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(PMA)**



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



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

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FOREWORD

We are pleased to provide our valued readers with issue number seven of the Quarterly Economic and Social Monitor. This volume includes, in addition to the regular items, an overview of five of important economic surveys conducted by the Palestinian Central Bureau of Statistics. These surveys address the industrial sector, internal trade, transport, construction contractors and the service sector. This monitor also includes an analysis of the results of the Secondary School Certificate Examination, as well as an analysis of the poverty indicators for the year 2005 in comparison with the same indicators for the year 1998. Finally, the volume includes an analysis of the public sector salary crisis and its effects on Palestinian families.

This volume covers a range of sectors and geographical areas, as well making use of the most recent data and figures. We look forward to receiving comments and feedback from interested readers and researchers to ensure that the Quarterly Economic and Social Monitors continue to meet their needs.

Finally, we extend our appreciation to the research teams of MAS, PCBS and PMA, who worked under dire conditions to publish this volume. We also thank all firms and institutions which sponsored the production and publication of this issue.

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EXECUTIVE SUMMARY

National Accounts: During the second half of the year GDP fell by 1.7%, amounting to US\$1,082.7 million. The decline was reflected in all economic activities. Per-capita GDP fell to US\$299.1, a decline of 2.1%.

Industrial Sector: Most industrial-sector indicators for the year 2005 declined. The number of industrial establishments and workers decreased, value added fell by 7.2%, industrial capital formation declined by nearly 43%, and average wages and productivity also decreased.

Internal Trade: The number of institutions and workers in this sector both fell considerably. However, value added decreased by only 1.2%, and consequently average worker productivity rose by 8.8%, and average annual wages increased by 15%.

Transport, Storage and Communications: Indicators relating to the informal transportation sector registered a noticeable improvement compared to the previous year. Value added increased, as did the number of vehicles and workers in the sector. Worker productivity also increased. By contrast, the formal sector saw a decline in all these indicators, with value added falling by 34.7%.

Construction: The value added in this sector rose by 60%, despite a decrease in the number of workers and enterprises active in the sector. Consequently, workers' productivity improved, although capital formation fell.

Services: The number of workers and establishments involved in services activities declined, while a slight increase occurred in the realized value added. Average wages and productivity in the sector both increased.

Labour Market: The percentage of those participating in the labour force increased from 40% to 40.9% between the first and second quarters of 2006. The percentage of women participating also increased from 12.7% to 13.7%, and the overall unemployment rate dropped noticeably from 25.3% to 22.9%. The number of vacant jobs advertised in the three main newspapers during the third quarter of 2006 rose by 15.9%, bringing the total to 1,107 jobs.

Infrastructure: The number of building permits increased by 15.6% during the second quarter of 2006 compared with the same period in 2005, to reach 1,840 permits. The amount of cement imported increased by 31% during the same period, to reach 336.8 thousand tons.

Public Finance: Revenues continued to decline during the second quarter of 2006, falling by 49% compared with the previous quarter. Expenditure also continued to fall, but by only 6.3%, which meant that the budget deficit increased by 31% during the comparison period.

Banking Sector: The ratio of credit facilities to client deposits increased from 44.9% to 47.2% between the first and second quarters of 2006, while total bank deposits decreased by 3.3%. Total bank assets/liabilities fell by US\$143 million, and investments abroad fell by US\$77.1 million. Monetary Authority clearing houses experienced a noticeable decline in the value and number of cheques cleared.

Exchange Rate Spread: The spread of exchange rates for the US Dollar, Jordanian Dinar and Euro decreased in the Palestinian Territory but rose in Israeli banks.

Stock Exchange: A noticeable improvement occurred in all Stock Exchange indicators during the third quarter of 2006 compared with the second quarter. The volume of trading increased by 24.6%, the market value rose by 8.7%, the number of shares traded increased by 16.2%, and the Jerusalem index rose by 12.4%.

Prices and Purchasing Power: The consumer price index measured in Israeli Shekels rose by 0.73% during the second quarter of 2006. The exchange rate of the Jordanian Dinar and US Dollar decreased by 3.6% and 4.3% respectively compared with the previous quarter. As a result of such changes, the purchasing power of the Dinar fell by 4.37% and that of the US Dollar by 5%.

Tourism: The number of hotel guests increased by 30% during the second quarter, and the hotel room occupancy rate rose by 16%. Similarly, the number workers in the sector increased by 3.8% to reach 1,365 workers.

Views of Owners and Managers of Industrial Establishments with Regard to Economic Conditions: In September 2006, only 22.6% of owners/managers in the Gaza Strip and 26.8% in the West Bank expected their establishments to improve in the coming 6 months. Overall, only 14.6% expected an improvement in employment levels.

Living Standards: Data indicate a deterioration of living conditions in the Palestinian Territory during the second quarter of 2006, with the poverty rate rising considerably to reach 65.8% and Palestinian families' income and expenditure levels both falling. Nearly one quarter of Palestinian families were directly or indirectly affected by the salary crisis, and the percentage of families receiving assistance increased.

Results of the Secondary School Exam (*Tawjihi*): 78,608 students sat for the Secondary School Certificate during the school year 2005/2006. The success rate in the scientific branch was 85%, the literary branch 62%, the vocational branch 59%, and private study 44%. Among female students the overall success rate was 71%, while among male students it was 52%.

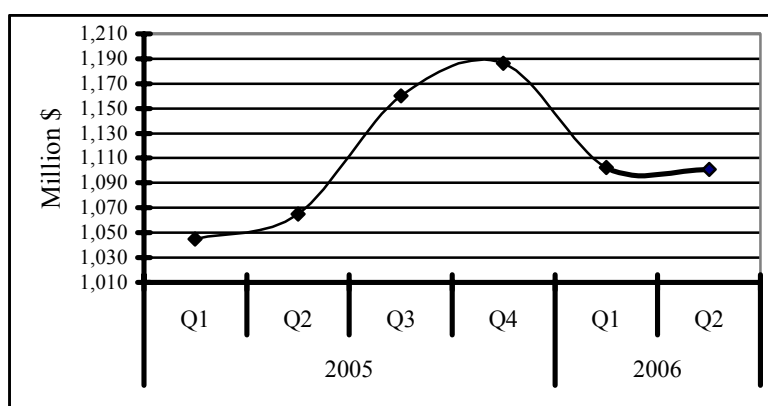
Israeli Measures: The occupation forces assassinated 7 Palestinian activists during the second quarter of 2006, killed a further 27 people and wounded 679. At the same time Israeli 56 new settlement activities were recorded. The number of prisoners held in Israeli jails reached 9,850 by mid-July 2006, 359 of them children and 105 of them women.

1. National Accounts

Preliminary estimates of national accounts in fixed prices for the second quarter of 2006 in the rest of the West Bank and Gaza Strip (excluding Jerusalem) reveal a decrease of 1.7%¹ in GDP compared with the first quarter of the same year to reach US \$1,082.7 million (see Figure 1). Per-capita GDP fell by 2.1% to US\$299.1.

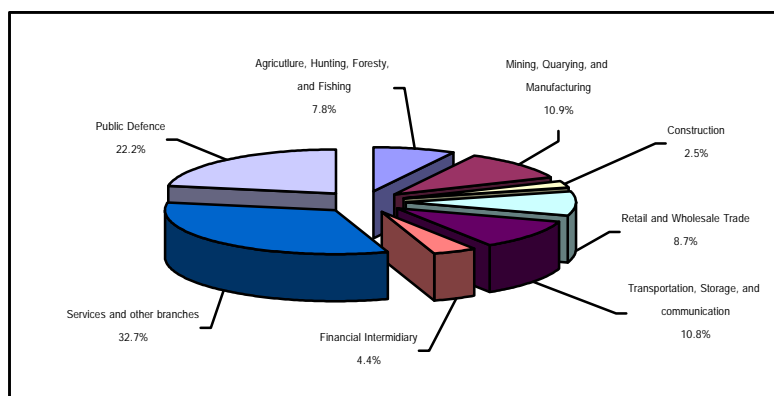
A decline occurred in all economic activities. The value added of transport, storage and communications activities retreated by 5.9%, as did that of metallurgy, manufacturing activities and water and electricity supply, by 1.8%. In the sphere of educational activities, value added fell by 2.9%. The smallest decline in value added was recorded in construction activities, where it was 1.1% compared with the previous quarter.

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



Source: Palestinian Central Bureau of Statistics (PCBS), 2006. Press Conference on Preliminary Estimates of Quarterly National Accounts (Second Quarter 2006). Preliminary Data

Figure 2: Distribution of Economic Activities' Contribution to GDP in Rest of West Bank and Gaza Strip, Second Quarter of 2006.



Source: PCBS, 2006. Press Conference on Preliminary Estimates of Quarterly National Accounts (Second Quarter 2006), Preliminary Data

¹ The comparison is between data of the second quarter of 2006 and the revised data for the first quarter of 2006 (first revision), which is different from the data contained in the previous number of the Monitor.

Some changes occurred in the relative contribution of economic activities to GDP during the second quarter compared with the first. The contribution of transport, storage and communications activities fell from 11.3% to 10.8%. Financial intermediation maintained its contribution at 4.4%, and manufacturing remained at 9.2%. The contribution of hotel and restaurant activities increased from 1.6% to 2.2%, and the contribution of public administration and defence activities increased from 21.6% to 22.2% (see Figure 2).

2. Industrial Sector

The relative improvement in the political and security situation in the Palestinian Territory at the beginning of 2003, and the continued relative calm throughout 2004, resulted in the stimulation of some sectors of the Palestinian economy. However, this disappeared in 2005 due to the instability of the political and security situation, resulting in a decline in the performance of most economic sectors. The following is a review of the most important changes that occurred in the main indicators of the industrial sector in the rest of the West Bank and Gaza Strip during 2005, based on PCBS data (Economic Surveys Series, 2005).

2.1 Number of Establishments

The total number of establishments active in the industrial sector during 2005 in the Palestinian Territory (with the exception of the capital, Jerusalem) declined by 4% compared with 2004. They totalled 12,212 establishments, distributed 70% in the rest of the West Bank and 30% in the Gaza Strip. Data indicate that most of the decline was due to a decrease in the number of industrial establishments operating in the West Bank, which fell by 4.7%. The decrease in the Gaza Strip did not exceed 1.5%

Looked at by sector, the percentage decrease in establishments in the textile industry was the biggest. They fell in number by 75, which constitute 16% of the total of industrial establishments that disappeared. This was followed by establishments engaged in the preparation and tanning of leather (including the shoe and bag industry), whose number decreased by 34. The decrease of the number of establishments engaged in those two activities could be attributed to the increased internal market competition from cheaper imported goods of the same nature, especially from east Asia.

2.2 Employment

The number of workers employed by the industrial sector in the Palestinian Territory (with the exception of Jerusalem) fell by around 750 (1.3%) to become 58.2 thousand. The decrease was partially due to suspension of production by many industrial establishments, and also to the redundancy of a part of the workforce in other establishments. Industrial employment in the rest of the West Bank declined by around 1,900 workers, while the number in the Gaza Strip increased by around 1,100. It is worth mentioning that the number of those employed in the preparation and tanning of leather alone accounted for a decrease of around 300 workers.

Five main industries employed around 45.5 thousand workers, equivalent to 77.3% of the total number of workers in the industrial sector. They were distributed as follows: textile industry 19.9%; metal products industry 19.9%; food industry 14.7%; metal manufacturing (excluding machines) 11.6%; and furniture 11.2%.

2.3 Value Added

The value added in the industrial sector decreased to US\$605.8 million in 2005, a decline of 7.2% compared with 2004. Value added dropped by 6% in the rest of the West Bank and by 11% in the Gaza Strip.

The biggest fall was recorded in the metal products industry (excluding machinery), where the decline reached 45.4%. In the electricity supply and non-precious metal industries it fell by 21.2% and 5.4% respectively, while the furniture industry recorded an increase of 25.6%.

Despite these changes, the contribution of the various industries to the total value added realised in the industrial sector did not change. The metal products industry maintained first place in its contribution (21.4%) to the total value added achieved by industrial activities as a whole, the food industry occupied second place (14.8%), followed by the textile industry and the furniture industry with 8.2% each.

2.4 Capital Formation and Net Investment

Fixed capital formation in the industrial sector in the Palestinian Territory (excluding Jerusalem) dropped sharply during the period between 2004 and 2005, from US\$31.69 million to US\$18.04 million. In the Gaza Strip it fell from US\$6.87 million to around US\$2.87 million and in the rest of West Bank it dropped from US\$24.82 million to US\$15.17 million.

Net investment (gross investment minus annual depreciation) continued to be negative, as in previous years. It amounted to around minus US\$34.41 million in 2005, having been minus US\$33.42 million in 2004. This indicates that the sector lost around one million US dollars of its capital base.

2.5 Industrial Exports

Data indicate an increase in the sale of industrial goods abroad, reaching around US\$162.3 million, an increase of around 2% over the previous year. Most of the increase occurred in the preparation and tanning of leather industry, where exports increased by 287%. A three-fold increase occurred in the furniture industry, reaching US\$6,857.4 thousand. The electrical appliances industry experienced a decline of 88% in its exports, realizing only US\$170.7 thousand. Also, foreign sales of machines and other equipment dropped by 69%.

Geographically speaking, the value of industrial exports of the rest of the West Bank totalled around US\$152.8 million, an increase of 7.6%. Thus, its contribution to industrial exports became 94.1%, having been 89.2% in 2004. By contrast, industrial exports from the Gaza Strip fell to US\$9.5 million, a decrease of 44.4% from the previous year.

2.6 Prices and Productivity

Data for 2005 indicate a decline of nearly 1.5% in average wages in current prices in the industrial sector throughout the Palestinian Territory (excluding Jerusalem), to become US\$4,137.3 per worker. The number of workers who received a wage from the industrial sector dropped by 1.2%, and the total remuneration of workers dropped by 6.5%.

The average wage of employees dropped by nearly 0.3%, to reach US\$3,264.7. Also a drop of 0.5% in the average wage of employees in the rest of the West Bank occurred, to become US\$4,605.3. By activity, it was noted that there was a decline in average wages by 32% in chemical industries and 8% in the manufacture of machines and other equipment. At the same time, the average wage in printing and publishing activities almost doubled.

Worker productivity in the industrial sector (each worker's share of value added) fell by 6% to become US\$10,403 per worker in 2005. The decline was due to a fall of around 7.2% in this sector's value added but a lower decrease (1.3%) in the number of workers. The fall in productivity was greatest in the Gaza Strip, where it was 17%, becoming US\$8,078.2. This was due to a decline in value added and a considerable increase in the number of workers. By contrast, the decrease in the rest of the West Bank was slight, amounting to 0.7%, with productivity reaching US\$11,625.1.

Productivity increased by more than double (138%) in printing and publishing activities, to reach US\$16,365, followed by an increase of 68% in leather preparation. By contrast, productivity in electric appliance production fell by 76%, and in the non-machine metal products industry by 74%.

3. Internal Trade

The internal trade sector covers the following economic activities: the sale, maintenance and repair of motor vehicles and retail sale of car fuel; wholesale and commission-sale trade; and retail trade and the repair of goods. The following is a review of the most prominent results of a survey of internal trade for 2005.

3.1 Number of Enterprises and Employment

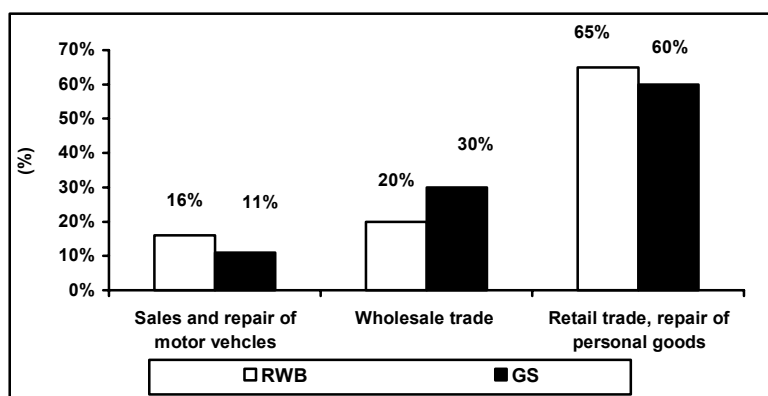
The number of enterprises in the rest of the West Bank and Gaza Strip during 2005 was 45,539 – a decrease of 8% from the previous year. 30,042 of these were in the rest of the West Bank and 15,497 in the Gaza Strip. Most – 38,322 – were in the field of retail trade, while the number of enterprises engaged in the sale, maintenance and repair of vehicles was 5,724, and in wholesale trade 1,493. Internal trade activities, especially the retail trade and repair of personal goods, are usually small-size, family-type enterprises, where the number of workers in most cases does not exceed two persons.

The number of workers in internal trade activities in the rest of the West Bank and Gaza Strip during 2005 was 91,598 persons – a decrease of 9.2% from the previous year. They were distributed 56,691 in the rest of the West Bank and 34,907 in the Gaza Strip. Workers in the retail trade and repair of personal goods constituted 79.6% of the total number of workers in internal trade activities, with 13.5% of workers in the wholesale trade and 6.9% engaged in retail trade. Owners and family members who receive no pay continued to make up most of the persons employed in internal trade activities, constituting 76% of the total number of those engaged in this sector.

3.2 Value Added

Value added during 2005 amounted to US\$525.1 million, a decrease of 1.2% compared with its level in 2004. Value added in retail trade constituted the biggest share, at 63.2% (64.8% and 59.6% in the West Bank and Gaza respectively), followed by wholesale trade with 22.5%. Figure 3 shows the contribution of the different activities of internal trade in the rest of the West Bank and Gaza Strip.

Figure 3: Distribution of Value Added in Internal Trade Sector in Rest of West Bank and Gaza Strip for 2005 (%)



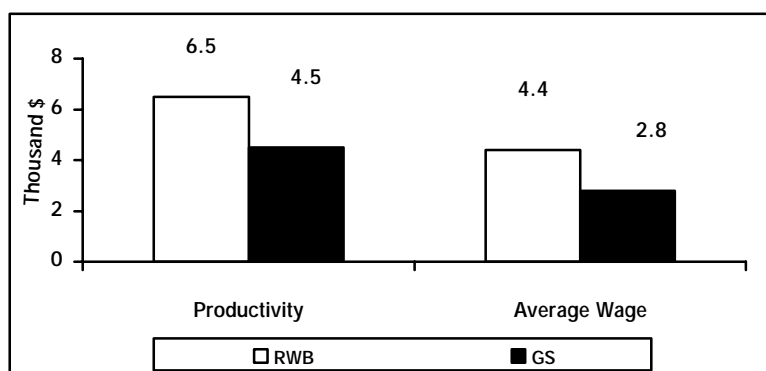
Source: PCBS, Internal Trade Survey

3.3 Wages and Productivity

Changes in the number of workers and value added in the rest of the West Bank and Gaza Strip resulted in an increase in productivity of around 8.8%, becoming US\$5,732.4 per worker. The productivity of those engaged in wholesale trade was the highest of all internal trade activities, amounting to US\$18,746.9 per worker. By contrast, worker productivity was the lowest in retail trade and repair of personal goods, where it amounted to US\$4,553.

The average annual wage in this sector in the rest of the West Bank and Gaza Strip was US\$3,858.8 per worker – US\$4,275 in the rest of the West Bank and US\$2,846 in the Gaza Strip. The highest average wage in this sector was in wholesale activities, where it amounted to US\$5,185.3. Geographically, the highest average wage in the rest of the West Bank was for wholesale employees, at US\$6,101.8 per worker, while the lowest was in the retail trade and repair of personal goods at US\$3,931.5 per worker. In the Gaza Strip, the highest wage was in the wholesale trade, amounting to US\$3,949.2 per worker; while the lowest wage was in the sale, maintenance and repair of vehicles and fuel sale, at US\$2,439.3 per worker (see Figure 4).

Figure 4: Average wages and Productivity in Internal Trade in Rest of West Bank and Gaza Strip for 2005



Source: PCBS, Internal Trade Survey

4. Transport, Storage and Communications

Transportation, storage and communication activities differ from other economic activities in that they cover both the formal and informal sectors. The most important results are summarized as follows:

4.1 Formal Transportation Sector

The formal transport sector covers the following economic activities: land transport activities; auxiliary and support transport activities and tourism and travel agencies; and postal and communication activities. The following is a review of their most important indicators for 2005.

4.1.1 Number of Enterprises and Employment

The number of enterprises in the rest of the West Bank and Gaza Strip was 619 in 2005 – 390 in the rest of the West Bank and 229 in the Gaza Strip. Compared with 2004 this was a fall of 4.6% – down 5.7% in the rest of the West Bank and 2.8% in the Gaza Strip. By activity, land transport saw 6.2% fewer operating enterprises, to become around 273; the number of enterprises engaged

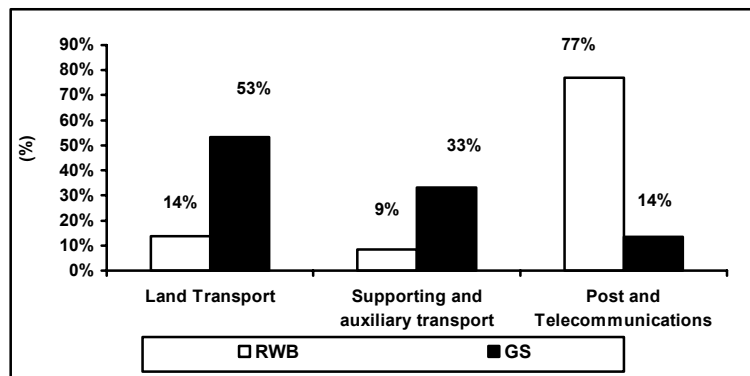
in auxiliary transport and tourism decreased by 8.1%, to become around 273; but the number of enterprises engaged in postal and communication activities increased by 19.7%, to become 73 in 2005.

The number of workers in this sector in the rest of the West Bank and Gaza Strip during 2005 was 6,002 – an increase of 2.4% over the previous year. They were distributed 4,928 in the rest of the West Bank (an increase of 4.2%), and 1,074 workers in the Gaza Strip (a decrease of 5.3%). Postal and communication activities were the biggest employer with 47% of the work force in this domain. Geographically speaking, postal and communication activities remained the biggest employer in the rest of the West Bank, contributing to 52.7% of employment in the sector, while auxiliary transport activities and tourism and travel agencies were the biggest employer in the Gaza Strip, with 42.3% of the total number employed there. Those working for a wage constituted 85.6% of the total number of those employed in this sector.

4.1.2 Value Added

The value added realized in the formal transport, storage and communication sector was US\$133.8 million – US\$125.7 million in the West Bank and US\$8.1 million in the Gaza Strip. This constituted an overall decrease of 34.7% compared with 2004, with a decline of 36.8% in such activities in the rest of the West Bank more than offsetting an increase of 31.7% in the Gaza Strip. Postal and communication activities constituted 73.8% of the total value added in sector (77% in the West Bank and 14% in the Gaza Strip), followed by land transport activities with 16.2%.

Figure 5: Distribution of Added Value of Transport, Storage and Communication Sector in Rest of West Bank and Gaza Strip for 2005 (%)



Source: PCBS, Transport, Storage and Communication Survey

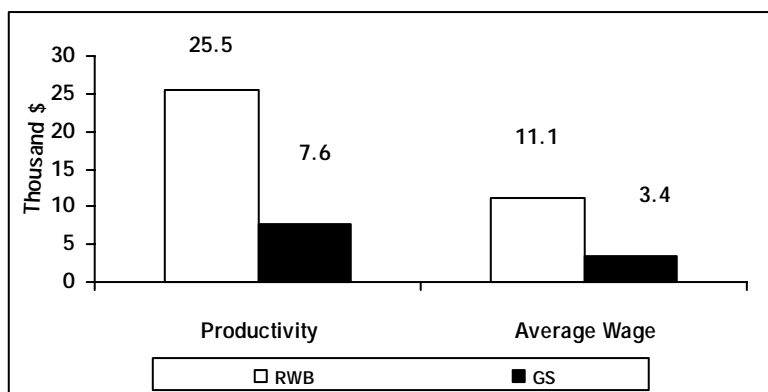
4.1.3 Wages and Productivity

Changes in the number of workers and in value added resulted in a decline of nearly 36.3% in productivity, to become US\$22,293.3 per worker in those activities. The productivity of those employed in postal and communication activities was the highest of the sector, and although it fell by 44.8% it was still US\$35,056.8 per worker. At the same time, the lowest productivity was that of those engaged in land transport, amounting to US\$9,977.1 per worker.

The sector's average annual wages remained much higher in the rest of the West Bank (US\$11,145) than in the Gaza Strip (US\$3,396). The highest wages in the rest of the West Bank were in postal and communication activities (US\$15,731 per worker), while the lowest were in auxiliary and supportive transport activities and tourism and travel agencies (US\$4,212). In the

Gaza Strip, the highest wages were in land transport activities (US\$3,657) and the lowest were in the postal and communication activities (US\$3,142) per worker (see Figure 6).

Figure 6: Average Wages and Productivity in Transport, Storage and Communication Sector in Rest of West Bank and Gaza Strip for 2005



Source: PCBS, Transport, Storage and Communication Survey

4.2 Informal Transport Sector

The informal transportation sector covers the following economic activities: land passenger transport activities (public taxis, private transport vehicles); and land transport of goods. The following is a review of the most important results of the informal transport survey for 2005.

4.2.1 Number of Vehicles and Employment

The total number of vehicles in this sector in the Palestinian Territory during 2005 was around 11,327 (8,297 vehicles in the West Bank, and 3,030 in the Gaza Strip), an increase of 1.6% over the previous year.

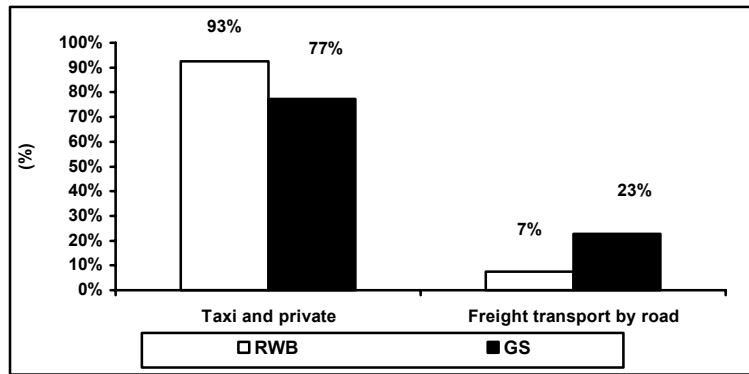
By activity, passenger land transport experienced a decline of 1.8% in the number of vehicles throughout the Palestinian Territory, with a 1.6% rise in the West Bank counteracted by a 10.7% in the Gaza Strip. On the other hand, the number of goods transport vehicles in the Palestinian Territory increased by 39.4% (up 24.5% in the West Bank and 67.5% in the Gaza Strip).

The number employed in the informal transport sector throughout the Palestinian Territory increased by 1.7% during 2005 to reach 12,072 workers, 8,775 of them in the West Bank (up 5.2%) and 3,267 (down 6.7%) in the Gaza Strip. Passenger land transport is the biggest employer in the informal transport sector, with 88.8% of the total number (91.3% in the West Bank, and 82.1 in the Gaza Strip). Those who receive no pay constituted the biggest group, representing 84.7% of the total number employed in the sector – 84.9% in the West Bank and 84.2% in the Gaza Strip.

4.2.2 Value Added

Value added in the informal transport sector in the Palestinian Territory during 2005 amounted to nearly US\$78.1 million, an increase of 17.2% over 2004. It increased by 16.8% in the West Bank to become US\$58.5 million, and by 18.6% in the Gaza Strip to become US\$19.6 million. As regards the various activities, results indicate that the activities of passenger land transport contributed the highest percentage (88.7%) of value added realized in the informal transport sector throughout the Palestinian Territory – 92.6% in the West Bank, and 77.2% in the Gaza Strip (see Figure 7).

Figure 7: Distribution of Value Added in Informal Transport Sector in Rest of West Bank and Gaza Strip for 2005

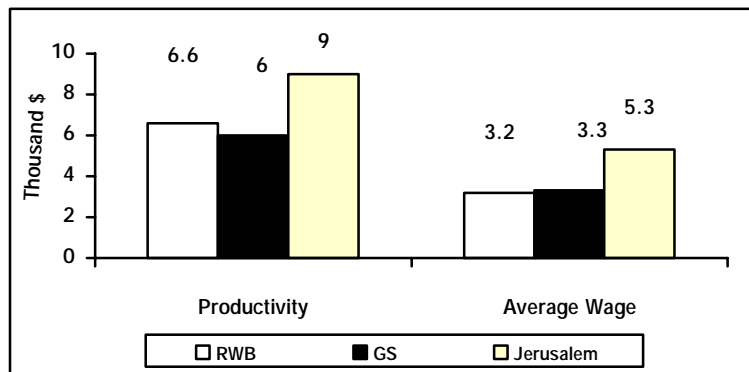


Source: PCBS, Informal Transport Sector Survey

4.2.3 Wages and Productivity

The considerable improvement in value added of informal transport activities in the Palestinian Territory, and the accompanying relative stability in the number of employees in this sector, resulted in an increase in worker productivity to the tune of 15.2%, becoming US\$6,471.1. Worker productivity in the rest of the West Bank was higher than that in the Gaza Strip, at US\$6,605.4 and US\$5,998.6 respectively. As regards activities, worker productivity in the domain of passenger land transport was higher (US\$5,625.1) than that in the transport of goods (US\$5,516.8).

Figure 8: Average Wages and Productivity in Informal Transport Sector in Rest of West Bank and Gaza Strip for 2005



Source: PCBS, Informal Transport Survey

The average annual wage during 2005 in the West Bank and Gaza Strip was US\$3,244 (US\$3,176.3 in the West Bank and US\$3,255.7 in the Gaza Strip) The highest was in the transportation of goods, at US\$3,815.3 per worker (see Figure 8).

5. Construction

Results of the survey of contractors in the Palestinian Territory revealed many changes in construction activities during 2005 compared with the previous year. The number of enterprises engaged in this type of activity fell by 12.6%, to become 513, distributed 233 in the rest of the

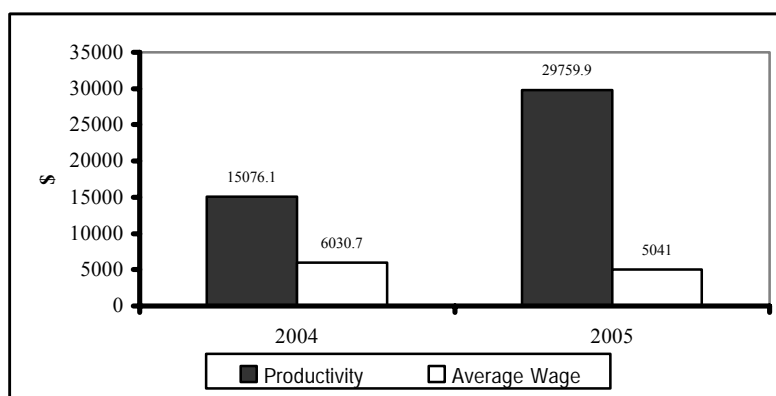
West Bank (a decrease of 13.4%) and 280 in the Gaza Strip (a decrease of 11.9%). This fall led to a decrease of 18.3% in the number of employees, to become 4,628 workers (2,978 in the rest of the West Bank and 2,550 in the Gaza Strip). The number of those employed in the rest of the West Bank fell by 22.9% and in the Gaza Strip by 14.1%. Consequently, the number of workers per enterprise declined from 9.6 to 9.0 workers between 2004 and 2005.

By contrast, the value added of those establishments rose by 60.6% to reach around US\$137 million. It was higher in Gaza than in the West Bank (US\$69.9 million in the Gaza Strip and US\$67 million in the West Bank), despite the considerable increase (72.3%) in the value added in the West Bank.

On the other hand, total investment decreased by US\$470 thousand to become US\$1,030 thousand. At the same time, total annual depreciation fell by US\$1,200 thousand to become US\$3,600 thousand. As the decrease in total capital investment was less than that of annual depreciation, net investment during 2005 grew by US\$730 thousand to become minus US\$2,570 thousand. In the Gaza Strip, total investment retreated by US\$27.4 thousand, to become US\$503.8 thousand. At the same time, annual depreciation decreased by US\$679 thousand, thus increasing net investment by US\$651.6 thousand to become minus US\$488.4 thousand. As for the West Bank, net investment increased by US\$78.4 thousand to become minus US\$2,071 thousand. This was due to a retreat in capital formation by US\$442.7 thousand and a fall in annual depreciation of US\$521 thousand.

Worker productivity in construction noticeably improved during 2005, rising by 97.4% to become US\$29,760 per worker, (US\$32,242.5 in the West Bank and US\$27,411.8 in the Gaza Strip). On the other hand, average wages decreased by 16.4% to become US\$5,041.0 per worker (US\$6,220.3 in the West Bank and US\$4,111.5 per worker in the Gaza Strip) (see Figure 9).

Figure 9: Average Wages and Productivity of Workers in Construction Activities in Rest of West Bank and Gaza Strip for 2004 and 2005 (US\$)



Source: PCBS, Construction Contractors Activities Survey, 2004

6. Services

The survey of services by the PCBS included the following economic activities: hotels and restaurants; real estate and rental activities; education; health and social work; and other social and personal services. The following is a review of the most important results of the services survey for 2005.

6.1 Number of Enterprises and Employment

The number of enterprises engaged in services activities during 2005 in the rest of the West Bank and Gaza Strip was 16,422, distributed 66.8% in the rest of the West Bank and 33.2% in the Gaza Strip. This was a fall of 4.2% in the West Bank and 13.7% in the Gaza Strip. Enterprises engaged in ‘other social and personal services’ constituted the biggest group in the Palestinian Territory (excluding Jerusalem), with 33.2% of the total number of establishments in the sector.

The number of persons employed in the services sector during 2005 in the Palestinian Territory (excluding Jerusalem) was 55,427 workers, distributed 60.9% in the rest of the West Bank and 39.1% in the Gaza Strip. The number of those employed in the rest of the West Bank increased by 0.9%, while it decreased in the Gaza Strip by 13.9%.

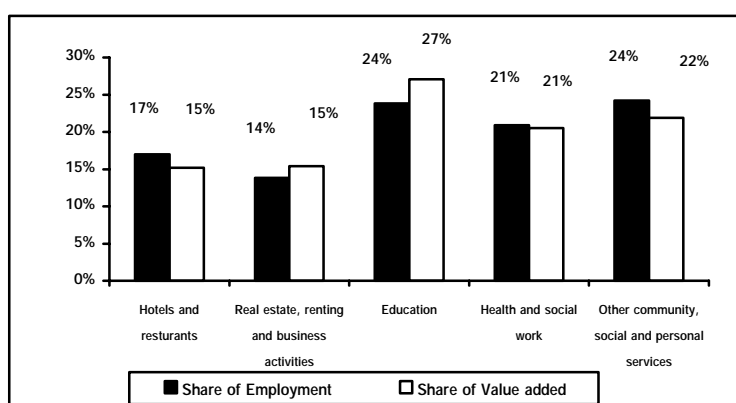
Enterprises in ‘other social and personal services’ were the biggest employer, with 24.5% of the total number of those employed in the sector. They were followed by educational activities (23.8%), health activities and social work (20.9%), hotels and restaurants activities (17.0%), and real estate and rental activities (13.8%) (see Figure 10).

6.2 Value Added

Value added in the services sector the Palestinian Territory (excluding Jerusalem) increased by 3.6% in 2005 to become US\$296.4 million, distributed 77.6% in the rest of the West Bank and 22.4% in the Gaza Strip. Educational activities occupied first place in the rest of the West Bank, contributing 28.1% of the total value added in the sector there, followed by health and social work activities and ‘other social and personal services’ with 20.9% each. Hotels and restaurants and real estate and rental activities contributed 15.2% and 14.9% respectively.

In the Gaza Strip, first place was taken by the ‘other social and personal services’ category, with 25.3% of the total value added in the sector, followed by educational activities with 23.6%, health and social work services with 18.9%, real estate and rental services with 17.0%, and hotels and restaurants with 15.2% (see Figure 10).

Figure 10: Contribution to Employment and Value Added by Services Activities in Rest of West Bank and Gaza Strip for 2005



Source: PCBS, 2006, Services Survey.

6.3 Wages and Productivity

Average worker productivity in services in the Palestinian Territory (excluding Jerusalem) amounted to US\$5,346.9, an increase of 9.6% over that in 2004. The average worker productivity

in the rest of the West Bank amounted to US\$6,804.3, as against US\$3,073.0 per worker in the Gaza Strip.

Workers in educational activities in the rest of the West Bank registered the highest level of productivity in the services sector, with the average productivity of a worker at US\$7,723. Hotel and restaurant activities had the least, with the average productivity of a worker amounting to US\$5,666 annually.

As for Gaza, real estate and rental activities were the most productive, with average worker productivity at US\$3,723. The activities of those employed in 'other social and personal services' were the least productive, with average productivity US\$2618 per worker annually (see Table 1).

**Table 1: Average Productivity Between 2004 and 2005
According to region and Economic Activity**

Economic Activity	Average Productivity in rest of West. Bank		Average Growth or Regression (%)	Average Productivity in the Gaza Strip		Average Growth or Regression (%)
	2004	2005		2004	2005	
Hotels and Restaurants	4516.3	5666.4	25.5	2540.7	3104.7	22.2
Real Estate and Rental Activities	9223.8	7423.9	- 19.5	4373.0	3723.1	- 14.9
Education	6444.7	7722.6	19.8	4902.1	3248.0	-33.7
Health and Social Work	6652.7	6430.2	- 3.3	3758.9	3071.7	- 18.3
Other Social and Personal Activities	2944.6	6703.0	127.6	3053.9	2617.9	- 14.3
Total Average	5766.4	6804.3	18.0	3692.8	3073.0	- 16.8

Source: PCBS, 2006 Services Survey

As regards the prevailing wage levels in the services sector in the Palestinian Territory (excluding Jerusalem) during 2005, the data indicated a noticeable increase in the average annual wage of 11%, to reach US\$4,906 per worker.

Educational activities enjoyed the highest wages in the services sector in the rest of the West Bank and Gaza Strip, with the average wage in that sector US\$6,982 per worker in the rest of the West Bank and US\$5,370 in the Gaza Strip. The high level of wages in education is due to the application of the financial section of the Palestinian Civil Service Law, which resulted in a considerable increase in the salaries of government employees, particularly those receiving relatively low salaries, including teachers in government schools.

The lowest wage levels in both regions were among workers in the hotel and restaurant subsector, with an average in the West Bank of US\$4,324 in the Gaza Strip US\$2,679.

7. Labour Market

7.1 Labour Force

There was a slight increase in the percentage of participants in the labour force throughout the Palestinian Territory during the second quarter of 2006 compared with the first quarter of the same year, up from 40.0% to 40.9%. The rate increased in the West bank from 42.5% to 43.7%, while in the Gaza Strip it increased from 35.2% to 35.7%. The actual number of participants in the work force increased slightly from 831 thousand persons to 859 thousand.

Of the 59.1% of persons aged 15 or more who were outside the labour force in the second quarter of 2006, 47.9% of them were there because of household chores, 35.4% because of studies and training, 11.2% because of old age or sickness, and 5.5% for other reasons.

7.2 Workers in Palestinian Territory

The number of workers in the Palestinian Territory increased during the second quarter of 2006 by nearly 41 thousand (37 thousand in the West Bank and 4 thousand in the Gaza Strip), to reach 662 thousand – 489 thousand in the West Bank and 173 thousand in the Gaza Strip. Their distribution according to place of employment differed between the first and second quarters. The percentage employed in the West Bank increased from 63.1% to 65.1%, while it decreased in the Gaza Strip from 27.1% to 26.2%. The percentage employed in Israel and the settlements dropped from 9.8% to 8.7% between the two quarters.

Of the 604 thousand workers employed in the local economy (91.2% of the total number of Palestinian workers), 25.8% were in the public sector, 69.3% in the private sector and 4.9% in other sectors during the second quarter of 2006.

The percentage of those employed for a wage dropped from 61.1% to 59.6% between the first and second quarters of 2006. This rate dropped in the Gaza Strip from 71.0% to 69.8%, and in the West Bank from 57.4% to 56.0%.

The services sector, with its various branches, was the main employer in the Palestinian Territory, absorbing 36.1% of the total number of workers in the Palestinian Territory (29.6% in the West Bank and 54.1% in the Gaza Strip). By contrast 19.3% of workers were engaged in commerce (19.7% in the West Bank and 18.1% in the Gaza Strip), and the agricultural sector absorbed 15.2% of the total (16.8% in the West Bank and 10.7% in the Gaza Strip).

7.3 Workers in Israel and the Settlements

The number of Palestinian workers employed in Israel and the settlements dropped by nearly 3,000 during the second quarter to become 58 thousand persons – all from the West Bank. There were no workers from Gaza Strip due to strict control of border crossings between Gaza and Israel. Furthermore, Israel stopped issuing work permits to Palestinians from Gaza.

7.4 Unemployment

Unemployment (according to the ILO definition, excluding ‘discouraged’ workers) noticeably dropped in the Palestinian Territory during the second quarter of 2006, down to 22.9% from 25.3% the previous quarter. Most of this drop was due to a decrease in the West Bank, from 21.4% to 18.0%, with only a slight drop - from 34.1% to 34.0% - in the Gaza Strip. Unemployment among males dropped from 25.1% to 23.7%, while the rate among females dropped from 23.5% to 19.1%.

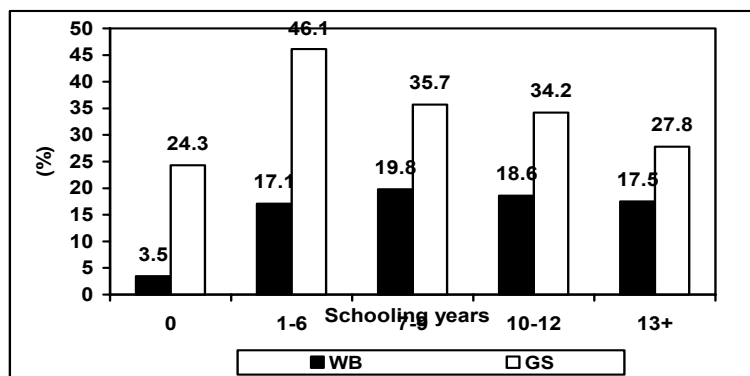
The actual number seeking work in the Palestinian Territory during the second quarter of 2006 dropped from 210 thousand persons to 197 thousand. They were distributed 108 thousand in the West Bank (down from 123 thousand), and 91 thousand in the Gaza Strip (up from 87 thousand persons).

As regards unemployment by governorate during the second quarter of 2006, results indicated that the highest rate in the West Bank was in Tulkarem (26.6%), while the lowest rate was in Bethlehem (9.5%). In the Gaza Strip the highest rate was recorded in North Gaza (38.8%) and the lowest in Rafah (30.6%).

Results indicate that there are noticeably high rates of unemployment among young people in the Palestinian Territory. Unemployment among the 15-to-24 years age group was 33.6% - 26.4% in the West Bank and 49.2% in the Gaza Strip. Results also indicate that the lowest rate of unemployment was among the 55 years plus age group at 11.4% overall - 8.9% in the West Bank and 17.9% in the Gaza Strip.

As regards the distribution of the unemployment burden according to level of education, results showed that unemployment is widespread among those who have finished only 1 - 6 years of study, reaching 25.8% among those belonging to that group. The rate of unemployment decreased as educational levels rose, falling to 21.2% among persons who had completed 13 years and more of studies. However, unemployment rates among the completely uneducated are extremely low, and do not exceed 7.4% (see Figure 11).

Figure 11: Average Unemployment (15 Years and More) in Palestinian Territory, According to Years of Study and Region



Source: PCBS, 2006, Labour Force Survey: April – June Round, 2006.

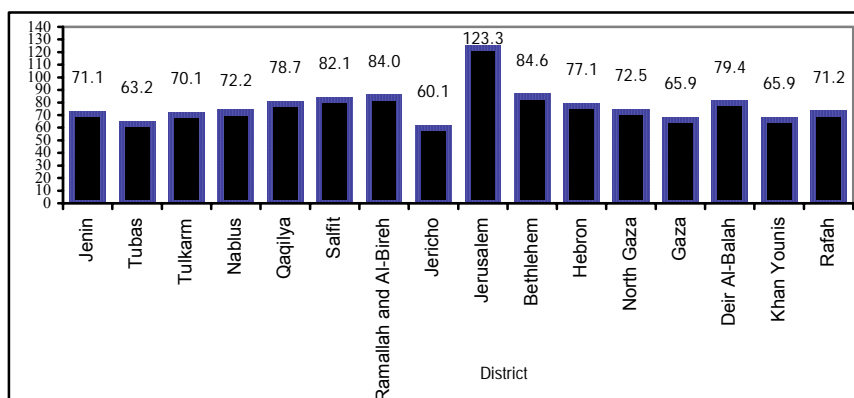
7.5 Wages

Results indicate that the average daily wage of workers in the Palestinian Territory (including those working in Israel) decreased to 81.8 Israeli Shekels (NIS) from NIS 87.2 during the second quarter of 2006. It dropped in the Gaza Strip from NIS 70.8 to NIS 69.8.

The highest daily wage was that of workers in Israel and the settlements, amounting to NIS 132.6, up from NIS 130.1 in the previous quarter. The average daily wage in the West Bank was NIS 76.3 (having been NIS 77.9) and in the Gaza was NIS 69.8 (having been NIS 70.1 during the previous quarter).

As regards the average daily wage by governorate, the highest in the West Bank was in the Jerusalem Governorate at NIS 123.3. The lowest was in Jericho and Al-Ghour Governorate at NIS 60.1. In the Gaza Strip, the highest average daily wage was in Deir Al-Balah Governorate (NIS 79.4) and the lowest was in the Governorates of Gaza and Khan Younis (NIS 65.9 in each) (see Figure 12).

Figure 12: Average Daily Wage in IS in Palestinian Territory During Second Quarter of 2006, by Governorate



Source: PCBS, 2005. Labour Force Survey April – June 2006 Round

7.6 Women in the Palestinian Labour Force

An increase occurred in the rate of female participation in the labour market between the first and second quarters of 2006, when it rose from 12.7% to 13.7%. The rate rose from 16.0% to 17.2% in the West Bank, while in the Gaza Strip it rose from 6.5% to 7.2%. The number of employed women increased by 16 thousand to 116 thousand – 97 thousand in the West Bank (up from 85 thousand) and 19 thousand in the Gaza Strip (up from 15 thousand).

7.5 Job Vacancies Advertised in Newspapers

The number of job vacancies advertised in local newspapers during July, August and September increased by 15.9% compared with the previous three months, totalling 1,107 jobs. The share of the private sector was 70.7%, as against 26% for non-governmental organizations and 3.3% for the public sector (73 advertisements did not specify the number of vacancies). (see Table 2).

Table 2: Number of Vacancies Advertised in Local Newspapers Distributed According to Sector, Third Quarter 2006

	Public Sector	Private Sector	NGOs	Total
July	10	276	72	358
August	16	249	98	363
September	11	258	117	368
Total	37	783	287	1107

Source: MAS collected data from daily newspapers (Al-Quds, Al-Ayyam, and Al-Hayat Al-Jadida)

Table 3: Number of Vacancies Advertised in Local Press Distributed according to Educational Requirements during Third Quarter of 2006

	M.A. and Higher	B.A.	Diploma	Less	Total
July	82	197	69	10	358
August	61	228	72	2	363
September	70	219	71	26	386
Total	195	644	212	38	1107

Source: MAS collected data from daily newspapers (Al-Quds, Al-Ayyam, and Al-Hayat Al-Jadida)

Table 4: Number of Vacancies Advertised in Local Press Distributed Geographically during Third Quarter 2006

Month	West Bank			Total for West Bank	Gaza Strip
	North	Centre	South		
July	43	173	84	300	58
August	34	234	62	330	33
September	57	223	31	311	75
Total	134	630	177	941	166
%	14	67	19	85	15

Source: Collected by MAS from local newspapers (Al-Quds, Al-Ayyam, and Al-Hayat Al-Jadida)

Data contained in Table 5 show the relationship between educational qualifications and distribution of advertised vacant jobs by sector.

Table 5: Number of Vacancies Advertised in Local Press According to Educational Qualifications and Sectors during Third Quarter 2006

Degree	Public Sector	Private Sector	NGOs	Total
MA and Higher	4	140	69	213
BA	32	433	179	644
Diploma	1	172	39	212
Less	0	38	0	38
Total	37	783	287	1107

Source: Collected by MAS from Local Newspapers (Al-Quds, Al-Ayyam, and Al-Hayat Al-Jadida)

As regards specializations, demand for administration and accountancy constituted 20.3% of the total advertised vacancies (as against 24.3% in the previous quarter), 17% required medicine, architecture or technological specializations (22.7% previously), 8.4% required social sciences (previously 9.4%) and the rest were distributed among various other specializations.

8. Infrastructure

8.1 Building Permits

Statistics indicated an increase of 15.6% in building permits issued during the second quarter of 2006 compared with the same quarter in 2005. 1,840 permits were issued, 1,711 in the West Bank and 129 in the Gaza Strip. This figure is 31.6% less than the number of permits issued during the second quarter of 1999 (i.e. before the outbreak of the second *Intifada*). A decline in the sharp increase of issuing building permits during the second quarter, compared with the previous quarter, was also noted, as the rate of increase in the previous quarter was 75%. The sharp increase during the previous quarter was explained by the rush of owners who had earlier constructed buildings without permits to obtain permits legalizing their buildings, thus benefiting from facilities provided as a result of an agreement concluded between the Syndicate of Architects and the Ministry of Local Government, which simplified the procedures for obtaining permits. However, the effect of this factor fell during the second quarter, a fact which contributed to a slowing in the increase from 75% to 15.6%.

Permits for construction of new buildings constituted 44.8% of all permits issued during the second quarter of 2006. Permits for additions to already existing and previously-licensed buildings constituted 18.7% of all permits. The rest was distributed among permits for other already existing buildings, permits for existing additions, and permits for new additions and existing parts.

The total area of newly-licensed buildings during the second quarter of 2006 was nearly 689.6 thousand square meters, and an increase of 4.6% compared with the second quarter of the previous year. A breakdown showed 488.9 thousand square meters of new construction and 200.7 thousand square meters of already-existing construction. It can be noted from the data that a big increase occurred in existing licensed area, which increased by 169.0% compared with the second quarter of 2005. At the same time the licensed new area dropped by 16.4% during the same period. Buildings for dwelling constituted 77.7% of the new area and 79.8% of the total existing area (see Table 6).

Table 6: Some Indicators Regarding Building Permits and Licensed Building Area in Rest of West Bank and Gaza Strip for 1999, 2005 and 2006

Indicator	Licensed Area (000 square meter)		
	Second Quarter 1999	Second Quarter 2005	Second Quarter 2006
Total Licensed Building Areas	926.1	659.2	689.6
* New Areas	778.2	584.6	488.9
Dwellings	642.3	472.0	380.0
Non-dwelling Buildings	135.9	112.6	108.9
* Existing Areas	147.9	74.6	200.7
Dwellings	130.6	62.8	160.1
Non-Dwelling Buildings	17.3	11.8	40.6

Source: Building Permits Statistics, Second Quarter 2006, PCBS

8.2 Cement Imports

Data indicated an decreased by 29.9% in the quantity of cement imported to the Palestinian Territory during the second quarter 2006 compared with the second quarter of the previous year, totalling 366.8 thousand tons. This was divided 315.5 thousand tons for the West Bank, a decrease of 2.8%, and 51.3 thousand tons for Gaza, which was 74.2% less than the quantity imported during the same period of the previous year (see Table 7).

9. Public Finance

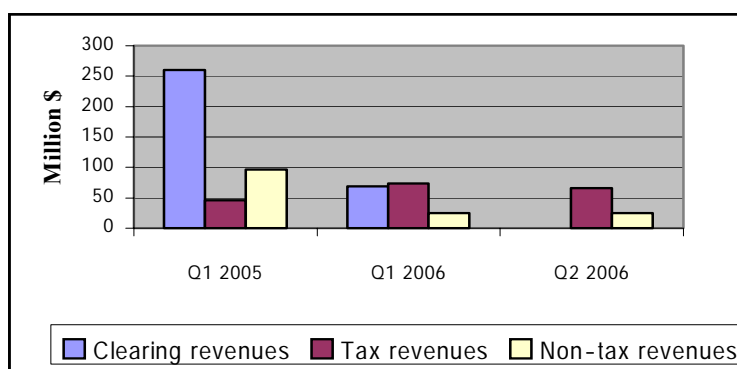
Important political developments in the Palestinian Territory since the beginning of 2006 – the Palestinian Legislative Council elections in the first quarter of the year and the ensuing formation of a new government at the beginning of the second quarter – resulted in radical changes in all areas of the general budget during the second quarter of the year. This can be noted in the elements constituting the general budget: revenues, expenditure, and domestic and foreign financing.

9.1 Revenues

It becomes evident from preliminary data from the Palestinian Ministry of Finance concerning financial performance during the second quarter of 2006 that there was a continued decline in the amount of revenue transferred to accounts of the Ministry of Finance. It should be noted that this decline started at the beginning of the first quarter and became worse during the second quarter. Net revenue declined from US\$167.4 million during the first quarter to US\$85.5 million during the

second quarter, a fall of 49%. Compared with the same quarter in 2005, the rate of decline was 75%. Examination of the main sources of revenue reveals that the main cause for this considerable decline was the total suspension by the Israeli side of remittances accruing from monthly clearing accounts to the accounts of the Palestinian Ministry of Finance. This item totalled US\$68.7 million during the first quarter of the current year, zero in the second, while it had been US\$190.5 during the second quarter of 2005 (see Figure 13).

Figure 13: Main Developments in General Revenue Items Fourth Quarter 2005 and First and Second Quarters 2006



Domestic tax and non-tax revenue declined from US\$98.75 million to around US\$91 million during the first and second quarters of 2006. By contrast, this item totalled more than US\$152 million during the second quarter of 2005. The decline in revenue from domestic tax collection is attributed to the general decline in the performance of the various economic activities in Palestinian Territory (see Table 7).

Table 7: Quantity of Cement Imported to Palestinian Territory During Second Quarter of 2004 – 2006

Period	Palestinian Territory	West Bank	Gaza Strip
Second Quarter 2004	296.2	215.9	80.2
Second Quarter 2005	523.6	324.5	199.1
Second Quarter 2006	366.8	315.5	51.3

Source: Imported Cement Statistics, PBCS, 2006

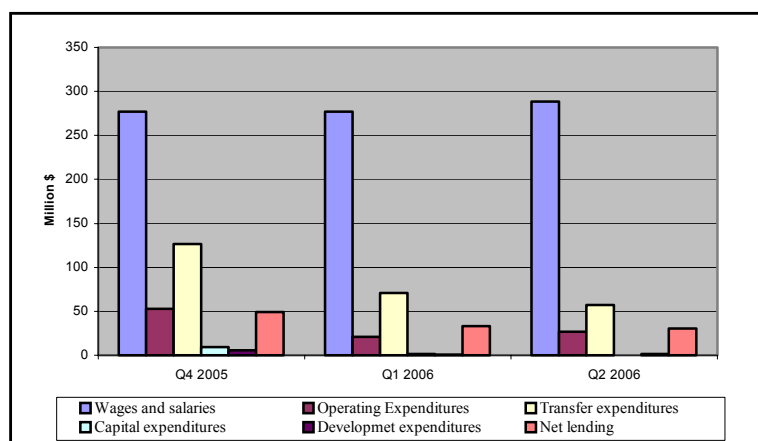
9.3 Expenditure

Public expenditure continued to fall during the second quarter of 2006 as a result of the decline in revenue during that quarter. Expenditures declined by nearly US\$27 million compared with the first quarter, to amount to around US\$404 million. This was nearly US\$95 million less than in the same quarter during the previous year. Developmental expenditure remained at a very low level, a fact that deprived the budget of one of its most vital instruments of financial policy. Its share of total expenditure did not exceed 0.4% (see Figure 14).

The item of salaries and wages continued to constitute more than two thirds of current expenditure. It amounted to nearly US\$288.8 million during the second quarter, a slight increase over the previous quarter. This relative stability in the item of salaries and wages reflected a policy of squeezing spending, particularly ending excessive employment in the public sector, which is being followed by the present government due to the decline in the Authority's budget revenues. However, this item still exceeds that of the same quarter during the previous year by more than US\$53.02 million.

The considerable decline in transfer payments – estimated at nearly US\$15 million – contributed to the total decline in expenditure in general. By contrast, operational expenditure increased by nearly US\$6.7 million.

Figure 14: Main Developments in Items of General Expenditure by Quarter, 2005, 2006



The item of net lending, which appears as one of the current expenditure items, continued to decline during the second quarter of 2006. It amounted to US\$30 million, compared to US\$60.8 million during the first quarter of 2006 and nearly US\$93 million during the second quarter of 2005. (see Table 9)²

Table 8: Main Developments in General Revenue Items by Quarter, 2005 and 2006

	Clearance Revenue	Tax Revenue	Non-Tax Revenue	Grants& Aid	Total
2 nd Quarter 2005	190.47	64.46	87.66	176.51	519.1
3 rd Quarter 2005	195.47	66.82	26.92	53.61	342.82
4 th Quarter 2005	260.27	46.22	96.27	47.23	449.99
1 st Quarter 2006	68.68	73.59	25.16	157.76	297.49
2 nd Quarter 2006	0	65.92	24.98	102.26	193.16

Source: Home Page of Palestinian Ministry of Finance

Table 9: Main Developments in General Expenditure Items by Quarter, 2005, 2006

Period	Wages & Salaries	Operational Expenditure	Transfer Payments	Capital	Net Expenditure	Developmental Lending	Total Expenditure
2 nd Q '05	235.75	72.04	81.19	3.58	92.88	13.50	498.94
3 rd Q '05	252.79	66.40	123.04	4.08	73.49	11.99	531.79
4 th Q '05	277.60	53.05	126.88	3.29	49.04	6.03	515.89
1 st Q '06	277.11	19.80	72.15	0.43	60.80	.780	431.07
2 nd Q '06	288.77	26.51	57.19	.05	30.04	1.47	404.03

Source: Home Page of Ministry of Finance

² Net lending is defined as the sums paid by the Treasury on behalf of local government bodies directly to electricity generating and distribution companies in Gaza, or indirectly through deductions from the Authority's clearing accounts.

9.4 Budget Deficit

Despite the considerable decrease in general expenditure, the decline in revenue was bigger, which resulted in an increased budget deficit during the second quarter of 2006 equivalent to 31%, which amounted to nearly US\$345.58 million. It also exceeded by 121% the deficit recorded during the same quarter in 2005.

In the light of the new developments in both revenue and expenditure in the general budget and the increased budget deficit, the Government turned to other sources of financing. It should be noted from Table 10 that the financing budget increased by 36.6% between the first and second quarters, reaching US\$380.2 million. Domestic financing contributed around US\$278 million to the budget. The item of deferred payments soared, an indication of the Authority's increased indebtedness to providers of goods and services in the private sector. The Authority settled part of its debts to commercial banks – US\$91.4 million. On the other hand, the Government obtained nearly US\$102.3 million from outside sources, which were grants from Arab and other states. The grants were 35.2% less than those during the first quarter of 2006. They were also 42% less than the grants during the second quarter of the previous year. The data contained in the Table shows that a surplus of nearly US\$36.6 million was achieved in the second quarter of 2006. But the reality is completely different. The surplus was an accountancy achievement only, because the Authority's indebtedness to the private sector was accounted positively. But, in fact, those sums remain debts the Authority has to repay, and will reappear in the coming period when they are repaid from the Authority's budget (see Table 10).

Table 10: Main Developments in Budget Items, by Quarter, 2005 and 2006

	2005	2006		Compare with Second Quarter 2005	Compare with First Quarter 2006
	Second Quarter	First Quarter	Second Quarter		
Net Public Revenues	342.59	167.43	85.5	-75.0%	-48.9%
Local Revenues	152.12	98.75	90.9	-40.2%	-8%
Tax Revenues	64.46	73.59	65.92	2.3%	-10.42%
Non-Tax Revenues	87.66	25.16	24.98	-71.5%	-0.7%
Clearance Revenues	190.47	68.68	0	-100.0%	-100.0%
Tax Rebates	-1.51	0	5.40-		
Public Expenditure	498.94	431.07	404.03	-19.0%	-6.3%
Current Expenditure	485.44	430.59	402.56	-17.1%	-6.5%
Wages	235.75	277.1	288.77	22.5%	4.2%
Civil Servants	149.24	163.41	168.26	12.7%	3.0%
Military Employees	86.51	113.69	120.51	39.3%	6.0%
Operational Expenditure	72.04	19.8	26.51	-63.2%	33.9%
Transfer Payments	81.19	72.15	57.19	-29.6%	-20.7%
Capital Expenditure	3.58	0.43	0.05	-98.6%	-88.4%
Net Lending	92.88	60.8	30.04	-67.7%	-50.6%
Developmental Expenditure	13.5	0.78	1.47	-89.1%	88.5%
Surplus/Deficit	-156.4	-263.6	-318.53	103.7%	20.8%
Financing	158.57	278.44	380.22	139.8%	36.6%
External Financing	176.51	157.76	102.26	-42.1%	-35.2%
Internal Financing	-17.94	120.68	277.96		130.3%
Transferred Overdue Clearance Revenues	36.5	0	0	-100.0%	
Commercial Bank Financing	27.48	40.2	91.43-		

	2005	2006		Compare with Second Quarter 2005	Compare with First Quarter 2006
	Second Quarter	First Quarter	Second Quarter		
Net Change in Arrears	-81.92	39.43	314.98		698.8%
Social Care Fund via Investment Fund	0	11.05	0		-100.0%
Investment Fund	0	30	54.41		81.4%
Surplus after Transfer (Financing Gap)	2.22	14.8	61.69	2777.8%	316.8%

Source: Website of Ministry of Finance

10. Banking Developments

10.1 Number of Banks and Bank Branches

No change occurred in the number of banks operating in the Palestinian Territory during the second quarter of 2006, although the number of branches of the 22 banks rose from 144 to 146 with the opening of an exchange office in the village of Deir Dibwan by the Palestine Bank Ltd., and the opening of a branch in Al-'Izariyah by The Palestinian Islamic Bank (see Table 11)

Table 11: Operating Banks and their Branches in the Palestinian Territory

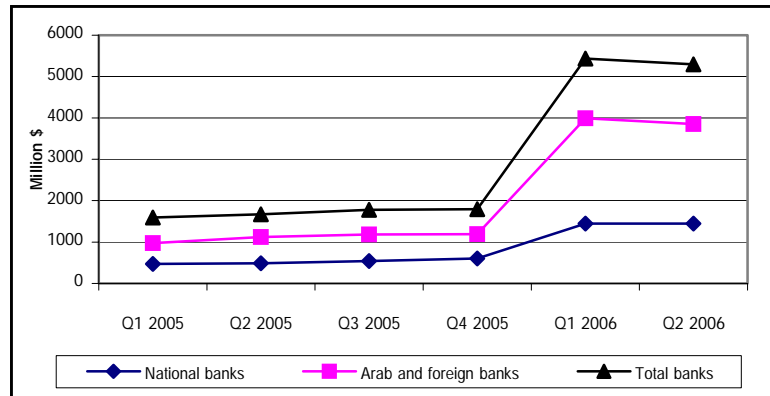
Period	Governorate	Directorates			No. of Branches		
		General	Regional	Total	Local	Foreign	Total
1 st Q 2006	Northern	9	10	19	49	55	104
	Southern	2	1	3	25	15	40
	Total	11	11	22	74	70	144
2 nd Q 2006	Northern	9	10	19	51	55	106
	Southern	2	1	3	25	15	40
	Total	11	11	22	76	70	146

Source: Palestinian Monetary Authority, Unpublished Data

10.2 Bank Assets

The difficult economic conditions in the Palestinian Territory led to a 2.6% decrease in bank deposits in Palestine during the second quarter of 2006, to US\$5,295.1 million, the decrease amounting to US\$143 million compared with the first quarter of 2006. This drop was almost entirely due to a 3.6% decrease in deposits of foreign banks, amounting to US\$142 million (see Figure 15).

Figure 15: Total Assets / Liabilities of Banks Operating in Palestinian Territory during Second Quarter of 2005 and 2006

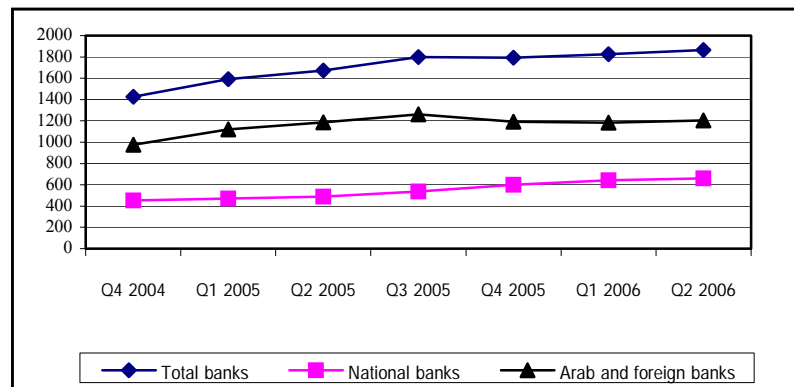


Source: Palestinian Monetary Authority, Unpublished Data.

10.3 Credit Facilities

The value of existing credit facilities during the second quarter of 2006 amounted to US\$1,865 million, an increase of 2.1% or US\$38 million from the first quarter. National banks provided 35.4% of the total, while foreign banks provided the rest (see Figure 16).

Figure 16: Credit Facilities Extended by Banks Operating in Palestinian Territory



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

Classifying credit by **borrowers**, the public sector received 27.2% of total facilities during the second quarter of 2006, as against 32.4% during the previous quarter. Credit provided to the private sector (resident and non-resident) during the same period constituted 72.8% of total credit, as against 67.6% during the previous quarter (see Table 12).

Examining the **kinds of credit**, we find that loans constituted the biggest part of facilities during the second quarter of 2006 (63.5% of total facilities). In second place were overdrafts, constituting 35.8% of total credit facilities, while rental financing was worth 0.7% of the total (see Table 12).

As regards the **type of currency** in which credits were provided, the US Dollar had the biggest share – 70.6% of total credit facilities, up from 69% of total facilities in the first quarter of 2006. The Israeli Shekel occupied second place, with its share falling from 18.4% to 16.5% between the

two quarters. The Jordanian Dinar occupied third place, increasing its contribution from 12% to 12.3%. The rest (0.6%) was divided among other currencies (see Table 12)

**Table 12: Distribution of Credit Facilities,
by Quarter, 2005 and 2006**

	2005			2006	
	Q2	Q3	Q4	Q1	Q2
West Bank	1069.4	1125.8	1191.1	1257.2	1333.3
Gaza Strip	603.8	672.6	600.7	569.8	532.0
According to Type of Borrower					
Public Sector	586.8	638.1	592.2	591	506.7
Private Sector (resident)	1044	1100.1	1134.4	1165.4	1267.7
Private Sector (non-res.)	42.4	60.21	65.2	70.5	90.9
According to Type of Credit					
Loans	728.2	788.1	1154.3	1178.7	1184.9
Overdrafts	931.4	997.8	623.2	637.9	667.7
Leasing	9	8.7	10.4	10.4	12.6
Bankers' Acceptances	4.6	3.8	3.9	0.68	0.07
According to Currency Type					
US Dollar	1,200.3	1,268	1,256.7	1,260.6	1309.3
Jordanian Dinar	197.8	216	224.3	220.4	236.2
New Israeli Shekel	264.6	303.9	300.3	335.4	308.5
Other Currencies	10.5	10.5	10.5	10.7	11.3
Total	1673.2	1798.4	1,791.8	1,827.1	1865.3

Source: Palestinian Monetary Authority, Statistical Bulletin, different issues

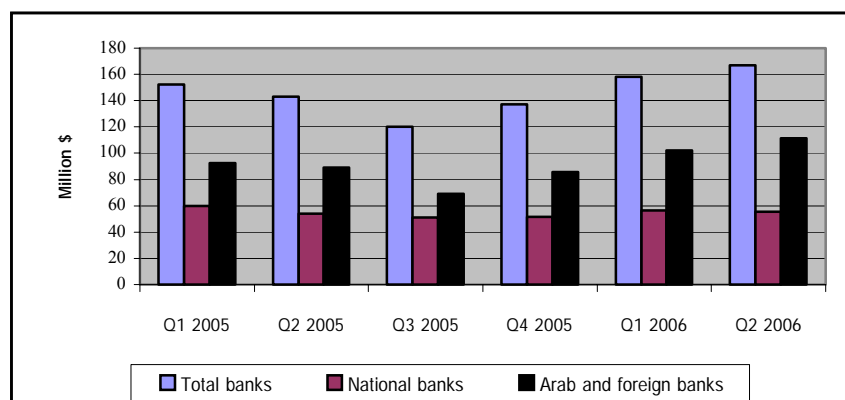
As regards the distribution of the **credit facilities by economic sector**, including credit facilities extended to the public sector, the proportion of facilities extended to the general commerce sector increased from 19.9% to 20.8% of the total during the second quarter of 2006. Credit facilities extended to each of the construction, services and public facilities, transport services, industry, metallurgy and agriculture sectors constituted around 11.2%, 8.2%, 2.9% and 7.2%, respectively. Credit facilities extended for other purposes amounted to nearly 49.7% of the total, as against 52% in the previous quarter.³

10.4 Non-Performing Loans

The value of total credit subject to provisions during the second quarter of 2006 was US\$166.8 million – an increase of 5.4% or US\$8.6 million over the first quarter. The share of foreign banks rose by US\$9.4 million to become US\$111.5 million. At the same time the share of national banks fell by US\$0.9 million to become US\$55.3 million (see Figure 17)

³ Credit facilities extended to the public sector constitute the biggest part of the item of 'for other purposes'.

Figure 17: Distribution of Non-Performing Loans of Banks Operating in Palestinian Territory, 2005 and 2006

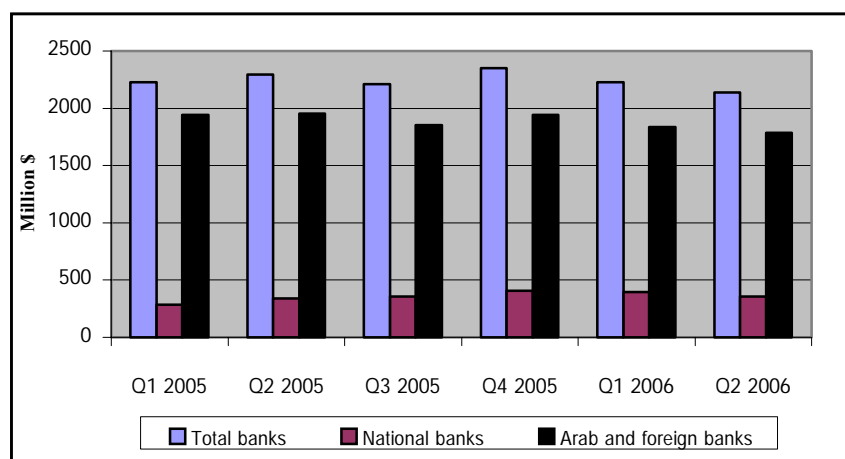


Source: Palestinian Monetary Authority, Unpublished Data

10.5 Bank's Deposits Abroad

The total amount of foreign investments at the end of the second quarter of 2006 was US\$2,139.3 million, a fall of US\$77.1 million or 3.5% compared with the first quarter. This fact is attributed to a fall in investments of national banks by US\$27.2 million (to become US\$355.9 million) and a fall in investments of foreign banks by US\$49.9 million (to become US\$1,783.4 million) (see Figure 18).

Figure 18: Foreign Investments of Banks by Quarters of 2005 and 2006



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

10.6 Deposits

The total value of bank deposits during the second quarter of 2006 fell by nearly 3.3%, to become US\$4,319.1 million (92.2% of them were client deposits⁴ and 7.8% bank deposits). The total amount of deposits is divided 25.3% deposits with national banks and 74.7% deposits with foreign banks. The following analysis will focus on client deposits due to their relative importance, and will examine them by geographical distribution, depositors, type of deposit, and kind of currency (see Table 13).

⁴ Includes deposits of both public and private sectors

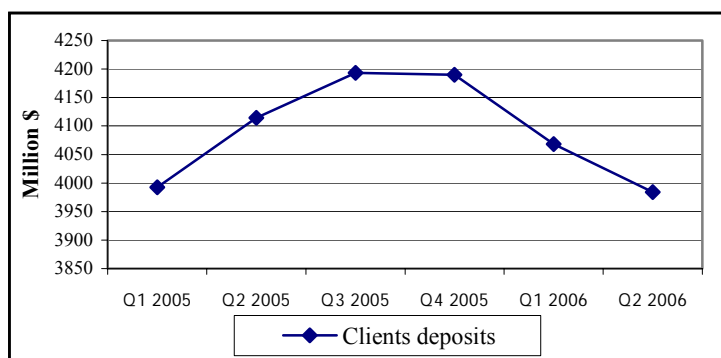
**Table 13: Distribution of Client Deposits by Quarters
For 2005 and 2006**

	2005			2006	
	2Q	3Q	4Q	1Q	2Q
According to Geographic Distribution (%)					
West Bank	74.0	73.9	73.6	76.6	77.7
Gaza Strip	26.0	26.1	26.4	23.4	22.3
According to Depositing Party (%)					
Public Sector	13.8	14.3	13.8	9.8	8.4
Resident Private Sector	84.5	83.3	84.2	88.1	89.5
Non-Resident Private Sector	1.7	1.9	2.0	2.1	2.1
Deposit Type (%)					
Current – On demand	36.8	35.7	37.0	35.1	33.4
Savings	19.4	19.1	19.4	21.0	22.3
Term	43.8	45.2	43.6	43.9	44.3
According to Currency (%)					
US Dollar	56.8	57.0	52.3	53.2	53.7
Jordanian Dinar	23.9	24.0	24.9	25.1	25.9
Israeli Shekel	15.2	15.0	17.6	16.7	15.5
Other currencies	4.1	4.0	5.2	5.0	4.9

Source: Palestinian Monetary Authority, Statistical Bulletin, Different Issues

Available data indicate that client deposits continued falling during the second quarter of 2006 to become US\$3,984.3 million, a decrease of 2.1% compared with the previous quarter. Client deposits were divided 24.2% with national banks, and 75.8% with foreign banks (see Figure 19).

Figure 19: Client Deposits by Quarter, 2005 and 2006



Source: Palestinian Monetary Authority, Monthly Statistical Bulletin, different issues

10.6.1 Client Deposits Distributed by Region

Client deposits in the West Bank during the second quarter of 2006 amounted to US\$3,097.1 million, an increase of 0.6% over the previous quarter. In the Gaza Strip, the value of deposits during the same period fell by 0.7% to become around US\$887.2 million. In light of these developments, the proportion of deposits held in the West Bank rose from 76.6% to 77.7% of the total during the second quarter of 2006.

10.6.2 Client Deposits Distributed by Depositing Parties

Private sector deposits fell by 0.6% to become US\$3,650.4 during the second quarter. The resident private sector constituted 97.7% of all private sector deposits. Private sector deposits constituted 91.6% of the total amount of deposits. Deposits of the public sector continued to fall, and amounted to US\$334 million, a decrease of 15.7% compared to the previous quarter, and constituted 8.4% of the total client deposits. It is worth noting here that public sector deposits constituted 13.8% of the total client deposits during the second quarter of 2005. The continued fall in public sector deposits is attributed to the continued decline in the Authority's revenue as a result of the economic and financial blockade imposed by Israel and donor countries on the Palestinians since the beginning of the year.

10.6.3 Distribution of Deposits by Type

Current account deposits during the second quarter of 2006 fell to US\$1,330.8 million, a decrease of 6.8% or US\$96.9 million. At the same time, savings accounts deposits rose by 4.6% to become US\$888.2 million. Term deposits fell by 1.4% compared with the previous quarter, to become US\$1,765.2 million.

In terms of their overall share, current account deposits accounted for 33.4%, term deposits for 44.3% and savings deposits 22.3%.

10.6.4 Client Deposits by Type of Currency

The different currencies maintained their general positions. The US Dollar constituted 53.7% of deposits, followed by the Jordanian Dinar (25.9%), the Israeli Shekel (15.5%), and other currencies (4.9%).

10.7 Bank Equity⁵

Equity of banks operating in the Palestinian Territory fell by 5.3% during the second quarter of 2006 compared with the first quarter, and amounted to US\$513.6 million. Banks operating profits increased by US\$17.2 million or 71% to become US\$41.4 million during the second quarter of 2006 (see Table 14).

**Table 14: Selected Items from the Consolidated Balance Sheet
For Banks Operating in the Palestinian Territory, 2005 and 2006**

Statement	2005			2006	
	Q2	Q3	Q4	Q1	Q2
Cash in Treasury%	4.6	4.2	4.4	3.9	3.9
Cash with the PMA %	10.4	10.2	10.0	9.8	9.5
Balances with Banks in Palestine%	3.7	3.1	2.4	2.8	2.7
Balances with Banks Abroad%	41.8	40.1	41.7	40.5	40.2
Credit facilities%	30.7	32.8	30.8	33.6	35.2
Portfolio Investment%	3.6	4.4	5.9	4.2	2.9
Other Assets%	5.2	5.2	4.8	5.2	5.6
Assets – Liabilities	100	100	100	100	100
Clients' Deposits%	75.5	76.5	74.8	74.7	75.2
PMA's Deposits%	3.1	2.6	3.1	3	2.7
Deposits of Banks Operating in Palestine %	3.6	3	2.5	2.8	2.2
Deposits of Banks Operating Abroad%	2.4	1.9	1.9	1.6	1.6
Equity%	7.9	8.9	10.2	10	9.7
Bad-debt Allowances %	2.3	2.3	2.5	2.6	2.4
Other Liabilities%	5.2	4.8	5.0	5.3	6.2

Source: Palestinian Monetary Authority, Unpublished Data

⁵ Including paid capital, reserves, profits and underwriting premiums

10.8 Bank Performance Indicators

Data in Table 15 show the main developments of a number of indicators concerned with the performance of banks operating in the Palestinian Territory. The following is a review of the most important indicators:

10.8.1 Capital Adequacy

This ratio indicates the ability of banks to meet expected and unexpected risks. For national banks operating in Palestine during the second quarter of 2006 it increased from 18.9% to 21.4%.

10.8.2 Bad credit Provisions⁶ 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. The ratio of credit facilities' allocations to total credit facilities fell by 0.8 percentage points during the second quarter of 2006 to become 6.8%.

10.8.3 Private Sector Credit to Private Sector Deposits

This ratio rose to 37.2% during the second quarter of 2006 from 33.6% in the first quarter. This reflects the tendency of banks operating in Palestine to expand credit facilities to the private sector, and to put an end to the policy seeking to strengthen banks' liquidity. It is worth noting here that this indicator has been rising since the first quarter of 2005.

10.8.4 Credit Facilities to Client Deposits

The ratio of credit facilities to client deposits considerably increased in the second quarter of 2006 to reach 47.2%, compared with 44.9% during the previous quarter. The increase in this indicator could reflect an improvement in banks' contribution to financing economic activities in the Palestinian Territory. It is worth noting that this ratio is higher than the minimum required by the Monetary Authority, which is 40%.

10.8.5 Foreign Investments to Total Deposits

As a result of the Monetary Authority's desire that banks operating in Palestine invest the major part of their funds in the country, and minimize their foreign investments, regulations set by the Authority require that maximum foreign investments of banks should not exceed 65% of total deposits. Data indicate that the percentage of foreign investments was 49.5% during the second quarter of 2006, having been 50% in the previous quarter.

**Table 15: Indicators of Bank Performance,
by Quarters of 2005 and 2006**

Indicator	2005			2006	
	Q2	Q3	Q4	Q1	Q2
Capital Adequacy %/ Bad Credit Provisions	12.9	12.5	11.2	18.9	24.9
Credit Facilities%	8	6.7	7.6	7.6	6.8
Private Sector Facilities/ Private Sector Deposits%	30.6	30.7	33.2	33.6	37.2
Credit Facilities/ Client Deposits%	40.7	42.9	42.8	44.91	47.2
Foreign Investment/ Total Deposits%	49.4	47.8	50.9	50.0	49.5

Source: Palestinian Monetary Authority, Unpublished Data

⁶ Provisions to meet unexpected losses on loans and credit facilities on the basis of 1.25% – 1.5% of total profits.

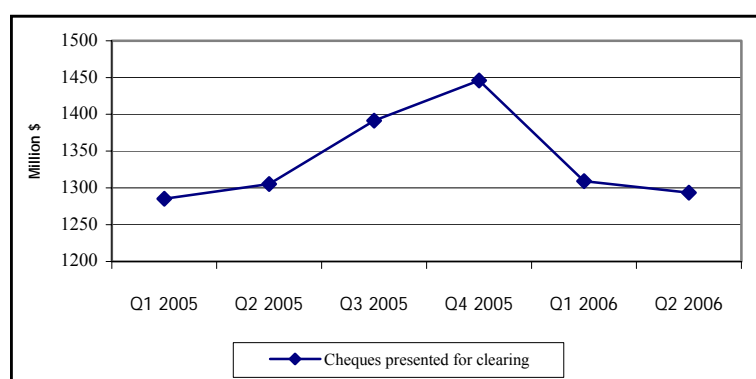
10.9 Activities of Clearing Houses

The clearing houses of the Monetary Authority experienced a noticeable decline during the second quarter of 2006 with regard to the number and value of cheques cleared. This could be attributed to the difficult economic conditions that have affected most activities as a result of the blockade imposed on the Palestinian people and their National Authority since the formation of the new Palestinian Government. The retreat in the activities of the clearing houses was accompanied by an increase in the number of returned cheques, though their value was lower.

10.9.1 Cheques Presented for Clearing

The number of cheques, in different currencies in circulation (US Dollar, Jordanian Dinar, Israeli Shekel and Euro), presented for clearing at the clearing houses of the PMA in Ramallah, Nablus and Gaza fell during the second quarter of 2006. They amounted to 583,983 cheques – a decrease of 1.4% compared to the previous quarter. At the same time, the total value of cheques presented for clearing was US\$1,293.4 million, a decrease of 1.2% compared with the previous quarter (see Figure 20).

Figure 20: Value of Cheques Presented for Clearing by Quarter, 2005 and 2006



Source: Palestinian Monetary Authority, Monthly Statistical Bulletin, different issues

10.9.2 Returned (Bounced) Cheques

109,581 thousand cheques in different currencies were bounced during the second quarter of 2006, an increase of 12.9%. However, their value was 10.9% less than the previous quarter, amounting to US\$104.6 million (see Table 16).

In accordance with the aforementioned facts, the ratio of returned cheques (number of returned cheques to total number of cheques presented for clearing) increased to become 19%, having been 16% in the previous quarter. At the same time the ratio relating to the value of those cheques decreased from 8.9% to 8.1% during the same period.

**Table 16: Number and Value of Cheques Presented for Clearing
And percentage of Returned Cheques, by Quarters of 2005 and 2006**

Period	Cheques Presented For Clearing		Returned Cheques		Ratio of Returned / Presented for Clearing	
	No. of Cheques	Value (Million\$)	No. of Cheques	Value (Million\$)	No. %	Value%
2 nd Q '05	541,787	1308.4	68,583	79.7	13	6.1
3 rd Q '05	601,593	1391.4	80,114	104.6	13	7.5
4 th Q '05	642,026	1446.3	91,594	109.2	14	7.6
1 st Q '06	592,359	1309.3	97,066	117.5	16	8.9
2 nd Q '06	583,983	1293.4	109,581	104.6	19	8.1

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

10.10 Spread of Currency Exchange Rates

Table 17 shows the exchange rate on September 3, 2006 of the US Dollar to the Israeli Shekel in Palestinian and Israeli banks as well as in Exchange Bureaus and with individual money changers. Comparing those rates with those recorded on June 1, 2006, one notes a fall in the exchange rate of the US Dollar to Israeli Shekel in both the Palestinian Territory and Israel. In the Palestinian Territory it fell from 4.51 to 4.35, while in Israel the Dollar was exchanged for 4.33, after having been 4.51 in the previous period. On the other hand, we note the low average spread of exchange rates in the Palestinian Territory compared to in Israel. The average spread of exchange rates in the Palestinian Territory fell from 1.10% to 0.87%, while in Israeli banks it increased from 0.74% to 3.58% during the period of comparison.

**Table 17: Exchange Rate of US\$ to Israeli Shekel on
September 3, 2006**

Sector	Buying Price	Selling Price	Amount of Spread	Pip	Average Spread
Individual Money Changers					
Money Changer 1	4.35	4.37	0.02	20	0.46
Money Changer 2	4.36	4.38	0.02	20	0.46
Money Changer 3	4.35	4.37	0.02	20	0.46
Average	4.35	4.37	0.02	20.00	0.46
Exchange Bureaus					
Exchange (Ramallah)	4.36	4.38	0.02	20	0.46
Exchange (Nablus)	4.35	4.36	0.01	10	0.23
Exchange (Al-Khalil)	4.36	4.38	0.02	20	0.46
Average	4.36	4.37	0.02	16.67	0.38
Palestinian Banks					
Palestinian Bank (Ramallah)	4.32	4.42	0.1	100	2.31
Palestinian Bank (Nablus)	4.34	4.39	0.05	50	1.15
Palestinian Bank (Al-Khalil)	4.33	4.41	0.08	80	1.85
Average	4.33	4.41	0.08	76.67	1.77
Average in Palestinian Territory	4.35	4.38	0.04	37.78	0.87
Israeli Banks					
Bank Hapolim	4.26	4.47	0.21	210	4.93
Israel Discount Bank	4.27	4.47	0.2	200	4.68
Bank Leumi LeIsrael	4.47	4.52	0.05	50	1.12
Average in Israel	4.33	4.49	0.15	153.33	3.58

Source: MAS collected data during field survey in Ramallah, Nablus and Al-Khalil, in addition to telephone communication with Israeli banks.

As regards the Jordanian Dinar, its exchange rate with the Israeli Shekel in both the Palestinian Territory and Israel also fell. In the Palestinian Territory it fell by 3.3% to become 6.14 Shekels, while in Israel it fell by 7% to equal 5.91 Shekels. Examining the average spread of the Jordanian Dinar's exchange rate, we find that on average it fell in the Palestinian Territory from 1% to 0.94%. It fell at exchange bureaus, but increased at Palestinian banks and with individual money changers. However, in Israel again we note a considerable increase in the average spread, which reached 10.31% on September 3, 2006, while it was 0.79% on June 1, 2006 (see Table 18).

**Table 18: Jordanian Dinar's Exchange Rate to Israeli Shekel
On September 3, 2006**

	Buying Price	Selling Price	Amount of Spread	Pip	Average Spread
Individual Money Changers					
Money Changer 1	6.15	6.2	0.05	50	0.81
Money Changer 2	6.17	6.19	0.02	20	0.32
Money Changer 3	6.15	6.2	0.05	50	0.81
Average	6.16	6.20	0.04	40.00	0.65
Exchange Bureaus					
Money Exchange (Ramallah)	6.15	6.2	0.05	50	0.81
Money Exchange (Nablus)	6.16	6.18	0.02	20	0.32
Money Exchange (Al-Khalil)	6.17	6.18	0.01	10	0.16
Average	6.16	6.19	0.03	26.67	0.43
Palestinian Banks					
Palestinian Bank (Ramallah)	6.1	6.21	0.11	110	1.80
Palestinian Bank (Nablus)	6.12	6.21	0.09	90	1.47
Palestinian Bank (Al-Khalil)	6.09	6.21	0.12	120	1.97
Average	6.10	6.21	0.11	106.67	1.75
Average in Palestinian Territory	6.14	6.20	0.06	57.78	0.94
Israeli Banks					
Bank Hapolim	6.4	6.6	0.2	200	3.12
Israel Discount Bank	5.95	6.49	0.54	540	9.08
Bank Leumi Israel	5.39	6.4	1.01	1010	18.74
Average in Israel	5.91	6.50	0.58	583.33	10.31

Source: Data collected by MAS during field survey in Ramallah, Nablus and Al-Khalil, in addition to telephone communication with Israeli banks.

As regards the Euro, its exchange rate with the Israeli Shekel fell in both the Palestinian Territory and Israel. In the Palestinian Territory the fall was 2.3% (from 5.67 to 5.54 Israeli Shekels for one Euro). In Israel, however, it fell by 5%, to 5.47 Shekels from 5.76 for one Euro. As for the spread of the exchange rate, we note a fall in the average spread throughout the Palestinian Territory, from 2.22% to 1.33%. It rose, however, in Israel by 6.09%, having been 0.7% three months before (see Table 19).

Table 19: Euro Exchange Rate to Israeli Shekel On September 3, 2006

Sector	Buying Price	Selling Price	Amount of Spread	Pip	Average Spread
Individual Money Changers					
Money Changer 1	5.55	5.6	0.05	50	0.90
Money Changer 2	5.55	5.6	0.05	50	0.90
Money Changer 3	5.5	5.55	0.05	50	0.91
Average	5.53	5.58	0.05	50	0.90
Exchange Bureaus					
Money Exchange (Ramallah)	5.59	5.6	0.01	10	0.18
Money Exchange (Nablus)	5.56	5.58	0.02	20	0.36
Money Exchange (Al-Khalil)	5.6	5.63	0.03	30	0.54
Average	5.58	5.60	0.02	20	0.36
Palestinian Banks					
Palestinian Bank (Ramallah)	5.55	5.66	0.11	110	1.98
Palestinian Bank (Nablus)	5.47	5.66	0.19	190	3.47
Palestinian Bank (Al-Khalil)	5.53	5.68	0.15	150	2.71
Average	5.52	5.67	0.15	150	2.72
Average in Palestinian Territory	5.54	5.62	0.07	73.33	1.33
Israeli Banks					
Bank Hapolim	5.47	5.73	0.26	260	4.75
Israel Discount Bank	5.49	5.95	0.46	460	8.38
Bank Leumi Israel	5.45	5.73	0.28	280	5.14
Average in Israel	5.47	5.80	0.33	333.33	6.09

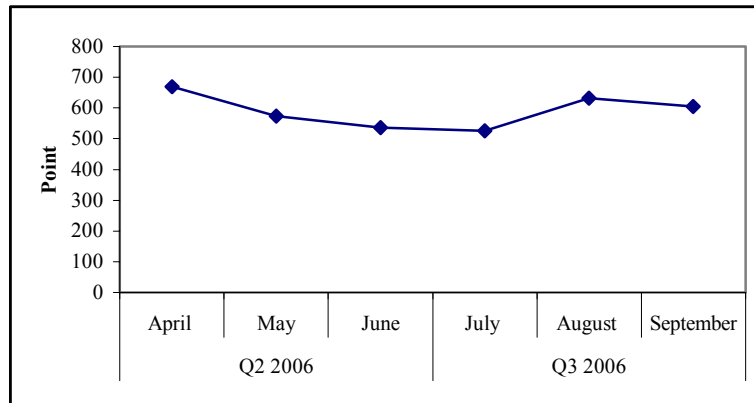
Source: Data collected by MAS during field survey conducted in Ramallah, Nablus and Al-Khalil, and by telephone communication with Israeli Banks.

11. Stock Exchange

Available data show a noticeable improvement in all indicators of the Palestine Securities Exchange (PSE) during the third quarter of 2006 compared with the second quarter of the year. This could be attributed to the end of the war waged by Israel against Lebanon, in addition to the possible appearance at that time of some prospects of a political solution to the months-old crisis in the Palestinian Territory. As a result of optimistic expectations by the Palestine Stock Exchange that the political and security situation would improve, and with it the economic environment, it reintroduced in mid-August 2006 the five per cent fluctuation (up and down) in prices of shares issued by the Exchange, after having decreased the allowable fluctuation rate to 3% in the wake of the deterioration of the security situation in the Palestinian Territory during the previous quarter.

PSE data indicated a rise of 8.7% in the market value of companies registered with the Exchange during the period between the second and third quarters of 2006. Their value amounted to US\$2.5 billion. This considerable increase in the market value was also accompanied by a considerable increase in the volume of trading, which rose by 24.6%, bringing the value of shares traded to US\$185.8 million. The number of traded shares increased to 50.9 million – an increase of 16.2%. At the same time, the number of deals increased by 31% to reach 41,241 during the third quarter. Trading sessions also increased by 4, to reach 66 sessions. As for the Jerusalem Index, at the end of September it reached 603.67 points, an increase of 12.4%, compared with the end of June 2006 (see Figure 21).

Figure 21: Jerusalem Index during Second and Third Quarter of 2006



Source: Palestinian Stock Exchange. www.p-s-e.com

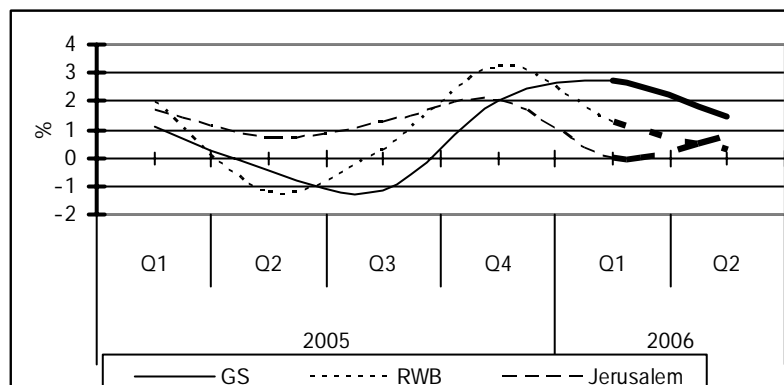
Ninety-six percent of companies listed on the stock market disclosed their financial position making the highest rate of compliance with disclosure regulation during the second quarter of the year. Of the 24 companies which disclosed financial reports, 19 realized profits during the first half of the year, a fact which indicates the diversity and development of the investment environment in Palestine.

12. Prices and Purchasing Power

12.1 Prices

Data for the second quarter of 2006 indicate that an increase of 0.73% occurred in the consumer price index, measured in Israeli Shekels, in the Palestinian Territory, (compared with an increase of 0.95% during the previous quarter). Average inflation in both the rest of the West Bank and the Gaza Strip fell: prices in the rest of the West Bank rose by 0.23% compared with an increase of 1.26% in the previous quarter, while prices in the Gaza Strip rose by 1.44% compared with a 2.71% rise in the previous quarter. By contrast, inflation in the Jerusalem area increased, with prices rising by 0.77% having been stable in the previous quarter (see Figure 22).

Figure 22: Average Inflation in Shekels in Jerusalem, Rest of West Bank and Gaza Strip, by Quarters of 2005 and 2006



Source: Calculated by MAS based on PCBS data, Consumer Price Index, Different Years

The transport and communications group contributed around 47% to the increase (0.73%) in prices due to the rise in the cost of petrol and fuel. It was the highest increase in comparison with other consumer goods in the consumption basket. The foodstuffs group contributed 35% to the total general increase, and different personal goods and services contributed 18% to this increase. By contrast, the housing, clothing, educational services, and entertainment groups experienced varying falls in their prices.

By region, it was noted that the foodstuffs group contributed 92% to the price increase in the Gaza Strip, due to a 16% increase in prices of foodstuffs compared with the previous quarter. There was a considerable scarcity of foodstuffs due to Israeli closure of crossing points to the Strip. By contrast, in the rest of the West Bank food prices fell by 0.43% (see Table 20).

**Table 20: Changes in Consumer Price Index in Palestinian Territory
by Region and Group of Goods during Second Quarter of 2006
Compared with First Quarter (%)**

Group of Goods	Palestinian Territory	Rest of West Bank	Gaza Strip	Jerusalem
Foodstuffs	0.63	-0.43	3.09	0.27
Drinks and Tobacco	0.39	0.34	0.73	0.18
Textiles, Clothes & Shoes	-0.07	-0.54	0.04	-0.12
Housing	-1.47	-2.89	-4.38	0.95
Furniture, Household Goods & Services	0.11	0.20	0.39	0.05
Transport & Communication	2.74	2.61	2.67	3.16
Educational Services	-0.23	0.00	-0.14	-0.34
Health Care	-0.09	-0.75	0.51	0.75
Entertainment Goods & Services	-0.17	-0.04	-0.27	-0.11
Other Goods & Services	2.22	2.58	1.68	0.68
General Index	0.73	0.23	1.44	0.77

Source: PCBS

Prices of durable goods (household appliances and entertainment goods) increased by 1.33% during the second quarter of 2006 compared with the previous quarter. Prices of non-durable goods (such as food, cigarettes and other consumer items) also increased by 0.86% during the same period. By contrast, the prices of semi-durable goods (such as textiles, clothes and shoes) fell by 0.08% compared with the previous quarter.

As for the prices of locally-made and imported goods, there was an increase of 1.60% in prices of imported goods during the second quarter of 2006, and a price increase of 0.17% for locally-made goods during the same period.

12.2 Average Prices of Some Vital Consumer Goods

Data contained in Table 21 indicate that the prices of most goods increased during the past period. Part of this could be attributed to the increase in prices of imported goods and materials, including sugar and fuel, resulting from high prices internationally. The following is a summary of price movements by the end of the second quarter of 2006 compared with previous quarters:

❖ Prices of Sugar, Flour and Rice

Sugar prices in both the West Bank and Gaza Strip continued climbing during the second quarter of 2006, but at a relatively lower rate compared with the rise in the previous quarter. In the West Bank they increased by 8.9%, while the increase in the Gaza Strip was higher – around 14.9%. On the other hand, flour prices increased in the Gaza Strip by 4.76%, while they fell by 3.31% in the West Bank during the same period. Rice prices increased by 2.57% in the Gaza Strip but fell by 1.16% in the West Bank.

❖ **Fuel Prices**

Petrol prices in the Palestinian Territory continued climbing during the second quarter of 2006, due to the high price of oil internationally. The price of one litre of petrol in the rest of the West Bank increased by 10.79% compared with the previous quarter, and was 16.49% higher than the second quarter during the previous year. By contrast, the price of gas (which is used as fuel in households) decreased during the same period. The price of a gas cylinder averaged 38 Israeli Shekels during the second quarter of 2006, a decrease of 6 Israeli Shekels compared with the previous quarter.

❖ **Prices of Powdered Milk and Olive Oil**

Price increases also affected other vital items such as powdered milk and olive oil. Data indicate that the price of powdered milk increased by nearly 0.55% in the West Bank, while no change occurred in the Gaza Strip. As for the price of olive oil, it increased in both the Gaza Strip and the West Bank, by 2.36% and 0.86% respectively. In comparison with olive oil prices during the second quarter of 2005, we note that a considerable increase, ranging between 12 and 24 Israeli Shekels per kilo. The increase in the Gaza Strip was considerably lower, as the price of one kilo of olive oil was 21.7 Shekels per kilo, having been 20.8 Shekels during the second quarter of 2005.

❖ **Prices of Tomatoes and Potatoes**

Tomato prices in the West Bank experienced a 0.9% increase during the second quarter of 2006. At the same time tomato prices in the Gaza Strip fell by 21.7%. On the other hand, potato prices fell by 11.4% in the West Bank compared with the previous quarter, while in the Gaza Strip they increased by 31.4%.

**Table 21: Average Consumer Prices for Some Vital Goods
By Quarters of 2005 and 2006**

Type	Buying Unit	Rest of West Bank			Gaza Strip		
		Q2 2006	Q1 2006	Q2 2005	Q2 2006	Q1 2006	Q2 2005
Sugar	Sack - 50 Kilos	148.78	136.57	93.27	180.00	156.67	100.75
Rice	Sack - 25 Kilos	87.62	85.42	83.87	85.00	86.00	91.33
Flour	Sack - 60 Kilos	109.00	112.73	109.17	110.00	105.00	107.17
Powdered Milk	Tin - 2.5 Kilos	84.03	83.57	81.00	80.00	80.00	80.95
Olive Oil	1 Kilo	24.30	24.10	16.75	21.67	21.17	20.78
Tomatoes	1 Kilo	2.34	2.32	2.20	1.01	1.29	0.96
Potatoes	1 Kilo	2.33	2.63	2.42	1.55	1.18	1.09
Gas	Cylinder - 12 Kilos	38.33	44.67	39.00	38.33	44.67	39.00
Petrol 96 Octane	1 Litre	5.89	5.31	5.05	5.89	5.31	5.05

Source, PCBS, 2006

12.3 Purchasing Power

The second quarter of 2006 saw a noticeable decline in the exchange rate of the Jordanian Dinar and the US Dollar to the Israeli Shekel in the Palestinian Territory, amounting to 3.6% and 4.3% respectively compared with the previous quarter (see Table 22). The decline in exchange rates coincided with the increase of 0.7% in the general price level mentioned above, and thus the Dinar's purchasing power fell by 4.4%, and that of the US Dollar by 5%. It is worth noting that the biggest fall in the purchasing power of the two currencies was in the Gaza Strip. It was higher than in the West Bank and Jerusalem because of the higher inflation (1.4%) in the Gaza Strip (see Tables 22 and 23 and Figure 23)

Table 22: Average Exchange Rate for Jordanian Dinar and US Dollar to Israeli Shekel until Second Quarter 2006

Year	Dollar to Shekel	Dinar to Shekel
2004	4.48	6.31
Q1- 2005	4.35	6.15
Q2- 2005	4.40	6.21
Q3- 2005	4.53	6.39
Q4- 2005	4.66	6.55
Average 2005	4.49	6.32
Q1- 2006	4.66	6.61
Q2- 2006	4.46	6.37

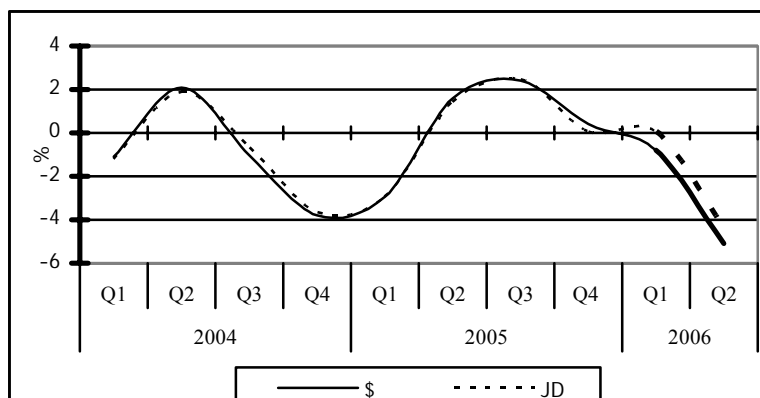
Source: PCBS, Unpublished Data

Table 23: Development of Dinar and Dollar's Purchasing Power in Rest Of West Bank, Gaza Strip and Jerusalem until Second Quarter 2006

Region	Currency	2004	Q1 2005	Q2 2005	Q3 2005	Q4 2005	2005	Q1 2006	Q2 2006
Palestinian Territory	Dollar	-1.01	-2.93	1.60	2.42	0.42	-3.31	-0.8	-5.0
	Dinar	-1.07	-2.95	1.4	2.48	0.06	-3.33	0.07	-4.37
Rest of West Bank	Dollar	-1.21	-3.01	2.39	2.57	-0.36	-2.73	-1.10	-4.59
	Dinar	-1.27	-3.04	2.18	2.63	-0.72	-2.75	-0.24	-3.86
Jerusalem	Dollar	-1.75	-2.74	0.5	1.59	0.81	-5.18	0.16	-5.13
	Dinar	-1.81	-2.76	0.29	1.64	0.45	-5.20	1.02	-4.40
Gaza Strip	Dollar	-1.37	-2.19	1.57	3.95	0.81	-1.01	-2.56	-5.80
	Dinar	-1.44	-2.21	1.36	4.01	0.45	-1.03	-1.70	-5.07

Source: Calculated by MAS, based on PCBS Data, Consumer Price Index.

Figure 23: Changes of Purchasing Power of Dinar and Dollar in Palestinian Territory, by Quarters of 2004, 2005 and 2006



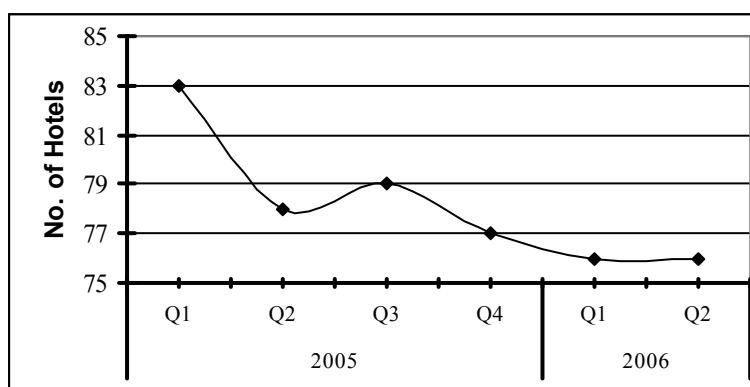
Calculated by MAS, based on PCBS Data, Consumer Purchasing Power Index and Currency Exchange Rates, Various Years.

13. Tourism

13.1 Hotel Activities

The number of operating hotels remained at 76 during the second quarter of 2006 (see Figure 2), 45 in the West Bank, 18 in Jerusalem and 13 in the Gaza Strip. The total number of hotel rooms available in those hotels was 3,812.

Figure 24: Number of Hotels in Palestinian Territory during Second Quarter 2006

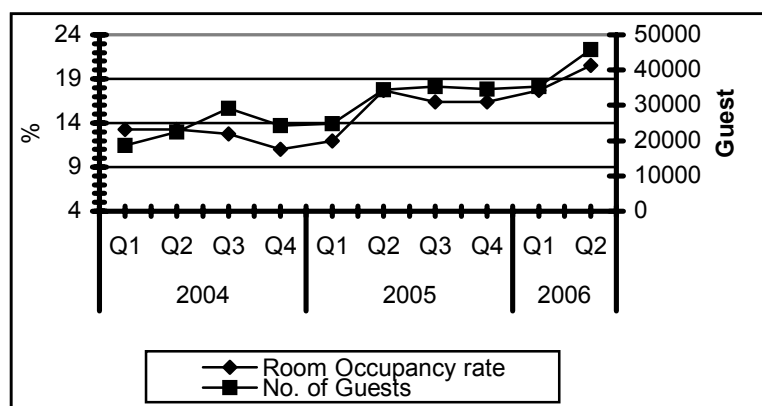


Source: PCBS, Hotel Activities in Palestinian Territory.

The number of hotel guests in the Palestinian Territory during the second quarter of 2006 was 45,887 guests, an increase of 29.9% compared with the first quarter. Jerusalem hotels took the lion's share with 47% of the total number of guests, while the southern West Bank took 25.1% and the central West Bank 24.2%. Only 2.4% stayed in hotels in the northern West Bank, and 1.3% in hotels in the Gaza Strip.

The number of hotel guest in Jerusalem increased by 14.8% during the second quarter. In the centre of the West Bank, including Ramallah and Jericho, the number of hotel guests increased by 45.4% during the same period. In the south and north of the West Bank the number of hotel guests increased by 63.1% and 12.6% respectively. But in the Gaza Strip the number of hotel guests dropped by 29.4% during the two quarters.

Figure 25: Number of Guests and Room Occupancy Rate in Hotels Operating in Palestinian Territory, by Quarters of 2004, 2005 and 2006



Source: PCBS, Hotel Activities in Palestinian Territory

The room occupancy rate in hotels in the Palestinian Territory increased from 17.7% during the first quarter to 20.5% during the second quarter. The number of employees in the hotel sector rose by 3.8% to become 1,365 persons, 174 of them women. The workers were distributed 680 in West Bank hotels, 346 in Jerusalem hotels and 339 in Gaza Strip hotels (see Figure 25).

14. Expectations of Owners and Managers of Industrial Establishments

Political and security conditions prevailing in the Palestinian Territory cast their shadow over the expectations of owners of industrial enterprises as to the performance of their businesses, especially in the Gaza Strip which is suffering from a stifling blockade and closure of crossing points for travellers and goods. At the same time the Gaza Strip is suffering as a result of the Palestinian Government crisis, and its inability to meet its financial obligations resulting from the boycott of the Palestinian people by donor states.

A poll conducted by the PCBS regarding industrial owners' and managers' opinions pertaining to the economic conditions in June 2006 revealed that 27.5% of them were optimistic that their enterprises would generally be better in the short-run (i.e. a month from the time of the poll). However, 48.6% stated that they expected their enterprises to be in a worse shape in July. The proportion of optimists who stated their enterprises would improve in the medium-run (i.e. six months after the poll in June) was slightly higher, at 35.4% in the Gaza Strip and 39.1% in the rest of the West Bank. But 41.7% of industrial enterprise owners and managers in the Gaza Strip, and 39.1% in the rest of the West Bank expected their enterprises to be in a worse shape in the medium term.

The poll was conducted again in September, but no tangible change occurred in the rate of optimists who believed that their enterprises would be better in the short-run, although the rate of those who said that their enterprises would be worse dropped to 44.6%. However, the September poll saw a noticeable decrease in optimism levels in the medium-run. Only 22.6% of those polled in the Gaza Strip stated that their enterprises will be in better shape during the next six months, but 26.8% stated that their enterprises will be worse. As regards the rest of the West Bank, 26.8% of industrial enterprise owners stated that their enterprises would be better in the medium term, but 51.2% stated that their enterprises would be in worse shape.

As regards employment perspectives, the June poll results showed that optimism regarding higher levels of employment in the short-run stood at 21.3% in the Palestinian Territory (19.1% in the rest of the West Bank and 26% in the Gaza Strip). On the other hand, 69.6% of industrial enterprise owners and managers (72.3% in the rest of the West Bank and 63.5% in the Gaza Strip) expected that employment levels would remain stable. In the medium term, 13.4% of respondents in the June poll stated that they expected an increase in employment, while 66.7% stated that employment levels would not change.

The September poll revealed that optimism regarding a rise in employment levels retreated to 21.1% - 13.8% in the rest of the West Bank and 18.6% in the Gaza Strip. Only 14.6% of respondents indicated that they expected an improvement in employment levels in the medium run, while 64.3% stated that they did not expect any change during the same period and 21.1% stated that employment would fall during the next six months.

As regards the expected volume of sales, in the June poll 28% of industrial enterprise owners and managers in the Palestinian Territory stated that they expected an increase in the volume of sales in July, while 47.3% expected a drop in sales during the same period. In the medium run, 34.9% of owners and managers stated in the June poll that they expected an increase in sales, while 43.1% of them expected a drop.

In the September poll, optimism with regard to rise in volume of sales dropped to 25.1% in the Palestinian Territory with regard to the short run, and 46.8% expected a fall in the volume of sales. Optimism indicators with regard to the medium term also fell to 25.1%, while 46.8% expected the volume of sales to drop.

Answering a question concerning the reasons for the expected drop in sales, in the June poll 54.5% of owners and managers of industrial enterprises stated that the main reason was the fall in consumers' purchasing power, 22.8% pointed to the closure of crossing points, the security situation and roadblocks, and 6.7% stated that the main reason was presence of competing goods. 30.6% of industrial enterprise managers in the West Bank considered the deterioration of security conditions and the widespread presence of roadblocks as one of the most important reasons for fall or stagnation of sales. Regarding reasons for a fall in employment levels, 79.5% of owners or managers of industrial enterprises in the Gaza Strip stated that the main reason is due to low consumer purchasing power, as did 46% in the West Bank.

The figures did not differ much during the September poll. 44.8% of industrial enterprise owners and managers attributed the expected fall in sales to the fall in consumers' purchasing power, while 22.3% stated that the main reason was the security situation and the widespread existence of roadblocks, and 6.7% of those polled said that the reason concerned the seasonal production of goods. Results of the September poll consolidated the difference in opinion between enterprise owners in the rest of the West Bank and those in the Gaza Strip. 17.8% of those polled in the rest of the West Bank, and 44.1% of those polled in the Gaza Strip referred to military roadblocks and closures as the main reason for the fall in the volume of sales. But 50% of those polled in the Gaza Strip and 43.4% in the rest of the West Bank stated that the reason was the fall in consumers' purchasing power.

Answering a question focusing on the nature of export obstacles, in the June round 63.5% of industrial enterprise owners involved in export in the Palestinian Territory stated that enterprises encounter obstacles because of the irregular arrival of raw materials, 77% blamed delivery problems, 57.6% indicated that the inability to travel and to enter foreign markets is an obstacle, and 66.9% referred to the absence of payment guarantees by clients as an additional export obstacle. In the September round, 53.9% of owners of enterprises engaged in export in the Palestinian Territory said that their enterprises were encountering obstacles because of irregular arrival of raw materials, 67.8% referred to delivery problems with exports, 72.2% spoke of travel difficulties and inability to enter foreign markets, and 64.4% referred to the absence of payment guarantees by clients.

15. Living Standards

Data revealed a deterioration of living conditions in the Palestinian Territory. On the one hand, the Israeli occupation has tightened blockade measures imposed on the Palestinian Territory, and on the other hand an external blockade has been imposed on financing the Palestinian Government. The Government, as a direct result, was unable to assure the salaries and wages of public sector employees.

15.1 Poverty

15.1.1 Poverty Estimates⁷

Poverty rates in the Palestinian Territory according to statements by families increased during the second quarter of 2006, reaching 65.8%. Poverty rates in the Gaza Strip exceed those in the West Bank: 87.7% of families in the Strip live below the poverty line, while 54.6% of West Bank families were also in that position. 55.6% of Palestinian families suffer from extreme poverty

⁷ PCBS, 2006 Survey of Effects of Unilateral Israeli Measures on Economic, Social and Environmental Conditions of Palestinian Families, 2006: Main Results. Ramallah, Palestine.

(79.9% of families in the Gaza Strip and 43.2% of families in West Bank). These figures represent a considerable increase in poverty rates compared with the first quarter of 2006.

It is worth noting here the difference in methodology of calculating poverty estimates during the two previous quarters. Estimates of the first quarter were based on spending and consumption data of Palestinian families, while estimates of the second quarter were based on statements of families themselves regarding their income. This method is less accurate than the other, but it still reveals a considerable increase in poverty rates.

15.2 Income Levels

Results of a survey concerning the effects of unilateral Israeli measures on economic and social conditions in the Palestinian Territory revealed a continued deterioration of economic conditions of Palestinian families during the second quarter of 2005. The percentage of Palestinian families whose income fell compared with the level prior to *Intifada* was 62.7% of all families in the Palestinian Territory during the second quarter of 2006 – 63.7% of families in the West Bank and 60.5% of families in the Gaza Strip. 47.4% of families whose income fell stated that they had lost at least half of their income, but this was down from 60.4% during the fourth quarter of 2005⁸ (62.5% in the West Bank and 56.4% in the Gaza Strip) (see Table 24). This may indicate that the non-payment of salaries and wages of public sector employees was yet to be felt until the second half of 2006.

Table 24: Percentage of Families that Lost Half or More of their Income During *Al-Aqsa Intifada*, Fourth Quarter 2005 and Second Quarter 2006.

	Palestinian Territory	West Bank	Gaza Strip
Second Quarter 2006	%47.4	%46.5	%49.6
Fourth Quarter 2005	%51.6	%45.5	%64.0

Source: PCBS, 2006, Survey of Effects of Unilateral Israeli Measures on Economic and Social and Environmental Conditions of Palestinian Families, 2006: Main Results and Results of 15th Round (October – December 2005), Ramallah, Palestine.

15.3 Family Spending

Due to the fall in their income, Palestinian families decreased their spending on all essential items, especially food and clothes. 66.8% of Palestinian families stated that they reduced their spending during the second quarter 2006, with more families obliged to resort to such measures in the Gaza Strip than in the West Bank (see Table 25). These figures reveal a serious deterioration in the standard of living of Palestinian families.

This reduction in spending affected the quantity and quality of food consumed by Palestinian families. 95.4% of Palestinian families that reduced their spending on food stated that they reduced the quality of food they consumed (93.8% in West Bank and 97.3% in the Gaza Strip) and 81.8% reduced the quantity (80.7% in the West Bank and 83.0% in the Gaza Strip). It is evident that the deterioration of living conditions in the Gaza Strip was sharper than in the West Bank during the second quarter of 2006.

⁸ No data was available concerning first quarter of 2005. Consequently we compared with the fourth quarter of 2005. In fact, no big changes took place during the first quarter, while the economic crisis worsened during the second quarter of 2006 due to the financial blockade imposed on the Palestinian Government which resulted in non-payment of salaries of public sector employees.

Table 25: Palestinian Families that Reduced their Spending on Essential Items in 2005

	Palestinian Territory	West Bank	Gaza Strip
% of Families that Reduced their Spending in General during 4 th Quarter 2005	47.8	45.6	52.2
% of Families that Reduced their Spending in General during 2 nd Quarter 2006	66.8	58.2	83.7
% of Families that Reduced their Spending (of Families that Reduced Spending) during 4 th Quarter 2005 on:			
Clothes	96.2	82.2	95.7
Food	87.9	82.2	97.5
Housing	81.9	81.9	82.0
Health	61.7	56.1	69.2
Education	50.9	46.7	56.7

Source: PCBS, 2006. Survey of Unilateral Israeli Measures Effect on Economic, Social And Environmental Conditions of Palestinian Families, 2006: Main Results, and 15th Round (October – December 2005), Ramallah, Palestine

Table 26 shows a fall in the percentage of families during the second quarter of 2006 which stated that they could cope more than one year, compared with the fourth quarter of 2005. It also highlights a considerable increase in the percentage of families which stated that they were in such dire straits that they did not know how to assure their basic necessities.

Table 26: Percentage of Families Capable of Coping for More than One Year and Those in Difficult Situation during 3rd and 4th Quarters of 2005

Region	4th Quarter 2005	2nd Quarter 2006
% of Families Capable of Coping more than One Year		
Palestinian Territory	29.5	20.3
West Bank	24.6	21.8
Gaza Strip	39.2	17.3
% of Families in Difficult Conditions and not knowing how to Assure Basic Necessities		
Palestinian Territory	14.2	26.3
West Bank	15.7	24.6
Gaza Strip	11.3	29.8

Source: PCBS, 2006. Survey of Effects of Unilateral Israeli Measures on Economic, Social and Environmental Conditions of Palestinian Families, 2006: Main Results, and Results of 15th Round (October – December 2005) Ramallah, Palestine

15.4 Palestinian Families' Economic Coping Strategies

As regards methods resorted to by Palestinian families over the previous year to cope economically with the situation during the period between the third quarter 2005 and the fourth quarter 2006, most (80.3%) still depended on family income, although this represents a decline from the fourth quarter of 2005 (87.9%). This is the inevitable result of non-payment of salaries of public-sector employees from the second quarter of 2006. The percentage of families that received help from family and friends, or that borrowed from individuals, institutions and banks, also declined. This is also the logical result of the deterioration of economic conditions of Palestinian

families, as the circle of people able to help narrowed and the ability of families to provide guarantees for loans declined.

Table 27: Measures Taken by Families to Cope Economically over Previous Year, during Month of Survey (%)

Measures Taken by Families to Cope	4 th Quarter 2005	2 nd Quarter 2006	% of Change
Depend on Monthly Family Income	87.9	80.3	-8.6
Help from Family and Friends	20.3	16.6	-18.2
Savings	17.8	18.1	1.7
Use Savings in Israeli Saving Funds	1.1	0.4	-63.6
Sale of Household property – Furniture & Durable Goods	1.9	2.4	26.3
Sale of Jewellery	24.3	28.5	17.3
Loans from Banks & Institutions	8.5	4.5	-47.1
Reduction of Expenses	48.0	71.9	49.8
Borrowing from Individuals	48.8	45.4	-7.0
Cultivation of Land and Breeding of Animals	12.3	13	5.7
Sale / Mortgage of Land or House	1.7	2.3	35.3
Student Members of Family Joining Labour Market	2.9	4.7	62.1
Other Family Members joining Labour Market	5.1	5.9	15.7
Buy on Credit	-	59.7	
Postponement of Due Bills	63.5	74.3	17.0
Decrease Adult Consumption for Children's Benefit	-	49.8	

Source: PCBS: 2006. Survey of Effect of Unilateral Israeli Measures on Economic, Social and Environmental Conditions of Palestinian Families, 2006: Main Results and Results of 15th Round (October – December 2005). Ramallah, Palestine.

At the same time, the percentage increased of families that depended for coping on the sale of household items and jewellery, the sale or mortgage of property, reducing expenses, students joining the labour market, postponement of bills due for payment and squeezing of expenses. Such measures are in conformity with the deterioration of living conditions and fall in family income. Data also showed that 60% of families depended on buying on credit, in addition to the fact that half of families depended on reducing adults' consumption for the benefit of children (see Table 27).

15.5 Social Assistance

The percentage of Palestinian families which received assistance during the second quarter of 2006 compared with the fourth quarter of 2005 increased in both the West Bank and Gaza Strip (27.2% during the fourth quarter of 2005, as against 29.4% during the second quarter of 2006) (see Table 28).

As regards the value of such assistance, the percentage of families which received assistance of less than 200 Israeli Shekels (i.e. less than US\$45) during the quarter increased from 38.5% during the fourth quarter of 2005 to 47.8% during the second quarter of 2006. At the same time the percentage of families which received assistance worth 300 Shekels and more decreased (27.7% during the second quarter of 2006, as against 29.8% during the fourth quarter of 2005). As for families that received assistance worth between 200 and 299 Shekels (US \$47 – 90), the

percentage fell during the same period (24.5% during the second quarter of 2006, against 31.7% during the fourth quarter of 2005).⁹

Table 28: % of Palestinian Families which Received Assistance during 4th Quarter 2005 and 2nd Quarter 2006

Quarter	Region		
	Palestinian Territory	West Bank	Gaza Strip
4 th 2005	27.2	13.2	54.7
2 nd . 2006	29.4	15.3	56.9

Source: PBCS, 2006. Survey of Unilateral Israeli Measures on Economic, Social and Environmental Conditions of Palestinian Families, 2006: Main Results and Results of 15th Round (October – December 2005) Ramallah, Palestine

Data indicated that most of the assistance received by Palestinian families during the second quarter of 2006 was in the form of foodstuffs (77.9%). This percentage represents a considerable increase in food aid out of the total assistance dispensed during the fourth quarter of 2005 (65.1%). The concentration on food assistance by those extending assistance reflects their fear of famine as a result of the continuation of the economic crisis.

In the Gaza Strip this should be particularly noted. There, food assistance constituted 86.7% of all assistance extended, as against 10.2% monetary assistance. Food aid constituted 62.4% and monetary assistance 31.1% of all assistance dispensed in the West Bank. 77.6% of families expressed satisfaction with the assistance they received.

Table 29: Distribution of Assistance Received by Families during 4th Quarter 2005 and 2nd Quarter 2006 (%)

Type of Assistance	4 th Quarter 2005	2 nd Quarter 2006	% Change
Food	65.1	77.9	19.7
Money	21.1	17.7	16.1-
Employment	4.0	2.5	37.5-
Other	9.8	1.9	80.6-

Source: PCBS, 2006. Survey of Effects of Unilateral Israeli Measures on Economic, Social and Environmental Conditions of Palestinian Families, 2006: Main Results, and Results of 15th Round (October – December 2005), Ramallah, Palestine

As regards the sources of social assistance in the Palestinian Territory, UNRWA was in first place with regard to assistance distribution rounds. Institutions of the Palestinian National Authority came in second, followed by family members, relatives, friends and neighbours (see Table 30).

⁹ PCBS, 2006, Survey of Effect of Unilateral Israeli Measures on Economic, Social and Environmental Conditions of Palestinian Families, 2006: Main Results, Ramallah, Palestine.

**Table 30: Distribution of Families that Received Assistance
By Assistance Provider (%) and Quarter**

Source of Assistance	4 th Quarter 2005	2 nd Quarter	% Change 2006
Ministry of Social Affairs	10.3	14.4	39.8
Other Authority Institutions	5.3	5.1	-3.8
Political Parties	0.9	1.6	77.8
Zakat Committees	1.6	1.1	-31.3
International Organisations	0.6	9.1	1416.7
UNRWA	58.4	45.6	-21.9
Charitable Institutions	2.8	3.5	25.0
Family and Relatives	8.4	14.2	69.0
Friends, Acquaintances, Neighbours	3.2	2.1	-34.4
Trade Unions	8.1	0.5	-93.8
Others	0.4	2.8	600.0
Total	100	100	

Source: PCBS, 2006. Survey of Effect of Unilateral Israeli Measures on Economic, Social and Environmental Conditions of Palestinian Families, 2006: Main Results, and Results of 15th Round (October – December, 2005, Ramallah, Palestine.

15.6 Palestinian Family Needs

Food continued to be the priority in terms of family requirements in the Palestinian Territory during the second quarter of 2006, with 44.7% of Palestinian families stating that it was their prime need. This percentage constitutes a considerable increase compared with the fourth quarter of 2005, when it was 37.1%. The percentage of families which said that they were in need of money remained nearly the same (19.7% during the second quarter of 2006 and 20.2% during the fourth quarter of 2005). The percentage of families which stated that employment was their main priority declined from 21.3% to 13.0% during the same period. The percentage of families which said that their main priority was assuring medicines, housing and schooling remained low (at 8.5%, 6.0% and 6.2% respectively).

Data revealed the existence of a difference in the priorities of needy families in the West Bank and those in the Gaza Strip. 46.7% of needy families in the West Bank stated that their priority need was for food, 18.1% for money, 13.0% for employment and 10.0% for medical treatment. A small percentage spoke of their need for housing and schooling. In the Gaza Strip, however, 40.8% of needy families stated that their first priority was food, 22.7% for money, 17.3% for employment, and small percentages for housing, medicines and schooling.¹⁰

15.7 Salaries Crisis

After the formation of the new Palestinian Government by Hamas, a strict economic and financial blockade was imposed, to the extent that the Government is unable to assure the money for paying the salaries of public sector employees. Nearly half of Palestinian families (51.6%) stated that they were directly or indirectly affected by the crisis during the second quarter of 2006 (26.6% were directly affected, and 25.9% indirectly). The percentage of affected families in the Gaza Strip (72.7%) was higher than those in the West Bank (40.6%) due to much higher dependence on public-sector employment there.

¹⁰ PCBS, 2006 Survey of Effect of Unilateral Israeli Measures on Economic, Social and Environmental Conditions of Palestinian Families, 2006: Main Results. Ramallah, Palestine.

Table 31 shows the measures taken by Palestinian families to cope with the absence of salaries. Nutrition is clearly suffering, with most reducing their consumption of meat, fish and fruit. Nearly 80% of families decreased family visits, and expenditures allocated for children and entertainment activities were also adversely affected.

The fact that families were obliged to sell their jewellery and use their savings will affect their ability to adapt to crises in the future. The same is true of families who resorted to buying on credit, or to borrowing, as these are future burdens for families that should be met.

On the other hand, some families resorted to measures that have a positive effect in the long run, such as breeding animals and cultivation of land. However, such possibilities are few, because most Palestinian live in urban areas and refugee camps, and the extra availability of such measures has been substantially exhausted during the last six years.

Table 31: Measures Taken by Families (%) to Cope Economically In the Absence of Public Sector Employees' Salaries, by Region and 2nd Quarter of 2006

Measures Taken by Families to Cope	Palestinian Territory	West Bank	Gaza Strip
Obtain assistance from family and friends	19.0	17.9	20.2
Use of savings	26.3	27.2	25.3
Sale of household property, furniture & Durable goods	2.9	1.9	4.1
Sale of jewellery	29.6	23.6	36.1
Obtain loans	6.0	6.1	5.9
Reduce family visits	80.3	69.8	91.8
Reduce children's cultural and social activities	56.6	47.0	67.0
Reduce consumption of fresh meat	88.6	83.6	93.9
Reduce fish consumption	86.1	79.5	93.1
Reduce fruit consumption	85.9	78.6	93.7
Increase greens and legumes consumption	79.2	70.7	88.5
Reduce children's daily allowance	62.5	53.2	72.6
Reduce other expenses	83.4	78.3	88.9
Reduce adult consumption for children's benefit	58.0	47.6	69.4
Land cultivation and animal breeding	11.6	16.8	6.0
Mortgage or sale of land/ house	1.2	1.4	1.0
Student family members joining labour market	5.1	5.9	4.2
Other family member joining labour market	8.7	9.3	8.0
Buy on credit	71.0	65.9	76.5
Postponement of due bills	83.5	80.9	86.3

Source: PCBS, 2006. Survey of Effect of Unilateral Israeli Measures on Economic, Social and Environmental Conditions of Palestinian families, 2006: Main Results. Ramallah, Palestine.

16. Results of Secondary School Certificate (Tawjihi)

78,608 students sat for the Secondary School Certificate examination during the 2005/2006 school year, 43,458 from the West Bank and 35,150 from the Gaza Strip. The percentage of female students was 49% of the total number in the Palestinian Territory. The success rate in the scientific

branch was 85%, the literary branch 62%, the vocational branch 59%, and private study 44%. Among female students the success rate was 71%, while among male students it was 52%¹¹

17. Obtaining Health Services¹²

Data reveal that 36.2% of Palestinian families have at least one member who suffers from a chronic ailment (37.4% in West Bank and 34.0% in the Gaza Strip). 44.2% of such families stated that they have difficulty obtaining medical treatment (45.9% in the West Bank and 40.9% in the Gaza Strip).

At the same time, 75.3% of Palestinian families stated that they needed medical services during the second quarter of 2006 (71.1% in the West Bank and 83.5% in the Gaza Strip). The overwhelming majority of those families were able to obtain medical care (91.7%), most of them (84.0%) the same day. Of the families which did not obtain medical care, 29.2% of them stated that they did not obtain it because of its non-availability in the area, 62.5% because they could not pay for it, 21.3% because of Israeli closures, and 16.1% because of the non-availability of medical staff.

18. Changes in the Characteristics of Poverty between 1998 and 2005

The PCBS published its report on poverty in the Palestinian Territory for the year 2005. Poverty data are based on the definition set in 1997 under the umbrella of the National Group for Poverty Alleviation, and allow the detection of changes in poverty in the Palestinian Territory during *Al-Aqsa Intifada* through comparison of data for 1998 and 2005. The choice of the year 1998 to represent the period prior to *Intifada* is due to the fact that the collection poverty data during that year uses the same methodology as for 2005, based on surveys of family spending and consumption.

18.1 Factors Affecting Changes in Poverty

Changes in poverty in the Palestinian Territory are affected by two major factors, the first being Israel's punitive measures against the Palestinians. Despite the fact that Israeli measures affected all groups and regions, they differ in intensity, form and duration, and the effect of closures on Palestinians will differ depending on their dependence for their livelihood on the Israeli market. The second factor is relief assistance, and the mechanisms resorted to by Palestinians to cope with the effects of the economic crisis resulting from the occupation. The assistance varies in effectiveness and coverage in different areas and for different groups.

18.2 Considerable Increase in Poverty Rates

Table 32 shows a considerable increase in poverty rates at the national level (45.3%) based on actual consumption and spending. The increase in poverty rates in the West Bank was higher than that in the Gaza Strip during the period 1998 – 2005. That is due, on the one hand, to the fact that the poverty rate in the Gaza Strip was already high, and, on the other hand, to the concentrated relief assistance activities in the Gaza Strip. It is expected that the picture will change during 2006, due to the total blockade still imposed on Gaza, the continuous widespread destruction wrought in its different parts, particularly since June 2006, and the dependence of a high percentage of its families (double the percentage of families in the West Bank) on income from their members in government employment, whose salaries have not been paid since March 2006.

¹¹ Home Page of the Palestinian Ministry of Education and Higher Education (www.mohe.gov.ps).

¹² PCBS, 2006 Survey of Effect of Unilateral Israeli Measures on Economic, Social and Environmental Conditions of Palestinian families, 2006: Main Results. Ramallah, Palestine.

Table 32: Consumption Poverty Rates in Palestinian Territory, by Region, 1998 and 2005 (%)

Region	1998	2005	% Change
North West Bank	18.3	22.5	23.0
Center West Bank	6.9	11.0	59.4
South West Bank	20.4	34.9	71.1
West Bank	14.5	22.5	55.2
Gaza Strip	33.0	43.7	32.4
Palestinian Territory	20.3	29.5	45.3

Source: PCBS, 2006. Poverty in Palestinian Territory 1998,2005: Report of Main Results. Ramallah, Palestine.

In the West Bank, consumption poverty rates considerably increased in the south and centre, although the poverty rate in the centre was much less than in the north and south. The considerable increase in south of the West Bank is largely due to its means of livelihood - agriculture, tourism and work in Israel – all of which have been particularly badly affected. In the north, in areas especially subjected to Israeli oppression, relief assistance may have had a big effect in reducing poverty.

18.3 Poverty Increases for Large Families

Comparing poverty rates for 1998 and 2005 according to family size, we note a decline in poverty rates among small families and an increase among large families (see Table 33). That is partly due to the fact that small families are often composed of groups targeted by the Social Support Programme, such as widows, orphans and unmarried women. We also note the spread of poverty among medium and large families, because of the loss of jobs and decline in income. It is expected that this trend will prevail during 2006, and will lead to a considerable increase in poverty rates of medium-sized families. This type of family is the most common among public-sector employees who stopped receiving their salaries.

Table 33: Poverty Rates in Palestinian Territory according to Family Size, 1998 and 2005 (%)

Family Size	1998	2005	% Change
1	27.5	16.5	-40.0
2-3	15.4	15.3	-0.6
4-5	12.9	20.1	55.8
6-7	15.7	28.5	81.5
8-9	22.4	36.3	62.1
10+	32.3	53.9	66.9

Source: PCBS, 2006. Poverty in Palestinian Territory, 1998 and 2005, Report of Main Results. Ramallah, Palestine.

18.4 Changes in Poverty Rates of Families with Many Children

Data revealed a decline in poverty among families during the period 1998 – 2005 which have no offspring, but an increase among families with many children (see Table 34). It is natural that the economic and social crisis should lead to an increase in poverty rates among families with high dependency rates, especially since regular assistance does not cover families with children of working age and the volume of assistance (such as unemployment allocations or temporary employment) is not linked to the number of dependents.

Table 34: Poverty Rates in Palestinian Territory by Number of Children in Family, 1998 and 2005 (%)

Number of Children	1998	2005	% of Change
0	20.0	19.0	-5.0
2-1	12.9	19.5	51.2
4-3	16.2	27.6	70.4
6-5	23.9	39	63.2
8-7	30.5	53.6	75.7
+9	33.6	67.5	100.9

Source: PCBS, 2006. Poverty in Palestinian Territory, 1998 and 2005: Report of Main Results, Ramallah, Palestine.

18.5 Change in Poverty Rates by Sex of Family Head

Data revealed a change in poverty rates according to the sex of family head during 2005 compared with 1998. Poverty rates among families headed by women were higher than those headed by men in 1998, but in 2005 the picture was reversed, and poverty rates among male-headed families were higher than those headed by women (see Table 35). This is due to the fact that regular and emergency assistance programmes targeted families headed by women more than they did families headed by men. However, this change is not permanent, and is linked to the conditions of the economic crisis.

Table 35: Poverty Rates in Palestinian Territory according to Sex of Family Head, 1998 and 2005 (%)

Sex of Family Head	1998	2005	% Change
Males	19.8	29.8	50.51
Females	25.6	25.0	-2.34
Both Sexes	20.3	29.9	47.29

Source: PCBS, 2006. Poverty in Palestinian Territory, 1998 and 2005: Report of Main Results, Ramallah, Palestine.

18.6 Change in Poverty Rates according to Educational Level

Table 36 shows that poverty rates were lower for higher educational levels during both years. Education improved employment opportunities, and thus reduced the possibilities of being exposed to poverty. It is expected that poverty rates will increase among educated persons during 2006, however, as government employees are mostly degree holders (post secondary level) and they are the group most affected by the salary crisis.

Table 36: Poverty Rates in Palestinian Territory according to Educational Level, 1998 and 2005 (%)

Educational Level	1998	2005	% Change
Nothing	27.8	41.4	48.9
Primary	20.5	35.2	71.7
Intermediate	20.1	30.0	49.3
Secondary	16.2	24.3	50.0
Medium Diploma	7.4	16.9	128.4
B.A and More	7.3	9.6	31.5

Source: PCBS, 2006. Poverty in Palestinian Territory, 1998 and 2005: Report on Main Results. Ramallah, Palestine

18.7 Continuous Increase in Poverty Rates According to Age of Family Head

Table 37 reveals that there are two groups (young and middle-aged) who are the most affected by the crisis and prone to become unemployed. The greatest increases in poverty occurred for younger-headed households. Poverty is widespread among older families, but they are targeted by various assistance programmes which minimise the possibility of further big increases of poverty among them.

Table 37: Poverty Rate in Palestinian Territory according to Age of Family Head, 1998 and 2005 (%)

Age of Family Head	1998	2005	% of Change
Until 24 Years	20.7	38.3	85.0
25 – 34	17.5	28.3	61.7
35 – 44	18.8	31.8	69.1
45 – 54	21.1	28.3	34.1
55 – 64	22.2	26.2	18.0
65 +	25.2	29.9	18.7

Source: PCBS, 2006. Poverty in Palestinian Territory 1998 and 2005" Report on Main Results, Ramallah, Palestine

18.8 Poverty Rates Increase among Participants in Labour Force

Data revealed a considerable increase in poverty rates among families headed by members of the labour force, compared with families headed by persons who are not (see Table 38). This is logical, as the latter had considerably higher poverty rates to begin with, and are also more likely to be targeted for relief assistance.

Table 38: Changes in Consumption Poverty Rates in Palestinian Territory according to Some Economic Data, 1998 and 2005

Changes	1998	2005	% of Change
Family Head Member of Labour Force			
Member of Work Force	18.6	28.4	52.7
Non-Member of Work Force	27.7	35.5	28.2
Main Source of Income			
Agriculture	24.7	50.4	104.0
Other Family Projects	16.6	27.1	63.3
Public Sector Salaries and Wages	18	22.9	27.2
Private Sector Salaries and Wages	21.9	32.6	48.9
Salaries & Wages from Israeli Sector	15.9	20.1	26.4
Other Sources	19.7	35.8	81.7

Source: PCBS, 2006. Poverty in Palestinian Territory, 1998 and 2005: Report On Main Results. Ramallah, Palestine.

18.9 People Engaged in Agriculture Most Affected by Crisis

Poverty rates increased among all groups, whatever their main source of income, but the biggest increase (104%) was among those engaged in agriculture. This is the result of low productivity and of being especially the victims of punitive Israeli measures. The increase in poverty rates was least among those employed by the Israeli economy and those employed by the public sector, but the picture is expected to change during 2006 after the suspension of salary payments.

Generally speaking, the crisis afflicting the Palestinian Territory since September 2000 deepened the state of poverty in all regions. However, as can be seen by comparing income poverty and expenditure poverty levels, regular and emergency assistance and the coping mechanisms resorted to by Palestinian families were responsible for raising the consumption by a big percentage of poor families above poverty line¹³. At the same time, data revealed the vulnerability of a considerable section of non-poor groups, especially those connected to public-sector employment. The collapse of the Palestinian Authority's ability to pay the salaries of its employees or to extend assistance, the suspension of foreign aid, and the continued Israeli blockade, threaten an economic catastrophe: a fall in consumption for most Palestinians to below the poverty line, and an inability to meet even their most basic need in terms of shelter, calories and clothing.

19. Israeli Measures

19.1 Killed and Wounded

Reports from the Palestinian Monitoring Group of the Palestinian Liberation Organization Negotiation Support Unit (PMG) indicated that cases of targeted assassination (extrajudicial killings) of Palestinian militants by Israeli forces increased by 7 in the second quarter of 2006, bringing the total to 21. The number of others killed increased by 27, reaching 84 persons, and the number of wounded increased to 679 during the second quarter of 2006, from 427 persons in the previous quarter.

19.2 Obstacles Hindering Movement and Transport

The PMG counted 1,345 flying checkpoints (temporary roadblocks) in the West Bank during the second quarter of 2006, an increase of 168 compared with the previous quarter. The number of total closures of crossing points with Israel increased from 215 times to 296 during the same period (98 were closures of international crossing points). Curfews in different communities were declared 42 times during the same period. In addition, there are many permanent roadblocks set up to divide the Palestinian Territory. Dealing with Palestinian citizens at those roadblocks is similar to that at border crossings – this is true at the Qalandya crossing point, situated at the entrance to Jerusalem, the Za'tara crossing point in the north of the West Bank, Hawara south of Nablus and the Qonteiz crossing point leading to Bethlehem and Al-Khalil. These effectively divide the West Bank into isolated cantons.

19.3 Attacks against Educational and Health Sectors

There were 24 cases of attacks against the Palestinian educational sector during the second quarter of 2006. These included raids on schools, and delaying teachers and students at crossing points or preventing them from reaching their schools.

¹³ The poverty rate according to family income in the Palestinian Territories in 2005 was 51.5%, while the poverty rate according to actual consumption and spending was 29.5%.

As for the health sector, PMG reports 25 attacks during the second quarter of 2006. These included the obstruction of ambulances, beating or shooting at ambulance teams, bombardment of hospitals, hospital raids, and arresting wounded persons.

19.4 Attacks against Infrastructure and Demolition of Homes

The targeting of Palestinian public and private property by the Israeli occupation authorities continued. During the second quarter of 2006, 14 homes were demolished. The occupation forces also occupied 124 houses and used them for military purposes for different periods. PMG recorded 259 attacks against Palestinian infrastructure, mainly in the Gaza Strip. They included the destruction of bridges, power stations, water pumping stations and networks, agricultural land and workshops.

19.5 Settlement Activities and Attacks by Settlers

Settlement activities continued in the Palestinian Territory. The PMG recorded 56 incidents during the second quarter of 2006, which included confiscation of land, uprooting trees for the purpose of building the separation wall, building new settlement enclaves, extending and broadening roads benefiting settlements, announcements of tenders to build housing units in Israeli settlements, and the confiscation of land for military purposes.

Attacks against Palestinians citizens and their property by Israeli settlers also continued, with 75 such cases recorded during the second quarter of 2006. They included running over children in cars, kidnapping children, beating Palestinian citizens, chasing shepherds and farmers and threatening them with death, uprooting trees, destruction of land, and throwing stones at passing Palestinian cars.

19.6 Palestinian Prisoners in Israeli Jails

The Statistical Report issued by the Ministry of Detainees' Affairs concerning the conditions of Palestinian prisoners indicated that arrests of Palestinian activists by Israel rose during the second quarter of 2006, with occupation forces incarcerating 450 Palestinians.

The number of Palestinian prisoners in Israeli jails reached 9,850 persons by mid-July 2006 according to data from the Ministry, among them 359 children and 105 women. Prisoners are distributed among 30 prisons and detention centres.