

# **Analysis of the Savings Trends in Palestine**

**Farah Amer Hamdallah**

Submitted to the  
Institute of Graduate Studies and Research  
in Partial Fulfillment of the Requirements for the Degree of

Masters of Science  
in  
Banking and Finance

Eastern Mediterranean University  
February, 2015  
Gazimağusa, North Cyprus

Approval of the Institute of Graduate Studies and Research

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Prof. Dr. Serhan Cifcioglu  
Acting Director

I certify that this thesis satisfies the requirements as a thesis for the degree of Master of Science in Banking and Finance.

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Assoc. Prof. Dr. Nesrin Ozatac  
Chair, Department of Banking and Finance

We certify that we have read this thesis and that in our opinion, it is fully adequate in scope and quality as a thesis for the degree of Master of Science in Banking and Finance.

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Assoc. Prof. Dr. Hatice Jenkins  
Supervisor

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Examining Committee

1. Prof. Dr. Hatice Jenkins

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2. Assoc. Prof. Dr. Eralp Bektas

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3. Asst. Prof. Dr. Hassan Ulas Altioek

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## ABSTRACT

Palestine economy had suffered from a series of oppressions and wars, which affected the Palestinians' decision to invest or save. It is important to understand the impact of these uncertainties on financial savings in Palestine. Therefore, financial savings trends in Palestine need to be investigated. The goal of this study is to analyze the macroeconomic and institutional factors that may have an effect on financial savings in Palestine for the period 2001-2013. Hence, the financial savings trend in Palestine is analyzed in two major parts under two different sets of variables. The first part includes the macroeconomic variables which mainly are GDP growth, public debt, unemployment rate, inflation rate and foreign aid.

The second part includes bank specific factors which are deposits interest rates, number of banks and branches, banks services and savings products. Due to constraints on data availability this research mainly uses trend analysis to identify the possible relationships between variables. As expected, the findings indicate that the wars, public debt and unemployment rate have a negative impact on savings behavior in Palestine, whereas GDP growth and international aid have positive affect on financial savings. In terms of bank specific factors it is found that interest rates do not play any role in attracting savings as they are artificially kept below the inflation rate.

Furthermore, it is observed that depositors prefer to keep majority of their savings in the checking accounts that do not bear any interest. This indicates that savers value

instant access to their savings more than interest earnings given the uncertainties caused by war.

**Keywords:** Palestine, trend analysis, financial savings, macroeconomic factors, banks specific factors.

## ÖZ

Filistin ekonomisini olumsuz etkileyen bir dizi baskı ve savaşlar Filistin'lilerin bankadaki tasarruflarını ve yatırım kararını da etkilemiştir. Yaşanan bu belirsizliklerin tasarrufları da etkilediğine inandığımız için Filistin'deki bankalarda bulunan tasarrufların değişimlerinin incelenmesi gerektiğine inanıyoruz.

Bu çalışmanın amacı 2001-2013 yılları arasında Filistin'deki tasarrufları etkileyen makroekonomik ve kurumsal faktörleri analiz etmektir. Bu nedenle , Filistin'deki tasarrufların değişimi iki farklı set değişken ile incelenmiştir. Birinci set ekonomik büyüme, kamu borcu , işsizlik oranı , enflasyon oranı ve yabancı yardımı içeren makroekonomik değişkenlerdir. İkinci set değişkenler ise banka mevduat faiz oranları, banka ve şube sayıları, bankacılık hizmetleri ve tasarruf ürünlerinin sayısı gibi bankalara özgü değişkenleri içerir.

Bu çalışma veri yetersizliği nedeniyle değişkenler arasındaki olası ilişkileri tanımlamak için ekonometrik analiz yerine trend analizi kullanır . Beklenildiği gibi bulgularımız ekonomik büyüme ve uluslararası yardımların Filistin'deki tasarrufları olumlu etkilediğini fakat savaşlar, kamu borçları ve işsizlik gibi faktörlerin Filistin'deki tasarrufları olumsuz etkilediğini göstermiştir. Kurumsal faktörler açısından ise bulgularımız Filistin'deki faiz oranlarının enflasyon oranının altında tutulmasından dolayı tasarrufları pek etkilemediğini göstermiştir. Ayrıca banka mevduat sahiplerinin tasarruflarının büyük bir kısmını faiz ödemeyen çek hesaplarında tutmayı tercih ettikleri görülmüştür. Bu da Filistinde yaşanan savaş ve

belirsizliklerden dolayı tasarruf sahiplerinin bankadaki tasarruflarına anında eriřimi faiz gelirine tercih ettiđini ortaya koymuřtur.

**Anahtar Kelimeler:** Filistin , trend analizi , finansal tasarruf , makroekonomik faktörler , bankalar ile ilgili faktörler .

*To my beloved family & dear husband*

## **ACKNOWLEDGEMENT**

First of all, I would like to thank my supervisor Prof. Dr. Hatice Jenkins for her outstanding contribution and guidance of this thesis. Without her supervision, all my efforts could have been short-insight. Also I would like to express my appreciation to all my lecturers who taught me during my graduate study in Banking and Finance Department.

I dedicate this thesis to my father & my mother, my brothers and sister (Ali, Amal and Hafez). I am also thankful for my friend Christine who supported me continuously through my study.

To My love Mutaz who believed in me, without him nothing would be completed.

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## **LIST OF ABBREVIATIONS**

GDP	Gross Domestic Product.
GCC	Gulf Cooperation Council
PMA	Palestine Monetary Authority
PMC	Palestine Monetary Council
PM	Prime Minister
PA	Palestine Authority
JD	Jordanian Dinar
NIS	New Israeli Shekel
VAT	Value Added on Taxes

# Chapter 1

## INTRODUCTION

Saving plays a crucial role as a source of future security and development for a nation (Nga, 2007). Saving creates a bond between the past, present and future economic development and growth of a country (Kazim, 1993). An adequate saving rate is important for achieving the growth rate and investment targets (Kazim, 1993). When people save their money, in return, they gain financial independence. The economic growth is measured by a nation's saving rate (Athukoral & Sen, 2001).

There are various motives of saving, and one of them is the precautionary motive, which explains people accumulating assets so that they can meet possible unpredictable emergencies. The precautionary motive assumed that people need to save on their good stable time to be well prepared for the bad upcoming ones (Parker, 2010). In the last ten years, household debt had increased rapidly in Palestine, and it was a result of the ease of accessibility of debt, and the increased in people needs to be instantly satisfied.

Palestine's economy is based on small businesses. These small businesses need credit to expand their businesses and increase their production. The source of credit in financial institutions is based on domestic savings. Therefore, my interest in saving behavior in Palestine has led me to conduct research with aims to find out the saving trends specifically in Palestine.

## **1.1 Background of the study**

There are a number of theories have been developed to describe savings and consumption behavior of households. Keynes General Theory (1936), which is considered as the origin of consumption and saving theories, had been subjected to a large number of theoretical and empirical results. The study entirely relied on the study of the human nature and doesn't support the theory with numerical data analysis (Parker 2010). However, the relative-income hypothesis were developed by Duesenberry (1949) and the life-cycle model was developed by Modigliani in the early 1950's (Modigliani, 1954) considered as the fundamental model for discussing the money and time. Subsequently, the permanent-income hypothesis was developed by Milton Friedman on the same phenomena (Friedman 1957).

Harrod (1939) developed another theory regarding similar issue, titled as the Keynes General theory of economic growth. Harrod (1939) tried to use savings rates and the productivity of capital to explain the economic growth. Subsequent to Harrod Domar Model, neoclassical growth model as first developed by Solow (1956) and Swan (1956), that highlights the shortcomings in the Harrod-Domar Model and was primarily based on the Ramsey's growth Model (Ramsey, 1928).

Solow-Neoclassical model (1956) is an exogenous growth model which depends on the macroeconomic factors that may affect the long-run economic growth, and it was considered as a starting point for most of the studies of long-run growth (Alogoskoufis, 2012). The Real Business Cycle Theory was one of these subsequent researches, which was developed by an association of Freshwater economists in the

early 1970s. Solow-Swan they found that the savings rates may not be constant in the long run steady state (Parker, 2010).

Although, Solow (1956) presented Neoclassical Growth Model, that was also an initial step. However, this model treats the savings rates as exogenous. There are two main theories of savings determines that competed Solow (1956) growth model, the Ramsey (1928), Cass (1965), Koopmans (1965) Household Representative Model, and the Diamond (1965), Blanchard (1985), Weil(1989) Models are overlapping generations. In these both models, households are engaged in maximizing the steady state level, and their saving behavior is individually optimal (Alogoskoufis, 2012).

## **1.2 The Aim of the Study**

Palestine is a land with fluctuating economic growth, with a series of oppressions that have kept it among Middle East's riskiest countries. The past 20 years in Palestine indicated a substantial growth of customer deposit from about 150 million USD in 1993 to around 8.3 billion USD by the end of 2013, this growth trends reflects a rising in the confidence level in the banking sector. Therefore, the basic aim of this study is to evaluate the impact of the micro and macro-economic factors that affected and may affect the financial savings growth trends in the future.

## **1.3 Problem statement**

An enormous number of studies investigate the various factors that may influence the saving behavior. Therefore, this research seeks to provide an answer to the following research question: to what extent Palestinians' financial savings behavior are influenced by the economic and political factors that they are exposed to?

## **1.4 Data and methodology**

A detailed review of previous studies has been done to investigate the commercial bank savings (both domestic and foreign) in Palestine, covering the period from 2001 to 2013. Time series data and trend analysis are used in order to evaluate how the macroeconomic factors (GDP growth, interest rate, consumption, unemployment and inflation) and the specific factors of banks affect the consumer saving decision in Palestine. Time series data measures whether the independent variables are statistically significant in explaining saving and saving trends in Palestine or not?

## **1.5 Significance of the study**

This study contributes to research in many ways: First, there are only few studies related to financial savings and its determinants in Palestine. Secondly, this research will be additional evidence to empirical literature. Third, Trend analysis has been used to examine the relationship between financial savings and other macro and micro economic potential factors in Palestine. Thus this study would be the first one with all these analysis.

## **1.6 The Framework of the Research**

The framework of this research will be as follows: The next chapter reviews the historical background of related literature. Chapter 3 focuses on the Palestine banking sector and the economy, with an overview of the historical background of the Palestinian economy, and the development and growth over the years. Chapter 4 discusses the methodology and data in detail, the used techniques and the development models. The empirical results analysis is presented in Chapter 5. Chapter 6 will wind up studies with a conclusion.

## **Chapter 2**

### **LITERATURE REVIEW**

In this section, savings rate and determinants of savings rates are studied from different perspectives. A considerable number of researches focused on the macroeconomic factors as well as bank specific factors that may influence savings trends. Savings rates have been investigated in the prior studies in order to understand what may affect household's savings behavior, and what do motivate people to save. Furthermore, we make a distinction between stable and unstable economies. Otherwise it would not be easy to identify the factors affecting savings especially during the unstable political situations.

Savings are being treated as the differences in wealth from time to time. However, previous studies have different views regarding the wealth element. Most of the literature on savings focused only on the net financial wealth (Attansio and Rohwedder, 2013). Attansio and Rohwedder (2003) considered the more liquid wealth or net financial wealth as it is more likely to affect savings. Other researchers shed light on a different relation. Lundberg and Ward-Batts (2000) take into account the value of durable goods as well as the non-durable goods as savings determinants. Moreover, Shafor, Lmeskov and Tease (1991) illustrated the difficulty to understand the savings, their evolution and their international disparities without considering wealth as a crucial factor.

Other studies took different perspectives of savings. Fernandez et al. (2009) suggested that a higher income will lead to increase the accumulation of assets, which in return increases savings. Fernandez et al. (2009) also concluded that there is a high correlation between savings and job uncertainty. He proved that employees with unstable jobs save more than others with more stable and secured jobs. Moreover, Alomar (2013) emphasizes there is a positive relationship between economic growth and domestic savings. He also concluded that the country's source of income plays an important role in determining if the economic growth affect domestic savings, or if domestic savings affect the economic growth.

Alomar (2013) asserted that in most of the Gulf Cooperation Council Countries (GCC) the results showed that economic growth causes the savings growth, except for Bahrain which showed bidirectional causality and Oman which showed an opposite result.<sup>1</sup> Alomar (2013) explained these results by that most of the income of these countries, except for Bahrain and Oman, comes from natural resources.

This study aims to explain the economic factors that may influence saving as well as the banks' specific factors. At the macro level, Rao (2001) justifies that high rates of economic growth sustained high rates of domestic savings in a completely open markets. On the other hand, Rao (2001) stated that in a completely open international market a perfect correlation between investment and domestic saving is missing, as long as high level of investment may be complemented by high levels of foreign savings and inflow of foreign capital.

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<sup>1</sup> Gulf Cooperation Council GCC countries: Bahrain, Kuwait, Oman, Qatar, Saudi-Arabia, United Arab Emirates.

Piotr (2011) also observed that there is a positive relationship between domestic saving and economic growth in the developing countries. He stated that this relationship exists as long as these countries finance their domestic investment by domestic savings rather than using the foreign savings. Piotr (2011) believed that there is no relationship between savings and economic growth in the developing countries which uses foreign savings to finance their investment. On the other hand, Piotr (2011) concluded the growth of gross domestic product was not the reason of the growth of domestic saving in the developing countries. He explained this by the fact that the marginal propensity to save grow faster than the marginal propensity to consume.

Lee (2011) assures a direct link between inflation and public saving rate. But he argues that governments reduced the money supply in order to treat inflation, a measure that triggers the competition between private banks and state banks to raise interest rate. Lee (2011) also concluded that when it is about the comparison between internal and external factors in determining deposits, the internal factors were most influential. Thus, banking itself is more influenced in determining deposit rates compared to the external factors.

This study aims to show financial savings trends of Palestine and the changes in savings trends over time. In prior studies saving trends examined in different countries, but a small number of studies had taken Palestine as a study area. Since Palestine has unrest and unstable political and social conditions, the distinction between Palestinian economy and other countries economy is crucial to complete the

study. However, it would be beneficial to take a look at saving trends and patterns in different economies.

According to Husain (1995), much of the difference between the economies of Pakistan and Southern Africa are attributed to lower rates of saving and investment in Pakistan. Husain (1995) indicates that the differences in rates of domestic investment are often attributed to the differences in the rates of domestic savings, which causes the growth performance disparity between Pakistan and Southern Africa.

Touny (2008) went further in determining factors that affect the domestic saving considering Egypt as study case, he mentioned the following determinants: growth per capita income (which has a positive relation with domestic saving especially in the long run), budget deficit ratio (which has a negative influence on domestic saving ratio), the development of financial market (which affected positively and significantly the domestic saving), real interest rate (which has a significant positive influence on domestic saving) and the current account deficit (which has significant negative effect on domestic saving) as the external saving becomes a substitute to the domestic saving.

Lebanon considered as a regional financial center, and it has geographical, historical and cultural similarities with Palestine. Deposit growth is the main indicator in assessing Lebanese government financing conditions, because of the fact that domestic commercial banks financed most of the fiscal deficit in Lebanon, while the domestic commercial banks in Lebanon have a high dependency on deposits (Finger and Hesse, 2009).

Finger and Hesse (2009) categorized deposit demand factors into the macro and micro level, in the macro level they stated that both domestic factors (economic activity, prices, and the interest differential between Lebanese pound and the U.S dollar) and external factors (advanced economy economic and financial conditions and variables proxying gulf funds) are significant in explaining deposit demand at the macro level of Lebanon economy. While at the micro level in Lebanon Finger and Hesse (2009) argued that the perceived riskiness of individual banks, their liquidity buffers, interest margins and loan exposure are significant factors on influencing deposits demand.

Mashamba, Magweva and Gumbo (2014) examined the relationship between bank deposit interest rates and deposit mobilization, during the period 2000-2006 in Zimbabwe, and they concluded that there is a positive relationship between deposit interest rates and bank's deposits. However, they also illustrated that deposit rates may be affected by other factors that influence it negatively, such as inflation, bank failure, high unemployment and liquidity crunch.

Mashamba, Magweva and Gumbo (2014) in other research stated that Banks should take advantage of unbanked markets through expanding branches, offering low cost accounts and increasing deposit interest rates, they also asked the government to establish adequate policies and an encouraging political environment for business and foreign investments. They also think that crucial economic reforming should be adopted in order to increase economic growth; liberating measurement is inherent in any upcoming reforming. Mashamba, Magweva and Gumbo (2014) suggest specific reforming measurements including investment and import licensing, releasing foreign exchange, simplifying capital market regulations, relaxing price and credit control and

deregulating interest rates), but they assert that these reforms will not be much helpful without effective utilizing of domestic savings and allocation of resources in order to achieve an increased economic growth.

A large number of researchers all around the world had shown that demographic variables do influence savings. For example, Fernandez et al. (2009) concludes that according to the life cycle model age has a great influence on savings. Savings rise with age but a low rate. Furthermore, Pan and Statman (2010) stated that gender can affect savings rate, their results shows that women save more than men even if their income is lower.

On the other hand, Husain (1995) thinks that demographic variables do not play an important role in determining saving behavior in Pakistan, possibly because high rates of population growth during the past three decades resulted in a virtually unchanged demographic structure of the population. So Husain (1995) thinks that demographic factors could play a major role in explaining savings rates.

## **Chapter 3**

### **OVERVIEW OF PALESTINE BANKING AND ECONOMY**

#### **3.1 Historical Background of Banking Sector of Palestine**

The banking sector controls the financial sector in every country. Likewise, in Palestine, the financial sector is dominated by the banking sector, which is still developing. For regulation and implementation process in Palestine, the Palestine Monetary Authority (PMA) was established by following the agreement of the Paris Protocol on Economic relations between the PNA and Israel. Banks in Palestine could be broken down into chronological categories:

##### **Banks before 1948**

During the period of the British Mandate (1918-1948) Palestine Monetary Council introduced and regulated the Palestinian Pound. Under the supervision of the PMC, the Palestinian banking system achieved steady progress and created competition with neighboring Arab states (Issa, 2004).

##### **Banking Period from 1948-1967**

A sharp split between West Bank and Gaza forms the dominating event in this period. After 1948 and the collapse of the British Mandate, the West Bank came under Jordanian territory, while Gaza came under Egyptian rule. In the West Bank, Jordanian regulations and Jordanian financial systems were dominant. Banks in the West Bank were mostly the branches of Jordanians Banks in a way that benefited Jordanian banks. At the time, eight with 32 branches were active in the West Bank. However, Gaza adopted the Egyptian system. In Gaza, banks were active with seven

branches, with five of them from foreign sources. The, Bank of Palestine was the only local bank at the time (Ashour, 1995).

### **Banking Period from 1967-1993**

On June 7th, 1967, shortly after the military occupation of the West Bank and Gaza was established, Israeli authorities issued military order No. 7, ordering all public banks in both West Bank and Gaza to shut down. After exactly one year, on June 8th, 1968 only Israeli banks were allowed to work in the Palestinian territories through 6 banks with 39 branches. In 1981 bank of Palestine got permission to work in Gaza, persistently it owned 5 branches in the year of 1993. In 1986 in Cairo, Amman bank allowed to work in Nablus, with banking services extended to several Palestinian cities, with 8 branches by the end of 1993.

In the late 1980s, under the pressure and outrage from the Palestinian people during the first Intifada all Israeli banks closed except Mercantile Discount bank in Bethlehem. Though, in 2000 Mercantile Discount bank got closed. The years between Middle East peace conference in Madrid in 1991 and Declaration of Principles on Interim Self-Government Arrangements in 1994 witnessed a proliferation of banks and commercial traffic (Palestine Monetary Authority, 2000).

### **Banking Period from 1994- 2000**

The year 1994 was considered as a benchmark in the rapid development and proliferation of banks services and branches, it was also the year of establishing the Palestinian National Authority, and the Jordan- Israeli Memorandum of understanding that reopened and reorganized Jordanian banks in the West Bank.

In first of April 1994, the Palestinian Monetary Authority established upon resolution no. 184 by President Yasser Arafat. Deposits value rose from 219 million dollars in 1994 to 1187 million dollars by the end of 1995 (442% increase in 2 years). The value reached 2333 million dollars by the year of 2000, with percentage between deposit rate and GDP in West Bank and Gaza close to parallel percentages in the neighbor circumscription (Hamed, 1996).

### **Banks in Palestine in late 2000s**

About 20 banks were active in Palestine in early 2000. Most of these banks were privately owned and half of them were Palestinian. 17 of 20 banks were commercial banks and 3 were Islamic banks, most of the non-Palestinian banks were Jordanian. Arab Bank was the dominating institution in the Palestinian market, with 160 branches distributed in the Palestinian territories (AL Markaz, 2009).

In general, Palestinian banks respond sensitively to the global trends for two reasons. First: Palestinian banks are connected to their head office in Jordan. The second: the extension and expansion of the international banking networks.

### **Banking current Scenario & Growth**

The number of banks in Palestine reached 22 with 162 branches at the end of 2007. These banks are divided into 11 national banks (3 of them Islamic) and 11 foreign banks including HSBC (Bethlehem, 2008). As mentioned in the table below, there is a significant difference in the number of banks in Palestine in 2012 as compared to 2007. This shows the rapid growth in banking sector of Palestine.

Table 1: Palestine Banks and Branches by Nationality 2008-2012 (Bethlehem, 2008)

<b>Items</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Number of Banks</b>					
<b>Local Banks</b>	10	10	8	8	7
<b>Foreign Banks</b>	11	10	10	10	10
<b>Jordanian Banks</b>	8	8	8	8	8
<b>Egyptian Banks</b>	2	2	1	1	1
<b>British Banks</b>	1	1	1	1	1
<b>Total</b>	<b>21</b>	<b>20</b>	<b>18</b>	<b>18</b>	<b>17</b>
<b>Number of Branches</b>					
<b>Local Banks</b>	89	104	110	118	121
<b>Foreign Banks</b>	101	105	102	108	111
<b>Jordanian Banks</b>	93	98	95	101	104
<b>Egyptian Banks</b>	7	6		6	6
<b>British Banks</b>	1	1	1	1	1
<b>Total</b>	<b>190</b>	<b>209</b>	<b>212</b>	<b>226</b>	<b>232</b>

When looking at the numbers strictly, one can find that the rate of growth of the banking sector has been enhanced over the past few years. The customer deposits have seen substantial growth from about USD 150 million in 1993 to 4 billion US\$ by the end of 2000. Lending has also grown virtually from zero in 1993 to around US\$ 1.4 billion now. The worth of total assets in Palestinian banks exceeded US\$ 5 billion by the end of 2013. It is shown clearly that banks have been doing well in mobilizing the saving deposits with the development trend reflecting an increasing hope in the local banking sector.

The main assessment involved in the local banking system is that, with the number of banks and their branches growing tremendously in the past few years, this growth has nothing to do with the services and products delivered by these banks. Most of the banks (even those whose name might suggest otherwise) serve as typical commercial banks providing more common and standard banking services. Slight modifications have been made recently (evidence is the recent expansion in the market of retail banking) but banks, with only a few observed exceptions, show no interest in committing their main resources for the growth of their functions in Palestine (Aweidah, 2014).

Due to the weakened economic activity and political instability, Palestinian banks play a restricted economical role and they also face several structural crises like the ambiguity of output and lack of suitable collateral in debt collection. In order to bring upon a stable banking system, Monetary Authority in Palestine took several steps into account to achieve that stability in the banking system. The authority worked and keeps working to improve the requirements on capital resources, the payment system, the norms on secured credit and credit bureau in the Palestine Banking system (West bank & Gaza, 2014).

While Palestinians are the major source of banking in the Middle East and responsible for the development of more banking system in the region, particularly in the Gulf States, Palestine has now seen a fairly growing banking operation, lagging behind many other countries in terms of structure, utilization of modern technology and diversification. Shutting down of banks functioning in Gaza and West Bank by Israeli authorities soon after the war in 1967 is the major reason of development of banking

system in Palestine. The Palestinian economy had to depend on the unofficial black market sector for many years for its needs on financial services.

This situation became a cause for the formation of the Palestinian national authority followed by a drastic transformation in 1994 and also for the financial/banking sector to set free from under the control of Israeli. For quite a few years now, the banking sector is flourishing in the Palestine market as today the number of Palestinian and foreign banks serving people is around 22 with more than 114 bank branches mainly located in the cities and in important villages. The unofficial sector, like most of the less developed countries remains as a main competitor to the formal banking system, particularly among the low income people of the society (Aweidah, 2014).

### **3.2 Palestine Economy and GDP**

The value of GDP in Palestine was worth around 6.80 billion USD in 2012. The value of GDP of Palestine signifies 0.01% of the total world economy. From 1994 to 2012, the GDP in Palestine averaged around 4.41 billion US dollars, reaching the highest in 2012 to about 6.80 billion USD and seen a record low worth of 3.04 billion USD in 1994. GDP report in Palestine is prepared by the Palestinian Monetary authority.



Figure 1: Palestine GDP between 2004-2013 (trading economics, 2014)

The Gross Domestic Product measures the national income and total output for a given economy. The GDP is equal to the total worth of all final goods and services that the country produces in a specific period of time. This section presents Palestine GDP, including the actual value, forecast, historical data, economic calendar, statistics, chart and news. Last update on the content for Palestine GDP was made on December 18, 2014.

The Palestinian economy has brought upon some prominent advances in recent years under the governance of PM Salam Fayyad's institution development program. However, questions are being raised about the consistency of such advances in the focus of the enduring and apparently ongoing, political dispute with Israel. Some challenges that are faced by the economy of Palestine are mentioned below (Danin & Raad, 2012):

- In spite of the increased economic development in the years from 2007 to 2010, growth delayed after the economic strategy of Fayyad failed to combat the political

hindrances to constant growth, like increased limitations on the movement of goods as well as people.

- The unemployment is increasing, especially among the Young generation (25% youth unemployment measured in the West bank and 46% in Gaza).
- There is a necessity to create an environment for investment that could call for greater movement freedom in the PA and better financial access.
- There are a number of serious barriers that affect the growth, including the requirement for acquiring better access to land, shortage in the domestic production within PA, limitations on movement and import bans. Raad (2012), also specified that the gas reserve in Mediterranean can be a great progress to the Palestinian economy.
- Though the Quartet influenced Israel to allow exports from Gaza to accomplish the outside markets, there is a great necessity to set up better trade and to take favor of the free trade agreements with Arab nations. Containerizing the Allenby Bridge is the only way in this process to enhance shipping quality.
- PA has to unveil development in strategic sectors like agriculture, tourism and pharmaceuticals, as concluded by Raad (Raad, 2012).

### **3.3 Israel, War and Palestine Economy**

It has been determined by history that Israel will always suppress Palestine by its political, economic and social supremacy. If there is no 'radical changes in policy' has been made in the forthcoming years, then the poverty and unemployment will remain at an ever higher rate in Palestine. The policy of economic oppression in Israel has been in place for the most part of 4 decades. On looking the status before the invasion of Israeli in 1967, commentators have typically accepted that the Palestinian state remained as a flourishing and economically dynamic body within the region.

Unluckily, the six day war caused a major erosion of the fairly well economic policies and due to the major success witnessed by Israel, both Gaza and the West Bank surrendered their autonomy to the Israeli state. The final result as admitted by several financial institutions now is a Palestinian economy as a colossally relied state of Israel to merely remain afloat. The trading links that had proved to be a trustworthy mean of economic sources of revenue pre-1967 were all but ruined. Palestine has been secluded from the rest part of the world.

The ultimate power applied by Israel on Palestinian inflows and outflows that they deemed they could incorporate outright bans over imports to the seized territories and such strategies would stay unchecked. Moreover, Palestinian imports would as per law, need to be regulated by single sided customs unions operated by Israel (Pre-Oslo). The end result of the above led to overwhelming reliance over Israel as a major trading partner of Palestine. This is supported by the numerical data which shows that even till today, 80 to 90% of the Palestinian trade engages with Israel in one way or another that has contributed significantly to the ever developing trade deficit that Palestine faces.

On the international view, Palestine has always been at the pith of Israeli foreign trade relations. Prior to Oslo's endorsement, commentators have pointed out that the export of Palestinian agricultural/industrial goods to other entities was both Israeli regulated and extremely strict. This can be related back as a direct cause of the 1967 war, since Palestinian policies were subsumed forcefully into an Israeli regulated customs union. The economic causes of 6-day war have infused across the troubled background of Israel-Palestine commercial relationship. Oslo remained to be the solution; however

the majority of the oppressive features that described the era of pre-Oslo remained as such, since Israel denied permits Palestinians the freedom needed to set up an independent commercial state (Jamil, 2010).

## **Chapter 4**

### **DATA AND METHODOLOGY**

#### **4.1 Source and Type of Data**

This research aims to analyse the savings trends in Palestine during the last ten years therefore we use secondary data that is available in Palestine during that period. We expect to see that the domestic savings and consumption behaviours of the Palestine people are affected by macroeconomic factors. We also expect to see that people's choice on savings and consumption is highly affected by the uncertainty and risk caused by ongoing political unrest and war between Palestine and Israel.

The data set used in this research is based on the macroeconomic factors and the bank specific factors in Palestine from 2001 to 2013. Data set is derived from the official web site of the Palestine Monetary Authority PMA (2014) and the Palestinian Central Bureau of Statistics (2014). All figures are given as annual data but we converted them into the annual percentage growth in order to conduct the trend analysis.

#### **4.2 Methodology**

In Palestine, no data is available on macroeconomic variables before 2001. The macroeconomic data is available as annual statistics only between 2001 and 2013. Therefore there is no sufficient data to use econometric analysis in this research. Hence we decided to use trend analysis to examine the relationship between the financial savings and the main macroeconomic variables in Palestine. We also try to

understand the relationship between financial savings and the bank specific variables during the same period in Palestine.

There is more than one theory that suggested different models to understand savings. According to the Keynesian theory; which was the first to analyse money directly, Keynes postulated that people hold or save money according to speculation of the interest rate movement. He concluded that there is a positive relationship between interest rate and people's tendency to convert money into financial assets. Moreover, Solow-Swan asserted that the exogenous macroeconomic factors explain the change in the long run economic growth, which eventually affects the savings behaviour. Tobin also postulated that saving money is related to level of risk and return. Friedman asserted that savings is a function of interest rates, and real income prices change (capital gain or loss), which mean that inflation should be taking into consideration when talking about savings.

In the basis of these earlier studies, with taking into consideration the recent studies' models, we expect that the macroeconomic variables that may have a positive or negative impact on the financial savings trend in Palestine are: the real GDP growth rate, unemployment rate, inflation rate, interest rates movements, and the rate of government domestic debt.

Regarding to the bank specific factors the variables that may have an impact on the financial savings are: and the expansion of the banking sector which is measured by the total number of bank branches, banks' facilities and savings product which they offer. Political and financial events have significant influence on financial savings

behaviours. Therefore, the trend between financial savings and each explanatory variable will be explained according to the political and financial events occurred in that period. In Palestine's economy most of the fluctuations in the economic production are the result of wars and oppression Palestine had been through.

Financial savings are categorized by current, savings and time deposits. Each of these deposits' type was affected by the economic, financial and political factors with different significance. Accordingly, the trends of the current, savings and time deposits over the years were plotted and explained separately and jointly in the next chapter.

As the number of observations were insufficient to do regression analysis this research is based on trend analysis. Hopefully, with more data in the future, this study would be complemented by regression analysis to give more accurate insight about financial savings and savings behavior in Palestine.

## **Chapter 5**

### **ANALYSIS OF THE SAVINGS TRENDS**

#### **5.1 Deposits Types, Regions and Currencies**

Despite the stagnation in the economy of Palestine, its banking sector had experienced a steady growth over the last decade. This proves the ability of the Palestine economy to adapt with the regional and local risks, and become a key element of the growth of the Palestine economy. Household deposits are considered as the most important element of total bank deposits, and the largest component of bank liabilities. Therefore the development of Household deposits is one of the most significant factors that influence the banking sector.

There are many indicators of Palestinian's confidence toward the banking sector. Figure 2 indicates a steady growth in Household deposits during the years, and sharp growth at the end of 2013 by about 10.9% compared to 2012. 2013 growth rate considered as the highest one in the recent few years. Accordingly, the total deposit growth was at the same pattern as the Household deposit growth. This growth rates are considered as strong indication of the continuous confidence in the banking sector.

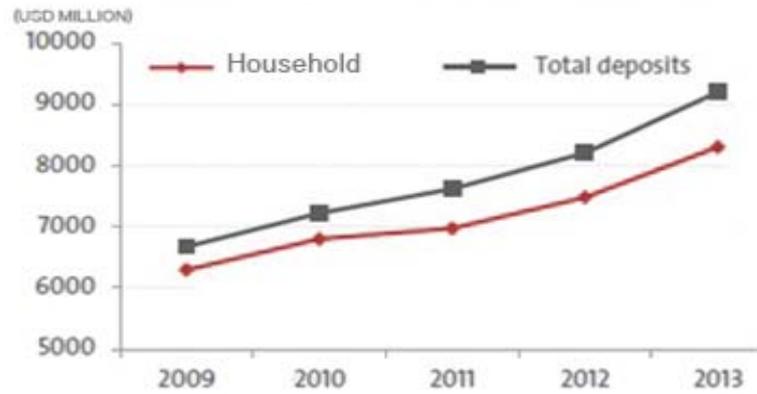


Figure 2: Household deposits and total deposits, 2009-2013 (PMA annual report, 2013)

Total deposits include both the public sector and the private sector deposits. The proportion of the private sector deposits is the highest with 92% percent (or about USD 7629.3 million) in 2013. The public sector made up the remaining 8 % (or USD 676.9 million).

Figure 2 shows the growth rate for the private deposits and the public deposits. Although the growth of the private savings was steady over time but we can notice from the figure below the big jump in public deposits in 2002 while the private deposits experienced a negative growth. This contradictory was one of the consequences of the first Intifada which started at the end of 2000. The sharp increase in the public sector deposits growth in 2002 would be explained by the huge amount of donors' money given to the government to recover after the Intifada. The Palestinian government deposited these donors in banks.

The main reason behind the steady growth of the private deposits is the extensive efforts by the Palestine Monetary Authority (PMA) and by the Palestinian banks to

enhance banking awareness. In order to enable citizens with limited income to have bank's accounts banks charged reasonable rates that are affordable to various people.

The PMA tried to promote the e-banking services and other services to decrease the use of cash money. Accordingly, Palestinians witnessed an adequate increase in usage of banks services, specially ATM, credit cards, internet banking and telephone banking. The promotion of these services offer an easier way to deal with everyday's transactions with lower cost and less time, thereby expanding the economic activity at large.

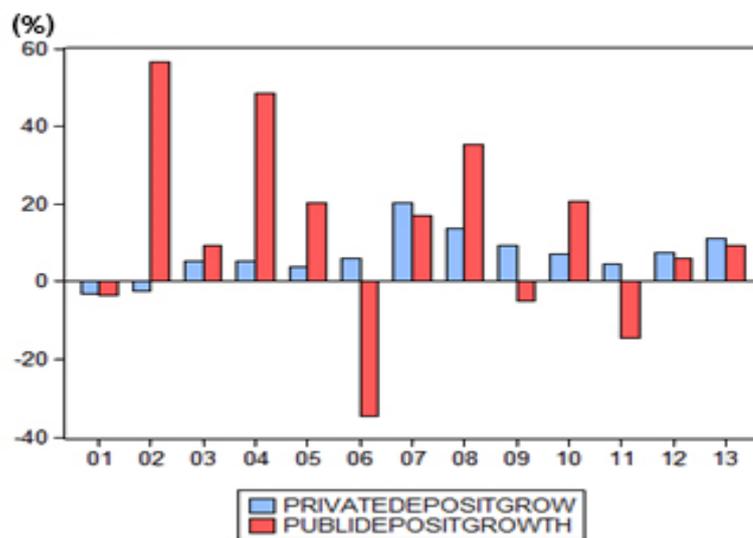


Figure 3: The annual growth of the private deposits and the public deposits, 2001-2013 (PMA, 2013).

The West Bank financial savings represent 89.7 percent of the total financial savings of Palestine in 2013, while Gaza represent the remaining 10.3 percent. This distribution was nearly the same in the previous years. The main reason behind deposits distribution differences between West Bank and Gaza Strip is the stable

economy of West Bank compared to Gaza. Gaza suffered from a series of political oppressions, wars and trading restrictions.

Figure 4 gives an indication of the deposits growth trends of West Bank and Gaza Strip. It shows that there is a constant growth in the West Bank, reaches the highest level in 2007 around 29 percent. The number of banks also reaches the highest in 2007 with 22 banks.

Gaza suffered from a series of wars in 2008-2009 and 2012, which affected its economy, and its banking sector. Figure 4 shows us that deposits in Gaza had decreased in 2008, 2009 and 2012 largely due to these wars.

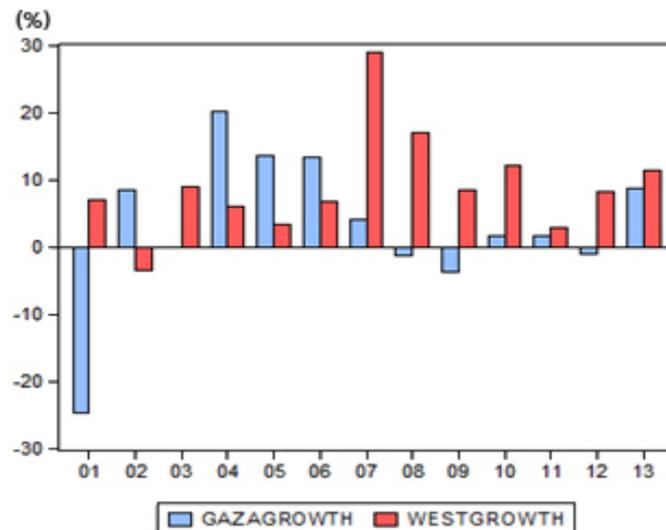


Figure 4: West Bank and Gaza's deposits annual growth, 2001-2013 (PMA, 2013)

In Palestine bank's deposits are classified as current, savings and time deposits. Current deposits is defined as the deposits that can be withdrawn any time, therefore the depositors earn no interest. In Palestine depositors pay fees for such deposit accounts. Saving deposits can be withdrawn whenever the customer needs and he can

earn a variable interest rate. Usually saving deposits are put by small savers. On the other hand, time deposits are not allowed to be withdrawn for a certain time period, and the depositors can earn a fixed interest rate depending on the amount of money and the maturity period.

Current deposits represent 40.2 percent of the Household's total deposit in 2013, in comparison to 39.9 percent in 2012. Savings deposits contributed 31.1 percent in 2013, and 30.3 percent in 2012. Time deposits came third with 29.8 percent in 2012, and 28.7 percent in 2013.

These figures show that there is no significant change in terms of percentage distribution of deposits between current deposits, saving deposits and time deposits. However it is important to notice that the biggest amounts of deposits are kept as current deposits where depositors do not earn any interest. This indicates that depositors value instant access to their savings more than the interest earning that they can receive if they kept their savings in the saving deposits or the time deposits account. It is very likely that this is due to the uncertainties that are created in Palestine as a result of war and political instabilities.

In 2002-2003, during the second Intifada, interest rates on deposits were relatively high at 2.74 percent (Table 1). The saving and current deposits growth rates reached to as high as 23.8 and 21.3 respectively. However, time deposits growth decreases by 6.26 percent. Time deposits account is the least liquid type of deposits, which made it less secure to people during the second Intifada. In 2006-2007, the years after the second Intifada and the election of Salam Fayyad government, the three deposits

types, current, saving and time deposits experienced a high growth in that period. The interest rate in 2006 was 2.89 and in 2007 was the highest at 3.02.

Generally, time deposits growth trend was more affected by the political situations, and experienced the lowest rate of growth. The time deposits growth rate was negative during the second Intifada 2001-2004, and after the Gaza war in 2008. People found it more risky to save in time deposits account without the ability to withdraw money. Time deposits suffered from a loss of its importance of in 2011, due to the incentive promotions of the rewards programs and bonuses toward savings depositors. Moreover, the unstable economy and the unclear political and security expectations led depositors to prefer current deposits as it is considered more convenient and fast and easy access to their savings.

The above findings indicate that the relationship between saving deposits growth and interest rates is weak in Palestine. People's decision to save was more affected by other factors than the saving deposits interest rates such as: lack of investment opportunities and lack of awareness which will be discussed later in this chapter.

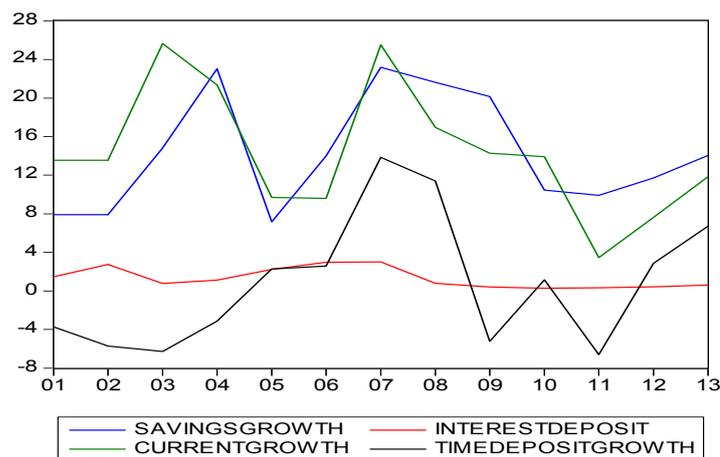


Figure 5: The growth rate of current deposits, savings deposits, time deposits, and the deposits interest rates movements

Table 2: Deposits growth (PCB, 2014)

Year	Growth of current deposits (%)	Growth of savings deposits (%)	Growth of time deposits (%)	Deposits interest rates (%)
2001	13.6	7.9	-3.7	<b>1.5</b>
2002	13.6	7.9	-5.7	<b>2.7</b>
2003	25.6	14.8	-6.3	<b>0.8</b>
2004	21.3	23.1	-3.1	<b>1.1</b>
2005	9.7	7.2	2.3	<b>2.2</b>
2006	9.6	13.9	2.6	<b>2.9</b>
2007	25.5	23.2	13.9	<b>3.0</b>
2008	16.9	21.6	11.4	<b>0.8</b>
2009	14.3	20.2	-5.2	<b>0.4</b>
2010	13.9	10.5	1.2	<b>0.3</b>
2011	8.4	9.9	-6.6	<b>0.3</b>
2012	7.6	11.7	2.9	<b>0.4</b>
2013	11.9	14.0	6.7	<b>0.6</b>

The US dollar is the dominant currency regarding to the customer's deposits. US dollar deposits contributed 41.7 percent of the total deposits, followed by the New Israeli Shekel, which is the dominant in term of daily transactions, with 29.0 percent,

and the Jordanian Dinar JD with 25.4 percent of the total deposits in 2013. The USD and JD increase their shares in 2013 in comparison to 2012. This increase affect the NIS which dropped by 2.0 percent and affect the other currencies as well which dropped by 0.9 percent.

Figure 6 summarized the trend of the customers' deposits growth regarding to the main currencies, USD, JD and NIS. This Figure also indicates the dominants currency regarding to deposits, with an insight about the approximate share of each currency to the total deposit.

We can conclude that deposits in USD have the largest share, due to the fact that USD is easy to change, with the probability to exchange USD currency for NIS currency with almost no commission. The three dominants currencies increased since 2006. Due to the fact the Palestine economy started to recover from the second Intifada in 2006. Moreover the Prime Minister Salam Fayyad was elected in 2005. After his election he drew a long-term financial future plan and an infrastructure development strategy, which made Palestinian more confident to save money for a specific period of time without withdrawal. Salam Fayyad also paid full salaries for the government employees unlike other years. The government employees are paid in NIS. Thereby, the NIS deposits have been increasing since 2006.

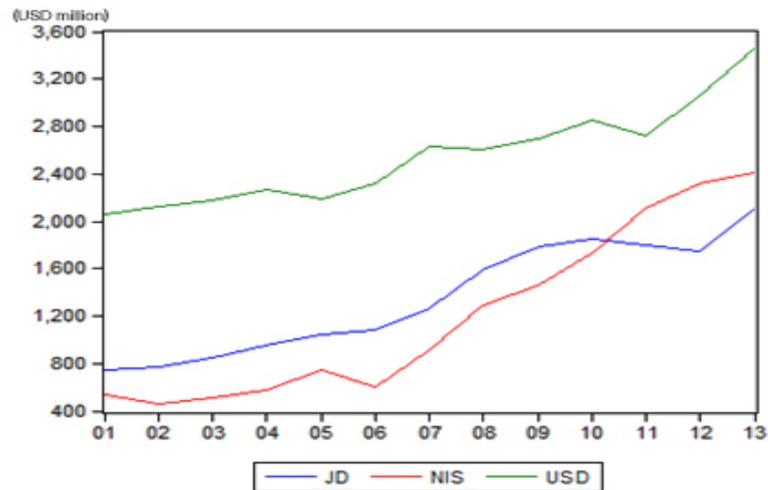


Figure 6: The JD deposits, NIS deposits and USD deposits, 2001-2013 (PCB, 2014)

## 5.2 Deposits and Macroeconomic Factors

Palestine had enjoyed a continuous GDP growth between the period of 2007 and 2011. This growth trend was supported by the large inflows of grants and decreasing the restrictions by Israeli. Financial savings have been increasing since 2008, but with lower growth. The decreased financial savings since 2008 is due to the low rate of interest, which never been above 1 since then, and may be also attributed to Gaza war in 2008.

Grants inflows decreased in 2012 by almost the half in comparison to the highest level in 2008, this was accompanied by more restrictions on the economic transactions by Israel. Thus accordingly, the real GDP growth rates decreased by 7 percent in 2012. The economic deterioration hit 2013 as well, the GDP growth dropped by 3 percent by then to reach the lowest level compared to the recent few years at 2 percent (Table 2).

GDP per capita is an indication of the income that each individual gets. It gives a more accurate determination of living condition in a specific country in comparison to

GDP. The trend of the growth rates for both the GDP per capita and real GDP were the same, due to the reasonable growth rate of population in comparison to the GDP growth (Figure 7).

The declining growth performance of real GDP in 2013, with growth rates lower than the growth rates of the population, resulted in decrease in GDP per capita. Real GDP per person was 419\$, a declining by .4 percent in comparison to 2012. However, the deposits growth showed an increasing trend between 2011 and 2013 due to other factors than real GDP growth that affect deposits in that period. The main reason was the increased growth of donors after Gaza war in 2012. Donors led to increase public deposits which eventually deposited at banks (Table 2).

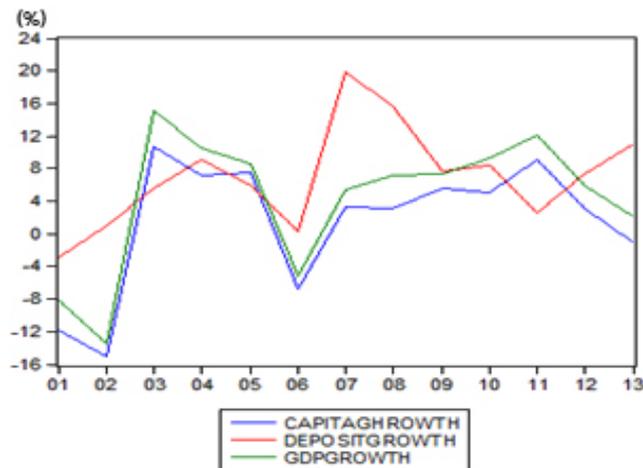


Figure 7: The real GDP growth, the Customers' deposits growth rates and GDP per capita growth, 2001-2013 (PCB, 2014)

Unemployment is one of the macroeconomic factors that influence the country's economy during the years, and it's considered as one of the fundamental challenges to developing countries. The results of the labor force surveys in Palestine show sustainable high rates of unemployment and low rates of participation of labor force.

This could be explained by the limited capacity of production and low investment opportunities which eventually will reduce the willingness of people to save a proportion of their income.

Figure 8 summarizes both the unemployment growth and the customer's deposits growth between 2001-2013. Clearly, there is a negative correlation between unemployment and deposits growth. Unemployment increases the portion of people that are unable to save by getting no income. Although the rate of unemployment increased recently, the deposits growth also increased. This contradictory result could be attributed to the fact that unemployment rate in West Bank decreased only by 1 percent in 2013 and the West Bank customer's deposits represent 89.7 percent of the total deposits in 2013, as we can conclude from Figure 8. Furthermore, people in West Bank are usually intended to save more due to West Bank more stable economy than Gaza. It's worth mentioning that the high unemployment rate in Gaza Strips is a result of the tottering economic performance due to the persistent restrictions and limitations imposed by Israel.

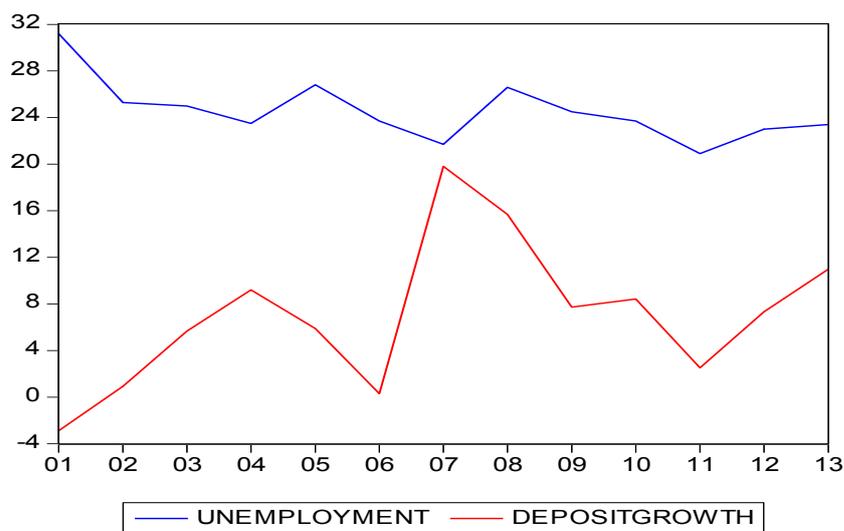


Figure 8: The unemployment rate and the deposits growth rate, 2012-2013 (PCB, 2014)

Another factor that gives a strong indication of the economy as a whole, and eventually it may be correlated to financial savings is government debt, which is also known as national debt or public debt.

Although there were a regular inflows of foreign grants which led to increase the total revenue and decrease the total expenditures, Palestinian government couldn't meet the incurred obligations in 2012. Data surveys show that the Palestinian government tried to decrease its debt by increasing taxes on wages and salaries, which results in reducing salaries, and accordingly reduced people's ability to save.

Public debt had decreased by 4.3 percent in 2013 and it represents 19.9 percent of real GDP. The share of the citizen's public debt in 2013 is about USD 570 in comparison to 613.5 in 2012.

The Government debt is distributed between domestic debt and external debt (Figure 9). The proportion of the external debt had decreased over the previous few years which made the government depend more on domestic borrowing to cover its debt. This expose a threat to the banking sector in particular as it is the main local debt instrument. Banks in Palestine have financed around 98.8 percent of the total domestic debt, which comes around USD 1,257 million according to the PMA data. The 98.8 percent which finance by banks was distributed as 29.2 percent as overdraft and 70.8 percent as loans. NIS was the dominant currency for these debts.

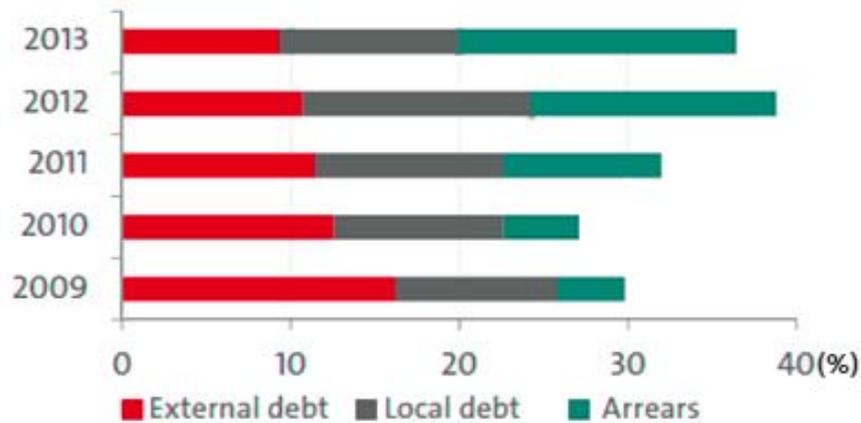


Figure 9: Government public debt as a percentage of GDP, 2009-2013 (PMA, 2013)

The debt to GDP ratio indicates the ability of any country to pay back its debt. A low debt to GDP ratio reflects a healthy economy that doesn't need to incur further debt to pay back its debt. There is no ideal debt to GDP ratio, but instead economists focus on the sustainability of a certain ratio level. Figure 10 shows the debt to GDP ratio in comparison to the deposits growth trend in the time span between 2001 and 2013. we can conclude that the debt to GDP ratio was relatively sustainable during the years; it varied between 23.3 and 36.5. It reaches the highest point in 2012 at 36.5 percent, it then decrease in the following to become 34.22 after taking adopting the appropriate strategies by the government. On the other hand, deposits growth increased from 2012 to 2013 by 3.7 percent when the government met some of their domestic debt.

The period between 2008-2009 suffered from the highest increase in government total debt to GDP and a high decrease in deposit growth to some extent. The debt to GDP ratio increased by 8.3 percent, and the deposit growth decreased by 7.7 percent during 2008 and 2009. There are a lot of factors behind the 2008 crisis. The revenue by the Palestinian government decreased from USD 334.7 million in 2008 to USD 316.6 million in 2009. The external budget support decreased in a great amount by USD

247.5 million. Net lending and expenditures increased by USD 152 million due to the increased government spending in Gaza after the 2008 Israeli attack. The 2008-2009 government budget deficit reduced its ability to pay salaries for employees, as a result of this it affect the citizens' savings behavior, as saving is a function of income.

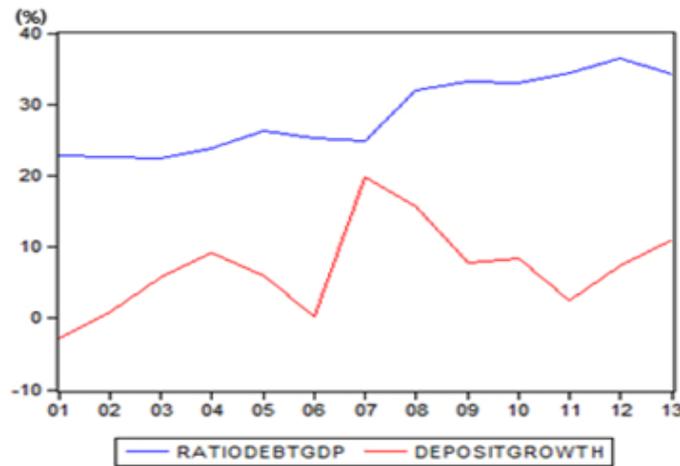


Figure 10: Debt to GDP ratio and deposit growth, 2001-2013 (PMA, 2013)

It's very important to emphasize the fact that the inflation rates and interest rates are a reflection of the situation of the economy. These rates may affect the decisions' behavior of citizens toward saving and borrowing. Inflation rate in Palestine averaged 3.3 percent from 2001 until 2013. The highest rate was in 2008 at 4.89 percent, a relatively large increase compared to the previous year with 1.8 percent.

Inflation rates movements are closely tied to the rates in Israel. Paris Protocol in 1994 asserted the protocol on economic relations between Israel and Palestine Liberation Organization (PLO). One of the main terms in Paris Protocol was tighten the value added on taxes (VAT) and the fuel prices with those in Israel. VAT can't be lower

than Israel by more than 2 percent, and the fuel prices within 15 percent in those in Israel.

The years that are exposed to a relatively high inflation growth did not compensated with increase wages. This led to increase the consumed proportion of wage, and affect the proportion that is saved. Figure 12 indicates a negative correlation between inflation rate and deposits growth. We can conclude the lowest inflation rate at 1.86 in 2007 was accompanied with the largest deposits growth at 19.8 percent. In the following year deposits growth decreased by 4 percent when the inflation rate went up by about 3 percent to reach 4, the highest inflation rate since 2001. During the period between 2004 and 2008 the inflation rate has risen, because of the increasing prices of oil and the food crisis. These inflation rates are still acceptable.

Table 3: Inflation, deposits interest rates, loan interest rates and deposits growth (PMA, 2013)

<b>Year</b>	<b>Inflation rate (%)</b>	<b>Deposits interest rate (%)</b>	<b>Loan interest rate (%)</b>	<b>Deposits growth rate (%)</b>
<b>2001</b>	<b>1.2</b>	<b>1.5</b>	<b>8.4</b>	<b>-2.9</b>
<b>2002</b>	<b>5.7</b>	<b>2.7</b>	<b>7.9</b>	<b>0.9</b>
<b>2003</b>	<b>4.4</b>	<b>0.8</b>	<b>7.6</b>	<b>5.7</b>
<b>2004</b>	<b>3.0</b>	<b>1.1</b>	<b>6.9</b>	<b>9.2</b>
<b>2005</b>	<b>4.1</b>	<b>2.2</b>	<b>7.3</b>	<b>5.9</b>
<b>2006</b>	<b>3.8</b>	<b>2.9</b>	<b>7.8</b>	<b>0.3</b>
<b>2007</b>	<b>1.8</b>	<b>3.0</b>	<b>7.9</b>	<b>19.8</b>
<b>2008</b>	<b>4.8</b>	<b>0.8</b>	<b>7.5</b>	<b>15.7</b>
<b>2009</b>	<b>2.8</b>	<b>0.4</b>	<b>6.2</b>	<b>7.7</b>
<b>2010</b>	<b>3.8</b>	<b>0.3</b>	<b>6.3</b>	<b>8.4</b>
<b>2011</b>	<b>2.9</b>	<b>0.3</b>	<b>6.8</b>	<b>2.5</b>
<b>2012</b>	<b>2.8</b>	<b>0.4</b>	<b>6.8</b>	<b>7.3</b>
<b>2013</b>	<b>1.7</b>	<b>0.6</b>	<b>7.5</b>	<b>10.9</b>

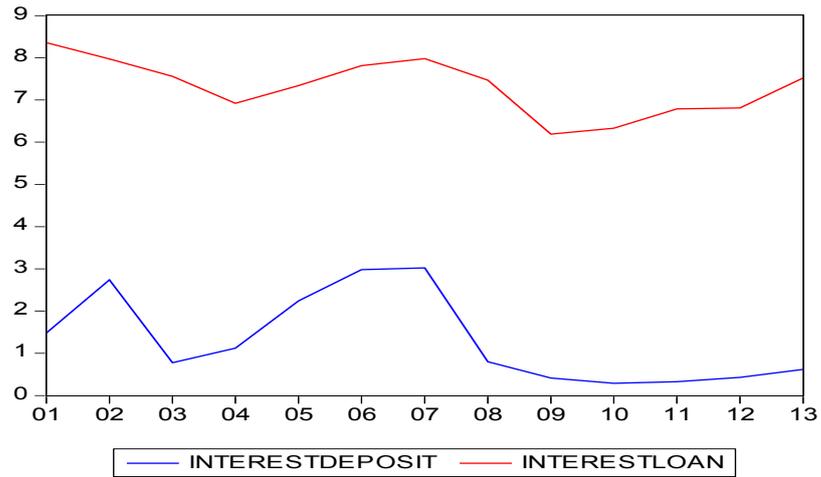


Figure 11: Deposits growth, inflation rates, loan interest rates and deposits interest rates, 2001-2013.

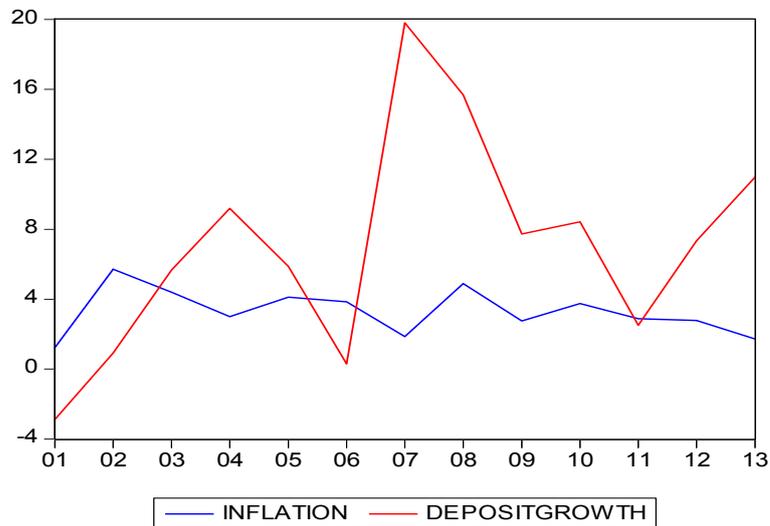


Figure 12: Deposits growth, inflation rates, loan interest rates and deposits interest rates, 2001-2013.

### 5.3 Deposits and Bank Specific Factors

The banking sector is known by its main contribution in developing the economic activities and in increasing economic growth. PMA had shown increased efforts during the last decade to promote the banking awareness among citizens, and made people with low or medium income able to create bank accounts. Therefore, PMA developed a comprehensive strategy to restructure the banking sector.

However, PMA role is different than any other central bank role. Due to the non-existence of Palestinian currency, precludes its ability in controlling interest rates. Interest rates on deposits and loans are determined according to the internal banks policy and the market competition. The Israeli Central Bank which issues the NIS currency is controlling the interest rates on NIS deposits and loans in Palestine. The FED controlling interest rates on dollar deposits and loans and the Jordanian central bank determine the interest rates on JD deposits and loans.

However, many studies reveal the differences between lending and deposits interest rates in the three dominants currencies and between those rates in Israel, US and Jordan. Lending interest rates on NIS are three times more than those in Israel. Deposits interest rates in NIS are averaged by 2.2 percent in Palestine and 3.93 in Israel. Loan and deposits interest rates on JD averaged by 9.15 and 3.38 respectively in Palestine. On the other hand loan and deposits interest rates on JD averaged by 8.68 and 5.45 respectively in Jordan. The dollar deposits interest rate averaged by 3.38 in Palestine, whereas it averaged by 5.27 in US.

Banks in Palestine tried to reduce the interest rate on deposits, after taking into consideration the acceptable limit reduction which set by Israel. Banks attributed the tendency toward decreasing interest rates to try decrease inflation, create investment opportunities for unemployed youth, and stimulate the trend towards investment instead of savings in the Palestinian community. Rising interest rates on deposits will eventually reduce investment, because the rate of return on investment would be lower than the return on deposits. This would explain the low interest rates on deposits.

It is worth mentioning that the relationship between deposits interest rates and deposits growth insignificant (Figure 11). This indicates that the private sector deposits experience a steady growth despite the low interest rates on deposits, especially after the world financial crisis. Private deposits are affected by other influencing factors than deposits interest rates. Perhaps these factors relate to the security, especially in light of the political and security situation volatility. In addition to the lack of investment opportunities, and the high risk surrounding the Palestinian environment for reasons beyond the control of the local economy.

Recently, the total number of banks in Palestine decreased to 17 banks. Divided into 7 local banks (two of them are Islamic), and 10 foreign banks; (8 Jordanian banks, one Egyptian bank and one British bank).while the total number of banks in 2007 reached 22 banks, divided into 11 local banks (three of them Islamic) and 11 foreign banks.

The closed banks did not affect deposits growth because these banks were very small did not have much deposits. The closed banks were insufficient, and did not attract too money depositors in the first place. Bank total profit reached USD 150 million in 2013, an increase by USD 27 million compared to 2012. It's worth mentioning that Arab Bank accounted for 43 percent of the size of the total profits. All banks increased profit during the years that the interest rate margin was bigger. The interest rate margin is the difference between the banks charge on their loans and pay for their deposits.

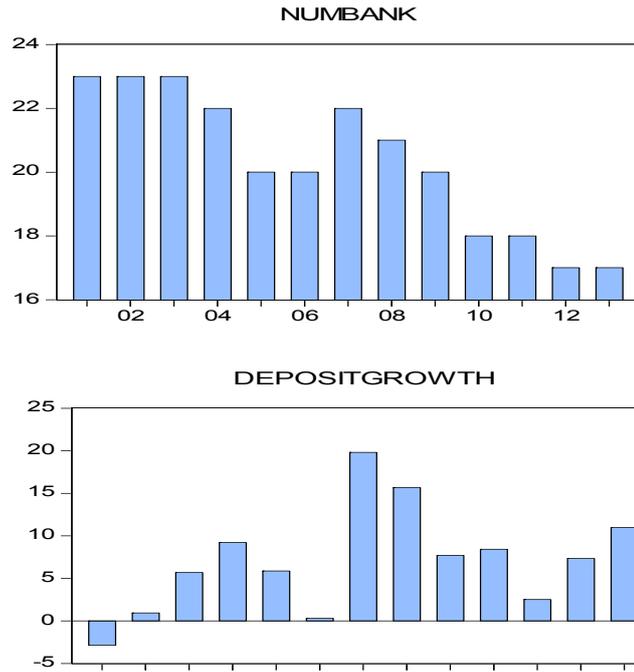


Figure 13: Number of banks, and deposits growth, 2001-2013

There is a deep need, declared by the Palestinian market movement, to improve banking services. Therefore, banking services testified rapid growth and development since 2007 to match and satisfy customers' needs. Indeed, Palestinians witnessed a marked improvement in the E-banking such as: Telephone banking, mobile banking, mobile payments, SMS alerts, internet payments, domestic and international money transfer, debit and credit card application.

The number of these services has been increasing in the past few years; make it more attractive to customers to deposit in banks. There are 15 banks in Palestine provide ATM services, with about 488 ATM's in West Bank and Gaza in 2013 distributed all over the cities and country sides.

Table 4 indicate the marked growth in some of the main banking services and total number of branches, and the private sector deposits during the period 2009-2013. Banking services development affected the growth of the total private deposits sector. Modern banking services make financial savings more attractive to customers to satisfy their need of keeping up with the modern technology.

Table 4: Banking services, private deposits and total bank branches, 2009-2013  
(PMA, 2013)

<b>Year</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Number</b>					
<b>ATM`S</b>	<b>305</b>	<b>335</b>	<b>378</b>	<b>435</b>	<b>488</b>
<b>Point of sales</b>	<b>1,745</b>	<b>2,314</b>	<b>3,658</b>	<b>3,926</b>	<b>4,646</b>
<b>Debit cards</b>	<b>29,082</b>	<b>37,374</b>	<b>47,046</b>	<b>56,835</b>	<b>62,931</b>
<b>Credit cards</b>	<b>285,228</b>	<b>308,962</b>	<b>354,352</b>	<b>410,536</b>	<b>408,636</b>
<b>ATM withdrawal cards</b>	<b>68,185</b>	<b>71,684</b>	<b>101,728</b>	<b>122,379</b>	<b>132,758</b>
<b>Banks branches</b>	<b>171</b>	<b>212</b>	<b>221</b>	<b>224</b>	<b>237</b>

## Chapter 6

### CONCLUSION AND POLICY IMPLICATIONS

#### 6.1 Conclusion

People's behavior towards financial savings is affected by the risky environment surrounding them. Therefore, this study had been done to find the determinants of financial savings in Palestine by analyzing the macroeconomic, political and bank specific factors for the period 2011-2013, where the war not an exception but regular part of living in Palestine.

Palestinian economy depends to a large extent on foreign aids. The economic growth fluctuation in a specific period was mainly attributed to the volume of donations in that period. Public sector savings were affected by the foreign aid more than the private sector savings.

Financial savings in Palestine were affected by the main macroeconomic variables. Unemployment rate, which is relatively high in Palestine, is negatively affecting the financial savings. Moreover, there is a negative relationship between public or government debt and financial savings. We saw that private savings decreased when the public debt increased. one of the strategies of reducing public debt which was adopted by the government is increasing taxes on wages and salaries, which eventually lead to decrease people's ability to save.

Inflation rate in Palestine is also negatively affecting financial savings. The increased prices in Palestine were not compensated with wage increase and this reduced the proportion of the saved income.

After analyzing the bank specific factors we found that the number of banks in Palestine was insignificant in explaining the savings trends. While the increasing number of bank branches and the new modern banking services made it more attractive to customers to keep their savings in banks. Therefore the private savings increased with increasing branches and developing banking services.

We believe that the deposits interest rates did not play any role in attracting savings because most of the deposits were kept in the current accounts where depositors did not get any interest. Given that real interest rates were negative between 2002 and 2013 and yet people were still keeping their deposits in the banks it is more likely that they valued safety more than the interest earnings. Also lack of other options to invest their savings may be another explanation for households to keep their savings in banks.

Despite the economic Growth in the last few years which offset the previous bad years, most of this growth came from donations and foreign investments. Therefore majority of Palestinians still do not feel safe to make investment in the real sector. Palestinians people feel that they are under occupation with unexpected political oppressions. Thus, Palestinians prefer financial savings in banks with low interest rates rather than making investment in businesses that may not survive the war.

In short, this research concludes that the political situations have the most impact on people's behavior to save in Palestine. Since Palestine have been occupied by Israel and suffered from political oppressions and wars for more than 65 years, Palestinians tend save for the unexpected difficult circumstances. This became a habit in Palestine and as long as people are able to save, they will save.

## **6.2 Implications**

Palestine banking sector has experienced a steady growth in their profit due to the expanding of new savings products, banking services and mainly due to the large interest rate margin which mostly remains at the same level during the years. Accordingly, and after taking into consideration Palestine unique economy, the government should try to force the banks to share their high profits that they are making in Palestine through social activities.

The current ratio that banks should participate with from their total profit is 2 percent. However, most banks are not committed with this ratio anymore. Thus, PMA should monitor banks and rise the ratio of bank's participation in the social responsibilities in light of what Palestinians are experiencing of a difficult economic situations and in light of the banks' high profits.

Banks' foreign investment contributed the biggest share of Palestine total foreign assets by about 74 percent (around USD 4.5 billion). Therefore, banks should be required to direct their investment into Palestine through sustainable development of investment projects. Thus, create more job opportunity for youth, and help them to start their own businesses rather than save in banks only.



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