Summary of The Annual Report
For The Year 2002

The PMA is pleased to publish its eighth annual report for the year 2002, which covers the effects of the first two years of the Palestinian Intifada against the aggressive Israeli occupation. This report contains five main chapters as follows:

Chapter one: Economic Development.
Chapter two: Financial Development.
Chapter three: Foreign Sector.
Chapter four: The development of Banking System.
Chapter five: The Achievement of PMA.

The Main Economic Developments
1- Economic Output:
Two years of closure have inflected considerable losses on Palestinian economic activities. At the end of 2002 the GDP was expected to achieve a negative growth rate equal to 21% compared with a decrease by 12% in 2001, so that, the GDP was expected to decline to US$ 3095 million compared with US$ 3918 million in 2001. This decline in GDP affected negatively the GDP per capita, which decreased by 23% in 2002 to reach US$ 920 compared with a decline by 16% in 2001.

On the Other side, the GNI was expected to witness a decline equal to 20% compared with a decrease equal to 17% in 2001, and expected to reach to US$ 3544 million, compared with US$ 4404 million. As a result, the GNI per capita decline by 23% and reach to US$ 1023, compared with a decline equal to 20% in 2001.

In terms of sectoral distribution of the GDP, it appears that the production sectors (agriculture, industry, construction) constitute around 28% of GDP, while the service sectors constitute 72% of the GDP in 2002.

2- Labor Market:
The number of labor force in 2002 increased by 1% to reach 707 thousand, 486 of them working in the Palestinian territories, 50 thousand working in Israeli labor market. While the rest, which is, equal to 221 thousand is regarded as unemployment.

The unemployment rate increased in 2002 to its highest level and reached 31% of the total Palestinian labor force compared with 26% in 2001.

3- Inflation:
In spite of the increase in unemployment and decrease in per capita income, the CPI is still increasing as a result of closure, the CPI register an increase in 2002 equals to 6% compared with an increased equal to 1% in 2001.

So, the closure and restriction of the movement of people, goods and services not only caused an increase in the level of unemployment and inflation, but also caused declines in the income level in the Palestinian territories, which in turn negatively affected the standard of living and increased the poverty levels.

Financial Developments:
The outcome of the PNA budget in 2002 affected the whole situation in the Palestinian territories. The PNA couldn't achieve any increase in its revenues, or even keep it to its 2001 level; instead, the decline was the main feature of the revenues. The total revenue decline by 7% to reach US$ 977 million, compared with a decrease equal to 23% in 2001. The total revenues in 2002 constitute 32% of GDP compared with 25% in 2001.

On the other hand, and in order to face the expenditure pressures, the total expenditure witnessed a very narrow decline, only by 1% to reach US$ 1228 million compared with a decline equal to 9% in 2001. Total expenditure constitutes about 40% of GDP compared with 32% in 2001.

These developments not only affected the coverage level of revenues to expenditures, which decreased to 80% of total expenditures compared with 85% in 2001, but also affected the budget deficit. The current deficit increased from US$ 730 million, or around 19% of GDP in 2001 to US$ 739 million, or 24% of GDP in 2002, while the deficit before grants declined from US$ 952 million, or 24% of GDP in 2001 to US$ 944 million or 31% of GDP in 2002, whereas the deficit after grants increased from US$ 186 million, or 5% of GDP in 2001 to US$250 million, or 8% of GDP in 2002.

The final outcome of the budget, represented by the decline of the financial gap (deficit after finance) from US$ 250 million, or 8% of GDP in 2001 to US$ 174 million, 6% of GDP in 2002.

In addition, the accumulative public debt was increased by 6% in 2002 and reached US$ 889 million, which constitutes around 128% of total grants, compared with 110% in 2001, and equal to 87% of current expenditure, compared with 84% in 2001, and equal to 314% of local revenues, compared with 293% in 2001, while its equal to 29% of GDP, compared with 21% in 2001.

Foreign Sector Developments:
The performance of this sector was mainly affected by the closure of the territories, and the restrictions on the free movement of people, goods and services, in additions to the slow down in international demand.

As a result, and since these factors affected exports more than imports, total exports of goods and services declined in 2002 by 31% to reach US$ 430 million, compared with a decrease equal to 28% in 2001, while, on the contrary, total imports of goods and services are expected to increase by 3% to reach US$ 2878 million, compared with a decline by 18% in 2001. As a result the trade deficit is expected to increase by 14% and reach to US$ 2448 million, compared with a decline by 15% in 2001.

On the other hand, the net income from abroad is expected to decline by 8% and reach US$ 449 million, compared with a decrease by 42% in 2001. This decline in net income from abroad was affected mainly by the decrease in both investment income and compensation of employees, mostly from Israel.

The decline in the compensation of employees was a result of the restrictions imposed on the free movements of labor, and the decline in the actual working days, which at the end resulted in a decline in the number of Palestinian workers in Israel to about 10% of the Palestinian total labor force, compared with 14% in 2001.

Also the year 2002 witnessed an huge influx of money to the territories in terms of current transfers, which in turn was used with foreign debt or/and capital transfers of the private sector to finance the deficit in the current account. The net current transfers increased in 2002 by 50% and is expected to reach to US$ 1826 million, compared with an increase by 108% in 2001.

As a result of these developments in trade, income from abroad and net current transfers, the current account deficit declined in 2002 by 61% to reach US$ 173 million, compared with a decline by 60% in 2001. This deficit constitutes 6% of GDP, compared with 11% in 2001.

Finally, it is worth mentioning that the developments in the foreign sector represents a special case, since the changes that took place in trade and net income from abroad are not a result of a boom or recession of the market forces, instead, these changes are a result of the political situations imposed on the Palestinian economy. The same things apply also to the current transfers, which influxes by huge amounts to help the PNA in its efforts to satisfy the basic needs of the Palestinian people.

Banking System Developments:

Banking performance was also negatively affected by the whole situation in the territories, which resulted in a decline in Assets/Liabilities of the banking system.

On one hand, the Assets/Liabilities of PMA increased in 2002 by 6% to reach US$ 397 million, compared with a decline by 10% in 2001. This increase was affected by the increases in the foreign assets by 6%, and balances of PMA with banks in Palestine by 7%. In spite of that, the PMA profits decreased by 37% to US$ 6 million compared with a decline by 30% in 2001.

On the other hand, the total Assets/Liabilities of banks operating in Palestine decreased by 4% to reach US$ 4269 million, compared with a decline by 4% in 2001. On the Assets side the decline was represented by Debit items incurs of transmission which decreased by 46%, credit facilities by 22%, balances with banks in Palestine by 21%, portfolio investment by 12%, balances with banks abroad by 8%, and cash by 3%. While on Liabilities side the decline was represented by deposits of banks operating abroad which decreased by 74%, equities by 8%, and other liabilities by 3%.

These developments led to further changes in the percentage of facilities to deposits, deposits abroad to deposits, with which the changes in international interest rate switched the profit into losses for the second year respectively.

The clearinghouse in PMA witnessed a decline in the number of checks in 2002 by 32%, compared with a decline by 25% in 2001, while the total amount of these checks decreased by 34%, compared by 27% in 2001.

The situation in the territories also affected the Palestine stock exchange in terms of a decline in the number of dealing sessions, the amount of dealings and the value of shares, which in turn led to a decline in the stock parameter (Alquds) by 44 points compared with a decline by 3 points in 2001.

Finally, we can say that PMA made huge efforts in this area to prevent the banking system from the negative effects caused by the Israeli arbitrary practices in the Palestinian territories.

PMA Achievements:

The PMA insists, in spite of all obstacles, to continue its efforts in organizing the banking system in Palestine, and serving the economy and economic development, in addition to PMA's role in developing the Palestine Institute for Financial and Banking studies.

On the internal side, PMA continues its efforts to develop the personnel hierarchy in terms of training and experiences in order to achieve its goals. PMA also continues the efforts of evaluating the process of controlling and supervision. While on the external side, PMA continues its efforts in building more relations with more Arab and international financial institutions.

The key Economic Indicators In Palestine During (1998-2002)

(US $ Million)

Indicator	1998	1999	2000	2001	2002
Population (Million persons)	2.599	3.085	3.225	3.382	3.549
Economic Development					
GDP at current prices	4261.51	4516.60	4441.80	3917.90	3095.1
Growth rate (%)	6.22	5.99	-1.66	-11.79	-21.00
GDP per capita	1470.80	1495.70	1410.10	1187.60	920.40
Growth rate (%)	2.03	1.69	-5.72	-15.79	-22.50
GNI at current prices	5163.00	5453.90	5274.50	4404.00	3543.90
Growth rate (%)	10.72	5.63	-3.29	-16.50	-19.53
GNI per capita	1781.90	1806.10	1674.40	1335.00	1022.60
Growth rate (%)	6.35	1.36	-7.29	-20.27	-23.40
Unemployment Rate (%)	14.40	11.80	14.10	25.50	31.30
Inflation Rate (%)	5.50	5.40	2.80	1.20	5.70
Consumption Expenditure/ GDP (%)	122.03	122.49	125.76	137.15	159.00
Investment Expenditure/ GDP (%)	34.72	41.51	31.53	17.79	20.10
Saving / GDP (%)	-22.03	-22.49	-25.76	-37.15	-59.00
Public Finance					
Total Revenue	1083.80	1136.20	1364.00	1053.00	977.40
Total Revenue/ GDP (%)	25.43	25.16	30.71	26.88	31.58
Total Expenditure	1193.50	1194.30	1364.00	1239.30	1227.80
Total Expenditure/ GDP (%)	28.01	26.44	30.71	31.63	39.67
Budget Deficit (after gifts and grants)	109.70	58.10	0.00	186.30	250.40
Budget Deficit/ GDP (%)	2.57	1.29	0.00	4.76	8.09
Public Dept	218.19	286.62	391.85	839.72	889.18
Public Dept/ GDP (%)	5.12	6.36	8.82	21.43	28.73
Foreign Sector					
Export of Goods and Services	887.30	891.50	867.50	626.50	430.20
Import of Goods and Services	3320.00	3804.70	3404.40	2779.10	2878.40
Trade Balance	-2432.70	-2913.20	-2536.90	-2152.60	-2448.20
Trade Balance/ GDP (%)	57.08	64.50	57.11	54.94	79.10
Remittances of Employees	860.50	887.70	784.70	361.80	393.50
Remittances of Employees/ GDP (%)	20.19	19.65	17.67	9.23	12.71
Current Transfers	409.10	397.50	586.30	1218.80	1826.10
Current Transfers/ GDP (%)	9.60	8.80	13.20	31.10	59.00
Current Account	-1122.10	-1578.40	-1117.90	-448.00	-173.30
Current Account/ GDP (%)	26.33	34.95	25.17	11.43	5.60
Banking Sector					
Assets/ Liabilities of PMA	295.64	351.68	412.35	372.73	396.56
Growth Rate (%)	10.05	18.96	17.25	-9.61	6.39
Assets/ Liabilities of Banks	3335.20	3856.80	4593.91	4422.66	4268.76
Growth Rate (%)	14.71	15.64	19.11	-3.73	-3.48
Direct Facilities	83310	1005.46	1346.12	1219.99	957.12
Growth Rate (%)	35.93	20.69	33.88	-9.37	-21.55
Deposits	2414.71	2875.14	3506.89	3398.81	3430.10
Growth Rate (%)	15.53	19.07	21.97	-3.08	0.92