Office of the United Nations Special Coordinator
for the Middle East Peace Process

UNSCO

UNSCO Socio-Economic Report:
Overview of the Palestinian Economy in Q4/2017

Economic activity

During the reporting period, Gaza's economy continued to falter with GDP falling for four consecutive quarters in 2017 even as the West Bank economy grew over the previous year. Compared to Q4/2016, real GDP in the oPt grew by 5.4% driven by an 8.4% growth rate in the West Bank and a (-)2.9% contraction in the Gaza Strip (Table 1).

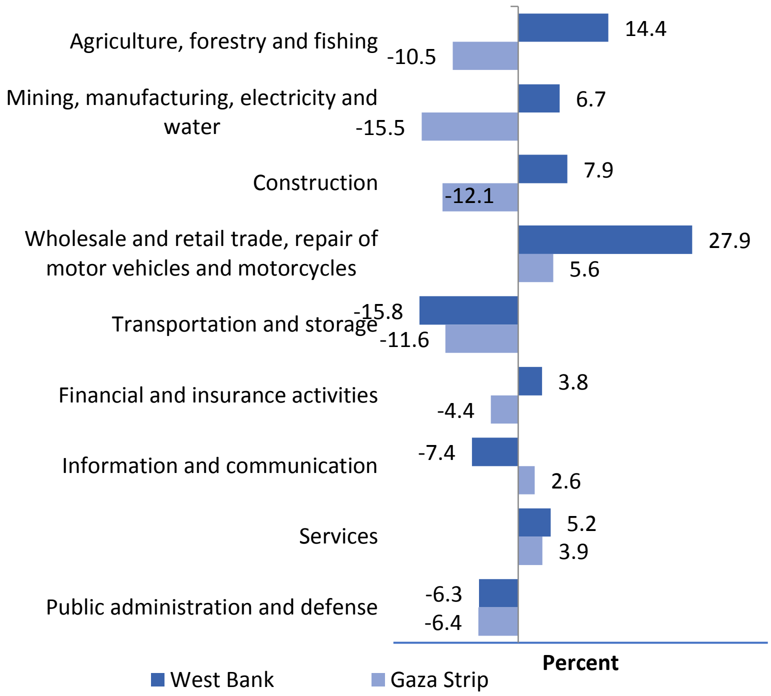
Table 1: Key GDP indicators (Q4/2017)

	West Bank	Gaza Strip	oPt
Real GDP (million $)	2,643.4	833.1	3,476.5
Rate of change in real GDP (quarter-on-quarter, %)	-0.6	-1.3	-0.7
Rate of change in real GDP (year-on-year, %)	8.4	-2.9	5.4
Real GDP per capita ($)	956.6	423.5	734.9

Note: Base year is 2015. Data for Q4/2017 are flash estimates.

In Q4/2017 Gaza's economy accounted for 24.0% of the overall Palestinian economy, signifying a decrease from 26% a year ago. Real GDP per capita of the West Bank increased by 6.0% year on year while that of Gaza decreased by (-)6.9%. Gaza's real GDP per capita was 44.3% of the West Bank's in Q4/2017.

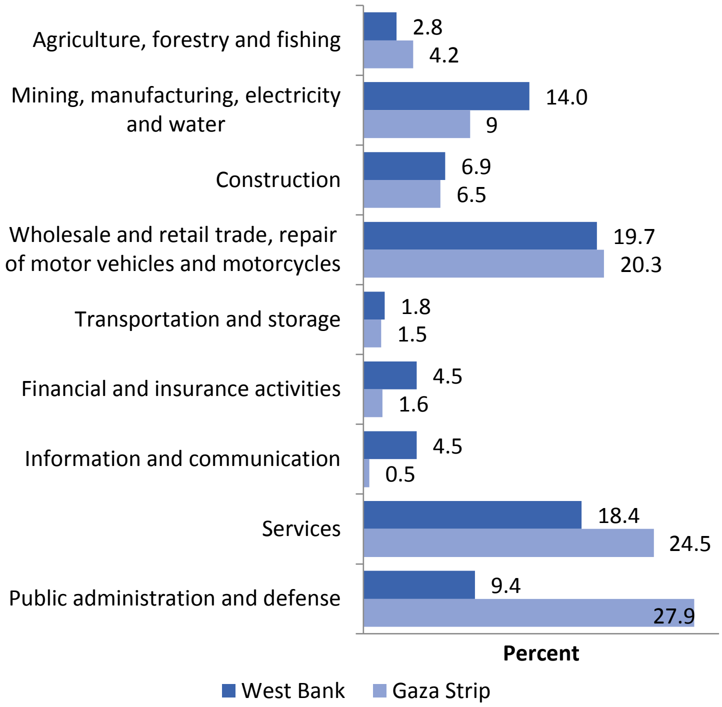
Figure 1: Rate of change of real value added by economic activity (year-on-year, Q4/2017)



In the West Bank, between Q4/2016 and Q4/2017 there was significant expansion in real value added in wholesale and retail trade etc. (27.9%), agriculture, forestry and fishing (14.4%) and construction (7.9%). There was noticeable contraction in real value added in transportation and storage (-15.8%), and information and communication (-7.4%) (Figure 1).

During the same period in the Gaza Strip, significant contraction was recorded in agriculture, forestry and fishing (-10.5%), mining, manufacturing etc. (-15.5%), construction (-12.1%) and transport and storage (-11.6%).

Figure 2: Percent contribution to real GDP by economic activity (Q4/2017)

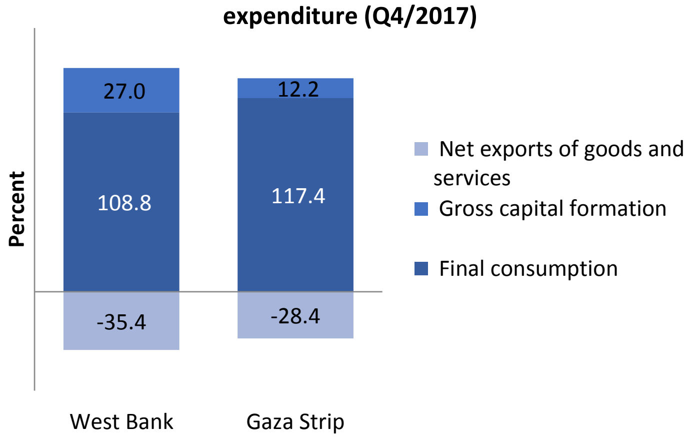


The wholesale and retail trade sector continued to be the largest one in the West Bank economy in Q4/2017, accounting for 19.7% of GDP. The services sector accounting for 18.4% of GDP and mining, manufacturing, electricity and water accounting for 14.0% of GDP were the second and third largest sectors.

Public administration and defense (almost entirely salaries) continued accounting for the largest proportion (27.9%) of the Gaza Strip's GDP, followed by services (24.5%), and wholesale and retail trade (20.3%) (Figure 2).

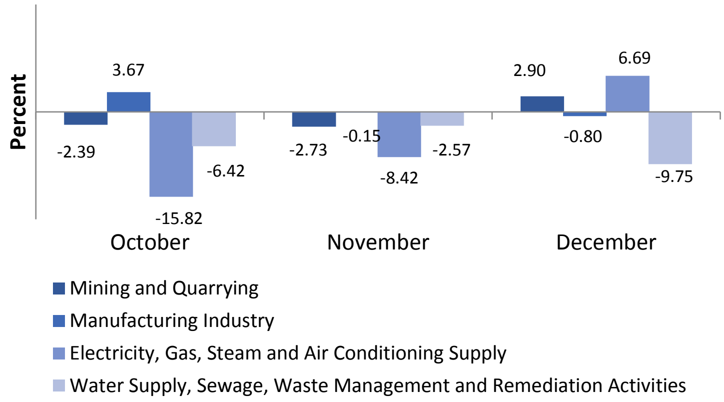
Final consumption in the West Bank was 108.8% of GDP in Q4/2017. Household final consumption constituted 83.3% of GDP while government final consumption was 23.4% of GDP. Gross capital formation accounted for 27.0% of GDP, most of it gross fixed capital formation (24.8% of GDP). Exports of goods and services from the West Bank made up 25.2% of GDP while imports represented 60.6%, resulting in a West Bank trade deficit of 35.4% of GDP in the quarter.

Figure 3: Percent distribution of real GDP by expenditure (Q4/2017)



In the Gaza Strip, final consumption in Q4/2017 was 117.4% of GDP, household final consumption was 64.6% of GDP and government final consumption was 42.2% of GDP. Gross capital formation was 12.2% of GDP, and gross fixed capital formation 16.9% of GDP. Exports from the Gaza Strip amounted to 4.0% of GDP while imports amounted to 32.4%, resulting in a trade deficit equal to 28.4% of GDP in Q4/2017 (Figure 3).

Figure 4: Change in industrial activity by sector (%, Q4/2017)



The industrial production index (IPI) remained relatively steady in Q4/2017 after recovering in Q4/2017 (base year is 2015).

Current account and trade

The current account deficit decreased for the second consecutive quarter to (-)$303.6 million (8.1% of GDP) in Q4/2017 from (-) $443.7 million in Q3/2017 (Table 2). The decrease was driven largely by higher net transfer payments.

Exports continued to be mainly destined to Israel. Similarly, the majority of imports continued to come from Israel (Figure 5).

Table 2: Current account (Q4/2017)

Goods trade balance (million US$)	-1,145.9
Services trade balance (million US$)	-240.7
Income balance (million US$)	544.3
Net transfer payments (million US$)	538.7
Current account balance (million US$)	**-303.6**

Truckloads exported out from the Gaza Strip increased sharply in Q4/2017 after declining for the first three consecutive quarters of the year. Some 188 truckloads were exported compared with a total of 52 truckloads in the previous three quarters of 2017 (Table 3).

Figure 5: Trade with Israel and Other Countries

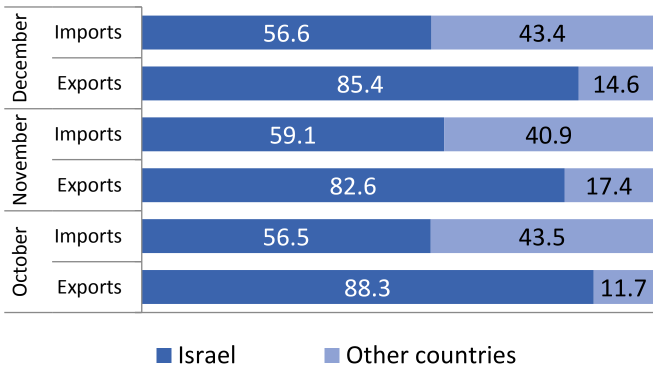


Table 3: Exports from the Gaza Strip, by type (Q4/2017)

	October	November	December
Strawberries (tons)	--	--	31.25
Sweet Peppers (tons)	1.23	9.25	24.50
Tomatoes (tons)	--	--	155.75
Chilli Pepper (tons)	--	--	5.00
Potatoes (tons)	2236.0	1414.10	1048.1
Dates (tons)	--	40.00	--
Onion (tons)	--	22.55	--
Total trucks	76.0	52.00	60.00

Commercial transfers to the West Bank too recovered sharply with 483 truckloads leaving Gaza Strip for the West Bank in Q4/2017 compared with 185 truckloads in Q3/2017. This however, was still low compared with 499 truckloads leaving the Gaza Strip for the West Bank in Q2/2017 and 803 truckloads in Q1/2017. Products largely consisted of produce, clothes, furniture and leather (Table 4).

Table 4: Exit to West Bank from the Gaza Strip, by type (Q4/2017)			
	October	November	December
Cucumber (tons)	413.90	376.54	337.80
Tomatoes (tons)	805.94	1336.80	2721.50
Sweet potatoes (tons)	16.88	7.80	5.14
Zucchini (tons)	128.60	257.32	46.04
Cabbage (tons)	--	16.78	18.95
Dates (tons)	43.70	153.47	78.41
Chilli Pepper (tons)	18.06	56.60	20.49
Strawberries (tons)	--	6.34	365.50
Cauliflower (tons)	--	0.34	4.80
Eggplant (tons)	18.00	38.20	89.00
Cherry Tomatoes (tons)	--	9.00	6.42
Sweet Peppers (tons)	71.70	137.94	94.80
Furniture (tons)	30.00	--	--
Fish (tons)	2.90		
Clothes (tons)	36.00		
Cows leather (Piece)	2,880		
Total trucks	120.0	139.0	224.0

Table 5: Exit to Israel from the Gaza Strip, by type (Q4/2017)			
	October	November	December
Eggplant (tons)	--	11.80	63.00
Tomatoes (tons)	30.74	301.64	357.70
Iron scrap (tons)	12.00	--	--
Aluminum scrap (tons)	41.00		
Clothes (tons)	19.00		
Total trucks	15.0	25.0	36.0

Some 76 truckloads exited to Israel in Q4/2017 compared with 118 in Q2/2017 and 167 truckloads in Q1/2017 (Table 5). In Q4/2017 some 28,734 commercial truckloads entered the Gaza Strip through Kerem Shalom and another 722 truckloads through the Rafah crossing. This was higher than the quarterly average for the previous three quarters of the year.

The private sector

The total area licensed for new construction in the West Bank in Q4/2017 was 7.8% higher than in Q4/2016. In the Gaza Strip, total area licensed for new construction was 35.6% lower than in Q4/2016. There was a 15.2% increase in the total number of new company registrations in the West Bank in Q4/2017 compared to the same period last year. In the Gaza Strip, the number was 57.4% lower as compared with Q4/2016 (Table 6).

Table 6: Private sector indicators (Q4/2017)

	West Bank	Gaza Strip
Area licensed for new construction (sq. meters)	2,507,109	590,205
New company registrations	509	43

The labour market

The labour force participation rate in Q4/2017 was 44.1% of those aged 15 and above, and consisted of 1,348,600 people. The labour force participation rates were similar in the West Bank and in the Gaza Strip. Participation in the labour force continued to be much higher for men than for women in both regions (Figure 6).

The unemployment rate for Palestine decreased to 24.5% in Q4/2017 from 25.7% in Q4/2016. The unemployment rate in the West Bank was 13.7% compared with 16.9% in Q4/2016. In the Gaza Strip, 42.7% of the labour force was unemployed in Q4/2017 compared with 40.6% a year ago (Table 7).

Figure 6: Labor force participation rate (%, Q4/2017)

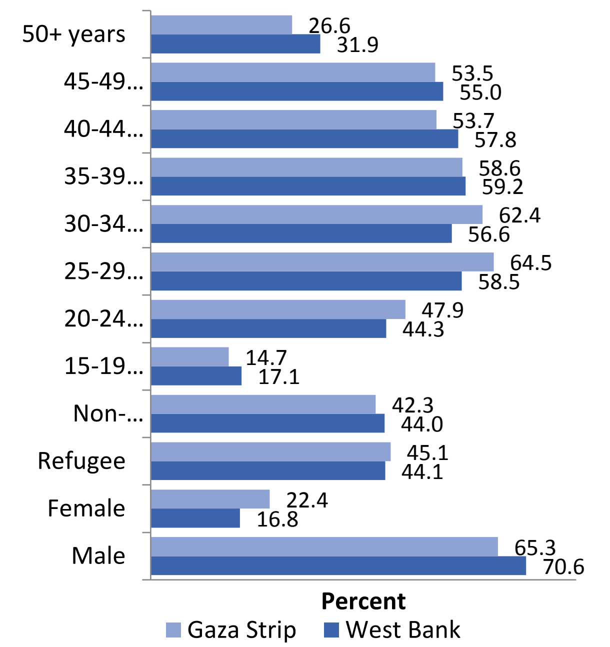


Figure 7: Unemployment rate (%, Q4/2017)

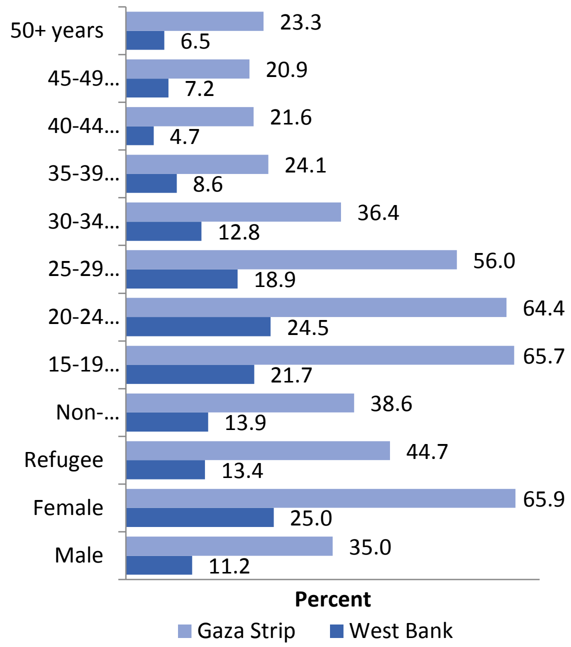
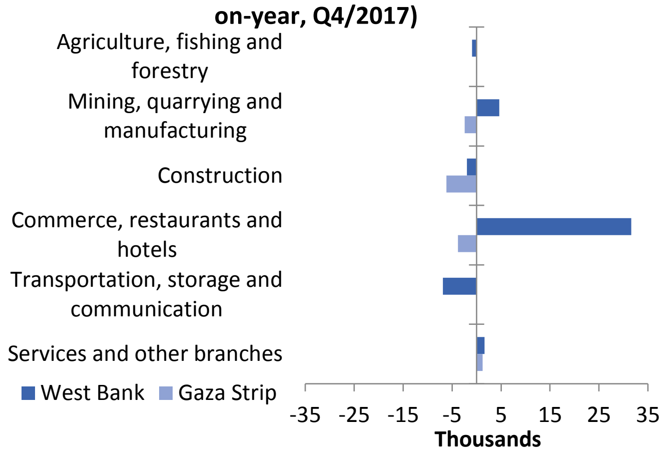


Figure 8: Change in number of employed persons by economic activity (thousands, year-on-year, Q4/2017)



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

Table 7: Unemployment rate (%, Q4/2017)

	West Bank	Gaza Strip
Narrow definition	13.7	42.7

Table 8: Average daily wage (NIS, Q4/2017)

	West Bank	Gaza Strip
Male	107.0	59.5
Female	84.8	74.0
Private sector	94.0	38.7
Public sector	117.4	93.4
Israel and settlements	232.0	

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

Unemployment rates for women were higher than men in both the Gaza Strip (65.9% as compared with 35.0% for men) and West Bank (25.0% as compared with 11.2% for men) despite their low labour force participation rate. Refugees had a higher unemployment rate than non-refugees in both the Gaza Strip but not in the West Bank. Unemployment rates were higher for youth than for those above 30 – 64.4% of 20-to-24-year-olds in the Gaza Strip and 24.5% the same group in the West Bank, for example, were jobless (Figure 7).

The number of persons employed in the West Bank in Q4/2017 was higher than that in Q4/2016 by approximately 28,100. In the Gaza Strip, it was lower by 11,400. In the West Bank, job losses were concentrated primarily in transportation, storage and communication, and construction. Commerce, restaurants and hotels accounted for the vast majority of job growth. In the Gaza Strip, job losses were recorded in all but the services sector with the construction sector shedding the most jobs (Figure 8).

In Q4/2017, there continued to be a significant disparity in average daily net wages between the West Bank and the Gaza Strip both among men and women. Further, the average daily net wage rate was higher for men than for women in the West Bank unlike in Gaza where women had significantly higher daily wage rates. 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 (Table 8).

Consumer prices

Year on year inflation of the Consumer Price Index (CPI) for Q4/2017, was positive but very small for the Gaza Strip and for East Jerusalem. But the rest of the West Bank experienced a deflation (Table 9).

Table 9: Change in CPI (%, Q4/2017)

	East Jerusalem	Rest of West Bank	Gaza Strip
Quarter-on-quarter	0.0	-0.7	-0.8
Year-on-year	1.4	-1.0	0.3

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

The banking sector

Bank credit in Q4/2017 increased to $8.0 billion. Loans accounted for 82.1% of bank credit, followed by overdrafts (17.2%) and leasing (0.7%) (Figure 9). The private sector continued to be the main source of bank deposits in Q4/2017 accounting for 81.6% of the total (Figure 10). The loan-to-deposit ratio remained unchanged from the last quarter at 67.3% and remained moderate compared to regional and global standards.

Figure 9: Distribution of bank credit by type (million $/%, Q4/2017)

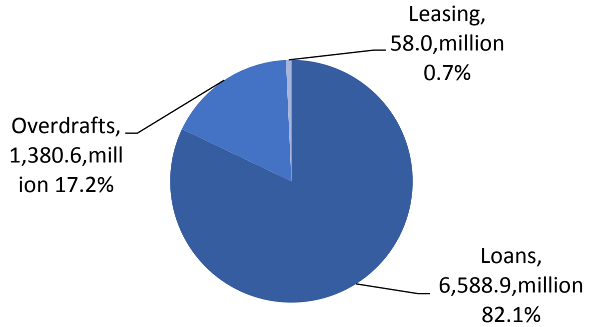
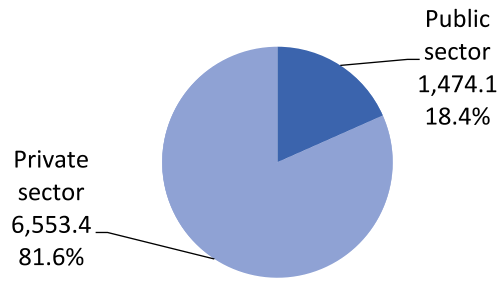


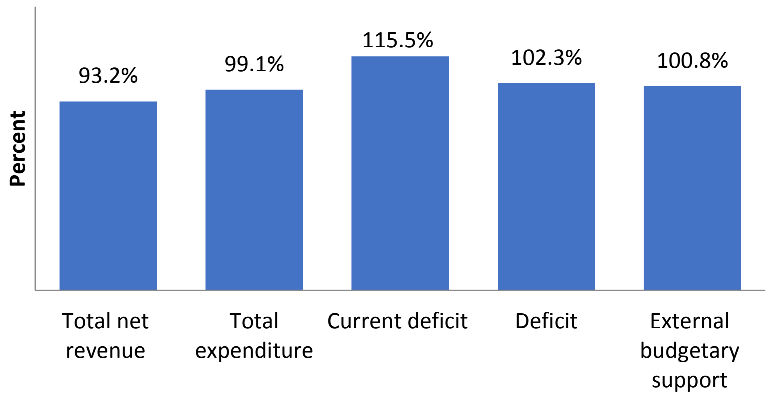
Figure 10: Distribution of bank deposits by sector (million $/%, Q4/2017)



Fiscal operations

On commitment basis, by the end of Q4/2017, government total net revenue was 93.2% of the budgeted NIS13.8 billion for 2017. Total expenditure was 99.1% of the NIS16.1 billion in the budget for the year. At the end of Q4/2017, the current deficit and the overall deficit had reached 115.5% and 102.3% of the annual projected amounts, respectively. External budgetary support by the end of the quarter reached NIS1,965.5 million, 100.8% of the amount expected for the year (Figure 11).

Figure 11: Fiscal indicators: actual as a proportion of annual budget (%, Q4/2017)



Note: Data are for fiscal operations on a commitment basis. The information is up-to-date as of 22 January 2018.

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. Data on national income accounts are published by PCBS in conformity with System of National Accounts 2008.

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).
- 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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