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

UNSCO

UNSCO Socio-Economic Report: Overview of the Palestinian Economy in Q2/2017

Economic activity

Real GDP in the occupied Palestinian territory (oPt) in Q2/2017 grew by 2.7% over the previous quarter because of a 4.4% growth in the West Bank and a (-) 2.5% contraction in the Gaza Strip. Compared to Q2 2016, real GDP in the oPt grew by 1.1% driven by a 1.3% growth rate in the West Bank and a 0.4% growth rate in the Gaza Strip. The impact of the electricity crisis began to show in the overall economy as well as in the specific sectors. In Q2/2017 Gaza's economy constituted 23.4% of the overall Palestinian economy, signifying a contraction from 24.7% in the previous quarter, and the Strip's real GDP per capita was 43.2% of the West Bank's.

In the West Bank, between Q2/2016 and Q2/2017 there was significant expansion in real value added in construction (7.0%), financial and insurance activities (6.3%), and transportation and storage (3.8%). There was significant contraction in real value added in agriculture, forestry and fishing (-13.6%), information and communication (-5.6%), and public administration and defense (-4.2%).

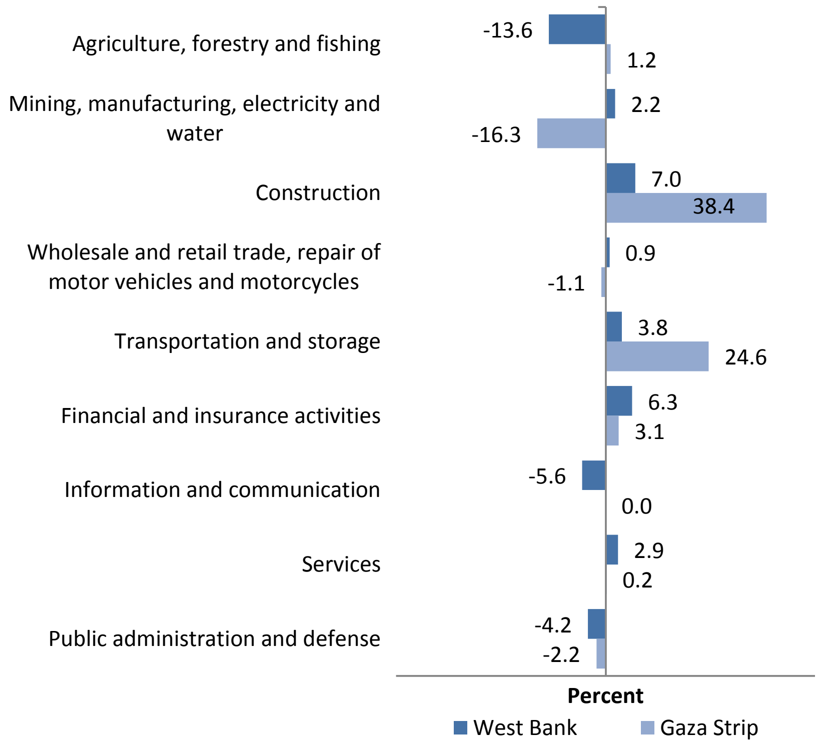
During the same period in the Gaza Strip, significant growth was recorded in construction (38.4%), and transportation and storage (24.6%). The sectors recording notable contraction were mining, manufacturing, electricity and water (-16.3%), and public administration and defense (-2.2%).

Key GDP indicators (Q2/2017)

	West Bank	Gaza Strip	oPt
Real GDP (million $)	1,572.0	481.3	2,053.3
Rate of change in real GDP (quarter-on-quarter, %)	4.4	-2.5	2.7
Rate of change in real GDP (year-on-year, %)	1.3	0.4	1.1
Real GDP per capita ($)	576.0	248.7	440.2

Note: Base year is 2004. Data for Q2/2017 are flash estimates.

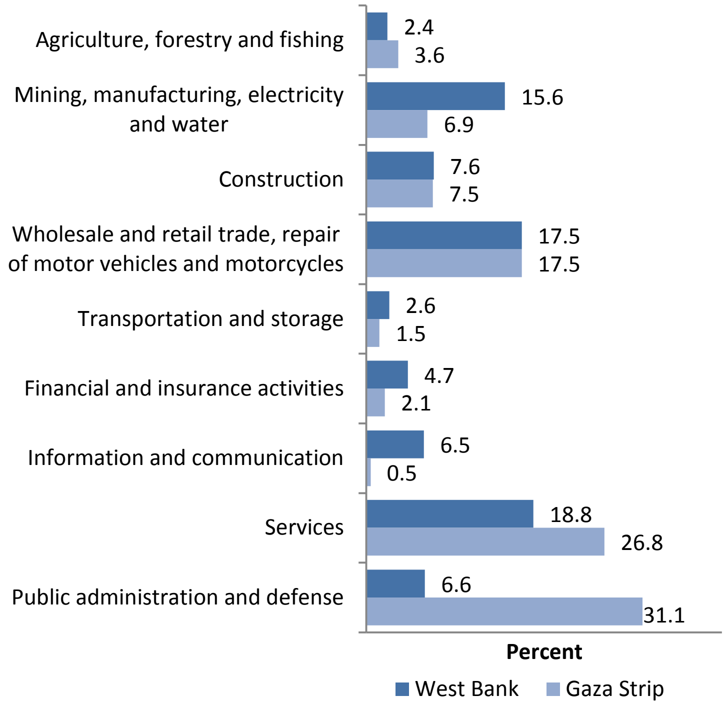
Rate of change of real value added by economic activity (year-on-year, Q2/2017)



The services sector was the largest one in the West Bank economy in Q2/2017, accounting for 18.8% of GDP. This was followed by the wholesale and retail trade sector (17.5%) and mining, manufacturing, electricity and water (15.6%).

Public administration and defense continued accounting for the largest proportion (31.1%) of the Gaza Strip's GDP in Q2/2017, followed by services (26.8%), and wholesale and retail trade (17.5%).

Percent contribution to real GDP by economic activity (Q2/2017)

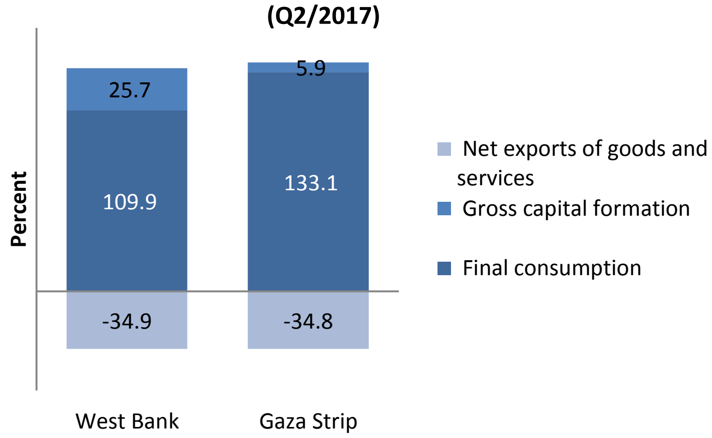


Note: Base year is 2004. Data for Q2/2017 are flash estimates.

Final consumption in the West Bank was 109.9% of GDP in Q2/2017. Household final consumption constituted 86.1% of GDP while government final consumption was 22.0% of GDP. Gross capital formation accounted for 25.7% of GDP, most of it gross fixed capital formation (23.3% of GDP). Exports of goods and services from the West Bank made up 27.2% of GDP while imports represented 62.1%, resulting in a West Bank trade deficit of 34.9% of GDP in the quarter.

In the Gaza Strip, final consumption in Q2/2017 was 133.1% of GDP, household final consumption was 77.1% of GDP and government final consumption was 44.7% of GDP. Gross capital formation was 5.9% of GDP, and gross fixed capital formation, 14.4% of GDP. A significant drawdown of inventories explains why gross fixed capital formation was higher than gross capital formation. Exports from the Gaza Strip amounted to 4.5% of GDP while imports amounted to 39.3%, resulting in a trade deficit equal to 34.8% of GDP in Q2/2017.

Percent distribution of real GDP by expenditure (Q2/2017)



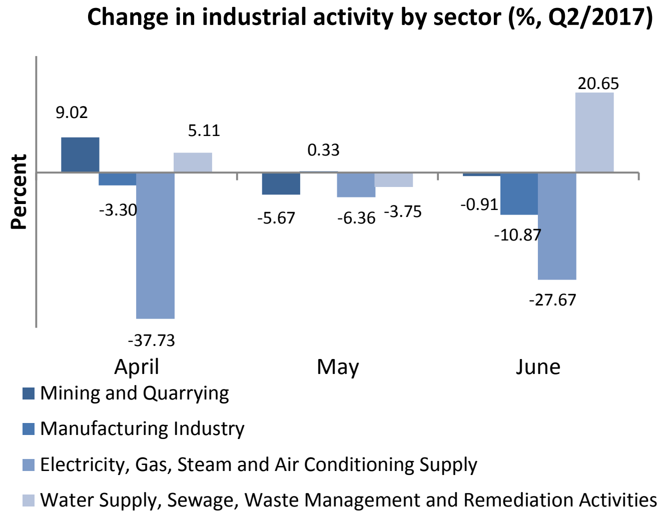
Note: Base year is 2004. Data for Q2/2017 are flash estimates.

The industrial production index (IPI) declined from 104.5 in April to 92.3 in June 2017, (base year is 2015).

Industrial production index (Q2/2017)

	April	May	June
Index	104.48	103.97	92.30

Activity in mining and quarrying declined in May and June after increasing in April. Manufacturing contracted in April and June. Electricity, gas, steam and air conditioning contracted throughout the quarter, most significantly in April and June. Activity in water supply, sewage, waste management and remediation declined in April and May before recovering significantly in June.



Current account and trade

The current account deficit increased to $ (-) 467.4 million (12.8% of GDP) in Q2/2017 from (-) $302.8 million in Q1/2017. The increase was driven primarily by lower net transfer payments and worsening income balance.

Current account (Q2/2017)	
Goods trade balance (million US$)	-1055.9
Services trade balance (million US$)	-213.0
Income balance (million US$)	418.7
Net transfer payments (million US$)	382.8
Current account balance (million US$)	**-467.4**

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

Truckloads exported out from the Gaza Strip declined for the second consecutive quarter in Q2/2017. Only 19 truckloads were exported compared with 24 truckloads in Q1/2017. Commercial transfers to the West Bank declined in Q2/2017 with 499 truckloads leaving the Gaza Strip for the West Bank compared with 803 truckloads in Q1/2017. Products largely consisted of produce and leather.

Exports from the Gaza Strip, by type (Q2/2017)

	April	May	June
Tomatoes (tons)	--	54.60	13.250
Lemon (tons)	51.36	--	--
Chive (tons)	0.99	1.17	1.373
Onion (tons)	0.55	1.43	0.900
Tarragon (tons)	0.03	0.03	--
Sweet potatoes (tons)	--	--	7.00
Total trucks	6	8	5

Some 118 truckloads existed to Israel in Q2/2017 compared with 167 truckloads in the previous quarter.

Exit To West Bank from the Gaza Strip, by type (Q2/2017)			
	April	May	June
Cucumber (tons)	246.04	87.72	100.10
Fish (tons)	1.35	3.70	4.70
Tomatoes (tons)	2,130.30	2,227.50	562.63
Sweet potatoes (tons)	--	--	9.92
Zucchini (tons)	62.08	--	--
Cabbage (tons)	2.70	3.20	--
Chilli Pepper (tons)	115.09	27.02	56.33
Cauliflower (tons)	0.50	--	--
Eggplant (tons)	60.84	189.30	48.80
Cherry Tomatoes (tons)	9.20	12.32	--
Sweet Peppers (tons)	56.52	219.20	98.75
Clothes (tons)	16.00	21.00	27.00
Furniture (tons)	38.00	32.00	17.00
Cows leather (Piece)	**--**	**2,200.0**	**1,350.0**
Total trucks	202	214	83

Exit To Israel from the Gaza Strip, by type (Q2/2017)			
	April	May	June
Eggplant (tons)	15.90	12.80	28.00
Tomatoes (tons)	553.17	384.28	266.74
Aluminum scrap (tons)	162.00	103.00	50.00
Total trucks	62.00	31.00	25.00

The private sector

The total area licensed for new construction in the West Bank in Q2/2017 was 11.7% lower than in Q2/2016. In the Gaza Strip, total area licensed for new construction was 6.1% higher than in Q2/2016.

There was a (-) 0.7% decrease in the total number of new company registrations in the West Bank in Q2/2017 compared to the same period last year. In the Gaza Strip the number was 59.6% lower as compared with Q2/2016.

Private sector indicators (Q2/2017)

	West Bank	Gaza Strip
Area licensed for new construction (sq. meters)	1,282,566	904,510
New company registrations	436	44

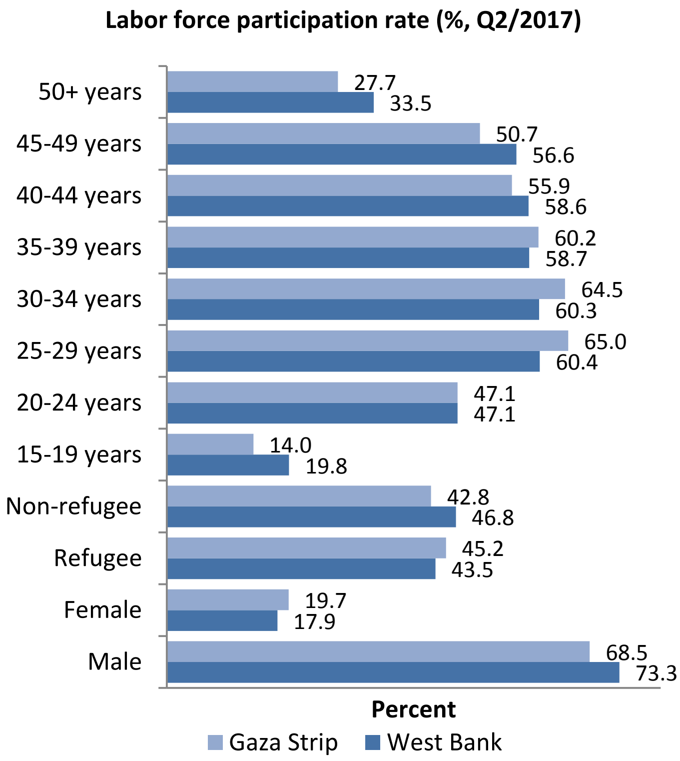
The labour market

The labour force participation rate in Q2/2017 was 45.4% of those aged 15 and above. Thus the labour force consisted of 1,367,900 people. The labour force participation rate was higher in the West Bank (46.0%) than in the Gaza Strip (44.4%). Participation in the labour force continued to be much higher for men than for women in both regions. The labour force participation rate was relatively lower for youth, particularly those aged between 15 and 19 years of age (14.0% and 19.8% in the Gaza Strip and West Bank respectively).

The unemployment rate for Palestine increased to 29.0% in Q2/2017 from 26.9% in Q2/2016. The unemployment rate in the West Bank was 20.5% compared with 18.3% in Q2/2016. In the Gaza Strip, 44.0% of the labour force was unemployed in Q2/2017 compared with 41.7% a year ago.

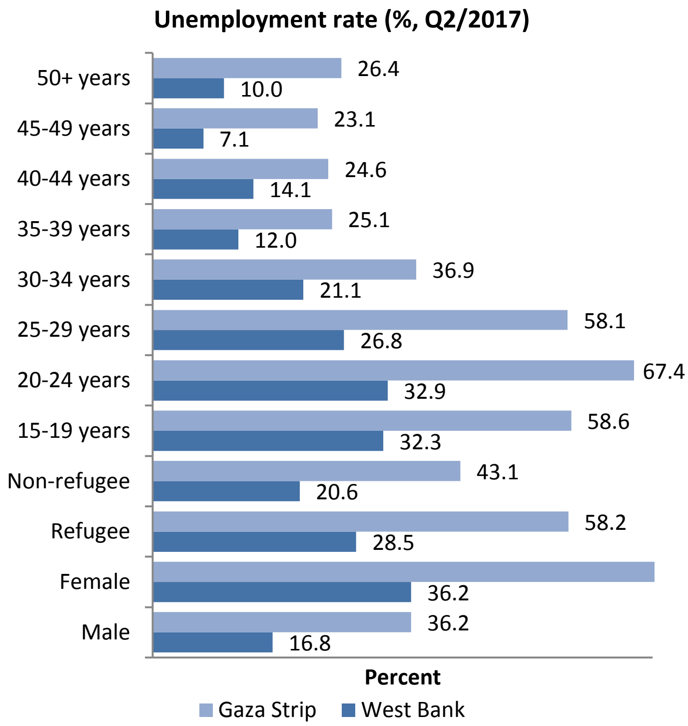
Unemployment rates for women were higher than men in both the Gaza Strip (71.5% as compared with 36.2% for men) and West Bank (36.2% as compared with 16.8% for men) despite their low labour force participation rate. Refugees had a significantly higher unemployment rate than non-refugees in both the West Bank and Gaza Strip, though the difference was Starker in the Gaza Strip. Unemployment rates were higher for youth than for those above 30 – 67.4% of 20-to-24-year-olds in the Gaza Strip, for example, were jobless – the highest rate of any age group in either region.

Despite the higher unemployment rate, in the West Bank the average period of unemployment in Q2/2017 decreased by 0.6 month for men and 1.2 months for women compared with Q2/2016. In Gaza, the period increased by 1.5 months for men and 3.1 months for women. On average women were likely to remain unemployed 6.4 months longer than men in the West Bank and 10.4 months longer than men in Gaza.



Unemployment rate (%, Q2/2017)

	West Bank	Gaza Strip
Narrow definition	20.5	44.0



The number of persons employed in the West Bank in Q2/2017 was higher than that in Q2/2016 by approximately 4,400. In the Gaza Strip, it was lower by 8,000. In the West Bank significant job losses were recorded in agriculture, fishing and forestry, and mining, quarrying and manufacturing. Construction, services, and transportation, storage and communications sectors recorded job growth. In the Gaza Strip, job losses were concentrated in commerce, restaurants and hotels, and services. Transportation, storage and communication, construction, and mining, quarrying and manufacturing saw some job growth.

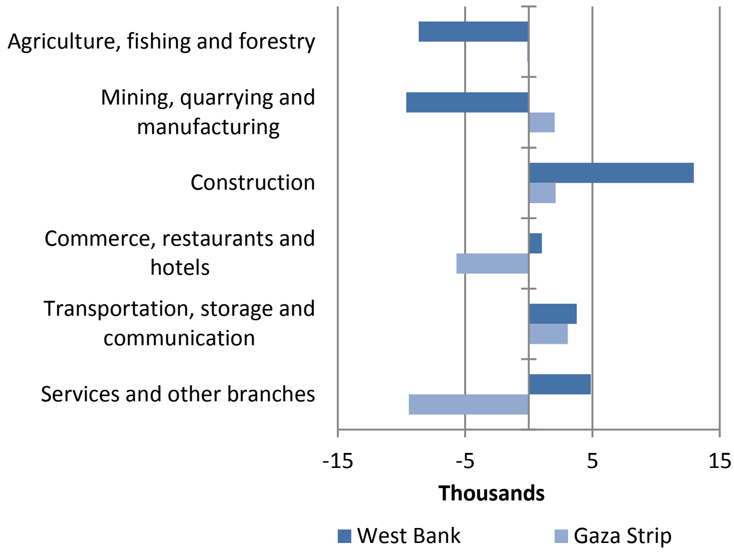
In Q2/2017, there continued to be a significant disparity in average daily net wages between the West Bank and the Gaza Strip. While men in the Gaza Strip received an average daily wage of NIS 57.5 in Q2/2017, they received on average a daily rate of NIS 108.2 in the West Bank. Similarly, while women in the Gaza Strip made a daily wage of NIS 77.2 on average, women in the West Bank made a daily wage rate of NIS 86.1. Further, the average daily net wage rate was higher for men than for women in the West Bank unlike in Gaza where women had significantly higher daily wage rates.

The public sector offered considerably higher average daily wages than the private sector in both regions, although average wages in Israel and Israeli settlements in the West Bank remained the highest at NIS 222.6 per day.

Average duration of unemployment (months, Q2/2017)

	West Bank	Gaza Strip
Male	3.6	15.7
Female	10.0	26.1

Change in number of employed persons by economic activity (thousands, year-on-year, Q2/2017)



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

Average daily wage (NIS, Q2/2017)

	West Bank	Gaza Strip
Male	108.2	57.5
Female	86.1	77.2
Private sector	97.9	34.0
Public sector	115.2	92.3
Israel and settlements	222.6	

Note: Data by gender and sector exclude those employed in Israel and Israeli settlements in the West Bank.

Consumer prices

Average prices, as measured through the Consumer Price Index (CPI), increased moderately in East Jerusalem but declined in the rest of the West Bank in Q2/2017 compared to both Q2/2016 and Q1/2017. Gaza saw an increase in consumer prices compared to the previous quarter but a decrease compared with Q2/2016.

Change in CPI (%, Q2/2017)

	East Jerusalem	Rest of West Bank	Gaza Strip
Quarter-on-quarter	0.1	-2.4	-3.1
Year-on-year	1.4	-0.4	1.7

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

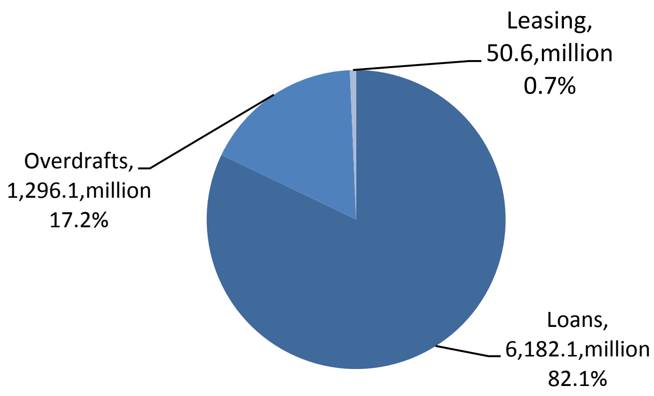
The banking sector

Bank credit in Q2/2017 increased to $7.5 billion. Loans accounted for 82.1% of bank credit, followed by overdrafts (17.2%) and leasing (0.7%).

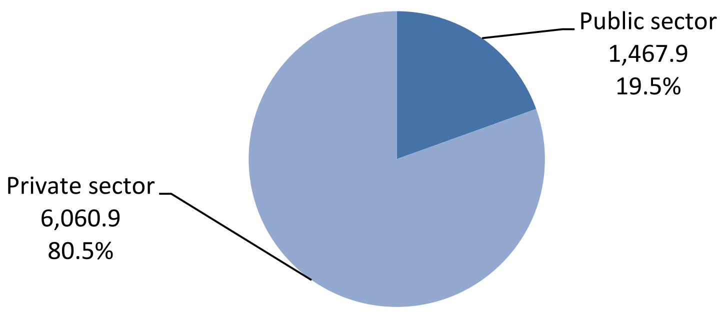
The private sector continued to be the main source of bank deposits in Q2/2017 accounting for 80.5% of the total.

The credit-to-deposit ratio at 66.2% was higher than that in Q1/2017 (65%).

Distribution of bank credit by type (million $/%, Q2/2017)



Distribution of bank deposits by sector (million $/%, Q2/2017)

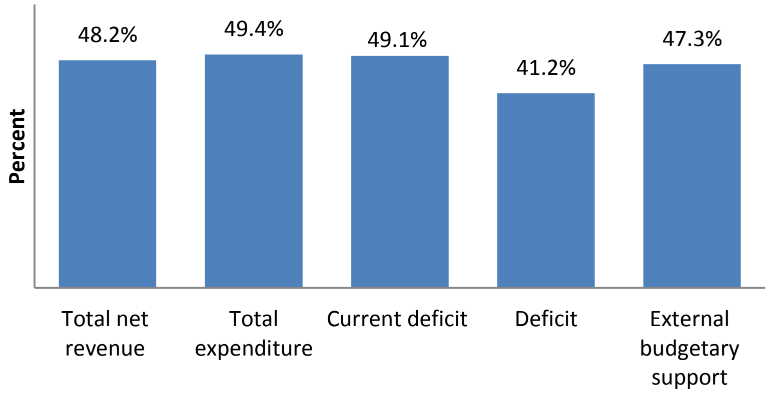


Note: Data do not include deposits of the PMA and commercial banks.

Fiscal operations

On commitment basis, by the end of Q2/2017, government total net revenue was 48.2% of the budgeted NIS 13.8 billion for 2017. Total expenditure was 49.4% of the NIS 16.1 billion in the budget for the year. At the end of the first quarter, the current deficit and the overall deficit had reached 49.1% and 41.2% of the annual projected amounts, respectively. External budgetary support by the end of the quarter reached 47.3% of the amount expected for the year.

Fiscal indicators: actual as a proportion of annual budget (%, Q2/2017)



Note: Data are for fiscal operations on a commitment basis. The information is up-to-date as of 30 July 2017.

Note: The data for the West Bank and Palestine in this report do not include occupied East Jerusalem, unless otherwise specified, due to the unavailability of data. Data on national income accounts are published by PCBS in conformity with System of National Accounts 2008.

Sources of data:

- Economic activity: PCBS. Various periods. *Preliminary Estimates of Quarterly National Accounts* and *the Industrial Production Index.* PMA. Various periods. *Business Cycle Indicator.*
- Current account: PCBS and PMA. Various periods. *Palestinian Balance of Payments.*
- Trade: PCBS. Various periods. *The Palestinian Registered External Trade in Goods.* Palestinian Agricultural Relief Committees and Ministry of National Economy (for Gaza Strip export data).
- Private sector: Engineering Offices and Consulting Firms (for area licensed for new construction); Ministry of National Economy (for new company registrations).
- Labour market: PCBS. Various periods. *Labour Force Survey.*
- Consumer prices: PBCS. Various periods. *Monthly Produce Price Index*.
- The banking sector: PMA. Various periods. *Banking Data.*
- Fiscal operations: Ministry of Finance. Various periods. *Fiscal Operations – Revenues, Expenditures and Financing Sources.*

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