



## UNSCO Socio-Economic Report: Overview of the Palestinian Economy in Q2/2103

### Economic activity

Growth in the Palestinian economy continued to slow down. Real quarterly GDP in Q2/2013 was 1.2% higher than in the same quarter a year earlier, although it grew by 7.9% from Q1/2013. Year-on-year growth in real quarterly GDP was lower in the West Bank, 0.3%, than in the Gaza Strip, 3.5%.

Still, the West Bank economy contributed 72.6% of total GDP in Q2/2013, and its quarterly nominal GDP per capita was almost twice as high as that in the Gaza Strip. Real GDP per capita was unchanged in the Gaza Strip between Q2/2012 and Q2/2013, while it decreased by 2.3% in the West Bank.

The most dynamic sectors in both the West Bank and the Gaza Strip in Q2/2013 compared to Q2/2012 include transportation and storage; financial and insurance activities; mining, manufacturing, electricity and water; and construction. Contractions were observed in wholesale and retail trade, public administration and defense and, in the West Bank, in information and communication and in agriculture.

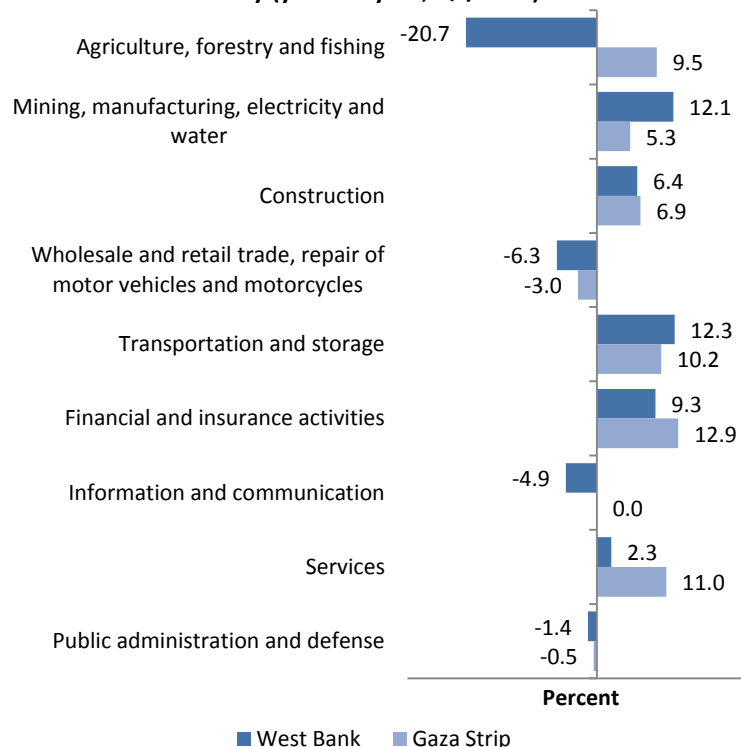
Three sectors, namely construction, services and public administration

### Key GDP indicators (Q2/2013)

	West Bank	Gaza Strip	Palestine
Real GDP (million US\$)	1,288.1	487.3	1,775.4
Rate of change in real GDP (quarter-on-quarter, %)	9.1	4.9	7.9
Rate of change in real GDP (year-on-year, %)	0.3	3.5	1.2
Nominal GDP per capita (US\$)	876	448	701

Note: Base year for real GDP is 2004. Data for Q2/2013 are flash estimates.

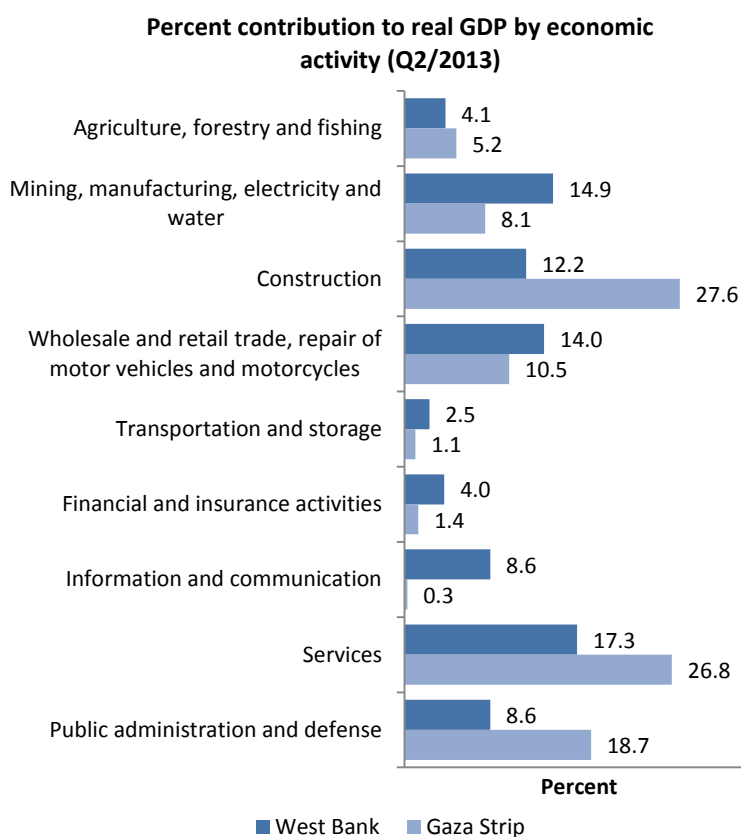
### Rate of change of real value added by economic activity (year-on-year, Q2/2013)



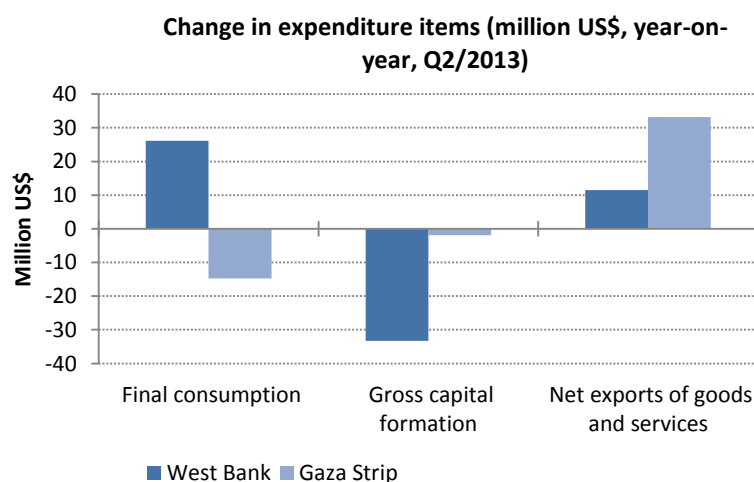
Note: Base year is 2004. Data for Q1/2013 are flash estimates.

and defense, accounted for more than 70% of total GDP in the Gaza Strip in Q2/2013. Economic activity in the West Bank was more evenly distributed among sectors, with services as the biggest sector, followed by mining, manufacturing, electricity and water.

Gross capital formation was relatively low in Q2/2013, at 17.2% in the West Bank and 8.4% in the Gaza Strip, and it decreased in both regions relative to Q2/2012. Gross fixed capital formation played a more important role in the Gaza Strip than in the West Bank both as a proportion of GDP and as a proportion of gross capital formation. Final consumption in Q2/2013 grew relative to Q2/2012 in the West Bank and it decreased in the Gaza Strip, but it still exceeded GDP in both areas, at 118.7% of GDP in the West Bank and 142.7% of GDP in the Gaza Strip. Household consumption accounted for 78.9% and 64.8% of final consumption in the West Bank and the Gaza Strip, respectively, and government consumption represented 20.3% and 30.9% of final consumption, respectively. These levels of consumption and gross capital formation were possible through import levels that exceeded exports, that is, through a trade deficit or negative net exports. Net exports increased in both regions in Q2/2013 relative to Q2/2012.



*Note: Base year is 2004. Data for Q2/2013 are flash estimates.*



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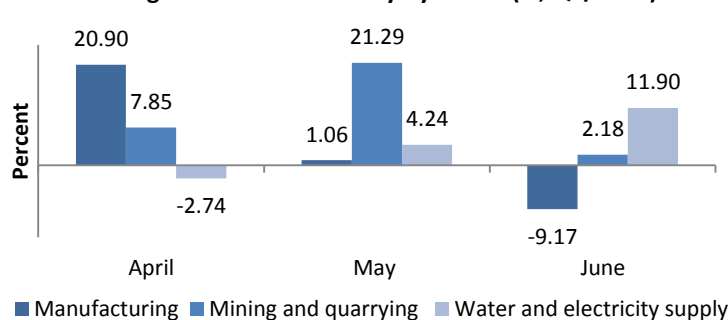
The industrial production index (IPI) reached 118.56 in June 2013 (base year is 2011). Activity in the mining and quarrying sector (with a share of 4.59% in the IPI) increased in the three months to June 2013, whereas activity in manufacturing (with a share of 80.56% in the IPI) decreased in June 2013 and activity in the water and supply sector (with a share of 14.85% in the IPI) decreased in April 2013.

Following contractions in some industrial sectors, the business cycle indicator reflected a large decrease in June 2013 in the West Bank and a more modest one in the Gaza Strip, where it remained positive throughout Q2/2013.

#### Industrial production index (Q2/2013)

	April	May	June
Index	--	125.22	118.56

#### Change in industrial activity by sector (% , Q2/2013)



#### Business cycle indicator (Q2/2013)

	April	May	June
West Bank	-5.43	1.93	-11.99
Gaza Strip	0.78	1.76	0.85

## Current account and trade

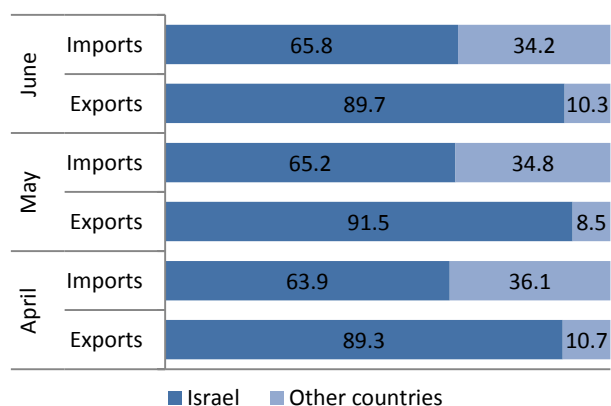
The current account deficit was lower in Q2/2013 than in Q2/2012 when it reached 29.5% of GDP, but remained high at US\$595.7 million, or 19.8% of GDP. The elevated goods trade deficit was the main reason behind the high current account deficit, although the services trade account also showed a negative balance. The income and transfer payment accounts both recorded a surplus in the quarter.

Goods exports in Q2/2013 were 19.0% higher in real terms than in Q2/2012 while goods imports grew by less than 1%. High dependence on one trading partner continues, as seen in the high proportions of registered goods exports to and imports from Israel.

#### Current account (Q2/2013)

Goods trade balance (million US\$)	-1,226.9
Services trade balance (million US\$)	-99.8
Income balance (million US\$)	310.5
Net transfer payments (million US\$)	420.5
<b>Current account balance (million US\$)</b>	<b>-595.7</b>

#### Registered trade in goods to and from Israel and other countries (Q2/2013)



Goods exports from the Gaza Strip (in truckloads) were lower in Q2/2013 than at the same time last year, and continue to be limited to a few goods. Markets are not diversified either, with agricultural exports destined to Europe and only furniture exported to Egypt.

#### Exports from the Gaza Strip, by type (Q2/2013)

	April	May	June
Carnation (stems)	513,000	60,000	--
Furniture (tons)	--	8.0	--
Tomatoes (tons)	--	--	16.0
Basil (tons)	0.9	0.7	--
Chive (tons)	--	0.2	0.9
Green mint (tons)	1.0	0.6	0.4
Sage (tons)	0.1	0.1	--
Tarragon (tons)	0.2	0.2	--
Total trucks	8	5	3

### The private sector

The total area licensed for new construction in the West Bank in Q2/2013 was slightly lower than that licensed in Q2/2012 while in the Gaza Strip it was 27.9% lower. The total number of new company registrations was higher in the West Bank than in the Gaza Strip, although compared to Q2/2012 it increased by 14.0% in the West Bank and by 47.9% in the Gaza Strip.

Twenty-one percent of owners/managers of active industrial enterprises in Q2/2013 in the Gaza Strip felt that there were improvements in the previous quarter in terms of the enterprise's performance in general, and in the ease of obtaining raw materials and inputs and of transporting finished goods to market. The proportions were lower in the West Bank except for the enterprise's performance in general. About a third of owners/managers in both regions expected improved enterprise performance in the coming quarter.

#### Private sector indicators (Q2/2013)

	West Bank	Gaza Strip
Area licensed for new construction (sq. meters)	1,039,847	840,160
New company registrations	317	108

#### Proportion of owners/managers of the active industrial enterprises who experienced improvements in previous quarter (% , Q2/2013)

	West Bank	Gaza Strip
Enterprise's performance in general	33.7	21.2
Obtaining needed raw materials and inputs	7.8	21.2
Transporting finished goods to market	13.7	21.2

#### Proportion of owners/managers of the active industrial enterprises who expect improvements in coming quarter (% , Q2/2013)

	West Bank	Gaza Strip
Enterprise's performance in general	34.9	32.7
Obtaining needed raw materials and inputs	6.9	32.7
Transporting finished goods to market	13.7	32.7

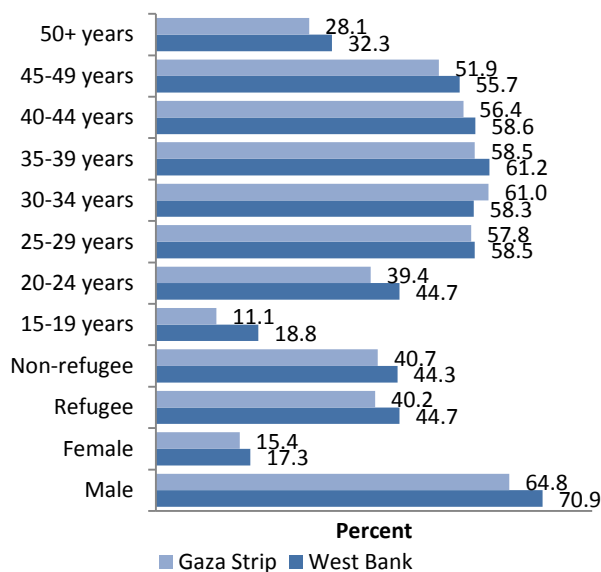
## The labor market

The labor force in Q2/2013 was 43.0% of those aged 15 and above, that is, 1.133 million persons. The labor force participation rate was 43.0% in the West Bank and 40.4% in the Gaza Strip. Participation in the labor force was much higher for men than for women in both regions, reaching only 15.4% for women in the Gaza Strip. The labor force participation was also relatively low for the youth, particularly those aged between 15 and 19 years of age.

The unemployment rate was 20.6% in Q2/2013, almost the same as in Q2/2012. Unemployment affected 16.8% and 27.9% of the labor force in the West Bank and the Gaza Strip, respectively. However, when discouraged workers are added ('relaxed definition'), the rate is higher by more than three percentage points in both regions.

Women were more affected by unemployment than men in both regions, and despite the low labor force participation rate, more than half of economically active women in the Gaza Strip were unemployed. Refugees in both the West Bank and the Gaza Strip had a higher unemployment rate than non-refugees. Age was also linked to unemployment, with the youth experiencing the highest rates. A total of 55.7% of 15-to-19-year-olds in the Gaza Strip, for example, was jobless –the highest rate of any age group in either region.

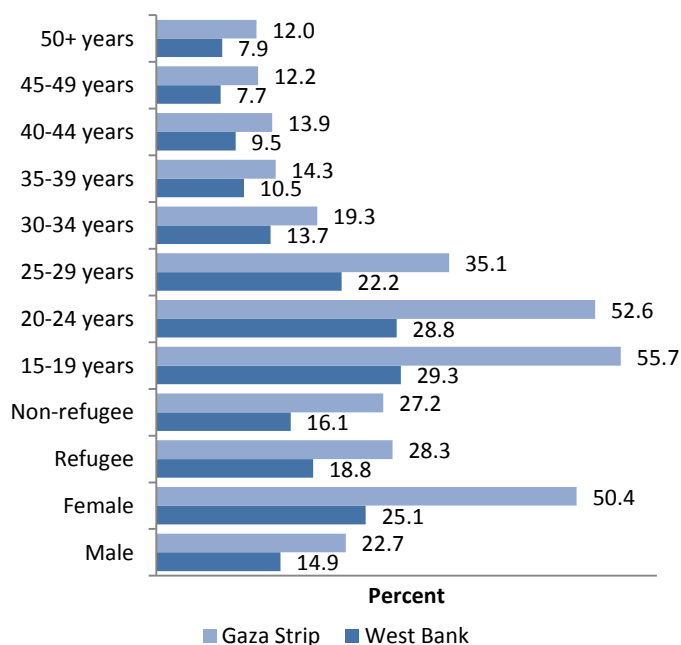
**Labor force participation rate (% , Q2/2013)**



**Unemployment rate (% , Q2/2013)**

	West Bank	Gaza Strip
Narrow definition	16.8	27.9
Relaxed definition	20.9	31.5

**Unemployment rate (% , Q2/2013)**



Whereas the average duration of unemployment in Q2/2013 decreased by about a month for both men and women in the West Bank compared to Q1/2013, it increased by more than one month for both sexes in the Gaza Strip. The average period of unemployment was considerably longer for women than for men in both regions, and it was more than twice as long in the Gaza Strip than in the West Bank, with unemployed women in the Gaza Strip experiencing the longest average period of unemployment.

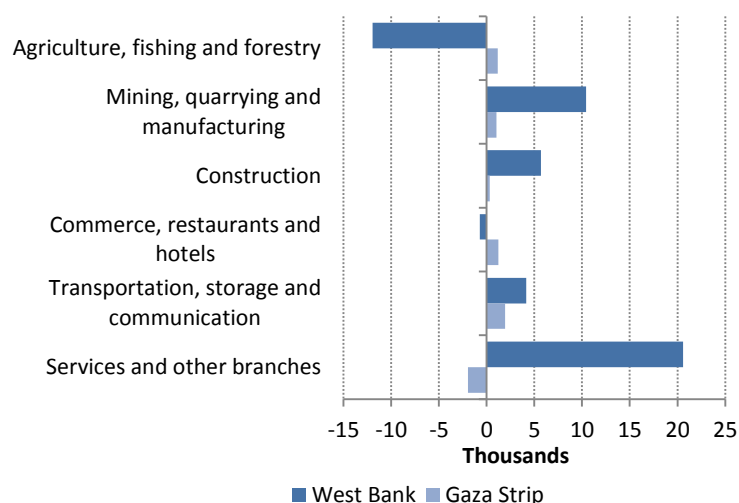
The number of persons employed increased between Q2/2012 and Q2/2013 by approximately 28,200 in the West Bank and 3,800 in the Gaza Strip. In the West Bank, employment increased mainly in services and other branches and mining, quarrying and manufacturing, while it decreased mainly in agriculture. In the Gaza Strip, employment decreased in services and other branches but it increased in the other categories.

There was a significant disparity in average daily net wages between the West Bank and the Gaza Strip in Q2/2013 - NIS88.6 vs. NIS63.2. Average daily net wages were higher for men than for women in the West Bank, but the situation was reversed in the Gaza Strip. The public sector offered higher average daily wages than the private sector in both regions, although average wages in Israel and Israeli settlements in the West Bank remained the highest.

#### Average duration of unemployment (months, Q2/2013)

	West Bank	Gaza Strip
Male	5.3	15.6
Female	8.8	22.3

#### Change in number of employed persons by economic activity (thousands, year-on-year, Q2/2013)



#### Average daily net wage (NIS, Q2/2013)

	West Bank	Gaza Strip
Male	89.6	60.8
Female	84.9	77.4
Private sector	80.8	43.0
Public sector	101.7	80.8
Israel and settlements	172.1	

*Note: Data by sex and sector exclude those employed in Israel and settlements.*

## Consumer prices

Average prices, as measured through the Consumer Price Index (CPI), rose in the three months to June 2013 in East Jerusalem and the rest of the West Bank, but they fell in the Gaza Strip.

### Change in CPI (% , Q2/2013)

	East Jerusalem	Rest of West Bank	Gaza Strip
<b>Quarter-on-quarter</b>	1.1	1.4	-2.7
<b>Year-on-year</b>	2.8	4.4	-1.1

Note: Comparisons are based on prices as the end of quarter.

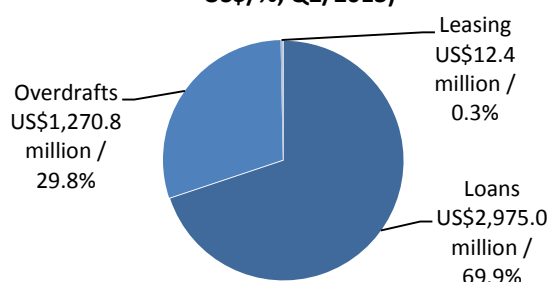
## The banking sector

Bank credit in Q2/2013 increased by 4.4% from the previous quarter to US\$4,258.2 million. As in previous quarters, most of the credit (69.9%) was in the form of loans, followed by overdrafts. Leasing constituted only a very small proportion of bank credit.

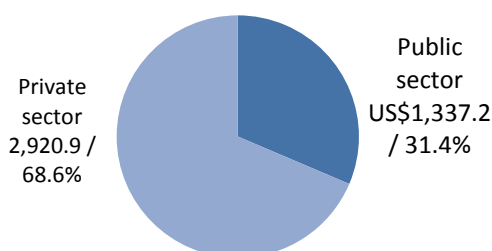
In terms of bank deposits, the main source in Q2/2013 was the private sector with 68.6%, down from 69.5% in Q1/2013.

These figures yield a loan-to-deposit ratio of 54.4%, up from 52.9% in the first quarter of 2013.

### Distribution of bank credit by type (million US\$/% , Q2/2013)



### Distribution of bank deposits by sector (million US\$/% , Q2/2013)

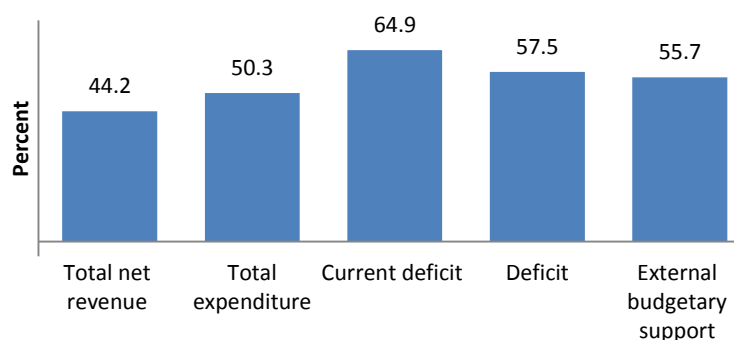


Note: Data do not include deposits of the PMA and commercial banks.

## Fiscal operations

In the first six months of 2013, the government total net revenue was 44.2% of the NIS9,207 million in the budget, as clearance and non-tax revenues were lower than expected. Total expenditure was in line with the NIS13,092 million budgeted for the year. The wage bill was in line with the budget, but net lending was more than twice the budgeted amount for the year. The resulting current deficit was higher than expected based on the annual budgeted amount of NIS3,885 million, and the overall deficit was

### Fiscal indicators: actual as a proportion of budget (% , January - June 2013)



Note: The information is up-to-date as of 12 September 2013.

also higher than expected based on the NIS5,180 million in the budget. External budgetary support by June 2013 was 55.7% of the budgeted annual amount, but development financing was only 12.8% of the expected annual amount.

**Note: The data for the West Bank and Palestine in this report do not include occupied East Jerusalem, unless otherwise specified, due to the unavailability of data.**

**Sources of data:**

- Economic activity: PCBS. Various periods. *Preliminary Estimates of Quarterly National Accounts and The Industrial Production Index*. PMA. Various periods. *Business Cycle Indicator*.
- Current account: PCBS and PMA. Various periods. *Palestinian Balance of Payments*.
- Trade: PCBS. Various periods. *The Palestinian Registered External Trade in Goods*. Palestinian Agricultural Relief Committees and Ministry of National Economy (for Gaza Strip export data).
- Private sector: Engineering Offices and Consulting Firms (for area licensed for new construction); Ministry of National Economy (for new company registrations); and PCBS. Various periods. *Survey of the Perceptions of the Owners / Managers of Active Industrial Enterprises Regarding the Economic Situation*.
- Labor market: PCBS. Various periods. *Labor Force Survey*.
- Consumer prices: PBCS. Various periods. *Monthly Produce Price Index*.
- The banking sector: PMA. Various periods. *Banking Data*.
- Fiscal operations: Ministry of Finance. Various periods. *Fiscal Operations – Revenues, Expenditures and Financing Sources*.

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The UNSCO Socio-Economic Report is also accessible on [www.unsco.org](http://www.unsco.org).