

FOREWORD

We are pleased to present the 22nd volume of the Economic and Social Monitor, which tracks the most significant economic and social trends that took place during the second quarter of 2010. This volume evaluates the national accounts, the labour market conditions and the governmental budget position of the Palestinian Territories during this period. Specifically, developments in the banking sector and in the stock market are outlined and assessed in light of economic developments during the quarter. In this publication, we also discuss the business environment in the Palestinian Territories by following up on new companies' business registration, building licensing and cement importation. Additionally, we track developments in prices of goods and services during the second quarter of 2010. In regards to the Israeli occupation, this report addresses issues concerning the legal environment of the occupied territories in general, and the legality of Israeli encroachments on Palestinian rights and property in particular. Finally, the monitor contains reviews of youth and health situation surveys taken within the Palestinian Territories.

It is worth noting that the political and economic paths of the West Bank and Gaza Strip are increasingly diverging as a result of both the Israeli siege on the Gaza Strip and the Palestinian internal political divide between Hamas and Fateh. In light of widening gap and decreasing communication between the West Bank and the Gaza Strip, the reader will notice that there is some data lacking in regards to Gaza. We hope that this divide will come to an end in the near future so that sound and comprehensive economic policy may be formulated for the advancement of a unified Palestine.

On another note, this volume also includes a number of topical boxes addressing outstanding economic issues. The first box addresses the new natural gas discovered in Israel and touches upon the possibility of the PA's gaining from Israeli government's attempts to increase its share of profits from the extraction of newly discovered natural gas. The second box analyzes the nature of increased vehicle registration in the West Bank. Thirdly, there is a review of financial contributions made by Arab states to finance the Palestinian budget deficit. The fourth box addresses foreign investment in the Palestinian Territories. The fifth box summarizes the results of an Israeli study regarding the importance of Israeli exports to the Palestinian market. Finally, the sixth box presents an evaluation of the Millennium Development Goals in the Palestinian Territories and whether there is any chance of meeting the 2015 targets.

In this volume the "economic issues" series lay out the economic policies meant to address the various economic fluctuation problems discussed in the previous volume.

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Executive Summary

Economic Activity: Most macroeconomic indicators witnessed an increase in the second quarter of 2010 compared with the first quarter of 2010. GDP grew by 5.5%, which led to an increase in GDP per capita by 4.7%. Specifically, the construction sector recorded the highest growth in contribution to GDP, reaching 29.3% compared to first quarter 2010.

Labor Market: Quarterly data showed an increase in employment numbers, from 743.7 thousand in the first quarter to 755.9 thousand in the second quarter of 2010. The distribution of workers by place of work was: 64.6% in the West Bank, 25.3% in Gaza, and 10.1% in Israel and settlements. In addition, the highest unemployment rate was among young people aged 15-24, especially among females (47%). With regard to daily wages, the average daily wage in the Gaza Strip equals about 69% of the wage rate in the West Bank, and 37.4% of the average wage of those working in Israel during the second quarter 2010. On the other hand, advertisements for job openings in newspapers amounted to a total of 1,323 ads in the 2nd quarter of 2010. This represents an 8.3% increase compared with the first quarter.

Public Finance: Total government revenues in the 2nd quarter increased slightly more than in the first quarter, to \$ 455 million (up almost 2%). Total public expenditure increased by 6.6% to \$755 million compared to the previous quarter. This came as a result of an increase in salaries and wages (5.3%), in addition to non-wage expenditure (12.6%). This means that the budget deficit (before foreign funding) reached US\$ 300 million (17.6% of GDP) during the second quarter, compared with a deficit of US\$261 million in the first quarter.

Banking Sector: Net assets of banks operating in the occupied Palestinian Territory decreased by 3% during 2nd quarter compared with the 1st quarter of 2010. Total credit facilities reached \$2.588 million during the 2nd quarter of 2010, an increase of 5% compared with the previous quarter. Additionally, the number of checks presented for clearing increased by 8%, as their value rose by 5.8% between the quarters. In the beginning of 2010, the Monetary Authority launched a new system of *check returns* which was put in place to freeze the accounts of the

persons who write checks without a bank account balance.

Palestine Securities Exchange: The number of shares traded in the market for the second quarter increased by 38% up to 85.5 million shares. The increase of traded shares was accompanied by a decrease in the value of shares between April and May compared to share value in the first quarter. However, share values rebounded in June and recorded an increase of 10% during the second quarter compared to the first quarter. Finally, the Al-Quds index closed at 515.48 points at the end of the second quarter, an increase of 2.52% compared to the previous quarter.

Company registration: The number of companies registered in the West Bank increased by 28% during the second quarter of 2010 compared to the previous quarter. Capital investments also increased by 68%, due to the increase in the number of newly registered companies in the West Bank, with a total of 73.3 million JD. Regarding the distribution of the listed companies, second quarter data shows that the largest proportion of listed companies - as in the previous quarters - were in Ramallah (39%), Hebron (13.6%) and Nablus (10.3%).

Building licenses and cement imports: Factors which influence the number of building licenses are also very closely related to cement importation. In effect, building license data is positively correlated to cement importation. The number of building licenses in the West Bank increased by 33% during the second quarter of 2010 compared to the equivalent quarter in 2009. The number of licensed dwelling also increased, 420 more than in 2009. Furthermore, the amount of imported cement increased in the first quarter of 2010 by 9.5% compared to the first quarter of 2009, reaching about 301,385 ton. There has been no available data about building licenses and cement imports for the Gaza strip.

Hotel Activity: The total number of guests in hotels located in the Palestinian Territories was 140,009 during the second quarter 2010, of which 9.6% were Palestinian and 41.7% European. Compared to the first quarter of 2010, it there was an increase in the number of guests by 13.7%; 42.3% from the second quarter of 2009.

Prices and purchasing power: Compared to the previous quarter, the Consumer Price Index (CPI) in the Palestinian Territories increased 0.06% during the second quarter of 2010. At basic consumer price levels, the cost of fuels, such as fuel of the cars, increased dramatically to 4.37% during the second quarter. Rice and sugar prices, recorded the highest decline during the second quarter 2010 compared with the previous quarter, amounting to 6.42% and 4.88% respectively. Additionally, the producer price index increased by 0.73% during the second quarter of 2010 compared to the first quarter. Moreover, purchasing power significantly improved in US dollar terms (2.5%). This means that citizens who deal with US dollars and/or the Jordanian Dinars in the Palestinian market were able to obtain larger quantities of goods and services during the second quarter with the same income that was available to them in the previous quarter.

Legal and legislative environment: the President of the Palestinian Authority issued 7 decisions that took force in the period from March - June 2010. Of these, the most important law in economic terms was the decision to prohibit products originating from settlements. This initiative aims to boycott products and services from Israeli settlements and to support and promote national products instead. The legislature also introduced the law of, "Al-karameh national empowerment fund-supporting self empowerment & combating settlement products".

Israeli measures: During the months of June, July, and August 24 Palestinians were killed and 142 were injured, 82 of which were from the West Bank and 60 from Gaza strip. Additionally, the number of prisoners reached 706, including 702 in West Bank and 4 in the Gaza Strip. The occupation force placed permanent and temporary checkpoints throughout the West Bank during the months of June, July and August, totaling 557, 613, and 484 respectively. Moreover settlers continued assaults on Palestinian civilians, totaling 176 all in the West Bank.

Youth in the Palestinian territories: The percentage of Palestinian citizens between the ages of 15 and 29 in mid-2010 was 29%, and the ratio of male to female within that group was 104.4 males for every 100 females. The available data for 2009 indicates that approximately 45.4% of young people (15-29 years) were enrolled in

an educational institution. As for labor market indicators, the service sector is the largest sector in terms of absorption capacity for employment of youth, employing 33.8% of youth during the 2nd quarter of 2010. It is followed by the trade, restaurant and hotel sectors, which employ 21.7% of youth.

Health status: The number of registered live births during the first half of this year was 21,296, 10,956 of which were males (51.4%), and 10,340 of which were females (48.6%). The total number of registered deaths during the same period was 3426, including 1817 males and 1609 females. According to traffic accident figures, the number of injuries resulting from traffic accidents registered in the Ministry of Health was 3474, including 2628 injured males and 846 injured females. These injuries resulted in 25 deaths, 73 serious injuries and 51 different disabilities.

Areas of Discussion in the Issue: In this issue of the Monitor, six different topics have been discussed separately in independent boxes.

✧ **Natural gas in Israel:** Until now, three fields containing commercial quantities of natural gas in waters off Israel's Mediterranean Sea coast have been discovered: the Mary B field, the field of Tamar and the field of Leviathan. Experts predict that extraction from the field of Tamar alone will be sufficient to cover Israeli civil and industrial natural gas needs for at least the next 20 years. Any extraction from the field of Leviathan will go for export. The Palestinian Authority was granted a license to explore for oil and gas in the definitive water off the coast of Gaza, which is located under the control of the PNA by the Oslo Accords. However, it is worth noting that there is a clause in the agreement that states that the Palestinian treasury should obtain the same percentage of profits that Israel receives from extracting natural gas in its regional waters.

✧ **Increase in the number of vehicles in the West Bank: Causes and Consequences:** There has been an increase in the number of registered cars in the West Bank, from 123,600 to 139,000 during the first nine months of 2010. There are several reasons behind this increase such as: a decrease on the car purchasing tax, new arrangements for the payment of customs and improved credit

facilities provided by banks. The Box discusses these reasons in detail, as well as the implications of the increasing car fleet in the West Bank which include traffic jams, financial burdens and environmental impacts.

- ✧ **Arab countries' support of the Palestinian Budget:** Arab countries committed themselves to pay at least \$55 million per month during the year 2010. This amount represents 53% of total international monthly obligations for budgetary support, and this percentage is the highest during the last three years. However, the total payments actually received by the PNA during the first six months of the year did not exceed \$60 million, or less than 20% of the \$330 million promised them. As a consequence, the PNA borrowed \$121 million from local banks during the first half of 2010, bringing the total amount of debt owed to local banks to \$ 665 million.
- ✧ **Foreign Investments in the Palestinian Territories:** The Palestinian Central Bureau of Statistics and the Palestinian Monetary Authority have conducted a survey, the first of its kind, on foreign investment in the Palestinian territories. The survey covered all profit companies in the Palestinian territories (excluding non-financial institutions in the Gaza Strip) for the period 2008-2009. The survey found that the total balance of foreign investments in the Palestinian territories amounted to \$1.586 million at the end of 2009. This number represents an 18% increase of foreign investment from 2008. On the other hand, the foreign investment market in the West Bank has witnessed mobility in mid-2010. Abraaj Capital, the largest investment company in the Middle East, has announced that is opening an office in Ramallah in August. Moreover, Siraj is planning to launch a special fund to invest in the Palestinian territories.

- ✧ **Israel's Exports to the West Bank and Gaza:** "Recent Economic Developments" magazine issued by the Bank of Israel has recently published a report analyzing the number and value of Israeli exports to the West Bank and Gaza Strip. The value of total Israeli exports to the West Bank and Gaza (excluding East Jerusalem) was estimated to be about \$3.2 billion (12 billion NIS) in 2008. The study claims that this figure does not accurately reflect the real importance of the Palestinian market to the Israeli economy since the value added of these exports and their role in the employment of Israeli labor is very limited. In this box, we argue that the figures reached by the study are not accurate; moreover, the margin of error may be significant.
- ✧ **Progress towards achieving the Millennium Development Goals in the Palestinian territories:** The formation of the Millennium Declaration in 2000 marked a significant shift in the United Nations work mechanisms and the ability to apply their mission and goals to the actual facts on the ground. The third Palestinian progress report, following the two previous reports published in 2002 and 2005, was published in September, 2010. The report assesses to what degree the Millennium Development Goals have been implemented and to what extent they have worked thus far. Results indicate that there was a significant improvement towards the achievement of six of the eight goals in the Millennium Declaration. For instance, there have been increased enrollment rates in basic education, improvements in the reality of Palestinian women in the social, political and economic sectors, and lower mortality rates among children under the age of five. On the other hand, there was a decline in the indicators related to goals of poverty eradication and environmental situation.