



UNSCO Socio-Economic Report: Overview of the Palestinian Economy in Q1/2014

Economic activity

Real quarterly GDP was lower in Q1/2014 than in Q4/2013, although an expansion of the economy was observed compared to Q1/2013. In the Gaza Strip, which accounts for only 23% of GDP but 39% of the population, GDP has lower quarter-on quarter since Q2/2013. In this context, nominal GDP per capita is 2.6 times higher in the West Bank than in the Gaza Strip.

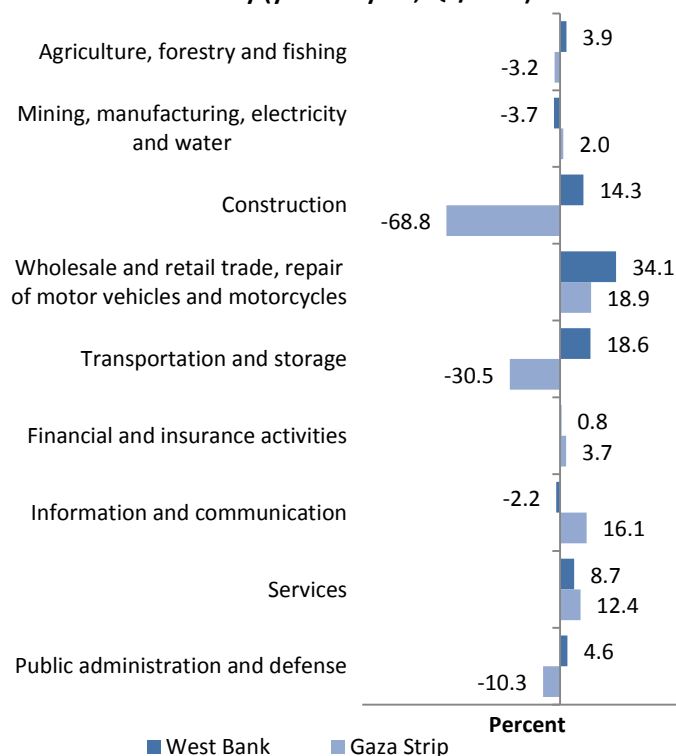
Between Q1/2013 and Q1/2014 there was a significant expansion in the wholesale and retail trade sector in the West Bank (34.1%), followed by transportation and storage (18.6%), construction (14.3%) and services (8.7%). Small decreases in value added were registered in the mining, manufacturing, electricity and water sector, as well as the information and communication sector. Value added by sector underwent considerable changes in the Gaza Strip during the same period, with contractions of 68.8% in construction, 30.5% in transportation and storage, and 10.3% in public administration and defense. At the same time, in the Gaza Strip real value added in wholesale and retail trade grew by 18.9%, and it grew by 16.1% in information and communication and by 12.4% in services.

Key GDP indicators (Q1/2014)

	West Bank	Gaza Strip	oPt
Real GDP (million US\$)	2,314.9	700.2	3,015.1
Rate of change in real GDP (quarter-on-quarter, %)	0.0	-2.7	-0.6
Rate of change in real GDP (year-on-year, %)	9.9	-1.0	7.1
Nominal GDP per capita (US\$)	1,099.1	424.4	823.0

Note: Base year for real GDP is 2010. Data for Q1/2014 are flash estimates.

Rate of change of real value added by economic activity (year-on-year, Q1/2014)

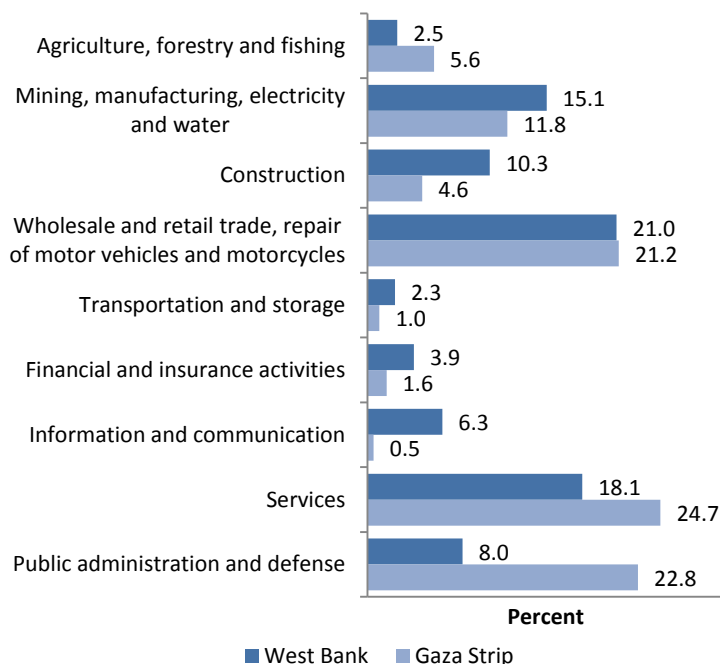


As a result of these changes, the wholesale and retail trade sector was the largest in the West Bank economy in Q1/2014, accounting for 21.0% of GDP. This sector was followed by services (18.1%) and mining, manufacturing, electricity and water (15.1%). In the case of the Gaza Strip, services was the largest sector in Q1/2014, accounting for 24.7% of the total, followed by public administration and defense (22.8%) and wholesale and retail trade (21.2%). The construction sector, which accounted for 14.6% of GDP in Q1/2013, saw its share reduced to 4.6% by Q1/2014.

Final consumption in the West Bank represented 108.8% of GDP in Q1/2014, and 80% of it was in the form of household final consumption, while 19% of the total was government final consumption. Gross capital formation in the West Bank grew by 15.3% between Q1/2013 and Q1/2014, and was equivalent to 27.1% of GDP in Q1/2014. Ninety-one percent of it was gross fixed capital formation. The value of exports of goods and services from the West Bank grew between Q1/2013 and Q1/2014 but not as much as the value of imports. The West Bank trade deficit represented 29.7% of GDP in the quarter.

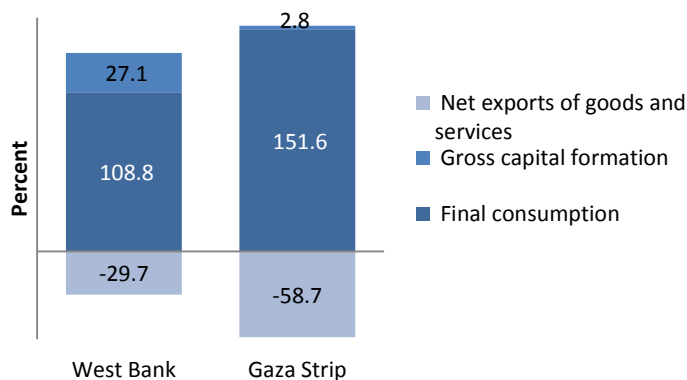
In the Gaza Strip, final consumption in Q1/2014 was equivalent to 151.6% of GDP, 63% of it household final consumption and 31% of it government final consumption. Gross capital formation decreased by 79% between Q1/2013 and Q1/2014, when it represented only 2.8% of GDP. Between the first quarters of 2013 and 2014 the value of exports of goods and services from the Gaza Strip decreased, while that of imports increased,

Percent contribution to real GDP by economic activity (Q1/2014)



Note: Base year is 2010. Data for Q1/2014 are flash estimates.

Percent distribution of real GDP by expenditure (Q1/2014)



Note: Base year is 2010. Data for Q1/2014 are flash estimates.

resulting in a trade deficit equivalent to 58.7% of GDP in Q1/2014.

The industrial production index (IPI) increased to 108.83 by March 2014 (base year is 2011). Activity in manufacturing (with a share of 80.56% in the IPI) decreased in January and February but increased in March. Activity in the water and electricity supply sector (with a share of 14.85% in the IPI) increased in January but decreased in February and March. Activity in the mining and quarrying sector (with a share of 4.59% in the IPI) increased in January and March but decreased in February.

The business cycle indicator reflected improvements in the West Bank in February and March but it reflected a small contraction in the West Bank in January, as well as contractions in the Gaza Strip in the three months of the quarter.

Current account and trade

The current account deficit reached US\$418.5 million, or 11.2% of GDP, in Q1/2014. 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.

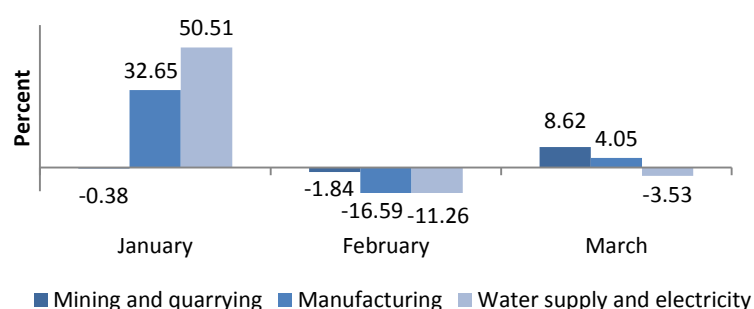
High dependence on one trading partner continued, as seen in the high proportions of registered goods exports to and imports from Israel in Q1/2014.

Goods exports from the Gaza Strip (in truckloads) in Q1/2014 continued to be limited to a few agricultural goods. A total of 74 truckloads were exported in

Industrial production index (Q1/2014)

	January	February	March
Index	108.53	103.04	108.83

Change in industrial activity by sector (% , Q1/2014)



Business Cycle Indicator (Q1/2014)

	January	February	March
West Bank	-1.44	8.25	15.98
Gaza Strip	-22.94	-18.92	-22.59

Current account (Q1/2014)

Goods trade balance (million US\$)	-1,293.1
Services trade balance (million US\$)	-94.8
Income balance (million US\$)	411.2
Net transfer payments (million US\$)	558.2
Current account balance (million US\$)	-418.5

Q1/2014, compared with 69 truckloads in Q1/2013. Markets are not very diversified either, with flowers, fruits and vegetables destined to Europe and herbs to Europe and the United States. Russia was a new market during the quarter for Gazan cucumbers, sweet peppers and tomatoes.



Exports from the Gaza Strip, by type (Q1/2014)

	January	February	March
Carnations (thousands of stems)	597.0	949.0	382.0
Strawberry (tons)	36.1	--	--
Sweet pepper (tons)	13.5	--	0.8
Cherry tomato (tons)	39.4	20.6	--
Tomato (tons)	9.9	--	59.4
Basil (tons)	0.3	--	--
Chive (tons)	2.7	0.9	1.2
Green mint (tons)	1.4	0.7	0.9
Chili pepper (tons)	2.2	--	2.7
Coriander (tons)	0.5	--	--
Cucumber (tons)	--	--	63.5
Total trucks	34	15	25

The private sector

The total area licensed for new construction in the West Bank in Q1/2014 was 4.9% lower than in Q1/2013, while in the Gaza Strip it was 80.8% lower.

There was a 61.1% increase in the total number of new company registrations in the West Bank in Q1/2014 compared to the same period a year earlier, but in the Gaza Strip the number was reduced by 42.2% to only 89.

The proportion of owners/managers of active industrial enterprises in the West Bank and the Gaza Strip who perceived improvements in terms of the enterprise's performance in general, or in the ease of obtaining raw materials

Private sector indicators (Q1/2014)

	West Bank	Gaza Strip
Area licensed for new construction (sq. meters)	710,953	141,930
New company registrations	440	89

Proportion of owners/managers of active industrial enterprises who experienced improvements in the previous quarter (% Q1/2014)

	West Bank	Gaza Strip
Enterprise's performance in general	27.7	10.0
Obtaining needed raw materials and inputs	7.3	7.5
Transporting finished goods to market	11.0	7.5

and inputs or of transporting finished goods to market in Q1/2014 was lower than the proportion who expect to see improvements in the coming quarter. Perceptions of past improvements were higher in the West Bank than in the Gaza Strip except for the case of obtaining needed raw materials and inputs. Still, expectations for future improvements in these categories were higher in the Gaza Strip than in the West Bank.

Proportion of owners/managers of active industrial enterprises who expect improvements in the coming quarter (% , Q1/2014)

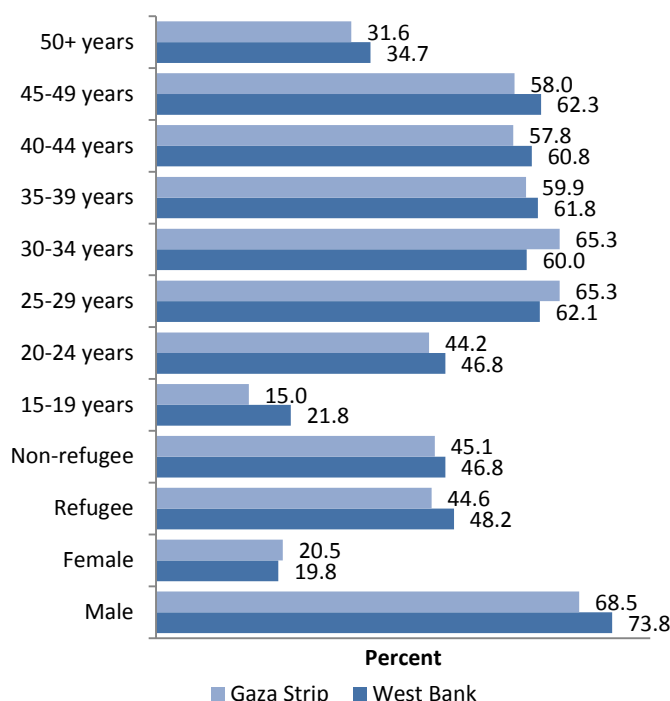
	West Bank	Gaza Strip
Enterprise's performance in general	30.6	35.0
Obtaining needed raw materials and inputs	13.1	35.0
Transporting finished goods to market	22.0	35.0

The labor market

The labor force in Q1/2014 increased to 46.3% of those aged 15 and above, that is, 1.254 million persons. The labor force participation rate was 47.2% in the West Bank and 44.8% in the Gaza Strip. Participation in the labor force was much higher for men than for women in both regions. The labor force participation was also relatively low for the youth, particularly those aged between 15 and 19 years of age (15.0% and 21.8% in the Gaza Strip and West Bank, respectively).

With the expansion of the labor force, the unemployment rate increased to 26.2% in Q1/2014, compared to 25.2% in Q4/2013 and to 23.9% in Q1/2013. Unemployment affected 18.2% of the labor force in the West Bank, the same as in Q4/2013 but lower than the 20.3% registered in Q1/2013. In the Gaza Strip, on the other hand, 40.8% of the labor force was unemployed in Q1/2014, reflecting a rise of 2.3 percentage points compared to Q4/2013 and of 9.2 percentage points compared to Q1/2013. When discouraged workers are added ('relaxed definition'), the unemployment rate is higher by about

Labor force participation rate (% , Q1/2014)



Unemployment rate (% , Q1/2014)

	West Bank	Gaza Strip
Narrow definition	18.2	40.8
Relaxed definition	22.0	43.0

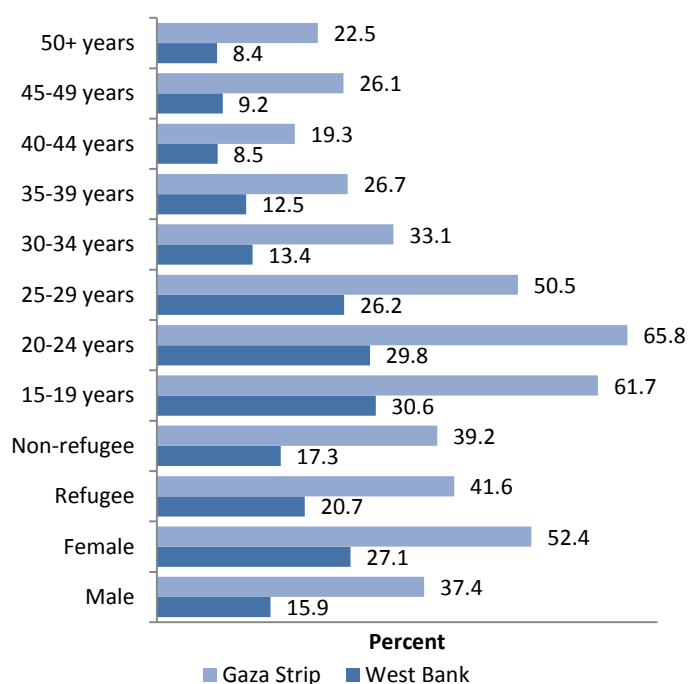
three percentage points.

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 Q1/2014. Refugees in both the West 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 65.8% 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 Q1/2014 compared to Q4/2013 decreased by about two months for men in the Gaza Strip, it remained almost unchanged for men in the West Bank. In the case of women, it increased by more than two months in both the West Bank and the Gaza Strip. The average period of unemployment was considerably longer for women than for men in both regions, and it was longer in the Gaza Strip than in the West Bank for both sexes, with unemployed women in the Gaza Strip experiencing the longest average period of unemployment (24.4 months).

The number of persons employed in the West Bank increased between Q1/2013 and Q1/2014 by approximately 66,800 persons, but it decreased in the Gaza Strip by 3,500. In the West Bank employment increased in all sectors. In the Gaza Strip, on the other hand, employment increased in services, commerce and agriculture, but it decreased mainly in construction

Unemployment rate (% , Q1/2014)



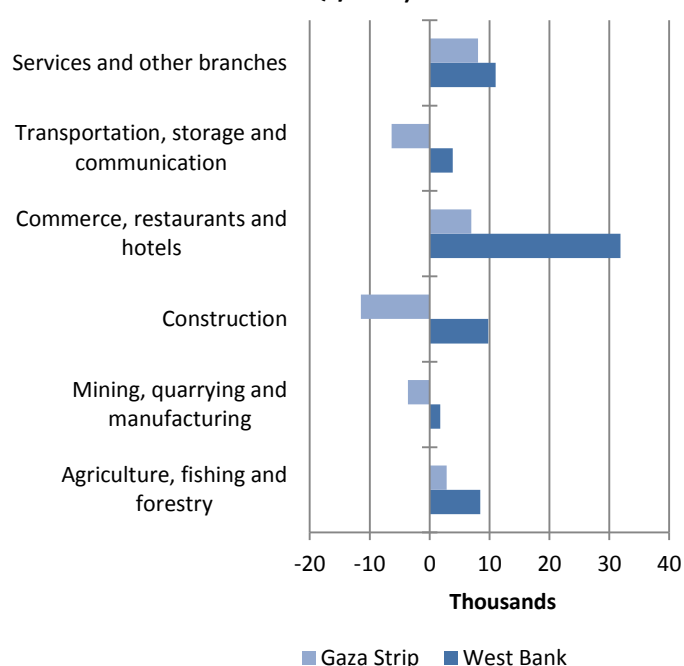
Average duration of unemployment (months, Q1/2014)

	West Bank	Gaza Strip
Male	5.2	14.1
Female	10.0	24.4

(more than 11 thousand jobs), followed by transportation, storage and communication, and mining, quarrying and manufacturing.

There was a significant disparity in average daily net wages between the West Bank and the Gaza Strip in Q1/2014 – NIS90.2 vs. NIS61.7. 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 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 at NIS182.6 per day.

Change in number of employed persons by economic activity (thousands, year-on-year, Q1/2014)



Average daily wage (NIS, Q1/2014)

	West Bank	Gaza Strip
Male	92.6	60.1
Female	80.8	70.2
Private sector	83.2	36.7
Public sector	101.9	80.8
Israel and settlements	182.6	

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 Q1/2014 compared to Q4/2013 in the Gaza Strip and East Jerusalem, but they fell in the rest of the West Bank. Compared to Q1/2013, average prices increased in all regions, especially in East Jerusalem.

Change in CPI (% , Q1/2014)

	East Jerusalem	Rest of West Bank	Gaza Strip
Quarter-on-quarter	2.0	-0.9	2.8
Year-on-year	5.7	3.3	1.7

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

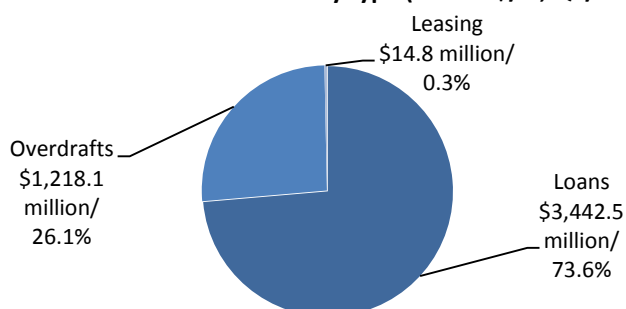
The banking sector

Bank credit in Q1/2014 increased from Q4/2013 by 4.4% to S\$4,675.5 million. The proportion of credit in the form of loans grew by almost two percentage points to 73.6%. This was followed by overdrafts (26.1% of the total), while leasing constituted less than one percent of bank credit in the quarter.

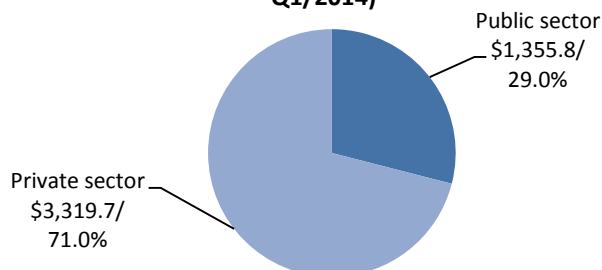
In terms of bank deposits, the main source in Q1/2014 was the private sector with 70.0% of the total.

These figures resulted in a loan-to-deposit ratio of 55.3% in Q1/2014, up from 53.9% in Q4/2013.

Distribution of bank credit by type (million \$/%, Q1/2014)



Distribution of bank deposits by sector (million \$/%, Q1/2014)

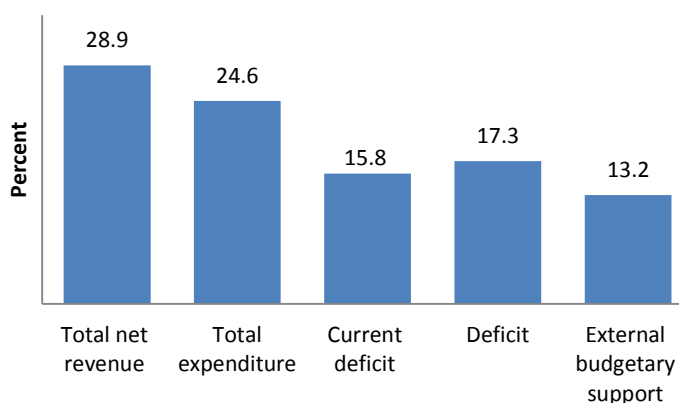


Note: Data do not include deposits of the PMA and commercial banks.

Fiscal operations

By the end of Q1/2014, government total net revenue was 28.9% of the NIS9,311 million in the 2014 budget, as clearance and gross domestic (tax and nontax) revenue were above target, although tax refunds were also higher than budgeted. Total expenditure was in line with the NIS13,916 million in the budget for the year. The wage bill represented slightly more than half of expenditures and was on target, but by the end of March 2014 net lending had already reached 37.2% of the amount projected for the year. As a result, the current deficit and the overall deficit were less than forecast, at 15.8% and 17.3% of the annual budgeted amount, respectively. External budgetary support and development financing by the end of the quarter reached only 13.2% and 11.4% of the amount expected for the year, respectively.

Fiscal indicators: actual as a proportion of annual budget (% , Q1/2014)



Note: Data are for fiscal operations on a commitment basis. The information is up-to-date as of 15 May 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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