



Palestine Monetary Authority
(PMA)



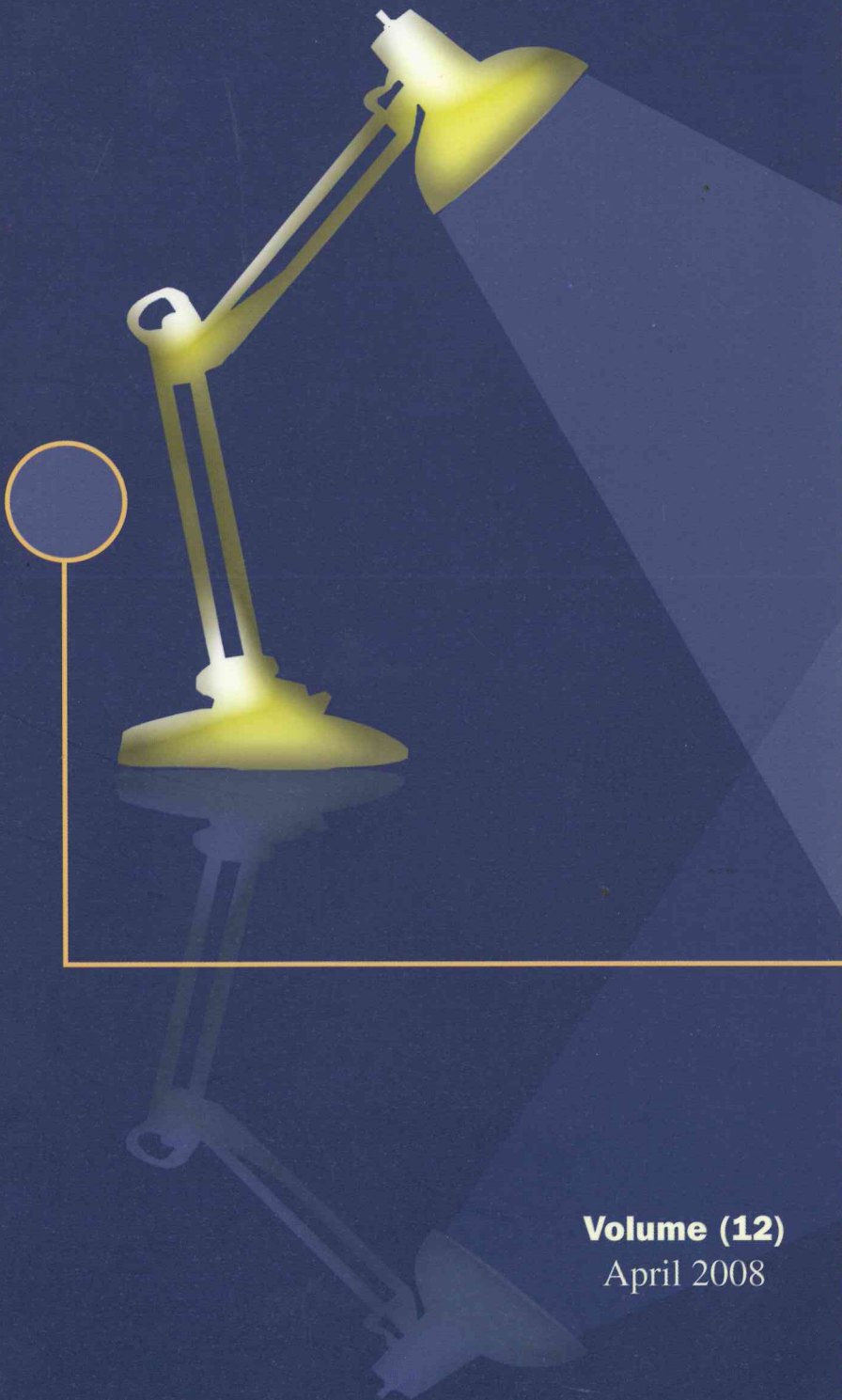
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Economic & Social

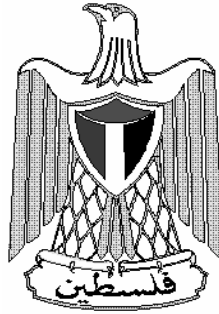
Monitor



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**Palestine Monetary Authority
(PMA)**



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



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

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April, 2008

FOREWORD

This issue of the Monitor follows the approach adopted in recent issues. The aim is to give our readers an understanding of developments in each sector of the economy, including the following:

- ✧ An account of the economic and social developments in the West Bank and the Gaza Strip for 2007, with special emphasis on the third and fourth quarters of 2007, and the first quarter of 2008, according to the latest data published by the PCBS and PMA and other official circles.
- ✧ An analysis of the education sector in East Jerusalem. In particular, the serious deterioration the sector suffers due to the Israeli measures that are part of wider Israeli plans aiming to 'Judaize' the city by destroying the social infrastructure of its Arab citizens in order to force them out of the city to the remaining West Bank, or out of Palestine.
- ✧ There is a summary of the results of the population census completed by the PCBS in 2007 and a comparison of these results against the population census a decade ago.
- ✧ The issue includes a complete analysis of the public fiscal developments, with a comprehensive review of previous periods and of future plans.

In this issue we have also adopted a new approach, which we hope to continue using in future. This is the introduction of some topics of importance inside boxes that are independent from the main body of text. There are two objectives to this: the first is to draw attention to those topics of local, regional or international importance at the time the issue of the Monitor is about to be published; the second, is to open some space to deal with a specific topic through the use of the technical terminology that is not necessarily consistent with the language in the remaining text, or, to include details that are more appropriate in an independent frame.

In this issue of the Monitor, three such boxes were introduced: the first deals with the announcement of the British Gas Group to suspend negotiations with Israel on the extraction of Gaza's offshore natural gas reserves, the story of which reveals some telling aspects about the Israeli policy towards the Palestinian economy; the second, deals with the recent depreciation of the US dollar and the American policies responsible for it; and the third, deals with the deteriorating humanitarian situation in the Gaza Strip.

We look forward to hearing the opinion of our readers on this new feature, or on any other aspect of the Monitor. In our constant efforts to make this publication as useful and relevant as possible, we highly value the feedback we receive. Finally, we would like to thank the teams from the three institutions whose hard work and cooperation made this issue possible.

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Definitions and Terminology

Average Wage	Employees compensations ÷ number of waged employees
Consumer Price Index (CPI)	A statistical tool to measure the changes in the prices of goods and services purchased by the consumer between two periods.
Crude Divorce Rate	The number of divorce cases per 1,000 population at the mid of the year
Crude Marriage Rate	The number of marriages per 1,000 population at the mid of the year
Dependency Ratio	The number of dependents including children below 15 years old and old people above 65 years old per 100 population at the working age of those who are between 15-65 years old.
Disposable Gross National Income	Total value of income accrued to residents and available for spending on consumption goods and services, or saving. It equals GNI plus net current inflows from abroad.
Drop out Ratio	Total pupils who left school during the academic year divided by all enrolled pupils in the basic and secondary levels of education.
Dwelling Density	Number of persons per room
Employment	The number of working people within labour force and includes employers, paid workers, self-employed persons, in addition to unpaid workers who are family members.
Enrolment Rates	Total number of enrolled pupils at institutions of education at a certain level divided by population whose age is within the legal age to be enrolled at that level.
Family	One or more persons who are bound or unbound by kinship, living usually in one house or part of it, and share food or any other living arrangements.
Gross Domestic Product (GDP)	The value of final goods and services produced during the year.
Gross National Income (GNI)	The value of total value of incomes accrued to residents.
Gross National Disposable Income (GNDI)	Available income for residents that is either used for spending on consumption goods and services or for saving. It equals GNI plus net current transfers from abroad.
Household Consumption	The sum of money spent on the purchase of goods and services, the value of goods and services the household receives from the employer, and the goods consumed of household production, and the imputed value of rent of owned dwelling unit.
Household Expenditure	It includes; expenditure of the household on the purchase of goods and services for living purposes; the value of goods and services the household receives from the employer and specified for consumption by the household; the cash spent on charges, fees, taxes and religious tax, grants, presents, interest on loans, and other non consumption items.
Infant Mortality Rate	The number of infants (below one year of age) per 1,000 of living new born during a year.
Labour Force	All persons who belong to the working age and are either employed or unemployed.
Manpower	All persons in the West Bank and Gaza Strip who had completed 15 years of age and above.
Median Age	The age that divides the studied community into two equal parts, i.e. half the women who married during 2004 and their ages were equal to or less than the median age, and the other half of them of whom ages were equal or greater than the median age.
Remaining West Bank	The West Bank, excluding that part Israel had annexed by force after the 1967 occupation. This term was invented for statistical purposes and

Total Fertility Rate
Unemployment Rate

because of the difficulties in gathering information of that part of Jerusalem due to the Israeli roadblocks and other restrictions.

The average of living newly born per woman during her fertility life.

Includes those persons who belong to the working age and did not work during the reference period in any kind of work, and those who were ready for work during the period and actively searched for a job.

INTRODUCTION

The Palestinian people in the West Bank and Gaza Strip experience a daily life of severe harshness, difficulty and complexity. In addition to the Israeli occupation practices that over-step all red lines stipulated for by international laws, Israel has escalated operations of collective punishment, murder, destruction and siege. The crisis of national split, and the existence of two governments in the West Bank and Gaza Strip has created a public atmosphere of frustration, and reinforced Israel's capacity to commit the most serious crimes against the Palestinian people without effective Arabic or international protest.

In spite of all this, the Palestinian human being continues the daily work to feed his/her children and to provide for their education under the most severe unemployment conditions, and the continuous increase in the cost of living, while assuring every day his/her limitless capacity to steadfastly endure and resist the Israeli occupation.

The efforts exerted by many Palestinian institutions under these harsh circumstances to help the Palestinian human being to steadfast and sustain life are invaluable, as they require a great deal of planning and adaptation to the changing circumstances. However, the fate of these efforts continue to be of limited effectiveness as the basis for achieving radical progress in the life of the Palestinian citizen would not come before the ending of the conditions of split and fragmentation. The restoration of true national unity that would lead to a unified leadership capable of putting together a national comprehensive development project that would constitute the true leverage of economic activity is needed in this respect.

EXECUTIVE SUMMARY

Economic Activity

Initial estimates of national accounts for 2007 show annual GDP rising by 0.7% compared with 2006, reaching \$4,135.8 million. However, this means GDP per capita fell by almost 2%. The shares of manufacturing industry and commercial services fell in comparison to other services like health, education, defence, agriculture, transportation and telecommunication, commerce, and financial intermediation.

Labour Market

Participation in the labour force fell to 42.4% in the fourth quarter of 2007, with male and female participation reaching 66.8% and 15.5%, respectively. ILO-definition unemployment decreased to 22.2% in the same quarter, being highest among persons aged 15-24 years. The average daily wages of waged workers increased in the West bank and in Israel but remained constant in the Gaza Strip. In 2007, more than 94% of vacancies advertised in newspapers were in the private sector and non-governmental organisations (NGOs).

Public Finance

Although non-tax domestic revenues increased by 39% in 2007 to reach \$117 million, clearance revenues fell by 4.5% to \$697 million and tax revenues fell by 14% to \$117 million. However, budget support increased by 57.3% to \$1,175 million. Public spending rose by 39% to reach \$2,732 million of which \$500 million was “net lending” to settle unpaid bills.

Banking

The number of banks operating in the Palestinian Territory (PT) remained unchanged at 22, but the number of branches increased to 162 by the end of 2007. Banks’ assets increased by 5.1% in the fourth quarter of 2007 in comparison to the third quarter, and deposits rose by 5.5% in the same period. However, the value of credit facilities dropped by 3.9%. The number of cheques presented for clearing rose slightly, by 0.1%, but the number of these cheques that bounced increased by 4%.

Palestinian Securities Exchange (PSE)

The value of shares traded during 2007 decreased by 23.8% in comparison to the previous year, while market capitalisation fell by 7.4%. The Al-Quds (Jerusalem) index of leading shares finished the year 12.9% below its close at the end of 2006.

Prices and Purchasing Power

Prices continued to soar in the fourth quarter of 2007, with the Consumer Price Index (CPI) rising by 3.4% compared with the third quarter and 6.7% compared with the end of 2006. The fourth quarter saw a sharp drop in the exchange rates of the Jordanian Dinar (JOD) and US Dollar (US\$) against the Israeli Shekel, with falls of 5.7% and 5.3% respectively, in comparison to the third quarter and 7.8% and 7.9%, respectively, from their levels at the end of 2006. The purchasing power of the JOD fell by 14.5% over the course of 2007, while that for the US\$ dropped by 13.8%.

Tourism

Compared with the previous quarter, the number of hotels operating in the Palestinian Territory increased by 2.5% in the fourth quarter of 2007; the number of employees rose by 3.8%; the number of visitors increased by 14.9%; and room occupancy rates rose by 10.8%.

Company Registration

The number of newly registered companies reached 1,196 in 2007, a rise of 88% in comparison with 2006. However, at JOD182.3 million, the total capital of these firms remained almost unchanged from 2006 levels (JOD 183.4 million).

Industry Expectations

47.9% of owners and managers of industrial firms in the West Bank expected their company's performance to improve in the six months that followed December 2007, while only 24.6% of those in the Gaza Strip said the same.

Population

According to the recent census, the population of the Palestinian Territory reached 3.76 million inhabitants by the end of 2007, 62.3% of whom live in the West Bank and 37.7% in the Gaza Strip. This compares to 64.7% and 35.3% respectively in the 1997 census.

Education

The number of schools in Jerusalem reached 146 in 2007/2008, but the Palestinian Ministry of Education supervises only 37 of them. Gross enrolment reached 70,157 students, more than half of who go to schools run by the Israeli Jerusalem Municipality and Education Ministry. As a result of the siege imposed by Israeli forces on the Gaza Strip, enrolment in basic education fell to 96.8% in 2006/2007.

Standard of Living

Poverty rates rose in the Palestinian Territory, where 80% of households in the Gaza Strip and 47% of families in the West Bank live below the poverty line. 30% of Palestinian households depend mainly on assistance, and 4% could not survive without it.

Israeli Measures

171 Palestinians were killed and 629 injured in the first two months of 2008. During the same period, 23 houses were demolished and another 121 were occupied for military purposes. Israeli forces also confiscated 766 dunums of land in Hebron governorate alone to complete construction of the Separation Wall.

1. The Monitor Outlook

The year 2007 ended with two contradicting phenomena in the economic situation in the Arab region. The first is positive; it concerns the accelerating economic growth resulting from the sky rocketing increase in the price of oil. This resulted in multiplicative increases in oil rents in the Arab oil exporting countries, which lead to the acceleration of the economic growth rates in these countries, as well as in other Arab countries that are indirectly affected from the oil bubbles. As a result the economic growth rate in the Arab Mashreq countries reached 5.4% in constant prices for 2007¹. The second phenomenon is negative; it concerns the huge increase in the international prices especially those of foodstuffs, construction materials, and therefore housing rents. This has been reflected in the Arab economies as an increase in inflation rates - the average inflation rate in the Mashreq countries reached 7.9% during 2007. The increase in the international prices of wheat had a large impact on the increase of bread prices for poorer social classes, especially that this increase was accompanied by the reduction of government subsidies to essential commodities in some Arab countries². The large depreciation of the US Dollar resulted in huge losses to many Arab institutions and individuals who hold financial portfolios of which American bonds and stocks constitute a high percentage.

The Palestinian Territory (PT) suffered from the results of the negative phenomenon outlined above, and the resulting inflation, without any participation in the positive phenomenon. In fact, the growth rate of the GDP of 2007 was below one percent (0.7%). If the international financial boycott of the Palestinian National Authority (PNA) in the West Bank and Gaza Strip had not been terminated, the negative growth rate could have been comparable to -8.8%, as it was in the Gaza Strip in 2006. The termination of the international financial boycott of the PNA in the West Bank resulted in the resumption of the PNA's capacity to pay the salaries of public sector employees. This contributed to the increase in the size of consumption that helped to stop the decline in economic activity, which took place in 2006.

Reviewing the Palestinian economy in 2007, we find that the Palestinian economy entered into stagflation: the inflation rate approached 7% (please see section 7 below), and at the same time the average unemployment rate reached 21.5% during the same year. There is no doubt that this difficult problem had severe economic and social results; in addition to the very difficult economic conditions created for the poor classes, they also caused the pauperization of the lower strata of the middle class.

As we mentioned in the previous Monitor, the year 2007 started with a high degree of optimism when it was agreed in the Mecca Conference, between Fateh and Hamas, to form a national unity government to work on the termination of the unjust international siege imposed on the PNA; to end chaos and lawlessness; and to enhance the indigenous capacity of the Palestinian economy to struggle against the occupation. But what happened was totally contrary to that and can be summarized as follows:

- ✧ The collapse of the national unity government in mid June three months after it was established.
- ✧ An odd and strange status quo was created whereby two governments exist, one in Gaza and the other in Ramallah.
- ✧ The continuation of the Jewish settlements expansion in the West Bank by Israel in spite of the convening of the Annapolis Peace Conference.
- ✧ The tightening of the Israeli siege and air raids on the Gaza Strip, and the continuation of the organized assassination operations in both the West Bank and the Gaza Strip, not to mention the daily arrests of Palestinians in the West Bank.
- ✧ The total withhold of the support to the PNA approved in the Paris Economic Conference.

¹ The Arab countries in the ESCWA are: Palestine, Lebanon, Syria, Iraq, Egypt, Kuwait, Yemen, the United Arab Emirates, Qatar, Bahrain, Oman and Saudi Arabia.

² Subsidies for some essential commodities were reduced in Egypt, Jordan and Yemen.

Within this context it is important to stop at the third point above, which is the Jewish settlement activity in the PT. Before a week elapsed after the conclusion of the Annapolis Conference, (attended by 40 states and international organizations) where it was agreed upon to reconvene the negotiations between the Palestinian and Israeli sides, the intention of Israel was declared to construct 300 housing units in Abu Ghoniem Mountain' Settlement. The construction of this settlement, which started a few weeks after the signing of the Oslo Agreement on September 13th 1993, is considered as one of the factors that lead to the collapse of the Oslo Agreement. Consecutive declarations were then made by the Israeli Government to construct new housing units in the surrounding areas of Jerusalem of which 600 housing units were in Pesgat Zeeve, a settlement surrounded by Arab villages. Press reports mentioned that that expansion is a part of a plan to construct 4000 housing units in the settlements around Jerusalem. The Israeli Peace Now Movement mentioned in one of its reports that, "the density of the Israeli settlement activity which took place in the surrounding of Jerusalem during the two months following the Annapolis Conference was unprecedented. The settlement expansion activity was not confined to the Jerusalem area but extended to the Jewish settlements in the remaining areas of the West Bank where housing units were built to be occupied by settlers who left the settlements in the Gaza Strip.

Due to the hostile Israeli activities, and the resulting failure of all of the calming and peace efforts that were exerted by some Arab and foreign parties, it was difficult to build estimates and projections of what the situation would be in 2008. Such estimates, if at all, would be subject to changes according to situation on the ground.

The World Bank's reports indicate that the status quo in the Gaza Strip has lead to clear differences in the standards of living between the West Bank and the Gaza Strip, and that the deteriorating economic condition in the Gaza Strip has become increasingly difficult to handle. The Bank's reports emphasized that the acceleration of the growth of Jewish settlements, and the restrictions imposed by Israel on the movement of citizens and goods justified by Israel on the pretext of security considerations, actually multiplies the difficulty of the economic conditions in the PT. The result of this is that the opportunities to achieve the objectives of the development plans articulated by the PNA have become very slim. In the face of these circumstances and challenges: the PNA is in pursuit of improving the economic environment by undertaking some reforms of the economic laws, to solve the problem of salaries of the public employees, to pay the arrears to the private sector, and to meet its commitments which were articulated in the development plan of 2008-2010. The PNA is also persistently seeking to open up to the world in spite of the suffocating Israeli measures. The Palestine Investment Conference that was held in Bethlehem during 21-23 of May 2008 is considered within this context. It was attended by a large number of Arab and foreign investors who came to know Palestinian society and its capacity to be steadfast and produce and adapt to the domestic, regional and international changes. The organizers of the conference hope that it will lead to the undertaking of many investment projects by Arab and foreign investors in the Palestinian economy, especially in its productive sectors.

2- Economic Activities

The last three years were a period of contraction in the general economic activity. This was an understandable result of the oppressive Israeli practices, the 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 large decline in the standard of living of the average Palestinian, as compared with the previous levels of these standards or as compared to standards of living of the average citizen in neighboring countries³.

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

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

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

When compared to its level in 1999, the average GDP per capita in the last 8 years lost more than one quarter of its 2002 level, and that it started to regain part of that loss during 2003, until the loss reached about 15% with the end of 2005, but then it declined at the beginning of 2006 so that it almost reached what it used to be in 2002 (i.e. less than 75% of its 1999 level). And when we compare the Palestinian GDP/Capita to the income per capita of four neighboring countries we can see that in 1995 it was less than its level in Israel, almost equal to its level in Jordan, and higher than its level in Egypt and Syria. While in 2006, the Palestinian GDP/Capita was less than its level in those four countries, and that the reduction rates had been very high. It is sufficient to observe that while the 1995 Palestinian GDP/Capita was almost equal to its level in Jordan, in 2006 it has deteriorated to become less than half of Jordanian per capita income. This appears in tables 1 and 2.

It is known that the big challenges that the PNA faced when it was established in 1994 was the economic situation it inherited from the Israeli occupation represented by: Israel's control over a substantial proportion of the Palestinian natural resources (land and water); the excessive dependence of the Palestinian economy on external sources of income generation (workers income from Israel and the Israeli settlements, and the income of Palestinian workers in the Arab Golf states); the sector imbalances (i.e. the large decline of the contribution of agriculture and the very low contribution of 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. Therefore, this severe decline comes on a background of political and economic developments that continued to affect the Palestinian situation since the PNA was established in 1994.

³ It is imperative to note here that the figures of GDP per capita in the past years are not those that appeared in the previous Monitor. The reason behind this is that the PCBS published new figures. Also the Population Census of 2007 induced a change in the estimation of the population in those years. Accordingly, we calculated the GDP per capita by using new estimates of GDP and population (the population figure was estimated on the basis of the 1997 and 2007 population figures which meant that population growth averaged 2.616% during the last ten years).

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

2006 ^(b)	1995 ^(a)	Country
0.91	1.68	Egypt
0.46	0.96	Jordan
0.78	1.84	Syria
0.06	0.11	Israel

Sources: (a) UNCTAD/GDS/SEU published on June 30, 1998.

(b) The World Bank's statistics.

However, the achievements of the PNA in the time of limited autonomy government (1994-2000) in dismantling the economic inheritance of the Israeli occupation were limited and weak. This was due to the Israeli noncompliance to implement the agreements it signed with the Palestinians. There were other reasons also, 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 facilities of infrastructure. 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.

Subsequently most of these achievements stopped due to the Israeli oppressive measures that accompanied the Al-Aqsa *Intifada* that erupted in late November 2000, which culminated in direct reoccupation of the West Bank. 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, acts of killings, house and property demolitions, and curfews that lasted for many weeks in the towns of the West Banks.

This deterioration somehow recessed towards the end of 2003, while 2004 and 2005 witnessed high growth rates (see table 3), and it was expected that this growth would continue in a way that economic activities would recover their 1999 levels. However, 2006 witnessed 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 the behalf of the PNA). This resulted in the deprivation of the public sector employees from receiving their monthly salaries for many months. In addition the 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 11.1% as compared to its 2005 level, and thus it declined to 76% of its 1999 level, and the decline continued in 2007 until the GDP per capita reached to 74% of its pre-*Intifada* level.

Table 2: Economic Growth and Employment*

Indicator *	2002	2003	2004	2005	2006	1 st Quarter 2007	2 nd Quarter 2007	3 rd Quarter 2007	4 th Quarter 2007	2007
GDP in Constant Prices (USD million)	3,838.9	4,165.3	4,247.7	4,502.6	4,107.0	959.0	1,060.7	1,053.9	1062.2	4,135.8
GDP/Capita (USD)	1,156.8	1,265.4	1,310.3	1,352.6	1,201.5	270.2	301.0	301.2	305.7	1178.1
Average Growth Rate of GDP/Capita	(12.3)	9.4	3.5	3.2	(11.1)	3.7	11.4	0.06	1.5	(2)
Average Unemployment Rate (%)	31.3	25.6	26.8	23.5	23.6	21.6	19.2	23.2	22.2	21.5

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

* GDP and GDP/Capita figures were calculated according to the statistics of GDP as they were reported in the last revision of the PCBS. Population figure was calculated for the different years according to the census of population in 1997 and also that of 2007 with its annual increase of 2.616%.

- Figures in parentheses are negative values.

This decline in economic activity, combined with Israel's refusal to release the accrued Palestinian taxes (through the clearance system), resulted in a massive PNA budget deficit. Such deficit rendered the PNA unable to pay about half of its employees and forced it to cut down on public spending and important social services. This substantial deterioration reflected the specific characteristics of countries' economies that suffer from conflicts, crisis, and longterm instability. Including 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, which threatens the Palestinian economy of sliding down into a problem of stagflation.
- ✧ Distortions in the economic structure leaning towards the decline of the productive sectors (agriculture and industry) necessary to meet basic needs. A transformation in the industrial base occurs in favor of low-wage, low-productivity activities.
- ✧ Workers' mobility from the formal sector to the informal sector.
- ✧ Some established businesses move to neighboring countries and local capital is invested abroad.
- ✧ Income and consumption inequality worsens in favor of the wealthy, and the increase in marginalization and exclusion processes.

These characteristics started to disappear in 2004 and 2005 as the economy regained its ability to grow (appearing in different degrees since the beginning of 2001), but then started to reappear again quickly in 2006, especially during the fourth quarter, as the conflict between Fateh and Hamas movements started to intensify and magnify the already-existing unstable conditions due to the Israeli occupation. This was compounded by the general strike of PNA employees in protest to the inability of the PNA to pay their salaries. All this led to a huge contraction in the economic activity that continued until mid 2007, after which glimpses of slight recovery started to appear in response to the dismantling of the financial siege on the PNA in the West Bank (while it continued against the Gaza Strip). Preliminary estimates of the Palestinian Central Bureau of Statistics (PCBS) indicate little decline in the unemployment rate and poverty rate in the West Bank, and a rise in both of these rates in the Gaza Strip. The private sector in the Gaza Strip is experiencing a suffocating crisis due to the Israeli and international siege that encompasses travel, transportation and importation of raw materials, and the exportation of Gaza Strip products. The siege also caused the cutting off of electricity, and the prevention of fuel delivery at various intervals. Preliminary results for 2007 indicate that the GDP decline has stopped and that the GDP has increased over its 2006 level by less than one percent (0.7%). However, this increase was lower than the population annual growth rate; therefore the GDP per capita declined by about 2% as it appears in table 3 above.

Table 3: Main Economic Indicators in the Remaining West Bank and Gaza Strip

Indicator	1999	2002	2003	2004	2005	2006	2007
GDP (million \$, constant prices) *	4,511.7	3,838.9	4,165.3	4,247.7	4,502.6	4,107.0	4,135.8
GDP per capita (\$, constant prices) *	1,589.0	1,156.8	1,265.4	1,310.3	1,352.6	1,201.5	1,178.1
Final Consumption Expenditure (million \$)	5,532.0	4,446.0	5,032.0	5,797.0	6,407.0	6,491.0	6,811.0
Aggregate Investment (million \$)	1,898.0	780.0	972.0	1,024.0	1,081.0	848.0	816.0
Government Expenditure (million \$)	1,044.0	914.0	978.0	1,197.0	1,378.0	1,454.0	1,480.0
Net Commodity Trade Balance (million \$)	(4926)	(5,821)	(2,038)	(2,441)	(2,698)	(2,661)	(2,833)
Total Commodity Imports (million \$)	3805	2,535	2,844	3,279	3,597	3,479	3,615
Total Commodity Exports (million \$)	689	367	356	402	467	417	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

Indicator	1999	2002	2003	2004	2005	2006	2007
Unemployment rate (ILO definition)	11.8	31.3	25.6	26.8	23.5	23.6	21.5
Inflation rate (Shekel-based) *	2.51	6.27	3.75	3.87	2.31	3.27	6.67
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	1,050.0	1,370.0	721.0	1,616.0
Public expenditures (million \$)	1411	1,251.0	1,651.0	1,528.0	2,281.0	1,707.0	2,877.0
Surplus/ Deficit before assistance (million \$)	(469.0)	(956.0)	(888.0)	(478.0)	(911.0)	(986.0)	(1,261.0)
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	1,019.0	1,322.0
Public debt (million \$)	391.50	1,089.0	1,235.76	1,421.75	1,602.18	1,493.83	1,439.37
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: Palestinian Monetary Authority.

* Source of those figures followed by (*) is the PCBS.

Note: Numbers in parenthesis are negative.

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

Economic Activity	2003	2004	2005	2006	2007 *
Agriculture and Fishing	10.1	7.5	6.9	8.1	8.3
Mining, Manufacturing Industry, Water and Electricity Supplies	11.8	13.2	12.5	12.9	12.8
Mining and quarrying	0.4	0.4	0.4	0.4	0.5
Manufacturing Industry	9.2	11.2	10.6	10.8	10.6
Water and Electric Supplies	2.2	1.6	1.5	1.7	1.7
Construction	3.5	2.4	2.7	2.5	2.5
Retail and Wholesale	9.1	8.5	8.3	9.3	10.0
Transportation, storage and telecom.	9.1	10.5	10.2	11.3	11.6
Financial intermediation	3.4	4	4.2	4.5	4.7
Services	23.4	24.6	24.4	22.9	21.8
Real estate, rental and commercial services activities	11.0	10.1	9.9	10.9	8.2
Communal, social, and personal services activities	0.9	1	1.0	1.1	1.1
Hotels and restaurants	0.5	1.5	1.5	1.6	1.6
Education	8.2	7.6	7.6	6.2	7.6
Health and social work	2.8	4.4	4.4	3.1	3.3
Public administration and defense	15.5	17.3	17.7	13.5	14.5
Domestic services	0.2	0.2	0.2	0.2	0.2
Publicly-owned enterprises	2.0	-	-	-	-
Subtract: financial intermediation (with indirect clearing)	-2.9	-2.9	-3.1	-3.3	-3.4
Add: Customs fees	3.5	6.5	6.1	6.9	6.9
Add: Net VAT on imports	11.3	8.2	9.9	11.2	10.1
GDP (%)	100	100	100	100	100
GDP (million \$)	4,165.3	4,247.7	4,502.6	4,107.0	4,135.8

Source: PCBS, 2007, National Accounts, Ramallah – Palestine.

Differences in sectoral contributions took place between 2006 and 2007 (see Table 6) whereby some improvement in the performance of the agricultural sector is evident during the first three quarters of 2007 as compared to their counterparts in 2006. The contribution of the manufacturing

industry in the first two quarters was better than in the last two quarters, and the contribution of the services sector showed improvement at the end of 2007 after it had declined at the end of 2006 and the beginning of 2007.

Table 5: The Contribution of Economic Activities in the GDP in the Remaining West Bank and Gaza Strip by Quarters of 2006-2007, in Constant Prices: 1997 base year, (%)

Economic Activities	2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Agriculture and Fishing	5.9	7.3	7.0	12.7	8.0	9.1	8.1	7.7
Mining, Manufacturing Industry, and Water and Electricity Supplies	11.1	12.3	14.0	14.5	13.8	12.4	12.4	12.4
Mining and quarrying	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Manufacturing Industry	9.3	10.3	11.7	12.1	11.5	10.3	10.3	10.2
Water and Electric Supplies	1.4	1.6	1.8	1.9	1.8	1.6	1.6	1.7
Construction	2.6	2.6	2.6	2.4	2.8	2.9	2.4	2.0
Retail and Wholesale	8.7	8.8	10.1	9.7	10.5	10.1	10.1	9.5
Transportation, storage and telecom.	11.4	10.7	11.4	12.0	11.7	10.6	12.0	11.9
Financial intermediation	4.4	4.3	4.6	4.9	4.7	4.5	4.6	4.8
Services	24.2	24.3	22.6	20.2	17.5	21.8	24.0	24.1
Real estate, Rental and Commercial Activities	10.2	10.1	11.9	11.5	5.8	8.4	9.3	9.4
Communal, social and personal services activities	1.0	1.0	1.0	1.2	1.1	1.0	1.0	1.1
Hotels and restaurants	1.6	2.1	1.4	1.4	1.1	1.5	2.1	1.8
Education	7.6	7.4	5.6	4.0	6.4	7.6	8.1	8.3
Health and social work	3.8	3.7	2.7	2.1	3.1	3.3	3.5	3.5
Public administration and defense	15.6	14.2	13.6	10.2	14.2	14.1	14.8	14.8
Domestic services	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Subtract: financial intermediation (with indirect clearing)	-3.2	-3.2	-3.5	-3.7	-3.5	-3.3	-3.3	-3.4
Add: Customs duties	5.9	6.5	7.5	8.0	6.6	6.4	7.2	7.2
Add: Net VAT from imports	13.2	12.0	9.9	8.9	13.5	11.2	7.5	8.8
GDP (%)	100	100	100	100	100	100	100	100
GDP (million \$)	1,060.6	1,071.8	1,016.0	958.6	959.0	1,060.7	1,053.9	1,062.2

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

The Failure of Negotiations between the British Gas Co. (BG) and Israel to Reach an Agreement on the Sale of Gaza's Gas to Israel

The BG Co. announced that on 20 December 2007 it had closed its office in Tel Aviv and stopped the negotiations with the Government of Israel (GoI) pertaining to reach an agreement on the sale to Israel of the natural gas BG was planning to mine from the beach of Gaza. It is of value to review the reasons that lead to this failure as it gives a clear idea about the tendencies of the GoI towards economic cooperation with the Palestinian side. The following points clarify how things went:

- ✧ It is known that the Palestinian National Authority (PNA) gave on November 1999 the BG an exclusive right to search for natural gas in the whole sea area around the beach of Gaza. The international Company of Contracting Consortium (CCC) and the Palestinian Investment Fund (PIF) are partners with BG. In September 2000 it was announced that a natural gas field was discovered in the regional Palestinian waters 36 km west from Gaza city. At the end of 2000, two production wells were drilled which are "Gaza Marine -1" and "Gaza Marine -2". Accordingly, after these two successful discoveries a study was undertaken which indicated that preliminary estimates of the gas reserves in the Palestinian waters franchise are about 2 trillion cubic feet of natural gas, which is a medium amount, not too little and not too much in regard to the small Palestinian economy, Preliminary estimates indicated that it is expected (when this gas is excavated and sold commercially) it would bring the PNA Treasury about an annual amount of \$100 million⁴.
- ✧ The volume of the discovered gas exceeds the Palestinian local demand, which meant it was necessary to secure a market for gas before the start of production. BG, the largest partner in the group, during the discovery phase, started to discover marketing opportunities. In fact, there were not many choices due to the geo-political situation. There were two markets: either the Israeli market directly such that Israel would buy the natural gas for local uses; or indirectly to the Egyptian market, whereby the gas would be transported to Egypt from where it would be exported to the European and American markets. BG chose to study the first marketing possibilities on the basis that the cost (particularly the transportation cost) is lower and the profitability is higher, even if some British press reports indicated that BG was tending first to the Egyptian market. Due to the intensive pressures by the British Prime Minister, Tony Blair at that time⁵, it chose the Israeli market.
- ✧ In the year 2001, BG finalized a technical study on the basis of which it suggested a plan to build a marine pipeline that would transport the gas to the new Gaza Electricity Station. This would mean that a local Palestinian energy source would be provided, and the dependence on the importation of fuel from Israel would stop. The plan indicated that selling the gas to Israel would take place by transporting it through pipelines from the city of Gaza to Asqalan (Ashkelon) from where it could be further transported to the other Israeli areas. In the year 2002, the PNA subscribed to the BG plan.
- ✧ In the year 2004, the Israeli prime minister Ariel Sharon refused to discuss the possibility of purchasing the Palestinian gas on the basis that the revenues would go to finance resistance actions against Israel. This Israeli position did not change until Sharon disappeared from the political scene and the acceptance by his successor, Ehud Olmert to start the negotiations with the BG during the summer of 2006.
- ✧ The negotiations between BG and the GoI continued for about one and a half years with no progress. The spokesman of BG announced that the negotiations would retreat as points of dispute arouse on issues that have been agreed upon previously⁶. Rumors circulated that the main disputes were about prices, payment settlement, and on whether the Israeli government pays in cash or in kind against the goods and services imported from the PNA to Israel. It became clear after negotiations were suspended, however, that the main dispute was about who would control the distribution of gas. Israel refused categorically BG's plan to transfer the gas first to the main central station in Gaza and then further to Asqalan in Israel. Israel insisted that a marine pipeline should be built on the coast to Asqalan in Israel to supply gas

⁴ To know more about the issue, look Walid Khadouri, "The natural gas in the Palestinian waters: possibilities and challenges", *Journal of Palestinian Studies*, issue 72.

⁵ The London *Telegraph*, 26 December 2007, and *The Electronic Intifada*, 23 January 2008.

⁶ Al-Hayat, 3 February 2008.

to its electricity power plant first, and then a land pipeline would be built to transfer gas from Asqalan to the city of Gaza, i.e. that the complete control over the Palestinian gas supply (or no supply) to the Palestinians would be in the hands of Israel. The BG's spokesman was cautious to emphasize that this dispute with the GoI took place before Hamas took over the authority in Gaza.

The Israeli position in the case of gas demonstrates the nature of the Israeli position towards all of the economic relations with the Palestinians. It is well known since the Oslo Agreement was signed that the Israeli position, American position, and the European position, insist that the economy should be separated from the politics, and that joint Arab-Israeli projects should be established to prepare a fertile land for the growth of the peace process and its reinforcement. That was the reason behind the economic summits that were held in the 1990s, and that was the reason behind the Annapolis Conference that was held towards the end of 2007. Objectively speaking, it has become obvious that Israel accepts that reasoning, but only when the separation of economy from politics leads to the normalization between the Arabs and Israel at zero cost and without any political horizon. But when economic cooperation works to strengthen the Palestinian or the Arab side, then Israel considers the issue from the point of view of pure politics. The case of BG is but only one example of this Israeli position. Israel simply refuses to give up a situation it created and enforced during the years of occupation, a situation that puts into her hands the ability to cut the supplies of gas to the Palestinians any time she deems necessary to practice collective punishment against them.

3- Labor Market

The Palestinian labor market has suffered extensively throughout the years of occupation from imbalances between demand and supply. The Palestinian labor force has consistently increased its size at high rates, exceeding the local market's ability to absorb it. During the 1970's and 80's, surplus labor force was generally absorbed by exporting Palestinian labor-to-labor markets to Israel and the Arab Gulf countries.

With the Gulf War in the early 1990s the situation changed drastically as many Palestinians fled Kuwait and returned to the West Bank and Gaza Strip. Similarly, Israel began to reduce the number of Palestinian workers inside the Green Line and the settlements.

From 1994-2000, the Palestinian labor market experienced some limited adjustment as the public sector began to expand and employ some of the excess labor. Reconstruction projects encouraged the private sector to increase its investments in ways that expanded its capacity to employ more workers. In addition, Israel allowed in certain years (1998, 1999, and 2000), more Palestinian workers to work inside the Green Line. With the eruption of the Al-Aqsa *Intifada*, the limited labor market adjustment process stopped, 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 Apartheid Separation Wall, and the restrictions on the movement of persons and goods between the West Bank and within cities and villages.

Table 7 illustrates that the average increase in manpower during the last seven years was higher than the average increase in the labor force. This indicates that labor force participation was declining. The table also illustrates that the average increase in the labor force was higher than the average increase in employment. This indicates that the average unemployment rate was rising (average annual increase was 7.5%). Likewise, average increase of employment in the public sector surpassed that of the private sector.

Table 6: Main Labor Market Indicators: 1999-2007

Indicator	1999	2002	2003	2004	2005	2006	2007
Manpower (thousands, 15 years and over)	1604	1822	1881	1954	2031	2111	-
Labor force (thousands, employed and	667	694	750	790	827	872	-
Employed (thousands)	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.

The following section elaborates the conditions of the labor market through comparing the situation before the *Intifada* (the 3rd quarter of 2000) with the current conditions of the labor market (in the 4th quarter of 2007), as well as making a comparison between the 4th quarter of 2007 and the previous quarter of the same year. These comparisons allow us to examine both the short and long term trends of changes in the labor market.

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%. However, 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 2005. During the last quarter of 2007 the LFPR reached 41.4%, which is lower than the corresponding quarter in 2006, approaching the pre-*Intifada* level (see Table 8). In spite of that, the number of those employed increased during the last seven years to reach 666 thousands at the end of 2006, as compared to 597 thousands in 2000. This increase is due to the increase in the size of the labor force resulting from the huge population growth during the same period.

**Table 7: Labor Force Participation Rate in the Palestinian Territories
According to Place of Work and Gender: 1999-2007 (%)**

Region and Gender	1999	2002	2003	2004	2005	2006	Q3/ 2000	Q2/ 2006	Q3/ 2006	Q4/ 2006	Q2/ 2007	Q3/ 2007	Q4/ 2007
Both Genders													
West Bank	43.4	40	41.8	42.5	42.9	44.1	45.3	43.7	44.6	45.7	44.8	44.8	44
Gaza Strip	38	34.4	37.5	36.4	36.7	36.1	40.1	35.7	35.3	38	38	38.9	36.6
Palestinian Territories	41.6	38.1	40.3	40.4	40.7	41.3	43.5	40.9	41.3	43	42.4	42.7	41.4
Males													
West Bank	72.4	67.1	68.5	68.7	69.5	69.8	75.2	69.6	71.6	69.7	69.8	71.1	69.1
Gaza Strip	67.4	62.2	65.4	63.5	63.9	63.7	68.4	63.9	62.3	64.8	64.1	66	62.6
Palestinian Territories	70.7	65.4	67.5	66.9	67.6	67.7	72.9	67.6	68.3	68	67.8	69.3	66.8
Females													
West Bank	14.1	12.4	14.7	15.9	15.8	17.9	15	17.2	17.1	21.2	19.4	17.9	18.4
Gaza Strip	8.8	6.5	9.2	9.1	9	8.1	11.7	7.2	7.8	10.8	11.5	11.5	10.2
Palestinian Territories	12.3	10.4	12.8	13.5	13.4	14.5	13.8	13.7	13.9	17.5	16.6	15.7	15.5

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

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

- ✧ The divergence between the LFPR between the West Bank and Gaza Strip continued, but the gap between them has been increasing after the eruption of Al-Aqsa *Intifada*. This may be attributed to the tightening of the Israeli siege on the Gaza Strip.
- ✧ There has been an important change along gender lines; although LFPR for males in the present time is less than its level prior to the *Intifada*, female LFPR has increased. This is primarily attributed totally to the West Bank (as the rate declined in the Gaza Strip), as women were increasingly entering the labor market to compensate for the lost income of their male relatives (see Table 8).
- ✧ Another change related to workers' employment status. 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 work for themselves.
- ✧ Another change in the labor market was associated with the change of employment within economic sectors. A comparison of the contribution of economic sectors prior to the *Intifada* with that of the current period shows a large contribution by the services sector and a slight increase in the agricultural sector. 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 8: Percentage Distribution of the Employed Persons in the Palestinian Territory According to Employment Status and Region, 1999-2007 (%)

Region and Work Status	1999	2002	2003	2004	2005	2006	Q3/2000	Q2/2006	Q3/2006	Q4/2006	Q2/2007	Q3/2007	Q4/2007
West Bank													
Establishment owner	6.6	4.1	4.1	5	5	4.7	4.6	4.7	5	4.4	4.2	4.7	5
Self-employed	18.6	27.8	29.3	28.1	27.6	27	19.9	28.6	26.7	24.5	26.3	24.7	23.5
Paid worker	66.5	57.5	55.3	55.1	56.4	55.7	66.2	56	55.9	53.7	55.6	57.6	59.7
Unpaid family member	8.3	10.6	11.3	11.8	11	12.6	9.3	10.7	12.4	17.4	13.9	13	11.8
Gaza Strip													
Establishment owner	2.8	2.6	2.2	1.9	2.6	4.2	4	3	3.7	7.2	3.4	3	2.4
Self-employed	19.1	24.3	24.5	22.2	22.4	19.4	13.6	21	19.9	15.6	21.5	20.5	22.7
Paid worker	71.1	63.6	61.7	66.5	67.1	69.6	71	69.8	70.6	67.3	64.3	64.8	62.5
Unpaid family member	7	9.5	11.6	9.4	7.9	19.8	11.4	6.2	5.8	9.9	10.8	11.7	12.4
Palestinian Territories													
Establishment owner	5.5	3.7	3.5	4.1	4.3	4.6	4.4	4.3	4.7	5.2	4	4.2	4.3
Self-employed	18.7	26.8	27.8	26.5	26.1	25	18.1	26.6	25	22.2	25	23.5	23.3
Paid worker	67.8	59.2	57.2	58.3	59.5	59.3	67.6	59.6	59.6	57.2	58.1	59.6	60.5
Unpaid family member	8	10.3	11.5	11.1	10.1	11.1	9.9	9.5	10.7	15.4	12.9	12.7	11.9

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

Table 9: Distribution of the Employed Persons in the Palestinian Territory According to Region and Economic Activity, 1999-2007 (%)

Economic Activity and Region	1999	2002	2003	2004	2005	2006	Q3/2000	Q2/2006	Q3/2006	Q4/2006	Q2/2007	Q3/2007	Q4/2007
Palestinian Territories													
Agriculture, Forestry & Fishing	12.6	14.9	15.7	15.9	14.6	16.1	12.7	15.2	13.7	21.5	17.3	15.1	15.3
Mining, quarrying and manufacturing Industry	15.5	12.9	12.5	12.7	13	12.4	15	12.3	13.5	12.2	12.6	12.8	12.3
Construction	22.1	10.9	13.1	11.7	12.9	11.1	21.7	11.5	11.4	9.5	11.1	11.6	10.4
Services and other sectors	28.1	35.7	32.8	34.9	34.4	35.5	28.6	36.1	35.1	34.4	34.8	35.3	36.4
West Bank													
Agriculture, Forestry & Fishing	11.5	14.1	14.9	16.9	15.7	17.8	11.7	16.8	15.1	24.1	19.2	16.1	15.9
Mining, quarrying and manufacturing Industry	16.5	14.5	14	14	14.8	14.6	16.1	14.7	16.1	14.2	14.5	15.4	15
Construction	23.9	12.7	14.3	13	14.4	12.9	24.2	13.4	13.7	11.1	13.1	14.8	13.9
Services and other sectors	24.7	31.1	29.4	29.5	28.5	29	24.6	29.6	28.2	27.7	29.1	28.6	30.2
Gaza Strip													
Agriculture, Forestry & Fishing	15.2	16.6	17.4	13.4	11.7	11.1	16.2	10.7	9.2	14.1	12.7	12.7	13.9
Mining, quarrying and manufacturing Industry	13.1	8.9	9.2	9.1	8.3	6.3	12.3	5.7	5.7	6.3	8	5.8	5.5
Construction	17.8	6.3	10.4	8.2	9.3	6	15.9	6.1	4.6	4.9	6.2	3.7	1.5
Services and other sectors	36.5	47.6	40.9	49.1	49.4	53.7	38	54.1	56.3	53.4	48.9	52.2	52.2

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

It is natural that these adjustment changes lead to a change in the distribution of workers between the West Bank and Gaza Strip, especially that the conditions in these two areas were different, particularly in the last two years. Therefore, the dynamics of adjustment were different, especially after Israel unilaterally withdrew from the Gaza Strip, and put it under a land, air and sea siege. Therefore, we see in Table 11 that the West Bank share in the total workers in the Palestinian Territory had increased between the 3rd quarter of 2000 (the last quarter before the *Intifada*) and the 4th quarter of 2007 by almost 13%, while the increase in the Gaza Strip was 17.7%. In addition, the increase in the two areas was not sufficient to account for the huge decline in the share of workers in Israel and the Israeli settlements (from 22.1% to 10% over the same period), therefore, the unemployment rate increased in both the West Bank and the Gaza Strip as we will see later.

Table 10: Distribution of Employment in the Palestinian Territory According to Place of Work, 1999-2007 (%)

Place of Work	1999	2002	2003	2004	2005	2006	Q3/2000	Q2/2006	Q3/2006	Q4/2006	Q2/2007	Q3/2007	Q4/2007
West Bank	52.9	62.7	60.9	64.1	61.7	64.4	54.1	65.1	64.4	64.6	62.8	62.6	61.6
Gaza Strip	24.2	27.0	29.4	27.2	28.4	26.0	23.8	26.2	25.1	25.9	28.7	28.1	28.4
Israel & Settlements	22.9	10.3	9.7	8.7	9.9	9.6	22.1	8.7	10.5	9.5	8.5	9.3	10.0

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

3-2 Unemployment

The problem of unemployment is not new to the Palestinian economy as it reached 24% in 1996 then declined gradually until it reached 11.8% in 1999. But the problem was aggravated during the second *Intifada* with unemployment increasing to 31.3% in 2002. It then slightly declined by the end of 2003 as a result of the relatively improved economic activity when it reached 19.2% in the 2nd quarter of 2007, ultimately reaching 22.2% in the 4th quarter of the same year. Nevertheless, the unemployment rate in this quarter was almost twice its pre-*Intifada* level (3rd quarter of 2000) (see Table 12).

Table 11: Unemployment Rate for Individuals Aged 15 Years and Over in the Palestinian Territory According to Gender and Region, 1999-2006, (%)

Region and Gender	1999	2002	2003	2004	2005	2006	Q3/2000	Q2/2006	Q3/2006	Q4/2006	Q2/2007	Q3/2007	Q4/2007
Palestinian Territories													
Males	11.6	33.5	26.9	28.1	23.7	24.2	9.5	23.7	24.2	23.5	19.4	23.4	23.4
Females	13	17	18.5	20.1	22.3	20.5	12.6	19.1	24.5	16.2	18	22.1	17
Total	11.8	31.3	25.6	26.8	23.5	23.6	10	22.9	24.2	22	19.2	23.2	22.2
West Bank													
Males	9.2	30.9	25.5	24.3	20.8	18.9	6.8	18.3	18.5	17.4	16.3	18.6	20.5
Females	11.1	14	15.8	16.6	18.3	17.6	10.9	16.9	21.6	12.5	14	18.6	14.2
Total	9.5	28.2	23.8	22.9	20.3	18.6	7.5	18	19.1	16.2	15.8	18.6	19.4
Gaza Strip													
Males	16.6	39.1	29.6	35.9	29.6	35.1	15.3	34.6	36.3	35.6	25.7	33.1	29.4
Females	19.3	28.4	26.8	31.6	35.2	32.3	17.1	29	36.5	29.8	30.4	32.1	26.3
Total	16.9	38.1	29.2	35.4	30.3	34.8	15.5	34	36.3	34.8	26.4	32.9	29

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

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 (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 12: Total Number of Unemployed from the Total Participants in the Labor Force (15 Years and above) in the Palestinian Territory According to Region, 1999-2007, (%)

Region	1999	2002	2003	2004	2005	2006	Q3/	Q2/	Q3/	Q4/	Q1/	Q2/	Q3/
West Bank	44,000	135292	122924	124418	115417	112735	38,000	107,600	117,200	103,200	103,800	100,500	118,200
Gaza Strip	35,000	81757	70919	87155	78606	92837	35,000	89,400	95,200	99,400	88,300	76,900	99,000
Palestinian Territories	79,000	217049	193843	211573	194023	205572	73,000	197,000	212,400	202,600	192,100	177,400	217,200

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

Table 13: Unemployment Rate in the Palestinian Territory According to Gender and Age Groups: 1999-2007, (%)

Age group & Gender	1999	2002	2003	2004	2005	2006	Q3 /2000	Q2 /2006	Q3 /2006	Q4 /2006	Q2 /2007	Q3 /2007	Q4 /2007
Both Genders													
15-24	17.3	48.2	38.4	39.8	36.4	35.7	14.1	33.7	36.7	33.7	30.5	38.8	36.9
25-34	11.4	36.6	24.1	25.1	22.0	23.0	11.4	22.6	23.5	22.0	18.5	22.1	19.8
35-44	9.0	37.2	21.6	22.2	18.6	18.7	6.5	18.5	19.3	16.1	15.0	14.9	17.4
45-54	8.8	30.5	19.0	22.2	19.1	18.7	6.7	19.4	19.0	16.6	14.2	17.6	16.6
55+	5.9	27.7	13.2	15.1	12.1	11.6	3.6	11.3	10.8	12.3	8.3	11.5	13.0
Total	11.8	38.0	25.6	26.8	23.5	23.6	10.0	22.9	24.2	22.0	19.2	23.2	22.2
Males													
15-24	16.9	47.0	38.3	38.9	34.8	34.4	13.0	33.3	34.1	32.8	29.5	37.0	35.9
25-34	10.5	37.4	25.1	26.1	21.3	22.9	9.9	22.5	22.6	23.0	17.3	21.1	20.3
35-44	8.8	39.7	23.6	24.4	19.7	20.1	6.7	19.7	20.6	18.3	16.1	15.8	19.7
45-54	9.6	32.2	21.3	25.4	21.9	21.5	7.6	22.2	21.7	20.2	16.9	20.4	19.3
55+	6.9	30.0	15.5	17.8	14.3	13.8	4.4	13.1	12.7	15.6	10.6	14.6	15.7
Total	11.6	39.0	26.9	28.1	23.7	24.2	9.5	23.7	24.2	23.5	19.4	23.4	23.4
Females													
15-24	20.6	59.7	39.1	44.8	46.1	43.2	22.1	36.2	52.8	38.0	35.4	49.6	42.6
25-34	16.1	28.9	19.4	20.6	25.5	23.1	19.0	22.7	27.7	18.1	23.1	26.7	17.8
35-44	9.8	14.1	10.8	11.5	13.2	12.2	5.4	12.4	13.3	8.0	11.1	10.8	7.5
45-54	5.2	10.9	6.5	5.0	4.2	5.2	2.5	5.4	5.5	3.3	2.6	4.0	4.9
55+	1.8	1.5	1.3	1.2	1.9	1.4	0.8	2.0	-	1.1	1.3	1.6	3.5
Total	13.0	28.4	18.6	20.1	22.3	20.5	12.6	19.1	24.5	16.2	18.0	22.1	17.0

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

Table 14: Unemployment Rate in the Palestinian Territory by Gender and Years of Schooling, 1999-2007, (%)

Number of school years and Gender	1999	2002	2003	2004	2005	2006	Q3/ 2000	Q2/ 2006	Q3/ 2006	Q4/ 2006	Q2/ 2007	Q3 /2007	Q4/ 2007
Both Genders													
0	5.4	17.4	12.4	14.1	8	8.4	3.3	7.4	9.4	6.2	7.9	7.8	8.9
1-6	12.2	37.9	28.8	31.3	26.2	27.9	11	25.8	28.1	27	20	23	22.5
7-9	11.9	37.3	28.9	29.6	24.8	25.1	9.5	24.3	25.8	22.6	19.5	22.4	24.7
10-12	11.7	33.6	26.8	27.8	23.5	23.9	8.6	23.1	23.6	23.7	19.1	23.7	24.2
13+	12.5	18.9	19.9	21.3	21.8	20.8	12.8	21.2	22.5	17.9	19.5	24.4	18.6
Total	11.8	31.3	25.6	26.8	23.5	23.6	10	22.9	24.2	22	19.2	23.2	22.2
Males													
0	9.3	29.2	22.4	27.3	16.4	16.5	6.7	14.3	16.7	13.9	17.3	17.1	20.9
1-6	13.4	41.3	31.8	35	28.8	31	12.1	28.5	30.5	31.8	23.1	27	26.2
7-9	12.4	38.9	30.6	31.2	26	26.8	9.8	25.9	27.5	25.2	21.5	24.2	26.7
10-12	11.7	34.9	28.1	29.4	24.1	25	8.6	24.2	24.3	25.8	20.3	25.3	26.4
13+	8.8	17.5	16.3	16.8	16.6	15.9	8.5	17.7	16.2	12.4	13.6	18.1	13.5
Total	11.6	33.5	26.9	28.1	23.7	24.2	9.5	23.7	24.2	23.5	19.4	23.4	23.4

Number of school years and Gender	1999	2002	2003	2004	2005	2006	Q3/2000	Q2/2006	Q3/2006	Q4/2006	Q2/2007	Q3/2007	Q4/2007
Females													
0	1.1	2.2	2.4	1.8	1.6	1.8	0.5	0.8	3.4	0.9	0.8	-	0.9
1-6	3.2	7.6	5.6	6.2	7.8	9.1	1.7	7.6	11	5.3	4.2	2.5	4.1
7-9	6.3	12.7	9.8	11.1	11.3	9.1	6.3	7.8	9.1	5.8	5.4	6.5	6
10-12	11.6	18.2	14.8	12.6	17.2	13.2	8.1	11.6	17.2	9.8	10.4	10.1	6
13+	21.9	22.5	28.3	30.8	32.5	31.3	24	28.8	36.3	29	32.1	38.1	28.8
Total	13	17.1	18.6	20.1	22.3	20.5	12.6	19.1	24.5	16.2	18	22.1	17

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

3-3 Wages and Work Hours

Quarterly data regarding the 4th quarter 2007 indicate that the average daily wage in the Gaza Strip was 20% lower than its West Bank level and less than half the average daily wage for paid workers in Israel. This reflects the demand conditions for Palestinian workers in these three markets.

On the other hand, the average daily wage of the West bank employees registered an increase during the 3rd and 4th quarters of 2007 by 2.3% to reach NIS 78.9, while the average in the Gaza Strip remained as it is around NIS 64.1. The average daily wage for those working in Israel and in the settlements increased from NIS 131.9 in the 3rd quarter of 2007 to NIS 133 in the 4th quarter of the same year (see table 16).

Table 15: Average Weekly Work Hours, Number of Monthly Working Days and Daily Wage in NIS for Paid Workers from the Palestinian Territory by Place of Work, 1999-2007

Place of Work	Average Weekly Work Hours	Average Monthly Work Days	Average Daily Wage (NIS)	Median Daily Wage (NIS)
1999				
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
Total	44.2	22.6	75.5	69.2
2006				
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
Total	41.7	23.1	83.3	73.1
4th Q/2006				
West Bank	41.5	22.1	79.3	67.3
Gaza Strip	7.37	23.5	67.0	61.5
Israel & Settlements	42.3	20.4	130.6	134.6
Total	40.4	22.3	83.1	70.0
1st Q/2007				
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
Total	41.9	22.4	82.8	73.1
2nd Q/2007				

Place of Work	Average Weekly Work Hours	Average Monthly Work Days	Average Daily Wage (NIS)	Median Daily Wage (NIS)
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
Total	42.3	22.3	80.4	70.0
3rd Q/2007				
West Bank	42.5	22.0	77.1	70.0
Gaza Strip	39.7	22.4	64.1	57.7
Israel & Settlements	43.9	20.3	131.9	123.1
Total	42.2	21.8	84.2	76.9
4th Q/2007				
West Bank	39.9	22.2	78.9	70.0
Gaza Strip	38.2	23.8	64.1	60.7
Israel & Settlements	40.3	19.8	133.1	134.6
Total	39.6	22.1	85.3	76.9

Source: PCBS, Labor Force Survey, 1999-2007

3-4 Vacancy Announcements in Local Newspapers

As expected, the general economic contraction in 2007 reflected itself on the number of job vacancies advertised in the newspapers. Table 17 presents the aggregate number of advertised vacancies in the newspapers during 2006 and 2007 where we find that this number fell during 2007 by 17.9% as compared to its level in 2006. The share in the Gaza Strip of this fall was huge as it reached 51.9%. Also the number of the advertised vacancies in the private sector fell by 22.5%. Table 17 shows also that the demand for workers with master degrees fell as the number of required vacancies was 37.5% as compared to its 2006 level.

Table 16: Number of Job Vacancies Advertised in Local Newspapers during 2006 and 2007 by Sector, Geographical Area and Scientific Degree

Sector, Area and Scientific Degree	2006		2007		Percentage change between 2006 and 2007 (%) *
	Number	%	Number	%	
Private Sector	2614	66.3	2025	61)25.5(
Public Sector	225	5.7	191	5.7	(16.4)
NGOs	1101	28	1079	33.3)2(
Total	3940	100	3295	100	(17.9)
Northern West Bank	515	13	404	12.3	(24.3)
Center of the West Bank	2339	59.4	2099	63.7	(10.8)
Southern West Bank	476	12.1	429	13	(10.4)
Gaza Strip	610	15.5	363	11	(51.9)
Total	3940	100	3295	100	(17.9)
Master Degree and above	595	28	409	12.4	(37.5)
Bachelor Degree	2408	28.8	2200	66.7	(9.0)
Diploma	771	36.2	638	19.4	(18.9)
Less than Diploma	166	7	48	1.5	(124.0)
Total	3940	100	3295	100	(17.9)

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

* Figures in parentheses are negative.

As for the quarterly change, Table 18 indicates a decline in the number of advertised vacancies in the newspapers between the 3rd and 4th quarters of 2007. The lion's share of this decline was that of the private sector where advertisements declined by 46%, while non-governmental organisations' advertised vacancies declined by 9.3%. This is in contrast with the public sector where advertised vacancies increased fivefold. Advertisements that did not identify the number of vacancies numbered 20.

Table 17: The Number of Advertised Vacancies in the Local Newspapers during the 3rd and 4th Quarters of 2007 by Sector, Geographical Area and Scientific Degree

Sector, Area and Scientific Degree	3 rd Quarter			Total	4 th Quarter			Total
	July	August	September		October	November	December	
Private Sector	294	139	167	600	114	73	138	325
Public Sector	3	7	1	11	7	12	54	73
NGOs	91	125	85	301	146	61	66	273
Total	388	271	253	912	267	146	258	671
Northern West Bank	11	22	70	103	26	7	26	59
Center of the West Bank	242	182	145	569	166	118	165	449
Southern West Bank	90	22	19	131	18	16	58	92
Gaza Strip	45	45	19	109	57	5	9	71
Total	388	271	253	912	267	146	258	671
Master Degree and above	95	40	63	198	13	13	4	29
Bachelor Degree	215	181	150	546	193	127	176	496
Diploma	70	45	39	154	62	6	78	146
Less than Diploma	8	5	1	14	0	0	0	0
Total	388	271	253	912	267	146	258	671

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

With regards to the relationship between sectors and academic qualifications, we find that the demand for holders of bachelor degrees in the private sector reached 62.3% of total advertised jobs, and that for holders of diploma's reached 32%, while that for holders of master degree reached a mere 5.6%. With reference to the NGOs sector, the demand for holders of bachelor degrees was the highest, as it was 92.7% of total demand.

With regards to fields of specialization, the demand for holders of degrees in management and accounting was still the highest as it reached 21%. Demand for holders of degrees in medicine and social sciences rated second at 11.3%, while engineering and technology reached 13.4%.

4- Public Finance Developments

4-1 Development in Public Finance Stances

One of the economic practices of the Israeli occupation in the PT works to weaken public services through the starvation of the Palestinian public sector. This could be observed from the share of

the public sector in the GDP in the 1990s as it did not exceed 8% in the West Bank and 10% in the Gaza Strip, while the average of this contribution exceeded 20% in the developing countries, and was more than 30% in the industrialized countries⁷.

Faced with this situation to start with, it was natural that enhancement of the public sector was one of the most profound concerns of the PNA since its establishment in 1994. The PNA was required to extend the fields of public services and to take hold of financial resources to support the general budget of this expansion. This attitude was accompanied by various, and recurrent, reform processes of the financial system and management of the public sector with the aim to develop its capacity and increase its efficiency. It is possible to observe three distinct stages of financial reform processes the PNA underwent in order to consolidate the budget of the extended public sector.

✧ **The 1994-2000 Period**

The PNA signed the Paris Protocol with Israel in April 1994, according to which Israel would collect customs duties and the Value Added Tax (VAT) on Palestinian imports from Israel, with Israel returning the proceeds to the PNA through a clearance system. The annual average of these clearance tax revenues amounted to about 60% of the total tax revenues of the PNA during 1994-2000. During this period the PNA was able to introduce some important reforms in its public finance, especially in the area of tax collection, tax administration, and tax laws, and the income tax law, making these laws more conducive to the Palestinian economy.

These changes contributed to an increase in PNA revenues until they became sufficient to finance the current government expenditures by the end of the 1990s. This was despite the large increase that took place in these expenditures as compared to the years of the direct Israeli occupation, especially considering that the number of public employees doubled during 1994-2000. As a result of the increase in the size of government revenues, the deficit in the PNA's budget declined to low levels in such a way that made it possible to allocate most of the external assistance to finance the projects in infrastructure and reconstruction.

✧ **The 2001-2003 Period**

The practices of the Israeli army in response to the eruption of Al-Aqsa *Intifada* towards the end of 2000 and the associated killings, destruction, closures, insurgencies, and imposition of curfews for weeks and months on cities, villages and refugee camps, resulted in a radical change in the PNA's budget. This was due to the following important changes in the sizes of revenues and expenditures:

1. A decline in the size of local revenues due to the decline in the size of direct taxes. This was because of the decline in income that resulted from the decline in economic activity and the shift of certain activities from the formal to the informal sector. Also the size of indirect taxes declined due to the restrictions and barriers on movement of goods and internal and external trade.
2. The failure of Israel to pay the tax clearance proceeds on a regular basis to the PNA and the withholding of those proceeds sometimes for several months.
3. The rise in government expenditures to finance the relief operations and the assistance to the families of martyrs and wounded people; those whose houses were demolished and their properties lost; and to families who subsequently were without any source of living.

These changes, as expected, led to the increase in the PNA's budget deficit as it rose from below 7% in 1999 to more than 25% of GDP in 2002.

⁷ That average exceeds 40% in the European countries and reaches 60% in the Scandinavian countries.

In order to pay for the deficit the PNA reverted to borrowing from local banks and reallocating the resources devoted to development projects to be used in the financing of current expenditures. The PNA also reduced the size of expenditure on some social domains.

✧ **The 2004-2007 Period**

The fiscal stance of the budget improved somewhat towards the end of 2003 due to the recovery of economic activity in general, and because of the resumption by Israel to pay the tax clearance proceeds that it had stopped paying during 2001-2002. As a result, the size of public revenues increased to about 70% of their pre-*Intifada* level.

This improvement continued during 2004 and 2005. It was also expected to continue in 2006 in a way that would have led to the continuation in the reduction of the PNA's budget deficit. However what actually happened was contrary to that expectation, as Israel stopped the payment of tax clearances in the beginning of March 2006 the donor countries stopped dealing with the PNA's government. This led to a substantial decline in the PNA's revenues and the aggravation of the public finance problem in an unprecedented manner as the budget deficit reached about one-third of the GDP in 2006.

In the face of this situation most of the external assistance allocated to finance development projects and the construction of infrastructure were reallocated to finance the current government expenditures. While the size of the total external assistance for 2006 (US\$ 750 million) was less than its 2005 level (US\$ 955 million), most of what was used to finance the budget deficit in 2006 (US\$ 721 million) was more than twice what was used to cover the budget deficit of 2005 (US\$ 348 million). These assistance proceeds were used despite the boycott of the Ministry of Finance (MoF) by the donor countries achieved through indirect channels of which the most important was to reallocate some Arab assistance to the PNA's President's Office instead of the MoF. Furthermore, European countries bypassed the MoF and paid directly to the line ministries through a fund that was called the Temporary International Mechanism (TIM). Also, there were efforts by certain PNA ministers to bring some cash assistance from Arab and Muslim countries through Rafah's Crossing on the Palestinian-Egyptian borders. In spite of the efforts to provide some financing of the government's expenditures, from different sources and by different tools, the budget did not recover its loss from the tax clearances and the revenues of local taxes. Therefore, the PNA was not able to pay the full salaries of the public sector's employees on a regular basis. All it was able to achieve was to pay portions of the salaries on installments covering 50-55% of the employees' salaries in 2006.

This rather difficult fiscal stance of the PNA continued through the first half of 2007. And when the Emergency Government was formed in June 2007, the USA, the EU and Israel lifted the boycott imposed on the PNA in the West Bank, but kept it imposed on the Gaza Strip. In the following section we will review the Emergency Government's efforts to deal with the fiscal stance after the middle of 2007.

The Quick Recovery Plan

The Emergency Government started to implement the quick recovery plan after its formation in the second half of 2007. The most important objectives of the plan were to provide sufficient funding to pay the salaries of the public sector's employees, the current operational expenses of the PNA, and to pay back the debts accrued to the private sector and the employees. The government was able to regularly resume the payment of the salaries and wages after a discontinuity that lasted about 15 months.

The Emergency Government adopted the midterm Palestinian Reform and Development Plan (PRDP) 2008-2010 which was presented to the donor Paris Conference in December 2007. The most important feature of this plan is the linking of the development plan with the public budget

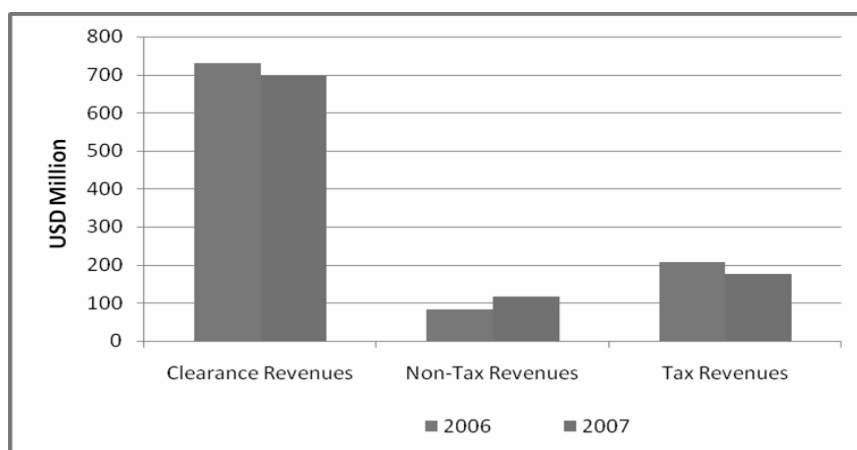
according to a midterm framework and thus, the unification of development and budget preparation processes, which will take place regularly every three years.

The PRDP contains various directions of reforms and restructuring the most important of which were to; (a) work on the reduction of the current expenditures during the coming next three years from 50.6% to 42.5% of the GDP. This was to be achieved through limiting the wage bill by following a policy to reduce the number of public employees to 150,000 by the end of 2007, and to work with the local councils and authorities to do an effective effort on the road to fiscal reform through which regular elimination of the net borrowing item will take place. We should recall that net borrowing constitutes one of the items that exhaust public resources; and (b) develop the approaches to collect the bills of utilities and services. The PRDP also seeks to improve the potential to collect taxes to increase the sources of funding for government expenditures. On the other hand, the PRDP seeks to increase capital expenditures and the support for public investment and projects that lead to long-term development. In addition, it seeks to start the establishment of a retirement system that is realistic and sustainable⁸. In the following we review in detail the fiscal stance during 2006 and 2007.

The Fiscal Stance during 2006 and 2007

The Emergency Government, through the adoption of the PRDP, reverted to deal with the crisis situation it had to face upon its inauguration in the mid 2007. This situation was evident in the deterioration of self-generated resources available to the PNA by about 2.8% as compared to their 2006 level. This was due to the decline in local revenues represented by the tax clearance and local revenues collection, especially the tax revenues. The PNA was able to collect Local revenues that did not exceed USD 991million (on a cash basis). This resulted in a shortage of cash liquidity available to spend on the budget lines that was affected by the decline in the clearance tax collection, and the decline in the collection of revenues locally due to the economic contraction and the weak collection processes. The total tax revenues collected through the clearance system with Israel during 2007 did not exceed USD 697 million, or 70.3% of total revenues. Thus decreasing by 4.5% as compared with their 2006 level. On the other hand, the collection of both tax and non-tax local revenues increased by 1.4% on their 2006 level reaching USD 294 million, or 29.7% of total revenues.

Figure 1: Public Revenues Development during 2006 and 2007



Sources:

- Ministry of Finance, Public Budget Department, Proposals of Public Budget for several years.
- The World Bank, Public Spending, from Crises to Fiscal Independence, 2nd Issue, February, 2007.
- The UN Human Affairs Coordination Office, The Fiscal and Institutional Situation in the PNA after One year of Contraction, April, 2007.

⁸ PRDP of the PNA 2008-2010, unpublished copy.

The PNA was able to secure external assistance for the 2007 budget to the value of USD 1,175 million, i.e. an increase of 57.3% as compared to its 2006 level. This assistance was primarily secured from Arab and Islamic countries, and the EU, in addition to securing internal financing to the value of USD 575 million from different sources such as the Palestinian Investment Fund, and the arrears accrued to the private sectors. This sum represents in fact, the budget deficit (after grants and assistance) that is equivalent to 12.3% of GDP.

Table 18: Public Revenues Development for 2006 and 2007 (USD millions)

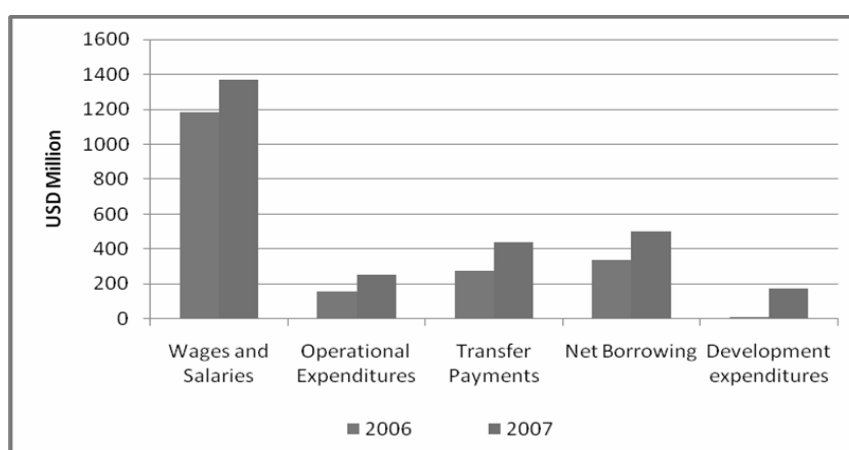
Revenues	2006	2007	Percentage Change %
Tax Revenues	206	177	-14.1
Non-Tax Revenues	84	117	39.3
Clearance Revenues	730	697	-4.5
Total of Current Revenues	1020	991	-2.8
Grants and Assistance	747	1175	57.3
Budget Grants	747	1000	33.9
Grants for Development Projects	0	175	175.0
Total Public Revenues and Grants	1767	2166	22.6

Sources:

- The Ministry of Finance, Public Budget Department, Proposals of Public Budget for several years.
- The World Bank, Public Spending, from Crises to Fiscal Independence, 2nd Issue, February, 2007.
- The UN Human Affairs Coordination Office, The Fiscal and Institutional Situation in the PNA after One year of Contraction, April, 2007.

On the other hand, public expenditures were not affected by the decline in total revenues and the shortage in available liquidity. On the contrary, public spending and net borrowing rose by the end of 2007 to about USD 2,741 million, i.e. an increase of 38.6% over the 2006 level. The majority of this increase was attributed to the current expenditures which constituted 93.6% of total expenditures reaching USD 2,566 million, while investment or development expenditures, financed by the donor countries' assistance, did not exceed USD 175 million.

Figure 2: Public Expenditures Developments during 2006 and 2007



Sources:

- Ministry of Finance, Public Budget Department, Proposals of Public Budget for several years.
- The World Bank, Public Spending, from Crises to Fiscal Independence, 2nd Issue, February, 2007.
- The UN Human Affairs Coordination Office, The Fiscal and Institutional Situation in the PNA after One year of Contraction, April, 2007.

In light of the decline of available fiscal resources to the PNA it was necessary to prioritize spending. Naturally, wages and salaries occupied the first priority. It is important to notice that this item was still unstable, especially with its increase in cost in 2007 by 15.5% of its 2006 level to reach USD 1,368 million. Salaries were affected by the increase in the number of public sector's employees. Given that wages and salaries exhaust about 50% of total expenditures, and exceeding the aggregate of local revenues, the PNA was obliged to refer to other sources to finance the remaining public expenditures (including the operating expenditures, transfer payments and net borrowing).

The aggregate of current expenditure (including the operating expenditures and the transfer payments) amounted to 25.5% of total expenditures in 2007 reaching USD 698 million, i.e. an increase of 58.3% of the 2006 level. Net borrowing exhausted 18.2% of total expenditures to the value of USD 500 million, i.e. an increase of 48.4% over the 2006 level. This is a clear indication of the fiscal crisis faced by the local government authorities, and their inability to pay the accrued values of money on them.

**Table 19: Public Expenditures Developments
for 2006 and 2007 (USD millions)**

Expenditures	2006	2007	Percentage Change %
Wages and Salaries	1184	1368	15.5
Operating Expenditures	158	251	58.9
Transfer Payments	277	438	58.1
Net Borrowing	337	500	48.4
Development Expenditures	9	175	1844.4

Sources:

- The Ministry of Finance, Public Budget Department, Proposals of Public Budget for several years.
- The World Bank, Public Spending, from Crises to Fiscal Independence, 2nd Issue, February, 2007.
- The UN Human Affairs Coordination Office, The Fiscal and Institutional Situation in the PNA after One year of Contraction, April, 2007.

With the tightening of the international financial siege imposed on the PNA in the past, its dependence on local sources of finance increased. The Palestinian Investment Fund and the arrears accrued to the private sector are examples of such local sources of finance. This was particularly apparent after those transactions which represented the indebtedness to the banking sector (such transactions had been progressively on the rise during the past few years to reach USD 570 million by the end of 2005), declined a little to reach USD 484 million by the end of 2006, and reached USD 429 million by the end of 2007⁹. On the other hand, the arrears accrued to the private sector continued their rise by USD 317 million to reach an accumulated value of USD 1.3 billion by the end of 2007¹⁰.

5- Banking Developments in the Palestinian Territories

Due to the specific conditions of the Palestinian economy in the West Bank and Gaza Strip, the banking sector activity reflects two trends. The first represents the banking sector movement in the long run, which is considered vibrant and persistent, enabling the banks to play their important

⁹ Palestinian Monetary Authority, The Consolidated Balance Sheet of the Banks Operating in the Palestinian Territories, different years.

¹⁰ Medium-Term Macroeconomic and Fiscal Framework for the West Bank and Gaza, report for the Donors' Conference, IMF, December 17, 2007.

economic role. This role was virtually absent for a quarter of a century during the 1970s, 1980s and until the mid-1990s due to the imposed restrictions on the sector by the Israeli occupying authorities. The effect of this movement is reinforced in a number of ways: by the increase in the number of national and foreign banks, and by their opening of new branches to provide banking services to most of the localities; by reinforcing the role of banks as an intermediary between savers and investors; and by defusing and extending banking services to the clients and business community. The second trend represents the banking sector movement in the short-term which reflects (to a large extent) the fluctuations in the economic situation found in an unstable political environment, and thus due to a high degree of uncertainty, its very risky investment environment.

As a result of these two trends, at the same time during which the banking sector developed (and its role in economic life reinforced), the very tough and uncertain conditions imposed that the banks would have to exercise their businesses in a high degree of caution and prudence. Therefore, the size of credit facilities extended to the private sector for investment purposes remains lower than desired and the size of external investments remains higher than desired.

It is possible to observe the following developments in the banking sector activity during the 4th quarter of 2007:

- ✧ A reinforcement of the assets of the banking system, its capital to reinforce its safety and increase the trust in it by those dealing with it,
- ✧ An increase in the deposits, something that signals the safety of the banking system and the increase trust of the citizens in it,
- ✧ An increase in the relative importance of credit facilities extended to the Palestinian private sector,
- ✧ A decline in the credit facilities to the clients' deposits ratio,
- ✧ An increase in the foreign investments-to-deposits ratio,
- ✧ A decline in the number of bounced checks to the total number of checks presented for clearance.

We review these developments briefly in the following:

5-1 Number of Banks and Bank Branches

The number of operating banks in the PT remained the same as it was in the third quarter of 2007, i.e. 22 banks, while the number of branches and offices of these banks increased as three more new branches were opened increasing the network of branches and offices to 162 (including the Financial Institution). These branches and offices are distributed on the different localities of economic weight and population density. It is worth mentioning here that since 2006, the number of branches of local banks exceeds those of guest's banks, so that by the end of 2007 the former constituted 51.9% of all operating branches in the PT (see Table 21).

Table 20: Developments in Number of Banks and Branches in the Palestinian Territory during 2007

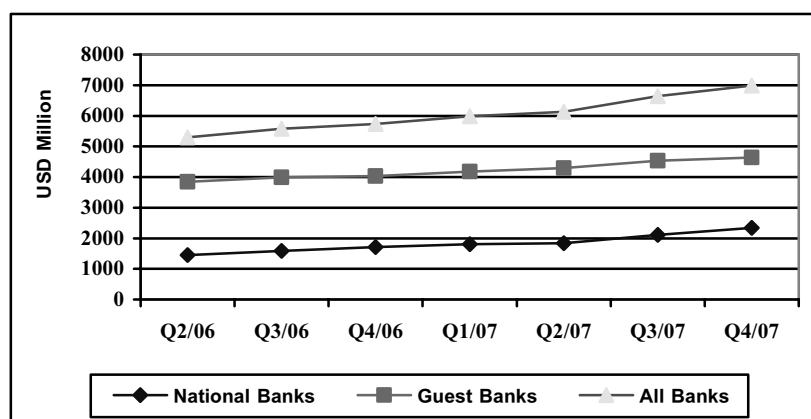
Period	Governorate	Administration			Number of Branches		
		General	Regional	Total	Local	Guest	Total
Q3, 2007	Northern Governorates (WB)	9	10	19	56	61	117
	Southern Governorates (GS)	2	1	3	26	16	42
	Total	11	11	22	82	77	159
Q4, 2007	Northern Governorates (WB)	9	10	19	59	61	120
	Southern Governorates (GS)	2	1	3	26	16	42
	Total	11	11	22	85	77	162

Source: PMA, unpublished data.

5-2 Total Assets of Operating Banks in the PT

The total assets of banks operating in the PT registered an increase by 5.1% on a quarterly basis, and 21.8% on an annual basis, to reach USD 6,983.3 million. The assets of national banks contributed 11.1% of this increase reaching a total of USD 2,342.7 million, while the assets of guest banks contributed 2.3% to reach USD 4,640.6 million (see Figure 3). The increase of PMA funds at the banks and the cash-in-vault by 20.8% and 15.2% respectively were two of the most important factors in this increase of assets. In addition, important factors were: the growth of total deposits by 5.5% on the assets side in the face of the increase in banks' deposits abroad, and the deposits of the PMA by 18.9% and 15.5% respectively, in addition to the increase in equity by 7.4% on the side of liabilities.

Figure 3: Development in Banks' Assets/Liabilities in the Palestinian Territory in 2006 and 2007



Source: PMA, unpublished data.

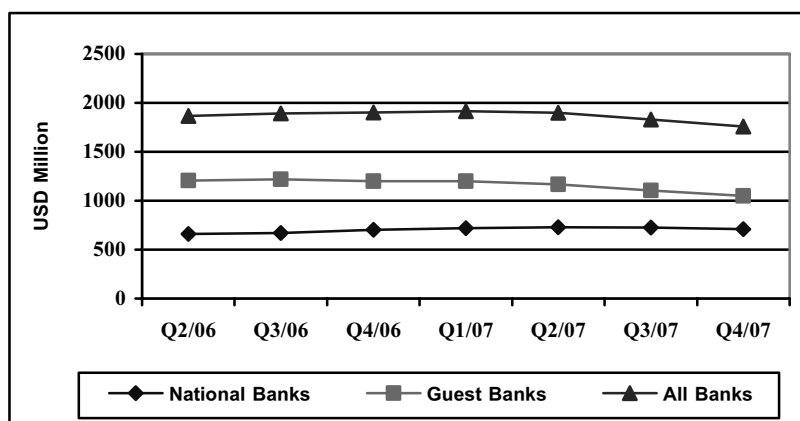
5-3 Credit Facilities Portfolio

During the fourth quarter of 2007, the outstanding value of credit facilities extended by all operating banks (national and guest) in the PT decreased by 3.9% as compared with the third quarter of the same year and by about 7.4% on an annual basis, to reach a total of USD 1,758.5 million. This is something that implicitly indicates a relative decline in investment funding of available investment opportunities. The credit facilities, extended from the national banks, constituted 40.3% of the total of USD 708.7 million dropping by 2.5%, while guest banks extended 59.7% of the total of USD 1,049.8 million dropping by 4.8%. This indicates that guest banks were more conservative in extending credit facilities due to the general economic and political conditions from which the PT is suffering, especially in the Gaza Strip. It also indicates a decline in the demand for credit facilities (see Figure 4). It is worth mentioning here, that the Gaza Strip was the most adversely hit due to the harsh conditions there, whereby the outstanding value of the credit facilities extended to the Gaza Strip (Southern Governorates) declined by 4.9% (and by about 37.2% on an annual basis) as compared to the third quarter of the same year reaching a total of USD 326.7 million. In contrast, the decline in the West Bank (Northern Governorates) was slim and did not exceed 3.6% (an increase by about 3.9% on annual basis) to reach a total of USD 1,431.8 million during the same period.

This decline in the extended outstanding credit facilities hit both the **private and the public sectors**, as the credit facilities extended to the public sector dropped by 6.7% (i.e. by 11.3% on an annual basis) to constitute 24.4% of total credit facilities. Those extended to the private sector (either resident or non-resident) decreased by 2.9% (i.e. by 6.1% on an annual basis) during the same period, notwithstanding this decline, the relative importance of credit facilities extended to the private sector rose to 75.6% of the total (see Table 22). This decline, in the outstanding value

of credit facilities extended to the public sector, can be attributed to the increase in the repayment of debts by the employees of this sector after the resumption of regular payment of wages and salaries by the government. This was in addition to the conservative attitude of banks toward extending new credit in high values to the employees of this sector, while the resulting decline in the credit facilities extended to the private sector during the 4th quarter can be partially attributed to the severe decline in the activity of the private sector in the Gaza Strip.

Figure 4: General Trends in Credit Facilities Extended by Operating Banks in the Palestinian Territory



Source: PMA, Monthly Statistical Bulletin, various issues.

With the decline in the credit facilities extended to the public sector, the crowding out effect dropped. This led to the increase in the relative importance of the over-drafting by the private sector to 36.9% of total credit facilities. Lease financing and bank withdrawals increased their importance to 0.9% in the face of a decline in the relative importance of loans to 62.2% (see Table 22). This was due to the fact that these loans are characterized by being personal. Whereas other credit facilities extended to commercial purposes and the funding of external trade undertaken by the private sector. Of importance to this is the fact that the US Dollar still represents the main currency that dominates the extension of credit facilities capturing the lions share of 67.7%, followed by the New Israeli Shekel (NIS) at 20.1%, the Jordanian Dinar at 11.3% and other currencies at 0.9% of total credit facilities (see Table 22).

During the fourth quarter of 2007, general trading enjoyed 21% of total credit facilities, while construction enjoyed 12.8%, mining and industry enjoyed 6.8%, agriculture enjoyed 1.1%, and all other services (transportation, tourism, public utilities, financial services, stock purchases and other services) enjoyed 58.3%.

It is worth noting that bad loans constitute a source of concern to the entire banking system in general because the increase in the size of default indicates an aggravation of the economic difficulties and a decline in income. It also leads to a decrease in the profitability of the banks forcing them to be more conservative in lending which negatively affects investment and economic growth. In order to deal with this problem, the PMA since its establishment imposes regulatory systems and controls to reduce risks. It also reviewed those systems and regulations regularly and introduces amendments the last of which was adopted on January 20, 2008. According to these amendments appropriations to the different guarantee ratios were defined to increase progressively with the length of the bad period and become 100% for those facilities exceeding their payment date by 360 days.

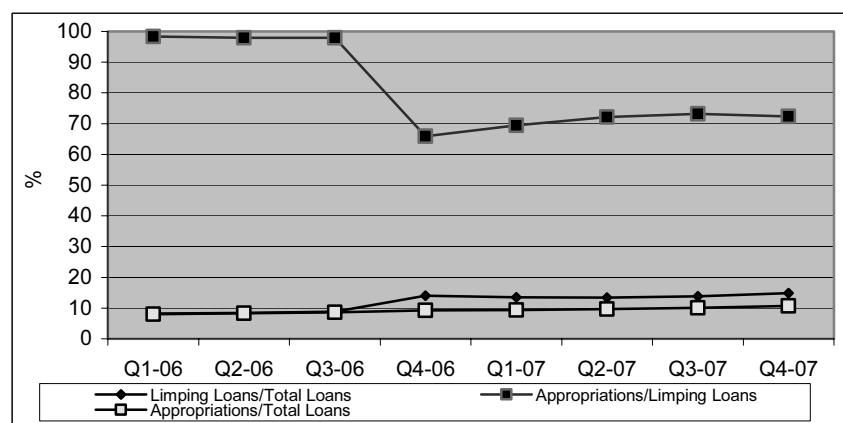
Table 21: The Distribution of the Credit Facility Portfolio for 2006 and 2007 (USD Million)

	2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By Geographical Distribution								
WB Governorates	1257.2	1333.3	1371.	1378.7	1441.5	1492.7	1485.7	1431.8
GS Governorates	569.8	532	519.7	524.6	474.2	406.0	343.6	326.7
By Borrowing Party								
Public sector	591	506.7	479.5	483.6	496.8	497.8	460.1	429.4
Private sector (resident)	1165.4	1267.7	1320.8	1336	1336.1	1327.7	1302.2	1253.9
Private sector (non-resident)	70.5	90.9	90.6	83.7	82.8	73.2	67.0	75.2
By Type of Credit Facility								
Loans	1178.7	1184.9	1200.5	1191.1	1198.2	1203.6	1147.6	1093.7
Overdrafts	637.9	667.7	679.8	701.8	704.9	680.9	667.1	648.8
Leases	10.4	12.6	10.5	10.4	10.5	10.5	10.5	16.0
By Type of Currency								
US Dollar	1260.6	1309.3	1338.8	1346.7	1346.3	1337.4	1274.3	1190.0
Jordanian Dinar	220.4	236.2	226.5	209.2	213.8	218.6	209.3	198.3
Israeli Shekel	335.45	308.5	309.8	332.8	341.0	327.4	330.5	354.2
Other	10.7	11.3	15.7	14.7	14.6	15.3	15.2	16.0
Total	1827.1	1865.32	1890.8	1903.3	1915.7	1898.6	1829.3	1758.5

Source: PMA, Monthly Statistical Bulletin, various issues.

Figure 5 clarifies the aggravation of the bad loans in the fourth quarter of 2007 as these loans increased by 60% reflecting the difficulties that took place in the quarter, such as the non-payment of the wages and salaries of the public employees and the general decline in income. The ratios of the bad loans indicate that they dropped in the first three quarters of 2007 but their appropriations continued to grow during the whole year indicating that the reaction of the banking system to these developments was logical and in line with the regulations of the PMA.

Figure 5: Indicators of the Ratios of Limping Loans (2006 and 2007)

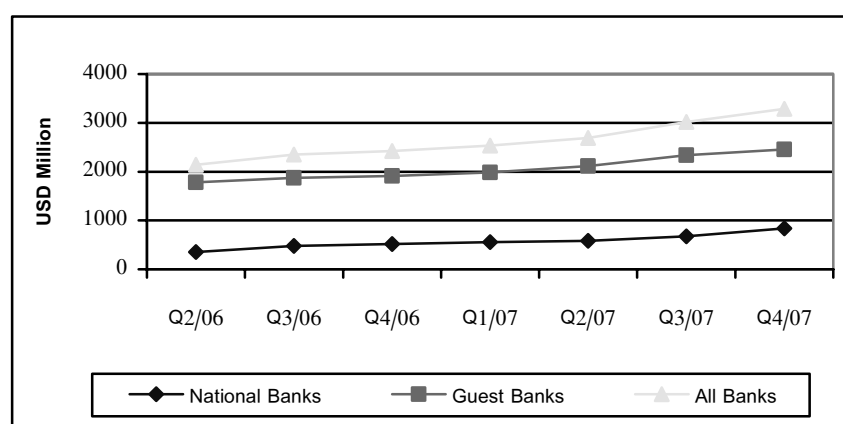


Source: PMA, unpublished data.

5-4 Banks' Investments Abroad

Among the available tools to the operating banks in the PT for disposing of the excess liquidity, under the decline of the outstanding credit facilities and the increase in the clients' deposits, is to invest this excess liquidity abroad. Therefore, investments abroad by the operating banks increased by 9.1% on a quarterly basis (i.e. 33.7% on an annual basis) to reach USD 3,288.9 million. The investments abroad by guest banks contributed some 4.8% of this increase as their investments abroad reached USD 2,453.1 million comprising 74.6% of total investments abroad. National banks contributed some 23.8% of this increase in investments abroad as their value reached USD 835.8 million comprising 25.4% of total investments abroad (see Figure 6).

Figure 6: Banks' Investments Abroad for 2006 and 2007



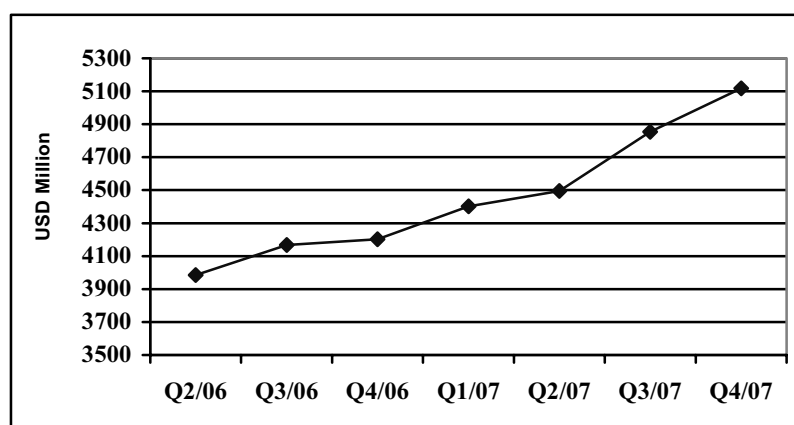
Source: PMA, Monthly Statistical Bulletin, various issues.

5-5 Deposits

Total **bank deposits** of all operating banks in the PT during the fourth quarter of 2007 increased by 5.5% (i.e. 22.3% on an annual basis) reaching USD 5719.9 million. A large portion of this increase was due to the increase in deposits at national banks as the total deposits at these banks increased by 14% to reach USD 1,851.8 million as compared to 1.9% increase of deposits at guest banks, reaching USD 3,868.1 million. It is also worth mentioning that **clients' deposits** (from both the public and private sectors) composed 89.5% of total deposits. This registered an increase of 5.4% to reach USD 5,117.7 million, of which 28.6% were deposited at national banks to the value of USD 1,465.8 million increasing by 9.8%. This was in contrast to 71.8%, at the value of USD 3,651.9 million, deposited at the guest banks, which increased by 3.4% from its third quarter level of the same year (see Figure 7 and Table 23).

Although this increase in clients' deposits encompassed both the Gaza Strip (Southern Governorate) and the West Bank (Northern Governorates), it was highest in the West Bank and registered an increase of 5.8% on a quarterly basis (i.e. by about 28% on an annual basis), constituting 82.5% of total clients' deposits. In the meantime, clients' deposits in the Gaza Strip increased slightly by 1.4% on a quarterly basis (as opposed to a decline by 5.6% on an annual basis) constituting 16.9% of total clients' deposits.

Figure 7: Trends in Clients' Deposits by Quarter for 2006 and 2007



Source: PMA, Monthly Statistical Bulletin, various issues.

This increase also encompassed both the private and public sectors as total public sector deposits witnessed an increase of 3% on a quarterly basis (i.e. 34.2% on an annual basis) constituting 9.9% of total deposits. The increase in total private sector's deposits was 5.3% on a quarterly basis (i.e. 20.1% on an annual basis) constituting 90.1% of total clients' deposits (of which 97.5% belong to the resident private sector).

Table 22: Distribution of Clients' Deposits by Quarter for 2006 and 2007 (%)

	2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By Geographical Distribution (%)								
WB Governorates	76.60	77.73	77.59	78.18	78.78	82.09	82.47	83.08
GS Governorates	23.40	22.27	22.41	21.82	21.22	17.91	17.53	16.92
By Depositing Party (%)								
Public Sector	9.74	8.38	9.55	8.96	9.37	9.47	10.10	9.90
Private sector-resident	88.08	89.55	88.19	88.90	88.59	88.44	87.77	87.80
Private Sector non-resident	2.17	2.07	2.26	2.15	2.04	2.09	2.13	2.29
By Type of Deposit (%)								
Current	35.12	33.40	34.15	33.41	32.91	34.11	35.87	35.12
Saving	20.88	22.29	21.72	22.07	21.72	22.00	21.30	22.40
Time	44.00	44.30	44.13	44.53	45.37	43.89	42.83	42.48
By Type of Currency (%)								
US Dollar	53.17	53.66	54.23	54.88	54.12	52.31	51.57	51.47
Jordanian Dinar	25.14	25.89	25.22	25.61	25.59	25.51	24.72	24.64
Israeli Shekel	16.69	15.52	15.34	14.35	14.96	16.73	17.59	17.97
Other	5.00	4.94	5.20	5.16	5.33	5.45	6.23	5.92

Source: PMA, Monthly Statistical Bulletin, various issues.

Saving deposits registered the highest increase by 10.5% on a quarterly basis (23.2% on an annual basis) dominating a share of 22.4% of total deposits. They were followed by time deposits, with an increase of 4.2% on a quarterly basis (15.8% on an annual basis) dominating the lion's share of

42.8% of total clients' deposits. Current deposits registered the lowest increase of 2.9% on a quarterly basis (27.6% on an annual basis) constituting 35.1% of total clients' deposits.

Different currencies retained their relative importance in clients' deposits. The US Dollar dominated clients' deposits by a share of 51.5%, followed by the Jordanian Dinar at 24.6%, the Israeli Shekel at 18%, and other currencies at 5.9%.

5-6 Equity¹¹

The operating banks in the PT continued to supplement their capital in accordance with surveillance regulations issued by the PMA. Thus, the equity of banks witnessed an increase of 7.4% on a quarterly basis (21.0% on an annual basis) reaching USD 707.2 million (see Table 24). Thereby, the relative importance of equity was increased to 10.1% of total liabilities. It is worth noting that national banks and guest banks contributed 45% and 55% of this equity respectively. Paid capital is considered the main component of equity by retaining 75% of total equity with a value of USD 530.4 million, i.e. an increase of 1.1% on a quarterly basis (10.1% an annual increase). The main cause of this increase is easily attributed to the increase in the profits of the banks by 142.3% on a quarterly basis (57.4% on an annual basis) due to their various operations.

Table 23: Main Items in Banks' Consolidated Balance Sheet by Quarter: 2006-2007

Item	2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
%								
Cash-in-vaults	3.9	3.9	3.9	3.0	3.9	3.7	4.5	4.9
Balances with the PMA	9.8	9.5	9.0	9.0	8.8	8.9	8.8	10.1
Balances with banks in Palestine	2.8	2.7	2.8	3.8	4.4	4.2	5.5	4.8
Balances with banks abroad	40.5	40.2	41.9	42.0	42.1	43.9	45.8	46.1
Credit Facilities	33.6	35.2	33.9	33.1	32	30.9	27.8	25.2
Other Assets	5.2	5.6	5.4	9.0	5.7	6.0	5.0	8.9
Assets =Liabilities	100	100	100	100	100.0	100.0	100.0	100
Clients' deposits	74.7	75.2	74.8	73.3	73.6	73.2	73.1	73.0
PMA deposits	3	2.7	2.9	3.1	2.4	2.8	3.2	3.5
Deposits of banks operating in Palestine	2.8	2.2	2.7	3.3	4.5	4.2	4.9	4.6
Deposits of banks operating outside Palestine	1.6	1.6	1.4	1.6	1.0	0.9	0.4	0.5
Equity	10	9.7	9.7	10.2	10.3	9.8	9.9	10.1
Bad-debt allowance	2.6	2.4	2.4	2.6	2.7	3.1	2.9	2.8
Other liabilities	5.3	6.2	6.1	5.8	5.5	5.9	5.6	5.5

Source: PMA, Monthly Statistical Bulletin, various issues.

5-7 Selected Bank Performance Indicators

Table 25 illustrates the main developments in bank performance indicators of operating banks in the PT – more details are provided in the sub-sections that follow.

¹¹ Equity includes paid capital, reserves, profits and underwriting premiums.

5-7-1 Capital Adequacy to Risk-weighted Assets

The PMA persisted to emphasize the importance of the need for banks to keep sufficient capital adequate to meet both expected and unexpected risks that may be faced by the resources of its funds, especially deposits. In this regard, the PMA's effective regulations stipulated that capital adequacy ratio for national banks operating in the PT should not be lower than 10.0% for national commercial banks, and 12.0% for Islamic and investment banks.

5-7-2 Bad Debt Provisions to Total Credit Facility¹²

Although debts classified as 'unsuccessful' declined, and in a precautionary measure, the banks increased the ratio of appropriations to total credit facilities to 11%. This indicates that the funds the banks have set aside to meet credit risks, which are debited against the income statement as a percentage of total credit facilities, is calculated in accordance with the ratio pre-set PMA ratio.

5-7-3 Private Sector Credit Facilities to Private Sector Deposits

This ratio fell to reach 28.9%. This indicates that operating banks in the PT are expanding their liquidity position reflecting their tendency to risk aversion and to restrict the expansion of credit facilities.

5-7-4 Credit Facilities to Clients' Deposits

The conservative policy of the operating banks in the PT towards the extension of credit facilities caused a decline in the credit facilities to clients' deposits ratio to 34.5%, which is well below the minimum set by the PMA at 40%.

5-7-5 Investments Abroad to Total Deposits

This ratio increased until it reached 56.4%. It is worth noting that this ratio still lies below that ceiling set by the PMA at 65%.

Table 24: Bank Performance Indicators by Quarter for 2006 and 2007 (%)

Indicator	2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Bad Debt Provisions to Total Credit Facilities	7.61	6.88	7.20	8.00	8.44	10.30	10.49	10.99
Total Private Sector Credit to Private Sector Deposits	33.66	37.22	37.45	36.97	35.63	33.71	31.38	28.92
Credit Facilities to Clients' Deposits	44.91	46.82	45.38	45.18	43.58	41.12	37.68	34.48
Investments Abroad to Total Deposits	49.34	49.30	51.22	52.62	51.64	54.05	55.09	56.43

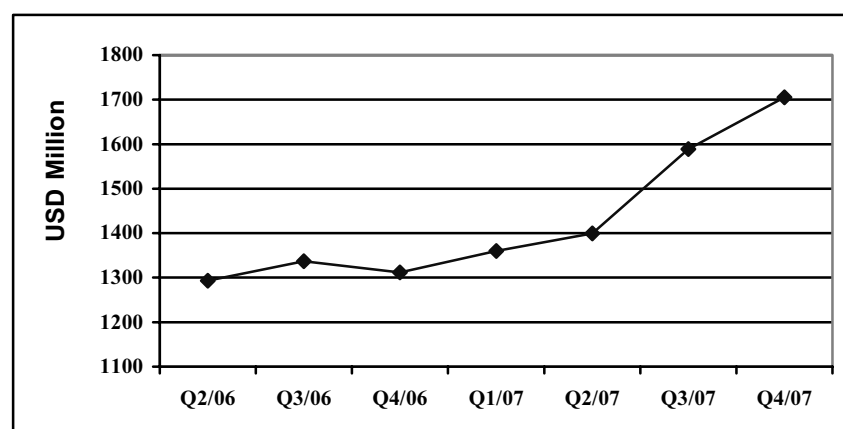
Source: PMA, unpublished data.

5-8 Clearing House Activities

Clearing house activities reflect a large degree of economic changes and development. Therefore, under the relative improvement of the economic conditions during the fourth quarter of 2007 in the West Bank, the increase in the number of checks presented for clearance, denominated in various currencies (USD, JOD, NIS, and the EURO), by 0.1% on a quarterly basis (3.5% on an annual basis) to reach 640,108 checks with a total value of USD 1,705.2 million (i.e. an increase by 7.3% on a quarterly basis and 15.3% on an annual basis) (see Figure 8).

¹² Provisions are set by banks to meet expected and unexpected risks on credit and are usually 1.25%-1.5% of total profits.

Figure 8: Trends in Checks Presented for Clearance by Quarter: 2006 and 2007



Source: PMA, Monthly Statistical Bulletin, various issues.

The increase in the number of checks presented for clearance coincided with an increase in the number of bounced checks across all currencies, an increase of 4% on a quarterly basis (18.3% on an annual basis) to reach 83,216 checks at the value of \$119.0 million, an increase of 4.8% on a quarterly basis and 1.9% on an annual basis. With this increase in the number of bounced checks, their ratio to the number of checks presented for clearance increased to 13% on a quarterly basis (and a decline to 13.7% on an annual basis) (see Table 26).

Table 25: The Number and Value of Checks Presented for Clearing and the Percentage of Bounced Checks by Quarter: 2006 and 2007

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 %
Q2, '06	583,983	1,293.4	109,581	104.6	19	8.1
Q3, '06	583,073	1,337.0	99,987	115.5	17	8.6
Q4, '06	571,844	1,312.1	97,415	139.8	17	10.7
Q1, '07	547,498	1,359.6	87,026	125.3	15.8	9.2
Q2, '07	585,426	1399.3	79,778	117.3	13.6	8.4
Q3, '07	639,617	1588.6	80,020	119.0	12.5	7.5
Q4, '07	640,108	1,705.2	83,216	124.7	13.0	7.3

Source: PMA, Monthly Statistical Bulletin, various issues.

6- Palestinian Stock Market

With the end of the legal grace period given for the listed companies to provide the preliminary financial statements for the fiscal year of 2007 on February 15, 2008, all listed companies (35) had provided the statements, registering the first ever annual disclosure of the financial data they are committed to do within the legal period. According to this disclosure, 26 companies had shown profits during the year, while losses were registered for 9 companies. These companies were in the sectors of investment, services, and industry (3 companies per each sector).

The number of traded stocks during the fourth quarter of 2007 registered a slight increase by 3.6% over the third quarter, after the severe decline that took place in the third quarter of the same year, reaching 64 million stocks in the fourth quarter. This meant that the number of stocks was still lower than it was in the second quarter of the same year. The size exchange of stocks increased by 3.1% over its third quarter level but was still lower than its second quarter level by 7.7%. The number of exchange sessions remained constant during the last three quarters with a relatively stable market value (see Table 27). Al-Quds index continued its rise during the last two quarters of 2007 after its decline during the second quarter of the same year (see Figure 9).

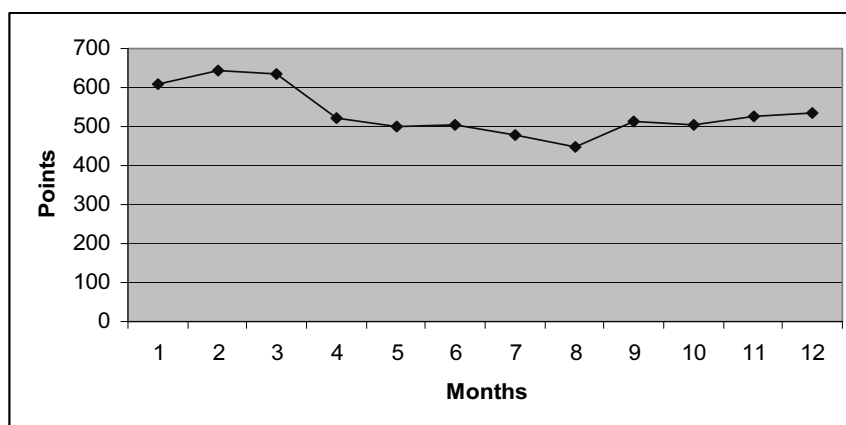
Table 26: Main Indicators of the PSE, 2007

Period	Market Value (billion USD)	Number of Trading Sessions	Al-Quds Index	Trading Volumes (stocks' value) (million USD)	Number of Traded Stocks (million)
Q1, 2007	2.9	60	622.87	256.2	91.7
Q2, 2007	2.4	63	509.69	198	85.2
Q3, 2007	2.4	63	517.18	178.1	60.8
Q4, 2007	2.5	63	527.16	183.7	43
Total of 2007	2.5	248	527.16	813.5	299.4
Total of 2007	2.7	238	605.00	1067.4	222.7

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

Generally speaking, the 2007 indicators were below their 2006 levels as the size of trading declined clearly during 2007 as opposed to 2006 by a percentage of almost 33%. The year 2007 also witnessed a decline in the market value to reach USD 2.5 billion compared with USD 2.7 billion in 2006. As for the number of traded stocks, it witnessed a sharp rise by 34% during 2007.

Figure 9: Al-Quds Index by Months in 2007



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

7- Prices and Purchasing Power

Starting from the second half of 2007, the economic condition in the PT witnessed serious developments. In addition to the chronic problem of unemployment from which the economy suffered, it started to suffer from a problem of inflation after the huge increase in the average prices of consumption goods witnessed in the second half of the year. The Consumer Price Index (CPI) started with 154.03 and ended with 164.01 at the end of the year (base year, 1999 =100), which means that the inflation rate exceeded 6.5%. This coincided with an average unemployment rate of 21.5% during the same year. These two rates of high unemployment and inflation assert

that the Palestinian economy is starting to suffer from a dual problem of unemployment and inflation to short stagflation, which the last issue of the Monitor warned Palestinian economy might be sliding into.

7-1 Prices

During the second quarter of 2007 a slight decline in the prices of consumer goods was registered due to low aggregate demand caused by the economic crisis through which the Palestinian Territory is passing. With the beginning of clearance at the start of the third quarter which coincided with a wave of increases in international prices, the PT witnessed leaps of price increases during the second half of 2007 which peaked during August. The sharp increases in prices were exacerbated due to the fact that they hit most of the essential commodities, specifically food prices on which expenditures represent more than 40% of the Palestinian consumer basket, as they witnessed consecutive increases, which encompassed imported as well as locally produced commodities. It is also worth remarking that the increase hit the prices of basic commodities that are inputs to local industries. This led to a chain of cumulative effects on the prices of many goods, as the increase in the prices of flour, rice, fuel and meat had a multiple effect on the prices of bakery products, sweets, and transportation services during the third and the fourth quarters of 2007.

Prices data for the third quarter of 2007 indicate a rise of 3.61% in the Shekel-based CPI in the PT, compared to a rise of 0.13% in the second quarter and a decline of 0.22% in the first quarter. The rise continued in the fourth quarter of the year (a 3.15% increase on the third quarter), and when we compare December 2007 with December 2006, we find that the CPI rose by 6.85%. When we sum up the monthly percentage changes in prices for 2007, we find that the 2007 prices rose by 6.67% (see Table 28).

Table 27: The CPI for 2007

Month	CPI	Percentage Change (%)*
January	154.03	0.35
February	153.42	(0.40)
March	153.16	(0.17)
April	152.71	(0.29)
May	152.97	0.17
June	153.36	0.25
July	154.14	0.51
August	157.49	2.17
September	158.96	0.93
October	160.18	0.77
November	162.47	1.43
December	164.01	0.95

Source: PCBS.

* Figures in parentheses are negative.

The rise in the prices was at its sharpest in the Gaza Strip due to the Israeli-imposed siege. The CPI figures indicate that the average increase in the prices during 2007, as compared with the 2006 average, reached 4.04% in the Gaza Strip as compared to 2.52% in the remaining West Bank and 1.41% in Jerusalem.

Regarding the type of commodities, the rise in the food prices was the basic driver of the price increases as they increased by 5% during 2007 (see Table 29). The prices of this category rose by 3.61% during the third quarter of 2007 as compared with the second quarter, while the prices of

beverages and tobacco category rose by 5.99%. Housing and its maintenance rose by 4.068% during the third quarter of 2007. When we compare the fourth quarter with the third quarter of 2007 by main categories, we find that all categories, without exception, registered different increases with the greatest increase found in the food category, an increase of 5.61%, and beverages and tobacco, increasing by 5.19%.

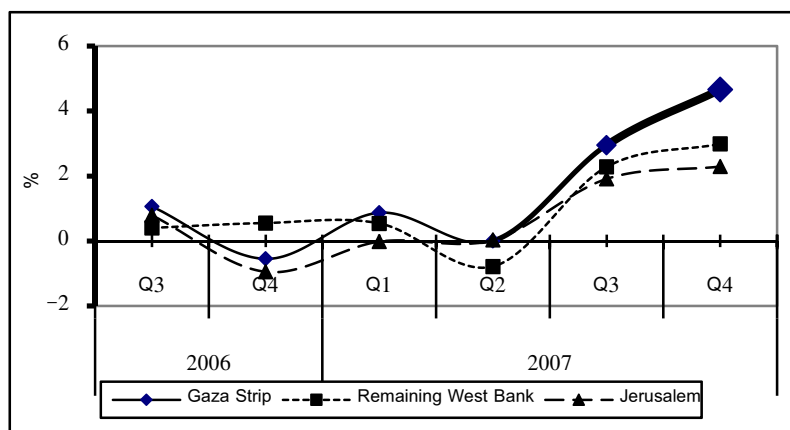
Table 28: Average Increase in Prices in 2007

Category	Percentage Change in Prices*
Beverages and tobacco	5.23
Food	4.75
Various good and services	3.15
Housing	1.61
Transportation & Telecom	1.21
Education services	0.50
Furniture and house goods and services	0.39
Recreational goods and services	(1.72)
Textiles, apparels and footwear	(0.75)
Healthcare	(0.06)

Source: PCBS, 2007.

* Figures in brackets indicate a negative value.

Figure 10: Shekel-based Inflation Rate in Jerusalem, the Remaining West Bank and the Gaza Strip by Quarter of 2006 and 2007



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

Region-wise, and according to the different categories of the consumer basket, it is noticed that the food category prices rose by 2.61% in the Gaza Strip during the third quarter of 2007 over the second quarter, due to the increase in the prices of some basic commodities. In the remaining West Bank, the prices of the food category rose by 4.54% (see Table 30), while they registered a rise of 6.84% in the Gaza Strip during the fourth quarter of 2007 as compared to the third quarter of the same year. In the remaining West Bank, they registered a rise of 5.99% during the same period. On the other hand, the prices of the beverages and tobacco category registered an unprecedented increase in the Gaza Strip that reached 9.13% during the fourth quarter of 2007 over the third quarter, while they registered a slight increase of 0.26% in the remaining West Bank during the same period.

The housing category witnessed a rise in prices in the Gaza Strip by 4.22%, while transportation and communication prices rose by 1.32% during the fourth quarter of 2007. The prices of transportation and communication, and housing services categories in the remaining West Bank continued their rise during the fourth quarter of 2007 by 1.69% and 5.04% respectively.

The prices of nondurable goods (like food, cigarettes and other consumption goods) rose by 4.90% during the fourth quarter of 2007 over the third quarter, while the prices of durable goods (like home appliances and recreational goods) rose by 1.84% during the same period. The prices of semi-durable goods (like textiles, apparels and footwear) registered a rise of 0.97% over the fourth quarter.

Regarding the origins of the goods, the prices of domestically produced goods rose by 2.73% during the fourth quarter of 2007, while imported goods registered a large increase by 4.33% for the same period reflecting the rise in international prices.

Table 29: Changes in the CPI in the PT by Region and Commodity Categories in the Fourth Quarter of 2007 as Compared to the Third Quarter of the Same Year

Category	Palestinian Territories (%)	RWB (%)	GS (%)	Jerusalem (%)
Food	5.61	5.99	6.84	3.54
Beverages and tobacco	5.19	0.26	9.13	1.41
Textiles, Apparels and Footwear	0.89	-0.42	1.23	2.04
Housing	3.59	5.04	4.22	1.69
Furniture, goods and services	0.92	0.77	1.88	0.47
Transportation & Telecom	1.38	1.69	1.32	1.95
Education services	0.99	-0.49	2.01	1.18
Healthcare	0.54	-0.11	1.02	0.39
Recreational goods and services	0.04	-0.33	-0.22	0.84
Other goods and services	2.33	0.94	1.91	2.11
General Price Index	3.42	2.99	4.66	2.29

Source: PCBS, 2007.

7-2 Average Prices of Selected Essential Commodities

Data in Table 31 below reveal that the prices for most of the essential commodities, which have witnessed a noticeable increase during the fourth quarter of 2007 over the third quarter. This could be attributed to the international rise in the prices of imported commodities including; wheat, rice and fuels, and the rise in the prices of some locally produced goods. The following sub-sections summarize price movements of some of these commodities at the end of the fourth quarter of 2007 as compared to the previous quarters:

✧ *Flour and Rice Prices*

Prices of flour and rice registered a record high during the fourth quarter of 2007 over the third quarter of the same year as the percentage of the rise in the Gaza Strip reached 31.69% and 15.72%, respectively, while the prices of flour and rice rose in the West Bank by 31.12% and 10.81%, respectively during the same period.

✧ *Fuels' Prices*

Gasoline prices in the PT increased in the fourth quarter of 2007 due to the rise in international oil prices. The price per liter of gasoline increased in the remaining West Bank and in the Gaza Strip by 2.43% and 2.26%, respectively. Natural gas used as house fuel increased during the same period by 19.39% in the remaining West Bank and 15.29% in the Gaza Strip.

✧ **Dairy products' Prices**

The rise in prices also hit other essential commodities like dairy products. Data indicates a rise in the prices of powdered milk during the fourth quarter of 2007 by 0.82% in the remaining West Bank, while the rise in these prices was sharper in the Gaza Strip as the rise reached 3.18%.

Table 30: Average Prices for Selected Consumer Prices of Essential Commodities by Quarter for 2006 and 2007 (NIS)

Item	Unit	WB			GS		
		Q4 2006	Q3 2007	Q4 2007	Q4 2006	Q3 2007	Q4 2007
Sugar-crystal-UK	50 kg	149.84	146.69	130.94	180	160	160
White Flour-zero-Haifa	60 kg	110	144.88	189.97	110	138.83	182.83
Rice (short seed)-Sunwhite-Australia	25 kg	85.08	94.24	104.43	85	93.33	108.00
Tomatoes	1 kg	3.68	2.83	3.26	2.55	1.20	1.17
Potatoes	1 kg	3.17	2.42	2.56	2.63	1.60	1.5
Gasoline 96 Octane	1 liter	5.43	5.76	5.90	5.43	5.76	5.89
Gas Cylinder	12 kg	36	44.67	53.33	36	44.67	51.50
Powdered Milk (France)	2.5 kg	84.86	84.56	85.25	80	83.67	86.33
Olive Oil	1 kg	20.44	20.40	22.98	22.55	24.33	25.67

Source: PCBS, 2007.

7-3 Currency Prices

The year 2007 witnessed a huge depreciation of the USD and the JOD vis-à-vis the NIS as compared to 2006. This international depreciation of the USD, and thereby the USD-pegged JOD, can be attributed to the specific conditions of the US economy. The most important of which are the credit crisis and the mortgage crisis, which adversely affected all economic activities. This obliged the Federal Reserve (American central bank) to cut the interest rate several times in an attempt to give impetus to economic activity and prevent it from sliding into a condition of recession. It is well known that one of the most important reasons of the American economic problem is the huge federal budget deficit that has resulted from the policies of the Bush administration in financing the wars in Iraq and Afghanistan by borrowing rather than by taxation.

The Reasons behind the Depreciation of the US Dollar

It is useful to start by remembering that the sharp decline in the value of the USD that we are presently witnessing¹³ is not the first time it has happened. There was a sharp decline in the value of the USD starting from the beginning of the second half of the 1980s. It is natural that any sharp decline in the value of the USD reflects a disturbance in the entire American financial system. While the sharp decline that took place in the 1980s coincided with the collapse of the money markets in November 1987, the current decline coincides with the crisis in the mortgages market that still causes a storm in the money markets, requiring the intervention of the Federal Reserve (the American central bank) in an attempt to prevent the fall of large financial institutions into the disaster of insolvency. It is also useful to be reminded that the crisis of the mid 1980s was basically the result of the economic policies which were implemented by the American administration during the Vietnam War years; it also looks today as if one of the causes (but by no means all) of the current USD crisis are the policies of the Bush Administration in financing the wars in Iraq and Afghanistan.

¹³ The USD was €1.23 in 2000, and in December 2003 it became equal to €0.81, and then reached €0.63 on March 31, 2008 which is the lowest value of the USD since President Nixon declared the end of linking of the USD to the gold in 1971. The exchange rate of the USD reached €0.64 on April 8, 2008. See: www.x-rates.com

It is known that the administration of President Lyndon Johnson in the 1960s refused categorically to finance the Vietnam War by increasing taxes and insisted on financing it by reverting to borrowing. The consecutive administrations in 1970s continued the policy of borrowing and the financing of the government expenditures using the approach of the Federal Budget deficit until the USA became the largest indebted country in the world in the beginning of the 1980s. This approach resulted in deficit in the balance of trade of the USA due to the financing of the budget deficit through borrowing from abroad and not from the local economy due to the limited size of the American savings at that time. The situation is almost the same today. It is possible to explain this phenomenon by making use of the national income identity.

It is known that the national income identity means that $Y = C + I + G + X - M$, that is that the national income equals the sum of consumption, investment, government expenditures and net exports (exports minus imports).

Since $C = Y - T - S$, i.e. consumption equals national income minus taxes and savings, we can rewrite the first equation as: $Y = Y - T - S + I + G + X - M$, which could be rewritten after rearranging it and dividing the result by national income (Y) as $(x - m) = (s - i) + (t - g)$, where the small letters indicate the ratio of the variable to the national income. In this form, the equation explains that the size of the deficit in the balance of trade must always be equal to the size of the budget deficit and the difference between savings and investments. This is natural, as any budget deficit that is not financed from the surplus of savings over investments will be financed from the surplus of imports over exports. That is, any budget deficit that is not financed through borrowing locally (from local markets) will be financed through borrowing abroad (from foreign markets).

Recently, the American Administration has been financing a large portion of the expenditures of the wars in Iraq and Afghanistan by borrowing and not by increasing taxes, which leads to an increase in the size of the Federal Budget deficit to unprecedented levels as the size of the deficit in 2007 reached USD 738.6 billion, or 5.3% of GDP. In the month of March 2008, the size of the deficit increased by USD 85 billion. Since the Federal Government cannot finance this deficit by borrowing from the American savings, as the latter is incapable of financing the American investment (the ratio of saving to GDP in the USA has been negative for a few years and equals -1.0%), the financing of the deficit through borrowing from foreign monies, especially the Chinese (the saving to GDP ratio in China exceeds 30%) has been adopted. Estimations indicate that the USA is in need of borrowing USD 2 billion on a daily basis to finance its deficit. This means that on any day that a non-American purchases American Treasury bonds to the sum of less than USD 2 billion, the demand for the US Dollar will be less than the supply of it thereby causing a decline in its value.

Accordingly, it is clear to us that the main cause of the continuous decline in the value of the US Dollar is that the international markets are not willing to purchase the American Treasury bonds at the same rate as that of the past because many of the main buyers of those bonds have a huge number of them already, more than they would think appropriate. At the end of 2007, China had an estimated value of USD 1.5 trillion, a number that is increasing at the rate of USD 500 billion a year. China cannot go on accumulating US Dollars indefinitely. China naturally wishes to change part of the dollars it has into real investments in the American economy, especially in the fields of petrol and energy, but this has been faced by fierce American opposition, which compelled China to invest in Canada, Latin America, and Australia instead of the USA. This of course means a decline in the demand for the US Dollar and thereby a decline in its value.

This direct cause of the depreciation of the US Dollar is in fact nothing but an expression of a structural imbalance in the American economy. This imbalance could only be corrected through the introduction of structural changes in the following domains:

- ❖ To refrain from financing the government expenditures by the approach of budget deficit, and the tendency towards increasing the use of taxes in this financing, so that the government refrains from spending on items that are not supported by the taxpayers, such as continuous wars.
- ❖ The use of monetary and fiscal policies to promote saving and rationalize consumption as the ratio of consumption to the GDP in the USA is now at 70% while it was 50% in the 1990s, a situation that is not sustainable in the future.
- ❖ To refrain from the policy of deregulation that was started during the Reagan Administration and enforced the abolition of all regulations and controls that regulate the working of the financial institutions. Such deregulation has caused consecutive financial crises the costs of which burdened the average American citizen or taxpayer. The financial institutions, especially banks, require new laws to regulate their work in a way that reduces the possibilities of adventures which are moved by greed, and adventures of those who build their wealth by inventing virtual wealth on paper for the millions of hard working and simple savers.

The fourth quarter of 2007 witnessed an obvious decline in the value of the USD vis-à-vis the NIS as it declined by 5.74% as compared to its exchange rate during the third quarter, and by 6.41% as compared to its exchange rate during the first quarter (see Table 32). By comparing the average of the exchange rate in 2007 with 2006 we notice a clear decline of 7.87%. Because the Jordanian Dinar is pegged to the USD, the JOD exchange rate vis-à-vis the NIS witnessed a parallel decline during 2007 as the JOD declined by 6.19% between the fourth and first quarters. The fourth quarter witnessed a decline of 5.25% as compared to its level in the third quarter, whereas the decline between the two years of 2006 and 2007 was 7.8% (see Table 33). We can also calculate the percentage change in the exchange rate of the USD and the JOD during 2007 by summing up the monthly percentage changes (review the section on the purchasing power below) as the USD declined by 7.38% and the JOD declined by 7.12%.

By looking to Tables 32 and 33 we notice the decline in the differences in the exchange rates of currencies, which indicates the efficiency of the currencies' market in the PT and the rise in the degree of competition in it.

Table 31: The Average of the Exchange Rates of the USD vis-à-vis the NIS in the PT by Quarter of 2007 and during 2006

The period	Purchase price	Selling Price	Value of the Difference	Percentage of the Difference
Average of Q1/07	4.21	4.22	0.01	0.24
Average of Q2/07	4.08	4.11	0.03	0.74
Average of Q3/07	4.18	4.19	0.01	0.24
Average of Q4/07	3.94	3.95	0.01	0.25
2007 Average in the PT	4.10	4.12	0.02	0.49
2006 Average in the PT	4.45	4.46	0.01	0.22

Source: PMA.

Table 32: The Average of the Exchange Rates of the JOD vis-à-vis the NIS in the PT by Quarter for 2007 and during 2006

The period	Purchase price	Selling Price	Value of the Difference	Percentage of the Difference
Average of Q1/07	5.94	5.95	0.01	0.17
Average of Q2/07	5.75	5.76	0.01	0.17
Average of Q3/07	5.91	5.94	0.03	0.51
Average of Q4/07	5.60	5.63	0.03	0.54
2007 Average in the PT	5.80	5.82	0.02	0.34
2006 Average in the PT	6.29	6.30	0.01	0.16

Source: PMA.

Table 33: The Average of the Exchange Rates of the € vis-à-vis the NIS in the PT by Quarter of 2007 and during 2006

The period	Purchase price	Selling Price	Value of the Difference	Percentage of the Difference
Average of Q1/07	5.56	5.57	0.01	0.18
Average of Q2/07	5.55	5.58	0.03	0.54
Average of Q3/07	5.78	5.79	0.01	0.17
Average of Q4/07	5.72	5.73	0.01	0.17
2007 Average in the PT	5.65	5.67	0.02	0.35
2006 Average in the PT	5.60	5.61	0.01	0.18

Source: PMA

Table 34: The Average of the Exchanges Rates of USD, JOD, and the € vis-à-vis the NIS in the PT and Israel by Quarter for 2007

Period	USD		JOD		€	
	PT	Israel	PT	Israel	PT	Israel
Average of Q1/07	4.21	4.22	5.94	5.95	5.56	5.52
Average of Q2/07	4.08	4.08	5.75	5.76	5.55	5.51
Average of Q3/07	4.18	4.19	5.91	5.91	5.78	5.75
Average of Q4/07	3.94	3.95	5.60	5.57	5.72	5.71
The 2007 Average	4.10	4.11	5.80	5.80	5.65	5.62

Source: PMA and the Central Bank of Israel.

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”. Worldwide, it depends on the consumer’s income and the change in the prices of a “basket” of basic goods and services in each country that are measured in the Consumer Price Index (CPI). And the CPI is inversely related to the purchasing power, meaning that 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 PT 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).

Table 35: The Change in the Purchasing Power of the JOD and USD in the PT for by Month the Year 2007

Month	Percentage Change in the CPI (%)	Currency	Percentage Change in the Currency (%)	Percentage Change of the Currency (%)
January	0.35	USD	0.43	0.08
		JOD	0.41	0.06
February	(0.40)	USD	(0.24)	0.16
		JOD	(0.13)	0.27
March	(0.17)	USD	(0.28)	(0.11)
		JOD	(0.34)	(0.17)
April	(0.29)	USD	(2.79)	(2.5)
		JOD	(2.89)	(2.60)
May	0.17	USD	(2.08)	(2.25)
		JOD	(1.90)	(2.07)
June	0.25	USD	4.28	4.03
		JOD	3.98	3.73
July	0.51	USD	1.86	1.35
		JOD	2.00	1.49
August	2.17	USD	(0.45)	(2.62)
		JOD	(0.47)	(2.64)
September	0.93	USD	(3.35)	(4.28)
		JOD	(3.05)	(3.98)
October	0.77	USD	(1.53)	(2.30)
		JOD	(0.85)	(1.62)
November	1.43	USD	(2.38)	(3.81)

Month	Percentage Change in the CPI (%)	Currency	Percentage Change in the Currency (%)	Percentage Change of the Currency (%)
		JOD	(3.02)	(4.45)
December	0.95	USD	(0.85)	(1.80)
		JOD	(0.86)	(1.81)

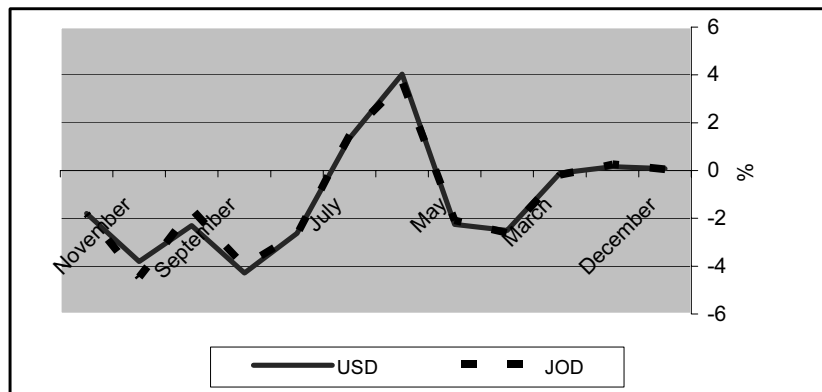
The figures are calculated by the author based on data from the PCBS and the PMA.
 * Figures in parentheses are negative.

Ultimately, the purchasing power of the USD and JOD depends on two factors while assuming that income is fixed: the first is the change in the Shekel-based CPI, and the second is the exchange rates of the USD and JOD against the NIS. 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 36 indicates the change in the purchasing power of the USD and JOD in the PT for the months of 2007. The percentage change was calculated according to the equation mentioned 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. It is clear that the third and fourth quarters witnessed the largest decline in the purchasing power of both the USD and the JOD. The average purchasing power of the USD and the JOD declined by 5.55% and 5.135 respectively. It also declined by 7.91% for the USD and 7.88% for the JOD in the fourth quarter, which is mainly attributed to the decline in the exchange rate in the first three months of the year 2007.

Therefore, the general resultant from the change in the purchasing power of the USD will be 14.05% and 13.79% for the JOD that took place during the year 2007 due to the decline in the exchange rates of both currencies (7.38% of the USD and 7.12% of the JOD), and the huge rise of 6.6% in the CPI.

Figure 11: Developments in the Purchasing Power of the JOD and USD in the Palestinian Territory by Month for the Year 2007



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

8- Tourism

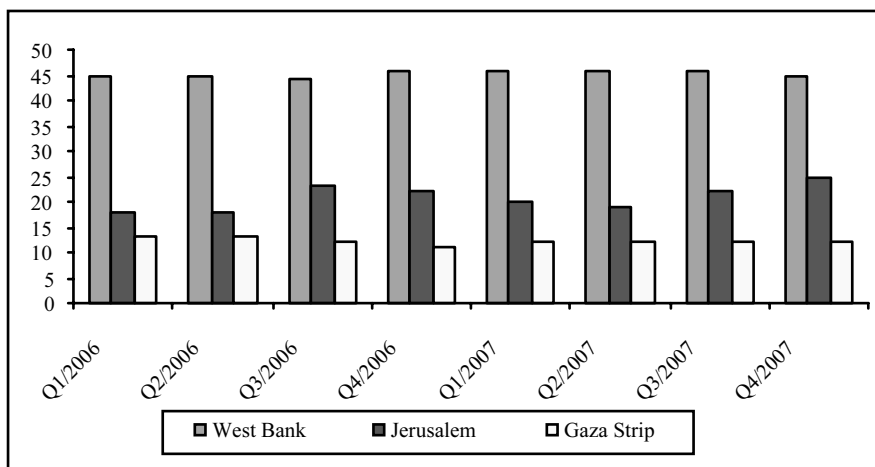
There has been some improvement in the tourist activity in 2007 although it is still suffering from the contraction resulting from the insecurity and the continuation of the arbitrary Israeli practices. It is natural that the improvements were found firstly in Jerusalem, and some slight improvements in the remaining West Bank, while the difficult conditions in the Gaza Strip did not permit any improvement. The following are some details of the tourist activity during 2007.

8-1 Hotel Activity¹⁴

The total number of hotels in the PT reached 112, 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 4,124 rooms with 8,887 beds, while there were 80 operating hotels in the month of September 2007, which have 4,124 rooms with 8,887 beds. The average number of employees was 1,238 people, 1,084 of whom were males and 154 were females.

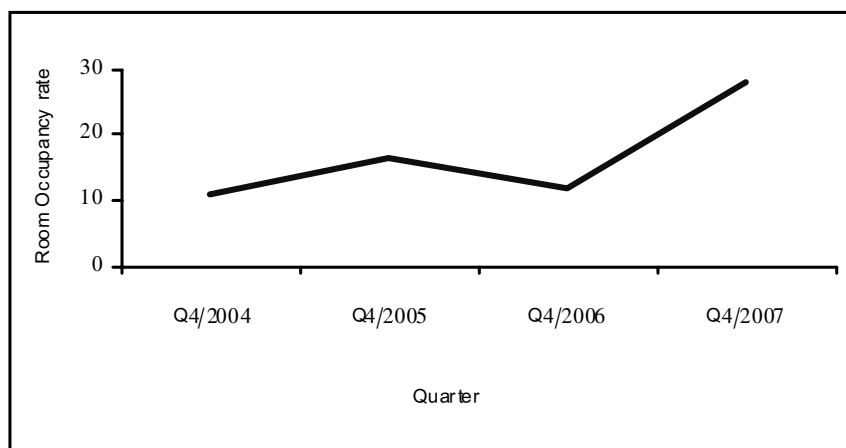
The room occupancy in the operating hotels in the PT averaged at 1,169.6 hotel rooms daily, i.e. 28.0% of available rooms, as the fourth quarter witnessed a noticeable increase in room occupancy rates as compared with the same quarter of previous years.

Figure 12: Number of Operating Hotels in the Palestinian Territories by Quarter, 2006-2007



Source: PCBS, Hotel Activities in the Palestinian Territory.

Figure 13: Hotel Room Occupancy Rates during the 4th Quarter for 2004-2007



Source: PCBS, Hotel Activities in the Palestinian Territory.

¹⁴ 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.

Hotel guests concentrated in the hotels of Jerusalem representing 50.4% of the total number of guests, which reached 88,912. Jerusalem was followed by the hotels in central and south West Bank, where the percentage reached 24.0% for each of them, and the percentage of guests in the hotels in the north of the West Bank was 1.2%. As to the hotels in the Gaza Strip, the percentage of hotel guests reached 0.4%.

The total number of hotel accommodation in the PT reached 199,132 nights during the fourth quarter of 2007, of which those of Palestinian guests were 10.9%, and those of guests from the European Union were 51.9%, while those of guests from the United States and Canada were 8.3%.

The average length of stay in hotels in the PT was 2.2 nights per guest, and the highest average of stay was 2.7 nights per guest in the Jerusalem area. In the northern, central and southern West Bank the average was 1.9, 1.5, and 2.1 nights per guest, respectively. In the Gaza Strip, the average length of stay in hotels reached 2.1 nights per guest.

Table 37 shows the findings of the main indicators of hotel activity for the fourth quarter of 2007 compared to the fourth quarter of 2006 and the third quarter of 2007. This shows the extent of the change that has occurred on the most important hotel activity indicators, where there has been a rise in all indicators, except a slight decrease in the number of workers compared to the same quarter last year.

Table 36: Percentage Change in Hotel Activity Indicators during the 3rd Quarter of 2007 Compared to the Previous Quarter and 3rd Quarter of 2006

Indicator	Percentage Change Over the 4 th Quarter 2006	Percentage Change Over the 3 rd Quarter 2007
Number of Operating Hotels at the End of the Quarter	3.8	2.5
Average Number of Employees at the End of the Quarter	-4.9	3.8
Number of Hotel Guests	140.3	14.9
Number of Nights Accommodation	144.9	4.6
Average of Rooms Occupancy	140.6	10.8
Average Beds Occupancy	144.9	4.6
Rate of Rooms Occupancy	137.3	12.1
Rate of Beds Occupancy	142.9	7.1

Source: PCBS, Hotel Activities in the Palestinian Territory.

9- Company Registration

The Department of Companies' Registration in the Palestinian Ministry of National Economy – according to the Jordanian Companies Law Number (12) of 1964 – 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 are registered. Currently, a new Palestinian companies' law is under preparation by the Ministry of National Economy, but the discussion is still going on regarding the different articles and items of the law. The steps involved in the company's registration differ according to its legal status. Therefore the Department classifies companies into three types: public shareholding and private shareholding companies, ordinary companies, and foreign shareholding companies and companies. The data on registered companies is used to know the activities about which investments in the country are attracted to, and they are also considered a good indicator of the country's attractiveness for local and foreign capital.

The year 2007 saw a significant improvement in the number of companies registered with the Ministry of National Economy, as the number rose by 88% over the year 2006, and despite the fact that there was no rise in the number of companies during the fourth quarter over the third quarter (it rose from 260 to 261) it is considered a rise by 263% over the fourth quarter of the year 2006 (see Table 38).

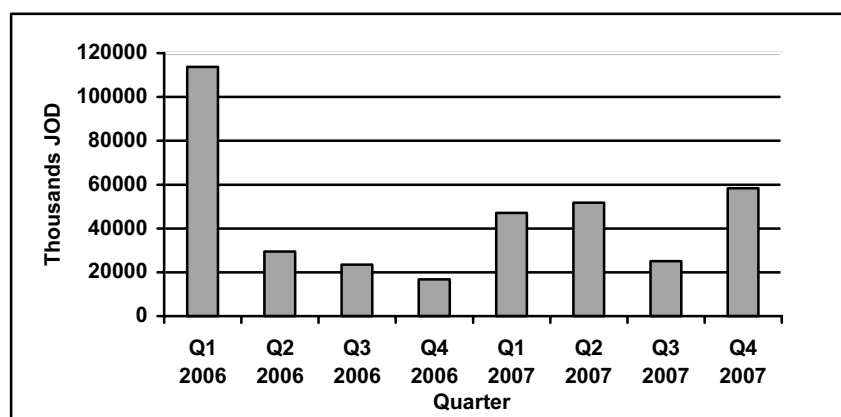
On the other hand, the total registered capital of new companies in the year 2007 stabilized despite the huge increase in the number of registered companies, as it reached JOD 182.3 million compared with JOD 183.4 million in 2006. The highest registered capital in the fourth quarter of the year was in the value of JOD58.3 million (see Figure 14). This is mainly attributed to the registration of "The Baiti Company for Real State Investment" which is a public shareholding company whose capital approaches JOD 17.6 million and will construct a new city that will contain 4000 housing units in the area between Ramallah and Nablus.

Table 37: Development of the Number of Companies by Quarter for 2006 and 2007

Number of Companies	Quarter
175	Q1, 2006
228	Q2, 2006
162	Q3, 2006
72	Q4, 2006
637	Total
387	Q1, 2007
288	Q2, 2007
260	Q3, 2007
261	Q4, 2007
1,196	Total

Source: Raw data from Companies Registration Department, Ministry of National Economy, 2006 and 2007.

Figure 14: Total Capital for Newly Registered Companies in the Palestinian Territory in JOD by Quarter for 2006 and 2007



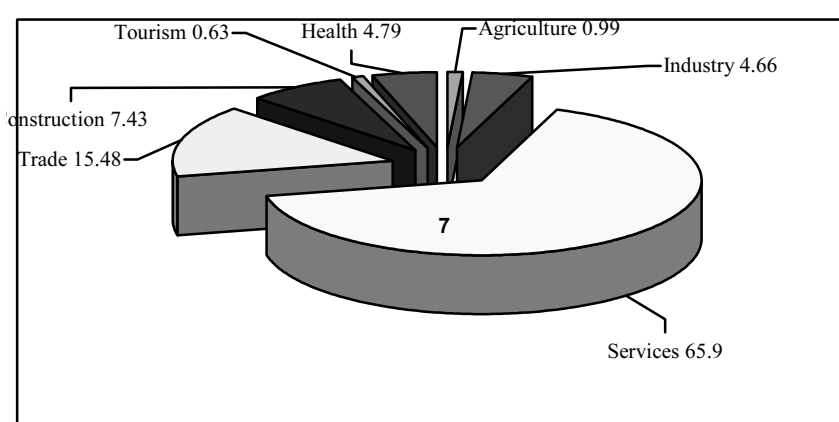
Source: Ministry of National Economy, Department of Company Registration, 2007.

Figure 15 shows the form that the major share of the capital of the new companies registered in the fourth quarter of the year 2007 was captured firstly by the services sector and other sectors (65.9%), followed by trade sector (15.5%), and then the construction sector (7.4%). These

percentages are an extension of percentages of the previous quarter, with the largest share in the third quarter of the year 2007 being captured by the services sector and other sectors (50.4%), followed by the trade sector (33.2%), and then the construction sector (13.9%). It is noticeable that in these two quarters the tourism sector did not witness any change, which is attributed to the lack of political or economic stability in the region, especially after the events of Gaza in June.

Upon comparison of the legal status of the registered companies (see Table 39), we observe that the largest proportion of registered capital in 2007 was that of "private shareholding" (51.3%), compared with 29% of "ordinary companies", and 10.6% of "public shareholding companies". In comparison with the year 2006, it is noticed that the registered capital of all companies had increased with the exception of those public shareholding companies.

Figure 15: Distribution of Newly Registered Companies' Capital in the Palestinian Territory, by Economic Activity during the 4th Quarter of 2007 (%)



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

Table 38: The Distribution of Capital for Newly Registered Companies in the West Bank by Legal Classification for 2006 and 2007 (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

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

Legal classification for companies in the Gaza Strip is different from that in the West Bank, whereby all companies are classified under three legal categories: ordinary companies, public shareholding companies, and private shareholding companies. When we look at Table 39 we see the clear change in the registered capital of companies in the Gaza Strip between 2006 and 2007. The value of the registered capital declined from JOD 71 million in 2006 to reach JOD 16 million registering a sharp decline of 77.5%. This is attributed to unstable political conditions in the Gaza Strip, especially after June, i.e. in the third and fourth quarters, as November and December did not witness the registration of any new company in the Gaza Strip.

Table 39: The Distribution of Capital for Newly Registered Companies in the Gaza Strip by Legal Classification for 2006 and 2007 (JOD)

Year	Legal Form			Total
	Ordinary Company*	Public Shareholding	Private Shareholding	
2006	88	20,000,000	51,035,100	71,035,188
2007	0	0	16,008,315	16,008,315

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

* According to Egyptian law, companies are allowed to register with zero capital.

10- Expectations of Owners and Managers of Industrial Establishments regarding the Economic Conditions¹⁵

From a survey conducted during 6th-23rd January 2008, it becomes clear that there is a fear from an increase in the cost of production due to the expectation of a rise in the prices of raw materials. It appears that industrialists' expectations in the West Bank with respect to the near future are better than their counterparts in the Gaza Strip. The following is a summary of the survey results¹⁶:

10-1 Industrial Establishments' General Performance

Results of the survey indicate that 19.9% of owners and managers of industrial establishments found the general performance of their establishments improved during December 2007, while 31% of those surveyed felt that the performance of their establishments had worsened. 47.9% of owners and managers in the remaining West Bank expect that the general performance of their establishments to improve during the coming six months following December 2007, as opposed to only 24.6% in the Gaza Strip.

10-2 Production

17.9% of owners and managers of industrial establishments indicated that production had improved during the month of December 2007 in comparison with the previous month. Moreover, 94.2% of them indicated that the rise in the prices of raw materials has the greatest effect on the cost of production. 70.7% of them indicated the strength of the impact of transportation expenses on the cost of production, while 27.7% of them indicated that the industrial establishments are facing greater difficulty in obtaining the required raw materials and production inputs. Only 15% of the respondents from these industrial establishments expect that the ability to obtain the required raw materials and production inputs would improve over the first six months of 2008.

10-3 Employment

8.7% of the owners of the industrial establishments indicated an improvement in the levels of employment, whilst 19.3% of them indicated that the situation has worsened. As for productivity,

¹⁵ This section of the Monitor depends on the "Survey of Perceptions of Owners (Managers) of Industrial Establishments of Economic Conditions" which was conducted during 6-23/1/2008 represents December 2007 as compared to November 2007.

¹⁶ The Industrial survey of 2004 was adopted as a framework for preliminary sampling. Moreover the survey was limited to establishments that contribute to 70% of the total industrial output, excluding establishments that employ fewer than 20 work.

32.8% of owners and managers of industrial establishments said that workers' productivity had declined in their establishments, while 16.2% of them indicated an improvement in productivity. As for employment, only 8.4% of the owners and managers of the industrial establishments indicate that they have employed workers during the month of December 2007, as opposed to 11.5% of workers who have been laid off in the remaining West Bank and the Gaza Strip. As for the resumption of regular work without interruptions, only 16.5% of the respondents indicated that this has become worse. The survey results indicate that 43.7% of the respondents are expecting an improvement in workers' productivity, while 16.7% of them are expecting resumption of regular work without interruptions during the first six months of 2008.

10-4 Financial Position and Credit Financing

58.1% of establishments owners and managers stated that the financial standing of their establishments did not witness any significant change during the month of December 2007 as opposed to November of the same year, while 31.1% of them believe that their financial conditions had become worse; 12.8% of them indicated that borrowing from banks for financing purposes (i.e. credit facilities) had become worse and 81.8% believed that no significant change had taken place in this field. The survey results indicate that demand for loans by industrial establishments from the banks was still weak with 98.5% of the owners and managers of the industrial establishments indicating that they did not revert to loans from the operating banks as opposed to 0.8% of them who did so only once, 0.7% who did borrow 2-5 times. About 24.2% of the respondents expect their private financial positions to improve, and 4.8% of them believe credit facilities would improve within the first six months of the year 2008.

10-5 Sales and Competition

42.9% of the owners and managers of industrial establishments in the PT indicated that the value of their sales was the worst during the month of December 2007 as opposed to November of the same year. 50.1% of them indicated that they expected an increase in the level of sales during the first six months of the year 2008.

With regard to competition, 88.5% of the owners and managers of industrial establishments in the PT indicated they face local and foreign competition to their main product. 77.5% of them indicated the existence of local competition, which rises in the Gaza Strip to reach 95.3% as opposed to 74% in the remaining West Bank. 22.5% believe that there is foreign competition to their main product: 26% of the owners and managers of industrial establishments in the West Bank believe so as opposed to only 4.7% in the Gaza Strip.

11- Population the Palestinian Territory between Two Censuses

The population of the PT reached 3.76 million people at the end of 2007 according to the Population Census¹⁷. This figure includes all persons who were actually counted, i.e. 97.3% of the population according to the post-study that aimed at measuring the percentage of coverage in the census. It showed that the shortage in the coverage was 2.7%. In comparison to the Population Census of 1997, the population rose by 29.9% during the past ten years, i.e. an annual population growth rate of 3%.

As for the distribution of the population, 62.3% of the population lives in the West Bank, as opposed to 37.7% living in the Gaza Strip. The census results also show a difference in the relative

¹⁷ The Population, Housing and Establishments Census of 2007 showed that the actual population figure is less than the previous projection by about 6% as the projections showed that the projected figure of the Palestinian population in the PT was 4.01 million in the mid of 2007.

distribution of the population between the two censuses (the 1997 Census and the 2007 Census). As Figure 16 shows, the past decade witnessed a growth in the population of the Gaza Strip by a rate that is higher than the population growth rate in the West Bank. This led to a relative increase in the population of the Gaza Strip by 2.4 percentage points.

Figure 16: The Relative Distribution of the Population in the PT by Region, 1997 and 2007



Source:

- (1) The PCBS, 2008. The Population, Housing and Establishments Census 2007, the Press Release to declare the preliminary results of the Census, Ramallah-Palestine.
- (2) The Palestinian Central Statistical Department, 1998. The Population, Housing and Establishments Census 1998, the final results of the Census- Summary (Population, Housing, and Establishments), Ramallah-Palestine.

The figures show an increase in the relative weight of the south of the West Bank and the Gaza Strip between the censuses as opposed to a decline in the relative weight of both the center and the north of the West Bank.

Table 40: The Distribution of the Palestinians in the PT by Region, 1997 and 2007

Governorate/Region	Population		The Percentage of the Population of the PT		The Change in the Relative Weight between the two Censuses
	End of 1997	End of 2007	End of 1997	End of 2007	
West Bank-North	755,630	935,19	26.1	24.9	-1.2
West Bank-Center	574,896	682,263	19.9	18.1	-1.7
West Bank-South	542,950	727,645	18.8	19.3	0.6
Gaza Strip	1,022,207	1,416,539	35.3	37.7	2.4
Palestinian Territories	2,895,683	3,761,646	100	100	Irrelevant

Sources:

- (1) The PCBS, 2008. The Population, Housing and Establishments Census 2007, the Press Release to publish the preliminary results of the Census, Ramallah-Palestine.
- (2) The Palestinian Central Statistical Department, 1998. The Population, Housing and Establishments Census 1998, the final results of the Census- Summary (Population, Housing, and Establishments), Ramallah-Palestine.

As for the change in the relative weight of the Palestinian Governorates during the period 1997-2007, we notice an increase in the relative weight of all of the Gaza Strip Governorates where the highest increase was in the North Governorate of Gaza, while only one governorate in the West Bank registered an increase in its relative weight, the Governorate of Hebron. The relative weights

of the Jerusalem Governorate, Nablus Governorate, Jenin Governorate, Tulkarm Governorate, Salfit Governorate, and Qalqilya Governorate declined. The highest decline was in the relative weight of the Jerusalem Governorate, declining by 1.7 percentage point. As for the other governorates of the West bank (Toubas, Ramallah and Al-Bireh, Jericho, and Bethlehem) no change in the relative weight has been registered during the past ten years (see Table 42.)

Table 41: Relative Distribution of the Palestinian Population by Governorate

Governorate/Region	Population		Percentage of the PT Population		The Change in the Relative Weight between the two Censuses
	End of 1997	End of 2007	End of 1997	End of 2007	
Jenin	203026	256212	7.0	6.8	-0.2
Toubas	36609	48771	1.3	1.3	0.0
Tulkarm	134110	158213	4.6	4.2	-0.4
Qalqilya	72007	91046	2.5	2.4	-0.1
Salfit	48538	59464	1.7	1.6	-0.1
Nablus	261340	321493	9.0	8.5	-0.5
Ramallah and Al-Bireh	213582	278018	7.4	7.4	0.0
Jerusalem	328601	362521	11.3	9.6	-1.7
Jericho	32713	41724	1.1	1.1	0.0
Bethlehem	137286	176515	4.7	4.7	0.0
Hebron	405664	551130	14.0	14.7	0.6
North Gaza	183373	270245	6.3	7.2	0.9
Gaza	367388	496410	12.7	13.2	0.5
Dier Al-Balah	147877	205534	5.1	5.5	0.4
Khan Younis	200704	270979	6.9	7.2	0.3
Rafah	122865	173371	4.2	4.6	0.4
Palestinian Territories	2,895,683	3,761,646	9.0	9.3	Irrelevant

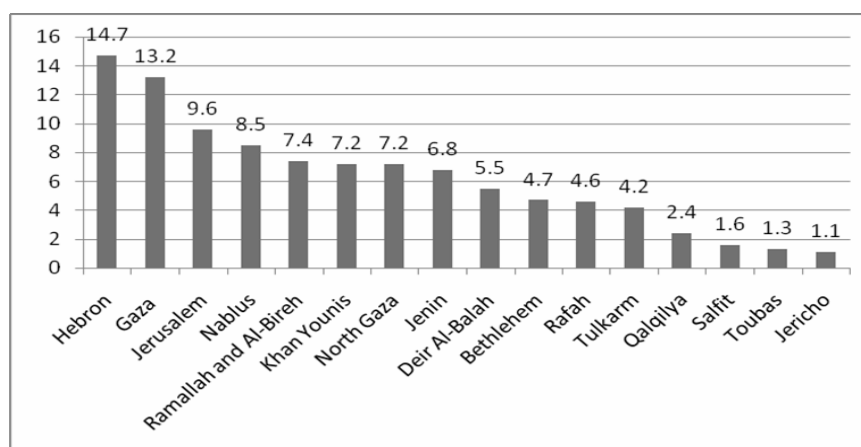
Sources:

- (1) The PCBS, 2008. The Population, Housing and Establishments Census 2007, the Press Release to publish the preliminary results of the Census, Ramallah-Palestine.
- (2) The Palestinian Central Statistical Department, 1998. The Population, Housing and Establishments Census 1998, the final results of the Census- Summary (Population, Housing, and Establishments), Ramallah-Palestine.

There is also a substantial difference between the Palestinian governorates in terms of their population. The results of the Population Census of 2007 show that the Hebron Governorate is the largest Palestinian governorate in terms of population where 14.7% of the PT population live (551,130 inhabitants). The Jericho Governorate is the smallest among the governorates where only 1.1% of the PT population live (41,724 inhabitants) (see Figure 17).

Within the same context, the population growth rates differed among the Palestinian governorates as the population growth rate in all of the Gaza Strip's governorates, Hebron Governorate, and Toubas Governorate in the West Bank have the highest rates in the PT. The population growth rates in Ramallah Governorate was equal to the average in all of the PT, while the other governorates of the West Bank registered population growth rates below the general average of the PT. The lowest population growth rate is currently in the Jerusalem Governorate (1% annually) (see Table 43).

Figure 17: The Ranking of the Palestinian Governorates by the Size of Population, 2007



Source: The PCBS, 2008. The Population, Housing, and Establishments Census 2007. The Press Conference to publish the preliminary results of the Census, Ramallah-Palestine.

Table 42: The Population Growth in the Palestinian Governorates, 1997-2007

Governorate/Region	Population Growth Rates 1997-2007	Average Annual Change
Jenin	26.2	2.6
Toubas	33.2	3.3
Tulkarm	18.0	1.8
Qalqilya	26.4	2.6
Salfit	22.5	2.3
Nablus	23.0	2.3
Ramallah and Al-Bireh	30.2	3.0
Jerusalem	10.3	1.0
Jericho	27.5	2.8
Bethlehem	28.6	2.9
Hebron	35.9	3.6
North Gaza	47.4	4.7
Gaza	35.1	3.5
Dier Al-Balah	39.0	3.9
Khan Younis	35.0	3.5
Rafah	41.1	4.1
Palestinian Territory	29.9	3.0

Source: The PCBS, 2008. The Population, Housing, and Establishments Census 2007. The Press Conference to publish the preliminary results of the Census, Ramallah-Palestine.

These data raise a natural question about the importance and meaning of these changes that we observe in the distribution of the Palestinian population among the governorates and regions between the two censuses.

Theoretically speaking, these changes are attributed to the external migration, internal migration, and the natural increase in the population (i.e. the number of births – the number of deaths). We do not have reliable data about the external migration that would allow us to study the impact of this

migration on the different governorates. We also do not have recent data about the internal migration. However, the general impression indicates that the population, and the capital, of the northern West Bank moved to the center of the West Bank. Also the investors of the northern West Bank moved part or all of their investments into the center of the West Bank. This is all due to the different security situation between the northern and center West Bank.

Within the same context, the average fertility rates in the governorates of the central West Bank are the lowest among the Palestinian governorates. In spite of this, we notice a relatively substantial population growth rate in the Governorate of Ramallah and Al-Bireh, which feeds back the general impression that this governorate is attractive for internal migration (due to pull forces), while the data on the Jerusalem Governorate indicate that it is a source of internal and most probably external migration (due to push forces).

As for the Gaza governorates, the substantial natural population growth (as opposed to the West Bank), and their persistent high fertility rates coincide with the low external migration rates, in spite of the increase in the brutality of the Israeli siege and oppression against the Gaza Strip and its population.

The internal population mobility in the PT among its regions and governorates during the past decade reflects the impact of the Israeli policy towards the Palestinians. Specific measures that result in the reinforcement of the trend to migrate to the center of the West Bank or to the outside world are; the Apartheid Separation Wall, the siege of Jerusalem and the accelerating Judaization of it, the continuation of the tight closure against the northern governorates of the West Bank, and the systematic destruction of the economic infrastructure there.

11-1 The Family Size

The average family size in the PT amounted to 5.8 persons by the end of 2007 according to the data of the Population Census. This represents a decline in the average family size by 7.9% as compared with the year 1997 (see Table 44). In spite of the fact that the family size tended to decline in both the West Bank and the Gaza Strip, the decline rates in the West Bank are greater than those in the Gaza Strip. The average family size in the West Bank declined by 8.3% during the past decade, while it declined by 5.8% in the Gaza Strip during the same period.

The number of Palestinian families in the PT reached 646,755 by the end of 2007. This figure represents an increase of 40.7% in the number of Palestinian households during the period 1997-2007, the figure was 459,632 households in 1997.

Table 43: The Average Family Size in the PT by Region and Governorate for 1997 and 2007

Governorate/Region	Average Family Size 1997	Average family Size 2007	Percentage Change in the Family Size (%)
Jenin	5.9	5.3	- 10.2
Toubas	6.1	5.3	- 13.1
Tulkarm	5.8	5.3	- 8.6
Qalqilya	6.1	5.6	- 8.2
Salfit	6.0	5.4	- 10.0
Nablus	5.9	5.4	- 8.5
Ramallah and Al-Bireh	5.9	5.3	- 10.2
Jerusalem	5.4	5.2	- 3.7
Jericho	6.2	5.5	- 11.3
Bethlehem	5.8	5.3	- 8.6

Governorate/Region	Average Family Size 1997	Average family Size 2007	Percentage Change in the Family Size (%)
Hebron	6.7	6.1	- 9.0
The West Bank	6.0	5.5	- 8.3
North Gaza	7.2	6.7	- 6.9
Gaza	6.9	6.5	- 5.8
Dier Al-Balah	6.9	6.4	- 7.2
Khan Younis	6.9	6.3	- 8.7
Rafah	6.9	6.5	- 5.8
The Gaza Strip	6.9	6.5	- 5.8
Palestinian Territory	6.3	5.8	- 7.9

Source: The PCBS, 2008. The Population, Housing, and Establishments Census 2007. The Press Conference to publish the preliminary results of the Census, Ramallah-Palestine.

11-2 Buildings and Housing Units

The preliminary results of the number of buildings and housing units that were counted during the period October 20th - November 10th, 2007 indicate that the number of buildings in the West Bank and the Gaza Strip reached (473,951), with the exception of that part of the Jerusalem Governorate which Israel annexed by force after its occupation of the West Bank in 1967. This breaks down as (325,260) in the remaining West Bank, and (148,691) in the Gaza Strip, meaning that the number of buildings in the Gaza Strip represents 31.4% of total buildings. The number of housing units reached (693,805) of which (541,543) units are in the remaining West Bank and (242,262) units are in the Gaza Strip, i.e. 34.9% of total housing units are in the Gaza Strip.

11-3 Economic Establishments

The preliminary results of the Establishments Census in the PT represent all establishments that were counted during the period October 20th - November 10th, 2007. The number of the establishments in the PT, with the exception of that part of the Jerusalem Governorate that Israel annexed by force after its occupation of the West Bank in 1967, reached (138,728) establishments of which (95,318) establishments are in the remaining West Bank, and (43,410) establishments are in the Gaza Strip. Of all establishments in the PT, there are (119,547) establishments that include the private sector, the government companies, and the NGO sector, in which there are (314,506) working persons. Of these 119,547 establishments, (83,582) establishments are in the remaining West Bank in which there are (216,654) working persons, and 35,965 establishments are in the Gaza Strip in which there are (97,852) working persons. The establishments in the Gaza Strip represents 30.1% of all operating establishments in the PT in which there are (31.1%) people of the total working persons in these PT establishments.

12- General Education

12-1 Education in Jerusalem

The educational process in East Jerusalem suffers from a problem of the multiplicity of education systems. The city lacks a unified educational governing authority that supervises and controls the educational process; controls the multiplicity in the education systems; and controls their effects. Some of the schools are under the control of the Israeli Municipality of Jerusalem, while other schools are under the supervision of the Palestinian Ministry of Education, and the rest are under

the supervision of the United Nations Relief and Works Agency (UNRWA), in addition there are private and NGO schools.

The number of schools in Jerusalem reached 146 schools; 26% of which are supervised by the Palestinian Ministry of Education, 37% are supervised by the Israeli Department of Education, and 31.5% of the schools are private and NGO schools, while UNRWA supervises 5.5% of the schools in East Jerusalem.

As for the pupils, more than half of them (53.6% of 70,157 Arab pupils) are enrolled in schools run and supervised by the Israeli Municipality of Jerusalem and the Department of Education as of the academic year 2007/2008. Whereas the Islamic Awqaf (endowment) schools and private schools have 41.3% of the East Jerusalem Arab pupils, and UNRWA schools have 5.1% of them.

In the schools of East Jerusalem, there are 3,589 teachers of which 47.45% are working in the schools run and supervised by the Israeli Department of Education (which is a department in the Israeli Municipality of Jerusalem); while 20.8% are working in the Islamic Awqaf schools, 28% are working in the private and NGO schools, while 3.6% are working in UNRWA run schools (see Table 45).

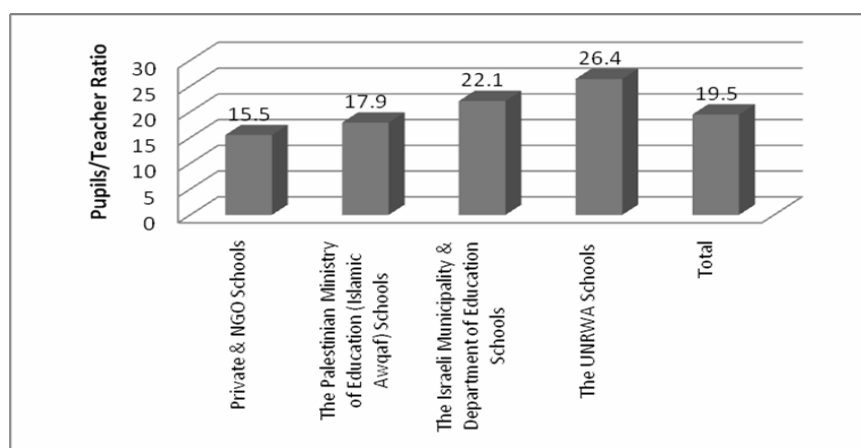
Table 44: The Distribution of Schools, Pupils, and Teachers in East Jerusalem by the Supervising Authority, 2007/2008

Supervising Authority	Schools		Divisions		Pupils		Teachers	
	Number	%	Number	%	Number	%	Number	%
The Palestinian Ministry of Education (Islamic Awqaf)	38	26.0	472	19.3	13329	19	746	20.8
Private and NGO Schools	46	31.5	627	25.7	15663	22.3	1008	28.0
UNRWA	8	5.5	105	4.3	3561	5.1	135	3.8
Israeli Municipality and Department of Education	54	37.0	1240	50.7	37604	53.6	1700	47.4
Total	146	100	2444	100	70157	100	3589	100

Source: The Palestinian Ministry of Education and Higher Education, 2008. Education in Jerusalem. www.mohe.gov.ps, accessed on February 25, 2008.

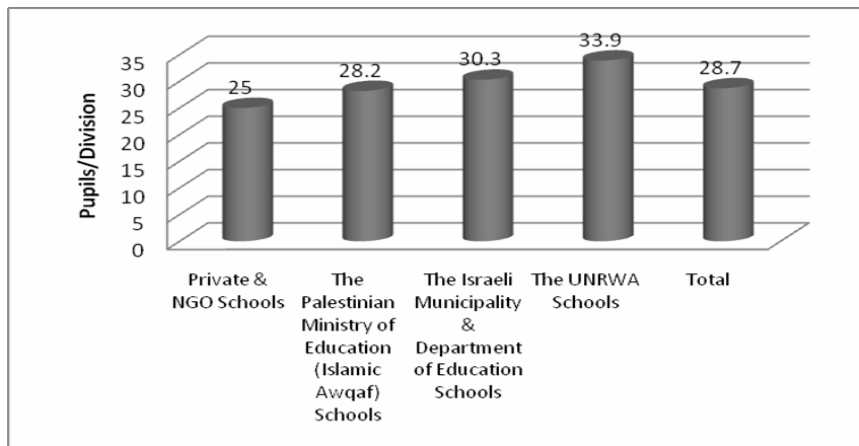
Figures 18 and 19 show that the private schools in East Jerusalem that are the best in terms of pupils-teacher ratio, pupils per division. The Islamic Awqaf schools follow, while these ratios increase in UNRWA schools and the schools run by the Israeli Jerusalem Municipality.

Figure 18: Pupils-Teacher Ratio in the East Jerusalem Schools by the Supervising Authority, 2007-2008



Source: Ratios were calculated based on the Palestinian Ministry of Education and Higher Education. www.mohe.gov.ps, accessed on February 25, 2008.

Figure 19: Class Density in the east Jerusalem Schools by the Supervising Authority, 2007-2008



Source: Ratios were calculated based on the Palestinian Ministry of Education and Higher Education. www.mohe.gov.ps, accessed on February 25, 2008.

The Israeli measures in East Jerusalem cause many problems, such as the inappropriateness of the used rooms as classrooms due to the difficulty in obtaining licenses from the Israeli Municipality to construct schools. Therefore, the Palestinian Ministry of Education has to revert to buy or rent housing buildings to be used as schools. In addition to that, most of these schools lack renovation and regular maintenance, especially schools in the old city, as their buildings are old without playgrounds and courtyards, scientific labs, home sciences and computers (www.mohe.gov.ps, accessed on February 25th, 2008).

The Apartheid Separation Wall multiplied these problems facing the educational process in East Jerusalem. The Wall causes obstruction to 20% of schools' pupils from getting to their schools because they live in the suburbs of Jerusalem that have become separated from the city's center by the Wall. Within the same context, the Wall obstructs the teachers from reaching their schools, especially those who have to commute on both sides of the Wall. Furthermore, the Wall causes the isolation of many schools from a substantial percentage of pupils. 11 schools that are run by the Palestinian Ministry of Education are outside of the city because of the Wall while 27 schools are inside the city beyond the Wall.

The educational process composes one of the struggle's axes to maintain the Arab character of Jerusalem, reinforce the steadfastness of its Arab population - especially that the Israeli general policy seeks to reduce the number and percentage of the Arabs in the city. The educational process in East Jerusalem has direct effects on the present, and future, of the struggle for Jerusalem. The high dropout ratios occupy an important space in the concerns of the Palestinian educational apparatus. Studies show that the schools run by the Israeli Municipality in Jerusalem suffer from high dropout ratios, in excess of 120 times those in the general education in the Jewish community.

12-2 The Israeli Siege Destroys the Educational Process in the Gaza Strip

The educational process in the Gaza Strip was adversely affected by the stringent and continuous siege imposed by Israel on the Strip. These measures encompass the closure of all border crossings, and the confinement of their operations to enter few necessary products in limited amounts that are insufficient for the population's needs. Israel reinforced the siege measures by cutting the electricity and limiting the amounts of fuel permitted to the Gaza Strip. The reports of concerned international organizations indicate to the catastrophic impact of these measures on the educational process, which it is clear from the following excerpts from different reports.

The UN Children’s Fund (UNICEF) warns that about 200,000 children in Gaza resumed their studies at the beginning of the second semester while they are deprived from heat and electricity due to the Israeli siege imposed on Gaza. On the other hand, UNICEF drew the attention to the fact that a large number of pupils cannot do their exams with their future is at stake. Parallel to that, UNRWA published news that the Gaza pupils will be deprived from stationary for 45 days due to the delay in issuing Israeli permits to procure paper.

The average enrollment rates and the grades of exams indicate a substantial decline according to statements of the special representative of UNICEF. The enrollment rates in grades one to ten declined from 96.8% in the year 2001 to 91.2% in the year 2006-2007. Also educational achievements suffered, as evident by a survey undertaken by UNRWA in the schools of Gaza, whereby 66-90% of pupils in the grades 4-9 failed in mathematics, and 61% of the grade 8 pupils failed Arabic.

A principal of one of the Gaza schools says that “for months, we are bypassing classes that require a huge consumption of energy like information technology or scientific labs and extra curricular activities; we lack printing paper, chinks, and we need fax machines, printers, overhead projectors, and the photocopying machines require spare parts; and when we add the cold and the darkness and the lack of materials, what is happening is basically the deprivation of our children from their basic right to education.”

On the other hand, construction and renovation projects of the government and UNRWA schools to the value of millions of dollars are being obstructed due to the barriers to the importation of cement and construction materials. Christopher Guinness, the speaker of UNRWA, which runs 214 schools, said that the Israeli refusal to let basic material from entering the Gaza Strip is causing a destructive offense to our educational programs. This is because half of the UNRWA general budget is spent on education as UNRWA believes that education is one of the most important approaches to give hope to the coming generation, and it opens the way to the salvation from dependency and absolute poverty.

www.mohe.gov.ps

Table 45: Human Losses that Affected the Partners in the Education Process in the PT Due to the Israeli Occupation Oppressive Measure during September 28/2000-March 3/2008

The Case		Number of Cases
Martyrs	Teachers	36
	School Pupils	650
	Administrative Staff	7
	University	6
	Literacy Program	1
Arrested	Teachers	190
	School Pupils	708
	Administrative Staff	29
	University	-
Injured	Teachers	55
	School Pupils	3547
	University Students	1245
	Administrative Staff	13

Source: www.mohe.gov.ps Accessed on 25/2/2008.

The reports of the Ministry of Education and Higher Education (MoEHE) indicate that the Israeli oppression caused many human losses among pupils, teachers and administrative staff during the years of the Al-Aqsa *Intifada*. 700 people within the education field were killed, the majority of whom were school pupils; 4,860 people within the education field were injured since the

beginning of the Al-Aqsa *Intifada* until March 8, 2008. Furthermore, 927 pupils and teachers, and hundreds of university students were arrested during the same period, however, the Table below does not include data on them. (MoEHE, 2008. The Impact of the Israeli Occupation on Education since September 28/2000-March 3/2008).

12-3 The Ranking of the Palestinian Education Sector in Comparison with 14 MENA Countries

The Development Report on the Countries of the Middle East and North Africa that was published by the World Bank (2008), *MENA Development Report, the Road not Traveled: Education Reform in the Middle East and North Africa*, makes it clear that in spite of the huge investments that were undertaken by the countries of the Middle East and North Africa in education, the MENA countries did not reach the desired level of economic growth. This was also despite the significance of many studies in the area of the “economics of education” that showed strong linkages and indicators that point to a positive relationship between education and economic growth. As the report shows, this unexpected phenomenon can be attributed to the fact that the relationship between human capital and economic growth in the MENA region is conditioned by the quality of education and economic infrastructure in these countries. This is in addition to the mismatch between the increasing demand in the labor market and the available opportunities for graduates of the educational systems. This mismatch can be explained by the high and increasing population growth that exceeds the growth in job opportunities. On the other hand, the report shows that the countries of the MENA region, through their investments in education, were able to: (a) increase the demand for education in all school stages, especially the basic education stage; and (b) significantly reduce the illiteracy rates. However, most of these countries did not exert enough necessary efforts to improve the outputs of education both qualitatively and from the viewpoint of the characteristics of graduates. On the contrary, their investments in education took the engineering aspect of the education sector only, i.e. the absorption capacity, and did not focus on the quality of the outputs, or the needs of the labor markets.

Although the Palestinian case significantly differs from other cases, especially in terms of political and economic stability, the PT was able to achieve outstanding levels in some of the comparative educational indicators that were analyzed by the World Bank’s report. This achievement can be attributed to many reasons such as the assistance and follow-up activities that were provided for education in the PT were considered high in comparison with other countries. On the other hand, we can observe that the comparison between the PT and other countries where petroleum is the most important component of the GDP is inappropriate. In spite of all this, we present some of the report’s findings to have a view of the situation of education in the PT as compared with the countries of the MENA region.

The report’s findings about the Palestinian educational situation indicate that it is characterized by the same features mentioned above when we look at the education indicators that reflect the characteristics of the education sector; its performance, the competitiveness of its outputs, and the appropriateness to the demand in the labor market. By comparing the performance of the educational sector in the PT with these countries using four dimensions, the following picture emerges:

The first dimension: the comprehensiveness of education (how holistic education is): this can be seen from the indicators of enrollment in the different educational stages, which are: (a) Net Enrollment Rate (NER) in the basic education stage, as the performance of the Palestinian educational sector was ranked fourth, (b) Gross Enrollment Rate (GER) in the secondary stage, as the Palestinian educational sector was ranked first, and (c) Gross Enrollment Rate (GER) in the tertiary education stage, as the Palestinian educational sector was ranked third (see Table 47).

Table 46: The Ranking of the Palestinian Educational Sector in Comparison with 14 MENA Countries

Rank	Indicator
Fourth	Net Enrollment Rate (NER) in basic education
First	Gross Enrollment Rate (GER) in the secondary education
Third	Gross Enrollment Rate (GER) in tertiary education
Second	Lowest Illiteracy Rate
Sixth	Tests in Mathematics and Science (TIMSS)
First	Average Completion of basic education
Fourth	Gender equality in basic education
Fifth	Gender equality in secondary education
Eighth	Gender equality in tertiary education

Source: The World Bank. MENA Development Report, the Road not Traveled: Education Reform in the Middle East and North Africa, 2008.

The second dimension: the quality of education assessed by looking at the illiteracy rates: this rate in the West Bank and Gaza Strip was the second lowest in comparison to other countries.), The performance of Palestinian pupils was average in comparison with the other countries in the international tests to measure the performance and capabilities of pupils in mathematics and science (TIMSS).

The third dimension: education sector effectiveness attained by looking at the average completion rate of the basic education stage: the Palestinian education sector was characterized by the highest rate of completion.

The fourth dimension: equity in education achieved by looking at two indicators; the comprehensiveness of education (how holistic it is), and gender equality. By looking at Table 47, gender equality declines with the progression in the educational stages. As for the Gini coefficient of education, which measures the spread of education among the different income brackets, it was not calculated for the situation of the Palestinian education.

13- The Israeli Siege of the Gaza Strip

The Popular Committee to Face the Siege of the Gaza Strip stressed the fact that, “the catastrophic effects of the siege become evident in all economic and social sectors to make the Gaza Strip a disastrous area”. This siege almost caused a paralysis in the movement of people and goods, and the economy. The stringent siege that was imposed by Israel on the Gaza Strip was accompanied by the continuation of military operations that Israel executes on an almost daily basis.

It is worth mentioning that the Gaza Strip depends almost entirely on the importation of goods from and through Israel, i.e. the crossings to Israel are the window for the Gazans to the external world. The continuation of the closure of these crossings for more than nine months means the transformation of the status of the 1.5 million people in the Gaza Strip to a mass of dependents on what filters of limited human assistance the amounts and rate of which are controlled by Israel.

“Since the siege was imposed on the Gaza Strip, the Israeli occupation did not let the entry of any raw materials into the Strip; and it did not allow the exportation of any of the products of the Strip, which led to the increase in the ratio of population who live below the poverty line to 85% according to some estimations, while the World Bank puts it at 66% after it was 35% by the end of

2006. A sharp rise in unemployment took place so that the rate is estimated at 65% which limits the ability of the Gazans to meet their basic human needs, in addition to a sharp decline in the per capita income to reach a level below USD 650 per annum¹⁸. On the other hand, the productive capacity of the private sector in the Gaza Strip declined to 11% only since the imposition of the total closure of the Gaza Strip in mid June 2007. Preliminary estimates indicate that more than 43% of the private sector establishments brought their commercial activities to a total halt, while more than 55% of these establishments reduced their commercial activities by a percentage exceeding 75%.

13-1 The Health Sector

The comprehensive siege on the Gaza Strip adversely affected the capacity of the health sector to provide the basic health services to citizens, and in spite of the entry of amounts of medicines from the Arab Egypt Republic during the fall of the border wall, these amounts did not help to save the health sector or to improve the level of its services to citizens. The reports from the Ministry of Health indicate that a large number of basic medicines (more than 76 medicines) and more than 120 medicines from the medical task force are out of stock. 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 who needed 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 depart the Strip for treatment. The Israeli occupation authorities declined from permitting 1,150 patients from departing from the Gaza Strip for medical treatment since the start of the siege until the end of February 2008. The Ministry of Health reports indicate that 1,300 patients are in need of treatment outside the Strip, of which 210 cases are chronic cases. The Popular Committee to Face the Siege registered the death of 105 patients¹⁹ due to the unavailability of appropriate medicines for them in the Gaza Strip. Furthermore, the Committee registered the fact that the patients were deprived medical treatment in medical institutions outside the Gaza Strip, and suffered due to the loss of necessary medicines for them.²⁰

13-2 Food Stuffs

Since the imposition of the stringent siege on the Gaza Strip, Israel allowed the entry of basic foodstuffs but only irregularly. The Israeli occupation authorities allow the entry of a list of basic foodstuffs, which does not exceed 14 types. This resulted in a clear shortage of some foodstuffs and the total disappearance of a large number of other foodstuffs, as well as to a sharp rise in their prices beside other factors.

According to the World Food Programme (WFP) 62% of Palestinian households in the Gaza Strip disclosed a reduction in spending, and that 93.5% of them talked about an aggregate 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 (The Popular Committee to Face the Siege of the Gaza Strip, March 2008, a Report on the Israeli Siege since June 2007 until the end of February 2008).

¹⁸ (The Popular Committee to Face the Siege of the Gaza Strip, March 2008, a Report on the Israeli Siege since June 2007 until the end of February 2008).

¹⁹ The number of death cases in the Gaza Strip as a direct result of the siege (preventing them from departing the Strip for appropriate and urgent medical treatment or because of the unavailability of medicines) reached 112 cases until March 14, 2008.

²⁰ The Popular Committee to Face the Siege of the Gaza Strip, March 2008, a Report on the Israeli Siege since June 2007 until the end of February 2008.

14- Standards of Living

The socio-economic crisis that is experienced by the occupied Palestinian Territory adversely affects the standards of living of the Palestinian inhabitants, especially those in the Gaza Strip. The Israeli measures against the Gaza Strip have transformed the Strip into a large prison controlled by the Israeli jailer who determines the amount and quality of foodstuffs to enter the Strip. In addition to controlling the amount and the quality of medicine, the amount of petrol, and who decides when the Gaza Strip should be living in total darkness, or when ambulances should move! These barbaric practices created a situation where most of the population (more than 80% according to the estimates of international organizations) had become incapable to provide for their basic needs, and are dependent on what filters in from international assistance.

14-1 Poverty

The last few years witnessed a continuous increase in the poverty levels in the occupied Palestinian Territory and reached unprecedented levels. Current estimates indicate that 80% of the Palestinians in the Gaza Strip and 47% in the West Bank are living below the poverty line (UNRWA, 2008, Special Appeal of the UNRWA Fund 2008-2009). A survey by the Near East Company indicated that 91% of the Palestinians receive assistance²¹, and 60% of them declared that they need assistance (The Near East Company for Consultations, 2008. Opinion Survey of the End of January 2008). The estimates of the World Food Programme (WFP) indicate that 70% of the population of the Gaza Strip lives below the poverty line of USD 1.2 per capita per day, and that 75% of its population depend on food assistance from the WFP and UNRWA (www.wfp.org Accessed on February 15, 2008).

14-2 Social Assistance

The available data in the beginning of 2008 indicated that the majority of Palestinians received assistance, especially in the Gaza Strip. The survey of the Near East Company indicates that 30% of the Palestinians depend on assistance to a large extent, 57% depend on assistance somehow and 4% cannot live without assistance as opposed to 9% who consider that assistance did not induce any change.

As for the main party who provides assistance to the Palestinians, 71% of those who receive assistance do so from UNRWA. Of the remaining 29%: 8% receives assistance from the Ministry of Social Affairs, 8% from the political factions, 2% from the Islamic Zakat Committees, 2% from Arab countries and foreign governments, 4% from other sources (The Near East Company for Consultations, 2008. Opinion Survey of the End of January 2008).

Within the same context, the data of the WFP indicates that 850 thousand refugees in the Gaza Strip receive food assistance from UNRWA, and 300 thousand non-refugees receive food assistance from the WFP (www.wfp.org accessed on February 15, 2008).

The capacity of the international organizations operating in the Gaza Strip is declining in its capacity to deliver food assistance to those in need. According to the WFP, the reserves of foodstuffs is insufficient, and that there is a need to enter 20 lorries of foodstuffs on daily basis in order to enable the WFP and UNRWA to provide for the needs of the population (www.wfp.org Accessed on February 15, 2008).

²¹ The survey was undertaken at the end of January 2008 on a sample of 1000 respondents. The interviews were made through the telephone and the responses indicate the general tendency of the deterioration of the living standards of the Palestinians in the occupied Palestinian Territory.

Generally speaking, the rate to provide emergency assistance in the West Bank declined due to the fact that the living standards in the Gaza Strip had reached catastrophic levels, prompting the need to focus the efforts of welfare activities in the Gaza Strip. Many parties are providing welfare assistance in the Gaza Strip in addition to the WFP and UNRWA such as the assistance provided from many Arab organizations or charitable societies.

14-3 Regular Assistance

No significant change has occurred to the regular assistance provided by the Ministry of Social Affairs in terms of the regular cash assistance or medical insurance to about 47 thousands families in the Palestinian Territory. No significant change has occurred in the mechanisms or size of the assistance provided by the Martyrs and Injured Families Institution or from the Ministry of Prisoners' Affairs. As for the Zakat Committees, a radical change in their assistance mechanism took place after their restructuring and the strengthening of controls by the Zakat Fund over their operations. No data are available regarding the size of the assistance delivered by the Zakat Committees during February and March.

As for UNRWA, it provided regular assistance to about 126 thousand Palestinians in the West Bank and Gaza Strip at the end of 2007, of whom about 92 thousand are in the Gaza Strip constituting 9% of all the Gaza Strip's refugees, and 4% of the West Banks' refugees (www.un.org.unrwa UNRWA in Figures, December 2007).

UNRWA currently reviews the regular assistance programme it provides to the poorest refugees in order to improve both the efficiency of the delivered assistance to the families and the mechanism of targeting poor families.

15- The Israeli Measures

15-1 The Martyrs and Injured

The monthly reports of the Palestinian Monitoring Group (PMG) indicated that the number of assassination cases by the Israeli occupation forces in the beginning of 2008 reached 5 cases executed against the activists of the Palestinian factions during the months of January and February. The report of the PMG indicated that the number of martyrs reached 171 in the beginning of 2008, while the number of injured persons reached 629 Palestinians of whom 57 were children during the same period.

15-2 Obstacles to Movement and Travel

The PMG monitored 955 military temporary check posts in the West Bank during the first two months of the year 2008, while the number of total closures of the border crossings to Israel amounted to 260 times during the same period, and the Arafat International Airport has remained closed since the start of the *Intifada*, and the Israeli occupation forces imposed 45 curfews on different populated areas during the same period. This is in addition to the several permanent check points that became inseparable from the lives of the average Palestinian citizen, becoming similar to border crossing points with Israeli occupation forces searching the citizens and delaying them for many hours at the check points. Sometimes Palestinians are interrogated, in addition to the total closure of these check points under the claim of security measures which leads to the tearing of the veins of the West Bank and the isolation of the north of the West Bank from the center and the center from the south.

15-3 Assaults on Education and Health Sectors

The number of Israeli assaults on the Palestinian education sector reached 8 cases during the first two months of the year 2008, the assaults subjected the schools to intrusions, inspections, the focusing the Israeli troops within their surroundings, and even the besieging of the schools.

With respect to the health sector, the PMG's reports indicated that 14 assaults were executed against this sector during January and February of 2008. These assaults included the prevention of ambulances from transporting the injured and the martyrs and refusals to coordinate with the ambulances.

15-4 Assaults on Properties and House Demolitions

The phenomenon of targeting public and private Palestinian properties by the Israeli occupation forces continued as these forces demolished 23 houses during January and February 2008. They also occupied 121 houses and used them for different military purposes and for different periods of time. The PMG's reports monitored 286 assaults on Palestinian properties. These assaults focused on inflicting harm on agricultural lands, shops, the destruction of cars, the destruction and distortions of infrastructure in the Gaza Strip, scraping of plants and destruction of green houses, the destruction of poultry farms, and uprooting of olive trees in the governorates of Jenin, Qalqilya, Khan Younis, and Rafah.

15-5 Settlements Activities and Settlers Assaults

The settlement activities continued in the PT. The PMG monitored 44 settlement activities during the months of January and February 2008. These activities included confiscation of lands and land scraping, the finishing of infrastructure works to expand some settlements, the amendment of a military order, and the confiscation of 766 dunums instead of 292 dunums of the lands of Thaheria, Dura, and Arab Ramadin in the Hebron Governorate in order to continue the establishment of the Separation Wall.

Israeli settlers continued their assaults on Palestinian citizens and their properties. 44 of such assaults were monitored during the months of January and February 2008, and they included: the intrusion of the grounds of Al-Aqsa Mosque, and the playground of the Ibrahimiyah School in Jerusalem; crushing a citizen which led to his death near a check post in Ramallah; throwing stones and empty bottles on citizens in Qalqilya Governorate and the old city of Hebron; random shooting of bullets in the direction of Palestinian citizens near the town of Kafr Al-Dik in the Salfit Governorate; the re-intrusion into the lands and villages of the citizens and their homes, stealing of their sheep, cutting of their trees, clashing with them and the explosion of rockets inside a settlement which led to the cracking of the walls of a school in the Qalqilya Governorate.