



UNSCO Socio-Economic Report: Overview of the Palestinian Economy in Q1/2103

Gross domestic product (GDP)

Growth in the Palestinian economy is slowing down. Real quarterly GDP in Q1/2013 was 2.7% higher than in the same quarter a year earlier, but it shrank by 5.1% from Q4/2012. The slowdown was felt particularly in the West Bank, where real quarterly GDP in Q1/2013 was even lower, by 0.6%, than in Q1/2012.

Still, the West Bank economy contributed 71.8% of total GDP in Q1/2013, and its quarterly nominal GDP per capita was 1.8 times higher than in the Gaza Strip.

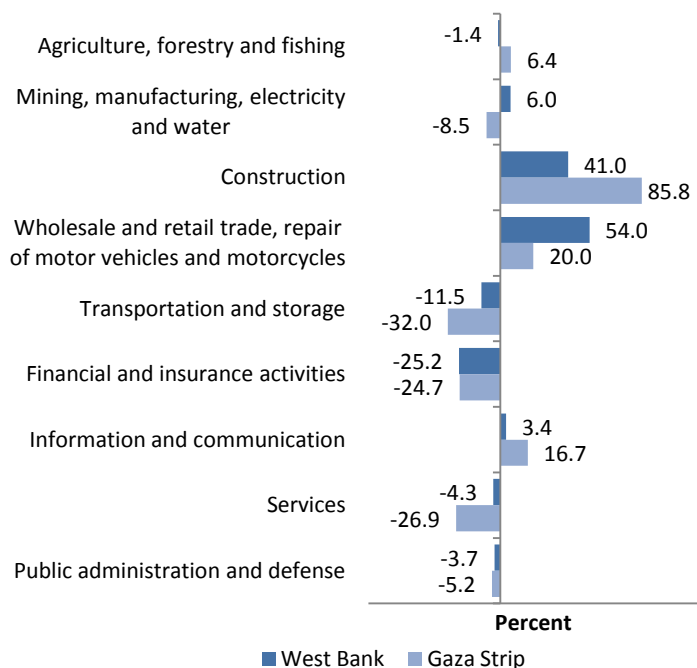
The most dynamic sector in both the West Bank and the Gaza Strip was the construction sector, whose real value added was higher by almost 86% in the Gaza Strip and by 41% in the West Bank compared to Q1/2012. This sector was followed by wholesale and retail trade and repair. Real value added in several sectors was actually lower in both regions in Q1/2013 compared to Q1/2012, namely in financial and insurance activities, transportation and storage, services, and public administration.

Key GDP indicators (Q1/2013)

	West Bank	Gaza Strip	oPt
Real GDP (million US\$)	1,180.4	464.4	1,644.8
Rate of change in real GDP (quarter-on-quarter, %)	-9.4	7.9	-5.1
Rate of change in real GDP (year-on-year, %)	-0.6	12.2	2.7
Nominal GDP per capita (US\$)	783	425	637

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

Rate of change of real value added by economic activity (year-on-year, Q1/2013)



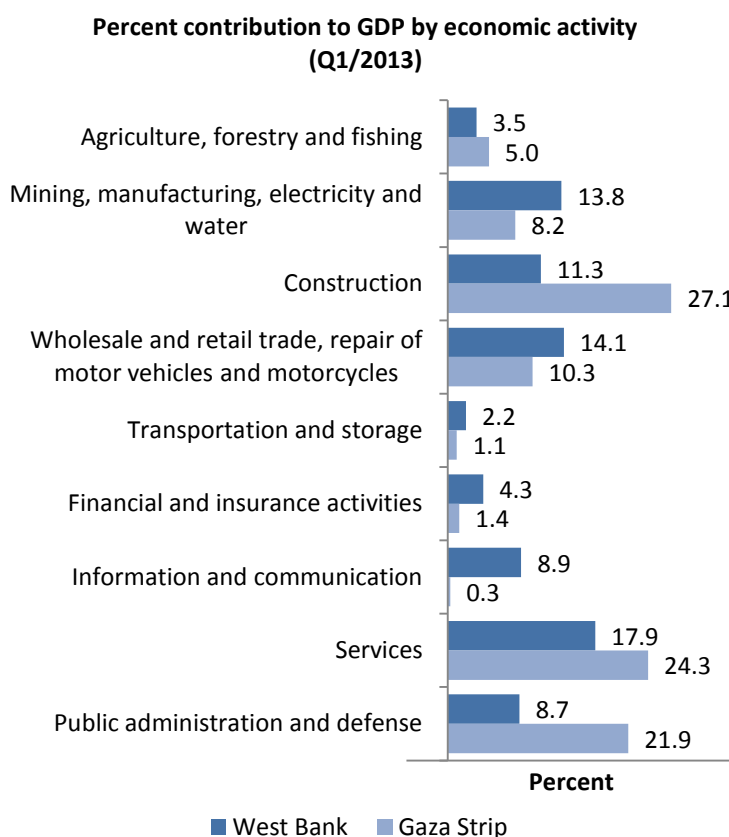
Note: Base year is 2004. Data for Q1/2013 are flash estimates.

The largest sector in the economy in the Gaza Strip is construction, followed by services and public administration. Together, these three sectors account for more than 70% of total GDP. Productive sectors such as agriculture and manufacturing contribute relatively little to total GDP in the Gaza Strip.

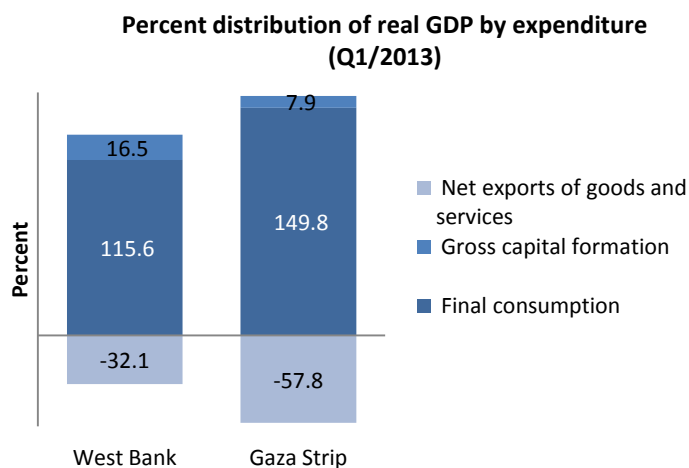
Economic activity in the West Bank is more evenly distributed among sectors, with services as the biggest sector, followed by wholesale and retail trade and repair.

Gross capital formation was relatively low in Q1/2013, especially in the Gaza Strip, although gross fixed capital formation played a more important role in the Gaza strip than in the West Bank as a proportion of GDP and as a proportion of gross capital formation. Final consumption exceeded GDP in both areas. Household consumption accounted for 80% and 64% of final consumption in the West Bank and the Gaza Strip, respectively, and government consumption represented 19% and 32% of final consumption, respectively. These levels of consumption and gross capital formation were possible through import levels that exceeded exports, that is, through the observed trade deficit or negative net exports.

The expenditure structure of GDP in the Gaza Strip has undergone a considerable transformation, with significant increases in both consumption and net exports as a proportion of GDP.



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



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The current account and trade

The current account deficit was considerably lower in Q1/2013 compared to Q1/2012 when it reached 24.7% of GDP, but remained high at US\$240.2 million, or 8.8% 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.

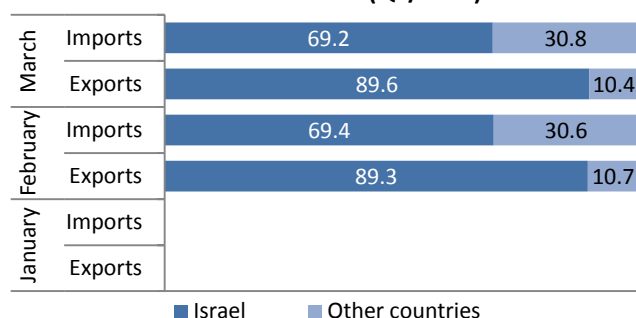
Significant dependence on one trading partner continues, as seen in the high proportions of registered goods exports to and imports from Israel, around 90% and 70%, respectively.

Goods exports from the Gaza Strip (in truckloads) were lower in the three months of Q1/2013 than at the same time last year, and continue to be limited to a few, mostly agricultural, goods. Market diversification continues to be a challenge, with all agricultural exports destined to Europe, and only the furniture exported to Egypt.

Current account (Q1/2013)

Goods trade balance (million US\$)	-1,106.1
Services trade balance (million US\$)	-97.1
Income balance (million US\$)	292.9
Net transfer payments (million US\$)	670.1
Current account balance (million US\$)	-240.2

Registered trade in goods to and from Israel and other countries (Q1/2013)



Exports from the Gaza Strip, by type (Q1/2013)

	January	February	March
Carnation (stems)	676,000	1,229,000	1,123,000
Strawberry (tons)	43.6	--	--
Sweet pepper (tons)	--	13.9	--
Cherry tomato (tons)	34.8	20.4	11.2
Basil (tons)	0.4	--	--
Chive (tons)	1.0	--	--
Green mint (tons)	1.3	0.7	0.2
Chili pepper (tons)	1.0	1.8	--
Tarragon (tons)	--	0.5	0.2
Furniture /platform (unit)	--	--	17
Furniture /table (unit)	--	--	120
Total trucks	29	17	14

The private sector

The total area licensed for new construction in Q1/2013 was similar in both areas. In the Gaza Strip, however, it was considerably lower than in Q1/2012, but the reduction over the time period was small in the case of the West Bank. Regarding new company registrations, the number was higher in the West Bank than in the Gaza Strip, although compared to Q1/2012 there was a 14% decrease in the West Bank and a 52% increase in the Gaza Strip.

Private sector indicators (Q1/2013)

	West Bank	Gaza Strip
Area licensed for new construction (sq. meters)	747,831	739,599
New company registrations	273	154

Fourteen percent of owners/managers of active industrial enterprises in Q1/2013 in the Gaza Strip felt that there were improvements in the previous quarter in terms of the enterprise's performance in general, the ease of obtaining raw materials and inputs and of transporting finished goods to market. The proportions were lower in the West Bank.

Expectations for the future are high nonetheless, particularly in the Gaza Strip.

Proportion of owners/managers of the active industrial enterprises who experienced improvements in previous quarter (% , Q1/2013)

	West Bank	Gaza Strip
Enterprise's performance in general	13.0	14.0
Obtaining needed raw materials and inputs	6.4	14.0
Transporting finished goods to market	4.9	14.0

Proportion of owners/managers of the active industrial enterprises who expect improvements in coming quarter (% , Q1/2013)

	West Bank	Gaza Strip
Enterprise's performance in general	33.2	58.0
Obtaining needed raw materials and inputs	15.6	58.0
Transporting finished goods to market	20.2	58.0

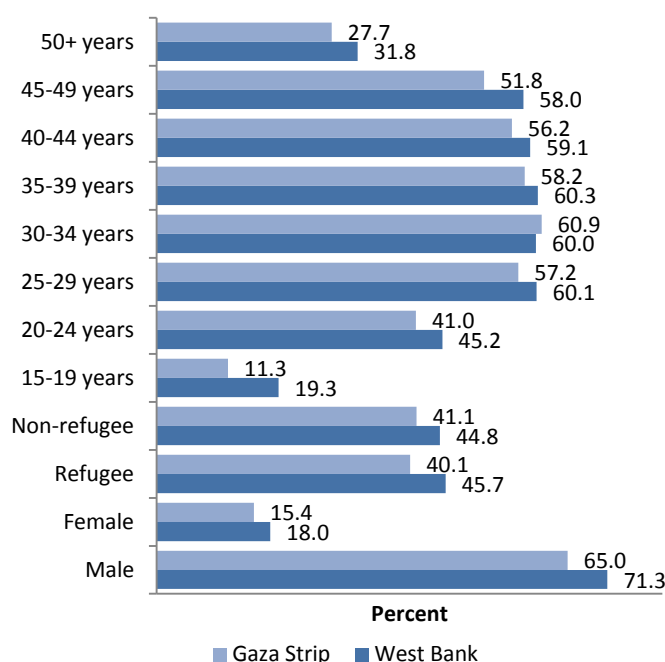
The labor market

The labor force in Q1/2013 was 43.4% of those aged 15 and above, that is, 1.134 million persons. The labor force participation rate was 45.0% in the West Bank and 40.5% in the Gaza Strip. Participation in the labor force is much higher for men than for women in both regions, reaching only 15.4% of women in the Gaza Strip. The labor force participation is also relatively low for the youth, particularly those aged between 15 and 19 years of age.

The unemployment rate was 23.9% in Q1/2013, the same as in Q1/2012. Unemployment affected 20.3% and 31.0% 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 are more affected by unemployment than men in both regions, and despite the low labor force participation rate, the unemployment rate for women in the

Labor force participation rate (% , Q1/2013)



Unemployment rate (% , Q1/2013)

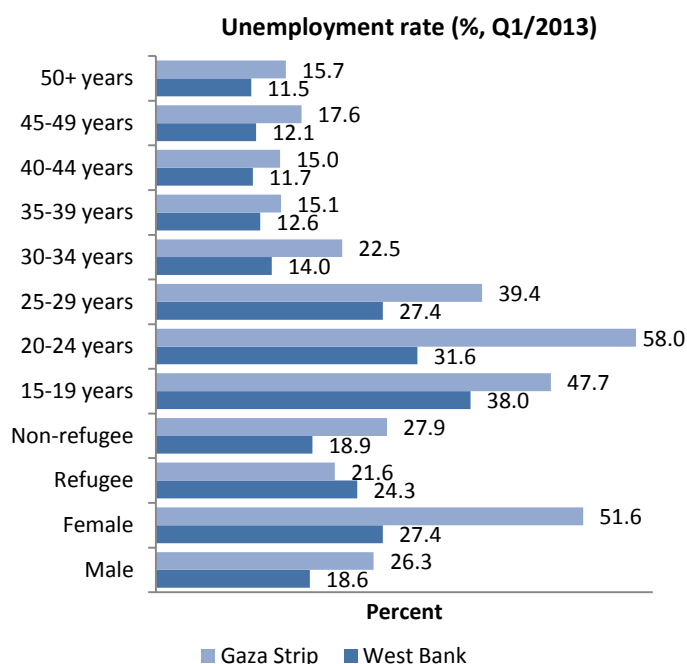
	West Bank	Gaza Strip
Narrow definition	20.3	31.0
Relaxed definition	23.9	34.5

Gaza Strip is more than 50%. Refugees in the West Bank have a higher unemployment rate than non-refugees, but the situation is reversed in the Gaza Strip. Age is also linked to unemployment, with the youth experiencing the highest rates. A total of 58.0% of 20-to-24-year-olds in the Gaza Strip, for example, is jobless –the highest rate of any age group in either region.

The duration of unemployment is another issue affecting the labor force. The average period of unemployment is longer for women than for men in both regions, and it is higher in the Gaza Strip than in the West Bank. The average period of unemployment is close to 21 months for unemployed women in the Gaza Strip.

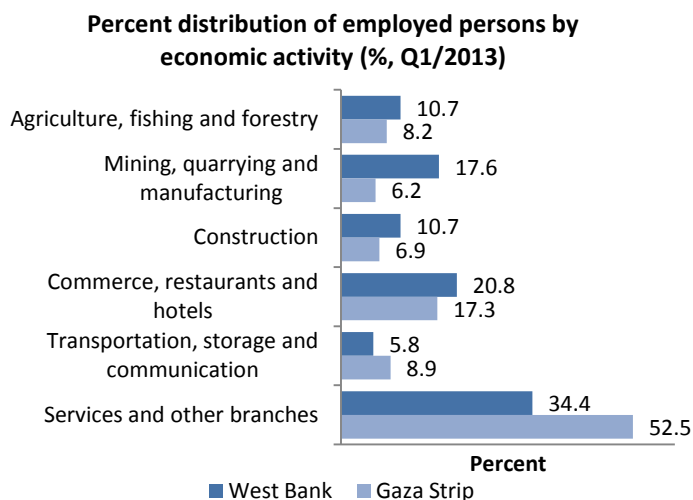
The services and other branches category is the biggest employer in both regions. In the Gaza Strip in particular it absorbs more than half of those employed. This sector is followed by the commerce, restaurants and hotel sector.

There is a significant disparity in average daily wages between the West Bank and the Gaza Strip - NIS88.8 vs. NIS65.2. Average daily wages are higher for men than for women in the West Bank, but the situation is reversed in the Gaza Strip. The public sector does offer higher average daily wages than the private sector in both regions, although wages in Israel and Israeli settlements in the West Bank are higher.



Average duration of unemployment (months, Q1/2013)

	West Bank	Gaza Strip
Male	6.4	13.8
Female	9.7	20.9



Average daily wage (NIS, Q1/2013)

	West Bank	Gaza Strip
Male	89.6	63.4
Female	85.1	77.6
Private sector	80.5	42.3
Public sector	100.8	86.9
Israel and settlements	167.6	

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), declined in the three months to March 2013 in East Jerusalem and to a lesser extent in the Gaza Strip, but they rose in the West Bank (excluding East Jerusalem).

Change in CPI (% , Q1/2013)

	East Jerusalem	Rest of West Bank	Gaza Strip
Quarter-on-quarter	-4.9	2.1	-0.2
Year-on-year	0.9	2.2	-0.3

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

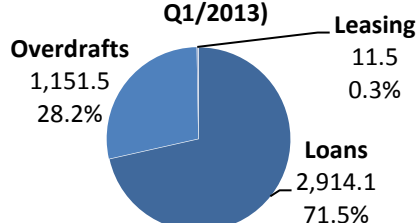
The banking sector

Bank credit in Q1/2013 decreased by 3% from the previous quarter to US\$4,077.1 million. As in previous quarters, most of the credit (71.5%) was in the form of loans, followed by overdrafts. Leasing constituted only a very small proportion of bank credit.

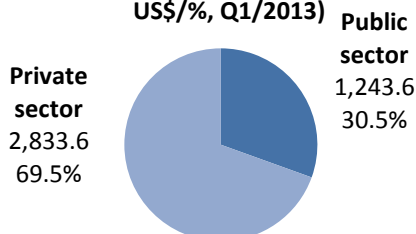
In terms of bank deposits, the main source is the private sector (69.5%).

These figures yield a loan-to-deposit ratio of 52.9%, down from 56.0% in the last quarter of 2012.

Distribution of bank credit by type (million US\$/%, Q1/2013)



Distribution of bank deposits by sector (million US\$/%, Q1/2013)

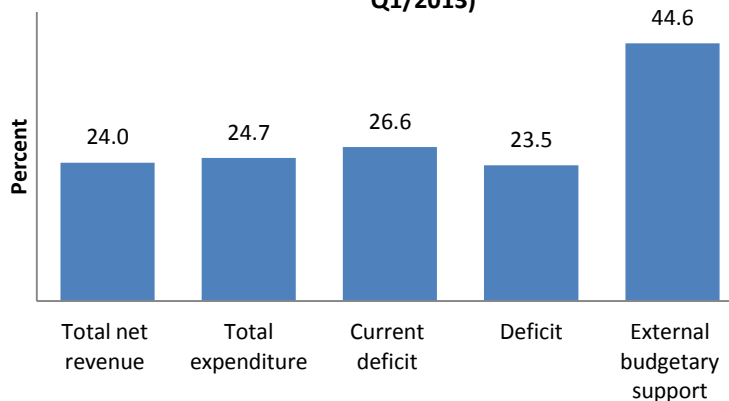


Note: Data do not include deposits of the PMA and commercial banks.

Fiscal operations

In the first three months of 2013, the government total net revenue was 24.0% of the NIS9,207 million in the budget, in spite of lower-than-expected clearance revenues. 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 higher than expected. The resulting current deficit was higher than expected based on the annual budgeted amount of NIS3,885 million, while the deficit was lower than expected based on the NIS5,180 million annual budget. External budgetary support by March 2013 was 44.6% of the budgeted annual amount.

Fiscal indicators: actual as a proportion of budget (% , Q1/2013)



Note: The information is up-to-date as of 16 June 2013.

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

Sources of data:

- . GDP: PCBS. Various periods. *Preliminary Estimates of Quarterly National Accounts*.
- . Current account: PCBS and PMA. Various periods. *Palestinian Balance of Payments*.
- . Trade: PCBS. Various periods. *The Palestinian Registered External Trade in Goods*. And 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.