



**Palestinian National Authority  
Palestinian Central Bureau of Statistics**

**Press Report  
Economic Forecasting, 2012**

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## **The Performance of the Palestinian Economy during the First Three Quarters of 2011**

### **Growth in most economic activities through the first three quarters of the year 2011**

#### **Gross Domestic Product (GDP):**

The Gross Domestic Product increased by 10.5% during the first three quarters of 2011 compared to the same period of 2010, (5.8% in the West Bank and 25.7% in the Gaza Strip). Growth was concentrated in the main economic activities and these were the highest contributors to GDP, comprising agriculture and fishing, construction, wholesale-retail trade, transport, storage and communications services, public administration and defense. The construction activity recorded the highest growth rate over this period of 32.5%.

#### **GDP per capita:**

The GDP per capita increased by 7.2% during the first three quarters of 2011 compared to the same period of 2010.

#### **A rise in employment:**

The total number of the employed persons rose over the first three quarters of 2011 by 11.9% compared to the same period of 2010. This was a result of a rise in the number of employees in construction, services and industry in the Palestinian Territory.

#### **A decrease in unemployment rate through the first three quarters of the year 2011:**

The unemployment rate in the Palestinian Territory during the first three quarters of 2011 was 20.9%, compared to 23.8% for the same period of 2010. The unemployment rate increased in the West Bank from 17.3% to 17.5% but decreased in the Gaza Strip from 37.9% to 28.1%.

#### **Increase in registered imports and exports:**

Foreign trade in the Palestinian Territory, as represented by exports and imports, grew by 16.0% in exports during the first three quarters of 2011, while imports grew by 10.0% compared to the same period of 2010.

#### **Employees in Israel and the settlements:**

The number of employed persons in Israel and settlements fell slightly during the first three quarters of 2011 from 10.6% in 2010 to 10.1% in 2011, with an average daily wage of 163 New Israeli Shekel .

#### **Prices**

Consumer prices increased by 3.1% during January to September 2011 compared to the same period of 2010.

#### **Construction Activity contributes 10.9% of GDP:**

The value added for the construction activity grew by 32.5% through the first three quarters of 2011. Data show an increase of 21.9% in the number of building licenses. Imports of cement increased by 0.5% over this period and the prices of construction materials rose by 2.8%. The total number of workers employed in the construction activity grew by 18.1% during the first three quarters of 2011.

**The Palestinian economy is considered a service economy:**

The services activity constituted the highest rate of GDP compared to other activities and grew by 6.9% during the first three quarters of 2011 compared to the same period of 2010. There was an increase of 6.1% in the total number of workers employed in this activity.

**Industrial activity contributed 12.7% of GDP:**

The industrial activity grew by 11.4% during the first three quarters of 2011 compared to the same period of 2010, while number of employed persons in this sector increased by 14.9%.

**The agricultural activity contributed 5.9% of GDP:**

Production in the agricultural activity grew by 5.9% through the first three quarters of 2011 compared to the same period of 2010 and the number of workers in this activity increased by 6.3%.

**The number of hotels guests fell through the first three quarters of the year 2011 compared to the same period of the year 2010.**

The number of hotel guests totaled 370 thousand during the first three quarters of 2011, a drop of 8.0% compared to the same period of 2010 which had a total of 883 thousand guest nights. The average number of workers in Palestinian hotels was 2,211 during the first three quarters of 2011 compared to 1,764 workers during the same period of 2010.

**Rise in the value of residents' deposits in local banks:**

The consolidated budget statements for banks issued by the Palestinian Monetary Authority, which include the assets and liabilities of the banking sector, proves an increase of 2.9% of the residents deposits as it reached 6.6 billion US dollars by the end of September of 2011 compared to the same period of the year 2010 where the deposits of the Palestinian Authority institutions constitute 5.6% of the total deposits of residents during the month of September in 2011.

## **Economic Forecast for 2012**

This document is the result of a joint effort by the Palestinian Central Bureau of Statistics (PCBS) and United Nations Conference on Trade and Development (UNCTAD).

The forecasts were based on a set of scenarios drawn up in consultation with local and international economists, with individual variables relating to the internal political situation, the siege imposed on the Gaza Strip, foreign aid, the number of Palestinian workers inside Israel and other economic and social variables.

All indicators of economic forecasts are at constant prices (base year 2004). The data do not include those part of Jerusalem governorate annexed by Israel in 1967 (Jerusalem J1).

### **1. Baseline Scenario:**

This scenario is based on the assumption that the economic and political situation in the Palestinian Territory will remain the same as it was during 2011. It assumes that donor countries maintain the same level of financial support as in 2011 to finance the budget of the Palestinian Authority, and the continued flow of money generated of costume revenues from Israel. The Palestinian Authority will adopt a package of financial procedures to reduce the public budget deficit by increasing income tax by 11.0% and VAT by 9.0% compared to 2011. It also assumes that the number of employed persons in the public sector will increase by 1.0% and the same level of government investments and transfers as in 2011, in addition to an increase in credit facilities of 5.0%, the continued presence of Israeli restrictions on the movement of people and goods inside the Palestinian Territory or between the Palestinian Territory and the neighboring countries, in addition to natural population growth inside the Palestinian Territory of 2.9%.

### **Outputs of Baseline Scenario:**

#### **Real Sector:**

It is expected that the GDP will increase by 6.2% through 2012, total consumption will increase by 6.5% (private and public consumption), total investment by 9.1% and GDP per capita will increase by 3.1%.

#### **Financial:**

It is expected that the budget deficit of the Palestinian Authority will fall by 8.8% as a result of improved tax collection and that gross government revenues will increase by 14.5%, with increased government expenses of 6.2%.

#### **Work and Workers:**

A slight increase in the unemployment rate in the Palestinian Territory is expected as a result of the natural increase in the size of labor force by an amount greater than the increase in the number of employees, even with the assumption of a slight increase in the number of public sector employees of 1.0%. It is expected that during 2012 the unemployment rate will rise to 25.4% from 24.8% and the number of employees in the Palestinian Territory will increase by 3.7%.

### **The External Sector:**

An increase of 13.0% in the deficit of the net current account of the Palestinian Territory is expected. The net current account comprises the trade balance, net current transfers and net factor income. An increase of 8.5% in the trade deficit is anticipated to result from an increase in imports to a level where imports are four times greater than Palestinian exports. It is also expected that net factor income will increase by 8.6% by assuming an increase in net current transfers of 5.0%, thus increasing gross national income by 6.2%. It is also expected that the gross disposable national income will increase by 6.0%.

## **2. The Optimistic Scenario:**

This scenario is based on an improvement in the economic and political conditions in the Palestinian Territory, with foreign aid expected to increase by 8.0% and the transfer of tax revenues (tax clearance) expected to continue on regular basis. This scenario also assumes freedom of movement for people and goods inside the Palestinian Territory, or between the Palestinian Territory and neighboring countries, an increase in the number of workers employed in Israel, which would enable the Palestinian Authority to expand its financial policy and to improve its tax collection capacity (income tax and VAT). The expansionary policy includes an increase in the size of governmental investments by 8.0%, the improvement of infrastructure and the increase of governmental transfers by 15.0%, which in turn supports poor households in the Palestinian Territory with the assumption that recruitment in the public sector will increase by 2.0%. In addition, the scenario assumes an increase in credit facilities of 10.0%, as well to the natural population growth in the Palestinian Territory.

### **Outputs of the Optimistic Scenario:**

#### **Real Sector:**

It is expected that the GDP will increase by 12.1% through 2012 and total consumption will increase by 8.3% (private and public consumption). With the assumption of an increase in government investment and credit facilities, in addition to stable political and economic conditions in the Palestinian Territory, thereby creating an appropriate investment environment for investors in the private sector, it is expected that total investment will increase by 14.0%. An increase in government investment of 8.0% would lead to an increase in private investment. This proves that the governmental sector in the Palestinian Territory does not compete with the private sector, but encourages investment. It is expected that the GDP per capita will increase by 8.9%.

#### **Financial:**

It is expected that the deficit in the budget of the Palestinian Authority will decline by 20.3% as result of a set of governmental procedures to improve tax collection. Thus, an increase in gross governmental revenues of 21.3% is expected, with an increase of 6.4% in governmental expenses.

#### **Work and Workers:**

The unemployment rate in the Palestinian Territory is expected to decrease as a result of increased employment due to the freedom of movement to and from the Palestinian Territory, in addition to increased public and private investments and an increase in the number of

workers employed in Israel. It is expected that unemployment in 2012 will drop to 22.7% from 24.8%. It is also expected that the number of employed persons in the Palestinian Territory will increase by 10.2%.

### **The External Sector:**

It is expected that the net current account deficit of the Palestinian Territory will decrease by 19.1% and the trade deficit will increase by 2.1%. It is also expected that net factor income will increase by 34.4%, which reflects directly on the net deficit of the current account and results from assuming an increase in workers employed in Israel, plus freedom of movement for individuals and goods to and from the Palestinian Territory. Therefore, gross national income will increase by 14.0% and gross national disposable income is expected to increase by 13.1%.

### **3. The Pessimistic Scenario (the least stringent):**

This scenario assumes that the political and economic situation will deteriorate, that tax evasion will increase, income tax will decline by 15.0% and value added tax by 10.0% compared to 2011. A decline is expected in government investments and transfers, with fluctuations in tax revenues (tax clearance) transfers due to Israel freezing these payments for various periods through 2012 without paying any arrears. Overall, we assume a transfer of about 65% of tax receivables. External support will increase to cover part of current expenditures (salaries and wages). Greater barriers on the movement of people and goods inside the Palestinian Territory or between the Palestinian Territory and neighboring countries are anticipated, in addition to a decline in the number of workers employed in Israel and a decline in credit facilities of 15.0%.

### **Outputs of the Pessimistic Scenario (the least stringent):**

#### **Real Sector:**

It is expected that the GDP will decrease by 0.3% through 2012 and total consumption will increase by 4.9%. Consumption per capita is also expected to increase by 1.9%. It is expected that total investment will fall by 2.9%. and GDP per capita will decrease by 3.2%.

#### **Financial:**

It is anticipated that the deficit in the PA budget will increase by 4.1%, while government revenues will increase slightly by 2.9%. It is also expected that government expenditure will increase by 3.3% as a result of government investments and transfers.

#### **Work and Workers:**

It is expected that the unemployment rate will reach 28.2% through 2012 compared to 24.8% and the number of employed is expected to decrease in the Palestinian Territory by 3.4%.

#### **External Sector**

An increase of 39.1% in the net current account deficit of the Palestinian Territory is expected and an increase of 13.3% in the trade balance deficit is also expected due to greater imports in relation to exports. The net factor income will decrease by 24.5% due to the expected fall in the numbers of workers employed in Israel, in addition to greater barriers imposed on the Palestinian Territory. Therefore, the gross national income will decrease by 2.3% and the gross national disposable income will decrease by 1.2%.



#### **4. Pessimistic Scenario (the most stringent)**

This scenario assumes that political and economic conditions will deteriorate to a severe degree, that external support will fall by 25.0% due to several economic and political factors, that there will be increased tax evasion and decline in income tax collection of 30.0%, and of VAT by 25.0% compared to 2011, a halt in government investments, a decrease in government transfers and the freezing of tax income (tax clearance) by Israel, with a transfer of around 25.0% of that tax, in addition to increased barriers on the movement of people and goods in the Palestinian Territory, or between the Palestinian Territory and neighboring countries. A drop in the credit facility level of 15.0% due to the absence of financial guarantees that permit lending is also anticipated.

#### **Outputs of the Pessimistic Scenario (the most stringent):**

##### **The Real Sector:**

The GDP is expected to decrease by 7.5% in 2012, in addition to natural growth of gross domestic product by 5.9% (base scenario), which means that the decrease in GDP will total 13.0%. In 2012, consumption per capita is also expected to decrease by 0.1%, which in turn increases the poverty rate among individuals in the Palestinian Territory. GDP per capita will decrease by 10.2% and total investment is expected to decrease by 9.7%.

##### **Financial:**

It is expected that the budget deficit of the Palestinian Authority will increase, with government revenue declining by 41.8%, and assuming the freezing of tax clearances by Israel, a decrease of 18.6% in government expenditure is expected.

##### **Work and Workers:**

It is expected that the unemployment rate in the Palestinian Territory will increase due to closure and barriers imposed on the movement of goods and people from and to the Palestinian Territory and a decrease in the number of workers in Israel. The unemployment rate is expected to reach 29.4% through 2012 compared to 24.8% in 2011; the number of employed persons in the Palestinian Territory is expected to decline by 7.2% .

##### **External Sector:**

It is expected that the deficit in the net current account of the Palestinian Territory will increase by 93.2% and the trade balance deficit will increase by 18.1%. The net factor income will decrease by 41.0% due to the assumption of fewer workers in Israel, in addition to the closures imposed on the Palestinian Territory. As gross current transfers decrease, so the gross national income will decrease by 10.3% since the gross national disposable income will decrease by 13.0 %.

**The most important indicators of economic forecasting according to the assumed scenarios in Palestinian Territory for 2012**

<b>The most important indicators</b>	<b>2011*</b>	<b>2012(1)</b>	<b>2012(2)</b>	<b>2012(3)</b>	<b>2012(4)</b>
Gross Domestic Product (GDP) (Million Dollar)	6257.8	6643.6	7017.4	6238.1	5787.3
Percentage change in Gross Domestic Product (%)		6.2	12.1	-0.3	-7.5
Gross Domestic Product per capita (Dollar)	1595.0	1644.7	1737.3	1544.1	1432.7
Percentage change in GDP per capita (%)		3.1	8.9	-3.2	-10.2
Total consumption (Million Dollar)	7868.1	8383.3	8521.0	8253.5	8015.8
Percentage change in total consumption (%)		6.5	8.3	4.9	1.9
Total Investment (Million Dollar)	1179.2	1286.1	1343.8	1145.6	1065.0
Percentage change in total investment (%)		9.1	14.0	-2.9	-9.7
Trade balance (Million Dollar)	-2789.5	-3025.7	-2847.4	-3160.9	-3293.4
Percentage change in trade balance (%)		8.5	2.1	13.3	18.1
Total exports (Million Dollar)	964.4	1024.2	1057.9	984.1	952.8
Percentage change in total exports (%)		6.2	9.7	2.1	-1.2
Total imports (Million Dollar)	3753.9	4049.9	3905.3	4145.0	4246.2
Percentage change in total imports (%)		7.9	4.0	10.4	13.1
Value added of industrial activity (Million Dollar)	542.2	561.7	575.6	540.1	527.0
Percentage contribution to GDP of industrial sector (%)	8.7	8.5	8.2	8.7	9.1
Value added of services activity (Million Dollar)	3715.5	3895.7	3952.6	3823.7	3746.1
Percentage contribution to GDP of services sector (%)	59.4	58.6	56.3	61.3	64.7
Value added of agricultural activity (Million Dollar)	235.6	349.2	392.2	277.6	208.9
Percentage contribution to GDP of agricultural sector (%)	3.8	5.3	5.6	4.4	3.6
Value added of construction activity (Million Dollar)	573.9	628.0	683.9	558.6	484.6
Percentage contribution to GDP of construction sector (%)	9.2	9.5	9.7	9.0	8.4
Gross national income (Million Dollar)	6821.8	7241.9	7775.7	6663.7	6120.1
Percentage change in gross national income (%)		6.2	14.0	-2.3	-10.3
Gross national disposable income (Million Dollar)	7908.6	8383.0	8944.0	7815.7	6880.9
Percentage change gross national disposable income (%)		6.0	13.1	-1.2	-13.0
Unemployment rate	24.8	25.4	22.7	28.2	29.4
Workers numbers in thousands (including workers in Israel and settlements)	735	762	809	709	681
Percentage change in workers (%)		3.7	10.2	-3.4	-7.2
The real average daily wage per employee (Dollar)	16.5	16.7	16.9	16.5	16.4
Rate of change of the real average daily wage per employee (%)		1.2	2.4	0.0	-0.5
Percentage of deficit in net current account of GDP (%)	-18.2	-19.4	-13.1	-25.4	-38.0
Percentage of deficit in the trade balance of GDP (%)	-44.6	-45.5	-40.6	-50.7	-56.9
Percentage of deficit in the budget of GDP (%)	-13.3	-11.5	-9.5	-13.9	-17.7

1. The base scenario
  2. The optimistic scenario
  3. The pessimistic scenario (the least stringent)
  4. The pessimistic scenario (the most stringent)
- \* : Preliminary estimations.