

Palestinian Central Bureau of Statistics Press Release: Economic Forecasts for 2009

Economic conditions in the Palestinian territories varied significantly in 2008 due to economic stability in the West Bank as a result of the flow of international assistance on a regular basis, in contrast to significant decline witnessed in the Gaza Strip in all economic and social indicators as a result of the political and economic siege imposed in 2008. At the end of 2008 the Palestinian economy suffered a setback as a result of the Israeli war on the Gaza Strip which led to the destruction of infrastructure. This press release presents economic developments in the Palestinian territories during the year 2008, in addition to economic forecasts for 2009 in light of the social and economic changes created by political conditions in the Palestinian territories.

These predictions have been based on three scenarios prepared by specialists from the PCBS, in consultation with academics and economists; each scenario has been built considering the internal political situation, the siege imposed on the Gaza Strip, results of the last Israeli aggression on the Strip, foreign aid, Israeli actions in the Palestinian territories and the number of Palestinian workers inside Israel.

With respect to forecasts prepared for 2008, we find that the baseline scenario assumed the continuation of the situation of the second half of 2007. In fact, it is this scenario that has been achieved. In this scenario, assumptions were: the continuation of the Dr. Salam Fayyad government, continued support during the second half of 2007 at the same level by donor countries, Israel's release of most of the funds withheld by the customs revenue, continuation of the political and economic embargo imposed on the Gaza Strip, assuming the continued obstacles placed by Israel on the movement of persons and goods within the Palestinian territories or the Palestinian territories and neighboring countries as it was during 2007, and no significant change in the numbers of Palestinian workers inside Israel.

Economic Conditions During the Year 2008:

There were differences in the economic situation during the year 2008. In general, the economic indicators are stable in the West Bank, while the Gaza Strip witnessed a significant decline in all economic and social indicators as a result of the political and economic siege imposed since 2007. At the end of 2008 the Gaza Strip witnessed the Israeli war against infrastructure and all the various economic sectors. The following is a presentation of the most important economic indicators in 2008

Findings indicate an increase in GDP in the Palestinian territories during 2008 of 2.3% compared with 2007, according to preliminary data at constant prices. There was a decline in the value of GDP for the rest of the West Bank and Gaza Strip during the third quarter of 2008 by 0.6% compared with the second quarter of the same year, based on the first revision of the data. Also the fourth quarter of 2008 attend a decrease by 3.0% compared with the third quarter of the same year, while it rose from the corresponding quarter of 2007 by 2.3% at constant prices. The estimates indicate that the activities of agriculture and fisheries, transport and storage and communications, construction

activity, mining and quarrying, have seen a decline in the short-term economic indicators available during 2008 by 15.7%, 4.1%, 19.0%, 9.7% respectively, compared with 2007.

On the other hand, the collection of government revenue increased during 2008, by 23.2% compared with 2007, according to the Ministry of Finance. The income received during 2008 was US\$1.6 billion; due to the continuing rise of the flow of taxes from the Israeli side, also the existence of an improvement in the collection of local taxes in addition to the increase in the value of non-tax revenue.

This coincided with the increased level of income for public expenditure, a rise in public expenditure of 11.1% compared with 2007. It was one of the main reasons for this rise is the payment of all dues or arrears in the public sector, in particular, the salaries of staff, who number about 165 thousand during 2008.

Expected Scenarios in 2009

Methodology of scenarios: Scenarios have been prepared based on a set of internal political and economic assumptions during 2008, and rely on a range of economic and political changes that occurred during 2008, beginning with the continuation of the economic situation as it was in the West Bank, in addition to the blockade imposed on Gaza Strip, and ending with the Israeli war on Gaza and the resultant economic and social implications. They relied on a database containing a set of economic and social variables in the form of time series (1990-2008) statistically treated by an advanced statistical program to ensure the ability to build expectations and the various scenarios, in addition to the use of economic theories and equations.

Baseline scenario: This scenario is based on the premise of the continuation of the economic situation in the West Bank as it was during the year 2008, the continuation of the political and economic embargo imposed on the Gaza Strip, the continuation of donor countries to provide financial support for financing the budget of the Palestinian National Authority, the continued flow of funds for customs revenue through Israel at the same level since 2008, and assuming the continued existence of the obstacles placed by Israel on the movement of persons and goods within the Palestinian territories or the Palestinian territories and neighboring countries as it was during 2008, with no significant change in the numbers of Palestinian workers inside Israel. There was provision for the financial support only to rebuild homes that were destroyed in the war imposed on the Gaza Strip, and consideration of the value of the losses suffered by the Gaza Strip as a result of the war imposed on the Strip and the resultant economic and social impact.

Baseline scenario results expect that a decline will happen to the economic conditions in 2009 compared with 2008. Real GDP is expected to decrease by 3.1%, real gross national income (GNI) is expected to decrease by 6.7%, while real gross national disposable income (GNDI) is expected to increase by 1.2%. Regarding GDP per capita, GNI per capita and GNDI per capita is expected to decrease by 5.9%, 9.4% and 1.7%, respectively. Private consumption, exports and imports are expected to decrease by 2.3%, 8.2% and 5.8% respectively, also private investment is expected to decrease by 18.6%.

Optimistic scenario: This included: the entire lifting of the political and economic embargo imposed on the Gaza Strip, the flow of financial assistance for the reconstruction of the Gaza Strip, the full transfer of customs revenues by Israel, lifting of

the siege on the Palestinian people and an increase in the number of Palestinian workers in Israel. It assumes direct application of the Reform and Development Plan 2008-2010 approved by the Palestinian government, which includes the continuation of the same level of external support in order to support the budget of the National Authority for 2009, and the implementation of investment and development projects in the Palestinian territories.

This scenario expects that an improvement will occur in the economic conditions in 2009 compared with 2008. Real GDP is expected to increase by 3.2%, real GNI is expected to increase by 4.2%, and real GNDI is expected to increase by 7.8%. Regarding GDP per capita, GNI per capita and GNDI per capita is expected to increase by 0.2%, 1.2% and 4.7% respectively, and private investment, exports and imports is expected to increase by 6.4%, 39.9% and 3.3%, respectively, while private consumption is expected to decrease by 5.0%.

Pessimistic scenario: This includes the continuing political and economic embargo imposed on the Gaza Strip, the inability to rebuild the Gaza Strip, Israel's seizure of the customs revenue from the National Authority, a decrease of external support from donor countries to ensure only the payment of current expenditures (salaries and wages), a decrease in the government's ability to collect the funds of local taxes and fees, the difficulty of implementation of the Reform and Development Plan 2009-2010, and inability of the Palestinian National Authority to implement investment projects and development.

This scenario expects a dramatic decline in the economic conditions in 2009 compared with 2008. Real GDP is expected to decrease by 7.8%, real GNI is expected to decrease by 12.2%, and real GNDI is expected to decrease by 13.9%. Regarding GDP per capita, GNI per capita and GNDI per capita is expected to decrease by 10.4%, 14.7% and 16.3% respectively, and private investment, exports and imports are expected to decrease by 26.3%, 8.6% and 14.2%, respectively.

Scenario Results for Main Economic Indicators In the Palestinian Territory – 2009

Indicator	2008*	2009		
		Baseline Scenario	Best Scenario	Worst Scenario
Total Government Revenues (US\$ M)	1567.0	1630.0	1680.0	1361.7
Total Government Expenditure (US\$ M)	2825.0	2780.0	2924.0	2867.4
Government Consumption (US\$ M)	2197.4	2185.8	2298.4	2284.4
Population (in thousands)	3596.7	3702.2	3702.2	3702.2
Percentage of changes (CPI) (%)	9.9	4.1	4.1	4.1
GDP (US\$ M)	4639.7	4495.9	4786.3	4278.5
GNI (US\$ M)	5357.4	4997.0	5580.4	4703.0
GNDI (US\$ M)	7786.5	7881.9	8390.0	6707.3
Private Consumption (US\$ M)	3427.6	3347.5	3256.1	2902.9
Total Investment (US\$ M)	1299.1	1124.0	1435.9	1026.8
Exports (US\$ M)	426.0	390.9	595.9	389.4
Imports (US\$ M)	2710.4	2552.3	2800.0	2325.0
GDP per Capita (\$US)	1289.9	1214.4	1292.8	1155.7
GNI per Capita (\$US)	1489.5	1349.7	1507.3	1270.3
GNDI per Capita (\$US)	2164.9	2129.0	2266.2	1811.7
GDP Growth Rate (%)	2.3	-3.1	3.2	-7.8
GNI Growth Rate (%)	6.1	-6.7	4.2	-12.2
GNDI Growth Rate (%)	6.5	1.23	7.8	-13.9

* Estimated Data