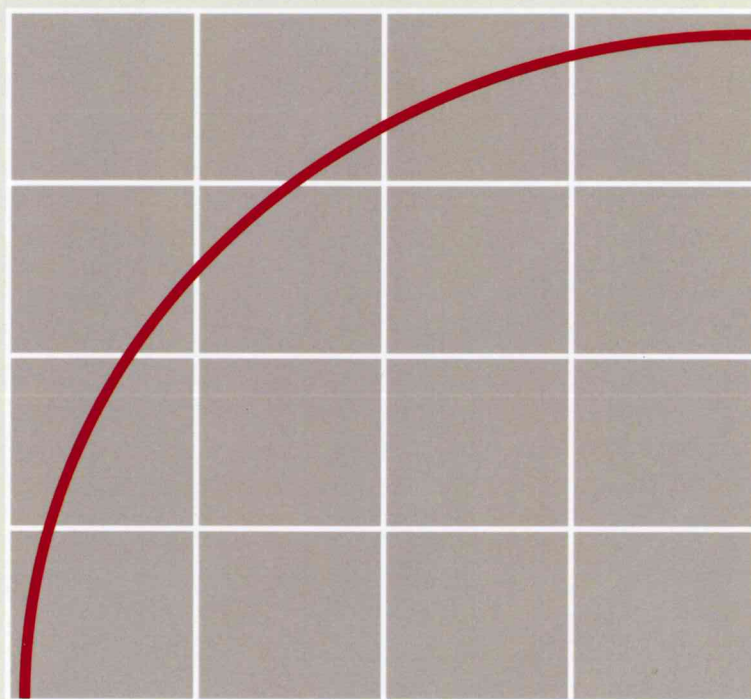


Economic & Social Monitor



**Palestine Economic Policy Research Institute (MAS)
Palestinian Central Bureau of Statistics (PCBS)
Palestine Monetary Authority (PMA)**

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(PMA)**



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December, 2009

FOREWORD

This number of *The Economic and Social Monitor* outlines the sum total of economic and social developments in the West Bank and the Gaza Strip during the second quarter of 2009. The reader will notice that the difference in the political situation in the West Bank and the Gaza Strip reflected itself in the existence of a big divergence in economic activity in the two regions. In the Gaza Strip, the Israeli siege and international boycott continued. No serious progress was made in remedying the catastrophic consequences of the Israeli aggression (27th December 2008 – 18th January 2009). The Strip's economic activity, as a result, continued to retreat, coupled with widespread unemployment and poverty. In contrast, noticeable improvements in economic activity occurred in the West Bank, due to the flow of international aid and the relative calm which has prevailed in the Occupied Palestinian Territories in recent months.

This number of *The Monitor* also contains detailed information concerning certain important matters that occurred in recent months. This includes the issuing of the document "Palestine: Ending Occupation and Establishment of the State", which the thirteenth government adopted as a program and plan of action, the aim of which is to realize the requirements of establishing, after two years, an independent state. It also contains details concerning the announcement of the finalization of the Palestinian customs regime known as "Tawasul", which was prepared with the help of UNCTAD, in accordance with ASYCUDA World standards. The present number also contains four boxes independent of the text. The first deals with meat shortage, which the population in the West Bank and Gaza Strip face as a result of Israeli imposed restrictions on meat and livestock imports. The second box reviews the developments of allowing a second company, in addition to Jawwal, to provide mobile phone services. The third box tackles the question of a lack of financial liquidity in the Gaza Strip. Finally the fourth box reviews some aspects of the Red Sea – Dead Sea Canal project.

The tradition started in two previous numbers of devoting an independent box entitled "Economic Issues" to explain the meaning, and dimensions, of certain economic concepts and theories or important economic institutions, is continued in this number. "Economic Issues" continues also to discuss the third part of the question of economic growth, which deals with the relation of growth to distribution of national income.

We would like here to reiterate our commitment to our readers, and are commitment to continue to be guided by their opinions, in order to develop *The Monitor* so that it may be able to fulfill their wishes and needs. We would like also to thank the working teams in the three institutions (PMA, PCBS and MAS) that supervised and edited the present number of *The Monitor*.

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EXECUTIVE SUMMARY

Economic Activity: The Gross Domestic Product experienced, in the second quarter of 2009, an increase of approximately 6.4 %, compared to the first quarter of the same year. Consequently, the share of the individual in the GDP increased by approximately 5.6 %.

Labor Market: The rate of participation in the labor market in the Occupied Palestinian Territories increased during the second quarter of 2009, compared to the previous quarter, reaching 41.7%. The increase was, however, limited to the West Bank only. The Gaza Strip experienced, during the same quarter, a decrease in the rate of participation for both males and females. The rate of unemployment experienced a decline during the second quarter of 2009 in both the West Bank and Gaza Strip reaching 22.2%. As for the average daily wage of wage earners, an increase was registered in the West Bank and the Gaza Strip of, on average, 4% and 2.9% respectively. On the other hand, the number of vacancy announcements increased by approximately 11.7% during the second quarter.

Public Finance: Total revenue, during the second quarter, amounted to US\$ 356.4 million, an increase of 1.2% over the first quarter of 2009. Local revenues constituted 27.3% of the total. On the other hand, total spending and net lending decreased by 12.1% compared to the previous quarter. It amounted to US\$ 626.2 million.

Banking Developments: Credit facilities constituted 35.1% of total deposits, increasing by approximately 14%, reaching US\$ 2.1 billion. Banking system assets also increased by 2.4% compared to the first quarter. Their value amounted to US\$ 7.8 billion.

Palestine Securities Exchange: Al-Quds (Jerusalem) Index rose by 2% at the end of the second quarter from the previous quarter's closing. The two indicators of the service and banking sectors rose, while indicators of the insurance, industry and investment sectors declined. 54.6 million shares were traded during the second quarter of 2009. The volume of trading amounted to US\$145.5 million. The

Market capitalization of listed company shares was around US\$ 2.38 billion

Prices and Purchasing Power: The second quarter of 2009 experienced an increase in consumer prices compared to the first quarter of 2009. The base figure for consumer prices in the Occupied Palestinian Territories experienced a slight rise of 0.86% during the second quarter of 2009. In the West Bank, the base figure for consumer prices rose by 0.52% and in Jerusalem by 1.64%, compared to the first quarter of 2009.

Hotel Activity: The total number of hotels in the Occupied Palestinian Territories increased to 118 hotels during the second quarter of 2009. The number of hotel guests in the Occupied Palestinian Territories during the second quarter of 2009 was 99,202, 15.2% of them Palestinians and 34.6% citizens of the European Union. Hotel guests were mainly concentrated in Jerusalem hotels, they constituted 43.7% of the total number of hotel guests.

Company Registration: The second quarter of 2009 experienced a decrease of approximately 10% in the number of registered companies in the West Bank, compared to the previous quarter. 412 companies were registered during the period from the end of March until end of June. In the Gaza Strip, the number of registered companies during the second quarter of 2009 reached 87.

Building Permits: The number of building permits issued in the West Bank decreased by 19.2% during the second quarter of 2009, compared to the parallel quarter in 2008. Licensed housing units saw a substantial increase of approximately 9.6% during the second quarter of 2009. Data for the Gaza Strip for the second quarter of 2009 is unavailable, the same is true for the data for the first, third and fourth quarters of 2008.

Israeli Measures: The number of martyrs during the second quarter of 2009 was 23, with 272 wounded persons for the same period. The

number of Israeli road barriers (road blocks) set up without prior notice (temporary road barriers) was 1,280 during the second quarter of 2009. Crossing points with Israel were totally closed 379 times during the same quarter.

Assistance Provided to Needy Families:

Monetary assistance was provided four times during 2008. One thousand Shekels were given each time to every family receiving assistance in the West Bank and the Gaza Strip. The total sum of distributed monetary assistance amounted to 175, 139 thousand Shekels. The number of beneficiary families receiving monetary payments every quarter in

2008 was 35. The value of in-kind assistance provided by the World Food Program was estimated to be US\$ 45 million in 2008. In-kind assistance was provided to 48 thousand families in the West Bank and the Gaza Strip.

Housing in the Occupied Palestinian Territories:

Average dwelling density in the Occupied Palestinian Territories was 1.7 persons per room during 2008. This equated to 1.6 persons per room in the West Bank as against 1.9 persons per room in Gaza Strip. 12.7% of families in the Occupied Palestinian Territories live in housing units with a density of 3 or more persons per room.

Economic indicators

Indicator	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Population (one thousand)															
Occupied Palestinian Territories	-	-	-	2,871.60	2,962.20	3,053.30	3,138.50	3,225.20	3,314.50	3,407.40	3,508.10	3,612.00	3,719.20	3,825.50	2,871.60
West Bank	-	-	-	1,838.80	1,891.20	1,943.70	1,992.60	2,042.30	2,093.40	2,146.40	2,203.70	2,262.70	2,323.50	2,385.20	1,838.80
Gaza Strip	-	-	-	1,032.80	1,071.10	1,109.70	1,145.90	1,182.90	1,221.10	1,261.00	1,304.40	1,349.30	1,395.70	1,440.30	1,032.80
National accounts(one USD Million)															
GDP**	3,012	3,193	3,286	3,702	4,148	4,512	4,119	3,765	3,264	3,750	4,198	4,560	4,322	4,536	4,640
GDP per capita **	1,406	1,388	1,348	1,438	1,546	1,612	1,428	1,270	1,070	1,195	1,317	1,387	1,275	1,298	1,290
Household expenditure	3,062	3,093	3,106	3,493	3,807	4,180	3,982	3,901	3,628	4,103	4,400	4,468	5,257	4,374	-
Gross capital formation	1,052	1,065	1,161	1,311	1,531	2,081	1,561	1,120	954	1,204	1,022	1,266	1,347	1,310	-
Net Commodity Trade Balance	1,609-	1,522-	1,652-	1,786-	1,951-	2,636-	2,432-	2,055-	2,082-	2,382-	2,210-	2,009-	1,669-	1,575-	-
Commodity Imports	2,022	1,980	2,164	2,326	2,601	3,271	2,979	2,419	2,424	2,777	2,622	2,467	2,204	2,093	-
Commodity Exports	413	458	512	540	651	635	547	363	342	394	412	458	535	518	-
Prices and inflation															
Average exchange rate dollar/shekel	3.010	3.010	3.239	3.554	3.802	4.162	4.086	4.208	4.742	4.550	4.550	4.482	4.454	4.110	3.567
Average exchange rate dinar/shekel	4.304	4.304	4.548	5.007	5.351	5.839	5.811	5.928	6.674	6.417	6.417	6.317	6.292	5.812	5.042
Inflation average (%)***	-	-	-	7.6	5.6	5.5	2.8	1.2	5.7	4.4	4.4	3.5	3.8	1.9	9.9
Labor Market															
Total employment (one thousand)		417	429	481	549	588	600	505	477	564	578	633	622	666	648
Labor force participation rate (%)	-	39	40	40.5	41.4	41.6	41.5	38.7	38.1	40.3	40.4	40.7	41.3	41.9	41.3
Unemployment rate (%)	-	18.2	23.8	20.3	14.4	11.8	14.1	25.2	31.3	25.6	26.8	23.5	23.6	21.5	26
Social conditions															
Poverty Rate (%)***	-	-	23.6	22.5	20.3	-	-	27.9	-	-	25.6	29.5	30.8	34.5	-
Rate of extreme poverty (%)***	-	-	14.3	14.2	12.5	-	-	19.5	-	-	16.4	18.1	18.5	23.8	-

Indicator	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Public Finance (one USD Million)															
Net local revenues	-	-	-	807	868	942	939	273	290	747	1,050	1,370	722	1,616	1,780
recurrent expenses & net credit	-	-	-	862	838	937	1,199	1,095	994	1,240	1,528	1,994	1,426	2,567	3,273
Development expenditure (foreign aid)	-	-	-	500	520	474	469	340	252	395	0	287	281	310	190
Surplus (deficit) in budget before assistance	-	-	-	(55)	30	5	260-	(822)	(704)	(493)	(478)	(624)	(704)	(951)	(1,493)
Total international aid	-	-	-	520	530	497	510	849	697	620	353	636	1,019	1,322	1,953
Surplus (deficit) in net budget	-	-	-	35-	40	28	219-	313-	259-	268-	125-	275-	34	61	270
Public debit	-	-	-	212	309	309	795	1,191	1,090	1,236	1,422	1,602	1,494	1,439	1,406
Banking sector (one USD Million)															
Bank Assets/liabilities	-	-	-	2,908	3,337	3,857	4,593	4,430	4,278	4,728	5,101	5,604	5,772	7,004	5,645
Property rights	-	-	-	216	222	246	242	206	187	217	315	552	597	702	857
Private deposits at banks	-	-	-	2,090	2,415	2,875	3,508	3,398	3,432	3,625	3,946	4,190	4,216	5,118	5,847
Bank Credit	-	-	-	578	777	967	1,280	1,186	942	1,061	1,417	1,788	1,843	1,705	1,829
No. of banks	7	13	15	19	21	21	21	21	20	20	20	20	21	21	21

Source: PCBS and PMA

* data does not include East Jerusalem (except for unemployment data)

** at constant prices. The basis year for the period 1994-2003 is 1997. Basis year for 2004-2008 is 2004. Data for 2008 is a preliminary draft for discussion and edit and is based on quarter estimates

*** the inflation rate was calculated based on comparing midrates of standard figures of consumer prices in the year of comparison with its midrate in the previous year. Basis year for the period 1994-2006 was 1996 (1996=100), basis year for the years 2007 & 2008 is 2004 (2004=100)

**** PCBS defines poverty according to household budget (extreme poverty): any standard family (6 members: 2 adults & 4 children) with a budget less than NIS 1,886 per month (2007) for its living expenses (food, housing, healthcare, education, transportation, and other living expenses)

***** the net revenue comprises net current revenues after deduction of tax refunds.

- figures in brackets are negative.

1. The Monitor's View

No change in the political climate occurred during the second quarter of 2009 to cause a relaxation in Palestinian-Israeli relations, or Palestinian-Palestinian relations or, furthermore, in the international climate that affects the Palestinian situation. On the contrary, some hardening of positions on all sides occurred, sustaining the state of struggle and conflict. It is necessary in this respect to pose the following important questions:

- ✧ Serious escalation in the Israeli Government's position with regard to Jerusalem occurred. This is despite the fact that the status of the city is one of the issues for final settlement negotiations, as stated in all agreements since the Oslo Agreement in 1993, concluded by the Palestine Liberation Organization with successive Israeli Governments. The present Israeli Government, with its composition of a coalition between the Likud Party and the Labor Party, is pursuing a policy that aims at making a radical change in the city's demographic, geographic and economic status, in a manner that practically places the City outside the framework of negotiations.

Israeli press reports stated that Jerusalem's municipality, supported by the Government, is implementing a number of policies and measures that aim at: (1) reducing the City's number of Palestinian inhabitants from its present 38% to 20% over the next ten years; (2) cutting East Jerusalem's ties with the rest of the West Bank by completely encircling the City with Israeli Settlements; (3) Assure Israel's total control of the City. Jerusalem's Municipality's new administration has embarked on the implementation of these policies and measures since the end of 2007. Israeli Foreign Ministry sources indicate that in 2008 alone 4,577 Palestinian inhabitants of Jerusalem were deprived of their identity cards. This figure is more than half the number of persons whose identity cards were withdrawn during the last forty years (1967- 2007).

At the same time, as Israel assiduously works to realize those objectives, it continuously works to turn the Harm Sherif area in Jerusalem into a hotbed of conflict and confrontation, by insisting on

undertaking excavation for antiquities in the area. Some observers view such activities as threatening the foundations of the Al-Aqsa Mosque and the Dome of the Rock. It also encourages Jewish fanatics to continuously make provocative visits to the courtyard of the Harm Sherif, which heighten tensions in the area.

- ✧ The change which occurred in the position of President Obama's US Administration regarding the question of Jewish settlement in the West Bank. Obama's Administration, on assuming power on 20th January 2009, sent more than one signal out to suggest that it intends to give the question of solving the Arab - Israeli conflict a high priority, particularly the Palestinian - Israeli aspect. The US Administration declared its commitment to the "Road Map" course. This requires that negotiations of the final settlement between the two sides be preceded by Palestinian cessation of the use of violence in resisting occupation, and Israel's cessation of expanding settlements in the West Bank. As the Palestinian national authority fulfilled its commitments with regard to controlling internal security, and ended military activities against Israel, President Obama's Administration called on Israel to end settlement expansion in the West Bank. But the Israeli Government did not agree with this demand and entered into lengthy and time consuming negotiations with the American Administration. It used as its pretexts that it cannot stop settlement expansion in the Jerusalem area because the City, according to Israeli law, is part of Israel. As for settlements in the West Bank, outside the Jerusalem area, it would be prepared to limit expansion to what it calls "natural population growth" only.¹ It seems that the American Administration reached a compromise regarding the matter with the Israeli Government to the effect that, the Israeli Government would be ready to freeze settlement expansion in the West Bank, excluding the Jerusalem City area, for a period of ten months. The American Administration welcomed that and declared that it believes that such a measure is

¹ See *The Monitor*, No.17, Box 1: Terms, figures and Facts about Settlements

sufficient for the two sides to return to the negotiation table.

It is evident that this position constitutes a serious retreat by the US Administration. It represents an implicit recognition by the USA that East Jerusalem, which was occupied during the 1967 War, has a different status to the rest of West Bank territories that were occupied during the same war. It is beneficial to note that Israel's announcement of a settlement freeze for ten months means that the Israeli Government will stop issuing permits for construction of new housing units in the West Bank settlements for a period of ten months only. But construction work will continue in 3000 housing units already permitted before this period. Also building will continue with regard to public utilities and infrastructure. In addition, settlement construction activities in Jerusalem's environ will also continue.

- ✧ In the wake of the convulsions and hardening of positions which afflicted the Palestinian groups regarding national reconciliation and ending the division between the West Bank and the Gaza Strip, efforts to achieve national reconciliation have faltered. Sponsored by the Egyptian Government in Cairo, these efforts floundered and did not lead, as was expected, to the signing of the document that is supposed to end the differences. Events which accompanied the issuing of the Goldstone Report, which had important ramifications, contributed greatly to aggravating the situation, to increasing differences and deepening the feeling of non-confidence among the different Palestinian contingents.²

² After the end of Israeli aggression on the Gaza Strip on 18th January 2009, the United Nations formed a committee of experts to investigate charges against Israel of committing war crimes during the war. Judge Richard Goldstone of South Africa was chosen to head the Committee. He is a Jew, has close relations with the Israeli society, and enjoys an excellent professional reputation. The group included a number of jurists who are known for their honesty and professionalism. On 15th September 2009 the Committee issued its report which contained a clear unquestionable condemnation of Israel for committing war crimes against civilians during the war. The report also condemned the behavior of the Palestinian resistance for firing rockets against Israeli civilian targets. It was assumed that the report would be presented to the Human Rights Council in Geneva during its session held on 10th October 2009. But the report was not presented, and was withdrawn at the recommendation of the Arab and Islamic states, as President Mahmoud Abbas stated. This action provoked a wave of

- ✧ It is evident that the development of events is not in favor of the Palestinian people. The main reason for that is the inability of the Palestinian people to overcome the division between the political forces, and consequently, the inability of those forces to formulate a clear and precise strategy that mobilizes all energies of the Palestinian people to resist occupation by all available legal means to achieve independence.

Putting an end to this serious threat to the Palestinian national project places all Palestinian political forces before their historic responsibilities. It imposes on them the need to conduct a serious and constructive political dialogue that seeks to end the political division and to form a national government of unity and salvation. This, in turn, will undertake the task of formulating a program of national development that realizes the following main targets:

- ✧ To seriously and promptly work for breaking the siege imposed on the Gaza Strip, embark on a process of reconstruction, and ease the sufferings of the homeless and affected people by providing urgent humanitarian aid.
- ✧ To re-establish the economic ties between the West Bank and the Gaza Strip and, at the same time, to tie short term relief operations in the Occupied Palestinian Territories to an overall national development plan.
- ✧ To adopt a pro-poor growth strategy by assuring educational and health services to people of limited income and adopt, at the same time, policies and measures that help the poor and marginalized to participate in the economic, political and social life of the Occupied Palestinian Territories.
- ✧ To apply industrial policies which help the industrial sector to get out of the crisis created and confounded by the state of war, destruction and instability.

condemnation and protest from all Palestinian groups, and all Palestinian, Arab and Islamic political forces. Due to the wave of total condemnation of the request for postponement the PLO requested the Council vote anew on the report. This happened in the session of 16th October 2009, where the Council adopted the report by a majority of 25 votes, opposition of 6 and abstention of 11 states. Most prominent among the states which voted for the report were Russia, China and India. The most prominent among those who voted against were the USA, Holland, Germany and Italy. Britain and France abstained.

Box 1: Joint Economic Committee Discusses Meat Imports and Sale of Palestinian Products in Jerusalem

The Paris Agreement, which continues to constitute the official framework for organizing economic and commercial relations between the Palestinian Authority and Israel, stipulated that Palestinians have the right to import annually a certain quantity of specified goods (quota), including live sheep and calves and frozen meat (Lists A1 and A2). The Agreement also stipulated that the Authority enjoys the right to exercise the customs responsibility (including levying customs tariffs) it wishes for the quantities specified in that list.

At the time of signing the Paris Agreement and specifying the quota of goods in 1994, the quantity of livestock meat then did not exceed 400 tons for the West Bank and the Gaza Strip together. But the Palestinian Authority began then to work with the Israeli side to increase the quantity to meet the population's needs and increased demand. The annual quantity of meat quota reached in 1999 the following:

- ✧ Live sheep meat: 1000 tons (around 25 thousand sheep)
- ✧ Live calf meat: 500 tons
- ✧ Frozen mutton meat: 1000 tons

This quantity has remained stable and unchanged since 1999. The Palestinian delegation asked in the meeting of the Joint Economic Committee³ which was held in early September 2009, to re-examine all quantities of the quota in the light of the big population increase. The Palestinian delegation asked in particular to increase meat quantities to the following levels:

- ✧ Live sheep meat: 8,000 tons (around 200 thousand heads of sheep)
- ✧ Live calf meat: 8,000 tons
- ✧ Frozen mutton meat: 1,500 tons

The delegation also asked for a new quota especially for import of 1,000 tons of refrigerated meat (Fresh meat transported by refrigerators).

The Palestinian delegation justified their request for an increase of the meat quota at the Joint Committee's meeting for two reasons: First, population growth and increased demand for meat; second, the sharp increase, at the beginning of the year, in prices of animal feed, which led shepherds to slaughter female sheep early. This resulted in a decrease in the number of local herds and in a relatively big increase in prices of meat in West Bank markets as Eid Alfitr approached (to nearly 60- 70 Shekels from nearly 40- 50 Shekels per one kilogram of lamb meat.) Some people expected prices to increase anew with Eid Al-Adha if no radical change occurred in the quantity supplied.

The attitude of the Israeli delegation at the Joint Economic Committee was extremely reserved. It claimed that Israel does not wish to increase the meat quota because of fear that meat imported to the Palestinian market will find its way to the Israeli market. (Israel only allows the import of kosher meat).⁴ But the delegation promised to study the question and to afford the Palestinian request the necessary importance it deserved.

Israel's official answer was communicated, after nearly ten days of the Committee's meeting, in the form of a letter from the Ministry of Economy. Israel refused in principle, in the letter, to re-examine the question of the quota and to increase it. But a good will gesture was made. It allowed the import, for one time only, of 15 thousand heads of sheep and 2,500 calves extra. The letter also contained Israel's agreement to increase, also one time only, frozen meat imports from 1,000 to 1,300 tons. In addition, Israel placed additional conditions on the imports. All the quantities should be imported before 6th November 2009 (i.e. during nearly one month and a half), and through Eilat port only. The Palestinians expressed their extreme displeasure with Israel's position, which seemed prima facie responsive, but was in practice unyielding and inflexible. It was difficult, if not impossible, for the Palestinians to import livestock from exporting countries (Australia and New Zealand) in such a short period of time.

³ It is the Committee charged with following-up the implementation of the Paris Agreement. Its meetings since signing the Paris Agreement were sporadic and ineffective. They stopped after the outbreak of the second Intifada. That meeting was the first in many years.

⁴ Customs duty rates levied on meat imported to Israel and the Occupied Palestinian Territories reached the following levels, live, refrigerated or frozen mutton meat is 50%, live or refrigerated calf meat 190 %, and frozen calf meat 0%.

The Palestinian delegation also raised, during the meeting, another extremely important and disturbing question – the question of forbidding the sale of Palestinian meat and milk products in East Jerusalem. The Israel Health Ministry had taken that decision on 21 May 2009, and communicated it to concerned companies. There are only five Palestinian food companies which are licensed by the Israeli authorities to sell their products in East Jerusalem. This decision, which of course is contrary to the Paris Agreement, will result in big losses for Palestinian producers. Palestinian milk companies usually market nearly one quarter of their total produce in East Jerusalem. The Israeli Health Ministry agreed, after strong protests from the Palestinian Authority, to postpone the enforcement of the ban until the end of the current year, but not for ever.

The Palestinian delegation emphasized, at the Joint Committee's meeting, the need to annul the decision and to grant permission to additional Palestinian parties that wish to market their products in Jerusalem. The delegation indicated the existence of 17 additional Palestinian companies which wish to obtain licenses to sell their products in East Jerusalem. The Israeli side promised to study the question, though it made no specific commitments. A member of the Israeli delegation said openly that the strong agricultural lobby in Israel is behind those decisions. Probably this is a mere claim in order to absolve the official authorities from responsibility.

It is necessary in this respect to indicate that those rigid Israeli positions come from a government whose Prime Minister, Benjamin Netanyahu, adopted a position which calls for "economic peace" with the Palestinians.

2. ECONOMIC ACTIVITY

The second quarter of 2009 witnessed noticeable improvements in macro- economic indicators, compared to the first quarter of the same year. Gross domestic product grew, in real prices, by 6.4%. This can be translated into a growth in the average share of the individual in GDP by 5.6%. This growth differed from that of 2007- 2008, in that it was not a jobless growth type. On the contrary, it was accompanied by a noticeable fall in the unemployment rate. Whereas unemployment rate reached nearly 26% in 2008, it fell in the first quarter of 2009 to 25.4%, and 22.2% in the second quarter. This fall occurred despite the fact that the number of Palestinians working in Israel did not exceed that of 2008. On the contrary, there was a slight decrease. On evaluating this change it is necessary to take into consideration the following two cardinal points:

✧ This growth, as a whole, is due to increased economic activity in the West Bank, as no improvement occurred in the economic situation in the Gaza Strip. The rate of unemployment in the Strip is 36%. It is more than double the rate in the West Bank (15.9%). The main reason for this is the stifling siege imposed by Israel on the Strip, which paralyzes all aspects of economic

activity. It is enough to note that at a time when the building and construction sector absorbs more than 16% of the total number of those employed in the West Bank, in the Gaza Strip less than 1% of those employed are absorbed by this sector. The reason is the ban, by Israel, on entry of construction materials to the Strip. This at a time when a UNRWA survey has shown that homes of 325 thousand inhabitants of the Strip were demolished or hit as a result of the Israeli aggression and are in need of reconstruction.

✧ The main lever for growth in the West Bank continues to depend on financial assistance from donor countries. Most of the assistance goes to support the Authority's budget. In 2008 development projects received only 12.4% of the total amount of aid. Consequently the growth which has taken place is in essence a consumption growth and is unsustainable. We have to note, in this connection, that deformations and states of imbalance that have governed the Palestinian economy during the years of occupation, prior to the establishment of limited autonomy, still persist as they did before, made evident by the following:

✧ **Creation of sectoral disarticulation.**

The rate of contribution of productive sectors (agricultural and industrial) to the Gross Domestic Product is very low. In 2008, the contribution of agriculture and industry to the GDP was 17.5%, and falls to 13.5% when speaking of agriculture and manufacturing, instead of industry. These rates are less than those in countries with economies similar to the Palestinian economy, from the perspective of living standard (see table 1).

✧ **Resource gap⁵:**

The Palestinian economy suffers chronically from a resource gap, evident from the existence of a deficit in the balance of trade in goods (goods imports – goods exports). The value of exports covers less than one fourth of the value of imports. The deficit makes up for more than

one third of the GDP. The other side of the resource gap is, of course, the existing deficit between the volume of domestic savings and the expenditure of investments (investment - savings). The volume of domestic savings is of negative value in the Palestinian economy, and was equivalent in 2007 to nearly 15% of the GDP.

✧ **Labor market imbalance**

The Palestinian economy suffers from a state of chronic imbalance in the labor market. Domestic economic activity absorbs less than 70% of the labor force and nearly 10% are employed in the Israeli economy. The rate of unemployment was 26% at the end of 2008.

Table 1: Percentage Contribution of Agricultural & Industrial Sectors to the Gross Domestic Product

	Percentage		
	2008	2003	1995
Palestine	17.5	33.2	33.2
Midrate of moderate income countries	-	58.0	-

Source: World Bank Development Report 2004, 2009.

The harming effects of such deformations become evident when comparing the income of the Palestinian individual to the average income of an individual in neighboring countries. While the average income of a Palestinian individual was slightly higher than the income of an Egyptian individual in 2000, it became equivalent to less than three quarters of that income in 2007. Also the average income of a Palestinian individual was equivalent to more than 164% of the average income of an individual in Syria in 2000, but it came to equal 62% of the income of an individual in Syria in 2007 (see table 2).

It should not be assumed that the difficulties encountered by the Palestinian economy in the West Bank and the Gaza Strip are due only to accumulations caused by the setbacks during the last eight years. In reality, the events of those years clearly reveal the fragility of the economy's structure and the deformations and imbalances present in all its aspects. This is a

natural result of the restrictions imposed by the Israeli authorities during four decades of occupation. It is known that those policies succeeded in making the Palestinian economy an economy mainly dependant on external sources of income (income of workers employed in Israel and the settlements and income of those employed in the Gulf countries). It also suffers from serious deformations represented by Israel's control over an important part of natural resources (land and water). Those policies also succeeded in making the Palestinian economy suffer from sectoral imbalances (extremely low contribution of agriculture and industry to GDP), total dependence on Israel for export and import, and extremely low levels of productive investments and of social services. To understand the nature of the present difficult financial situation it has become necessary to re-examine the successive political-economic developments that the Palestinian scene has witnessed.

⁵ The value of domestic savings is calculated as GDP minus total family consumption expenditure and governmental consumption expenditure (Savings = GDP) – (private consumption + government consumption). The resource gap can be viewed either as the difference between volume of exports and volume of imports, or as the difference between the volume of domestic savings and the volume of investments.

Table 2: Percentage of individual's Average Income Rate in Palestine Based on Individual's Average Income in Neighboring Countries (%)

Country	2000	2005	**2007
Egypt	108	97	78
Jordan	88	49	43
Syria	164	86	69
Lebanon	35	22	21
Israel	8.8	6.2	5.6

Source: the rates were calculated based on data from World Development Indicators (2008)

* average per capita income: is the share of the individual in a countries net national accounts

** we proposed that net individual national account's in WBGS in 2007 equals its equivalent in 2005 (taking into account that income in 2007 was probably less than that in 2005)

The National Authority tried during the period of limited autonomy (1994- 2000) to dismantle the heritage of the harmful occupation economy. The results of such attempts were partial and weak, for different reasons. Some pertain to Israel and its non-implementation of agreements concluded with the Palestinians. Others pertain to the National Authority itself and its inability to create an effective and competent bureaucracy, capable of formulating and implementing a comprehensive national program for reconstruction and development.

Despite all that, partial achievements by the Authority contributed to the restoration of some utilities important for infrastructure, expansion of the scope of social services and encouraged Palestinian capital abroad to invest at home, especially in the communications, construction, tourism and service sectors.

But such achievements did not continue. On the contrary, they totally stopped because of Israel's oppressive practices that accompanied the outbreak of the Al-Aqsa *Intifada* in 2000. The two following years, 2001 and 2002, witnessed a significant retreat in economic activity (see previous numbers of the *Monitor*, section of economic activity). This was due to Israeli army's practices, such as the overrunning and closure of the Occupied Palestinian Territories, the killing of civilians, demolition of homes, destruction of properties and imposition of curfews. The latter

continued, at times, for weeks in the West Bank (see table 3).

At the end of 2003, the big retreat in economic activity stopped to a certain extent. In the two years, 2004 and 2005, a steady growth (see Table 4) took place, and it was expected that growth would continue in a manner which would allow economic activity to return to its previous state in 1999. But 2006 witnessed a sharp retreat due to the international boycott of the government of the National Authority, formed by the Islamic Resistance Movement (Hamas), after its victory in the Legislative Council elections. It also resulted in Israel stopping the transfer of clearing funds (revenues from taxes and custom duties collected by Israel on behalf of The Palestinian Authority) which deprived public sector employees of their salaries for months. In addition to that, the international boycott prevented banks from transferring Arab and international aid funds to the Palestinian Ministry of Finance.

The retreat in 2006 was sharp, leading to a drop of 8% in the individual's share of the GDP from what it used to be in 2005. Thus, the GDP dropped by 79% from its level prior to the *Intifada* (1999). The situation continued in 2007 and 2008. Signs of improvement started appearing in the first two quarters of 2009 as a noticeable growth in the average income of the individual occurred.

Table 3: Table 3: Economic Growth

Indicator	*Q1 2008	*Q2 2008	***Q32008	*Q4 2008	** Q1 2009	*Q2 2009
GDP (\$million)	1,126.9	1,187.6	1,180.2	1,145.0	1,177.3	1,252.1
GDP per capita (\$)		331.4	326.9	314.9	321.4	339.4
GDP per capita (%)	0.03	4.6	(1.4)	(3.7)	2.1	5.6

Source: central bureau of statistics 2009, national accounts statistics, Ramallah-Palestine

* Data is preliminary and subject to revision and amendment.

** The first revision, a preliminary and subject to revision and amendment

*** Preliminary estimates (version I) and subject to revision and amendment. Data at constant prices and the base year is 2004, the West Bank and the Gaza Strip

- Figures in brackets are negative.

Table 4: Main Economic indicators in the West Bank and the Gaza Strip – all quarters of the year 2008 and the first quarter of 2009 and Second quarter of 2009

Index	1Q 2008	2Q 2008	3Q 2008	4Q 2008	1Q 2009	2Q 2009
GDP (\$ million)	1126.9	1,187.6	1,180.2	1,145.0	1177.3	1,252.1
GDP per capita (\$)	316.7	331.4	326.9	314.9	321.4	339.4
Participation in the labor force(%)	40.6	41.6	41.6	41.4	41.4	41.7
Unemployment rate(%)	22.6	25.8	27.5	27.9	25.4	22.2
Inflation rate (%)	2.71	3.15	1.83	0.20	(1.01)	0.86
Total net revenue	334.9	587.3	554.8	302.9	334.9	355.7
Overhead	783	808.0	1,064.0	618	712.4	626.2
Surplus (deficit) before the budget support	(447.9)	(220.7)	(509.0)	(315.2)	(388.6)	(318.5)
Surplus (deficit) after the budget support	77.7	189.5	(33)	36	(110.3)	(157.5)
Actual Assistance	525.6	410.4	476.1	351	278.3	161
public deposits in banks	5424.7	5,599.0	5,873.6	5,846.9	5,772.5	5988.7
Credit facilities	17738	1,747.2	1,807.5	1,828.2	1,842.9	2099.7

Source: Central Bureau of Statistics (national accounts, record-high prices), and the Palestinian

Monetary Authority, indicators of public finance and banking indicators

* West Bank except that part of the Jerusalem governorate which was annexed forcefully by Israel following occupation of the West Bank in 1967.

** Data at constant prices, include the West Bank (excluding Jerusalem) and the Gaza Strip the base year is 2004, data is preliminary and subject to revision and amendment.

*** Inflation rate was calculated by comparing the rate of the quarters of the index of consumer prices with the rate of the previous quarter. The base year for index of consumer prices is 2004 (2004 = 100), note that this data of the Occupied Palestinian Territories includes East Jerusalem.

- Figures in brackets are negative numbers

As for the contribution of the different economic sectors to the GDP, the second quarter of 2009 witnessed a slight rise in the rate of contribution of the agricultural and

construction sectors in the GDP, while the contribution of the industrial sector decreased (see table 5).

Table 5: Contribution of Economic Activities to the GDP in the West Bank* and the Gaza Strip by quarters of 2008-2009 at constant prices: the base year is 2004 (%)

Economic activity	2008				2009	
	Q 1	Q2	Q3	Q4	Q1	Q2
Agriculture and fishing	4.6	5.1	4.2	4.4	3.6	4.0
Mining, manufacturing industry, water and electricity	13.8	13.3	13.4	14.1	14.0	13.5
Mining and quarrying	0.4	0.4	0.3	0.3	0.4	0.3
Manufacturing industry	9.9	9.5	9.7	10.2	10.0	9.8
Water and electricity supplies	3.5	3.4	3.4	3.6	3.6	3.4
Construction	4.6	5.4	4.6	5.0	5.3	6.4
Wholesale and retail trade	10.9	10.5	10.7	11.2	10.5	10.0
Transport, storage, and telecommunications	9.5	7.7	9.4	9.0	9.4	9.0
Financial brokerage services	5.1	5.2	5.4	5.8	5.7	5.6
Services	24.0	26.3	24.4	26.2	26.2	26.5
Real estate activities, Renting and Business	8.9	9.6	8.5	9.1	10.0	10.0
Activities of community, social and personal services	1.8	1.7	1.5	1.5	1.8	1.9
Restaurants and hotels	2.0	2.3	1.9	2.5	1.4	2.1
Education	8.9	9.9	9.6	10.2	10.1	9.6
Health and social	2.4	2.8	2.9	2.9	2.9	2.9
Public administration & defense	15.1	13.6	13.7	13.3	14.1	13.9
Domestic services	0.1	0.1	0.1	0.1	0.1	0.1
Minus: brokerage services, and indirect clearing	-5.6	-5.6	-5.7	-5.8	-5.2	-5.2
Plus: Customs duties	5.6	5.8	6.9	6.2	6.3	6.4
Plus: net VAT on imports	12.3	12.6	12.9	10.5	10.0	9.8
GDP (%)	100	100	100	100	100	100
GDP	1,126.9	1,187.6	1,180.2	1,145.0	1,177.3	1,252.1

Source: Central Bureau of Statistics, 2009. Press announcement of the initial estimates of quarterly national accounts (second quarter 2009), Ramallah – Palestine

* Distributed value of companies owned by the public sector activities, wholesale trade, retail, real estate, rental, commercial, education, restaurants, and hotels.

** Data is preliminary and subject to revision and amendment

*** The first revision of a preliminary and subject to revision and amendment

**** Preliminary estimates (version I) and subject to revision and amendment

BOX 2: Al-Wataniya, Jawwal and Israel

During the past decade one single mobile telephone company, the Palestinian Mobile Telephone Network, Jawwal, together with four Israeli mobile networks, dominated the Palestinian market.⁶ The Israeli networks have the technical capability to illegally cover the Occupied Palestinian Territories without having a license to do so. Jawwal has a big share of the Palestinian market which reaches 60%, as it is the only Palestinian company in the market. But its services do not, in general, satisfy clients. Due to that reason, the public received with some optimism the announcement three years ago of the establishment of a second network which will compete with Jawwal. The new company, called the Palestinian National Company for Communications, is a joint venture of the National Company for Communications (57%), owned by Qtel of Qatar and the Palestinian Investment Fund (43%). The company built, during the last three years, 350 towers in the West Bank in preparation for launching operations in the area.

The new company requested the Palestinian Ministry of Communications and Information Technology to negotiate with the Israeli Ministry of Communications to obtain the necessary spectrum for starting operations. A GSM agreement for spectrum distribution and another agreement containing the conditions of implementation were concluded between the Israeli Government and the Palestinian Authority, sponsored by Tony Blair, the special envoy of the Quartet, on 28th July 2008.⁷ The agreement stipulated that a spectrum of 4.8 megahertz in a scope of 900 - 1800 megahertz will be assigned to the National Company (Alwataniya).

⁶ Jawwal, (2009), 'Message from the CEO' http://www.jawwal.ps/corporate/about_jawwal_pages.php?pid=1&langid=2

⁷ The concluded agreement concerns the use of GSM (Global system for mobile communication)

The company also obtained a promise that the spectrum would be available for its use before mid-September 2009.

The assigned date passed however without the Israeli Government honoring the concluded agreement. Nati Shubert, the person responsible in the Israeli Ministry of Communications, puts the blame on the Palestinian Authority for that, saying that the Authority did not respect conditions laid down in the July 2008 agreement, a question which caused the delay.⁸ Many meetings held with Israeli officials failed to reveal the conditions that the Israeli Ministry of Communications said were not respected. Speculations by some say that the Israeli Government wants the Palestinians to redistribute the spectrum by granting the new company part of the spectrum owned by Jawwal, the competing company. Israel's demand could be understandable had the spectrum used for operation by the two Palestinian companies (900 - 1800 megahertz) been crowded, but the reality is that it is not. The spectrum is still not fully used. Only two Israeli companies, out of four Israeli communication companies, operating in Israel, use this field. In addition, a survey conducted for Alwataniya by the Swedish communications company, Ericsson, revealed that there is still an unexploited spectrum of 40 megahertz within the field of 900 - 1800 megahertz. It is a spectrum which is more than sufficient for the operations of both Alwataniya and Jawwal, if the Israeli Government permits that it be used.⁹

Israel continued to refuse to release the necessary spectrum for operating the new company's towers as a commercial mobile telephone communications company. This led the company to threaten with taking legal action against the Palestinian Authority in order to recover its financial commitments, which included an invested capital estimated at US\$ 140 million, paid as licensing fees, and US\$ 270 million costs of investments in infra-structure.¹⁰ The question took a complicated political turn last October. Alwataniya Company found itself in the midst of an international political clamor, because of an article published by *Haaretz* at the end of last September. The article stated that the Israeli Government put, as a condition for releasing the spectrum, the agreement of the Palestinian Authority not to take legal action before the International Criminal Court against Israeli army officers accused of committing war crimes. The newspaper also said in a following issue that Israel's agreement is conditional on the Palestinian Authority's agreement to withdraw Goldstone's report from the UN Human Rights Council, and to refrain from putting it to vote.¹¹ Recently published reports indicate that the Israeli Government dropped this demand under international pressure.

At last, and after the previous series of events, Alwataniya announced on 1st November 2009 the launching of its mobile telephone network. But the launching of operations took place with the company obtaining a spectrum of 3.8 megahertz only, which is less than any spectrum allocated to a network operator in any place in the world, and is also less than the minimum required for commercial operations.¹² In addition, it is less than the 4.8 megahertz spectrum agreed upon last year with Israel. The Chairman of Wataniya's Board of Directors, Mohammed Mustafa, said that the remaining one megahertz spectrum will be provided by Israel soon, he did not mention a specific date however. This promise could meet the same fate as other Israeli promises which are often never implemented. A spokesman for the Quartet said that Alwataniya's entry to the Palestinian market and the launching of its operations will lead to pumping investments into the Occupied Palestinian Territories to the tune of US\$ 700 million, and to tax revenues of nearly US\$ 354 million, in addition to the creation of thousands of job opportunities.¹³

Despite the company's success lately in launching its mobile telephone network, unique challenges still remain because of exceptional working circumstances in the Occupied Palestinian Territories. Jawwal, despite its financial success, was obliged many times to stop selling SIM cards because the spectrum range was insufficient. In addition, restrictions are imposed on building of towers in C areas, which are under Israel's security and administrative control and constitute 60% of the West Bank area. This explains the widespread use of Israeli mobile telephone networks, as Jawwal's network coverage is limited. Furthermore, the Israeli customs authorities' behavior constitutes another obstacle. The equipment of Alwataniya was held in customs for more than six months, Jawwal has to wait, on average, six to 18 months to receive a new base station.¹⁴ Also, four Israeli mobile telephone companies operate in the West Bank without license, which means that they do not pay taxes or licensing fees to the Palestinian Authority. Those unlicensed companies attract a big number of Palestinian clients because they have the capability to cover a vast area.

⁸ Haaretz, (8 July, 2009) 'Palestinians still waiting for better cell phone service, but is it Israel's fault?' <http://www.haaretz.com/hasen/spages/1098666.html>

⁹ The Economist Intelligence Unit (October, 2009) 'Country Report: Occupied Palestinian Territories'.

¹⁰ Wataniya, (August, 2009), 'Wataniya Mobile Service Hinges on Fulfillment of Government Spectrum Pledges', <http://www.wataniya-palestine.com/PressReleases/?pageID=15&TemplateID=2&PressID=65&&Year=2009>

¹¹ *Haaretz*, (27 September, 2009), 'Israel demands PA drop war crimes suit at The Hague' <http://www.haaretz.com/hasen/spages/1117296.html>

¹² Wataniya, (August, 2009), 'Wataniya Mobile Service Hinges on Fulfillment of Government Spectrum Pledges' <http://www.watani-palestine.com/PressReleases/?PageID=15&TemplateID=2&Press=65&&Year=2009>

¹³ *Al-Quds* newspaper, (November 2009)

¹⁴ *Haaretz*, (18 October, 2009), 'Palestinian mobile firm in political firestorm delays launch - again'. <http://www.haaretz.com/hasen/spages/1121637.html>

3. LABOUR MARKET

The situation in the labor market reflects the crisis through which the Palestinian economy is generally passing. On close examination of the main indicators that specify the role of workers in the economy, we note the high indicators of the size of employment and rate of unemployment, while observing that indicators of the rate of labor force participation and level of labor productivity are low, thus we realize that the labor market suffers from an imbalance. This imbalance is represented by the inability of the level of demand to rise to the level of supply, which results in a high level of unemployment. When closely examining the causes of such an inability, we find that the main cause lies in the fall in the size of general demand for goods and services (consumption, investment, government spending and export), especially weakness of investment activity and its inability to create sufficient capital accumulation to supply workers with equipments and technologies that raise their productivity. This is a fact which greatly explains the fall in labor productivity.

Understanding the situation in the labor market, which is considered a reflection of the general economic situation, requires understanding the economic policies followed by the Israeli occupation. Those policies perpetuated the existence of a big dichotomy between income and production in the Palestinian economy. Consequently, they consolidated a state of imbalance between supply and demand in the labor market. This is evident when looking at Israeli policies, which operated according to two contradictory mechanisms:

On the one hand, Israel's allowing Palestinian workers to work in the Israeli economy for wages higher than the average wages in the Palestinian economy, was raising the living standard in the Occupied Palestinian Territories. This was consequently raising the level of general demand in the economy. On the other hand, the restrictions imposed by those policies on investments and trade in the Occupied Palestinian Territories prevented the expansion of productive sectors to satisfy the increase in demand. The logical result was for

import to replace production in order to fill the gap between supply and demand in the market of goods and services. Also work in Israel and the Arab Gulf countries replaced work in the domestic labor market to fill the gap between supply and demand in the labor market.

The situation radically changed after the second Gulf War in 1991. The majority of Palestinians left the Gulf States, especially Kuwait. A big number returned to the West Bank and Gaza Strip. Also Israel began reducing, for security reasons, the number of Palestinian workers allowed to work in the settlements and inside the Green Line. It replaced them with workers imported from Asian and East European states.

With the establishment of the Palestinian National Authority in 1994, and until 2000, a limited process of adaptation and adjustment took place in the labor market. The public sector started expanding and absorbing part of the labor force. Also reconstruction projects encouraged the private sector to increase investments in a manner which expanded its capacity to employ workers. Furthermore Israel allowed, during certain years (1998, 1999 and 2000), more Palestinian workers to work inside the Green Line. With the outbreak of the Al-Aqsa *Intifada*, the limited process of adaptation and adjustment in the labor market stopped. The problem of imbalance became worse due to a big contraction in economic activity as a result of Israeli army practices. These included assassinations, destruction of buildings and infrastructure, sieges, closures, the construction of the racist separation wall, restrictions in movement of persons and goods between the West Bank and Gaza Strip and between the different towns and villages of the two regions.

The last nine years (1999 - 2008) witnessed an increase in the rate of human resources, higher than the average increase in the labor force (3.6%, and 3.5% annually). This indicates that the rate of participation was decreasing. In fact this is exactly what happened. The rate of participation fell by an average of 0.1% per year (See Table 6). At the same time, the average increase in the labor

force (3.5%) was higher than the average increase of those employed (1.1%). This indicates that the average rate of unemployment was increasing, its average annual increase was 13.4%. We also notice that the average increase in public sector employment was slight, as compared to that in the private sector.

The situation of the labor market will be reviewed in detail in the following sections. Comparison will be made between the situation prior to the *Intifada* (1999) and the present one (2009). Also comparison will be made between the two last quarters of 2008 and the first two quarters of 2009, in order to examine changes in the labor market and their short term and long term trends.

3.1 Labor Force and Rate of Participation

At the beginning of the nineties, a significant increase took place in the rate of labor force participation (total number of employed and unemployed divided by total number of

persons 15 years and above). Although the average participation rate was 40% in the eighties, it reached 44% in 1993. But the inability of the domestic market to absorb the increased number of persons able to work led to the withdrawal of many from the labor market. Thus the rate of participation at the end of the nineties declined to 41.6% (1999). It also fell during the first years of the *Al-Aqsa Intifada*, to the extent that it reached 38.1% in 2002, it then witnessed a slight rise in the years 2003 - 2008 to reach 41.9% in 2007 to fall again to 41.3% in 2008. Figures for the first and second quarter of 2009 indicate that the rate of participation maintained, with a slight increase, its level from the fourth quarter of 2008. The number of employed persons increased during the last eight years to reach 648 thousand workers in 2008, as against 588 thousand in 1999. The increase which took place in the size of the labor force was due to the big population increase during that period. But that increase in the size of the workers was accompanied by a fall in labor productivity.¹⁵

Table 6: Labor Force Participation rate for Individuals (Aged 15 Years and above) in the Occupied Palestinian Territories by Region and Gender: 2008-2009

Region and Gender	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
Both sexes						
Occupied Palestinian Territories	40.6	41.6	41.6	41.4	41.4	41.7
West Bank	42.3	43.5	43.4	42.8	42.8	44.4
Gaza Strip	37.5	38.0	38.2	38.8	38.9	36.9
Male						
Occupied Palestinian Territories	66.0	66.3	67.5	67.3	66.9	66.7
West Bank	67.5	68.0	69.4	68.3	68.5	69.6
Gaza Strip	63.3	63.2	64.0	65.4	63.8	61.4
Female						
Occupied Palestinian Territories	14.7	16.0	15.2	15.0	15.4	16.2
West Bank	16.5	18.2	16.9	16.7	16.5	18.7
Gaza Strip	11.3	12.0	11.9	11.7	13.5	11.8

Source: Palestinian Central Bureau of Statistics, 2009, Labor Force Survey 2009-2008

¹⁵ As the average increase in GDP is equal to the average increase in labor productivity plus the average increase in the number of workers, figures for the period 1999-2007 reveal that GDP fell by an annual average of 1.1%, while the number of workers increased by an average of 1.5% per year. This means that labor productivity fell by 2.6% per year.

The Increase in the labor force was accompanied by the following adaptation and adjustment dynamics:

- ✧ Widening the gap of the rate of participation between the West Bank and the Gaza Strip compared to what it used to be prior to the *Intifada*. This was due to the different circumstances of each region, especially in recent years following Israel's imposed siege on the Gaza Strip.
- ✧ A change occurred in the rate of gender participation. The rate of participation noticeably changed. As we find that the rate of male participation is less at present than it used to be before the *Intifada*, we note that the rate of female participation has increased. Women started to enter the labor market in order to compensate for the loss of income from their men relatives.
- ✧ A change occurred with regard to the practical situation of workers. We can notice by examining Table 7 a significant rise in the percentage of people working in

establishments they own, or partially own, and do not employ paid workers. That was accompanied by a decrease in the percentage of paid employees. This indicates that a significant percentage of those who lost their work in Israel or in the private sectors in the wake of the Al-Aqsa *Intifada* turned to self-employment.

- ✧ A change occurred with regard to employees economic activity. On comparing the percentage of those employed in the different economic sectors prior to the *Intifada* to those employed at present, we find a significant increase in the number of employees in the service sector, followed by a slightly smaller increase in the agricultural sector. We find, on the other hand, that their percentage in the construction and building sector fell to nearly half its level prior to the *Intifada*. Also the percentage of those working in the metallurgical, quarries and manufacturing sectors decreased (see table 8).

Table 7: Distribution of workers in the Occupied Palestinian Territories according to Employment Status and region: 2008 - 2009 (%)
(percentage)

Region and Employment Status	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
West Bank						
Employer	4.2	4.3	4.5	5.0	6.0	7.0
Self-employed	22.9	24.1	22.8	16.4	20.8	19.8
Paid Employee/ worker	64.2	60.4	62.2	67.9	64.6	62.5
	8.7	11.2	10.5	10.7	8.6	10.7
Gaza Strip						
Employer	27.3	16.9	15.7	12.0	14.9	13.2
Self-employed	58.5	71.3	73.3	79.0	73.7	79.5
Paid Employee/ worker	11.3	8.5	6.4	5.5	6.1	3.4
	11.1	5.8	6.4	5.5	6.1	3.4
Occupied Palestinian Territories						
Employer	3.8	4.0	4.5	4.6	4.6	6.2
Self-employed	24.3	22.4	21.0	15.3	15.3	18.0
Paid Employee/ worker	62.5	63.0	65.1	70.7	70.7	66.9
	9.4	10.6	9.4	9.4	9.4	8.9

Source: Palestinian Central Bureau of Statistics, 2009, Labor Force Survey 2009-2008.

Table 8: Distribution of workers in the Occupied Palestinian Territory according to Economic Activity and the Region: 2008 – 2009 (%)

Economic activity and the region	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
West Bank						
Agriculture, fishing and forestry	13.0	15.7	13.5	15.0	13.1	14.9
Mining, quarrying and manufacturing	16.2	14.5	15.0	13.9	15.4	13.9
Construction	12.7	14.1	16.8	14.2	15.1	16.5
Services and other branches	32.8	30.9	29.1	29.8	31.6	30.9
Gaza Strip						
Agriculture, fishing, and forestry	12.5	12.3	10.6	7.1	8.4	4.8
Mining, quarrying and manufacturing	5.5	4.6	4.8	2.7	5.6	4.2
Construction	1.6	0.4	0.7	0.8	1.0	0.7
Services and other branches	52.0	61.4	60.7	67.9	16.9	67.0
Occupied Palestinian Territories						
Agriculture, fishing, and forestry	12.9	14.9	12.7	13.0	11.7	12.3
Mining, quarrying and manufacturing	13.0	12.1	12.4	11.1	12.6	11.4
Construction	9.4	10.8	12.7	10.8	11.1	12.3
Services and other branches	38.5	38.2	37.2	39.4	40.5	40.4

Source: Palestinian Central Bureau of Statistics, 2009, Labor Force Survey 2009-2008.

The most important adjustment changes that occurred during recent years are, of course, absorption of workers who lost their jobs in Israel in the domestic market. As expected, the absorption was partial, and occurred to a larger extent in the West Bank than in the Gaza Strip. For that reason we notice that the share of the West Bank of the total number of employees in the Occupied Palestinian Territories has increased by 18% in 2008 from what it was

prior to the *Intifada*. At the same time, the increase in the share of Gaza Strip did not exceed 8%. The year 2008 witnessed an increase in the share of those working in Israel and the settlements compared to 2007 (from 9.4% to 11.6%). That share was equivalent to nearly double that prior to the *Intifada*. During the second quarter of 2009 the percentage of those working in Israel and the settlements reached 10.2% only (see table 9).

Table 9: Percentage Distribution of workers in the Occupied Palestinian Territories according to place of work: 2008-2009

Workplace	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
West Bank	59.0	65.3	62.4	62.9	61.6	63.7
Gaza Strip	29.8	23.9	25.5	25.0	28.4	26.1
Israel and settlements	11.2	10.8	12.1	12.1	10.0	10.2

Source: Palestinian Central Bureau of Statistics, 2009, Labor Force Survey 2009-2008.

3.2 Unemployment

As we have previously seen the problem of unemployment is not new to the Palestinian economy. It reached 24% in 1996, but gradually decreased until it hit 11.8% in 1999. It became critical in the years of the Al-Aqsa

Intifada, reaching 31.3% in 2002, before falling, with the relative improvement in economic activity at the end of 2003, to reach 21.5% in 2007. Unemployment experienced an increase during the first quarter of 2008 and

until the fourth quarter of 2008. On comparing the rate of unemployment in 2008 to what it used to be prior to the *Intifada* (1999), we find that it has increased by more than two fold. In 2008 it became critical in the Gaza Strip in

particular, due to the Israeli siege. It reached 44.4% during the fourth quarter (the highest rate in the world). But it fell during the first and second quarters of 2009 (see table 10).

Table 10: Unemployment rate among individuals participating in the labor force (15 years and above) in the Occupied Palestinian Territories by region and Gender: 2008-2009

Region and Gender	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
West Bank						
Male	19.9	16.6	20.5	21.0	20.1	15.1
Female	15.0	15.2	21.6	14.9	16.8	18.8
Total	19.0	16.3	20.7	19.8	19.5	15.9
Gaza Strip						
Male	28.2	45.8	41.2	45.1	36.6	34.9
Female	39.3	43.3	45.7	42.9	39.0	41.6
Total	29.8	45.5	41.9	44.8	37.0	36.0
Occupied Palestinian Territories						
Male	22.7	26.5	27.3	29.1	25.7	21.6
Female	21.7	22.7	28.2	22.5	23.8	24.7
Total	22.6	25.8	27.5	27.9	25.4	22.2

Source: Palestinian Central Bureau of Statistics, 2009, Labor Force Survey 2009-2008.

Table 11: Unemployment Rate in the Occupied Palestinian Territory According to Gender and Age Groups: 2008 – 2009 (%)

Age groups and Gender	Q1 2008	Q2 008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
(percentage)						
Both sexes						
15-24	37.0	39.7	42.1	41.7	39.1	35.7
25-34	21.9	25.6	27.8	26.7	25.1	23.2
35-44	16.6	20.5	18.7	22.0	19.5	14.7
45-54	15.7	18.2	19.7	19.7	17.0	15.1
55+	11.1	11.9	15.3	19.4	15.6	10.9
Total	22.6	25.8	27.5	27.9	25.4	22.2
Male						
15-24	35.0	38.6	39.4	41.7	38.0	33.1
25-34	21.4	25.4	26.5	27.1	24.0	21.0
35-44	17.6	22.6	20.7	23.9	21.4	15.6
45-54	18.2	20.4	22.1	22.5	19.4	17.5
55+	13.4	14.6	18.2	23.3	17.9	13.1
Total	22.7	26.5	27.3	29.1	25.7	21.6
Female						
15-24	47.3	44.6	55.0	41.9	44.6	47.4
25-34	24.1	26.1	33.1	25.2	29.4	31.0
35-44	11.2	11.7	9.1	11.8	10.6	10.8
45-54	3.9	7.8	7.4	5.5	5.2	3.1
55+	2.9	1.7	2.3	3.0	6.0	0.9
Total	21.7	22.7	28.2	22.5	23.8	24.7

Source: Palestinian Central Bureau of Statistics, 2009, Labor Force Survey 2009-2008.

The most important characteristics of unemployment in the Occupied Palestinian Territories at present are the following:

- ✧ The highest rate of unemployment is among the youth in the 15-24 age bracket, especially among females. This means that a large percentage of the unemployed are new entrants to the labor market (see table 11).
- ✧ With regard to years of schooling, there is a major difference between unemployed

males and females. The rate of unemployment among females in all levels of education used to be lower than the general average, however, we find now that the rate of unemployment among females having 13 years of schooling or more is much higher than the general average, but it is lower among males. This difference has existed for a long time, a fact which could indicate the existence of discrimination against females in jobs that require higher educational qualifications (see table 12).

Table 12: Unemployment Rate among Individuals Participating in the Labor Force in the Occupied Palestinian Territories According to Gender and Schooling Years: 2008 - 2009 (%)

Schooling years and Gender	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
Both sexes						
0	7.8	11.9	16.9	11.9	14.5	13.1
1-6	23.7	28.9	30.1	33.9	29.2	23.8
7-9	22.4	27.5	29.1	29.8	27.2	22.0
10-12	23.8	25.2	25.4	29.5	26.3	22.6
13+	21.9	24.5	27.9	22.9	22.1	21.8
Total	22.6	25.8	27.5	27.9	25.4	22.2
Male						
0	16.0	25.3	27.5	21.6	25.8	23.9
1-6	26.3	32.9	34.4	38.1	32.8	27.2
7-9	23.8	29.0	31.1	31.7	28.3	23.4
10-12	25.4	26.5	26.6	30.6	27.1	23.3
13+	15.7	19.8	20.2	18.6	17.0	14.7
Total	22.7	26.5	27.3	29.1	25.7	21.6
Female						
0	1.2	2.3	4.8	3.1	4.5	0.7
1-6	8.5	7.5	6.3	7.2	4.9	4.0
7-9	5.5	11.0	4.4	6.8	11.8	5.5
10-12	7.3	14.2	12.1	18.1	19.1	15.3
13+	33.8	33.1	41.8	30.5	31.0	33.7
Total	21.7	22.7	28.2	22.5	23.8	24.7

3.3 Wages and Working Hours

Table 13 indicates that the average daily wage in the Gaza Strip during the second quarter of 2009 equaled 73.9% of the average wage in the West Bank, and only 43.9% of the wage of those working in Israel. This fact reflects the circumstances of demand for Palestinian workers in the three markets. It is also known that the big gap between the average wage in the West Bank and that in the Gaza Strip is not a new phenomenon. It existed before the outbreak of the Al-Aqsa *Intifada*.

On the other hand, the average daily wage of paid employees in the West Bank registered, during the first and second quarters of 2009, an increase of 3.3%, reaching 86.6 Shekels. The wages of those employed in Israel and the settlements increased by 2.7% between the two quarters (see table 13).

Table 13: Average Weekly Working Hours, Monthly Working Days and Daily Wages in NIS for Paid Workers in the Occupied Palestinian Territories according to Place of Work in the Second Quarter 2008 – Second Quarter 2009

Workplace	Average weekly hours	Average monthly working days	Daily wage (%)	
Qtr 2 2008				
West Bank	42.7	22.3	86.9	76.9
Gaza Strip	40.0	24.2	61.5	57.7
Israel and settlements	44.3	20.2	143.3	150.0
Total	42.5	22.3	92.8	76.9
Qtr 3 2008				
West Bank	42.8	22.7	82.2	71.2
Gaza Strip	43.4	24.8	57.2	50.0
Israel and settlements	42.5	21.1	138.0	134.6
Total	42.8	22.8	88.9	76.9
Qtr 4 2008				
West Bank	43.1	22.7	87.4	76.9
Gaza Strip	39.9	25.0	61.2	57.7
Israel and settlements	44.7	21.6	138.0	134.6
Total	42.7	23.0	90.6	76.9
Qtr 1 2009				
West Bank	42.0	22.1	83.8	76.9
Gaza Strip	38.8	21.3	62.2	57.7
Israel and settlements	42.8	57.7	142.1	150.0
Total	41.5	62.2	89.5	76.9
Qtr 2 2009				
West Bank	42.7	22.6	86.6	76.9
Gaza Strip	39.5	24.9	64.0	57.7
Israel and settlements	42.5	20.1	145.9	150.0
Total	41.9	22.7	90.7	90.7

Source: Palestinian Central Bureau of Statistics, 2009. Labor Force Survey 2009-2008.

3.4 Vacancy Announcements

The number of announcements concerning vacancies during the second quarter of 2009 increased by 11.7% compared to the first quarter of 2009. The total number of announcements was 860.¹⁶ Public sector announcements rose by 43.7% compared to those in the first quarter. Also private sector announcements increased by 15.2%. Geographically, the number of announcements in the Gaza Strip increased by 83.3%, while in the West Bank, the number increased in the centre of the West Bank by 21.5%, but decreased in the North and South of the West Bank by 26.6% and 25.5% respectively (see table 14).

Table 15 shows the number of vacancies by the required educational qualification and by sector. In the private sector, the demand for a Bachelor's degree was 55%, followed by a school certificate (Diploma) 24.5% which was followed by a Master's degree, 20%. In the sector of non-governmental organizations (NGOs) the demand for a Bachelor's degree was 80.4%, school certificate (diploma) 11.6%, whereas the demand for a Master's degree was 7.8%. In the public sector, the demand for a Bachelor and Master's degree was 65.2% and 34.8% respectively.

¹⁶ The number of announcements that did not specify the number of vacancies was 55.

Table 14: Vacancy Announcements in Newspapers in the Occupied Palestinian Territories during the First and Second Quarters of 2009

	Q1			Total	Q2			Total
	January	February	March		April	May	June	
Private sector	159	117	177	453	173	107	242	522
Public Sector	21	7	4	32	5	28	13	46
Non-governmental organizations	94	66	125	285	91	74	127	292
Total	274	190	306	770	269	209	382	860
North West Bank	47	14	59	120	44	14	30	88
Central West Bank	196	157	175	528	195	156	291	642
South West Bank	30	17	39	86	27	23	14	64
Gaza Strip	1	2	33	36	3	16	47	66
Total	274	190	306	770	269	209	382	860
Master's degree & above	11	11	31	53	76	28	40	144
BA	176	142	185	503	153	137	262	552
Diploma	87	37	90	214	40	43	79	162
Less than Diploma	0	0	0	0	1	1	2	2
Total	274	190	306	770	269	209	382	860

Source: MAS Institute compiled information from daily newspapers.

Table 15: Number of Vacancies Announced in the Daily newspapers, according to qualifications and sectors during the 2nd quarter of 2009

	Public Sector	Private Sector	Non-Governmental Organizations	Total
Master's degree or above	16	105	105	105
BA	30	287	287	287
Diploma	0	128	128	128
Less than Diploma	0	2	2	2
Total	46	522	522	522

Source: MAS Institute compiled information from daily newspapers.

As for the demand for specializations, administration and accountancy was 11.3%, followed by medical and social sciences specialization, 9.4%, followed by engineering and technology, 9%. Regarding vacancy announcements for jobs abroad, 8 announcements were monitored for jobs in the Gulf States and Afghanistan, without specifying the number of vacancies. The demand was for specializations in medicine, engineering, accountancy, teachers and tourism specialists.

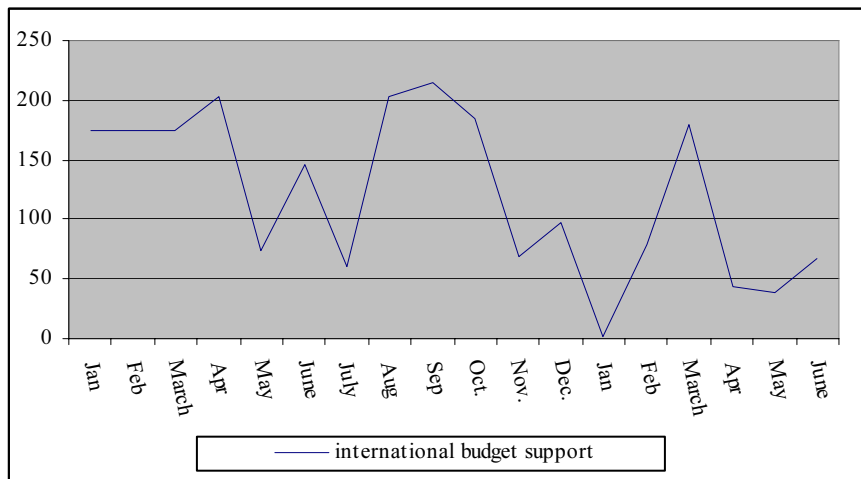
4. Public Finance Developments

The National Authority budget mainly depends on aid from donor countries, in addition to tax revenue funds due to Palestinians and collected by Israel on their behalf, which it later transfers to them (clearing accounts). Those two sources are mainly dependant on political circumstances. The National Authority experienced a huge deficit in its budget, beginning at the end of 2008, because some donor states did not fulfill their financial commitments that they made at the Paris Conference. The crisis further deepened during the second quarter of 2009 (monthly assistance actually received by the Palestinian Authority dropped by US\$ 25-30 million from the monthly

commitments).¹⁷ Data reveals a drop of nearly 71% in Arab assistance, during the second quarter, from what it was in the first quarter, and by 73% from what was received in the second quarter of 2008. At the same time, international assistance dropped by 31% from what it was in the first quarter, and 62% from the second quarter of 2008. This situation

forced the National Authority to borrow from commercial banks to cover the financial deficit and to regularly pay the salaries of public sector employees and cover other governmental expenses. Accumulated government debts to the banks since the beginning of the year totaled nearly half a billion dollars (see figure 1).

Figure 1: Monthly International Budget Support 2007-2009



Source: Ministry of Finance, different reports.

4.1 Financial Performance Developments

4.1.1 Revenues

In the conditions of the continued financial crisis faced by the Palestinian Authority, domestic revenues experienced a further drop of nearly 12%, compared to the first quarter of 2009, to reach US\$ 97.3 million, whereas it dropped by 70% compared to the second quarter of 2008.¹⁸

Realized domestic revenues during the second quarter constituted 15.6% of the sum envisioned in the budget, a fact which contributed to deepening the financial crisis faced by the Palestinian Authority (see figure 2).

Tax revenues constituted 62% of total domestic revenues, which in turn dropped by 15% from their level in the first quarter of 2009, and by 25% from the level of the second quarter of 2008, to amount to US\$ 60.8 million.¹⁹ The reason for the drop from the level of the first quarter is mainly the fallback in collecting revenues levied on income, which dropped by US\$ 10.8 million. As for non-tax revenues, which constituted 38% of domestic revenue, they dropped by 9% from the level of the first quarter of 2009, and by 85% from the level of the second quarter of 2008, to reach US\$ 36.5 million.²⁰

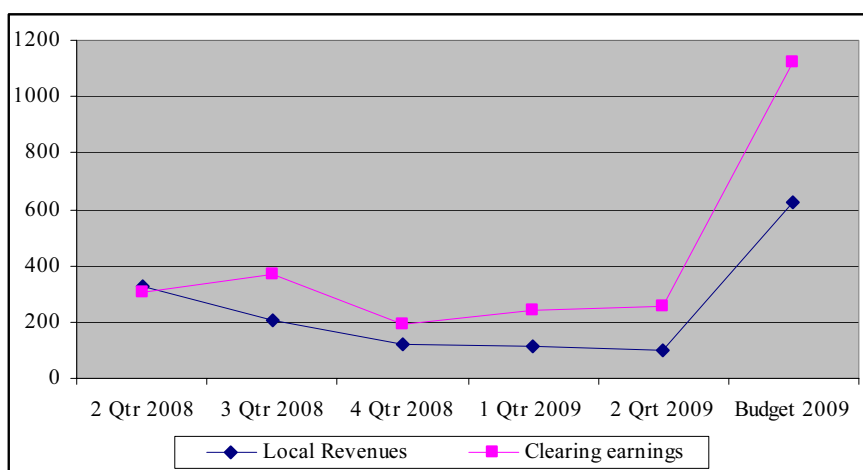
¹⁷ The cause of the drop is attributed to non-payment of funds due to the Palestinian Authority by certain states because of the international financial crisis and re-ordering of priorities in those conditions. It is also attributed to the mood and attitude of other states, especially Arab states. Added to this should be the loss of an important part of revenue from the Gaza Strip, as well as Israeli restrictions imposed on economic movements. All together those reasons contribute to consolidating and deepening the crisis.

¹⁸) The actual drop is nearly 23%, if we exclude the sum of US\$197.1 million received as non-periodic revenues in the second quarter of 2008.

¹⁹ The General Administration of Customs and Excise of the Ministry of Finance maintained the current rate of Value Added Tax (VAT) at 14.5%, after the Israeli side raised the VAT in Israel from 15.5% to 16.5%. It should be pointed out that the decision to maintain the VAT rate entails an increase of 1% in prices of goods imported from Israel, but will not affect the prices of Palestinian goods. This can be considered as a means of protecting national goods and industry. Statistics indicate that the actual commercial exchange between the Israeli side and the Occupied Palestinian Territories amounts to 15 billion Shekels. But the volume of official notification, for clearing purposes, does not actually exceed half the real value of Israeli exports to the Occupied Palestinian Territories. This means that encouragement of domestic production at the expense of imports is also beneficial for the budget. It should also be noted that according to the Paris Protocol the Palestinians are allowed to reduce the VAT by 2 per cent less than in Israel.

²⁰ The real drop was 21% if we exclude the sum of US\$ 197.1 million received during the second quarter of 2008 as non-perennial revenues.

Figure 2: the Development of Public Revenues for the 2nd Quarter of 2009



Source: Ministry of Finance, Financial Transactions Report, Revenues and Expenditure and Sources of funding, July 2009.

As for clearing revenues, obtained as a result of commercial dealings between the Palestinian Authority and the Israeli's, the amount transferred to the Ministry of Finance during the second quarter totaled US\$ 259.1 million, an increase of 7% from the amount transferred in the first quarter. This relieved the burden of the drop in domestic revenues. But it was less, by 15%, than the amount transferred in the second quarter 2008. This reveals the extent of the deep financial crisis the Authority is experiencing, not only from the lack of external funding, but also on the level of domestic resources. It should be noted that transferred clearing funds during the second quarter were 23% of the amount envisioned in the 2009 budget.

With the developments that took place with regard to domestic revenues and clearing revenues, the total amount of revenues during the second quarter was nearly US\$356.4 million.

Domestic revenues constituted 27%, and clearing revenues 63% - an increase of 1.2% over the first quarter, but a significant drop from the fourth quarter, which was nearly 44%. If one million US dollars are excluded as tax returns, net realized revenues in the second quarter would amount to US\$ 355.7 million, i.e. an increase of 6.2% over the realized net revenues in the first quarter 2008. It is noted that the realized net revenues was 21.8% of the amount targeted by the 2009 budget, a fact which increases the budget deficit.

4.1.2 External Financing

Developments in external financing continue to exert the most important influence on the

overall performance of public finances. Assistance provided to support the budget continued to drop in the third quarter, and witnessed a bigger drop than during the first quarter 2009. It dropped nearly 43% compared to the level of the first quarter 2009. Since the fourth quarter 2008, the assistance started to decline and the Palestinian Authority started to face a financial crisis which is still causing it to suffer.

The total amount of grants and assistance provided to support the budget during the second quarter was US\$ 148.3 million. Grants provided by Arab states constituted 14.2% of them and amounted to US\$ 21.1 million, i.e. 71% less than the amount provided during the first quarter, and 73% less than the amount provided during the second quarter 2008. Saudi Arabia, the Sultanate of Muscat and Egypt contributed US\$ 15.4, 2.9 and 2.8 million respectively. The biggest part of it arrived in June.

International grants constituted 85.8% of the total amount of grants and assistance provided to support the budget. They amounted to US\$ 127.1 million, i.e. 31.4% less than the amount provided in the first quarter, and 62% less than the amount provided in the second quarter 2008. Most of this assistance came through the "Pegas system". The amount transferred through this system was nearly US\$ 120.1million. It should be noted that the total amount of grants and assistance provided to support the budget during the second quarter 2009 constituted 12.9% of the amount envisioned in the 2009 budget, and was estimated at US\$ 503 million (see table16).

Table 16: Development of Public Revenues in 2008 quarters and First and Second Quarters of 2009, Compared with 2009 Budget

Item	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	2009 budget	(Million \$)	
								Change in the Q2 Vs. Q1 (%)	share of Q2 of 2009 in the budget (%)
Net revenues	372.4	630.4	578.9	314.4	352.2	356.4	1748	1.2	20.4
Total Net revenues *	334.9	587.2	554.8	302.9	334.9	355.7	1630	6.2	21.8
Tax refunds	37.5	43.2	24.1	11.5	17.3	0.7	118	(96)	0.6
Domestic revenues	104.5	324.1	208.9	121.6	111.1	97.3	625	-12	15.6
Tax revenues	68.1	80.9	62.8	61	71.2	60.8	273	-15	22.3
Non-tax revenues	36.4	243.2	146.1	60.6	39.9	36.5	352	-9	10.4
Clearance revenues	267.9	306.3	370	192.8	241.1	259.1	1123	7	23.1
Grants and support	525.6	410	476.1	351	278.3	161.0	1653	(42.1)	9.7
Budget support	525.6	410.3	476.1	351.1	259.2	148.3	1150	(43)	12.9
Development projects support					19.1	12.7	503	(34)	2.52
Total revenues and grants	898	1041	1055	666	630.5	517.4	3401	(17.9)	15.2

Source: Palestinian Ministry of Finance, fiscal operations report, revenues, expenditure and funding sources, July 2009.

* Total net revenues is the total of revenues after deduction of tax refunds.

Table 17: Structure of Foreign Aid to the Palestinian Authority during 2008 quarters and the First and Second Quarters of 2009

Donor	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Percentage of total budget support grants in 2nd quarter of 2009
Arabic Grants	153.5	78.4	158	56	73.9	21.1	14.2
League of Arab States	0.1	0	0	0	0	0	0
Algeria	0	62.9	0	0	26	0	0
Egypt	0		14.6	0	0	2.8	1.9
Saudi Arabia	61.9	15.5	100.7	56	22.9	15.4	10.4
United Arab Emirates	91.5	0	42.7	0	25	0	0
Oman	0	0	0	0	0	2.9	2.0
International donors	372.1	332	318.1	295	185.3	127	85.8
PEGASE*	0	174.1	181.6	115.1	94.2	120.3	81.2
EU	180.3	0	0	0	0	0	0
India	0	0	0	0	10.1	0.0	0
China	0.3	0	0	0	0	0	0
France	35.7	0	0	0	27.7	0.0	0
Japan	0	0	0	9.5	0	0	0
Russia	0	0	9.9	0	0	0	0
Greece	0	0	0	0	0	3	1.8
USA	152.3	0	0	150	0	0	0
The World Bank or through it	0	147.8	118.9	16.2	50.6	3.0	2.0
Grants to PCBS	3.5	0	0	0	0	0	0
Emergency Services Support Program**	0	10.1	7.7	4.2	2.7	1.1	0.7
Total budget support	525.6	410.4	476.1	351	259.2	148	100
Development projects support ***					19.1	12.7	-
Total foreign grants and aid	525.6	410.4	476.1	351	278.3	161	-

Source: Palestinian Ministry of Finance, Fiscal Operations Report, revenues, expenditure and funding sources, July 2009.

* The Palestinian European Mechanism for Social & Economic Assistance (PEGAS), started its work in Feb 2008. Its work was to administrate & direct assistance from the European Union & other international parties, that will run for the three coming years, aligned with the PA implementation of the PRDP. This explains why all EU assistance to the Palestinians is administrated through this mechanism following the 1 Qtr of 2008.

** for the support of health, education, water and electricity services.

*** refers to the donor direct grants allocated to implementing development projects that are not included in the budget. No quarterly data is available about those grants, still, 2008 data indicates that the total grants for 2008 reached USD 250 million, and there is a presumption that grants did not reach more than USD 190 million.

The continued drop in external financing during the previous quarters has led the Palestinian Authority to a stifling crisis which forced it to borrow from commercial banks to meet its commitments. It pushed the Authority to work on all levels to urge donors to honor their commitments during the following quarters. This led states such as Saudi Arabia and the USA to promise to transfer big sums of money to save the Palestinian Authority and get it out of its crisis.²¹ Such promises will, in turn, increase grants provided to support the budget during the upcoming quarters. But the Palestinian Authority's financial crisis will continue to be subject to monthly ups and downs, depending on the arrival of the assistance (See table 17).

4.1.3 Expenditures

With the decline, during the second quarter, in domestic revenues and external assistance, expenditures and net lending experienced a drop of 21.1%, a fact which contributed to reducing, to a certain extent, the budget deficit. The total amount of public expenditure and net lending for the second quarter was US\$ 626.6 million, constituting 22.5% of the amount targeted in the 2009 budget.

The bill for wages and salaries, which includes civilian and military salaries and wages, for the second quarter amounted to US\$ 327.6 million. This constituted a drop of 1.7% from the first quarter, and a drop exceeding 28% from the second quarter of 2008. This is due to the fact that the quarter in question contained belated payments covered in 2008. They constituted nearly 23% of the amount set in the draft budget. However the Palestinian Government, represented by the Ministry of Finance, strives to decrease its expenditure on this item, since it started to pursue a policy of limiting new appointments, and freezing promotions and salaries. This as part of the mid-term plan of reform and development launched at the outset of 2008.

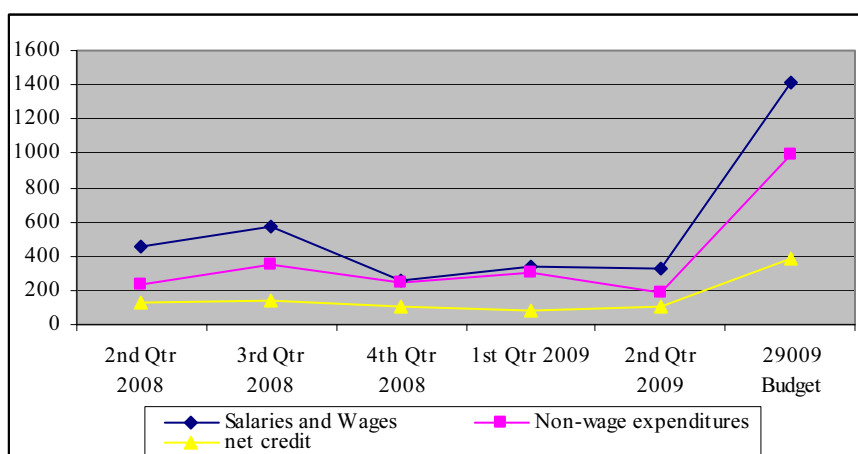
Non-salary and wage expenditures, which include operational, conversional and capital expenditures, amounted during the second quarter to US\$ 189.3 million. This represented a significant drop of 37% from its level in the first quarter, and a drop of 17% from its level in the second quarter of 2008. This item constituted, during the second quarter, 19% of the amount expected in the 2009 budget. This drop can be attributed to the financial crisis of the Palestinian Authority which has reduced its expenditures under this item to honor its other commitments, such as wages and salaries that are considered of higher priority as they touch a broad section of citizens and their families. But the amount spent under this item was not in line with Government policy. The Government, in fact, seeks to increase such expenditure and increase its ratio in the total current expenditures, as it was able to do in the first quarter, in an attempt to increase the efficiency of services provided by the Ministries and public sector institutions. The Government, however, was unable to increase such expenditures during the present quarter due to the aggravation of the problem of budget deficit (see figure 3).

As regards the item of net lending, it rose in the second quarter by nearly 30% from the level of the first quarter (It dropped from the level of the second quarter of 2008 by 11.4%). Undoubtedly, this rise contributed to increasing the budget deficit. Net lending in the second quarter was US\$ 109.3 million, exceeding, by 29%, the amount targeted in the budget, i.e. an increase estimated at US\$ 14 million over the amount allocated for this quarter. The sum of US\$ 380 million was allocated in the budget. This is less, by US\$ 20 million, than the amount spent in 2008.

Expenditures for wages and salaries constituted 52% of total expenditures and net lending during the second quarter, whereas non-salary and net lending expenditure constituted nearly 30% and 18% respectively.

²¹ The government of Saudi Arabia transferred, during the months following the second quarter, US\$ 202.8 million to the Palestinian Authority in August. The USA Administration transferred in July, setting a precedent in the whole history of the Palestinian Authority, the whole sum of US\$ 198.5 million to the unified account of the Ministry of Finance.

Figure 3: Development of Public Revenues in the 2nd Quarter of 2009



Source: Palestinian Ministry of Finance, Fiscal Operations Report, revenues, expenditure, and funding sources, July 2009.

Developmental expenditures, that are spent to implement community development projects which are partially funded by donors, amounted to US\$ 48 million during the second quarter, an increase exceeding 332%. In the first quarter they amounted to US\$ 11 million only, and constituted 9.5% of the amount intended to be spent in 2009 on developmental projects. It is evident that expenditure under

this item is still very much lower than the set target, as the total amount spent during the first six months of the year did not exceed US\$ 60 million, i.e. a rate that did not exceed 12% of the amount allocated in the budget. This reminds us of the budget performance during previous years, where less than half the sums allocated for development was spent (see table 18).

Table 18: Development of Public Expenditure for 2008 Quarters and First and Second Quarters of 2009 compared with the 2009 Budget (million dollars)

	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Budget 2009	The change in 2Q Vs. 1Q 2009 (%)	Proportion of the 2Q 2009 in the budget(%)
Wages and salaries	476.5	456.7	575.4	262.2	333.3	327.6	1410	(1.7)	23.2
Non-wage expenditure	228.8	228.0	350.1	248.1	300.6	189.3	990	(37)	19.1
Net credit	77.5	123.3	138.4	107.7	78.5	109.3	380	39.2	28.8
Total expenditure and net credit	782.8	808	1063.9	618.0	712.4	626.2	2780	(12.1)	22.5
Development expenditure						48	503	332.4	9.5

Source: Palestinian Ministry of Finance, Fiscal Operations Report, revenues, expenditure, and funding sources, July 2009.

4.1.4 Surplus (Deficit)

With the developments witnessed in financial performance during the second quarter, an increase in total net domestic revenues (US\$ 355.7 million), and decline in the item of total expenditure and net lending (US\$ 626.2 million), the current budget deficit reached US\$ 270.5 million. The current deficit dropped, with external support of the budget (US\$ 148.3 million), to the amount of US\$ 122.2 million. Aggregate deficit, including developmental expenditures (US\$ 48 million), prior to external budget support, amounted to US\$ 318.5 million. With available external

support and an amount of US\$ 12.7 million to support community development projects (developmental expenditures), the aggregate budget deficit dropped to US\$ 157.5 million, which was financed by commercial bank loans. Net bank financing during the second quarter amounted to US\$ 166.2 million.²²

²² Some reports issued by different sources indicate that the Palestinian Government was obliged to borrow US\$ 530 million from banks operating in Palestine during the first months of 2009. This was in order to pay the salaries of employees who constitute, along with their families, around one fourth of the inhabitants of Palestine.

The project of developing internal control and internal auditing, which was launched in 2005, was finalized at the end of the second quarter. This came about from a continuation of reform of administrative and public finance and following the introduction of a computerized accountancy system in all ministries of the Palestinian Administration. It was also a result of seeking to establish annual auditing in the different governmental institutions, as well as

drawing annual budgets in accordance with a time schedule to be respected, through cooperation between the World Bank and the Palestinian Government, It was financed by the European Union with the objective of strengthening public finance administration and creating internal auditing and control departments in conformity with international standards.

Table 19: Development of Budget Deficit/ Surplus for 2008 Quarters and First and Second Quarters of 2009, compared to 2009 General Budget

	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	2009 Budget
Recurrent budget deficit /surplus	(447.9)	(220.8)	(509.1)	(315.1)	(377.5)	(270.5)	(1150)
Recurrent budget deficit /surplus after external support	77.7	189.5	(33)	36	(118.3)	(122.2)	0
Recurrent budget deficit /surplus (including development expenditure) before external support	No data	No data	No data	No data	(388.6)	(318.5)	(1653)
Recurrent budget deficit /surplus after external support (including development expenditure)	No data	No data	No data	No data	(110.3)	(157.5)	0

Source: the Palestinian Ministry of Finance, Fiscal Operations Report, revenues, expenditure, and funding sources, July 2009. Calculations were done by MAS research team.

* Figures in brackets are negative.

At the beginning of August the Palestinian customs system (ASYCUDA World), called "Tawasul" by the Palestinians, was launched.²³ It is financed by the European Union, and was put into practice by UNCTAD. The regime aims at facilitating dealings with the Palestinian Customs and Excise Department. In addition it has the ability to set up a unified tax file and a unified tax opening, in order to make procedures easier for private sector importers and exporters and institutions of the Authority. Users will be able to enter into the system and finalize all procedures electronically without having to turn to and visit any government institution. This will save energy and costs for importers. The system will, in turn, lead to increasing tax revenues and increasing trade. It will also help assure food security, develop customs' capabilities and the ability to obtain accurate data and statistics concerning foreign trade, which will help all those concerned, as well as policy and decision makers, in the area of trade.

²³ ASYCUDA is applied in 90 states around the world. The Palestinian Customs and Excise Department is one of the first ten governmental customs departments in the world that started using the most advanced system, ASYCUDA World. Due to the importance of the project a special unit was set up in the Prime Minister's office to follow up the project, and to communicate with the different institutions of the Palestinian Authority and the private sector.

In early August the document, "Palestine: Ending Occupation and Establishment of the State"²⁴ was announced. It is considered as a program and plan of action for the thirteenth government. It puts emphasis in its contents on the foundations for the creation, within the 1967 borders, of a Palestinian state during the next two years, from the Palestinian government's point of view. The document defines the government's priorities of action in the different fields, and contains details regarding the program of action of the different ministries and public institutions to assure the best performance and an effective administration. Publication of the document caused a great deal of confusion regarding the role and competence of the Government to deal with political questions (as political questions are considered to fall within the competence of the Palestinian President and the Palestine Liberation Organization). This was due to the fact that the document linked many political issues with the program of action of the ministries and public institutions. This is in addition to the large and vital projects it discussed. But the Government explained that the Document concerns the

²⁴ For full text of the document see: www.plestinecabinet.gov.ps

administrative and institutional aspects of the ministries and public institutions within the framework of the political ceiling, defined by the Presidency and the PLO.

It should be pointed out that the document greatly contributed to the program of action of the ministries and public institutions, and the planning for creating big projects for growth and development. In addition, it spoke of cardinal questions such as the question of Jerusalem, the refugees, the prisoners, water, crossing points and also the question of unity between the West Bank and Gaza Strip, national reconciliation.

The Document defined a set of general policies which it translated into executive programs. Four central sectors, complementing each other, were defined to form an overall picture of policies and interventions required for creating the state. Those sectors are: first, the governance sector; second, the social development sector; third, the economic development sector; and fourth, the infra-structure sector.

In the economic development sector, in preparation for an economic recovery process and with the aim of reaching a level of sustained economic growth in the economy as a basis for creation of the state, the Palestinian Government will follow a number of policies. These can be summarized to the creation of an appropriate environment for investment,

consolidating the role of the private sector, supporting Palestinian products and experience, developing domestic resources, developing the infra-structure and transfer of knowledge and support Palestinian creativity. This is in addition to expanding bilateral and multilateral exchanges, where the Government will work for developing and concluding trade cooperation agreements with other states. The Document defined the aims and programs of all ministries and public institutions in the sector of economic development.

5. Banking Developments

Table 20 shows the aggregate figures of the budgets of banks operating in the Occupied Palestinian Territories at the end of the second quarter of 2009. They show that a positive growth took place in most banking indicators, compared to the first quarter of the year. It points to:

- ✧ Total growth in bank assets by nearly 2.5%.
- ✧ Increase in public deposits by more than 3.7%.
- ✧ Increase in paid capital of banks by nearly 9%.
- ✧ Growth of credit facilities' portfolio by 14%.
- ✧ Drop in number of bounced checks by 3%.

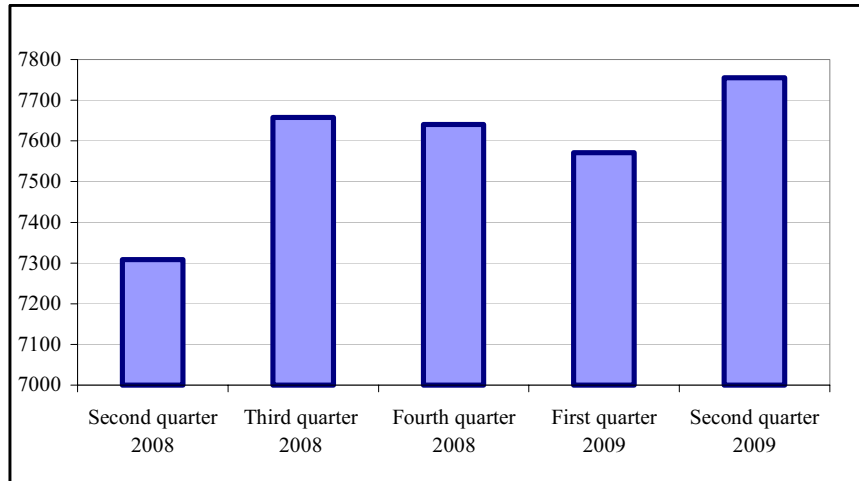
Table 20: The Consolidated Budget of the Palestinian Banking System for the 2008 Quarters and First and Second Quarters of 2009

Budget statement	2008				2009	
	Q1	Q2	Q3	Q4	Q1	Q2
Cash and precious metals	357.3	367.5	273.9	346.2	334.6	501.0
Balances at banks and the Monetary Authority	4492.9	4332.2	4708.9	4674.0	4513.5	4086.8
<i>Credit Facilities' Portfolio</i>	185.7	217.9	214.4	206.6	233.1	429.7
Direct credit facilities	1773.1	1746.6	1807.5	1828.2	1842.9	2099.7
Bank acceptances	3.4	4.2	4.3	6.2	3.2	3.5
Investment	190.1	188.6	173.5	144.6	188.1	172.8
Fixed assets	218.3	224.4	225.9	237.3	243.9	252.8
Other assets	250.4	236.0	249.3	197.3	213.2	208.7
Total assets (gross)	7471.9	73083	7657.6	7640.4	7570.7	7755.0
Balances at Monetary Authority and banks	660.4	466.0	456.2	442.9	417.6	426.4
Total private deposits	5424.7	5599.0	5873.6	5846.9	5772.5	5988.7
Executed and standing Acceptances	16.7	15.9	15.2	21.0	9.3	10.7
Other Liabilities	217.8	155.7	158.3	135.2	144.0	111.9
Customs taxes and other	390.0	320.3	337.5	341.5	346.3	337.2
Property Rights	762.3	751.5	817.0	853.0	880.9	880.1
Net liabilities (total)	7471.9	73083	7657.6	7640.4	7570.7	7755.0

The up-ward trend of assets of the Palestinian banking system is considered an innate characteristic of this system. From one side it indicates continued confidence of the Palestinian public in the banking sector. On the other side, it provides a source of financing for the Palestinian economy through different

credit facilities. At the end of the second quarter of 2009, assets of the Palestinian banking system grew by nearly 2.5% compared to the first quarter of the year, as the total assets of the banks exceeded US\$ 7,755 million (see figure 4).

Figure 4: Assets of the Palestinian Banking System According to Quarter, for the Last Three Quarters of 2008, and the First and Second Quarters of 2009

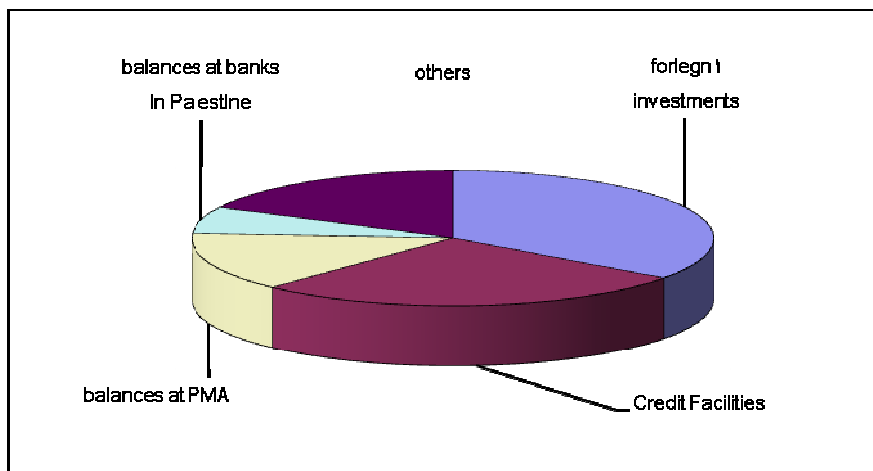


Source: Data taken from the consolidated budget for the banks.

Looking at the structure of those assets we notice that bank investments outside Palestine maintained a high percentage of assets' components, despite their decline by nearly 10%, which is to be added to the 7.5% decline which took place in the previous quarter. They reached at the end of the second quarter US\$

2,727.6 million. This decrease in foreign investments was in line with the Monetary Authority's policy which seeks to reduce bank investments abroad. It seeks to make the rate of investments abroad, by the end of April 2009, not exceed 65% of total deposits, and 55% by the end of August 2009.

Figure 5: the Structure of bank assets operating in the Palestinian territories by the end of the second quarter of 2009



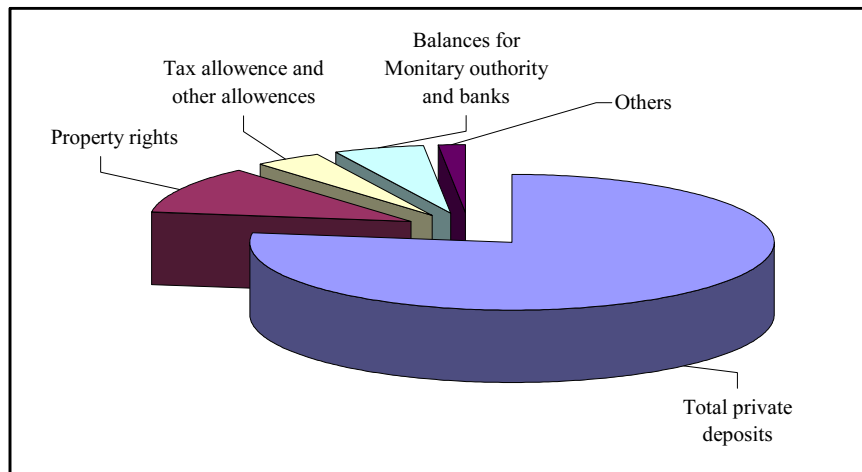
Source: Data from the consolidated budget for the banks.
Others include: balances of banks in Palestine, credit facility portfolio, investments, fixed assets and other assets.

The second component, from the point of view of importance, is direct credit facilities, which increased by 14% at the end of the second quarter, compared to the first quarter. But bank accounts with The Palestinian Monetary Authority dropped again. They dropped by nearly 14% at the end of the second quarter, to return back to close to their previous level at the beginning of the year. Also the securities portfolio increased by more than 84% during the period of comparison (see figure 5).

On the side of deductions (claims), deposits by the public continued in their up-ward swing during the second quarter of 2009. They grew by more than 3.7%, compared to the end of the

first quarter. Whereas the figures of the aggregate budget of banks showed stability of property rights at US\$ 880 million at the end of the second quarter of the year, the same level as at the end of the previous quarter. This is despite the increase in paid capital for that period by more than 9%, and the decrease in tax allocations by nearly 2.5% for the second quarter, compared to the first quarter. Other claims also decreased by nearly 22% during the same period of comparison. Also, accounts of the Monetary Authority declined to US\$ 190.8 million, i.e. by more than 23% compared to the first quarter of 2009 (see figure 6).

Figure 6: The structure of bank liabilities operating in the Palestinian Territories by the End of the Second Quarter of 2009



Source: Data taken from the consolidated budget of banks.

5.1 Credit Facilities Portfolio

The credit facilities portfolio that banks provide to the various economic sectors is considered one of the indicators of importance in the banking sector. From the one side it indicates the extent of economic activity in general, and from the other side the benefits resulting from it are considered one of the most important sources of income for banks. It should be added that in the Palestinian situation, the credit facilities portfolio reflects the extent of the prevailing political and security stability. Despite its not being the biggest component of bank assets in the Occupied Palestinian Territories, it is, however, one of the most important components.

At the end of the second quarter of 2009, the credit facilities portfolio grew by nearly 14%,

due to an increase in facilities granted in the West Bank only. They grew by more than 16.5%, whereas they declined in the Gaza Strip by nearly 8.5% during the same period (see table 21).

The public sector's high share of total direct credit facilities during the second quarter of the year is noticeable. It exceeded 28.7% compared to the previous quarter. This indicates an increased dependence, by the Palestinian Government, on the banking sector for financing some necessary expenditure during that period. Facilities provided to the public sector constituted 35.7% of the total volume of facilities provided by the Palestinian banking sector, whereas they did not exceed 31.5% during the previous quarter.

It did not also reach such a level at any time before. In case such an increase continues, it is expected that it will have, on one side, some effect on the public sector's indebtedness to the banks and on the other side, some effect on the private sector, as a result of what is known as

the "crowding effect".²⁵ Despite the increase of more than 8% in the value of facilities provided to the private sector, its share of the total volume of facilities decreased to less than 65%, compared to the first quarter.

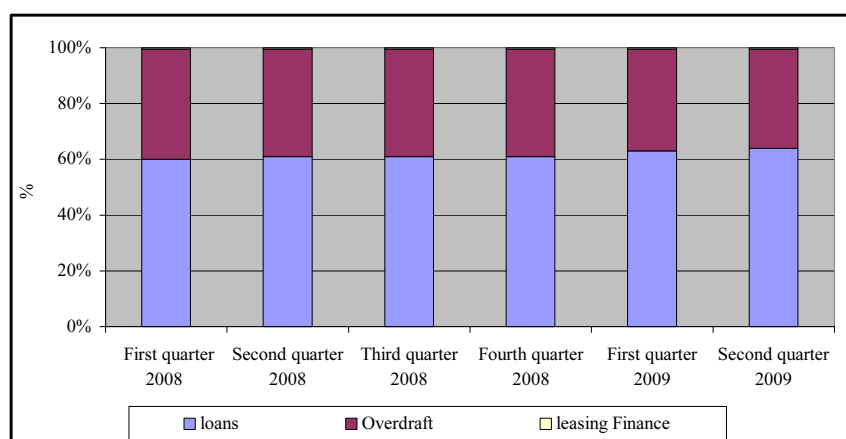
Table 21: Distribution of the direct credit facilities portfolio for the 4 quarters of 2008 and the first and second quarters of 2009

Budget statement	2008				2009	
	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2
According to geographical Distribution						
West Bank	1460.7	1509.1	1509.1	1625.5	1650.7	1924.2
Gaza Strip	313.2	237.6	237.6	202.7	192.2	175.5
According the beneficiary						
Public sector	511.3	511.3	511.3	532.7	581.6	748.8
Resident private sector	1191.3	1140.5	1140.5	1165.9	1123.2	1216.2
Non-resident private	82.0	95.3	95.3	129.6	138.1	134.7
According to the type of facility						
Loans	1062.0	1066.5	1066.5	1114.2	1159.0	1338.9
Overdraft	700.9	669.3	669.3	703.7	673.6	750.7
Leasing finance	10.9	10.8	10.8	10.3	10.3	10.2
According to the type of currency						
U.S. Dollar	1159.5	1117.7	1117.7	1190.2	1225.9	1301.7
JD	173.5	151.1	151.1	147.5	142.5	200.3
NIS	419.4	463.1	463.1	474.3	460.6	582.7
Other currencies	21.4	14.7	14.7	16.2	13.8	15.0

Credit facilities were divided between loans, overdraft and leasing, according to the following rates 63.7%, 35.7% and 0.5% respectively. Loans were 1% higher than current account debts. The US dollar clearly

dominated those facilities, to the tune of 62%. Facilities in Shekel constituted 27.7% and in the Jordanian Dinar 9.5%, and in other currencies, the Euro being the most important, 0.8% (see figure 7).

Figure 7: Distribution of Credit Facilities According to Type of Facility for the 4 Quarters of 2008 and the First and Second Quarters of 2009



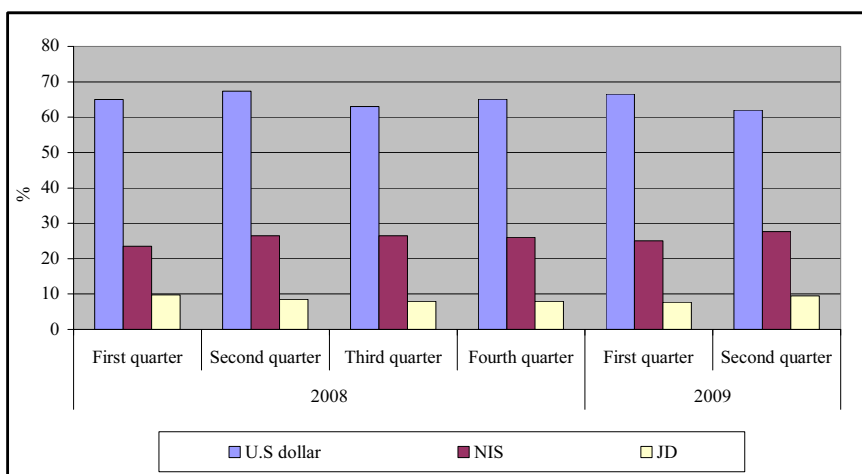
Source: Data from the consolidated budget for the banks.

²⁵ Crowding effect means competition of the public sector with the private sector over obtaining facilities, and the effect of that on private sector investments.

The continued increase in the share of the Israeli Shekel in the total volume of facilities at the expense of other currencies is noted. It was nearly 3% during the second quarter of 2009, compared to the first quarter of the year. It seems the instability of the US Dollar and fluctuations in its value during the recent

period, which also affected the value of the Jordanian Dinar which is tied to the Dollar, compared to the relative stability of the Israeli Shekel during the same period, increased the demand for facilities in Israeli Shekels (see figure 8).

Figure 8: Facilities Type According to Currency Type for the 4 Quarters of the Year 2008, and First and Second Quarters of 2009



Source: Data from the consolidated budget for the banks.

5.2 Non-Banking Deposits

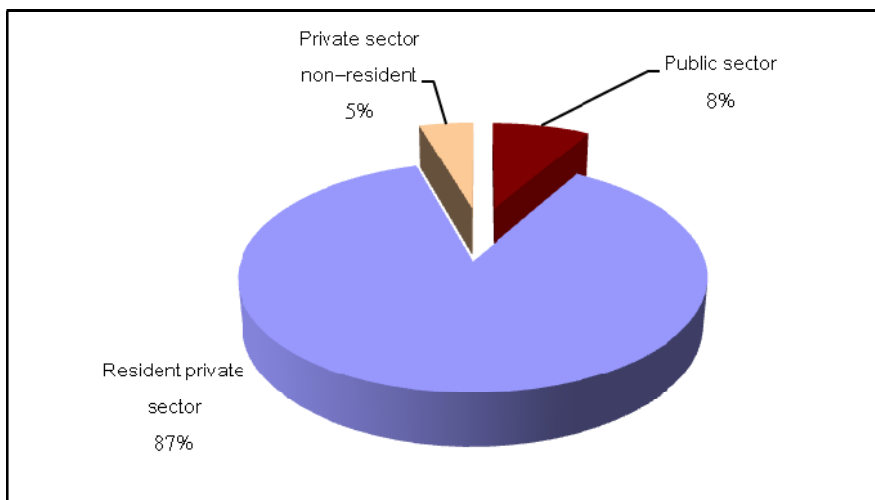
This item constitutes the biggest and most important component of claims of banks operating in the Occupied Palestinian Territories. It is the backbone of the Palestinian banking system and is composed of deposits of the National Authority, the local authorities, the non-financial deposits of other public sector institutions and deposits of other residents and non-residents. The deposits of the other residents are the most important of those items. They constitute the solid ground for the banking system. On the one side, they represent a source for financing the economy through credit. They also reflect, to a great extent, public confidence in the banking system, in addition to their being in the future an important vehicle for implementing the aims of the different monetary policies.

Those deposits are of an increasing nature in general. They continued in the present year to maintain this course (despite a slight decline witnessed during the first quarter of 2009, compared to the last quarter of 2008). They

increased at the end of the second quarter of 2009 by a rate exceeding 3.7%, constituting over 77% of total claims of banks operating in the Occupied Palestinian Territories. The increase was the result of an increase in private sector deposits by more than 4.5% during the period of comparison, as against a decrease of 5% in public sector deposits. But due to its relatively small weight with regard to private sector deposits, it did not have a big effect on the increase that took place in the total deposits of clients (see figure 9).

The West Bank constituted 84% of non-banking deposits, whereas the Gaza Strip participation did not exceed 16%. Term deposits dominated with 38% of total bank deposits, as against 36.7% for current account deposits and 25.3% for savings deposits. Deposits were distributed between different currencies in circulation in the Occupied Palestinian Territories as follows: 44.9% in US Dollars, 27.2% in Jordanian Dinars, 22.5% in Israeli Shekel and 5.4% in other currencies.

Figure 9: The Structure of Non-banking Deposits at the Operating Banks in the Occupied Palestinian Territories by the End of the Second Quarter of 2009

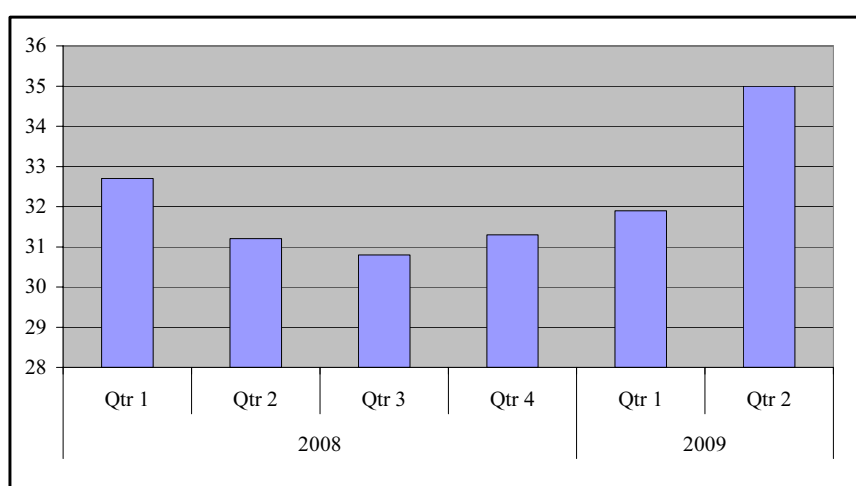


Source: Data from the consolidated budget for the banks.

It is important to point out here that there is presumably a relationship between non-banking deposits and credit facilities, as banks in general set a ceiling for bank credit facilities in accordance with the deposits they have, or a fixed percentage of those deposits. Despite the present low rate in the Occupied Palestinian Territories, compared to neighboring countries, it is gradually being raised. The rate of credit facilities to deposits reached around 35% at the end of the second quarter in 2009, compared to

32% at the end of the first quarter of the year (See figure 10). This rate increase is considered to be a continuation of the increase which began during the third quarter of 2008, in the wake of instructions issued by the Monetary Authority calling for a decrease in the rate of investments abroad.²⁶ The Monetary Authority's aim from such instructions was to invest more funds inside the Palestinian economy.

Figure 10: Credit facilities as a Percent of Non-banking Deposits During the Quarters of 2008 and the First and Second Quarters of 2009



Source: Data from the consolidated budget for the banks.

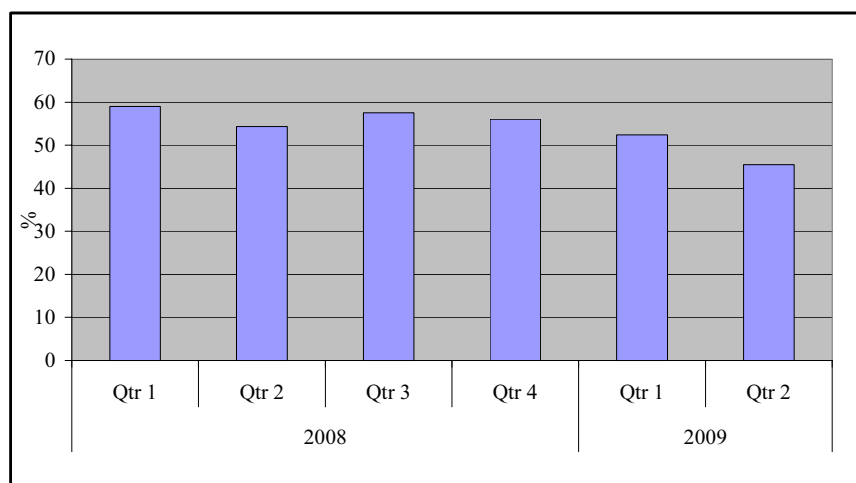
²⁶ The Palestinian Monetary Authority issued instructions concerning investments abroad, calling for their reduction from 65% of total deposits to 60% by the end of April 2009 and then to 55% by the end of August 2009.

5.3 Foreign Accounts²⁷

Banks operating in the Occupied Palestinian Territories deposit abroad, for different reasons, certain funds available to them. Instructions by the Monetary Authority stipulated that total external investments should not exceed 65% of total Bank deposits. But the

Monetary Authority amended this rate in two stages during 2009, to become 55% of total deposits, for assuring more money stayed in Palestinian Authority (see figure 11).

Figure 11: Bank Investments Abroad as a Percentage of Client Deposits During 2008 Quarters and First and Second Quarters of 2009



Source: Data taken from the consolidated budget.

5.4 Property Rights

Property rights at the end of the second quarter of 2009 maintained nearly the level of the end of the previous quarter, which amounted to US\$ 880.9 million (an increase not exceeding US\$ 0.9 million). It is noted through examination of property rights' components, that the most significant change occurred in paid capital, which increased by 9.5% during the period of comparison. It is to be noted that paid capital is the biggest and most important component of property rights. At the end of the second quarter of 2009 it constituted around 79% of property rights. It seems that it is related to instructions of the Monetary Authority concerning increasing bank capital to US\$ 35 million, and expectations that it should be raised to US\$ 50 million next year.

5.5 Indicators of Bank System Performance

Relative stability is considered one of the most important characteristics of the Palestinian banking system. The semi-closed Palestinian economy, including in the banking system, and the scarcity of external investments isolated the Palestinian financial sector in general, and the banking sector in particular, from many external shocks and crises. As a result of increase in current profits, realized at the end of the second quarter of 2009, compared to the last quarter of the previous year, the ratio of net income to the average of assets rose by nearly 0.23 percentage points. Also the ratio of net income to the average of property rights rose by nearly two percentage points (see table 22).

²⁷ Foreign accounts are one of the components of foreign investments. They are the main and most important component.

Table 22: Indicators of 2006, 2007, 2008 and the First and Second Quarters of the Year 2009

Indicator	2006	2007	2008	Q1 2009	Q2 2009
Net income/average assets	1.0	1.1	1.2	1.4	1.63
Net income / rate of property Rights	9.9	10.9	10.9	11.7	13.79
Facilities/ total deposits	39.5	29.8	29.1	29.8	32.7
Facilities / non-banking deposits	43.7	33.3	31.3	32.0	35.1
Facilities of private sector / private sector deposits	35.4	27.8	24.7	24.1	24.6
Facilities of resident private sector / deposits of resident private sector	34.1	26.9	22.8	22.3	23.3
Foreign assets / total deposits	50.8	55.0	52.1	52.4	45.5
Customer deposits / total assets	73.4	73.1	76.6	76.2	77.2
Credit / total assets	32.0	24.3	24.0	24.3	27.0

Source: Palestinian Monetary Authority - Call Report.

The increase in the ratio of direct credit facilities to total deposits and non-banking deposits continued to rise by 2.9 and 3.1 percentage points, respectively, at the end of the second quarter of 2009, compared to the first quarter of the year. That was due to an increase in facilities, which rose by 14% during the period of comparison. Also the ratio of private sector facilities to private sector deposits rose by nearly 0.5%. The decrease in the ratio of accounts abroad to total deposits continued. This is due to the continued decline in total external investments in line with the instructions of the Palestinian Monetary Authority, mentioned earlier. The percentage of accounts abroad at the end of the second quarter of 2009 was nearly 45.5%, compared to 52.4% at the end of the first quarter of the year. As a result of the increase in direct credit facilities, as well as in client deposits, the ratio of each of them to total assets rose. The first rose by one percentage point, while the second rose by more than 207 percentage points at the

end of the second quarter of 2009, compared to the first quarter (see table 22).

5.6 Activities of Clearing Chambers

Data of the Clearing Chambers of the Palestinian Monetary Authority in both Ramallah and Gaza indicate that the number of checks presented for clearing reached a record number during the second quarter of 2009. It reached 741, 186, this represents an increase of 11% over the first quarter of the year. Value-wise, they registered an increase of 15.2% during the period of comparison. That was accompanied by a noticeable drop in the number of bounced checks, number and value-wise. The number of bounced checks dropped by 3% , and value-wise by 2.7% from the level of the first quarter of the year. The new instructions of the Monetary Authority regarding bounced checks, which could have had a big effect in reducing the number of bounced checks, were not yet enforced (see table 23).

Table 23: Number and Value of Checks Presented for Clearing, and the Number and Value of bounced Checks for all Quarters of the year 2008, and First and Second Quarters of the Year 2009

Quarter	Checks presented for clearing		Bounced checks		Percent of bounced checks/ presented to clearing	
	Number (check)	Value (million\$)	Number (check)	Value (million \$)	No. %	Value%
Q1 2008	603,281	1935.3	72,649	136.4	12.2	7.0
Q2 2008	647,267	2144.3	72,762	132.4	11.2	6.2
Q3 2008	686,097	2179.4	81,125	144.6	11.8	6.6
Q4 2008	717,579	2009.4	86,669	147.0	12.1	7.3
Q1 2009	668,531	1749.4	88,789	141.8	13.3	8.1
Q2 2009	741,186	2016.6	76,523	109.2	10.3	5.4

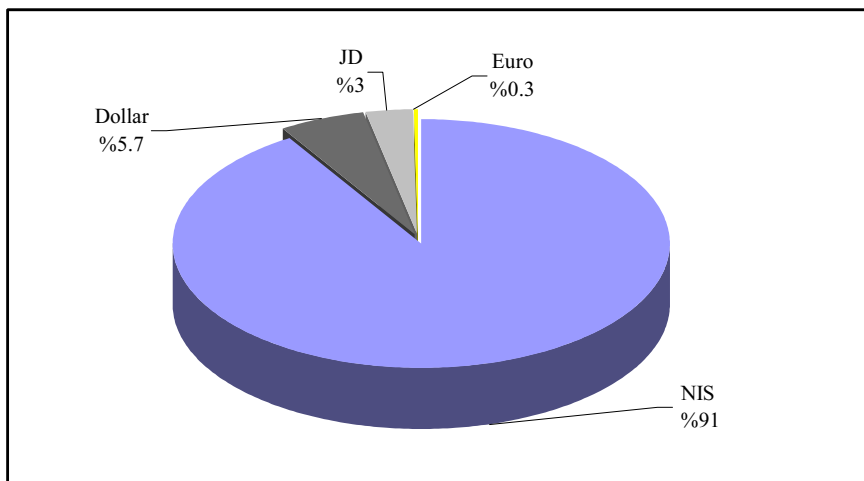
Source: Palestinian Monetary Authority - Monthly Bulletin of Statistics

As a natural result of the use of the Israeli Shekel in different daily dealings in the Occupied Palestinian Territories, checks issued in Shekel continued to dominate the number and value of all checks issued in the different currencies.

At the end of the second quarter of 2009, checks issued in Shekel constituted 91% of the total number of checks presented for clearing. It is the same percentage of checks presented

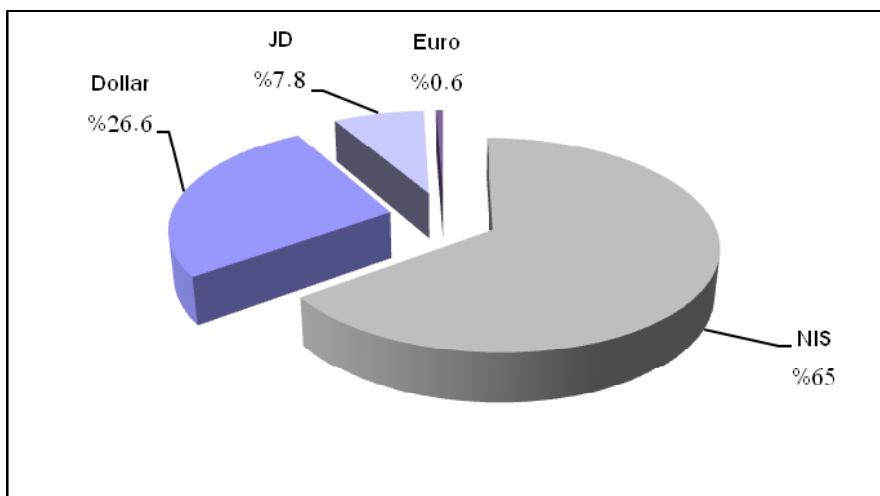
for clearing in the previous quarter. In contrast, a drop occurred in the share of the Shekel in the total value of checks. It dropped from 68.5% to 65%. Checks in US Dollar constituted 5.7% of the total number and 26.6% of the total value. The Jordanian Dinar constituted 3% of the total number and 7.8% of the total value of checks presented for clearing during the second quarter of 2009. The rest was the share of the Euro see figures 12 and 13).

Figure 12: Share of Each Currency in Total Checks Presented for Clearing, number wise, during the Second Quarter of 2009



Source: data on Clearing, the Palestinian Monetary Authority.

Figure 13: Share of Each Currency in total Checks Presented for Clearing, number-wise, during Second Quarter of 2009



Source: data on clearing, the Palestinian Monetary Authority

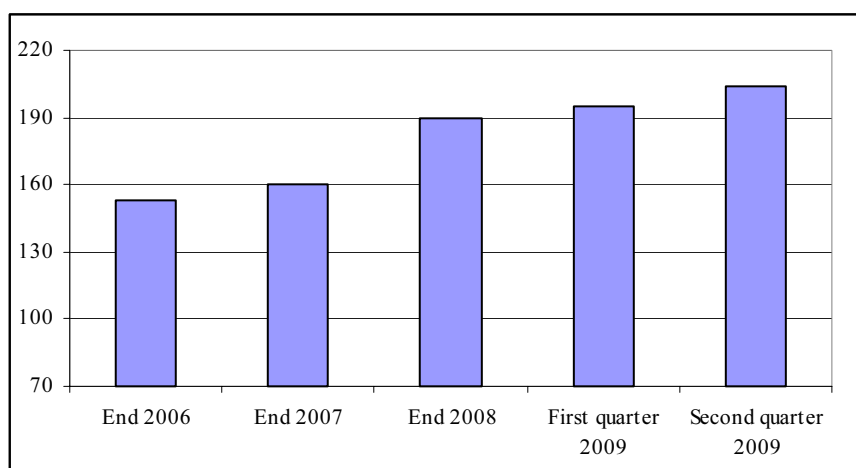
5.7 Development in Number of Banks and Branches

The number of banks operating in the Occupied Palestinian Territories was 20 banks at the end of the second quarter of 2009, instead of 21. The liquidation of the Bank for Agricultural Development and Lending was completed at the end of the previous quarter of the year. The remaining 20 banks are half local banks and half foreign.

At the end of the second quarter of the current year the number of bank branches and offices in the different regions of the Occupied Palestinian Territories was 204, compared to

195 during the previous quarter. But despite that, the ratio of population to bank branches in the Occupied Palestinian Territories remains very high, compared to neighboring countries, including the rest of Arab states. The ratio is 18 thousand persons per one branch, which indicates a need to open additional branches for banks operating in the Occupied Palestinian Territories, in order to bring the different banking services to the biggest number of clients possible (see figure 14).

Figure 14: Development of Number of Bank Branches and Exchange Bureaus operating in the Occupied Palestinian Territories during the years 2006, 2007, 2008 and first and second Quarters of 2009



Source: Palestinian Monetary Authority and the consolidated budget of the Palestinian banking system.

Box 3: Liquidity in Gaza

Israel's aggression against the Gaza Strip at the end of 2008 resulted in catastrophic consequences for different aspects of economic, social and environmental life in Gaza. Despite the Sharm El Sheikh Conference for reconstruction of the Gaza Strip, hosted by Egypt after the war, and attended by 75 states, its decisions, after a year and a half, remain unimplemented. The stifling Israeli siege remains in place, causing severe and serious shortages in all basic needs, including the amount of money required in the Gaza Strip to assure the minimum liquidity requirements in the market.

The Palestinian Monetary Authority tried all through the period of siege to manage and assure Gaza Strip requirements of liquidity by urgent action to remedy the situation and to open contact channels with all concerned parties (The International Monetary Fund, the Quartet, the European Union and Israel). Those contacts resulted in allowing successive quantities of Shekel and other currencies to enter the Gaza Strip. This allowed banks to fulfill all their obligations, especially those related to salaries and transfers for humanitarian purposes, as well as demand on money.

At the beginning of the current year, and as a result of strenuous efforts, an agreement was reached allowing the entry of 50 million Shekels to the Strip. This made the total amount of money that entered the Gaza Strip during the last seven months of the year nearly 470 million Shekels, 40 million of them as replacement for those destroyed. This amount of money contributed, to a great extent, to solving the Shekel liquidity problem in the Strip. But the crisis concerning US Dollar and Jordanian Dinar is continuing, as Israel still refuses to allow entry of those currencies to the Strip. This led banks operating in the Gaza Strip to settle their different obligations (such as salaries of employees of the different institutions, which pay their employees in US dollar or Jordanian Dinar) in Shekel only. Unavailability of the other currencies, in conditions of demand for them, caused a rise in their price against the Shekel outside the banking system (between the general public and money exchange bureaus).

6. Palestine Securities Exchange

Indicators show that the Palestine Securities Exchange has again witnessed a retreat in its performance during the second quarter of 2009, after having experienced a relative improvement during the first quarter of the year. With regard to the performance of companies, all registered and traded companies, which number 34, published their half yearly financial statements, while the four suspended companies did not publish their statements within the allowed period.²⁸

Results of activities of companies which published their 2009 half yearly statements indicated that 29 companies realized half yearly profits, while 5 companies had losses. Thus the percentage of companies which realized profits was 85%, compared to more than 79% during the same period in 2008.

Figure 15: Al-Quds (Jerusalem) Index by Month During First and Second Quarters of 2009

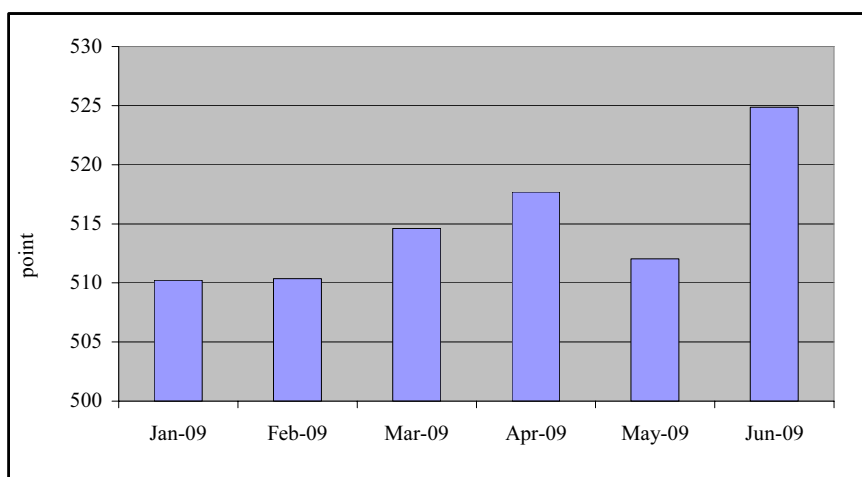
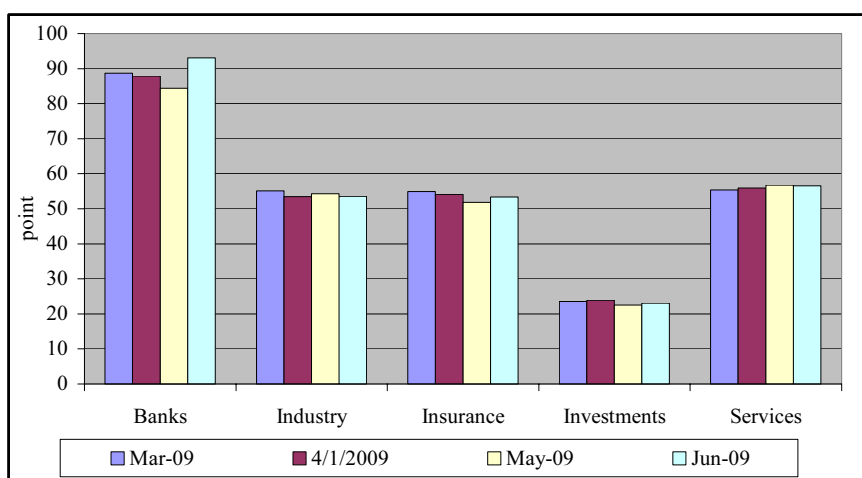


Figure 16: Performance of Sector Indicators During Months of the Second Quarter of 2009, and Previous Month



Source: The Palestine Securities Exchange www.pse.com.

²⁸ The four companies suspended from being traded (Arab Company for Concrete Products, Arab Establishment for Insurance, Credit for Investment and Development, and Grand Park for Hotels and Holidays) were suspended because of publishing statements unaudited by external auditors

Al-Quds (Jerusalem) Index rose at the end of the second quarter to reach 524.85 points (see figure 15). This rise in the Al-Quds Index occurred against a background of a rise in sectoral indicators (services and banks), where the rate of rise was 2.1% and 5% respectively. At the same time, there occurred a drop in indicators of insurance, industry and investment by 2.9%, 2.8% and 2.1% respectively during the second quarter of 2009, compared to the first quarter of the year (see figure 16).

Financial indicators show a drop of 23% in the volume of trade during the second quarter of 2009, compared to the first quarter. The value of traded shares fell to US\$ 145.5 million. At the same time the number of traded shares dropped 40.1% during that period to become 54.6 million shares. The Market capitalization of those shares was nearly US\$ 2.38 billion, i.e. nearly stable compared to the first quarter. As regards the number of trading sessions, they increased by 5 sessions from the first quarter, reaching 65 sessions (see table 24).

Table 24: Key indicators of the Palestine Securities Exchange during the second quarter of 2009 and the previous quarter

Period	Market capitalization (\$ billions)	The number of trading sessions	Al-Quds Index, At the end of each month	Trading Volume (the value of traded stocks) million dollars	The number of traded stocks million dollars
April	2.39	22	517.7	46.5	16.7
May	2.36	21	512.03	28.8	11.2
June	2.41	22	524.85	70.2	26.7
Q2 2009	2.38	65	524.85	145.5	54.6
Q3 2009	2.4	60	514.61	189	91.2

Source: The Palestine Securities Exchange

7. Prices and Purchasing Power²⁹

The second quarter of 2009 registered a rise in consumer prices compared to the first quarter of 2009, a fact which differed from the situation in the first quarter of 2009, which witnessed a drop in consumer prices, compared to the last quarter of 2008. But this rise in consumer prices was limited when compared to the sharp rise during the two years 2007 and 2008. Whereas the first quarter of 2009 ended with a base figure equivalent to 121.98, that figure rose by the end of the second quarter of 2009 to 123.03 (the base year being 2004 = 100).

7.1 Prices

With a continued decline in the wave of the increase in world prices, especially the stability of prices of basic food stuffs, in addition to stability of oil prices at low levels, the base figure for consumer prices in the Occupied

Palestinian Territories during the second quarter of 2009 witnessed a slight rise. The rise in prices of most basic goods, especially prices of food stuffs, retreated. These are the goods the expenditure of which swallows the biggest share of a person's income, due to their relative importance in the Palestinian's consumption basket. The stability of prices of goods, such as flour, sugar, and fresh vegetables, affected the rise in the base price, despite the rise in the prices of fuel and tobacco.

Statistics for the second quarter of 2009 indicate an increase in the base figure of consumer prices (measured by Shekel) in the Occupied Palestinian Territories. It rose by 0.86% compared to the average of the first quarter of 2009. But it increased by a rate of 1.87% compared to the average of the parallel quarter in 2008 (see table 25).

²⁹ The Palestinian Central Bureau of Statistics updated the base year in the calculation of the base figure for consumer prices in accordance with international recommendations. A change was made in the year from 1996 to 2004. That year was chosen on the basis that it was the most stable of the Al-Aqsa *Intifada* year, the measurements of which were studied. Another classification of goods, the 'classification of individual consumption according to purpose' set by the European Union (COICOP), was used. It depends on classification of the groups to 12 main groups, instead of 10, in addition to changing the distribution of certain goods inside some groups in a new way which depends on classification of goods according to the purpose of use.

Table 25: The percent of monthly and quarterly change in consumer price in the Occupied Palestinian Territories during the first and second quarters of 2009 (base year 2004 = 100)

Period of time	Index	Monthly percent of change	Quarterly percent of change
January 2009	121.57	(0.71)	
February 2009	121.54	(0.03)	
March 2009	122.82	1.05	
Average for the first quarter	121.98		(1.01)
April 2009	122.55	(0.21)	
May 2009	123.05	0.40	
June 2009	123.48	0.35	
Average for the second quarter	123.03		0.86

Source: Palestinian Central Bureau of Statistics, 2009

On the level of the Occupied Palestinian Territories, prices witnessed, in the West Bank during the second quarter of 2009, an increase of 0.52%, compared to the previous quarter. But they witnessed a fall of 0.96% compared to the parallel quarter of 2008. Prices in Jerusalem also recorded an increase of 1.64% during the second quarter of 2009, compared to the previous quarter, and an increase of 3.13 % compared to the parallel quarter. But in the Gaza Strip, base figures show a price increase of 0.67% during the second quarter of 2009, compared to the previous quarter. The prices

also increased by 3.73% compared to the parallel quarter in the previous year. It is to be noted that alcohol and tobacco, as well as the group of transport and communication, have recorded a significant rise during the second quarter of 2009 in the Occupied Palestinian Territories, having been affected by the rise in cigarette prices and the prices of fuel. Also base figures of most groups witnessed varying degrees of increase during the second quarter of 2009, compared to the previous quarter, which resulted in the base figure to rising (see table 26).

Table 26: Percentage Of Quarterly Change in the Index of Consumer Prices at the Level of Major Groups in the Occupied Palestinian Territories, the Second Quarter of 2009 Compared to Former and Parallel Quarters (Base Year 2004 = 100)

Group	Percent of second quarter 2009 to the first quarter 2009	Percent of second quarter 2009 to the first quarter 2008
Provisions and soft drinks	0.23	2.38
Alcoholic beverages and tobacco	7.09	9.84
Textiles, apparels and footwear	0.74	3.26
Housing and related accessories	0.27	(2.38)
Furniture, furnishings and household goods	0.59	7.74
Medical Services	(0.67)	(0.95)
Transportation and Communications	2.08	(3.99)
Telecommunications	(0.08)	(0.63)
Commodities and cultural and recreational goods	0.48	2.47
Educational Services	0.30	2.39
Restaurants, cafes and hotels	1.40	4.59
Miscellaneous goods and services	1.91	4.90
Index of consumer prices	0.86	1.87

Source: Palestinian Central Bureau of Statistics.

* Figures between brackets are negative (falling prices).

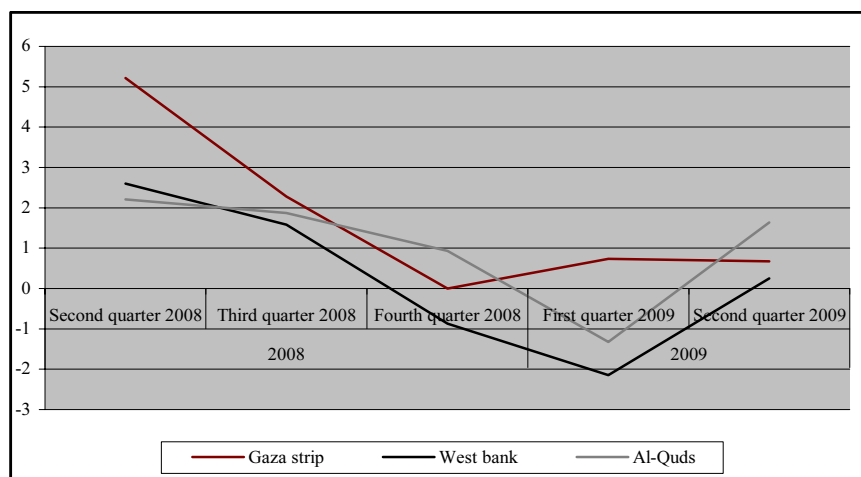
It is evident that the fall in prices of the main vital goods is the reason for the retreat in the sharp increase in the base figure of consumer prices in the Occupied Palestinian Territories. On the level of the main groups, the prices of

the food stuffs group and soft drinks fell by 1.29% during the first quarter of 2009, compared to the fourth quarter of 2008. Prices of the transport and communication group dropped by 3.67%, and so did the housing

group and its needs by 3.08%, during the same period. In contrast, prices of furniture and house goods recorded an increase of 2.28, so

did the group of alcoholic drinks and tobacco, which increased by 1.05% during the same period (see figure 17).

Figure 17: Average Quarterly Inflation in Shekels in Jerusalem, West Bank and Gaza Strip During Second Quarter of 2008 – Second Quarter 2009



Source: Calculated by "MAS" at the Central Bureau of Statistics Palestinian index of consumer prices, various years.

On the level of the different regions and different groups composing the consumption basket, it is noted that the group of alcoholic drinks and tobacco witnessed an increase of 10.32% in Jerusalem during the second quarter of 2009, compared to the first quarter of 2009. In the West Bank the increase was 9.27%, while in the Gaza Strip it was 2.90% during the same period. As for the group of transport and communication it recorded an increase of 3.36% in the West Bank during the second

quarter of 2009, compared to the first quarter of 2009. In Jerusalem, the rise was 2.84%, whereas it fell in the Gaza Strip by 0.17% during the same period. Also prices of a group of varied goods and services recorded an increase of 3.47% in the Gaza Strip during the second quarter of 2009, compared to the first quarter of 2009, while in the West Bank the increase was 1.62 %, and in Jerusalem 1.21% (see table 27).

Table 27: Changes in the Index of Consumer Prices in The Occupied Palestinian Territories, According to Region and Commodity Group in the Second Quarter 2009 Compared to the First Quarter 2009

Commodity Group	West Bank%	Gaza Strip%	Jerusalem%
Provisions and soft drinks	(0.03)	(0.19)	1.34
Alcoholic beverages and tobacco	9.27	2.90	10.32
Textiles, apparels and footwear	(1.31)	2.87	1.32
Housing and related accessories	(0.07)	0.46	0.38
Furniture, furnishings and household goods	(2.15)	1.99	2.06
Medical Services	(2.74)	(0.23)	0.35
Transport and Communications	3.36	(0.17)	2.84
Telecommunications	(0.21)	(0.18)	0.07
Commodities , cultural and recreational goods	(0.07)	1.00	0.79
Educational Services	0.70	(0.02)	0.00
Restaurants, cafes and hotels	1.08	2.49	0.86
Miscellaneous goods and services	1.62	3.47	1.21
Index of consumer prices	0.52	0.67	1.64

Source: the Palestinian Central Bureau of Statistics.
* Figures between brackets are negative numbers.

7.2 Average Prices of Selected Consumer Goods

Prices of certain consumer goods witnessed varying degrees of change during the second quarter of 2009, compared to the first quarter of 2009, as a result of stability in prices of imported and local goods and materials, including flour, bread and fuel. Following is a review of price movements for selected groups of goods at the end of the second quarter of 2009, compared to the first quarter of 2009:

Rice Prices:

The prices of the rice group increased during the second quarter of 2009, compared to the first quarter of 2009. The rate of increase in the West Bank reached 4.88% and in the Gaza Strip 0.78% during the same period.

Flour Prices:

Prices of the flour group fell during the second quarter of 2009, compared to the first quarter of 2009. The fall in the West Bank was 0.38%, and in the Gaza Strip 5.42% during the same period.

Fuel Prices:

Prices of the fuel group increased in the second quarter of 2009, compared to the first

quarter of 2009. In the West Bank the increase was 13.38%, while in the Gaza Strip it was 11.86%.

Prices of Fresh Fruits

Prices of the fresh fruits group increased during the second quarter of 2009, compared to the first quarter of 2009, by 10.16% in the West Bank and 2.21% in the Gaza Strip.

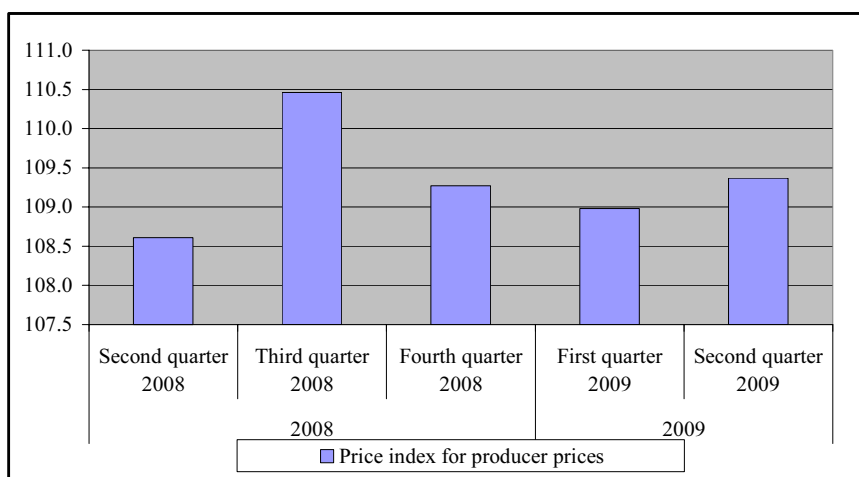
Sugar Prices

Prices of the sugar group increased during the second quarter of 2009, compared to the first quarter of 2009, by 7.75% in the West Bank, whereas it dropped in the Gaza Strip by 6.05%.

Prices of Cigarettes, Cigars and Tobacco Products

Prices of the group of cigarettes, cigars and tobacco products increased during the second quarter of 2009, compared to the previous quarter by 9.30% in the West Bank and 2.90% in the Gaza Strip.

Figure 18: Base Figure for Producer Prices in Occupied Palestinian Territories for the First Three Quarters of 2008 and First and Second Quarter of 2009 Base year (2007=100)



Source: The Palestinian Central Bureau of Statistics

Notice: The Palestinian Central Bureau of Statistics to update the base year in calculating the price index for Producer Prices, in accordance with international recommendations, which have moved from 1996 to 2007

Producer Prices

Producer prices are the prices received by a producer from a buyer in exchange for a certain commodity, minus the value added tax, or any other deductible tax recorded on a buyer's receipt, and does not include transport costs. They witnessed an increase in the general base figure of 0.37% during the second quarter of 2009, compared to the previous quarter. This resulted in an increase in produced goods, prepared for sale to the activities of manufacturing industry. The increase was 0.99%. Its relative importance constitutes 63.48% of the basket of producer prices. This increase is due to an increase in milk products' prices of 0.71%, in the prices of cigarettes and tobacco of 2.45%, and in the prices of drinks of 0.20%. Prices of metallurgical and extracting industries witnessed an increase of 0.35%. Their relative importance is of 1.26%. At the same time, prices of agricultural goods recorded a fall of 0.78%, their relative importance constitutes 35.06%. Prices of fish

fell by 0.10%, while their relative importance is 0.20%. But on comparing producer prices during the second quarter of 2009 with the parallel quarter, we find an increase of 0.70% (see figure 18).

7.4 Currency Exchange Rates

The exchange rate of the US Dollar³⁰ returned during the second quarter of 2009 to a downward trajectory, compared to the first quarter of the year. The average exchange rate of the Dollar was 4.052 Shekels per Dollar, whereas it was 4.066 during the previous quarter. The same is nearly true of the Jordanian Dinar, because the Dinar is tied to the Dollar. But the fall in the exchange rate of the Dinar (5.2%) was less than that of the Dollar (5.7%). The average exchange rate for the whole quarter was 5.60 Shekels for one Dinar, compared to 5.72 per one Dinar during the first quarter (see table 28).

Table 28: Average Monthly Exchange Rate of U.S. Dollar and Jordanian Dinar Against Israeli Shekel in the Fourth Quarter of 2008, and First And Second Quarters of 2009

Month	\$		JD	
	Average exchange rate	Change %	Average exchange rate	Change %
October 2008	3.67	3.88	5.17	3.75
November 2008	3.87	5.55	5.47	5.68
December 2008	3.82	(1.32)	5.44	(0.51)
January 2009	3.90	1.91	5.50	1.08
February 2009	4.10	5.29	5.77	4.92
2009March	4.16	1.34	5.87	1.71
April 2009	4.18	0.5	5.90	0.5
May 2009	4.07	(2.6)	5.75	(2.5)
June 2009	3.98	(2.2)	5.57	(3.1)

7.5 Purchasing Power

The retreat which occurred in the exchange rate of both the US Dollar and Jordanian Dinar, starting in May 2009, was reflected in the purchasing power of the two currencies. Their purchasing power retreated after having recorded some gains in April. On the whole, the purchasing power of the US Dollar fell by 6.2% at the end of the second quarter, compared to the first quarter. The purchasing power of the Jordanian Dinar fell by 5.6% during the period of comparison. This fall in the purchasing power was due to the fall in the

exchange rate of the two currencies against the Israeli Shekel, in addition to an increase at the same time in the indicator of consumer prices. At a time when the exchange rate of the US Dollar fell by 5.7% during the second quarter, compared to the first quarter, the Jordanian Dinar's exchange rate fell also by nearly 5.2% during the same period. That was accompanied by a rise in the consumer price indicator of nearly 0.6% (see table 29 and figure 19).

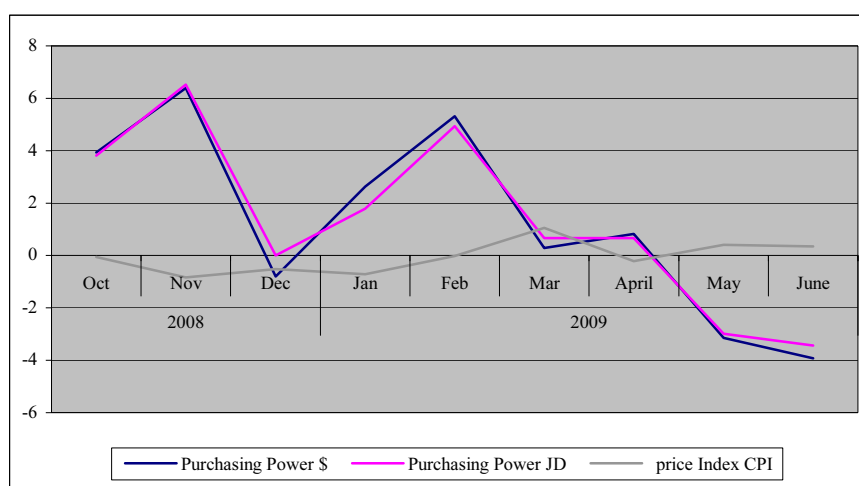
³⁰ Average monthly rate of buying and selling.

Table 29: Average Monthly Exchange Rates of Currencies (Dollars, Dinars, Compared to Israeli Shekel) and Changes in the Purchasing Power for the First Six Months of the Year 2009

Month	Change in the index of consumer price (CPI)	Currency	Change in the price of the Exchange Rate (%)	The change in the purchasing power of currency(%)
January 2009	(0.71)	\$	1.91	2.63
		JD	1.08	1.79
February 2009	(0.02)	\$	5.29	5.31
		JD	4.92	4.94
March 2009	1.05	\$	1.34	0.29
		JD	1.71	0.66
April 2009	(0.22)	\$	0.60	0.82
		JD	0.45	0.67
May 2009	0.41	\$	(2.73)	(3.14)
		JD	(2.57)	(2.98)
June 2009	0.35	\$	(3.58)	(3.93)
		JD	(3.09)	(3.44)

Source: Palestinian Monetary Authority, Central Bureau of Statistics.

Figure 19: Development of Purchasing Power of US Dollar and Jordanian Dinar, as well as Development of Consumer Prices for Months of Last Quarter of 2008 and First and Second Quarters of 2009



Source: previous table

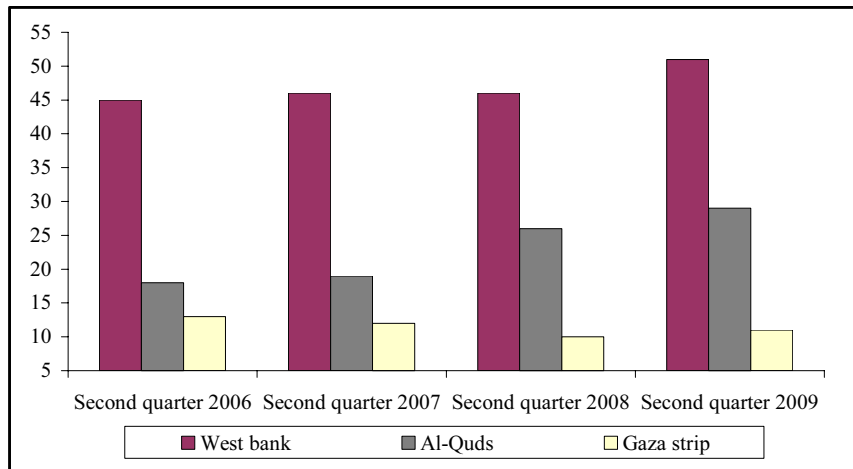
8. Hotel Activity

Hotel activity in the Occupied Palestinian Territories witnessed some improvement since the beginning of 2007. During the second quarter of 2009 hotel activity recorded a drop compared to the parallel quarter of the previous year. The tourism sector still suffers from instability and fluctuations, due to continued oppressive Israeli measures and different security disturbances.

The total number of hotels in the Occupied Palestinian Territories increased during the

second quarter of 2009 to 118 hotels. This number includes operating and closed hotels (see figure 20). The number of operating hotels changes according to the month of the year. In June there were 91 functioning hotels. There are 4,511 rooms in those hotels, having a total of 9,825 beds. The number of guests in hotels in the Occupied Palestinian Territories during the second quarter of 2009 totaled 99,702 guests, 15.2% Palestinians and 34.6% citizens of the European Union.

Figure 20: Number of Hotels Operating in the Occupied Palestinian Territories in the Second Quarter for the period 2006- 2009



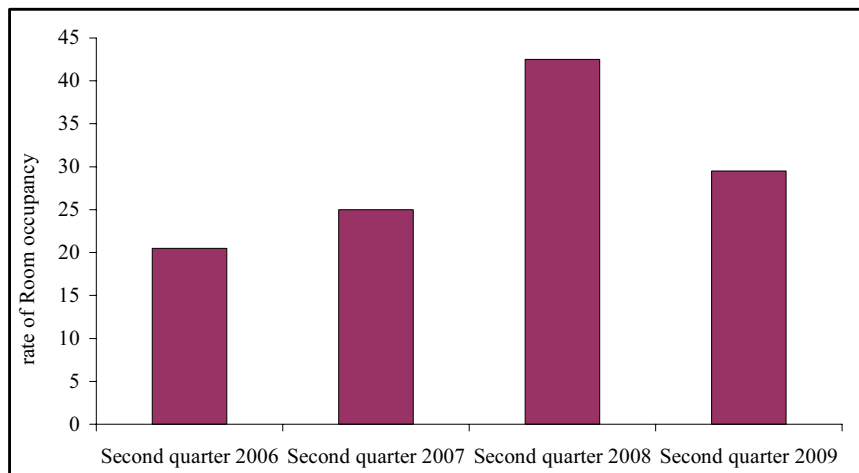
Source: Central Bureau of Statistics, 2009. Hotel activity in the Palestinian territories, the second quarter 2009.

The average occupancy rate in hotels operating in the Occupied Palestinian Territories is 1,265.3 rooms daily, i.e., 29.5% of available rooms (see figure 21). Guests were concentrated in Jerusalem hotels, where the rate was 43.7% of the total number of guests, followed by hotels in the south and center of the West Bank where the rate was 28.5% and 25.7% respectively. Only 1.9% of guests were in hotels of the north of the West

Bank, as against 0.2% in the hotels of the Gaza Strip.

The number of nights spent in hotels in the Occupied Palestinian Territories totaled 240,846 nights during the second quarter of 2009, 11.1% of the total number of nights were Palestinians guests, and 39.3% were guests from the European Union. The percentage of guests from the USA and Canada was 10.5%.

Figure 21: Rate of Hotel Room Occupancy during Second Quarter for 2006- 2009



Source: Palestinian Central Bureau of Statistics, 2009. Hotel activity in the Palestinian territories, the second quarter 2009.

The average length of stay during the second quarter in hotels of the Occupied Palestinian Territories was 2.4 nights per guest. The highest rate of stay was 2.9 nights per guest in the Gaza Strip. As for areas in the north, center

and south of the West Bank, the average length of stay was 1.8, 2.1 and 2.8 nights per guest respectively. In the Jerusalem area the average length of stay was 2.5 nights per guest (see table 30).

Table 30: Percentage of Change in the Indicators of Hotel Activity During the Second Quarter 2009 compared to the Second Quarter 2008 and the First Quarter 2009 (Percentage)

Index	Percentage change compared with the second quarter of 2008	Percentage change compared with the first quarter of 2009
Number of operating hotels at the end of the quarter	11.0	21.3
Average number of employees during the quarter	20.3	10.8
The number of hotel guests	(21.7)	43.0
Number of nights accommodation	(25.6)	43.2
Average rooms occupancy	(29.8)	32.9
Average bed occupancy	(25.6)	41.6
Room occupancy rate%	(30.6)	23.9
Bed occupancy rate%	(25.2)	30.3

Source: PCBS, 2009. Hotel activity in the Occupied Palestinian Territories, the second quarter 2009.

9. Company Registration

The Ministry of National Economy registers companies in accordance with the Jordanian Companies Law No. 12 of 1964. This law applies to the West Bank only. In the Gaza Strip, The Ministry of Economy applies The Companies Law No. 18 of 1929, and the Ordinary Companies Law No. 30 of 1930.

The Economic Monitor analyses company statements from the stand point of the number of registered companies, their type and their registered capital. Companies are classified by sector and legal status. Companies are divided into three types: joint stock companies (public and private), ordinary companies, and lastly joint stock and ordinary foreign companies. This is in addition to company classification geographically. *The Monitor* forms, from analyzing company statements, a preliminary idea about the course of investment activities and the economy's ability to attract domestic and foreign capital.

The number of registered companies in the West Bank during the second quarter of 2009 witnessed a drop of 10% compared to the previous quarter. 412 companies were registered during the period from end of March until end of June, compared to 454 companies during the previous quarter (see table 31). Despite the drop in the number of registered companies in the West Bank during

the second quarter of 2009, compared to the previous quarter, the increase in registered capital was very big. It reached nearly 570% and amounted to 625 million Jordanian Dinars at the end of the second quarter of 2009, the reason for that being, registration of companies with very big capital during the second quarter of 2009, compared to the first quarter (see figure 22). As for the Gaza Strip, the total number of registered companies during the second quarter of 2009 was 87 companies. It is a small number which constitutes no more than 18% of the number of registered companies in the Occupied Palestinian Territories, despite the fact that the Gaza Strip represents one third of the Palestinian economy (see table 31). The reason for the low number of companies in the Strip is attributed to security conditions from which the Strip suffers due to continued Israeli attacks, which negatively affect investment.. Those attacks have destroyed the infrastructure and disturbed security, in addition to perpetuating a state of uncertainty and high risk.

The second quarter of 2009 witnessed a big change in the shares of the different economic sectors with regard to registered capital in the West Bank. Figure 23 reveals that the services sector absorbed the biggest share of capital (70%) of the newly registered companies

during the second quarter of 2009. This means an increase of nearly a half, compared to the previous quarter. It is also noted that the share of construction greatly increased, which made it occupy the second place after the services sector. The rise in the share of the construction sector from 10% to 26.5% during the second

quarter is mainly due to the registration of a real estate company with capital of nearly US\$ 156 million. The commerce sector occupied the third place, after having dropped to 1.4%, though it had reached 34% during the previous quarter.

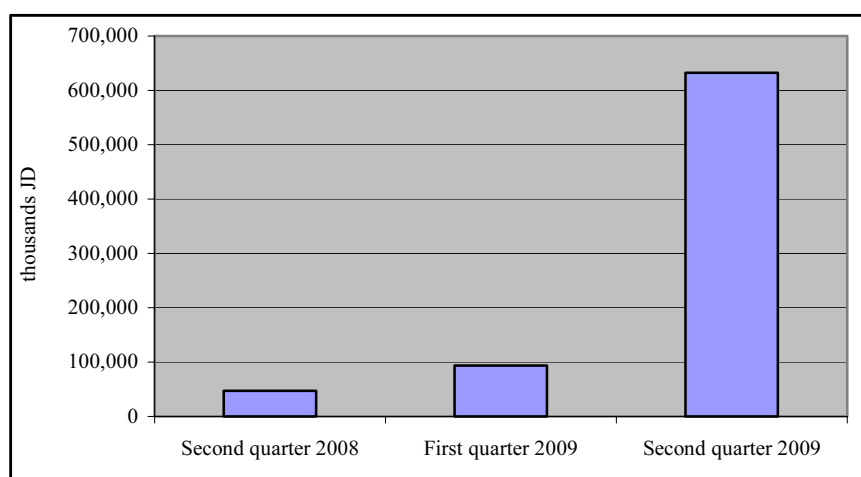
Table 31: Evolution of the Number of New Companies Registered in the West Bank and the Gaza Strip During Second Quarter 2008 - Fourth Quarter, 2009

Quarter	West Bank	Gaza Strip	Occupied Palestinian Territories
Q2 2008	334	-	-
Q3 2008	315	-	-
Q4 2008	287	-	-
Q1 2009	454	-	-
Q2 2009	412	87	499

The remaining sectors continue to obtain a diminishing share of capital, as follows: the health sector less than 1%, the industry and tourism sector less than 0.5% for each, the share of the agriculture sector was the lowest with 0.04%. Those sectors registered 4 companies only during the second quarter of 2009. It is worth mentioning that the reason

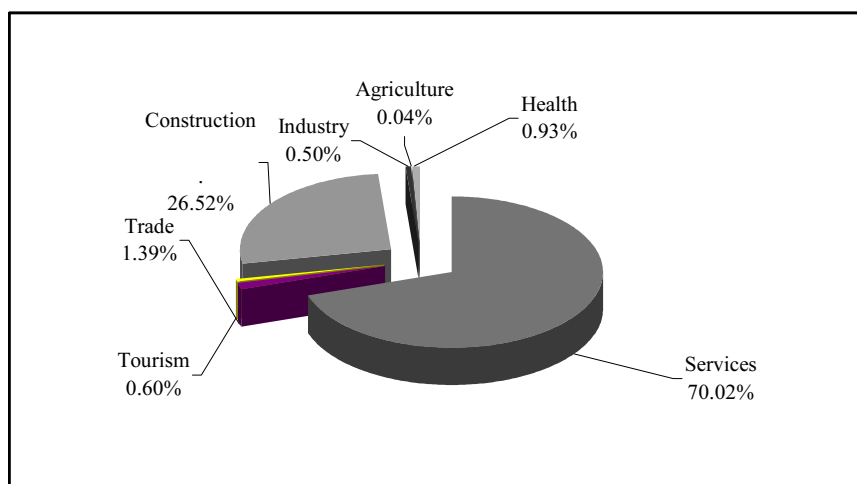
for changes in sectoral distribution is mainly due to the high capital of companies registered in certain sectors. No big change has occurred in the distribution figures to the different sectors (see figure 23). In the Gaza Strip, however, no information was available to us concerning sectoral distribution of capital of registered companies.

Figure 22: Value of Registered Company Capital in West Bank, in Jordanian Dinar, during Second Quarter of 2009 and the Two Previous Quarters, and their Parallel.



Source: Ministry of National Economy, Companies Registration Department, in 2008 and 2009.

Figure 23: Distribution of Capital for Registered Companies in the West Bank by Economic Activities during Second Quarter of 2009 (%)



Source: Ministry of National Economy, Companies Registration Department, 2009

When looking at the legal status of registered companies during the first quarter of 2009, we notice a clear change in distribution of capital with regard to the different types of companies, compared to previous periods. With the exception of the fourth quarter of 2008, the share of private joint stock companies during the previous five quarters did not exceed 3%. But during the current fourth quarter, the share increased to reach more than 66%. As mentioned before, the change which occurred in the different distributions is mainly due to the high capital of certain registered companies, though their number remained relatively stable. As for the share of private joint stock companies, which usually was in first place, it dropped to 31.5%. The share of ordinary companies also dropped from 23.7% during the previous quarter to 2.4% during the current quarter. No public joint stock company, foreign ordinary company, foreign joint stock public company or an ordinary company of limited liability was registered during the second quarter of 2009. (see table 32).

The high capital of newly registered companies, since the third quarter of 2008 until the present, and the very big increase, especially in the second quarter of 2009, occurred after the two economic conferences that were held in the Occupied Palestinian Territories during 2008. The first was the Palestine Investment Conference, held in Bethlehem in the middle of 2008. This aimed

at discussing possibilities of pumping new liquidity into the Palestinian economy through attracting foreign investments by acquainting local, Arab and foreign investors with investment opportunities available in Palestine. Another investment conference was held in Nablus at the end of 2008 and aimed at acquainting mainly Palestinian businessmen with available investment opportunities.

In the Gaza Strip, however, only two types of companies were registered during the second quarter of 2009: ordinary/ public companies, and joint stock private companies with limited liability. Looking at Table 32, we notice only the presence of the capital of private joint stock companies. The reason is that the Ordinary Companies law No. 19 for 1930, applied in the Gaza Strip, does not require that the capital of ordinary companies be stated. Consequently, some companies can register with the Ministry of Economy with a capital of zero. The number of private joint stock companies was 62 companies during the second quarter of 2009, with a total capital amounting to 5,380,800 Jordanian Dinars. But no ordinary joint stock company of limited liability was registered during that quarter.

Most of the companies registered in the West Bank are concentrated in the Ramallah and Al-Beira Governorate. During the second quarter of 2009, the percentage of new companies registered in the Governorate increased from

32% to 37%. The reason for this high share of the Ramallah and Al-Beira Governorate is the active economic movement in this Governorate, as government institutions are located there as well as 16% of civil society institutions in the West Bank. This is in addition to the good quality of infra-structure necessary for investment, compared to other governorates, which created a good environment for investment, and resulted in increasing the number of companies registered there. The Ramallah and Al-Beira Governorate

is followed by Hebron and Nablus Governorates with 14.1% and 15.3% respectively. The percentage of Hebron dropped during the current quarter compared to the previous quarter. But a slight increase took place in the share of the Nablus Governorate. Both Hebron City and the City of Nablus are surrounded by urban population centers. This, in turn, explains the high percentage of companies, out of the total registered in the Governorate, which are registered at those community centers.

Table 32: The Distribution of Capital for Newly Registered Companies in the West Bank by Legal Classification in the First and Second Quarters of 2009 and Second Quarter of 2008 (JOD)

Year	Legal Form							Total
	Public Ordinary	Private Shareholding	Public Shareholding	Foreign Private Shareholding	Foreign Ordinary	Foreign Public Shareholding	Ordinary Limited	
West Bank								
Q2 2008	18,682,800	27,180,760	0	1,378,000	0	0	0	47,241,560
Q1 2009	22,179,040	69,548,440	0	1,603,770	0	0	100,000	93,431,250
Q2 2009	15,076,424	197,102,459	0	413,528,125	0	0	0	625,707,008
Gaza Strip								
Q2 2009	Not available	5,380,800						Not available

The Jenin Governorate shares with Hebron and Nablus this characteristic. Despite the fact that the number of its inhabitants, compared to those of previously mentioned governorates, is less, there is an increased economic strength in the city's surroundings due to the relatively good development of the infra-structure for the communities surrounding the city. That has contributed to the existence of different projects in the Governorate which raised the percentage of registered companies in it to 10.2%, especially when compared to the number of newly registered companies in neighboring governorates which possess an agricultural economy similar to that of Jenin. The Governorates of Tulkarm, Qalqilya and Salfit obtained a percentage of 4.6%, 2.4% and 3.2%, respectively, of the newly registered companies (see table 33).

As for newly registered companies in the suburbs of Jerusalem, they were 2.9% of the total number of registered companies. The low level of this percentage does not seem strange considering the conditions non-existence of an appropriate infra-structure. In addition to this are the restrictions and obstacles imposed by the Israeli occupation on movement of persons and goods inside those areas and to other areas, especially the construction of the racist separation wall. The percentage of newly registered companies in the Bethlehem Governorate was 8.5%. It was 1.7% in Jericho and Al-Aghwar Governorate, which is of an agricultural character that limits the possibilities of investment in other sectors (see table 33).

Table 33: Distribution of the Newly Registered Companies in the West Bank according to Governorates in the First & Second Quarters of 2009

Governorate	Q1 2009	Percent to Total %	Q2 2009	Percent to Total %
West Bank				
Ramallah and Al-Bireh	144	31.7	152	37.0
Hebron	91	20.0	58	14.1
Nablus	66	14.5	63	15.3
Tulkarm	22	4.8	19	4.6
Jenin	57	12.6	42	10.2
Jericho & Valleys	7	1.5	7	1.7
Jerusalem suburbs	18	4.0	12	2.9
Bethlehem	33	7.3	35	8.5
Qalqilia	9	2.0	10	2.4
Salfeet	7	1.5	13	3.2
Total	454	100	412	100
Gaza Strip				
North Gaza strip	-	-	11	12.6
Gaza	-	-	64	73.6
Central Gaza	-	-	5	5.7
Khan Younis	-	-	5	5.7
Rafah	-	-	2	2.3
Total	-	-	87	%100

As for the Gaza Strip, Gaza City Governorate obtained nearly three quarters of registered companies in the Strip. It was followed by the governorate of northern Gaza Strip with 12.6%. The remaining percentages were divided between the governorates of the Center, Khan Younis and Rafah with 5.7%, 5.75% and 2.3% respectively (see table 33). The reason for the concentration of registered companies in Gaza City is the availability of a relatively appropriate infra-structure, compared to the other areas. In most of the other areas, especially in the extreme north and south of the Strip, the infra-structure was destroyed as a result of recurrent Israeli attacks. In addition, the proximity of those areas to the Green Line, and the ease with which Israeli war machinery can enter, increases the threat of the destruction of installations and companies.

9.1 Building Permits

Building permits, issued during a certain period of time, are considered an indicator of investment activities in the construction sector, taking into account that the number of issued permits does not include all building activities in the construction sector. The reason for that is that a part of building activities, especially

in the rural areas, are not registered and do not require building permits.

The number of issued building permits is greatly affected by climatic and environmental factors during a certain period of time. Consequently, the increase and decrease in the number of permits can be noted during the different seasons of the year. Activities related to the building and construction sector increase during the second and third quarters (during the summer season), whereas the volume of such activities decreases during the first and fourth quarter (during the winter season). This connection with the previously mentioned factors makes comparison, between the number of permits issued during a certain quarter and those issued during a similar quarter in a previous year, more indicative and accurate.

Statistics of building permits point to a decrease in their number during the second quarter of 2009, compared to the parallel quarter in 2008, by 19.2% only. As for statistics in the Gaza Strip, they are unavailable for the second quarter of 2009. The same is true for the first, third and fourth quarters of 2008, and the first quarter of 2009.

The total area of licensed buildings during the second quarter of 2009 was nearly 522.9 thousand square meters, an increase of nearly 43.8 % over the similar quarter in 2008. The number of housing units also greatly increased during the second quarter of 2009. Whereas the number of licensed housing units during

the second quarter of 2008 was around 1,355 units, it rose to 1,485 units, an increase of 9.6%, and consequently the area of those units increased by 60.7%. But the number of existing licensed dwellings dropped to 322 units, a decrease of nearly 28.8% (see table 34).

Table 34: Some indicators related to buildings and spaces licensed in the Occupied Palestinian Territories during 2008 and the first and second quarters of 2009

	Q1 2008*	Q2 2008*	Q3 2008*	Q4 2008*	Q1 2009*	Q2 2009*	
Total issued licenses	1,228	1,155	1,096	980	1,219	1309	
Residential buildings		979	931	827	1,052	1,144	
Non-residential buildings		176	165	153	167	165	
The total licensed areas (thousand m ²)	530.1	354.8	458.8	385.5	469.2	522.9	
Licensed Housing units							
Ne housing units	Number	1,850	1,062	1,174	1,111	1,266	1,485
	Area (thousand m ²)	297.5	195.2	234.3	195.5	245.6	311.2
Existing housing units	Number	414	331	223	202	261	322
	Area (thousand m ²)	88.3	60.7	62.5	51.6	74.3	85.6

Source: Palestinian Central Bureau of Statistics (2009). Statistics of building licenses, Ramallah - Palestine.

* Quarters of the West Bank only and does not include the Gaza Strip.

Box 4: Dead Sea – Red Sea Canal

The Red Sea - Dead Sea Canal, or the "Two Seas Canal" project, is a project for the construction of a canal and a pipeline extending for 250 kilometers southwards from the Gulf of Aqaba on the Red sea to the Dead Sea. It is a joint project between Jordan, Palestine and Israel. The project mainly aims at stopping the lowering of the water level in the Dead Sea and supplying it with more water. The total cost of the project is estimated to be US\$ 11 billion, to be covered by the international community and the three states benefitting from the project.

Supporters of the project argue that this is the only way to face environmental challenges that threaten the Dead Sea area, and that it will supply the region with potable water (for which there is great demand). Above all, the project will play an important role in strengthening Israeli - Arab cooperation. It will also create job opportunities and will be used to turn vast areas of the desert to populated and touristic areas.

Those opposing the project claim that it could be counterproductive further harming the environment in the region, instead of tackling and remedying the situation. They say that the project does not provide practical solutions for the shortage of drinking water, and that there is an exaggeration in the emphasis placed on the political role to be played by the project, for the purpose of assuring financing by the international community. Consequently, the opponents of the canal project propose an alternative solution. The Dead Sea, they believe, should be allowed to naturally recover its former water level, by letting the waters of the Jordan River flow into it without external interference or obstacles.

The present proposal includes the building of the biggest pumping station in the world between Aqaba and Eilat, in addition to the construction of a desalination unit at the extreme southern tip of the Dead Sea. It is expected that the pumping station would annually suck 1.9 billion cubic meters of sea water and pump it into the canal. The water will be pumped to a height of 230 meters from the Gulf of Aqaba and then slide towards the Dead Sea. This difference in height will be exploited to generate electricity that will be used in operating the pumping station. At the end, the water will be divided into two equal parts. One part will be pumped into the Dead Sea and the other part will be pumped to the populated areas to solve the shortage of drinking water. Theoretically, the benefits accrued from the project for the three benefitting countries would be equal. They will include, assuring potable water, stability of the water level in the Dead Sea and production of electricity and economic development for the region.

But fears for the environment are serious. They include damaging the "unique" natural system in the Dead Sea as a result of mixing its water with desalinated water from the Red Sea. A geological survey has indicated that mixing the water could lead to the growth and spread of seaweeds, to calcareous precipitates and change the color of the Red Sea water.³¹ Fears also exist about the ill effects of drinking ground water in Wadi Araba, due to water pollution, in the case of one of the pipelines being damaged. It is a possibility in an area where active earthquakes are common.

But despite all that has been mentioned earlier, the World Bank agreed, at the request of the three benefiting states, to conduct a feasibility study of the project. Preparations for the study started in 2008. The study will review and evaluate the technical, financial, environmental and social aspect of the Red Sea – Dead Sea Canal project. The study will be financed by several donors including France, Greece, Italy, Japan, South Korea, the Netherlands and the USA. Contributions already amount to US\$ 16.7 million.

In a clear admission of the sound position of warning voices, the World Bank stated that it realizes the regional need for increasing drinking water supply, and the necessity of finding practical solutions for the environmental problems faced by the Dead Sea area. However, the Bank's participation will not be realized unless the project fulfills the necessary and strict environmental and social conditions to which the World Bank adheres.³²

Despite the fact that the project is presumed to be one between three equal partners, the recurrent statements made by Israel try to exclude the Palestinian side. It even completely ignores at times the Palestinian Authority. For example, the Israeli Minister of the National Infra-Structure, Benjamin Ben Azer, said in 2006 that the project will lead to fruitful economic cooperation with our Jordanian partners.³³ He did not mention the Palestinians with one word. The Palestinian Authority did not hasten to emphasize its participation in the project. In an interview with Mr. Fadl Kaoush, former President of the Palestinian Water Authority, he said that the importance of the participation of the National Authority in the project aims at, "ascertaining the international legality". He also said that the main aim of participation is not for economic gains only, but ascertaining Palestinian legal and legitimate rights in the joint waters.³⁴

Although the Red Sea - Dead Sea Canal is still in the feasibility study stage, certain recent declarations and press reports have caused some confusion. After a July 2009 meeting between the Israeli Deputy Prime Minister, Silvan Shalom, and the President of the World Bank Robert Zoelek, Israel announced that the World Bank is on the verge of starting the Canal's preliminary exploratory survey . Israel also claimed that the World Bank agreed to finance the project, which the bank later denied.³⁵ After nearly one month after that date, AFP reported that "Jordan decided to work unilaterally on the project, dropping its partners". This is also not accurate, as the statement by the Jordanian officials meant the "Jordanian project for the Red Sea waters" This is a purely Jordanian project, financed by private sources. The project aims at building several desalination units to solve the problem of drinking water shortage in Amman. The World Bank also admitted the existence of several projects in the region, and stated that "the current feasibility study for the two seas canal will take into consideration the other projects the implementation of which coincides with the Canal project."³⁶

Finally, the future of the Red Sea - Dead Sea Canal project remains unclear. But all parties, be they supporters or opponents of the project, agree on the need to tackle the critical situation in the Dead Sea area. Choice of the solution remains the point of contention. But Jordanian statements, and the declared Israeli project, all came at a strange time, causing suspicions with regard to financing and coordination, at a time when the World Bank is undertaking feasibility studies. Undoubtedly, there are many outstanding political and economic questions, in addition to the environmental question. It is not expected that the World Bank's study, which will be concluded in 2011, will answer all those outstanding questions.

³¹ **Spiegel Online** (2009): "Israel-Jordan project Aims to Save Dead Sea"
<http://www.spiegel.de/international/world/0,1518,503953,00.html>

³² **World Bank** (2009), "World Bank Group Statement on Red Sea – Dead Sea Water Conveyance Study Program".
<http://unispal.un.org/UNISPAL.nsf/9tb163c870bb1d6785256cef0073c89f/1428e21e92910b54852575eb00461122?OpenDocument>

³³ **Haaretz** (2006): "Realizing Herzl's pipe dream". <http://haaretz.com/hasen/pages/799191.html>

³⁴ **Palestine Media Center** (2005): "The Red Sea - Dead Sea Canal Project and the Palestinian gains"
<http://www.palestine-pme.com/details.asp?cat=3&id=620>

³⁵ **Bank Information Center** (2009): "Where is the Red Sea - Dead Sea Water Conveyance Program going?"
<http://www.bicusa.org/EN/Article.11420.aspx>

³⁶ **Bank Information Center** (2009): "Where is the Red Sea - Dead Sea Water Conveyance Program going ?"
<http://www.bicusa.org/EN/Article.11420.aspx>

10. Israeli Measures³⁷

10.1 Martyrs and Wounded

The number of martyrs was 23 during the second quarter of 2009, among them was an infant and two small children, who died as a result of wounds caused by aggression on Gaza governorates in 2009. The number of wounded Palestinians during the same period was 272 persons. The number of detainees in all the Occupied Palestinian Territories was 878 persons.

10.2 Obstacles to Movement and Transportation

The number of Israeli military road blocks, set up without prior notice (temporary), in the West Bank was 1280 road blocks during the second quarter of 2009. The number of total closures of crossing points with Israel during the same period was 379. Crossing points with Israel were closed 250 times and international crossing points were closed 129 times. The Israeli occupation forces kept many permanent road blocks which have become, in turn, like border crossing points. Despite talk every now and then, by the occupation authorities, that they assure facilities for Palestinians at those road blocks, the road blocks, in fact, add to the sufferings of the Palestinians, because of complicated passage formalities, such as strict searching, interrogation, and delays lasting hours. This is in addition to total closure of those crossing points due to alleged security measures, which resulted in dividing the West Bank and isolating its northern part from the center, and the center from the southern part. It has made movement between Palestinian cities and towns a very difficult task.

10.3 Attacks against Education and Health Sectors

Israeli attacks against the Palestinian education sector were 6 during the second quarter of 2009. Those attacks included a raid on a kindergarten, another on a center for training and rehabilitation and setting up a road block near a school during an examination period in Al-Khalil City. Also, a search was conducted

of the hostel of an UNRWA institute in Ramallah and a secondary school was raided in Jenin. As for the health sector, it was exposed to 5 attacks during the second quarter of 2009, and included holding an ambulance, beating two first aid workers, preventing an ambulance from treating a Palestinian and raiding a hospital.

10.4 Attacks on Properties and House Demolition

Targeting public and private Palestinian properties by the Israeli occupation authorities continued. The Israeli occupation forces occupied 53 houses during the second quarter of 2009, for use for military purposes for varying periods of time. Attacks on Palestinian properties took place 307 times during the same quarter.

The Israeli occupation forces continue to raid the centers of Palestinian security forces and fire on those centers. They also set up military road blocks near those centers. The number of Israeli forces' provocations against Palestinian security apparatus during the second quarter of 2009 totaled 51 instances.

10.5 Settlement Activities and Attacks by Settlers

Settlement activities in the Occupied Palestinian Territories continued, reaching 18 during the second quarter of 2009. They included eroding agricultural land, enlargement of a settlement and a settler's road as well as expanding a road block, erecting military watch towers, and installing barbed wire fences. Attacks by Israeli settlers against Palestinians and their properties continued during the second quarter of 2009 to reach 227 instances.

11. Assistance Provided to Needy Families

The Ministry of Social Affairs organizes many assistance programs to needy families in the Occupied Palestinian Territories. Those

³⁷ Monthly report of the Palestinian Control Group (April, May and June). Website of the Palestinian Control Group: <http://www.nad-plo.org>

programs are varied and include: Difficult Cases Program, that of the World Food Program, the Social Protection Program and the Pioneer Program for Enabling Economically Deprived Families.

The Difficult Cases Program is considered one of the most important programs of the Ministry of Social Affairs. It is a program inherited from the Israeli Civil Administration in its design, targeting criteria and the ladder of assistance. The program adopts the list of assistance-deserving candidates based on cases of chronic poverty. This includes families who have no income because of the non-existence of a provider due to absence or sickness or disability, old people, disabled persons, minors and orphans, widows, divorced, or abandoned women and spinsters. The number of eligible families greatly increased after the arrival of the National Authority. In 1999 some 19 thousand families used to receive assistance, but now they total 50 thousand families. It is worth mentioning that this number of families is subject to some families dropping out and new families joining. When some families drop out because of availability of new sources of income, new eligible families join in. Difficult cases receive both monetary and in-kind assistance, plus additional aid such as medical assistance, exemption from school fees and medical treatment abroad.

The Ministry of Social Affairs is seeking to obtain, by 2010, the management of the "Pioneer" program which is being run at present by the United Nations Development Program (UNDP). This program aims at helping families to depend on themselves, through development programs which enable such families to dispense with assistance in the future. The Ministry will choose appropriate families to be granted loans for setting up businesses. This program will operate in cooperation with UNDP and the Islamic Bank for Development, concerned ministries and lending institutions.

11.1 Monetary Assistance

The European Union is considered the only source for monetary assistance after the second legislative elections in 2006 and the imposition of a financial siege on the National Authority. This part of the assistance program operates in coordination with the Ministry of Finance. Monetary assistance cases constitute

more than four fifths of cases receiving assistance from the Ministry.³⁸ During 2008 monetary assistance was distributed four times. The sum of 1000 Shekels is provided every three months through the banks to every assistance-receiving family in the West Bank and the Gaza Strip. Table 35 shows the number of families which benefited from payments provided every quarter in 2008. Consequently, the total sum of monetary assistance provided during 2008 was nearly 175,139 thousand Shekels.

In 2009, monetary assistance was provided three times, and the sum total was 149,209 million Shekels, given to more than 50 thousand families during the first three quarters of the year.

11.2 In-kind Assistance

The Ministry regularly provides in-kind assistance to cases registered with it once every two months. This kind of assistance is supported by the UN World Food Program. This program targets families who have no income (absence of male provider). Excluded from that are refugee families. Targeted groups include widows, divorcees (if they are providers for their children) and spinsters (in case of proven absence of income). Also, abandoned women, as well as those suffering from organic or psychological diseases that prevent employment, prisoners in civil cases, orphans (without the two parents). There are also special cases, even with availability of an income, such as families with special problems such as children with special needs or oppressed women. Beneficiaries are selected from cases registered with the Ministry of Social Affairs. The Ministry undertakes a field study to verify statements of candidate families for assistance. The World Food Program follows up implementation of the program by being present during assistance delivery, and through field visits to beneficiary families. In addition to that, each case is reviewed periodically (every half a year) through field investigation. The provided food basket is composed of flour, cooking oil, chick peas, salt and sugar. In addition, some Arab countries and international relief organizations provide through the Ministry additional assistance on different occasions

³⁸ Shalabi, Yaser; Ladadwah, Hassan: Targeting the Poor in Palestine: Present Criteria and Proposals for Improvement, p.26, MAS, 2009

Table 35: Number of families benefiting from cash assistance

Quarter	The number of beneficiary families
Q1	41321
Q2	41113
Q3	46025
Q4	46680

Source: Ministry of Social Affairs, Public Administration to combat poverty, unpublished data, 2009.

The value of assistance provided by the World Food Program during 2008 was estimated at nearly US\$ 45 million. In-kind assistance was then distributed six times to more than 48 thousand families in both the West Bank and Gaza Strip. During 2009 three distributions were made until the third quarter to nearly 50 thousand families. The value of those distributions was estimated to be nearly US\$ 21 million.

As regards the geographic distribution of the assistance in the West Bank, the percentage of in-kind assistance provided to the southern governorates of the West Bank was 29%. The biggest share of the distributions went to the north of the West Bank, and 22% to the center. As for the Gaza Strip, Gaza City received the highest share of assistance, while Khan Younis and Rafah received less (see table 36).

Table 36: Geographical distribution of in kind assistance distributed in the West Bank and Gaza Strip during the year 2008

Region	Percent
West Bank	
Hebron	14 %
Nablus	13 %
Jenin	14 %
Jerich	4 %
Tubas	2 %
Salfet	5 %
Bethlehem	10 %
Qalqilya	8 %
Tulkarem	12 %
Ramallah	8 %
Abu Dis	5 %
Yatta	5 %
Total	100 %
Gaza Strip	
Gaza	30 %
Jabalya	21 %
Deir al-Balah	19 %
Janoconc	15 %
Rafah	15 %
Total	100 %

Source: Ministry of Social Affairs, Public Administration to combat poverty, unpublished data, 2009.

12. Dwellings in Occupied Palestinian Territories³⁹

12.1 Situation of Dwellings

In the light of difficulties encountered by the Palestinian economy, the Israeli occupation casts its shadow on the dwellings sector in the Occupied Palestinian Territories. Assuring an appropriate dwelling for a Palestinian citizen has become a difficult task. Confiscation of land, construction and enlargement of settlements, the building of the wall of annexation and expansion and the difficulty of obtaining building permits outside community concentrations are just some of the difficulties faced by Palestinians. Others include the demolition of houses as security punishment or with the pretext of absence of a permit, in addition to the difficult economic situation characterized by siege, wide-spread unemployment, high percentage of poor families and the difficult situation in the refugee camps. There is also the dominance of private construction by real estate companies seeking profits, all of the above constitute obstacles to a Palestinian citizen seeking to obtain an appropriate dwelling.

12.2 Dwelling Density

Average density of dwelling in the Occupied Palestinian Territories was 1-7 persons per room in 2008, i.e., 1.6 persons per room in the West Bank, as against 1.9 persons per room in the Gaza Strip. The percentage of families in the Occupied Palestinian Territories, who live in housing units of dwelling density of 3 persons or more to a room, was 12.7%. The average number of rooms in a house in the Occupied Palestinian Territories is 3.6 rooms. The percentage of Palestinian families who live in a house with 1- 2 rooms is 15.9% - 16.9% in the West Bank against 13.9% in the Gaza Strip.

12.3 House Form and Possession

The percentage of families in the Occupied Palestinian Territories who live in dwellings that have the form of houses is 51% - 51.8% in

the West Bank and 49.2% in the Gaza Strip. But the percentage of families living in dwellings which have the form of a flat was 45.8% - 47.2% in the West Bank and 50% in the Gaza Strip.

As regards possession (ownership) of dwellings, the percentage of families in the Occupied Palestinian Territories that live in houses owned by a member of the family was 86.3%, as against 9.2% of families who live in furnished or unfurnished rented dwellings.

12.4 House Demolition

A study issued by the PLO's Department of National and International Relations showed that the Israeli occupation demolished nearly 23,100 housing units in the Occupied Palestinian Territories during the period 1967 – 2009. This was done within the framework of the policy of displacement, eviction and demolition of houses for alleged security reasons or lack of building permits. The study also revealed that since 2000 and until the end of May 2009, 13,400 housing units were completely demolished in the West Bank and Gaza Strip. This policy has led to the displacement of more than 170 thousand Palestinians who now have no shelter. In addition more than 90 thousand other housing units were damaged.

³⁹ Palestine Central Bureau of Statistics, Situation of Housing Sector in Occupied Palestinian Territories on the Eve of the Arab Housing Day, 2009.

13- Economic Issues

Economic Growth (3)

Relation between Economic Growth and Income Distribution

We have presented in the previous number of *The Monitor* the second part of the question of economic growth which we devoted to sources of growth. We found that growth happens either as a result of an increase in production factors, especially the material capital and the human capital, or as a result of an increase in factors of production, which are product of technological progress, or an increase in efficiency of production institutions. It is natural that we should deal after that with the important question of the economic environment that helps to encourage accumulation of material capital, and motivate investment in human capital, and prepares appropriate conditions for accelerating the process of technological progress and consolidating elements of production efficiency. What are elements of such an environment? What accrues from those elements as a automatic result of operations of free market mechanisms, and what are the other elements, the formation of which requires economic policies to be adopted by the state.

We deal in this part with one of the most important questions that plays a main role in answering those questions. That question is the relation between national income distribution and economic growth. It is natural that the central question in this matter should be: Is there a need for state intervention and for implementation of policies of "income redistribution" which aim at changing income distribution that took place in accordance with free market mechanisms, and apply a different income distribution more convenient to requirements of supporting and accelerating the process of growth?

The different aspects of the question will be discussed in three paragraphs. The first part presents a quick summary of the theoretical perspective of the relation of economic growth to national income distribution, and the role of redistribution policies in the context of efficiency and equity criteria. The second part reviews the old point of view with regard to the question which believes in total separation between the process of growth and the process of income redistribution, because the first concerns the sphere of "efficiency", and the second concerns the sphere of "equity". The third and last part presents the modern point of view concerning the question which views redistribution of income, especially in developing poor countries, as an extremely important process in the sphere of "efficiency", as well as in the sphere of "equity".

Theoretical Perspective

The existence of an organic relation between the process of economic growth and the process of national income distribution is something natural. When the economy of a certain country starts to grow a specific distribution of wealth and income among the citizens will be in place. As growth is a dynamic process affecting, to varying degrees, the different industries – some industries will expand more than others, new industries will be established and others will disappear – income distribution will not remain static, but will change with the change in the process of growth. If the production process takes place in accordance with the criteria of economic "efficiency", this means that the growth which has taken place and the accompanying change in income distribution will lead to an optimal situation. But the optimal situation, according to the criteria of "efficiency", does not necessarily mean an optimal situation according to the "equity" criteria. It is not fair that citizens who loose, as a result of growth, their income or part of it, remain without assistance that assures for them an acceptable standard of living enabling them to gain new experience that guarantees for them a suitable income in the future.

From this perspective, the justification for state intervention in the implementation of income redistribution policies becomes evident. State intervention here refers to deduction by the state of a part of the income of those who benefitted from the process of growth and distributing the deductions to those who have been hurt by the process. But what is important in this matter is total separation between the two processes, i.e. the process of growth should take place in accordance with market mechanisms, without state intervention, and after that the process of redistribution take place without causing any deformations in economic efficiency. This to assure that it is necessary that the redistribution process does not affect relative prices in the market (interest rate, wage rate and rate of prices of goods and commodities).⁴⁰

On a theoretical level, there is also another aspect to the relation between growth and income distribution, which is generally ignored. It is that growth leads with time, in any economy where production takes place in accordance with the criteria of economic efficiency, to reducing, and not increasing, inequality in income distribution in the long run. But it is expected that growth will lead, after the lapse of sufficient time, to

⁴⁰ One of the requirements for that is levying absolute taxes (fixed taxes) and not progressive taxes, because the latter leads to deformation of relative prices, and consequently to deformation of the incentive system.

narrowing the gap between the income of the poor and that of the rich. If, however, the contrary happens, then that constitutes a proof that that particular economy suffers from deformations, and that production does not take place in accordance with efficiency criteria.

The reason for that is simple, and goes back to the essence of the meaning of market mechanisms. For example, if growth causes an increased demand on a certain profession, which results in raising the level of wages of those employed in that profession, many people will be encouraged to invest in human capital, in order to qualify to work in that profession. Of course, the result will be an increase in the number of persons employed in that profession, and consequently a decrease in the high income from it. On the other hand, if growth caused an increased demand for a certain commodity, the increase in its price and consequently the increase in its rate of profit, will lead people who have capital to invest in the industry producing that commodity. This will lead to an increase in the volume of production and consequently to a drop in its price and to decreasing its high rate of profit.

This means that the natural performance of market mechanisms leads, with the lapse of time, to decreasing the degree of income inequality. But when the contrary happens, and the degree of income inequality increases, this means that prices do not play their role in efficient distribution of resources to the different industries. That happens usually as a result of the existence of strong monopoly establishments capable of limiting the movement of workers and capital in a free competitive atmosphere, or the presence of a big section of workers unable to invest in the human capital which is necessary for gaining experience required by the market. In such cases, state intervention to change the situation by redistributing the income, becomes one of the legitimate means to consolidate efficiency criteria in production and distribution.

Growth First and then Redistribution

We have seen in the previous paragraph that on the level of microeconomics, and in conditions where the two processes of production and distribution are carried out by market mechanisms in line with efficiency criteria, there is complete separation between the process of growth and the process of redistribution. The first takes place in the sphere of the economy, while the second takes place in the sphere of economic policy. For that reason the saying "growth first and then redistribution" became popular in economic literature.

That saying found an expression for itself on the level of macroeconomics in the mid-fifties of the last century, in what has become known as the Kuznets Hypothesis. This hypothesis believes that it is not necessary to be concerned with income distribution in the early stages of growth, as it is natural in those stages to experience an increase in the degree of income inequality as a result of a quicker increase in profits than in wages. But such a situation will not last for a long time, because the contrary will happen in the following periods of growth, when equality will increase. This relationship is called Kuznets Hypothesis after the well known economist Simon Kuznets (1901- 1985) who was the first to notice this relationship by analyzing the data of the average income of an individual in USA and the degree of inequality in that income over a series of time periods.⁴¹

It is evident that it is possible to find the economic explanation for Kuznets Hypothesis from noting the difference between the short-term work of market mechanisms, and their long term work which we have spoken of in the previous paragraph. But most economists who have carried out research concerning this hypothesis, concentrated on the proposal that the existence of a high degree of income inequality is necessary for starting the growth process. This is because growth in its initial periods mainly depends on investment in material capital, and as the rich are the people who have savings and are able to turn their savings into investments, this means that the more their share of the income increases, the more will increase the volume of savings available to finance investment and consolidate the growth process.

Growth experience in different countries during the last half century has shown that Kuznets Hypothesis may be applicable to the USA and some West European countries during the nineteenth century and the first half of the twentieth century. But it is not applicable to growth experience in those countries during the second half of the twentieth century. For sure it does not describe the growth experience of countries in Latin America, East Asia and the Arab world.

⁴¹ There are different yardsticks to measure the degree of inequality in income distribution in a certain country in a given period of time. Most famous of them is the Gini coefficient. It is a measurement which is between zero and one. Zero indicates full equality in income distribution (individuals obtain equal incomes) while one indicates non-complete equality (one individual obtains all the income). Usually the coefficient between zero and one hundred is used on the basis that this is simpler than using fractions between zero and one.

In the USA, and according to statistics of the Department of Population Census, a big increase occurred in the degree of income inequality during the period 1967 – 2005. It was a period of great economic growth in a rich industrial country, which passed more than a century ago (see table 1), through the initial stages of economic growth. The same happened in Japan and some West European countries. The degree of income inequality increased during the last quarter of the last century. On the other hand, we find that economic growth in its initial stages in some Latin American countries, such as Brazil, for example, succeeded in noticeably raising the individual's average income without decreasing the degree of inequality in income. In contrast we find that the Asian Tiger countries have achieved the initial stages of growth with significant decreases in the level of income inequality. But inequality started increasing in recent years as those countries entered the advanced stages of growth. It is evident that all these experiences are not in line with Kuznets Hypothesis.

As for growth experience in the Arab countries, they have contradicted Kuznets Hypothesis also. In the fifties, sixties and seventies of the last century, the Arab world passed through a period of big growth accompanied by a noticeable improvement in the fairness of national income distribution. The degree of inequality noticeably retreated. Also, the fall in growth experienced by the Arab World during the eighties and nineties was accompanied by an increase in the level of inequality in income distribution (see tables 1 and 2).

Economists concluded from all those different experiences that Kuznets Hypothesis is not an economic theory, but a mere statistical relationship which was correct at a certain time period for some countries. But it is definitely not correct for all the countries and all different times. Consequently, it was natural to reconsider the saying "Growth first and then redistribution after".

Table 1: Gini* coefficient in a number of selected countries (1963-2002)

Country	1963	1970	1980	1990	2002
Egypt	43.18	39.78	39.46	43.72	50.08
Syria	49.00	42.11	46.31	39.10	* 46.54
Jordan	47.73	46.34	45.11	46.10	46.20
Kuwait	49.07	51.30	49.39	58.69	** 54.76
Korea	41.76	42.87	38.18	35.89	37.75
Singapore	43.48	46.33	38.11	36.39	39.25
Taiwan		29.99	28.92	28.65	33.10
USA	*** 39.70	39.40	40.30	42.80	46.30

Source: inequality studies center Texas University. The source of data on USA is from the American Center of population, www.utip.gov.utexas.edu

* Gini coefficient for the year 1998 **2001 *** 1967

Table (2): Actual Growth Rate of Income Per Capita (1981 -2007)

Region	*1989-1981	*2002-1990	The no. of times income duplicated during 1981-2007
The world	1.4	1.2	41.4
Rich countries	2.5	1.8	67.5
Developing countries**	1.7	3.0	112.5
Southeastern Asia	5.1	5.3	317.5
West Asia **	- 1.7	1.1	16.0

Source: UNCTAD, Trade and Development Report, 2007, p. 3

* The rate of growth per year is in real prices (base year is 2000)

** Includes: Syria, Lebanon, Palestine, Jordan, Iraq, Kuwait, Saudi Arabia, UAE, Qatar, Bahrain, Oman, Yemen, Cyprus, Iran, & Turkey

Growth with Redistribution

One of the most important growth experiences that took place during half of the previous century is the experience of the Asian Tigers (South Korea, Taiwan, Singapore and Hong Kong). Economic institutions and international organizations which are concerned with the question of growth in the third world devoted time and energy to the study of this experience, and comparing it to other experiences in other regions which did not achieve what the Asian Tigers achieved. For example, the comparison between the Asian experience

and the Latin American countries' experience, revealed that a high degree of inequality in income constitutes an obstacle to growth, and that income redistribution policies are very important in the initial stages of growth, not for achieving justice among the citizens (though it is important), but for achieving efficiency in the markets.

When comparing the experience of East Asian countries with that of Latin American countries during the past three decades, we find that the first was characterized by a high rate of growth and a low rate of income inequality. In contrast, we find the second to be characterized by a low rate of growth and a high rate of income inequality. But when we turn to the reality of political economy of both experiences, we find a big difference between them in the role of income redistribution. In the Asian experience, the ruling elites had realized, since the fifties of the past century, that their legitimacy was threatened by revolutionary communist movements. Therefore, they sought to broaden the base of popular support for them through the implementation of income redistribution policies, such as agrarian reform, building housing units for the masses, investment in infra-structure in rural areas, and free high standard education.

The ruling elites in Latin America however devoted their attention, in the first place, to the narrow and immediate interests of the groups they represented. For that reason we find that most of their economic policies did not result in an important change in the living standard of the poor majority of the people. If we compare two countries, such as South Korea and Mexico, we find that the average income of an individual in Mexico in 1960 was more than double the income of an individual in South Korea during the same year. But the level of inequality in Mexico was less than that in South Korea. But now the picture has been completely reversed. In 2008, the average income of an individual in South Korea became more than double to that of someone in Mexico, and the degree of income inequality has decreased in South Korea, but increased in Mexico (see table 3).

Table 3: The income per capita and Gini Coefficient in Korea and Mexico

	South Korea	Mexico
Average income per capita 1960 (\$)	260	660
Gini Coefficient 1960	41.76	40.73
Average income per capita 2008 (\$)	21,530	9,980
Gini Coefficient 2008	37.74	43.83

Source of data on the Gini Coefficient is Inequality Studies Center-Texas University, while data on income is from World Development Indicators.

The World Bank has published an important study which reveals that uneven income distribution in poor countries is the result of the existence of obstacles that prevent the poor from participating in the economic process, as they do not possess the ability to respond to market changes. They are unable to finance investment in new projects, or to spend on learning and acquiring new experience and skills. The study found out that one of the reasons for the success of the East Asian countries in realizing the process of sustainable growth is the success of the governments in removing obstacles that prevent market mechanisms from functioning, i.e., removal of obstacles that prevent the poor from participating in the production process, which was done by following a "pro-poor growth" strategy. Such a strategy can be summarized as follows: the state is to create an economic environment that helps the poor to join the economic process and participate in the growth process from the beginning. The "pro-poor growth" strategy is based on enabling the poor to obtain educational and health services at costs suitable to their means, provision of funding for small businesses, and building infra-structures in areas where they live.⁴²

Theoretically, the aim of the "pro-poor growth" strategy is mainly to implement policies of income redistribution, because the existence of a high level of inequality in poor countries leads to limiting and obstructing the growth process. We quickly present in what follows how a high level of inequality consolidates an environment unsuitable and lacking incentives for growth.

* **Material Capital**

Modern studies of the behavior of consumers and savers in poor societies reveal that the marginal rate of saving of members of the middle class exceeds that of the rich or poor classes. Some economists have

⁴² **World Bank (1993)**, *The East Asian Miracle*, Oxford University Press. **World Bank (2002)** *Globalization, Growth, and Poverty: Building an Inclusive World Economy*; Oxford University Press.

explained this phenomenon by noting that, contrary to the traditional theory, income is not the only determinant for saving behavior. The factor of "personal ambition" plays an important role in determining the saving behavior of individuals. On the other hand, the degree of income and wealth inequality plays a role in limiting the "ambition" of individuals. The poor in poor societies have no hope or ambition to change their situation. They live as if they are in a poverty trap, which means the existence of a high degree of income inequality that constitutes an obstacle to saving, investment and accumulation of material capital. The aim of income redistribution policies is to enable the poor to live according to a new behavior based on a hope of escaping from the "poverty trap".⁴³

* ***Human Capital***

Investment in human capital, i.e., spending on education and health, deserves to have priority over investment in material capital, or over spending on luxury commodities and services. On this basis, any process of income redistribution which is based on deducting from the income of the rich and increasing the income of the poor, will lead to increasing spending by the poor on investment in human capital, without reducing spending by the rich on that investment. This necessarily means increased human capital accumulation in society.

* ***Technological Progress***

In societies with high levels of income inequality, education remains restricted to the rich minority. You rarely find skilled workers. Big differences exist between the skilled worker's wage and the general average wage. This is called "skill premium". This premium increases with the transfer or innovation of new technologies, which makes the process of transfer or innovation of a new technology a very costly process. Therefore it is done very slowly in those societies.

* ***Efficiency***

The existence of a high degree of income inequality in poor societies is accompanied by the existence of strong and influential groups that look after their interests by limiting efficient functioning of the market in production and distribution. They exercise a monopoly in production and imports, encourage rent seeking activities and weaken the institutional status of property rights. All that leads to consolidating an atmosphere of corruption and non-transparency, which increases the level of uncertainty in the markets, which results in widespread inefficiency in production and consequently to the shrinking of investment and slow growth.

Many applied studies, which examined the relationship between growth and income distribution in different countries, have revealed the existence of an inverse relationship between the degree of income distribution and the rate of growth.⁴⁴

⁴³ Debraj Ray (1998), *Development Economics*, Princeton University Press.

⁴⁴ Hendrik Van Den Berg (2001), *Economic Growth and Development*, New York: McGraw-Hill