



Palestine Monetary Authority  
(PMA)



Palestinian Central Bureau of Statistics  
(PCBS)



Palestine Economic Policy Research Institute  
(MAS)

# Economic & Social

# Monitor



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**Palestine Monetary Authority  
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Statistics (PCBS)**



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

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November, 2008

## FOREWORD

This issue of the Monitor presents the overall development of the socioeconomic situation in the West Bank and Gaza Strip in the second quarter of 2008. The continuing Israeli army and settler aggression, and the political fragmentation in Palestine continue to have a very negative impact on all aspects of the economy. This undoubtedly weakens the Palestinian national project for freedom and independence. Current circumstances are clearly reflected in all economic indicators, as in the Gaza Strip, which suffers the highest unemployment rate in the world as a result of the continuing and oppressive Israeli siege.

As in previous issues, topics of recent local, or regional or international concern are presented in separate boxes. Two are presented in this issue. The first, 'Water in the Palestinian Territories' identifies key dimensions of the chronic water issue; the second tackles the financial crisis that sparked in the USA and penetrated all global markets.

We wish to reiterate our continuing dedication to communicating with our readers. Their opinions benefit us greatly since they help us develop the monitor to best fit their needs and wishes. We would also like to thank the work teams in the three organizations supervising the preparation and editing of the Monitor.

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## **Introduction**

The general atmosphere of the Palestinian public is still ambiguous with respect to national unity among the various Palestinian factions. This is exacerbated by the obstinate Israeli position in all aspects of the negotiations. No positive signs are witnessed on the ground and the Israeli aggression and oppressive policies against the Palestinian people by both the Israeli occupation forces and the settlers consistently continue.

In the second quarter of 2008, Palestinian people are still crushed between the Israeli occupation destructive policies on one hand and the increasing unemployment and economic stagnation on the other. Yet, the priorities of the average Palestinian are still to earn a living sufficient to cover the basic needs, education and medical, albeit at a minimal level, of his/her children. Amidst all this, Palestinians look forward to national unity and independence that will pave the way for setting up a comprehensive national economic project capable of breaking up the surrounding adversities.

## Executive Summary

**Economic Activity:** In the second quarter of 2008, the Gross Domestic Product increased slightly, by 0.73%, compared with the first quarter of the same year. Consequently, the GDP per capita share rose by 0.04% for the same period. GDP in 2008 represents 71.9% of the GDP in 1999.

**Labor Market:** The participation rate dropped in the first quarter of 2008 but increased a little in the second quarter, to 41.6%. On the other hand, in the same period, unemployment continued to soar, reaching 25.8%. Daily wages increased again, by 1.4% and the number of vacancies advertised increased by 0.6%.

**Public finance: In the second quarter of 2008,** total revenues amounted to over US\$ 630 million, 51.4% of which were local revenues. Current expenses reached US\$ 685 million, with wages and salaries accounting for 66.7%. Total current expenditure for quarters one and two in 2008 reached US\$ 933 million, explaining the 0.28% rise of total current expenses for the same period on the estimated yearly budget.

**Banking developments:** Deposits in foreign countries formed 41.7% of banks' total assets. In the second quarter of 2008, assets dropped by 2.29% in comparison to the previous quarter to reach US\$ 7,301.1 million. As for credit facilities, they represented 223.9% of the total revenues while resident private sector deposits represented 69.8% of total liabilities.

**Palestine Stock Exchange:** Following the rise in investments and services indices, the Al Quds (Jerusalem) index increased by the end of the second quarter in 2008 by 5.1% compared with quarter one. During quarter two, 136 million shares were traded with trading value of US\$ 538 million. Market value of listed companies also increased by 7.6% compared with the first quarter.

**Prices and purchase power:** Consumer price index (CPI) increased by 3.15% in quarter two 2008, compared with the average CPI for quarter one, (11.89% more than in the second quarter of 2007). The increase between quarters one and two 2008 was greater in the Gaza Strip (5.22%) with food products as the main lever. The US dollar exchange rate decreased by 4.9% in the second quarter of 2008, reducing the purchasing power of US dollars and Jordanian dinars by 7%.

**Tourism:** There were 82 hotels operating in the Palestinian Territories in the second quarter of 2008 with a total of 126,633 visitors, concentrated mainly in Jerusalem (52.5%). The number of workers employed in the hotel sector increased by 3.1% in the second quarter compared with the first quarter.

**Company registration:** 334 companies were registered in the second quarter of 2008, 35.2% more than in the previous quarter. No companies were registered in the Gaza Strip for the second quarter in a row. Trade and services sectors represented the highest share of capital for newly registered companies, representing 41.6% and 32.3% respectively.

**Performance expectations and opinions:** 23.8% of owners and managers of industries believed that the overall performance of their facilities improved in August 2008. 23.7% of them thought that production improved, while according to 10.4% of those surveyed, rates of employment had risen.

**Education Sector:** Around 1,182,246 students are enrolled in schools in the West Bank and Gaza Strip, including children in preschool education (kindergartens). There were roughly 20.8 students to 1 teacher in government schools, a ratio of 28.9 students to a teacher in UNRWA schools and 14.8 students per teacher in private schools. On average, there were 19 children per teacher in kindergartens.

**Health Sector:** Reports show that at the end of October 2008, 160 medicines were out of stock in the warehouses of the Ministry of Health, hospitals and medical centers in the Gaza Strip, as were 130 kinds of drugs used in medical functions. Reports also show that 90 pieces of medical equipment were still out of order due to a lack of the necessary tools needed to repair them.

**Siege on Gaza, human disaster:** From January to mid October 2008, an estimated US\$ 640 million has been lost in direct economic losses in the Gaza Strip. This is without the losses from industrial and agricultural sectors, which incur monthly losses of US\$ 16 million and US\$ 10 million. 95% of industrial facilities halted their operations as raw materials were not available and exporting industrial products was prohibited.

**Separation Wall:** In June 2008, the Separation Wall had consumed a total of 171 residential areas, occupying an area of expropriated land amounting to 49,291 dunums. 3,880 families have been displaced as a result of the wall cutting into their land.

**Israeli measures:** From May to the end of September 2008, four Palestinian activists were assassinated and 86 were martyred. Crossing points were fully closed 631 times in the same period and the number of military checkpoints reached 2,365. There were 25 attacks on the education sector and 24 on the health sector. Settlement activities continued to expand in the same period with 18 new plantations. There were also 211 attacks on Palestinians citizens by Israeli settlers.

# 1- The Monitor Outlook

The second quarter of 2008 did not bring significant political changes to the general situation of the West Bank & Gaza Strip. No breakthrough occurred regarding the crisis of political fragmentation and segregation between the West Bank & the Gaza Strip. Salam Fayyad's caretaker government continued to represent the PNA in the West Bank while Ismail Haniyeh's government continued to represent Hamas in the Gaza Strip. The Arab mediation efforts did not yield positive results towards reconciliation; neither did the ongoing Palestinian-Israeli negotiations show any advancement. Despite umpteen meetings between the two parties, reliable sources from both negotiating teams claim that there is still a tremendous gap in opinion on permanent status issues (land, water, borders, refugees, and Jerusalem). Meanwhile, Israeli settlements continued to expand in the West Bank and specifically around Jerusalem. At the same time, persistent and organized Israeli terrorization of Palestinian citizens in the West Bank and the Gaza Strip continued. According to the Palestinian Monitoring Group report, Israeli forces assassinated four Palestinians between May and September 2008. In the same period, 86 Palestinians were martyred and 707 were injured. The report indicated that there were 2,365 military checkpoints. The Israeli army demolished 21 houses and occupied another 99. Also, under the protection of Israeli army, 211 attacks were committed by settlers against Palestinian citizens.

In view of this critical situation, despair prevailed among most Palestinians at home and abroad. There are increasing calls for a revision and comprehensive review of the course of the National Palestinian Movement during the last fifteen years- since Oslo agreement and since the establishment of the Palestinian National Authority. Voices are heard calling for a revision of the basis on which the Palestinian National Project was built, as well as of the principles and theoretical basis for alternative solutions such as the two-state solution, the one-state solution for two nationalities and the one-state secular democratic solution.

In addition to this, there is a high level of distrust among Palestinians in regards to decisions made by the international community, particularly the quartet (USA, European Union, United Nations and Russia) following six years of disappointment. It is arguable that the majority of Palestinians believe that what drives the policy of the quartet are the policies of its member countries towards the Middle East, specifically Iraq and Iran, rather than a direct concern for Palestinian conditions.

Such political conditions run concurrent with deteriorating economic conditions and a persistent decline in economic activities. This has led to a rise in unemployment rates and an acceleration of widespread poverty, (reaching alarming rates particularly in the Gaza Strip). These circumstances have been accompanied with a big rise in commodities and the price of services, which result from the global rise in fuel and food prices.

The continuous rise in prices, (10.2% increase in the median of the rise from January to June 2008 with the same period in 2007) at a time when the Palestinian economy suffers from the chronic unemployment problem (25.8% in the 2<sup>nd</sup> quarter of 2008, according to ILO standards) leads us to believe that the Palestinian economy is suffering from stagflation on two fronts. No doubt this difficult situation will have serious socioeconomic consequences, in addition to the extreme severity affecting the poor and abject poor, the lower middle classes risk falling into poverty.

Facing these enormous challenges, political leaders of various factions need to face their historical responsibilities and move urgently towards ending the rift and forming a unity government able to embark on a national development program that aims to:

- ✧ Enhance the capacity of the national economy by incorporating short term emergency work and projects into long term development programs.
- ✧ Initiate income-generating policies to support poor families facing higher living costs.
- ✧ Initiate industrial policies to help the sector out of the deadlock created by prolonged instability.

## International Financial Crisis

By mere chance, or for unknown reasons, the international financial crises that began in the USA occurred in the month of October. The Great Depression in New York money markets occurred on black Tuesday 29<sup>th</sup> of October, 1929, when share holders lost one third of their investments in only three days. The crisis spread to financial institutions such as banks and insurance companies, then to industrial firms. This Great Depression swept through capitalist economies and lasted for ten years. In the United States of America this was illustrated by an enormous contraction in economic activities with unemployment rates hitting 25% of the labor force. Black Monday, the 21<sup>st</sup> of October, 1987, witnessed an even harsher collapse in New York when share holders lost 25% of their fortunes in one day. However, the repercussions of this collapse were confined to the money market and did not extend to the other sectors of the economy. Thus, there was no *real* economic stagnation and, in a few months, the stock market and shareholders recovered their losses.

The events that began in October of this year, however, are different from the incidents of 1929 and 1987 since the crisis did not start in money markets but in the gigantic banks and insurance companies as a result of the mortgage crisis that has been 'fuming' for the past two years. The crisis then affected the New York stock market before spreading to international stock markets and financial institutions in many rich and poor capitals worldwide.

People worry whether this is the onset of a 'great' depression similar to that of the 1930's, or whether the American and European bailout programs will succeed in containing the crisis and preventing its expansion into productive sectors of the real economy as in 1987.

Whilst nobody can offer a decisive response to these worries, the following remarks are to any objective discussion of the issue:

- ✧ The mortgage crisis, which triggered the current financial crisis, did not come out of some sort of void, rather it was the last in a series of successive financial crises since the beginning of 1980's. The first of these was the 'Saving & Loan' crisis following upon the bankruptcy of Continental Illinois in 1984. Then followed the big collapse of the New York stock market on Black Monday, 19 October 1987. This coincided with an aggravated debt crisis in the third world. The 1990's witnessed consecutive currency crises, such as the Sterling crisis in Britain in 1992, the currency crises in Latin America in 1994 and 1998 and the currency crisis in Asia (1997-1999). The decade closed with the bankruptcy of one of the largest investment companies in the USA known by 'Long Term Capital Management'. Moreover, the first decade of the new century started with the bankruptcy of 'Enron', one of the biggest fuel companies followed by the IT industry crisis. By the middle of this decade, the USD rate started its continuous decline vis-à-vis the Euro & the Yen, the matter that created instability in international money markets. Only then did the mortgage crisis occur, and it has rapidly affected the American financial system, threatening its collapse as well as the collapse of the world financial system.
- ✧ In spite of the difference in the circumstances and details of each of the crises mentioned above, there is one factor behind them all, and that is the readiness of some financial institutions to provide loans for persons and institutions without appropriate guarantees (i.e. giving loans with high risk of repayment with the hope of making more profit). For instance, in the 'Saving & Loan' crisis such financial institutions provided some contractors with big loans for large real estate projects that were in fact 'White Elephants' in the American sense of the word (i.e. the contractors were corrupt and never meant or been able to properly invest in these loans). The 1987 collapse on the stock market was primarily caused by some financial institutions who were ready to give loans for speculators making profit by methods adverse to those of the stock market; while the ordinary investor generates profit by buying securities and then selling them for higher prices, those speculators make profit by maneuvers, i.e. of purchasing securities and selling them short to cut their prices.<sup>1</sup> On the other hand, the 1990's currency crisis was a result of speculators' operations which made big profits by reducing the currency rate of the targeted country.<sup>2</sup> Also, the core of the recent mortgage crisis is the widespread nature of the so-called 'sub-prime mortgages,' in which financial institutions gave personal loans for buying houses with no

<sup>1</sup> This operation is usually done by a speculator, who borrows a number of stocks in return for fees that he pays to the share holder. He then sells the stocks in one blow in order to reduce their value before buying them again cheap and returning them back to the original share holder with the hope that the difference in price will be much more than the fees he had already paid for borrowing them.

<sup>2</sup> The classical well known example is what the millionaire George Soros, who, in 1992, made billions by speculating against the sterling pound.

guarantees on the capacity of the borrowers to pay them back in the future. Naturally, these easy loans led to a higher demand on houses, thus raising their prices. This is what happened in the last few years when house prices shot high, creating a phenomenon known as the 'Bubble' (i.e. the sky rocketing rise in the prices of houses irrelevant to their real value). This bubble eventually exploded when the number of those unable to pay back their monthly loan installments for the houses they bought and the lending institutions started regaining those houses and selling them at low prices. By the time the price reduction reached 30% in certain areas, the depth of the losses led financial institutions to declare bankruptcy

- ✧ The previous points illustrate that the adventurous practices in money markets that led to the current crisis started more than quarter of a century ago. In essence they have all been due to the practices of financial institutions, which possessed enormous amounts of money, and exceeded their lending capacity(s) in accordance with prevalent loan guarantee criteria. Once they parted with those criteria, they resorted to adventurous lending in order to avoid the cost of keeping the funds non-invested. This brings up the following two questions
- ✧ What are the sources of this 'big money' that pushed American financial institutions to such adventures, either by bad lending or by speculation in stock markets and currency markets, or lending operations that formed the 'Bubble' in real estate?
- ✧ Why didn't the American Government endorse laws and regulations over the last quarter of a century that would have been capable of regulating money markets and minimizing the probability of crisis when it is known that money markets are essentially different than commodities and service markets and need special laws and regulations? This is due to the rapid fluctuation in the rates of its products (securities, bonds & mortgage), which is not the case in commodities and services prices - besides its structural role in the economy given that financing operations are essential for all productive as well as most consumption processes.
- ✧ After a review of international capital movement, it becomes obvious that the source of 'big money' are the third world countries, which used to have a surplus in capital as a result of more national savings than national investments. Arab Countries top the list, whether those who privatized their public sector by selling it cheap to parties who possess enormous amounts of money and invest abroad, or those Arab oil countries, which gained huge amounts of money from the oil price hikes and invested most of that money in the American stock markets. China has also substantially contributed to financing the American deficit. Whilst China follows a very ambitious investment policy, at the same time, they reduce the level of consumption and raise the level of savings. This means that poor countries (with the exception of China) that are incapable of carrying out investment activities that guarantee full employment of the labor force have financed the American financial adventures. But the reason that the American government did not endorse laws and legislation to control money markets and avoid speculation and adventurous irresponsible practices is the result of the successive American governments, from Ronald Regan onward, who have followed neo-liberal policies that lifted all restrictions from markets based on the conviction that free markets are capable of solving all economic problems, and that state interference has harmful results.
- ✧ From all the factors mentioned above, it is clear that the crisis is both large and profound. Moreover, it is not an American crisis spreading worldwide, but a crisis in the international economy dominated by the USA. Therefore, the solution is dependent on the ability of the new American Administration headed by Barak Obama to get rid of the inheritance of neo-liberalism which proved its total failure, and carry out substantial reform in the money markets, financial institutions, taxing and monitoring systems. At the same time, the crisis solution is also dependent on the capability of the third world countries to become independent from the miserable American dominance and on its capacity to implement independent developmental policies capable of equal distribution of income and of raising the rates of national investment.

## 2- Economic Activities

The Palestinian economy has suffered in the last few years under the weight of enormous challenges. This was an understandable result of the oppressive Israeli practices, including external and internal closures, killings, incursions, arrests, house demolitions and the uprooting of trees. In addition to this, Palestinians suffered over the last two years from international boycotts, a deterioration in the state of security, and the political divide in the Palestinian arena. It is, of course, natural that this situation would lead to a contraction in general economic activity - most obviously demonstrated in the deterioration of private investments accompanied with the disappearance of public investments. This led to an unprecedented decline in the standard of living of the average Palestinian. Preliminary estimations of economic activities in the second quarter of 2008 show that the average Palestinian GDP per capita could decline to 71.9% of the 1999 levels (see table 1).

**Table 1: Percentage of Palestinian GDP per Capita compared to its 1999 Level\***

Percentage (%)	Year
92	2000
82	2001
73	2002
80	2003
82	2004
85	2005
76	2006
74	2007
71.9	2008**

\*GDP per capita for 1999 was US\$ 1,589.

\*\*GDP per capita for 2008 was estimated based on the preliminary account for the first & second quarters of the year.

When compared to its level in 1999, the average GDP per capita over the last 8 years has lost more than one quarter of its 2002 level. It started to regain part of that in 2003, until the losses reached about 15% by the end of 2005, before declining again in 2006 nearly all the way to 2002 levels. Preliminary estimates show that the decline will continue in 2008. The sharp fall becomes obvious when we compare the average Palestinian GDP per Capita to that of four neighboring countries. For example, and as illustrated in table 2, while the Palestinian GDP per capita was higher than its level in Egypt in 2000, it declined to less than three quarters of that average in the year 2007. In the same sequence, while the Palestinian GDP per capita equaled more than 150% of its level in Syria in 2000, it decreased to two thirds of that average in 2007.

This decline adds to the burdens on the Palestinian National Authority. Since its establishment in 1994, the PNA has been carrying the heavy burdens of the economic inheritance from the Israeli occupation which was an economy that is mainly dependent on external sources of income generation (the income of workers in Israel and Israeli settlements, and the income of Palestinian workers in the Arab Gulf states). This economy also suffers from substantial distortions represented in Israel's control over a significant proportion of the Palestinian natural resources (land and water); sectoral imbalances (i.e. the huge decline in the contribution of agriculture and industry in the GDP); the total dependence of Palestinian exportation, importation and employment on Israel; and the very low level of productive investment and social services. In order to understand the nature of this new burden, it is necessary to review the political and economic developments that have taken place in the Palestinian arena since 1994 when the PNA took over the economic inheritance of the Israeli occupation.



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

Country	2000	2005	2007
Egypt	1.08	0.96	0.74
Jordan	0.88	0.49	0.41
Syria	1.59	0.86	0.66
Lebanon	0.34	0.22	0.20
Israel	0.08	0.06	0.05

Source: World Development Indicators (2008).

The achievements of the PNA during the period of limited self autonomy (1994-2000) in regards to dismantling the economic inheritance of the Israeli occupation were limited and weak. This was due to the Israeli non-compliance to the implementation of the agreements it signed with the Palestinians. There were also other reasons that pertain to the structure of the PNA and its incapacity to establish a reasonable bureaucracy that should be immune from corruption, with the ability to articulate a comprehensive national program for reconstruction and development.

Nevertheless, the partial achievements of the PNA contributed to the repair of some important infrastructure facilities. This was seen particularly in the expansion of the aspects of social services, and in encouraging Palestinian Diaspora capital to invest in the PT, especially in the sectors of communication, construction, tourism, and services.

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

**Table 3: Economic Growth and Employment\***

Indicator *	2004	2005	2006	2007	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	1 <sup>st</sup>	2 <sup>nd</sup>
					Quarter	Quarter	Quarter	Quarter	Quarter	Quarter
					2007	2007	2007	2007	2008	2008
GDP in Constant Prices (USD million)	4,196.7	4,478.8	4,266.2	4,133.4	974.0	1,062.4	1,048.0	1,049.0	1,021.1	1,028.6
GDP/Capita (USD)	1,300.4	1,349.2	1,249.5	1,177.4	274.5	301.5	299.5	301.9	285.7	285.8
Average Growth Rate of GDP/Capita (%) <sup>3</sup>	8.8	3.8	(7.4)	(5.8)	5.4	9.8	(0.7)	0.8	(5.4)	0.04
Average Unemployment Rate (%)	26.8	23.5	23.6	21.5	21.6	19.2	23.2	22.2	22.6	25.8

\*Source: PCBS 2008, National Accounts Statistics, and Labor Survey, Ramallah-Palestine.

- GDP and GDP/Capita and average growth rate of GDP/Capita figures are in constant prices and the base year is 1997 except for the year 2006 for which the base year is 2004 and its for the rest of the West Bank and Gaza Strip. The figures for 2006 until the second quarter of 2008 are preliminary and subject to modification.
- Figures in brackets indicate negative value.
- Average growth rate of GDP/Capita figures for the year 2004 are in comparison with 2003 and those for the first quarter of 2007 are in comparison with the fourth quarter of 2006.

This deterioration receded towards the end of 2003, while 2004 and 2005 witnessed high growth rates (see table 3). It was expected that this growth would continue in a way that economic activities would recover to their 1999 levels. However, 2006 saw a sharp deterioration due to the fact that Israel refrained from transferring the clearance revenues to the PNA (tax and customs revenues that Israel collects on behalf of the PNA). This resulted in the deprivation of the public sector employees from receiving their monthly salaries for many months. In addition to this, the

<sup>3</sup> Please note: A misprint was published in Issue 13 of the Economic and Social Monitor. The average growth rate of GDP/Capita was 8.8% rather than the 2.1% written.

international boycott prevented the banks from transferring Arab and international assistance to the Palestinian Ministry of Finance. The deterioration was very sharp and the GDP per capita declined by 7.4% as compared to its 2006 level, (falling to 79% of pre-*Intifada* level). The decline continued in 2007 until the GDP per capita represented 74% of 1999 levels. Estimates indicate that it could fall to 71.9% of 1999 levels in 2008.

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

- ✧ Rising and high unemployment and poverty rates greatly endangering the social fabric. During the second half of 2007 a sharp rise in the prices of consumption items took place and persisted during the first two quarters of 2008, threatening the Palestinian economy by sliding down into stagflation. This comes at a time of prevalent instability internationally, caused by the mortgage crisis in the USA.
- ✧ Distortions in the economic structure lead to the decline in the contribution of the productive sectors (agriculture and industry) to GDP. A transformation in the industrial base occurs in favor of low-wage, low-productivity activities.
- ✧ A large amount of workers transfer from the formal to informal sector
- ✧ Some established businesses move to neighboring countries and local capital is invested abroad.
- ✧ Income and consumption inequality worsens in favor of the wealthy, and there is an increase to marginalization and processes of exclusion.

**Table 4: Main Economic Indicators in the Remaining West Bank and Gaza Strip**

Indicator	1999	2002	2003	2004	2005	2006	2007	First Quarter 2008	Second Quarter 2008
GDP (million \$, constant prices)	4,511.7	3,264.1	3,749.6	4,196.7	4,478.8	4,266.2	4,133.4	1,021.1	1,028.6
GDP per capita (\$, constant prices)	1,612.3	1,070.0	1,195.0	1,300.4	1,349.2	1,249.5	1,177.4	285.7	285.8
Final Consumption Expenditure (million \$)	5,327.8	4,748.6	5,194.2	5,683.3	5,557.2	5,121.8	6,811.0	-	-
Aggregate Investment (million \$)	2,081.2	954.1	1,204.0	1,148.5	1,231.5	1,235.3	816.0	-	-
Government Expenditure (million \$)	1,010.6	947.9	903.1	1,068.7	861.2	872.9	1,480.0	-	-
Net Commodity Trade Balance (million \$)	(2636.0)	(2082.0)	(2382.4)	(2399.2)	(2068.2)	(1532.0)	(2833.0)	-	-
Total Commodity Imports (million \$)	3,271.4	2,423.8	2,776.8	2,842.1	2,562.4	1,966.7	3615	-	-
Total Commodity Exports (million \$)	635.4	341.8	394.4	442.9	494.2	434.7	366	-	-
Employment (thousands)	588	477	564	578	633	666	722	-	-
Total employment in the local economy (thousands)	452	428	509	527	569	603	656	-	-
Total employment in Israel (thousands)	136	49	55	51	64	63	66	-	-
Labor force participation rate (%)	41.6	38.1	40.3	40.4	40.7	41.3	41.9	40.6	41.6
Unemployment rate (ILO definition)*	11.8	31.3	25.6	26.8	23.5	23.6	21.5	22.6	25.8
Inflation rate (%) (Shekel-based)**	5.54	5.71	4.41	3.0	3.48	3.76	1.86	8.51	11.89
Poverty rate (%) (percentage of the population)	21	60	67.6	53.7	51.5	56.8	60.1	-	-
Public revenues (million \$)	942.0	295.0	763.0	1050.0	1370.0	721.0	1616.0	-	-
Public expenditures (million \$)	1411	1251.0	1651.0	1528.0	2281.0	1707.0	2877.0	-	-
Surplus/Deficit before assistance (million \$)	(469.0)	(956.0)	(888.0)	(478.0)	(911.0)	(986.0)	(1261.0)	-	-
Surplus/ Deficit after assistance (million \$)	28.0	(259.0)	(268.0)	(125.0)	(275.0)	33.0	61.0	-	-
Actual Foreign Disbursed Assistance (million \$)	497.0	697.0	620.0	353.0	636.0	1019.0	1322.0	-	-
Public debt (million \$)	391.50	1089.0	1235.76	1421.75	1602.18	1493.83	1439.37	-	-
Bank Deposits by residents (million \$)	2,875.1	3,432.1	3,624.5	3,946.2	4,190.1	4,202.6	5,099.9	-	-
Credit facilities extended to residents (million \$)	1,005.5	953.7	1,071.2	1,422.6	1,791.4	1,903.3	1,758.5	-	-

Source: The Palestinian Central Bureau of Statistics (PCBC), Palestine Monetary Authority.

\* GDP, GDP per Capita and Average Growth Rate of GDP/Capita figures for 2006 until the second quarter of 2008 are preliminary and subject to modification. The base year for 1999 figures until second quarter of 2008 is 1997. The base year for 2006 is the year 2004. Figures are in constant prices.

\*\* Inflation rate was calculated by comparing the average consumer prices for a given year with the average of the previous year. The base year for the period 1999-2006 was 1996 (1996=100), the base year for 2007 and after was 2004 (2004=100). Quarterly Inflation rate for 2008 was calculated by comparison with the corresponding quarter of the previous year.

Note: Numbers in brackets indicate negative value.

Table 4 illustrates the imbalances in the aggregate economy. Economic activities rotated largely around consumption of imported commodities (mostly from Israel) financed by transfers from abroad and foreign assistance. The size of gross investment in 2007 was 39% in comparison to 1999, whereas the size of total consumption in 2007 was 128% compared to that of 1999. On the other hand, commodity imports in 2007 reached 111% in comparison to 1999 and commodity exports declined to 58% in the same year compared to 1999.

Table 5 shows structural distortions of the economy which were manifested in the decline of productive sectors such as industry, agriculture and construction in favor of service sectors, predominantly commercial services and public administration services.

**Table 5: 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>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006*</b>	<b>2007 **</b>
Agriculture and Fishing	7.9	8.1	6.5	5.7	8.2
Mining, Manufacturing Industry, Water and Electricity Supplies	17.0	16.9	14.8	17.1	12.7
Mining and quarrying	0.6	0.9	0.6	0.5	0.5
Manufacturing Industry	12.6	12.7	11.1	13.7	10.5
Water and Electric Supplies	3.8	3.3	3.1	2.9	1.7
Construction	5.0	6.9	7.7	6.3	2.5
Retail and Wholesale	9.8	9.1	8.7	9.2	10.0
Transportation, storage and telecommunication	4.6	4.3	3.8	6.1	11.6
Financial intermediation	4.1	3.8	4.8	4.4	4.7
Services	22.8	21.1	21.3	18.3	21.9
Real estate, rental and commercial services activities	10.3	9.5	9.1	5.7	8.3
Communal, social, and personal services activities	1.2	1.2	1.4	1.1	1.1
Hotels and restaurants	0.4	0.4	0.4	0.9	1.6
Education	7.6	7.0	7.6	7.8	7.6
Health and social work	3.3	3.0	2.8	2.8	3.3
Public administration and defense	16.9	16.5	16.8	16.3	13.8
Domestic services	0.2	0.1	0.1	0.1	0.2
Publicly-owned enterprises	4.5	4.0	5.0	4.6	-
<u>Subtract:</u> financial intermediation (with indirect clearing)	-3.0	-2.8	-2.7	-3.0	-3.4
<u>Add:</u> Customs fees	4.4	4.1	5.1	6.6	6.9
<u>Add:</u> Net VAT on imports	5.8	7.9	8.1	8.3	10.9
GDP (%)	100	100	100	100.0	100
GDP (million \$)	3,749.6	4,196.7	4,478.8	4,266.2	4,133.4

Source: PCBS, 2008, National Accounts, Ramallah – Palestine.

\* The 2006-2007 figures are preliminary and subject to modification. The base year is 2004. The 2007 figures are based on quarterly estimates.

\*\* The contribution of the publicly-owned enterprises in the GDP for the year 2007 has been distributed on retail & wholesale, real estate, rental, commercial, education, restaurants and hotels activities.

Differences in sectoral contributions took place between 2006 and 2007, and between the fourth quarter of 2007 and the first quarter of 2008, whereas no significant change occurred between the first and second quarters of the year 2008 (see Table 6). Some improvement in the performance of the agricultural sector is evident during the first three quarters of 2007 as compared to their corresponding quarters of 2006. However, some decline has been noticed in the first quarter of 2008 compared to the last quarter of the previous year, although some improvement was later observed in the second quarter of 2008. The contribution of the manufacturing industry in the last two quarters of 2006 was better than in the first two quarters of 2007, whereas some improvement was observed by the end of 2007 and continued during the first two quarters of 2008. The contribution of the services sector showed improvement at the end of 2007 and the beginning of 2008 after it had declined at the end of 2006 and the beginning of 2007.

**Table 6: The Contribution of Economic Activities in the GDP in the Remaining West Bank and Gaza Strip by Quarters of 2006-2008, in Constant Prices: 1997 base year, (%)**

Economic Activities	2006				2007				2008	
	Q1**	Q2**	Q3**	Q4**	Q1**	Q2**	Q3**	Q4***	Q1****	Q2*
Agriculture and Fishing	5.9	7.3	7.0	12.7	7.9	9.1	8.2	7.8	6.6	6.9
Mining, Manufacturing Industry, and Water and Electricity Supplies	11.1	12.3	14.0	14.5	13.6	12.4	12.5	12.5	12.7	12.8
Mining and quarrying	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4
Manufacturing Industry	9.3	10.3	11.7	12.1	11.3	10.3	10.3	10.4	10.6	10.7
Water and Electric Supplies	1.4	1.6	1.8	1.9	1.8	1.6	1.7	1.6	1.7	1.7
Construction	2.6	2.6	2.6	2.4	2.7	2.9	2.4	2.0	1.6	1.6
Retail and Wholesale	8.7	8.8	10.1	9.7	10.1	9.8	9.9	10.0	11.1	10.2
Transportation, storage and telecom.	11.4	10.7	11.4	12.0	11.6	10.6	12.1	12.1	9.1	8.0
Financial intermediation	4.4	4.3	4.6	4.9	4.7	4.5	4.6	4.9	4.7	4.9
Services	24.2	24.3	22.6	20.2	17.1	21.7	24.1	24.5	24.2	24.8
Real estate, Rental and Commercial Activities	10.2	10.1	11.9	11.5	5.7	8.4	9.4	9.5	9.4	9.4
Communal, social and personal services activities	1.0	1.0	1.0	1.2	1.1	1.0	1.0	1.2	1.3	1.3
Hotels and restaurants	1.6	2.1	1.4	1.4	1.0	1.5	2.2	1.9	2.5	3.1
Education	7.6	7.4	5.6	4.0	6.3	7.6	8.1	8.4	8.2	8.0
Health and social work	3.8	3.7	2.7	2.1	3.0	3.2	3.4	3.5	2.8	3.0
Public administration and defense	15.6	14.2	13.6	10.2	14.8	13.6	12.6	14.1	13.4	12.6
Domestic services	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
<u>Subtract:</u> financial intermediation (with indirect clearing)	-3.2	-3.2	-3.5	-3.7	-3.4	-3.2	-3.3	-3.5	-3.4	-3.4
<u>Add:</u> Customs duties	5.9	6.5	7.5	8.0	6.5	6.4	7.2	7.3	6.2	6.7
<u>Add:</u> Net VAT from imports	13.2	12.0	9.9	8.9	14.2	12.0	9.5	8.1	13.6	14.7
<b>GDP (%)</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>GDP (million \$)</b>	<b>1,060.6</b>	<b>1,071.8</b>	<b>1,016.0</b>	<b>958.6</b>	<b>974.0</b>	<b>1,062.4</b>	<b>1,048.0</b>	<b>1,049.0</b>	<b>1,021.1</b>	<b>1,028.6</b>

Source: PCBS 2008, National Income Accounts, Ramallah – Palestine.

The contribution of the publicly-owned enterprises in the GDP has been distributed on retail & wholesale, real estate, rental, commercial, education, restaurants and hotels activities.

\* Preliminary estimates (the first release)

\*\* Preliminary data subject to revision & modification

\*\*\* Second revision

\*\*\*\*First revision

### 3- Labor Market

The Palestinian labor market has suffered extensively throughout the years of occupation from imbalances between demand and supply as a result of Israel's economic policies following two opposing mechanisms. On one hand, Israel allows Palestinian workers to work in the Israeli economy for higher wages than the Palestinian average, thus raising the standards of living and demand; and on the other, Israel imposes restrictions on investment and trade which consequently impedes production growth to satisfy the increase in demand. The natural result of this has been the replacement of production with imports, in order to bridge the gap between demand and supply in commodity and service markets. Export of Palestinian labor force to Israel and the Gulf Countries labor markets in order to bridge the gap between demand and supply in the Palestinian labor market.

With the second Gulf War in 1991, the situation changed drastically as many Palestinians fled Kuwait and returned to the West Bank and the Gaza Strip. At the same time, Israel began to reduce the number of Palestinian workers inside the Green Line and the settlements for security reasons and replaced them with foreign labor force from Asia and East Europe.

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

The average increase in manpower over the last seven years was higher than the average increase in the labor force (3.9% and 3.8%). This indicates that labor force participation was declining. The average increase in the labor force was also higher than the average increase in employment (2.6%), indicating that the average unemployment rate was rising (average annual increase was 7.5%). Likewise, the average increase of employment in the public sector surpassed that of the private sector.

**Table 7: Main Labor Market Indicators: 1999-2007<sup>4</sup>**

Indicator	(Thousands)						
	1999	2002	2003	2004	2005	2006	2007
Manpower (15 years and over )	1604	1822	1881	1954	2031	2111	-
Labor force (employed and unemployed)	667	694	750	790	827	872	-
Employed	588	477	564	578	633	666	722
◇ Employed by the private sector (%)	59%	66.1%	69.6%	68.8%	67.1%	66.7%	67.3%
◇ Employed by the public sector (%)	18%	23.6%	20.7%	22.5%	23.0%	23.7%	23.3%
◇ Employed in Israel and the settlements (%)	23%	10.3%	9.7%	8.7%	9.9%	9.6%	9.4%
Unemployment rate (%)	11.8%	31.3%	25.6%	26.8%	23.5%	23.6%	21.6%

Source: PCBS, Labor Force Survey, 1999-2007.

Source for the numbers of employed for 2007: Palestine Monetary Authority

The following sections demonstrate the conditions and short and long term trends of the labor market, by comparing the situation before the *Intifada* (1999) with the year 2007; as well as by making a comparison between the second quarter of 2008 and the first quarter of the same year.

<sup>4</sup> The numbers of the employed in the fourth quarter of 2007 and the first two quarters of 2008 are not available until the release of the final results of the Population, Housing and Establishments Census of 2007.

### 3.1 Labor Force and Labor Force Participation

The Labor Force Participation Rate (LFPR, i.e. the sum of employed and unemployed divided by population aged 15 years and above) grew substantially during the early nineties. After registering an average of 40% in the eighties, LFPR reached 44% in 1993; however, the local market's inability to absorb higher numbers of workers caused many to withdraw from the market. This led to a decrease in LFPR in the late-nineties when it reached 41.6% in 1999. LFPR dropped again during the early years of the *Intifada* period, reaching 38.1% in 2002 and then increasing a little bit during 2003 and 2007, when the increase reached 41.9%, a little higher than its level of 1999 (see table 8).

During the first quarter of 2008 a decline was registered compared to the last quarter of 2007. This was followed by an increase in the labor participation rate in the second quarter of 2008, to 41.6%. In spite of this, the number of those employed increased during the last seven years to reach 722,000 at the end of 2007, as compared to 588,000 in 1999. This rise is due to the increase in the size of the labor force coinciding with rapid population growth in the same period.

**Table 8: Labor Force Participation Rate for Individuals Aged 15 Years and Over in the Palestinian Territories According to Place of Work and Gender: 1999-2008**

Region and Gender	1999	2002	2003	2004	2005	2006	2007	Q1/ 2006	Q1/ 2007	Q2/ 2007	Q3/ 2007	Q4/ 2007	Q1/ 2008	Q2/ 2008
<b>Both Genders</b>														
West Bank	43.4	40	41.8	42.5	42.9	44.1	44.1	42.5	42.7	44.8	44.8	44.0	42.3	43.5
Gaza Strip	38	34.4	37.5	36.4	36.7	36.1	38.0	35.3	38.3	38	38.9	36.6	37.5	38.0
Palestinian Territories	41.6	38.1	40.3	40.4	40.7	41.3	41.9	40.0	41.2	42.4	42.7	41.4	40.6	41.6
<b>Males</b>														
West Bank	72.4	67.1	68.5	68.7	69.5	69.8	69.4	68.4	67.5	69.8	71.1	69.1	67.5	68.0
Gaza Strip	67.4	62.2	65.4	63.5	63.9	63.7	64.5	63.7	65.4	64.1	66	62.6	63.3	63.2
Palestinian Territories	70.7	65.4	67.5	66.9	67.6	67.7	67.7	66.8	66.7	67.8	69.3	66.8	66.0	66.3
<b>Females</b>														
West Bank	14.1	12.4	14.7	15.9	15.8	17.9	18.3	16.0	17.5	19.4	17.9	18.4	16.5	18.2
Gaza Strip	8.8	6.5	9.2	9.1	9	8.1	11.0	6.5	10.8	11.5	11.5	10.2	11.3	12.0
Palestinian Territories	12.3	10.4	12.8	13.5	13.4	14.5	15.7	12.7	15.2	16.6	15.7	15.5	14.7	16.0

Source: PCBS, Labor Force Survey, 1999-2008.

The above-mentioned changes were accompanied with the following adjustment dynamics:

- ✧ The divergence between the LFPR of the West Bank and Gaza Strip continued, and, specifically in recent years, can be attributed to the tightening of the Israeli siege on the Gaza Strip (see table 8).
- ✧ There has been an important change along gender lines. Although LFPR for males is, at present, less than its level prior to the *Intifada*, female LFPR has risen as women were increasingly entering the labor market to compensate for the lost income of their male relatives (see Table 8).
- ✧ Further changes are related to workers' employment statuses. Table 9 below shows that the percentage of those employed in establishments they own or partially own, and which do not employ waged workers, increased substantially. This increase was accompanied by a decrease in the ratio of waged workers. This indicates that a considerable percentage of those who lost their work in Israel or in the private sector after the *Intifada* tended to be self-employed.

- ✧ Another change in the labor market was associated with the change of employment within economic sectors. A comparison of the contribution of economic sectors prior to the *Intifada* with those of the current period highlights a large contribution by the services sector and a slight increase in the agricultural sector's contribution. However, the contribution of the construction sector was almost halved compared to the pre-*Intifada* level. Similarly, the contribution of mining, quarrying and manufacturing industry also declined (see Table 10).

**Table 9: Percentage Distribution of the Employed Persons in the Palestinian Territories According to Employment Status and Region, 1999-2008(%)**

Region and Work Status	1999	2002	2003	2004	2005	2006	2007	Q1/2006	Q1/2007	Q2/2007	Q3/2007	Q4/2007	Q1/2008	Q2/2008
<b>West Bank</b>														
Establishment owner	6.6	4.1	4.1	5	5	4.7	4.4	4.8	3.4	4.2	4.7	5	4.2	4.3
Self-employed	18.6	27.8	29.3	28.1	27.6	27	25.4	28.5	26.9	26.3	24.7	23.5	22.9	24.1
Paid worker	66.5	57.5	55.3	55.1	56.4	55.7	57.9	57.4	59.0	55.6	57.6	59.7	64.2	60.4
Unpaid family member	8.3	10.6	11.3	11.8	11	12.6	12.3	9.3	10.7	13.9	13	11.8	8.7	11.2
<b>Gaza Strip</b>														
Establishment owner	2.8	2.6	2.2	1.9	2.6	4.2	3.2	2.5	4.1	3.4	3	2.4	2.9	3.3
Self-employed	19.1	24.3	24.5	22.2	22.4	19.4	21.2	21.5	19.9	21.5	20.5	22.7	27.3	16.9
Paid worker	71.1	63.6	61.7	66.5	67.1	69.6	64.4	71.0	65.8	64.3	64.8	62.5	58.5	71.3
Unpaid family member	7	9.5	11.6	9.4	7.9	19.8	11.2	5.0	10.2	10.8	11.7	12.4	11.3	8.5
<b>Palestinian Territories</b>														
Establishment owner	5.5	3.7	3.5	4.1	4.3	4.6	4.0	4.1	3.6	4	4.2	4.3	3.8	4.0
Self-employed	18.7	26.8	27.8	26.5	26.1	25	24.2	26.6	24.9	25	23.5	23.3	24.3	22.4
Paid worker	67.8	59.2	57.2	58.3	59.5	59.3	59.8	61.1	61.0	58.1	59.6	60.5	62.5	63.0
Unpaid family member	8	10.3	11.5	11.1	10.1	11.1	12.0	8.1	10.5	12.9	12.7	11.9	9.4	10.6

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



**Table 10: Distribution of Employed Persons in the Palestinian Territories According to Region and Economic Activity, 1999-2008 (%)**

Economic Activity and Region	1999	2002	2003	2004	2005	2006	2007	Q1/2006	Q1/2007	Q2/2007	Q3/2007	Q4/2007	Q1/2008	Q2/2008
<b>Palestinian Territories</b>														
Agriculture, Forestry & Fishing	12.6	14.9	15.7	15.9	14.6	16.1	15.6	14.3	14.7	17.3	15.1	15.3	12.9	14.9
Mining, quarrying and manufacturing Industry	15.5	12.9	12.5	12.7	13	12.4	12.5	13.2	12.5	12.6	12.8	12.3	13.0	12.1
Construction	22.1	10.9	13.1	11.7	12.9	11.1	11.0	13.6	10.7	11.1	11.6	10.4	9.4	10.8
Services and other sectors	28.1	35.7	32.8	34.9	34.4	35.5	35.8	30.8	36.7	34.8	35.3	36.4	38.5	38.2
<b>West Bank</b>														
Agriculture, Forestry & Fishing	11.5	14.1	14.9	16.9	15.7	17.8	16.6	10.1	15.3	19.2	16.1	15.9	13.0	15.7
Mining, quarrying and manufacturing Industry	16.5	14.5	14	14	14.8	14.6	14.9	7.3	14.8	14.5	15.4	15	16.2	14.5
Construction	23.9	12.7	14.3	13	14.4	12.9	13.6	8.3	12.8	13.1	14.8	13.9	12.7	14.1
Services and other sectors	24.7	31.1	29.4	29.5	28.5	29	29.8	51.8	30.9	29.1	28.6	30.2	32.8	30.9
<b>Gaza Strip</b>														
Agriculture, Forestry & Fishing	15.2	16.6	17.4	13.4	11.7	11.1	13.1	13.2	13.3	12.7	12.7	13.9	12.5	12.3
Mining, quarrying and manufacturing Industry	13.1	8.9	9.2	9.1	8.3	6.3	6.6	11.6	7.1	8	5.8	5.5	5.5	4.6
Construction	17.8	6.3	10.4	8.2	9.3	6	4.3	12.2	5.6	6.2	3.7	1.5	1.6	0.4
Services and other sectors	36.5	47.6	40.9	49.1	49.4	53.7	50.9	36.5	50.5	48.9	52.2	52.2	52.0	61.4

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

It is natural that the most important adjustments were those pertaining to local market absorption of workers. It soon became apparent that absorption was limited. Therefore, as we see in Table 11, the West Bank share of the total workers in the Palestinian Territories had increased in the 2<sup>nd</sup> quarter of 2008 with a sharp decline in the Gaza Strip share of total workers. The share of workers in Israel and the Israeli settlements also declined from 11.2% to 10.8% between the 1<sup>st</sup> and 2<sup>nd</sup> quarters of 2008 (compared to 22.9% in the year 1999 *pre-Intifada*).

**Table 11: Distribution of Employment in the Palestinian Territories According to Place of Work, 1999-2008 (%)**

Place of Work	1999	2002	2003	2004	2005	2006	2007	Q1/	Q1/	Q2/	Q3/	Q4/	Q1/	Q2/
West Bank	52.9	62.7	60.9	64.1	61.7	64.4	62.1	63.1	61.2	62.8	62.6	61.6	59.0	65.3
Gaza Strip	24.2	27.0	29.4	27.2	28.4	26.0	28.5	27.1	29.0	28.7	28.1	28.4	29.8	23.9
Israel & Settlements	22.9	10.3	9.7	8.7	9.9	9.6	9.4	9.8	9.8	8.5	9.3	10.0	11.2	10.8

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

## 3-2 Unemployment

The problem of unemployment is not new to the Palestinian economy. It reached 24% in 1996 then declined gradually to 11.8% in 1999. The problem was however aggravated during the period of *AlAqsa Intifada*, with unemployment increasing to 31.3% in 2002. It then declined slightly by the end of 2003 as a result of the relatively improved economic activity- and reached 19.2% in the 2<sup>nd</sup> quarter of 2007, and 22.2% in the 4<sup>th</sup> quarter of the same year. It then increased again in the 2<sup>nd</sup> quarter of 2008 to 25.8%, twice its *pre-Intifada* level (see Table 12). In the same period, and as a result of the Israeli siege on Gaza Strip, unemployment rates soared up to 45.5%, the highest in the world.

**Table 12: Unemployment Rate for Individuals Aged 15 Years and Over in the Palestinian Territories According to Gender and Region, 1999-2008 (%)**

Region and Gender	1999	2002	2003	2004	2005	2006	2007	Q1/ 2006	Q1/ 2007	Q2/ 2007	Q3/ 2007	Q4/ 2007	Q1/ 2008	Q2/ 2008
<b>Palestinian Territories</b>														
Males	11.6	33.5	26.9	28.1	23.7	24.2	22.1	25.6	22.2	19.4	23.4	23.4	22.7	26.5
Females	13	17	18.5	20.1	22.3	20.5	19.0	23.5	18.9	18	22.1	17	21.7	22.7
Total	11.8	31.3	25.6	26.8	23.5	23.6	21.5	25.3	21.6	19.2	23.2	22.2	22.6	25.8
<b>West Bank</b>														
Males	9.2	30.9	25.5	24.3	20.8	18.9	18.3	21.5	17.8	16.3	18.6	20.5	19.9	16.6
Females	11.1	14	15.8	16.6	18.3	17.6	15.5	21.0	15.2	14	18.6	14.2	15.0	15.2
Total	9.5	28.2	23.8	22.9	20.3	18.6	17.7	21.4	17.3	15.8	18.6	19.4	19.0	16.3
<b>Gaza Strip</b>														
Males	16.6	39.1	29.6	35.9	29.6	35.1	29.7	34.0	30.5	25.7	33.1	29.4	28.2	45.8
Females	19.3	28.4	26.8	31.6	35.2	32.3	29.7	35.1	29.8	30.4	32.1	26.3	39.3	43.3
Total	16.9	38.1	29.2	35.4	30.3	34.8	29.7	34.1	30.4	26.4	32.9	29	29.8	45.5

Source: PCBS, Labor Force Survey, 1999-2008.

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

- ✧ The highest rate of unemployment is found amongst the young; particularly those aged 15-24 and mainly among females (see Table 14).
- ✧ There is a fundamental difference between male and female unemployment rates, particularly with regards to years of schooling. The unemployment rate for individuals having 13 years or more of schooling was higher for females than males. Actually, this difference has existed in the Palestinian labor market for a long time, which indicates that female labor force participation is increasing at a higher rate than the average increase in the demand for females in the labor market (see Table 15).

**Table 13: Total Number of Unemployed Persons from the Total Participants in the Labor Force (15 Years and above) in the Palestinian Territories According to Region, 1999-2007<sup>5</sup>**

Region	1999	2002	2003	2004	2005	2006	Q1/ 2006	Q1/ 2007	Q2/ 2007	Q3/ 2007
West Bank	44,000	135292	122924	124418	115417	112735	122922	103,800	100,500	118,200
Gaza Strip	35,000	81757	70919	87155	78606	92837	87375	88,300	76,900	99,000
Palestinian		217049	193843	211573	194023	205572	210297	192,100	177,400	217,200

Source: PCBS, Labor Force Survey, 1999-2007.

<sup>5</sup> Employment numbers in the fourth quarter of 2007 and the first quarter of 2008 are not available until the release of the final results of the Population, Housing and Establishments Census of 2007.

**Table 14: Unemployment Rate in the Palestinian Territories According to Gender and Age Groups: 1999-2008 (%)**

Age group & Gender	1999	2002	2003	2004	2005	2006	2007	Q1/2006	Q1/2007	Q2/2007	Q3/2007	Q4/2007	Q1/2008	Q2/2008
<b>Both Genders</b>														
15-24	17.3	48.2	38.4	39.8	36.4	35.7	35.3	39.1	34.6	30.5	38.8	36.9	37.0	39.7
25-34	11.4	36.6	24.1	25.1	22.0	23.0	20.3	23.9	20.6	18.5	22.1	19.8	21.9	25.6
35-44	9.0	37.2	21.6	22.2	18.6	18.7	16.0	21.1	16.7	15.0	14.9	17.4	16.6	20.5
45-54	8.8	30.5	19.0	22.2	19.1	18.7	16.2	19.8	16.6	14.2	17.6	16.6	15.7	18.2
55+	5.9	27.7	13.2	15.1	12.1	11.6	10.7	11.9	10.3	8.3	11.5	13.0	11.1	11.9
<b>Total</b>	<b>11.8</b>	<b>38.0</b>	<b>25.6</b>	<b>26.8</b>	<b>23.5</b>	<b>23.6</b>	<b>21.5</b>	<b>25.3</b>	<b>21.6</b>	<b>19.2</b>	<b>23.2</b>	<b>22.2</b>	<b>22.6</b>	<b>25.8</b>
<b>Males</b>														
15-24	16.9	47.0	38.3	38.9	34.8	34.4	34.0	37.8	33.1	29.5	37.0	35.9	35.0	38.6
25-34	10.5	37.4	25.1	26.1	21.3	22.9	19.8	23.6	20.6	17.3	21.1	20.3	21.4	25.4
35-44	8.8	39.7	23.6	24.4	19.7	20.1	17.4	21.9	17.9	16.1	15.8	19.7	17.6	22.6
45-54	9.6	32.2	21.3	25.4	21.9	21.5	18.9	22.0	18.8	16.9	20.4	19.3	18.2	20.4
55+	6.9	30.0	15.5	17.8	14.3	13.8	13.6	13.9	18.5	10.6	14.6	15.7	13.4	14.6
<b>Total</b>	<b>11.6</b>	<b>39.0</b>	<b>26.9</b>	<b>28.1</b>	<b>23.7</b>	<b>24.2</b>	<b>22.1</b>	<b>25.6</b>	<b>22.2</b>	<b>19.4</b>	<b>23.4</b>	<b>23.4</b>	<b>22.7</b>	<b>26.5</b>
<b>Females</b>														
15-24	20.6	59.7	39.1	44.8	46.1	43.2	42.5	47.9	43.4	35.4	49.6	42.6	47.3	44.6
25-34	16.1	28.9	19.4	20.6	25.5	23.1	22.1	25.0	20.9	23.1	26.7	17.8	24.1	26.1
35-44	9.8	14.1	10.8	11.5	13.2	12.2	10.3	16.8	11.6	11.1	10.8	7.5	11.2	11.7
45-54	5.2	10.9	6.5	5.0	4.2	5.2	4.5	7.5	6.7	2.6	4.0	4.9	3.9	7.8
55+	1.8	1.5	1.3	1.2	1.9	1.4	1.7	2.6	0.7	1.3	1.6	3.5	2.9	1.7
<b>Total</b>	<b>13.0</b>	<b>28.4</b>	<b>18.6</b>	<b>20.1</b>	<b>22.3</b>	<b>20.5</b>	<b>19.0</b>	<b>23.5</b>	<b>18.9</b>	<b>18.0</b>	<b>22.1</b>	<b>17.0</b>	<b>21.7</b>	<b>22.7</b>

Source: PCBS, Labor Force Survey, 1999-2008.

**Table 15: Unemployment Rate in the Palestinian Territories by Gender and Years of Schooling, 1999-2008 (%)**

Number of school years and Gender	1999	2002	2003	2004	2005	2006	2007	Q1/2006	Q1/2007	Q2/2007	Q3/2007	Q4/2007	Q1/2008	Q2/2008
<b>Both Genders</b>														
0	5.4	17.4	12.4	14.1	8	8.4	8.9	11.4	11.2	7.9	7.8	8.9	7.8	11.9
1-6	12.2	37.9	28.8	31.3	26.2	27.9	22.6	30.9	24.7	20	23	22.5	23.7	28.9
7-9	11.9	37.3	28.9	29.6	24.8	25.1	22.5	27.8	23.4	19.5	22.4	24.7	22.4	27.5
10-12	11.7	33.6	26.8	27.8	23.5	23.9	22.3	24.9	22.3	19.1	23.7	24.2	23.8	25.2
13+	12.5	18.9	19.9	21.3	21.8	20.8	20.3	21.6	18.3	19.5	24.4	18.6	21.9	24.5
<b>Total</b>	<b>11.8</b>	<b>31.3</b>	<b>25.6</b>	<b>26.8</b>	<b>23.5</b>	<b>23.6</b>	<b>21.5</b>	<b>25.3</b>	<b>21.6</b>	<b>19.2</b>	<b>23.2</b>	<b>22.2</b>	<b>22.6</b>	<b>25.8</b>
<b>Males</b>														
0	9.3	29.2	22.4	27.3	16.4	16.5	19.4	21.7	23.4	17.3	17.1	20.9	16.0	25.3
1-6	13.4	41.3	31.8	35	28.8	31	26.1	33.1	28.3	23.1	27	26.2	26.3	32.9
7-9	12.4	38.9	30.6	31.2	26	26.8	24.4	28.7	25.2	21.5	24.2	26.7	23.8	29.0
10-12	11.7	34.9	28.1	29.4	24.1	25	23.9	25.7	23.4	20.3	25.3	26.4	25.4	26.5
13+	8.8	17.5	16.3	16.8	16.6	15.9	14.5	17.1	12.5	13.6	18.1	13.5	15.7	19.8
<b>Total</b>	<b>11.6</b>	<b>33.5</b>	<b>26.9</b>	<b>28.1</b>	<b>23.7</b>	<b>24.2</b>	<b>22.1</b>	<b>25.6</b>	<b>22.2</b>	<b>19.4</b>	<b>23.4</b>	<b>23.4</b>	<b>22.7</b>	<b>26.5</b>
<b>Females</b>														
0	1.1	2.2	2.4	1.8	1.6	1.8	1.2	2.3	2.7	0.8	–	0.9	1.2	2.3
1-6	3.2	7.6	5.6	6.2	7.8	9.1	4.3	15.3	6.4	4.2	2.5	4.1	8.5	7.5
7-9	6.3	12.7	9.8	11.1	11.3	9.1	6.3	17.3	7.4	5.4	6.5	6	5.5	11.0
10-12	11.6	18.2	14.8	12.6	17.2	13.2	9.6	16.2	12.0	10.4	10.1	6	7.3	14.2
13+	21.9	22.5	28.3	30.8	32.5	31.3	32.4	31.2	30.6	32.1	38.1	28.8	33.8	33.1
<b>Total</b>	<b>13</b>	<b>17.1</b>	<b>18.6</b>	<b>20.1</b>	<b>22.3</b>	<b>20.5</b>	<b>19.0</b>	<b>23.5</b>	<b>18.9</b>	<b>18</b>	<b>22.1</b>	<b>17</b>	<b>21.7</b>	<b>22.7</b>

Source: PCBS, Labor Force Survey, 1999-2008.

### 3-3 Wages and Work Hours

Table 16 indicates that the average daily wage in the Gaza Strip is 71% of that in the West Bank and just 43% of the average daily wage for workers in Israel. This reflects the situation of demand for Palestinian workers in these three markets. However, it is known that the wide gap in the average daily wage between the West Bank and the Gaza Strip is not a new phenomenon but was present during the *pre-Intifada* period.

On the other hand, the average daily wage of West Bank employees increased during the 1<sup>st</sup> and 2<sup>nd</sup> quarters of 2008 by 2.5%, to reach NIS 86.9, while the average in the Gaza Strip decreased by 3.3%. At the same time, the average daily wage for those working in Israel and in the settlements increased from NIS 139.9 in the 1<sup>st</sup> quarter of 2008 to NIS 143.3 in the 2<sup>nd</sup> quarter of the same year (see table 16).

**Table 16: Average Weekly Work Hours, Number of Monthly Working Days and Daily Wage in NIS for Paid Workers from the Palestinian Territories by Place of Work, 1999-2008**

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>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>
<b>1<sup>st</sup> Q/2006</b>				
West Bank	41.6	23.2	77.9	70.0
Gaza Strip	40.4	23.5	70.1	65.4
Israel & Settlements	43.2	20.7	130.1	134.6
<b>Total</b>	<b>41.4</b>	<b>22.9</b>	<b>83.4</b>	<b>73.1</b>
<b>1<sup>st</sup> Q/2007</b>				
West Bank	41.9	22.2	79.4	70.0
Gaza Strip	40.6	23.5	66.9	61.5
Israel & Settlements	44.6	20.9	128.5	130.0
<b>Total</b>	<b>41.9</b>	<b>22.4</b>	<b>82.8</b>	<b>73.1</b>
<b>2<sup>nd</sup> Q/2007</b>				
West Bank	42.4	22.3	76.9	69.2
Gaza Strip	40.4	23.5	63.7	57.7
Israel & Settlements	45.9	19.4	130.9	126.9
<b>Total</b>	<b>42.3</b>	<b>22.3</b>	<b>80.4</b>	<b>70.0</b>
<b>1<sup>st</sup> Q/2008</b>				
West Bank	41.2	22.1	84.8	76.9
Gaza Strip	40.2	24.7	63.6	57.7
Israel & Settlements	43.0	20.4	139.9	134.6
<b>Total</b>	<b>41.4</b>	<b>22.3</b>	<b>91.5</b>	<b>76.9</b>
<b>2<sup>nd</sup> Q/2008</b>				
West Bank	42.7	22.3	86.9	76.9
Gaza Strip	40.0	24.2	61.5	57.7
Israel & Settlements	44.3	20.2	143.3	150.0
<b>Total</b>	<b>42.5</b>	<b>22.3</b>	<b>92.8</b>	<b>76.9</b>

Source: PCBS, Labor Force Survey, 1999-2008

### 3-4 Vacancy Announcements in Local Newspapers

There were 875 job vacancies advertised in the newspapers in the 2<sup>nd</sup> quarter of 2008, slightly more (0.6%) than in the previous quarter. As presented in table 17, the number of advertised vacancies in the private sector fell by 7%. This is in contrast with the advertised vacancies in the public sector, which increased 70%. With regard to areas, the share of the center of the West Bank accounted for 68.7% of total job vacancies advertised in the 2<sup>nd</sup> quarter of 2008 with a rise of 14.7% compared to the 1<sup>st</sup> quarter of 2008. With reference to scientific degrees, 65% of job

vacancies advertised demanded bachelor degree, 17.3% demanded master degree, and 18% demanded a diploma (see table 17). In addition, there were 40 advertisements that did not specify a number of vacancies.

In the Gaza Strip, the number of job vacancies increased in general. The number of advertisements in the non-governmental organizations sector increased by 94% compared to the first quarter of 2008. Meanwhile, the number of the advertised vacancies in the private sector fell by 73% compared to the first quarter while there were 12 job vacancies advertised by the public sector compared to 0 in the first quarter.

**Table 17: The Number of Job Vacancies Advertised in Local Newspapers in the Palestinian Territories (1<sup>st</sup> & 2<sup>nd</sup> Quarters 2008)**

	1 <sup>st</sup> Quarter 2008			Total	2 <sup>nd</sup> Quarter 2008			Total
	Jan	Feb	Mar		April	May	June	
Private Sector	170	155	237	562	146	210	169	525
Public Sector	7	2	21	30	25	7	19	51
NGOs	91	83	104	278	88	125	86	299
<b>Total</b>	<b>268</b>	<b>240</b>	<b>362</b>	<b>870</b>	<b>259</b>	<b>342</b>	<b>274</b>	<b>875</b>
Northern West Bank	62	28	90	180	32	33	25	90
Center of the West Bank	159	139	223	521	175	246	177	598
Southern West Bank	39	24	24	87	24	30	47	101
Gaza Strip	8	49	25	82	28	33	25	86
<b>Total</b>	<b>268</b>	<b>240</b>	<b>362</b>	<b>870</b>	<b>259</b>	<b>342</b>	<b>274</b>	<b>875</b>
Master Degree and above	45	75	58	178	28	77	47	152
Bachelor Degree	168	133	259	560	163	219	184	566
Diploma	55	32	45	132	68	46	43	157
<b>Total</b>	<b>268</b>	<b>240</b>	<b>362</b>	<b>870</b>	<b>259</b>	<b>342</b>	<b>274</b>	<b>875</b>

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

Table 18 shows the relationship between sectors and academic qualifications, where the demand for holders of bachelor degrees in both the private sector and NGOs sector reached 30% of total advertised jobs, while that for holders of master degree and diploma reached 25%. The demand for these three degrees is considered the highest in the private sector, followed by the NGO sector, and then the public sector.

**Table 18: The Number of Advertised Vacancies in the Local Newspapers by Sector and Scientific Degree during the 2<sup>nd</sup> Quarter of 2008**

	Public Sector	Private Sector	NGOs	Total
Master Degree and above	0	133	19	152
Bachelor Degree	46	260	260	566
Diploma	5	132	20	156
<b>Total</b>	<b>51</b>	<b>525</b>	<b>299</b>	<b>875</b>

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

## 4- Public Finance Developments

The most prominent incident in public finance development during the 2<sup>nd</sup> quarter of 2008 was the delay in the payment of the public sector employees' wages and salaries in June - the first delays since the inauguration of the current government. The Government usually pays the wages and salaries in the first week of each month after receiving the tax clearance proceeds collected by Israel on behalf of the PNA, but Israel did not transfer the funds by the 2<sup>nd</sup> of June as expected. Israel's withholding of tax clearances of NIS 330 million and its cutting of NIS 80 million for unpaid electricity bills by some municipalities brought the total amount down to NIS 250 million. Furthermore, the news about an additional cut of NIS 70 million, besides the delayed payment<sup>6</sup>, made the PNA unable to pay wages and salaries of its employees and therefore had to defer the June payment.

After these setbacks, the Palestinian government was able to pay 160,000 employees whose wages and salaries depend on local revenues and tax clearances, estimated at approximately \$120 million but amounted to approximately \$140 million due to the decline in the USD value vis-à-vis the NIS.

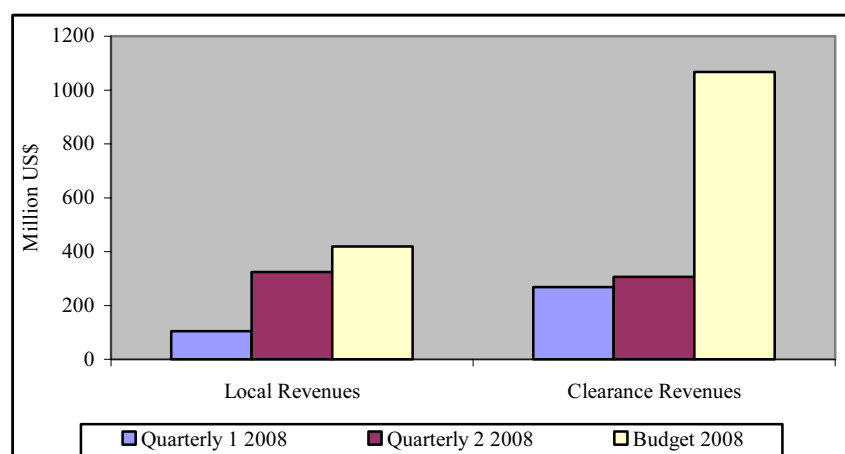
With regard to public finance developments in the 2<sup>nd</sup> quarter of 2008, the PNA's total revenue reached \$630.4 million; 51% of which were local revenues (total of \$324.1 million comprising of \$80.9 million from tax revenues and \$243.2 million non-tax revenues), and 49% of clearance revenues at a value of \$306.3 million. The tax returns reached 7% of total revenues at a value of \$43.2 million, and the total net revenues reached \$587.2 million in the 2<sup>nd</sup> quarter of 2008 with a 75% increase compared to \$335 million in the 1<sup>st</sup> quarter. This increase results from a rise in local revenues by 210% compared to the 1<sup>st</sup> quarter (including its two-fold tax revenues at the rate of 19% as a result of the campaign for the collection of local Value Added Tax (VAT) that started in April; and the non-tax revenues at the rate of 568%, which includes the Palestinian Investment Fund's proceeds of \$197.1 million for the repayment of PNA debts). This increase can also be attributed to the increase in clearance revenues by 14% due to the transfer of the interest earned on the frozen tax clearances (\$20.1 million). In light of this, the 1<sup>st</sup> half of 2008 witnessed a development pertaining to the local revenues, as well as to the tax clearance revenues, which was more than expected by the budget. The local revenues exceeded expectations, by \$10 million in the 1<sup>st</sup> half of the year, while the tax clearance revenues formulated 54% of the 2008 proposed budget for the same period. In the 2<sup>nd</sup> quarter, the total net revenues were 158% of the total revenues allocated for that quarter of the year, as per the 2008 proposed budget (estimated at approximately \$1,486 million). This is in accordance with the Midterm Palestinian Reform and Development Plan (PRDP) 2008-2010 adopted by the Palestinian Government. This means that the 2<sup>nd</sup> quarter of 2008 registered a surplus of around \$215.7 million in revenues (compared to the budget expectations) which redresses the deficit of \$36.8 million in the 1<sup>st</sup> quarter and also accrued a surplus of \$179 million in the 1<sup>st</sup> half of 2008.

However, the total revenues did not actually rise more than 11% in the 2<sup>nd</sup> quarter, compared to its level in the 1<sup>st</sup> quarter- excluding the Palestinian Investment Fund's proceeds (\$197.1 million) and the interests on the withheld tax clearances (\$20.1 million) since these are inconsistent and incidental revenues in the 2<sup>nd</sup> quarter only.

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<sup>6</sup> The delay of this transfer is attributed to an Israeli punishment for the message delivered by the PNA Prime Minister to the European Union on the 27<sup>th</sup> of May on the eve of the meeting of the European Union Foreign Ministers in Luxembourg to discuss their relations with Israel. The Palestinian Prime Minister demanded that the EU halt the upgrading of the level of their relations with Israel as long as the latter is not complying with the international resolutions.

**Figure 1: Public Revenues Development in the 2<sup>nd</sup> Quarter of 2008**



Source: Ministry of Finance

With regards to grants and assistance from donor countries in support of the budget, there was a decrease of 22% in total grants and assistance delivered in the 2<sup>nd</sup> quarter compared to the 1<sup>st</sup> quarter, reaching a total of \$410 million - \$115 million less than Q1. The Arab Countries' assistance declined in the 2<sup>nd</sup> quarter compared to the 1<sup>st</sup> quarter by 49%, while international assistance declined by 11%, as much as \$40 million. The lion's share of Arab assistance was that of the Arab League, which amounted to \$62.9 million, while the Palestinian European mechanism 'PEGASE'<sup>7</sup> provided the lion's share of international assistance with as much as \$174 million, followed by the World Bank share of \$148 million. The total grants and assistance delivered to the PA in support of the budget until the end of 2008 reached \$936 million, constituting 57% of the total grants and assistance expected in the 2008 budget.

**Table 19: Public Revenues Development in the 2<sup>nd</sup> Quarter of 2008 (USD million)**

Revenues	Q1/ 2008	Q2/ 2008	Percentage Change %	1 <sup>st</sup> half 2008	2008 Budget	1 <sup>st</sup> half Share 2008 Budget (%)
Local Revenues	104.5	324.1	210	429	419	102
Tax Revenues	68.1	80.9	19	149		
Non-Tax Revenues	36.4	243.2	568	280		
Clearance Revenues	267.9	306.3	14	574	1067	54
<b>Total of Current Revenues</b>	<b>372.4</b>	<b>630.3</b>	<b>69</b>	<b>1003</b>	<b>1486</b>	<b>67</b>
<b>Net Revenues<sup>8</sup></b>	<b>334.9</b>	<b>587.2</b>	<b>75</b>	<b>922</b>		<b>62</b>
Budget Grants	525.6	410.3	-22	936	1634	57
Grants for Development Projects					492	
<b>Grants and Assistance</b>	<b>525.6</b>	<b>410.3</b>	<b>-22</b>	<b>936</b>	<b>2126</b>	<b>44</b>
<b>Total Public Revenues and Grants</b>	<b>898.0</b>	<b>1040.7</b>	<b>16</b>	<b>1939</b>	<b>3612</b>	<b>54</b>

Source: The Ministry of Finance

<sup>7</sup> PEGASE is the French acronym for: Mécanisme "Palestino - Européen de Gestion et d'Aide Socio-Economique which stands for the Palestinian European mechanism for social and economic assistance. It was launched by the European Commission on Feb 1, 2008 as a new mechanism for the provision of financial support from the EU and other international parties to the PNA. PEGASE builds on the Temporary International Mechanism (TIM) which attracted contributions from 19 international donors from the EU member countries that amounted to €190 million. PEGASE is an open mechanism that seeks to facilitate support from the European Community, EU Member States and other donors wishing to channel aid to the Palestinians, mobilising and managing contributions from donor countries. In contrast to the 3-months renewal period for the TIM, PEGASE is a long-term development instrument with a 3-year time horizon in alignment with the Palestinian Reform and Development Plan (PRDP). The support will be directed to four key sectors: governance, social affairs, economic and private sector development, and infrastructure.

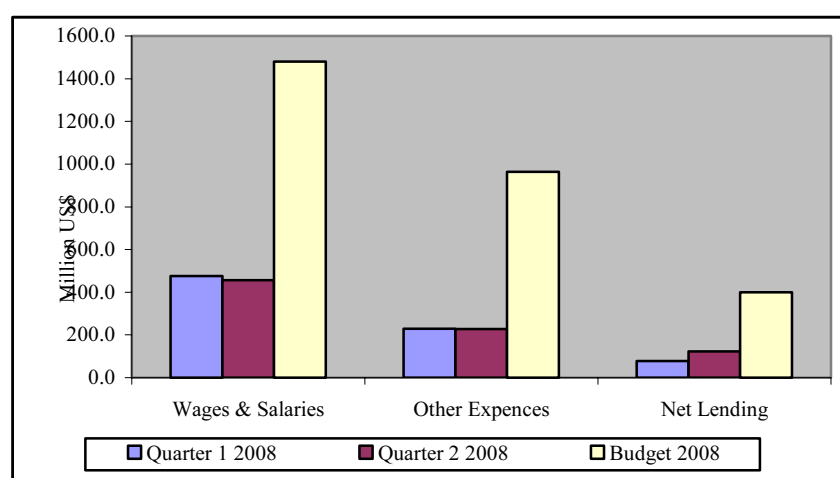
<sup>8</sup> Net revenues are total current revenues after the deduction of the tax returns.



On the expenditure level, total public expenditures reached \$808 million with a decrease of 2.9% from 1<sup>st</sup> quarter levels. The wages and salaries bill hit \$456.7 million with a decrease of 4.2% of its 1<sup>st</sup> quarter level as well<sup>9</sup>, and comprised 67% of the total current expenditures, whilst other expenses (operational, transfer payments and capital expenditures) covered 33% i.e. \$228 million.

In spite of the government's efforts to restrict net lending (which includes tax deductions or losses in the marketing of petroleum products) in order to alleviate budget burdens, it rose to 59% of its level in the 1<sup>st</sup> quarter (\$123.3 million) as a result of the rise in petrol prices and temporary suspension of measures previously adopted to collect public utilities bills. Net lending saw a noticeable decrease compared to 2007 levels, and is expected to drop again in the 2<sup>nd</sup> half of 2008 in view of reasserting measures for the full collection of bills. It can be noted that the current public expenditures for the 1<sup>st</sup> half of 2008 constituted 56% of what was allocated for it in 2008 budget of \$1,590.8 million.

**Figure 2: Public Expenditures Developments in the 2<sup>nd</sup> Quarter of 2008**



Source: Ministry of Finance

In view of the PNA financial performance in the 2<sup>nd</sup> quarter of 2008, represented by a rise in aggregate net revenues (\$587.3 million) and a rise in aggregate expenditures and net lending (\$808 million), the current accounts produced a deficit of \$220.7 million- resulting from the increase in expenditures that exceeded the revenues. This deficit was financed by the external assistance disbursed to the PA from donors' countries that, in turn, created a surplus in the budget of the 2<sup>nd</sup> quarter by \$189.6 million - most of which was used to pay back the amount of \$175.6 million for the arrears accrued to local banks.

Considering the financial developments in the 1<sup>st</sup> half of 2008, public expenditures (\$1590.8 million) exceeded public revenues (922.2 million) with a deficit of \$668.6 million, financed by grants and assistance received by the PA in the first half of 2008 from donors' countries (amounting to \$935.9 million). This resulted in a surplus of \$267.3 million that has been utilized to repay the arrears accrued to banks.

Following on from the progress, during the 2<sup>nd</sup> quarter of 2008, of the midterm Palestinian Reform and Development Plan (PRDP) 2008-2010<sup>10</sup>, the Government continued with the policies started in the beginning of the year to restrict public employment. It therefore averaged 142,000 in the first half of 2008 compared to the budget-expected average of 150-153,000.

<sup>9</sup> Wages expenditures registered 3% increase equivalent to \$11 million as a result of the increase in transportation allowances by 50% in April. The actual disbursement of this increment actually started in June.

<sup>10</sup> Macroeconomic and Fiscal Framework for the West Bank and Gaza: Second Review of Progress, Staff Report for the Meeting of the Ad-Hoc Liaison Committee, New York, September 22, 2008. Ministry of Finance, semi-annual Analytical Report, 2008

**Table 20: Public Expenditures Developments in the 2<sup>nd</sup> Quarter of 2008  
(USD million)**

	Q 1/ 2008	Q 2/ 2008	Percentage Change of Q2 over Q1 %	1 <sup>st</sup> Half 2008	2008 Budget	Percentage of the 1 <sup>st</sup> half in 2008 Budget %
Wages and Salaries	476.5	456.7	-4.2	933.2	1481	63
Other Expenditures (Operating, transfer payments & capital expenditures)	228.8	228.0	-0.3	456.8	964	47
Net Lending	77.5	123.3	59.1	200.8	400	50

Source: The Ministry of Finance

The Government also continued with the complete freezing on average wages. In addition, measures continued that urged the municipalities and local authorities to take up their responsibilities of collecting utilities bills, which would lead to a reduction in net lending. Noticeable progress has been made towards ending the habitual conduct of abstaining from paying services bills. The Government has also won their appeal against the withdrawal of a verdict for the suspension of the 'quit-claim' that the citizens usually need in order to acquire public utilities.

Following the Government's strategies for public fiscal reform, which started with the amendment of the basic finance law and the creation of the general audit office within the Ministry of Finance (MoF), ten ministries were linked to the new accounting system. The MoF also intends to create a Monetary Planning Unit within the General Audit office which would assist the MoF in its efforts to prioritize the expenditures and limit the accumulation of arrears. Moreover, in continuation of MoF measures to enhance fiscal transparency, the MoF monthly fiscal report is posted regularly on the ministry's website 15 days after the end of each month.

With regard to foreign grants and assistance in support of the current expenditures, what was allocated and disbursed up till now is more than what was committed by the Palestinian Donor's Conference in Paris, December 2007. However, this was far less than what is needed to finance total monetary deficit for the year 2008. It is expected that foreign financing requirements for 2008 would reach \$1, 85 billion, \$1.2 billion of which has been disbursed until August. This means that around \$650 million are available to cover the deficit in the remaining period of the year. This resulted from the repayment of wages arrears more rapidly than envisaged by the PRDP, the increase of net lending by more than was assumed in the budget, and the rise of the NIS value versus the USD, has widened the financing gap. It is expected that the required foreign financing for 2009 will drop to \$1.3 billion to represent the decrease in expenditures rates and the increase of revenues which will be reflected in the budget. 1/3 of this amount has been earmarked.

## 5- Banking Developments<sup>11</sup>

The Palestinian banking sector has been affected by the economic deceleration that characterized the second quarter of 2008. Most of the banking indicators were on the decline, as banks' assets slightly decreased, accompanied with some changes in the sources and utilization of these assets. Clients' deposits increased with more concentration in the West Bank as a result of the situation which the Gaza Strip is undergoing. The banks enhanced their financial base ensuing from the increase of paid capital and, specifically, from the current profits. On the other hand, a slight decline occurred on the outstanding value of direct credit facilities and investments.

<sup>11</sup> Data on banking developments in this section are preliminary and subject to change

It is worth pointing out that the decline in both the assets and total credit facilities is attributed to the compliance with the new Palestine Monetary Authority (PMA) regulations that stipulate the exclusion of those defaulting credit facilities and their provisions in which bad periods exceeded 6 years or more. As a result of this, 30% of bad debts, 40% of the provisions allocated for them and 47% of their matured profits were excluded. This reflected on the Palestinian total banks' assets. We find that the net credit facilities, which give an idea about the size of the credit facilities after canceling all provisions, increased by 3.6%, indicating an increase in the size of credit facilities extended despite the deterioration of political and economic conditions.

On the other hand, banks directed more funds to securities, especially in long term investment.

In general, the following are the most prominent banking developments during the 2<sup>nd</sup> quarter of 2008 compared to the 1<sup>st</sup> quarter of the same year:

- ✧ Total banks' assets declined by 2.3% to reach \$7,301 million.
- ✧ Clients' deposits increased by 3.2% to reach \$5,599 million.
- ✧ The equity of banks increased by 1.6, amounting to \$775 million.
- ✧ Outstanding value of credit facilities declined by 1.5%, to \$1747 million, in contrast with an increase by 3.6% in net credit facilities extended during the same period - to \$1,632 million.
- ✧ Investments activities declined by 1.2%, decreasing the banking sector investments to \$189 million, in contrast with a noticeable improvement in the investments portfolio that increased by 12%, with the amount invested in this portfolio reaching \$207 million.
- ✧ A decline in the foreign investments at the rate of 2.9%, decreasing to around \$3,722 million.
- ✧ An increase in the number of bounced checks by 2.9% in numbers and 1.8% in value.

## 5-1 Local Liquidity

The factors that influence local liquidity and inflationary pressures vary according to the alterations in economic conditions, business cycle and the developments in interest rates in international markets. In spite of the growth indicators expected on the international level over 2008, there has been a relative decline in liquidity in the first half of the year. This pushed many central banks in big industrial countries (The USA, European Union, Japan and others) to relax their tight monetary policies by reducing official interest rates. Monetary authorities in many Arab Countries resorted to the reduction of interest rates in line with the increased reduction in American interest rates in order to maintain the fixed exchange rate of their USD-pegged currencies, or when their foreign currencies basket is dominated by the USD. This is added to the challenge imposed on the management of monetary policies by the increase in oil prices in the international markets with regard to containing the resultant excess liquidity; the matter that forced those banks enjoying high liquidity to increase their loans, thus producing inflationary effects on the economy.

As for the situation in the Palestinian Territories, the local liquidity produced inflationary effects in the economy, especially in the West Bank, due to its increase by 3.8% reaching \$5,110.7 million. This was influenced by the economic performance, on one hand, and the changes in the principal elements affecting liquidity on the other (i.e. the net foreign assets, net domestic assets and net other assets).

At the time the economy realized an increase in local liquidity by 0.7% in the first half of 2008 owing to the growth in the GDP. The net foreign assets<sup>12</sup> also showed an expansive effect on the liquidity, due to its increase by 3.55% to reach \$4,395.5 million (in part, due to the size of the current net transfers). For instance, the data published by the Ministry of Finance indicates that

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<sup>12</sup> On the assets side, these include the cash-in-vaults, the balances in banks abroad, the investments portfolio abroad, the credit facilities extended to non-residents, foreign investments and bank acceptances and bills of exchange held by banks abroad; and on the liabilities side, it includes balances with banks abroad, deposits of non-residents, external debt instruments and acceptances and bills of exchange held by banks abroad.

during the 1<sup>st</sup> half of 2008, the public sector received \$948 million in grants and assistance, \$422 million of which were received in the 2<sup>nd</sup> quarter of the year.<sup>13</sup>

Nevertheless, the weak economic activities were mainly reflected in the net domestic assets- having a contractionary effect on local liquidity- decreasing it by 1.8%, and dropping it to \$1,458.2 million. This was triggered by the decline in the net domestic assets, extended to other sectors (other than the public sector) including the private sector. So, while the credit facilities extended to the public sector expanded the status of local liquidity, with a 38.8% increase, those extended to other sectors caused a contraction of 4.6%. The net transactions in the net of other items<sup>14</sup> display an expansion in local liquidity by an improvement of about 8.0% partially attributed to the PMA regulations to regulate the banking sector in the framework of the policies aiming to raise banks' capital by increasing their capacity to meet internationally practiced criteria for sufficient capital.

**Table 21: Local Liquidity Status for Banks Operating in the Palestinian Territories**

(USD Million)

Item	2006	2007	2008	
			Q1	Q2
Net Foreign Assets	2865.7	4008.4	4246.4	4395.5
Net Domestic Assets	1634.6	1416.3	1485.0	1458.2
Net Claims on the Public Sector	222.6	49.3	95.2	132.1
Net Claims on the Private Sector	141.2	1367.0	1389.8	1326.1
Other Items (Net)	-646.7	-784.5	-807.2	-743.0
Deposit Money	3853.6	4640.2	4924.2	5110.7

Source: PMA, Monthly Monetary Survey

## 5-2 Banking Sector Developments

The relationship between the banking sector and the economic activities is characterized by a reciprocal interconnection as the banking system influences, and gets influenced, by economic changes. It also plays a vital role in economic development and in driving economic growth through its intermediary role between surplus and deficit units. The banking sector also affects the prevailing inflation rates in view of its capacity to generate money which in its turn affects the general level of prices.

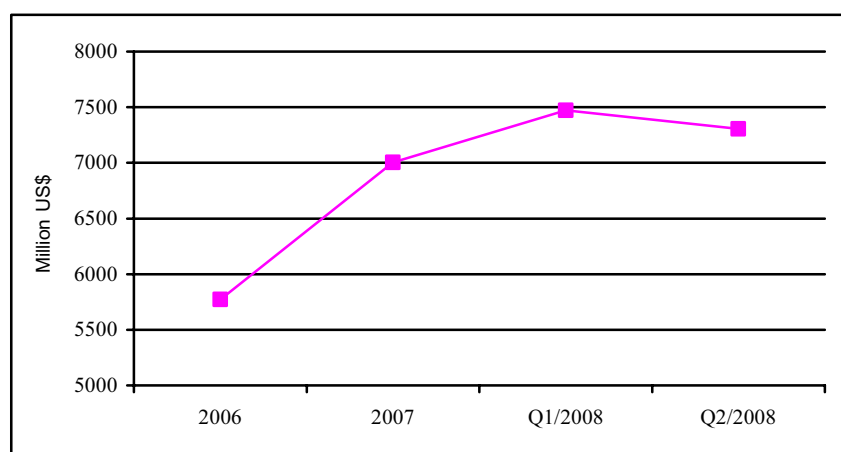
In spite of the persistent efforts undertaken by the banking system to enhance its performance and develop its services in harmony with the international developments and criteria of the banking industry, the unfavorable political and economic conditions, together with high risk levels in the Palestinian Territories, are impeding this at certain times. The banking system has been affected by the persistent slowdown of the economy during the 2<sup>nd</sup> quarter of 2008, with data indicating a decline in assets of 2.3% reaching \$7,301 million, besides some changes in the use and source of this money. On the side of assets (the use of money), this is mainly attributed to the decline in the banks' balances in Palestine and abroad, whilst this decline on the side of liabilities (the source of money) is connected with the changes that occurred in the PMA and banks' balances.

Despite the decline in the banks' budgets, the primary items in the assets structure maintained their relative stability. The balances with the PMA and banks dominated, with 59.3%, the direct credit facilities formed 23.9%, monetary assets 5% and the other assets 11.8% of total assets. On the liabilities side, it is noticed that the relative importance of clients' deposits rose by 76.7% and equities by 10.6% in face of a drop in the relative importance of the balances with the PMA and banks by 6.2% and in other liabilities by 6.4% of total assets.

<sup>13</sup> See MoF Monthly Financial Data.

<sup>14</sup> This item includes all elements that were not enlisted within the items pertaining to assets, foreign liabilities, local credit facilities and monetary totals including fixed assets and others, capital, allowances and other liabilities.

**Figure 3: Development in Banks' Assets in the Palestinian Territories**



Source: Table 22

It can be generally said that the banks maintained about 22.6% of their assets in the form of cash and balances inside the Palestinian Territories and 41.7% in balances with banks abroad. This is opposed to the investment of 29.3% of its assets in credit facilities and investments, in view of the prevailing unfavorable political and economic conditions in the Palestinian Territories, especially in the Gaza Strip, that shape the risk levels and influence the decisions regarding the availability of investment opportunities.

It is also worth noting that there is a high degree of compatibility among the currencies formulating the assets structure with the USD dominating around 48.5% of the total assets and 49% of the total liabilities; whilst the JOD captures a share of 28.4% and 27.8% of the assets and the liabilities respectively, the NIS forms 18.2% of the assets and 18.4% of the liabilities and the other currencies constitute 4.8% of each of the assets and the liabilities. The banking system aggregate balance sheet is therefore unlikely to be exposed to the risks of currency mismatch.

**Table 22: Banks' Consolidated Balance Sheet**

Budget Item	(USD Million)			
	2006	2007	2008	
			Q1	Q2
Cash & Precious Metals	173.3	341.4	357.3	367.6
Balances with the PMA & Banks	3112.3	4186.7	4492.9	4332.0
Investments Portfolio	60.9	165.0	185.7	206.6
Direct Credit Facilities	1843.4	1705.2	1773.1	1746.1
Banks Acceptances	1.9	4.9	3.4	4.2
Investments	160.4	157.1	190.1	188.6
Fixed Assets	192.4	216.7	218.3	223.1
Other Assets	227.6	226.9	250.4	232.3
<b>Total Assets</b>	<b>5772.1</b>	<b>7003.9</b>	<b>7471.9</b>	<b>7301.1</b>
Deposits of PMA and Banks	461.4	605.5	660.4	455.1
Total Clients' Deposits	4215.9	5117.7	5424.7	5599.0
Acceptances Executed & Outstanding	8.2	19.1	16.7	15.9
Other Liabilities	159.8	182.9	217.8	143.4
Provisions for Tax & Others	329.8	376.7	390.0	313.1
Equity	597.0	702.0	762.3	774.6
<b>Total Liabilities</b>	<b>5772.1</b>	<b>7003.9</b>	<b>7471.9</b>	<b>7301.1</b>

Source: PMA Call Report, Banking Surveillance.

### 5-2-1 Clients' Deposits

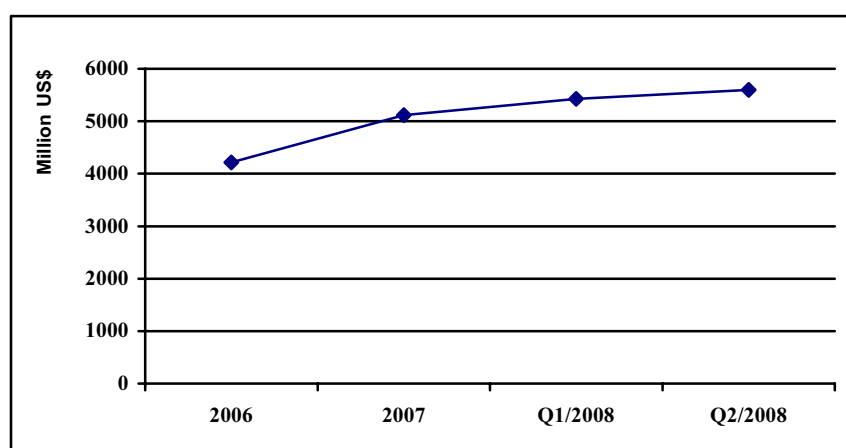
The main function of banks is to accumulate the savings from the surplus units of the economy and provide it to the deficit units. The capacity of the banks in undertaking this mission (to attract savings) relies on a number of factors; some have to do with the general political and economic situation, and others pertain to the clients and their awareness of the importance of depositing instead of hoarding. Other factors are relevant to the banking system itself: its security and trust of customers, as well as the desire of banks to extend loans and their paid interest rates.

In this context, clients' deposits witnessed a rise of 3.2%, reaching \$5,599 million during the 2<sup>nd</sup> quarter of 2008, forming the key source of funds available for banks and capturing 76.7% of the total sources of funds. This is partially attributed to the increase in the deposits of the resident private sector resulting from the increase in the level of transfers from abroad (grants & assistance). In addition, the change in the USD exchange rates versus other currencies, especially the NIS and the Euro, had a negative effect on the real value and purchasing power of the deposits in the USD.<sup>15</sup>

Clients' deposits concentrated in the West Bank, which captured the lion's share of 83.5% of total deposits to the amount of \$4,672.6 million, an increase of 3.5%. Clients' deposits were on the rise in the Gaza Strip since the beginning of this year with its relative importance reaching 16.5% of total clients' deposits worth of \$926.4 million, increasing about 2%. It is known that the main part of clients' deposits in the Gaza Strip is relevant to the resident private sector at a rate exceeding 92%; the rest are public sector deposits which continue their inclination towards a decline both in the West Bank and the Gaza Strip.

The public sector deposits decreased by 5.8% and its accumulative total dropped to \$501.7 million, comprising 9% of total clients' deposits. This decline is driven by a decrease of 6.1% in the PA deposits, dropping to \$364.5 million (15.5% of which are in the Gaza Strip), in addition to a decline in the deposits of the local Palestinian authorities and non-financial public sector institutions by 5.2%, reaching \$137.2 million (12.3% of which are in the Gaza Strip). In general, the public sector deposits are associated to the regular transfer of the clearance revenues from Israel and the transfers from the donors' countries in support of the PA commitments, mainly the wages and salaries bill of the public sector employees.

**Figure 4: General Trends in Clients' Deposits**



Source: Table 23

<sup>15</sup> In the absence of national currency, banks prepare their annual closing accounts in the USD or JOD using (for the purpose of evaluation) the exchange rates announced by the PMA which indicated that the USD exchange rate declined by 5.1% vis-à-vis the NIS during the 2<sup>nd</sup> quarter.

On the other side, the private sector's deposits witnessed an increase of 4.2%, reaching \$5,097.4 million, which constituted 91% of total clients' deposits given that these deposits are subject to the full control of the resident private sector, whose deposits amounted to \$4970.6 million with a 4.1% increase in the 2<sup>nd</sup> quarter of 2008. The private sector deposits are distributed as follows: 90.4% for individuals, 9.1% for companies and 0.5% for NGOs. This increase in the private sector deposits is linked with the improvement of the net savings in the current net transfer account in the balance of payment. The trend of this account indicates an obvious increase in the size of assistance to the private sector from relatives and connections. Part of this assistance was used directly in daily life to face difficult living conditions, and the rest was kept aside as deposits, until needed or to make use of the interests incurred. Data indicates that long term time-deposits with an interest rate of about 2.4% are on the rise and are dominating 40.4% of total clients' deposits. Saving accounts have also risen by 7.0% at the rate of 24.5% of total clients' deposits and current accounts have also risen by 1.7%, comprising 35.1% of total clients' deposits.

The main deposit currencies maintained their general trend. The USD was still the leading deposit currency, dominating 46.6% of clients' deposits despite its decline and the fluctuations in its exchange rate versus other currencies. This shows that the USD (together with the JOD) continued to represent the main currency for deposits (in spite of the drop in USD deposits by 1.7% during the 2<sup>nd</sup> quarter), given that the largest part of foreign assistance arrives in this currency. In addition, a major segment of employees receive their salaries in the USD. The JOD deposits come next as it increased by 7.7% and captured 25.8% of total clients' deposits.

**Table 23: Distribution of Clients' Deposits**

	2006	2007	2008 (USD Million)	
			Q1	Q2
<b>By Geographical Distribution</b>				
WB Governorates	3294.4	4237.6	4516.3	4672.6
GS Governorates	921.5	880.1	908.4	926.4
<b>By Depositing Party</b>				
Public Sector	376.4	505.3	532.7	501.7
Private sector/resident	3749.2	4495.5	4776.8	4970.6
Private Sector/non-resident	90.3	116.9	115.2	126.7
<b>By Type of Deposit</b>				
Current	1402.4	1790.9	1971.9	2008.5
Saving	927.4	1142.4	1230.6	1328.3
Time	1886.1	2184.4	2222.2	2262.2
<b>By Type of Currency</b>				
US Dollar	2316.2	2637.0	2655.2	2611.2
Jordanian Dinar	1078.8	1261.4	1341.7	1445.3
Israeli Shekel	603.5	916.9	1106.8	1205.8
Other	217.4	302.4	321.0	336.7

Source: PMA Call Report, Banking Surveillance.

The slight drop in the relative importance of the USD deposits was in favor of NIS deposits, which grew at a rate of 8.9%, comprising about 21.5% of total clients' deposits. The NIS deposits are mostly used in the clearing of commercial transactions with Israel (commodity & service imports and NIS clearances); besides it being the currency for paying wages and salaries for the PNA employees and some other private sector institutions, as well as the main traded currency in the Palestinian market. The NIS status has improved in light of the positive direction of the Israeli economy (despite preliminary estimates that indicate a slow down in the economic performance in 2008 compared to 2007) and the rise in its exchange rate versus the USD, especially after it became internationally convertible. The status of other currencies have also been enhanced in the

clients deposits, including the Euro, to about 6% with an increase of 4.9% influenced by the rise in the Euro exchange rate vis-à-vis the USD, as well as the increased foreign assistance in the Euro.

In general, the banks operating in the Palestinian Territories had achieved an evident success in attracting clients' deposits as a result of the policies they followed in this regard as well as the progress in the clients' banking awareness and their trust in the banking sector, which by itself denotes the security of the Palestinian banking system. It is worth saying that 35% of the clients' deposits are usually non-interest accounts as most of the clients' deposits can be listed as short-term. The maturity period of more than 99% of these deposits is less than one year; 95.1% of the total deposits mature in less than 180 days while the maturity period of 76.1% of these deposits does not exceed one month. This means that most clients' deposits are unlikely to be subjected to the risks of interest rate fluctuations, either for being non-interest deposits or because the interest rate did not change during the period of maturity. However, these deposits are subject to the risks caused by the fluctuations in the exchange rates, in specific the USD,<sup>16</sup> which will consequently affect their purchasing power.

### **5-2-2 Equity**

The operating banks continued to supplement and enhance their capital, which represents an important resource of finance. Data indicated an increase of 1.6% in the equity of banks, reaching \$774.6 million and composing 10.6% of total liabilities (money sources), during the 2<sup>nd</sup> quarter. This increase is attributed particularly to the increase in paid capital, up by 8.7% to reach \$583.3 million, since many banks rectified their status and increased their capital in order to correct their position in the Palestinian money market in accordance with the PMA regulations stipulating a raise in the capital of the banks operating in the Palestinian Territories. The remarkable increase of 11.4% in current bank profits accrued during the 2<sup>nd</sup> quarter, reaching \$60.1 million, together with an increase of 3.4% in undistributed profits (retained earnings), has accumulated \$12.1 million that are expected to be capitalized. Although the decisions concerning the profits are left to the bank itself, in the absence of PMA instructions dictating otherwise, distribution of profits is not allowed without the approval of the PMA.

As for capital adequacy, which is the capital base versus the risk-weighted assets usually calculated for local banks only, as the guest banks are in fact branches of their mother banks abroad, it reached 23.6%. This rise is attributed to the power of the paid capital of the banks operating in the PT on one hand and the decrease of risk-weighted assets on the other. A decline of this rate is expected if Basel II resolutions were applied.

### **5-2-3 Lending Activity**

The role of the banking sector in the economic development is dependent on the credit facilities' policies (expansive or contractive) and on their ability to provide the necessary financial resources to enhance productive activity and to motivate aggregate demand. But the unfavorable political and economic conditions in the Palestinian case, particularly in the Gaza Strip, created a high degree of caution among banks and prudence represented in a reserved policy on the side of credit facilities, in contrast with expansive and open policies in their other activities.

In this context, direct credit facilities are of great importance due to its influence on economic performance and development, and its association with the liquidity and growth of the economy - besides its dominating a considerable part of the available funds. The expansion in credit facilities requires compatibility among the main determinants, especially those relevant to the banks' capacity to attract deposits. Although banks were successful in attracting more deposits, the unfavorable political and economic situation did not help to reflect this increase by expanding

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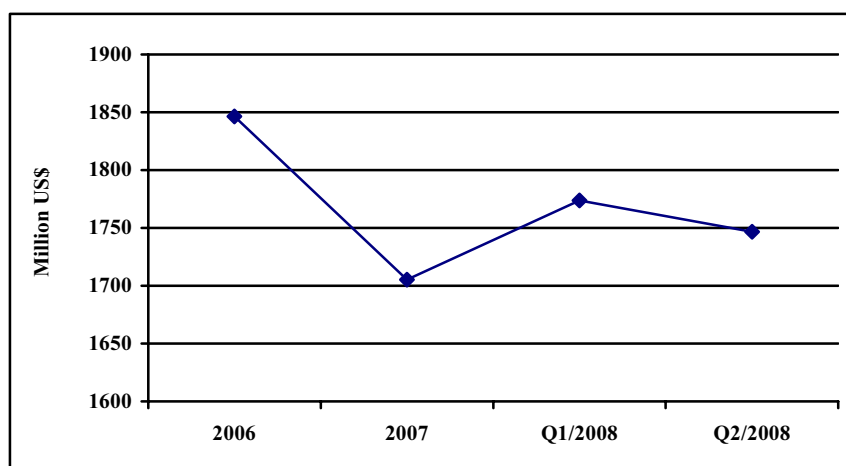
<sup>16</sup> The PMA, Monthly Statistical Bulletin indicates that the USD exchange rate during the 2<sup>nd</sup> quarter of 2008 has declined by 5.1% vis-à-vis the NIS.



credit facilities during the 2<sup>nd</sup> quarter of 2008 which witnessed a decline in the credit outstanding value by 1.5%, dropping to \$1746.7 million, most of which is utilized in various areas of the Palestinian Territories and economic sectors.

It is worth noting that the decline in total credit facilities is partially caused by the compliance of banks with new PMA instructions stipulating the exclusion of defaulting credit facilities and the provisions allocated against them when bad periods exceed 6 years or more. As a result of this, 30% of the size of bad debts, and 40% of the provisions allocated against them, were excluded. Thus, we find that the net credit facilities (credit facilities after canceling all provisions) increased by 3.6% and reaching \$1,631.7 million, indicating an increase in the size of credit facilities despite the deterioration of political and economic conditions. It must be pointed out that these figures reflect the position of the stocks rather than the flows; therefore it might not be a real decline but, in part, a sign of the increase and regularity of repayment of these credit facilities<sup>17</sup> a factor that positively affected the increase of repaid amounts, consequently decreasing the outstanding credit facilities balance. This decline might be real as a result of the reserved policy in credit facilities extension in view of the new developments on the ground, their influence on the economic conditions, the halting of the productive and commercial activities and, therefore, the decrease in credit facilities demand, particularly in the Gaza Strip, which suffered from a persisting decline in the credit facilities balance by around 24.2% dropping to \$237.4 million and losing 13.6% of the relative importance of the total outstanding balance.

**Figure 5: General Trends in Direct Credit Facilities Portfolio**



Source: table 24

On the other side, the credit facilities balance increased in the West Bank by 3.3% to reach \$1,509.1 million, producing more concentration of extended credit facilities in the West Bank and dominating 86.4% of total outstanding balance. This is an obvious indication to the correlation, totally or partially, between these credit facilities and the economic activity and business cycle which was more stable in the West Bank.

The change in the exchange rates of various currencies reflected on the credit facility activities. The extended balance in the USD decreased by 3.6% to the value of \$41.6 million; along with a decrease in the outstanding balance in JOD by 12.9% to the value of \$22.4 million, due to the decrease in its exchange rate as it is USD-pegged currency. The extended balance in other currencies, including the Euro, has also declined to the value of \$6.7 million at the rate of 31.5% as a result of the fluctuation in its exchange rate versus the USD. In contrast, the extended outstanding balance in the NIS increased to the value of \$43.7 million at the rate of 10.4% influenced by the rise in its exchange rate vis-à-vis the USD.

<sup>17</sup> The PMA contributed to the regulation of the repayment of these loans by specifying certain rates and mechanisms, in agreement with the banks, so that a deduction of 35% of the salaries and other benefits is enacted for the repayment of matured installment.

**Table 24: The Distribution of the Direct Credit Facility Portfolio**

	(USD Million)			
	2006	2007	2008	
			Q1	Q2
<b>By Geographical Distribution</b>				
WB Governorates	1330.0	1390.6	1460.6	1509.1
GS Governorates	513.3	314.6	313.2	237.6
<b>By Depositing Party</b>				
Public Sector	483.0	421.5	500.6	511.3
Private sector/resident	1278.8	1208.8	1191.2	1140.5
Private Sector/non-resident	81.5	74.9	82.0	94.9
<b>By Type of Deposit</b>				
Loans	1167.1	1077.4	1062.0	1065.2
Overdrafts	665.8	616.8	700.9	670.7
Leases	10.4	11.0	10.9	10.8
<b>By Type of Currency</b>				
US Dollar	1317.3	1167.1	1159.5	1117.9
Jordanian Dinar	196.6	186.2	173.5	151.1
Israeli Shekel	315.3	336.5	419.4	463.1
Other	14.1	14.4	21.4	14.6

Source: PMA Call Report, Banking Surveillance.

In spite of these changes, the credit facility balance framework retained its general trend in all currencies. The USD remained the main currency for credit facilities, dominating 64%, followed by the NIS with a share of 26.5%, the JOD at a rate of 8.6% and the other currencies by approximately 0.8% of the total outstanding balance. The relative importance of various types of credit facilities kept their general direction. The loans balance rose by 0.3%, dominating the lion's share of 61% of the total balance, followed by the overdrafts balance which declined by 4.3% to constitute about 38.4% of the total outstanding balance, and finally the lease financing balance which declined by 1.8% to form 0.6% of the total outstanding balance.

The decline in the credit facilities balance was confined to the private sector. As for the public sector, the extended credit facilities balance rose by 2.1% reaching \$511.3 million at the rate of 29.3% of the total balance. This is due to the increase in the extended balance to the PNA by 2.8% making around \$491.2 million opposed to a decline in the extended balance to the local authorities and the non financial public sector institutions by 13.3% dropping to \$20.1 million.

The public sector debt peaked at \$591 million in 2005, and then started receding to reach \$511.3 million by the end of the 2<sup>nd</sup> quarter of 2008- resultant from the persistence in debt repayment.

On the other hand, the share of the private sector diminished by 3.0% , still dominating 70.7% of the outstanding credit facilities at the value of \$1235.4 million, influenced by the severe decline in the private sector activities in the Gaza Strip, reflected in a decline by 17.2% in its balance extended, opposed to 0.8% decline of the balance extended to the private sector in the West Bank - whereas the balance extended to non-residents ascended by 15.8%, reaching \$94.9 million, as this balance does not exceed 5.4% of the total outstanding.

In general, the unfavorable political and economic conditions did not encourage the banks to adopt credit facility policies on the same level of efficiency as their policies to attract the savings of the citizens. Conservatism has been the main characteristic in this regard due to the high level of risks and persistent fluctuations in the economic conditions, as well as the financial instability of the

government. Therefore, banks were consistently worried about more aggravation in the situation, a factor that negatively reflected on their credit facility activities. However, this policy might have been the reason behind the endurance of the banking system throughout the recurrent crisis in the Palestinian Territories.

The largest proportion of credit facilities (loans and overdrafts) are enlisted under the short term credit facilities section, especially the 62% of them that mature in periods less than a year. Around 41.8% of these credit facilities have maturity periods less than 180 days, whereas, 27% of total credit facilities do not exceed a maturity period of one month. This means that the main part of these credit facilities are not subject to the risks resulting from the fluctuations in the interest rates, but are most likely exposed to the risks of currency exchange rate fluctuations, in particular the USD.

In a quick comparison of maturity periods of the clients' deposits and the direct credit facilities, we realize a disparity. While 54% of the credit facilities have a maturity period of less than one year, 99% of clients' deposits have a maturity period of less than one year, exposing the banks to the risks of liquidity if this problem is not dealt with properly.

The delayed and defaulting debts (for loans and overdrafts) are one of the major problems and a significant source of worry for the banks with regard to their credit policy. This problem has taken a new parameter in light of the PA financial crisis accompanied with a decline in financing and liquidity and the halt in the wages and salaries of the public sector employees. On one hand, this defaulting is an indicator of the economic adversities and the contraction in business enterprises. On the other hand, this affects the banks' profits and obliged a reservation in credit facilities, which in its turn reflects negatively on the levels of investment and consequently economic growth. It is noticed that the delayed and defaulting debts reached a peak in the Palestinian Territories in 2006, constituting 29.2% of the total credit facilities balance extended. This rate relapsed due to the regularity in repayment especially with regard to the public sector employees dropping the rate to 14.1% of total outstanding balance in the 2<sup>nd</sup> quarter of 2008.

#### **5-2-4 Investment Activity and Investments Portfolio**

The investment environment and decisions, especially at the private sector level, were influenced by the unfavorable political and economic conditions, as well as the prevailing economic performance in the Palestinian Territories during the 2<sup>nd</sup> quarter of 2008. This was manifested in the decline by 1.2% in the amounts the banks employed in investment activities (subsidiary establishments, partners, and the minority shares) to around \$188.6 million at the rate of 2.6% of total funds available for banks' investments. This decline came in light of the decrease in the size of local investments by about 2.1%, dropping to \$180.4 million.

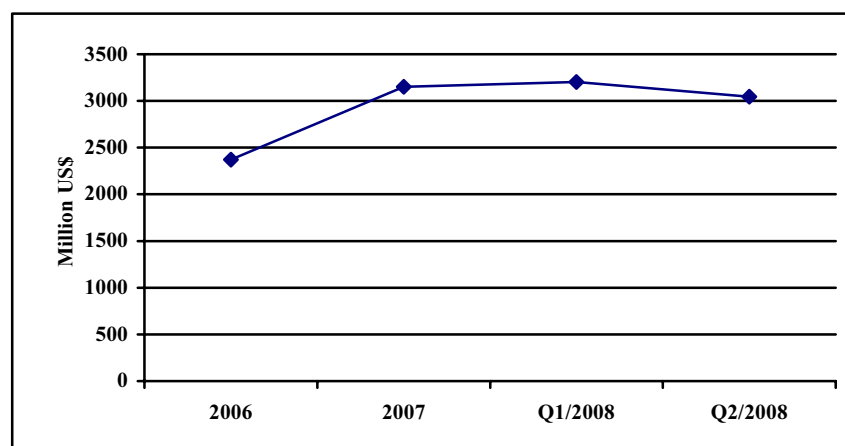
On the other side, a remarkable advancement in the investments portfolio continued (for trading and investment) influenced by the PA regulations allowing banks to invest in securities which raised the investments portfolio by 12%, especially those pertaining to long term investments. Therefore, the size of investment in the investments portfolio mounted to \$206.6 million, \$205.5 of which are long term investments.

#### **5-2-5 Banks' Investments Abroad**

Banks' investments abroad are one of the available tools that the banks operating in the Palestinian Territories resort to in order to invest the liquidity available from the increase in the size of clients' deposits and the decrease in credit facilities balance, in view of the prevailing uncertainty in the political and economic conditions in the Palestinian Territories, accompanied with an increase in the risks level. Despite the unfavorable economic and investment environment during the 2<sup>nd</sup> quarter of 2008, the banks' investments abroad dropped by 4% to \$3257 million at the rate of 44.6% of total assets due to the decline in the banks' balances abroad.

Banks' balances abroad are considered a major facet of these investments<sup>18</sup> that dropped during the 2<sup>nd</sup> quarter of 2008 by 5%, reaching an amount of \$3042.3 million, constituting 41.7% of total investments of available funds. Banks' offices abroad dominated about 57.3% of these balances to the value of \$1743.8 million, decreasing by 13.9%, while other banks abroad obtained 42.7% to the value of \$1300.6 million, increasing by 6.9%.

**Figure 6: Banks' Foreign Investment**



Source: Table 25

### 5-2-6 Bank Performance Indicators

The analysis and evaluation of the banking system performance is based on two perspectives. The first is the banking perspective which relies on a number of recognized criteria, such as banking activity, current profits, capital adequacy, assets' quality and others which provide a clear image of the extent of security of the banking system and its compliance with the regulations of the monitoring authority. The second is the economic perspective which depends on the indicators for the investment of available funds in all aspects that serve economic growth and development. In this context, profit indicators show a remarkable increase in current profits realized during the 2nd quarter of 2008 by 11.4%, leading to the improvement of the return on equity to 16%, and the increase in current profits versus the returns on assets by 1.7%.

In the context of the economic perspective, banks' performance may be evaluated using two criteria. The first criteria has to do with the degree of utilizing and investing deposits in credit and the role of the private sector in this regard, in light of the vital role the credit plays in stimulating various aspects of economic activities and its positive impact on the GDP. In this respect, a decline is noted in the ratio of direct credit facilities to total banks' deposits and clients' deposits (clients' deposits, PMA deposits and banks' deposits) from 29.2% in the 1st quarter of 2008 to 28.8% in the 2nd quarter of the same year. Also, the ratio of credit facilities to clients' deposits declined from 32.7% to 31.2% which is below the rate determined by the PMA's effective regulations in this regard (circulation 20/A, 1998), stipulating a minimum ratio of 40% for the credit facilities to the clients' deposits. The ratio of credit facilities extended to the private sector versus the clients' deposits of this sector dropped from 26.0% to 24.2% and from 24.9% to 22.9% for the resident private sector in the same period. This indicates a weakening in the private sector role in influencing the banks' credit policy. The decline in these indicators is attributed to the increase in the size of deposits especially clients' deposits which rose by 3.2% and to the reserved credit policy, in particular in the Gaza strip as a result of the deteriorating situation there.

<sup>18</sup> Banks' investments abroad comprise of balances, stocks, bonds, treasury bills, instruments and syndicated loans and other investments abroad. The total investments in 2007 amounted to \$3.5 billion, comprising 56% of the total banking system deposits distributed into 94% in cash accounts invested by financial institutions, 2% in speculations in international commodities and 4% investments in instruments, bonds and companies' stocks.

The second criteria links balances and investments abroad with total deposits aiming to measure the banks' inclination towards investment abroad that, in turn, negatively affects economic development in Palestine. In this context, a decline is noticed in the ratio of investments abroad to total banks' deposits and clients' deposits from 55.8% in the 1st quarter of 2008 to 53.8% in the 2nd quarter of the year. A decline is also noticed in the ratio of balances abroad to total banks' deposits and clients' deposits, from 52.6% to about 50.3% during the same period. This decline took place despite the rise in the banks' financial surplus, caused by the ascending size of deposits concurrent with the increase in risk levels in the local market, and the absence of a safe investment environment. It is worth noting that this ratio is still within the boundaries stated in the PMA's effective regulations in this regard (circulation 20/A, 1998), specifying that this ratio should not exceed 65% of the total banks' and clients' deposits at the most.

It is also clear that the credit role of banks has declined through the drop in the ratio of direct credit facilities to total assets, from 23.7% in the 1st quarter of 2008 to about 23.9% in the 2nd quarter, corresponding with a rise in the ratio of clients' deposits to total assets, from 72.6% to 76.7% during the same period. This is an indication of the relative improvement in the mechanism of savings distribution in favor of local investments opposed to investments abroad.

**Table 25: Bank Performance Indicators (%)**

Indicator	2006	2007	2008	
			Q1	Q2
Current Profits to Average Assets	1.0	1.2	1.5	1.7
Current Profits to Average Equity	9.9	11.0	14.1	16.0
Credit Facilities to Total Assets	39.5	29.8	29.2	28.9
Credit Facilities to Clients' Deposits	43.8	33.3	32.7	31.2
Private Sector Credit Facilities to Private Sector Deposits	35.4	27.8	26.0	24.2
Resident Private Sector Credit Facilities to Private Sector Deposits	34.1	26.8	24.9	22.9
Investments Abroad to Total Deposits	57.6	65.4	63.0	61.5
Balances Abroad to Total Deposits	50.7	55.0	52.6	50.3
Clients Deposits to Total Assets	73.0	73.1	72.6	76.7
Credit Facilities to Total Assets	32.0	24.3	23.7	23.9

Source: Calculated from previous tables

### 5-2-7 Clearing House Activities

The clearing house activities reflect, to a large degree, economic changes and developments, as it was expected to see an increase in bounced checks in all traded currencies (USD, JOD, NIS and the Euro) in view of the economic slowdown during the 2<sup>nd</sup> quarter of 2008. The 2<sup>nd</sup> quarter of 2008 witnessed an increase in the number of checks presented for clearance by 7.9% to reach 241,404 checks (with a total value of \$ 790.7 million and an increase by 8.6%). This coincided with a 2.9% rise in bounced checks (in all currencies) during the same period to reach 25,592 checks (with a value of \$48.6 million and an increase by 1.8%). Thus, the ratio of bounced checks to checks presented for clearing amounted to 10.6%.

**Table 26: The Number and Value of Checks Presented for Clearing and the Percentage of Bounced Checks**

Period	Checks Presented for Clearing		Bounced Checks		Percent Bounced/checks presented for clearance	
	Number of checks	Value of checks (million \$)	Number of checks	Value of checks (million \$)	Number %	Value %
2006	2,331,259	5251.9	404,049	477.4	17.3	9.1
2007	2,216,184	5638.6	330,040	486.3	14.9	8.6
Q1 2008	223,698	727.9	24,883	47.8	11.1	6.6
Q2 2008	241,404	790.7	25,592	48.7	10.6	6.2

Source: PMA, Monthly Statistical Bulletin, various issues.

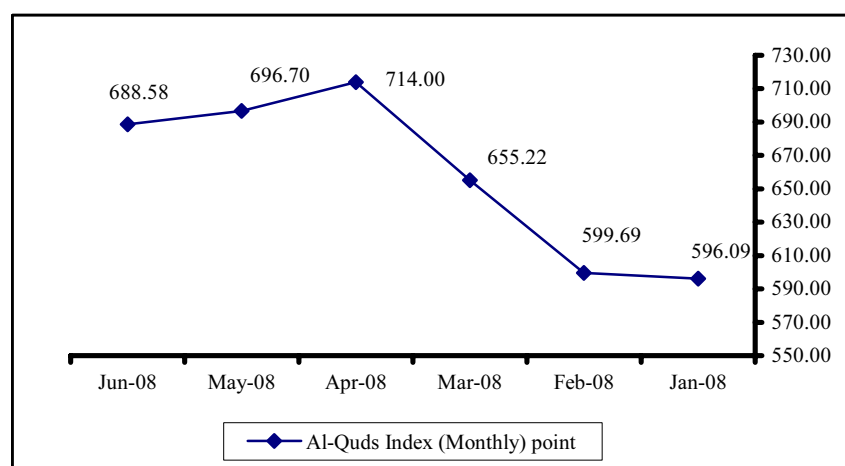
## 6- Palestinian Stock Market

Palestinian Stock Market witnessed an active trading period during the 2<sup>nd</sup> quarter of 2008, represented in the big rise in the value and size of trading, as well as the rise in Al-Quds index compared to the previous quarter. This rise is attributed to the positive optimistic atmosphere following the Palestine Investment Conference, held in Bethlehem at the end of May 2008, which foreshadowed an active movement from Arab and foreign investors towards investment in Palestine. Additionally, the disclosure of financial data played a significant role in maintaining the improvement in the stock market indices during the 2<sup>nd</sup> quarter of 2008 as 33 companies out of 35 listed disclosed their financial data. According to this disclosure, 26 companies had shown quarterly profits while 7 companies registered losses for the same period.

Two new companies were listed for trading in the 2<sup>nd</sup> quarter of 2008; Palestine Surgical Specialized Center Company in the services sector, and Trust Company in the insurance sector. In addition, Al-Quds Bank for Development and Investment modified its name to Al-Quds Bank with no modification on its trading symbol.

The Al-Quds index closed at 688.58 points by the end of June, increasing by 5.1% compared to March 2008. In a comparison of the stock market performance during the first half of 2008 to its corresponding period of 2007, an increase of 35.1% in Al-Quds index is noticed compared to its June 2007 closure of 509.69 points.

**Figure 7: Al-Quds Index by Months During the 2<sup>nd</sup> Quarter of 2008**

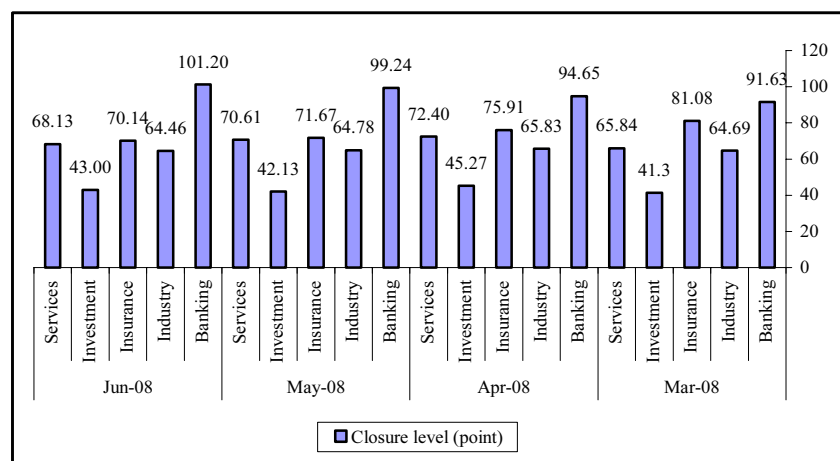


Source: PSE, [www.p-s-e.com](http://www.p-s-e.com)

The rise of Al-Quds index comes within the context of an increase in the indices of the banking, investment and services sectors in the 2<sup>nd</sup> quarter of 2008 compared with the 1<sup>st</sup> quarter, (by 10.4%, 4.1% and 3.5% respectively). Meanwhile, the industrial and insurance sectors registered a decline by 0.4% and 13.5% respectively during the same period.

Generally speaking, the 2<sup>nd</sup> quarter witnessed a remarkable increase in the stock market indices as the number of exchange sessions was 64 during the 2<sup>nd</sup> quarter of 2008 compared to 60 sessions in the 1<sup>st</sup> quarter. During these sessions, 136 million stocks were traded compared to 105 million stocks traded during the 1<sup>st</sup> quarter of 2008. The size of trading reached a value of \$538 million during the 2<sup>nd</sup> quarter compared to \$346 million during the 1<sup>st</sup>.

**Figure 8: The Performance of the Sectoral Indices during the 1<sup>st</sup> Quarter of 2008 as Compared to the 4<sup>th</sup> Quarter of 2007**



Source: PSE, [www.p-s-e.com](http://www.p-s-e.com)

The registered market value in the 2nd quarter of 2008 reached \$3.12 million with an increase of 7.6% compared to \$2.9 million in the 1st quarter.

Also, an increase is noted in the size and value of on-line trading over the internet during the 2nd quarter of 2008 compared to the 1st quarter, but it is still not up to the level desired.

**Table 27: Main Indicators of the PSE during the 2<sup>nd</sup> Quarter of 2008**

Period	Market Value (billion USD)	Number of Trading Sessions	AI-Quds Index (by the end of each month)	Trading Size (stocks' value) (million USD)	Number of Traded Stocks (million)
April	3.19	22	714.00	234	57
May	3.14	20	696.7	182	42
June	3.12	22	688.58	122	37
Q2 2008	3.12	64	688.58	538	136
Q1 2008	2.9	60	655.22	346	105

Source: PSE, [www.p-s-e.com](http://www.p-s-e.com)

## 7- Prices and Purchasing Power<sup>19</sup>

The 2<sup>nd</sup> quarter of 2008 is characterized by a continuation of the rise in the consumer prices similar to that of the 1<sup>st</sup> quarter of the year and the 4<sup>th</sup> quarter of 2007 – a factor that has amplified the inflation from which the Palestinian economy is suffering. The rise in the average prices of consumption goods continued during the 2<sup>nd</sup> quarter of 2008, whereas the consumer price index (CPI) closed at 117.08 by the end of the 1<sup>st</sup> quarter and continued its rise to reach by the end of the 2<sup>nd</sup> quarter to 120.77 (base year 2004=100). With the continued rise in prices concurrent with the unemployment problem, the Palestinian economy started to suffer from the dual problem of stagflation, adding new, severe and exhausting burdens on the Palestinian citizen.

<sup>19</sup> The base year in the calculations of the consumer price index (CPI) has been updated in accordance with the international recommendations, as the base year moved from 1996 to 2004 which was selected on the basis that it has been the most stable among the years which were studied during the years of Al-Aqsa Intifada. A new classification of goods was also used which is the “personal consumption according to the purpose”, published by the EU (COICOP), that adopts the classification of 12 main groups instead of 10, in addition to the distribution of the goods among the groups using a new method that depends on the classification of goods according to the purpose of its use.

## 7-1 Prices

With the persistent wave of increases in international prices, they also continued to rise in the oPt, registering successive leaps during the 2<sup>nd</sup> quarter of 2008. The sharp increases in prices continued to be concentrated in most of the essential commodities, specifically food and fuel; on which expenditures represent the largest percentage of consumers' income in the Palestinian consumer basket. Citizen suffering is only intensified as the prices of both imported and locally produced goods witnessed consecutive increases. These goods are of a nature that leads to a chain of cumulative effects on the prices of many other goods since the continuous increase in the prices of flour, rice, meat, fuel and energy have a multiple effect on the prices of bakery products, sweets, and transportation services.

Statistics for the 2<sup>nd</sup> quarter of 2008 indicate a rise of 3.15% in the Shekel-based CPI in the PT, compared to the average of the 1<sup>st</sup> quarter of 2008, and by 11.89% compared to the average of the corresponding quarter of 2007. When we compare June 2008 with June 2007, we find that the CPI rose by 11.71% (see table 38).

**Table 38: The CPI and its Monthly Percentage Changes in the Consumer Prices in the Palestinian Territories (Base Year 2004 = 100)**

Time Period	CPI	Percentage Change (%)
January 2008	115.78	1.13
February 2008	116.77	0.85
March 2008	118.69	1.64
April 2008	120.46	1.49
May 2008	120.57	0.09
June 2008	121.28	0.59

Source: the PCBS.

**Table 29: Average Increase in Prices by Main Commodity Categories in the Palestinian Territories in 2008 (Base Year 2004 = 100)**

Category	Q2/2008 over Q1/2008 Percentage Changes	Q2/2008 over Q2/2007 Percentage Changes
Food Stuff and Refreshing Beverages	5.52	21.10
Alcohol Beverages and Tobacco	0.36	9.24
Textiles, apparels and footwear	1.93	( 1.81 )
Housing and related items	1.65	8.49
Furniture and house goods and appliances	1.44	7.11
Healthcare	0.72	10.19
Transportation and Travel	3.42	11.80
Telecommunication	( 0.32 )	1.77
Recreational and Cultural goods and services	0.60	0.87
Education services	0.54	( 1.94 )
Restaurants, Cafes and Hotels Services	4.15	15.59
Various good and services	0.14	1.17
<b>General CPI</b>	<b>3.15</b>	<b>11.89</b>

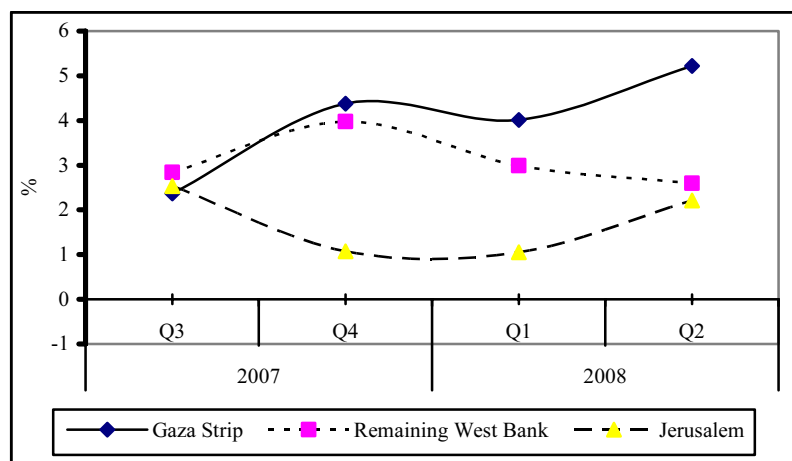
Source: the PCBS. Figures in brackets indicate a negative value.

The rise in the prices was the sharpest in the Gaza Strip due to the political conditions and the aggravated Israeli imposed siege. The CPI figures indicate that the average increase in the prices during the 2<sup>nd</sup> quarter of 2008 compared with the 1<sup>st</sup> quarter of the same year was 5.22% in the Gaza Strip, and by 16.92% compared to the corresponding quarter of the previous year. Whereas the rate was 2.60% in the rest of the West Bank compared with the 1<sup>st</sup> quarter of 2008 and 12.73% compared to its corresponding quarter of 2007. In Jerusalem, the rise in the 2<sup>nd</sup> quarter of 2008 was 2.21% compared to the 1<sup>st</sup> quarter of the same year, and 7.63% compared to the corresponding



quarter of the previous year. As for the type of commodities, the rise in the food prices was the basic drive for the price increases (see Table 29).

**Figure 9: Shekel-based Inflation Rate in Jerusalem, the Remaining West Bank and the Gaza Strip by Quarter for 2007 and 2008**



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

Regarding the main types of commodities in the Palestinian Territories, the rise in prices of food was the basic impetus for price increases, as it increased by 5.52% during the 2<sup>nd</sup> quarter of 2008 compared to the 1<sup>st</sup> quarter of the same year. The prices of the restaurants, cafes and hotels services category rose by 4.15%, while the prices of the transportation and travel category rose by 3.42% and the prices of the housing and related items rose by 1.65% during the same period.

**Table 30: Changes in the CPI in the PT by Region and Commodity Categories in the 2<sup>nd</sup> Quarter of 2008 as Compared to the 1<sup>st</sup> Quarter of the Same Year**

Category	Palestinian Territories (%)	Remaining West Bank	Gaza Strip (%)	Jerusalem (%)
Food Stuff and Refreshing Beverages	5.52	3.95	9.13	4.75
Beverages and tobacco	0.36	0.25	2.52	0.27
Textiles, Apparels and Footwear	1.93	2.79	2.68	0.12
Housing & related items	1.65	1.51	2.31	0.99
Furniture, goods and services	1.44	0.99	4.66	( 0.88 )
Healthcare	0.72	( 0.21 )	( 2.01 )	3.82
Transportation & Travel	3.42	2.80	5.82	1.57
Telecommunication	(0.32)	( 0.25 )	( 0.77 )	0.43
Recreational goods and services	0.60	1.09	(0.25)	0.26
Education services	0.54	1.18	( 0.39 )	0.00
Restaurants, Cafes and Hotels Services	4.15	7.27	2.54	2.39
Other goods and services	0.14	1.48	1.66	( 0.12 )
General CPI	3.15	2.60	5.22	2.21

Source: PCBS.

Figures in brackets indicate a negative value.

With regard to the regions, and the different categories of the consumer basket, it is noted that the food category prices rose by 9.13% in the Gaza Strip during the 2<sup>nd</sup> quarter of 2008 compared to

the 1<sup>st</sup> quarter of the same year due to the increase in the prices of basic commodities. In the remaining West Bank, the prices of the food category rose by 3.95% (see Table 29). On the other hand, the prices of the transportation and travel category registered an increase in the Gaza Strip that reached 5.82% during the 2<sup>nd</sup> quarter of 2008 compared to the 1<sup>st</sup> quarter of the same year; while they registered an increase of 2.80% in the remaining West Bank during the same period.

The housing category registered a rise in prices in the Gaza Strip by 2.31% during the 2<sup>nd</sup> quarter of 2008, compared to the 1<sup>st</sup> quarter of the same year; while it registered a rise by 1.51% in the remaining West Bank.

## 7-2 Average Prices of Selected Essential Commodities

Data in Table 31 below reveals that the prices for most of the essential commodities witnessed varying increases during the 2<sup>nd</sup> quarter of 2008 compared to the 1<sup>st</sup> quarter of the same year - knowing that the prices during the 1<sup>st</sup> quarter of 2008 and the last quarter of 2007 were basically inflated prices. This is attributed to the international rise in the prices of imported commodities including; wheat, rice and fuels. The following sub-sections summarize price movements of some of these commodities at the end of the 2<sup>nd</sup> quarter of 2008 as compared to the 1<sup>st</sup> quarter of the same year:

### ✧ *Flour and Rice Prices*

Prices of flour and rice kept rising during the 2<sup>nd</sup> quarter of 2008 over the 1<sup>st</sup> quarter of the same year as the percentage of the rise in the Gaza Strip reached 12.72% and 11.76%, respectively, while the prices of flour and rice rose in the West Bank by 4.60% and 24.19%, respectively during the same period.

### ✧ *Fuel Prices*

Gasoline prices in the PT continued to increase in the 2<sup>nd</sup> quarter of 2008 due to the rise in international oil prices. The price of gasoline increased in the remaining West Bank by 7.74% and in the Gaza Strip by 3.77% during the 2<sup>nd</sup> quarter of 2008 over the 1<sup>st</sup> quarter of the same year. Natural gas, used as house fuel, increased during the same period by 5.16% in the remaining West Bank and 6.77% in the Gaza Strip.

### ✧ *Oils and Fats Prices*

The rise in prices also hit other essential commodities such as oil and fats. Data indicate a rise in the prices of the of oils and fats category during the 2<sup>nd</sup> quarter of 2008 compared to the 1<sup>st</sup> quarter of the same year by 8.27% in the remaining West Bank, while the rise in these prices was 23.32% in the Gaza Strip.

**Table 31: Average Consumer Prices for Selected Essential Commodities by Quarter for 2008**

(NIS)

Item	Unit	Remaining West Bank		Gaza Strip	
		Q1 2008	Q2 2008	Q1 2008	Q2 2008
White bread - Local	1 kg	4.18	4.49	2.58	2.81
White Flour-zero-Haifa	60 kg	208.32	220.81	193.33	210.00
Rice (short seed)-Sunwhite-Australia	25 kg	108.13	137.52	115.05	131.67
Eggs – Local	2 kg	14.28	14.41	13.11	14.11
Sugar-crystal-UK	50 kg	125.67	121.98	156.21	150.60
Gasoline 96 Octane	1 liter	5.99	6.34	6.25	6.32
Gas Cylinder	12 kg	56.47	59.39	53.14	55.89
Corn Oil – Shuqha, Israel	3 liters Bottle	26.31	34.62	25.83	32.00
Olive Oil	1 kg	23.90	24.00	27.83	28.33

Source: PCBS, 2008.

## 7-3 Currency Prices

The prices of the main currencies were consistent with their general direction at the beginning of 2008, since the developments that took place in the international money markets had affected the foreign currencies. The USD continued to depreciate despite the Federal Reserve (American central bank) efforts to consolidate it by cutting the interest rate several times. This depreciation is influenced by the severe federal budget deficit in the USA, the huge deficit in the American trade balance, the decrease in foreign investments in the American securities due to the decline in the level of trust in the liquidity of these assets and the decline in their returns; besides the decrease in the jobs in the USA. This poses threats of a recession due to the repercussions of the mortgage crisis and the increasing turbulence in the money markets.

Moreover, the monetary authorities in several countries resorted to cutting the interest rates in view of the decline in the USA interest rates in an attempt to maintain the fixed exchange rates of their currencies versus the USD, or those whose foreign currencies basket is dominated by the USD. For instance, The JOD is pegged to the USD and is therefore affected by the changes in the USD exchange rates vis-à-vis other currencies, in contrast to the NIS which is based on floating exchange policy and is therefore fully convertible.

In the absence of a national currency, and the use of three main currencies in the Palestinian Territories (the USD, JOD and NIS) for trading, payment settlements and storage of value, the Palestinian citizen has been negatively affected (in terms of purchasing power) by the depreciation of the USD and JOD vis-à-vis the NIS. By the end of the 2<sup>nd</sup> quarter of 2008, the USD lost 5.1% of its value vis-à-vis the NIS (see table 32). The JOD also lost 5.4% of its value vis-à-vis the NIS, influenced by the decline in the exchange rate of the USD vis-à-vis the NIS, all added to the depreciations in the USD & the JOD in the previous quarters.

**Table 32: The Monthly Average of the Exchange Rates of the USD & JOD vis-à-vis the NIS and the Change in their Purchasing Power**

Month	Percentage Change in the CPI (%)	US Dollar			Jordanian Dinar		
		Average Exchange Rate	Percentage Change (%)	Average Change in the Purchasing Power (%)	Average Exchange Rate	Percentage Change (%)	Average Change in the Purchasing Power (%)
October 2007	1.80	4.0240	(1.57)	(3.37)	5.7405	(0.98)	(2.78)
November 2007	1.88	3.9285	(2.37)	(4.25)	5.5774	(2.84)	(4.72)
December 2007	0.97	3.8952	(0.85)	(1.82)	5.5241	(0.96)	(1.93)
January 2008	1.14	3.7510	(3.70)	(4.84)	5.3207	(3.68)	(4.82)
February 2008	0.86	3.6645	(2.31)	(3.17)	5.1066	(4.02)	(4.88)
March 2008	1.64	3.5260	(3.78)	(5.42)	4.9911	(2.26)	(3.90)
April 2008	1.49	3.5253	(0.02)	(1.51)	4.9674	(0.48)	(1.97)
May 2008	0.09	3.3897	(3.84)	(3.93)	4.7810	(3.75)	(3.84)
June 2008	0.59	3.3477	(1.24)	(1.83)	4.7218	(1.24)	(1.83)

Source: The figures are calculations based on data from the PCBS and the PMA.

\* Figures in brackets indicate negative value.

## 7-4 Purchasing Power

The purchasing power of the Palestinian citizen is defined as, “his/her ability to buy goods and services with his/her money”. This depends on the consumer’s income and the change in the prices of a “basket” of basic goods and services that are measured in the Consumer Price Index (CPI), which, in turn, is inversely related to purchasing power; i.e. when the CPI goes up, the purchasing power of the citizen goes down, and his/her money will buy less of the same consumer “basket”.

Since the Palestinian citizen uses different currencies (NIS, USD and JOD), the foreign exchange rates of the USD and JOD against the NIS play a role in determining the purchasing power of the average citizen. The relationship is positive in this case; so when the exchange rate of the USD increases, for example, the purchasing power would increase (meaning that the citizen will be able to buy more goods and services). Thus, the equation for the purchasing power of the currency = the percentage change in the exchange rate of the currency – the percentage change in the CPI.

Table 33 illustrates the change in the purchasing power of the USD and JOD in the PT for the first six months of 2008. The percentage change was calculated according to the equation above. It is also possible to calculate the percentage change in the purchasing power on a quarterly basis for both the USD and the JOD by summing up the percentage changes for each 3 months of each quarter.

Table 33 demonstrates that the purchasing power of the USD and JOD in the PT continued their fluctuating decline during the 2<sup>nd</sup> quarter of 2008, but not to the same extent as the decline during the 1<sup>st</sup> quarter of the same year. The decline of both currencies was 7%, compared to 13.42% for the USD and 13.61% for the JOD, in the 1<sup>st</sup> quarter of 2008. The reason for the deceleration in the purchasing power decline for both the USD & JOD is the slowing down in the depreciation of their exchange rates during the 2<sup>nd</sup> quarter of 2008. The exchange rates of both the USD & JOD have declined by 4.86% vis-à-vis the NIS during the 2<sup>nd</sup> quarter, compared to a decline of 9.8% and 10.01% in the exchange rate of both the USD & JOD respectively vis-à-vis the NIS during the 1<sup>st</sup> quarter of 2008, besides the deceleration in the rise of the CPI as shown above.

**Table 33: The Monthly Change in the Purchasing Power of the JOD & USD in the PT for the 1<sup>st</sup> and 2<sup>nd</sup> Quarters of 2008**

Month	Percentage Change in the CPI (%) <sup>20</sup>	Currency	Percentage Change in the Currency (%)	Percentage Change in the Purchasing Power of the Currency (%)
January	1.13	USD	(3.70)	(4.83)
		JOD	(3.79)	(4.92)
February	0.85	USD	3.64(	(4.49)
		JOD	(3.81)	(4.64)
March	1.64	USD	(2.46)	(4.10)
		JOD	(2.41)	(4.05)
April	1.47	USD	0.18	(1.29)
		JOD	(0.03)	(1.50)
May	0.09	USD	(3.81)	(3.90)
		JOD	(3.60)	(3.69)
June	0.59	USD	(1.23)	(1.81)
		JOD	(1.23)	(1.81)

The figures are calculated by the author based on data from the PCBS and the PMA.

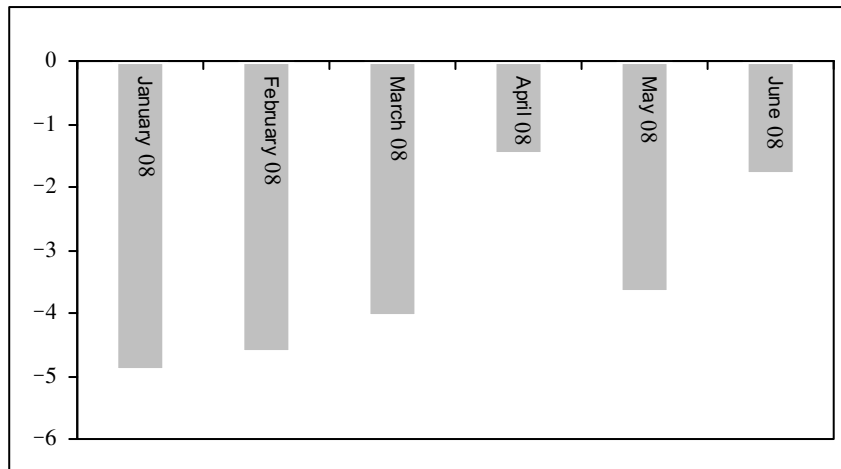
\* Figures in brackets indicate negative value.

Figure 10 below demonstrates the developments in the changes of the USD purchasing power:<sup>21</sup>

<sup>20</sup> The CPI was calculated using 2004 as the base year.

<sup>21</sup> The developments in the changes of the JOD purchasing power can be inferred from those of the USD since the JOD is pegged to the USD with a relatively fixed exchange rate that reached 0.71 in June 2008 with a change rate that did not exceed 0.5% during the 1<sup>st</sup> and 2<sup>nd</sup> quarters of 2008.

**Figure 4: Developments in the Purchasing Power of the USD in the Palestinian Territories by Month**



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

## 8- Tourism

A noticeable improvement occurred in tourist activity in the 2<sup>nd</sup> quarter of 2008, a continuation of the improvement in 2007. In general, the tourist sector is still suffering from the contraction resulting from insecurity and arbitrary Israeli practices. It is natural that the improvements were found first in Jerusalem, and some slight improvements in the remaining West Bank, while the difficult conditions in the Gaza Strip did not permit any improvement.

### Main Indicators for Hotel Activity during 2007<sup>22</sup>

The total number of hotels in the Palestinian Territories (PT) reached 114, including those operating and temporarily closed. The number of operating hotels differs according to the month, as there have been 82 operating hotels in the month of December 2007, which have 4,109 rooms with 9,088 beds.

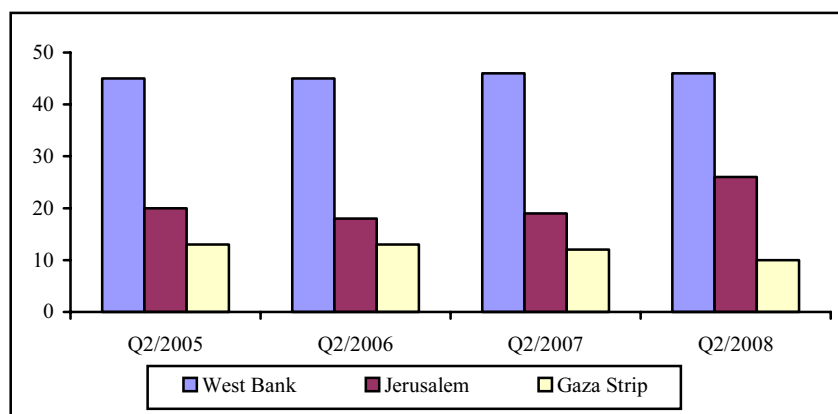
Hotel guests in all the operating hotels in the PT reached 315,866 during 2007 and the total number of hotel accommodation in all operating hotels in the PT reached 673,458 nights. The average number of employees was 1,263, 1,094 of whom were males and 169 were females. An average of 1033.3 rooms were operating each day at an occupancy rate of 25.1%, whereas the average length of stay in hotels in the PT was 2.1 nights per guest.

### 8-1 Hotel Activity during the 2<sup>nd</sup> Quarter of 2008

The total number of hotels in the PT reached 118, including those operating and temporarily closed. The number of operating hotels differs according to the month, as there were 82 operating hotels in the month of June 2008, with 3,957 rooms and 8,704 beds. Hotel guests in the PT reached 126,633 during the 2<sup>nd</sup> quarter 2008 and the number of nights spent in hotel accommodation in the PT hotels reached 323,892.

<sup>22</sup> Average occupancy (rooms, beds) is the sum of occupied (rooms, beds) divided by the number of occupancy days. Occupancy ratio (rooms, beds) represents the average occupancy (rooms, beds) divided by the available number of (rooms, beds) multiplied by 100. Average length of stay represents the number of hotel nights by nationality divided by the number of hotel guests by the same nationality.

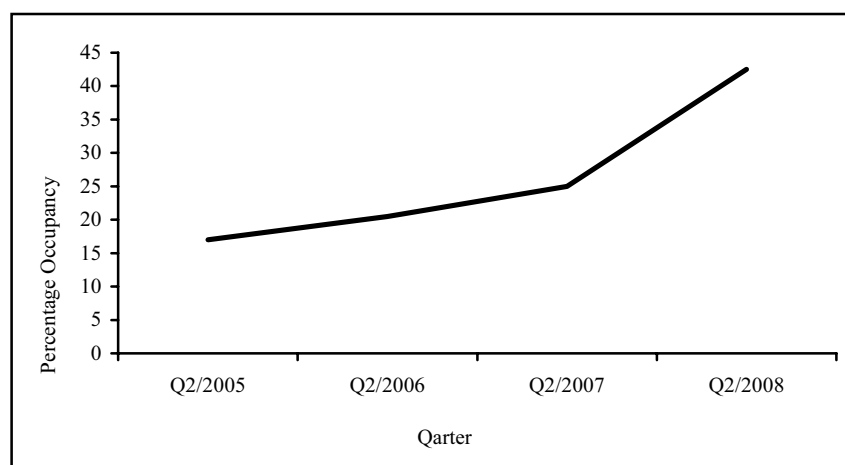
**Figure11: Number of Operating Hotels in the Palestinian Territories by Quarter, 2005-2008**



The average room occupancy in operating hotels in the PT was 1,803.2 hotel rooms daily, i.e. 42.5% of available rooms.

Hotel guests concentrated in the hotels of Jerusalem, representing 52.5% of the total number of guests, followed by the hotels in central and south West Bank, where the percentage reached 29.8% and 16.6% respectively. The percentage of guests in the hotels in the north of the West Bank was 0.8%, while it was 0.3% in the Gaza Strip.

**Figure 12: Hotel Room Occupancy Rates during the 2<sup>nd</sup> Quarters, 2005-2008**



The total number of nights in hotel accommodation in the PT reached 323,892 during the second quarter of 2008; 10.7% were Palestinian guests, 45.6% were guests from the European Union and 7.4% of the guests were from the United States and Canada. In comparison with the same period of the year 2007, it is realized that there was an increase of 103.8% in the number of hotel accommodation.

The average length of stay in hotels in the PT hotels was 2.6 nights per guest during the 2<sup>nd</sup> quarter of 2008. The highest average length of stay was 3.7 nights per guest in the Gaza Strip. In the northern, central and southern West Bank the average was 2.7, 2.2, and 2.5 nights per guest, respectively. While in Jerusalem, the average length of stay in hotels reached 2.7 nights per guest.

Table 34 shows the findings of the main indicators of hotel activity for the second quarter of 2008, compared to the first Quarter of the same year and second quarter of 2007, which illustrate the extent of the change that has occurred on the most important hotel activity indicators in the Palestinian Territories.

**Table 34: Percentage Change in Hotel Activity Indicators during the 2<sup>nd</sup> Quarter Of 2008 Compared to the 1<sup>st</sup> Quarter of 2008 and the 2<sup>nd</sup> Quarter of 2007**

Indicator	Percentage Change Over the 1 <sup>st</sup> Q/2008	Percentage Change Over the 2 <sup>nd</sup> Q/2007
Number of Operating Hotels at the End of the Quarter	0.0	6.5
Average Number of Employees During the Quarter	3.1	-2.3
Number of Hotel Guests	46.1	68.3
Number of Nights Accommodation	55.9	103.8
Average of Rooms Occupancy	31.5	77.8
Average Beds Occupancy	55.9	103.8
Rate of Rooms Occupancy (%)	25.4	70.0
Rate of Beds Occupancy (%)	49.8	90.6

## 9- Company Registration

According to the Jordanian Companies Law Number (12) of 1964<sup>23</sup>, the Department of Company Registration in the Palestinian Ministry of National Economy is responsible for the registration of various Palestinian companies, whereby the company's name and legal status, in addition to the value of the company's capital and other items are registered. Although the new Palestinian companies' law is still underway with relevant parties, a legislative decision has been taken with amendments on the Jordanian Companies Law of 1964, including additional types of companies, such as public companies, holding companies and non-profit companies in addition to amendments regarding the company's capital at the time of registration.

The economic monitor utilizes the raw data at the Ministry of National Economy, specifically the data relevant to the number of registered companies and registered capital, for the purpose of analysis from various perspectives on a quarterly basis. A sectoral analysis of the registered companies and their legal status is also undertaken since the Department of Companies' Registration at the Ministry classifies companies into three types: public shareholding and private shareholding companies, ordinary companies, and foreign shareholding and ordinary companies. The monitor infers from the companies' data registered, even in an indirect way, the nature of the activities towards which the investments in the country are inclined. The data on registered companies is also considered as a good indicator of the country's attractiveness for local and foreign capital.

Although the 2<sup>nd</sup> quarter of 2008 witnesses a dramatic rise of 35.2% in the number of registered companies, with a total of 334 companies registered between the end of March and the end of June, compared to 247 companies in the previous quarter, which represents a 16% increase over the 2<sup>nd</sup> quarter of the previous year. It should be observed that no new companies were registered in the Gaza Strip since November 2007 to now in view of the difficult political and economic situation there. In the same context, registered capital amounted to JOD 47.2 million in the 2<sup>nd</sup> quarter, with a rise of 88% over the previous quarter. This is attributed to the registration of five

<sup>23</sup> This is applicable to the West Bank; whereas the Gaza Strip follows the Companies' Law number 18 of the year 1929 and the Ordinary Companies' Law number 19 of the year 1930.

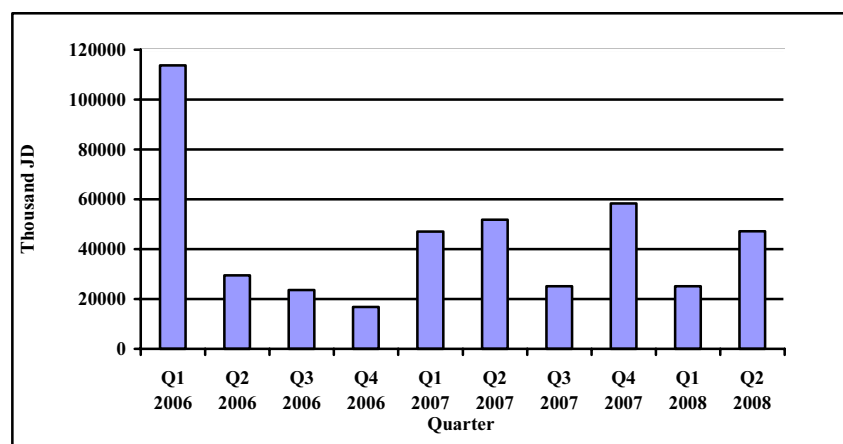
companies whose capital exceeded a million JOD compared to the 1<sup>st</sup> quarter which did not witness the registration of companies with large amounts capital (see table 53 and figure 13).

**Table 35: Development of the Number of Companies by Quarter**

Number of Companies	Quarter
387	Q1, 2007
288	Q2, 2007
260	Q3, 2007
261	Q4, 2007
<b>1196</b>	<b>Total</b>
247	Q1, 2008
334	Q2, 2008

Source: Department of Company Registration, Ministry of National Economy, 2007 and 2008.

**Figure 13: Total Capital for Newly Registered Companies In the Palestinian Territories in JOD by Quarter**



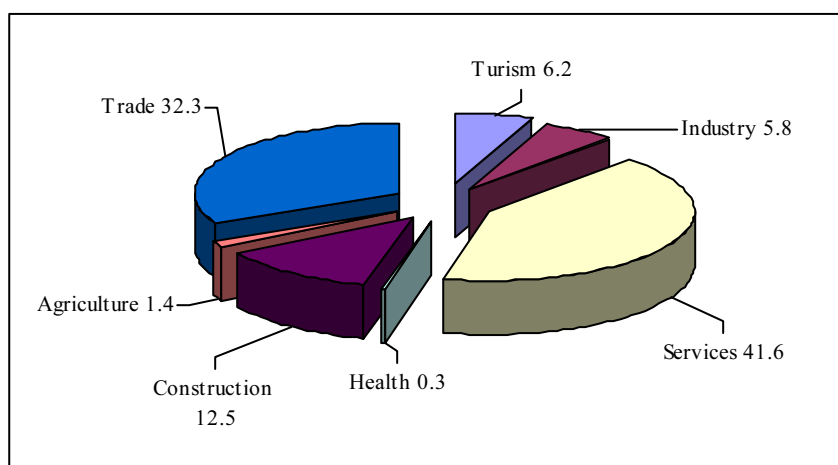
Source: Ministry of National Economy, Department of Company Registration, 2006, 2007, 2008.

As illustrated by Figure 14, the services and trade sectors captured the biggest share of the capital for newly registered companies during the 2<sup>nd</sup> quarter of 2008, with 41.6% and 32.3% respectively. Moreover, this quarter has witnessed a number of changes in the sectoral distribution of the capital of newly registered companies, with a rise in the share of the services sector from 31.3% to 41.6% and the tourism sector from 5.4% to 6.2%. In contrast, the share of the industrial sector declined from 11% to 5.8%, the construction sector from 16% to 12.5% and the agriculture sector from 2% to 1.4 %.

As mentioned before, the data of registered companies is not only an indicator of investments, but also for the trends and legal status of companies in the Palestinian Territories. Upon comparison of the legal status of the registered companies in the 2<sup>nd</sup> quarter of 2008, we observe an obvious change in the distribution of capital among various types of companies in comparison with previous periods. The largest proportion (57.5%) was that of "private shareholding" compared with 39.5% of "public ordinary companies" and 3% of "foreign private shareholding companies", while no "public shareholding" companies were registered in this period.



**Figure 14: Distribution of Capital for Newly Registered Companies Capital in the PT by Economic Activity During the 2nd Quarter of 2008 (%)**



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

**Table 36: The Distribution of Capital for Newly Registered Companies in the West Bank<sup>24</sup> by Legal Classification**

(JOD)

Year	Legal Form							Total
	Public Ordinary	Private Shareholding	Public Shareholding	Foreign Private Shareholding	Foreign Ordinary	Foreign Public Shareholding	Ordinary Limited	
2006	16,860,520	65,671,920	22,030,691	7,680,000	0	0	150,000	112,393,131
2007	48,283,720	85,301,070	17,675,000	15,059,470	0	0	0	166,319,260
Q1 2008	9,180,000	13,899,700	1,739,343	162,000	0	0	160,000	25,141,043
Q2 2008	18,682,800	27,180,760	0	1,378,000	0	0	0	47,241,560

Source: The Ministry of National Economy, Department of Company Registration, 2007, 2008.

## 10- Expectations of Owners and Managers of Industrial Establishments regarding the Economic Conditions<sup>25</sup>

### 10-1 Industrial Establishments' General Performance

23.8% of the owners and managers of industrial establishments in the West Bank found that the general performance of their establishments improved during August 2008 compared to July 2008, as opposed to only 18.4% reported in the Gaza Strip.

### 10-2 Production

23.7% of the owners and managers of industrial establishments indicated that production had improved during the month of August 2008 in comparison with the previous month. On the other hand, 21.4% of the owners and managers of industrial establishments indicated that production had worsened during the same period. 12.1% of them pointed out that industrial establishments are

<sup>24</sup> No new companies were registered in the Gaza Strip during the 2<sup>nd</sup> quarter of 2008.

<sup>25</sup> This section of the Monitor depends on the "Survey of Perceptions of Owners (Managers) of Industrial Establishments regarding Economic Conditions" which was conducted during 3-23/09/2008 representing August 2008 as compared to July 2008.

facing greater difficulties in obtaining raw materials and production inputs, as opposed to 12.4% who indicated an improvement in the capacity of obtaining raw materials and production inputs during August 2008.

### **10-3 Employment**

10.4% of the owners of industrial establishments indicated an improvement in the levels of employment, whilst 7.8% of them thought that the situation had worsened during August 2008. As for workers' productivity, 17.3% of the owners and managers of industrial establishments said that workers' productivity had declined in their establishments, while 22% of them indicated an improvement in productivity during August 2008. As for employment, only 14.4% of the owners and managers of the industrial establishments had employed workers during the month of August 2008, as opposed to 7.6% who have laid-off workers in the Palestinian Territories. As for the resumption of regular work without interruptions, 16.5% of the respondents indicated that they expect an improvement in work regularity during the six months following August 2008. The results of their expectations indicate that 33.5% of them expect an improvement in workers' productivity and 13.1% expect improvement in the freight of commodities to markets during the six months following August 2008.

### **10-4 Financial Position and Credit Financing**

66.4% of the owners and managers of establishments stated that the financial standing of their establishments did not witness any significant change during the month of August 2008 compared to the previous month, whilst 17.6% of them believe that their financial conditions had become worse. 1.9% indicated that credit facilities had become worse as opposed to the majority (96.5%) who believed no change had taken place in this field.

As for future expectations, about 30.3% of the respondents expect their private financial positions to improve, and only 3.2% of them expect credit facilities would improve within the six months following August 2008.

### **10-5 Sales and Competition**

25.1% of the owners and managers of industrial establishments in the PT stated that the value of their sales was worse during the month of August 2008 compared to the previous month. 40.9% of them indicated that they expect an increase in the level of sales during the six months following August 2008.

With regard to competition, 90% of owners and managers of industrial establishments in the PT found that they face local and foreign competition to their main product. 78.4% of them indicated the existence of local competition. The percentage is greater in the Gaza Strip, reaching 88.6% as opposed to 76.6% in the West Bank. 21.6% in the PT believe that there is foreign competition to their main product; 23.4% of them in the West Bank and 11.4% in the Gaza Strip.

## **11- General Education**

The results of the survey of the Ministry of Education and Higher Education (MoEHE) in its Statistical Yearbook for the academic year 2007/2008 indicate that there are 3,402 kindergartens (KG) and schools in the Palestinian Territories; 2,521 KGs and school in the West Bank and 881 KGs and schools in the Gaza Strip.

As for the supervising authority, 1,833 schools are supervised by the Government, 309 are supervised by the UNRWA and 288 are private schools.

As for the period of attendance, the MoEHE stated in its Statistical Yearbook that there are 2,157 schools that attend regularly in the morning period, 1,778 of which are in the West Bank and 379 in the Gaza Strip. 263 schools are attended in the afternoon period, 28 of which are in the West Bank and 235 in the Gaza Strip, i.e. eight times more than the West Bank. Moreover, 10 schools attend both the morning and afternoon periods under the supervision of one administration, 3 schools of which are in the West Bank and 7 in the Gaza Strip.

Regarding ownership, schools and KGs are distributed into 2,561 owned, 694 leased and 147 owned and leased at the same time. The owned schools and KGs in the West Bank form 73% of total schools and KGs and 82 % in the Gaza Strip.

1,182,246 students are enrolled in the West Bank and the Gaza Strip including kindergartens; 710,287 of which are those enrolled in the West Bank and 471,959 in the Gaza Strip. Data show that the pupils-teacher ratio varies depending on the supervising party, which reached 20.8 pupils per teacher in public schools, 28.9 in the UNRWA schools, 14.8 in private schools and 19 children per teacher in kindergartens.

The education process is supervised by the Ministry of Education and Higher Education (MoEHE) that directly supervises most of the schools in public education, and some institutions of higher education. The MoEHE supervises 766,730 pupils in public schools. The ministry also supervises more than 57,097 employees and workers at the MoEHE and the private sector, making it the largest ministry within the PNA.

Moreover, 65% of the PNA schools had computer labs during the academic year 2007/2008. This constitutes a huge increase as compared to the situation during the academic year 1999/2000, when only 28% of the schools had computer labs. The MoEHE is currently studying experiments to measure the extent of the contribution of electronic education (on-line education) in improving the quality of education and the investment in human capital.

The MoEHE, in its new five-year plan, seeks to develop the quality of Palestinian education through the concentration on the following objectives: enrollment in all educational sectors and in all stages, the quality of education, teachers' habilitation and training, and the development of the Palestinian curricula.

According to the MoEHE the "objective of the second developmental five-year plan 2007-2011 is to promote the Palestinian education from the stage of reconstruction of the damage inflicted by the Israeli occupation and to halt the deterioration in the education process, to a stage of comprehensive planning concerned with the quality of education besides the quantity, and the link between educational requirements and the economic and social development needs."<sup>26</sup>

The plan depends in its structure on three main features: enrollment, improving the quality of education and developing the administration of education which requires parallel work on developing the teachers' skills, the improvement of education facilities, and the development of the educational curriculum.

Generally speaking, the development of the education process in the Palestinian Territories is carried out under the unfavorable environment created by Israeli occupation policies that aim to impede the Palestinian education process by obstructing the movement of students and teachers, spreading hundreds of military check points in the Palestinian Territories, constructing of the Separation Wall, isolating of Jerusalem and targeting the education process there, as well as the persistent siege imposed on the Gaza Strip.

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<sup>26</sup> The MoEHE electronic webpage, [www.moehe.gov.ps](http://www.moehe.gov.ps), accessed on June 11, 2008.

## **12- The Health Sector**

The siege imposed on the Gaza Strip had evidently affected the capacity of the health sector to provide the basic health services to citizens as a result of Israeli procrastination in the entry of medicines and as a direct result of the fuel and electricity crisis; besides the prevention of patients from departure for medical treatment.

The reports from the Ministry of Health indicate that a large number of essential medicines (more than 160 medicines) and more than 130 types of medical supplies items have been out of stock since October. In addition to that, about 120 types of medicines are close to being out of stock. On the other hand, about 90 medical apparatus are not operative any more due to the lack of spare parts to repair them.

The Israeli occupation authorities prevented hundreds of patients in need of medical treatment outside the Gaza Strip from departure. The reports of the World Health Organization indicate that hundreds of chronic medical cases requiring specialized medical operations (specifically brain, nerves, bones and the treatment of cancer, kidneys, and heart) were not able to leave for treatment.

The Ministry of Health recorded tens of deaths among those patients who were not allowed to depart from the Gaza Strip for appropriate medical treatment. The Popular Committee to face the Siege had also registered 252 death cases as direct results of the siege.

## **13- The Israeli Siege on the Gaza Strip: A Human Disaster**

The Israeli occupation forces imposed a comprehensive siege on the Gaza Strip on 15 June 2007, and closed the international crossing points using alternative, unequipped crossing points for the entry of humanitarian aid and some commodities that are classified as essential products. The population of the Gaza Strip (1.5 million) became detained in a huge 'jail', besieged from all sides. The Gaza Strip depends almost completely on imports from or through Israel, i.e. the border crossings with Israel symbolize the lifelines for the Gaza Strip and its interface with the external world. The siege resulted in a paralysis of economic facilities, resulting in negative social impacts and multiplying the social, health, educational, and psychological problems of the Palestinians in the Gaza Strip.

A report published by the 'Popular Committee to Face the Siege on the Gaza Strip' estimated the direct economic losses in the Gaza Strip to be approximately USD 640 million, until mid October 2008, due to the closure of the commercial crossings. This is added to the economic losses of other sectors, such as the losses of the industrial sector, estimated to be \$16 million monthly, and those of the agricultural sector, estimated at \$10 million monthly. It is worth mentioning that Israel had cancelled the customs code of the Gaza strip on 21 June, 2007, meaning that direct importation has been halted and the trading agencies and trade marks specified for the Gaza Strip importers have been cancelled. This forced Palestinians to resort back to the Israeli importer resulting in the loss of customs revenues collected on behalf of the PNA from direct importation to the Gaza Strip.

All construction and developmental projects in both the public and private sectors, as well as the infrastructure projects, came to a halt due to the lack of construction materials, including those infrastructure projects that are executed by UNRWA and which costs are estimated at USD 93 million. The siege also deprived the industrial sector from the acquisition of raw materials and from the exportation of its products. This has resulted in the shutdown of 95% of industrial establishments. The remaining industrial establishments are operating at very low productive capacity. The siege is threatening the commercial activities with complete paralysis due to the decline in the number of goods allowed to enter to the Gaza Strip as the number of goods declined to only 20 types of essential food stuffs and medical supplies, as opposed to 9,000 types that used to enter through the different crossing points before the siege was imposed, and also due to the custody of Palestinian merchants' commodities at the Israeli ports. The risk of collapse threatens

the agricultural sector as well, especially those agricultural activities that are directed for export, as well as the fishing sector.<sup>27</sup>

No doubt, the negative impact of the siege on the Gaza Strip surpasses the direct economic losses, as the siege resulted in a structural distortion that is difficult to correct in the short term, especially in terms of the assets of local investors that were destroyed or eroded due to the paralysis that hit the various economic activities, in addition to the damages inflicted upon the investment climate in the Gaza Strip which renders future investment there an enormous risk.

### 13-1 Food Stuffs

Since the imposition of the stringent siege on the Gaza Strip, Israel allowed sporadic entry of basic foodstuffs. Following its decision to consider the Gaza Strip a 'hostile entity', the Israeli occupation authorities only allowed the entry of a list of basic foodstuffs, which does not exceed 20 items. This resulted in a noticeable shortage in foodstuffs and the total lack of a large number of various types of foodstuffs, as well as to a sharp rise in their prices.

According to reports on border crossing movement, what is allowed to enter the Gaza Strip does not exceed 15% of the daily needs for normal living. As a result of these restrictions, and the closures of border crossings that prevent the entry of raw materials needed for food production, a sharp rise in the prices of a large number of commodities occurred since July 2007.

Moreover, the poverty and the high unemployment rates resulting from the siege led to the rise in prices of several commodities, thus most of the Gaza Strip population could not afford to buy essential foodstuffs. 62% of Palestinian households in the Gaza Strip disclosed a reduction in spending, and 93.5% of them talked about a total reduction in food purchases, which led to a decline of 98% in the purchases of meat and a reduction of 86% in the purchases of dairy products.

#### Water in the Palestinian Territories

The Jewish movement's concern with water resources in Palestine goes back early to 1908 when this issue was discussed at the Zionist Congress in Basel. The beginnings of water problems resulting from Israeli aggressions against water resources in the West Bank could be monitored even before the Israeli occupation of the West Bank in 1967. In 1964, Israel had drained Lake Hula and had diverted Jordan River water by pumping over 450 million cubic meters (mcm) annually through its 'Water Carrier'<sup>28</sup> to the Negev Desert and southern coastal areas. Hence, the conflict over the waters of the Jordan River started after the Israeli occupation of the West Bank, the Gaza Strip, Sinai and the Golan Heights and the resulting control over the remaining water resources for Palestinians, both groundwater and surface water. Israel declared the West Bank lands in the vicinity to the River as closed military territories, denying the Palestinians their share of the waters there. Israel utilizes 55% of the Jordan River waters while Palestinians are deprived of their share, estimated at 250mcm according to various international laws.

The amount of water allocated to the West Bank before 1995 was 118 mcm along with 50 mcm for the Gaza Strip.<sup>29</sup> Despite its acknowledgement of the water rights of Palestinians in the West Bank in article 40 of the 1995 Oslo accords Interim Agreement on water and waste water, Israel retained the same amounts of water allocated to the West Bank and the Gaza Strip until 1998. It has been agreed that Israel would provide the

<sup>27</sup> Tabba', Maher (2008), One Year Harvest of the Siege on Gaza, Gaza: The Chamber of Commerce.

<sup>28</sup> In 1958 Israel started the construction of the 'National Water Carrier' which was inaugurated in 1964 to utilize the waters of Jordan River by the transfer of Tiberias' waters to the Negev Desert. The 'National Water Carrier' is the principal channel of the Israeli water network in which most of the water works in Israel are combined. The project consists of a system of regional pipes that transfer waters from the Jordan River and Tiberias Lake resources to the south of Israel and north of the Negev. The system was designed by the Israeli Water Authority and executed by Mecorot Company. Water is pumped through the Carrier, first from Tiberias Lake, then transferred through an open, 16 km long canal running from kibbutz Hakok to Beit Netova valley where water is subjected to sedimentation and purification and transferred through a 2.80 " closed pipeline until Ras Alein. At this point the Carrier from Tiberias Lake and the Yarkon-Negev system meet in one pipeline. The 'National Water Carrier' is approx. 130km long.

<sup>29</sup> Shadad Al-Atili, The Head of the Palestinian Water Authority, Interview with Al-Quds Newspaper, 6/5/2008, p.24.

Palestinians with a total of 80 mcm during the interim period and would re-discuss these amounts after five years of the agreement. However, Israel did not abide with this article, and only provided 28 mcm out of the pledged 80 mcm. While the rationing of the shared groundwater and Jordan River resources had been postponed to the negotiations of final status issues, the Interim Agreement stipulated that there are three aquifers in the West Bank: the eastern, northeastern and the western aquifer systems. However, Israel had completely obstructed drilling in the western aquifer, which has portable quality of water extracted at a relatively low cost, being at a depth of 200-300 meters.. On the contrary, Israel permitted drilling in some wells of the eastern aquifer system where drilling is considered very costly with waters at a depth of 700-800 m, in addition to its increasing water salinity which requires treatment (desalination), a process that significantly adds to the cost of water extraction.

According to the Palestinian Central Bureau of Statistics data, Palestinians in the PT consume a total of 270 mcm of water annually; 150 mcm of which in the West Bank and 120 mcm in the Gaza Strip. The actual need is for 400 mcm annually. Although the available amount of waters in Israel and the PT is estimated by over 2.5 billion cubic meters, Israel usurps 90% of it. According to Palestinian Ministry of Foreign Affairs, Israel controls 88% of the groundwater resources in the West Bank and the Gaza Strip, estimated at 700 mcm.

According to the Ministry of Foreign Affairs, Palestinian total per capita water consumption for domestic use is less than 100 liters per day in contrast with the Israeli per capita consumption of about 350 liters. The minimum daily per capita water consumption assigned by the World Health Organization is 150 liters. Therefore, the average Israeli per capita consumption of water is four times more than that of a Palestinian<sup>30</sup>, although the proportion of Palestinian and Jewish per capita consumption of water for domestic use before 1948 was the same. According to the Human Development Report for the year 2005<sup>31</sup>, the Israeli total consumption of water is seven and a half times more than the consumption of the Palestinian Territories. Israel consumes over 1500 mcm annually for agricultural use, equivalent to 60% of all water resources to the west of the Jordan River, despite the fact that the Israeli agricultural sector contributes only 2.5% to the Israeli national income. Israel supports its farmers and urges them to consume large amounts of water. In other words, the Israeli agricultural sector consumes five times more than the Palestinian people's total consumption of water for all uses, including agriculture. This means that a reduction or halt of the government support to Israeli farmers will spare large amounts of water that can be utilized by the Palestinians to solve the problem of 'rot water', and reconcile the rights over the waters Israel has deprived them of.

Even a decade after the interim accords, the amount allocated for the West Bank and Gaza Strip is almost the same as before. This situation has further deteriorated by Israel's construction of the Separation Wall since 2004. The wall has isolated most of the groundwater in the West Bank, engrossing 37 wells and obstructing the access to another 30. With the rapid population growth in the PT, and with no change in the provided amounts of water, the Palestinian Authority is buying around 40-45 mcm annually from the Israeli Water Company 'Mecorot' to be distributed by the West Bank Water Department to the municipalities in the West Bank and the Gaza Strip.

## 14- The Effect of the Separation Wall on Social Conditions

The Palestinian Central Bureau of Statistics (PCBS) survey on the 'Impact of the Expansion and Annexation Wall on the Socio-Economic Conditions of Palestinian Localities which the Wall Passes Through' stated that nine governorates in the West Bank have been directly affected since Israel started its construction in 2004 until June 2008.

PCBS published data indicating that the Palestinian communities that the Annexation Wall passes through increased from 149 localities at the end of May 2008 to 171 by the end of June 2008. According to PCBS data, the localities traversed by the Wall are distributed by governorates as follows: 32 localities in the Jenin governorate, 27 in the Jerusalem governorate, 22 in the Qalqilia

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<sup>30</sup> Ibid.

<sup>31</sup> Human Development Report, 2006

governorate, 21 in the Hebron governorate, 20 in the Ramallah & Bireh governorates, 19 in the Bethlehem governorate, 16 in the Tulkarem governorate and 12 in the Salfit governorate. 14 localities are behind the Wall, 13 of which are in the northern West Bank and one locality is in Bethlehem governorate in the southern West Bank. The number of localities outside the Wall increased from 134 localities at the end of May 2005 to 157 by the end of June 2008. The largest share of localities outside the Wall was that of Jenin and Jerusalem governorates with 27 locality each.

The main findings indicate that 47,921 dunums of land have been confiscated since the building of the Wall, with most of it in the northern West Bank, which reached 22,141 dunums; while the rest is distributed between the middle and southern West Bank. In addition to the confiscated lands, isolated lands amounted to 274,607 dunums, most of which are agricultural lands.

## **14-1 Population Deportation**

Palestinian distress continues from the displacement of citizens, creating another refugees problem. According to data by the PCBS, 3,880 households were totally displaced from their lands traversed by the Annexation Wall since the beginning of the Wall's construction until the end of June 2008, compared to 2,448 households at the end of May 2008. At the same time, 27,841 persons were displaced from their communities as a result of the Wall cutting into their lands.

According to the PCBS data, 96 localities of the total localities where the Wall passed were affected by bypass roads constructed on their confiscated lands. On the other hand, Israeli settlements were set up on the lands of 92 localities affected and confiscated by the Wall.

With regard to humanitarian assistance forwarded to the communities affected by the Wall, 107 localities received aid over the last 12 months, 10 of which are behind the Wall and 97 outside of the Wall. The sources of the humanitarian assistance varied, as 68 localities received aid from the Palestinian public sector, 65 others from foreign parties, 23 from Arab Countries, whilst the UNRWA provided 41 localities with humanitarian aid and the Palestinian private sector provided further aid to 17 localities that the Wall passed through.

## **15- Israeli Measures**

### **15-1 The Martyrs and Injured**

The monthly reports of the Palestinian Monitoring Group (PMG) indicated that the number of assassinations committed by the Israeli occupation forces against Palestinian activists from May until end of September 2008 was four. The report of the PMG also indicated that the number of martyrs reached 86 in the same period, while the number of injured Palestinians reached 707 during the same period of 2008.

### **15-2 Obstacles to Movement and Travel**

The PMG monitored 2,365 military temporary check posts in the West Bank from May until end of September of the year 2008, while the number of total closures of the border crossings to Israel amounted to 631 times during the same period. The Israeli occupation forces imposed 54 curfews

on different populated areas during the same period. This is in addition to the several permanent check points that became similar to border crossing points, where Israeli occupation forces search citizens, interrogate them and delay them for many hours. Furthermore, the Israeli occupation forces imposed total closure of these check points, under the claim of security measures, which led to the tearing-up of the parts of the West Bank and the isolation of the northern areas from the center and the center from the south, making movement between Palestinian cities a strenuous mission.

### **15-3 Assaults on Education and Health Sectors**

There were 25 Israeli assaults on the Palestinian education sector from May until end of September 2008, including raiding UNRWA schools and the Polytechnic University in Hebron. These attacks were beside the Israeli forces surrounding of schools, which became a habitual action

With respect to the health sector, the PMG's reports indicated that 24 assaults were executed against this sector, including the prevention of ambulances from transporting the injured, refusals to coordinate with the ambulances, raiding hospitals and clinics, pharmacy inspection, and the detaining of the injured.

### **15-4 Assaults on Property and House Demolitions**

The phenomenon of targeting public and private Palestinian properties by the Israeli occupation forces continued as these forces demolished 21 houses and occupied another 99 houses, using them for different military purposes, for differing periods of time. The PMG's reports monitored 497 assaults on Palestinian properties. These assaults inflicted harm on agricultural lands, vehicles, the electricity network in the Hebron governorate, the irrigation network in the Tubas governorate, the destruction of infrastructure in the Gaza Strip and on fishing boats in northern Gaza, Khan Yunis and Rafah.

### **15-5 Settlement Activities and Settler Assaults**

The settlement activities continued in the PT. The PMG monitored 18 settlement activities between May and end of September 2008. These activities included confiscation of lands and land scraping for the sake of constructing security fences, expanding and constructing roads to serve the settlements, bidding for building housing units for settlements in the PT, in addition to confiscating lands for military purposes and with the pretext of amending the course of the Separation Wall.

Israeli settlers continued their assaults on Palestinian citizens and their properties. 211 assaults were monitored and they included: beating children and shooting them, kidnapping Palestinian citizens and beating them, throwing stones on citizens' cars, the confiscation of lands in Tel Rumeida in Hebron scraping and damaging Palestinians' lands and properties and burning and uprooting olive orchards.