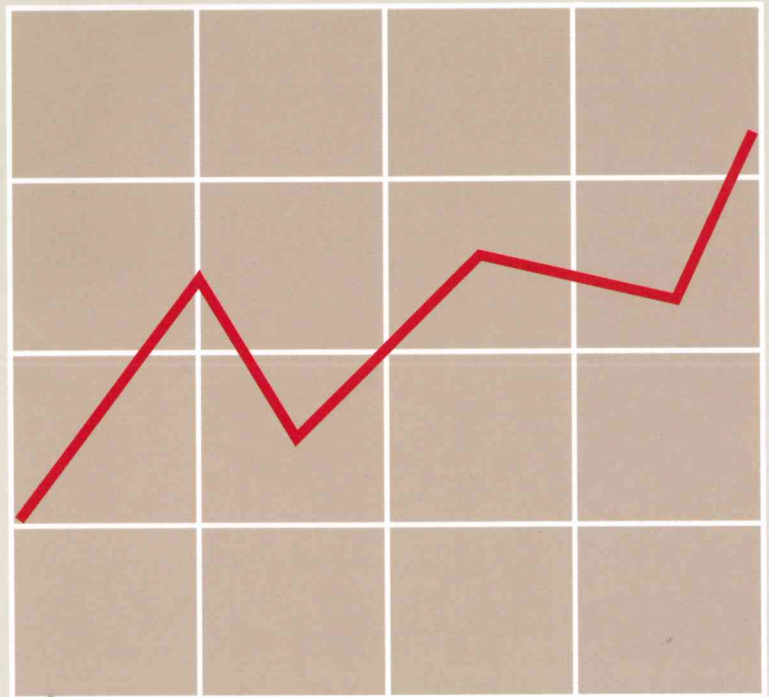


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Palestine Economic Policy Research Institute (MAS)
Palestinian Central Bureau of Statistics (PCBS)
Palestine Monetary Authority (PMA)

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FOREWORD

This volume of the Monitor presents the socio-economic events and statistics for the third quarter of 2008 in the West Bank and Gaza Strip. This issue also includes data analysis of the balance of payments in Palestine in 2007 and statistics on the Palestinian diaspora.

During the third quarter of 2008, economic activity was severely restricted due to lack of movement and access across the Territories. Palestinian GDP decreased and poverty and unemployment rates reached unprecedented levels. Some essential supplies in the Gaza Strip, such as medicines, also ran out.

As this Monitor goes to print, the economic and human losses caused by the brutal Israeli attack on the Gaza Strip, which began on 27 December 2008, are still largely unknown. In this volume, preliminary estimates of the losses are presented in a 'focus box'; detailed figures will be included in the next Monitor. As in previous issues, 'focus boxes' relate a range of local, regional and international events or concerns. The second of these boxes discusses the impact of the international economic crisis on the economies of the Arab world.

Finally, we would like to reiterate our commitment to our readers and warmly welcome any feedback. We also wish to thank the teams in the three organizations that prepare and edit this Monitor.

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Executive Summary

Economic activity: Palestinian GDP witnessed an overall decrease of 1.7% in the third quarter of 2008 compared with the second quarter of 2008. Consequently, GDP per capita also decreased, by 2.5% for the same period. Estimates of GDP in 2008 form just 71.3% of GDP of the year 1999.

Labour market: Participation in the labour force has been steady, at roughly 41.6% during the second and third quarters of 2008. Unemployment however has sharply increased, to 27.5% in the third quarter of 2008. In the same period, average daily wages fell by 4.2% and vacancies advertised in newspapers fell by 4.8%.

Public Finance: Total government revenues totaled \$579 million in the third quarter of 2008, 36% of which were domestic revenues. Current expenditure rose to \$1,064 million, with 54% for wages and salaries. Total public expenditure in the first three quarters of 2008 was 93% of the yearly expenditure budget, exceeding the planned figure.

Banking developments: Foreign investments formed 47.1% of the total banks' assets during the third quarter of 2008. Banks' assets rose by 4.8% in comparison to the previous quarter, reaching around \$7.66 billion. The value of credit facilities represented 23.6% of total assets, while private sector deposits represented 67.9% of total liabilities.

Palestine Securities Exchange: Compared with the end of quarter two, the Al-Quds (Jerusalem) index had decreased by 6.4% by the end of the third quarter of 2008. This was due to the fall of indices in all sectors, (with the exception of the industrial sector index which rose slightly). 44.3 million shares were traded in the third quarter, with a trade value of \$162 million. Market value of listed companies declined by 7.1% compared to the second quarter of the same year.

Prices and purchasing power: Consumer price index (CPI) increased by 1.83% compared to the average for the second quarter and rose by 8.64% compared to the third quarter of 2007. The increase was greater in the Gaza Strip, (+2.28%) with food items as the main lever behind the rise. The US dollar exchange rate increased against the New Israeli Shekel (NIS) by 5.7% during the third quarter of 2008, improving the US dollar's purchasing power by 3.2%.

Tourism: At the end of the third quarter of 2008, there were 83 hotels operating in the Palestinian Territory. There were 95,709 visitors during quarter three of 2008, 52.5% of who spent the night in Jerusalem. The number employees in the hotel sector increased by 17.1% during the third quarter of 2008 compared with the previous quarter.

Company Registration: The number of companies registered in the third quarter of 2008 fell by 5.7%, with 315 companies newly registered in the West Bank. Since November 2007, no companies have been registered in the Gaza Strip. On another level, trade and services companies claimed the highest share of capital for newly registered companies, representing 52.1% and 32.7% of the total, respectively.

Industry Expectations: 29.7% of owners and managers of industrial firms in the West Bank believed that their companies' overall performance improved during November 2008, while just 7.7% in the Gaza Strip noted an improvement. 25.8% of owners and managers of industrial firms in the West Bank and the Gaza Strip said that production levels had declined. According to 9.3% of them, employment improved during November.

Balance of Payments: There was a surplus of \$91.3m in the total balance of payments in 2007. The commodity trade balance, balance of services and financial account recorded deficits of \$2,600m, \$406.2m and \$190.5m, respectively. On the other hand, the net factor income from

abroad, current transfers balance and balance of the capital account had surpluses of \$558.6m, \$2,100m and \$395m, respectively. The reserve assets of the Palestinian Monetary Authority have increased by \$91.3m during the year 2007.

Half of the Palestinians living in the Diaspora: There were approximately 10.6m Palestinians in the world at the end of 2008. The Palestinian territories are home to 36.6% of them, while 11.5% live in Israel. Palestinians residing in Arab States account for 46.3% of the total, while 5.7% of Palestinians live abroad in non-Arab States.

Education in East Jerusalem: Around 70,157 students were enrolled in some 146 schools in East Jerusalem for the academic year 2007/2008. The Israeli Ministry of Education supervises 37% of these schools, where 37,604 students attend. 31.5% are private schools, with 15,663 students. The Palestinian Ministry of Education runs 26% of the 146 schools, where 13,329 students are enrolled. The final 5.5% of schools, to which 3,561 attend, are supervised by UNRWA.

Israeli Measures: During the third quarter of 2008, two Palestinian activists were assassinated and 414 were martyred. In the same period, crossing points between the Palestinian Territories and Israel were fully closed 363 times and the number of temporary military checkpoints in the West Bank reached 1,076. There were 16 attacks on the education sector and 11 on the health sector. Israeli forces destroyed 46 houses and occupied another 68. During the thirds quarter, there were 19 settlement activities, such as land confiscation for military purposes. There were also 274 Israeli settler attacks.