



MAS

PALESTINE ECONOMIC POLICY
RESEARCH INSTITUTE - MAS

Tel: +972 (2) 298 7053/4 | Fax: +972 (2) 298 7055
info@mas.ps | www.mas.ps

Economic Monitor



سلطة النقد الفلسطينية
PALESTINE MONETARY AUTHORITY



هيئة سوق رأس المال
Capital Market Authority



الجهة المركزي
للإحصاء، الفلسطيني



MAS
معهد أبحاث السياسات
الاقتصادية الفلسطيني (ماس)

Economic Monitor Issue 66/2021

Editors:

- Dr. Fadel Naqib
- Raja Khalidi
- Dr. Nu'man Kanafani

Research Team:

- Islam Rabee
- Habib Hin
- Iman Saadeh
- Dr. Rabeh Murar
- Misayef Jamil

Coordinators:

- Palestine Economic Policy Research Institute- MAS
(General Coordinator: Islam Rabee)
- The Palestinian Central Bureau of Statistics
(Coordinator: Amina Khasib)
- Palestine Monetary Authority
(Coordinator: Dr. Shaker Sarsour)
- Palestine Capital Market Authority
(Coordinator: Dr. Bashar Abu Zarour)

@ 2022 Palestine Economic Policy Research Institute (MAS)

P.O. Box 19111, Jerusalem and P.O. Box 2426, Ramallah
Telephone: +972-2-298-7053/4
Fax: +972-2-298-7055
E-mail: info@mas.ps
Website: www.mas.ps

@ 2022 Palestinian Central Bureau of Statistics (PCBS)

P.O. Box 1647, Ramallah
Telephone: +972-2-2982700
Fax: +972-2-2982710
E-mail: diwan@pcbs.gov.ps
Website: www.pcbs.gov.ps

@ 2022 Palestine Monetary Authority (PMA)

P.O. Box 452, Ramallah
Telephone: +972-2-2409920
Fax: +972-2-2409922
E-mail: info@pma.ps
Website: www.pma.ps

@ 2022 Palestine Capital Market Authority (PCMA)

P.O. Box 4041, AlBireh
Telephone: +972-2-2946946
Fax: +972-2-2946947
E-mail: info@pcma.ps
Website: www.pcma.ps

To Order Copies

Contact the Administration on the above addresses.

Copyright

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photo copying, or otherwise, without the prior permission of the Palestine Economic Policy Research Institute-MAS, the Palestinian Central Bureau of Statistics and Palestine Monetary Authority.

Palestine Monetary Authority



سلطة النقد الفلسطينية
PALESTINE MONETARY AUTHORITY

January 2022





MAS

PALESTINE ECONOMIC POLICY
RESEARCH INSTITUTE (MAS)

Economic Monitor

Contents

1	The Real Economy and Infrastructure - A New Blow to the Economy of the Gaza Strip	5
	1-1 Economic Activity	5
	1.2 Productive Sectors Agriculture, Industry, and Construction	7
	1.3 Commercial, Financial, and Service Sectors	9
	1.4 Balance of Payments, International Investment Position, and External Debt	10
	1.5 Prices	12
	1.6 Services Infrastructures: Energy and Electricity	14
<hr/>		
2	The Labor Market	22
	Labor distribution	22
	Unemployment	24
	Wages	25
	Minimum Wages	26
<hr/>		
3	Public Finance	27
	Public Revenues	27
	Public Expenditure	28
	Financial Surplus/Deficit	28
	Government Arrears	29
	Government Public Debt	29

	Financial Sector	31
4	4-1 Banking Sector	31
	Credit Facilities	31
	Non-performing Loans	33
	Balances at PMA	34
	Cash and Precious Metals	34
	Customer Deposits	34
	Banks' Profits	35
	Average deposit and lending interest rates	36
	Check-handling movement in Palestine	36
	Specialized Lending Firms	37
	4-2 Non-banking Financial Sector	38
	Securities Sector	38
	Leasing Finance Sector	39
	Insurance Sector	40
<hr/>		
5	Social Development	42
	Barriers to Jerusalemites' Access to Productive Work in East Jerusalem and the Occupation's Policies to Impoverish and Break their Resilience	42
	Economic Reality in Jerusalem	42
	Education in East Jerusalem	43
	The Impact of Economic Realities and Education on Access to Productive Employment in Jerusalem	44
	<hr/>	
6	Recent Publications	46
	Workers' Rights in Crises - Palestinian Workers in Israel and the Settlements	46
<hr/>		
7	Economic Concepts and Definitions (Carbon Pricing)	51
	From Pledge Receipts to Paper Currency	51
	Two Carbon Pricing Methods	51
	Channels of Impact	51
	Greenhouse Gas Reduction Commitments	52
	The Gap Between the Desired Price and the Actual Price	52
8	Key Economic Indicators in Palestine, 2016-2021	53

The Second Quarter of 2021 in Brief

- ✧ **Gross Domestic Product:** In Q2 2021, GDP at constant prices grew by 3.5% (2015 base year) compared with Q1 2021, reaching about \$3.7 billion. This represented a growth rate of 4.3% in the West Bank and a decline of 0.3% in the Gaza Strip. There was a 2.8% increase in the per capita share of GDP (an increase of 3.7% in the West Bank and a decrease of 1.0% in the Gaza Strip). Per capita GDP reached \$758.90 (\$1,099.80 in the West Bank and \$300.80 in the Gaza Strip).
- ✧ **Employment and Unemployment:** The unemployment rate in Palestine decreased by 1.4% between Q2 2021 and Q1 2021, reaching 26.4% (16.9% in the West Bank and 44.7% in the Gaza Strip). The average daily wage in Palestine was NIS 137.80, representing NIS 124.70 for workers in the West Bank, NIS 59.60 for workers in the Gaza Strip and NIS 264.80 for workers in Israel and the settlements. 29% of employees in the private sector received wages less than the minimum wage, with NIS 744.00 as the average wage.
- ✧ **Public Finance:** Net public revenues and grants increased to NIS 3.6 billion during Q2 2021, compared to about NIS 3.4 billion during Q1. On the other hand, public expenditures rose by 62.1% during the same period, to reach about NIS 3.7 billion. Events had an impact on both public revenues and public expenditures, leading to a deficit in the overall balance of about NIS 64.5 million after accounting for grants and foreign aid. The arrears owed by the government during this quarter amounted to about NIS 846.6 million. The government's public debt, denominated in U.S. dollars, rose by 4.4% to reach about \$3.7 billion (or NIS 12.1 billion).
- ✧ **The Banking Sector:** Credit facilities had increased by about 2% at the end of Q2 2021 compared with the previous quarter, to reach about \$10.3 billion (22% of which is attributed to the public sector). Customer deposits grew by 4% during the same period, to reach \$15.7 billion. Banks' net profits for this quarter amounted to \$33.9 million, a decline of 39% compared with the previous quarter.
- ✧ **Palestine Stock Exchange:** The market value of the shares of companies listed on the Palestine Exchange reached \$3.9 billion at the end of Q2 2021. This represents a remarkable growth of 14% compared with the previous quarter. The Al-Quds Index closed at 540 points, an increase of 16% compared with the previous quarter.
- ✧ **Inflation and Prices:** In Q2 2021, the Palestinian economy witnessed positive inflation (a rise in prices) at a rate of 1.14% compared with the previous quarter. Consequently, for those who receive and spend their income in shekels, purchasing power declined at the same rate between the two quarters. As for those who receive their income in U.S. dollars and cover their expenses in shekels, their purchasing power decreased by 1.39%. This was a result of the 0.24% decrease in the U.S. dollar exchange rate relative to the shekel and a 1.14% increase in the inflation rate. Given that the Jordanian dinar is pegged to the U.S. dollar at a fixed exchange rate, the purchasing power of the dinar varied basically in line with the U.S. Dollar.

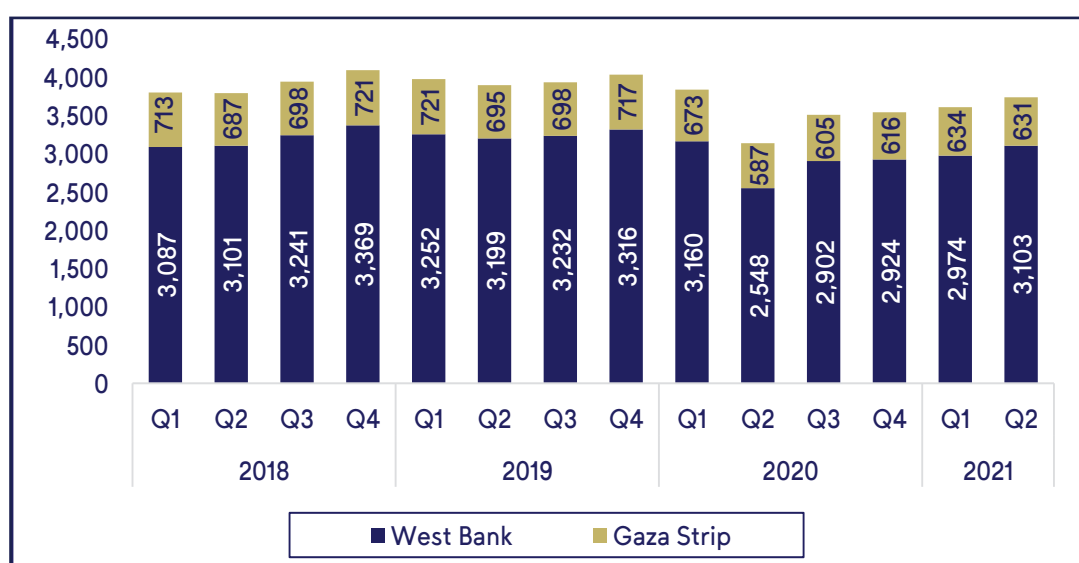
1- The Real Economy and Infrastructure - A New Blow to the Economy of the Gaza Strip

The Palestinian economy showed signs of recovery in Q2 2021, as the coronavirus vaccination campaign accelerated and lockdown measures aimed at mitigating the spread of the virus were lifted. Signs of this recovery appeared clearly in the West Bank, while the economy of the besieged Gaza Strip witnessed a decline due to Israeli attacks on Gaza in May. It is unlikely that these levels of growth will continue in the West Bank, given the low base from which this growth commenced. Indeed, sources of economic growth are limited due to the almost complete cessation of foreign aid; the continued partial deduction of clearance funds by Israeli occupation forces; and restrictions imposed on movement, trade, natural resources, and the economy in general. In this section, we review economic performance in Q2 2021 and shed light on aspects of economic infrastructure in Palestine. We specifically analyze indicators for the electricity sector, where Palestine suffers from weak energy security due to limited sources and high costs.

1-1 Economic Activity ¹

Preliminary data from the Palestinian Central Bureau of Statistics (PCBS) indicates a growth in real Gross Domestic Product (GDP), or the monetary value of all types of goods and services produced domestically (base year 2015). Measured at constant prices, GDP rose by 3.5% during Q2 2021 compared with the previous quarter, to reach \$3.7 billion (see Figure 1.1). This growth was due to an increase of 4.3% in the West Bank and a slight decline of 0.3% in the Gaza Strip between the two consecutive quarters. On an annual level, real GDP rose 19.1% from its value in the corresponding quarter in 2020, the quarter hardest hit by the coronavirus pandemic. However, the improvement in domestic economic activity has been insufficient to return GDP to pre-pandemic levels, which remains 4.1% lower than in Q2 2019. Israeli attacks on the Gaza Strip in May 2021 may have reduced the chances of recovery further. At the level of current prices, GDP reached \$4.4 billion. Figure 1.1 shows how the effects of the COVID-19 recession and Israeli attacks on Gaza reduced real quarterly output by about 4.1% from its already weak pre-2020 level.

**Figure 1.1: Real GDP by Quarter for 2019-21
(U.S. dollars million) (base year 2015)**

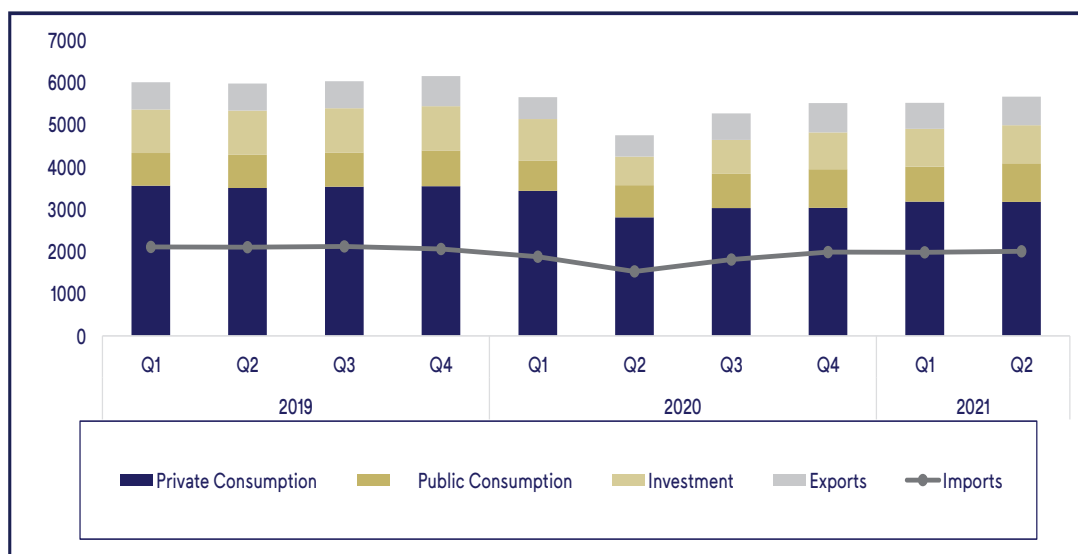


¹ Most of the statistics quoted in this section originate from PCBS, especially the quarterly national accounts statistics. Other sources are indicated where they are used. Unless otherwise indicated, all change ratios are measured at constant prices (base year 2015).

Gross investment and governmental final consumer spending grew by 1.2% and 10.5% respectively in Q2 2021 compared with the previous quarter (see Figure 1.2). The trade balance deficit decreased by 2.5%, owing to the larger increase in exports (8.6%) compared with imports (1.2%). In contrast, private consumption expenditure² declined by about 0.3% over the same period. Compared with the corresponding quarter of 2020, expenditure on GDP increased in all indicators, offset by a widening trade deficit (30.2%).

In terms of production, compared with the previous quarter, Q2 2021 saw an increase in the value-added for all major service sectors, excluding information and communications (-4.5%) and real estate (-3.8%). As for productive activities, agriculture increased by about 1.8% in the second quarter of 2021 compared with the previous quarter, while construction and industry declined respectively by 2.1% and 0.4%.

Figure 1.2: Quarterly Expenditure on GDP for 2019-21 at constant prices (base year 2015)



GDP per capita

The increase in real GDP in Q2 2021 - compared with the previous quarter - led to a rise of 2.8% in real GDP per capita (distributed as an increase of 3.7% in the West Bank and a decline of 1.0% in the Gaza Strip). Real GDP per capita reached \$758.9 (\$1,099.8 in the West Bank and \$300.8 in Gaza Strip), which represents an increase of 16.1% over the corresponding quarter for 2020r (distributed as 18.9% in the West Bank and 4.5% in Gaza Strip). In Q2 2021, GDP per capita stood at \$903.8 at current prices.

The Palestine Monetary Authority's Business Cycle Index ³

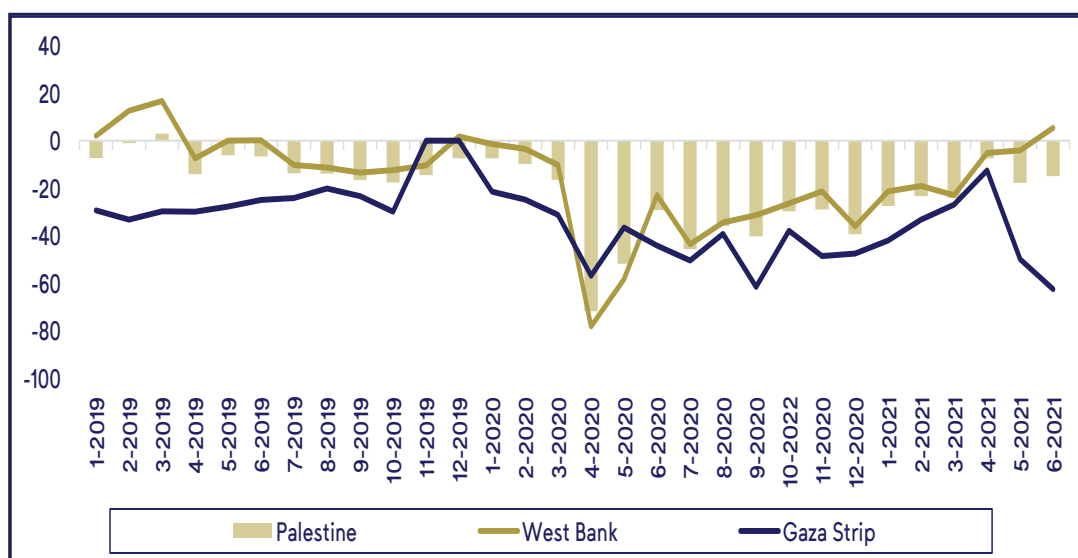
The Palestine Monetary Authority's Business Cycle Index indicates that economic activity improved in Q2 2021, but the value of the Index remains low. This was mainly due to the severe decline of economic activity in the Gaza Strip as a result of Israeli attacks, which left it in the negative zone (see Figure 1.3). The Index showed signs of recovery in the West Bank, where it recorded its highest value in more than two years.

² Private consumption expenditure includes final consumption by households and final consumption by non-profit enterprises serving households.

³ The index is calculated based on a survey of a representative sample of managers of industrial establishments in the West Bank and Gaza on current levels of operation, production and sales, and their prospects for the coming months. The index gives a glimpse of the overall performance of the Palestinian economy during that month, and expectations for the coming months.

The maximum value of the index is +100, while the minimum value is -100. A positive value indicates a belief that economic conditions are good, and an increase in the positive value indicates an improvement in the overall economic situation. Conversely, negative values indicate that economic conditions are bad, becoming worse the closer the Index approaches -100. If the Index value is close to zero, this indicates that conditions are stable, with no foreseen changes in the near future.

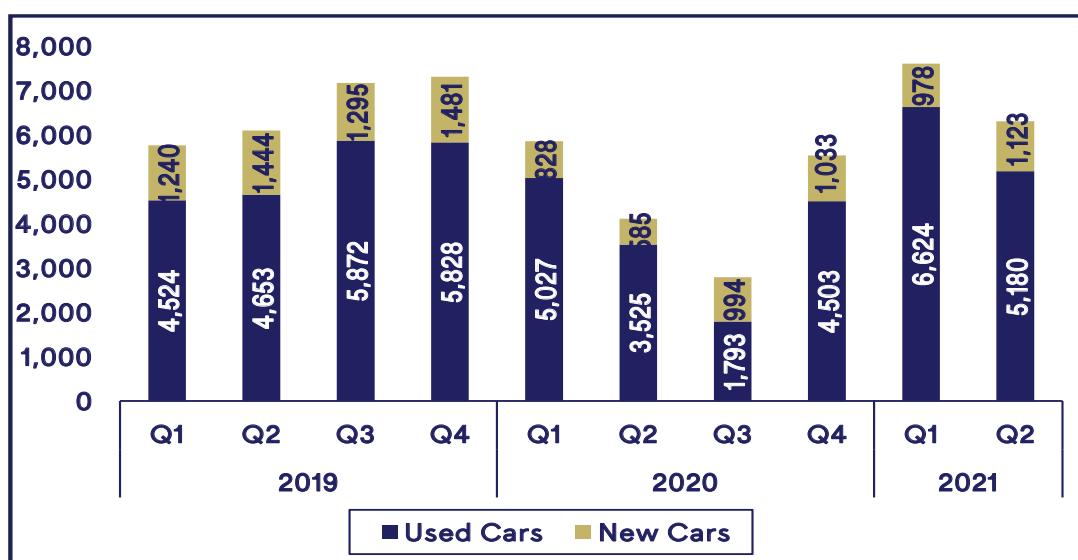
Figure 1.3: PMA's Monthly Business Cycle Index for 2019-21



Vehicle registration

Data from the Palestinian Ministry of Finance shows that there was a decline of 17.1% in the number of cars registered in the West Bank in Q2 2021 compared with the previous quarter, with around 6,303 cars registered (see Figure 1.4). This decline is mainly due to a decline of approximately 21.8% in the registration of used vehicles imported from overseas markets, which typically account for about three-quarters of new vehicle registrations locally. This may reflect a downturn in the supply side (i.e., bottlenecks in supply chains and commercial transport), rather than a weakness in demand.

Figure 1.4: Quarterly Imported Car Registration Data for the West Bank, 2019-21



1-2 Productive Sectors: Agriculture, Industry and Construction ⁴

The value added for productive sectors in Q2 2021 fell slightly (by 0.1%) compared with the previous quarter, but increased by 10.6% compared with the corresponding quarter in 2020. The contribution of the productive sectors to GDP fell from 23.6% in Q1 2021 and 24.4% in Q2 2020 to 22.7% in Q2 2021. Overall, productive sectors, in particular the construction sector, exhibited a poor performance in this quarter.

⁴ Source of figures for this section: PCBS, 2021. National Accounts Quarterly Statistics, 2000-2021. Ramallah, Palestine.

Agricultural sector

Value added for agriculture, forestry and fishing increased by 1.8% in Q2 2021, compared with the previous quarter, but decreased by 1.6% compared with Q2 2020. The sector's contribution to GDP fell from 6.5% in Q1 2021 and 7.7% in Q2 2020 to 6.4% in Q2 2021.

Industrial sector

The industrial sector's value added in Q2 2021 was 0.4% lower than in Q1 2021, and its contribution to GDP fell from 12.8% to 12.3% over the same period. In the annual comparison, the sector's value added increased by 11.6% between the corresponding quarters, but its share of GDP fell by about 0.8 percentage points due to the larger increase in value added in other sectors (see Table 1.1).

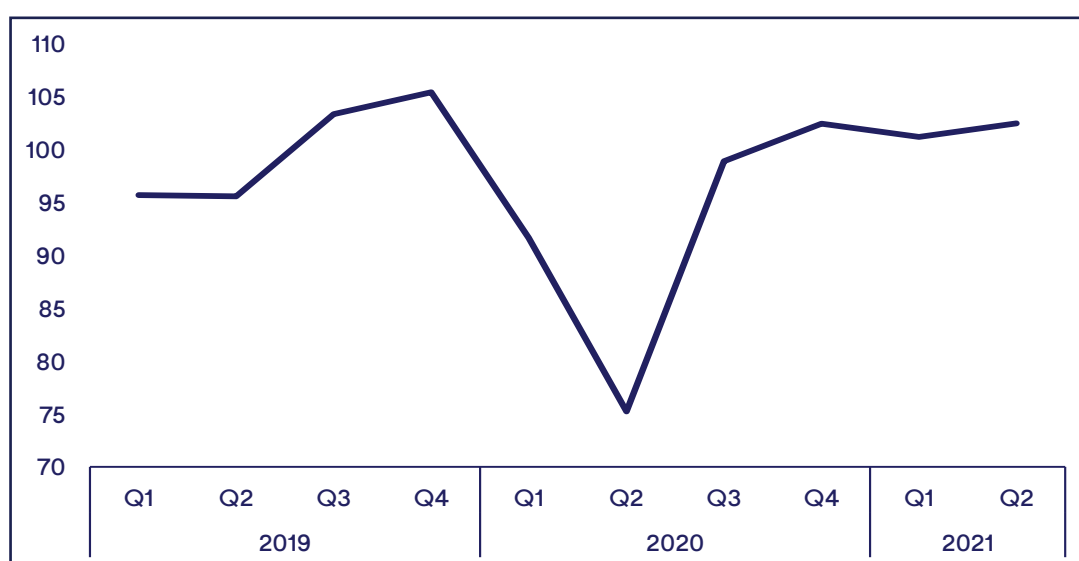
In Q2 2021, the aggregate index of industrial production quantities increased by 1.3% and 36.2% compared with the previous and corresponding quarters, respectively, reaching about 102.5 points (base year 2019) (see Figure 1.5).

Table 1.1: Quarterly Comparison of Value Added from Industrial Sub-Sectors for 2020 and 2021 (US\$ million) (base year 2015)

Economic Activity	Q2 2020	Q1 2021	Q2 2021	change from previous quarter	change from corresponding quarter
Mining and quarrying	10.9	13.7	12.3	-10.2%	12.8%
Manufacturing industries	351.0	391.5	391.5	0.0%	11.5%
Supply of electricity, gas, steam, and air conditioning	33.9	36.5	35.9	-1.6%	5.9%
Water supply and sanitation services, waste management and treatment	14.6	18.1	18.3	1.1%	25.3%
Industrial sector (total)	410.4	459.8	458.0	-0.4%	11.6%

Source: PCBS, 2021. Quarterly National Accounts Statistics, 2000-2021. Ramallah, Palestine.

Figure 1.5: Peak Index Value of Quarterly Industrial Production, 2019-21 (Base Year 2019)



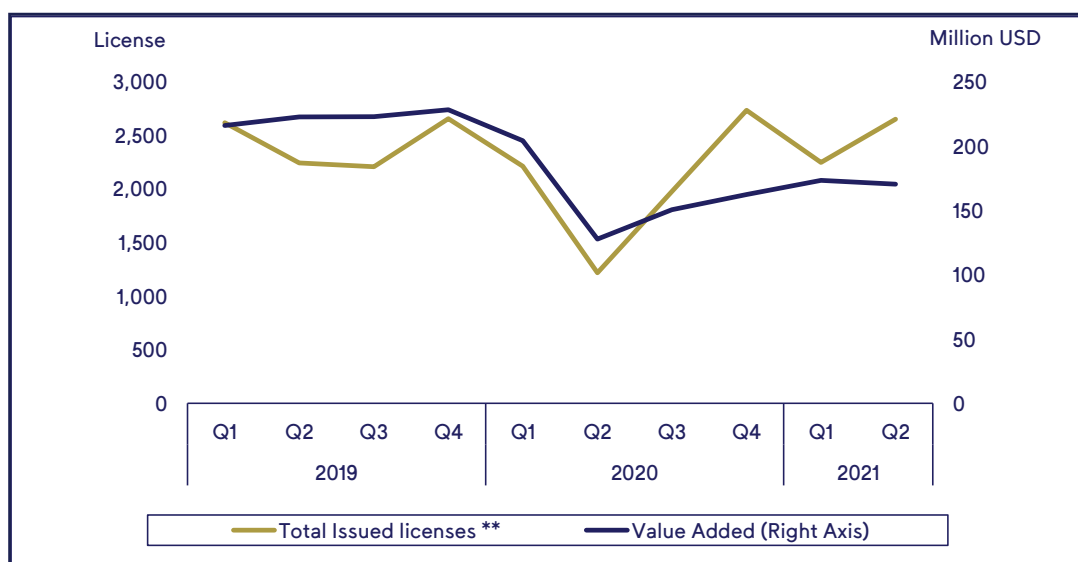
Source: PCBS, Survey of Index Values, 2010-21.

Construction sector

Value added in the construction sector decreased by 2.1% in Q2 2021, compared with the previous quarter, but increased by 32.8% compared with the corresponding quarter in 2020. As a result, the construction sector's contribution to GDP fell to 4.0%, compared with 4.3% in Q1 2021, but increased by 0.4 percentage points compared with Q2 2020.

In terms of building permits, preliminary estimates show an increase of 18.0% in licenses issued in Q2 2021, compared with the previous quarter, and an increase of 117.7% from an already-low level in Q2 2020 (see Figure 1.6). 2,649 building licenses were issued for residential and non-residential buildings during Q2 2021, 1,661 of which were licenses for new buildings. There were 5,158 licensed housing units in Q2 2021, covering a total area of 836,000 square meters. The number of new housing units increased by 33% compared with the previous quarter and by 127% compared with the corresponding quarter in 2020.⁵

Figure 1.6: Building Licenses issued in Palestine and the Value Added of the Construction Sector (base year 2015) from Q1 2019 to Q2 2021



Source: PCBS, 2021. Building Licenses Statistics and Quarterly National Accounts Statistics, 2000-21. Ramallah, Palestine.

1-3 Commercial, Financial and Services Sector

Table 1.2 illustrates activity in the trade, financial, and service sectors within the Palestinian economy. The total value added of these sectors increased by 2.7% in Q2 2021, compared with the previous quarter, and by 16.9% compared with the corresponding quarter in 2020. As can be seen in Table 1.2, the higher value added of activity in these sectors – when compared with the previous quarter – resulted from the recovery of most subsectors, excluding information and telecommunication and real estate.

⁵ PCBS 2021, Building License Statistics.

Table 1.2: Quarterly Comparison of the Value Added of Services' Sub-Sectors for 2020 and 2021 (US\$ million) (base year 2015)

Economic Activity	Q2 2020	Q1 2021	Q2 2021	change from previous quarter	change from corresponding quarter
Wholesale and retail trade and repair of vehicles and motorcycles	600.7	695.4	732.3	5.3%	21.9%
Transportation and storage	51.6	55.9	61.3	9.7%	18.8%
Financial and insurance activities	163.5	167.5	169.5	1.2%	3.7%
Information and Telecommunication	111	119.1	113.7	-4.5%	2.4%
Accommodation and food service activities	27.2	29.9	32.1	7.4%	18.0%
Real estate and rental activities	100.7	133.5	128.4	-3.8%	27.5%
Professional, scientific and technical activities	30.3	35.2	37.8	7.4%	24.8%
Administrative and support services activities	23.7	23.6	24.8	5.1%	4.6%
Education	226.5	248.3	250.2	0.8%	10.5%
Health and social work	141.9	161.2	173	7.3%	21.9%
Arts, entertainment, leisure and other service activities	7.8	7.6	7.6	0.0%	-2.6%
Other services	32.8	35.8	37.8	5.6%	15.2%
Public administration	390.1	459.8	462.1	0.5%	18.5%
Home-based services	2	2	2	0.0%	0.0%
(Services' Sector (Total	1909.8	2174.8	2232.6	2.7%	16.9%

Source: PCBS, 2021. Quarterly National Accounts Statistics, 2000-2021. Ramallah, Palestine.

1-4 Balance of Payments, International Investment Position, and External Debt

Palestine suffers from a chronic trade deficit, as the value of imports is usually more than three times the value of exports. Compensation to workers in Israel, foreign aid, remittances, and income from investments abroad partly pay off the deficit, but they are insufficient to cover domestic consumption. As a result, Palestine suffers from persistent deficits in the current account that are usually financed through borrowing or foreign investment.⁶

In Q2 2021, the current account deficit fell by 44.9% relative to the previous quarter, reaching \$236 million. This followed a reduction of 1.6% in the trade deficit owing to a rise in exports; an 8.3% increase in compensation to workers in Israel; and a 214.7% increase in donor countries' assistance, which added to receipts and inflows into Palestine⁷. Net capital transfers increased by 47.3%, which

⁶ A current account is a country's record of transactions with the rest of the world. The register contains the trade balance, net profit on foreign investment and net transfer payments. The current account deficit indicates that the country has greater financial obligations abroad than the income and transfers it receives from abroad.

⁷ PCBS 2021, Quarterly Balance of Payments Statistics, 2000-2021. Ramallah, Palestine.

in turn stimulated consumption and improved opportunities for economic recovery in Q2 2021. As a result of the contraction of the current account deficit, net foreign borrowing fell by about 107.6% compared with the previous quarter (see Table 1.3).

Table 1.3: Quarterly Comparison of Select Indicators from the Balance of Payments for 2020 and 2021 (US\$ million at current prices)

Item	Q2 2020	Q1 2021	Q2 2021	change from previous quarter	change from corresponding quarter
Current Account Deficit (Net)	-232	-428	-236	-44.9%	1.7%
Trade Balance Deficit (Exports - Imports)	-1,120	-1,600	-1,575	-1.6%	40.6%
Income (net)	424	750	831	10.8%	96.0%
Including: Compensation to workers in Israel	412	707	766	8.3%	85.9%
Including: investment income	45	83	76	-8.4%	68.9%
Current Transfers (Net)	464	422	508	20.4%	9.5%
Including: transfers from donor countries	188	34	107	214.7%	-43.1%
Capital Transfers (Net)	79	74	109	47.3%	38.0%
Net borrowing (financial account)	126	369	-28	-107.6%	-122.2%
Including: direct investment (net)	111	43	31	-27.9%	-72.1%
Including: Deposits (in foreign currencies)	124	421	104	-75.3%	-16.1%

Source: PCBS and PMA 2021. Quarterly Balance of Payments Statistics, 2010-2021. Ramallah, Palestine.

During Q2 2021, total investments made by Palestinians residing outside Palestine (i.e. total assets invested abroad) exceeded non-resident investments in Palestine (i.e. foreign direct investment) by \$3.3 billion.⁸ Net investment increased by 14.6% compared with the previous quarter and by 78.4% compared with Q2 2020 (see Table 4.1). The quarterly increase was the result of a rise in reserve assets, net portfolio, and other investments, whereas the annual increase was due to higher domestic deposits in offshore banks and increased foreign exchange circulating in the Palestinian economy. It is worth mentioning that about 65% of total assets invested abroad are currency and deposits.

⁸ The international investment position is a statistical statement showing, at a given date, the status of the financial assets of residents in a given economy, including both claims on non-residents on the one hand and the obligations of residents to non-residents on the other. The net international investment position takes into account the difference between external financial assets, and their counterpart at the level of liabilities.

Table 1.4: Quarterly Comparison of the International Investment Position for 2020 and 2021 (US\$ million at current prices)

Category	Q2 2020	Q1 2021	Q2 2021	change from previous quarter	change from corresponding quarter
Net international investment	1,871	2,914	3,338	14.6%	78.4%
Foreign Direct Investment (Net)	-2,487	-2,486	-2,518	1.3%	1.2%
Portfolio investments (Net)	710	635	766	20.6%	7.9%
Other investments (net)	2,950	4,031	4,306	6.8%	46.0%
Reserve assets	698	734	784	6.8%	12.3%

Source: PCBS and PMA 2021. International Investment Status and Quarterly External Debt Statistics, 2010-2021. Ramallah, Palestine. The net sub-items were calculated based on data sourced from PCBS and PMA.

Total external debt (accumulated) stood at approximately \$2.05 billion at the end of Q2 2021, up by 1.2% from the previous quarter and by about 2.5% from the corresponding quarter in 2020 (see Table 1.5).

Table 1.5: Quarterly Comparison of External Debt Components for 2020 and 2021 (US\$ million at current prices)

Economic Sector	Q2 2020	Q1 2021	Q2 2021	change from % previous quarter	change from % corresponding quarter
Palestinian government	1,294	1,314	1,318	0.3%	1.9%
Banks	664	670	674	0.6%	1.5%
Other sectors	37	37	43	16.2%	16.2%
Total External Debt	2,001	2,027	2,052	1.2%	2.5%

Source: PCBS and PMA, 2021. International Investment Status and Quarterly External Debt Statistics, 2010-2021. Ramallah, Palestine.

1-5 Prices ⁹

The Consumer Price Index (CPI) is the average price of a selection of basic goods and services that reflects the consumption patterns of the average household in a given country. This group of select goods and services is termed the “consumption basket.” The rate of inflation is the rise in the value of this Index in a given period and expresses the change in income purchasing power.

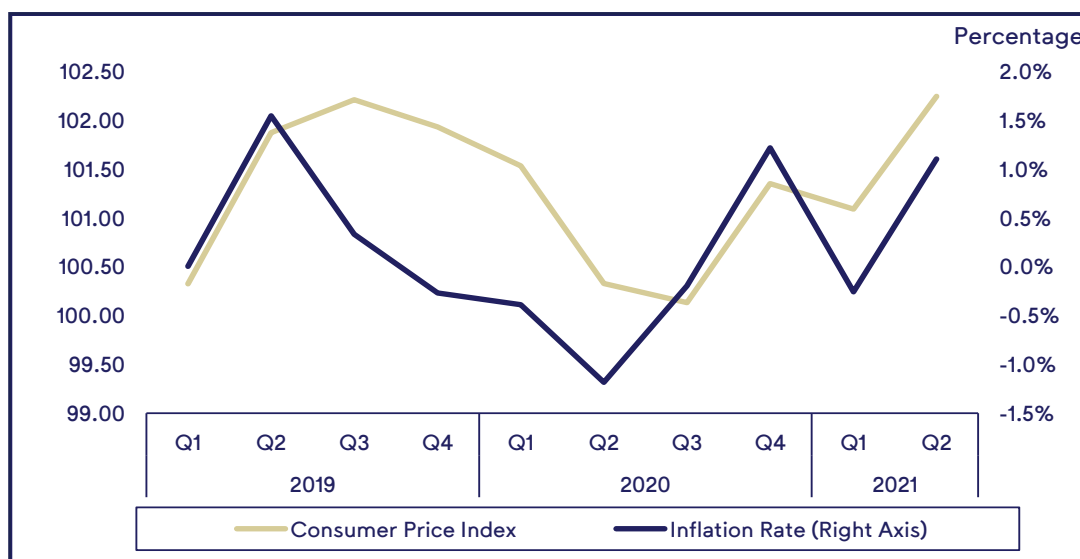
The Consumer Price Index

The figure below shows two curves: the first depicts CPI trends between Q1 2019 and Q2 2021, while the second curve measures the percentage change in the CPI in each quarter compared with the previous one (i.e., the quarterly inflation rate). In Q2 2021, CPI reached about 102.2 points, compared

⁹ Source of figures in this section: PCBS, 2021. World Records Surveys, 2010-2021.

with about 101.1 in Q1 2021. Inflation rose to 1.14%, compared with -0.3% in the previous quarter (see Figure 1.7), as the CPI increased by 1.91% compared with the corresponding quarter in 2020.

Figure 1.7: Quarterly Trends in CPI and Inflation Rate, 2019-21 (base year 2018)



Source: PCBS, Survey of Index Values, 2010-21.

Residential Property Prices

The value of PMA's total residential property price index reached 110.4 points in Q2 2021, increasing by 5.4% and 3.5% compared with the previous and corresponding quarters a, respectively (see Figure 1.8). This aggregate index comprises two sub-indicators: the first reflects prices for apartments (reaching 104.5 points, with growth rates of 1.1% and 7.5% respectively), and the second reflects prices for houses, including villas (reaching 114.4 points, with growth rates of 8.3% and 1.1% respectively).

Figure 1.8: PMA's Index of Residential Real-Estate Prices in Palestine from Q1 2018 to Q2 2021



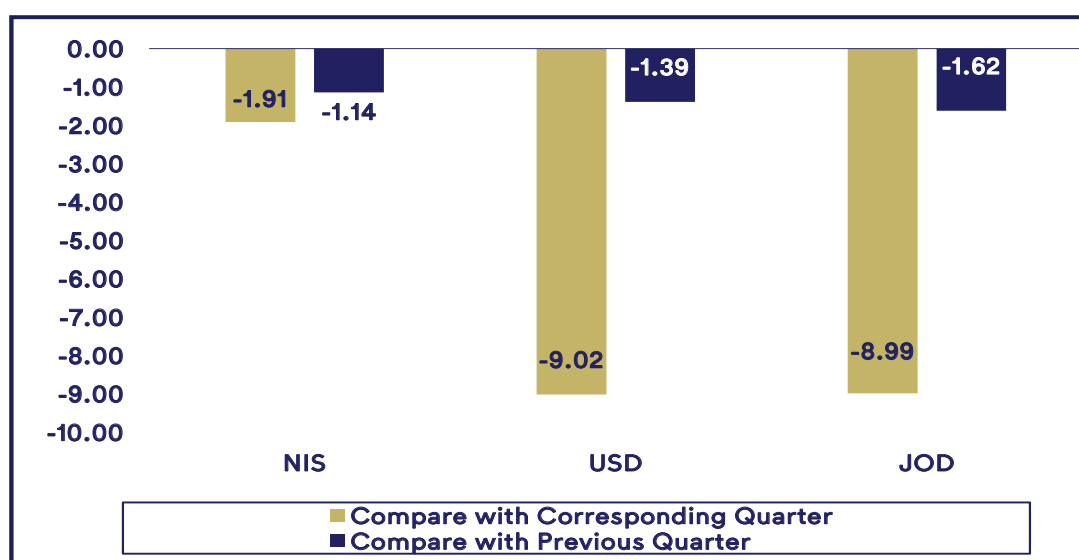
Source: PMA, 2021. Residential Real-Estate Price Index in Palestine.

Purchasing Power ¹⁰

Purchasing power of the New Israeli Shekel: During Q2 2021, CPI increased by 1.14% and 11.9% compared with the previous and corresponding quarters, respectively. This meant that the purchasing power of the Shekel declined by the same value during the indicated periods (see Figure 1.9). It should be noted that the trend in the purchasing power of the Shekel is equivalent to the rate of change in consumer prices, but in the opposite direction.

Purchasing power of the U.S. Dollar and Jordanian Dinar: Q2 2021 saw the average exchange rate of the dollar against the shekel fall by 0.24% and 7.11% compared with the previous and corresponding quarters, respectively. Accordingly, the purchasing power of individuals who receive their salaries in dollars and cover all their expenditures in shekels decreased by 1.39% and 9.02%, respectively, during the same period. Given that the dinar is pegged to the dollar at a fixed exchange rate, the dinar's purchasing power witnessed roughly the same developments as the dollar.

Figure 1.9: Trends in the Purchasing Power of Major Locally-traded Currencies, Q2 2021 vs. Q1 2021 vs. Q2 2020 (%)



Source: Figures were calculated based on the data sourced from PMA and PCBS.

1-6 Services Infrastructures: Energy and Electricity ¹¹

Palestine faces significant energy and electricity challenges, particularly in the Gaza Strip. The most prominent challenge is the heavy reliance on the Israeli occupation for energy provision, in addition to the challenges and obstacles that the occupation poses to the development of the Gaza Strip. The most prominent of these challenges are the isolation of the Gaza Strip, the difficulty of investing in Area C, the inability to develop a unified electricity grid and a network of high-pressure lines connecting all Palestinian communities. In addition, there are restrictions on trade, imports, and other activities. The energy and electricity sector also suffers from the small size of the Palestinian market, which poses a major challenge in terms of the cost and viability of building infrastructure that can meet full domestic energy needs and attract foreign investment. The high cost of restructuring

¹⁰ Purchasing power is defined as “the ability to purchase goods and services using one’s wealth and is based on consumers’ income and on changes in prices and exchange rates. Therefore, the change in purchasing power, assuming constant income is equal to the rate of change in the exchange rate of other currencies versus the Shekel, less the rate of inflation.

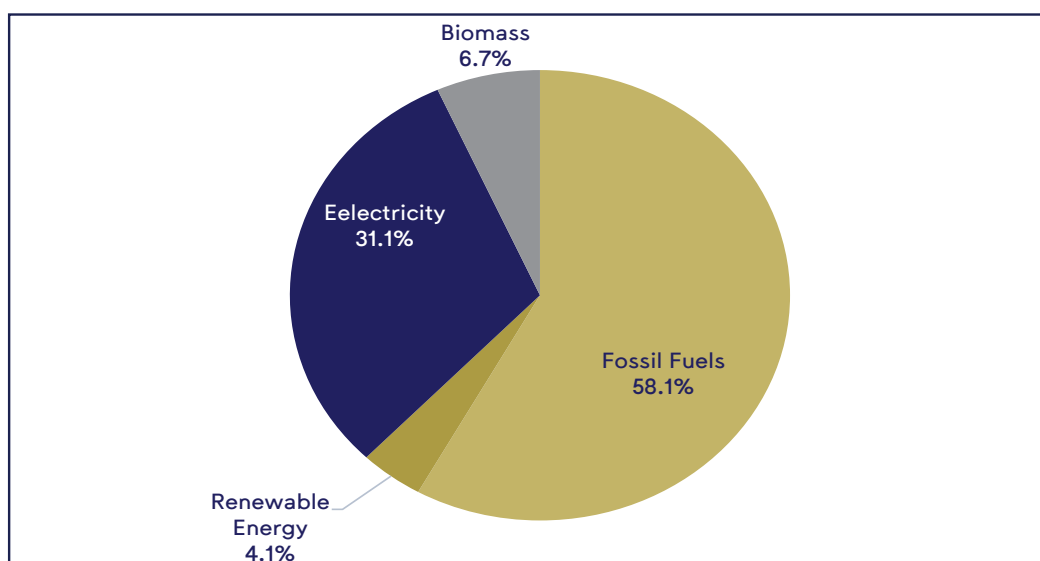
¹¹ Sources: Palestinian Energy and Natural Resources Authority, 2019. Ramallah - Palestine. PCBS, 2019. Foreign Trade Database 2018. Ramallah - Palestine. PCBS, 2019. Economic Survey Series 2018. Ramallah - Palestine.

and developing the energy sector in its various components is also a major challenge, given the weakness of the national economy and the lack of financial resources needed to develop the energy sector. This is in addition to the high level of wastage in distribution networks and the inability to regulate local bodies involved in electricity distribution. Given these problems and constraints, the value of electricity that is consumed already exceeds the revenue generated by citizens and various economic sectors, resulting in a near-chronic financial burden on the Public Treasury with regard to “net lending” (reviewed in the section on Public Finance). These dynamics illustrate the importance of focusing on this pivotal sector and diagnosing its problems, as well the importance of moving towards independent alternatives for electricity provision in Palestine. Greater reliance on renewable energy is the most viable option in the immediate term, given the scarcity of natural resources in Palestine, especially traditional energy sources such as oil and gas.

Energy consumption

Palestine consumed 20.0 TWh (71,976 TJ) of energy in 2019, including 11.62 TWh (41,817 TJ) of fossil fuels (diesel, gasoline, kerosene, fuel oil, liquefied petroleum gas or LPG, oil, lubricants and bitumen), 6213 GWh (22,367 TJ) of electricity, 1.34 TWh (4830 TJ) of biomass (peat, wood and coal), and 0.82 TWh (2,963 TJ) of solar photovoltaic energy (see figure 1-10)¹². Transportation is the most energy-intensive sector (42.4%), followed by household usage (38.0%) and trade and public services (11.1%). The industrial sector consumes 5.5% of electricity in Palestine and agriculture, at 1.0%, consumes the least energy of all sectors.

Figure 1.10: Relative Distribution of Energy Consumed in Palestine by Source (2019)



If we examine electricity solely, we find that final electricity consumption in Palestine rose by 109% between 2010 and 2019, at an average annual growth rate of around 12.1%. Although electricity consumption could reach 15,326 GWh by 2030 if the growth rates of the past decade continue¹³, this is unlikely due to anticipated lower population growth, slower urbanization, and more efficient electricity consumption. Therefore, studies suggest that growth in electricity consumption will average around 3.5% in the next ten years, putting electricity consumption in Palestine at 9,071 GWh by 2030¹⁴. Household consumption is the largest (58.9%), followed by commerce and public services

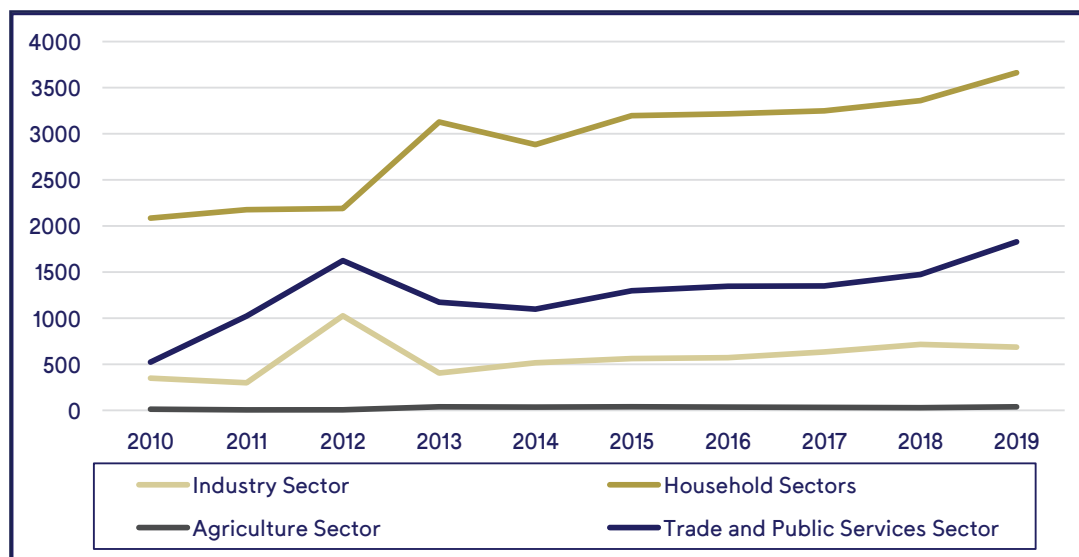
¹² https://www.pcbs.gov.ps/statisticsIndicatorsTables.aspx?lang=en&table_id=527

¹³ A geometric mean of 8.55% was used, not the arithmetic mean indicated in the text.

¹⁴ <https://www.massader.ps/en/page/1512912471> and

(29.4%) and industry (11.0%). Electricity consumption between 2010 and 2019 grew the fastest in the commercial and public services sector, which registered an average growth rate of about 27.7% per year (see Figure 1.11). The share of electricity consumption per capita stood at 1280.0 (kW/F) in 2019, compared with 1,648.51 (kW/F) in Jordan and 5,967.30 (kW/F) in Israel, and below the world average of 3131 (kW/F)¹⁵.

Figure 1.11: Final Electricity Consumption (GWh) in Palestine by Sector (2010-19)



Energy supplies

As of 2019, the energy supply from primary sources stood at 81,903 TJ, the vast majority of which is imported (86.4%), with solar photovoltaic (7.2%) and biomass (5.8%) sources providing the remainder. Renewable energy, biomass, and the still-untapped gas field off the coast of Gaza are the only available sources of energy from local sources. Consumption accounts for 92.5% of the energy supply, with the difference between the two arising from waste and transfer between different energy sources.

The total electricity available in 2019 amounted to 7.06 TWh, most of it (6.25 TWh or 88.5%) imported from the Israeli Electricity Company; only very small quantities were imported from Egypt and Jordan, due to weak electrical connections. 13.3% of imported electricity is lost before it reaches the final consumer. Palestine Electricity Company/Gaza Power Plant produces 0.59 TWh, or 8.4% of the total supply, using 6051 TWh of diesel and 223 TWh of gasoline. It also provides renewable energy and self-generation totaling 0.22 TWh, or 3.1% of electricity consumed¹⁶. It is worth noting that 50% (2,963 TJ) of solar energy generated is wasted. Between 2010 and 2019, the amount of electricity available grew by 52.4%, meaning that the average annual growth rate is around 5.5%. Imported electricity grew by an average of 5.6% per year, while electricity purchased from the Palestinian Electricity Company and generated locally through renewable energy grew by 10.4% and 3.4%, respectively (see Figure 1.12).

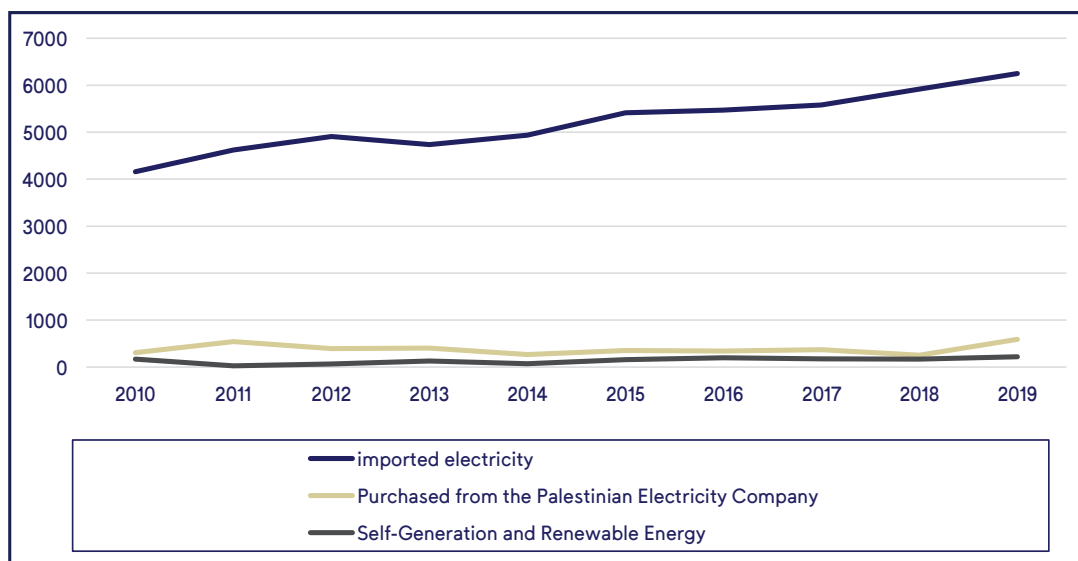
<https://documents1.worldbank.org/curated/en/351061505722970487/pdf/Replacement-MNA-SecuringEnergyWestBankGaza-web.pdf>

15 https://www.pcbs.gov.ps/statisticsIndicatorsTables.aspx?lang=en&table_id=529 and <https://www.worlddata.info/asia/jordan/energy-consumption.php> and <https://www.worlddata.info/asia/israel/energy-consumption.php> and <https://data.worldbank.org/indicator/EG.USE.ELEC.KH.PC>

16 https://www.pcbs.gov.ps/statisticsIndicatorsTables.aspx?lang=en&table_id=528

Almost all Palestinian households (99.8%) are connected to the electricity grid, but the Gaza Strip suffers from a severe shortage of power supplies resulting in daily power cuts of up to several hours¹⁷. The Gaza Strip has about 200 MW of electricity available at peak times, while demand is estimated at 450 MW. This discrepancy is due both to insufficient electricity imports from Israel and Egypt and the fact that Gaza’s power plant produces only about 60 MW out of a total capacity of 140 MW¹⁸. The inability to produce at full production capacity is due to the use of expensive diesel fuel, which Israeli occupation forces control access to, and constant attacks on Gaza that have damaged the plant and the distribution network.

Figure 1.12: The Amount of Electrical Energy in Palestine (GWh) by Year and Source of Electrical Energy (2010-19)



The projected increase in electricity consumption in Palestine will result in greater reliance on electricity imported from Israeli occupation authorities under current arrangements. To reduce this dependence and reduce Israel’s dominance over the local economy, it is necessary to invest in new projects for local electricity production. It is especially important to build more solar power plants, since Israeli occupation forces control other energy supplies needed for electricity generation, such as fuel.

Electricity costs

The average cost of one kilowatt-hour of electricity is about 0.4834 Shekels (\$0.1422) for domestic use, 0.6090 Shekels (\$0.1791) for commercial use, and 0.4960 Shekels (\$0.1459) for industrial use¹⁹. This is higher than the average cost of electricity in Jordan (\$0.11) and Lebanon (\$0.08), but lower than the average cost in Israel (\$0.17)²⁰. The main reasons for the rise in electricity prices are the high rates of wastage, the high costs of domestic production, the high costs of electricity imported from Israel, and the low efficiency of electricity distribution companies and institutions²¹.

17 https://www.pcbs.gov.ps/statisticsIndicatorsTables.aspx?lang=en&table_id=504

18 <https://www.massader.ps/en/page/1512912471> and

<https://documents1.worldbank.org/curated/en/351061505722970487/pdf/Replacement-MNA-SecuringEnergyWestBankGaza-web.pdf>

19 <https://perc.ps/perc/wp-content/uploads/2020/10/%D9%82%D8%B1%D8%A7%D8%B1-%D8%A7%D9%84%D8%AA%D8%B9%D8%B1%D9%81%D8%A9-%D8%A7%D9%84%D9%83%D9%87%D8%B1%D8%A8%D8%A7%D8%A6%D9%8A%D8%A92-020.pdf>

20 https://www.globalpetrolprices.com/electricity_prices/

21 <https://library.palestineconomy.ps/public/files/server/20151012130926-2.pdf>

Renewable energy

Renewable energy, especially solar energy, is the only independent energy source that is not dependent on Palestinians' ability to import fuel. It is also an attractive investment option, given the global trend of declining costs for solar equipment. However, the renewable energy sector in Palestine still suffers from limited investment due to a weak and disconnected electricity transmission network, limited land availability, a lack of adequate financial guarantees due to fears of non-payment by local distributors and agencies, in addition to other challenges relating to technical problems and limited capacity. The Energy Authority has set a strategic goal of gradually shifting to generating 10% (130 MWh) of required electricity from renewable sources by 2020. However, according to the latest available data, production from renewable sources accounted for only 3% by 2019²². The potential for solar energy in Palestine (the amount of electricity that could be produced from solar energy if all possible projects were carried out) is estimated by the World Bank to be 4,246 MW. However, the vast majority of projects (96%) are located in the West Bank, given limited land availability and high population density in the Gaza Strip²³. Even in the West Bank, 83% of the potential is located in Area C, where building permits are very rarely issued by occupation forces. Given these limitations, solar energy potential falls to only 707 MW, 75% of which is generated by solar panels placed on roofs (see Table 1.6).

Table 1.6: World Bank Estimates of Renewable Energy Potential in Palestine (Megawatts)

Solar power plants				
	Areas A and B		Area C	Total
West Bank	103		3,374	3,477
Gaza Strip				0
Rooftop solar energy				
	Home	Government	Commercial	Total
West Bank	490	13	31	534
Gaza Strip	136	8	19	163
Wind and biomass				
	Wind	Biomass (animal waste)	Biomass (landfill)	Total
West Bank	45	7	18	70
Gaza Strip	0	2	0	2
All renewable energy sources				
West Bank	4,081			
Gaza Strip	165			
Palestine	4,246			

Source: World Bank Group. (2017). Securing Energy for Development in the West Bank and Gaza.

²² <http://www.pengon.org/uploads/articles/4.pdf>

²³ <https://www.un.org/unispal/document/securing-energy-for-development-in-west-bank-and-gaza-world-bank-report/>

Under the Microscope

The Reform of Israel's Import and Marketing Systems and their Potential Implications for the Palestinian Economy

Following a marathon session on the morning of October 4 2021, the Israeli Knesset approved the third review of the government budget for 2022. The Government of Israel's annual budget proposal is comprised of two documents. The first is the budget itself, which contains detailed tables of the revenues and expenditures of all governmental institutions and agencies throughout the year. The second document, known as the "Arrangements Bill," contains the procedures and institutional adjustments necessary to meet the revenue and expenditure schedules set forth in the budget. The Arrangements Bill reveals much about the economic and social choices and priorities that the Government will pursue during its term of office.

The 2022 Arrangements Bill contained what some consider to be the most important economic, social, and procedural reforms in Israel in three decades, with some Israeli commentators even saying that they did not expect such changes to be adopted in their lifetimes. Given the importance of these measures and their impact on the Palestinian economy, we shall briefly outline them and the impact they are expected to have on the economies of the West Bank and Gaza Strip.

- **Kosher and slaughterhouse permits**

Since the establishment of the state of Israel, the monopoly over issuing documents proving that food (domestic and imported), food vendors, and restaurants meet the requirements of Jewish religious law has been held by a single rabbinical authority. Religious parties in all past governments supported the continuation of this closed system, which has been rife with corruption and patronage. The changes introduced in the program of the new government are intended to restructure the system by eliminating the rabbinical monopoly and privatizing it. Private companies will now be allowed to issue kosher permits in accordance with general standards set by the government's rabbinate. Based on these general standards, private companies must reveal in detail their own standards for kosher certification. Once they obtain the approval of three municipal rabbis, companies can issue certificates that come with less stringent religious standards. This system allows producers and consumers to choose the extent to which they wish to observe food-related religious regulations. Ultimately, consumers themselves will decide whether an open system for issuing kosher permits will succeed or fail.

- **Liberalization of agricultural products**

Israel's agricultural sector has historically enjoyed a high degree of protection. Forms of protection range from high tariffs on agricultural imports such as eggs, to a total ban on the import of certain products during particular seasons (such as some types of berries and nectarines); as well as a quota system for the cultivation of most local products, such as avocados. Although the stated objective of these measures is to ensure high incomes for farmers, security objectives concerning local food production and land use have played an important role in the continued application of such protectionist measures since the establishment of the state of Israel. The new measures include a reduction in the number of products subject to quotas, as well as other more important measures such as a substantial and progressive reduction in the tariff on agricultural imports (implemented over a period of five years). The Arrangements Bill provides for the simultaneous elimination of tariffs on a number of products including eggs, avocados, pineapple, garlic, peas, beans, dates, and artichokes. These measures are aimed at curbing the rise in prices of vegetables and fruits on the Israeli market; according to the Ministry of Agriculture, these prices have increased by 80% in recent years. As a result of this reform program, consumers are expected to save 2.7

billion shekels per year on their vegetable and fruit basket (i.e., 840 shekels per family per year)²⁴. To compensate farmers for their loss, the Bill provides for a direct support program in line with the size of cultivated area (e.g., compensation of 100 shekels per dunum per year, the equivalent to 420 million shekels for the cultivated area of 4.2 million dunums). There is also compensation for egg producers, particularly those farmers in the northern Galilee region, as egg prices are expected to drop by 25%. The program also includes tax breaks on farmers' capital investment and an investment of 2 billion shekels to raise productivity in agriculture and industry. Eliminating tariffs on fodder, pesticides, and other inputs would reduce agricultural production costs and partially compensate farmers for losses they have sustained due to the rollback of protectionist measures.

- **A radical reform of product specifications and requirements for imported goods**

The World Trade Organization (WTO) has long complained that Israel uses stringent product specification requirements and complex application procedures to protect its domestic products and obstruct imports from abroad. All imports – from specialized tools and consumer products to large machinery and furnishings - must meet the unique measurement and sanitation requirements of this small country. The Standards Institute of Israel required that products at ports be inspected after the already costly and difficult import procedures had been completed. Containers often wait long weeks at ports before being checked by the Standards Institute, leading to cumbersome and costly import procedures. Moreover, all of this naturally manifested in prices that are higher on average in Israel than in the U.S. and in the E.U. The new Bill would remove the Standards Institute procedures for the vast majority of products and automatically recognize that goods meeting European or American standards can be imported without prior authorization. The inspection and conformity system at ports will be replaced by a system of spot checks in shops to ensure the implementation of health and safety standards, with the possibility of fines for offenders. The Ministry of Finance expects this reform to bring import prices in Israel down to levels that prevail in Europe and the United States.

Possible Implications of the New Measures for the Economy of the West Bank and Gaza Strip

The new procedures will have important and varied implications for the Palestinian economy, given that it effectively participates in the Israeli customs regime. Naturally, some will benefit financially from these procedures while others will lose out.

- **Gains to consumers**

If the West Bank and Gaza Strip see a fall in food prices in line with what is anticipated for the Israeli economy, the Palestinian consumer will gain. Indeed, the gains of consumers in the West Bank, and Gaza in particular, could be larger than those of the Israeli consumer, given that the share of food in the consumption basket in the West Bank and Gaza stands at 28%33%, respectively, compared with only 18% in Israel.

- **Farmers' losses**

Opening the Israeli market to the import of vegetables, fruits, and eggs from abroad will result in lower prices and stronger competition for Palestinian products in both the Israeli and domestic markets. Unlike in Israel, Palestinian farmers will not benefit from a program of supplementary assistance to compensate for their losses. However, these losses may be partially offset by two factors: the first is the expected decrease in the price of imported fodder, pesticides, and other agricultural inputs; and the second is the adoption of European standards by Israel, which could help Palestinian farmers market more of their produce in the Israeli market.

24 Other measures include a high tax on sugar-containing beverages (to combat diabetes) and on disposable plastics, which would double their current price.

- **Wider prospects for other Palestinian products**

Palestinian products will face greater competition and lower prices in both the domestic and Israeli markets. However, the expected ease with which equipment and production inputs in particular may be imported from abroad may positively affect production costs and techniques, albeit only partially. Also, with the easing of kosher food requirements, the Palestinian food industry may see new opportunities in the Israeli market.

- **Reducing the trade deficit with Israel**

Facilitating imports from abroad and adopting European standards could result in a decrease in the West Bank and Gaza Strip's imports from Israel, as a consequence of rising direct imports from abroad. This will manifest as a reduction in the trade deficit with Israel. Opening the door to imports from a variety of sources could reduce import prices and have a positive impact on Palestine's overall trade balance.

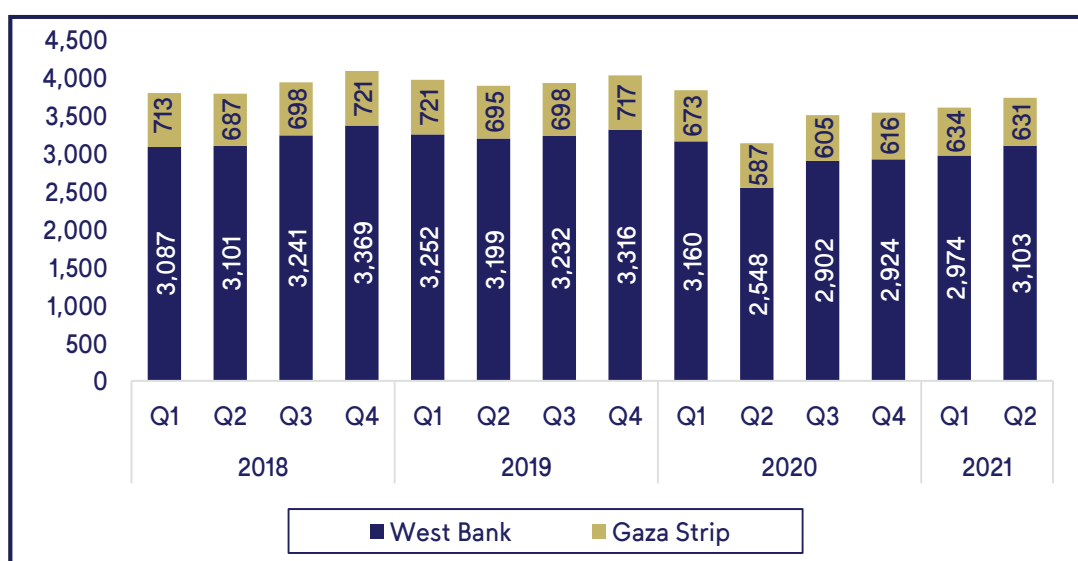
However, all these possibilities remain subject to Israel's actual policies towards Palestinian products and producers. Continued security screening and inspections of Palestinian imports and exports would largely offset the potential positive effects of these new measures. In this regard, we need only mention the recent Israeli decision that exporting of Palestinian agricultural products to the Israeli market must be carried out by an accredited marketer, registered with the Israeli ministries of Health and Agriculture. The Israeli marketer must then place incoming products into cold storage, with samples sent to the Crop Quality Laboratory. If it is found that the products do not meet the required standards, the products will be returned to the farm or destroyed. Such policies effectively apply the old system of product standards that the Israeli Government has boasted of removing.

Israeli authorities do not appear to have consulted the Palestinian Authority before formulating these important trade policy amendments, as is required per the Paris Protocol. Detailed studies are now needed to assess the potential impact of such actions on the Palestinian economy in general, and on the agricultural sector in particular. In the light of these studies, decision-makers must pursue appropriate policies that may limit any negative consequences of unilateral Israeli decisions.

2- The Labor Market

By the end of Q2 2021, manpower in Palestine totaled 3,234,300 people, a number which as defined by the PCBS' includes all individuals over the age of 15. The labor force, which accounts for the number of employed and unemployed people (looking for work), increased slightly in Q2 2021, by 0.3% (about 43,000) compared with the previous quarter, and by 2.4% compared with the corresponding quarter in 2020, to about 1,382,600 people. Labor force participation, i.e., the ratio of the labor force to manpower, remained at the same level as the previous quarter. , In Q2 2021, labor force participation in Palestine stood at 43%, which represents a decrease of 1% compared with the corresponding quarter in 2020. Figure 2.1 shows the relationship between total population, manpower, and the labor force in Palestine at the end of Q2 2021.

Figure 2.1: Population, Manpower and the Labor Force in Palestine in Q2 2021 (1,000 persons)



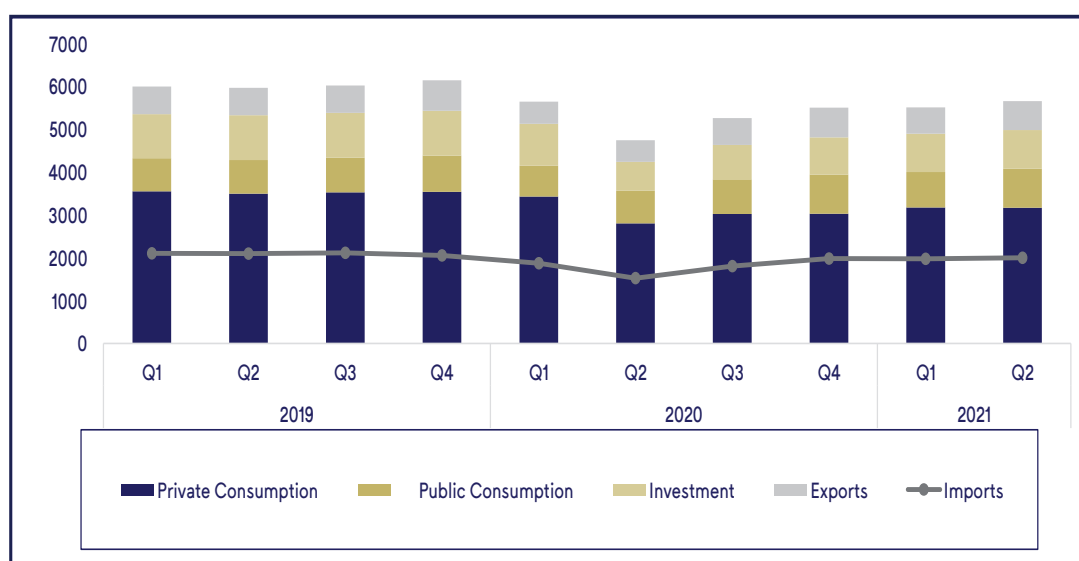
Labor distribution

Between Q1 and Q2 2021, the number of workers in Palestine increased by about 2% (approximately 22,000 workers), reaching 1,015,600 workers. This rise was mainly due to the 6% increase in the number of workers in Israel and the settlements (8,300 workers) as well as in Gaza (14,100 workers), although in the West Bank this number decreased by 0.1% (900 workers).

In Q2 2021, the geographic distribution of workers stood at 60% in the West Bank, 26% in Gaza, and 14% in Israel and the settlements (approximately 146,200 workers, 28% of whom do not hold work permits). In terms of sectoral distribution in Q2 2021, 21% of workers were employed in the public sector (compared with 20% in Q1 2021), 61% in the private sector (63% Q1 2021), and 18% in Israel, the settlements, and other sectors (17% in Q1 2021)²⁵. West Bank workers were concentrated in the private sector, comprising 63% of the total workforce there (compared with about 57% in the Gaza Strip), while 16% were employed in the public sector (compared with about 36% in the Gaza Strip). The low proportion of workers in the private sector in the Gaza Strip is due mainly to the deteriorating economic and social conditions in the Gaza Strip. These conditions are a result of the 16-year-long Israeli blockade on Gaza, which has adversely affected all economic activities in the private sector (see Figure 2.2).

²⁵ Other sectors include civic and non-profit organizations.

Figure 2.2: Relative Distribution of Employees by Region and Sector in Q2 2021 (%)



In total, the number of workers in the domestic market (the West Bank and Gaza Strip) rose by 2% during Q2 2021, compared with the previous quarter. This increase was uneven across different sectors of economic activity, however, with some sectors witnessing an increase in the number of workers and others a decrease. The number of workers in the trade, restaurant, and hotel sector increased by 8%, while it rose in the agricultural sector by 13% and in the service sector by 1%. By contrast, the number of workers fell in manufacturing (by 2%), construction (8%), and transportation, storage, and communications (by 7% each).

Table 2.1: Relative Distribution of Palestinian Workers by Region and Economic Sector in Q2 2021 (%)

Economic Sector	West Bank		Gaza Strip		Israel and the Settlements		Palestine (does not include workers in Israel and the settlements)	
	Q1 2021	Q2 2021	Q1 2021	Q2 2021	Q1 2021	Q2 2021	Q1 2021	Q2 2021
Agriculture, hunting, and forestry	6	8	7	6	7	7	7	7
Quarries and manufacturing industries	15	15	6	5	14	12	12	12
Building and construction	15	14	6	3	60	64	12	11
Trade, restaurants, and hotels	25	26	19	22	11	12	23	24
Transportation, storage, and communication	6	5	9	8	2	2	7	6
Services and more	34	33	53	56	6	4	40	40
Total	100	100	100	100	100	100	100	100

Table 2.1 shows the relative distribution of workers across different activities in the West Bank and Gaza Strip. A higher percentage of workers were employed in industry and quarrying in the West Bank (15% in the West Bank, compared with 5% in the Gaza Strip), while more were employed in

the services sector in the Gaza Strip (56% in Gaza Strip, compared with 33% in the West Bank). The figures also indicate a significant decline in the percentage of construction workers in Gaza Strip (about 3%), which is due to the severe restrictions that Israel imposes on the entry of construction materials into the Strip (see the box on restrictions imposed by the Israeli occupation authorities on the import of dual-use materials in Issue No. 57 of the Quarterly Economic Monitor).

As for the distribution of workers according to their employment status, from Q1 2021 to Q2 2021, we see a 1% increase in the number of wage-earners (about 9,000 workers). In addition, we note a 5% increase in the number of self-employed workers (employer and self-employed), totaling about 11,000 workers; and an increase of about 2% in the number of unpaid workers (about 1,000 workers).

Unemployment

During Q2 2021, the unemployment rate in Palestine fell by 1.4% compared with Q1 2021 and by 0.2% compared with the corresponding quarter in 2020, reaching 26.4% (see Table 2.2). This was due to a rise in the number of workers (about 2%) between the two consecutive quarters.

During Q2 2021, the unemployment rate in the West Bank decreased by 0.2% compared with Q1 2021, and increased by 2.1% compared with the corresponding quarter in 2020. The unemployment rate in Gaza fell by 3.2% in Q2 2021, compared with Q1 2021, and by 4.4% from the corresponding quarter in the previous year. Table 2.2 shows the variation in the unemployment rate between the West Bank and Gaza Strip.

Table 2.2: Unemployment Rate for Individuals Participating in the Labor Force in Palestine by Region and Gender (%)

Region/Gender		Q2 2020	Q1 2021	Q2 2021
West Bank	Males	12.2	14.3	14.3
	Females	26.2	29.9	28.5
	Total	14.8	17.1	16.9
Gaza Strip	Males	44.4	43.3	39.2
	Females	66.8	66.2	64.0
	Total	49.1	47.9	44.7
Palestine	Males	23.0	24.2	22.6
	Females	41.1	43.2	42.3
	Total	26.6	27.8	26.4

The most prominent characteristics of unemployment in Palestine in Q2 2021 are that:

1. Unemployment is particularly concentrated among young people, with the unemployment rate reaching 43% among those aged 15-19 and 41% among those aged 20-24. By contrast, it stood at 11% for those aged 45-49 and 10% for those over the age of 50.²⁶ This indicates that a significant proportion of the unemployed are new entrants to the labor market.

²⁶ For more information on youth unemployment, see the box "Youth Transition Survey from Education to the Labour Market" in Quarterly Economic Monitor Issue no. 47.

- As shown above in Table 2.2, the unemployment rate among females is greater than that of males. This is due to the limited number of economic sectors open to female employment compared with males. In Palestine, female employment is concentrated in the services sector, which employs 71% of females, while the percentage of males employed in the services sector stood at about 28%²⁷.
- Among males, unemployment declines as educational attainment rises, while conversely unemployment rises with educational attainment by females. The unemployment rate was about 24% among males with a primary education and about 21% among males with an intermediate diploma or higher, compared with 4% among females with a primary education and 48% for females with an intermediate diploma or higher. This discrepancy is mainly due to the significantly higher labor market participation rate of educated females compared with males.²⁸

Wages

The average daily wage of all workers increased by 2.0 shekels between Q1 2021 (when it stood at 135.8 shekels per day) and Q2 2021 (when it stood at 137.8 shekels per day). This wage growth was mainly due to a 1.0 shekel increase in the average wage of those working in Israel and the settlements, while wages in the West Bank and Gaza Strip decreased by 0.2 shekels and 1.0 shekel, respectively. However, the average wage in Palestine during Q2 2021 (137.8 shekels/day) hides the wide variation between:

- Average wages in the West Bank the Gaza Strip, with wages in the latter about 48% of the average wage in the West Bank. The gap is even wider when the median wage is taken into account, instead of the average wage. The median wage is more indicative than the average wage, since it reflects the level at which half of workers are paid higher than the lower half, whereas the average wage conceals the significant disparity between higher-paid and lower-paid workers (see Figure 2.3). For example, while the average wage in the Gaza Strip is 48% of the West Bank level, the median wage in the Strip is only 35% of that in the West Bank (see Table 2.3).
- The average wage of workers in the West Bank and Gaza, on the one hand, and the average wage of workers in Israel and the settlements, on the other hand. The data in Table 2.3 indicate that the average daily wage of workers in Israel and the settlements (264.8 shekels) is more than double that of those in the West Bank (124.7 shekels) and four times that of wages in Gaza Strip (59.6 shekels).

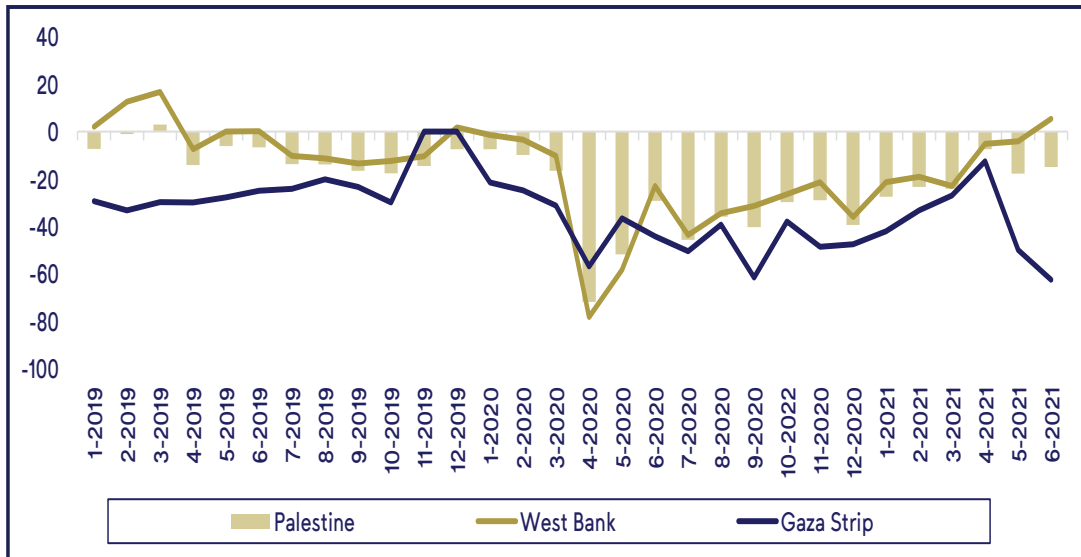
Table 2.3: Average and Median Daily Wage for Employees with Known Wages in Palestine (Q2 2021) (NIS)

Location of Work	Average daily wage (NIS)	Median daily wage (NIS)
West Bank	124.7	111.5
Gaza Strip	59.6	38.5
Israel/the settlements	264.8	250.0
Total	137.8	115.4

²⁷ For more information, see the box "Female in the Palestinian Labour market: why their participation is low and their unemployment higher?" in Quarterly Economic Monitor Issue no. 51.

²⁸ See box no. 1 in Quarterly Economic Monitor Issue no. 53, which shows that the higher unemployment of educated females compared with uneducated females is not due to their education, but due to a significantly higher rate of participation in the labour market.

Figure 2.3: Average and Median Daily Wage for Employees with Known Wages in Palestine (NIS)



Minimum wage

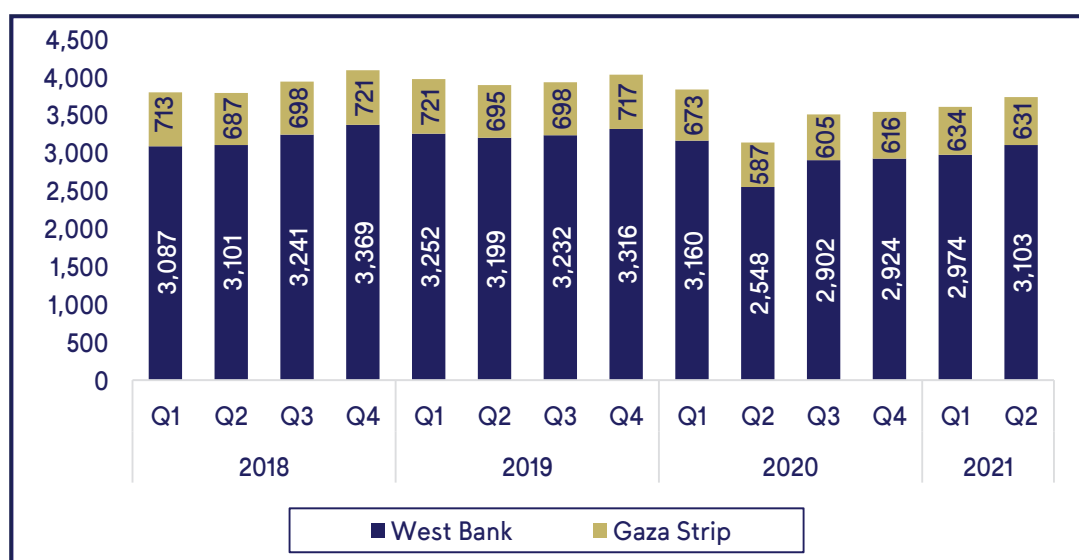
The minimum monthly wage in Palestine is about 1,450 shekels, but data released by PCBS for Q2 2021 indicate that 29% of workers were paid less than the minimum wage (8% in the West Bank, compared with 80% in Gaza Strip), with an average wage of 744 shekels (1,142 in the West Bank, compared with 655 in Gaza Strip). Also, 29% of those earning a monthly wage below the minimum wage in Q1 of 2021 (7% in the West Bank, compared with 79% in Gaza) received an average wage of 733 shekels (1,114 in the West Bank, compared with 655 in Gaza).

3-Public Finance ²⁹

Public Revenues

The Palestinian economy entered a phase of gradual recovery during Q2 2021, as large-scale COVID-19 vaccinations enabled various activities to return to near-normal levels. This development should manifest in subsequent economic performance, with positive effects on public finance. In Q2 2021, 2.3 billion shekels in clearance funds were received, compared with about 2.2 billion shekels in the previous quarter and about 1.2 billion shekels in the corresponding quarter in 2020. The disparity with amounts transferred during the corresponding quarter in 2020 is due to the disruption of clearance revenue flows during that period in 2020. Clearance revenues during Q2 2021 accounted for 68.7% of total Palestinian public revenues. By contrast, during Q2 2021, domestic revenue collection declined by 9.7% compared with the previous quarter and rose by a significant percentage (81.4%) compared with the corresponding quarter in 2020, to reach about 1.1 billion shekels (see Figure 3.1). Foreign grants and assistance, on the other hand, have continued to decline, with the government receiving only about 210 million shekels during this quarter, compared with about 698 million shekels during the corresponding quarter (see Table 3.1).

Figure 3.1: Structure of Public Revenues (NIS million)



Overall, net public revenue and grants received during Q2 2021 increased to 3.6 billion shekels, compared with about 3.4 billion shekels in the previous quarter and 2.4 billion shekels in the corresponding quarter.³⁰ They accounted for 81.7% of public spending by the government during this quarter (on a commitment basis), compared with 87.6% during the previous quarter and 68% during the corresponding quarter.

²⁹ The data source in this section is the Ministry of Finance, Monthly Financial Reports 2021: Financial Operations - Revenue, Expenditure and Funding Sources (June 2021). These are raw data that can be adjusted and revised.

³⁰ It should be noted that during the second quarter of 2021, the amount of tax returns was about 69.7 million shekels, compared with 57.4 million shekels in the previous quarter and 59.6 million shekels in the corresponding quarter.

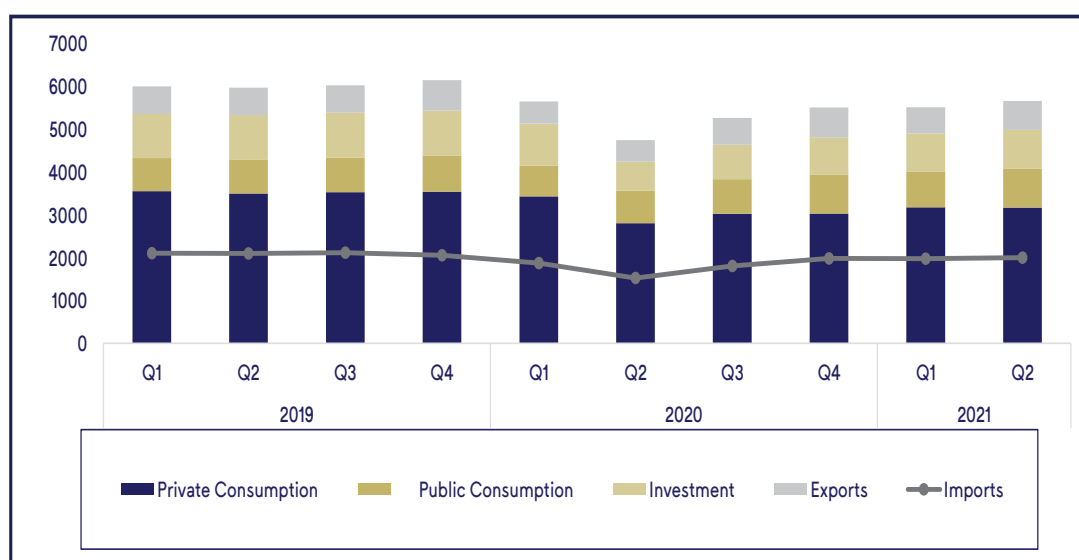
Table 3.1: Grants and Foreign Aid Provided to the Palestinian Authority (NIS million)

Item	2020				2021	
	Q1	Q2	Q3	Q 4	Q 1	Q2
Budget support	246.1	544.3	278	151	0	97.6
Grants from Arab sources	111.1	21.3	0	0	0	0
Grants from other countries	135	523	278	151	0	97.6
Development Finance	38.6	153.3	121	138	35.2	112.5
Total Grants and Aid	284.7	697.6	399	289	35.2	210.1

Public Expenditure

Real public spending during Q2 2021 increased by 62.1% and 131.4% compared with the previous quarter, respectively, to about 3.7 billion shekels. Wages and salaries rose over the same period, to around 1.8 billion shekels, and non-wage expenditures rose by 86.5% and 71.2% compared with the previous and corresponding quarter, respectively, to around 1.4 billion shekels. Net lending for this quarter stood at about 298.9 million shekels, compared with 326.9 million shekels in the previous quarter and 70.8 million shekels in the corresponding quarter. Actual development spending increased by 48.1% compared with the previous quarter but decreased by 7.5% compared with the corresponding quarter, to stand at about 106.5 million shekels (see Figure 3.2).

Figure 3.2: Structure of Public Expenditures (NIS million)

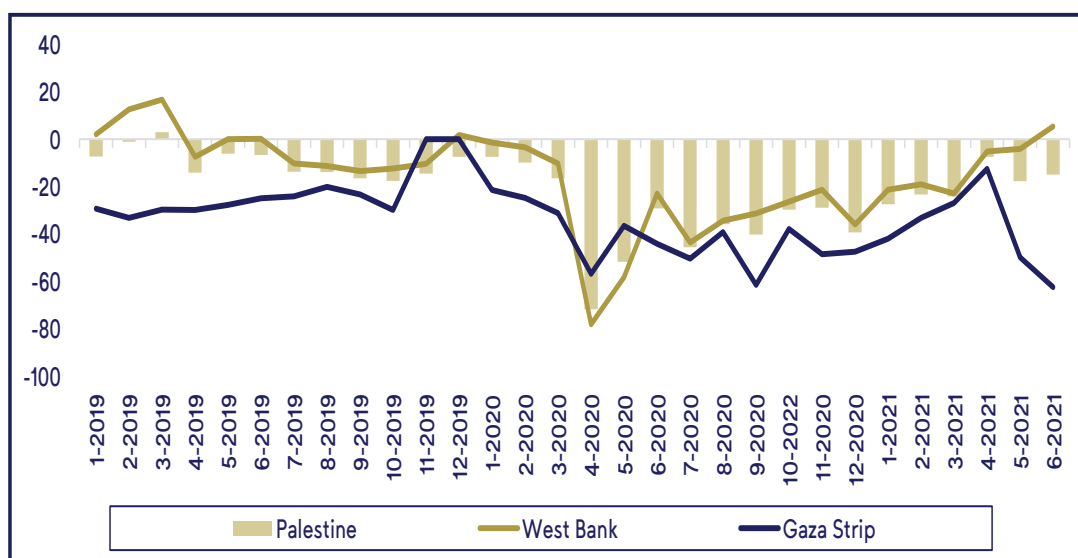


Financial Surplus/Deficit

Developments in both public revenues and expenditures during Q2 2021 led to an overall balance deficit, after foreign grants and aid, of 64.5 million shekels, or 0.4% of nominal GDP.³¹ However, on a commitment basis, the deficit rises to around 0.7 billion shekels, or about 5.1% of nominal GDP (see Figure 3.3).

³¹ It should be noted that GDP data are preliminary, subject to revision and adjustment.

Figure 3.3: Net Balance after Grants and Aid as a Percentage of Nominal GDP (%)



Government Arrears

The arrears owed by the government during Q2 2021 amounted to about 846.6 million shekels, of which about 563.5 million shekels were in non-wage arrears, 106.1 million shekels in wage and salary arrears, 100.4 million shekels in tax return arrears, 69.3 million shekels in development expenditure arrears, and 7.3 million shekels in earmarked payments (see Table 3.2).

Table 3.2: Arrears owed by the Palestinian Government (NIS million)

Item	2020				2021	
	Q 1	Q 2	Q 3	Q 4	Q1	Q2
Tax returns	30.9	(4.3)	13.7	63.8	90	100.4
Wages and salaries	155	1,085.8	485.2	(1,208.5)	789.3	106.1
Non-wage expenses	209	801	825.1	667.4	658.9	563.5
Development expenditures	72.5	61.7	111.9	134.1	68.6	69.3
Customs' payments	97.2	8.1	47.1	1.4	107.5	7.3
Total arrears	564.6	1,952.3	1,483.0	(341.8)	1,714.3	846.6
Payments in arrears for goods, services and expenses for preceding years	239.7	246.7	344.2	731.9	263.7	314
Net arrears	324.9	1,705.6	1,138.9	(1,073.7)	1,450.6	532.6

Numbers in brackets are negative values.

Government public debt

By the end of Q2 2021, dollar-denominated government public debt rose by 4.4% and 20.2%, compared with the previous and corresponding quarters, respectively, to about \$3.7 billion (equivalent to 12.1 billion shekels); this accounted for about 21.1% of nominal GDP. Domestic government debt increased by 6.9% and 33.5% during the period under comparison, to about \$2.4 billion. External government debt remained at the level of the previous quarter, having risen by 1.8% from the corresponding quarter in 2020 to about \$1.3 billion. Interest on debt paid in Q1 2021 was approximately

112.8 million shekels, of which 111.8 million shekels was interest paid on domestic debt and almost 1 million shekels was interest paid on external debt (see Table 3.3)³².

Table 3.3: Government Public Debt (US\$ million)

Item	2020				2021	
	Q1	Q2	Q3	Q4	Q1	Q2
Local government debt	1,597.3	1,786.9	2,157.3	2324.7	2,231.1	2,384.9
Banks	1,583.1	1,772.2	2,099.1	2262.3	2,171.0	2,323.3
Public institutions	14.2	14.7	58.2	62.4	60.1	61.6
External government debt	1,289.0	1,294.1	1,302.8	1324.7	1,314.4	1,317.5
Government public debt	2,886.3	3,081.0	3,460.1	3649.4	3,545.5	3,702.4
Ratio of public debt to nominal GDP	17%	21.4%	21.7%	23.5%	20.9%	21.1%

³² It should be noted that these ratios differ when calculating figures in shekels, due to a change in the exchange rate.

4- Financial Sector

4-1 Banking Sector ³³

There are 13 banks licensed to operate in the Palestinian banking sector, including seven local banks (three of which are Islamic), and six foreign, commercial banks. By mid-2021, there were some 381 branches and offices for these banks, 253 of which were local bank branches and offices.

At the end of Q2 2021, the banks' combined balance sheet data show that banks' assets/liabilities grew by about 3% compared with the previous quarter and 13% compared with the corresponding quarter in 2020, to reach \$20.6 billion. Most inventory items grew during this period, especially the credit facilities, cash and balances with the PMA, as well as the portfolio of securities and investments (see Table 4.1)³⁴.

Table 4.1: Consolidated Budget of Licensed Banks in Palestine (US\$ million)

Line Item*	2020			2021	
	Q2	Q3	Q4	Q1	Q2
Total assets	18,237.1	18,625.0	19,886.2	20,059.9	20,624.4
Direct credit facilities	9,652.4	9,894.0	10,078.7	10,150.6	10,350.7
Balances with the PMA	4,438.8	4,138.7	5,509.1	5,126.9	5,387.2
Stock and investments' portfolio	1,352.9	1,310.7	1,368.8	1,377.2	1,430.0
Cash and precious metals	1,537.9	1,981.3	1,770.9	2,151.6	2,307.2
Other assets	1,255.1	1,300.3	1,158.7	1,253.6	1,149.3
Total Liabilities	18,237.1	18,625.0	19,886.2	20,059.9	20,624.4
Customer deposits **	13,814.1	14,061.9	15,138.3	15,182.4	15,726.5
Property rights	1,984.7	1,959.1	1,967.4	2,016.7	1,994.0
Balances with PMA	1,168.8	1,209.3	1,349.5	1,337.7	1,372.7
Other Liabilities	414.0	499.3	488.5	564.5	537.1
Depreciation and allowances	855.5	895.4	942.5	958.6	994.1

* Figures cited in the table are totals (allowances included).

** Customer deposits include both private sector and public sector deposits.

Credit Facilities

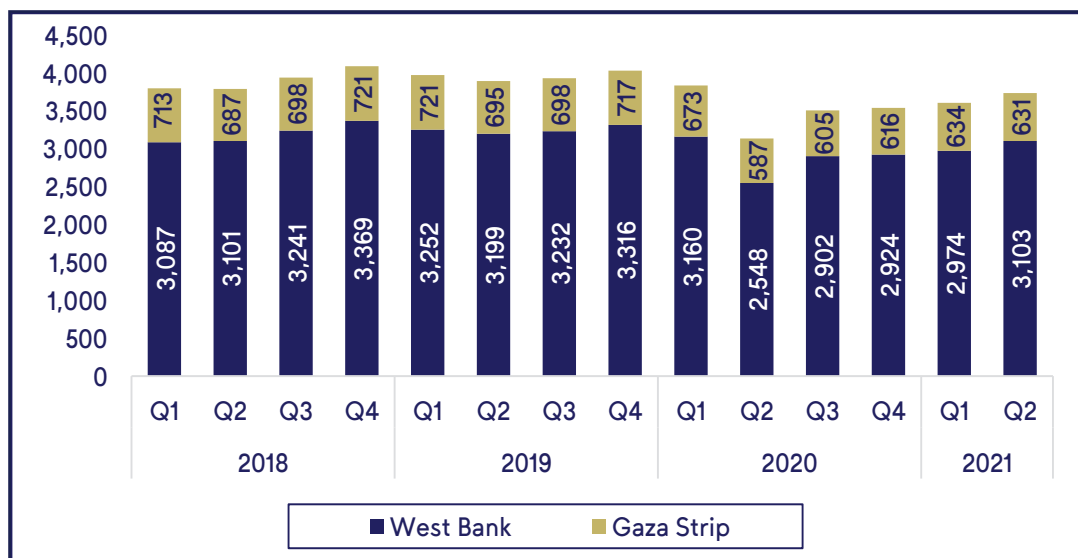
During Q2 2021, credit facilities grew by 2% and 7.2%, compared with the previous and corresponding quarters, respectively, amounting to \$10.3 billion. The improvement was driven mainly by a return to 9% growth in public-sector concessions to about \$2.3 billion, against a modest increase in private-sector concessions by about 0.2%, to about \$8.0 billion. Despite this growth, the public's credit-to-deposit ratio declined from 70% in Q1 to 66% in the current quarter. As for the size of the

³³ Data source in this section: Palestinian Monetary Authority, August 2021, Combined bank balance sheet, profit and loss list, and Monetary Authority database.

³⁴ The decline in the dollar/shekel exchange rate (end of period) from NIS 3.334 / USD in the first quarter and from NIS 3.449 / USD in the corresponding quarter to NIS 3.253 / USD at the end of the second quarter of 2021 contributed to the further rise in dollar-denominated assets/liabilities during this period, with the shekel accounting for about 39% of banks' total assets and 33% of their liabilities.

domestic economy, the credit facilities accounted for about 58% of the GDP at current prices at the end of Q2 2021. In the same vein, the West Bank controlled most of these facilities, comprising a share of 92%. Facilities by type maintained their overall structure with slight changes from the previous quarters. Loans accounted for about 85% of the total facilities, while the current share accounted for 14%, and the closed-end leases share remained stable at about 1%. At the currency level, the appreciation of the credit facilities granted in shekel continued to comprise about 49% of the total facilities, compared to slight increases in credit facilities granted in dollar and dinar, reaching 37% and 12% of the total facilities, respectively. This was largely a result of the rise in loans granted to the government (see Figure 4.1).

Figure 4.1: Total Direct Credit Facilities (US\$ million)



On the sectoral level, the public sector accounted for about 22% of the total facilities, followed by the share of the real estate and construction sector standing at about 18%, the general trade sector at about 15%, and the consumer goods financing sector at 13% of the total facilities granted during Q2 2021 (See Table 4.2).

Table 4.2: Sectoral Distribution of Credit Facilities (US\$ million)

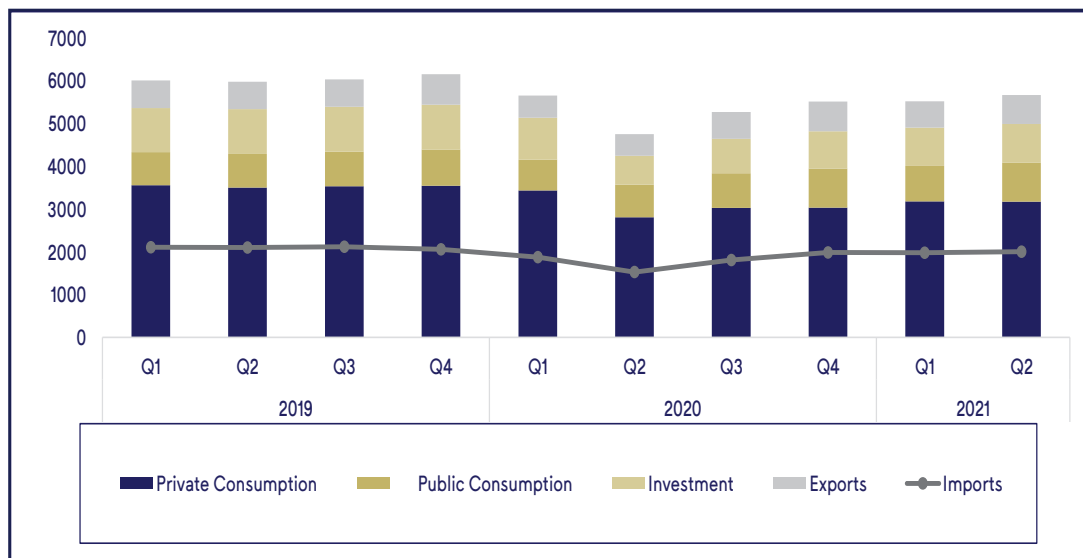
Sector	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021
Public sector	1,577.2	1,742.4	2,041.8	2,205.4	2,141.7	2,327.6
Real estate and construction	1,707.2	1,740.4	1,786.1	1,801.9	1,808.2	1,833.2
Mining and industry	485.1	487.3	490.5	443.6	467.7	546.3
Commerce	1,539.9	1,486.2	1,479.7	1,523.0	1,711.0	1,579.9
Services	1,067.1	1,227.2	1,173.7	1,125.2	1,068.5	1,107.3
Car financing	362.6	374.2	442.5	405.3	392.0	391.1
Consumer goods financing	1,347.8	1,501.8	1,426.5	1,415.0	1,349.0	1,352.4
Other (for the private sector) *	1,163.0	1,092.8	1,053.2	1,159.3	1,212.5	1,212.9
Total	9,249.9	9,652.3	9,894.0	10,078.7	10,150.6	10,350.7

* Other credit facilities for the private sector include facilities granted to each of the following sectors: land development, agriculture and livestock, tourism, hotels and restaurants' sector, and the transportation and communications sector, in addition to financing investment by shares, and other facilities not classified in any of these sectors.

Non-performing loans

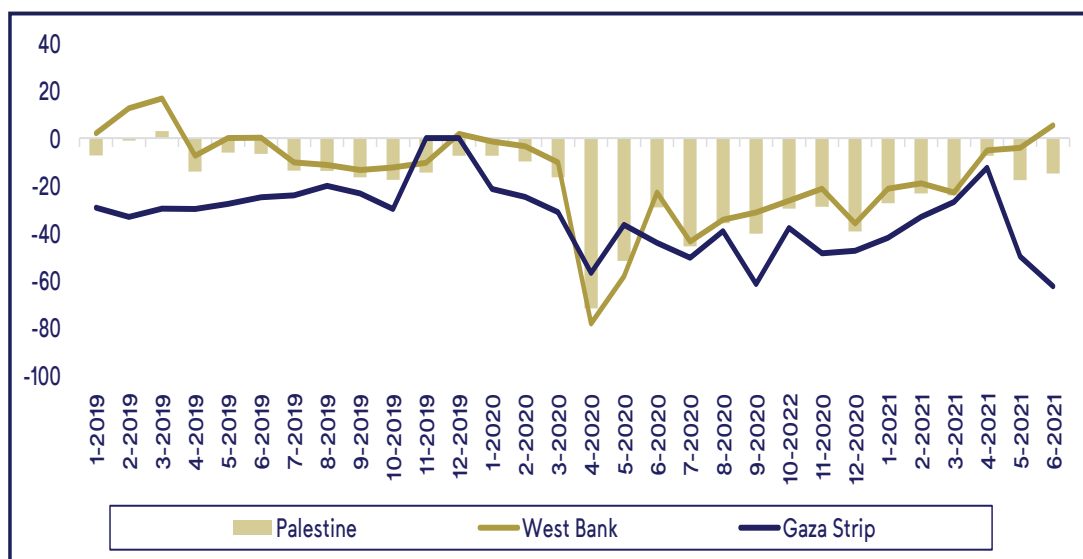
Non-performing loans (NPLs) in the banking sector at the end of Q2 2021 increased by 3% to \$438.7 million compared with the previous quarter. Despite this increase, their share of total facilities remained stable, as in the previous two quarters, at 4.2% (see Figure 4.2). The levels of non-performing loans by economic sectors remained close to their levels in the previous quarter, with only slight changes. The rates of default decreased slightly in industry, tourism, transport and services sectors, while these percentages increased for the real estate, land, trade, and consumer finance sectors.

Figure 4.2: Trends in Non-Performing Loans



The ratio of coverage of provisions for NPLs increased from 86% in Q1 2021 to 89% in Q2 2021, as banks were able to maintain sufficient provisions to cover about 89% of their NPLs. This reflects their ability to face the uncovered part of the loans as a result of maintaining high levels of capital.

Figure 4.3: Structure of Non-Performing Loans (US\$ million)



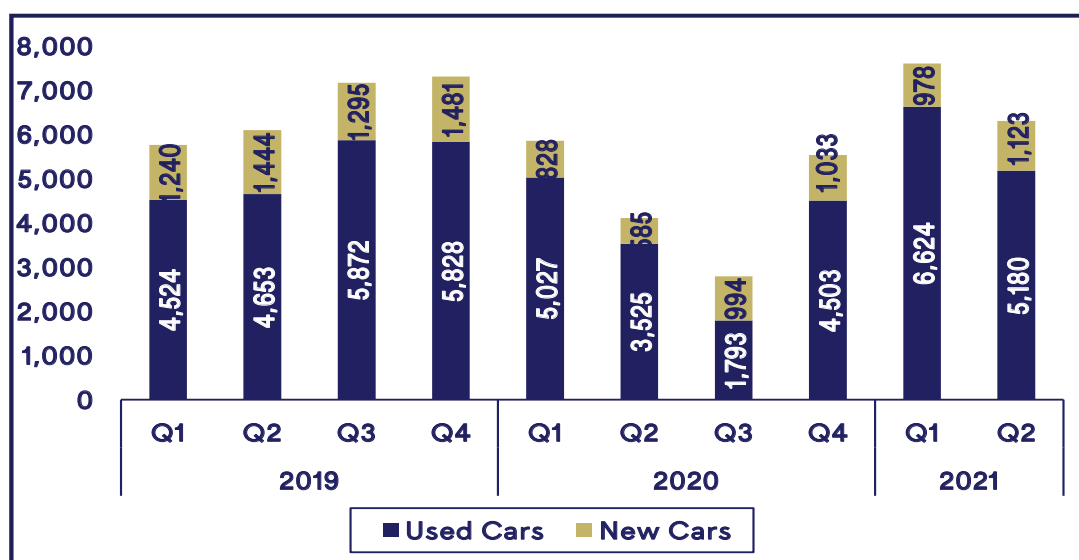
With regards to the distribution of NPLs by default period (NPLs structure), data showed that NPLs classified as more than one year accounted for 73% of the total NPLs in the banking sector during

this quarter, while NPLs classified as 181-360 days accounted for 14%, and NPLs classified as 91-180 days accounted for 13% (see Figure 4.3).

Balances at PMA

Bank balances at the PMA at the end of Q2 2021 increased by 5% and 21.4% over the previous and corresponding quarters, respectively, to about \$5.4 billion. Data show bank balances held outside Palestine (the largest and most important component, 57% of the PMA's total balances) increased by 6% compared with the previous quarter, and 29% compared with the corresponding quarter in 2020, amounting to \$3.1 billion. Meanwhile, the PMA held balances of about one-third (35%) of the total, 3% higher compared with the previous quarter and 10% higher compared with the corresponding quarter in 2020, amounting to \$1.9 billion - 74% of which were mandatory reserves. Banks in Palestine accounted for the lowest share of total balances at about 8%, but increased by 8% compared with the previous quarter and 25% compared with the corresponding quarter in 2020, reaching approximately \$436.9 million (see Figure 4.4).

Figure 4.4: Structure of Balances at PMA and Banks (US\$ million)



Cash and Precious Metals

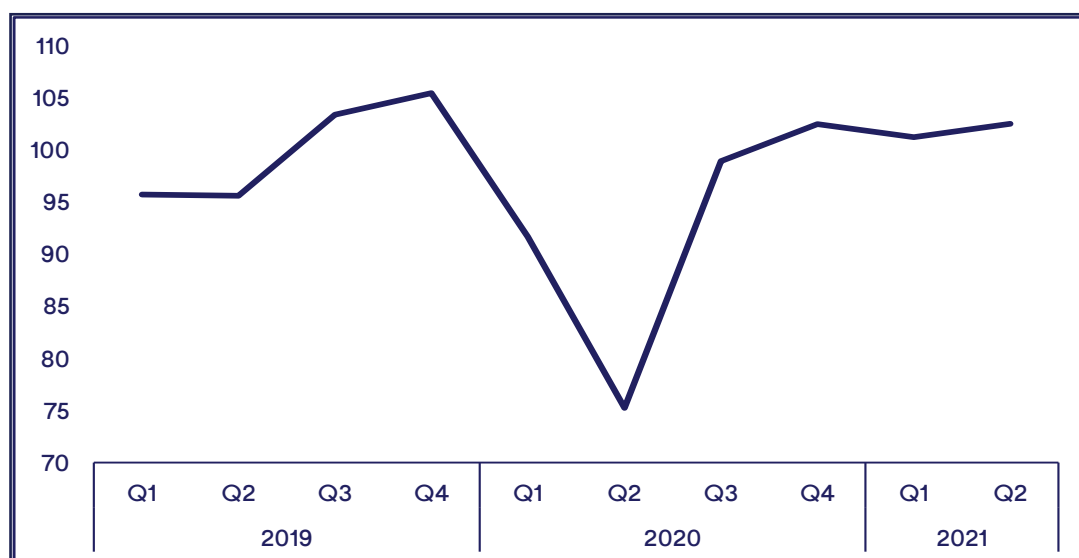
Cash and precious metals increased by 7% compared with the previous quarter, and 50% compared with the corresponding quarter in 2020, reaching a total of \$2.3 billion. This item has continued to rise back to levels prior to the COVID-19 pandemic which witnessed large cash withdrawals, especially in Q2 2020. During Q2f 2021, 4.5 billion shekels of the shekel surplus was shipped to Israel.

Customer Deposits

Customer deposits accounted for about 90% of GDP and about 76% of the banking sector's total liabilities at the end of Q2 2021. Data show customer deposits up by about 4% compared with the previous quarter, and 14% compared with the corresponding quarter in 2020, amounting to \$15.7 billion. This rise was mainly the result of private-sector deposit growth, which increased by 4% compared with the previous quarter and 16% compared with the corresponding quarter in 2020, reaching \$15.2 billion. This accounted for the vast majority of customer deposits (97%). Public sector deposits declined by 4% compared with the previous quarter and 24% compared with the corresponding quarter in 2020, reaching \$488 million, accounting for only 3% of customer deposits. Data analysis

indicates that public deposits of all kinds rose, accounting for 38% of current deposits at \$5.9 billion, while savings deposits accounted for 34% at \$5.3 billion, and term deposits accounted for 29% at \$5.3 billion. In terms of the deposit currency, the distribution remained close to its previous levels, with no significant substantive changes: 40% in dollars, 35% in shekels, 22% in dinars and 3% in other currencies (see Figure 4.5).

Figure 4.5: Distribution of Customer Deposits (US\$ million)



Banks' Profits

Net banking income fell during Q2 2021 by 39% compared with the previous quarter, to \$33.9 million. This decline was due mainly to a 22% increase in expenditures to \$156.1 million, while revenue rose by 3.5% to \$189.9 million.

Table 4.3: Sources of Revenues and Expenditures for Licensed Banks (US\$ million)

Item	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021
Revenues	165.2	170.8	181.4	183.4	190.0
Income from interest	120.2	132.3	137.6	132.1	137.0
Income not from interest	45.0	38.6	43.8	51.3	53.0
Commissions	26.1	27.2	23.0	25.9	27.5
Profits/losses of financial instruments	6.7	-2.2	3.2	6.0	7.9
Other revenues	12.2	13.6	17.6	19.4	17.6
Expenses	156.2	140.2	159.4	128.1	156.1
Non-interest expenses	112.5	104.1	113.4	109.2	113.9
Allowances	30.9	27.1	27.3	6.1	20.9
Taxes	12.8	9.0	18.7	12.8	21.3
Net income	9.0	30.7	22.0	55.3	33.9

The data also shows that net (after-tax) income almost tripled when compared with the corresponding quarter in 2020, due to the fact that the latter witnessed a deepening of the COVID-19 crisis and the complete closure of institutions, including banks. During this period, the PMA directed banks to postpone loan installments to their clients for a period of four months, which delayed their collection of interest on these loans (see Table 4.3).

Average deposit and lending interest rates

Interest rates on lending and deposit on currencies traded in the Palestinian market are related to the rates applicable in the countries issuing these currencies and to competition between banks and the degree of risk associated with the Palestinian market. Since the start of the COVID-19 pandemic, central banks issuing the Palestinian economy's three currencies (the dollar, the dinar, and the shekel) have followed concessionary monetary policies, with interest rates being cut several times. In Q2 2021, they kept interest rates at low levels.

Domestically, analysis of data for Q2 2021 indicates that average interest rates on lending in shekel and dollar increased by 12 basis points and 6 basis points, respectively, compared with the previous quarter, to 6.78% and 5.65%, respectively. In contrast, the average Jordanian dinar lending rate remained stable at about 6.45% during the same comparison period.

Deposit interest rates, on the other hand, remained low, although they rose slightly for dollar and shekel deposits to 2.3% each in the second quarter, while they continued to fall to 2.1% during the same period for dinar deposits. These marginal changes in lending and deposit rates led to slightly higher interest margins on all currencies, reaching 3.4, 4.2 and 4.5 points for the dollar, dinar and shekel, respectively (see Table 4.4).

Table 4.4: Average Debt and Credit Interest Rates for Different Currencies

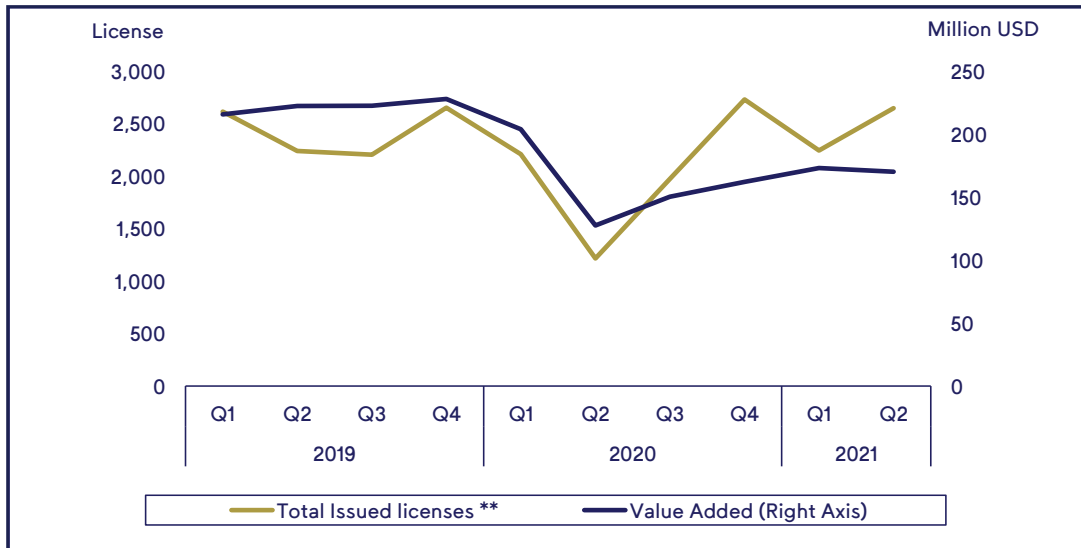
Currency	Deposit interest (%)		Lending interest (%)		Margin (%)	
	Q1 2021	Q2 2021	Q1 2021	Q2 2021	Q1 2020	Q2 2021
USD	2.24	2.29	5.59	5.65	3.35	3.36
JOD	2.34	2.10	6.46	6.45	4.12	4.16
NIS	2.26	2.28	6.66	6.78	4.40	4.50

Check-handling movement in Palestine

The value of checks circulating in Palestine, through all types of clearing, increased during Q2 2021 by 9% compared with the previous quarter, reaching \$5.1 billion. Checks submitted for clearance through the national cash authority accounted for approximately 58% of the total value of checks circulating in Palestine, followed by checks between banks and their branches at 29%. The remaining 13% represented other circulating checks, including checks drawn on banks operating in Palestine for Israeli banks (see Figure 4.6).

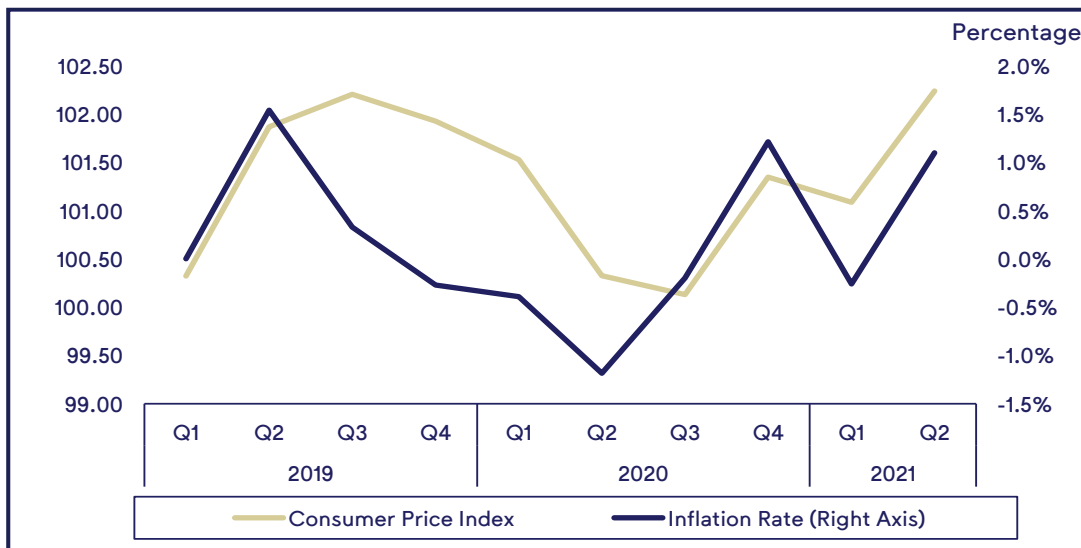
Despite the growth in the value of checks in circulation, returned checks contracted significantly by 12% during the same period of comparison, amounting to \$357.6 million. The decline was driven by a 19% decline in checks submitted for clearing between banks operating in Palestine to \$269.8 million at the end of the second quarter of 2021.

Figure 4.6: Check Circulation (US\$ million)



These developments led to a decline in the value of returned checks as a proportion of the total value of checks traded through all types of clearing to 7.0% during the second quarter of 2021, compared with about 8.6% in the previous quarter and about 20.7% in the corresponding quarter in 2020. Q2 2020 was particularly notable as it witnessed a deepening of the COVID-19 crisis, the closure of public and private institutions, as well as the seizure of clearing funds by Israeli authorities. These factors led to an increase in the value of checks returned in Q2 2020, which afterwards started to return to their usual levels (see Figure 4.7).

Figure 4.7: Percentage of Checks Returned for Clearing



Specialized Lending Firms

Total assets of the specialized lending sector continued to fall at the end of Q22021 by 0.4% compared with the previous quarter³⁵, after falling by 0.8% in the first quarter of the same year, while their total assets grew by 4.2% a year earlier to \$331.3 million. However, the credit portfolio provid-

³⁵ The number of specialized lending institutions licensed by PMA was 8.

ed through specialized lending companies increased by 3% compared with the previous quarter, reaching \$253.9 million. This was driven by portfolio growth in the West Bank amounting to a total of \$217.2 million, compared with a 1% decline in Gaza Strip during the same comparison period, amounting to \$36.8 million. Data also show that the number of borrowers decreased to 65,041, of which 66% were male and 34% were female (see Table 4.5).

In terms of the distribution of the existing portfolio by economic sectors, four economic sectors controlled about 85% of the total portfolio of specialized lending companies: the real estate sector (35%), the commercial sector (29%), the public services sector (12%), and the agricultural sector (11%).

Data also indicate that the value of their risky portfolio (irregular portfolio) fell in Q22021 by 4.2%, down to \$27.5 million, 80% of which are in the West Bank, and provisions covered a good percentage of this portfolio, by about 89% compared with 91% in the previous quarter.

Table 4.5: Profile of Specialized Lending Companies

	2020			2021	
	Q2	Q3	Q4	Q1	Q2
Total loans portfolio (US\$ million)	265.2	259.7	249.8	247.3	253.9
West Bank	220.2	216.7	211.0	210.0	217.2
Gaza Strip	45.0	43.0	38.8	37.3	36.8
Number of active borrowers	73,853	72,360	68,027	65,790	65,041
Number of branches and offices	100	97	96	96	96
Number of employees	852	846	849	845	835

4-2 Non-Banking Financial Sector ³⁶

Securities Sector

The AI-Quds Index closed at 540 points at the end of the second quarter of 2021, registering a 16% increase compared with the end of the previous quarter (Q1 2021) and a 15% increase compared with the end of the corresponding quarter (Q2 2020). On the other hand, market value at the end of Q2 2021 grew by 14% compared with the end of the previous and corresponding quarters, amounting to \$3.9 billion, equivalent to 25% of GDP in current prices (up by nearly three percentage points from the previous quarter).

The total trading volumes at the end of the Q2 2021 increased significantly by 119% and 84% compared with Q1 2021 and Q2 2020, respectively. The total trading values increased by 7 and 6 times compared with Q1 2021 and Q2 2020, respectively (see Table 4.6). This rise in trading volumes and values is led by the banking and industry sectors. The relative rise in trading activity at the end of Q2 2021 was also due to the fact that the previous quarter witnessed a difficult political and economic situation in the wake of the recent aggression against the Gaza Strip, which led to a weakening of the demand side of stocks due to the unwillingness of some investors to invest in stocks. Additionally, the corresponding quarter of the previous year witnessed the suspension of trading on the Palestine Stock Exchange from 23 March 2020 until 3 May 2020, as a precautionary measure due to the spread of COVID-19. This relative increase in trading activity also took place in conjunction with the rise in the prices of some of the listed companies at the end of the Q2 2021, headed by shares of the Palestinian Telecommunications Company and vegetable oil factories. The total number of dealers on the Palestine Stock Exchange reached 70,038 by the end of Q2 2021, of which 5% were foreign dealers (the majority of whom were from Jordan).

³⁶ The source of the figures in this section: Palestinian Capital Market Authority 2021.

Table 4.6: Select Indicators on PSE Trading Activity

Statement	Q2 2020	Q1 2021	Q2 2021
Number of shares traded (million shares)	7.5	22.8	49.9
Value of traded shares (US\$ million)	15.3	49.0	90.0
Market value (US\$ million)	3,437.1	3,451.3	3,926.4
Number of deals	3,273	5,455	8,661
Number of trading sessions	40	61	60
Market value as a percentage of GDP (at current prices)*	22.1%	22.2%	25.2%

* GDP was used at current prices for 2020, because the market value of traded shares is at current prices.

Figure 4.8: Distribution of the Market Value of Shares by Type of Broker at EO Q2 2021 (US\$ 1 million)



* Persons who have a direct or indirect relationship with the company by virtue of their position.

Figure 4.8 illustrates the status of stockbrokers in accordance with their relative share of transactions at market value at the end of Q2 2021. Firms accounted for 43%, while individuals accounted for 26%.

The total number of shareholders in companies listed on the Palestine Stock Exchange reached 64,507 shareholders at the end of Q2 2021. About 83% of them were in the West Bank, and 17% were in the Gaza Strip. Male participation is higher than female participation in the stock sector in both the West Bank and the Gaza Strip.

Leasing Finance Sector

As of the end of Q2 2021, there were 9 financial leasing companies licensed by the Palestine Capital Markets Authority (PCMA). The total value of finance leases recorded at the PCMA was approximately \$25.3 million, or 498, representing a 15% increase in the value of finance leases and a 29% increase in the number of finance leases compared with the end of the previous quarter, respectively. Compared with the corresponding quarter in 2020, the value and number of contracts increased by 175% and 137%, respectively. The significant increase in the value and number of financial leases at the end of Q2 2021 compared with the corresponding quarter in 2020 is due to the gradual nor-

malization of economic life. In 2020, many economic sectors closed to limit the spread of COVID-19, which adversely affected the performance of companies and caused a decrease in the volume of their activities at the time (see Table 4.7).

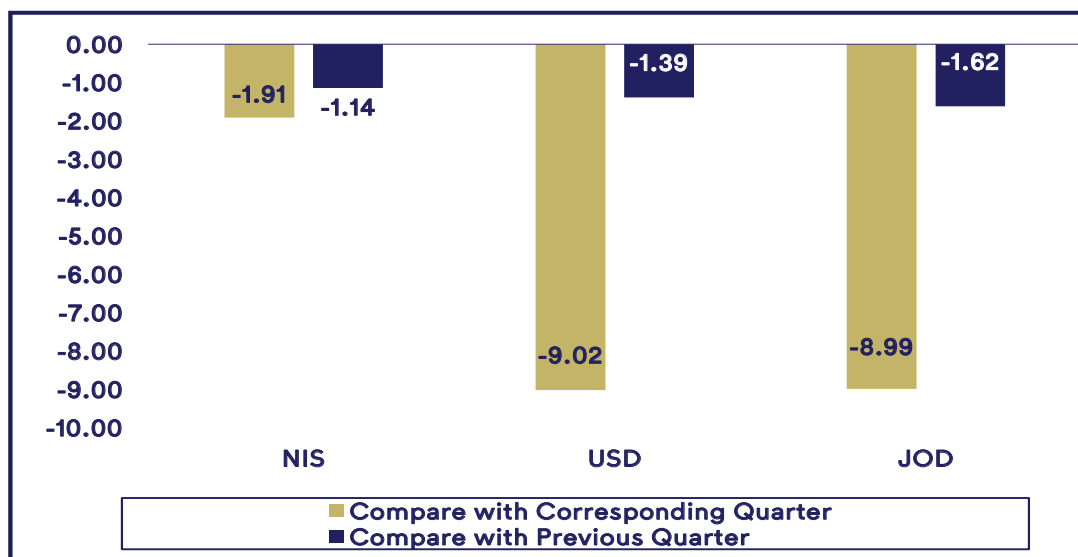
Table 4.7: Total Value and Number of Financial Leasing Contracts

Year/Quarter	Total value of financial leasing contracts (US\$ million)	Number of financial leasing contracts
Q2 2020	9.2	210
Q1 2021	22.0	387
Q2 2021	25.3	498

By the end of Q2 2021, there was still a high concentration in the number of financial leases in Ramallah at 39%, followed by Nablus and Hebron at 14% and 10%, respectively. It should be noted that the distribution of these leases among these cities has been stable over the past years, owing to factors related to the structure of the economy and the concentration of work in some governorates (see Figure 4.9).

On the other hand, vehicles still have the largest share (51%) of the financial leasing portfolio as of the end of Q2 2021. This was due to the ease of registering the ownership of vehicles in the traffic services and the low risk of having a secondary market and repossessing them. Trucks, heavy vehicles and commercial vehicles accounted for 43%, while money in transit (equipment, production lines, etc., not including vehicles) accounted for 6%.

Figure 4.9: Geographical Distribution of Registered Financial Leasing Contracts at EO Q2 2021



Insurance Sector

The number of insurance companies licensed by the PCMA reached 10 by the end of Q2 2021. The total insurance portfolio (subscribed premiums) at the end of Q2 2021 was approximately \$82 million, a 12% decrease compared with the end of the previous quarter. This comes in the context of the natural fluctuation of total subscribed premiums between quarters and the \$49 million in net

compensation to the sector, which was an increase of 8% compared with the end of Q1 2021. On the other hand, insurance companies' investments totaled \$215 million, with real estate ranked first at 42% of total investment. It should be noted that financial statements for the first and second quarters of 2021 do not include those of Al Ahliya Insurance Group (see Table 4.8)³⁷.

Table 4.8: Select Financial Indicators for the Insurance Sector in Palestine (US\$ million)

Indicator	Q2 2020	Q1 2021 *	Q2 2021*
Gross written premiums	71.6	93.3	81.7
Total investments of insurance companies	238.3	215.4	215.3
Net compensation incurred by the insurance sector	(38.7)	(45.0)	(48.6)
Net earned premiums / gross written premiums	85.8 %	77.4%	82.9%
Net compensation incurred / net premium earned	63 %	62.4%	71.8%

* The statistics do not include financial data related to Al Ahliya Insurance Group.

³⁷ It should be noted that a quarterly comparison of the insurance sector financial indicators with the corresponding quarter was not performed owing to data inconsistency, as the data for the first and second quarters of the year 2021 do not include the financial statements of Al Ahliya Insurance Group.

5- Social Development

Barriers to Jerusalemites' Access to Productive Work in East Jerusalem and the Occupation's Policies to Impoverish and Break their Resilience

The inability to access work contributed to 12.5% of multidimensional poverty in Palestine in 2017, the second highest contribution after monetary poverty, which accounted for 45.4% of total poverty³⁸. Access to productive work is one of the key components of the dimension of work in the Multidimensional Poverty Index. Productive work is the type of work that allows an individual to leave poverty³⁹.

Official Palestinian and Israeli statistics show a discrepancy in poverty rates and labor market indicators between Palestinians in Jerusalem and Palestinians in the rest of the West Bank and the Gaza Strip. According to data from "Citizen Rights in Israel,"⁴⁰ 72% of Palestinian families in Jerusalem lived below the poverty line in 2017, compared with 13.9% in the West Bank and 53% in the Gaza Strip in the same year⁴¹. Despite the high poverty rate in Jerusalem compared with other Palestinian areas in 2020, Jerusalem's unemployment rate in the same year was the lowest in Palestine (6.5% in Jerusalem, compared with 25.9% in all of Palestine). However, this unemployment rate does not take into account the labor force participation rate and the nature of work. The labor force participation rate in Jerusalem is low, at about 36% compared to 44.4% in the West Bank, and close to that of Gaza Strip at 35.3%⁴². The majority of Palestinian workers in Jerusalem are employed in the Israeli economy (41.6% of the total). Compensation for Jerusalemite workers in Israel is the primary source of income in Jerusalem⁴³. This is due to the structure of the Palestinian labor market in the West Bank and Jerusalem, and the low capacity of the economy to create new job opportunities, especially for youth and university graduates.

In the social development section of this issue of the Monitor, we will focus on the reality of Palestinians in Jerusalem and the factors affecting their ability to access productive employment to reduce the high levels of poverty in the city. We will also consider the policies of the Israeli occupation that have, over time, reshaped the economy of Jerusalem in order to separate it from the West Bank in order to deepen its dependence on the Israeli economy. Additionally, we will examine the educational policies of the Israeli occupation in the city of Jerusalem that serve the Israeli labor market, the Israeli economy, and its impact on access to productive employment as a dimension of multidimensional poverty.

Economic Reality in Jerusalem

To give a broader picture of Jerusalem's economy, it is necessary to analyze the contribution of the various sectors to the city's economy and to analyze the obstacles to the growth, operation, and development of these sectors. The service sector is the largest and major contributor to the city's economy, contributing about 51% of GDP in 2019. Jerusalem's service sector consists mainly of education, health, social work, hotels and restaurants, as well as professional activities including scientific and technical activities, administrative and support services, arts and entertainment, and

38 PCBS 2017. Multidimensional Poverty in Palestine, Key Results Report 2017. Ramallah - Palestine.

39 SIDA is the Swedish Agency for International Development Cooperation: <https://cdn.sida.se/publications/files/sida62275en-dimensions-of-poverty.pdf>

40 The Association for Civil Rights in Israel. (2019). East Jerusalem - Facts & Figures. Retrieved from <https://www.english.acri.org.il/east-jerusalem-2019>

41 PCBS 2017. Multidimensional Poverty in Palestine, Key Results Report 2017. Ramallah - Palestine.

42 PCBS 2020. Palestinian Labour Force Survey Annual Report, 2020. Ramallah - Palestine.

43 PCBS 2021. Jerusalem Statistical Yearbook, 2021. Ramallah - Palestine: <https://www.pcbs.gov.ps/Downloads/book2567.pdf>

real estate activities. Importantly, the city of Jerusalem is a tourist and religious destination for tourists and pilgrims from around the world. The trade sector was the second biggest contributor to the city's GDP, contributing about 28% in 2019⁴⁴.

Tourism is the backbone of the city's service sector, accounting for about 50% of the city's economy⁴⁵. The tourism sector in Jerusalem was greatly affected by the COVID-19 pandemic due to a significant decrease in the number of tourists coming to the city, especially from outside Palestine. The impact is expected to last for three years, after which tourism activities are expected to return to pre-pandemic levels⁴⁶.

Education in East Jerusalem

The number of students in Palestinian schools in Jerusalem has increased by approximately 5,000 since 2017⁴⁷, mainly reflecting the city's demographic growth. However, this increase in the number of students has not been matched by improvements in educational infrastructure, including schools and classrooms, as well as in human and material opportunities, owing to the racist, discriminatory policies of the Israeli occupation since 1967. Despite the demographic growth of the city, the Israeli occupation places significant restrictions on the construction of new schools or the addition of new classrooms to existing schools, especially those belonging to the Palestinian Ministry of Education. As a result, many schools were forced to rent and use buildings that did not meet adequate engineering and sanitary requirements. On the other hand, with regards to the teaching curriculum, the Israeli Government has put in place policies aimed at controlling the Palestinian curriculum in the city by restricting schools teaching the Palestinian curriculum, enhancing the status of the schools belonging to the occupation municipality and providing them with various forms of support. These policies come in addition to efforts to fight against teaching of the Arabic language, such as deliberately including grammatical and linguistic errors in the curriculum, promoting the teaching of the Hebrew language, blocking materials that promote the national culture and Palestinian identity, and enhancing students' awareness of Israeli national issues⁴⁸.

In recent years, municipal schools belonging to the occupying municipality have strengthened their position in Jerusalem at the expense of schools belonging to the Palestinian Ministry of Education. Municipal schools receive the full support and benefit from the systematic racist policies of the Jerusalem municipality and the Ministry of Education, which controls the education sector in the city. In 2015, there were 65 municipal schools in East Jerusalem, with 38,220 students⁴⁹. In 2018, the number of municipal schools and students increased to 74 with 40,573 students⁵⁰. The number of Palestinian Education Ministry schools in East Jerusalem increased from 33 in 2015 to 37 in 2018. The number of students decreased in that period from 8,580⁵¹ in 2015 to 8,293 in 2018⁵². Municipal schools enjoy better infrastructure than those of the Palestinian Ministry of Education. For example, Palestinian students account for less than a quarter of the budget allocated to students in Jewish schools in East Jerusalem⁵³. Municipal school workers also enjoy a much higher wage level than those in Palestinian Ministry of Education schools, where municipal school teachers earn about twice as much as Palestinian school teachers at the start of their careers, rising more than 3-fold after nearly 10 years

44 No reference cited.

45 MAS 2021. Requirements for improving the reality of the tourism and cultural sector within the capital cluster plan 2021-23.

46 MAS 2021. Comprehensive Response to Socio-Economic Impacts of the Covid-19 Pandemic in Palestine under Occupation.

47 Reference in footnote 44

48 MAS 2021. To protect Arab education in Jerusalem from the policies of Israelification within the cluster of the capital (2021-2023).

49 PCBS 2016. Jerusalem Statistical Yearbook 2016 No. 18. Ramallah - Palestine.

50 Reference in footnote 44

51 Reference in footnote 50

52 Reference in footnote 44

53 Ir Amim (2019). The State of Education in East Jerusalem: Failing Infrastructure. Retrieved from <https://www.ir-amim.org.il/sites/default/files/State%20of%20Education%20in%20East%20Jerusalem%202019.pdf>

of experience (see Table 5.1).⁵⁴ The racist policies of the occupation have led to a continuous rise in the number of students in schools belonging to the occupying municipality. In the academic year 2018/2019, there were 40,573 Palestinian students (40% of the total number of Jerusalemite students) in Israeli municipal and Ministry of Education schools, distributed among 74 schools⁵⁵.

Table 5.1: Average Basic Salary for Teachers at the Palestinian Directorate of Education and Teachers of Schools affiliated with the Jerusalem (occupation) Municipality

Number of years of service	Teacher's salary at Palestinian Directorate of Education	Teacher's salary at Jerusalem (occupation) Municipality
1	3,089	5,802
5	3,264	6,756
10	3,520	8,368
15	3,803	10,164
20	4,081	11,484
25	4,454	14,087

Source: The National Development Plan for Palestine (2021-23). Resistance, steadfastness, disengagement and development in clusters towards independence (the Capital Cluster).

In the city of Jerusalem, the number of school students is 60,711 at the primary level and 14,413 at the secondary level⁵⁶. This means that 32% of all Palestinian students in Jerusalem do not finish 12 years of schooling, while the percentage of Jewish students in Jerusalem who do not finish 12 years of schooling is about 1.5%, according to "Citizen Rights" in Israel⁵⁷. This gap reflects the racist policies of the Israeli occupation towards the education sector in East Jerusalem. In addition to the aforementioned policies of marginalizing Palestinian schools, interference in curricula and limits on the budgets available for these schools to accommodate the increasing number of students each year negatively affect Palestinian students. Moreover, the apartheid wall and the occupation barriers hinder the access of thousands of Jerusalem students living outside the wall to schools in East Jerusalem. These occupation barriers also impede the movement of Jerusalemites within Jerusalem and between its various neighborhoods.

The Impact of Economic Realities and Education on Access to Productive Employment in Jerusalem

According to data from the PCBS, about one quarter of the labor force in the Jerusalem governorate is employed in Israel and the settlements, mainly in the unskilled sectors, such as the construction industry and some positions in the tourism industry⁵⁸. This concentration of Palestinian workers in Israel in sectors that do not require education, specialized skills or training is an inevitable result of years of occupation policies that have marginalized the economy of Jerusalem, weakened the productive and service economic sectors in Jerusalem, made them dependent on the strong Israeli economy, targeted the education sector, and weakened Palestinian schools. All of this has had an impact on the state of the Palestinian labor market in the city and on the ability of Palestinians to obtain productive employment and lift them out of poverty. The deterioration in the city's education system and the high dropout rates from schools due to racist occupation policies have contributed

54 Reference in footnote 49

55 Reference in footnote 49

56 Reference in footnote 44

57 Reference in footnote 41

58 Reference in footnote 44

to the decline of skilled workers in the Palestinian labor market. Job opportunities in certain sectors of the Israeli economy are very limited and require high skill and education, such as health and information technology.

The deteriorating reality of the economic sectors and their weak capacity to create new jobs for skilled labor - especially as traditional unproductive services dominate the city's economy - has also pushed Palestinian labor in the city to the Israeli labor market, especially in the unskilled sectors, such as construction, transportation, restaurants, hotels, and commerce. The fact that wages in East Jerusalem are lower than Israeli wages is another pressure factor for Palestinians to work in Israel. Although they are not paid the same wages as Israeli workers, they remain well above the level of wages in East Jerusalem. According to statistics, the average annual per capita income of Israelis in West Jerusalem is \$42,000, nine times higher than the average annual per capita income of Palestinians in East Jerusalem (\$4,666.7)⁵⁹. The average annual income of Palestinians working in Israel (\$17,137.8) is about two times less than of Jews in Jerusalem⁶⁰. The low income of Palestinians in Jerusalem is accompanied by a large rise in average prices in Jerusalem, the highest in comparison with other Palestinian areas in the West Bank⁶¹. This is another factor pushing Jerusalemites to the Israeli labor market in low-skilled jobs and occupations.

In targeting Jerusalem, the occupation has weakened and restructured the city's economy to serve the Israeli economy. The significant restrictions placed by the Israeli occupation on building permits in the Arab neighborhoods of Jerusalem for housing and investment have also led to increasing numbers of Jerusalemite capital owners to reside or invest outside of Jerusalem (especially in the West Bank). The Israeli Government's decision to restrict West Bank residents' access to Jerusalem since the early 1990s also led to the closure of nearly one quarter of institutions in East Jerusalem that relied heavily on visitors from cities in the West Bank⁶². This has certainly contributed to the increase in poverty rates among Palestinians in the city of Jerusalem, the deterioration of their living conditions, and the entry of new segments of society into a cycle of marginalization. These trends are further exacerbated by the substantial challenges resulting from the COVID-19 pandemic and its major impact on the tourism sector, which, as mentioned earlier, is the backbone of the city's economy.

59 Abdallah and al Jafari. 2019. East Jerusalem Economic Cluster Report. MAS. Ramallah Palestine. <https://www.mas.ps/files/server/20191703143807-1.pdf>

60 To calculate this figure, data from PCBS (2020), and <https://www.exchangerates.org.uk/> were used.

61 Reference in footnote 44

62 Khawaja H (2009). Jerusalem Workers under the policy of Judaization and annexation. Civic Coalition for Defending Palestinian Rights in Jerusalem, Jerusalem.

6- Recent Publications

Workers' Rights in Crises - Palestinian Workers in Israel and the Settlements

The International Trade Union Confederation (ITUC) released a report on the situation of Palestinian workers in Israel and the settlements, highlighting the poor working conditions faced by Palestinian workers in Israel and the settlements, including the lack of occupational safety in some workplaces and the humiliation endured by Palestinian workers when entering border crossings on their way to work. The report also explained how the rights of Palestinian workers were violated by Israeli employers, taking advantage of their dire need for work. The report also addressed the wage disparity between Palestinian workers and their Israeli counterparts, and explained how Palestinian workers are denied social protections and lack access to social security benefits. The report also addressed the exploitative permit system and the role of permit brokers. In this section, we will highlight the main themes covered in this report and highlight the reforms advocated by the ITUC to reduce the exploitation of Palestinian workers in Israel and the settlements⁶³.

Historical Background

The entry of Palestinian workers into the Israeli labor market was regulated by a decision of the Israeli Cabinet in 1970. The resolution provided for deductions of social and health insurance and retirement payments from Palestinian workers' wages, identical to Israeli workers. On the other hand, the resolution imposed discriminatory measures against Palestinian workers, since it did not impose equality in the benefits and advantages received by Palestinian workers as compared with Israeli workers. To achieve equal costs without access to the same benefits and advantages, Israel imposed a so-called "equivalence tax" on the wages of West Bank and Gaza Strip workers employed in Israel⁶⁴.

The decision followed pressure from the Histadrut on the Israeli Government at the time to promulgate legislation preventing Israeli employers from benefiting from hiring workers from the West Bank and the Gaza Strip instead of Israeli workers, especially as Palestinian labor began to flow into the Israeli market following the occupation of the West Bank and the Gaza Strip in 1967. The influx of Palestinian workers into Israel aroused the Histadrut, with the latter claiming that it would negatively affect the wages and benefits gained by Israeli workers.

In 1994, further regulations were introduced to regulate the employment of Palestinian workers in Israel and the settlements as part of the Paris Economic Protocol⁶⁵, a permit system, mechanisms for worker safety and access to social rights, and stipulating that Palestinian workers must be paid to them directly by employers, while social benefits would be collected and transferred by the Population and Immigration Authority.

The Problem of Unemployment in Palestine and Employment in Israel

The unemployment rate in Palestine is one of the highest unemployment rates, both regionally and globally. The unemployment rate in Palestine at end of the 2019 was about 25.3%⁶⁶. In contrast, the

63 ITUC (2021): Workers' Rights in Crisis- Palestinian workers in Israel and the settlements: https://www.ituc-csi.org/IMG/pdf/ituc_palestinereport_en.pdf

64 The equivalency tax amounts to the difference between deductions from Israeli workers and employers for full social security and deductions from the wages of Bank and Strip workers and employers for limited guarantees.

65 Protocol signed between the Palestine Liberation Organization and the Israeli government to regulate economic relations between the two parties during the interim period 1994-1999.

66 PCBS 2021. Palestinian Workforce Survey: Annual Report: 2020. Ramallah - Palestine.

global unemployment rate was about 6.5%. As for the Arab countries, the unemployment rate was about 10%, while the unemployment rate in the Middle East and North Africa region was about 10.6%⁶⁷.

The high unemployment rate in the Palestinian economy compared to those of other countries is mainly due to a major specific and restrictive presence in the form of the Israeli occupation and repressive measures aimed primarily at increasing the dependence of the Palestinian economy on the Israeli economy. Over time, repressive Israeli measures have worsened the economic situation in Palestine, creating structural distortions in the Palestinian economy that have limited its capacity to absorb new entrants into the labor market owing to the erosion of productive sectors (agriculture and industry)⁶⁸. Thus, due to a lack of jobs in the local market and low wages, many Palestinian workers have been forced to work in Israel and the settlements. The Israeli labor market has become a major source of Palestinian labor. By the end of 2019, the number of workers in Israel and the settlements reached about 133,000. These workers account for 18.5% of the West Bank workforce, and their remittances contribute 13% of Palestinian national income (equivalent to \$2.4 billion).

Discrimination in Wages Between Israeli and Palestinian Workers in Israel and the Settlements

In 2019, the average monthly wage for Palestinian workers in Israel and the settlements was \$1,787.8, while the average monthly wage for Israeli workers in sectors employed by Palestinian workers was \$3,198 in the same year (see Table 6.1). In the same vein, about half of the Palestinian workers working in Israel and the settlements are paid less than the minimum monthly wage in Israel, which is equivalent to \$1,657.5 in the construction sector and \$1,568.7 in other sectors.⁶⁹

Table 6.1: Comparison of Wages for Palestinian Workers in the West Bank, Palestinian Workers in Israel and the Settlements who hold Valid Work Permits, and Israeli Workers (2019, U.S. dollars)

Category	Minimum wage	Average monthly wage	Average monthly wage: construction sector	Average monthly wage: agricultural sector	Average monthly wage: industrial sector	Average monthly wage: trade and hotel sectors
Palestinian workers in the West Bank	428.8	860.7	952.2	543.0	732.0	762.4
Palestinian workers in Israel and the settlements	1,567.3	1,787.8	1,872.1	928.6	1,332.1	928.6
Israeli workers	1,567.3	3,198.0	2,962.6	2,242.4	4,396.9	1,540.6

Deductions from Workers' Wages⁷⁰

Total deductions from workers and employers range from 34% to 38% of wages (varying by sector and monthly wage), distributed as 18.5% to 24.4% of employers and 7.8% to 13.8% of workers' wages. In addition, income taxes on wages and a health stamp amount to 93 shekels per month. Wages for workers from the West Bank and the Gaza Strip are paid indirectly through the "Payments Department" of the Israeli Interior Ministry after it receives the total wage value from employers. The

67 <https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS>

68 Makhoul, Basem. (2006). "Unemployment Indicators in the Palestinian Territories". Annual "MAS" Conference.

69 This can be inferred from the fact that in 2018, income tax was deducted on only 50.2% of Palestinian workers with permits.

70 For more information on wage deductions for Palestinian workers, see "Where do wage deductions for workers go in Israel?" in issue no. XX of the Monitor.

service applies the necessary deductions and deducts income taxes from salaries before paying the workers' net remuneration⁷¹. Table 6.2 presents the deductions applicable to the wages of workers in the West Bank and the Gaza Strip currently employed in Israel. These deductions are also supposed to apply to the wages of workers in the Israeli settlements, following the Supreme Court's decision that Israeli labor law should also apply to Palestinian workers in the West Bank settlements.

Table 6.2: Contributions by Employers and Deductions from Wages of Workers in the West Bank and Gaza Strip in Israel (as a percentage of 2020 wages)

Components of insurance fund	Building and Construction		Other sectors: agriculture, industry, services, hotels	
	Employer's contribution	Deductions from employee's wages	Employer's contribution	Deductions from employee's wages
Pensions	12.50%	6.00%	13.10%	6.00%
Compensation			2.33%	
Israeli Builders' Association			0.80%	
National Insurance (reduced rate)	0.56%	0.03%	0.56%	0.03%
Social Security (modified)	2.49%	0.61%	2.49%	0.61%
Equivalency tax (workers earning less than 6,331 shekels)	2.99%	0.37%	2.99%	0.37%
Equivalency tax (workers who earn more than 6,331 shekels)	5.11%	6.39%	5.11%	6.39%
Histadrut subscription		0.75%		0.75%
Income taxes		Depends on income level (10%-14%)		Depends on income level (10%-14%)
Health stamp		93 shekels		93 shekels
Total	23.65%	14.15%	27.38%	14.15%

The Population and Immigration Authority is responsible for transferring equivalency benefits, health stamp fees and 75% income taxes to the Palestinian Authority after deductions for fees. Over the past five decades, however, Israel has withheld large amounts of social benefits and taxes collected and transferred them to the Israeli Ministry of Finance. According to the Israeli State Comptroller report, during 2006-2013 Israel confiscated approximately \$169.2 million in equivalent tax benefits (out of \$188 million deducted from workers as social protection), and during the same period Israel stopped transferring approximately \$55.4 million to the Palestinian Authority in health stamp collections (out of \$71.6 million).

Israel refrains from transferring these funds as a punitive measure against the Palestinian Authority, thereby transferring to the Palestinian Authority only a small fraction of these deductions (some in-

71 Permit fees relate to workers who purchase permits from brokers. These fees range from \$591.27 to \$739.9 per month.

come taxes, and a portion of health insurance payments). Workers recover only a fraction of these deductions (a portion of pension compensation). The bulk of the deductions, chief among them the “equation tax,” do not benefit either workers or their families. The complex application process prevents workers from accessing social benefits and advantages. In order to apply for social benefits, workers are forced to submit a separate application to the Wages and Salaries Department. In the absence of adequate awareness of workers’ rights, a lack of transparency, cumbersome bureaucratic procedures, and the lack of proper reporting by employers of the working hours and wages of Palestinian workers, workers are unable to receive the social benefits to which they are entitled, which have been deducted from their wages.

Work Permit System and the Role of Labor Brokers

Israel has an administrative system in place for granting work permits to workers in the West Bank and the Gaza Strip who wish to work in Israel. This is, of course, in parallel with the strict security regime which determines the number of workers and their precise age and security specifications. Permits are issued only in industries where Palestinian workers do not represent any competition for Israeli workers, consistent with Israel’s political objectives and economic needs. Only Palestinian workers with valid work permits can access jobs with Israeli companies “legally” and are entitled to the minimum wage in Israel in addition to the gross net wage of Israeli workers in the same sector and in line with Collective Bargaining Agreements (CBA).

In 2019, 94,000 of the 133,000 workers in Israel and the settlements obtained work permits (65,300 of them in the construction sector). Although trading work permits is prohibited under both Palestinian and Israeli laws, 45% of Palestinian workers obtained their permits through brokers who made a profit by trading workers’ permits, equivalent to \$119 million. Permits are more often circulated in order to work in Israel than to work in the settlements due to the lack of government quotas on permits in the settlements. The permit costs a worker \$591.3-\$739.9 per month. The cost of the permit is a large part of the wages of those who purchase the permits, and they must accept worse working conditions than their peers: only 41.2% have annual paid leave and only 11.2% have paid sick leave. Moreover, employers are themselves brokers with a financial incentive to conceal data on wages and hours of work in order to reduce mandatory payments of social benefits.

The average daily wage varies between workers with and without a work permit, with the average daily wage for workers with permits ranging from \$81.4-\$94.7 and for those without permits from \$44.4-\$59.2. Workers who work without permits are subjected to humiliation and abuse, and are liable to arbitrary dismissal at any time as they are employed on a daily basis and are sometimes forced to work in places that lack basic safety and thus cannot guarantee a monthly income, leaving them in a state of constant anxiety and subject to widespread exploitation.

In December 2018, the Israeli Government decided to replace the aforementioned administrative system for granting work permits to workers in the West Bank and the Gaza Strip with a new system. The new system relies on the issuance of work permits linked to economic sectors, rather than to specific employers. The new system aims to provide greater flexibility by orienting workers from the West Bank and the Gaza Strip towards those sectors that are actually in need of labor. It is hoped that this will eliminate the illegal trade in work permits.

Allegations Made by the International Trade Union Confederation

With regards to the permit system and the exploitative role played by brokers, the ITUC called on the Israeli Government to abide by the general principles of the International Labor Organization of fair

employment⁷² by adhering to direct employment and eliminating the system of brokers currently in place, which exploits Palestinian workers in Israel. As for workers' social benefits, the ITUC stressed the need for the deduction of wage benefits received by Palestinian workers in Israel to be transferred urgently to Palestinian workers. It also calls for a review of wage entitlements to be assigned to an international firm to determine the amount owed to Palestinian workers in Israel. It also called for the occupational health and safety of Palestinian workers in Israel.

72 The Principles state that recruitment fees or related costs shall not be borne by workers or job seekers, and that employment shall not be a means of lowering labor standards or wages, or a means of submission to work in deteriorating working conditions

7- Economic Concepts and Definitions: Carbon Pricing

There is now a consensus among experts and politicians that, in order to save the planet from devastating environmental disasters, it must be warmed no more than 1.5-2.0 degrees Celsius in the second half of this century than before the Industrial Revolution. Commitment to this upper limit was included in the documents of the United Nations Climate Change Conference, held in Paris in 2015, which has been ratified by 174 countries. On the other hand, there is also some form of consensus that the most effective (i.e., the most successful and least expensive) way to achieve this goal is through a gradual and comprehensive application of a carbon pricing system.

Fossil Fuels and Greenhouse Gasses

The world has seen its average temperature rise continuously since the start of the Industrial Revolution. This is mainly due to global warming caused by the accumulation of greenhouse gasses such as carbon dioxide and methane in the atmosphere. These gasses are generated mainly from the consumption of fossil fuels (such as coal, fuel oil, natural gas and gasoline). Thus, limiting the increase in global temperature requires reducing fossil fuel consumption by the world's population and developing alternative sources of energy. This is precisely what "carbon pricing" seeks to achieve.

Global warming embodies a principle that economists call "market failure." This is because consumers of fossil energy sources have, for many years, emitted greenhouse gasses into the atmosphere without bearing the high costs associated with it. That is, they have been benefiting at the expense of others, which contradicts the proper functioning of an effective market. Some studies estimate that the social cost (i.e., the total direct and indirect cost of all types of damage) per ton of CO₂ released into the atmosphere is about \$3,000⁷³. In practice, carbon pricing is intended to correct these market malfunctions and to hold the polluting party responsible for its pollution and its costs⁷⁴.

Two Carbon Pricing Methods

Carbon pricing occurs in two ways. The first is imposing a "carbon tax," which is a government-set tax on the carbon content of each fossil fuel (or on the amount of gas emitted, but less often than a tax on the carbon content). The second method is known as "Emission Trading System" (ETS). By using this method, the government determines how much greenhouse gasses it wishes to emit from its territory, and distributes emission permits to factories and companies (or sells them through open auction). Factories and companies must obtain a permit for each ton of greenhouse gasses they emit. Permits can be bought and sold among factories and companies. This process creates a market (supply and demand) for greenhouse gasses, and automatically sets a price for the gasses emitted. The main difference is that the permit approach, unlike the tax method, allows the government to accurately quantify the gasses emitted. But a carbon tax approach is more favorable, owing to its simplicity and price stability. The European Union and China have a permit system, while Sweden, Canada, and Japan have preferred the tax system. Germany and France apply a mixture of pricing and permit systems simultaneously.

Channels of Impact

Simulation models in expanded international studies confirm that reducing the rise in global heat to less than 2 degrees Celsius is an achievable target using carbon pricing. The progressive and previously announced increase in greenhouse gas release costs works on three fronts to achieve

⁷³ https://en.wikipedia.org/wiki/Carbon_price

⁷⁴ For further elaboration, see our treatment of the concept of "negative externality" in Quarterly Economic Monitor Issue No. 62.

this goal: 1) modifying the behavior of producers and consumers to reduce fossil fuel use and shift towards alternative sources of energy, 2) stimulating investment in the development of new energy-saving technologies and the creation of alternative sources, and 3) generating additional revenue for governments from carbon pricing programs that could be used to make adjustments to biased tax systems, invest in environmentally friendly infrastructure and compensate those affected. Although the price of a ton of CO₂ released into the atmosphere is modest in most current pricing programs, they combined to generate \$53 billion in revenue for governments in 2020⁷⁵.

Greenhouse Gas Reduction Commitments

China, the United States, the European Union and India released more than 60% of total CO₂ from certain activities (fossil fuels and cement) in 2015. Indeed, the Group of Twenty (G20) is responsible for the release of about 85% of these gasses⁷⁶.

Countries are now announcing their commitments to reduce greenhouse gas emissions. For example, US President Joe Biden recently announced that the US will reduce its net greenhouse gas emissions by 50% by 2030 compared with 2005 (a non-binding commitment). The European Union has pledged a 55% reduction in 2030 compared with 1990, along with various member states' pledges (e.g., Denmark has pledged a 70% reduction in 2030 and an environmental neutrality in 2050). The United Kingdom committed to a 78% reduction in 2035. China has also committed to total elimination of net greenhouse gas emissions, i.e., environmental neutrality, from its territory by 2060.

The Gap Between the Desired Price and the Actual Price

Against these promising commitments, the picture on the ground is less sanguine. About 13% of the world's greenhouse gasses were priced until recently. It rose to 22% this year after the introduction of a broad carbon pricing system in China and Germany. However, carbon pricing is still not applied in many countries, including a number of large states in the USA, India, and Australia⁷⁷. Studies indicate that achieving the goal of increasing the Earth's temperature by less than two degrees Celsius requires that the price of a ton of carbon dioxide reaches more than \$75. It is true that the price of a ton, in the European Union, for example, is not very far from this (about 50 euros), but the price does not exceed 10 dollars in China, for example. The average price of the world's current total carbon pricing programs (about 60) is much more different than required, as it is only \$3 per ton⁷⁸.

75 https://en.wikipedia.org/wiki/Carbon_price

76 https://en.wikipedia.org/wiki/List_of_countries_by_carbon_dioxide_emissions

77 IMF (2021), Finance & Development: How to Drive Deep Decarbonisation.

78 IMF (2021), Finance & Development: Five Things to Know about Carbon Pricing.

Key Economic Indicators in Palestine, 2016-2021¹

Indicator	2016	2017	2018	2019	2020	2020 ¹			2021 ¹	
						Q2	Q3	Q4	Q1	Q2
Population (One thousand)										
oPt	4,632.0	4,733.4	4,915.3	5,039.0	5,101.2	5,075.2	5,116.9	5,148.4	5,179.9	5,227.2
West Bank	2,803.4	2,856.7	2,953.9	3,020.0	3,053.2	3,039.3	3,061.6	3,078.4	3,095.2	3,120.4
Gaza Strip	1,828.6	1,876.7	1,961.4	2,019.0	2,048.0	2,035.9	2,055.3	2,070.0	2,084.7	2,106.8
Labor market (based on the new definition adopted by PCBS)²										
No. of workers (thousand)	939.6	948.7	956.3	1,013.00	956.0	888.7	936.0	995.0	994.1	1,015.6
Participation rate (%)	43.8	44	43.5	44.3	40.9	38.5	41	41.0	42.9	43.0
Unemployment rate (%)	23.9	25.7	26.2	25.3	25.9	26.5	28.3	23.4	27.8	26.4
West Bank-	17.5	18.4	17.3	14.6	15.7	14.7	18.5	14.9	17.1	16.9
Gaza Strip-	35.4	38.3	43.1	45.1	46.6	49.1	48.6	43.1	47.9	44.7
National accounts (at constant prices) (base year 2015) (million dollars)³										
GDP	15,211.0	15,426.9	15,616.2	15,829.0	14,015.4	3,134.9	3,506.2	3,540.6	3,607.5	3,734.3
- Household expenditure	3,342.9	13,420.3	13,570.1	14,126.5	12,367.2	2,821.0	3,042.4	3,049.9	3,200.9	3,192.4
- Government expenditure	3,584.7	3,093.6	3,318.9	3,202.3	3,207.6	761.3	809.3	915.0	822.2	908.4
Gross capital formation	3,873.8	4,166.9	4,260.3	4,177.1	3,207.1	658.1	780.1	838.8	863.5	873.5
Exports	2,208.3	2,515.6	2,578.7	2,630.5	2,445.9	526.7	652.5	727.2	648.8	704.9
(-) Imports	7,796.3	7,901.5	8,256.8	8,376.1	7,084.7	1,501.3	1,782.1	1,955.9	1,949.9	1,974.0
GDP per capita (USD)										
at Current prices	3,534.4	3,620.5	3,562.3	3,656.7	3,235.0	706.7	800.9	837.4	866.3	903.8
at Constant prices (base year 2015)	3,489.8	3,463.1	3,417.7	3,378.3	2,913.9	653.8	726.5	728.8	737.9	758.9
Balance of Payment (USD millions)										
Trade Balance	(5,664.5)	(5,967.4)	(6,425.7)	(6,500.7)	(5,452.9)	(1,120.0)	(1,351.0)	(1,504.0)	(1,600.0)	(1,575.0)
Income Balance	1,896.0	2,129.0	2,786.2	2,658.0	2,546.6	424.0	697.0	741.0	750.0	831.0
Current Transfers Balance	1,626.2	1,708.7	1,499.1	2,009.2	1,833.6	464.0	454.0	470.0	422.0	508.0
Current account Balance	(2,142.7)	(2,129.7)	(2,140.4)	(1,833.5)	(1,072.7)	(232.0)	(200.0)	(293.0)	(428.0)	(236.0)
Exchange Rates and Inflation										
USD/NIS exchange rate	3.84	3.6	3.59	3.56	3.441	3.514	3.419	3.335	3.272	3.264
JOD/NIS exchange rate	5.42	5.08	5.07	5.03	4.840	4.943	4.798	4.692	4.615	4.593
Inflation rate (%) ⁴	(0.22)	0.21	(0.19)	1.58	(0.73)	(1.20)	(0.20)	1.21	(0.26)	1.14
Public Finance (cash basis USD million)										
Net domestic revenues (including clearance)	3,551.9	3,651.5	3,462.9	3,290.6	3,802.1	487.7	275.8	1,789.1	1,026.3	1,047.5
Current expenditure	3,661.7	3,794.8	3,660.0	3,660.1	4,686.8	419.1	731.9	1,972.8	665.9	1,099.1
Developmental expenditure	216.5	257.9	276.9	200.0	207.8	33.0	39.1	75.3	21.7	32.6
current budget deficit\surplus	(326.4)	(401.3)	(474.0)	(569.5)	(1,092.6)	35.6	(495.1)	(258.9)	338.7	(84.2)
Total grants and aid	766.3	720.4	664.8	492.1	565.9	196.8	101.8	85.0	10.7	64.6
Total budget deficit\surplus	440.0	319.1	190.9	(77.3)	(526.7)	232.4	(393.3)	(173.9)	349.3	19.7
Public debt	2,483.8	2,543.2	2,369.5	2,795.1	3,649.2	3,080.9	3,460.2	3,649.2	3,545.2	3,702.4
The Banking Sector (USD millions)										
Banks assets/liabilities	14,196.4	15,850.2	16,125.0	17,825.5	19,934.0	18,237.1	18,625.0	19,934.5	20,059.9	20,624.4
Equity	1,682.4	1,892.7	1,912.0	1,985.2	1,973.8	1,984.7	1,959.1	1,967.4	2,016.7	1,994.0
Deposits at banks	10,604.6	11,982.5	12,227.3	13,384.7	15,137.0	13,814.1	14,061.9	15,138.3	15,182.4	15,726.5
Credit facilities	6,871.9	8,026.0	8,432.3	9,039.1	10,075.0	9,652.4	9,894.0	10,078.7	10,150.6	10,350.7

Data do not include that part of Jerusalem which was annexed by Israel following its occupation of the West Bank in 1967 (except for data on unemployment and population).

¹ Quarter's figures for 2019-2020 are preliminary and subject to further revision.

² PCBS and the ILO adopted a new revised definition of unemployment stating that unemployment include only those who did not work during the reference period and who actively sought employment or were willing and capable of working. The new standard excluded those who were frustrated and were not looking anymore for jobs (did not seek an employment during the reference period). The table includes calculations of the Palestinian labor market indicators based on the old and the new definitions.

³ PCBS has revised the national accounts data at current and constant prices for the years 2004-2018. Therefore, the figures of previous years and quarters will differ in light of these revisions.

⁴ The inflation rate estimation is based on year-over-year comparisons of the average CPI in the target year (each quarter) with its average in previous year (quarter).

* The figures in the table are based on the latest update of data issued by PCBS, PMA, and PCMA.

** Figures between brackets indicate negative values.