سلطة النقد الفلسطينية
PALESTINE MONETARY AUTHORITY

Annual Report

2022

Research and Monetary Policy Department

June 2023



www. pma. ps

June, 2023
All Rights Reserved.

In the case of quotation, please refer to this publication as follows:
Palestine Monetary Authority (PMA). Annual Report 2022.

All Correspondence shall be directed to:
Palestine Monetary Authority (PMA)
P. O. Box 452.
Ramallah & Al-Bireh, Palestine.

Tel.: (+ 970) 2-2415251
Fax: (+ 970) 2-2415310
E-mail: info@pma.ps
Web Page : www.pma.ps

Vision

Thriving economy of the State of Palestine, with a modern and stable financial system.

Mission

Fostering financial and monetary stability and contributing to economic growth.

Board of Directors*



Dr. Feras Milhem
Governor and Chairman



Mr. Mohammad Manasrah
Deputy Governor



Dr. Samah Saleh
Membership



Mr. Arafat Asfour
Membership



Mr. Iyad Joudeh
Membership



Mr. Farid Ghannam
Membership



Dr. Saeed Haifa
Membership



Dr. John Khoury
Membership

* A new board of directors has been assigned in May 2023: Dr. Feras Milhem governor and chairman, Mr. Mohammad Manasrah deputy governor, and a membership of, Dr. Inas AlAtari, Dr. John Khoury, Mr. Arafat Asfour, Dr. Saeed Haifa, Dr. Sameer Hazboun, Mr. Derar Elaian, and Mr. Farid Ghannam.

Foreword



The Palestine Monetary Authority (PMA) is honored to release the new edition of its annual report, which comes as part of its function and responsibilities to achieve financial and monetary stability, and supporting sustainable economic growth.

The 2022 report comes to light amid a climate of uncertainty, a government financial crisis, and the repercussions of Russia-Ukraine war, which led to slowdown the economic growth and contrast the performance of various economic indicators throughout 2022.

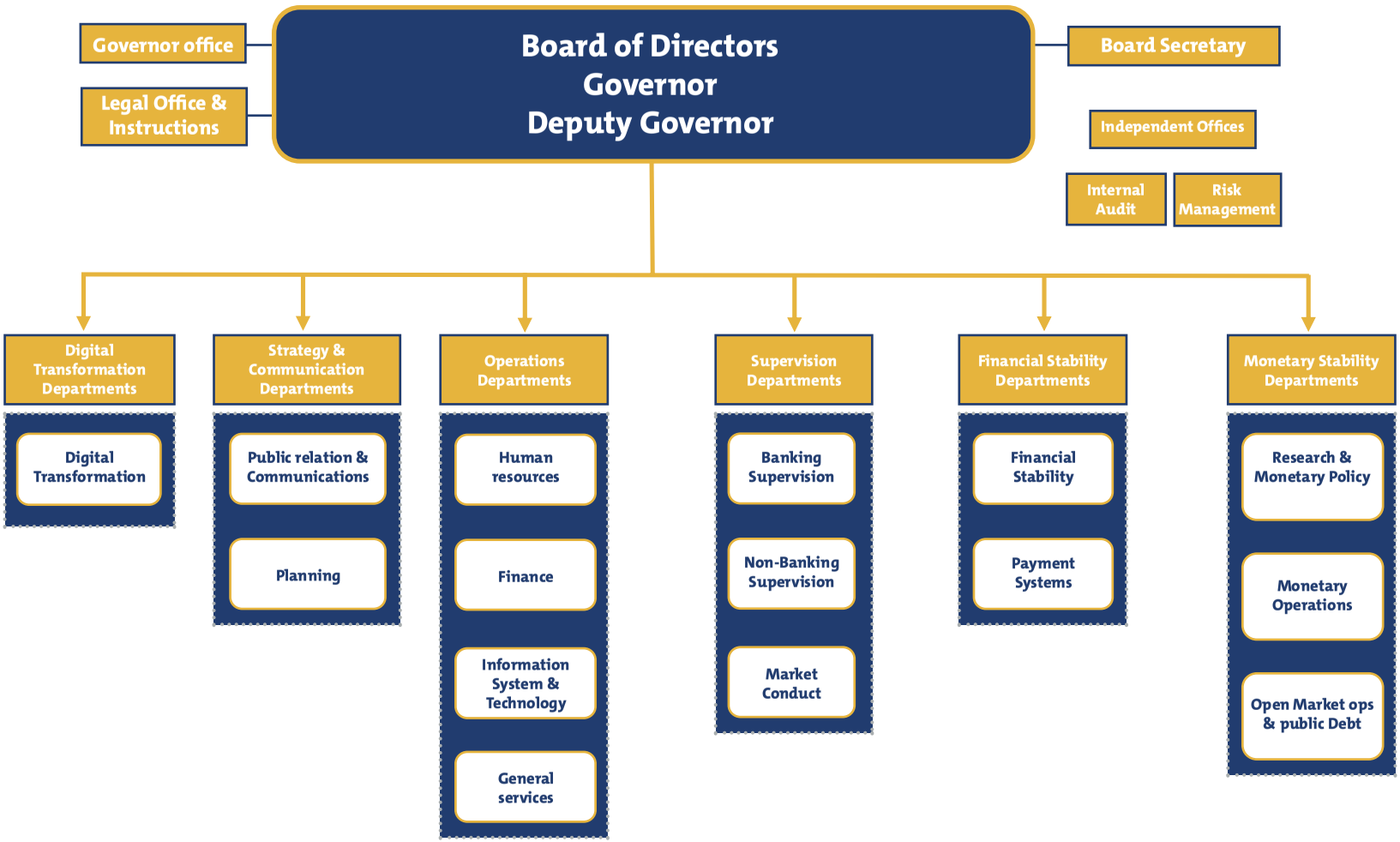
The report organized into a succession of four chapters, and analyze the major macroeconomic developments locally and globally, the fiscal sector, the external sector, and the Palestinian financial sector. The report focuses on PMA's significant achievements in regulating and directly supervising the institutions and corporates operating under its supervision: banks, specialized lending institutions, moneychangers, and electronic payment service providers.

With this review, the PMA aims to provide a thorough comprehension of the key economic developments that took place in 2022, based on precise information, and a set of time series data, including prominent global and local economic indicators.

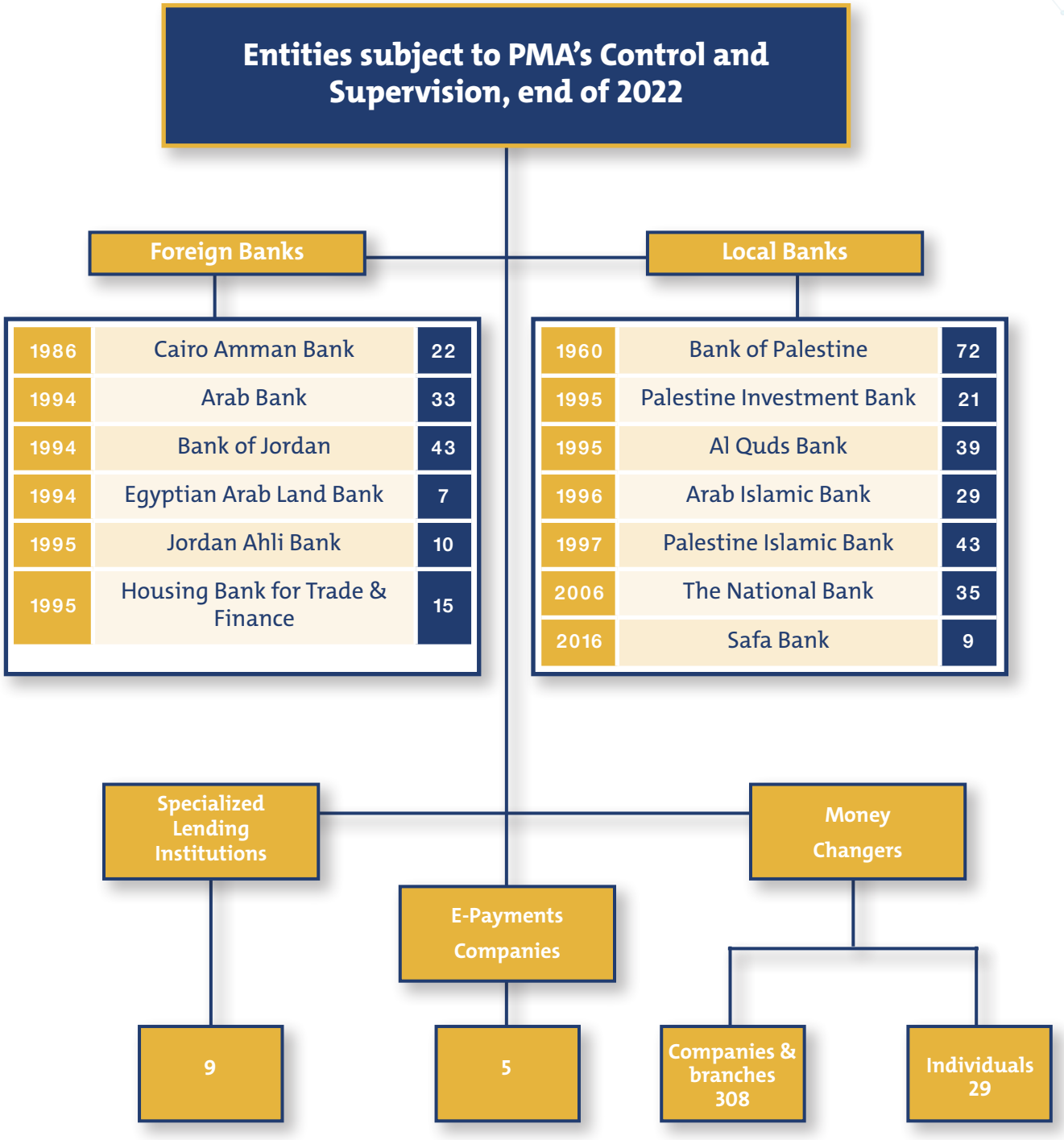
Finally, I extend my gratitude to the devoted members of the PMA Board of Directors and staff for their endless dedication and effort to achieve PMA's objectives and future aspirations. Gratitude also extended to all Arab, regional, and international organizations and institutions for their lasting contributions and support for the PMA and the Palestinian financial and banking system, cementing the resilience of the Palestinians on their land and contributing to the sustainable development process in the State of Palestine.

Governor
Dr. Feras Milhem

PMA Organization



Entities subject to PMA's Control and Supervision, end of 2022



Year of establishment for local banks, or re-opening of the first branch for foreign banks.

Number of branches and representative offices.

Executive Summary

The global economy was severely hit by the far-reaching impact of the Russia-Ukraine conflict during 2022, with the growth rate dropping from 6.3% to 3.4% over the course of the year. The war also disrupted the supply chains of basic commodities, particularly energy and food, leading to double-digit inflation rate in many countries, notably those in Europe being the most affected by the conflict's developments. In response, many economies tighten their monetary policies to rein in unprecedentedly spiraling inflation. Furthermore, economies throughout the globe experienced repeated interest rate hikes that adversely impacted real income and consumer demand while increasing the burden of investment expenditures. Palestine was not immune to these circumstances that caused many repercussions, in addition to the local conditions and uncertainty, the most important of which can be summarized as follows:

Economic Performance Slowdown

The Palestinian economy continued, during 2022, to restore its activity and its gradual recovery from the COVID pandemic, albeit at a slower pace vis-à-vis the previous year. However, the Palestinian economy substantially affected by the prevailing uncertainty regarding the ongoing challenges and pressures on the government's finances, in the light of the substantial decline in foreign grants, and the continuous and increasing deductions from clearance revenues. Furthermore, the increasing political and security tensions, an unprecedented surge in local price levels, and a decline in the purchasing power, significantly affects the domestic demand. The real gross domestic product (GDP) increased of around 3.9% compared to a growth rate of 7% in 2021, to reach USD 15.6 billion. This growth was driven by a 3.6% expansion in the West Bank economy, reaching about USD 12.9 billion, and an approximately 5.6% rise in the Gaza Strip economy, which totaled around USD 2.7 billion. Propelled by the increasing number of Palestinian workers in Israel and improvement in consumption, which in turn contributed to the growth of the trade and services sectors.

Per capita income (average per capita GDP), improved by about 1.2% (about 0.9% in the West Bank and around 2.7% in the Gaza Strip) compared to the previous year, reaching roughly USD 3,087 (USD 4,458 in the West Bank and USD 1,257 in the Gaza Strip).

Higher Consumer Prices

The inflation rate in Palestine increased in 2022, hitting about 3.7% (3.7% in the West Bank, 3.2% in the Gaza Strip, and 4.7% in the Jerusalem governorate). This increase was driven by a significant rise in global prices of basic commodities, particularly fuel, raw materials, and food, given the continued disruptions in the supply chains, increased shipping costs, and the consequences of the Russia-Ukraine war.

Lower Unemployment Rates

Despite the downturn in economic activity in 2022, employment levels increased in both the Palestinian and Israeli markets, contributing to a decrease in unemployment rates to roughly 24.4% (from 26.4% in 2021). The unemployment rate in the West Bank fell from 15.5% in 2021 to approximately 13.1% in 2022, while it fell from 46.9% to 45.4% in the Gaza Strip over the same period. However, these levels remain high, particularly in the Gaza Strip, and pose one of the most critical challenges facing the Palestinian economy, especially since the recent growth rates have not provided enough job opportunities to absorb all new labor market entrants.

Notably, the low unemployment rate in the West Bank (compared to Gaza Strip) is closely tied to the Israeli labor market, which absorbed approximately 17% of the total Palestinian labor force and about 22.5% of the entire labor force in the West Bank, a significant proportion equivalent to some 193,000 workers.

Increasing Deficits in Both Trade Balance and Current Account

The global price increase resulted in a further rise in the value of Palestinian imports, increasing the current account deficit. Imports rose by around 27.5% in 2022, reaching approximately USD 12.9 billion, while exports grew by roughly 12.8%, reaching around USD 3.5 billion. This import boom has substantially widened the trade deficit by about 34.1% compared to the previous year, as it hit approximately USD 9.3 billion, or 48.8% of GDP, compared to 38.4% in 2021.

In the meanwhile, net factor income from abroad increased by 10.5% to reach a surplus of nearly USD 4.0 billion. This improvement was driven by an increase in private transfers, which climbed by 11.1% to around USD 3.8 billion due to the rise in the Palestinian workers in Israel. Net current transfers also substantially increased (around 59%) compared to the previous year, reaching approximately USD 2.5 billion.

As a result, the current account deficit increased by 61.1%, amounting to nearly USD 2.9 billion, or over 15% of GDP from a year earlier (when it was 9.8%). In general, this high level of current account deficit is closely tied to structural impediments, resulting from the Israeli obstacles and constraints on the movement of individuals, goods, and capital.

Expectations of Continued Economic Slowdown in 2023

The PMA's forecasts indicate a persistent deceleration of economic growth in 2023, reaching approximately 3.2%, down from 3.9% in 2022. These forecasts reflect the ongoing uncertainty associated with many developments, particularly those related to continued price hikes, restrictions on access and movement, internal divisions between the West Bank and Gaza Strip, low levels of foreign grants, and the deductions from clearance revenues.

However, these forecasts are subject to positive or negative developments. The gradual and persistent rebound in private consumption, driven by the continuing rise in the number of Palestinian workers in Israel and the gradual moderation in inflation rates, is likely to contribute to increase demand and push toward improved growth. However, the continued reduction in public expenditures, including the partial payment of public sector salaries, along with the steady rise in price levels, will exert pressure on domestic demand and contribute to the further growth slowdown.

Government Financial Sustainability

According to the Ministry of Finance and Planning (MoFP), total public revenues (tax, non-tax, and clearance revenues) rose by 18.2% in 2022, reaching approximately NIS 16.5 billion (around USD 4.9 billion). Clearance revenue accounted for 64%, and domestic revenue made up 36% of the total. In contrast, total government expenditures (on a commitment basis) demonstrated a slight increase of about 1.1%, amounting to around NIS 18.0 billion (USD 5.3 billion), with wages and salaries and nonwage expenses constituting around 45.1% and 39.9% of the total, respectively. These developments led to an overall deficit (commitment basis) of approximately NIS 1.8 billion (2.7% of the GDP).

This deficit is often covered by three distinct sources: foreign grants, borrowing primarily from banks operating in Palestine, and the accumulation of arrears. Historically, foreign grants have been the primary source of financing, but they have experienced a sharp decline. In 2022, the government only received approximately NIS 1,174 million in foreign grants (around USD 344.8 million). The government's debt balance amounted to about USD 3.5 billion in 2022 (18.5% of GDP), while the government accumulated additional obligations of around NIS 1.6 billion during the same year.

Banking Sector: Safe and Sound with Adequate Capitalization

The banking sector is considered one of the most stable sectors in the Palestinian economy, owing to its high resilience that has enabled it to effectively cope with many risks and crises. Supported by the prudent supervision of the PMA and its balanced policies and measures, which paved the way for this sector to discipline in accordance with the highest international banking standards and practices. These measures have contributed to maintaining the sector's

integrity and stability, safeguarding depositors' funds. The following are some indicators that reflect the integrity and stability of the Palestinian banking sector.

- The total assets/liabilities of the banking sector amounted to approximately USD 21.4 billion, decreasing (accounting) by around 1.2% compared to 2021. This decline was primarily due to the appreciation of the dollar against the shekel, as the shekel accounts for about 40% of the sector's assets. Additionally, the banking sector holds over one-third of its assets in liquid form to meet emergency obligations.
- Customer deposits reached about USD 16.5 billion, accounting for approximately 77% of the banking sector's total liabilities.
- The size of the credit portfolio amounted to around USD 11.0 billion, accounting for 51.6% of the banking sector's assets. It was instrumental in keeping the economy on the path of recovery and growth, with loans making up about 57.8% of GDP in 2022.
- With a nonperforming loan ratio of only about 4.1% of the total credit portfolio, the banking sector's assets have maintained a high level of quality. The capital adequacy ratio increased to approximately 16.2%, indicating that the sector's capital base grew higher-than-expected risk-weighted assets. This ratio exceeds the minimum regulatory requirements per PMA's instructions, and Basel III regulatory framework.
- The equity of the banking sector amounted to around USD 2.2 billion, raising its paid-up capital to approximately USD 1.3 billion, accounting for 57% of equity.
- The banking sector achieved a net profit of USD 229.2 million, an increase of about 28.4% compared to the same period in 2021. This rise engendered additional improvement in return on assets to approximately 1.6% and another on return equity to around 11%.
- Despite a 10.5 percent increase in the value of checks submitted for clearing compared to 2021, reaching approximately USD 23.6 billion, bounced checks decreased by about 1.3% to roughly USD 1.5 billion. This accounts for about 6.4% of the total value of checks presented for clearing, compared to 7.1% in 2021.

In fact, this performance would not have been achieved without the PMA's balanced supervisory policies and procedures and the discipline of the banking sector in accordance with the highest international banking standards. These factors enabled the banking sector to remain safe, sound and healthy, able to keep pace with the size of the burdens placed on it under circumstances and conditions in Palestine In the same vein, these factors helped the sector keep up with the latest developments in the banking industry, thus further revitalizing its vital role in the Palestinian economy. The PMA has devoted concerted efforts and implemented an assortment of measures along the various lines of its endeavors, particularly those related to digital transformation. The PMA built the Fintech service infrastructure and developed and promoted electronic payment services as a strategic objective of the Palestinian economy. In addition to these measures, the banking sector's integrity and stability were safeguarded, payment systems and regulatory frameworks were fortified, and governance and transparency were improved at a range of financial institutions. Furthermore, the PMA has also taken steps to boost economic activity and provide further support.

Main Indicators of the Palestinian Economy, 2018-2022

Indicator	2018	2019	2020	2021	2022*
Output and Prices	**(Annual percent change)**				
Real GDP (2015 market prices)	1.2	1.4	-11.3	7	3.9
Real Per-capita GDP	-1.3	-1.2	-13.5	4.4	1.2
Inflation rate	**(Annual percent change)**				
Palestine	-0.2	1.6	-0.7	1.2	3.7
WB	0.4	1.8	-0.8	1.4	3.7
GS	-1.3	0.4	-0.5	0.3	3.2
Unemployment Rate	**(Percent of labor force)**				
Palestine	26.2	25.3	25.9	26.4	24.4
WB	17.3	14.6	15.7	15.5	13.1
GS	43.1	45.1	46.6	46.9	45.3
Consumption, Investment and Saving	**(Percentage of nominal GDP)**				
Final consumption	108.2	109.5	110.4	111.5	122.2
Public	21.3	20.2	22.9	23.6	20.3
Private	86.9	89.3	87.5	87.9	101.9
Gross capital Formation	27.3	26.4	23.7	25.1	26.9
Public**	6.8	6.5	5.2	5.9	6.1
Private**	20.5	19.9	18.5	19.2	20.8
Saving	17.4	16.6	12	14.8	9.1
Public Finance	**(Percentage of nominal GDP)**				
Total revenues	22.2	20	23.3	23.8	25.8
Of which: Domestic revenues	8.3	7.1	7.8	8.5	9.3
Clearance revenue	13.9	13	15.5	15.3	16.5
Foreign grants	4.1	2.9	3.1	1.8	1.8
Total expenditures	24.2	22.5	26.6	23.3	22.7
Of which: Wages and salaries	10.2	9.8	12.2	11	10.7
Non-wage expenditures	10.4	9.3	10.7	9	8.4
Development expenditures	1.7	1.2	1.1	0.9	0.9
Overall balance (Excl. foreign grants)	-2.9	-3.3	-3.8	0.1	1.8
Overall balance (Inc. foreign grants)	1.2	-0.5	-0.7	1.9	3.6
Government public debt	14.6	16.3	23.5	21.2	18.5
Arrears accumulations	21.0	22.7	28.7	29.9	30.8

Cont.

Indicator	2018	2019	2020	2021	2022*
External Sector	**(Percentage of nominal GDP)**				
Exports of Goods and Services	16	15.5	15.4	17.3	18.5
Imports of Goods and Services	55.5	53.5	51.9	55.8	67.4
Trade balance	-39.5	-38.0	-36.6	-38.4	-48.8
Income From Abroad, net	17.1	17.7	16	20	20.9
Of which: compensation of employees from Israel	16.1	17.2	15.5	19.1	20.1
Current transfers, net	9.2	9.9	8.3	8.5	12.9
Of which: to public sector	2.9	3.7	2.7	2.2	2.8
Current Account	-13.2	-10.4	-12.3	-9.9	-15.0
Monetary Sector	**(Annual percent change)**				
Banks Assets	1.7	11.1	11.0	9.0	-1.2
Direct Credit Facilities	5.1	7.2	11.5	6.6	2.8
Of which: to the private sector	8.6	5.1	5.3	5.2	6.9
Customer Deposits	2.0	9.5	13.1	9.1	-0.3
Of which: from the private sector	3.3	10.8	13.9	8.3	-0.3
Balances Abroad	-7.2	15.0	44.5	2.7	-2.2
Ownership Equity	1.1	3.3	-0.4	7.1	5.8
Of which: paid-up capital	5.0	3.3	-3.0	2.8	2.2
Memorandum Items					
Real GDP (USD Million, 2015 = 100)	15,616.2	15,829.0	14,037.4	15,021.1	15,612.5
Nominal GDP (USD Million)	16,276.6	17,133.5	15,531.7	18,109.0	19,112.0
Al-Quds Stock Market Index (point)	529.4	526	471.3	608.5	639.7
Average exchange rate (USD/NIS)	3.59	3.56	3.44	3.23	3.36

* Primary data subject to change.
** PMA's estimates.

Contents

Foreword VII

PMA Organization Chart VIII

Entities subject to PMA's Control and Supervision IX

Executive Summary X

Chapter One: Economic Performance 1

Global Economic Performance 2

Regional Economic Performance 3

Local Economic Performance 4

- Economic Activities 5
- Aggregate Demand 6
- Prices and Inflation 8
- Labor Market 9
- Employment and Unemployment 10
- Productivity 12
- Average Daily Wage and Purchasing Power 12

Palestinian Economic Outlook in 2023 12

Chapter Two: Public Finance 14

Public Revenues and Grants 15

- Public Revenues 15
- Foreign Grants 16

Public Spending 19

- Current Expenditure and Net Lending 20
- Development Expenditures 21

Fiscal Balances 21

Government Arrears 22

Government Public Debt 22

2023 General Budget: Main Features 24

Chapter Three: External Sector 25

Balance of Payments 26

- Current Account 26
- Capital and Financial Account 30

Current Account Sustainability 31

International Investment Position 32

Chapter Four: Financial Sector 33

Part 1: Palestine Monetary Authority (PMA) 34

Maintaining the Integrity of the Banking Sector 34

Digital Transformation and Infrastructure 38

Supporting and Fostering Economic Growth 43

Other Achievements 47

Correspondent Banking Relations 52

PMA's Financial Activity 53

Staffing and Training 53

Part II: Banking Sector 55

Banking Sector Performance 55

Analysis of the Sources of Funds (Liabilities) 56

- Banking and Nonbanking (Customers) Deposits 56
- Ownership Equity 58
- Other Liabilities 59

Analysis of the usage of Assets 59

- Direct Credit Facility Portfolio 59
- Balances with PMA and Banks 62
- Investment Portfolio 63
- Other Assets 63

Banking Sector Profits 63

Domestic Liquidity 64

Interest Rates in the Palestinian Market 65

Payments System 66

- Real-Time Settlements 66
- Checks Transactions 67

Part III: Non-banking Financial Institutions 69

Specialized Lending Institutions 69

Moneychangers 70

E-Payment Service Providers 71

Palestine Exchange-PEX (Securities Sector) 72

Insurance Sector 73

Financial Leasing 75

Statistical Appendices 76

Figures

Chapter One: Economic Performance

Figure 1-1: Global economic growth rates, 2018-2022 2
Figure 1-2: Performance of the Israeli economy, 2018-2022 3
Figure 1-3: Performance of the Jordanian economy, 2018-2022 4
Figure 1-4: Drivers of the Palestinian economy, 2018-2022 4
Figure 1-5: Output gap in the Palestinian economy, 2018-2022 5
Figure 1-6: Contribution of economic activities, 2021-2022 5
Figure 1-7: Growth rate according to economic activity, 2022 6
Figure 1-8: Real growth rates of demand in Palestine, 2018-2022 6
Figure 1-9: Consumption and investment % GDP, 2018-2022 7
Figure 1-10: Exports & imports % GDP, 2021-2022 7
Figure 1-11: Global commodity price indices, 2018-2022 8
Figure 1-12: Inflation rate among trading partners, 2018-2022 8
Figure 1-13: Inflation rate in Palestine, 2018-2022 8
Figure 1-14: Contribution of CPI groups to inflation, 2021-2022 9
Figure 1-15: Labor force framework in Palestine, 2021 9
Figure 1-16: Workers by economic activity (%), 2022 10
Figure 1-17: Unemployment rate, 2018-2022 10
Figure 1-18: Unemployment rate by region, gender, and education, 2022 11
Figure 1-19: Productivity in Palestine, 2018-2022 11
Figure 1-20: Productivity by economic activity (Thousand USD), 2022 11
Figure 1-21: Average daily wages, 2018-2022 12
Figure 1-22: The economic outlook in Palestine, 2023 12
Figure 1-23: Risk Analysis of growth rate, 2023 13

Chapter Two: Public Finance

Figure 2- 1: Total revenues framework (NIS million), 2022 15
Figure 2- 2: Revenues and grants as a percentage of current expenditures, 2018- 2022 16
Figure 2- 3: Public spending framework (NIS million), 2022 19
Figure 2- 4: Expenditure components as a percentage of total expenditures, 2018- 2022 20
Figure 2- 5: Non-wages expenditures, 2022 20
Figure 2- 6: Overall budget balances a percentage of GDP, 2018- 2022 21
Figure 2- 7: Arrear payments (NIS million), 2022 22
Figure 2- 8: Government debt as a percentage of revenues & GDP, 2018- 2022 22

Figure 2- 9: Government public debt a percentage of GDP, 2018- 2022 23
Figure 2- 10: Interest payments, 2018- 2022..... 24

Chapter Three: External Sector

Figure 3- 1: Palestinian balance of payments (USD million), 2022 26
Figure 3- 2: Current account balances (USD million), 2018-2022..... 26
Figure 3- 3: Net exports as a percentage of GDP, 2018-2022 27
Figure 3- 4: Major exported goods and destination, 2022 27
Figure 3- 5: Major imported goods and its origin, 2022..... 28
Figure 3- 6: Trade Balance (USD million), 2018-2022..... 28
Figure 3- 7: Income Balance from abroad (USD million), 2018-2022 29
Figure 3- 8: Compensation of Palestinian workers in Israel, 2018-2022..... 29
Figure 3- 9: Current transfers (USD million), 2018-2022..... 30
Figure 3- 10: Capital & financial account (USD million), 2018-2022..... 30
Figure 3- 11: International investment position (USD million), 2022 32

Chapter Four: Financial Chapter Four: Financial Sector

Figure 4- 1: Liabilities of the Palestinian banking sector (USD million), 2022 55
Figure 4- 2: Total deposits (USD million), 2018 - 2022 55
Figure 4- 3: Deposits structure, 2022 55
Figure 4- 4: Customer deposits structure, 2022 56
Figure 4- 5: Banking sector ownership equity (USD million), 2018- 2022 57
Figure 4- 6: Equity structure, 2022.....57
Figure 4- 7: Assets of the Palestinian banking sector (USD million), 2022 58
Figure 4- 8: Credit facilities (USD million), 2018- 2022 59
Figure 4- 9: Credit portfolio structure, 2022 59
Figure 4- 10: Credit portfolio by economic activity, 2021-2022.....60
Figure 4- 11: Balances with PMA and banks (USD million), 2021- 2022 61
Figure 4- 12: Balances with PMA (USD million), 2021- 2022 61
Figure 4- 13: Banking Profits (USD million), 2018- 2022..... 62
Figure 4- 14: Structure of banking sector revenues, 2022..... 63
Figure 4- 15: Liquidity components (USD million), 2018-2022..... 63
Figure 4- 16: Lending & deposit rates by currency, 2022.....64
Figure 4- 17: Average exchange rate (NIS/USD), 2018 - 2022..... 65
Figure 4- 18: Settlement operation (USD billion), 2018 - 2022.....66
Figure 4- 19: Bounced checks % of checks clearance, 2021- 2022 67

Figure 4- 20: Asset's of specialized lending institutions (USD million), 2018-2022 68
Figure 4- 21: Credit portfolio by economic activity (USD million), 2022 69
Figure 4- 22: Credit portfolio by region (USD million), 2018-2022 69
Figure 4- 23: Distribution of e-wallets, 2022 70
Figure 4- 24: Number of transactions (Thousands), 2021 – 2022 71
Figure 4- 25: Value of transactions (USD million), 2021 – 2022 71
Figure 4- 26: Al-Quds index (Point), 2018-2022 71
Figure 4- 27: Sectoral shares of the market value and volume on the PEX, 2022 72
Figure 4- 28: Performance of Arab exchanges, 2022 72
Figure 4- 29: Assets of insurance sector (USD million), 2018-2022 73
Figure 4- 30: Insurance sector's premiums and paid-up claims by type (USD million), 2021-2022 73
Figure 4- 31: Insurance penetration rate, 2018-2022 74
Figure 4- 32: Number & Value of financial leasing, 2018-2022 74

Boxes

Box1 : Actions to Bolster the Palestinian Government's Financial Standing 17
Box 2: Financial Inclusion in Palestine Diagnostic Report 2022 48

Statistical Appendix

Chapter One: Economic Performance

Table (1- 1): Global real growth rates, 2018 – 2022 76
Table (1- 2): Global inflation rates, 2018 – 2022 76
Table (1- 3): Unemployment rates, selected countries, 2018 – 2022 77
Table (1- 4): Global Interest rates of major currencies, 2018 – 2022 77
Table (1- 5): Global current account balances, 2018 – 2022 77
Table (1- 6): Major real national accounts variables in Palestine, 2018 – 2022 78
Table (1- 7): Expenditure on real GDP, 2018 – 2022 79
Table (1- 8): Inflation rates, 2018 – 2022 79
Table (1- 9): Labor market indicators, 2018 – 2022 80
Table (1- 10): Economic forecasts, 2023 81

Chapter Two: Public Finance

Table (2- 1): Fiscal operations (cash basis), 2018 – 2022 82
Table (2- 2): Government public debt, 2018 – 2022 83
Table (2- 3): Government arrears, 2018 – 2022 83

Chapter Three: External Sector

Table (3- 1): Balance of payments, 2018 – 2022 84
Table (3- 2): International investment position, 2018 – 2022 85

Chapter Four: Financial Sector

Table (4- 1): The staff of the PMA, 2018 – 2022 86
Table (4- 2): Training for PMA staff, 2018 – 2022 87
Table (4- 3): Financial inclusion indicators, 2018 – 2022 88
Table (4- 4): Assets and liabilities of the Palestinian-banking sector, 2018 – 2022 89
Table (4- 5): Profit and loss statement, 2018 – 2022 90
Table (4- 6): Customer deposits, 2018 – 2022 91
Table (4- 7): Direct credit facilities, 2018 – 2022 92
Table (4- 8): Sectoral distribution of private sector's loans, 2018 – 2022 92
Table (4- 9): Domestic liquidity determinants, 2018 – 2022 93
Table (4- 10): Lending and deposit interest rates, 2018 – 2022 93
Table (4- 11): RTGS (BURAQ) participants total transactions, 2018 – 2022 94

Table (4- 12): Checks circulation in Palestine, 2021-2022 94
Table (4- 13): Performing indicators of MFIs, 2018 – 2022 95
Table (4- 14): Moneychangers, 2018 – 2022 95
Table (4- 15): Palestine Exchange- PEX, 2018 – 2022..... 96
Table (4- 16): Performing indicators of the insurance sector, 2018 – 2022..... 97

Chapter One

Economic Performance



Overview

Since the beginning of 2022, the global economy experienced significant challenges, with economic and geopolitical upheavals directly impacting its performance. Notably, the eruption of the war between Russia and Ukraine and other tensions across the globe heightened the probability of disruptions capable of undermining global economic performance. Economic sanctions were imposed on Russia due to the conflict, and Russia, in turn, curtailed natural gas supplies to Europe and hampered Ukrainian grain and wheat exports. As a result, the prices of basic commodities, including energy (oil, coal, and natural gas), metals, fertilizers, food, and cereals, rocketed.

These conditions resulted in a surge in inflation rates in most economies around the globe, reaching record levels, forcing central banks to intervene and tighten monetary policies, including increasing interest rates. This, in turn, slowed global economic activity, boosted the US dollar against most other currencies, and brought additional challenges to many countries, especially emerging and developing economies. Furthermore, despite their waning intensity, the ongoing pandemic waves in some countries, most notably China, had a detrimental impact on economic activity in the first half of the year. Extreme heatwaves and droughts in Europe and Central and South Asia also contributed to a harsher future for the global economy due to climate change.

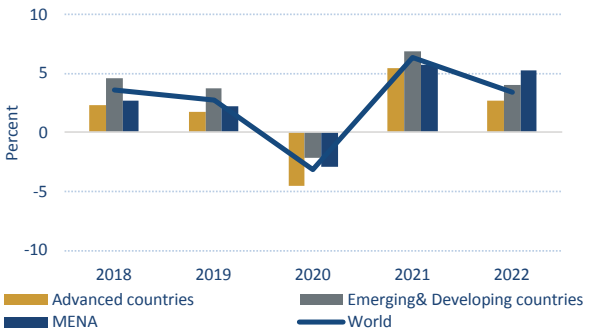
The Palestinian economy was not immune to these dynamics, as reflected in a decline in the GDP growth to about 3.9% in 2022, down from 7.1% in 2021, mainly owing to the aforementioned challenges. Furthermore, the government's financial situation, defined by diminishing foreign grants and ongoing and growing reductions from clearance revenues, all exacerbated the uncertainty engulfing the Palestinian economic scene. This chapter focuses on major developments in the global, regional, and local economy in 2022.

Global Economic Performance

The global economic performance had a dramatic downturn in 2022, with the growth rate falling to 3.4% from 6.3% the previous year. The war between Russia and Ukraine, tighter financial and monetary policies in several economies, particularly developed economies, and a substantial slowdown in the Chinese economy as a result of repeated lockdowns and the rising real estate crisis were all drivers in this fall. The advanced economies, emerging and developing economies, including the Middle East and North Africa (MENA), all experienced this downturn, albeit at varying paces. Also, the timing of the slowdown varied between the first and second halves of the year.

In advanced economies, the growth rate decelerated from 5.4% in 2021 to 2.7% in 2022, especially in the first half of the year, notably in the US economy. The repeated increases in interest rates and rising inflation levels led to a decline in consumer demand due to the ongoing erosion of real income and an increase in investment expenditure, especially in the housing sector. The European economy compounded this downturn further because the Eurozone was the worst hit by the fallout from the Russia-Ukraine conflict, particularly in terms of energy prices. These increases raised inflation to record levels, directly impacting regional demand levels.

Figure 1-1: Global economic growth rates, 2018-2022



Source: International Monetary Fund (IMF) database, 2023.

The growth in emerging and developing economies decelerated to 4% in 2022, down from 6.9% in the previous year. This slowdown may be tracked back to the new challenges the external environment imposed. The significant increase in interest rates led to a noticeable rise in the costs of external debt burdens, exacerbating local inflationary pressures and the crisis of living expenses. Additionally, there has been a decline in capital inflows, which has had an impact on investment levels.

The MENA region is the only one among emerging and developing economies to have had an increase in growth levels in 2022. It achieved a growth rate of 5.3%, compared to 4.6% in the previous year. This growth was driven by oil-exporting countries, benefiting from the rise in oil prices. However, oil-importing countries and those reliant on food imports faced increasing pressures due to the repercussions of the conflict between Russia and Ukraine.

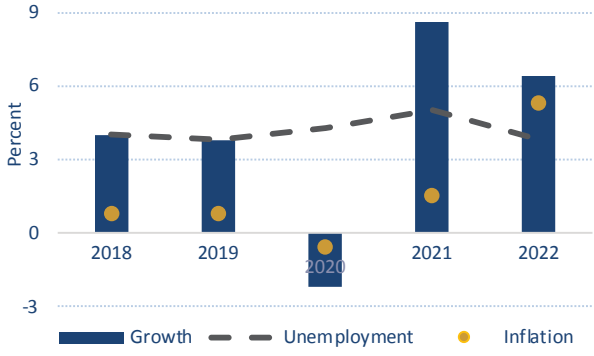
Despite the gloomy outlook that dominated the global economy since the beginning of 2022, the scene has changed in the second half due to several factors that contributed to alleviating the severity of the growth slowdown. Labor markets, consumer spending, and company investment all improved in the second half. Also, the better-than-expected adaptation to the energy crisis in Europe, as well as the return of the Chinese economy to the global economy, helped lay the groundwork for accelerating the pace of economic recovery. Global financial conditions improved as inflationary pressures subsided, and the US currency fell from its highs since the commencement of monetary tightening in the United States. This development gave emerging and developing economies some room to breathe.

Regional Economic Performance

The **Israeli economic** performance continued its robust recovery throughout 2022, marking the second consecutive year of growth following the COVID-19 pandemic and demonstrating high resilience in the face of the Russian-Ukrainian war fallout. This was made possible by the high-tech sector's strength and self-sufficiency in natural gas, which helped to offset the effect of these shocks. The growth was also supported by a robust labor market, with unemployment and participation rates returning to pre-pandemic levels, and higher-than-expected tax revenues, resulting in a government surplus for the first time in years. The Israeli economy achieved a growth rate of 6.4% in 2022, compared to 8.6% in 2021, driven by a rapid increase in private consumption as a significant portion of household accumulated savings was released since the beginning of the pandemic. Export performance, especially in high-tech services, and investment, primarily in residential construction, also contributed to the growth rate.

Moreover, the Israeli economy witnessed an increase in inflation to 5.3%, compared to 1.5% in 2021, surpassing the upper limit of the target band set by the Bank of Israel (1% - 3%) for the first time in the past decade. Inflationary pressures had been building up since the previous year, primarily influenced by global supply constraints in the aftermath of the pandemic, which intensified with the outbreak of the war in Ukraine, clearly impacting energy and food prices. The solid domestic demand further contributed to the inflationary momentum in Israel in 2022. However, the inflation rate remained lower than in most advanced economies, mainly due to Israel's reliance on its natural gas reserves, the strength of the shekel against other currencies, and its role in reducing import costs.

Figure 1-2: Performance of the Israeli economy, 2018-2022



Source: International Monetary Fund (IMF) database, 2023.

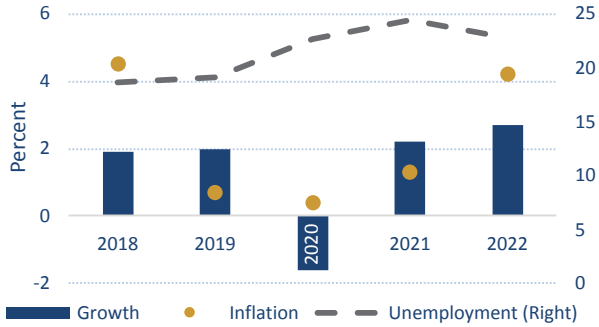
In an attempt to control and bring inflation levels within the targeted boundaries, the Bank of Israel raised interest rates gradually and repeatedly starting from the beginning of the second quarter of 2022, increasing from 0.1% to reach 3.75% by the end of the year, the highest level since 2010.

On the other hand, the labor market began gradually recovering, supported by improved economic activity. The employment rate increased, while the unemployment rate decreased to pre-pandemic levels, dropping from 5% in 2021 to 3.8% in 2022.

Jordan's economic performance improved for the second consecutive year, with the complete reopening of the economy achieving a growth rate of 2.7% in 2022, up from 2.2% the previous year. This growth was driven by the ongoing recovery in all economic sectors, a strong revival in tourism, and an increase in exports due to improved external demand for goods and services. However, the global rise in commodity prices led to a significant increase in import bills, which dampened growth rates throughout 2022. The labor market reflected this performance, decreasing the unemployment rate from 24.4% in 2021 to 22.8% in 2022.

The Jordanian economy also suffered a surge in inflation in 2022, with the rate reaching roughly 4.2%, up from 1.3% the previous year, marking the highest level since 2018. Nevertheless, this rate remains lower than its counterparts in the region, attributed to temporary government support for fuel and other price control measures implemented in 2022.

Figure 1-3: Performance of the Jordanian economy, 2018-2022



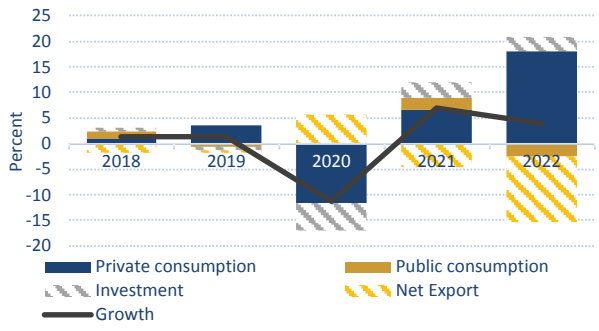
Source: International Monetary Fund (IMF) database, 2023.

To counteract these pressures, the Central Bank of Jordan, like other central banks, tightened its monetary policy. It raised interest rates several times in 2022 across all monetary policy tools, reaching 6.5% by the end of the year. This measure was taken to reinforce the pillars of monetary and financial stability in Jordan—particularly in preserving the dinar exchange rate and controlling inflation rates—ensuring the purchasing power of citizens' real income is maintained.

Local Economic Performance

Despite the Palestinian economy's sluggish, but steady recovery over the last year after the containment of the COVID-19 pandemic, this recovery has dropped significantly since the beginning of 2022 due to increasing pressures and new challenges. The most visible roadblock is the government's financial uncertainty, which is defined by diminishing foreign grants and ongoing and growing deductions from clearance revenues. The Palestinian economy, like others, has been indirectly affected by the Russian-Ukrainian war, which has led to inflationary pressures and continued price hikes, particularly in energy and food imports. Furthermore, the strengthening of the dollar against the shekel has decreased real per capita income and purchasing power.

Figure 1-4: Drivers of the Palestinian economy, 2018-2022



Source: Palestinian Central Bureau of Statistics (PCBS).

In 2022, the economy grew at a pace of around 3.9% over the previous year, yielding a real GDP increase of nearly USD 15.6

billion. As all components of aggregate demand continued to rebound to pre-pandemic levels. Total consumption rose, spurred by the increase in the number of workers, especially in Israel; which contributed to reviving the market activity and resulted in more investment. Another improvement was seen in foreign trade, both in exports and imports. Nonetheless, this growth was primarily driven by the improvements in the West Bank.

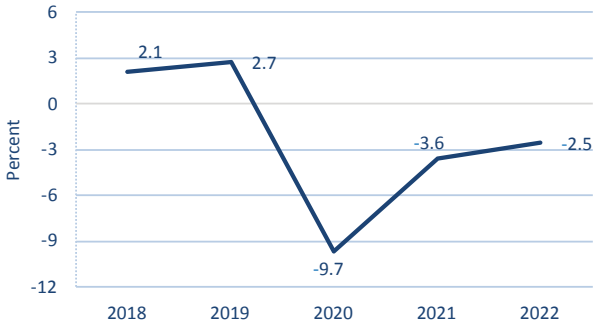
The economy of the West Bank achieved a growth rate of 3.6%, leading to a GDP of approximately USD 12.9 billion. The gradual return to normalcy, with many workers resuming employment in Israel, facilitated this rise. Despite these encouraging advances, the government is embroiled in a financial crisis marked by continuous and growing deductions from clearance revenues, budget deficits, and low foreign grants. .

In the Gaza Strip, the economy grew by 5.6% compared to the previous year, reaching a GDP of around USD 2.7 billion. This growth was driven by relative security stability and the permission, albeit limited, for Gazans to work in Israel. Despite these advancements, the economy continues to run below its full capacity, with actual output falling short of potential output (the output gap)[1].

For the third consecutive year, the economy had a negative gap of around USD 329 million in 2022, corresponding to 2.5% of potential output. This negative gap demonstrates the economy's failure to optimize the use of its available resources, as well as a deterioration in economic performance efficiency.

Overall, the slowdown in the performance of the Palestinian economy was reflected in the Palestinian per capita income (an indicator of individual welfare) which climbed by about 1.2% in 2022, reaching around USD 3,087. The per capita share in the West Bank moved up by 0.9% to USD 4,458, while it increased by about 2.7% (USD 1,257) in the Gaza Strip.

Figure 1-5: Output gap in the Palestinian economy, 2018-2022



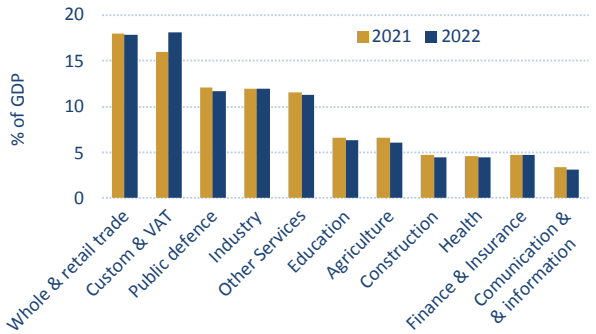
Source: Palestine Monetary Authority (PMA) estimates.

Economic Activities

The Palestinian economy is predominantly a service economy, with the added value of service activities accounting for around three-quarters of the GDP, while goods production activities contribute just about a quarter[2].

In 2022, service activities contributed approximately 77.5% of total real GDP, with wholesale and retail trade (17.8%), public administration and defense (11.7%), education (6.3%), finance and insurance (4.7%), health (4.5%), and information and communication accounting for the remainder (3.1%). Other services constituted approximately 11.3% of total GDP in 2022.

Figure 1-6: Shares of economic activities, 2021-2022



Source: Palestinian Central Bureau of Statistics (PCBS).

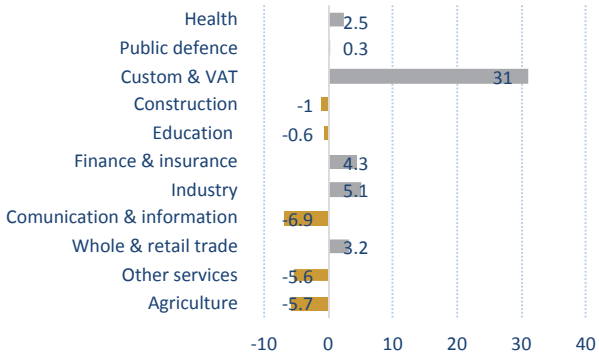
[1] The output gap is an economic measure of the difference between the actual output of an economy (GDP) and its potential output. Potential output could be achieved under favorable long-term conditions of economic equilibrium and optimal utilization of economic resources.

[2] Services activities include trade, financial and insurance, information and communications, education, health, public administration and defense, household services, and other services (transportation and storage, accommodation and food services, real estate and rental activities, professional, scientific and technical activities, and administrative service activities). Also, subordinate services, social work, arts, recreation, entertainment, etc.). As for the productive activities, they include agriculture, industry, and construction.

As for the productive activities, the most prominent is the industrial sector, contributing about 12.0% of the total GDP, followed by agriculture and construction, contributing around 6.0% and 4.5%, respectively.

In 2022, the performance of economic activity varied. The industrial sector achieved the highest growth at around 5.1% over the previous year. There were also growth in the financial and insurance sector (4.3%), wholesale and retail trade (3.2%), and health (2.5%). During the same time, however, the performance of information and communication activities declined by nearly 6.9%, and agriculture fell by approximately 5.7%. Construction and education also both fell by 1.0% and 0.6%, respectively. This performance across all sectors resulted in a 31% increase in the indirect tax collection over the previous year.

Figure 1-7: Growth rate according to economic activity, 2022



Source: Palestinian Central Bureau of Statistics (PCBS).

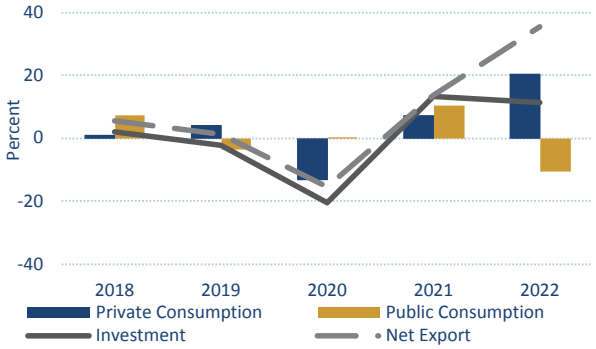
These variations in the value added generated by various activities are reflected in their contributions to the growth rate. An increase in the value added of a particular activity leads to an increase in its contribution to the growth rate and vice versa. In 2022, given the modest growth of many economic sectors and the decline of others, the contribution of service activities and productive activities to GDP growth was about 0.9 percentage points for the former and approximately 0.2 percentage points for the latter. The most substantial contribution came from net indirect taxes, accounting for about 2.8 percentage points of the actual growth.

At the level of productive activities, the industrial sector contributed approximately 0.6 percentage points to the actual growth rate, while the decline in the agriculture and construction sectors restrained growth by about 0.4 and 0.1 percentage points, respectively. Under the service activities, trade contributed approximately 0.6 percentage points to the actual growth, the financial and insurance sector added about 0.2 percentage points, and the health and social service sector contributed about 0.1 percentage points. Transportation and storage, public administration and defense, and real estate and rental activities all contributed around 0.1 percentage points. The communication sector, on the other hand, inhibited the achieved growth by around 0.2 percentage points.

Aggregate Demand

Despite the challenges that unfolded in 2022, resulting in a significant rise in local prices and an escalation in political tensions with Israel, all components of aggregate demand improved except for government consumption. Private consumption, the most significant component of the Palestinian GDP, grew by approximately 20.5%, driven by the increased number of Palestinian workers in Israel, improved individual income, and increased daily wage rates. Investment also grew by around 11.3%, as the economy continued to recover and return to pre-pandemic levels. However, government consumption fell by about 10.5% due to the ongoing financial crisis that the government is facing amid a substantial cut of clearance revenues by Israel, the scarcity of foreign grants and support for the treasury, and hence its inability to fully meet its obligations. Improvements in foreign trade components also continued for the second consecutive year after

Figure 1-8: Real growth rates of demand in Palestine, 2018-2022



Source: Palestinian Central Bureau of Statistics (PCBS).

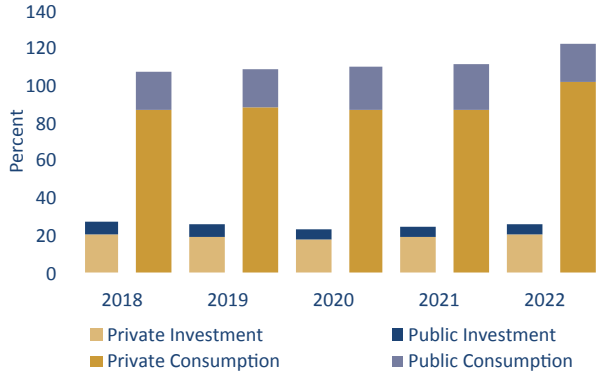
this sector suffered significant damage during the thick of the pandemic, as exports and imports increased by 6.2% and 25.7%, respectively. This rise in aggregate demand led to a noticeable increase in the volume of imports, resulting in a 35.4% increase in the trade deficit, reaching about USD 7.5 billion, constituting about 47.8% of GDP during the same period.

Geographically, private consumption in the West Bank grew by about 20.4% due to the increased number of workers in the local market and in Israel and settlements, along with the rise in the daily wage rate. Investment also rose for the second year in a row by around 11.2%. Notwithstanding, government consumption fell by about 11.3% due to the government's financial crisis. In the same context, exports increased by about 5.5%, against a 24.3% increase in imports, leading to a rise in the trade deficit from USD 4.5 billion in 2021 to approximately USD 6.1 billion in 2022.

The situation in the Gaza Strip was not different, as private consumption grew by about 23.9%, and investment expenditure increased by around 13% due to the significant increase in non-building investment. In comparison, government consumption fell by 7.8%. Both exports and imports increased by 19.7% and 23.9%, respectively, resulting in a 36.5% increase in the trade deficit, reaching around USD 1.3 billion in 2022.

Total consumption contributed the most to GDP in terms of aggregate demand components, exceeding total GDP, around 122.2% (with 101.9% for private consumption and 20.3% for public consumption). In the West Bank, total consumption accounted for about 118.4% of GDP (99.7% for private consumption and 18.7% for public consumption), while the contribution of total consumption in the Gaza Strip reached about 140.5% of GDP (112.3% private consumption, and 28.2% public consumption).

Figure 1-9: Consumption and investment % GDP, 2018-2022

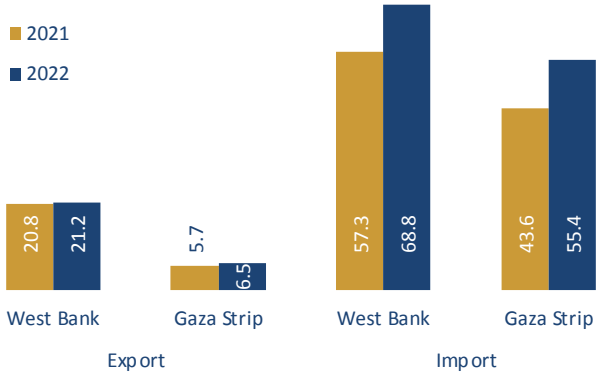


Source: PMA estimates for investment PCBS for consumption.

Investment, while contributing less to GDP than consumption, increased to about 26.9% in 2022 (with 20.8% for private investment and 6.1% for governmental investment), owing to ongoing economic improvement and the gradual resumption of market activity and movement. The contribution of investment in the West Bank reached 30.3% of GDP, while this ratio was about 10.7% in the Gaza Strip.

In terms of foreign trade, the West Bank's trade imbalance as a proportion of real GDP increased from 36.5% in 2021 to 47.6% in 2022. This increase is due to increased import proportions of around 68.8% against an export proportion of almost 21.2% of GDP. Similarly, in the Gaza Strip, the ratio of trade deficit to real GDP surged from 37.8% in 2021 to 48.9% in 2022. This change comes on the heels of an increment in the export share, albeit less than the increased import proportion, at about 6.5% for the former and 55.4% for the latter. These developments are set against the backdrop of global trade revival, alongside rising import prices, due to the high inflation rates witnessed by most countries. This situation has driven an increase in leakages due to Palestinian consumption's reliance on imports.

Figure 1-10: Exports & imports % of GDP, 2021-2022



Source: Palestinian Central Bureau of Statistics (PCBS).

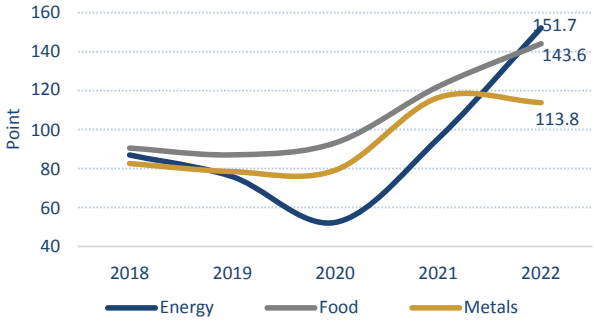
This analysis indicates a lower volume of Palestinian exports compared to imports (approximately 28.1% of import

volume). This is about 30.8% in the West Bank and even more pronounced in the Gaza Strip, comprising only 11.8% of imports. This discrepancy can be attributed to several factors, primarily the low competitiveness of Palestinian products in foreign markets, increased production costs due to the Israeli constraints and restrictions on movement and access, a lack of robust infrastructure, and some internal factors related to the economy's structure.

Prices and Inflation

Exploring the facet of escalating commodity prices, it was noted that 2022 proved to be fraught with tensions. Several causes contributed to this surge, but the conflict between Russia and Ukraine and Western sanctions against Russia (which included a ban on acquiring and shipping Russian energy exports) were the most significant. Russia's decision to stop supplying Europe with gas and other necessities led to a sharp rise in prices throughout the world.

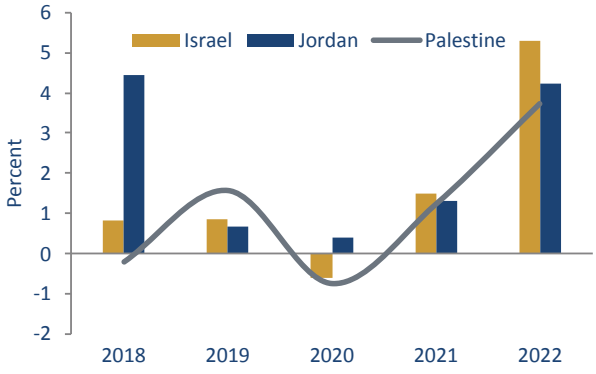
Figure 1-11: Global commodity price indices, 2018-2022



Base year = 2010.
Source: World Bank.

This scenario is further exacerbated by the ongoing supply shortage crisis, with the supply remaining insufficient to meet the pent-up demand since the previous lockdowns amid the COVID-19 crisis. The Food Price Index witnessed an average increase of about 18% in 2022 compared to the previous year. In contrast, the Energy Price Index soared by nearly 59%, while metal prices fell by approximately 2.2%.

Figure 1-12: Inflation rate among trading partners, 2018-2022

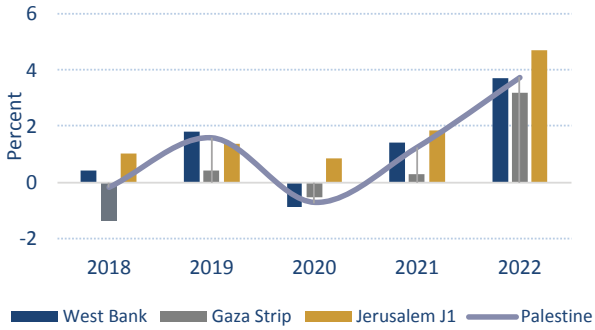


Source: World Bank.

Turning attention to the impacts of pronounced increases in commodity prices, it is evident that these, along with rises in other commodity prices, have had significant implications on global inflation rates. Between 2021 and 2022, the global inflation rate surged from approximately 4.7% to 8.7%. In developed countries, inflation rates jumped from 3.1% to 7.3%, while in emerging and developing countries, it rose from 5.9% to 9.8%.

On a regional scale, economies experienced general increases, albeit less severe than those observed globally, especially in neighboring countries. International Monetary Fund (IMF) data indicate a surge in the inflation rate in both Jordan and Israel to around 4.2% and 5.3% in 2022 compared to the previous year.

Figure 1-13: Inflation rate in Palestine, 2018-2022



Source: Palestine Central Bureau of Statistics (PCBS).

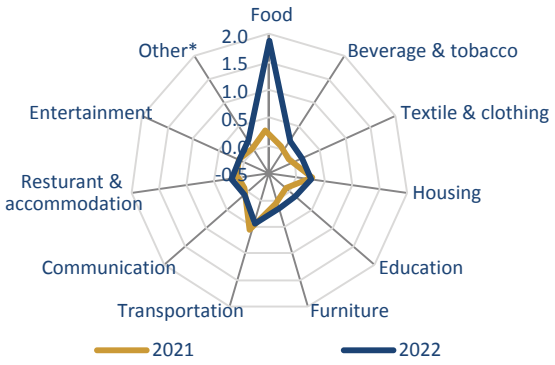
In Palestine, prices were influenced by the above-mentioned external factors and developments, specifically those resulting in elevated import costs. Notably, trends related to rising global commodity prices and soaring inflation rates among Palestine's trading partners contributed to this scenario. Furthermore, the dollar appreciation against the shekel meant that imported items were more costly in the shekel.

This situation has resulted in an uptick in inflation rates across

all regions. In the West Bank, prices escalated by approximately 3.7% in 2022, compared to around 1.4% in 2021. Similarly, an increase was observed in the Gaza Strip by around 3.2%, compared to 0.3% during the same period. Price levels and inflation rates remain the highest in the district referred to as J1 in the Jerusalem governorate[3], outpacing other regions in the country, with an increase of around 4.7% in 2022 compared to 1.9% during the previous year. On an overall scale, Palestine recorded inflation at a rate of 3.7% in 2022, compared to approximately 1.2% in the last year.

The bulk of pricing categories had various price rises, with food and beverages being the most substantial. The increase in prices in this category contributed to around 1.9 percentage points of the inflation rate, indicating that nearly half of the inflation experienced in the Palestine in 2022 was primarily driven by the rising food prices due to their increase in the global markets. Transportation also increased the inflation rate by around 0.4 percentage points due to the doubling of energy prices worldwide, which extended to other price tiers, including housing and utilities such as electricity and gas. The price increase in this category contributed to a 0.3 percentage point increase in local inflation. The price rise in the restaurant and accommodation services, tobacco and alcoholic beverages, and textiles and clothing each contributed a 0.2 percentage point increase in the inflation rate. As for furniture and household goods, education services, and communications, they contributed to a 0.1 percentage point increase in the inflation rate.

Figure 1-14: Contribution of CPI groups to inflation, 2021-2022



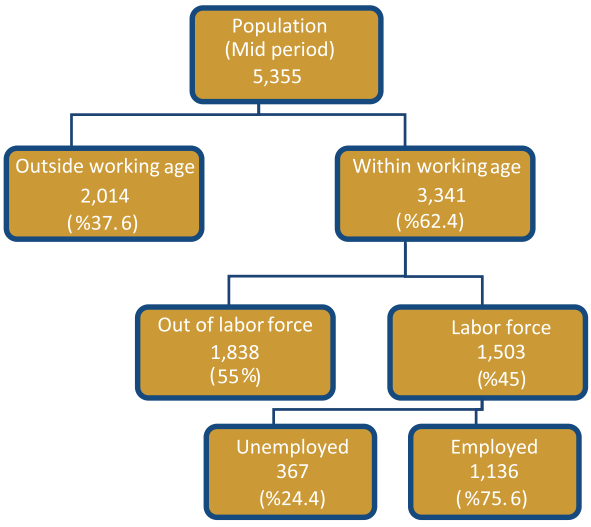
* Includes medical care, transportation, communications, recreational, cultural goods and services, restaurants and cafes, and miscellaneous goods and services.
Source: Palestine Central Bureau of Statistics (PCBS).

Labor Market

According to demographic projections derived from the 2017 General Population Census data, the Palestinian population in 2022 would be roughly 5.4 million people, with 3.2 million living in the West Bank and around 2.2 million in the Gaza Strip. The population growth rate in both the West Bank and Gaza Strip remained stable at about 2.2% and 2.9% respectively. The population growth rate in Palestine is, nonetheless, greater than the world average (1.0%), according to the most recent figures from the World Bank.

The young demographics of Palestinian society have had a detrimental impact on the size of the working-age population. In 2022, the Palestinian Central Bureau of Statistics (PCBS) reported that 44% of the country's population comprised people under the age of 18. This was much higher than the world average of 34.9% and the Arab average of 37.3% for the same year[4].

Figure 1-15: Labor force framework in Palestine, 2021 (Thousands)



Source: Palestinian Central Bureau of Statistics (PCBS).

[3] This refers to the portion of the Jerusalem Governorate that was forcibly annexed by Israeli occupation following the West Bank invasion in 1967.
[4] https://databank.worldbank.org.

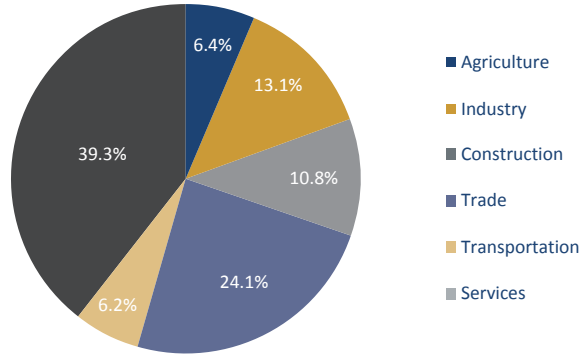
Despite the slowdown in economic growth, participation, employment, and absorption rates continued to increase, reaching 45% compared to 43.4% in the previous year. However, the participation rate remains relatively low compared to global and regional averages, indicating that more than half of the working-age population is outside the labor force and not actively contributing to the production process. This scenario may be traced in part to the much lower female labor force participation rate, which is among the lowest in the world, at 18.6% in 2022 compared to 70.7% for men. There is also regional dispersion and a lack of spatial alignment between the labor force and employment growth.

Employment and Unemployment

The continued economic growth in 2022 led to an increase in the number of workers by 9.7% compared to 2021, driven by the creation of approximately 100 thousand new job opportunities evenly distributed between the local and Israeli labor markets. This development resulted in the total number of workers reaching around 1,136 thousand. The number of workers in the West Bank increased by approximately 4.6%, reaching about 658,000 workers, while the Gaza Strip witnessed a 9.8 percent increase, reaching 285 thousand. The labor market in Israel and the settlements accounted for about 17% of the total Palestinian labor force, equivalent to 193 thousand workers (the highest in years), with the majority coming from the West Bank. This explains the significant gap in unemployment rates between the West Bank and Gaza. On another note, the private sector absorbed around 61.5% of the total labor force in the local market (excluding workers in Israel and the settlements).

As for the distribution of workers in economic activities, the data showed relative stability in these shares, as the services sector captured about 39.6% of the total workers in the local market, and the trade and tourism sector accounted for about 23.5%. The share of the industry sector was about 12.3%, the construction sector was about 11.4%, and the share of agriculture and transportation was about 6.5% each.

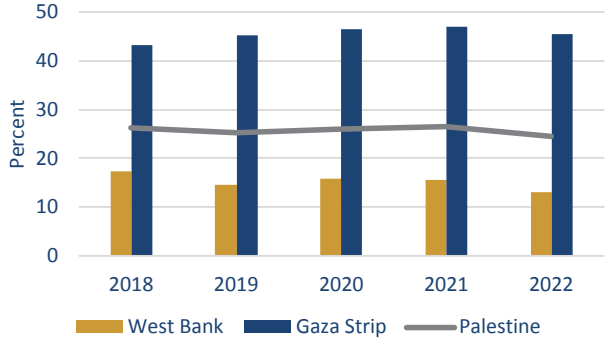
Figure 1-16: Workers by economic activity (%), 2022



Source: Palestinian Central Bureau of Statistics (PCBS).

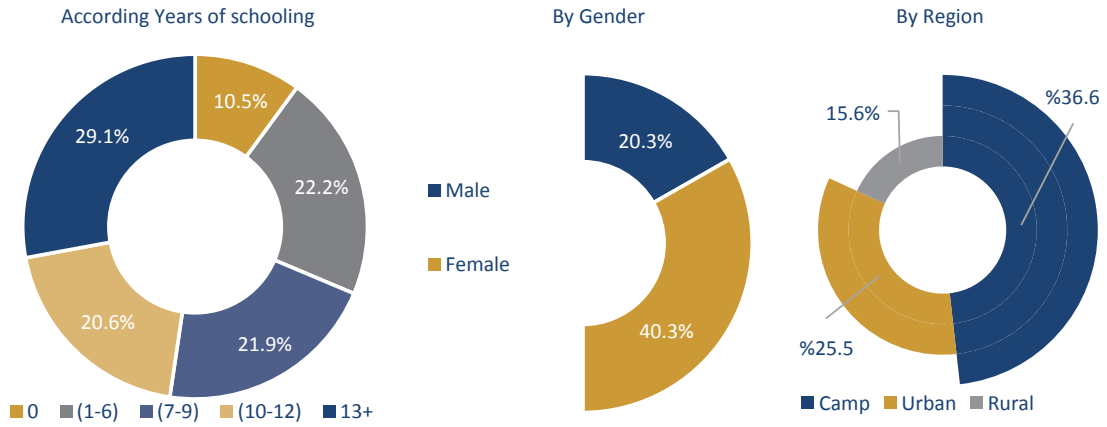
The unemployment rate decreased from 26.4% in 2021 to 24.4% in 2022, driven by the ongoing growth and economic improvement and the Israeli labor market's absorption of more Palestinian workers. This reduction was influenced by a drop in unemployment from 15.5% to 13.1% in the West Bank and 46.9% to 45.4% in the Gaza Strip. It is worth noting that unemployment rates among women in Palestine are substantially higher (about 42.9%) owing to a variety of social circumstances, working conditions, and other considerations, particularly for those with higher academic qualifications (13 years of education or more). This deprives the Palestinian economy of benefiting from investing in their education. Furthermore, unemployment rates in refugee camps are greater than in urban and rural areas, and unemployment rises with the number of years of education.

Figure 1-17: Unemployment rate, 2018-2022



Source: Palestinian Central Bureau of Statistics (PCBS).

Figure 1-18: Unemployment rate by region, gender, and education, 2022

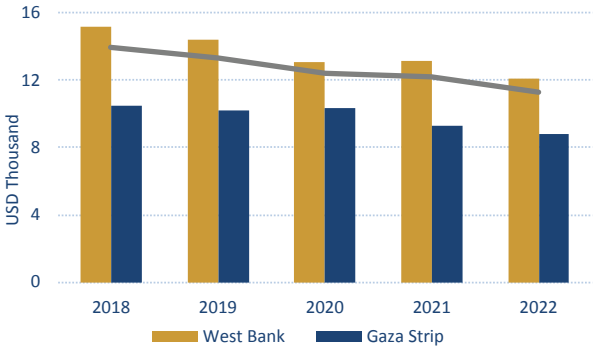


Source: Palestinian Central Bureau of Statistics (PCBS).

Productivity

In 2022, worker productivity in the local market fell by around 7.3% compared to the previous year, reaching roughly USD 11.3 thousand per worker. This decline can be attributed to the increase in the number of workers outpacing the growth in the GDP at factor cost[5]. The productivity of workers varies between the two regions, with the Gaza Strip experiencing significantly lower productivity compared to the West Bank due to the blockade and closures. The average productivity per worker in Gaza Strip is around USD 8.8 thousand, a decrease of approximately 5.2% compared to the previous year. In the West Bank, the average productivity per worker reached about USD 12.1 thousand, despite a reduction of around 8% compared with the year earlier.

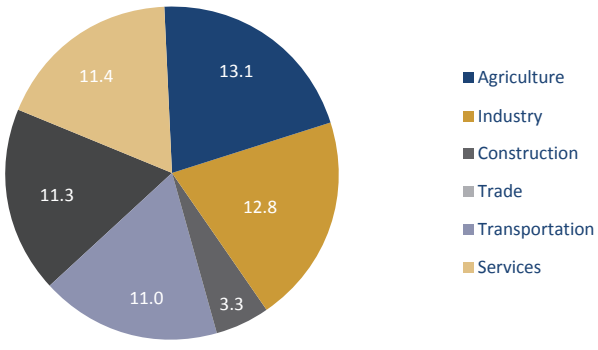
Figure 1-19: Productivity in Palestine, 2018-2022



Source: Palestinian Central Bureau of Statistics (PCBS).

Productivity varied significantly across different economic activities due to several considerations, with one of the prominent factors being the labor-to-capital ratio. Generally, workers' productivity tends to be lower in labor-intensive activities than in capital-intensive ones. However, overall productivity declined in 2022 for all workers across economic activities. Productivity decreased by approximately 10.6% in the construction sector (to USD 3,300 per worker) as it is considered a labor-intensive activity. It also declined by about 7.2% in agriculture (reaching around USD 13,100 per worker), by approximately 11.1% in trade and tourism (amounting to USD 11,000 per worker), and by around 11.3% in the industrial sector (reaching USD 12,800 per worker). In light of this downturn in productivity, it becomes evident that the Palestinian economy was unable to benefit from the increase in the number of workers.

Figure 1-20: Productivity by economic activity (Thousand USD), 2022



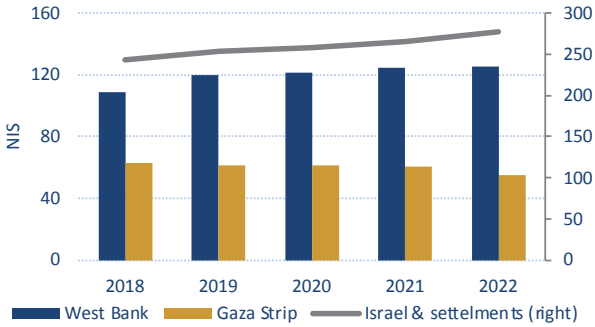
Source: Palestinian Central Bureau of Statistics (PCBS).

[5] Worker productivity is calculated by dividing the real GDP at factor cost by the number of workers.

Average Daily Wage and Purchasing Power

The average daily wage in Palestine increased by approximately 5.3% in 2022 compared to the previous year, reaching around NIS 143.7. This increase was driven by the rise in average wages for Palestinian workers in Israel and the settlements, followed by wages in the public sector and, to a lesser extent, in the private sector. Data from the PCBS indicate that the daily wage for Palestinian workers in Israel and the settlements increased by about 4.1% to reach NIS 276.9. This was followed by a 0.6 percent rise in the wage for workers in the West Bank (local market), amounting to NIS 125.1. In contrast, the daily wage for workers in the Gaza Strip declined by approximately 9.1% (NIS 54.8). It is worth noting that the higher wage levels for Palestinian workers in Israel and the settlements have pushed up wages for workers in the local market (specifically in the West Bank) and created more significant disparities in wage rates between the West Bank and Gaza Strip, with wages in the latter not exceeding half the daily wages of workers in the former.

Figure 1-21: Average daily wages, 2018-2022



Source: Palestinian Central Bureau of Statistics (PCBS).

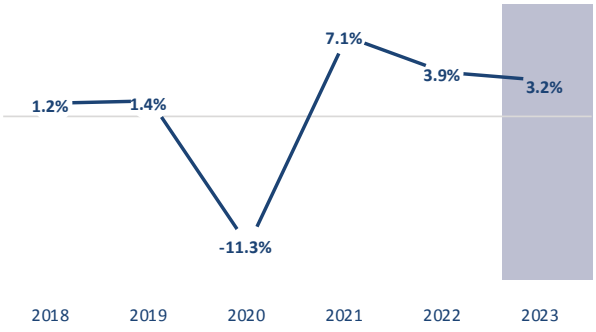
Recent years have seen unequal growth circumstances in the labor markets, and these pay discrepancies are a continuation of that trend. For example, over the past decade, wages for workers in Israel and the settlements grew at an average annual rate of 5.4%, while wages for workers in the West Bank increased by approximately 3.7% on average. Due to economic instability and political complexities, as well as the shadows they cast on the labor market and investment levels, wage growth in the Gaza Strip was negligible (0.04% on average throughout the same timeframe).

Turning attention to real wages, inflation has offset the impact of the nominal wage increase for workers in Israel and the settlements, resulting in an actual wage increase of approximately 0.4%. In contrast, real wages for workers in the West Bank declined by about 3.1%. In the Gaza Strip, inflation contributed to a further decrease in nominal wages, eroding the real wage for workers by around 12.3%. Overall, real wages in Palestine climbed by around 1.6% over the previous year. The improvement in the exchange rate of the US dollar (or dinar) against the shekel, on the other hand, has increased the purchasing power of employees who get their salaries and wages in these currencies. During the year, the average exchange rate of the US dollar (or dinar) against the shekel climbed by around 3.8%, closely corresponding to the rise in purchasing power.

Palestinian Economic Outlook in 2023

According to the PMA's forecasts, economic growth would fall further in 2023, hitting about 3.2%. This is a drop from early figures that showed a growth rate of roughly 3.9% in 2022. The expected growth is anticipated to be driven by an increase in consumption spending, contributing approximately 1.1% to the overall growth (0.7% from private consumption and 0.4% from public consumption). Investment is expected to contribute around 2.4% to the growth in 2023. The forecasts also indicate a contribution of approximately 0.5% from exports, while imports are expected to dampen the expected growth rate by 0.8%.

Figure 1-22: The economic outlook in Palestine, 2023



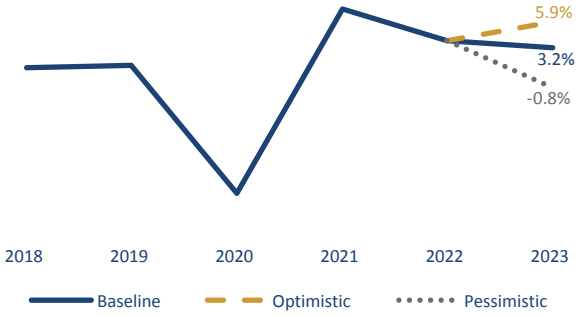
Source: Palestine Bureau of Statistics (PCBS).
2023 data is PMA forecasts.

On the supply side, forecasts show that the services sector will contribute the most to growth, at roughly 1.2%, followed by the trade sector at around 0.5% and the mining and manufacturing sectors at about 0.4%. The public administration sector is forecasted to contribute around 0.3%, followed by the construction and transportation sectors at a rate of 0.2% each. The financial services and information and communications sectors are expected to contribute 0.15% each, and finally, agriculture is expected to contribute 0.1%. According to these forecasts, the unemployment rate will decrease to 23.9% in 2022, down from 24.4% in 2022. However, individual income levels are expected to grow by only about 1% compared to 2022. The slowdown in growth is traced back to continuing rises in local price levels, uncertainty engulfing the government's finances, and the indirect effect of the Russo-Ukrainian conflict on Palestine's food, and energy imports. These factors are expected to further erode real income and purchasing power, leading to a slowdown in consumption, investment, and overall economic growth, assuming no changes in the current political situation related to the Israeli side.

These estimates include an analysis of potential shocks that, if realized, may have a positive or negative impact on short-term economic performance. In an optimistic scenario, the economy may experience positive shocks such as an improvement in the government's financial situation as a result of increased international grants, a relative increase in clearance revenues, a higher-than-expected number of Palestinian workers in Israel, and a higher-than-expected increase in private sector remittances. Based on these assumptions, overall consumption is expected to improve, investment will increase, and international trade will rebound, potentially raising the economic growth rate to around 5.9%. This could also contribute to a reduction in the unemployment rate to approximately 23.2% and an improvement in real per capita income by about 3.6%.

Under a less-than-ideal prognosis, the prevailing circumstances could take a turn for the worse, given potential factors such as escalating subtractions from clearance revenues, a downward trend in recompense for Palestinian workers in Israel due to dwindling numbers, and the fortification of the dollar against the shekel. Further exacerbating the situation could be a downturn in remittances from the private sector relative to the preceding year, perpetual inflation in the cost of raw materials and food, alongside an unrelenting ascent in local interest rates that echoes global economic trajectories. Based on these assumptions, the economy is expected to contract by approximately 0.8%, with unemployment rising to around 25.5% and a decline in real per capita income by about 3.0%.

Figure 1-23: Risk Analysis of growth rate, 2023



Source: PMA forecasts.

Chapter Two

Public Finance

Overview

The year 2022 bore witness to a conspicuous, albeit brittle and transient, enhancement in the government's fiscal performance, predominantly attributed to relentless strains and challenges. Among these was the incessant Israeli truncation of Palestinian revenues, encapsulated by the clearance revenues, coupled with their susceptibility to the shifting political climate. Complementing these obstacles was a consistent deterioration in foreign grants, plumbing depths unseen for more than a decade, with tangible disbursements falling notably shy of the targets delineated in the 2022 budget. Collectively, these elements posed substantial hurdles to the state of public finances, escalating the difficulty for the government to fulfill its obligations, thereby fostering a mounting of arrears. This chapter illuminates the primary developments that sculpted the Palestinian government's fiscal topography throughout the course of 2022.

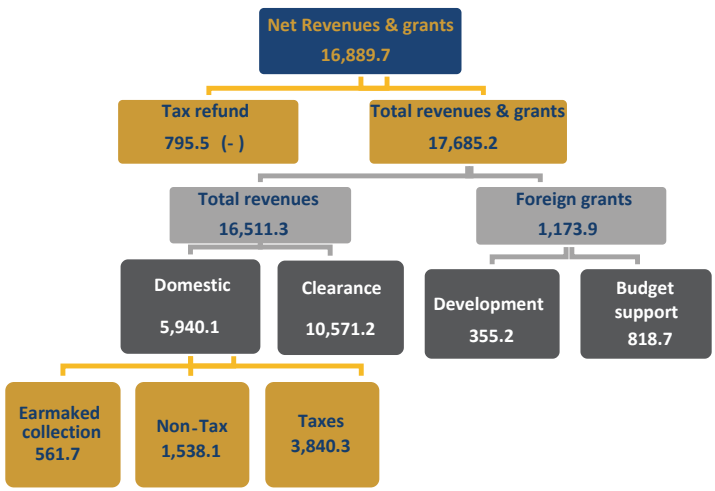
Public Revenues and Grants

In 2022, domestic and clearance revenues increased, while foreign grants remained at their lowest levels. As a result, total public revenues and grants rose by approximately 17.9% compared to the previous year, totaling around NIS 17.7 billion. Tax refunds saw a nearly 2.7 fold increase compared to the previous year, amounting to around NIS 0.8 billion. These developments led to a 14.9 percent increase in net public revenues and grants in 2022, totaling around NIS 16.9 billion.

Public Revenues

The public revenues collected in 2022 increased by approximately 18.2% compared to the previous year, reaching around NIS 16.5 billion. This increase was driven by the ongoing improvement in economic activities (despite slower growth rates) and the financial reforms implemented by the government. The general price rise also resulted in higher import values, which positively influenced tax collections and government revenues. Government revenues are distributed between clearance revenues, which accounted for 64% of total governmental revenues, with domestic revenues accounting for around 36% (including 23.3% in tax revenues, 9.3% in nontax revenues, and 3.4% in earmarked collections). The tax burden, or tax effort, increased to approximately 25.8% of GDP in 2022, compared to around 23.8% in 2021[6].

Figure 2- 1: Total revenues framework (NIS million), 2022



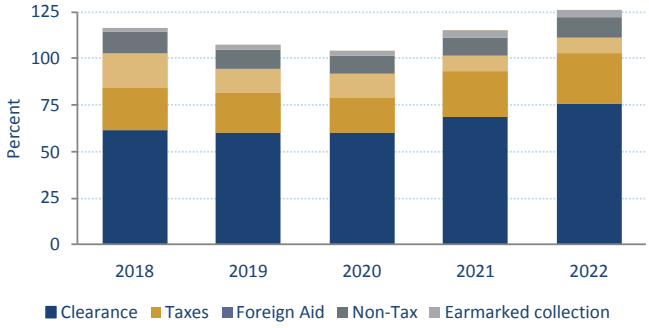
Source: Ministry of Finance (MoF) database.

The analysis of the components of governmental revenues reveals a 17.6 percent rise in tax revenues over the previous year, totaling around NIS 10.6 billion. This increase can be attributed to the global rise in prices, which increased Palestinian import costs and consequently boosted tax revenues (value-added tax and customs duties). Tax revenues primarily consist of customs duties accounting for about 44.8%, fuel revenues comprising approximately 29.3%, and value-added tax revenues accounting for around 24.3%. Meanwhile, income tax, purchase tax, and other tax revenues

[6] Tax burden or effort, represents the magnitude of taxes collected by the government in various forms as a percentage of the nominal GDP.

constituted about 1.7% of the total tax revenues in 2022[7]. It is important to note that in 2022, clearance revenues accounted for about 75.5% of total current expenditures and net lending (on a cash basis). Therefore, any disruption or interruption in clearance revenues would have severe consequences on the public budget, making it harder for the government to meet its obligations.

Figure 2- 2: Revenues and grants as a percentage of current expenditures, 2018- 2022



Source: Ministry of Finance (MoF) database.

Domestic revenue collection experienced a noticeable upswing in 2022, ascending by 19.3% compared to the previous year, reaching approximately NIS 5.9 billion. This surge was nurtured by the expansion of economic activity, coupled with inflation, resulting in an increased volume of tax collections. This line of revenue comprised tax revenue (roughly 64.6%), nontax revenues (about 25.9%), and earmarked collections (approximately 9.5%). Of note, domestic revenue collections significantly offset around 42.4% of the ongoing expenditures and net lending.

Pivoting to the developments within the components of domestic revenue collection in 2022, tax revenues saw a rise of approximately 19.2% compared to the previous year, accumulating to around NIS 3.8 billion. These revenues helped offset around 27.4% of ongoing expenditures and net lending, as opposed to approximately 24.7% in 2021. The distribution of tax revenues comprised value-added tax (VAT) revenues, making up around 37%, a figure that had risen by approximately 18.6% (about NIS 1.4 billion). Customs revenues accounted for about 28.7%, with a value of NIS 1.1 billion, marking an increase of roughly 17.8%. The share of income tax revenues stood at around 24.4%, an ascent of roughly 29.9%, amounting to nearly NIS 0.9 billion. Tobacco taxes accounted for around 9.2%, or NIS 354.8 million in revenue. Property tax and beverage excise revenues generated around 0.6 percent of total tax collections, or NIS 21.7 million.

Nontax revenues also increased in 2022 by about 18.3%, reaching approximately NIS 1.5 billion. Consequently, their contribution to covering current expenditures and net lending rose to around 11%, compared to roughly 10% in 2021, and formed approximately 25.9% of domestic revenue collections. Earmarked collections rose in 2022 to about NIS 561.7 million, compared to approximately NIS 458.2 million the previous year, making up around 9.5% of domestic revenue collections and contributing to covering approximately 4% of current expenditures and net lending during the same period.

Foreign Grants

Reflecting on 2022, there was a slight divergence from the previous year, historically one of the bleakest in terms of foreign grants. These remained at strikingly low levels, at approximately NIS 1.2 billion, compared with around NIS 1 billion in 2021, marking the lowest point in over a decade. The share of these funds from the net public revenue and grants stabilized at approximately 7%, echoing the 2021 proportion and contributing to covering about 8.4% of the current expenses and net lending versus about 7.9% over the same period.

Generally, foreign grants constitute a primary source of treasury revenue. These are apportioned between grants supporting the budget, roughly NIS 0.8 billion, and developmental grants, totaling around NIS 0.4 billion. They also play a part in reducing the government deficit. In 2022, foreign grants contributed to trimming the government deficit from NIS 1.8 billion (on a commitment basis, pre-aid) to roughly NIS 0.6 billion (post-aid).

[7] The contribution of the above-mentioned taxes to clearance revenues is calculated on a commitment basis, as these details are not available on a cash basis.

Box1 : Actions to Bolster the Palestinian Government's Financial Standing

The Israeli-Palestinian 1994 Economic Agreement (Paris Protocol) has entrenched a complex state of dependence and control over Palestinian financial resources. This agreement has granted Israel several levers to exercise economic, financial, and political pressure on the Palestinian economy in general, and the Palestinian government in particular, through means such as clearance revenues, trade, Palestinian labor in Israel, and cash liquidity. Though these levers may seem economic in nature, they are purely political at their core and in their implications, causing numerous financial and economic crises over the past three decades. This has resulted in the deterioration and distortion of various economic indicators, significantly impacting the quotidian life of average Palestinian citizens.

Over the past years, the Palestinian government's budget has suffered from chronic structural imbalances. A substantial part of this imbalance is tied to the nature of the relationship fostered by the Paris Protocol, with another part due to the repercussions of unilateral actions taken by the Israeli side, particularly in relation to the area (C) of the West Bank, and clearance revenues (customs, VAT, purchase tax, petroleum tax, and income tax). Under the Paris Protocol, Israel, on behalf of the Palestinian government, is responsible for collecting taxes imposed on goods imported by the Palestinian Authority (PA) from or through Israel. These revenues should then be transferred to the Palestinian side during the first week of each month, minus a 3 percent administrative fees.

These revenues have been a safety valve for the Palestinian government, as they constitute, on average, around 65% of total Palestinian revenues. They contribute to covering more than 50% of total current expenses and almost entirely fund the public personnel payroll. However, over the years, these revenues have been subjected to numerous Israeli unilateral measures. In addition to the 3% deducted by Israel as an administrative fees, these revenues have experienced recurrent and escalating deductions through leakages, offset payments for electricity and water consumption, medical transfers, and the list goes on. Amounts were deducted in response to lawsuits filed by Israelis against the PA and to cover payments made by the Palestinian government as salaries and wages to the families of Palestinians who have been imprisoned or killed by the Israel occupation forces, also known as Palestinian martyrs' families. This is in addition to the repeated suspensions of their transfer to the Palestinian side, which have plunged the Palestinian government into multiple crises.

Without these revenues, the government cannot fulfill all its obligations, as was the case in the last two years. During this time, the government suffered a financial crisis that can only be described as suffocating due to these recurrent and escalating deductions. This situation coincided with the health pandemic crisis and a shortage in the volume of foreign grants. As a consequence, the Palestinian government has been driven to borrow more, primarily from the banking sector, in order to partly meet its commitments, while also accruing more arrears to contractual and trading private sector entities.

Since the beginning of this crisis, the government has been calling on all relevant parties, particularly the United States, to step in and bring pressure to bear on Israel to stop its unilateral actions. Moreover two years into the crisis, in May 2023, the press and social media announced that the Israeli side plan to take steps to improve the Palestinian government's economic situation. These steps include the following:

Al-Kramah Crossing Revenues

The Paris Protocol sets forth a specific arrangement for sharing the fees collected by the Israeli side from travelers departing through the Allenby Bridge to Jordan. This agreement defines a fee of USD 26 per traveler, which is split evenly between both sides. One USD is deducted from the Palestinian share in favor of the Israeli side as a service fee (for maintaining and upgrading the crossing), meaning the Israeli side receives USD 14, compared to USD 12 for the Palestinian side. This distribution is linked to the annual number of travelers. The Palestinian and Israeli shares are calculated according to this distribution up to 750,000 travelers annually. If the number of travelers exceeds this number, the distribution becomes USD 16 for the Palestinian side and USD 10 for the Israeli side.

Despite the Israeli side unilaterally increasing these fees several times since 1994 under the pretext of changing the USD exchange rate against the NIS (from USD 26 to USD 36 in 2008, to USD 44 in 2013, to the current rate of approximately USD 50), this did not lead to a proportional increase in revenues transferred to the Palestinian government, despite the increase in the total number of travelers. This is in addition to the Israeli side not transferring the entire Palestinian share of the fees stated in the agreement, which is USD 26, resulting in a continuing disagreement between the two sides over these dues.

Alteration of the Fuel Blue Tax Commission

The Israeli measures included the potential elimination or reduction of the administrative fees (3%) on the collected amounts for the Blue Tax, which is imposed by the Israeli authorities on the prices of fuel supplied to the occupied Palestinian territory (oPt). It is important to note that the Blue Tax accounts for more than 40% of fuel prices. Based on statements made by the Prime Minister and the Minister of Finance, this modification is projected to yield monthly savings of approximately NIS 4–5 million for the government treasury.

Update to the Duty-Free Import List

The Paris Protocol included a set of lists (A1, A2, and B) that were created as exceptions to the common import policy of the customs union. These lists granted the Palestinian government a certain degree of independence in determining its own system governing the importation of specific products from Jordan, Egypt, and other Arab and Islamic countries. These lists were considered as a first step toward the establishment of an eventual independent Palestinian tariff system.

However, the restrictions imposed by the Israeli side on the review, update, or expansion of these lists have limited the Palestinian government's ability to benefit from them. These lists were originally built based on the needs of the Palestinian market as defined over 20 years ago when the Paris Protocol was signed. Since 1994, the number of specified goods in lists A1 and A2 has barely increased, despite the Palestinian total imports more than tripling during this period. As a result, Palestinian consumers have been unable to benefit from competitive prices between Israel and other producers.

Furthermore, the Israeli government imposes rigorous scrutiny on an extensive array of dual-use commodities originating from or re-exported through Israel to Palestine. This regulatory framework acts as a formidable barrier to the advancement of vital economic sectors. These measures are based on the Defense Export Control Law of 2007 and the military order issued in 2008, which require all dual-use imports destined for the oPt to acquire specific approvals and adhere to severe reporting and disclosure requirements. Consequently, the importation of such goods becomes arduous, and in certain instances, unfeasible.

The West Bank's dual-use import list includes six categories of fertilizers, two types of pesticides, and 23 chemically pure chemicals. Furthermore, it encompasses 26 different types of materials, machinery, and equipment. In contrast, the Gaza Strip's roll of dual-use imports extends to incorporate additional commodities, including cement, reinforced iron, insulation panels, and wood used in furniture manufacturing, to highlight a few. It is beyond dispute that these restrictions exert a notably adverse influence on pivotal sectors such as agriculture, manufacturing, information technology, and communications, impeding the development of food processing, metal production, pharmaceutical manufacturing, textiles, leather goods, paints, detergents, and cosmetics. Within the confines of Gaza, the detrimental repercussions of the dual-use list extend their reach to virtually all economic activities.

Are these measures capable of addressing the government's financial crisis?

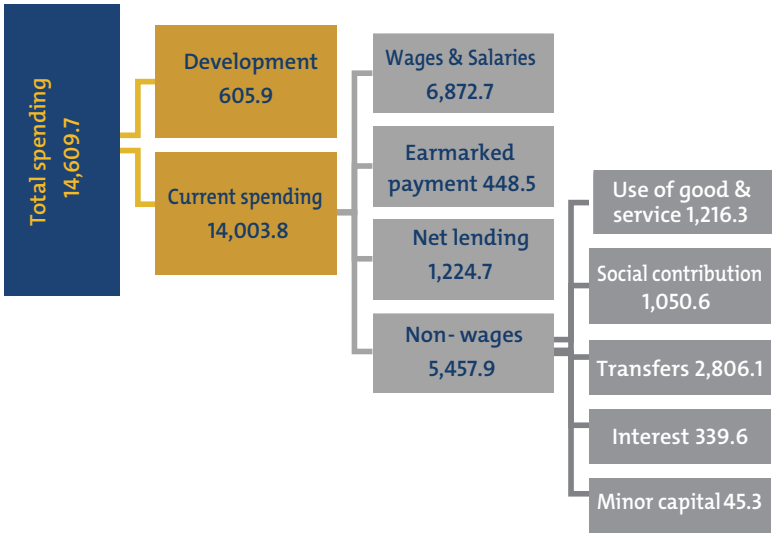
While the implementation of these measures in practice would undoubtedly yield a positive impact on the fiscal situation of the Palestinian government, it is important to acknowledge that their magnitude may not be substantial enough to entirely resolve the deep-rooted financial crisis. Nonetheless, these steps would act as a strong deterrent, keeping the crisis from escalating and providing some stability and respite to the government's fiscal situation.

Sources:
Fiscal operations, Ministry of Finance, official website.
IMF (2023), West Bank and Gaza: Report to the Ad Hoc Liaison Committee.
The World Bank (2023), Word Bank Economic Monitoring Report to the Ad Hoc Liaison Committee.

Public Spending

In 2022, actual government spending grew by 7.4% from the previous year to a sum of around NIS 14.6 billion. Despite this rise, the government failed to meet all of its commitments on time, accumulating new arrears that favored government servants and the private sector. Therefore, it is more effective to track and analyze changes in public spending through a commitment-based[8]. In this context, data indicate an upswing in the due public spending by about 1.1% compared to the previous year, reaching around NIS 18 billion, with the actual public spending accounting for approximately 81.2% of the due public expenditures in 2022. As in previous years, the bulk of expenditure was recurrent, accounting for around 95.9% against about 4.1% for developmental spending.

Figure 2- 3: Public spending framework (NIS million), 2022



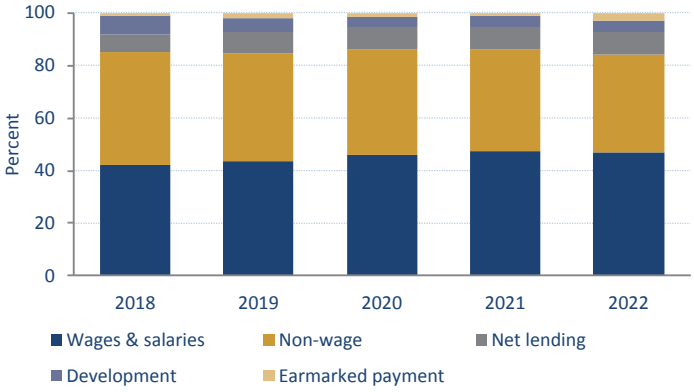
Source: Ministry of Finance (MoF) database.

[8] The term actual amounts signifies the concrete sum of finances that the government has truly disbursed. In contrast, the amounts due, or obligations, denotes the outstanding commitments that the government is held liable for within a specific timeframe, typically a year, which may not always be entirely fulfilled by the government. As for targeted amounts, it references the specific allocations that the government earmarks when formulating its budgetary blueprint.

Current Expenditure and Net Lending

Actual current expenditure and net lending rose in 2022 by 7.3% compared to the previous year, totaling around NIS 14 billion. However, on a commitment basis, it remained stable, with a slight increase of 0.4%, at approximately NIS 17.1 billion. The current expenditures primarily cover wage and salary expenses and nonwage expenses (about 88.1% of the current expenses). The due wage and salary bill increased by 4.1% over the previous year, totaling roughly NIS 8.1 billion. And on a cash basis, it surged by approximately 6.8%, reaching around NIS 6.9 billion, which constituted around 49.1% of current expenditure and net lending and about 47% of actual public spending.

Figure 2- 4: Expenditure components as a percentage of total expenditures, 2018- 2022



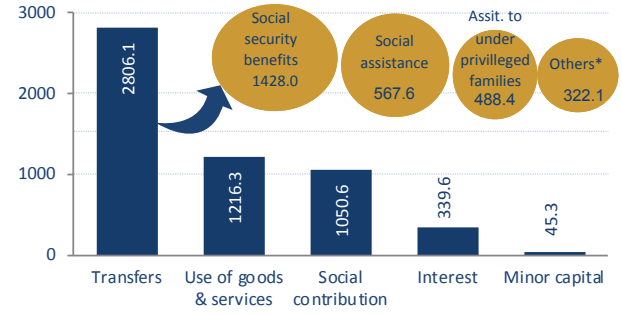
Source: Ministry of Finance (MoF) database.

When salary item was broken down by responsibility centers in 2022, the security and public order sector (specifically the Ministry of Interior and security forces) claimed the largest share, at 37.6%. The Ministry of Higher Education and Education captured about 33.7% of the salary and wage bill, while the Ministry of Health accounted for approximately 11.5%. The public administration's share stood at around 8.6%, with about 4.6% allocated to economic affairs, environmental protection, and housing and approximately 4% to social, religious, and cultural affairs and services[9].

Furthermore, data showed a 4.9 percent decline in nonwage expenses on a commitment basis in 2022 compared to the previous year, reaching roughly NIS 7.2 billion. This expenditure tier rose on a cash basis by about 3.9%, totaling approximately NIS 5.5 billion. Nonwage expenses accounted for around 39% of current expenditure and net lending and about 37.4% of the actual public spending in 2022.

The analysis of nonwage expenditures showed that transfer expenses were for roughly 51.4% of the total of this item, or approximately NIS 2.8 billion while decreasing by nearly 17.5% from the previous year. Expenditure on the use of goods and services constituted about 22.3% of nonwage expenses this year, increasing by roughly 4%, reaching around NIS 1.2 billion. As for social contributions, they made up about 19.2% of nonwage expenses, amounting to NIS 1.1 billion. Interest payments decreased to approximately NIS 339.6 million, constituting 6.2% of nonwage expenses. While, minor capital expenses totaled around NIS 45.3 million, about 0.9% of nonwage expenses. Transfer expenditures include NIS 1.4 billion directed toward social insurance benefits, such as civilian and military pensions, constituting 50.9% of the total transfer expenditure. This is followed by NIS 0.6 billion set aside for social assistance, accounting for 20.2% of the

Figure 2- 5: Non-wages expenditures, 2022



* Includes unemployment benefits, local government support, payments to NGOs and civil society & universities, educational subsidies & scholarships, and compensation for damages & emergency expenditures.
Source: Ministry of Finance (MoF) database.

[9] The shares of responsibility center items in the wage and salary bill are calculated on a commitment basis, due to the unavailability of these details on a cash basis.

transfer expenditure. Assistance to low-income families receives an allocation of NIS 0.5 billion, representing 17.4% of the overall transfer expenditure. Approximately NIS 0.2 billion, or 6.9% of transfer expenditure, is earmarked for unemployment benefits. A further NIS 0.1 billion is allocated to a diverse range of areas, spanning university and civil society transfers, local government support, grants and educational scholarships, emergency damage compensation, and other miscellaneous transfers.

As for net lending, it rose in 2022 by 1.4%, reaching about NIS 1.2 billion, causing further distortion in the general budget items, as it drained an additional portion of the revenues of the Palestinian treasury and clearance revenues, constituting about 8.4% of public expenditure in 2022. Earmarked payments also increased to around NIS 448.5 million, compared to about NIS 161.7 million in 2021, about 3.1% of total public expenditure.

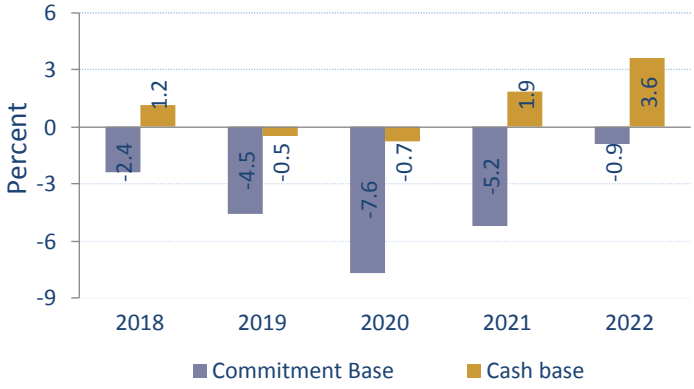
Development Expenditures

In 2022, actual development expenditures increased by 12.1% over the previous year, reaching over NIS 0.6 billion. These expenses comprised about 66.8% of targeted amounts and around 4.1% of total public spending, a relatively low percentage, as seen in previous periods. The development spending-to-GDP ratio remains low, barely exceeding 0.9% in 2022, practically identical to the previous year's level. If any, this indicates that the bulk of actual public spending is predominantly on consumption.

Fiscal Balances

The unfolding of revenue and expenditure trajectories in 2022 yielded a pre–foreign grants deficit, based on a commitment basis, amounting to approximately NIS 1.8 billion. This figure mirrors roughly 2.7% of the nominal GDP. The application of foreign grants whittled this deficit down to an estimated NIS 0.6 billion, corresponding to approximately 0.9% of the nominal GDP. This highlights the instrumental role of foreign grants, underlining the dependency on them to underpin the public budget and curtail the deficit. This is particularly pertinent given the volatility of public revenue streams, specifically clearance revenues, which are generally tethered to the prevailing political climate. Concurrently, it illuminates the fragile nature of the government's financial landscape, underpinned by its dependency on local evolution in sync with political conditions, alongside the economic circumstances within donor countries.

Figure 2- 6: Overall budget balances % of GDP, 2018- 2022



Source: Ministry of Finance (MoF) database.

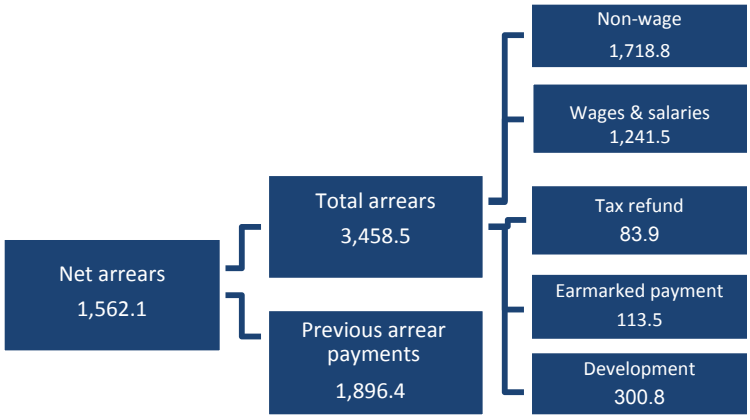
The overall public finance balance on a cash basis, pre–foreign grants, realized a surplus approximating NIS 1.1 billion, which stands for around 1.8% of the nominal GDP. This contrasted with a surplus hovering around NIS 2.3 billion post–grants, equating to roughly 3.6% of the nominal GDP. However, these surplus figures fail to portray the genuine fiscal government's state of affairs, given its incapacity to offset all its accumulated and impending expenditures, thereby contributing to a growth in the accumulation of arrears.

Government Arrears

Over the course of 2022, the government amassed a total of arrears nearing NIS 3.5 billion. Concurrently, the government successfully discharged approximately NIS 1.9 billion from the residual arrears of preceding years, rendering the 2022 net arrears to hover around NIS 1.6 billion.

The total arrears were primarily distributed between nonwage arrears at about 49.7% (equivalent to NIS 1.7 billion)[10], wage and salary arrears at about 35.9% (approximately NIS 1.2 billion), development expenditure arrears at nearly 8.7% (around NIS 0.3 billion), earmarked payment arrears at 3.3% (approximately INIS 0.1 billion), and tax refund arrears at 2.4% (almost NIS 0.1 billion) of the total arrears in 2022.

Figure 2- 7: Arrear payments (NIS million), 2022

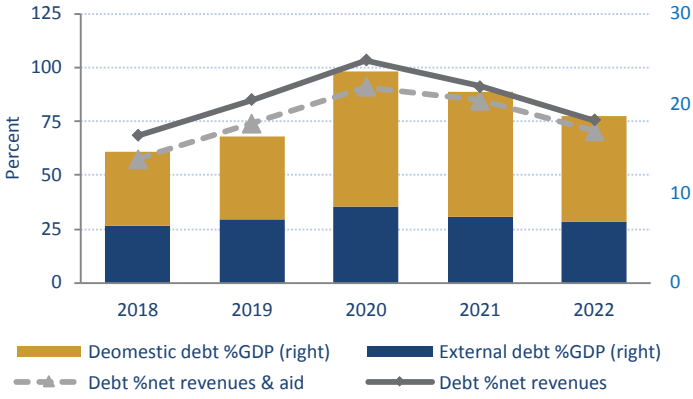


Source: Ministry of Finance (MoF) database.

Government Public Debt

The Ministry of Finance data point to a contraction in the government's public debt by the end of 2022, denominated in US dollars, exhibiting a decline of roughly 7.9% compared to the preceding year. This places the debt at approximately USD 3.5 billion, or around NIS 12.5 billion, which translates to 18.5% of GDP. Despite the contraction of the debt, it persistently towers high relative to historical spans, a consequence of the ongoing quandary of clearance revenues paired with Israel's persistent subtractions and truncations from these funds. The plight is further aggravated by a precipitous dip in the foreign grants, plunging to their nadir.

Figure 2- 8: Government debt % of revenues & GDP, 2018- 2022



Source: Ministry of Finance (MoF) database.

The composition of public debt splits between domestic debt, accounting for close to 63.3%, and external debt claiming roughly 36.7%. Domestic government debt fell by around 11.3% compared to the previous year, totaling around USD 2.2 billion (NIS 7.9 billion), or 11.7% of GDP. This was divided between long-term debts at around 50.1% and 49.9% short-term debts.

It should be noted that the largest portion (about 76.6%) of local government debt is in Israeli shekels, particularly since most of the public revenues and expenditures are in this currency, which prompts the government to borrow in this currency in an attempt to avoid the risks of exchange rate fluctuations. The banks operating in Palestine

[10] The arrears were distributed among the use of goods and services arrears (operating expenses arrears) at around NIS 1.5 billion, transfer expenses arrears, which include compensation for damages, emergency expenses, and support for NGOs and local governments, at about NIS 0.3 billion. In addition, there were arrears on interest on public debt amounting to about NIS 136.5 million, while the arrears for minor capital expenses amounted to around NIS 54.2 million. About NIS 259.5 million were prepaid from social contributions.

contributed about 97.5% of the total domestic government debt in 2022, compared to about 2.5% (or equivalent to USD 57 million) financed by other public institutions[11].

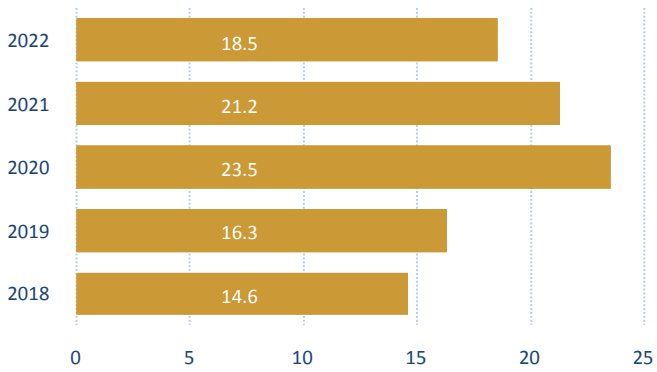
Turning attention to external government debt, it generally tends to be stable. It was roughly the same level as the previous year, around USD 1.3 billion (totaling around NIS 4.6 billion), equivalent to 6.8% of nominal GDP in 2022. Arab financial institutions contributed approximately 62.5% of the external government debt, amounting to USD 813 million: USD 513.5 million from the Al-Aqsa Fund, about USD 265 million from the Qatar National Bank, USD 14.1 million from the Arab Fund for Economic and Social Development, and 20.4 million from the Islamic Development Bank USD.

International and regional institutions contributed around 26% of this debt, or equivalent to USD 338.7 million: About USD 278.7 million from the World Bank, USD 24.7 million from the European Investment Bank, USD 22.5 million from the OPEC Organization, USD 11.1 million from the German Cooperative Bank, and around USD 1.7 million from the International Fund for Agricultural Development.

Bilateral loans also contributed about 11.5% of the foreign government debt, equivalent to USD 149.5 million: USD 74.1 million from Spain and about USD 75.4 million from Italy. Generally, external government debt is characterized by being closer to grants and donations and is mostly long-term debt.

In 2022, Palestine's public debt-to-GDP ratio seemed low (18.5%) compared to certain neighboring economies. This ratio in Jordan reached around 88.1% by the end of October 2022 (excluding the debts of the Social Security Investment Fund), and in Israel, about 60.9% by the end of 2022[12]. However, this ratio does not reflect the reality of the government's financial standing and stability for a variety of reasons, most notably the scarce and restricted access to financial resources, let alone the lack of control over more than two-thirds of treasury income (clearance revenues and foreign aid). In addition, the absence of a national currency and the government's borrowing in several currencies exposes it to exchange rate risks. This layer of debt is generally used to cover current expenses that are not expected to significantly impact long-term development. All of these factors impede the government's capacity to continue borrowing, repay debts, and meet its commitments on time.

Figure 2- 9: Government public debt a percentage of GDP, 2018- 2022



Source: Ministry of Finance (MoF) database.

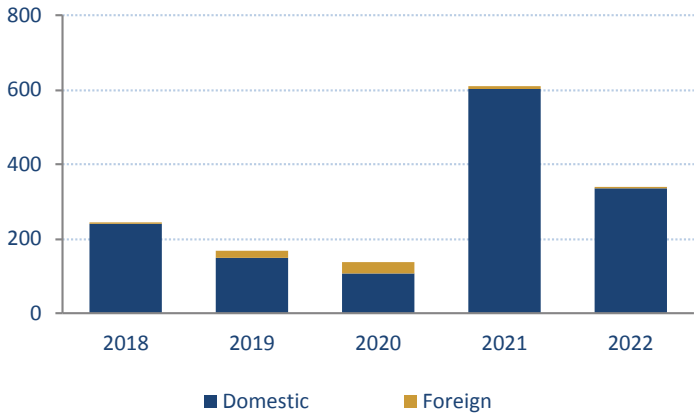
In 2022, government debt accounted for about 70.4% of net public revenues and foreign grants, and approximately 75.6% of net public revenues, compared to about 84.6% and 91.1% the previous year. These figures demonstrate the government's financial instability and fragility, dependent on economic and political developments internally and externally, i.e., in the donor countries.

[11] When neutralizing the effect of the exchange rate, the credit granted by banks to the government in 2022 decreased by 1.9% compared to the previous year. The exchange rate of the US dollar against the shekel has increased to reach NIS 3.540 per USD at the end of 2022, compared to about NIS 3.117 at the end of the previous year. The value of the domestic government debt measured in US dollars is directly and significantly affected by the developments in the currency exchange rate (NIS against USD), given that the largest portion of this debt is in shekels. It is also worth mentioning the slight difference between the Ministry of Finance's data of the PMA, as the Ministry of Finance's data include loans provided by other public institutions, Furthermore, the process of recording restrictions, extracting data, and the exchange rate used could lead to such discrepancies.

[12] The Central Bank of Jordan, February Monthly Report, the Research Department (February 2023). Israeli Ministry of Finance (website), (https://www.gov.il/en/departments/news/press_18012023.).

The rise in this ratio demonstrates the government's inadequate repayment capacity as well as an increase in the number of years due for payback, indicating that the government's financial resources have been depleted. The ratio of public debt-to-GDP in 2022 reached about 18.5% compared to about 21.2% in the previous year. It is worth noting that when the accumulated arrears on the government are considered liabilities due for payment, these ratios surpass the permitted limit under the Public Debt Law (40% of GDP).

Figure 2- 10: Interest payments, 2018- 2022



Source: Ministry of Finance (MoF) database.

The interest paid on government debt (on a cash basis) reached NIS 339.6 million in 2022, compared to approximately NIS 610.6 million the previous year, constituting around 71.3% of the amount due within the same year. This sum includes NIS 335.6 million in interest payments for local debt and NIS 4 million in interest payments for foreign debt.

2023 General Budget: Main Features

In April 2023, amid escalating financial uncertainties, the Palestinian Cabinet approved the general budget for 2023 as an emergency budget, apportioning it in accordance with the government's available cash flows. This budget came against the backdrop of burgeoning doubt surrounding the government's revenues and expenditures. On the revenue front, skepticism revolves around anticipated revenues and their sustainability in light of persistent and escalating deductions from clearance revenues, coupled with a drought of foreign grants buttressing the budget. Conversely, apprehension lingers over the government's forecasted expenses, particularly amid a climate of ongoing labor unions protests and demands.

With financial and political obstacles showing no signs of abating, the government's financial predicament is projected to escalate, culminating in a deficit not falling short of USD 360 million. As per the Finance Minister's public declarations, this figure omits the deductions enforced by Israel on the general treasury, which, when factored in, elevates the deficit to a staggering estimate of USD 610 million.

Chapter Three

External Sector

Overview

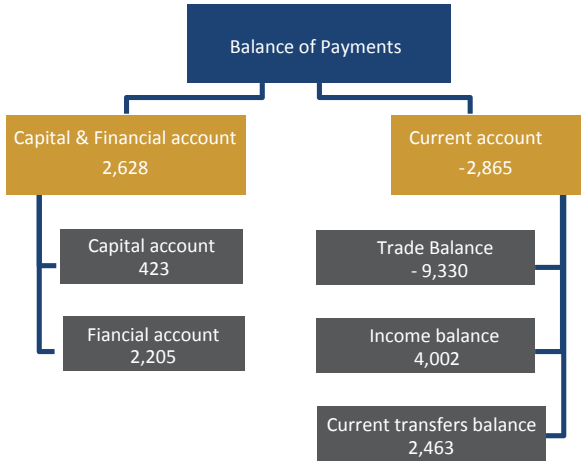
Global trade was impacted in 2022 by numerous shocks that reverberated to the energy markets, supply chains, and the real economy. These were largely due to the ongoing Russo-Ukrainian war and its repercussions on international trade and economy. Inflation has thus become the main concern of economic decision-makers, and monetary tightening has become the principal dynamism to address the continual rise in prices. This has unevenly affected global trade across the world.

The Palestinian economy was not insulated from these developments, which notably led to an increased current account deficit in 2022. The deficit doubled from the previous year, mainly as a consequence of a considerable rise in the trade deficit driven by a surge in imports to record levels. Part of this rise is tied to the high prices of basic commodities, despite the growth in current transfers, increased exports, and income transferred from abroad. This chapter highlights the major developments in the Palestinian external sector in 2022.

Balance of Payments

From the perspective of the international statistical comparisons, the balance of payments (BoP) is one of the most important tools through which the performance of the economy can be measured and compared with the rest of the world, in addition to its role in measuring the volume of official foreign reserves, and determining the country's competitiveness compared to other countries. In general, the BoP consists of two main components: the current account and the capital and financial account.

Figure 3- 1: Palestinian balance of payments (USD million), 2022

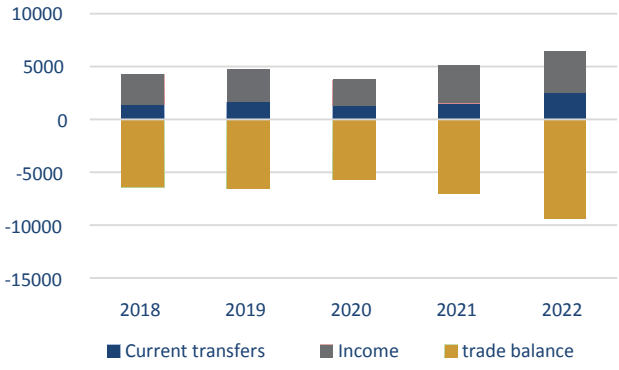


Source: PMA & PCBS database.

Current Account

In 2022, the current account recorded a deficit amounting to USD 2,865 million, marking a surge of 61.1% compared to its stance in 2021. This constituted around 15% of GDP, a stark contrast to 9.8% in the previous year. This noticeable escalation in the deficit can be traced back to a substantial surge in import volumes, predominantly those of goods, despite increases in the surplus within the current transfers account and income from abroad, in addition to an improvement in exports. The current account is composed of three sub- accounts: the trade balance (comprising both goods and services), the income account, and the current transfers, which experienced the following developments over the course of 2022.

Figure 3- 2: Current account balances (USD million), 2018-2022

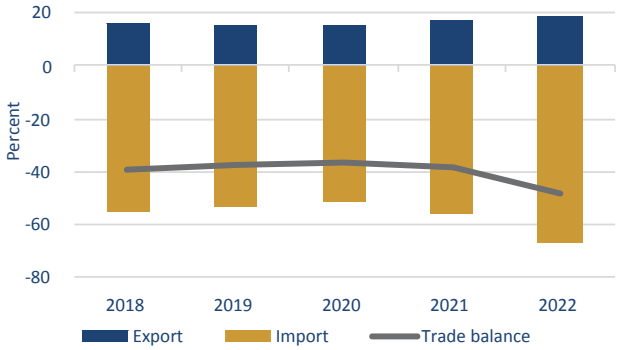


Source: PMA & PCBS database.

Trade Balance

The Palestinian trade balance has suffered from a chronic deficit fundamentally associated with Israeli restrictions on foreign trade, especially goods. Intensifying year after year, this deficit entails structural distortions. In 2022, the trade deficit surged by roughly 34.1% compared to the previous year, reaching approximately USD 9.3 billion or 48.8% of GDP, compared to 38.4% in 2021[13]. This deficit is the main driver of the current account deficit, reflecting a general trend in the trade balance that has been prevalent for decades. This is due to the ballooning of imports, particularly goods, at an accelerating pace, juxtaposed with a lesser increase in exports, which, at best, constitute no more than one-third of imports.

Figure 3- 3: Net exports as a percentage of GDP, 2018-2022

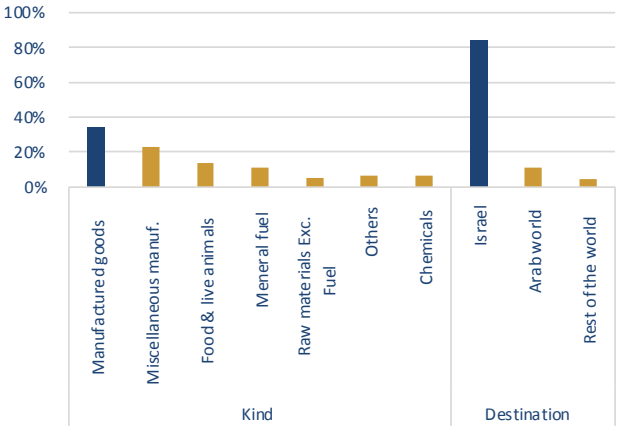


Source: PMA & PCBS database.

This deficit also reflects the vulnerabilities of the Palestinian economy and its incapacity to meet its essential needs, pushing it to rely on foreign sources, specifically from Israel. The latter, in turn, flood the Palestinian market with its goods, allowing them a free influx while impeding the access of Palestinian exports to foreign markets.

Palestinian exports in 2022 were distributed between the basic manufactured goods category, including wood, paper, metal, textiles, and others, accounted for approximately 34% of total exports. The miscellaneous manufactured goods category ranked second, including furniture, clothing, shoes, and others, with a share of 23.1%. Food and live animals accounted for 13.8%, while raw materials (excluding fuel) had a share of 10.8%. Chemicals accounted for around 6.4%, machinery, and transportation equipment accounted for approximately 4.9%, and the remaining miscellaneous exports constituted about 6.5% of total commodity exports.

Figure 3- 4: Major exported goods and destination, 2022



Source: PCBS database.

Commodity exports are generally concentrated in a small number of items, with ten commodities accounting for around 40.8% of total exports[14]. Given the direct interoperability and dependence of the Palestinian market on the Israeli market, the bulk of commodity exports is channeled toward Israel, accounting for around 84.5% of these exports. In contrast, about 10.9% goes to the Arab world (intra-Arab trade), and only around 4.6% of Palestinian exports are directed to the rest of the world.

On the other hand, foodstuffs and live animals seize the highest rung, constituting a substantial 25.6% of total imports. Trailing closely are essential manufactured goods, capturing a share of 17.3%, and the category of mineral fuels and energy products, claiming 17.1% of total imported goods[15]. Machinery and transportation equipment constitute 14.3%, while chemicals round up to about 11.8%.

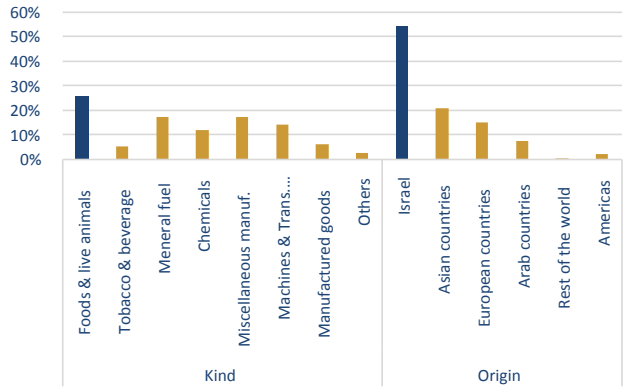
[13] Deficit ratios in this Chapter differ from Chapter I, as the former is in nominal terms while the latter is in real terms.

[14] These commodities include building stone, nylon bags, scrap iron, upholstered seats, dates, henna, olive oil, marble and granite, aluminum profiles, and wrought iron.

[15] Imports of fuel oil, gasoline, and gas are among the top ten imported commodities, accounting for approximately 10% of the import volume, while energy accounts for around 9% of the imports.

Miscellaneous manufactured goods tally up to 6.1%, with beverages and tobacco composing 5.2% of imports. The remaining commodity imports stood modest at 2.6% of the total imported goods.

Figure 3- 5: Major imported goods and its origin, 2022



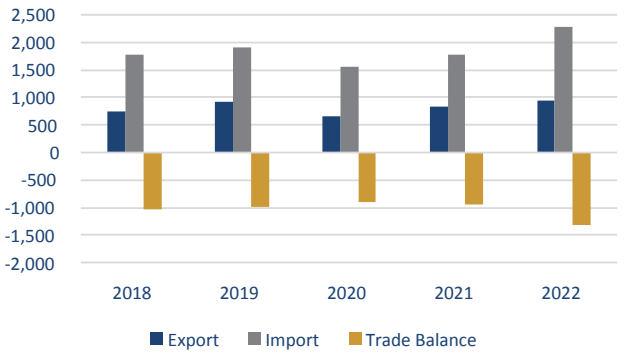
Source: PCBS database.

Israel dominated Palestine's commodity imports in 2022, claiming approximately 54% of the total. Asian nations followed with a 20.7% share, European countries accounted for 15%, while intra-Arab trade represented a mere 7.5%. The Americas had a stake of 2.3%, while the rest of the nations that engaged in trade relations with Palestine held less than 1% of total commodity imports. Ten principal commodities comprised about 31.6% of the total imported goods, with energy resources (electricity, gasoline, and diesel) making up 14.3%. Feeds, tobacco, black cement, pharmaceuticals, livestock, communication devices, and non-alloy steel bars collectively constituted 17.3% of the imports. Given its control over the movement of goods, commodities, and individuals to and from Palestine, Israel emerges as the predominant supplier of basic consumer goods in the Palestinian market. The Israeli economy reaps substantial benefits from its direct oversight of the Palestinian economy, underscored by its close integration with Israel and limited associations with the surrounding Arab countries. Additionally, Israeli economic and trade policies directly influence the Palestinian economy.

As for the service trade performance, the services balance experienced a steep decline of 40.5% in 2022, culminating in a deficit of USD 1,321 million. This downward shift was predominantly propelled by a 27.5% surge in service imports, escalating to USD 2,271 million, contrasted with a modest 13% uplift in service exports, totaling USD 950 million. Of note is that the Palestinian services balance composition is heavily reliant on travel services, representing an estimated 70% of the overall service exports and imports.

On the whole, the substantial trade deficit, encompassing both goods and services, is attributable to a range of factors. Notably, the restrictions and administrative, logistical, and security measures imposed by Israel act as significant hindrances to Palestinian trade. These nontariff barriers impede the competitive edge of Palestinian commodities. Concurrently, internal variables pertaining to the economy's structure and scale, in addition to the competitiveness and market accessibility of Palestinian products, play pivotal roles in shaping trade dynamics. An evident priority is placed on generating revenue via trade as a strategy for financing the treasury through customs duties and taxes.

Figure 3- 6: Trade Balance (USD million), 2018-2022



Source: PCBS database.

It's noteworthy that Palestine has secured a multitude of agreements with Arab and regional countries, alongside bilateral and multilateral trade protocols and preferential arrangements with a variety of international groups and countries. These agreements are set to unlock foreign markets for Palestinian commodities, recognize Palestine as an independent economic entity, diversify trade endeavors, offer superior avenues for Palestinian goods, diminish dependence on Israel as a nearly exclusive trade partner, facilitate knowledge transfer, and draw investment to bolster export-oriented sectors. Nonetheless, the current Palestinian foreign trade hasn't seen a substantial transformation

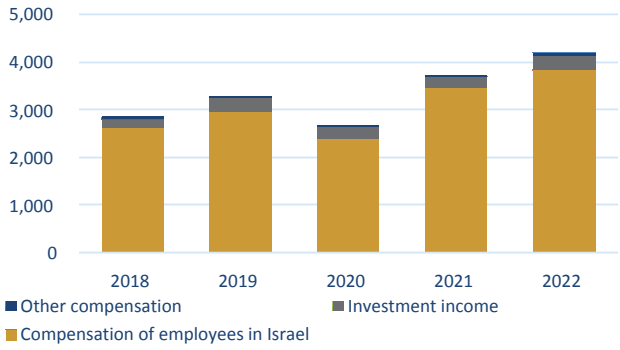
and hasn't achieved its objective of fortifying ties with the Arab region. Conversely, Palestinian territory has been metamorphosed into a broad marketplace for Israeli goods, which has carved out a prominent position among international groups in terms of exports to the Palestinian economy.

However, recent years have seen a decline in Israel's preeminence over Palestinian imports, driven by the endeavors of Palestinian traders to diversify their markets and venture into new ones beyond Israel. This hints at the possibility of further development and enlargement in this arena. Realizing this potential may necessitate increased efforts to bolster trade relations with Arab and international actors, as well as empower Palestine to manage its crossings. Such steps could set the stage for economic independence and the freedom to craft policies and trade relations with all Arab and international entities without constraint.

Income from Abroad

In the Palestinian context, income from abroad, encapsulated by compensation of employees, and investment income, serves as a crucial financing mechanism to counterbalance the trade deficit. This account invariably registers a surplus. In 2022, it marked a significant surge of roughly 10.5% compared to the preceding year, accomplishing a surplus exceeding USD 4 billion, which makes up around 20.9% of the GDP.

Figure 3- 7: Income Balance from abroad (USD million), 2018-2022

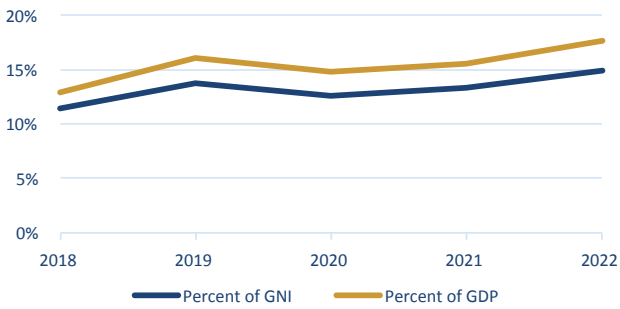


Source: PMA & PCBS database.

The uptick in the income from abroad can be ascribed to the steady influx of Palestinian labor into the Israeli market at a quickening pace and the climb in the average daily wage of Palestinian workers in Israel, in spite of the shekel's appreciation against the dollar. Furthermore, 2022 saw an escalation in returns on Palestinian investments abroad (including direct investment, portfolio investment, and other investments), hitting around USD 308 million, subsequent to a considerable surge in international market interest rates.

The realized surplus in the income account generally contributed to financing approximately 42.9% of the trade deficit in 2022. Given the primary link of this surplus to compensation of employees in Israel (constituting approximately 96% of net income in 2022), its role in reducing the current account deficit is characterized by discontinuity and lack of sustainability. These compensations are subject to the political and security conditions dictated by Israel, leading to fluctuations from year to year based on the number of workers, average daily wages, and the dollar exchange rate against the shekel. However, these compensations significantly stimulate Palestinian trade, increase domestic demand, and finance a significant portion of consumption. This context is fitting to highlight that the compensation of Palestinian workers in Israel constituted an average of around 14.9% of the GDP and approximately 12.8% of the Gross National Income during the period 2018 - 2022.

Figure 3- 8: Compensation of Palestinian workers in Israel, 2018-2022



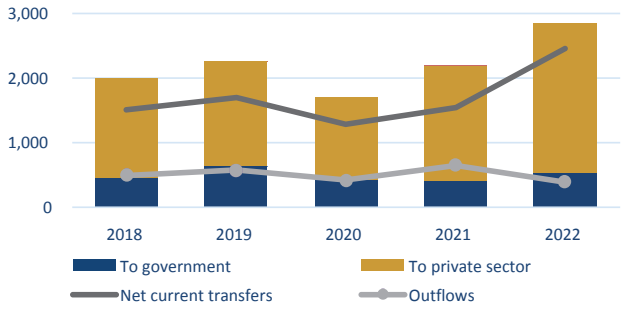
Source: PMA & PCBS database.

Current Transfers

Current transfers serve as a significant influx into the BoP and have profound implications as they form a financial lifeline for recipient households and invigorate commerce, thereby catalyzing economic growth. These funds envelop all amounts (cash and in-kind) received by Palestine, both by the public sector and the Palestinian government (in the form of budgetary support) and the private sector (in the form of diaspora remittances). Although these flows generally exhibit a consistent pattern, they may see a surge during political and economic unrest and may decelerate during political and economic stability. Primarily, they are transferred by Palestinians in the diaspora to help their families navigate livelihood crises and meet their fundamental needs such as education, healthcare, housing, nourishment, and other essential services.

In the context of Palestine, current transfers serve as a significant conduit for financing the trade deficit, consequently diminishing the current account deficit, particularly with transfers directed toward the private sector. These transfers demonstrate persistence as they represent a cost-free financial resource largely impervious to political and economic fluctuations, unlike transfers geared toward the government. In 2022, inflows to Palestine experienced a substantial rise of around 29.9% compared to the preceding year, reaching approximately USD 2.8 billion. Conversely, outflows from Palestine witnessed a reduction of about 40.3%, totaling around USD 385 million. As a result, net current transfers saw a significant increase of roughly 59% compared to 2021, amounting to about USD 2.5 billion. These transfers financed about 26.4% of the trade deficit, compared to 22.3% in 2021, which reduced the current account deficit-to-GDP to 15%, as opposed to 27.8% when excluding them. Furthermore, these transfers enhance direct investment, bolster liquidity, finance the private sector, and broaden the deposit base within the banking sector.

Figure 3- 9: Current transfers (USD million), 2018-2022

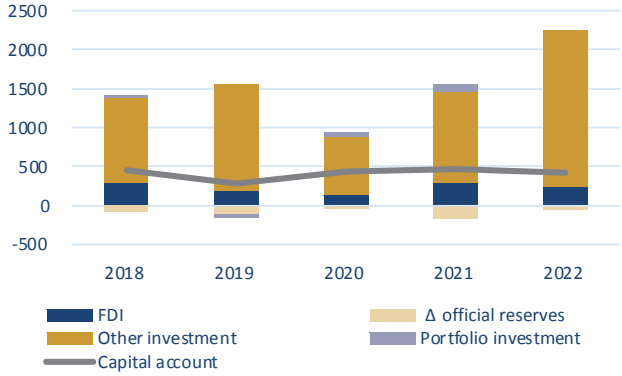


Source: PMA & PCBS database.

Capital and Financial Account

The capital and financial account (including reserve assets) recorded a surplus of USD 2,628 million in 2022, marking an increase of 42% compared to the previous year. This surplus constituted approximately 13.8% of GDP. This significant increase was primarily driven by the notable rise in the financial account surplus, which increased by around 60% compared to the previous year, reaching USD 2.2 billion. This was due to the growth in external assets, specifically the currency and deposits abroad, which increased by 104% (USD 2.1 billion). On the other hand, the surplus achieved in the capital account in 2022 decreased by about 10.2% compared to 2021, totaling USD 423 million. This decline was mainly attributed to the decrease in capital inflows to the government by approximately 43.7%, amounting to around USD 103 million, despite the increase in capital inflows directed to the private sector by about 11%, reaching about USD 320 million. Overall, the capital and financial account (including reserve assets) financed around 92% of the current account deficit in 2022.

Figure 3- 10: Capital & financial account (USD million), 2018-2022



Source: PMA & PCBS database.

On this note, it is pertinent to underscore that the PMA's reserve assets witnessed an augmentation of USD 24 million in 2022. Serving as a mirror image of the total BoP and the aggregate level of economic financing, these assets hold considerable significance, particularly in light of the absence of a national currency and alternate financing conduits for the Palestinian economy.

Current Account Sustainability

The chronic and substantial trade deficit, one of the principal determinants impacting the sustainability of the current account, averaged around 40.3% of the GDP over the period spanning 2018 to 2022. This deficit mirrors deep-seated structural and systemic challenges pertinent to the economy's competitiveness and the appeal of local products, thereby adversely influencing the durability of the current account.

A decline in this ratio signifies a diminished capacity to maintain the current account. Within the Palestinian context, this ratio averaged 14.3% during the 2018–2022 timeframe, with a notable reduction to 11% in 2022 compared to approximately 16.3% in the preceding year.

The net influx of foreign direct investment as a proportion of GDP is a further gauge of sustainability. A fall in this ratio denotes a diminishing potential for sustainability. During the 2018–2022 period, the foreign investment-to- GDP at its highest did not surpass 1.3%, a remarkably low figure. Even with the inclusion of net capital transfers to foreign direct investment as a percentage of GDP, the ratio remains modest and insufficient to uphold the current account's sustainability, peaking at a mere 3.7%. This is an insufficient rate that does not bolster the sustainability of the current account.

Furthermore, the adequacy of reserves (the ratio of official reserves to monthly imports) is extremely low and barely reaches a monthly ratio. On the contrary, the external debt and debt service as a percentage of goods and services exports show a somewhat acceptable ratio of around 71.5% in Palestine. Generally, these indicators indicate a weak capacity for sustaining the current account in Palestinian BoP.

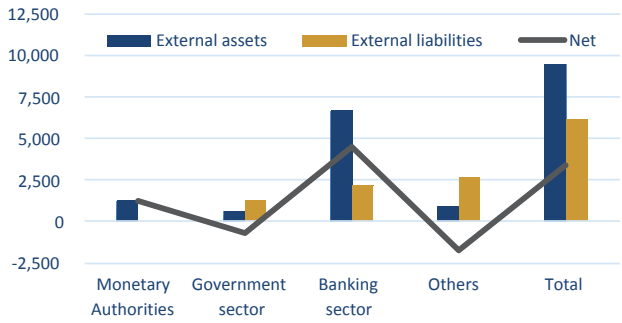
The enduring and systemic deficit in government finance directly undermines the sustainability of the current account. The government's failure to meet its commitments and the pile-up of arrears intensify the shortfall in government savings, thereby escalating the current account deficit. It's worth mentioning that the private savings gap seldom contributes to the BoP current account deficit. Moreover, the sustainability of the current account is compromised by insufficient investment in the economy's productive sectors, particularly agriculture and industry, coupled with a lack of innovation, technology, research, and development—all of which are currently considered pivotal drivers of competitiveness.

Examining the financial account within the Palestinian BoP unveils that the current account deficit has been chiefly offset by capitalizing on the external assets of the Palestinian banking sector and capital grants, collectively funding over 83.4% of the current account deficit in 2022. In contrast, financing through foreign direct investment catered to roughly 8.6% of the deficit. Rarely is external borrowing in Palestine employed to remedy this deficit; it's primarily used to cover certain current expenditures, particularly salaries, with the bulk of this debt classified as long-term. Furthermore, tapping into the reserve assets of the PMA yields no significant impact under the current circumstances.

International Investment Position

Data on the international investment position of Palestine in 2022 indicated a significant disparity between the balances of Palestinian investments abroad and foreign investments in the Palestinian economy (external assets - foreign liabilities), amounting to approximately USD 3.4 billion, an increase of 6.4% compared to the previous year.

Figure 3- 11: International investment position (USD million), 2022



Source: PMA & PCBS database.

The aggregate balance of Palestinian assets deployed abroad reached approximately USD 9.5 billion, apportioned among foreign direct investment at a rate of 3%, portfolio investment at 17%, other investments—primarily currency and deposits—at 70%, and reserve assets constituting 10%. Conversely, the total balance of foreign liabilities (nonresident investments in Palestine) amounted to roughly USD 6.1 billion, distributed between foreign direct investment, accounting for 51%, portfolio investment at 14%, and other investments—including loans and deposits—approximating 35%.

Chapter Four

Financial Sector

Part 1: Palestine Monetary Authority (PMA)

Overview

The PMA's policies and procedures have played a pivotal role in preserving the foundations of the Palestinian economy, paving the way for a prosperous economy for Palestine. By continuing to carry out the tasks and powers conferred by the law, the PMA was able to raise the efficiency of the performance of entities subject to its direct control and supervision, maintain financial stability, as a fundamental pillar of development, provide financing for various private sector activities in multiple currencies and for the required maturities, and to assist the government in implementing appropriate financial policies, in addition to helping the private sector and the business sector to invest and stimulate growth, provide more job opportunities, and empower youth, women, and entrepreneurs, thus paving the way for economic stability.

During the year 2022, the PMA was able to strengthen its steps and focus its efforts and procedures on many aspects, especially those related to digital transformation, in terms of completing the infrastructure for financial technology services and developing and introducing electronic payment services in Palestine as a strategic goal for the PMA. In parallel with preserving the safety and stability of the banking sector, by strengthening and developing payment systems and control systems, and enhancing governance and transparency of the banking sector. In addition to its actions in supporting the economy, and other achievements. This part of the report highlights the most important achievements of the PMA during 2022.

Maintaining the Integrity of the Banking Sector

Safeguarding the Integrity of the Banking Sector stands as one of the PMA's core functions. The PMA has made significant strides in cultivating an appropriate institutional and regulatory environment to govern this sector, keeping it secure, sound, and capable of shouldering the burdens imposed under the conditions and circumstances experienced by the State of Palestine. At the same time, it stays abreast of the latest global banking developments, contributing to further activating its role in stimulating the economy and encouraging sustainable economic growth. Along these lines, the PMA endeavors to:

1- Issuing regulatory instructions

The PMA has continuously worked to evolve its regulatory function, aligning with global regulatory developments. It has issued numerous regulatory instructions addressing various aspects of banking operations with a niche focus on:

- Regulating membership within the National Switch System (194), following the integration of electronic payment service companies, linking point-of-sale terminals, ATMs, banks, and payment companies to a single network.
- Regulating the opening and management of exchange dealers' accounts, organizing requirements for offering fast transfer services between main agents and subagents for quick money transfer companies, and limiting the risks of money laundering and terrorism financing associated with money transfer services.
- Regulating the role of banks' external auditors, bolstering professional conduct rules, encouraging impartiality, and enhancing the confidence level among financial data users.
- Minimizing the risks of credit concentrations and exposures at banks and organizing a mechanism for calculating credit concentration or exposure.

- Managing business continuity and identifying procedures that banks must undertake to confront threats and risks of business interruption, ensuring recovery from its impacts with minimal losses while building resilience in critical operational processes during a risk event.
- Regulating the information technology environment in banks and payment service providers, enabling them to manage their operations effectively and securely, especially cloud computing services and site rentals.
- Establishing a general framework for managing cyber risks in accordance with best practices and relevant standards, mitigating their impact on informational and technical assets.
- Regulating the calculation of the countercyclical capital buffer.
- Identifying mandatory cash reserve requirements on customer deposits.

The PMA has tailored an additional set of regulatory instructions for the nonbanking financial sector. These directives, specific to the specialized lending sector, primarily aim to facilitate financing for institutions within this sector, safeguard customer rights, and empower customers to discern between the products and services offered. They also strive to bolster transparency, disclosure, and accountability, regulate the issuance and acceptance of money transfer services, and diminish the risks associated with money laundering and terrorist financing. For the electronic payment service sector, the corpus of guidelines centers on membership in the National Switch System 194, issuance and reception of money transfers, the regulation of the information technology environment, and the payment company licensing fees.

In a similar vein, the instructions for moneychangers homed in on issues such as licensing and branching, fees, allowable and forbidden operations, issuing and receiving money transfers, inquiries on the automatic check return system, cross-border financial transactions, citizen complaint redress, the accounting system and financial reports, official working hours, security cameras, correspondence procedures, and staffing. Similarly, the PMA made Decree No. 40 of 2022 on the Licensing and Control of the Money Exchange Profession, repealing Decree No. 41 of 2016 on the Licensing and Control of the Money Exchange Profession.

2- Strengthening the Supervisory role of the PMA

In a drive to strengthen its supervisory mandate, the PMA has been assiduously broadening its regulatory activities over the entities under its direct control and supervision, encompassing banks, lending institutions, moneychangers, and electronic payment companies. Specifically, within the domain of banking financial institutions, the PMA has been meticulously aligning and advancing its regulatory undertakings in response to the dynamics of global banking and regulatory developments, including:

- Developing the Sup-Tech automated supervision system to lay the groundwork for automating supervision and inspection processes, providing a robust and secure infrastructure for data and information obtained from entities under the PMA's supervision, and directing available resources toward developmental and strategic supervisory activities. This system is expected to be launched in 2023 and will radically transform the PMA's supervision process. Of note that this system is used by more than 70 central banks worldwide.
- Developing and updating the risk-based supervision methodology, including the inspection guide and supervisory reports, and risk-based inspection of the information technology environment.
- Restructuring the Higher Sharia Supervisory Board.
- Developing and training regulatory staff by participating in several workshops and training programs on various supervisory topics, especially emerging risks such as digital financial technology, cyber threats, climate risks, and green financing.

- Directing banks to appoint a qualified external party to conduct an independent review of the accuracy and methodologies of the models used for calculating requirements under the International Financial Reporting Standard (IRFS-9), as well as assessing expected credit losses and the levels of hedging applied by the banks.
- Following up on the progress of building capital in some banks in accordance with the legal requirements and relevant instructions, assessing submitted capital-raising plans, adhering to the established framework for dealing with domestic systemically important banks (D-SIBs), and monitoring efforts to address ownership concentration ratios within the banking sector.
- Periodic reassessment of indicators for determining (D-SIBs), according to the framework for dealing with (D-SIBs).
- Conducting regular analysis of key metrics within the banking and financial sector, identifying significant developments and shifts in the financial positions and operational outcomes of banks, and assessing their impact on the overall stability of the banking and financial sector. This includes a comprehensive examination of the performance of banks operating in Palestine compared to peer groups.
- Engaging in ongoing assessments of compliance by supervised entities with regard to IT controls and governance, encompassing evaluations of business continuity plans, fortifying cybersecurity measures, and overseeing the management of critical data centers, disaster recovery protocols, and cloud computing services.
- Conducting comprehensive on-site inspections and off-site follow-ups, which entail thorough examination and analysis of audited financial data from banks, granting approvals for publication, and scrutinizing banks' financial information to ensure compliance with disclosure requirements outlined in accordance with Basel III standards.

At the vanguard of nonbanking financial institutions, the PMA has demonstrated a dedication to amplifying the role of these entities within the financial matrix and, on a larger scale, within the economy as a whole. The PMA has been unyielding in its pursuit to ascertain these institutions' financial stability and liquidity, concurrently embedding robust governance principles to secure their stability and sustainability amid a political and economic landscape burgeoning with challenges.

In an effort to realize this lofty aspiration, the PMA has embarked on a new vision and strategy for these institutions. The crux of this strategy revolves around the perpetual enhancement of their stability, thereby capacitating them to proffer a rich diversity of financial services and products efficiently and effectively to the targeted demographic. The PMA is steered by the paramount standards and practices of customer rights protection encompassing all sectors, thereby playing a crucial part in economic development. This methodology augments opportunities for investment and employment, amplifies production, and fights poverty and unemployment, ultimately laying the groundwork for an economically prosperous Palestine.

In pursuit of this aspiration, the PMA has embarked on a journey to articulate a novel vision and strategy for these institutions. This strategy pivots on the principle of perpetuating their stability to enable them to deliver an array of various financial services and products efficiently and effectively to the targeted demographics. The core objectives of this strategy are:

- Contribute to sustainable economic development and foster financial inclusion by improving operational efficiency, expanding service diversity, amplifying social impact, and enforcing practices that protect customer rights;
- Strengthen governance systems and enhance risk management within institutions operating in this sector;
- Develop new operational guidelines, including guides for prudential supervision, market discipline supervision, and customer rights protection;

- Introduce legal amendments to these institutions' regulatory framework, providing a legal framework for new services they plan to offer, such as micro-insurance, retail transfers, and specialized lending sector payment services;
- Promote market competition and facilitate the entry of new players while establishing comprehensive guidelines for the establishment of microfinance banks;
- Enhance social responsibility by implementing social performance supervision, monitoring institutional improvements, empowering women and youth, and increasing their access to financial services; and
- Improve operational efficiency and encourage Fintech initiatives and digital transformation throughout the sector.

3- Monitoring the liquidity situation

PMA has remained vigilant in monitoring and controlling the liquidity situation within the Palestinian market, ensuring the availability of cash in various currencies to satisfy the needs and transactions of the populace. It has also strived to infuse more liquidity into the system, especially concerning those currencies or denominations which have occasionally been in short supply, thereby addressing the citizens' demand.

Moreover, PMA has been observing the developments in liquidity conditions across all bank branches, guaranteeing the ongoing availability of cash to promptly meet the citizens' needs, particularly during crises. Additionally, PMA has undertaken necessary measures to oversee the financial entities under its regulation, ensuring their adherence to market-prevailing rates for currency disbursement and their commitment to dispensing transfers in their original currency.

Within this context, the PMA injected liquidity into the Gaza Strip by providing shekel currency amounting to approximately NIS 200 million in various denominations. This initiative aims to replace damaged cash and meet the needs of citizens for specific denominations.

4- Enhancing the anti–money laundering environment

Amid mounting pressures and challenges impacting the global economy and financial institutions, concerns regarding the risks associated with money laundering and terrorist financing have heightened. Consequently, some banks and financial institutions have opted to terminate or impose restrictions on relationships with certain clients or client categories, prioritizing risk avoidance rather than adopting a risk-based approach as advocated by the Financial Action Task Force. Banks operating in Palestine have not been exempt from these measures, encountering difficulties maintaining correspondent relationships with foreign banks, particularly those based in Israel.

Taking the reins of the ongoing efforts to enhance the anti–money laundering and counter-terrorist financing (AML/CTF) environment in Palestine, PMA continued its actions to strengthen both on-site and off-site supervisory methods, follow the risk-based approach, bolster the efficacy of suspicious operation and activity monitoring, and undertake necessary steps and follow-ups to ensure the integrity of financial institutions' procedures and their compliance with anti-money laundering laws, amendments, instructions issued accordingly, and pertinent global best practices and standards.

Turning attention to 2022, significant progress was made in the development and update of laws aimed at combating money laundering and terrorist financing crimes. Decree No. 39 of 2022, explicitly addressing anti–money laundering and combating the financing of terrorism was enacted to replace Decree No. 20 of 2015. This new law, designed to be more comprehensive and detailed in combating these illicit activities, takes into account global advancements in this

field. Moreover, Presidential Decree No. 14 of 2022 concerning the implementation of UN Security Council resolutions was issued, superseding Decree No. 14 of 2015. In addition, Regulations No. 20 of 2022 on Nonprofit Organizations were introduced, aiming to establish clear working mechanisms, funding sources, supervision, as well as transparency and accountability standards for these entities. The latter framework supersedes Cabinet Decision No. 3 of 2010.

Also, the Legal Arrangements and Endowment Regulation No. 15 of 2022 was issued, organizing the retention mechanisms of information and data about endowments, their disclosure, and their beneficiaries. It is also fitting to mention Regulation No. 5 of 2021 on Metal and Gem Dealers, which was issued earlier and aimed at combating money laundering and terrorist financing. Decree No. 43 of 2022 to amend Palestinian Child Law No. 7 of 2004 was also issued, including amendments on child trafficking and sexual exploitation crimes.

On another note, the National Committee for Anti–Money Laundering (NCAML) issued Instructions No. 1 of 2022 on the combat of money laundering and terrorist financing, specifically in relation to designated nonfinancial businesses and professions. Instruction No. 2 also addressed the same matter but about financial institutions. In collaboration with the NCAML and the Financial Follow-up Unit, PMA has undertaken several measures and activities to preserve the integrity of the Palestinian banking, financial, and overall economic system from these crimes. In this respect, the following actions were taken:

- The Palestinian Cabinet approved the action plan for the mutual evaluation of the State of Palestine concerning the environment of money laundering and terrorist financing.
- A memorandum of understanding was signed to implement a project to update the single register of companies and the ultimate beneficial owner following international requirements. This agreement was between the NCAML and the Ministry of National Economy (MoNE) within the framework of executing the strategic plan of the Financial Follow-up Unit in preparation for the on-site visit for the mutual evaluation of the State of Palestine.
- In the same vein, the PMA, in collaboration with the Financial Follow-up Unit and the Secretariat of the Financial Action Task Force, organized several workshops about the application of Security Council resolutions related to financial sanctions for the benefit of both the public and private sectors. This also involved preparing and orienting relevant entities for the mutual evaluation process.

Digital Transformation and Infrastructure

The PMA has placed increasing focus on monitoring developments at the forefront of digital transformation and their implications for financial services, the banking sector, and electronic payment services. To facilitate the implementation of plans, programs, and initiatives related to digital transformation, the PMA has bolstered its capital from USD 120 million to USD 200 million. This significant step aims to strengthen the PMA's capital structure, elevating its supervisory and regulatory authority position. It ensures the protection and preservation of depositor funds, enhances the stature of the entities under its supervision, improves their performance, and enhances their capacity to address various forms of risk, all while upholding and reinforcing financial stability.

This initiative is also expected to assist the PMA in supporting and promoting economic growth in Palestine. Channeling additional funds through Estidamah Fund can empower micro and small enterprises and integrate them into the economy while enhancing their capacity to generate more employment opportunities for young entrepreneurs and women. Furthermore, this step will accelerate the PMA's efforts in the realm of digital transformation through increased investment and reinforcement of financial technology infrastructure. It will enable preemptive measures, promote electronic payment culture and services, and develop banking and financial systems that align with the

best international practices. As a result, potential risks to the banking sector and the overall financial system will be mitigated, leading to a successful realization of the desired digital transformation.

Shifting the focus to the achievements of the PMA in this regard, it has successfully implemented a wide range of developmental programs and attained notable accomplishments which merit recognition. These accomplishments are outlined below:

1- Preparing to launch the National Bill Presentment and Payment System

This system is expected to be launched in 2023, and aims to provide various electronic channels for bill viewing and payment. It aims to encourage broader adoption of electronic payment services and stimulate the billers in Palestine, including the private sector, public sector, and various entities, toward embracing technological transformation in service delivery to citizens and effectively integrating this sector into the financial technology ecosystem. Additionally, it contributes to supporting the government's electronic payment gateway system.

In 2022, significant progress was made in the establishment of a cloud-based examination environment, including the installation and customization of the system to meet the specific requirements of the PMA. Preliminary tests were conducted to ensure its readiness for integration with banks, with 11 banks and two payment service providers already connected to the system. Close collaboration with the government was undertaken to align the mechanism for providing payment services and integrating with the government portal. The relevant stakeholders have initiated the preparation of the examination environment to evaluate readiness and conduct necessary tests.

2- Preparing to launch the Instant Payment System

As part of efforts to enhance the central infrastructure for payment systems in Palestine, a real-time payment system is scheduled to be launched in 2023. This system aligns with global trends and aims to facilitate interconnectivity and communication within the domestic and international electronic payment services ecosystems. Its primary objective is to reduce reliance on cash by offering interconnected and widely accessible payment channels at lower costs, thereby promoting financial inclusion. Furthermore, it fosters competition among financial institutions operating in Palestine and encourages them to effectively target new segments of society.

This system is recognized as a vital central infrastructure component for instant retail payment and debit transfers. It empowers customers of both payment service companies and banks to instantly access transferred and received funding through the system, operating seamlessly 24/7. Additionally, it facilitates payment and money transfer operations through mobile applications, enabling convenient transactions at any time. To bring this project to fruition, the PMA has entered into a contractual agreement with Montran Corporation, a leading US Fintech company, to provide, implement, and support the system in Palestine.

3- Launching points of sale (P.o.S) operations on the National Switch System 194

The point-of-sale (P.o.S) service on the National Switch was successfully launched at the beginning of 2022 to provide uninterrupted, round-the-clock operations. This service allows users to perform seamless transactions using their cards, regardless of the issuing banks, through the PMA-managed system. The implementation of this service has led to cost reduction and increased usage. Notably, the commission imposed on merchants or service providers for P.o.S transactions has been significantly reduced and capped at a maximum of 0.5%, compared to the previous rate of over 3%. Customers or buyers using the P.o.S service will not incur any additional charges on their purchases. Furthermore, the PMA does not charge any fees for transactions processed through the system, fostering a user-friendly and cost-effective payment experience.

4- Launching the second phase of the Geographic Information System (GIS)

This system connects demographic and statistical data with spatial data of the entities under the supervision and control of the PMA through an interactive central database. The system enables the public, investors, and project owners to benefit from the provided data in a decision-making and strategic planning regarding branching policies and identifying the financial and banking service needs of specific regions within the framework of enhancing financial inclusion. It also assists them in preparing the necessary economic feasibility studies for establishing projects in certain geographical areas and understanding their needs based on financial and statistical data.

The system provides users with an interactive map that connects geographic areas with essential financial, statistical, and demographic data for each region. This includes crucial financial indicators, population figures, information on various establishments, their distribution and density, as well as the geographic and administrative subordination of each area. Additionally, the system provides valuable insights into the availability and accessibility of financial and banking services within each region. This comprehensive platform not only benefits users seeking information, but also serves as a valuable resource for researchers, offering accurate and reliable financial, statistical, and demographic data that support various perspectives and research topics.

5- Launching updated versions of credit rating and information systems

The PMA has introduced the fifth version of the credit rating system, aimed at empowering youth, entrepreneurs, women, and small and micro-business owners. This system plays a crucial role in enabling banks to verify customer data, reducing instances of fraud and forgery. Furthermore, an updated version of the credit information systems has been launched, facilitating the connection of exchange companies to these systems. This integration allows exchange companies to access the necessary data, including information relevant to check discounting. These initiatives collectively strengthen the financial ecosystem and support informed decision-making processes.

It is worth mentioning that efforts have been made to empower private sector companies by granting them access to the enhanced single credit inquiry system developed by the PMA. Several memoranda of understanding were signed with these companies, allowing them to assess the creditworthiness of customers involved in deferred payment transactions with post-dated checks. This valuable access enables them to make well-informed credit decisions and effectively mitigate risks. By leveraging this system, private sector companies can foster sound financial practices and ensure smoother credit operations.

6- Launching the Regulatory Sandbox lab

The Regulatory Sandbox lab provides a secure testing environment for technological innovations in the financial services sector. It offers innovators and entrepreneurs the opportunity to test their ideas, products, and business models under the supervision and guidance of the regulatory authority. This supportive platform assists the owners of these applications in navigating the regulatory landscape and ensuring compliance with industry standards.

The Regulatory Sandbox lab welcomes a wide range of qualified participants, including licensed financial institutions, entrepreneurs, startups, Fintech companies, telecommunications companies, and other local or foreign entities offering financial services. Eligible projects for testing in the lab cover various categories, such as savings and lending services, risk management and fraud prevention solutions, digital verification and identity services, and any other financial, regulatory, or supervisory services that align with the raisons d'être of the regulatory lab.

7- Evaluating the payment systems

In partnership with the IMF and the World Bank, the PMA thoroughly assessed payment systems in Palestine. The objective was to evaluate the existing state of these systems, identify any gaps or shortcomings, and ways to develop the supervisory policy that align with the evolving landscape and emerging trends in the payment systems sector.

In a similar collaborative vein with the World Bank, the standardization of Quick Response (QR) codes has been successfully completed, and it is anticipated that the banking sector will be able to utilize this standardized system starting in 2023. An upgraded version of the Society for Worldwide Interbank Financial Telecommunication (SWIFT ISO 20022) system has also been introduced. This system facilitates the transmission and receipt of messages (MX) pertaining to cross-border financial transfers.

8- Collaboration with the government to operate and develop the government electronic payment system

As an active member of the Technical Committee of the e-Government, the PMA has been actively involved in supporting and improving the government's electronic payment system. This system aims to provide government services to citizens electronically, eliminating the need to visit government offices and utilizing appropriate electronic payment tools. The actual launch of this system is expected to take place in 2023.

9- Launching a series of awareness campaigns

The PMA has been actively engaged in promoting awareness, education, and financial inclusion, with a niche focus on financial technology, electronic payment tools, and support for entrepreneurs. Notable initiatives undertaken by the PMA in this regard include:

- Launching an extensive campaign in collaboration with the General Petroleum Authority in the MoFP and the Gas Retailers Association to encourage citizens and gas station retailers to transition to electronic payment and promote payment through ATMs at gas stations using debit cards. All gas stations were exempted from merchant fees for one year.
- Organizing an informative event, in collaboration with the MoNE, held at the ministry's headquarters. The event brought together various electronic payment service providers and P.o.S service providers in Palestine. The event's main objective was to introduce ministry employees to the range of electronic payment services available and enable them to utilize these services, particularly by opening electronic wallets.
- Participating in the Digital Palestine event organized by the United Nations Development Program (UNDP), in partnership with the Office of the Prime Minister, the Ministry of Communications and Information Technology, and the Palestinian Information Technology Association of Companies. The event featured participants from numerous financial technology institutions and electronic payment service companies. The PMA's involvement included showcasing the key services provided by the Monshati Platform and explaining how entrepreneurs and financial technology companies can benefit from the Regulatory Sandbox.

Supporting and Fostering Economic Growth

Despite the advent of new challenges and increased pressures in 2022, the PMA demonstrated its commitment to striking a delicate balance. On the one hand, it ensured the integrity and continuity of the entities under its supervision. On the other hand, it remained dedicated to providing diverse banking services to the public. The PMA also prioritized supporting various economic activities and sectors to ensure long-term sustainability. Through a series of effective measures, the PMA successfully provided the necessary liquidity to mitigate the impact of these pressures on the economy, thereby maintaining a trajectory of recovery and fostering sustainable growth.

At the governmental level, as evidenced by previous financial crises faced by the Palestinian government over the years, the PMA and the banking sector have played a crucial role as a safeguard and a cornerstone in addressing the financial imbalances arising from repeated and escalating deductions from clearance revenues, as well as limited external support. Consequently, the government's debt to the banking sector has reached around USD 2.2 billion—nearly equivalent to the entire banking sector equity.

Moreover, the PMA has consistently fostered the active participation of the banking sector in the private sector by offering financing in different currencies and tenors for a wide range of economic activities, business sectors, and the local community. These initiatives were implemented with favorable terms and conditions. Here are a few significant measures the PMA undertakes to support the local economy.

1- Estidamah Fund

The second phase of the Estidamah Fund was tailor-made with a broader scope, aiming to achieve strategic objectives beyond addressing the health crisis's impacts. These objectives encompass revitalizing the economy, generating new job opportunities, and fostering sustainable growth in alignment with the government's economic vision.

In pursuit of this vision, the fund's portfolio was strengthened through a loan agreement with the European Investment Bank. The initial disbursement under this agreement, amounting to USD 192 million, is expected to be received by the end of the third quarter of 2023. Moreover, the fund encompasses a range of programs aimed at channeling credit toward initiatives and sectors that foster youth empowerment and entrepreneurship, promote women's empowerment, support e-health and e-learning, boost productive economic sectors, facilitate integration into the digital economy, promote renewable energy, and more. Additionally, the fund includes a dedicated program tailored for specialized lending institutions to enable them to finance micro and small enterprises.

By the end of 2022, the fund had disbursed loans and financing worth around USD 137 million, benefiting a total of 2,422 projects. The distribution of these funds is as follows:

- Micro-enterprises accounted for the largest share of this financing, approximately 61%, followed by small enterprises at around 19%, medium enterprises at about 12%, and large enterprises at around 8% of the total funding provided through the fund.
- The trade sector received approximately 53% of the total financing, followed by the industrial sector at 13%, service activities at around 8%, financial activities at approximately 7%, tourism activities at around 6%, agricultural activities at around 6%, healthcare activities at approximately 4%, and contracting and construction activities at around 3% of the total funding provided through the fund.
- Ramallah and al-Bireh governorate received about 29% of the total financing, followed by Nablus at approximately 17%, Jenin at around 14%, Hebron at about 6%, Bethlehem at around 6%, Salfit at about 5%, Qalqilya at around 4%, Jericho at about 3%, and the remaining governorates of the West Bank at approximately 7%. Meanwhile, the share of the Gaza Strip governorates accounted for approximately 9% of the total funding.

The fund has specifically allocated a financing portfolio of USD 1.0 million for individuals with disabilities under the Microfinance Projects Program. This demonstrates the PMA's dedication to this group, ensuring their access to banking services and safeguarding their rights as consumers without any form of discrimination. It aims to empower them to actively participate in society, support the growth of their projects, and create diverse employment opportunities that cater to their needs. This initiative significantly contributes to the broader goals of achieving financial inclusion.

In broad terms, the fund has adeptly played a pivotal role in safeguarding the financial cornerstone of select ventures, thus facilitating their ability to underwrite day-to-day operational costs and retain invaluable human resources. The cumulative capital of initiatives bolstered by the fund—primarily in terms of viability and operational support—amounts to an estimated USD 761 million. Furthermore, the total labor force, or human capital, comprises workers and employees whose professional livelihoods have been fortified by the fund, totals approximately 21,250 individuals. This, in turn, fortifies the long-term operational stability and success of the projects to which they are dedicated.

In the forthcoming phase spanning 2023 to 2025, the PMA aspires to amplify the fund's operations, focusing on a multitude of economic sectors pivotal for galvanizing economic expansion. The upper limit for the Microfinance Projects Program has been augmented from USD 15 million to USD 25 million, signifying a considerable increase. Additionally, budgets of USD 50 million each have been apportioned for the Renewable Energy Financing Program and the initiative backing enterprises operating within the Gaza Strip. These programs notably strive to support a variety of entrepreneurs, including women and workers in settlements, along with the agricultural sector and land reclamation program.

The PMA's strategic interventions also include infusing additional liquidity into the economy to invigorate investment within the domestic economic landscape. This goal was realized by reducing the proportion of placements abroad and offering supplementary incentives to banks demonstrating interest in investing in nascent companies. This focus is mainly on enterprises operating within domains such as information technology, renewable energy, agriculture, and entrepreneurial projects[16].

It's pertinent to underscore that the PMA's strategic initiatives emphasize the essentiality of guaranteeing an unhindered circulation of financial resources among diverse social strata and global counterparts. This practice underpins the integrity and efficiency of the financial intermediation process, necessitating a robust, secure, and streamlined banking infrastructure, an ultra-modern and highly efficacious payment system, and rigorous banking oversight. These measures are meticulously implemented in adherence to the most recent international standards and the pinnacle of industry best practices.

2- Unified national definition of the enterprises sector

In its endeavor to cultivate a nurturing ecosystem for the enterprise sector, while fueling its empowerment, advancement, and expansion, the PMA has forged strategic alliances with the MoNE and the Capital Market Authority. The fruits of this collaboration resulted in the introduction of the Unified National Definition for small, micro, medium, and large enterprises, a pivotal milestone in the industry. This new framework has been seamlessly integrated into the databases of credit information systems.

There's no question that the integration of the unified definition into the credit information systems, a significant step undertaken by the PMA, has elevated the financial prowess of these enterprises and broadened their access to

[16] Instructions No. 1 of 2020 regarding Placement Abroad focused on the measures that banks must take to identify and assess the risks associated with placing funds outside of Palestine. In addition, it established limits for these placements, ensuring that they do not exceed 40% of total deposits by the end of March 2020. These limits were subsequently reduced to 35% by the end of March 2021, further reduced to 30% by the end of March 2022, and finally to 25% by the end of March 2023.

vital financial services. This consequential move has further strengthened the growth trajectory in this burgeoning sector, which constitutes more than 90% of the active entities within the Palestinian economy and employs an overwhelming majority of over 80% of the Palestinian labor force.

On this vanguard, the PMA, in partnership with the Union of Chambers of Commerce, Industry, and Agriculture and the UNDP, previously inaugurated the Monshati Platform, a national framework for supporting and developing small, micro, and medium enterprises (SMEs). This initiative is designed to bolster the adaptability and resilience of SMEs and foster their recuperative capabilities by offering a suite of integrated support services. This comprehensive gamut of services covers facilitating access to information requisite for investment decisions, providing advisory services for service development, production processes, marketing strategies, financial management, sourcing funding opportunities, as well as proffering legal counsel.

In tandem with these efforts, the PMA unveiled the Monshati Platform, a pioneering mobile application in the Palestinian landscape. This platform is tightly interconnected with a vast consortium of stakeholders actively contributing to private sector development and a team of industry veterans. It dispenses a broad spectrum of premium services designed to bolster enterprise owners' financial acumen and managerial skills, facilitating their access to diverse funding sources.

3- Enhancing collaboration with the government

The PMA has diligently endeavored to fortify and enhance its collaborative efforts and coordination with the government. It dispenses economic counsel on overarching macroeconomic subjects, ensuring seamless alignment between the strategic plans and policies of the financial and banking sectors and the government's developmental objectives. Set to provide meaningful contributions to sustainable economic growth, the PMA establishes initiatives such as the Estidamah Fund, including its programs, and encourages banks to allocate an increased financing volume toward specific sectors, activities, and regions. The PMA additionally motivates banks to orient credit toward projects that substantially benefit the developmental process. Beyond this, it assists the government in surmounting financial constraints and contributes to financing part of its budget deficit.

4- Financial inclusion and access to financial services

The PMA has placed financial inclusion and access to banking services at the apex of its priorities, acknowledging their foundational role in propelling economic development and their instrumental contribution toward realizing sustainable development goals, including poverty eradication and unemployment reduction. In light of this, it implements measures to simplify access to various financial products and services that cater to the diverse needs of various sections of Palestinian society, ensuring affordability and fostering equitable terms and conditions.

To this end, the PMA has cultivated to enhance and strengthen the banking sector. This endeavor has been catalyzed by creating strong banking entities, capable of competing, innovating, and keeping abreast of the latest global developments in the banking industry. It has also focused on expanding the reach of banking services across all Palestinian governorates through its banking branch expansion policy, with a particular emphasis on rural and remote areas. This orchestrated effort has subsequently spurred a sustained augmentation in the network of bank branches and offices. By the end of 2022, this network had proliferated to a total of 378 branches and offices across all Palestinian governorates.

The PMA has put into action a range of initiatives inextricably tied to financial inclusion. This encompasses the establishment of several laws and progressive guidelines aimed at fostering an environment conducive to innovation

and the facilitation of financial businesses and services. As a testament to these concerted efforts, Palestine, as represented by the PMA, was honored with the Global Youth Financial Award 2022. This accolade, celebrating the best initiatives and programs in bolstering financial literacy among youth, was conferred upon Palestine during the Annual Global Alliance for Financial Inclusion (AFI) Conference. In this global event, Palestine emerged among the top five nominated countries: Palestine, Egypt, Ecuador, the Czech Republic, and Bangladesh, out of a total of 30 countries vying for this esteemed recognition[17]. In addition, an employee of the PMA also won the Technical Leadership Award, at the level of individual awards.

The PMA acknowledgment through this award attests to its unwavering dedication to orchestrating and realizing numerous initiatives in this field. Prominent among these efforts are awareness initiatives spotlighting electronic payment services and encouraging the adoption of financial technology. This accolade mirrors not only the PMA's outstanding professional caliber but also its esteemed standing among regional and global peers, a testament to the skilled and proficient staff's relentless commitment to staying in sync with global advancements. Furthermore, this honor underscores the tenacious efforts devoted to satisfying the mandates of Palestine's National Financial Inclusion Strategy.

The PMA has previously participated with the Capital Market Authority and the International Finance Corporation in launching the "Strategic Framework for Islamic Financial Services in Palestine." This initiative aligns with its drive to refine the quality and evolution of financial services, lay the groundwork for digital financial offerings, introduce novel services in compliance with Islamic law, satisfy the increasing demand for such services, and further the progression of financial inclusion. Alongside these accomplishments, the PMA has also realized significant advancements in financial inclusion.

In addition to these achievements, the PMA has made notable progress in the field of financial inclusion, including:

1. The PMA chaired the Financial Inclusion Strategy Working Group of the AFI for the term 2022-2023 during the twentieth meeting of the group held in Quito, Ecuador. The meeting discussed various topics related to green finance, the impact of climate change on financial inclusion, enhancing financial inclusion for women and rural areas, and the role of digital financial services in promoting financial inclusion. As a result of this meeting, three dedicated policies were launched on the integration of digital financial services into financial inclusion strategies, improving financial inclusion in rural areas, and a detailed report on the status of financial inclusion strategies in all member countries of the Alliance.
2. The PMA launched the 2022 Children and Youth Banking Week, in association with the Ministry of Education and Higher Education (MoEHE) and the Association of Banks in Palestine, under the banner "Learn, Save, Earn." This event targeted roughly 114 thousand eighth-grade students dispersed across 1,625 West Bank and Gaza Strip schools, including the public, the United Nations Relief and Works Agency for Palestine Refugees (UNRWA), and private schools. The occasion was notable for its technological emphasis, featuring a specially developed smartphone application called "Masrifi" (or my bank). This virtual bank branch offers interactive, engaging insights into basic banking services through stages, games, and quizzes, allowing students to enter draws for substantial prizes worth up to USD 15,000, funded by all participating banks. The annual Banking Week event strives to enhance financial and banking knowledge among school students.

[17] The Alliance for Financial Inclusion (AFI), founded in 2009, stands as the foremost international consortium devoted to financial inclusion, boasting 82 member institutions from 75 countries. Its central mission is to empower policymakers in member countries with the necessary tools to leverage financial inclusion. Palestine, represented by the PMA, was among the early joiners to recognize the merit of this alliance and became an early participant, joining the collective in 2010.

3. Several meetings were held in collaboration with the Palestine Capital Market Authority for the financial inclusion working groups in Palestine, which consist of approximately 70 members representing public sector institutions, the private sector, civil society organizations, and relevant academic institutions involved in financial inclusion in Palestine. These audiences aimed to launch the work of the three financial inclusion working groups: "Consumer Empowerment," "Innovative Financial Products," and "Small and Medium Enterprises and Entrepreneurship." The purpose of these working groups is to contribute to the implementation of the Financial Inclusion Strategy and its specific objectives outlined in the strategy's action plan.

4. Additionally, several meetings were held by the National Committee for Financial Inclusion in Palestine, where the PMA served as the chair in partnership with the Palestine Capital Market Authority. These meetings involved reviewing the annual report on financial inclusion in 2022 and the measures the PMA and the Capital Market Authority took to enhance financial inclusion and their related activities. The meetings also included an overview of the latest updates on the Financial Inclusion Reassessment Project in Palestine, implemented by the PMA and the Capital Market Authority in collaboration with the Palestinian Economic Policy Research Institute (MAS) and the PCBS. The project aims to reassess financial inclusion in Palestine based on the progress made and developments in implementing the National Financial Inclusion Strategy. The results of this reassessment are expected to be announced in the first quarter of 2023.

5. The PMA continues to facilitate the opening of bank accounts for Palestinian workers in Israel. This initiative is part of PMA's effort to reduce the economic burdens resulting from the accumulation of NIS in the local market. It also aims to integrate this tier of the labor force into the financial inclusion policy and promote the use of modern payment methods through electronic channels for financial transactions in Palestine and in their relations with employers on the other side.

6. The PMA has launched a series of free online training programs through the Monshati Platform in collaboration with the Palestinian Banking Institute. These training programs aimed to assist project owners in upskilling their administrative and financial performance, enabling them to keep up with the requirements and demands of the local and global job market. The training programs cover over 25 topics that focus on building the skills of business owners in areas such as project management, feasibility studies, and financial, administrative, and marketing plans, as well as the legal requirements for micro, small, and medium enterprises (MSMEs). The training programs are delivered through interactive video modules featuring specialized Palestinian trainers in various fields. Participants who successfully complete the specially designed examination are awarded certificates to encourage participation and widespread benefit.

7. These training programs conducted through the Monshati Platform included a training series of courses entitled "Financial Awareness, Feasibility Study, and Electronic Payment Solutions". These sessions were held in the governorates of Jenin, Bethlehem, and Gaza and attended by MSME owners. The training aimed to orient project owners in developing their projects, increasing their effectiveness and productivity, and utilizing modern management techniques. Topics covered include building feasibility studies, securing appropriate financing, utilizing electronic payment solutions for financial transactions, conducting e-marketing for project products, and highlighting the advantages of these solutions, such as time efficiency, ease of use, speed, and security.

8. The PMA also organized a wide range of awareness campaigns, educational initiatives, and workshops in the West Bank and Gaza Strip in collaboration with various institutions focusing on entrepreneurship, women's projects, and youth initiatives. The objective was to explore financing options, foster project development, support small-scale projects, and empower women and young entrepreneurs to access financing provided by banks and lending institutions, including the Estidamah Fund. Some of the notable workshops included:

- Two workshops in the Nablus Governorate, the first in collaboration with CARE International and with the participation of approximately 30 women, young entrepreneurs, and project owners from Nablus and Jenin. In cooperation with the Palestinian Working Women Society for Development and UN Women, the second workshop was attended by 100 women entrepreneurs, project owners, cooperative associations, and bank representatives.
- Three workshops in the Gaza Strip, the first in collaboration with the Al-Bayt Al-Samed Association, the Women's Affairs Center, the Aisha Association for Woman and Child Protection, and the Eastern Gaza Society for Family Development, with the participation of approximately 150 women entrepreneurs and project owners. The second workshop, in collaboration with the Association of Banks in Palestine, the MoHE, the UNRWA Education Program, and representatives from banks involved over 30 supervisors from the educational sector in Gaza. The workshop focused on building basic financial literacy for school students. The third workshop, in cooperation with the German Agency for International Cooperation (GIZ), social media influencers (given their prowess in raising awareness and financial literacy in society), entrepreneurs, incubators, accelerators, and owners of digital projects. The workshop aimed to introduce the beneficiaries to electronic financial services, mainly electronic payment services.

Other Achievements

The PMA displays a heightened degree of interest in establishing a national currency, believing that preserving monetary stability is the cornerstone for cultivating a sturdy and thriving economy. This stability offers assurance to those who opt to save and invest. It facilitates more proficient future strategizing while providing an extra safeguard for society against the potential diminution of their savings. This is a strategic approach to resolving the challenges of the existing multi-currency monetary system.

Given the current economic and political situations, the traditional approach of issuing physical Palestinian currency (such as banknotes and coins) seems impractical. Therefore, the focus has shifted toward digital currency as a viable solution to tackle these economic issues, reduce reliance on cash, and address Palestine's political challenges. The initial phase would involve a digital currency adopted as a unit of account used within public institutions in Palestine to price government services and prepare various public financial statements. However, a final decision on this matter has not yet been made, as the PMA is still conducting technical assessments on specific aspects of this matter with assistance from IMF experts.

On another dimension, the PMA consistently elevates its research, analysis, and information-gathering prowess, releasing a host of periodic reports, surveys, and studies concerning monetary and financial statistics. This not only paves the way for monetary policy formulation but also provides a comprehensive analytical and informational structure, encompassing information aggregation, the development of financial and economic monitoring tools, and impact analysis. It also includes crafting studies and reports on monetary stability and its future trajectories. Added to this is an emphasis on developing reports encompassing all economic facets related to inflation and potential macro-level economic imbalances. These endeavors guide decision-makers across public and private sectors in assessing inflation prospects and risks, aiding the regulatory authority in delivering economic advice to the government. Notably, all these statistics, research, reports, and studies are publicly accessible on the PMA's official website.

In 2022, the PMA successfully completed its internal restructuring processes, aligning its operations with its strategic plan with a particular focus on digital transformation. The automated accounting system was interconnected with several other systems, facilitating the complete automation of accounting operations and enhancing digitized financial reporting to ensure efficiency and effectiveness. This includes improving existing reports for accuracy and

clarity, devising and developing new conduits through an automated reporting system, and continuously updating them as required. These enhancements have been reflected in the Oracle ERP accounting system to keep pace with operational developments, generate reports per the needs of relevant departments, and provide them with access.

In the same context, an automated system for budgeting was set in motion, linked to the Oracle system and identifying all responsibility centers following the performance and program budget model. The execution was linked to the accounting system, allowing the extraction of necessary reports according to cost centers and item-based budget reports. This program is expected to reduce paper usage significantly by automating the documentary cycle for the development and implementation of the annual budget.

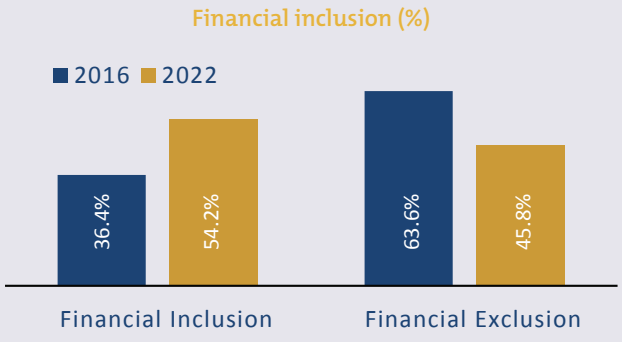
Box 2: Financial Inclusion in Palestine: Diagnostic Report 2022 [18]

PMA in collaboration with the Capital Market Authority, has executed a comprehensive diagnosis in 2022 to canvass the state of financial inclusion in Palestine. This assessment, achieved through a partnership with MAS and supported by AFI, consisted of an exhaustive diagnostic review that encapsulated both the supply and demand sides of financial services, in conjunction with an analysis of the ecosystem and facilitative environment promoting financial inclusion.

The 2022 assessment of financial inclusion orchestrated by the PMA distinguishes from its predecessor carried out in 2016 in distinct manners:

- The exploration of the demand side was broadened considerably to be more comprehensive, enveloping both male and female, and spanning the northern, central, and southern areas of both the West Bank and the Gaza Strip. This study was performed at the national level, incorporating urban landscapes, rural areas, and refugee encampments. Furthermore, the data were disaggregated at the level of governorates, without any gender distinction, and included every sub-sector within the financial industry.
- A notable amplification in the sample size for the demand side study was observed, climbing to include 8,500 adult participants, a marked increase from the 4,150 households that were surveyed in 2016.

It is worth noting that there is no international consensus on using a single quantitative standard for measuring financial inclusion. It is not recommended to rely on a single quantitative measure, but rather a set of indicators that reflect both the supply and demand sides of financial sectors, encompassing both banking and nonbanking sectors. These indicators cover the three main dimensions of financial inclusion: access, usage, and quality. They also take into account the idiosyncrasies of each country. The results of the study have shown significant improvement in the level of financial inclusion, despite the challenging conditions that accompanied the implementation of the National Financial Inclusion Strategy between 2018 and 2022. The following are the key findings of the study:



Source: Palestine Monetary Authority

[18] The Financial Inclusion Diagnostic Report was published at a press conference held later on March 20, 2023. The detailed study and its appendices can be referred to via the link provided on the website of Financial Inclusion in Palestine. (https://www.financialinclusion.ps/item-1678961908/).

1- Access and Use

Upon perusing the diverse experiences of nations, it becomes manifestly clear that the prevailing inclination leans toward gauging access and use through the prism of supply side data, characterized by their periodic nature, oftentimes encompassing an annual cadence. Furthermore, this approach remains localized within the intricacies of sub-financial sectors, allowing for a more granular assessment of each sector's distinctive characteristics, and wisely evades the adoption of a solitary quantitative gauge to measure the strides achieved in financial inclusion. Meanwhile, the facet of quality, constituting the third dimension of financial inclusion, is judiciously evaluated through the prism of demand side data, encapsulating the very essence of trust, financial literacy, and the intricate tapestry of individuals' financial comportment.

Elevating the focus toward the outcomes attained, a discernible elevation surface in the percentage of those accessing and using a manifold of services, including current accounts, bank loans, and insurance policies, which ascended from a modest 36.4% in 2016 to a commendable 50.9% in 2022. A noteworthy augmentation ensues when the electronic wallet services is duly considered, affording this percentage an upsurge to 54.2%. Nevertheless, it behooves us to remain cognizant that these numerical indicators do not unequivocally signify that a whopping 50.9% of the citizenry seamlessly partakes in financial services, for it is prudent to acknowledge the potential for overlapping access and usage among disparate financial tools used by a singular individual.

Financial inclusion in Palestine

Item	2016	2022	when taking e-wallet into consideration
Those who have bank account	22.7%	29.3%	
Those who have a loans	5.1%	3.5%	
Those who have an insurance	8.6%	18.1%	
Those who have an electronic wallet			3.3%
Total	36.4%	50.9%	54.2%

Source: Palestine Monetary Authority.

2- Financial Literacy

- The proportion of citizens with a moderate, good, or excellent level of financial literacy has witnessed a notable increase, rising from 41.3% in 2016 to 53.3% in 2022, indicating a substantial improvement of 12.2 percentage points.
- Levels of financial literacy have shown improvement across gender lines, as the percentage of females with low and very low levels of financial literacy decreased to 56.6% in 2022 (compared to 49% in 2016), while the corresponding figure for males in 2022 was 36.9% (compared to 68.8% in 2016), reflecting a noteworthy improvement of 12.2 percentage points. Additionally, the proportion of females with a moderate, good, or excellent level of financial literacy increased from 31.2% in 2016 to 43.4% in 2022, indicating an improvement of 12.2 percentage points.
- Despite the progress in overall financial literacy levels nationwide, there still exists a gender gap of approximately 20 percentage points, favoring males, in terms of financial literacy levels.

3- Financial behavior of Citizens

The findings show that the primary factors influencing citizens' selection of financial services are:

- The extent to which the service meets their needs.
- The reputation of the service provider and the product, and the level of trust in them.
- The degree to which the service and product align with the individual's financial capabilities.

Pivoting to the question of the reasons for not borrowing, the primary reason, tied to religious factors, accounted for 55.5%. The second reason was a preference for borrowing from family and friends, constituting 50.5%. The third reason is the absence of a need for a loan, accounting for 48.7%.

4- Trust in the Financial Service Provider

- The proportion of individuals turning to the service provider in case of a complaint about a financial product or service increased from 43.1% in 2016 to 49.9% in 2022.
- The tendency to approach the regulatory authority in case of a complaint about a financial product or service decreased from 25.2% in 2016 to 16.8% in 2022.
- The level of citizens' satisfaction with banking financial services and products (satisfied, entirely satisfied, and occasionally satisfied) stood at 77.4%, as opposed to 22.6% who were dissatisfied (dissatisfied, entirely dissatisfied).
- The level of citizens' satisfaction with nonbanking financial services and products in the nonbanking sector (satisfied, completely satisfied, and occasionally satisfied) was 68%, with the dissatisfied (dissatisfied, completely dissatisfied) constituting 32%.

5- Trust in the Financial Service Provider

- The proportion of individuals turning to the service provider in case of a complaint about a financial product or service increased from 43.1% in 2016 to 49.9% in 2022.
- The tendency to approach the regulatory authority in case of a complaint about a financial product or service decreased from 25.2% in 2016 to 16.8% in 2022.
- The level of citizens' satisfaction with banking financial services and products (satisfied, entirely satisfied, and occasionally satisfied) stood at 77.4%, as opposed to 22.6% who were dissatisfied (dissatisfied, entirely dissatisfied).
- The level of citizens' satisfaction with nonbanking financial services and products in the nonbanking sector (satisfied, completely satisfied, and occasionally satisfied) was 68%, with the dissatisfied (dissatisfied, completely dissatisfied) constituting 32%.

6- Household Financial Flexibility

- The proportion of households that could cover their primary living expenses in case of loss of income for less than a month fell to 61.6% in 2022, compared with 68.2% in 2016.
- Also, the proportion of families that could withstand a loss of income for less than a week declined from 34.5% in 2016 to 26.2% in 2022.

7- Saving and Investing in 2022

- The proportion of those who saved over the past two years reached 19.2% of the citizens at the national level, and 50.7% of them indicated that the primary reason for saving was to face emergencies.
- Despite the improvement in the level of financial inclusion, some people still prefer to save by keeping money at home.

8- Determinants of Financial Inclusion in Palestine

The results of the demand side diagnostic suggest that the economic factor is one of the most significant determinants of financial inclusion in Palestine, having a greater influence than other traditional determinants often experienced by developing countries, such as access to smartphones and the internet or geographic remoteness and other demographic factors. Key findings of the economic factor as a determinant of financial inclusion in Palestine include:

- A majority of 75.6% of respondents reported not having a bank account, stating the reason to be the lack of extra money to open an account.
- Only 19.2% of individuals saved over the past two years.
- Over half of the individuals (58.2%) indicated that the reason for not saving was the accumulation of debts.
- A proportion of 61.6% of individuals revealed that their families could not withstand a loss of income for more than a month without borrowing to meet basic living expenses.
- A percentage of 46.5% of individuals reported an increase in the costs of insurance services.

Source: PMA (2023), Financial Inclusion Diagnostic in Palestine.

Correspondent Banking Relations

Banks operating in Palestine grapple with challenges in their relations with Israeli correspondent banks due to a slew of restrictions Israel imposes on banking and nonbanking transactions. These impediments affect the Palestinian banking sector's capacity to invest in digital services, which aim to curtail both the cost and settlement periods of financial transactions and lessen the cash transaction volume between the two entities. As the predominant currency in the Palestinian market, the shekel has its flux between the two economies bound to assorted channels. These encompass clearance revenues, commercial activities, and the labor of Palestinians in Israel.

Drawing on the data pertinent to these channels, the volume of the shekel circulating between the Palestinian and Israeli economies was estimated to surpass NIS 70 billion in 2022. Of this, over 65% (equivalent to approximately NIS 46 billion) denotes flows from Israel to the Palestinian economy. A portion of this transits through formal conduits represented by banks, as exemplified by clearance revenues, while a more substantial segment circulates in cash. This cash flow is evidenced by the wages of the majority of Palestinian labor in Israel, purchases of goods and services by Palestinian (living inside Israel) from the Palestinian market, and a segment of trade between the two sides, (smuggling).

As the shekel cash flow into Palestinian regions persisted, its effects were conspicuously mirrored in the cash liquidity circumstance of the shekel currency within the Palestinian economy. The banking sector endured a marked rise in the shekel cash surplus, chiefly due to the numerous restrictions imposed by the Israeli side on surplus transfer. This consequently led to the accumulation of the shekel surplus within banks operating in Palestine, exceeding NIS 5 billion by the end of 2022. These banks persistently require the transfer of this surplus to their correspondent banks in

Israel. This surplus amplification has further complicated cash liquidity control, escalated associated costs and risks, and emerged as a significant threat to overall financial stability.

In pursuit of regulating banking relations with Israel and attenuating the shekel surplus issue, the PMA has undertaken many measures to temper its impacts on the overall economy and the banking sector. These efforts are characterized by two parallel trajectories. First, unrelenting negotiations with the Bank of Israel aimed at increasing the volume of cash shipped to Israel, resulting in a rise of this amount to approximately NIS 4.5 billion each quarter, equivalent to around NIS 18 billion annually, coupled with other exceptional shipments surpassing a total of NIS 25 billion from the shekel surplus in 2022. Second, bolstering electronic payment methods to curtail the prevalence of cash shekels. The key among these measures include:

- The PMA has taken steps to regulate the payment of wages to Palestinian workers in Israel via banking channels, which are a significant source of cash accumulation. Notably, the PMA's ongoing efforts to facilitate account openings for these workers have resulted in opening more than 90 thousand accounts for workers to receive their wages and financial entitlements from Israeli employers through banks operating in Palestine. The PMA has further eased this process by exempting these wage transactions from any fees or commissions, thus alleviating the impact of shekel accumulation in the local markets. Moreover, this initiative also seeks to integrate these workers into the broader financial inclusion policy, promoting the use of modern electronic payment methods for financial transactions within Palestine and with their employers.
- Promoting noncash transactions in the local economy, especially in relation to purchases of Palestinian living inside Israel, and facilitating the use of their Israeli bank cards in the local economy to reduce the informal economy.
- Encouraging citizens and owners of gas stations to switch to electronic payment and encouraging citizens to pay at these stations' P.o.S via ATM cards by exempting the gas stations from merchant fees for six months. The PMA has succeeded in increasing the proportion of stations where P.o.S have been installed to more than 80% of the total number of stations in the West Bank, which is about 190.
- Reducing regulatory barriers related to entry into the electronic payment market by launching a sandbox to test innovative financial solutions and technologies, reducing/exempting merchant fees, encouraging individuals and merchants to use credit cards and electronic wallets, and allowing several electronic payment service providers to operate in the Palestinian market.

NIS flows between the Palestinian and Israeli economy (NIS million), 2022

Item	From Palestine (outflow)	To Palestine (inflow)
1. Clearance revenues		10,571
2. Wages of Palestinian workers in Israel		13,003
3. Trade		
Exports (goods & services)		10,471
Imports (goods & services)	24,431	
Purchases of Arab citizens of Israel		5,000
4. Banking system		
Vault cash		6,514
Checks	10	730
Total	**24,441**	**46,289**
Total Cash Flow	**70,731**	

Source: Data has been compiled from different official sources.

PMA's Financial Activity

Persistently advancing its schemes and initiatives, the PMA keeps in stride with the finest global benchmarks of central banking. Their efforts underpin financial stability, safeguard depositor funds, uplift the banking industry, and fortify risk resilience. Simultaneously, they champion economic growth and shield the assets of the Palestinian economy and the public.

Financial limitations notwithstanding, the PMA has leveraged its resources to meet its plans' fiscal demands. As 2022 closed, their asset/liability balance recorded around USD 2.0 billion, marking an 8.2% dip from the previous year-end. Primarily, this downturn reflects the strengthened dollar against the shekel and the ensuing shrink in the dollar-backed balances of the PMA[19]. Furthermore, banks reallocated a substantial slice of their PMA-held balances (barring obligatory reserves) to more lucrative, higher-yielding investment avenues. This trend coincided with the surge in global interest rates, triggered by many central banks worldwide adopting contractionary monetary stances.

The PMA's endeavor in 2022 culminated in net profits hovering around USD 21 million, set to be distributed in keeping with applicable regulations and directives.

Staffing and Training

Throughout 2022, the PMA diligently embarked on fortifying its working staff, consisting of 290 adept individuals deployed across its various core and support departments offices. Notably, the PMA embraced a novel structural framework in 2020, engendering the fusion of some departments and divisions, the inception of new departments and divisions, and the redistribution of personnel amid the different departments of the PMA. Such an endeavor resonated harmoniously with the steadfast pursuit of financial technology progressions, the augmentation of infrastructural capacities for electronic payment modalities, and financial ingenuity. To this end, a digital transformation group was established within the newfound organizational structure of the PMA.

Concurrently, the PMA placed paramount importance on the improvement of proficiencies within its esteemed staff. This was effectuated by granting employees the latitude to further their scholarly pursuits and attain postgraduate qualifications in their respective domains of expertise. Moreover, they were engaged in an extensive array of customized programs, courses, and workshops, encompassing manifold facets of the PMA's operational fabric. Remarkably, 2022 bore witness to their participation in the tally of approximately 262 training initiatives conducted by venerable domestic and international institutions.

[19] The PMA, preliminary data, subject to adjustment and change.

Part II: Banking Sector

Overview

The banking sector represents the backbone of the Palestinian financial system and the safety valve for the economy. It is also the prime supporter and a prime catalyst for recovery, growth, and financial and economic stability.

The performance of the banking sector is one of the leading sectors, supported by the well-calibrated policies and measures instituted by the PMA, and its discipline in accordance with the highest international banking standards and practices, which enables it to sustain its pivotal role in the economic tapestry.

The prudent policies and measures implemented by the PMA have diligently safeguarded the banking sector, preserved its soundness and allowed it to cope effectively with the burdens imposed by Palestine's prevailing circumstances. Simultaneously, keeping it able to embrace the latest developments in the banking industry, fueling its continued role within the economy. This section of the report give a comprehensive review of the notable developments shaping the performance of the banking sector throughout 2022.

Banking Sector Performance

The Palestinian banking sector faced increased pressures and challenges in 2022 amid the economic uncertainty resulting from the occupation, and its measures, and global developments. These changes led to unprecedented price and inflation increases, tightening the financial and monetary conditions, and rising global interest rates. Consequently, the US dollar appreciated against major currencies, including the Israeli shekel. The cost of borrowing also rose, causing some hesitation in borrowing and investing and potentially shifting toward deposits, resulting in a slowdown in credit portfolio growth.

Despite these adverse circumstances affecting certain aspects of the Palestinian banking sector, most of its metrics showed a strong performance, outpacing levels from previous years. Owing to the sector's adherence to international banking standards and practices, it has sustained public trust and deposit path and constituted an incentive to inject more liquidity into the economy. Mostly directed, with the support and directions of the PMA, towards productive sectors, in addition to assisting the government in overcoming its financial hardship. While the financial statements of the banking sector indicate a decline in total assets at the end of 2022 by approximately 1.2% compared to 2021, amounting to around USD 21.4 billion[20], it is fitting to highlight that this decline is primarily accounting-related and closely associated with the exchange rate fluctuations between the US dollar and the Israeli shekel. The Israeli shekel appreciated by around 13.6% against the US dollar at the end of 2022 compared to the same period in 2021[21].This is significant as the shekel represents approximately 40% of the total banking sector assets. In comparison, the US dollar represents around 36%, the Jordanian dinar represents around 21%, and the remaining currencies account for approximately 3%.

The policies and measures implemented by the PMA in 2022 have mobilized a significant portion of bank assets within the local economy through credit facilities, investments, cash, and other assets. This increase in the utilization of funds within the local economy aligns with the objectives pursued by the PMA, as the banking sector plays a vital role in stimulating economic growth.

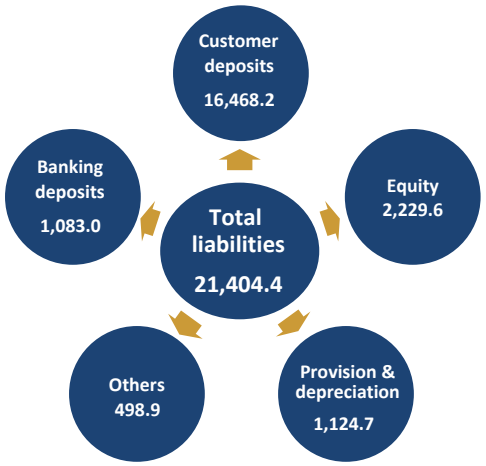
[20] Please be aware that all data provided in this section are preliminary and subject to adjustment and change.
[21] The end of the year represents the period in which banks prepare their final financial statements in various currencies, after evaluating them in US dollars. Referring to the currency exchange rate bulletin published on the PMA's website, the exchange rate of the USD rose from 3.1168 NIS at the end of 2021 to 3.5405 NIS at the end of 2022, reflecting an increase of approximately 13.6%.

Analysis of the Sources of Funds (Liabilities)

The PMA's vigilant monitoring and stringent supervision have been instrumental in safeguarding the safety and soundness of the banking sector in accordance with the highest international banking standards. This has earned it a high level of credibility. It has also enabled the sector to attract funds, strengthen its financial base, and enhance the key components of its financial structure, including deposits and equity, which constitute the primary sources of liquidity and funding for banks.

The available data at the end of 2022 indicate that the total liabilities of the banking sector reached approximately USD 21.4 billion. Customer deposits accounted for the largest share at 76.9%, followed by equity at around 10.4%. The remaining items (banking deposits, provisions, depreciation, and other liabilities) accounted for the remaining proportion of approximately 12.7%.

Figure 4- 1: Liabilities of the Palestinian banking sector (USD million), 2022

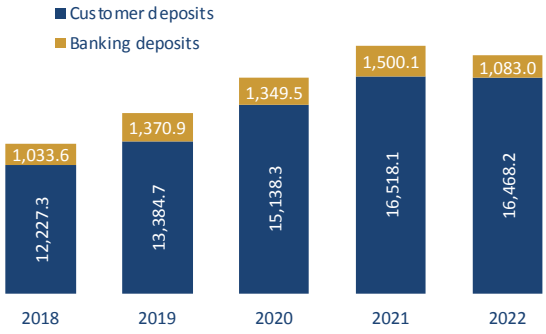


Source: Palestine Monetary Authority.

Banking and Nonbanking (Customers) Deposits

The total deposits (bank and nonbank/customer deposits) held by the Palestinian banking sector at the end of 2022 amounted to approximately USD 17.6 billion, reflecting a decline of around 2.6% compared to the previous year. This decline is partly attributed to accounting factors associated with the strengthening of the US dollar against the shekel, given that the shekel accounts for around 43% of these deposits (4.1% for banking deposits and 38.6% for nonbank/customer deposits). Another portion of this decline is tied to certain banks withdrawing a significant portion of their interbank deposits to invest in alternative higher-yielding instruments, given the global rise in interest rates. As a result, banking deposits decreased by around 27.8%, amounting to USD 1.1 billion, or about 6.2% of total deposits and approximately 5.1% of the banking sector's total liabilities.

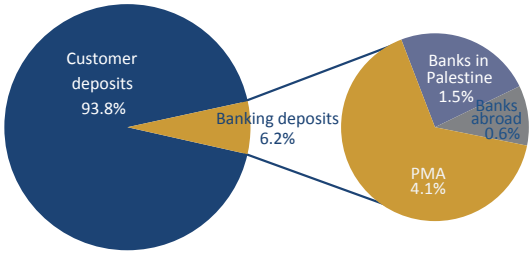
Figure 4- 2: Total deposits (USD million), 2018 - 2022



Source: Palestine Monetary Authority.

As for nonbank/customer deposits, which constitute the largest and most significant component, accounting for approximately 93.8% of total deposits and 76.9% of total liabilities, they remained relatively stable, experiencing a slight decline of around 0.3% compared to the previous year, amounting to approximately USD 16.5 billion. This indicates the continued inflow of funds into banks, driven by factors such as ongoing economic recovery, expansion of employment opportunities, increasing accounts for Palestinian workers in Israel, as well as the policies and measures implemented by the PMA to promote financial inclusion, banking diversification, and focus on rural and remote areas. The PMA also continued its banking awareness and education campaigns, in addition to the financial safety net provided by the Palestine Deposit Insurance Corporation, further strengthening depositors' confidence in the safety, soundness, and stability of the banking sector in line with the highest banking standards.

Figure 4- 3: Deposits structure, 2022

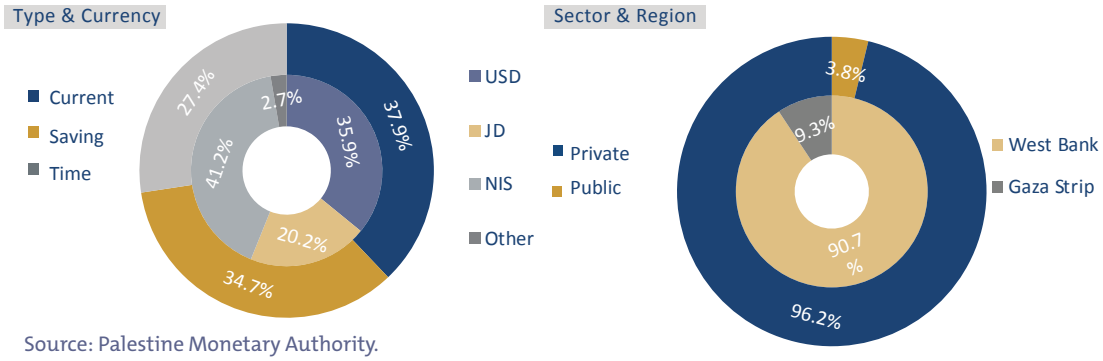


Source: Palestine Monetary Authority.

Given that the mainstay of the business sector, the capital, and economic activity are concentrated in the West Bank, it accounts for the vast majority (90.7%) of customer deposits, with the Gaza Strip contributing only 9.3%. This disparity can be attributed to the prolonged challenging conditions in Gaza, which have resulted in socioeconomic deterioration and a decline in its contribution to the Palestinian economic activity, accompanied by noticeable increases in unemployment and poverty rates compared to the West Bank.

Private sector deposits, amounting to USD 15.8 billion (or approximately 96.2% of customer deposits), are primarily attributed to the resident private sector. On the other hand, nonresident private sector deposits remain very limited, amounting to only USD 0.5 billion, accounting for a mere 3.5% of total private sector deposits. In contrast, public sector deposits constitute approximately 3.8% of total customer deposits, mainly consisting of government deposits, which tend to fluctuate from year to year depending on the government's financial position and the overall performance of the public sector.

Figure 4- 4: Customer deposits structure, 2022



Source: Palestine Monetary Authority.

Individual deposits, which increased by 2.3% in 2022, reaching USD 11.9 billion, account for approximately 77.9% of total resident private sector deposits. Meanwhile, corporate deposits account for around 19.8%, experiencing a decline of approximately 8.9% in 2022, amounting to approximately USD 3.0 billion. As for nonprofit organization deposits, despite growing by around 2.9%, they remain minimal in size (approximately USD 0.5 billion) or in importance (approximately 2.3% of total resident private sector deposits).

In line with the changes witnessed in 2022 regarding the structure of customer deposits, the relative importance of savings deposits has increased compared to both current and time deposits. This trend is attributed to the benefits banks provide through rewards and incentive programs for this type of deposit. However, current deposits continued to dominate the majority of customer deposits, accounting for 37.9%, savings deposits accounted for approximately 34.7%, and time deposits represented around 27.4%. Undoubtedly, such changes directly impact the potential utilization of these deposits in medium and long-term financing and investment areas, as well as the level of interest paid by the banking sector. This is particularly notable given the rising interest rates on currencies circulating in the Palestinian market, set by the central banks issuing these currencies[22].

[22] The Federal Reserve of the United States raised the interest rate seven consecutive times in 2022. The rate increased from a range of 0.25%-0.50% in March to a range of 4.25%-4.50% by the end of the year. Similarly, the Central Bank of Jordan increased its official interest rate from 2.75% in March to 6.5% at the year-end. The Bank of Israel also raised its interest rate six times, starting from 0.10% in April and reaching 3.75% by the end of the year. Subsequently, after the period covered by this report, the Federal Reserve of the United States raised the interest rate more than once, reaching a range of 5.25% - 5.50% in May. Following that, the Central Bank of Jordan raised its interest rate to 7.25%, and the Bank of Israel raised its interest rate to 4.75%.

Despite the increase in interest rates on currencies circulating in the Palestinian market and the ongoing improvement in the value of the US dollar and the Jordanian dinar against the Israeli shekel[23], the relative importance of shekel deposits increased at the expense of other currencies. The relative importance of shekel deposits rose to approximately 41.2% of total customer deposits, thereby claiming the largest share of customer deposits. In contrast, the relative importance of dollar deposits decreased to 35.9%, and Jordanian dinar deposits accounted for 20.2% of total customer deposits. The relative significance of deposits in other currencies remained marginal, constituting about 2.7% of total customer deposits over the same period.

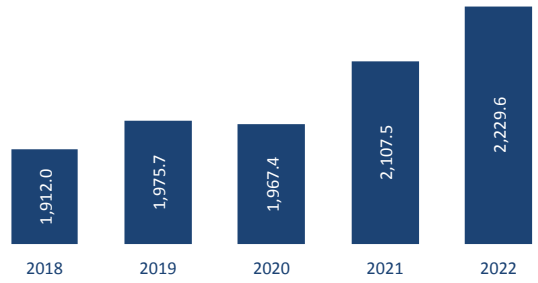
The main factor driving the growth in the relative significance of shekel deposits is the notable increase in accounts held by Palestinian workers in Israel, who receive their wages in shekels. This stems from the PMA's initiatives that simplified account opening procedures for these workers, exempted their transfers, wages, and salaries from fees, integrated them into the financial inclusion policy, promoted modern payment methods, and mitigated banks' shekel surplus accumulation issue. Banks also led multiple campaigns, offering incentives to this category to open accounts for receiving their Israeli-employer wages. Additionally, some clients have converted some of their other currency deposits into shekels in an attempt to take advantage of the fluctuation in exchange rates and reap quick profits due to changes in the exchange rate of both the dollar and the shekel.

Ownership Equity

Throughout 2022, the Palestinian banking sector continued reinforcing its capital base, resulting in approximately USD 2.2 billion in equity, reflecting a 5.8% increase compared to the previous year. This constitutes around 10.4% of the total liabilities of the banking sector. This growth aligns with the PMA's endeavors to cultivate robust and competitive banking entities capable of effectively managing and mitigating risks. The PMA closely monitored the capital augmentation of various banks in accordance with the submitted plans, complying with legal and regulatory prerequisites. Moreover, the PMA oversaw the remediation of ownership concentration ratios within banks and implemented a comprehensive framework for systematically significant banks.

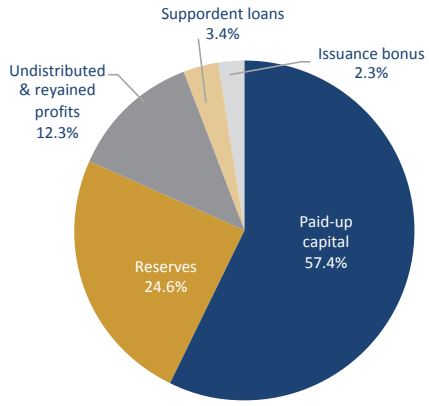
Paid-up capital is considered the most significant component of equity, accounting for approximately 57.4%, serving as the first line of defense against expected and unexpected risks. It amounted to USD 1,279.5 million, a 2.2 percent increase over the previous year. This growth resulted from the completion of capital augmentation in several banks per the relevant instructions. Reserves constituting approximately 24.6% of ownership equity[24]. This is followed by retained earnings subject

Figure 4- 5: Banking sector ownership equity (USD million), 2018- 2022



Source: Palestine Monetary Authority.

Figure 4- 6: Equity structure, 2022



Source: Palestine Monetary Authority.

[23] According to the exchange rate bulletin issued by the PMA and published on its official website (www.pma.ps), it indicates that the average exchange rate of the dollar in the Palestinian market has increased from NIS 3.2318 in 2021 to NIS 3.3558 in 2022, representing a 3.8% increase. Moreover, by the end of the year, this average had risen by approximately 13.6%.

[24] These include the legal reserve at a rate of 11.9%; declared reserves at a rate of 8.6%; general reserves for banking operations at a rate of 2.5%; fair value reserves at a rate of 1.1%; and revaluation reserves for properties, buildings, and equipment at a rate of 0.5% of ownership equity.

to approval, comprising 12.3% (including retained profits of 5.5%). Subordinated loans account for around 3.4% of equity[25], while the issuance premium represents approximately 2.3%.

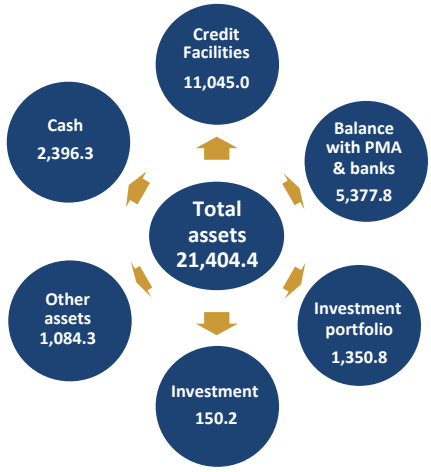
Other Liabilities

Provisions in 2022 saw an approximate 11.2% increase compared to the previous year, reaching around USD 1,124.7 million. Most of these were allocated to credit portfolio (40.2%, or USD 452.7 million) and depreciation (33.3%, or USD 374.4 million). The remaining provisions, encompassing those for balances with domestic and foreign banks, securities, and taxes, comprised roughly 26.5%, or USD 297.6 million. Other liabilities, including non-qualifying subordinated loans, amounted to around USD 498.9 million, marking a decrease of approximately 6.9% from 2021.

Analysis of the usage of Assets

In 2022, the banking sector's assets reached approximately USD 21.4 billion, with the majority being deployed within the local economy. Encouraging sustainable economic growth is one of the key objectives of the PMA, which necessitates greater utilization of available funds within the banking sector for local usage. Consequently, the PMA worked toward guiding banks to expand credit provision to sectors, activities, and infrastructure projects that serve the productive process. It also urged banks to establish and/or partner with investors in renewable energy, digital transformation, and other projects. This is particularly important as the credit channel is the solely available mechanism through which the Palestinian context can influence the overall economy, thereby contributing to enhancing the role of the banking sector in the local economy.

Figure 4- 7: Assets of the Palestinian banking sector (USD million), 2022



Source: Palestine Monetary Authority.

Data reveals that a significant 84.6% of the banking sector's assets have been invested within the Palestinian economy. Key components of these assets include credit facilities, comprising around 51.6% of total assets, cash at about 11.2%, balances with the PMA and domestic banks at roughly 9.8%, and investment and securities portfolios at around 6.9%. Fixed assets and other assets account for approximately 5.0%. Assets deployed by the banking sector internationally make up a mere 15.4% of total assets.

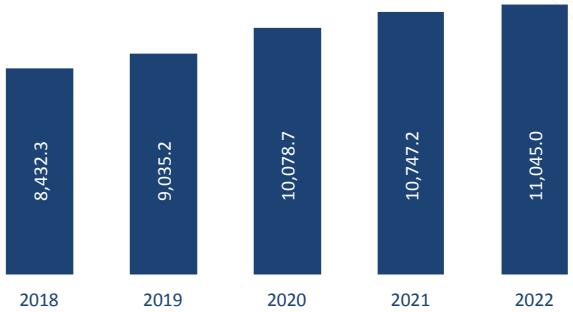
Direct Credit Facility Portfolio

The measures undertaken by the PMA successfully incentivized banks to inject the necessary liquidity into the local economy, keeping it on a growth trajectory and making it available to the private sector and various business sectors in different currencies and maturities aligned with the nature of the required financing, including productive projects, infrastructure projects, investments in start-up companies, especially in the fields of information technology, renewable energy, green economy, agriculture, entrepreneurial projects, and digital transformation programs. In addition to assisting the government to fulfill its obligations and financing part of its budget deficit.

[25] This particular entry is categorized under equity, serving regulatory objectives pertinent to the calculation of a bank's regulatory capital.

Despite the pressures and challenges faced by the Palestinian economy as a whole and the banking sector in particular, the PMA, in collaboration with the banking sector, succeeded in injecting approximately USD 11 billion as credit facilities, resulting in an increase of about 2.8% in the size of this portfolio compared to the previous year.

Figure 4- 8: Credit facilities (USD million), 2018- 2022

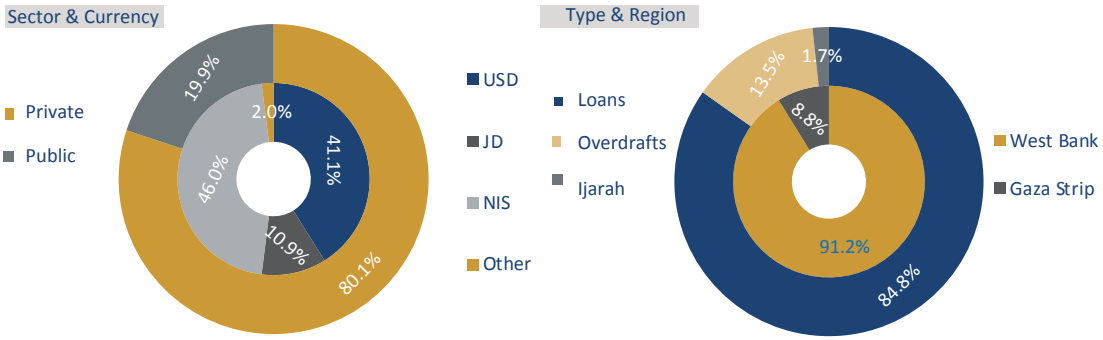


Source: Palestine Monetary Authority.

With the West Bank accounting for approximately 83% of economic activity and hosting the mainstay of the business sector, it is natural that it would hold the highest share of this portfolio, reaching around 91.2%, with an increase of about 2.6% from the previous year, totaling approximately USD 10.1 billion by the end of 2022. To alleviate the suffering and difficult conditions in the Gaza Strip, the PMA successfully encouraged banks to inject more liquidity into the sector, resulting in a 4.3% increase in the credit portfolio granted to the Gaza Strip compared to the previous year, reaching nearly USD 1 billion, constituting about 8.8% of the total credit portfolio. It is worth mentioning that the PMA has made significant efforts to enhance the role of the banking sector in alleviating the severity of the conditions experienced in the Gaza Strip.

With this expansion in the credit portfolio, the loan-to-deposit ratio reached approximately 67.1% at the Palestinian level (about 67.4% in the West Bank and 63.5% in the Gaza Strip). Ramallah and Al-Bireh Governorate recorded the highest ratio at around 96.2%, while the Ram area recorded the lowest at about 24.3%. Deir al-Balah Governorate recorded the highest ratio in the Gaza Strip at about 109.9%. In comparison, Khan Yunis area recorded the lowest level in the loan-to-deposit ratio at about 40.6%, indicating that Deir al-Balah relies on other areas to meet its liquidity needs.

Figure 4- 9: Credit portfolio structure, 2022



Source: Palestine Monetary Authority.

In general, the relative importance of the credit portfolio witnessed some changes in 2022. On the one hand, the share of loans increased at the expense of the overdraft, with loans dominating the bulk of the credit portfolio at 84.8%, while the share of the overdraft decreased to 13.5%. The share of Sharia-compliant financing remained marginal at around 2.0% of the total portfolio.

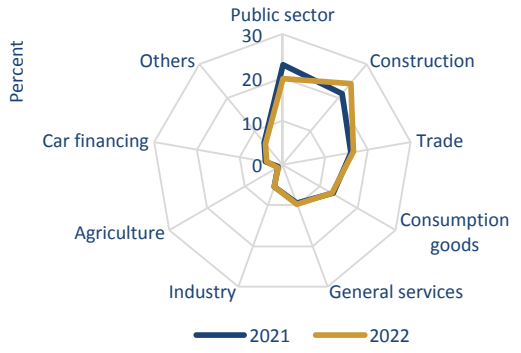
On the other hand, the relative importance of the US dollar increased compared to both the shekel and the Jordanian dinar. The share of the US dollar rose to approximately 41.1% of the total credit portfolio, while the share of the shekel decreased to about 46.0%, and the share of the dinar reached around 10.9%. However, shekel still retains the largest share of this portfolio. Other currency shares remained marginal, accounting for approximately 2.0% of the total

credit portfolio. The changes in the lending shares in US dollars and shekels are influenced by factors such as the type of borrowers (public sector/private sector, individuals/companies), their cash flows, and exchange rate fluctuations.

The share of the public sector in the total credit portfolio decreased to around 19.9%, amounting to approximately USD 2.2 billion. In contrast, the banking sector continued providing financing to the private sectors in various currencies and maturities. The portfolio of facilities granted to the private sector increased by about 6.9% compared to the previous year, 2021, reaching around USD 8.9 billion, accounting for approximately 80.1% of the total credit portfolio. These facilities were distributed between loans granted to companies, representing 52.3% or USD 4.6 billion, an increase of about 7.0% from 2021, and loans granted to individuals, representing 45.9% and totaling USD 4.1 billion, an increase of approximately 6.8% from the previous year. As for loans granted through credit cards and nonprofit institutions, they remain minimal, accounting for about 1.4% of the total granted credit portfolio for the private sector, despite their increase in 2022 by about 1.4%, reaching approximately USD 125.0 million.

In general, individuals constitute the banking sector's main liquidity source (deposits), while companies are the primary users of this liquidity. In 2022, individual loans accounted for about 34% of their deposits, compared to 153% for the ratio of company loans to their deposits. Undoubtedly, this expansion of credit granted to the private sector reflects the banking sector's commitment to financing this sector in various currencies and maturities, leading to an increase in the ratio of loans granted to the private sector to approximately 56% of their deposits in 2022.

Figure 4- 10: Credit portfolio by economic activity, 2021-2022



Source: Palestine Monetary Authority.

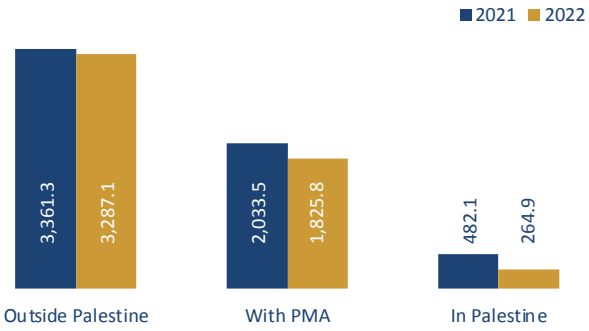
Broadly, the credit portfolio extended to the private sector encompassed a spectrum of economic activities, both productive and service-related. These activities' relative prominence fluctuated, with real estate, construction, and land activities constituting 24.2%, and agriculture and livestock activities making up 1.3%. It's noteworthy that the relative significance of finance for consumer goods and cars diminished to 13.0% and 3.8%, respectively. Contrarily, there was a marginal ascension in the relative significance of financing dispensed to agricultural activities, albeit remaining minimal. This sector is contending with hurdles and a diminishing contribution to economic activity due to elevated production costs, diminished competitiveness of its products, expansive agricultural land confiscation, labor scarcity, and mounting associated risks. Factors such as the sector's seasonality and pronounced informality have curtailed banks' inclination to finance it. Nonetheless, apart from banks, alternate financing avenues exist embodied by specialized lending institutions under PMA's supervision. These institutions endeavor to offset a considerable portion of the sectoral financing gap.

This credit expansion granted to the private sector highlights the banking sector's ability to continue its services without interruption, even in difficult situations and crises. However, the credit channel remains vulnerable to the impact of security and political developments, directly impacting overall economic activity and the investment climate in Palestine. Therefore, the PMA is committed to monitoring and tracking any developments related to credit risks and taking precautionary and mitigating measures that help banks grant credit with the lowest level of risk. This is evidenced by the low levels of defaults in the credit portfolio while ensuring the security and safety of the banking sector and protecting depositors' funds.

Balances with PMA and Banks

The balances held by PMA and banks in Palestine and abroad constitute the second component for deploying funds available to banks operating in Palestine. These balances accounted for approximately 25.1% of total assets at the end of 2022, amounting to around USD 5.4 billion, reflecting a decline of approximately 8.5% compared to the end of 2021. The balances held by banks abroad (the most significant component of these balances, accounting for approximately 61.1%) witnessed a decline of about 2.2% compared to 2021, reaching approximately USD 3.3 billion. This decline resulted from banks deploying more available funds into the local economy.

Figure 4- 11: Balances with PMA and banks (USD million), 2021- 2022



Source: Palestine Monetary Authority.

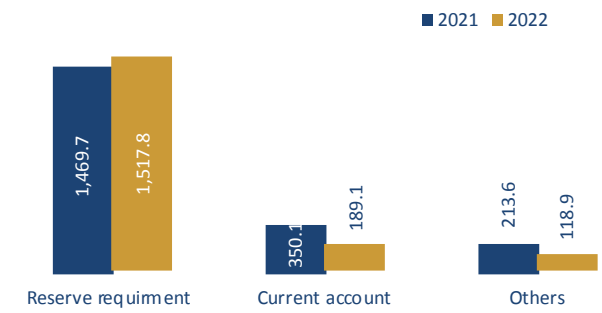
Similarly, the balances held by banks in Palestine (interbank deposits) experienced a significant decline in 2022, with a decrease of 45.1% compared to the end of 2021. This decline can primarily be attributed to banks withdrawing a significant portion of their interbank balances and deploying them in alternative investment opportunities that generate higher returns. However, these balances remained limited, constituting approximately 4.9% of the total balances held by PMA and banks, with a value not exceeding USD 0.3 billion, indicating the limited interbank market.

As for the balances held by the PMA, they accounted for approximately 34.0% of total balances, with a value of around USD 1.8 billion, reflecting a decline of about 10.2% compared to the end of 2021. This drop was influenced by the decrease in current and other accounts, excluding the required reserve. The required reserve is the largest component of the balances held by the PMA, comprising approximately 83.1%, with a value of USD 1.5 billion, showing an increase of about 3.3%. On the other hand, current accounts constituted approximately 10.1% of these balances, with a value of around USD 0.2 billion, experiencing a decline of about 46.0% compared to the previous year-end. These accounts are mainly used for settlement purposes in the payment system.

Similarly, other accounts stand for around 6.5% of these balances, with a value of approximately USD 0.1 billion, declining by about 45.1% due to banks withdrawing a significant portion of their held liquidity surplus at the PMA and deploying it in alternative investment opportunities that generate profits.

Balances abroad are also the primary component in the placements abroad, accounting for approximately 74.0% of these placements, which had a value of around USD 4.4 billion at the end of 2022. This represents a decline of about 0.9% compared to the previous year, constituting approximately 25.3% of the total deposits at the end of 2022.

Figure 4- 12: Balances with PMA (USD million), 2021- 2022



Source: Palestine Monetary Authority.

Furthermore, investments in certain foreign financial instruments constitute the second component in the placements abroad, comprising approximately 22.1% thereof, with a value nearing USD 1.0 billion. This reflects a rise of about 6.4%

due to the increased returns on these instruments resulting from the global interest rate hike[26]. As for the credit granted outside Palestine (the third component of placements abroad), it accounted for approximately 3.9% of these placements, with a value of around USD 0.2 billion, marking a decline of about 13.5% compared to the end of 2021.

Investment Portfolio

Investment is another conduit for the allocation of funds by banks operating within Palestine, acting as a crucial stimulant for economic growth. Nonetheless, the pervasive climate of ambiguity throughout 2022 overshadowed the banks' investment opportunities and decisions across both short- and long-term horizons. Guided by the unfolding events of 2022, banks embraced a prudent and risk-mitigating stance toward their investment decision, resulting in constrained growth.

Financial data from banks indicate that long-term investments, including investments in subsidiaries and affiliates, witnessed a 2.0 percent increase compared to the end of 2021, reaching approximately USD 150.2 million, and accounting for 0.7% of their total assets. On the other hand, short-term investments linked to securities, such as certificates of deposit, bonds, and financial instruments, experienced a slight increase of around 0.4%, reaching approximately USD 1.4 billion, constituting about 6.3% of their total assets.

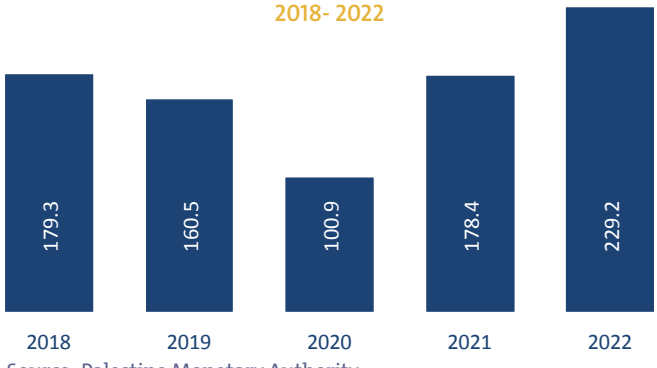
Other Assets

These items are listed separately on the bank's assets side. They include cash, which decreased by 4.0% in 2022 compared to the previous year, amounting to approximately USD 2.4 billion. This decline was primarily attributed to the continued transfer of surplus shekels to Israel, which accounted for over 81% of this item[27]. On the other hand, fixed assets accounted for about 3.2% of the total banking sector assets, experiencing a 1.0 percent increase to reach approximately USD 676.8 million. Other assets, constituting around 1.9% of the total assets, saw a growth of 4.7% compared to 2021, reaching approximately USD 407.4 million.

Banking Sector Profits

The increase in the credit portfolio, driven by the continued economic recovery and the gradual rise in global interest rates, has contributed to an improvement in the profitability of the banking sector and its related indicators. On this note, the income statement indicates that the banking sector achieved a net profit of USD 229.2 million at the end of 2022, showing a significant increase of 28.4% compared to the same period in 2021. This growth can primarily be attributed to a 15.3 percent increase in total revenues, reaching USD 885.9 million, due to a

Figure 4- 13: Banking Profits (USD million), 2018- 2022



Source: Palestine Monetary Authority.

[26] It should be noted that foreign investments by banks in all types of securities are subject to the requirement of obtaining prior written approval from the PMA, as stated in the Banking Law, Article 14(6). Additionally, these investments must be employed in credit-rated investments, taking into consideration concentration levels at both the institutional and state levels, as well as currency considerations, in accordance with the provisions outlined in Instruction No. 1/2020, Article 4.

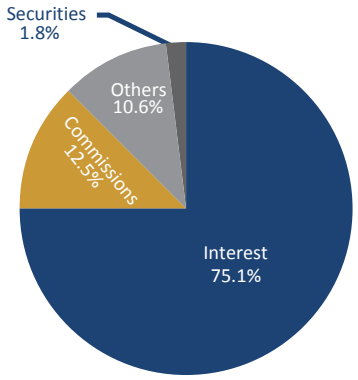
[27] In the ongoing efforts of the PMA to address and reduce the excess cash of the shekel currency held by banks operating in Palestine, subsequent to the year of issuing this report, the PMA issued Instruction No. (1/2023) regarding bank fees and commissions. Article 5 of these instructions sets the limits for the fees that these banks must collect for cash transactions. For further details, please refer to Instruction No. (1/2023) published on the website of the PMA: www.pma.ps.

notable rise in net interest income by 19.0% to approximately USD 665.4 million, as well as a 5.3 percent increase in net income from noninterest sources, amounting to around USD 220.5 million.

At the same time, banking expenses (excluding interest) increased by around 10.3%, reaching USD 507.4 million, accompanied by a significant 37.9% rise in income tax, amounting to around USD 90.2 million. However, net provisions experienced a decrease of 8.1%, reaching approximately USD 59.2 million.

The analysis of the contributions of different activities to net income reveals that interest income is the primary source of revenue generation in the banking sector, standing for about 75.1% of the total income. In comparison, the contribution of other sources of income decreased to 24.9%. These sources include income from commissions and fees, profits from securities and investments, hedging and trading operations, as well as income from foreign exchange swap and valuation operations. Commissions and fees contributed around 12.5% of the total income, amounting to USD 111.2 million, while securities and investments contributed approximately 1.8% with a value of USD 15.5 million. The remaining other income contributed about 10.6%, totaling around USD 93.8 million at the end of 2022.

Figure 4- 14: Structure of banking sector revenues, 2022



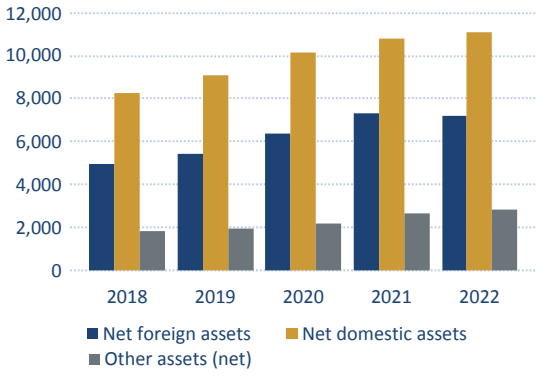
Source: Palestine Monetary Authority.

As a measure of the operational efficiency of the banking sector, the analysis shows a decrease in noninterest expenses to 57.3% of the total income, primarily influenced by a decline in employee expenses to approximately 51.6% of the total income in 2022.

Domestic Liquidity

The state of uncertainty and the consequent economic deceleration in the Palestinian economy in 2022 had an influence on local liquidity levels, which largely echoed the previous year's state, exhibiting a marginal decline of around 0.1%, totaling USD 15.5 billion[28]. Despite the constancy of the domestic liquidity volume, its principal constituents experienced relative fluctuations in their 2022 performance. On one side, the net foreign assets component contributed to a contractionary effect on the domestic liquidity stance, dwindling by approximately 1.1% compared to 2021, standing at around USD 7.2 billion. This contraction was driven by an expanding deficit in both the trade balance and the current account within the BoP.

Figure 4- 15: Liquidity components (USD million), 2018-2022



Source: Palestine Monetary Authority.

Conversely, transactions within the net domestic asset component fostered an expansionary effect on the local

[28] For more details, please refer to the Monetary and Banking Developments report issued by the PMA and published on its website: www.pma.ps. It is important to note that the liquidity determinants (broad money supply) are defined as follows: Broad Money Supply = Net Foreign Assets + Net Domestic Assets - Net Other Items.

liquidity stance, escalating by roughly 2.3% compared to 2021 and hitting a value of USD 11.1 billion. This augmentation can be attributed to the growth in credit furnished to non-government sectors within the Palestinian economy.

On a disparate tangent, transactions within the net other items component cast a contractionary shadow over the domestic liquidity, receding by nearly 7.3% in relation to 2021 and settling at an approximate USD 2.8 billion. This development can be attributed to the stratagems pursued by banks to bolster their resilience and risk management, including endeavors to fortify their capital foundations, culminate capital augmentations, and adhere to the corresponding laws and regulations instituted by the PMA, among other initiatives.

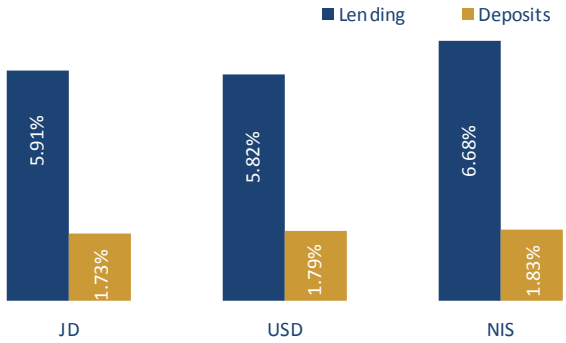
Interest Rates in the Palestinian Market

Although the PMA doesn't directly regulate the interest rates of circulating currencies in the Palestinian market—notably, the US dollar, Jordanian dinar, and Israeli shekel—it does rigorously oversee the spread between deposit and lending rates. This vigilance aligns with the overarching goal to shield the rights of financial service consumers, discourage exorbitant rates, and concurrently amplify the operational efficiency of banks. The prevalent interest rates in the Palestinian market are shaped by market dynamics, the competitive interplay among banks, risk levels, and the ruling rates in the issuing countries of these currencies[29]. In 2022, the central banks in charge of these currencies witnessed pronounced increases in their rates, subsequently triggering varying escalations in the deposit and lending rate levels for the currencies in circulation within the Palestinian market.

Undeniably, Palestinian borrowers, be they individuals or entities, felt the impact of the increase in loan interest rates for both existing and newly issued loans. Data from 2022 reveals a rising trend in the estimated annual averages of deposit and lending rates in the Palestinian market[30]. The estimated annual average lending rate for the Israeli shekel rose by about 31 basis points (from 6.38% in 2021 to 6.68% in 2022), while for the US dollar, it increased roughly by 30 basis points (from 5.52% to 5.82%). In contrast, the lending rate for the Jordanian dinar saw a drop of about 35 basis points (from 6.27% to 5.91%).

Furthermore, the weighted average annual rates of deposit interest also increased, with the US dollar rising by approximately 14 basis points (from 1.62% to 1.76%), the Israeli shekel by around 7 basis points (from 1.75% to 1.82%), and the Jordanian dinar by about 3 basis points (from 1.70% to 1.73%). It is worth mentioning that the interest margin (interest received minus interest paid) is usually closely related to the level of uncertainty and risks surrounding the banking and economic environment, as well as the liquidity volume and its cost. These factors reflected an increase in the interest margin for both the US dollar and the Israeli shekel in 2022.

Figure 4- 16: Lending & deposit rates by currency, 2022



Source: Palestine Monetary Authority.

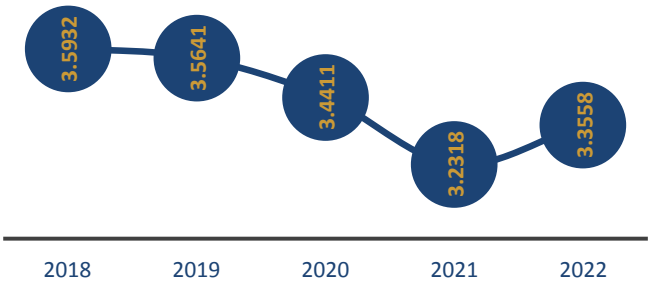
Given Palestine's exceptional economic and social conditions, the PMA announced an initiative to mitigate the adverse effects of interest rate hikes on individuals and companies. Alongside this initiative, there has been a review of market conduct regulations and customer rights protection in the banking sector to enhance the quality of services provided.

[29] See footnote 22.
[30] The mentioned ratios here do not include government loans, and they represent the weighted average rates of interest for facilities (and deposits) provided to individuals and companies of different types and durations. These ratios are indicative only.

The PMA has reviewed the instructions regarding bank fees, intending to reduce most of them to encourage financial inclusion and the use of technology in banking and payment operations[31].

Furthermore, amid attempts to curb unprecedented inflation, central banks resorted to tightening their monetary policies through repeated interest rate increases. This has resulted in a notable strengthening of the US dollar against major currencies worldwide, including the currencies circulated in the Palestinian market, especially the Israeli shekel. In 2022, the value of the US dollar (and consequently the Jordanian dinar) rose by approximately 3.8% against the Israeli shekel, with the average exchange rate reaching NIS 3.3558 per dollar (average buying and selling rate over the period).

Figure 4- 17: Average exchange rate (NIS/USD), 2018 - 2022



Source: Palestine Monetary Authority.

The repercussions of this increase, along with the resulting price instability and purchasing power, have affected various sections of Palestinian society, including citizens, traders, the government's finances, and the financial system. Driven to mitigate the severity of these repercussions, the PMA monitors the foreign exchange market and takes appropriate measures and actions to prevent excessive fluctuations and protect citizens and consumers of financial services. Financial institutions must exchange currencies at prevailing market rates and deliver financial transfers in the same currency as specified.

Payments System

Modern payment systems are essential cornerstones of the banking and financial infrastructure, enabling the delivery of exceptional services and products in alignment with international best practices. They play a pivotal role in mitigating risks to the banking sector and the entire financial system.

Real-Time Settlements

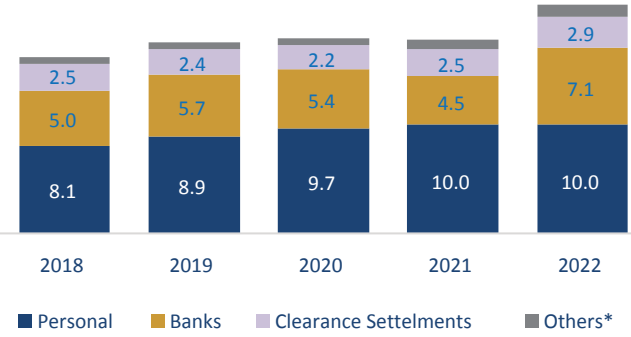
Despite the Palestinian economy's pressures and challenges, interbank settlement activities witnessed active transactions in 2022. The total number of these transactions reached approximately 111,588 transfers, with a total value of USD 21.1 billion, marking an increase of 10.8% in terms of volume and approximately 18.0% in terms of value compared to 2021. Settlements executed between member banks include bank to bank transfers, personal transfers, check clearing settlements, national switch operation, PEX CSD settlement operation, and e-clearance settlements for fragmented transfers, as well as other transfers related to the settlement of mandatory and other reserve differentials.

[31] This initiative was launched at the end of March 2023 by the PMA and the Association of Banks in Palestine, at a time when interest rates are experiencing a rapid and continuous rise globally. It aimed to address the ongoing increase in interest rates, starting from the beginning of April until the end of 2023, by setting caps on interest rate hikes for the remainder of the year. Under this initiative, which came into effect in April 2023 and concluded at the end of 2023, banks were required to reassess the increases in interest rates for existing individual borrowers who have variable-rate personal and/or housing loans, as follows:

- For housing loans, the allowable increase is up to a maximum of 150 basis points above the client's interest rate as of June 30, 2022. (This means allowing the housing loan interest to increase by a maximum of 150 basis points from its level as of June 30, 2022, and any increase beyond this cap will be reduced for the upcoming period until the end of 2023).
- For personal loans, the allowable increase is up to a maximum of 200 basis points above the interest rate as of June 30, 2022.
- Banks will provide the option for public sector borrowers to obtain a temporary (non-revolving) overdraft facility at a fixed interest rate of 3%, with a ceiling of two months' salary or the outstanding balance due to the PA, whichever is lower. This additional financing will be used to repay the installments due by these borrowers and will be deducted from any transfers made by the MoFP to the employees. The overdraft facility and its interest will be scheduled after its maturity to match the term of the granted loan, in order to assist citizens in managing cash for loan repayment purposes.

Personal transfers and bank transfers account for the largest share of these transactions, both in terms of volume and value, amounting to 75.1% in volume and 81.3% in value. In 2022, personal transfers accounted for approximately 66.3% of the total executed transfers and 47.6% of their value (equivalent to USD 10.0 billion). On the other hand, bank transfers accounted for 8.9% of the total number of executed transfers and 33.7% of their value (equivalent to USD 7.1 billion). Personal transfers are characterized by their large volume and small value compared to bank transfers, with an average transfer size of approximately USD 136,000 in 2022, compared to USD 717,000 for bank transfers.

Figure 4- 18: Settlement operation (USD billion), 2018 - 2022



* Includes national switch, PEX, e-clearance settelments for fragmented transfers and others.
Source: Palestine Monetary Authority.

Settlement transfers related to check clearance executions accounted for approximately 5.5% of the total number of executed transfers and about 13.6% of their value (equivalent to USD 2.9 billion). National switch transfers accounted for approximately 5.8% of executed transfers and about 1.3% of their value (equivalent to USD 268.0 million). Palestinian Stock Exchange transfers accounted for approximately 1.3% of the total executed transfers and about 0.6% of their value (equivalent to USD 116.2 million). Automated clearing system settlement transfers accounted for approximately 10.4% of the total executed transfers and about 1.9% of their value (equivalent to USD 403.3 million). Other transfers accounted for approximately 1.9% of the total executed transfers and about 1.3% of their value (equivalent to USD 276.5 million).

On the other hand, the number of transfers outside the system amounted to 1,767 transfers, with a total value of approximately USD 9.3 billion, representing an increase of about 23.4% in volume and 38.2% in value compared to the end of 2021. Balance replenishment transfers amounted to approximately 1,628 transfers, with a total value of approximately USD 9.1 billion, representing an increase of about 16.0% in volume and 31.7% in value compared to the same period of the previous year.

Checks Transactions

Checks are the primary noncash instrument for settling transactions in the Palestinian market, second only to cash. Their circulation mirrors the economy's activity level, encapsulating the broader economic situation and cycle and serving as a significant indicator. The ongoing recovery of the Palestinian economy throughout 2022 was manifested in a rise in the number and value of checks presented for clearing (across all currencies, denominated in US dollars). In contrast, the number and value of bounced checks saw a decline[32].

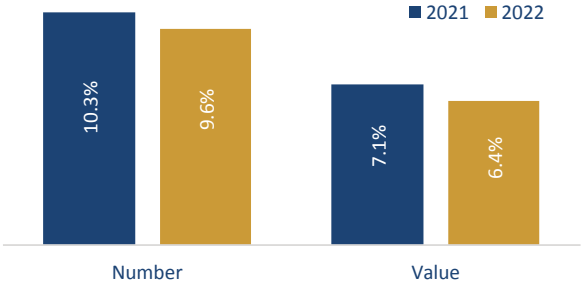
In 2022, around 7,953,805 checks were exchanged in various currencies, with a cumulative value of USD 23.6 billion. This figure reflects a marginal increase of 0.7% in volume and a significant increase of 10.5% in value compared to the previous year. Shekel accounted for approximately 93% of the total number of checks and around 78% of their total value.

On the other hand, the number of bounced checks in 2022 amounted to 761,544 checks, with a total value of USD 1.5 billion, reflecting a decline of 6.8% in volume and approximately 1.3% in value compared to the end of 2021. It should be mentioned that around 60% of the returned checks, constituting approximately 57% of their value, were

[32] PMA, Check Circulation Bulletin, website, www.pma.ps.

due to insufficient funds, while the remaining portion was attributed to other technical reasons. The Israeli shekel accounted for approximately 93% of the total number of bounced checks and around 83% of their total value. This situation led to a noticeable decrease in the proportion of bounced checks in relation to the total number of submitted checks in terms of volume and value. The percentage of bounced checks decreased from 10.3% in 2021 to 9.6% in 2022 in volume and from 7.1% to 6.4% in value during the same period.

Figure 4- 19: Bounced checks as a percentage of checks clearance, 2021- 2022



Source: Palestine Monetary Authority.

In light of this, it is fitting to highlight that the PMA has rolled out a series of strategies to stem the tide of bounced checks and uphold their legal and practical status as a highly trusted payment tool. These tactics include the continual refinement of information systems, broadening the remit of their authorizations, and encouraging banks to reevaluate and bolster their checkbook distribution protocols.

Moreover, the PMA contemplates additional strategies, such as the containment of “gyro” or “check endorsement,” requiring banks to exclusively honor checks for the original beneficiary without further endorsement. The PMA is also probing the applicability of a partial fulfillment principle for checks, facilitating a partial settlement of the check’s value in insufficient funds. The remaining value would be accurately documented and classified as a bounced check due to insufficient balance, thus shifting away from the prevailing practice of full check amount repayment.

Part III: Non-banking Financial Institutions

Overview

The nonbanking financial sector garners considerable interest from regulatory and supervisory entities: the PMA and the Capital Market Authority, given its integral role in supplementing and bolstering the banking sector, the linchpin of the Palestinian financial sector. The significance of this sector is underscored by its operational character, target demographics, and regional focus.

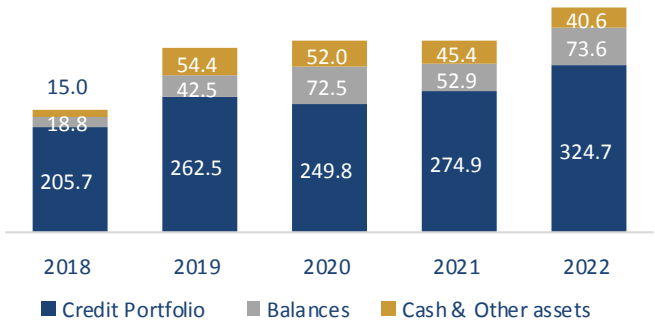
Under the PMA's supervision, the nonbanking financial sector comprises specialized lending institutions, moneychangers, and electronic payment service providers. It incorporates hundreds of firms, branches, agents, and thousands of employees, with an annual financial transaction volume estimated in billions of US dollars, spanning loans, currency exchange, post-dated checks, financial transfers, electronic payments, and beyond. This part of the report illuminates the noteworthy developments experienced by institutions within this sector in 2022.

Specialized Lending Institutions

The specialized lending sector, a key segment of the nonbanking financial landscape, supervised by the PMA, receives substantial attention due to its primary emphasis on MSMEs. As the primary component of operational enterprises within the Palestinian economy, MSMEs fuel growth, diversify income sources, mitigate unemployment and poverty, and bolster economic and social development. Committed to fostering the growth of the specialized lending sector and energizing its economic role, the PMA has undertaken the creation of a conducive business environment, including the implementation of the Estidamah Fund's second phase—a program curated explicitly for this sector, enhancing its capacity to effectively finance small and micro-sized initiatives.

In this regard, it's noteworthy that the PMA has licensed nine specialized lending institutions as of 2022's end. A notable addition to this group is Zaytonah Islamic Financing, which obtained its license at the beginning of the year, making it the first Palestinian firm to specialize in offering small and micro–Islamic financing services in accordance to Sharia principles. Through a widespread network of 95 branches throughout the West Bank and the Gaza Strip, these specialized lending institutions deliver various services. With the aid of 864 employees, they have supported over 70,000 borrowers, including a significant representation of women constituting one-third of the total.

Figure 4- 20: Asset's of specialized lending institutions (USD million), 2018-2022



Source: Palestine Monetary Authority.

In 2022, the specialized lending sector displayed a robust recovery and growth trajectory. The sector's progress was bolstered by the PMA's measures to ensure its security, integrity, and enhanced role in related domains. The entry of new players, including Zaytonah Islamic Financing, further contributed to its development. Financial data for the sector demonstrated a significant increase in assets, surging by approximately 17.6% compared to the previous year, reaching approximately USD 438.9 million. These assets were allocated across various categories, with loans constituting 74% of the asset side, amounting to USD 324.7 million (including around 14.3% in Islamic financing), representing an 18.1% increase from the previous year. Balances accounted for 16.8% of the assets, totaling USD 73.6 million, reflecting a remarkable growth of approximately 39.1%. Fixed assets and other assets accounted for approximately 8.8% of the

total assets, with a value of USD 38.7 million, witnessing a decline of about 13.0% during the same period. Cash and cash equivalents made up approximately 0.4% of the total assets in 2022, with a value of USD 1.9 million.

In 2022, the specialized lending sector recorded a substantial net income after taxes and grants of USD 9.8 million, representing a notable 57% increase from the previous year. This growth was fueled by a 19% surge in operating revenues, reaching USD 47.9 million, driven by the expansion of interest revenues generated from commercial loans and Islamic financing. Conversely, financial expenses, primarily commissions and interest, rose by approximately 19.5% to USD 8.0 million, and operating expenses increased by around 3.8% to USD 28.8 million. Additionally, there was an increase in taxes and a decline in grants throughout the year.

Figure 4- 22: Credit portfolio by region (USD million), 2018-2022

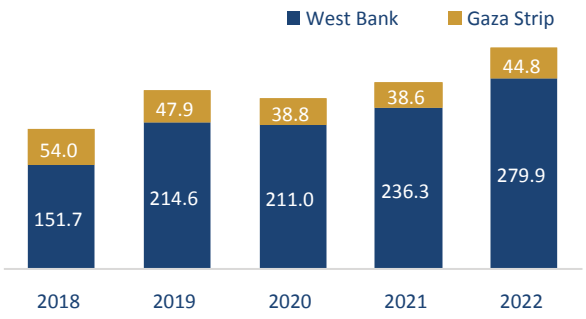
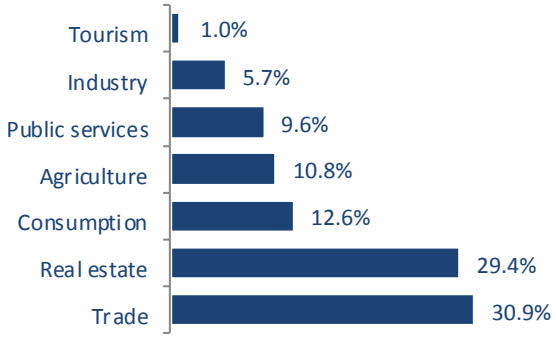


Figure 4- 21: Credit portfolio by economic activity (USD million), 2022



Source: Palestine Monetary Authority.

The lending activity in the specialized lending sector demonstrated a strong performance in 2022, with a total loan portfolio amounting to USD 324.7 million. The bulk of loans, approximately 86%, were granted in the West Bank, while the remaining 14% were allocated to the Gaza Strip. This marks a 16% increase in the value of loans compared to the previous year. The trade and real estate sectors accounted for approximately two-thirds of the loan portfolio, with 30.9% attributed to the trade sector and 29.4% to the real estate sector. The remaining one-third of the loan portfolio was distributed across various sectors, including agriculture, industry, consumer, services, and tourism.

Moneychangers

As of the end of 2022, the PMA supervised 337 licensed moneychangers in Palestine, with 213 companies operating through a network of 95 branches. Among them, 181 companies and 75 branches are in the West Bank, and 32 companies and 20 branches operate in the Gaza Strip. In addition to these entities, 29 individual moneychangers were granted licenses, with 26 operating in the West Bank and only three in the Gaza Strip.

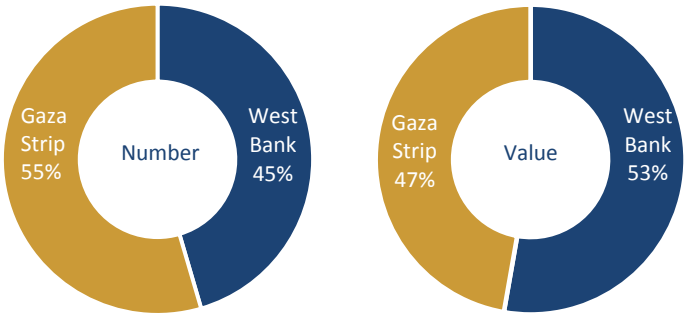
This sector's financial and operational data indicate a significant increase in assets, reaching approximately USD 86.1 million, representing a growth rate of 2.2% compared to the previous year. It is important to note that approximately 95% of these assets are held in liquid form. Currency exchange transactions experienced a notable surge of around 23.5%, totaling approximately USD 3.3 billion. Moreover, the value of outgoing and incoming transfers through this sector showed an upward trajectory. Outgoing transfers numbered approximately 383,000, with a total value of USD 316.1 million, marking a growth of approximately 10.7% compared to the previous year. Similarly, incoming transfers reached around 893,000, amounting to a total value of USD 545.1 million, reflecting a 4.7% increase compared to 2021. At the same time, the value of checks purchased by this sector reached approximately USD 443.1 million.

E-Payment Service Providers

The PMA is dedicated to accelerating the transition and integration into the digital economy, with a strong emphasis on promoting financial technology. Recognizing the potential of electronic payment solutions, the PMA has proactively implemented various measures to establish a robust infrastructure for digital payments. It has actively encouraged innovative companies specializing in electronic payments, particularly e-wallets and payment cards, to enter the Palestinian market.

Currently, five e-payment companies[33] are operating in Palestine, with total assets valued at approximately USD 25.5 million and equity amounting to USD 6.2 million. These companies offer a range of services to their clients, including online transactions, cash deposits and withdrawals, domestic money transfers within Palestine, as well as shopping and bill payments through authorized agents across various Palestinian governorates. These services have gained widespread acceptance due to their inclusive nature, serving marginalized and unbanked populations, particularly in remote areas. They have contributed to social empowerment by providing easy and secure access to financial services for women, youth, and entrepreneurs, thereby significantly enhancing financial inclusion.

Figure 4- 23: Distribution of e-wallets, 2022



Source: Palestine Monetary Authority.

In 2022, the momentum of e-wallets continued to surge, with the total number of e-wallets held by individual users reaching approximately 418,000, amounting to a staggering value of USD 2.1 million. This represents a 15% increase in the number of transactions and an impressive 23% increase in their overall value compared to the previous year. Male users accounted for around 71% of the total e-wallet users, contributing to 61% of their total value. In contrast, female users represented approximately 39% of the e-wallet, count and 29% of their value. The total count of e-wallets owned by males reached 296,088, valued at USD 1.3 million, while females owned 121,905 e-wallets with a total value of approximately USD 820,000. Additionally, the number of prepaid virtual cards rose to approximately 27,000, compared to 11,000 in 2021, and the authorized payment agents reached 4,029, serving alongside 14,692 merchants by year-end.

As these companies expanded their service offerings and user base, the volume of transactions in 2022 more than doubled, surpassing two million with a total value exceeding USD 191.3 million. These transactions encompassed various financial activities, with cash withdrawals constituting 39% of the total transaction value, totaling approximately 224,000 transactions and USD 74.8 million. E-wallet top-ups accounted for a significant quarter in volume and value, with around 569,000 transactions and USD 50 million. Various payment services, including purchases, bill payments, installments, and balance top-ups, contributed around a quarter of the total transaction value and half of the total count, encompassing 1.15 million transactions and a total value of USD 48.5 million. Inter-wallet transfers, facilitating seamless transactions among e-wallets, comprised approximately 12% and 9% in volume and value, involving 275,000 transactions and USD 17.7 million.

[33] These companies include the National E-Payment Company, Pal-Pay Prepaid Company, Middle East Payment Services Company, Malchat E-Payment Company, and Madfooaticom for E-Payment Company.

Figure 4- 25: Value of transactions (USD million), 2021 – 2022

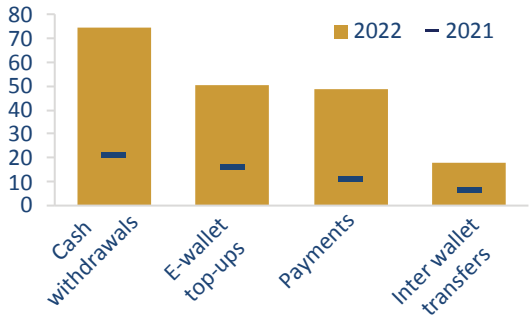
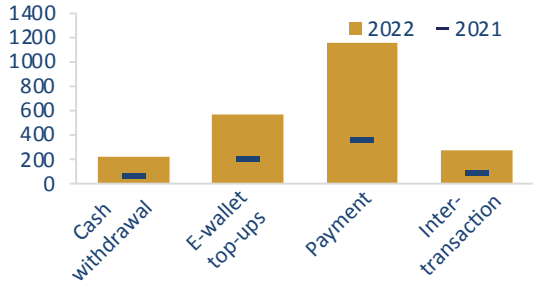


Figure 4- 24: Number of transactions (Thousands), 2021 – 2022



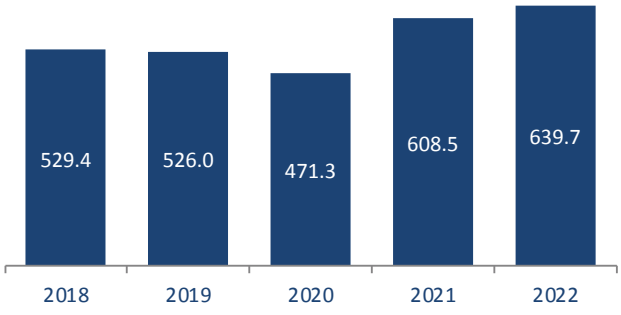
Source: Palestine Monetary Authority.

Palestine Exchange-PEX (Securities Sector)

The securities sector in Palestine operates under the supervision and control of the Capital Market Authority, which has actively worked to strengthen its role in the local economy. In 2022, significant developments took place, including the launch of Al-Quds Islamic Index to encourage investments in Islamic financial instruments. The listing and trading of Arkan Real Estate shares, a subsidiary of the Palestine Telecommunications Company, also took place. Furthermore, the shares of Al-Safa Bank were listed, increasing the total number of listed companies on the stock exchange to 49 by the end of 2022. Distributed among various sectors, with 13 in manufacturing, 11 in investment, 9 in services, 8 in banking and financial services, and 8 in the insurance sector.

In 2022, the securities sector demonstrated improved performance, with the Al-Quds Index reaching its highest since 2005, closing at 639.7 points, representing a 5.1% increase from the previous year. All sector indices, except for insurance and services, witnessed a rise. The insurance sector index declined by approximately 1.4% to 106.9 points, while the services sector index dropped by 0.3% to 51.3 points. In contrast, the manufacturing sector experienced significant growth, with its index soaring by 13.6% to 132.3 points. The investment sector index rose by 7.1% to 35.1 points, and the banking and financial services index increased by 4.4% to 156.1 points.

Figure 4- 26: Al-Quds index (Point), 2018-2022

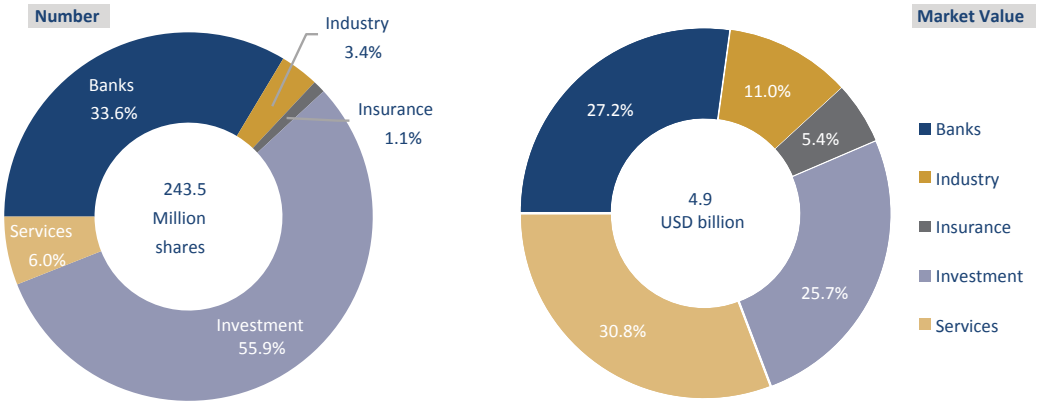


Source: Palestine Exchange (PEX)

Furthermore, the market value of traded shares experienced an 11.1 percent increase in 2022, reaching approximately USD 4.9 billion, equivalent to 25.6% of GDP at current prices, compared to 24.3% in the previous year. The volume of traded shares also saw a significant growth of 21%, surpassing 243 million shares valued at approximately USD 472.7 million, an increase of around 12.9%. These transactions took place over 247 trading sessions, resulting in 34,949 deals. The number of traders in the securities sector increased by 1% from 2021, reaching 63,868, with 93% of them being Palestinian investors.

In terms of sectoral trading, the investment sector had the largest share, accounting for approximately half of the traded shares, valued at about USD 1.25 billion, representing 25.7% of the total market value of listed companies' shares. This was driven by the execution of the largest deal in the Palestinian Stock Exchange history involving shares of Palestine Development and Investment Company, a prominent company in the investment sector.

Figure 4- 27: Sectoral shares of the market value and volume on the PEX, 2022

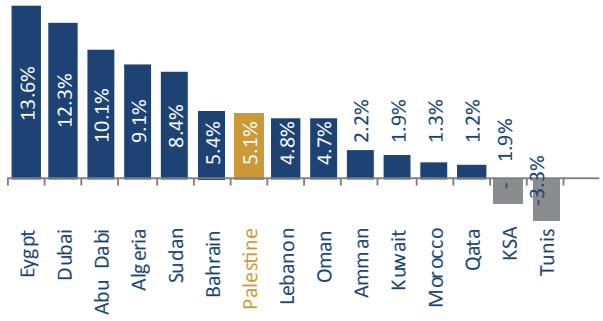


Source: Palestine Exchange (PEX).

The banking and financial services sector followed closely behind, representing about 33.6% of the total traded shares, with a value of approximately USD 1.33 billion, or 27.2% of the total market value. The services sector ranked third, with a share of around 6.0% of the total traded shares and a value of USD 1.5 billion, comprising 30.8% of the total market value. The manufacturing sector held a share of about 3.4% of the total number of traded shares, valued at USD 536 million, or 11% of the total market value. Last, the insurance sector accounted for 1.1% of the total number of traded shares, with a value of USD 236.8 million, representing 5.4% of the total market value.

When comparing the performance of the Palestine Exchange to other Arab exchanges (index value changes compared to the previous year), it is apparent that it holds a commendable position among Arab markets, occupying a median rank with an annual change rate of 5.1%. It is worth mentioning that all indicators of Arab exchanges recorded favorable change rates in 2022, except for the Saudi Stock Exchange and the Tunis Stock Exchange, which declined by approximately 1.9% and 3.3%, respectively.

Figure 4- 28: Performance of Arab exchanges, 2022



Source: Arab Monetary Fund, performance of Arab exchange, 2022.

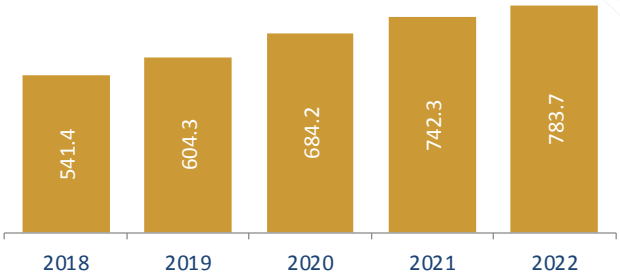
Insurance Sector

The insurance sector in Palestine is regulated by the Capital Market Authority, with ten companies offering a diverse range of insurance products. Two of these companies specialize in providing Takaful insurance in accordance with Islamic principles. These companies have an extensive presence, with 187 branches and offices operating across the West Bank and Gaza Strip. They are further supported by 283 insurance service providers, including licensed agents, producers, and insurance and reinsurance brokers.

The insurance sector experienced a further recovery in 2022, with its total assets increasing by approximately 5.6% compared to the previous year, reaching a value of around USD 783.7 million. This growth was primarily attributed to an 11.5% increase in fixed assets, driven mainly by a 35% rise in real estate investments. Current assets also saw an

increase of about 2.0%, attributed to higher receivables and the value of trading real estate investments.

Figure 4- 29: Assets of insurance sector (USD million), 2018-2022



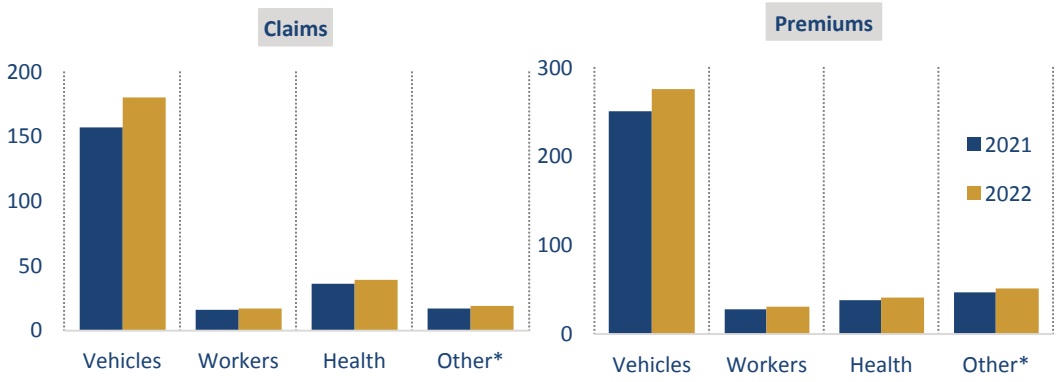
Source: Palestine Capital Market Authority (PCMA).

Shareholders' equity in the insurance sector experienced significant growth, with an average increase of 18.5%, reaching a total of USD 252.5 million. This increase can be attributed to the rise in paid-up capital, mandatory reserves, and accumulated profits. The sector also achieved a net profit (after tax) of USD 21.7 million in 2022, compared to USD 12.5 million in the previous year. This increase was mainly driven by higher investment revenues and increased revenues from insurance operations. Notably, most types of insurance generated net profits, with the exception of life and engineering insurance.

The number of issued insurance policies witnessed a 3.8 percent increase compared to 2021, surpassing 612,000 policies. Vehicle insurance constituted 84% of these policies. Individual insurance policies accounted for approximately 81% of the total issued policies, with 498,000 policies, of which 29% were for women. Corporate insurance policies comprised around 19% of the policies issued in 2022, totaling 115,000 policies. Notably, the governorate of Ramallah and Al-Bireh held approximately 31% of the total number of issued policies, while the Hebron Governorate accounted for approximately 17%.

By the end of 2022, subscribed insurance premiums amounted to approximately USD 396.0 million, reflecting a 9.1 percent increase from 2021. This growth was driven by higher premiums in vehicle insurance (9.6%), which constituted approximately 69% of the total premiums. Health insurance premiums also saw an increase of 7.4%, accounting for around 10% of the total premiums. Workers' insurance premiums experienced a 9.4% increase, comprising about 8% of the total premiums. The remaining portion (13%) consisted of other insurance products, such as marine, fire, civil liability, engineering, and life insurance.

Figure 4- 30: Insurance sector's premiums and paid-up claims by type (USD million), 2021-2022

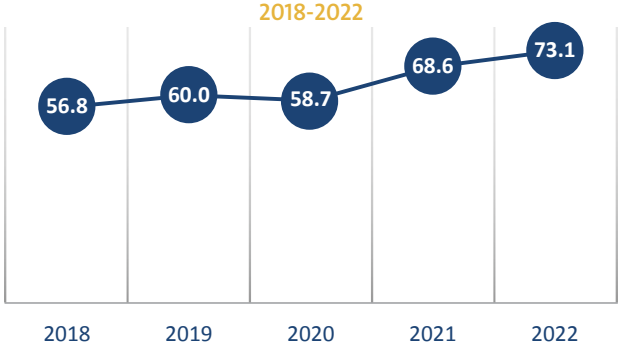


* Includes life insurance, engineering insurance, and other general insurance, including civil liability and marine insurance.
Source: Palestine Capital Market Authority (PCMA).

In 2022, there was a significant increase in the total value of compensation paid, seeing a rise of 12.2% compared to 2021, reaching a total of USD 254.1 million. This was primarily due to vehicle insurance claims, which comprised 71% of all paid compensation. This surge can be attributed to the increased number of reported vehicle accidents.

Health insurance compensation comprised around 15% of the total compensation, while workers' insurance compensation accounted for 7%. The remaining insurance types collectively represented approximately 7% of the compensation.

Figure 4- 31:Insurance density (USD per capita), 2018-2022



Source: Palestine Capital Market Authority (PCMA).

These developments increased the insurance density index, which measures the individual's share of total underwritten insurance premiums. It reached USD 73.1 per capita in 2022, compared to USD 68.6 per capita in 2021.

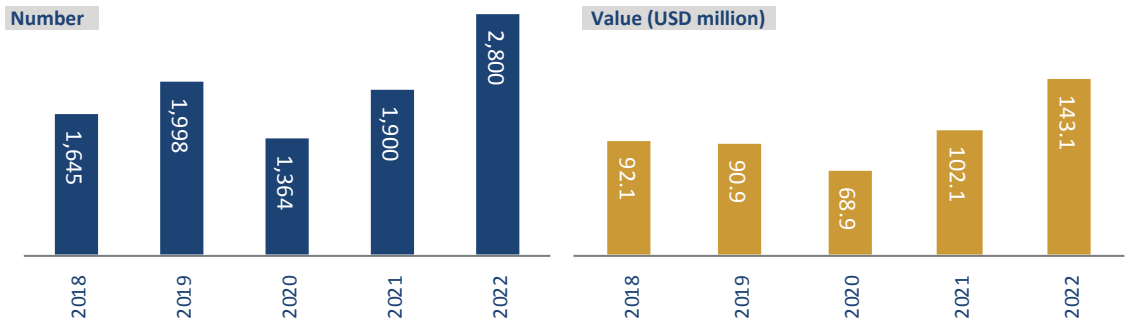
Financial Leasing

The leasing finance sector, supervised by the Capital Market Authority, plays a marginal role in the local economy. By the end of 2022, registered contract investments reached approximately USD 143.1 million through 2,800 contracts, marking a 40 percent increase in value and a 47 percent in volume compared to 2021.

The sector is primarily focused on vehicle contracts, particularly private-use vehicles, which account for 57.5% of the total contract value. Commercial-use vehicles, trucks, heavy-duty vehicles, and engineering equipment make up about 39.1% of the total contract value. This concentration is due to the ease of registering vehicle ownership and the low risks associated with leasing, thanks to the existence of a secondary market and repossession possibilities.

It is important to highlight those movable assets, such as equipment, production lines, and others, contributed approximately 3.5% to the overall value of financial leasing contracts. Individuals were the dominant force in this sector, constituting approximately 84% of the total number of contracts and accounting for around 63% of their total value. Conversely, companies accounted for approximately 16% of the contract count, representing about 37% of the total value.

Figure 4- 32: Number & Value of financial leasing, 2018-2022



Source: Palestine Capital Market Authority (PCMA).

Statistical Appendices

Table (1- 1): Global real growth rates, 2018 – 2022

(Annual percent change)

Country	2018	2019	2020	2021	2022
World	**3.6**	**2.8**	**-2.8**	**6.3**	**3.4**
Developed countries	**2.3**	**1.7**	**-4.2**	**5.4**	**2.7**
United States	2.9	2.3	-2.8	5.9	2.1
Euro area	1.8	1.6	-6.1	5.4	3.5
Emerging and Developing Countries	**4.7**	**3.6**	**-1.8**	**6.9**	**4.0**
Regional Countries					
Egypt	5.3	5.5	3.5	3.3	6.6
Jordan	1.9	1.9	-1.6	2.2	2.7
Israel*	4.1	4.2	-1.9	8.6	6.4
Global GDP at purchasing power Parities	**129,799**	**135,745**	**133,368**	**147,910**	**163,510**

* Israel according to the World Economic Outlook (WEO), published by the International Monetary Fund (IMF) is classified among developed countries.
Source: WEO, IMF, April 2023.

Table (1- 2): Global inflation rates, 2018 – 2022

(Annual percent change)

Country	2018	2019	2020	2021	2022
World	**3.6**	**3.5**	**3.2**	**4.3**	**8.8**
Developed countries	**2**	**1.4**	**0.7**	**3.1**	**7.3**
United States	2.4	1.8	1.3	4.7	8
Euro area	1.8	1.2	0.3	2.6	8.4
Emerging and Developing Countries	**4.9**	**5.1**	**5.2**	**5.9**	**9.8**
Regional Countries					
Egypt	20.9	13.9	5.7	4.5	13.9
Jordan	4.5	0.7	0.4	1.3	4.2
Israel	0.8	0.8	0.6-	1.5	4.4

Source: - WEO, IMF, April 2023.
- https://tradingeconomics.com.

Table (1- 3): Unemployment rates, selected countries, 2018 – 2022

(Percentage of labor force)

Country	2018	2019	2020	2021	2022
Developed countries	**5.1**	**4.8**	**6.6**	**5.8**	**4.7**
United States	3.9	3.7	8.1	5.4	3.6
Euro area	8.2	7.6	7.9	8.0	6.8
Regional Countries					
Egypt	10.9	8.6	8.3	9.3	7.3
Jordan	18.6	19.1	22.7	24.4	22.8
Israel	4.0	3.8	4.3	5.0	3.8

Source: - Bank of Israel and Central bank of Jordan
- https://tradingeconomics.com.

Table (1- 4): Global Interest rates of major currencies, 2018 – 2022

(Period end, percentage)

Country	2018	2019	2020	2021	2022
United States	2.5	1.75	0.25	0.25	4.5
Euro area	0	0	0	0	2.5
United Kingdom	0.75	0.75	0.1	0.25	3.5
Jordan	4.75	4	2.5	2.5	6.5
Israel	0.10	0.25	0.10	0.10	3.25

Source: www.global-rates.com.
Bank of Israel and Central Bank of Jordan.

Table (1- 5): Global current account balances, 2018 – 2022

(Percentage of GDP)

Country	2018	2019	2020	2021	2022
Developed countries	**0.7**	**0.7**	**0.2**	**0.8**	**-0.4**
United States	-2.1	2.1-	-2.9	-3.6	-3.6
Euro area	2.8	2.2	1.6	2.3	-0.7
Emerging and Developing Countries	**-0.2**	**0.0**	**0.6**	**0.8**	**1.4**
Regional Countries					
Egypt	-2.3	-3.4	-2.9	-4.4	-3.5
Jordan	-6.8	-1.7	-5.7	-8.2	-7.4
Israel	3.0	3.5	5.5	4.3	3.7

Source: WEO, IMF, April 2023.

Table (1- 6): Major real national accounts variables in Palestine, 2018 – 2022

(USD million, 2015 = 100)

Activity	2018	2019	2020	2021	2022
A) Productive Sectors	**4,068.5**	**4,064.5**	**3,389.8**	**3,490.9**	**3,518.6**
Agriculture and Fishing	1,091.1	1,100.7	1,001.0	993.9	937.7
Mining, Manufacturing, Electricity & Water	2,056.6	2,074.7	1,744.4	1,790.1	1,881.3
Mining and Quarrying	66.7	68.7	49.9	49.7	46.0
Manufacturing	1,762.8	1,779.0	1,500.7	1,537.7	1,613.5
Electricity, Gas, Steam and Air Conditioning Supply	165.9	164.1	138.6	146.0	167.7
Water Supply, Sewerage, Waste Mange. & Rem. Activities	61.2	62.9	55.2	56.7	54.1
Construction	920.8	889.1	644.4	706.9	699.6
B) Service sectors	**9,249.0**	**9,429.5**	**8,489.8**	**9,127.8**	**9,261.8**
Productive Service activities	**4,747.2**	**4,763.9**	**3,990.4**	**4,134.0**	**4,223.1**
Wholesale and Retail Trade, Repair of Motor Vehicles	3,346.1	3,371.4	2,644.6	2,692.2	2,777.3
Transportation and Storage	278.0	270.6	221.9	226.1	235.6
Financial and Insurance Activities	626.1	632.2	639.7	700.1	730.1
Information and Communication	497.0	489.7	484.2	515.6	480.1
Social Service activities	**4,501.8**	**4,665.6**	**4,499.4**	**4,993.8**	**5,038.7**
Real Estate Activities	708.6	710.1	620.3	688.1	690.5
Education	895.3	933.6	917.4	994.2	987.9
Human Health and Social Work Activities	509.4	539.3	567.0	690.4	708.0
Public Administration and defense	1,501.5	1,559.7	1,646.2	1,816.4	1,820.0
Others*	887.0	922.9	748.5	804.7	831.3
C) GDP At Factor Costs (A + B)	13,317.5	13,494.0	11,879.6	12,618.7	12,780.4
D) Net Indirect Taxes	2,298.7	2,335.0	2,157.8	2,403.0	2,832.1
Customs Duties	1,102.4	1,111.5	1,137.4	1,403.1	1,574.3
VAT on Imports, net	1,196.3	1,223.5	1,020.4	999.9	1,257.8
Real GDP (C +D) (2015 = 100)	**15,616.2**	**15,829.0**	**14,037.4**	**15,021.7**	**15,612.5**
Net Income Transfers from Abroad	2,505.3	2,586.6	1,995.3	2,691.4	2,851.9
Real GNI	**18,121.5**	**18,415.6**	**16,032.7**	**17,713.1**	**18,464.4**
Net Current Transfers	1,487.1	1,545.1	1,140.5	1,269.3	2,033.4
Real GDI	**19,608.6**	**19,960.7**	**17,173.2**	**18,982.4**	**20,497.8**
Memorandum Items					
Per-capita Real GDP (USD)	**3,417.7**	**3,378.3**	**2,922.5**	**3,051.3**	**3,086.8**
West Bank	4,854.4	4,822.5	4,197.1	4,418.8	4,458.3
Gaza Strip	1,458.3	1,422.2	1,207.6	1,223.9	1,256.8

* Includes Accommodation and Food Service Activities, Professional, Scientific and Technical Activities, Administrative and Support Service Activities, Arts, Entertainment and Recreation, Households with Employed Persons, FISIM, and Others.

Source: PCBS.

Table (1- 7): Expenditure on real GDP, 2018 – 2022

(USD million, 2015 = 100)

Activity	2018	2019	2020	2021	2022
Gross Domestic Expenditure	**21,149.3**	**21,505.9**	**18,823.5**	**20,296.4**	**23,280.7**
Aggregate Consumption	**16,889.0**	**17,328.8**	**15,494.9**	**16,752.1**	**19,083.1**
Private*	13,570.1	14,126.5	12,281.4	13,207.2	15,908.7
Public	3,318.9	3,202.3	3,213.5	3,544.9	3,174.4
Aggregate Investment	**4,260.3**	**4,177.1**	**3,328.6**	**3,770.2**	**4,197.6**
Private**	3,195.2	3,153.7	2,596.3	2,884.2	3,240.5
Public**	1,065.1	1,023.4	732.3	886.0	957.1
Net Export of Goods and Services	**-5,678.1**	**-5,745.6**	**-4,853.2**	**-5,516.0**	**-7,466.2**
Exports	2,578.7	2,630.5	2,335.9	2,740.4	2,911.4
Imports	8,256.8	8,376.1	7,189.1	8,256.4	10,377.6
Net errors and omissions	**145.0**	**68.7**	**67.1**	**15.4**	**-202.0**
Real GDP	**15,616.2**	**15,829.0**	**14,037.4**	**15,021.7**	**15,612.5**

* Includes NPISH final consumption.
** PMA estimates.
Source: PCBS.

Table (1- 8): Inflation rates, 2018 – 2022

(Percent)

Activity	2018	2019	2020	2021	2022
Main Expenditure Groups (Annual Percentage point)					
Foods and Soft Drinks	-0.7	3.3	-2.5	0.9	6.7
Alcoholic Beverages and Tobacco	-1.3	1.4	0.6	0.2	3.5
Textile, Clothing and Footwear	-4.3	-2.6	-3.3	-0.6	3.4
Housing	0.8	-0.1	0.6	3.7	2.7
Furniture, Household Goods	-0.9	-1.1	-1.0	2.2	3.3
Medical Care	1.1	-1.0	0.2	-0.4	1.3
Transportation	1.1	-0.6	-1.9	4.4	3.1
Communications	1.1	-3.1	-2.5	-0.4	1.9
Recreational, Cultural Goods &Services	1.5	12.3	3.5	1.3	5.1
Education	-1.1	1.3	-0.2	-0.4	3.2
Restaurants and Cafés	1.1	2.3	1	0.4	6.7
Miscellaneous Goods and Services	1.1	4.2	2.1	0.0	0.9
All-items Index	**-0.2**	**1.6**	**-0.7**	**1.2**	**3.7**
Inflation Rates by region (Annual Percentage point)					
WB	0.4	1.8	-0.8	1.4	3.7
GS	-1.3	0.4	-0.5	0.3	3.2
Jerusalem	1.0	1.4	0.8	1.9	4.7
Palestine	**-0.2**	**1.6**	**-0.7**	**1.2**	**3.7**

Source: PCBS.

Table (1- 9): Labor market indicators, 2018 – 2022

Key Indicators	2018	2019	2020	2021	2022
Population (in thousand)	**5,354.7**	**5,227.2**	**5,101.2**	**4,976.7**	**4,854.0**
Individuals Over 15 Years (percent of population)					
Palestine	**62.4**	**62.1**	**62.5**	**61.6**	**61.4**
West Bank	64.5	64.2	63.9	63.6	63.3
Gaza Strip	59.3	58.9	58.7	58.5	58.4
Participation rate (percentage)					
Palestine	**43.5**	**44.3**	**40.9**	**43.4**	45.0
West Bank	45.9	46.4	44.4	45.8	47.5
Gaza Strip	39.6	40.9	35.3	39.4	41.0
Unemployment: Percent of Labor Force					
Palestine	**26.2**	**25.3**	**25.9**	**26.4**	**24.4**
West Bank	17.3	14.6	15.7	15.5	13.1
Gaza Strip	43.1	45.1	46.6	46.9	45.3
Distribution of Palestinian workers by Region (percentage)					
West Bank	60.1	61.0	63.2	60.8	57.9
Gaza Strip	26.6	25.8	23.7	25.1	25.1
Israel and settlements	13.3	13.2	13.1	14.1	17.0
Distribution of workers by Economic Activity (Percentage)					
Agriculture and fishing	6.3	6.0	6.4	6.7	6.7
Industry (mining and manufacturing)	12.9	12.2	12.8	12.4	12.3
Constructions (build. & constructions)	10.6	10.3	10.5	11.5	11.4
Trade, restaurants and hotels	23.5	24.4	22.5	23.5	23.5
Trans., storage and communications	6.8	6.5	6.7	6.4	6.5
Other services and branches	39.9	40.7	41.1	39.4	39.6
Average Daily Wage in NIS					
Palestine	**123.0**	**128.6**	**132.7**	**136.5**	**143.8**
West Bank	109.4	118.9	121.9	124.3	125.7
Gaza Strip	63.1	61.2	61.6	60.4	54.9
Israel and settlements	243.1	254.4	257.9	266.2	276.4

Source: PCBS.

Table (1- 10): Economic forecasts, 2023

Indicators	2019	2020	2021	2022	2023 forecasts*		
	Actual data				Optimistic	Baseline	Pessimistic
	(Annual percent change)						
Real GDP	**1.4**	**-11.3**	**7.1**	**3.9**	**5.9**	**3.2**	**-0.8**
Real Per-capita GDP	1.2-	13.5-	4.4	1.1	3.6	1.0	-3.0
Aggregate Consumption	**2.6**	**10.6-**	**8.1**	**13.9**	**4.0**	**0.9**	**-7.6**
Public	3.5-	0.3	10.3	-10.5	15.5	1.8	-7.1
Private	4.1	-9.0	8.0	21.0	6.7	2.4	-7.8
Aggregate Investment	**-2.0**	**-20.3**	**13.3**	**11.3**	**8.6**	**4.1**	**-1.9**
Net Export**	**1.2**	**-15.5**	**17.7**	**35.5**	**9.9**	**0.6**	**-15.5**
Exports	2.0	-11.2	17.3	6.2	10.4	2.5	-7.4
Imports	1.4	-14.2	14.8	25.7	10.2	3.1	-13.2
Unemployment Rate (%)	25.4	25.9	26.4	24.4	23.2	23.9	25.5
Inflation rate (%)	1.6	-0.7	1.2	3.7	---	3.1	---
	As a percentage of real GDP						
Aggregate Consumption	**109.5**	**110.4**	**111.5**	**122.3**	**120**	**119.5**	**113.9**
Public	20.2	22.9	23.6	20.3	22.2	20.0	19.0
Private	89.2	87.5	89.9	101.9	97.8	99.5	94.9
Aggregate Investment	**26.4**	**23.7**	**25.1**	**26.9**	**28.4**	**27.6**	**26.3**
Net Export**	**36.3-**	**-34.6**	**-36.7**	**-47.8**	**-49.6**	**-47.4**	**-40.7**
Exports	16.6	16.4	18.2	18.7	19.5	18.5	17.4
Imports	52.9	51.2	54.9	66.5	69.1	65.9	58.1
	Memorandum Items						
Real GDP (USD million)	**15,829**	**14,037**	**15,022**	**16,613**	**16,535**	**16,110**	**15,490**
Real per capita GDP (USD)	3,378	2,926	3,052	3,086	3,197	3,117	2,995

* PMA estimates.
** Negative sign means decrease in trade deficit.
Source: Data for 2019-2022 from PCBS.

Chapter Two: Public Finance

Table (2- 1): Fiscal operations (cash basis), 2018 – 2022

(NIS million)

Items	2018	2019	2020	2021	2022
Total net revenues and grants	**14,819.3**	**13,459.0**	**13,560.5**	**14,702.2**	**16,889.7**
Total Domestic Revenue	**4,816.7**	**4,336.4**	**4,134.1**	**4,979.8**	**5,940.1**
Tax	2,997.2	2,733.6	2,524.3	3,221.4	3,840.3
Non-tax	1,545.2	1,275.6	1,273.9	1,300.2	1,538.1
Earmarked collections	274.3	327.2	335.9	458.2	561.7
Clearance Revenue	**8,091.9**	**7,868.9**	**8,041.9**	**8,990.9**	**10,571.2**
Tax Refunds (-)	500.9	492.0	287.5	294.6	795.5
Foreign grants	**2,411.6**	**1,745.7**	**1,672.0**	**1,026.1**	**1,173.9**
Budget Support	1,840.5	1,776.5	1,220.0	601.3	818.7
Development Financing	571.1	-30.8	452.0	424.8	355.2
Total public expenditures	**14,159.9**	**13,747.7**	**13,891.9**	**13,597.5**	**14,609.7**
Current expenditures & net lending	**13,156.8**	**13,035.9**	**13,319.8**	**13,057.1**	**14,003.8**
Wages	5,946.6	5,977.4	6,369.0	6,435.4	6,872.7
Non-wage	6,076.8	5,660.1	5,601.9	5,252.2	5,457.9
Net lending	967.3	1,138.1	1,166.5	1,207.8	1,224.7
Earmarked payments	166.1	260.3	182.4	161.7	448.5
Development Expenditure	**1,003.1**	**711.8**	**572.1**	**540.4**	**605.9**
Current balance	-749.1	-1,322.6	-1,431.3	619.0	1,712.0
Overall balance (Excl. grants)	-1,752.2	-2,034.4	-2,003.4	78.6	1,106.1
Overall balance (Incl. grants)	**659.4**	**-288.7**	**-331.4**	**1,104.7**	**2,280.0**
Financing	**-659.4**	**288.7**	**331.4**	**-1,104.7**	**-2,280.0**
Net financing from local banks	569.4	1,795.3	1,895.4	285.0	-389.7
Payments of previous years arrears	-1,266.8	-1,511.9	-1,562.3	-1,391.4	-1,896.3
Average exchange rate (NIS/USD)	3.59	3.58	3.43	3.24	3.36

Source: Ministry of Finance Database.

Table (2- 2): Government public debt, 2018 – 2022

(USD million)

Items	2018	2019	2020	2021	2022
Total Domestic Debt	**1,337.9**	**1,577.1**	**2,324.7**	**2,528.5**	**2,241.6**
Local banks	**1,324.4**	**1,562.5**	**2,262.3**	**2,464.1**	**2,184.6**
Loans	638.1	943.6	1,429.9	1,551.0	1,325.7
Overdrafts	448.3	315.5	507.1	562.8	506.5
Petroleum Authority(1)	238.0	303.4	325.3	350.3	352.3
Other Public Institutions Loans	**13.5**	**14.6**	**62.4**	**64.4**	**57.0**
Total External Debt	**1,031.7**	**1,217.9**	**1,324.7**	**1,319.6**	**1,301.1**
Arab financial institutions	**563.4**	**739.1**	**816.0**	**819.7**	**813.0**
Al-Aqsa Fund	513.0	513.0	513.3	513.3	513.5
National Qatari Bank	0.0	175.0	250.0	254.1	265.0
Arab Fund for Economic and Social Development	14.2	14.2	14.2	14.3	14.1
Islamic Development Bank	36.2	36.9	38.5	38.0	20.4
International and Regional Institutions	**339.1**	**336.3**	**337.2**	**339.2**	**338.6**
World Bank	270.9	272.7	274.4	275.7	278.7
European Investment Bank	44.2	39.0	38.1	30.8	24.7
International Fund for Agricultural Development (IFAD)	2.1	2.0	2.0	1.8	1.7
OPEC	21.9	22.4	22.5	22.5	22.5
German Cooperation Bank	0.0	0.2	0.2	8.4	11.1
Bilateral loans	**129.2**	**142.5**	**171.5**	**160.7**	**149.5**
Total Government Public Debt	**2,369.6**	**2,795.0**	**3,649.4**	**3,848.1**	**3,542.7**

(1) Represents the value of loans provided to the Petroleum Authority from banks operating in Palestine with the guarantee of the MoF.
Source: Ministry of Finance Database

Table (2- 3): Government arrears, 2018 – 2022

(NIS million)

Items	2018	2019	2020	2021	2022
Wages and salaries	476.9	586.2	517.5	1360.2	1241.5
Non-wage expenditures	1,086.5	1,928.6	2,502.5	2,291.8	1,718.8
Development projects	294.9	503.1	380.3	239.9	300.8
Tax refunds	110.1	133.0	104.1	299.6	83.9
Earmarked payments	108.2	67.0	153.8	296.5	113.5
Total	**2,076.6**	**3,217.9**	**3,658.2**	**4,488.0**	**3,458.5**
Repayments of arrears	-1,559.1	-1,511.9	-1,562.5	-1,391.1	-1,896.4
Net arrears	**517.5**	**1,706.0**	**2,095.7**	**3,096.9**	**1,562.1**

Source: Ministry of Finance Database

Chapter Three: Foreign Sector

Table (3- 1): Balance of payments, 2018 – 2022

(USD million)

Items	2018	2019	2020	2021	2022
Current Account (Net)	**-2,140.4**	**-1,779.8**	**-1,903.6**	**-1,778.0**	**-2,865.0**
Goods (Net)	**-5,393.0**	**-5,509.5**	**-4,775.2**	**-6,015.0**	**-8,009.0**
Exports (Fob)	1,846.6	1,748.0	1,723.8	2,299.0	2,594.0
Imports (Fob)	7,239.6	7,257.5	6,499.0	8,314.0	10,603.0
Services (Net)	**-1,032.7**	**-992.7**	**-905.5**	**-941.0**	**-1,321.0**
Exports	751.4	911.4	661.2	841.0	950.0
Imports	1,784.1	1,904.1	1,566.7	1,782.0	2,271.0
Income (Net)	**2,786.2**	**3,030.8**	**2,492.2**	**3,630.0**	**4,002.0**
Receipts	2,983.9	3,211.8	2,651.5	3,772.0	4,204.0
Compensation of employees	2,666.2	2,970.2	2,434.4	3,507.0	3,896.0
Of which from Israel	2,619.6	2,945.8	2,407.7	3,459.0	3,844.0
Investment Income	317.7	241.6	217.1	265.0	308.0
Payments	197.7	181.0	159.3	142.0	202.0
Current Transfers (Net)	**1,499.1**	**1,691.6**	**1,284.9**	**1,548.0**	**2,463.0**
Inflows	1,992.9	2,265.5	1,700.1	2,193.0	2,848.0
To Public Sector	467.1	628.2	422.3	405.0	539.0
To Private Sector	1,525.8	1,637.3	1,277.8	1,788.0	2,309.0
Outflows	493.8	573.9	415.2	645.0	385.0
Capital and financial Account (Net)	**1,775.7**	**1,690.9**	**1,334.2**	**1,851.0**	**2,628.0**
Capital Account (Net)	**449.2**	**284.4**	**431.5**	**471.0**	**423.0**
Capital Transfers (Net)	449.2	284.4	431.5	471.0	423.0
Inflows	449.2	284.4	431.5	471.0	423.0
To Public Sector	173.9	14.9	208.4	183.0	103.0
To Private Sector	275.3	269.5	223.1	288.0	320.0
Financial account (Net)	**1,326.5**	**1,406.5**	**902.7**	**1,380.0**	**2,205.0**
Direct Investment (Net)	282.5	188.3	138.7	294.0	247.0
Portfolio Investment (Net)	25.7	-35.4	69.2	87.0	-28.0
Other Investment (Net)	1,109.7	1,374.1	732.0	1,173.0	2,010.0
Change in Reserve Assets (- = Increase)	-91.4	-120.5	-37.2	-174.0	-24.0
Net Errors and Omissions	364.7	88.9	569.4	-73.0	237.0
Overall balance	**91.4**	**120.5**	**37.2**	**174.0**	**24.0**
Financing	-91.4	-120.5	-37.2	-174.0	-24.0
Current Account Deficit as a percent of GDP	-13.2	-10.4	-12.3	-9.8	-15.0

Source: PMA Database, PCBS, Balance of Payments Reports.

Table (3- 2): International investment position, 2018 – 2022

(USD million)

Items	2018	2019	2020	2021	2022
International investment position (Net)	**1,588**	**1,842**	**2,799**	**3,158**	**3,361**
Total external assets	**6,557**	**7,273**	**8,223**	**9,241**	**9,461**
Foreign direct investment abroad	325	269	313	371	318
Portfolio investment abroad	1,425	1,417	1,463	1,397	1,609
Other investment abroad	4,269	4,929	5,750	6,600	6,637
Of which: currency and deposits	3,885	4,571	5,499	6,322	5,945
Official reserves	538	658	697	873	897
Total foreign liabilities	**4,969**	**5,431**	**5,424**	**6,083**	**6,100**
Foreign direct investment in Palestine	2,756	2,456	2,704	3,030	3,116
Portfolio investment in Palestine	728	714	668	850	834
Other investment in Palestine	1,435	1,961	2,052	2,203	2,150
Of which: loans	1,046	1,233	1,368	1,423	1,504
currency and deposits	417	706	684	780	646

Source: PMA Database, PCBS, Balance of Payments Reports.

Chapter Four: Palestinian Financial Sector

Part I: PMA

Table (4- 1): The staff of the PMA, 2018 – 2022*

Departments & Offices	2018			2019			2020**			2021			2022		
	West Bank	Gaza Strip	Total	West Bank	Gaza Strip	Total	West Bank	Gaza Strip	Total	West Bank	Gaza Strip	Total	West Bank	Gaza Strip	Total
Governor Office	13	4	17	13	4	17	16	4	20	6	1	7	6	1	7
Independent Offices	**13**	**4**	**17**	**13**	**4**	**17**	**14**	**3**	**17**	**7**	**1**	**8**	**11**	**1**	**12**
Legal & Instructions	2	2	4	2	2	4	3	1	4	2	1	3	4	1	5
Internal Audit	5	2	7	5	2	7	5	2	7	3	0	3	4	0	4
Risk Management	6	0	6	6	0	6	6	0	6	2	0	2	3	0	3
Departments	**218**	**82**	**300**	**218**	**82**	**300**	**239**	**81**	**320**	**224**	**69**	**293**	**124**	**24**	**148**
Monetary Stability Group	**25**	**5**	**30**	**25**	**5**	**30**	**25**	**4**	**29**	**24**	**3**	**27**	**23**	**3**	**26**
Research & Monetary Policy	16	3	19	16	3	19	14	3	17	13	3	16	12	3	15
Monetary Operations	9	2	11	9	2	11	11	1	12	11	0	11	11	0	11
Financial Stability Group	**11**	**4**	**15**	**11**	**4**	**15**	**33**	**11**	**44**	**36**	**5**	**41**	**30**	**5**	**35**
Payment Systems	11	4	15	11	4	15	14	4	18	17	0	17	14	0	14
Financial Stability							19	7	26	19	5	24	16	5	21
Supervision Group	**75**	**20**	**95**	**75**	**20**	**95**	**76**	**16**	**92**	**74**	**17**	**91**	**71**	**16**	**87**
Banking Supervision	57	14	71	57	14	71	76	16	92	36	5	41	36	5	41
Non-Banking Supervision										15	4	19	14	4	18
Market Conduct	18	6	24	18	6	24				23	8	31	21	7	28
Operation Group	**100**	**50**	**150**	**100**	**50**	**150**	**98**	**47**	**145**	**84**	**41**	**125**	**68**	**41**	**109**
Information System & Technology	22	5	27	22	5	27	20	5	25	19	5	24	12	5	17
General Services ***	53	33	86	53	33	86	54	32	86	46	26	72	37	26	63
Human Resources	12	4	16	12	4	16	10	3	13	7	3	10	7	3	10
Finance	13	8	21	13	8	21	14	7	21	12	7	19	12	7	10
Strategy & Communication Group	**7**	**3**	**10**	**7**	**3**	**10**	**7**	**3**	**10**	**6**	**3**	**9**	**7**	**3**	**10**
Planning													2	0	2
Public Relation & Communications	7	3	10	7	3	10	7	3	10	6	3	9	5	3	8
Digital Transformation Group													**4**	**0**	**4**
Digital Transformation Group													4	0	4
Total	**244**	**90**	**334**	**244**	**90**	**334**	**269**	**88**	**357**	**237**	**71**	**308**	**220**	**70**	**290**

* Numbers do not include part time employees

** A new structure for PMA has been adopted during 2020, where new departments established and PMA employees were a re-allocated among those departments.

*** Include the security office

Source: Palestine Monetary Authority.

Table (4- 2): Training for PMA staff, 2018 – 2022

Department & Offices	2018	2019	2020	2021	2022
Governor Office	17	17	20	7	19
Independent Offices	17	17	17	8	15
Departments	**299**	**300**	**323**	**294**	**228**
Monetary Stability Group Departments	30	30	29	27	58
Financial Stability Group Departments	15	15	44	41	41
Supervision Group Departments	95	95	95	58	80
Operational Group Departments	150	150	145	30	27
Planning & Communications Group Departments	9	10	10	12	5
Digital Transformation group					17
Total	**333**	**334**	**360**	**183**	**262**

Source: PMA Database.

Table (4- 3): Financial inclusion indicators, 2018 – 2022

Items	2018	2019	2020	2021	2022
			Number of Banks		
Local	7	7	7	7	7
Foreign	7	7	6	6	6
Total	**14**	**14**	**13**	**13**	**13**
			Number of branches & Offices		
Local	227	239	252	249	248
Foreign	124	131	127	130	130
Total	**351**	**370**	**379**	**379**	**378**
			Other indicators		
Customer accounts (number)	3,471,849	3,686,875	3,777,862	4,200,944	4,655,238
ATM's machines (number)	690	715	703	710	724
Point of sales (number)	5,660	6,780	7,221	8,005	14,192
Credit cards (number)	103,057	105,216	91,476	94,357	95,440
Debit cards (number)	816,329	866,812	997,861	1,165,182	1,308,788
ATM withdrawal cards (number)	114,966	128,095	130,770	166,555	219,735

Source: PMA Database.

Table (4- 4): Assets and liabilities of the Palestinian-banking sector, 2018 – 2022

(USD Million)

Items	2018	2019	2020	2021	2022
Total assets	**16,124.9**	**17,921.6**	**19,886.2**	**21,673.0**	**21,404.4**
Cash and Precious Metals	1,582.6	1,942.7	1,770.9	2,497.3	2,396.3
Due from PMA and Banks (Total):	3,763.7	4,425.8	5,509.1	5,876.9	5,377.8
Due from PMA	1,416.0	1,648.2	1,822.6	2,033.5	1,825.8
Due from banks in Palestine	377.9	511.5	412.5	482.1	264.9
Due from banks abroad	1,969.8	2,266.1	3,274.0	3,361.3	3,287.1
Securities portfolio for trade and investment	1,123.3	1,118.4	1,100.5	1,344.9	1,350.8
credit facilities	8,432.3	9,035.2	10,078.7	10,747.2	11,045.0
Banking acceptances	0.0	0.0	0.0	0.0	0.0
Investment	262.2	288.0	268.3	147.2	150.2
Fixed assets	582.7	626.3	644.0	670.2	676.8
Other assets	378.1	485.2	514.7	389.3	407.5
Total Liabilities	**16,124.9**	**17,921.6**	**19,886.2**	**21,673.0**	**21,404.4**
Due to PMA and Banks (Total):	1,033.6	1,370.9	1,349.5	1,500.1	1,083.0
Due to PMA	624.8	676.4	800.8	817.1	715.3
Due to banks in Palestine	361.3	508.0	439.4	474.0	264.0
Due to banks abroad	47.5	186.5	109.3	209.0	103.7
Customer deposits	12,227.3	13,384.7	15,138.3	16,518.1	16,468.2
Executed and outstanding acceptances	15.5	12.4	15.4	0.0	0.0
Other liabilities	254.0	388.0	473.2	536.2	498.9
Tax provisions	62.9	67.5	89.0	67.7	112.4
Other provisions*	619.6	722.4	853.4	943.4	1,012.2
Ownership equity (net	1,912.0	1,975.7	1,967.4	2,107.5	2,229.6
Paid-up capital	1,215.8	1,255.3	1,217.7	1,251.3	1,279.5
Surplus capital	41.5	28.6	45.8	50.5	50.5
Legal reserve	201.5	217.8	225.6	241.6	265.8
Disclosed reserves	144.6	160.9	174.1	174.2	192.8
Undivided profits	27.8	17.4	23.0	36.0	123.4
Unrealized profit (loss) on long-term investment	-15.7	-17.0	-22.4	11.7	23.7
Revaluation reserve	10.5	10.7	10.7	7.4	10.6
General reserves for banking operations	52.1	56.3	58.8	58.5	56.6
General reserves for non-banking operations	0.0	0.0	0.0	0.0	0.0
Qualified Subordinated loans	115.0	130.0	116.7	98.0	76.3
Current year Profits and losses	0.0	0.0	0.0	0.0	0.0
Profits and losses under approval	118.9	115.7	117.4	178.3	150.4

* Includes provisions for credit facilities, securities, investment, and depreciation.
Source: PMA Database.

Table (4- 5): Profit and loss statement, 2018 – 2022

(USD million)

Items	2018	2019	2020	2021	2022
Total income from all operations	**699.1**	**726.0**	**697.2**	**768.5**	**886.0**
Net interest income	**507.1**	**526.5**	**518.9**	**559.2**	**665.4**
Interest received	631.5	670.4	660.2	697.7	787.4
Interest paid	124.4	143.9	141.3	138.5	122.0
Non-interest income	**192.0**	**199.5**	**178.3**	**209.3**	**220.6**
Net commission income	117.9	119.4	107.0	113.1	111.2
Net debt securities and investments	10.1	14.9	11.3	18.7	15.5
others	64.0	65.2	60.0	77.5	93.8
Non-interest expenses	**444.5**	**460.1**	**444.0**	**459.9**	**507.4**
Personal expenses	238.6	237.3	232.7	245.1	261.9
Other expenses	205.9	222.8	211.3	214.8	245.5
Provisions (net)	**18.9**	**60.7**	**102.1**	**64.8**	**59.2**
Net income before taxes	**235.7**	**205.2**	**151.1**	**243.8**	**319.4**
Taxes	56.6	44.7	50.5	65.4	90.2
Net income after taxes	**179.1**	**160.5**	**100.6**	**178.4**	**229.2**

Source: PMA Database.

Table (4- 6): Customer deposits, 2018 – 2022

(USD million)

Items	2018	2019	2020	2021	2022
			Depositing Party		
Public sector, of which:	605.7	503.7	465.1	628.8	621.0
Palestinian National Authority	464.2	330.1	323.0	465.7	462.1
Private sector, of which:	11621.6	12881.0	14673.2	15889.3	15847.2
Resident	11186.7	12360.3	14140.9	15318.2	15304.4
Individuals	8654.1	9494.0	10831.3	11645.7	11915.8
Corporates	2216.4	2544.4	2997.4	3324.0	3029.8
Non-profits institutions	316.2	321.9	312.2	348.5	358.7
Non-resident	434.9	520.7	532.3	571.1	542.8
			Region		
West Bank	11051.3	12076.5	13709.1	14965.3	14929.8
Gaza Strip	1176.0	1308.2	1429.2	1552.8	1538.4
			Type		
Current deposits	4581.1	4828.7	5800.9	6288.9	6242.0
Savings deposits	4103.2	4427.8	4926.0	5629.1	5714.4
Time deposits	3543.0	4128.2	4411.4	4600.1	4511.8
			Currency		
NIS	4458.2	4805.9	5549.9	5918.1	6780.3
JD	2814.8	2995.7	3254.2	3617.4	3334.3
USD	4597.3	5186.5	5925.2	6512.5	5912.4
Others	357.0	396.6	409.0	470.1	441.2
Total	**12227.3**	**13384.7**	**15138.3**	**16518.1**	**16468.2**

Source: PMA Database.

Table (4- 7): Direct credit facilities, 2018 – 2022

(USD million)

Items	2018	2019	2020	2021	2022
			Beneficiary		
Public sector, of which:	1,316.8	1,557.4	2,205.3	2,466.9	2,194.4
Palestinian National Authority	1,307.4	1,539.4	2,185.6	2,446.0	2,173.0
Private sector, of which:	7,115.5	7,477.8	7,873.4	8,280.3	8,850.6
Resident	7,029.0	7,408.1	7,826.1	8,254.5	8,818.2
Individuals	3,198.0	3,620.6	3,651.1	3,807.3	4,065.6
Corporates	3,703.5	3,675.0	4,069.6	4,323.9	4,627.6
Non-profits institutions	66.3	54.2	57.4	53.0	52.3
Others*	61.2	58.3	48.0	70.3	72.7
Non-resident	86.5	69.7	47.3	25.8	32.4
			Region		
West Bank	7,483.3	8,129.9	9,188.6	9,811.2	10,068.3
Gaza Strip	949.0	905.3	890.1	936.0	976.7
			Type		
Loans	6,990.3	7,620.6	8,537.5	9,122.8	9,370.7
Overdrafts	1,366.4	1,322.3	1,419.2	1,471.7	1,493.2
Ijarah	75.6	92.3	122.0	152.7	181.1
			Currency		
NIS	3,099.2	3,658.7	4,778.7	5,350.2	5,084.1
JD	1,299.4	1,348.7	1,262.0	1,309.8	1,205.8
USD	3,890.6	3,877.7	3,869.2	3,914.7	4,538.0
Others	143.1	150.1	168.8	172.5	217.1
Total	**8,432.3**	**9,035.2**	**10,078.7**	**10,747.2**	**11,045.0**

* Credit cards and inactive overdrafts.
Source: PMA Database.

Table (4- 8): Sectoral distribution of private sector's loans, 2018 – 2022

(USD million)

Items	2018	2019	2020	2021	2022
Public sector	**1,316.8**	**1,557.4**	**2,205.3**	**2,466.9**	**2,194.4**
Private sector	**7,115.5**	**7,477.8**	**7,873.4**	**8,280.3**	**8,850.6**
Real estate, constructions, and lands	1,861.1	2,015.7	2,131.1	2,293.9	2,675.7
Industry and mining	443.5	477.7	443.6	565.8	609.6
General trade	1,569.6	1,535.6	1,523.0	1,709.8	1,825.7
Agriculture and livestock	140.6	149.7	139.2	128.5	140.0
Financial Services & general services	864.0	937.3	1,125.2	1,008.9	1,055.3
Consumer goods financing	1,324.7	1,370.9	1,415.0	1,425.6	1,438.2
Car financing	302.9	370.0	405.3	415.5	423.7
Others	609.1	620.9	691.0	732.3	682.4
Total	**8,432.3**	**9,035.2**	**10,078.7**	**10,747.2**	**11,045.0**

Source: PMA Database.

Table (4- 9): Domestic liquidity determinants, 2018 – 2022

(USD million)

Items	2018	2019	2020	2021	2022
Net foreign assets	**4,945.6**	**5,421.2**	**6,367.5**	**7,304.1**	**7,226.3**
Claims on non-residents	5,478.0	6,258.4	7,125.9	8,205.6	7,974.3
Liabilities to non-residents	532.4	837.2	758.4	901.5	748.0
Net domestic assets	**8,274.3**	**9,077.0**	**10,132.8**	**10,814.6**	**11,067.2**
Net claims on central government	895.8	1,294.9	1,913.0	2,144.8	1,820.7
Claims on central government	1,361.1	1,625.0	2,236.1	2,617.6	2,290.6
Liabilities to central government	465.3	330.1	323.1	472.8	469.9
Liabilities to other sectors	7,378.5	7,782.1	8,219.8	8,669.8	9,246.5
Other financial institutions	61.9	57.7	85.6	78.2	81.2
Local authorities	9.4	18.1	19.8	20.9	21.4
Non-financial institutions	8.8	8.8	0.0	0.0	0.0
Liability on private sector	7,298.4	7,697.5	8,114.4	8,570.7	9,143.9
Other items, net	**1,808.0**	**1,946.8**	**2,205.9**	**2,643.9**	**2,838.0**
Domestic liquidity*	**11,411.9**	**12,551.4**	**14,294.4**	**15,474.8**	**15,455.5**

* Domestic liquidity = Net foreign assets + net domestic assets - other items (net).
Source: PMA Database.

Table (4- 10): Lending and deposit interest rates*, 2018 – 2022

(Yearly average, Percent)

Period	Lending Rates			Deposit Rates		
	JD	USD	NIS	JD	USD	NIS
2018	6.48	5.87	7.14	2.57	2.27	2.07
2019	6.84	5.93	7.07	3.21	2.85	2.52
2020	6.84	5.52	6.88	2.62	2.43	2.23
2021	6.27	5.52	6.38	1.7	1.62	1.75
2022	5.91	5.82	6.68	1.73	1.79	1.83

*The above rates are for guidance. Hence, they do not include government loans, and they represent the weighted average of interest rates on loans (deposits) for individuals and firms for different maturities and types.

Source: PMA Database.

Table (4- 11): RTGS (BURAQ) participants total transactions, 2018 – 2022*

(Value in USD million)

Item	2018		2019		2020		2021		2022	
	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value
Bank to Bank Payments	8,223.0	5,038.0	9,279.0	5,655.3	7,845.0	5,403.4	7,993.0	4,491.7	9,907.0	7,101.3
Personal Payments	91,211.0	8,127.6	56,477.0	8,896.9	60,036.0	9,678.3	66,551.0	10,012.9	73,939.0	10,021.2
Clearing Settlement operations	6,520.0	2,486.9	6,458.0	2,421.7	6,112.0	2,225.5	6,035.0	2,482.6	6,085.0	2,865.2
National Switch Settlement operations	6,442.0	99.4	6,377.0	152.8	5,859.0	204.4	5,539.0	203.3	6,479.0	268.0
PEX Settlement Operations	1,460.0	67.2	1,419.0	45.7	1,287.0	20.7	1,345.0	65.4	1,419.0	116.2
E-clearance settelments for fragmented transfers	6,693.0	253.5	10,871.0	271.8	10,191.0	304.5	11,121.0	368.7	11,578.0	403.3
Other Operations	1,938.0	146.1	1,909.0	137.7	2,026.0	141.1	2,098.0	215.6	2,178.0	276.5
Total Transfers	**122,487.0**	**16,218.7**	**92,790.0**	**17,582.0**	**93,356.0**	**17,978.1**	**100,682.0**	**17,840.3**	**111,585.0**	**21,051.7**
Transfers outside the system	1,993.0	6,275.2	2,030.0	7,014.7	1,717.0	7,833.2	1,432.0	6,714.8	1,767.0	9,277.5

* Data do not include the operations of the PMA through the system.
Source: PMA Database.

Table (4- 12): Checks circulation in Palestine, 2021-2022

(Value in USD million)

Item	2021		2022	
	Number	Value	Number	Value
Circulating checks				
Between banks operating in Palestine	5,277,134	12,582.2	5,667,392	14,676.70
Between the bank and its branches	2,381,745	6,011.8	2,049,501	5,932.40
Others*	236,225	2,786.6	236,912	3,023.60
Total	**7,895,104**	**21,380.6**	**7,953,805**	**23,632.70**
Bounced checks				
Between banks operating in Palestine	678,528	1,207.9	624,768	1,188.30
Of which: due to insufficient balance	513,921	876.2	498,992	899.61
Between the bank and its branches	125,098	238.9	124,834	234.2
Others*	13,455	75.9	11,942	80.4
Total	**817,081**	**1,522.7**	**761,544**	**1,502.90**
Bounced checks as a percentage of circulating checks	**10.3%**	**7.1%**	**%9.6**	**%6.4**

* Represents checks drawn (or bounced) on banks operating in Palestine in favor of Israeli banks.
Source: PMA Database.

Part III: Non-banking financial Institutions

Table (4- 13): Performing indicators of MFIs, 2018 – 2022

Items	2018	2019	2020	2021	2022
Institutions (number)	6	8	8	8	9
Branches (number)	81	100	96	94	95
Loans (number)	65,458	75,444	68,027	64,541	70,927
Credits portfolio (USD million)	205.7	262.5	249.8	274.9	324.7
	By Region (USD million)				
West Bank	151.7	214.6	211	236.3	279.9
Gaza Strip	54	47.9	38.8	38.6	44.8
	Sectoral distributions of credits (%)				
Agriculture	12.4	11.4	11.4	11.3	10.8
Industry	6.1	6.3	5	5.4	5.7
Constructions	29.7	32.4	32.7	31.5	29.4
Trade	27.7	27.9	29.5	29.6	30.9
Services and public utilities	10.1	11.3	11.9	10.8	9.6
Tourism	4	2.5	1.6	1.3	1
Consumption	9.8	8.2	7.9	10.1	12.6

Source: PMA database.

Table (4- 14): Moneychangers, 2018 – 2022

Items	2018	2019	2020	2021	2022
	Number of Money Changers				
WB	245	207	209	207	282
GS	59	43	37	35	55
Total	**311**	**250**	**246**	**242**	**337**
	Performing indicators (USD million)				
Total assets	78.8	80.7	79.1	84.2	86.1
Ownership equity	71.3	76	77.6	83.5	84.7
Current assets	73.3	76.8	75.5	80.8	82.4
Fixed assets	3.9	3.9	3.6	3.5	3.7

Source: PMA Database.

Table (4- 15): Palestine Exchange- PEX, 2018 – 2022

Item	2018	2019	2020	2021	2022
Number of trading sessions	243	246	220	245	247
Banking and financial services sector					
Number of companies	7	7	7	7	8
Number of shares traded (in million)	89	61.1	23.8	78.1	81.9
Value of shares traded (USD million)	184.5	113.3	37.9	135.1	142.5
Market capitalization (USD million)	1143.5	1132.8	1023.2	1220.6	1332.7
Insurance sector					
Number of companies	7	7	7	8	8
Number of shares traded (in million)	22	17.5	2.2	9.8	2.8
Value of shares traded (USD million)	22.8	12	3.3	29.6	6.3
Market capitalization (USD million)	206.8	225.4	214.8	267.5	263.8
Investment sector					
Number of companies	10	10	10	10	11
Number of shares traded (in million)	46.1	38.2	48.3	80.5	136
Value of shares traded (USD million)	67.2	58.5	103.8	125.4	224.5
Market capitalization (USD million)	803.9	795	725.1	940.9	1256.7
Industrial sector					
Number of companies	13	13	13	13	13
Number of shares traded (in million)	4.5	7	3.9	14	8.2
Value of shares traded (USD million)	12.9	39.5	14.4	35.1	29.3
Market capitalization (USD million)	395.2	395.6	380	466.3	536.4
Services sector					
Number of companies	11	11	9	9	9
Number of shares traded (in million)	23.4	19.1	8.3	18.9	14.5
Value of shares traded (USD million)	66.1	50.6	30.6	39.6	70.1
Market capitalization (USD million)	1185.6	1208.6	1103.8	1511.9	1506.6
All sectors					
Number of shares traded (in million)	185.1	142.8	86.5	201.2	243.5
Value of shares traded (USD million)	353.5	273.9	190.1	418.7	472.8
Market value of shares traded (USD million)	3734.9	3757.5	3446.9	4407.1	4896.1
Al-Quds index	**529.4**	**526**	**471.3**	**608.4**	**639.7**

Source: Capital Market Authority website (www.pcma.ps).

Table (4- 16): Performing indicators of the insurance sector, 2018 – 2022

Items	2018	2019	2020	2021	2022
Companies (number)	10	10	10	10	10
Branches (number)	147	160	181	174	187
Employees (number)	1365	1532	1511	1527	1551
Agencies (number)	252	318	275	284	283
Total insurance premiums (USD million)	220	302.5	303.2	363	396
Total paid-up claims (USD million)	124.6	182.7	177.6	226.5	254.1
Total assets/liabilities (USD million)	569.2	604.3	684.2	742.3	783.7
Paid-up capital (USD million)	90	94.5	98.5	103.3	104.8
Ownership equity (USD million)	184.1	189.5	205.5	213	252.5

Source: Capital Market Authority website (www.pcma.ps).