorates Statistical Yearbook*, 2013, 2014, <sup>c</sup> PCBS, *Agricultural Statistics*, 2016, <sup>d</sup> PCBS, *Annual Agricultural Statistics*, 2015.

- **Olives** cover some 48% of the agricultural land in the WBGS, account for 70% of fruit production, and contribute around 14% to the Palestinian economy. 93% of the harvest is used to produce **olive oil** (JAI Olive Tree Campaign, *Report 2014-2015*). In 2017, 274 operating **olive presses** (WB: 246, GS: 28) extracted 19,533 liters of oil (PCBS, *Olive Presses Survey*, 2017).
- In **Gaza**, 35% of the agricultural land and 85% of the fishing waters are **not accessible** to producers (UNCTAD, *Report on UNCTAD's Assistance to the Palestinian People*, 2018).

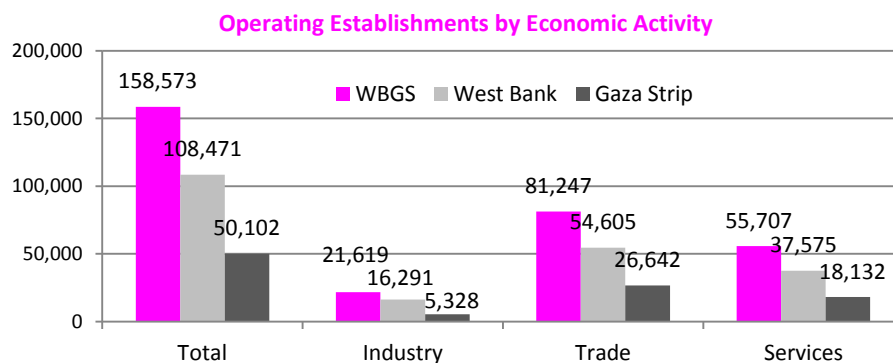
- According to the Palestinian Fishermen's Syndicate, there were 3,800 **registered fishermen** in 2017, only half of whom still practiced the profession. Yet, over 35,000 Palestinians depend on this industry ("Gaza fishers caught in net cast from all sides," *The Electronic Intifada*, 16 April 2018).
- In 2016, a total of 1,261 **boats** were working in Gaza's fishing industry (PCBS, *Livestock Statistics*, 2016). Although the Oslo Accords stipulate a **fishing zone of 20 nautical miles (NM)**, Israel limits it to the "usual" 6 NM limit, at times (e.g., spring fishing season) expanding it in the south to 9 NM.



### 8.3 Industry & Private Sector

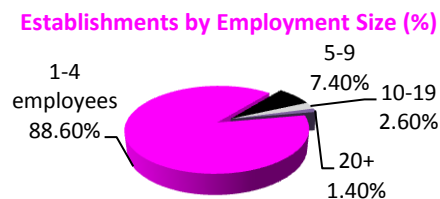
#### Facts & Figures

- Israeli restrictions severely limit private sector activity, discourage **private investment** (which is among the lowest in the world), and keep the **productive capacity** very low, thus increasing aid dependency. Since 1994, the **manufacturing sector's GDP share** has dropped from 19% to an average of 11% in recent years (World Bank, *Economic Monitoring Report to the AHLC*, Sept. 2017). As of **June 2018**, its share was 13.3% (WB: 14.8%, GS: 8.8%) (PCBS, *Quarterly National Accounts*, Q2-2018).
- In 2017, there were 158,573 **operating establishments** in Palestine. The largest number was in the Hebron Governorate (23,716), followed by Gaza (19,449), Nablus (17,113), Ramallah/Al-Bireh (15,850), and Jenin (13,729). In addition, there were 6,193 establishments **temporarily closed** (WB: 4,678, GS: 1,347) as well as 1,703 **under preparation** (WB: 1,347, GS: 356).

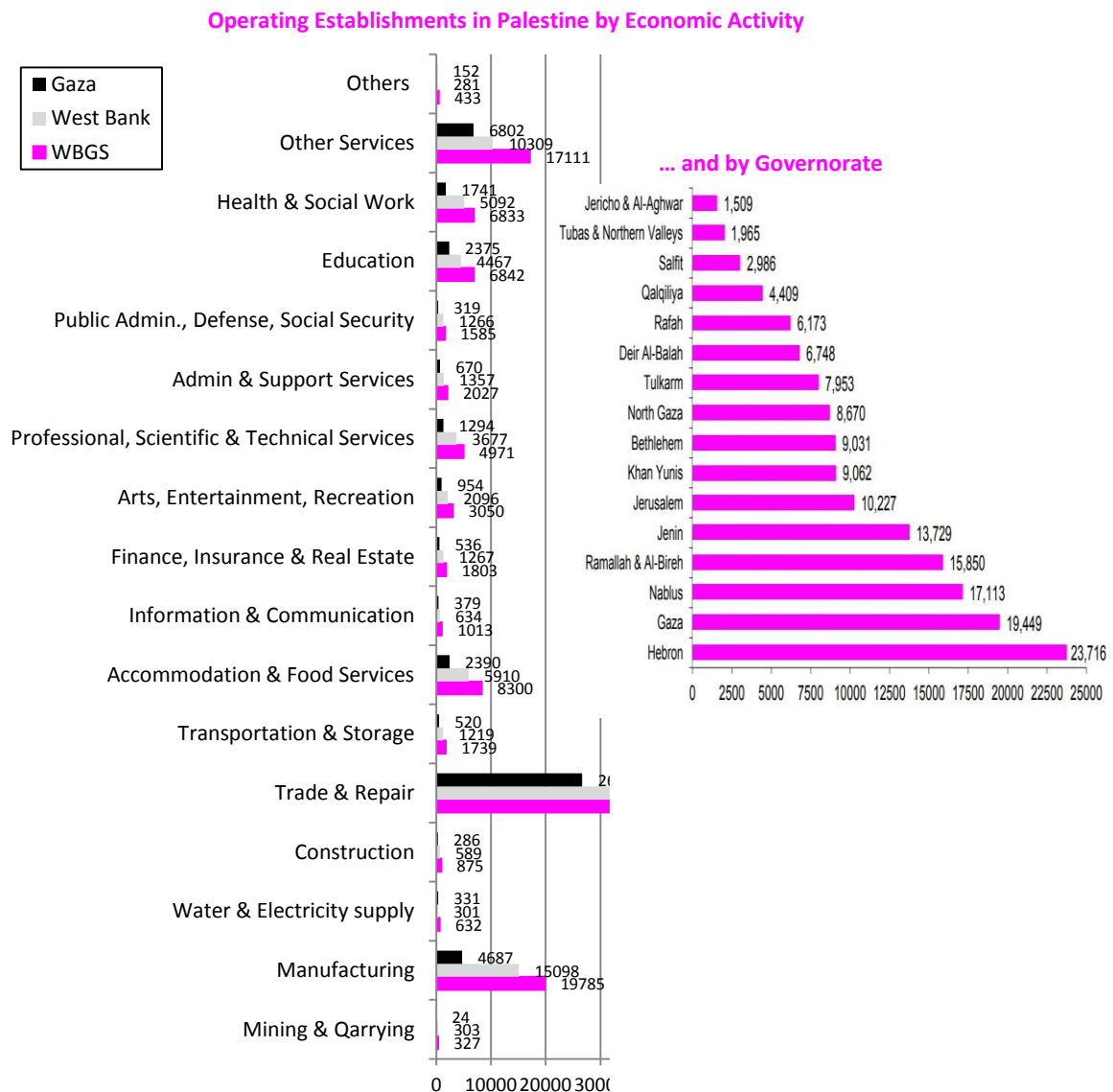


Source: PCBS, *Preliminary Results of the Population, Housing and Establishments Census 2017*, February 2018.

- Excluding occupied East Jerusalem, there were 444,060 **private sector employees** (WB: 309,822, GS: 134,238), 82,116 (19.3%) of which were female (*Ibid.*).
- 91.5% of the operating establishments were **owned** by the private sector, 4.8% by the government, 2.4% by NGOs, 0.8% by local authorities, and 0.5% by UNRWA/international organizations. Some 92.1% of the operating establishments were single offices (*Ibid.*).
- Of the total of operating establishments, 88.6% were **small establishments** with 1-4 employed persons, 7.4% had 5-9 employed persons, 2.6% had 10-19 employed persons, and 1.4% had 20+ employed persons (for a full list of establishments by economic activity and employments size see <http://www.pcb.gov.ps/Downloads/book2370.pdf>, Table 12 and 13).



- The largest number of operating establishments were non-specialized stores selling mainly food, beverages or tobacco (17,300), followed by specialized food stores (10,501), retailers of clothing, footwear or leather articles (10,305), hairdressing and other beauty treatment (8,621), maintenance and repair of motor vehicles (7,270), and retailers of electrical/household items and furniture (5,703) (PCBS, *Preliminary Results of the Population, Housing and Establishments Census 2017*, February 2018).

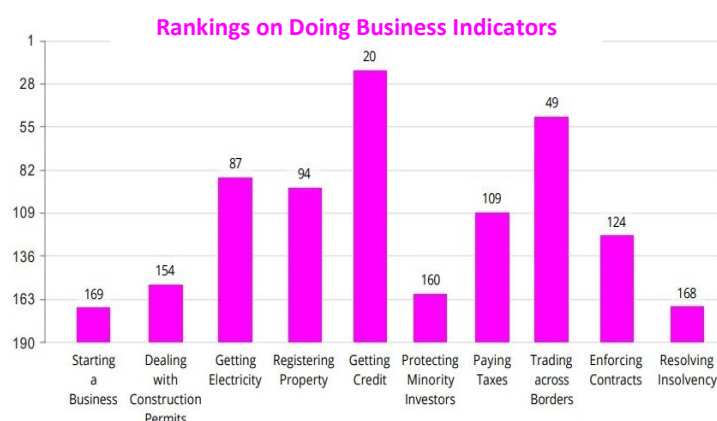


Sources: PCBS, *Preliminary Results of the Population, Housing and Establishments Census 2017*, February 2018, PCBS, *Population, Housing and Establishments Census 2017 - Final Results: Establishments Report*, June 2018.

- Israeli restrictions have led to a **de-industrialization** of the Palestinian economy with the share of **manufacturing** in GDP having halved in the last 25 years. Private **investment** levels are very low and concentrated in **low productivity** activities. Some 50% of all **private lending** is going to construction or consumer loans (World Bank, *Economic Monitoring Report to the AHLC*, September 2017).



- While **investment** accounts for 26% of West Bank GDP it is virtually absent in Gaza at just 4% of GDP. Out of this, investment into **productive capital** (i.e., non-buildings) has averaged 6% in the West Bank and just 0.5% of GDP in Gaza (IMF, *Report to the AHLC*, September 2018).
- By June 2018, 12.8% of the **employed persons** were working in mining, quarrying and manufacturing (WB: 15.5%, GS: 6.8%), 10.4% in construction (WB: 13.4%, GS: 3.6%) (PCBS, *Labor Force Survey*, Q2-2018).
- Some 46% of total **registered companies** are less than 10 years in business. It has been estimated that 60,000 companies are not formally registered and that 36% of total employment is informal (PCBS/MAS/PMA/PCMA, *Economic Monitor*, #47, March 2017).
- Less than 10% of Palestinian small and medium enterprises use **banks** to **finance investment** compared to 24% in MENA and 28% in other comparable lower middle-income countries (IMF, *Report to the Ad Hoc Liaison Committee*, March 2018).
- Palestine ranked No. 114 (out of 190) on the World Bank's **Doing Business 2018** index (up from 140 in 2017 and 138 in 2016), which lists economies on their ease of doing business (starting/operating a local firm). It ranked No. 20 in getting credit, No. 87 in getting electricity, and No. 49 in trading across borders, but only No. 160 in protecting minority investors, No. 169 in starting a business, No. 154 in dealing with construction permits, and 168 in resolving insolvency. Among the 19 Middle East/North African states, Palestine ranked No. 10. In comparison, Israel ranked No. 54 on the overall list (<http://www.doingbusiness.org/rankings>).



Source: Doing Business 2018 – Reforming to Create Jobs: Economy Profile West Bank and Gaza.

- In the **UNDP's 2017 Human Development Index**, Palestine ranks 119 (down from 114 in 2016, 113 in 2015 and 107 in 2014) out of 189 countries. With an HDI of 0.686 (4.4% increase since 2005), it lies above the average for countries in the medium human development group (HDI: 0.645) but below the Arab states average (HDI: 0.699). Israel, in comparison, ranks No. 22 with an HDI of 0.903 (<http://hdr.undp.org/en/>).

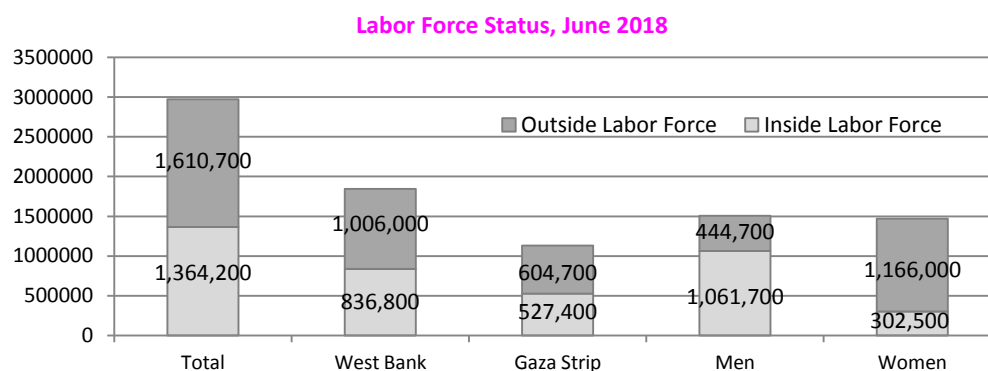
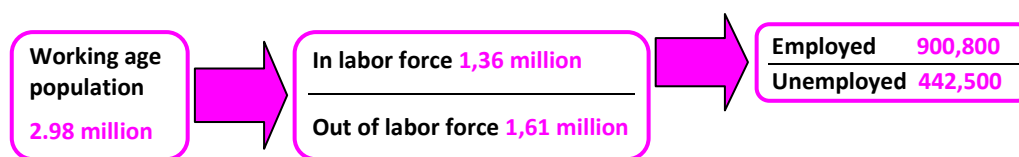
## 8.4 Labor Market & Employment

### General Development

- The Palestinian **labor market** is not providing enough employment opportunities across the educational and skills spectrum, disproportionately affecting women youth. Over the past 20 years, the labor force increased by 0.8 million, while only 0.5 million additional jobs were created, raising the number of unemployed by 0.3 million and resulting in an unemployment rate between 20-31% in the post Oslo period (World Bank, *Economic Monitoring Report to the AHLC*, Sept. 2017). On average, the **labor force** grew by 4% annually since 1990, with jobs primarily created in low-value added sectors and the government. (USAID, *West Bank and Gaza Inclusive Growth Diagnostic*, May 2017). Approx. 40,000 students (20-29 years) **graduate** annually from Palestinian higher education institutions, but the local market provides only 8,000 **job opportunities** (PCBS, Press Release on *Educational Fields and Labor Market for Persons aged 20-29 Years in 2017, 2018*).

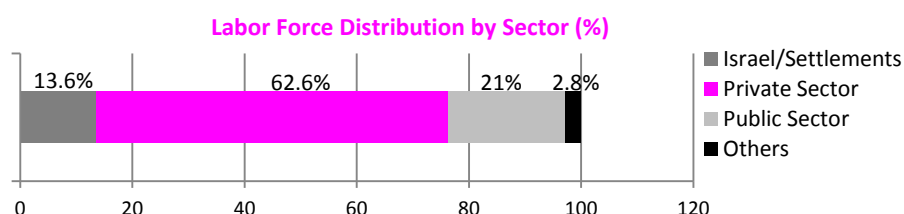


- While the **working age population** grew by 183% and the **labor force** by 201% between 2000 and 2016, **actual employment** only increased by 71.3%, with an average of 39,333 persons becoming newly employed annually (ILO, *The Occupied Palestinian Territory: An Employment Diagnostic Study*, 2018).
- In 2017, the **labor force participation rate** decreased from 46.4% to 45.9%, resulting in an overall **unemployment** rate of 28.1% (WB: 18.2%, GS: 43.9%) (PCBS, *Performance of the Palestinian Economy*, 2017, May 2018).
- As of June 2018, the **Palestinian labor force** (working age population of 15+ years) was – by ILO standards - 2,974,900 people strong, of which 1,364,200 (or 45.9% - which is very low by international standards) **participated** in the labor force (WB: 45.4%, GS: 46.4%), while 54.1% or 1,610,700 people remained **outside the labor force**. Of the 45.9% participating, 77.8% were **males** and 22.2% **females** (PCBS, *Labor Force Survey Report Series*, Q2-2018).

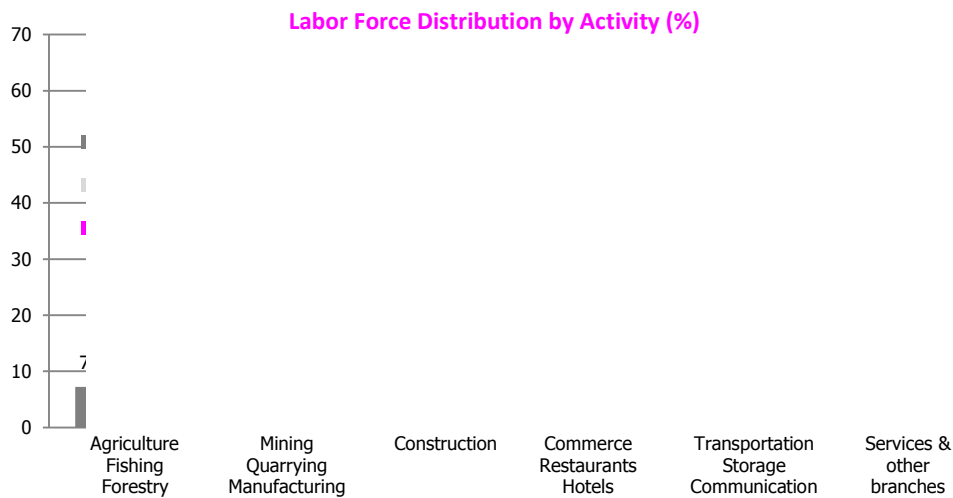


Source: PCBS, *Labor Force Survey Report Series*, Q2-2018.

- The main **reason** for being **outside the labor force** is housekeeping (44.6%), followed by studying/training (31.8%) and old age/illness (16%) (*Ibid.*).
- Some 81.4% of West Bank and 100% of Gazan workers were working in the **Palestinian territories**, 72.7% and 84.9% of them respectively within the same region. About 18.6% of the West Bankers were employed in **Israel**, incl. settlements (*Ibid.*).
- Of the employed workforce, 62.6% were working in the **private sector** (WB: 64.2%, GS: 58.1%), 21% (WB: 15.7%, GS: 35.6%) in the **public sector**, and 2.8% in **other sectors** (WB: 1.5%, GS: 6.3%) (*Ibid.*).

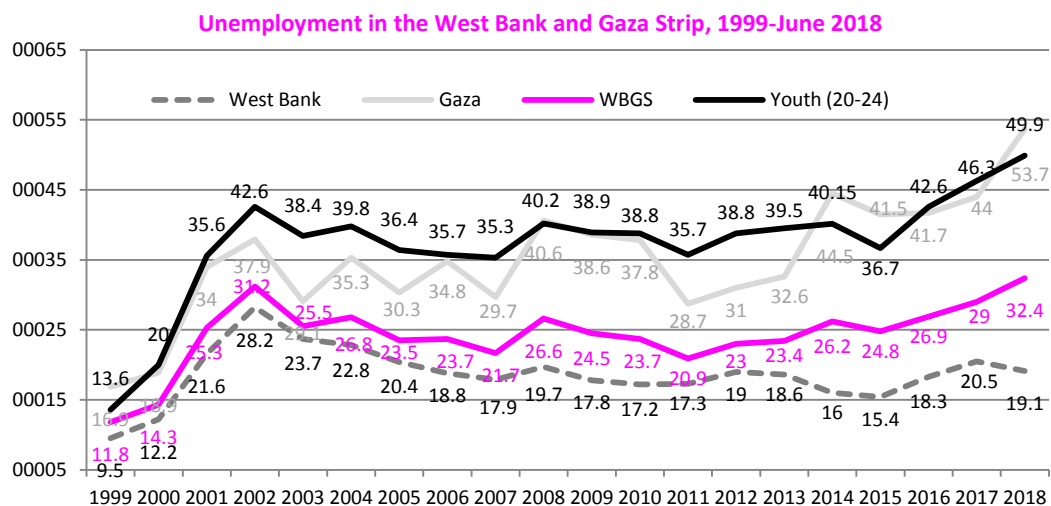


Source: PCBS, *Labor Force Survey*, Q2-2018.



Source: PCBS, Labor Force Survey, Q2-2018.

- As of June 2018, **unemployment** - by ILO standards - stood at 32.4% (WB: 19.1%, GS: 53.7%). Unemployment among **refugees** was with 42.4% considerably higher than among non-refugees (25.7%), and among **women** (53.7%) much higher than among men (26.4%). The highest unemployment occurred in the **age** group from 20-24 years (49.9% - WB: 30.5%, GS: 75%) (PCBS, *Labor Force Survey Report Series*, Q2-2018). **Unemployment figures** do neither include underemployed workers (1.5% of the labor force in 2018) who have turned to unpaid family or seasonal agriculture labor, nor discouraged workers who left the labor force, nor those absent from their usual work due to illness, work stoppage, etc. but still receiving their pay.



Source: PCBS, Labor Statistics, various years.

- It should be noted that it is estimated that without the jobs in Israel/settlements, the **unemployment rate** in the West Bank would be over 36%, i.e., close to the rate of Gaza (UNCTAD, *Report on UNCTAD's Assistance to the Palestinian People*, 2017).

- As of June 2018, **average daily net wages** for Palestinians were NIS 107.9 (West Bank, excl. settlements), NIS 62.6 (Gaza), and NIS 247.9 (Israel and settlements). The average daily wage in the **public sector** was NIS 105.5 (WB: NIS 113.9, GS: NIS 90.5) compared to NIS 84.8 (WB: NIS 104.5, GS: NIS 34.8) in the **private sector**. Excluding Israel, the average wage for men was NIS 94.1, for women NIS 90.1. The **highest** average daily wages in the **WBGS** were paid in services/other branches (WB: NIS 113.6; GS: NIS 88.3) and in **Israel** in construction (NIS 284.3). The **average monthly wage** in the WBGS was NIS 3,171 (PCBS, *Labor Force Survey Report Series*, Q2-2018).
- Since October 2012, the **minimum wage** in the PA is NIS 1,450 per month, NIS 65 per day and NIS 8.50 per hour for all sectors. However, about 32.8% (WB: 13.4%, GS: 77.8%) of private sector wage employees receive less than the minimum wage - on average NIS 1,101 in the West Bank and NIS 674 in Gaza (PCBS, *Labor Force Survey Report Series*, Q2-2018). (In comparison: since December 2017, Israel's minimum wage is NIS 5,300/month and NIS 28.49/hour).
- The Palestinian **labor force** has **shifted** from one composed mostly by workers with primary **schooling**, to one where secondary schooling (or higher) predominates, however with no matching job market (USAID, *West Bank and Gaza Inclusive Growth Diagnostic*, May 2017).
- Some 20.7% of the employed persons are affiliated to a **workers vocational union**, more than double as many in Gaza (39.2%) than in the West Bank (14%) (PCBS, *Labor Force Survey*, Q2-2018). According to the ILO, trade union **membership** in 2015 reached 236,600 workers (190,000 men and 46,600 women) (ILO, *The Situation of Workers of the Occupied Arab Territories*, 2017).
- Some 52.6% of the wage employees in the private sector are hired **without a contract** (WB: 43.7%, GS: 73.5%), only 24.9% contribute to a **pension fund**, 24.5% have **annual paid leave** and 39.8% of female employees receive paid **maternity leave** (PCBS, *Labor Force Survey*, Q2-2018).

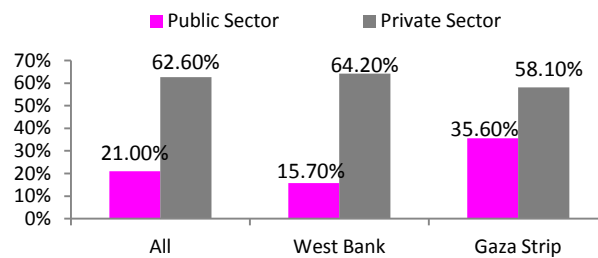
#### Palestinian Labor Force – Various Features (by ILO Standards)

By Employment Status (%)	2018 (June)			1997-99 Average	2005	2010	2016
	WB	GS	Total				
Labor force participation rate	45.4	46.6	45.9	42.85	40.4	41.1	45.7
Full employment	79.5	44.6	66.1	77.7	69.9	69.2	71.2
Underemployment (time related)	1.4	1.7	1.5	6.7	6.6	7.1	1.9
Unemployment	19.1	53.7	32.4	15.5	20.4	23.7	26.9
<b>By Labor Status (%):</b>							
Employers	8.5	3.3	7.1	5.5	4.3	6.4	6.2
Self-employed	20.7	17.3	19.8	20.4	26.1	18.8	19.2
Waged employees	65.9	75.6	68.5	65.4	59.5	67.6	68.8
Unpaid family members	4.9	3.8	4.6	8.7	10.1	7.2	5.8
<b>By Economic Activity (%)*:</b>							
Agriculture, forestry, fishing	7.4	5.7	7.0	12.8	15.0	11.8	7.4
Mining, quarrying, manufacturing	15.3	6.8	13.1	15.8	12.9	11.4	14.6
Construction	22.4	3.6	17.4	21.2	12.8	13.2	18.0
Commerce, hotels, restaurants	21.9	23.1	22.2	17.8	19.2	19.3	23.6
Transport, storage, communication	5.5	8.4	6.2	4.7	5.6	6.0	6.9
Services and other branches	27.5	52.4	34.1	27.7	34.5	38.3	29.5
<b>Working Time and Wages</b>							
	WB	GS	Israel	WBGS average			
				1997-9	2005	2010	2015
Average weekly working hours	43.8	37.4	40.7	44.3	42.4	41.5	41.4
Average monthly working days	23.0	23.0	19.9	22.6	23.3	22.2	22.0
Average daily net wage – NIS	107.9	62.6	247.9	67.8	77.0	91.7	103.9
Median daily net wage - NIS	100.0	42.3	250.0	53.8	67.0	76.9	84.6

\* Including workers in Israel and settlements; Source: PCBS, *Labor Force Survey Report*, Q2-2018, previous rounds.

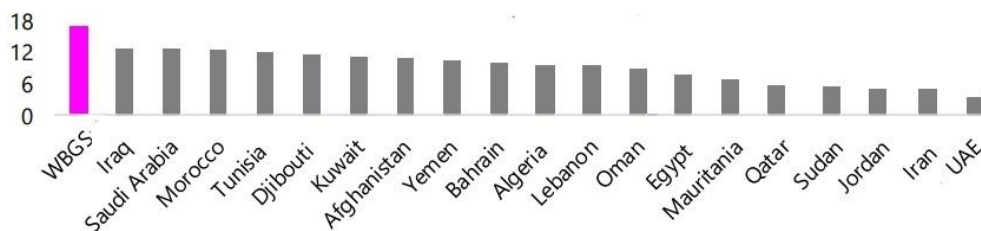
## Public Sector Employment

- In recent years, about 22% of the Palestinian workforce is employed by the **public sector**, mainly due to the private sector's inability to absorb workers as a result of restrictions on movements, investments, exports, and imports and the high population growth (USAID, *West Bank and Gaza Inclusive Growth Diagnostic*, May 2017).
- As of June 2018, 21% of the employed workforce worked in the **public sector** (WB: 15.7%, GS: 35.6%) as compared to 62.6% in the **private sector** (WB: 64.2%, GS: 58.1%) (PCBS, *Labor Force Survey Report Series*, Q2-2018).
- As of June 2018, the **average daily wage** in the public sector was NIS 105.5 (WB: NIS 113.9, GS: NIS 90.5) compared to NIS 84.8 in the private sector (*Ibid.*).
- In 2017, the PA cut all **allowances** for Gaza public employees and referred thousands of them to **early retirement**, but at over **14% of GDP** in 2017 and with an almost 50% share of expenditures, the **PA's wage bill** remains very high (well above the below 10% of GDP figure that prevails among countries of comparable development levels), not sustainable, and a main reason for its chronic fiscal problems. While base wages are adequate, allowances are high as is the number of civil servants in some departments (particularly the health, education, and security sectors).



Source: PCBS, *Labor Force Survey Report Series*, Q2-2018

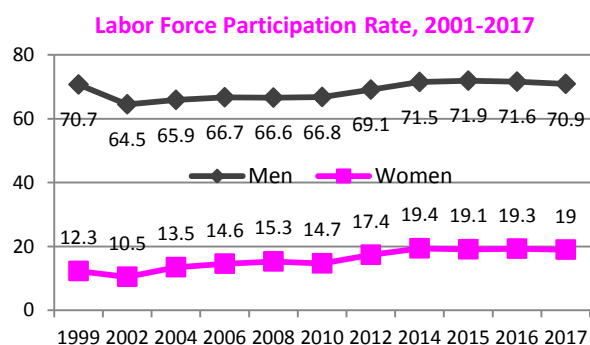
## General Government Wage Bills in the Region (% of GDP, 2005-16 average)



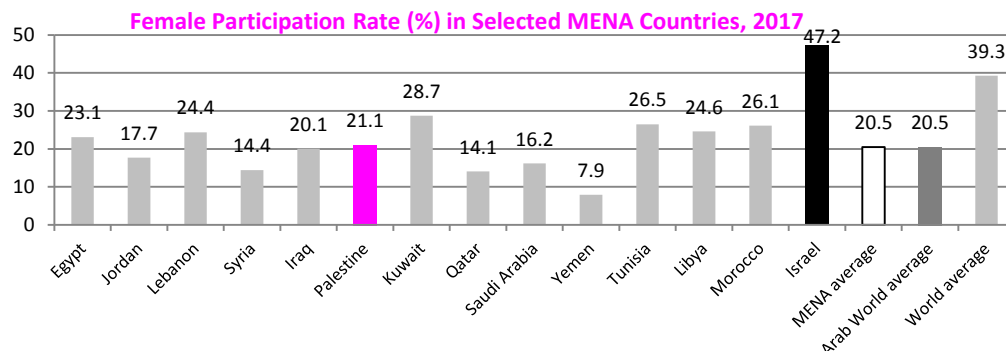
Source: IMF, *Report to the Ad Hoc Liaison Committee*, March 2018.

## Women in the Labor Force

- Despite the high and successful secondary school enrollment of women, which generally correlates positively with female work, women's **labor force participation** (15+ yrs) remains low, accounting for only 20.6% of the formal **labor force** in mid-2018 - one of the lowest in the world. Of those, 53.7% of the female labor force was **unemployed** (males: 26.4%), most of them (78.6%) in the 20-24 years age group (PCBS, *Labor Force Survey Report Series*, Q2-2018). While the female rate has increased over the last 15 years, it is still low by regional comparison (see table below).



Source: PCBS, *Labor Force Survey, Annual Report 2017*.



Source: World Bank, <https://data.worldbank.org/indicator/SL.TLF.TOTL.FE.ZS?locations=MD-IE&view=chart>.

- 47.7% of the working women have over 13+ years of **schooling**, but they are also those reported with the highest unemployment rate (57%) (PCBS, *Labor Force Survey Report Series*, Q2-2018).
- **Main reasons for female non-participation** in the workforce is housekeeping (61.6%), studying/training (25.3%), and old age or illness (7.3%) (*Ibid.*).
- **Employment of women** is concentrated in services (68.4%, mostly in public administration) (*Ibid.*).
- The vast majority of the female labor force (75.4%) are **wage employees**, 12.9% **self-employed**, 9.6% **unpaid family members**, and 2.1% **employers** (*Ibid.*).
- The male-female **pay gap** in average daily wages was NIS 119.6 compared to NIS 84.6 (PCBS, *Press Release on the Eve of the International Women's Day*, 8 March 2018).

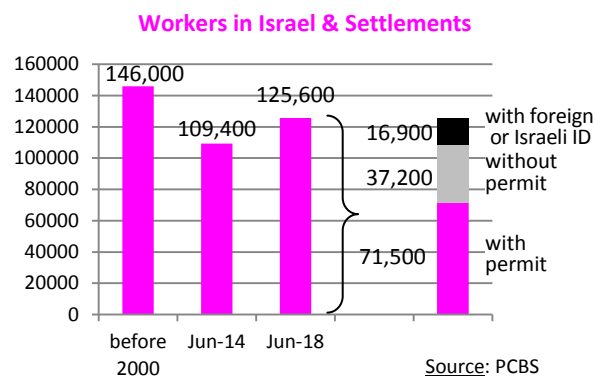
### ■ Children & Youth

- In 2017, some 3.4% of the children aged 10-17 years were working (WB: 4.6%; GS: 1.7%), and 1.2% were enrolled in schools and engaged in labor (WB: 1.6%, GS: 0.7%). The vast majority of working children were male (PCBS, *Press Release on Palestinian Children's Day 2018*, 5 April 2018). **Most** of the working children **work** in trade/restaurants/hotels or agriculture/forestry/fishing. The main **reason for child labor** is low economic status of the household.
- In 2017, the **labor force participation rate** of youth (15-29 years) stood at 41.1% (male: 63%, female: 18.9%), marking a 7.3% increase since 2007 (33.8% - m: 54.8%, f: 11.9%). The **unemployment rate** in this age group reached 41% (m: 33.7%; f: 66.7%), up from 30.5% ten years ago (PCBS, *International Youth Day*, 12/08/2018, August 2018).
- Particularly worrisome was the **unemployment rate among graduates**, which reached 55.8% (m: 37.8%; f: 72%) compared to 41.5% in 2007 (*Ibid.*). **Unemployment** among 20-29 year-old **graduates** with intermediate **diploma** or **BA** in 2017 remained high, particularly in Teacher Training/Education Sciences (70%), Life Sciences and Humanities (69% each) and Social and Behavioral Sciences (64%), and **unemployment periods** ranged on average from 11-20 months (PCBS, *Press Release on Educational Fields and Labor Market for Persons aged 20-29 Years in 2017*, 2018).
- While **youth unemployment** (15-24 years) declined in **Israel** from 22.1% in 1991 to 7.7% in 2017, it rose in **Palestine** from 36.3% to 44.5% in the same period (ILO, ILOSTAT database, 2017).

### ■ 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 as **permits** for employment in Israel are limited to security-cleared West Bank Palestinians, who are at least 22 years old, 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.

- As of June 2018, 13.6% of the Palestinian workforce (or 18.6% of the West Bank workforce) was employed in Israel or settlements. Their total number was **125,600** (down from 128,400 in June 2017; in June 2016 they were 114,200 and in June 2015 112,200). Of those, 71,500 had a **permit**, 37,200 worked without a permit, and 16,900 held an Israeli identity card or foreign passport. Some 105,400 worked in **Israel**, **20,200** in **settlements** (up from 18,300 in June 2017), with 61.6% of them employed in **construction** (PCBS, *Labor Force Survey*, Q2-2018).



- The **average daily wage** of those working in Israel or settlements was NIS 247.9 (more than double the West Bank average of NIS 107.9) and the **average monthly working days** were 19.9 (*Ibid.*), adding up to an average monthly wage of NIS 4,933. In comparison, the average gross monthly wage for Israelis was NIS 10,369 as of May 2018 (<http://www.cbs.gov.il>).
- According to the Israeli Coordinator of Government Activities in the Territories (**COGAT**), the overall quota for Palestinian workers in **Israel** increased by up to 25,000 in 2018. Palestinian employment in Israel and the settlements reached 131,000. It is estimated that some 40,000 workers seek work in Israel **without proper permits** (ILO, *The Situation of Workers of the Occupied Arab Territories*, 2018).
- In 2017, the Palestinian **workforce** employed in Israel and settlements **grew** by 11.5% and **accounted** 20% of employed Palestinians in the West Bank. While Israeli producers benefit from them in labor-intensive sectors, it **undermines the competitiveness** of the Palestinian economy (UNCTAD, *Report on UNCTAD's Assistance to the Palestinian People*, 2018).
- Palestinians working in Israel and settlements are often employed in **dangerous and difficult jobs** with no adequate health and safety provisions nor proper payment (receiving only 39-44% of the pay of an Israeli worker performing similar work) (Macro Centre for Political Economics, *The Working Conditions of Palestinian Wage Earners in Israel*, Tel Aviv, February 2017).



## 8.5 Tourism

While the Israeli tourism industry has flourished since 1967, often through the exploitation of Palestinian sites, the Palestinian sector faces unfair competition and discriminatory restrictions due to Israel's control over land, resources, and people, and its ongoing attempts to subvert Palestinian history, culture and identity.

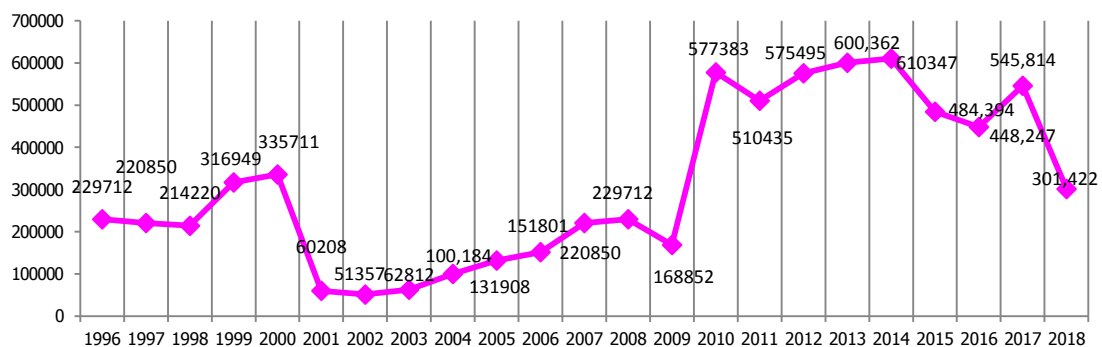
- As of June 2018, 22.2% of the **employed persons** in the WBGS were working in commerce, restaurant and hotels (WB: 24.9.5%, GS: 23.1%) (PCBS, *Labor Force Survey*, Q2-2018).
- In 2017, there were 11,943 **establishments** working in tourism (up from 7,218 in 2015), employing a total of 36,861 **employees**. Of these, 62.9% worked in the **food and beverage service**, 13.4% in **amusement and recreation**, 9% in **accommodation**, 6.3% in **manufacture** and sale of handicrafts and souvenirs, 3.3% in **travel agencies** or as tour operators (PCBS, *Press Release on World Tourism Day*, 27 Sept. 2018).
- Accommodation and food services** contributed 1.6% to the **GDP** in the 2<sup>nd</sup> Quarter of 2018 (excl. East Jerusalem) (PCBS, *Quarterly National Accounts*, Q2-2018).

## Hotels and Related Features

	Area	Hotels	Rooms	Beds	Guests	Room Occupancy <sup>1</sup>	Bed Occupancy <sup>1</sup>	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 2018	WB all	109	5,982	13,086	246,851					
	-North	28	530	1,417	23,644	17.5%	15.4%			
	-Middle	37	1,709	3,475	16,034	16.2%	11.7%			
	-South	44	3,743	8,194	207,173	16.0%	41.6%			
	J'lem	20	1,408	3,131	54,571	16.2%	28.8%			
	<b>Total</b>	<b>129</b>	<b>7,390</b>	<b>16,217</b>	<b>301,422</b>	<b>20.3%</b>	<b>30.5%</b>			
June 2012	Gaza	12	619	1,167	2,228	11.5%	6.4%			

<sup>1</sup> Average length of stay: 3.0 days. (Source: PCBS, Hotel Activities Surveys, 2018.)

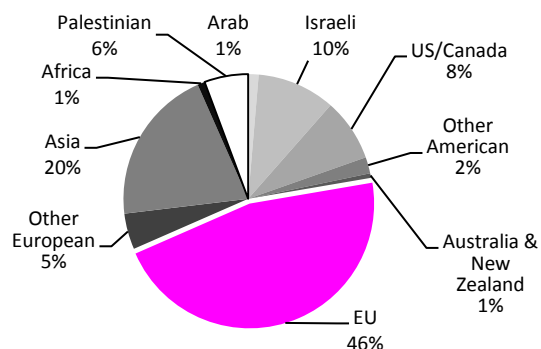
## Hotel Guests in Palestine, 1996-June 2018



Source: PCBS, Hotel Activities Surveys, 1996-2018.

## Guests by Nationality (Jan.-June 2018):

Palestinian	17,119
Arab	4,079
Israeli	30,549
US/Canada	24,463
Other American	6,360
Australia/New Zealand	1,792
EU	139,033
Other European	14,062
Asia	61,114
Africa	2,851
<b>Total:</b>	<b>301,422</b>



Source: PCBS, Hotel Activities Surveys, 2017. Jerusalem Governorate excluded.



## 8.6 Trade

Palestine is highly import-dependent and reliant on Israel as its main trading partner. Even when trading with third countries, Palestinian traders are often forced to access them through Israeli intermediaries. Thus, between 1972 and 2017, Israel absorbed 79% of total Palestinian exports and accounted for 81% of imports. The trade sector suffers from **Israeli restrictions**; an average of 500 closure obstacles in the West Bank, a long list of forbidden dual use items, the provisions of the 1994 Paris Protocol, a weak industrial base, lack of access to natural resources and markets – all this has led to a steady increase in the non-tradable sectors (services, construction) and the de-agriculturalization and de-industrialization of the economy.

Israeli restrictions **inflate costs** and **undermine competitiveness** (e.g., Palestinian importers pay three times and exporters twice the cost of their Israeli counterparts for the same transaction). To break the cycle of dispossession and de-development, a new framework is needed that guarantees the PA full control over its customs territory, borders, and trade and industrial policies (UNCTAD, *Report on UNCTAD's Assistance to the Palestinian People*, 2018). World Bank analysis suggests that **lifting the blockade** alone could lead to additional cumulative growth in the range of 32% and **relaxing the dual use list** would bring about additional cumulative growth of 6% to the West Bank and 11% to the Gaza economy by 2025. In the West Bank, the removal of the Israeli restrictions on Area C could bring additional cumulative growth equal to 33% by 2025. Overall, alleviating external Israeli restrictions could raise real GDP by some 36% in the West Bank and 40% in Gaza by 2025 (World Bank, "Prospects for Growth and Jobs in The Palestinian Economy: A General Equilibrium Analysis," November 2017).

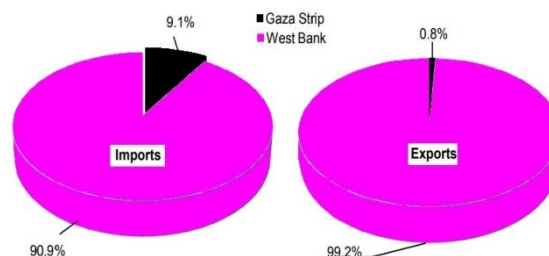
### External Trade (excl. Jerusalem) - Key Indicators (millions of US\$)

	1995	1999	2002	2006	2010	2014	2016	2017 <sup>1</sup>
Exports of goods and services	562	752	478	736	1,367	2,172	2,381	2,693
Imports of goods and services	2,441	3,364	2,234	3,683	5,264	7,209	7,627	8,067
Trade balance (US\$ millions)	-1,879	-2,612	-1,756	-2,947	-3,897	-5,037	-5,246	-5,374
Trade balance (% of GDP)	-57.2	-61.2	-49.4	-60.0	-43.7	-39.6	-39.1	-37.1
Trade balance with Israel (US\$ million)	-922	-1,598	-886	-1,887	-2,737	-2,838	-2,622	-2,887
Trade balance with Israel (% of GDP)	-28.1	-37.4	-24.9	-38.4	-30.7	-22.3	-19.5	-19.9
PA trade with Israel –								
- as % of total Israeli trade	4.2	3.7	1.8	2.2	2.1	3.1	3.4	3.4
- as % of total PA trade	83.5	67.5	56.9	64.4	66.6	61.9	60.0	59.8

Source: UNCTAD, *Report on UNCTAD's Assistance to the Palestinian People*, 2018. <sup>1</sup> Preliminary estimates.

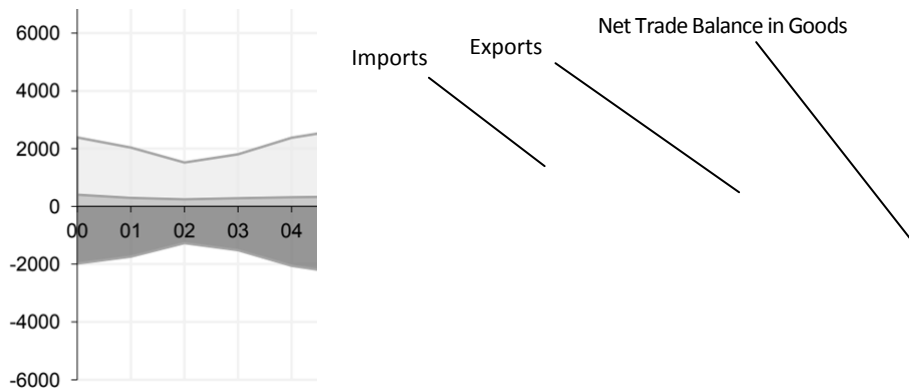
### Facts & Figures

- Main **import items** are mineral products (fuel, lubricants) followed by industrial supplies (mainly machinery, equipment), while the largest **export items** are industrial supplies (especially articles of stone, plaster, cement, asbestos, mica, or similar materials) (PCBS, *Registered Foreign Trade Statistics* 2017, Oct. 2018; for a detailed list of trade items see: <http://www.pcbs.gov.ps/Downloads/book2388.pdf> - table 8).
- As of June 2018, **wholesale and retail trade** (including repair) contributed 20.5% to the **GDP** (excl. East Jerusalem) (PCBS, *Quarterly National Accounts*, Q2-2018).
- In 2017, **exports** increased by 14.9% compared to 2016 and reached US\$ 1,064.8 million (WB: US\$1,056,539, GS: US\$8,345) and **imports** by 9.1% to US\$ 5,853.8 million (WB: US\$5,323,758, GS: US\$530,092) (PCBS, *Registered Foreign Trade Statistics*, 2017, Oct. 2018).



Source: PCBS, *Registered Foreign Trade Statistics*, 2017, Oct. 2018.

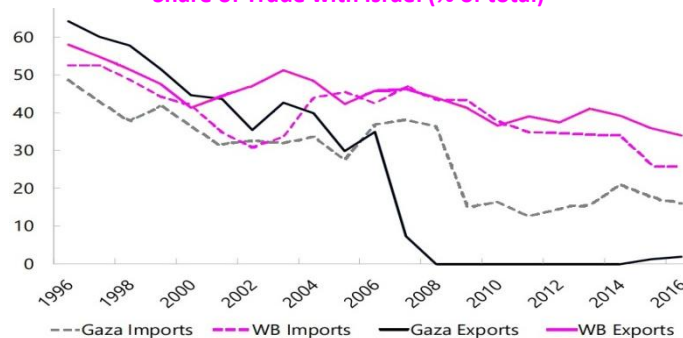
## Trade Balance in the Palestinian Territory, 1995-2017 (in US\$ million)



Source: PCBS, *Registered Foreign Trade Statistics*, 2017, Oct. 2018.

- Between August 2017 and August 2018 **exports decreased** by 2.9% and **imports** by 0.2%, resulting in an 0.4% increase of the **trade deficit**, which reached US\$ 404.6 million (PCBS, *Preliminary Results of the Palestinian Registered External Trade in Goods of August 2018*, October 2018).
- As the only viable foreign market for Palestinian exports and imports **trade dependence on Israel** remains high. In 2017, Palestinian **exports** were 19% of GDP, while **imports** were 56%; the **trade deficit** was 37% of GDP, among the highest in the world. Israel accounted for 54% of the Palestinian trade deficit, as trade with Israel accounted for 60% of total Palestinian trade (UNCTAD, *Report on UNCTAD's Assistance to the Palestinian People*, 2018). In August 2018, **exports to Israel** represented 92.5% of all exports, **imports from Israel** 58.8% of all imports (PCBS, *Preliminary Results of the Palestinian Registered External Trade in Goods of August 2018*, October 2018).
- In the late 1990s, 60% of Gaza's **exports** went to Israel. Today that share is effectively zero, while over 30% of the West Bank's exports head to Israel (IMF, *Report to the AHLIC*, September 2018).

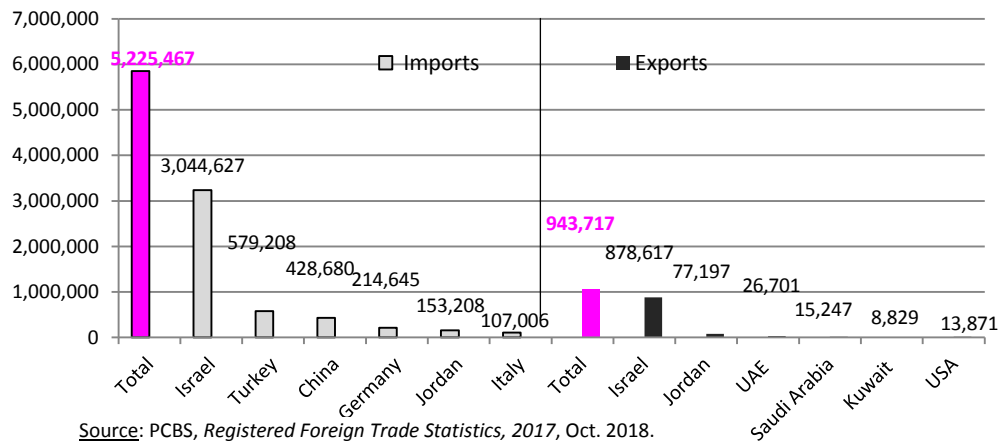
## Share of Trade with Israel (% of total)



Source: IMF, *Report to the Ad Hoc Liaison Committee*, September 2018.

- After Israel, the **second most important market** for Palestinian goods is the **EU**, which in April 2011 gave all Palestinian agricultural and fishery products immediate duty free access. In 2017, **exports** to the EU amounted to €16 million (an 11.5% decrease over 2016) and **imports** from the EU to €262 million (a 3.3% increase over 2016), resulting in a **trade balance** of -€246 million. Exports are mainly agricultural products (82.3%), mostly vegetable products (51.9%), imports are mainly industrial products (77%), mostly machinery and equipment (19.7%), and foodstuffs, beverages, tobacco (16.5%) ([http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113382.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113382.pdf)).

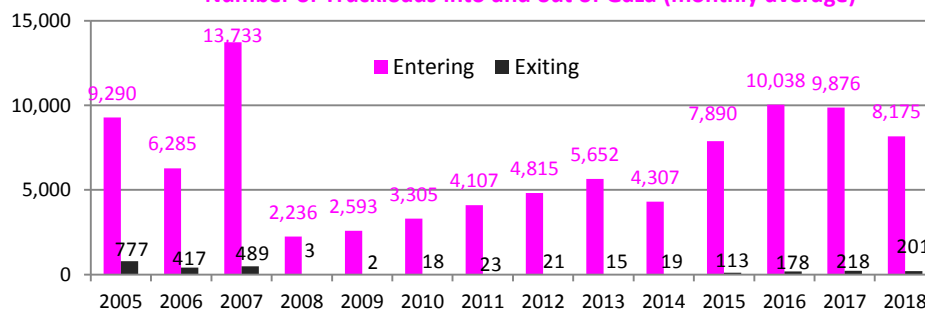
## Main Trade Partners, 2017 (Values in thousand US\$)



- As of September 2018, a monthly average of 8,175 **truckloads of goods** had entered **Gaza** (mainly construction materials and human food products), while only 218 truckloads had left (agricultural products, furniture, and textiles to the West Bank; agricultural products and scrap metal to Israel) (OCHA, *Gaza Crossings' Operation Status, Monthly Updates*).



## Number of Truckloads into and out of Gaza (monthly average)



Source: OCHA, *Gaza Crossings' Operation Status, Monthly Update – September 2018*.

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

- West Bank:**
- Al-Jamaleh north of Jenin
  - Taybeh (or Irtah or Sha'ar Ephraim) south of Tulkarm
  - Betunia southwest of Ramallah
  - Tarqumia northwest of Hebron.
- Gaza:**
- Beit Hanoun/Erez in north Gaza
  - Rafah, at the Egyptian border
  - Karem Abu Salem/Kerem Shalom at Gaza's southern end.



## 8.7 Finances

### Taxation

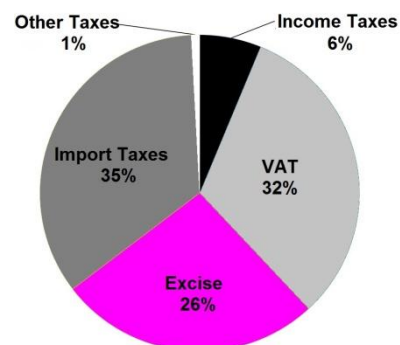
- The Gaza-Jericho/Oslo I Accord (May 1994) transferred authority to organize all tax-related issues to the PA, which was outlined in the *Early Empowerment Agreement* (29 August 1994). Taxation is the PA's main source of income. The PA's **fiscal revenues** are considerably affected by Israel's repeated refusal to hand over taxes collected on behalf of the PA (VAT, import, fuel, income, and health taxes) and the PA's inefficiency in collecting taxes domestically.
- 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 applied fair, they should not exceed 0.6%) (UNCTAD, 2016).
- Personal and corporate **income taxes** contributed only 6% of tax revenue (the lowest level in the region), while **domestic tax revenue** (income and property taxes, local VAT and excises) accounts for roughly 20%. The remainder are the so-called "clearance revenues", i.e., taxes on imports to WBGS collected by Israel. **Indirect taxes** (customs duties, VAT and excises) are the major contributors to the total tax revenue (IMF, *Report to the AHLC*, March 2018).
- **Israel** continues to control over 70% of the **PA's revenues**, often abusing the clearance system for political reasons and to unilaterally settle bills unpaid by Palestinians.

#### Taxes in the Palestinian Territories

- **Individual Income Tax** (5-20% withheld by employer)
- **Corporate Income Tax** (15-20% for companies)
- **Foreign Dividend Tax** (on dividends distributed to shareholders of a foreign company)
- **Value-Added Tax (VAT)** (16% 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** (5-200% payable by manufacturers or importers at the port of entry on certain consumer products)
- **Capital Gains Tax** (15% from a certain threshold of gains)

Sources: [www.pipa.gov.ps/taxation.asp](http://www.pipa.gov.ps/taxation.asp); [www.doingbusiness.org](http://www.doingbusiness.org)

Tax Revenue Composition, 2016



#### Fiscal leakages suffered by the PA include the following:

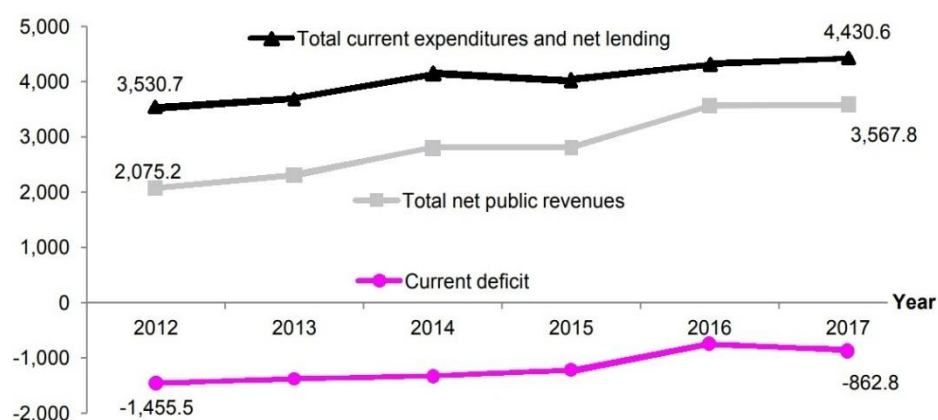
- Since 2000, Palestine is missing **US\$360 million** in unpaid taxes and fees from **Israeli commercial activity in the West Bank/Area C** (35% of Palestinian deficit).
- Since 2006, Palestine has lost **US\$540 million** in revenue (48% of its deficit) due to the **handling fees** imposed by Israel.
- Since 2008, Palestine has lost **US\$145 million** (12% of its deficit) due to Israel's failure to fully transfer passenger exit fee the PA.
- Each year, the PA loses **US\$26 million** (3% of its deficit) as due to Israel's collection on **taxes and fees on fuel**.
- Each year, the PA loses **US\$120 million** in **customs & VAT** on imported goods (11% of its deficit).

Source: State of Palestine, *Stopping Fiscal Leakages*, Report to the AHLC, September 2018.

## ■ Budget and Fiscal Accounts

- PA continued its **fiscal reforms** and efforts, thus succeeding in bringing down its **deficit** from 27% of GDP in 2006 to 8% in 2016 and 2017 (UNCTAD, *Report on UNCTAD's Assistance to the Palestinian People*, 2018).
- In 2017, the PA's budget **deficit** increased despite a 0.2% increase in total net public revenues by 15.2% to US\$ 862.8 million, mainly due to a rise in **expenditures** and **net lending**. At the same time, **external support** to cover the budget deficit decreased by 10.3% to US\$ 544.5 million (PCBS, *Performance of the Palestinian Economy, 2017*, May 2018).

Components of General Budget in Palestine, 2012- 2017 (US\$ million)



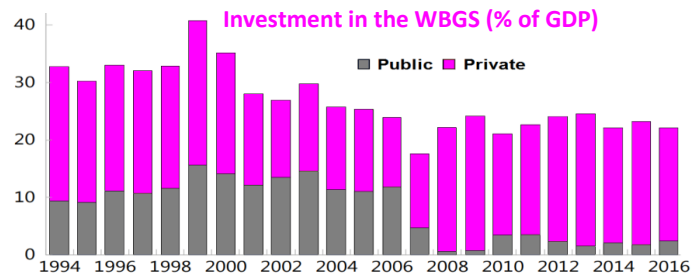
Source: PCBS, *Performance of the Palestinian Economy, 2017*, May 2018.

- The PA's **monthly expenditures** have fallen by nearly US\$30 million since 2016 (from US\$125 million to US\$96 million) due to restrictive measures by the PA since April 2017 (reductions in subsidies for fuel, salary cuts and early retirement for PA employees). However, reconstruction funds pledged at the 2014 Cairo Conference "have been drying up" (with many homes still damaged) and Trump's withdrawal from US commitments worth US\$50-60 million annually make things worse (World Bank, *Economic Monitoring Report to the AHLC*, Sept. 2018).
- While **public spending** was **reduced** by about 7% (due to a 17% drop in the **wage bill**) and **net lending** declined by 12% (due to the PA's reform efforts to control electricity related costs), the **financing gap** persisted, mainly due to insufficient budget support and to a much lesser extent because of a 11% increase in pension payments to those referred to early retirement (*Ibid.*).
- In the first half of 2018, the PA's **total deficit** amounted to US\$400 million and **aid received** to US\$240 million (US\$183 million in budget support, US\$57 million for development financing), resulting in a **financing gap** of around US\$160 million. To fill the gap, the PA resorted to domestic resources, namely arrears to the pension fund and the private sector; net accumulation of arrears in the first half of 2018 reached US\$177 million. The World Bank has warned that additional arrears to the **pension fund** could make it insolvent in a few years. (*Ibid.*).
- If **internal reconciliation** were to happen, the PA's current financing gap is projected to increase to around US\$1 billion: US\$234 million in **additional wage spending** (for some 20,000 civil employees hired by Hamas, based on salaries paid - not on average PA remuneration), US\$247 million for operationalizing line ministries in Gaza and US\$300 million to finance development projects there. While spending would increase by US\$781 million as a result of the reconciliation, the PA is expected to only collect an additional US\$250 million in revenues (World Bank, *Economic Monitoring Report to the AHLC*, March 2018).
- Despite the PA's efforts to increase domestic revenue and reduce spending its **full year deficit** is expected to reach **US\$1.24 billion** (or 8.2% of GDP) in 2018, the **financing gap** is projected at

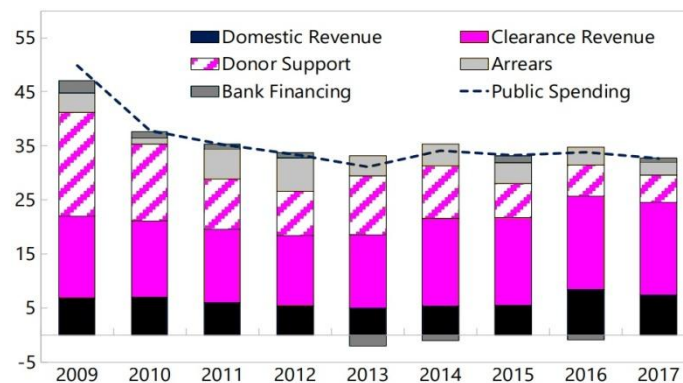
**US\$600 million** in 2018. If recent Israeli legislation to reduce clearance revenue transfers (tax and VAT collected on behalf of the PA) by an estimated NIS 1.2 billion (US\$340 million) annually starting in 2019 is implemented yearly financing gaps are projected to approach **US\$ 1 billion** (World Bank, *Economic Monitoring Report to the AHLC*, Sept. 2018).

- The **IMF** projects the **overall fiscal deficit** to jump from 8.3% of GDP in 2018 to 10.3% in 2019 and then decrease by only half a percentage point of GDP over the medium term, with annual financing gaps averaging around 6.5% of GDP (IMF, *Report to the AHLC*, September 2018).
- **Public investment** remains very low at around 2% of GDP in recent years (UNCTAD, *Report on UNCTAD's Assistance to the Palestinian People*, 2017).

Source: IMF, *West Bank and Gaza - Report to the AHLC*, Aug. 2017 (PCBS statistics/IMF calculations).

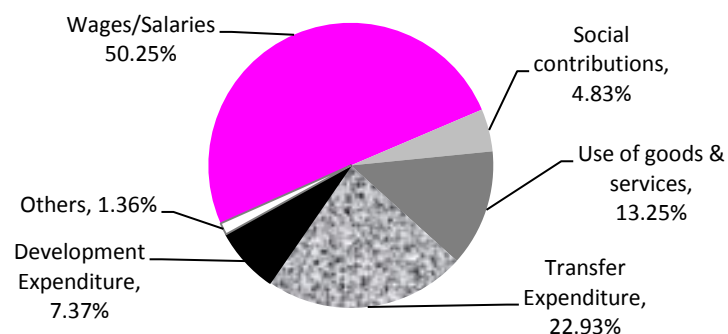


**Revenue and Donor Aid (% of GDP)**



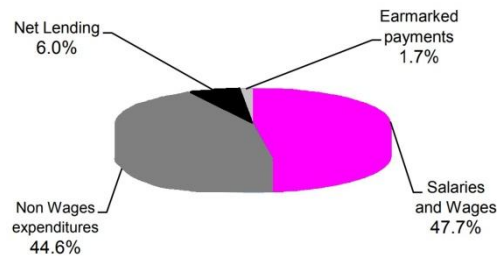
Source: IMF, *West Bank and Gaza, Report to the AHLC*, Sept. 2018.

**PA Expenditures, 2017**



Source: PA, Ministry of Finance.

## Total Expenditure &amp; Net Lending in Palestine, 2017



Source: PCBS, *Performance of the Palestinian Economy 2017*, May 2018.

## General Government Finance (West Bank), 2017

	Central Government	Local Government
<b>Expenses</b>		
<b>Total</b>	<b>US\$ 4,983.7 million</b>	
Gross expenses	US\$ 4,493.5 million	US\$ 510.2 million
of which:- Employees' compensation	51.9%	26.7%
- Social benefits	19.8%	1.9%
- Use of goods/services	19.6%	26.1%
- Capital expenses	3.5%	25.2%
- Others	5.2%	20.1%
<b>Revenues</b>		
<b>Total</b>	<b>US\$ 4,764.6 million</b>	
Government revenues	US\$ 4,333.7 million	US\$ 430.9 million
of which: -Taxes	76.5%	17.0%
- Social contributions	0.0	0.3%
- Grants and aids	16.8%	5.0%
- Other revenues <sup>1</sup>	6.7%	77.7%

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

Source: PCBS, *Press Release on General Government Finance 2017*, 28 Aug. 2017.

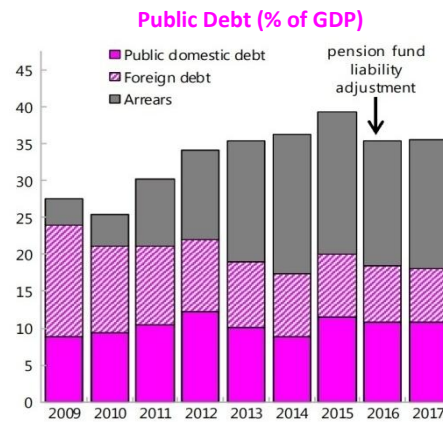
## Fiscal Indicators (in million US\$), 2007-18

	2007	2009	2011	2013	2015	2017	2018 budg- eted
<b>Total Net Revenues</b>	<b>1,194</b>	<b>1,597</b>	<b>2,046</b>	<b>2,311</b>	<b>2,756</b>	<b>3,567</b>	<b>3,558</b>
Gross domestic revenues	323	585	728	853	855	1,154	1,198
Clearance revenues	896	1,103	1,424	1,690	2,055	2,486	2,432
Tax refunds	25	91	116	231	154	-73	-72
<b>Total Recurrent Expenditures</b> (commitment basis)	<b>2,544</b>	<b>3,190</b>	<b>3,325</b>	<b>3,693</b>	<b>3,976</b>	<b>4,737</b>	<b>4,807</b>
Wages	1,283	1,467	1,783	1,919	1,914	2,120	1,957
Non-wages	725	1,349	1,402	1,564	1,761	1,983	2,169
Net lending	535	374	140	210	301	267	300
<b>Development Expenditure</b> (commitment)	<b>310</b>	<b>430</b>	<b>370</b>	<b>187</b>	<b>230</b>	<b>367</b>	<b>381</b>
<b>Recurrent Balance</b> (commit- ment basis)	<b>-1,350</b>	<b>-1,592</b>	<b>-1,279</b>	<b>-1,382</b>	<b>-1,220</b>	<b>-803</b>	<b>-868</b>
<b>Overall Balance</b> (commitment)	<b>-249</b>	<b>-1,771</b>	<b>-1,649</b>	<b>-1,569</b>	<b>-1,450</b>	<b>-1,170</b>	<b>-1,249</b>
<b>Total Financing</b>	<b>249</b>	<b>1,771</b>	<b>1,649</b>	<b>1,569</b>	<b>1,450</b>	<b>1,170</b>	<b>1,249</b>

Source: IMF and Finance Ministry estimates, quoted in IMF, *West Bank and Gaza - Report to the AHLC*, September 2018.

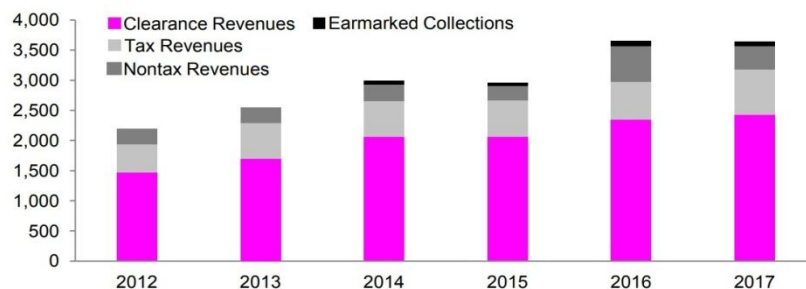


- At the end of 2017, **public debt** had increased by 2.4% over 2016 to US\$ 2,543.1 million (PCBS, *Performance of the Palestinian Economy, 2017*, May 2018). It was estimated to be 36.6% of GDP (80.6% of which was **domestic debt**, and 19.7% **foreign debt**). It is projected to increase to 49.7% by 2020 and to 63.5% by 2025 (IMF, *Report to the AHLC*, March 2018).
- Due to reforms, **gross domestic tax revenues** have risen ever since 2007. In 2017, they accounted for 21.4% of the total net public revenues (=US\$ 761.9 million). **Gross domestic non-tax revenues** declined by 35.7% and accounted for 10.9%, **earmarked collections** declined, accounting for 2.1%, and **clearance revenues** increased by 3.4%, accounting for 67.7% of the **total net public revenues** (PCBS, *Performance of the Palestinian Economy, 2017*, May 2018).



Source: IMF, *Report to the AHLC*, March 2018.

#### Distribution of Public Revenues by Source in Palestine, 2012- 2017



Source: PCBS, *Performance of the Palestinian Economy, 2017*, May 2018.

#### PA Expenditures (in thousand NIS), 2017

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>1,576,362</b> 917,422	402,855	299,788	172,955
<b>Security &amp; Public Order</b> <i>of which: Ministry of Interior &amp; National Security</i>	<b>4,423,303</b> 3,939,657	3,347,919	350,596	261,436
<b>Financial Affairs</b> <i>of which: Retirees Pension Allowances</i>	<b>2,104,918</b> 1,276,182	230,876	86,273	231,018
<b>Foreign Affairs</b> <i>of which: Embassies</i>	<b>287,677</b> 222,130	166,212	96,562	1,772
<b>Economic Development</b> <i>of which: Ministry of Agriculture</i>	<b>434,006</b> 144,192	192,961	31,887	148,984
<b>Social Services</b> <i>of which: Ministry of Education &amp; Higher Education</i>	<b>5,991,269</b> 3,039,907	3,081,682	1,027,442	294,661
<b>Cultural &amp; Information Services</b> <i>of which: Palest. Broadcasting Corp.</i>	<b>274,993</b> 134,696	135,319	108,575	7,512
<b>Transport &amp; Communication</b>	94,083	73,671	10,816	1,760
<b>Grand Total</b>	<b>15,186,611</b> (100%)	<b>7,631,494</b> (50.3%)	<b>2,011,921</b> (13.2%)	<b>1,120,097</b> (7.4%)

Source: PA Ministry of Finance, <http://www.pmoef.ps/documents/10180/961483/DEC+2017+ENG.pdf> (Table 5 B).

## ■ Banking

As of June 2018, Palestinian Monetary Authority data shows that the banking system's **total assets** just exceeded US\$15.4 billion and **direct credit** grew by 10% since June 2017 to US\$8.3 billion. The overall **credit-to-deposit ratio**, which had a 50-60% in recent years, further increased to 69% (up from 63% in 2016 and 66% in 2017) due to faster growth rate of credits (10%) over deposits (5%). PA loans accounted for 71% of the PMA's credit limit (World Bank, *Economic Monitoring Report to the AHLC*, September 2018).

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 10 branches, but the real "boom" started with the Oslo process. Banks in the WBGS are governed by the **Banking Law** No. 2 of 2002 and comply with international banking practices. They have very limited exposure to global markets and apply conservative lending practices domestically. Currently there are 14 **banks** (7 Palestinian banks, three of them Islamic, and 7 Arab banks) with 357 **branches and offices**, distributed as follows:

Banks in Palestine					
Type	Name	Branches & Offices	Type	Name	Branches & Offices
Local Commercial	-Bank of Palestine P.L.C.	79	Foreign Commercial	-Cairo Amman Bank	21
	-Palestine Investment Bank	19		-Arab Bank	31
	-Al Quds Bank	41		-Jordan Ahli Bank	10
	-The National Bank	25		-Bank of Jordan	32
Local Islamic	-Arab Islamic Bank	21		-Egyptian Arab Land Bank	8
	-Palestine Islamic Bank	40		-The Housing Bank for Trade & Finance	15
	-Safa Bank	5		-Jordan Commercial Bank	6

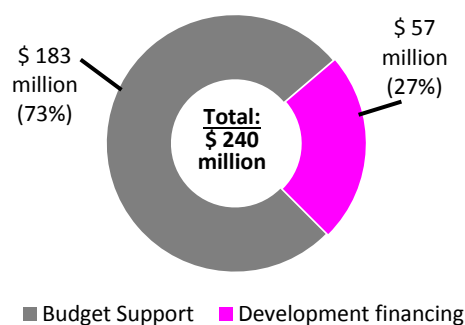
Source: Palestinian Monetary Authority, Fact Sheet, June 2018.

- In 2017, there were 599 **finance and insurance** enterprises, including 10 PMA and holding companies, 15 banks, 9 other credit institutions, 548 money exchangers, 9 stock market brokers and 8 insurance corporations. Together, they employed 11,549 persons (PCBS, *Finance and Insurance Survey, 2017 – Main Results*, October 2018).
- During 2017, **total deposits** in the banking sector increased by 12.9% to US\$ 11,973.4 million, 67% of which were deposits to resident individuals (US\$ 8,025.8 million). Total **credit facilities** increased by 16.8% to US\$ 8,027.5 million, 18.4% of which was provided to the public sector and 17.5% to finance consumption loans (PCBS, *Performance of the Palestinian Economy, 2017*, May 2018).
- Less than 30% of adults have **an account at a financial institution**, while significant numbers of Palestinians still rely on cash (IMF, *Report to the Ad Hoc Liaison Committee*, March 2018).
- 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 as a deposit insurance scheme. Besides supervising banks, the PMA is also in charge of 332 **licensed money changers** and 6 **specialized lending institutions** with their 81 branches in the WBGS (PMA, Factsheet, June 2018).
- The **Palestine Securities Exchange** had its first trading session on 18 February 1997; by October 2017, 48 **companies** were listed. In the first eight months of 2018, transactions had decreased by 27.8% (compared to the same period in 2017) and the **trade volume** had reached almost 146 million shares (-16.14% over the same period in 2017) with a **value** of US\$285.5 million (-1.24%). 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 527.8 by mid-October 2018 (down from 576.8 in October 2017) (*Tadawul - Monthly Statistical Newsletter*, No. 137, August 2018; <http://www.pex.ps>).

## ■ Donor Assistance

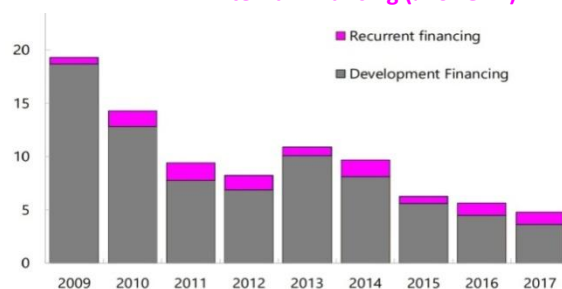
- **Grants** declined by 5.9% in 2017 compared to 2016 reaching US\$ 719.5 million, due to a decline in grants to finance budgetary support by 10.3% reaching to US\$ 544.5 million, which constituted 75.7% of the total grants in 2017 (PCBS, *Performance of the Palestinian Economy*, 2017, May 2018).
- **External budget support** is on further decline. On March 23, 2018 US President Trump signed into law the **Taylor Force Act** which prohibits provision of any Economic Support Fund assistance to the West Bank and Gaza that would directly benefit the PA unless a series of conditions are met (e.g., ceasing payments to Palestinian prisoners or families of martyrs). On 2 July, **Australia** decided to re-direct some \$7.4 million from PA budget support to the UN, and the **Knesset** passed a law requiring the withholding from clearance revenues the amount that the PA annually spends on payments to Palestinian security prisoners, their families, or to families of Palestinians killed or injured in attacks. Implementation of this law would cause a revenue loss of 2% of GDP, and resulting in a 70% increase in the **financing gap** over the 2018 baseline (IMF, *Report to the AHLC*, September 2018). In August, the US announced that it would redirect funding slated for USAID programs, that some \$230 million of its Economic Support Fund for the WBGs for fiscal year 2017 will now not be disbursed, and that starting 2019, it will cease all funding to UNRWA (UNSCO, *Report to the AHLC*, Sept. 2018).
- Since its establishment in 1994, the PA has received large amounts of donor aid and is consistently ranked among the world's top recipients of aid per capita. However, donors have stressed that **aid cannot substitute** for a poor business environment created by Israeli restrictions, which have eroded the productive capacity of the Palestinian economy. In recent years, **donor aid** was mainly used for **budget support**, with near total neglect for development.
- In the first half of 2018, **aid received** (US\$240 million) was one third lower than in the same period in 2017. **Budget support** has fallen from 32% of GDP in 2008 to a projected 5% in 2018. Aid inflows for the full year (2018) are projected at US\$684 million (World Bank, *Economic Monitoring Report to the AHLC*, Sept. 2018).

Donor Aid, received Jan.-June 2018 (US\$)



Source: World Bank, *Economic Monitoring Report to the AHLC*, Sept. 2018.

External Financing (% of GDP)

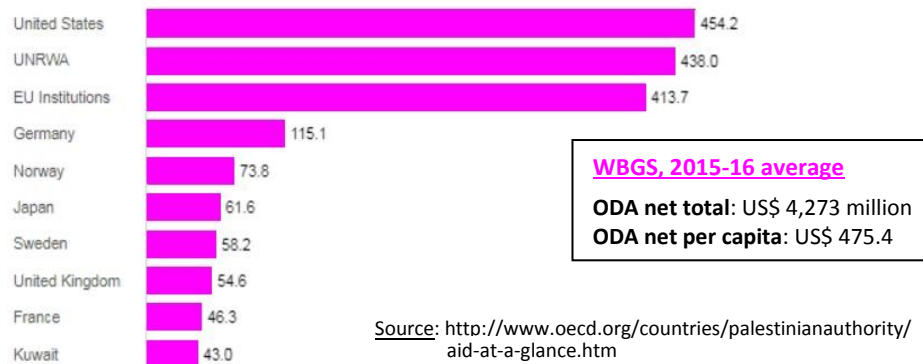


Source: Ministry of Finance and Planning; IMF, *West Bank and Gaza - Report to the AHLC*, March 2018.

- According to the OECD database, over **\$35 billion in aid** has been spent on the WBGs **between 1993 and 2016**, of which 70% or \$24 billion was allocated between 2006 and 2016 (annual average of \$2.2 billion and of \$560 per capita). The top six donors (US, EU, UNRWA, Norway, Germany, and

Britain) provided a combined 70% of the overall aid (<http://www.middleeasteye.net/columns/international-aid-palestine-time-change-course-1205482743>).

**Top Ten Donors of Gross Official Development Assistance (ODA) to the WBGS, 2015-16 average (US\$ millions)**



- According to the PA's Ministry of Finance, the PA received approx. US\$4.481 **billion in aid between 2012 and 2016** – 39% of which from **Arab** and 61% from **non-Arab donors**. The four biggest donors to the PA were the EU (US\$981 million), Saudi Arabia (US\$908 million), funds channeled through the World Bank (US\$872 million), and the US (US\$477 million). **EU aid**, excluding the bilateral aid pledged by member states, totaled €5,964 million between 2000 to 2015, 43% of which was provided as direct PA budget support, 31% to UNRWA and 10% for humanitarian aid (Tartir, A. & J. Wildeman, *Mapping of Donor Funding to the Occupied Palestinian Territories*, AidWatch Palestine 2016).
- Between late 2014 and 2016, about US\$1.8 billion of the total aid of US\$3.5 billion pledged at the **Cairo Conference for Reconstructing Gaza** was disbursed, but aid transfers significantly declined in 2017 and 2018 (World Bank, *Economic Monitoring Report to the AHLC*, September 2018).

**Total External Financing (in million NIS)**

	Budget 2010	Budget 2012	Budget 2014	Budget 2016	Budget 2018	Actual Jan.-Aug. 2018
<b>A. Budget Support</b>	<b>1,243</b>	<b>3,811</b>	<b>4,785</b>	<b>2,925</b>	<b>2,160</b>	<b>1,150.0</b>
<b>a. Arab Donors</b>						<b>680.2</b>
- Saudi Arabia						572.0
- Algeria						95.3
<b>b. International Donors</b>						<b>469.8</b>
- PEGASE						420.4
- World Bank						37.4
- Turkey						12
<b>B. Development Financing</b>	<b>670</b>	<b>1,140</b>	<b>1,080</b>	<b>956</b>	<b>630</b>	<b>340.3</b>
<b>Total External Financing</b>	<b>1,913</b>	<b>4,951</b>	<b>5,865</b>	<b>3,881</b>	<b>2,790</b>	<b>1,490.3 (=53.4%)</b>

Source: Ministry of Finance, [http://www.pmof.ps/documents/10180/1069337/2018\\_aug\\_eng.pdf](http://www.pmof.ps/documents/10180/1069337/2018_aug_eng.pdf) (Table 6).

### For comparison: US Aid to Israel

Israel is the largest cumulative recipient of US foreign assistance since WW II having so far received US\$134.7 billion (current, or noninflation-adjusted, dollars) in bilateral assistance (mostly military assistance) and missile defense funding. Between 1999-2018, it received US\$30 billion in military aid; under the terms of the following 10-year Memorandum of Understanding (covering 2019-2028), the US pledged to provide US\$38 billion. Out of this, the Trump Administration requested US\$3.3 billion in Foreign Military Financing for Israel and US\$500 million in missile defense aid for 2019, in addition to US\$5.5 million in Migration and Refugee Assistance for humanitarian migrants to Israel.

Source: Sharp, Jeremy M., *U.S. Foreign Aid to Israel*, Congressional Research Service, April 10, 2018; for details see <https://fas.org/sgp/crs/mideast/RL33222.pdf>.

### Recommended Research Sources:

<http://www.pma.ps> (Pal. Monetary Authority)  
<http://www.pmf.ps> (Finance Ministry)  
<http://www.portlandtrust.org>  
<http://www.imf.org/en/Countries/ResRep/WBG>

<http://www.worldbank.org/ps>  
<http://www.mas.ps>  
<https://unsco.unmissions.org/>  
<http://www.pex.ps> (Stock Market)

**ARIJ**, *Palestinian Agricultural Production and Marketing between Reality and Challenges*, March 2015.  
**ARIJ**, *Opportunities and Challenges of Palestinian Development Actions in Area C*, Feb. 2016.  
**BADIL**, *Forced Population Transfer: The Case of Palestine - Denial of Access to Natural Resources and Services*, 2017.  
**BADIL**, *EU - Israel Trade: Promoting International Law Violations*, December 2017  
**Economic Monitor** by MAS, PCBS, PMA and PCMA, various issues.  
**Fernley-Pearson Thomas**, *Agroforestry for Palestine Good Trees for a Better Future*, 2014.  
**ILO**, *The Occupied Palestinian Territory: An Employment Diagnostic Study*, Beirut: ILO, 2018.  
**ILO**, *The Palestinian Decent Work Programme 2018-2022*, April 2018.  
**ILO**, *The Situation of Workers of the Occupied Arab Territories*, 2018.  
**IMF**, *West Bank and Gaza - Report to the Ad Hoc Liaison Committee*, March and September 2018.  
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**PA Ministry of Agriculture**, *National Agricultural Sector Strategy (2017-2022)*, November 2016.  
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**UNCTAD**, *Report on UNCTAD's Assistance to the Palestinian People*, 2018.  
**UNCTAD**, *The Economic Costs of the Israeli Occupation for the Palestinian People and Their Human Right to Development: Legal Dimensions*, April 2018.  
**UNCTAD**, *The Occupied Palestinian Territory: Twin Deficits or an Imposed Resource Gap?* 2017.  
**UNSCO**, *Report to the AHLC*, March and September 2018.  
**UNSCO**, *Socio-Economic Reports* (quarterly).  
**USAID**, *West Bank and Gaza Inclusive Growth Diagnostic*, May 2017.  
**World Bank**, *Economic Monitoring Report to the AHLC*, March and September 2018.  
**World Bank**, *Enhancing Job Opportunities for Skilled Women in the Palestinian Territories*, September 2018.  
**World Bank**, *Obstacles on the Road to Palestinian Economic Growth*, Policy Research Working Paper, March 2018.  
**World Bank**, *West Bank and Gaza Poverty and Shared Prosperity Diagnostic 2011-2017*, Aug. 2018.