

West Bank and Gaza – Economic Update¹

May 24, 2012

The slowdown of growth in the West Bank continues as indicated in the March 2012 IMF report.² Unemployment in the West Bank increased to 20.1 percent in 2012Q1, while unemployment in Gaza increased to 31.5 percent. In January-April 2012, issuance of new business licenses was down 15 percent (year-on-year), while cement imports (in West Bank and Gaza) were down 8.1 percent in that period. In addition the exports from West Bank and Gaza declined in January-February by about 2 percent (yoy). The slowdown is related to fiscal retrenchment, shortfalls in donor aid that lead to arrears accumulation, the lack of progress in lifting Israeli restrictions, and continued political uncertainty.

Available indicators suggest that in Gaza real GDP continues to grow at a high rate. Official imports into Gaza (measured by number of truckload) increased 3.7 percent in 2012Q1 (yoy). Gaza's growth is mainly on account of a booming construction sector that benefits from lifting of some Israeli restrictions on imports and Gaza's tunnel trade that benefits from easing of restrictions owing to political change in Egypt.

The fiscal situation of the Palestinian Authority remains very challenging. Clearance revenues increased 13 percent in 2012Q1 (yoy) while domestic tax collection increased 17 percent. Total gross revenue collection was still 2 percent under pro-rata budget targets in 2012Q1. Wage and non-wage spending were in line with the budget in 2012Q1 (with non-wage spending unchanged from last year in nominal terms), while net lending exceeded the pro-rata budget. The recurrent budget deficit was NIS 1,031 million, NIS 126 million above the pro-rata budget. The PA received NIS 739 million in recurrent budget support and NIS 54 million in development support channeled through its treasury. This is far less than needed to finance the deficit and as a result the PA accumulated NIS 632 in arrears to suppliers (recurrent and development), the pension fund and taxpayer refunds. The PA did not borrow from the domestic banking sector in 2012Q1. An agreement with Israel's Ministry of Finance to improve the collection of clearance revenue is yet to emerge.

Private sector credit growth slowed partly owing to a slowdown in growth in the West Bank. In the West Bank it declined to 16.6 percent in 2011Q4, from 30.3 percent in 2011Q1, while in Gaza it increased to 46.7 percent. Total private sector credit in West Bank and Gaza growth slowed to 13.3 percent in March 2012 from a peak of about 30 percent in the first half of 2011. Private sector deposit growth in the West Bank and Gaza slowed moderately to 4 percent in March (yoy).

¹ Prepared by Udo Kock and Hania Qassis. This note is based on data released through May 23, 2012. IMF reports and notes on WBG are published in English and Arabic at www.imf.org/wbg.

² "Recent Experience and Prospects of the Economy of the West Bank and Gaza", Staff Report Prepared for the Meeting of the Ad Hoc Liaison Committee Brussels, March 21, 2012.

West Bank & Gaza: High Frequency Indicators, 2009 - Recent

	2009	2010	Mar-11	Jun-11	Sep-11	Dec-11	2011	Jan-12	Feb-12	Mar-12	Apr-12	
	(Annual percentage change, unless indicated otherwise)											
Real Sector												
<i>Real GDP 1/</i>	7.4	9.8	8.9	10.0	10.1	10.5	9.9	...	...	...	...	...
West Bank	7.1	6.8	4.4	4.6	6.4	5.5	5.2	...	...	...	...	...
Gaza	8.4	19.5	21.3	25.9	20.0	24.8	23.0	...	...	...	...	...
<i>Prices (in NIS)</i>												
CPI	4.3	2.8	3.6	3.1	2.1	2.8	2.8	3.1	2.8	3.1	2.9	...
West Bank	4.5	3.2	3.8	4.4	2.7	3.7	3.7	3.6	3.6	4.1	4.0	...
Gaza	4.3	1.1	2.3	0.1	-0.7	-0.2	-0.2	-0.03	-0.7	0.4	1.0	...
Core CPI (excluding food)	4.3	2.9	3.5	3.5	3.4	3.1	3.1	2.9	3.1	3.2	3.2	...
<i>Labour</i>												
Unemployment rate 1/	24.6	23.7	21.7	18.7	22.4	21.0	21.0	...	...	23.9	...	...
West Bank	17.8	17.2	17.4	15.4	19.7	16.6	17.3	...	...	20.1	...	...
Gaza	38.7	37.8	30.8	25.6	28.0	30.3	28.7	...	...	31.5	...	...
Youth unemployment rate (age 19-25) 1/	34.9	34.8	33.9	28.6	34.2	32.7	32.4	...	...	35.7	...	...
Private Sector employment	0.9	1.2	2.4	3.7	2.8	5.7	3.6	...	...	1.4	...	...
<i>External trade</i>												
Export of goods (in millions of U.S. dollars)	518	576	68	73	58	67	759	62	59	62	...	...
Import of goods (in millions of U.S. dollars)	3,601	3,959	497	367	351	318	4,492	338	340	342	...	...
Gaza imports (truckloads)	31,111	39,616.5	4,309	4,188	4,157	3,728	48,460	4,967	4,003	3,874	3,620	...
Gaza exports (truckloads)	21	214	19	0	0	...	191	63	29	21	15	...
Cement imports WBG (x1,000 tons)	1,230	1,363	118	130	104	111	1,339	93	85	95	123	...
<i>Other</i>												
Industrial Production Index (mom percentage change)	...	...	4.4	7.0	2.8	6.8	...	-8.8	3.1	-2.8	...	...
Issued building Licenses (number of licences) 1/	5,306	6,236	2,092	2,015	1,717	1,884	7,708	...	...	...	...	...
Number of hotel nights (x 1,000 nights) 1/	1,031	1,280	291	339	254	362	1,254	...	...	290	...	...
New Business License												
West Bank	41	-21	188	11	-3	23	1	-9	-24	-6	-21	...
Gaza	105	46	-5	55	-41	68	14	-33	0	0	8	...
Percentage of enterprises expecting sales to improve next quarter												
West Bank	...	...	61	38	26	31.2	31.2	...	...	48.3	...	...
Gaza	...	...	47	32	25	...	...	...	...	43.1	...	...
Fiscal Sector (commitment basis, in millions of U.S. dollars)												
<i>Revenues</i>												
Clearance revenue	1,104	1,259	106	128	121	115	1,425	120	120	117	120	...
Tax revenue	300	474	40	34	35	30	482	37	69	46	30	...
<i>Expenditures</i>												
Net Lending	369	236	10	13	12	16	139	15	12	13	11	...
Wages	1,469	1,613	149	157	151	141	1,785	143	150	146	159	...
Non-wage spending	1,410	1,227	165	112	119	134	1,401	148	91	87	139	...
<i>Financing</i>												
Bank Borrowing	144	84	60	34	-245	-60	101	99	-65	-90	-1	...
External budget support from donors	1,349	1,143	93	41	277	20	769	62	33	125	155	...
Year to date	1,349	1,143	180	299	685	769	769	62	95	220	375	...
(in percent of budgeted financing needs) 3/	93	92	74	62	82	69	69	74	57	88	112	...
Total domestic bank debt (in millions of U.S. dollars)	...	840	907	1,124	828	1,099	1,099	1,127	1,136	1,102	1,080	...
Monetary and Financial Sector												
<i>Bank credit</i>												
to private sector	23.3	28.3	30.5	29.9	23.5	19.6	19.6	18.4	16.3	13.3	...	...
West bank	29.4	29.7	30.3	28.9	21.5	16.6	16.6	...	...	...	...	...
Gaza	-10.9	16.8	32.2	38.2	42.2	46.7	46.7	...	...	...	...	...
Ratio private sector loans to deposits	0.25	0.33	0.32	0.34	0.36	0.35	0.35	0.36	0.36	0.36	...	...
Non Performing Loans (percentage of gross loans) 1/ 2/	3.2	2.1	1.9	1.9	2	1.8	1.8	...	...	...	...	...
Private sector deposits	9.1	6.8	6.6	11.2	5.3	4.4	4.4	5.3	4.4	3.9	...	...
Bank's assets held abroad (percentage of total assets)	35.9	30.5	28.5	25.6	28.6	27.1	27.1	...	...	...	...	...
<i>Exchange rate</i>												
USD/NIS (rate at end of period)	3.78	3.55	3.48	3.42	3.71	3.82	3.82	3.73	3.77	3.72	3.75	...
EUR/NIS (rate at end of period)	5.44	4.74	4.95	4.94	5.04	4.94	4.94	4.92	5.06	4.95	4.96	...
<i>Stock Market</i>												
Al Quds Index	493.0	489.6	497.7	492.7	488.2	476.9	476.9	476.2	482.2	486.7	467.4	...
From One Year ago, percentage change	11.6	-0.7	-1.1	-4.5	-3.1	-2.6	-2.6	-2.7	0.01	-3.27	-5.81	...
Year to date, percentage change	17.3	-1.8	1.1	0.1	-0.8	-3.1	-3.1	-0.6	0.7	2.2	-1.8	...
Market Capitalization (in millions of U.S. dollars)	2,374	2,449	2,814	2,814	2,801	2,782	2,782	2,779	2,810	2,834	2,785	...
Movement and Access												
Number of total obstacles	574	512	517	...	523	523	523	523	540	540	540	...

1/ March, June, September, December are quarterly data.

2/ NPLs after taking accepted collateral into consideration.

3/ Annual financing needs for 2011 was revised from 967 million USD to 1,118 million USD in September 2011.