



UNSCO Socio-Economic Report: Overview of the Palestinian Economy in Q4/2013

Economic activity

Growth in the Palestinian economy during the quarter was low. Real quarterly GDP grew by only 0.3% in Q4/2013 compared to Q3/2013. Quarter-on-quarter change in real GDP was 1.2% in the West Bank and -2.3% in the Gaza Strip.

The contribution of the West Bank economy to total GDP increased to 76.3% in Q4/2013, and its quarterly nominal GDP per capita was more than twice as high as that in the Gaza Strip. Real quarterly GDP per capita in the Gaza Strip was lower in Q4/2013 than in any other quarter during the year, while it increased slightly in the West Bank between Q3/2013 and Q4/2013.

With the recent decline of construction in the Gaza Strip, three sectors, namely public administration and defense, services and wholesale and retail trade, accounted for 65.0% of total GDP in the Gaza Strip in Q4/2013. Economic activity continued to be more evenly distributed among sectors in the West Bank, with services as the biggest sector, followed by wholesale and retail trade.

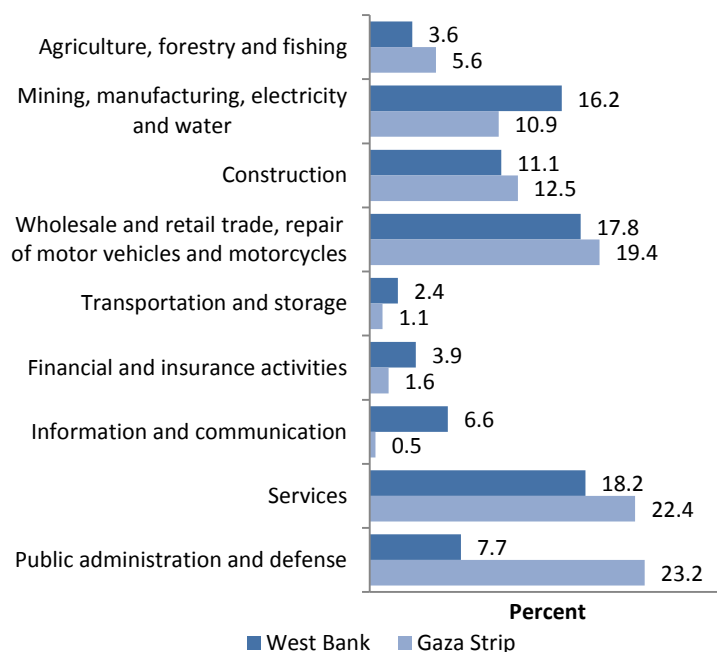
Gross capital formation reached 27.5% in the West Bank and 10.2% in the Gaza Strip in Q4/2013. Gross fixed capital formation played a more important role

Key GDP indicators (Q4/2013)

	West Bank	Gaza Strip	oPt
Real GDP (million US\$)	2,314.6	719.6	3,034.2
Rate of change in real GDP (quarter-on-quarter, %)	1.2	-2.3	0.3
Nominal GDP per capita (US\$)	1,104.9	423.1	826.2

Note: Base year for real GDP is 2010. Data for Q4/2013 are flash estimates.

Percent contribution to real GDP by economic activity (Q4/2013)



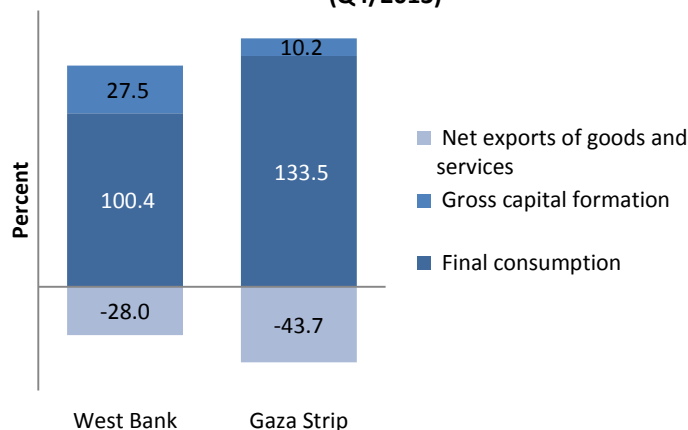
Note: Base year is 2010. Data for Q4/2013 are flash estimates.

as a proportion of GDP in the West Bank than in the Gaza Strip. Final consumption in Q4/2013 exceeded GDP in both areas, at 100.4% of GDP in the West Bank and 133.5% of GDP in the Gaza Strip. Household consumption accounted for 81.9% and 60.0% of final consumption in the West Bank and the Gaza Strip, respectively, while government consumption represented 17.1% and 32.7% 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.

The industrial production index (IPI) decreased in Q4/2013, falling below 100 in December (base year is 2011). Activity in manufacturing (with a share of 80.56% in the IPI) and in the mining and quarrying sector (with a share of 4.59% in the IPI) increased in October but decreased in November and December. Activity in the water and electricity supply sector (with a share of 14.85% in the IPI) decreased in October and November 2013 but increased significantly in December.

The business cycle indicator reflected improvements in the Gaza Strip in October and in the West Bank in November, but it reflected contractions at other times during the quarter.

Percent distribution of real GDP by expenditure (Q4/2013)

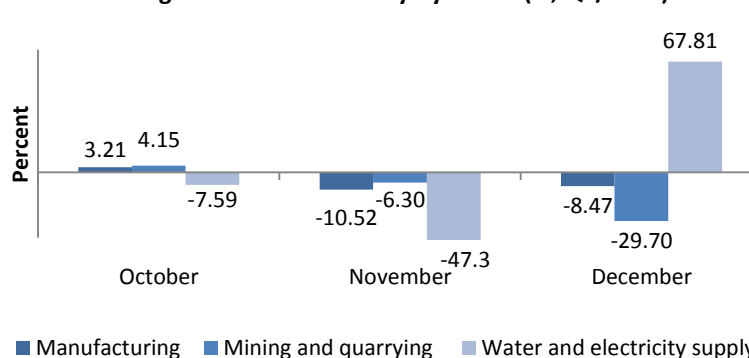


Note: Base year is 2010. Data for Q4/2013 are flash estimates.

Industrial production index (Q4/2013)

	October	November	December
Index	119.98	100.41	98.29

Change in industrial activity by sector (% , Q4/2013)



Business Cycle Indicator (Q4/2013)

	October	November	December
West Bank	-2.19	1.56	-12.87
Gaza Strip	6.34	-5.54	-4.41

Current account and trade

The current account deficit increased in Q4/2013 compared to Q3/2013, reaching US\$365.3 million, or 9.8% of GDP. The elevated goods trade deficit was the main reason behind the high current account deficit, although the

Current account (Q4/2013)

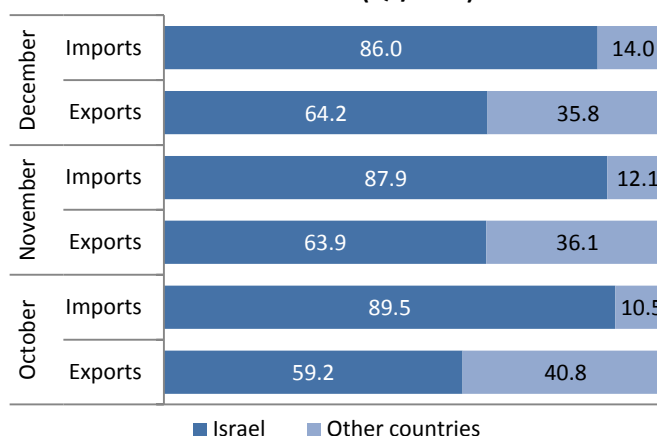
Goods trade balance (million US\$)	-1,125.7
Services trade balance (million US\$)	-139.1
Income balance (million US\$)	361.4
Net transfer payments (million US\$)	538.1
Current account balance (million US\$)	-365.3

services trade account also showed a negative balance. The income and transfer payment accounts both recorded a surplus in the quarter.

High dependence on one trading partner continued, as seen in the high proportions of registered goods exports to and imports from Israel.

Goods exports from the Gaza Strip (in truckloads) in Q4/2013 were similar to exports at the same time in 2012, and continue to be limited to a few agricultural goods. Markets are not diversified either, with flowers, fruits and vegetables destined to Europe and herbs to Europe and the United States. During the quarter, a total of 6 truckloads of date bars were transferred from the Gaza Strip to the West Bank.

Registered trade in goods to and from Israel and other countries (Q4/2013)



Exports from the Gaza Strip, by type (Q4/2013)

	October	November	December
Basil (tons)	1.4	0.9	0.4
Chive (tons)	0.9	1.3	1.8
Green mint (tons)	0.7	0.9	0.9
Cherry tomatoes (tons)	--	10.6	4.5
Strawberries (tons)	--	--	138.8
Carnations (thousands of stems)	--	40	604.9
Total trucks	5	10	61

Commercial transfers from the Gaza Strip to the West Bank

	October	November	December
Date bars (tons)	60	--	--
Total trucks	6	--	--

The private sector

The total area licensed for new construction in the West Bank in Q4/2013 was 72.4% higher than in Q4/2012, while in the Gaza Strip it was 55.3% lower. The total number of new company registrations was higher in the West Bank than in the Gaza Strip, although compared to Q4/2012 it increased by 3.3% in the West Bank and by 10.9% in the Gaza Strip.

Zero percent of owners/managers of active industrial enterprises in the Gaza Strip felt in Q4/2013 that there were improvements in the previous quarter in terms of the enterprise's performance in general, or in the ease of obtaining raw materials and inputs

Private sector indicators (Q4/2013)

	West Bank	Gaza Strip
Area licensed for new construction (sq. meters)	2,366,078	339,135
New company registrations	253	71

Proportion of owners/managers of the active industrial enterprises who experienced improvements in previous quarter (% , Q4/2013)

	West Bank	Gaza Strip
Enterprise's performance in general	14.1	0.0
Obtaining needed raw materials and inputs	6.0	0.0
Transporting finished goods to market	3.9	0.0

or of transporting finished goods to market. The proportions were higher in the West Bank. Expectations for future improvements in these categories were higher in the Gaza Strip, nonetheless, than in the West Bank.

Proportion of owners/managers of the active industrial enterprises who expect improvements in coming quarter (% , Q4/2013)

	West Bank	Gaza Strip
Enterprise's performance in general	30.2	45.5
Obtaining needed raw materials and inputs	9.0	45.5
Transporting finished goods to market	16.5	45.5

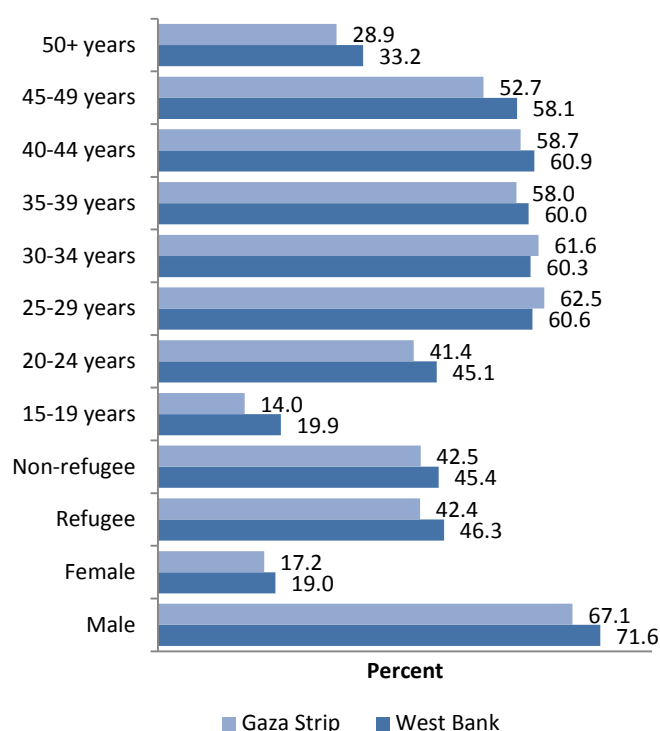
The labor market

The labor force in Q4/2013 increased to 44.5% of those aged 15 and above, that is, 1.194 million persons. The labor force participation rate was 45.7% in the West Bank and 42.4% in the Gaza Strip. Participation in the labor force was much higher for men than for women in both regions, reaching only 17.2% 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.

With the expansion of the labor force, the unemployment rate increased to 25.2% in Q4/2013, compared to 22.9% in Q4/2012. Unemployment affected 18.2% of the labor force in the West Bank, a similar proportion to the one observed in Q4/2012. In the Gaza Strip, on the other hand, 38.5% of the labor force was unemployed in Q4/2013, reflecting a rise of 6.3 percentage points compared to Q4/2012. When discouraged workers are added ('relaxed definition'), the unemployment rate is higher by about three percentage points in both regions.

Women were more affected by unemployment than men in both regions, and despite their low labor force participation rate, more than half of economically active women in the Gaza Strip were unemployed in Q4/2013. Refugees in both the West

Labor force participation rate (% , Q4/2013)



Unemployment rate (% , Q4/2013)

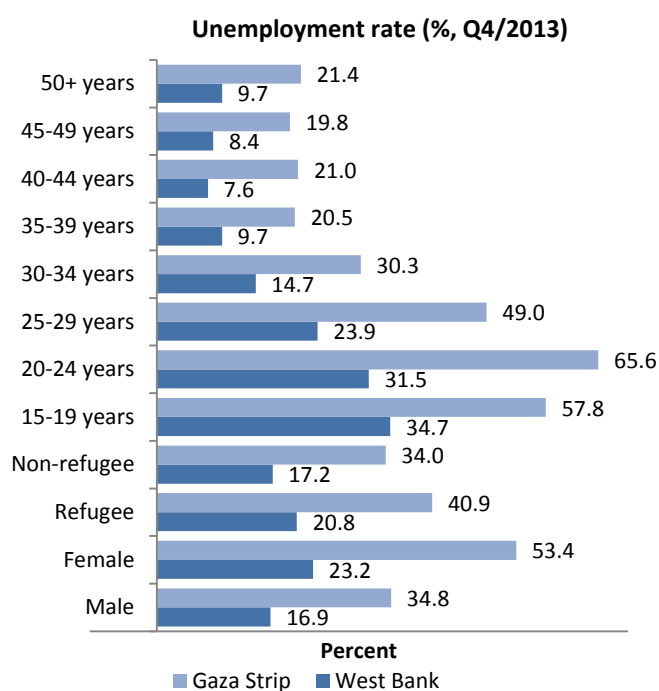
	West Bank	Gaza Strip
Narrow definition	18.2	38.5
Relaxed definition	21.8	41.5

Bank and the Gaza Strip had a higher unemployment rate than non-refugees. Age was also correlated to unemployment, with the youth experiencing the highest rates. A total of 65.6% of 20-to-24-year-olds in the Gaza Strip, for example, were jobless – the highest rate of any age group in either region.

Whereas the average duration of unemployment in Q4/2013 decreased by about a month for women in the West Bank compared to Q3/2013, it increased by about half a month for men in the West Bank and by about 2 months for both men and women in the Gaza Strip. The average period of unemployment was longer for women than for men in both regions, and it was longer in the Gaza Strip than in the West Bank, with unemployed women in the Gaza Strip experiencing the longest average period of unemployment (22.5 months).

The number of persons employed increased between Q4/2012 and Q4/2013 by approximately 16,000, all in the West Bank. In the West Bank employment increased in commerce, services and other branches, construction, and transportation, while it decreased mainly in agriculture. In the Gaza Strip, employment increased in commerce and services and other branches, and it decreased in the other categories.

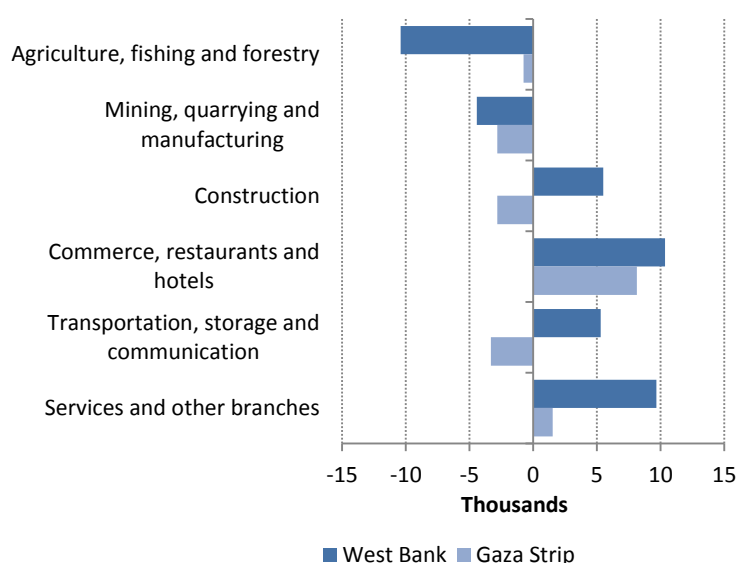
There was a significant disparity in average daily net wages between the West Bank and the Gaza Strip in Q4/2013 – NIS90.2 vs. NIS64.4. Average daily net wages were higher for men than for women in the West Bank, but the situation was reversed in the Gaza Strip. The public sector offered



Average duration of unemployment (months, Q4/2013)

	West Bank	Gaza Strip
Male	5.3	16.2
Female	7.6	22.5

Change in number of employed persons by economic activity (thousands, year-on-year, Q4/2013)



considerably 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 daily wage (NIS, Q4/2013)

	West Bank	Gaza Strip
Male	93.4	62.3
Female	78.8	75.0
Private sector	82.8	43.5
Public sector	103.7	81.2
Israel and settlements	182.9	

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 Q4/2013 compared to Q3/2013 in East Jerusalem, the rest of the West Bank, and the Gaza Strip. Compared to Q4/2012, average prices did fall in the Gaza Strip.

Change in CPI (% , Q4/2013)

	East Jerusalem	Rest of West Bank	Gaza Strip
Quarter-on-quarter	1.2	1.1	0.8
Year-on-year	2.8	4.4	-1.2

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

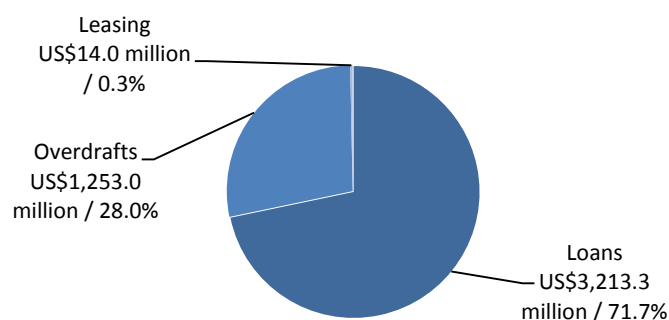
The banking sector

Bank credit in Q4/2013 increased from Q3/2013 by 1.7% to US\$4,480.3 million. As in previous quarters, most of the credit (71.7%) was in the form of loans, followed by overdrafts. Leasing constituted only a very small proportion of bank credit.

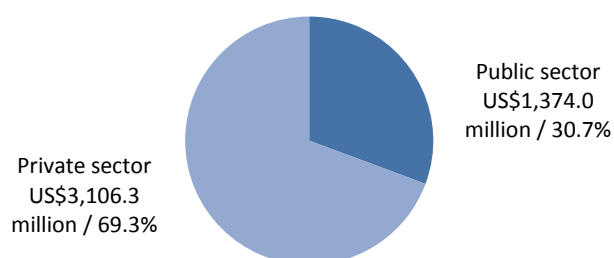
In terms of bank deposits, the main source in Q4/2013 was the private sector with 69.3% of the total.

These figures yielded a loan-to-deposit ratio of 53.9% in Q4/2013, similar to the 53.8% observed in Q3/2013.

Distribution of bank credit by type (million US\$/%, Q4/2013)



Distribution of bank deposits by sector (million US\$/%, Q4/2013)



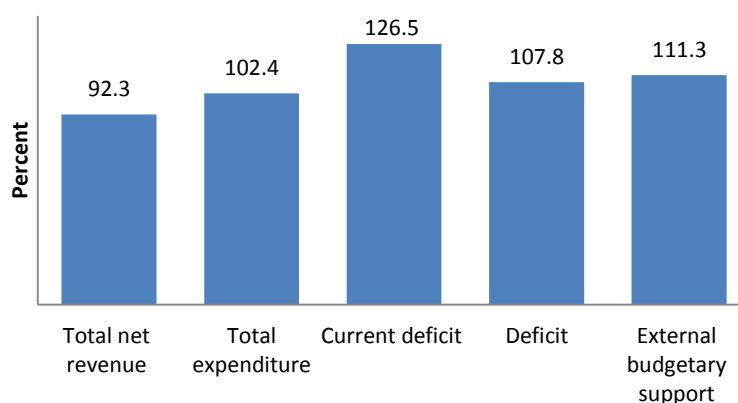
Note: Data do not include deposits of the PMA and commercial banks.

Fiscal operations

By the end of 2013 the government total net revenue was 92.3% of the NIS9,207 million in the budget, as clearance and domestic revenues were slightly lower than expected but tax

refunds were considerably higher than foreseen in the budget. Total expenditure was 2.4% above the NIS13,092 million budgeted for the year. The wage bill was close to the budget, but net lending was 356.9% of the amount budgeted for the year. The resulting current deficit was 26.5% above the expected amount based on the annual budgeted amount of NIS3,885 million. Even though development expenditure was only 52.0% of the planned amount, the overall deficit was 7.8% higher than expected based on the NIS5,180 million in the budget. External budgetary support by December 2013 was 111.3% of the budgeted annual amount, but development financing reached only 31.2% of the expected annual amount.

Fiscal indicators: actual as a proportion of budget (% , Jan-Dec 2013)



Note: The information is up-to-date as of 22 January 2014.

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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