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

UNSCO

UNSCO Socio-Economic Report:
Overview of the Palestinian Economy in Q4/2014

Economic activity

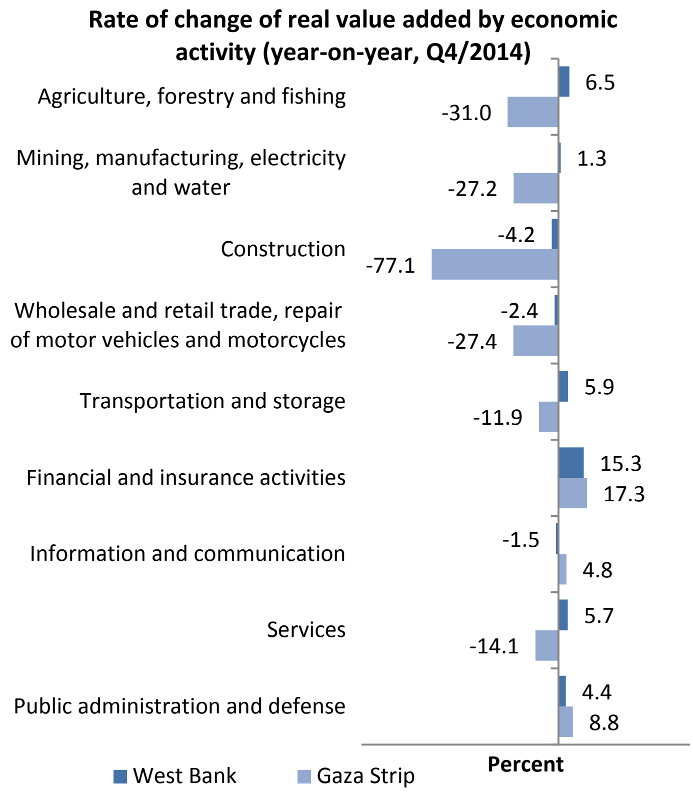
Real quarterly GDP in the occupied Palestinian territory (oPt) in Q4/2014 was higher than in Q3/2014, but lower than in Q4/2013. Year-on-year growth was registered only in the West Bank where the economy expanded by 4.9%. In the Gaza Strip, GDP grew by 18.4% compared to the previous quarter following the end of hostilities, but remained 18.3% below the level of the same quarter in 2013. In Q4/2014 the Gaza economy constituted only 22% of the overall Palestinian economy, and the Strip's nominal GDP per capita was less than half the West Bank's.

Key GDP indicators (Q4/2014)

	West Bank	Gaza Strip	oPt
Real GDP (million $)	1,470.9	407.7	1,878.6
Rate of change in real GDP (quarter-on-quarter, %)	4.0	18.4	6.8
Rate of change in real GDP (year-on-year, %)	4.9	-18.3	-1.1
Nominal GDP per capita ($)	920.6	369.6	694.4

Note: Base year is 2004. Data for Q4/2014 are flash estimates.

In the West Bank, between Q4/2013 and Q4/2014 there was a significant expansion in real value added in financial and insurance activities (15.3%), followed by agriculture, forestry and fishing (6.5%) as well as the transportation and storage sector (5.9%). Decreases in real value added were registered primarily in construction sector (-4.2%) as well as the wholesale and retail trade sector (-2.4%).



Note: Base year is 2004. Data for Q4/2014 are flash estimates.

During the same period in the Gaza Strip, significant contractions were registered across all sectors, notably in the construction sector (-77.1%), agriculture, forestry and fishing (-31%) as well as the wholesale and retail trade sector (-27.4%). Two exceptions were financial and insurance activities (17.3%) as well as public administration and defence (8.8%).

The services sector continues to constitute the largest one in the West Bank economy in Q4/2014, accounting for 18.7% of GDP. This sector was followed by wholesale and retail trade (17.8%) and mining, manufacturing, electricity and water (15.3%).

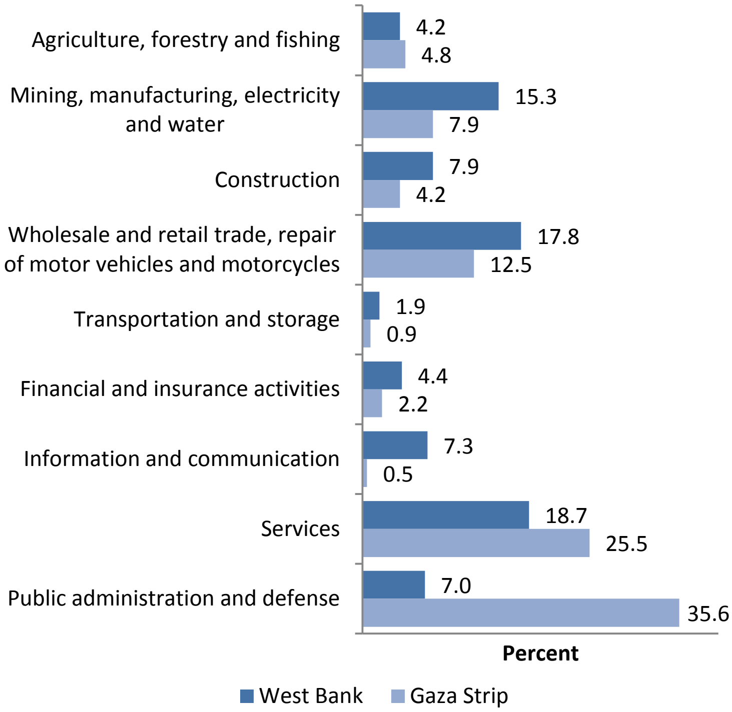
In the case of the Gaza Strip, public administration and defence represented the largest proportion of GDP in Q4/2014, accounting for 35.6% of the total, followed by services (25.5%) and wholesale and retail trade (12.5%). The construction sector, which accounted for 12.5% of Gazan GDP in Q4/2013, saw its share reduced to 4.2% by Q4/2014.

Final consumption in the West Bank represented 109.2% of GDP in Q4/2014. Household final consumption reached 86.3% of GDP while government final consumption was 20.8% of GDP. The value of exports of goods and services from the West Bank grew by 24.4% between Q4/2013 and Q4/2014 while that of imports grew by 13.9%. The West Bank trade deficit represented 36.6% of GDP in the quarter.

In the Gaza Strip, final consumption in Q4/2014 was equivalent to 169.9% of GDP, 100% of it household final consumption and 47.8% of it government final consumption. Gross capital formation was negative during the quarter, representing -19.4% of GDP. Gross fixed capital formation has seen a dramatic year-on-year decline, shrinking by 65.4% in the year to Q4/2014. Between the fourth quarters of 2013 and 2014 the value of exports of goods and services from the Gaza Strip declined by 39.5%, while there was a large increase (29.5%) in imports, resulting in a trade deficit equivalent to 46.5% of GDP in Q4/2014.

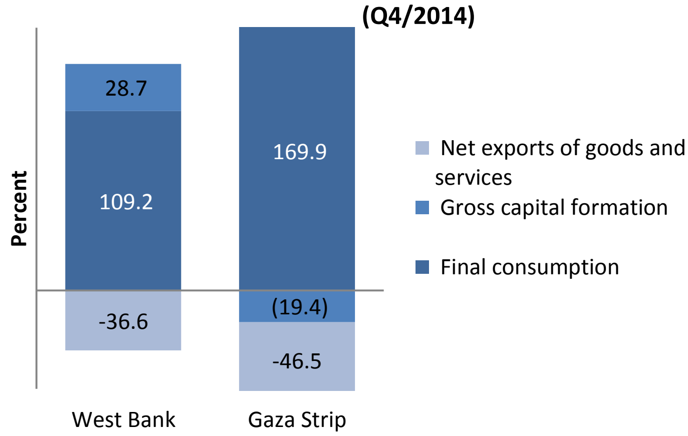
The industrial production index (IPI) increased to 110.22 by December 2014

Percent contribution to real GDP by economic activity (Q4/2014)



Note: Base year is 2004. Data for Q4/2014 are flash estimates.

Percent distribution of real GDP by expenditure (Q4/2014)



Note: Base year is 2004. Data for Q4/2014 are flash estimates.

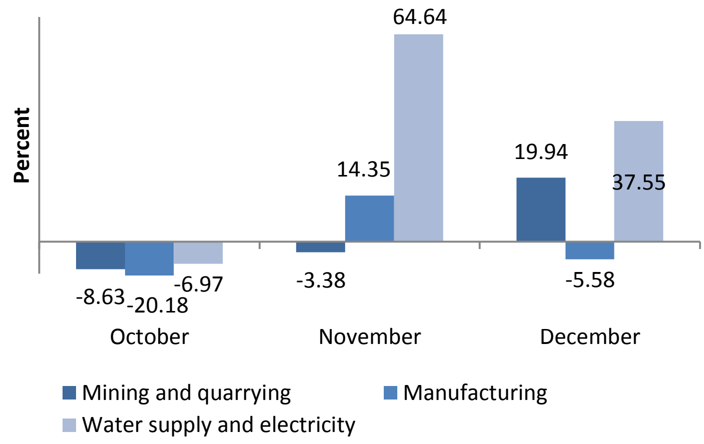
Industrial production index (Q4/2014)

	October	November	December
Index	105.16	109.95	110.22

(base year is 2011). Activity in manufacturing (with a share of 80.56% in the IPI) declined in October but increased in November and December. Activity in the water and electricity supply sector (with a share of 14.85% in the IPI) decreased in October but increased in November and December. Activity in the mining and quarrying sector (with a share of 4.59% in the IPI) decreased in October and November but increased in December.

The business cycle index reflected a contraction in the West Bank and Gaza Strip throughout the quarter. Notably, the index declined most severely in the Gaza Strip in November (-15.5) and in the West Bank in October (-15.8).

Change in industrial activity by sector (%, Q4/2014)



Business Cycle Index (Q4/2014)

	October	November	December
West Bank	-15.8	-2.8	-1.9
Gaza Strip	-1.8	-15.5	-6.0

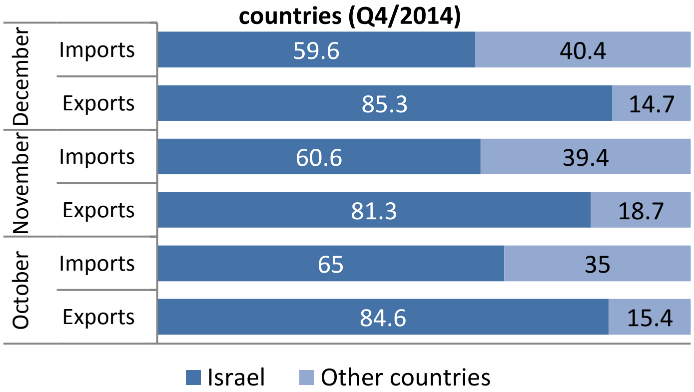
Current account and trade

The current account deficit reached $194.3 million, or 6.4% of GDP, in Q4/2014. The elevated goods trade deficit was the main 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 was close to even.

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

Current account (Q4/2014)	
Goods trade balance (million $)	-1,284.1
Services trade balance (million $)	8.8
Income balance (million $)	339.0
Net transfer payments (million $)	742.0
Current account balance (million $)	**-194.3**

Registered trade in goods to and from Israel and other countries (Q4/2014)



Goods exports from the Gaza Strip in Q4/2014 continued to be limited. Only 41 truckloads were exported in December 2014 compared to 61 truckloads in December 2013. This, however, still represents an increase compared to the extremely low five truckloads in November 2014.

Exports from the Gaza Strip, by type (Q4/2014)

	October	November	December
Strawberry (tons)	--	--	60.9
Tomato (tons)	--	68.5	103
Chive (tons)	--	--	2.96
Green mint (tons)	--	--	0.84
Total trucks	0	5	41

Commercial transfers saw an increase in Q4/2014 with 92 truckloads leaving the Gaza Strip for the West Bank. Products largely consisted of produce, furniture as well as limited amounts of fish and textiles.

Exit To West Bank from the Gaza Strip, by type (Q4/2014)

	October	November	December
Cucumber (tons)	--	171.0	25.5
Fish (tons)	--	2.5	4.45
Tomatoes (tons)	--	115.0	95.3
Sweet potatoes (tons)	--	1.0	31.0
Furniture (tons)	--	16.0	66.5
Zucchini (tons)	--	24.0	4.5
Cabbage (tons)	--	4.0	--
Dates (tons)	--	32.2	5.0
Chilli Pepper (tons)	--	0.8	1.13
Strawberries (tons)	--	16.0	64.0
Cauliflower (tons)	--	0.3	--
Clothes (tons)	--	8.0	--
Carrots (tons)	--	--	1.0
Total trucks	0	48	44

The private sector

The total area licensed for new construction in the West Bank in Q4/2014 was 12% lower than in Q4/2013. In the Gaza Strip, following the downward trend of previous quarters, it was 43% lower.

There was a 91% increase in the total number of new company registrations in the West Bank in Q4/2014 compared to the same period a year earlier. In the Gaza Strip the number rose from 71 in Q4/2013 to 112 in Q4/2014, an increase of 57%.

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 Q4/2014 compared to Q3/2014 was 12.8%. The proportion that perceived improvements in the ease of obtaining raw materials and inputs or of transporting

Private sector indicators (Q4/2014)

	West Bank	Gaza Strip
Area licensed for new construction (sq. meters)	2,084,302	193,033
New company registrations	484	112

Proportion of owners/managers of the active industrial enterprises who experienced improvements in previous quarter (%, Q4/2014)

	West Bank	Gaza Strip
Enterprise's performance in general	12.8	10.3
Obtaining needed raw materials and inputs	5.0	10.3
Transporting finished goods to market	6.5	10.3

Proportion of owners/managers of the active industrial enterprises who expect improvements in coming quarter (%, Q1/2015)

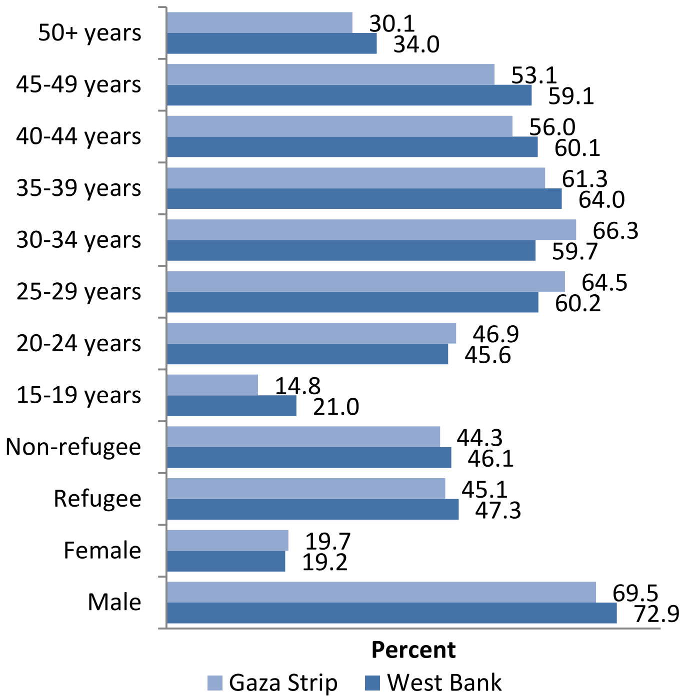
	West Bank	Gaza Strip
Enterprise's performance in general	25.9	25.6
Obtaining needed raw materials and inputs	12.8	25.6
Transporting finished goods to market	13.7	25.6

finished goods to market was much lower at 5.0%. Expectations for improvements in these categories in Q1/2015 followed a similar pattern, but at a higher level with a quarter of respondents in the West Bank indicating that they expected an improvement of their enterprise's performance in general.

The labour market

The labour force participation rate in Q4/2014 was 45.8% of those aged 15 and above, that is 1,273,100 people. The labour force participation rate was 46.4% in the West Bank and 44.98% in the Gaza Strip. 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 (14.8% and 21% in the Gaza Strip and West Bank respectively).

Labor force participation rate (%, Q4/2014)



The unemployment rate was 29.1% in Q4/2014, lower than the 32.0% for Q3/2014, and higher than the 28.6% for Q4/2013. Unemployment affected 17.4% of the labour force in the West Bank, compared to 19.2% in Q3/2014 and 18.2% in Q4/2013. In the Gaza Strip, on the other hand, 42.8% of the labour force was unemployed in Q4/2014, reflecting a decline of 4.5 percentage points compared to Q3/2014 but a rise of 4.3 percentage points compared to Q4/2013. When discouraged workers are added ("relaxed definition"), unemployment rises by about three percentage points in the West Bank and two percentage points in the Gaza Strip.

Unemployment rate (%, Q4/2014)

	West Bank	Gaza Strip
Narrow definition	17.4	42.8
Relaxed definition	20.4	44.8

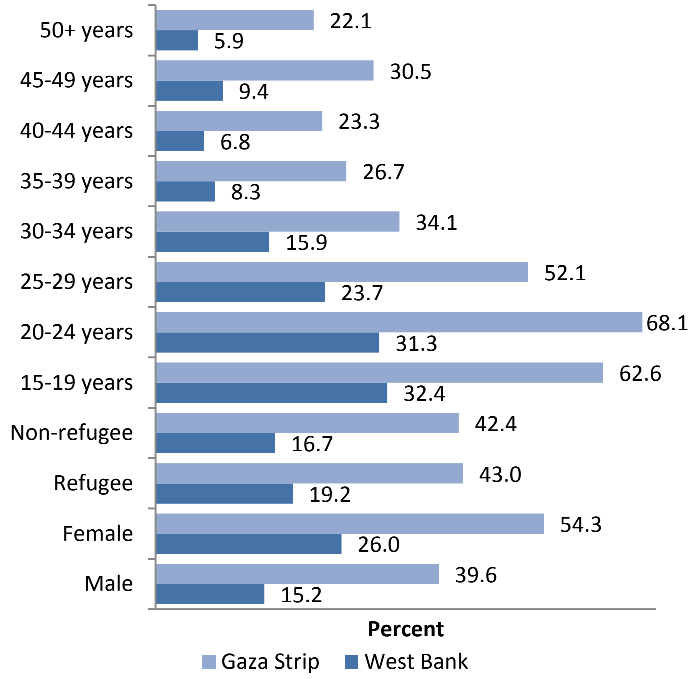
Women were more affected by unemployment than men in both regions, and despite their low labour force participation rate, 54.3% of economically active women in the Gaza Strip were unemployed in Q4/2014. Refugees had a higher unemployment rate than non-refugees in the West Bank, but a lower unemployment rate in the Gaza Strip. Age was also correlated to unemployment, with the youth experiencing the highest rates. A total of 68.1% 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 Q4/2014 compared to Q3/2014 was largely unchanged for men in the West Bank and the Gaza Stip. On the other hand, women were likely to remain unemployed for an additional month in the West Bank and close to two months in the Gaza Strip compared to the previous quarter. The average period of unemployment remained considerably longer for women than for men in both regions. It was longer in the Gaza Strip than in the West Bank for both sexes, with unemployed women in the Gaza Strip experiencing the longest average period of unemployment (25 months).

The number of persons employed in the West Bank increased between Q4/2013 and Q4/2014 by approximately 37,900 persons. In the Gaza Strip it remained largely stable with a decrease of 5,400. In the West Bank, employment increased in all sectors. In the Gaza Strip, on the other hand, increased in services and other branches, decreased in the construction sector and remained largely stable in the others.

There was a significant disparity in average daily net wages between the West Bank and the Gaza Strip in Q4/2014 – NIS 93.4 versus NIS 63.2 for men respectively. Average daily net wages were higher for men than for women in the West Bank, but the situation was reversed in the Gaza

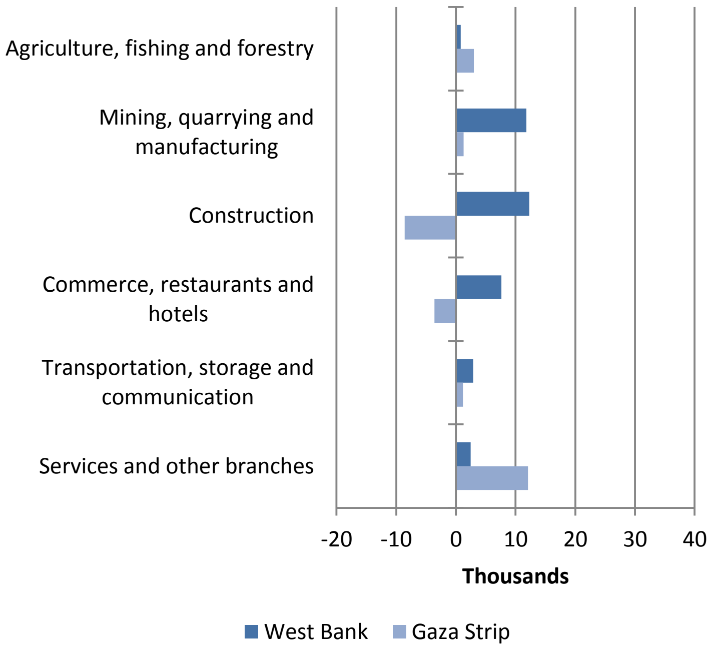
Unemployment rate (%, Q4/2014)



Average duration of unemployment (months, Q4/2014)

	West Bank	Gaza Strip
Male	3.9	17.5
Female	9.0	24.9

Change in number of employed persons by economic activity (thousands, year-on-year, Q4/2014)



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

Strip. 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 194.2 per day.

Average daily wage (NIS, Q4/2014)

	West Bank	Gaza Strip
Male	93.4	63.2
Female	84.4	79.0
Private sector	82.5	42.0
Public sector	105.1	81.5
Israel and settlements	194.2	

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 Q4/2014 compared to Q3/2014 in East Jerusalem and the rest of the West Bank but declined in Gaza. Compared to Q4/2013 prices rose in East Jerusalem and the Gaza Strip but declined slightly in the rest of the West Bank.

Change in CPI (%, Q4/2014)

	East Jerusalem	Rest of West Bank	Gaza Strip
Quarter-on-quarter	0.5	0.5	-0.9
Year-on-year	2.2	-0.4	3.4

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

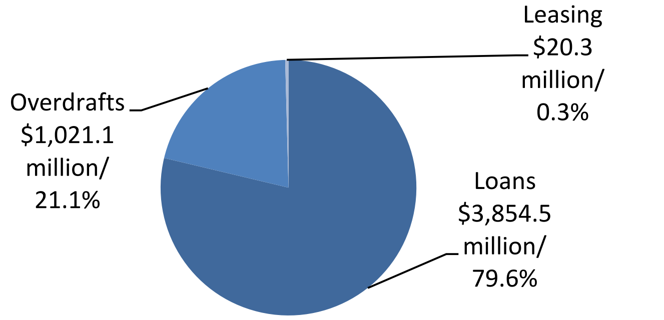
The banking sector

Bank credit in Q4/2014 rose to $4.9 billion from $4.8 billion in Q3/2014. The proportion of credit in the form of loans was 79.6%. This was followed by overdrafts (21.1% of the total), while leasing remained at less than one percent of bank credit in the quarter.

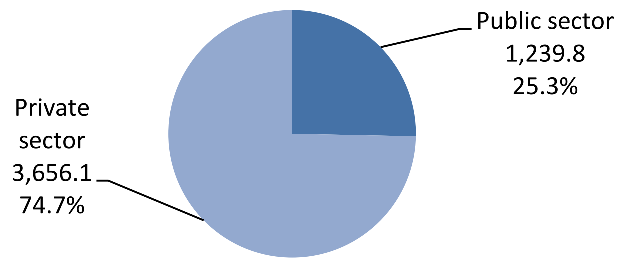
In terms of bank deposits, the main source in Q4/2014 continued to be the private sector with 74.7% of the total.

These figures resulted in a loan-to-deposit ratio of 54.8% in Q4/2014, essentially stable compared to the 54.5% in Q3/2014.

Distribution of bank credit by type (million $/%, Q4/2014)



Distribution of bank deposits by sector (million $/%, Q4/2014)

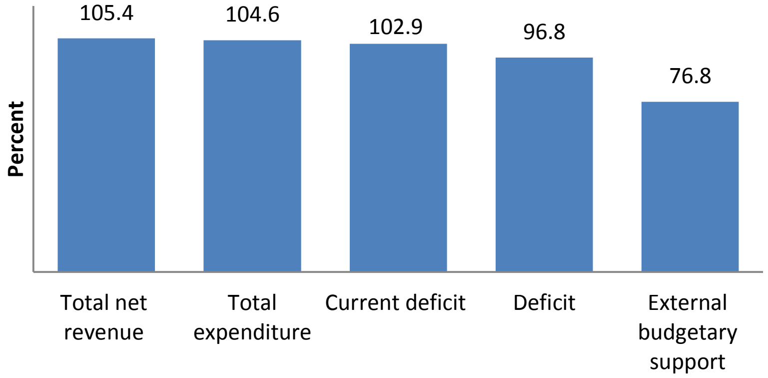


Note: Data do not include deposits of the PMA and commercial banks.

Fiscal operations

By the end of Q4/2014, government total net revenue was 105.4% of the NIS 9.31 billion in the 2014 budget. Total expenditure was 104.6% of the NIS 13.916 billion in the budget for the year. By the end of the fourth quarter, the current deficit and the overall deficit had reached 102.9% and 96.8% of the annual projected amount, respectively. External budgetary support by the end of the quarter reached only 76.8% of the amount expected for the year.

Fiscal indicators: actual as a proportion of annual budget (%, Q4/2014)



Note: Data are for fiscal operations on a commitment basis. The information is up-to-date as of 20 January 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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