



**Palestine Monetary
Authority (PMA)**



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



**Palestine Economic Policy
Research Institute (MAS)**

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Foreword

This third issue of the Quarterly Economic and Social Monitor brings the excellent news that for the first time our monitoring unit has been joined by researchers from the Palestine Monetary Authority. This means that as well as enabling us to present previously-unpublished financial and banking data we have additional expertise to provide up-to-the-minute analysis of it. We are confident that this new addition to the established MAS and PCBS joint editorial team will enable the Monitor to continue to develop as a valued resource for policy makers.

As well as the much-elaborated financial and banking data, the reader will notice many other additions and improvements in this issue. These include more extensive coverage of poverty matters and new investment indicators derived from the Palestinian Investment Promotion Agency (PIPA) and the Palestinian Companies Registrar.

We are extremely pleased with the interest and feedback the first two Quarterly Monitors have generated, and some of the new additions are in direct response to the requests of our readers. We would like to thank those who have sent in comments and observations, and we urge our readers to continue to do so. The continual improvement in the quality and usefulness of our work depends on the suggestions and criticisms of those who use it.

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EXECUTIVE SUMMARY

National Accounts: The Gross Domestic Product (GDP) reached US\$1,095.9 million during the second quarter of 2005, an increase of 0.6% compared to the previous quarter. Although falling, the services sector continued to contribute the biggest share, with 34.8%. GDP per capita decreased by 0.3% during the second quarter, to become US\$313.3 per person.

Labour Market: The overall labour force participation rate increased from 39.7% to 41.2% during the second quarter of 2005, with female participation rates rising from 12.2% to 14.1%. The unemployment rate dropped to 21.2% compared to 26.3% in the first quarter. The number of advertisements in the three main newspapers announcing vacant jobs during June, July and August reached 1,442, a 34% increase over the previous three months. 77% of these were for the private sector.

Investment: 1,592 new building permits were issued in the second quarter of 2005, a 17.4% increase over the same quarter of the previous year. At the same time 523.6 thousand tons of cement were imported, 77% more than in the second quarter of 2004. 375 new companies were registered, an increase of 23.8% compared to the first quarter of 2005. The increases in all investment indicators were far higher in the Gaza Strip than the West Bank, reflecting the optimism that surrounded the imminent implementation of the disengagement plan.

Public Finance: Net domestic revenue increased during the second quarter by nearly US\$340.3 million, a 34.8% increase over the first quarter. However, public expenditure rose to nearly US\$498.9 million, an increase of 31.7% over the same period. Nevertheless, expenditure remained 10.5% below the quarterly figures foreseen by the budget.

Banking Sector: Total bank assets rose by US\$226.7 million during the second quarter of 2005, and total deposits increased to around US\$4,609 million. Credit extensions increased by 4.8% compared to the first quarter of the year, and the value of non-performing debts fell by 6% to US\$143 million. Investments abroad increased by 3% to reach US\$2,294.1 million at the end of the second quarter.

Spread of Currency Exchange Rates: The exchange rate of the US dollar against the Israeli Shekel reached 4.51 on August 30, 2005 compared 4.34 on May 9. The spread rate in the Palestinian territories was less than that in Israel, which indicates greater efficiency in the Palestinian exchange markets.

Stock Exchange: The volume of trading increased to the extent that the value of shares traded during the third quarter reached US\$472.7 million, compared to US\$357.5 million during the second quarter. The Jerusalem index continued to rise, reaching 885.42 at the end of the third quarter.

Interest Rate Margins of Main Currencies in Circulation: The difference between lending and deposit interest rates in Palestine has usually been lowest for the Jordanian Dinar, although it has increased to join the US Dollar on 7.28% during the second quarter of 2005. This compares to 2.90% on Dinars in Jordan and 2.95% on

Dollars in America during the same period. The Shekel's interest margin was even higher, reaching 11.87% in Palestine compared to 3.1% in Israel during the second quarter of 2005. These high interest rate margins reflect a lack of competition among banks, high banking risks and poor banking awareness among borrowers.

Finance and Insurance: There were 45 institutions operating in the finance and insurance sector in Palestine during 2004. The total amount of gross fixed capital formation of these institutions increased to become US\$7.5 million compared to US\$4.4 million during 2003.

Purchasing Power and Inflation: The exchange rate of the US Dollar and Jordanian Dinar rose by 1.2% and 1.0% respectively in the West Bank and Gaza Strip during the second quarter of 2005. This was accompanied by a decrease in the consumer index of 0.45%, a fact that led to an improvement in the Dollar's purchasing power by 1.6% and in the Dinar's by 1.4%.

Tourism: There were 78 hotels operating in the Palestinian Territories in the second quarter of 2005, 5 fewer than the previous quarter. However, they were visited by 34,375 guests, an increase of 38.6% compared to the first quarter.

Opinions of Palestinians about the Future: In July 2005, only 32.2% of Palestinian families said they were optimistic about the general conditions in the Palestinian territories, falling from 40.2% in April. Although 57.9% were optimistic about meeting basic family needs in the short run, this figure had also declined. Among owners and managers of industrial establishments, 42.3% believed that their businesses would improve in the short term. All optimism indicators were higher in the Gaza Strip.

Population: The number of Palestinians living in the Palestinian territories was nearly 3.8 million persons in mid-2005, 63.1% of them in the West Bank and 36.9% in the Gaza Strip. The rate of natural increase for 2005 was 3.3%. The average life expectancy improved to 71.5 years for males and 73.0 for females.

Poverty: 25.6% of Palestinians lived in poverty during 2004, and 16.4% of families lived in extreme poverty. Refugee camps boast the highest poverty rates, as do large families and households depending on income from agriculture. Emergency assistance is estimated to have decreased poverty rates by around 3%. In the second quarter of 2005, 62.6% of families said their income was lower than before the Intifada.

Social Assistance: In June 2005 the Ministry of Social Affairs provided assistance to 47,700 families, 45% of them in the Gaza Strip, and UNRWA provided assistance to 127 thousand persons, 69% of them in the Gaza Strip. In all, 38.6% of families or one of its members received social assistance during the second quarter of 2005. 71% of families stated that they were in need of assistance.

Housing Conditions: Housing density in the Palestinian territories was 1.8 persons per room in 2004, a slight improvement over previous years. 82.9% of families owned their own homes.

Higher Education: The number of students in higher educational institutes was 138,139 students during the 2004/2005 academic year, a 13% increase over the previous year. 16,572 persons graduated from higher educational institutes in the 2003/2004 academic year, mainly in the disciplines of social sciences, commerce, law and education.

Health: There were 731 primary health-care centres in the Palestinian territories during 2004, 125 of them in the Gaza Strip and 606 in the West Bank. There were 77 functioning hospitals. Health insurance covered 76% of the inhabitants of the occupied Palestinian territories.

Israeli Measures: The separation and annexation Wall had caused tremendous damage to the land of 149 communities by the end of May 2005, when the area expropriated for building it amounted to 47,921 dunums. The number of settlers in the West Bank reached 432,275. Between September 2000 and the end of August 2005, 129 sick Palestinian citizens had died at Israeli checkpoints. There were 8,500 Palestinian prisoners in Israeli jails in mid-August 2005, among them 306 children and 116 women. The overwhelming majority of prisoners had been subjected to physical torture.

Main Economic Indicators in West Bank and Gaza Strip

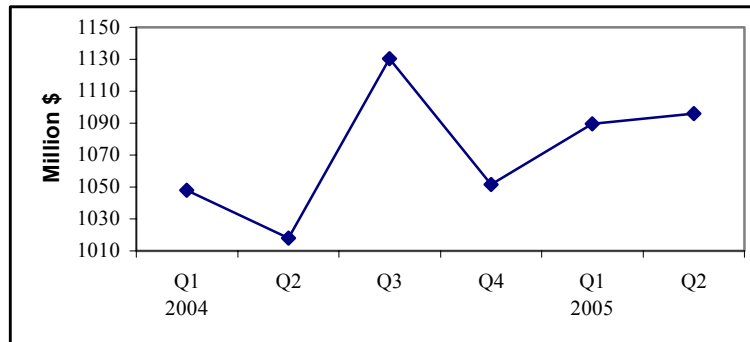
Indicator	2001	2002	2003	2004	Q1 2005	Q2 2005
GDP (million \$, constant prices)	4325.7	4169.3	4010.8	4131.2	1052.8	1095.9
GDP per capita (\$, constant prices)	1311.2	1203.4	1184.8	1217.8	303.6	313.3
Final consumption (million \$)	4371.8	4284.8	4128.1			
Gross capital formation (million \$)	1186.2	727.2	1126.3			
Government final consumption (million \$)	1326.1	1222.9	1127.2			
Net exports (million \$)	-2550.3	-2050.1	-2487.1			
Imports (million)	3155.5	2615.1	2929.9			
Exports (million \$)	605.2	565.0	442.8			
GNI (million \$, constant prices)	4817.4	4570.7	4372.5			
GNI per capita (\$, constant prices)	1460.3	1319.3	1291.6			
Employment (including workers in Israel, 1000 workers)	508.1	487.1	590.7	604	586	656
Local employment (1000 workers)	438.5	436.9	533.4	550	526	589
Employment in Israel (1000 workers)	69.6	50.2	57.3	54	60	66
Labour force participation rate (%)	38.7	38.1	40.4	40.5	39.7	41.2
Unemployment rate (%)	25.5	31.3	25.6	26.8	26.3	21.2
Inflation rate (%)	1.23	5.7	4.4	3.0	1.9	-0.45
Poverty rate (%)	44	60	72	61	67	
Total public revenues (million \$)*	1092	392.3	676.2	947.3	252.4	340.3
Total public expenditures (million \$)	1254	1082.7	1156.9	1511.6	379.0	498.9
Surplus before assistance (million \$)	-966.9	-690.6	-480.6	-564.3	-126.6	-158.7
Surplus after assistance (million \$)	-162	-171.7	42.8	-22.0	0	0
Actual foreign assistance (million \$)	1045.8	966.1	1045.5			
Public debt (million \$)	839.7	887.2	914.1	1257	1257	
Deposits from residents (million \$)	3398.8	3430.1	3624.4	3957.8	3992.5	4114.4
Credit facilities extended to residents (million \$)	1220.6	950.3	1065.7	1420.3	1584.6	1673.2

*The methodology for preparing the data concerning public finances relating to the years 1995-2001 is different from data relating to 2002 - 2004 because of different sources. Consequently no comparison can be made between the two sets of data

National Accounts

Estimates of national accounts at constant prices in the Remaining West Bank¹ and Gaza Strip put GDP at US\$1,095.9 million in the second quarter of 2005, a 0.6% increase compared to the first quarter. However, GDP per capita dropped by 0.3% during the second quarter to stand at US\$313.3.

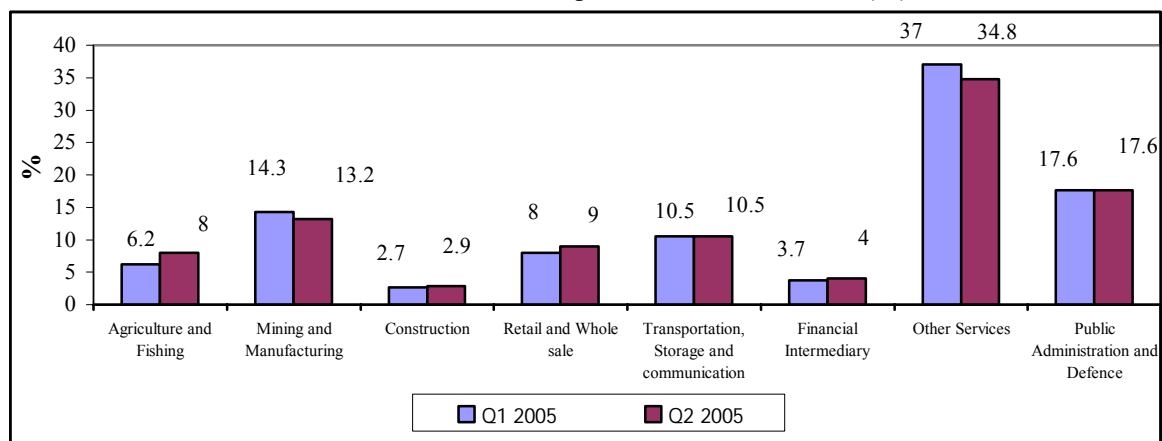
Figure 1: GDP in Rest of West Bank and Gaza Strip at Constant Prices: Base Year 1997



Source: Palestinian Central Bureau of Statistics, Press Statement concerning Preliminary Estimates of GDP (Second Quarter 2005), Preliminary Data.

Although decreasing, the activities of the services sector continued to make up the biggest share of GDP with 34.8%. The contribution of the industrial sector rose to 13.2%, transport and storage activities also increased to reach 10.5%, the share of wholesale and retail trade increased to reach 9.0%, and the contribution of financial intermediation activities also increased to reach 4.0%. (See Figure 2)

Figure 2: Economic Activities' Contribution to GDP in Rest of West Bank and Gaza Strip – Second Quarter 2005 (%)

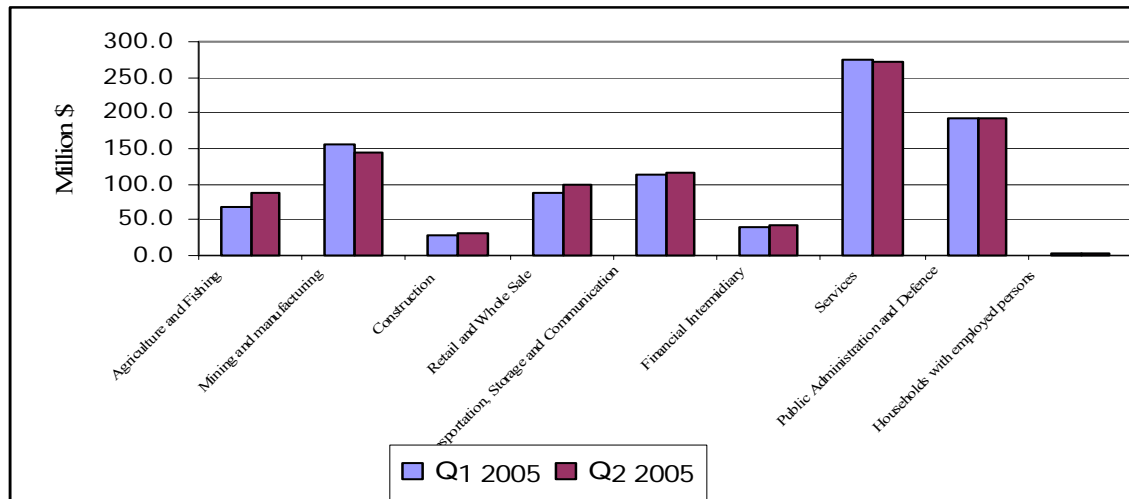


Source: Palestinian Central Bureau of Statistics, Press Statement Concerning Preliminary Estimates of GDP (Second Quarter 2005), Preliminary Data.

¹ 'Remaining West Bank' or 'Rest of West Bank' means the West Bank excluding East Jerusalem.

The value added of agricultural activities increased by a significant 32.0%, that of wholesale and retail trade rose by 13.3% and construction activities by 9.3%. However the value added of hotels and restaurants fell by 22.1% and that of mining manufacturing, water and electricity decreased by 7.2%. (See Figure 3)

Figure 3: Economic Activities' Value Added During First and Second Quarters 2005



Source: Palestinian Central Bureau of Statistics, Press Statement Concerning Preliminary GDP Estimates (Second Quarter, Preliminary Data (Second Edition))

Labour Market

Labour Force

Data indicate a noticeable increase in the labour force participation rate from 39.7% in the first quarter to 41.2% in the second quarter of 2005. The figure increased in the West Bank from 41.4% to 43.7% but dropped slightly in the Gaza Strip from 36.6% to 36.5%. The main reasons for being outside the labour force were housework (49%), studying or training (35%) and old age or illness (11%).

Number Employed

The number of people employed in the Palestinian territories was estimated to be around 656 thousand persons during the second quarter of 2005, an increase of 12% over the first quarter. They were distributed 477 thousand in the West Bank and 179 in the Gaza Strip. The number of working women was estimated at around 112 thousand, 92 thousand in the West Bank and 20 thousand in the Gaza Strip, which is a 17.8% increase from the first quarter of 2005. The number of employed males increased by 10.8% during the same period. The number of Palestinians working in Israel and the settlements increased to 67 thousand (65 thousand of them in the West Bank and 2,000 in the Gaza Strip). This figure represents just over 10% of the total number of workers in the Palestinian territories, the same proportion as the previous quarter. (For further details see Table 1 in Annexe)

The local economy absorbed around 589 thousand workers, or 89.9% of the total number of employed Palestinians. They were distributed 24.9% in the public sector and 75.1% in the private sector. The public sector employed 18.0% of the total number of workers in the West Bank and 37.8% of those employed in the Gaza Strip.

Of the estimated 70 thousand new jobs, 78.7% were in the private sector (around 50 thousand jobs in the West Bank and 5 thousand in the Gaza Strip).

The proportion of employees who earn a wage dropped during the second quarter of 2005, to reach 58.1% of the total number of employees compared to 61.0% during the previous quarter. The ratio decreased in the West Bank from 58.6% to 55.3% and in the Gaza Strip from 67.2% to 65.3%. The higher figure in Gaza can be attributed to the higher proportion employed in the public sector there. The period saw an increase in the percentage of those working as unpaid family members (from 7.7% to 8.7%) and in the number of employers (from 2.0% to 2.9%). Data indicate that one third of employed women (33.3%) worked as unpaid family members, compared to only 6.3% of working men.

Distribution of Workers According to Economic Activity

The contribution of the agricultural sector to employment increased during the second quarter of 2005, reaching 15.6% compared to 13.3% in the first quarter. This is attributed to the agricultural season and is most noticeable in the West Bank, where the proportion of employed in agriculture rose from 14.4% to 18.4%. The other big change in the West Bank was in services, whose share of employment decreased from 33.2% during the first quarter to 30.7% during the second quarter. In the Gaza Strip, the biggest increase was in the commerce sector and hotels and restaurants, which employed 17.5% compared to 14.8% in the first quarter. (For further details see Table 2 in Annexe.)

Palestinians Employed in the Israeli Economy

Palestinians employed in the Israeli economy and the settlements were distributed among all economic sectors, but the building and construction sector still absorbed the highest share with 42.1% during the second quarter of 2005 (down from 43.9% in the first quarter). The industrial sector occupied second place, increasing from 17.4% to 20.1%, and the services sector came third with 9.3% (down from 11.3%). The agricultural sector increased from 7.1% to 8.4% during the same period, while transport and telecommunications fell from 2.0% to 1.6%.

Unemployment²

The unemployment rate noticeably decreased in the Palestinian territories from 26.3% during the first quarter of 2005 to 21.2% in the second quarter. West Bank unemployment fell from 22.6% to 17.2% while in the Gaza Strip it decreased from 34.0% to 30.2%. This represents an actual number of around 177 thousand persons (55.9% of them registered in the West Bank and 44.1% in the Gaza Strip), 14.9% less than the first quarter. All governorates enjoyed the fall in joblessness with four exceptions: Salfit and Gaza governorates, where it remained the same, and Qalqilya and Rafah, where unemployment rose.

A combination of factors contributed to the decrease in unemployment, amongst which should be noted:

- 1- An improvement in mobility during the second quarter of 2005. For example, the opening of the Bathnan road facilitated movement between Jenin, Toubas and

² This is the ILO definition and does not include 'discouraged' workers, i.e. those who have given up looking for a job. This group numbered 59,000 in the second quarter of 2005.

Nablus, and the removal of road blocks isolating Tulkarem made access to the city easier.

- 2- The increase in the number of persons employed in Israel and the settlements, in addition to those from the West Bank working without permits.
- 3- The agricultural season in the West Bank.
- 4- The Temporary Employment Project of the Ministry of Labour. As a result of this more than 50 thousand persons were employed during the second quarter of 2005. It should be noted that, although government funded, when a person is employed under the scheme with a private company he is registered as a worker in the private sector.

The burden of unemployment varied with respect to different social and geographic indicators. Regarding education levels, the lowest unemployment rate was still – surprisingly – among illiterates, 6.5% of whom were jobless. Second came graduates, 20.0% of whom were unemployed, followed by those who had completed 1-6 years of education (23.9%) and then those who had completed 10-12 years of education (22.4%). All these numbers fell from the previous quarter, but the most dramatic decline came in the two lowest educational groups.

As regards age groups, the highest rate of unemployment was among the 20-24 years age group, which registered 34.4% (27.7% in the West Bank and 47.5% in the Gaza Strip; 48.4% among females and 31.6% among males). This is followed by the 15-19 years age group, with unemployment of 33.7% (31.6% in the West Bank and 39.6% in the Gaza Strip; 16.9% females and 34.6% males), and the 25-29 years age group, with unemployment of 20.8% (18.2% in the West Bank and 26.4% in the Gaza Strip; 30.7% among females and 18.3% among males).

Geographically, in the West Bank Al-Khalil (Hebron) Governorate occupied first place, with unemployment standing at 24.2%, followed by Salfit (22.1%) and Qalqilya (20.8%). In the Gaza Strip, Deir Al-Balah Governorate suffered the highest rate of unemployment (35.2%) followed by Khan Younis (34.7%).

Wages

The nominal value of the average daily wage of employees in the West Bank increased from 70.7 Shekels in the first quarter of 2005 to 71.1 Shekels in the second. The average in the third quarter of 2000 – before the Intifada - was 70.3 Shekels. The daily average in the Gaza Strip increased over the same period from 59.8 to 60.7 Shekels, having been 50.4 Shekels in the third quarter of 2000. The average daily wage of those employed in Israel and the settlements increased from 121.8 Shekels in the first quarter to 125.6 Shekels in the second quarter of 2005, up from 110.8 Shekels in September 2000.

Women in the Palestinian Labour Force

Female participation in the labour market increased from 12.2% in the first quarter of 2005 to 14.1% in the second quarter of the same year, an increase of 22 thousand women. The ratio in the West Bank increased from 14.1% to 16.3% and in the Gaza Strip from 8.6% to 9.4%.

Announcements of Job Vacancies

The number of vacant jobs' announcements in the main three national dailies, Al-Quds, Al-Ayyam and Al-Hayat Al-Jadidah, was monitored during June, July and August. The aim was to detect developments in the Palestinian labour market through comparison of the number of vacant job announcements during the same period of the previous quarter. We reiterate that vacant job announcements in the above-mentioned three national dailies do not represent all vacant jobs in the Palestinian territories during the period, as many are not advertised in the press.

Data contained in Table 1 show the distribution of vacant jobs sector-wise (public sector, private sector, and non-governmental organizations). The number of vacancies announced in the three daily newspapers was 1,442 during June, July and August 2005, compared to 1,073 jobs during the previous three months, i.e. an increase of 34%. The private sector was the biggest vacant jobs advertiser (77%), despite the fact that, unlike the public sector, no law exists that obliges it to advertise its vacant jobs in the local press.

Table 1: Number of Vacancies Announced in Main Three Newspapers, by Sector

	Public Sector	Private Sector	NGOs	Total
Jun	38	340	57	435 (30%)
Jul	51	352	80	483 (34%)
Aug	43	418	63	524 (36%)
Total	132 (9%)	1,110 (77%)	200 (14%)	1,442 (100%)

Source: MAS, collected from daily newspapers.

Table 2 presents the number of vacant jobs advertised in the three daily newspapers, distributed according to educational qualification required. 63% of the total number of announcements during the three months required Bachelor's Degrees, while 19% of advertisements requiring diploma holders. There seems to be a higher demand for intermediate educational qualifications (BA and Diplomas) than for higher and lower qualifications.

Table 2: Number of Vacancies Announced in Main Three Dailies, Distributed According to Educational Qualifications Required

	Master's and over	Bachelor's	High Sch. Diploma	Less than Diploma	Total
Jun	42	247	100	46	435
Jul	49	325	80	29	483
Aug	66	335	92	31	524
Total	157 (11%)	907 (63%)	272 (19%)	106 (7%)	1,442

Source: MAS, collected from daily newspapers.

Table 3 shows the relationship between the sector and the required educational qualification. It is noted that the demand for BAs was higher in the public sector and

non-governmental organizations (70% and 75% respectively). As for the private sector, 60% of announcements required BAs.

Similarly, the percentage of job announcements not requiring an educational qualification was very low, not exceeding 5% in the public sector, and 1% in the sector of non-governmental organizations. As for the private sector, the percentage was 9%, mostly for manual jobs and handicraft.³

Table 3: No. of Vacant Jobs Announced in Three Main Dailies, Distributed According to Sector and Educational Qualifications

	Public Sector	Private Sector	NGOs	Total
Master's and Over	12 (9%)	125 (11%)	20 (10%)	157
Bachelor's	93 (70%)	664 (60%)	150 (75%)	907
High Sch. Diploma	21 (16%)	223 (20%)	28 (14%)	272
Less than Diploma	6 (5%)	98 (9%)	2 (1%)	106
Total	132 (100%)	1110 (100%)	200 (100%)	1442

Source: MAS collected from daily newspapers

Investment

Investment represents an important component of national income in the Palestinian territories. It reached around 17% of GDP, i.e. it is a basic component of macro-demand for goods and services. Investment also plays a role in determining the size of capital accumulation, which is considered as an input of production. This means that it also affects macro-supply of goods and services. Investment levels in the Palestinian Territories are generally unstable, owing to their relation to fluctuations in businessmen's expectations which are closely linked to unpredictable security and political developments on the ground.

Investment trends in the Palestinian territories can be monitored through building indicators, the registration of new companies, and projects benefiting from Investment Encouragement Law. Investments of the Palestinian National Authority which are of a commercial character will be monitored through the activities of the Palestinian Investment Fund.

Building Permits

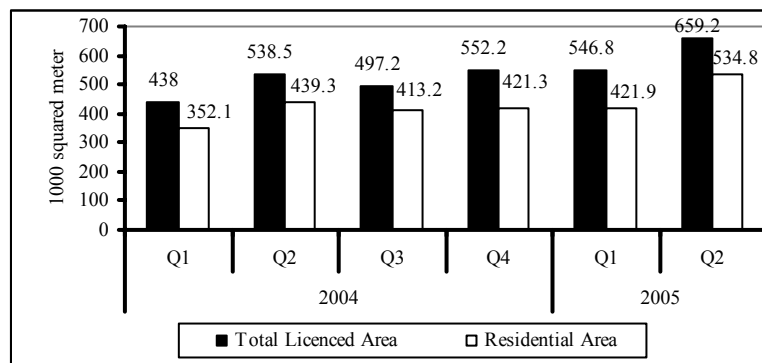
In order to negate seasonal factors which affect the construction sector (the natural reduction in the number of permits applied for in the winter), we compare the second quarter of 2005 to the same quarter in 2004. Data from the Palestinian Central Bureau

³ In reality the ratio would be higher than 9%. The number of vacancies is not indicated in announcements such as those stating "Required: a number of cleaners" which do not specify the required number.

of Statistics indicate a noticeable improvement of 17.4% in the number of construction permits issued, to reach 1,592 permits, 911 of them (57.2%) for new buildings.

The permits represent an area of 659.2 thousand square meters, an increase of 22.4% over the same quarter in the previous year. 81.1% of the buildings are for housing and 18.9% for non-dwelling purposes. This is a 25.8% increase in the area for housing and a 7.4% in buildings for other purposes. Much of the increase can be attributed to the optimism connected to the Gaza Strip disengagement plan.

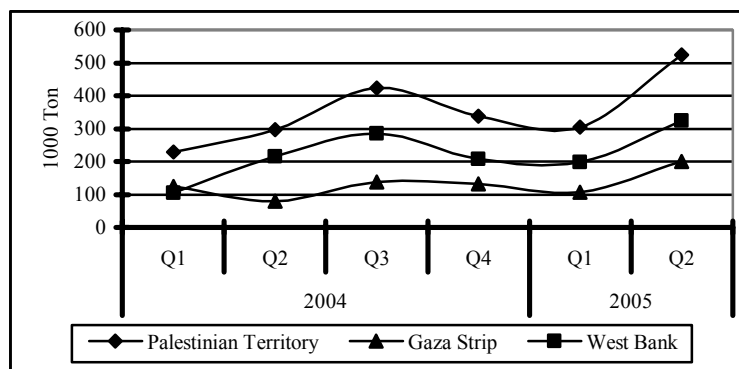
Figure 4: Total Licensed Building Area, and Area Devoted to Housing Purposes in Palestinian Territories



Source: Palestinian Central Bureau of Statistics; Building Permits Statistics for 2005

The increase in the number of building permits was accompanied by a 77% increase in the quantity of cement imported during the second quarter of 2005 compared to the same quarter in the previous year. The total amounted to 523.6 thousand tons, 38% of it for Gaza and 62% for the West Bank. This is a 148% increase for Gaza (and 50% for the West Bank), a figure which also reflects the optimism generated by the disengagement plan.

Figure 5: Quantity of Cement Imported to Palestinian Territories



Source: Palestinian Central Bureau of Statistics; Imported Cement Statistics, 2005

Projects Benefiting from the Investment Promotion Law

The Investment Promotion Law, which was adopted in 1995 and amended in 1998, grants privileges to investors regardless of their nationality. These include tax exemption for a period of five years, other exceptional exemptions for projects with 25% or more of their output destined for export, protection of investor property, and guaranteed freedom of capital movement.

The Board of the Investment Promotion Agency held three sessions in 2005 to discuss applications for privileges provided by the Law. Data indicate a decrease from 6 to 3 in the number of projects benefiting from the Law during the second quarter of 2005 – two of them in the West Bank and one in the Gaza Strip. The amount of capital allotted for those projects also decreased by 50%, from nearly US\$2 million to around US\$1 million. It is worth noting that very few agricultural sector projects benefit from the Law, a situation which ought to be changed given the particular damage the occupation has done to the sector.

Table 4: Companies and Projects Benefiting from the Investment Promotion Law in West Bank and Gaza Strip during 2005

West Bank						
Sector	March			June		
	Local	Foreign	Capital (\$)	Local	Foreign	Capital (\$)
Industry	1	0	325769	2	0	792247
Service	1	0	158391	0	0	0
Health	2	0	854455	0	0	0
Agriculture	0	0	0	0	0	0
Total	4	0	1338615	2	0	792247
Gaza Strip						
Industry	2	0	666988	1	0	226364
Service	0	0	0	0	0	0
Health	0	0	0	0	0	0
Agriculture	0	0	0	0	0	0
Total	2	0	666988	1	0	226364
Grand total	6	0	2005603	3	0	1018611

Source: Investment Promotion Agency, 2005

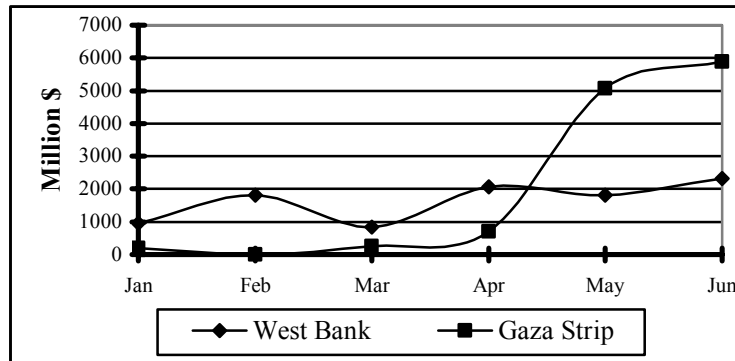
Company Registration

The Companies Law requires that any company wishing to enter the Palestinian market should be registered. Data from the Ministry of National Economy indicated a 23.8% increase in the number of newly-registered companies in the Palestinian territories as a whole in the second quarter of 2005 compared to the previous quarter. This amounted to 375 companies – 236 in the West Bank and 139 in the Gaza Strip. A small decrease in the West Bank (4.8%) was matched by a massive increase of 152.7% in the Gaza Strip.

This rise in the number of new companies was accompanied by a huge increase in the amount of capital invested in the Palestinian territories, rising 337% during the second quarter of 2005 compared to the previous quarter. It amounted to US\$17.8 million, with Gaza Strip having the biggest share (64.4% against 34.6 % for the West Bank).

This was an increase of 2,438% in the Gaza Strip and 70.7% in the West Bank, as shown in Figure 6. These figures reflect optimism amongst investors that the business environment will improve, especially in the wake of the disengagement plan.

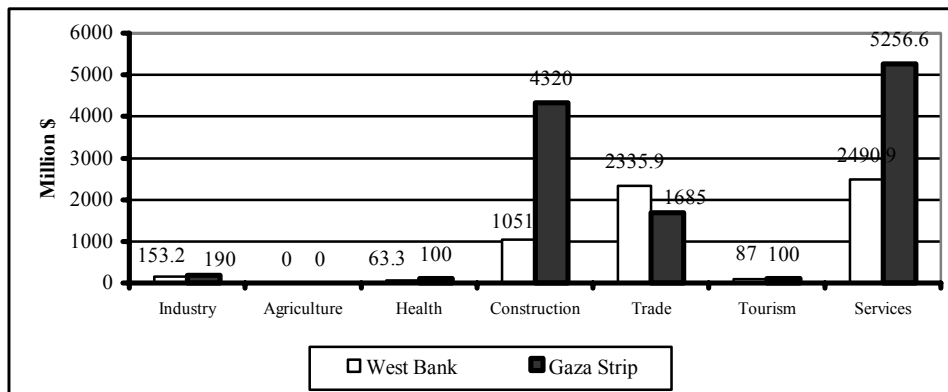
Figure 6: Capital of Newly-Registered Companies in West Bank and Gaza Strip, January – June 2005



Source: Ministry of National Economy, Company Registration Dept., 2005

Figure 7 shows the distribution of new investment by sector, with capital increasing in the construction, commerce and services sectors. The share of services in the Gaza Strip was 45%, construction 37% and commerce 14.5%. In the West Bank the share of services was 40.3%, commerce 37.8% and construction 17%. The tourism, health and industry sectors received a small percentage of private sector investments, and the agricultural sector received none at all.

Figure 7: Capital of Newly-Registered Companies in West Bank and Gaza Strip by Sector During Second Quarter 2005



Source: Ministry of National Economy, Company Registration Dept., 2005

Palestinian Investment Fund

The Palestinian Investment Fund was created on 17th March 2003, following a decision of the President published in October 2000. The Fund is a public company with a capital of US\$500 million, later increased to US\$574 million. However, the only shareholder in this company is the Palestinian National Authority. The aim of the Fund is to manage the commercial investments of the Authority. All assets of the Authority were put under the management of the Fund, and the process of transferring

the assets of the Palestinian Commercial Services Company to the Fund is still in progress.

Data from the Fund indicate that its holdings increased by 34.0% during the second quarter of 2005 to total US\$1.362 billion. The biggest increase was in investments available for sale, which was 135.7%, followed by money in possession of the Fund and in banks, and amounting to 85.9%. At the same time the liabilities of the Fund increased by 19.5%, slightly less than the increase in assets. The difference in the increase in assets and liabilities led to a 35.3% increase in equity to reach around US\$1.291 billion (The Palestinian Investment Fund, Auditors' Report, March 2005).

The General Budget reflects a tangible improvement in the Fund's investments during the second quarter of 2005. These are divided between investments available for sale, investments in allied and dependent companies, and investments in real estate and loans. These investments total around US\$1.115 billion, 37.4% more than the previous quarter (Palestinian Investment Fund, Auditors' Report, March 2005).

Public Finance

Available monthly statements regarding the financial performance of the Palestinian National Authority indicate a noticeable improvement in total local revenues during the second quarter of 2005, compared both to the first quarter of the same year and the same period during 2004. Although it is still too early to judge the financial performance for the year, it seems clear from indicators from the first half of the year that, in the absence of surprises and unexpected events, revenue figures will exceed those projected in the draft General Budget. The opposite will be true of expenditure figures, which will contribute to lowering the budget deficit from what had been expected.

Local Revenue

Net local revenue during the second quarter of 2005 amounted to US\$340.3 million, 28.7% more than expected in the budget, 34.8% more than the first quarter of the year, and 56.7% higher than the same period in 2004.⁴ This increase was due to increased local revenue collection, taxable and non taxable, and a smaller increase in clearing revenue. (For further information see Table 3 in the Annex).

Fees and charges for government services increased to nearly US\$152.1 million, 53.7% more than projected in the budget, 76.2% more than the first quarter of the same year, and 87.2% more than the same period in 2004. This constituted 44.4% of gross local revenue.

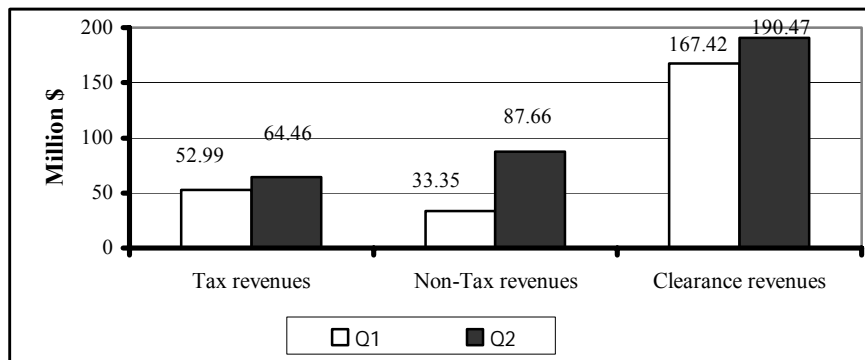
The increase is the result of reforms introduced in tax administration and the application of the new income tax law during the second quarter. The new law resulted in increasing tax revenue to US\$64.5 million, up by 21.7% compared to the first quarter and by 30.5% compared to the same period in 2004. The revenue from fees, permits and investment profits increased 162.9% compared to the first quarter of

⁴ Excluded from this are tax returns amounting to US\$1.5 million during the second quarter, which increased 8.6% compared to the first quarter of the same year.

2005, amounting to nearly US\$87.7 million, or 57.6% of local revenue collection, compared to 38.6% in the first quarter.

Clearance revenue amounted to US\$190.5 million during the second quarter of 2005, 15.1% more than the projected figures in the budget and 36.7% more than the same period in 2004. (See Figure 8)

Figure 8: Local Revenue During First and Second Quarters 2005



Source: Ministry of Finance Website

This review of revenue indicators shows that the total net revenue obtained during the first and second quarters of the year represents 56.1% of the yearly figures projected in the budget (59.5% for local revenue collection and 54.1% for clearing revenue). If this performance continues during the second half of the year in the same manner as the first half, the total raised by the end of the year will be US\$1.186.9 billion, an increase of 12.2% over the projected figures in the draft budget.

Public Expenditure

Increased demand for government services due to population growth and the unstable political situation, in addition to the newly created social welfare item in the budget, led to an increase in spending pressure on the treasury. Public expenditure increased to US\$498.9 million during the second quarter of 2005, 31.7% more than in the first quarter and 39.8% than in the same period in 2004. Despite that, expenditure remains 10.5% less than the quarterly figures projected in the budget.

Although current expenditure amounted to nearly US\$485.4 million, or 97.2% of the total, it is still 1.0% lower than the figure projected in the budget. There is a concerted effort to limit spending, especially on wages and salaries which represent almost half (48.6%) of current expenditure. At \$235.8 million this item was only 0.5% higher than the projected figure in the budget, (0.1% higher than in the first quarter of the year and 9.5% higher than in the same period in 2004).

Civilian salaries totalled US\$149.2 million, 63.3% of the total wage bill and 1.1% more than in the first quarter of the year. Military salaries cost US\$86.5 million, 1.7% less than in the previous quarter. Compared to the same quarter of the previous year these figures are 12.1% and 5.2% higher respectively.

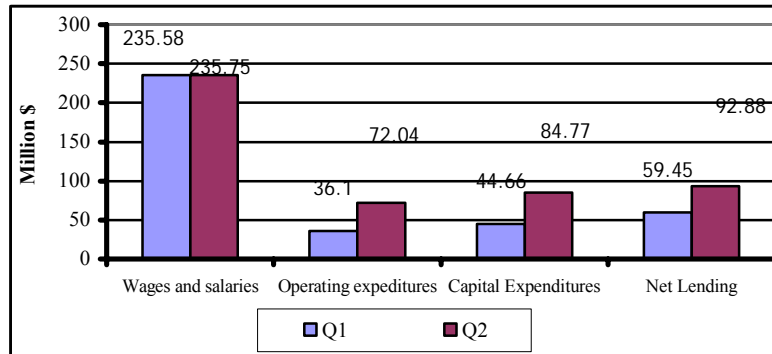
Operational expenditure totalled US\$72.0 during the second quarter, the equivalent of 14.8% of current expenditure and 14.4% of public expenditure. This is an increase of 18.0% compared to projected figures in the budget, 99.6% compared to the first quarter of the same year, and 75.6% compared to the same period in 2004. In contrast, government transfers were lower than figures projected in the budget by 48.8%, despite the fact that they increased by 82.2% compared to the first quarter of the same year and 46.8% compared to the same period in 2004 to be US\$81.2 million (16.7% of current expenditure; 16.3% of public expenditure). This is down to the effect of spending on the Social Welfare Fund.

Ordinary capital expenditure, which did not exceed US\$3.6 million, was below figures projected in the budget by 42.7%. Despite the low value of this expenditure, however, it is 85.5% higher than in the same period in 2004.

Expenditure for the net loan item⁵ amounted to US\$92.9 million (19.1% of current expenditure; 18.6% of public expenditure), which was 185.8% higher than the figures projected in the budget, 56.2% up from the first quarter of the year, and 145.1% more than the same period in 2004.

Developmental expenditure funded by the Treasury amounted to US\$13.5 million in the second quarter, registering an increase of 327.2% compared to the first quarter of the year and 106.4% compared to the same period in 2004. However, it remained 79.9% lower than the amount projected in the budget (see Figure 9).

Figure 9: Public Expenditure during First and Second Quarters, 2005



Source: Ministry of Finance Website

In general, public expenditure indicators for the first and second quarters represented 39.4% of the annual figures projected in the budget (43.9% for current expenditure, and 6.2% for developmental expenditure). Should government performance continue in the second half of the year in the same manner, the total annual expenditure required from the government will be within the limits of US\$1,755.9 million (US\$1,722.6 million for current expenditure and US\$33.3 million for developmental expenditure). This represents a 21.3% decrease from figures projected in the budget (12.2% for current expenditure and 87.6% for developmental expenditures).

⁵ This represents sums transferred by the Treasury directly to the Electricity Generating and Distributing Company in Gaza to settle money required from local authorities, and sums directly transferred by the Treasury to the Israeli Electricity Company through deductions from funds due to The Palestinian National Authority held by Israel.

Budget Deficit

The budget deficit amounted to US\$158.7 million during the second quarter. Despite it being 25.3% higher than the first quarter and 12.7% more the same period in 2004, it remained 45.8% lower than annual figures projected in the budget. The actual deficit accumulated during the first and second quarters of the year amounted to US\$285.3 million, 24.4% of the annual deficit projected in the budget. If the situation continues, the year-end deficit will be about US\$570.6 million, 51.2% less than projected in the budget.

Financing

To fund the deficit during the second quarter the government depended on both foreign and internal sources. Foreign grants and aid totalled US\$176.5 million; US\$94.1 million from Arab states (Algeria US\$77.7 million; Saudi Arabia US\$15.4 million; Egypt US\$1 million) and US\$82.4 million from other sources (Aid Fund managed by the World Bank US\$74.2 million; Emergency Programme/World Bank US\$7.8 million; Greece US\$0.4 million). The Government was also able to assure US\$64.1 million from internal sources, which were used to finance some of the arrears.

Consequently, the total internal and external funding obtained by the Government amounted to US\$158.7 million during the second quarter, an increase of 26.3% compared to the first quarter of the same year and 12.7% compared to the same period in 2004. This is 45.8% lower than the annual figures projected in the budget, but completely funds the deficit.

The total funding obtained during the first two quarters amounted to US\$473.3 million (US\$247.6 million of it from external aid). If the situation continues the figure will reach US\$946.6 million by the end of the year, 19.2% less than the projected annual funding in the budget.

Banking in Palestine

Number of Banks and Branches

No change occurred in the number of banks operating in Palestine during the second quarter of 2005, which remained at 22, but 2 more branches were opened. This brings the total to 137, 99 of them operating in the northern governorates and 38 in the southern (see Table 5).

Table 5: Number of Banks and their Branches Operating in Palestine During First and Second Quarters 2005

Period	District	Administration			No. of Branches		
		Public	Regional	Total	Public	Regional	Total
Q1	Northern Districts	8	11	19	40	57	97
	Southern Districts	2	1	3	22	16	38
	Total	10	12	22	62	73	135
Q2	Northern Districts	8	11	19	42	57	99

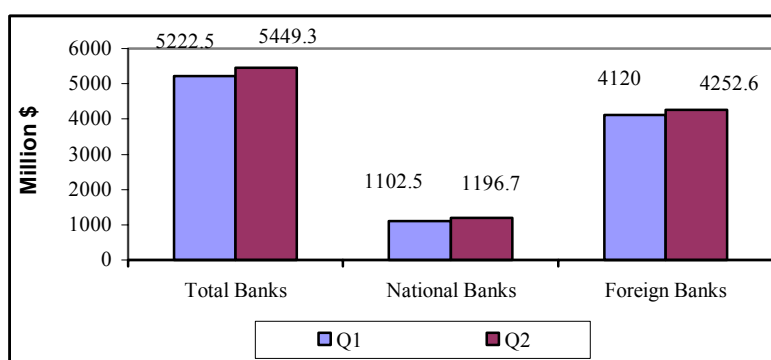
Southern Districts	2	1	3	22	16	38
Total	10	12	22	64	73	137

Source: Palestinian Monetary Authority, Unpublished Information

Assets and Liabilities

Total assets and liabilities of banks operating in Palestine increased by US\$226.8 million during the second quarter of 2005 to reach US\$5,449.3 million. The assets of national banks increased by US\$94 million, to reach US\$1,196.5 million, and those of foreign banks rose by US\$132.6 million to total US\$4,252.6 million (see Figure 10).

Figure 10: Bank Assets During First and Second Quarters, 2005

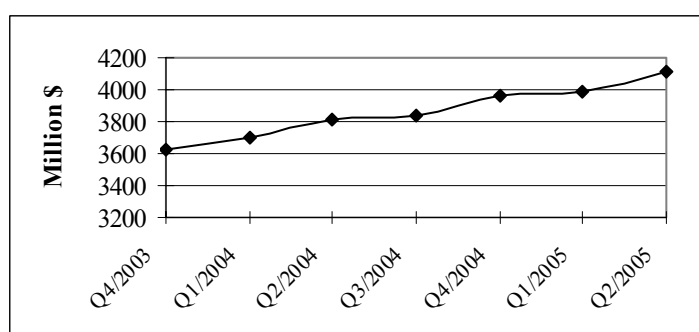


Source: Palestinian Monetary Authority, Monthly Statistical Bulletins

Deposits

Total bank deposits totalled around US\$4,609 million during the second quarter of 2005, an increase of 3.7% compared to the first quarter. They were distributed 20.2% in national banks and 79.8% in foreign banks. 88% of these were client deposits (up 3% to amount to US\$4,114.4 million), a slightly higher proportion of which (80.4%) were deposited in foreign banks (see Figure 11).

Figure 11: Client Deposits Trends during Period 2003 – 2005



Source: Palestinian Monetary Authority, Monthly Statistical Bulletin, Different Issues.

Geographic Distribution of Client Deposits⁶

Data from banks indicated a 12.3% increase in client deposits in the southern governorates during the second quarter of 2005, which amounted to US\$1,069.4

⁶ Includes deposits of both the public and private sectors

million. Deposits in the northern governorates rose fractionally during the same period to US\$3,045 million, 0.2% higher than the first quarter. This meant that the southern governorates' share of total client deposits increased from 23.8% to 26.0%, while the northern governorates' contribution decreased from 76.2% to 74.0%. (See Table 4 in Statistical Annexe).

Distribution of Client Deposits According to Depositing Party

Public sector deposits registered a noticeable increase during the second quarter of 2005 to reach US\$107.5 million, up 23.3% compared to the first quarter. Meanwhile, deposits by the private sector increased by US\$14.3 million, a 0.4% increase.

Distribution of Client Deposits According to Type of Deposit

Current deposits during the second quarter of 2005 amounted to around US\$1,513.7 million, an increase of US\$100.4 million or 7.1% from the first quarter. Savings deposits increased by 2.0%, amounting to US\$796 million, and time deposits increased by 0.3% to amount to US\$1,804 million. The decrease of the relative importance of the latter can be explained by two things: the first is the continued increase in prices, which prompts depositors to transfer time deposits into savings or current deposits so that the money may be more readily spent; the second is low international interest rates, which make other investments more attractive than banks.

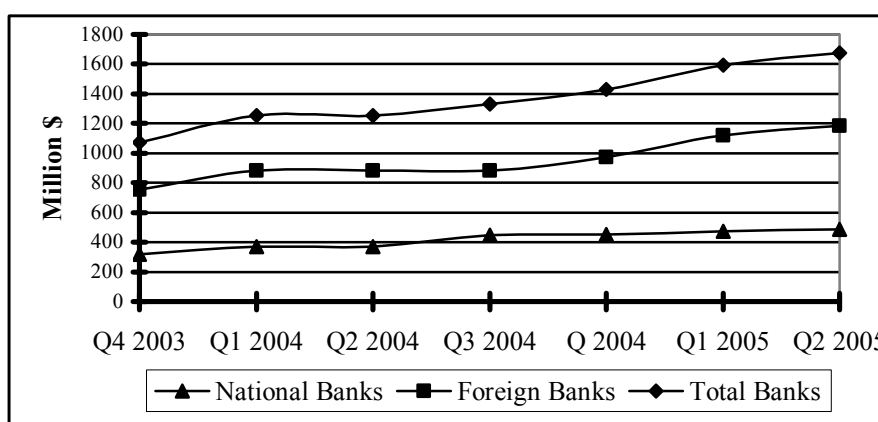
Distribution of Client Deposits According to Type of Currency

A review of the structure of client deposits according to type of currency indicates that the different currencies maintained their general order. The US Dollar dominated with 56.8% of deposits, followed by the Jordanian Dinar with 23.9% and the Israeli Shekel with 15.2%. Other currencies accounted for 4.1%. (See Table 4 in Statistical Annexe).

Credit Facilities

Credit facilities maintained their ascending trend since the fourth quarter of 2003. They increased by 4.8% during the second quarter of 2005, amounting to US\$1,673.2 million. US\$488 million was from national banks (up 3.4% from the first quarter) and US\$1,185.2 million was granted by foreign banks (up 5.8%) (see Figure 12).

Figure 12: Credit Facilities Provided by Banks Operating in Palestine



Source: Palestinian Monetary Authority, Monthly Statistical Bulletin, Different Issues.

Northern provinces accounted for 63.9% of total credit facilities in the second quarter, fractionally less than the 64.0% in the first quarter. The public sector borrowed US\$568.9 million and the private sector US\$1,104.4 million; 34% and 66% of the total credits respectively.

Credit in Dollars constituted 71.7% of the total amount of credits, followed by credits in Shekels with 15.8% and Dinars with 11.8%. Broken down by type of credit, the biggest part was overdrafts with 55.7% of total credits followed by loans with 43.5%. Credits granted in the form of rent funding (0.5%), and bankers' drafts and draft bills discounted according to their previous rates (0.3%) maintained their previous share.

Regarding the distribution of the credit portfolio by economic sectors, including credits granted to the public sector, credit granted to general trade represented 19.2%, credit granted to the construction sector increased to 10.1%, credit to services and public utilities represented 9.8% and credit granted to industry and metallurgy represented 5.9%. (For further details see Table 5 in Statistical Annexe).

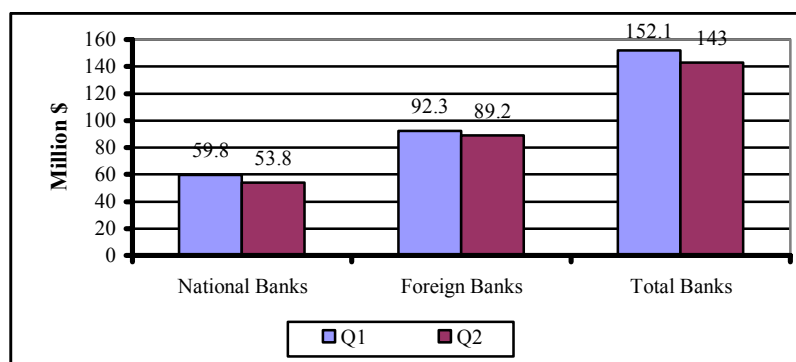
Non-Performing Debts

According to the instructions of the Palestinian Monetary Authority, non-performing debts are to be classified as follows, after putting aside accepted guarantees and outstanding interest:

- **Special Mention Debts:** These are debts outstanding for a period of one to three months which have not been settled. No fees are to be levied on them.
- **Substandard Debts:** These are outstanding debts that have not been settled for a period of 3 to 6 months, and fees of 20% should be levied on them.
- **Doubtful Debts:** These are outstanding debts that have not been settled during 6 to 12 months. 50% fees are to be levied on those loans.
- **Debts classified as losses:** These are outstanding debts that have not been settled for 12 months. A fee of 100% should be levied on those debts.

The total amount of debts subject to fees during the second quarter of 2005 was nearly US\$143 million, 6.0% less than the first quarter. National banks' share was 37.6% of the total, compared to 39.3% during the first quarter (See Figure 13).

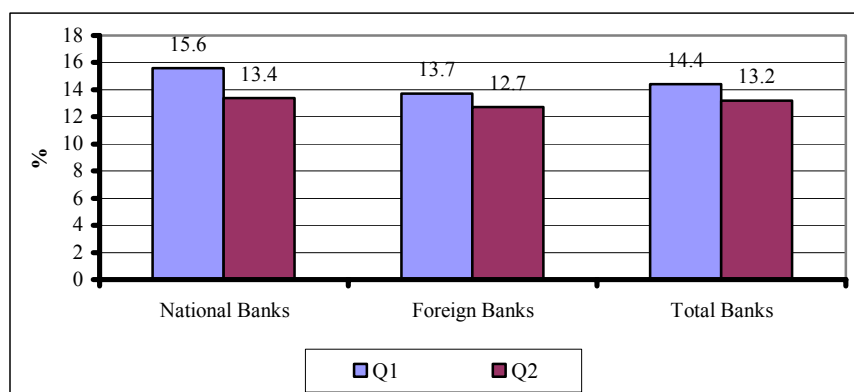
Figure 13: Distribution of Debts Subject to Fees for Banks Operating in Palestine, First and Second Quarters, 2005



Source: Palestinian Monetary Authority, Unpublished Data

The ratio of debts subject to fees to total credit facilities granted to the private sector⁷ by banks decreased during the second quarter of 2005 to nearly 13.2% compared to 14.4% during the first quarter. For national banks the figure was 13.4%, compared to 15.6% during the first quarter, while for foreign banks it was 12.7%, compared to 13.7% during the first 3 months of the year. (See Figure 14).

Figure 14: Percentage of Debts Subject to Fees of Total Private Sector Credit During the First and Second Quarters, 2005

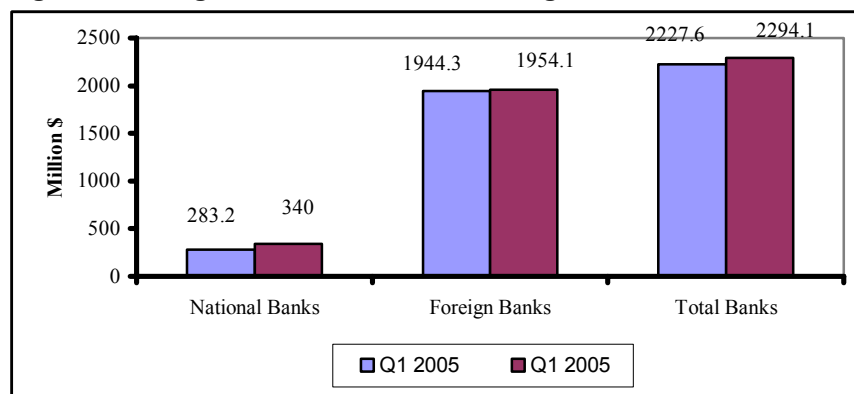


Source: Palestinian Monetary Authority, Unpublished Information

Foreign Deposits of Banks

Foreign deposits of national and foreign banks amounted to \$2,294.1 million at the end of the second quarter of 2005, an increase of 3% compared to the first quarter. They represented 49.8% of the total value of deposits, as against 50.2% for internal investment. It is worth mentioning that internal usage of deposits outstripped foreign investments by banks operating in Palestine for the first time during the second quarter. Foreign investments were 36.6% for national banks and 53.1% for foreign banks. It is to be noted that despite the much smaller amount of such investments by national banks compared to foreign banks, the ratio of increase in the volume of foreign investments by national banks is higher than that of foreign banks. The ratio of increase in foreign deposits of national banks was around 20%, while that of foreign banks was around 0.5% (See Figure 15).

Figure 15: Foreign Investments of Banks during First and Second Quarters



Source: Palestinian Monetary Authority, Monthly Statistical Bulletin, Different Issues

⁷ It is to be noted that credits granted to the public sector have no fees levied on them

Equity

Equity of banks operating in Palestine during the second quarter of 2005 registered an increase amounting to US\$59.6 million (16%) compared to the first quarter of the same year. The increase was mainly due to an increase in reserves of re-evaluation by nearly US\$23.9 million, in addition to an increase in the paid capital of national banks by US\$8.6 million. The final results of banking activities in Palestine also witnessed a noticeable improvement during the second quarter. Current bank profits amounted to nearly US\$55.2 million, an increase of 55.6% compared to the first quarter. (See Table 6 in Annexe).

Capital Sufficiency

Capital sufficiency norms show the ability of banks to meet expected and unexpected risks that their resources, especially deposits, may be exposed to. This indicator is calculated by dividing bank equity by total bank assets. The capital sufficiency of all national banks during the second quarter of 2005 was 12.9%, compared to 10.9% during the first quarter. The Palestinian Monetary Authority sets minimum capital sufficiency requirements at 10% for commercial banks and 12% for other banks.

Credit Allocations to Total Credit Facilities

This indicator represents sums allocated by banks to meet credit risks, which are transferred to the profit and loss account, related to total credit facilities. The low rate of credit facilities' allocations to credit facilities in the second quarter of 2005 is to be noted. They were 8.0% compared to 8.9% for the first quarter, a fact that indicates an improvement of the portfolio. Decline of this indicator eventually leads to an increase in the volume of liquidity available to banks for use in different ways.

Private Sector Credit Facilities to Private Sector Deposits

This indicator tended to decline during the period 2000 – 2003, which reveals a tendency by banks to strengthen their liquidity position and be reserved in granting credits. However, during the period 2004 - 2005 the indicator has been rising, with the ratio increasing to 30.6% compared to 30.0% during the first quarter. This can be attributed to the relative stability of the political and security situation in the Palestinian territories compared to the first three years of the Intifada (see Table 5 in Annexe).

Credit Facilities to Client Deposits

Having declined between 2000 and 2002, since 2003 this indicator has been in the ascendancy. It rose from 29.6% in 2003 to 36.9% in 2004, and reached 39.9% and 40.7% during the first two quarters of 2005. It has therefore finally passed the minimum level projected by the Palestinian Monetary Authority, which is 40%.

Foreign Investments to Total Deposits

Prompted by the desire that banks operating in Palestine should invest the biggest part of their money internally, and be encouraged to reduce the rate of investments abroad, Monetary Authority instructions require that banks' maximum foreign investments should not exceed 65% of total investments. The actual rate decreased to 49.4% during the second quarter of 2005 from 50.1% during the first quarter.

Table 6: Indicators of Bank Performance during 2000 – 2005

Indicator	2000	2001	2002	2003	2004	2005	
						Q1	Q2
Capital adequacy for national banks (%)	12.9	11.6	11.3	9.1	10.2	10.9	12.9
Credit Allowances/Credits (%)	4.5	6.9	10.9	13.4	11.3	8.9	8
Credit to the private sector/ Private Sector Deposits (%)	28.1	26.7	25.9	24.9	29.1	30.0	30.6
Credit/ Deposits (%)	32.7	30.8	25.7	25.9	32.8	35.8	36.3
Credit/ Deposits from Customers (%)	38.5	35.7	27.9	29.6	36.9	39.9	40.7
Balances with Banks abroad/ Customer deposits (%)	61.5	64	67.7	62.5	58.9	55.8	55.4
Balances with Banks abroad/ Total deposits (%)	52.3	54.7	61.3	55.4	53.5	50.1	49.4

Source: Palestinian Monetary Authority, Unpublished Data

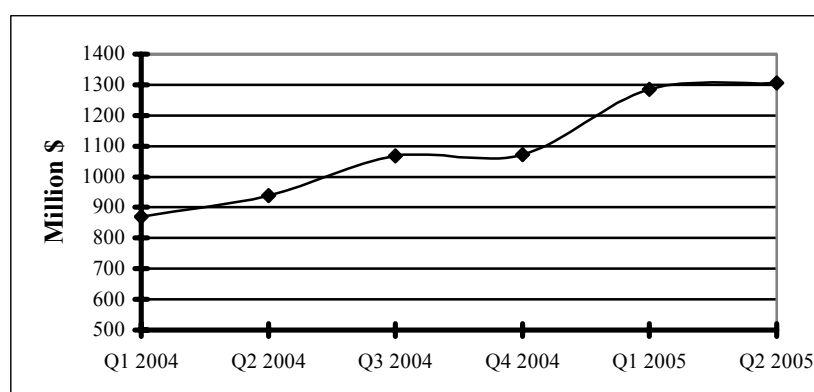
Activities of Clearing Houses

The second quarter of 2005 witnessed noticeable improvements in the clearing of cheques and transfers between banks that were presented to clearing houses. The number and value of cheques and drafts presented for clearing increased, while the number of returned cheques decreased.

Cheques Presented for Clearing

581,951 cheques were presented for clearing at the Palestinian clearing houses during the second quarter of 2005, an increase of 18.8% compared to the first quarter. The total value of the cheques was the equivalent of US\$1,305.4 million, an increase of 1.6% from the first quarter. This reflects an improvement in economic activity during this period. (See Figure 16).

Figure 16: Value of Cheques Presented for Clearing During 2004 – 2005



Source: Palestinian Monetary Authority, Monthly Statistical Bulletin, Different issues.

Returned (Bounced) Cheques

There are two reasons for returning cheques presented to clearing houses: First, technical and administrative mistakes that may be related to the signature on the cheque, or possibly made by those dealing with the cheques; second, financial

reasons, such as lack of sufficient funds in the account. Cheques returned for financial reasons are more common than the other types of returned cheques, and also more important to monitor. However, due to non-classification of returned cheques they are dealt with as one item. (See Table 7).

Table 7: Number and Value of Cheques Presented for Clearing during Period of First and Second Quarters 2004 – 2005

Period	Cheques submitted for Clearing		Bounced Cheques		Bounced cheques/ Cheques submitted for clearance	
	No. of Cheques	Value (Million \$)	No. of Cheques	Value (Million \$)	No. (%)	Value (%)
Q1 2004	392,225	868.9	57,150	68.1	14.6	7.8
Q2 2004	429,038	939.1	55,548	67.9	12.9	7.2
Q3 2004	491,311	1068.4	63,824	81.0	13.0	7.6
Q4 2004	492,838	1073.2	78,118	97.0	15.9	9.0
Q1 2005	492,608	1233.7	70,550	84.0	14.3	6.8
Q2 2005	541,787	1308.4	68,583	79.7	12.7	6.1

Source: Palestinian Monetary Authority, Statistical Monthly Bulletin, Different Issues.

The total number of returned cheques during the second quarter of 2005 was 68,583, a decrease of 2.8% compared to the first quarter. Returned cheques constituted 12.7% of all cheques presented for clearing, compared with 14.3% during the first quarter. The value of such cheques declined from US\$84.0 million to US\$79.7 million.

Despite the decrease in the number of returned cheques, it still represents a troublesome phenomenon for the Palestinian banking system. On comparing, for example, the ratio of returned cheques in Palestine and Jordan we notice that the ratio in Palestine is much higher. The ratio of returned cheques to the total number of cheques presented for clearing in Jordan⁸ was 3% during the second quarter of 2005, less than a quarter of Palestine's. The ratio of the value of returned cheques to the total of cheques presented for clearing in Jordan during the same period was 2.6%, compared to 6.1% in Palestine.

Change and Spread of Currencies' Exchange Rates

The difference between the price of selling and buying a currency when exchanging it for another currency is known as the margin or spread, and the term PIP (Price Interest Point) is used for measuring that margin. The PIP depends on the size of the transaction; the more money that is exchanged at one time, the lower it becomes.

The exchange rate of the US dollar against the Shekel increased to 4.51 on 30/8/2005, compared to 4.34 on 9/5/2005, i.e. an increase of 3.9%. But it was noted that the margin rate was higher on 30/8/2005 compared to 9/5/2005, during the previous quarterly issue of the Monitor, especially at exchange bureaus. At such establishments it rose to 0.85% on 30/8/2005, from 0.15% on 9/5/2005. In Palestinian banks, the margin rate decreased to 0.88% from 1.00% on 9/5/2005. At the same time the margin

⁸ <http://uploads.batelco.jo/cbj/uploads/chk.xls>

at Israeli banks remained stable during the two periods, and at 5% significantly higher. (See Table 7 in Annexe).

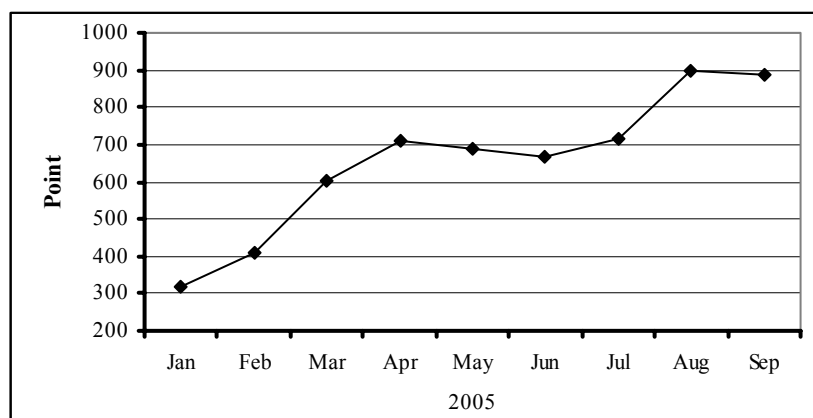
The exchange rate of the Jordanian Dinar against the Shekel increased on 30/8/2005, to reach 6.38 in the Palestinian territories and 6.18 in Israel, compared to 6.18 and 5.99 respectively, on 7/6/2005. As for the margin in the Palestinian territories, it was higher at exchange bureaus (60 PIP), compared to Palestinian Banks and the informal exchange sector (56.6 PIP) (See Table 8 in Annexe). In Israel, however, the margin reached 483 PIP, which reflects the lower level of competition with regard to exchanging Jordanian Dinars in the Israeli market compared to the Palestinian.

As for the Euro, the margin of its exchange rate against the Shekel in the Palestinian territories increased (2.5%) compared to the amount of margin for the Dollar and Jordanian Dinar against the Shekel, which did not exceed 0.68% and 0.90% respectively (See Table 9 in Annexe). In Israel, the margin level for the Euro against the Shekel reached 5.12%, roughly the same as for the exchange rate of the US Dollar against the Shekel (5.0%). The lower margins in the Palestinian territories indicate that the exchange markets are more effective compared to Israel, with low transaction costs and a high level of competition.

Palestine Stock Exchange

The Palestine Stock Exchange experienced unprecedented levels of trading. The Jerusalem index rose to 885.42 at the end of the third quarter of 2005, an increase of 32.2% from the end of the second quarter of 2005. The value of traded shares during the third quarter reached US\$472.7 million, compared to US\$357.5 million during the second quarter, and the number of traded shares reached 87.4 million, compared to 63.2 million during the second quarter. As regards the number of transactions, they increased to 43,633 during the third quarter of 2005 from 30,973 during the second quarter, i.e. an increase of 40.8%. The positive change in these indicators reflects the confidence of investors in the investment environment and in the future of the Palestinian economy. (See Figure 17).

Figure 17: The Jerusalem Index



Source: Palestine Stock Exchange Website, www.p-s-e.com

In an effort to encourage trading and expand the number of participants the Stock Exchange introduced several changes, among them:

- Lowering trading commission from 1% to 0.75%.
- Dividing companies to two tiers. This system aims at encouraging small companies to enter the Palestine Stock Exchange through the second tier, where the registration fees are lower and conditions of registration are simpler. Operation in accordance with this system started on 15/7/2005.
- Starting the application of a package of market regulations; this includes four regulations that were previously enforced and were amended to conform to modern standards, in addition to the application of systems of declaration and settlement of disputes.

The Ministry of Finance of the Palestinian National Authority also appointed a director for the Stock Exchange Commission. The Commission and concerned parties started applying the Commission's law no. 13 and law no. 14 of 2004 concerning securities.

Interest Rate Margin for Main Currencies in Circulation

Due to the non-existence of a national Palestinian currency, and the Authority's dependence on funds deposited in commercial banks, its ability is limited in applying traditional means to influence interest rates through a rediscount rate policy or open market operations. The Monetary Authority can only influence interest rates through indirect instruments in order to influence the capability of banks to extend credit. Decreasing the obligatory reserve for deposits reduces the cost of such deposits, leading to decreasing interest rates and increased possibilities for creating credit.

In this regard, the Monetary Authority adopted a policy of non-intervention directly in setting interest rates, and left that for banks. That was stated by circular No. 51/98, issued on 24/8/1998 (and in circular No. 103, dated 31/7/2001), which stipulates the application of optional measures of reducing commission and interest on credit facilities. Banks, however, have continually attracted deposits and invested most of them abroad. They have stuck to high interest rates on loans and credits and low interest rates on deposits, despite the decline in interest rates on the Shekel and Dollar. The margin between lending interest and borrowing interest, especially for the Shekel and Dollar, was noticeably high. On comparing the interest margin for the three currencies in circulation in Palestine and the countries of those currencies, we notice the following: (For further information see Table 10 in Statistical Annexe)

- 1- Interest on deposits in Palestine is lower than interest in those countries.
- 2- Interest on credit facilities in Palestine is higher than interest in those countries.
- 3- The interest margin (the difference between interest on credit facilities and interest on deposits) is higher than in those countries.
- 4- The interest margin of the Dinar in Palestine has been the lowest of the three main currencies, and was close to the interest margin for the Dinar in Jordan during the period 2002 –2004. However, a big increase was noted during the first and second quarters of 2005, where it reached 7.48% and 7.28% in Palestine compared to 4.78% and 2.90% in Jordan during the same period.
- 5- The interest margin of the Dollar in Palestine was very high. It ranged between 5.15% and 7.28% during the period 2002 and the second quarter 2005, while in the USA it ranged between 2.61% and 2.95% during the same period.

- 6- The interest margin for the Shekel was the highest of all. It ranged between 9.40% and 11.87% during the period 2002 until the second quarter 2005, while it was 2.9% and 3.1% in Israel during the same period. When the Bank of Israel reduced the interest rate, banks operating in the Palestinian territories lowered their interest rates for Shekel deposits but did not lower interest rates for credit facilities in the currency.

High interest margins reflect many negative indications including an absence of real competition in the banking sector, its high operational costs and the high degree of credit risk resulting from the instability of the political and economic situation in the Palestinian territories. There is a difficulty in providing collateral, especially by small borrowers, in large part owing to inadequate land registration. Furthermore, the high margin reflects a lack of knowledge by depositors and borrowers; increased banking consciousness leads to improved negotiating abilities, increasing pressure on banks to lower interest rates on loans.

High interests on loans lead to lower demand for borrowing, but it seems that such a situation does not trouble banks. There are two reasons for this: first, and most important, is the availability of investment opportunities for deposits outside the Palestinian territories, as banks invest US\$2.47 billion dollars of client deposits abroad. Second, the low cost of deposits reduces bank obligations towards depositors.

Financial and Insurance Sector

45 institutions were engaged in the Palestinian financial sector during 2004, 36 of them banks and financial establishments, and 9 insurance companies (see Table 8). The number of employees in those establishments was 4,484; 3,737 of them in banks and financial establishments. Remuneration of employees amounted to US\$65.2 million, US\$57.0 million for employees in banks and financial establishments. The value of production of financial intermediary establishments increased by 5.7% to reach US\$194.3 million, compared to US\$183.7 million in 2003. The value of bank and financial establishments' services was US\$160.3 million and of insurance companies' was US\$34.0 million. As for intermediate consumption, it amounted to US\$44.1 million, and the value added amounted to US\$150.2 million during 2004.

Table 8: Most Important Economic Indicators of Financial and Insurance Establishments in Remaining West Bank and Gaza Strip During 2004

Economic Activity	No. of Enterprises	No. of Persons Engaged	Compensation of Employees (\$1,000)	Output (\$1,000)	Intermediate Consumption (\$1,000)	Gross Value Added (\$1,000)	Gross Capital Formation (\$1,000)
PMA, Commercial & Islamic Banks and Other Credit Institutions	29	3648	56105.4	156786.8	27030.5	129756.3	6769.5
Stock Market and Stock Market Brokers	7	89	919.7	3494.2	1489	2005.2	15.7
Insurance Corporations	9	747	8168.5	34012	15576.1	18435.9	718.2
Total of Financial Intermediaries	45	4484	65193.6	194293	44095.6	150197.4	7503.4

Source: Palestinian Central Bureau of Statistics, Finance and Insurance Survey, 2004

The value of total fixed capital formation in financial intermediary establishments increased to reach US\$7.5 million during 2004, compared to US\$4.4 million during 2003. US\$6.8 million of this was in banks and financial establishments and US\$0.7 million in insurance companies. Intermediary financial establishments greatly increased buying and improving assets.

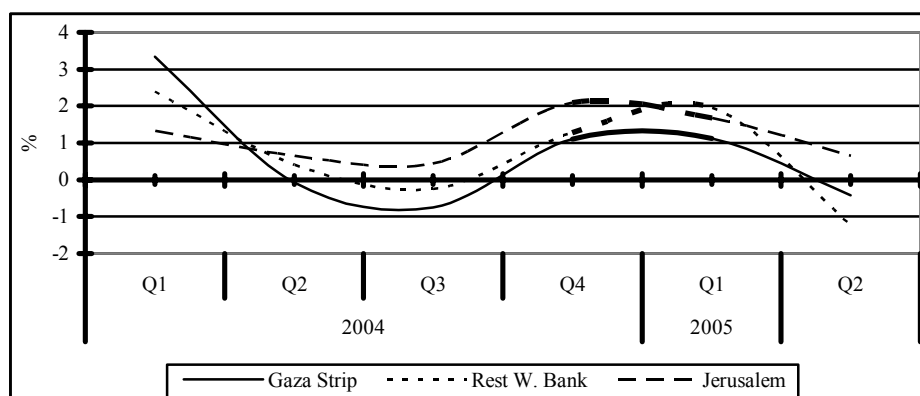
The ratio of employees' remuneration to value added registered an increase of 2.6% compared to 2003, when it increased from 42.3% in 2003 to 43.4% in 2004. That is due to the noticeable increase of value added by 3.1% (from US\$145.7 million in 2003 to US\$150.2 million in 2004). The ratio of value added to production decreased by 2.5% compared to 2003. That is due to increased median consumption by 16.1% from US\$38 million in 2003 to US\$44.1 million in 2004.

Consumer Prices

Statistics for the second quarter of 2005 indicate a 0.45% drop in the consumer price index valued in Shekels in the Palestinian territories compared to the first quarter of the year. The foodstuffs group, with 1.73% lower prices, was the main reason for this decrease, which is attributed to the seasonal factors affecting prices of fresh vegetables and fruit during the second quarter of every year. There was also a decrease in prices for the textiles, clothes and shoes group, the beverages and tobacco group, and the furniture and home services groups to the tune of 0.36%, 0.35% and 0.15% respectively. On the other hand, prices of transport and communications increased by 1.16% due to an increase in fuel prices during the second quarter of 2005. There was also a slight increase in the prices of other commodity groups, such as education (which increased by 0.36%), medical care (which increased by 0.20%), and the services group (which increased by 0.77%).

The decrease in the price index for the remaining West Bank was 1.24%, in which foodstuffs fell 3.23%. The Gaza Strip index fell 0.42%, with clothes and shoes falling 2.19%, beverages and tobacco 1.02% and foodstuffs by 0.89%. In the same period the average price of consumer goods in Jerusalem increased by 0.65%. 10% of this increase in prices was due to the beverages and tobacco group, despite the slight decrease of 0.2% in the foodstuffs group. (See Figure 18)

Figure 18: Inflation Rate in Shekel in Jerusalem, Remaining West Bank and Gaza Strip During Second Quarter, 2005



Source: Calculated by MAS from PCBS Consumer Price Index Data, 2005.

Purchasing Power

The exchange rate of US Dollar and Jordanian Dinar in the rest of the West Bank and Gaza Strip increased by 1.2% and 1.0% respectively during the second quarter of 2005. Accompanied by the fall in the consumer price index, this led to improving the purchasing power of the dollar by 1.6% and the Dinar by 1.4%. In the West Bank the purchasing power of the Dollar increased by 2.39% and the Dinar by 2.18%, while in the Gaza Strip it was 1.57% for the Dollar and 1.36 for the Dinar. (See Tables 9 and 10).

Table 9: Average Exchange Rate of Dinar and Dollar against Shekel in Rest of West Bank and Gaza Strip

2004	\$ VS NIS	JD VS NIS
Q1 2004	4.46	6.28
Q2 2004	4.55	6.40
Q3 2004	4.50	6.35
Q4 2004	4.40	6.22
Q1 2005	4.35	6.15
Q2 2005	4.40	6.21

Source: Palestinian Monetary Authority

Table 10: Development of Purchasing Power of Dinar and Dollar in Rest of West Bank and Gaza Strip

Region	Currency	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005
Rest of West Bank	\$	1.16-	1.68	0.78-	3.58-	3.01-	2.39
	JD	1.27-	1.47	0.45-	3.44-	3.04-	2.18
Gaza Strip	\$	1.99-	2.15	0.28-	3.4-	2.19-	1.57
	JD	2.1-	1.95	0.05	3.27-	2.21-	1.36

Calculated by MAS from PCBS Consumer Price Index Data and Information from Palestinian Monetary Authority

Average Prices of Some Consumer Goods and Services

Data in Table 11 show the average price of some goods that are important to consumers during the second quarter of 2005. Data for Jerusalem, the rest of the West Bank and the Gaza Strip was distributed as follows

Table 11: Average Consumer Prices for Certain Goods during Second Quarter 2005 / NIS

Item	Unit	Jerusalem	Rest of West Bank	Gaza Strip
Rice	25 Kg	90.0	83.9	91.3
White Bread	1 Kg	3	3.0	2.0
Lamb	1 Kg	50	40.8	46.3
Beef	1 Kg	37.5	33.0	31.6

Chicken	1 Kg	12.9	10.0	8.1
Powdered milk	2.5 Kg	95	81.0	81.0
Yogurt	500 g	3.6	3.5	5.0
Egg	2 Kg	15	11.5	9.5
Olive oil	1 Kg	23	16.8	20.8
Tomatoes	1 Kg	2.5	1.9	2.3
Beans	1 Kg	6.3	4.1	2.82
Molokhiya	1 Kg	6.6	3.4	2.1
Lentils	1 Kg	6.7	5.0	4.1
Chick Peas	1 Kg	6	4.4	5.0
Tea	1/2 Kg	10	9.1	9.0
Coffee	1 Kg	44.7	30.5	29.2
Cigarettes	20	9.5	9.0	9.0
Gas cylinder	12 Kg Cylinder	53.3	38.8	39.0
Physician's Fees	Visit	30.0	32.8	25.0
Tooth extraction	Visit	40.0	31.9	25.0
Jeans	Pair	108.3	58.9	60.0

Source: Palestinian Central Bureau of Statistics

The following features are notable:

- These prices are general averages for Jerusalem and the rest of the West Bank and Gaza Strip. There are often big differences in prices among governorates and even between towns and villages in the same governorate.
- Average prices in Jerusalem are higher for nearly all goods and services, because of it being directly affected by the Israeli economy.
- Average prices in the Gaza Strip are less than elsewhere with the exception of prices of goods such as Al-Geneidy yogurt that are locally produced in the rest of West Bank.

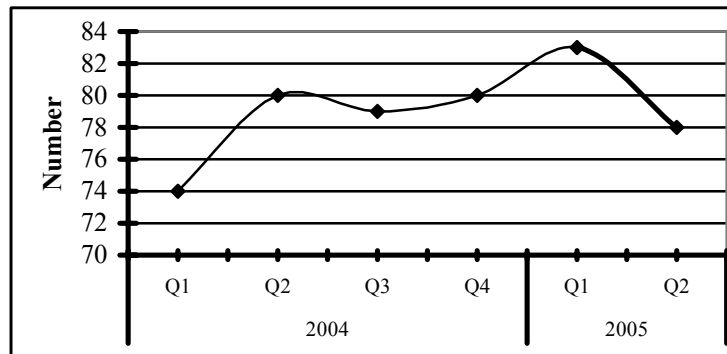
Tourism

The number of hotel guests in the Palestinian territories during the second quarter of 2005 was 34,375 guests, an increase of 38.6% from the previous quarter of the year. The increase was mainly in the hotels of the central West Bank, which comprises Ramallah and Jericho (67.5%), followed by hotels in Jerusalem Governorate (53.7%). The number of guests in northern and southern West Bank hotels fell by 21.0% and 8.7% respectively, and the number of hotel guests in the Gaza Strip fell by 39.0%.

The number of hotels during the second quarter was 78, 5 fewer than the previous quarter. These are distributed 45 in the West Bank, 20 in Jerusalem, and 13 in the Gaza Strip. The decrease in the number of hotels resulted in a decrease in the number of available rooms by 89, becoming 3,608 rooms. The biggest decrease was in the

Gaza Strip (13.3%), while the number of rooms in the West Bank decreased by 1.7%. (See Figure 19).

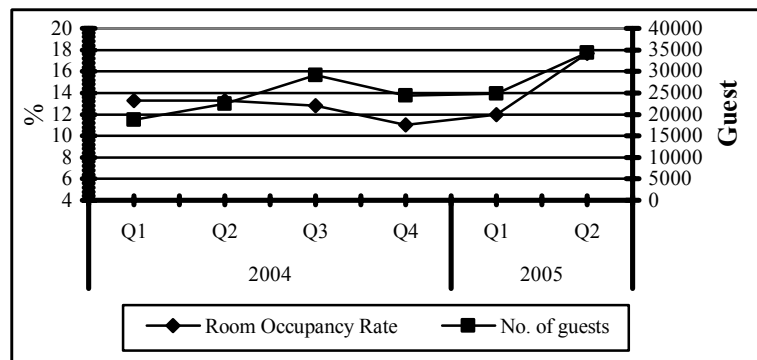
Figure 19: Number of Hotels Operating in Palestinian Territories



Source: Palestinian Central Bureau of Statistics, Hotel Activities in Palestinian Territories, 2005.

Due to the increase in number of hotel guests and decrease in available rooms, the room occupancy rate in hotels in Palestinian territories increased to become 17.0%, compared to 11.9% during the first quarter of 2005. (See Figure 20).

Figure 20: No. of Guests and Hotel Room Occupancy Rate in Hotels Operating in Palestinian Territories



Source: Palestinian Central Bureau of Statistics, Hotel Activities in Palestinian Territories, 2005.

The number of those employed in the hotel sector fell by 91 employees, to reach 1,189 persons. 171 of them are women and 1,018 men. They were distributed 607 workers in the West Bank, 355 in Jerusalem hotels and 227 in Gaza. No change occurred in the number of workers in the West Bank during the first and second quarters of 2005, although a decrease of 27.2% occurred in the Gaza Strip and 1.7% in Jerusalem.

The percentage of Palestinian families which travelled abroad during 2004 was 12.5%, 15.5% in the West Bank and 6.6% in the Gaza Strip. Average family spending for one trip abroad was US\$1,216.8 – US\$1,154.7 for West Bank families and US\$1,506.6 for a Gazan family. The average length of stay of a Palestinian family travelling abroad was 21.6 nights. The aim and purpose of travelling abroad differed.

The main reason for families to take a trip abroad was to visit relatives and friends (45.7% of the total number), followed by 29.5% for religious reasons.

Perceptions of Palestinian Families about Social and Economic Conditions

According to results of the survey of opinions among Palestinian families about social and economic conditions, 38.4% of Palestinian families stated that their life was worse than it was before July 2005, 41.0% in the Gaza Strip and 36.4% in the rest of the West Bank. The percentage of families optimistic about conditions in the coming month decreased from 40.2% during the April 2005 round to 32.3% during the July round. The decline was more evident in the West Bank (34.6% to 25.5%) than in the Gaza Strip (49.4% to 44.2%). Optimism also decreased with regard to conditions in medium term, i.e. during the next six months, with only 33.2% of families believing things would improve. Owing to the then-imminent implementation of the disengagement plan, optimism in Gaza (48.9%) was significantly higher than in the West Bank (24.3%).

Freedom of Movement

The disengagement plan also affected the optimism of families regarding freedom of movement. 30.5% of them believed it would improve in the short term, 25.5% in the rest of the West Bank compared to 44.2% in the Gaza Strip. Medium-term optimism decreased to 32.2% from 42.2% in April, with an even greater disparity between expectations in the West Bank and Gaza. Worsening conditions in the former, thanks in large part to the continuing construction of the Separation Wall, saw optimism decline from 32.0% in April to just 20.4% in July. However, in Gaza the imminent departure of the settlers saw optimism about freedom of movement in the next six months increase from 40.8% to 53.0%.

Employment Opportunities

The percentage of unemployed people in the Palestinian territories who stated that they were optimistic about finding work during next month (August) increased to 38.2% during the July round of the survey compared to 30.5% in April. 37.4% of unemployed Gazans believed that a job could be assured during August, compared to 38.8% of West Bankers. In the medium term, 45.9% stated that they were optimistic with regard to finding a job during the next six months. This figure was bolstered by Gaza, where 53.3% expressed optimism, while in the remaining West Bank the proportion decreased from 45.0% in April to 40.1%.

Meeting Family Needs

The proportion of Palestinian families expressing optimism with regard to the possibility of meeting family needs was 57.9% in the short run and 60.0% in the medium term. This represents a decrease of 5.0% and 5.4% from April short and medium-term expectations respectively. In the West Bank 54.3% expressed optimism about meeting family needs in the short term and 53.6% in the medium term. In Gaza, however, optimism prevailed in the short term (64.4%), and even increased in the medium term (71.3%). As regards priorities, 51.5% of West Bank families placed food in first place, while 30.6% did so in Gaza. More families in Gaza (31.3%) gave priority to jobs.

Expectations of Owners and Managers of Industrial Establishments

According to the July 2005 PCBS survey, 42.3% of industrial establishment owners and managers were optimistic in the short run – i.e. one month after the survey, 41.3% in the West Bank and 46.3% in the Gaza Strip. 50.0% expected an increase in the volume of sales in the short run (50.3% in the West Bank and 48.8% in the Gaza Strip). Regarding increased employment levels, results showed much greater optimism in the Gaza Strip than in the rest of the West Bank. 20.7% overall were optimistic, made up of 14.7% in the rest of the West Bank and 41.5% in the Gaza Strip.

As for expectations in the medium run – i.e. six months after July – there was a great difference between perceptions in the West Bank and Gaza Strip. 43.6% of all owners and managers expected an improvement in their establishment's conditions, 37.0% in the West Bank and 65.8% in the Gaza Strip. With regard to an increase in the volume of sales, 47.2% were positive, 39.8% in the West Bank and 73.2% in the Gaza Strip. 26.1% were optimistic about increased levels of employment, 15.4% in the West Bank and 63.4% in the Gaza Strip. (See Table 12).

Table 12: Expectations of Owners and Managers of Industrial Establishments for Short and Medium Term, July 2005

Indicator	Next month			Next six months		
	West Bank and Gaza Strip	West Bank	Gaza Strip	West Bank and Gaza Strip	West Bank	Gaza Strip
Percentage of who are expecting overall improvement in their establishment	42.3	41.3	46.3	43.6	37.0	65.8
Percentage of who are expecting higher employment level	20.7	14.7	41.5	26.1	15.4	64.3
Percentage of who are expecting higher sales volume	50.0	50.3	48.8	47.2	39.8	73.2

Source: Palestinian Central Bureau of Statistics, Survey of Perceptions of Owners/Managers of Industrial Establishments Regarding Economic Conditions, July 2005

40.8% of employers and owners of industrial establishments in the Palestinian territories indicated that their establishments were generally better in August than in the previous month, while 56.5% stated that the performance of their establishments was generally worse. 23.5% of employers stated that they had problems obtaining raw materials in August (56.1% in Gaza and 14.1% in the West Bank). 19.5% said that employees were having problems reaching work in August, compared to 24.0% who stated the same in July. This improvement was due to the easing of conditions in Gaza, where the proportion of employers whose workers had difficulties reaching their job dropped from 71.0% to 46.3%.

Employers continue to face problems with regard to regular operations. 18.7% of employers stated that they were unable to open and operate regularly in August, compared to 21.7% in July. This indicator improved most in Gaza, where 70.8% had indicated that they could not open and operate regularly in July compared to 46.3% in August.

Little overall change occurred with regard to the obstacles on the export of goods, with 21.7% of employers say they faced problems shipping products in August compared to 20.6% in July. The decline in Gaza, from 56.1% in July to 34.1% in August, was offset by increasing problems affecting West Bank businesses.

When asking managers and owners about reasons for any decline or stagnation in level of sales, 28.0% of them attributed it primarily to the decrease in the purchasing power of consumers and 21.5% spoke of the difficulties of marketing and exporting their products. Examined by region, in the remaining West Bank 30.6% of employers blamed the falling purchasing power of consumers while 19.4% of them spoke of the difficulties of marketing and export. In Gaza, 23.9% of employers referred to difficulties in obtaining necessary materials, 19.0% of them spoke of export problems and the same percentage blamed declining consumer purchasing power.

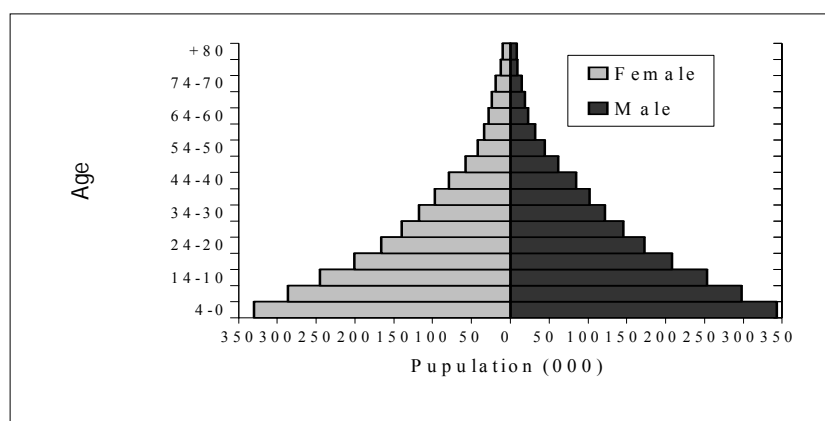
Demographic Conditions in the West Bank and Gaza Strip

Population

The number of Palestinians in the West Bank and Gaza Strip was estimated in mid-2005 to be nearly 3.8 million persons, 63.1% of them living in the West Bank and 36.9% in the Gaza Strip. Refugees represent 42.6% of the total number of inhabitants of the West Bank and Gaza Strip. The percentage of refugees in the West Bank was 29.4%, compared to 65.5% in the Gaza Strip. Palestinians living in the West Bank and Gaza Strip represent 37.8% of the total number of Palestinians in the world (9.8 million at the end of 2004). Data also indicate that 4.8 million Palestinians lived at the end of 2004 on the territory of historical Palestine, i.e. slightly less than half of all Palestinians in the world (see Table 15 in Statistical Annexe).

Palestinians living in the occupied Palestinian territories are distributed among 14 governorates and 2 regions. Al-Khalil (Hebron) governorate is the biggest (with 13.9% of the total inhabitants), followed by Gaza Governorate (13.0%). 10.6% of the total inhabitants of the West Bank and Gaza Strip live in Jerusalem Governorate. Jericho Governorate is the smallest population-wise with 1.1% of the total population of the occupied Palestinian territories (see Table 16 in Statistical Annexe).

Figure 21: Population Pyramid in West Bank and Gaza Strip, Mid-2005 Estimate



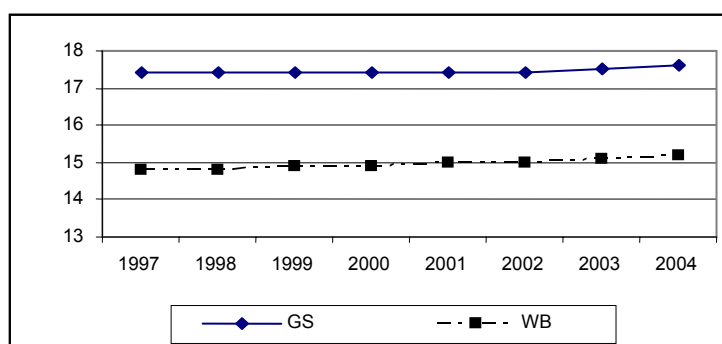
Source: Palestinian Central Bureau of Statistics, 2005, Population Results In Palestinian Territories, Revised Results, Ramallah- Palestine

Palestinian society in the Palestinian territories is a youthful one; its population pyramid (Figure 21 above) has a broad base and a narrow top. 46.0% of persons were less than 15 years of age in mid-2005 and only 3.1% were 65 years old or more.

Clear differences are noticeable between the West Bank and Gaza Strip. The percentage of persons under 15 years of age is 49.1% in Gaza and 44.2% in the West Bank, while the percentage of people 65 years and more is 2.6% in the Gaza Strip compared to 3.3% in the West Bank.

The average age of Palestinians in the West Bank and Gaza Strip is 16.7 years, 17.7 years in the West Bank and 15.4 years in the Gaza Strip. Time series data show a slight but stable increase in the median age of all Palestinians, rising from 16.4 to 16.6 during the period 1997-2004. The figure in the Gaza Strip is still significantly lower (see Figure 22).

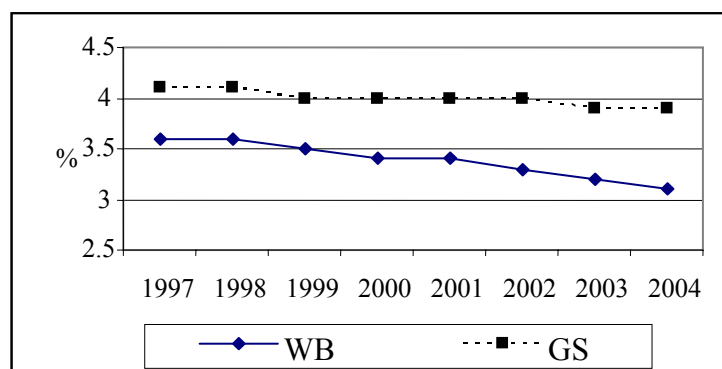
Figure 22: Median Age in West Bank and Gaza Strip, 1997- 2004



Source: Palestinian Central Bureau of Statistics, Population Estimates (2005)

The continued youthful character of Palestinian society is due to fertility rates which, despite decreasing from 6 children for every women of reproduction age in 1997 to 4.6 in 2003, remain high. Overall population growth for 2005 in the Palestinian territories was estimated at 3.3% (3.0% in the West Bank and 3.8% in the Gaza Strip). Although the rate of increase is falling, declining mortality rates offset the decline in fertility rates. The Palestinian Central Bureau of Statistics estimate the rate of natural growth of the population of the Palestinian territories at nearly 3.6% annually during the period 1997 – 2005. (See Figure 23).

Figure 23: Population Growth Rate in West Bank and Gaza Strip, 1997 - 2004



Source: PCBS, Population Estimates, Revised Time Series (2005).

Data reveal an increase in life expectancy to 71.5 years for males in 2005 (71.7 years in the West Bank and 71.2 years in the Gaza Strip) and 73.0 years for females (73.4 years in the West Bank and 72.3 years in the Gaza Strip). Among the reasons for this are improved health care and a gradual decline in infant mortality rates.

Marriage and Divorce

Data for the first half of 2005 indicate that the number of marriages registered in the Palestinian territories totalled 13,389 (7,194 in the West Bank and 6,095 in the Gaza Strip), compared to 13,174 during the same period last year. The median age for males at the time of first marriage was 24.6 years (25.2 in the West Bank and 24.1 in the Gaza Strip), while for females it was 19.4 years (19.6 in the West Bank and 19.1 in the Gaza Strip). There were 2,018 divorce cases recorded during the first half of 2005 (1,188 in the West Bank and 830 in the Gaza Strip), compared to 1,873 cases during the same period of the previous year.

Demographic and Social Conditions in Jerusalem Governorate

The survey conducted by the Palestinian Central Bureau of Statistics concerning the Jerusalem Governorate revealed that there were 398,333 inhabitants at mid-2005, 249,183 of them in area J1 and 149,150 in area J2⁹. For purposes of comparison, the number of inhabitants in 2003 was 381,098 persons. Persons below 18 years of age constituted 51.2% of the total number of inhabitants in the Governorate compared to 3.3% for persons 65 years of age and over. There were 102.1 males for every 100 females, the median age was 19 years, and the median marriage age was 24 for males and 18 for females.

The unemployment rate in Jerusalem Governorate dropped from 24.5% to 17.8% during the middle of the current year. The labour force participation rate was 39.1% of the total number of inhabitants 15 years and above. As for housing conditions, the average number of rooms in a house in the Governorate was 3.3 rooms and the average crowdedness (density) was 1.6 persons per room. The percentage of families obtaining drinking water from an Arab water network decreased from 48.1% in 2003 to 47.1% in the middle of the year, while the percentage of families whose homes are connected to an Israeli public network increased from 49.9% in 2003 to 51.6%. 86.6% of families in the Governorate were connected to an Arab electricity network, while 69.6% were connected to a sewerage system.

The data revealed that 8.0% of persons suffered from chronic ailments, compared to 6.5% in 2003. However, the percentage of persons 18 years old and more who smoked decreased from 27.2% in 2003 to 25.3% in mid-2005. Illiteracy among adults stood at 5.7%.

The data also indicated that 12.7% of families had decreased their spending on basic necessities during the last 12 months, mainly on clothes and food. A big ratio of families had to change their pattern of food consumption. Furthermore, 16% of families depended on non-agricultural private projects for main source of income, 8.8% depended on government wages and salaries, 25.2% of families depended on

⁹ Area J1 comprises that part of Jerusalem Governorate that was forcibly annexed by Israel after occupation of the West Bank in 1967. Area J2 includes the rest of Jerusalem Governorate.

wages in the private sector, 25.7% on wages and salaries of Israeli labour sector, and 24.3% on transfers and other sources. Results also revealed that 73% of families in the Governorate are unable to build a house for themselves in the coming ten years. The ratio of families which had suffered confiscation of immovable property such as land or buildings increased to 19.6% from 13.6% in 2003.

The Separation Wall has greatly affected the inhabitants of Jerusalem Governorate; 56.8% of persons aged 10 and above have relatives on the other side of it. 62.0% of persons aged 10 and above frequent the other side of the Wall for various reasons – 3.4% mainly for educational reasons, 15.5% for medical purposes, 5.8% for work, 50.5% for visiting relatives, 19.2% for tourism, recreational and cultural activities and 5.6% to visit various government departments.

The survey also asked about the use of illegal drugs; 38.3% of families expressed the belief that some persons in the surrounding environment used narcotics and 16.1% of those families stated a family member had been harassed by such persons.

Living Standards and Conditions

Poverty in the Palestinian Territories¹⁰

Poverty amongst Palestinian families reached 25.6% during 2004, with 37.2% of families in the Gaza Strip suffering from poverty and 19.8% in the West Bank. Data reveal that around 16.4% of families in the Palestinian territories suffer from extreme poverty, meaning they are unable to satisfy the basic needs of food, clothes and housing. 26.0% of families in the Gaza Strip fall into this category against 11.6% in the West Bank.

The actual number of poor families in the West Bank and Gaza Strip is almost the same, divided 51.4% in the West Bank and 48.6% in Gaza Strip. However, poor families in the Gaza Strip are considered poorer than poor families in the West Bank. This is evident from the two indices of *poverty gap* and *poverty severity*. The former reveals the degree to which a poor person's income falls below the poverty line. The latter reflects the variance, being the mean of the squared consumption deficit.

The poverty gap was 10.4% in the Gaza Strip, compared to around 4.8% in the West Bank, while poverty severity was 6.3% in the Gaza Strip, as against 2.6% in the West Bank. The contribution of Gaza Strip to the national poverty ratio rises to around 52.4% when using the poverty gap indicator, 53.1% when using the extreme poverty indicator, and 54.6% when using the poverty severity indicator.

¹⁰ The poverty index was calculated on the basis of the official definition established in 1997, which sets as a yardstick the expenditure of a six-member family (two adults and four children) on basic necessities. Two poverty lines are drawn: The first (referred to the 'extreme poverty line') is calculated in a manner reflecting just the basic survival needs of food, clothes and housing; the second (the ordinary 'poverty line') reflects meeting the absolute basic needs in addition to minimum standards of health care, education, transportation, personal care, furniture and other items necessary for the house. Both poverty lines were set for a reference family of two adults and four children because it is still considered a model family in the Palestinian society, but they are adjusted for other types of families. The poverty line for 2004 was set using data derived from family spending and consumption surveys conducted by the Palestinian Central Bureau of Statistics during the period 15/1/2004 to 14/1/2005.

Poverty is more prevalent in the southern than the northern governorates¹¹ of the West Bank, with rates of 31.2% and 22.2% respectively. These ratios are both much higher in the central governorates, where only 6.7% of families live below the poverty line. Clear geographical differences were also evident in the Gaza Strip, where 48.3% in south, 32.1% in the centre and 31.7% in north lived in poverty. With its higher population, the northern West Bank contained more poor people than any other region, with 23.7% of all poor Palestinian families to be found there. The southern West Bank contributes 22.2%, central Gaza Strip 21.0%, the southern Gazan governorates 20.0%, the northern Gazan governorates 7.6%, and the central West Bank 5.5%.

In terms of percentage of living in poverty, regardless of the measurement used the worst affected areas remain the south and centre of the Gaza strip and the south of the West Bank. Indeed, the differences between them increase when considering extreme poverty, the poverty gap and poverty severity. The governorates in these areas contribute 68.0% of the total number of poor people who suffer from extreme poverty, 68.6% of the total poverty gap and 72.3% of the total poverty intensity. (See Table 13).

Table 13: Poverty Rates According to Region, 2004 (%)

Region	Poor		Poverty Gap		Poverty Severity		Deep Poverty	
	Value	Contribution	Value	Contribution	Value	Contribution	Value	Contribution
Palestinian Territory	25.6	100	6.6	100	3.9	100	16.4	100
West Bank	19.8	51.4	4.8	47.6	2.6	45.4	11.6	46.9
North West Bank	22.2	23.7	4.9	20	2.5	17.7	11.7	19.3
Middle West Bank	6.7	5.5	1.3	4.2	0.6	3.4	3.7	4.8
South West Bank	31.2	22.2	8.6	23.4	5.2	24.3	20.6	22.8
Gaza Strip	37.2	48.6	10.4	52.4	6.3	54.6	26	53.1
North Gaza Strip	31.7	7.6	7.8	7.2	4.2	6.6	20.9	7.9
Middle Gaza Strip	32.1	21	9.3	23.3	5.7	24.7	23	23.5
South Gaza Strip	48.3	20	13.7	21.9	8.5	23.3	33.6	21.7

Source: Palestinian Central Bureau of Statistics, Poverty Data Base, 2004

¹¹ The northern Governorates of the West Bank include Jenin, Toubas, Tulkarm, Nablus, Qalqilya and Salfit. The central Governorates include Ramallah, Jericho and Jerusalem. The southern Governorates include Bethlehem, and Al-Khalil. The Governorates of central Gaza include the city of Gaza and Deir Al-Balah. The Governorates of southern Gaza include Khan Younis and Rafah.

Poverty Distribution According to Community Type

Refugee camps in the Palestinian territories suffer the most, with three families in ten in the refugee camps living in poverty (31.6%). This compares to 24.6% in rural areas and 24.4% in urban areas. (See Table 14).

Table 14: Poverty Rates According to Community Type, 2004

Locality Type	Poor		Poverty Gap		Poverty Severity		Deep Poverty	
	Value	Contribution	Value	Contribution	Value	Contribution	Value	Contribution
Urban	24.4	50.8	6.6	52.7	4	54.3	16.2	52.5
Rural	24.6	29.7	5.9	27.2	3.2	25.2	14.2	26.6
Refugee Camps	31.6	19.5	8.4	20.1	5	20.5	21.6	20.8

Source: Palestinian Central Bureau of Statistics, Poverty Data Base, 2004

Social and Economic Characteristics of Poor Families

Family Size

With the exception of one-member families (usually the elderly), the level and degree of poverty increases with family size. This holds true for both the West Bank and Gaza Strip. The highest poverty rate was among families composed of 10 and more members (44.4%), and 33.1% of those families suffer from extreme poverty. This group of families is also distinguished by a higher level of poverty gap indicator (14.2%), and poverty severity (9.3%). Families composed of 2-3 persons are distinguished by having the lowest poverty gap indicator (3.2%) and poverty severity (1.8%). (See Table 15).

Table 15: Poverty Rates According to Family Size, 2004

Household Size	Poor		Poverty Gap		Poverty Severity		Deep Poverty	
	Value	Contribution	Value	Contribution	Value	Contribution	Value	Contribution
1	13.7	1.4	4	1.6	2.4	1.6	11.8	1.9
2-3	14.5	7.8	3.2	6.7	1.8	6.2	7.5	6.3
4-5	17	13.8	4	12.4	2	10.8	11	13.9
6-7	21.5	22.8	5.2	21.2	2.9	20.2	12.5	20.7
8-9	34.6	26.8	8.2	24.4	4.6	23.3	21	25.4
10+	44.4	27.4	14.2	33.7	9.3	37.8	33.1	31.8

Source: Palestinian Central Bureau of Statistics, Poverty Data Base, 2004

Number of Children

Poverty increases in direct relation to the number of children in a family. Those with only one or two children are less exposed to poverty (18.7%) compared with those with 5-6 (33.9%) or 7-8 (43.6%). Over half of families with 9 children or more suffer

from poverty, and most of those live in deep poverty. The rates remains the same regardless of the poverty indicator used. (See Table 16).

Table 16: Poverty Rates According Number of Children, 2004

No. of Children	Poor		Poverty Gap		Poverty Severity		Deep Poverty	
	Value	Contribution	Value	Contribution	Value	Contribution	Value	Contribution
0	16.7	10.9	4.4	10.9	2.5	10.8	10.8	10.9
1-2	18.7	15.5	4.4	14.2	2.4	13.4	11.1	14.5
3-4	21.2	24.2	4.9	21.5	2.6	19.6	12.7	22.5
5-6	33.9	27.9	8.7	27.5	5	27.1	21.3	27.3
7-8	43.6	14.9	12.3	16.2	7.6	17.1	30.0	15.9
9+	56.5	6.7	21.3	9.7	15.3	12	48.3	8.9

Source: Palestinian Central Bureau of Statistics, Poverty Data Base, 2004

Economic Dependency Ratio

As is to be expected, families with a high dependency ratio are more exposed to poverty than others. The highest poverty rates are found among families which have a dependency ratio of 7 persons and more (43.9%) and the lowest among families with fewer than 2 dependents for every earning member (20.5%). The poverty ratio among families that have no breadwinner was fairly low, with 24.0%, and this may be attributed to the small size of the family. The average size of such a family is 3.8, as against 6.9 for the other types, and they are much more likely to be headed by females. (The percentage of such families headed by females was 49.9%, against 5.3% for the other types of families). (See Table 17).

Table 17: Poverty Rates According to Economic Dependency Ratio of Family, 2004

Economic Dependency Ratio	Poor		Poverty Gap		Poverty Severity		Deep Poverty	
	Value	Contribution	Value	Contribution	Value	Contribution	Value	Contribution
Less than 2	20.5	27.7	5.1	26.4	2.8	24.6	13.1	27.7
2-3.9	26.2	27.1	6.5	25.8	3.7	25.4	16.1	25.9
4-6.9	27.6	24.9	7.3	25.5	4.4	26.1	17.7	25.0
More than 7	43.9	12.0	12.3	13.0	7.7	13.8	29.5	12.6
No Family Provider	24.0	8.3	7	9.4	4.4	10.1	16.5	8.9

Source: Palestinian Central Bureau of Statistics, Poverty Data Base, 2004

Main Source of Family Income

Poor families differ from other families with regard to level and source of income. The poverty rate among families whose main source of income is the public sector was 16.5%, which is almost half the prevalence of poverty among families who depend on the private sector (31.7%). The highest poverty rates were among families that depend on transfers and assistance as their main source of income (37.7%), closely followed by those which depend on agriculture (37.5%). (See Table 18).

Table 18: Poverty Rates According to Main Source of Income, 2004

Main Source of Income	Poor		Poverty Gap		Poverty Severity		Deep Poverty	
	Value	Contribution	Value	Contribution	Value	Contribution	Value	Contribution
Agriculture	37.5	8.0	9.5	7.8	5.2	7.3	25.0	8.3
Other Household projects	21.9	14.5	5.4	13.6	2.9	12.8	14.5	14.9
Wages from Public Sector	16.5	12.4	3.6	10.6	1.9	9.5	9.4	11.1
Wages from Private Sector	28.9	31.7	7.6	32.3	4.4	32.0	19.4	33.2
Wages from Israeli Sector	21.8	8.7	4.9	7.5	2.6	6.8	11.4	7.1
Remittances and Assistance	37.7	18.2	11	20.3	7.0	22.2	25.4	19.1
Other sources	21.7	6.7	6.7	7.9	4.7	9.4	13.2	6.3

Source: Palestinian Central Bureau of Statistics, Poverty Data Base, 2004

Effect of Israeli Measures on Poverty

Statistics indicated an increase in poverty rates during the current crisis compared to pre-*Intifada* years. 25.6% of Palestinian families suffered from poverty in 2004 compared to 20.3% in 1998. (See Table 19)

Table 19: Poverty Ratio according to Mode of Family Monthly Consumption, 1998- 2004

Year	Poverty ratio	Deep Poverty	Poverty Gap	Poverty Severity
2004	25.6	16.4	6.6	3.9
2001	27.9	19.5	7.6	5
1998	20.3	12.5	5.5	3

Source: Palestinian Central Bureau of Statistics, Poverty Data Base, 2004

Effect of Emergency Assistance on Poverty Levels ¹²

Families that are generally dependent on public assistance, and specifically on emergency assistance, as a source of income are in a worse condition than other families. But it is noted that many families which mainly depend on other sources of income also benefit from public assistance as an additional support. It is necessary, especially for formulating policies, to study the relative situation of families that

¹² The family spending and consumption survey for 2004 includes information concerning type and value of emergency assistance that families received. Within the context of this survey 'emergency assistance' was defined as an assistance aiming to lighten effects of the present crisis. The results regarding the value of assistance received by a family depend in the first place on the family's ability to provide information about it.

receive emergency assistance, and compare it to that of families that do not receive such assistance.

The overall poverty rate of 25.6% according to monthly consumption includes the effect of emergency assistance obtained. If we exclude the value of emergency assistance from monthly family consumption, we notice that the poverty ratio increases to 28.7% - in other words, emergency assistance contributed to lowering national poverty by 3.1%. As regards extreme poverty, emergency assistance contributed to decreasing the ratio from 19.4% prior to assistance to 16.4% after assistance. (See Tables 20 and 21).

Table 20: Effect of Assistance on Poverty Rate, 2004

Poverty status before receiving assistance	Poverty status after receiving assistance (%)		Total (%)
	Poor	Non-Poor	
Poor	89.1	10.9	28.7
Non-Poor	-	100	71.3
Total	25.6	74.4	100

Source: Palestinian Central Bureau of Statistics, Poverty Data Base, 2004.

Table 21: Effect of Assistance on Extreme Poverty Rate, 2004

Severe poverty status before receiving assistance	Severe poverty status after receiving assistance (%)		Total (%)
	Poor	Non-Poor	
Poor	84.5	15.5	19.4
Non-Poor	-	100	80.6
Total	16.4	83.6	100

Source: Palestinian Central Bureau of Statistics, Poverty Data Base, 2004

It is important to focus on those in extreme poverty who have been excluded from assistance. This group fares worse in the West Bank than in the Gaza Strip. Results show that over two thirds of those in extreme poverty in the West Bank (70.2%) are excluded from emergency assistance, compared to less than one quarter (22.7%) in the Gaza Strip.

The southern part of the West Bank misses out the most, (85.5% of families in extreme poverty did not receive emergency assistance), followed by governorates in the centre of the West Bank (73.9%). Furthermore, around three quarters of needy persons (74.6%) in rural areas in the West Bank do not receive emergency assistance. In the Gaza Strip, the worst under-coverage of assistance is felt in Gaza's southern governorates (25.7% living in extreme poverty do not receive assistance), and in urban areas (23.8%). (See Table 22).

Table 22: Assistance Coverage of Extremely Poor Families, 2004

Region	Those who receive Assistance	Those who do not receive Assistance	Total
Palestinian Territory	52.8	47.2	100
West Bank	29.8	70.2	100
North West Bank	43.6	56.4	100
Middle West Bank	26.1	73.9	100
South West Bank	14.5	85.5	100
Gaza Strip	77.3	22.7	100
North Gaza Strip	76.6	23.4	100
Middle Gaza Strip	80.4	19.6	100
South Gaza Strip	74.3	25.7	100

Source: Palestinian Central Bureau of Statistics, Poverty Data Base, 2004

Extremely poor families constitute around 52.1% of the total number of families that received assistance. Those that received assistance from the Ministry of Social Affairs constituted 49.7% of the total assistance dispensed by the Ministry, while they constituted 65.0% of the total number of families that received assistance from other bodies of the National Authority. They made up 58.4% of the total number of families that received assistance from trade unions, 55.2% of the total number of families that received assistance from *Zakat* committees, and 59.2% of the total number of families that received assistance from other charitable or religious organizations. The median value of assistance received by needy families was 150 Shekels.

Social Assistance

This section monitors the regular assistance provided to poor families by the Ministry of Social Affairs, UNRWA and *Zakat* committees. These three parties constitute major sources of regular assistance provided to poor families in the Palestinian territories.

1- Ministry of Social Affairs

The Ministry of Social Affairs provided regular assistance to 47,700 families during June 2005, 45% of them dwelling in the Gaza Strip (See Table 23). The number of family members receiving assistance from the Ministry was 148 thousand persons, 51% of them in the Gaza Strip. The assistance package provided includes some or all of the following: cash assistance, health insurance, food and in-kind assistance, training and accommodation. 3.9% of the total number of inhabitants in the Palestinian territories received some form of regular assistance from the Ministry of Social Affairs during June 2005. The ratio is higher in the Gaza Strip (5.4%) than the West Bank (3.0%).

Table 23: Number of Families and Persons who Received Regular Assistance from Ministry of Social Affairs, June 2005

Region	Total of Beneficiaries	
	Households	Persons
West Bank	21,979	72,271
Gaza Strip	25,703	75,372
Palestinian Territory	47,682	147,643

Source: Ministry of Social Affairs, Assistance Statistics for June

40,000 families and 128.5 thousand persons received cash assistance (85% of the total number of families and 87% of the total number of people that received regular assistance from the Ministry). The value of cash assistance amounted to 7.7 million Shekels during June 2005, but the average assistance provided to a person or family is low, at less than half a dollar per person per day. (See Table 24).

Table 24: Cash Assistance from Ministry of Social Affairs, June 2005

Region	Cash Assistance				
	Household	Person	Amount (NIS)	Average NIS per person	Average NIS per Household
West Bank	19,378	69,556	3,827,001	55	197
Gaza Strip	20,995	59,007	3,874,124	66	185
Palestinian Territory	40,373	128,563	7,701,125	60	191

Source: Ministry of Social Affairs, Assistance Statistics, June.

2- UNRWA

UNRWA provided regular assistance to nearly 127 thousand persons in the Palestinian territories in June 2005, 31% of them in the West Bank and 69% in the Gaza Strip. Those persons receive in-kind and cash assistance according to a low-level scale, which is even less effective than the assistance scale of the Ministry of Social Affairs. This assistance covered 5.9% of registered refugees in the West Bank and 9.1% of refugees registered in the Gaza Strip (www.un.org/unrwa, 10/8/2005).

2- Zakat Committees

A report by the Palestinian Ministry of Waqf and Religious Affairs revealed that the *Zakat* Committees, which are under the Ministry's jurisdiction, provided assistance to 10 thousand orphans in the Palestinian territories during June 2005. An orphan receives monthly assistance amounting on average to 20 Jordanian Dinars. The *Zakat* committees also provided cash assistance to more than 7,500 Palestinian families during the same month, averaging 50 Dinars per family. The committees also provide in-kind assistance and assistance to students and sick persons. (www.palwakf.org/website, 25/7/2005)

Social Assistance According to Benefiting Families

38.6% of families in the Palestinian territories received social assistance during the second quarter of 2005 (25.0% in the West Bank and 65.3% in the Gaza Strip).¹³ However, 71% of families stated that they needed assistance (70.4% in the West Bank, and 72.5% in the Gaza Strip).

Data indicate an improvement in the value of assistance provided to families in comparison to the first quarter of 2005. The proportion of families receiving assistance valued at US\$100 or more increased from 10.5% to 14.7% during the second quarter, while those receiving assistance valued at US\$50 or less decreased from 66.4% in the first quarter to 62.5% in the second quarter. The median value of assistance was US\$45 for food assistance during the second quarter of 2005 (against US\$34 during the first quarter) and US\$72 for cash assistance (against US\$69 during the first quarter).

Most assistance was in the form of foodstuffs, which amounted to 51% of the total amount of assistance provided during the second quarter of 2005. Cash assistance represented 18%, while the remainder was in the form of health insurance and employment. 86% of recipient families expressed their satisfaction with what they received.

Housing and Housing Conditions

Results of the annual report on housing for 2004 revealed that a slight improvement occurred in the housing conditions of Palestinian families. The average number of rooms in a house increased, which is evident from an increase in the percentage of families who have houses with 4 rooms or more. At the same time the ratio of families whose house is composed of one or two rooms decreased from 24% in 2000 to 20% in 2004 (see Table 25).

Table 25: Distribution of Palestinian Families According to Number of Rooms in House, 2000 – 2005 (%)

No. of Rooms	2000	2001	2002	2003	2004
1	5.7	6.5	5.7	4.7	4.5
2	18.2	19.3	19.5	16.0	15.8
3	29.6	30.8	32.2	32.7	29.9
4	29.8	28.4	29.4	28.5	31.5
5+	16.7	15.0	13.2	18.1	18.3
Total	100	100	100	100	100

Source: Palestinian Central Bureau of Statistics, 2005, Housing Statistics

Improvement is also evident in the area of housing density, as is shown in Table 26. The ratio in 2004 was 1.8 persons per room, reflecting a gradual year-on-year

¹³ According to results of the 13th round of the Survey of the Effect of Israeli Measures on the Economic Conditions of Palestinian Families, conducted by the PCBS

improvement since 2001. Correspondingly, 53.1% of families lived in houses with fewer than 2 persons per room, compared to 45.4% in 2001.

Table 26: Family Distribution in Palestinian Territories According to Housing Density (%)

Persons per room	2000	2001	2002	2003	2004
Less than 1	9.4	8.8	9.1	9.5	10.9
1-1.99	39.2	36.6	37.7	38.4	42.2
2-2.99	30.8	32.9	33	32.9	30.6
3+	20.6	21.7	20.2	19.2	16.3
Housing Density	1.9	2	2.1	1.9	1.8

Source: Palestinian Central Bureau of Statistics, 2005, Housing Statistics

Results of the 2004 PCBS report on housing indicated that 82.9% of families in Palestinian territories owned their own home (80.4% in the West Bank and 87.8% in the Gaza Strip). According to the 2003 survey, 67.8% of families live in a house, 28.4% in an apartment and 1.1% in a villa.

A big increase in the number of building permits issued by the local authorities for construction of dwellings occurred during 2004, with 3,979 permits compared to 792 permits in 2003. Despite this progress, which points to the beginning of an economic revival, the number was still well below the figure of 7,445 for the year 2000.¹⁴

The proportion of Palestinian households with a fixed telephone line was 40.6% in 2004, decreasing from 44.7% in 2003. In the West Bank it fell from 47.7% in 2003 to 42.8% in 2004, while in the Gaza Strip it dropped from 38.9% in 2003 to 36.3% in 2004. This is attributed to increased subscription to mobile telephone services, rising from 33.2% of families in 2003 to 37.7% in 2004 (31.0% in the West Bank and 51.1% in the Gaza Strip).

Economic Costs of Smoking¹⁵

It was revealed that there are 428 thousand Palestinians who smoke in the Palestinian territories, or 18% of the total number of inhabitants who are above 9 years of age. The rate in Palestine is similar to that in many Arab countries, and has barely declined at all since 2000.

The likelihood of smoking increases with age. The percentage of smokers among members of the 10-19 year age group was 3%, increasing to 27% in the 20 – 29 year age group and 30% in the two age groups 30-39 and 40–49. Most of them (99%) smoke cigarettes. The ratio of smokers in the West Bank (20%) is higher than in the Gaza Strip (14%).

The average smoker had smoked for 15.3 years. 68,000 people have given up. The remainder spend an estimated one million US dollars per day on their habit.

¹⁴ See 'Investment' section above for recent quarterly figures.

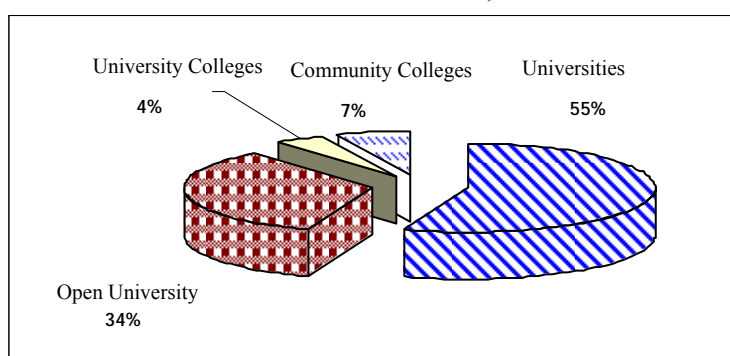
¹⁵ Qalalwa, Khalid, 'Economic Burdens Borne by the Palestinian People in the Palestinian Territories Due to Smoking', Palestinian Central Bureau of Statistics.

Education

Higher Education

The increase in the number of registered students at higher institutes of education in the Palestinian territories continued in the 2004/2005 academic year. 138,139 people were enrolled in these institutes, an increase of 13% over the 2003/2004 academic year. Most (55%) attended the ten regular universities, while almost one third were enrolled at the Jerusalem Open University. The rest were enrolled at one of the 13 university colleges or 19 community colleges. (See Figure 24).

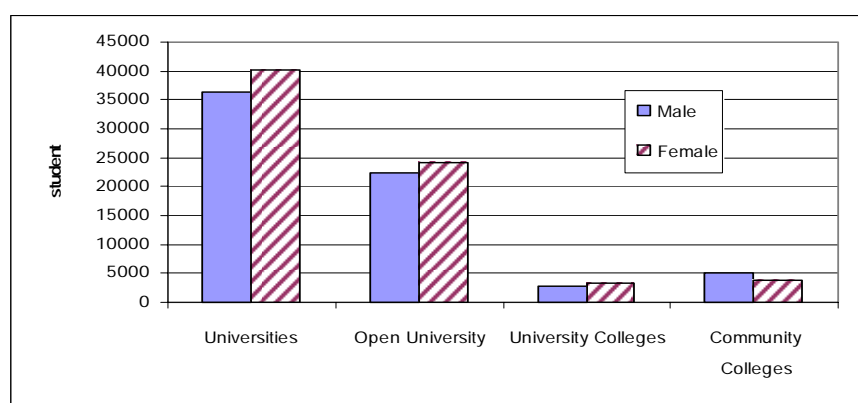
Figure 24: Distribution of Students among Higher Education Institutions in the Palestinian Territories, 2004/2005



Source: Palestinian Ministry of Education and Higher Education, 2005, Situation of Higher Education in Palestine – Figures and Statistics, 2005 – Ramallah

Female students represented 52% of the total number of all higher education students for the 2004/2005 academic year. The only institutions at which they were outnumbered by men were community colleges, which is attributed to their teaching of traditionally male-dominated professional specialisations.

Figure 25: Distribution of Students Registered at Higher Education Institutions in the Palestinian Territories, by Type of Institute and Sex, 2004/2005



Source: Palestinian Ministry of Education and Higher Education, 2005, Situation of Higher Education in Palestine – Figures and Statistics, 2005 - Ramallah

As regards distribution of students according to the degree that will be obtained, 87% of students are enrolled in BA programmes, 3% in post-graduate programmes, 9.5% in intermediate diploma programmes, and a small percentage (0.5%) in programmes that do not grant any degrees. Figure 27 shows that there are more females than males in the BA programmes, but the ratio of males is higher in the intermediate diploma programmes and the post graduate programmes.

Table 27: Distribution of Registered Students Enrolled at Higher Education Institutes in Palestinian Territories, by Sex and Degree, 2004/2005

Certificate		Male	Female	Total
Diploma	#	6908	6216	13124
	%	53	47	100
Bachelor	#	56749	63531	120280
	%	47	53	100
Higher studies	#	2537	1487	4024
	%	63	37	100
Other	#	355	356	711
	%	50	50	100
Total	#	66549	71590	138139
	%	48	52	100

Source: Palestinian Ministry of Education and Higher Education, 2005, Situation of Higher Education in Palestine – Figures and Statistics, 2005 – Ramallah

Table 28 shows the distribution of students according to subject studied. Sciences and engineering are as usual worryingly under-represented.

Table 28: Distribution of Students Enrolled at Higher Education Institutes in Palestinian Territories in 2004/2005, by Subject Studied

The Program	No.	%
Social science, Business and Law	43139	31
Education	42897	31
Humanitarian Studies	17584	13
Agriculture and Veterinary science	792	1
Health and Humanitarian Services	8617	6
Natural Sciences	15520	11
Engineering, Productive industries and construction	9383	7
Others	207	0
Total	138139	100

Source: Palestinian Ministry of Education and Higher Education, 2005, Situation of Higher Education in Palestine – Figures and Statistics, 2005 – Ramallah.

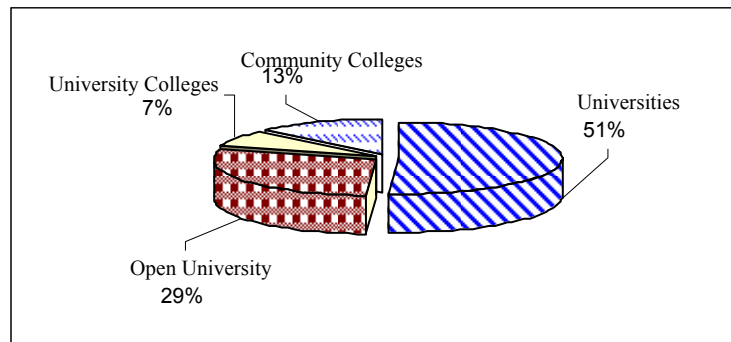
New Students

Data revealed that 38,211 new students enrolled in higher education institutions during 2004/2005 academic year, representing 70% of the total number of students who applied to join such institutions. These figures reflect the great desire of

Palestinians to continue their education, especially if we consider the number of students who enrol in higher education institutes outside Palestine.

Figure 26 shows a relative increase during the 2004/2005 academic year in enrolment at community and university colleges at the expense of traditional universities and the open university. 20% of all new students enrolled at these institutions, while their share of the total number of students was only 11%.

Figure 26: New Student Distribution at Higher Institutes of Education in Palestinian Territories by Type of Institute, 2004/2005



Source: Palestinian Ministry of Education and Higher Education, 2005, Situation of Higher Education in Palestine – Figures and Statistics, 2005, Ramallah.

Graduates of Higher Education Institutions

16,573 persons graduated from higher education institutions in 2003/2004, 56% of them females. Regular universities accounted for 61% of them, followed by the Jerusalem Open University with 18%, University colleges with 11% and community colleges with 10%. It is noted once again that science and engineering graduates make up a small proportion. (See Table 29).

Table 29: Distribution of Higher Education Graduates by Subject, 2003/2004

The Program	No.	%
Social science, Business and Law	6004	36.2
Education	4067	24.5
Humanitarian Studies	1879	11.3
Agriculture and Veterinary science	70	0.4
Health and Humanitarian Services	1519	9.2
Natural Sciences	1740	10.5
Engineering, Productive industries and construction	1294	7.8
Total	16573	100

Source: Palestinian Ministry of Education and Higher Education, 2005, Situation of Higher Education in Palestine – Figures and Statistics, 2005, Ramallah

In the current issue of the Quarterly Monitor we have not dealt with basic education in Palestine. This is due to the fact that the subject was dealt with in the previous quarterly issue and no new information has subsequently become available.

Drop-out Rates

In 2005 the Palestinian Ministry of Education and Higher Education undertook a study of the phenomenon of dropping out at Palestinian schools, with the aim of defining its causes and suggesting preventive and remedial measures to end it. The study included all Palestinian schools, governmental, private and those run by UNRWA, and covered a period of five years, beginning with the 1999/2000 school year. The sample was composed of 1,810 student drop-outs and 1,825 of their parents or guardians. The study showed that 15,148 students dropped out during the school year 1999/2000 while 9,395 did so in 2003/2004, a decrease of 38%. The drop-out rate decreased from 1.8% in 1999/2000 to 0.9% in 2003/2004.

The study indicated that dropping out is due to different and complex reasons, in which educational, family, social, economic, security and other factors are interlinked. They interact in a manner that drives the student, usually with the explicit or tacit approval of his or her family, to leave the educational system prematurely. They can be divided into three main groups:

First: The student's family, whose economic or social conditions force the student to leave school. This could be to help the family, such as by earning an income or taking care of family members, or entering into an early marriage, especially with females.

Second: The education system, where poor educational performance, a problematic student-teacher relationship or the unavailability of alternatives may cause the student to drop out.

Third: The security situation, which may involve the exposure of the student or the school to harassment by occupation forces, or the location of schools in dangerous areas.

It is evident that measures to tackle the causes of dropping out should mix individual efforts, targeting students, schools and teachers, with and other measures of a structural nature that deal with the social and economic situation and the educational system itself.

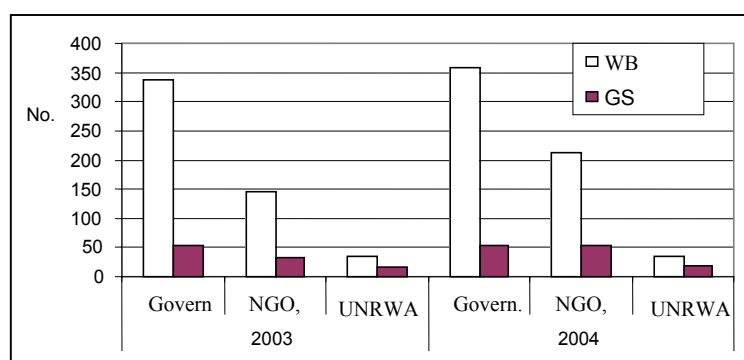
Health

Primary Health Care

At the end of 2004 there were 731 primary health-care centres in the Palestinian territories, 125 in the Gaza Strip and 606 in the West Bank. This represents one centre for every 4,974 persons, although the ratio in the Gaza Strip (10,698) is worse than the West Bank. The majority of primary health centres (57%) are run by the Ministry of Health, 36% are run by non-governmental organizations and 7% by UNRWA (Palestinian Ministry of Health, 2005).

There was an increase in the number of primary health centres run by all three groups in 2004, most noticeably in those run by NGOs. However, experience reveals that centres operated by NGOs often lack sustained financial resources, which poses questions as to their ability to continue after the current crisis. The decline in support provided to NGOs engaged in the health sector after the creation of the Palestinian National Authority led to closure of many clinics and medical centres previously run by such organizations.

Figure 27: Distribution of Primary Health Centres in West Bank and Gaza Strip According to Sponsors, 2003- 2004



Source: Palestinian Ministry of Health, 2005, Ministry of Health Plan to Meet Situation after Israeli Withdrawal, MAS, 2005, **Social Monitor**, No.8, MAS: Ramallah

Secondary Health Care

Four parties provide secondary health services: the Palestinian National Authority, UNRWA, the NGO sector, and private sector. There are 22 government hospitals, 12 of them in the West Bank and 10 in the Gaza Strip. The capacity of these hospitals is 2,735 beds. 17 are classified as general, with a capacity of 2,163 beds, most of them in the West Bank (55%). The Ministry also has two psychiatric hospitals, a children's hospital and an eye hospital (Palestinian Ministry of Health, 2005).

Non-governmental and charitable organization run 31 hospitals, with a capacity of 1,565 beds. 21 of these hospitals are in Jerusalem and the West Bank. The private sector has 23 hospitals with a capacity of 416 beds. UNRWA runs one hospital in Qalqilya that has a capacity of 63 beds.

Table 30 shows the distribution of hospitals in the Palestinian territories according to sponsors.

Table 30: Hospital Distribution According to Sponsoring Party and Region

Region	Sponsoring Party				Total
	Government	NGO	Private	UNRWA	
West Bank	12	21		1	34
Gaza Strip	10	10		0	20
Palestinian Territory	22	31	23	1	77

Source: Palestinian Ministry of Health, 2005

Efforts to Reduce Treatment Abroad

The Ministry is undertaking several projects aiming to improve the quality of the medical apparatus in the Palestinian territories and reduce the necessity of seeking treatment abroad. These include the establishment of specialised hospitals that would provide domestic treatment for such ailments as cancer and heart disease that the Ministry is currently obliged to refer those suffering from for treatment outside the

country. The Ministry is also exerting efforts to send physicians abroad to obtain new specialisations, and it has cooperation projects with many states in this regard.

Health Insurance

Data from the Palestinian Central Bureau of Statistics indicate that 76% of Palestinians had health insurance in 2004. The percentage of those covered by health insurance in the Gaza Strip is higher than in the West Bank, while health insurance coverage is far lower in rural area than in urban areas and refugee camps (see Table 31).

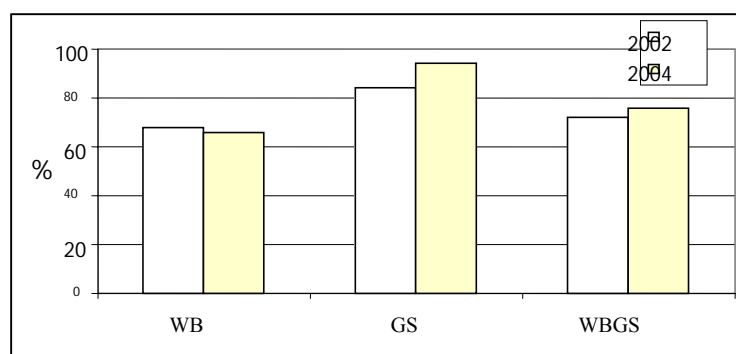
Table 31: Health Insurance of Palestinians in West Bank and Gaza Strip, 2004

Region	Insured %	Not Insured	Insurance Type ¹⁶ (% from Population)				
			Government %	Military %	UNRWA %	Private %	Other %
Palestinian Territory	76.1	23.9	51.8	4.1	32.9	1.7	9
West bank	65.8	34.2	43.2	1.4	14	2.1	12
Gaza Strip	93.8	6.2	66.5	8.7	65.5	1.1	3
Locality Type							
Urban	76.8	23.2	50	4.2	25.8	2.1	12.7
Rural	63.5	36.5	52	1.4	16.3	1.1	3
Refugee Camps	95.6	4.4	57.5	8.5	86.9	1.8	3.8

Source: PCBS

In comparison with 2002 data¹⁷, we notice an overall increase in the proportion of persons covered by health insurance in the Palestinian territories. However, as seen in Figure 28, the increase is limited to Gaza Strip, while the percentage of those covered by health insurance in West Bank fell. This could be attributed to declining government insurance.

Figure 28: Distribution of Palestinians Covered by Health Insurance, 2002 and 2004



Source: PCBS and MAS Social Monitor No.8, Ramallah – MAS

Government insurance covers around half the Palestinians in the Palestinian territories (52% of the population), with a higher percentage covered by it in the Gaza Strip than in the West Bank and in refugee camps than in urban or rural areas. In second place

¹⁶ Total percentage is sometimes higher than 100% because some people have more than one type of health insurance.

¹⁷ No information is available concerning 2003.

comes UNRWA insurance, which covers one third of Palestinians. Again, the highest rates of coverage are in the Gaza Strip and refugee camps. Military health insurance covers nearly 4% of the population, while private health insurance is mostly limited to employees of certain large companies, employees of some non-governmental organizations¹⁸ and a few well-off individuals.

Legal Environment

Owing to the importance of the Civil Service Law it was the subject of several readings; many amendments were introduced, the most recent of which was adopted by the Legislative Council at the beginning of spring 2005. During the current quarter the general Pension Law was issued, which is considered both important and urgently needed as it guarantees a decent life for retired public-sector workers and will prompt some to benefit from the early retirement provisions it contains. This will provide opportunities for new graduates and young people to join government service to replace them. In addition to these two laws the Law of the Alimony Fund was issued.

The Legislative Council debated and approved two draft laws out of a group of laws dealing with financial and economic matters; the first was the Land Law. This long-awaited piece of legislation is eventually expected to replace the tangle of laws inherited from past decades and administrations. It will deal with all questions related to land registration and land transfer in Palestine, and solve many of the outstanding problems and conflicts. The other draft that was approved in general debate was the law concerning unemployment insurance.

It is expected that the Legislative Council will refer two draft laws to a specialised committee to study and prepare the necessary reports concerning them. They are the amended law on the rights and duties of the Legislative Council and the amended law on the remuneration and salaries of Governors, members of the Legislative Council, and the Government. There are a number of proposed amendments, including to remove the point calling for the allocation of US\$15 thousand for improving the conditions of members of the Legislative Council, Ministers and Governors.

The Legislative Council also returned the draft Companies Law to the Council of Ministers for amendment and reintroduction to the Legislative Council.

Israeli Measures

Israeli occupation forces continued to use deadly force against the Palestinian population - indiscriminately firing at houses and civilians during assault operations in the Palestinian territories. The policy of assassinations continued, targeting a number of Palestinian activists during the second quarter of the year. There were 23 martyrs in that period, and scores of people injured. Occupation measures continued to hinder the movement of Palestinians – for example, with the total closure of Palestinian territories during Jewish feasts, or the continued division of the West Bank by road

¹⁸A special health insurance policy for employees of non-governmental organisations was established in the second half of 2005

blocks some of which, such as the check point at Qalandia, have been developed to function like border crossing points (The Palestinian Centre for Human Rights, Weekly Reports).

Obstruction of Health Services

Israeli occupation measures constituted a serious obstacle preventing Palestinian families from obtaining health services during the second quarter of 2005. 42% of families in the Palestinian territories stated that military road blocks obstructed them from reaching health services, and 38% were hindered by closures. The inability of medical personnel to reach medical centres prevented 26% of families from obtaining medical care, while the Separation and Annexation Wall constituted a serious hindrance for 22% of West Bank families.

The high cost of treatment was still the greatest obstacle to Palestinian families receiving adequate health care, which is a consequence of the deterioration of economic conditions in the Palestinian territories. Apart from this, however, data indicated that the effects of the occupation are a greater impediment to health care in the West Bank than in the Gaza Strip (see Table 32).

Table 32: Percentage of Palestinian Families Facing Obstacles Obtaining Health Services, by Region, April – June 2005

Obstacles Facing Access to Health Services	Palestinian Territory	West Bank	Gaza strip
Treatment Cost	52.5	48.7	59.9
Israeli Closure	37.9	47.1	19.8
Military Checkpoints	41.9	51.1	23.8
Remoteness of Health Centres	32.0	34.3	27.4
Inability of Health Staff to reach Health Centres	25.8	27.6	2.5
Expansion and Annexation Wall	14.5	21.9	-

Source: PCBS Survey of Israeli Measures' Effects on Economic Conditions of Palestinian Families – 13th Round, April – June 2005, Ramallah – Palestine

Separation and Annexation Wall

The Palestinian Central Bureau of Statistics conducted a new round of the survey concerning the effect of the separation and annexation Wall on the economic and social conditions of Palestinian communities through whose land it passed at the end of May 2005. The following are the most important results:

Affected Communities

The separation and annexation Wall had passed through 149 communities by the end of May 2005, causing different degrees of damage to them. Around half of these communities are situated in the north of the West Bank where, with the exception of the Salfit region, the Wall has been finished. Construction of the Wall continues in both the central and southern West Bank, where the number of affected communities and the damage caused will greatly increase. The Wall has caused the isolation of fifteen Palestinian communities the other side of the Wall, access to which has to be

through gates whose opening times are controlled by Israeli occupation soldiers. (See Table 33).

Table 33: Communities Through which the Separation and Annexation Wall Passes, by Region, May 2005-10-24

Region	West Side of the Wall	East Side of the Wall	Total
North West Bank	11	63	74
Middle West Bank	2	44	46
South West Bank	2	27	29
Total	15	134	149

Source: PCBS, 2005, Survey of Effect of the Separation and Annexation Wall on Economic and Social Conditions of Palestinian Communities Through Whose Land the Wall Passes

Expropriated and Isolated Land

The area of land expropriated for the direct purpose of building the Wall amounted to 47,921 dunums at the end of May 2005. In addition the Wall caused the isolation of a further 301,122 dunums of land. This means that around 350 thousand dunums have been excluded from use by their Palestinian owners. Most of this land was used for agricultural purposes, greatly worsening the food security situation of these communities. Once again, the northern West bank has been worst affected so far.

Table 34: Expropriated and Isolated Land as Result of the Separation and Annexation Wall, by Region, May 2005

Region	Area of Confiscated Land	Area of Isolated Land	Total
North West Bank	22,530	191,336	213,866
Middle West Bank	19,107	66,023	85,130
South West Bank	6,284	43,763	50,047
Total	47,921	301,122	349,043

Source: PCBS, 2005, Survey of Effect of the Separation and Annexation Wall on Economic and Social Conditions of Palestinian Communities Through Whose Land the Wall Passes

Forced Displacement of Population

From the beginning of construction work and until end of May 2005, the Wall had caused the forced displacement of 2,448 families from the communities through the land of which the Wall passes. This represents 14,364 people.

Closure of Establishments

1,702 economic establishments in communities affected by the Wall closed their doors from the beginning of construction work until end of May 2005. Most of these businesses (1,330) were situated in the northern West Bank, while 245 were in the centre and 127 in the south.

Community Needs and Assistance Provided

124 communities which lost land to the Wall received humanitarian assistance during the period June 2004 – June 2005. Eleven of these are isolated communities, situated between the Wall and the 1967 Green Line. The providers of assistance are listed in Table 35.

Table 35: Communities Affected by Wall Receiving Assistance, by Source, May 2005

Source of Assistance	No. ¹⁹
Public Sector	91
Foreign Sector	68
Arab Countries	39
UNRWA	32
Private Sector	20
Localities which received Assistance	124

Source: PCBS, 2005, Survey of Effect of the Separation and Annexation Wall on Economic and Social Conditions of Palestinian Communities Through Whose Land the Wall Passes

As regards the priorities of the affected communities, 84 stated that development of infrastructure was their number-one priority, while 25 others said that the creation of jobs was most important. Twenty four communities said that educational services were their most pressing concern, 13 said health services, and one community said that its greatest need was food. Two other communities stated that none of these matters constituted their top priority.

Israeli Settlements

On 7/8/2005 the Palestinian Central Bureau of Statistics published its annual statistical report for 2004 concerning Israeli settlements in the Palestinian territories. Results indicate that there were 440,415 settlers in the Palestinian territories at the end of 2004, 432,275 of them in the West Bank and 8,140 in the Gaza Strip²⁰.

The report indicates that settlers are concentrated in the Jerusalem Governorate (where they numbered 236,480, 184,229 of them in the J1 area of Jerusalem that was forcibly annexed by Israel in 1967), followed by Ramallah and Al-Bireh Governorate (57,279 settlers), Bethlehem (40,527) and Salfit (28,847). There were 165 ‘official’²¹ settlements by the end of 2004, 148 of which were in the West Bank. (See Table 36).

Table 36: Distribution of Israeli Settlements and Settlers in Palestinian Territories, End of 2004

Region	No.	%	No.	%
Palestinian Territory	165	100	440,415	100
Rest West Bank	132	80	248,046	56.3
Jerusalem	16	9.7	184,229	41.8

¹⁹ Some communities received assistance from more than one source.

²⁰ Following the unilateral disengagement from Gaza in August 2005 all settlers were withdrawn from the territory, to be re-housed in Israel and in other colonies in the West Bank.

²¹ Settlements officially recognised by the Israeli government, as opposed to the numerous unofficial outposts which nevertheless receive tacit Israeli economic and military assistance.

Gaza Strip	17	10.3	8,140	1.9
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Source: PCBS Annual Statistical Report Concerning Settlements in Palestinian Territories, 2004.

Settlers' Attacks

The settlers in the Palestinian territories continued to commit serious acts of aggression against Palestinian civilians and their property. These took the form of physical assaults on Palestinian civilians, attacks on homes, occupation of property, up-rooting of trees and destruction of crops. For example, on 19/5/2005 a group of settlers from Efrat settlement uprooted trees on land belonging to Palestinians from Al-Khadr village, the same village on whose land the settlement itself was built. Other settlers belonging to Kadoumim settlement resorted again to uprooting trees belonging to Kafr Kaddoum villagers, east of Qalqilya. (Palestinian Centre for Human Rights, 10/8/2005).

During the second half of 2005 worrying evidence appeared pointing to the existence of a terrorist organization among settlers targeting Palestinians, including the Arabs in Israel who have Israeli citizenship. An Israeli soldier opened fired on a bus in Shafa Amr town at the end of July 2005, which resulted in killing four Palestinians and injuring many others. Soon afterwards, an Israeli settler in the West Bank killed four Palestinian workers in Shilo settlement. In both cases, the settlers claimed these acts were committed because of Israel's withdrawal from the Gaza Strip.

Deaths of Sick People at Israel Roadblocks and Checkpoints

The Information Centre of the Ministry of Health recorded 129 sick persons who had died at military roadblocks from September 2000 until 14th August 2005 due to Israeli occupation forces preventing them from reaching hospital, including by holding up ambulances. 2002 was the worst year for this unlawful practice, as is seen in Table 37.

Table 37: Number of Sick Palestinians who Died at Military Roadblocks During Current Intifada

Year	No.	%
2000	6	4.7
2001	32	24.8
2002	46	35.7
2003	19	14.7
2004	14	10.9
2005	12	9.3
Total	129	100

Source: Palestinian Ministry of Health, 2005, Martyred Sick Persons at Israeli Road Blocks and Checkpoints.

In addition, the lives of hundreds of Palestinian travellers, especially elderly people, children, women and sick persons, were endangered by the difficulties of crossing the international borders with Egypt and Jordan. Occupation measures caused the death of 22 persons at such checkpoints, due to deterioration of their health conditions and the absence of necessary medical services.

Palestinian Prisoners in Israeli Jails

A report by the Ministry for Detainees and Ex-Detainees' Affairs indicated the existence of 8,500 Palestinian prisoners in Israeli jails in mid-August 2005, distributed between 25 prisons, camps and detention centres. 6,057 prisoners receive salaries from the Ministry, which totalled US\$2.3 million during August 2005, i.e. US\$380 per prisoner monthly. 1,100 prisoners receive salaries from the Ministry of Finance because they are employees of the security apparatus or are employed in civilian jobs by the Palestinian Authority.

Under half of the prisoners (47%) are serving sentences having been convicted, while 18% are subject to administrative detention (i.e. they have not been charged with any crime) and 35% of them are awaiting trial. The report revealed that 590 prisoners who were arrested prior to the Al-Aqsa *Intifada* are still in custody. They represent 7% of the total number of prisoners; 297 of them are from the West Bank, 178 from Gaza Strip and 115 from Jerusalem and the 1948 areas. The report also stated that the number of prisoners is on the increase despite the relative calm prevailing in the Palestinian territories. Between the Sharm El-Sheikh conference in February 2005 and mid-August 2005 the occupation authorities arrested around 1,500 persons.

The number of females imprisoned since September 2000 is 400; 116 of them are still in custody and 7 of them are less than 18 years of age.

As regards child prisoners, 3,500 were arrested since September 2000 and 306 of them are still in custody. They represent 3.7% of the total number of prisoners; 269 of them are from the West Bank, 28 from Jerusalem and 9 from Gaza Strip.

According to the report, torture in Israeli prisons and camps is a routine practice, resorted to by interrogators while dealing with Palestinian prisoners. Most prisoners are beaten, and many are exposed to other types of torture, including internationally prohibited ones. (See Table 38).

Table 38: Types of Torture Used Against Palestinian Prisoners in Israeli Jails

Type of Torture	%
Prisoners were beaten	99
Prisoners were put in a freezing room	68
Prisoners were hanged by hands	88
Prisoners were forced to stand for a long time	92
Prisoners were prevented from sleeping	93

Source: Ministry of Detainees and Ex-Detainees' Affairs, Monthly Report – August 2005.

Data collected by the Ministry of Detainees and Ex-Detainees' Affairs revealed that by mid-August 2005, 181 Palestinian prisoners had died in illegal circumstances after their arrest, by extra-judicial killing, under torture, or by being denied proper medical treatment. (See Table 39).

Table 39: Deaths of Palestinian Prisoners in Israeli Custody, by Cause of Death, Until Mid-August 2005

Cause of Death	No.	%
Torture	70	38.7
Medical negligence	40	22
Extra-judicial killing after arrest	71	39.3
Total	181	100

Source: Ministry of Prisoners and Liberated Prisoners, 2005
Monthly Report – August Report

Effect of Israeli Measures on Economic Conditions of Palestinian Families

The results of the 13th round of the Survey of Effects of Israeli Measures on the Economic and Social Conditions of Families in the Palestinian Territories, covering the period from April to June 2005, revealed the continuing dire economic conditions of Palestinian families. Despite the existence of indicators pointing to relative improvements in both employment and wages, the proportion of families who said their income was lower than before the *Intifada* increased to become 62.6% during the second quarter of 2005, compared to 53.9% during the first quarter of the year. The percentage of West Bank families whose income had declined rose from 51.8% during the first quarter to 61.3% during the second quarter, while the figure in Gaza rose from 57.7% to 65.6% during the same period.

Some improvements were noticeable, however. Although 48.7% of families interviewed in the second quarter of 2005 stated that they had decreased their spending on basic necessities (51.3% in the West Bank, and 43.7% in the Gaza Strip), this represents a tangible improvement compared to the first quarter of the same year, when 58.2% said they had done so (60.0% in the West Bank and 54.4% in the Gaza Strip).

Economies were most commonly made on the foodstuffs and clothes, as is shown in Table 40.

Table 40: Families that had Decreased their Spending on Basic Necessities, June 2005-10-25

Percentage of Households that had decreased basic expenditure	48.7
Of those, the percentage which decreased their expenditure on:	
Food	86.0
Clothes	95.5
Education	57.0
Health	66.3
Housing	84.9

Source: PCBS Survey of Israeli Measures' Effects on Economic Conditions of Palestinian Families – 13th Round, April – June 2005, Ramallah – Palestine

The proportion of families which stated that they can cope for more than one year increased, but this positive news is counter-balanced by an increase in the number of families who stated that their economic conditions were so desperate that they did not know how they would obtain even basic necessities. (See Table 41). This is an indication that the condition of the poorest of the poor in the Palestinian territories is deteriorating.

Table 41: Percentage of Households Able to Cope for More Than One Year, and Percentage of Unable To Cope in the Short Term, First and Second Quarters, 2005

Region	Q1 2005	Q2 2005
Percentage of Households that can cope financially for more than one year		
Palestinian Territory	27.2	33.9
West Bank	22.1	29.5
Gaza Strip	37.1	42.6
Percentage of Households that don't know how to satisfy their basic needs		
Palestinian Territory	9.8	14.7
West Bank	9.5	15.4
Gaza Strip	10.4	13.2

Source: PCBS Survey of Israeli Measures' Effects on Economic Conditions of Palestinian Families – 13th Round, April – June 2005, Ramallah – Palestine

Statistical Annexe

Table 1: Some Selected Indicators Concerning Basic Components of the Labour Force in the Palestinian Territories, Second Quarter 2005

Indicator	Palestinian Territory	West Bank	Gaza Strip
Manpower (15 years and more) (000)	2,021	1,318	703
Labour force (000)	832	575	257
Labour force participation rate (%)	41.2	43.7	36.5
Male Labour force participation rate (%)	67.8	70.3	63.3
Female Labour force participation rate (%)	14.1	16.7	9.4
Employment (000)	656	476	168
Unemployed (000)	177	99	78
Unemployment rate (%)	21.1	17.2	30.2
Male Unemployment rate (%)	21.5	17.7	29.5
Female Unemployment rate (%)	19.6	15.1	34.5
Outside the Labour force (000)	1,188	742	446
Percent of those outside labour force (%)	58.8	56.3	63.5
The reason to be outside the labour force			
Old age / Illness (%)	11.1	11.3	10.9
Housekeeping (%)	49	49.7	47.7
Studying or Training (%)	35	33.8	36.9
Other (%)	4.9	5.2	4.5

Source: Palestinian Central Bureau of Statistics, Labour Force Survey, Second Quarter 2005-10-25

Table 2: Distribution of Palestinian Workers in Palestinian Territories, by Region and Economic Activity, Second Quarter 2005 (%)

Economic Activity	West Bank	Gaza Strip	Israel and Settlement	Total
Agriculture, Fishing and Forestry	18.4	11.9	8.4	15.6
Mining, Quarrying and Manufacturing	13.9	9.2	20.1	13.2
Construction	10.1	8.8	42.1	13
Commerce, Restaurants, and Hotels	20	17.5	18.5	19.2
Transportation, Storage and communication	6.9	4.2	1.6	5.6
Services and other Branches	30.7	48.4	9.3	33.4
Total	100	100	100	100

Source: Palestinian Central Bureau of Statistics, Labour Force Survey, Second Quarter 2005.

Table 3: Financial Situation of Palestinian National Authority (Million Dollars)

Item	2005		Percent of change (%)			Deviation from the budget	Percent of the actual
	Q1	Q2	Q1	Q2	Q2 2004		
Net Local Revenues	252.37	340.28	21.3	34.83	56.67	28.65	56.02
Local Revenues	253.76	342.59	20.18	35.01	55.3	29.52	56.37
Local Fees	86.34	152.12	-12.51	76.19	87.2	53.66	60.22
Tax revenues	52.99	64.46	15.83	21.65	30.54		
Non-tax revenues	33.35	87.66	-37	162.85	174.97		
Clearance revenues	167.42	190.47	48.87	13.77	36.69	15.09	54.06
Tax refund	-1.39	-1.51	-55.02	8.63	-55.59		
Public Expenditures	376	498.94	-12.07	31.65	39.36	-10.5	39.37
Current Expenditures	375.84	485.44	-11.59	29.16	38.12	-1.03	43.9
Wages and Salaries	235.58	235.75	5.86	0.07	9.48	0.53	50.25
Civilian	147.59	149.24	6.96	1.12	12.13		
Military	87.99	86.51	4.06	-1.68	5.2		
Operating Expenditures	36.1	72.04	-21.64	99.56	75.58	18.1	44.32
Transfer Payments	44.56	81.19	-53.78	82.2	46.84	-48.04	20.12
Ordinary Capital Expenditures	0.15	3.58	-97.91	2286.67	85.49	-42.72	14.92
Net Lending	59.45	92.88	12.38	56.23	145.13	185.78	117.18
Development Expenditures	3.16	13.5	-46.53	327.22	106.42	-79.85	6.22
Balance (Deficit)	-126.63	-158.66	-43.21	25.29	12.68	-45.8	24.36
Financing Budget	126.63	158.66	-36.98	25.29	12.68	-45.8	24.36
External Financing	71.12	176.51	3.57	148.19	48.05	-39.71	21.15
Internal Financing	55.51	-17.85	-58.04	-132.16	-182.68		
Transfer of previously withheld clearance revenue	10.23	36.5	-88.63	257.67		59.09	50.89
Financing from Commercial Banks	151.36	27.48	166.53	-81.84	36.04	-259.3	259.19
Net change of arrears	-106.08	-81.92	631.59	-22.78	-5993.5	1324.7	817.39
Deficit after financing	0	0	-100	0	-200		

Source: Website of Ministry of Finance.

Table 4: Distribution of Client Deposits 2003 – 2005

	2003	2004				2005	
	Q4	Q1	Q2	Q3	Q4	Q1	Q2
According to Geographical Distribution							
North Districts (%)	77.6	76.7	76.4	78	75.3	76.2	74
South Districts (%)	22.4	23.3	23.6	22	24.7	23.8	26
According to Depositor Sector							
Public Sector (%)	8.9	10.5	10.7	10.4	12.1	11.5	13.8
Resident Private Sector (%)	89.3	87.6	87.3	87.6	85.7	86.7	84.5
Non-resident Private Sector	1.8	1.9	2	2	2.2	1.8	1.7
According to Deposit Type							
Current Account (%)	32.1	34.3	35.2	35.1	35.7	35.4	36.8
Saving Account (%)	17.1	17.7	18.9	19.2	19.2	19.6	19.4
Time Deposits (%)	50.8	48	45.9	45.7	45.1	45	43.8
According to Currency							
US \$ (%)	60.1	58.1	57.9	57.1	57.3	56.3	56.8
JD (%)	23.3	23.6	23.8	23.9	24.1	24.6	23.9
NIS (%)	14.1	14.5	14.7	15.6	14.4	14.7	15.2
Other currencies	2.5	3.8	3.6	3.4	4.2	4.4	4.1

Source: Percentages calculated from the Monthly Statistical Bulletins of the Palestinian Monetary Authority, Different Issues.

Table 5: Distribution of Credit Portfolios 2003 – 2005 (Million Dollars)

	2003	2004				2005	
	Q4	Q1	Q2	Q3	Q4	Q1	Q2
According to Geographical Distribution							
North Districts	741.7	752.9	788.2	886.1	907.4	1018.5	1069.4
South Districts	330.6	417.4	463.2	444.2	520.3	574	603.8
According to Borrowing Sector							
Public Sector	248.6	336.3	350.3	362.4	414.1	534.1	586.8
Resident Private Sector	792.7	800.3	865.5	930	969.7	1003.2	1044
Non-Resident private Sector	30.8	33.7	35.6	37.9	43.9	55.2	42.4
According to facility type							
Loans	474.8	517.2	553.8	637.9	619.2	690	728.2
Overdraft	581.1	638.5	682	680.1	795.5	890.2	931.4
Leasing	6.3	6.3	6.6	6.7	7.3	7.9	9
Bankers Acceptances and bills	9.8	8.3	9	5.6	5.7	4.4	4.6
According to currency							
US \$	673.8	753.4	798.2	825.5	843.4	1049.5	1200.3
JD	146.7	153.3	168.8	174.8	174.2	182.1	197.8
NIS	242.4	254.2	274.2	319.2	397.4	348.6	264.6
Other Currencies	9.2	9.4	10.2	10.8	12.7	12.3	10.5
Total	1072.1	1170.3	1251.4	1330.3	1427.7	1592.5	1673.2

Source: Palestinian Monetary Authority, Monthly Statistical Bulletin, Different Issues.

Table 6: Most Important Items in Combined Budget of Banks 2000 – 2005.

Item	2000	2001	2002	2003	2004	2005	
						Q1	Q2
Cash in the Fund (%)	3	3.8	3.8	4.8	4.4	4.5	4.6
Balances with P.M.A (%)	8.4	7.8	8.4	10.2	10.6	9.6	10.4
Balances with Banks in Palestine (%)	5.1	5	4.1	7.6	4	4.4	3.7
Balances with Banks abroad (%)	46.8	49.1	54.4	48	45.6	42.7	41.8
Credit Facilities (%)	29.3	27.6	22.4	22.7	27.9	30.5	30.7
Portfolio Investment (%)	2.4	2	2.4	2.5	2.4	3	3.6
Other Assets (%)	5.1	4.6	4.5	4.3	5.1	5.3	5.2
Assets-Liabilities	100	100	100	100	100	100	100
Customer Deposits (%)	76.4	76.8	80.4	76.6	77.4	76.4	75.5
PMA Deposits (%)	2.6	2	2.5	2.4	2.9	2.1	3.1
Deposits of banks operating in Palestine (%)	5	5.2	4.4	7.6	3.9	4.2	3.6
Deposits of banks operating abroad (%)	5.8	5.7	1.6	1.1	0.9	2.4	2.4
Equities (%)	5.3	4.7	4.5	4.7	6	7.1	7.9
Bad Debts allowances (%)	1.4	1.9	2.4	3	2.9	2.5	2.3
Other Liabilities	3.5	3.6	4.3	4.6	6	5.3	5.2

Source: Palestinian Monetary Authority, Unpublished Information.

Table 7: Dollar Exchange Rate against Israeli Shekel on 30/8/2005

Facility	Buying Price	Selling Price	Spread	Spread unit (pip)	Difference (%)
Street Money Exchanger					
Street Money Exchanger 1	4.51	4.54	0.03	30	0.66%
Street Money Exchanger 2	4.52	4.54	0.02	20	0.44%
Street Money Exchanger 3	4.51	4.54	0.03	30	0.66%
Average				26.6	0.58%
Exchange Bureaus in Ramallah					
Exchanger 1	4.53	4.55	0.02	20	0.44%
Exchanger 2	4.52	4.55	0.03	30	0.66%
Exchanger 3	4.52	4.55	0.03	30	0.66%
Average				26.6	0.58%
Palestinian Banks					
Palestinian Bank 1	4.52	4.54	0.02	20	0.44%
Palestinian Bank 2	4.52	4.59	0.07	70	1.54%
Palestinian Bank 3	4.52	4.55	0.03	30	0.66%
Average				40	0.88%

Israeli Banks					
Bank Leumi	4.42	4.64	0.22	220	5.00%
Arab Israel Bank	4.44	4.66	0.22	220	5.00%
Bank Hapoalim	4.44	4.66	0.22	220	5.00%
Average				220	5.00%

Source: Collected by MAS through on-the-spot survey in Ramallah and telephone calls to Israeli Banks.

Table 8: Jordanian Dinar Exchange Rate against Israeli Shekel on 30/8/2005

Facility	Buying Price	Selling Price	Spread	Spread unit (pip)	Difference (%)
Street Money Exchanger					
Street Money Exchanger 1	6.37	6.42	0.05	50	0.78%
Street Money Exchanger 2	6.37	6.43	0.06	60	0.94%
Street Money Exchanger 3	6.37	6.43	0.06	60	0.94%
Average				56.6	0.88%
Exchange Bureaus in Ramallah					
Exchanger 1	6.4	6.45	0.05	50	0.78%
Exchanger 2	6.38	6.43	0.05	50	0.78%
Exchanger 3	6.35	6.43	0.08	80	1.25%
Average				60	0.94%
Palestinian Banks					
Palestinian Bank 1	6.38	6.42	0.04	40	0.62%
Palestinian Bank 2	6.39	6.47	0.08	80	1.25%
Palestinian Bank 3	6.4	6.45	0.05	50	0.78%
Average				56.6	0.88%
Israeli Banks					
Bank Leumi	6.16	6.65	0.49	490	7.95%
Arab Israel Bank	6.18	6.68	0.5	500	8.09%
Bank Hapoalim	6.2	6.66	0.46	460	7.41%
Average				483	7.80%

Source: Collected by MAS through on-the-spot survey in Ramallah and through telephone calls to Israeli Banks

Table 9: Euro Exchange Rate Against Israeli Shekel on 30/8/2005

Facility	Buying Price	Selling Price	Spread	Spread unit (pip)	Difference (%)
Street Money Exchanger					
Street Money Exchanger 1	5.4	5.5	0.1	100	1.85%
Street Money Exchanger 2	5.47	5.51	0.04	40	0.73%
Street Money Exchanger 3	5.45	5.5	0.05	50	0.91%
Average				63	1.16%

Exchange Bureaus in Ramallah					
Exchanger 1	5.45	5.55	0.1	100	1.83%
Exchanger 2	5.5	5.55	0.05	50	0.90%
Exchanger 3	5.4	5.5	0.1	100	1.85%
Average				83	1.52%
Palestinian Banks					
Palestinian Bank 1	5.49	5.58	0.09	90	1.63%
Palestinian Bank 2	5.49	5.64	0.15	150	2.73%
Palestinian Bank 3	5.5	5.6	0.1	100	1.81%
Average				113	2.05%
Israeli Banks					
Bank Leumi	5.39	5.67	0.28	280	5.19%
Arab Israel Bank	5.41	5.69	0.28	280	5.17%
Bank Hapoalim	5.4	5.67	0.27	270	5.00%
Average				276.6	5.12%

Source: Collected by MAS through on-the-spot survey in Ramallah and telephone calls to Israeli Banks

Table 10: Interest Rate Margins in Palestine Compared to Other Countries (%)

Period	Currency	Country	Interest on Facilities	Interest on Credits	Interest Margin
2002	JD	Jordan	9.35	3.97	5.38
		Palestine	9.41	2.74	6.67
	\$	USA	4.68	1.73	2.95
		Palestine	7.97	0.89	7.08
	NIS	Israel	9.9	6.9	3
		Palestine	15.47	5.55	9.92
2003	JD	Jordan	8.74	2.75	5.99
		Palestine	9.43	2.53	6.9
	\$	USA	4.12	1.15	2.97
		Palestine	7.56	0.78	6.78
	NIS	Israel	10.6	7.6	3
		Palestine	13.66	4.25	9.41
2004	JD	Jordan	7.59	2.5	5.09
		Palestine	7.11	1.57	5.54
	\$	USA	4.34	1.57	2.77
		Palestine	7.11	1.57	5.54
	NIS	Israel	7.5	4.3	3.2
		Palestine	13.79	1.92	11.87

Q1 2005	JD	Jordan	7.47	2.69	4.78
		Palestine	8.94	1.46	7.48
	\$	USA	5.58	2.97	2.61
		Palestine	7.34	1.85	5.49
	NIS	Israel	6.6	3.6	3
		Palestine	13.98	1.87	12.11
Q2 2005	JD	Jordan	7.5	2.74	4.76
		Palestine	8.93	1.65	7.28
	\$	USA	6.01	3.38	2.63
		Palestine	7.29	2.14	5.15
	NIS	Israel	6.5	3.6	2.9
		Palestine	13.66	1.88	11.78

Source: Palestinian Monetary Authority and Websites of Central Banks Mentioned in Table

Table 15: Summary of Demographic Indicators in Palestinian Territories, by Region (1997- 2005)

Indicator	Year								
	1997	1998	1999	2000	2001	2002	2003	2004	2005
Sex ratio	101.9	102	102.1	102.2	102.3	102.4	102.5	102.6	102.7
Dependency ratio	101.3	101.3	101	100.6	100	99.5	98.6	97.6	96.3
Median age	16.4	16.4	16.4	16.4	16.5	16.5	16.6	16.6	17.7
Crude birth rate	42.7	42.1	41.4	40.9	40.2	39.6	38.8	38.1	37.3
Crude Mortality rate	4.9	4.8	4.6	4.5	4.4	4.3	4.2	4.1	4
Natural rate of increase	3.8	3.7	3.7	3.6	3.6	3.5	3.4	3.4	3.3
Total Fertility rate	6	-	5.9	-	-	-	4.6	-	-
Life Expectations									
Males	70.2	70.4	70.6	70.7	70.9	71.1	71.2	71.4	71.5
Females	71.7	71.9	72.1	72.2	72.4	72.6	72.7	72.9	73
Divorce Contracts	3,449	3,465	3,761	3,546	3,687	3,045	3,909	3,961	-
Crude Divorce rate	1.2	1.2	1.2	1.1	1.1	0.9	1.1	1.1	-
Marriage Contracts	23,492	24,400	24,874	23,890	24,635	22,611	26,267	27,634	-
Crude Marriage rate	8.4	8.4	8.2	7.6	7.5	6.7	7.5	7.6	-
Median age at first marriage									
Males	23	23.9	24.1	24.1	24.2	24.2	24.6	24.6	-
Females	18	18.7	18.8	18.9	19	19	19.4	19.3	-
Average Family Size	6.4	-	-	6.1	-	-	6.1	-	-
West Bank									
Sex ratio	102.1	102	102.2	102.2	102.5	102.5	102.6	102.7	102.7
Dependency ratio	94.7	94.7	94.6	94.3	93.9	93.4	92.6	91.7	90.6
Median age	17.4	17.4	17.4	17.4	17.4	17.4	17.5	17.6	17.7
Crude birth rate	41.2	40.4	39.6	38.8	38	37.3	36.3	35.4	34.5
Crude mortality rate	5.1	4.9	4.8	4.6	4.5	4.4	4.3	4.2	4.1
Natural rate of increase	3.6	3.6	3.5	3.4	3.4	3.3	3.2	3.1	3
Total Fertility rate	5.6	-	5.5	-	-	-	4.1	-	-

Life Expectations									
Males	70.4	70.6	70.8	71	71.1	71.3	71.4	71.6	71.7
Females	72.2	72.3	72.5	72.6	72.8	73	73.1	73.3	73.4
Divorce Contracts	2,143	2,213	2,388	2,120	2,207	1,775	3,360	3,304	–
Crude Divorce rate	1.2	1.2	1.2	1.1	1.1	0.8	1.1	1	–
Marriage Contracts	15,883	16,285	16,099	14,867	14,483	12,319	14,782	15,551	–
Crude Marriage rate	8.9	8.8	8.3	7.4	7	5.7	6.6	6.8	–
Median age at first marriage									
Males	24	24.2	24.4	24.5	24.6	24.6	25.1	25.1	–
Females	18	18.8	18.9	19	19.1	19.1	19.4	19.5	–
Average Family Size	6.1	–	–	5.7	–	–	5.8	5.5	–
Gaza Strip									
Sex ratio	101.5	101.5	101.6	101.7	101.8	102.3	102.4	102.4	102.5
Dependency ratio	114.5	114.1	113.6	112.8	111.9	111.1	109.9	108.6	107
Median age	14.8	14.8	14.9	14.9	15	15	15.1	15.2	15.4
Crude birth rate	45.4	45.1	44.7	44.5	44.1	43.8	43.3	42.8	42.2
Crude Mortality rate	4.7	4.6	4.4	4.3	4.2	4.1	4	3.9	3.9
Natural rate of increase	4.1	4.1	4	4	4	4	3.9	3.9	3.8
Total Fertility rate	6.9	–	6.8	–	–	–	5.8	–	–
Life Expectations									
Males	69.9	70.1	70.2	70.4	70.6	70.8	70.9	71.1	71.2
Females	71	71.2	71.3	71.5	71.7	71.9	72	72.2	72.3
Divorce Contracts	1,306	1,252	1,373	1,426	1,480	1,270	1,549	1,657	–
Crude Divorce rate	1.3	1.2	1.3	1.3	1.2	1	1.2	1.2	–
Marriage Contracts	7,609	8,115	8,775	9,023	10,152	10,292	11,485	12,083	–
Crude Marriage rate	7.6	7.8	8.1	7.9	8.5	8.3	8.9	9	–
Median age at first marriage									
Males	22	23.4	23.5	23.6	23.6	23.7	24	24	–
Females	18	18.5	18.7	18.7	18.8	18.9	19.1	19.1	–
Average Family Size	6.9	–	–	6.9	–	–	6.8	6.2	–

Source: Palestinian Central Bureau of Statistics, 2005

Table 16: Estimated Population in Palestinian Territories, by Governorate, Mid-2005

District/Region	Population	Percent
Palestinian territory	3,762,005	100
West Bank	2,372,216	63.1
Jenin	254,218	6.8
Tubas	46,644	1.2
Tulkarem	167,873	4.5
Qalqilya	94,210	2.5
Salfit	62,125	1.7
Nablus	326,873	8.7
Ramallah and Al-Bireh	280,508	7.5
Jerusalem	398,333	10.6
Jericho	174,654	4.6
Bethlehem	42,268	1.1
Hebron	524,510	13.9

Gaza Strip	1,389,789	36.9
North Gaza	265,932	7
Gaza	487,904	13
Deri Al-balah	201,112	5.3
Khan Younis	269,601	7.2
Rafah	165,240	4.4

Source: Palestinian Central Bureau of Statistics, 2005