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

UNSCO

UNSCO Socio-Economic Report: Overview of the Palestinian Economy in Q1/2016

Economic activity

Real GDP in the occupied Palestinian territory (oPt) in Q1/2016 was 0.6% higher than in Q4/2015, driven by a 1.4% growth in Gaza and a 0.3% growth in the West Bank. Year-on-year growth rate accelerated in the West Bank where the economy expanded by 4.2% as compared with 1% in the previous quarter. In the Gaza Strip, year on year GDP growth also accelerated by 21.1% as compared with 24.7% in the previous quarter. In Q1/2016 the Gaza economy constituted about a third of the overall Palestinian economy, and the Strip's GDP per capita was about half of the West Bank's.

In the West Bank, between Q1/2015 and Q1/2016 there was significant expansion in real value added in financial and insurance activities (11.5%) and the transportation and storage sector (11.4%). Contraction in real GDP was driven by contractions in wholesale and retail trade (-2.1%).

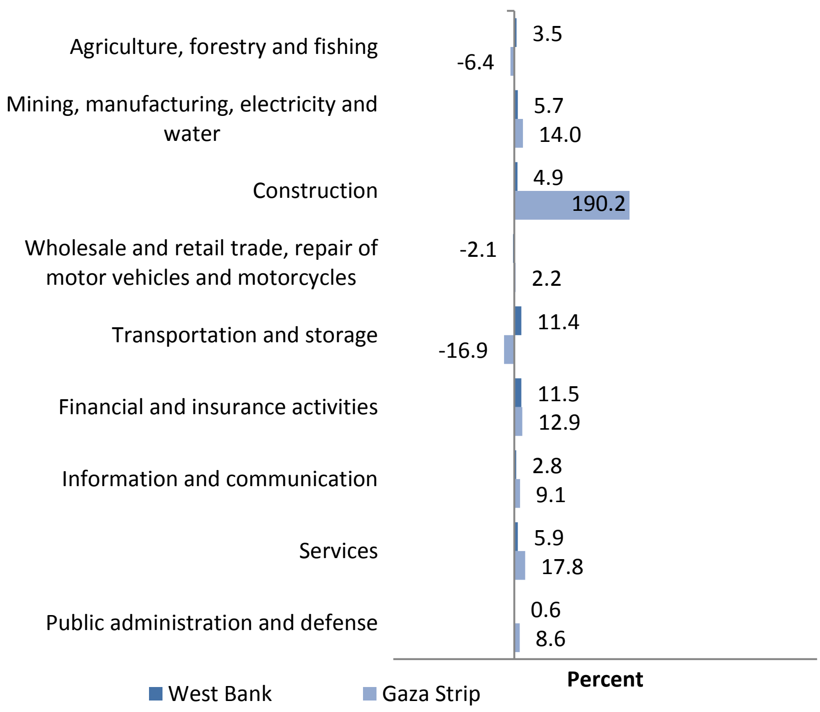
During the same period in the Gaza Strip, growth rate of the construction sector (190.2%) far outstripped others. Significant growth was recorded in services (17.8%), mining, manufacturing, electricity and water (14.0%), financial and insurance activities (12.9%), and information and communication (9.1%) as well. Transportation and storage recorded a 16.9% contraction.

Key GDP indicators (Q1/2016)

	West Bank	Gaza Strip	oPt
Real GDP (million $)	1491.6	508.9	2000.5
Rate of change in real GDP (quarter-on-quarter, %)	0.3	1.4	0.6
Rate of change in real GDP (year-on-year, %)	4.2	21.1	8.0
Nominal GDP per capita ($)	922.7	463.6	733.3

Note: Base year is 2004. Data for Q1/2016 are flash estimates.

Rate of change of real value added by economic activity (year-on-year, Q1/2016)



The services sector was the largest one in the West Bank economy in Q1/2016, accounting for 19.1% of GDP. This was followed by the wholesale and retail trade sector (18.3%) and mining, manufacturing, electricity and water (15.3%).

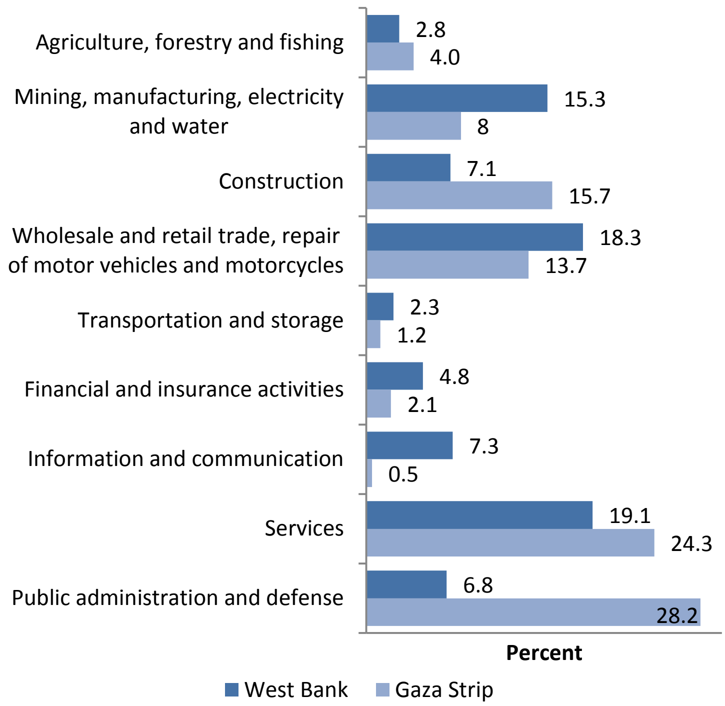
Public administration and defense continued to be the largest employers of people in Gaza thereby also accounting for the largest proportion of the Gaza Strip's GDP in Q1/2016, accounting for 28.2% of the total, followed by services (24.3%), construction (15.7%), wholesale and retail trade (13.7%), and mining, manufacturing, electricity and water (8.0%).

Final consumption in the West Bank was 111.5% of GDP in Q1/2016. Household final consumption constituted 91.1% of GDP while government final consumption was 18.7% of GDP. Gross capital formation came to 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 24.5% of GDP while imports represented 64.4%, resulting in a West Bank trade deficit of 39.9% of GDP in the quarter.

In the Gaza Strip, final consumption in Q1/2016 was 123.2% of GDP, household final consumption was 70.8% of GDP and government final consumption was 38.7% of GDP. Gross capital formation was 5.2% of GDP during the quarter, and gross fixed capital formation, 21.6% of GDP. Exports from the Gaza Strip amounted to 2.9% of GDP while imports amounted to 30.6%, resulting in a trade deficit equal to 27.8% of GDP in Q1/2016.

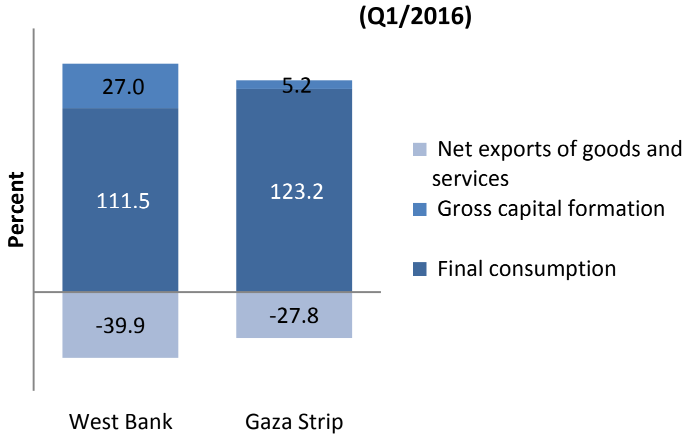
The industrial production index (IPI) increased from 96.81 in January to 103.20 in February 2016, but then fell to 101.87 in March (base year is 2015). Activity in mining and quarrying (with a share of 4.06% in the IPI) grew significantly in February but then contracted

Percent contribution to real GDP by economic activity (Q1/2016)



Note: Base year is 2004. Data for Q1/2016 are flash estimates.

Percent distribution of real GDP by expenditure (Q1/2016)



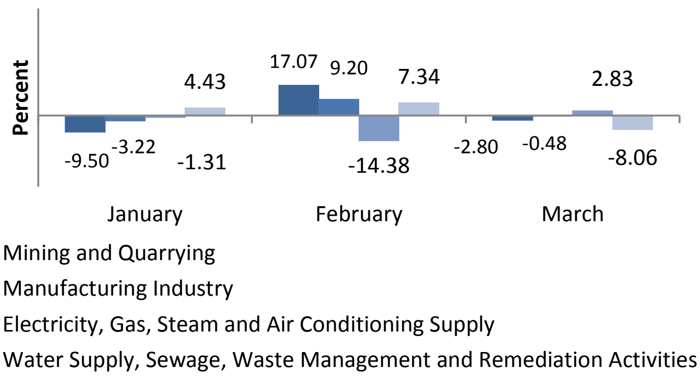
Note: Base year is 2004. Data for Q1/2016 are flash estimates.

Industrial production index (Q1/2016)

	January	February	March
Index	96.81	103.2	101.87

in March. The manufacturing Industry (with a share of 83.19% in the IPI) grew in February, but then contracted in March. Activity in the Water Supply, sewage, Waste Management and Remediation Activities sector (with a share of 0.78% in the IPI) grew marginally in January and February, but then contracted in March. Activity in the Electricity, Gas, Steam and Air Conditioning Supply sector (with a share of 11.98% in the IPI) decreased in January and February but grew marginally in March 2016.

Change in industrial activity by sector (%, Q1/2016)

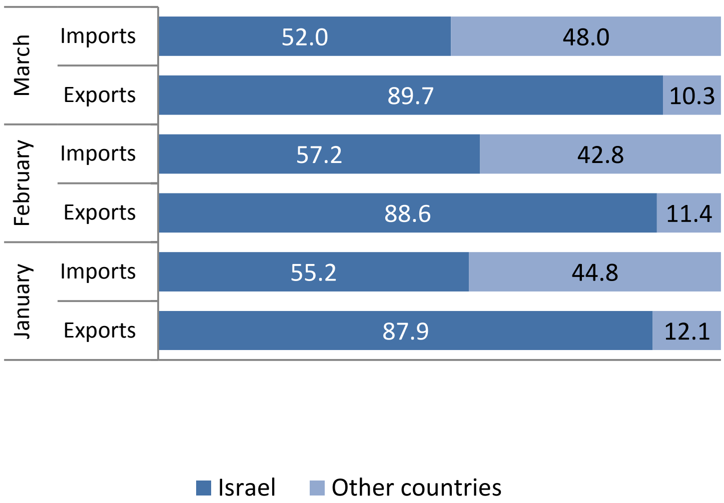


Current account and trade

The current account deficit declined to (-)$277.8 million, or 8.4% of GDP, in Q1/2016 from (-)$449.8 million (13.5% of GDP) in Q4/2015. The decrease was driven primarily by the lower goods and services trade deficit. The income and transfer payment accounts both recorded a significant surplus in the quarter.

Current account (Q1/2016)	
Goods trade balance (million US$)	-1,130.3
Services trade balance (million US$)	-40.6
Income balance (million US$)	364.4
Net transfer payments (million US$)	528.7
Current account balance (million US$)	**-277.8**

Registered trade in goods to and from Israel and other countries by Month in Percentage (Q1/2016)



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

Goods exports from the Gaza Strip declined in Q1/2016. Some 64 truckloads were exported compared to 94 truckloads in the previous quarter.

Commercial transfers saw a sharp increase in Q1/2016 with 423 truckloads leaving the Gaza Strip for the West Bank compared to 294 in the previous quarter. Products largely consisted of produce, furniture and clothes.

Exports from the Gaza Strip, by type (Q1/2016)	January	February	March
Strawberries (tons)	13.41	1.47	--
Sweet potatoes (tons)	0.50	--	--
Tomatoes (tons)	--	14.00	--
Chilli Pepper (tons)	2.96	1.88	--
Chive (tons)	1.35	1.80	2.29
Green Mint (tons)	1.05	1.23	1.88
Chervil (tons)	--	0.23	0.60
Tarragon (tons)	0.03	0.10	0.30
Lemon (tons)	102.61	149.00	187.30
Valencia orange (tons)	--	--	61.28
Total trucks	**22**	**17**	**25**

Exit To West Bank from the Gaza Strip, by type (Q1/2016)	January	February	March
Cucumber (tons)	316.63	339.36	370.48
Fish (tons)	3.60	4.20	0.60
Tomatoes (tons)	629.89	325.44	289.44
Sweet potatoes (tons)	31.36	16.44	4.16
Zucchini (tons)	56.50	39.70	7.46
Cabbage (tons)	116.96	13.50	1.00
Dates (tons)	54.66	22.60	--
Chilli Pepper (tons)	155.18	178.79	59.71
Strawberries (tons)	27.18	62.60	4.92
Cauliflower (tons)	9.40	--	--
Eggplant (tons)	123.30	63.88	52.74
Cherry Tomatoes (tons)	38.74	20.45	5.82
Sweet Peppers (tons)	58.60	--	38.93
Lemon (tons)	--	--	5.50
Furniture (tons)	16.00	33.00	67.00
Clothes (tons)	16.00	16.00	41.00
Total trucks	**204**	**134**	**85**

Exit To Israel from the Gaza Strip, by type (Q1/2016)	January	February	March
Eggplant (tons)	106.04	31.88	41.84
Tomatoes (tons)	267.04	164.88	177.00
Iron scrap (tons)	800.00	30.00	175.00
Total trucks	**62**	**25**	**21**

The private sector

The total area licensed for new construction in the West Bank in Q1/2016 was 26.8% lower than in Q1/2015. In the Gaza Strip, total area licensed for new construction was 621.8% higher than in Q1/2015.

There was a 33% increase in the total number of new company registrations in the West Bank in Q1/2016 compared to the same period last year. In the Gaza Strip the number was 41.3% lower as compared with Q1/2015.

Private sector indicators (Q1/2016)

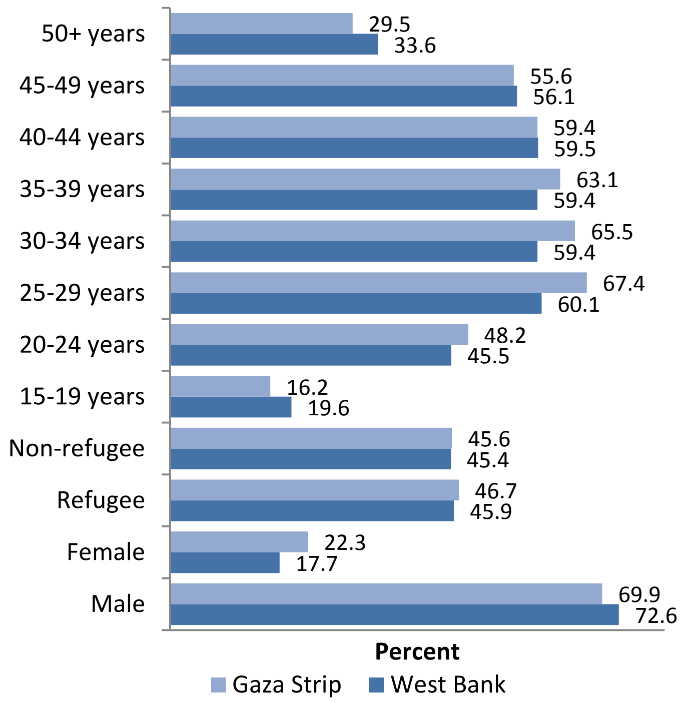
	West Bank	Gaza Strip
Area licensed for new construction (sq. meters)	1,196,880	1,068,088
New company registrations	476	121

The labour market

The labour force participation rate in Q1/2016 was 45.8% of those aged 15 and above, that is 1,326,700 people. The labour force participation rate was slightly lower in the West Bank (45.5%) and slightly higher in the Gaza Strip (46.4%). Participation in the labour force was much higher for men than for women in both regions. The labour force participation rate was relatively lower for youth, particularly those aged between 15 and 19 years of age (16.2% and 19.6% in the Gaza Strip and West Bank respectively).

The unemployment rate for Palestine increased to 26.6% in Q1/2016 (25.8% in Q4/2015). The unemployment rate in the West Bank was 18.0%, 0.7 basis points lower than in Q4/2015. In the Gaza Strip, 41.2% of the labour force was unemployed in Q1/2016 as compared with 41.6% a year ago.

Labor force participation rate (%, Q1/2016)



Unemployment rates for women were higher than men in both the Gaza Strip (62.6% as compared with 34.5% for men) and West Bank (28.4% as compared with 15.5% 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. Unemployment rates were higher for youth than for those above 30. A total of 63.3% 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 Q1/2016 compared to Q4/2015 increased by 0.2 months for men but increased by 2.1 months for women in the West Bank. In Gaza, the period decreased by 1.0 months for men but increased by 1.5 months for women. On average women were likely to remain unemployed 7.7 months longer than men in the West Bank and 9.1 months longer than men in Gaza.

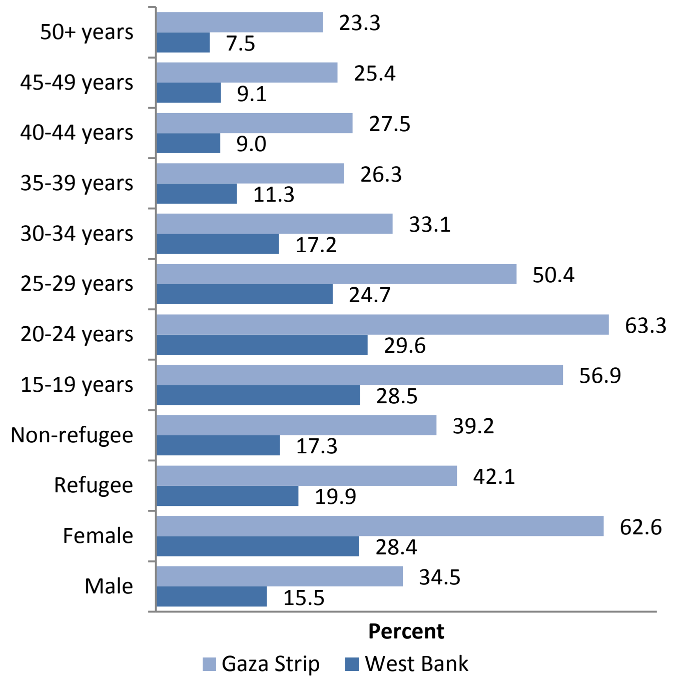
The number of persons employed in the West Bank in Q1/2016 was lower than that in Q4/2015 by approximately 6,500. In the Gaza Strip, it was lower by 17,500. In the West Bank employment was higher in all sectors except agriculture, fishing and forestry, and mining, quarrying and manufacturing in Q1/2016. In the Gaza Strip, employment was higher in all sectors except agriculture, fishing and forestry and transportation, storage and communication.

In Q1 2016, there continued to be a significant disparity in average daily net wages between the West Bank (99.8 NIS) and the Gaza Strip (61.9 NIS)–. While men in the Gaza Strip receive an average daily wage of NIS 59.5, they receive a higher average of daily wage in the West Bank (NIS 102.5). Similarly, while women in the Gaza Strip make a daily wage of NIS 74.2 on average, women in the West Bank make a higher

Unemployment rate (%, Q1/2016)

	West Bank	Gaza Strip
Narrow definition	18.0	41.2

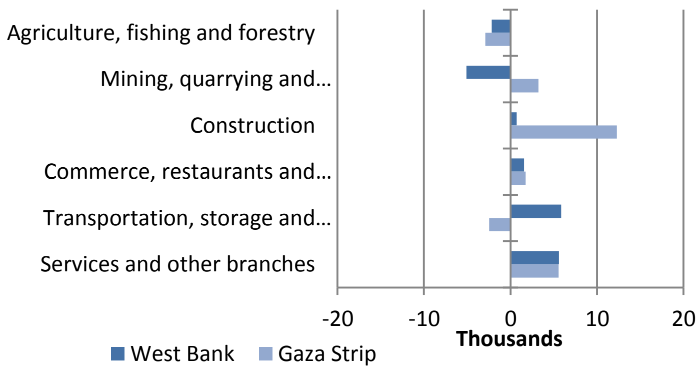
Unemployment rate (%, Q1/2016)



Average duration of unemployment (months, Q1/2016)

	West Bank	Gaza Strip
Male	3.9	13.8
Female	11.6	22.9

Change in number of employed persons by economic activity (thousands, year-on-year, Q1/2016)



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

average of daily wage (NIS 90.3) Furthermore, the average daily net wages was higher for men (102.5 NIS) than for women (90.3 NIS) in the West Bank unlike in Gaza where women had significantly higher daily wage rates (NIS 74.2) as compared to 59.5 NIS received by men.

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 212.5 per day.

Average daily wage (NIS, Q1/2016)

	West Bank	Gaza Strip
Male	102.5	59.5
Female	90.3	74.2
Private sector	93.8	38.5
Public sector	110.5	93.0
Israel and settlements	212.5	

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), fell in Q1/2016 compared to Q4/2015 in all of Palestine. In comparison with Q1/2015, CPI fell in East Jerusalem and Gaza but rose in the rest of the West Bank.

Change in CPI (%, Q1/2016)

	East Jerusalem	Rest of West Bank	Gaza Strip
Quarter-on-quarter	-1.3	-1.3	-0.9
Year-on-year	-1.3	1.0	-1.4

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

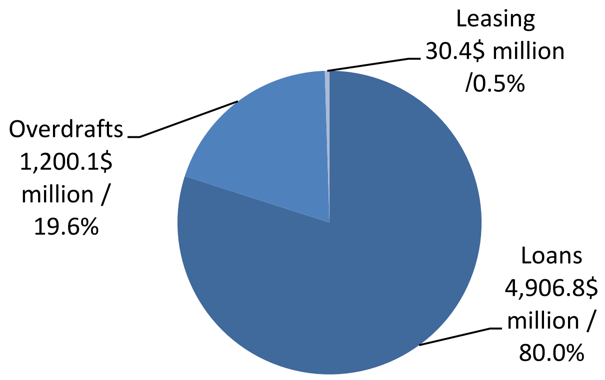
The banking sector

Bank credit in Q1/2016 increased to $6.1 billion. Loans accounted for 80.0% bank credit, followed by overdrafts (19.6%) and leasing (0.5%).

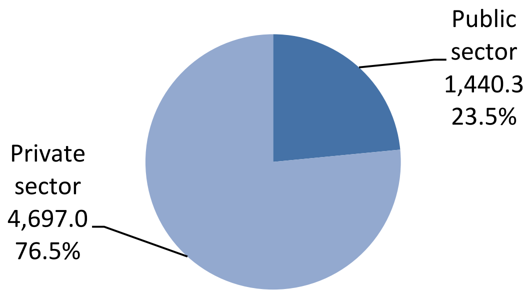
The private sector continued to be the main source of bank deposits in Q1/2016 accounting for 76.5% of the total.

These figures resulted in a loan-to-deposit ratio of 61.0% in Q1/2016, roughly the same as the 60.3% in Q4/2015.

Distribution of bank credit by type (million $/%, Q1/2016)



Distribution of bank deposits by sector (million $/%, Q1/2016)

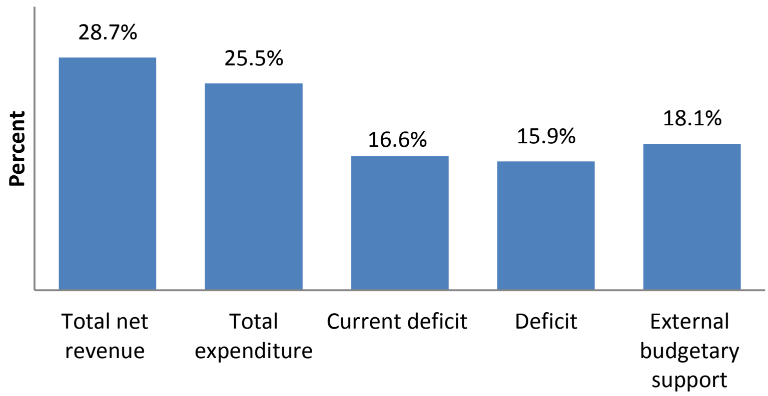


Note: Data do not include deposits of the PMA and commercial banks.

Fiscal operations

On commitment basis, by the end of Q1/2016, government total net revenue was 28.7% of the 11.19 billion NIS in the 2016 budget. Total expenditure was 25.5% of the NIS 15.21 billion in the budget for the year. By the end of the first quarter, the current deficit and the overall deficit had reached 16.6% and 15.9% of the annual projected amount, respectively. External budgetary support by the end of the quarter reached 18.1% of the amount expected for the year.

Fiscal indicators: actual as a proportion of annual budget (%, Q1/2016)



Note: Data are for fiscal operations on a commitment basis. The information is up-to-date as of 14 April 2016.

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).
- 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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The UNSCO Socio-Economic Report is also accessible on www.unsco.org.