



UNSCO Socio-Economic Report: Overview of the Palestinian Economy in Q2/2015

Economic activity

Real GDP in the occupied Palestinian territory (oPt) in Q2/2015 was 6% higher than in Q1/2015, driven by a 5.1% growth in the West Bank and a 8.9% growth in Gaza. Year-on-year growth rate accelerated in the West Bank where the economy expanded by 3.3% as compared with 1.8% in the previous quarter. In the Gaza Strip, year on year GDP contraction decelerated to (-)1.5% as compared with (-)8.2% in the previous quarter. In Q2/2015 the Gaza economy constituted 24% of the overall Palestinian economy, and the Strip's nominal GDP per capita was less than half of the West Bank's.

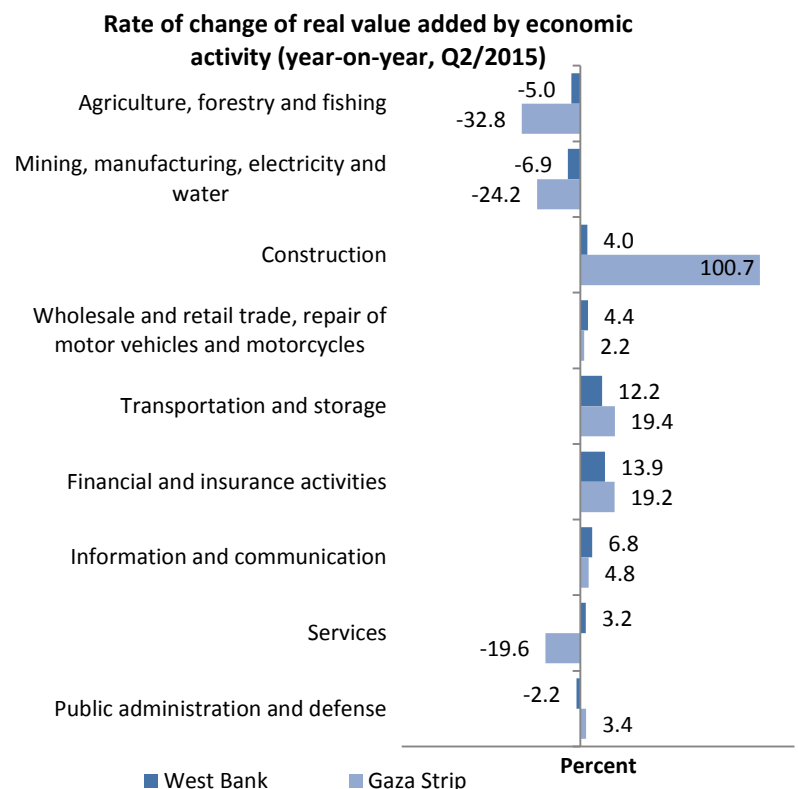
In the West Bank, between Q2/2014 and Q2/2015 there was significant expansion in real value added in financial and insurance activities (13.9%) as well as the transportation and storage sector (12.2%). Decreases in real value added were registered in several sectors, notably in mining, manufacturing, electricity and water (-6.9%) and agriculture, forestry and fishing (-5.0%).

During the same period in the Gaza Strip, significant contractions were registered across the majority of sectors, notably in agriculture, forestry and fishing (-32.8%), mining, manufacturing, electricity and water (-24.2%), and services (-19.6%). Three sectors that recorded significant growth were construction (100.7%), financial and insurance activities (19.2%),

Key GDP indicators (Q2/2015)

	West Bank	Gaza Strip	oPt
Real GDP (million \$)	1,501.3	473.5	1,974.8
Rate of change in real GDP (quarter-on-quarter, %)	5.1	8.9	6.0
Rate of change in real GDP (year-on-year, %)	3.3	-1.5	2.1
Nominal GDP per capita (\$)	936.4	431.1	728.6

Note: Base year is 2004. Data for Q2/2015 are flash estimates.



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and transportation and storage (19.4%).

The services sector was the largest one in the West Bank economy in Q2/2015, accounting for 19.1% of GDP. This was followed by the wholesale and retail trade sector (18.8%) and mining, manufacturing, electricity and water (14.5%).

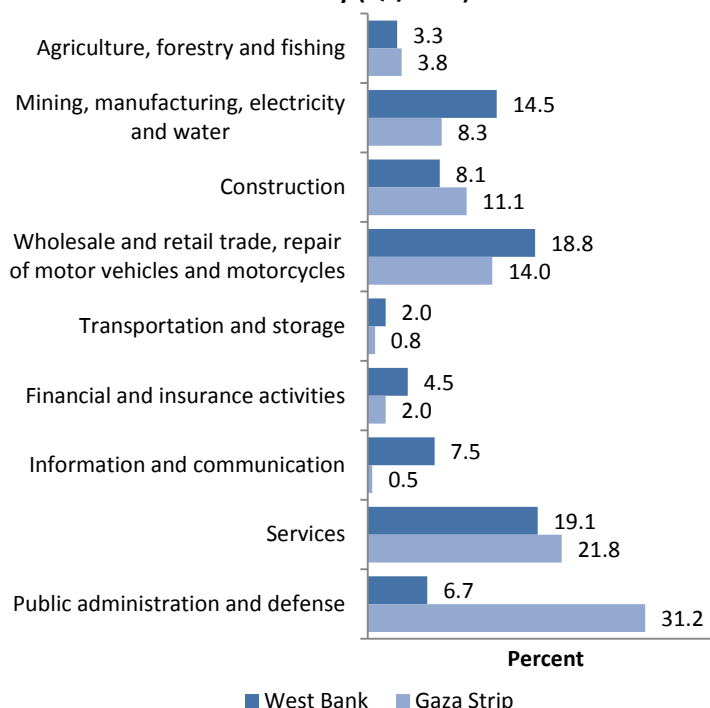
Public administration and defence continued to account for the largest proportion of the Gaza Strip's GDP in Q2/2015, accounting for 31.2% of the total, followed by services (21.8%) and wholesale and retail trade (14.0%).

Final consumption in the West Bank was 108.5% of GDP in Q2/2015. Household final consumption constituted 84.2% of GDP while government final consumption was 21.8% of GDP. Gross capital formation came to 31.1% of GDP, most of it gross fixed capital formation (28.9% of GDP). Exports of goods and services from the West Bank made up 30.2% of GDP while imports represented 69.7%, resulting in a West Bank trade deficit of 39.5% of GDP in the quarter.

In the Gaza Strip, final consumption in Q2/2015 was 151.6% of GDP, household final consumption was 89.7% of GDP and government final consumption was 21.8% of GDP. Gross capital formation was negative to the tune of 7.8% of GDP during the quarter, though gross fixed capital formation was positive (12.2% of GDP). Exports from the Gaza Strip amounted to 2.7% of GDP while imports amounted to 46.0%, resulting in a trade deficit equal to 43.2% of GDP in Q2/2015.

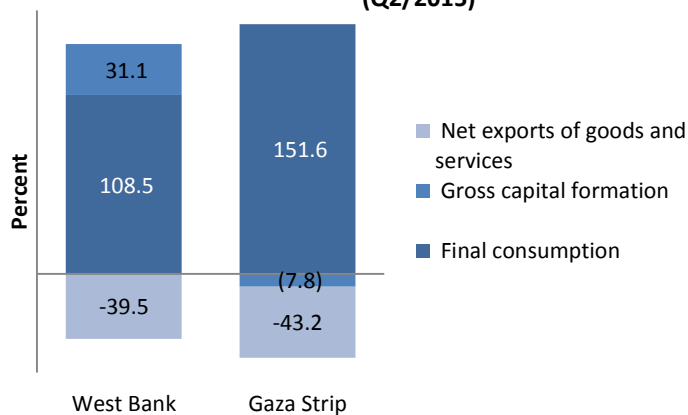
The industrial production index (IPI) increased steadily through the quarter going from 99.82 in April to 115.15 in June 2015 (base year is 2011). Activity in manufacturing (with a share of 80.56% in the IPI) contracted in April, but then grew

Percent contribution to real GDP by economic activity (Q2/2015)



Note: Base year is 2004. Data for Q1/2015 are flash estimates.

Percent distribution of real GDP by expenditure (Q2/2015)



Note: Base year is 2004. Data for Q1/2015 are flash estimates.

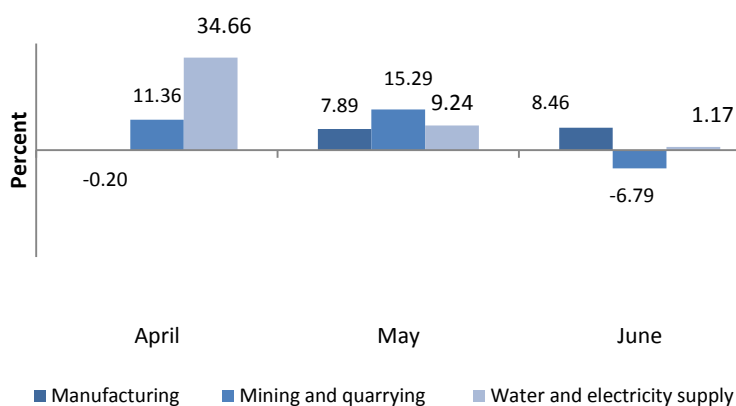
Industrial production index (Q2/2015)

	April	May	June
Index	99.82	108.33	115.15

in May and June. Activity in the water and electricity supply sector (with a share of 14.85% in the IPI) grew throughout the quarter but at a declining rate. Activity in the mining and quarrying sector (with a share of 4.59% in the IPI) grew in April and May but contracted in June.

The business cycle index for the West Bank improved robustly in April after a strong performance in March, but became negative in May before recovering moderately in June. In the Gaza Strip, the index reflected a contraction throughout the quarter, though at progressively lower rates.

Change in industrial activity by sector (% , Q2/2015)



Business Cycle Index (Q2/2015)

	April	May	June
West Bank	23.2	-2.4	5.1
Gaza Strip	-24.0	-13.1	-5.8

Current account and trade

The current account deficit reached \$372.7 million, or 11.6% of GDP, in Q2/2015 compared to \$323.4 million and 11.0% of GDP in Q1/2015. The elevated goods trade deficit was the reason behind the high current account deficit. The income and transfer payment accounts both recorded a significant surplus in the quarter while the services trade balance recorded a smaller surplus.

Exports continued to be mainly destined to Israel. Similarly, most imports continued to come from Israel.

Goods exports from the Gaza Strip improved in Q2/2015. Some 74 truckloads were exported in the quarter compared to 23 truckloads in the previous quarter.

Current account (Q2/2015)

Goods trade balance (million \$)	-1,352.7
Services trade balance (million \$)	10.2
Income balance (million \$)	344.9
Net transfer payments (million \$)	624.9
Current account balance (million \$)	-372.7

Registered trade in goods to and from Israel and other countries (Q2/2015)

		Q2/2015	
		Israel	Other countries
June	Imports	55.5	44.5
	Exports	85.7	14.3
May	Imports	57.6	42.4
	Exports	87.5	12.5
April	Imports	55.1	44.9
	Exports	86.3	13.7

Exports from the Gaza Strip, by type (Q2/2015)

	April	May	June
Tomato (tons)	--	278.60	566.90
Chive (tons)	2.20	1.54	1.29
Green Mint (tons)	0.60	0.54	0.69
Total trucks	4	22	48

Commercial transfers saw an decrease in Q2/2015 with 128 truckloads leaving the Gaza Strip for the West Bank compared to 187 in the previous quarter. Products largely consisted of produce, furniture as well as limited amounts of fish, textiles and stationery.

Exit To West Bank from the Gaza Strip, by type (Q2/2015)

Cucumber (tons)	19.10	7.00	2.90
Fish (tons)	3.60	5.10	2.30
Tomatoes (tons)	78.10	339.70	98.70
Sweet potatoes (tons)	--	--	1.82
Furniture (tons)	218.00	213.00	141.00
Zucchini (tons)	0.40	--	--
Cabbage (tons)	--	0.30	--
Chilli Pepper (tons)	60.00	--	4.70
Clothes (tons)	21.00	27.00	24.00
Eggplant (tons)	5.90	80.80	89.07
Cherry Tomatoes (tons)	2.90	--	--
Sweet Peppers (tons)	--	2.24	8.04
Stationery (tons)	65.00	--	152.00
Total trucks	37	57	34

Exit To Israel from the Gaza Strip, by type (Q2/2015)

Tomatoes (tons)	257.40	469.60	349.06
Eggplant (tons)	62.30	83.60	84.36
Total trucks	25	39	31

The private sector

The total area licensed for new construction in the West Bank in Q2/2015 was 17.1% higher than in Q2/2014. In the Gaza Strip, total area licensed for new construction was 260.1% higher than in Q2/2014.

There was a 13.9% decline in the total number of new company registrations in the West Bank in Q2/2015 compared to the same period last year. In the Gaza Strip the number was 52.6% higher as compared with Q2/2014.

The proportion of owners/managers of active industrial enterprises in the West Bank who perceived improvements in terms of the enterprise's performance in general in Q2/2015 compared to Q1/2015 was 25.2%. The proportion which perceived improvements in the ease of obtaining raw materials and inputs or of transporting finished goods to market was lower at 14.6%. Expectations for improvements in these categories in Q2/2015 followed a similar pattern, with

Private sector indicators (Q2/2015)

	West Bank	Gaza Strip
Area licensed for new construction (sq. meters)	1,337,659	611,733
New company registrations	418	122

Proportion of owners/managers of the active industrial enterprises who experienced improvements in previous quarter (% , Q2/2015)

	West Bank	Gaza Strip
Enterprise's performance in general	22.0	13.3
Obtaining needed raw materials and inputs	14.6	13.3
Transporting finished goods to market	20.5	13.3

Proportion of owners/managers of the active industrial enterprises who expect improvements in coming quarter (% , Q3/2015)

	West Bank	Gaza Strip
Enterprise's performance in general	25.2	22.2
Obtaining needed raw materials and inputs	14.6	22.2
Transporting finished goods to market	20.5	22.2

25.2% of respondents in the West Bank indicating that they expected an improvement of their enterprise's performance in general. In the Gaza Strip, 13.3% of respondents indicated that they had experienced improvements in the previous quarter and 22.2% expected improvements for the coming quarter.

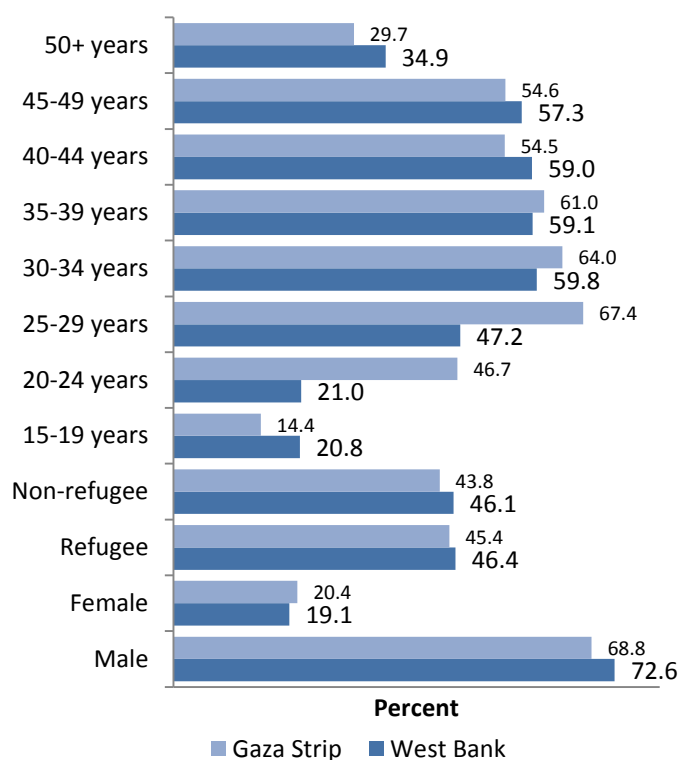
The labour market

The labour force participation rate in Q2/2015 was 45.7% of those aged 15 and above, that is 1,291,000 people. The labour force participation rate was slightly higher in the West Bank (46.2%) than in the Gaza Strip (44.9%). Participation in the labour force was much higher for men than for women in both regions. The labour force participation rate was relatively low for youth, particularly those aged between 15 and 19 years of age (14.4% and 20.8% in the Gaza Strip and West Bank respectively).

The unemployment rate for Palestine as a whole was 24.8% in Q2/2015. Unemployment rate in the West Bank was 15.4%, marginally lower than the 16.0% in Q2/2014 and 16.3% in Q1/2015. In the Gaza Strip, 41.5% of the labour force was unemployed in Q2/2015 as compared with 44.5% a year ago and 41.6% in Q1/2015.

Unemployment rates for women were higher than men in both the Gaza Strip (59.2% as compared with 36.3% for men) and West Bank (26.2% as compared with 12.7% for men) despite their low labour force participation rate. Refugees had a higher unemployment rate than non-refugees in both the West Bank and Gaza Strip. Age was also correlated to unemployment, with the youth experiencing the highest rates. A total of

Labor force participation rate (% , Q2/2015)



Unemployment rate (% , Q2/2015)

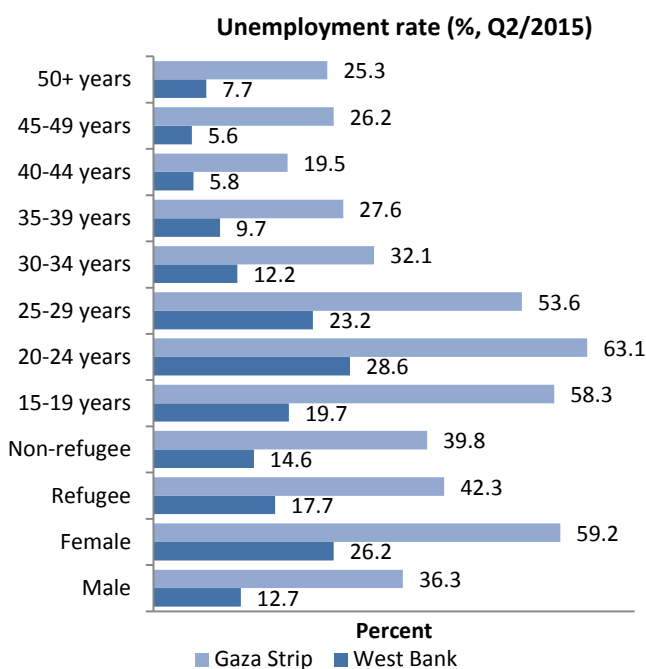
	West Bank	Gaza Strip
Narrow definition	15.4	41.5

63.1% of 20-to-24-year-olds in the Gaza Strip, for example, were jobless – the highest rate of any age group in either region.

The average period of unemployment in Q2/2015 compared to Q1/2015 decreased by 1.0 months for men and by 4.2 months for women in the West Bank. In Gaza, the period decreased by 1.3 months for men and 0.9 months for women. However, on average women were still likely to remain unemployed 4.8 months longer than men in the West Bank and 5.7 months in Gaza..

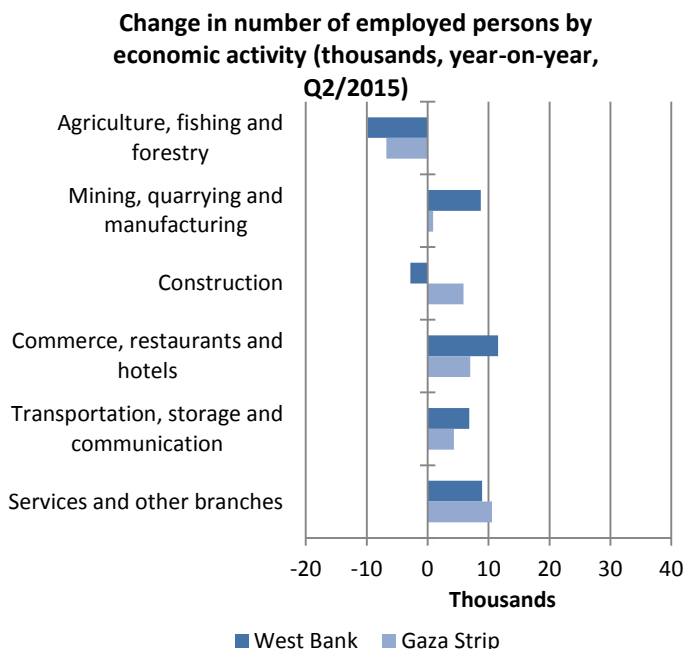
The number of persons employed in the West Bank increased between Q2/2014 and Q2/2015 by approximately 23,400. In the Gaza Strip, it increased by 21,900. In the West Bank employment increased in all sectors except agriculture, fishing and forestry, and construction. In the Gaza Strip, employment increased in all sectors except agriculture, fishing and forestry.

There continued to be a significant disparity in average daily net wages between the West Bank and the Gaza Strip in Q2/2015 – NIS 97.8 versus NIS 59.7 for men. Average daily net wages were higher for men than for women in both the West Bank and Gaza. 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 NIS 194.4 per day.



Average duration of unemployment (months, Q2/2015)

	West Bank	Gaza Strip
Male	4.4	16.0
Female	9.2	21.7



Note: Those employed in Israel and Israeli settlements in the West Bank are excluded.

Average daily wage (NIS, Q2/2015)

	West Bank	Gaza Strip
Male	97.8	59.7
Female	85.0	72.5
Private sector	89.3	37.8
Public sector	107.6	85.1
Israel and settlements	194.4	

Note: Data by sex and sector exclude those employed in Israel and Israeli settlements in the West Bank.

Consumer prices

Average prices, as measured through the Consumer Price Index (CPI), rose in Q2/2015 compared to Q1/2015 in East Jerusalem and the rest of the West Bank but fell in Gaza. The CPI rose across the board in comparison with Q2/2014.

Change in CPI (% , Q2/2015)

	East Jerusalem	Rest of West Bank	Gaza Strip
Quarter-on-quarter	1.0	1.8	-1.6
Year-on-year	1.8	2.5	2.8

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

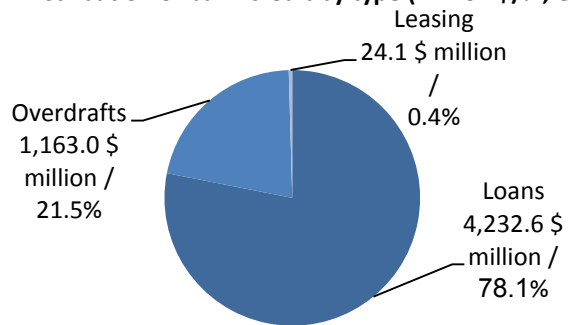
The banking sector

Bank credit in Q2/2015 rose to \$5.4 billion from \$5.1 billion in Q1/2015. The proportion of credit in the form of loans was 78.1%. This was followed by overdrafts (21.5% of the total), while leasing remained at less than one percent of bank credit in the quarter.

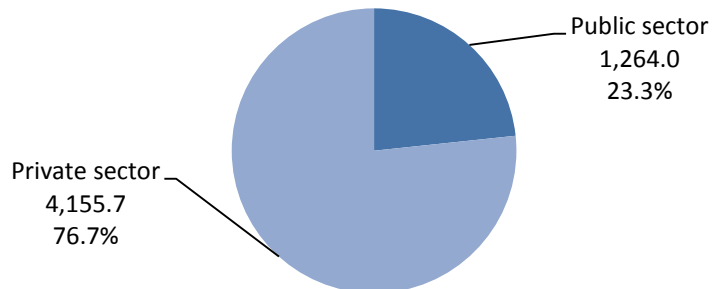
The private sector continued to be the main source of bank deposits in Q2/2015 accounting for 76.7% of the total.

These figures resulted in a loan-to-deposit ratio of 57.3% in Q2/2015, marginally higher than the 57.1% in Q1/2015.

Distribution of bank credit by type (million \$/% , Q2/2015)



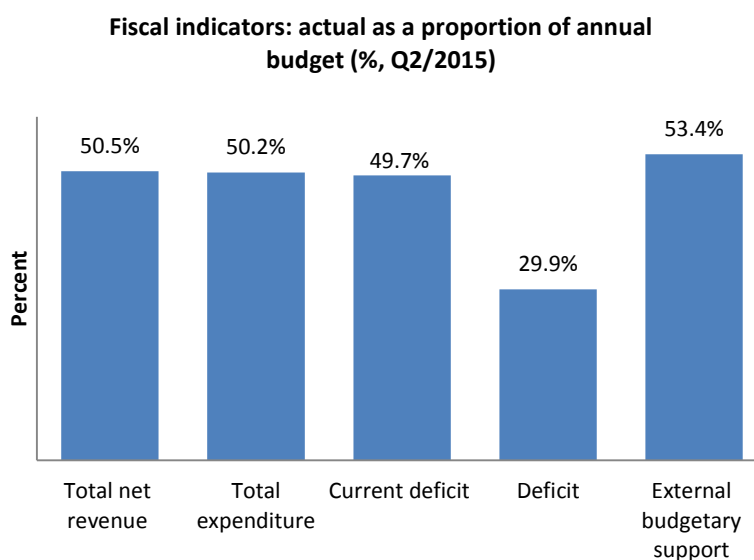
Distribution of bank deposits by sector (million \$/% , Q2/2015)



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

Fiscal operations

On commitment basis, by the end of Q2/2015, government total net revenue was 50.5% of the NIS 10.66 billion in the 2015 budget. Total expenditure was 50.2% of the NIS 15.09 billion in the budget for the year. By the end of the second quarter, the current deficit and the overall deficit had reached 49.7% and 30% of the annual projected amount, respectively. External budgetary support by the end of the quarter reached only 53.4% of the amount expected for the year.



Note: Data are for fiscal operations on a commitment basis. The information is up-to-date as of 26 April 2015.

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*.
- Labour market: PCBS. Various periods. *Labour 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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