

The Palestine Strategic Report
2016 – 2017
Ch.2



Palestinian Economic Indicators

2016 – 2017

NOTE:
The complete volume of
The Palestine Strategic Report 2016 – 2017
will be published soon



Palestinian Economic Indicators¹

Second: Economic Indicators in the WB and GS

Gross Domestic Product (GDP) is intended to be a measure of the value created by the productive activity of resident institutional units during a certain period in time, and is usually estimated at market prices, producers' prices, or basic prices.² This measure is important to researchers and policy makers in executive, monitoring and media institutions, where the contribution of each activity and sector in GDP can be defined. Hence, GDP is used to measure economic development locally, regionally and internationally, which is an incentive to prepare GDP estimates, and accelerate their publication.

GDP is considered one of the most widely used economic indicators, despite the many reservations on its utility, especially because local and equivalent foreign dollar-dominated purchasing power figures vary significantly.³

Higher real GDP has positive effects, with higher domestic investment and increased future revenues, increased foreign investor confidence and increased foreign direct investment flows, while it helps reduce external debt, as a percentage of GDP.⁴

a. GDP Growth

According to PCBS, there was a discrepancy in GDP growth during 2014–2017, with GDP recording negative growth in 2014 due to the Israeli war against GS. However, the GDP improved steadily to reach 3.4% in 2015 and 4.7% in 2016. Yet 2017 estimates were disappointing, based on the actual results for the third quarter (Q3) 2017, when growth recorded only 2.6% (see table 11/2).

¹ This study is the approved English translation of the second section of chapter two of *The Palestine Strategic Report 2016–2017*, edited by Dr. Mohsen Mohammad Saleh. It is an analytical study of the Palestinian Economic Indicators in 2016–2017. The Arabic version of this Report was recently released in 2018, and the draft of this section was written by Dr. Moein Ragab.

² PCBS, *Press Report: Preliminary Estimates of Quarterly National Accounts (Third Quarter 2017)* (Ramallah: PCBS, December 2017), p. 9, http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_GDP-28-12-2017-en.pdf

³ Palestine Economic Policy Research Institute (MAS), PCBS, Palestine Monetary Authority (PMA), and Palestine Capital Market Authority (PCMA), *Economic Monitor* (Ramallah: May 2017), no. 48, pp. 27–28, <http://www.mas.ps/files/server/Monitor/monitor%2048%20eng.pdf>

⁴ PMA, Research and Monetary Policy Department, *Taqrir Istidamat al-Hisab al-Jari, al-Rub' al-Awwal 2017* (Current Account Sustainability, Q1 2017) (Ramallah: PMA, July 2017), p. 12.

The International Monetary Fund (IMF) had reported that GDP growth in 2017 would hover around 3% (compared to about 4% in the previous year) based on growth of 2.7% in WB and 4.5% in GS, leading to a reduction in per capita output. The IMF also expressed pessimism about these figures, which is too low to absorb the large number of youth entering the workforce in the years ahead. The IMF linked any lasting and effective improvement in economic growth to the “commitment to the peace process and a political breakthrough,” although it would be more logical to link it to ending the occupation. Spurring growth and generating Palestinian job opportunities remain the main challenges, amid many difficulties, notably: increased political uncertainty, declining external aid flows, insufficient investment flowing into the country, restrictions on movement of individuals between WB and GS, and between the territories of the PA and the outside world. Therefore, the pressures on the Palestinian economy, because of the Israeli occupation and its policies, remain the direct cause of sluggish growth.⁵

GDP forecasts for 2018–2019, based on the overall trend trajectory, indicate a limited annual growth of 1.6% and 2.4%, respectively, as a baseline scenario consistent with the prevailing uncertainty in PA territories. Optimistic scenarios for higher growth can only be achieved through the removal of external restrictions controlled by Israel and local restrictions imposed by the PA. The optimistic outlook is reinforced by the presence of large Palestinian potential that can be tapped to raise the annual growth rate to an average of 7%, along with job opportunities in both the WB and the GS.⁶ As for the pessimistic scenario, it is not off the table, since the internal situation continued to be pulled in different directions by forces that have contradictory visions, which may lead to negative growth during the next two years (2018–2019) at an average rate of 4% annually. Decision makers must therefore prepare for various scenarios.

⁵ Site of International Monetary Fund, Press Release 17/293, 24/7/2017, <https://www.imf.org/en/News/Articles/2017/07/24/pr17293-imf-staff-concludes-visit-to-west-bank-and-gaza>

⁶ For 2012–2016, see Key National Accounts Indicators in Palestine 1994–2016 at Constant Prices, 2015 as the base year, PCBS, http://www.pcbs.gov.ps/Portals/_Rainbow/Documents/A.NA_Constant.htm (in Arabic)

As for 2017, see PCBS, Preliminary Estimates of Quarterly National Accounts (Third Quarter 2017) Main Results, <http://www.pcbs.gov.ps/post.aspx?lang=en&ItemID=3022>



Table 11/2: GDP in PA Territories 2012–2019 at Constant Prices (\$ million)⁷

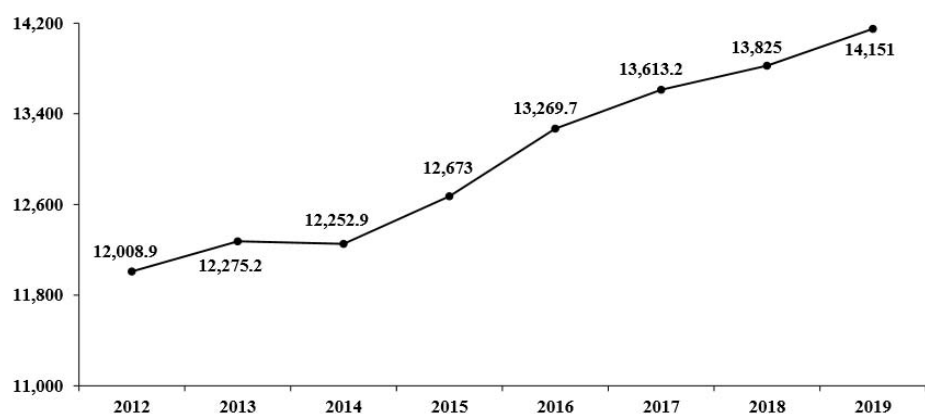
	Actual					Estimated*	Projections**	
	2012	2013	2014	2015	2016	2017	2018	2019
GDP	14,151	13,825	13,613.2	13,269.7	12,673	12,252.9	12,275.2	12,008.9
Average annual growth or deterioration (%)	+2.4	+1.6	+2.6	+4.7	+3.4	-0.18	+2.2	+6.3

Note: The data excludes those parts of Jerusalem which were annexed by Israel in 1967. The base year is 2015, and the \$ is the US dollar. This will be applied to all the following tables in this chapter.

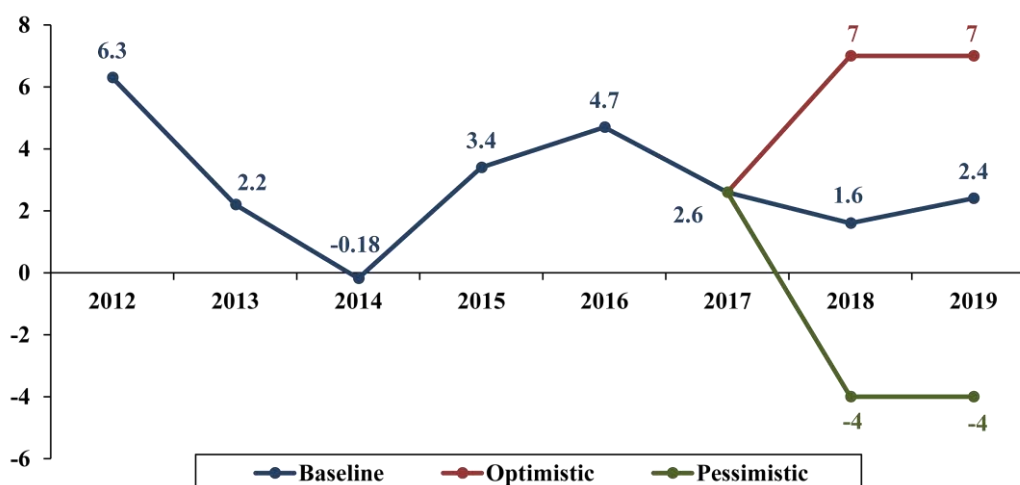
* Based on estimates for the first three quarters of 2017.

** Based on the trend trajectory 2012–2017.

GDP in PA Territories 2012–2019 at Constant Prices (\$ million)



Average Annual Growth of the GDP in PA Territories 2012–2019 and Potential Scenarios (%)



⁷ Site of World Bank, With Right Actions, Palestinian Economic Growth Could Rise to Seven Percent, 12/9/2017, <http://www.worldbank.org/en/news/press-release/2017/09/12/with-right-actions-palestinian-economic-growth-could-rise-to-seven-percent>

b. GDP Growth in the WB and GS

There was a significant variation in GDP growth rates between WB and GS in 2016 and 2017. In GS, GDP grew by 8.3% in 2016 and by 0.2% in 2017, based on the estimates of the first three quarters, compared with growth in WB of 3.5% and 3.4% respectively. As share in GDP by region, the WB share for 2017 was high (75% of total), compared to only 25% from Gaza, although their share of the total population estimated 60% and 40%, respectively.

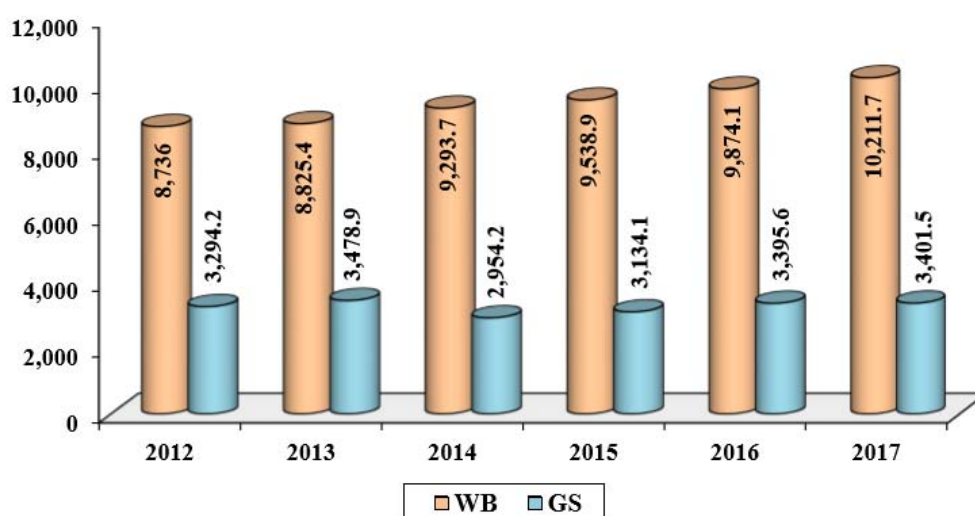
Table 12/2: GDP in the WB and GS 2012–2017 at Constant Prices (\$ million)⁸

Year	WB		GS		WB & GS	
	GDP	Percentage (%)	GDP	Percentage (%)	GDP	Percentage (%)
2012	8,736	72.7	3,294.2	27.4	12,008.9	100
2013	8,825.4	71.8	3,478.9	28.3	12,275.2	100
2014	9,293.7	75.9	2,954.2	24.1	12,252.9	100
2015	9,538.9	75.3	3,134.1	24.7	12,673	100
2016	9,874.1	74.4	3,395.6	25.6	13,269.7	100
2017*	10,211.7	75	3,401.5	25	13,613.2	100

* Based on estimates for the first three quarters of 2017.

Note: PCBS updated the base year of national accounts at constant prices to 2015. Accordingly, it must be noted that maintaining historical growth rates based on the recommendations of the System of National Accounts of 2008, would result in the loss of additivity for GDP components prior to 2015. This means that the summation of adding sub-components of any variable will not be equal to the variable values obtained by retrograde extrapolation, at the level of the details of economic activities and regions. This is while data for 2015 and after would maintain additivity and this applies to all relevant tables.

GDP in the WB and GS 2012–2017 at Constant Prices (\$ million)



⁸ For 2012–2016, see Key National Accounts Indicators in Palestine 1994–2016 at Constant Prices, 2015 as the base year, PCBS. (in Arabic)

As for 2017, see PCBS, Preliminary Estimates of Quarterly National Accounts (Third Quarter 2017) Main Results.



Table 13/2: GDP Growth in the WB and GS 2008–2013 at Constant Prices (\$ million)⁹

Year		2012	2013	2014	2015	2016	2017*
WB	GDP	8,736	8,825.4	9,293.7	9,538.9	9,874.1	10,211.7
	Average annual growth or deterioration (%)	+6	+1	+5.3	+2.6	+3.5	+3.4
GS	GDP	3,294.2	3,478.9	2,954.2	3,134.1	3,395.6	3,401.5
	Average annual growth or deterioration (%)	+7	+5.6	-15.1	+6.1	+8.3	+0.2

* Based on estimates for the first three quarters of 2017.

c. GDP in PA Territories and Israel

Examining Israeli GDP at current prices, which reached \$317.745 billion in 2016, and \$347.791 billion based on the estimates of the first three quarters of 2017, we note that Israeli GDP is 24 times the size of its Palestinian counterpart (2,367% and 2,422% for 2016 and 2017 respectively). This is a clear indication of the appalling nature of the Israeli occupation and its impact on the Palestinian economy, the extent to which it is exploiting Palestinian resources, and preventing Palestinians from realizing the free and efficient use of their energies and potentials.

Table 14/2: GDP in PA Territories and Israel 2012–2017 at Current Prices (\$million)¹⁰

Year	PA	Israel	Ratio of Palestinian output to Israeli output (%)
2012	11,279.4	257,157	4.4
2013	12,476	292,602	4.3
2014	12,715.6	308,460	4.1
2015	12,673	299,320	4.2
2016	13,425.7	317,745	4.2
2017*	14,359.1	347,791	4.1

* Based on estimates for the first three quarters of 2017.

⁹ For 2012–2016, see Key National Accounts Indicators in Palestine 1994–2016 at Constant Prices, 2015 as the base year, PCBS. (in Arabic)

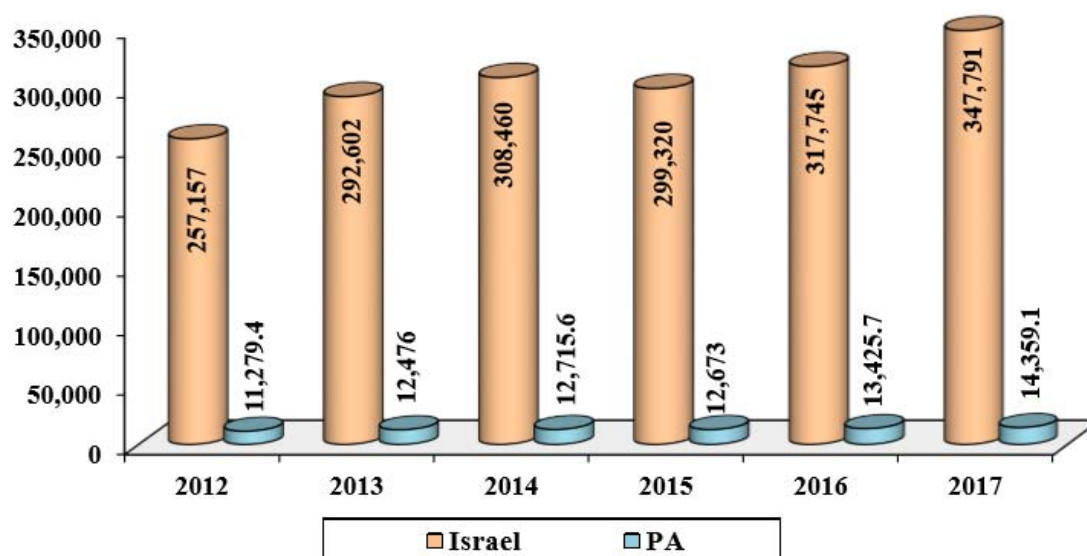
As for 2017, see PCBS, Preliminary Estimates of Quarterly National Accounts (Third Quarter 2017) Main Results.

¹⁰ For 2012–2016, see Key National Accounts Indicators in Palestine 1994–2016 at Current Prices, PCBS, http://www.pcbs.gov.ps/Portals/_Rainbow/Documents/A.NA_Current.htm (in Arabic)

As for 2017, see PCBS, Preliminary Estimates of Quarterly National Accounts (Third Quarter 2017) Main Results.

As for the Israeli GDP 2012–2017, CBS, <http://cbs.gov.il/publications18/yarhon0118/pdf/f1.pdf>

GDP in PA Territories and Israel 2012–2017 at Current Prices (\$ million)



2. GDP per Capita in PA Territories

GDP per capita reflects the level of economic performance and is important to measure the income of individuals, their living standards, their ability to meet their expenses and savings, and the investment capacity of the society. Thus, an increase in per capita output contributes directly to the improvement of social welfare.¹¹

a. Average Growth of GDP per Capita

The following table notes a decrease in GDP per capita in 2013–2014, reaching \$2,944 and \$2,852.4 respectively. In 2015, GDP per capita increased slightly by 0.4% and 1.2% in 2016. However, it did not recover its 2012 level of \$2,967.5

As a continuation of this decline, the GDP per capita in 2017 (estimates for the first three quarters) will decrease to \$2,918 marking a negative decline by –0.2% reflecting a drop in GDP. This decrease will continue during 2018–2019 as a translation of the decline in GDP at –1.3% and –0.3%, respectively.

¹¹ PMA, *Annual Report 2016* (Ramallah: PMA, September 2017), p. 10, http://www.pma.ps/Portals/1/Users/002/02/2/Publications/English/Annual%20Reports/PMA%20Annual%20Reports/Annual_Report_2016.pdf

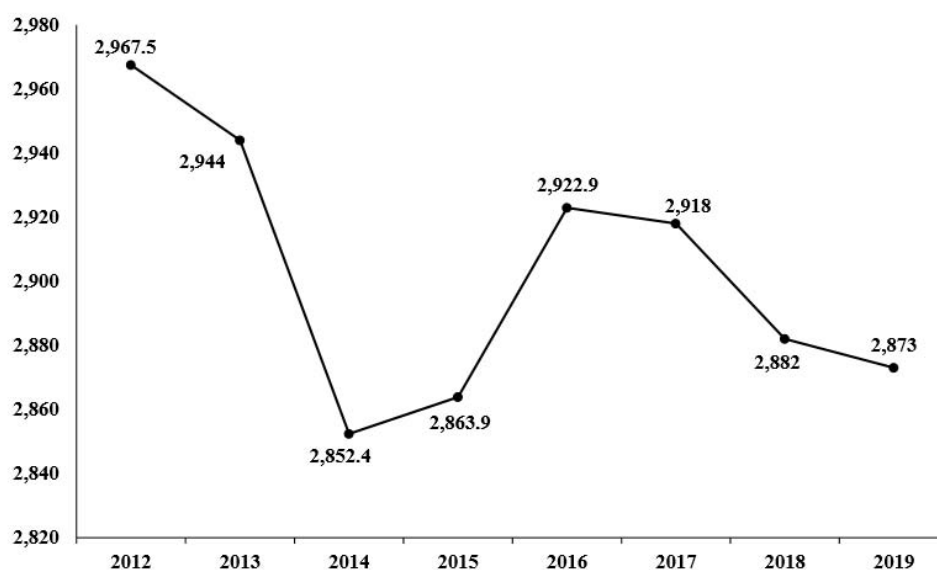
Table 15/2: GDP per Capita in PA Territories 2010–2015 at Constant Prices (\$) ¹²

	Actual				Estimated*		Projections**	
	2012	2013	2014	2015	2016	2017	2018	2019
GDP	2,967.5	2,944	2,852.4	2,863.9	2,922.9	2,918	2,882	2,873
Average annual growth or deterioration (%)	+3.1	-0.8	-3.1	+0.4	+2.1	-0.2	-1.3	-0.3

* Based on estimates for the first three quarters of 2017.

** Based on the 2012–2017 trend trajectory.

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



b. GDP per Capita in the WB and GS

It is noted that the GDP per capita was higher in WB relative to GS in 2016, amounting to \$3,689.4 versus \$1,822 in GS, with a difference in their respective growth rates relative to the previous year. According to estimated figures for the first three quarters of 2017, GDP per capita in WB will rise to \$3,741 or 1.4% from 2016, while it will decrease to \$1,757.5 in GS (–3.5%) (see table 16/2).

The large gap between WB and GS is evident, as the GDP per capita in GS was 49.4% and 47% of its WB counterpart in 2016 and 2017, respectively, while GDP per capita in GS represented about 79% on average of its WB counterpart in the years 1994–2000.¹³ This was the direct result of the disparity in output and

¹² For 2012–2016, see Key National Accounts Indicators in Palestine 1994–2016 at Constant Prices, 2015 as the base year, PCBS. (in Arabic)

As for 2017, see PCBS, Preliminary Estimates of Quarterly National Accounts (Third Quarter 2017) Main Results.

¹³ PMA, *Annual Report 2016*, p. 10.

financial inflows between the two regions, in addition to the Israeli blockade of GS, and Egypt's closure of the border with GS most of the year.

This decline is partly offset by the fact that the GDP per capita rose steadily in successive years with a slight improvement in 2016, reaching \$2,216.¹⁴

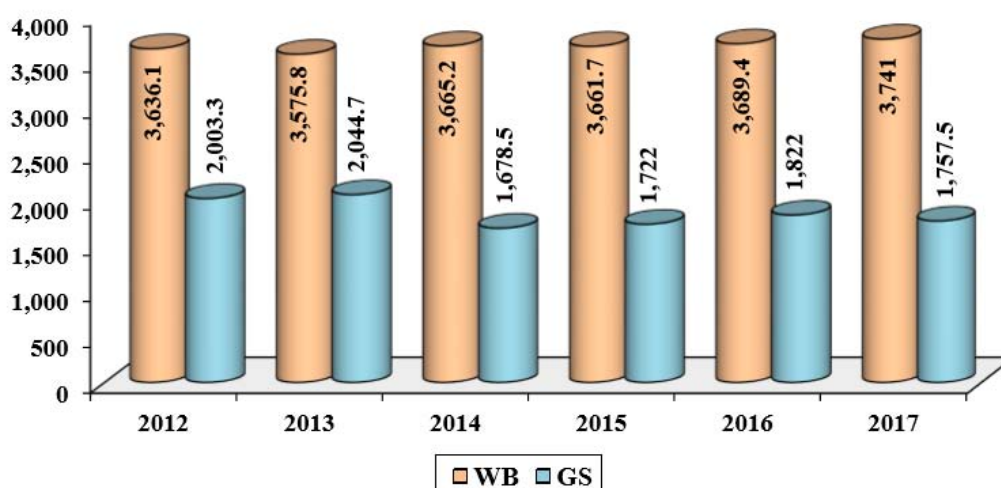
The foregoing is reason to give greater attention to the causes of this gap, identify how wealth is concentrated and distributed, and highlight the need to adopt appropriate economic policies to improve output and performance to correct the current situation.

Table 16/2: GDP per Capita in the WB and GS 2010–2015 at Constant Prices (\$) ¹⁵

Year		2012	2013	2014	2015	2016	*2017
WB	GDP per capita	3,636.1	3,575.8	3,665.2	3,661.7	3,689.4	3,741
	Average annual growth or deterioration (%)	+3.2	-1.7	+2.5	-0.1	+0.8	+1.4
GS	GDP per capita	2,003.3	2,044.7	1,678.5	1,722	1,822	1,757.5
	Average annual growth or deterioration (%)	+3.4	+2.1	-17.9	+2.6	+5.8	-3.5

* Based on estimates for the first three quarters of 2017.

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



¹⁴ *Ibid.*, p. 90.

¹⁵ For 2012–2016, see Key National Accounts Indicators in Palestine 1994–2016 at Constant Prices, 2015 as the base year, PCBS. (in Arabic)
As for 2017, see PCBS, Preliminary Estimates of Quarterly National Accounts (Third Quarter 2017) Main Results.

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

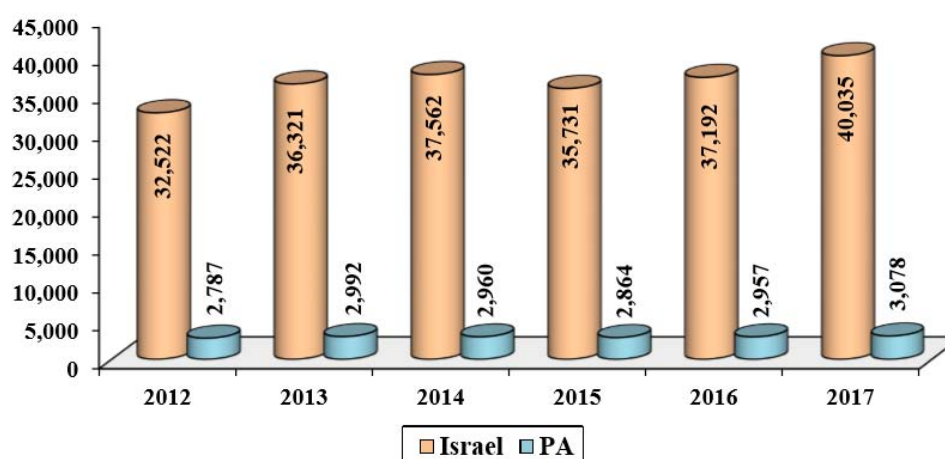
There is a significant gap between GDP per capita in PA territories and Israel. At current prices, it was \$2,957 in the PA territories and \$3,078 in 2016 and 2017 respectively, while in Israel (at current prices) it was \$37,192 and \$40,035 for the same period. This means the latter was 13 times more than the former. This was mainly due to the Israeli occupation and its policies that prevent the normal growth of the Palestinian economy, leading to a decline in Palestinian GDP. This was at a time when Palestinians experienced higher rates of population growth than the Israeli side and worked in harsh conditions under occupation, which had a negative impact on wages, living standards, and savings. Furthermore, the huge gap between the two sides that has allowed Israeli individuals to enjoy a much higher standard of living than Palestinians.

Table 17/2: GDP per Capita in PA Territories and Israel 2012–2017 at Current Prices (\$)¹⁶

Year	PA	Israel	% Palestinian GDP per capita of Israeli GDP per capita
2012	2,787	32,522	8.6
2013	2,992	36,321	8.2
2014	2,960	37,562	7.9
2015	2,864	35,731	8
2016	2,957	37,192	8
*2017	3,078	40,035	7.7

* Based on estimates for the first three quarters of 2017.

GDP per Capita in PA Territories and Israel 2012–2017 at Current Prices (\$)



¹⁶ For Palestinian GDP per Capita in 2012–2016, see Key National Accounts Indicators in Palestine 1994–2016 at Current Prices, PCBS. (in Arabic)

As for 2017, see PCBS, Preliminary Estimates of Quarterly National Accounts (Third Quarter 2017) Main Results.

As for the Israeli GDP per Capita 2012–2017, CBS,
<http://cbs.gov.il/publications18/yarhon0118/pdf/fl.pdf>

3. Public Debt

Public debt is an exceptional source of public revenue meant for development purposes or to plug an emergency deficit in the state budget, in return for committing to meet all agreed terms. Public debt indicators contribute to understanding the nature of the relationship between the evolution of this debt and macroeconomic performance, on the one hand, and government finances, in particular, on the other, and contributes to the assessment of debt developments and the ability to deal with and manage it.¹⁷

Table 18/2: PA Government Public Debt and Arrears for 2012–2019
(\$ million)¹⁸

Item	Actual						Forecasts**	
	2012	2013	2014	2015	2016	*2017	2018	2019
Domestic debt	1,385	1,268	1,128	1,467	1,440	1,491	1,502	1,541
External debts	1,098	1,109	1,089	1,071	1,044	1,035	1,022	1,006
Total public debt	2,483	2,377	2,217	2,538	2,484	2,526	2,523	2,548
Government arrears	1,493	1,967	2,737	2,951	3,166	3,249	3,853	4,213
Total public debt including arrears	3,976	4,344	4,954	5,489	5,650	5,775	6,376	6,760
Total public debt including arrears as a percentage of GDP (%)	34.3	32.7	41.1	41.1	42.5	39.6	44.1	45.7

* According to the Q3 2017 data.

** Based on the trend trajectory for 2012–2017.

¹⁷ See PMA, Research and Monetary Policy Department, *Tatawwurat Maliayat al-Hukuma wa al-Dayin al-'Am, al-Rub' al-Thalith 2017* (The Development of Government Finance and the Public Debt Q3 2017) (Ramallah: PMA, November 2017), p. 10.

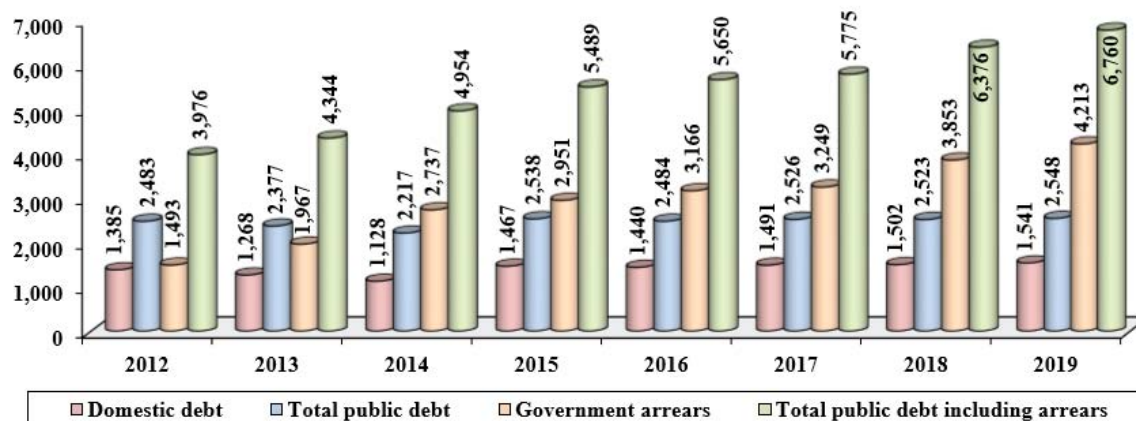
¹⁸ For public debt in 2012–2016, see PMA, Research and Monetary Policy Department, *Annual Report 2016* (Ramallah: PMA, September 2017), p. 96.

For Debt Arrears and their percentage in 2012–2014, see PMA, Research and Monetary Policy Department, *Tatawwurat al-Dayin al-'Am al-Hukumi, al-Rub' al-Rabi' 2014* (The Development of Government Public Debt, Q4 2014) (Ramallah: PMA, March 2015), Appendices p. 1.

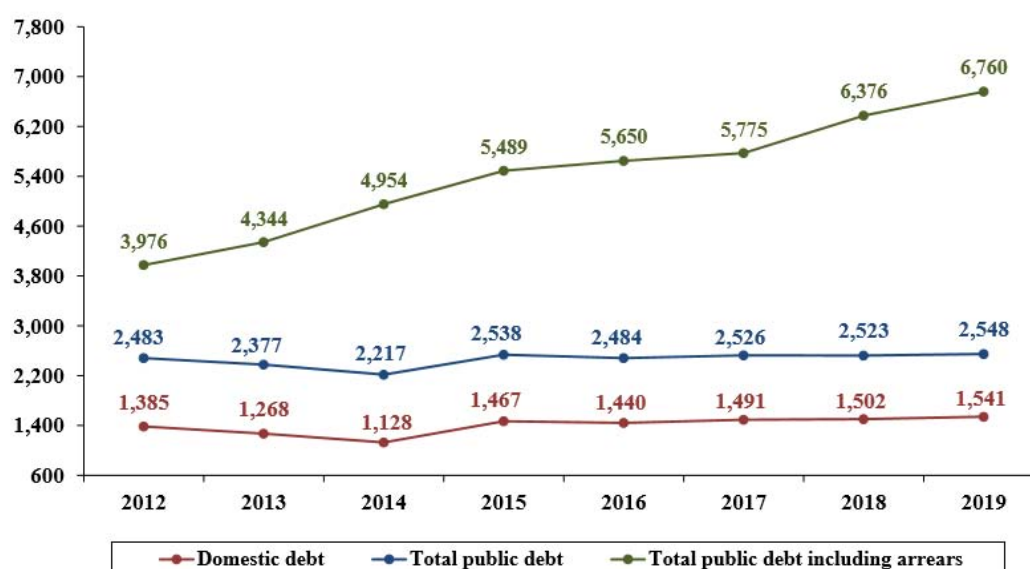
As for the public debt of 2017, and debt arrears and their percentage 2015–2017, see PMA, Research and Monetary Policy Department, *Tatawwurat Maliayat al-Hukuma wa al-Dayin al-'Am, al-Rub' al-Thalith 2017*, p. 15.



Public Debt and Arrears 2012–2019 (\$ million)



PA Government Public Debt and Arrears for 2012–2019 (\$ million)



Examining Table 18/2, the public debt in its different forms remained high despite the limited improvement in 2017 figures compared to the previous year, while external debt decreased by 0.9%, and arrears rose by 2.6% according to Q3 figures of 2017. One of the signs of the sustained high debt is the fact that, even without including arrears, it accounted for some 70% of the net public revenue excluding grants in 2016 (See table 19/2). Whereas, when calculating arrears, the government’s public debt ceiling rose to record levels that represented about 42.5% of GDP at the end of 2016. This exceeds the limit permitted by the Palestinian Public Debt Law No. 24 for 2005, which is 40%.¹⁹ This demonstrates the weakness of government finances, with their heavy dependence on non-regular grants and external aid, and constitutes a very serious financial burden, with the

¹⁹ PMA, Research and Monetary Policy Department, *Annual Report 2016*, p. 32.

general budget deficit continuing, along with the difficulties of debt repayment on the other. This was despite a decline in debt to the GDP ratio to 39.6% in 2017, a high proportion in all cases.

This requires the identification of the main factors controlling debt, namely: developments in public finances in terms of deficits/surpluses, accumulation of arrears vis-à-vis the private sector and public sector employees, and developments regarding the exchange rate of the Israeli shekel,²⁰ as well as the level of interest on the debt that amounted to approximately \$74 million in 2016.²¹ The government is therefore required to continue the policy of reducing debt in its various forms, so that it is completely eliminated, even if this can only be accomplished in the long run.

In the light of the persistence of the general budget deficit, especially given the large amount of interest paid annually and the decline in grants and external aid, it is expected that the public debt for 2018–2019 will remain, ranging between \$6,400 and \$6,800 million, based on the general trend trajectory. Thus, the risks posed by government indebtedness continue, and there is an urgent need to re-activate the system of the United Nations Conference on Trade and Development (UNCTAD) for debt management and financial analysis, in order to improve the quality of public money management, mitigate risks and ensure the sustainability of public debt away from additional risks.²²

4. The PA's General Budget

The general budget is the primary tool used in the management of public funds, both in revenues and expenditures, in line with the objectives pursued by the government, through the preparation of this budget in accordance with the regulations and legislation in force.

²⁰ MAS, PCBS and PMA, *al-Muraqib al-Iqtisadi wa al-Ijtima'i, al-'Addad al-Sanawi 2015* (Economic and Social Monitor, Annual Volume 2015) (Ramallah: May 2016), Issue 44, p. 27, <http://www.mas.ps/files/server/20161306133152-2.pdf>; and for Executive Summary of the same report in English, see

<http://www.pma.ps/Portals/1/Users/002/02/2/Publications/English/Quarterly%20Reports/Economic%20Monitors/Qmonitor%2044%20english.pdf>

²¹ PMA, Research and Monetary Policy Department, *Tatawwurat Maliyyat al-Hukuma wa al-Dayin al-'Am, al-Rub' al-Thani 2017* (The Development of Government Finance and the Public Debt Q2 2017) (Ramallah: August 2017), p. 16.

²² 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, Geneva, TD/B/64/4, 11–22 September 2017, <https://unispal.un.org/DPA/DPR/unispal.nsf/0/9EF3A17CCD1DF05A852581790069FFF8>



The National Consensus Government suffered, over the course of 2016 and 2017, from clear financial and economic difficulties, owing to its heavy dependence on external aid, which had declined compared to previous years.

Regarding the outlook for 2018–2019 covered in the table, amid uncertainty about future developments locally and externally, and in light of the difficulty of building or relying on a specific scenario, we have decided to adopt the general trend concerning growth over 2012–2017 to measure the financial situation. The results seem to capture the government’s effort to combine deficit reduction with the adjustment to the reduction and irregularity of grants.

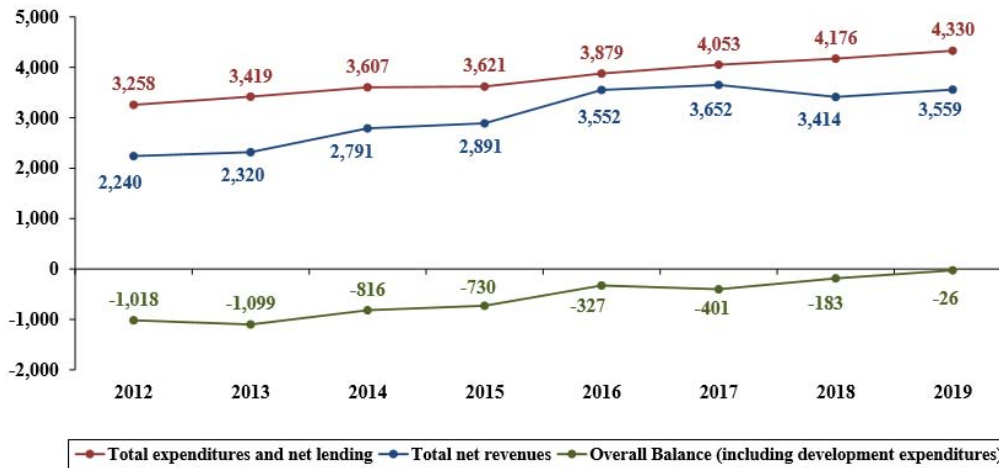
Table 19/2: Fiscal Operations of the PA (Cash Basis) 2012–2019 (\$ million)²³

	Actual						Forecasts*	
	2012	2013	2014	2015	2016	2017	2018	2019
Total net revenues	2,240	2,320	2,791	2,891	3,552	3,652	3,414	3,559
Current Expenditures and Net Lending	3,047	3,251	3,446	3,445	3,662	3,795	3,938	4,080
Development expenditures	211	168	161	176	217	258	238	250
Total expenditures and net lending	3,258	3,419	3,607	3,621	3,879	4,053	4,176	4,330
Overall Balance (including development expenditures)	-1,018	-1,099	-816	-730	-327	-401	-183	-26
Grants and donations	932	1,358	1,230	797	766	720	640	547
Balance after external budgetary support	-86	259	414	67	439	319	457	521

* Based on the trend trajectory for 2012–2017.

²³ PMA, Revenues, Expenditures and Financing Sources of PNA Fiscal Operations (Cash Basis), http://www.pma.ps/Portals/1/Users/002/02/2/Time%20Series%20Data%20New/Public_Finance/revenues_expenditures_and%20financing_sources_of_pna_fiscal_operations.xls; and PMA, Table (35): PNA Revenues, Expenditures and Financing Sources (Cash Basis), http://www.pma.ps/Portals/1/Users/002/02/2/Monthly%20Statistical%20Bulletin/Public%20Finance/table_35.xls

Public finances of the PA 2012–2019 monetary basis (\$ million)



The general trend trajectory for 2012–2017 indicated revenue growth by 63% in 2017 compared to 2012, at an average annual cumulative rate of 10.3%. As for expenditures, the general trend for the years 2012–2017 indicated a growth of 24.4% in 2017 compared to 2012, at an annual cumulative rate of 4.5% (see table 19/2).

Observers studying the finances of the PA in 2016 and 2017 will find that the overall public expenditures in both current and development categories rose at a rate of 7.1% and 4.5% respectively, at an average of 5.8%, reflecting a move towards austerity (see table 19/2).

Concerning public revenues, which included tax and non-tax domestic revenues, besides clearance revenues and tax refunds, the data indicated a significant increase during the period 2015–2016. Growth achieved stood at 22.9% in 2016, reflecting improved finances. In line with the significant decline in external grants, starting from 2015 throughout subsequent years, there was a reduction in the overall balance (including development expenditures) of approximately 55.2%, lowering the deficit to \$327 million in 2016. However, this deficit rose in 2017 to \$401 million (see table 19/2). It is not valid to build on this result as a viable one however, even if it appears to be positive relative to 2015, especially since the reduction of public expenditures in 2017 was achieved through large salary cuts for government employees in GS starting from March 2017, as part of the PA’s move to impose terms on Hamas. Indeed, the commitments of the government would increase following the accord reached between the two sides in October 2017. It is therefore expected that new financial burdens would be imposed on the government.

Despite the decrease in the value of grants, the deficit turned into a surplus in varying levels during the period 2012–2017. In light of this and with a view to improving economic conditions and laying the foundations for sustainable growth, the World Bank recommended that the PA “has to address government spending in payroll and pension payments and improve its revenue collection through the domestic tax system.”²⁴

Despite the harsh measures taken by the government with the beginning of April 2017 in GS (to pressure Hamas into compliance), including reducing the salaries of public sector employees²⁵; the government undertook a series of measures to improve the situation in WB. In early June 2017, Prime Minister Rami Hamadallah met with the Israeli Minister of Finance Moshe Kahlon and discussed ways of providing Israeli economic facilities in WB with him, with a view to alleviating the financial crisis facing the government.²⁶

The government also approved a system for safeguarding the rights to movable property, which could help revive the Palestinian economy and support the development of the business sector, particularly in relation to medium-and small-scale enterprises.²⁷

In August 2016, the government signed an exploration and drilling agreement for the Rantis oil field west of Ramallah with the Palestine Investment Fund, which marked the first attempt to exploit gas and oil resources in Palestine.²⁸ On 13/9/2016, the head of the General Authority For Civil Affairs Hussein al-Sheikh signed a historic memorandum of understanding with Israel to regulate the energy sector in Palestine.²⁹ Prime Minister Rami Hamadallah launched an action plan to establish a new electricity market in the WB and GS on 22/3/2017.³⁰

²⁴ World Bank Calls for Decisive Policies by All Parties to Stop the Deterioration of the Palestinian Economy, The World Bank, 27/4/2017, <http://www.worldbank.org/en/news/press-release/2017/04/27/world-bank-calls-for-decisive-policies-by-all-parties-to-stop-the-deterioration-of-the-palestinian-economy>

²⁵ *Al-Ayyam* newspaper, Ramallah, 9/4/2017; and *Al-Hayat*, 9/4/2017.

²⁶ Palestine News and Information Agency (WAFA), 1/6/2017; and site of Arabs 48, 1/6/2017.

²⁷ *Al-Ayyam*, 1/6/2016.

²⁸ Aljazeera.net, 18/8/2016. (in Arabic)

²⁹ *Alquds*, 13/9/2016.

³⁰ WAFA, 22/3/2017.

As part of its anti-corruption efforts, Chairman of the Anti-Corruption Commission Rafik al-Natsheh said he had recovered \$70 million in five years, albeit his investigators had failed to uncover evidence to explain the alleged disappearance of hundreds of millions of dollars of government funds. Natsheh said there was a need to track down tens of millions of dollars that had disappeared abroad.³¹

On 11/7/2017, the government approved the establishment of an industrial zone near Tarqumiya Crossing in Hebron, which is expected to offer more than 20,000 jobs.³² On 12/7/2017, Minister of National Economy Abeer Odeh met with Israeli Minister of the Economy and Industry Eli Cohen to discuss increased economic cooperation, including increasing the number of workers allowed to enter Israel, and increase the export of food and electricity products to Palestinian cities.³³ At the end of October 2017, Prime Minister Rami Hamadallah and senior PA officials met with the Israeli Minister of Finance Moshe Kahlon and discussed the possibility of setting up Palestinian industrial zones.³⁴

5. Work, Unemployment and Poverty

Work is a critical human economic resource, utilizing available energy and productive capacities based on the worker's skill and innovation. Employment is also a natural right guaranteed to every adult who is capable of undertaking it, with the result that the worker is able to earn the income that meets his or her needs. However, a job opportunity is conditioned on the market's need for the worker's services, and on the specifications needed by the job. When the market is unable to absorb additional employment, unemployment emerges. It can be either high or low, permanent or temporary. In the Palestinian case, unemployment is high and chronic, which constitutes a waste of the productive energy of the workforce, and a loss resulting from the wasted income and output.

³¹ Reuters News Agency, 23/2/2016. (in Arabic)

³² WAFA, 11/7/2017.

³³ *Asharq al-Awsat* newspaper, London, 14/7/2017.

³⁴ *Asharq Alawsat*, 31/10/2017.

Table 20/2: Distribution of Palestinians Aged 15 Years and Above in the WB and GS by Labor Force and Unemployment 2012–2019 (thousands)³⁵

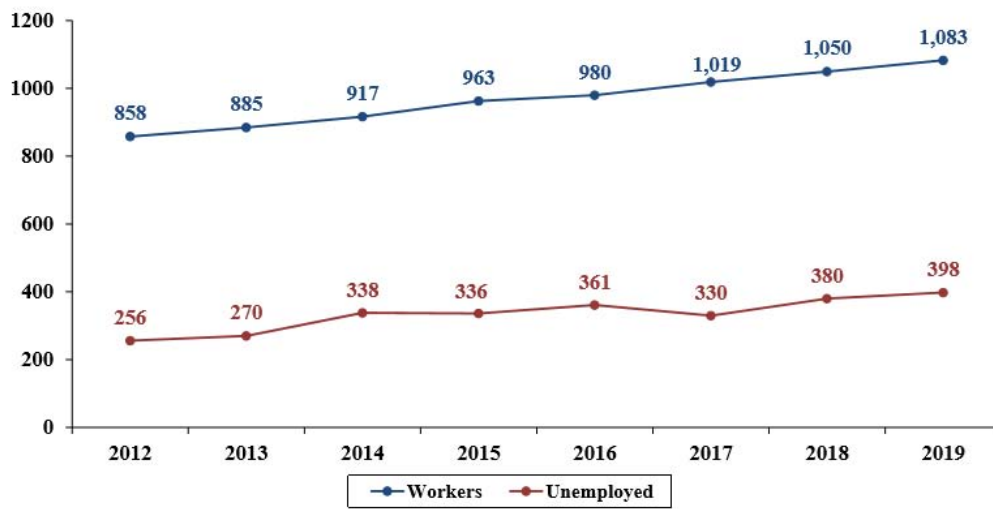
		Actual						Forecasts*	
		2012	2013	2014	2015	2016	2017	2018	2019
WB	Labor force	743	759	811	828	844	850	887	910
	Workers	602	618	668	685	690	733	755	781
	Unemployed	141	141	143	143	154	117	132	129
	% of unemployment	19	18.6	17.7	17.3	18.2	13.8	14.9	14.2
GS	Labor force	371	396	444	471	497	499	543	570
	Workers	256	267	249	278	290	286	295	302
	Unemployed	115	129	195	193	207	213	248	268
	% of unemployment	31	32.6	43.9	41	41.7	42.7	45.6	47.1
WB & GS	Labor force	1,114	1,155	1,255	1,299	1,341	1,349	1,430	1,481
	Workers	858	885	917	963	980	1,019	1,050	1,083
	Unemployed	256	270	338	336	361	330	380	398
	% of unemployment	23	23.4	26.9	25.9	26.9	24.5	26.5	26.9
Workers in Israel and settlements		83.2	99.4	107.3	112.7	117.2	126.6	135	143

*Based on the trend trajectory for 2012–2017.

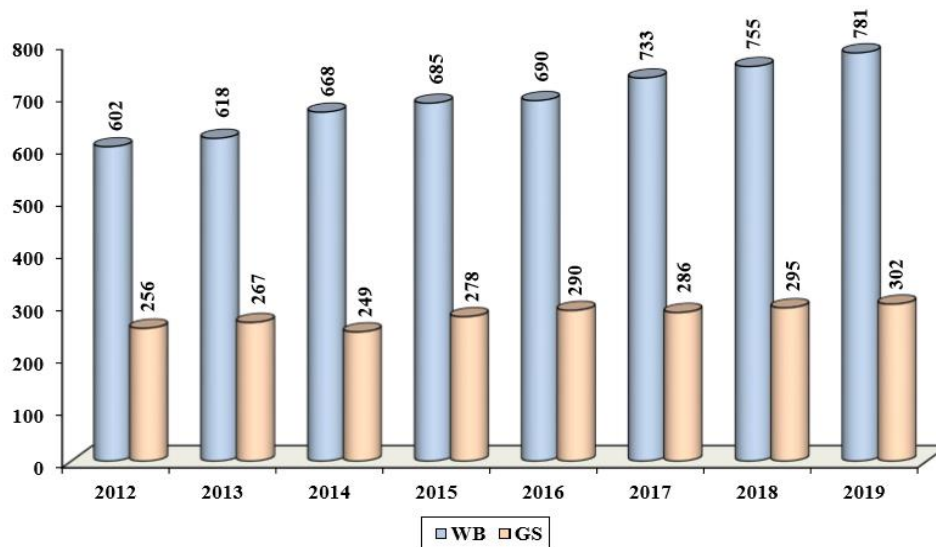
³⁵ PCBS, *Labour Force Survey: Annual Report 2016* (Ramallah: PCBS, April 2017), <http://www.pcbs.gov.ps/Downloads/book2266.pdf>

Also see PCBS, *Labour Force Survey: (October-December, 2017) Round, (Q4/2017), Press Report on the Labour Force Survey Results* (Ramallah: PCBS, February 2018), 13/2/2018, http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_13-2-2018-LF-en.pdf

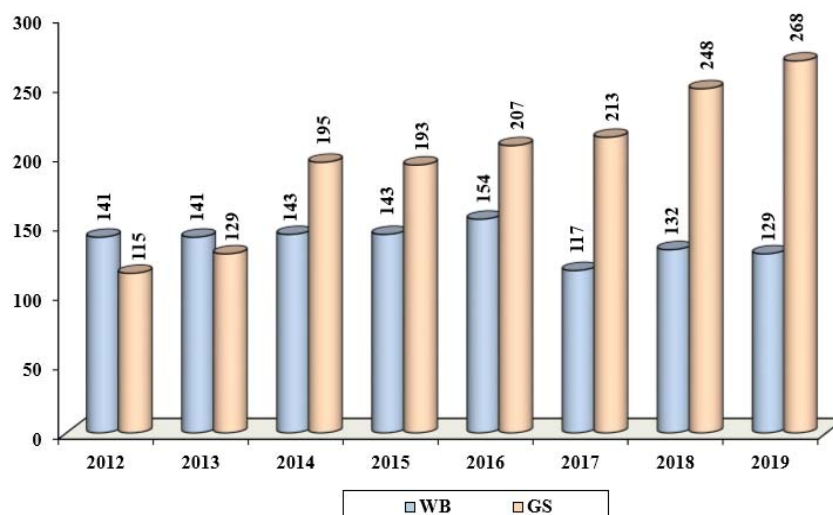
Distribution of Palestinians Aged 15 Years and Above in the WB and GS by Labor Force and Unemployment 2012–2019 (thousands)



Palestinians Workers in WB & GS 2012–2019 (thousands)



Unemployed Palestinian in WB & GS 2012–2019 (thousands)



We note from the table 20/2 a sustained increase in the size of labor force, a natural consequence of population growth. This has been accompanied by persistent high unemployment rates in 2016–2017. The total labor force in WB and GS stood at around 1.349 million in 2017, including 850 thousand in WB representing a participation rate of 44%, and 499 thousand in GS with a participation rate of 44.1%. In other words, more than half of the adult population were dependents who did 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, was a markedly low rate compared to other countries.³⁶

The number of actual workers reached 1.019 million at the end of 2017, including 733 thousand in WB (71.9%) and 286 thousand in GS (28.1%). Those working in Israel and the Israeli settlements in WB are part of this workforce, numbering a total of 126,600 Palestinians or 12.4% of the total number of workers. This reflects the inability of the PA to provide appropriate alternatives, both for those who work in Israel or its settlements. In terms of classification by sector, the service sector accommodated the highest number of workers (33.3% in WB and 54.3% in GS). The public sector absorbed 21.2% of total workers (15.3% in WB and 36.2% in GS), indicating limited job opportunities in the private sector in GS.³⁷

As for the unemployed, they numbered 330 thousand in 2017 in WB and GS, including 117 thousand in WB and 286 thousand in GS. The unemployment rate in WB and GS, but specifically in the latter, is considered one of the highest globally when compared with other countries. Unemployment in the US stands at about 5%, Japan 3%, China 4%, and Brazil at 7%. In Israel, unemployment was approximately 5% in 2016.³⁸

Another characteristic of Palestinian unemployment is the markedly high female unemployment, which in 2016 was about 44.7%, due to a labor market unfavorable for women, especially those with a high level of academic attainment, among whom unemployment was 50.6%. In this context, unemployment rates in refugee camps are higher than in urban and rural communities, averaging about 36.9% in 2016.³⁹

³⁶ *Ibid.*

³⁷ *Ibid.*

³⁸ PMA, *Annual Report 2016*, p. 16.

³⁹ *Ibid.*, p.16.

The PA has allowed Palestinians to work in Israel to alleviate the high unemployment and secure sources of income. However, practical experience has proven the failure of this policy because of Israeli-imposed restrictions and controls.⁴⁰ The increased dependence of Palestinians on employment in Israel, in light of the scarcity of local employment opportunities, reflected increased Palestinian economic vulnerability and dependence. In turn, high unemployment and a low level of participation by the workforce threatened citizens' ability to consume or invest. This situation risks exacerbating the medium-and long-term economic problems⁴¹ and it contributes to strengthening the Israeli economy, which is instrumental in further suppressing the Palestinian people and altering the facts on the ground.

Despite generally limited employment opportunities, a segment of children aged between 10–17 years, representing 3.2%⁴² of the total population of this age group, were engaged in the labor market before getting the minimum level of education required. They also work in harsh conditions that are not appropriate for their age, and do not receive a fair wage. Such employment is often unprotected by any rights guaranteed under Palestinian labor law, making child employment a complex, multifarious phenomenon. It is directly linked with the economic crisis represented by the unprecedented poverty and unemployment rates.⁴³

The difficult conditions of unemployment have worsened social problems and promoted harmful consumerist behavior, especially among young people, such as smoking, where the proportion of smokers has reached 23.5% among Palestinians, 29.5% in WB and 14% in GS.⁴⁴ The majority of these smokers are unemployed, causing health damage with significant repercussions on health spending, coupled with the low productive capacity of smokers.

Regarding forecasts for the Palestinian labor market for the period 2018–2019, things look thorny in a way that makes it difficult to produce appropriate estimates under prevailing conditions. The signing of the reconciliation

⁴⁰ *Ibid.*, p. 41.

⁴¹ PMA, Research and Monetary Policy Department, *Taqrir al-Tatawwurat al-Iqtisadiyyah, al-Rub' al-Thani 2017* (Economic Developments, Q2 2017) (Ramallah: November 2017), p. 5.

⁴² PCBS, *Labour Force Survey: (October-December, 2017) Round, (Q4/2017)*.

⁴³ Birzeit University – Development Studies Programme, and United Nations Children's Fund (UNICEF) occupied Palestinian territory, *The Children of Palestine in the Labour Market (A Qualitative Participatory Study)* (Ramallah and Jerusalem: October 2004), p. 74,
<http://home.birzeit.edu/cds/new-cds/sites/default/files/sites/default/files/publications/children.pdf>

⁴⁴ PCBS, International Youth Day, 12/8/2017,
<http://www.pcbs.gov.ps/post.aspx?lang=en&ItemID=2048>

agreement on 12/10/2017 imposed a new reality: Large numbers of civil servants were not in their jobs but received salaries, while others are worked but awaited their payment. Many were sacked because of their political affiliations and remain in limbo since 2005. In the meantime, there has been high annual population growth coupled with the entry of additional jobseekers into the labor force, amid weak economic growth and continued obstacles that prevent the market from creating enough jobs. All this has made it difficult to expect concrete achievements with regard to the Palestinian labor market.

A commitment by the government to tackle high unemployment as part of its Palestinian affairs reform, would leverage available resources internally and externally. It is also committed to adopt the National Policy Agenda for 2017–2022 and pursue the Sustainable Development Goals 2016–2030. Without these, what can be achieved will be much lower than expected as unemployment could reach 26.7% for the years 2018–2019.

Regarding poverty, it is directly linked to, and generated by, unemployment. Usually, the poverty rate is higher than unemployment, especially for those who earn below the minimum wage level and are classified as poor. Based on high unemployment and denial of a fair wage, about two thirds of the Palestinian population live below the poverty line, with limited employment and security prospects. Here, international organizations often step in to assist them to earn a living and access food and water.⁴⁵

The Palestinian government is currently adopting an economic empowerment program to tackle poverty, starting with the institutionalization of the program within a time-bound framework, to broaden the number of beneficiaries among marginalized and impoverished groups. The national vision for the fight against poverty also consists of vigorous endeavors to create jobs to promote self-reliance, and remove marginalized groups from the cycle of destitution and poverty and to engage in the production cycle.⁴⁶ The government established the National Anti-Poverty Commission pursuant to the decision of the Council of Ministers on 31/1/2005, led by the Minister of Planning, with the economic development

⁴⁵ Site of Oxfam, Occupied Palestinian Territory and Israel, <https://www.oxfam.org/en/countries/occupied-palestinian-territory-and-israel>

⁴⁶ The Board of Trustees of Economic Empowerment Emphasizes Good Governance and Synergy of Social and Economic Interventions, *Alquds*, 26/8/2017, Issue no. 17316, p. 14. (in Arabic)

plan, which was in force in time, focusing on the fight against poverty.⁴⁷ However, it remains insufficient to form competent bodies without offering genuine solutions and substantive contributions.

The government has responded to calls by representatives of employees and employers, and formed a ministerial committee to reassess social security law, thus ensuring legal and social protection for all groups in society.⁴⁸ The prime minister announced his government's support for cooperative housing projects in some WB areas, to help alleviate poverty and unemployment, and develop services for the Palestinian community.⁴⁹ It has also provided financial support for the development of quality services in some WB villages.⁵⁰

On 3/7/2017, the Minister of Labor Mamoun Abu Shahla signed an agreement with International Labor Organization (ILO) to establish an independent Palestinian social security institution to administer the new social security system to the value of \$500 thousand.⁵¹

Hunger is a natural result of the poverty, deprivation and destitution of some segments of society when they are unable to meet their basic needs, amid persistent difficulty of access, with the difficulty of achieving equity in the distribution of food aid. As a result, the risks posed by poverty escalate, leading to malnutrition, which exacerbates the poverty loop. Food insecurity in Palestine is at alarming levels, with 27% of all households estimated as food insecure. The prospects are not positive either.⁵²

6. Industrial Activity

Industrial activity is one of the levers of productive growth, economic prosperity and social well-being, thanks to its ability to produce a vast quantity of products, with great potential to keep up with creative and innovative developments and catch up with the technological revolution. This in turn stimulates investments in new ventures with high added value and absorbs large

⁴⁷ An interview with his Excellency Mister Ghassan al-Khatib Minister of Planning, *Al-Faqr wa al-Tanmiyyah fi al-Arabi al-Filastiniyyah* magazine, Ministry of Planning – General Directorate of Human Resources Development, Palestine, First Issue 2005, p. 4. (in Arabic)

⁴⁸ *Al-Hayat al-Jadida*, 21/4/2016.

⁴⁹ Wafa, 24/7/2016.

⁵⁰ Wafa, 30/3/2017.

⁵¹ Wafa, 3/7/2017.

⁵² MAS, Food Security Bulletin, Issue 15, Winter 2016, p. 1, <http://www.mas.ps/files/server/20171204113143-1.pdf>

numbers of workers. It also plays a significant role in exploiting available resources and delivering to global markets via export.

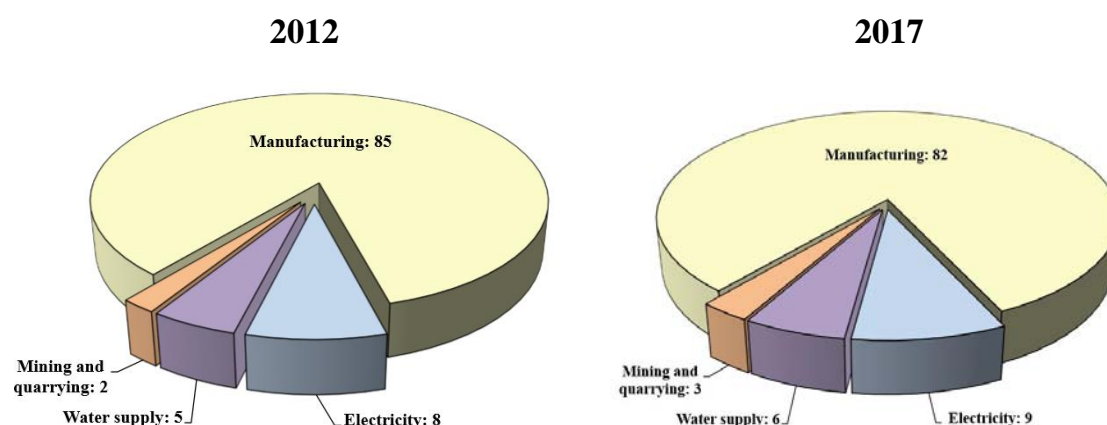
Table 21/2: Industrial GDP in PA Territories 2012–2019 at Constant Prices (\$ million)⁵³

Item	Actual					Estimate*	Forecasts**	
	2012	2013	2014	2015	2016	2017	2018	2019
Mining and quarrying	35.8	66.9	58	50	48.3	50.7	53	53
Manufacturing	1,481.6	1,545.1	1,461	1,347.7	1,431.1	1,453.2	1,394	1,376
Electricity, gas, steam and air conditioning supply	143.1	150.2	158.7	156.2	153.8	160.3	163	166
Water supply, sewerage and waste management	87.9	88.8	84.6	102.8	106.9	110.4	115	121
Total	1,735.7	1,842.1	1,757.7	1,656.7	1,740.1	1,774.5	1,730	1,724
% of GDP	14.5	15	14.3	13.1	13.1	13	12	12
Average annual growth or deterioration (%)	+13.3	+6.1	-4.6	-5.7	+5	+2	-3	-5

* Based on estimates for the first three quarters of 2017.

** Based on the trend trajectory for 2012–2017.

% Industrial Sector Activities of GDP, 2012 and 2017



⁵³ For Palestinian GDP per Capita in 2012–2016, see Key National Accounts Indicators in Palestine 1994–2016 at Constant Prices, 2015 as the base year, PCBS. (in Arabic)
As for 2017, see PCBS, Preliminary Estimates of Quarterly National Accounts (Second Quarter 2017) Main Results, <http://www.pcbs.gov.ps/site/512/default.aspx?lang=en&ItemID=2527>

Industrial GDP in PA Territories 2012–2019 at Constant Prices (\$ million)

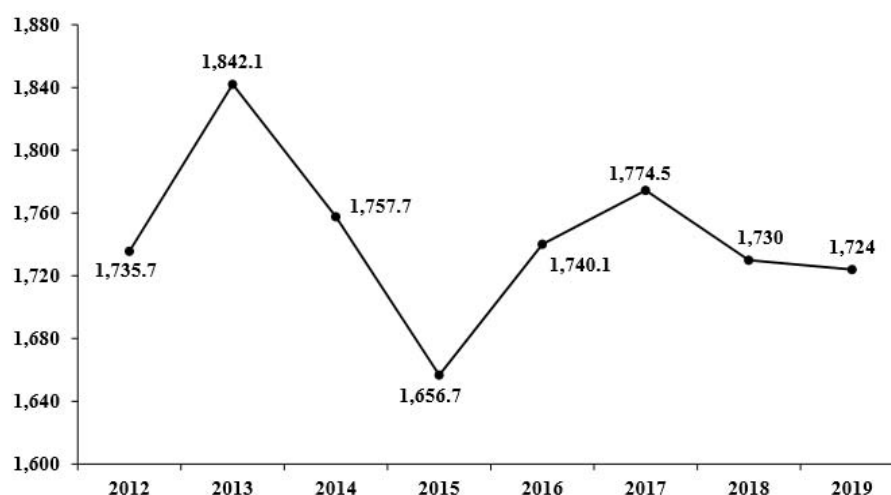


Table 21/2 indicates that there has been a marked decline and volatility in industrial activity, through its slow growth and low contribution to domestic output. The decline was more pronounced in mining and quarrying, due to many obstacles. As for GS, it has suffered economically, because of Israel's destruction of a large number of production facilities. Unfortunately, there was only partial reconstruction, either with donor support or at the expense of its owners or through loans,⁵⁴ making the GS's contribution to the industrial sector rather limited, and this generally negatively impacted Palestinian industrial growth.

Because industry is closely linked to energy, the Palestine Investment Fund adopted a comprehensive energy vision to promote energy independence and reduce energy costs. A company was established under the name Massader for the development and exploitation of natural resources and renewable energy. The Noor Palestine Solar Program was developed to produce electricity from solar energy in some areas, and efforts were launched to develop the Gaza Marine Palestinian Gas Field in Palestinian maritime zones.⁵⁵ Given the importance of industry, including the construction industry, the National Policy Agenda for 2017–2022 was keen to offer support and encouragement, and seek investments as a top priority.⁵⁶

⁵⁴ Palestinian Centre for Human Rights (PCHR), *Economic Facilities in the Gaza Strip: Systematic Destruction and a Continuous Siege*, Gaza, June 2017, p. 5, <http://pchr.org/ar/wp-content/uploads/2017/05/PCHR-BOOK-31-5.pdf> (in Arabic)

⁵⁵ Palestine Investment Fund Launches the Largest Solar Investment Program in Palestine, *Alquds*, 14/9/2017, Issue no. 17274, p. 15. (in Arabic)

For more information, see site of Massader, <http://www.massader.ps/en/page/about-massader>

⁵⁶ The Opening of Building Materials and Services and Infrastructure Exhibition, *Alquds*, 27/9/2017, Issue no. 17287, p. 18. (in Arabic)

When talking about industry and agriculture together, there is reason to be interested in their potential to achieve large-scale savings, and expanding the scope of employment, because they are more dynamic and innovative than sectors like services and construction. In addition, their products are exportable, which promotes technological progress, efficiency and international competitiveness. However, the growth of the two activities is also hindered by the lack of a national currency, through the dependency on unilateral monetary policies of Israel, which weaken the international competitiveness of the already weak Palestinian economy.⁵⁷

As for the growth prospects of 2018–2019, the forecasts clearly demonstrate a continued deterioration of this activity, especially from the perspective of output value and its percentage of the GDP.

7. Agricultural Activity

Agriculture and livestock farming is productive work of great importance for providing for the needs of domestic markets with the most essential commodities, as well as raw material for manufacturing industries, in addition to providing direct and indirect employment opportunities.

Table 22/2: Agricultural GDP in PA Territories 2012–2019 at Constant Prices (\$ million)⁵⁸

Item	Actual					Estimates*	Forecasts**	
	2012	2013	2014	2015	2016	2017	2018	2019
Agricultural GDP	574.4	525	485.2	450.1	413.5	376.1	335	296
Average annual growth or deterioration (%)	-17	-8.6	-7.6	-7.2	-8.1	-9	-5	-4
% of GDP	4.8	4.3	4	3.6	3.1	2.8	2	2
Contribution to labor force (%)	11.5	10.5	10.4	8.7	7.4	6.7	6	5

* Based on estimates for the first three quarters of 2017.

** Based on the trend trajectory of 2012–2017.

⁵⁷ UNCTAD, Report on UNCTAD Assistance to the Palestinian People: Developments in the Economy of the Occupied Palestinian Territory, Geneva, TD/B/64/4.

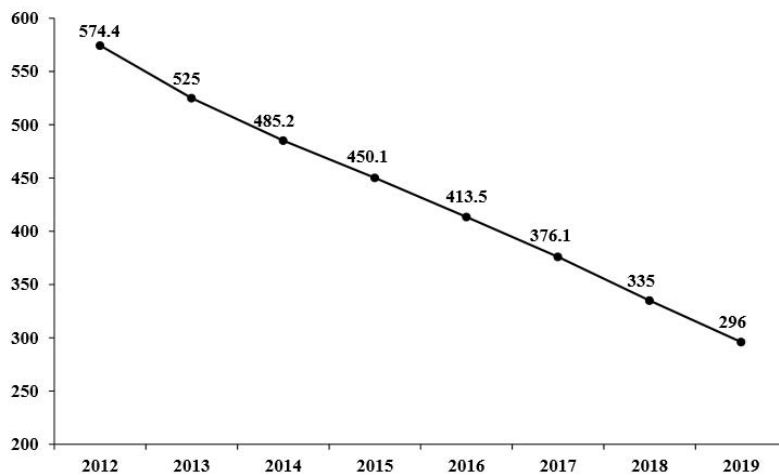
⁵⁸ For 2012–2016, see Key National Accounts Indicators in Palestine 1994–2016 at Constant Prices, 2015 as the base year, PCBS. (in Arabic)

As for 2017, see PCBS, *Press Report: Preliminary Estimates of Quarterly National Accounts (Third Quarter 2017)*.

As for labor force participation rate, see PCBS, *Labour Force Survey (October–December, 2014) Round (Q4/2014) Press Report on the Labour Force Survey Results* (Ramallah: PCBS, 2015), 12/2/2015, http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_LFS-Q4-2014-e.pdf

See also PCBS, *Labour Force Survey: (October-December, 2017) Round, (Q4/2017)*.

Agricultural GDP in PA Territories 2012–2019 at Constant Prices (\$ million)



Developments in agricultural activity reflect the decline in its added value and its declining contribution to GDP from 4.8% to 2.8% during the period 2012–2017, amid Israel’s systematic obstruction of its development and growth. In WB, there is the Separation Wall, checkpoints, land confiscation, settlement building, uprooting of trees, seizure of crops, and destruction of infrastructure, with Israel dominating more than 62% of WB territories and 85% of its water resources, stalking farmers and preventing them from reaching their land. In addition, the cultivated land is used at a rate of only 21% while 93% is not irrigated.⁵⁹

In GS, it is forbidden for Palestinians to cultivate or approach the border areas, and exporting surplus agricultural crops is banned except in very limited quantities, while the fishing zone is severely restricted as Israel routinely clamps down on Palestinian fishermen and confiscates their boats.

Climate change is another obstacle to agriculture, as the phenomenon expands locally, regionally and globally, affecting the conditions of agricultural work. The effects range from yield reductions and increased yield variability to displacement of crops and the loss of agrobiodiversity and ecosystem services.⁶⁰

Although agricultural activity has the potential to absorb additional labor, the proportion of workers in this sector declined significantly from 11.5% to 6.7% during the period 2012–2017. One reason is the scarcity of irrigation water and the high cost of production, and attacks by settlers on farmers, forcing them to search for alternative work.

⁵⁹ UNCTAD, Report on UNCTAD Assistance to the Palestinian People: Developments in the Economy of the Occupied Palestinian Territory, Geneva, TD/B/64/4.

⁶⁰ Food and Agriculture Organization of the United Nations (FAO), The State of Food and Agriculture: Climate Change, Agriculture and Food Security, Fortieth Session, Rome, 3-8/7/2017, p. 3, <http://www.fao.org/3/a-mt194e.pdf>

Regarding forecasts for the years 2018–2019, the general trend has revealed the persistent decline of agricultural activity, and a low rate of labor absorption in the sector. It is hoped that in the National Policy Agenda for 2017–2022 there will be a clear strategy for agricultural activity, to set its priorities and motivate donors to continue their support, and channel available funding towards key objectives to address the current state of decline.

8. Trade

Trade is one of the most important forms of international economic relations and the most advantageous in terms of the exchange of goods. However, the volume and benefits of trade and the fairness of its distribution are not always achieved equally among states, given different circumstances, and the capabilities and aspirations of each state.

The most important phenomenon affecting the PA's trade is Israeli control over this activity, accounting for most of the PA's exports and imports. The second basic phenomenon is the massive trade deficit of the PA because of aggressive and colonialist occupation policies.

Table 23/2: Commodity Trade Balance in PA Territories 2012–2019 at Current Prices (\$ million)⁶¹

Item	Actual						Forecasts*	
	2012	2013	2014	2015	2016	2017	2018	2019
Trade volume	5,479	6,065	6,627	6,184	6,291	6,341.3	6,619	6,749
Exports	782	901	944	958	927	1,038.1	1,062	1,101
Imports	4,697	5,164	5,683	5,226	5,364	5,303.2	5,557	5,648
Deficit	-3,915	-4,263	-4,739	-4,268	-4,437	-4,265.1	-4,495	-4,546
% Deficit to total imports	83.4	82.6	83.4	81.7	82.7	80.4	80.7	80.3
% Deficit to GDP⁶²	34.7	34.2	37.3	33.7	33.1	29.7	30.6	29.7

* Based on the trend trajectory for 2012–2017.

⁶¹ For 2012–2016, PCBS, *Registered Foreign Trade Statistics Goods and Services, 2016 Main Results* (Ramallah: PCBS, October 2017), <http://www.pcbs.gov.ps/Downloads/book2287.pdf?77b14=719730eb>
As for 2017, see The Observed Preliminary Results of Palestinian Commodity Exports and Imports and the Net Trade Balance by Month and Quarter for the Year 2017, http://www.pcbs.gov.ps/Portals/_Rainbow/Documents/A-Ftrade%202017.html (in Arabic)

⁶² PMA, Research and Monetary Policy Department, *Quarterly Statistical Bulletin, First Quarter 2017*, Volume 16, pp. 34–35, <http://bit.ly/2pcsfy0>

PA Trade Indicators 2012–2019 (\$ million)

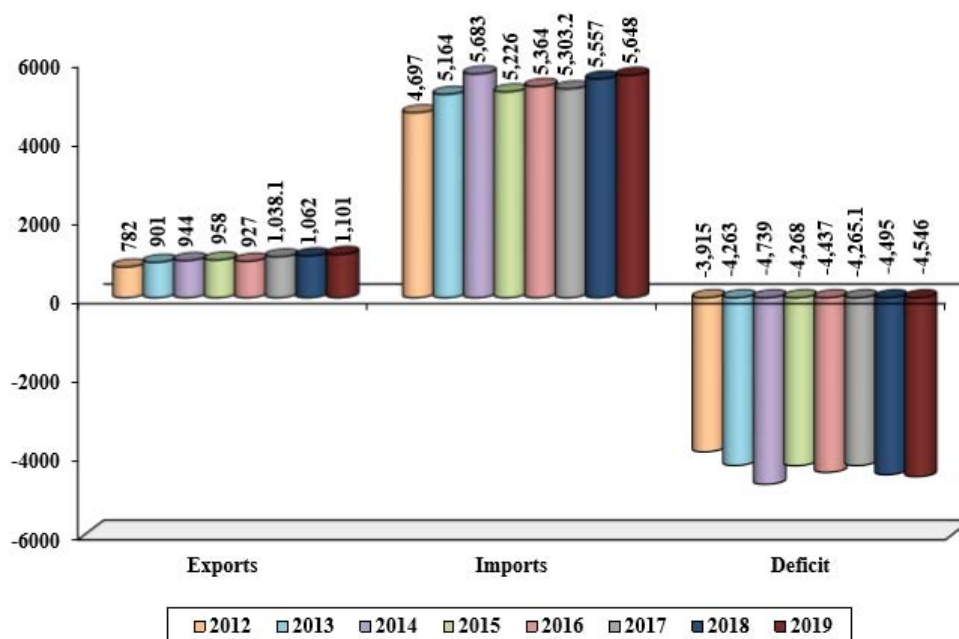


Table 23/2 shows the fluctuation of imports, despite their persistence at high levels, amid an irregular increase in exports although they remain far from catching up with the level of imports. As a result, in 2012–2017 the trade balance continued to suffer a serious deficit of 80.4–83.4% compared to total imports. There was also a downward trend in the trade balance, according to estimates for 2017, but it remained high in all cases.

Imports reached \$5,364 million in 2016, at a 2.6% increase compared to 2015, while the value of exports amounted to \$927 million, decreasing by –3.2%. Thus, the trade deficit for 2016 rose by 4% compared to the previous year, with a value of \$4,437 million or 82.7% of total imports (See table 23/2).

In 2017, imports decreased by \$60.8 million to about \$5,303 million from 2016 (1.1%). Exports rose to \$1,038 million, at a rate of 12%. The deficit thus dropped to \$4,265 million, a \$172 million decrease compared to the previous year at a rate of –3.9%. Accordingly, the deficit became 80.4% of total imports (see table 23/2).

The massive Palestinian trade deficit is a direct result of the weakness of the tradable goods sector and the inability of producers to penetrate export markets, as well as their inability to compete domestically against imports.⁶³ It is a very serious indicator, reflecting the decline in domestic production and the failure of the policies of self-reliance and substitution of imports.

⁶³ UNCTAD, Report on UNCTAD Assistance to the Palestinian People: Developments in the Economy of the Occupied Palestinian Territory, Geneva, TD/B/64/4.

At the geographical level, Israel accounts for the largest share of Palestinian imports with 58.3% and 58.2% during 2015 and 2016, respectively. Turkey ranks second with 7.3% and 8.9%, and then China by 7% and 7.1%, respectively. At the level of Palestinian exports, Israel also continues to receive the majority of them, with 83.9% and 83.2% during 2015 and 2016 respectively, which means that Israel is interested in isolating Palestinians from other partners and keeping them dependent, although on 14/3/2014 the Palestinian government created a team to prepare for a national export strategy for 2014–2018.⁶⁴ However, the reality of the situation is that the Palestinian economy has been losing capacity as a result of a poor investment climate mainly driven by Israeli-imposed restrictions on trade and a lack of access to resources in addition to the lack of political stability and weak governance and institutions.⁶⁵

At the time of writing, there is no detailed data on exports and imports of the PA in 2017. However, according to PCBS preliminary data on external trade in December 2017, Palestinian imports from Israel represented 56.6% of total import value during December 2017. At the export level, Israel also received 85.4% of total exports in December 2017.⁶⁶

It should be noted that CBS provides quite different figures on 2016 trade with the PA, where Palestinian imports from Israel amounted to about \$3,351 million, which is higher than the Palestinian official figure by about \$228 million. Total Palestinian exports to Israel were worth \$874 million, higher than Palestinian official figures by \$103 million.⁶⁷

Concerning external trade indicators for the years 2018–2019, the general trajectory for these indicators reveals a growing trade deficit. This underscores the need to adhere to firm policies to promote national products and substitute them for imports within the National Policy Agenda for 2017–2022. It also stresses the importance of the current government's bid to develop a Palestinian tariff system, as an alternative to the Israeli tariff system, in parallel with the

⁶⁴ PMA, Research and Monetary Policy Department, *Annual Report 2015* (Ramallah: PMA, October 2016), pp. 46–47, http://www.pma.ps/Portals/1/Users/002/02/2/Publications/English/Annual%20Reports/PMA%20Annual%20Reports/AR2015_en.pdf

⁶⁵ World Bank, Economic Monitoring Report to the Ad Hoc Liaison Committee, 18/9/2017, p. 10, <http://documents.worldbank.org/curated/en/515891504884716866/pdf/119657-WP-PUBLIC-on-Monday-1-PM-sept-11-AHLC-report-September-8.pdf>

⁶⁶ PCBS, Preliminary Results of the Palestinian Registered External Trade in Goods of December, 12/2017, 19/2/2017, <http://www.pcbs.gov.ps/post.aspx?lang=en&ItemID=3057>

⁶⁷ CBS, Statistical Abstract of Israel 2017, no. 68, table 16.2, http://cbs.gov.il/reader/shnaton/templ_shnaton_e.html?num_tab=st16_02x&CYear=2017

policy of Palestine's bid to join the World Trade Organization and take advantage of available Palestinian resources to build an independent economy and ease dependency on Israel.⁶⁸

Table 24/2: Volume of Palestinian Trade, Exports and Imports in Goods in PA Territories to/ from Selected Countries 2015–2016 (\$ thousand)⁶⁹

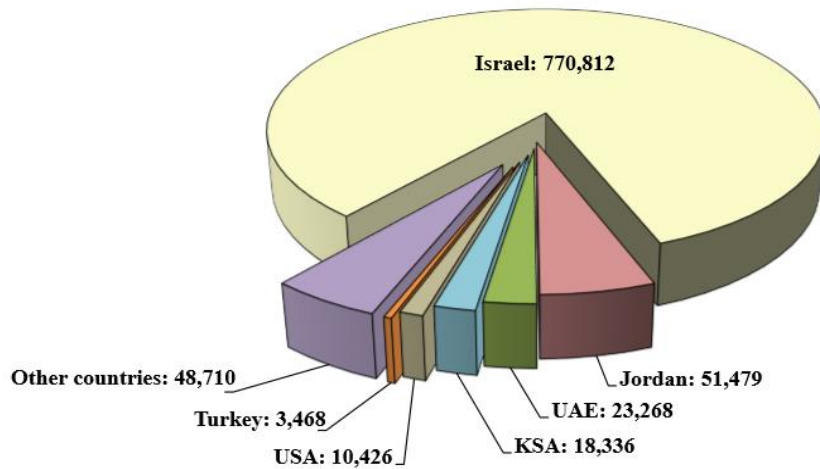
Country	Trade volume		Palestinian exports to		Palestinian imports from	
	2016	2015	2016	2015	2016	2015
Israel	3,894,002	3,848,253	770,812	803,626	3,123,190	3,044,627
Turkey	480,154	382,161	3,468	3,154	476,687	379,008
China	382,740	368,038	61	1	382,679	368,037
Jordan	183,005	202,069	51,479	60,127	131,525	141,942
Germany	186,616	149,406	669	921	185,947	148,485
KSA	88,504	86,701	18,336	14,753	70,168	71,948
Italy	77,933	70,134	1,493	1,306	76,439	68,829
France	69,319	67,839	1,209	1,562	68,111	66,277
Spain	68,808	72,505	441	89	68,366	72,416
Egypt	65,256	67,650	65	189	65,191	67,461
US	65,219	65,941	10,426	10,700	54,793	55,241
Ukraine	60,227	53,859	2	3	60,225	53,856
UAE	59,219	51,805	23,268	18,694	35,951	33,111
Poland	47,976	36,115	1,668	2,572	46,308	33,543
Other countries	561,289	660,802	43,102	40,114	518,188	620,686
Total	6,290,267	6,183,278	926,499	957,811	5,363,768	5,225,467

⁶⁸ High Palestinian Trade Policy That Includes a Tariff System and a Foreign Trade Law, MAS, 30/5/2017, http://www.mas.ps/ar_page.php?id=43905y276741Y43905 (in Arabic)

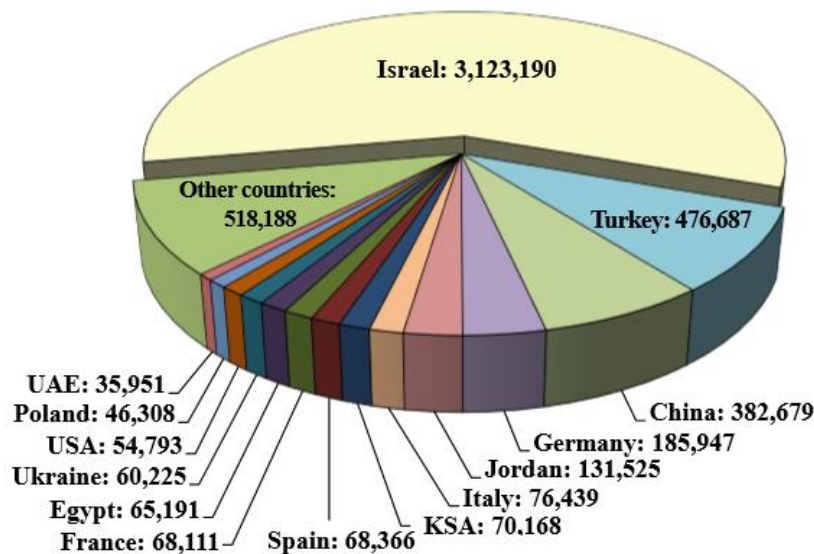
⁶⁹ PCBS, *Registered Foreign Trade Statistics Goods and Services, 2016 Main Results* (Ramallah: PCBS, October 2017), <http://www.pcbs.gov.ps/Downloads/book2287.pdf?77b14=719730eb>



**Palestinian Exports in Goods in PA Territories to Selected Countries 2016
(\$ thousand)**



**Palestinian Imports in Goods in PA Territories from Selected Countries 2016
(\$ thousand)**



9. PA’s External Financing and its Effects

External financing to the Palestinians is an important stream of revenue, reaching \$17.7 billion during the period 1996–2016, with an annual average of \$843 million, despite fluctuations. In analyzing this external financing, the important point is the allocations and disbursement of these grants. Indeed, in the period 1996–2000 the largest part of grants was directed towards development expenditures or 92.6% on average. After that period, the share of development expenditures took a steep downward trend, as the new policy deprived the

Palestinian economy of vital projects including important infrastructure developments and the expansion of basic services.⁷⁰

While external financing has had an impact on economic activity over the past years, it has not been employed in productive activities to create jobs for the unemployed and generate income for workers. In any event, grants and foreign aid have an important role in increasing the ability of the government to repay its debts and fulfil its obligations, but we should not ignore the fragility of the government's financial situation, and its dependence on the policies of donor countries and their economic circumstances.⁷¹

Table 25/2: PA External Budgetary Support and Development Financing 2012–2019 (\$ million)⁷²

Item	Actual						Forecasts *	
	2012	2013	2014	2015	2016	2017	2018	2019
External budgetary support	777	1,251	1,029	707	608	545	478	381
External financing for development expenditures	155	107	201	90	158	175	162	166
Grants and foreign aid	932	1,358	1,230	797	766	720	640	547
Average annual growth or deterioration (%)	-5.2	+45.7	-9.4	-35.2	-3.9	-6	-20.2	-25.3
% of Development expenditures out of total external financing	16.6	7.9	16.3	11.3	20.6	24.3	23	25

* Based on the trend trajectory for 2012–2017.

⁷⁰ PMA, Revenues, Expenditures and Financing Sources of PNA Fiscal Operations (Cash Basis), http://www.pma.ps/Portals/1/Users/002/02/2/Time%20Series%20Data%20New/Public_Finance/revenues_expenditures_and%20financing_sources_of_pna_fiscal_operations.xls

⁷¹ PMA, Research and Monetary Policy Department, *Tatawwurat Maliyyat al-Hukumah wa al-Dayin al-'Am, al-Rub' al-Thani 2017* (The Development of Government Finance and the Public Debt Q2 2017) (Ramallah: November 2017), p. 12.

⁷² PMA, Revenues, Expenditures and Financing Sources of PNA Fiscal Operations (Cash Basis), http://www.pma.ps/Portals/1/Users/002/02/2/Time%20Series%20Data%20New/Public_Finance/revenues_expenditures_and%20financing_sources_of_pna_fiscal_operations.xls; PMA, Table (35): PNA Revenues, Expenditures and Financing Sources (Cash Basis), http://www.pma.ps/Portals/1/Users/002/02/2/Monthly%20Statistical%20Bulletin/Public%20Finance/table_35.xls



PA External Budgetary Support and Development Financing 2012–2019 (\$ million)



From table 25/2, we see that external financing received by the PA was not regular, with a marked downward trend starting in 2015. This decline continued in 2016–2017, decreasing to \$766 million in 2016, a decline of –3.9% from 2015, and to \$720 million in 2017, a decrease of –6% from 2016.

And again, the crux of the problem remained the Israeli occupation. Any cosmetic improvements under occupation will not address the crisis at its roots. In general, there are several interim proposals to deal with decreasing donor assistance, such as improving the investment climate and increasing competitiveness, and helping new firms to enter the market. In addition, “easing of Israeli restrictions on external trade, access to resources in Area C, and opening up access to Gaza is essential to expand private sector growth and employment,” thus stimulating support from donors in the medium term, and especially if Palestinian–Israeli talks are intensified.⁷³

As for the 2018–2019 predictions, the general trend reveals an expected decline in aid to about \$594 million as the average for the two years, the decreasing trend portending a dire future economic situation, requiring immediate and urgent attention.

With respect to donors in 2017, the Mécanisme Palestino-Européen de Gestion et d’Aide Socio-Economique (PEGASE) dominated the list, providing \$240.3 million in aid, followed by KSA with \$92.1 million, and The World

⁷³ World Bank Calls for Decisive Policies by All Parties to Stop the Deterioration of the Palestinian Economy, The World Bank, 27/4/2017.

Bank with \$76.2 million. PEGASE funding also topped the list for 2016 with \$205 million, followed by KSA with \$183 million, The World Bank with \$94.4 million, and the US with \$76.5 million (see table 26/2). The Ministry of Finance had indicated that the US did not contribute to the budget of the PA in 2015,⁷⁴ but the “U.S. Foreign Aid to the Palestinians” report issued by the Congressional Research Services (CRS) reported that \$361 million was given to the Palestinians that year.⁷⁵

There was a marked decline in Arab funding in 2016–2017, where the proportion was reduced to 54% of total international financial aid in 2016 and 36.4% in 2017, compared to 87.7% of international support in 2015. The numbers also indicate a decline in the support by KSA and The World Bank by 49.7% and 19.3% respectively in 2017.

Table 26/2: Sources of External Financing for the PA 2014–2017
(\$ million)⁷⁶

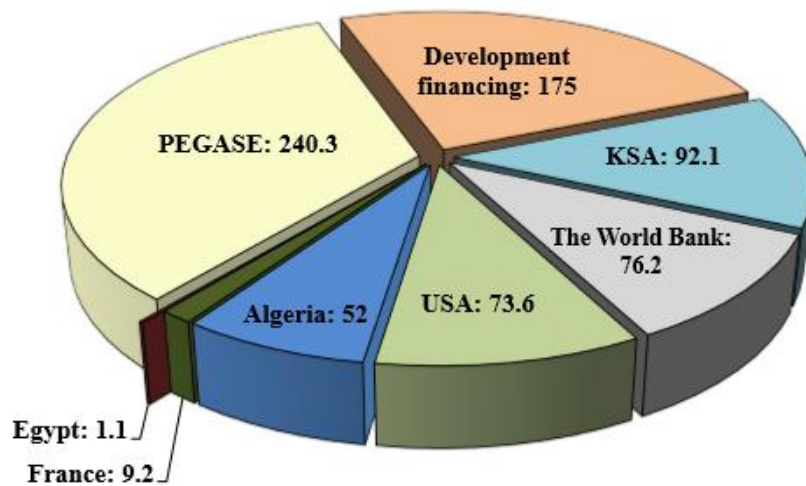
Donor	2014	2015	2016	2017
Arab donors	410	330.3	212.9	145.2
- KSA	197.3	241.7	183	92.1
- Algeria	51.6	52.5	26.7	52
- Qatar	146.3	-	-	-
- Egypt	7.5	7.3	3.2	1.1
- Oman	7.3	28.8	-	-
International donors	619.7	376.7	393.6	399.3
- PEGASE	246.7	222.9	205	240.3
- The World Bank	255.1	131.4	94.4	76.2
- USA	106.5	-	76.5	73.6
- France	10.4	8.6	17.7	9.2
- Russia	-	4.9	-	-
- Malaysia	1	-	-	-
- India	-	8.9	-	-
Development financing	203.4	89.1	153.9	175
Total	1,233.1	796.1	760.4	719.5

⁷⁴ See Monthly Financial Reports of December 2015, Fiscal Operations – Imports, Expenditures and Funding Sources, Palestinian National Authority, Ministry of Finance, <http://www.pmf.ps/documents/10180/586396/merged+dec+arb+report+2015.pdf/6e3777a4-815f-43d3-b102-fe0a0eb0e61b>

⁷⁵ Jim Zanotti, “U.S. Foreign Aid to the Palestinians,” Congressional Research Service (CRS), 18/3/2016, <https://www.hsdl.org/?abstract&did=791556>

⁷⁶ Monthly Reports for December of the Years 2014–2017, Palestinian National Authority, Ministry of Finance, <http://www.pmf.ps/en/41>

Sources of External Financing for the PA 2014–2017 (\$ million)



10. Economic Repercussions of the GS Siege

The economic repercussions of the GS siege are multiple, have taken various forms and affected many levels. The blockade has been accompanied by systematic escalation, as restrictions on the movement of goods to and from GS by land, sea and air have worsened the living conditions of the population.⁷⁷ Every man, woman, and child in GS was directly affected by the war in 2014, after which they were in need of urgent humanitarian aid.⁷⁸ Furthermore, devastating Israeli wars and aggressions have strained GS's potential and increased the suffering of the population, especially as reconstruction has been obstructed. As soon as a part of Gaza is rebuilt, other parts are destroyed in a new aggression. By 2017, only 43% of GS was rebuilt to repair the damage from the 2014 war, with 7,333 homes are still uninhabitable and some 65 thousand people still displaced. The war caused immense suffering, with poverty affecting 1.3 million people, including over 600 thousand in extreme poverty.⁷⁹ In tandem, the GS economy has been virtually stagnant for the past ten years, with the average annual real GDP growth rate over the decade not exceeding 1.44%, while the GS population grew by 38.4% over the same period.⁸⁰ Unprecedented food

⁷⁷ UNRWA, Gaza Situation Report 206, for the period 21/8/2017–4/9/2017, 17/9/2017, <https://www.unrwa.org/newsroom/emergency-reports/gaza-situation-report-206>

⁷⁸ FAO, FAO In emergencies, Gaza Crisis, p. 1, <http://www.fao.org/emergencies/crisis/gaza/en/>

⁷⁹ GAZZE Destek Association, Annual Report of the Humanitarian Situation in the Gaza Strip: Reality..Achievemnets..Need, p. 3, <https://gazedestek.org/publications/?lang=en#page/1>

⁸⁰ United Nations Development Programme (UNDP) in the Arab States, Gaza Economy - Nearing Total Collapse: A UNDP Report on Challenges to Economic Recovery and Long-Term Development in Gaza, <http://www.arabstates.undp.org/content/rbas/en/home/presscenter/pressreleases/2017/07/12/gaza-economy-nearing-total-collapse-a-undp-report-on-challenges-to-economic-recovery-and-long-term-development-in-gaza.html>

insecurity is also one of the most significant economic repercussions of the blockade, where 72% lack food or have severe food insecurity.⁸¹ This is accompanied by increasing unemployment, the paralysis of private sector activity and the decline of economic performance in both the short and medium terms.⁸²

Regarding the destruction of economic facilities during the last war, it affected 225 industrial establishments, 1,578 commercial facilities, and damaged 2,181 agricultural plots covering an area of 11.2 km²; include greenhouses, equipment, water pumps, poultry farms, honey farms, fish farms, and fishers' equipment and boats.⁸³

Thus, the private sector in GS suffers because of the Israeli and Arab blockade, restrictions on movement, access to natural resources, and markets; and punitive measures that have left Gaza's economy structurally distorted. This has prevented its residents from enjoying their economic, social, and political rights,⁸⁴ in clear and unequivocal contravention of the obligations of the Israeli occupation under international law.⁸⁵ This situation undermines the ability of GS to develop; to the extent that it could become uninhabitable by 2020, if the situation remains the same, as a direct effect of the unjust and illegal blockade and successive wars.⁸⁶ Palestinian youths live in extreme frustration, reflected by their increased desire to migrate, measured in 2015 at 37% in GS, compared to 15% in WB.⁸⁷ This trend is a high risk, associated with loss of human productive capacities.

⁸¹ Gazze Destek Association, Annual Report of the Humanitarian Situation in the Gaza Strip: Reality..Achievemnets..Need, p. 3.

⁸² Mohammad Shatyyeh, *al-Iqtisad al-Filastini: Hisar Hawl 'Awamil al-Intaj* (The Palestinian Economy: Siege of the Factors of Production) (Jerusalem: Palestinian Economic Council for Development and Reconstruction—PECDAR), p. 17.

⁸³ PCHR, Economic Facilities in the Gaza Strip: Systematic Destruction and a Continuous Siege, p. 4. (in Arabic)

⁸⁴ Al Mezan Centre for Human Rights, Fact Sheet on the Situation of Economic Sectors in Gaza Strip Under Siege and Building Mechanism, 31/12/2016, p. 4, <http://www.mezan.org/post/23190> (in Arabic)

⁸⁵ Ibid., p. 2.

⁸⁶ Minister Odeh Calls for the Implementation of Accra, Doha and Nairobi Accords and Putting Evaluation Mechanism for the Economic Expenses of the Occupation, *Alquds*, 20/9/2017, Issue no. 17280, p. 17. (in Arabic)

⁸⁷ PCBS, International Youth Day, 12/8/2017.

Concerning the electricity crisis, there is serious concern about its catastrophic repercussions on the already deteriorating humanitarian situation.⁸⁸ This problem has impacted all activities, including agricultural activity and the ability of farmers to market and store their products. The Palestinian economy has suffered heavy losses as a result, worsening the daily life of the Palestinian household, especially after the spending cuts imposed after April 2017, which triggered new fears that further steps would be taken by those seeking to preoccupy people with worries about their basic needs and problems. In addition, thousands of civil and military public servants were forced in to early retirement.⁸⁹

The assistance provided by the National Consensus Government to GS during 2016 and 2017 was relatively modest given the persistence of the inter-Palestinian division, although this has not prevented continued economic, social, and healthcare assistance being provided.

Perhaps one of the most important economic projects was the declaration of the Minister of Labor, Mamoun Abu Shahla, of the financing of 50 projects valued at \$15 thousand each,⁹⁰ as well as operational plans to absorb 50 thousand graduates over three years (2016–2018).⁹¹ The National Consensus Government continued to provide support for thousands of families and people with difficult living conditions in GS through a financial grant every several months. However, the Ministry of Social Development in GS later accused the government of withholding assistance from hundreds of families and urgent cases.⁹²

The current situation does not mean GS lacks the chance of a stable and safe life, or that it is an intolerable human burden, as much as it means we must consider its development potential, driven by its creative and resilient population. Indeed, GS has the potential to regain its capabilities and harness its energies, through a new approach to support the private sector. Hence, it would recover and enjoy economic development, based on a strategy that interacted with its persistent recession, and took into account sustainable local economic development. Such a strategy must be a step towards a joint economic development plan that engages government entities, businesses, donors, civil

⁸⁸ PCHR, Unprecedented Catastrophic Deterioration Affecting All Basic Services in the Gaza Strip Due to the Continued Electricity Crisis, 12/7/2017, <http://pchrgaza.org/ar/?p=13591> (in Arabic)

⁸⁹ PCHR Organizes Workshop Titled “Impact of Salaries’ Deductions on Rights of Public Servants in the Gaza Strip,” Gaza, 9/4/2017, <http://pchrgaza.org/en/?p=9000> (in Arabic)

⁹⁰ Alray – Palestinian Media Agency, 20/1/2016.

⁹¹ *Al-Ayyam*, 22/1/2016.

⁹² PIC, 24/7/2016. (in Arabic)

society actors and academics. It should aim to maximize economic opportunities in a way that is inclusive, environmentally sensitive, and improves the well-being of the Gazan population.⁹³

Conclusion⁹⁴

The basic revelation of the Palestinian demographic indicators for 2016–2017 is that the Palestinian people who have remained steadfast in their land have succeeded in outnumbering the Jewish population in historic Palestine. Although those remaining in Palestine are only about half of the total number of Palestinians in the world, however, they have been able to equalize or surpass through natural growth the number of Jews supplanted by waves of immigration and colonization in the period 1948–2017, which number about 3.23 million Jews.⁹⁵ This is undoubtedly a concern for the leaders of the Zionist project, 120 years after the start of their project, and 70 years after the establishment of Israel. It is therefore necessary to be aware of any steps that the Israelis might take to try to displace Palestinians and reduce their numbers. Every effort should be made to support the steadfastness of the Palestinian people and their endurance on their land.

More than two thirds of the Palestinian people still have a “refugee” status, the highest proportion of any population in the world, with about half of the Palestinian people still living outside historic Palestine. However, more than three quarters of Palestinians in the Diaspora reside in the strategic environment surrounding Palestine, especially in Jordan. There is also a Palestinian consensus on the right of return to their homes, villages and towns from which the refugees were removed. There is a marked increase in activities and events linked to the rights of the Palestinian people, most notably in recent times the launching of Popular Conference for Palestinians Abroad in February 2017. Despite the harsh conditions in which the refugees are living, especially in Syria, Lebanon, and Iraq, with the new wave of displacement out of these countries into other

⁹³ Paltrade, Danida and Oxfam, “Sustainable local Economic Development (SLED) in the Gaza strip,” An Analytical Framework & Strategy, Ramallah, p. 8, <https://www.paltrade.org/upload/multimedia/admin/2017/09/59af9c6058871.pdf>

⁹⁴ [This is the conclusion of chapter two of *The Palestine Strategic Report 2016–2017*, which includes the demographic and economic indicators.](#)

⁹⁵ See Site of Jewish Virtual Library, <http://www.jewishvirtually.org/population-of-israel-1948-present/>; and CBS, <http://cbs.gov.il/publications18/yarhon0118/pdf/e2.pdf>

countries in the world, Palestinians, wherever they may be, continue to train their gaze towards Palestine.

At the economic level, the Palestinian economy will continue to suffer in both WB and GS while the Israeli occupation continues, the GS siege continues, and as long as the economy is dependent on the Oslo Accords and the Paris protocols that legitimized the Israeli domination of the Palestinian economy. The huge economic imbalance was evident in 2016–2017, with the Israeli economy exceeding that of the PA by approximately 24 times, while Israeli GDP per capita exceeds its Palestinian counterpart in WB and GS by about 13 times, although both Israelis and Palestinians live in a single geographical entity (historic Palestine). Israeli economic dominance is also apparent when we observe that more than 58% of PA imports come from Israel, and more than 83% of PA exports go to Israel. The seriousness and depth of the problem is even starker when we note that more than two thirds of the PA budget comes from Israel's clearance revenues and collection, which it uses to blackmail the Palestinian side.

The rates of poverty and unemployment remain among the highest in the world, especially in GS. This is not because of low capacities and capabilities of the Palestinians, but because the Israeli occupation plays both a direct and indirect role in producing this situation, whether through its control of the PA crossings by land, sea and air, or because of its arbitrary policies, and its stifling GS blockade.

There is no horizon for a real breakthrough for the Palestinian economy that reflects its real potential and invests its human resources unless the occupation and the Israeli siege end. However, it is the PA's responsibility to take all possible measures for the independence of the Palestinian economy and its separation from the Israeli economy. It also has the responsibility to redefine the Palestinian economy as a national economy and to end any manifestations related to the consumer economy, or manifestations of luxury or financial corruption.

التقرير الاستراتيجي الفلسطيني

2017-2016

الفصل الثاني

المؤشرات الاقتصادية الفلسطينية

2017-2016

