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

UNSCO

UNSCO Socio-Economic Report:
Overview of the Palestinian Economy in Q3/2014

Economic activity

Real quarterly GDP in Q3/2014 was lower than in Q2/2014 and Q3/2013. Year-on-year growth was registered only in the West Bank, however, as the economy in the Gaza Strip contracted by 31.8%. In Q3/2014 the Gaza economy constituted only 20% of the overall Palestinian economy, and the Strip's nominal GDP per capita was less than half the West Bank's.

Between Q3/2013 and Q3/2014 there was a significant expansion in real value added in services (13.5%), followed by financial and insurance activities (8.7%) and the wholesale and retail trade sector in the West Bank (5%). Decreases in real value added were registered in the mining, manufacturing, electricity and water sector (9.7%), as well as the information and communication sector (7.9%), and transportation and storage (9.7%).

During the same period, in the Gaza Strip significant contractions were registered across all sectors with the exception of public administration and defense, notably in the construction sector (-89.8%%), transportation and storage (-79.4%) as well as agriculture, forestry and fishing (-77.5%).

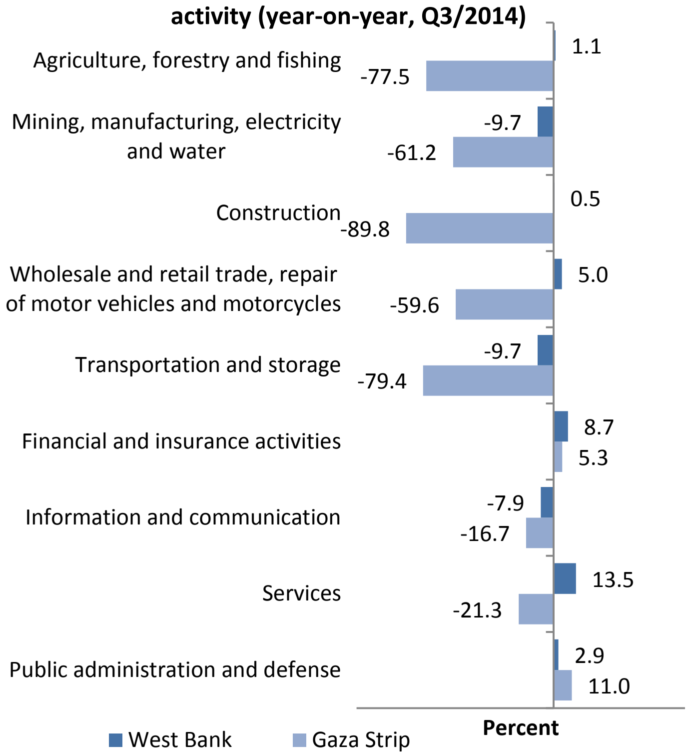
The services sector constituted the largest one in the West Bank economy in Q3/2014, accounting for 19.3% of GDP. This sector was followed by wholesale and

Key GDP indicators (Q3/2014)

	West Bank	Gaza Strip	oPt
Real GDP (million $)	1414.1	344.2	1758.3
Rate of change in real GDP (quarter-on-quarter, %)	2.7	-28.4	-9.1
Rate of change in real GDP (year-on-year, %)	1.5	-31.8	-7.5
Nominal GDP per capita ($)	973.4	360.8	722.2

Note: Base year is 2004. Data for Q3/2014 are flash estimates.

Rate of change of real value added by economic activity (year-on-year, Q3/2014)



Note: Base year is 2004. Data for Q3/2014 are flash estimates.

retail trade (17.6%) and mining, manufacturing, electricity and water (16.4%).

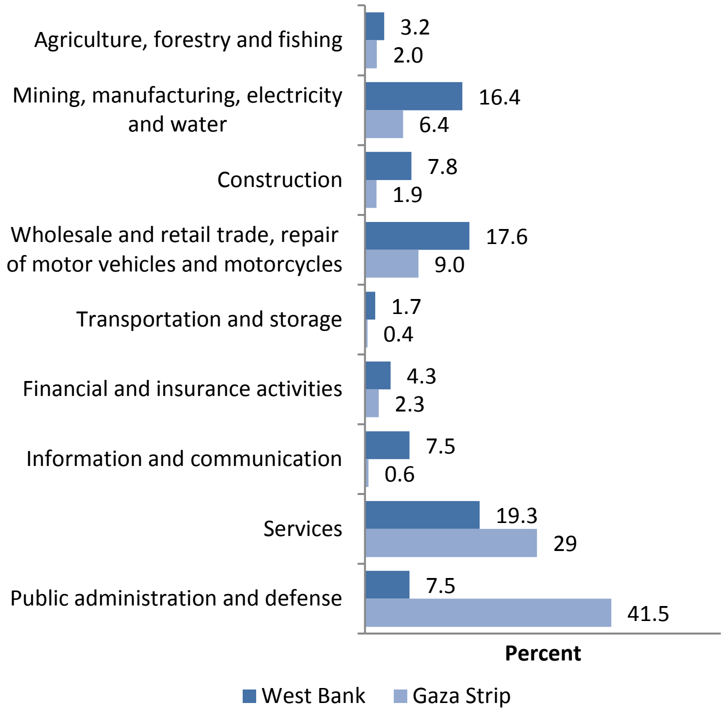
In the case of the Gaza Strip, public administration and defense represented the largest proportion of GDP in Q3/2014, accounting for 41.5% of the total, followed by services (29%) and wholesale and retail trade (9%). The construction sector, which accounted for 10.5% of Gazan GDP in Q3/2013, saw its share reduced to 1.9% by Q3/2014.

Final consumption in the West Bank represented 117.2% of GDP in Q3/2014. Household final consumption reached 89.3% of GDP while government final consumption was 25.5% of GDP. The value of exports of goods and services from the West Bank grew by 13.5% between Q3/2013 and Q3/2014 while that of imports only grew by 1.7%. Still, the West Bank trade deficit represented 40% of GDP in the quarter.

In the Gaza Strip, final consumption in Q3/2014 was equivalent to 182.7% of GDP, 101.7% of it household final consumption and 64.3% of it government final consumption. Gross capital formation was negative during the quarter, representing -33.9% of GDP. Gross fixed capital formation has seen a dramatic year-on-year decline Q3/2013, shrinking by 90.9% in the year to Q3/2014. Between the third quarters of 2013 and 2014 the value of exports of goods and services from the Gaza Strip declined by 45.4%, while there was a large increase (27%) in imports, resulting in a trade deficit equivalent to 52.4% of GDP in Q3/2014.

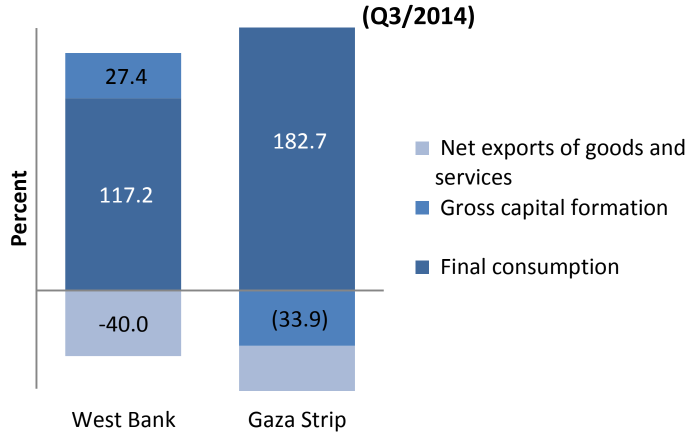
The industrial production index (IPI) increased to 115.76 by September 2014 (base year is 2011). Activity in manufacturing (with a share of 80.56% in the IPI) declined in July but increased in

Percent contribution to real GDP by economic activity (Q3/2014)



Note: Base year is 2004. Data for Q2/2014 are flash estimates.

Percent distribution of real GDP by expenditure (Q3/2014)



Note: Base year is 2004. Data for Q3/2014 are flash estimates.

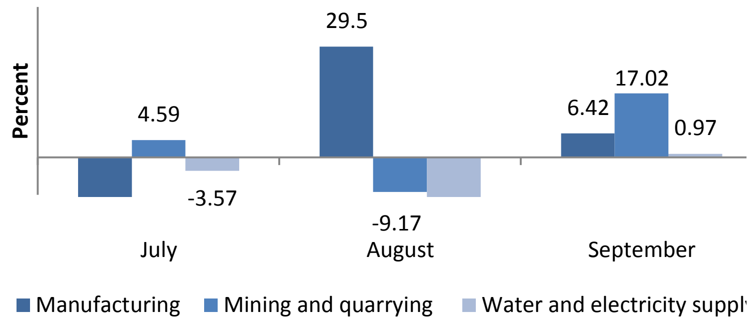
Industrial production index (Q3/2014)

	July	August	September
Index	98.99	108.77	115.76

August and September. Activity in the water and electricity supply sector (with a share of 14.85% in the IPI) decreased in July and August and remained flat in September. Activity in the mining and quarrying sector (with a share of 4.59% in the IPI) increased in July and September but decreased in August.

The business cycle index reflected a contraction in the West Bank and Gaza Strip throughout the quarter. Most notably, the index declined most severely in the Gaza Strip in July (-26.22) and August (-78.1).

Change in industrial activity by sector (%, Q3/2014)



Business Cycle Index (Q3/2014)

	July	August	September
West Bank	-0.82	-20.6	-21.3
Gaza Strip	-26.22	-78.1	-1.8

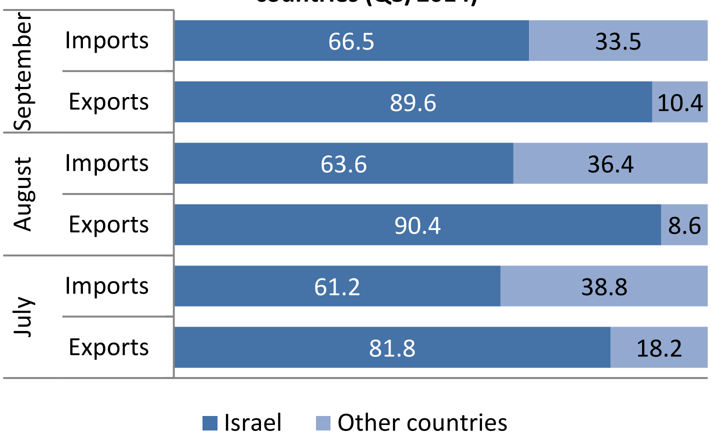
Current account and trade

The current account deficit reached $246.3 million, or 8.1% of GDP, in Q3/2014. The elevated goods trade deficit was the main reason behind the high current account deficit, although the services trade account also showed a negative balance. The income and transfer payment accounts both recorded a surplus in the quarter.

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

Current account (Q3/2014)	
Goods trade balance (million $)	-1362.9
Services trade balance (million $)	-36
Income balance (million $)	349.1
Net transfer payments (million $)	803.5
Current account balance (million $)	**-246.3**

Registered trade in goods to and from Israel and other countries (Q3/2014)



Goods exports from the Gaza Strip in Q3/2014 were extremely limited. Only five truckloads were exported in Q3/2014, compared to the already low 15 truckloads in Q3/2013.

Exports from the Gaza Strip, by type (Q3/2014)

	July	August	September
Sweet potatoes (tons)	--	--	27.1
Total trucks			5

The private sector

The total area licensed for new construction in the West Bank in Q3/2014 was 42% higher than in Q3/2013. In the Gaza Strip, following the downward trend of previous quarters, it was 84% lower.

There was a 5% increase in the total number of new company registrations in the West Bank in Q3/2014 compared to the same period a year earlier, but in the Gaza Strip the number was reduced from 75 in Q3/2013 to only 23 in Q3/2014, a decline of 69%.

The proportion of owners/managers of active industrial enterprises in the West Bank who perceived improvements in terms of the enterprise’s performance in general in Q3/2014 compared to Q2/2014 was 29.2%. The proportion that perceived improvements in the ease of obtaining raw materials and inputs or of transporting finished goods to market was much lower at 13.5%. Expectations for improvements in these categories in Q4/2014 followed a similar pattern.

Private sector indicators (Q3/2014)

	West Bank	Gaza Strip
Area licensed for new construction (sq. meters)	1,135,423	71,334
New company registrations	311	23

Proportion of owners/managers of the active industrial enterprises who experienced improvements in previous quarter (%, Q3/2014)

	West Bank	Gaza Strip
Enterprise's performance in general	29.2	2.3
Obtaining needed raw materials and inputs	13.5	0
Transporting finished goods to market	13.5	0

Proportion of owners/managers of the active industrial enterprises who expect improvements in coming quarter (%, Q3/2014)

	West Bank	Gaza Strip
Enterprise's performance in general	24.3	79.1
Obtaining needed raw materials and inputs	12.0	79.1
Transporting finished goods to market	16.3	79.1

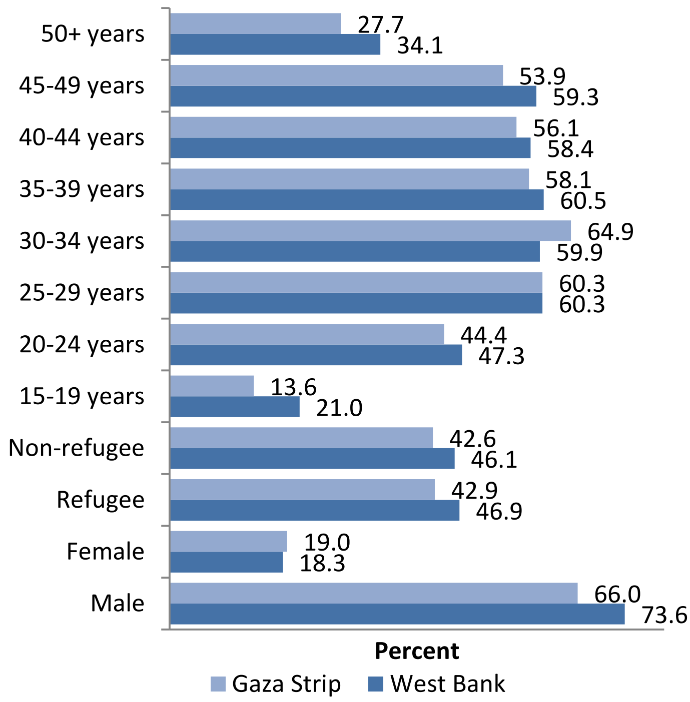
The labor market

The labor force participation rate in Q3/2014 was 45% of those aged 15 and above, that is, 1,239,300 people. The labor force participation rate was 46.3% in the West Bank and 42.8% in the Gaza Strip. Participation in the labor force was much higher for men than for women in both regions. The labor force participation rate was relatively low for youth, particularly those aged between 15 and 19 years of age (13.6% and 21% in the Gaza Strip and West Bank, respectively).

The unemployment rate was 29% in Q3/2014, higher than the 26% for Q2/2014, and high than the 23.7% for Q3/2013. Unemployment affected 19.2% of the labor force in the West Bank, compared to 16% in Q2/2014 and 19.1% in Q3/2013. In the Gaza Strip, on the other hand, 47.4% of the labor force was unemployed in Q3/2014, reflecting a rise of 3.1 percentage points compared to Q2/2014 and of 32.2 percentage points compared to Q3/2013. When discouraged workers are added ("relaxed definition"), unemployment rises by about two percentage points in the West Bank and three percentage points in the Gaza Strip.

Women were more affected by unemployment than men in both regions, and despite their low labor force participation rate, six out of ten economically active women in the Gaza Strip were unemployed in Q3/2014. Refugees in had a higher unemployment rate than non-refugees in the West Bank, but a lower unemployment rate in the Gaza Strip. Age was also correlated to unemployment, with the youth experiencing the highest rates. A total of 74.8% of 15-to-19-year-olds in the Gaza Strip, for example, were jobless – the highest rate of any age group in either region.

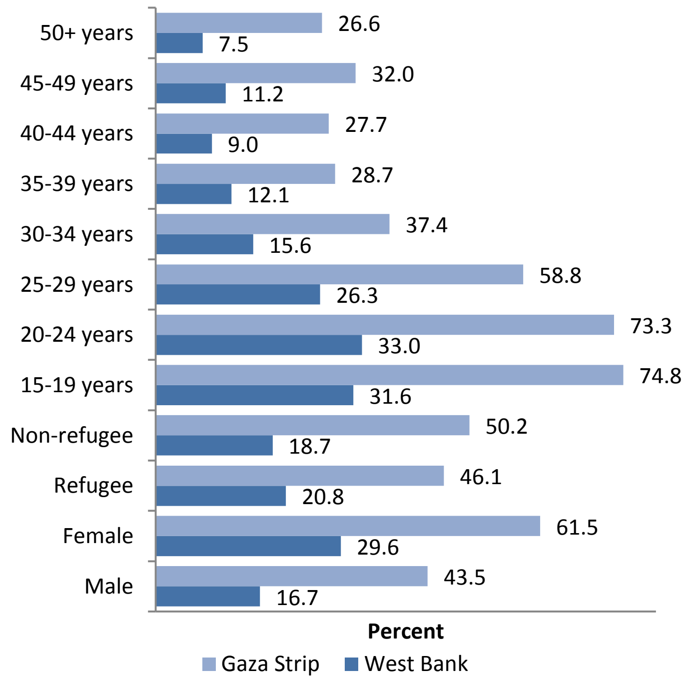
Labor force participation rate (%, Q3/2014)



Unemployment rate (%, Q3/2014)

	West Bank	Gaza Strip
Narrow definition	19.2	47.4
Relaxed definition	21.7	50.8

Unemployment rate (%, Q3/2014)



The average period of unemployment in Q3/2014 compared to Q2/2014 was largely unchanged for both men and women in the West Bank and the Gaza Stip. The average period of unemployment remained considerably longer for women than for men in both regions, and it was longer in the Gaza Strip than in the West Bank for both sexes, with unemployed women in the Gaza Strip experiencing the longest average period of unemployment (23 months).

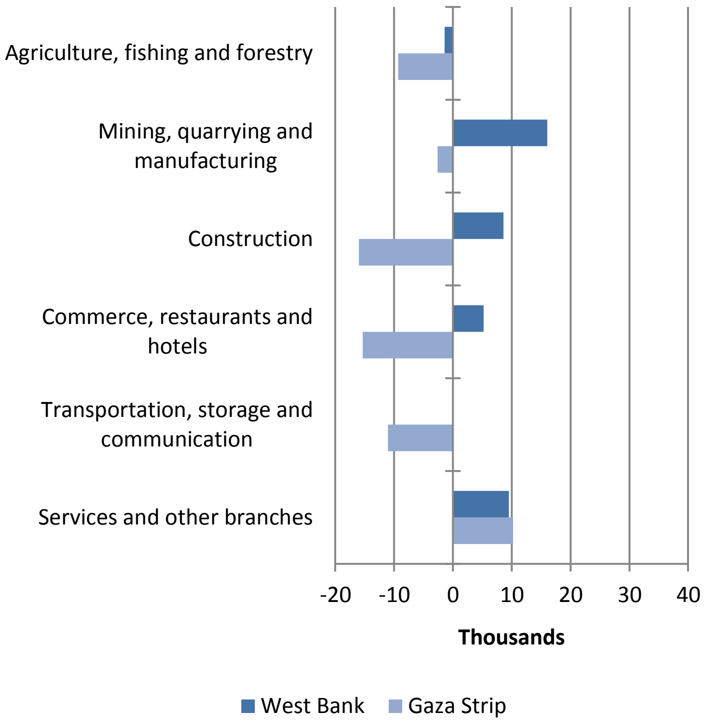
The number of persons employed in the West Bank increased between Q3/2013 and Q3/2014 by approximately 38,100 persons, but it decreased in the Gaza Strip by 44,000. In the West Bank, employment increased in all sectors except agriculture, fishing and forestry. In the Gaza Strip, on the other hand, employment decreased in all sectors except services and other branches.

There was a significant disparity in average daily net wages between the West Bank and the Gaza Strip in Q3/2014 – NIS 92.9 versus NIS 66.9 respectively. Average daily net wages were higher for men than for women in the West Bank, but the situation was reversed in the Gaza Strip. The public sector offered considerably higher average daily wages than the private sector in both regions, although average wages in Israel and Israeli settlements in the West Bank remained the highest at NIS 189.2 per day.

Average duration of unemployment (months, Q3/2014)

	West Bank	Gaza Strip
Male	4.4	16.7
Female	7.3	23

Change in number of employed persons by economic activity (thousands, year-on-year, Q3/2014)



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

Average daily wage (NIS, Q3/2014)

	West Bank	Gaza Strip
Male	92.9	66.9
Female	83.2	85.3
Private sector	85.1	47.1
Public sector	107.7	81.8
Israel and settlements	189.2	

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

Consumer prices

Average prices, as measured through the Consumer Price Index (CPI), rose in Q3/2014 compared to Q2/2014 in the Gaza Strip, East Jerusalem and the rest of the West Bank as well as compared to Q3/2013.

Change in CPI (%, Q3/2014)

	East Jerusalem	Rest of West Bank	Gaza Strip
Quarter-on-quarter	0.8	1.1	3.5
Year-on-year	2.9	0.2	5.1

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

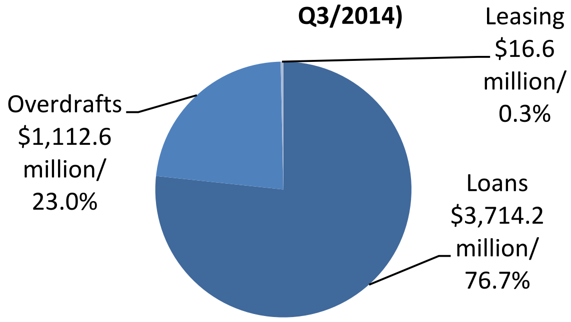
The banking sector

Bank credit in Q3/2014 declined to $4.8 billion from $4.9 billion in Q2 2014. The proportion of credit in the form of loans was 76.7%. This was followed by overdrafts (23% of the total), while leasing remained at less than one percent of bank credit in the quarter.

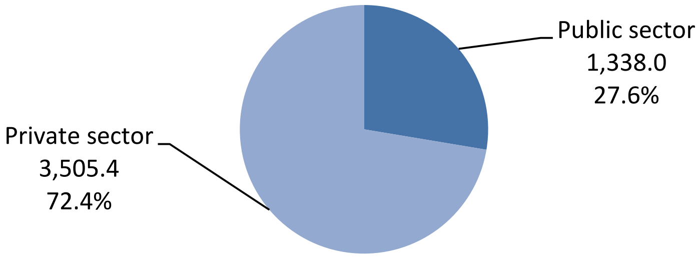
In terms of bank deposits, the main source in Q3/2014 continued to be the private sector with 72.3% of the total.

These figures resulted in a loan-to-deposit ratio of 54.5% in Q3/2014, down slightly from 55.9% in Q2/2014.

Distribution of bank credit by type (million $/%, Q3/2014)



Distribution of bank deposits by sector (million $/%, Q3/2014)

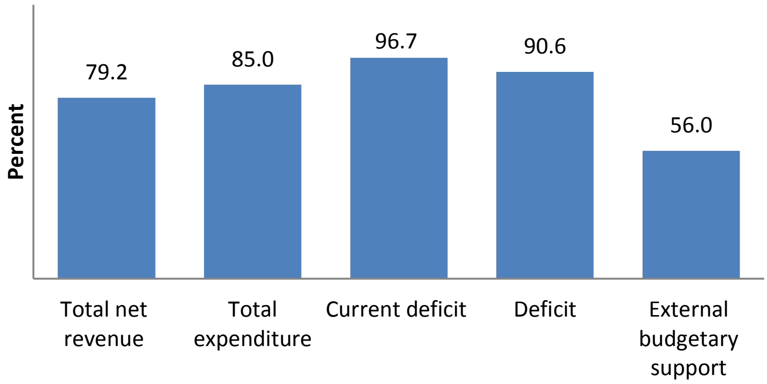


Note: Data do not include deposits of the PMA and commercial banks.

Fiscal operations

By the end of Q3/2014, government total net revenue was 79.2% of the NIS 9.311 billion in the 2014 budget. Total expenditure was 85% of the NIS 13.916 billion in the budget for the year. By the end of the third quarter, the current deficit and the overall deficit had already reached 96.7% and 90.6% of the annual projected amount, respectively. External budgetary support by the end of the quarter reached only 56%.

Fiscal indicators: actual as a proportion of annual budget (%, Q3/2014)



Note: Data are for fiscal operations on a commitment basis. The information is up-to-date as of 16 November 2014.

Note: The data for the West Bank and Palestine in this report do not include occupied East Jerusalem, unless otherwise specified, due to the unavailability of data.

Sources of data:

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

For further information or to be added to the mailing list please contact:

UNSCO West Bank: David Hartstone hartstone@un.org

UNSCO Gaza Strip: Raed Raqeb raqeb@un.org

The UNSCO Socio-Economic Report is also accessible on www.unsco.org.