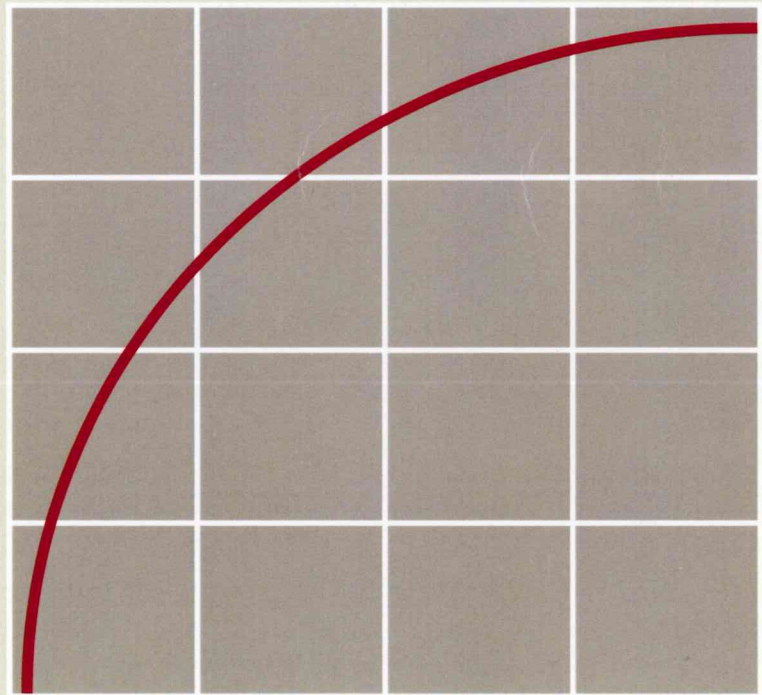


2010

# **Economic & Social Monitor**



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

**Volume 22  
November**



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(PMA)**



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November 2010

## FOREWORD

We are pleased to present the 22<sup>nd</sup> volume of the Economic and Social Monitor, which tracks the most significant economic and social trends that took place during the second quarter of 2010. This volume evaluates the national accounts, the labor market conditions, and the governmental budget position of the Palestinian Territories during this period. Specifically, developments in the banking sector and in the stock market are outlined and assessed in light of economic developments during the quarter. In this publication, we also discuss the business environment in the Palestinian Territories by following up on new companies' business registration, building licensing, and cement imports. Additionally, we track developments in prices of goods and services during the second quarter of 2010. With regards to the Israeli occupation, this report addresses issues concerning the legal environment of the occupied territories in general, and the legality of Israeli encroachments on Palestinian rights and property in particular. Finally, the monitor contains reviews of the youth and health surveys taken within the Palestinian Territories.

It is worth noting that the political and economic paths of the West Bank and the Gaza Strip are increasingly diverging as a result of both the Israeli siege on the Gaza Strip and the Palestinian internal political divide between Hamas and Fatah. In light of the widening gap and the decreasing communication between the West Bank and the Gaza Strip, the reader will notice that there is a gap in some data with regards to Gaza. We hope that this divide will come to an end in the near future so that sound and comprehensive economic policy may be formulated for the advancement of a unified Palestine.

On another note, this volume also includes a number of topic boxes addressing outstanding economic issues. The first box attends to the natural gas recently discovered in Israel and touches upon the opportunity for the PNA to benefit from the Israeli government's attempts to increase its share of profits from the extraction of newly discovered natural gas. The second box analyzes the increase in vehicle registration in the West Bank. The third box contains a review of the financial contributions made by Arab states to finance the Palestinian budget deficit. The fourth box addresses foreign investment in the Palestinian Territories. The fifth box summarizes the results of an Israeli study regarding the importance of Israeli exports to the Palestinian market. Finally, the sixth box presents an evaluation of the Millennium Development Goals in the Palestinian Territories and assesses the chances of meeting the 2015 targets.

In this volume, the "Economic Issues" series lays out the economic policies meant to address the various economic fluctuation problems discussed in the previous volume.

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### Key Economic Indicators in the West Bank\* and the Gaza Strip, 1994-2009

Indicator	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Population by MidYear (Thousands)</b>																
Occupied Palestinian Territory	-	-	-	2,871.6	2,962.2	-	3,053.3	3,138.5	3,225.2	3,314.5	3,407.4	3,508.1	3,612.0	3,719.2	3,825.5	3,935.25
West Bank	-	-	-	1,838.8	1,891.2	-	1,943.7	1,992.6	2,042.3	2,093.4	2,146.4	2,203.7	2,262.7	2,323.5	2,385.2	2,448.4
Gaza Strip	-	-	-	1,032.8	1,071.1	-	1,109.7	1,145.9	1,182.9	1,221.1	1,261.0	1,304.4	1,349.3	1,395.7	1,440.3	1,486.8
<b>National Accounts</b>																
GDP**	3,012.3	3,193.2	3,286.0	3,701.6	4,147.9	4,511.7	4,118.5	3,765.2	3,264.1	3,749.6	4,198.4	4,559.5	4,322.3	4,554.1	4,820.9	5,147.2
GDP per capita (US \$)**	1,406.2	1,388.2	1,347.8	1,437.7	1,558.4	1,640.3	1,450.2	1,287.9	1,084.8	1,210.9	1,317.0	1,387.2	1,275.4	1,303.2	1,340.4	1,389.9
Household Expenditure**	3,061.5	3,093.3	3,106.1	3,493.3	3,806.8	4,180.2	3,982.0	3,901.4	3,627.8	4,103.1	4,400.3	4,467.5	4,197.5	4,591.2	4,803.2	-
Public Expenditure	568.4	609.0	735.7	814.7	924.4	1,010.6	1,100.7	1,022.7	947.9	903.1	1,048.9	833.3	870.4	892.7	963.4	-
Gross Capital Formation**	1,051.5	1,065.0	1,160.7	1,310.6	1,531.2	2,081.2	1,561.1	1,120.0	954.1	1,204.0	1,022.3	1,265.7	1,347.2	1,122.9	1,315.1	-
Net Balance of Goods Trade**	(1,609)	(1,522)	(1,652)	(1,786)	(1,951)	(2,636)	(2,432)	(2,055)	(2,082)	(2,382)	(2,210)	(2,009)	(1,668.6)	(1,970.5)	(2,169.8)	-
Commodity Imports**	2,021.6	1,980.4	2,163.5	2,326	2,601.4	3,271.4	2,978.5	2,418.6	2,423.8	2,776.8	2,622.1	2,466.5	2,203.8	2,508.3	2,763.6	-
Commodity Exports**	412.5	458.1	511.7	539.9	650.7	635.4	546.6	363.2	341.8	394.4	412.3	457.5	535.2	537.8	593.8	-
<b>Prices and Inflation</b>																
Average Exchange Rate of the US \$ Against the Shekel	3.010	3.010	3.239	3.554	3.802	4.162	4.086	4.208	4.742	4.550	4.478	4.482	4.454	4.110	3.567	3.93
Average Exchange Rate of the JD Against the Shekel	4.304	4.304	4.548	5.007	5.351	5.839	5.811	5.928	6.674	6.417	6.307	6.317	6.292	5.812	5.042	5.54
Inflation Rate (%)***	-	-	-	7.6	5.6	5.5	2.8	1.2	5.7	4.4	3.0	4.1	3.8	1.9	9.9	2.75
<b>Labor Market</b>																
Number of Employees (thousands)	-	417	429	481	549	588	600	505	477	564	578	633	622	666	648	717
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	41.6
Unemployment (%)	-	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	26.0	24.5
<b>Social Conditions</b>																
Poverty Rate (%) ****	-	-	23.6	22.5	20.3	-	-	27.9	-	-	25.6	29.5	30.8	34.5	-	-
Deep Poverty Rate (%) *****	-	-	14.3	14.2	12.5	-	-	19.5	-	-	16.4	18.1	18.5	23.8	-	-
<b>Public Finance (Million US \$)</b>																
Net Domestic Revenues *****	-	-	-	807	868	942	939	273	290	747	1,050	1,370	722	1,616	1,780	1,548.4

Indicator	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Current Expenditures and Net Lending	-	-	-	862	838	937	1,199	1,095	994	1,240	1,528	1,994	1,426	2,567	3,273	2,919.6
Externally Supported Development Expenses	-	-	-	500	520	474	469	340	252	395	0	287	281	310	م.غ	46.8
Surplus (deficit) Budget before Support	-	-	-	(55)	30	5	(260)	(822)	(704)	(493)	(478)	(624)	(704)	(951)	(1,493)	(1,412.7)
Total Grants & Assistance	-	-	-	520	530	497	510	849	697	620	353	636	1,019	1,322	م.غ	1,401.9
Total Surplus (deficit) Budget	-	-	-	(35)	40	28	(219)	(313)	(259)	(268)	(125)	(275)	34	61	270.2	(144)
Public Debt	-	-	-	212	309	309	795	1,191	1,090	1,236	1,422	1,602	1,494	1,439	1,406	99.8
<b>Banking Sector (Million US \$)</b>																
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	7,893
Equity	-	-	-	216	222	246	242	206	187	217	315	552	597	702	857	910
Clients' Deposits	-	-	-	2,090	2,415	2,875	3,508	3,398	3,432	3,625	3,946	4,190	4,216	5,118	5,847	6,111
Credit Facilities	-	-	-	578	777	967	1,280	1,186	942	1,061	1,417	1,788	1,843	1,705	1,829	2,109
Number of Banks	7	13	15	19	21	21	21	21	20	20	20	20	21	21	21	20

Source: Palestinian Central Bureau of Statistics, the Palestinian Monetary Authority.

- \* West Bank: means the West Bank except that part of the Jerusalem governorate which was annexed forcefully by Israel following its occupation of the West Bank in 1967 (with the exception of the data on unemployment).
  - \*\* Data in constant prices. The base year for the 1994-2003 is 1997; the base year for 2004-2009 is 2004. Data for 2009 is preliminary and subject to revision and amendment and is based on quarterly estimates.
  - \*\*\* According to the inflation rate based on the comparison of average indices of consumer prices for the comparison year with its average in the previous year. The base year for the period 1994-2006 was 1996 (1996=100), the base year for 2007, 2008, and 2009 is 2004 (2004 = 100).
  - \*\*\*\* The PCBS defines poverty in relation with the family budget. Deep Poverty: any standard family (6 members: two adults and 4 children) possessing a budget that is less than NIS 1,886 monthly (2007) to cover for the expenses of food, clothing, and housing. Relative poverty: any standard family (6 members: 2 adults and 4 children) possessing a budget less than NIS 2,362 monthly to cover the expenses of food, clothing, housing, health, education, transportation, and others.
  - \*\*\*\*\* The total net income is the total current income after the deduction of tax returns.
- Figures in brackets are negative.

## Executive Summary

**Economic Activity:** Most macroeconomic indicators witnessed an increase in the second quarter of 2010 compared to the first quarter of 2010. GDP grew by 5.5%, which led to an increase in GDP per capita by 4.7%. Specifically, the construction sector recorded the highest growth in contribution to GDP, reaching 29.3%.

**Labor Market:** Quarterly data showed an increase in employment numbers, from 743,700 in the first quarter to 755,900 in the second quarter of 2010. The distribution of workers by place of work was: 64.6% in the West Bank, 25.3% in Gaza, and 10.1% in Israel and the settlements. In addition, the highest unemployment rate was among young people aged 15-24 years, especially among females (47%). With regard to daily wages, the average daily wage in the Gaza Strip equaled about 69% of the wage rate in the West Bank, and 37.4% of the average wage of those working in Israel during the second quarter of 2010. On the other hand, advertisements for job openings in newspapers amounted to a total of 1,323 in the 2<sup>nd</sup> quarter of 2010. This represents an 8.3%-increase compared to the first quarter.

**Public Finance:** Total government revenues in the 2<sup>nd</sup> quarter increased slightly more than in the first quarter, to US \$455 million (up by almost 2%). Total public expenditure increased by 6.6% to US \$755 million compared to the previous quarter. This came as a result of an increase in salaries and wages (5.3%), in addition to non-wage expenditure (12.6%). This means that the budget deficit (before foreign funding) reached US \$300 million (17.6% of GDP) during the second quarter, compared to a deficit of US \$261 million in the first quarter.

**Banking Sector:** Net assets of banks operating in the Occupied Palestinian Territory decreased by 3% during the 2<sup>nd</sup> quarter compared to the 1<sup>st</sup> quarter of 2010. Total credit facilities reached US \$2.588 million during the 2<sup>nd</sup> quarter of 2010, an increase of 5% compared to the previous quarter. Additionally, the number of checks presented for clearing increased by 8%, as their value rose by 5.8% between the quarters. In the beginning of 2010, the Palestine Monetary Authority launched a new system of *check returns* which was put in place to freeze the

accounts of the persons who write checks without a bank account balance.

**Palestine Securities Exchange:** The number of shares traded in the market for the second quarter increased by 38% up to 85.5 million shares. The increase of traded shares was accompanied by a decrease in the value of shares between April and May compared to share value in the first quarter. However, share values rebounded in June and recorded an increase of 10% during the second quarter compared to the first quarter. Finally, Al-Quds index closed at 515.48 points at the end of the second quarter, an increase of 2.52% compared to the previous quarter.

**Company Registration:** The number of companies registered in the West Bank increased by 28% during the second quarter of 2010 compared to the previous quarter. Capital investments also increased by 68%, due to the increase in the number of newly registered companies in the West Bank, with a total of JD 73.3 million. Regarding the distribution of the listed companies, second quarter data showed that the largest proportion of listed companies - as in the previous quarters - were in Ramallah (39%), Hebron (13.6%), and Nablus (10.3%).

**Building Licenses and Cement Imports:** the factors which influence the number of building licenses are closely related to cement imports as well. In effect, building license data are positively correlated to cement imports. The number of building licenses in the West Bank increased by 33% during the second quarter of 2010 compared to the same quarter in 2009. The number of licensed dwelling also increased by 420 from 2009. Furthermore, the amount of imported cement increased in the first quarter of 2010 by 9.5% compared to the first quarter of 2009, reaching about 301,385 tons. There are no available data on building licenses and cement imports for the Gaza Strip.

**Hotel Activity:** The total number of guests in hotels located in the Palestinian Territories reached 140,009 during the second quarter 2010, of which 9.6% were Palestinian and 41.7% European. The number of guests increased by 13.7% compared to the first quarter of 2010 and by 42.3% compared to the second quarter of 2009.

**Prices and Purchasing Power:** Compared to the previous quarter, the Consumer Price Index (CPI) in the Palestinian Territories increased by 0.06%. At basic consumer price levels, the cost of fuels, such as car gas, increased dramatically by 4.37% during the second quarter. Rice and sugar prices recorded the highest decline during the second quarter of 2010 compared to the previous quarter, amounting to 6.42% and 4.88%, respectively. Additionally, the Producer Price Index increased by 0.73% during the second quarter of 2010 compared to the first quarter. Moreover, purchasing power significantly improved in US dollar terms (by 2.5%). This means that citizens who deal with US dollars and/or Jordanian Dinars in the Palestinian market were able to obtain larger quantities of goods and services during the second quarter with the same income that was available to them in the previous quarter.

**Legal and Legislative Environment:** the President of the Palestinian National Authority issued 7 decrees which were put into force in the period March-June 2010. Of these, the most important law in economic terms was the decision to prohibit products originating from the settlements. This initiative aims to boycott products and services from the Israeli settlements and to support and promote national products instead. The legislature also introduced the law of "Al-Karamah National Empowerment Fund-Supporting Self Empowerment and Combating Settlement Products".

**Israeli Measures:** In June, July, and August, 24 Palestinians were killed and 142 were injured, 82 of which were from the West Bank and 60 from the Gaza Strip. Additionally, the number of prisoners reached 706, including 702 in the West Bank and 4 in the Gaza Strip. The occupation forces placed 557, 613, and 484 permanent and temporary checkpoints throughout the West Bank in June, July and August, respectively. Moreover, settlers continued their assaults on Palestinian civilians, totaling 176, all in the West Bank.

**Youth in the Occupied Palestinian Territories:** The percentage of Palestinian citizens between the ages of 15 and 29 in mid-2010 was 29%, and the ratio of male to female within that group was 104.4 males for every 100 females. The available data for 2009 indicate that approximately 45.4% of young people (15-29 years) were enrolled in an educational institution. As for labor market indicators, the

service sector was the largest sector in terms of absorption capacity for the youth, employing 33.8% of the youth during the 2<sup>nd</sup> quarter of 2010. It is followed by the trade, restaurant, and hotel sectors, which employ 21.7% of the youth.

**Health Status in the Occupied Palestinian Territory:** The number of registered live births during the first half of this year was 21,296, 10,956 of which were males (51.4%), and 10,340 – females (48.6%). The total number of registered deaths during the same period was 3,426, including 1,817 males and 1,609 females. According to traffic accident figures, the number of injuries resulting from traffic accidents registered in the Ministry of Health was 3,474, including 2,628 injured males and 846 injured females. These injuries resulted in 25 deaths, 73 serious injuries, and 51 different disabilities.

**Areas of Discussion in the Issue:** In this issue of the Monitor, six different topics have been discussed in independent boxes.

✧ **Natural Gas in Israel:** Until now, three fields containing commercial quantities of natural gas in waters off Israel's Mediterranean Sea coast have been discovered: the Mary B Field, the Field of Tamar, and the Field of Leviathan. Experts predict that extraction from the Field of Tamar alone will be sufficient to cover the Israeli civil and industrial natural gas needs for at least 20 years. Any extraction from the Field of Leviathan will be exported. The Palestinian National Authority was granted a license to explore for oil and gas in the definitive water off the coast of Gaza, which is located under the control of the PNA by the Oslo Accords. However, it is worth noting that there is a clause in the Agreement that states that the Palestinian treasury should obtain the same percentage of profits that Israel receives from extracting natural gas in its regional waters.

✧ **Increase in the Number of Vehicles in the West Bank: Causes and Consequences:** The number of registered cars in the West Bank increased from 123,600 to 139,000 during the first nine months of 2010. There are several reasons behind this increase such as: a decrease in the car purchasing tax, new arrangements for the payment of customs, and improved credit facilities provided by banks. This topic box discusses these reasons in detail, as well as the implications

of the increasing car fleet in the West Bank, including traffic jams, financial burdens, and environmental impacts.

- ✧ **Arab Countries' Support for the Palestinian Budget:** Arab countries committed to pay at least US \$55 million per month during the year 2010. This amount represents 53% of the total international monthly obligations for budgetary support, the highest percentage for the past three years. However, the total payments actually received by the PNA during the first six months of the year did not exceed US \$60 million, or less than 20% of the US \$330 million promised. As a consequence, the PNA had to borrow US \$121 million from local banks during the first half of 2010, bringing the total amount of debt owed to local banks to US \$665 million.
- ✧ **Foreign Investments in the Palestinian Territories:** The Palestinian Central Bureau of Statistics and the Palestine Monetary Authority conducted a survey, the first of its kind, on foreign investment in the Palestinian Territories. The survey covered all profit companies in the Palestinian Territories, excluding non-financial institutions in the Gaza Strip, for the period 2008-2009. The survey found that the total balance of foreign investments in the Palestinian Territories amounted to US \$1.586 million at the end of 2009. This number represented an 18% increase of foreign investment from 2008. On the other hand, the foreign investment market in the West Bank witnessed mobility in mid-2010. Abraaj Capital, the largest investment company in the Middle East, announced the opening of an office in Ramallah in August. Moreover, Siraj plans to launch a special fund to invest in the Palestinian territories.
- ✧ **Israel's Exports to the West Bank and Gaza:** *Recent Economic Developments* magazine, issued by the Bank of Israel, recently published a report analyzing the number and the value of Israeli exports to the West Bank and the Gaza Strip. The value of total Israeli exports to the West Bank and Gaza (excluding East Jerusalem) was estimated at about US \$3.2 billion (NIS 12 billion) in 2008. The study claims that this figure does not accurately reflect the real importance of the Palestinian market to the Israeli economy since the value added of these exports and their role in the employment of Israeli labor is very limited. In this topic box, we argue that the figures reached by the study are not accurate; moreover, the margin of error may be significant.
- ✧ **Progress towards Achieving the Millennium Development Goals in the Palestinian Territories:** The formation of the Millennium Declaration in 2000 marked a significant shift in the United Nations' work mechanisms and the ability to apply their mission and goals to the actual facts on the ground. The third Palestinian progress report, following the two previous reports published in 2002 and 2005, was released in September 2010. The report assesses to what degree the Millennium Development Goals have been implemented and to what extent they have worked thus far. Results indicate that there was a significant improvement towards the achievement of six of the eight goals in the Millennium Declaration. For instance, there are increased enrolment rates in basic education, improvements in the reality of Palestinian women in the social, political and economic sectors, and lower mortality rates among children under the age of five. On the other hand, there was a decline in the indicators related to poverty eradication and the environmental situation.

## 1. Economic Activity

Most of the macroeconomic indicators marked an improvement in the 2<sup>nd</sup> quarter of 2010 compared to the 1<sup>st</sup> quarter. GDP grew by 5.5%, which led to a growth of 4.7% in GDP per capita. The labor force participation rate (LFPR) slightly rose between the two first quarters of 2010, which led to a rise in the unemployment rate (by 1 percentage point, to 23%) despite an increase in the number of workers by 12,000.

It should be noted that these aggregate figures for the Occupied Palestinian Territory (OPT) (with the exception of the part of the

Jerusalem governorate which was annexed forcefully by Israel following its occupation of the West Bank in 1967) reflect a large disparity in performance between the West Bank and the Gaza Strip. The largest element contributing to this difference in performance and disparity in indicators is attributed to the illegal and inhumane siege imposed by Israel on the Gaza Strip. This disparity in performance between the West Bank and the Gaza Strip will be emphasized throughout this issue of the Monitor.

**Table 1: Main Quarterly Economic Indicators in the Occupied Palestinian Territory (Excluding Jerusalem)**  
(Million US \$)

Indicator	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
GDP	1,213.9	1,298.8	1,307.1	1,327.4	1,344.3	1,417.8
GDP per Capita (US \$)	331.4	352.1	351.8	354.6	356.6	373.4
Labor Force Participation Rate (%)	41.4	41.4	41.7	41.6	40.7	41.5
Number of Employees (thousands)	697.1	738.7	709.2	724.2	743.7	755.9
Unemployment Rate (%)	25.4	22.2	25.8	24.8	22.0	22.9
Inflation Rate (%)	(1.00)	0.86	1.90	1.30	0.46	0.06
Total Domestic Revenues	342.1	355.3	453.8	397.3	447.1	455.5
Total Current Public Expenditures	726	644.4	952.2	597	708.1	755.5
Current Budget Deficit before Support	(383.9)	(289.1)	(498.4)	(199.7)	(261)	(300.1)
Current Budget External Support	259.0	148.3	663.4	284.2	207.6	317.6
Current Budget Deficit after Support	(124.9)	(140.8)	165	84.5	(53.4)	17.5
Operational Expenditures*	8.7	61.8	56.8	58.6	50.4	52.5
External Support for Operational Expenditures	19.1	12.7	5.1	9.9	2.2	22.2
Budget Deficit before Support	(392.6)	(350.9)	(552.2)	(258.3)	(311.4)	(352.6)
Budget Deficit after Support	(114.5)	(189.9)	(113.3)	35.8	(101.6)	(12.9)
Clients' Deposits	5,772.5	5,988.7	6,385.9	6,295.3	6,495.5	6,379.7
Credit Facilities	1,842.9	2,099.7	2,261.2	2,233.9	2,586.5	2,587.7
Total Public Debt				1,732	1,813	1,845
- For Domestic Spending				561	630	677

Source: The Palestinian Central Bureau of Statistics - PCBS (National Accounts Statistics, Price Indices), Palestine Monetary Authority - PMA (Public Finance Indicators, Banking Indicators).

GDP and GDP per capita in constant prices (base year is 2004). This covers the Occupied Palestinian Territory except that part of Jerusalem governorate which was annexed forcefully by Israel following its occupation of the West Bank in 1967. Figures for 2009 quarters were revised more than once and are still subject to revision. Figures for the 1<sup>st</sup> quarter of 2010 are first revision and figures for the 2<sup>nd</sup> quarter of 2010 are first version. Thus all are subject to revision. Inflation rate was calculated by comparing the consumer price index for a given quarter with that of the previous quarter.

\* In the months from January to March 2009, part of the development expenditures is included in small capital expenditures.

Current public expenditures increased by 6.7% between the 1<sup>st</sup> and the 2<sup>nd</sup> quarter of 2010, reaching a total of US \$755 million. When compared to total domestic revenues (US \$455 million), the current budget deficit before foreign support amounted to US \$300 million during the 2<sup>nd</sup> quarter. When the 2<sup>nd</sup> quarter development expenditures are added (US \$52 million), the total budget deficit amounts to US \$352 million. During this quarter, US \$340 million was received in foreign aid (US \$318 million for current budget and US \$22 million for developmental expenditures). This means that the total budget deficit after foreign financing was US \$13 million during this quarter. When added to the 1<sup>st</sup> quarter, the deficit in the first half of 2010

becomes US \$114 million. Adding in the previous debt, total public debt reached US \$1,845 million, US \$677 million of which are debts to local banks.

As for the contribution of different economic sectors to GDP, the 2<sup>nd</sup> quarter of 2010 witnessed a rise in the contribution of the construction sector by 29.3%. This occurred after a decline of economic activity in the construction sector during the 1<sup>st</sup> quarter of 2010, as construction and building usually decrease in the autumn and the winter and start to pick up again by the end of winter. Overall, the 2<sup>nd</sup> quarter witnessed relatively stable contributions from various economic sectors to GDP (see table 2).

**Table 2: Contribution of Economic Activities to GDP in the Occupied Palestinian Territory\* in Constant Prices (Base Year: 2004), Q2 2009-Q2 2010 (%)**

Economic Activity	2009			2009**	2010	
	Q2**	Q3**	Q4**		Q1***	Q2****
Agriculture and Fishing	5.1	4.1	5.2	4.8	5.0	5.5
Mining, Manufacturing, Water and Electricity Supplies	14.5	14.4	14.4	14.6	14.5	12.4
Mining and Quarrying	0.4	0.4	0.5	0.4	*****	*****
Manufacturing	10.9	10.8	10.8	11	*****	*****
Water and Electric Supplies	3.2	3.2	3.1	3.2	*****	*****
Construction	8.2	7.6	6.9	7.4	7.5	9.7
Retail and Wholesale	10.2	10.6	10.9	10.7	10.7	10.7
Transportation, Storage, and Telecommunication	8.4	8.5	8.7	8.7	8.5	8.6
Financial Intermediation	5.3	5.7	5.8	5.5	5.8	5.5
Services	24.3	23.4	22.8	23.7	22.8	22.3
Real Estate, Rental, and Commercial Activities	9.6	8.7	7.8	8.9	8.0	8
Communal, Social, and Personal Activities	1.9	1.9	1.7	1.8	1.9	1.9
Hotels and Restaurants	1.2	1.5	1.5	1.3	1.5	1.7
Education	8.7	8.5	8.9	8.8	8.7	8
Health and Social Work	2.9	2.8	2.9	2.9	2.7	2.7
Public Administration and Defense	14.0	14.3	14.7	14.5	14.7	14.2
Domestic Services	0.1	0.1	0.1	0.1	0.1	0.1
<u>Subtract:</u> Financial Inter-mediation (with Indirect Clearing)	-5.2	-5.4	-5.4	-5.3	-5.1	-4.8
<u>Add:</u> Customs Fees	6.0	6.2	5.8	5.8	5.5	6
<u>Add:</u> Net VAT on Imports	9.1	10.5	10.1	9.5	10.0	9.8
GDP (%)	100	100	100	100	100	100
GDP	1,298.8	1,307.1	1,327.4	5,147.2	1,344. <sub>3</sub>	1,417.8

Source: PCBS, 2010. National Accounts Statistics, Ramallah – Palestine.

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

\* The Occupied Palestinian Territory: excluding that part of the Jerusalem governorate that was annexed by Israel following Israel occupation of the West Bank in 1967.

\*\* Preliminary estimates, subject to revision and modification.

\*\*\* First revision, preliminary and subject to revision and modification.

\*\*\*\* First issue, preliminary and subject to revision and modification.

\*\*\*\*\* The activities of the three industries are merged.



## Box 1: Natural Gas in Israel

The London *Economist* published an article on the discovery of oil in Israel,<sup>1</sup> which provided the following information:

Three fields were discovered so far with commercial quantities of natural gas in the Mediterranean waters facing Israeli shores.

- ◇ (Mari – B) Field: This field was discovered in 1999, located 40 km from the Ashdod port. In 2004, production started from this field at a rate of 2.8 billion cubic meters annually. The gas reserves in this field are estimated at around 22 billion cubic meters.
- ◇ (Tamar) Field: This field was discovered last year at a distance of 90 km off Israel's northern shore. It is expected to start production by 2014. The gas reserves in this field are estimated at around 238 billion cubic meters.
- ◇ (Leviathan) Field: This extremely large gas field was discovered at a distance of 135 km from the Israeli-Lebanese border. Initial calculations estimate that the field contains 453 billion cubic meters of gas. Exploratory drilling has started, and production is expected to begin in 2016.

The sum of all energy bills in Israel amounts to about US \$10 billion annually (5% of the GDP). Experts predict that the extraction of gas from the Tamar Field alone will be sufficient to cover the Israeli natural gas needs (civil and industrial) for a period of at least 20 years. If these predictions hold true, gas production from the Leviathan will likely be exported, with Greece being a prime candidate. However, the field is partially located within the exclusive economic monopoly area of both Cyprus and Lebanon (these areas extend over 200 miles, or 322 km, from Cyprus and Lebanon's respective shores), which means that there must be an accord among the three countries before any extraction or production can begin.

The value of Tamar and Leviathan production is estimated at roughly US \$4 billion annually. The authorization to extract gas from the three fields was given to a consortium comprised of American and Israeli companies. A special committee set up by the Israeli Minister of Finance recommended an increase of the taxes imposed on the production company, so as 66% of its profits be taken by the government. The company strongly protested this recommendation, set against a strong US government support for the consortium.



<sup>1</sup> *The Economist*, November 11, 2010.

The Palestinian National Authority has been granted the authorization (concession) for oil and gas exploration in waters facing Gaza shores; these waters were put under PNA control in accordance with the Oslo Accords (see *Economic and Social Monitor*, Volume 12). This concession was granted in 1999 to a consortium headed by British Gas (BG), which also includes the international Consolidated Contractors Company (CCC) and the Palestinian Investment Fund (PIF). In the year after, two gas fields were discovered: one inside the water section (Gaza Marine) and the second (Or) on the border of the water section with Israel. The estimated reserve of the Gaza field varies between 1 and 1.3 trillion (thousand billion) cubic feet, and is valued at US \$4 billion. Nevertheless, the development of this field was halted due to Israeli objection and restrictions. It is worth noting that there is an item in the concession granted by the Palestinian National Authority to the investing companies which stipulates that the Palestinian treasury should obtain the same percentage of profit as that obtained by Israel from the production of gas in its regional waters.<sup>2</sup>

## 2. Labor Market

There are three key indicators that determine the number of workers in an economy: the working age population, the rate of participation in the labor market, and the unemployment rate. The role of labor in the economic activity is generally determined by indicators pertaining to human capital. These include the volume of physical capital available to workers and the nature of the institutions that have a direct or indirect impact on the production process. The Palestinian labor market reflects the general economic conditions in the region. On the quantitative level, we notice a rise in the level of the working age population, a decline in the labor force participation rate, and a rise in the unemployment rate. The labor market suffers from imbalances, demonstrated in the inability of demand to meet the level of supply. When closely examining the causes of this inability, we find that it is mainly caused by a drop in the size of the general demand for goods and services (consumption, investment, public expenditure, and exports). More specifically, the investment activity is weak and unable to create sufficient capital accumulation to generate enough job opportunities capable of absorbing the annual increase in the labor force.

This imbalance was exacerbated during the Second Intifada because of the considerable shrinking in the economic activity as a result of the Israeli army practices. These included killing, restrictions imposed on the mobility of

people and goods between the Gaza Strip and the West Bank, destruction, siege and closures, the building and the expansion of the Separation Barrier between towns and villages within the respective regions. During the years of Al-Aqsa Intifada, the annual increase in manpower (the population in the working age, 3.6% annually) was higher than the increase in the labor force (employed and unemployed, 3.5% annually), i.e., the labor force participation rate declined.

### 2.1 Labor Force and Labor Force Participation

Quarterly data registered a rise in the number of those employed in the OPT. The number increased from 743,700 workers in the 1<sup>st</sup> quarter of 2010 to 755,900 workers in the 2<sup>nd</sup> quarter of 2010. It is noted that the disparity in participation rate (i.e., the ratio of the labor force to those in the working age) between the West Bank and the Gaza Strip persisted. The labor force participation rate (LFPR) amounted to 43.9% in the West Bank in the 2<sup>nd</sup> quarter of 2010, while it did not exceed 37% in the Gaza Strip. This is particularly due to a decline in the female labor force participation rate in the Gaza Strip compared to the West Bank, 11% versus 17.6%. It is worth noting that the female LFPR in the Gaza Strip dropped from 13.5% in the 1<sup>st</sup> quarter of 2009 to 11% in the 2<sup>nd</sup> quarter of 2010 (see Table 3).

<sup>2</sup> See *Economic and Social Monitor*, Volume 12, April 2008.

**Table 3: Labor Force Participation Rate for Individuals Aged 15 Years and Over in the Occupied Palestinian Territory by Region and Sex, Q1 2009-Q2 2010 (%)**

Region and Sex	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
<b>Both Sexes</b>						
West Bank	42.8	44.4	43.7	44.1	43.2	43.9
Gaza Strip	38.9	36.9	37.7	36.9	36.3	37.0
Occupied Palestinian Territory	41.4	41.7	41.6	41.5	40.7	41.5
<b>Males</b>						
West Bank	68.5	69.6	69.5	70.5	70.0	69.6
Gaza Strip	63.8	61.4	63.1	61.6	60.9	62.5
Occupied Palestinian Territory	66.9	66.7	67.2	67.3	66.7	67.1
<b>Females</b>						
West Bank	16.5	18.7	17.3	17.1	15.8	17.6
Gaza Strip	13.5	11.8	11.9	11.6	11.2	11.0
Occupied Palestinian Territory	15.4	16.2	15.4	15.1	14.1	15.2

Source: PCBS (2010), Labor Force Survey, 2008-2010.

As for workers' employment status, the quarterly data indicate a rise in the percentage of unpaid workers in family establishments, with a rise in the percentage of business

owners and a significant decline in the percentage of waged workers from 73.6% to 66.8% (see Table 4).

**Table 4: Distribution of the Employed Persons in the Occupied Palestinian Territory by Employment Status and Region, Q1 2008-Q2 2010(%)**

Region and Work Status	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
<b>West Bank</b>										
Employer	4.2	4.3	4.5	5.0	6.0	7.0	7.5	7.3	7.1	7.3
Self-employed	22.9	24.1	22.8	16.4	20.8	19.8	20.2	22.0	21.4	20.6
Wage Employee	64.2	60.4	62.2	67.9	64.6	62.5	63.1	62.0	63.3	62.3
Unpaid Family Member	8.7	11.2	10.5	10.7	8.6	10.7	9.2	8.7	8.2	9.8
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Gaza Strip</b>										
Employer	2.9	3.3	4.6	3.5	5.3	3.9	3.6	4.8	4.3	4.7
Self-employed	27.3	16.9	15.7	12.0	14.9	13.2	15.4	16.3	17.1	13.6
Wage Employee	58.5	71.3	73.3	79.0	73.7	79.5	78.2	74.2	75.0	80.0
Unpaid Family Member	11.3	8.5	6.4	5.5	6.1	3.4	2.8	4.7	3.6	1.7
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Occupied Palestinian Territory</b>										
Employer	3.8	4.0	4.5	4.6	5.8	6.2	6.5	6.6	4.8	6.6
Self-employed	24.3	22.4	21.0	15.3	19.1	18.0	19.0	20.5	18.2	18.8
Wage Employee	62.5	63.0	65.1	70.7	67.2	66.9	66.9	65.1	73.6	66.8
Unpaid Family Member	9.4	10.6	9.4	9.4	7.9	8.9	7.6	7.8	3.4	7.8
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: PCBS (2010), Labor Force Survey, 2008-2010.

Quarterly data indicate a change in the percentage distribution of employed persons by economic activity. The 2<sup>nd</sup> quarter of 2010 witnessed a rise in the percentage of workers in the construction sector (in the Gaza Strip, not in the West Bank) and in the agricultural

sector (see Table 5). An increase in the percentage distribution of employed persons in the services sector is noted in Table 5, along with a decline in the mining, quarrying, and manufacturing sector in both the Gaza Strip and the West Bank.

**Table 5: Distribution of Employed Persons in the Occupied Palestinian Territory by Region and Economic Activity, 2008-2010**

Economic Activity and Region	(%)									
	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
<b>Occupied Palestinian Territory</b>										
Agriculture, Forestry, Hunting, and Fishing	12.9	14.9	12.7	13.0	11.7	12.3	10.7	12.4	11.8	12.7
Mining, Quarrying, and Manufacturing	13.0	12.1	12.4	11.1	12.6	11.4	11.8	12.6	12.6	10.9
Construction	9.4	10.8	12.7	10.8	11.1	12.3	12.2	11.4	12.7	13.4
Services and Other Sectors	38.5	38.2	37.2	39.4	40.5	40.4	39.4	37.9	37.7	38.4
<b>West Bank</b>										
Agriculture, Forestry, Hunting, and Fishing	13.0	15.7	13.5	15.0	13.1	14.9	12.6	14.2	12.5	14.4
Mining, Quarrying, and Manufacturing	16.2	14.5	15.0	13.9	15.4	13.9	13.8	15.0	15.1	13.2
Construction	12.7	14.1	16.8	14.2	15.1	16.5	16.0	15.1	17.0	17.1
Services and Other Sectors	32.8	30.9	29.1	29.8	31.6	30.9	31.5	30.0	29.9	30.1
<b>Gaza Strip</b>										
Agriculture, Forestry, Hunting, and Fishing	12.5	12.3	10.6	7.1	8.4	4.8	4.9	7.3	9.9	7.8
Mining, Quarrying, and Manufacturing	5.5	4.6	4.8	2.7	5.6	4.2	6.0	5.7	6.0	3.8
Construction	1.6	0.4	0.7	0.8	1.0	0.7	0.9	1.0	1.3	2.5
Services and Other Sectors	52.0	61.4	60.7	67.9	16.9	67.0	63.2	60.1	58.2	63.0

Source: PCBS (2009), Labor Force Survey, 2008-2010.

The distribution of workers according to the region in which they work in the 2<sup>nd</sup> quarter of 2010 is: 64.6% in the West Bank, 25.3% in the Gaza Strip, and 10.1% in Israel and the settlements. It is noted that the share of

workers employed in the West Bank increased by 3% between the 1<sup>st</sup> and the 2<sup>nd</sup> quarter of 2010, while the share of the Gaza Strip dropped by 2%, and that of Israel and the settlements – by 1% (see Table 6).

**Table 6: Distribution of Workers Aged 15 Years and Over in the Occupied Palestinian Territory by Place of Work, Q1 2008-Q2 2010**

Workplace	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
Manpower (Thousand)	2,169.1	2,190.3	2,211.7	2,233.4	2,255.1	2,276.8	2,298.6	2,320.7	2,342.4	2,365.0
Labor Force	–	–	–	896.1	934.0	949.8	955.4	963.5	953.9	4,980
Number of Workers (Thousand)	675.8	666.7	665.4	664.2	697.1	738.7	709.2	2,724	743.7	9,755
West Bank (%)	59.0	65.3	62.4	62.9	61.6	63.7	63.9	64.2	61.7	64.6
Gaza Strip (%)	29.8	23.9	25.5	25.0	28.4	26.1	25.4	25.8	27.2	25.3
Israel and Settlements (%)	11.2	10.8	12.1	12.1	10.0	10.2	10.7	10.0	11.1	10.1

Source: Palestinian Central Bureau of Statistics, 2010, Labor Force Survey 2008-2010.

## 2.2 Unemployment

The problem of unemployment is not new to the Palestinian economy, although the unemployment rate was much lower prior to Al-Aqsa Intifada, but it has always been relatively high. In 2008, the problem of unemployment was aggravated in the Gaza Strip in particular as a result of the Israeli siege, amounting to 39.3% in the 2<sup>nd</sup> quarter of 2010, perhaps the highest in the world. Table 7 below illustrates the stability in the rates of

unemployment between the quarters of 2008 and the 2<sup>nd</sup> quarter of 2010. This is mainly due to the rise in the unemployment rate between these two dates from 30% to 39% in the Gaza Strip, which fully covered up the improvement witnessed in the West Bank, where the unemployment rate dropped from 19% to 15% during the same period. The same is repeated between the 1<sup>st</sup> and 2<sup>nd</sup> quarters of 2010.

**Table 7: Unemployment Rate among Individuals Participating in the Labor Force (15 Years and Above) in the Occupied Palestinian Territory by Region and Sex, Q1 2008-Q2 2010**

(%)

Region & Sex	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q 4 2009	Q1 2010	Q2 2010
<b>Occupied Palestinian Territory</b>										
Male	22.7	26.5	27.3	29.1	25.7	21.6	24.9	24.3	21.1	22.4
Female	21.7	22.7	28.2	22.5	23.8	24.7	29.8	27.3	26.8	25.0
<b>Total</b>	<b>22.6</b>	<b>25.8</b>	<b>27.5</b>	<b>27.9</b>	<b>25.4</b>	<b>22.2</b>	<b>25.8</b>	<b>24.8</b>	<b>22.0</b>	<b>22.9</b>
<b>West Bank</b>										
Male	19.9	16.6	20.5	21.0	20.1	15.1	17.2	17.9	15.9	14.9
Female	15.0	15.2	21.6	14.9	16.8	18.8	20.3	19.1	19.1	16.4
<b>Total</b>	<b>19.0</b>	<b>16.3</b>	<b>20.7</b>	<b>19.8</b>	<b>19.5</b>	<b>15.9</b>	<b>17.8</b>	<b>18.1</b>	<b>16.5</b>	<b>15.2</b>
<b>Gaza Strip</b>										
Male	28.2	45.8	41.2	45.1	36.6	34.9	40.0	37.5	31.7	37.5
Female	39.3	43.3	45.7	42.9	39.0	41.6	54.7	48.9	46.0	49.7
<b>Total</b>	<b>29.8</b>	<b>45.5</b>	<b>41.9</b>	<b>44.8</b>	<b>37.0</b>	<b>36.0</b>	<b>42.3</b>	<b>39.3</b>	<b>33.9</b>	<b>39.3</b>

Source: Palestinian Central Bureau of Statistics, 2010, Labor Force Survey 2008-2010.

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

- ✧ The highest rate of unemployment is among the youth in the 15-24 age group, especially among females (47%). This means that a large percentage of the unemployed are new entrants to the labor market (see Table 8).
- ✧ With regard to years of schooling, there is a major difference between unemployed males and unemployed females. As illustrated in Table 9 fewer years of schooling led to a higher unemployment

rate among males. This is completely reversed among females, where the unemployment rate reached 35% among those having 13 years of schooling or more, while the unemployment rate for those females with no education at all has never exceed 1.5%. There was only a slight improvement regarding this phenomenon between the last two quarters. It is also noted that the unemployment rate was significantly higher among females than among males during the recent quarters in contrast with the 1<sup>st</sup> quarter of 2008.

**Table 8: Unemployment Rate among Individuals Participating in the Labor Force (15 Years and Above) in the Occupied Palestinian Territory by Sex and Age Groups, Q1 2008-Q2 2010**

(%)

Sex and Age Groups	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
<b>Both Sexes</b>										
15-24	37.0	39.7	42.1	41.7	39.1	35.7	40.9	39.7	35.3	37.4
25-34	21.9	25.6	27.8	26.7	25.1	23.2	26.9	24.6	22.4	23.8
35-44	16.6	20.5	18.7	22.0	19.5	14.7	16.8	16.7	15.5	14.2
45-54	15.7	18.2	19.7	19.7	17.0	15.1	17.3	18.0	14.7	14.8
55+	11.1	11.9	15.3	19.4	15.6	10.9	10.3	13.7	12.3	15.6
<b>Total</b>	<b>22.6</b>	<b>25.8</b>	<b>27.5</b>	<b>27.9</b>	<b>25.4</b>	<b>22.2</b>	<b>25.8</b>	<b>24.8</b>	<b>22.0</b>	<b>22.9</b>
<b>Males</b>										
15-24	35.0	38.6	39.4	41.7	38.0	33.1	38.7	38.8	33.7	35.6
25-34	21.4	25.4	26.5	27.1	24.0	21.0	23.9	22.1	19.0	21.6
35-44	17.6	22.6	20.7	23.9	21.4	15.6	17.8	17.6	15.4	14.6
45-54	18.2	20.4	22.1	22.5	19.4	17.5	19.7	19.6	16.9	17.2
55+	13.4	14.6	18.2	23.3	17.9	13.1	11.4	15.3	14.5	18.8
<b>Total</b>	<b>22.7</b>	<b>26.5</b>	<b>27.3</b>	<b>29.1</b>	<b>25.7</b>	<b>21.6</b>	<b>24.9</b>	<b>24.3</b>	<b>21.1</b>	<b>22.4</b>
<b>Females</b>										
15-24	47.3	44.6	55.0	41.9	44.6	47.4	51.1	44.4	44.3	46.9
25-34	24.1	26.1	33.1	25.2	29.4	31.0	38.8	34.6	36.1	32.7
35-44	11.2	11.7	9.1	11.8	10.6	10.8	12.4	12.5	16.2	12.1
45-54	3.9	7.8	7.4	5.5	5.2	3.1	5.0	9.4	3.1	3.4
55+	2.9	1.7	2.3	3.0	6.0	0.9	4.6	5.0	1.5	1.7
<b>Total</b>	<b>21.7</b>	<b>22.7</b>	<b>28.2</b>	<b>22.5</b>	<b>23.8</b>	<b>24.7</b>	<b>29.8</b>	<b>27.3</b>	<b>26.8</b>	<b>25.0</b>

Source: Palestinian Central Bureau of Statistics, 2010, Labor Force Survey 2008-2010.

**Table 9: Unemployment Rate among Individuals Participating in the Labor Force (15 Years and Above) in the Occupied Palestinian Territory by Sex and Years of Schooling, Q1 2008-Q2 2010**

(%)

Years of Schooling and Sex	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
0	7.8	11.9	16.9	11.9	14.5	13.1	14.8	16.9	10.5	14.4
1-6	23.7	28.9	30.1	33.9	29.2	23.8	27.8	26.6	24.5	24.9
7-9	22.4	27.5	29.1	29.8	27.2	22.0	26.8	25.9	23.2	23.9
10-12	23.8	25.2	25.4	29.5	26.3	22.6	25.1	24.1	20.8	22.9
13+	21.9	24.5	27.9	22.9	22.1	21.8	25.5	24.6	22.1	21.8
<b>Total</b>	<b>22.6</b>	<b>25.8</b>	<b>27.5</b>	<b>27.9</b>	<b>25.4</b>	<b>22.2</b>	<b>25.8</b>	<b>24.8</b>	<b>22.0</b>	<b>22.9</b>
0	16.0	25.3	27.5	21.6	25.8	23.9	22.7	32.0	20.7	27.2
1-6	26.3	32.9	34.4	38.1	32.8	27.2	31.2	29.3	27.2	28.4
7-9	23.8	29.0	31.1	31.7	28.3	23.4	28.4	27.2	24.1	25.3
10-12	25.4	26.5	26.6	30.6	27.1	23.3	26.0	25.1	21.5	23.9
13+	15.7	19.8	20.2	18.6	17.0	14.7	16.9	17.3	13.7	14.1
<b>Total</b>	<b>22.7</b>	<b>26.5</b>	<b>27.3</b>	<b>29.1</b>	<b>25.7</b>	<b>21.6</b>	<b>24.9</b>	<b>24.3</b>	<b>21.1</b>	<b>22.4</b>
0	1.2	2.3	4.8	3.1	4.5	0.7	5.3	2.7	-	1.5
1-6	8.5	7.5	6.3	7.2	4.9	4.0	6.0	6.4	5.1	3.5

Years of Schooling and Sex	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
7-9	5.5	11.0	4.4	6.8	11.8	5.5	6.1	10.0	10.6	7.7
10-12	7.3	14.2	12.1	18.1	19.1	15.3	13.1	12.8	13.4	10.7
13+	33.8	33.1	41.8	30.5	31.0	33.7	40.2	37.5	37.2	35.3
<b>Total</b>	<b>21.7</b>	<b>22.7</b>	<b>28.2</b>	<b>22.5</b>	<b>23.8</b>	<b>24.7</b>	<b>29.8</b>	<b>27.3</b>	<b>26.8</b>	<b>25.0</b>

Source: Palestinian Central Bureau of Statistics, 20109, Labor Force Survey 2008-2010.

### 2.3 Wages and Working Hours

Table 10 illustrates that the average daily wage in the Gaza Strip during the 2<sup>nd</sup> quarter of 2010 equaled 69% of the average daily wage in the West Bank and only 37.4% of the wage earned by those working in Israel. This represents some improvement in the Gaza Strip compared to the previous quarter when the average daily wage there was only 66% of that in the West Bank. It is noted that the median daily wage in the Gaza Strip (which is the wage that most workers receive) reflects a greater disparity between the Gaza Strip and

the West Bank, not exceeding 65% of the median daily wage in the West Bank. This persisting disparity in the average daily wage between the West Bank and the Gaza Strip reflects the circumstances of demand for Palestinian workers under the Israeli imposed siege. It is 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 Al-Aqsa Intifada.

**Table 10: Average Weekly Working Hours, Monthly Working Days, and Daily Wages in NIS for Paid Workers in the Occupied Palestinian Territory by Place of Work, Q4 2008-Q2 2010**

Workplace	Average Weekly Hours	Average Monthly Working Days	Average Daily Wage	Median Wage
<b>Q4 2008</b>				
West Bank	43.1	22.7	87.4	76.9
Gaza Strip	39.9	25.0	61.2	57.7
Israel & Settlements	44.7	21.6	138.0	134.6
<b>Total</b>	<b>42.7</b>	<b>23.0</b>	<b>90.6</b>	<b>76.9</b>
<b>2008</b>				
West Bank	42.5	22.4	85.5	76.9
Gaza Strip	40.8	24.7	60.9	57.7
Israel & Settlements	43.6	20.9	139.7	146.2
<b>Total</b>	<b>42.4</b>	<b>22.6</b>	<b>91.0</b>	<b>76.9</b>
<b>Q1 2009</b>				
West Bank	42.0	22.1	83.8	76.9
Gaza Strip	38.8	21.3	62.2	57.7
Israel & Settlements	42.8	57.7	142.1	150.0
<b>Total</b>	<b>41.5</b>	<b>62.2</b>	<b>89.5</b>	<b>76.9</b>
<b>Q2 2009</b>				
West Bank	42.7	22.6	86.6	76.9
Gaza Strip	39.5	24.9	64.0	57.7
Israel & Settlements	42.5	20.1	145.9	150.0
<b>Total</b>	<b>41.9</b>	<b>22.7</b>	<b>76.9</b>	<b>90.7</b>

Workplace	Average Weekly Hours	Average Monthly Working Days	Average Daily Wage	Median Wage
<b>Q3 2009</b>				
West Bank	43.3	22.7	87.5	76.9
Gaza Strip	41.2	23.9	62.1	57.7
Israel & Settlements	41.4	20.2	147.7	150.0
Total	42.5	22.5	93.2	76.9
<b>Q4 2009</b>				
West Bank	42.3	22.3	85.6	76.9
Gaza Strip	38.1	23.7	62.3	54.7
Israel & Settlements	40.2	20.2	156.4	150.0
Total	41.0	22.3	91.8	76.9
<b>2009</b>				
West Bank	42.5	22.4	85.9	76.9
Gaza Strip	39.4	23.6	62.7	57.7
Israel & Settlements	41.7	20.3	148.1	150.0
Total	41.7	22.3	91.3	76.9
<b>Q1 2010</b>				
West Bank	42.8	22.0	85.7	76.9
Gaza Strip	39.1	23.1	56.9	46.2
Israel & Settlements	39.6	20.1	160.8	150.0
Total	41.3	21.9	92.5	76.9
<b>Q2 2010</b>				
West Bank	43.6	22.6	84.1	76.9
Gaza Strip	38.8	23.7	58.1	50.0
Israel & Settlements	39.4	20.5	155.5	150.0
Total	41.8	22.3	89.8	76.9

Source: Palestinian Central Bureau of Statistics, 2010. Labor Force Survey 2008-2010.

## 2.4 Vacancy Announcements

The Monitor examines the number of vacancies advertised in daily newspapers with the aim to depict the local demand for Palestinian labor. Although the advertised jobs in the daily newspapers do not necessarily monitor all available job opportunities, they provide an idea of the disciplines and degrees most demanded, in addition to their geographic distribution. It should be noted that job vacancies in the Government must be, by law, advertised in daily newspapers, since Article (19) of the Civil Service Law No. 4 of 1998 stipulates that "Government departments must announce in two daily newspapers at least for job vacancies for which the appointment decision lies within its authority within two weeks after the job becomes vacant, the advertisement must include all data relevant to the job and the required conditions for recruitment."

The number of advertised vacancies amounted to 1,323 advertisements in the 2<sup>nd</sup> quarter of 2010. This represents a rise of 4.8% compared to the 1<sup>st</sup> quarter of 2010 (see Table 11). The number of advertisements that did not specify the number of vacancies amounted to 159 advertisements, i.e., the number of vacancies most probably exceeded the number of advertisements. The shares of the NGOs sector and the private sector have risen by 11% and 2%, respectively, while the shares of the public sector decreased by 4.8%, compared to the previous quarter. In spite of the absence of a law that forces the private sector and the NGOs to announce job vacancies in the local newspapers, the NGOs sector vacancy advertisements accounted for 44% of the total number of vacancies advertised, and the private sector also attained a similar percentage.

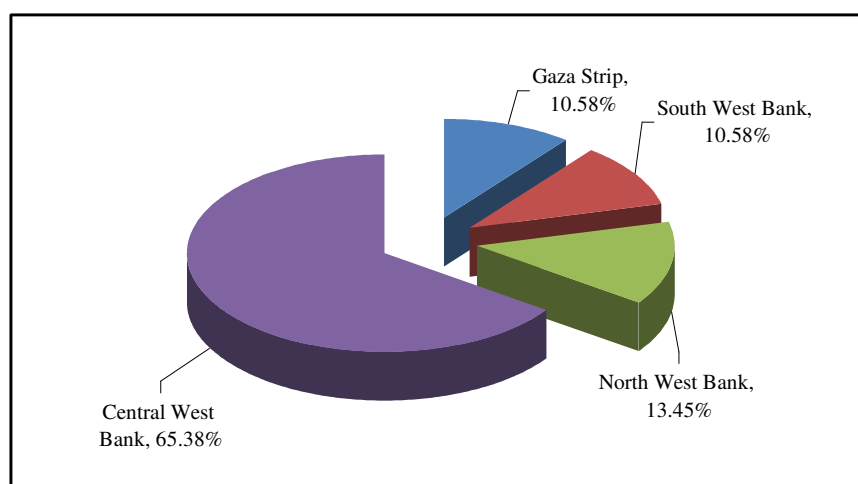


**Table 11: Vacancy Announcements in Local Newspapers in the Occupied Palestinian Territory, Q1 and Q2 2010**

Year	Q1 2010				Q2 2010			
	January	February	March	Total	April	May	June	Total
<b>By Sector</b>								
Private Sector	188	166	195	<b>549</b>	163	202	<b>196</b>	<b>561</b>
Public Sector	66	43	78	<b>187</b>	46	36	<b>96</b>	<b>178</b>
Non-governmental Organizations	144	222	160	<b>526</b>	169	267	<b>148</b>	<b>584</b>
<b>By Geographic Area</b>								
North West Bank	96	49	79	<b>224</b>	31	76	<b>71</b>	<b>178</b>
Central West Bank	223	266	273	<b>762</b>	273	285	<b>307</b>	<b>865</b>
South West Bank	50	85	55	<b>190</b>	46	53	<b>41</b>	<b>140</b>
Gaza Strip	29	31	26	<b>86</b>	<b>28</b>	<b>91</b>	<b>21</b>	<b>140</b>
<b>By Degree</b>								
Ph. D.	<b>12</b>	<b>2</b>	<b>9</b>	<b>23</b>	<b>17</b>	<b>11</b>	<b>8</b>	<b>36</b>
Master's Degree and Above	21	34	21	<b>76</b>	34	26	<b>25</b>	<b>85</b>
BA	236	292	280	<b>808</b>	247	364	<b>318</b>	<b>929</b>
Diploma	82	73	92	<b>247</b>	53	53	<b>42</b>	<b>148</b>
Less than Diploma	47	30	31	<b>108</b>	27	51	<b>47</b>	<b>125</b>
<b>Total</b>								
	<b>398</b>	<b>431</b>	<b>433</b>	<b>1,262</b>	<b>378</b>	<b>505</b>	<b>440</b>	<b>1,323</b>

Source: Data compiled by MAS from daily local newspapers (Al-Quds, Alayyam, and Alhayat) and from the website [www.jobs.ps](http://www.jobs.ps)

**Figure 1: Distribution of Vacancies Advertised in Newspapers by Geographic Area, Q2 2010 (%)**



Source: Data compiled by MAS from daily local newspapers (Al-Quds, Alayyam, and Alhayat) and from the website [www.jobs.ps](http://www.jobs.ps)

In spite of the high number of vacancies advertised during the 2<sup>nd</sup> quarter of 2010, this increase did not include all areas in the West Bank. The number of advertisements in the northern and southern parts of the West Bank dropped by 20.5% and 26.3%, respectively,

while it increased in the center of the West Bank by 13.5%. The increase was the highest in the Gaza Strip at a rate of 62.8%, a striking rise and the highest in two years. This has resulted from the projects for creating job opportunities, training, and employment

carried out by several international NGOs in June of this year. Figure 1 illustrates the relative distribution of vacancy advertisements on the geographical level in the 2<sup>nd</sup> quarter of 2010.

With regards to the distribution of vacancy advertisements according to academic qualifications in the 2<sup>nd</sup> quarter of 2010, the demand for holders of bachelor degrees

captured the highest percentage of vacancies, announced at 70%, while the demand for high education (MSc. and Ph.D) was about 9%. With regard to sectors, the highest demand in the private sector was for holders of bachelor degrees, reaching 64.9%, followed by the demand for holders of general secondary certificate or less at a percentage of 17.8% (see Table 12).

**Table 12: Number of Advertised Vacancies in Daily Newspapers by Sector and Academic Qualifications, Q1 and Q2 2010**

Academic Qualification	1 <sup>st</sup> Quarter 2010			2 <sup>nd</sup> Quarter 2010		
	Public Sector	Private Sector	NGO	Public Sector	Private Sector	NGO
Higher Education	11	27	59	5	5	111
Bachelor Degree	139	306	363	141	364	424
Diploma	30	145	66	22	92	34
Less than Diploma	21	7	36	10	100	15
	<b>187</b>	<b>543</b>	<b>524</b>	<b>178</b>	<b>561</b>	<b>584</b>

Source: Data compiled by MAS from daily local newspapers (Al-Quds, Alayyam, and Alhayat) and from the website [www.jobs.ps](http://www.jobs.ps)

The 2<sup>nd</sup> quarter of 2010 witnessed a significant drop in the number of vacancy advertisements for jobs abroad. The majority of those advertisements were usually for jobs

in the Gulf area, particularly in Saudi Arabia. These vacancy advertisements have been greatly focused on demand for medical and engineering professionals.

**Table 13: Number of Advertised Vacancies by Job Title and Sector, Q2 2010**

Job	West Bank			Gaza Strip			Total
	Public Sector	Private Sector	NGOs Sector	Public Sector	Private Sector	NGOs Sector	
Management	35	114	144	1	1	36	331
Accounting	19	78	48	0	0	6	151
Marketing and Sales	1	78	4	0	0	3	86
Social Service	10	2	56	0	1	21	90
Engineering	27	57	16	1	0	21	122
Education and Training	3	38	62	0	1	5	109
Medicine, Nursing, and Pharmacy	11	16	33	0	0	10	70
Other (Computers and Communication, Journalism and Media, Law, etc.)	70	172	89	0	3	30	364
<b>Total</b>	<b>176</b>	<b>555</b>	<b>452</b>	<b>2</b>	<b>6</b>	<b>132</b>	<b>1323</b>

Source: Data compiled by MAS from daily local newspapers (Al-Quds, Alayyam, and Alhayat) and the website [www.jobs.ps](http://www.jobs.ps).

Looking at the job titles for vacancy advertisements in the Palestinian newspapers during the 2<sup>nd</sup> quarter of 2010, one clearly sees

that the highest proportion of job vacancies were for administrative jobs (particularly in marketing and sales), amounting to 25% and

6.5%, respectively, followed by a demand for accounting and engineering disciplines by 11.4% and 9.2%, respectively. The advertisements for these jobs comprised 52% of the total advertisements, while the rest of the advertisements were distributed as following: education and training, social service and humanities, medical sciences (medicine, nursing, and pharmacy), computers and communication, public relations, law, language and translation, journalism and media (see Table 13).

In the 2<sup>nd</sup> quarter of 2010, the principal demand was for administrative sciences and

economics, where the total demand for these disciplines reached 441, accounting for 33% of the total vacancy advertisements. This is followed by the demand for specializations in applied sciences, accounting for 22% of the total vacancy advertisements. It is noted that the private sector registered most of the demand for specializations in administrative sciences and economics: 45.4% of the total demand for these disciplines. Obviously, the NGO sector is the most interested in humanities and social sciences, being responsible for 71.6% of the total demand for these disciplines (see Table 14).

**Table14: Number of Advertised Vacancies by Specialization and Sector, Q2 2010**

Job	West Bank			Gaza Strip			Total
	Public Sector	Private Sector	NGOs Sector	Public Sector	Private Sector	NGOs Sector	
Medical Sciences (Medicine, Nursing, Pharmacy, etc.)	13	20	51	0	0	14	98
Humanities and Social Sciences (Social Sciences, Psychology, Media, Literature, etc.)	32	37	140	0	0	34	243
Applied Sciences (Engineering, Information Technology, Physics, Chemistry, etc.)	62	127	63	2	2	33	289
Administrative Sciences and Economics (Management, Marketing, Accounting, etc.)	43	199	161	0	1	40	441
Other (Craftsmen, Technicians, Maintenance Work, Secretarial, etc.)	26	172	37	0	3	11	249
<b>Total</b>	<b>176</b>	<b>555</b>	<b>452</b>	<b>2</b>	<b>6</b>	<b>132</b>	<b>1323</b>

Source: Data compiled by MAS from daily local newspapers (Al-Quds, Alayyam, and Alhayat) and the website [www.jobs.ps](http://www.jobs.ps).

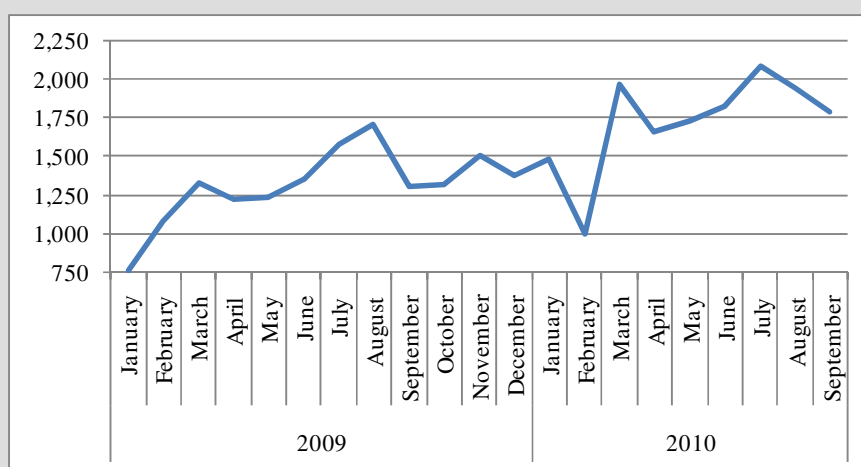
Tables 13 and 14 demonstrate an agreement between the vacancies advertised and the specializations required with respect to jobs which need high specializations, such as medical and health disciplines. However, the opposite is noted with respect to administrative sciences and economics as the

jobs advertised in the administrative fields are more than the number of administrative posts required. This, in a way, indicates that these vacancies are not limited to those holding degrees in administrative sciences but go beyond to other specializations, such as humanities.

## Box 2: Increase in the Number of Vehicles in the West Bank: Causes and Consequences

The total number of registered cars in the West Bank witnessed a significant increase since the beginning of 2010. According to data from the Ministry of Transport, the number of cars registered in the West Bank rose from 123,600 to 139,000 during the first nine months of 2010. In 2010, for the first time, there is an ascending trend in the number of cars registered that reached a peak of 2,000 new cars registered in July (see the figure below). The increase in the number of vehicles (private cars, taxis, buses, tractors, trucks, trailers, motorcycles, and other vehicles), especially private vehicles, reflects an improvement in the citizens' purchasing power. A number of reasons lie behind such a high increase, including the reduction of the purchase tax on vehicles, the new arrangements for the payment of customs, and the improvement in credit facilities provided by banks.

**Figure: Number of Imported Vehicles\* in the West Bank,  
2009 and 2010**



Source: Ministry of Transport (October 2010). Ramallah – Palestine. Unpublished data.

\*According to the Ministry of Transport, 99% of these vehicles were actually sold.

### ❖ **The reduction in the purchase tax on vehicles**

In mid-February, the Palestinian Cabinet of Ministers reduced the purchase tax in the Occupied Palestinian Territory from 75% to 50% on vehicles that run on petroleum (gasoline and diesel). The Cabinet also reduced the tax to 30% for hybrid vehicles and 10% for genuine electrical vehicles. The Ministry of Transport and the Customs and Excise General Directorate indicate that this resolution led to a direct reduction in the prices of vehicles by 13%,<sup>3</sup> which increased the demand for vehicles. The impact of the resolution on increasing the demand for the purchase of vehicles is obvious in the Ministry of Transport data, which indicate that the number of cars registered for the first time during the seven months following the resolution is equivalent to about 83% of the number of vehicles registered during the year 2009 as a whole.

### ❖ **The new arrangements for the payment of customs**

New arrangements have been made with the Israeli government since the beginning of 2010 under which reform the system for customs duties for used cars imported through Israel. According to the previous system, the prices of used cars which entered the Occupied Palestinian Territory were evaluated by the Israeli side. Subsequently, the Palestinian importers paid customs to the Israeli authorities based on this assessment. Then, Israel transferred these customs to the PNA after a 3% commission deduction. Under the new arrangement, the Ministry of Finance evaluates used cars by itself since the beginning of 2010 and receives customs payments directly from citizens over a certain period of time. The Ministry has allowed a grace period of 45 days for merchants to pay the tariff. As for new cars, an agreement with the Israeli side has been made since the beginning of the year to allow the entry of imported duty-free new cars for display in showrooms until sale. The Palestinian National Authority granted car importers a six-month grace period on the payment of customs. In case these cars were not sold or in the case of non-payment of customs by merchants, cars are returned to stores.

<sup>3</sup> Personal interviews with Dr. Akram Awawdeh (Assistant Undersecretary at the Ministry of Transport) and Mr. Fuad AlShobaki (Director General of Customs and Excise) on 20/9/2010 and 6/10/2010 respectively.

These arrangements provided excess liquidity for Palestinian car importers, giving them the opportunity to import more cars, thus increasing the supply in the market. The excess supply of various new and used cars urged competition among merchants to provide offers for car purchase by instalments and even without a down payment. This, along with other factors, has helped increase the demand for cars.

✧ **The improvement in credit facilities provided by banks**

In the past months, the Palestine Monetary Authority issued instructions that imposed on banks a reduction in the proportion of their investments abroad to total deposits which was reflected in the increase in credit facilities locally provided by banks. Recently, credit facilities provided by banks, as well as personal loans, varied among loans for house purchase, house improvement, car purchase, and others. The improvement in the channels of credit facilities has naturally had a positive effect on the capability of citizens to acquire various commodities including vehicles.

✧ **Future prospects**

Most of the vehicles in the Occupied Palestinian Territory are old and mainly use petroleum fuel (gasoline 96). Israel has halted the manufacturing of this type of fuel since the beginning of October 2010, which makes it no longer available in the Occupied Palestinian Territory. This development is expected to accelerate the phasing out of old vehicles and increase the proportion of newer vehicles, whose prices have recently fallen.

**The increase in the fleet of vehicles in the West Bank is expected to have the following implications:**

- ✧ **Traffic jams:** The increase in the number of vehicles on the roads in the Occupied Palestinian Territory, taking into account the limited capacity of these roads (internal roads or roads which connect cities and villages), along with the poor infrastructure currently in place, will increase the likelihood of accidents and chaos on the roads.
- ✧ **Financial burdens:** The continued increase in borrowing in order to finance the purchase of vehicles may lead to a composite problem that will affect both borrowers and banks alike. On the one hand, it will increase the financial burden on borrowers due to various commitments that increase the proportion of loan instalments to total income. On the other hand, it will eventually lead to the abstention of banks from providing consumer loans in light of the decline in the capacity of loan applicants to provide pay-back guarantees. This may drive banks towards increasing investment loans, which constitutes a positive trend in the activity of banks. However, the demand for investment loans remains dependant on improvements in the investment environment and the economic conditions in general.
- ✧ **The decline in the numbers of those who wish to borrow** may reduce the base of potential beneficiaries from credit facilities offered by banks, putting banks into a serious problem for investing their funds.
- ✧ **Environmental effects:** The increase in cars will lead to environmental pollution due to gas emission from vehicles' exhausts, as well as sound pollution (noise) in light of the absence of any environmental law that regulates these issues.

### 3. Public Finance

The 2<sup>nd</sup> quarter of 2010 witnessed further steps and efforts in the area of capacity building and reform, which became evident through a visible improvement in tax collection. However, there is still a need to increase efforts to limit spending due to scarcity of self financing resources. The following is a summary of the most important developments in the government budget during the 2<sup>nd</sup> quarter of 2010, compared to the 1<sup>st</sup> quarter of the same year.

- ✧ Domestic revenues had slightly risen by 2% during the 2<sup>nd</sup> quarter of 2010, compared to their level in the 1<sup>st</sup> quarter, reaching US \$455 million. This increase was mainly caused by the rise in clearance revenues and tax returns which indicates an improvement in tax collection. However, tax revenues themselves witnessed some decline.

- ✧ Current expenditures increased in the 2<sup>nd</sup> quarter of 2010 by 6.6%, amounting to US \$755 million. This resulted from the increase in salaries and wages (5.3%), along with non-wage expenditures (12.6%).
- ✧ The budget deficit prior to foreign support amounted to US \$300 million (17.6% of GDP) during the 2<sup>nd</sup> quarter of 2010, compared to a deficit of US \$261 million in the 1<sup>st</sup> quarter.
- ✧ This deficit in the current budget was financed by the transfer of US \$317 million in external aid, which means that the current budget had a surplus after external funding equivalent to US\$17 million during the 2<sup>nd</sup> quarter of 2010.
- ✧ Development expenditure amounted to US \$52 million during the 2<sup>nd</sup> quarter of 2010, US \$22 million of which was financed by donor countries, i.e., the deficit in the development budget reached US \$30 million. When this deficit is added to the surplus in the current budget, the total deficit in the development and current budget in the 2<sup>nd</sup> quarter of 2010 became US \$13 million.
- ✧ When this deficit is added to the corresponding deficit in the 1<sup>st</sup> quarter, the total budget deficit during the first half of 2010 reaches US \$114 million. The majority of this deficit was financed by borrowing from local and foreign sources, which led to a rise in the public debt to US \$1,845 million (30% of GDP).

during the 2<sup>nd</sup> quarter of 2010 reached roughly US \$455.5 million in cash, which shows an increase in collection capacity by 1.9% during the studied period, compared to the 1<sup>st</sup> quarter of the same year, and by about 28.2%, compared to the corresponding quarter of 2009. With regards to external grants and assistance,<sup>4</sup> total public revenues and received grants increased by about 21.1% during the 2<sup>nd</sup> quarter of 2010, compared to the 1<sup>st</sup> quarter of 2010, and by about 54%, compared to the corresponding period of 2009, reaching US \$795.3 million.

On the other hand, the public expenditures increased during the same period at a greater rate than domestic revenues. Public expenditures and net lending rose by about 6.5% compared to the 1<sup>st</sup> quarter of 2010 and by 14.4% compared to the 2<sup>nd</sup> quarter of 2009, totaling US \$808.1 million. This led to an aggravation in the budget deficit and thwarted the Palestinian National Authority financial sustainability and stability. The current deficit rose during the 2<sup>nd</sup> quarter of 2010 to about US \$300.1 million, an increase of 15% from its level in the 1<sup>st</sup> quarter of the same year and of 3.8% from the corresponding quarter of 2009. The overall deficit dropped to about US \$12.9 million after grants and assistance, compared to US \$101.6 million in the 1<sup>st</sup> quarter of 2010, and about US \$189.9 million in the corresponding quarter of 2009.

### 3.1 Budget Summary

Data from the Ministry of Finance indicate that the total net domestic revenues levied

Following is an analysis of the revenues and expenditures during the 2<sup>nd</sup> quarter of 2010.

**Table 15: Summary of the Financial Situation of the Palestinian National Authority, Q1 2009-Q2 2010**  
(Million US \$)

Item	2009				2010	
	Q1	Q2	Q3	Q4	Q1	Q2
<b>Public Revenues and Grants (Net )</b>	<b>620.2</b>	<b>516.3</b>	<b>1122.3</b>	<b>691.4</b>	<b>656.9</b>	<b>795.3</b>
<b>Total Domestic revenues (Net)</b>	<b>342.1</b>	<b>355.3</b>	<b>453.8</b>	<b>397.3</b>	<b>447.1</b>	<b>455.5</b>
Domestic Revenues	352.6	359.4	554.7	408.4	448.2	463.7
Tax Revenues	71.2	60.8	84.1	85.4	116.6	101.9
Non-tax Revenues (1)	40.2	39.6	158.6	45.2	43.7	59.9
Clearance Revenues	241.2	259.0	312.0	277.8	287.9	301.9
Tax Returns (2)	10.5	4.1	100.9	11.1	1.1	8.2
<b>External Revenues (Grants and Assistance)</b>	<b>278.1</b>	<b>161.0</b>	<b>668.5</b>	<b>294.1</b>	<b>209.8</b>	<b>339.8</b>

<sup>4</sup> Data indicate that external grants and assistance amounted to about \$339.8 million during the 2<sup>nd</sup> quarter of 2010, rising by 62% compared to the 1<sup>st</sup> quarter of the same year and by 111.1% compared to the corresponding quarter of 2009.

Item	2009				2010	
	Q1	Q2	Q3	Q4	Q1	Q2
Grants in Support for the Budget	259.0	148.3	663.4	284.2	207.6	317.6
Grants in Support for Development Projects	19.1	12.7	5.1	9.9	2.2	22.2
<b>Total Public Expenditures</b>	<b>734.7</b>	<b>706.2</b>	<b>1009.0</b>	<b>655.6</b>	<b>758.5</b>	<b>808.1</b>
<b>Current Expenditures including:</b>	<b>726.0</b>	<b>644.4</b>	<b>952.2</b>	<b>597.0</b>	<b>708.1</b>	<b>755.5</b>
Wages and Salaries (3)	321.3	341.1	509.0	251.8	373.1	393.8
Non-Wage Expenditures (4)	328.2	221.6	327.9	264.0	261.1	294.1
Net Lending	76.5	81.7	115.3	81.2	73.9	67.7
<b>Development Expenditures (5)</b>	<b>8.7</b>	<b>61.8</b>	<b>56.8</b>	<b>58.6</b>	<b>50.4</b>	<b>52.5</b>
Financed by the Treasury	-10.4	49.1	51.7	48.7	48.2	30.3
Financed by Donor Countries	19.1	12.7	5.1	9.9	2.2	22.2
<b>Current Deficit (Surplus)</b>	<b>-383.9</b>	<b>-289.1</b>	<b>-498.4</b>	<b>-199.7</b>	<b>-261.0</b>	<b>-300.1</b>
<b>Total Current Deficit (Surplus) prior to Grants and Assistance</b>	<b>-392.6</b>	<b>-350.9</b>	<b>-552.2</b>	<b>-258.3</b>	<b>-311.4</b>	<b>-352.6</b>
<b>Current Deficit (Surplus) after Grants and Assistance</b>	<b>-114.5</b>	<b>-189.9</b>	<b>-113.3</b>	<b>35.8</b>	<b>-101.6</b>	<b>-12.9</b>
<b>Financing</b>	<b>114.5</b>	<b>189.9</b>	<b>-113.3</b>	<b>-35.8</b>	<b>101.6</b>	<b>12.9</b>
Net Financing from Local Banks	90.6	225.3	-175.6	35.5	97.7	23.3
Remaining Balance	23.9	-35.4	62.3	-71.3	3.9	-10.4
<b>Financial Gap</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Source: Tables of Fiscal Operations Report, Revenues, Expenditure and Funding Sources (cash basis), Palestinian Ministry of Finance.

- (1) The 3<sup>rd</sup> quarter includes \$100 million as professional license received in July from Jawwal & Zein companies for telecommunications (\$60 million and \$40 million respectively) on the occasion of their merge.
- (2) The tax returns for the 3<sup>rd</sup> quarter included \$90 million of accumulated returns that were transferred to the general Petroleum Corporation.
- (3) The wages and salaries expenditures for September 2009 included two batches of payments: \$131.4 million for September and \$148.5 million for October paid in advance by the Ministry of Finance for the feast period. The wages and salaries expenditures for November 2009 also included two batches of payments: \$132 million for November and \$118.9 million for December.
- (4) A series of monthly non-wage expenditures were reviewed for the months January to September in order to fix the duplication between commitments and cash expenditures. The non-wage expenditures have risen to \$300 million following the Ministerial Cabinet ratification of the annex to the Budget law in 29/9/2009.
- (5) During the months from January to March 2009, part of the development expenditures was enlisted under small capital expenditures.

### 3.2 Revenues and Grants Analysis

Total net domestic revenues levied during the 2<sup>nd</sup> quarter of 2010 amounted to about US \$455.5 million (a monthly average of US\$151.8 million), marking a slight rise of about 1.9% from the level achieved in the 1<sup>st</sup> quarter of the same year (US \$447.1 million, with a monthly average of US \$149 million), and a rise of about 28.2% compared to the 2<sup>nd</sup> quarter of 2009. On the basis of the first half of the year 2010, these revenues recorded a rise by about 29.4% from their level in the first half of 2009, due to the administrative reform in the tax departments at the Ministry of Finance, specifically in the income tax and the Value Added Tax (VAT).

The domestic revenues levied during the 2<sup>nd</sup> quarter were distributed between tax revenues by 22% (compared to 26% in the 1<sup>st</sup> quarter of the same year and 16.9% in the 2<sup>nd</sup> quarter of 2009) and non-tax revenues by 12.9% (compared to 9.8% in the 1<sup>st</sup> quarter and 11% in the 2<sup>nd</sup> quarter of 2009). The clearance revenues captured 65.1% of total domestic revenues (compared to 64.2% in the 1<sup>st</sup> quarter and 72.1% in the 2<sup>nd</sup> quarter of 2009). Net domestic revenues covered about 56.4% of the public expenses, compared to 58.9% in the 1<sup>st</sup> quarter of 2010 and 50.3% in the 2<sup>nd</sup> quarter of 2009.

When analyzing domestic revenue items, it is apparent that the 2<sup>nd</sup> quarter of 2010 witnessed a decline in tax revenues collected by 12.6%, dropping to about \$101.9 million compared to its level in the 1<sup>st</sup> quarter of the same year, versus a rise by 67.6% in the corresponding quarter of 2009. It is worth noting in this regard that the 1<sup>st</sup> quarter of each year is usually characterized by an increase in the collection of income taxes to benefit from the incentive discounts granted for early payment.

During the 2<sup>nd</sup> quarter of 2010, the non-tax revenues witnessed a rise of about US \$59.9 million, an increase of 37.1% from their level in the 1<sup>st</sup> quarter of 2010, versus a rise of about 51.3% in the 2<sup>nd</sup> quarter of 2009. The largest part of this rise is attributed to the increase in the exit tax proceeds paid by Palestinians in view of the increased travel through King Hussein Bridge.<sup>5</sup>

An amount of US \$8.2 million was reimbursed as tax returns during the 2<sup>nd</sup> quarter of 2010 (at a monthly rate of about US \$2.7 million), representing a significant rise compared to the 1<sup>st</sup> quarter (US \$1.1 million at a monthly rate not exceeding US \$0.4 million), given the increased external funding during the 2<sup>nd</sup> quarter of 2010.

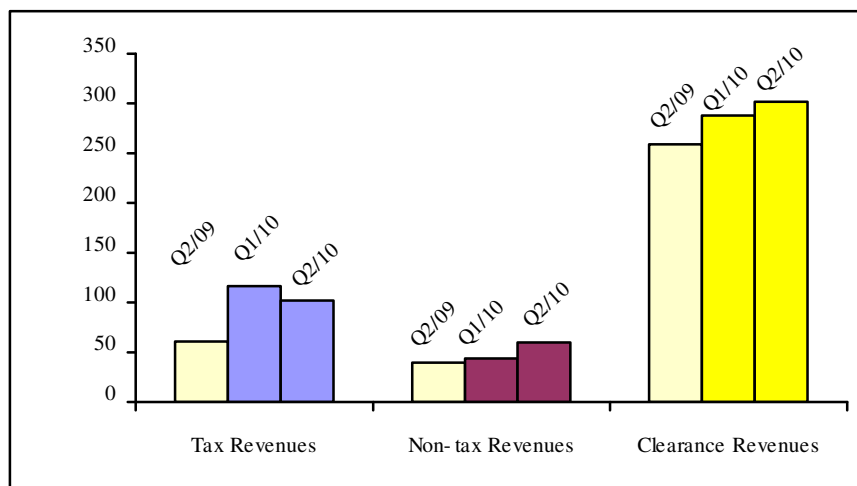
On the other hand, clearance revenues amounted to US \$301.9 million during the 2<sup>nd</sup>

quarter of 2010, with an increase of 4.9% compared to the 1<sup>st</sup> quarter of the same year, and of 16.6% compared to the 2<sup>nd</sup> quarter of 2009. This is attributed to the flow of commodities into the Gaza Strip, following the partial easing of the siege imposed by Israel, allowing the entry of some goods, in addition to an improvement in the economic performance of the West bank.

Taking into consideration the potential gains from the partial lifting of the siege imposed on the Gaza Strip, these benefits may contribute to reducing the size of the budget deficit during the second half of the year. However, this reduction remains subject to the size of taxed goods that Israel allows into the Gaza Strip through the borders.

In general, total domestic revenues constituted about 26.8% of GDP, compared to 27.7% in the 1<sup>st</sup> quarter of 2010 and 22.8% in the 2<sup>nd</sup> quarter of 2009. The amounts achieved during the first half of the year comprised 45% of the amounts targeted in the 2010 Budget. If this economic performance and the ability to collect domestic revenues continue at the same pace in the second of 2010, it is expected that the domestic revenues levied for the year will remain 5.4% below the amounts targeted by the Budget.

**Figure 2: The Structure of Domestic Revenues (Million Dollars)**



Source: Table 15.

<sup>5</sup> Public Finance Performance during the 2<sup>nd</sup> quarter of 2010, The Ministry of Finance.



On the other hand, the external sources of funding (grants and assistance) provided by both Arab and other foreign countries played a key role in financing the deficit. According to data from the Ministry of Finance, in the 2<sup>nd</sup> quarter of 2010, the Treasury managed to secure external financing worth US \$339.8 million, which constituted an increase of 62% compared to the level in the 1<sup>st</sup> quarter of the same year, and of 111% compared to the 2<sup>nd</sup> quarter of 2009. The percentage of grants and

assistance to total revenues amounted to 42.7%, compared to 31.9% in the 1<sup>st</sup> quarter of 2010 and 31.2% in the 2<sup>nd</sup> quarter of 2009. These revenues also covered 42% of current expenditures, compared to 27.7% in the 1<sup>st</sup> quarter of 2010 and 22.8% in the 2<sup>nd</sup> quarter of 2009. In spite of this development, the aid disbursements remained below the pledged amounts, which led to an increasing public debt (see Box 3).

**Table 16: Public Revenues Indicators and Grants, Q1 2009-Q2 2010**  
(Million US \$)

Item	2009				2010	
	Q1	Q2	Q3	Q4	Q1	Q2
<b>Total Net Revenues</b>	<b>342.1</b>	<b>355.3</b>	<b>453.8</b>	<b>397.3</b>	<b>447.1</b>	<b>455.5</b>
Percentage to Total Revenues (%)	55.2	68.8	40.4	57.5	68.1	57.1
Percentage to Current Expenditures (%)	47.1	55.1	47.7	66.5	63.1	60.3
Percentage to GDP (%) (1)	23.5	22.8	28.9	24.9	27.7	26.8
<b>Grants and Assistance (External Revenues)</b>	<b>278.1</b>	<b>161.0</b>	<b>668.5</b>	<b>294.1</b>	<b>209.8</b>	<b>339.8</b>
Percentage to Total Revenues (%)	44.8	31.2	59.6	42.5	31.9	42.7
Percentage to Current Expenditures (%)	35.7	23.0	69.7	47.6	29.3	42.0
Percentage to GDP (%) (1)	19.1	10.3	42.6	18.5	13.0	20.0
<b>Total Public Revenues and Grants</b>	<b>620.2</b>	<b>516.3</b>	<b>1122.3</b>	<b>691.4</b>	<b>656.9</b>	<b>795.3</b>
Percentage to Current Expenditures (%)	85.4	80.1	117.9	115.8	92.8	105.3
Percentage to Public Expenditures (%)	84.4	73.1	111.2	105.5	86.6	98.4
Percentage to GDP (%) (1)	42.6	33.1	71.6	43.4	40.7	46.7

Source: Tables 15.

(1) The real GDP has been converted to a nominal GDP using the GDP deflator 1.2 which was obtained from dividing the nominal GDP for 2009 amounting to \$6117 million on the real GDP for the same year amounting to \$5147 ( $6117/5147=1.2$ ) and considering it constant for the given quarters.

The largest part of this amount (US \$317.6 million) had been allocated to finance current expenditures, covering 42% of these expenditures versus 29.3% in the 1<sup>st</sup> quarter of 2010 and 23% in the 2<sup>nd</sup> quarter of 2009. An amount of US \$22.2 million from the grants was allocated to finance development projects, compared to US \$2.2 million in the 1<sup>st</sup> quarter of 2010 and about US \$12.7 million in the 2<sup>nd</sup> quarter of 2009.

Arab countries contributed 18.1% of the value of aid allocated to support the budget in the 2<sup>nd</sup> quarter of 2010, or the equivalent of US \$57.5 million. This contribution was distributed among the following four countries in particular: 45.5% from Algeria, 26.4% from Saudi Arabia, 17% from Qatar, and 10.8% from Egypt. In contrast, non-Arab donor countries contributed 81.9% of the total amounts allocated to support the budget, amounting to US \$261 million. The World

Bank was the main and largest source of this aid, supplying 36.6% of the total support for the budget, equivalent to US \$95.4 million, distributed between grants from the World Bank Trust Fund (in which many countries participate) and the Emergency Services Support Program. The United States followed by 28.7%, equivalent to US \$74.8 million, then the European Union through the Palestinian-European mechanism (PEGASE) which provided 27.7%, equivalent to US \$72.2 million. This mechanism is intended to support wages and salaries (of the civilians, retired, police, and civil defense), social cases, public services, and the payment of arrears for the private sector. Salaries and wages captured about 70.2% of the total aid provided through this mechanism, social cases – 17.3%, and public services – 12.5%. France contributed 6.1% of the budget support, equivalent to US \$15.9 million.

**Table 17: External Grants and Assistance to the Palestinian National Authority, Q1 2009-Q2 2010**

Item	(Million US \$)					
	2009				2010	
	Q1	Q2	Q3	Q4	Q1	Q2
<b>Budget Support</b>	<b>259.0</b>	<b>148.3</b>	<b>663.4</b>	<b>284.2</b>	<b>207.6</b>	<b>318.5</b>
Arab Grants	73.8	21.2	217.8	148.9	0.0	57.5
Algeria	26.0					26.3
Egypt		2.8	15.0			6.2
Oman		2.9				
Saudi Arabia	22.8	15.5	202.8			15.2
United Arab Emirates	25.0			148.9		
Qatar						9.8
<b>International Grants</b>	<b>185.3</b>	<b>127.1</b>	<b>445.7</b>	<b>135.3</b>	<b>207.6</b>	<b>261.0</b>
PEGASE mechanism	94.2	120.3	164.0	54.7	106.4	72.2
The World Bank	53.3	3.0	72.9	5.9	87.1	95.4
The United States			198.5	74.7		74.8
Other Countries	37.8	2.7	10.3		9.9	15.9
India	10.1				9.9	
France	27.7					15.9
Greece		2.7				
Turkey			10.3			
Old Grants for Ministries		1.1			4.2	2.7
<b>Development Financing</b>	<b>19.1</b>	<b>12.7</b>	<b>5.1</b>	<b>9.9</b>	<b>2.2</b>	<b>22.2</b>
<b>Total External Financing</b>	<b>278.1</b>	<b>161.0</b>	<b>668.6</b>	<b>294.1</b>	<b>209.8</b>	<b>340.7</b>

Source: Table 7: External Support, Palestinian Ministry of Finance.

External support had been unstable and fluctuating over the first six months of this year, in addition to remaining below the needed level. The total amount disbursed during the first half of 2010 reached around US \$550 million. If this support continues at the same pace during the second half of the year, the total amount of support will be below the amounts targeted by the budget by 40%. This will affect funding requirements and force the Treasury to either further borrow from banks or increase the accumulation of arrears.

In general, the first six months have shown an increase in total public revenues (domestic and foreign), exceeding the levels of the first half of the year by 27.8%. However, these revenues still constitute only 37.8% of the targeted figures in the 2010 Budget. If the flow of revenues persists at the same rate during the second half of the year, it is expected that total

revenues achieved (domestic and foreign) over the year will remain 24.4% the level targeted by the Budget, which may affect the plans and projects included in the budget proposal.

### 3.3 Expenditures Analysis

During the 2<sup>nd</sup> quarter of 2010, public expenditures and net lending witnessed a rise of 6.5% compared to the 1<sup>st</sup> quarter of 2010, and of 14.4% from its level in the 2<sup>nd</sup> quarter of 2009, reaching US \$808.1 million. It increased at a monthly average equivalent of US \$269.4 million, compared to a monthly average of US \$252.8 million in the 1<sup>st</sup> quarter of 2010 and US \$235.4 million in the 2<sup>nd</sup> quarter of 2009. Public expenditures, both consumption and investment, formed 47.5% of the expenditures on GDP, compared to 47% in the 1<sup>st</sup> quarter of 2010 and to 45.3% in the 2<sup>nd</sup> quarter of 2009.

Current expenditures captured the largest share of total public expenditures. Therefore, any policy that aims to rationalize expenditures must mainly focus on current expenditures. Data indicate that current expenditures captured over 93.5% of total public expenditures during the 1<sup>st</sup> and 2<sup>nd</sup> quarters of 2010, compared to 91.2% during the 2<sup>nd</sup> quarter of 2009. This type of expenditure constituted around 44.4% of the expenditures on GDP, compared to 43.9% in the 1<sup>st</sup> quarter of the same year and 41.3% in the 2<sup>nd</sup> quarter of 2009. Current expenditures had risen during the 2<sup>nd</sup> quarter of 2010 by 6.7% from their level in the 1<sup>st</sup> quarter of the same year and by 17.3% from that of the 2<sup>nd</sup> quarter of 2009, reaching US \$755.6 million.

Studying the items of public expenditures, one notices a clear imbalance in the performance of various items. Available data from the 2<sup>nd</sup> quarter of 2010 indicate a rise in the salaries and wages bill by about 5.5% from its level in

the 1<sup>st</sup> quarter of 2010, and by around 15.5% from its level in the 2<sup>nd</sup> quarter of 2009, reaching up to US \$393.8 million. In spite of this increase, its share of public expenditures declined to 52.1%, compared to 52.7% in the 1<sup>st</sup> quarter of 2010 and 52.9% in the 2<sup>nd</sup> quarter of 2009.

It is worth noting in this regard that the Treasury strives to abide by the framework of the fiscal austerity policy pertaining to the Reform and Development Plan, particularly in the PNA institutions. Therefore, the number of employees in the public sector during the 2<sup>nd</sup> quarter of 2010 increased by only 247 people, bringing their number to 149,827 civil and security staff. The majority of this increase is ascribed to the civil sector, raising the number of civil servants to 86,353 and of the security staff to 63,474. In the first half of the year, the number of public sector employees grew by 2,101, 1,627 of whom were recruited into the civil service.<sup>6</sup>

**Table 18: Public Expenditures Indicators and Net Lending, Q1 2009-Q2 2010**

(Million US \$)

Item	2009				2010	
	Q1	Q2	Q3	Q4	Q1	Q2
<b>Total Expenditures</b>	<b>726.0</b>	<b>644.4</b>	<b>952.2</b>	<b>597.0</b>	<b>708.1</b>	<b>755.5</b>
Percentage to Total Public Expenditures (%)	98.8	91.2	94.4	91.1	93.4	93.5
Percentage to GDP (%) (1)	49.8	41.3	60.7	37.5	43.9	44.4
<b>Development Expenditures (1)</b>	<b>8.7</b>	<b>61.8</b>	<b>56.8</b>	<b>58.6</b>	<b>50.4</b>	<b>52.5</b>
Percentage to Total Public Expenditures (%)	1.2	8.8	5.6	8.9	6.6	6.5
Percentage to GDP (%) (1)	0.6	4.0	3.6	3.7	3.1	3.1
<b>Total Public Expenditures</b>	<b>734.7</b>	<b>706.2</b>	<b>1009.0</b>	<b>655.6</b>	<b>758.5</b>	<b>808.1</b>
<b>Percentage to GDP (%) (1)</b>	<b>50.4</b>	<b>45.3</b>	<b>64.3</b>	<b>41.2</b>	<b>47.0</b>	<b>47.5</b>

Source: Table 15.

- (1) The real GDP has been converted to a nominal GDP using the GDP deflator 1.2 which was obtained from dividing the nominal GDP for 2009 amounting to \$6117 million on the real GDP for the same year amounting to \$5147 ( $6117/5147=1.2$ ) and considering it constant for the given quarters.

In spite of this trend and in the case of the continuation of the same levels of spending on salaries and wages during the second half of the year 2010, it is expected that the annual salaries and wages bill will exceed the amounts targeted in the Budget by about 34.3%.

Also, non-wage expenditures (operational, transfer payments and capital expenditures) marked a rise of 12.6% and 32.7% during the 2<sup>nd</sup> quarter of 2010,

compared to their level in the 1<sup>st</sup> quarter of the year and the 2<sup>nd</sup> quarter of 2009, respectively, amounting to US \$294.1 million. This constitutes a 38.9% rise in current expenditures, compared to the 1<sup>st</sup> quarter of 2010, and a roughly 34.4% increase, compared to the corresponding quarter of 2009. Most of this increase is associated with the rise in external support for the budget, the bulk of which has been transferred to social services, such as education and health, as well as to the public debt, security, and order.

<sup>6</sup> Public Finance Performance during the 2<sup>nd</sup> quarter of 2010, the Ministry of Finance.

Taking non-wage expenditures levels for the year as a whole, based on the assumption that they will continue at the pace of the first half of the year, it is expected that spending on this item will remain below the amounts targeted by the budget by around 2.7%, allowing to utilize this proportion to partially compensate the increase in the salaries and wages bill, or to pay for the government contribution arrears due to the insurance and pension fund or to the private sector.

On the other hand, net lending expenditures<sup>7</sup> recorded a decline of 8.4% during the 2<sup>nd</sup> quarter of 2010, compared to the 1<sup>st</sup> quarter of 2010, and by 17.1%, compared to the 2<sup>nd</sup> quarter of 2009, reaching US \$67.7 million. This amount accounted for 9% of total current

expenditures, compared to 10.4% in the 1<sup>st</sup> quarter of 2010 and 12.7% in the 2<sup>nd</sup> quarter of 2009.

This reduction is in line with the government's policy to completely stop net lending. In this context, one should note that significant progress has been achieved on two parallel tracks.<sup>8</sup> First, the electricity distribution company in the Gaza Strip assumed responsibility for fuel payments for the electricity station and supplying the Treasury with those revenues. The second concerns the rise in the collection of electricity bills by the municipalities in the West Bank due to the increased use of pre-paid electricity meters, which aim to enhance the collection process and reduce net lending.

**Figure 3: The Structure of Current Expenditures (Million Dollars)**



Source: Table 15.

On the other hand, development expenditures totaled US \$52.5 million and witnessed a rise of about 4.2% during the 2<sup>nd</sup> quarter of 2010 compared to the 1<sup>st</sup> quarter of the same year. In spite of that, development expenditures dropped by about 15%, compared to the 2<sup>nd</sup> quarter of 2009. Their relative importance to total public expenditures declined to 6.5%, compared to 6.6% in the 1<sup>st</sup> quarter of 2010 and 8.8% in the 2<sup>nd</sup> quarter of 2009.

This is partially associated with the increase in external financing provided to development projects, which contributed to 42.3% of actual total development expenditures during the 2<sup>nd</sup> quarter of 2010, compared to 4.4% in the first quarter of the same year and 20.6% in the 2<sup>nd</sup> quarter of 2009.

One should note that in case development expenditures continue at the same pace during in second half of 2010

<sup>7</sup> Net lending items are the amounts transferred from the treasury whether directly to the Gaza electricity company for the cost of electricity bills for local authorities, or indirectly through the amounts transferred to the Israeli electricity company through deductions from the dues of the Palestinian Authority with Israel.

<sup>8</sup> Public Finance Performance during the 2<sup>nd</sup> quarter of 2010, the Ministry of Finance.

, it is expected that the total spending on this item over the whole year will constitute 55% of the amount targeted in the Budget. This will cause further negative impacts on gross capital formation and future growth in the Occupied Palestinian Territory, especially as actual development expenditures did not exceed 3.1% of total expenditures on GDP in the 1<sup>st</sup> and 2<sup>nd</sup> quarters of 2010, compared to 4% in the 2<sup>nd</sup> quarter of 2009.

In general, the first six months of this year demonstrated an increase in total expenditures, exceeding their level of the first half of last year by 8.7%. Nevertheless, these expenditures still constitute 42% of the amounts targeted in the 2010 Budget. In the event of keeping this trend during the second half of the year, it is expected that actual expenditures over the year will be less than the amounts targeted in the budget by 18%. Thus, the Treasury will prove successful in its efforts to rationalize public expenditures and to put fiscal policy on the right track without affecting the plans and projects included in the budget proposal.

### 3.4 Surplus (Deficit)

The discrepancy in the increased pace between current expenditures and domestic revenues (6.7% for current expenditures versus 1.9% for domestic revenues) aids to further the current

budget deficit. During the 2<sup>nd</sup> quarter of 2010, the current deficit increased by 15% from its level in the 1<sup>st</sup> quarter of 2010, compared to a rise by 3.8% in the 2<sup>nd</sup> quarter of 2009, reaching US \$300.1 million. This accounts for 17.6% of GDP, compared to 16.2% in the 1<sup>st</sup> quarter of the same year and 18.5% in the corresponding quarter of 2009.

The total budget deficit (current and development expenditures) prior to grants and assistance has risen during the 2<sup>nd</sup> quarter of 2010 by about 13.2% from its level in the 1<sup>st</sup> quarter of 2010, and by about 0.5% from its level in the 2<sup>nd</sup> quarter of 2009, reaching US \$352.6 million and accounting for 20.7% of GDP, compared to 16.3% in the 1<sup>st</sup> quarter of 2010 and 22.5% in the corresponding quarter of 2009.

However, the external support obtained by the Treasury during the 2<sup>nd</sup> quarter of 2010 has contributed to the lessening of this deficit to US \$12.9 million, compared to a deficit that amounted to US \$101.6 million and US \$189.9 million in the 1<sup>st</sup> quarter of 2010 and the 2<sup>nd</sup> quarter of 2009, respectively. Thus, the current number accounts for 0.8% of GDP in the 2<sup>nd</sup> quarter of 2010, compared to a deficit rate of 6.3% in the 1<sup>st</sup> quarter of 2010 and 12.2% in the 2<sup>nd</sup> quarter of 2009.

**Table 19: Indicators of Budget Surplus (Deficit) and Financing, Q1 2009-Q2 2010**

Item	2009				2010	
	Q1	Q2	Q3	Q4	Q1	Q2
<b>Current Budget Surplus (Deficit)</b>	<b>-383.9</b>	<b>-289.1</b>	<b>-498.4</b>	<b>-199.7</b>	<b>-261.0</b>	<b>-300.1</b>
Percentage to GDP (%) (1)	-26.4	-18.5	-31.8	-12.5	-16.2	
<b>Total Budget Surplus (Deficit) Prior to Grants and Assistance</b>	<b>-392.6</b>	<b>-350.9</b>	<b>-552.2</b>	<b>-258.3</b>	<b>-311.4</b>	<b>-352.6</b>
Percentage to GDP (%) (1)	-27.0	-22.5	-35.5	-16.2	-16.3	-20.7
<b>Budget Surplus (Deficit) After Grants and Assistance</b>	<b>-114.5</b>	<b>-189.9</b>	<b>-113.3</b>	<b>35.8</b>	<b>-101.6</b>	<b>-12.9</b>
Percentage to GDP (%) (1)	-7.9	-12.2	-7.2	2.2	-6.3	-0.8
<b>Financing</b>	<b>114.5</b>	<b>189.9</b>	<b>-113.3</b>	<b>-35.8</b>	<b>101.6</b>	<b>12.9</b>
Net Financing from Local Banks	90.6	225.3	-175.6	35.5	97.7	23.3
Remaining Balance	23.9	-35.4	62.3	-71.3	3.9	-10.4
<b>Financial Gap</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Source: Table 3, Fiscal Operations Report, Revenues, Expenditure and Funding Sources (cash basis), Palestinian Ministry of Finance.

(1) The real GDP has been converted to a nominal GDP using the GDP deflator 1.2 which was obtained from dividing the nominal GDP for 2009 (US \$6117 million) on the real GDP for the same year (US \$5,147 million) and considering it constant for the given quarters.

In order to finance the deficit (US \$12.9 million), the Treasury resorted to the banking sector. The loans and overdraft fees received from the banks during the 2<sup>nd</sup> quarter of 2010 amounted to US \$23.3 million and have been used to finance this deficit, while the rest was used to repay for the accumulation of expenditures arrears and tax returns.

### 3.5 Public Debt

With the lack of self-financing resources for the Palestinian economy on the one hand, and the growing spending pressures on the other, the Palestinian government was forced towards greater dependency on alternative resources, such as local and external borrowing, to bridge the gap. It is worth noting that external aid largely contributes to reducing the gap between financing resources and spending.

During the 2<sup>nd</sup> quarter of 2010, the total outstanding public debt rose by 1.8% from its level at the end of the 1<sup>st</sup> quarter of 2010, amounting to US \$1,845 million. It was distributed as follows: 42.3% for local debts (compared to 41.1% in the 1<sup>st</sup> quarter of the same year) and 57.7% for external debt (compared to 58.9% in the same period of 2009).

The local debt rose during the 2<sup>nd</sup> quarter of 2010 by 4.7%, compared to the 1<sup>st</sup> quarter of the same year, reaching US \$780.7 million. Local banks contributed to around 86.8% of this debt (compared to 84.6% in the 1<sup>st</sup> quarter), equivalent to US \$677.3 million,<sup>9</sup> in view of its increase in the 2<sup>nd</sup> quarter by about 12.3%. The banking sector debts were distributed as follows: 63.9% from loans and 36.1% from overdraft, while the General Petroleum Corporation contributed 12.2%, compared to 14.4% in the 1<sup>st</sup> quarter of the year, while the contributions of other public institutions remained around 1% of the total public debt during the period of comparison.

In contrast, the total outstanding balance of the external debt slightly dropped during the 2<sup>nd</sup> quarter of 2010 by 0.3% from its level in the 1<sup>st</sup> quarter of the same year to US \$1,065 million. This decrease was distributed among Arab financial institutions, international and regional institutions, and bilateral loans as proportions of 51.7%, 33.2% and 15.1%, respectively.

The 2<sup>nd</sup> quarter of 2010 witnessed a slight decline of 0.1% in the contribution of Arab financial institutions, compared to their level in the 1<sup>st</sup> quarter of the same year, falling to US \$550.3 million. This contribution came from Al-Aqsa Fund, the Arab Fund for Economic and Social Development, and the Islamic Bank for Development at rates of 80.7%, 10%, and 9.3%, respectively.

The contribution of bilateral loans also declined in the 2<sup>nd</sup> quarter of 2010 by around 2.2%, compared to its level in the 1<sup>st</sup> quarter of the same year, falling to US \$161.1 million, from which Spain supplied 57.7%, Italy – 17.1%, Sweden – 14.3%, Greece – 8%, and China – 2.9%.

In contrast, the contribution of international and regional institutions during the 2<sup>nd</sup> quarter of 2010 increased by about 0.4% from its level in the 1<sup>st</sup> quarter, reaching to US \$353.1 million. This amount came from the World Bank, the European Investment Bank, the OPEC, and the International Fund for Agricultural Development (IFAD) at rates of 86.6%, 7.2%, 5.2%, and 1%, respectively.

In general, the increase in the public debt in the 2<sup>nd</sup> quarter of 2010 accounted for about 2.1% of GDP and 22% of total exports of goods and services, and for over 7% of domestic revenues for the 2<sup>nd</sup> quarter of 2010, placing an additional burden on the Palestinian citizens. Moreover, the total public debt service amounted to about US \$1.9 million in the 2<sup>nd</sup> quarter of 2010.

<sup>9</sup> Based on the consolidated balance sheet of banks operating in the Occupied Palestinian Territory, the Palestinian public debt has risen by \$186.8 million bringing the outstanding balance to about \$824.2 million, of which \$612.6 million are to the Palestinian Authority. The reason for this discrepancy between the data available at the Ministry of Finance and that provided by banks may be the time or the methodology of data registration or its comprehensiveness or all together.

### 3.6 Institutional Developments

Two major developments occurred with regards to capacity-building and reform. The first comprises of the introduction of a comprehensive and detailed account of the Palestinian National Authority public debt for the first time within the monthly financial statements at the website of the Ministry of Finance. The second development consists of the Council of Minister's approval of a plan of

action for the reform of public pensions. This plan aims to reduce short-term commitments of pensions in order to provide additional resources to the Ministry of Finance to ensure the financial sustainability of the Fund in the medium term, as well as to ensure a number of reforms, including the abolition of early retirement and a gradual rise in the retirement age.

**Table 20: Public Debt, Q4 2009-Q2 2010**

(Million US \$)

ITEM	Q4 2009	Q1 2010*	Q2 2010
<b>Local Public Debt</b>	<b>644.79</b>	<b>745.43</b>	<b>780.69</b>
Local Banks	561.15	630.40	677.26
Loans	304.20	411.68	432.63
Overdraft	256.95	218.72	244.63
<b>General Petroleum Corporation</b>	<b>78.37</b>	<b>106.99</b>	<b>95.50</b>
Other Public Institutions (1)	5.27	8.04	7.63
Guarantees	0.80	15.55	14.94
<b>External Public Debt</b>	<b>1086.93</b>	<b>1067.55</b>	<b>1064.60</b>
Arab Financial Institutions	551.22	550.98	550.33
Al-Aqsa Fund (2) (3)	444.09	444.09	444.09
Arab Fund for Economic and Social Development	54.71	54.38	54.78
Islamic Bank for Development (3)	52.42	52.51	51.46
<b>International and Regional Institutions</b>	<b>370.58</b>	<b>351.81</b>	<b>353.14</b>
World Bank (4)	308.22	305.95	305.91
European Investment Bank (3)	41.51	25.23	25.53
International Fund for Agricultural Development (IFAD)	3.65	3.38	3.31
OPEC (2)	17.20	17.25	18.39
<b>Bilateral Loans</b>	<b>165.13</b>	<b>164.76</b>	<b>161.13</b>
Greece	12.85	12.85	12.85
Spain (2)	92.95	92.95	92.95
Italy (4)	29.75	29.67	27.53
China (2)	4.77	4.77	4.81
Sweden (2)	24.81	24.52	22.99
<b>Total Outstanding Public Debt at the End of the Period</b>	<b>1,731.72</b>	<b>1,812.98</b>	<b>1,845.29</b>

Source: Ministry of Finance, Table 8: Public Debt Report (Local & External).

\* Data for April 2010.

(1) Loans from the Orphans Foundation to the General Petroleum Company.

(2) Temporary information that needs to be confirmed.

(3) Includes loans guarantees.

(4) Includes lending.

### Box 3: Arab Countries' Support for the Palestinian Budget

Palestinian and international official sources warned against the financial adversity from which the Palestinian National Authority suffers because of the failure of donors to meet their commitments to support the budget. In August 2010, Dr. Salam Fayyad, the Palestinian Prime Minister, Dr. Ghassan Khatib, the spokesman for the Palestinian government, and Oscar Tarnko, the United Nations Assistant Secretary General, confirmed that the PNA will face a serious liquidity crisis in case donors did not disburse their commitments to the Palestinian Treasury.<sup>10</sup>

The Ministry of Finance data indicate that the budget deficit during the first half of 2010 amounted to US \$114 million (see Table 19). This is attributed to two reasons: first, the decline in external support for the Budget from the amounts pledged by donor countries for the same period; second, the gap between domestic revenues and actual and estimated expenditures. The risk does not lie in the deficit itself alone, but also in the fact that a number of donors<sup>11</sup> had already pre-paid their dues for the second half of the year in the first half upon the request of the Palestinian National Authority.

Arab countries pledged US \$55 million monthly during 2010. This amount constitutes 53% of the total monthly commitments in support for the Budget and is the highest proportion for the last three years. However, the actual total payments received in the first six months of the year did not exceed US \$60 million (from the pledged due amount of US \$330 million).<sup>12</sup>

The Arab countries are usually at the forefront of the contributors in support of the Palestinian Budget, but they did not pay their commitments for the first half of 2010. The Arab countries had backed up the budget through donations of US \$445 million and US \$461 million in 2008 and 2009, respectively. At that time, Saudi Arabia and the United Arab Emirates were in the lead of donors countries: Saudi Arabia paid US \$241 million in 2009, compared to only US \$30 million during the first half of 2010. Also, the United Arab Emirates contributed US \$173 million in 2009 and none during the first half of 2010.

The delay in the disbursements of donor countries led to an increase in Palestinian National Authority's borrowing from commercial banks, and therefore, to an increase in the total local public debt. The PNA borrowed US \$121 million in the first half of 2010, bringing the total debt owed to local banks to US \$665 million. It is noted that the Palestinian National Authority paid US \$226 million in 2008 as part of this public debt owed to banks,<sup>13</sup> but it accumulated again when the PNA borrowed US \$175 million in 2009 and US \$121 million in the first half of 2010.<sup>14</sup>

The Palestinian government is trying to reduce its dependency on external assistance. Among its objectives, the government set up the target of cutting down aid to US \$1 billion in 2011, compared to US \$1.2 billion in 2010 and US \$1.8 billion in 2008. As Salam Fayyad declared, the mid-term aim is to completely terminate the dependency on external aid for current expenditures.<sup>15</sup>

<sup>10</sup> <http://www.aawsat.com/details.asp?section=4&article=583213&issueno=11588>

<sup>11</sup> United States, United Kingdom, Norway, European Union (European Mechanism). Ibid.

<sup>12</sup> In addition to \$50 million that was paid by Kuwait through its contributions to the World Bank. Thus this amount appears under the contributions of the World Bank in May.

[http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:22577191~pagePK:34370~piPK:34424~theSitePK:4607.00.html?cid=ISG\\_E\\_WBWeeklyUpdate\\_NL](http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:22577191~pagePK:34370~piPK:34424~theSitePK:4607.00.html?cid=ISG_E_WBWeeklyUpdate_NL)

<sup>13</sup> [http://www.pmf.ps/news/plugins/spaw/uploads/files/table1\\_arb\\_4.pdf](http://www.pmf.ps/news/plugins/spaw/uploads/files/table1_arb_4.pdf)

<sup>14</sup> [http://www.pmf.ps/news/plugins/spaw/uploads/files/accounts/2010/01/table1\\_arb.pdf](http://www.pmf.ps/news/plugins/spaw/uploads/files/accounts/2010/01/table1_arb.pdf)

<sup>15</sup> <http://www.alquds.com/node/283774>



## 4. Banking Sector<sup>16</sup>

By the end of the 2<sup>nd</sup> quarter of 2010, when compared to the 1<sup>st</sup> quarter of the same year, the consolidated balance sheet of banks operating in the Occupied Palestinian Territory indicated the following developments:

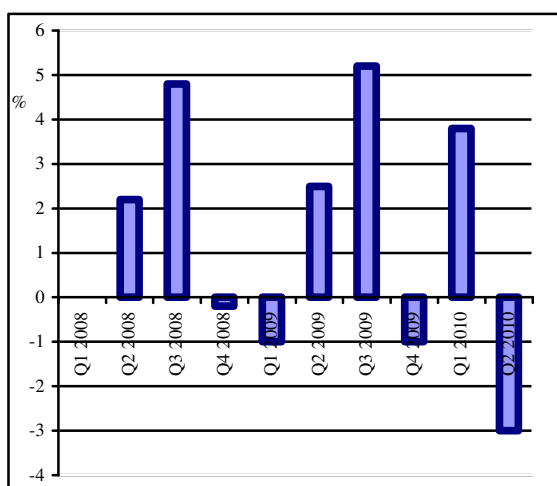
### Assets:

- ✧ Banks' total net assets declined by 3%.
- ✧ Balances with banks abroad declined by 4.7%.
- ✧ Net credit facilities grew by over 3%.
- ✧ Balances of banks with the Palestine Monetary Authority (PMA) declined by 12%.

### Liabilities:

- ✧ Client deposits declined by 1.8%.
- ✧ Equity declined by 2.1%.
- ✧ Balances of banks with the PMA declined by 30.3%.

**Figure 4: Growth Rate in Banks' Assets, Q1 2008-Q2 2010**



Source: PMA - Banks' consolidated balance sheet.

One can note that the credit facilities item exceeded the balances with banks abroad for the first time, making direct credit facilities the largest component of banks' assets, accounting for 32.7% of assets balances while balances with banks abroad constituted

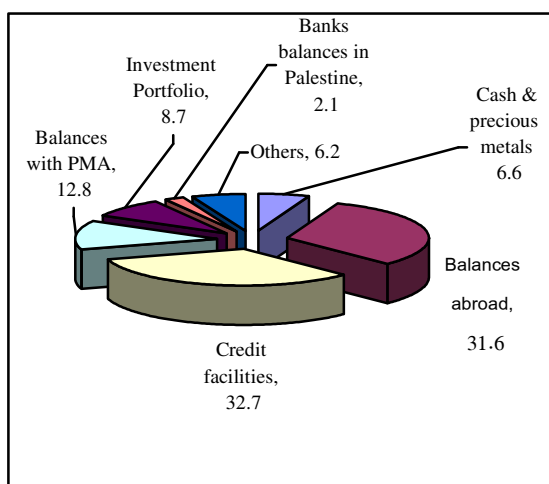
## 4.1 Main Developments in the Banks' Consolidated Balance Sheet

### Assets

By the end of the 2<sup>nd</sup> quarter of 2010, the total net assets of the banks operating in the Occupied Palestinian Territory witnessed a 3% decline compared to the 1<sup>st</sup> quarter of the same year. This decrease reflects the decline in most key items on the assets side of the banks' consolidated balance sheet.

The banknotes and coins item declined by 15.6% at the end of the 2<sup>nd</sup> quarter of the year. Banks' balances abroad decreased by 4.7% during the same period. It is noted the drop in balances abroad is in line with the instructions of the PMA requesting banks to reduce their investments abroad. Banks' balances with the PMA also declined by 12% during the same period. In contrast, net direct credit facilities witnessed a growth of 3% at the end of the 2<sup>nd</sup> quarter of 2010, as compared to the 1<sup>st</sup> quarter of the same year.

**Figure 5: Structure of Banks' Assets, End of Q2 2010 (%)**



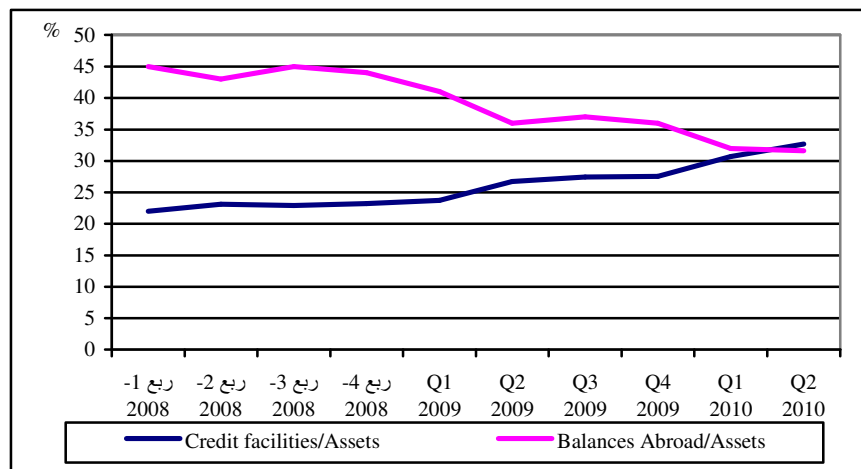
31.6%. This development constitutes a clear indication of the inverse relation between these two items which together account for about two-thirds of the assets of the banks operating in the Occupied Palestinian Territory, as clearly shown in Figure 6.

<sup>16</sup> Preliminary data subject to modification.

When dividing credit facilities between the private and public sectors, it is noted that the share of credit facilities extended to the public sector declined in favor of those extended to the private sector at the end of the 2<sup>nd</sup> quarter of 2010. While the proportion of credit facilities extended to the public sector was 33.6% of total credit facilities at the end of the 1<sup>st</sup> quarter of 2010, it dropped to 31.9% at the end of the 2<sup>nd</sup> quarter of the year, by 66.4% and 33.6% respectively during the 1<sup>st</sup> quarter of 2010. Thus, the share of credit facilities

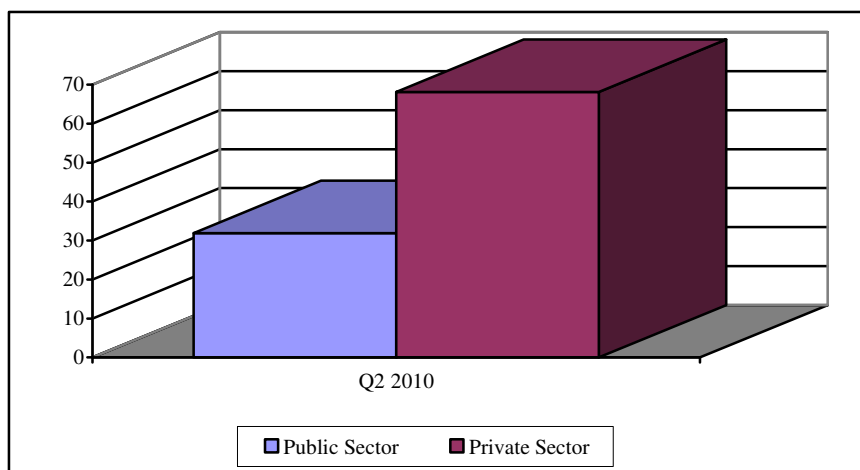
extended to the public sector increased by 5% at the end of the 1<sup>st</sup> quarter of 2010 at the expense of the share to the private sector. It should be noted here that most of the facilities for the public sector get allocated to the Palestinian National Authority, while the facilities extended to local authorities and to other public sector institutions constitute only a small proportion. The fluctuation in external aid may have an impact on the instability of the distribution of credit facilities between the public and private sectors.

**Figure 6: Ratio of Credit Facilities and Balances with Banks Abroad to Total Banks Assets, Q1 2008-Q2 2010**



Source: PMA. Banks' Consolidated Balance Sheet.

**Figure 7: Distribution of Credit Facilities by Sector, End of Q2 2010**

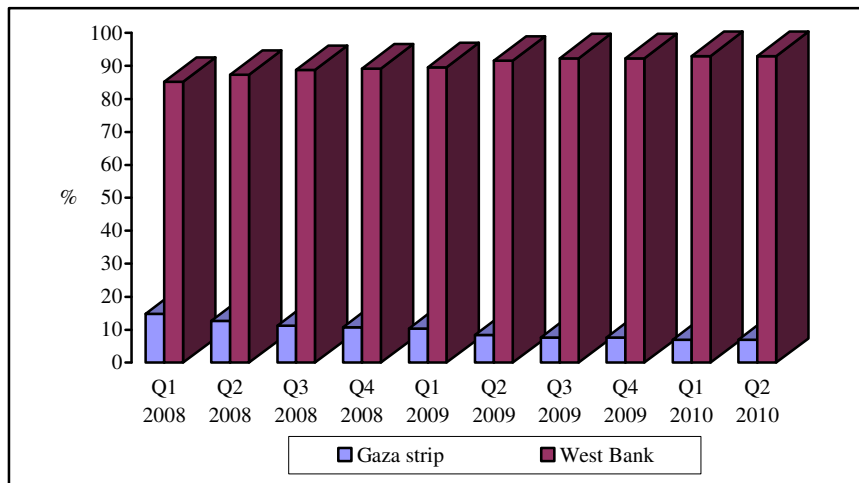


Source: PMA. Banks' Consolidated Balance Sheet.

The credit facilities were distributed among Palestinian governorates at the end of the 2<sup>nd</sup> quarter of 2010 by 93% for the West Bank and 7% for the Gaza Strip, similar to the

proportion in the 1<sup>st</sup> quarter of the year. This clearly reflects the volume of the decline in the Gaza Strip share of total credit facilities, which was over 10% at the beginning of 2009.

**Figure 8: Geographical Distribution of Credit Facilities, Q1 2008-Q2 2010**



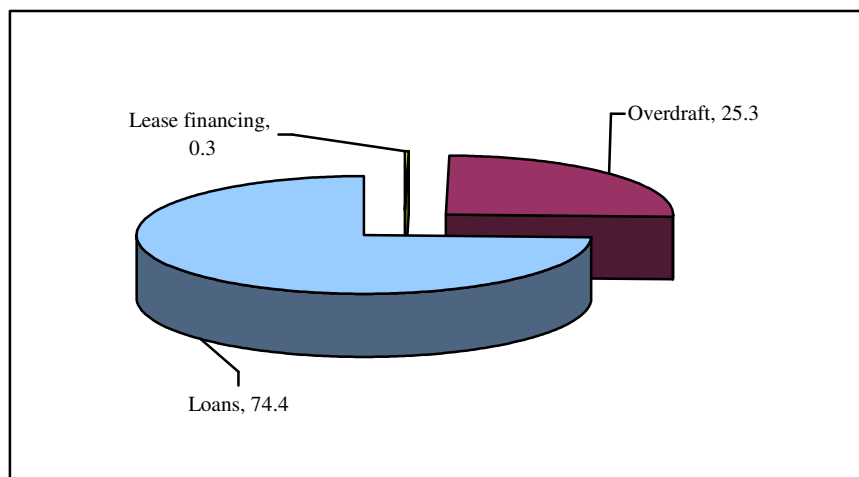
Source: PMA. Banks' Consolidated Balance Sheet.

It is worth noting that the credit facilities extended to the West Bank include those extended to the PNA, which makes it look larger than its actual size. If one exclude credit facilities to the Palestinian National Authority and facilities to non-residents from

the West Bank share, it will not exceed 60% of total credit facilities extended by banks.

At the end of the 2<sup>nd</sup> quarter of the year, loans constituted 72.9% of total credit facilities, while overdraft did not exceed 26.8%, and lease financing k- 0.3%.

**Figure 9: Distribution of Credit Facilities by Type, End of Q2 2010 (%)**

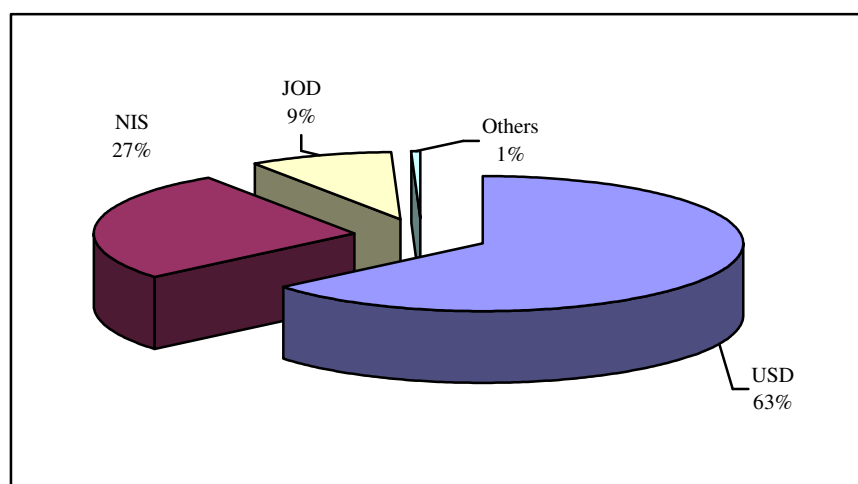


Source: PMA. Banks' Consolidated Balance Sheet.

The credit facilities extended in US \$ remained dominant and amounted to 64%, by the end of the 2<sup>nd</sup> quarter of 2010. Credit

facilities in NIS totaled 26.6%, and those extended in JD - 8.9%, while credits in other currencies remained small - below 0.5%.

**Figure 10: Distribution of Credit Facilities by Currency, End of Q2 2010 (%)**



Source: PMA. Banks' Consolidated Balance Sheet.

**Table 21: Distribution of the Direct Credit Facility Portfolio, Q2 2008-Q2 2010**  
(Million US \$)

Budget Item	2008			2009				2010	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2**
<b>Geographical Distribution</b>									
West Bank*	1509.1	1603.1	1625.5	1650.7	1924.2	2087.3	2061.2	2408	2402.8
Gaza Strip	237.6	204.4	202.7	192.2	175.5	173.6	172.7	178.5	185.0
<b>Depositing Party</b>									
Public Sector	511.3	544.8	532.7	581.6	748.8	722.2	637.4	870.1	824.7
Private Sector/Resident	1140.5	1129.6	1165.9	1123.2	1216.2	1365.2	1448.6	1662.4	1712.5
Private Sector/Non-resident	95.3	133.1	129.6	138.1	134.7	151.0	147.9	54	50.6
<b>Type of facility</b>									
Loans	1066.5	1109.2	1114.2	1159.0	1338.9	1500.2	1566.8	1873.6	1885.9
Overdrafts	669.3	687.8	703.7	673.6	750.7	753.3	659.3	705.1	694.0
Leases	10.8	10.5	10.3	10.3	10.2	7.5	7.8	7.9	7.9
<b>Type of Currency</b>									
US Dollar	1117.7	1163.1	1190.2	1225.9	1301.7	1388.6	1427.4	1602.4	1656.8
Jordanian Dinar	151.1	146.2	147.5	142.5	200.3	208.5	218.0	220.9	229.7
New Israeli Shekel	463.1	483.9	474.3	460.6	582.7	650.7	579.0	753.4	688.5
Other Currencies	14.7	14.3	16.2	13.8	15.0	13.1	9.5	9.8	12.8

Source: PMA - Banks' consolidated balance sheet.

\* Loans in the West Bank include loans extended to the Palestinian National Authority, as well as loans to non-residents.

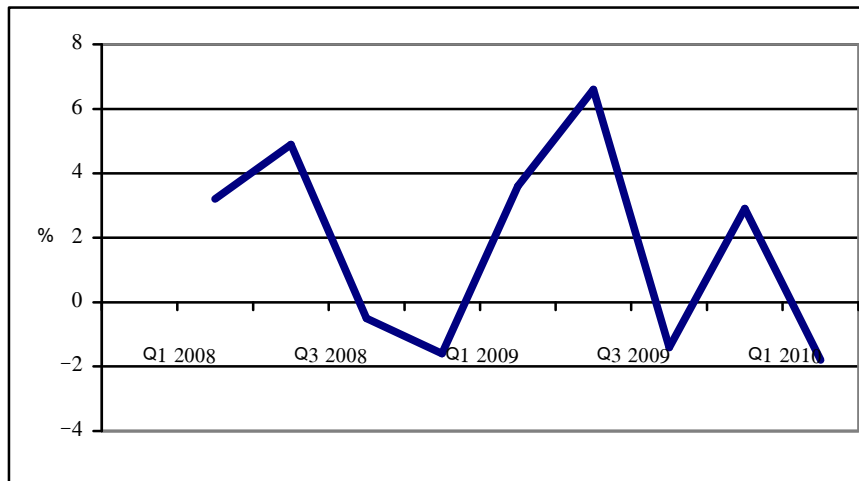
\*\* Data until the 1<sup>st</sup> quarter reflects the total facilities (facilities + provisions), while data for the 2<sup>nd</sup> quarter demonstrate net facilities only.

## Liabilities

By the end of the 2<sup>nd</sup> quarter of 2010, the data in the consolidated balance sheet of banks operating in the Occupied Palestinian Territory indicated that a decline of 1.8% had occurred in total clients' deposits, compared to the end of the previous quarter. This is a normal disparity that occasionally happens with some

items of the consolidated budget, which may be attributed to seasonal changes. It is worth noting here that this item sometimes witnesses similar variations, as illustrated in the figure below, but it generally tends to rise over the years.

**Figure 11: Clients' Deposits Development, Q1 2008-Q1 2010**



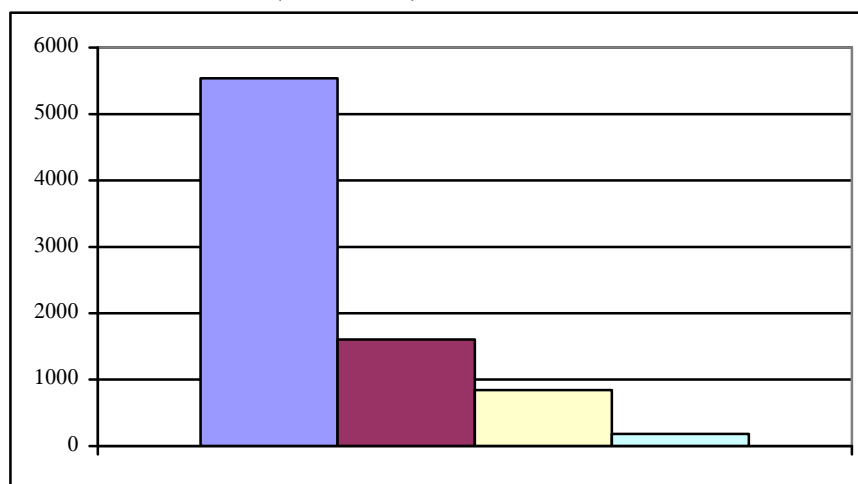
Source: PMA. Banks' Consolidated Balance Sheet.

Clients' deposits constituted 80.6% of the total liabilities of banks operating in the Occupied Palestinian Territory by the end of the 2<sup>nd</sup> quarter of 2010, registering an increase in their share by around 2%, compared to the end of the previous quarter. Distributing clients' deposits between the public and the private sectors shows the stability of this ratio at about 90% of total clients' deposits for the private sector and around 10% for the public sector. The private sector deposits are divided between deposits for residents and for non-

residents, and the latter do not exceed 6.9% of total clients' deposits.

These deposits were distributed by the Palestinian governorates at the end of the 2<sup>nd</sup> quarter of 2010 at a rate of 86.8% for the West Bank and 13.2% for the Gaza Strip. These rates reflect the continued decline in the share of the Gaza Strip in favor of that of the West Bank. This is obvious through comparison with the situation in the previous quarter, when the Gaza Strip's contribution amounted to 13.9%.

**Figure 12: Credit Facilities and Clients' Deposits in the West Bank and the Gaza Strip, End of Q2 2010 (Million US \$)**

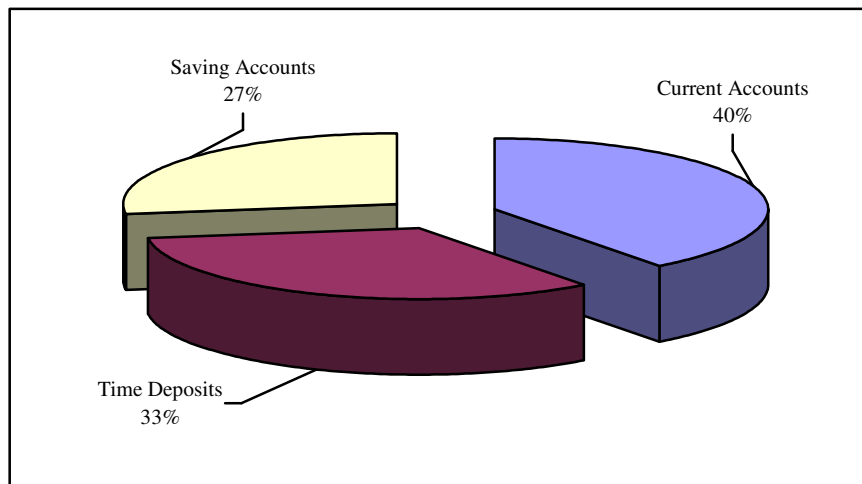


Source: PMA. Banks' Consolidated Balance Sheet.

It is worth noting that the political and economic developments in the Gaza Strip in the last years have a significant negative impact on the overall banking indicators. Comparing the ratio of credit facilities extended in the West Bank to clients' deposits with that in the Gaza Strip, a disparity becomes evident: 29% in the West Bank versus 22% in the Gaza Strip.<sup>17</sup>

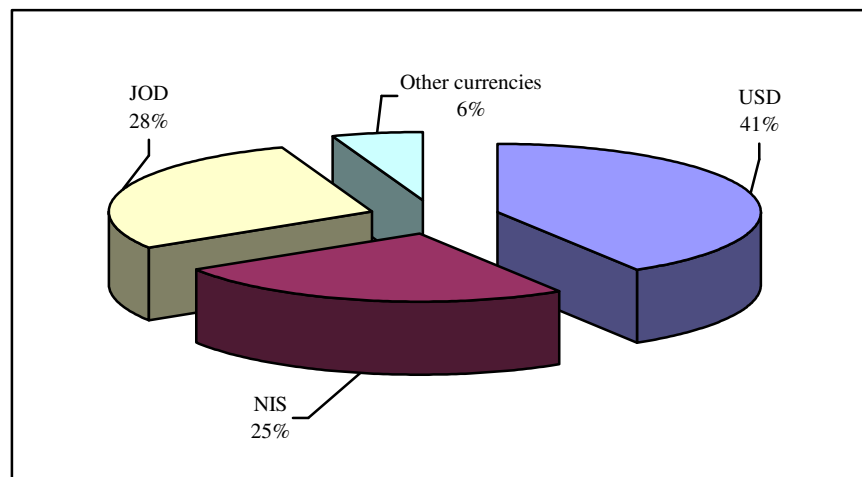
When clients' deposits are distributed by type, 39.8% come from current account and demand deposits, 33.1% from time deposits, and 27.1% from saving account deposits. Therefore, demand deposits have increased by 1% from their level in the previous quarter at the expense of the other types of accounts.

**Figure 13: Distribution of Clients' Deposits by Type, End of the 2<sup>nd</sup> Quarter of 2010 (%)**



Source: PMA. Banks' Consolidated Balance Sheet.

**Figure 14 Distribution of Clients' Deposits by Type of Currency, End of Q2 2010 (%)**



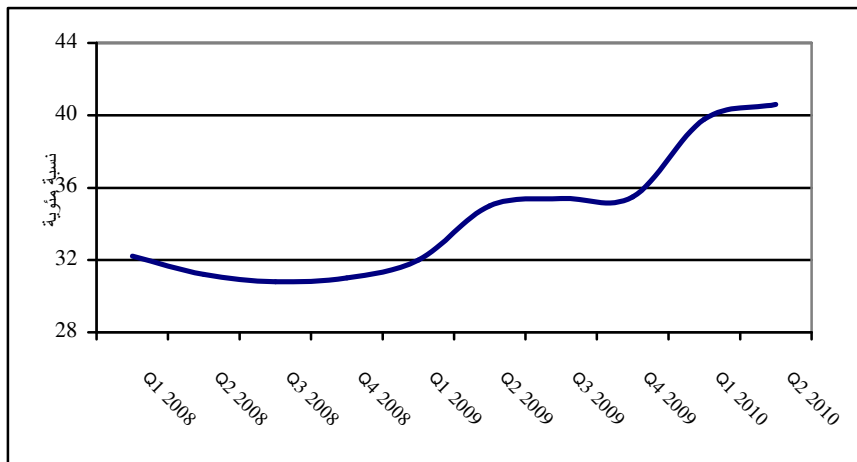
Source: PMA. Banks' Consolidated Balance Sheet.

<sup>17</sup> This ratio does not include the facilities extended to the Palestinian public sector, which are usually listed as facilities extended in the West Bank.

By the end of the 2<sup>nd</sup> quarter, the distribution of total clients' deposits by type of currency showed a clear disparity. The US \$ dominated over 41% of total deposits, while the share of the JD and the NIS amounted to 28.2% and 25.2%, respectively, while other currencies accounted for 5.9%, similarly to the previous quarter.

As for the proportion of credit facilities to total deposits, the end of the 2<sup>nd</sup> quarter of 2010 witnessed a noticeable improvement in comparison with the end of the previous quarter. This progress was revealed through a rise from 39.8% at the end of the 1<sup>st</sup> quarter to 40.6% by the end of the 2<sup>nd</sup> quarter. This increase reflects the success of the PMA policy aimed to reduce banks' balances abroad and increase the size of local credit facilities.

**Figure 15: Ratio of Credit Facilities to Total Clients' Deposits, Q1 2008-Q1 2010**

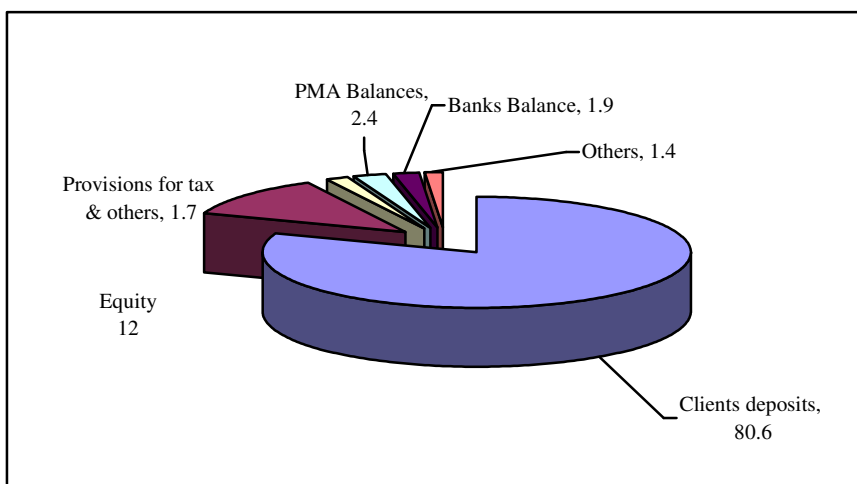


Source: PMA. Banks' Consolidated Balance Sheet.

Total capital, represented in the "equity" item, dropped by 2.1% at the end of the 2<sup>nd</sup> quarter of 2010 compared to the previous quarter.

Looking at the paid-up capital, which is the main component of equity, one finds a slight decline of 0.4% during this period.

**Figure 16: The Structure of Liabilities in Banks Operating in the Occupied Palestinian Territory, the End Q2 2010 (%)**



Source: PMA. Banks' Consolidated Balance Sheet.

Others include: other liabilities, acceptances executed and outstanding, and banks' balances abroad.

Deposits of the PMA and banks witnessed a significant decline at the end of the 2<sup>nd</sup> quarter of 2010 compared to the end of the previous quarter, falling by about 30.3%. It is worth noting, however, that this item does not

constitute more than 4% of total liabilities of banks operating in the Occupied Palestinian Territory. Thus, the disparities that occurred, although large in magnitude, will have a limited impact on total liabilities.

**Table 22: Banks' Consolidated Balance Sheet, Q1 2008-Q2 2010)**

(Million US \$)

Budget Item	2008				2009				2010	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Cash & Precious Metals	357.3	367.5	273.9	346.2	334.6	501.0	515.8	534.9	551.5	465.7
Balances with the PMA & Banks	4492.9	4332.2	4708.9	4674.0	4513.5	4086.8	4265.3	4185.5	3935.8	3681.7
Investments Portfolio	185.7	217.9	214.4	206.6	233.1	429.7	467.5	535.6	685.6	689.3
Direct Credit Facilities	1773.1	1746.6	1807.5	1828.2	1842.9	2099.7	2261.2	2233.9	2586.5	2587.7
Banks Acceptances	3.4	4.2	4.3	6.2	3.2	3.5	4.2	3.9	3.6	4.9
Investments	190.1	188.6	173.5	144.6	188.1	172.8	165.7	162.2	127.6	133.7
Fixed Assets	218.3	224.4	225.9	237.3	243.9	252.8	255.9	267.9	140.0	142.8
Other Assets	250.4	236.0	249.3	197.3	213.2	208.7	220.9	167.3	205.8	209.2
<b>Total Assets</b>	<b>7471.9</b>	<b>7308.3</b>	<b>7657.6</b>	<b>7640.4</b>	<b>7570.7</b>	<b>7755.0</b>	<b>8156.5</b>	<b>8091.1</b>	<b>8249.1</b>	<b>7915.0</b>
Deposits of PMA and Banks	660.4	466.0	456.2	442.9	417.6	426.4	383.6	381.4	457.3	318.7
Total Clients' Deposits	5424.7	5599.0	5873.6	5846.9	5772.5	5988.7	6385.9	6295.3	6495.5	6379.7
Acceptances Executed & Outstanding	16.7	15.9	15.2	21.0	9.3	10.7	13.2	12.4	11.7	13.4
Other Liabilities	217.8	155.7	158.3	135.2	144.0	111.9	115.7	93.2	101.1	118.5
Provisions for Tax & Others	390.0	320.3	337.5	341.5	346.3	337.2	346.6	341.4	126.8	134.8
Equity	762.3	751.5	817.0	853.0	880.9	880.1	911.5	967.8	970.4	949.8
<b>Total Liabilities</b>	<b>7471.9</b>	<b>7308.3</b>	<b>7657.6</b>	<b>7640.4</b>	<b>7570.7</b>	<b>7755.0</b>	<b>8156.5</b>	<b>8091.1</b>	<b>8249.1</b>	<b>7915.0</b>

Source: PMA. Banks' Consolidated Balance Sheet.

Note: In the 2<sup>nd</sup> quarter of 2010, net credit facilities as well as net assets are adopted, which must be taken into consideration when making comparisons.

## 4.2 Bank Performance Indicators

As illustrated by the consolidated balance sheet of banks operating in the Occupied Palestinian Territory in the 2<sup>nd</sup> quarter of 2010, the key indicators of the performance of Palestinian banks experienced an improvement when compared to the previous quarter. The proportion of credit facilities to total deposits and clients' deposits rose by 38.6% and 40.6%, respectively. The proportion of credit

facilities to private sector deposits increased by about 1.3%, compared to the previous quarter, while the ratio of balances abroad to total deposits slightly declined from 37.7% in the 1<sup>st</sup> quarter to 37.3% in the 2<sup>nd</sup> quarter. The ratio of clients' deposits to total assets increased from 79% to 81% between the two quarters.



**Table 23: Bank Performance Indicators, 2007-Q2 2010**

Indicator	(%)							
	2007	2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
Credit Facilities to Total Deposits	29.8	29.1	29.8	32.7	33.4	33.5	37.2	38.6
Credit Facilities to Clients' Deposits	33.3	31.3	32.0	35.1	35.4	35.5	39.8	40.6
Private Sector Credit Facilities to Private Sector Deposits	27.8	24.7	24.1	24.6	26.6	27.9	29.4	30.7
Resident Private Sector Credit Facilities to Resident Private Sector Deposits	26.9	22.8	22.3	23.3	25.4	26.8	30.3	32.2
Balances Abroad to Total Deposits	55.0	52.1	52.4	42.5	43.2	42.3	37.7	37.3
Clients Deposits to Total Assets	73.1	76.6	76.2	77.2	78.4	77.8	78.7	80.6
Credit Facilities to Total Assets	24.3	24.0	24.3	27.0	27.7	27.6	31.4	32.7

Source: PMA. Banks' Consolidated Balance Sheet.

Note: In the 2<sup>nd</sup> quarter of 2010, net credit facilities as well as net assets are adopted which must be taken into consideration when making comparisons.

### 4.3 Clearing House Activities

The data of the clearing house of the Palestine Monetary Authority in Ramallah and Gaza show a noticeable rise in the number and value of checks presented for clearing in different currencies used in the Occupied Palestinian Territory at the end of the 2<sup>nd</sup> quarter of 2010, compared to the end of the previous quarter. The number of checks presented for clearing rose by 8%, while their value increased by 5.8%. In contrast to this rise, there was a slight decline in the proportion of bounced checks (in terms of both number and value), enhancing the positive image of check clearance according to the new system.

It should be noted that the PMA launched a new system for bounced checks, starting in 2010. In summary, the system closes the accounts of persons who repeat writing checks without adequate backing funds on their account. It is based on automated enlisting according to reports issued by the clearing house without the interference of banks. This scheme is characterized by its comprehensive, current, and accurate data, as well as by a unified entry for clients who have multiple accounts in various banks. This method aims to limit the problem of bounced checks caused by inadequate backing funds and to maintain the legal status of checks as a means of payment.

**Table 24: Number and Value of Checks Presented for Clearing and of Bounced Checks, Q1 2008Q2 2010**

Period	Checks Presented for Clearing		Bounced Checks		Bounced Checks to Total Checks Presented for Clearance	
	Number of Checks	Value of Checks (Million US \$)	Number of Checks	Value of Checks (Million US \$)	Number (%)	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
Q3 2009	813,545	2089.7	91,833	144.1	11.3	6.9
Q4 2009	845,135	2247.8	101,896	155.4	12.0	6.9
Q1 2010	817,520	2220.1	80,071	127.2	9.8	5.7
Q2 2010	882,782	2347.8	83,098	131.8	9.4	5.6

Source: PMA. Monthly Statistical Bulletin.

## 5. Palestine Securities Exchange

Stock markets play a significant role in attracting capital and investing it in stocks and bonds traded by the Palestine Securities Exchange (PSE). Financial markets also provide monetary resources for the companies issuing the stocks to fund their projects. This is in addition to the fact that stock markets motivate those companies to improve their economic performance and increase their profitability in order to maintain the prices of their stocks.

An efficient financial market is characterized by a rapid response of the prices of stocks of listed companies to any new information received by dealers with regards to the current and future financial situation of these companies. Stock prices in an efficient financial market reflect the information available about the company issuing the stocks, such as data pertaining to the company's financial situation. Therefore, in order to have an efficient financial market, information about the market must be available to all, directly and at a low cost. This Investors must be able to sell and buy the number of stocks they want easily and unconditionally. Also, there is a need for a large number of investors, enough to prevent an impact on the prices of stocks as a result of the practices of some investors. In order to monitor the developments in the Palestine Securities Exchange, the following financial indicators are addressed:

### 1. Financial market size indicators:

- ✧ **Market capitalization:** This meter is calculated by dividing the market value of shares listed in the market by GDP at current prices. This indicator is used to measure the importance and the role of the financial market in the national economy. It is worth noting that this ratio is calculated for the year as a whole and not by quarters. The rate in the OPT amounted to 46.4% in 2009,<sup>18</sup> which means that the value of capital employed in the PSE is equivalent to almost half the value of the Palestinian production.
- ✧ **The number of listed companies:** This indicator points out the depth and

the diversity of the market. The number of companies listed in the Palestine Securities Exchange amounted to 41 at the end of the 2<sup>nd</sup> quarter of 2010, 4 of which were suspended from trading.

### 2. Liquidity indicators:

- ✧ **The value of traded shares to GDP:** This ratio amounted to 10.5% in the PSE during the 2<sup>nd</sup> quarter of 2010, compared to 10% in the 1<sup>st</sup> quarter of 2010.
- ✧ **Turnover:** The turnover ratio is calculated by dividing the total value of shares traded by the total value of shares listed in the market. This rate amounted to around 5.8% in the 2<sup>nd</sup> quarter, compared to 5.5% in the 1<sup>st</sup> quarter of 2010. This very low rate that may be attributed to the investors' fear of the unexpected volatility of prices or to the small number of speculators versus those who invest for the purpose of saving.

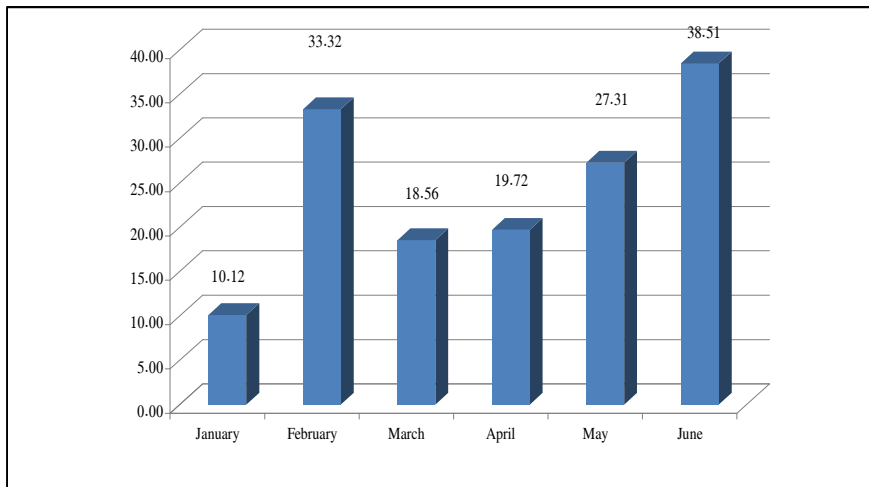
### 3. Degree of concentration:

This indicator is used to determine the degree of impact these companies have on changes in the securities exchange indices and, most importantly, stocks prices. The level of concentration is measured through the size of the share of the largest five or ten companies in the value of stocks traded or listed in the securities exchange market. In the PSE, the five largest companies captured 77.8% of the total shares traded. This is a high concentration that provides these companies with the capability to influence the PSE indices.

The following is a detailed review of developments in the Palestine Securities Exchange during the 2<sup>nd</sup> quarter of 2010. The indicators point to a general rise in the PSE activities during the 2<sup>nd</sup> quarter compared to the 1<sup>st</sup> quarter of 2010. The number of shares traded in the 2<sup>nd</sup> quarter of 2010 had risen by 38% and reached 85.5 million (see Figure 17).

<sup>18</sup> Because national accounts for the year 2009 are available in constant prices only, thus the rate was calculated in constant prices rather than in current prices.

**Figure 17: Number of Shares Traded in the Palestine Securities Exchange, Q1 and Q2 2010**  
(Million US \$)

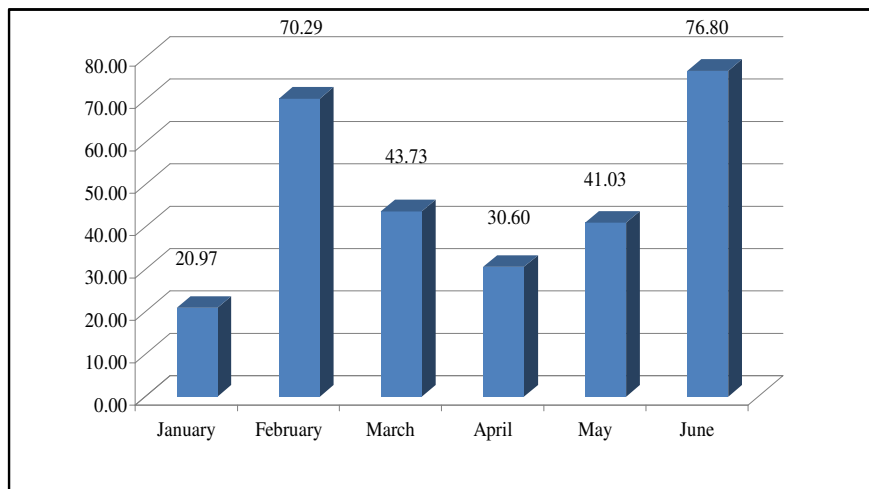


Source: The Palestine Securities Exchange. [www.p-s-e.com](http://www.p-s-e.com)

This rise in the number of shares traded was coupled with a decline in their value during April and May, compared to the months of the 1<sup>st</sup> quarter. However, the stocks' value

recovered in June, marking an increase of 10% and 74% in the 2<sup>nd</sup> quarter of 2010, compared to the 1<sup>st</sup> quarter of 2010 and the 4<sup>th</sup> quarter of 2009, respectively (see Figure 18).

**Figure 18: Value of Shares Traded in the Palestine Securities Exchange, Q1 and Q2 2010**  
(Million US \$)

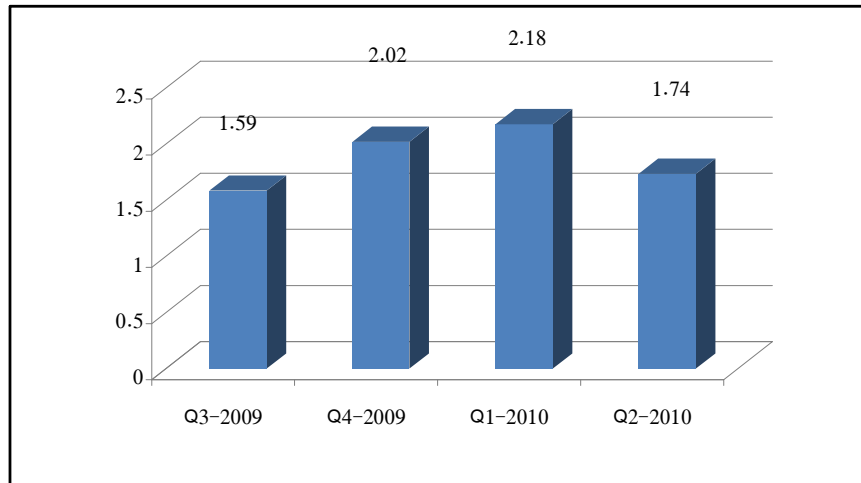


Source: The Palestine Securities Exchange. [www.p-s-e.com](http://www.p-s-e.com)

In spite of the rise in the value of shares traded, the average price per share witnessed a significant decline from 2.18 to 1.74 between the two quarters (see Figure 19). This means that the high value of shares traded in the 2<sup>nd</sup> quarter was a result of the increase in the number of shares traded and not a rise in the value of the shares.

With regards to Al-Quds index, it closed at 515.48 at the end of the 2<sup>nd</sup> quarter of 2010, marking a rise of 2.52%, compared to the previous quarter, and a rise of 4.6%, compared to the end of the previous year (see Figure 20).

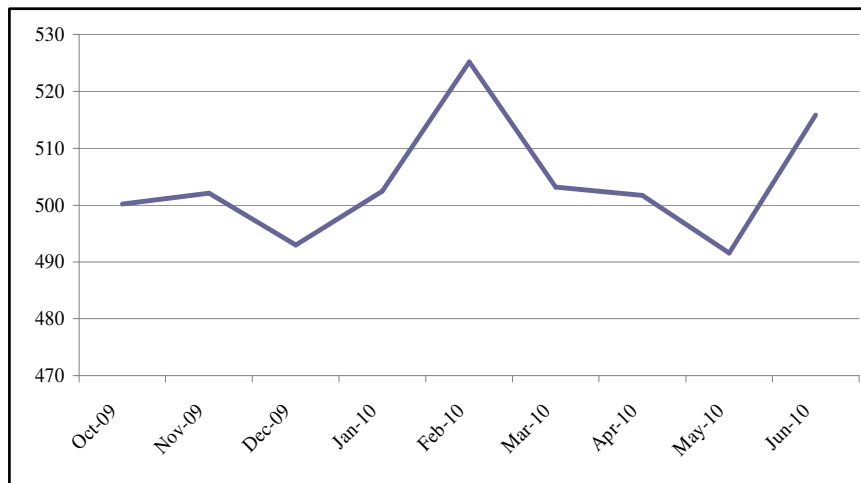
**Figure 19: Average Price per Share in the Palestine Securities Exchange, Q3 2009-Q2 2010**



Source: The Palestine Securities Exchange. [www.p-s-e.com](http://www.p-s-e.com)

**Figure 20: Al-Quds Index, Q4 2009-Q2 2010**

(Points)



Source: The Palestine Securities Exchange. [www.p-s-e.com](http://www.p-s-e.com)

At the corporate performance level, the number of companies listed in the PSE in April, May, and June amounted to 39, 41, and 41, respectively. The number of companies that traded their shares in April amounted to 34, 14 of which achieved a rise in the prices of their shares, while the prices of the shares of 12 companies dropped, whereas the rest of the companies experienced no change in the prices of their shares. As for May, out of the 37

companies trading shares, the prices of the shares of 13 companies rose, the prices of the shares of 19 companies fell, and those of 5 companies remained stable. In June, out of the 37 companies trading shares, the value of the shares of 22 companies rose, whereas those of 13 companies declined, and the prices of the shares of only two companies remained stable(see Table 25).

**Table 25: Key indicators of the Palestine Securities Exchange, Q2 2009-Q2 2010**

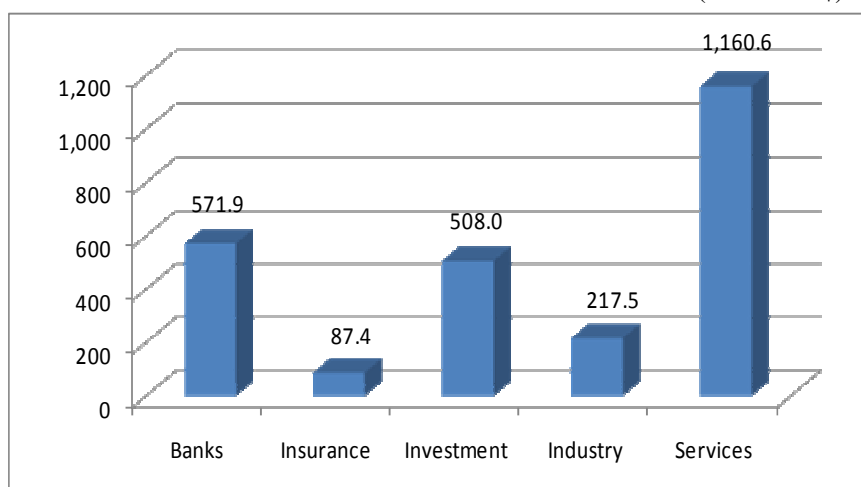
Period	Market Capitalization (Billion US \$)	Number of Trading Sessions	Al-Quds Index (At the End of Each Month)	Trading Volume (Value of Traded Stocks) (Million US \$)	Number of Traded Stocks (Million US \$)
Q2 2009	2,390	65	524.85	145.5	54.64
Q3 2009	033,2	61	498.92	80.6	150.8
Q4 2009	2,390	60	493.00	85.29	8142.
Q1 2010	042, 2	63	510.26	134.98	62.00
April 2010	404,2	21	501.72	30.60	19.72
May 2010	304,2	21	491.58	41.03	27.31
June 2010	505,2	22	515.84	76.80	38.51
Q2 2010	505,2	64	503.04	148.43	85.54

Source: The Palestine Securities Exchange website [www.p-s-e.com](http://www.p-s-e.com).

With regards to economic sectors, the services sector captured the lion's share of the stock value of the companies listed in the PSE during the 2<sup>nd</sup> quarter of 2010, at a value of US \$1160.6 million, comprising 45.6% of the total stock value in the market. The banking sector followed at a value of US \$571.9 million,

comprising 22.5%, followed by the investment sector at 20%, worth US \$508 million, and lastly the industrial and insurance sectors at rates of 8.5% and 3.4%, worth US \$217.5 million and US \$87.4 million, respectively (See Figure 21).

**Figure 21: Value of Shares Listed in the Palestine Securities Exchange by Economic Sector, Q2 2010**  
(Million US \$)



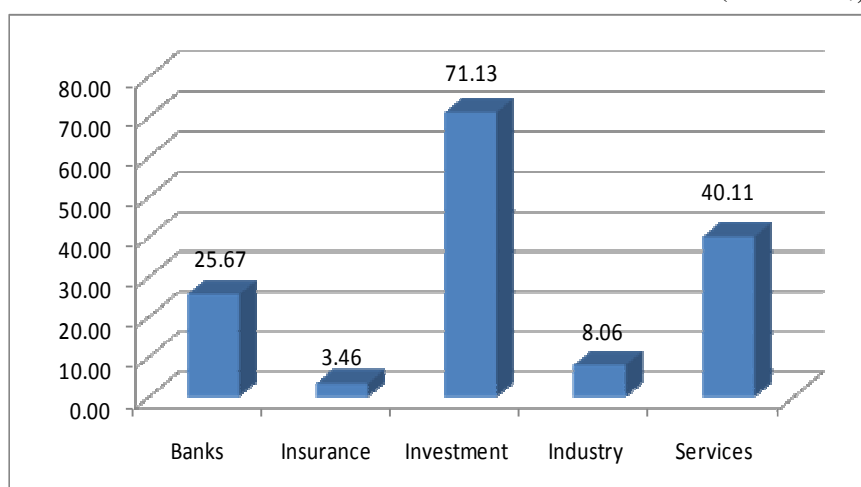
Source: The Palestine Securities Exchange [www.p-s-e.com](http://www.p-s-e.com).

With regards to the value of shares traded, the service sector also captured the lion's share in the PSE during the 2<sup>nd</sup> quarter of 2010, at a value of US \$71.13 million. This accounted for 48% of the total value of shares traded in the market, followed by the services sector, at a value of US \$40.11 million, or 27% of the

total value. Next was the banking sector at a value of US \$25.67 million and a rate of 17.3%, followed by the industrial sector at a value of US \$8.06 million and a rate of 5.4%. The share of the insurance sector amounted to US \$3.46 million of the value of the shares traded.

**Figure 22: Value of Shares Traded in the Palestine Securities Exchange by Economic Sector, Q2 2010**

(Million US \$)



Source: The Palestine Securities Exchange [www.p-s-e.com](http://www.p-s-e.com).

## 6. Investment Indicators

### 6.1 Company Registration

The Ministry of National Economy registers companies in the Occupied Palestinian Territory under various company laws in effect in the West Bank and the Gaza Strip. This issue of the Monitor addresses the new companies registered in the 2<sup>nd</sup> quarter of 2010 in the West Bank only.<sup>19</sup> The number of registered companies in the West Bank witnessed a rise by about 28% compared to the previous quarter, with 428 new companies

registered between the beginning of April and the end of June 2010, compared to 334 companies registered during the previous quarter (see Table 26). The registered capital also witnessed a rise due to the increase in the number of newly registered companies in the West Bank, where the total capital of newly registered companies reached JD 73.3 million, an increase of 68% compared to the previous quarter (see Table 27).

**Table 26: Number of Newly Registered Companies in the West Bank, 2008-2010**

Quarter	2008	2009	2010
Q1	247	454	334
Q2	334	412	428
Q3	315	349	
Q4	287	438	
<b>TOTAL</b>	<b>183,1</b>	<b>653,1</b>	

Source: Ministry of National Economy, Department of Company Registration, 2008 and 2010.

<sup>19</sup> More details on this topic are available in the previous issues of the Economic and Social Monitor. Figures are confined to the West Bank due to the unavailability of data on the registration of companies in the Gaza strip at the Ministry of National Economy in Ramallah in the 2<sup>nd</sup> quarter of 2010.

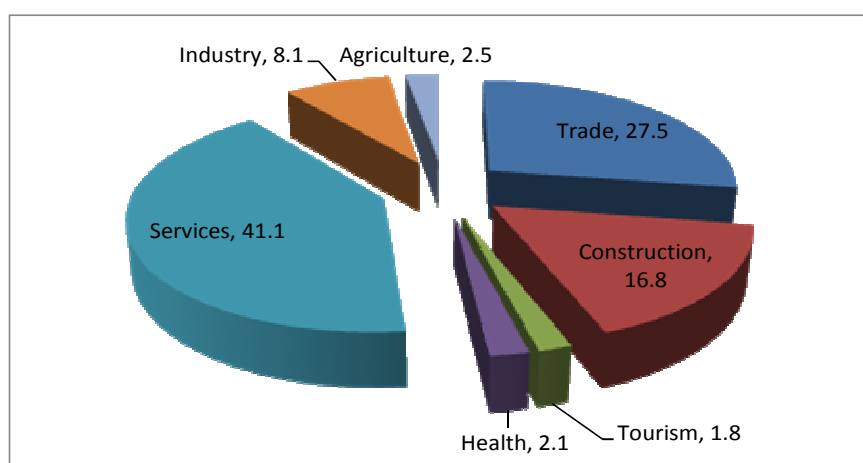
When the figures regarding the distribution of the capital of newly registered companies by economic sector during the 2<sup>nd</sup> quarter of 2010 are compared to those for the 1<sup>st</sup> quarter of 2010, some obvious differences emerge (see Figure 23). The services sector captured the majority of the capital – 41% – of newly registered companies (compared to 21.2% in the previous quarter), followed by the trade sector, whose rate dropped from 46% to 27.5%. The share of the industrial sector also dropped from 10% in the 1<sup>st</sup> quarter to 8% in the 2<sup>nd</sup> quarter of 2010.

As for the share of the construction sector, it rose from 15.8% to 16.8%, while the shares of the remaining sectors were as follows: the health sector (2%), the agricultural sector (2.4%), and the tourism sector (1.8%) (See Figure 23). Apparently, the low investment risks in the services area as compared to other

sectors contributed to the concentration of investments in this area.

Looking at the legal status of newly registered companies during the 2<sup>nd</sup> quarter of 2010, we notice a clear change in the distribution of capital according to the type of company, compared to the 1<sup>st</sup> quarter of 2010. The share of private shareholding companies rose to 53.6% from 51% in the previous quarter, while the share of ordinary companies dropped from 48% to 29.2%. Most importantly, 8 foreign private shareholding companies were registered, which led to a significant rise in the share of foreign companies out of the total registered capital up to 17.2%, compared to 1% in the previous quarter. This is mainly attributed to the registration of the ‘Electromechanical Emirates Eagle Company’, a foreign private shareholding company whose capital amounted to JD 9.6 million.

**Figure 23: Distribution of the Capital of Newly Registered Companies in the West Bank by Economic Activity, Q2 2010 (%)**



Source: Ministry of National Economy, Department of Company Registration, 2010

**Table 27: Distribution of the Capital of Newly Registered Companies in the West Bank by Legal Classification, Q1 2009-Q2 2010 (JD)**

Year	Legal Form							Total
	Public Ordinary	Private Shareholding	Public Shareholding	Foreign Private Shareholding	Foreign Ordinary	Foreign Public Shareholding	Ordinary Limited	
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	625,707,0
Q3 2009	17,987,800	22,895,540	0	300,000	0	0	0	41,183,340
Q4 2009	30,384,000	32,396,000	0	1,173,000	0	0	0	63,952,600
<b>Total</b>	<b>85,627,264</b>	<b>321,942,439</b>	<b>0</b>	<b>416,604,499</b>	<b>0</b>	<b>0</b>	<b>100,000</b>	<b>824,274,202</b>
Q1 2010	20,808,628	22,224,935	0	595,376	0	0	0	43,628,940
Q2 2010	21,399,180	39,354,540	0	12,604,830	0	0	0	73,358,550

Source: The Ministry of National Economy, Department of Company Registration, 2010.

Data from the 2<sup>nd</sup> quarter of 2010 indicate that most of the newly registered companies in the West Bank, as in previous quarters, are concentrated in the Ramallah and Al-Bireh, Hebron, and Nablus governorates at rates of 39%, 13.6%, and 10.3%, respectively. This is attributed to the more developed infrastructure in the three governorates as compared to other governorates. On the other hand, the share of the Jenin Governorate remained stable at around 10% during the recent quarters.

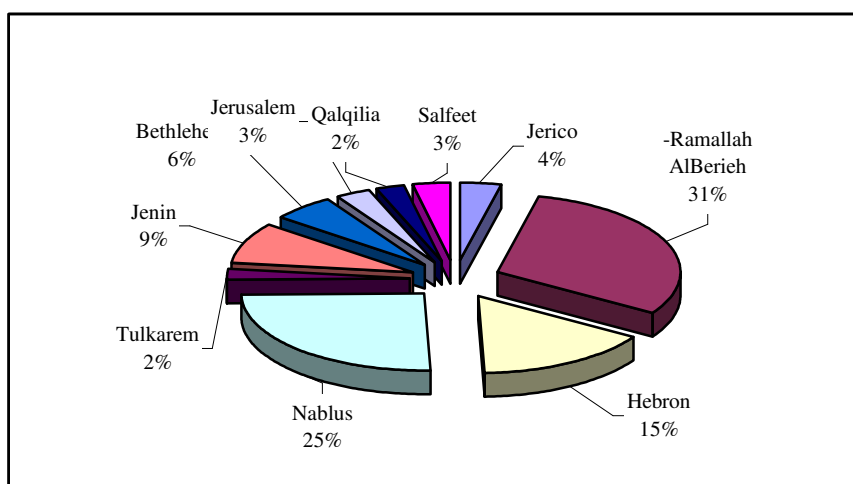
As for newly registered companies in the suburbs of Jerusalem, they amounted to 5.8% of the total number. Whereas the percentage of newly registered companies in the Bethlehem Governorate was 8.9%, this number was 3.5% in the Governorate of Jericho and the Jordan Valley, characterized by an agricultural economy (similar to Tulkarem and Qalqilia). No new companies were registered in Tubas (see Table 28).

**Table 28: Distribution of the Newly Registered Companies in the West Bank by Governorate, Q1 2009-Q2 2010**

Governorate	Q1 2009		Q2 2009		Q3 2009		Q4 2009		Q1 2010		Q2 2010	
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
Ramallah and Al-Bireh	144	31.7	152	37	123	28.2	138	13.5	113	34	167	39
Hebron	91	20	58	14.1	51	15.5	88	20.1	54	16.2	58	13.6
Nablus	66	14.5	63	15.3	71	22.1	99	22.6	49	14.7	44	10.3
Tulkarem	22	4.8	19	4.6	4	0.7	16	3.7	8	2.4	16	3.7
Jenin	57	12.6	42	10.2	47	14.7	40	9.1	34	10.2	40	9.3
Jericho & the Jordan Valley	7	1.5	7	1.7	6	2.4	6	1.4	4	1.2	15	3.5
Jerusalem Suburbs	18	4	12	2.9	14	3.3	12	2.7	15	4.5	25	5.8
Bethlehem	33	7.3	35	8.5	19	9.4	23	5.3	23	6.9	38	8.9
Qalqilia	9	2	10	2.4	10	2.7	12	2.7	16	4.8	11	2.6
Salfeet	7	1.5	13	3.2	4	1.0	3	0.7	9	2.7	14	3.3
Tubas	-	-	-	-	-	-	-	-	8	2.4	0	0
<b>Total</b>	<b>454</b>	<b>100</b>	<b>412</b>	<b>100</b>	<b>349</b>	<b>100</b>	<b>437</b>	<b>100</b>	<b>333</b>	<b>100</b>	<b>428</b>	<b>100</b>

Source: The Ministry of National Economy, Department of Company Registration, 2010.

**Figure 24: Relative Distribution of the Capital of Newly Registered Companies in the West Bank by Governorate, Q2 2010(%)**



Source: The Ministry of National Economy, Department of Company Registration, 2010.



## 6.2 Building Licenses

Building licenses, issued over a certain period of time, are considered an important indicator of the investment activity in the construction sector. The number of newly issued building licenses is greatly affected by climatic and environmental factors; therefore, significant seasonal differences exist during the various quarters of the year. The activity related to the building and construction sector increases in the second and third quarters (the summer season), whereas the volume of this activity decreases in the first and fourth quarters. This should be taken into account when comparisons are made between quarters. On the other hand, it should be noted that the number of issued licenses does not include all building activity in the construction sector. For example, construction activities in the rural areas are not registered, and no licenses are issued for them.

Statistics for building licenses point to a rise in their number during the 2<sup>nd</sup> quarter of 2010, compared to the corresponding quarter of 2009, by 33% in the West Bank. No statistics are available for the Gaza Strip.

The total area of licensed buildings during the 2<sup>nd</sup> quarter of 2010 was nearly 664,000 square meters, with a rise of nearly 27% above the corresponding quarter of 2009. The number of licensed housing units rose significantly during the 2<sup>nd</sup> quarter of 2010 to 1,976 units compared to 1,485 units in the 2<sup>nd</sup> quarter of the previous year, with a 33% increase. Moreover, the area of those units increased by 21%. The number of existing licensed dwellings increased as well to 420 units over the corresponding quarter of 2009 (see Table 29).

**Table 29: Building Licenses and Licensed Areas in the Occupied Palestinian Territory, Q1 2009-Q2 2010**

	Q1 2009*	Q2 2009*	Q3 2009*	Q4 2009*	Q1 2010*	Q2 2010*
<b>Total Licenses Issued</b>	<b>1,219</b>	<b>1,309</b>	<b>1,296</b>	<b>1,482</b>	<b>1,528</b>	<b>1,741</b>
Residential Building	1,052	1,144	1,135	1,296	1,330	1,470
Non-residential Building	167	165	161	186	198	271
<b>Total Area Licensed (Thousand sq. m.)</b>	<b>469.2</b>	<b>522.9</b>	<b>510.3</b>	<b>593.7</b>	<b>531.4</b>	<b>663.9</b>
<b>Licensed Dwellings</b>						
New Units	1,266	1,485	1,311	1,668	1,513	1,976
	245.6	311.2	241.4	297.8	293.2	375.6
Existing Units	261	322	495	423	461	420
	74.3	85.6	88.5	74.5	95.4	74.4

Source: The PCBS (2010). Statistics of Building Licenses, Ramallah - Palestine.

\* The data for these quarters are for the West Bank only and do not include the Gaza Strip.

## 6.3 Cement Imports

The factors affecting the number of newly issued building licenses are similar to those affecting the amount of imported cement. Consequently, what applies to the statistics on building licenses applies to a certain extent to cement imports statistics. Data indicate an increase in the amount of cement imported into the West Bank during the 1<sup>st</sup> quarter of 2010 compared to the 1<sup>st</sup> quarter of 2009,

reaching 301,385 tons.<sup>20</sup> The amount of imported cement increased during the 2<sup>nd</sup> quarter to 368,665 tons, an increase of 22% from the 1<sup>st</sup> quarter. This is attributed to the beginning of summer and the consequent revival of the construction activity.

<sup>20</sup> Data on cement imported into the Gaza strip is not available.

**Table 30: Cement Imports  
into the West Bank, Q1 and Q2 2009,  
Q1 and Q2 2009**

Period	Amount
Q1 2009	275,269
Q2 2009	361,430
Q1 2010	301,385
Q2 2010	368,665

Source: Palestinian Company for Trade services

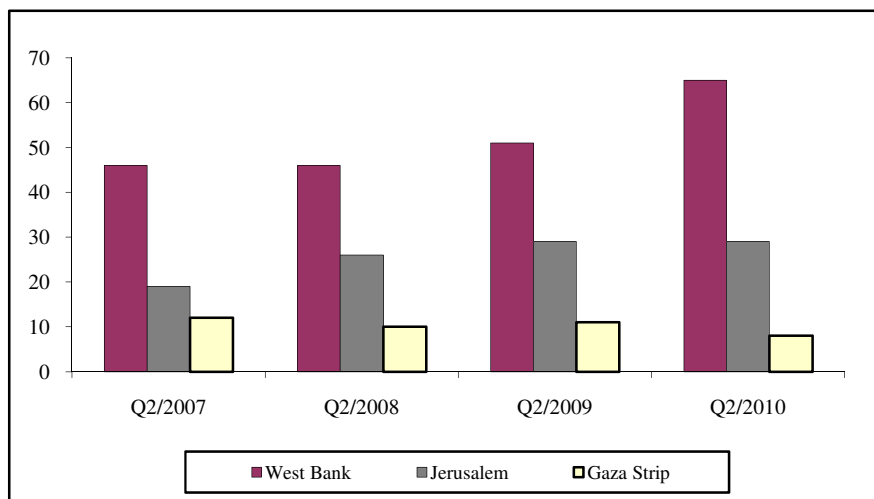
#### 6.4 Hotel Activity

Tourism activity in the OPT witnessed an improvement since the beginning of 2007. In the 2<sup>nd</sup> quarter of 2010, hotel activity recorded an increase in the number of guests, compared to the corresponding quarter of the previous year. The tourism sector, however, continues to suffer from fluctuations and instability as a result of the Israeli restrictive measures and endless security hassles.

The total number of hotels in the Occupied Palestinian Territory reached 126, including those operating and those temporarily closed.

The number of operating hotels changes according to the month of the year. For example, in June 2010, there were 94 operating hotels, which had 4,804 rooms with a total of 10,266 beds (see Figure 25). The number of guests in the Palestinian hotels totaled 140,009 in the 2<sup>nd</sup> quarter of 2010, 9.6% of whom were Palestinians and 41.7% from the European Union. When compared to the 1<sup>st</sup> quarter of 2010 and the 2<sup>nd</sup> quarter of 2009, there was an increase in the number of guests by 13.7% and by 42.3%, respectively.

**Figure 25: Number of Operating Hotels in the Occupied  
Palestinian Territory, Q2 2007-2010**

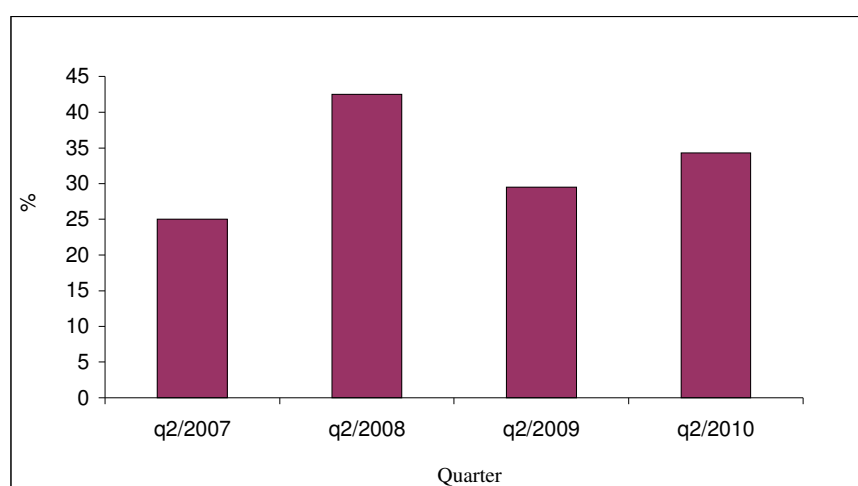


Source: PCBS, 2009, Hotel Activity in the Occupied Palestinian Territory, 2<sup>nd</sup> Quarters 2007 - 2010.

The average room occupancy in operating hotels in the Palestinian Territory reached 1,648 daily, at a rate of 34.3% of the available rooms (see Figure 26). Hotel guests were concentrated in hotels in Jerusalem, reaching 46.0% of the total number of guests. This was

followed by hotels in the south and the center of the West Bank, where the percentages reached 35.4% and 16.3%, respectively. The percentage of guests in hotels in the north of the West Bank was 2.1%, while it was 0.2% in the Gaza Strip.

**Figure 26: Hotel Room Occupancy Rates, Q2 2007-2010**



Source: PCBS, 2010, Hotel Activity in the Occupied Palestinian Territory, 2<sup>nd</sup> Quarters 2007 - 2010.

The number of nights spent in hotels in the Occupied Palestinian Territory totaled 318,371 during the 2<sup>nd</sup> quarter of 2010. The total number of nights for Palestinian and European Union guests constituted 9% and 44%, respectively, while the percentage of guests from the USA and Canada was 13%. In comparison with the corresponding quarter of 2009, a rise of 32.7% occurred in the number of nights spent in hotels during the 2<sup>nd</sup> quarter of 2010, and a rise of 12% compared to the 1<sup>st</sup> quarter of 2010 (4<sup>th</sup> quarter of 2009).

The average length of a stay in hotels in the Occupied Palestinian Territory was 2.3 nights per guest during the 2<sup>nd</sup> quarter of 2010. The highest average length of stay reached 2.8 nights per guest in the south of the West Bank. In the north and the center of the West Bank, the average was 1.6 and 2.2 nights per guest, respectively. In Jerusalem, the average length of stay in hotels amounted to 1.9 nights per guest, and in the Gaza Strip – 1.4 nights per guest (see Table 31).

**Table 31: Change in Hotel Activity in Q2 2010 Compared to Q1 2010 and Q2 2009**

Indicator	Percentage Change over Q1 2010	Percentage Change over the Q2 2009
Number of Operating Hotels at the End of the Quarter	(1.1)*	3.3
Average Number of Employees during the Quarter	(5.3)*	14.6
Number of Hotel Guests	13.7	42.3
Number of Nights Accommodation	11.8	32.7
Average Rooms Occupancy	6.0	30.2
Average Beds Occupancy	10.6	32.7
Rate of Rooms Occupancy (%)	10.6	16.3
Rate of Beds Occupancy (%)	15.2	18.8

Source: PCBS (2010). Hotel Activity in the Occupied Palestinian Territory, 2<sup>nd</sup> Quarter 2010.

\* Figures in brackets indicate negative value.

### Box 4: Foreign Investment in the Occupied Palestinian Territory

The Palestinian Central Bureau of Statistics and the Palestine Monetary Authority conducted the first foreign investment survey in the Palestinian Territory, which covered all profit-making establishments in the OPT during 2008-2009 (with the exception of the non-financial establishments in the Gaza Strip).

The survey distinguished between direct investors (who own 10% or more of the shares of the company in which they invest) and portfolio investors (who own less than 10% of the shares of the company). It also covered various types of foreign investments: investment in currency and deposits, in loans, and in trade credits, in addition to other assets and liabilities.

The survey found that the total stock of foreign investments in Palestine reached US \$1,586 million at the end of 2010 with an increase of 18% over the foreign investments in the year before (2008). The stock of foreign direct investment reached US \$1,157 million in 2009, while the stock of foreign portfolio investments reached US \$338 million.

In contrast, the survey found that Palestinian investments abroad amounted to US \$5,278 million by the end of 2009, and were distributed between direct investments (US \$457 million) and portfolio investments (US \$187 million), in addition to a relatively large amount for deposits abroad (US \$2,908 million). The survey also found that the reserve assets connected to the Palestine Monetary Authority amounted to US \$1,027 in 2009, rising by 4.8% from their level in the previous year.

#### Main Findings of the Foreign Investment Survey for 2009 (Million US \$)

INDICATOR	2008	2009
Stock of Palestinian Foreign Direct Investments Abroad	389.4	457.6
Stock of Palestinian Portfolio Investments Abroad	221.3	178.5
Other Palestinian Investments Abroad	3,723.0	3,615.0
Including: Stock of Palestinian Deposits Abroad	3,321.6	2,908.3
Stock of Reserves Assets	980.1	1,027.2
<b>Total Assets*</b>	<b>5,313.8</b>	<b>5,278.3</b>
Stock of Foreign Direct Investment in Palestine	858	1,157.4
Stock of Foreign Portfolio Investment in Palestine	326.7	338.2
Other Foreign Investment in Palestine	159.1	90.5
Including: Stock of Non-residents Deposits in Palestine	142.7	73.8
<b>Total Liabilities**</b>	<b>1,343.8</b>	<b>1,586.1</b>

Source: Palestinian Central Bureau of Statistics, electronic newsletter, No. 50.

\*Assets: Palestinian investments abroad.

\*\*Liabilities: Foreign investments in Palestinian establishments.

On the other hand, the market for foreign investment in the West Bank witnessed an important activity in mid-2010 when Abraaj Capital, the biggest investment firm in the Middle East, announced in August the opening of an office to manage a fund in Ramallah. This fund is the eighth for Abraaj Capital in the Middle East and North Africa. The new office will manage an investment fund established by Abraaj Capital in cooperation with the Palestine Investment Fund (PIF). The fund was launched as the Palestine Growth Fund (PGF) at a value of US \$50 million.<sup>21</sup> The PIF contributed US \$15 million to the Fund and the Bank of Palestine – another US \$5 million.

The PGF aims to identify, manage, and implement support and investment projects in small and medium enterprises (SMEs) in the Palestinian territory. The Fund seeks to support and/or establish 20-25 small and medium enterprises during the next four years.<sup>22</sup>

On the other hand, the Siraj firm is planning to launch its own investment fund in the Palestinian Territory. Siraj was founded by Masar International, a holding company based in Ramallah with 15 branches in the Middle East and North Africa, as well as in Eastern Europe. Masar's core activities include real estate development, financial and investment services, and corporate business development.<sup>23</sup>

<sup>21</sup> See: [http://www.abraaj.com/mediacenter/Files/Abraaj-Capital-Opens-Palestine-Office\\_ara.pdf](http://www.abraaj.com/mediacenter/Files/Abraaj-Capital-Opens-Palestine-Office_ara.pdf).

<sup>22</sup> See: <http://www.pif.ps/index.php?lang=eng&page=1274182035136>.

<sup>23</sup> See: <http://www.massar.com/aboutus.php>.

## 7. Prices and Purchasing Power<sup>24</sup>

### 7.1 Consumer Prices

Consumer prices recorded a minor rise of 0.06% in the 2<sup>nd</sup> quarter of 2010 compared to the previous quarter. This small increase in the consumer price index (CPI) demonstrates a continuation of the trend since the beginning of 2010. It is noted that the category that affected the CPI the most in the 2<sup>nd</sup> quarter of 2010 was the rise in the prices of the 'various good and services group' of 1.54%. In addition, the prices of transportation and travel increased by 1.11%. The prices of textiles, apparels, and footwear grew by 0.81%. The prices of restaurants, cafes, and hotel services also increased by 0.74%, while

the prices of food witnessed a drop of 0.49% (see Table 32). It is worth noting that the decline in the CPI of food in the Palestinian market mirrors of the decline in their prices in the global market: from 169 points in the 1<sup>st</sup> quarter of 2010 to 164 points in the 2<sup>nd</sup> quarter of the same year.<sup>25</sup>

With regards to the prices of consumer commodities, the 2<sup>nd</sup> quarter of 2010 witnessed various changes. Table 33 illustrates the price movement of some commodities in the Palestinian Territory in the 2<sup>nd</sup> quarter of 2010 versus the first quarter:

**Table 32: Average Change in CPI by Commodity Category in the Occupied Palestinian Territory in Q2 2010 Compared to the Q1 2010 and Q2 2009 (Base Year: 2004 = 100)**

Group	Q2 2010 over Q1 2010 Percent Changes	Q2 2010 over Q2 2009 Percent Changes
Food Stuff and Refreshing Beverages	(0.49)	2.88
Alcohol Beverages and Tobacco	0.03	8.17
Textiles, Apparels, and Footwear	0.81	4.42
Housing and Related Items	0.17	7.19
Furniture and House Goods and Appliances	0.04	3.95
Healthcare	(0.07)	1.45
Transportation and Travel	1.11	3.47
Telecommunication	0.05	(2.52)
Recreational and Cultural Goods and Services	0.09	1.83
Educational Services	0.01	8.63
Restaurant, Cafe, and Hotel Services	0.74	3.43
Various Goods and Services	1.54	4.49
<b>General CPI</b>	<b>0.06</b>	<b>3.77</b>

Source: The PCBS.

\*Figures in brackets indicate a negative value (decline in prices).

The prices of fuel used for automobiles marked the highest increase in the 2<sup>nd</sup> quarter of 2010, reaching 4.37%, while the prices of rice recorded the highest rate of decline during the 2<sup>nd</sup> quarter of 2010, dropping by 6.42%, compared to 4.88% during the 1<sup>st</sup> quarter of

2010. It is worth noting that the price of sugar in the global market dropped from 334 points in the 1<sup>st</sup> quarter of 2010 to 224 points in the 2<sup>nd</sup> quarter. The prices of grains also declined in the global markets from 164 points to 153 points in the same period.

<sup>24</sup> 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* years, 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.

<sup>25</sup> The Food and Agriculture Organization, FAO, <http://www.fao.org/worldfoodsituation/FoodPricesIndex/en/>.

**Table 33: Movement of the Prices of Main Commodity Categories in Q2 2010 Compared to Q1 2010**

Main Commodity Categories	Q2 2010 over Q1 2010 Percent Changes (%)
Fuel for Automobiles	4.37
Fuel for Domestic Use	0.17
Vegetables	0.50
Fresh Meat	0.91
Sugar	(4.88)
Rice	(6.42)
Fresh Chicken	(1.26)
Flour	(1.24)
Dairy Products	(0.20)
Fresh Fruits	(2.41)

Source: the PCBS.

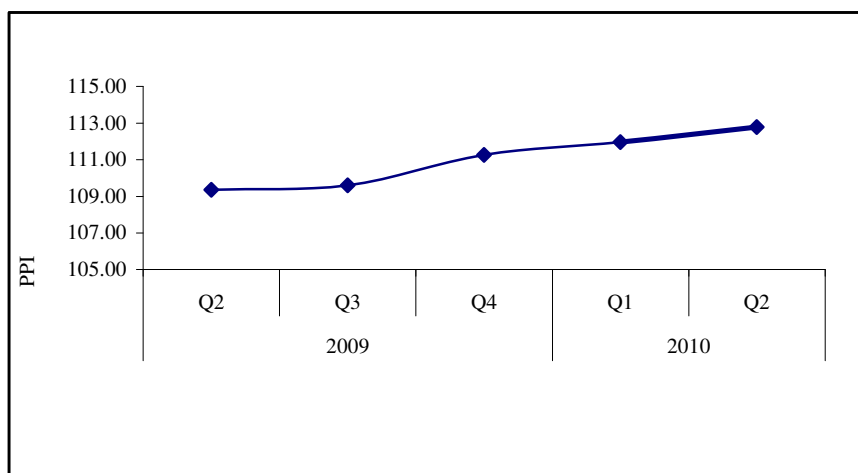
## 7.2 Producer Prices and Wholesale

The producer price index (PPI), or the prices received by a producer from a buyer in exchange for a certain commodity minus all taxes, including VAT, and transportation costs, marked a rise of 0.73% in the 2<sup>nd</sup> quarter of 2010 compared to the 1<sup>st</sup> quarter (see Figure 27). This developed resulted from an increase in the prices of agricultural products (which constitute 35% of the basket of producer prices) by 1.68%. The prices of manufactured goods, which constitute 63.5% of the basket of producer prices, also rose by 0.24%, while the prices of metallurgical and quarrying goods,

which account for 1.30% of the basket of producer prices, witnessed a decline of 1.09% in the 2<sup>nd</sup> quarter of 2010, compared to the 1<sup>st</sup> quarter.

The key reason for the rise in the prices of certain principal activities was the increase in the prices of the locally produced and exported commodities by 0.79% and 0.31%, respectively. It is worth mentioning that the producer prices increased by 3.13% during the 2<sup>nd</sup> quarter of 2010, compared to the corresponding quarter of last year.

**Figure 27: Movement of the Producer Prices Indices (PPI) in the Occupied Palestinian Territory, Q2 2009-Q2 2010 (Base Year: 2007 = 100)**



Source: The PCBS.

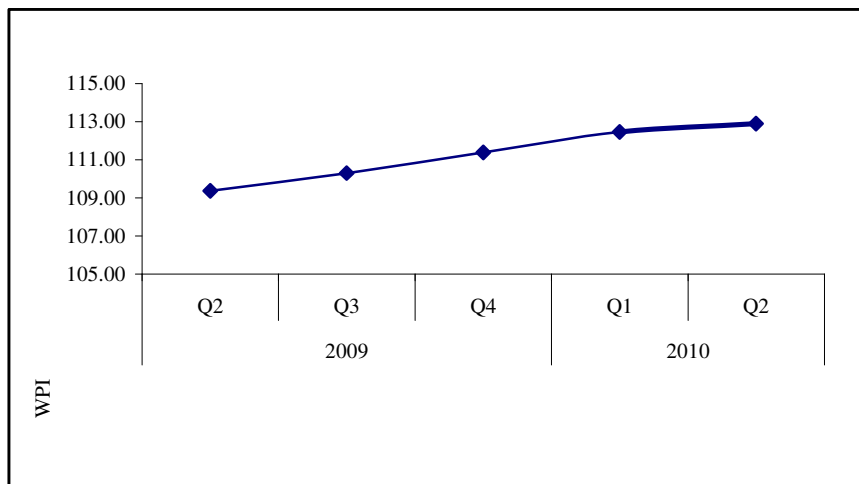
Note: The PCBS updated the base year used for the calculation of producer prices index (PPI) from the year 1996 to 2007 in line with the international recommendations.

The wholesale prices (the sale price for retailers or producers in the industrial or commercial areas or to other wholesalers, which includes VAT and transportation costs) experienced a rise of 0.39% during the 2<sup>nd</sup> quarter of 2010, compared to the 1<sup>st</sup> quarter (see Figure 28). This rise originated from an increase in the prices of agricultural goods, which comprised 29% of the basket of wholesale prices, of 0.91%. The prices of manufactured goods, which constituted 70% of the basket of wholesale prices, also increased by 0.18%, while the prices of metallurgical and quarrying goods, whose

relative importance was 0.90% of the total, witnessed a decline of 0.46% in the 2<sup>nd</sup> quarter of 2010, compared to the 1<sup>st</sup> quarter. The wholesale price index recorded a rise of 3.23% between the 2<sup>nd</sup> quarter of this year and the corresponding quarter of the previous year.

The main reason for the rise in the prices of some principal activities was the increase in the prices of the locally produced commodities and the exported commodities by 0.39% and 0.21%, respectively, i.e., the prices of locally produced commodities were higher than of the imported products.

**Figure 28: Movement of the Wholesale Prices Indices (WPI) on the Occupied Palestinian Territory, Q2 2009-Q2 2010 (Base Year: 2007 = 100)**



Source: The PCBS.

Note: The PCBS updated the base year used for the calculation of wholesale prices index (WPI) from the year 1996 to 2007 in line with the international recommendations.

### 7.3 Construction and Roads Costs Index

The construction cost index (CCI) measures the changes that occur in the prices of materials and services used in construction in the Palestinian Territory. The CCI for residential and non-residential buildings in

the West Bank witnessed a rise of 1.83% during the 2<sup>nd</sup> quarter of 2010 compared to the 1<sup>st</sup> quarter. This figure is higher than the increase in the 1<sup>st</sup> quarter, which was less than 0.5% (see Table 34).<sup>26</sup>

<sup>26</sup> Data are not available for the Gaza Strip.

**Table 34: Average Monthly and Quarterly  
Percentage Changes in the Construction Cost Index (CCI)  
in the West Bank, Q1 and Q2 2010 (Base Month: January 2007 = 100)**

PERIOD	Construction Cost Index (CCI)	Monthly Percentage Change in the CCI (%)	Quarterly Percentage Change in the CCI (%)
January 2010	107.72	0.24	
February 2010	108.00	0.26	
March 2010	108.17	0.16	
<b>Average/ Q1</b>	107.97		0.49
April 2010	110.55	2.20	
May 2010	110.04	(0.47)	
June 2010	109.23	(0.73)	
<b>Average/ Q2</b>	109.94		1.83

Source: The PCBS. (2010).

\*Figures in brackets are negative.

**Table 35: Average Monthly and Quarterly  
Percentage Changes in the Roads Cost Index (RCI) in the West Bank,  
Q1 and Q2 2010 (Base Month: January 2008 = 100)**

PERIOD	Roads Cost Index (RCI)	Monthly Percentage Change in the RCI (%)	Quarterly Percentage Change in the RCI (%)
January 2010	106.02	(0.14)	
February 2010	105.72	(0.29)	
March 2010	106.79	1.01	
<b>Average/ Q1</b>	106.18		0.52
April 2010	107.93	1.07	
May 2010	107.99	0.05	
June 2010	107.59	(0.37)	
<b>Average/ Q2</b>	107.84		1.56

Source: The PCBS. (2010).

\*The Figures in brackets are negative.

## 7.4 Currency Exchange Rates and the Purchasing Power

The exchange rates of major currencies traded in the Palestinian market remained characterized by relative fluctuation. The US \$ regained 2.9% of its value vis-à-vis the NIS during the 2<sup>nd</sup> quarter of 2010, in contrast with the 1<sup>st</sup> quarter of the same year in which the US \$ lost about 1.2% of its value versus the NIS. As the JD is pegged to the US \$ with a fixed exchange rate, the US \$'s relative improvement has reflected on the JD, which also regained 3.1% of its value vis-à-vis the NIS. On a half-year basis, the US \$ and the JD regained about 1.7% and 1.8% of their value, respectively, versus the NIS. This contributed to a relative improvement in the purchasing

power of both the US \$ and the JD in the Palestinian market during that period.

The purchasing power of a currency unit is inversely associated with the CPI and positively correlated with the exchange rate.<sup>27</sup>

<sup>27</sup> The purchasing power is defined as 'the ability to buy the goods and services using the money that one owns'. This ability is based on the income of the consumer and its changes as well as the change in the CPI (the prices of a 'basket' of essential goods and services by which the CPI is calculated). In the case of Palestine, the Palestinian citizen uses the NIS, USD and JOD for the purposes of trading, while the CPI is calculated in the NIS. Thus, the exchange rate of the USD and the JOD against the NIS also has its effect in determining the purchasing power of the currency (the purchasing power of the currency = the change in the currency exchange rate – the change in the CPI).



For instance, the higher the CPI, the lower the currency's unit purchasing power and the fewer quantities of goods and services that it can buy. The higher the purchasing power of the currency unit, the higher the US % exchange rate and the more goods and services it can buy. Therefore, in the Palestinian case, the US % and the JD purchasing power depends (given constant income) on the CPI in NIS and their exchange rate vis-à-vis the NIS. Thus, the purchasing power can be measured regularly – monthly or quarterly – by adding the changes in rates for the months of the specified period.

The 2<sup>nd</sup> quarter of 2010 witnessed a relative improvement in the purchasing power of the US \$ of about 2.5%, compared to a decline of

0.9% in the 1<sup>st</sup> quarter of 2010 and a decline of 6.2% in the 2<sup>nd</sup> quarter of 2009. A relative improvement also occurred in the purchasing power of the JD, which increased by 2.7% during the 2<sup>nd</sup> quarter of 2010, compared to a decline of 1% in the 1<sup>st</sup> quarter of the same year and a decline of 5.8% in the 2<sup>nd</sup> quarter of 2009. This means that the Palestinian citizen dealing in the Palestinian market with US \$ and/or JD could obtain larger quantities of goods and services during the 2<sup>nd</sup> quarter of 2010 with the same income that was available for him in the previous quarter.

In general, the first six months of this year witnessed a relative improvement in the purchasing power of the US \$ and the JD: by 1.6% and 1.7%, respectively (see Table 36).

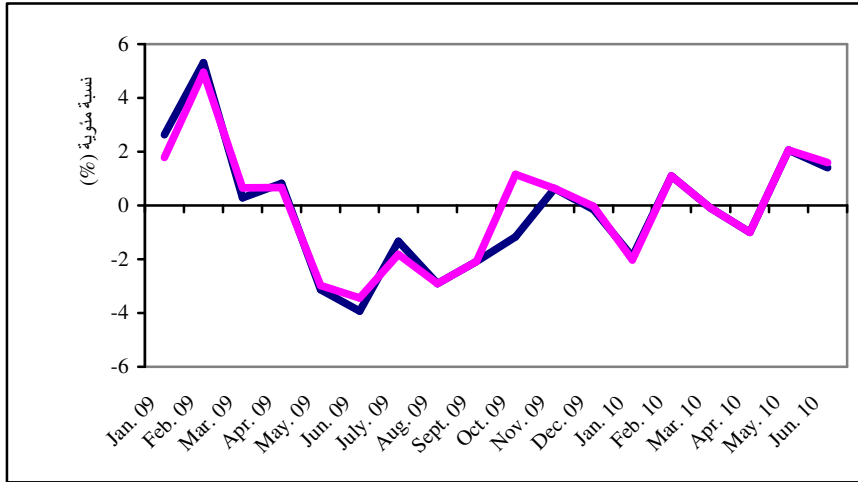
**Table 36: Average Monthly Exchange Rates (US \$ and JD versus NIS) and Changes in Currencies' Purchasing Power, Q4 2007-Q2 2010**

Month/ Year	Percentage Change in the CPI (%)	US \$			JD		
		Average Exchange Rate (NIS)	Percentage Change in the Currency Exchange Rates (%)	Percentage Change in the Purchasing Power (%)	Average Exchange Rate (NIS)	Percentage Change in the Currency Exchange Rates (%)	Percentage Change in the Purchasing Power (%)
Dec. 2007	0.34	3.8952	(0.85)	(1.19)	5.5241	(0.96)	(1.30)
Dec. 2008	-0.52	3.8276	(1.32)	(0.80)	5.4427	(0.51)	0.01
Jan. 2009	-0.71	3.9012	1.92	2.63	5.5107	1.08	1.79
Feb. 2009	-0.02	4.1074	5.29	5.31	5.7726	4.92	4.95
Mar. 2009	1.05	4.1626	1.34	0.29	5.8710	1.71	0.65
Apr. 2009	-0.22	4.1877	0.60	0.82	5.8972	0.45	0.67
May 2009	0.41	4.0736	(2.73)	(3.13)	5.7456	(2.57)	(2.98)
Jun. 2009	0.35	3.9276	(3.58)	(3.93)	5.5678	(3.09)	(3.44)
Jul. 2009	0.60	3.8989	(0.73)	(1.33)	5.4997	(1.22)	(1.82)
Aug. 2009	1.11	3.8291	(1.79)	(2.90)	5.4006	(1.80)	(2.91)
Sep. 2009	0.54	3.7701	(1.54)	(2.08)	5.3174	(1.54)	(2.08)
Oct. 2009	-0.05	3.7242	(1.22)	(1.17)	5.2530	(1.21)	(1.16)
Nov. 2009	0.63	3.7710	1.26	0.63	5.3189	1.26	0.63
Dec. 2009	0.58	3.7874	0.43	(0.15)	5.3476	0.54	(0.04)
Jan. 2010	0.06	3.7173	(1.85)	(1.91)	5.2430	(1.96)	(2.02)
Feb. 2010	-0.27	3.7480	0.83	1.10	5.2864	0.83	1.10
Mar. 2010	-0.03	3.7431	(0.13)	(0.10)	5.2794	(0.13)	(0.10)
April 2010	0.05	3.7086	(0.92)	(0.97)	5.2308	(0.92)	(0.97)
May 2010	0.08	3.7880	2.14	2.06	5.3427	2.14	2.06
June 2010	0.24	3.8512	1.67	1.43	5.4422	1.86	1.63

Source: Calculations based on data provided by the PMA and the PCBS.

\* Figures in brackets indicate negative value.

**Figure 29: Monthly Change in the Purchasing Power of the US \$ and JD in the Occupied Palestinian Territory, Q1 2009-Q2 2010**



Source: Calculations based on data provided by the PMA and the PCBS.

### Box 5: Israel's Exports to the West Bank and the Gaza Strip

The Bank of Israel's *Recent Economic Developments* magazine published a study analyzing Israel's exports to the West Bank and the Gaza Strip.<sup>28</sup> The study claims that looking at the nominal value of Israel's exports to the Palestinian Territory gives a false impression about the importance of these exports to the Israeli economy. This is because the role of these exports in yielding added value and creating jobs in Israel is very limited.

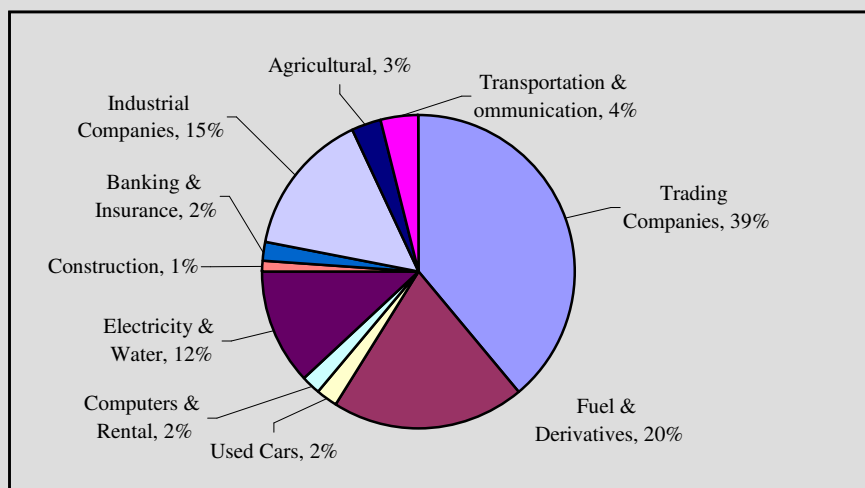
Total exports from Israel to the West Bank and the Gaza Strip (obviously excluding East Jerusalem) amounted to US \$3.2 billion (NIS 12 billion) in 2008. According to the study, this figure was calculated on the basis of clearing accounts between Israel and the Palestinian National Authority. However, a significant proportion of these exports are transit trade (goods and commodities originally imported to Israel and not made in Israel), and the other large proportion are goods and commodities with low added value. For these reasons, the study suggests that estimating the local value added of the Israeli exports to Palestinians gives a more accurate idea about the importance of the trade with the West Bank and the Gaza Strip.

The study shows that 58% of the total Israeli exports to the West Bank and the Gaza Strip (NIS 7 billion) are sales made by trading Israeli companies (20% of these exports are petroleum and its derivatives). As for electricity and water exports, they constituted 12% of the total exports, while the share of the manufacturing industry amounted to about 15% only (see the figure below).

The study concluded that the sales of the manufacturing, agricultural, and banking companies, in addition to the sales of Israeli transportation and communication companies, to the West Bank and the Gaza Strip in 2008 yielded added value for the Israeli economy that did not exceed 0.15% of the Israeli GDP. With regards to the industrial companies, their exports to the West Bank and the Gaza Strip led to the generation of value added amounting to 0.6% of the total value added for the Israeli industrial sector (about NIS 540 million). This relatively limited value added translated into fewer than 3,000 job opportunities in the Israeli economy.

The study continues to stress the limited dependence of Israel on the export of Israeli goods to the West Bank and the Gaza Strip by claiming that the percentage of sales to the OPT is less than 1% of the total sales of Israeli companies. The only exception is the export of electricity and water to the West Bank and the Gaza Strip, which constitute 4.8% of the total sales of these sectors. However, the study says that the sales of electricity and water to the Palestinians is a burden because of the limited production capacity in these areas.

Source: 'Recent Economic Developments', No. 128, May-August 2010. Bank of Israel



It should be indicated that the figures provided by the study are not accurate and the error margin may be large. This can be concluded because the study implied that the sales to the West Bank and the Gaza Strip are entirely goods and commodities imported from abroad. In other words, the study did not take into account that Israeli trading companies also sell Israeli made goods (industrial and agricultural) and services to the West Bank and the Gaza Strip. Furthermore, the study did not take into consideration the role of these

<sup>28</sup> 'Recent Economic Developments', No. 128, May-August 2010. Bank of Israel.

sales in generating job opportunities and value added in Israel. On the other hand, there most likely is a significant import of goods and commodities into the West Bank imports which do not pass through clearance. Finally, it is true that Israeli exports to the West Bank and the Gaza Strip represent a small proportion of its total exports (around 3% during 2001-2006), but this percentage is higher than (or very close to) the share of exports to such countries such Germany, the United Kingdom, the Netherlands, and France. There is no doubt that Israeli sales to the West Bank and the Gaza Strip are more important than claimed by the study for certain economic sub-activities, especially low-technology activities which still benefit from some trade protection.

## 8. Legal and Legislative Environment

The second half of this decade has been a period full of political and legislative complications in the Occupied Palestinian Territory. Following the legislative elections in 2006, when Hamas achieved a parliamentary majority, Israel detained a large number of elected members of parliament creating a serious impediment for the Palestinian Legislative Council (PLC) in exercising its role and authority. The detention of a significant number of members of parliament averted the quorum required to hold sessions. As a result, the Palestinian political divide to a large extent thwarted the work of the PLC. A political and legal dispute is still going on regarding the legitimacy of the PLC sessions, their mandate period, and the extent of their authority, along with other issues.

Throughout this period of division, some PLC members tried to reactivate the Council's role and held a session at the PLC headquarters in Ramallah that was attended by representatives of the parliamentary blocs, with the exception of the PLC members representing the 'change and reform' political faction. It was decided to formulate three bodies and distribute tasks and activities among them: the representatives of factions, the regular public meetings, and the parliamentary working groups<sup>29</sup>. However, the activities of these committees were limited to holding meetings with ministers and representatives of the executive authority to discuss pressing issues. These efforts were unable to find a successful formula to activate the PLC.

This situation continued until the PLC mandate legally reached an end early this year.

<sup>29</sup> PLC website (West Bank) <http://www.pal-plc.org>

During this period of parliamentary disruption, followed by the end of the PLC's mandate, the President of the Palestinian Executive Authority resorted to his constitutional powers as stipulated in Clause 43 of the Basic Amended Law of 2003, where he is authorized to issue decrees enforced by law outside the PLC sessions and in urgent cases that cannot be delayed, given that these decrees are presented for endorsement at the next PLC session. However, some jurists, along with political and legislative observers, and members of some parliamentary blocs<sup>30</sup>, believe that there has been a state of expansion and leniency in issuing decrees in the absence of the parliament in spite of the lack of the requirement of urgency that is stipulated by the Basic Law as a condition for issuing exceptional laws by the executive authority,<sup>31</sup> which may be seen as a deviation from the spirit of the Basic Law.

Perhaps we find some demonstrations of the state of expansion and leniency referred to above in the 2<sup>nd</sup> quarter of 2010. The President of the Executive Authority issued seven decrees that have the force of law during the period from March to June 2010, the most important of which was the decree regarding a law prohibiting settlements' products, with the aim to combat the products and services of the Israeli settlements built on the Occupied Palestinian Territory and to support and promote national products instead. The decree mandated the Palestinian Consumer Protection Council to oversee its implementation. It also established Al-Karamah National Fund for Supporting Self Empowerment and Combating

<sup>30</sup> Telephone interview with Khalida Jarrar, a PLC member.

<sup>31</sup> AlZubi, Haitham, The Executive Authority and Commitment to Legislative Authority, AlQuds Newspaper, 22 May, 2010 issue no. 14644.

and Banning Settlements Products. Another decree dealt with an amendment to the Graft Law, which was renamed to the Law for the Combat of Corruption. Articles 3, 6, and 8, related to the work, structure, and functions of

the graft committee, were amended. Articles 1 and 2, which identified those subjected to the provisions of the law, were also amended. The following table illustrates these decrees and dates of issuance:

Decree	Date Issued
Presidential Decree No. 1 for the Year 2010 on the Endorsement of a Resolution for the Appointment of the Chairman of the Board for Graft Combat	09/03/2010
Presidential Decree No. 2 for the Year 2010 on the Endorsement of a Resolution to Identify the Salary and Benefits of the Chairman of the Office of Financial Management and Monitoring	17/03/2010
Presidential Decree No. 3 for the Year 2010 on the Public Budget for the Year 2010	31/03/2010
Presidential Decree No. 4 for the Year 2010 on the Ban and Combat of the Products of Israeli Settlements	26/04/2010
Presidential Decree No. 5 for the Year 2010 on the Endorsement of a Resolution for the Appointment of the Chairman of Civil Service	26/04/2010
Presidential Decree No. 6 for the Year 2010 on Land Authority	19/05/2010
Presidential Decree No. 7 for the Year 2010 on the Amendment of the Graft Law No. 1 for the Year 2005	20/06/2010

Source: Website of the system, the Palestinian judiciary and legislation "Al-Muqtafi".

## 9. Israeli Measures

### 9.1 Martyrs and Injured

The number of martyrs amounted to 24 during the months of June, July, and August 2010. The number of wounded during the same period reached 142 persons: 82 in the West Bank and 60 in the Gaza Strip. The number of detainees in the Occupied Palestinian Territory was 706 persons: 702 from the West Bank and 4 from the Gaza Strip) (see Table 37).

There were 4 martyrs in the West bank and 20 in the Gaza Strip during the three months. Three of the West Bank martyrs were killed in June. One of them was Amjad Mohammad Khader Abu Khudeir (30 years old) from Shufat, north of Jerusalem, married with four children. He used to work in a beverages factory. He was deliberately shot by a Jewish fanatic in Jerusalem.<sup>32</sup> The second martyr was the detainee Mohammad Abdul Salam Abdeen from Jerusalem. He died in the Mibar prison in Ramla on the 11<sup>th</sup> of June after spending a year in prisons during which he was tortured and medically neglected.<sup>33</sup> The third martyr was Ziad Mohammad Badawi Aljulani (41 years old) from Shufat refugee camp. He was

assassinated by two bullets shot from a very short distance in Wadi Al-Joz on Friday, the 11<sup>th</sup> of June, 2010 during clashes with Israeli troops following the Friday prayers.<sup>34</sup> The fourth martyr from the West Bank was killed, while another person was injured, when Israeli forces opened fire on them at the entrance of Burkan settlement adjacent to Kifl Hares village in the Salfet Governorate, on the dawn of Thursday, the 22<sup>nd</sup> of July, 2010. The Israeli side refused to hand over the body of this martyr to the Palestinians. The martyr was later identified as Bilal Mahmoud Abu Libdeh from the Qalqilia Governorate.

In the Gaza Strip, there were 13 martyrs in June, 4 in July, and 2 in August. According to the Organization for International Solidarity, the martyrs in June were:

<sup>32</sup> <http://www.maannnews.net/arb/ViewDetails.aspx?ID=167302>

<sup>33</sup> [http://arabic.pnn.ps/index.php?option=com\\_content&task=view&id=85288&Itemid=0](http://arabic.pnn.ps/index.php?option=com_content&task=view&id=85288&Itemid=0)

<sup>34</sup> [http://www.malaf.info/?page=show\\_details&Id=19070&table=pa\\_documents&CatId=214](http://www.malaf.info/?page=show_details&Id=19070&table=pa_documents&CatId=214)

Name	Age	Name	Age
Shueib Al-Astal	20	Hayel Al-Qadi	
Hamadah Shahwan	19	Hamadah Thabet	20
Arafat Eid		Mohammad Abu Suheiban	20
Fayez Al-Feely	21	Bassam Ibrahim Badran	32
Mohammad Queider	28	Ibrahim Alwheidi	25
Amer Atwah Abu Hadayed	23	An unknown citizen	
Alaa Ghannam			

The Israeli air force launched 3 air strikes on the Gaza Strip on Thursday night, the 24<sup>th</sup> of June, 2010, wounding one person in Rafah, in the south of the Gaza Strip along the Egyptian border. The other 2 air strikes, which did not leave victims, targeted the old airport, in the south of the Gaza Strip, and Beit Hanoon in the north.<sup>35</sup> On Tuesday, the 13<sup>th</sup> of July, 2010, a Palestinian woman was martyred and a

number of persons were injured by a mortar bombing of a house in the Hajar Al-Deek area, east of the Breij refugee camp in the center of the Gaza Strip.<sup>36</sup> Israeli planes bombed the house of a leader of Al-Qassam brigades in Deir Al-Balah in the center of the Gaza Strip at dawn on Monday, the 2<sup>nd</sup> of August, 2010, causing light to medium injuries to 42 citizens.<sup>37</sup>

**Table 37: Israeli Violations, June, July, and August 2010**

Event	June		July		August		Total
	West Bank	Gaza Strip	West Bank	Gaza Strip	West Bank	Gaza Strip	
Killing	3	14	1	4	0	2	24
Wounding	34	18	29	29	19	13	142
Detaining	253	2	231	2	218	0	706
<b>Total</b>	<b>290</b>	<b>34</b>	<b>261</b>	<b>35</b>	<b>237</b>	<b>15</b>	<b>872</b>

Source: Monthly Reports of the Palestinian Monitoring Group PMG (2010) for June, July & August. Website of the Palestinian Monitoring Group: <http://www.nad-plo.org>.

## 9.2 Obstacles to the Movement of People and Goods

The Israeli forces continued to set up permanent barricades and sudden road barriers, and oftentimes closed the crossing points between the Gaza strip and Israel, as well as international borders. In the 3 months (June, July, and August), the number of

road blocks in the West Bank reached 557, 613, and 484, respectively. The crossing points between the Gaza Strip and Israel were closed 94 times in June, 101 time in July, and 96 times in August (see Table 38).

**Table 38: Total Closure of Border Crossings with Israel, June, July, and August 2010**

Barriers	June	July	August	Total
Crossing Points	103	96	101	300
International Border Crossings	49	49	46	144
<b>Total</b>	<b>152</b>	<b>145</b>	<b>147</b>	<b>444</b>

Source: Monthly Reports of the Palestinian Monitoring Group PMG (2010) for June, July & August. Website of the Palestinian Monitoring Group: <http://www.nad-plo.org>.

<sup>35</sup> <http://www.prealmedia.com/ar/index.php?news=25038>

<sup>36</sup> [http://www.malaf.info/?page=show\\_details&Id=19070&table=pa\\_documents&CatId=214](http://www.malaf.info/?page=show_details&Id=19070&table=pa_documents&CatId=214)

<sup>37</sup> [http://www.pnn.ps/index.php?option=com\\_content&task=view&id=86280&Itemid=111](http://www.pnn.ps/index.php?option=com_content&task=view&id=86280&Itemid=111)

### 9.3 Assaults on the Education and Health Sectors

In June 2010, there were 5 Israeli assaults against the Palestinian education and health sectors in the West Bank and East Jerusalem. The assaults targeted Al-Quds University in Abu Dees in the Jerusalem Governorate and two schools in Nahaleen village in the Bethlehem Governorate, all of which were raided. Also, the Israeli forces surrounded a school in Khursa village in the Hebron Governorate during the examination period and submitted a notification for the demolition of a mobile school in Nuwaimah village in the Jericho Governorate. In July, there was one assault against the Palestinian education sector, represented in a raid against a religious school in Hebron. No assaults were recorded against the health sector. In August, there were no assaults against the education sector, while there was one assault against the health sector:

the arrest of a wounded person from an ambulance) in the Qalqilia Governorate.

### 9.4 Assaults on Palestinian Property, Houses, and Security Forces

Israeli forces occupied 34 houses in the West Bank in June, July, and August 2010: 12 in June, 9 in July, and 13 in August. Moreover, 14 houses were demolished during the same period. There were a number of assaults against property, houses, and the Palestinian security forces: 276 assaults against Palestinian property and houses and 85 assaults against the Palestinian security forces.

For instance, the Israeli assaults against the Palestinian security forces included 7 notifications for military staff to report to the Israeli intelligence services. Moreover, Israeli forces were stationed near the Palestinian security forces headquarters and patrols on 21 different occasions. Also, the task of security patrols was interrupted and prevented 8 times.

**Table 39: Israeli Assaults on Palestinian Property and Security Forces, June, July, and August 2010**

Event	June		July		August		Total
	West Bank	Gaza Strip	West Bank	Gaza Strip			
House Occupation	12	0	9	0	13	0	34
House Demolition	1	1	11	0	1	0	14
Harassment against Security Forces	36	0	27	0	22	0	85
Assaults on Property	66	11	128	11	58	2	276

Monthly Reports of the Palestinian Monitoring Group PMG (2010) for June, July & August. Website of the Palestinian Monitoring Group: <http://www.nad-plo.org>.

### 9.5 Settler Assaults

Israeli settlers continued their assaults against Palestinian citizens. There were 176 assaults in the three months of June, July, and August, all in the West Bank. In June, there were 52 assaults, including shooting at children, killing one child and injuring another, a car running over a child and another citizen, shooting at citizens, stone throwing and an incursion into the village of Aqraba and other areas, in addition to land razing in the Jerusalem and Bethlehem areas in order to build housing units for settlers.

74 assaults by settlers were recorded in July, including a car running over citizens, brutal

beating of citizens and workers, stone throwing and confiscation of a house in Jerusalem, tree burning, arbitrary firing twice, land confiscation in the Jerusalem and Hebron governorates to amend the Separation Wall, and land razing along the main road of Qalqilia-Nablus.

There were 39 attacks in August, which included firing at citizens, beating women and children as well as a Canadian and a Danish supporter, throwing stones at citizens' houses, and an attempt to set up a settlement post, in addition to the razing of 18 dunums of agricultural land.

## 9.6 Assaults in Jerusalem

Israeli forces continued to impose restrictive measures on the checkpoints at the entrances to Jerusalem and Al-Aqsa Mosque, as well as the closure of the hill located between the villages of Biddo and Beit Eksa. Israeli forces continued their closure of the entrance leading to the village of Jaba with sand and cement blocks. They also closed the Separation Barrier gate between Al-Ram and Dahiet Al-Bareed suburbs. On the 28<sup>th</sup> of May, 2010, the Israeli forces closed the east entrance to the village of Beit Eksa, which leads to Jerusalem, with an iron gate and commanded citizens to pass through Qalandia checkpoint in order to get to Jerusalem. Israeli forces consider Qalandia checkpoint a 'border crossing', allowing only Jerusalemites to pass through it. Israeli forces also continued their closure of Al-Bawabah checkpoint in Abu Dees and prevented passage through the Shayyah gate between East Sawahreh and West Sawahreh villages. Work on parts of the Separation Wall surrounding Jerusalem also continued.

On the 18<sup>th</sup> of June, 2010, the Israeli occupation forces attacked Bet Safafa and handed out 4 notifications for house demolitions, under the pretext of having no building licences, to the following citizens: Tahani Mohammad Suleiman Salah, Ismail Ali Salah, and his two brothers Mahmoud and Mohammad. On the 22<sup>nd</sup> of June, 2010, a group of settlers, protected by Israeli occupation forces, entered the grounds of Al-Aqsa Mosque in the Old City of Jerusalem and attacked citizens, beating a number of them, while they were defending themselves against the settlers. On the 2<sup>nd</sup> of July, 2010, the Israeli forces issued a military command extending the deportation of Sheikh Ekrema Sabri, head of the Islamic Higher Council from Al-Aqsa Mosque, preventing him from entry for 6 months, for the second time in a row.

On the 4<sup>th</sup> of July, 2010, Israeli forces forced Nayef Mohammad Qastero to demolish an extension of 49 square meters that he had added to his house in Aqabet Al-Saraya in the Old City of Jerusalem, under the pretext of having no license. He demolished the extension by himself in order to avoid the payment of an excessive penalty, in addition to the ordinary costs, in case the occupation

municipality executed the demolition. On the 13<sup>th</sup> of July, 2010, Israeli forces demolished two houses under the pretext of having no licenses in the Al-Salaa area between the Silwan and Jabal Al-Mukaber neighbourhoods in Jerusalem. The houses were owned by Ahmad Musa Mashahra and Amer Al-Taweel. On the 19<sup>th</sup> of August, 2010, an extremist settler attacked a child with stones in the Sheikh Jarrah neighbourhood in Jerusalem. Consequently, Israeli forces interfered and arrested two citizens, while they attempted to confront the settler's assault.

## 10. Conditions of the Youth in the Occupied Palestinian Territory

### 10.1 Demographic Indicators

According to the PCBS report published at the end of August this year, the percentage of the youth – 15-29 years old – amounted to about 29% of the population by mid-2010. The ratio of males to females among the youth was 104.4 males to each 100 females. The population age distribution shows that the Palestinian people are a youthful people as the population pyramid has a broad base (a high proportion of young people) and a pointed top, which means that the Palestinian community will remain young in the future.

Data indicate that 92.3% of the total registered marriage contracts for females were in the age group 15-29 years old versus 81.5% for males in the same age group. That is to say that the largest proportion of females marry at a younger age. On the other hand, data show that the percentage of divorces for males in the same age group amounted to 55.9% of the total divorces for the year 2008 versus 77.6% for females, i.e., a high percentage of females divorce happen for young women.

A decline occurred in the total fertility rate in the Palestinian Territory: the number of births per female dropped from 6.0 in 1997 to 4.6 in 2007. This is actually a significant decline. Females 15-29 years of age contributed to 26.5% of the total fertility rate, which was the highest contributing age group.



## 10.2 Education Indicators

Data indicated higher literacy rates among young females (15-29 years old) compared to their male counterpart. The percentage of females who completed undergraduate university education (BA) was 10%, while the percentage of males reached 8% during 2009. Available data for 2009 showed that about 45.4% of the young people (15-29 years old) are enrolled in education at the following rates: 86.5% of the age group 15-17 years old, 50.9% of the age group 18-22 years old, and 11.6% of the age group 23-29 years old. Drop-out rates (those who were enrolled and dropped-out or those who have never been enrolled in education) for young males amounted to 32.8% and to 25% for young females.

In the same context of education, data related to information technology showed a remarkable development in the indicators of computer use. The proportion of young people who use computers rose from 47.6% in 2004 to 87.9% in 2009. With regard to mobile phones, data demonstrated a rise in the proportion of those who have mobiles, reaching 63.2% in 2009, compared to 34.9% in 2004. The proportion varies significantly between males and females, amounting to 72.7% for males and 53.3% for females in 2009.

## 10.3 Labor Market Indicators

Data from the 1<sup>st</sup> quarter of 2010 showed that 33% of the young people (15-29 years old) were economically active (employed and unemployed). The unemployment rate among young people reached 32.2% during the same period. The highest unemployment rate recorded was among individuals in the age group 25-29 years old.

The services sector ranked first among young people in terms of labor absorption capacity, where data showed that one third of the youth

(15-29 years old) worked in the services sector and its different branches at a rate of 33.8%, followed by the trade, restaurants, and hotels sectors that employed 21.7% of the youth.

## 10.4 Young People and the Intifada

The total number of martyrs in the Palestinian Territory since the Second Intifada amounted to 7,235 martyrs until the end of 2009. 5,222 of the martyrs were 15-29 years old, meaning that 72.2% of them were young people. The number of martyrs in the Gaza Strip is higher than in the West Bank: 3,647 versus 1,522, respectively.

## 11. Health Status in the Occupied Palestinian Territory

The Palestinian Health Information Center at the Ministry of Health issued a health report on the West Bank for the first half of 2010, which reviews the overall health situation in the Palestinian Territory. The main indicators are described below:

### 11.1 Live Births and Still Births

There were 21,296 live births during the first half of this year, 10,956 of which were males and 10,340 – females (48.6%). The highest number of live births was reported in the Nablus Governorate, amounting to 4,312, followed by the Hebron Governorate, which reported 4,053. The least number of live births was reported in the Tubas Governorate, amounting to 465. Data indicated that 50.7% of the births took place in public hospitals, and 47.9% in private ones, while 1.4% occurred at home. The number of reported still births amounted to 106, 49 of which were males and 57 – females. 37 cases were reported in the Nablus Governorate, while no still birth cases were reported in the governorates of Jerusalem and Bethlehem (see Table 40).

**Table 40: Distribution of Live and Still Births by Governorate and Sex, Q1 and Q2 2010**

Governorate	Still Births			Live Births		
	Females	Males	Total	Females	Males	Total
Jerusalem	0	0	0	344	409	753
Jenin	13	11	24	1593	1667	3260
Tubas	3	1	4	229	236	465
Tulkarem	1	3	4	788	788	1576
Qalqilia	3	2	5	602	657	1259
Salfeet	1	0	1	375	404	779
Nablus	20	17	37	2069	2243	4312
Ramallah and Al-Bireh	8	4	12	1134	1189	2323
Bethlehem	0	0	0	930	1004	1934
Jericho	0	1	1	281	301	582
Hebron	8	10	18	1995	2058	4053
<b>TOTAL</b>	<b>57</b>	<b>49</b>	<b>106</b>	<b>10340</b>	<b>10956</b>	<b>21296</b>

Source: Ministry of Health – Palestinian Health Information Center – Health Report – Northern Governorates –Palestine – Mid 2010

## 11.2 Mortality Rate

The total number of reported deaths totalled 3,426, 1,827 of which were males and 1,609 – females. The Hebron Governorate recorded the highest number of reported deaths, reaching 764 cases or 22.3% of total deaths, while the Jericho Governorate marked the

lowest number of deaths: 44 cases or 1.3% of total deaths (see Table 41). With regards to the main causes of death during the first half of 2010, the primary cause was heart diseases, followed by brain and vascular diseases, cancer, respiratory diseases, and lastly old age.

**Table 41: Mortality by Governorate, Q1 and Q2 2010**

Governorate	Number of Deaths
Jerusalem	121
Jenin	518
Tubas	109
Tulkarem	321
Qalqilia	140
Salfeet	91
Nablus	617
Ramallah and Al-Bireh	494
Bethlehem	207
Jericho	44
Hebron	764
<b>TOTAL</b>	<b>3426</b>

Source: Ministry of Health – Palestinian Health Information Center – Health Report – Northern Governorates –Palestine – Mid 2010

## 11.3 Traffic Accidents

The number of injuries caused by traffic accidents registered at the Ministry of Health amounted to 3,474: 2,628 males and 846

females. The Ramallah and Al- Bireh governorates captured the highest number of recorded traffic accident injuries reaching 700,

followed by the Hebron Governorate, which experienced 690 injuries. The Tubas Governorate recorded 23 injuries, the lowest proportion of traffic accidents injuries

registered. No reports are available for traffic accidents in the Jerusalem Governorate (see Table 42).

**Table 42: Distribution of Traffic Accidents by Locality and Type of Injury, Q1 and Q2 2010**

Governorate	Deaths	Injury	Total
Jerusalem			0
Jenin	5	431	436
Tubas	2	21	23
Tulkarem	5	250	255
Qalqilia	2	201	203
Salfeet	0	90	90
Nablus	6	623	629
Ramallah and Al-Bireh	2	698	700
Bethlehem	1	301	302
Jericho	0	146	146
Hebron	1	656	657
South Hebron	1	32	33
<b>TOTAL</b>	<b>25</b>	<b>3449</b>	<b>3474</b>

Source: Ministry of Health – Palestinian Health Information Center – Health Report – Northern Governorates – Palestine – Mid 2010

#### 11.4 Transfers for Treatment Outside the Governmental Health Institutions

The number of Ministry of Health transfers for treatment in health facilities outside the Ministry amounted to 25,802, 68% of which were in the West Bank area and 32% – in the Gaza Strip. The Gaza Governorate ranked

first in terms of the number of transfers, reaching 7,866 or 30.5% of the total (see Table 43). The total cost of the cases where services were bought from outside the Ministry of Health during the first half of the year amounted to NIS 157.6 million. Cancer was the primary reason for transfers, followed by eye diseases, diseases of the urinary tract, internal diseases, and neurosurgery.

**Table 43: Distribution of Transfers for Treatment Outside the Governmental Health Institutions by Governorate, Q1 and Q2 2010**

Governorate	Admissions and Stay	Tests and Consultations	Total
<b>West Bank</b>	<b>13,608</b>	<b>3,917</b>	<b>17,525</b>
Jerusalem	3,591	676	4,267
Jenin	1,056	329	1,385
Tubas	149	59	208
Tulkarem	691	291	982
Qalqilia	372	133	505
Salfeet	321	80	401
Nablus	1,537	594	2,131
Ramallah and Al-Bireh	1,894	613	2,507
Bethlehem	1,248	255	1,503
Jericho	270	93	363
Hebron	2,461	792	3,253
Other	4		4

<b>Governorate</b>	<b>Admissions and Stay</b>	<b>Tests and Consultations</b>	<b>Total</b>
Unknown	14	2	16
<b>Gaza Strip</b>	<b>8,093</b>	<b>184</b>	<b>8,277</b>
Gaza	7,866	173	8,039
Khan Yunis	57	7	64
The Center of Gaza	31		31
Northern Gaza	114	1	115
Rafah	19	2	21
Other	6		6
Unknown		1	1
<b>Total</b>	<b>21,701</b>	<b>4,101</b>	<b>25,802</b>

Source: Ministry of Health – Palestinian Health Information Center – Health Report – Northern Governorates –Palestine – Mid 2010.

### **Box 6: Progress towards Achieving the Millennium Development Goals in the Palestinian Territory**

The Millennium Declaration in 2000 marked a significant change in the work mechanism of the United Nations and in its ability to translate its mission and goals into facts on the ground. Although Palestine is not a member of the United Nations, it signed the Declaration and committed to achieve these goals. The third Palestinian report has been issued recently, following the two reports of 2002 and 2005. The report evaluated the progress of work and the degree of achieving the millennium development goals. Palestine was chosen to present this progress report at the United Nations General Assembly in September 2010. This selection represented a chance to put forward the issue of development in the Palestinian Territory in front of this international forum.

The report was prepared and issued under a development environment, which restricts and hampers the goals and targeted objectives of the Millennium Declaration aimed to be achieved by 2015. The key constraints that limited the availability of an appropriate environment were the policies of the Israeli occupation, which continued to control the natural resources, disintegrate the Palestinian areas, and restrict the movement of persons and goods. The persisting political and geographic divide between the West Bank and the Gaza Strip also contributed to the interruption of the development and the decline in a number of development indicators over the last five years.

The results of the report indicated a significant improvement in several of the Millennium Development Goals in both the West Bank and the Gaza Strip. Enrolment rates in basic education increased; the conditions of Palestinian women improved in the social, economic, and political aspects; child mortality rates dropped among children under five years old; maternal health indicators demonstrated progress; the prevention of contagious diseases increased; and the global partnerships for development grew. In contrast, a decline occurred in the indicators related to both the poverty alleviation goals and the environmental situation. Assuming that the Israeli occupation will end, the report concluded that there is a high probability of achieving 7 development goals by the end of 2015. However, it is unlikely to achieve the goal related to the improvement of the environmental situation, as it is associated with global climate changes.

The detailed results revealed significant disparities among Palestinian areas with regards to progress at the national level; progress in the development indicators was much slower in the Gaza Strip, Area C, localities close to the Separation Wall and in East Jerusalem. At the same time, a decline in the indicators that witnessed deterioration was faster in those areas.

The results show a decline in the indicators related to the first goal (hunger and deep poverty alleviation) as the circle of poverty expanded and its causes persisted; most important among them were the rise in the unemployment rates, the unstable investment environment, and the weak capacity of the government and its limited resources in terms of creating a social protection net and financing poverty alleviation programs. The prevalence of poverty was reflected in the decline of food security.

In spite of the progress achieved in most of the targeted goals, the report concluded that the most important challenge in the next stage is to maintain the accomplishments and gains already achieved in a number of development areas and goals. It is also important to develop the quality of the indicators which reflect on the services provided and on the achievement of social welfare, such as supplying citizens with high-quality education and health services.