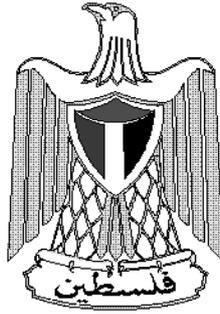




**Palestine Monetary Authority
(PMA)**



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



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

*Quarterly
Economic and Social Monitor*

Volume 17

September, 2009

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September, 2009

FOREWORD

This volume of the Economic and Social Monitor outlines the main economic and social developments in the West Bank and the Gaza Strip during the first quarter of 2009. It also highlights that the catastrophic effects of the Israeli war on the Gaza Strip (27 December 2008 – 18 January 2009) are still ongoing, especially considering the fact that Gaza remains under siege. In contrast, the first quarter of 2009 witnessed relative improvements in economic performance in the West Bank, indicated by an increase in GDP from 2008.

The ‘special topics’ chosen for this volume cover the results of a governance survey conducted by the PCBS in the West Bank and the Gaza Strip. Also, this issue presents a statistical analysis of the educational and social conditions of Palestinian children under occupation. Three focus boxes are included in this issue. The first exposes the development of Jewish settlements in the West Bank and the controversy currently surrounding this matter, the second box presents the main results of a seminar held at MAS that discussed the PCBS and IMF’s different forecasts of national accounts. Finally the third box presents an extensive analysis of the PNA’s budget for the year 2009.

A section titled "*economic issues*" aims to explain the meaning, dimensions and developments of certain economic concepts and theories. In this volume the section, "*economic issues*", discusses the concept of economic growth and in particular the ‘sources of growth’.

We would like to reiterate our commitment to our readers and warmly welcome any feedback. We also wish to thank the teams in the three organizations (PMA, PCBS and MAS) that prepared this monitor.

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Executive Summary

Economic activity: Palestinian GDP witnessed an overall increase of 3.8% in the 1st quarter of 2009 compared with the 4th quarter of 2008. Consequently, GDP per capita also increased, by 3.1% over the same period.

Labor market: Labor force participation in the 1st quarter of 2009 remained at the level of the 4th quarter of 2008: 41.4%. Unemployment decreased, reaching 25.4%. Average daily wages decreased by 4.1% in the 4th quarter of 2008 in the West Bank (WB) while increasing by 1.6% in the Gaza Strip (GS). Vacancies advertised in newspapers decreased by 26.2% when compared to the previous quarter.

Public Finance: Government revenues totaled \$334.9 million in the 1st quarter of 2009, 33.2% of which were domestic revenues. Total public expenditure increased by 15.3% to \$712.4 million in the 1st quarter of 2009 compared to the previous quarter.

Banking developments: Credit facilities formed 32% of total bank deposits during the 1st quarter of 2009. Credit facilities increased by less than 1%, reaching \$1.8 billion. In comparison with the 4th quarter of 2008, banks' assets remained relatively constant in the 1st quarter 2009, at around \$7.6 billion.

Palestine Securities Exchange: The Al-Quds (Jerusalem) index witnessed an increase of 16.5% in the 1st quarter of 2009 compared to the previous quarter. Excluding the insurance indicator, all the PSE indicators increased during the 1st quarter. 91.2 million shares were traded, with a value of \$189 million. The Market Capitalization of listed companies increased by 14.3%, to \$2.4 billion.

Prices and purchasing power: The Consumer price index (CPI) decreased during the 1st quarter of 2009 compared to the previous quarter with prices falling by 2.15% and 1.32% in the remaining WB and Jerusalem, respectively. In the same period, prices increased in the GS by 0.74%.

Tourism: At the end of the 1st quarter of 2009, 117 hotels were operating in the West Bank

and Gaza Strip (WBGS). There were 69,380 visitors during 1st quarter of 2008, 50.6% of whom spent a night in Jerusalem.

Company Registration: The number of companies registered in the 1st quarter of 2009 significantly increased in the WB, by 58.2% to 454 when compared with the previous quarter. Since November 2007, no companies have been registered in the GS.

Building Licenses: The number of building licenses in the WB decreased during the 1st quarter of 2009 by less than 1% compared to the parallel quarter in 2008. The number of licensed dwellings in the WB increased by 17.5%, to that of the equivalent quarter of 2008. Since the 1st quarter of 2008, there has been no available data for the GS.

Industry Expectations: 33.2% of owners and managers of industrial firms in the WBGS believed that their companies' overall performance improved during June 2009, compared to the previous month. According to 82.5% of the owners and managers of industrial firms in the WBGS employment remained constant during June.

Israeli Measures: During the 2nd quarter of 2009, 23 Palestinians were martyred, 272 were injured and 878 were arrested. In the same period, crossing points between the WBGS and Israel were fully closed 379 times and the number of temporary military checkpoints in the WB increased by 13.3%, to 1,280. There were 18 settlement activities during the 2nd quarter of 2009.

Demographic reality: At the end of 2008, the total number of Palestinians in both the Palestinian Territories and the Palestinian Diaspora was estimated at 10.6 million. This means that the number of Palestinians has increased seven fold since Al-Nakbah in 1948. Of Palestinians living in the WBGS, 43.6% were refugees at the end of 2008. According to UNRWA's records, there were 4.7 million refugees, forming 44.3% of the total Palestinian population.

Governance: The PCBS governance survey of the 4th quarter of 2008 revealed that 86% of the Palestinians in the WBGS believe that Palestinian judges make their rulings objectively and independently (86.8% in the WB and 83.9% in the GS). 40.9% of Palestinians feel secure while 29.7% feel very insecure.

Child: Results from the Palestinian labor force survey for 2008 show that 3.7% of children in the WBGS are working, with or without payment (5.3% in the WB and 1.2% in the GS).

Settlements: The number of Israeli settlements in the WB reached 144 at the end of 2008. Preliminary estimates show that the

number of settlers in the WB had risen to around 500,000 by the end of 2008.

The apartheid wall: The last statistics of PCBS show that the apartheid wall devours around 13% of the WB. It is expected that the total length of the wall will reach roughly 770 km after completion. 409 km have already been built and 113 km are currently under construction. The remaining 248km are planned to be built in the future.

Health conditions in the WB: At the end of 2008, there were 2,941 doctors registered on the Medical Association' records in the WB. There were 0.8 doctors per 1,000 patients at the end of 2008 in the WB.

1. The Monitor Outlook

The Israeli aggression in the Gaza Strip which came to a halt on January the 18th 2009 left behind thousands of dead and injured civilians, including women and children. Tens of thousands of people lost their houses and became homeless and widespread destruction affected all aspects of public and private life. No improvement in the general condition of the Gaza Strip has been made since that date and the Israeli siege continues, causing dire economic conditions and the ensuing human suffering. Additionally, relief and reconstruction operations have not been extended as promptly and rapidly as needed despite the \$4 billion pledged by donor countries at the Sharm Al Sheikh conference, convened to discuss financing reconstruction operations and held on March 2nd 2009. Moreover, the attempts to achieve reconciliation among Palestinian factions and regain Palestinian unity failed in spite of the repeated meetings, organized by the Egyptian Government, between all Palestinian factions. In light of some major developments that took place at the regional and international levels, the risks of national fragmentation continue to grow and continue to directly affect conditions in Palestinian. These developments are partly the consequence of three factors:

✧ The replacement of the republican administration in the United States headed by George Bush by a new Democratic administration headed by Barak Obama on 20th January 2009. Since the outset, this administration declared that achieving peace in the Middle East and ending the Arab-Israeli conflict based on the two-state solution is among its priorities. This administration has affirmed that it will follow an approach different to that of the previous administration. It will communicate with all parties and engage directly with the negotiation process in order to reach this goal. This willingness to participate in the peace process has been manifested by the appointment of George Mitchell by the new President, who, in previous years, led the negotiations that culminated in the end of the conflict in Ireland and acted as a special envoy to the Middle East.

✧ The convention of the Economic and Development Arab Summit in 19-20 January 2009 where reconciliation was made between the so-called Arab moderate countries and the so-called rejection countries. This has been followed by a tangible improvement in Saudi-Syrian bilateral relations, positively reflecting on the conditions in the Arab countries. Reconciliations among various Arab countries continue, matching up with the new trend in American policy.

✧ On the 10th February 2009, the Israeli elections resulted in the conquest of the extremist right wing party 'Yisrael Beiteinu' (Israel our Home), with the leadership of Avigdor Lieberman. The party was ranked third behind 'Kadima' and 'Likud', the two right wing parties. The labor party declined to the fourth position. The new Israeli government that has been formed consisting of 30 ministers was described by Uri Avnery, the Israeli journalist, as being 'rightists, religious fanatics, and fascist settlers'.¹ Netanyahu, the Israeli Prime Minister pinpointed the priorities of his government when he affirmed that there are three challenges facing Israel currently. The first of which is the Iranian threat; the second is the economic crisis while the third is the peace process. Netanyahu believes that progress in the peace process will be achieved by attaining 'economic peace' first. In this regard he talks about joint ventures with Arab countries such as the desalination of sea water and the utilization of solar energy. He also talked about the great opportunities for the Arab Gulf countries to invest in Israel and the Palestinian Territories.

The American envoy, George Mitchell, has started his activity in the area by attempting to implement the first stage of the Road Map. This initial stage stipulates that the Palestinian side refrain from all acts of violence against the Israeli occupation while Israel puts a halt to settlement expansion in the Palestinian Territories. As the Palestinian side had, for

¹ See 'Obama, Netanyahu and the Settlers' by Uri Avnery in Counterpunch, 28 July 2009.

sometime, stopped all acts of resistance, the American administration turned to Israel with the demand to cease settlement expansion in the West Bank. Nevertheless, Israel refused to abide with this request and the spokesmen for the Israeli government emphasized that the expansion in Jerusalem is justified because this is beyond the bounds of discussion as Jerusalem is part of Israel. Additionally, they consider settlement expansion in the West Bank as a 'natural expansion' (see box 1). Negotiations between the Israeli government and the American Administration are now going on to reach a solution agreeable for both parties. Not to be seen as pressuring Israel, the American administration resorted to demanding that Arab countries take steps towards normalization of their relations with Israel prior to the initiation of negotiations, as a convenient price for the halt of settlement expansion. However such a demand is not dealt with in the Road Map or in the Madrid peace agreements.

In spite of the huge challenges facing the Palestinian economy, the Palestinian political leaders are still unable to enter into a constructive political dialogue that could

rapidly heal the political divide and form a unity government for national salvation, capable of composing a national development program to achieve the following main objectives:

- ✧ Working seriously and extensively to break the siege on the Gaza Strip and the commencement of repair and reconstruction to alleviate the suffering of the displaced and distressed citizens through immediate humanitarian assistance.
- ✧ Rejoining the West Bank and the Gaza Strip economically and at the same time connecting the short term relief operations in the Palestinian Territories with a long term comprehensive development plan exercising professional transparency.
- ✧ Applying income policies to assist poor families to cope with the high cost of living that exists all over the Palestinian Territories.
- ✧ Pursuing industrial policies to assist the industrial sector to escape the deadlock that has been consolidated by the war, destruction and prolonged instability.

Box (1) Settlement Terminology, Facts and figures

Building Jewish settlements in the occupied Palestinian territories has demonstrated, since 1967, a classic example of Israeli methods in creating new facts on the ground to achieve its goals in geographic and demographic expansion. Among these methods is the creation of an environment surrounding the settlement process in which the national, legal, military, religious and geographic dimensions are entangled with the political. Israel does not only create facts on the ground but also make them complicated, entwined and difficult. Many new terms emerged from this complicated setting throughout the years such as 'settlement blocks', 'illegal settlements', 'natural growth' and 'national consensus'. In this area, the following remarks are recorded:

- ✧ With respect to international pressures, Israel often dismantles the so-called 'illegal settlements' which are not actual settlements but a few temporary wooden houses. By this, Israel tries first to show the Israeli government as a cooperative government that observes the international community's wishes and does not sponsor settlement activities. Secondly, Israel attempts to establish the idea that there are legal as well as illegal settlements. For instance, the Israeli government undertook an intensive operation to expand the building of settlements surrounding Jerusalem immediately following the Annapolis Conference on the 27th November 2007. This was in absolute contradiction with the conference resolutions. However, the Israeli government spokesmen did not see this blatant contradiction and claimed that this expansion was carried out in the area surrounding what they call 'settlement blocks' which enjoy, according to their expression, a 'national consensus'. In other words, there is an Israeli consensus regarding the right of Israel to keeping these settlements as an integrated part of Israel, the matter that grants a legal status to these 'settlement blocks' as per the Israeli logic.
- ✧ When the Israeli government is obliged to give in to the American demands and halt settlement expansion for some periods, it declares that it will not allow any expansion outside that required by the 'natural growth' in existing settlements. An Israeli journalist noted that the term 'natural growth' 'has

nothing to do with the real natural growth in population but is a broad and loose term that is associated with 'geographic', 'religious' and 'national' issues.² Official statistics published by the Palestinian Central Bureau of Statistics (PCBS) show that the natural growth among the Jewish population in Israel is 1.6% annually and 2.6% among the Arab population in Israel. The natural growth of the Jewish population in the West Bank settlements is double the natural growth of the Jewish population in Israel and even bigger than that of the Arab population in Israel, reaching 3.2% a year. For example, the same number of housing units (around 2,200 apartments) was been built in each of the settlements in the West Bank, Jerusalem and Java in 2006. Figures show that the natural growth among the Arab population in Jerusalem requires the construction of 1,500 new housing units each year, but the municipality did not allow for the building of more than 400 units a year during the period of 1992-2001. Also, the Israeli authorities did not permit the building of more than 91 new housing units in areas labeled as 'C' in the West Bank during the years 2000-2007 covering less than 5% only of the requests submitted by the population in those areas during this period. This demonstrates the double standard of Israeli settlement policy; by assisting the Israeli settlers in building expansion to the maximum extent possible; by preventing the Arabs from building expansion, keeping it within the least possible limit.

In view of this, we conclude that there are two facts that enlighten all aspects relevant to the settlement issue. The first fact affirms that the Jewish settlements in the Palestinian Territories, occupied by Israel in 1967, lie beyond all ideological disputes among factions comprising the main discourse in Israeli policy. The table below illustrates that the average annual increase in settler population in the West Bank (including Jerusalem) has amounted to over 7.7% during the past two decades; the highest population increase in the world. It means that the population doubles once every 13 years. The second fact is about the strong reciprocal relationship existing between settlement expansion and the peace process in the Middle East. The table also shows that the number of settlers in the West Bank (excluding East Jerusalem) was less than 10 thousand prior to the signing of the Egyptian-Israeli peace agreement in 1979. After 8 years, the number of settlers had risen to more than 60 thousand with a 60% increase on an annual basis. Furthermore, the settlement pattern accelerated after the signing of the Oslo Agreement between Israel and the Palestinian Liberation Organization (PLO) in 1993. The number of settlers increased by 86.3% in the West Bank (including Jerusalem) during the years 1993-2008 at an annual rate of 5.4%.

Jewish Settlement in the Palestinian Territories

Year	Remaining West Bank*	Jerusalem	Total
1978	7,635	Not Available	Not Available
1986	60,766	Not Available	Not Available
1988	73,403	117,550	190,953
1993	122,320	146,436	268,756
2000	205,113	173,986	379,099
2003	237,977	181,425	419,402
2006	274,885	190,534	465,419
2008	302,212	198,458	500,670

Source: PCBS, Israeli Settlements in the Palestinian Territories: Statistical Annual Report, various years.

* The West Bank excluding that part of Jerusalem that was annexed by Israel following 1967.

² See 'What about the Arabs' Natural Growth?' by Akiva Eldar, Haaretz, 12 June 2009.

2. Economic Activities

The Palestinian economy in the West Bank and Gaza Strip is still suffering from the crisis that started at the beginning of this decade and has been exacerbated in the past three years. The Palestinian economy is still suffering from a resource gap (see table 1) and the Palestinian Authority is still dependant on the assistance of donor countries to pay the wages and salaries of its employees. Also, the number of the unemployed is still over a quarter of the

labor force. A slow improvement occurred at the beginning of this year as the preliminary figures for the 1st quarter indicate a rise in the GDP per capita compared to the 4th quarter of the previous year. Also, the unemployment rate did not rise in the 1st quarter of the year, as it did in the year before, but anchored around the average of 25.4%, which is a little below the 2008 average of 26%.

Table 1: Distortion Indicators in the Palestinian Economy In 2007

Indicator	Percentage %
Consumption/ GDP	119.0
Import surplus*	34.7
PA Budget Deficit	27.8

Source: The previous ratios were calculated based on the data from the PCBS (National Accounts Statistics, 2008) and the data from the Palestinian Ministry of Finance (Financial Operations Report, 2007).

* Import surplus= (Import-exports)/GDP

** Budget Deficit= (expenditures-revenues)/GDP

Generally speaking, it can be said that the relationship between the size of the Gross Domestic Product and the changes in the percentage of unemployment in the past years point out that the possible growth under the current conditions is a jobless growth, i.e. it is not accompanied with rising employment. For instance, the considerable rise in unemployment in 2008 was not caused by a decline in the GDP. Rather it was a result of the distortion on the aggregate economy level, for the growth in GDP was not accompanied with a growth in employment as the economic activities rotated largely around consumption of imported commodities (mostly from Israel), financed by transfers from abroad and foreign assistance. The size of gross investment in 2007 was less than 30% of the GDP whereas the size of total consumption was larger than the GDP size by 20% (see table 2 in the annex).³

The negative effects of this distortion become obvious when the average GDP per capita over the last 8 years is compared to its level in

1999, as the Palestinian individual has lost more than one third of his income by the end of 2002. After that, the Palestinian economy started to regain part of that loss in 2003, until the losses decreased to about 14% by the end of 2005. However, the decline came back again starting in 2006 until the GDP per capita went down nearly all the way to less than the 2002 level (see table 1 in the annex). The sharp fall in the last number of years becomes clear when we compare the average Palestinian GDP per Capita to that of four neighboring countries. While the Palestinian GDP per capita equaled more than 164% of its level in Syria in 2000, it decreased to 82% of that average in 2007. In the same sequence, while the Palestinian GDP per capita equaled 88% of its level in Jordan in 2000, it dropped to half the Jordanian GDP per capita in the year 2007 (see table 2).

³ The annex comprises of the main economic indicators in the Palestinian Territories during 1994-2008.

Table 2: The Ratio of the Palestinian Income /Capita compared to its Level in Neighboring Countries (%)*

Country	2000	2005	2007
Egypt	108	97	91
Jordan	88	49	51
Syria	164	86	82
Lebanon	35	22	25
Israel	8.8	6.2	6.6

Source: These ratios were calculated based on the data from 'World Development Indicators, 2008.

* The average income per capita is the share of the individual from the country's Gross National Income GNI.

It goes without saying that the decline in economic activities is an understandable result of the oppressive Israeli occupation and its measurements that established distressing conditions of daily sufferings. Israel continued to impose its total land and sea siege on the Gaza Strip which crippled the trade movement and brought production to a halt creating catastrophic levels of unemployment and a sweeping wave of poverty as well as deteriorating health services. The recent World Bank Report indicates that while the number of industrial establishments in the Gaza Strip was around 3,900 employing 35,000 workers in June 2005, the number dropped to no more than 200 establishment employing 1,900 workers in December 2007. The report also shows that the Israeli conduct did not change despite the complete halt in resistance acts in the West Bank and the success of the PA in enforcing its full control over areas classified as 'A'. Israel continued with the siege policy and maintained the barriers and check points during 2008. In February 2009, the number of check points reached 580 amounting to 611 in April and 630 in September of the same year.⁴ At the same time, the Israeli army continued with its practices of killings, detentions, incursions, house and property demolitions and trees uprooting in addition to dispersing hundreds of military check points both fixed and mobile and imposing curfews on many areas as well as occasional closures of border crossings.

It must not occur to someone's mind that the difficulties facing the Palestinian economy in the West Bank and Gaza Strip are simply the accumulations just caused by the decline during the 8 past years. Actually, what occurred in the past 8 years is a distinctive and evident demonstration of the distortions and imbalances in all aspects of the Palestinian economy as a natural result of the restrictions imposed by the Israeli policies for as long as four decades. It is well-known that these policies succeeded in turning the Palestinian economy into an economy that is mainly dependent on external sources of income generation (the income of workers in Israel and Israeli settlements, and the income of Palestinian workers in the Arab Gulf states). This economy also suffers from substantial distortions represented in Israel's control over a significant proportion of the Palestinian natural resources (land and water); sectoral imbalances (i.e. the huge decline in the contribution of agriculture and industry in the GDP); the total dependence of Palestinian exportation, importation and employment on Israel; and the very low level of productive investment and social services. In order to understand the nature of the current difficult situation, it is necessary to review the political and economic developments that have taken place in the Palestinian arena since 1994 when the PNA took over the economic inheritance of the Israeli occupation.

The achievements of the PNA during the period of limited self autonomy (1994-2000) with regard to dismantling the economic inheritance of the Israeli occupation were

⁴ World Bank: Economic Monitoring Note for the West Bank and Gaza. 30 April 2009.

limited and weak. This was due to various reasons; some are related to Israel and its non-compliance to the implementation of the agreements it signed with the Palestinians. There were also other reasons that pertain to the structure of the PNA and its incapacity to establish a rational bureaucracy far from corruption, which is able to formulate and implement a comprehensive national program for reconstruction and development. Nevertheless, the partial achievements of the PNA contributed to the repair of some important infrastructure facilities. This was seen particularly in the expansion of the aspects of social services, and in encouraging the Palestinian Diaspora capital to invest in the PT, especially in the sectors of communication, construction, tourism, and services.

However, most of these achievements stopped due to the oppressive Israeli measures accompanying the outbreak of the *Al-Aqsa Intifada* in late September 2000. The two years that followed (2001 and 2002) witnessed a large deterioration in economic activities due to the practices of the Israeli army in incursions, closures, killings, house and property demolitions, and curfews that lasted for many weeks in the West Bank towns.

Towards the end of 2003, this deterioration in the economic activities receded, while 2004 and 2005 witnessed high growth rates. It was expected that this growth would continue in a way that economic activities would recover to their 1999 levels. However, 2006 witnessed a sharp deterioration due to the international boycott imposed on the Palestinian National Authority government that had been formed by the Islamic Resistance Movement Hamas after winning the Palestinian Legislative Council elections. Consequently, Israel refrained from transferring the clearance revenues to the PNA (tax and customs revenues that Israel collects on behalf of the PNA). This resulted in the deprivation of the public sector employees from receiving their monthly salaries for many months. In addition to this, the international boycott had also prevented the banks from transferring Arab and international assistance to the Palestinian Ministry of Finance. The deterioration was very sharp in 2006 and the GDP per capita declined by 8% as compared to its 2005 level, (falling to 79% of pre-*Intifada* level). This decline continued in 2007 and 2008 (see the annex that illustrates changes on the national accounts during the years 1994-2008)

Table 3: Economic Growth and Employment in the Remaining West Bank* and Gaza Strip in 2008 quarters and 1st quarter of 2009

Indicator	1 st Quarter** 2008	2 nd Quarter** 2008	3 rd Quarter** 2008	4 th Quarter** 2008	1 st Quarter 2009
GDP (USD million)	1,126.9	1,187.6	1,180.2	1,145.0	1,189.5
GDP/Capita (USD)	316.7	331.4	326.9	314.9	324.8
Average Growth Rate of GDP/Capita (%)	0.03	4.6	(1.4)	(3.7)	3.1
Unemployment Rate (%)	22.6	25.8	27.5	27.9	25.4

Source: PCBS 2009, National Accounts Statistics, Ramallah, Palestine.

* The remaining West Bank is the West Bank excluding that part of Jerusalem governorate that was annexed by Israel following Israel occupation of the West Bank in 1967.

** National accounts figures are preliminary and subject to modification.

- GDP and GDP/Capita and average growth rate of GDP/Capita figures are in constant prices and the base year is 2004 and its for the rest of the West Bank and Gaza Strip.

- Figures in brackets indicate negative value.

This substantial deterioration reflects the specific characteristics of the economies of countries that suffer from conflicts, crisis, and long term instability. Such countries may have some of the following characteristics:

✧ Rising and high unemployment and poverty rates greatly endangering the social fabric. During the second half of 2007 a sharp rise in the prices of consumption items took place and persisted during the first three quarters of 2008, threatening the Palestinian

economy by sliding down into stagflation. This comes at a time of prevalent instability internationally due to the international crisis which started with a crisis in the American stock market and spread soon to international stock markets affecting all aspects of economic activities. However, the rise in prices began to cease during the past few months.

- ✧ Substantial distortions in the economic structure manifested in the decline in the contribution of the productive sectors (agriculture and industry) to GDP. A transformation in the industrial base occurs

in favor of low-wage and low-productive activities.

- ✧ A large amount of workers transfer from the formal to informal sector
- ✧ Some established businesses move to neighboring countries and local capital is invested abroad.
- ✧ Internal migration towards Ramallah area and the immigration of the qualified abroad (brain drain).
- ✧ Income and consumption inequality worsens in favor of the wealthy with increasing marginalization and exclusion processes.

Table 4: Main Economic Indicators in the Remaining West Bank* and Gaza Strip for 2008 Quarters and the 1st Quarter of 2009 (USD Million)

Indicator	1 st	2 nd	3 rd	4 th	1 st
	Quarter	Quarter	Quarter	Quarter	Quarter
	2008	2008	2008	2008	2009
GDP (constant prices) **	1,126.9	1,187.6	1,180.2	1,145.0	1,189.5
GDP per capita (constant prices)	316.7	331.4	326.9	314.9	324.8
Labor force participation rate (%)	40.6	41.6	41.6	41.4	41.4
Unemployment rate	22.6	25.8	27.5	27.9	25.4
Inflation rate (%)	2.71	3.15	1.83	0.20	(1.01)
Total Net Revenues	334.9	587.3	554.8	302.9	334.9
Public revenues	783	808.0	1,064.0	618	712.4
Surplus/Deficit before support	(447.9)	(220.7)	(509.0)	(315.2)	(388.6)
Surplus/Deficit after support	77.7	189.5	(33)	36	(110.3)
Actual Foreign Disbursed Assistance	525.6	410.4	476.1	351	278.3
Bank Deposits by residents	5,424.7	5,599.0	5,873.6	5,846.9	5,772.5
Credit facilities extended	1,773.8	1,747.2	1,807.5	1,828.2	1,842.9

Source: The Palestinian Central Bureau of Statistics-PCBS (National Accounts Statistics, Price Indices), Palestine Monetary Authority-PMA (Public Finance Indicators, Banking Indicators).

* The remaining West Bank is the West Bank excluding that part of Jerusalem governorate that was annexed by Israel following Israel occupation of the West Bank in 1967.

** Figures are in constant prices for the remaining of the West Bank and Gaza Strip and the base year is 2004 and these figures are preliminary and subject to modification.

*** Inflation rate was calculated by comparing the average consumer prices for a given quarter with the average of the previous quarter. The base year for the CPI is 2004 (2004=100) given that the West Bank figures include East Jerusalem.

- Numbers in brackets indicate negative value.

During the past few years, a decline took place in the contribution to GDP by the productive sectors such as manufacturing industry and construction whereas the contribution of the services sector showed improvement specifically the commercial services. Table 5

below demonstrates the decline in the contribution of the agricultural and industrial sectors to GDP during the 1st quarter of 2009 compared to the previous quarter in contrast with the rise in the contribution of the services sector by 2.7% for the same period.

Table 5: The Contribution of Economic Activities in the GDP in the Remaining West Bank* and Gaza Strip for 2008 Quarters and the 1st Quarter of 2009 in Constant Prices: 2004 base year (%)

Economic Activity	1st Quarter 2008	2nd Quarter 2008	3rd Quarter 2008	4th Quarter 2008	1st Quarter 2009
Agriculture and Fishing	4.6	5.1	4.2	4.4	3.5
Mining, Manufacturing Industry, Water and Electricity Supplies	13.8	13.3	13.4	14.1	13.9
Mining and quarrying	0.4	0.4	0.3	0.3	0.4
Manufacturing	9.9	9.5	9.7	10.2	10.0
Water and Electric Supplies	3.5	3.4	3.4	3.6	3.5
Construction	4.6	5.4	4.6	5.0	5.3
Retail and Wholesale	10.9	10.5	10.7	11.2	10.4
Transportation, storage and telecommunication	9.5	7.7	9.4	9.0	9.3
Financial intermediation	5.1	5.2	5.4	5.8	5.6
Services	24.0	26.3	24.4	26.2	26.9
Real estate, rental and commercial services	8.9	9.6	8.5	9.1	10.9
Communal, social, and personal services	1.8	1.7	1.5	1.5	1.8
Hotels and restaurants	2.0	2.3	1.9	2.5	1.4
Education	8.9	9.9	9.6	10.2	10.0
Health and social work	2.4	2.8	2.9	2.9	2.8
Public administration and defense	15.1	13.6	13.7	13.3	13.9
Domestic services	0.1	0.1	0.1	0.1	0.1
<u>Subtract:</u> financial intermediation (with indirect clearing)	(5.6)	(5.6)	(5.7)	(5.8)	(5.2)
<u>Add:</u> Customs fees	5.6	5.8	6.9	6.2	6.3
<u>Add:</u> Net VAT on imports	12.3	12.6	12.9	10.5	10.0
GDP (%)	100	100	100	100	100
GDP	1,126.9	1,187.6	1,180.2	1,145.0	1,189.5

Source: PCBS, 'Quarterly National Accounts Statistics', various issues.

* The remaining West Bank is the West Bank excluding that part of Jerusalem governorate that was annexed by Israel following Israel occupation of the West Bank in 1967.

- Figures are preliminary and subject to modification.
- The contribution of the publicly-owned enterprises in the GDP has been distributed on retail & wholesale, real estate, rental, commercial, education, restaurants and hotels activities.
- Numbers in brackets indicate negative value.

Box 2

Economic Forecasts and the Palestinian Economy: Ways to Calculate the Gross Domestic Product GDP

The International Monetary Fund IMF and the Palestinian Central Bureau of Statistics PCBS have published economic forecasts for the Palestinian Territories for the year 2009. Those forecasts have revealed significant differences between the two parties, particularly those related to GDP which varied between minus 7.8% and plus 5%. To examine the reasons behind this disparity, the Palestine Economic Policy Research Institute (MAS) convened a seminar end of June 2009 entitled 'Methods for calculating GDP and forecasts for the Palestinian Economy' with the participation of representatives from the PCBS, IMF Palestinian Monetary Authority (PMA), and Palestine Development and Investment Limited PADICO, the biggest among private sector companies, besides a number of MAS researchers.

The workshop discussed two issues; the first relates to how to collect data and the second relates to the formulation of forecasts using the available data. As for the first issue, enquiries were directed to the PCBS regarding the accuracy of the data collected as the PCBS do not usually supervise the methodology of data collection and registration at various ministries and institutions. The PMA indicated that they face

difficulties in attaining the balance of payment data especially those for Jerusalem. At the same time, the IMF pointed out that the PCBS is their sole source for raw data needed to calculate economic forecasts and projections. However, the IMF undertakes modifications and adaptations in view of IMF valuation of data authenticity.

Regarding the second issue, it has been realized that each of the PCBS and the IMF employ different forecasts scenarios. While the PCBS applies 3 scenarios (the baseline scenario, the optimistic and the pessimistic scenarios), the IMF applies 2 scenarios (the baseline and the pessimistic). It also became obvious that the optimistic scenario adopted by the PCBS to make assumptions and prospects about the Palestinian economic conditions corresponds with the baseline scenario adopted by the IMF. Thus, GDP growth assumptions for 2009 amounted to 5% using the IMF baseline scenario and 3.2% using the PCBS optimistic scenario. On another note, the baseline scenario adopted by the PCBS and the pessimistic scenario adopted by the IMF are to a great extent concurrent in their assumptions. The expectations for GDP growth came close to a 'zero' utilizing the IMF pessimistic scenario and to minus 3.1% according to the PCBS baseline scenario; whereas, the least optimistic scenario adopted by the PCBS had shown growth prospects of minus 7.8% with no IMF scenario compared to this. As for the World Bank, their representative informed MAS in writing that they stopped issuing the growth estimates for the Palestinian Territories and are now relying on the IMF and PCBS estimates.

It is worth noting that in addition to forecasts variations, there is also a problem of the inconstancy of historical national accounts data issued by each of the PCBS and the IMF. For example in 2007, the reported GDP was US\$ 4672.3 million in current prices according to the PCBS and US\$ 5204 million according to the IMF with over half a billion difference.

The representative of PADICO expressed his concern on behalf of the investors and businessmen with regard to the negative effect on investment decisions and the attraction of foreign investment as a result of such contradictory expectations. He also noted that those pessimistic expectations are not compatible with the fact that many companies are making high profits in the Palestinian market. For example, the Palestine Telecommunication Company distributed part of 2008 profits on share holders at 25% of par value. In this context, PADICO representative suggested that the PCBS and IMF issue a joint quarterly report on growth rates. There was also a general trend in the workshop emphasizing the importance of holding comparisons among various expectations to evaluate their accuracy. It was also sought that this mission must be carried out by an independent institution like MAS.

It should be also noted that it is not a strange or unfamiliar phenomenon that high profits are incurred by a number of corporations despite the overall weak Palestinian economic performance. Such contradictions may coexist for a long period of time in economies that are characterized by imbalances and structural market distortions such as non competitiveness and lack of transparency.

3. Labor Market

The severe crisis from which the Palestinian economy suffers can be seen by the fact that the unemployment rate of 11.8% in 1999 was less than half its current rate of 25.4%. This rate does not accurately reflect the real conditions of the market however as it excludes the workers who lost their jobs and turned to unpaid work in family owned businesses. Moreover, the official unemployment rates do not include the discouraged workers who dropped from the labor market after they gave up any hope of finding a job. Figures show that the number of

discouraged workers increased in 2008 as the labor force participation rate (LFPR) declined from 42.7% in the 3rd quarter of 2007 to 41.4% in the 1st quarter of 2009 (see table 8 in the previous Economic & Social Monitor Vol. 16 and table 6 in this volume).

In a closer examination of the labor force market data it can be noticed that the rising indicators are those related to the size of the labor force and the unemployment rate whereas the labor force participation rate and workers productivity are declining. This

discrepancy means that the labor market suffers from chronic imbalances, reflected in the inability of demand to rise and meet the level of supply, which results in rising unemployment. The main reason for the inability of demand on labor force to meet supply is the deterioration in the size of the public demand on commodities and services (consumption, investment, public expenditure and exportation). In particular the weakness in economic activities and its inability to bring about sufficient capital accumulation capable of providing workers with the equipment and technology to raise their productivity, this explains the decline of the productivity level.

Understanding the Palestinian labor market, which is a reflection of the economic conditions in general, requires the understanding of the Israeli economic policies. These policies caused a wide gap between income and production in the Palestinian economy and thus created a continuous imbalance between demand and supply in the Palestinian labor market. The imbalance is caused primarily by two opposing mechanisms in Israel's economic policy. On the one hand Israel allowed Palestinian workers to work in the Israeli economy for higher wages than the Palestinian average, thus raising the standards of living and demand. However, on the other hand, Israel imposed restrictions on investment in productive sectors (agriculture and industry) which consequently impeded production growth to satisfy the increase in demand. The natural result of this has been the replacement of production with imports, in order to bridge the gap between demand and supply in commodity and service markets. Export of Palestinian labor force to Israel and the Gulf Countries labor markets have also replaced work in the local market in order to bridge the gap between demand and supply in the Palestinian labor market.

With the second Gulf War in 1991 the situation changed drastically as many Palestinians fled Kuwait and returned to the West Bank and the Gaza Strip. At the same time, Israel began to reduce the number of Palestinian laborers working inside the Green

Line and the settlements, for security reasons, and replaced them with a foreign labor force from Asia and East Europe.

From 1994-2000, the Palestinian labor market experienced some limited adjustment as the public sector began to expand and employ some of the excess labor force. Reconstruction projects encouraged the private sector to increase its investments in ways that expanded its capacity to employ more workers. In addition Israel allowed, in certain years such as 1998, 1999, and 2000, more Palestinian laborers to work inside the Green Line. With the eruption of the Al-Aqsa *Intifada*, the limited labor market adjustment process came to a halt. The labor market imbalance was exacerbated because of the vast decline in economic activity due to Israel's oppressive measures against the Palestinian people, namely: sieges, closures, construction of the Separation Wall. Added to this were the restrictions on the movement of persons and goods between the West Bank and the Gaza Strip and within cities and villages in these areas.

The average increase in manpower over the last nine years (1999-2008) was higher than the average increase in the labor force (3.6% and 3.5% annually). This indicates that labor force participation was declining. This has actually happened when labor participation declined by 0.1% a year (see table 7 in the Economic & Social Monitor Vol. 16). The average increase in the labor force (3.5%) was also higher than the average increase in employment (1.1%), indicating that the average unemployment rate was rising with an average annual increase of 10.5% (between 1999 and the 1st quarter of 2009).

In the following sections the conditions of the labor market will be analyzed by comparing the situation before the *Intifada* (1999) with that at the end of 2008. This will also be done by making a comparison between the 4th quarter of 2008 and the first quarter of the year 2009 in order to examine changes occurring in the labor market and its short and long term trends.

3.1 Labor Force and Labor Force Participation

The Labor Force Participation Rate (LFPR), i.e. the sum of employed and unemployed divided by the population of those aged 15 years and above, grew substantially during the early nineties. After registering an average of 40% in the eighties LFPR reached 44% in 1993. However, the local market's inability to absorb higher numbers of workers caused many to withdraw from the market. This led to a decrease in LFPR in the late-nineties when it reached 41.6% in 1999. LFPR dropped again during the early years of the *Intifada* period, reaching 38.1% in 2002 and then increased a little during 2003 and 2008, reaching 41.9% in 2007 before decreasing slightly to 41.3% in 2008.

During the 4th quarter of 2008 a slight decline was registered in comparison to the 2nd and 3rd quarters of the same year and remained stable during the 1st quarter of 2009. In spite of this, the number of those employed increased during the last eight years to reach 648,000 at the end of 2008, as compared to 588,000 in 1999. This rise is due to the increase in the size of the labor force coinciding with rapid population growth in the same period. However, this increase in the size of the labor force was accompanied with deterioration in workers' productivity.⁵

Table 6: Labor Force Participation Rate for Individuals Aged 15 Years and Over in the Palestinian Territories According to Place of Work and Sex: 2008 Quarters and 1st Quarter of 2009(%)

Region and Sex	1 st Quarter 2008	2 nd Quarter 2008	3 rd Quarter 2008	4 th Quarter 2008	1 st Quarter 2009
Both Sexes					
West Bank	42.3	43.5	43.4	42.8	42.8
Gaza Strip	37.5	38.0	38.2	38.8	38.9
Palestinian Territories	40.6	41.6	41.6	41.4	41.4
Males					
West Bank	67.5	68.0	69.4	68.3	68.5
Gaza Strip	63.3	63.2	64.0	65.4	63.8
Palestinian Territories	66.0	66.3	67.5	67.3	66.9
Females					
West Bank	16.5	18.2	16.9	16.7	16.5
Gaza Strip	11.3	12.0	11.9	11.7	13.5
Palestinian Territories	14.7	16.0	15.2	15.0	15.4

Source: PCBS (2009), Labor Force Survey, 2008-2009.

The increase in the labor force was accompanied with the following adjustment dynamics:

- ✧ The divergence between the LFPR of the West Bank and the Gaza Strip widened in comparison to the *pre-intifada* conditions, and, specifically in recent years, can be attributed to the tightening of the Israeli siege on the Gaza Strip (see table 6).
- ✧ There has been an important change along Sex lines. Although LFPR for males is, at present, less than its level prior to the

Intifada, female LFPR has risen, as increasingly women have entered the labor market to compensate for the lost income of their male relatives (see Table 8).

- ✧ Further changes are related to workers employment statuses. Table 7 below shows that the percentage of those employed in establishments they own or partially own, and which do not employ waged workers, increased substantially. This increase was accompanied by a decrease in the ratio of waged workers. This indicates that a

⁵ Given that the average increase of GDP is equivalent to the average increase of labor productivity added to the average increase of those employed, 1999-2007 figures illustrate that the GDP declined by an average of 1.1% a year while the number of those employed increased by an average of 1.5% a year indicating a decline in workers' productivity at an average of 2.6% a year.

considerable percentage of those who lost their work in Israel or in the private sector after the *Intifada* tended to be self-employed.

- ✧ Another change in the labor market was associated with the change of employment within economic sectors. A comparison of the LFPR in various economic sectors prior to the *Intifada* with those of the current

period highlights a large participation in the services sector and a slight increase in the agricultural sector. However, the participation rate in the construction sector was almost halved compared to the pre-*Intifada* level. Similarly, the labor participation in mining, quarrying and the manufacturing industry also declined (see Table 8).

Table 7: Percentage Distribution of the Employed Persons in the Palestinian Territories According to Employment Status, and Region 2008 Quarters and 1st Quarter of 2009(%)

Region and Work Status	1 st Quarter 2008	2 nd Quarter 2008	3 rd Quarter 2008	4 th Quarter 2008	1 st Quarter 2009
West Bank					
Employer	4.2	4.3	4.5	5.0	6.0
Self-employed	22.9	24.1	22.8	16.4	20.8
Wage employee	64.2	60.4	62.2	67.9	64.6
Unpaid family member	8.7	11.2	10.5	10.7	8.6
Gaza Strip					
Employer	2.9	3.3	4.6	3.5	5.3
Self-employed	27.3	16.9	15.7	12.0	14.9
Wage employee	58.5	71.3	73.3	79.0	73.7
Unpaid family member	11.3	8.5	6.4	5.5	6.1
Palestinian territories					
Employer	3.8	4.0	4.5	4.6	5.8
Self-employed	24.3	22.4	21.0	15.3	19.1
Wage employee	62.5	63.0	65.1	70.7	67.2
Unpaid family member	9.4	10.6	9.4	9.4	7.9

Source: PCBS (2009), Labor Force Survey, 2008-2009

It is natural that the most important adjustments during the *Intifada* were those pertaining to local market absorption of workers who lost their work in Israel. It soon became apparent that absorption was limited but larger in the West Bank than in the Gaza Strip. Therefore, the West Bank share of the total workers in the Palestinian Territories increased in 2008 by 18% compared to its *prior-Intifada* level while the Gaza Strip share

did not exceed 8%. The year 2008 witnessed an increase in the share of Palestinian workers in Israel and the settlements in comparison with 2007 from 9.4% to 11.6%, although this share was almost double prior to the *Intifada*. An increase to 28.4% in the ratio of workers in the Gaza Strip has been observed and a decrease to 10% in the ratio of workers in Israel and the settlements (see table 9).

Table 8: Distribution of Employed Persons in the Palestinian Territories According to Region and Economic Activity, 2008 Quarters and 1st Quarter of 2009(%)

Economic Activity and Region	1st Quarter 2008	2nd Quarter 2008	3rd Quarter 2008	4th Quarter 2008	1st Quarter 2009
Palestinian Territories					
Agriculture, Forestry, hunting & Fishing	12.9	14.9	12.7	13.0	11.7
Mining, quarrying and manufacturing	13.0	12.1	12.4	11.1	12.6
Construction	9.4	10.8	12.7	10.8	11.1
Services and other sectors	38.5	38.2	37.2	39.4	40.5
West Bank					
Agriculture, Forestry, hunting & Fishing	13.0	15.7	13.5	15.0	13.1
Mining, quarrying and manufacturing	16.2	14.5	15.0	13.9	15.4
Construction	12.7	14.1	16.8	14.2	15.1
Services and other sectors	32.8	30.9	29.1	29.8	31.6
Gaza Strip					
Agriculture, Forestry, hunting & Fishing	12.5	12.3	10.6	7.1	8.4
Mining, quarrying and manufacturing	5.5	4.6	4.8	2.7	5.6
Construction	1.6	0.4	0.7	0.8	1.0
Services and other sectors	52.0	61.4	60.7	67.9	63.0

Source: PCBS (2007), Labor Force Survey Database 1999-2008.

Table 9: Distribution of Employment in the Palestinian Territories According to Place of Work, 2008 Quarters and 1st Quarter of 2009 (%)

Place of Work	1st Quarter 2008	2nd Quarter 2008	3rd Quarter 2008	4th Quarter 2008	1st Quarter 2009
West Bank	59.0	65.3	62.4	62.9	61.6
Gaza Strip	29.8	23.9	25.5	25.0	28.4
Israel & Settlements	11.2	10.8	12.1	12.1	10.0

Source: PCBS (2009), Labor Force Survey, 2008-2009

3.2 Unemployment

The problem of unemployment is not new to the Palestinian economy. It reached 24% in 1996 then declined gradually to 11.8% in 1999. The problem was however aggravated during the period of the *AlAqsa Intifada*, with unemployment increasing to 31.3% in 2002. It then declined slightly by the end of 2003 as a result of the relatively improved economic activity, and reached 21.5% in 2007.

Unemployment increased again in the 1st quarter of 2008 until the 4th Quarter of the same year to twice its *pre-Intifada* level in 1999. In the same period, and as a result of the Israeli siege on Gaza Strip, unemployment rates soared up to 45.8%, the highest in the world and then decreased to 37.0% in the 1st quarter of 2009 (see table 11).

**Table 10: Unemployment Rate in the Palestinian Territories
According to Sex and Age Groups: 2008 Quarters
and 1st Quarter of 2009(%)**

Age group & Sex	1 st Quarter 2008	2 nd Quarter 2008	3 rd Quarter 2008	4 th Quarter 2008	1 st Quarter 2009
Both Sexes					
15-24	37.0	39.7	42.1	41.7	39.1
25-34	21.9	25.6	27.8	26.7	25.1
35-44	16.6	20.5	18.7	22.0	19.5
45-54	15.7	18.2	19.7	19.7	17.0
55+	11.1	11.9	15.3	19.4	15.6
Total	22.6	25.8	27.5	27.9	25.4
Males					
15-24	35.0	38.6	39.4	41.7	38.0
25-34	21.4	25.4	26.5	27.1	24.0
35-44	17.6	22.6	20.7	23.9	21.4
45-54	18.2	20.4	22.1	22.5	19.4
55+	13.4	14.6	18.2	23.3	17.9
Total	22.7	26.5	27.3	29.1	25.7
Females					
15-24	47.3	44.6	55.0	41.9	44.6
25-34	24.1	26.1	33.1	25.2	29.4
35-44	11.2	11.7	9.1	11.8	10.6
45-54	3.9	7.8	7.4	5.5	5.2
55+	2.9	1.7	2.3	3.0	6.0
Total	21.7	22.7	28.2	22.5	23.8

Source: PCBS (2009), Labor Force Survey, 2008-2009.

**Table 11: Unemployment Rate for Individuals Aged 15 Years and Over in
the Palestinian Territories According to Sex and Region,
2008 Quarters and 1st Quarter of 2009(%)**

Region and Sex	1 st Quarter 2008	2 nd Quarter 2008	3 rd Quarter 2008	4 th Quarter 2008	1 st Quarter 2009
Palestinian Territories					
Males	22.7	26.5	27.3	29.1	25.7
Females	21.7	22.7	28.2	22.5	23.8
Total	22.6	25.8	27.5	27.9	25.4
West Bank					
Males	19.9	16.6	20.5	21.0	20.1
Females	15.0	15.2	21.6	14.9	16.8
Total	19.0	16.3	20.7	19.8	19.5
Gaza Strip					
Males	28.2	45.8	41.2	45.1	36.6
Females	39.3	43.3	45.7	42.9	39.0
Total	29.8	45.5	41.9	44.8	37.0

Source: PCBS (2009), Labor Force Survey, 2008-2009.

The following are the most important characteristics of unemployment in the Palestinian Territories in the current period:

- ✧ The highest rate of unemployment is found amongst the young; particularly those aged 15-24 and mainly among females indicating that a large percentage of the unemployed is among the newcomers to the labor market (see Table 14).
- ✧ There is a fundamental difference between male and female unemployment rates,

particularly with regards to years of schooling. The unemployment rate for individuals having 13 years or more of schooling was higher for females than males. Actually, this difference has existed in the Palestinian labor market for a long time, which indicates that female labor force participation is increasing at a higher rate than the average increase in the demand for females in the labor market (see Table 12).

Table 12: Unemployment Rate in the Palestinian Territories by Sex and Years of Schooling, 2008 Quarters and 1st Quarter of 2009(%)

Number of School Years and Sex	1 st Quarter 2008	2 nd Quarter 2008	3 rd Quarter 2008	4 th Quarter 2008	1 st Quarter 2009
Both Sexes					
0	7.8	11.9	16.9	11.9	14.5
1-6	23.7	28.9	30.1	33.9	29.2
7-9	22.4	27.5	29.1	29.8	27.2
10-12	23.8	25.2	25.4	29.5	26.3
13+	21.9	24.5	27.9	22.9	22.1
Total	22.6	25.8	27.5	27.9	25.4
Males					
0	16.0	25.3	27.5	21.6	25.8
1-6	26.3	32.9	34.4	38.1	32.8
7-9	23.8	29.0	31.1	31.7	28.3
10-12	25.4	26.5	26.6	30.6	27.1
13+	15.7	19.8	20.2	18.6	17.0
Total	22.7	26.5	27.3	29.1	25.7
Females					
0	1.2	2.3	4.8	3.1	4.5
1-6	8.5	7.5	6.3	7.2	4.9
7-9	5.5	11.0	4.4	6.8	11.8
10-12	7.3	14.2	12.1	18.1	19.1
13+	33.8	33.1	41.8	30.5	31.0
Total	21.7	22.7	28.2	22.5	23.8

Source: PCBS (2009), Labor Force Survey, 2008-2009.

3.3 Wages and Work Hours

Table 13 indicates that the average daily wage in the Gaza Strip is 74% of that in the West Bank and just 43.8% of the average daily wage for workers in Israel in the 1st quarter of 2009. This reflects the situation of demand for Palestinian workers in these three markets. However, it is known that the wide gap in the average daily wage between the West Bank and the Gaza Strip is not a new phenomenon but was present during the *pre-Intifada* period.

On the other hand, the average daily wage of West Bank employees decreased during the 4th quarter of 2008 and the 1st quarter of 2009 by 4.1%, to reach NIS 83.8, while the average in the Gaza Strip increased by 1.6%. At the same time, the average daily wage for those working in Israel and in the settlements increased by 3% (see table 13).

Table 13: Average Weekly Work Hours, Number of Monthly Working Days and Daily Wage in NIS for Wage employees from the Palestinian Territories by Place of Work, 2008 Quarters and 1st Quarter of 2009

Place of Work	Average Weekly Work Hours	Average Monthly Work Days	Average Daily Wage	(Wages in NIS)
				Median Daily Wage
1st Quarter/2008				
West Bank	41.2	22.1	84.8	76.9
Gaza Strip	40.2	24.7	63.6	57.7
Israel & Settlements	43.0	20.4	139.9	134.6
Total	41.4	22.3	91.5	76.9
2nd Quarter/2008				
West Bank	42.7	22.3	86.9	76.9
Gaza Strip	40.0	24.2	61.5	57.7
Israel & Settlements	44.3	20.2	143.3	150.0
Total	42.5	22.3	92.8	76.9
3rd Quarter/2008				
West Bank	42.8	22.7	82.2	71.2
Gaza Strip	43.4	24.8	57.2	50.0
Israel & Settlements	42.5	21.1	138.0	134.6
Total	42.8	22.8	88.9	76.9
4th Quarter/2008				
West Bank	43.1	22.7	87.4	76.9
Gaza Strip	39.9	25.0	61.2	57.7
Israel & Settlements	44.7	21.6	138.0	134.6
Total	42.7	23.0	90.6	76.9
1st Quarter/2009				
West Bank	42.0	22.1	83.8	76.9
Gaza Strip	38.8	21.3	62.2	57.7
Israel & Settlements	42.8	20.6	142.1	150.0
Total	41.5	21.7	89.5	76.9

Source: PCBS (2009), Labor Force Survey, 2008-2009

3.4 Vacancy Announcements in Local Newspapers

The number of advertised vacancies largely decreased in the 1st quarter of 2009 by 26.2% compared to the 4th quarter of 2008 when there were 770 job vacancies advertised in the newspapers.⁶ The number of advertisements in the non-governmental organizations sector decreased by 27.3% and by 19.6% in the private sector and by 63.6% in the public sector, all compared to the 4th quarter of 2008 (see table 14). Regarding geographic distribution, there has been an increase by 27.7% in the number of advertised vacancies in the North of the West Bank as compared with the 4th quarter of 2008. On the other hand, there has been a decrease in the Middle and South of the West Bank by 30.2% and 17.3% respectively. In the Gaza Strip, the number of

job vacancies decreased by 60% and was limited to vacancies advertised by NGOs working in humanitarian field due to the war waged by Israel causing a halt in economic activities.

Table 15 shows the relationship between sectors and academic qualifications where the demand for holders of bachelor degrees in the private sector reached 53.4%, followed by 37.5% for diploma holders and 9.1% for holders of master degree's and above. In the NGO sector, the demand for holders of bachelor degree's reached 83.5% and for diploma holders 13.7%, while it reached 2.8% for holders of a master's degree. In the public sector, the demand for holders of a bachelor, master and diploma degree was 72%, 12.5% and 15.5% respectively.

⁶ The number of advertisements that did not specify the number of vacancies was 33.

Table 14: The Number of Job Vacancies Advertised in Local Newspapers in the Palestinian Territories (4th Quarter 2008 and 1st Quarter 2009)

	4 th Quarter 2008			Total	1 st Quarter 2009			Total
	Oct	Nov	Dec		Jan	Feb	Mar	
Private Sector	197	212	155	564	159	117	177	453
Public Sector	20	18	50	88	21	7	4	32
NGOs	138	121	133	392	94	66	125	285
Total	355	351	338	1044	274	190	306	770
Northern West Bank	17	32	45	94	47	14	59	120
Center of the West Bank	267	249	240	756	196	157	175	528
Southern West Bank	49	43	12	104	30	17	39	86
Gaza Strip	22	27	41	90	1	2	33	36
Total	355	351	338	1044	274	190	306	770
Master Degree and above	13	26	22	61	11	11	31	53
Bachelor Degree	276	235	224	735	176	142	185	503
Diploma	58	90	88	236	87	37	90	214
Below that	8	0	4	12	0	0	0	0
Total	355	351	338	1044	274	190	306	770

Source: Data were compiled by MAS from daily local newspapers (Al-Quds, Alayyam and Alhayat).

Table 15: The Number of Advertised Vacancies in the Local Newspapers by Sector and Scientific Degree during the 1st Quarter of 2009

	Public Sector	Private Sector	NGOs	Total
Master Degree and above	4	41	8	53
Bachelor Degree	23	242	238	503
Diploma	5	170	39	214
Total	32	453	285	770

Source: Data were compiled by MAS from daily local newspapers (Al-Quds, Alayyam and Alhayat).

4. Public Finance Developments

In general, the Palestinian government did not face as many difficulties in providing funding to cover budget expenditures for the year 2008 as it did in previous years.⁷ On the contrary, the government was able to pay all its arrears as a result of the large external support which exceeded \$2 billion.⁸ The average quarterly support for the budget reached approximately \$441 million. The pace of this support was high during the first nine months but started decreasing in the beginning of the 4th quarter

when external support for the budget declined by 26% compared to the 3rd quarter of 2008.

But since the beginning of the 1st quarter and with the execution of the 2009 budget (see box 3 on 2009 budget), the government has been facing plenty of difficulties in providing liquidity to meet its commitments, a matter that caused a deep financial crisis. This started in January when the government was unable to pay the public sector employees' wages and salaries prompting a strike for one day, reminiscent of the conditions that prevailed before June 2007. The government had then to borrow from local banks and pay the salaries

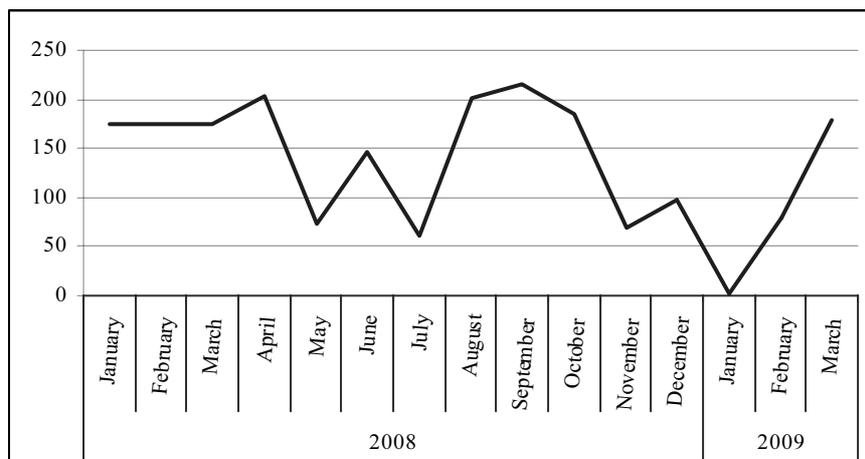
⁷ The government faced some difficulty during 2008 in providing the necessary financing for the payment of the public sector employees' wages and salaries in June due to the Israeli government delay in the payment of tax clearance.

⁸ Including support for the budget and the developmental projects.

two weeks later. This borrowing was repeated in the following months to provide the necessary liquidity. Another implication of the financial crisis was that the government was also late in paying contractors' expenses reaching NIS100 million.⁹ This brought about protests and threats to suspend work in all government projects which are usually implemented by the aid provided by donor countries for developmental projects.

The main reason for the unavailability of liquidity to meet the government obligations is the decrease in external funds provided by donor countries, both Arabs and foreign, in support of the PA budget which is dependent on external support by 50-55%. This support started decreasing in the 4th quarter of 2008, reaching its lowest level of \$2.4 million in January 2009, \$83 million in February and \$193 million in March, while the monthly average of external support was \$148 million in 2008 (see figure 1).

Figure 1: Monthly External Support for the Budget 2008-2009



Source: Ministry of Finance, various reports

The external support of the budget in the 1st quarter of 2009 declined by 51% compared with the 1st quarter of 2008 and by over 26% of the support delivered in the 4th quarter. This was all due to the decrease in both Arab and foreign support, particularly in January and February. Arab countries did not make any transfers and the foreign countries transferred \$2.4 and \$83.1 million respectively through the PEGASE mechanism for coordinated disbursement to beneficiaries between the Ministry of Finance and the European donors.¹⁰ In this quarter, the total amount of transfers reached \$278 million, \$74 million of which are grants from Arab countries and \$204 million from other foreign countries.

As known, the flow of external aid depends mainly on the position of donor countries regarding the political conditions and developments in the Palestinian Territories. From this perspective, some see that the decline in the Arab aid in early 2009 is attributed to the desire of Arab countries to put pressure on Palestinian factions in order to reach an agreement that will lead to a national reconciliation in the ongoing dialogue, that started in Cairo, by the end of February 2009. While the decline in foreign aid is seen as reluctance to find out what sort of government will be in power after the resignation of the caretaker government in early March 2009.¹¹

⁹ These are payments that the government owes for contractors and construction companies for the implementation of infrastructure and services projects such as building schools, roads, health facilities municipalities and local councils premises.

¹⁰ PEGASE is the French acronym for: Mécanisme "Palestino - Européen de Gestion et d'Aide Socio-Economique which stands for the Palestinian European mechanism for social and economic assistance.

¹¹ Prime Minister of Caretaker government Dr. Salam Fayyad resigned on the 7th of March 2009 and was newly appointed to form a government that was sworn in before the President of the PA on the 19th of May, 2009.

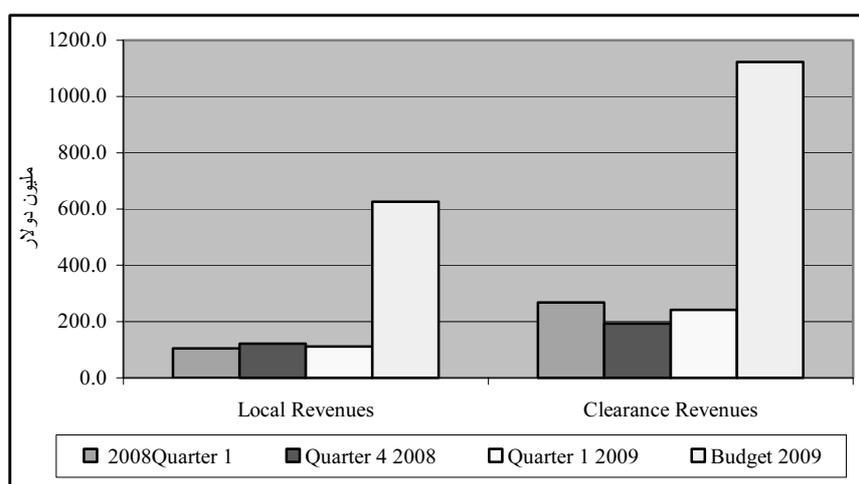
4.1 Public Finance Performance Developments

4.1.1 Revenues

Local revenues collected by the Palestinian Authority during the 1st quarter of 2009 have declined by 8.6% compared to collected local revenues in the 4th quarter of 2008 (in the 1st quarter of 2009, local revenues achieved a rise of 6.3% as compared to their level in the 1st quarter of 2008) and amounted to \$111.1 million. Tax revenues formulated 64% of these revenues and the rest were non-tax revenues. It is noticed that the achieved local revenues covered only 17% of the amount of \$626 million expected by the 2009 budget, thus the budget deficit increased.

The decline in local revenues in the 1st quarter is a result of a sharp decline of 34.2% in non-tax revenues compared to their level in the 4th quarter of last year. This is because the 1st quarter did not include any investment returns such as those included in the 4th quarter of 2008, which amounted to \$30 million.¹² It is not as a result of the decline in the collection of various fees that formulate these revenues. Meanwhile, a rise was recorded in tax revenues by approximately 16.7%. Also, a decline is noticeable in the value added tax VAT compared to what had been collected in the previous quarter.

Figure 2: Public Revenues Developments in the 1st Quarter of 2009



Source: Ministry of Finance, Financial Operations, revenues, expenditures and funding resources Report, January 2008 and March 2009.

The clearance revenues acquired by the PA as a result of its business dealings with Israel reached a total of \$241.1 million in the 1st quarter. This was equivalent to a rise of 25.1% compared to the 4th quarter of 2008 and a decrease of 10% compared to the 1st quarter of 2008, accounting for 21.5% of the expectations of 2009 budget amounting to \$1123 million.¹³

With these developments on local revenues and clearance revenues, the total revenues amounted to \$352.2 million in the 1st quarter, while the tax returns amounted to \$17.3 million and the total net revenues reached \$334.9 million.¹⁴ This is almost the same as the level achieved in the 1st quarter of last year. This is a rise of 10.6% from the level of the 4th quarter. The total net revenues achieved in the 1st

¹² Investment returns are those revenues obtained by the PA from the Palestinian Investment Fund's cash proceeds transferred from the Fund's realized profits enlisted under non-tax revenues. An amount of \$197.1, \$25, and \$30 million had been transferred in the 2nd, 3rd and 4th quarters of 2008 respectively. There were no transfers in the 1st quarter of 2009. The 2009 budget predict a transfer of \$100 million from the Palestinian Investment Fund investment returns.

¹³ The clearance revenues declined in the 1st quarter by 16.8% and 1.3% compared to the first and 4th quarters of 2008 respectively.

¹⁴ Tax returns comprise the value added tax VAT returns, the returns on oil products, the returns for tax-exempted organizations. The 2009 budget expects that returns would amount to \$118 million during this year.

quarter formulated 20.5% of the amount of \$1631 million expected by the budget for this year. This means that an extra of about \$73 million are recorded as current deficit in 2009.

4.1.2 External Financing and Budget Support

The developments in the external financing had the most significant impact on the overall performance of public finance during the 1st quarter of this year. The total amount of grants and assistance delivered in support of the budget in the 1st quarter of 2009 declined by about 51% and 26% to that of the 1st quarter and the 4th quarter of 2008 respectively. This resulted in a real crisis in Palestinian public finances, putting limitations on its capacity to meet its financial obligations in due time. Hence, the Government had to resort to borrowing from commercial banks in order to provide the liquidity needed for the requirements of urgent expenditures while delaying other expenditure. It is noted that the total commitments made at the Sharm-Al-Sheikh conference in last March amounted to

about \$4.5 million. However, the countries that pledged this assistance did not specify its nature; whether it is humanitarian aid or in support of the Palestinian Authority current expenditures or for financing development projects.

The total amount of grants and assistance delivered in support of the budget in the 1st quarter of 2009 amounted to \$259.2 million. \$73.9 million of this amount are Arab grants representing 28.5% of the total in which Algeria, the United Arab Emirates and Saudi Arabia contributed by \$26, \$25 and \$22.9 million respectively. All these amounts were delivered in March as the Arab countries did not supply any of their commitments in January and February. The Arab support, which has started to decline since the beginning of the 4th quarter of last year, has decreased by 52% in this quarter compared to what was delivered in the 1st quarter of 2008; while it has risen by 32% compared to what was delivered in the 4th quarter (see table 16).

Table 16: Public Revenues Development in 2008 Quarters and the 1st Quarter of 2009

(USD million)

Revenues	Q1/ 2008	Q2/ 2008	Q3/ 2008	Q4/ 2008	Q1/ 2009	2009 Budget	1 st Q 2009 and 4 th Q 2008 Percentage Change %	1 st Quarter Share in 2009 Budget (%)
Total Net Revenues*	334.9	587.2	554.8	302.9	334.9	1631	10.6	20.5
Tax Returns	37.5	43.2	24.1	11.5	17.3	118	50.4	14.7
Total Revenues	372.4	630.4	578.9	314.4	352.2	1749	12	20.1
Local Revenues	104.5	324.1	208.9	121.6	111.1	626	(8.6)	17.7
Tax Revenues	68.1	80.9	62.8	61	71.2	273	16.7	26.1
Non-Tax Revenues	36.4	243.2	146.1	60.6	39.9	353	(34.2)	11.3
Clearance Revenues	267.9	306.3	370	192.8	241.1	1123	25.1	21.5
Grants and Assistance	525.6	410	476.1	351	278.3	1653	(20.7)	16.8
Budget Support	525.6	410.3	476.1	351.1	259.2	1150	(26.2)	22.5
Grants for Development Projects	NA	NA	NA	NA	19.1	503	NA	3.8
Total Public Revenues and Grants	898	1041	1055	666	630.5	3402	(5.3)	18.5

Source: Ministry of Finance, Financial Operations, revenues, expenditures and funding resources Report, January 2008 and March 2009.

* Total Net Revenues is the total revenues after the deduction of tax returns.

International grants formulated 71.5% of the total grants and assistance of \$185.3 million with a decline of 50% and 37% to that delivered in the 1st and 4th quarters of 2008 respectively. The lion's share of the international assistance was delivered through

the Palestinian European mechanism 'PEGASE' to the tune of \$94.2 million, followed by the World Bank who delivered \$50.6 million. The total amount of grants and assistance delivered in the 1st quarter constituted 22% of the total grants and

assistance expected in support of 2009 budget. The Grants for community development projects amounted in the 1st quarter to \$19.1 million which did not exceed 4% of the \$503 million expected by the 2009 budget. Since the beginning of this year, the Ministry of Finance has been including the amounts received for development projects into its monthly reports (see table 17).

External financing is expected to decline during the next quarter if the Arab countries abstain from transferring assistance due to the faltering Palestinian dialogue and the low prospects of reconciliation. This is in addition to the sharp decline in international grants as most donors did not adhere to their pledges due to the international financial crisis. Such a decline will put additional pressures on the Palestinian government to meet its obligations.

Table 17: Structure of External Assistance to the Palestinian Authority in 2008 Quarters and the 1st Quarter of 2009

Donor Countries	(USD million)					Proportion of Total Budget Support Grants for 1 st Q 2009 (%)
	Q1/ 2008	Q2/ 2008	Q3/ 2008	Q4/ 2008	Q1/ 2009	
Arab Grants	153.5	78.4	158	56	73.9	28.5
Arab League	0.1	0	0	0	0	0
Algeria	0	62.9	0	0	26	10
Egypt	0	0	14.6	0	0	0
Saudi Arabia	61.9	15.5	100.7	56	22.9	8.8
United Arab Emirates	91.5	0	42.7	0	25	9.6
International Grants	372.1	332	318.1	295	185.3	71.5
PEGASE mechanism*	0	174.1	181.6	115.1	94.2	36.3
European Union	180.3	0	0	0	0	0
India	0	0	0	0	10.1	3.9
China	0.3	0	0	0	0	0
France	35.7	0	0	0	27.7	10.7
Japan	0	0	0	9.5	0	0
Russia	0	0	9.9	0	0	0
The United States of America	152.3	0	0	150	0	0
World Bank (or through the Bank)	0	147.8	118.9	16.2	50.6	19.5
Grants for the Palestine Central Bureau of Statistics (PCBS)	3.5	0	0	0	0	0
Services Support Emergency Program **	0	10.1	7.7	4.2	2.7	1
Total Budget Support	525.6	410.4	476.1	351	259.2	100
Development Projects Support Grants***	NA	NA	NA	NA	19.1	
Total External Grants & Assistance	525.6	410.4	476.1	351	278.3	

Source: Ministry of Finance, Financial Operations, revenues, expenditures and funding resources Report, January 2008 and March 2009.

* The Palestinian European mechanism for social and economic assistance 'PEGASE' was launched on Feb 1, 2008 for the provision of financial support from the EU and other international parties to the PNA for 3 years in alignment with the Palestinian Reform and Development Plan (PRDP). Thus, it is noted that, since the beginning of this year, most EU assistance and other international donors were channeled through this mechanism only.

** In support of health, education, energy and water services.

*** Direct grants from donors for the implementation of development projects delivered outside the framework of budget support. Data on these grants is not available on quarterly basis. 2008 data indicates that it amounted to \$250 million but it is believed that it did not exceed \$190 million.

4.1.3 Expenditures

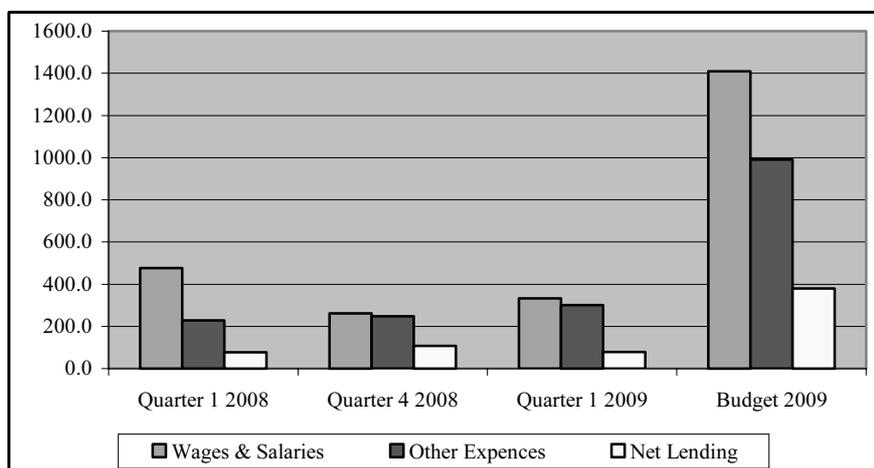
The decline in total revenues and grants was accompanied with an increase in total public expenditures and net lending by 15.3% during the 1st quarter of 2009 compared to the previous quarter, reaching \$712.4 million. The total public expenditures and net lending, formulating 25.6% of 2009 budget, comes to a large extent in line with the amount allocated by the budget.

The wages and salaries bill, including civil servants and military personnel, amounted to \$333.3 million in the 1st quarter of 2009, 30% less than its corresponding quarter of 2008. This was due to the completed payment of arrears by the Government. In comparison to the 4th quarter it increased by 27% in view of the implementation of the new proposed budget.¹⁵ Since the end of December 2008 and until March 2009, the number of public sector employees increased by 1,372 (from 142,937 to 144,309). The government is still trying to reduce its expenditures on the wages and salaries item by continuing a policy of restricted appointment (except in the health

and education sectors) and freezing on increments and promotions. This is a policy that it started at the beginning of 2008 within the implementation of the midterm Palestinian Reform and Development Plan (PRDP) 2008-2010. However, there is some distortion in the wages and salaries bill regarding the high rates of military personnel exceeding 45%.

As for the non-wages expenditures, (operational, transfer payments and capital expenditures) the Government is trying to increase and raise its proportion in the total current expenditures in order to improve the efficiency of services delivered by the ministries and public sector institutions. Non-wage expenditures increased during the 1st quarter of 2009 by 21.2%. Its proportion of the total current expenditures increased from 40.1% in the 4th quarter of 2008 to 42.2% in the 1st quarter of 2009 amounting to \$300.6 million (constituting wages and non-wages expenditures and net lending at about 46.8%, 42.2% and 11% respectively of the total current expenditures in the 1st quarter of 2009).

Figure 3: Public Expenditures Developments in the 1st Quarter of 2009



Source: Ministry of Finance, Financial Operations, revenues, expenditures and funding resources Report, January 2008 and March 2009.

As for the net lending item, this was of great concern to the government who aimed to reduce and limit its growth as it constituted a burden on public expenditures. The Government sustained its measures of reform for the local authorities by the continuation of

the 'quit-claim'(clearance) system. The proposed budget for 2009 included a number of policies derived from Palestinian Reform and Development Plan (PRDP) to ensure financial sustainability. One of these policies pointed out the intention of the Government to transform

¹⁵ The wages and salaries bill (in NIS) increased by 10% in the 1st quarter of 2009 compared to the previous quarter.

the responsibility of electricity distribution to commercial companies, following the approval of the new electricity legislation, intended for ratification in 2009. The aim of this is to reduce the financial support that is implicitly provided to local authorities in view of the imbalance resulting from their failure in collecting utility bills. These policies also intend to increase the revenue resources for the local authorities and help devise a system of transfers for those facing financial difficulties. Net lending amounted to \$78.5 million in the 1st quarter, 1.3% higher than the 1st quarter of 2008 and 27.1% lower than the 4th quarter of 2008, constituting about 20.7% of the amount proposed in the 2009 budget.

The budget predicts the spending of \$380 million during the current year which is 15% less than what was spent during 2008.

Development expenditures targeting the implementation of community development projects and directly financed by donors amounted to \$11.1 million in the 1st quarter. For the first time, these expenditures were enlisted in the Ministry of Finance's monthly reports. It is noted that the support received for the implementation of these projects reached \$19.1 million, \$11.1 million of which was expended on development projects.¹⁶ The rest was spent on small capital expenditures that fall within non-wage expenditures (see table 18).

Table 18: Public Expenditures Development in the 2008 Quarters and the 1st Quarter of 2009 versus 2009 Budget

Expenditures	Q1/ 2008	Q2/ 2008	Q3/ 2008	Q4/ 2008	Q1/ 2009	2009 Budget	(USD million)	
							1 st Q 2009 Percentage Change Compared To Previous Quarter %	1 st Q 2009 Share in 2009 Budget (%)
Wages and Salaries	476.5	456.7	575.4	262.2	333.3	1410	27.1	23.6
Non-wage Expenditures	228.8	228	350.1	248.1	300.6	990	21.2	30.4
Net Lending	77.5	123.3	138.4	107.7	78.5	380	(27.1)	20.7
Total Expenditures and Net Lending	782.8	808	1063.9	618	712.4	2780	15.3	25.6
Development Expenditures	NA	NA	NA	NA	11.1	503	NA	2.2

Source: Ministry of Finance, Financial Operations, revenues, expenditures and funding resources Report, January 2008 and March 2009.

4.1.4 Surplus (Deficit)

In view of the developments in financial performance in the 1st quarter of 2009 in revenues and expenditures, with an increase in local net revenues (\$712.4 million), an increase in total expenditures and in net lending (\$712.4 million), the current budget deficit amounted to \$377.5 million. With the external support of \$259.2 million supplied for the budget, the current deficit dropped off to \$118.3 million. The total deficit, including development expenditures, prior to external support of the budget amounted to \$388.6 million. With the budget support and in addition to \$19.1 million for the support of community development projects

(development expenditures), the total budget deficit was reduced to \$110.3 million. This was financed through loans from commercial banks, with a net funding of \$120.7 million from banks during the 1st quarter.

The 2009 budget included many policies derived from the midterm Palestinian Reform and Development Plan (PRDP) that the government had started to implement since the beginning of 2008, within its efforts towards attaining a sustainable financial stability. Among these policies are the restraint on wages and salaries expenditures, the increase of development expenditures, the increase of

¹⁶ It should be noted that a considerable part of the development expenditures do not pass through the consolidated treasury accounts. Thus, the Ministry of Finance cannot include it in its accounts. Therefore, it is expected that the total support for development projects will be bigger than what is available in the data provided by the Ministry of Finance.

social sector allocations, the continuation of the limitation on net lending and the reform of local authorities. They also include reform of the pensions system through the preparation of a plan to reduce the dues of the retirement

Board which have been accumulating since the year 2002. This is all being done in order to assist the Board to achieve financial sustainability and improve the retirement system.

Table 19: Budget Surplus (Deficit) Developments in the 2008 Quarters and the 1st Quarter of 2009 and the 2009 Budget

	(USD million)					
	Q1/ 2008	Q2/ 2008	Q3/ 2008	Q4/ 2008	Q1/ 2009	2009 Budget
Current Budget Surplus (Deficit)	(447.9)	(220.8)	(509.1)	(315.1)	(377.5)	(1150)
Current Budget Surplus (Deficit) After the External Support of the Budget	77.7	189.5	(33)	36	(118.3)	0
Total Budget Surplus (Deficit) Including Development Expenditures Prior the External Support of the Budget	NA	NA	NA	NA	(388.6)	(1653)
Total Budget Surplus (Deficit) Including Development Expenditures After the External Support of the Budget and the Support of Development Expenditures	NA	NA	NA	NA	(110.3)	0

Source: Ministry of Finance, Financial Operations, revenues, expenditures and funding resources Report, January 2008 and March 2009.

Box 3 2009 Budget

During the first month of this year the proposed budget for 2009 has been declared. The budget has been prepared in light of the plans and objectives of the ministries and various public institutions of the Palestinian Authority, and in view of the development projects that must be implemented in accordance with the midterm Palestinian Reform and Development Plan (PRDP) 2008-2010.

The size and structure of the budget have been estimated based on a scenario of the macroeconomic situation depending on the following assumptions:

- ✧ A real growth in GDP of 5% to occur in 2009, rising to 6.5% in 2010 and 7.5% in the year after.
- ✧ A low rate of inflation of 4% only (compared to 10% in the year 2008), i.e. the nominal growth in the year 2009 would reach 9%.
- ✧ A rise in the total investment up to 27% of the GDP (compared to 20% in the year 2008).

The scenario also implies that the virtual growth will occur in the West Bank only at a rate of 8% (without any growth in Gaza). It is assumed that the incentive for this growth is the \$300 million to be expended on small enterprises. On the other hand, the proposed budget shows that the targeted growth rate requires an increase in private investment during the year at a rate exceeding 3% of the GDP. The Government confirmed that the proposed budget is committed to the policies derived from the Palestinian Reform and Development Plan (PRDP). This aims to achieve financial stability and minimize the dependency on external funding. Among these policies:

- ✧ **Restraints on the wages and salaries:** the proposed budget stipulated that the public sector wages and salaries bill must not rise over 6% during the year (4% of which is to cover the cost of living increment and 2% for the increase in employment especially in the health and education sectors). In spite of this clear text, the wages and salaries bill have tended to actually increase by 7.8% as illustrated in the table¹⁷
- ✧ **The increase of development expenditures at the expense of the current expenditures:** the budget monitored an increase of NIS 2 billion in the share of development expenditures. This means that the share of these expenditures for 2009 equals approximately double its share in 2008. It is worth noting that the spending on small enterprises which was classified under current expenditures in the past is now classified under the item of development expenditures. The budget indicated that the Palestinian

¹⁷ Salaries arrears amounted to \$317 million and were paid by end of November 2008.

Authority adopted a strategy of accelerating the implementation of small development projects and activities that do not clash with Israeli restrictions. In particular, those that meet the priorities of the communities in marginalized rural areas affected or threatened by Israeli settlement activities. The table illustrates that the increase in the budget development expenditures was not accompanied with a decrease in the current expenditures.

- ❖ **Limitation on net lending and the payment of arrears (including salaries):** the attached table demonstrates that the Palestinian Authority was able to pay its debts to the private sector and commercial banks during the previous two years (2007-2008). Thus, the budget for this year does not include items for the payment of arrears and debts.¹⁸ The budget also assumes a reduction in net lending by 5.5% between 2008 and 2009. These amounts represent the debts that municipalities owe to the Palestinian Authority due to the delay in the collection of electricity and water bills. The Government hopes for increased collection through the authorization of private companies, that work on a commercial basis, to distribute electricity and collect bills after the ratification of the new electricity legislation this year.¹⁹ In spite of the significant decrease in the net lending item in previous years (by over 25% between 2007 and 2008), the expected decline rate for this year is small. It is largely due to the decrease in fuel prices rather than the improvement in collection techniques.
- ❖ **Reducing the dependence on international assistance:** figures show that the share of current expenditures of external aid fell by 27% between 2008 and 2009. It also dropped from 28% to 18% from the GNP. The external assistance in support of the budget (current and development expenditures) dropped by less than 8% only, when measured by NIS, and by 18%, when measured by the USD.²⁰ The war launched by Israel on the Gaza Strip at the end of last year and the beginning of this year turned the situation upside down. The Palestinian Authority asked the international community, at the world conference held in Sharm-Al-Sheikh on the 2nd of March 2009, to support the Palestinian economy with \$2.8 billion. This was in addition to the old amount of \$1.15 billion in support of the current budget expenditures and another \$300 million to cover the additional needs in the Gaza Strip (the costs of fuel, water and additional social requirements) and \$1.33 billion for the reconstruction of the Gaza Strip.

The shekel and the dollar: It is worth noting that the budget has been prepared in the Israeli currency and not the dollar as was the case during recent years. This has important repercussions in view of the sharp variations in the dollar/shekel exchange rates between the years 2008-2009. The value of the USD fell from an average of NIS 3.6 to 4 in 2009. This means, among other things, that while the external aid is expected to decline from \$2 billion in 2008 to about \$1.6 billion (by 18%), the value of this aid in NIS will drop by only 8%. Thus the decline in international aid is not necessarily accompanied with a corresponding drop in the expenditures of the shekel.

Stimulating demand: the budget documents hint that the Government efforts to stimulate local demand in 2008 have considerably contributed to “the reduction of the impact of economic deterioration on the income”. The stimulation of demand included measures of regular payment of salaries and arrears as well as the payment of social assistance (about 9% of the GDP). The largest credit in all these achievements is owed to the donor countries who responded in the Paris conference (December 2007) and pledged \$1.34 billion in support of the 2008 budget. Budget documents indicate that donor countries provided support exceeding their promises and reaching \$1.76 billion by the end of 2008. The government says that this financial stimulation for the demand has succeeded in increasing the “available income” per capita by about 7% in 2008. The concept of “available income” per capita includes 4 components. The first is external assistance (support for the budget, development and humanitarian affairs equivalent to \$2.4 billion). The second is the remittances of Palestinian workers in Israel (around 45 thousand workers with estimated total remittances of approximately half a billion). Finally there are personal transfers and net returns on foreign investments. The budget documents emphasize that this stimulation policy will persist and will be enhanced during the year 2009 as well.

Revenues: the PA revenues come from three sources: local revenues (from taxes and other sources, equivalent to NIS 2 billion), clearance revenues (taxes and customs deducted by Israel and returned to the PA, equivalent to NIS 4.5 billion), and international external aid (in support of the current budget and development expenditures, equivalent to NIS 6.6 billion). The expected total revenues are NIS 13.1 billion, half of which will come from external aid. This aid accounted for 26% of the GDP in the 2009 proposed budget compared to an average of more than 30% in 2008.²¹

¹⁸ However, the detailed expenditure items for this year show that the Palestinian Authority will pay NIS 175 million for public debt.

¹⁹ Among these debts is the cost of the Palestinian Authority payments for the fuel needed to generate electricity for the Gaza Strip, given that the citizens there have only paid a very small portion of the electricity bill since mid 2006.

²⁰ The budget documents show that the support for the budget (excluding development expenditures support) will fall from 27% of the GNP that it was in 2008 to only 18% this year. This decline is largely due to the assumption of high growth in GDP, reaching 9% (nominally), and to the assumption of a significant increase in profit collection and reduction of net lending.

²¹ The ratio of local and clearance revenues to the GDP shrank to about 24% compared to its higher level of 25% in 2005. This was due to the loss of the Gaza Strip tax revenues since mid 2007.

The budget predicts an increase of 11% in tax revenues in 2009. It is not clear whether the increase is in direct or indirect taxes, given that the direct taxes (income taxes) were not more than NIS 300 million in 2008, equivalent to only 1.3% of the GDP (compared to a ratio of 5% in countries with similar per capita income).

The budget also expects a 20% increase in non-tax revenues. This is mostly based on the expectations of collecting the license fees for a second mobile telecommunication company (Al-Wataniah) in the Palestinian Territories (the estimated amount of \$80 million). Finally, there is the anticipation of an increase of 100% from investment profit returns and funds that belong to the PA. This is based on the hope of collecting the largest part of the profits of the Palestinian Investment Fund (PIF) in 2009, which did not happen in the previous year.²²

Expenditures: these are traditionally divided in the budget into two parts: current expenditures and development expenditures. The Budget anticipates the value of these two items to amount respectively to NIS 11 billion and NIS 2 billion. The wages and salaries bill consumes NIS 5.6 billion or the equivalent of 43% of total public expenditures (over half the current expenditures which is one percent less than the ratio of 2008).²³

As for the sectoral distribution of public expenditures, the pattern did not differ this year from previous years. The economic field is still absorbing less than 5% of the total expenditures, while the government and social sectors deduct almost equal proportions of 45% and 43% respectively.

The Palestinian Authority Budget 2009

(NIS million)

	2007	2008	2009 Budget	Percentage of Change 2009 Budget from 2008 Budget
Local Revenues	2,500	2,023	2,500	23.6
-Tax Revenues	1,090	983	1,090	10.9
-Non-tax Revenues	1,010	842	1,010	20.0
-Dividends	400	*198	400	102.0
Clearance Revenues	4,492	4,039	4,492	11.2
Tax Returns	- 472	- 417	- 472	13.2
Net Public Revenues	6,520	5,645	6,520	15.5
Wages & Salaries	5,640	5,232	5,640	7.8
Other Current Expenditures	3,961	3,330	3,961	18.9
Net Lending**	1,520	1,608	1,520	5.5
Total Current Expenditures	11,121	10,170	11,121	9.4
Deficit in the Current Balance				
Prior to Funding	-4,601	-4,525	-4,601	1.7
Development Expenditures	2,012	900	2,012	123.6
Arrears Payments	0	1,393	0	
Total Deficit Prior to Funding	-6,613	-6,818	-6,613	-3.0
Budget Support	4,601	6,347	4,601	-27.5
Financing Development Expenditures	2,012	900	2,012	123.6
Released Clearance Revenues	0	54	0	
Debts form Banks***	-436	-483	0	
External Funding	5,845	6,818	6,613	-3.0
USD/NIS Exchange Rate	4.1	3.6	4	11.1

Source: Ministry of Finance, Public Budget Department, 2009.

* The amount does not include the PIF profits of \$197 million paid for the debts that the PA owed to the PIF.

** Net Lending: the amounts directly deducted by Israel from clearance, representing the debts the municipalities owe to the PA in return for unpaid water, electricity and fuel bills.

*** Negative sign means the payment of debts the PA owes for banks.

²² The Palestinian Authority received the amount of \$196 million in 2008 as dividends from the Palestinian Investment Fund (PIF). The entire amount was used up to settle part of the debts the PA owes to the PIF.

²³ The number of PA employees reached 142 thousand (equivalent to quarter of the population when adding their families); 64, 213 thousand of which are in the Gaza Strip. The wages and salaries bill amounted to \$1.45 billion (about 23% of the GDP) in 2008. It is worth noting that this does not exceed 10% on average in most developing countries.

5. Banking Developments

The Israeli government imposed stringent restrictions on the entry of money into the Gaza Strip throughout 2008 and continued with these measures during the 1st quarter of 2009. As expected, this resulted in a liquidity crisis that had and is still having a negative impact on economic activities. Banks are no longer able to meet the Gaza Strip's public and private sector needs for liquidity. Also, large numbers of citizens are no longer able to purchase the basic needs of food and medicine. Many relief and aid operations for poor families affected by the recent aggression against the Gaza Strip have stopped as well.

On the other hand, it might be said that the harm affecting the Palestinian banks as a result of the international financial crisis is relatively

minor. This is mainly due to the following two factors:

- ✧ There are no significant investments by the Palestinian banking sector in the global financial institutions that collapsed as a result of the crisis. This is primarily due to the closed nature of the Palestinian economy.
- ✧ The role of the Palestinian Monetary Authority (PMA) is the adoption and application of monitoring, controlling and precautionary measures which aim to regulate banking activities in accordance with regulations and legislations that are in effect. This is in order to preserve the integrity of the banking system and the confidence of clients.

Table 20: Banks' Consolidated Balance Sheets for the 2008 Quarters and the 1st Quarter of 2009

Budget Item	(USD Million)				
	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009
Cash & Precious Metals	357.3	367.5	273.9	346.2	334.6
Balances with the PMA & Banks	4492.9	4332.2	4708.9	4674.0	4513.5
Investments Portfolio	185.7	217.9	214.4	206.6	231.3
Direct Credit Facilities	1773.1	1746.6	1807.5	1828.2	1842.9
Banks Acceptances	3.4	4.2	4.3	6.2	3.2
Investments	190.1	188.6	173.5	144.6	188.1
Fixed Assets	218.3	224.4	225.9	237.3	243.9
Other Assets	250.4	236.0	249.3	197.3	213.2
Total Assets	7471.9	73083	7657.6	7640.4	7570.7
Deposits of PMA and Banks	660.4	466.0	456.2	442.9	417.6
Total Clients' Deposits	5424.7	5599.0	5873.6	5846.9	5772.5
Acceptances Executed & Outstanding	16.7	15.9	15.2	21.0	9.3
Other Liabilities	217.8	155.7	158.3	135.2	144.0
Provisions for Tax & Others	390.0	320.3	337.5	341.5	346.3
Equity	762.3	751.5	817.0	853.0	880.9
Total Liabilities	7471.9	73083	7657.6	7640.4	7570.7

Source: PMA, Monthly Call Report, Banking Surveillance.

As a result, the Palestinian banking system maintained the high degree of confidence it enjoys with its clients. Nothing extraordinary happened during the 1st quarter of 2009 with the indices indicating normal fluctuations on bank assets that usually occur every now and then. The most important fluctuations that happened between the 4th quarter of 2008 and the 1st quarter of 2009 were as follows:

- ✧ Total bank assets declined by 0.9% to \$7,570 million.
- ✧ Outstanding value of credit facilities increased by 0.8% to reach \$1,843 million,

while the loans ratio increased and overdrafts declined from the credit facilities proportion.

- ✧ The equity of banks increased by 3.2%, amounting to \$880 million.
- ✧ The size of the investments portfolio dropped by 3.7% to \$231 million.
- ✧ The balances in banks abroad declined by 7.6%, maintaining the highest ratio among assets components.²⁴

²⁴ Palestinian Monetary Authority (PMA) issued instructions regarding investments abroad stipulating its reduction from 65% of total deposits to 60% by the end of April 2009, then to 55% by the end of August 2009.

5.1 Client Deposits

It is well known that these deposits form the backbone of the Palestinian banking system. They comprise of the PA deposits, local authority deposits, the public sector institutions' deposits (other than financial institutions), and other resident deposits and non-resident deposits. The deposits of other residents are the most important among these items as they represent the solid ground for the banking system. On the one hand, it is the main source for financing investment and commercial operations through the credit facility channel. On the other hand, it reflects to a great extent the degree of public confidence in the banking system. In addition to this, it will be an important channel in the future for the implementation of various monetary policies.

Over the previous years and in spite of the conditions of the Palestinian economy, these deposits generally sustained a continual growth. This trend was preserved during this year despite the slight decline witnessed in the 1st quarter of 2009 as compared to the 4th quarter of 2008. It declined by 1.7% at a value of \$87 million during the comparison period, constituting 66% of total liabilities of the Palestinian banking system by the end of the 1st quarter of 2009. The non-resident deposits increased by the end of the 1st quarter of 2009 and amounted to \$208 million compared to about \$131 million at the end of the 4th quarter of 2008.

Table 21: The Distribution of the Direct Credit Facility Portfolio for the 2008 Quarters and the 1st Quarter of 2009

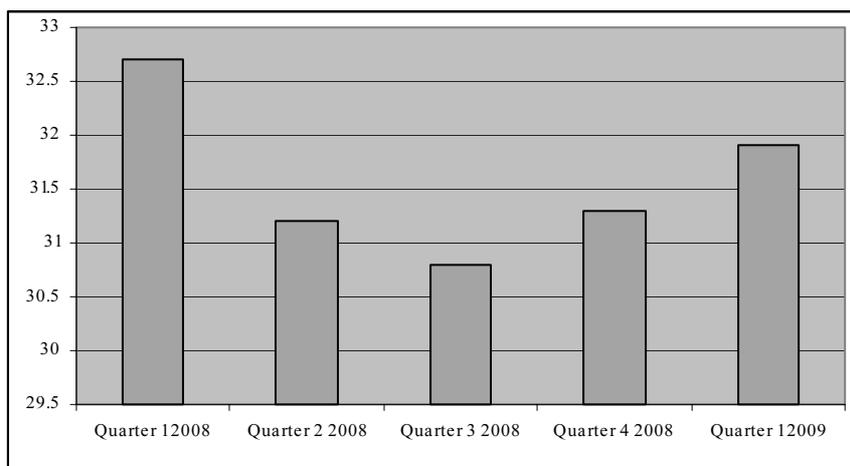
Budget Item	(USD Million)				
	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009
By Geographical Distribution					
West Bank	1460.7	1509.1	1603.1	1625.5	1650.7
Gaza Strip	313.2	237.6	204.4	202.7	192.2
By Depositing Party					
Public Sector	511.3	511.3	544.8	532.7	581.6
Private sector/resident	1191.3	1140.5	1129.6	1165.9	1123.2
Private Sector/non-resident	82.0	95.3	133.1	129.6	138.1
By Type of Deposit/facility					
Loans	1062.0	1066.5	1109.2	1114.2	1159.0
Overdrafts	700.9	669.3	687.8	703.7	673.6
Leases	10.9	10.8	10.5	10.3	10.3
By Type of Currency					
US Dollar	1159.5	1117.7	1163.1	1190.2	1225.9
Jordanian Dinar	173.5	151.1	146.2	147.5	142.5
New Israeli Shekel	419.4	463.1	483.9	474.3	460.6
Other	21.4	14.7	14.3	16.2	13.8

Source: PMA, Monthly Call Report, Banking Surveillance.

However, it must be pointed out that the significant role of this financial resource (other resident and non-resident deposits) is still marginalized and ineffective. This is shown by the ratio of credit facilities to total deposits which is a low ratio that does not exceed 32% at the end of the 1st quarter of 2009 (see figure 4). When comparing these facilities with other resident and non-resident deposits it goes up to 35% but still remains low due to the following two factors:

- ✧ Palestinian banks follow extremely restrictive policies regarding credit facilities. This is due to the high risks and uncertainty of the Palestinian economy under the conditions created by the Israeli occupation.
- ✧ The weak demand on credit facility in general due to the lack of investment opportunities provided by the almost closed Palestinian economy.

Figure 4: Credit Facilities Ratio to Client Deposits During the 2008 Quarters and the 1st Quarter of 2009

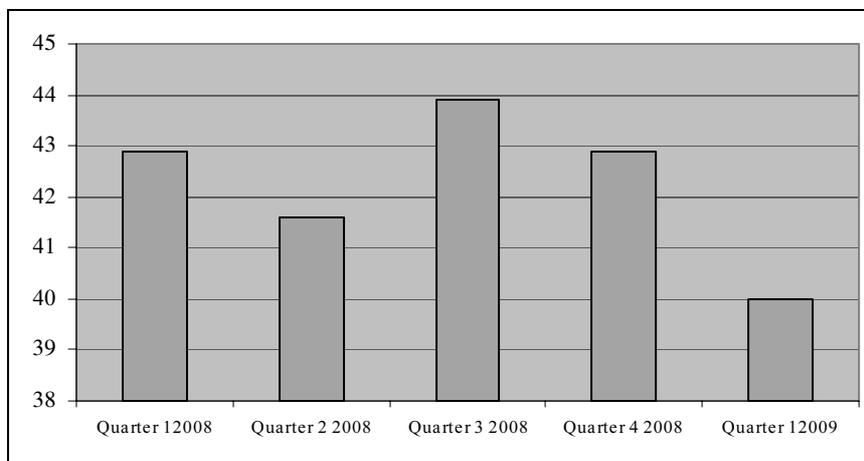


Source: PMA, Monthly Call Report, Banking Surveillance.

Therefore, the banks operating in Palestinian Territories invest their surplus funds in foreign banks abroad. To encourage investment of a larger part of those funds inside the Palestinian Territories, the PMA issued new instructions

to reduce investments abroad, in two stages during the first eight months of this year (2009), to reduce 5% at each stage until it reaches no more than 55% (see figure 5).

Figure 5: Banks Foreign Investments Ratio to Total Deposits During the 2008 Quarters and the 1st Quarter of 2009



Source: PMA, Monthly Call Report, Banking Surveillance.

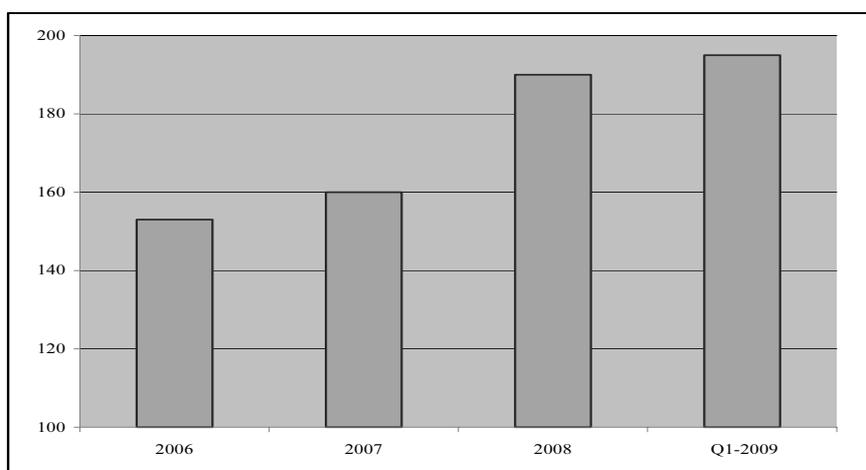
5.2 Number of Banks and Branches Developments

The Palestinian Monetary Authority gives special importance to expanding the provision of banking services to various Palestinian communities. The ratio of the population to the number of branches is still very high when compared to neighboring countries. The ratio is more than 18 thousand inhabitants for each branch in the Palestinian Territories. In Jordan

however it is less than 10 thousand inhabitants for each branch, and 6 thousand for each branch in Lebanon.

At the end of the 1st quarter of this year the number of branches and offices in various Palestinian areas reached 195 compared to 190 at the end of the previous quarter (see figure 6).

Figure 6: Developments on the Number of Branches and Offices of Operating Banks in the Palestinian Territories 2006-1st Quarter 2009



Source: PMA, Annual Reports, various years.

5-3 Equity

The rise in banks' total capital at the end of the 1st quarter of 2009 is a continuation of the ongoing rise for this item, which rose from \$853 million at the end of the 4th quarter of 2008 to over \$880 million by the end of the 1st quarter of 2009. At a closer look into the components of total capital, it becomes apparent that the increase in equity is mainly attributed to the retained earnings and the legal reserve which had risen at a rate exceeding 52% and 33% respectively at the end of the 1st quarter compared with the previous quarter.

The paid capital, however, remained at about \$633 million during the two quarters.

5.4 Bank Performance Indicators

The Palestinian banking system had not been exposed to the credit facilities' risks and crises, as with other banking systems in the world. This is reflected in the absence of big fluctuations in the Palestinian banking system, which showed relative stability as the changes that occurred have been ordinary fluctuations that happen from time to time.

Table 22: Bank Performance Indicators 2006-2008 and the 1st Quarter of 2009 (%)

Indicator	2006	2007	2008	1 st Q 2009
Current Profits to Average Assets	1.0	1.1	1.2	1.4
Current Profits to Average Equity	9.9	10.9	10.9	11.7
Credit Facilities to Total Assets	39.5	29.8	29.1	31.9
Credit Facilities to Client Deposits	43.7	33.3	31.3	32.0
Private Sector Credit Facilities to Private Sector Deposits	35.4	27.8	24.7	27.0
Resident Private Sector Credit Facilities to Private Sector Deposits	34.1	26.9	22.8	25.0
Investments Abroad to Total Deposits	61.4	62.3	56.1	53.8
Balances Abroad to Total Deposits	50.8	55.0	52.1	52.4
Client Deposits to Total Assets	73.4	73.1	76.6	76.2
Credit Facilities to Total Assets	32.0	24.3	24.0	24.3

Source: PMA, Monthly Call Report, Banking Surveillance.

As a result of the increase achieved in the current profits by the end of the 1st quarter of 2009, in comparison with the last quarter of the previous year, the percentage of net income to average assets increased by 0.2%. Also, the percentage of net income to average equity increased by about 1%, despite the rise in average equity. This means that there was a notable rise in net income.

The percentage of credit facilities to both total deposits and client deposits increased by 2.8% and 0.7% respectively by the end of the 1st Quarter of 2009, compared to the last quarter of 2008. This was a result of the slight increase in credit facilities and also the slight decline in client deposits. The ratio of the private sector credit facilities to private sector deposits had risen by 2.3%. The balances abroad to total assets continued to decline, this is in line with the PMA instructions, reaching a percentage of about 53% as compared to

over 56% at the end of the last quarter of the previous year. As a result of the slight decline on total assets during the 1st quarter of 2009, in comparison to the last quarter of 2008, client deposits and credit facilities have risen to total assets by 0.4% and 0.3% respectively.

5.5 Clearing House Activities

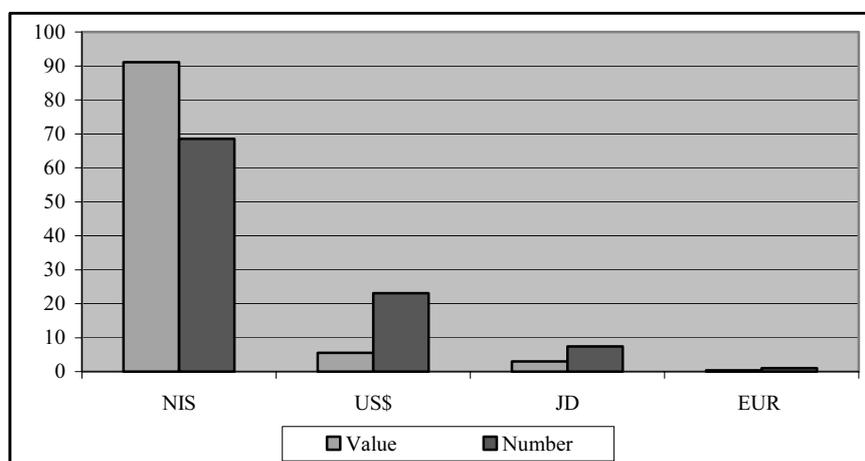
The available data on the clearing house activities at the PMA indicate a decrease of 6.8% in the number of checks presented for clearing during the 1st quarter of 2009, as compared to the last quarter of 2008. This coincided with a decline of 12.9% in the total value of these checks during the same period. On the other hand, the number of bounced checks increased by 2.4% in the 1st quarter of 2009 compared to the previous quarter, in contrast with a decline of 3.5% in their value during the same period (see table 23).

Table 23: The Number and Value of Checks Presented for Clearing and the Number and Value of Bounced Checks In the 2008 Quarters and the 1st Quarter of 2009

Period	Checks Presented for Clearing		Bounced Checks		Percent Bounced/checks presented for clearance	
	Number of checks	Value of checks (million \$)	Number of checks	Value of checks (million \$)	Number %	Value %
1 st Q 2008	603,281	1935.3	72,649	136.4	12.2	7.0
2 nd Q 2008	647,267	2144.3	72,762	132.4	11.2	6.2
3 rd Q 2008	686,097	2179.4	81,125	144.6	11.8	6.6
4 th Q 2008	717,579	2009.4	86,669	147.0	12.1	7.3
1 st Q 2009	668,531	1749.4	88,789	141.8	13.3	8.1

Source: PMA, Monthly Statistical Bulletin, various issues.

Figure 7: The share of Each Currency to Total Checks Presented for Clearing In Value and Number (%)



Source: calculated from the data in table 23.

The dominance of checks drawn in the shekel currency continued in number and value as compared to the total number of checks presented for clearing. This is attributed to the dominance of the Israeli currency in most daily transactions, in consumption and payments, especially considering that the government and some private institutions pay their salaries in the shekel. In addition, the relative stability in the value of the shekel in recent years, compared with the fluctuations in both the US Dollar and the Jordanian Dinar, may have caused this expansion in the use of the shekel at the expense of other currencies (see figure 7).

6. Palestinian Stock Market

The indicators show improvement in the performance of the Palestinian Stock Market during the 1st Quarter. This is following the severe decline in the 4th quarter of 2008 due to the concern of possible repercussions of the

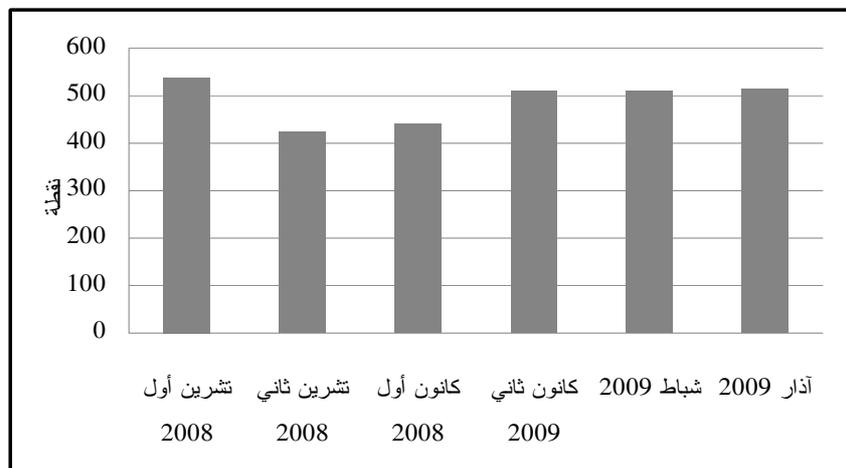
international financial crisis for small investors.

At the level of company performance, 33 out of 37 listed companies disclosed their financial data for the 1st quarter of 2009. The business results of the listed companies for the fiscal year 2008 indicate annual profit achievement for 24 companies out of the 33 companies who disclosed their financial data, while 7 companies experienced annual loss.

The Al-Quds index closed at 514.61 points by the end of March, increasing by 72.95 points, equivalent to 16.52% compared to the 2008 closure (see figure 8).

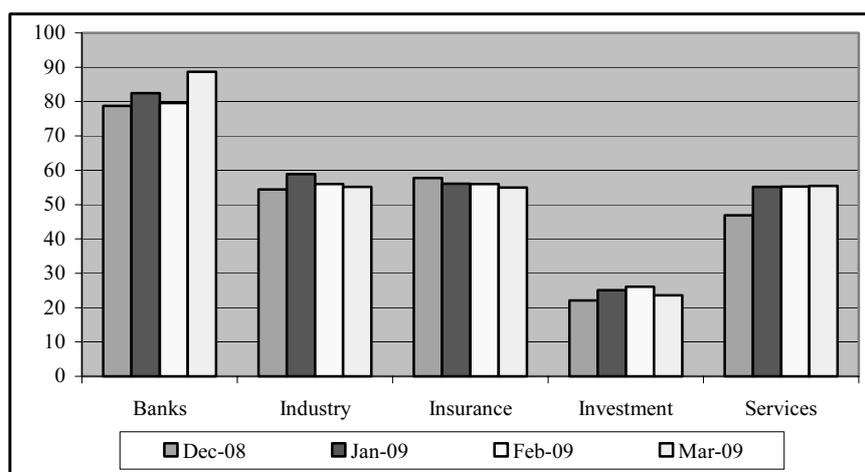
The rise of the Al-Quds index comes within the context of an increase in the indices of the investment, services, banking and industrial sectors due to the rise in the share prices of all companies. The rise for these sectors was by 6.5%, 18%, 13% and 1% respectively. Meanwhile, the index of the insurance sector declined by 5% in the 1st quarter of 2009 compared to the 4th quarter of 2008 (see figure 9).

Figure 8: Al-Quds Index by Months During the 4th Quarter of 2008 and the 1st Quarter of 2009



Source: PSE, www.p-s-e.com.

Figure 9: The Performance of the Sectoral Indices during the Months of the 1st Quarter of 2009 and the Preceding Month



Source: PSE, www.p-s-e.com.

Financial indicators point out a rise of 38.6% in the size of trading in the 1st quarter of 2009, compared to the 4th quarter of the previous year. The value of traded shares amounted to \$189 million, while the number of traded shares had risen by 78.5 % reaching \$91.2

million during the same period. The Market Capitalization reached \$2.4 billion with an increase of 14.3%. As for the trading sessions, the number had risen by 4 compared to the 4th quarter of 2008, amounting to 60 sessions (see table 24).

Table 24: Main Indicators of the PSE during the 1st Quarter of 2009 and the Preceding Quarter

Period	Market Capitalization (billion USD)	Number of Trading Sessions	AI-Quds Index (by the end of each month)	Trading Volume (stocks' value) (million USD)	Number of Traded Stocks (million)
January	2.4	19	510.22	30.2	9.9
February	2.4	20	510.35	66.3	50.4
March	2.4	21	514.61	92.5	30.9
1 st Q 2009	2.4	60	514.61	189	91.2
4 th Q 2008	2.1	56	441.66	136.4	51.1

Source: PSE, www.p-s-e.com.

7. Prices and Purchasing Power ²⁵

The 1st quarter of 2009 registered a decline in consumer prices in comparison with the 4th

quarter of 2008 and in contrast with the situation during the previous year and a half. This has contributed to the retreat of the inflation which the Palestinian economy suffered from during the greater part of the last two years. While the consumer price index (CPI) closed at 123.22 by the end of the 4th quarter of 2008, it closed at 121.98 by the end of the 1st quarter of 2009.

²⁵ The PCBS updated the base year in the calculations of the consumer price index (CPI) in accordance with the international recommendations. The base year moved from 1996 to 2004 which was selected on the basis that it has been the most stable among the years which were studied during the Al-Aqsa Intifada. A new classification of goods was also used which is the "personal consumption according to the purpose", published by the EU (COICOP), that adopts the classification of 12 main groups instead of 10, in addition to the distribution of the goods among the groups using a new method that depends on the classification of goods according to the purpose of their use.

7.1 Prices

The wave of rising international prices witnessed a persistent recession, together with stabilization in the prices of essential commodities and in addition to the decline in oil prices, stabilizing at a relatively low price. The CPI in the Palestinian Territories receded during the 1st quarter of 2009. The rise in prices abated for most essential commodities, specifically food and fuel, which capture the bulk of income expenditure for the average citizen, on the basis of its relative weight in the Palestinian consumer basket. The decrease in the prices of these commodities has also helped in reducing the production cost of other commodities that use them as inputs for their own production.

Within Palestine, prices in the remaining West Bank during the 1st quarter of 2009 have

witnessed a decrease of 2.15% compared to the 4th quarter of 2008 and an increase of 1.09%, compared to the corresponding quarter of 2008. In Jerusalem, prices registered a decline of 1.32% in the 1st quarter of 2009 compared to the 4th quarter of 2008, and a rise of 3.70% compared to the corresponding quarter of 2008. As for the Gaza Strip, the CPI indicates a rise in prices during the 1st quarter of 2009 as compared to the 4th quarter of 2008 at a rate of 0.74%; while prices have risen by 8.42% as compared to the corresponding quarter of the 2008. This rise in prices in the Gaza Strip, which is in contrast with the decrease in prices occurring in the West Bank, is attributed to the Israeli siege imposed on the Gaza Strip leading to the reduction in the volume of imports to extremely low levels.

Table 25: The CPI and its Monthly and Quarterly Percentage. Changes in the Consumer Prices in the Palestinian Territories During the 4th Quarter of 2008 and the 1st Quarter of 2009

Time Period	CPI	Monthly Percentage Change (%)	Quarterly Percentage Change (%)
October 2008	124.12	(0.06)	
November 2008	123.08	(0.84)	
December 2008	122.44	(0.52)	
4th Quarter Average	123.22		0.20
January 2009	121.57	(0.71)	
February 2009	121.54	(0.03)	
March 2009	122.82	1.05	
1st Quarter Average	121.98		(1.01)

Source: the PCBS, Price Surveys 2008-2009.
 Figures in brackets indicate a negative value.
 Base year is 2004 (2004=100).

Table 26: Average Change in CPI by Main Commodity Categories in the Palestinian Territories in the Quarters of 2008 and the 1st Quarter of 2009

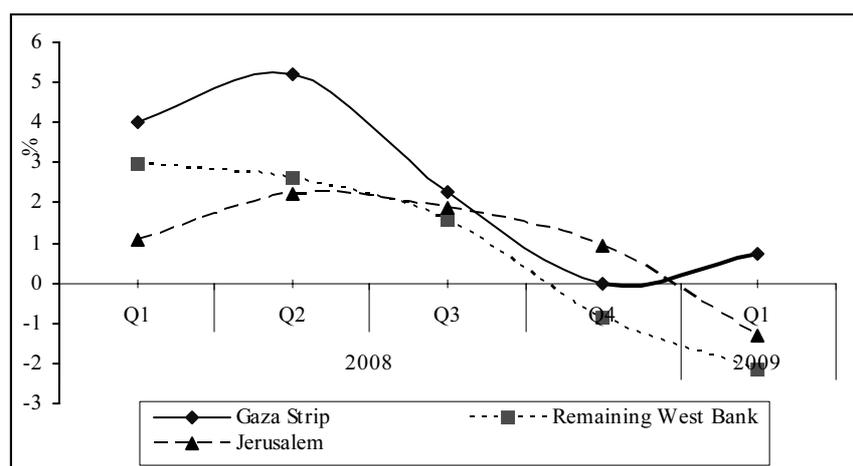
Category	Q1/2009 over Q4/2008	Q1/2009 over Q1/2008
Food and soft drinks	(1.29)	7.78
Alcoholic Beverages and Tobacco	1.05	2.93
Textiles, clothing and footwear	(0.90)	4.47
Housing	(3.08)	(1.05)
Furniture and household goods	2.28	8.64
Medical care	(0.75)	0.44
Transportation	(3.67)	(2.73)
communication	0.07	(0.87)
Recreational, Cultural goods and services	0.56	2.59
Education	0.04	2.63
Restaurants and Cafes	0.54	7.43
Miscellaneous goods and services	1.69	3.09
General CPI	(1.01)	4.18

Source: the PCBS, Price Surveys 2008-2009.
 Figures in brackets indicate a negative value (decline in prices).
 Base year is 2004 (2004=100).

Regarding the main types of commodities and services in the Palestinian Territories, the prices of food and beverages declined by 1.29% during the 1st quarter of 2009, compared to the 4th quarter of 2008. The prices of the transportation and travel category decreased by 3.67%, as did the prices of the

housing and related items category which fell by 3.08% during the same period. In contrast, the furniture and house goods and appliances category registered a rise by 2.28% as well as the alcohol beverages and tobacco category which increased by 1.05% for the same period (see table 26).

Figure 10: Shekel-based Inflation Rate in Jerusalem, the Remaining West Bank and the Gaza Strip in the 2008 Quarters and the 1st Quarter of 2009



Source: calculations based on PCBS data on the Consumer Price Index (CPI), various issues.

Table 27: Changes in the CPI in the PT by Region and Commodity Categories in the 1st Quarter of 2009 as Compared to the 4th Quarter of 2008 (%)

Category	Palestinian Territories	Remaining West Bank (%)	Gaza Strip	Jerusalem
Food and soft drinks	(1.29)	(3.23)	2.01	(1.84)
Alcoholic Beverages and Tobacco	1.05	3.19	(0.14)	0.73
Textiles, clothing and footwear	(0.90)	(2.95)	1.88	(1.33)
Housing	(3.08)	(3.09)	(2.95)	(2.85)
Furniture and household goods	2.28	(1.15)	1.49	3.48
Medical care	(0.75)	(0.81)	(2.34)	0.17
Transportation	(3.67)	(4.01)	(2.84)	(4.15)
communication	0.07	(0.12)	0.20	0.31
Recreational, Cultural goods and services	0.56	(0.26)	0.41	0.86
Education	0.04	0.22	(0.16)	0.00
Restaurants and Cafes	0.54	(0.75)	1.68	1.14
Miscellaneous goods and services	1.69	2.75	2.80	0.23
General CPI	(1.01)	(2.15)	0.74	(1.32)

Source: the PCBS 2009, Price Surveys 2008-2009. Figures in brackets indicate a negative value.

With regard to the regions and the different categories of the consumer basket in the Palestinian Territories, it is noted that the food and beverages category decreased by 3.23% in

the remaining West Bank and by 1.84% in Jerusalem during the 1st quarter of 2009, compared to the 4th quarter of 2008. In Gaza an increase of 2.01% was registered for the

same period. The transportation and travel category recorded a decline that reached 4.01% in the remaining West Bank during the 1st quarter of 2009, compared to the 4th quarter of 2008. It also declined by 4.15% in Jerusalem and by 2.84% in the Gaza Strip for the same period. The prices of the housing and related items category also recorded a decline in the Gaza Strip by 2.95% during the 1st quarter of 2009, compared to the 4th quarter of 2008. A decline was also recorded in the remaining West Bank of 3.09% as well as in Jerusalem by 2.85% (see table 27).

7.2 Average Prices of Selected Essential Commodities

The prices for some consumer commodities witnessed varying changes during the 1st quarter of 2009 as compared to the 4th quarter of 2008. The prices of essential commodities including flour, bread and fuel, imported and local alike, decreased. The following sub-sections display price movements of some of these commodities at the end of the 1st quarter of 2009 as compared to the 4th quarter of 2008:

✧ *Flour Prices*

The rate of decline in flour prices reached 17.3% in the remaining West Bank and 3.17% in the Gaza Strip.

✧ *Fuel Prices*

Fuel prices declined by 21.23% in the remaining West Bank and by 21.85% in the Gaza Strip.

✧ *Fresh Vegetables Prices*

The prices of the fresh vegetable category decreased by 22.48% in the remaining West Bank, while it increased by 7.50% in the Gaza Strip.

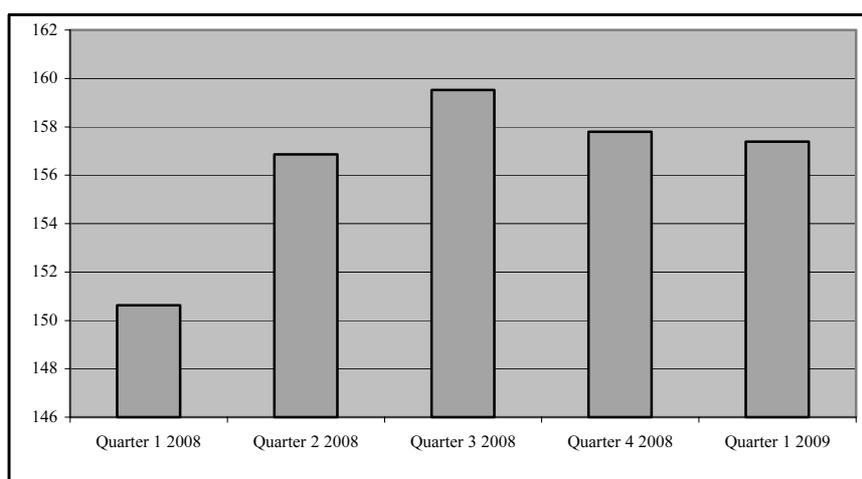
✧ *Sugar Prices*

The sugar category prices decreased by 5.15% in the remaining West Bank, while it increased by 4.23% in the Gaza Strip.

7.3 Producer Prices

The producer prices are known as the prices that the producer receives from the buyer in return for a certain commodity, minus the value added tax (VAT) (or any other deducted taxes placed on the buyer's invoice) and not inclusive of any transportation costs. The average producer price registered a decrease by 0.26% during the 1st quarter of 2009 as compared to the 4th quarter of 2008; while it registered an increase by 4.49% compared to the 1st quarter of 2008. The average producer price amounted to 157.39 during the 1st quarter of 2009 (base year 1996=100).

Figure 11: The General Direction of the Movement of the Producer Prices Indices (PPI) In the Palestinian territories for the 2008 Quarters and the 1st Quarter of 2009



Source: the PCBS 2009, Price Surveys 2008-2009.

The decline in producer prices is mainly attributed to the decline in the prices of the commodities produced and prepared for sale to

the manufacturing industry, its relative importance accounts for 52% of the producer prices basket. The prices of those commodities

that are produced and prepared for the activities of the manufacturing industry have declined by 0.59%. This is due to the decrease in the prices of products of cereal grinding by 8.62% and the decrease of cement and gypsum products prices by 3.09% and textiles prices by 2.75%. The prices of agricultural commodities, (the second component of the producer price basket) its relative importance being 45% of the basket, have slightly risen by 0.06%. The prices of the mining and extracting industries, their relative importance being only 2% of the producer price basket, witnessed a slight decline of 0.01%. The prices of fishing, its relative importance being 1%, have risen by 0.10% (see figure 11).

7.4 Currency Exchange Prices

The improvement in the exchange rate of the USD versus the NIS continued during the first three months of the current year, 2009. This improvement started during the 4th quarter of 2008 and was irregular. It has now become inclined towards a rise in the current quarter. When comparing the USD exchange rate at the end of the 1st quarter of 2009 with the 4th quarter of 2008, we find that the increase in comparison to the NIS amounted to 9%. As the JOD is pegged to the USD with a fixed exchange rate system, the developments in the USD exchange rate vis-à-vis the NIS applies to the exchange rate of the JOD vis-à-vis the NIS. The JOD exchange rate rose by 8% as compared to its exchange rate at the end of the previous quarter (see table 28).

Table 28: The Monthly Average of the Exchange Rates of the USD & JOD vis-à-vis the NIS In the 4th Quarter of 2008 and the 1st Quarter of 2009

Month	US Dollar		Jordanian Dinar	
	Average Exchange Rate	Percentage Change (%)	Average Exchange Rate	Percentage Change (%)
October 2008	3.67	3.88	5.17	3.75
November 2008	3.87	5.55	5.47	5.68
December 2008	3.82	(1.32)	5.44	(0.51)
January 2009	3.90	1.91	5.50	1.08
February 2009	4.10	5.29	5.77	4.92
March 2009	4.16	1.34	5.87	1.71

Source: the PMA, Currency Prices 2009.

* Figures in brackets indicate negative value.

7.5 Purchasing Power

The Palestinian citizen in the Palestinian Territories uses different currencies (NIS, USD and JOD), while the CPI is measured in the NIS. Therefore, the exchange rates of the USD and JOD against the NIS play a role in determining the purchasing power of the average citizen.

The purchasing power is inversely related to the CPI and is positively related to the currency market exchange rates. In conclusion, the purchasing power of the USD or JOD depends on two factors, with the assumption of a stable income. The first factor is represented in the CPI measured in the NIS and the second is represented in the currency exchange rate vis-à-vis the NIS. Thus, the purchasing power of the USD and JOD can be

regularly measured, monthly or quarterly, through the collection of the percentage change in the months of the targeted period.²⁶

Accompanying the improvement in the exchange rate of the USD vis-à-vis the NIS and the JOD vis-à-vis the NIS, an improvement in the purchasing power of these currencies occurred during the 1st quarter of 2009 compared to the 4th quarter of 2008. The USD exchange rate increased by 9% and the exchange rate of the JOD also rose by 8% during the same period. As a result of using these two currencies in Palestinian market transactions and in trading, specifically for

²⁶ The purchasing power of the currency = the percentage change in the exchange rate of the currency – the percentage change in the CPI.

durable commodities (as well as their use for the payment of salaries by some private sector institutions) the purchasing power for these currencies has risen by varying ratios. The

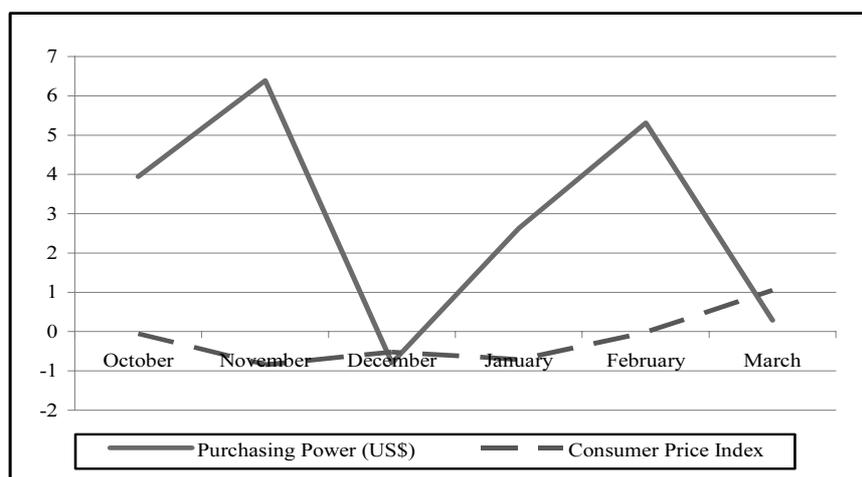
USD purchasing power increased by 0.29% at the end of the 1st quarter of 2009 and the JOD recorded an increase of 0.66% for the same period (see table 29 and figure 12).

Table 29: The Changes in Currency Exchange Rates (USD & JOD vis-à-vis NIS) and Changes in their Purchasing Power for the 4th Quarter of 2008 and the 1st Quarter of 2009

Month	Percentage Change in the CPI (%)	Currency	Percentage Change in the Currency Exchange Rates (%)	Percentage Change in the Purchasing Power of the Currency (%)
October 2008	(0.06)	USD	3.88	3.94
		JOD	3.75	3.81
November 2008	(0.84)	USD	5.55	6.39
		JOD	5.68	6.52
December 2008	(0.52)	USD	(1.32)	(0.8)
		JOD	0.51	0.01
January 2009	(0.71)	USD	1.91	2.63
		JOD	1.08	1.79
February 2009	(0.02)	USD	5.29	5.31
		JOD	4.92	4.94
March 2009	1.05	USD	1.34	0.29
		JOD	1.71	0.66

The figures are calculated based on data from the PCBS (CPI) and the PMA (Currency Prices).
* Figures in brackets indicate negative value.

Figure 12: Developments in the Purchasing Power of the USD and CPI Developments for the 4th Quarter of 2008 and the 1st Quarter of 2009



Source: The figures were calculated based on the data of the PCBS and the PMA.

8. Tourism

Tourist activities in the Palestinian Territories have witnessed some improvement since the beginning of 2007. However, they slightly

deteriorated during the 1st quarter of 2009 with hotel activity recording a decline in the number of guests as compared to the

corresponding quarter of the previous year. The tourist sector continues to suffer from fluctuations and instability as a result of Israeli arbitrary practices and various security troubles.

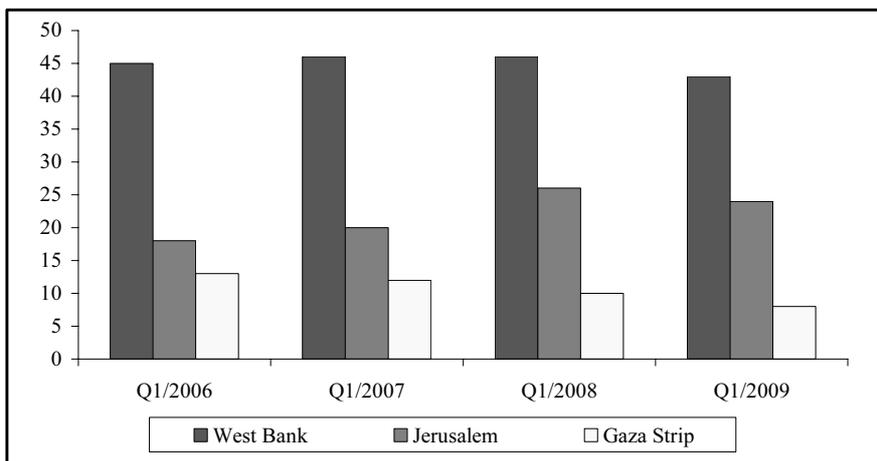
8.1 Hotel Activity during the 1st Quarter of 2009

The total number of hotels in the Palestinian Territories reached 117, including those operating and temporarily closed. The number of operating hotels differs according to the month, as there were been 75 operating hotels at the end of the 1st quarter of 2009 (see figure 13), which had 4,004 rooms with 8,441 beds. Hotel guests in the operating hotels in the

Palestinian Territories reached 69,380 during the same quarter, 8.7% of them were Palestinian and 34.7% were from European Union countries.

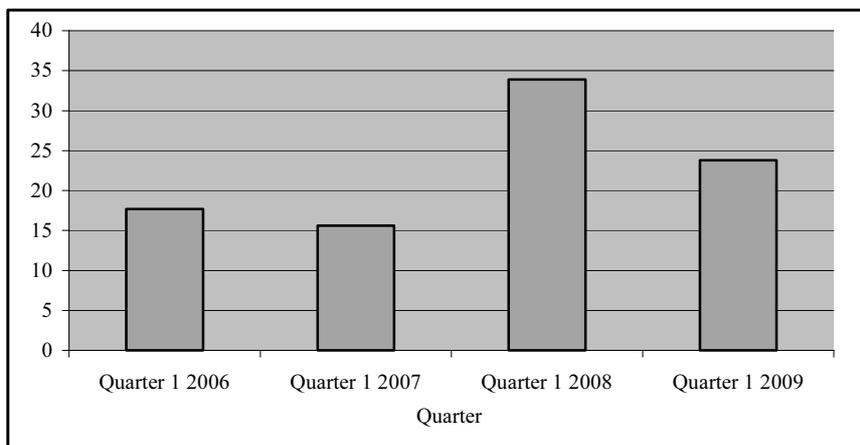
The average room occupancy in operating hotels in the PT reached 951.8 hotel rooms daily in the 1st quarter of 2009, i.e. 23.8% of available rooms (see figure 14). Hotel guests concentrated in the hotels of Jerusalem, representing 50.6% of the total number of guests, followed by the hotels in central and south West Bank, where the percentage reached 32.4% and 15.1% respectively. The percentage of guests in the hotels in the north of the West Bank was 1.6%, while it was 0.3% in the Gaza Strip.

Figure13: Number of Operating Hotels in the Palestinian Territories by 1st Quarters, 2006-2009



Source: PCBS, 2009, Hotel Activity in the Palestinian Territories, 1st Quarter 2009.

Figure 14: Hotel Room Occupancy Rates during the 1st Quarters, 2006-2009



Source: PCBS, 2009, Hotel Activity in the Palestinian Territories, 1st Quarter 2009.

The total number of nights in hotel accommodation in the PT reached 168,167 during the 1st quarter of 2009. 6.7% were Palestinian guests, 50.6% were guests from the European Union and 7.0% of the guests were from the United States and Canada. In comparison with the corresponding quarter of the year 2008, it is realized that there was a decrease of 8.09% in the amount of hotel accommodation.

The average length of stay in hotels in the PT was 2.4 nights per guest during the 1st quarter

of 2009. The highest average length of stay was 3.1 nights per guest in Jerusalem. In the northern, central and southern West Bank the average was 2.7, 2.6, and 2.5 nights per guest, respectively. While in Gaza Strip, the average length of stay in hotels reached about 1.3 nights per guest.

Table 30 shows the main indicators of hotel activity for the 1st quarter of 2009, compared to the previous quarter and the corresponding quarter of 2008.

Table 30: Percentage Change in Hotel Activity Indicators during the 1st Quarter of 2009 Compared to the 4th Quarter of 2008 and the 1st Quarter of 2008

Indicator	Percentage Change Over the 4 th Q/2008	Percentage Change Over the 1 st Q/2008
Number of Operating Hotels at the End of the Quarter	(11.8)	(8.5)
Average Number of Employees During the Quarter	(4.7)	11.9
Number of Hotel Guests	(41.0)	(20.0)
Number of Nights Accommodation	(45.7)	(19.1)
Average of Rooms Occupancy	(23.3)	(30.6)
Average Beds Occupancy	(44.5)	(18.2)
Rate of Rooms Occupancy (%)	(20.1)	(29.8)
Rate of Beds Occupancy (%)	(41.8)	(14.0)

Source: PCBS, 2009, Hotel Activity in the Palestinian Territories, 1st Quarter 2009.

* Figures in brackets indicate negative value.

9. Investment Indicators

9.1 Company Registration

According to the Jordanian Companies Law Number 12 of 1964, the Department of Company Registration in the Palestinian Ministry of National Economy is responsible for the registration of various Palestinian companies. This is applicable to the West Bank only; whereas the Gaza Strip follows the Companies Law number 18 of the year 1929 and the Ordinary Companies Law number 19 of the year 1930.

The economic monitor analyzes company data in terms of the number of registered companies, their types and registered capital. A sectoral analysis of the registered companies and their legal status is also undertaken, since the Department of Company Registration at

the Ministry classifies companies into three types: shareholding companies (public and private), ordinary companies, and foreign shareholding and ordinary companies. The economic monitor adds in this issue another classification of companies by geographic area. The monitor infers, from the companies' data, an initial idea of the nature of the activities towards which investments in the country are inclined. The data on registered companies is also considered a good indicator of the economy's attractiveness for local and foreign capital.

The 1st quarter of 2009 witnessed a rise of 58.2% in the number of registered companies, with a total of 454 companies registered

between the end of December 2008 and the end of March 2009, compared to 287 companies in the previous quarter. However, despite the rise in the number of companies in the 1st quarter of 2009 by more than a half as compared to the previous quarter, the rise in the registered capital did not exceed 9% and amounted to JOD 93 million at the end of the

1st quarter of 2009. This is attributed to the small capital size of the registered companies in the 1st quarter of 2009 compared to the previous quarter (see table 31 and figure 13). It should be taken into consideration that the 1st quarter of 2009 did not witness any registration of new companies in the Gaza Strip in view of the Israeli imposed siege.

Table 31: Development of the Number of Newly Registered Companies for the Quarters of 2008 and the 1st Quarter of 2009

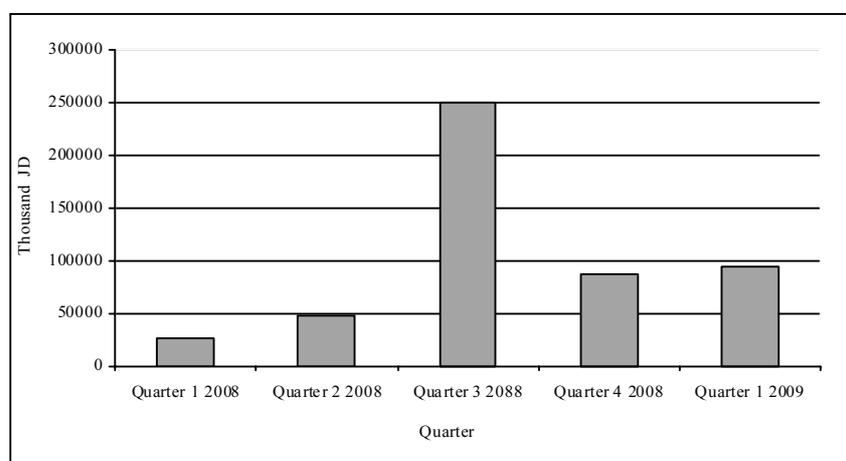
Quarter	Number of Companies
Q1, 2008	247
Q2, 2008	334
Q3, 2008	315
Q4, 2008	287
Total	1183
Q1, 2009	454

Source: Ministry of National Economy, Department of Company Registration, 2008 and 2009.

As illustrated by Figure 14, the service and trade sectors captured the biggest share of the capital for newly registered companies during the 1st quarter of 2009, with 34% and 36% respectively. Moreover, this quarter has witnessed a number of changes in the sectoral distribution of the capital of newly registered companies. A decline occurred in the share of the services sector from 53% to 34% and the trade sector from 38% to 36%, whereas the

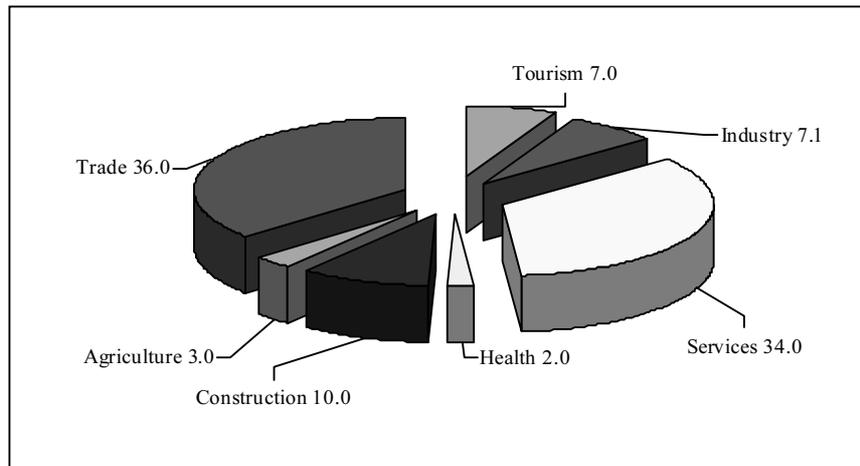
share of the industry sector rose from 4% to 7.1% and the construction sector from 3% to 10%. The health sector share has also noticeably risen from 0.1% to 2%. Also, the agricultural sector witnessed a slight rise from 1.2% to 3%. As for the tourism sector, it witnessed a significant rise from 0.6% to 7% as a result of the increase in the number of the Hajj and Umrah companies registered in this quarter (see figure 14).

Figure 15: Capital Value for Newly Registered Companies in the West Bank in JOD for the Quarters of 2008 and the 1st Quarter of 2009



Source: Ministry of National Economy, Department of Company Registration, 2008 and 2009.

Figure 16: Distribution of Capital for Newly Registered Companies in the West Bank by Economic Activity During the 1st Quarter of 2009 (%)



Source: Ministry of National Economy, Department of Company Registration, 2009.

In view of the legal status of companies registered in 1st quarter of 2009, a change in the distribution of capital among various types of companies is seen in comparison with previous periods. In spite of the fact that the "private shareholding" companies still capture the largest proportion of capital, this share has almost doubled in the 1st quarter of 2009 reaching 74.4% of the capital. Ordinary

companies' share has also risen reaching 23.7% in contrast with a decline in the share of foreign private shareholding companies to only 17% of the capital. The share of the ordinary limited companies was less than 1% (0.1%) during the 1st quarter of 2009 while no public shareholding companies were registered in this period (see table 32).

Table 32: The Distribution of Capital for Newly Registered Companies During the Quarters of 2008 and the 1st Quarter of 2009 in the West Bank by Legal Classification

(JOD)

Year	Legal Form							Total
	Public Ordinary	Private Shareholding	Public Shareholding	Foreign Private Shareholding	Foreign Ordinary	Foreign Public Shareholding	Ordinary Limited	
Q1 2008	9,180,000	13,899,700	1,739,343	162,000	0	0	160,000	25,141,043
Q2 2008	18,682,800	27,180,760	0	1,378,000	0	0	0	47,241,560
Q3 2008	18,176,500	73,977,500	0	6,311,527	150,000,000	0	0	248,465,527
Q4 2008	12,457,000	25,997,437	21,300,000	26,095,692	0	0	200,000	86,050,129
2008	83,584,300	194,407,471	74,339,343	96,715,718	150,000	0	760,000	599,806,832
Q1 2009	22,179,040	69,548,440	0	1,603,770	0	0	100,000	93,431,250

Source: The Ministry of National Economy, Department of Company Registration, 2008, 2009.

The majority of newly registered companies are clustered in the governorate of Ramallah and Al-Bireh, where the proportion reached 30% of total registered companies in the 1st quarter of 2009. This is due to the active economic movement where government institutions and organizations are centered, as well as 16% of the West Bank civil society organizations. In addition to this is the high

quality of the infrastructure for investment as compared with other governorates, creating a good investment environment which in turn increased the total number of companies registered. Following are Hebron and Nablus governorates, where the proportion of companies in the 1st quarter reached 20% and 15% respectively. These two cities are surrounded by many urban communities which

explain the high proportion in the number of companies registered in these communities to the total number of the companies registered in the governorate.

The Jenin governorate shares this characteristic with Hebron and Nablus governorates. Although its population is less than these governorates, there is growing economic activity in the area surrounding the city due to the relatively advanced infrastructure in these surrounding areas available for the population living there. This has contributed to increasing the number of projects in the governorates. Thus, the new companies registered reached 12.5%, a high percentage, especially when compared with the numbers of new companies registered in the neighboring governorates which have the same agricultural economy as Jenin. These governorates include Tulkarem, Qalqilia and

Salfit who have respectively attained 4.8%, 1.9% and 1.5% of total companies registered.

The number of companies registered in the suburbs of Jerusalem was recorded at a rate of 3.9% of the total number of newly registered companies. The decline in this rate does not seem strange in view of the lack of appropriate infrastructure. In addition to this is the restrictions and impediments imposed by the Israeli occupation on the movement of persons and goods within those areas, as well as between them and other regions, especially after the construction of the Apartheid wall. While the newly registered companies reached 7.2% in the Bethlehem governorate, it was 1.5% in the Jericho governorate and the Jordan Valley, which has agricultural characteristics limiting the chances of investments in other sectors (see table 33).

Table 33: The Number of Newly Registered Companies in the West Bank by Governorates during the 1st Quarter of 2009

WB Governorates	Number of Companies registered
Ramallah & Al-Bireh	144
Hebron	91
Nablus	66
Tulkarem	22
Jenin	57
Jericho and the Jordan Valley	7
Jerusalem Suburbs	18
Bethlehem	33
Qalqilia	9
Salfit	7
Total	454

Source: The Ministry of National Economy, Department of Company Registration, 2009.

9.2 Building Licenses

The number of building licenses issued during a specific period is an indicator of the size of the investment activity in the construction sector, taking into account that the number of issued licenses does not include all construction activities in this sector. The reason for this is that part of the construction activities in rural areas are not registered and no building licenses are applied for.

The number of building licenses issued is largely affected by climate and weather

conditions during a certain period of time. Accordingly, the increase and decrease in number can be seen through the different quarters of the year. The activities pertaining to the construction sector usually increase during the 3rd and 4th quarters (during summer time), while it decreases during the 1st and 2nd quarters (during winter). This relation to the previously mentioned factors makes the comparison between a specific quarter and the corresponding quarter of the previous year

more accurate and meaningful than comparing it to another quarter.

The construction sector witnessed a relative decline in the West Bank during the 1st quarter of 2009, as the indicators show a decrease in the number of building licenses issued in comparison with the corresponding quarter of 2008 by only 0.7%. The data for the Gaza Strip is not available for the 1st quarter of 2009 nor is it for the 1st, 3rd and 4th quarters of 2008. The total area of licensed buildings during the 1st quarter of 2009 amounted to about 469

thousand square meters, this was a decline of 11.5% compared to the corresponding quarter of 2008. The number of Dwellings licensed has considerably declined during the 1st quarter of 2009. While the number of new Dwellings licensed in the 1st quarter of 2008 amounted to about 1,800 units, the number declined by 31.6% and reached 1,266 units in the 1st quarter of 2009. The area of these units also declined by 17.5% and the number of existing licensed Dwellings decreased to 261, declining by about 37% (see table 34).

Table 34: Some indicators for Building Licenses and Licensed Areas in the Palestinian Territories during the Quarters of 2008 and the 1st Quarter of 2009

	Q1 2008*	Q2 2008	Q3 2008*	Q4 2008*	Q1 2009*	
Total Licenses Issued	1,228	1,155	1,096	980	1,219	
Residential Building		979	931	827	1,052	
Non-residential Building		176	165	153	167	
Total Area Licensed (Thousand Sq. m.)	530.1	354.8	458.8	385.5	469.2	
Licensed Dwellings						
New Dwellings	Numbers	1,850	1,062	1,174	1,111	1,266
	Area (Thousand Sq. m.)	297.5	195.2	234.3	195.5	245.6
Existing Dwellings	Numbers	414	331	223	202	261
	Area (Thousand Sq. m.)	88.3	60.7	62.5	51.6	74.3

Source: The PCBS 2009, Building Licenses Statistics, Ramallah- Palestine.

* For the West Bank only, The Gaza Strip not included.

10. Expectations of Owners and Managers of Industrial Establishments²⁷

33.2% of the owners and managers of industrial establishments in the Palestinian Territories found that the general performance of their establishments improved during June 2009, compared to May of the same year, by 33.9% in the West Bank and 22.2% in the Gaza Strip. As for production, 85.1% of the owners and managers of those establishments in the Palestinian Territories indicated that the rise in prices and costs of raw materials was the main factor affecting the costs of production. 82.5% of the owners and

managers of industrial establishments pointed out that no change occurred on the numbers of workers during June 2009, 81.5% of which are in the West Bank and 95.7% in the Gaza Strip.

9.7% of the owners and managers of industrial establishments in the Palestinian Territories indicated that they have laid-off workers during June 2009; 10.1% of industrial owners and managers in the West Bank and 4.3% in the Gaza strip. With regard to competition, 94.3% of the owners and managers of industrial establishments pointed out that they face local and foreign competition to their main product. 50.3% of them indicated the existence of local competition and 18.3% indicated that there is foreign competition to their main product, while 22.4% of them indicated there is local as well as foreign competition.

²⁷ This section of the Monitor depends on the "Survey of Perceptions of Owners (Managers) of Industrial Establishments regarding Economic Conditions" which is conducted by the PCBS. This survey has been conducted during 3-23/07/2009 representing June 2009. It covered 358 establishments in the West Bank and 55 in the Gaza Strip.

39.1% of the owners and managers of industrial establishments in the Palestinian Territories expect an improvement in the conditions of production at their establishments during the coming six months. 21.7% of owners and managers expect a rise in employment level during the coming six months. The percentage of those expecting a rise in sales levels reached 43.4% of the owners and managers of industrial establishments in the Palestinian Territories.

11 Israeli Measures ²⁸

11.1 The Martyrs and the Injured

No assassinations or field death sentences without trial by the Israeli occupation forces were recorded in the 2nd quarter of 2009. However a number of other cases were registered such as martyrs, detainees and injured people. The number of martyrs in the same period amounted to 23 and the injured to 272, while the number of those detained reached 878 in the same period of 2009.

11.2 Obstacles to Movement and Travel

The number of temporary check points in the West Bank amounted to 1280 during the 2nd quarter of 2009 at a rise of 13.3% compared to the previous quarter. The number of total closures of border crossings to Israel amounted to 379. The Israeli occupying forces imposed 20 curfews on different populated areas. The Israeli forces also kept several permanent check points that became similar to border crossing points. Despite their talking about providing facilities for citizens on these check points, the fact remains that these check points only add to the sufferings of the Palestinian citizens. Suffering caused by complicated crossing procedures, inspections, interrogations and delays lasting hours. Furthermore, the Israeli occupation forces total closure of these check points, under the security measures pretext, has led to the tearing-up of the West Bank and the isolation of the northern areas from the center and the center from the south, making the movement between Palestinian cities a strenuous ordeal.

²⁸ Monthly Reports of the Palestinian Monitoring Group PMG (January, February, March) at <http://www.nad-plo.org>.

11.3 Assaults on Education and Health Sectors

There were 6 Israeli assaults on the Palestinian education sector during the 2nd quarter of 2009. They included raiding schools, throwing tear gas bombs on school playgrounds, surrounding schools and mounting check points near schools, especially during the public secondary exams.

With regard to the health sector, 5 assaults were executed during the 2nd quarter of 2009. They included the prevention of ambulances from transporting the injured, holding these ambulances, attacking medics, refusing to coordinate with the ambulances, raiding hospitals and clinics, pharmacy inspections, and the detaining of the injured.

11.4 Assaults on Property and House Demolitions

The phenomenon of the Israeli occupation forces targeting public and private Palestinian properties has continued. These forces demolished 11 houses and occupied another 53, using them for different military purposes and for various periods of time during the 2nd quarter of 2009. The assaults on Palestinian properties amounted to 307 during the same period.

The Israeli occupation forces continue to raid the premises of the Palestinian security forces, shooting and putting military check points in their vicinity. The number of harassments committed by the Israeli occupation forces against the Palestinian security forces during the 2nd quarter of 2009 amounted to 51 cases. This resulted in the detaining of a number of militants from the Palestinian security forces.

11.5 Settlement Activities and Settler Assaults

The settlement activities continued in the PT, amounting to 18 settlement activities during the 2nd quarter of 2009. These activities included confiscation of lands and land scraping for the sake of constructing security fences and expanding and constructing roads to serve the settlements. Israeli settlers continued their assaults on Palestinian citizens and their properties amounting to 227 assaults during the 2nd quarter of 2009.

12. Palestinian Demographic Situation ²⁹

Statistics indicate that the Palestinian population at the end of 2008 is approximately 10.6 million. This means that the number of Palestinians in the world has increased 7 fold since the 'Nakbah' in 1984.

12.1 Palestinian refugees

Statistical data show that Palestinian refugees in the Palestinian Territories form 43.6% of the total Palestinian population in the Palestinian Territories. The number of refugees registered by UNRWA is about 4.7 million, equivalent to 44.3% of the total Palestinian population in the world, 41.8% of which are in Jordan, 9.9% in Syria, 9% in Lebanon and a proportion of 16.3% in the West Bank and 23.0% in the Gaza Strip.

About one third of the Palestinian refugees live in 59 refugee camps, 10 of which are in Jordan, 10 in Syria and 12 in Lebanon. The number of refugee camps in the West Bank is 19, with 8 in the Gaza Strip. These estimations are seen as the minimum level for the expected number of Palestinian refugees. There are many unregistered refugees especially considering that the above numbers do not include those expelled after 1949 but before the war in June 1967.

12.2 Palestinians in the Palestinian Territories

The population in the Palestinian Territories was estimated at about 3.88 million at the end of 2008. 2.42 million live in the West Bank and about 1.46 million live in the Gaza Strip. On the other hand, the Palestinian population in the Jerusalem governorate amounted to 379 thousand at the end of 2008, 62.1% of them live in the part annexed by Israel after the occupation of the West Bank.

12-3 Population Density

The population density is considered high in the Palestinian Territories as compared to other countries. The population density is extremely high in the Gaza Strip as the 1948 Nakbah transformed it into the most populated area in the world. The population density in

the Palestinian Territories reached about 645 person / square km. at the end of 2008, 427 persons / square km. in the West Bank and 4,010 persons / square km. in the Gaza Strip.

13. Governance in the Palestinian Territories ³⁰

The PCBS had commissioned the governance survey in the Palestinian Territories by mid October 2008 until end of November 2008. This survey aims to create a detailed and comprehensive database regarding governance indicators in the Palestinian Territories. The survey sample was comprised of 2,544 families, of which 1,764 lived in the West Bank and 780 in the Gaza Strip. The survey was based on the opinion poll of one member of each family (18 years and above).

13.1 Security and the Palestinian Judiciary

The results of the survey show that 86% of the Palestinians believe, through their personal experiences with the judiciary, that Palestinian judges are independent in their decision-making. This proportion is 86.8% in the West Bank and 83.9% in the Gaza Strip.

The results have also shown that 40.9% of the individuals in the Palestinian Territories feel safe, while 29.4% of the individuals surveyed felt a lesser degree of security versus 29.7% of the individuals who do not feel safe at all. 42.7% of the individuals state that the main reason for their feeling unsafe is due to the Israeli occupation, internal insecurity issues comes second to this by a ratio of 31.1%.

13.2 Media and Press

The survey results show that 45% of individuals in the Palestinian Territories believe that there is no freedom to demonstrate and hold peaceful gatherings, while 27.8% of individuals believe that there is a lack of freedom of thought and belief. 35.4% of individuals believe that there is no freedom of the press and media in the Palestinian Territories, divided by 28.3% in the West Bank and 49.0% in the Gaza Strip.

²⁹ The PCBS, Special Nakbah-61 Report, 2009.

³⁰ The PCBS (2009), Governance Survey in the Palestinian Territories for 2008. Ramallah- Palestine.

13.3 Palestinian Women

The results of the survey indicate that 66.3% of individuals believe that men and women stand equal opportunities to reach senior posts in various institutions. 50.5% of individuals believe that what women have achieved in society is enough. 53.2% of individuals reported that the enacted laws in the Palestinian Territories do not discriminate between men and women, compared to 42.3% who see the opposite. As for violence against women within the family, 94% of individuals reported that, in all cases, using violence against women is not permissible.

13.4 Palestinian Government Performance

Data on individual assessment of Palestinian public performance in the Palestinian Territories indicated that 63.4% of individuals surveyed said that the public performance to create better socio-economic conditions was weak. This proportion is divided by 66.3% in the West Bank and 57.9% in the Gaza Strip. With regard to the assessment of the public performance in providing security for citizens, 62.5% of individuals in the West Bank reported that it was a good performance versus 72.9% in the Gaza Strip. 52.8% of individuals believe that the Palestinian public performance in combating corruption is good, divided in 42.5% of people in the West Bank and 72.5% of people in the Gaza Strip.

13.5 Education

The results of the survey indicated variations in individuals' satisfaction with teaching methods and school curriculum. The number of individuals in the public sector who are satisfied with the performance of the public education sector amounted to 44.6%. This is compared to 68.5% of individuals using private sector education who are satisfied with its performance. The proportion of individuals in UNRWA who are satisfied with the performance of UNRWA schools amounted to 54.9%. The educational environment, in terms of the location of the premises and the equipment, attained the satisfaction of about 80% of the individuals in the public sector versus 88% in the private sector and 91.2% of the individuals in UNRWA schools. As for the

efficiency of teachers, the percentage of those who expressed satisfaction amounted to 86.9% in the private sector schools versus 79.9% in the UNRWA schools and 55.5% in the public schools. In institutions for higher education, the proportion of satisfaction amounted to about 85.1%.

13.6 Unemployment and Workers Wages

There is a significant variation in the satisfaction with the pay that individuals earn between the West Bank and the Gaza Strip. While the ratio of those who were satisfied with their wages in the Gaza Strip amounted to 74.2%, it did not exceed 43.3% in the West Bank. However, the feeling of security and occupational stability was higher in the West Bank than in the Gaza Strip. 51.9% of the surveyed workers in the West Bank expressed that they have a feeling of stability in their jobs versus 44.1% in the Gaza Strip. With regard to unemployment, the survey results showed that 94.1% of individuals believe that the Israeli siege and the occupation are the main cause for high unemployment rates. The second reason, as 86.1% of individuals believe, is the weakness of the private sector followed by the government's incorrect policies, as 85.7% believe.

14. Palestinian Children

14.1 Demographic Status

The population statistics based on the results of the census of 2007 indicate that the number of children below the age of 18 has reached 1.9 million of the total population of 3.88 million at the end of 2008. Statistics also show that the ratio of individuals below the age of 15 is still on the rise, reaching 42.5% of the total population. These ratios emphasize that the Palestinian society is a youthful society that is characterised by a broad based population pyramid. Demographic statistics reveal that children will form the majority of the Palestinian society for years to come due to the high fertility of Palestinian women and the low rates of infant mortality.

14.2 Educational Status

Data about the academic year 2007/2008 demonstrates that the number of school students in the Palestinian Territories amounted to 1,097,957, with females constituting 50% of them. Students enrolled at the basic education (compulsory) stage in West Bank schools constitute about 59.6% versus 40.4% in the Gaza Strip schools. In the secondary stage, 59.2% of students at this stage are enrolled in the West Bank schools versus 40.8% in the Gaza Strip schools.

14.3 Child Labor and Poverty

Poverty increases in positive correlation with an increase in the number of children in a household. The poverty rate, according to monthly income, reached about 78.9% for families with children versus 63.7% for families without children. In the West Bank, the rate was 48.6% among families with children versus 41.3% among families without children.

The results of the manpower survey for 2008 reveal that the ratio of child workers is 3.7% of the total number of children in the PT, 5.3% in the West Bank and 1.2% in the Gaza Strip. Two thirds of those children work with their families without pay (91.6% of them are females and 64.1% are males). This is in contrast to 25.6% wage employees (7% female workers and 28.4% male workers). The agricultural sector captures the highest percentage of child workers at 45.5%, while 29.6 % of the total child workers are in the trade, restaurant and hotel sectors. The percentage of workers in mining, quarrying and manufacturing industries reached about 13.8% and those working in the construction sector amounted to 7.5% during 2008.

14.4 Children Martyrs

The estimated number of Al-Aqsa Intifada martyrs since its inception until 29/2/2008 is 5,264; 959 of them were below the age of 18, equivalent to 16.3% of the total number of martyrs. With regard to the recent aggression on the Gaza strip, the number of martyrs amounted to 1,334 martyrs, from the beginning of the aggression until 18/1/2009; 417 of them were children.

15. Settlement Activities ³¹

The number of settlements and settlers has significantly increased recently. Data indicates that the number of Israeli settlements in the West Bank reached 144 settlements at the end of 2008. Preliminary estimates show that the number of settlers in the west Bank had risen to half a million by the end of 2008. Data also shows that most settlers live in the Jerusalem governorate, accounting for 54.6% of the total number of settlers. Almost half the settlers in the Jerusalem governorates (42%) occupy the part annexed by Israel following the occupation of the West Bank in 1967.

16. The Apartheid Expansion Wall ³²

The Apartheid separation wall devours about 13% of the West Bank area. Its expected length when finished will be 770 km., of which about 409 km. are already built and construction is ongoing on another 113 km with 248 km. planned for construction. The Wall isolates an area of 733 square km. of the West Bank lands. Its eastern part, which passes from the north to the south of the West Bank, is estimated to be 200 km. Long. This part of the wall isolates the Jordan Valley area, which is the Palestinian food basket and main source of food for the Palestinian people. The length of the wall in the Jerusalem area amounted to 122 km., 78 km. are completed, while 16 km. are under construction and 28 km. are planned for construction.

17. Health Conditions in the West Bank ³³

The 2008 data indicated that the number of doctors registered at the Doctors Association in the West Bank amounted to 2, 941 doctors, at an average of 0.8 doctors for each 1000 inhabitants. The number of nurses was 1.5 nurses for each 1000 inhabitants, while there were 0.16 midwives for each 1000 inhabitants.

³¹ The PCBS, Special Nakbah-61 Report, 2009.

³² Ibid

³³ Ibid

Economic Issues

Economic Growth II Sources of Growth

When we say that the economy has achieved a growth rate of 5% this year, this means that the value of total commodities and services produced by the economy this year, estimated in real prices, increased by 5% from its level in the previous year. Obviously, this increase in the production of commodities and services occurred as a result of one of the following three changes:

- ✧ An increase in the use of production factors leading to the increase in the value of production by 5%.
- ✧ An increase in the productivity of production factors leading to the increase in the value of production by 5%.
- ✧ An increase in the production factors and their productivity at the same time; for instance the increase in the production factors may lead to an increase in the value of production by 2%, while the increase in productivity leads to the increase of the value of production by 3%.

In general and in the context of the categories of macroeconomic literature, production factors consist of the following elements:

- ✧ Land, including land areas used in all production sectors: agricultural, industrial and services.
- ✧ Workers, including the number of workers who participated in the production process in all production sectors.
- ✧ Physical capital, including all physical inputs used in production, which is not limited to machinery and equipment in factories, but also include premises and infrastructures such as roads and ports ect., which are the elements that exist as a result of previous investment.
- ✧ Human capital, which is the summation of experiences, skills and knowledge of workers. This is achieved as a result of investing in education and training and acquired through the process of production itself, learning by doing. The physical and human capitals are both achieved as a result of investment processes and both are consumed over time. However, they differ from each other in that the human capital is used only through the participation of its owner in production, while the physical capital is used without necessarily the participation of its owner in the production process.

Factors of production, also know as total factor productivity, is the increase that occurs in production due to the improved capacity of these factors for production, not because of the increase in the production factors. Usually, a distinction between two components of productivity is made:

- ✧ Technological progress, which is achieved as a result of investments in scientific studies, in R&D and in dissemination of scientific knowledge.
- ✧ Efficiency, which refers to the efficient utilization of production factors and the technological progress in the production process. In general, this component has to do with the institutional status and what it comprises of, such as management and administration of all institutions related to the production processes, whether this be on the level of the establishment, industry, sector or the economy at large.

Apparently, the formulation of policies to encourage and stimulate economic growth mainly depends upon the knowledge of the relative importance of these factors in achieving growth. Should we focus on increasing production factors more than increasing productivity, or the opposite? As for the factors of production, which is the most important? Is it the accumulation of the physical or human capital? Then, as for productivity, is the priority for accelerating technological progress or working for institutional reform to ensure increased efficiency.

In theory, there is a significant difference between the increase in the factors of production and the increase in productivity. There is no restriction, long term, on the continuity of the increase in productivity but there are restrictions on the increase in production factors. As for the land, the possibility of increasing the size of the land used in production vanishes after the reclamation of all unused land. The same applies to workers, as it is impossible to increase the number of workers after the economy reaches the level of full employment. As for the physical and human capital, the accumulation in both of them is governed by the law of 'diminishing returns to scale.'

As a result of the difference between the impact of production factors and productivity on growth in the long run, the growth rate of the national income per capita in the long run depends on the average of productivity growth. This is according to the neoclassical growth model. This means that capital accumulation raises the growth rate in the short run but does not have the same result in the long run.

During the last quarter of the century a new growth model appeared in economic literature, the ‘endogenous growth model’. This model differs from the previous one in the way it deals with the law of ‘diminishing returns to scale’. The ‘endogenous growth model’ maintained the law of ‘diminishing returns to scale’ on the level of a single establishment and with regard to physical capital and human capital (labor). However, it perceives that the accumulation of both types of capital have a positive externality, which limits the impact of the diminishing returns on the aggregate level. Therefore, the physical and human capital accumulation plays a role in influencing growth rates in the long run, while the factor productivity (TFP) plays a significant role in the determination of the speed by which the growth rate reaches a steady state.

Practically speaking, the formulation of policies for the stimulation of growth requires the estimation of the following ratios:

- ✧ The ratio of the relative contribution of each of the production factors to growth.
- ✧ The ratio of total contribution of the production factors in growth compared to the ratio of the contribution of productivity in growth.
- ✧ The ratio of the contribution of technological progress to the increase of productivity as compared to the ratio of the contribution of improved effectiveness in increasing productivity.

Economists have developed two methods for measuring these ratios. The first is concerned with studying the sources of growth in one country for a specific period of time. This is called the ‘growth accounting method’ and it uses time series data. The second method is concerned with the explanation and reasoning of the existing differences in the income per capita (the income level and not its growth rate) among different countries. This is in terms of how much of these differences are attributed to variations between these countries in the availability of production factors and how much are attributed to the productivity of the production factors. This method uses cross section data and is called, in economic literature, the ‘development accounting method’.

The following is a summary of the main findings from the most recent studies on growth and development accounts, with special emphasis on studies related to Arab countries.

- ✧ Prior to the nineties, studies were not concerned with human capital and focused only on physical capital and labor force. Those studies found that the role of productivity and its increase was very important for the interpretation of growth and considered it significantly more important than physical capital or labor. This continued until around 1973 when the so-called productivity slowdown occurred, continuing throughout the eighties and nineties as illustrated in table (1).

**Table (1): Growth Accounts in Some Rich Industrial Countries
During (1947-1973) and (1960-1990) (%)**

Country	Growth Rate		Physical Capital Contribution to Growth		Labo Contribution to Growth		Productivity Contribution to Growth	
	1947-1973	1990-1960	1973-1947	1990-1960	1973-1947	1990-1960	1973-1947	1990-1960
USA	4.02	3.10	42.7	45.2	23.7	41.5	33.6	13.2
UK	3.73	2.49	47.2	52.3	0.9	(4.2)	51.9	51.9
France	5.42	3.50	41.5	58.1	3.9	0.5	54.5	41.4
Germany	6.61	3.20	40.6	58.7	2.8	(8.1)	56.6	49.4
Japan	9.51	6.81	34.5	56.9	23.3	14.3	42.3	28.8

Source: Barro, R and Sala-I- Martin, X “Economic Growth” New York: McGraw-Hill (1995)

- ✧ Later studies focused on the contribution of human capital in the growth process, with the realization that there is no single standard for the measurement of human capital.³⁴ Most studies indicated that the contribution of human capital is as important as the contribution of physical capital.³⁵ The importance of

³⁴ The mostly used measurement for human capital in growth accounts studies is the average number of years of studying for those between the ages of 16 to 64.

³⁵ The famous study in economic literature on this topic is: N.G. Mankiw, D. Romer, and D. Weil, “Contribution to the Empirics of Economic Growth” *Quarterly Journal of Economics*, May 1992, pp.407-437.

human capital was referred to in studies that used the development accounts method. The aim here was to identify the factors responsible for the differences in the level of per capita income among various countries. For example, one study tried to determine the factors responsible for the difference in the average per capita income between the United States and India in the mid eighties. When analyzing the difference between physical capital and productivity between the two countries, only 9% of the difference in the average per capita income between the two countries was explained. But when the difference between the human capital and productivity was analyzed besides the physical capital, 84% of the difference was explained³⁶ Another study, in 2007, illustrated that the contribution of the human capital in the growth of average per capita income in Egypt, Jordan and Syria was one of the most important sources of growth in the eighties and nineties (see table (2)).

Table (2): The Structure of Growth Factors in Egypt, Syria and Jordan (1980-2000)

Country	Labor Productivity Growth Rate	Physical Capital Contribution	Human Capital Contribution	Factors Production Contribution (%)
Egypt	1.83	56.60	70.10	(26.70)
Syria	1.18	53.90	46.60	(0.51)
Jordan	(0.64)	(45.30)	123.40	(178.12)

Source: The United Nations Economic and Social Commission for Western Asia ESCWA, Economic Performance Analysis and Assessment of Growth and Productivity in the ESCWA Region, Issue 5, 2007.

- Figures in brackets indicate negative values.

- ✧ A new method has recently been created to determine the extent of the contribution of ‘technological progress’ and the extent of the contribution of ‘effectiveness’ (i.e. the difference in the efficiency of institutions) to increasing productivity.³⁷ This method has been used in ‘development accounts’ studies to determine the cause for the large variations in productivity among various countries in the world. The method is used to determine whether the difference is attributed to differences in ‘technological progress’ or to differences in ‘effectiveness’. Most studies on this topic indicate that ‘effectiveness’ is the most important in explaining variations in productivity, especially between rich industrial countries and the developing countries.³⁸ This must not be taken in the sense that ‘technological progress’ is not important for productivity. It must be viewed in the sense that technological progress can be available at a specific time for everyone in one way or another, especially the modern technologies of knowledge: the computer and communication technologies. However, the effective utilization of those technologies mainly depends on the efficiency of institutions and their capacity in the organization of production processes. Table (3) demonstrates the results of a study conducted by the United Nations Economic and Social Commission for Western Asia (ESCWA), illustrating the significant role of ‘technological progress’ in increasing productivity as compared to the role of ‘effectiveness’ in certain countries.

Table (3): The Contribution Rates of Technological Progress and Effectiveness in production (1990-2000) (%)

Country	Annual Productivity Growth Rate	Contribution of Technological Progress	Contribution of Efficiency
Egypt	1.97	100.0	0.0
Oman	2.68	18.0	82.0
Saudi Arabia	(0.25)	95.0	5.0
Syria	2.78	51.0	49.0
Tunisia	2.0	54.0	45.0
Malaysia	1.04	82.0	18.0
UK	(0.18)	63.0	37.0
USA	0.64	100.0	0.0

Source: The United Nations Economic and Social Commission for Western Asia ESCWA, Economic Performance Analysis and Assessment of Growth and Productivity in the ESCWA Region, Issue 4, 2005.

- Figures in brackets indicate negative values.

³⁶ Ibid.

³⁷ This method is called the ‘data envelopment analysis’ (DEA).

³⁸ David Weil (2005), Economic Growth. New York: Addison Wesley, Chapter 10.

To sum up, we may say that growth requires the accumulation of physical capital and technological progress, but the efficient and effective utilization of these need human capital and effective institutions.

With regard to the Palestinian economy in the West Bank and the Gaza Strip, the presence of the occupying forces and the resistance impose economic conditions that are not natural. Therefore, it is difficult to have great confidence in the results of studies on growth accounts that were conducted during the last three decades.

Nevertheless, there are three studies whose results are useful and worth taking into consideration. The first study was published by the World Bank in 2002 covering a period from 1980-2000.³⁹ The study demonstrated that the annual growth of GDP per capita amounted to 2.18%, with an estimated contribution of the physical capital between 80% and 86% of that growth. Thus, the productivity of the production factors has been estimated between 20% and 14%. The second study was published by MAS in 2006 and covered a period from 1981-2005.⁴⁰ This study illustrated that the average productivity of the production factors declined during that period by 5.46% annually.⁴¹ The third study was published by the International Monetary Fund (IMF) and covered a period from 1973-1994. The study concluded that the annual average growth of productivity of the production factors in the Palestinian economy for that period reached 1.6%.⁴² This is a high rate and comes second only to that of East Asian countries who achieved 2%, the highest in the world.⁴³

³⁹ World Bank: Long-term Policy options for the Palestinian economy. July 2002.

⁴⁰ The Palestine Economic policy Research Institute (MAS): Proceedings of MAS's Annual Conference, 2006

⁴¹ In this study, the researcher did not assume the capital-output ratio, the share of capital in income and depreciation rate. Instead, he calculated these ratios from the national accounts data.

⁴² International Monetary Fund (2001) West Bank and Gaza: Economic Performance, Perspectives, and Policies.

⁴³ In the IMF study, the researcher made no hypothesis regarding the ratio of capital to production, the proportion of capital from income. He did not attempt to calculate them from Palestinian national accounts data as the MAS researcher did. Instead, he assumed one value for each factor, which are the values commonly used in the calculations of growth in the US economy.

Statistical Annex

جدول 2: مكونات الناتج المحلي الإجمالي في باقي الضفة الغربية* وقطاع غزة للأعوام 1994-2008 بالأسعار الثابتة

Table 2: GDP's components in Remaining West Bank* and Gaza Strip for the year 1994-2008 at constant prices

Final Use	القيمة بالمليون دولار..... Value in m\$															الاستخدام النهائي
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	
Household final consumption	-	4,373.6	4,197.5	4,467.5	4,400.3	4,103.1	3,627.8	3,901.4	3,982.0	4,180.2	3,806.8	3,493.3	3,106.1	3,093.3	3,061.5	الإنتفاق الأسري
Government final consumption	-	849.8	870.4	833.3	1,048.9	903.1	947.9	1,022.7	1,100.7	1,010.6	924.4	814.7	735.7	609.0	568.4	الإنتفاق الحكومي
NPISH final consumption	-	170.7	189.0	196.7	152.3	188.0	172.9	153.9	126.6	137.0	125.1	137.1	168.7	160.5	177.4	إنتفاق المؤسسات غير الربحية
Gross capital formation	-	1,310.0	1,347.2	1,265.7	1,022.3	1,204.0	954.1	1,120.0	1,561.1	2,081.2	1,531.2	1,310.6	1,160.7	1,065.0	1,051.5	التكوين الرأسمالي الإجمالي
Net exports of goods and services	-	(2,168.4)	(2,281.8)	(2,203.7)	(2,425.4)	(2,648.6)	(2,438.6)	(2,432.8)	(2,651.9)	(2,897.3)	(2,239.6)	(2,054.1)	(1,885.2)	(1,734.6)	(1,846.5)	صافي الصادرات من السلع والخدمات
Exports	-	600.8	629.0	597.7	483.8	458.5	407.8	445.8	745.4	732.1	723.3	586.3	552.7	497.2	441.8	الصادرات
- Goods	-	518.3	535.2	457.5	412.3	394.4	341.8	363.2	546.6	635.4	650.7	539.9	511.7	458.1	412.5	- السلع
- Services	-	82.5	93.8	140.2	71.5	64.1	66.0	82.6	198.8	96.7	72.6	46.4	41.0	39.1	29.3	- الخدمات
Imports	-	2,769.2	2,910.8	2,801.4	2,909.2	3,107.1	2,846.4	2,878.6	3,397.3	3,629.4	2,962.9	2,640.4	2,437.9	2,231.8	2,288.3	الواردات
- Goods	-	2,093.0	2,203.8	2,466.5	2,622.1	2,776.8	2,423.8	2,418.6	2,978.5	3,271.4	2,601.4	2,326.0	2,163.8	1,980.4	2,021.6	- السلع
- Services	-	676.2	707.0	334.9	287.1	330.3	422.6	460.0	418.8	358.0	361.5	314.4	274.1	251.4	266.7	- الخدمات

Source: PCBS, National Accounts Series, several years.

* Remaining West Bank refers to all West Bank excluding those parts of Jerusalem which were annexed by Israel in 1967.

1997 is the base year for the period 1994-2003, 2004 is the base year for the 2004-2008.

(-) The data is not available.

المصدر: الجهاز المركزي للإحصاء الفلسطيني، سلسلة الحسابات القومية، سنوات متعددة.

*باقي الضفة الغربية: يقصد بها الضفة الغربية باستثناء ذلك الجزء من محافظة القدس والذي ضمته إسرائيل عنوة بعيد احتلالها للضفة الغربية عام 1967.

1997 هي سنة الأساس للفترة 1994-2003، 2004 هي سنة الأساس للفترة 2004-2008.

(-) البيانات غير متوفرة.

جدول 3: نسبة مساهمة الأنشطة الاقتصادية في الناتج المحلي الإجمالي لباقي الضفة الغربية* وقطاع غزة للأعوام 1994-2008 بالأسعار الثابتة
Table 3: Percentage Contribution to GDP by Economic Activity for Remaining WB* and GS for the period 1994-2008 at constant prices

Economic Activity	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	النشاط الاقتصادي
Agriculture and fishing	4.6	5.6	5.6	5.2	7.1	7.9	7.7	9.1	9.8	10.4	11.6	11.6	14.7	13.0	13.2	الزراعة وصيد الأسماك
Mining, manufacturing, electricity, and water	13.6	13.8	15.0	17.0	17.1	17.0	16.4	16.4	13.2	14.6	14.8	15.3	16.8	20.5	22.1	التعدين، الصناعة التحويلية والمياه والكهرباء
Mining and quarrying	0.3	0.4	0.5	0.6	0.7	0.6	0.8	0.6	0.6	0.8	0.7	0.7	0.8	0.9	1.0	التعدين واستغلال المحاجر
Manufacturing	9.8	9.9	11.7	13.0	13.2	12.6	11.8	12.5	11.4	12.6	12.8	13.3	14.9	18.4	19.7	الصناعة التحويلية
Electricity and water	3.5	3.5	2.8	3.4	3.2	3.8	3.8	3.3	1.2	1.2	1.3	1.3	1.1	1.2	1.4	إمدادات المياه والكهرباء
Construction	4.9	6.2	7.2	6.8	5.7	5.0	3.9	5.5	8.9	13.7	8.9	7.8	8.4	6.9	8.9	الإشاعات
Wholesale and retail trade	10.8	9.2	9.6	9.4	9.8	9.8	11.9	9.6	11.3	11.0	10.5	11.4	10.9	15.2	17.9	تجارة الجملة والتجزئة
Transport	8.9	7.5	6.6	5.8	6.1	4.6	5.6	5.6	5.4	5.1	4.6	3.9	3.0	3.2	3.4	النقل والتخزين والاتصالات
Financial intermediation	5.4	5.2	4.3	4.4	3.6	4.1	4.2	3.6	4.4	3.7	3.2	2.7	2.2	2.0	1.2	الوساطة المالية
Other services	25.2	22.2	19.6	23.0	22.8	22.8	23.5	21.5	21.8	19.5	20.3	20.6	20.1	21.0	23.7	الخدمات
Real estate, renting and business services	9	7.6	7.0	10.3	10.4	10.3	11.0	10.3	11.8	8.9	9.8	10.4	9.7	10.5	12.1	الأنشطة العقارية والإيجارية والتجارية
Community, social and personal services	1.6	1.5	1.1	1.2	0.9	1.2	1.0	0.8	0.7	0.6	0.6	0.6	0.6	0.6	0.7	أنشطة الخدمة المجتمعية والاجتماعية والشخصية
Hotels and restaurants	2.2	0.7	0.9	0.8	0.7	0.4	0.2	0.5	0.8	1.3	1.3	1.2	1.1	1.3	1.5	المطاعم والفنادق
Education	9.7	9.6	7.9	8.2	7.8	7.6	8.0	7.1	5.9	5.9	5.9	5.9	5.4	5.1	5.6	التعليم
Health and social work	2.7	2.8	2.7	2.5	3.0	3.3	3.3	2.8	2.6	2.8	2.7	2.5	3.3	3.5	3.8	الصحة والعمل الاجتماعي
Public administration and defense	13.9	13.9	15.7	14.1	14.3	16.9	16.7	17.6	12.6	11.0	10.9	11.9	12.6	11.4	9.4	الإدارة العامة والدفاع
Households with employed persons	0.1	0.1	0.1	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	الخدمات المنزلية
Public owned enterprises	**	5.8	4.5	3.4	3.7	4.5	3.6	2.8	4.7	3.5	2.8	2.4	1.0	0.0	0.0	الشركات المملوكة للقطاع العام
Less: FISIM	-5.7	-5.7	-3.0	-2.6	-2.8	-3.0	-3.1	-3.1	-3.8	-2.9	-2.5	-2.3	-2.0	-1.2	-0.7	ناقص: خدمات الوساطة المالية
Plus: Customs duties	6.2	6.3	6.7	5.9	4.8	4.4	2.7	4.5	4.8	4.6	7.3	7.1	5.7	1.7	0.0	زائد: الرسوم الجمركية
Plus: VAT on imports, net	12.1	9.9	8.1	7.6	7.7	5.8	6.7	6.7	6.7	5.6	7.4	7.4	6.4	6.1	0.7	زائد: صافي ضريبة القيمة المضافة على الواردات
TOTAL	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	المجموع

Source: PCBS, National Accounts Series, several years.

* Remaining West Bank refers to all West Bank excluding those parts of Jerusalem which were annexed by Israel in 1967.

1997 is the base year for the period 1994-2003, 2004 is the base year for the 2004-2008.

** The value of Public owned enterprises distributed for Wholesale and retail trade, Real estate, renting and business services, Education, Health and social work, Hotels and restaurants.

المصدر: الجهاز المركزي للإحصاء الفلسطيني، سلسلة الحسابات القومية، سنوات متعددة.

* باقي الضفة الغربية: يقصد بها الضفة الغربية باستثناء ذلك الجزء من محافظة القدس والذي ضمته إسرائيل عنوة بعيد احتلالها للضفة الغربية عام 1967.

1997 هي سنة الأساس للفترة 1994-2003، 2004 هي سنة الأساس للفترة 2004-2008.

** تم توزيع قيمة الشركات المملوكة للقطاع العام على أنشطة تجارة الجملة، والتجزئة، والأنشطة العقارية، والإيجارية، والتجارية، والتعليم، والمطاعم، والفنادق.

جدول 4: التغيرات الأساسية التي طرأت على القوى العاملة في الأراضي الفلسطينية خلال الفترة 1995-2008 (معايير ILO)

Table 4: Basic Changes in the Labor Force Indicators in Palestinian Territory During 1995 - 2008 (ILO Standards)

Indicator	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	المؤشر
Labor Force Participation Rate	41.3	41.9	41.3	40.7	40.4	40.3	38.1	38.7	41.5	41.6	41.4	40.5	40.0	39.0	نسبة القوى العاملة المشاركة
Full Employment Rate	67.4	70.5	68.5	69.9	66.8	68.1	64.4	70.9	80.9	82.8	79.1	70.4	64.3	60.7	نسبة العمالة التامة
Underemployment Rate	6.6	8.0	7.9	6.6	6.4	6.3	4.3	3.9	5.0	5.4	6.5	9.3	11.9	21.1	نسبة العمالة المحدودة
Unemployment Rate	26.0	21.5	23.6	23.5	26.8	25.6	31.3	25.2	14.1	11.8	14.4	20.3	23.8	18.2	نسبة البطالة
Employed in Agriculture	13.4	15.6	16.1	14.6	15.9	15.7	14.9	11.7	13.7	12.6	12.1	13.1	14.2	12.7	نسبة العاملين في الزراعة
Employed in Construction	10.9	11.0	11.1	12.9	11.7	13.1	10.9	14.5	19.7	22.1	22.0	18.4	16.8	19.2	نسبة العاملين في البناء والتشييد
Employed in Manufacturing	12.1	12.5	12.4	13.0	12.7	12.5	12.9	13.9	14.3	15.5	15.9	16.4	16.8	18.0	نسبة العاملين في الصناعة
Employed in Services	38.4	35.8	35.5	34.4	34.9	32.8	35.7	34.6	29.9	28.1	27.1	28.2	29.2	25.6	نسبة العاملين في الخدمات
Elementary Occupation Workers	15.9	14.0	14.9	15.5	14.3	14.1	14.1	15.9	21.1	29.7	31.0	28.9	28.7	18.3	نسبة العاملين في المهن الأولية
Craft and Related Trade Workers	15.6	16.1	16.1	17.5	17.1	18.7	17.5	19.0	22.0	22.7	24.7	24.6	24.0	27.5	نسبة العاملين في الحرف والمهن
Employed in Israel & Settlements	11.6	9.4	9.6	9.9	8.7	9.7	10.3	13.8	19.6	23.0	21.7	17.1	14.1	16.2	نسبة العاملين في إسرائيل والمستوطنات
Employers	4.2	4.0	4.6	4.3	4.1	3.5	3.7	4.7	4.6	5.5	5.8	5.3	5.5	6.9	نسبة أرباب العمل
Self - Employed	20.7	24.2	25.0	26.1	26.5	27.8	26.8	24.0	19.6	18.7	21.0	22.9	22.3	21.2	نسبة العاملين في مصالحتهم
Wage Employees	65.3	59.8	59.3	59.5	58.3	57.2	59.2	62.1	66.1	67.8	65.3	62.0	61.4	61.7	نسبة المستخدمين بأجر
Unpaid Family Members	9.7	12.0	11.1	10.1	11.1	11.5	10.3	9.2	9.7	8.0	7.9	9.8	10.8	10.2	نسبة أعضاء الأسرة بدون أجر
Average Monthly Work Days *	23.0	22.6	23.4	23.8	23.7	23.2	23.3	23.9	23.2	22.6	23.0	22.0	22.0	21.0	معدل أيام العمل الشهرية *
Average Weekly Work Hours *	42.1	41.1	41.3	42.0	42.5	41.7	40.6	42.1	43.1	44.2	45.0	44.0	43.5	42.1	معدل ساعات العمل الأسبوعية *
Median Daily Net Wage (NIS)*	70.0	69.2	69.2	60.0	57.7	55.8	57.7	57.7	69.2	69.2	57.7	50.0	46.2	46.3	الأجر اليومي الوسيط بالشيكل *

Source: PCBS, Labor Force Statistics, several years.

* Workers in Israel and Settlements are excluded.

المصدر: الجهاز المركزي للإحصاء الفلسطيني، إحصاءات سوق العمل، سنوات متعددة.

* لا يشمل العاملين من الأراضي الفلسطينية في إسرائيل والمستوطنات.

جدول 5: سلسلة الأرقام القياسية ونسب التغير السنوية لأسعار المستهلك وأسعار المنتج في الأراضي الفلسطينية للأعوام 1996 - 2008

Table 5: Yearly Time Series of Consumer and Producer Price Indices and Percent Change in the Palestinian Territory for the years 1996 - 2008

Indicator	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	المؤشر
Consumer Price Indices	121.01	110.12	108.11	104.11	141.86	137.73	131.92	124.79	123.28	119.93	113.63	107.62	100.00	الرقم القياسي لأسعار المستهلك
Total Producer Price Index	156.20	144.42	141.21	138.94	135.42	130.97	128.20	126.15	127.04	122.82	117.93	109.95	100.00	الرقم القياسي لأسعار المنتج

Source: PCBS, Prices, several years.

Chaining Coefficient: 1.4186 Base: Average 2004 = 100

المصدر: الجهاز المركزي للإحصاء الفلسطيني، الأسعار القياسية، سنوات متعددة.

معامل التحويل: 1.4186 الأساس متوسط عام 2004 = 100

جدول 6: المؤشرات المتعلقة برخص الأبنية والمساحات المرخصة في باقي الضفة الغربية* وقطاع غزة للأعوام 1996-2008

Table 6: Building Licenses and Licensed Area for Remaining* West Bank and Gaza strip for the years 1996-2008

الوحدات السكنية المرخصة Licensed Dwellings				مساحات قائمة Existing Areas	المساحات المرخصة (ألف م ²) Licensed Area (1000 m ²)		عدد الرخص الصادرة Number of Building Licenses			العام
وحدات قائمة Existing Dwellings		وحدات جديدة New Dwellings			مساحات جديدة New Areas	المجموع Total	إضافات للأبنية القائمة Additions to Existing buildings	أبنية جديدة New Buildings	المجموع Total	
مساحة (ألف م ²) Area (1000 m ²)	عدد No.	مساحة (ألف م ²) Area (1000 m ²)	عدد No.							
227.8	1,679	1,640.9	13,139	302.4	2,290.1	2,592.5	3,070	4,540	7,610	1996
391.8	2,759	1,768.5	13,230	500.1	2,391.9	2,892.0	3,599	4,789	8,388	1997
387.1	2,735	1,786.7	12,826	469.1	2,505.7	2,974.8	3,839	5,117	8,956	1998
439.0	3,675	2,050.6	14,587	554.4	2,860.1	3,414.4	4,115	5,803	9,918	1999
383.3	2,730	1,646.1	10,708	482.4	2,457.6	2,940.0	3,803	4,498	8,301	2000
256.0	1,847	1,041.9	7,037	341.0	1,633.9	1,974.8	2,352	2,781	5,133	2001
137.6	975	794.3	5,089	171.8	1,080.4	1,252.2	1,412	1,913	3,325	2002
175.8	1,671	1,234.2	8,152	226.1	1,863.9	2,090.0	2,254	2,981	5,235	2003
161.6	1,229	1,248.6	8,184	222.0	1,803.9	2,025.8	2,079	2,929	5,008	2004
366.7	2,522	1,729.5	10,362	474.2	2,427.4	2,901.7	3,112	3,996	7,108	2005
524.2	3,301	1,193.6	6,909	679.2	1,666.9	2,346.1	3,358	2,703	6,061	2006
244.2	1,650	983.1	7,478	325.8	1,448.4	1,774.2	2,032	2,456	4,488	2007
263.1	1,170	922.5	5,197	338.6	1,390.6	1,729.2	2,041	2,418	4,459	2008

Source: PCBS, Building Licenses several years.

* Remaining West Bank refers to all West Bank excluding those parts of Jerusalem which were annexed by Israel in 1967.

المصدر: الجهاز المركزي للإحصاء الفلسطيني، رخص الأبنية، سنوات متعددة.

* باقي الضفة الغربية: يقصد بها الضفة الغربية باستثناء ذلك الجزء من محافظة القدس والذي ضمته إسرائيل عنوة بعيد احتلالها للضفة الغربية عام 1967.

جدول 7: مؤشرات المالية العامة في الأراضي الفلسطينية خلال الفترة 1997-2008 (مليون دولار)

Table 7: Public Finance Indicators in PT during the period 1997-2008 (\$m)

Indicator	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	المؤشر
Total expenditures	3,463	2,877	1,707	2,281	1,528	1,635	1,246	1,435	1,668	1,411	1,358	1,362	إجمالي النفقات
Recurrent expenditures & net lending	3,273	2,567	1,426	1,994	1,528	1,240	994	1,095	1,199	937	838	862	النفقات الجارية وصافي الإقراض
Capital expenditures	190	310	281	287	0	395	252	340	469	474	520	500	النفقات التطويرية
Net revenues	1,780	1,616	722	1,370	1,050	747	290	273	939	942	868	807	صافي الإيرادات*
Budget surplus (deficit) before budget support	(1,683)	(1,261)	(985)	(911)	(478)	(888)	(956)	(1,162)	(729)	(469)	(490)	(555)	الفائض (العجز) في الموازنة قبل الدعم
Total external support	1,953	1,322	1,019	636	353	620	697	849	510	497	530	520	إجمالي المنح والمساعدات
External budget support	1,763	1,012	738	349	353	261	468	531	54	23	10	20	منح لدعم الموازنة
Aids for capital expenditures	190	310	281	287	0	359	229	318	456	474	520	500	منح لدعم المشاريع التطويرية
Budget surplus (deficit) after budget support	270	61	34	(275)	(125)	(268)	(259)	(313)	(219)	28	40	(35)	الفائض (العجز) في الموازنة بعد الدعم
Public debt	1,406	1,439	1,494	1,602	1,422	1,236	1,090	1,191	795	392	309	212	الدين العام

Source: Ministry of Finance.

* Net Revenues= Gross Revenues- Tax repayments.

- Numbers between brackets

المصدر: وزارة المالية الفلسطينية، تقرير العمليات المالية، الإيرادات والنفقات ومصادر التمويل.

* يشكل إجمالي صافي الإيرادات مجموع الإيرادات الجارية بعد خصم الردييات الضريبية منها.

- الأرقام بين الأقواس هي أرقام سالبة.

جدول 8: المؤشرات المصرفية الرئيسية في الأراضي الفلسطينية خلال الفترة 1997-2008 (مليون دولار)

Table 8: Main Banking Indicators in PT during the period 1997-2008 (\$m)

Indicator	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	المؤشر
Assets/ Liabilities of banks	5,645	7,004	5,772	5,604	5,101	4,728	4,278	4,430	4,593	3,857	3,337	2,908	موجودات/ مطلوبات المصارف
Property Rights	857	702	597	552	315	217	187	206	242	246	222	216	حقوق الملكية
Customers deposit	5,847	5,118	4,216	4,196	3,946	3,625	3,432	3,398	3,508	2,875	2,415	2,090	ودائع العملاء لدى المصارف
Direct facilities	1,829	1,705	1,843	1,788	1,417	1,061	942	1,186	1,280	967	777	578	التسهيلات الائتمانية

Source: Call report, PMA, several years.

المصدر: تقرير البيانات الشهري، سلطة النقد الفلسطينية، سنوات متعددة.