

Palestinian Central Bureau of Statistics (PCBS) releases the economic forecasts for 2007 26/03/2007

Palestinian Central Bureau of Statistics (PCBS) releases the economic forecasts for 2007

Lifting the siege is the key for economic recovery

After the Palestinian economy witnessed a recovery at the beginning of 2003, Palestinian economic conditions again declined in 2006, as seen by the deterioration in most economic indicators during 2006 compared with 2005. This release presents a brief summary of economic conditions in the Palestinian Territory during 2006, along with forecasts for the main economic indicators in 2007.

These predictions are based on three scenarios. These scenarios were prepared by PCBS and Ministry of Finance experts, and distributed to relevant institutions for information as IMF and World Bank. Each scenario built upon internal political situation, financial siege, foreign assistance, Israeli measures on the Palestinian Territory, and number of Palestinian workers in Israel.

Economic Conditions During 2006:

Quarterly national accounts showed that real gross domestic product (GDP) declined during 2006 by 6.6% compared with 2005 in the Palestinian Territory. Industry, construction and services[1] activities declined by 6.0%, 12.9%, and 3.2% respectively, while agriculture activity increased by 6.8% during 2006 compared with 2005.

Prices data show that the consumer price index (CPI) increased by 3.8% during 2006 compared with 2005. When we look at the nature of goods and services and the change in prices we find that transport and communication services showed the highest increase in prices among goods and services with an increase of 5.0% in 2006 compared with 2005. The second highest rise was in food with an increase of 4.6%, followed by beverages and tobacco with an increase by 3.3%. The increase in prices also includes the cost of education and medical care services, which increased by 1.6% and 1.5% respectively. Recreational, cultural goods and services are the only commodities showing a decrease in prices, by 1.0%.

Total government revenues collected during 2006 reached 351 million US dollars with a decrease by 71.0% compared with 2005 of 1,208.6 million US dollars. The reason behind this dramatic decline was the halt of tax (clearance revenues) transfer from the GOI to the PNA, which was estimated at 733 million US dollars in 2006, but what was received was 69 million US at the beginning of 2006.

The decline in total government-collected revenues affect total government expenses. Government employees received just 44.6% of their compensations in 2006 (33.2% from government and the President's office, and 11.4% from the European Union), which was estimated at 1.2 billion US dollars in 2006. Government current and other capital expenses declined by 37.5%, and development expenses declined by 75.5% during 2006 compared with 2005.

Expected Scenarios in 2007:

Baseline Scenario: Forming Palestinian unity government, lifting the siege partially, i.e., Israel release some of taxes revenues (about \$US 300 million), and also Arab countries financial assistant remains as in 2006. This scenario assumes that foreign assistant (International Temporary Mechanism ITM) remains at its level in 2006 (\$US 730 million). Israel continues on its measures in the Palestinian Territory to hinder the movement of people and goods within the Palestinian Territory and between the Palestinian Territory and the neighboring countries, and with no significant changes in the number of Palestinian workers in Israel.

Baseline scenario results expect that a slight improvement will happen to the economic conditions in 2007 compared with 2006. Real GDP is expected to increase by 3.2%, real gross national income (GNI) is expected to increase by 3.1%, and real gross national disposable income (GNDI) is expected to increase by 7.2%. Regarding GDP per capita and GNI per capita both are expected to decrease by 0.1% and 0.2% respectively, while GNDI per capita is expected to increase by 3.8%. Private consumption, private investment, exports, and imports are expected to increase by 3.3%, 2.8%, 4.0% and 1.0% respectively.

Optimistic Scenario: Formation of Palestinian unity government, complete lifting of the siege, including Israel, foreign assistance continue at levels of 2006, and Israel facilitates movement of people and goods within the Palestinian Territory and between the Palestinian Territory and the neighboring countries, with a slight increase in the number of Palestinian workers in Israel.

This scenario expects that an obvious improvement will occur in the economic conditions in 2007 compared with 2006. Real GDP is expected to increase by 7.3%, real GNI is expected to increase by 6.9%, and real GNDI is expected to increase by 7.6%. Regarding GDP per capita and GNI per capita, and GNDI per capita is expected to increase by 3.8%, 3.4%, and 4.1% respectively. Private consumption, private investment, exports, and imports is expected to increase by 3.3%, 6.8%, 8.0% and 6.5% respectively.

Pessimistic Scenario: Economic conditions become worst than in 2006, especially the siege, but foreign assistance (ITM) continue at its 2006 levels, inability of the Palestinian government to collect internal taxes and fees and also to pay wages and salaries, and a decrease in the number of Palestinian workers in Israel.

This scenario expects a dramatic decline in the economic conditions in 2007 compared with 2006. Real GDP is expected to decrease by 2.6%, real GNI is expected to decrease by 2.4%, while real GNDI is expected to increase by 3.5%. Regarding GDP per capita and GNI per capita both are expected to decrease, by 5.7% and 5.5% respectively, while GNDI per capita is expected to increase by 0.2%. Private consumption, private investment, exports, and imports are expected to decrease by 1.3%, 1.8%, 10.0% and 5.0% respectively.

Scenario results for main economic indicators in the Palestinian Territory during 2007 are shown in the following table:

Indicator	2006*	2007		
		Baseline Scenario	Best Scenario	Worst Scenario
Total Government Revenues (\$US m)	351	520	1200	120
Clearance Revenues (\$US m)	69	300	720	0
Total Government Expenditure (\$US m)	1728	1665	2200	1300
Government Consumption (\$US m)	1442	1400	1695	1300
No. of the Palestinian Workers in Israel	64,136	64,000	65000	63000
Foreign Assistant (\$US m)	722	730	730	800
Population (in thousands)	3,888	4,016	4016	4016
Inflation (%)	3.8	3.9	3.9	3.9
GDP (\$US m)	4,150.6	4,283.8	4451.9	4043.9
GNI (\$US m)	4,521.5	4,661.7	4831.5	4412.0
GNDI (\$US m)	5,421.5	5,811.7	5831.5	5612.0

Private Consumption (\$US m)	4,596.2	4747.5	4750.0	4538.3
Private Investment (\$US m)	1,152.7	1184.5	1231.5	1132.3
Exports (\$US m)	581.0	604.2	627.5	522.9
Imports (\$US m)	3,631.1	3667.4	3867.1	3449.5
GDP per Capita (\$US)	1,067.5	1066.6	1108.4	1006.9
GNI per Capita (\$US)	1,162.9	1160.7	1202.9	1098.5
GNDI per Capita (\$US)	1,394.3	1447.0	1451.9	1397.3
GDP Growth Rate (%)	6.6	3.2	7.3	-2.6
GNI Growth Rate (%)	5.8	3.1	6.9	-2.4
GNDI Growth Rate (%)	-11.1	7.2	7.6	3.5

* Estimated Data

[1] Services activities includes internal trade, transportation, storage, and communications, financial intermediations, public administration and defense, education, health care, and other services.