



**Palestine Monetary Authority (PMA)**



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



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

*Quarterly  
Economic and Social Monitor*

**Volume 6**

**August 2006**

**Editor:**

Dr. Basim Makhool

**Researchers:**

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

Ibrahim Hantash (Coordinator)

Hassan Ladadweh	Fause Ersheid	Yousef Adwan
Riyad Al-Halees	Sara Al-Haj Ali	Asrar Zahran

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

Sufian Barghouthi (Coordinator)

Amina Khasib	Abdel Afu Juma'	Suha Kanaan
Mohammad Dureidi	Adel Qararieh	Mohamad Qalalweh
	Saadi Al-Masry	

**From the Palestine Monetary Authority (PMA)**

Mohamad Abeid                      Majdolen Farhaneh

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P.O. Box 19111, Jerusalem; and P.O. Box 2426, Ramallah

Telephone: +972-2-2987053/4

Fax: +972-2-2987055

E-mail: [info@mas.org.ps](mailto:info@mas.org.ps)

© 2006 Palestinian Central Bureau of Statistics

P.O. Box 1647, Ramallah

Telephone: +972-2-2406340

Fax: +972-2-2406343

E-mail: [diwan@pcbs.pna.org](mailto:diwan@pcbs.pna.org)

© 2006 Palestine Monetary Authority

P.O. Box 452, Ramallah

Telephone: +970-2-2409322

Fax: +972-2-2409922

E-mail: [info@pma.gov.ps](mailto:info@pma.gov.ps)

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This issue of the *Economic & Social Monitor* was funded by the Ford Foundation (MAS), the PMA, and the Core Funding Group (PCBS).

## **Introduction**

The first quarter of 2006 in the Palestinian Territory witnessed important political developments, which were mirrored in social and economic indicators. Perhaps the most prominent of these developments was the result of the Palestinian Legislative Council (PLC) elections held on 25 January 2006. The Hamas movement won a majority of seats, enabling it to form a new government.

The results of the democratic election and its consequences in terms of the formation of a new government were met with varying responses from different regional and international parties. Some countries celebrated the results, whereas European countries were extremely concerned over Hamas' electoral victory and conditioned their aid for the Palestinian people on a number of political demands placed on the new government. The most extreme stance was advanced in harmony by Israel and America, and it was this stance which has had the largest negative economic and social impact in the Palestinian Territory. The Israeli government stopped its transfers of money owed to the Palestinian National Authority (PNA) such as tax and customs revenues, which the Israeli government levies on behalf of the PNA. Similarly, the US stopped assistance to the Palestinian people and pressured a number of other countries to cease their support as well. The American administration also put pressure on banking institutions to prevent transfers of financial assistance which Arab and Islamic countries had collected and donated to the Arab League for its fund supporting the Palestinian people.

These rigid stances had varied negative consequences on the economic and humanitarian situation in the Palestinian Territory. For instance, since the month of March, the PNA was unable to pay salaries to civil servants because of the large-scale reduction in the PNA's revenues. Furthermore, thousands of Palestinian families were affected by the cut in foreign assistance, which had previously been a basic source of income for them. Trade was also badly affected by the crisis, and naturally so were living standards.

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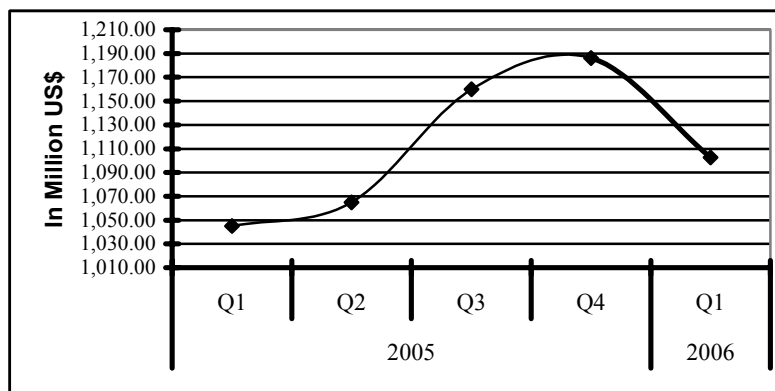


## 1. National Accounts

Preliminary reports about national accounts in constant prices in the West Bank<sup>1</sup> and the Gaza Strip during the first quarter of 2006 showed a considerable reduction in GDP (7%<sup>2</sup> in comparison to the fourth quarter of 2005), which reached approximately US\$1,102.7 million (see *Figure 1*). Similarly, per capita GDP was reduced by 8.2% from the fourth quarter of 2005, reaching US\$305.9 million.

All areas of economic activity experienced a downturn. In particular, the value added by health and social work activities decreased by 17.9%, and the value added by mining and stone quarrying activities contracted by 16.7%. The value added by the agriculture and fishing sector was reduced by 12.6%. The smallest decrease in the value added was recorded in financial intermediation, which experienced a 1.6% decrease in comparison to the previous quarter.

**Figure 1: GDP in the West Bank<sup>3</sup> and Gaza Strip  
(base year 1997)**



Source: PCBS, 2006. Press Conference on the Preliminary Quarterly Report on the National Account (First Quarter 2006), Preliminary Data.

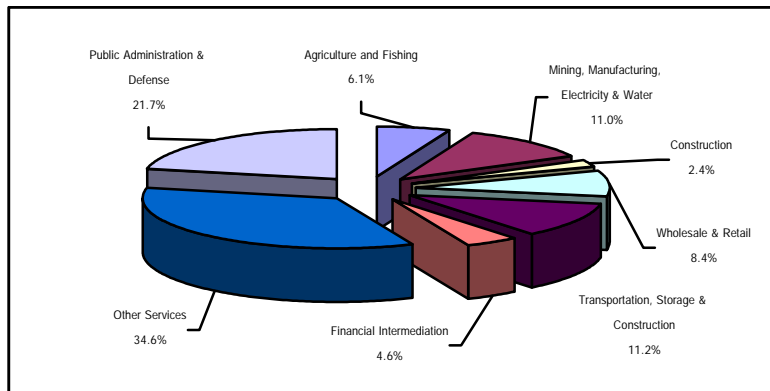
The first quarter of 2006 witnessed some changes in the percentage contribution of economic sectors to GDP. Most economic sectors had a decreased share, and one of the most noticeable reductions was in the services sector which decreased from 38.4% to 34.6% over the two quarters. Similarly, the share of mining activities dropped, as did manufacturing from 11.3% to 11.0%. The agricultural share dropped from 6.5% to 6.1%. Construction activities maintained the same share of 2.4% during the two quarters. Concurrently, the share of transportation, storage and communications reached 11.2%, up from 9.7% in the previous quarter. The share of wholesale and retail increased from 7.9% to 8.4% (see *Figure 2*).

<sup>1</sup> Excluding occupied East Jerusalem

<sup>2</sup> The comparison is between the first quarter of 2006 and the fourth quarter of 2005 (third revision). This data is different from that reported in the previous monitor.

<sup>3</sup> Excluding occupied East Jerusalem

**Figure 2: Percent Contribution to the GDP by Economic Activity in the West Bank<sup>4</sup> and Gaza Strip in the First Quarter of 2006**



## 2. The Labour Market

### 2.1 The Labour Force

Labour force data demonstrate a slight drop in the labour force participation rate at the national level in the first quarter of 2006 (40.0%) in comparison with the fourth quarter of 2005 (40.3%). The number of labour force participants rose slightly from 830,000 to 831,000. The participation rate rose in the West Bank from 42.4% to 42.5% while in Gaza it dropped from 36.4% to 35.3%.

Data indicate that nearly 60% of individuals aged fifteen years and older are outside of the labour force, in comparison to 59.7% in the last quarter of 2005. Nearly half (48.2%) of individuals who remained outside of the labour force did so because they were engaged in domestic work. Another 34.5% remained outside of the labour force due to training or education programs, and 11.7% remained out because of old age or illness. Finally, 5.6% remained out due to other reasons.

### 2.2 Workers in the Palestinian Territory

The number of workers from the Palestinian Territory reached approximately 621,000 in the first quarter of 2006. This comprised 452,000 from the West Bank and 169,000 from the Gaza Strip. In terms of distribution, 63.1% worked in the West Bank, 27.1% worked in the Gaza Strip and 9.8% worked in Israel and in Israeli settlements. This distribution differs from the previous quarter, when the percentages were 60.8% in the West Bank, 29.7% in the Gaza Strip and 9.5% in Israel and the settlements.

The domestic economy accommodates around 560,000 workers, which represents 90.2% of the total. Of these workers, 26.3% are in the public sector, 69.2% are in the private sector and 4.5% are in NGO and other sectors.

<sup>4</sup> Excluding occupied East Jerusalem

In comparison with the previous quarter, the first quarter of 2006 saw an increase in the percentage of paid employees from 60.6% to 61.1%. This included an increase from 69.4% to 71.0% in the Gaza Strip and an increase from 56.9% to 57.4% in the West Bank.

The service sector employs 39.2% of total workers in the Palestinian Territory (33.7% in the West Bank and 52% in the Gaza Strip). Another 20.2% work in commerce, hotel and restaurant services (21.6% in the West Bank and 17.1% in the Gaza Strip). The agricultural sector comprises 13.6% of total workers (15.1% in the West Bank and 10.0% in the Gaza Strip).

### **2.3 Workers in Israel and the Israeli Settlements**

The number of Palestinian workers employed in Israel and in settlements reached 61,000 in the first quarter of 2006. Of these, 60,000 were from the West Bank and 1,000 were from the Gaza Strip. This represents a vast drop from the number on the eve of the Intifada in the third quarter of 2000 (nearly 146,000 workers, including 116,000 from the West Bank and 30,000 from the Gaza Strip).

### **2.4 Unemployment**

The unemployment rate (according to the ILO definition) rose during the first quarter of 2006 reaching 25.3%, up from 23.8% in the previous quarter. This rise in the unemployment level was a result of the situation in the Gaza Strip where unemployment rose from 28.2% to 34.1%. This is in contrast to the West Bank where unemployment dropped from 21.8% to 21.4%. The unemployment rate has risen among males from 23.7% to 25.6%, while it has dropped among women from 24.3% to 23.5%.

The number of unemployed in the Palestinian Territory rose in the first quarter of 2006 from 198,000 to 210,000 (123,000 in the West Bank and 87,000 in Gaza).

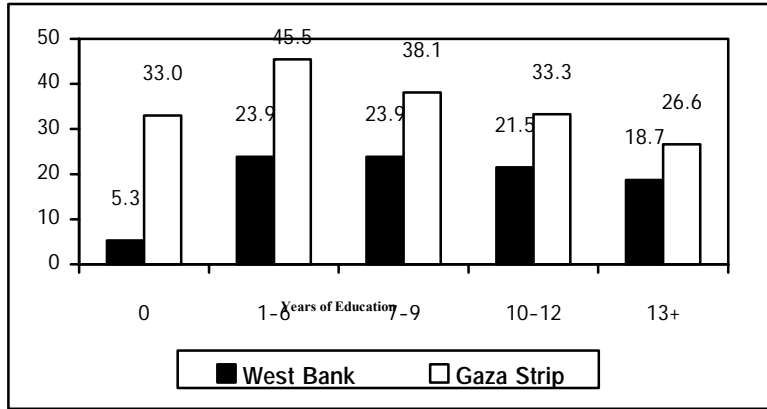
The highest rate of unemployment recorded in the West Bank was in the governorate of Jenin, which had a rate of 31.5%. The lowest was in Bethlehem, which had a rate of 8.8%. In the Gaza Strip, the highest unemployment rate was recorded in the Khan Younis governorate at 38.2%, and the lowest in Rafah at 28.2%.

The burden of unemployment differs by region and group according to prevailing social and geographical factors. For instance, the 15-24 year-old age group had an unemployment rate of 39.1% nationally, but with widely differing rates of 32.6% in the West Bank and 53.0% in Gaza. The high overall rates of unemployment in this age group may be attributed to the fact that young age places most of these individuals are entering the labour market for the first time and may lack the required experience.

The next age category (25-34 years) has an unemployment rate of 23.9% (20.9% in the West Bank and 30.3% in Gaza). Data show that the lowest rate of unemployment is among the age group of 55 years and above. The unemployment rate for this age group was recorded at 11.9% (9.1% in the West Bank and 19.8% in the Gaza Strip).

Data also show that the unemployment rate is highest among people who have one to six years of education, reaching 30.9%. Unemployment rates are negatively correlated with educational achievement. The lowest rate of unemployment is among those who have completed 13 or more years of education (21.6%). An exception to this rule is people who have received no education, among whom the unemployment rate does not exceed 11.4% (*see Figure 3*).

**Figure 3: Unemployment Rates in the Palestinian Territory during the First Quarter of 2006 according to Years of Education and Region**



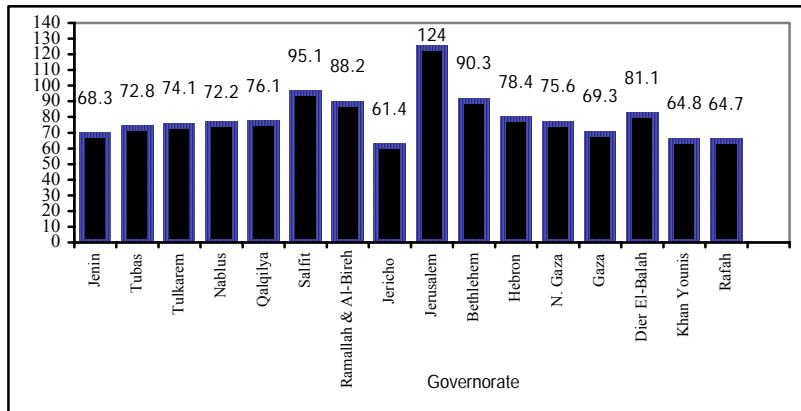
Source: PCBS, 2006. Periodic Labour Force Survey (January-March 2006)

## 2.5 Wages

Data show that employees' average daily wage rates in the Palestinian Territory (including those working in Israel) increased during the first quarter of 2006, reaching NIS83.4. This is an increase from NIS80.3 in the previous quarter. In the West Bank, the average daily wage rate increased from NIS87.7 to NIS 89.5, and in the Gaza Strip it increased from NIS66.5 to NIS70.8 from the previous quarter.

In terms of work location, the highest average daily wage rate (NIS130.1) was recorded in Israel and the settlements. However, this represented a decrease from the previous quarter when the average daily wage rate for workers working in Israel and the settlements was NIS132.5. The average daily wage rate in the West Bank was NIS77.9 (up from NIS 75.3) and NIS70.1 in Gaza (up from NIS66.4).

**Figure 4: Employees' Daily Wage Rates in NIS in the Palestinian Territory during the First Quarter of 2006 according to Governorate**



Source: PCBS, 2006. Periodic Labour Force Survey (January-March 2006)

When analyzed according to governorate, the highest average daily wage rate was recorded in Jerusalem (NIS124) and the lowest was in the Jericho district (NIS61.4). In the Gaza Strip, the highest rate was recorded in Deir El-Balah (NIS81.1) and the lowest in Khan Younis (NIS64.8) (see Figure 4).

## 2.6 Women in the Labour Force

There was a slight increase in female labour force participation rates from 12.2% to 12.7%. This included an increase in the West Bank from 14.1% to 16.0% and a drop in the Gaza Strip from 8.6% to 6.5% between the fourth quarter of 2005 and the first quarter of 2006. The total number of female workers is approximately 100,000, including 85,000 in the West Bank and 15,000 in the Gaza Strip.

## 2.7 Announcements of Job Vacancies

There was a 9.6% increase in the number of vacancy announcements in the three main daily newspapers between the last quarter of 2005 and the first quarter of 2006. This increase occurred despite the continuing deterioration of the economic situation as a result of the political, economic and financial siege which Israel and donor countries imposed on the Palestinian Territory. There were 955 vacancy announcements during the second quarter of the year, 68.6% of which were in the private sector, 28.9% were in the NGO sector and 2.5% were in the public sector. Additionally, there were 133 advertisements that did not specify the number of vacancies (see Table 1).

**Table 1: Number of Positions Advertised for in the Three Main Daily Palestinian Newspapers according to Sector during the Second Quarter of 2006**

	Public Sector	Private Sector	NGO Sector	Total
<b>April</b>	6	191	85	282
<b>May</b>	8	170	77	255
<b>June</b>	10	294	114	418
<b>Total</b>	<b>24</b>	<b>655</b>	<b>276</b>	<b>955</b>

Source: Collected by MAS from the three major daily newspapers (Al-Quds, Al-Ayyam and Al-Hayyat)

Table 2 shows advertised positions categorized according to required educational qualification. Most (67.3%) of the advertisements required a bachelor's degree and an additional 17.2% required a two-year college diploma. The percentage of advertised positions requiring a higher degree decreased to 10.9%. Advertised positions not requiring any educational qualifications were 4.6% of the total.

Of the vacant positions, 82.7% were in the West Bank and 17.3% were in Gaza. The location of most (75.9%) of the advertised positions in the West Bank was in the central region. This is due to the central region's high concentration of governmental and civil society institutions as well as the largest private sector institutions—particularly in the Ramallah and Al-Bireh governorate.

**Table 2: The Number of Advertised Positions in the Three Main Daily Palestinian Newspapers according to Required Educational Qualifications during the Second Quarter of 2006**

	Master's or Higher	Bachelor's Degree	2-Year College Degree	Lower Level of Education	Total
<b>April</b>	20	187	58	17	282
<b>May</b>	46	177	30	2	255
<b>June</b>	38	279	76	25	418
<b>Total</b>	<b>104</b>	<b>643</b>	<b>164</b>	<b>44</b>	<b>955</b>

Source: Collected by MAS from the three major daily newspapers (Al-Quds, Al-Ayyam and Al-Hayyat)

The northern region accounted for 12.1% of West Bank advertisements while the southern region accounted for 11.8%. In the Gaza Strip, there was a 29.9% increase in the number of vacancy announcements from the first to the second quarter of 2006—most of which occurred during the month of June (see Table 3).

**Table 3: Number of Advertised Positions in the Three Main Daily Palestinian Newspapers according to Geographical Region: 2<sup>nd</sup> Quarter 2006**

	West Bank			Total (West Bank)	Total (Gaza Strip)
	North	Middle	South		
<b>April</b>	20	187	33	240	42
<b>May</b>	27	162	26	215	40
<b>June</b>	49	251	35	335	83
<b>Total</b>	<b>96</b>	<b>600</b>	<b>94</b>	<b>790</b>	<b>165</b>
<b>Percent</b>	<b>12.2%*</b>	<b>76.0%</b>	<b>11.8%</b>	<b>82.7%</b>	<b>17.3%</b>

Source: Collected by MAS from the three major daily newspapers (Al-Quds, Al-Ayyam and Al-Hayyat)

\* From total West Bank announcements

As Table 4 shows, 17.8% of job advertisements in the NGO sector require a graduate level degree. Only 8.1% of job advertisements in the private sector call for a graduate level degree as compared to 8.3% of public sector job advertisements. In all three sectors, the greatest proportion of job advertisements called for a bachelor's degree (83.3% in the public sector, 71% in the NGO sector and 65.2% in the private sector). It is worth noting that the percentage of job announcements with no requirements of educational qualifications was low, and in this quarter was limited to the private sector.

In terms of required specializations, the highest percentage of advertisements (24.3%) called for administration and accounting skills. This was followed by engineering and technological skills (22.7%) and social sciences (9.4%).

**Table 4: Number of Vacancy Announcements Advertised in the Three Main Daily Palestinian Newspapers according to Educational Qualifications and Sector in the Second Quarter of 2006**

	<b>Public Sector</b>	<b>Private Sector</b>	<b>NGOs</b>	<b>Total</b>
Master's Degree or Higher	2	53	49	104
Bachelor's Degree	20	427	196	643
2-Year College Diploma	2	131	31	164
Lower Levels of Education	0	44	0	44
<b>Total</b>	<b>24</b>	<b>655</b>	<b>276</b>	<b>955</b>

Source: Collected by MAS from the three major daily newspapers (Al-Quds, Al-Ayyam and Al-Hayyat)

### **3. Balance of Payments**

Primary data on the balance of payments for 2004 show a continuing deficit in current accounts. In 2004, the overall Palestinian balance of payments had a deficit of around US\$1,282 million or 30% of GDP. This is in comparison with US\$931 million in 2003. The principal reason for this increase in the deficit was the increase in commercial imports, which rose from US\$1,955 million in 2003 to more than US\$2,313 million in 2004. This has, in turn, led to an increase in the net trade balance for goods by US\$337 million at the end of 2004 and by 21% in comparison to 2003. Preliminary data on the services trade balance suggest a decrease in the deficit from US\$341 million in 2003 to US\$303 million in 2004.

The shrinking of the balance of payments' income item since 2001, after the outbreak of the Al Aqsa Intifada, is of great concern. Violent incidents and closure led to a massive reduction in the number of Palestinians working in Israel. The resulting reduction in their income led to a decrease in the contribution of the income item in current accounts. Income reached US\$229.4 million by the end of 2004 in comparison with US\$253 million in 2003. In 1999, this number had exceeded US\$750 million. Income transferred from abroad and current remittances fell slightly. The former decreased from US\$253 million in 2003 to US\$229 million in 2004 and the latter from US\$785 million to US\$756 million during the same period.

In 2002, remittances equalled US\$1,051 million. This represented an increase from previous years, which was attributed to an increase in foreign aid and remittances from the private sector abroad. This came in the context of poor political and economic conditions in 2002 (*see Table 5*).

During 2003 and 2004, capital and financial accounts experienced an increase, bringing them to their pre-Intifada levels. These accounts increased from US\$1,130 million in 2003 to US\$1,319.5 million in 2004. Previously, in 2002, these accounts had been as low as US\$414 million. The available data suggest that this increase is a result of a rise in capital flows to the Palestinian Territory. These flows increased from US\$288.7 million in 2003 to US\$659.8 million in 2004. The improved security and political situation in 2004 may be the principal reason for this increase. The financial accounts declined by the end of 2004 by approximately US\$182 million, equalling US\$659.3 million in comparison to US\$841.1 million in 2003.

The registered surplus of the direct investment item (net change in investment) during 2004 was US\$60.4 million as compared to a deficit of US\$30.5 million in 2003. The surplus in indirect investment in 2004 was around US\$22 million, compared to a deficit of around US\$25 million in 2003. Other investments witnessed a noticeable decrease in 2004. These investments dropped by 37.5% from the previous year to US\$604.6 million.

**Table 5: Principal Results of Palestinian Balance of Payments during 2000-2004**

<b>Indicator</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
<b>1. Current Accounts</b>	-949.7	-571.8	-435.2	-931.0	-1,281.8
<b>1.1 Goods</b>	-1,960.1	-1,304.9	-1,221.5	-1627.8	-1,964.5
Exports	490.5	392.2	320.2	327.1	348.8
Imports	-2,450.6	-1,697.1	-1,541.7	-1,954.9	-2,313.3
<b>1.2 Services</b>	-294.4	-526.8	-488.9	-341.3	-302.7
Exports	240.8	114.6	98.2	108.7	133.3
Travel	100.7	11.7	9.4	20.7	26.2
Construction Services	46.0	24.0	15.0	13.8	18.2
Other Administrative Services	65.3	58.0	45.7	50.0	59.1
Government Services	11.6	10.1	20.7	9.5	10.2
Other Services	17.2	10.9	7.4	14.7	19.5
Imports	535.1	641.4	587.1	450.0	436.1
Transportation	57.1	66.9	38.7	47.8	57.4
Travel	290.4	378.1	345.0	264.7	245.9
Communication Services	36.0	20.2	15.9	16.3	41.0
Insurance Services	9.3	9.4	12.7	6.3	10.9
Other Administrative Services	41.0	33.2	25.7	31.2	38.6
Culture and Entertainment Services	7.8	13.6	22.1	27.0	9.3
Government Services	89.5	115.5	111.2	54.0	28.3
Other Services	4.1	4.4	16.1	2.6	4.6
<b>1.3 Income</b>	669.2	326.1	223.6	252.9	229.4
Fees	709.4	341.9	232.1	254.7	262.6
Workers' Compensation	620.0	200.2	141.1	204.0	204.4
From Israel	600.8	179.0	106.1	167.5	161.6
Income from Investment	89.4	141.7	91.0	50.7	58.2
Payments	40.2	15.8	8.5	1.8	33.2
<b>1.4 Current Transfers</b>	635.6	933.9	1,051.6	785.2	756.1
Cash Flows	728.3	1,000.3	1,115.0	876.9	857.6
Government	240.4	325.3	415.2	662.3	531.9
Donor Countries	233.6	324.2	414.1	660.4	530.5
Other Sectors (Private)	488.0	674.9	699.7	214.6	325.7
Payments	92.7	66.4	63.4	91.7	101.6
<b>2. Capital Accounts</b>	1,086.0	720.0	413.9	1,130.1	1,319.5
<b>2.1 Capital Accounts</b>	188.8	215.6	290.9	289.1	660.2
Capital Transfers	188.4	215.1	290.5	288.7	659.8
Cash Flows to Palestine	188.4	215.1	290.5	288.7	659.8
Cash Flows from Palestine	0.0	0.0	0.0	0.0	0.0
Non-Productive and Non-Financial Assets	0.4	0.5	0.4	0.4	0.4
<b>2.2 Financial Accounts<sup>5</sup></b>	897.1	504.4	122.9	841.1	659.3

<sup>5</sup> Monetary account includes: direct investment, indirect investment, other investment and reserve assets



<b>Indicator</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Direct Investment	-156.1	-344.5	-366.7	-30.5	60.4
Abroad	-218.1	-363.7	-346.2	-48.5	11.5
In Palestine	62.0	19.2	9.4	18.0	48.9
Indirect Investments <sup>6</sup>	-0.5	-65.0	-78.6	-24.7	21.7
Assets	-12.7	-78.9	-86.9	-37.9	13.8
Liabilities	12.2	13.9	8.2	13.2	7.8
Other Investment	1,144.8	897.6	552.8	996.7	604.6
Assets	1,086.5	901.5	590.9	1,074.3	547.9
Currency and Deposits	970.2	769.1	378.7	897.3	450.2
Liabilities	58.2	-3.9	-38.1	-77.6	56.7
Loans	120.5	42.4	43.3	26.8	55.3
Currency and Deposits	-61.0	-40.9	-80.4	-104.5	1.5
<b>3. Net Errors and Omissions</b>	<b>-136.3</b>	<b>-148.2</b>	<b>21.3</b>	<b>-199.1</b>	<b>-37.7</b>
<b>Overall Balance</b>	<b>91.0</b>	<b>-16.3</b>	<b>14.5</b>	<b>100.5</b>	<b>27.4</b>
<b>Financing</b>	<b>-91.0</b>	<b>16.3</b>	<b>-14.5</b>	<b>-100.5</b>	<b>-27.4</b>
<b>Reserve Assets</b>	<b>-91.0</b>	<b>16.3</b>	<b>-14.5</b>	<b>-100.5</b>	<b>-27.4</b>

Source: PCBS-PMA Joint Press Release on Outcomes of Balance of Payments 2004.

## 4. Infrastructure

### 4.1. Building Licenses

There was a 75.1% increase in the number of building licenses issued during the first quarter of 2006 in comparison with the first quarter of 2005, reaching a total of 2,219 licenses. This surpasses the number of licenses issued in the first quarter of 1999—before the outbreak of the Al Aqsa Intifada—by 9.5%. The increase in the overall number of licenses issued in the Palestinian Territory was due to the large increase (97%) in the West Bank, reaching a total of 2,056 licenses during the two quarters. Concurrently, the number of licenses in the Gaza Strip decreased by 27%.

The overall increase in the number of licenses may be due to the registration by owners of existing non-registered buildings in order to benefit from the flexible registration procedures, which are an outcome of an agreement between the association of engineers and the Ministry of Local Government. Principally, the new flexible procedures include reduced registration fees for engineering offices and specialized governmental departments.

New building licenses represent 40.5% of all licenses issued in the first quarter of 2006. An additional 14.4% of licenses were for additions to buildings. The remaining licenses were divided between licenses for existing buildings and licenses for existing additions.

Approximately 779,700 square meters of buildings were licensed in the first quarter of 2006. This represents a considerable increase (42.6%) from the first quarter of 2005.

Licensed areas of buildings are divided between those that are newly-built (487,400 square meters) and those that were previously-existing (292,300 square meters). The increase in licensed buildings was largely among previously-existing buildings, which increased by 314.6% from the fourth quarter of 2005. However, the increase in licensed new buildings was only 2.3% during the same period. Residential buildings represent 80.1% of newly-constructed area and 85.4% of previously-constructed area (*see Table 6*).

<sup>6</sup> Represent at least 10% of the projects' capital investment

**Table 6: Selected Indicators Related to Building Licenses and Licensed Areas in the West Bank<sup>7</sup> and Gaza for the Years 1999, 2005 and 2006**

Indicators	Licensed Areas (Thousands of Meters squared)		
	First Quarter 1999	First Quarter 2005	First Quarter 2006
<b>Total Area of Licensed Buildings</b>	<b>689.7</b>	<b>546.8</b>	<b>779.7</b>
• <b>New Area</b>	<b>554.0</b>	<b>476.3</b>	<b>487.4</b>
Residential Buildings	446.5	369.0	390.3
Non-Res. Buildings	107.5	107.3	97.1
• <b>Pre-Existing Area</b>	<b>135.7</b>	<b>70.5</b>	<b>292.3</b>
Residential Buildings	122.4	52.9	249.5
Non-Res. Buildings	13.3	17.6	42.8

Source: PCBS, Building Licenses, 1<sup>st</sup> Quarter 2006.

## 4.2 Cement Imports

The previous section on building licenses discussed an increase in the number of licensed building areas in the first quarter of 2006. This is reflected in a positive development in cement importation during that period. Data suggest an increase in the amount of imported cement during the first quarter of 2006 of 10.5% in comparison with the first quarter of 2005, reaching a total of 337,600 tons. This includes 258,600 tons imported to the West Bank, representing a 30% increase from the previous year. Concurrently, the amount imported to the Gaza Strip did not reach 79,000 tons, representing a decrease of 25.9%. Thus, during the same period, both the number of building licenses and the amount of imported cement rose in the West Bank but fell in the Gaza Strip (*see Table 7*).

**Table 7: Cement Imports to the Palestinian Territory from 2004-2006**

Quarter	Palestinian Territory	West Bank	Gaza Strip
First Quarter 2004	229.1	124.0	105.1
First Quarter 2005	305.5	198.9	106.6
First Quarter 2006	337.6	258.6	79.0

Source: Statistics on Imported Cement, PCBS, 2006.

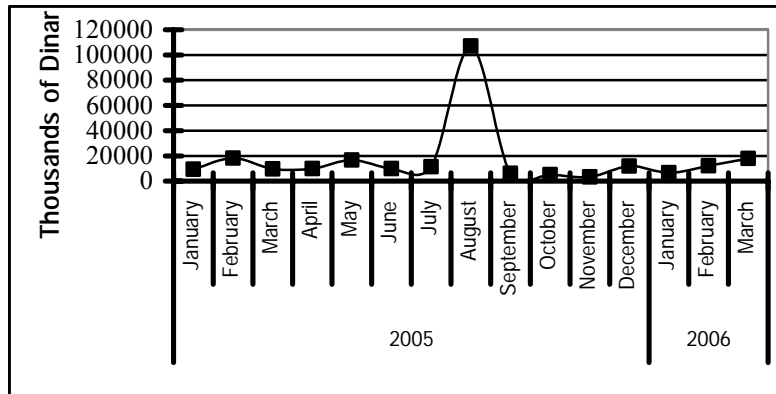
## 4.3 Company Registration<sup>8</sup>

Data on company registration published by the Ministry of National Economy serves as an indicator of the investment climate and tracks the direction of investment in different economic activities. As investment conditions improve either politically or economically, requests for registering new companies increase—even if companies request licensing which is not immediately implemented. The investment environment improved in the first quarter of 2006, and the registering of new companies increased by 5.4% from the previous quarter reaching 175 companies. Similarly, new companies' invested capital increased by 87.5%, reaching approximately 36.8 million Jordanian Dinars. This increased the capital per company value from 122,600 to 210,200 Jordanian Dinars (*see Figure 5*).

<sup>7</sup> Excluding occupied East Jerusalem

<sup>8</sup> Data on company registration in the Gaza Strip could not be accessed for this issue of the monitor.

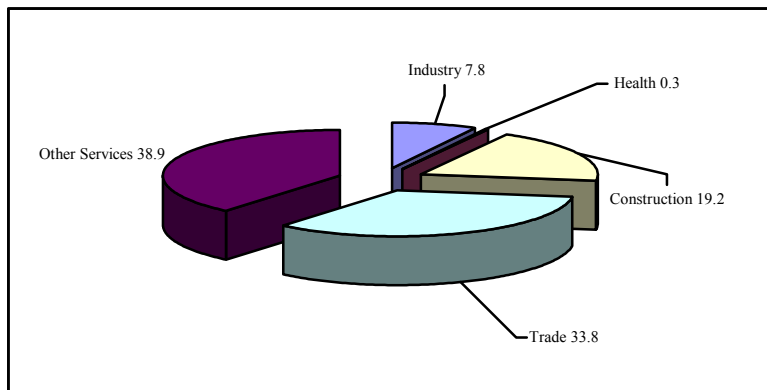
**Figure 5: Newly-Registered Companies' Capital in the West Bank until the First Quarter of 2006**



Source: The Ministry of National Economy, Directorate of Registering Companies, unpublished report

It appears that no newly-registered company entered into agricultural activities. Similarly, health activities were among the lowest in terms of the amount of capital investment. Services, trade and industrial activities remained at approximately the same level as the previous quarter. However, construction activities increased, as they had throughout the Intifada, proving that construction was a relatively less risky sector for investment (*see Figure 6*).

**Figure 6: Distribution of Capital of Newly-Registered Companies in the West Bank according to Economic Activity during the First Quarter of 2006**



Source: The Ministry of National Economy, Directorate of Registering Companies, unpublished report

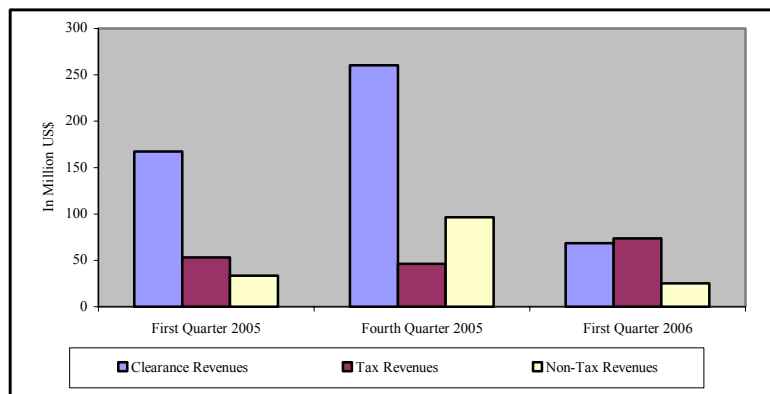
## 5. Public Finance

### 5.1 Public Revenues

Data released by the Ministry of Finance regarding financial performance in the first quarter of 2006 indicated a considerable decrease in public revenues entered into the accounts of the Ministry of Finance. Public revenues amounted to US\$167.4 million, which represents a 58.5%

decrease in comparison to the last quarter of 2005 and a 34% decrease from the first quarter of 2005. The principal reason for this large-scale decrease is Israel's non-transfer of monthly clearances to the Palestinian Ministry of Finance. The total amount of revenues transferred by the Israeli government through the end of the first quarter of 2006 reached US\$68.7 million as compared to US\$260.3 million in the last quarter of 2005 and approximately US\$167.4 million in the first quarter of 2005. Israel stopped the transfer of revenues owed to the PNA in reaction to the victory of Hamas in the recent legislative elections. This is an example of the type of pressure which is being put on the new government in order to change its political stance (see Figure 7).

**Figure 7: Principal Developments in Public Revenues in 2005 and the First Quarter of 2006**



Source: Website of the Ministry of Finance.

Local revenues reached approximately US\$98.7 million at the end of the first quarter of 2006. This represents a reduction of approximately US\$43.7 million in comparison with the last quarter of 2005. However, it surpassed the amount reached in the first quarter of 2005 (US\$86 million). This reduction was a result of a decrease in non-tax revenues by US\$71 million and a decrease in tax revenues by approximately US\$27.4 million.

Local revenues fluctuate over time because of seasonal factors which affect the collection of fees and taxes (see Table 8).

**Table 8: Principal Developments in Public Revenues and Assistance according to Yearly Quarters 2005 and 2006**

	Clearance Revenues	Tax Revenues	Non-Tax Revenues	Grants and Assistance	Total
First Quarter 2005	167.42	52.99	33.35	71.12	324.88
Second Quarter 2005	190.47	64.46	87.66	176.51	519.1
Third Quarter 2005	195.47	66.82	26.92	53.61	342.82
Fourth Quarter 2005	260.27	46.22	96.27	47.23	449.99
<b>First Quarter 2006</b>	<b>68.68</b>	<b>73.59</b>	<b>25.16</b>	<b>130.06</b>	<b>297.49</b>

Source: Website of the Ministry of Finance.

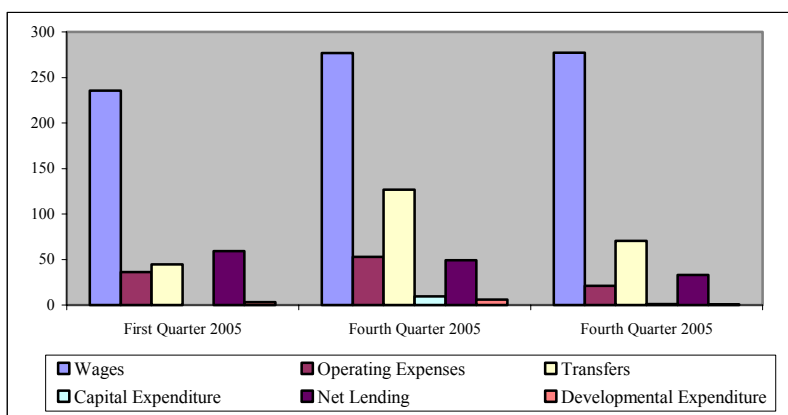
## 5.2 Public Expenditure

Public expenditure decreased by US\$117.5 million between the last quarter of 2005 and the end of the first quarter of 2006, reaching a total of US\$403.37 million. However, expenditures increased by about US\$24 million in comparison with the first quarter of 2005. It is worth noting that current expenditures make up the vast majority of public expenditures (99.8%) and development expenditures make up the remaining percentage (see Figure 8).

Wages and salaries are considered the most important item of current expenditures, comprising nearly 68.6% of total expenditure and reaching US\$227 million at the end of the first quarter of 2006. This represents a slight increase from the previous quarter. It also represents a large increase (US\$41 million) from the first quarter of 2005.

Operational expenditures have decreased by US\$32 million reaching US\$21 million. Similarly, government transfers have decreased by US\$56 million, reaching US\$70 million and leading to a decrease in overall public expenditure.

**Figure 8: Principal Developments in Public Expenditure according to Quarter for 2005 and 2006**



Source: Website of the Ministry of Finance.

Net lending, one source of public expenditure, continued to drop in the first quarter of 2006, reaching US\$33.1 million as compared to US\$49 million in the last quarter of 2005 and US\$59 million in the first quarter of 2005. This is due to the weakened capacity of the PNA to defray or cover expenses, which was in turn due to the large drop in revenues during the same period (see Table 9).<sup>9</sup>

**Table 9: Principal Developments in Public Expenditure according to Quarter for 2005 and 2006**

Quarter	Wages	Operating Expenses	Transfers	Capital Expenditure	Net Lending	Developmental Expenditure	Total
<b>1<sup>st</sup> Quarter 2005</b>	235.58	36.10	44.56	0.15	59.45	3.16	<b>379.00</b>
<b>2<sup>nd</sup> Quarter 2005</b>	235.75	72.04	81.19	3.58	92.88	13.50	<b>498.94</b>
<b>3<sup>rd</sup> Quarter 2005</b>	259.77	56.25	49.34	15.73	74.80	11.71	<b>467.60</b>
<b>4<sup>th</sup> Quarter 2005</b>	276.82	53.06	126.72	9.33	49.04	6.03	<b>521.00</b>
<b>1<sup>st</sup> Quarter 2006</b>	277.10	21.00	70.60	1.20	33.11	0.78	<b>403.79</b>

Source: Website of the Ministry of Finance.

<sup>9</sup> Net lending is defined as the amounts paid by the treasury on behalf of the local government either directly to the electric company in Gaza or indirectly by means of discounting PNA clearance revenues.

### 5.3 Budget Deficit

Despite the noticeable decrease in public spending between the last quarter of 2005 and the first quarter of 2006, revenues were not sufficient to fill the gap created by Israel's non-transfer of clearance revenues to the Ministry of Finance. Previously, these clearances were the most important source of public revenues, and their non-transfer has created a considerable budget deficit, reaching approximately US\$236 million by the end of the first quarter of 2006. This represents a 99% increase from the last quarter of 2005 and an 86% increase from the first quarter of 2005.

### 5.4 Financing

Due to the massive increase in the budget deficit, the government has turned to other sources of financing, including both external and internal sources. The government received approximately US\$130 million during the first quarter of 2006 from external sources such as donor assistance from Arab and other countries. This represented a 175% increase from the last quarter of 2005 and an increase of 82% from the first quarter of 2005. Concurrently, the government received US\$120 million from internal financing sources, such as commercial banks, the Palestinian Investment Fund, and late payment of bills. These revenues went towards financing the public budget deficit resulting in a surplus of approximately US\$14,800,000 in the first quarter of 2006.

**Table 10: Principal Developments in the Public Budget according to Quarter for 2005 and 2006**

	2005		2006	Change	
	First Quarter	Fourth Quarter	First Quarter	Compared with 1 <sup>st</sup> Quarter 2005	Compared with 4 <sup>th</sup> Quarter 2006
<b>Net Public Revenues</b>	<b>253.76</b>	<b>402.74</b>	<b>167.43</b>	<b>-34.02%</b>	<b>-58.43%</b>
Local Revenues	86.34	142.49	98.75	14.37%	-30.70%
Tax Revenues	52.99	46.22	73.59	38.88%	59.22%
Non-Tax Revenues	33.35	96.27	25.16	-24.56%	-73.87%
Clearance Revenues	167.42	260.27	68.68	-58.98%	-73.61%
<b>Public Expenditure</b>	<b>379.00</b>	<b>521.00</b>	<b>403.37</b>	<b>6.43%</b>	<b>-22.58%</b>
Current Expenditure	375.84	514.97	402.59	7.12%	-21.82%
Wages	235.58	276.82	277.10	17.62%	0.10%
Civil Servants	147.59	164.16	163.41	10.72%	-0.46%
Military Employees	87.99	112.66	113.69	29.21%	0.91%
Operational Expenditure	36.10	53.06	21.40	-40.72%	-59.67%
Transfer Payments	44.56	126.72	70.70	58.66%	-44.21%
Net Lending	59.45	49.04	33.11	-44.31%	-32.48%
Capital Expenditure	0.15	9.33	1.23	720.00%	-86.82%
Developmental Expenditure	3.16	6.03	0.78	-75.32%	-87.06%
<b>Surplus/Deficit</b>	<b>-126.63</b>	<b>-118.26</b>	<b>-235.94</b>	<b>86.32%</b>	<b>99.51%</b>
<b>Financing</b>	<b>126.63</b>	<b>193.41</b>	<b>250.74</b>	<b>98.01%</b>	<b>29.64%</b>
External Financing	71.12	47.23	130.06	82.87%	175.38%
Internal Financing	55.51	146.18	120.68	117.40%	-17.44%

	2005		2006	Change	
	First Quarter	Fourth Quarter	First Quarter	Compared with 1 <sup>st</sup> Quarter 2005	Compared with 4 <sup>th</sup> Quarter 2006
Transferred Overdue Clearance Revenues	10.23	73.03	0.00	-100.00%	-100.00%
Commercial Bank Financing	151.36	9.22	40.20	-73.44%	336.01%
Net Change in Arrears	-106.08	0.00	39.43	-137.17%	-
Social Care Fund via Investment Fund	0.00	0.00	11.05	-	-
Investment Fund	0.00	63.92	30.00	-	-53.07%
<b>Surplus after Transfer (Financing Gap)</b>	<b>0.00</b>	<b>75.14</b>	<b>14.80</b>	<b>-</b>	<b>-80.30%</b>

Source: Website of the Ministry of Finance.

## 6. Banking

### 6.1 Number of Banks and Branches

The total number of banks operating in the Palestinian Territory increased during the first quarter of 2006, reaching 22 banks after the inauguration of Al-Rafah (Welfare) bank in Ramallah. Likewise, the number of bank branches increased from 141 to 143 in the first quarter as a result of the expansion carried out by the Palestinian Islamic bank and Al-Rafah bank. Both banks opened a new branch in Ramallah (*see Table 11*).

**Table 11: Number of Banks and Branches in Palestine**

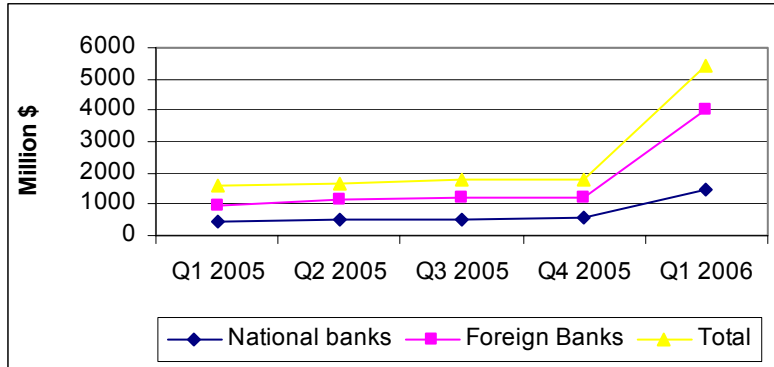
Period	Governorate	Headquarters			Branches		
		General	Regional	Total	General	Regional	Total
Q4, 2005	West Bank	8	10	18	47	55	102
	Gaza Strip	2	1	3	24	15	39
	<b>Total</b>	<b>10</b>	<b>11</b>	<b>21</b>	<b>71</b>	<b>70</b>	<b>141</b>
Q1, 2006	West Bank	9	10	19	49	55	104
	Gaza Strip	2	1	3	24	15	39
	<b>Total</b>	<b>11</b>	<b>11</b>	<b>22</b>	<b>73</b>	<b>70</b>	<b>143</b>

Source: Palestinian Monetary Authority, unpublished data.

### 6.2 Bank Assets

Total bank assets in the Palestinian Territory equalled US\$5,437.6 million during the first quarter of the year. This represents a decrease of US\$163 million in comparison to the previous quarter. Similarly, assets of foreign banks declined by US\$161 million arriving at US\$3,989.5 million and assets of national banks declined by US\$2 million, settling at US\$1,448 million (*see Figure 9*).

**Figure 9: Assets of Banks Operating in the Palestinian Territories, 2005 and First Quarter 2006**



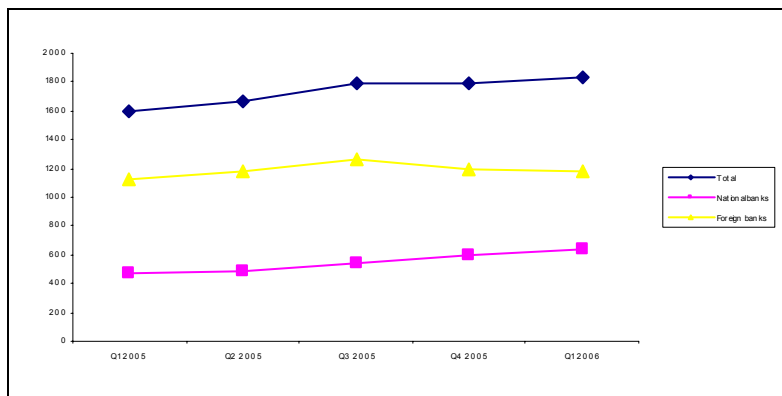
Source: Palestinian Monetary Authority, unpublished data.

### 6.3 Credit Facilities

Credit facilities registered an increase of US\$35.2 million during the first quarter of 2006 in comparison to the previous quarter, arriving at US\$1,827 million. National banks extended 35.2% of total credit facilities, representing an increase of 6.9% and arriving at US\$643.1 million. On the other hand, foreign banks extended 64.8% of total credit in the territories, equalling US\$1,183.9 million. This represents a decline of 0.57% in comparison with the fourth quarter of 2005 (*see Figure 10*).

Regarding the distribution of credit facilities according to type of borrower, data shows that the public sector received 32.4% of total credit, while the private sector (residents and non-residents) received 67.6% of the total (*see Figure 12*). The majority of credit facilities (69% of total credit in the quarter) were Dollar-denominated. This represents a decrease from the fourth quarter of 2005, when Dollar-denominated credit facilities equalled 70.1%. Shekel-denominated credit ranked second with its share increasing from 16.8% to 18.4% between the two quarters; and Jordanian Dinar-denominated credit still ranked third despite a slight decrease in its share from 12.5% to 12%. The remaining credit facilities (0.6%) were distributed among other currency types (*see Figure 12*).

**Figure 10: General Trends in Credit Facilities in the Palestinian Territory**



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



Loans remained the dominant form of credit facility during the first quarter of 2006 representing 64.5% of total credit. This was an increase of 2.1% over its level in the previous quarter. Overdrafts ranked second, comprising 34.9% of total credit—an increase of 2.3% over the previous quarter. Leasing and bankers' acceptances were of lesser significance. Combined, they only represented 0.6% of total credit facilities (see Table 12).

**Table 12: Distribution of Credit Facilities Portfolio:  
2005 and 2006 (US\$ Millions)**

	2005				2006
	Q1	Q2	Q3	Q4	Q1
<b>By Region</b>					
<b>Northern Governorates</b>	1,018.5	1,069.4	1,125.8	1,191.1	1,257.2
<b>Southern Governorates</b>	574	603.8	672.6	600.7	569.8
<b>According to Type of Borrower</b>					
<b>Public Sector</b>	534.1	586.8	638.1	592.2	591
<b>Private Sector (resident)</b>	1,003.2	1,044	1,100.1	1,134.4	1,165.4
<b>Private Sector (non-res.)</b>	55.2	42.4	60.21	65.2	70.5
<b>According to Type of Credit</b>					
<b>Loans</b>	690	728.2	788.1	1,154.3	1,178.7
<b>Overdrafts</b>	890.2	931.4	997.8	623.2	637.9
<b>Leasing</b>	7.9	9	8.7	10.4	10.4
<b>Bankers' Acceptances</b>	4.4	4.6	3.8	3.9	0.68
<b>According to Currency Type</b>					
<b>US Dollar</b>	1,049.5	1,200.3	1,268	1,256.7	1,260.6
<b>Jordanian Dinar</b>	182.1	197.8	216	224.3	220.36
<b>New Israeli Shekel</b>	348.6	264.6	303.9	300.3	335.35
<b>Other Currencies</b>	12.3	10.5	10.5	10.5	10.72
<b>Total</b>	<b>1,592.5</b>	<b>1,673.2</b>	<b>1,798.4</b>	<b>1,791.8</b>	<b>1,827.08</b>

Source: Palestinian Monetary Authority, Statistical Bulletin, various issues.

In terms of the distribution of the credit portfolio according to economic activities, including credit extended to the public sector, data indicate minor changes in its general distribution. In fact, the proportion of credit facilities extended to the general trade sector has declined from 20.4% 19.9% of total credit facilities. Moreover, 10.5% of total credit facilities were concentrated in the construction sector, 7.9% in the service and public utility sector, 2.9% in the transportation sector and 6.8% in the manufacturing, mining and agriculture sectors. Other sectors captured 52% of credit facilities, down from 54.1% in the previous quarter.

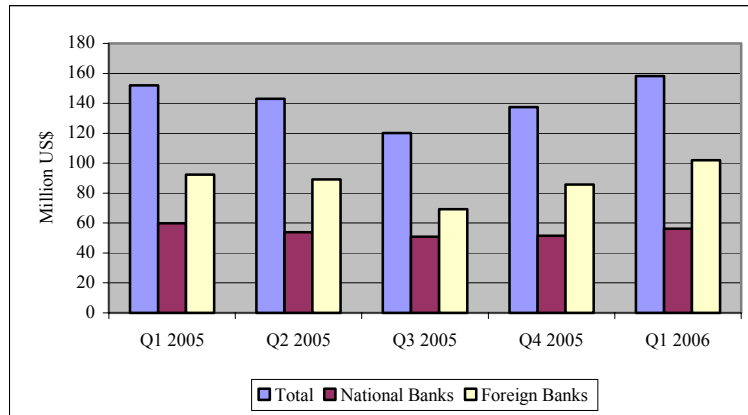
#### 6.4 Non-Performing Loans

The total value of debt subject to provisions during the first quarter of 2006 reached US\$158.2, representing an increase of US\$16.7 million over the previous quarter.<sup>10</sup> This increase was a result of the rise in foreign banks' share by US\$15.1 million, reaching a total of US\$102 million.

<sup>10</sup> In the previous issue of the monitor, it was reported that the total value of debt subject to provisions in the 4<sup>th</sup> quarter of 2005 reached US\$137 million. Updated data set this Figure at US\$ 141.5 million.

There was a similar increase in national banks' share by US\$1.6 million for a total of US\$56.2 million (see Figure 11).

**Figure 11: Distribution of Bank Debt Subject to Provisions in the Palestinian Territory: 2005 – 2006**

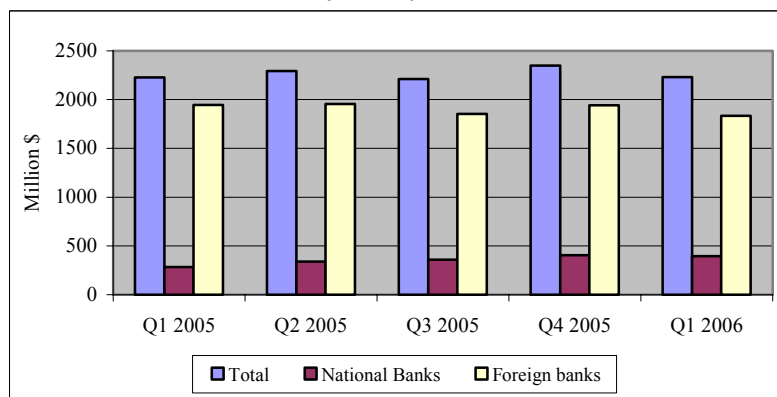


Source: Palestinian Monetary Authority, unpublished data.

## 6.5 Foreign Investments

The total value of foreign investments at the end of 2006 reached US\$2,216 million, representing a decrease of US\$131 million compared to the previous quarter. This drop is attributed to the decrease in foreign investments by both foreign banks (US\$108 million) and national banks (US\$23 million) (see Figure 12).

**Figure 12: Banks' Foreign Investment: Quarterly Analysis: 2005 - 2006**



Source: Palestinian Monetary Authority, Statistical Bulletin, various issues.

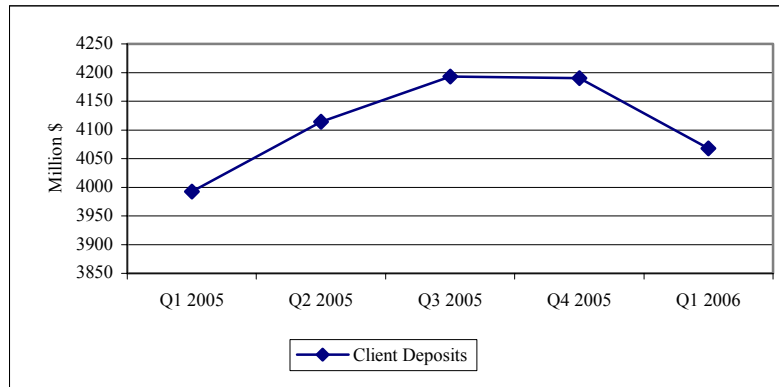
## 6.6 Bank Deposits

Total bank deposits declined by 3.1% during the first quarter of 2006, arriving at US\$4,468 million (of which 91.1% was client deposits<sup>11</sup> and 8.9% was deposits by other banks). Foreign banks captured the bulk of bank deposits (75.6%), while national banks held nearly a quarter of

<sup>11</sup> Includes private and public sector deposits.

the total (24.4%). The rest of this section will concentrate on client deposits due to their relative significance. They will be analyzed based on geographic distribution, depositing party, type of deposit and currency type (see Table 13). Data shows that client deposits continued declining through the first quarter of 2006, arriving at US\$4,068 million (a decrease of 2.6% from the previous quarter). Again, foreign banks captured the lion's share of client deposits (75.7%) while national banks maintained 24.3% of deposits (see Figure 13).

**Figure 13: Trends in Client Deposits: A  
Quarterly Analysis 2005 – 2006**



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

❖ **Client Deposits according to Geographic Region**

Client deposits in the West Bank reached US\$3,116 million during the first quarter of 2006, representing an increase of 1.1% over the previous quarter. However, in the Gaza Strip, the volume of client deposits declined by 14.1% during the same period, reaching US\$952 million. Thus, the relative significance of bank deposits in the West Bank has increased from 73.6% to 76.6% of total deposits while the relative significance of deposits in the Gaza Strip has fallen from 26.4% in the fourth quarter of 2005 to 23.4% in the first quarter of 2006.

❖ **Distribution of Client Deposits according to Depositing Party**

Private sector deposits increased by 1.6%, reaching US\$3,671.6 million during the first quarter of 2006. Concurrently, public sector deposits decreased by 31% from the previous quarter, equalling US\$396.4 million. A possible explanation for the decline in public sector deposits is the large drop in the PNA's revenues as a consequence of the latest political developments, such as the outcome of the Palestinian legislative elections, which took place during the first quarter of the year.

❖ **Distribution of Client Deposits by Type**

Current deposits during the first quarter of 2006 equalled US\$1,427.8 million, representing a decline of 8% from the previous quarter. During the same period, saving deposits increased by 5% reaching US\$854.3 million, and time deposits declined by 2.2% equalling US\$1,785.9 million. As a consequence of these changes, the contribution of the different deposit types (current, saving and time) to total client deposits was mixed. For instance, the contribution of current deposits to total deposits declined during the quarter from 37% to 35.1%, whereas the contribution of time deposits increased from 43.6% to 43.9%, as did the contribution of savings (19.4% to 21%).

❖ **Distribution of Client Deposits according to Currency Type**

The majority of deposits (53.2%) were in US Dollars, representing an increase of 0.9%. Jordanian Dinar-denominated deposits ranked second, representing 25.1% of deposits with an increase of 0.2 percentage points. Shekel-denominated deposits, with 16.7% of total deposits, ranked third with a 0.9% decrease. Other currencies comprised 5% of the total, representing a 0.2% drop.

**Table 13: Distribution of Client's Deposits:  
2005- 2006**

	2005				2006
	Q1	Q2	Q3	Q4	Q1
<b>By Region (%)</b>					
West Bank	76.2	74.0	73.9	73.6	76.6
Gaza Strip	23.8	26.0	26.1	26.4	23.4
<b>By Lending Party (%)</b>					
Public Sector	11.5	13.8	14.3	13.8	9.8
Private Sector (resident)	86.7	84.5	83.3	84.2	88.1
Private Sector (non-res.)	1.8	1.7	1.9	2.0	2.1
<b>By Type of Deposit (%)</b>					
Current	35.4	36.8	35.7	37.0	35.1
Saving	19.6	19.4	19.1	19.4	21.0
Time	45.0	43.8	45.2	43.6	43.9
<b>By Currency Type</b>					
US\$	56.3	56.8	57.0	52.3	53.2
JD	24.6	23.9	24.0	24.9	25.1
NIS	14.7	15.2	15.0	17.6	16.7
Other Currencies	4.4	4.1	4.0	5.2	5.0

Source: Palestinian Monetary Authority, Statistical Bulletin, various issues.

## 6.7 Bank Equity<sup>12</sup>

Equity of banks operating in the Palestinian Territory declined by 5.4% during the first quarter of 2006 in comparison to the previous quarter, equalling US\$542.2 million. Consolidated balance sheet data for banks operating in the Palestinian Territory indicated a decline in realized profits from US\$35 million in the first quarter of 2005 to US\$24 million in the first quarter of 2006 (see Table 14).

<sup>12</sup> Includes paid capital, reserves, profits and underwriting premiums.

**Table 14: Selected Items from the Consolidated Balance Sheet  
for Banks Operating in the Palestinian Territory  
by Quarter: 2005 and 2006**

Item	2005				2006
	Q1	Q2	Q3	Q4	Q1
Cash in the treasury (%)	4.5	4.6	4.2	4.4	3.9
Balances with the PMA (%)	9.6	10.4	10.2	10.0	9.8
Balances with banks in Palestine (%)	4.4	3.7	3.1	2.4	2.8
Balances with banks abroad (%)	42.7	41.8	40.1	41.7	40.5
Credit facilities (%)	30.5	30.7	32.8	30.8	33.6
Portfolio investment (%)	3	3.6	4.4	5.9	4.2
Other assets (%)	5.3	5.2	5.2	4.8	5.2
<b>Assets/Liabilities</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Client deposits (%)	76.4	75.5	76.5	74.8	74.7
PMA's deposits (%)	2.1	3.1	2.6	3.1	3
Deposits of banks in Palestine (%)	4.2	3.6	3	2.5	2.8
Deposits of banks abroad (%)	2.4	2.4	1.9	1.9	1.6
Stockholders' equity (%)	7.1	7.9	8.9	10.2	10
Bad-debt allowances (%)	2.5	2.3	2.3	2.5	2.6
Other liabilities (%)	5.3	5.2	4.8	5.0	5.3

Source: Palestinian Monetary Authority, unpublished data.

## 6.8 Performance Indicators

### ❖ Capital Adequacy

This ratio reflects banks' abilities to meet expected and unexpected risks. The ratio increased for all national banks during the first quarter of 2006 from 11.2% to 18.3%. This change was largely due to a single bank increasing its capital.

### ❖ Bad Credit Provisions<sup>13</sup> to Total Credit Facilities

This indicator measures amounts allocated by banks to meet credit risk. Such amounts are calculated based on a predetermined rate set by the PMA on outstanding bank credit. This ratio remained unchanged (7.6%) between the first quarter of 2006 and the previous quarter.

### ❖ Total Private Sector Credit to Private Sector Deposits

This ratio has been rising since the first quarter of 2005. Between the first quarter of 2006 and the previous quarter it increased from 33.2% to 33.6%. This indicates that banks are increasing their lending to the private sector and relaxing their conservative lending policies.

### ❖ Credit Facilities to Client Deposits

This ratio increased noticeably during the first quarter of 2006, reaching 42.8% as compared to 42.8% in the previous quarter. It exceeds the minimum ratio set by the PMA (40%) and reflects an improvement in the contribution of banks to financing economic activities in the Palestinian Territory.

<sup>13</sup> Provisions are allocated by banks to meet possible and undetermined losses on loans and credit facilities. Provisions are set as a rate ranging between 1.25% and 1.50% of total profits.

❖ **Foreign Investments to Total Deposits**

In an attempt to oblige banks to invest a larger share of their capital inside the Palestinian Territory, the PMA has limited banks' foreign investment to a maximum of 65% of total deposits. The total deposits ratio declined in the first quarter of 2006 to reach 50%.

**Table 15: Bank Performance Indicators  
by Quarter: 2005 and 2006**

Indicator	2005				2006
	Q1	Q2	Q3	Q4	Q1
Capital Adequacy Ratio	10.9	12.9	12.5	11.2	18.3
Bad-Credit Provisions to Total Credit Facilities Ratio	8.9	8.0	6.7	7.6	7.6
Total Private Sector Credit to Private Sector Deposits Ratio	30.0	30.6	30.7	33.2	33.6
Credit Facilities to Client Deposits Ratio	39.9	40.7	42.9	42.8	44.9
Foreign Investments to Deposits Ratio	50.1	49.4	47.8	50.9	50.0

Source: Palestinian Monetary Authority, unpublished data.

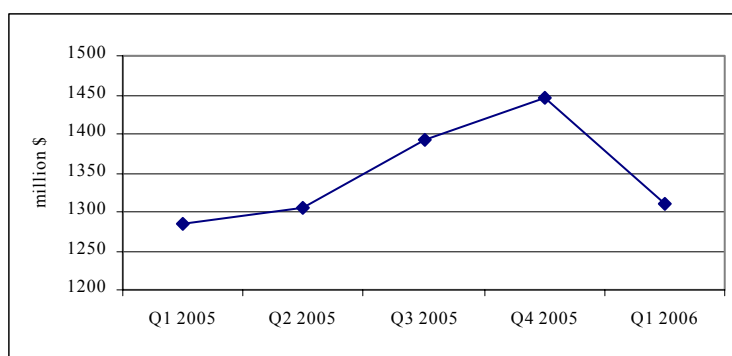
**6.9 Clearing House Activities<sup>14</sup>**

PMA clearing houses recorded a decline in both the number and value of cheques presented for clearance during the first quarter of 2006. Concurrently, clearing houses witnessed a surge in the number and value of bounced checks.

❖ **Cheques Presented for Clearing**

The total number of cheques presented for clearing at clearing houses in Ramallah, Nablus and Gaza declined across all currencies (US Dollars, Jordanian Dinars, New Israeli Shekels and Euros) amounted to 592,359 cheques, representing a 7.7% decline from the previous quarter. Dollar-denominated cheques amounted to US\$1,309.3 million, representing a decline of 9.5% from the previous quarter and settling at the same level of a year previously (*see Figure 14*).

**Figure 14: Trends in the Value of Cheques Presented for Clearing by Quarter: 2005 and 2006**



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

<sup>14</sup> PMA's clearing houses are located in Ramallah, Nablus and Gaza City.

❖ **Bounced Cheques**

The number of bounced checks increased in all currencies during the first quarter of 2006 by six percent, amounting to approximately 97,100 cheques. Likewise, the value of bounced cheques increased by 7.6% from the previous quarter, equalling US\$117.5 million. This increase in the number and value of bounced cheques is a negative indicator of the performance of issuers of checks, and it reflects badly on the performance of the banking sector in general (see Table 16). In accordance with the earlier facts, the ratio of the number of bounced cheques to the total number of checks presented for clearing increased from 14% to 16%, and the value increased from 7.6% to 8.9%.

**Table 16: Number and Value of Checks Presented for Clearing and the Percentage of Returned Checks by Quarter: 2005 and 2006**

Period	Cheques Presented for Clearance		Bounced Cheques		Percent Bounced	
	Number of Cheques	Value of Cheques (Million US\$)	Number of Cheques	Value of Cheques (Million US\$)	No. %	Value %
<b>Q1, 2005</b>	492,608	1,233.7	70,550	84	14	6.8
<b>Q2, 2005</b>	541,787	1,308.4	68,583	79.7	13	6.1
<b>Q3, 2005</b>	601,593	1,391.4	80,114	104.6	13	7.5
<b>Q4, 2005</b>	642,026	1,446.3	91,594	109.2	14	7.6
<b>Q1, 2006</b>	592,359	1,309.3	97,066	117.5	16	8.9

Source: Palestinian Monetary Authority, Statistical Bulletin, various issues.

## 6.10 Exchange Rate Spread

Table 17 illustrates the exchange rate for the US Dollar against the shekel across Palestinian and Israeli banks, exchange bureaus and street money exchangers. A comparison of the average Dollar exchange rate against the shekel on June 1, 2006 against that of March 7, 2006, shows a considerable decline in the Palestinian Territory (4.68 to 4.51) and Israel (4.63 to 4.51). Data shows an increase in the Dollar to shekel exchange rate spread in the Palestinian Territory from 0.81% to 1.10%. Concurrently, the exchange rate spread declined in Israeli banks from 3.27% to 0.74%.

**Table 17: US Dollar Exchange Rate against the Israeli Shekel on 1 July 2006**

Sector	Buying Price	Selling Price	Spread	Spread Unit	Difference (%)
<b>Street Money Exchangers</b>					
Street Money Changer 1	4.51	4.53	0.02	20	0.44
Street Money Changer 2	4.51	4.52	0.01	10	0.22
Street Money Changer 3	4.51	4.53	0.02	20	0.44
<b>Average</b>	<b>4.51</b>	<b>4.53</b>	<b>0.02</b>	<b>16.67</b>	<b>0.37</b>
<b>Exchange Bureaus</b>					
In Ramallah	4.5	4.53	0.03	30	0.67
In Nablus	4.51	4.53	0.02	20	0.44

Sector	Buying Price	Selling Price	Spread	Spread Unit	Difference (%)
In Bethlehem	4.51	4.53	0.02	20	0.44
<b>Average</b>	<b>4.51</b>	<b>4.53</b>	<b>0.02</b>	<b>23.33</b>	<b>0.52</b>
<b>Palestinian Banks</b>					
In Ramallah	4.58	4.83	0.25	250	5.46
In Nablus	4.5	4.55	0.05	50	1.11
In Bethlehem	4.5	4.53	0.03	30	0.67
<b>Average</b>	<b>4.53</b>	<b>4.64</b>	<b>0.11</b>	<b>110.00</b>	<b>2.41</b>
<b>Average in the oPT</b>	<b>4.51</b>	<b>4.56</b>	<b>0.05</b>	<b>50.00</b>	<b>1.10</b>
<b>Israeli Banks</b>					
Bank Hapoalim	4.52	4.53	0.01	10	0.22
Israel Discount Bank	4.52	4.53	0.01	10	0.22
Bank Leumi Israel	4.49	4.57	0.08	80	1.78
<b>Average in Israel</b>	<b>4.51</b>	<b>4.54</b>	<b>0.03</b>	<b>33.33</b>	<b>0.74</b>

Collected by MAS through a field survey carried out in Ramallah, Nablus and Bethlehem, and telephone calls to Israeli banks.

According to a field survey, the Jordanian Dinar (JD) to Shekel exchange rate declined in the Palestinian Territory and in Israel. In the Palestinian Territory, the rate dropped 3% from 6.61 on 7 March 2006 to 6.35 on 1 June 2006, while in Israel it dropped approximately 1% from 6.42 to 6.36. The exchange rate spread increased from 0.88% to 1% in the Palestinian Territory as the spread increased at exchange bureaus and among street money changers but remained unchanged at banks. In Israel, on the other hand, the spread declined considerably, dropping from 7.69% on 7 March 2006 to 0.79% on 1 June 2006. The drop is attributed to the huge decrease in the spread at Bank Hapoalim (*see Table 18*).

**Table 18: Jordanian Dinar Exchange Rate against the Israeli Shekel on 1 July 2006**

Facility	Buying Price	Selling Price	Spread	Spread Unit	Difference %
<b>Street Money Changers</b>					
Street Money Changer 1	6.35	6.39	0.04	40.00	0.63
Street Money Changer 2	6.35	6.38	0.03	30.00	0.47
Street Money Changer 3	6.35	6.40	0.05	50.00	0.79
<b>Average</b>	<b>6.35</b>	<b>6.39</b>	<b>0.04</b>	<b>40.00</b>	<b>0.63</b>
<b>Exchange Bureaus</b>					
In Ramallah	6.35	6.42	0.07	70.00	1.10
In Nablus	6.35	6.40	0.05	50.00	0.79
In Bethlehem	6.35	6.40	0.05	50.00	0.79
<b>Average</b>	<b>6.35</b>	<b>6.41</b>	<b>0.06</b>	<b>56.67</b>	<b>0.89</b>
<b>Palestinian Banks</b>					
In Ramallah	6.34	6.43	0.09	90.00	1.42
In Nablus	6.33	6.43	0.10	100.00	1.58
In Bethlehem	6.34	6.43	0.09	90.00	1.42
<b>Average</b>	<b>6.34</b>	<b>6.43</b>	<b>0.09</b>	<b>93.33</b>	<b>1.47</b>



Facility	Buying Price	Selling Price	Spread	Spread Unit	Difference %
<b>Average in the oPT</b>	<b>6.35</b>	<b>6.41</b>	<b>0.06</b>	<b>63.33</b>	<b>1.00</b>
<b>Israeli Banks</b>					
Bank Hapoalim	6.37	6.40	0.03	30.00	0.47
Israel Discount Bank	6.38	6.39	0.01	10.00	0.16
Bank Leumi	6.33	6.44	0.11	110.00	1.74
<b>Average in Israel</b>	<b>6.36</b>	<b>6.41</b>	<b>0.05</b>	<b>50.00</b>	<b>0.79</b>

Source: Collected by MAS through a field survey carried out in Ramallah, Nablus and Bethlehem, and telephone calls to Israeli banks.

The Euro exchange rate against the Shekel also increased in the Palestinian Territory and Israel alike. In the Palestinian Territory, it increased by 1.4% to arrive at 5.67; while in Israel it increased by 3.8% to arrive at 5.76. The spread increased in the Palestinian Territory from 1.30% to 2.22%; while it decreased in Israel from 3.33% to 0.70% (see Table 19).

**Table 19: Euro Exchange Rate against the Israeli Shekel on 1 July 2006**

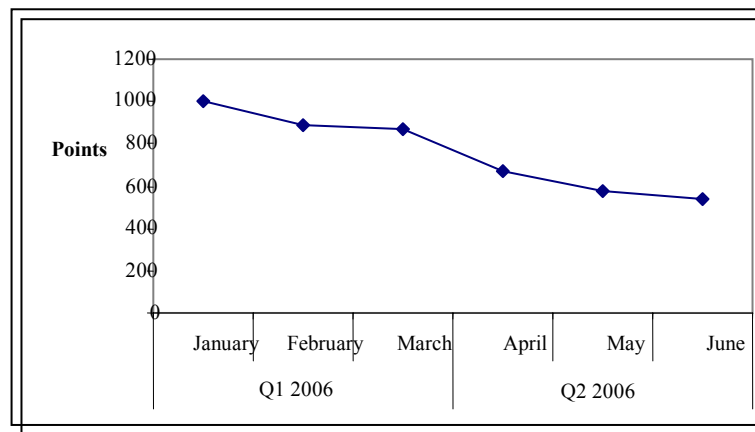
Facility	Buying Price	Selling Price	Spread	Spread Unit	Difference (%)
<b>Street Money Changers</b>					
Street Money Changer 1	5.72	5.80	0.08	80.00	1.40
Street Money Changer 2	5.65	5.75	0.10	100.00	1.77
Street Money Changer 3	5.70	5.80	0.10	100.00	1.75
<b>Average</b>	<b>5.69</b>	<b>5.78</b>	<b>0.09</b>	<b>93.33</b>	<b>1.64</b>
<b>Exchange Bureaus</b>					
In Ramallah	5.70	5.80	0.10	100.00	1.75
In Nablus	5.68	5.78	0.10	100.00	1.76
In Bethlehem	5.75	5.80	0.05	50.00	0.87
<b>Average</b>	<b>5.71</b>	<b>5.79</b>	<b>0.08</b>	<b>83.33</b>	<b>1.46</b>
<b>Palestinian Banks</b>					
In Ramallah	5.70	5.87	0.17	170.00	2.98
In Nablus	5.66	5.87	0.21	70.00	3.71
In Bethlehem	5.51	5.73	0.22	120.00	3.99
<b>Average</b>	<b>5.62</b>	<b>5.82</b>	<b>0.20</b>	<b>120.00</b>	<b>3.56</b>
<b>Average in the oPT</b>	<b>5.67</b>	<b>5.80</b>	<b>0.13</b>	<b>98.89</b>	<b>2.22</b>
<b>Israeli Banks</b>					
Bank Hapoalim	5.78	5.79	0.01	10.00	0.17
Israel Discount Bank	5.78	5.79	0.01	10.00	0.17
Bank Leumi l	5.73	5.83	0.10	100.00	1.75
<b>Average in Israel</b>	<b>5.76</b>	<b>5.80</b>	<b>0.04</b>	<b>40.00</b>	<b>0.70</b>

Source: Collected by MAS through a field survey carried out in Ramallah, Nablus and Bethlehem, and telephone calls to Israeli banks.

## 7. Palestine Securities Exchange

Indicators related to the Palestine Securities Exchange (PSE) continued to decline during the second quarter of 2006 due to unstable political and security conditions, and there was a sharp drop in all stock market indicators. The number of traded shares dropped by 37.4% during the second quarter of 2006, arriving at 43.8 million. Likewise, trading volume declined by 70.4%, arriving at a total of US\$149.1 million. Market capitalization dropped to US\$2.3 billion, representing a decline of 23.3%. Despite an increase in the number of trading sessions by five sessions in the second quarter, the number of traded contracts declined from 43,259 to 31,481 between the two quarters. Finally, Al-Quds index declined from its level in March by 38.4%, settling at 536.66 points in June (see Figure 15).

**Figure 15: Al-Quds Index: 1st and 2nd Quarters of 2006**



Source: Palestine Securities Exchange website; [www.p-s-e.com](http://www.p-s-e.com)

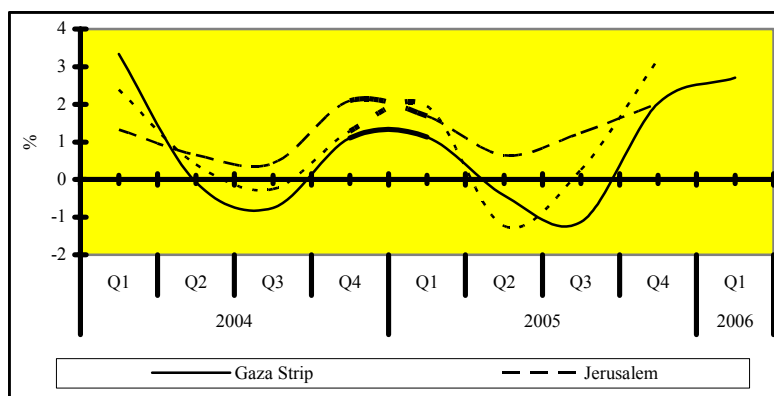
## 8 Prices and Purchasing Power

### 8.1 Consumer Price Index

The first quarter witnessed an increase in the consumer price index (CPI) calculated in Shekels in the Palestinian Territory. The CPI registered 0.95% during the first quarter as prices increased by 2.71% in the Gaza Strip, 1.26% in the remaining West Bank and remained stable in Jerusalem (see Figure 16).

Fifty-five percent of the hike in general prices was caused by increased food prices, which experienced the greatest increase by a single item in the consumption basket. Transportation and telecommunication contributed 11.54% to the total increase, while housing services contributed 10.5% and medical services contributed 7%. In addition, goods and services; beverage and tobacco; textiles, clothing and shoes; educational services; furniture and domestic services; and recreational service groups all exhibited mixed increases in their prices.

**Figure 16: Average Inflation (in Shekels) in Jerusalem, the Remaining West Bank and Gaza Strip**



Source: calculated by MAS based on PCBS data, Consumer price Index, various years

In the Gaza Strip, an increase of over five percent in food prices from the previous quarter contributed 79% to the general increase in prices. The increase in food prices is ascribed to a diminished food supply in the Gaza Strip due to the closure of its borders. In the West Bank, 48% of the increase in prices was due to price increases in the food category as food prices increased by 1.52% (see Table 20).

**Table 20: CPI Changes in the Palestinian Territories According to Region and Category in the 1<sup>st</sup> Quarter of 2006 Compared to the 4<sup>th</sup> Quarter of 2005**

Category	Palestinian Territory (%)	Remaining West Bank (%)	Gaza Strip (%)	Jerusalem (%)
Food	1.28	1.52	5.02	-0.73
Beverages and tobacco	0.48	0.84	1.20	-1.13
Textiles, clothing & shoes	0.29	0.96	0.24	-0.08
Housing	1.45	1.23	1.24	2.00
Furniture	0.27	0.51	0.25	0.20
Transportation & telecom.	0.87	1.52	2.18	0.81
Educational Services	0.57	1.83	0.11	0.00
Health Care	1.34	0.88	2.06	0.79
Goods and recreational services	0.22	0.86	-0.06	0.00
Other	0.78	0.74	0.31	0.47
<b>General Price Index</b>	<b>0.95</b>	<b>1.26</b>	<b>2.71</b>	<b>0.00</b>

Source: PCBS

Prices of perishable goods (food, cigarettes, etc) increased by 1.17% between the first quarter of 2006 and the previous quarter. Likewise, prices of durable goods (appliances and recreational goods) increased by 0.39%, prices of semi-durable goods (textiles, clothing and shoes) increased by 0.31% and prices of services increased by 0.95%. Regarding the manufacturing origin of goods, prices of imported goods increased by 1.3% and prices of locally-produced goods increased by 0.90%.

## **8.2 Average Price of Selected Vital Consumer Goods**

Changes in prices of vital goods directly trigger change in the monthly index of cost of living in the Palestinian Territory. Tracking changes in prices of vital goods is thus important for tracking changes in the cost of living and for tracking the proportion of consumers' budget that goes towards these goods.

The Palestinian consumer basket includes ten main categories: food; beverages; educational services; medical care; transportation and telecommunication; housing; recreational goods; furniture and household appliances; and textiles, clothing and shoes. The relative weight assigned to each category varies according to consumers' spending on it. The food category is considered the most important in the consumer basket, and thus has the greatest weight (41% of the basket). This is common among developing countries' consumer baskets.

The first quarter of 2006 witnessed security disturbances in the Palestinian Territory, especially after the outcome of the Palestinian legislative elections and the subsequent closure of commercial crossings, such as the Karni crossing in the Gaza Strip. This negatively impacted living conditions, particularly in the Gaza Strip as the flow of goods was interrupted. Moreover, the deteriorating political conditions also affected the stability of prices, particularly prices of vital goods. As Table 21 illustrates, prices of most goods underwent a noticeable increase during the past period.

### **Sugar, Flour and Rice**

There was an increase in the price of sugar in the West Bank (12.4%) and the Gaza Strip (30.6%) during the first quarter of 2006. Flour prices exhibited lower price increases (4.12% in the West Bank and 2.4% in the Gaza Strip). Rice prices increased in the West Bank by 2.6% but slightly decreased in the Gaza Strip (0.6%).

### **Fuel**

Gasoline prices continued to increase during the first quarter of 2006 due to an increase in international oil prices. In the West Bank, the price of one litre of gasoline increased by 2.1% from the previous quarter and 10.9% from the first quarter of 2005. Likewise, prices of gas used for domestic purposes increased during the same period, and the price of a gas cylinder reached NIS 45 during the first quarter of 2006, representing an increase of NIS 3 over its level in the previous quarter.

### **Baby Milk and Olive Oil**

The price of powdered baby milk increased by 1.5% in the West Bank and remained unchanged in the Gaza Strip. Olive oil prices increased in both the West Bank (5.6%) and Gaza Strip (0.8%). There was a huge increase in olive oil prices between the first quarter of 2005 and the first quarter of 2006. During this period, the price has increased by more than NIS 7.5 arriving at NIS 24 per litre. Olive oil prices in the Gaza Strip have also increased, although at a lower rate. Over the same year-long period, prices have increased from NIS 19 to NIS 21.

### **Tomatoes and Potatoes**

Tomato and potato prices decreased during the first quarter of 2006. In the West Bank the prices of the two items decreased by 23.2% and 7.7% respectively. In the Gaza Strip, tomato prices declined by 31.4% but potato prices increased by 38.5% in comparison to the previous quarter.

**Table 21: Average Consumer Prices for Selected Vital Goods: 2005 – 2006**

Item	Unit	Remaining West Bank			Gaza Strip		
		Q1 2006	Q4 2005	Q1 2005	Q1 2006	Q4 2005	Q1 2005
Sugar	50 kg	136.57	119.58	92.11	156.67	120	104
Rice	25 kg	85.42	83.25	85.07	86	86.50	84.67
White Flour	60 kg	112.73	108.25	110.28	105	102.50	108.04
Powdered Milk	2.5 kg	83.57	82.34	82.53	80	80	84.44
Olive Oil	1 Kg	24.10	22.82	16.45	21.17	21	19.89
Tomatoes	1 Kg	2.32	3.02	2.86	1.29	1.88	0.95
Potatoes	1 Kg	2.63	2.85	2.37	1.18	1.92	1.32
Gas Cylinder	12 kg	44.67	42.17	39.50	44.67	42.17	39.5
Gasoline 96 Octane	1 liter	5.31	5.20	4.79	5.31	5.20	4.79

Source: PCBS, 2006.

### 8.3 Purchasing Power

There was no significance change in the US Dollar exchange rate during the first quarter of 2006, while the exchange rate for the Jordanian Dinar (JD) increased during the quarter by 1.02% over its level in the previous quarter (*see Figure 22*). The increase in the JD exchange rate exceeded that of CPI<sup>15</sup> by a small percentage, which increased the purchasing power of the JD in the Palestinian Territory by 0.07%. Concurrently, the purchasing power of the US Dollar dropped by 0.8% due to the fact that prices increased while the exchange rate remained constant. In the West Bank, the inflation rate exceeded the exchange rate for both currencies, reducing the purchasing power of the Dollar by 1.10% and the JD by 0.24%. The Gaza Strip saw a similar decline in purchasing power of 2.56% for the Dollar and 1.7% for the JD. In Jerusalem, however, the purchasing power increased for the Dollar by 0.16% and for the JD by 1.02% (*see Table 23 & Figure 17*).

**Table 22: Average Exchange Rate for the US Dollar and the Jordanian Dinar against the New Israeli Shekel: First Quarter 2006**

Year	US\$/NIS	JD/NIS
<b>2004</b>	<b>4.48</b>	<b>6.31</b>
Q1 2005	4.35	6.15
Q2 2005	4.40	6.21
Q3 2005	4.53	6.39
Q4 2005	4.66	6.55
<b>2005</b>	<b>4.49</b>	<b>6.32</b>
Q1 2006	4.66	6.61

Source: PCBS, unpublished data.

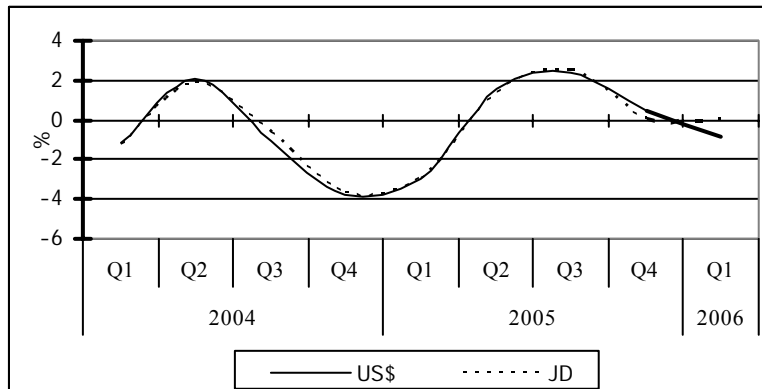
<sup>15</sup> CPI increased during the first quarter of 2006 by 0.95%.

**Table 23: Developments in Purchasing Power for the JD and US\$ in the West Bank, Gaza Strip and Jerusalem**

Region	Currency	2004	Q1 2005	Q2 2005	Q3 2005	Q4 2005	2005	Q1 2006
Palestinian Territory	\$	-1.01	-2.93	1.60	2.42	0.42	-3.31	-0.8
	JD	-1.07	-2.95	1.4	2.48	0.06	-3.33	0.07
Remaining West Bank	\$	-1.21	-3.01	2.39	2.57	-0.36	-2.73	-1.10
	JD	-1.27	-3.04	2.18	2.63	-0.72	-2.75	-0.24
Jerusalem	\$	-1.75	-2.74	0.5	1.59	0.81	-5.18	0.16
	JD	-1.81	-2.76	0.29	1.64	0.45	-5.20	1.02
Gaza Strip	\$	-1.37	-2.19	1.57	3.95	0.81	-1.01	-2.56
	JD	-1.44	-2.21	1.36	4.01	0.45	-1.03	-1.70

Source: Calculated by MAS based on Consumer Price Index released by PCBS, various issues.

**Figure 17: Developments in Purchasing Power for the JD and US\$ in the Palestinian Territory by Quarter: 2004-2006**



Source: Calculated by MAS based on Consumer Price Index released by PCBS, various issues.

## 9. Hotel Activity

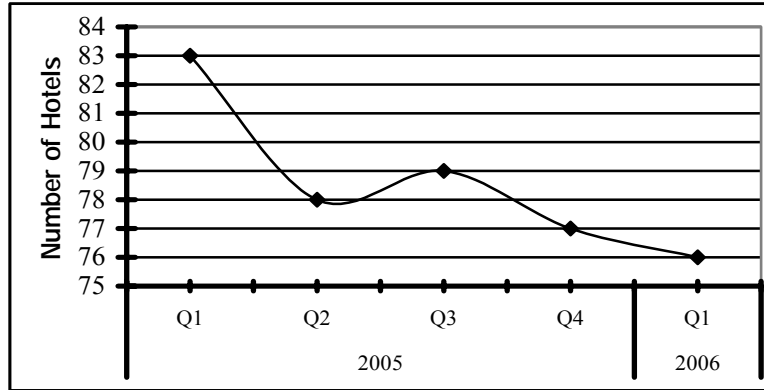
### 9.1 External Tourism

The number of operational hotels declined from 77 to 76 during the first quarter of 2006. Of operational hotels, 45 were in the West Bank, 18 were in Jerusalem and 13 were in the Gaza Strip. The number of available hotel rooms increased by 12, equalling a total of 3,703 rooms.

The number of hotel guests reached 35,322 during the first quarter of 2006, representing a decline of 2.3% from the previous quarter. Jerusalem hotels accommodated the majority (53.2%) of the total number of guests, while hotels in the central region of the West Bank accommodated 21.6%, those in the southern region accommodated 20%, and those in the northern region hosted only 2.8%. Gaza Strip hotels only lodged 2.4% of total hotel guests in the Palestinian Territory. Hotel

guests in Jerusalem declined by 3.9%, and West Bank hotel guests in the southern, central and northern regions also declined by 4.5%, 6.8% and 15.3% respectively (see Figure 18).

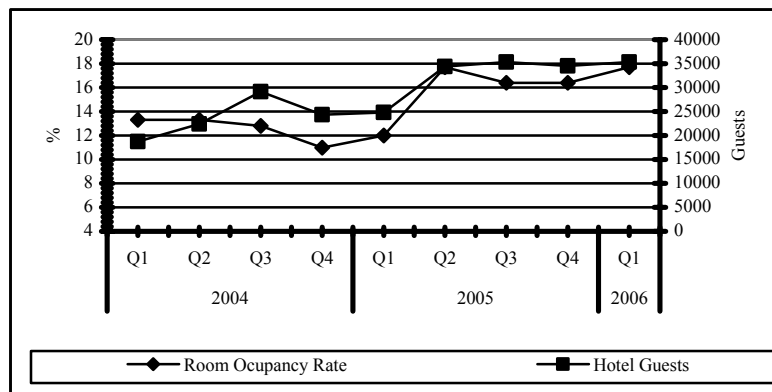
**Figure 18: Number of Hotels Operating in the Palestinian Territory: 2005-2006**



Source: PCBS, Hotel activity in the Palestinian territory, various issues.

Room occupancy rates remained at 17.7% during the first quarter of 2006 (see Figure 19). Likewise, there was no significant change in the number of hotel employees, which reached 1,315; of which 167 were female. The majority of hotel employees were employed in the West Bank (629) followed by Jerusalem (346) and the Gaza Strip (340).

**Figure 19: Number of Hotel Guests and Room Occupancy Rates in the Palestinian Territory**

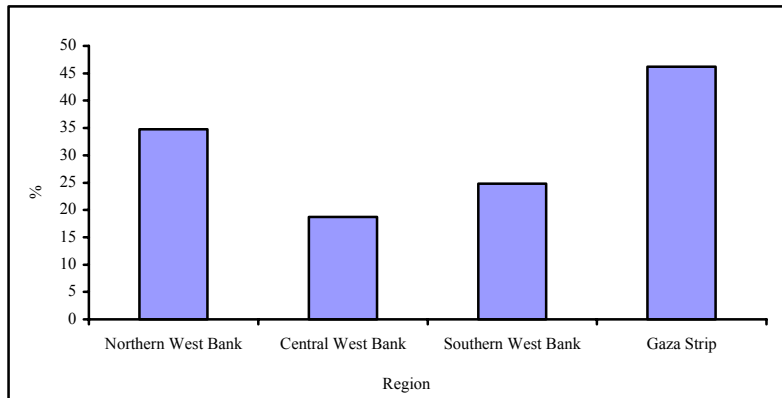


Source: PCBS, Hotel Activity in the Palestinian territories, various issues.

## 9.2 Local Tourism

Thirty-four percent of Palestinian families had members who went on local tours in 2005. In the West Bank, 27.7% of families toured locally, as did 46.2% of Gazan families (see Figure 20). The average family expenditure per local trip equalled US\$44.6 (US\$44.5 in the West Bank and US\$47.5 in the Gaza Strip). The increase in the number of families in Gaza Strip who went on local tours can be ascribed to the relative ease of mobility in the Gaza Strip in comparison to the West Bank, which is afflicted by Israeli roadblocks. Gaza also has beaches which attract residents.

**Figure 20: Proportional Distribution of Palestinian Families Who Toured Locally according to Region: 2005**

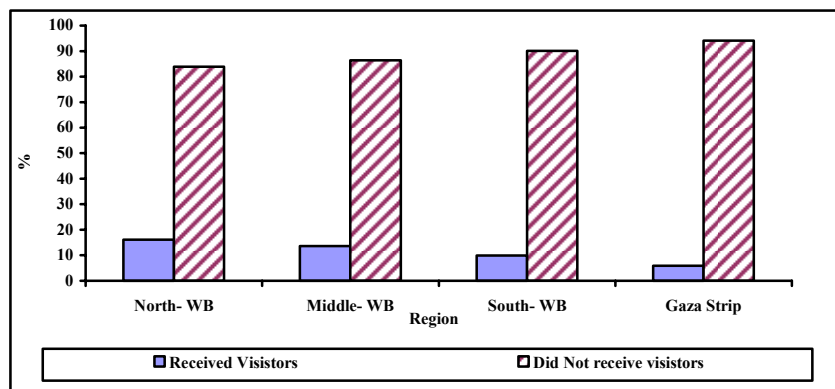


Source: PCBS, Hotel Activity in the Palestinian Territories, various issues.

### 9.3 Inbound Tourism

The percentage of Palestinian families which received visitors from abroad reached 11% (13.6% in the West Bank and 5.9% in the Gaza Strip). Average expenditure per single inbound visit to the Palestinian Territory amounted to US\$1,273.50 (US\$1,294.90 in the West Bank and US\$1,008.30 in the Gaza Strip) (see Figure 21).

**Figure 21: Proportional Distribution of Families who received Visitors from Abroad by Region: 2005**



Source: PCBS, Hotel Activity in the Palestinian Territories, various issues.

## 10. Expectations of Owners and Managers of Industrial Establishments<sup>16</sup>

A PCBS survey regarding expectations of owners and managers of industrial establishments regarding economic conditions reveal a decline in short term<sup>17</sup> levels of optimism. The level of optimism declined from 26.7% in January's survey to 25.3% in the latest survey, and optimism declined in the West Bank but increased in the Gaza Strip (see Table 24).

<sup>16</sup> The survey was carried out in March 2006.

<sup>17</sup> Expectations associated with the following month (April).



In the medium term,<sup>18</sup> the percentage of optimistic establishment owners declined from 59% to 36.2%. The decline in optimism, particularly in the Gaza Strip, may be a consequence of the economic and political crises which resulted from international sanctions against the Palestinian government following the Palestinian legislative elections (see Table 25).

In their responses to more business-specific questions, respondents indicated a decline in optimism regarding employment levels and sales volumes at their industrial establishments. Optimism associated with higher employment levels in the short term declined from 13.7% in January's survey to 10.6% in March's survey. This reduction was due to a drop in the Gaza Strip while West Bank levels remained unchanged. Optimism levels associated with employment increases in the medium term declined nationally from 31.8% to 14.1%. The Gaza Strip experienced a more dramatic drop (from 86.5% to 31.5%) than the West Bank.

Regarding optimism associated with expected increases in sales volumes in the short term, the proportion of optimistic establishment owners declined nationally from 27.5% to 16.6%. The greatest drop was in the Gaza Strip, which experienced a decrease from 27.9% to 2%. In the medium term, optimism levels continued to drop nationally from 60.3% in January's survey to 29.8% in that of March.

**Table 24: Expectations of Owners and Managers of Industrial Establishments in the Short Term (January and March 2006)**

Indicator	Palestinian Territory		West Bank		Gaza Strip	
	January	March	January	March	January	March
Predicting improvement in the establishment's general performance	26.7	25.3	24.9	22.6	30.4	32.0
Predicting higher employment	13.7	10.6	5.3	5.3	31.2	23.3
Predicting higher sales volume	27.5	16.6	34.7	22.5	27.9	2.0

Source: Survey of Perceptions of Owners/ Managers of Industrial Establishments Regarding Economic Conditions, PCBS, March 2006.

**Table 25: Expectations of Owners and Managers of Industrial Establishments in the Medium Term (January and March 2006)**

Indicator	Palestinian Territory		West Bank		Gaza Strip	
	January	March	January	January	March	January
Predicting improvement in the establishment's general performance	59.0	36.2	48.3	34.4	81.4	40.4
Predicting higher employment	31.8	14.1	13.1	6.8	86.3	31.5
Predicting higher sales volume	60.3	29.8	50.4	32.5	81.3	23.3

Source: Survey of Perceptions of Owners/Managers of Industrial Establishments Regarding Economic Conditions, PCBS, March 2006.

<sup>18</sup> Expectation associated with the coming six months.

A total of 40.9% of establishment-owners in March's survey (as compared to 30.5% in January's survey) indicated that they believed that consumers' reduced purchasing power was the reason behind the decline in expectations regarding sales volumes. Meanwhile, the percentage that attributed the decline to marketing difficulties decreased from 16.2% to 14.7%. Likewise, those who projected that expected sales volumes would decrease owing to a drop in overall demand for their products fell from 7% to 0.5%.

A total of 29.1% of respondents in March's survey indicated that the overall performance of their establishments dropped compared to 28.8% in January's survey. In the Gaza Strip, 70.3% of respondents indicated that the overall performance of their establishments dropped in March's survey compared to 53% in January's survey. This dramatic drop is attributed to poor economic conditions in the Strip.

Indicators related to difficulties encountered by establishment owners/managers also deteriorated - with the exception of indicators related to movement restrictions. Obstacles confronting establishment owners/managers were mixed; however, difficulty in accessing the raw materials necessary for production remained paramount. Nationally, 30.7% of respondents in the latest survey indicated that getting raw materials is of great concern for them compared to 27.1% in January's survey. In the Gaza Strip, the situation was even worse as 74.8% considered access to raw materials as the key obstacle compared to 65% in the earlier survey. This is ascribed to the rigid siege in effect in the Gaza Strip. Meanwhile, this same indicator increased in the West Bank from 8.5% to 12.7% during the same period.

On the other hand, there has been a noticeable improvement regarding establishments' ability to open their doors regularly for business as well as worker's ability to reach work. While this improvement was reflected nationally, it was even more pronounced in the Gaza Strip. Nationally, 28.6% of respondents indicated that their establishment operated on a regular basis in March's survey—up from 11.7% of respondents in January's survey. Likewise, the percentage of respondents who indicated that workers' ability to report to work improved increased from 12.4% in the earlier survey to 28.7%.

Increased levels of optimism in two respects were considerably more pronounced in the Gaza Strip, as 94.1% of Gazan respondents reported being able to open up their establishments for business more regularly, as compared to 32.8% in January's survey. Similarly, 94.8% of Gazan respondents indicated that their workers were able to report to work more regularly, compared to 37.8% in the earlier survey.

Finally, regarding shipping of finished goods, 23.3% of respondents indicated that shipping worsened in March compared to 26.3% who indicated that in January. This reflects a slight improvement in shipping conditions for finished products.

## **11. Demographics**

### **11-1 Population Size**

According to PCBS' revised population estimates for the period 1997-2025,<sup>19</sup> the mid-year population estimate for 2006 in the Palestinian Territory is 3.9 million, with a male to female

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<sup>19</sup> Based on The Population, Housing and Establishment Census of 1997 with specific assumptions regarding fertility, mortality and migration rates.

ratio of 102.7. The West Bank population was estimated at 2.4 million with a 102.5 male to female ratio, and the population of the Gaza Strip was estimated at 1.4 million, also with a male to female ratio of 102.5. The urban population represented 56.5% of the total, while the rural and refugee camp populations represented 28.3% and 15.2% respectively.

According to PCBS 2006 mid-year estimates, the governorate of Hebron is the largest in the West Bank according to population size, with an estimated 543,000 inhabitants, while the Jericho district is the smallest (44,000). The governorate of Gaza is the largest in the Gaza Strip with an estimated population of 506,000, whereas Rafah governorate is the smallest with a population of 171,000.

## **11-2 Age Structure and Sex**

Demographic data demonstrates that Palestinian society is a relatively young one with a wide-based population pyramid. Data also reveals variations in age structure between the West Bank and Gaza Strip. The total number of children less than five years of age is estimated at 17.3% of the total population (16.2% in the West Bank and 19% in the Gaza Strip). Individuals aged 0-14 years are estimated at 45.7% of total population (43.9% in the West Bank and 48.8% in the Gaza Strip). Individuals aged 65 years and over are relatively few, representing only 3% of the population (3.3% in the West Bank and 2.6% in the Gaza Strip). The median age in the Palestinian Territory in 2006 is 16.9 years (17.8 years in the West Bank and 15.5 years in the Gaza Strip).

## **11-3 Population Growth**

PCBS estimated the annual average natural growth rate for the population to be 3.4% during the period 2000-2006. This is considered among the world's highest rates, especially when considering that the average annual growth rate globally is 1.3%. The rise in the growth rate is mainly attributed to high fertility rates, despite the fact that they have been declining in recent years. In fact, fertility rates declined from six children per woman (at reproductive age) in 1997 to 4.6 children per woman in 2003. Similarly, fertility rates in the West Bank declined from 5.6 in 1997 to 4.1 in 2003, and in the Gaza Strip from 6.9 to 5.8 children per woman. This calls for the introduction of appropriate economic and social policies to meet such high population growth rate.

Based on population projections, the total population in the Palestinian Territory is expected to double within 23 years. Furthermore, the population is expected to reach four million in the middle of 2007, surpass five million in 2015 and reach six million by mid-2021.

## **11-4 The Palestinian Family**

The domestic violence survey (2005) published by PCBS indicates a slight decrease in the average size of Palestinian families from 6.1 members in 2000 to 5.9 members in 2005. This slight decrease is mainly attributed to the decrease in Gazan family size from 6.9 to 6.2 members during the same period. Conversely, family size in the West Bank actually increased from 5.7 to 5.8 members. The same survey also points to a large increase in the ratio of nuclear families<sup>20</sup> to the total number of families in the Palestinian territories (1997-2005). The ratio of nuclear

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<sup>20</sup> A family composed of husband and wife with or without children, or one of the pair with children, or with brothers and sisters. Thus, nuclear family members have a first degree relationship with one another.

families increased from 73.3% in 1997 to 81.3% in 2005. Extended families,<sup>21</sup> on the other hand, represented 15.6% of total families in 2005, while families comprised of a single member and complex families<sup>22</sup> represented 3% and 0.1% of total families respectively.

### **11-5 Marriage in the Palestinian Territory**

The number of registered marriage contracts reached 28,876 in 2005 compared to 27,634 in 2004, representing an increase of 1,242 contracts. The majority (16,706) of marriage contracts were registered in the West Bank, an increase of 1,155 contracts over their number in 2004. Concurrently, 12,170 marriage contracts were registered in the Gaza Strip in 2005, an increase of 87 contracts over the level in 2004.<sup>23</sup> The crude marriage rate index shows an increase from 7.6 to 7.7 marriage contracts per thousand individuals between 2004 and 2005. The rate in the West Bank increased from 6.8 to 7 contracts while it decreased in the Gaza Strip from 9 to 8.8 contracts per thousand individuals during the same period.

Data also shows an increase in the median age of marriage for both sexes. In fact, the median average age for first-time marriages was 24.7 years for males in 2005 compared to 23 years in 1997 and 24.2 years in 2001. The median marriage age for females was 19.4 years in 2005 compared to 18 years in 1997 and 19 in 2001. Data also reveals that the median first-time marriage age is higher in the West Bank than in the Gaza Strip for both males and females: the median age for males is 25.2 years in the West Bank and 24.1 years in the Gaza Strip while the median marriage age for females is 19.6 years in the West Bank compared to 19.1 years in the Gaza Strip.

### **11-6 Divorce in the Palestinian Territory**

The number of divorce cases registered with *shari'a* courts reached 4,211 in 2005, representing an increase of 250 cases over the number in 2004. In the West Bank, 2,466 divorce cases were registered at the courts compared to 1,745 cases in the Gaza Strip. Data also indicate that the crude divorce rate (number of registered divorce cases per 1,000 individuals) remained constant at 1.1 in the Palestinian Territory, unchanged from 2004. In the West Bank, the ratio remained constant at 1.0: one single case of divorce per one thousand individuals in 2004-2005, while the ratio increased in the Gaza Strip from 1.2 to 1.3 during the same period.<sup>24</sup>

### **11-7 Palestinian Refugees**

A recently published PCBS report on Palestinian refugees indicated that their number reached approximately 4.3 million in 2006, according to UNRWA estimates. These estimates include only registered refugees at UNRWA; those such as refugees residing inside the green line who cannot register with UNRWA are not counted. The following Table shows the distribution of registered refugees by place of residence (*see Table 26*).

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<sup>21</sup> A family comprised of more than one nuclear family.

<sup>22</sup> Complex family is a generic term for any family structure involving more than two adults. The term can refer to any extended family or to polygamy of any type. In this report, complex families are not counted to include families fitting the above definition of extended families.

<sup>23</sup> Conditions of Palestinian Population, Residents of the Palestinian Territories. PCBS 2006.

<sup>24</sup> Ibid.

**Table 26: Distribution of Registered Palestinian Refugees according to Place of Residence and Percent Living in Camps (2006)**

Region	Percent Registered	Percent Living in Camps*	Number of camps
West Bank	16.2	26.4	19
Gaza Strip	22.6	49.0	8
Jordan	41.8	15.9	10
Lebanon	9.4	52.7	12
Syria	10.0	26.6	10
Total	100	-	59

Source: PCBS, 2006, Press Release on Characteristics of Refugees in the Palestinian Territories; Ramallah- Palestine.

\* Most Palestinian refugees live in urban areas and in villages and receive some form of assistance from UNRWA. Camps are directly administered by UNRWA.

The ratio of domestic refugees to the total population reached 42.4% in mid-2006, comprising a total of 1.6 million refugees (655 thousand in the West Bank and 969 thousand in the Gaza Strip). Forty-eight percent of urban residents and 15% of rural residents are refugees. The average size of refugee families is larger than that of non-refugee families (6.5 members per refugee family compared to 6.2 members for non-refugees families in 2005). Likewise, fertility rates were higher among refugees (4.9 children for every refugee woman of reproductive age compared to 4.3 children amongst non-refugees). Under-five child mortality rates were also higher among refugees (32.3 deaths for every 1,000 births amongst refugees compared to 25.2 deaths for every 1,000 births in 2006). Data also shows that refugee families are poorer (34.3% live below the poverty line) than non-refugee families (26.1% below the poverty line). Furthermore, refugees suffered higher unemployment rates (28.3%) compared to non-refugees (23.3%) during first quarter of 2006.

## 12. Standard of Living

Data shows limited improvement in standard of living indicators during the first quarter of 2006 in comparison to the previous quarter; however these indicators show that standards of living remain below the levels prior to the Intifada. Harsh political and economic conditions are clearly reflected in high poverty rates and the continued decline in income and consumption levels for Palestinian families.

### 12-1 Poverty

#### 12-1-1 Poverty Estimates

PCBS estimated the consumption-based poverty rate at 29.4% during the first quarter of 2006.<sup>25</sup> Additionally, estimates revealed that the income of 48% of families was below the national poverty line during the same period. PCBS projected large increases in the consumption-based poverty rate during the second quarter of 2006, reaching 45% of families. This puts 67% of families (70% of the population) below the national poverty line.<sup>26</sup>

<sup>25</sup> Palestinian Expenditure and Consumption Survey, 2006.

<sup>26</sup> The average number of members of poor families is greater than the national average.

## 12-1-2 Poverty in the Palestinian Territory

PCBS has published a report on poverty in the Palestinian Territory (2005) based on the official definition of poverty adopted in 1997 under the auspices of the national poverty alleviation team. The report showed the poverty line for a model family (a family comprised of six members: two adults and four children) in the Palestinian Territory at NIS 2,143 in 2005 (equivalent to US\$477) whereas the extreme poverty line for the same model family reached NIS 1,732 (equivalent to US\$385). Generally, consumption-based poverty increased in 2005 in comparison to the previous year, while income-based poverty decreased over the same period (see Table 27). Moreover, data revealed the existence of a poverty gap between the West Bank and Gaza Strip, with poverty levels were two times higher in the Gaza Strip than in the West Bank. Families in the Gaza Strip are poorer than their counterparts in the West Bank, and many are unable to meet their basic food, clothing and housing needs.

Consumption-based poverty levels were highest in refugee camps (39.9%) followed by rural areas (24.6%) and urban areas (24.4%). The poverty rate increased in rural areas from 25% in 2004 to 33% in 2005—a change that was also reflected in the extreme poverty rate (14% to 21%). On the other hand, the poverty rate remained unchanged in urban areas while extreme poverty rate declined slightly between these two years. Camps witnessed a rise in the poverty rate as it increased from 32% in 2004 to 40% in 2005 and the extreme poverty rate rose from 22% to 23% during the same period.

The income-based poverty rate declined nationally in 2005 compared to the previous year (see Table 27). Although the poverty rate declined in urban areas, it increased in rural areas and camps. However, the extreme income-based poverty rate decreased in urban and rural areas but remained nearly unchanged in refugee camps.

**Table 27: Poverty Levels According to Actual Consumption, Monthly Family Income and other Selected Variables: 2004 and 2005 (%)**

Variables	Consumption-based				Income-based			
	Poverty		Extreme poverty		Poverty		Extreme Poverty	
	2004	2005	2004	2005	2004	2005	2004	2005
<b>Region</b>								
Palestinian Territory	25.6	29.5	16.4	18.1	53.7	51.5	44.4	40.2
West Bank	19.8	22.3	11.6	13.1	48.0	45.7	39.7	34.5
Gaza Strip	37.2	43.7	26.0	27.9	65.0	63.1	53.9	51.6
<b>Population Cluster</b>								
Urban Areas	24.4	24.9	16.2	15.0	52.2	47.9	43.4	37.5
Rural Areas	24.6	32.5	14.2	21.0	54.0	54.0	44.7	41.5
Camps	31.6	39.9	21.6	23.3	58.5	59.6	47.1	47.5

Source: PCBS, 2006, Poverty in the Palestinian Territories 2005, Preliminary Results, Ramallah-Palestine.

The regional distribution of the poor reveals that 50.1% of the total impoverished population lives in the West Bank and the rest in the Gaza Strip. Moreover, in 2005, 46.5% of them lived in urban areas, followed by rural areas (32.1%) and refugee camps (21.4%). A comparison with 2004 reveals that the percentage of the poor living in urban areas declined (51% of the poor lived in

urban areas in 2004) while the percentage of the poor in rural areas (30%) and camps (19%) actually increased. Data also revealed that fewer female-headed households were below the poverty line (25%) than male-headed households (30%). This is attributed to the high levels of emergency and regular financial assistance targeting female-headed households. This conclusion is supported by data on consumption-based poverty prior to receiving emergency assistance, which puts the poverty rate for female-headed households at 36% and that for male-headed households at 34%. Moreover, according to the data, female-headed households have an income-based poverty rate of 56% while the rate for male-headed households 51%.

Data shows that poverty declines as the educational levels of heads of families increase. Indeed, the consumption-based poverty rate among families whose household head received elementary schooling is 41.4%. This is four times higher than the rate for families headed by a person with a bachelor's degree or higher (9.6%). Poverty is also more widespread among large families in comparison to small and medium-sized families. Furthermore, poverty is more severe among families with a large number of children as well as families comprised of elderly. Lastly, refugee families suffer more from poverty (34.3%) than non-refugee families (26.1%).

The distribution of poverty according to different social groups reveals that the overwhelming majority of the poor belong to male-headed households (93.2%), and 80% belong to families headed by members who received less than secondary schooling. Large families (over eight members) have the highest poverty rates and represented nearly half the number of poor.

Poverty rates declined among groups who participate in the labour force (28.4%) in comparison to non-participants (35.5%), regardless of the fact that the labour force participation rate for heads of poor families is not lower than that of heads of non-poor families. This is attributed to high unemployment rates on the one hand and low wages on the other. Also, families headed by unemployed people are poorer than families headed by partially and fully-employed members (41.3%, 32.8% and 25.6%, respectively).

The highest poverty rates are among families working in agriculture (50.5%), followed by families working in the local private sector (32.6%). Poverty rates are lowest among families working in the public sector (22.9%) and in Israel (20.1%).<sup>27</sup>

If emergency assistance is excluded,<sup>28</sup> data shows a 4.7 increase in the consumption-based poverty rate (the poverty rate increases from 29.5% to 34.2%). Emergency assistance also eased the extreme poverty rate from 23.5% prior to assistance to 18.1% after assistance (PCBS, 2006, Poverty report 2005).

## **12-2 Family Expenditure and Consumption**

PCBS' expenditure and consumption survey (2005) revealed that the average monthly household expenditure reached JD584 (JD616 in the West Bank and JD542 in the Gaza Strip). However, the average monthly household consumption reached a value of JD634 (JD680 in the West Bank and JD542 in the Gaza Strip). The discrepancies between households' consumption and expenditure rates might be attributed to the fact that many Palestinian families, especially those residing in

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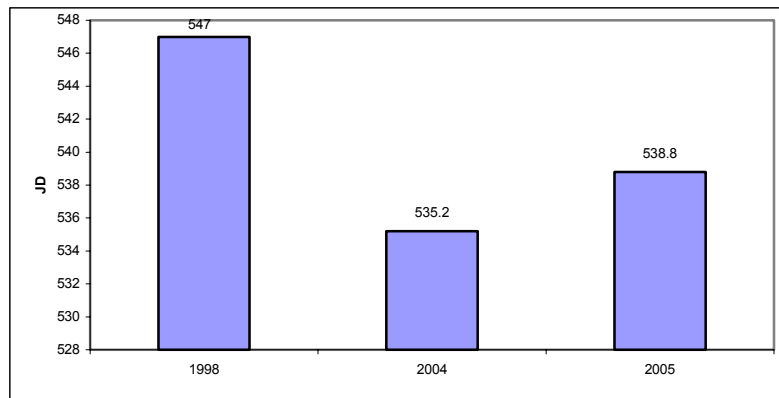
<sup>27</sup> Public sector employees used to have job security and a stable flow of income. This was clearly reflected in their consumption pattern despite the relatively low income they receive. However, not paying public employee salaries on time for a number of months in 2006 will certainly change consumption patterns for this particular segment, possibly leading to an increase in poverty amongst this group.

<sup>28</sup> This excludes the effect of regular assistance received by Palestinian families.

rural areas, rely on homemade products. Many families also receive financial and in-kind assistance from various sources.

A comparison of these rates with those of 2004 reveals a rise in the average monthly nominal expenditure by 9.1% between 2004 and 2005 and an increase of 6.7% in comparison to 1998 (see Figure 22). Changes in household expenditure levels are closely connected to the economic crises and blockade imposed on the Palestinian Territory since September 2000. Such Figures depict Palestinian families' expenditure in the context of international financial sanctions, which naturally triggered a decline in levels of consumption and expenditure.

**Figure 22: Average Monthly Household Expenditure in the Palestinian Territory; 1998, 2004 and 2005**



Source: PCBS, 2006, Family expenditure and Consumption Survey, 2005, Press Release, Ramallah-Palestine.

Data shows a 5.5% increase in nominal household average monthly consumption in 2005 in comparison to the previous year. This increase was mainly concentrated in the West Bank (7.7%), while the Gaza Strip experienced a slight increase of 0.4%. In other words, the gap in consumption between the West Bank and the Gaza Strip increased as the ratio of consumption in the Gaza Strip to consumption in the West Bank declined from 85.5% in 2004 to 79.7% in 2005 (see Table 28).

Rural families' average monthly consumption exceeds the national average. This is logical due to the consumption of homemade production in rural areas in addition to the fact that rural residents are usually the proprietors of their homes. However, a comparison with 2004 shows that the gap between consumption and expenditure shrank. This is also logical as the Palestinian Territory enjoyed a period of relative economic progress in 2005 in comparison to 2004, which allowed for more cash spending on various items.

There has been a change in the rank of population clusters on the basis of the level of their expenditure between 2004 and 2005. In 2004, urban residents had the highest expenditure, followed by rural and camp residents. In 2005, the ranking changed as camp residents surpassed rural residents in terms of expenditure levels. This shows that improvement in expenditure levels excluded rural areas whose average household expenditure remained unchanged (in current prices). However, when taking family size<sup>29</sup> into consideration, the order returns to its original 2004 form. Monthly per-capita expenditure is JD98 in urban areas, JD83 in rural areas and JD74

<sup>29</sup> Average family size is 6.5 members in urban areas, 6.1 in rural areas and 7.3 in camps.



in camps. Moreover, the expenditure-consumption gap widened between the different regions in favour of urban areas. In other words, the relative improvement in economic conditions had the largest impact on urban areas.

Household consumption data is consistent with the general trend in expenditure as average monthly household consumption in urban areas is higher than rural and camps averages. Average monthly consumption in urban areas is 17 percentage points higher than in camps and 18 percentage points higher than in rural areas (*see Table 29*).

**Table 29: Monthly Household Expenditure and Consumption in Urban, Rural and Camp Areas: 2004 and 2005**

		Urban Areas	Rural Areas	Camp
Average Monthly Household Expenditure 2005 (in JD)		638.8	503.1	540.8
Average Monthly Household Consumption 2005 (in JD)		689.3	563.5	569.6
Average Expenditure to Average Consumption Ratio 2005		<b>92.7</b>	<b>89.3</b>	<b>94.9</b>
Average Monthly Household Expenditure 2004 (in JD)		598.7	511.0	517.2
Average Monthly Household Consumption 2004 (in JD)		670.0	593.6	604.9
Average Expenditure to Average Consumption Ratio 2005		<b>89.4</b>	<b>86.1</b>	<b>85.5</b>
Average Expenditure in Urban Areas*	2004	100	89	86
	2005	100	79	85
Average Consumption in Urban Areas*	2004	100	93	86
	2005	100	82	83

Source: PCBS, 2006, Family Consumption and Expenditure Survey 2005, Press Release, in addition to the final report (Dec. 2004- Dec. 2005), Ramallah-Palestine.

\* Urban areas equal 100% and average consumption and other areas are compared with it.

Table 30 shows a decline in Palestinian household expenditure on main expenditure items such as health care and housing. Expenditure on other items increased by different rates between 2004 and 2005. However, when comparing expenditure rates in 2005 with those in 1998, data reveals that expenditure for food, clothing, entertainment and cultural items declined. This is attributed to the Israeli siege, which caused a general decline in expenditure levels in addition to increasing the cost of some basic goods and services (especially shipping and transportation).

**Table 30: Monthly Household Expenditure on Main Goods  
in the Palestinian Territory: 1998, 2004 and 2005**

Expenditure Groups	1998	2004	2005	% Change 2005-2004	% Change 2005-1998
	(JD)	(JD)	(JD)		
Food	220	193	199	3.1	-9.5
Clothing	46	35	42	20.0	-8.7
Housing	40	53	52	1.9-	30.0
Home Appliances	30	32	37	15.6	23.3
Medical Care	21	29	22	24.1-	4.8
Transportation & Shipping	55	69	77	11.6	40.0
Education	19	18	20	11.1	5.3
Entertainment & Culture	17	13	15	15.4	-11.8
Personal Care	11	13	15	15.4	36.4
Other	88	80	106	32.5	20.5
<b>Total</b>	<b>547</b>	<b>535</b>	<b>584</b>	<b>9.2</b>	<b>6.8</b>

Source: PCBS, 2006, Family expenditure and Consumption Survey, 2005, Press Release, Ramallah-Palestine.

## 13. Higher Education

### 13-1 Higher Education Institutions

The General Administration for Development and Scholarly Research in the Ministry of Education and Higher Education (MOEHE) published a report addressing the status of higher education. The findings of the report can be summarized as follows:

There are 43 higher education institutes in the Palestinian Territory, of which ten are traditional universities awarding Bachelor's degrees and Master's degrees. Other higher education institutions include Jerusalem Open University, which offers Bachelor's degree degrees, 13 community colleges<sup>30</sup> granting Bachelor's degree degrees, and 19 junior colleges offering diplomas.

Of the traditional universities, seven are based in the West Bank and three in Gaza. Nine of the community colleges are in the West Bank and four are in Gaza. Of the junior colleges, 14 are in the West Bank and five are in Gaza. The open educational centres are distributed throughout the governorates and regions, with 16 centres in the West Bank and seven in Gaza.

### 13-2 Higher Education Student Body

During the year of the study (2005/2006), the large increase in the number of students attending higher education institutions in the Palestinian Territory continued. The number of students in these institutions reached 149,624, an increase of an average of 8.3% from the previous school

<sup>30</sup> Specialized in specific fields, and granting Bachelor's degree degrees.

year. Table (31) demonstrates the large increase in the number of junior college students (22.7%) and Open University students (13.9%). The increase in traditional universities was modest (4.2%) and the number of students in community colleges decreased (-4.1%).

**Table 31: Change in the Number of Higher Education Students in the Palestinian Territory during the P eriod 2004/5 and 2005/6 according to Institution Type (%)**

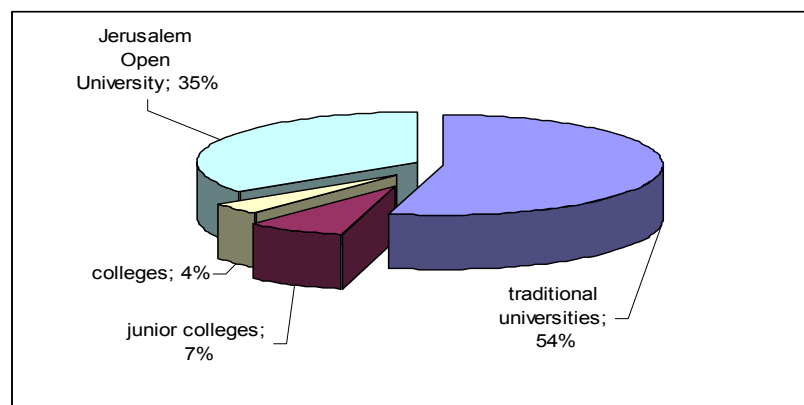
Type of Institution	Male	Female	Total
Traditional Universities	1.9	6.3	4.2
Jerusalem Open University	11.1	16.5	13.9
Colleges	-7.9	-1.1	-4.1
Junior Colleges	24.1	20.9	22.7
<b>Total Student Body</b>	<b>6.3</b>	<b>10.2</b>	<b>8.3</b>

Source: Ministry of Education and Higher Education, General Administration for Development and Scholarly Research, 2006. Series of Reports and Studies: Study No. 1: Students in Higher Education, Ramallah, Palestine.

Gross enrolment rate in higher education institutions (the ratio of students enrolled in higher education to total population) reached 4% and the general enrolment rate (the ratio of enrolled in higher education to the segment of population aged 18-24 years) arrived at 31.3%.

The majority of students (54%) are enrolled in traditional universities. A further 35% are enrolled in Jerusalem Open University, and the remaining students are distributed among community and junior colleges (see Figure 23).

**Figure 23: Distribution of Students in Higher Education Institutions in the Palestinian Territory according to Type of Institution, 2005/6**



Source: Ministry of Education and Higher Education, General Administration for Development and Scholarly Research, 2006. Series of Reports and Studies: Study No. 1: Students in Higher Education, Ramallah, Palestine.

The distribution of students across higher education institutions for the year 2005/2006 indicate that the majority of registered students in higher education institutions in the Palestinian Territory were female (53%), which represents a 1% increase in the percentage of females in higher education institutions in comparison to the year 2004/5. Females as a percentage of the student

body increased in most higher education institutions, except junior colleges, where the percentage of males exceeded that of females. This is a reinforcement of a trend which started in the previous school year. Whereas the percentage of females exceeded that of males in junior colleges from the year 1994/1995 until the year 2003/2004, the trend in male enrolment changed back in 2004/5 due to the opening of new specialized vocational junior colleges oriented towards males. This does not mean that Palestinian women are overrepresented in higher education as these numbers do not represent Palestinian students in higher education institutions abroad, the great majority of whom are male. (See Table 32).

**Table 32: Percentage Distribution of Higher Education Students in the Palestinian Territory according to Gender and Type of Educational Institution, 2005/6**

Type of Institution	Male	Female	Total
Traditional Universities	46	54	100
Jerusalem Open University	47	53	100
Colleges	43	57	100
Junior Colleges	57	43	100
<b>Total Student Body</b>	<b>47</b>	<b>53</b>	<b>100</b>

Source: Ministry of Education and Higher Education, General Administration for Development and Scholarly Research, 2006. Series of Reports and Studies: Study No. 1: Students in Higher Education, Ramallah, Palestine.

In terms of the current distribution of students registered in higher education institutes according to the degree which they will receive, approximately 87% of students are enrolled in Bachelor's degree programs and 3% in programs offering a degree higher than Bachelor's degree. An additional 10% are enrolled in programs that award degrees lower than Bachelor's degree. This distribution is similar to that of the previous school year.

As Table (33) demonstrates, the percentage of females exceeds that of males in Bachelor's degree programs, and the percentage of males exceeds that of females in junior diploma programs and higher studies. In comparison to the previous school year, the percentage of males participating in Bachelor's degree programs and in higher education programs (higher diploma or Master's) dropped one percentage point, whereas the percentage of males remained the same in junior diploma programs.

**Table 33: Distribution of Students Registered in Higher Education Institutions in the Palestinian Territory according to Gender and Degree, 2005/6**

Degree		Male	Female	Total
Junior Diploma	#	8,316	7,251	15,567
	%	53	47	100
BA	#	59,741	69,952	129,693
	%	46	54	100
Higher Degree	#	2,690	1,673	4,363
	%	62	38	100
<b>Total</b>	#	<b>70,747</b>	<b>78,876</b>	<b>149,623</b>
	%	<b>47</b>	<b>53</b>	<b>100</b>

Source: Ministry of Education and Higher Education, General Administration for Development and Scholarly Research, 2006. Series of Reports and Studies: Study No. 1: Students in Higher Education, Ramallah, Palestine.

Table 34 shows that most students are registered in the social sciences and administration (31%), whereas health, engineering and applied studies in general still make up a lower proportion of higher education studies.

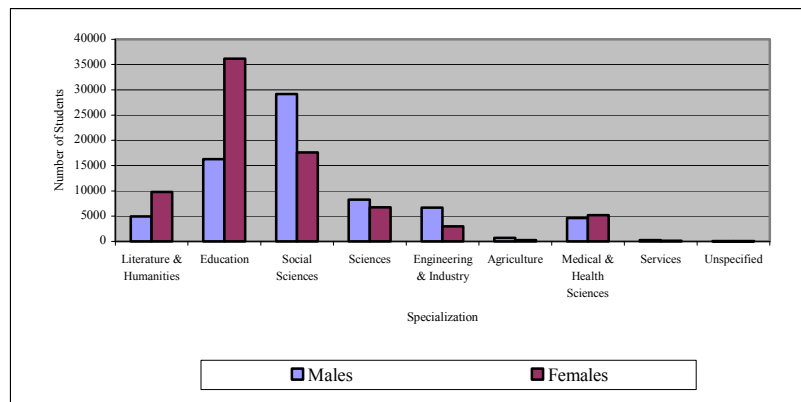
**Table 34: Distribution of Students Registered in Higher Education Institutions in the Palestinian Territories according to General Program, 2005/6**

Program	#	%
Literature & Humanities	14,684	9.8
Education	52,420	35.0
Social Sciences & Administration	46,723	31.2
Sciences	14,999	10.0
Engineering	9,619	6.4
Agriculture	887	0.6
Medical & Health Sciences	9,776	6.5
Services	389	0.3
Unspecified	126	0.1
<b>Total</b>	<b>149,623</b>	<b>100.0</b>

Source: Ministry of Education and Higher Education, General Administration for Development and Scholarly Research, 2006. Series of Reports and Studies: Study No. 1: Students in Higher Education, Ramallah, Palestine.

As Figure (24) demonstrates, the number of females exceeds males only in the fields of literature and the humanities, education, and medical and health sciences, while males dominate in other specializations.

**Figure 24: Distribution of Students in Palestinian Higher Education Institutions according to Program and Gender, 2005/6**



Source: Ministry of Education and Higher Education, General Administration for Development and Scholarly Research, 2006. Series of Reports and Studies: Study No. 1: Students in Higher Education, Ramallah, Palestine.

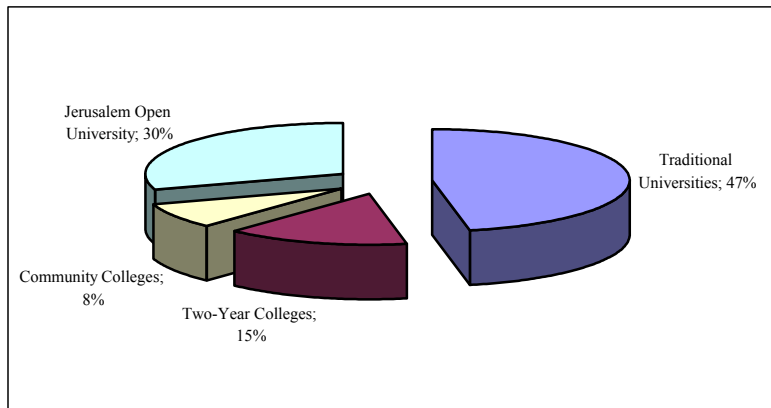
### 13-3 New Students

Reports indicate that 39,030 new students enrolled in higher education institutions in the 2005/6 school year. Of them, 9,126 students had taken the *tawjihi* previously. Thus, of the 39,534 students who graduated from high school in 2004/5, 75.6% of them enrolled in higher education institutions. These numbers show the large attendance of Palestinians in university education, particularly if the number of students enrolled in higher education institutes outside of Palestine is taken into consideration.

As Figure (25) shows, traditional universities contain the largest percentage of new students, followed by Jerusalem Open University. According to the MOEHE report, the acceptance of a large number of new high school graduates in Jerusalem Open University is in direct contradiction with the philosophy of open education, which works to open opportunities for those in the workforce to pursue higher education.

In comparison to the percentage in the previous school year, the proportion of students enrolling in traditional universities out of the total population of new students dropped by four percentage points. Concurrently, the proportion of new students enrolling in two-year colleges increased by two percentage points. New students enrolling in community colleges and Jerusalem Open University increased by one percentage point each.

**Figure 25: Distribution of New Students in Higher Education Institutions in the Palestinian Territory, 2005/6**



Source: Ministry of Education and Higher Education, General Administration for Development and Scholarly Research, 2006. Series of Reports and Studies: Study No. 1: Students in Higher Education, Ramallah, Palestine.

### 13.4 Graduates of Higher Education

In the 2004/5 school year, 18,035 people graduated from higher education institutes in the Palestinian Territory. This represents an 8.8% increase from the previous school year. Women made up nearly 56% of this year's graduates. Sixty percent of graduates graduated from traditional universities, 21% graduated from Jerusalem Open University, 9% graduated from community colleges, and 10% graduated from two-year colleges. (MOEHE, 2006)

## **14. Israeli Measures**

### **14-1 Killed and Injured**

The Palestinian Monitoring Group of the Palestinian Liberation Organization Negotiation Affairs Department (PMG) reported that Israeli forces perpetrated 14 assassination operations against Palestinian activists during the first quarter of 2006. This is the same number of assassination operations in the last quarter of 2005. PMG also reported that Israeli forces killed 57 Palestinians during the first quarter of 2006, a number which represents a 19% increase from the previous quarter. The number of Palestinians injured during the first quarter of 2006 increased by 31% from the previous quarter, reaching a total of 427 people.

### **14-2 Obstacles to Movement**

PMG reported the existence of 1,117 ‘flying’ (temporary) military checkpoints in the West Bank during the first quarter of 2006—down from 1,383 during the fourth quarter of 2005. International crossings were closed 215 times during the first quarter of 2006, and curfew was imposed 39 times on different population areas during the same period. This is in addition to the tens of permanent checkpoints spread throughout the Palestinian Territory, some of which the Israeli army is turning into what will become border crossings. Examples of this are Qalandia checkpoint at the entrance to Jerusalem and Zaatara checkpoint in the northern West Bank. Similarly, the occupation authority has strengthened its isolation of regions of the West Bank from one another. The army has concentrated checkpoints to isolate the North and South of the West Bank from the middle.

### **14-3 Continuing Assaults on the Education and Health Sectors**

There were 27 Israeli assaults on the Palestinian education sector during the first quarter of 2006, including raiding schools or their surroundings, delaying students and teachers at checkpoints or preventing them from reaching school.

PMG recorded ten assaults on the health sector during the first quarter of 2006, including detaining ambulances, beating or shooting at ambulance staff, shelling close to hospitals, and entering hospitals by force in order to gather information about the injured.

### **14.4 Assaults on Property and Demolishing Homes**

The Israeli authorities continued to target Palestinian public and private property, with measures that included the destruction of 38 homes during the first quarter of 2006. This represented an increase of 52% from the previous quarter. Similarly, Israeli forces occupied 170 houses and used them for military purposes. There were 170 assaults on Palestinian property including the destruction of Palestinian security establishments, public buildings, roads, water and electricity infrastructure; damaging citizens’ homes and furniture; bulldozing agricultural land; and targeting centres of commerce and industry.

### **14.5 Continuing Settler Activities and Attacks on Citizens**

PMG reported 55 settler activities during the fourth quarter of 2006. These included the confiscation and bulldozing of land in order to prepare it for building the Wall. Also included are

the building of settler sites, the forging and broadening of settler roads, advertising grants for building housing units in the settlements, and confiscating land for military purposes.

Israeli settler assaults have continued against Palestinian citizens and their property. There were 88 assaults recorded during the first quarter of 2006. These included incidents of running over or kidnapping children, beating citizens, harassing herders and farmers and threatening them with death, bulldozing and damaging land and property, and throwing stones at Palestinian cars.

## **14.6 Palestinian Prisoners in Israeli Prisons**

PMG's monthly report recorded an intensification in the Israeli campaign of arresting Palestinian activists in the first quarter of 2006, during which time Israeli forces arrested 1,446 Palestinians. This represents a 21% increase from the last quarter of 2005. This campaign comes in the context of Israel's escalation in suppressing the Palestinian Intifada.

The number of Palestinian prisoners in Israeli prisons reached 9,400 in March 2006 according to PCBS reports. This included an increase of approximately 600 new prisoners since 2005. Palestinian prisoners were distributed among 24 detention centres, four investigation centres, and two Israeli army centres.<sup>31</sup> Of the total number of prisoners, 330 were children and 120 were women. Most of the prisoners (94.1%) were arrested during the Al Aqsa Intifada. There were seven prisoners who had remained in prison for more than 25 years, 38 who had been imprisoned from 20-25 years, 124 who had been imprisoned for 15-19 years, and 552 who had been imprisoned between 10-14 years. Of the total prisoners, 5.6% were from Jerusalem, 87.2% were from the rest of the West Bank and 7.2% were from the Gaza Strip.

The number of prisoners killed since the start of the Israeli occupation in 1967 until the end of March 2006 was 182. Sixty-nine of them were killed through torture, 41 were killed through medical neglect, and there were 72 identified cases of intentional murder.<sup>32</sup>

## **15. Security, Justice and the Legal Environment**

### **15-1 Continuing Incidents of Security Breaches and Misuse of Weapons**

Incidents of the misuse of weapons and vigilantism have increased, as have assaults on public and private property. According to Al Mezan Centre for Human Rights in Gaza, during the first quarter of 2006 in the Gaza Strip, 20 people were killed, including three children. Eighty-four others were injured, including 16 children. There were 113 cases of law-breaking including ten incidents of kidnapping. During these incidents, a total of 17 people were kidnapped, including ten foreigners. There were also assaults on 34 public institutions. Between the period of March 2002 and the end of March 2006, the number of victims of security infractions increased to 197 killed, 1,275 injured and 72 kidnapped (including 32 foreigners).<sup>33</sup>

The West Bank witnessed similar incidents including assaults on public institutions such as the Palestinian Legislative Council and some charitable societies. Additionally, there were incidents of vigilantism and the spread of family disputes. However, reports on the misuse of weapons and vigilantism were not well documented with sufficient detail.

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<sup>31</sup> Other detention centers belong to the Israeli prison authority

<sup>32</sup> PCBS, 2006

<sup>33</sup> [www.mezan.org](http://www.mezan.org)



## 15-2 The Legal Environment

The Palestinian Legislative Council (PLC) made some progress during the second quarter of 2006. A number of legal decisions were implemented despite the political and economic siege put in place by Israeli authorities during this period.

The PLC only transferred one law to the president of the PNA during the second quarter of 2006. This law addresses economic issues related to the organization of the budget system. If the PNA president ratifies this law, it will be considered to be the second law of its type which has been amended to improve the law of the budget system. These amendments are fundamentally related to extending the required legal time period to present the government with the general budget. The final deadline for presenting the budget was delayed to August.

The PLC refused two laws introduced by the president of the PNA through presidential decrees. The first of these addressed amending the Jordanian law of corporations of 1964. The proposed amendments would allow participating public companies to pursue the right to purchase 5% of their stocks in circulation. The second decree addressed the national body for the communications sector. The PLC justified its refusal of these two laws by stating that they are unconstitutional as the president published them while the previous council was in session, which violates Article 43 of the Basic Law.

A number of PLC representatives presented bills dealing with economic issues. These were passed to the special committee in the PLC to begin its examination of them. These bills include one amending the law of remuneration for PLC representatives and mandating a lowering of salaries and compensation granted to them. Another bill is to amend the water law. There are also two new bills—one addresses the professional system for interior design and décor and the other addresses the rights of imprisoned members of the PLC.

**Table 35: Economic Related Bills and Laws at Different Legislative Stages**

Date of publishing/ implementing/ reading/ transferral	Law/Bill
<b>Bills which the PLC read and transferred to the President: 1</b>	
6/1/2006	Amendment for the law on the public budget
<b>Laws issued by the President and refused by the PLC: 2</b>	
5/4/2006	Decision on the law addressing amending the Jordanian law of commerce number (12) of 1964
5/4/2006	Decision on the law addressing the Palestinian body for the communications sector
<b>Bills transferred to the special committees to begin consideration: 4</b>	
4/5/2006	Amending law on salaries and compensation for representatives and members of the government and governorates
5/4/2006	Water law
6/15/2006	Professional system for interior design and décor in Palestine
6/15/2006	Rights of imprisoned members of the PLC