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Tables

2008 -

Balance of Payments in the Palestinian Territory - Preliminary Results 2008

(Value in million US\$)

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Item	2008	2007	
Current account (net)	535.1	-417.3	()
Goods (net)	-3453.8	-3178.2	()
Exports (fob)	669.6	646.5	()
Imports (fob)	4123.4	3824.7	()
Services (net)	-340.3	-373.1	()
Exports	498.2	369.5	
Travel services	269.4	211.9	
Communications services	26.3	26.4	
Construction services	25.1	17.8	
Other business services	68.4	70.2	
Government services	91.0	36.0	
Other*	18.0	7.1	*
Imports	838.5	742.6	
Transportation services	63.6	77.5	
Travel services	534.4	436.0	
Communication services	43.9	58.7	
Other business services	61.7	60.7	
Personal cultural recreational services	67.2	52.2	
Government services	52.5	41.9	
Other**	15.1	15.5	**
Income (net)	910.9	765.7	()
Receipts	914.3	773.6	
Compensation of employees	737.9	598.5	
<i>Of which from Israel</i>	647.0	510.7	:
Investment income	176.4	175.1	
Payments	3.4	7.9	
Current transfers (net)	3418.3	2368.3	()
Inflows	3570.6	2505.5	
To the government sector	1977.6	1053.0	
<i>Donors transfers</i>	1967.1	1044.3	
To the private sector	1593.0	1452.4	
Outflows	152.3	137.2	
Capital and financial account (net)	-499.5	302.7	()
Capital account (net)	398.8	401.5	()
Capital transfers (net)	397.5	400.2	()
Inflows	397.5	400.2	

2008

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(Cont.): Balance of Payments in the Palestinian Territory - Preliminary Results 2008

(Value in million US\$)

()

Item	2008	2007	
Outflows	0.0	0.0	
Acquisition / disposal of non-Produced, non-financial assets non-financial assets (net)	1.3	1.3	()
Financial account (net)***	-898.3	-98.9	***()
Direct investment (net)	59.8	36.3	()
Change in investment abroad (net)	8.3	8.0	()
Change in investment in Palestine (net)	51.5	28.3	()
Portfolio investment (net)	-24.7	-130.7	()
Assets (net)	-24.7	-130.7	()
Liabilities (net)	0.0	0.0	()
Other investment (net)	-399.6	86.8	()
Assets (net)	-407.8	105.9	()
<i>Currency and deposits</i>	-290.8	86.7	
Liabilities (net)	8.1	-19.1	()
<i>Loans</i>	8.0	9.4	
<i>Currency and deposits</i>	0.2	-28.6	
Net errors and omissions	-35.6	114.7	
Overall balance	533.8	91.3	
Financing	-533.8	-91.3	
Change in Reserve assets (- = Increase)	-533.8	-91.3	(= -)

* Include transportation, insurance, financial, information and computer, royalties and licenses, and personal cultural recreational services.

*

** Include financial, construction, information and computer, royalties and licenses fees, insurance services.

**

*** Include reserve assets



**Palestinian Central Bureau of Statistics
(PCBS)**

**Palestine Monetary Authority
(PMA)**

Balance of Payments in the Palestinian Territory, 2008

Preliminary Results

March, 2010

**PAGE NUMBERS OF ENGLISH TEXT ARE PRINTED IN SQUARE BRACKETS.
TABLES ARE PRINTED IN THE ARABIC ORDER (FROM RIGHT TO LEFT)**

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Preliminary Results

The Balance of Payments (BOP) is an account measuring transactions between residents and non-residents in a given period. It is a vital instrument for the analysis of a country's external situation. It conveys detailed information on receipts and payments between the domestic economy and the rest of the world. Moreover, it is considered as the peak of efforts in preparing systematic economic statistics, which are necessary to observe the economic performance in general and to derive the essential data, which are necessary to compile the Rest of the World Account as a part of Palestinian National Accounts.

The Balance of Payments (BOP) is prepared according to the latest updated international recommendations, depending on the fifth edition of Balance of Payments Manual (BPM5), which was adopted by the International Monetary Fund (IMF) in 1993. (BOP) consists of two main accounts, the Current Account and the Capital and Financial Account, moreover The Palestine Monetary Authority (PMA) and the Palestinian Central Bureau of Statistics (PCBS) are currently preparing to compile the International Investment Position (IIP) for Palestine, which will give a summary about the foreign investments stocks in both sides the assets and the liabilities.

The (PMA) and the (PCBS) announce the preliminary results of the Palestinian Balance of Payments for the year 2008, the main findings could be summarized as following:

The Current Account Position:

- **The Current Account:** The Palestinian Balance of Payments recorded a surplus of US\$ 535.1 million in the current account (goods, services, income, current transfers), contributes by 7.9% of the GDP, compared with a deficit of US\$ 417.3 million in 2007. The surplus in the current account was caused by a noticeable increase in the value of current transfers received from abroad that recorded a surplus of US\$ 3,418.3 million. Meanwhile the current account excluding the current transfers received from abroad recorded a deficit of US\$ 2,883.2 million, caused mainly by the continuously deficit of trade balance especially with Israel.
- **The Trade Balance:** A deficit of US\$ 3,453.8 million was recorded in this account, which comprises about 50.8% of the GDP in 2008, with an increase of 8.7% compared with the deficit in 2007. The deficit of trade balance with Israel contributed by 82.1% from the deficit of the trade balance.
- **The Services Balance:** This account recorded a deficit of US\$ 340.3 million, representing a decrease of 8.8% compared with year 2007, mainly caused by the deficit of travel services (the expenditure in Israel for the Palestinians working in Israel, and the Palestinian expenditure abroad on health and education purposes), and the personal and cultural services (education tuitions expenditures abroad), and transportation services (freight of imported goods), and telecommunications services (the amounts paid to the Israeli telecommunications company- basic).
- **The Income Balance:** A surplus of US\$ 910.9 million was recorded in this account, with an increase of 19.0% compared with year 2007, mainly caused by the surplus of Palestinian workers working in Israel, which was contributed by 71.0% from the surplus of the income balance, in addition to the surplus of investment income which was contributed by 19.1% from the income balance.
- **Balance of Current Transfers:** The balance of current transfers recorded a surplus of 3,418.3 million US\$, with an increase of 44.3% compared with year 2007. The transfers

from the donor amounted to 80.6% of the total current transfers from abroad. Distributed to government sector by 55.1% and other sectors by 25.5%.

Meanwhile the other sector transfers received from abroad other than donor's countries was contributed by 19.2% from total transfers received from abroad.

The Capital and Financial Account Position:

- **The Capital Account:** This account recorded a surplus of US\$ 398.8 million, with a marginal decline of 0.7% compared with year 2007, mainly caused by governmental capital transfers, (transfers from donors) was the major item in the Capital Account, amounted to 74.5%. Meanwhile the household transfers received from relatives abroad for financing householdes buildings costs were contributed by 21.7% from this account.
- **The financial Account:** This account recorded a deficit of US\$ 898.3 million, caused mainly by the increase in palestinian deposits in banks abraod, in addition to the following invesments:
 - Net Foreign Direct Investment (FDI) recorded a surplus of US\$ 59.8 million, with an increase of 64.5% compared with year 2007. Caused by the net palestinian investments abraod, which was amounted 8.3 million, and the net foreign investments in Palestine, which was amounted 51.5 million.
 - Net Foreign Portfolio Investment (PI) recorded a deficit of US\$ 24.7 million, with a decrease in the deficit of 81.1% compared with year 2007. Caused by the net Palestinian assets abroad that was amounted 24.7 million, without foreign liabilities in Palestine.
 - Net Foreign Other Investment (OI) recorded a deficit of US\$ 399.6 million, with an increase in the deficit of 560.3% compared with year 2007. Caused by the net Palestinian assets abroad, which was amounted 470.8 million (mainly Palestinian deposits in banks abroad), and the net foreign liabilities in Palestine which was amounted 8.2 million (mainly loans borrowed from abroad).
- **Reserve Assets:** The total change (increase) in reserve assets of the Palestinian Monetary Authority had amounted to US\$ 533.8 million, reflecting the final liquidity position of the Balance of Payments.
- **Net Error and Omissions:** Is considered the defrance between the current and capital accounts in one hand and the financial account on other hand, it was amounted 35.6 million with 0.5% of Gross Domestic Product (GDP) for palestinian terretory. This percentage is acceptable internationally since it was less than 5% of the (GDP).

Concepts and Definitions

Residence: Is defined in economic, and not legal terms. The main criterion to determine residence of an entity is centre of economic interest. Persons are considered residents of the country where they live for at least one year. Exceptions to this rule are embassy staff (but for locally employed people who are residents of the country where they live), patients who are treated abroad and students who live abroad even when their stay exceeds one year.

Current account: Is subdivided into four major categories:

- Goods.
- Services.
- Income.
- Current transfers.

Certain items are self-explanatory in these accounts, but others are not. It is pertinent to describe some of the latter in detail.

Goods: Valuation at market price implies that goods should be valued at the customs border of the exporting country, called the point of uniform valuation. This valuation is referred to as the free on board (f.o.b.) price. Goods valued at the customs border of the importing country. This is particularly relevant in Palestine where the bulk of trade in goods is with Israel.

Three issues are of particular relevance for trade in goods:

- Coverage (how to include certain goods even though they do not cross international borders and thus are not captured by statistics provided by customs, and how to exclude others even though they cross international borders).
- Valuation of trade items (point of uniform valuation and appropriate steps to take if the price recorded on the customs declaration differs from the market prices, due to, e.g. under- or over-invoicing or transfer pricing).
- Time of recording (when the change of ownership occurs in a different recording period than the physical movement of the goods across international borders – as mentioned above, if no adjustments are made, the difference will appear under *errors and omissions* in the balance of payments).

Services: it covers all transactions classified in the fifth edition of (IMF) manual for Balance of Payments under this category. but for government and travel services, related goods or services are recorded under these items.

Income: Income covers international transactions associated with income on factors of production, i.e. labour and capital. In the balance of payments, income on capital is referred to as income on financial assets. Thus income can be divided into two broad categories:

- Compensation of employees, this includes earnings by Palestinian residents working abroad as well as payments to non-residents working in Palestine.
- Investment income receivable due to ownership of external financial assets or payable due to external liabilities.

Current transfers: Under transfers are recorded unrequited transactions, i.e. transactions in which a unit provides another unit with a real resource (good or service) or a financial asset

without any flow in the opposite direction. In the balance of payments, a distinction is made between current and capital transfers.

Capital account: Is divided into capital transfers and acquisitions/disposals of non-produced non-financial assets. Recorded under capital transfers are investment grants (including cash transfers for purchases of investment goods), debt forgiveness and migrants' transfers.

Non-produced, non-financial assets are mainly licenses, franchises and patents. Also included acquisitions/disposals of land by representative offices of foreign governments, for example foreign embassies.

Financial account: In the financial account are recorded transactions in financial assets and liabilities. Financial stocks can be divided into four broad categories: direct investment; portfolio investment; other investment (mainly currency, deposits and loans); and reserve assets.

Direct investment: In this category is included investment over which the owner exercises control. In practice, the distinguishing criterion for inclusion in this category is that the owner should hold at least 10 per cent of the ordinary shares in the company. However, this criterion should be applied somewhat flexibly to ensure that assets over which the owner exercises control are classified as direct investment. Acquisitions and disposals of land – other than when foreign embassies are involved – are also included.

In Palestine direct investment is mainly in the form of equity investment: shares in the capital. However, this item may also take the form of reinvested earnings. Reinvested earnings are equal to the share of total earnings, which are due to the current operating performance, that are not distributed to the owners.

Portfolio investment: Portfolio investment is a residual category for transactions in shares, bonds, bills, notes, money market instruments and financial derivatives. It is residual because these instruments are also included under direct investment and reserve assets. Portfolio investment is divided into two main categories: equity and debt. Shares are equity investment and the remaining instruments are debt investment.

Other investment: Under other investment are included all transactions in financial assets and liabilities, which are not classified under any of the three other broad categories. The most important of these are currency, deposits and loans (including trade credits).

Reserve assets: As the name indicates, reserve assets include only gross assets. The distinction between reserve assets and other assets is that the former can be used by the PMA for balance of payments purposes, whereas others cannot. Thus no specific instruments are included under this category; any of those aforementioned may appear here if they fulfill the following criteria:

- They must be controllable by the PMA.
- They must be accessible to the PMA at relatively short notice for balance of payments purposes.
- They must be denominated in a convertible currency.

Methodology

Collecting data: from various sources, which include,

- Ministries.
- Consulates and representatives.
- Non-governmental organizations.
- Related national institutions.
- Labors force survey.
- Palestinian expenditure and consumption survey.
- Economic surveys.
- Population statistics. Price index.
- Foreign trade statistics.
- Banks survey

The questionnaires, which are used in this report, were taken into account that meet the needs of compiling the Balance of Payments and the Rest of the World Account. 12 forms of questionnaires for administrative records are used, one for each similar group of data sources.

Processing: Those data, which were collected from surveys, administrative records and other sources provide an economic database, which are entered and processed through systematic computerized files using (EXCEL) software. Coding, classifications and tabulation are according to (IMF) manual fifth edition recommendations.

1. Current account:

Foreign trade in goods: Data on visible trade (trade in goods) is obtained from Foreign Trade Statistics (FTS) supplemented by other sources. For balance of payments purposes, coverage and valuation adjustments are made to the FTS.

Foreign trade in services: In connection with the valuation adjustment for imports, data from the FTS has been used as source for *transportation, insurance services* and *current transfers* on the debit side. The Economic Surveys (ES) are the main source of data on services in connection with enterprises. The Hotel Survey (HS), conducted by the Palestinian Central Bureau of Statistics (PCBS), has been used to obtain data on number of foreign visitors to Palestine

Income: The Labor Force Survey (LFS) was used as source of data for *wages and salaries* earned in Israel by Palestinian border workers. In 1996 the LFS was conducted in three separate rounds, and in 1995 one round was undertaken. Approximately 30 weeks were covered in 1996 and 5 in 1995. In addition, the questionnaire completed by foreign diplomatic representations and international organizations provides data on *compensation of employees*, credit. On the debit side, there are two sources: a) data obtained from the Palestinian National Fund; and b) the ES for compensations payable to non-resident workers. For *investment income*, information is obtained from the ES, Banks survey conducted by the PMA, Palestinian Expenditure and Consumption Survey (PECS) and government (including the Palestinian National Fund). In magnitude, the most important source is the Banks survey.

Current transfers: For this sub-account there are several sources of data. The main source is the Donor Matrix, compiled by the Ministry of Planning and International Co-operation. Other, complimentary sources are:

- The budget of the Palestinian National Fund in Amman.

- Data obtained from the National Committee for Education, Culture and Science – this data is not included in the Donor Matrix.
- The questionnaires completed by foreign diplomatic representatives and international organizations in Palestine.
- The information obtained from the Ministry of Labor (see above).
- PECS.

2. Capital account:

- **Capital transfers:** For this sub-account there are also several sources of data. The main source of data is again the Donor Matrix, compiled by the Ministry of Planning and International Co-operation. This source accounts for the bulk of transfer's receivable by the Palestinian government. The counter-entry to goods and financial assets owned by immigrants to Palestine is recorded in this account under *migrants' transfers*. As mentioned above, data on goods is obtained from the Ministry of Civil Affairs, and data on financial assets from PECS. For private capital transfers, the following computations were made. Based on anecdotal evidence and general knowledge of the economy.
- **Acquisition/disposal of non-produced non-financial assets:** The questionnaires completed and submitted by foreign diplomatic representations is the source of data on *acquisition/disposal of non-produced non-financial assets* for their purchases of land and fixed structures.

3. Financial account:

- **Direct investment:** Data on direct investment has been obtained through:
 - Administrative records from the Ministry of Economy and Trade.
 - ES on resident construction for computations of non-resident participation of private construction.
 - Banks survey for non-residents investing in resident banks and resident bank investing abroad.
 - PECS for households investing abroad.
- **Portfolio investment:** Banks survey, data from the PMA and PECS were used to capture transactions in portfolio investment. No adjustments were made to this data.
- **Other investment:** For the financial account, the Banks survey has been used to obtain values for changes in banks' financial assets and liabilities, both with respect to their own transactions and those undertaken on behalf of clients. Unfortunately, because there is no national currency in Palestine, cash transaction have not been captured in this Survey, nor are transactions which take place through a non-resident bank only included in the results. Certain adjustments had been made to find reasonable values for the transactions, which have not been captured.
- **Reserve assets:** In Palestine, all assets held by the PMA and denominated in convertible currency are included under *reserve assets*. No adjustments were made to data, which was obtained from the PMA. According to the recommendations of International Monetary Fund (IMF), Reserve Assets includes Palestine Monetary Authority (PMA) assets abroad.