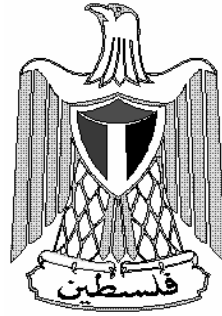




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(PMA)**



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



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

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German Palestinian Development Cooperation

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July, 2007

## FOREWORD

In this issue of the Monitor, we continue our efforts to improve its style and content in response to our readers' suggestions. Our aim is to make the Monitor more responsive to the needs of our diverse readership. Accordingly, this Monitor presents a detailed account of economic sectors and activities on a quarterly basis within the context of major developments during the year as well as the medium term (three to five year range). To this end, every issue of the Monitor will include the following:

- ❖ Developments in key macroeconomic indicators that pertain to the last five years. This will assist in identifying general trends and expectations on the macroeconomic level.
- ❖ General trends of the main economic variables for each sector in the short term, as well as on an annual basis. Quarterly analysis will be conducted to track deviations from annual and medium-term trends. We will also present highlights of important social, political and economic issues, as well as come up with suggestions to confront emerging problems. This should make it easier for readers to understand detailed information illustrated in the Monitor within its specific context.

This issue of the Monitor contains a clear account of the developments in public finance in the West Bank and Gaza Strip. The analysis covers developments in key variables related to revenues and expenditures since the establishment of the PA, as well as the difficulties the PA has encountered since the outbreak of the *Intifada*. The analysis also focuses on the critical situation that arose in 2006 as a result of Israel's refusal to pay back customs' revenues it collects on behalf of the Palestinians. This situation was compounded by the international community's refusal to cooperate with the Palestinian Ministry of Finance, following the election of a majority Hamas government.

We would like to thank the research teams in the three institutions that collaborated in producing this Monitor. We also reaffirm our welcome to readers' comments and suggestions, which will help us in our endeavor to improve the Monitor's content and style.

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## **EXECUTIVE SUMMARY**

### **Economic Activities**

The value of GDP declined between the 3rd quarter and the 4th quarter of 2006 by 11.6%, to reach US\$908.2 million. GDP per capita also declined by 12.4% to reach US\$246.7. This was accompanied by changes in the composition of economic activities, as the contribution of the productive sectors (industry, agriculture and construction) declined in favor of the services sector.

### **Labour Market**

The labour force participation rate increased to 43% in the 4th quarter of 2006. Female labour force participation also increased to reach 17.5%. The unemployment rate notably decreased to 22%, with the age group 15-24 years experiencing the highest rate of unemployment. Average daily wages (for paid workers) in the West Bank rose to NIS79.3 but decreased in the Gaza Strip to NIS67. Meanwhile, average daily wage for workers in Israel and the settlements increased to NIS134.6. The number of vacancies advertised in local papers declined by 173 to reach 834 advertised positions.

### **Public Finance**

The size of public revenues increased in the 4<sup>th</sup> quarter by 18.3% in comparison with the previous quarter. Public spending and net lending registered a decline of US\$22.65 million, a decrease of 5% compared to the previous quarter. In general, the budget deficit declined by US\$33.7 million in the 4<sup>th</sup> quarter of 2006, down by 8.4% from its level in the 3<sup>rd</sup> quarter.

### **Banking Sector**

The banking sector witnessed a number of positive developments during the 4<sup>th</sup> quarter of the year: the number of bank branches increased to 153, total assets/ liabilities increased by 2.9%, outstanding credit facilities rose slightly (by 0.7%) to reach US\$1,903.3 million, and total deposits increased by 2.2% to reach US\$4,6662.7 million. There was also a 3.1% increase in foreign investments, but a decline in the number and value of cheques presented for clearing.

### **Exchange Rate Spread**

The average shekel exchange rate spread against the US dollar, the Jordanian dinar and the Euro remained stable in the Palestinian Territory. In Israel, the exchange rate spread for the dinar and the dollar slightly increased, while the spread for the euro slightly declined.

### **Stock Market (PSE)**

The PSE witnessed slight improvements in its performance during the 4<sup>th</sup> quarter of 2006 as measured by a number of market indicators. The number of traded stocks increased by 203.7% to reach US\$8.2 billion. Market capitalization rose by 8% and the Al-Quds (Jerusalem) index increased by 3%, closing at 622.87 points in last day of trading of 2006.

### **Prices and Purchasing Power**

The CPI (calculated in Israeli shekels) decreased by 0.13% during the 4th quarter of 2006. This decline is attributed to the fall in the exchange rate of the dollar against the shekel. As a result, the purchasing power of the dollar declined by 4.74% while the purchasing power of the dinar declined by 4.26%.

### **Tourism**

The number of hotels operating in the Palestinian Territory increased to 79 by the end of the 4<sup>th</sup> quarter of 2006. The number of hotel guests increased by 10.8%, and the number of hotel workers rose by 1.2%, although the room occupancy rate fell by 11.8% during the period.

### **Infrastructure**

The construction sector suffered a number of setbacks during the 3<sup>rd</sup> quarter of 2006. For instance, the number of building licenses fell by 62.7% compared to the same quarter in 2005, totalling only 821, and cement imports fell by 21.5% to 319.3 thousand tons. Meanwhile, the number of newly-registered companies dropped by 55.5% compared the previous quarter.

### **Expectations of Owners and Managers of Industrial Establishments**

32% of establishments' owners/managers were optimistic about the general conditions of their businesses in the short run, while 55.2% of them were optimistic about the overall condition in the medium term. 36% of establishment owners were optimistic about improving the productive capacity of their establishments in the short term, and 69.7% were optimistic about doing so in the medium term.

### **Agriculture**

Since the beginning of the *Intifada* in 2000, around 32% of the cultivated land used to grow trees in the Palestinian Territory was damaged due to Israeli measures; 22.5% in the West Bank and 33.7% in the Gaza Strip.

### **Demographics**

The total Palestinian population reached 10.1 million at the end of 2006, with 3.95 million living in the West Bank (63%) and Gaza Strip (37%). The natural population growth rate dropped from 3.8% in 1997 to 3.3% in 2006; 3% in the West Bank and 3.8% in the Gaza Strip. The average size of the Palestinian family decreased from 6.4 members in 1997 to 6 members in 2006.

### **Education and Culture**

The aggregate dropout rate from education for the 15-29 years age group in the Palestinian Territory stood at 29.4% for males and 12.6% for females. Watching television has become the most common recreational activity for this age group.

### **Health Services**

About 10% of Palestinians consulted a doctor regarding a chronic ailment during 2006. Nearly 10% of Palestinian children under 5 years old have stunted growth; 13.2% of these children live in the Gaza Strip and 7.6% in the West Bank. In 2006 the majority of births in the Palestinian Territory took place in a medical institutions, but 3.4% took place at home, on the road, or at checkpoints.

### **Housing Statistics**

About 87% of Palestinian households had access to drinking water in 2006. 49.8% of Palestinian households indicated that they use the public sewage system.

### **Rule of law**

Killings increased by 90% in the Palestinian Territory as a result of the absence of the rule of law. In the Gaza Strip 113 cases of security chaos were reported, including 10 incidents of kidnapping involving 17 people.

# 1. Economic Outlook

Economic conditions in the West Bank and Gaza Strip (WBGs) continued to deteriorate in the last quarter of 2006, making it one of the bleakest years since the outbreak of the Second *Intifada*. This economic decline can be attributed to three main factors:

- ✧ The escalation of Israel's policy of violence and physical oppression in the Palestinian Territory, from targeted assassinations, seizures, closures and barriers to movement of people and goods, to the refusal to hand over Palestinian tax revenues collected by Israel. Israeli aggression killed and injured 3,700 Palestinians, and the withheld revenues amounted to 60% of the government's income.
- ✧ The continuation of the international community's boycott of the democratically elected Palestinian government, which denied the Palestinian population of much-needed international and Arab aid<sup>1</sup>.
- ✧ The failure of Palestinian factions, namely Fatah and Hamas, to reach a political agreement that prioritized national concerns. This, in turn, created a political vacuum, which ultimately led to political chaos and fighting in the streets.

As expected, these factors had an adverse impact on economic activities; GDP per capita declined to US\$1,141.4, meeting just 90% of its 2005 mark and 68% of its value in 1999. Unemployment also rose above last year's level to 23.6%, which was double the rate of 1999. Such setbacks in economic activity naturally exacerbated poverty in the Territory; some estimates indicate over 60% of the Palestinian population as living below the poverty line.

All in all, the Palestinian economy in 2006 could be best described as a besieged one, fatigued by Israeli oppression and torn by infighting. This environment particularly exacerbated the problems faced by the private sector. Investment risk increased to unprecedented levels, prompting many private companies to shift their operations to neighboring countries, and many manufacturing establishments switched to importing finished goods as a result of the local market being overloaded with cheap Asian imports. All these economic phenomena combined represent a serious threat to the Palestinian production base.

In order to halt this deteriorating situation, in the short run, unprecedented measures are required; namely, a huge investment boost to resuscitate the ailing economy and reduce investment risk in the private sector. In the long run, the overall economic conditions will not improve in any significant and sustainable way in the absence of a just political settlement to the conflict. Such required settlement should take the form of ending the occupation and pave the way for the creation of an independent Palestinian state in accordance with UN resolutions. With regards to internal issues, national political priorities need to be set, especially an agreement on a unified government, and the establishment of a national agenda which can put an end to infighting and the international boycott of the Palestinian people. This would allow the PA to adopt an economic rescue program that is centered on the following priorities:

- ✧ A thorough study of the PA's entire economic experience since 1994 so as to draw on lessons to be considered in the forging of a new and realistic national development program.
- ✧ Poverty and unemployment could be mitigated through the implementation of emergency programs which are organically tied to priorities of national development projects.
- ✧ Opening up market to Arab and international markets as well as the gradual detachment from the Israeli market.

---

<sup>1</sup> Some indirect aid did find its way to the Palestinian people, although it bypassed the Ministry of Finance.

## 2. Economic Activities

One of the major challenges which faced the PA upon its inception in 1994 was dealing with an economy that is suffocated by an occupation which exerts control over a significant portion of its natural resources (land and water); an economy that is heavily dependant on external resources (income from Palestinian workers in Israel, settlements and the Gulf region), and which characterized by sectoral distortions (low contribution of agricultural and industrial sectors in the GDP). The PA also inherited an economy which is overly dependant on exports to Israel, and enjoys minimal productive investment and social services delivery.

The PA's accomplishments in mitigating the pounding of the economy due to the occupation during the limited self-ruling phase (1994-2000) were both partial and poor. This is largely attributed to Israel's lack of commitment to the agreements it signed with the PLO, as well as the PA's inability to create a corruption-free entity that is able to forge national programs for development and reconstruction. Nonetheless, despite its limited authority, the PA did manage to redress a few important facilities in the infrastructure, expand social services, and invest Palestinian capital especially in tourism, construction, services and telecommunication sectors. Unfortunately, this reconstruction process stopped with the outbreak of the second *Intifada* in September 2000, and the re-occupation of the West Bank by the Israeli army.

In 2001 and 2002, economic activity significantly dropped as a direct result of Israeli military incursions, closures, assassinations, curfews and property destruction, which went on for weeks in Nablus, Jenin and Tulkarem. This cycle of economic deterioration declined to some extent by the end of 2003, allowing for positive economic growth by 2005 (see figure 1). This growth was expected to continue into the following year and achieve similar rates to those in 1999. However, 2006 witnessed deep stagnation instead. Israel's withholding of tax deprived public sector employees from receiving their monthly salaries for several months, the international boycott prevented banks from transferring international and Arab aid to the Ministry of Finance, and poverty increased by about 60%. The decline was so steep that GDP per capita fell by 9.7% from the previous year and GDP per capita dropped to a mere 70.8% of its 1999 level.

**Figure 1: Economic Growth and Employment**

Indicator	1999	2002	2003	2004	2005	2006
GDP (million \$, constant prices)	4,511.7	3,838.9	4,165.3	4,247.7	4,442.7	4,150.6
GDP per capita (\$, constant prices)	1,612.3	1,191.3	1,272.3	1,246.2	1,264.2	1,141.4
Average growth rate (GDP per capita)*	**4.3	(8.5)	6.8	(2.1)	1.4	(9.7)
Unemployment Rate (%)	11.8	31.3	25.6	26.8	23.5	23.6

\* Numbers in parentheses are negative.

\*\* Growth rate compared to 2001.

\*\*\* GDP and GDP per capita estimates for 2006, based on average from the three quarters.

This decline in economic activity, combined with Israel's refusal to release Palestinian taxes, resulted in a massive budget deficit. Such deficit rendered the PA unable to pay about half of its employees and forced it to cut down on public spending and important social services (see Public Finance section).

Such sharp decline in economic activity reflects the classical symptoms of economies during conflict, crisis and long periods of instability. The following are but a few of such symptoms:

- ✧ High unemployment and poverty rates, greatly endangering the social fabric.

- ✧ Distortions in the economic structure leaning towards the decline of the productive sectors (agriculture and industry). A transformation in the industrial base occurs in favor of low-wage, low-productivity services.
- ✧ Workers' mobility from the formal sector to the informal sector.
- ✧ Some established businesses move to neighboring countries and local capital is invested abroad.
- ✧ Income and consumption inequality worsens, and marginalization becomes mainstream practice.

**Table 2: Main Economic Indicators in the Remaining West Bank and Gaza Strip**

<b>Indicator</b>	<b>1999</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
GDP (million \$, constant prices)	4,511.7	3,838.9	4,165.3	4,247.7	4,442.7	4,150.6
GDP per capita (\$, constant prices)	1,612.3	1,191.3	1,272.3	1,246.2	1,264.2	1,141.4
Final consumption (million \$)	5,327.8	4,960.5	5,376.3	-	-	-
Aggregate Investment (million \$)	2,081.2	677.9	1,127.2	-	-	-
Government Expenditure (million \$)	1,010.6	1,168.6	1,128.2	-	-	-
Net Foreign Trade (million \$)				)1843(	-	-
Total Imports (million \$)				2292	-	-
Total Exports (million \$)				449	-	-
GNI (million \$, constant prices)	5,285.6	4,085.6	4,499.1	-	-	-
GNI per capita (\$, constant prices)	1,888.9	1,267.8	1,374.3	-	-	-
Employment (thousands)	588.3	487.1	590.7	604	633	666
Total employment in the local economy (thousands)	453.6	436.9	533.4	550	570.3	602.1
Total employment in Israel (thousands)	134.7	50.2	57.3	54	62.6	63.9
Labor force participation Rate (%)	41.6	38.1	40.4	40.5	40.7	41.3
Unemployment rate (ILO definition)	11.8	31.3	25.6	26.8	23.5	23.6
Inflation rate (Shekels)	5.54	5.7	4.4	3	3.471	3.76
Poverty rate (percentage of the population)	21	60	72	61	-	-
Public revenues (million \$)	901.2	335.34	747.69	947.0	1208.58	352.24
Public expenditure (million \$)	1194.33	1249.5	1513.0	1764.21	1924.70	1727.57
Surplus/ Deficit before assistance (million \$)	)293.12(	)914.16(	)765.31(	)817.21(	)716.12(	)1375.23(
Surplus/ Deficit after assistance (million \$)	)58.12(	)212.16(	(247.31)	)202.21(	(367.59)	(653.52)
Actual Foreign Assistance (million \$)	523.9	966.1	1,045.5	925	955	750.3
Public debt (million \$)	286.62	950.0	1,552	1,706	1,818	1,824
Deposits from residents (million \$)	2837	3430.1	3624.39	3957.76	4,190.2	4,202.5
Credit facilities extended to residents (million \$)	1005.46	950.25	1065.70	1420.33	1,91.4	1,903.4

Note: Numbers in parenthesis are negative.

- \* Data for 2003-2006 was updated based on the final data update conducted by the Ministry of finance.
- \* Data for 2006 is based on public debt balance at the end of the 2nd quarter.
- \* Data for National Accounts uses 1997 as the base year for measuring 'constant prices'.

The symptoms of a 'war economy' began to surface, to varying degrees, from the start of 2001, but gradually disappeared in 2004 and 2005 when the economy began to grow. The symptoms resurfaced rapidly and more severely in 2006, particularly in the 4<sup>th</sup> quarter as the infighting between Fatah and Hamas intensified, which combined the already-high levels of economic uncertainty with public-sector strikes.

Comparing National Accounts estimates for the 4<sup>th</sup> quarter of 2006 to those of the previous one shows the extent of the damage inflicted on main economic indicators. Below are the main developments in the 4<sup>th</sup> quarter of 2006 (PCBS):

- ✧ GDP declined by 0.8% in the 2<sup>nd</sup> quarter, 6.9% in the 3<sup>rd</sup> quarter and by 11.6% in the 4<sup>th</sup> quarter.
- ✧ GDP per capita dropped in the 2<sup>nd</sup> quarter by 1.2%, 7.6% in the 3<sup>rd</sup> quarter and 9% in the 4<sup>th</sup> quarter.
- ✧ Unemployment declined by 9.9% in the 2<sup>nd</sup> quarter, increased by 5.5% in the 3<sup>rd</sup> quarter and declined again in the 4<sup>th</sup> quarter by 9%.

Structural distortions were manifested in the decline of productive sectors such as industry, agriculture and construction, in favor of service sectors, predominantly, public administration, defense and commercial services (see table 3).

**Table 3: The Contribution of Economic Activities in the GDP in the Remaining West Bank and Gaza Strip, in Constant Prices (1997 base year)**

<b>Economic Activity</b>	<b>1999</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006*</b>
Agriculture and Fishing	10.4	9.9	10.1	7.5	7.0	8.0
Manufacturing, water and electricity	14.5	15.2	11.8	13.2	12.7	12.8
Mining and quarrying	0.8	0.9	0.4	0.4	0.4	0.4
Transformational manufacturing	12.6	12.9	9.2	11.2	10.7	10.7
Water and Electric supplies	1.1	1.4	2.2	1.6	1.6	1.7
Construction	13.7	2.3	3.5	2.4	2.7	2.5
Retail and Wholesale	11.0	10.9	9.1	8.5	8.4	9.2
Transportation, storage and telecom.	5.1	9.9	9.1	10.5	10.4	11.2
Financial intermediation	3.7	3.8	3.4	4	4.2	4.5
Services	19.5	22.8	23.4	24.6	24.8	25.3
Real estate	8.9	11.1	11.0	10.1	10.1	10.8
Communal and social services	0.6	0.8	0.9	1	1.0	1.0
Hotels and restaurants	1.3	0.2	0.5	1.5	1.5	1.6
Education	5.8	7.4	8.2	7.6	7.7	7.5
Health and social work	2.9	3.3	2.8	4.4	4.5	4.4
Public administration and defense	11.0	13.6	15.5	17.3	17.9	17.8
Domestic services	0.2	0.2	0.2	0.2	0.2	0.2
Publicly-owned enterprises	3.5	3.7	2.0	-	-	-
<u>Subtract:</u> financial intermediation (with indirect clearing)	-2.8	-2.8	-2.9	-2.9	-3.1	-3.3
<u>Add:</u> Customs fees	4.6	4.8	3.5	6.5	6.2	4.4
<u>Add:</u> Net VAT from imports	5.6	5.7	11.3	8.2	8.6	7.3
GDP (%)	100	100	100	100	100	100
GDP (million \$)	4,511.7	3,838.9	4,165.3	4,247.7	4,442.7	4,150.6

\* Source: PCBS, National Accounts.

- Preliminary estimates.
- During 2004 to 2006, companies owned by the private sector were classified according to various economic activities: wholesale, retail, commercial, education, hospitality and catering.

**Table 4: The Contribution of Economic Activities in the GDP in the Remaining West Bank and Gaza Strip by Quarter 2005-2006, in Constant Prices (1997 base year).**

Economic Activities	2005				2006			
	Q1	Q2	Q3	Q4	Q1*	Q2*	Q3**	Q4***
Agriculture and Fishing	6.2	8.0	7.3	6.7	6.4	8.1	7.9	10.2
Manufacturing, water and electricity	13.8	13.1	12.4	11.6	10.7	12.2	14.0	14.6
Mining and quarrying	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5
Transformational manufacturing	11.7	11.1	10.4	9.8	9.0	10.2	11.7	12.2
Water and Electric supplies	1.7	1.6	1.6	1.4	1.3	1.6	1.8	1.9
Construction	2.3	3.1	2.8	2.5	2.5	2.5	2.4	2.7
Retail and Wholesale	8.0	8.7	8.8	8.2	8.3	8.5	10.0	10.3
Transportation, storage and telecom.	11.2	10.6	9.8	10.0	10.9	10.4	11.3	12.6
Financial intermediation	4.0	4.2	4.2	4.4	4.2	4.2	4.6	5.2
Services	25.4	24.3	24.5	24.9	26.2	26.9	24.7	23.1
Real estate	10.5	10.1	10.3	9.4	9.7	9.8	11.7	12.4
Communal and social services	1.1	1.0	0.9	0.9	1.0	1.0	1.1	1.1
Hotels and restaurants	1.7	1.4	1.4	1.6	1.5	2.1	1.4	1.3
Education	7.5	7.6	7.8	7.9	8.8	8.8	6.8	5.2
Health and social work	4.6	4.2	4.1	5.1	5.2	5.2	3.7	3.1
Public administration and defense	17.0	16.5	17.9	20.1	19.9	18.3	17.9	14.3
Domestic services	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Subtract: financial intermediation (with indirect clearing)	-3.1	-3.2	-3.2	-3.2	-3.1	-3.1	-3.4	-3.9
Add: Customs duties	6.3	6.1	6.6	5.8	5.3	4.1	3.9	4.4
Add: Net VAT from imports	8.7	8.4	8.7	8.8	8.3	7.7	6.5	6.3
GDP (%)	100	100	100	100	100	100	100	100
GDP (million \$)	1,045.2	1,082.3	1,163.0	1,152.2	1,111.6	1,103.2	1,027.5	908.3

Source: PCBS, National Accounts.

\* Second revision data.

\*\* First revision data.

\*\*\* Preliminary estimates.

### 3. Labor Market

#### 3.1 Overview of the labor market

The Palestinian labor market has suffered extensively from imbalances between demand and supply throughout its years of occupation. Palestinian labor has consistently increased at high rates, going beyond the local market's ability to absorb it. During the 1970's and 80's, surplus employment was generally absorbed by exporting Palestinian labor to labor markets in Israel and the Gulf countries. However, in the early years of the 1990's the situation changed; as the Gulf War erupted in 1990, many Palestinians fled Kuwait and returned to the West Bank and Gaza Strip. Similarly, Israel began to reduce the number of Palestinian workers inside the Green Line and the settlements.

From 1994-2000, the Palestinian labor market experienced some limited improvement with regards to absorbing Palestinian labor. The public sector began to expand and employ some of the excess labor, reconstruction projects encouraged the private sector to increase its investments in ways which exaggerate its capacity to absorb more employment, and Israel allowed more Palestinian workers to work inside the Green Line, particularly in 1998-2000.

With the eruption of the Second *Intifada*, the labor market expansion stopped, and labor market imbalance was exacerbated. This is mainly attributed to the vast decline in economic activity due to Israel's oppressive measures against the Palestinian people (sieges, closures, the separation barriers, restrictions on movement of people and goods, etc.).

Table 5 illustrates that the average increase in manpower during the last seven years was almost equivalent to the average increase in labor force. This indicates that labor force participation was stable. The table also illustrates that the average increase in labor force was higher than the average increase in employment. This indicates that average unemployment rate was rising; average annual increase is 10.9%. Likewise, average increase of employment in the public sector was higher than that of the private sector (3.9% in the public sector vs. 1.8% in the private sector).

The following section compares conditions of the labor market before the *Intifada* (1999) with conditions of the labor market in 2006, as well as making a comparison between the 4<sup>th</sup> quarters of 2006 with the earlier quarter. This comparison allows us to notice short and long term trends in the labor market.

**Table 5: Main Labor market Indicators: 1999-2006**

Indicator	1999	2002	2003	2004	2005	2006
Manpower (thousands, 15 years and over )	1604	1822	1881	1954	2031	2111
Labor force (thousands, employed and	667	694	750	790	827	872
Employed	588	477.0	564	578.0	633.0	666
Unemployment rate (%)	11.8%	31.3%	25.6%	26.8%	35%	23.6%

Source: PCBS, Labor force Survey, various years.

## 3.2 Labor Force and Labor Force Participation:

### Labor force participation rate (LFPR)

The rate of labor force participation grew substantially during the early nineties. After registering at 40% in the eighties, labor force participation reached 44% in 1993; however, the local market's inability to absorb high numbers of workers caused many to withdraw from the market, leading to a decrease in LFPR from the mid-nineties. After a slight increase in 2000 (to 41.5%), LFPR dropped again during the *Intifada* period, reaching 38.1% in 2003. LFPR eventually improved again in 2004 and 2005. Quarterly comparisons show that LFPR reached 41.3% during the 3<sup>rd</sup> quarter of 2006, this is higher than its level in the 2<sup>nd</sup> quarter of the same year but lower than its level during the early phase of the *Intifada* (see table 6). Nonetheless, the population increase during the past seven years offset this LFPR increase and therefore it can be observed that the number of employed in the 3<sup>rd</sup> quarter surpassed the number before the *Intifada*, with an increase from 597,000 workers in 2000, to 666,000 in 2006.



**Table 6: Labor Force Participation Rate in the Palestinian Territory  
According to Place of Work: 1999-2006**

Region and	1999	2000	2001	2002	2003	2004	2005	2006	Q4/2000	Q2/2006	Q3/2006	Q4/2006
<b>Both Sexes</b>												
West Bank	43.4	43.6	41.5	40.0	41.8	42.5	42.9	44.1	42.9	43.7	44.6	45.7
Gaza Strip	38.0	37.5	33.3	34.4	37.5	36.4	36.7	36.1	32.0	35.7	35.3	38.0
Palestinian	41.6	41.5	38.7	38.1	40.3	40.4	40.7	41.3	39.2	40.9	41.3	43.0
<b>Males</b>												
West Bank	72.4	73.0	70.5	67.1	68.5	68.7	69.5	69.8	71.9	69.6	71.6	69.7
Gaza Strip	67.4	64.2	59.4	62.2	65.4	63.5	63.9	63.7	55.5	63.9	62.3	64.8
Palestinian	70.7	70.1	66.8	65.4	67.5	66.9	67.6	67.7	66.2	67.6	68.3	68.0
<b>Females</b>												
West Bank	14.1	13.8	12.0	12.4	14.7	15.9	15.8	17.9	13.7	17.2	17.1	21.2
Gaza Strip	8.8	10.6	7.1	6.5	9.2		9.0	8.1	8.8	7.2	7.8	10.8
Palestinian	12.3	12.7	10.3	10.4	12.8	13.5	13.4	14.5	12.0	13.7	13.9	17.5

Source: PCBS, Labor force Survey, various years.

The abovementioned changes were associated with the following conditioning dynamics:

- There has been an important change along gender lines; although LFPR for males in the present time is less than its level prior to the Intifada, female LFPR has increased. This is primarily accredited to an increase in the West Bank, as women were increasingly entering the labor market to compensate for the lost income of their male relatives.
- Another change is related to workers' employment status. Table 7 shows that the percentage of those employed in establishments that they own or part-own and which do not employ any other workers increased substantially. This increase was concurrent with a decrease in the ratio of paid workers.
- Another change in the labor market was associated with the change of employment within economic sectors. A comparison of the contribution of economic sectors prior to the Intifada with that of the current period shows a large contribution by the service sector and a slight increase in the agricultural sector. However, the contribution of the agricultural sector was almost halved compared to the pre-*Intifada* period. Similarly, the contribution of mining, quarrying and manufacturing also declined (see table 8).

It is well documented that these changes came about as a direct result of the Israeli closure of the Palestinian Territory, which intensified during the period 2001-2004. These effects, however, started to decline in 2005. It is also noticeable that such effects occurred at a faster pace in the West Bank compared to the Gaza Strip.

**Table 7: Percentage Distribution of Employed in the Palestinian Territory According to Employment Status and Region, 1999-2006 (%)**

Region and work	1999	2000	2001	2002	2003	2004	2005	2006	Q4/ 2006	Q2/ 2006	Q3/ 2006	Q4/ 2006
<b>West Bank</b>												
Establishment owner	6.6	5.1	4.6	4.1	4.1	5.0	5.0	4.7	4.8	4.7	5.0	4.4
Self-employed	18.6	20.6	25.6	27.8	29.3	28.1	27.6	27.0	24.6	28.6	26.7	24.5
Paid worker	66.5	64.7	60.1	57.5	55.3	55.1	56.4	55.7	57.0	56.0	55.9	53.7
Unpaid family member	8.3	9.6	9.7	10.6	11.3	11.8	11.0	12.6	13.6	10.7	12.4	17.4
<b>Gaza Strip</b>												
Establishment owner	2.8	3.3	5.0	2.6	2.2	1.9	2.6	4.2	4.0	3.0	3.7	7.2
Self-employed	19.1	17.2	19.5	24.3	24.5	22.2	22.4	19.4	18.7	21.0	19.9	15.6
Paid worker	71.1	69.5	67.7	63.6	61.7	66.5	67.1	69.6	65.9	69.8	70.6	67.3
Unpaid family member	7.0	10.0	7.8	9.5	11.6	9.4	7.9	19.8	11.4	6.2	5.8	9.9
<b>Palestinian Territory</b>												
Establishment owner	5.5	4.6	4.7	3.7	3.5	4.1	4.3	4.6	4.6	4.3	4.7	5.2
Self-employed	18.7	19.6	24.0	26.8	27.8	26.5	26.1	25.0	23.1	26.6	25.0	22.2
Paid worker	67.8	66.1	62.1	59.2	57.2	58.3	59.5	59.3	59.3	59.6	59.6	57.2
Unpaid family member	8.0	9.7	9.2	10.3	11.5	11.1	10.1	11.1	13.0	9.5	10.7	15.4

Source: PCBS, Labor force Survey, various years.

It is only natural that such structural changes would lead to changes in the distribution of workers in the West Bank and Gaza Strip, especially as each region was affected by the *Intifada* in a different way. The dynamics were different in the West Bank to those in the Gaza Strip, particularly after Israel unilaterally disengaged from Gaza only to impose a complete closure of the Gaza Strip (land, air and sea). Table 9 shows that the West Bank's share of the total employment in the Palestinian Territory increased by 14% between 2000 and 2006, whilst the increase in the Gaza Strip during the same period was just 6%. However, the increase in both regions was insufficient to offset the decline of Palestinian workers in Israel and the settlements (from 19.6% to 9.6%). Consequently, the unemployment rate rose in both regions as we will see later. Nonetheless, the labor force participation rate in final quarter of 2006 remained the same as that in the previous quarter.

**Table 8: Contribution of Employment in the Palestinian Territory According to Region and Economic Activity, 1999-2000 (%)**

Economic Activity and	1999	2000	2001	2002	2003	2004	2005	2006	Q4/ 2006	Q2/ 2006	Q3/ 2006	Q4/ 2006
<b>Palestinian Territory</b>												
Agriculture and fishing	12.6	13.7	11.7	14.9	15.7	15.9	14.6	16.1	16.9	15.2	13.7	21.5
Mining and manufacturing	15.5	14.3	13.9	12.9	12.5	12.7	13.0	12.4	12.8	12.3	13.5	12.2
Construction	22.1	19.7	14.5	10.9	13.1	11.7	12.9	11.1	10.8	11.5	11.4	9.5
Services and other	28.1	29.9	34.6	35.7	32.8	34.9	34.4	35.5	35.2	36.1	35.1	34.4
<b>West Bank</b>												
Agriculture and fishing	11.5	12.5	12.1	14.1	14.9	16.9	15.7	17.8	17.1	16.8	15.1	24.1
Mining and manufacturing	16.5	15.4	15.5	14.5	14.0	14.0	14.8	14.6	14.6	14.7	16.1	14.2
Construction	23.9	22.2	18.2	12.7	14.3	13.0	14.4	12.9	13.3	13.4	13.7	11.1
Services and other	24.7	25.5	28.0	31.1	29.4	29.5	28.5	29.0	29.0	29.6	28.2	27.7
<b>Gaza Strip</b>												
Agriculture and fishing	15.2	16.5	11.6	16.6	17.4	13.4	11.7	11.1	16.1	10.7	9.2	14.1
Mining and manufacturing	13.1	11.5	9.7	8.9	9.2	9.1	8.3	6.3	7.5	5.7	5.7	6.3
Construction	17.8	13.5	4.4	6.3	10.4	8.2	9.3	6.0	3.5	6.1	4.6	4.9
Services and other	36.5	41.0	53.3	47.6	40.9	49.1	49.4	53.7	53.7	54.1	56.3	53.4

Source: PCBS, Labor force Survey, various years.

**Table 9: Distribution of Employment in the Palestinian Territory  
According to Place of Work, 1999-2006 (%)**

Place of Work	1999	2000	2001	2002	2003	2004	2005	2006	Q4/ 2000	Q2/ 2006	Q3/ 2006	Q4/ 2006
West Bank	52.9	56.0	61.4	62.7	60.9	64.1	61.7	64.4	66.6	65.1	64.4	64.6
Gaza Strip	24.2	24.4	24.8	27.0	29.4	27.2	28.4	26.0	24.3	26.2	25.1	25.9
Israel &	22.9	19.6	13.8	10.3	9.7	8.7	9.9	9.6	9.1	8.7	10.5	9.5

Source: PCBS, Labor force Survey, various years.

### 3.3 Unemployment

The problem of unemployment started to surface in the early nineties, reaching as high as 23.6% in 1996. The situation deteriorated during the second *Intifada* with unemployment increasing to 31.3% in 2002. It then slightly declined by the end of 2003 as a result of improved economic activity, ultimately falling to 22% during the 4<sup>th</sup> quarter of 2006. A comparison of unemployment in the 4<sup>th</sup> quarter of 2006 with that of the 3<sup>rd</sup> quarter of 2000 shows that an increase of more than double, and the rate in the 4th quarter of 2006 is lower than that of the earlier quarter of the same year (see table 10).

**Table 10: Unemployment Rate (%) for Individuals Aged 15 Years and Over  
in the Palestinian Territory According to Sex and Region, 1999-2006**

Region and Sex	1999	2000	2001	2002	2003	2004	2005	2006	Q4/ 2000	Q2/ 2006	Q3/ 2006	Q4/ 2006
<b>Palestinian Territory</b>												
Males	11.6	14.7	26.9	33.5	26.9	28.1	23.7	24.2	31.0	23.7	24.2	23.5
Females	13.0	12.3	14.0	17.0	18.5	20.1	22.3	20.5	12.9	19.1	24.5	16.2
Total	11.8		25.2	31.3	25.6	26.8	23.5	23.6	28.3	22.9	24.2	22.0
<b>West Bank</b>												
Males	9.2	12.8	23.3	30.9	25.5	24.3	20.8	18.9	29.4	18.3	18.5	17.4
Females	11.1	9.9	10.9	14.0	15.8	16.6	18.3	17.6	9.5	16.9	21.6	12.5
Total	9.5	12.1	21.5	28.2	23.8	22.9	20.3	18.6	26.3	18.0	19.1	16.2
<b>Gaza Strip</b>												
Males	16.6	19.0	35.3	39.1	29.6	35.9	29.6	35.1	35.1	34.6	36.3	35.6
Females	19.3	18.5	24.2	28.4	26.8	31.6	35.2	32.3	23.2	29.0	36.5	29.8
Total	16.9	18.7	34.2	38.1	29.2	35.4	30.3	34.8	33.5	34.0	36.3	34.8

Source: PCBS, Labor force Survey, various years.

The following are the main characteristics of unemployment in the current period:

- ✧ The highest rate of unemployment is found amongst the young, particularly those aged 15-24 (see table 12).
- ✧ There is a fundamental difference between male and female unemployment rates, particularly with regards to years of schooling. The unemployment rate for individuals having 13 years or more of schooling, was higher for females than males. Actually, this difference has existed in the Palestinian labor market for some time, which indicates that female labor force participation is increasing at a higher rate than the average increase in the demand for females in the labor market (see table 13).

**Table 11: Total Number of Unemployed in the Palestinian Territory  
According to Region, 1999-2006**

Region	1999	2000	2001	2002	2003	2004	2005	2006	Q4/ 2000	Q2/ 2006	Q3/ 2006	Q4/ 2006
West Bank	44,000	59,364	102,465	135,292	122,924	124,418	115,417	112,735	126,995	107,600	117,200	103,200
Gaza Strip	35,000	40,166	67,612	81,757	70,919	87,155	78,606	92,837	61,943	89,400	95,200	99,400
Palestinian Territory	79,000	99,530	170,078	217,049	193,843	211,573	194,023	205,572	188,938	197,000	212,400	202,600

Source: PCBS, Labor force Survey, various years.

**Table 12: Unemployment Rate in the Palestinian Territory According  
to Sex and Age Groups: 1999-2006**

Age group & Sex	1999	2000	2001	2002	2003	2004	2005	2006	Q4/ 2000	Q2/ 2006	Q3/ 2006	Q4/ 2006
<b>Both Sexes</b>												
15-24	17.3	20.0	35.6	48.2	38.4	39.8	36.4	35.7	39.5	33.7	36.7	33.7
25-34	11.4	14.7	24.9	36.6	24.1	25.1	22.0	23.0	28.6	22.6	23.5	22.0
35-44	9.0	11.0	22.2	37.2	21.6	22.2	18.6	18.7	25.1	18.5	19.3	16.1
45-54	8.8	9.2	18.7	30.5	19.0	22.2	19.1	18.7	18.4	19.4	19.0	16.6
55+	5.9	5.9	12.5	27.7	13.2	15.1	12.1	11.6	10.2	11.3	10.8	12.3
Total	<b>11.8</b>	<b>14.1</b>	<b>25.5</b>	<b>38.0</b>	<b>25.6</b>	<b>26.8</b>	<b>23.5</b>	<b>23.6</b>	<b>28.3</b>	<b>22.9</b>	<b>24.2</b>	<b>22.0</b>
<b>Males</b>												
15-24	16.9	19.6	36.2	47.0	38.3	38.9	34.8	34.4	41.0	33.3	34.1	32.8
25-34	10.5	14.3	26.4	37.4	25.1	26.1	21.3	22.9	31.1	22.5	22.6	23.0
35-44	8.8	12.0	24.7	39.7	23.6	24.4	19.7	20.1	28.6	19.7	20.6	18.3
45-54	9.6	10.5	21.3	32.2	21.3	25.4	21.9	21.5	21.9	22.2	21.7	20.2
55+	6.9	7.3	14.7	30.0	15.5	17.8	14.3	13.8	12.4	13.1	12.7	15.6
Total	<b>11.6</b>	<b>14.4</b>	<b>27.3</b>	<b>39.0</b>	<b>26.9</b>	<b>28.1</b>	<b>23.7</b>	<b>24.2</b>	<b>31.0</b>	<b>23.7</b>	<b>24.2</b>	<b>23.5</b>
<b>Females</b>												
15-24	20.6	22.9	30.7	59.7	39.1	44.8	46.1	43.2	28.0	36.2	52.8	38.0
25-34	16.1	17.1	15.4	28.9	19.4	20.6	25.5	23.1	15.8	22.7	27.7	18.1
35-44	9.8	6.2	7.5	14.1	10.8	11.5	13.2	12.2	6.7	12.4	13.3	8.0
45-54	5.2	2.4	3.7	10.9	6.5	5.0	4.2	5.2	1.5	5.4	5.5	3.3
55+	1.8	0.7	0.6	1.5	1.3	1.2	1.9	1.4	1.8	2.0	-	1.1
Total	<b>13.0</b>	<b>12.3</b>	<b>14.1</b>	<b>28.4</b>	<b>18.6</b>	<b>20.1</b>	<b>22.3</b>	<b>20.5</b>	<b>12.9</b>	<b>19.1</b>	<b>24.5</b>	<b>16.2</b>

Source: PCBS, Labor force Survey, various years.

**Table 13: Unemployment Rate in the Palestinian Territory by Sex and Years of Schooling, 1999-2000**

Number of school years and Sex	1999	2000	2001	2002	2003	2004	2005	2006	Q4/2000	Q2/2006	Q3/2006	Q4/2006
<b>Both Sexes</b>												
0	5.4	5.7	12.2	17.4	12.4	14.1	8.0	8.4	12.7	7.4	9.4	6.2
1-6	12.2	16.0	31.1	37.9	28.8	31.3	26.2	27.9	33.6	25.8	28.1	27.0
7-9	11.9	15.3	29.8	37.3	28.9	29.6	24.8	25.1	33.1	24.3	25.8	22.6
10-12	11.7	14.0	27.4	33.6	26.8	27.8	23.5	23.9	31.7	23.1	23.6	23.7
13+	12.5	12.8	16.3	18.9	19.9	21.3	21.8	20.8	16.7	21.2	22.5	17.9
Total	11.8	14.1	25.5	31.3	25.6	26.8	23.5	<b>23.6</b>	28.3	22.9	24.2	22.0
<b>Males</b>												
0	9.3	11.9	22.4	29.2	22.4	27.3	16.4	16.5	27.7	14.3	16.7	13.9
1-6	13.4	17.6	33.8	41.3	31.8	35.0	28.8	31.0	37.2	28.5	30.5	31.8
7-9	12.4	15.9	31.1	38.9	30.6	31.2	26.0	26.8	35.3	25.9	27.5	25.2
10-12	11.7	14.7	28.9	34.9	28.1	29.4	24.1	25.0	33.9	24.2	24.3	25.8
13+	8.8	9.3	14.1	17.5	16.3	16.8	16.6	15.9	14.7	17.7	16.2	12.4
Total	11.6	14.4	27.3	33.5	26.9	28.1	23.7	<b>24.2</b>	31.0	23.7	24.2	23.5
<b>Females</b>												
0	1.1	0.3	0.7	2.2	2.4	1.8	1.6	1.8	-	0.8	3.4	0.9
1-6	3.2	3.2	5.2	7.6	5.6	6.2	7.8	9.1	3.1	7.6	11.0	5.3
7-9	6.3	7.8	8.7	12.7	9.8	11.1	11.3	9.1	8.7	7.8	9.1	5.8
10-12	11.6	8.0	7.7	18.2	14.8	12.6	17.2	13.2	10.7	11.6	17.2	9.8
13+	21.9	21.9	22.2	22.5	28.3	30.8	32.5	31.3	21.8	28.8	36.3	29.0
Total	<b>13.0</b>	<b>12.3</b>	<b>14.1</b>	<b>17.1</b>	<b>18.6</b>	<b>20.1</b>	<b>22.3</b>	<b>20.5</b>	<b>12.9</b>	<b>19.1</b>	<b>24.5</b>	<b>16.2</b>

Source: PCBS, Labor force Survey, various years.

### 3.4 Wages and Work Hours

The average daily wage increased from NIS 78.2 to NIS 79.3 for paid workers in the West Bank during the 3rd and 4th quarters of 2006, while the average daily wage in the 3rd quarter of 2000 was NIS 70.3. Meanwhile, the average daily wage decreased in the Gaza Strip during the same period, falling from NIS 68.8 to NIS 67.0, while in the 3rd quarter of 2000 it was NIS 50.4. The average daily wage for paid workers in Israel and the settlements increased from NIS 133.1 in the 3rd quarter of 2006 to NIS 134.6 in the 4th quarter, compared to NIS 110.8 in the 3rd quarter of 2000. In total, the average annual increase in daily wages in Israel and settlements was 3.2%, which is twice the increase in the West Bank (see table 14).

**Table 14a: Average Weekly Work Hours, Number of Monthly Working Days and Daily Wage in Shekels for Paid Workers in the Palestinian Territory by Region, 1999-2006**

Place of work	Average Weekly work hours	Average Monthly work days	Average Daily wage (NIS)	Median daily wage (NIS)
<b>1999</b>				
West Bank	44.6	23.5	66.2	60.0
Gaza Strip	43.2	24.0	51.4	46.2
Israel & Settlements	44.4	20.3	105.8	100.0
<b>Total</b>	<b>44.2</b>	<b>22.6</b>	<b>75.5</b>	<b>69.2</b>
<b>2000</b>				
West Bank	43.6	24.4	69.5	61.5
Gaza Strip	41.7	24.5	53.3	50.0
Israel & Settlements	43.6	20.2	110.4	100.0
<b>Total</b>	<b>43.1</b>	<b>23.2</b>	<b>77.3</b>	<b>69.2</b>
<b>2001</b>				
West Bank	43.2	23.6	69.3	60.0
Gaza Strip	40.1	24.6	54.4	50.0
Israel & Settlements	42.6	20.0	107.2	100.0
<b>Total</b>	<b>42.2</b>	<b>23.1</b>	<b>73.0</b>	<b>61.5</b>
<b>2002</b>				
West Bank	40.9	22.8	71.4	60.0
Gaza Strip	40.0	24.1	54.9	50.0
Israel & Settlements	43.9	21.5	117.3	115.4
<b>Total</b>	<b>41.1</b>	<b>23.0</b>	<b>74.0</b>	<b>60.0</b>
<b>2003</b>				
West Bank	42.3	23.7	72.7	60.0
Gaza Strip	40.6	22.6	53.2	50.0
Israel & Settlements	44.9	21.8	125.1	134.6
<b>Total</b>	<b>42.1</b>	<b>23.0</b>	<b>74.0</b>	<b>60.0</b>
<b>2004</b>				
West Bank	43.0	24.0	72.6	61.5
Gaza Strip	41.6	23.2	58.2	52.5
Israel & Settlements	46.3	22.0	126.7	134.6
<b>Total</b>	<b>43.0</b>	<b>23.5</b>	<b>74.9</b>	<b>62.2</b>
<b>2005</b>				
West Bank	42.5	23.6	73.7	65.4
Gaza Strip	41.2	24.0	61.9	57.7
Israel & Settlements	-	-	-	-
<b>Total</b>	<b>42.4</b>	<b>23.4</b>	<b>78.1</b>	<b>69.2</b>
<b>2006</b>				
West Bank	42.2	23.1	77.9	69.2
Gaza Strip	39.9	24.0	68.9	65.4
Israel & Settlements	43.8	21.3	131.6	134.6
<b>Total</b>	<b>41.7</b>	<b>23.1</b>	<b>83.3</b>	<b>73.1</b>

Source: PCBS, Labor force Survey, various years

**Table 14b: Average Weekly Work Hours, Number of Monthly Working Days and Daily Wage in Shekels for Paid Workers in the Palestinian Territory by Region, 2006**

Place of work	Average Weekly work hours	Average Monthly work days	Average Daily wage (NIS)	Median daily wage (NIS)
<b>Q4 2000</b>				
West Bank	40.6	23.2	69.6	61.5
Gaza Strip	40.6	24.8	56.8	53.8
Israel Settlements &	41.2	20.3	11.7	115.4
<b>Total</b>	<b>40.7</b>	<b>23.0</b>	<b>74.7</b>	<b>70.2</b>
<b>Q2 2006</b>				
West Bank	42.7	23.6	76.3	69.2
Gaza Strip	40.4	24.3	69.8	67.3
Israel Settlements &	43.0	21.8	132.6	134.6
<b>Total</b>	<b>42.0</b>	<b>23.7</b>	<b>81.8</b>	<b>73.1</b>
<b>Q3 2006</b>				
West Bank	42.9	23.5	78.2	69.2
Gaza Strip	41.5	24.5	68.8	65.4
Israel Settlements &	46.2	22.1	133.1	134.6
<b>Total</b>	<b>43.0</b>	<b>23.6</b>	<b>85.0</b>	<b>75.9</b>
<b>Q4 2006</b>				
West Bank	41.5	22.1	79.3	67.3
Gaza Strip	37.7	23.5	67.0	61.5
Israel Settlements &	42.3	20.4	130.6	134.6
<b>Total</b>	<b>40.4</b>	<b>22.3</b>	<b>83.1</b>	<b>70.0</b>

Source: PCBS, Labor force Survey, various years

### 3.4 Vacancy Announcements in Local Newspapers

The number of job vacancies advertised in local papers totaled 834 during the 1<sup>st</sup> quarter of 2007. Approximately 60.2% of these were for the private sector, 30.1% for NGOs and 9.7% for the public sector (9.4% during the 4<sup>th</sup> quarter of 2006). Another 58 job vacancies announced during the same quarter did not indicate a particular type of sector.

**Table 15: Number of Job Vacancies Advertised in Local Newspapers by Economic Sector for the 1st Quarter of 2007**

	Public sector	Private sector	NGO	Total
January	20	189	98	307
February	28	137	55	220
March	33	176	98	307
<b>Total</b>	<b>81</b>	<b>502</b>	<b>251</b>	<b>834</b>

Source: compiled by MAS from daily local newspapers (Al-Quds, Alayam and Alhayat aljadida).

Table 16 shows the distribution of jobs according to academic qualifications. The table shows that 68.4% of vacancies require a bachelor's degree, 20.5% require a two-year college diploma, 10.4% require a MA degree or higher, and 1.7% of jobs did not require any specific qualifications.

**Table 16: Number of Vacancy Announcements Advertised in Local Newspapers According to Academic Qualifications during 1<sup>st</sup> quarter of 2007**

	MA or higher	Bachelor degree	College diploma	Less than diploma	Total
January	30	205	66	6	307
February	37	133	50	0	220
March	20	224	55	8	307
<b>Total</b>	<b>87</b>	<b>562</b>	<b>171</b>	<b>14</b>	<b>834</b>
%	10.4	67.4	20.5	1.7	100

Source: compiled by MAS from daily local newspapers (Al-Quds, Alayam and Alhayat aljadida).

Table 17 shows that the number of vacancies decreased in the West Bank and Gaza Strip by 13.8% and 36.2%, respectively, compared to the number in the 4<sup>th</sup> quarter of 2006. The largest decline in vacancies is found in northern region of the West Bank (20.3%), followed by central and northern regions of the West bank, falling by 12.9% and 10.3%, respectively. This may be attributed to the turbulent political situation that arose from the various attempts to form a national coalition government, prompting organizations to wait for the political uncertainty to clear before resuming the employment process.

**Table 17: Number of Vacancies Advertised in Local Newspapers by to Region in the 1st quarter of 2007**

	West Bank			Total advertised job vacancies in the WB	Gaza Strip
	North	Center	South		
January	44	157	59	260	47
February	37	141	23	201	19
March	41	195	40	276	31
<b>Total</b>	<b>122</b>	<b>493</b>	<b>122</b>	<b>737</b>	<b>97</b>
%	16.6	66.9	16.6	88.4	11.6

Source: compiled by MAS from daily local newspapers (Al-Quds, Alayam and Alhayat aljadida)

**Table 18: Number of Vacancies Advertised in Local Newspapers by Academic Qualification and Sectoral Distribution in the 1<sup>st</sup> quarter of 2007**

	Public Sector	Private Sector	NGOs	Total
MA or higher	9	54	24	87
Bachelor degree	56	323	183	562
College diploma	15	112	44	171
Less than diploma	1	13	0	14
<b>Total</b>	<b>81</b>	<b>502</b>	<b>251</b>	<b>834</b>

Source: compiled by MAS from daily local newspapers (Al-Quds, Alayam and Alhayat aljadida).



Table 18 shows the relationship between various sectors and academic qualifications. It reveals that the bachelor's degree is in greatest demand across all sectors. In fact, 64.3% of job vacancies in the private sector, 69.1% in the public sector and 72.9% in the NGO sector require a bachelor's degree. The second most highly demanded degree is the college diploma; 22.3% of advertised vacancies in the private sector, 18.5% in the public sector and 17.5% of NGOs require a two year diploma. High academic achievement (MA and higher) was required for just 10.8% of job vacancies in the private sector, 11.1% in the public sector and 9.6% in the NGO sector.

Regarding the demand for particular specializations, management and accountancy were the most highly demanded (46.2%), followed by medicine, engineering and information technology (39.3%) and social sciences (14.5%).

## 4. Public Finance Developments

### 4.1 Overview

During the years of occupation, distortions in public finance have taken effect, most notably in the scant resources available to finance the public budget. During the years 1968-1990, the ratio of government spending to GNP declined from 15% to 8% in the West Bank and from 14% to 10% in the Gaza Strip, at a time when the average ratio registered 20% in developing countries and 30% in developed countries. The direct consequence of such distortion is a reduction of public services and their provision by the private sector instead, despite such services being low in quantity and poor in efficiency. In fact, 80% of health services and 50% on education services were produced by the private sector. Moreover, the shortage in public sector resources led to a deterioration of infrastructure, which lagged behind in comparison to neighboring Arab countries.

From 1994-2000, the PA was able to carry out a number of critical reforms in public finance, namely in tax collection. The PA reformed the administration of taxes and amended the Tax Law (regarding income tax) in such a way which conformed to the economic reality of Palestinians. Additionally, the PA signed an agreement with Israel (The Paris Protocol), whereby Israel collects VAT and Customs duties on Palestinian imports via Israel on behalf of Palestinians. Such collections represented, on average, 60% of the PA's total revenues from 1994-2000.

These changes contributed to the public purse to the extent that in the early 1990's it was nearly sufficient to cover the governments' current expenditure. It should be kept in mind that government current expenditure was also rising at that time in order to keep up with the increase in public sector employment that had taken place between 1995 and 2000. Eventually, the increase in public revenues substantially shrank the budget deficit in such a way that allowed the PA to allocate the bulk of international assistance to investment and reconstruction projects.

However, the positive developments in public finance took a wrong turn upon the eruption of the *Al-Aqsa Intifada*. The following are the main developments which have taken effect:

- ✧ The size of local taxes declined because on the one hand, direct taxes declined as economic activities declined, and on the other, certain activities moved from the formal sector to the informal sector. Moreover, indirect taxes also declined due to Israeli restrictions on movement of goods and people.
- ✧ Israel stopped transferring tax collections on a regular basis, withholding them for several months at a time.
- ✧ Government expenditure increased in order to finance emergency works and to support the neediest families and the families of martyrs, injured, and those whose homes were demolished.

As expected, such changes led to an increase in the budget deficit. Table 19 illustrates that in 1999 the budget deficit was lower than 7% of GDP, and increased to 25% of GDP in 2002. The PA financed the budget deficient by borrowing from local banks as well as re-channeling funds from development projects to finance current expenditures. It was also forced to cut down on social spending.

Towards the end of 2003, the budget condition slightly improved as a result of some improvement in economic activity and Israel's transfer of tax collections after withholding them in 2001 and 2002. Consequently, public revenues improved and reached 70% of their size prior to the *Intifada*.

**Table 19: The Palestinian Authority's budget 1999-2006, in Dollars**

	1999	2002	2003	2004	2005	2006
Revenues	901.20	335.34	747.00	947.00	1208.58	352.34
Expenditure	1194.33	1249.50	1513.00	1764.21	1924.70	1727.57
Budget Deficit	293.13	914.16	765.31	817.27	716.12	1375.23
Deficit/GDP (%)	6.44	25.70	19.16	19.24	16.12	33.13
Financing	235.00	702.00	518.00	615.00	348.53	721.71
Budget Financing/ Overall Financing (%)	44.86	72.66	49.50	66.49	36.49	96.19

Source: the Palestinian Finance Ministry's website.

The improvement continued in 2004 and 2005, and it was even expected to continue through to 2006. However, Israel stopped transferring tax collections in March 2006 and donor countries stopped dealing with the PA, depriving it of a main source of revenues. Consequently, the PA was unexpectedly faced with an unprecedented financial crisis, which further worsened the budget deficit.

The PA was unable to overcome the budget deficit by borrowing from local banks like it used to do in the past, because banks abided by American threats and halted transactions with the Ministry of Finance for fear of being black-listed. Moreover, most international assistance was channeled away from development projects and into financing current government expenditure. Although international assistance in 2006 amounted to US\$750 million, US\$721 million were used to balance the government's books. This amount was higher than the amount used to balance the budget deficit in 2005 (US\$348 million) despite international assistance during that year being higher than in 2006 (US\$955 million). Despite the international boycott of the Palestinian Ministry of Finance, international assistance was deployed through indirect channels in the following ways:

- ✧ Some Arab assistance was transferred to the office of the President instead of the Ministry of Finance.
- ✧ International donors circumvented the Ministry of Finance and directly transferred money to specific ministries by means of the Temporary International Mechanism.
- ✧ Some government officials brought in cash from Arab and Muslim countries through the Rafah crossing between Egypt and Gaza.

Despite the fact that the above-mentioned assistance was used to balance the budget deficit, it did not offset the total loss in local tax revenues. Consequently, the PA was unable to pay public sector salaries in full and on a regular basis. The PA was only able to pay 50-55% of the salaries in 2006. Preliminary MOF estimates indicated that government spending declined in 2006 by 10% from its level in 2005 (see table 20). Table 20 illustrates that the decline in government spending was taken from development expenditure and current and capital expenditures. Development expenditure declined by about a quarter of its level in 2005, and current and capital expenditures declined by 61%.

The decline in expenditure in 2006 was relatively lower than the decline in revenues. This also contributed to the budget deficit. Table 22 illustrates that the ratio of budget deficit to GDP in 2006 more than doubled over its level in 2005. The following section compares public finance in the 4<sup>th</sup> quarter of 2006 against the previous quarter.

**Table 20: Main Developments in Public Expenditure Items (2004-2006) in US Dollars**

Year	Salaries	Current and Capital Expenditure	Developmental Expenditure	Net Lending	Total
2004	874.21	484.00	261.00	145.00	1746.21
2005	1001.12	624.20	34.68	274.86	1924.86
2006	1181.00	384.00	8.48	154.42	1727.90

Source: Ministry of Finance website

**Table 21: Palestinian Authority's Budget Deficit as a Percentage of GDP (1999-2006)**

Year	1999	2002	2003	2004	2005	2006
Public Revenues	19.97	9.43	18.70	22.30	27.20	8.49
Public expenditure	26.47	35.13	37.87	41.15	43.33	41.62
Budget Deficit	6.50	25.71	19.17	12.39	16.13	33.13

Source: calculated by MAS based on MOF data.

## 4.2 Public Revenues

The Ministry of Finance data indicated an increase of 18.3% in public revenues during the 4<sup>th</sup> quarter of 2006 over its level in the 3<sup>rd</sup> quarter. This increase in public revenues was a result of the rise in local tax collection (both taxes and non-taxes) by US\$11 million to a total of US\$65.95 million. The increase in local tax collection is attributed to seasonal factors that affect the collection of taxes and fees. Tax and non-tax revenues increased by 21.2% and 11.4%, respectively, during the 4<sup>th</sup> quarter of 2006. In the 3<sup>rd</sup> quarter of 2006, tax and non-tax revenues actually declined by 21.7% and 28%, respectively. It is worth noting here that non-tax revenues are generated from returns on investments that the government receives from the Palestine Monetary Authority, in the form of bank interests and companies' profits. In conclusion, the large decline in public revenues during the 4<sup>th</sup> quarter of 2006 in comparison to the same quarter in 2005 is principally due to Israel's withholding of Palestinian taxes.

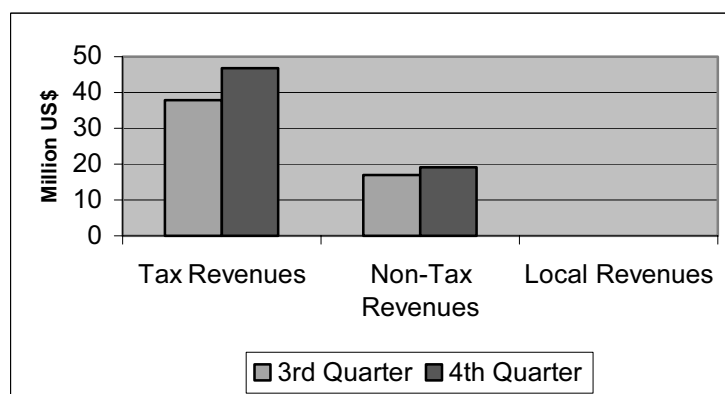
**Table 22: Developments in Main Public Revenues and International Assistance (Million US\$) for the 4th Quarter of 2005 and 4th quarter of 2006**

	Local Revenues	Tax Revenues	Non-Tax Revenues	Public Revenues* before Grants and Assistance	Grants and Assistance	Total Revenues after Grants and Assistance
Q4-2005	260.27	46.22	96.27	402.74	53.61	456.35
Q1-2006	69.22	73.66	25.21	167.29	157.76	325.85
Q2-2006	0.00	47.07	22.57	64.20	102.26	171.9
Q3-2006	0.00	37.90	17.05	54.90	294.06	363.7
Q4-2006	0.00	46.83	19.12	65.95	167.63	233.58

Source: The Ministry of Finance.

\*Public revenues minus tax revenues.

**Figure 1: Main Developments in Public Revenues in the 3rd and 4th quarters of 2006**

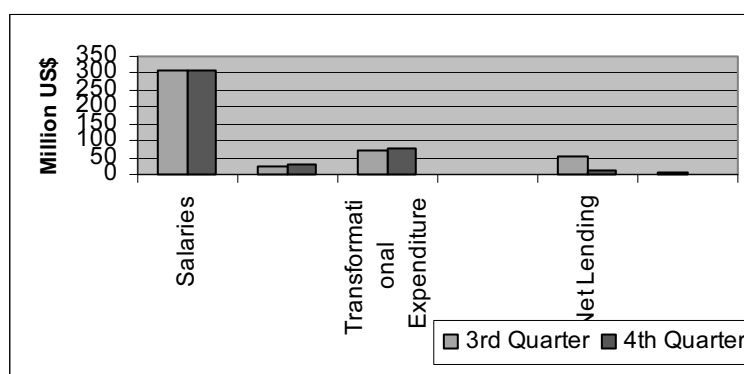


Source: Ministry of Finance Website.

### 4.3 Public Expenditure

Public expenditure and net lending declined by US\$22.65 million during the 4<sup>th</sup> quarter of 2006 to just US\$432.09 million, a decline of 5% from its level in the 3<sup>rd</sup> quarter. This decline was driven by a similar decline in net lending, developmental expenditure, and capital expenditure. On the other hand, current expenditure and operational and transformational expenditure increased. Data shows that wages and salaries increased by 1.2% during the 4<sup>th</sup> quarter and by 5.7% in the 3<sup>rd</sup> quarter of the same year, amounting to US\$309.44 million at the end of 2006.

**Figure 2: Public Expenditure during the 3<sup>rd</sup> and 4<sup>th</sup> Quarters of 2006**



Source: Ministry of Finance Website.

**Table 23: Main Developments in Public Expenditure during the 4<sup>th</sup> quarter of 2005 and 2006 (Million US\$)**

Period	Salaries	Operational expenditure	Transformational expenditure	Capital Expenditure	Net lending	Developmental Expenditure	Total
Q4-2005	276.82	53.06	126.72	9.33	49.04	6.03	521
Q1-2006	277.12	22.43	71.23	0.45	60.8	0.75	432.79
Q2-2006	288.73	28.14	57.12	0.05	32.33	1.58	407.95
Q3-2006	305.65	24.23	70.52	0.41	50.71	3.22	454.74
Q4-2006	309.44	31.26	77.76	0.26	10.49	2.88	432.09

## 4.4 Budget Deficit/ Surplus

Due to the increased in public revenues and the concurrent decline in public spending, the budget deficit has declined in the 4th quarter of 2006 by US\$33.7 million, registering a total of US\$366.14 million. This represents a decline of 8.4% compared to an increase of 16.3% in the previous quarter of the same year.

## 4.5 Financing

External financing, which is comprised of grants and international assistance received by the PA, declined by US\$126.43 million during the 4<sup>th</sup> quarter of 2006 to a total of US\$168.63 million. This is a decline of 43% compared to the previous quarter of the same year. The sources of this financing came from the popular Committee for the Support of the Palestinian People (US\$34.2 million), Kuwait (US\$28.9 million) and European Union (US\$104.5 million).

Internal financing, on the other hand, declined by 79.4% from its level in the previous quarter to US\$36.6 million. The drop is due to the decline in the financing of The Palestine Investment Fund during the 4<sup>th</sup> quarter of 2006, which settled at US\$27.06 million – a 55.4% drop compared with a drop of 8.8% in the previous quarter. The net change in arrears fell by 105.4% during the 4<sup>th</sup> quarter, compared with a decline of 29.6% in the 3<sup>rd</sup> quarter of the same year. The budget (after assistance and grants) suffered a deficit of US\$161.91 million during the 4<sup>th</sup> quarter, compared to a surplus of US\$ 71.58 million in the previous quarter.

**Table 24: Public Budget Developments for 2006 (Million US\$)**

	Q4-2005	Q1-2006	Q2-2006	Q3-2006	Q4-2006
Public Revenues	402.74	167.29	64.2	54.9	65.95
Local revenues	142.49	98.87	69.64	54.95	65.95
Tax revenues	46.22	73.66	47.07	37.9	46.83
Non-tax revenues	96.27	25.21	22.57	17.05	19.12
Clearance Revenues	260.27	69.22	0	0	0
Tax Rebates	-62.40	-0.8	-5.44	-0.05	0
Public Revenues and Net Lending	467.60	432.79	407.95	454.74	432.09
Current expenditure	455.89	370.78	373.99	400.4	429.21
Salaries	259.77	277.12	288.73	305.65	309.44
Civil servants	152.60	136.43	168.21	172.9	173.61
Military employees	107.17	113.69	120.52	132.75	135.83
Operational Expenditure	56.25	22.43	28.14	24.23	31.26
Transformational expenditure	49.34	71.23	57.12	70.52	77.76
Other Current Expenditure		94.11	85.31	95.16	109.28
Capital Expenditure	15.73	0.45	0.05	0.41	0.26
Net lending	74.80	60.81	32.33	50.71	10.49
Developmental expenditure	11.71	0.75	1.58	3.22	2.88
Deficit	-193.78	-265.5	-343.75	-399.84	-366.14
Financing Budget	266.71	284.94	349.86	471.42	204.23
External Financing	53.61	157.76	102.26	294.06	167.63
Local Financing	213.10	127.18	247.6	177.36	36.6
Transferred Overdue Clearance revenues	11.39	0	0	0	0
Commercial Bank Financing	42.71	79.86	-111.47	-89.4	20.71

	Q4-2005	Q1-2006	Q2-2006	Q3-2006	Q4-2006
Net Change in Arrears	0	6.27	292.57	206.08	-11.17
Social Care Fund Via Investment Fund	59.00	11.05	0	0	27.00
Investment Fund	100.00	30	66.5	60.68	-5.82
Change after transfer (Financing Gap)	72.93	19.44	6.11	71.58	-161.91

## 5. Banking Developments

Developments in the banking sector reflected the instability that characterizes the economy in general. Because of the international boycott, the banking sector was cautious in financing investment projects, and stopped its traditional role as lender to the Palestinian government. It is possible to trace the following three trends in the banking sector:

1. Banks continue to expand their services by means of opening new branches, particularly in rural areas.
2. An increase in foreign investment in the banking sector, greatly exceeding the growth in credit facilities.
3. Credit facilities more readily available for general trade activities, while productive sectors like agriculture and industry receive little financing.

The following section provides detailed analysis of banking activities in terms of the number of banks, assets, credit, debt, deposits and bank investment activities.

### 5.1 Number of Banks and Bank Branches

The number of banks operating in the Palestinian Territory during the 4<sup>th</sup> quarter of 2006 remained at 22, while the number of branches increased to 153, compared to 149 in the previous quarter. The new branches were based in Salfit, (one Bank of Palestine), two branches of the Housing Bank in Birzeit, one branch of the Al Quds Bank in Atil and one branch of The Jordanian-Kuwaiti Bank in Ramallah (see table 25).

**Table 25: Developments in Number of Banks and Branches in the Palestinian Territory**

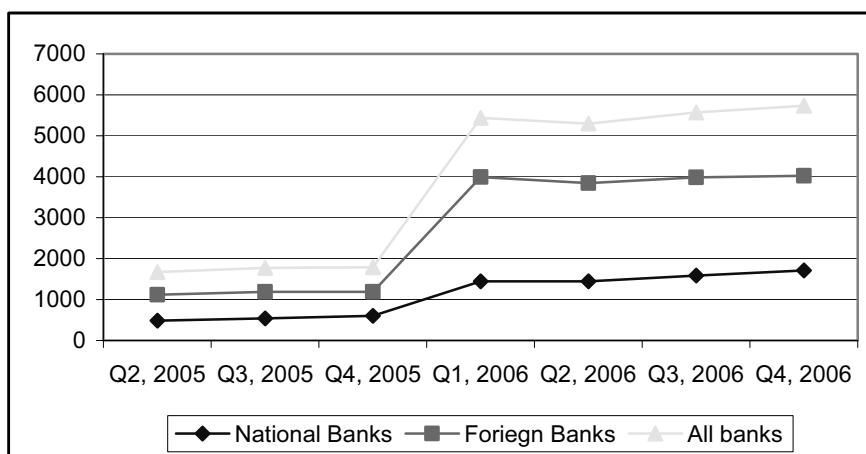
Period	Region	Administration			Number of Branches		
		General	Regional	Total	General	Regional	Total
Q1,2006	WB	9	10	19	49	55	104
	GS	2	1	3	25	15	40
	Total	<b>11</b>	<b>11</b>	<b>22</b>	<b>74</b>	<b>70</b>	<b>144</b>
Q2,2006	WB	9	10	19	51	55	106
	GS	2	1	3	25	15	40
	Total	<b>11</b>	<b>11</b>	<b>22</b>	<b>76</b>	<b>70</b>	<b>146</b>
Q3,2006	WB	9	10	19	52	56	108
	GS	2	1	3	25	16	41
	Total	<b>11</b>	<b>11</b>	<b>22</b>	<b>77</b>	<b>72</b>	<b>149</b>
Q4,2006	WB	9	10	19	54	58	112
	GS	2	1	3	25	16	41
	Total	<b>11</b>	<b>11</b>	<b>22</b>	<b>79</b>	<b>74</b>	<b>153</b>

Source: PMA, Monthly Statistical Bulletin, various issues.

## 5.2 Bank Assets/Liabilities

Total assets/liabilities for banks operating in the Palestinian Territory increased during the 4th quarter by US\$163.3 million, an increase of 2.9% over the earlier quarter, totaling US\$5,736.83.5 million in comparison to US\$5573.5 million in the 3rd quarter of the same year. National banks' assets represented 29.8% of the total (US\$1710.3 million) and foreign bank's share came to 70.2% of the total (US\$4026.5 million) (see figure 3).

**Figure 3: Development in Banks' Assets/Liabilities in the Palestinian Territory in 2005 and 2006**

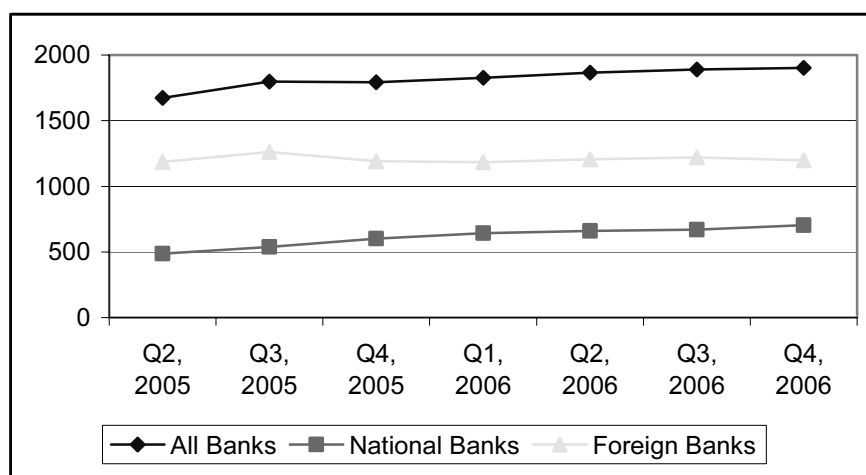


Source: PMA, Monthly Statistical Bulletin, various issues.

## 5.3 Credit Facilities

The outstanding value of credit facilities during the 4th quarter of 2006 increased by US\$12.3 (0.7%) million to a total of US\$1,903.3 million, compared to US\$1,891 million in the 3<sup>rd</sup> quarter of 2006. The private sector accounted for 25.3% of the credit facility portfolio while the public sector captured 74.7% of the total. Approximately US\$704 million of the total credit portfolio were provided by national banks and US\$ 1199 million came from foreign banks.

**Figure 4: General Trends in Credit Facilities in the Palestinian Territory**



Source: PMA, Monthly Statistical Bulletin, various issues.

The distribution of credit facilities according to the *type of credit facility* shows that loans retained their leading position, comprising 62.9% of the total credit extended in the Palestinian Territory in the 4<sup>th</sup> quarter of 2006. Overdrafts came in second, comprising 36.5% of total credit provided, followed by leases and bankers' acceptances at 0.55% and 0.003% respectively (see table 26).

**Table 26: The Distribution of the Credit Facility Portfolio:  
Quarterly Analysis 2005 and 2006 (Million \$)**

	2005			2006			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Geographical Distribution</b>							
WB Governorates	1069.4	1125.8	1191.1	1257.2	1333.3	1371	1378.7
GS Governorates	603.8	672.6	600.7	569.8	532	519.7	524.6
<b>Borrowing party</b>							
Public sector	586.8	638.1	592.2	591	506.7	479.5	483.6
Private sector (resident)	1044	1100.1	1134.4	1165.4	1267.7	1320.8	1336
Private sector (non-resident)	42.4	60.21	65.2	70.5	90.9	90.6	83.7
<b>Credit Facility Type</b>							
Loans	728.2	788.1	1154.3	1178.7	1184.9	1200.5	1191.1
Overdrafts	931.4	997.8	623.2	637.9	667.7	679.8	701.8
Leases	9	8.7	10.4	10.4	12.6	10.5	10.4
Bills and banker's acceptances	4.6	3.8	3.9	0.07	0.07	0.07	0.06
<b>Type of Currency</b>							
US Dollar	1200.3	1268	1256.7	1260.6	1309.3	1338.8	1346.7
Jordanian Dinar	197.8	216	224.3	220.4	236.2	226.5	209.2
Israeli Shekel	264.6	303.9	300.3	335.45	308.5	309.8	332.8
Other	10.5	10.5	10.5	10.7	11.3	15.7	14.7
<b>Total</b>	<b>1673.2</b>	<b>1798.4</b>	<b>1791.8</b>	<b>1827.1</b>	<b>1865.32</b>	<b>1890.8</b>	<b>1903.3</b>

Source: PMA, Monthly Statistical Bulletin, various issues.

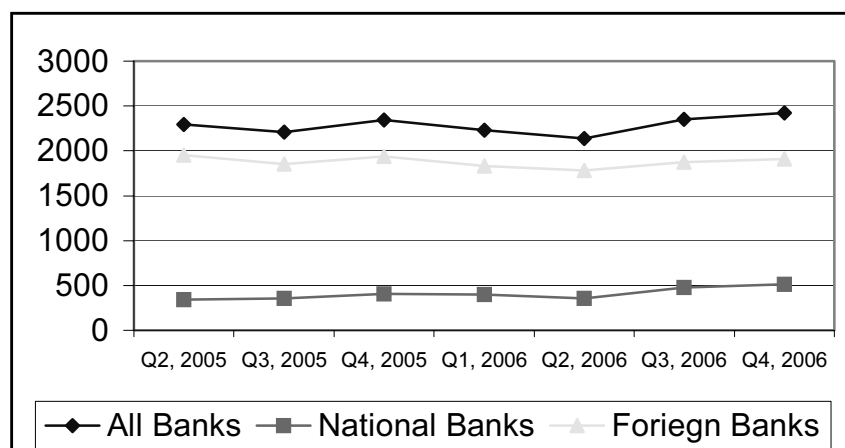
The distribution of credit facilities by *economic sector* reveals that the proportion of credit facilities extended to general trade activities increased by 19.2% in the 4<sup>th</sup> quarter of 2006, compared to 18.8% in the 3<sup>rd</sup> quarter of the year. The share of the remaining sectors of total credit facilities in the 4<sup>th</sup> quarter was distributed in the following manner: construction sector 11%, unchanged from the 3<sup>rd</sup> quarter; public sector 8.6%, unchanged from the previous quarter; industry and mining 6.1% compared to 5.9% in the 3<sup>rd</sup> quarter; financial services 4.5% compared to 4.4% in the 3<sup>rd</sup> quarter; agriculture remained at 1%, the same as in the 3<sup>rd</sup> quarter. Other sectors comprised 45.1% in the 4<sup>th</sup> quarter of 2006, compared to 44.1% in the previous quarter.

## 5.4 Foreign Investment by Banks

Foreign investment by banks operating in the Palestinian Territory increased by 3.1% in the 4<sup>th</sup> quarter of 2006 to reach US\$2424 million, compared to US\$2349 million in the 3<sup>rd</sup> quarter of the same year. The bulk of foreign investment by foreign banks amounted to US\$1908.4 million, while national banks invested US\$515.6 million of their capital abroad (see figure 5).



**Figure 5: Banks' Foreign Investment by Quarter: 2005 and 2006**

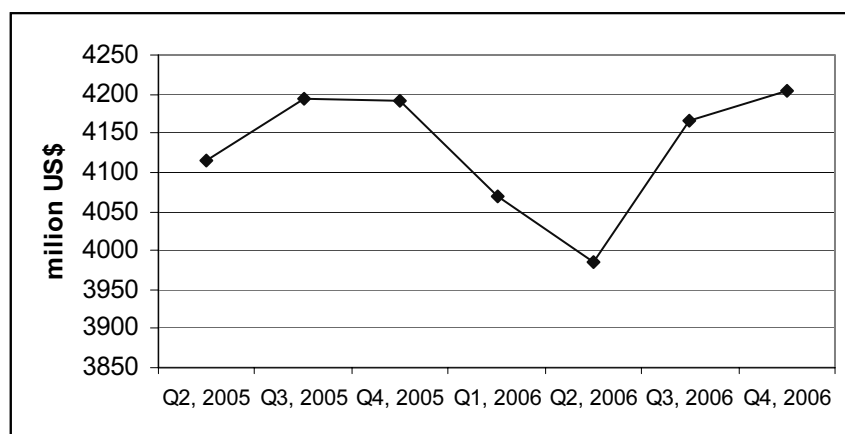


Source: PMA, Monthly Statistical Bulletin, various issues.

## 5.5 Deposits

Total bank deposits during the 4th quarter of 2006 increased by 2.2%, reaching US\$4,662.7 million, compared to US\$4560.6 million in the 3rd quarter – of which 90.1% were client deposits<sup>2</sup> and 9.9% bank deposits (see table 27).

**Figure 6: Trends in Client Deposits by Quarter for 2005 and 2006**



Source: PMA, Monthly Statistical Bulletin, various issues.

### 5.5.1 Distribution of Clients' Deposits by Geographical Region

Total clients' deposits in the 4<sup>th</sup> quarter of 2006 reached US\$4,203 million. Main developments in clients' deposits were:

- ✧ Total clients' deposits in West Bank governorates increased by 1.6% during the 4<sup>th</sup> quarter of the year, to a total of US\$3285.5 million, compared to US\$3232.7 million in the 3<sup>rd</sup> quarter of the year.

<sup>2</sup> Includes deposits of the private and public sectors.

- ✧ Gaza governorates witnessed a decline of 1.8% in clients' deposits in the 4<sup>th</sup> quarter of 2006. In fact, client deposits declined from US\$933.8 million to US\$917.1 million during the same period. Roughly 78% of clients' deposits are located in West Bank governorates and 22% in Gaza governorates.

### 5.5.2 Distribution of Deposits According to the Depositing Party

Total private sector deposits in the 4th quarter of 2006 amounted to US\$3826.1, an increase of 1.5% the previous quarter. Residents' accounts comprised 97.6% of total private sector deposits, and non-residents' 2.4%. Public sector deposits dropped during the same period by 5.4%, reaching US\$376.4 million compared to US\$398 million in the 3<sup>rd</sup> quarter of 2006.

### 5.5.3 Distribution of Client Deposits According to Deposit Type

Current account deposits declined by 1.4%, from US\$1422.9 million in the 3<sup>rd</sup> quarter to US\$1402.8 million in the 4<sup>th</sup> quarter of 2006. Time deposits increased by 1.9% during the same period, increasing from US\$1838.8 million in the 3<sup>rd</sup> quarter to US\$1872.8 million in the last quarter. Savings deposits also slightly increased by 2.5% in the 4<sup>th</sup> quarter of 2006 in comparison to the earlier quarter, up from US\$904.8 million to US\$927.4 million.

**Table 27: Distribution of Client Deposits by Quarter for 2005 and 2006**

	2005			2006			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>By Geographical Distribution (%)</b>							
WB Governorates	74.0	73.9	73.6	76.6	77.7	77.6	78.3
GS Governorates	26.0	26.1	26.4	23.4	22.3	22.4	21.7
<b>By Depositing Party (%)</b>							
Public Sector	13.8	14.3	13.8	9.8	8.4	9.6	9
Private sector-resident	84.5	83.3	84.2	88.1	89.5	88.2	88.9
Private Sector-non-resident	1.7	1.9	2.0	2.1	2.1	2.2	2.1
<b>By Type of Deposit (%)</b>							
Current	36.8	35.7	37.0	35.1	33.4	34.2	33.4
Saving	19.4	19.1	19.4	21.0	22.3	21.7	22.1
Time	43.8	45.2	43.6	43.9	44.3	44.1	44.5
<b>By Type of Currency (%)</b>							
US Dollar	56.8	57.0	52.3	53.2	53.7	54.2	54.4
Jordanian Dinar	23.9	24.0	24.9	25.1	25.9	25.3	29
Israeli Shekel	15.2	15.0	17.6	16.7	15.5	15.3	12.5
Other	4.1	4.0	5.2	5.0	4.9	5.2	4.1

Source: PMA, Monthly Statistical Bulletin, various issues.

## 5.6 Equity<sup>3</sup>

Banks' equity rose by 11.9% from the 3<sup>rd</sup> quarter of 2006 to reach US\$603.2 million in the 4<sup>th</sup> quarter. Operating profits rose by US\$17 million (35.3%) reaching US\$65.1 million in the 4<sup>th</sup> quarter, compared with US\$42.2 million in the 3<sup>rd</sup> quarter (see table 28).

<sup>3</sup> Includes paid capital, reserves, profits and underwriting premiums.

**Table 28: Main Items in Banks' Consolidated Balance Sheet  
by Quarter: 2005-2006**

Item	2005			2006			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4
%							
Cash	4.6	4.2	4.4	3.9	3.9	3.9	3
Balances with the PMA	10.4	10.2	10.0	9.8	9.5	9.0	9.1
Balances with other banks	3.7	3.1	2.4	2.8	2.7	2.8	3.7
Balances with other banks abroad	41.8	40.1	41.7	40.5	40.2	41.9	42.1
Credit Facilities	30.7	32.8	30.8	33.6	35.2	33.9	33.2
Portfolio Investment	3.6	4.4	5.9	4.2	2.9	3.1	3.2
Other Assets	5.2	5.2	4.8	5.2	5.6	5.4	5.7
Assets =Liabilities	100	100	100	100	100	100	100
Clients' deposits	75.5	76.5	74.8	74.7	75.2	74.8	73.2
PMA deposits	3.1	2.6	3.1	3	2.7	2.9	3.1
Deposits of banks operating in Palestine	3.6	3	2.5	2.8	2.2	2.7	3.3
Deposits of banks operating outside Palestine	2.4	1.9	1.9	1.6	1.6	1.4	1.6
Equity	7.9	8.9	10.2	10	9.7	9.7	10.6
Bad-debt allowance	2.3	2.3	2.5	2.6	2.4	2.4	2.5
Other liabilities	5.2	4.8	5.0	5.3	6.2	6.1	5.7

Source: PMA, Monthly Statistical Bulletin, various issues.

## 5.7 Selected Bank Performance Indicators

Table 29 illustrates main developments in bank performance indicators – more details are provided in the section that follows.

**Table 29: Bank Performance Indicators by Quarter  
for 2005 and 2006 (%)**

Indicator	2005			2006			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Capital adequacy *	12.9	12.5	11.2	18.9	21.4	22.14	23.2
Bad debt provisions to total credit facilities	8	6.7	7.6	7.6	6.8	7.2	7.5
Total private Sector credit to Private sector deposits	30.6	30.7	33.2	33.6	37.2	37.5	37.2
Credit Facilities to Client deposits	40.7	42.9	42.8	44.91	47.2	45.4	45.3
Foreign investment to total deposits	49.4	47.8	50.9	50.0	49.5	51.5	52.1

Source: PMA, unpublished data.

\* Local banks only.

### 5.7.1 Capital Adequacy

Capital adequacy for banks operating in the Palestinian Territory increased to 23.2% in the 4<sup>th</sup> quarter of 2006, compared to 22.4% in the 3<sup>rd</sup> quarter. This ratio reflects the banks' ability to meet expected and unexpected risks.

### 5.7.2 Bad Debt Provisions to Total Credit Facility<sup>4</sup>

This ratio also increased to reach 7.5% in the 4<sup>th</sup> quarter of 2006 compared to 7.2% in the previous quarter. This indicator measures the amount of provisions which banks have set aside to meet credit risks. This ratio is calculated according to a pre-set PMA ratio.

### 5.7.3 Private Sector Credit Facilities to Private Sector Deposits

This ratio fell in the 4<sup>th</sup> quarter of 2006, reaching 37.2% compared to 37.5% in the 3<sup>rd</sup> quarter. This indicates that banks are expanding their credit to the private sector as well as relaxing their traditionally conservative policies that are aimed at reinforcing their liquidity position.

### 5.7.4 Credit Facilities to Clients' Deposits

This ratio declined in the 4<sup>th</sup> quarter of 2006 to settle at 45.3% compared to 45.5% in the previous quarter. This ratio still falls outside the boundary set by the PMA (40%).

### 5.7.5 Foreign Investment to Total Deposits

Data indicate an increase in this ratio to 52.5% during the 4<sup>th</sup> quarter compared to 51.5% in the previous quarter. The ratio rose despite the PMA's efforts to encourage banks to invest the largest part of their funds within the borders of the Palestinian Territory. The PMA even requires that a bank's maximum foreign investment does not exceed 65% of its total deposits.

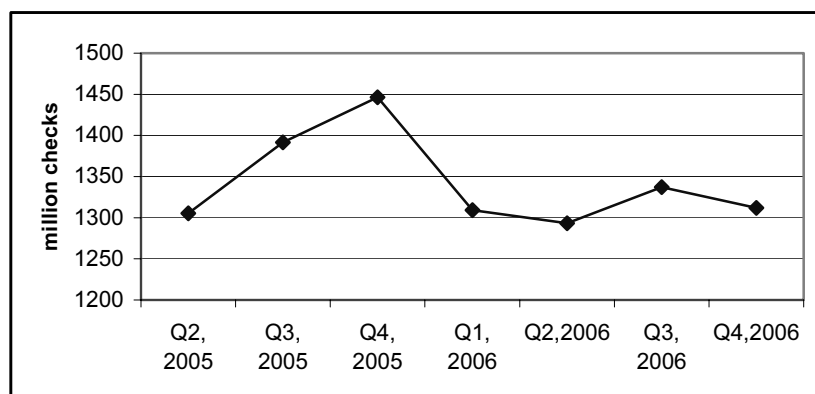
## 5.8 Clearing House Activities

There was a noticeable decline in activity in the PMA's clearing house during the 4<sup>th</sup> quarter of 2006. This decline was in the number and value of checks presented for clearance, although there was an increase in the value of bounced checks.

### 5.8.1 Checks Presented for Clearing

The number of checks presented for clearing declined in Ramallah, Nablus and Gaza in all currencies (USD, JD, NIS, Euro). In the 4<sup>th</sup> quarter of 2006 this came to 571,844 checks compared to 583,073 in the previous quarter, a decline of 1.9%. Dollar-denominated checks presented for clearing declined from US\$1,337 million in the 3<sup>rd</sup> quarter to US\$1312.1 million in the 4<sup>th</sup> quarter (see figure 7).

**Figure 7: Trends in Checks Presented for Clearance by Quarters: 2005 and 2006**



Source: PMA, Monthly Statistical Bulletin, various issues.

<sup>4</sup> Provisions are set by banks to meet expected and unexpected risk on credit and are usually 1.25%-1.5% of total profits.

## 5.8.2 Bounced Checks

The number of bounced checks across all currencies dropped by 2.6% in the 4<sup>th</sup> quarter arriving at 97,415 compared to 99,987 checks in the previous quarter. Meanwhile, the value of bounced checks increased to exceed their value in the previous quarter by 21%, an increase from US\$115.5 million in the 3<sup>rd</sup> quarter to US\$139.8 million in the last quarter (see table 30). This might be a direct result of the blockade that was imposed on the Palestinian Territory resulting in public servants not being paid.

**Table 30: The Number and Value of Checks Presented for Clearing and the Percentage of Bounced Checks by Quarter 2005 and 2006**

period	Checks Presented for Clearing		Bounced Checks		Percent Bounced	
	Number of checks	Value of checks (million \$)	Number of checks	Value of checks (million \$)	Number %	Value %
Q2, '05	541,787	1308.4	68,583	79.7	13	6.1
Q3, '05	601,593	1391.4	80,114	104.6	13	7.5
Q4, '05	642,026	1446.3	91,594	109.2	14	7.6
Q1, '06	592,359	1309.3	97,066	117.5	16	8.9
Q2, '06	583,983	1293.4	109,581	104.6	19	8.1
Q3, '06	583,073	1337	99,987	115.5	17	8.6
Q4, '06	571,844	1312.1	97415	139.8	17	10.7

Source: PMA, Monthly Statistical Bulletin, various issues.

## 5.9 Exchange Rate Spread

The exchange rate of various currencies against the Shekel was relatively stable. Table 31 illustrates the exchange rate for the Dollar and the Shekel in banks operating in the Palestinian Territory, banks in Israel, money changers and street money exchangers. Upon comparison, data indicates that the Dollar exchange rate against the Shekel was stable in the Palestinian Territory and slightly increased in Israel; the exchange rate for the Dollar against the Shekel was quoted at 4.2 on 5 March 2007, the same rate quoted on 6 December 2006 in the Palestinian Territory. In Israel, the Dollar exchange rate against the Shekel was quoted at 4.15 on 5 March 2007 compared to 4.12 on 6 December 2006, an increase of 0.7%. The exchange rate spread increased in the Palestinian Territory from 0.87% on 6 December 2006 to 0.91% on 5 March 2007. In Israeli banks the spread decreased from 4.73% to 3.8% during the same period.

**Table 31: Dollar Exchange Rate against the Israeli Shekel in March 5, 2007**

Facility	Buying Price	Selling price	Spread	Difference (%)
<b>Street Money Changers</b>				
Street Money Changer 1	4.20	4.22	0.02	0.48
Street Money Changer 2	4.20	4.23	0.02	0.47
Street Money Changer 3	4.21	4.23	0.02	0.47
<b>Average</b>	<b>4.21</b>	<b>4.23</b>	<b>0.02</b>	<b>0.47</b>
<b>Exchange Bureaus</b>				
Ramallah	4.21	4.23	0.02	0.47
Nablus	4.22	4.24	0.02	0.47
Bethlehem	4.21	4.23	0.02	0.47
<b>Average</b>	<b>4.21</b>	<b>4.23</b>	<b>0.02</b>	<b>0.47</b>

Facility	Buying Price	Selling price	Spread	Difference (%)
<b>Palestinian Banks</b>				
Ramallah	4.19	4.28	0.09	2.1
Nablus	4.18	4.28	0.10	2.4
Bethlehem	4.18	4.22	0.04	1.0
<b>Average</b>	<b>4.18</b>	<b>4.26</b>	<b>0.08</b>	<b>1.8</b>
<b>Average in the OPT</b>	<b>4.20</b>	<b>4.23</b>	<b>0.04</b>	<b>.091</b>
<b>Israeli Banks</b>				
Bank Hapoalim	4.20	4.27	0.07	1.7
Israel Discount Bank	4.13	4.33	0.19	4.7
Bank Leumi	4.12	4.33	0.21	5.0
<b>Average in Israel</b>	<b>4.15</b>	<b>4.31</b>	<b>0.16</b>	<b>3.8</b>

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

The JD exchange rate against the Shekel remained unchanged in the Palestinian Territory, but increased in Israel. In the Palestinian Territory, the JD exchange rate was quoted at 5.93 in March 2007, unchanged from its rate in December 2006; in Israel the JD/Shekel exchange rate increased from 5.76 and 5.81 during the same period, an increase of 0.86%.

The exchange rate spread for the JD against the Shekel increased in the Palestinian Territory but decreased in Israel. The spread increased in the Palestinian Territory from 0.75 in December 2006, to 1.06% in March 2007. In Israel, it decreased from 7.51% to 7.52% during the same period. This could be attributed to the intense competition in the currency exchange market in the Palestinian Territory in comparison with Israel. Indeed, Palestinian citizens use the Dollar on a daily basis, while the Dollar is only used in Israel for banking transactions.

**Table 27: Exchange Rate for the JD against the Israeli Shekel in March 5, 2007**

Facility	Buying Price	Selling price	Spread	Difference (%)
<b>Street Money Changers</b>				
Street Money Changer 1	5.92	5.96	0.04	0.67
Street Money Changer 2	5.94	5.98	0.03	0.50
Street Money Changer 3	5.93	5.98	0.04	0.67
<b>Average</b>	<b>5.93</b>	<b>5.97</b>	<b>0.04</b>	<b>0.62</b>
<b>Exchange Bureaus</b>				
Ramallah	5.95	6.00	0.05	0.84
Nablus	5.95	5.98	0.02	0.50
Bethlehem	5.95	6.00	0.02	0.84
<b>Average</b>	<b>5.95</b>	<b>5.99</b>	<b>0.02</b>	<b>0.73</b>
<b>Palestinian Banks</b>				
Ramallah	5.93	6.02	0.09	1.50
Nablus	5.92	6.03	0.11	1.84
Bethlehem	5.86	5.99	0.13	2.2
<b>Average</b>	<b>5.90</b>	<b>6.01</b>	<b>0.011</b>	<b>1.84</b>
<b>Average in the OPT</b>	<b>5.93</b>	<b>5.98</b>	<b>0.04</b>	<b>1.06</b>
<b>Israeli Banks</b>				
Bank Hapoalim	5.91	6.04	0.39	2.18
Israel Discount Bank	5.77	6.29	0.51	8.6
Bank Leumi	5.75	6.20	0.45	7.5
<b>Average in Israel</b>	<b>5.81</b>	<b>6.18</b>	<b>0.45</b>	<b>6.1</b>

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

The Euro exchange rate was also stable in the Palestinian Territory, but it declined in Israel by 0.7%. The Euro exchange rate remained unchanged at 5.55 in December 2006 and March 2007. However, in Israel it declined from 5.48 to 5.44 during the same period. The exchange rate spread on the Euro declined in the Palestinian Territory increased from 1.33% in December to 1.35% in March. This spread increased in Israel from 4.81% to 3.84% during the same period.

**Table 28: Euro Exchange Rate against the Shekel  
March 5, 2007**

Facility	Buying Price	Selling price	Spread	Difference (%)
<b>Street Money Changers</b>				
Street Money Changer 1	5.48	5.54	0.06	1.08
Street Money Changer 2	5.50	5.55	0.05	0.90
Street Money Changer 3	5.55	5.57	0.02	0.36
<b>Average</b>	<b>5.51</b>	<b>5.55</b>	<b>0.04</b>	<b>0.78</b>
<b>Exchange Bureaus</b>				
Ramallah	5.50	5.55	0.05	0.90
Nablus	5.48	5.52	0.04	0.73
Bethlehem	5.50	5.55	0.05	0.90
<b>Average</b>	<b>5.49</b>	<b>5.54</b>	<b>0.05</b>	<b>0.85</b>
<b>Palestinian Banks</b>				
Ramallah	5.49	5.60	0.11	1.98
Nablus	5.43	5.68	0.25	4.50
Bethlehem	5.40	5.68	0.28	5.05
<b>Average</b>	<b>5.44</b>	<b>5.65</b>	<b>0.21</b>	<b>3.84</b>
<b>Average in the OPT</b>	<b>5.55</b>	<b>5.62</b>	<b>0.07</b>	<b>1.34</b>
<b>Israeli Banks</b>				
Bank Hapoalim	4.20	4.27	0.07	1.7
Israel Discount Bank	4.13	4.33	0.19	4.7
Bank Leumi	4.12	4.33	0.21	5.0
<b>Average in Israel</b>	<b>4.15</b>	<b>4.31</b>	<b>0.16</b>	<b>3.8</b>

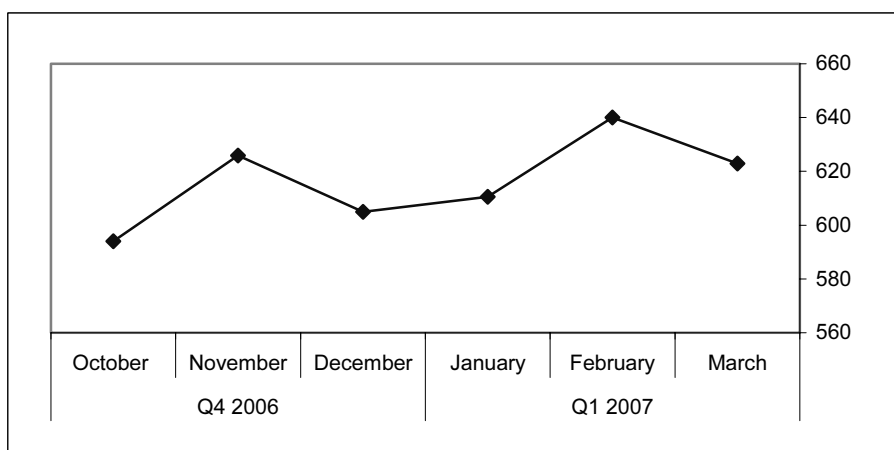
Source: collected by MAS through a field survey carried out in Ramallah, Nablus, and Bethlehem and telephone calls to Israeli banks.

## 6. Stock Market

The political instability, including the crises related the national unity government, adversely affected the performance of the Palestine Securities Exchange (PSE). Investors were anxious to see what the newly-appointed government's program would be before making any decisions. However, the latest developments and enhancements applied to the stock market, together with companies handing in their financial reports on time, have led to improvements in certain market performance indicators.

Trading volumes increased by 37.1% during the 1st quarter of 2007 to reach US\$256.2 million. The number of traded stocks increased by 55.7% reaching 91.7 million shares, and market capitalization reached US\$8.2 billion, an increase of 203.7%. The number of trade deals increased from 41,241 to 44,501 between the two quarters, an increase of 7.9%. There were also 5 more trading sessions than in the last quarter of 2006, totaling 66. Finally, the Al-Quds index registered 622.87 points at the end of the 1st quarter of 2007, an increase of just under 3% over its level in the 4th quarter of 2006.

**Figure 7: Alquds Index during 4<sup>th</sup> Quarter 2006 and 1<sup>st</sup> Quarter 2007**



Source: www.p-s-e.com

## 7. Prices and Purchasing Power

It was expected that inflation would remain stable given the current economic conditions, which are characterized by low aggregate demand. However, a slight decrease in international prices occurred during the recent period, which led to a decline in the prices of imported goods. Consequently, the 4<sup>th</sup> quarter of 2006 witnessed a slight decline in the CPI in the Palestinian Territory. However, the rate of price decline was not uniform across the Palestinian regions; Jerusalem registered the highest decline, followed by the Gaza Strip, while the remaining West Bank registered a slight increase. Moreover, the effect of the decline of imported goods was relatively higher than the decline in prices of locally-produced goods. The following details changes in prices during the 4<sup>th</sup> quarter of 2006.

### 7.1 Prices

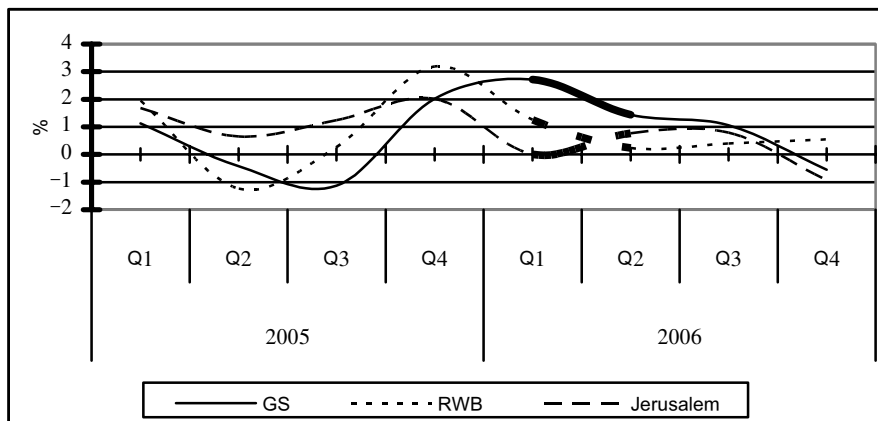
Price data for 2006 indicate a decline of 0.13% in the CPI in the Palestinian Territory (in Shekels) during the 4<sup>th</sup> quarter, compared to an increase of 0.72% in the previous quarter of 2006. Prices declined in Jerusalem from 0.95% in the 1<sup>st</sup> quarter of 2007, compared to an increase of 1.06% in the previous quarter. Likewise, prices in the Gaza Strip declined by 0.55% in the 1<sup>st</sup> quarter of 2007 after having increased in the previous quarter by 0.40%. However, prices in the West Bank increased by 0.55%, following an increase of 0.79% in the previous quarter (see figure 9).

The declines in telecommunications and transportation services, a drop of 2.12%, and in the prices of gasoline and fuel, are behind the overall decline in the CPI. Meanwhile, prices of food, other goods, textiles, footwear, education and recreational services all witnessed an increase.

Prices of durable goods such as household appliances registered an increase of 0.74% during the 4<sup>th</sup> quarter of 2006 in comparison to the previous quarter. On the other hand, prices of perishable goods (food, cigarettes, etc.) declined by 0.09% during the same quarter. Semi-durable goods (textile, clothes and footwear) also declined by 0.03% in the 4<sup>th</sup> quarter.



**Figure 9: Inflation Rate Calculated in Shekels in Jerusalem, the Remaining West Bank and the Gaza Strip in 2005 and 2006**



Source: Calculated by MAS from PCBS data on the Consumer Price Index, various issues.

**Table 29: Changes in CPI in the Palestinian Territory by Region and Group in the 3rd and 4th Quarters of 2006\***

Category	Palestinian Territory	RWB	GS	Jerusalem
Food	0.44	1.85	(0.68)	(0.71)
Beverages and tobacco	0.09	0.51	0.02	(0.12)
Textiles, clothing and	(0.07)	0.40	(1.20)	0.18
Housing	(0.25)	(0.23)	(0.21)	(0.39)
Furniture	0.09	0.12	0.21	0.06
Transportation & Telecom	(2.12)	(1.50)	(1.53)	(3.90)
Education services	0.04	0.14	(0.13)	0.00
Healthcare	0.04	(0.32)	0.06	(0.06)
Recreational goods and	0.10	0.09	(0.04)	0.35
Other	0.97	1.41	0.62	0.31
General Price Index	(0.13)	0.55	(0.55)	(0.95)

Source: PCBS, 2006.

\* Figures in brackets indicate a negative value.

With regards to the origin of goods, locally manufactured goods registered an increase of 0.53% during the 4<sup>th</sup> quarter of 2006 while prices of imported goods declined by 0.86%.

## 7.2 Average Prices of Selected Essential Goods

The following section summarizes price movements at the end of the 4<sup>th</sup> quarter of 2006:

### *Sugar, Flour and Rice*

Prices of sugar, flour and rice stabilized in the Gaza Strip in the 4<sup>th</sup> quarter after increasing in the earlier quarters. Sugar and flour prices increased in the West Bank by 1.29% and 0.17%, respectively.

### ***Fuel***

Gasoline prices in the Palestinian Territory declined in the 4<sup>th</sup> quarter of 2006 resulting from the general decline in world prices. In fact, the price of one liter of gasoline in the West Bank and Gaza Strip declined by 9.65% compared with the previous quarter, and by 4.55% in comparison to the same quarter of 2005. Gas prices were stable during the same period, with the price of a cylinder of gas at NIS 36.

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

Data shows that the prices of powdered baby milk and olive oil increased in the Palestinian Territory. In the West Bank, baby milk prices increased by 0.9%, while the price was unchanged in the Gaza Strip. Olive oil prices increased in the Gaza Strip by 3.84% but decreased in the West Bank by 14.8%. Data shows that a tangible decrease occurred with the price of one liter of olive oil, which fell from NIS 22.82 in the 4<sup>th</sup> quarter of 2005 to NIS 20.44 during the same quarter of 2006. In the Gaza Strip, the price of one liter increased from NIS 21 to NIS 22.55 in the same period.

### ***Tomatoes and Potatoes***

During the 4<sup>th</sup> quarter of 2006, tomato prices registered an increase of 49.4% and 12.1% in the West Bank and Gaza Strip, respectively. Similarly, potato prices increased in the West Bank and Gaza Strip by 12.7% and 12.6%, respectively.

**Table 34: Average Prices for Selected Prices of Vital Goods  
by Quarters; 2005 and 2006 (NIS)**

Item	Unit	WB			GS		
		Q4 2006	Q3 2006	Q4 2005	Q4 2006	Q3 2006	Q4 2005
Sugar	50 kg	149.84	147.93	119.58	180.00	180.00	120.00
White Flour	60 kg	110.00	109.81	108.25	110.00	110.00	102.50
Rice	25 kg	85.08	85.46	83.25	85.00	85.00	86.50
Tomatoes	1 kg	3.68	2.46	3.02	2.25	2.01	1.88
Potatoes	1 kg	3.17	2.81	2.85	2.63	2.34	1.92
Gasoline 96 Octane	1 liter	5.43	6.01	5.20	5.43	6.01	5.20
Gas Cylinder	12 kg	36.00	36.00	42.17	36.00	36.00	42.17
Powdered Milk	2.5 kg	84.86	84.09	82.34	80.00	80.00	80.00
Olive Oil	1 kg	20.44	23.99	22.82	22.55	21.72	21.00

Source: PCBS, 2006.

## **7.3 Purchasing Power**

This section is concerned with the purchasing power of the USD and the JD. Data shows that the purchasing power of both currencies has declined. The exchange rate for both the Dollar and the Dinar against the Shekel declined during the 4<sup>th</sup> quarter, by 3.01% and 2.83% respectively. Despite the decline of 0.13% in the CPI in the Palestinian Territory, the decline in the exchange rate was relatively higher, thus causing a depreciation of the purchasing power for both the Dollar (4.74%), and the Dinar (4.26%) (see figure 10).

Assessment of the purchasing power by region reveals that the purchasing power of the USD and the JD declined in the Gaza Strip by 2.7% and 4.11% respectively.

**Table 35: Exchange Rates for the Dollar and the JD against the Shekel up to the 4th Quarter of 2006**

Year	US\$/NIS	JD/NIS
<b>2004</b>	<b>4.48</b>	<b>6.31</b>
Q1- 2005	4.35	6.15
Q2- 2005	4.40	6.21
Q3- 2005	4.53	6.39
Q4- 2005	4.66	6.55
<b>2005</b>	<b>4.49</b>	<b>6.32</b>
Q1- 2006	4.66	6.61
Q2- 2006	4.46	6.37
Q3- 2006	4.39	6.18
Q4- 2006	4.25	6.00

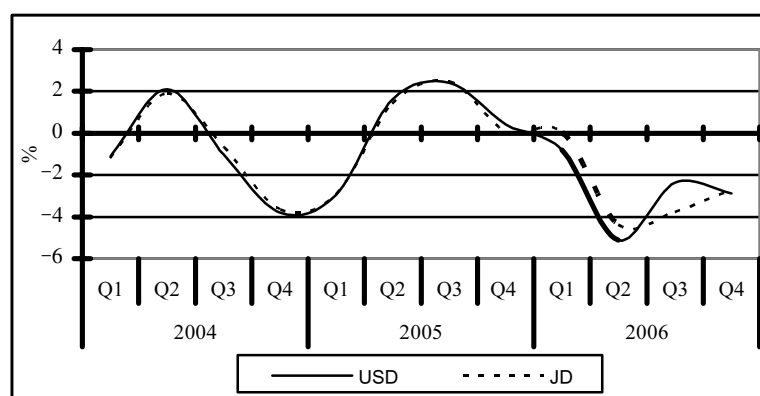
Source: Calculated by MAS from Consumer Price Index released by PCBS, various issues.

**Table 36: Developments in Purchasing Power of the Dollar and the JD in the West Bank, Gaza Strip and Jerusalem up to 4<sup>th</sup> Quarter 2006 (%)**

Region	Currency	2004	Q1 2005	Q2 2005	Q3 2005	Q4 2005	2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006	2006
Palestinian Territory	USD	(4.57)	(2.93)	1.60	2.42	0.42	(3.31)	(0.8)	(5.0)	(2.36)	(2.87)	(4.74)
	JD	(4.61)	(2.95)	1.4	2.48	0.06	(3.33)	0.07	(4.37)	(3.77)	(2.69)	(4.26)
RWB	USD	(4.46)	(3.01)	2.39	2.57	(0.36)	(2.73)	(1.10)	(4.59)	(2.04)	(3.56)	(4.98)
	JD	(4.50)	(3.04)	2.18	2.63	(0.72)	(2.75)	(0.24)	(3.86)	(3.45)	(3.37)	(4.50)
Jerusalem	USD	(12.03)	(2.74)	0.5	1.59	0.81	(5.18)	0.16	(5.13)	(2.43)	(2.05)	(4.02)
	JD	(12.07)	(2.76)	0.29	1.64	0.45	(5.20)	1.02	(4.40)	(3.84)	(1.87)	(3.54)
GS	USD	(4.75)	(2.19)	1.57	3.95	0.81	(1.01)	(2.56)	(5.80)	(2.70)	(2.45)	(6.07)
	JD	(4.79)	(2.21)	1.36	4.01	0.45	(1.03)	(1.70)	(5.07)	(4.11)	(2.27)	(5.59)

Source: Calculated by MAS from Consumer Price Index release by PCBS, various issues. Figures in brackets are negative

**Figure 10: Developments in Purchasing Power of the JD and Dollar in the Palestinian Territory by Quarter: 2004-2006**



Source: Calculated by MAS from PCBS data, Consumer Price Index.

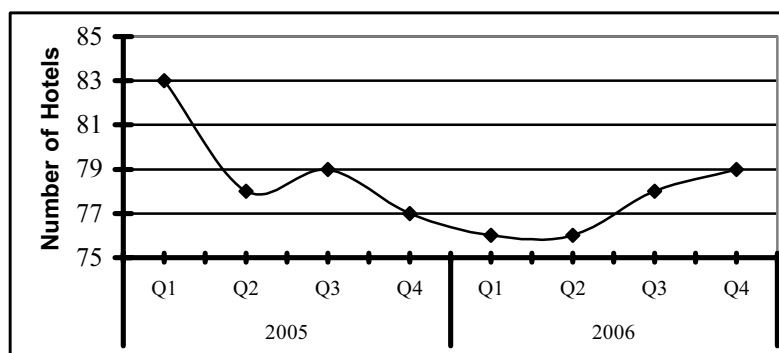
## 8. Tourism

### 8.1 Hotel Activity

There was an increase in the number of hotels to 79 in the 4<sup>th</sup> quarter of 2006 compared to the previous quarter (see figure 11). Hotels were distributed 46 in the West Bank, 21 in Jerusalem and 12 in Gaza. The total number of hotel rooms reached 4,079.

The number of hotel guests in the Palestinian Territory reached 37,008 in the 4<sup>th</sup> quarter of 2006 – an increase of 10.8% compared to the 3<sup>rd</sup> quarter of 2006. The majority of hotel guests stayed in Jerusalem (51.5%). Hotels in the center of the West Bank accommodated 22.4% of hotel guests in the Palestinian Territory, southern West Bank hotels accommodated 21.3%, hotels in the northern West Bank accommodated 3.3%, and Gaza Strip hotels accommodated 1.5%.

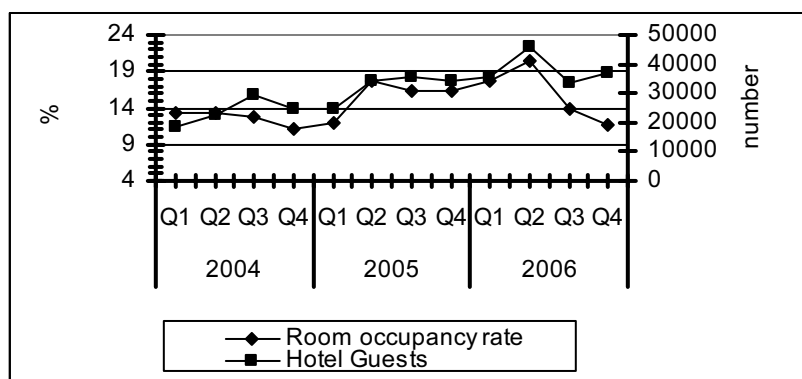
**Figure 11: Number of Operating Hotels in the Palestinian Territory during the 3<sup>rd</sup> Quarter of 2006**



Source: PCBS, Hotel Activities in the Palestinian Territory.

The number of hotel guests in the Palestinian Territory increased by 10.8% between the 3<sup>rd</sup> and 4<sup>th</sup> quarters of 2006. This increase was mainly concentrated in Southern West Bank hotels, while hotel guests in Jerusalem, central West Bank (Ramallah and Jericho), Southern West Bank and Gaza, declined. Room occupancy rates decreased from 13.9% in the 3<sup>rd</sup> quarter to 11.8% in the 4<sup>th</sup> quarter of 2006.

**Figure 12: The Number of Hotel Guests and Room Occupancy Rates in the Palestinian Territory by Quarters 2004-2006**



Source: PCBS, Hotel Activities in the Palestinian Territory

The number of hotel workers increased by 1.2%, to reach 1,302, of which 176 were women. Hotel workers were distributed in the following fashion: 688 in the West Bank, 401 in Jerusalem and 213 in the Gaza hotels (see Figure 12).

## 9. Infrastructure

### 9.1 Building Licenses

Quarterly building licenses data is best analyzed by comparing the same quarter of different years, which takes into account the significant seasonal variation in construction-sector activity. During the 4<sup>th</sup> quarter of 2006, there was a drop of 62.7% in the number of licenses issued, compared to the same period in 2005, reaching 821 licenses. This number is also 66% less than the number of building licenses issued in the 4<sup>th</sup> quarter of 1999 before the outbreak of the *Intifada*. Licenses for new buildings made up almost 80% of the total building licenses issued during the 4<sup>th</sup> quarter of 2006, while extensions to existing buildings constituted 20% of the total.

The total area of licensed buildings during the 4<sup>th</sup> quarter of 2006 reached almost 365 thousand square meters, a 56% decrease compared with the 4<sup>th</sup> quarter of 2005. This figure is also 56% less than the 4<sup>th</sup> quarter of the year 2000. The area licensed for new buildings and existing buildings was 280.6 thousand m<sup>2</sup> and 84.3 m<sup>2</sup> respectively. This amounts to a decrease of 55.1% for new buildings and a decrease of 58.6 % for existing buildings from the 4<sup>th</sup> quarter of 2005. Residential buildings represented roughly 80.4% of the new-built area and 91.5% of the existing area. Non-residential buildings constituted 19.6% of new areas and 8.5% of the existing areas.

**Table 37: Building Licenses and Licensed Areas Selected Indicators in the Remaining West Bank and Gaza Strip 1999, 2005, and 2006**

Indicator	Licensed areas (thousand squared meters)		
	Q4 1999	Q4 2005	Q4 2006
<b>Total Area of licensed building</b>	<b>826.2</b>	<b>829.0</b>	<b>364.9</b>
◇ <b>New areas</b>	<b>700.4</b>	<b>625.3</b>	<b>280.6</b>
Residential buildings	548.6	523.0	225.5
Non-residential buildings	151.8	102.3	55.1
◇ <b>Existing Areas</b>	<b>125.8</b>	<b>203.7</b>	<b>84.3</b>
Residential buildings	116.5	184.0	77.1
Non-residential buildings	9.3	19.7	7.2

Source: Statistics on building licenses, 4<sup>th</sup> Q 1999 and 2006, PCBS.

### 9.2 Cement Imports

Cement imports are closely related to the construction industry and are therefore dependent on similar variables to that of the number of building licenses. For the same reason, therefore, the data from the 4<sup>th</sup> quarter of 2006 will be compared with that of the 4<sup>th</sup> quarter in 2005. Data reveal a decrease of 21% in the import of cement as compared to the 4<sup>th</sup> quarter of 2005, reaching almost 319.3 thousand tons.

Cement imports to the West Bank totaled 237.6 thousand tons in the 4<sup>th</sup> quarter of 2006 – 8.3% less than that of the same quarter in the previous year. The Gaza Strip imported 81.7 thousand tons in the 4<sup>th</sup> quarter of 2006, this figure equaled 25.6% of the total quantity of cement imported to the Palestinian Territory. Compared to the 4<sup>th</sup> quarter of 2005, this is a drop of 44% (see table 38).

**Table (38): Cement Imports into the Palestinian Territory for the 4<sup>th</sup> Quarter of 2003-2006 (thousand tons)**

Period	Palestinian Territory	West Bank	Gaza Strip
4 <sup>th</sup> Quarter 2003	289.9	173.8	116.2
4 <sup>th</sup> Quarter 2004	338.6	207.2	131.5
4 <sup>th</sup> Quarter 2005	406.9	259.1	147.8
4 <sup>th</sup> Quarter 2006	319.3	237.6	81.7

Source: Statistics on imported cement, PCBS, 2006

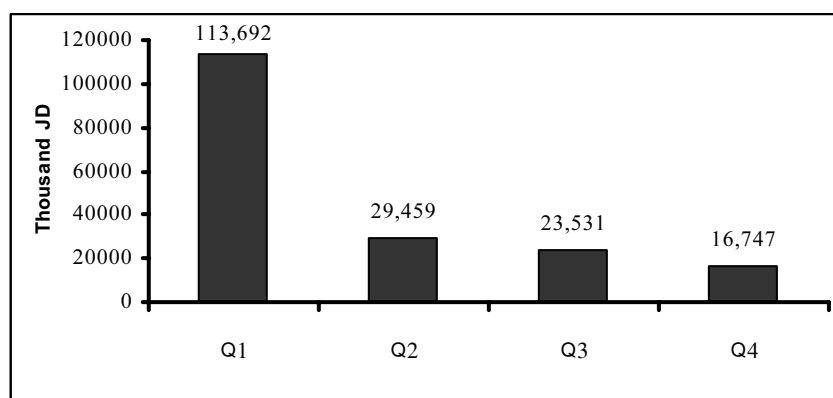
### 9.3 Company Registration

Company registration is used in many countries as an indicator of the investment climate, and provides a useful tool to trace the direction of investment flows. When the investment climate improves – because of improvements in either the political or economic environment – the demand for company registration increases, even if the company is not intended to be operational immediately.

Data on company registration indicates that the investment climate in the Palestinian Territory deteriorated in the 4<sup>th</sup> quarter of 2006 compared to its previous quarter. The number of new companies registered declined by 55.5%, to just 72 companies. Similarly, the value of investment capital also dropped by 28.8%, to reach JD 16.7 million (see figure 13). This deterioration in investments is attributed to the public sector strike in October and December of 2006 which, amongst other things, obstructed the administration of company registration.

Company registrations in the West Bank fell sharply by 85.5%, with only 12 new companies in the period, while the value of investment capital also decreased by 47.5%, reaching just JD 8.3 million. Conversely, the Gaza Strip saw an increase in the number of registered companies with 54 new companies being registered (a 42.1% increase). The value of investment capital in the Strip also rose, reaching JD 8.4 million (a 9.9% increase).

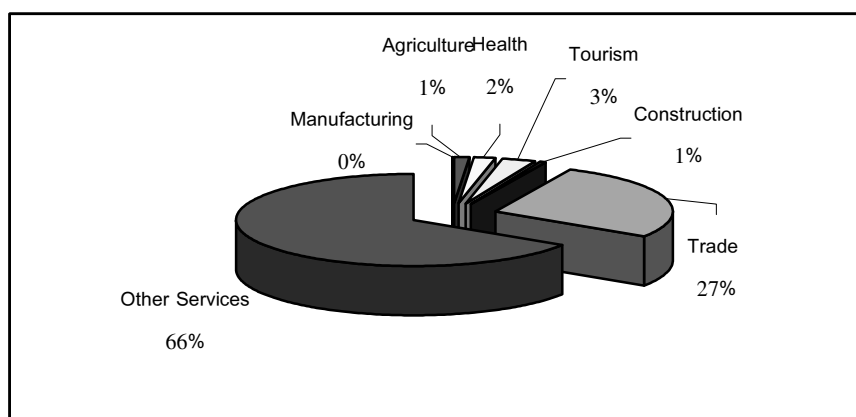
**Figure 13: Total Capital for Newly Registered Companies in the Palestinian Territory in JD for the year 2006, by Quarter**



Source: Ministry of National Economy, Department of Company Registration, 2007

Figure 14 shows that the majority of the investment capital for newly registered companies was concentrated in the service sector (66%), compared with 25% in the 3<sup>rd</sup> quarter, while the share of all other sectors decreased. The most noticeable decrease was in the commercial sector, whose share of investment capital fell from 51% in the 3<sup>rd</sup> quarter of 2006 to 27% in the 4<sup>th</sup> quarter of the same year.

**Figure 14: Distribution of Newly Registered Companies' Capital in the Palestinian Territory, by Economic Activity for the 4<sup>th</sup> Quarter of 2006**



Source: The Ministry of National Economy, Department of Company Registration, 2007

With regard to the legal classification of newly registered companies, data shows that West Bank companies with the largest capital were public shareholding companies, comprising 84.9% of the total, compared with 0% in the previous quarter. The total share of capital in private shareholding companies in the 4<sup>th</sup> quarter of 2006 was 12.9%, compared to 56% in the previous quarter. Ordinary public companies contributed only 2.2%, against 23% in the 3<sup>rd</sup> quarter of 2006 (see table 39).

**Table 39: The Distribution of Capital for New Registered Companies in the West Bank by Legal Classification for the year 2006 by Quarter (JD)**

Quarter	Legal Form							Total
	Public Ordinary	Private Shareholding	Public Shareholding	Foreign Private Shareholding	Foreign Ordinary	Foreign Public Shareholding	Ordinary Limited	
Q1	6,386,000	47,394,920	14,950,691	4,000,000	0	0	0	72,731,611
Q2	6,323,120	8,336,200	0	780,000	0	0	0	15,439,320
Q3	3,971,400	8,859,200	0	2,900,000	0	0	150,000	15,880,600
Q4*	180,000	1,081,600	7,080,000	0	0	0	0	8,341,600

Source: The Ministry of National Economy, Department of Company Registration, 2006.

\* 4<sup>th</sup> quarter includes only November due to the public strike in October and December.

Legal classification for companies in the Gaza Strip is different from that in the West Bank. Companies in Gaza are categorized under three legal classifications; ordinary companies, public shareholding companies, and private shareholding companies. Table 40 illustrates that 100% of newly registered companies in Gaza were private shareholding companies, a similar situation to that in the previous quarter.

**Table 40: The Distribution of Capital for New Registered Companies in the Strip by Legal Classification for the year 2006 by Quarter (JD)**

Quarter	Legal Form			Total
	Ordinary Company*	Public Shareholding	Private Shareholding	
Q1	20	20,000,000	20,960,000	<b>40,960,020</b>
Q2	37	0	14,020,000	<b>14,020,037</b>
Q3	13	0	7,650,100	<b>7,650,113</b>
Q4	18	0	8,405,000	<b>8,405,018</b>

Source: The Ministry of National Economy, Department of Company Registration, 2006

\* According to Egyptian law, companies are allowed to register with zero capital, explaining the low JD in Ordinary Companies

## **10. Expectations of Owners and Managers of industrial Establishments**

A survey about the expectations of owners and managers of industrial establishments reveals a consensus among them on two issues: first, the belief that general conditions with regard to employment have deteriorated in comparison with the previous month, and secondly, that managers were optimistic that the situation will improve in the future. The following section summarizes the surveys' principle findings<sup>5</sup>.

### **10.1 Industrial Establishments' General Performance**

Results of the survey indicate that 22.4% of owners and managers of industrial establishments found the general performance of their establishments had deteriorated during January 2007, compared to December of 2006 when 29.6% of those surveyed felt the same way. The majority, 60.6% of those surveyed, did not notice any significant change. Approximately 32.1% of owners and managers expected the general performance of their establishments to improve within the next month. Furthermore, 55.2% believed that the general performance of their establishments would improve over the next 6 months.

### **10.2 Production**

Twenty-eight percent of owners and managers of industrial establishments indicated that production had deteriorated in comparison with the previous month of December 2006. Moreover, 11.4% indicated that industrial establishments now faced more difficulties in obtaining raw materials and inputs for production. About 36% of respondents believed that levels of production at their establishments would improve in January 2007 in comparison to their levels in December 2006. The majority, 69.7%, believed that production would improve over the first six months of 2007.

<sup>5</sup> The Industrial survey of 2004 was adopted as a framework for preliminary sampling. Moreover the survey was limited to establishments that contribute to 70% of the total industrial output, excluding establishments that employ fewer than 20 work



### **10.3 Employment**

According to 11.1% of respondents, employment levels had decreased; 12.5% laid off workers in January 2007 and just 7.2% hired new employees. The data also shows that 14.6% of owners and managers were optimistic that employment levels would increase in February 2007, while 14.6% also expected employment levels to improve within the first 6 months of the same year.

As for productivity, 22% of owners and managers of industrial establishments said that workers' productivity had declined in their establishments.

### **10.4 Financial Position and Borrowing**

Approximately a quarter (25.5%) of establishment owners and managers stated that the financial standing of their establishments had deteriorated in January 2006. Nearly 10.2% indicated that borrowing from banks had become more difficult. About 25% of respondents expected their financial standing to improve within the next month and 46.2% expected their financial standing to improve within the next six months.

### **10.5 Sales and Competition**

According to 36% of owners and managers of industrial establishments in the Palestinian Territory there had been a decline in sales. In their opinion (the average being 42.5% of all respondents), the decline is due to a decline in purchasing power – 38.9% of the West Bank and 54.6% of the Gaza Strip respondents pointed to this reason. Seasonal reasons ranked second, with 19.9% of owners and managers indicating this as a reason for the decline in sales. Another 9.6% blamed Israeli roadblocks, checkpoints and closures. An increase in sales volume in the short term was expected by 35.8% of respondents, while 69.5% of respondents expected better sales in the first six months of 2007.

With regard to competition, 91.2% of respondents in the West Bank and 94.4% of respondents in the Gaza Strip indicated that their main product faced competition in the market. As for the source of competition, 77.9% indicated that their main competitor was local and not foreign.

## **11. Arboriculture Survey 2006**

This survey aimed to provide a variety of data regarding trees grown in the Palestinian Territory. The total area of land dedicated to tree holdings is roughly 1,306.5 thousand dunums. The vast majority of this (98.7%) is actually cultivated with trees (92.3% fruit-bearing and 7.7% non-fruit-bearing), while the remainder is divided between buildings and roads, making up 1.2% of land use, and arboretums, comprising just 0.1%.

Data shows that 91.8% of the total area planted with trees is rain-fed. Irrigated arboriculture is mainly concentrated in the Gaza Strip where it accounts for 90.5% of the total area cultivated. In the West Bank, 93.8% of cultivated land is rain-fed.

60.9% of total tree holdings in the Palestinian Territory are small-sized holdings of 1-10 dunums. The total number of arboriculture holdings is 70,209. As for the age of the trees, 31.0% are 5-20 years old, 21.6% between 21 and 40 years, and 11.1% are more than 60 years old.

The survey also shows that 95.1% of the commercial tree owners in the Palestinian Territory are male, and 25.8% have a household size of 10 persons or more. It also reveals that 19.9% of the tree owners who work on their land have only completed their elementary education, while 11.4% have a bachelor's degree and above.

The results indicate that 78.3% of employment in arboriculture is temporary, with just 21.7% of the workers enjoying a permanent job. 69.3% of employees are male, and the remaining 30.7% being female. The data also reveal that 49.6% of those employed are unpaid family members, 34.9% are employed by others, 7.7% are self-employed and 7.8% are employers themselves.

The survey also illustrates that 82.3% of the total tree horticulture holdings used pruning techniques, 58.4% used ‘traditional’ cultivation methods, 42.7% farmed without chemical materials, and 45.7% used pesticides.

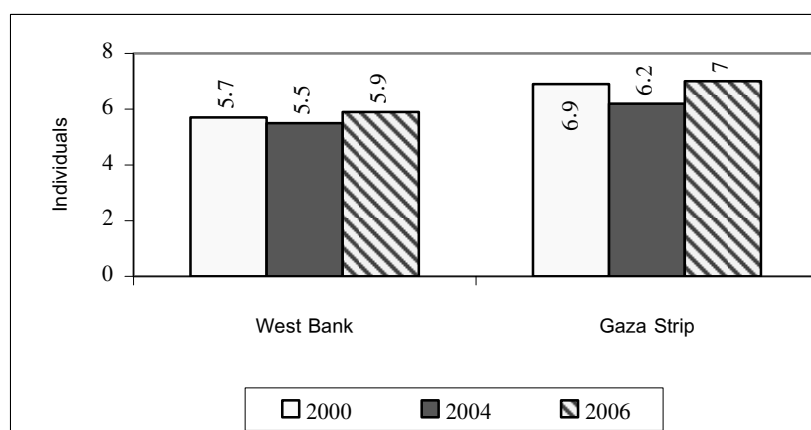
The total production value of tree horticulture production in the Palestinian Territory was US\$240.5 million, while production costs totaled US\$47.6 million. The total value-added of tree horticulture production in the Palestinian Territory therefore equaled US\$192.9 million.

The agriculture sector has been facing continuous damage due to Israeli measures. Data shows that from the beginning of *Al Aqsa Intifada* in September 2000 to August 2006, 23.2% of tree holdings in the Palestinian Territory were damaged; 22.5% of West Bank holdings and 33.7% of the Gaza Strip’s.

## 12. Demographics

The Palestinian population in the Palestinian Territory reached 3.95 million by the end of 2006, 63% in the West Bank and the rest in the Gaza Strip<sup>6</sup>. The family health survey<sup>7</sup> showed that the average family size was 6.3 members – 5.9 members in the West Bank and 7 members per family in Gaza Strip. These results indicate that this average has increased once again compared to the year 2004. According the health survey of 2004, the average family size was 5.7 members, whilst in 2000 it reached 6.1. These fluctuations are parallel in both the West Bank and Gaza Strip (see figure 15).

**Figure 15: Average Family size in the Palestinian Territory for the years 2000, 2004, and 2006**



Source: Palestinian Family Health Survey, PCBS, 2006: Initial report, Ramallah, Palestine.

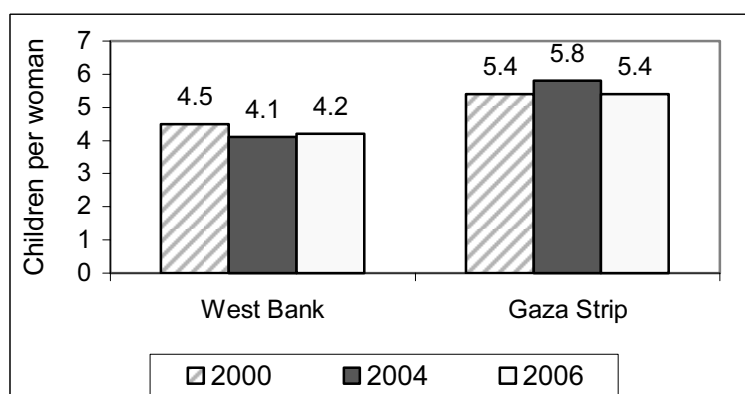
Family size differed between governorates, ranging in the West Bank from 5.4 members in Jerusalem to 6.5 in Hebron, and in the Gaza Strip from 6.9 in Deir Elbalah and Khan Younis to 7.1 members in the rest of Gaza's governorates.

<sup>6</sup> PCBS, 2006, The Demographic, Economic and Social Conditions for the Palestinian People at the end of 2006, Ramallah, Palestine.

<sup>7</sup> The survey covered 11,661 families in the West Bank and Gaza Strip. Data was gathered in the period of 1 Nov 2006 – 20 Jan 2007. The ‘Youth and Elderly’ survey was conducted between 10 Dec 2006 and 20 March 2007.

The data shows stability in fertility rates in the Palestinian Territory from 2004 to 2006, reaching 4.6 children per woman in both years, compared with 4.9 in the year 2000. However, fertility rates differed between the West Bank and Gaza Strip. In the West Bank, the rate declined in 2004 compared with 2000, and then slightly increased in 2006. In contrast, fertility rates in Gaza increased in 2004, relative to 2000, and then declined in 2006 back to the rate of 2000 (see figure 16).

**Figure 16: Average Fertility Rate in the Palestinian Territory for years 2000, 2004, and 2006**



Source: Palestinian Family Health Survey, PCBS, 2006: Initial report, Ramallah, Palestine

The year 2006 witnessed an increase in infant mortality rates by 4.5% compared with 2004. There was an increase from 24.2 deaths for every 1,000 births to 25.3 per thousand – reversing the previous trend where deaths had decreased by 5.1% between 2000 and 2004, when they fell from 25.5 per thousand. Data also shows that mortality rates for children under 5 years remained roughly the same between 2000 (28.7 per thousand), 2004 (28.3 per thousand), and 2006 (28.2 per thousand)<sup>8</sup>.

The data shows that mortality rates of infants and children under 5 in the Gaza strip are noticeably higher than those in the West Bank (table 41). This difference is possibly explained by the improvement in health services in the West bank in relation to those in Gaza, especially in childhood and mother care services.

**Table 41: Infant and Children Mortality In the West Bank and Gaza Strip for years 2000, 2004, and 2006**

Year	Location		
	West Bank	Gaza Strip	Palestinian Territory
Infant Mortalities			
2000	24.4	27.3	25.5
2004	20.0	30.2	24.2
2006	22.9	28.8	25.3
Children less than 5 years' Mortalities			
2000	27.2	31.2	28.7
2004	23.7	34.8	28.3
2006	25.7	31.7	28.2

Source: Palestinian Family Health Survey, PCBS, 2006: Initial report, Ramallah, Palestine

<sup>8</sup> PCBS, 2007, Palestinian Family Health Survey, 2006: initial report, Ramallah, Palestine, page 27.

In general there is an obvious distinction between the West bank and Gaza Strip in terms of demographic indicators and age structure: 49% of Gaza's population falls within the 0-15 age bracket, compared to 44% in the West Bank. Natural growth rates are also higher in Gaza (3.8%) than in the West Bank (3.0%)<sup>9</sup>.

## 13. Education

The family health survey produced data on Palestinian youths aged 15-29, according to which, 58.8% of this group is studying in schools or higher education institutions (55.2% in the West Bank and 64.4% in the Gaza Strip). The illiteracy rate amongst this age-group was only 1% (0.8% in the West Bank and 1.4% in Gaza). This compares with 58% of the elderly (60 years and above) who are illiterate (56.2% in the West Bank and 61.5% in Gaza).

The survey also shows that the education dropout rate amongst 15-29 year olds is 29.4% for males and 12.6% for females. Males mostly left school due to poor educational achievements, while females mostly dropped out when the family was unable to cover their studying expenses.

Of the three main means of media communication (newspapers, radio and television), watching television was the most widespread behavior among Palestinians aged 15-29 years. Respondents indicated that on a daily basis, 80.7% of them watch television, 49.3% listen to the radio, and only 13.7% read newspapers. Moreover, 31.7% stated that they do not read newspapers at all, while 22.2% don't listen to the radio and just 3.5% never watch television. These results show that television is the main source of information for this age group. The small percentage of newspaper readers reflects a poor trend in reading generally.

## 14. Family Health<sup>10</sup>

### 14.1 General Health

In 2006, 10.1% of the population in the Palestinian Territory suffered from at least one chronic disease diagnosed by a doctor. This figure has steadily increased during the last six years from 5.7% in 2000 to 7.7% in 2004. The increase was observed in both the West Bank and Gaza Strip (see table 42).

**Table 42: Percentage of Population Diagnosed with a Chronic Disease in the Palestinian Territory, by location, for years 2000, 2004, and 2006 (%)**

Year	Location		
	West Bank	Gaza Strip	Palestinian Territory
2000	6.0	4.3	5.7
2004	8.1	6.0	7.7
2006	11.4	8.2	10.1

Source: Palestinian Family Health Survey, PCBS, 2006: Initial report, Ramallah, Palestine

From a gender perspective, females have a higher rate of suffering from a chronic disease than males – this is the case in both the West Bank and Gaza (see table 42).

<sup>9</sup> For more information, see MAS Economic and Social Monitor volume 8.

<sup>10</sup> Data in this section comes from PCBS (2007) *Palestinian Family Health Survey, 2006: initial report*, Ramallah, Palestine

**Table 43: Percentage of population suffering from a chronic disease, by sex and location for the years 2000, 2004, and 2006 (%)**

Year	Location		
	West bank	Gaza Strip	Palestinian Territory
Males			
2000	6.0	4.1	5.1
2004	7.5	5.0	6.6
2006	8.8	7.1	8.2
Females			
2000	7.7	4.9	6.4
2004	9.9	7.1	8.9
2006	14.0	9.4	12.2

Source: Palestinian Family Health Survey, PCBS, 2006: Initial report, Ramallah, Palestine

As for the elderly (60 years and over), more than 64.5% suffer from at least one chronic disease, 20.5% evaluate their health situation as bad, and 14.8% suffer from a disability. Also, 19.8% of Palestinians in the Palestinian Territory are smokers, the percentage higher in the West Bank (22.5%) than in Gaza (14.8%). Smoking is also a more common behavior for males, 37.0% of whom smoke, while just 2.2% of females are smokers.

Data shows a significant increase in the percentage of families that use iodized salt,<sup>11</sup> an increase from 37.4% in 2000 to 85.7% in 2006. This increase is an expected result of the efforts made by the Ministry of Health in raising awareness on the use of iodized salt.

## 14.2 Reproductive Health

Birth control measures are more frequently used in the West bank than in Gaza. Amongst married women aged between 15 and 49, 50.2% make use of such measures –54.9% of them are West Bankers and 41% are Gazans. Of those who regularly use birth control, 24.8% use the coil. Results also show that 98.8% of women who gave birth in the last 5 years received health care throughout their pregnancy, with an average of 7.8 visits from a qualified medical team throughout the gestation period.

The data shows that 96.6% of births in the Palestinian Territory in 2006 took place in health institutions – 98.9% in Gaza Strip, and 95.2% in the West Bank. Just 3.4% of births were in private houses, on the way to hospitals, or at Israeli checkpoints. The percentage of births at checkpoints is the highest in Qalqilya, West Bank, where 11.3% of births in this governorate occur at a checkpoint.

The survey also observes that caesarean births have increased from 8.8% of total births in 2000 to 15% of the total in 2006. The highest percentage of caesarean births is in Jericho (26.3%), while the lowest in Khan Younis and Salfit (12.3%).

As for post-natal medical services, only 30% of the women visited a qualified medical team after birth (29.7% in the West bank, and 30.5% in Gaza Strip).

<sup>11</sup> Iodized salt: food salt that has added iodine and is used to fight malnutrition, the process of adding iodine is done when children suffer lack of iodine or malfunction in the iodine gland.

## 14.3 Childhood Health

The family health survey shows that 97.5% of babies born within the last 5 years have been breast fed, with an average breast-feeding period of 13 months. In 2006, 26.5% of babies aged 5 months and under were completely breastfed.

The survey also illustrates that almost all new infants have had their required vaccines: 98.9% had the polio vaccine, 98.7% took the DPT,<sup>12</sup> 96.7% had the measles vaccine, and 99.1% the BCG<sup>13</sup> for tuberculosis. The percentage of infants receiving all their vaccines according to the Palestinian Ministry of Health agenda is 96.5%, with no difference between males and females.

Data shows that 10.2% of children under the age of five suffered from stunted growth,<sup>14</sup> this percentage reached 13.2% in the Gaza Strip, in comparison to 7.6% in the West Bank. The number of children suffering from chronic wasting is altogether much lower: 1.7% in the West Bank and 1.2% in Gaza. Overall, 2.9% of children under 5 years are underweight – 3.2% in the West Bank and 2.4% in Gaza.

From the perspective of gender, data shows no difference between males and females in malnutrition, but stunting was slightly less widespread amongst females (10%) than males (10.4%) and chronic wasting slightly more widespread among females (1.5%) than males (1.4%). More females aged between 0-5 years are underweight (3.1%) compared to 2.7% of males in the same age group.

## 15. Housing

The majority of families in the Palestinian Territory were provided with a secure source of drinking water in the year 2006, about 87.8% of all families. However, this percentage ranged between 99.6% in Jerusalem and 68.5% in Deir Elbalah in the Gaza Strip. The results of the family health survey shows that 62.7% of Palestinian families use the local water network as a source of drinking water, and 16.1% use mineral water. In Gaza, 45% of Palestinian families depend on gallons of mineral water due to the high concentration of salt in Gaza's main drinking water (see table 44).

**Table 44: Drinking Water Source in the Palestinian Territory by location, 2006**

Drinking Water Source	West Bank (%)	Gaza Strip (%)	Palestinian Territory (%)
Public sewage system	78.0	33.1	62.7
Wells or cisterns connected to the house	13.5	0.2	9.0
Mineral water	1.0	45.5	16.1
Other	7.5	21.2	12.2
Total	100	100	100

Source: Palestinian Family Health Survey, PCBS, 2006: Initial report, Ramallah, Palestine

Data shows that the most common method of waste disposal in 2006 was through the public sewage system; 49.8% of Palestinian families have a toilet in their homes, indicating use of a

<sup>12</sup> DPT, (sometimes DTP) is a mixture of three vaccines, to immunize against diphtheria, pertussis, and tetanus .

<sup>13</sup> Bacille Calmette-Guérin.

<sup>14</sup> PCBS child health data concentrates on three diseases, stunting, chronic wasting, and underweight.

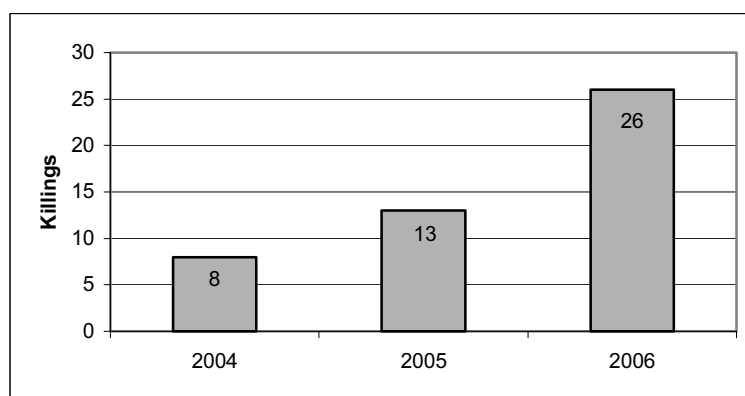
public sewage system. This percentage is higher in the Gaza Strip (69%) compared to the West Bank (40%). The percentage of families connected to the public sewage system in the Gaza Strip differed according to governorates: 94.8% in Gaza governorate were connected to the public sewage system, 65% of families in Deir Elbalah were also connected, but only 3.5% of families in Khan Younis enjoyed the same privilege. In the West Bank, the percentage of families connected to the public sewage ranged between 73.5% in Jerusalem to 0.5% in Salfit. In general, sewage networks are concentrated in the main cities and refugee camps.

## 16. Security Unrest and Internal Fighting

The second half of 2006 saw an increase in dangerous phenomena such as the misuse of firearms and the people taking the law into their own hands. There were assaults on private and public property, as well as severe internal fighting, particularly between Hamas and Fatah in Gaza Strip. The internal fighting also included the phenomena of family struggles and organized crime<sup>15</sup>.

Data from the Palestinian Independent Commission for Citizen's Right (PICCR) shows that 2006 witnessed a major increase in killings related to general security chaos in the Palestinian Territory. Killings increased by 90% compared to 2005: 322 Palestinians were killed from the beginning of 2006 to the end of Nov 2006 (236 in Gaza Strip and 86 in the West Bank), compared with a total of 176 killings in all of 2005. This shows an escalation of violence continued from the last three years (see figure 17). Data shows that throughout 2006, killings related to internal fighting and security unrest took the lives of 27 women and 32 children.

**Figure 17: Average Monthly Killings due to Security Chaos in the Palestinian Territory, 2004-2006**



Source: PICCR Website, [www.piccr.org](http://www.piccr.org), 10/1/2007.

The killings documented by the PICCR from the beginning of 2006 to the end of November 2006, are broken down into different causes, as shown in table 45 below.

Documentation provided by the Al-Mezan Center for Human Rights, based in the Gaza Strip, indicate that during the first quarter of 2006, 20 persons (including 3 children) were killed, and 84 were injured (including 16 children) in Gaza. Moreover, there were 113 incidents of breaking the law, including 17 kidnappings (10 foreigners and 7 Palestinians) and 34 assaults on public property. In total, from 3 March 2002 to the end of March 2006, unlawful activity largely due to security chaos claimed 197 deaths, 1,275 injuries, and 72 kidnappings (including 32 foreigners).

<sup>15</sup> Although officials deny the existence of organized crime, many indicators affirm the existence of a structural foundation for criminal groups such as car thieves and drug dealers. For example, security forces engaged in gunfights with a group of drug dealers in Gaza Strip when they tried to arrest a number of its members.

**Table 45: Classification of Documented Killings due to Security Unrest Situation in the Palestinian Territory (1/1/2006-30/11/2006)**

Classification	Killings	Percentage (%)
Political Background	41	12.7
Family Clashes	88	27.3
Firearm Misuse	83	25.8
Revenge and 'honor' killings	110	34.2
Total	322	100.0

Source: PICCR Website, [www.piccr.org](http://www.piccr.org), 10/1/2007.

Overall, the Gaza Strip suffers from security unrest and internal fighting on a larger scale to the West Bank, and in 2006 the Al-Mezan Center recorded 902 incidents, averaging 2.5 incidents per day (see table 46 for more details).

**Table 46: Classification of Security Unrest and Internal Fighting Incidents in Gaza Strip During the Year 2006**

Classification	# of Incidents
Family feud	152
Conflict between political factions	59
Conflict inside the PNA	14
Clashes between political factions and security forces	22
Clashes between families and security forces	26
Clashes between families and political factions	16
Firing in ceremonies	14
Firing in marches and demonstrations	6
Misuse of weapons	82
Assassination of traitors	1
Kidnapping	97
Killing	66
Assault against employees, public officials and foreigners	74
Closure of roads	42
Assault against institutions	121
Explosions	57
Other	53

Source: Al-Mezan website, [www.mezan.org](http://www.mezan.org), 20/1/2007.

As table 47 illustrates, the Gaza strip has witnessed a severe increase in security unrest, rising from just 3 in 2002 to 869 in 2006<sup>16</sup>. Data shows that in 2006, the incidents in Gaza took about one human life every day, and on average injured 3.5 people per day. Data also shows that lives are taken in a chaotic manner, showing no major discrepancy between militants, civilians, women or children. Human cost notwithstanding, there are also serious economic, social, and mental consequences of such unrest, resulting in both a loss of communal and personal security, and a general deterioration of the social fabric (see table 47).

<sup>16</sup> The numbers of incidents in table 46 are larger than those of the same year in table 47, which is understandable since an incident may include more than one confrontation.



**Table 47: Total Number of Victims of the Security Unrest in Gaza Strip, 2002-2006**

Year	Incidents	# of Injured		# of killings		# of kidnapped	
		Injuries	Children	Killings	Children	Foreigners	Palestinians
<b>2002</b>	3	2	0	2	0	0	0
<b>2003</b>	39	111	9	18	3	0	0
<b>2004</b>	121	178	6	57	6	6	10
<b>2005</b>	394	895	151	101	23	16	23
<b>2006</b>	869	1239	170	260	27	19	104

Source: Al-Mezan website, [www.mezan.org](http://www.mezan.org), 20/1/2007.