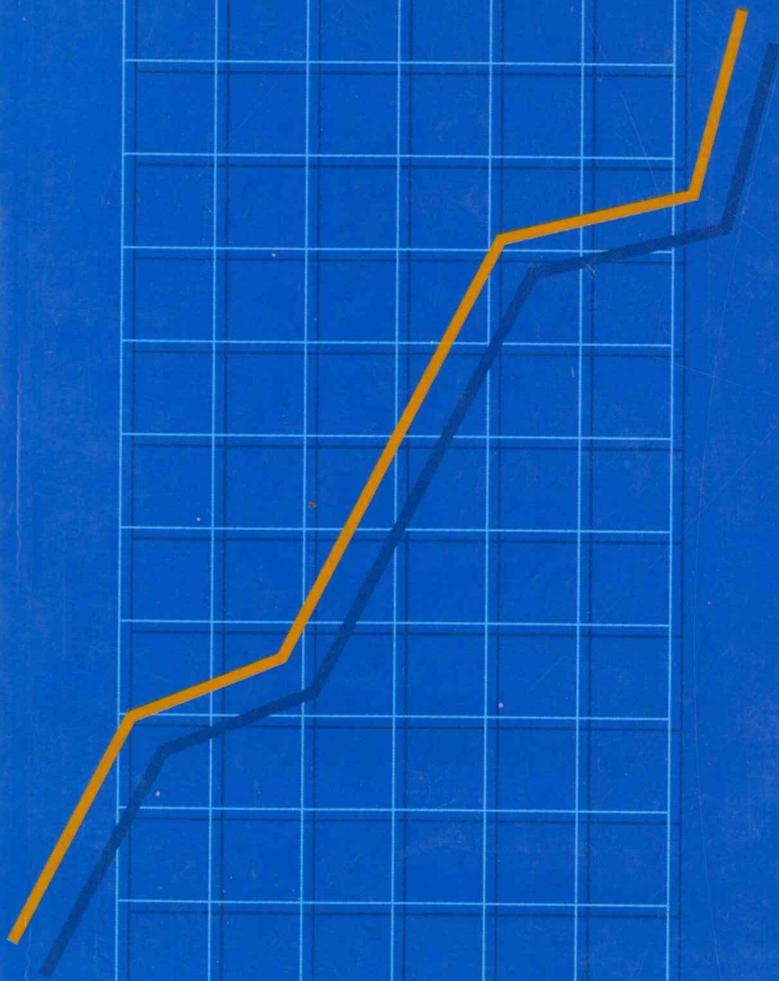


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Issue Number 1 - 1997



Palestine Economic Policy Research Institute

The Palestine Economic Policy Research Institute, or Ma'had Abhath As-Syasad Al-Iqtisadiyah Al-Filistini (MAS), is an autonomous think tank founded in 1994 that engages in applied economic and socio-economic research, and provides expert analysis of policies critical to the development of the Palestinian economy.

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Foreword

Upon its inception in 1994, the Palestine Economic Policy Research Institute (MAS) planned to establish an Economic Monitoring Unit (EMU). In 1996, these plans became a reality, with additional preparation for monitoring social indices and trends. The objectives of the EMU are to serve as a depository of data used by MAS researchers, to provide, on a regular basis, scientific analysis of socio-economic conditions and an accurate account of national economic performance, to provide early warning of economic changes based on internal and external indicators, and to raise public awareness and the substantive level of debate on economic and socio-economic policies.

Not all of the objectives of the EMU will be realized immediately. Forecasting activities require adequate time series data, which will become available only in the long-run. The EMU has been preparing for that stage by collecting available data from various sources and coordinating future data needs with the Palestinian Central Bureau of Statistics (PCBS). In the short-run, the activities of the EMU concentrate on four areas. First, data collection and maintenance and the selection of social and economic indicators to be monitored continuously. Second, conducting first readings of selected PCBS statistical reports. Four reports have already been completed and published in two volumes of the *First Reading in PCBS Statistical Reports Series* (MAS, 1996). This series hopes to contribute to enhancing the decision-making process and upgrading economic and social policy debates among Palestinian government and non-government policy makers. Third, preparing a periodic report on recent economic developments in the West Bank and Gaza Strip (WBGs), entitled *MAS Economic Monitor*. Fourth, preparing a periodic status report on social conditions in the WBGs, entitled *MAS Social Monitor*.

This is the first issue of the *MAS Economic Monitor* which is scheduled to appear at least twice a year. The present issue is actually a status report whose scope, coverage and timing has been determined by the availability, timing and characteristics of data. We hope to complement this status report in subsequent issues as more data on other economic sectors become available. The form and content of the report will evolve and it is hoped that ultimately, the *MAS Economic Monitor* will be more in the nature of quarterly updates and forecasts. In the meanwhile, the periodicity of this report will depend on the availability of data as it is the policy of MAS to rely on hard and accurate data in its publications.

Following the general practice at MAS, the *MAS Economic Monitor* will be published in both Arabic and English under one cover. This will make it accessible to a wider readership. As Director of MAS, it is my pleasure to express my thanks to the team that has worked tirelessly on this report, and to the reviewers and to the funders. One year after the launching of the Economic Monitoring Unit, we are pleased to present the first issue of the *MAS Economic Monitor*.

Nabeel Kassis
Director

MAS Economic Monitor

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LIST OF ABBREVIATIONS

BAR	Bank Account Ratio
CBJ	Central Bank of Jordan
CPI	Consumer Price Index
DOP	Declaration of Principles
EMU	Economic Monitoring Unit
FIAS	Foreign Investment Advisory Service
GDP	Gross Domestic Product
GNP	Gross National Product
GS	Gaza Strip
ICBS	Israeli Central Bureau of Statistics
IMF	International Monetary Fund
JD	Jordanian Dinar
JDS	Jordan Department of Statistics
LFPR	Labor Force Participation Rate
MOU	Memorandum of Understanding
NGO	Non-Governmental Organization
NIS	New Israeli Shekel
NPPB	Number of Persons Per Branch
PCBS	Palestinian Central Bureau of Statistics
PHRIC	Palestine Human Rights Information Center
PNA	Palestinian National Authority
UAE	United Arab Emirates
UNRWA	United Nations Relief and Work Agency
US	United States
WB	West Bank (includes East Jerusalem, unless otherwise indicated)
WBGS	West Bank and the Gaza Strip (includes East Jerusalem, unless otherwise indicated)

INTRODUCTION

The purpose of the *MAS Economic Monitor* is to report on recent economic developments in the West Bank and Gaza Strip (WBGS). In this first issue, we present an extensive background report on the status of the economy, with special emphasis on developments in the period 1994-1996, the first three years after the signing of the Palestinian-Israeli Declaration of Principles. Although in general, the report covers up to 1996, some sections are not as up to date because of data limitations. A case in point is section 2, where our coverage of national accounts stops at 1994. This was unavoidable because of the lack of official data beyond 1994. In addition, the structural changes experienced by the WBGS economy over the last 3 years make it impractical to use historical data to project the national accounts for later years. However, a rough estimate of the change of GDP per capita in the last three years is presented in section 3, based on the 1995/96 expenditure survey results issued by the Palestinian Central Bureau of Statistics (PCBS) and the consumption-GDP for the period 1980-1987. In future issues, our coverage will be more limited, focusing mostly on developments since the previous issue. Unless indicated otherwise, East Jerusalem is covered as part of the West Bank.

Israeli restrictions severely limited the growth of the WBGS economy during the occupation years. Some of these restrictions were lifted, completely or partially, following the establishment of the Palestinian National Authority (PNA). This issue of the *MAS Economic Monitor* provides examples of such restrictions from the housing and tourism sectors. In the construction sector, building permits have become easier to obtain in areas controlled by the PNA, which account for 60% of the Gaza Strip and 26% of the West Bank. In the tourism sector, hotel development and the licensing of new guides, which were effectively frozen by

the Israeli authorities, have resumed under the PNA.

The elimination of some of the occupation period's restrictions coincided with an increase in the frequency of Israeli closures imposed on the WBGS, which were first introduced during the Gulf War in 1991. Closures have devastating effects on the WBGS economy. In this issue, the *MAS Economic Monitor* documents the impact of closures on unemployment, inflation, and the standards of living in the WBGS.

Economic growth in the WBGS during the occupation years was also inhibited by political and economic uncertainties. The signing of the Oslo Accord in 1993 helped reduce these uncertainties. However, the reduction was not sufficient to induce substantial investment. Continued uncertainty inhibited lending by commercial banks, which expanded their deposit base enormously in the last three years. Much of the reduction in uncertainty was reversed by setbacks in the peace process during 1995 and 1996. The impact of changes in the political climate on the WBGS economy is most apparent in the building permit data.

Due to the lack of reliable data, the present issue is not able to address some important topics that fall within the scope of the *MAS Economic Monitor*, such as public finance and the balance of payments. Such topics, however, will become regular features of the *MAS Economic Monitor* once data becomes available. Sections included in this issue on the economic environment, inflation and labor will be covered regularly in the *MAS Economic Monitor* and will include more or less the same variables. The section on financial institutions, which in this issue examines only commercial banks, will be expanded in future issues to cover other financial institutions, such as pension funds and insurance companies. The sectoral updates section will regularly profile selected sectors of the economy.

In this issue the profiled sectors are construction and tourism. The sections on national accounts and standards of living will be included only if new primary data becomes available.

This issue of the *MAS Economic Monitor* is organized as follows:

Section 1 examines the current economic environment in the WBGS. The main features of the legal and regulatory systems in effect are highlighted, with special emphasis on changes introduced in the last three years. Israeli closures and land confiscations are also documented and discussed in terms of their impact on the WBGS economy.

Section 2 presents a summary of the 1994 national accounts that was recently published by PCBS. It then points out some of the differences between the PCBS national accounts and earlier data compiled by the Israeli Central Bureau of Statistics (ICBS).

Section 3 presents available data on the extent and intensity of poverty in the WBGS and examines formal and informal aid available to the poor, with particular emphasis on the degree of coverage.

Section 4 profiles the construction and tourism sectors. After the construction sector's role in the WBGS economy during the occupation years is reviewed, its expansion in the aftermath of the Oslo Accords is discussed, as well as its subsequent decline in 1996. The constraints on the growth of the Palestinian tourism sector during the Israeli occupation period and the impact of the peace process on this sector are then assessed.

Section 5 deals with inflation. It presents NIS inflation rates for the WBGS and discusses the sensitivity of these rates to closures. These rates, along with changes in the exchange rates of both the Jordanian dinar and the US dollar, are

used to calculate changes in the purchasing power for the dinar and the dollar.

Section 6 discusses the size of the Palestinian labor force and the role of women in it. Unemployment, wages and the distribution of Palestinian workers by economic sectors are examined, as well as their distribution between Israeli and WBGS labor markets.

Section 7 focuses on commercial banks. First, the degree of bank penetration in the WBGS is discussed, as manifested by the intensity of bank branches and deposit account ownership. A brief summary of the consolidated balance sheet of the WBGS banking system is then presented, with special emphasis on private lending and customer deposits.

1. THE ECONOMIC ENVIRONMENT

1.1 Introduction

A basic requirement for sustained economic development is the presence of a suitable economic environment. Attracting investment depends to a great extent on favorable and fair laws and regulations that govern business. It is also affected by the degree of political and economic stability, the adequacy of the infrastructure, and the development of the financial sector.

The Palestinian economic environment during the years of Israeli occupation was clearly deficient and was described as being "ambiguous, complex and unpredictable" (World Bank, 1993). Laws that go back to the British Mandate era remained in force in the Gaza Strip, with amendments that were introduced by Israeli military orders after 1967. As for the West Bank, Jordanian laws amended by Israeli military orders were in force. Researchers, politicians and observers agree that this legal framework is not

adequate, that it does not take into consideration Palestinian public interests, and that it has been reshaped so as to serve the interest of Israel. In addition, the Israeli Occupation Authorities neglected the Palestinian infrastructure, rendering it inadequate for the needs of economic development, and prohibited the development of the financial sector, closing all the banks that were in operation before occupation. Banks remained closed until 1981, when Israel allowed the opening of the Palestine Bank in Gaza, followed in 1986 by the reopening of the Cairo-Amman Bank in Nablus. Aggravating the situation even further, the Occupation Authorities offered the least possible in terms of public services. These services sunk to dismal levels, which motivated local and foreign NGOs to focus on providing a good part of the missing services.

This was the situation when the PNA took over the self-government areas in the West Bank and Gaza Strip in 1994 and 1995. In order to prevent a legal void, the first decree by the PNA was to declare valid the laws that were in force in the Palestinian areas before June 5, 1967, until the two legal systems are unified¹. The PNA set out to assume the powers and responsibilities of a governing authority and to establish the institutions of the self-government and its departments. Some laws that pertain to economic activities were enacted and other economic legislation and procedures were drafted. But this process is still in the initial stage and there is a great deal that needs to be done in the area of economic laws and legislation and trade procedures. As for the infrastructure, only limited investment has taken place so far in the sectors of electricity, water, sewerage and pavement of roads².

Decree No. (1), Al-Waqa'i Al Filistiniyyah, ¹
Vol. 1, 1994.

² Infrastructure will be dealt with in detail in the next issue of this publication.

Because of Israeli impediments, there is a limit to what the PNA can do. Israel still controls the borders of the West Bank and the Gaza Strip and this enables it to close-off the Palestinian areas and sever their ties to the outside world. This causes a state of uncertainty to prevail among local and foreign investors, making them reluctant to invest in the Palestinian economy, and leading to prolonged stagnation. In addition, Israel still controls about 40% of the area of the Gaza Strip and more than 74% of the area of the West Bank (Area C), which leaves zoning and building in these areas under Israeli jurisdiction, thus limiting Palestinian ability to build and develop in these areas. Land registration procedures in these areas as well as in Area B, which constitutes 23% of the area of the West Bank, are also under Israeli control. The suspension of land registration procedures by Israel in 1967 has resulted in leaving more than 70% of the lands of the West Bank and 10% of the lands of the Gaza Strip without registration. This constitutes an important obstacle to various economic activities that depend on land ownership, such as using land as a collateral for bank loans. The PNA could resume land registration operations in Area A, which it ought to do as soon as possible. Resuming such operations in 40% of the Gaza Strip and in Areas B and C in the West Bank is subject to approval by the Israeli authorities.

In the next section, the most important features of the legal environment and the changes that have taken place since the PNA took over its responsibilities are presented. Next, the most prominent economic and trade regulations and measures that have been introduced by the PNA are examined. Finally, the Israeli closures and land confiscation, which cause serious harm to the Palestinian economy, are discussed.

1.2 The Legal Environment

An important role for the state in a free market economy is the provision of a legal

environment that promotes economic and commercial activities essential for economic growth and for the improvement of standards of living. A sound legal environment creates an atmosphere that provides the greatest certainty possible for investors, traders and the financial sector. It is not possible to achieve economic growth in a legal environment that is complicated and lacks transparency because these lead to an atmosphere of uncertainty toward investment, which is an additional cost that is difficult to assess, making investment risky. A crucial component is the freedom and independence of the judiciary. It is not possible to attract investors and businessmen if the rule of law and respect for the law are lacking.

Although there is not a legal void in the literal sense of the word (since there were laws that existed before the PNA took over), and although the commercial laws are relatively modern, there are many problems in the body of commercial laws that need attention (Birzeit University Law Center, forthcoming). Most important of these problems are those pertaining to the legal dichotomy resulting from the existence of laws and regulations in the Gaza Strip that differ from those in the West Bank. This stems from the differing historical backgrounds of the two regions, as mentioned earlier. Many legal experts believe that this dichotomy is not a problem in itself, but that problems arise because of the separation of the two systems and the lack of a mechanism for mutual recognition. In addition, the different legal treatments affect the geographic distribution of businesses and investments. Opinions differ as to what would be an adequate mechanism for changing the situation, but within the conditions in which the PNA operates, a slow transition may be the safest. The process of change has already started through the laws and regulations that were passed and enacted by the elected Legislative Council and the PNA, which are valid in all the areas that are under the

jurisdiction of the PNA. But there is an urgent need for issuing the Palestinian Basic Law and for new laws to deal with the differences arising historically between the two regions. There is also a need for the establishment of a higher judicial body that would rule on legal differences and settle legal disputes, and that would coordinate the two court systems in the West Bank and the Gaza Strip.

The PNA has enacted some economic and trade laws and it has drafted other laws that it intends to place before the Legislative Council for passage. Most important of these laws is the Encouragement of Investment Law, which was passed on May 14, 1995 (Al-Waqa'i Al-Filistiniyah, 1995). The Encouragement of Investment Law relies on tax exemptions as an incentive for attracting foreign investments and for encouraging local investments. MAS and other economic experts consider this reliance on exemptions its main drawback because experience in developing countries has demonstrated the failure of such an incentive to attract investment. In addition, although the law stipulates the setting up of an independent board to oversee its enforcement, this board consists mainly of government officials. The private sector's role is very small, thus limiting the board's independence. Furthermore, there is the issue of unnecessary complications and lack of transparency in the articles and in the procedures prescribed by the law. Other criticisms pertain to the rights of investors and the settlement of disputes between them and official and unofficial parties. As a result of all these criticisms, the PNA has suspended the enforcement of the original law and is now working on drafting a new version, and it is hoped that this new version will resolve the problems encountered in the original version³.

For more detailed information on the debate³ that was conducted about the law, see FIAS (1995), Birzeit University Law Center (forthcoming) and MAS (1996).

Other draft laws still being studied are the Income Tax Draft Law, Banking Draft Law, Establishment of Small and Medium Economic Ventures, and the Development Authority Draft Law, in addition to a draft law on the General Budget and another on Social Security. There are also laws pertaining to car rental and goldsmiths that are being considered⁴.

There are many laws that are necessary for economic development that have not been addressed yet and do not appear in the list of laws under preparation. Most important among these laws are the Companies Law, Anti-trust Law, and Proprietors and Tenants Law. There is an urgent need for unifying the Companies Law in the West Bank and Gaza Strip, especially since the two areas form one economic unit and companies have the right to operate in both regions. For example, banks in the West Bank must be public share holding companies, whereas in the Gaza Strip this is not required, which creates problems for branches of banks registered in one region when operating in the other. Also, the present law governing proprietors and tenants constitutes a burden on the housing and building sector. The law keeps the rents fixed and does not allow the period of rental to be terminal. This issue requires the attention of the executive as well as the legislative authority, especially since the housing and building sector has the potential to take the lead in Palestinian economic development during the transition period. For this reason, this law must be amended in a way that creates a balance between the rights of the proprietors and the rights of the tenants. The absence of a basic law for the general budget, which would regulate public spending and revenue collection as well as the mechanism for preparing and approving the general budget, leads to disorder in the area of public spending. Therefore, a budget law is urgently needed. There is also an urgent

The files of Diwan Al-Fatwa wal-Tashri', ⁴
Ministry of Justice, PNA.

need for the enactment of laws that prohibit monopolistic practices and prepare the ground for healthy competition. Furthermore, the economic role of government must be defined in way that minimizes its involvement in production and limits it to mainly providing an appropriate economic environment for the private sector.

1.3 Regulations and Procedures

The PNA has introduced many changes to the procedures relating to economic and commercial activities and plans to introduce additional changes. But the procedures still suffer from a general lack of clarity and rely heavily on licensing. Some of the requirements seem unnecessary and it is hoped that they will be abolished with time. The assumption is that the investor should be the one to decide on the choice of investment. If the PNA chooses to encourage a certain sector of the economy, that could be achieved by providing incentives for investment in that sector.

In external trade, all exporters to the Palestinian market now need to deal with Palestinian agents or distributors, which helps to limit the monopoly that Israeli importers of goods from abroad and exporters to WBGS exercise over the Palestinian market. Importing goods that are listed in lists A1 and A2⁵ requires a special license from the Palestinian Ministry of Trade. The issuance of a license depends largely on the discretion of officials in the Ministry, and although the Ministry asserts that no request for a license has so far been denied and that the waiting period is usually short, issuing import licenses without establishing transparent criteria for granting them may lead to problems in the future. The fact that such problems have not surfaced yet may be due to the limited amount of direct

A1 and A2 are lists of goods that the Paris ⁵
Economic Agreement permits the PNA to import according to Palestinian customs tariffs but only in quantities limited to what is assumed to be the Palestinian market needs.

imports to date, as a result of Israeli impediments. Until the present, the quantities that Palestinian merchants have requested to import do not exceed the quantities allowed under the Economic Protocol, and therefore, there was no need to introduce quotas. But in the case of quantities exceeding the allowed limit, it may become necessary to distribute the total quantity among those applying for import licenses by auction, as it is done in many countries. Emphasis must be placed here on transparency and lack of nepotism.

As for public safety and consumer protection, the PNA made it mandatory that the labels on local and imported products be clear and in Arabic. The Department of Inspection in the Ministry of Trade is currently ensuring that goods are in proper condition and properly labeled. The Ministry of Labor established a department for occupational safety and health that aims to protect the worker in the work place. The officials of this department make field visits to work places, but as of December 1996, the department was still lacking regulations or laws that set the general conditions for occupational safety and health, the penalties for breaches of these conditions, and the mechanisms for enforcement. The Department of Economic Activities in the Ministry of Labor and the Palestinian Petroleum Agency have begun licensing domestic gas refilling stations and setting conditions for their operation in order to reduce accidents involving exploding gas bottles.

Finally, the establishment of an Institute for Specifications and Standards was decreed by the President of the PNA in 1994⁶. This is an important step on the road to controlling Palestinian specifications and standards. But the

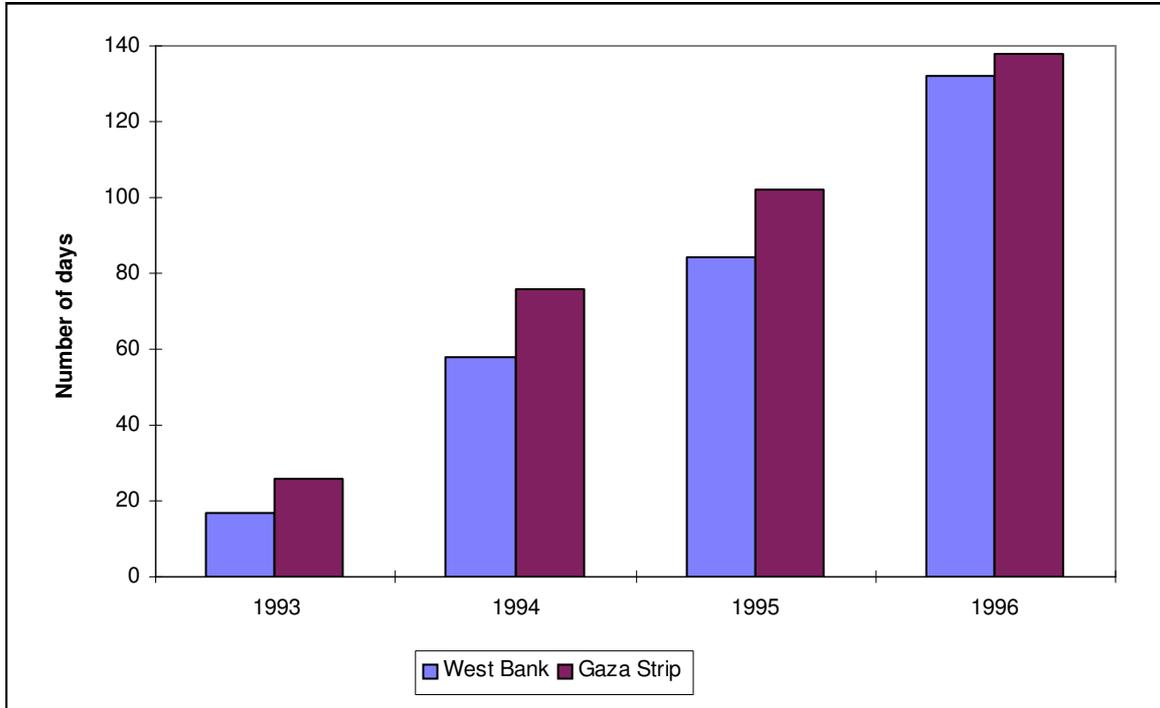
Specifications and Standards Law is still under preparation and discussion. There is also a draft Jewelry Law as well as ongoing research on the possibility of establishing laboratories to test gold and jewelry.

1.4 Closure

In spite of the launching of the peace process in Madrid and the signing of the Oslo, Taba and Cairo agreements, Israel has persisted in practices that put economic and political pressure on the Palestinians. It has even developed a new method for economic blockade under security pretexts, which is the closure. The closure includes banning movement of goods, factors of production and people between the Palestinian areas and Israel and settlements, between the West Bank and the Gaza Strip, and between the rest of the West Bank and Jerusalem. Closure also often entails banning movement between the West Bank and Jordan and between the Gaza Strip and Egypt. Jordan and Egypt are the only entry points for the Palestinian economy to the Arab World and to the rest of the world, especially during closure. Closure is usually accompanied by strict measures at the border crossings, which hamper the movement of people and goods. Many imported and exported goods have been spoiled because of these practices. In some cases, closure entails banning of movement between Palestinian towns and villages, in addition to banning of travel to Israel and to the outside world. In other cases, the closure is confined to a certain area, town or village.

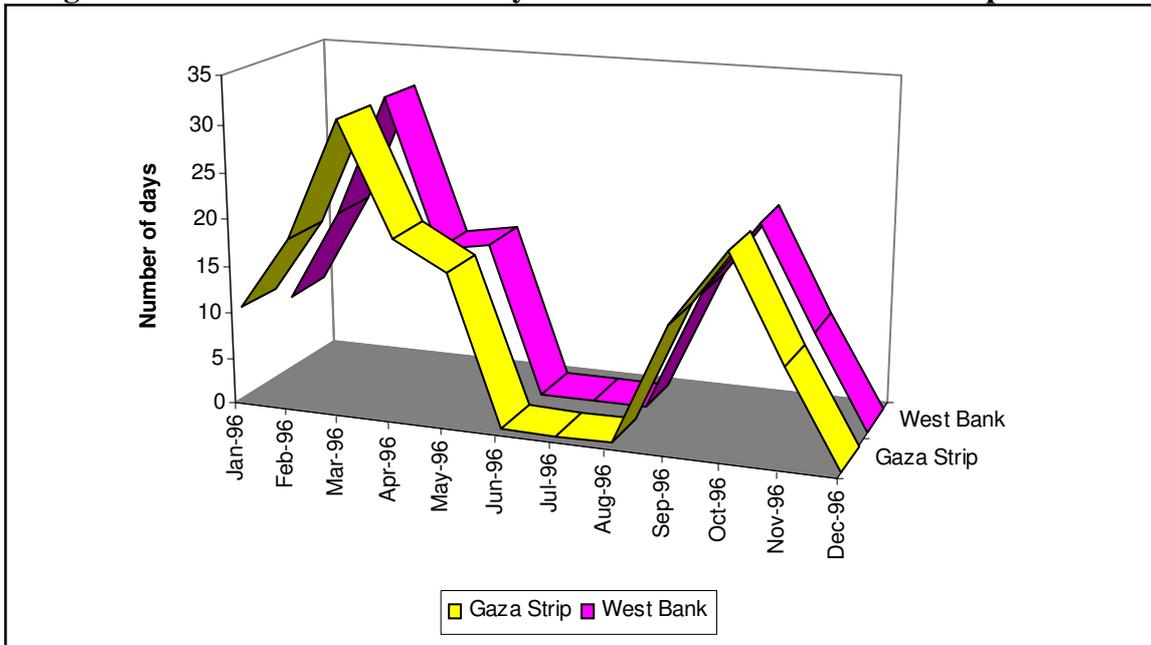
Available information indicates that the law⁶ that decreed the establishment of the institute has not yet been put before the Legislative Council, and it has not appeared in the Official Gazette (Al-Waqa'i Al-Filistiniyyah).

Figure 1.1: Number of Closure Days in the West Bank and Gaza Strip 1993-1996



Source: Data for 1996 was obtained from the Palestinian Ministry of Labor, and from the Palestinian Center for Human Rights for earlier periods.

Figure 1.2: Number of Closure Days in the West Bank and Gaza Strip for 1996



Source: Palestinian Ministry of Labor data.

Available data (Figure 1.1) show that the number of days of closure per year has increased during the last four years, reaching an overall total of 342 days in the Gaza Strip and 291 days in the West Bank. 1996 was the worst year: the number of days of closure reached 138 in the Gaza Strip and 132 in the West Bank. The 1996 figures indicate an increase of 35% in the Gaza Strip and 57% in the West Bank, as compared to 1995. What distinguishes the 1996 closures is that they were in effect during most of the months of that year (Figure 1.2), which had a significant effect on the continuity and the regularity of production, marketing and income generation. This exacerbated the confusion and distortion that affected Palestinian economic activities in general.

In addition to the days of closure shown in Figure 1.1, there were periods of closure that were limited to certain areas in the West Bank, effectively sealing them off from the rest of the West Bank, Jordan and Israel. Ramallah was sealed off twice, first in July 1996 for one day and then in November for five days. The closure of Nablus, in the wake of the September 1996 clashes, continued two weeks beyond the lifting of the closure on the rest of the West Bank. Bethlehem was closed off for one day in January and for another in February.

A closure has a devastating effect on the Palestinian economy because it deprives thousands of workers of their only source of income--particularly work inside Israel--and consequently lowers the Palestinian GNP. The purchasing power of those workers and their families diminishes appreciably because of closure, which has negative repercussions on the macroeconomy. The labor market is the most affected by closure. As soon as such a measure is announced, thousands of workers become immediately unemployed as the permits they hold that allow them to reach their work places in Israel and in settlements become invalid. This practice has led to the spread of poverty and other

negative social phenomena. The banning of the movement of goods from one region in the West Bank to another, between the West Bank and Gaza, and between the rest of the West Bank and Jerusalem obstructs the marketing process and increases the pressure on the Palestinian market, thus frustrating the hopes for increased productivity and a better exploitation of the unemployed production capacity. This also requires additional investments and mechanisms for storage and transportation that reduce profit and add to the obstacles facing production and investment in Palestine.

Looking at another aspect, the banning of export of Palestinian manufactured goods and agricultural products to Israel causes a great loss in the short run and impedes production plans, which might lead to losing the Israeli market in the long run as the Israeli importer turns to more stable markets. The situation is particularly bad when it comes to agricultural products, which cannot endure long shipping delays and require special arrangements for storage. In addition, the delay in arrival of raw materials from Israel to the West Bank and Gaza leads to the upsetting of production plans and to a lowering of capacity utilization.

Closure also has a very negative effect on investment. The economic environment that accompanies closure is not conducive to attracting investments, foreign or local. Furthermore, closures have forced the PNA to divert funds that were allocated for spending on investments in order to cover recurrent expenditures and emergency employment programs.

1.5 Land Seizure

Ever since Israel occupied the West Bank and Gaza Strip in 1967, it has pursued a policy of controlling Palestinian natural resources, in particular land and water. The establishing of Israeli settlements has been employed as a means of imposing a *fait accompli* and dismembering the Palestinian Territory in order to make it

easier to control the land and the life of its inhabitants. Israel has employed several methods to seize Palestinian land and forbid its inhabitants from using it. These methods include the following: declaring a certain area of land to be “abandoned property”, declaring a certain area as “state land”, compulsory acquisition of land by recourse to Jordanian Law and Israeli military orders, purchase of land, usually by impersonation or other subterfuge and with the help of restrictions on sale of land between Palestinians, and requisition of land for military or for settlement purposes and for the building of infrastructures that serve the settlements. The proportion of land in the West Bank seized by Israel, using various methods, was estimated at 60% of the total area of the West Bank by mid-1991 (Coon, 1995, Arabic translation). In the Gaza Strip, the proportion reached more than 40% of the total area of the Strip by the end of 1993 (Palestinian Ministry of Information, 1996, in Arabic).

Israeli seizure of land has continued during the last three years in order to expand existing settlements and build by-pass roads. The data given in Table A1 show that the total area of land that has been confiscated since 1993 is more than 85,000 dunums (PHRIC, 1996). Land areas that have been confiscated for the purpose of opening by-pass roads since the Oslo Accords has amounted to about 30,000 dunums (Tufakji, forthcoming, in Arabic).

The number of settlers has increased substantially since the launching of the peace process, rising from 105,000 in 1992 to 145,000 in 1996, i.e. an increase of around 38%. This increase took place during the rule of the Labor Party in Israel which signed the Oslo Accords (Tufakji, forthcoming, in Arabic). The present Likud-led government strongly supports

settlement activities and overtly encourages settlement.

2. NATIONAL ACCOUNTS

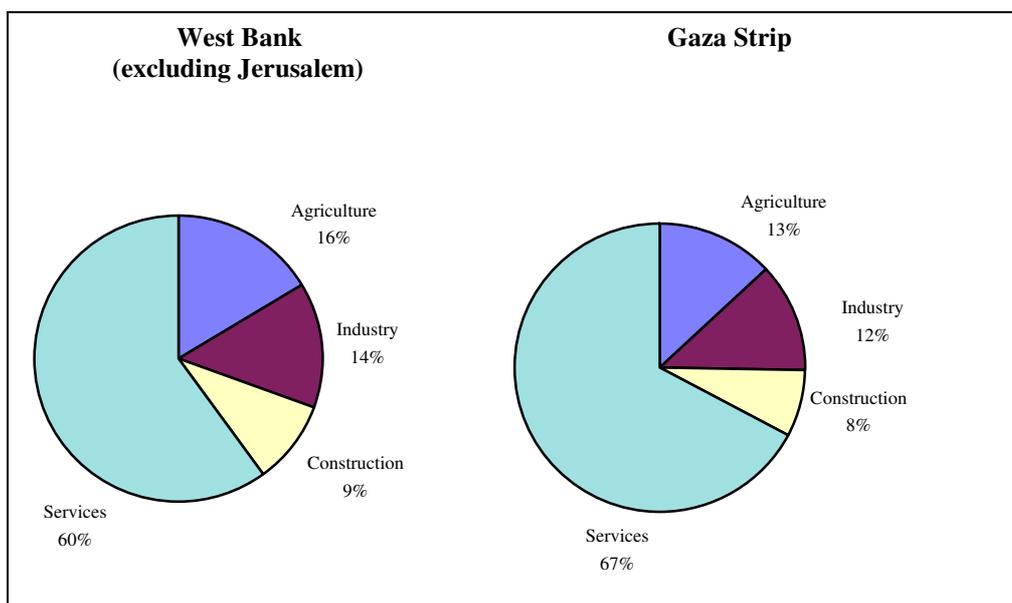
2.1 Introduction

The Israeli Central Bureau of Statistics (ICBS) compiled national accounts for the WBS during the period 1968-1993. However, the ICBS cautions about data quality for the period 1988-1993 because of data collection difficulties experienced since the beginning of the Intifada. The World Bank and the International Monetary Fund (IMF) produced estimates for the period 1994-1996 based on ICBS historical data. ICBS national accounts statistics, as well as the World Bank and IMF estimates based upon them, have been challenged by recently compiled PCBS national accounts statistics for 1994. There are, for example, major differences between PCBS and ICBS national accounts regarding the sectoral distribution of GDP that cannot be explained by economic fundamentals. There are also large differences in the relative weights of the West Bank and the Gaza Strip in the total WBS GDP. If these differences persist in future PCBS surveys, some of the stylized facts regarding the Palestinian economy will have to be examined.

2.2 PCBS 1994 Accounts

The PCBS estimates the 1994 gross domestic product (GDP) of the West Bank (excluding Jerusalem) and the Gaza Strip at \$1,715 million and \$909 million, respectively (see Table A3). Its estimates for the gross national income (GNI) for the same year are \$2,116 million for the West Bank (excluding Jerusalem) and \$979 million for the Gaza Strip. Its GNI per capita estimates are \$1,739 for the West Bank (excluding Jerusalem) and \$1,162 for the Gaza Strip .

Figure 2.1: Percentage Contribution to GDP by Economic Activity, 1994



Source: PCBS, 1997

Table 2.1: Contribution to GDP by Selected Sectors

Sector	ICBS			PCBS 1994
	1968	1987	1993	
West Bank (excluding East Jerusalem)				
Agriculture, Forestry and Fishing	36.3	18.8	12.2	16.3
Industry	8.2	8.0	6.7	14.0
Construction	3.5	16.7	-	9.5
Gaza Strip				
Agriculture, Forestry and Fishing	27.9	17.8	14.3	13.1
Industry	3.1	13.9	12.1	12.0
Construction	3.1	22.2	21.7	7.7
West Bank and Gaza Strip (excluding East Jerusalem)				
Agriculture, Forestry and Fishing	33.9	18.8	12.7	15.2
Industry	6.7	13.5	8.0	13.3
Construction	3.4	22.2	22*	8.8

*Taken from ICBS (1996a).

Sources: 1968 & 1987: ICBS (1996a).

1993: ICBS (1996b).

1994: ICBS (1997).

Based on PCBS data, the shares of industry and agriculture in 1994 GDP for the West Bank (excluding Jerusalem) are 14% and 16%, respectively. Comparable shares for the Gaza Strip are 12% and 13%, respectively. The shares of other sectors in the GDP of both the West Bank (excluding Jerusalem) and the Gaza Strip are shown in Figure 2.1.

According to PCBS data, the shares of final consumption, gross capital formation and net exports in 1994 GDP expenditures in the West Bank (excluding Jerusalem) are 127%, 38%, and -65%, respectively. Comparable figures for the Gaza Strip are 126%, 34% and -60%, respectively.

2.3 PCBS/ICBS Accounts Comparison

The PCBS national accounts statistics put the 1994 GDP for the West Bank (excluding Jerusalem) at \$909 million and for the Gaza Strip at \$1715 million. This means that the share of the West Bank in the total WBGS GDP is 65.4%, and the share of the Gaza Strip is 34.6%. In comparison, ICBS figures for 1993 show the shares of the West Bank

and the Gaza Strip to be 75.7% and 24.3%, respectively.

The ICBS shows the share of the industrial sector in 1993 to be 8.1%, while the PCBS puts this share in 1994 at 13.3%. Available information does not indicate a substantial expansion in the industrial sector in 1994. Hence, the difference must be caused by differences in methodology.

3. STANDARDS OF LIVING

3.1 Extent and Intensity of Poverty

The extent and intensity of poverty in any society is a major indicator of the state of development in that society. If the PNA is to follow a balanced growth strategy, the question of poverty and living standards should figure prominently in its economic policies and programs. This requires a clear understanding of the incidence, intensity and characteristics of poverty. Such an understanding is essential for designing policies to effectively eradicate poverty.

A MAS study by R. Shaban (Shaban, forthcoming), which analyzes the first round of the PCBS expenditure survey, covering the period October-December 1995, indicates that there has been a substantial deterioration in the living standards in the WBGS over the past few years. This is measured by the decline in

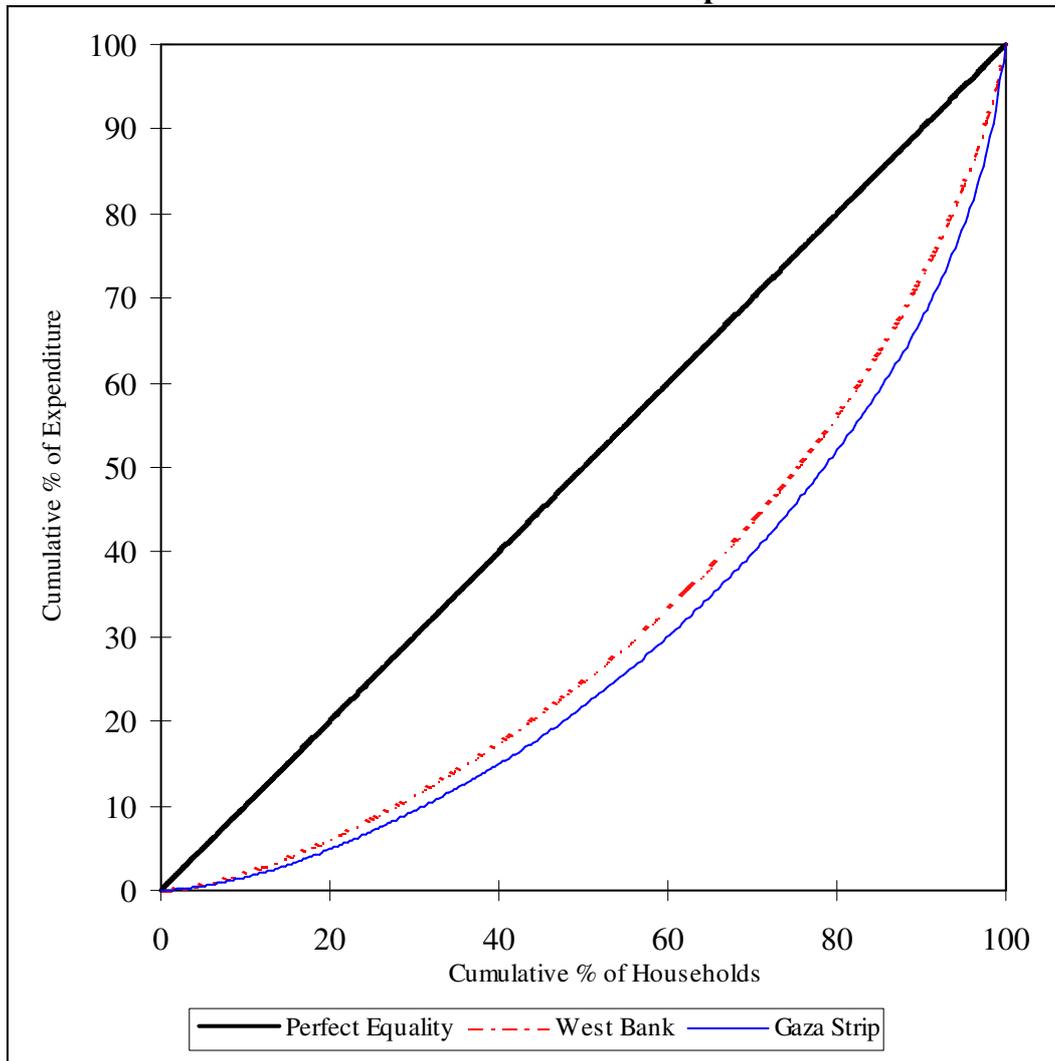
per capita GDP, which decreased by about 14.2% over the period 1993-1995, according to the study⁷. When looking at per capita GDP in the West Bank and Gaza Strip separately, the study shows that living standards have deteriorated at a faster rate in the West Bank with a loss of 19.7% of its per capita GDP, compared to the Gaza Strip which lost 8.4% of its GDP per capita over the same period.

Using the same data set and a per capita poverty line of \$650 annually⁸, Shaban calculates the poverty head count index and the poverty gap for the WBGS. The head count index, which measures the extent of poverty, is the ratio of the number of poor to the total population. The poverty gap, which measures the intensity of poverty, provides an estimate of the funds needed to eliminate poverty totally if such funds were perfectly targeted to the poor such that each poor person would receive enough funds to just reach the poverty line. The study estimates the WBGS head count index at 19% of the total population (see Table 3.1 for details). The WBGS poverty gap is equal to 2.41% of total expenditure, indicating that perfect targeting to eliminate the poverty gap would require 2.41% of the total population expenditure.

To estimate the GDP for 1994 and 1995,⁷ Shaban divided the expenditure per capita derived from the PCBS expenditure survey by the average consumption GDP ratio for the period 1980-1987.

Differences in the cost of living between the West Bank and the Gaza Strip may make it necessary to use a lower poverty line in the latter than the former. A possibility explored by Shaban is to use a \$500 poverty line for the Gaza Strip while keeping the \$650 line for the West Bank. This will decrease the percentage of the population in the Gaza Strip that lives below the poverty line.

Figure 3.1: Lorenz Curves of Household Expenditure Inequality: West Bank and Gaza Strip



Source: Shaban, R. (forthcoming).

Shaban indicates that there are differences in the extent and intensity of poverty, as well as inequality, among the various regions and sectors of Palestinian society. In the West Bank, 10.5% of the population lives in poverty, while in the Gaza Strip the figure is 36.3%. The intensity of poverty is also greater in the Gaza Strip, where the poverty gap was estimated at 6.3% compared to 1.05% in the West Bank. Differences in the degree of inequality between the West Bank and Gaza Strip were also supported by the Gini coefficient and Lorenz curve, which reflects inequalities in expenditures. The

Lorenz curve plots the cumulative percentage of expenditure versus the cumulative percentage of households, arranged in ascending order of expenditure. The diagonal line illustrates the perfect equality; hence, the more egalitarian the distribution the closer the Lorenz curve would be to the diagonal line. The Gini coefficient is twice the area between the Lorenz curve and the diagonal line. A larger coefficient indicates a greater degree of inequality. The Lorenz curve for the West Bank and Gaza Strip is shown in Figure 3.1. It is clear from this figure that the Lorenz curve for the Gaza Strip lies further from

the diagonal line than the West Bank's. This indicates that the distribution of household expenditure is more egalitarian in the West Bank than in the Gaza Strip. The Gini coefficient was estimated by Shaban at 0.355 for the West Bank and 0.395 for the Gaza Strip.

3.2 Formal and Informal Support Mechanisms

Over the years, individuals and households in need have utilized various mechanisms to cope with hardship. A number of poor families receive assistance from formal support programs. The major formal programs that assist the poor in the WBGS include the social welfare program of the Ministry of Social Affairs and the UNRWA program of special hardship cases. Others are dependent on the informal sector, whereby poor households rely on relatives and neighbors for support. In addition, an extensive number of NGOs provide various types of assistance to the poor. The number of poverty cases handled by NGOs is not available at this time⁹. Assistance provided by the informal sector, the Ministry of Social Affairs and UNRWA will be discussed in the rest of this section.

In January 1997, the Ministry of Social Affairs assisted about 30,000 families in the WBGS (excluding Jerusalem), with a total monthly budget of \$800,000. Members of these families account for 4.7% of the WBGS population. In 1995, about 21,551 families benefited from the Ministry's assistance. Most of the increase in the number of poor families assisted came from families of prisoners and martyrs (7,500 families). The Ministry provides various types of assistance to its beneficiaries, including cash, in-kind assistance, medical insurance, rehabilitation and housing services. While the number of beneficiaries from the Ministry's program has increased, the size

of assistance per case did not rise to match the increase in inflation. As a result, benefits to the poor from this assistance have eroded over time.

In December 1996, the UNRWA "special hardship cases" program provided in-kind assistance to 21,900 families with 88,658 individuals in the WBGS. Of this total, 37.1% of the families receiving assistance live in the West Bank and 62.9% reside in the Gaza Strip. Members of these families account for 3.4% of the WBGS population and 8.7% of the registered refugee population. UNRWA also runs an employment generation program that is targeted at the beneficiaries of the special hardship cases program. Its shelter rehabilitation program aims to address problems posed by substandard and often hazardous living conditions in refugee camps through the rebuilding of shelters for poor families. From December 1994 to May 1996, the shelter rehabilitation program contributed to the reconstruction of 2,116 shelters in the Gaza Strip and 2,753 shelters in the West Bank.

Informal support was the subject of a recent study conducted by MAS (Hilal & El-Malki, 1997). The study focuses mainly on the informal social safety net provided by friends and relatives and their role in helping the poor. For this purpose, the study surveyed 1,458 households throughout the WBGS (excluding Jerusalem) over the period June-November 1996. The study concludes that 4.7% of the families surveyed received cash assistance from relatives, friends and neighbors (see Table 3.2 for details of the families receiving assistance). Of this total, 41.8% received less than \$100 per month and 6% received between \$750-\$1000 per month. Only 0.5% of the whole sample received in-kind assistance from relatives and friends.

Anti-poverty programs managed by NGOs are ⁹ presently being investigated by MAS.

Informal assistance was found by Hilal & El-Malki to be more widespread in the West Bank than in the Gaza Strip. The study shows that 5.2% of the surveyed cases in the West Bank receive cash assistance from relatives and friends and 0.5% receive in-kind assistance. Comparable figures for the Gaza Strip are 4% for cash assistance and 0.2% for in-kind assistance. This can be attributed to the following factors. First, the rural population, which maintains relatively strong kinship relations, accounts for a much larger share of the total West Bank population (52%) than the Gaza Strip population (21%)¹⁰. Second, the role of UNRWA in assisting registered refugees,

Table 3.1: Some Poverty Indicators in the WBGs

Area	Annual Poverty Line = \$650/capita		Annual Poverty Line = \$500/capita	
	Head Count Index (%)	Poverty Gap (% of total expenditure)	Head Count Index (%)	Poverty Gap (% of total expenditure)
WBGs	19.1	2.41	9.5	0.95
<i>Urban</i>	17.2	1.93	9.3	0.61
<i>Rural</i>	17.3	2.04	6.8	0.81
<i>Camp</i>	30.8	5.79	19.6	2.8
West Bank	10.5	1.05	4.2	0.39
<i>Urban</i>	7.6	.66	3.2	0.16
<i>Rural</i>	11.9	1.3	4.6	0.51
<i>Camp</i>	11.7	1.25	5.1	0.69
Gaza Strip	36.3	6.3	20.2	2.56
<i>Urban</i>	31	4.61	18.3	1.56
<i>Rural</i>	43.2	7.32	17.7	2.99
<i>Camp</i>	38.7	8.82	25.6	4.19

Source: Shaban, R. (forthcoming).

who account for a much higher share of the population in the Gaza Strip in comparison to the West Bank, reduced the need for informal assistance.

These ratios are taken from Hilal & El-Malki ¹⁰ (1997).

Table 3.2: Families Receiving Assistance from Relatives, Friends and Neighbors by Region and Locality

Region and Locality	Families Receiving Cash Assistance (%)	Families Receiving In-kind Assistance (%)
West Bank & Gaza Strip	4.7	0.5
<i>Urban</i>	4.6	0.4
<i>Rural</i>	5.4	0.3
<i>Camp</i>	3.9	1.3
West Bank	5.2	0.8
<i>South</i>	5.5	0.4
<i>North</i>	5	1.1
<i>Center</i>	5.4	0.5
Gaza Strip	4	0.2
<i>North</i>	2.4	0.0
<i>Center and South</i>	5.6	0.4

Source: This data is based on a survey carried out by the Jerusalem Media and Communication Centre for a research project on social security conducted by MAS.

4. SECTORAL UPDATES

4.1 The Construction Sector

According to PCBS national accounts statistics (PCBS, 1997), the value added by the WBGS (excluding Jerusalem) construction sector in 1994 was \$232.3 million. Of this figure, about \$162.3 million were generated in the West Bank and the rest in the Gaza Strip. The share of construction in the total GDP of the same year was 8.8% in the WBGS (excluding Jerusalem), 9.5% in the West Bank (excluding Jerusalem) and 7.7% in the Gaza Strip. In contrast, the contribution of construction to Jordanian GDP in 1994 was about 7.4%. The shares of agriculture and industry¹¹ in the 1994 GDP for the WBGS (excluding Jerusalem) were shown by the PCBS to be 15.2% and 13.3%, respectively.

Based on 1994 PCBS statistics, the ratio of value added to gross output in the construction sector was 28.8% in the WBGS (excluding Jerusalem), 30.5% in

¹¹ Industry here includes mining, manufacturing, water and electricity.

the West Bank (excluding Jerusalem) and 25.9% in the Gaza Strip. The comparable ratio for Jordan is 25.5%¹². The ratio of value added to gross output in services, agriculture, and industry in the WBGS (excluding Jerusalem), is 80.9%, 70.5% and 39.3%, respectively.

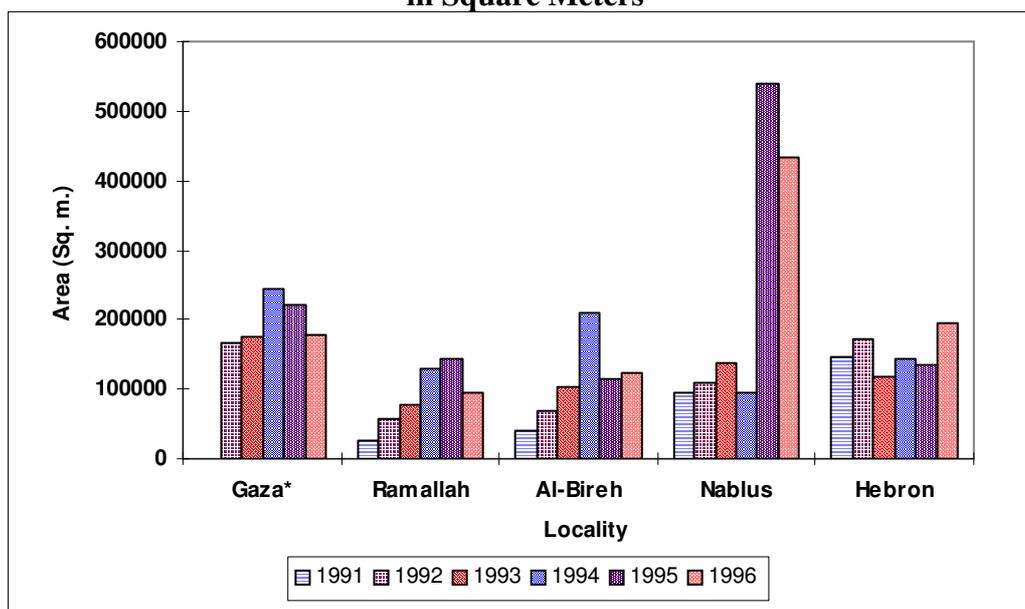
The construction sector employed 12.6% of employed workers in the WBGS in the fall of 1996 (PCBS, 1996c). In contrast, Jordanian construction employed 3.1% of Jordanian employed workers in 1994. The construction sector accounted for most of the gross domestic fixed capital formation during the occupation years. Its share of the gross fixed capital

formation in 1987¹³ was about 65.7% in the West Bank (excluding Jerusalem) and 65% in the Gaza Strip. Comparable

¹² Jordanian data in this chapter are taken from the *Statistical Yearbook 1995*, published by the Jordanian Department of Statistics, no. 46, October 1996.

¹³ The ICBS does not provide figures for gross domestic capital formation after 1987. The PCBS does not report the share of construction in capital formation for 1994.

Figure 4.1: Building Permits in the West Bank and Gaza Strip in Square Meters



* The Gaza Strip's 1996 figures are estimated using permits granted during the first eight months of 1996.

Source: Data collected by MAS from the respective municipalities.

figures for Jordan and Israel are 62.8% and 48.4%, respectively¹⁴.

Despite the lack of reliable data for the period 1988 to 1991, available information indicates a decline of investment in construction in this period due to the general economic slowdown during the Intifada. It is also indicated that investment in construction increased in 1992 due to pent-up demand during the Intifada, and to accommodate Palestinian returnees from the Gulf after the Gulf War. The peace process accelerated this increase, especially after the return of the many Palestinians who came with the PNA. More housing units were built and some

infrastructure projects were started with the help of donor countries. This is apparent in the increase in housing permits issued by the major municipalities between 1991 and 1994. This trend continued until the end of 1995 in some cities (Nablus and Ramallah). In 1996

there was a clear trend reversal¹⁵ (see Figure 4.1). This reversal can be attributed to political tensions and closures.

Prospects for growth in Palestinian construction are substantial both in the short run and in the long run. This is due to three main factors. First, the immediate need to reduce housing congestion, particularly for low income groups. Second, the high natural growth rate of the Palestinian population, which grew in 1994 by 3.9%. Third, the possible return of thousands of diaspora Palestinians as part of the permanent political settlement. However, there are also many obstacles that might prevent the achievement of such growth in the construction sector. These include political instability caused by setbacks in the peace process, difficulties in obtaining housing finance, continuing decline in per capita income¹⁶, and high land prices. Frequent closures and Israeli non-compliance with the peace agreements

Israeli data is for 1987 while Jordanian data is¹⁴ for 1990.

One exception, the city of Hebron, might be a¹⁵ result of that city's special political conditions.

Per capita GDP in the WBGS declined by¹⁶ more than 14.2% in the period 1993-1995 (see section 3).

decrease confidence in investment in the WBGS, which reflects negatively on the construction sector. Finance problems are apparent in the unwillingness of commercial banks, which hold most loanable funds in the WBGS, to extend loans, particularly in the construction sector, where loans are usually of long maturity. As for land prices, they have increased sharply following the signing of the peace agreements and the establishment of the PNA. Land prices in Jericho and Ramallah, for instance, rose by more than 100% in the period 1994-1995. Despite a moderate decline in land prices during 1996 because of economic stagnation, prices are expected to rise again when economic conditions improve. The main reason for this is the difficulty in obtaining construction permits in the WBGS areas that are still under Israeli control, which constitute 40% of Gaza Strip and 74% of the West Bank.

4.2 The Tourism Sector

The number of visitors to the historic town of Bethlehem has been growing steadily since the early 1990's, increasing from 600,000 tourists in 1990 to 1,010,453 tourists in 1995. The increase continued until the suicide bombing episodes in February and March of 1996 and the subsequent closure of the WBGS, which resulted in an 8.5% drop in the number of tourists in 1996 (see Figure 4.2). Such decline demonstrates the sensitivity of the Palestinian tourism sector to political conditions in the region.

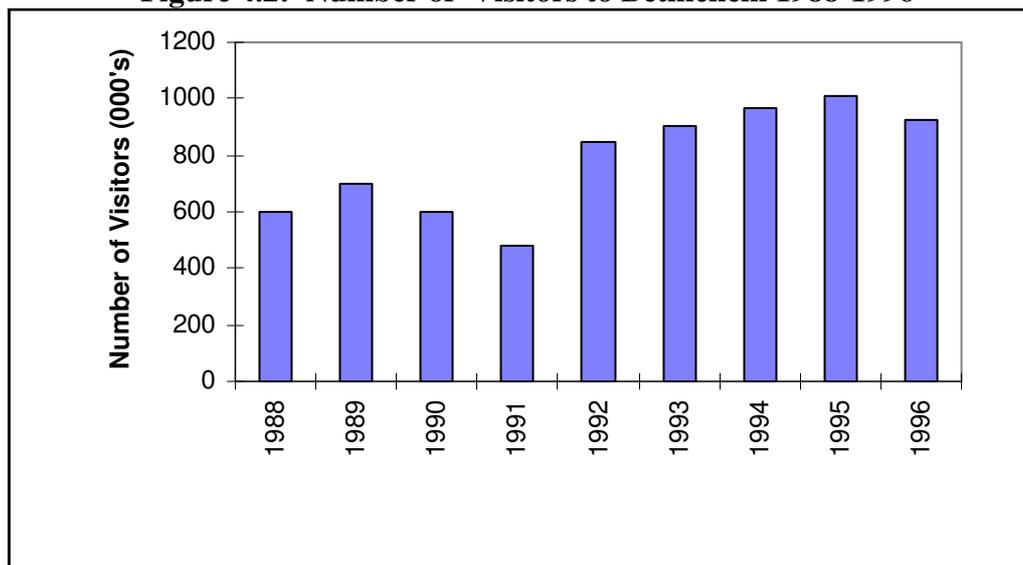
Despite the large increase in the number of tourists to the WBGS in the last few years, the contribution of the tourism

sector to the Palestinian economy is still limited. According to a study prepared by MAS (Khano & Sayre, 1997), the total revenue from tourism in 1995 was \$152 million. Of this figure, East Jerusalem contributed \$132 million, while the rest of the WBGS contributed \$20 million. Although 40% to 47% of the total visitors to the Israeli-Palestinian combined market visit Bethlehem and 25% of them visit Jericho, tourism revenue in the WBGS (excluding Jerusalem) accounted for less than 1% of the total of the combined market, a market of about \$2,936 million in 1995. Similarly, even though most tourists to the combined market visit East Jerusalem, its tourism revenues accounted only for 4.5% of the total revenue of the combined market in 1995.

The same study shows that the percentage value added of total tourism revenue in 1995 was around 38%, and that tourism contributed \$57 million to the Palestinian GDP in the same year. Of this figure, East Jerusalem contributed \$46 million, while the rest of the WBGS accounted for \$11 million. This means that the tourism sector in the rest of the WBGS contributed less than 1% to the WBGS GDP.

When the contribution of the tourism sector to the Palestinian GDP is divided among its different subsectors, the study reveals that hotels contributed \$17.1 million and restaurants and tourist transport companies contributed \$15.5 million in 1995. The handicrafts industry, which enjoys a high value added ratio (70%), contributed \$3.5 million to GDP while travel agencies

Figure 4.2: Number of Visitors to Bethlehem 1988-1996



Source: Data on the numbers of visitors for years up to 1994 were taken from ICBS (1994), various issues. Data for 1995 & 1996 were taken from the Palestinian Ministry of Tourism.

and souvenir shops contributed \$7.7 million and \$20.6 million in 1995, respectively.

The same study indicates that in 1995 about 2,930 workers were employed in the Palestinian tourism sector. This represented less than 1% of the Palestinian labor force. East Jerusalem accounted for 2,082 of those workers and the remaining were employed in the rest of the WBGS. The hotel industry represented the main employer for the sector, employing 1,165 workers, or 40% of the total employment of the sector. The rest of the workers were employed by the handicrafts industry (440 workers), travel agencies (150 workers), tourist-transport companies (289 workers), restaurants (200) and souvenir shops (600 workers).

The limited contribution of the tourism sector to the Palestinian economy can be attributed to the stagnation of Palestinian tourism institutions since Israeli occupation. The Israeli authorities refused to issue permits for new hotels or for expanding existing ones in East Jerusalem. This resulted in the freezing of the number of rooms at Arab-owned

hotels in East Jerusalem at their 1967 level. During the occupation period, the number of rooms at hotels operating in the rest of the WBGS declined¹⁷. The Israelis also did not issue any licenses for tourist transport companies outside Jerusalem and did not grant any new permits for tourist guides from the rest of the WBGS. As a result, the number of Palestinian guides in East Jerusalem dropped from 154 in 1967 to 47 in 1995, and their number in the rest of the WBGS was down to 24 in 1995, six of whom were newly licensed by the Palestinian Ministry of Tourism. Furthermore, the fact that the Israeli authorities neglected the infrastructure in the WBGS has made it difficult for the tourism sector to attract new investments.

The establishment of the PNA has resulted in the elimination of some of the obstacles that impeded the development of the Palestinian tourism sector. Acquiring a building permit in the PNA-administered

¹⁷ The number of hotels in East Jerusalem decreased from 40 in 1967 to 30 in 1994. In the rest of the West Bank, the number of hotels declined from 19 to 5 during the same period.

territories has become easier. Consequently, twelve new hotels have been built in the West Bank during the last three years. Likewise, it is presently easier for tourist guides to obtain licenses. Those guides, however, are still not allowed to operate in East Jerusalem and Israel, which makes the PNA-issued licenses of limited value.

Investment in infrastructure in PNA controlled areas has so far been limited. Inadequate infrastructure along with Israeli closures were the main obstacles to the development of the Palestinian tourism sector in the last three years. This reflected badly on the performance of newly-built hotels, particularly in the Bethlehem area where hotels depend mostly on foreign tourists. Hence, occupancy rates at new Bethlehem hotels was around 30%, in comparison to an expected rate of 80%. In contrast, occupancy rates for newly established hotels in Ramallah, which rely mostly on the internal market, averaged 80%.

The long-term potential of the Palestinian tourism sector will be highly influenced by the permanent political settlement, which is supposed to determine the status of East Jerusalem and the West Bank areas of the Dead Sea. East Jerusalem has historically served as an anchor for the Palestinian tourism sector. If the permanent settlement ends present Israeli restrictions on tourism development in East Jerusalem and permits the unhindered movement of people and vehicles between East Jerusalem and the rest of the West Bank, the prospects for the Palestinian tourism sector will be enhanced substantially. The Dead Sea represents a potentially important source of growth for the Palestinian tourism sector, especially in health tourism.

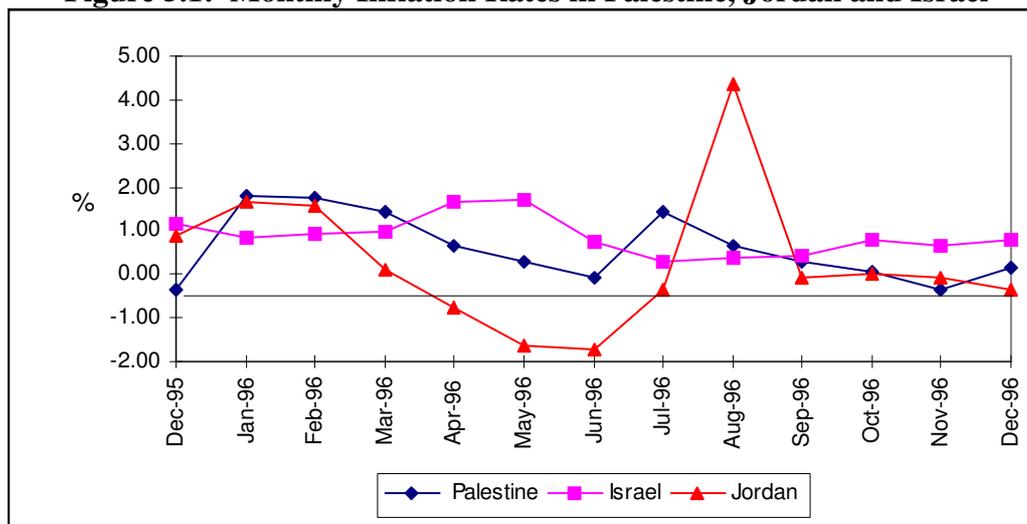
The short-term prospects for the tourism sector, however, will be determined

largely by its ability to compete with the Israeli tourism sector in the Israeli-Palestinian combined market. Unlike the Palestinian tourism sector, the Israeli tourism sector presently enjoys enormous government support, resulting in unfair competition between the two sectors. For instance, an Israeli tourism project is eligible for government grants up to 25% of total investment in the project or government loan guarantees of up to 66.7% of overall investment. In addition, Israeli tourism projects are eligible for tax reductions for periods ranging from 7-10 years (depending on the share of foreign investment in the project).

5. PRICES

In December 1995, Palestinian statistics on consumer prices, from which inflation rates could be calculated, became available for the first time. After determining the relative weights of goods and services consumed by the Palestinian household based on partial results of the family expenditure and consumption survey that it carried out over the period October-December 1995, the Palestinian Central Bureau of Statistics started compiling CPI data. The first month covered was December 1995. Since then, the PCBS has been issuing data for each month on the 14th day of the following month, measured relative to November 1995, which was taken as a base period. The choice of the base period was meant to be provisional until the completion of the family expenditure survey and the fixing of mean relative weights for the various goods and services, and until PCBS could gather data on a whole year that could then be used as a base year.

Figure 5.1: Monthly Inflation Rates in Palestine, Jordan and Israel



Sources: PCBS (1996a), JDS (1996a), and ICBS (1996).

The PCBS publishes data on the West Bank (excluding Jerusalem), the Gaza Strip, and East Jerusalem separately and in aggregate. According to these statistics, the WBSG annual average rate of inflation for 1996 was 8.4%. But the rate differed from one region to the other: whereas it reached 6.3% in East Jerusalem, it was 10.7% in the Gaza Strip and about 9.0% in the West Bank (excluding Jerusalem). In comparison (see Figure 5.1), the 1996 average rate of inflation reached 10.6% in Israel (ICBS, 1996b) and 3.3% in Jordan (CBJ, 1996).

Although the Palestinian data on inflation means that the purchasing power of the NIS went down in the WBSG during 1996 by about 8.4%, the declining exchange rates of the NIS against the US dollar and the Jordanian dinar during the same period resulted in a much smaller decline in the purchasing power of these two currencies. The JD appreciated against the NIS by 5.7% during 1996 and the US dollars appreciated by 4.9% during the same period. Therefore, the decline in the purchasing power for those whose salaries or savings are in JD was only about 2.7%, whereas the decline for those whose salaries or savings are in US dollars was about 3.5%.

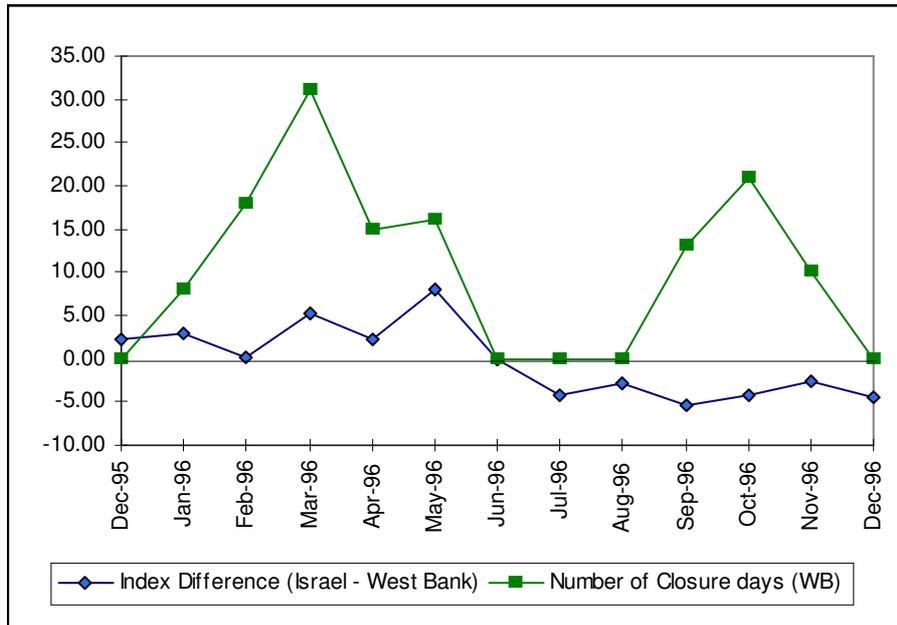
The PCBS divides the goods and services covered by the price index statistics into 10 general groups, each further divided into subgroups. Inflation data on the general groups are provided in Table A7. Based on this data, almost half of the rate of inflation in the WBSG can be attributed to the rise in the prices of food products, beverages and tobacco, which have a high relative weight in the basket. Transport, communication, furniture, home appliances and textiles contributed about 35% of the rate of inflation. The total contribution of these four groups amounts to 85.2% of the inflation rate, which means that the rise in prices in these groups was a little greater than average since their cumulative relative weight is 81.5%. It is noted that the group that contributed least to inflation is that of recreational goods and services, which contributed a mere 0.7% of the total inflation, whereas its relative weight was 1.6%. The detailed PCBS data show that March 1996 was the month that witnessed a decline in prices of most groups of goods and services; this is also the month throughout which there was a complete closure.

Closure prohibits Palestinian workers from getting to their workplaces in Israel and settlements and also prohibits the movement of goods between the Palestinian areas and Israel¹⁸. Closure also leads to a decrease in personal income and to lower external demand for Palestinian goods. Therefore, it can be expected that closure will result in the decline in the prices of locally produced goods, especially agricultural produce, as by its nature it cannot endure long periods of storage or delays in shipping. The preceding is apparent in Figures 5.2 and 5.3, which clearly show that the difference in prices of fruits and vegetables between Israel and the West Bank (excluding East Jerusalem) and the Gaza Strip increases as the number of days of closure increases. As for imported goods, it can be assumed that demand will decline because of the decline in workers' income, but at the same time closure causes a delay in delivery of such goods to the West Bank and the Gaza Strip and thus leads to reduced supply in the Palestinian market¹⁹. Therefore, the effect of closure on imported goods cannot be determined.

The ban on movement of goods from Palestine¹⁸ to Israel usually lasts longer and is enforced more strictly than movement in the opposite direction.

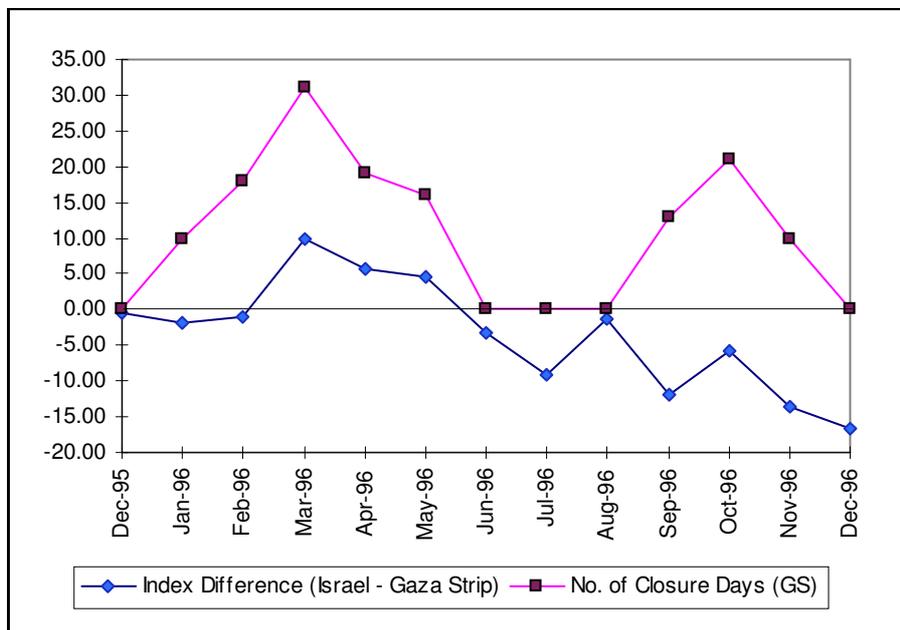
In addition, the Palestinian economy is largely¹⁹ unable to get these goods from other sources. There is in fact some importation taking place from Jordan and Egypt, but this is quite limited and is usually disrupted by closure, which leads back to continued purchasing from Israel, even if the process is delayed by closure.

Figure 5.2: The Number of Closure Days and the Fruits and Vegetables Price Differential between Israel and the West Bank



Sources: PCBS (1996a) and ICBS(1996a).

Figure 5.3: The Number of Closure Days and the Fruits and Vegetables Price Differential between Israel and the Gaza Strip



Sources: PCBS (1996a) and ICBS (1996a).

6. LABOR AND UNEMPLOYMENT

6.1 Labor Force

The size of Palestinian manpower (those of 15 years of age and above) reached about 1,340,630 people in the Fall of 1996²⁰. This represents an increase of about 4.5% over the Fall 1995 level. Part of this increase is due to the return of some Palestinians with the PNA. There was a clear difference in the rate of increase of the manpower between the West Bank and Gaza Strip during this period. While the rate of increase for the West Bank was 3.7%, it was 5.9% for the Gaza Strip. This difference is due to differences in natural population growth rates (fertility and mortality rates²¹) and the fact that a disproportionate share of returnees settled in the Gaza Strip.

The size of the Palestinian labor force was about 545,640 in the Fall of 1996, increasing at a rate of 9%, as compared to its level in the Fall of 1995. This means that 45,160 new workers entered the Palestinian labor market during that period, adding to the pressures on the local labor market caused by workers who lost their jobs in Israel and in settlements.

The labor force participation rate (LFPR) in the WBGS was 40.7% in the Fall of 1996. The LFPR was 42.5% in the West Bank and 36.3% in the Gaza Strip. In comparison, the LFPR was 43.3% in Jordan and 54% in Israel²² in 1995.

²⁰ The PCBS presents labor survey results in the form of percentages related to the sample of the survey. To calculate the numbers we used population estimates (published by the PCBS) after adjusting them to accommodate the reference periods of the labor surveys.

²¹ Fertility rates in Gaza and the West Bank in 1995 were 7.44 and 5.6 respectively. Infant mortality rates for the same year were 32 and 25 (per thousand) in Gaza and the West Bank, respectively.

²² Data for Jordan and Israel are taken from JDS (1996b) and ICBS (1996a).

The LFPR is highly affected by closures, which forces additional family members to look for work because of job losses incurred by the main bread winner(s). For this reason, the LFPR was highest in the Spring of 1996, which witnessed the highest number of closure days. The LFPR at this time was 41.2%, while it was 39.0% and 40.7% in the Fall of 1995 and the Fall of 1996, respectively.

6.2 The Employed

The total number of employed Palestinians was about 426,700 people in the Fall of 1996, 70% of whom reside in the West Bank and 30% in the Gaza Strip. The average number of years of education of the employed was 8.4 years in the West Bank and 9.0 years in the Gaza Strip. Comparing employment figures for the Fall of 1995 with those of the Spring of 1996 reveals that the number of employed Palestinians declined in that period by 18,000. Knowing that the number of those working in Israel and settlements declined by 29,000 in the same period, it can be concluded that the WBGS economy was able to provide 11,000 new jobs in that period. However, detailed data reveals public employment increased by about 17,000 during the same period. This means that employment in the WBGS private sector actually declined by about 6,000. A comparison between the Spring of 1996 with the Fall of 1996 shows that the total number of the employed increased by 35,000 and the number of those employed in Israel and the settlements increased by 32,000. This indicates that the WBGS economy created 3,000 new jobs in this period. Public employment in the same period increased by 2,000, meaning that employment in the private sector increased by 1,000.

In the Gaza Strip, total employment declined by 2,900 between the Fall of 1995 and the Spring of 1996, which accounts for 16% of the total decline in WBGS employment in this period. This means that the West Bank suffered more losses in employment than the Gaza Strip

due to the role of public employment in the latter, which increased in this period by 8,600, reaching 30% of the Gaza Strip labor force. As for the Fall of 1996, the number of employed people in the Gaza Strip increased by 10,300. This accounted for about 29% of the total increase in Palestinian employment, which is about equal to Gaza's share in total Palestinian employment.

In the Fall of 1996, about 23.6% of the total number of employed persons were partially employed, working less than 35 hours per week. In comparison, the share of partial employment was 29% and 26.4% in the Spring of 1996 and the Fall 1995 respectively. This means that partial employment increased with closures, since many of those who lost their jobs in Israel and the settlements due to closures were forced to accept part-time jobs in order to earn some income. The number of those partially employed increased from 108,400 in the Fall of 1995 to 113,400 in the Spring of 1996 (an increase of about 4.6%), and declined to 100,700 in the Fall of 1996 (a decline of about 11%). In comparison, the number of people with full-time jobs declined from 301,000 in the Fall of 1995 to 278,000 in the Spring of 1996 (a 7.7% decline), and increased to 326,000 in the Fall of 1996 (a 17.3% increase.)

6.3 Unemployment

The unemployment rate for the WBGS was 21.8% in the Fall of 1996. In comparison, it was 28.4% and 18.2% in the Spring of 1996 and the Fall of 1995, respectively. Such volatility in the unemployment rates is a result of closures. The total number of unemployed people increased between the Fall of 1995 and the Spring of 1996 by 64,176, and then declined in the Fall of 1996 by 36,314. Hence, the number of unemployed in the Fall of 1996 remained higher than that in the Fall of 1995 by about 30%.

The unemployment rate in the Gaza Strip was higher than in the West Bank over the

period Fall 1995-Fall 1996. This can be explained by the greater dependence of the Gaza Strip on the Israeli labor market and the fact that closures are usually tighter on the Gaza Strip. The unemployed are not significantly different from the employed in the number of years of schooling. Unemployment duration in the West Bank averaged 10 months in the Spring of 1996, while it averaged 15 months in the Gaza Strip²³. It averaged 10 months for men and 28 months for women²⁴. Unemployment duration among those with university education was found to be longer than among those with high school education or less (Table 6.1).

Calculated by the PCBS for use by MAS²³ researchers.

Unemployment duration in the fall of 1996²⁴ was 17 months for men and 30 months for women.

Table 6.1: Unemployment Duration by Years of Schooling, Spring of 1996

Years of Schooling	Duration in Months
0	15
1-6	9
7-9	10
10-12	13
13+	18

Source: Compiled by PCBS staff for use by MAS researchers.

6.4 Employment Distribution by Sector

Table A8 shows the distribution of employed Palestinian workers (whether they worked in the WBGs or Israel and settlements) according to economic sector for the period under study. It is clear from this table that the service sector is the biggest employer of Palestinians. Its share in total Palestinian employment in the Fall of 1996 was 51%, distributed between *trade, hotels and restaurants* (18.0%), *transport, storage and communication* (5.3%), *public sector* (17%), and *other services* (10.6%). Comparable shares for construction, industry and agriculture were 19.5%, 17% and 12.6%, respectively.

Compared to the West Bank, the Gaza Strip is more dependent on the services sector, where it accounted for 63.4% of the Gaza Strip's total employment in the Fall of 1996. The comparable figure for the West Bank was 47.1%. This difference is partially explained by the stronger role of public employment in the Gaza Strip. In contrast, the shares of agriculture, industry and construction are higher in the West Bank than the Gaza Strip. Agriculture's share in the West Bank is 1.6 times its share in the Gaza Strip, while industry's is 1.21 times, and construction's is 1.39 times.

A comparison between the sectoral distribution of employment in the Fall of 1996 with the Spring of 1996 and the

Fall of 1995 reveals major differences. These differences are tied to closures, whose effect is largest on employment in agriculture and construction. The employment share of agriculture in the WBGs increased from 12.7% in the Fall of 1995 to 16.8% in the Spring of 1996, and fell back to 12.6% in the Fall of 1996. Agriculture in the West Bank is better able to absorb workers who lose their jobs in Israel and the settlements during closures than the Gaza Strip because of the small size of this sector in the Gaza Strip. Construction employment was the most volatile of all sectors, due to the great dependence of Palestinian construction workers on the Israeli market.

6.5 Employment in Israel and Settlements

Israel has opened its labor market for Palestinian workers since the early years of occupation. Palestinians from the West Bank and Gaza Strip were pushed into working in Israel, and later in the settlements in the occupied territories, as a result of the inability of the Palestinian economy to absorb the growing Palestinian labor force and by the substantial difference in wages.

After the start of the Intifada, the number of Palestinians working in Israel and the settlements and the number of days worked per month declined. This was due to two reasons: the Intifada leadership declaring general strike days, during which workers were requested not to go to work in Israel, and the Israeli authorities

imposing curfews on cities, villages and entire districts for long periods of time, in an attempt to put an end to the Intifada by preventing workers from reaching their jobs.

With the beginning of the Gulf War in January 1991, Israeli policies toward Palestinian workers entered a new phase. At that time, Israel imposed a complete closure on the WBGS and Palestinian workers were not allowed to enter Israel and the settlements; in many areas the curfew continued for about forty days. After that, Israel adopted a policy that required Palestinians desiring to work in Israel and the settlements to obtain a work permit and to pass a security screening. Israel also began using closures as a collective punishment.

A closure usually prevents Palestinians from reaching their work places in Israel and the settlements and invalidates existing permits. After a while, some easing of the closure begins with certain categories of the population being permitted to enter Israel or other closed areas²⁵. These measures have resulted in many Palestinians permanently losing their jobs. Israeli employers then replace them with workers brought into Israel from foreign countries by the Israeli government. In addition to that, many people have been denied work permits because they were accused of participating in resistance or nationalist political activities.

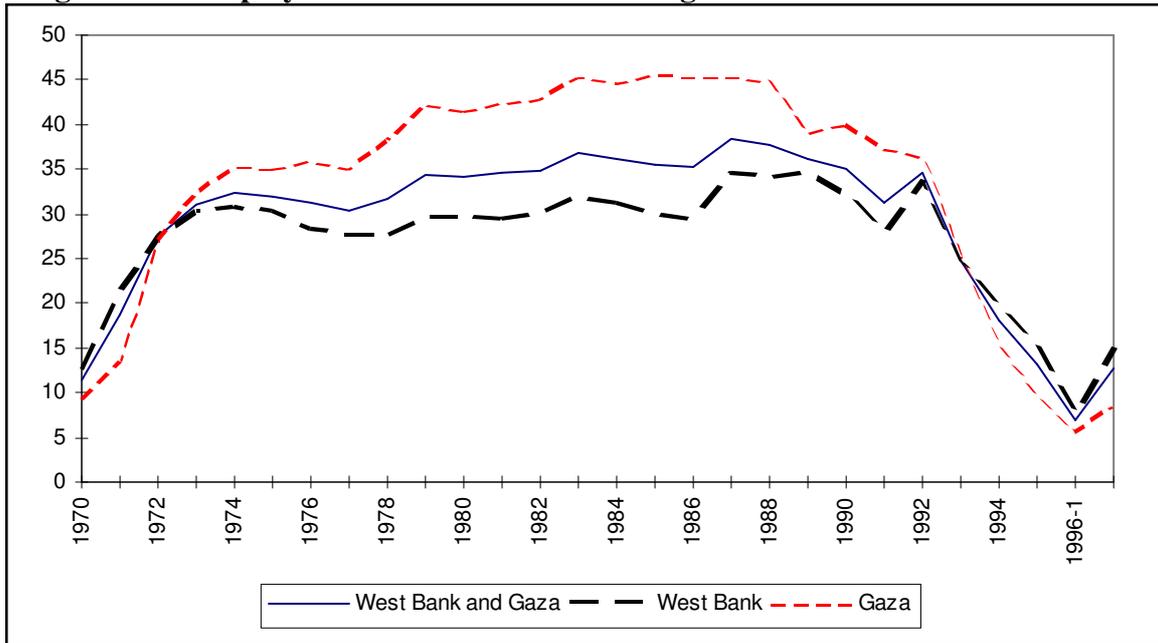
For example, no work permits were issued in March 1996, during which the West Bank and the Gaza Strip were closed and completely cut off from the rest of the world. The number of permits increased gradually until it reached 53,328 at the end of 1996. However, this number was less than the number at the beginning of 1996 (Ministry of Labor, 1997). It should be pointed out that the number of work permits does not correspond to the actual number of workers allowed into Israel and the settlements because renewed permits are counted as new ones. Moreover, daily procedures at the check points prevent some from entering even though they hold valid permits.

The frequency and intensity of closures increased after the signing of the Oslo Accords. Available data shows that Israel closed the Gaza Strip for a total of 342 days and the West Bank for 291 days during the last four years (see Figures 1.1 and 1.2). As a result, unemployment rates increased tremendously, and poverty became widespread.

The number of Palestinians working in Israel and the settlements increased steadily until 1992, when it reached its peak of 116,000. The number began declining after Israel adopted the work permit policy and the rate of decline increased after the Oslo Accords, reaching 37,000 in the Spring of 1996, before it rose again to 69,000 in the Fall of 1996. The share of employment in Israel and the settlements out of total Palestinian employment in the WBGS reached its peak (38%) in 1987²⁶, after which it decreased almost every year (see Figure 6.1).

This ratio reached 45% in Gaza and 35% in the West Bank in 1987.

Figure 6.1: Employment in Israel as a Percentage of the Palestinian Labor Force



Sources: 1970-1993: ICBS (1996a)
 1994: Arnon (1996)
 1995-96: PCBS (1996b), various issues.

The largest Israeli employer of Palestinians since 1987 has been the construction sector. Between 1980 and 1987, the share of construction in total Palestinian employment in Israel and the settlements averaged 49%. The share of agriculture ranged between 13% and 16%, while that of industry ranged between 17.5% and 21%. With the use of the work permit and closure policies, the shares of Israeli agriculture and industry in the number of WBGS workers in Israel and the settlements declined sharply in favor of construction, because it was easier for the Israeli economy to replace Palestinian workers in agriculture and industry than in construction. WBGS workers had acquired important experience and skills in the construction sector, making them harder to replace. Construction's share of Palestinians working in Israel and the settlements in the Fall of 1996 was 55%, while the shares of services, agriculture and industry were 5.9%, 10.2%, and 13.9%, respectively (see Table A9).

Nevertheless, the relative weight of Palestinian workers in Israeli construction employment decreased from 72% in 1987 to about 51% in 1993 (ICBS, 1996a).

6.6 Wages

The average daily wage in the West Bank was NIS 49.0 in the Fall of 1996. The average daily wage for the Gaza Strip at the same time was NIS 43.3, which is about 88% of West Bank's. In comparison, the Gaza Strip's average daily wage was 79% of the West Bank's in the Fall of 1995.

The decrease in the difference in wages between the West Bank and the Gaza Strip is probably due to the increasing role of public employment in the Gaza Strip.

Figure 6.2: The Ratio of Wages of Palestinians Employed in the West Bank to Those Employed in Israel



Sources: 1970-1993: ICBS (1996a).
 1994: Arnon (1996).
 1995-96: PCBS (1996b), various issues.

The average daily wage for Palestinians working in Israel and settlements in the Fall of 1996 was about NIS 86.2. This means that the ratios between wages in the West Bank and the Gaza Strip, on the one hand, and wages paid to Palestinian workers in Israel and settlements, on the other, are 57% and 50%, respectively²⁷. In contrast, the average daily wage in the West Bank was equal to Palestinians working in Israel and settlements in 1987, while the average daily wage in the Gaza Strip at that time was 80% of that of Palestinians working in Israel and the settlements (see Figure 6.2).

A comparison between average daily wages in the period Fall 1995-Spring 1996 reveals substantial fluctuations. The average wage declined in the West Bank by 16.1% during this period, and then increased by 3.4% in the Fall of 1996. In the Gaza Strip, the average

wage declined by 8.3% in the Spring of 1996 and increased by 6.1% in the Fall

1996²⁸. These fluctuations were caused mainly by closures.

6.7 Productivity and Wages

Labor productivity is defined as the contribution of labor to the value of output produced by the firm. It is usually calculated by dividing the annual value added of the firm by the total number of workers at the firm. The PCBS labor force survey does not provide the data needed for calculating labor productivity because the survey is firm rather than household-based. However, the economic surveys conducted by the PCBS enable us to shed some light on indicators relating to labor productivity and wages. These surveys covered industry, services, internal trade and construction. The reference period for all the surveys is the year 1994.

Comparing Palestinian wages with wages of Israeli workers, the difference becomes much larger. In 1995 the average monthly wage for Israelis was NIS 4,355 which is about four times the average wage of Palestinians (ICBS, 1996a).

The average daily wages of those Palestinians working in Israel and settlements declined by 8% in the spring of 1996 and increased by 15% in the fall of 1996.

Table 6.2: Average Daily Wage for Palestinians in NIS by Place of Work

Period	West Bank		Gaza Strip		Israel and Settlements	
	(NIS)	Rate of Change	(NIS)	Rate of Change	(NIS)	Rate of Change
Fall 95	56.5		44.5		81.5	
Spring 96	47.4	-16.1	40.8	-8.3	75.0	-8.0
Fall 96	49.0	3.4	43.3	6.1	86.2	15

Source: PCBS (1996b).

The data derived from PCBS economic surveys show that labor productivity varies significantly between sectors²⁹. The productivity per worker reached \$8,353 per year in construction and contracting firms, but was as low as \$5,451 per year in services. Productivity in internal trade and industry was \$7,068 and \$6,997 per year, respectively. Comparing the wage to productivity ratio across sectors, it was found to be highest in services (76%), close to that in construction contracting firms (73%), while considerably lower in internal trade and industry (54% and 50%, respectively).

6.8 Women in the Palestinian Labor Force

In the Fall of 1996, women accounted for a little less than 50% of the potential manpower of the WBGS. In contrast, they accounted for only 14.5% of the Palestinian labor force. This means that the female labor force participation rate (LFPR)³⁰ was far less than that of men. The LFPR in the Fall of 1996 was 11.4% for women and 69.7% for men. In comparison, the LFPR for women in Jordan and Israel was 12.5% and 45%, respectively in 1995.

While the share of women in manpower in the West Bank is not different from that in the Gaza Strip, their share in the labor force differs significantly. Women accounted for 16% of the labor force in the West Bank, but for only 9% in the Gaza Strip. This is due to the difference in female LFPRs, which was 13.5% in the West Bank and 6.4% in the Gaza Strip. The difference in female participation rates between the West Bank and the Gaza Strip is due to many factors, including differences in social attitudes and greater dependence of the Gaza Strip on the Israeli labor market, where female participation is very low.

²⁹ Labor productivity per worker was calculated by dividing gross value added by the total number of workers (paid and unpaid). The average annual wage per worker was calculated by dividing wages, salaries and compensation by the number of paid workers. The unit of measurement for productivity and wages is dollar per worker per year.

³⁰ The ratio of women in the labor force to total women of working age.

Table 6.3: Female Labor Force Characteristics

Period	Employed						Labor Force Participation Rate		
	(000)			Percent of Total Employed			West Bank and Gaza Strip	West Bank	Gaza Strip
	West Bank and Gaza Strip	West Bank	Gaza Strip	West Bank and Gaza Strip	West Bank	Gaza Strip			
Fall 95	58.93	45.6	6.93	14.5	15.7	10.3	11.2	12.8	7.6
Spring 96	61.3	47.7	13.6	16.2	17.5	12.3	12.1	13.3	9.3
Fall 96	57	46.1	10.83	14.0	15.6	8.9	11.4	13.5	6.4

Source: PCBS, (1996b)

The LFPR for women fluctuated significantly during Fall 1995-Spring 1996. It increased from 11.2% to 12.1% during this period and then fell back to 11.4% in the Fall of 1996. This fluctuation was due to closures, which forced women to look for work to compensate for lost income due to job losses suffered by men (see Table 6.3).

There were no significant differences between unemployment rates for women and men in the Fall of 1996 and the Fall of 1995. However, the unemployment rate for women was lower than for men in the Spring of 1996, due to the sharp decline in the number of Palestinians employed in Israel and the settlements (most of whom are men). Women accounted for 14% of the total number of the unemployed in both the Fall of 1996 and the Fall of 1995, which is almost equal to their share in the labor force. However, they accounted for 11% of the unemployed in the Spring of 1996. Unemployed women tend to be more educated than unemployed men, yet they spend twice as much time as men looking for work.

7. FINANCIAL INSTITUTIONS

7.1 Introduction

The Palestinian financial system expanded substantially in the last three years. This expansion was particularly large in the banking sector, which increased its

deposits by almost 700% in this period. Some expansion has also taken place in the equity market. In contrast, lending NGOs, which accounted for most lending in the WBGS before 1994, saw a decline in their relative weight in the financial system. Pension funds and insurance companies, which account for a significant share of investable funds in many countries, do not presently play important roles in the WBGS financial system and their roles are not expected to increase significantly in the near future.

This issue of the *MAS Economic Monitor* reports on recent developments in the banking system. Reports on the equity market, pension funds and the insurance industry will be included in future issues. Banks operating in East Jerusalem are not covered because Arab banks are not allowed to operate there and data on Israeli banks is not available.

7.2 Bank Penetration

The sudden and rapid increase in banking activity over the previous three years is illustrated in Figure 7.1. At the end of 1993, only 2 Arab banks with 13 branches were operating in the WBGS. By the end of 1996, there were 16 banks and 71 branches. Of total branches operating in the WBGS at the end of 1996, 49 were in the West Bank and 22 were in the Gaza Strip.

The WBGS banking system is dominated by foreign branches. Most of the foreign

banks operating in the WBGs are owned, at least partially, by Palestinians in the diaspora, and one, the Arab Bank, actually started its operations in Jerusalem. However, these banks report to foreign monetary authorities and their operations in the WBGs are subject to the approval of these authorities, thus limiting Palestinian regulatory control over them. In this sense, they are branches of foreign banks and are referred to as such in this chapter. Of the 16 banks operating in the WBGs at the end of 1996, only four were locally chartered. Of the 71 branches, locally chartered banks accounted for only 20. The dominance of foreign branches is particularly strong in the West Bank, where they accounted for 39 of the 49 in operation at the end of 1996. In comparison, foreign branches accounted for 12 of the 22 branches in the Gaza Strip.

At the end of 1996, the number of persons per branch (NPPB) for the WBGs was 35,699. Separate figures for the West Bank and the Gaza Strip were 32,741 and 43,774, respectively. Compared to other countries in the Middle East, the NPPB for the WBGs is lower than Egypt (47,831), Yemen (135,657) and Syria (155,194)³¹. It is, however, substantially higher than Israel (3,464), the UAE (11,260), Lebanon (11,924), Jordan (13,024), and Saudi Arabia (19,755).

Based on a survey conducted by MAS at the end of June 1996, 15% of individuals over 18 years old in the WBGs have deposit bank accounts³². This ratio,

referred to from now on as the bank account ratio (BAR), is higher among men (17.5%) than women (12.4%). The BAR is highest among urban residents (17.8%), followed by residents of the rural areas (14.1%) and refugee camps (11.5%). It varies considerably between occupations: it is 38.5% for professionals, such as doctors and engineers, and 48.3% for businessmen. In comparison, the BAR for laborers, farmers, students and housewives is 10%, 9.1%, 7.4% and 8.9%, respectively.

Regionally, the BAR is substantially lower in the Gaza Strip (6.4%) than the West Bank (20.2%). Within the West Bank, it is highest in the middle districts (23.8%), followed by the northern districts (20.5%) and then the southern districts (17.6%)³³. Within the Gaza Strip, it is higher in Gaza City (7.4%) than the rest of the Gaza Strip (5.9%).

Based on branch and number of accounts data, a recent MAS study (Hamed, 1996) concluded that the Palestinian banking system still has some room to grow. However, the study calls for a slow down of bank expansion to give bank regulators the chance to build the necessary supervisory capacity.

³¹ The data used in calculating the number of persons per bank branch was taken from *Europa Yearbook (1995/96)*.

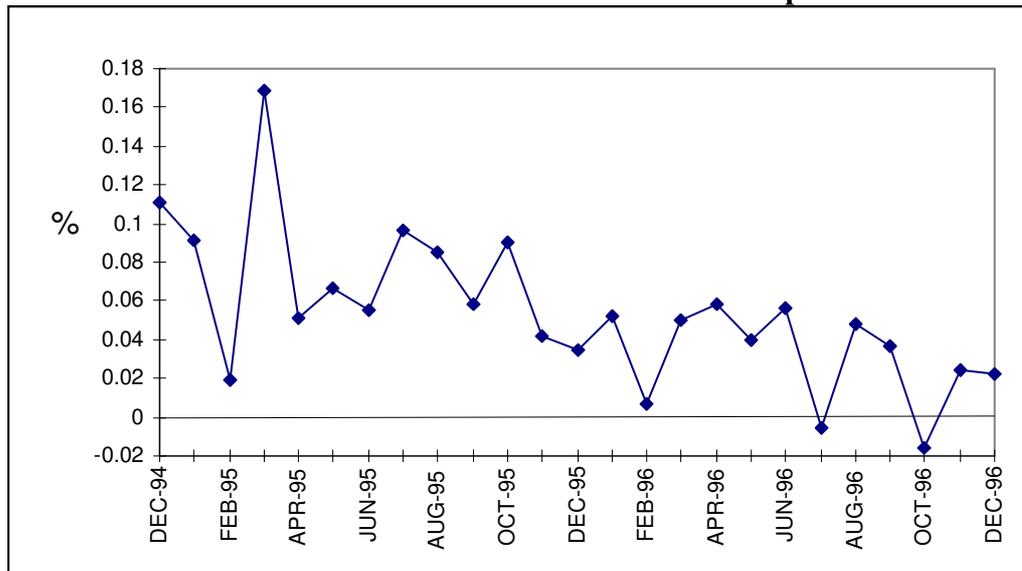
³² Of WBGs residents with deposit bank accounts, 52.4% have current accounts, 34.6% have saving accounts, 5.8% have time deposits and 7.2% have more than one type of account. Of current account holders, 12.1% use their accounts to pay for furniture, 9.9% to buy a car and 8.4% to pay for appliances. However, a substantial share of check use is in the form of deferred checks. Among those who said that they used checks to pay for

furniture, cars and appliances, 46.2%, 33.3% and 62.5% used deferred checks.

³³ Northern districts include Nablus, Tulkarm, Jenin and Qalqilya. Middle districts are Ramallah and Al-Bireh, Jericho and Jerusalem (excluding East Jerusalem). Southern districts are Hebron and Bethlehem.

Figure 7-1

Figure 7.2: Monthly Percentage Change in Bank Deposits for the West Bank and Gaza Strip



Source: Data for 1996 was taken from the Palestinian Monetary Authority. MAS collected the data preceding 1996.

7.3 Deposits

While banks began operating in 1981 in the Gaza Strip and in 1986 in the West Bank, the combined bank deposits in the WBGS at the end of 1993 was only \$219 million. By the end of 1996, these deposits reached \$1,711 million, which represents an increase of almost 700% in 3 years. However, the growth rate of deposits seems to be slowing down (see Figure 7.2).

Of total deposits at the end of 1996, \$462 million were in the Gaza Strip and \$1,249 million were in the West Bank. In percentages, the respective shares of the West Bank and the Gaza Strip were 73% and 27%. The share of the Gaza Strip in the WBGS total is significantly lower than its share of total population, which is estimated at 38%³⁴ (PCBS, 1996c).

Despite recent expansion, the WBGS still has a relatively low deposit-GDP ratio. At the end of 1996, this ratio was

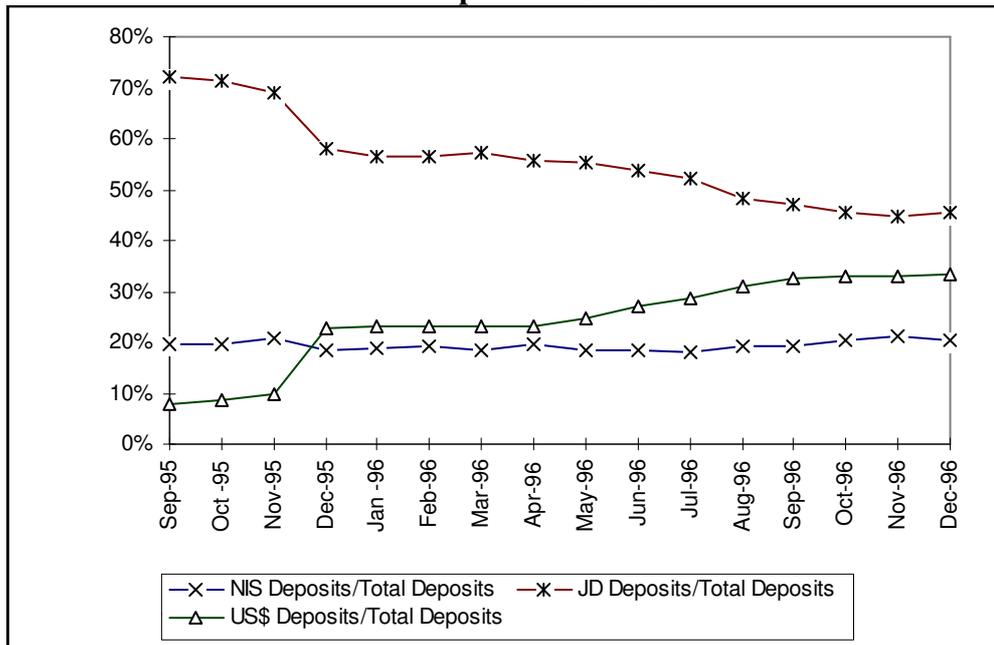
around 57.5%³⁵. Comparable ratios for Jordan, Kuwait, Israel, and Egypt were 82.5%, 77.1%, 73.4%, and 72.8%, respectively³⁶. If this ratio is to become equal to Jordan's, total bank deposits in the WBGS can potentially reach \$2,455 million. This is, however, not expected to take place before a successful conclusion of final status negotiations, because political uncertainties may force many WBGS residents to maintain bank accounts abroad.

³⁴ In comparison, the share of the Gaza Strip in total deposits at the end of May 1996 was 33%.

³⁵ In calculating the WBGS deposit-GDP ratio, we used the 1994 PCBS GDP estimate for the WBGS.

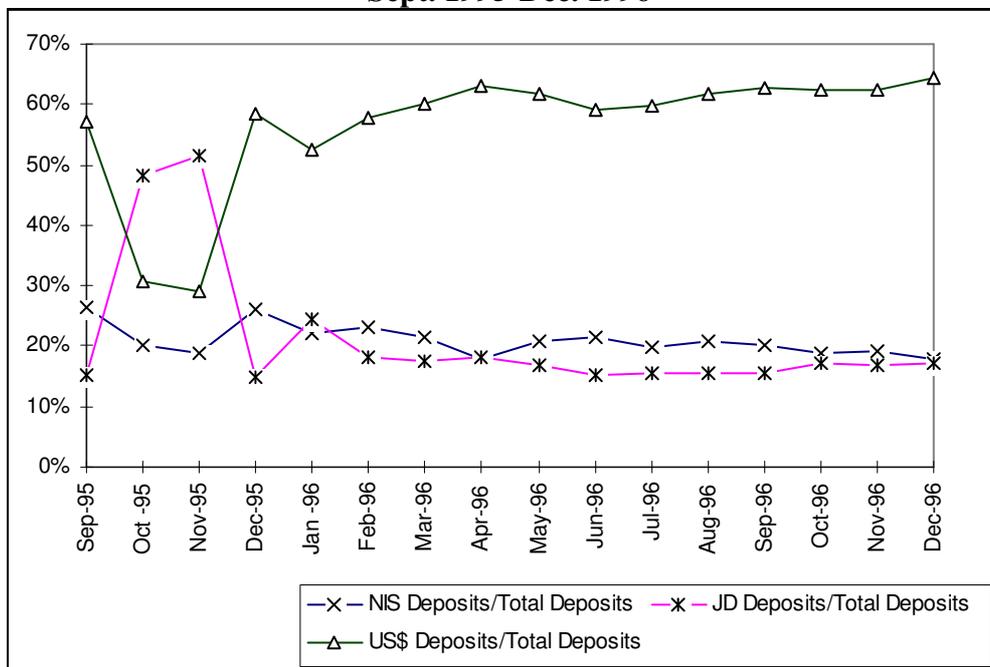
³⁶ The data used in calculating the deposit-GDP ratio was taken from International Monetary Fund, *International Financial Statistics*, February 1996.

**Figure 7.3A: Currency Composition of Bank Deposits in the West Bank:
Sept. 1995-Dec. 1996**



Source: Data for 1996 was taken from the Palestinian Monetary Authority. MAS collected the data preceding 1996.

**Figure 7.3B: Currency Composition of Bank Deposits in the Gaza Strip:
Sept. 1995-Dec. 1996**



Source: Data for 1996 was taken from the Palestinian Monetary Authority. MAS collected the data preceding 1996.

WBGs bank deposits are denominated in three main currencies: the Jordanian dinar (JD), the New Israeli shekel (NIS), and the US dollar. The relative shares of the three currencies in the Gaza Strip were more or less stable in 1996 (Figure 7.3B). The share of the NIS in the West Bank was also stable. The shares of the JD and the dollar in the West Bank, on the other hand, changed significantly in 1996, with the dollar gaining at the expense of the JD (see Figure 7.3A). At the end of 1996, the shares of the NIS, JD and the dollar in total deposits in the West Bank were 20.5%, 45.3%, and 33.2%, respectively. Comparable figures for the Gaza Strip were 17.9%, 17.2%, and 64.3%, respectively.

At the end of 1996, the share of checking accounts in total customer deposits in the WBGs was 34.4%. Comparable figures for the West Bank and the Gaza Strip were 35.2% and 32.4%, respectively. While these shares have declined substantially in the last few months, they are still relatively high. In contrast, the shares of current accounts in total deposits in Jordan and Israel are 19.3% and 5.5%, respectively.

7.4 Lending

Domestic lending by the WBGs banking system is still quite limited³⁷. At the end of 1996, bank loans accounted for less than 19% of total assets in the WBGs. Other uses of funds at the time were deposits with the head offices outside the WBGs (44.8%), deposits with other banks outside the WBGs (17.6%), and deposits with other banks in the WBGs (2.4%). As a percentage of deposits, total loans at the end of the same month represented 23.9%. In comparison, the loan deposit ratios for Jordan and Israel are around 0.95 and 0.80, respectively.

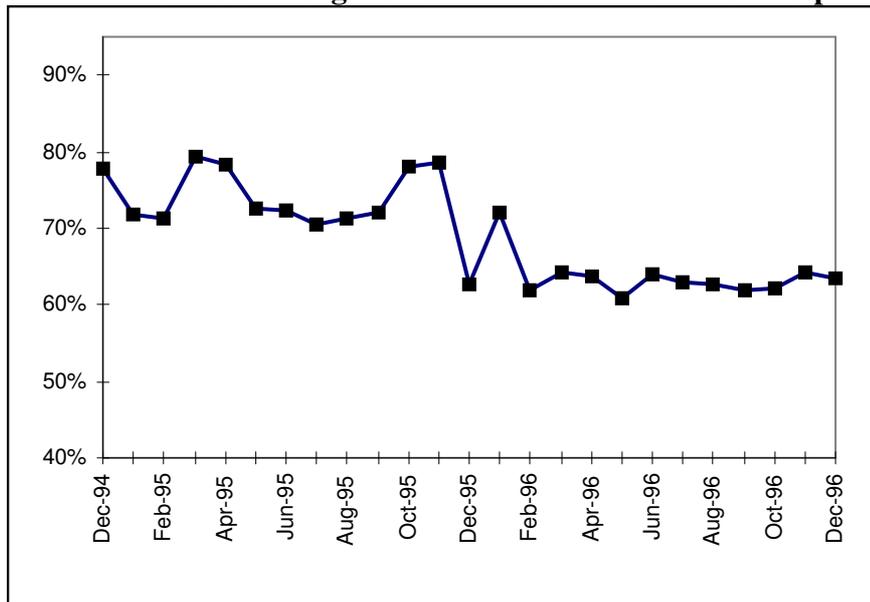
The loan-deposit ratio in the WBGs varies considerably between currencies. At the

end of 1996, it was 0.354 for the NIS, 0.37 for the JD and 0.148 for the dollar. The low dollar loan-deposit ratio can be attributed, at least partially, to the fact that most local bankers are the product of the Jordanian banking system where, until a few months ago, dollar lending was discouraged in order to reduce pressure on the national currency. Hence, despite the absence of a national currency, it is going to take a change in the local banking culture for dollar lending in the WBGs to increase significantly.

A relatively high share of loans extended by banks operating in the WBGs is in the form of overdraft facilities. Despite a significant decrease in the last few months of 1996, the share of overdraft facilities in total bank lending in the WBGs at the end of that year was still 64.3% (see Figure 7.4). On a currency basis, such shares were 94.9% for the NIS, 57.4% for the JD and 36.9% for the dollar.

³⁷ The factors that limit bank lending in the WBGs and policies that can increase bank lending are discussed in Hamed (1996).

Figure 7.4: The Share of Overdraft Facilities to Total Lending for the West Bank and Gaza Strip



Source: Data for 1996 was taken from the Palestinian Monetary Authority. MAS collected the data preceding 1996.

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STATISTICAL ANNEX

ملحق إحصائي
