



UNSCO Socio-Economic Report: Overview of the Palestinian Economy in Q3/2013

Economic activity

The real GDP quarter-on-quarter rate of change was negative for both the West Bank and the Gaza Strip in Q3/2013. The contribution of the West Bank economy to total GDP was 75.6% in Q3/2013, and its quarterly nominal GDP per capita was more than twice as high as that in the Gaza Strip.

Sixty-six percent of real value added in the Gaza Strip in Q3/2013 was derived from just three sectors, namely services, public administration and defense, and wholesale and retail trade. Economic activity was more evenly distributed among sectors in the West Bank, with mining, manufacturing, electricity and water as the biggest sector during the quarter, followed by wholesale and retail trade.

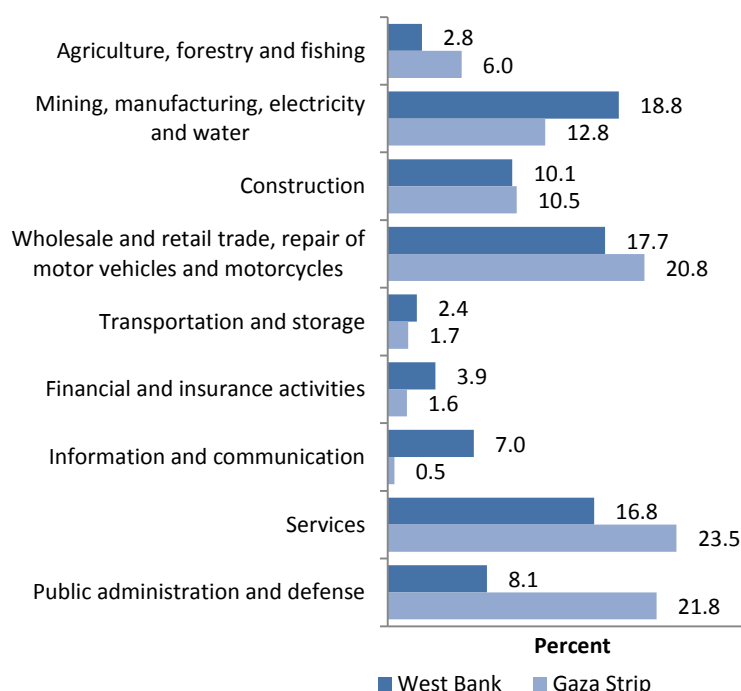
Gross capital formation in Q3/2013 was 24.1% in the West Bank and 14.2% in the Gaza Strip. Gross fixed capital formation played a more important role as a proportion of GDP in the Gaza Strip than in the West Bank. Final consumption in Q3/2013 exceeded GDP in both areas, at 107.4% of GDP in the West Bank and 126.2% of GDP in the Gaza Strip. Household consumption accounted for 81.1% and 55.6% of final consumption in the West Bank and the Gaza Strip, respectively, while government consumption represented

Key GDP indicators (Q3/2013)

| | West Bank | Gaza Strip | oPt |
|--|-----------|------------|---------|
| Real GDP (million US\$) | 2,287.2 | 736.5 | 3,023.7 |
| Rate of change in real GDP (quarter-on-quarter, %) | -0.4 | -0.3 | -0.4 |
| Nominal GDP per capita (US\$) | 1,079 | 432 | 815 |

Note: Base year for real GDP is 2010. Data for Q3/2013 are flash estimates.

Percent contribution to real GDP by economic activity (Q3/2013)

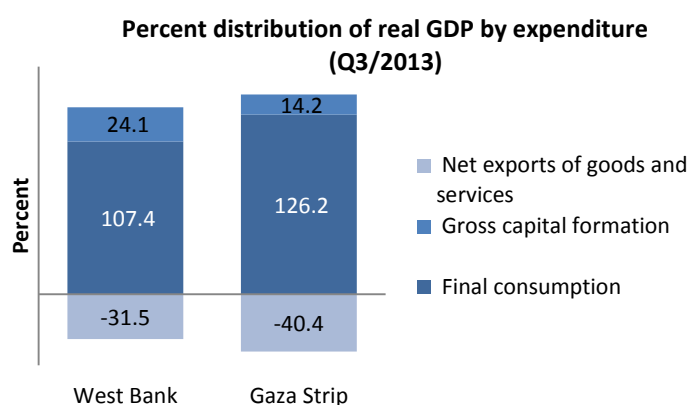


Note: Base year is 2010. Data for Q3/2013 are flash estimates.

18.2% and 37.6% of final consumption, respectively. These levels of consumption and gross capital formation were possible through import levels that exceeded exports, that is, through a trade deficit or negative net exports.

The industrial production index (IPI) decreased in September 2013 (base year is 2011). Activity in manufacturing (with a share of 80.56% in the IPI) increased in July and August 2013 but decreased in September. The mining and quarrying sector (with a share of 4.59% in the IPI) showed decreased activity in July and August but improvements in September. Finally, activity in the water and electricity supply sector (with a share of 14.85% in the IPI) increased in July but decreased in August and September.

The business cycle indicator reflected improvements in the Gaza Strip in July and in the West Bank in July and August, but it reflected contractions in the Gaza Strip in August and both the West Bank and Gaza Strip in September.

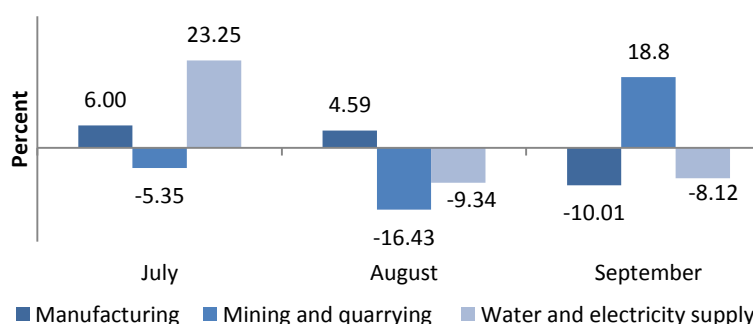


Note: Base year is 2010. Data for Q3/2013 are flash estimates.

Industrial production index (Q3/2013)

| | July | August | September |
|-------|--------|--------|-----------|
| Index | 128.35 | 129.06 | 118.42 |

Change in industrial activity by sector (% Q3/2013)



Business Cycle Indicator (Q3/2013)

| | July | August | September |
|------------|------|--------|-----------|
| West Bank | 2.21 | 4.65 | -5.15 |
| Gaza Strip | 1.76 | -8.32 | -3.23 |

Current account and trade

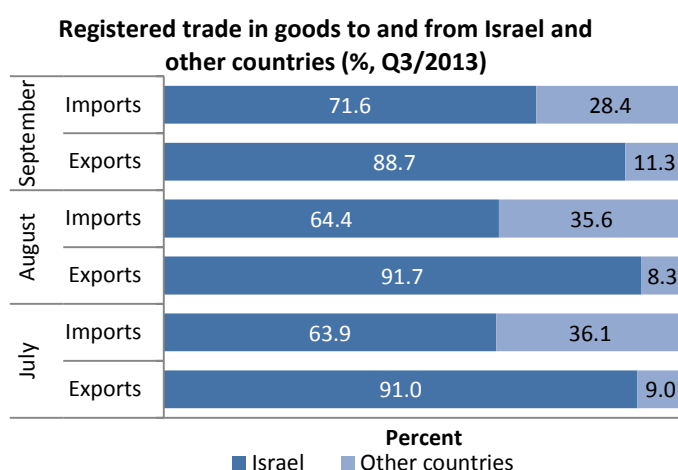
The current account deficit decreased in Q3/2013 compared to Q2/2013 to US\$298.9 million, or 9.8% of GDP. The elevated goods trade deficit was the main reason behind the high current account deficit, although the services trade account also showed a negative balance. The income and transfer payment accounts both recorded a surplus in the quarter.

Current account (Q3/2013)

| | |
|---|---------------|
| Goods trade balance (million US\$) | -1,224.6 |
| Services trade balance (million US\$) | -100.3 |
| Income balance (million US\$) | 340.8 |
| Net transfer payments (million US\$) | 705.2 |
| Current account balance (million US\$) | -298.9 |

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

Goods exports from the Gaza Strip (in truckloads) in Q3/2013 were higher than at the same time in 2012, although they continued to be limited to a few agricultural goods. In terms of markets, potato exports were destined to Jordan, herbs to the United States and palm fronds to Israel.



Exports from the Gaza Strip, by type (Q3/2013)

| | July | August | September |
|--------------------|------|--------|-----------|
| Basil (tons) | 0.7 | -- | 1.1 |
| Chive (tons) | 1.4 | 1.2 | 1.1 |
| Green mint (tons) | 0.6 | 0.7 | 0.6 |
| Potatoes (tons) | 40.0 | -- | -- |
| Palm fronds (tons) | -- | 58.0 | -- |
| Total trucks | 6 | 5 | 4 |

The private sector

The area licensed for new construction in the West Bank in Q3/2013 was 4.4% lower than in Q3/2012, while in the Gaza Strip it was 52.7% lower. The total number of new company registrations was higher in the West Bank than in the Gaza Strip, and compared to Q3/2012 it increased by 29.8% in the West Bank and by 19.0% in the Gaza Strip.

A greater proportion of owners/managers of active industrial enterprises in the West Bank than in the Gaza Strip felt in Q3/2013 that there were improvements in the previous quarter in the enterprise's performance in general, but the situation was reversed regarding their perception of improvements in the ease of obtaining needed raw materials and inputs and of transporting finished goods to market. Expectations for future improvements followed a similar pattern.

Private sector indicators (Q3/2013)

| | West Bank | Gaza Strip |
|---|-----------|------------|
| Area licensed for new construction (sq. meters) | 799,011 | 466,889 |
| Number of new company registrations | 296 | 75 |

Proportion of owners/managers of the active industrial enterprises who experienced improvements in previous quarter (% Q3/2013)

| | West Bank | Gaza Strip |
|---|-----------|------------|
| Enterprise's performance in general | 27.5 | 18.0 |
| Obtaining needed raw materials and inputs | 8.2 | 18.0 |
| Transporting finished goods to market | 9.7 | 18.0 |

Proportion of owners/managers of the active industrial enterprises who expect improvements in coming quarter (% Q3/2013)

| | West Bank | Gaza Strip |
|---|-----------|------------|
| Enterprise's performance in general | 25.4 | 20.0 |
| Obtaining needed raw materials and inputs | 9.7 | 18.0 |
| Transporting finished goods to market | 12.4 | 18.0 |

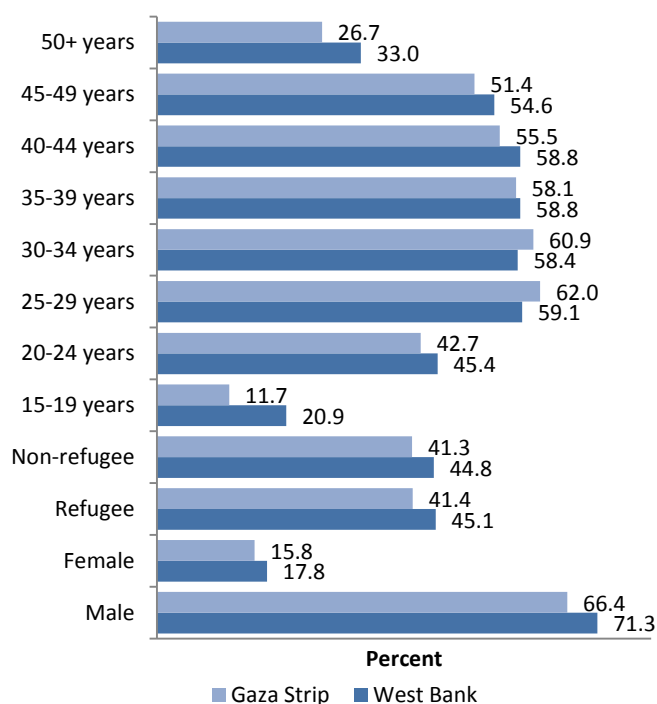
The labor market

The labor force in Q3/2013 increased to 43.6% of those aged 15 and above, that is, 1.161 million persons. The labor force participation rate was 44.9% in the West Bank and 41.4% in the Gaza Strip. Participation in the labor force was much higher for men than for women in both regions. Labor force participation was relatively low for the youth, particularly those aged between 15 and 19 years of age.

The unemployment rate was 23.7% in Q3/2013, reflecting a slight improvement compared to 24.3% in Q3/2012. The drop in unemployment was observed in the West Bank, where the unemployment rate decreased slightly from 20.4% in Q3/2012 to 19.1% in Q3/2013. In the Gaza Strip, on the other hand, the unemployment rate increased slightly from 31.9% in Q3/2012 to 32.5% in Q3/2013. When discouraged workers were added ('relaxed definition'), the unemployment rate increased, particularly in the West Bank.

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 Q3/2013. 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 57.9% of 20-to-24-year-olds in the Gaza Strip, for example, were jobless – the highest rate of any age group in either region.

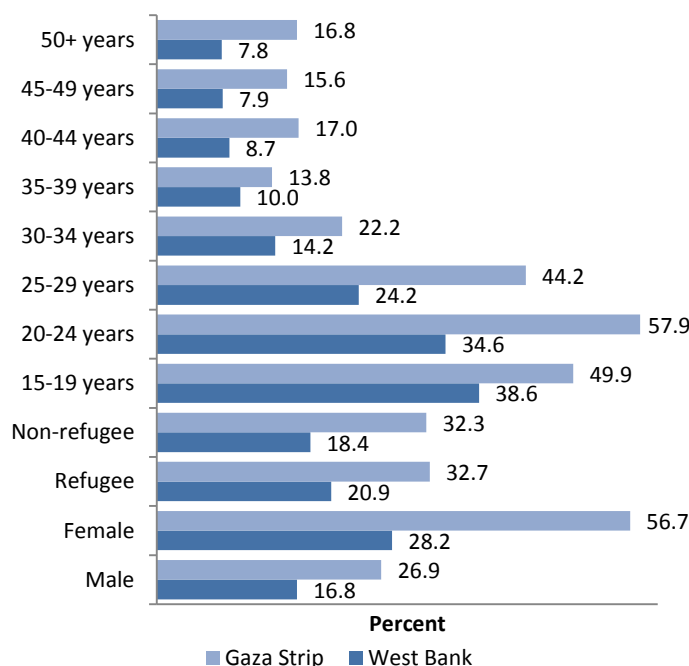
Labor force participation rate (% , Q3/2013)



Unemployment rate (% , Q3/2013)

| | West Bank | Gaza Strip |
|--------------------|-----------|------------|
| Narrow definition | 19.1 | 32.5 |
| Relaxed definition | 23.0 | 35.1 |

Unemployment rate (% , Q3/2013)



The average duration of unemployment in Q3/2013 decreased by less than one month for both women and men in the West Bank compared to Q2/2013, and it decreased by more than one month for both sexes in the Gaza Strip. Still, the average period of unemployment was more than twice as long in the Gaza Strip as in the West Bank for either sex. Similarly the period was longer for women than for men in both regions.

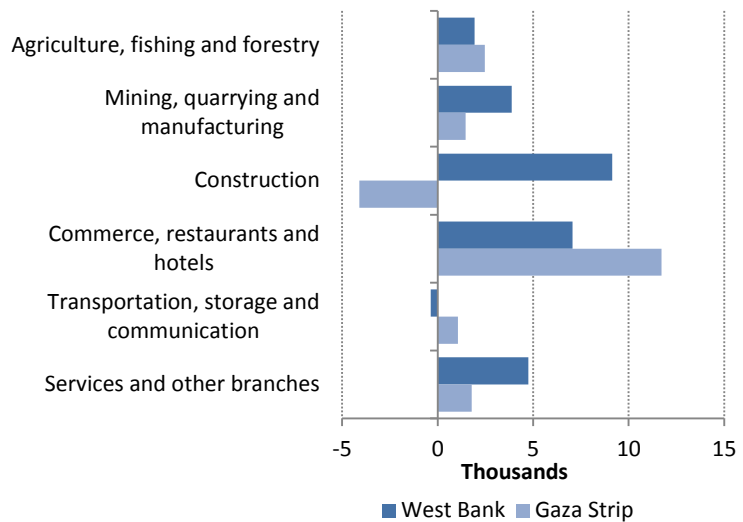
The number of persons employed increased between Q3/2012 and Q3/2013 by approximately 40,800. In the West Bank, where employment increased the most, the greatest gains were observed in construction and commerce. In the Gaza Strip, employment increased most notably in commerce, while a significant drop was registered in the construction sector.

Average daily net wages increased in the West Bank in Q3/2013 compared to Q2/2013, but they fell in the Gaza Strip, compounding an already significant disparity between the two regions. In Q3/2013 average daily net wages were NIS87.5 in the West Bank and NIS66.1 in the Gaza Strip. Although average daily net wages were higher for men than for women in the West Bank, the situation was reversed in the Gaza Strip. While the public sector offered considerably higher average daily wages than the private sector in both regions, the highest wages were still found in Israel and Israeli settlements.

Average duration of unemployment (months, Q3/2013)

| | West Bank | Gaza Strip |
|--------|-----------|------------|
| Male | 4.7 | 14.2 |
| Female | 8.7 | 20.6 |

Change in number of employed persons by economic activity (thousands, year-on-year, Q3/2013)



Average daily wage (NIS, Q3/2013)

| | West Bank | Gaza Strip |
|------------------------|-----------|------------|
| Male | 90.3 | 57.6 |
| Female | 87.6 | 73.4 |
| Private sector | 80.7 | 44.2 |
| Public sector | 102.5 | 78.9 |
| Israel and settlements | 178.9 | |

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 Q3/2013 compared to Q2/2013 in East Jerusalem, the rest of the West Bank,

Change in CPI (% , Q3/2013)

| | East Jerusalem | Rest of West Bank | Gaza Strip |
|---------------------------|----------------|-------------------|------------|
| Quarter-on-quarter | 1.3 | 1.7 | 0.9 |
| Year-on-year | 0.9 | 1.2 | -2.0 |

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

and the Gaza Strip. Compared to Q3/2012, average prices fell by 2.0% in the Gaza Strip.

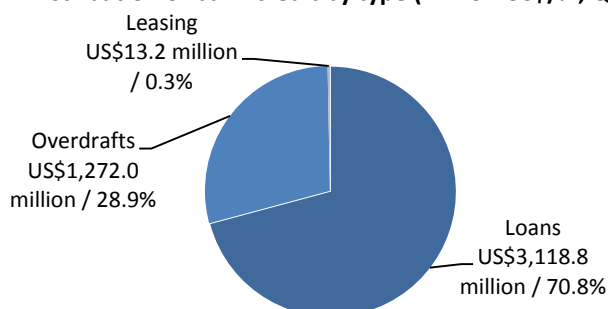
The banking sector

Bank credit in Q3/2013 increased from Q2/2013 by 5.2% to US\$4,404.0 million. As in previous quarters, most of the credit (70.8%) was in the form of loans, followed by overdrafts. Leasing constituted only a very small proportion of bank credit.

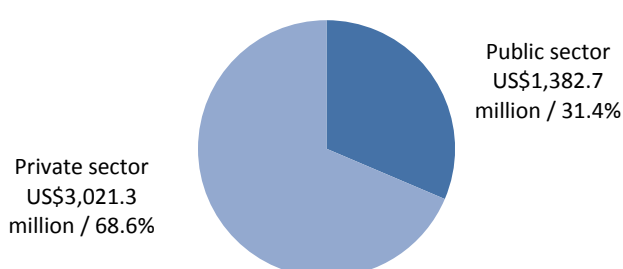
In terms of bank deposits, the main source in Q3/2013 was the private sector with 68.6% of the total.

These figures yielded a loan-to-deposit ratio of 53.8% in Q3/2013, slightly lower than the 54.4% observed in Q2/2013.

Distribution of bank credit by type (million US\$/%, Q3/2013)



Distribution of bank deposits by sector (million US\$/%, Q3/2013)

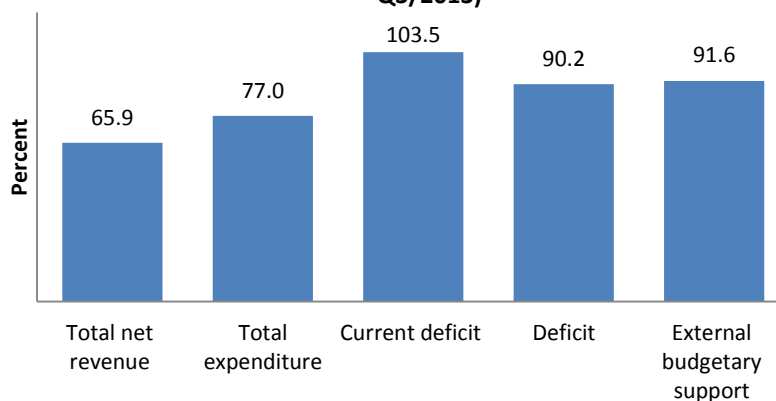


Note: Data do not include deposits of the PMA and commercial banks.

Fiscal operations

By the end of September 2013 the government total net revenue was only 65.9% of the NIS9,207 million in the budget, as tax refunds exceeded by a large margin the amount foreseen in the budget. Total expenditure was 77.0% of the NIS13,092 million budgeted for the year. By September, net lending had already reached 183.2% of the amount budgeted for the entire year. The resulting current deficit exceeded by 3.5% the annual budgeted amount of NIS3,885 million. Development expenditure was restrained, but the overall deficit still reached 90.2% of the NIS5,180 million in the budget. External budgetary support by September 2013 was 91.6% of the budgeted annual amount, but development financing reached only 18.9% of the expected annual amount.

Fiscal indicators: actual as a proportion of budget (% , Q3/2013)



Note: The information is up-to-date as of 18 December 2013.

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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