

The Palestinian Strategic Report  
2014 – 2015  
Ch.7



# **The Palestinian Economic Indicators**

**2014 – 2015**



# The Palestinian Economic Indicators 2014–2015<sup>1</sup>

## *Second: Economic Indicators in the WB and GS*

Palestinians in WB and GS live in difficult conditions because of complex local and international circumstances, impacting both directly and indirectly daily life in the Palestinian territories. Myriad restrictions, obstacles, and barriers exist, including the blockade, geographical and political division, and stalled reconstruction amid signs of global recession and instability as a result of the collapse of oil prices, wars in the region, and shifting global alliances and conflicts. Faced with these conditions and the overlap of scenarios shaping the Palestinian economy, flexible policies are required to tackle as many potential developments as possible.

### **1. Gross Domestic Product (GDP) in PA Territories (WB and GS)**

GDP is one of the most widely used indicators to measure overall economic activity over the year, to infer growth or contraction. Accuracy of this benchmark requires it to be calculated on a real—rather than nominal—basis.

#### **a. Average GDP Growth**

According to PCBS data, GDP decreased in 2014, a year marked by exceptional developments and circumstances led by the Israeli war on GS. The war inflicted extensive damage to infrastructure, public facilities, housing, and productive institutions, while the blockade and destruction of border tunnels continued. Thus, GDP decreased by 0.18% compared to growth of 6.3% and 2.2% in 2012 and 2013 respectively. This was the first contraction registered since 2006 after two years of slowing growth<sup>2</sup>—taking into account the difference in growth between WB and GS.

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<sup>1</sup> This study is the approved English translation of the Economic Indicators, which is the second section of chapter seven of *The Palestinian Strategic Report 2014–2015*, edited by Dr. Mohsen Mohammad Saleh. It is a statistical and analytical study of various economic indicators of the Palestinian society in 2014–2015. The Arabic version of this Report was released in 2016, and the draft of this section of this chapter was written by Dr. Moein Muhammad ‘Atta Ragab, professor of economics at Palestinian universities in Gaza Strip.

<sup>2</sup> The Palestinian Monetary Authority (PMA), Research and Monetary Policy Department, *Annual Report 2014* (Ramallah: PMA, September 2015), p. 15, <http://bit.ly/2bcVeMr>; and see United Nations Conference on Trade and Development (UNCTAD), Report on UNCTAD assistance to the Palestinian people: Developments in the economy of the occupied Palestinian Territory, Genève, 14–25 September 2015, p. 1, [http://unctad.org/en/PublicationsLibrary/tdb62d3\\_en.pdf](http://unctad.org/en/PublicationsLibrary/tdb62d3_en.pdf)

For 2015, GDP rose to \$7,721.7 million<sup>3</sup> at a rate of 3.5%. The first quarter (Q1) was an extension of the exceptional circumstances of 2014, but the three subsequent quarters saw reconstruction programs kick-started representing a step towards a cautious economic recovery. However, the new uprising later in 2015 hit the Palestinian economy to the tune of \$1.3 billion in losses between October 2015 and January 2016.<sup>4</sup>

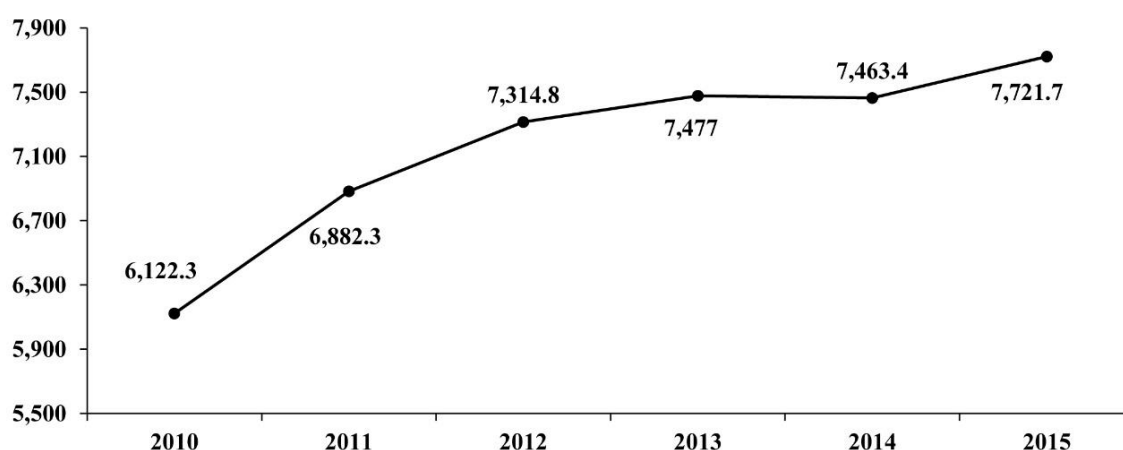
**Table 9/7: GDP in PA Territories 2010–2015 at Constant Prices (\$ million)<sup>5</sup>**

Year	2010	2011	2012	2013	2014	2015*
<b>GDP</b>	6,122.3	6,882.3	7,314.8	7,477	7,463.4	7,721.7
<b>Average annual growth or deterioration (%)</b>	+8.1	+12.4	+6.3	+2.2	−0.18	+3.5

Note: The data excludes those parts of Jerusalem, which were annexed by Israel in 1967. The base year is 2004. This will be applied to all the following tables in this chapter.

\* Preliminary estimates.

**GDP in PA Territories 2010–2015 at Constant Prices (\$ million)**



<sup>3</sup> US Dollar.

<sup>4</sup> Interview with Abeer Odeh, Minister of National Economy: Our Losses Exceeded 5 billion Shekel Since October in All Sectors, *Alquds* newspaper, 4/2/2016, p. 18. (in Arabic)

<sup>5</sup> For the year 2010–2014, see Value Added by Economic Activity and Region for the Years 1994–2014 at Constant Prices: 2004 is the base year, site of Palestinian Central Bureau of Statistics (PCBS), [http://www.pcbs.gov.ps/Portals/\\_Rainbow/Documents/e-navacons-1994-2014.htm](http://www.pcbs.gov.ps/Portals/_Rainbow/Documents/e-navacons-1994-2014.htm) As for 2015, see PCBS, *Press Report: Preliminary Estimates of Quarterly National Accounts (Fourth Quarter 2015)* (Ramallah: PCBS, March 2016), [http://www.pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_En\\_QNAQ415E.pdf](http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_QNAQ415E.pdf)



Forecasts for 2016–2017 were estimated based on the general trends of growth in 2010–2015 with an average growth of 3.4%. This is consistent with the predictions of the Palestinian Monetary Authority (PMA) for the year 2016, mainly supported by increased private consumption, bringing its contribution to GDP to 92.3%.<sup>6</sup> This is also in line with the International Monetary Fund (IMF) forecasted growth of the Palestinian economy at weak levels, hovering around only 3.5% over the medium term.<sup>7</sup>

## **b. GDP Growth in the WB and GS**

There was a significant divergence in GDP growth rates between WB and GS in 2014 and 2015. In the latter, GDP decreased by 15.1% in 2014, then grew by 6.8% in 2015, compared to an increase in WB of 5.3% and 2.5% in the two years respectively (see table 11/7). Regarding the contribution of the WB and GS to the Palestinian GDP, the WB share was high compared to the GS share (see table 10/7), taking into account the size of the population. The WB population constituted 61% of the total population of WB and GS in 2015.<sup>8</sup> This factor, coupled with the large area of WB compared to GS, and the tight Israeli blockade on Gaza, helps explain why the WB's share of GDP is higher than that of the GS.

**Table 10/7: GDP in the WB and GS 2010–2015 at Constant Prices (\$ million)<sup>9</sup>**

Year	WB		GS		WB and GS	
	GDP	Percentage (%)	GDP	Percentage (%)	GDP	Percentage (%)
<b>2010</b>	4,609	75.3	1,513.3	24.7	<b>6,122.3</b>	<b>100</b>
<b>2011</b>	5,101.2	74.1	1,781.1	25.9	<b>6,882.3</b>	<b>100</b>
<b>2012</b>	5,409	73.9	1,905.8	26.1	<b>7,314.8</b>	<b>100</b>
<b>2013</b>	5,464.3	73.1	2,012.7	26.9	<b>7,477</b>	<b>100</b>
<b>2014</b>	5,754.3	77.1	1,709.1	22.9	<b>7,463.4</b>	<b>100</b>
<b>2015*</b>	5,895.8	76.4	1,825.9	23.6	<b>7,721.7</b>	<b>100</b>

\* Preliminary estimates.

<sup>6</sup> PMA, *Economic Forecasts Report 2016* (Ramallah: PMA, December 2015), p. 11, <http://bit.ly/2c25xFX>; and The Monetary Authority Predicts Growth of 3.3% Next Year, *al-Ayyam* newspaper, Ramallah, 20/12/2015, [www.al-ayyame.ps/ar\\_page.php?id=10465f14y273047316y10465f14](http://www.al-ayyame.ps/ar_page.php?id=10465f14y273047316y10465f14) (in Arabic)

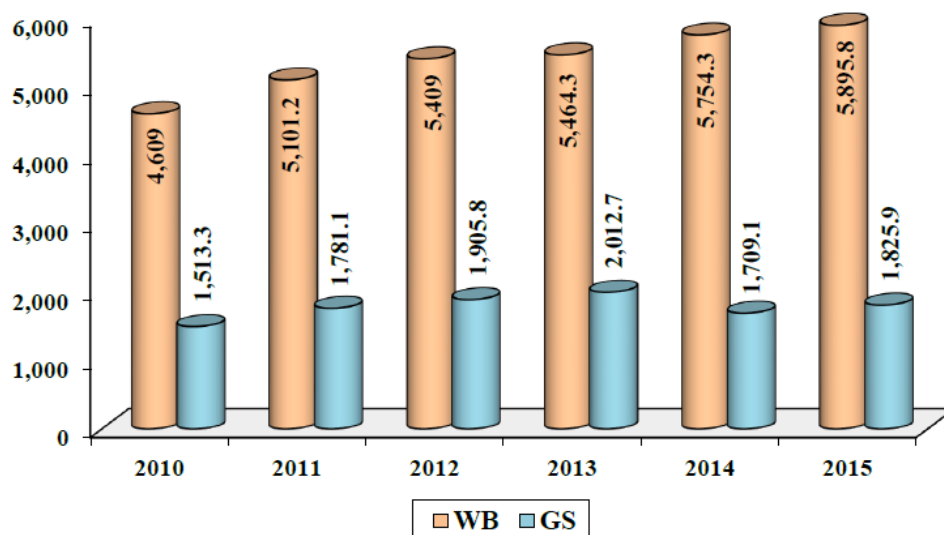
<sup>7</sup> National Economic Growth Expected to be Weak in 2016, *Alquds*, 13/2/2016, p. 19. (in Arabic)

<sup>8</sup> See PCBS, *Palestinians at the End of Year 2015* (Ramallah: PCBS, December 2015), <http://pcbs.gov.ps/Downloads/book2176.pdf>

<sup>9</sup> For 2010–2014, see Value Added by Economic Activity and Region for the Years 1994–2014 at Constant Prices: 2004 is the base year, PCBS.

As for 2015, see PCBS, *Press Report: Preliminary Estimates of Quarterly National Accounts (Fourth Quarter 2015)*.

### GDP in the WB and GS 2010–2015 at Constant Prices (\$ million)



**Table 11/7: GDP Growth in the WB and GS 2010–2015 at Constant Prices (\$ million)<sup>10</sup>**

Year		2010	2011	2012	2013	2014	2015*
WB	GDP	4,609	5,101.2	5,409	5,464.3	5,754.3	5,895.8
	Average annual growth or deterioration (%)	+7	+10.7	+6	+1	+5.3	+2.5
GS	GDP	1,513.3	1,781.1	1,905.8	2,012.7	1,709.1	1,825.9
	Average annual growth or deterioration (%)	+11.4	+17.7	+7	+5.6	–15.1	+6.8

\* Preliminary estimates.

### c. Comparison of GDP Between PA Territories and Israel

When examining Israeli GDP at current prices, \$305.675 billion in 2014 and \$296.068 billion in 2015, we note that Israeli GDP was approximately 23 fold (2,335%) that of its Palestinian counterpart in 2015. This is a clear indication of the impact of Israeli occupation on the Palestinian economy and of the impact the occupation's exploitation of Palestinian resources, while preventing Palestinians from using their energies and potentials freely and efficiently.

<sup>10</sup> Ibid.

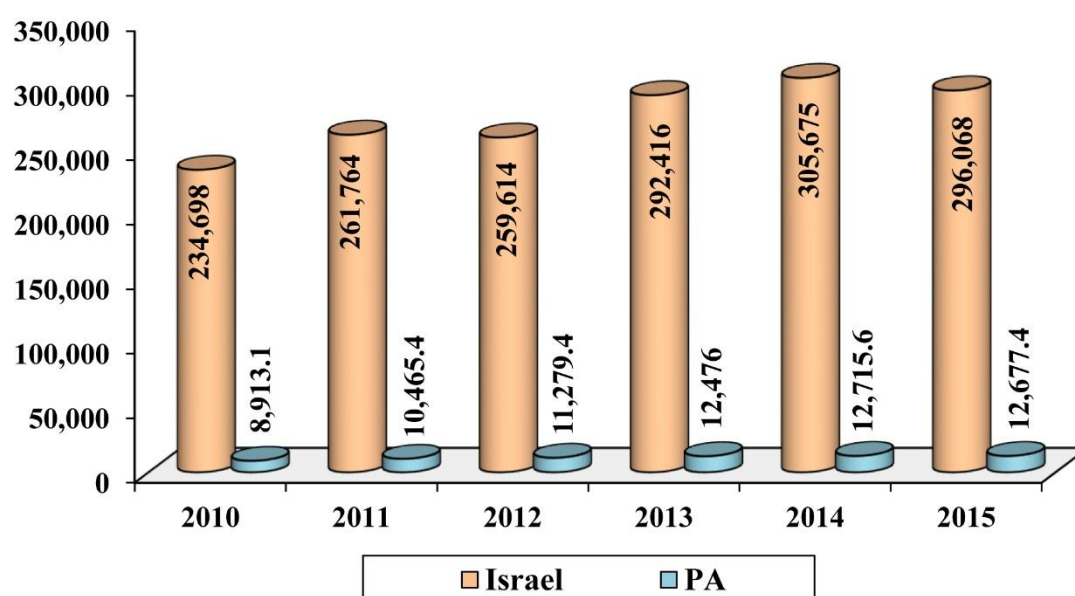


**Table 12/7: GDP in PA Territories and Israel 2010–2015 at Current Prices (\$ million)<sup>11</sup>**

Year	PA	Israel	% Palestinian GDP of Israeli GDP
2010	8,913.1	234,698	3.8
2011	10,465.4	261,764	4
2012	11,279.4	259,614	4.3
2013	12,476	292,416	4.3
2014	12,715.6	305,675	4.3
2015	12,677.4*	296,068	4.3

\* Preliminary estimates.

**GDP in PA Territories and Israel 2010–2015 at Current Prices (\$ million)**



<sup>11</sup> For Palestinian GDP 2010–2014, see GDP by Expenditure and Region for the Years 1994–2014 at Current Prices, PCBS, [http://www.pcbs.gov.ps/Portals/\\_Rainbow/Documents/e-naexpcurr-1994-2014.htm](http://www.pcbs.gov.ps/Portals/_Rainbow/Documents/e-naexpcurr-1994-2014.htm)

As for 2015, see PCBS, *Press Report: Preliminary Estimates of Quarterly National Accounts (Fourth Quarter 2015)*.

And as for Israeli GDP 2010–2014, see CBS, [http://www.cbs.gov.il/shnaton66/st14\\_02x.pdf](http://www.cbs.gov.il/shnaton66/st14_02x.pdf)  
And for 2015, see CBS, [http://www1.cbs.gov.il/hodaot2016n/08\\_16\\_040t2.pdf](http://www1.cbs.gov.il/hodaot2016n/08_16_040t2.pdf)

## 2. GDP per Capita in PA Territories

This indicator shows the approximate per capita share of the GDP, representing rough measurements of living standards or social wellbeing as a reflection of actual economic performance on citizens' income.<sup>12</sup>

### a. Average Growth of GDP per Capita

Based on the available data, GDP per capita was \$1,737.4 and \$1,745.9 for 2014 and 2015 respectively, marking a decrease of 3.1% in 2014 and a growth of 0.5% in 2015, and an average annual of –1.3%. It should be noted that these figures are calculated at constant prices, where 2004 is the base year (see table 13/7).

In 2010–2011, GDP per capita increased at a rate of 7.1% on average. In the period 2012–2013, the rate of growth dropped to 1.2%, reflecting the linkage between local GDP and per capita income. In 2014–2015, we note a decline in the per capita income of –1.3%.

In general, the per capita GDP remained subpar, declining after 2013, raising concerns and increasing the state of anxiety and uncertainty about the Palestinian economy and its future prospects.<sup>13</sup>

**Table 13/7: GDP per Capita in PA Territories 2010–2015  
at Constant Prices (\$) <sup>14</sup>**

Year	2010	2011	2012	2013	2014	2015*
<b>GDP per capita</b>	1,606.4	1,752.5	1,807.5	1,793.3	1,737.4	1,745.9
<b>Average annual growth or deterioration (%)</b>	+5	+9.1	+3.1	–0.8	–3.1	+0.5

\* Preliminary estimates.

<sup>12</sup> PMA, Research and Monetary Policy Department, *Annual Report 2014*, p. 16.

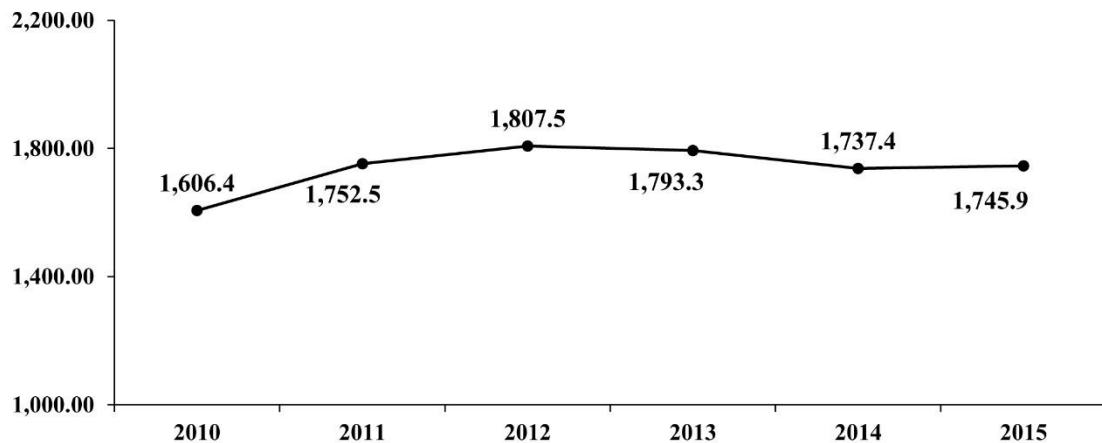
<sup>13</sup> For more information see World Bank, *Palestinians Getting Poorer for Third Year in a Row – World Bank Report Calls for Urgent Measures to Reverse Trend*, site of The World Bank, 29/9/2015, <http://www.worldbank.org/en/news/press-release/2015/09/27/palestinians-getting-poorer-for-third-year-in-a-row>

<sup>14</sup> For 2010–2014, see Per Capita GDP, GNI, GNDI by Region for the Years 1994–2014 at Constant Prices: 2004 is the base year, PCBS, [http://www.pcbs.gov.ps/Portals/\\_Rainbow/Documents/e-napcapitacon-1994-2014.htm](http://www.pcbs.gov.ps/Portals/_Rainbow/Documents/e-napcapitacon-1994-2014.htm)

As for 2015, see PCBS, *Press Report: Preliminary Estimates of Quarterly National Accounts (Fourth Quarter 2015)*.



### GDP per Capita in PA Territories 2010–2015 at Constant Prices (\$)



To preserve a minimum level of living standards, GDP per capita should exceed the rate of population growth as well as inflation, which rose rapidly again in the second quarter of 2015, hitting 2.8 % and exceeding the rate seen two years earlier. Inflation is largely imported, as it is very sensitive to global prices, especially food and fuel.<sup>15</sup>

Forecasts for 2016–2017 remain subject to potential scenarios. The most likely one is limited growth at a rate of 1% annually, based on general trends. This rate is below the requirements of the citizens, especially those with a low income.

#### **b. GDP per Capita in the WB and GS**

Despite the meager Palestinian gross income reflected by GDP and GDP per capita, there remained significant differences in the GDP per capita between WB and GS, which reached \$2,265.7 and \$1,002.8 respectively in 2015. This reflected the poor income distribution and large differences between the governorates of WB and GS.

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<sup>15</sup> PMA, *Inflation Report for: Second Quarter 2015* (Ramallah: PMA, August 2015), vol. 15, p. iii.

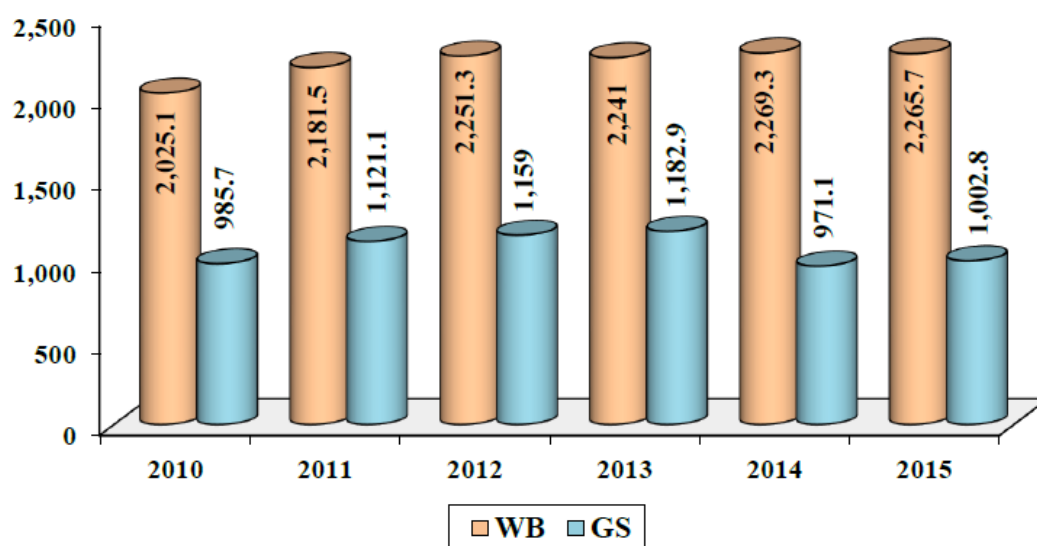


**Table 14/7: GDP per Capita in the WB and GS 2010–2015  
at Constant Prices (\$) <sup>16</sup>**

Year		2010	2011	2012	2013	2014	2015*
WB	GDP per capita	2,025.1	2,181.5	2,251.3	2,241	2,269.3	2,265.7
	Average annual growth or deterioration (%)	+4.2	+7.7	+3.2	−0.5	+1.3	−0.2
GS	GDP per capita	985.7	1,121.1	1,159	1,182.9	971.1	1,002.8
	Average annual growth or deterioration (%)	+7.8	+13.7	+3.4	+2.1	−17.9	+3.3

\* Preliminary estimates.

**GDP per Capita in the WB and GS 2010–2015 at Constant Prices (\$)**



<sup>16</sup> For 2010–2014, see Per Capita GDP, GNI, GNDI by Region for the Years 1994–2014 at Constant Prices: 2004 is the base year, PCBS.

As for 2015, see PCBS, *Press Report: Preliminary Estimates of Quarterly National Accounts (Fourth Quarter 2015)*.



### c. Comparison of GDP per Capita Between PA Territories and Israel

There remains a large gap between GDP per capita in PA territories and Israel. At current prices, it was in PA territories \$2,960 and \$2,866 in 2014 and 2015 respectively, while in Israel, it was \$37,222 and \$35,343 for the same period. This makes the latter 12 times more than the former. This is essentially due to the Israeli occupation and its practices, which prevent natural economic growth in Palestine, reducing the level of the Palestinian GDP at a time when Palestinians have a higher population growth rate compared with the Israelis, amid tough working conditions, under an occupation that undermined wages, living standards, and savings. Furthermore, the huge gap between the two sides that has allowed Israeli individuals to live in better standards compared to Palestinians.

**Table 15/7: GDP per Capita in PA Territories and Israel 2010–2015 at Current Prices (\$)<sup>17</sup>**

Year	PA	Israel	% Palestinian GDP per capita of Israeli GDP per capita
2010	2,339	30,797	7.6
2011	2,665	33,719	7.9
2012	2,787	32,833	8.5
2013	2,992	36,298	8.2
2014	2,960	37,222	8
2015	2,866*	35,343	8.1

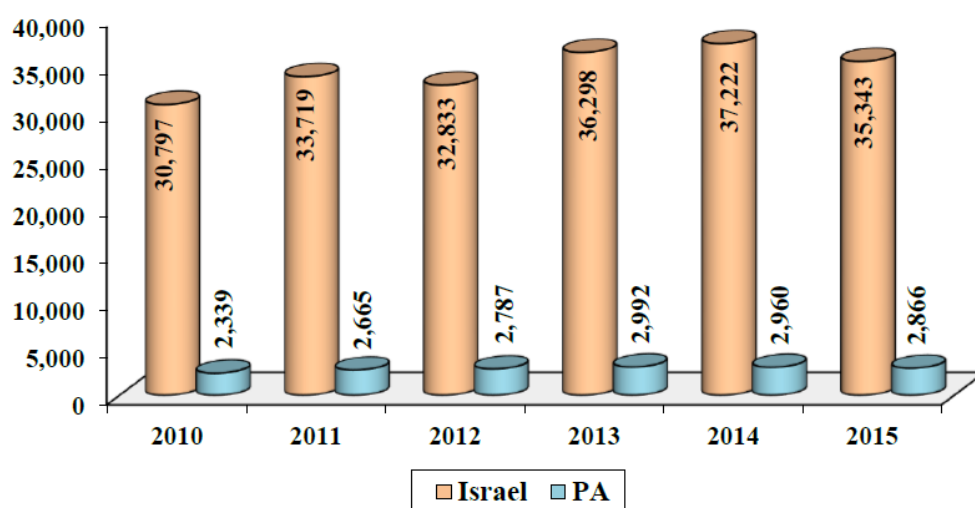
<sup>17</sup> Regarding the average per capita income of the Palestinian GDP in 2010–2014, see Per Capita GDP, GNI, GNDI by Region for the Years 1994–2014 at Current Prices, PCBS, [http://www.pcbs.gov.ps/Portals/\\_Rainbow/Documents/e-napcapitacurr-1994-2014.htm](http://www.pcbs.gov.ps/Portals/_Rainbow/Documents/e-napcapitacurr-1994-2014.htm). As for 2015, see PCBS, *Press Report: Preliminary Estimates of Quarterly National Accounts (Fourth Quarter 2015)*.

And as for Israeli GDP per Capita 2010–2014, see CBS,

[http://www.cbs.gov.il/shnaton66/st14\\_02x.pdf](http://www.cbs.gov.il/shnaton66/st14_02x.pdf)

And for 2015, see CBS, [http://www1.cbs.gov.il/hodaot2016n/08\\_16\\_040t2.pdf](http://www1.cbs.gov.il/hodaot2016n/08_16_040t2.pdf)

### GDP per Capita in PA Territories and Israel 2010–2015 at Current Prices (\$)



### 3. General Government Debt

As the PA sought to increase services to its citizens, it was forced to increase spending despite its inability to match this with an increase in revenues at the same rate. Thus, the PA is forced to borrow, adding to public debt and debt servicing.

**a. Public Debt:** by definition, this is what the government commits to pay in accordance with the contractual terms agreed with creditors, and includes foreign (external) and domestic (internal) debt. In general, Palestinian debt has increased, reaching \$2,217 million in 2014 and \$2,537 million in 2015, with a proportion of 17.4% and 20% of the GDP in these two years respectively (see table 16/7), amid a lack of an effective policy to curb or reduce the debt. While the debt achieves a balancing purpose, it adds increasing burdens when it is not repaid on time. Although the proportion of the public debt to the GDP is relatively low, compared to some neighboring countries, this does not accurately reflect the government's ability to repay its debts or continue to borrow.<sup>18</sup>

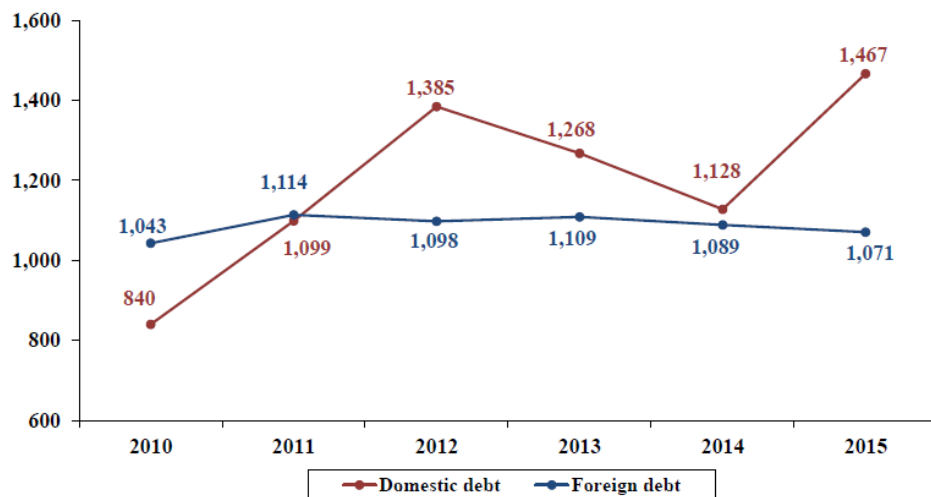
Foreign debt meanwhile declined to 42.2% of the public debt in 2015, compared to 49% the previous year. However, domestic debt increased from \$1,128 million in 2014 to \$1,467 million in 2015, representing 57.8% of the public debt (see table 16/7).

<sup>18</sup> PMA, Research and Monetary Policy Department, *Annual Report 2014*, p. 40.



**Table 16/7: Public Debt in PA Territories 2010–2015 (\$ million)**<sup>19</sup>

Year	2010	2011	2012	2013	2014	2015
<b>Domestic debt</b>	840	1,099	1,385	1,268	1,128	1,467
<b>Foreign debt</b>	1,043	1,114	1,098	1,109	1,089	1,071
<b>Public debt</b>	<b>1,883</b>	<b>2,213</b>	<b>2,483</b>	<b>2,376</b>	<b>2,217</b>	<b>2,537</b>
<b>Per capita public debt (\$)</b>	494	564	614	570	516	534

**Public Debt in PA Territories 2010–2015 (\$ million)**

**b. Arrears of Public Debt:** These arise because of the government's inability to fully fulfil its obligations in a timely manner, forcing it to postpone the payment of its debt. Examining developments in this regard shows that public debt arrears reached 2,779 million shekels (\$777 million) in 2014. The total arrears of previous years were 10,074 million shekels (\$2,816 million). The figure can be broken down to: Operational arrears (54.7%); social contributions (39.7%); transfer arrears (2.8%); capital arrears (1.1%) and miscellaneous.<sup>20</sup> The arrears have many repercussions. They hinder the activities of creditors, who are forced to borrow and cut jobs, negatively impacting production and growth. To address the delay in debt payments, the government announced that it would transfer \$2.5 million a month to the Palestinian Pension Fund and pay all dues to the private sector in 2016.<sup>21</sup>

<sup>19</sup> See *Ibid.*; and External and Internal Debt of the Palestinian Government, 2000–2015, PMA, <http://bit.ly/2bi8YV8>

<sup>20</sup> See PMA, Research and Monetary Policy Department, *Annual Report 2014*, p. 39.

Note: The exchange rate of the dollar against the Israeli shekel was based on the Bank of Israel data, which was 3.5779 in 2014.

<sup>21</sup> Minister of Finance Discusses Budget with Economists and Journalists at MAS Institute, *Alquds*, 21/1/2016, p. 21. (in Arabic)

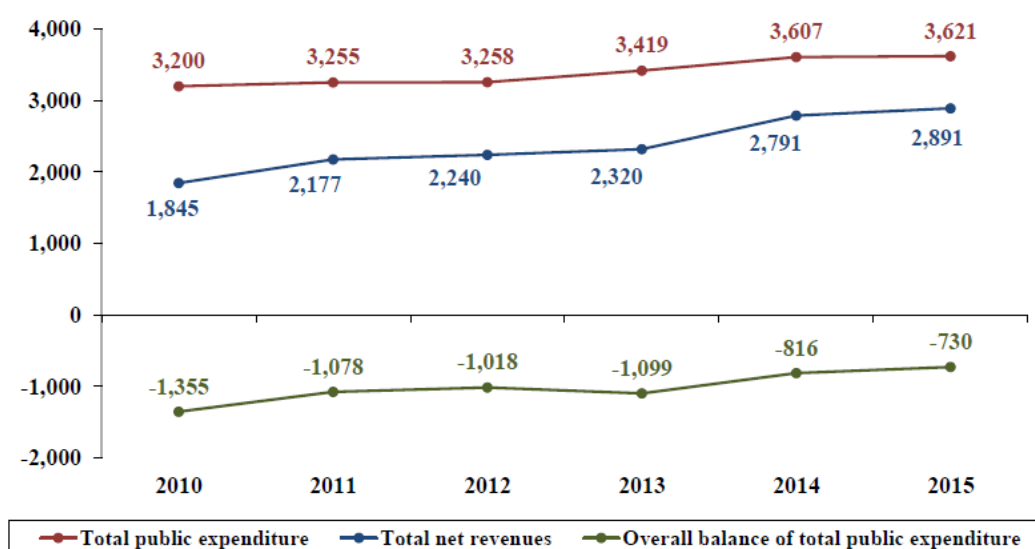
#### 4. The PA's General Budget

The PA general budget includes both revenues and expenditures showing the balance between them, and how deficits can be addressed and surpluses can be invested. The following table sums up the budget development:

**Table 17/7: Fiscal Operations of the PA (Cash Basis) 2010–2016 (\$ million)<sup>22</sup>**

Year	2010	2011	2012	2013	2014	2015	2016 Budget
Current expenditure and net lending	2,927	2,960	3,047	3,251	3,446	3,445	3,901
Development expenditure	273	295	211	168	161	176	350
<b>Total public expenditure</b>	<b>3,200</b>	<b>3,255</b>	<b>3,258</b>	<b>3,419</b>	<b>3,607</b>	<b>3,621</b>	<b>4,251</b>
<b>Total net revenues</b>	<b>1,845</b>	<b>2,177</b>	<b>2,240</b>	<b>2,320</b>	<b>2,791</b>	<b>2,891</b>	<b>2,869</b>
<b>Overall balance (including development expenditures)</b>	<b>-1,355</b>	<b>-1,078</b>	<b>-1,018</b>	<b>-1,099</b>	<b>-816</b>	<b>-730</b>	<b>-1,382</b>
<b>% Overall balance of total public expenditure</b>	<b>42.3</b>	<b>33.1</b>	<b>31.2</b>	<b>32.1</b>	<b>22.6</b>	<b>20.2</b>	<b>32.5</b>

**Fiscal Operations of the PA (Cash Basis) 2010–2015 (\$ million)**



<sup>22</sup> See PMA, Revenues, Expenditures, and Financing Sources of PNA Fiscal Operations (Cash Basis), <http://bit.ly/2bJn2qa>; and see Summary of the General Budget for Fiscal Year 2016, PA, Ministry of Finance, <http://bit.ly/1rFOW70> (in Arabic)



The general trend of the years 2010–2015 indicates revenue growth by 56.7% in 2015 compared to 2010 at an average annual cumulative rate of 9.4%. As for expenditures, the general trend of the years 2010–2015 indicates growth of 13.2% in 2015 compared to 2010 at an annual cumulative rate of 2.5%.

If we examine the PA finances in 2014 and 2015, we find that the overall public expenditures in both current and development categories rose at a rate of 5.5% and 0.4% respectively, at an average of 3%, reflecting a move towards austerity (see table 17/7).

As for total net revenues, which include tax and non-tax domestic revenues, besides clearance revenues and tax refunds, these achieved a growth of 20.3% and 3.6% in 2014 and 2015 respectively, at an average rate of 12% (see table 17/7). The continued growth of revenue in 2014 and 2015, resulting essentially from higher clearance revenues carried out by Israel on behalf of the PA, is clear. The growth also reflects the growing trend among GS merchants to import via Israel, especially after the destruction of border tunnels.<sup>23</sup>

Despite the relative improvement in performance at the level of collection and spending, the deficit remained in place. Thus, the deficit continued amid instability and volatility. The deficit was not new, however, as the finances of the PA moved from one crisis to another, accompanied by a shortfall in investment.<sup>24</sup>

The PA has sought the help of donors to plug the deficit and cover some of its development expenditures, while being forced to borrow from local and foreign creditors when needed, without adopting a policy to limit this gap despite repeated criticisms against the Finance Ministry locally and internationally, as it failed to implement financial regulations and legislations and mishandled corruption issues.<sup>25</sup>

As for the 2016 budget, the IMF predicted public finances would continue to improve for that fiscal year. The Palestinian government prepared a budget based on more controls regarding the mobilization of revenues and rationalization of expenditures.<sup>26</sup> Experts believed this budget reflected the PA crisis that had

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<sup>23</sup> PMA, Research and Monetary Policy Department, *Annual Report 2014*, p. 34.

<sup>24</sup> Karim Nashashibi, "Palestinian Public Finance Under Crisis Management: Restoring fiscal sustainability," site of United Nations Development Programme (UNDP), 2015, p. 5.

<sup>25</sup> Interview by the Coalition for Integrity and Accountability (AMAN) with Shukri Bishara, Minister of Finance, Ramallah, 8/1/2015. (in Arabic)

<sup>26</sup> Prediction the National Economy Would Grow Weakly in 2016, *Alquds*, 13/2/2016, p. 19. (in Arabic)

continued since its establishment in 1994. They stated that there is nothing new in the figures and implications, as the Palestinian government has no discernible economic policies.<sup>27</sup> The budget, as usual, was prepared amid complex and changing economic and political circumstances.<sup>28</sup>

### **5. General Budget of the GS Dismissed Government**

The government has prepared annual budgets for GS since 2008, including wages, salaries, and operational and development expenditures. Revenues had achieved significant increases between 2010 and 2012 in light of the use of border tunnels for meeting the majority of the needs of GS residents, thus generating revenues for the government. Starting from mid-2013, the Egyptian authorities stepped up their activities to destroy these tunnels, bringing revenues down to \$214 million in 2014 compared to \$228 million in 2012. The last approved budget was in 2014, which had elements not that different from those applicable in WB. Both were marked by deficits and reliance on foreign aid.<sup>29</sup>

The estimates of general expenditures for 2014 put them at \$679 million, compared to \$195 million in revenues, meaning a deficit of 71.3% and \$484 million. This was while actual expenditures in 2014 reached \$526 million and revenues \$124 million, underscoring the large differences between estimates and actual numbers. The deficit is too high to plug from conventional sources, therefore GS relies on various forms of aid coming to the Strip, while reducing expenditures whenever possible, especially since the work of the GS government is hostage to the threat of Israeli war, blockade, and embargo.

Although the formation of the National Consensus Government on 2/6/2014 transferred official responsibilities to it, amid hopes that the budget would be modified and a new unified one would be adopted after 2015, this did not happen. GS continued to suffer from the failure of the new government to take over its responsibilities. Meanwhile, the crisis of the failure of the government to reinstate

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<sup>27</sup> See for example: Numbers of the 2016 Budget Reflect the Financial Crisis that the Palestinian Authority Has Experienced Since 1994, *al-Ayyam*, Ramallah, 25/1/2016, p. 22. (in Arabic)

<sup>28</sup> Palestine Economic Policy Research Institute (MAS), Background Paper, Round Table (1), "The Budget of 2016 and Recent Developments in the Budget of the Palestinian Authority," Ramallah, 14/1/2016, p. 1. (in Arabic)

<sup>29</sup> Ministry of Finance, General Administration of the Budget, General Budget Data for 2008–2015, unpublished office data, Gaza, 16/2/2016; and see Usama Naufal, "The Reality of Revenues and Expenditures in the Gaza Strip," research paper supervised by Dr. 'Azmi al-Shu'aibi, AMAN, Gaza, February 2016, p. 3. (in Arabic)



civil servants appointed by the caretaker government in GS remained a major obstacle to full reconciliation, as well as one facet of the economic hardship suffered by thousands of families there.<sup>30</sup>

**Table 18/7: Revenues and Public Expenditures of GS 2008–2015 (\$ million)<sup>31</sup>**

Year	2008	2009	2010	2011	2012	2013	2014	2015
<b>Total net revenues</b>	57	66	103	189	228	214	124	207
<b>Total expenditures and arrears</b>	245	330	298	406	482	460	526	477
<b>Deficit before grants and foreign aid</b>	–188	–264	–195	–217	–254	–246	–402	–270
<b>Grants and foreign aid</b>	158	206	145	67	117	120	118	147
<b>Deficit after grants and foreign aid</b>	–30	–58	–50	–150	–137	–126	–285	–123

Note: There are limited differences in some numbers necessitated by the need to remedy discrepancies.

It is clear from the table above that the GS government relied heavily on foreign aid and grants, which are irregular or non-guaranteed, and on limited local banking facilities. This came amid a reduction in public expenditures, led by wages and fees that represented 84.2% of expenditures in 2015; followed by Transfers (11.9%); operational expenditures (3.8%), totaling 99.9%. The remaining percentage covers development and capital expenditures.<sup>32</sup>

With the year 2015 weighed down by the same factors marking 2014 in GS, efforts focused on shoring up local revenues to tackle commitments like civil servants' wages and operational costs, amid a reduction in public expenditure.

<sup>30</sup> See *Al-Taqrir al-Sanawi 2014* (2014 Annual Report), Palestinian Center for Human Rights, p. 136.

<sup>31</sup> Ministry of Finance, General Administration of the Budget, General Budget Data for 2008–2015, unpublished office data, Gaza, 16/2/2016.

<sup>32</sup> See *Ibid.*



## 6. Work and Unemployment

The labor force is an important economic and human resource. It contributes in producing goods and services, to meet the needs of domestic and foreign markets. The total labor force in the Palestinian territories was about 1.325 million in 2015, including 844 thousand in WB at a participation rate of 46.4%, and the rest or 481 thousand in GS with a participation rate of 45.7%. In other words, more than half of the adult population are dependents who do not participate in the production cycle, including students, housewives, the sick, elderly, and disabled people. The participation rate, though higher in WB compared to GS, is markedly low rate compared to other countries.<sup>33</sup>

The number of actual workers reached 983 thousand at the end of 2015, including 687 thousand in the WB (69.9%), and 296 thousand in GS (30.1%). Workers working in Israel and Israeli settlements in WB are part of this workforce. They number 112,700 representing 11.5% of the total number of workers. According to the PCBS, the number of workers in Israeli settlements in WB was 26,300, reflecting the PA's failure to find alternatives, whether for those working in Israel or those working in settlements.

We find that the service sector accommodated the highest number of workers (34.9% in WB compared to 53.6% in GS). The public sector absorbed 22% of workers (16.7% in the WB and 34.4% in GS), highlighting the limited employment opportunities in the private sector in GS.<sup>34</sup>

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<sup>33</sup> See PCBS, *Labour Force Survey: (October-December, 2015) Round, (Q4/2015), Press Report on the Labour Force Survey Results* (Ramallah: PCBS, February 2016), [http://www.pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_En\\_LFSQ42015E.pdf](http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_LFSQ42015E.pdf)

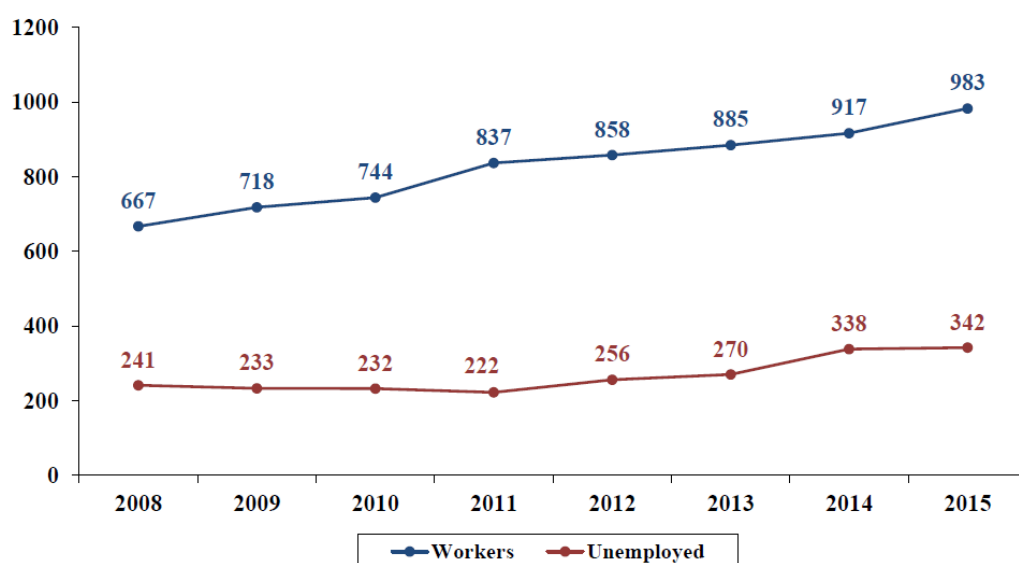
<sup>34</sup> PCBS, *Labour Force Survey: (October-December, 2015) Round, (Q4/2015)*; and PMA, Research and Monetary Policy Department, *Quarterly Statistics Bulletin: 4th Quarter 2015* (Ramallah: PMA, March 2016), <http://bit.ly/1rUwopN>



**Table 19/7: Distribution of Palestinians Aged 15 Years and Above in the WB and GS by Labor Force and Unemployment 2008–2015 (thousands)**<sup>35</sup>

	2008	2009	2010	2011	2012	2013	2014	2015
<b>Labor force</b>	908	951	976	1,059	1,114	1,155	1,255	1,325
<b>Workers</b>	667	718	744	837	858	885	917	983
<b>Unemployed</b>	241	233	232	222	256	270	338	342
<b>% of unemployment</b>	26.6	24.4	23.7	20.9	23	23.4	26.9	25.8
<b>Workers in Israel and settlements</b>	75.1	73.2	78.1	83.5	83.2	99.4	107.3	112.7

**Distribution of Palestinians Aged 15 Years and Above in the WB and GS by Labor Force and Unemployment 2008–2015 (thousands)**



The unemployment rate increased in 2015 to 342 thousand in WB and GS, 158 thousand and 184 thousand respectively. These figures are likely to increase because of the population growth. While the unemployment rate in Palestine remains very high, there is a huge disparity between WB and GS (18.7% and 38.4% respectively). This reflects a fundamental imbalance in the structure of the labor market, as a result of the Palestinian division, blockade, and isolation of WB from GS, as well as the ban on Gazans from working in Israel.

<sup>35</sup> PCBS, *Labour Force Survey: Annual Report 2014* (Ramallah: PCBS, April 2015), <http://www.pcbs.gov.ps/Downloads/book2120.pdf>; and PCBS, *Labour Force Survey: (October-December, 2015) Round, (Q4/2015)*; and PMA, Research and Monetary Policy Department, *Quarterly Statistics Bulletin: 4th Quarter 2015*.

There is also a disparity in unemployment rates between males (22.3%) and females (39.7%); and among age groups, with the highest unemployment rate seen in the age group 20–24 (41.7%), a category that includes new entrants to the job market.<sup>36</sup> According to the International Labour Organization, this requires urgent measures to allow the movement of people and goods, and to render aid to an area where four-fifths of the population depends on humanitarian aid.<sup>37</sup> The lost production capacity of the unemployed represents a significant loss of GDP, which can be estimated on the basis of the numbers of the unemployed and the minimum wage.<sup>38</sup>

On the other hand, there is a market gap represented in low skills compared to the needs of enterprises. Government vocational training centers are seeking to plug this gap, especially as the Palestinian society has started to change its perception of training in a more positive direction. However, the allocations given to these centers are low, forcing them to seek partnership with private sector institutions.<sup>39</sup>

There are other issues perhaps specific to Palestine. For example, Gaza's civil servants continued to do their jobs without regular pay or clear legal status, while others were being paid without showing up at their workplace.<sup>40</sup>

There have been various initiatives to create jobs, for example by supporting start-ups, developing youth and women's skills, and stimulating private sector investment in businesses with high potential with funding from the World Bank Group.<sup>41</sup>

<sup>36</sup> See PCBS, *Labour Force Survey: (October-December, 2015) Round, (Q4/2015)*.

<sup>37</sup> ILO: Employment outlook bleak for Palestinians, Gaza a "tinderbox," International Labour Organization (ILO), 23/5/2014, [http://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS\\_244201/lang--en/index.htm](http://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_244201/lang--en/index.htm)

<sup>38</sup> For more details on the risks of unemployment, see Moein Muhammad 'Atta Ragab, *Makhathir al-Batalah al-Filastiniyyah wa Atharaha al-Iqtisadiyyah wa al-Ijtima'iyyah* (The Risks of Palestinian Unemployment and Its Economic and Social Impact) (Bethlehem: Fourth Palestinian Conference on Human Resource Development, June 2014).

<sup>39</sup> The Reality of Vocational Training in Gaza.. Between Weak Potentials and Meeting Market Demands, site of Felesteen Online, 21/11/2015, p. 13. (in Arabic)

<sup>40</sup> For more details, see Moein Muhammad 'Atta Ragab, *Al-Athar al-Iqtisadiyyah al-Mutaratibah 'Ala Azamat al-Muwazafin bi Ghazzah* (The Economic Implications of the Civil Servants Crisis in Gaza), Trade Union Conference, Gaza's Civil Servants Crisis: Repercussions and Implications, Gaza, December 2014.

<sup>41</sup> New Project to Create Jobs by Supporting Start-Ups and Developing Skills of Youth and Women in Palestine, The World Bank, 18/12/2015, <http://www.worldbank.org/en/news/press-release/2015/12/18/new-project-to-create-jobs-by-supporting-start-ups-and-developing-skills-of-youth-and-women-in-palestine>



For the purpose of encouraging new jobs, a Palestinian Fund for Employment and Social Protection was created by the Ministry of Labour.

The fund seeks to support youth-led business projects that are more suited to market demands. The fund aspires to fund new projects with loans of up to €200 million (\$222 million), and employ 50 thousand currently unemployed people in 2016–2017. However, achieving this goal requires huge efforts, thorough preparations, and extensive studies. There is also the Deprived families' Economic Empowerment Program (DEEP), which is seeking to help fresh graduates and unemployed people, as well as women, entrepreneurs, and people with disabilities, and to develop infrastructure to help farmers.<sup>42</sup>

## 7. Development of Industrial Activity

Industrial activity is one of the key productive sectors that allow the exploitation of available resources to meet consumer demands. It includes four identifiable categories as follows:

**Table 20/7: Industrial GDP in PA Territories 2010–2015 at Constant Prices (\$ million)<sup>43</sup>**

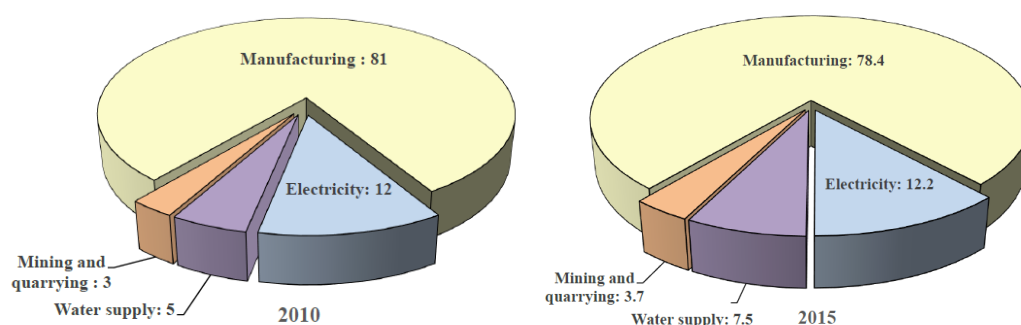
Year	2010	2011	2012	2013	2014	2015*
<b>Mining and quarrying</b>	24.3	50	25.9	48.3	41.9	37.8
<b>Manufacturing</b>	775.8	757.5	890.9	929.1	878.5	810.6
<b>Electricity, gas, steam and air conditioning supply</b>	111.7	109.1	115	120.7	127.5	124.9
<b>Water supply, sewerage, waste management</b>	44.8	46.7	59.8	60.4	57.5	58.8
<b>Total</b>	<b>956.6</b>	<b>963.3</b>	<b>1,091.6</b>	<b>1,158.5</b>	<b>1,105.4</b>	<b>1,032.1</b>
<b>Average annual growth or deterioration (%)</b>	–	+0.7	+13.3	+6.1	–4.6	–6.6
<b>% of GDP</b>	15.6	14	14.9	15.5	14.8	13.4

\* Preliminary estimates.

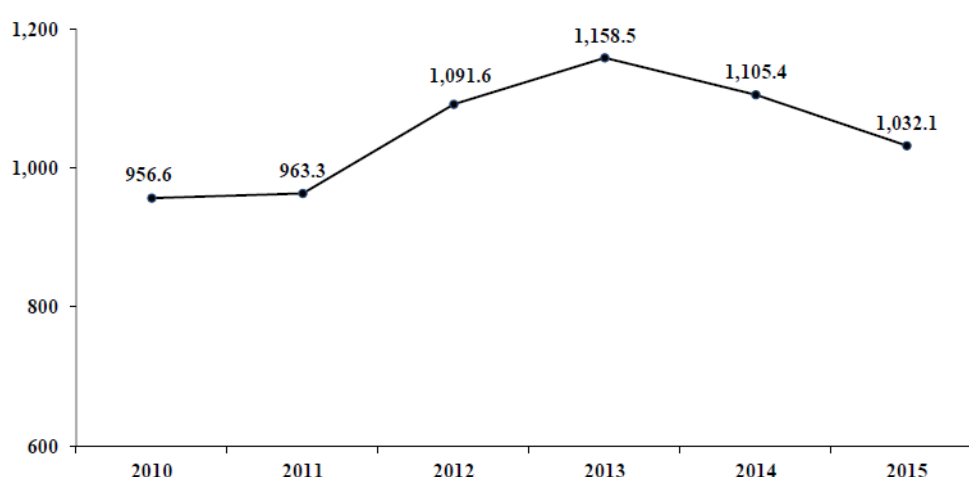
<sup>42</sup> Deputy Minister of Labour: Consensus on Establishing an Endowment Whose Profit Supports Deprived families Economic Empowerment Program (DEEP), *al-Ayyam*, Ramallah, 21/2/2016, p. 17. (in Arabic)

<sup>43</sup> See Value Added by Economic Activity and Region for the Years 1994–2014 at Constant Prices: 2004 is the base year, PCBS, [http://www.pcbs.gov.ps/Portals/\\_Rainbow/Documents/e-नावेकंस-1994-2014.htm](http://www.pcbs.gov.ps/Portals/_Rainbow/Documents/e-नावेकंस-1994-2014.htm); and see PCBS, *Labour Force Survey: (October-December, 2015) Round, (Q4/2015)*.

## % Industrial Sector Activities of GDP, 2010 and 2015



## Industrial GDP in PA Territories 2010–2015 at Constant Prices (\$ million)



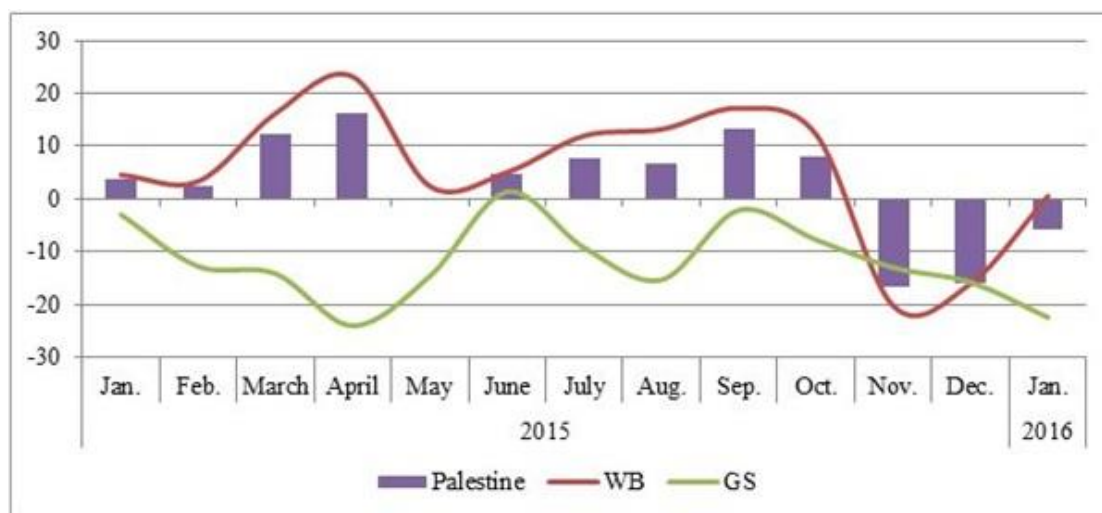
Evidently, manufacturing (metallic industries, textiles, fabrics, food processing and beverages, furniture, etc.) remained the leading industrial activity, accounting for 78.5% of total industrial output in 2015. Manufacturing growth fluctuated, improving relatively compared to 2010. The second largest sector was electricity, accounting for 12.1% of output, but which also fluctuated strongly in the period in question. Water supply came third at 5.7%, followed by mining at 3.7%. The strong volatility reflected Israel's arbitrary practices and high costs, despite the international recognition of Palestinian stone products, one of the leading Palestinian exports.

It is also possible to note that industrial growth was slow and that the sector's contribution in the GDP has decreased to 14.1% on average in 2014 and 2015. This can be attributed to the tough competition with Israeli and imported products, requiring strict policies to promote national products and substitute imports.



There was also a disparity in industrial growth between WB and GS. For example, the PMA Business Cycle Index<sup>44</sup> of January 2016 picked up sharply to around –5.9 points compared to –16 points in the previous month, as a result of improving conditions in WB and deteriorating ones in GS, reflecting the large differences in the industrial performance there, as the figure below shows.<sup>45</sup>

**Monthly Business Cycle Index for WB and GS in 2015 (Points)**



## 8. Development of Agricultural Activity

Agricultural activity, alongside industrial activity, remains a key sector despite its sharp decline over the preceding decades. The sector meets many of the local market's needs, employs large numbers, supplies raw materials for manufacturing especially food processing industries, and contributes to exports thus reducing the trade deficit. However, agriculture in the Palestinian territories faces numerous challenges, led by the decrease in arable land with an increase in irrigation areas, amid water shortages.<sup>46</sup>

<sup>44</sup> It is noteworthy that the PMA Business Cycle Index (PMABCI) is a monthly index, which aims to capture the state and evolution of economic activity in Palestine by tracking the performance of the industrial sector, especially fluctuations in production and employment levels and their implications for the economy at large. The maximum value of the PMABCI is positive 100 point, while the minimum is minus 100 point; a positive value indicates favorable economic performance, while a negative value indicates bad performance. On the other hand, a value close to zero indicates that economic performance did not change and is unlikely to do so in the near future.

<sup>45</sup> The Monthly PMA Business Cycle Index (PMABCI), January 2016, <http://www.pma.ps/Default.aspx?tabid=205&ArtMID=793&ArticleID=884&language=en-US>

<sup>46</sup> See Palestine Economic Policy Research Institute (MAS), *al-Muraqib al-Iqtisadi wa al-Ijtima'i* (Economic and Social Monitor), no. 5, June 1999, p. 17.

Observing the developments of this sector in 2014 and 2015 reveals that agricultural GDP amounted to \$286.4 million in 2014, with a 7.6% fall compared to 2013, and constituting only 3.8% of GDP at constant prices. Agricultural GDP decreased to \$253.8 million in 2015 at 11.4% compared to 2014, and with an average deficit for the two years of 9.5%. This means agricultural contribution to GDP decreased to 3.3% (see table 21/7).

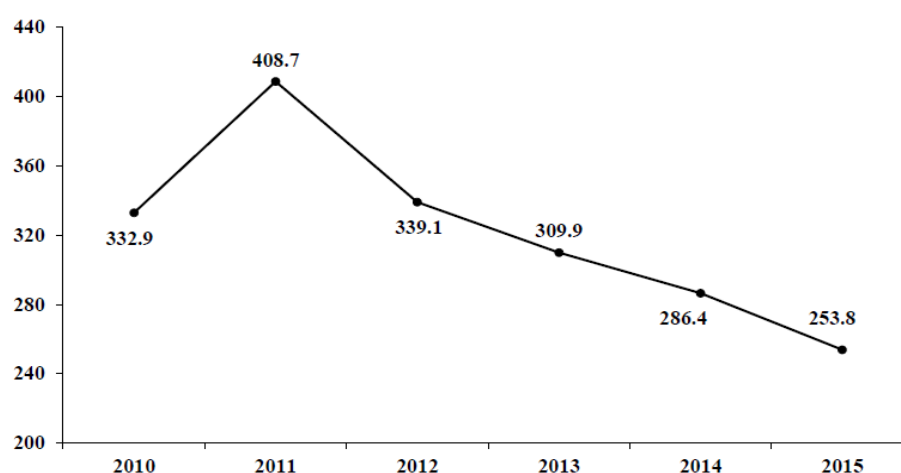
**Table 21/7: Agricultural GDP in PA Territories 2010–2015  
at Constant Prices (\$ million)<sup>47</sup>**

Year	2010	2011	2012	2013	2014	2015*
<b>Agricultural GDP</b>	332.9	408.7	339.1	309.9	286.4	253.8
<b>Average annual growth or deterioration (%)</b>	–4.2	+22.8	–17	–8.6	–7.6	–11.4
<b>% of GDP</b>	5.4	5.9	4.6	4.1	3.8	3.3

\* Preliminary estimates.

Forecasts for 2016 and 2017 are an extension of the general trend for growth in 2010–2015, and are closer to representing a pessimistic scenario.

**Agricultural GDP in PA Territories 2010–2015  
at Constant Prices (\$ million)**



From the above, it may be noted that the relative importance of agricultural output has been in decline despite the presence of elements that favor production expansion, underlying the structural weakness of the sector. If we add to this the weak contribution of the industrial sector to GDP, we realize that services

<sup>47</sup> See Value Added by Economic Activity and Region for the Years 1994–2014 at Constant Prices: 2004 is the base year, PCBS; and see PCBS, *Labour Force Survey: (October–December, 2015) Round, (Q4/2015)*.



dominate Palestine's economy.<sup>48</sup> This in turn requires analyzing agricultural census data in detail as a starting point for PA programs to develop agricultural resources.<sup>49</sup>

As for Israel's continued control of Area C, which represents 61% of WB's area, it deprives Palestinians of facilities that could otherwise be offered to them, although this area is supposed to be part of the future Palestinian state.<sup>50</sup> Israel's aggressive practices against GS, meanwhile, extend to isolating its highly productive agricultural lands near the border zone, banning farming activities there and often assaulting farmers in the area. The occupation repeatedly sprays the border farmlands with pesticides.<sup>51</sup> Israel uses the northern coastal areas of GS for military exercises and missile tests. At the same time, there have been increasing assaults on GS fishermen as fishing zones has been reduced from 20 miles (around 32 km) opposite GS shore based on the Oslo Accords to around three miles (around 5 km) in 2012, an area that is increased or decreased according to Israeli pressure and blockade policies, causing severe harm to fishing activities and fishermen. This is while bearing in mind that the Israeli authorities increased the fishing zone allowable for GS fishermen to six miles (around 10 km) and then nine miles (around 15 km) in April 2016.<sup>52</sup>

## 9. Trade

Trade represents one form of international economic relations and is reflected each year by the trade balance. The PA has consistently relied heavily on the outside world to obtain the majority of its consumer, intermediary, and capital needs in tandem with growing internal demand and population growth, and slow growth in local industrial and agricultural output. Other important trade-related issues include competitiveness and export of surplus production.<sup>53</sup>

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<sup>48</sup> PMA, Research and Monetary Policy Department, *Annual Report 2014*, p. 17.

<sup>49</sup> PCBS, *al-Atlas al-Ihsa'i al-Zira'i li Filastin 2012* (Agricultural Almanac of Palestine 2012), (Ramallah: December 2012), p. 23.

<sup>50</sup> We Must Not Forget Area C, *Alquds*, 25/1/2016, p. 1. (in Arabic)

<sup>51</sup> Israeli Planes Spray Pesticides on Gaza Border Fields, *Felesteen*, 22/11/2015, p. 1 and 31. (in Arabic)

<sup>52</sup> See Palestine News and Information Agency (WAFA), 4/4/2016; and see Palestinian Academic Society for the study of International Affairs (PASSIA), *Passia Diary 2012*, Jerusalem, Gaza situation map, p. 448.

<sup>53</sup> Palestine Trade Center, *Dirasah Taqimiyyah wa Waraqat Mawqif: al-Tabadul al-Tijari bayna Filastin wa al-Mamlakah al-'Urduniyyah al-Hashimiyyah: Athar Kul min Ittifaqiyyat Mantiqat al-Tijarah al-Hurrah al-'Arabiyyah al-Kubra wa al-Ittifaqiyyah al-Tijariyyah al-Thuna'iyyah wa al-Tafahumat bayna al-Mamlakah al-'Urduniyyah al-Hashimiyyah wa Filastin* (Palestinian-Jordanian Trade Relations: Assessment and Position Paper: The Impact of the Great Arab Free Trade Zone and the Bilateral Trade Agreement Between Jordan and Palestine) (Ramallah: Palestine Trade Center, 2014), p. 8, <https://www.paltrade.org/upload/multimedia/admin/2014/10/5448d50a1fe4c.pdf>



In 2014, the total imports of the PA reached \$5,683 million at a 10.1% increase compared to 2013. Exports reached \$944 million at a 4.8% increase. Thus, the trade deficit in 2014 increased at 11.2% compared to the previous year. The deficit was \$4,739 million or 83.4% of total imports (see table 22/7).

In 2015, exports decreased to \$912 million, a decline of \$32 million relative to the previous year at a rate of 3.4%. Imports also dropped to around \$4,942 million, a drop of \$741 million, a 13% decrease. Thus, the deficit reached around \$4,030 million, dropping around \$709 million compared to the previous year, a 15% decrease. The deficit relative to total imports was 81% in 2015 compared to 83.4% in 2014, a positive trend of trade deficit reduction (see table 22/7).

**Table 22/7: Commodity Trade Balance in PA Territories 2010–2015  
at Current Prices (\$ million)<sup>54</sup>**

Year	2010	2011	2012	2013	2014	2015
<b>Trade volume</b>	4,534	5,119	5,480	6,065	6,627	5,854
<b>Export</b>	576	746	782	901	944	912
<b>Import</b>	3,959	4,374	4,697	5,164	5,683	4,942
<b>Deficit</b>	–3,383	–3,628	–3,915	–4,263	–4,739	–4,030
<b>% Deficit to GDP</b>	38	34.7	34.7	34.2	37.3	31.8

Concerning PA trade with Israel: PCBS surveys showed a high proportion in both exports and imports. Palestinian exports to Israel were \$791.54 million in 2014 or 83.9% of total Palestinian exports, while imports from Israel amounted to \$3,958.3 million, 69.6% of total Palestinian imports. Both figures confirm the Palestinian dependency on Israel, at least in trade (see table 23/7).

It is worth mentioning that Israel's CBS provided different somewhat figures regarding trade with the PA for the year 2014. According to these figures, Palestinian imports from Israel reached around \$3,257 million, about \$701 million less than Palestinian official figures, while Palestinian exports to Israel accounted for \$631 million, again, \$161 million less than Palestinian official figures.<sup>55</sup>

<sup>54</sup> For 2010–2014, see Total Value of Registered Palestinian Imports and Exports by Entry and Exit Passages in 1996–2014, PCBS,

[http://www.pcbs.gov.ps/Portals/\\_Rainbow/Documents/centers\\_%20E.htm](http://www.pcbs.gov.ps/Portals/_Rainbow/Documents/centers_%20E.htm)

For 2015, see Preliminary Results of Registered Palestinian Exports and Imports and Net Trade Balance of Goods by Month and Quarter, 2015, PCBS,

[http://www.pcbs.gov.ps/Portals/\\_Rainbow/Documents/E-Ftrade%202015.htm](http://www.pcbs.gov.ps/Portals/_Rainbow/Documents/E-Ftrade%202015.htm)

<sup>55</sup> CBS, *Statistical Abstract of Israel 2015*, no. 66, table 16.2,

[http://www.cbs.gov.il/reader/shnaton/templ\\_shnaton\\_e.html?num\\_tab=st16\\_02x&CYear=2015](http://www.cbs.gov.il/reader/shnaton/templ_shnaton_e.html?num_tab=st16_02x&CYear=2015)

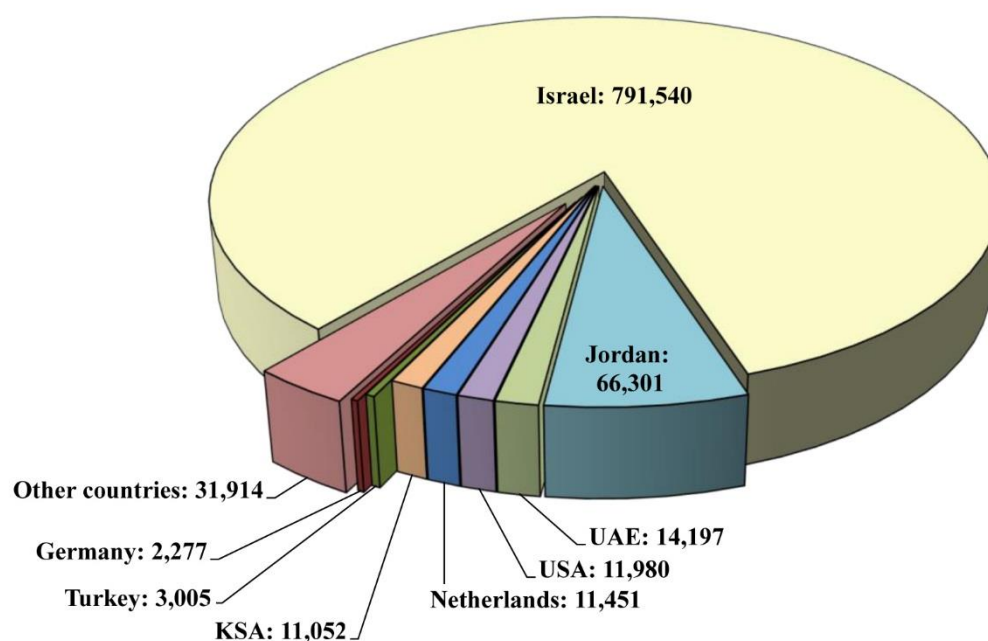


**Table 23/7: Volume of Palestinian Trade, Exports and Imports in Goods in PA Territories to/ from Selected Countries 2013–2014 (\$ thousand)<sup>56</sup>**

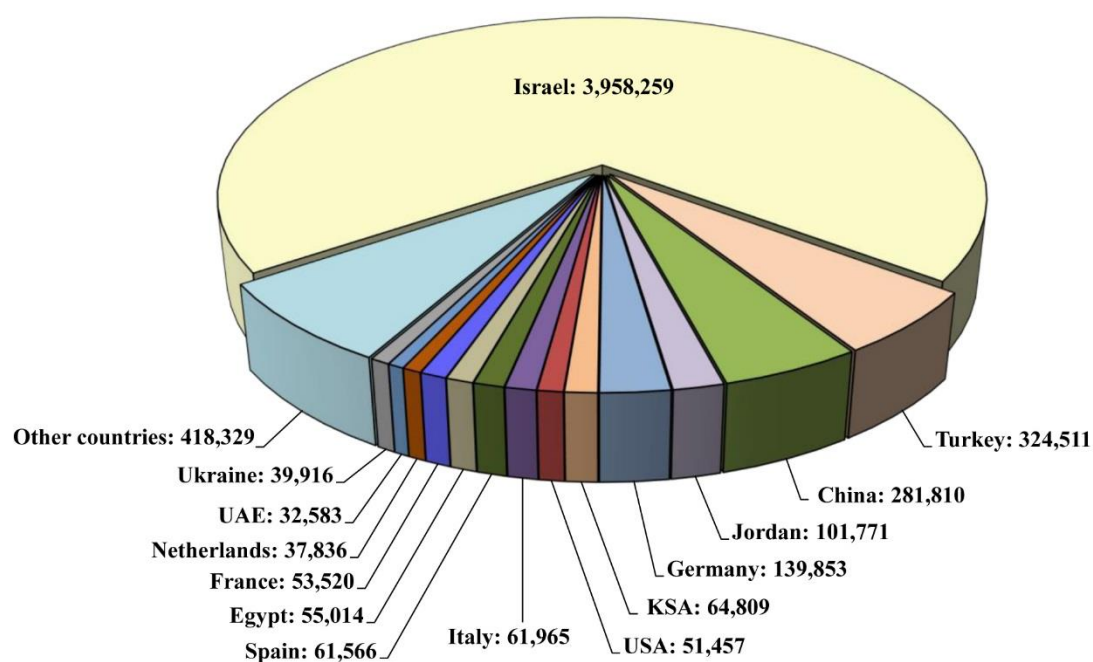
Country	Trade volume		Palestinian exports to:		Palestinian imports from:	
	2014	2013	2014	2013	2014	2013
<b>Israel</b>	4,749,800	4,481,177	791,540	786,356	3,958,259	3,694,821
<b>Turkey</b>	327,516	292,158	3,005	2,988	324,511	289,170
<b>China</b>	281,854	236,601	44	–	281,810	236,601
<b>Jordan</b>	168,073	146,903	66,301	55,399	101,771	91,504
<b>Germany</b>	142,130	125,903	2,277	1,750	139,853	124,153
<b>KSA</b>	75,861	52,419	11,052	8,422	64,809	43,997
<b>USA</b>	63,437	52,045	11,980	10,294	51,457	41,750
<b>Italy</b>	62,602	62,310	637	1,155	61,965	61,155
<b>Spain</b>	61,574	60,609	8	1	61,566	60,608
<b>Egypt</b>	55,341	43,705	327	204	55,014	43,501
<b>France</b>	54,158	52,179	638	550	53,520	51,629
<b>Netherlands</b>	49,287	25,817	11,451	2,992	37,836	22,825
<b>UAE</b>	46,780	23,237	14,197	7,402	32,583	15,835
<b>Ukraine</b>	39,996	22,190	80	12	39,916	22,178
<b>Other countries</b>	448,508	387,262	30,180	23,093	418,329	364,170
<b>Total</b>	<b>6,626,917</b>	<b>6,064,515</b>	<b>943,717</b>	<b>900,618</b>	<b>5,683,199</b>	<b>5,163,897</b>

<sup>56</sup> See PCBS, *Registered Foreign Trade Statistics-Goods and Services, 2014: Main Results* (Ramallah: PCBS, September 2015), <http://www.pcbs.gov.ps/Downloads/book2144.pdf>

### Palestinian Exports in Goods in PA Territories to Selected Countries in 2014 (\$ thousand)



### Palestinian Imports in Goods in PA Territories from Selected Countries in 2014 (\$ thousand)



## 10. PA's External Financing

External financing to the Palestinians is an important stream of revenue that helps plug the budget deficit and cover part of development expenditure. Its value in 2010–2015 was around \$6,510 million, at an annual average of \$1,085 million. Given its importance, fluctuation of its value and delays in its delivery impeded economic activity, especially in light of the large budget deficit and high level of debt. Over the past several years, grants and foreign aid were used almost exclusively for consumption spending, and the PA has been unable to limit its reliance thereon despite the lack of anything that could guarantee the regularity and sustainability of aid, putting the Palestinian economy at risk. From time to time, a debate emerges on the adverse effects of foreign aid, which is often politicized. This is in addition to the overreliance on the aid and its lack of regularity and efficiency. Indeed, part of it is wasted on consultative services. The following table highlights the size of this aid and the volatility in its value.

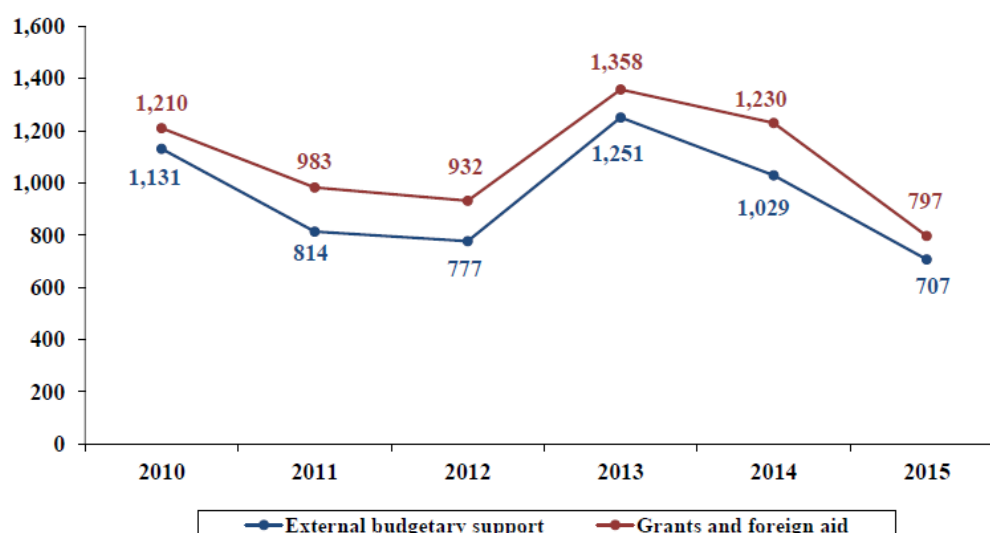
**Table 24/7: PA External Budgetary Support and Development Financing 2010–2016 (\$ million)<sup>57</sup>**

Year	2010	2011	2012	2013	2014	2015	2016 Budget
<b>External budgetary support</b>	1,131	814	777	1,251	1,029	707	750
<b>External financing for development expenditures</b>	79	169	155	107	201	90	245
<b>Grants and foreign aid</b>	<b>1,210</b>	<b>983</b>	<b>932</b>	<b>1,358</b>	<b>1,230</b>	<b>797</b>	<b>995</b>
<b>Average annual growth or deterioration (%)</b>	–13.7	–18.8	–5.2	+45.7	–9.4	–35.2	+24.8

The developments in foreign aid show a trend of decrease, especially in 2015 when aid fell sharply.

<sup>57</sup> See Revenues, Expenditures, and Financing Sources of PNA Fiscal Operations (Cash Basis), PMA; and Summary of the General Budget for Fiscal Year 2016, PA, Ministry of Finance, <http://bit.ly/1rFOw70>

### PA External Budgetary Support and Development Financing 2010–2015 (\$ million)



In 2015, donors were headed by KSA with \$242.3 million, followed by the Mécanisme Palestino-Européen de Gestion et d'Aide Socio-Economique (PEGASE) with \$223.4 million, and then the World Bank with \$131.7 million. International community funding for the PA dropped by 39% in 2015 compared to 2014.

World Bank funding dropped in 2015 by 48.4% compared to 2014. The numbers of the Palestinian Finance Ministry do not indicate the presence of any US support for the PA budget in 2015, but mention that US support was \$106.5 million in 2014.

These figures conflict with the Congressional Research Service report on the US Foreign Aid to the Palestinians, which said the US gave the Palestinians \$440 million in 2014 and \$361 million in 2015. Perhaps part of the inconsistency can be explained by the fact that part of the US support does not go to the PA budget. However, the issue raised questions and requires clarifications.

Despite the drop in Arab financing in 2015 compared to the previous year, its proportion of international financing rose in 2014–2015. The value of Arab funding became almost equal to total international support, representing 87.7% of this support in 2015, and 66.2% in 2014, compared to 44.2% of total international support in 2013.

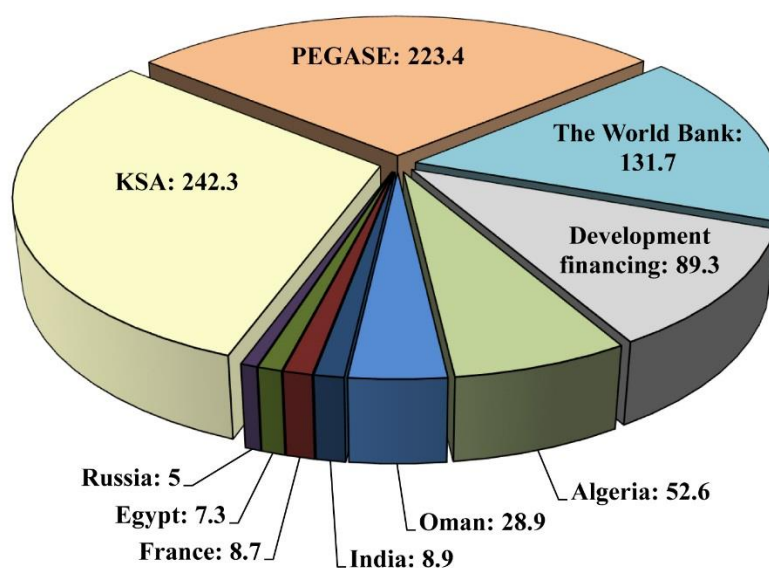
It should also be noted that development financing in 2015 also dropped by 56% compared to 2014.



**Table 25/7: Sources of External Financing for the PA 2012–2015**  
(\$ million)<sup>58</sup>

Donor	2012	2013	2014	2015
<b>Arab donors</b>	<b>272.7</b>	<b>385.7</b>	<b>410</b>	<b>331.1</b>
KSA	103.8	261.3	197.3	242.3
UAE	84.3	48.7	–	–
Algeria	25.9	27.3	51.6	52.6
Qatar	29.5	8.9	146.3	–
Egypt	3.2	6.4	7.5	7.3
Oman	–	5.1	7.3	28.9
Iraq	26	28	–	–
<b>International donors</b>	<b>502.7</b>	<b>873.1</b>	<b>619.7</b>	<b>377.7</b>
PEGASE	212.3	249.7	246.7	223.4
The World Bank	266.1	238	255.1	131.7
USA	–	349.4	106.5	–
France	24.3	25.2	10.4	8.7
Russia	–	9.8	–	5
Malaysia	–	–	1	–
India	–	1	–	8.9
<b>Development financing</b>	<b>156.2</b>	<b>106.5</b>	<b>203.4</b>	<b>89.3</b>
<b>Total</b>	<b>931.6</b>	<b>1,365.3</b>	<b>1,233.1</b>	<b>798.1</b>

**Sources of External Financing for the PA 2015 (\$ million)**



<sup>58</sup> See Monthly Financial Reports of December 2012–2015, PA, Ministry of Finance, <http://www.pmof.ps/en/41>

## 11. Economic Outlook for the PA Performance

Forecasts for the PA performance up to 2017 were based on two main perspectives: the general trend on the one hand, and the forecasts of the PCBS and PMA, as well as the forecasts of stakeholders such as the IMF. These forecasts are governed by the internal situation such as blockades, checkpoints, the Palestinian division, Israel's practices that hinder economic growth, in addition to the PA's bid to correct government performance. The external situation, meanwhile, is governed by events, developments, conflicts, and alliances, at the Arab, regional, and international levels.

The forecasts follow three paths. The first with the current situation continuing as it is. The second an optimistic one based on the possibility of positive developments. And the third an approach based on presumed pessimistic events. These scenarios come amid the absence of a clear political horizon regarding the peace process and reconciliation, creating an unsustainable economic situation.<sup>59</sup>

The government's forecasts for its performance are as follows:

- a. Slow growth of the GDP in the range of 3.5%, resulting in low per capita income growth in the range of 1%, with a large difference between WB and GS reflecting poor income distribution, with the rich getting richer at the expense of the poor.
- b. Continued reliance on internal and external debt, with a decrease in arrears amid a commitment to honor them.
- c. Continued deficit in the PA budget with continued reliance in GS on foreign aid and internal borrowing, and increasing revenues at rates higher than increasing spending.
- d. Limited improvement in labor force indicators and limited decrease in unemployment, amid a large gap between WB and GS.
- e. Agricultural and industrial performance will remain limited and so will its contribution to the GDP with limited improvement in industrial output.
- f. Improvement in the value of exports with a relative decrease in import growth, leading to a limited reduction in trade deficits.<sup>60</sup>

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<sup>59</sup> West Bank and Gaza – over view, The World Bank,  
<http://www.worldbank.org/en/country/westbankandgaza/overview>

<sup>60</sup> Ministry of Planning and Administrative Development, *National Development Plan 2014–16: State Building to Sovereignty* (Ramallah: Ministry of Planning and Administrative Development, 2014), [http://www.mopad.pna.ps/en/images/PDFs/Palestine%20State\\_final.pdf](http://www.mopad.pna.ps/en/images/PDFs/Palestine%20State_final.pdf)



Accordingly, the improvement of the current situation is subject to the government's performance, which depends on these trends becoming reality. This can only happen if the division ends and the Palestinian economy is re-adapted towards ending the occupation.



التقرير الاستراتيجي الفلسطيني

2015-2014

الفصل السابع

المؤشرات الاقتصادية الفلسطينية

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