

# ECONOMIC

## MONITORING NOTE

### FOR WEST BANK AND GAZA

#### I. Economic Developments

##### GDP growth in Q1 2012

Economic growth in WB&G slowed in the first quarter of 2012. According to PCBS, the real growth rate is estimated to have reached 5.6 percent – more than three percentage points less than the Q1 2011 growth figure. This slowdown is attributed to a major deceleration in Gaza where real growth declined from 21.3 percent in Q1 2011 to 6 percent in Q1 2012. Economic activity in the West Bank expanded in Q1 2012 with growth reaching 5.4 percent in comparison to 4.4 percent during the same period last year.

Most of the growth in the West Bank was from an expansion of the services sector, which contributed around 2.2 percentage points of the 5.4 percent total growth in Q1 2012. Within the services sector, real estate activities, health and education were the major drivers of growth. Wholesale and retail trade grew by 12 percent and contributed more than 1 percent to total growth in the West Bank. Net VAT on imports also contributed another 3 percentage points to total growth. Notably, Public administration and defense which has been a key driver of growth in the West bank shrank by around 1 percent in Q1 2012. The manufacturing, agriculture and construction sectors all contracted by 4, 7 and 9 percent respectively.

In Gaza, the construction sector continues to be the key driver of growth. It is estimated to have increased by 40 percent in Q1 2012 compared to Q1 2011, contributing around 4.4 percent to total growth. Hotels and restaurants were another major area of growth increasing by 89 percent and contributing around 2 percent to growth. Discouragingly, in Q1 2012 the agriculture sector declined by 43 percent compared to Q1 2011, which offset much of the growth in other sectors. Public administration and defense also declined by 5 percent in Q1 2012, while the manufacturing sector stagnated.

**Table 1: Contribution to GDP Growth by Economic Activity - Q1 2012**

Economic activity	WB	Gaza
Agriculture, Forestry and Fishing	-0.31	-3.72
Mining, Manufacturing, Electricity and Water	-0.33	0.68
Manufacturing	-0.46	0.00
Construction	-0.90	4.38
Wholesale and Retail Trade	1.14	0.25
Transportation and Storage	0.16	0.68
Financial and Insurance Activities	0.15	0.18
Information and Communication	0.76	0.02
Services	2.24	4.25
Public Administration and Defense	-0.12	-1.23
Households with Employed Persons	-0.01	0.00
FISIM	-0.39	-0.14
Customs Duties	0.10	0.02
VAT on Imports, net	2.91	0.57
<b>GDP Growth</b>	<b>5.40</b>	<b>5.96</b>

## Unemployment

The slower growth witnessed in Q1 2012 was reflected in higher unemployment levels in WB&G. Overall unemployment increased from 21.7 percent in Q1 2011 to 23.9 percent in Q1 2012. In the West Bank, unemployment reached 20.1 percent in Q1 2012 compared to 17.4 percent in the same period of 2011. In Gaza, unemployment remains extremely high at 31.5 percent – less than a one percent increase when compared to Q1 2011. Unemployment amongst females in WB&G grew from 27.3 percent in Q1 2011 to 31.5 percent in Q1 2012. Labor force participation in WB&G continues to be low even though it grew from 41 percent in Q1 2011 to 43.4 percent in Q1 2012. A serious concern in West bank and Gaza is the high level of youth unemployment that is accompanied by low youth participation in the labor force. In Gaza, only 33.2 of the young Palestinians aged 15-29 were active participants in the labor force in Q1 2012, and 46.9 percent of those were unemployed. In the West Bank, youth unemployment was 29.8 percent with a participation rate of 38.7 percent. The slow improvement in private sector employment continues to

be a main obstacle to the reduction of employment in the public sector, which employs about 23.1 percent of those in the labor force: 39.1 percent in Gaza and 16.3 percent in the West Bank. A major factor that contributes to high unemployment in West Bank and Gaza is the restriction on the number of Palestinian workers in Israel. The number of workers from the West Bank employed in Israel and Israeli settlements fell from 84 thousand in 2011 to 77 thousand in Q1 2012. The number of Gaza workers allowed into Israel has remained insignificant since 2001.

**Table 2: Labor Force Statistics Q1 2012**

	WB&G	WB	Gaza
Unemployment Rate	23.9	20.1	31.5
Labor Force Participation	43.4	45.4	39.9
Underemployment	7.7	8.1	6.8
Youth Unemployment (Ages 15-29)	35.7	29.8	46.9
Youth Labor Force Participation	36.6	38.7	33.2

*Source: PCBS Labor Survey*

## Trade

Trade figures for the first four months of 2012 confirm that Israel continues to be WB&G's main trading partner. According to PCBS's estimates, total exports increased by 3.4 percent compared to Q1 2011, amounting to USD 243 million. Exports to Israel, which represent 88 percent of total exports, declined by 9 percent when compared to the same period last year. Exports to other countries, however, increased by 67 percent in Q1 2012, due to a rise in imports from Gaza resulting from the ease of Israeli restrictions. Total imports to WB&G decreased by 19 percent and were around USD 1.4 billion. In comparison to Q1 2011, imports from Israel decreased by 26 percent and represented 67 percent of total imports. In Q1 2012, imports from the rest of the world were 2 percent lower than the same period in 2011.

## Inflation

WB&G's average year-on-year CPI change for April 2012 was 3 percent. In Gaza, it was 0.2 percent while in the West bank and East Jerusalem it was 3.8 and 3.4 percent respectively. Lower inflation in Gaza reflects the increase in the supply of consumer products and foodstuffs resulting for the relaxation of the Israeli blockade and increased trade with Egypt through the tunnels. Major expenditure groups that showed the highest changes in CPI in WB&G include education and housing followed by textiles and clothing, food products and transportation.

**Table 3: Percent Change in CPI between 2010 and 2011 for Selected Expenditure Groups**

	WB&G	WB	Gaza	East Jerusalem
Average CPI Change	2.99	3.82	0.17	3.37
Education	6.44	7.75	5.41	4.82
Housing	4.39	5.47	2.99	2.45
Textiles and Clothing	3.08	8.83	-7.05	4.62
Food Products	2.85	2.11	0.29	4.42
Transportation	2.29	2.34	0.26	3.72

Source: *PCBS*

## II. Fiscal Developments Q1 2012

The PA continued to face significant fiscal challenges in the first quarter of 2012. The recurrent budget deficit amounted to NIS 1.03 billion, and was 14 percent above its budget target due to lower than expected revenues. Total expenditures and net lending were only slightly below budget, while total net revenues were 6 percent lower than their target. Development expenditures were NIS 214 million. Thus, total need for external financing, including recurrent and development, amounted to NIS 1.25 billion. However, total external support was only NIS 793 million. Support for the recurrent deficit was NIS 214 million less than budgeted and development financing was almost NIS 231 million less than required.<sup>1</sup> Consequently, the PA had to accrue additional arrears in the amount of NIS 632 million in Q1 2012, 54 percent of which is owed to the private sector. Most of the remaining arrears are to the pension system. The PA's total stock of local debt amounted to USD 1.1 billion by the end of Q1 2012.

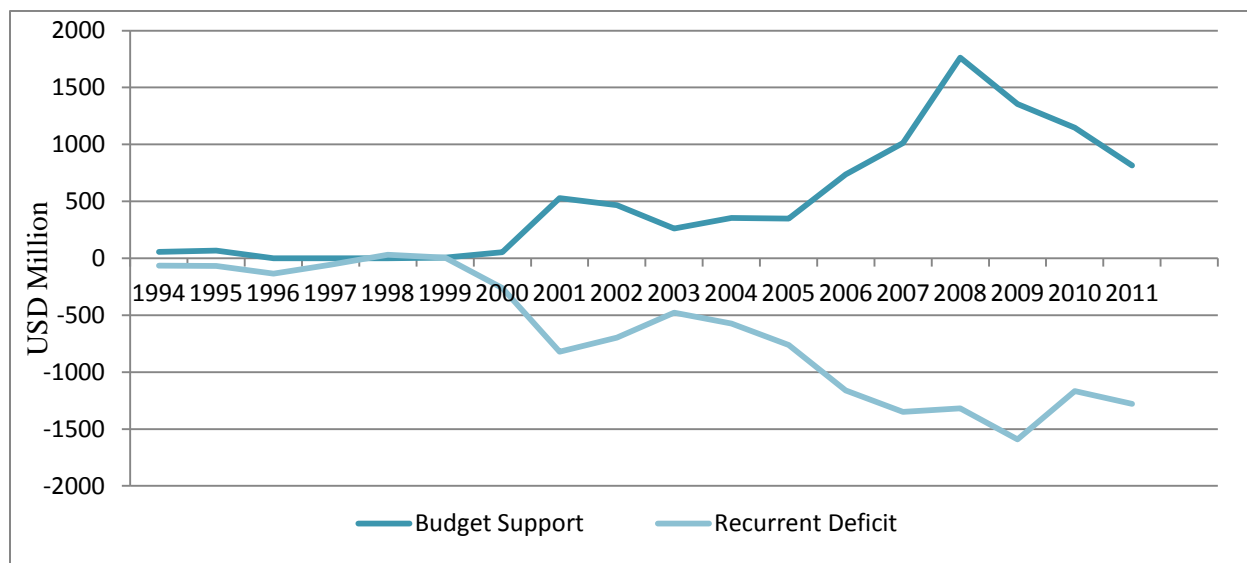
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<sup>1</sup> Some of this is due to the depreciation for the US Dollar. The budget planned on an exchange rate of NIS 3.8 to USD1 but it averaged only NIS 3.76 to USD1 during the first quarter of 2012.

**Table 4: PA's Fiscal operations for Q1 2012**

NIS Million	Q1 2012	% difference Q1 2012-Q1 2011	% difference Q1 2012-budget
<b>Total net revenues</b>	<b>1996.3</b>	<b>12.82</b>	<b>-6.0</b>
Tax revenues	569.9	17.12	7.3
Non tax revenues	186.9	-1.42	-22.4
Clearance revenues	1343.2	13.09	-8.3
Tax refunds (-)	103.6	9.75	-8.7
<b>Total expenditures &amp; net lending</b>	<b>3027.4</b>	<b>4.21</b>	<b>-0.04</b>
Wage exp.	1647.5	6.12	-3.3
Non wage exp.	1231.8	-0.12	0.5
Transfers	756.5	2.73	5.7
Operational exp.	471.9	-4.09	-3.6
Minor capital exp.	3.4	-29.17	-82.6
Net Lending	148	24.16	48.0

Source: Ministry of Finance

**Graph 1: The PA's Recurrent Deficit and Budget Support (1994-2011)**

Source: MoF, IMF and World Bank