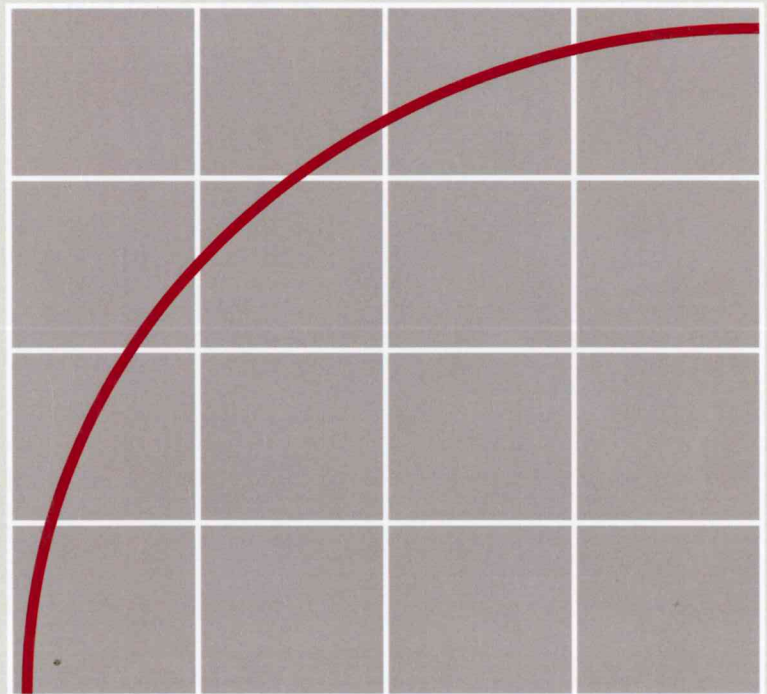


2010

Economic & Social Monitor



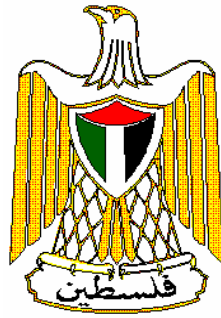
**Palestine Economic Policy Research Institute (MAS)
Palestinian Central Bureau of Statistics (PCBS)
Palestine Monetary Authority (PMA)**

Volume 20

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

Quarterly
Economic and Social Monitor

Volume 20

June, 2010

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June, 2010

Foreword

This volume of the Economic and Social monitor outlines the main trends in economic and social development in the West Bank and Gaza Strip during the fourth quarter of 2009, as well as the overview of the entire 2009 calendar year. The reader will see that the economic conditions in the months at the end of the year very closely parallel how the situation was during the mid-year months in terms of improved economic activity in the West Bank, and the continuing deteriorating situation in the Gaza Strip, which is primarily due to the continuing Israeli blockades imposed on the Gaza Strip; with no serious progress in addressing the catastrophic effects of Israeli aggression on the Gaza Strip (27 December 2008-18 January 2009). In general, the economic conditions throughout 2009 have seen some improvements in the West Bank. The political division of the Palestinian side on one had is due to the captive political situation and the critical goals of Israeli intransigence and their refusal to apply the requirements of the road map; as well as the mongering occupation practices of killing, displacement, military raids, and the establishment of checkpoints and closures throughout the Palestinian Territories.

This volume contains a report on the status of Palestinian women in the Palestinian territories and neighboring Arab countries, it also contains a summary of the statistical data on the numbers of Palestinian refugees that was recently issued by the relief agency for Palestinian refugees. There are also three reports that are separate from the main text itself. The reader is first exposed to the subject of the Israeli military, which was recently released and interpreted by the Israeli media that the Israeli authorities allow the deportation of tens of thousands of Palestinians from the West Bank. The reader will then be exposed to the Jewish settlement activity in the West Bank since the Israeli government's decision (November 25, 2009) to freeze part of the settlement for a period of ten months. The third part will expose the reader to the recent government decision to reduce the tax purchase of vehicles.

As for the report entitled "economic issues," we launched it in this issue to discuss the new series entitled "economic volatility"; and in the last issue we have concluded the discussion of "economic growth" that was broken up into four parts.

We would like to reiterate our commitments to our readers and warmly welcome any feedback. We also wish to thank the teams at the three organizations that prepared this publication (PMA, PCBS and MAS).

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Executive Summary

Economic activity: Palestinian GDP witnessed an overall increase of 1.6% in the 4th quarter of 2009 in comparison to the 3rd quarter of the same year. Consequently, GDP per capita also increased, by 0.8% for the same period, amounting to \$354. As for the year 2009, GDP per capita grew by 6.8% from the year 2008, causing the individual share to increase by 3.7%

Labor market: The unemployment rate decreased from 25.8% to 24.8% between the 3rd and 4th quarters of the year 2009. The female participation rate in the Occupied Palestinian Territory subsided in the 4th quarter of 2009 ending at 15.1% of the total participation. With respect to daily wages, there has been a decrease of 2.2% in the West Bank which amounts to 85.6 NIS. However, the Gaza Strip experienced a 0.3% increase in its daily wage rate. On the other hand, advertisements for job openings in the newspaper amounted to a total of 641 ads in the 4th quarter of 2009.

Public Finance: Total government revenue in the 4th quarter of 2009 declined by 12.5% from the previous quarter, ending at nearly \$397.3 million. Domestic revenue, which encompasses 32% of total revenue, drastically fell to a mere \$130.6 million. Also, total public expenditure slumped by 37.3% from the previous quarter, ending at a reported \$597 million.

Banking developments: Credit facilities increased by 35.5% from the 3rd to the 4th quarter of the year 2009. However, total bank deposits dropped by 1.2% from the previous quarter, amounting to a total of \$2,234 million. Also, the banks' assets dropped by 0.8% from the 3rd quarter totaling \$8091.1 million.

Palestine Securities Exchange: The Al-Quds (Jerusalem) index witnessed a decrease of 1.2% in the 4th quarter of 2009 compared to the previous quarter. When comparing The Al-Quds (Jerusalem with the index presented at the end of 2008 it is evident that there was a decline of 17.3%. During the 4th quarter, banks, industry and) Index at the end of 2009 investment indices witnessed increases, while

the indices of the insurance and services sectors decreased. 40 million Shares were traded, with a value of \$85.3 million. The market value of listed companies amounted to \$2.39 billion.

Prices and purchasing power: The Consumer Price Index (CPI) in the PT increased during the 4th quarter of 2009 compared to the previous quarter with prices increasing by 1.3%. Consumer prices in the West Bank, Jerusalem, and the Gaza Strip increased by 1.85%, 1.63%, and 0.86% respectively. The purchasing power of the US dollar and the Jordanian Dinar declined by 0.69% and 0.49% respectively.

Tourism: By the end of the 4th quarter of the year 2009, the number of hotels operating in the West Bank and the Gaza Strip increased to 126 hotels. These hotels were responsible for serving a total of 142,504 visitors. 10.5% of these visitors were Palestinian, and 36.6% of them were from the European Union- 49.1% of these visitors stayed in hotels located in the city of Jerusalem.

Company Registration: The number of companies registered in the West Bank in the 4th quarter of the year 2009 increased by 25.5% from the previous quarter; resulting in a registration of 438 new companies between the end of June and the end of September. This resulted in a tremendous increase in capital- nearly 55% from the previous quarter. This 4th quarter increase led to a total capital increase of 100% from the year 2008 to the year 2009.

Building Licenses: The total number of licensed buildings in the West Bank increased by 51.2% from the year 2008 to the year 2009. In the meantime, the total number of licensed dwellings in the West Bank increased by nearly 50% from the year 2008 to the year 2009. As for the Gaza Strip, there is yet to be any data present for the entire 2009 calendar year.

Industry Expectations: 28.2% of owners and managers of industrial firms in the WBGS believed that their companies overall performance improved during November of

month. and
managers of industrial firms in the WBGS,
employment remained stagnant during the
month of December. In the medium term (the
next six month) 26.7% of the owners and
managers of industrial firms expected that the
operational level in the WBGS will improve.

Israeli Measures: 11 Palestinians were killed and 104 were injured during the months of January and February of the year 2010. During the same period, crossing points between the WBGS and Israel were fully closed 283 times and the number of temporary military checkpoints in the WB decreased to 1,192. Moreover, there were 9 Israeli military assaults on the Palestinian education sector, and 2 military assaults on the health sector during the months of January and February of the year 2010.

The reality of Palestinian women living in the Occupied Palestinian Territory: The female population comprised nearly 49.2% of

the total population in the 4th quarter of the year 2009. At the same time, 49.5% of students (not including collegiate students) were female for the 2008/2009 school year.

Palestinian Refugees: It is reported that during the first half of the year 2009 there were 4.7 million Palestinian refugees registered with UNRWA - The United Nations Relief and Works Agency for Palestine Refugees in the Near East. There are also 689 schools registered with UNRWA that are located in Palestinian refugee camps. As for the centers for technical training registered with UNRWA, there were a total of 10 registered centers in the Occupied Palestinian Territory in the first half of the year 2009. Moreover, the total number of UNRWA registered health centers totaled 137 centers across the Occupied Palestinian Territory for the 2009 calendar year.

Economic Indicators in the West Bank and the Gaza Strip for the years 1994-2009

Indicator	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Population by mid 2009																
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
National Accounts																
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 (USD)**	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	-
Prices and Inflation																
Average Exchange Rate of the USD 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 JOD 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
Labor Market																
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
Social Conditions																
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	-	-

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009			
Net Domestic Revenues *****	-	-	-	807	868	942	939	273	290	747	1,050	1,370	722	1,616	1,780	1,548.4
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
Banking Sector (Million USD)																
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: Central Bureau of Statistics, the Palestinian Monetary Authority.

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

** Data in constant prices. Base year for the 1994-2003 is 1997; 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. Base year for the period 1994-2006 was 1996 (1996=100), base year for 007, 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 NIS1,886 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 NIS2,362 monthly to cover the expenses of food, clothing, housing, health, education, transportation and other expenses.

***** The total net income is the total current income after the deduction of tax returns.

- Figures in brackets are negative.

In the previous issue of the Monitor the general political scene was described as being dominated by two contradictory situations. The first is exemplified by the emergence of an unprecedented international consensus to adopt the 'two- states' solution for the Israeli – Palestinian conflict. The international powers and the United Nations adopted this solution in the 'Road Map' while the Arab League adopted it in the 'Arab Peace Initiative'. The official Israeli position is no more opposed to the establishment of a Palestinian State as it was in the past. The second situation is demonstrated by the daily Israeli practices in the West Bank. This has been described by many commentators as aiming to undermine any chance for the establishment of a Palestinian State within the framework of the 'two-states' solution, to the extent that numerous observers have been obliged to say that this solution is no longer practically feasible.

This contradiction has emerged at the local, regional and international levels in the past months. Increasingly, key parties to the conflict are recognizing that this contradiction is slowly undermining the feasibility of the "two states" solution and, as a consequence, are taking steps to eradicate it.

It is obvious that Israel is the party who created this contradiction and that perpetuates it. All evidence shows that the verbal acceptance of a Palestinian State following the United States adoption of that principal by successive Israeli governments is void of content. It is an acceptance that lacks any content that differs from the old Israeli position that opposed the establishment of a Palestinian state. It is also clear that continuity with the status quo is in the interest of the Israeli side as it allows the continuation of the expansion of Jewish settlements in the West Bank and the Judaisation of Jerusalem, diminishing its connectivity with the West Bank. At the same time, Israel's interests lie in not showing that the continuation of the status quo as a contradictory reality between what it announces regarding the 'two-states' solution and its systematic practices for undermining this solution. Thus Israel continues to create a smoke screen to conceal the truth by following

two methods; the first is to call on the Palestinian side to come to the negotiations with no previous conditions or restrictions and when Palestinians refuse, to negotiate while the settlements and the Judaisation of Jerusalem continue, they seem to the international community as the intransigent side who impedes the peace process. The second method is the exaggeration of the 'Iranian threat' in a way that draws the world's attention away from the Israeli-Palestinian conflict; recalling the old Israeli account that the Israeli-Palestinian conflict is not primarily responsible for the instability in the region and for threatening western interests in the Arab world.

As for the American side, the position of George Bush's administration (2001-2008) was not really different from that of the Israeli government where the United States administration supported all Israeli practices which aimed to undermine the practical possibility of establishing a Palestinian state and ending the Israeli – Palestinian conflict by the 'two-states' solution. This included the support of Israeli aggression in which Israel reoccupied the West Bank in a violation of the accords held with the Palestinian Authority, as well as supporting expansion of settlements and the Judaisation of Jerusalem which is a violation of the spirit of the Annapolis Conference (November, 2007) sponsored by the United States. There has been some change in the American position with the advent of President Obama in January 2009 when American voices warning of the continuation of the status quo in the Israeli – Palestinian conflict started to rise; being considered among the reasons why problems facing the United States in Iraq, Afghanistan and Pakistan are so great. This was enhanced by the creation of a new Jewish lobby in the United States (J Street) which opposes the extremist trends of the old Jewish lobby (AIPAC) and thinks that halting settlement activity and starting serious negotiations with the Palestinian side is in the interest of Israel. The Obama administration has responded to these voices. The US administration spokesmen declared that the continuation of the status quo in the Israeli – Palestinian conflict is against American national interests,

of the peace process. In the coming weeks and months, it will be seen to what extent the American position will develop. Is it going to oppose the continuation of the Israeli contradiction between verbally adopting the 'two-states' solution and its actual practices aimed at destroying the chances of realizing that solution and thus putting pressure on Israel to attempt changes on the ground; or will it just oppose the blatant appearance of this contradiction in front of the international community by and continue to pressure the Palestinian side to continue with the negotiations.

It is obvious that the efforts of the Palestinian side has been focused in recent months on the attempt to change the status quo as Palestinians are the most affected by the continuation of the Israeli daily practices aiming to undermine the chances for the establishment of a Palestinian State. These efforts are distributed into three tracks; the first is an attempt to achieve national reconciliation between Fatah and Hamas, to end the divide between the West Bank and the Gaza Strip. The second is the declaration of the Palestinian Authority that it has joined the people's growing peaceful movement to resist the occupation in the West Bank. The third is the Palestinian Government's efforts at building the institutions and foundations necessary for the establishment of the Palestinian State within two years.

It is clear that these efforts have not so far been fruitful in getting the Palestinian National struggle out of the crisis which it is suffering. The Palestinian leaders and elite are required to live up to their responsibility and to start a serious and constructive political dialogue that will end the political divide and formulate a government of national unity to meet the following three objectives: first, the formulation and implementation of a comprehensive national plan to resist settlements at the local level while making use of the growing international sympathy with the Palestinians counter settlement activities, demanding the international community to

deal with settlements in a way that reflects their actual nature, a war crime convicted by law and not merely an obstacle to negotiations and to the peace process. The second task of the Government is to establish the environment to resume the democratic process and to carry out the legislative and presidential elections. The third task is to pursue the implementation of the reform and development plan and the reconstruction of the Gaza Strip as well as the plan for building the institutions and foundations for the Palestinian state, with emphasis on:

- ✧ Ending the siege on the Gaza Strip, starting the rebuilding and reconstruction process, lessening the sufferings of the citizens and launching the process of development.
- ✧ Reconnecting the West Bank and the Gaza Strip economically and at the same time linking the relief process in the Occupied Palestinian Territory in the short run with the national plan for development and continuing the efforts for linking international aid with the plan for development.
- ✧ Facing the economic and social policy for the marginalization of Jerusalem by supporting economic and cultural activity in Jerusalem and by confronting the attempts to detach the city from its surroundings and weakening its economic ties with other governorates.
- ✧ Allocating more financial resources for the implementation of the strategy of 'pro-poor growth' particularly in marginalized areas behind the Wall, in the Jordan Valley and rural communities by providing educational and health services together with policies and measures that help the poor and marginalized to participate in economic, political and social life.
- ✧ Initiate economic policies that will give the private sector potential to overcome the depressive factors in the investment environment that have been caused by aggression, destruction and instability.
- ✧ Prepare technical and economic studies for strategic projects, particularly airports and a port and the geographic link between the West Bank and Gaza Strip in response to the future needs of the Palestinian people and their independent state.

Israeli military order for the deportation of Palestinians from the West Bank

Military order 1650 generated a considerable disturbance in the Palestinian, Arab and international circles. The order that was issued 6 months ago and entered into force by mid April 2010 aims, according to Israeli sources, to prevent 'infiltration' into the West Bank. This order enables the deportation of tens of thousands of Palestinians from the West Bank under the pretext of 'infiltration' into the West Bank or for being illegitimate guests there. This new order is an amendment of the military order issued in 1969 and it expands the definition of an 'infiltrator' to include any person who enters the West Bank illegally, in addition to any person who is present in the West Bank and does not hold a legal permit to do so.¹ The threat in this issue lies in that this order considers each Palestinian currently present in the West Bank to be an 'infiltrator' unless he proves the opposite and leaves the ultimate reference for evidence with the Israeli military commander.

The order affects Palestinians in the Gaza Strip

According to the new military order, Palestinians from the Gaza Strip and those who are residents of the West Bank and whose identity cards hold their Gazan addresses and their children, even those born in the West Bank as well as any person whose parent carries a Gazan ID will be subject to this order and thus to deported from the West Bank.

Including Gazans in this order is an extension to the measures taken by Israel in recent years to constrict the population of the Gaza Strip and restrict their ability to reach and visit the West Bank for objectives pertaining to residency, work and study in a breach of the Oslo accords. Israel has taken various measures against persons from the Gaza Strip. Since 2000, every Palestinian residing in the West Bank and whose identity card carries a Gazan address was considered an illegal sojourner, such as any non-Palestinian citizen. Not only this, but in 2007 the Israeli Defense Force commander of the West Bank issued a military decree to force Palestinians whose identity cards hold a Gazan address to obtain a permit in order to stay in the West Bank. During the past years, many Palestinians were deported to the Gaza strip including individuals born in the West Bank.² The goal behind all this is to enforce the separation between the West Bank and Gaza Strip completely and ultimately.

The order affects many other categories of people

The order also includes those who were born abroad and had for any reason lost their residency. It also includes foreign spouses of Palestinians residing in the West Bank. The language of this order seems to be general and very ambiguous and based on the vague and expanded definition of an 'infiltrator', many groups can be defined so, such as Jerusalemites residing in the West Bank, foreigners who are living in the West Bank and whose countries are on good terms with Israel, as well as the Israelis, whether Arabs or Jews. Therefore, it is left to the consideration of the Israeli Defense Forces (IDF) commanders and their interpretation of the meaning of 'infiltration'. However, a spokesman from the IDF office pointed out that the order will not be applicable to Israelis but is instead meant for illegal sojourns in the West Bank.

Legal repercussions

The new order transfers the judicial mandate for the deportation of 'infiltrators' from Israeli civil courts (which issued verdicts in few cases by refuting the deportation of Palestinians from the West Bank) to Israeli military courts. The order enables the deportation of any person seen by the military commander as an 'infiltrator' in less than 72 hours or he may be sued and can be sentenced to prison that may reach seven years. In addition to deportation, the new order allows the Israeli military commander who discovers an 'infiltrator' to impose a fine that may reach NIS7, 500 (about \$2000) to cover the cost of detention and deportation.

¹ CNN (2010) "Palestinians object to definition of 'infiltrator'". <http://edition.cnn.com/2010/WORLD/meast/04/12/mideast.west.bank.order/index.html>, accessed on 27/4/2010. Published on: 12/4/2010.

² HAARTZ (2010). "IDF order will enable mass deportation from West Bank". Accessed on 27/4/2010. Published on 11/4/2010.

aims to achieve the following objectives:

West bank and Gaza strip.

- ✧ Enforce the legal status of the people in the West Bank population as obtaining its legitimacy from the Israeli Military commander.
- ✧ The displacement of the greatest possible number of the West Bank residents.

Dr. Anis Al-Qasem, a Palestinian legal expert, described this order as a means for developing and activating the Israeli plans for transfer.³

2. Economic Activity

Most of the macroeconomic indicators recorded an improvement in the 4th quarter of 2009 compared to the 3rd quarter. GDP grew by 1.6% leading to a growth in GDP per capita by 0.8% together with a decline in the unemployment rate of 3.9%. Looking at the entire year of 2009 as compared to 2008, it is clear that GDP grew by 6.8% and GDP per capita by 3.7% while the unemployment rate declined by 5.4%. However, this improvement in economic performance must be evaluated within the following context:

- ✧ There was a considerable decline in economic activity at the end of 2000 in the wake of the outbreak of the Al-Aqsa uprising. This decline continued until the end of 2002 when economic activity witnessed some improvement in the years 2003-2005, followed by a fall back in 2006 before it recovered in 2007, 2008 and 2009. From this perspective, the comparison should be between the indicators in 2009 and those in 1999 prior to the significant recession that occurred.
- ✧ In view of this perspective, the growth is in fact a growth in consumption rather than in investment. While levels of investment in 2008 were still lower than those in 1999 (65.2% of 1999 level), the level of consumption has risen in 2008 compared to 1999 (112.9% from 1999 level).

- ✧ The growth in consumption is mainly attributed to the payment of salaries for the public sector employees through external aid which amounted in 2009 to three times its size in 1999.
- ✧ The West Bank has captured the lion's share in the improvement in economic activity while economic activity in the Gaza Strip continues to suffer from recession and deterioration. Unemployment rates reached 39.3% in the Gaza Strip (more than double its rate in the West Bank, 18.1%) which could be the highest rate of unemployment in the world. This is due to the restrictive siege imposed by Israel on the Gaza Strip, paralyzing all aspects of economic activity. It is noted that while the construction sector absorbed 15.1% of the total labor force in the West Bank in the 4th quarter of 2009, this sector employed only 1% of the total labor force in the Gaza Strip because of the Israeli embargo on construction materials in Gaza Strip. The same applies to the mining and industrial sectors which employ about 15% of the total labor force in the West Bank versus 5.7% in the Gaza Strip.

³ In an interview with 'Al-Malaf' program on Al-Jazeera, Saturday May 1st 2010.

Economic Growth and Unemployment for the West Bank and Gaza Strip of 2008 - the 4th Quarter of 2009

Indicator	4 th Q 2008	2008	1 st Q 2009	2 nd Q 2009	3 rd Q 2009	4 th Q 2009	2009
GDP in constant prices (million USD)	1,203.6	4,820.9	1,213.9*	1,298.8*	1,307.1*	1,327.4**	5,147.2**
GDP per capita (USD)	331.0	1,340.4	331.4*	352.1*	351.8*	354.6**	1,389.9**
Per capita Growth Rate (%)	(3.9)	2.9	0.1	6.2	(0.1)	0.8	3.7
Unemployment Rate (%)	27.9	26.0	25.4	22.2	25.8	24.8	24.5

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

* Second revision, preliminary and subject to revision and amendment.

** Preliminary estimates (first version), subject to revision and amendment.

- Figures are in constant prices for the West Bank and Gaza Strip and the base year is 2004.

- Numbers in brackets indicate negative value.

Obviously, the difficult economic conditions will continue unless a radical change happens in the political situation, for example the end of the Israeli siege on the Gaza Strip and the end of Israeli oppressive policies, practiced in the West Bank since 1967. As it is known, the Israeli measures succeeded in making the Palestinian economy dependent on external sources of income (income of workers in Israel and the settlements and the income of workers in the Gulf countries). The Palestinian economy also suffers from serious distortions, exemplified by the control of Israel of a considerable part of Palestinian natural resources (land and water); and from sectoral imbalances (the very low participation rate in the agricultural and industrial sectors in terms of GDP), and the complete dependency on Israel for imports and exports, in addition to a great drop in the level of productive investment and social services. The result is that the Palestinian economy suffers from many distortions and imbalances that can be summarized as follows:

❖ Sectoral Disarticulation

The proportion of the productive sectors contribution to GDP is very low. By the end of the 4th quarter of 2009, the contribution of agriculture and industry was 19.6%. With regard to agriculture and manufacturing in particular, these proportions dropped to 16% which is much lower than the levels of countries with economies similar to the Palestinian economy in terms of standards of living (see tables 2 & 5).

❖ Resource Gap⁴

The Palestinian economy suffers chronically from a resource gap reflected in a substantial deficit in the balance of trade in merchandise (merchandise imports – merchandise exports). The value of exports covers less than one fourth of the value of imports. This deficit makes up for 45% of GDP. The other side of the resource gap is, of course, the existing deficit between the volume of domestic savings and the expenditure on investments (investment - savings). The volume of domestic savings is of negative value in the Palestinian economy, and was equivalent to nearly 18.6% of GDP in 2008.

❖ Labor Market Imbalance

The Palestinian economy suffers from a state of chronic imbalance in the labor market. Domestic economic activity absorbs only 67.6% of the labor force (according to data from the 4th quarter of 2009) while about 7.5% are employed in the Israeli economy. The rate of unemployment reached nearly a quarter of the labor force.

⁴ Domestic savings is calculated as GDP minus total household consumption expenditures and governmental consumption expenditures from GDP (saving = GDP – (private consumption + public consumption). The resource gap may be seen either as the difference between the size of exports and imports or as the difference between domestic savings and the size of investments.

e Contribution of Agriculture and the Gross Domestic Product

(Percentage)

	1995	2003	2008
Palestine	33.2	33.2	17.5
Average of lower middle income countries	-	58.0	-

Source: World Bank Development Report 2004, 2009.

**Table 3: Main Economic Indicators in the Occupied Palestinian Territory
for the 4th Quarter 2008 - the 4th Quarter 2009**

(USD Million)

Indicator	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009
GDP in constant prices**	1,203.6	1,213.9***	1,298.8***	1,307.1***	1,327.4****
GDP per capita(\$) in constant prices**	331.0	331.4***	352.1***	351.8***	354.6****
Participation in the labor Force (%)	41.6	41.4	41.4	41.7	41.6
Unemployment rate (%)	27.9	25.4	22.2	25.8	24.8
Inflation rate (%) *****	0.19	(1.00)	8.6	1.90	1.30
Total net revenues	302.9	342.0	355.3	453.8	397.3
Public expenditures (excluding development expenditures)	1,064.0	726.0	644.4	952.2	597
Surplus/Deficit before support	(509.0)	(392.7)	(350.9)	(555.2)	(258.3)
Surplus/Deficit after support	(33)	(114.4)	(190)	113.4	35.8
Actual external assistance		272	177.9	668.7	294.1
Bank Deposits by residents	5,846.9	5,772.5	5,988.7	6,385.9	6,295.3
Credit facilities	1,828.2	1,842.9	2,099.7	2,261.2	2,233.9

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

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

** Figures are in constant prices and the base year is 2004

*** Second revision; these figures are preliminary and subject to modification.

**** Preliminary estimates (first version), subject to revision and amendment

***** Inflation rate was calculated by comparing the average consumer prices for a given quarter with the average of the previous quarter. The base year for the CPI is 2004 (2004=100) given that the West Bank figures include East Jerusalem.

- Numbers in brackets indicate

- negative value.

**Table 4: The Ratio of the Average Palestinian
Income /Capita compared to its Level
in Neighboring Countries (%)***

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

Source: These ratios were calculated based on data from World Development Indicators (2008).

* The average income per capita is represented by the country's Gross National Income (GNI) per capita.

** Based on the assumption that the GNI per capita in the West Bank and the Gaza Strip in 2007 is equivalent to its level in 2005 (taking into account that the income in 2007 was probably less than that of 2005).

income of an individual in neighboring countries. While the average income of a Palestinian individual was slightly higher than the income of an Egyptian individual in 2000, it became equivalent to less than three quarters of that income in 2007. Also, the average income of a Palestinian individual was equivalent to more than 164% of the average income of an individual in Syria in 2000, but it became equal to 69% of the income of an individual in Syria in 2007 (see table 4).

As for the contribution of the different economic sectors to GDP, the 4th quarter of

2009 witnessed a slight rise in the contribution of agriculture and fishing which may be mainly due to the olive harvest. When this ratio is compared to its corresponding ratio for 2008, a decline in the contribution of the agriculture and fishing sectors is noticed because the olive harvest in 2009 was bad compared to the previous year. It is also noted that the contribution of the construction sector to GDP declined, as this ratio usually declines in the 4th and 1st quarters (autumn and winter) and rises in the 2nd and 3rd quarters (spring and summer). See table 5 which also illustrates the rise in the contribution of wholesale and retail trade, transportation, storage and the telecommunication sectors in GDP.

Table 5: The Contribution of Economic Activity in GDP in the Occupied Palestinian Territory* for the 4th Quarter of 2008 - the 4th Quarter of 2009 in Constant Prices: base year 2004 (%)

Economic Activity	2008	2009				2009
	4 th Quarter	1 st Quarter**	2 nd Quarter**	3 rd Quarter**	4 th Quarter***	
Agriculture and Fishing	5.8	4.8	5.1	4.1	5.2	4.8
Mining, Manufacturing, Water and Electricity Supplies	15.2	15.4	14.5	14.4	14.4	14.6
Mining and quarrying	0.4	0.5	0.4	0.4	0.5	0.4
Manufacturing	11.5	11.5	10.9	10.8	10.8	11
Water and Electric Supplies	3.3	3.4	3.2	3.2	3.1	3.2
Construction	6.3	7.0	8.2	7.6	6.9	7.4
Retail and Wholesale	10.8	11.1	10.2	10.6	10.9	10.7
Transportation, storage and telecommunication	8.7	9.1	8.4	8.5	8.7	8.7
Financial intermediation	6.2	5.3	5.3	5.7	5.8	5.5
Services	23.4	24.4	24.3	23.4	22.8	23.7
Real estate, rental and commercial activity	8.5	9.7	9.6	8.7	7.8	8.9
Communal, social, and personal activities	1.5	1.8	1.9	1.9	1.7	1.8
Hotels and restaurants	1.4	0.8	1.2	1.5	1.5	1.3
Education	9.0	9.1	8.7	8.5	8.9	8.8
Health and social work	3.0	3.0	2.9	2.8	2.9	2.9
Public administration and defense	13.8	14.9	14.0	14.3	14.7	14.5
Domestic services	0.1	0.1	0.1	0.1	0.1	0.1
Subtract: financial inter-mediation (with indirect clearing)	-5.9	-5.3	-5.2	-5.4	-5.4	-5.3
Add: Customs fees	5.8	5.1	6.0	6.2	5.8	5.8
Add: Net VAT on imports	9.8	8.1	9.1	10.5	10.1	9.5
GDP (%)	100	100	100	100	100	100
GDP	1,203.6	1,213.9	1,298.8	1,307.1	1,327.4	5,147.2

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.

** Second revision: preliminary and subject to revision and modification.

**** Preliminary estimates (first issue): subject to revision and modification.

BOX (II) ment activity following the freeze!!

In November 2009, the Israeli Prime Minister, Benjamin Netanyahu announced a resolution to partially suspend/freeze Israeli settlement in the West Bank for the period of 10 months, ending by September 2010, in response to the American demand for freezing settlement activity as stipulated in the Roadmap to allow for the resumption of negotiations between the Palestinian and the Israeli side.

The resolution to freeze Israeli settlement is not new as the Israeli government has announced freeze on settlements more than once starting in 1992. Nevertheless, these resolutions did not slow down the settlement construction. On the contrary, the number of Jewish settlers doubled in the West Bank, reaching over 500 thousand in 2008 compared to 269 thousand in 1993 (see Economic and Social Monitor, volume 17).

In the context of assessing the results of the new resolution for freezing the settlements, we refer to the following facts on the expansion in the settlement activity since the end of November 2009:

- ✧ The resolution excluded the expansion of the settlements in East Jerusalem, the desired capital of the Palestinian state. Since the resolution to freeze settlements in November 2009, a huge number of housing unit tenders were announced in Neve Yaacov and Pisgat Zeev/Hezma and other Israeli settlements in occupied Jerusalem, the last of which was in March this year when the Israeli government approved the building of 1600 housing units in Ramat Shlomo settlement/Shufat.
- ✧ The Israeli government did not only expand settlements and build new housing units in occupied Jerusalem but continued the confiscation of houses in the Sheikh Jarah neighborhood and settling Jews there.
- ✧ At the end of February, the Mayor of Jerusalem Neer Barakat, approved the so-called 'development plan' for Al-Bustan neighborhood in Silwan where a national garden, the "King's Garden" and a tourist park will be built in the place of Palestinian houses. This means the demolition of no less than 88 Palestinian homes and the dispersion of at least 1,500 Jerusalemites, according to news agencies.
- ✧ The resolution did not exclude Jerusalem only but also excluded the resident apartments under construction in some settlements. Thus immediately excluding, following its release, 3 thousand housing units under construction that 'deserve to be completed'. In March this year, the Israeli government also approved the building of 112 housing units in Beitar Illit settlement, west Bethlehem with the pretext that work on its infrastructure had started before the freeze.
- ✧ It is noticeable that the growth rate in the number of endorsed housing units since the freeze resolution superseded all growth rates in settlement housing units during the years of Israeli occupation prior to the establishment of the Palestinian Authority (1967-1994). 'Peace Now' pointed out that there were 1,167 housing units approved for each 100,000 settlers since the freeze resolution was issued until the beginning of March 2010, which means that the number of housing units surpasses the data provided by the Israeli Central Bureau of Statistics that pointed to 836 housing unit for each 100,000 settlers.
- ✧ On the other side, the 'Peace Now' organization submitted a petition for the Israeli High Court of Justice calling on the Israeli government to remove 'illegal' settlement outposts. But the Israeli government responded that it is hard to talk about the removal of 'illegal' settlement outposts under 'pressure' imposed on the Government as a result of the freeze resolution issued in November 2009. The Israeli government also informed the Court that it is examining the legal status of two settlement outposts, Haresha and Hayovel working towards removing their status as illegal.
- ✧ The declaration of the Israeli Prime Minister in late February this year to include the Ibrahimi Mosque in Hebron and Bilal Bin Rabah Mosque in Bethlehem, where Jews claim is the grave of Rahel, Mother of Prophet Yusuf, to Jewish 'cultural heritage' is a grave new step for the Judaization of religious and archeological sites that will escalate existing tensions.

All in all, there are in fact over 5,000 housing units that have been built since the freeze resolution was taken up till now.⁵ It is therefore difficult to talk about any positive impact of the resolution for a partial freeze on settlements issued late November 2009. On the contrary, its negative effects outweigh its positive ones. It is worth noting that 'Peace Now' revealed that the reason for choosing a ten months period for putting the resolution into force and not a full year is that the ten months duration will end in September 2010 when the American administration will be preoccupied with congressional elections and inattentive to other issues.

⁵ This is the total of 3000 housing units excluded from the freeze resolution in addition to 1600 unit in (Ramat Shlomo) Shufat in East Jerusalem, 112 new units in Bethlehem in addition o the housing units in Neve Yaacov and Pisgat Zeev in Hezma.

The key indicators that determine the number of workers in the economy are three: the number of the working-age population, the rate of participation in the labor market and the unemployment rate; while the role of workers in economic activity is determined by indicators pertaining to human capital. These include the volume of physical capital available for workers and the nature of the institutions that have a direct or indirect impact on the production process. The Palestinian labor market reflects the economic conditions in general. On the quantitative level, we notice a rise in the level of the working-age population, a decline in the rate of labor force participation and a rise in unemployment rates. 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 the main cause lies in the drop in the size of the general demand for goods and services (consumption, investment, public expenditure and exportation); specifically in the weakness of investment activity and its inability to create sufficient capital accumulation to generate sufficient job opportunities capable of absorbing the annual increase in the labor force.

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

destruction, siege and closures, the building of and the expansion of the annexation wall and the restrictions imposed on the mobility of persons and goods between the West Bank and the Gaza Strip as well as between towns and villages within the respective regions. During the years of the Intifada, the annual increase in manpower was higher than the increase in the labor force (3.6% annual increase in manpower and 3.5% annual increase in the labor force). This indicates that labor force participation was declining. This indicates a decline in the labor participation rate, which actually declined by 0.1% a year. The average increase in the labor force (3.5%) was also higher than the average increase in employment (1.1%), indicating that the unemployment rate was rising with an average annual increase of 13.4%. Moreover, employment in the public sector increased slightly over employment in the private sector.

3.1 Labor Force and Labor Force Participation

Quarterly data registered a rise in the number of those employed. The number increased from 709.2 thousand workers in the 3rd quarter of 2009 to 724.2 thousand workers by the end of the 4th quarter of the same year. At the same time, the average labor force participation rate (LFPR) witnessed a slight rise in the quarters of 2009 as compared to its level in the corresponding quarters of 2008 (see table 6).

Table 6: Labor Force Participation Rate for Individuals Aged 15 Years and Over in the Occupied Palestinian Territory According to Place of Work and Sex, 2008 and 2009 Quarters (%)

Region and Sex	1 st Q 2008	2 nd Q 2008	3 rd Q 2008	4 th Q 2008	1 st Q 2009	2 nd Q 2009	3 rd Q 2009	4 th Q 2009
Both Sexes								
West Bank	42.3	43.5	43.4	42.8	42.8	44.4	43.7	44.1
Gaza Strip	37.5	38.0	38.2	38.8	38.9	36.9	37.7	36.9
Occupied Palestinian Territory	40.6	41.6	41.6	41.4	41.4	41.7	41.6	41.5
Males								
West Bank	67.5	68.0	69.4	68.3	68.5	69.6	69.5	70.5
Gaza Strip	63.3	63.2	64.0	65.4	63.8	61.4	63.1	61.6
Occupied Palestinian Territory	66.0	66.3	67.5	67.3	66.9	66.7	67.2	67.3
Females								
West Bank	16.5	18.2	16.9	16.7	16.5	18.7	17.3	17.1
Gaza Strip	11.3	12.0	11.9	11.7	13.5	11.8	11.9	11.6
Occupied Palestinian Territory	14.7	16.0	15.2	15.0	15.4	16.2	15.4	15.1

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

n, the Gaza Strip period. This was witnessed during the Intifada years due to the siege of the Gaza Strip. The labor force participation rate amounted to 44.1% in the West Bank in the 4th quarter of 2009, while it did not exceed 36.9% in the Gaza Strip. The 4th quarter of 2009 witnessed a slight improvement in the labor force participation rate of males in the Occupied Palestinian Territory, rising from 67.2% in the 3rd quarter to 67.3% in the 4th quarter of 2009.

As for workers' employment status, the quarterly data indicates a rise in the percentage of those employed in establishments they own or partially own, in addition to a drop in waged workers. The increase in the percentage of those working in establishments they own or partially own indicates, as was the case since the beginning of the *Intifada*, that a considerable percentage of those who lost their work in Israel or in the private sector after the *Intifada* tended to be self-employed (see table 7).

Table 7: Percentage Distribution of the Employed Persons in the Occupied Palestinian Territory According to Employment Status and Region, 2008 and 2009 Quarters

Region and Work Status	2008								2009							
	1 st Q	2 nd Q	3 rd Q	4 th Q	1 st Q	2 nd Q	3 rd Q	4 th Q	1 st Q	2 nd Q	3 rd Q	4 th Q				
West bank																
Employer	4.2	4.3	4.5	5.0	6.0	7.0	7.5	7.3								
Self-employed	22.9	24.1	22.8	16.4	20.8	19.8	20.2	22.0								
Wage employee	64.2	60.4	62.2	67.9	64.6	62.5	63.1	62.0								
Unpaid family member	8.7	11.2	10.5	10.7	8.6	10.7	9.2	8.7								
Gaza Strip																
Employer	2.9	3.3	4.6	3.5	5.3	3.9	3.6	4.8								
Self-employed	27.3	16.9	15.7	12.0	14.9	13.2	15.4	16.3								
Wage employee	58.5	71.3	73.3	79.0	73.7	79.5	78.2	74.2								
Unpaid family member	11.3	8.5	6.4	5.5	6.1	3.4	2.8	4.7								
Occupied Palestinian Territory																
Employer	3.8	4.0	4.5	4.6	5.8	6.2	6.5	6.6								
Self-employed	24.3	22.4	21.0	15.3	19.1	18.0	19.0	20.5								
Wage employee	62.5	63.0	65.1	70.7	67.2	66.9	66.9	65.1								
Unpaid family member	9.4	10.6	9.4	9.4	7.9	8.9	7.6	7.8								

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

Quarterly data indicates a change in the percentage distribution of employed persons by economic activity. The 4th quarter of 2009 witnessed a rise in the percentage of workers in the industry and agriculture sectors compared to a decline in the construction and services sectors (see table 8). The slight decline in the services sector does not negate the fact that the general trend is a rise in this sector, amounting to 37.9% by the end of the 4th quarter of 2009, where the percentage of

workers in the services sector increased during the years of the Intifada in particular. Those years are also characterized by an increase in the percentage of workers in the agricultural sector, but to a lesser degree. This is compared to a decline in the percentage of workers in the construction sector to about half its level prior to the Intifada. The percentage of workers in mining, quarrying and manufacturing declined as well.

Employed Persons in the Palestinian Territories Economic Activity, 2008 and 2009 Quarters

Economic Activity and Region	(%)							
	1 st Q 2008	2 nd Q 2008	3 rd Q 2008	4 th Q 2008	1 st Q 2009	2 nd Q 2009	3 rd Q 2009	4 th Q 2009
Occupied Palestinian Territory								
Agriculture, Forestry, Hunting & Fishing	12.9	14.9	12.7	13.0	11.7	12.3	10.7	12.4
Mining, quarrying and manufacturing	13.0	12.1	12.4	11.1	12.6	11.4	11.8	12.6
Construction	9.4	10.8	12.7	10.8	11.1	12.3	12.2	11.4
Services and other sectors	38.5	38.2	37.2	39.4	40.5	40.4	39.4	37.9
West Bank								
Agriculture, Forestry, Hunting & Fishing	13.0	15.7	13.5	15.0	13.1	14.9	12.6	14.2
Mining, quarrying and manufacturing	16.2	14.5	15.0	13.9	15.4	13.9	13.8	15.0
Construction	12.7	14.1	16.8	14.2	15.1	16.5	16.0	15.1
Services and other sectors	32.8	30.9	29.1	29.8	31.6	30.9	31.5	30.0
Gaza Strip								
Agriculture, Forestry, Hunting & Fishing	12.5	12.3	10.6	7.1	8.4	4.8	4.9	7.3
Mining, quarrying and manufacturing	5.5	4.6	4.8	2.7	5.6	4.2	6.0	5.7
Construction	1.6	0.4	0.7	0.8	1.0	0.7	0.9	1.0
Services and other sectors	52.0	61.4	60.7	67.9	16.9	67.0	63.2	60.1

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

The distribution of workers according to the place of work by the end of the 4th quarter of 2009 has been 64.2% in the West Bank, 25.8% in the Gaza Strip and 10% in Israel and the settlements. The 4th quarter of 2009 witnessed a decline in the percentage of workers in Israel and the settlements compared to a rise in the percentage of workers in the West Bank and the Gaza Strip. The increase in the number of workers was very close in each of the West Bank and the Gaza Strip during 2008 and 2009, reaching about 10.4% and 11.8% respectively (see table 9). These ratios are in contrast with what was prevalent in the first

year of closure of the Israeli labor market during the Al-Aqsa Intifada, which witnessed a larger increase in the number of workers in the West Bank than in the Gaza Strip. Data shows that the West Bank share of the total workers in the Occupied Palestinian Territory had increased in 2008 by 18% compared to its *pre-Intifada* level, while the Gaza Strip share did not exceed 8%. This indicates that the labor market absorption capacity for workers who lost their work in Israel during the Intifada was larger in the West Bank than in the Gaza Strip.

Table 9: Percentage Distribution of workers Aged 15 Years and Over in the Occupied Occupied Palestinian Territory according to Place of work, 2008 and 2009 Quarters

Workplace	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q 4 2009
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
Labor Force	-	-	-	896.1	934.0	949.8	955.4	963.5
Number of Workers (thousand)	675.8	666.7	665.4	664.2	697.1	738.7	709.2	724.2
West Bank (%)	59.0	65.3	62.4	62.9	61.6	63.7	63.9	64.2
Gaza Strip (%)	29.8	23.9	25.5	25.0	28.4	26.1	25.4	25.8
Israel and settlements (%)	11.2	10.8	12.1	12.1	10.0	10.2	10.7	10.0

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

The problem of unemployment is not new to the Palestinian economy, although the rate was much lower prior to the Al-Aqsa Intifada, but it has always been relatively high. Unemployment witnessed an increase from the 1st quarter of 2008 until the 4th quarter of the same year. When the rate of unemployment in 2008 is compared with its level prior to the Intifada, we realize that it increased to more

than double. In 2008, the problem of unemployment increased dramatically in the Gaza Strip in particular, as a result of the Israeli siege, amounting to 44.8% in the 4th quarter of the year, which was the highest in the world. Table 10 below illustrates a decrease in the rates of unemployment in the quarters of 2009 compared to 2008.

Table 10: Unemployment Rate among Individuals Participating in the Labor Force (15 years and above) In the Occupied Palestinian Territory by Region and Sex, 2008 and 2009 Quarters

Region & Sex	Unemployment Rate (%)							
	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009
Occupied Palestinian Territory								
Male	22.7	26.5	27.3	29.1	25.7	21.6	24.9	24.3
Female	21.7	22.7	28.2	22.5	23.8	24.7	29.8	27.3
Total	22.6	25.8	27.5	27.9	25.4	22.2	25.8	24.8
West Bank								
Male	19.9	16.6	20.5	21.0	20.1	15.1	17.2	17.9
Female	15.0	15.2	21.6	14.9	16.8	18.8	20.3	19.1
Total	19.0	16.3	20.7	19.8	19.5	15.9	17.8	18.1
Gaza Strip								
Male	28.2	45.8	41.2	45.1	36.6	34.9	40.0	37.5
Female	39.3	43.3	45.7	42.9	39.0	41.6	54.7	48.9
Total	29.8	45.5	41.9	44.8	37.0	36.0	42.3	39.3

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

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. This means that a large percentage of the unemployed are new entrants to the labor market (see table 11).

- ✧ With regard to years of schooling, there is a major difference between unemployed males and females. While the rate of unemployment among those having 13 years of schooling or more is higher among females, it was the least among males. This difference has existed for a long time, which indicates that the participation rate grows at a higher rate among females than the growth of demand for females in the labor market (see table 12).

**Unemployment Rate among Individuals Participating in the Labor Force
in the Occupied Palestinian Territory According to Sex
and Years of Schooling, 2008 and 2009 Quarters**

Age groups & Sex	Unemployment Rate (%)							
	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009
Both Sexes								
15-24	37.0	39.7	42.1	41.7	39.1	35.7	40.9	39.7
25-34	21.9	25.6	27.8	26.7	25.1	23.2	26.9	24.6
35-44	16.6	20.5	18.7	22.0	19.5	14.7	16.8	16.7
45-54	15.7	18.2	19.7	19.7	17.0	15.1	17.3	18.0
55+	11.1	11.9	15.3	19.4	15.6	10.9	10.3	13.7
Total	22.6	25.8	27.5	27.9	25.4	22.2	25.8	24.8
Males								
15-24	35.0	38.6	39.4	41.7	38.0	33.1	38.7	38.8
25-34	21.4	25.4	26.5	27.1	24.0	21.0	23.9	22.1
35-44	17.6	22.6	20.7	23.9	21.4	15.6	17.8	17.6
45-54	18.2	20.4	22.1	22.5	19.4	17.5	19.7	19.6
55+	13.4	14.6	18.2	23.3	17.9	13.1	11.4	15.3
Total	22.7	26.5	27.3	29.1	25.7	21.6	24.9	24.3
Females								
15-24	47.3	44.6	55.0	41.9	44.6	47.4	51.1	44.4
25-34	24.1	26.1	33.1	25.2	29.4	31.0	38.8	34.6
35-44	11.2	11.7	9.1	11.8	10.6	10.8	12.4	12.5
45-54	3.9	7.8	7.4	5.5	5.2	3.1	5.0	9.4
55+	2.9	1.7	2.3	3.0	6.0	0.9	4.6	5.0
Total	21.7	22.7	28.2	22.5	23.8	24.7	29.8	27.3

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

**Table 12: Unemployment Rate among Individuals Participating in the Labor Force
(15 years and above) in the Occupied Palestinian Territory by Sex and
Years of Schooling, 2008 and 2009 Quarters**

Schooling years and Gender	Unemployment Rate (%)							
	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009
Both Sexes								
0	7.8	11.9	16.9	11.9	14.5	13.1	14.8	16.9
1-6	23.7	28.9	30.1	33.9	29.2	23.8	27.8	26.6
7-9	22.4	27.5	29.1	29.8	27.2	22.0	26.8	25.9
10-12	23.8	25.2	25.4	29.5	26.3	22.6	25.1	24.1
13+	21.9	24.5	27.9	22.9	22.1	21.8	25.5	24.6
Total	22.6	25.8	27.5	27.9	25.4	22.2	25.8	24.8
Males								
0	16.0	25.3	27.5	21.6	25.8	23.9	22.7	32.0
1-6	26.3	32.9	34.4	38.1	32.8	27.2	31.2	29.3
7-9	23.8	29.0	31.1	31.7	28.3	23.4	28.4	27.2
10-12	25.4	26.5	26.6	30.6	27.1	23.3	26.0	25.1
13+	15.7	19.8	20.2	18.6	17.0	14.7	16.9	17.3
Total	22.7	26.5	27.3	29.1	25.7	21.6	24.9	24.3

	2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009
Females						
0	1.2	2.3	4.8	3.1	4.5	0.7
1-6	8.5	7.5	6.3	7.2	4.9	4.0
7-9	5.5	11.0	4.4	6.8	11.8	5.5
10-12	7.3	14.2	12.1	18.1	19.1	15.3
13+	33.8	33.1	41.8	30.5	31.0	33.7
Total	21.7	22.7	28.2	22.5	23.8	24.7

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

3.3 Wages and Working Hours

Table 13 illustrates that the average daily wage in the Gaza Strip during the 4th quarter of 2009 equaled 72.8% of the average daily wage in the West Bank, and only 39.8% of the wage of those working in Israel. Those figures were 71% and 42% in the previous quarter. This persisting decline in the average daily wage 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 the Al-Aqsa Intifada.

On the other hand, the average daily wage of paid employees in the West Bank registered a decline of 2.2%, reaching 85.6 Shekels during the 4th quarter of 2009; while the average wages in the Gaza Strip increased by 0.3% and by 5.9% for those employed in Israel and the settlements between the two quarters (see table 13).

Table 13: Average Weekly Working Hours, Monthly Working Days and Daily Wages in NIS for Paid Workers in the Palestinian Territories according to Place of Work, 4th Quarter 2008 – 4th Quarter 2009
(Wages in NIS)

Workplace	Average weekly hours	Average monthly working days	Average Daily wage	Median Wage
West Bank	43.1	22.7	87.4	76.9
Gaza Strip	39.9	25.0	61.2	57.7
Israel	44.7	21.6	138.0	134.6
Total	42.7	23.0	90.6	76.9
West Bank	42.5	22.4	85.5	76.9
Gaza Strip	40.8	24.7	60.9	57.7
Israel	43.6	20.9	139.7	146.2
Total	42.4	22.6	91.0	76.9
West Bank	42.0	22.1	83.8	76.9
Gaza Strip	38.8	21.3	62.2	57.7
Israel	42.8	57.7	142.1	150.0
Total	41.5	62.2	89.5	76.9
West Bank	42.7	22.6	86.6	76.9
Gaza Strip	39.5	24.9	64.0	57.7
Israel	42.5	20.1	145.9	150.0
Total	41.9	22.7	76.9	90.7
West Bank	43.3	22.7	87.5	76.9
Gaza Strip	41.2	23.9	62.1	57.7
Israel	41.4	20.2	147.7	150.0

	Jobs	Average monthly working days	Average Daily wage	Median Wage
	42.3	22.5	93.2	76.9
West Bank	42.3	22.3	85.6	76.9
Gaza Strip	38.1	23.7	62.3	54.7
Israel	40.2	20.2	156.4	150.0
Total	41.0	22.3	91.8	76.9
West Bank	42.5	22.4	85.9	76.9
Gaza Strip	39.4	23.6	62.7	57.7
Israel	41.7	20.3	148.1	150.0
Total	41.7	22.3	91.3	76.9

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

3.4 Vacancy Announcements

This section calculates the number of vacancies advertised in daily newspapers with the aim of drawing an image of the local demand for Palestinian labor. Although the advertised jobs in daily newspapers do not necessarily monitor all available work opportunities, it provides an idea on the disciplines and degrees mostly 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) for the year 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 declined during the 4th quarter of 2009 by 27% compared to the previous quarter. The total number of vacancy advertisements was 641.⁶ The number of advertised vacancies in the 4th quarter of 2009 is considered the lowest in two years (see table 14). The biggest decline was in the private sector advertisements, 44%. NGO vacancy advertisements declined by 18%; while the vacancies advertised by the government sector doubled from 41 advertisement in the 3rd quarter of 2009 to 86 advertisement in the 4th quarter of 2009. The private sector vacancy advertisements still captured the lion's share followed by NGO advertisements then the public sector. In the 4th quarter of 2009 rates were as follows: 43.8%, 42.8% and 13.4% respectively. With regard to geographic distribution, it was very similar to that of 2008 as illustrated by table 14.

Table 14: Vacancy Announcements in Local Newspapers in the Occupied Palestinian Territory during 2008 and 2009 Quarters

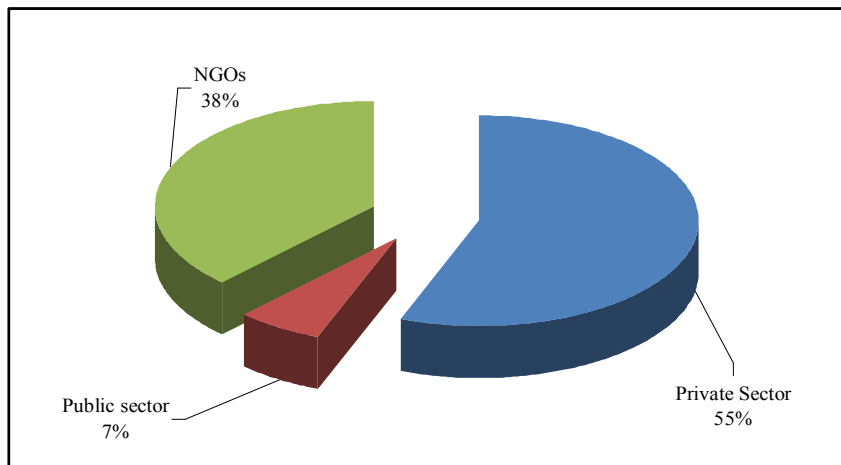
Year	2008					2009				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
By Sector										
Private sector	562	525	529	564	2,180	453	522	501	281	1,757
Public Sector	30	51	51	88	220	32	46	41	86	205
Non-governmental organizations	278	299	253	392	1,222	285	292	334	274	1,185
By Geographic Area										
North West Bank	180	90	87	94	451	120	88	89	82	379
Central West Bank	521	598	567	756	2,442	528	642	655	311	2,136
South West Bank	87	101	138	104	430	86	64	78	419	647

⁶ The number of advertisements that did not specify the number of vacancies were (41).

					2009									
					Q4	Total	Q1	Q2	Q3	Q4	Total			
Gaza Strip					90	299	36	66	54	55	211			
By Degree														
Master's degree & above					178	152	87	61	478	53	144	48	33	278
BA					560	566	621	735	2,482	503	552	632	499	2,186
Diploma					132	157	115	236	640	214	162	196	52	624
Less than Diploma					0	2	10	12	24	0	2	0	57	59
Total														
					870	875	833	1044	3,622	770	860	876	641	3,147

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

Figure 1: Percentage Distribution of Vacancies Advertised in Newspapers By Sector (Public, Private & NGOs) During 2009



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

In this issue, we will try to draw a connection between the number of vacancies advertised in daily newspapers and the achieved level of employment during the same period. Table 15 points to the number of workers during the past three years and the level of increase in their numbers. It is noticed that despite the increase in the number of workers during 2009 compared to the previous year by 33.3 thousand workers, the vacancies advertised in newspapers during the same period did not exceed 3,147 jobs. The nature of enterprises in the Palestinian economy which are mostly very small and family-run businesses must be

taken into account, which means, in most cases, there is no need to advertise vacancies. It is also important to note that it is not necessary to actually fill all the vacancies advertised in the same period of time as there is usually a delay gap of two months on average for the process of interviewing and selection. However, what is previously mentioned does not negate the fact that there has been a considerable decline in the percentage of vacancies advertised which did not exceed 10% and the total achieved employment in 2009.

Number of Workers in the Occupied Palestinian Territory 2007-2009

(Thousand)

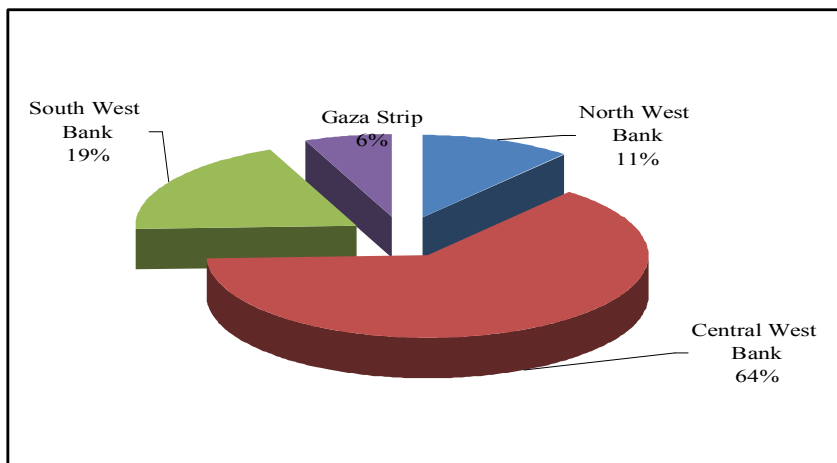
Period	Number of Workers	The Increase from the year before
2007	666	44
1 st Quarter	675.8	
2 nd Quarter	666.7	
3 rd Quarter	665.4	
4 th Quarter	664.2	
2008	684	18
1 st Quarter	697.1	
2 nd Quarter	738.7	
3 rd Quarter	709.2	
4 th Quarter	724.2	
2009	717.3	33.3

Source: Palestinian Central Bureau of Statistics. Labor Force Statistics – Annual Reports 2007, 2008 & 2009.

The decrease in vacancies advertised in the 4th quarter of 2009 in the Occupied Palestinian Territory is due to the decrease in vacancy advertisements in the various parts of the West Bank. It declined in the north, center and south of the West Bank by 7.9%, 36% and 29.5% respectively. In contrast, the number increased considerably in the Gaza Strip (57.4%). The number of vacancies had recurrently increased following the drop that occurred in the 1st quarter of 2009 during the Israeli aggression on the Gaza Strip. The remarkable increase in

vacancies advertisements in the Gaza Strip compared to the decrease in the West Bank led to a considerable increase in their percentage of total advertisements. The centre of the West Bank still captures the lion's share of these advertisements. As for the year 2009, the percentage distribution of vacancies advertised by geographic location is still consistent with that of 2008. Figure 2 illustrates the percentage distribution of vacancies advertised according to geographic location in 2009.

Figure 2: Percentage Distribution of Vacancies Advertised by Geographic Area during 2009



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

With regard to the distribution of vacancy advertisements according to academic

qualifications and sectors in the 4th quarter of 2009, the demand for holders of bachelor

ed to diploma and masters degree holders by 17% for each. In the NGO sector, the demand for holders of a bachelor degree reached 78.5% followed by the demand for diploma holders and general secondary certificate or less by 7% for each.

As in the former two sectors, the highest demand in the private sector was for holders of bachelor degree which amounted to 80.1%, unusually followed by the demand for holders of the general secondary certificate or less at a rate of 11% (see table 16).

Table16: The Number of Advertised Vacancies in Daily Newspapers by Sector and Qualifications during the 3rd and 4th Quarters of 2009

Quarter	3 rd Quarter 2008			4 th Quarter 2009		
	Public Sector	Private Sector	NGOs	Public Sector	Private Sector	NGOs
Master Degree and above	12	30	6	12	3	18
Bachelor Degree	26	326	280	57	227	215
Diploma	3	145	48	12	20	20
Less than Diploma	0	0	0	5	31	21
Total	41	501	334	86	281	274

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

It is noticed that a number of vacancy advertisements in the 4th quarter of 2009 included posts abroad distributed between vacancies inside the Green Line, mainly for construction workers, in addition to vacancies in the Gulf (United Arab Emirates and Saudi Arabia) as well as in Sudan. The required specializations vary from interior designers, civil and mechanical engineers, laboratory technicians, Doctors with various specializations, accountants as well as specializations in pure sciences (chemistry, biology, physics and math) and others.

4. Public Finance Developments

The Palestinian government was able to maintain its public finance performance within the budget over the four quarters of 2009 in spite of the difficulties encountered, especially in securing the liquidity required to meet its various commitments due to the fluctuation and the scarcity of external funding sources on which the budget depends at rates that range between 50% and 55%. The most difficult months were January and October 2009 due to the decline in support which reached its lowest levels (see figure 3). This decline in support disrupted the financial performance of the Palestinian Authority during those months and

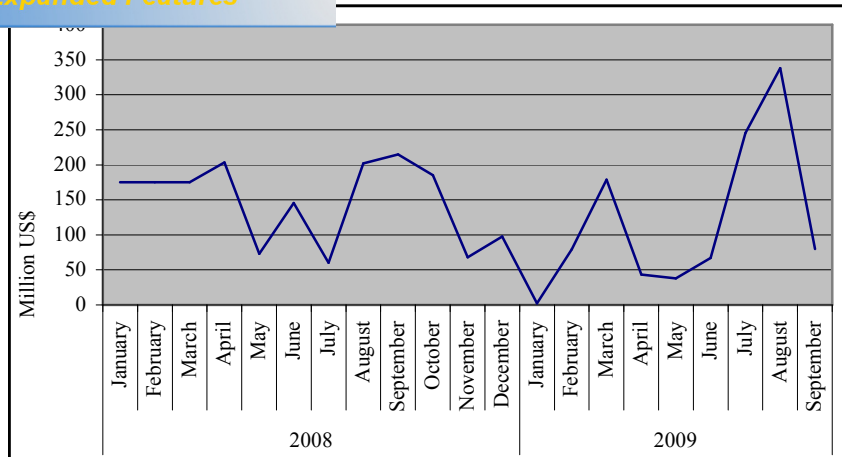
the following months. However, the current government maintained its obligation to pay the salaries of the employees of ministries and institutions of the Palestinian Authority whose number is about 148 thousands on the 5th every month. This date has been exceeded only once, in January of 2009 when the Authority suffered from scarcity in financing and resorted to borrowing from local banks, which caused to further accumulation of the arrears to banks.

4.1 Revenues

The domestic revenues⁷ levied during the 4th quarter of 2009 declined by about 46% from that levied in the 3rd quarter and reached \$130.6 million but remained higher than what was levied in the 1st and 2nd quarters of 2009 (see figure 4). It is worth noting that most of the decrease was not a result of a sharp decline in the basic items but because the revenues of the 3rd quarter had been high.

⁷ No local taxes are levied from the Gaza Strip after the Palestinian Authority absolved those subject to taxation in the Gaza Strip from paying their obligations since June 2007.

Internal Support of the Budget 2008-2009



Source: Ministry of Finance, various reports.

Tax revenues increased in the 4th quarter (formulating 65.4% of domestic revenues) at a rate of 1.5% compared to the previous quarter and amounting to \$85.4 million. The slight rise in tax revenues is in line with the collection performance witnessed in the 3rd quarter. An increase in income tax and cigarette excise revenues (that were raised more than once during the year) is also noticed in this quarter and a decrease in value added tax VAT. It is worth noting that the income tax revenues do not cover the costs of the taxes department at the Ministry of Finance and that its proportion of GDP is much less than in neighboring countries.

While non-tax revenues decreased in the 4th quarter of 2009 (forming 34.6% of domestic revenues) by about 71.5% compared to the previous quarter. This decrease mainly resulted, as mentioned above, from not including the unusual revenues that appeared in the 3rd quarter and represented by the professional license revenues of \$100 million collected from ‘Jawwal’ and ‘Zein’ telecommunication companies. If these revenues are overlooked, the non-tax revenues for this quarter declined by about 22.9% compared to the 3rd quarter of 2009 which is mainly attributed to the decline by about \$6 million in health insurance fees (one of the tax revenues components).

At the level of 2009 as a whole, it is noted that the realized domestic revenues have increased

by 15.4% from those achieved in 2008⁸ which reached \$585.1 million in view of the rise in tax revenues by 10.5% amounting to \$301.5 million and the increase in non-tax revenues by 21.1% in comparison with the previous quarter (after excluding the amount of \$252.1 million from the year 2008 as previously noted) reaching \$283.6 million. This indicates a slight improvement in the collection of domestic revenues, in line with the attempts of the Ministry of Finance to improve and raise the efficiency of the collection of tax and various fees. Part of this rise is also attributed to the improvement in economic activity witnessed in the West Bank especially in 2009 compared to 2008.

It is worth mentioning that the proportion of realized domestic revenues during the 4th quarter of 2009 amounted to only 20.8% of the expected amount in the 2009 Budget. While the proportion of what was domestically levied for 2009 as a whole was about 93.5%, by \$41 million lower, which calls for further reform in tax management.

⁸ For comparison purposes an amount of \$252.1 million was excluded from tax revenues for the year 2008 which were collected for one time only for that year as exceptional investment revenues. It must be pointed that when the 2009 had been prepared, it was expected to collect \$100 million as investment revenues but the data issued by the Ministry of Finance did not refer to the receipt of any amounts under this item throughout 2009.

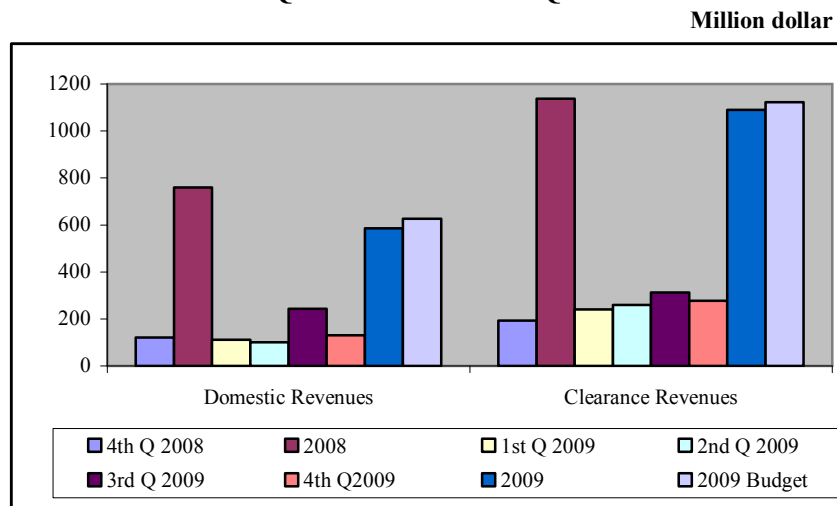
ed by the 4th quarter of 2009, it amounted to about \$277.8 million with a decline close to 11% compared to the 3rd quarter of 2009 (see figure 4). The total amount transferred in 2009 by Israel reached about \$1089.9 million, with a decrease of 4.1% from the amount transferred in 2008. The clearance revenues transferred during the 4th quarter constituted 25% of the amount expected in the 2009 budget. The percentage of clearance revenues for the year 2009 amounted to 97% of the amount expected in the budget (see figure 4).

Israel cut almost one third of the clearance revenues (based on an Israeli court resolution) to cover the accumulated expenses of electricity and water provided by Israel to local

councils. The Ministry of Finance records the discounted amounts under the net borrowing item. The discounted amounts also comprise of amounts to cover fees for legal charges against the Palestinian Authority in Israeli courts.

With the decline witnessed in domestic revenues and clearance revenues during the 4th quarter of 2009, the total amount of revenues declined by about 26.4% to \$408.4 million; while the tax returns¹⁰ amounted to around \$11.1 million for this quarter (much less than the returns in the 3rd quarter which reached \$100 million). Thus, the total net realized revenues in the 4th quarter reached \$397.3 million, with a 12.5% decline of the level realized in the 3rd quarter.

Figure 4: Public Revenues Developments in the 4th Quarter of 2008 – 4th Quarter 2009



Source: Ministry of Finance, Financial Transactions Report, Revenues, Expenditures and Sources of funding, December 2009.

At the level of the year 2009, the total net revenues amounted to \$1548.4 million with a 13% decline from the year 2008, but if the exceptional revenues received in 2008 are excluded (\$252.1 million), and those received in 2009 (\$100 million), the total net revenue decline will be 5.2% compared to 2008. It is noticed that the developments and improvements witnessed in economic activity in 2009 have not been reflected in the Palestinian Authority's total net revenues

which amounted to 95% of the amount expected in 2009 budget which assumed that the Palestinian economy would grow by 5% in 2009. It must be noted that the domestic revenues constitute 36% of the total revenues in 2009 compared to 40% in 2008 which indicates either an increase in imports from and through Israel or an improvement in the disclosure of commercial operations with Israel.

⁹ The clearance revenues increased in the 4th quarter by about 0.4% compared to the 3rd quarter reaching \$305.6 million and \$1103 million for the year as a whole with a decline by 1.7% from 2008 level; But On a fiscal base it is lower than that as illustrated in table 7.

¹⁰ Tax returns in 2009 amounted to \$126.6 million, a little higher than the amount expected in 2009 budget estimated by \$118 million. Most of the taxes returns go to the General Petroleum Corporation and to tax-exempted organizations.

Revenues Development in 2008 and 2009

Item	(USD million)									
	2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	2009	2009 budget	Percentage Change in Q4 Vs. Q3 2009 (%)	Percentage Change In 2009 Vs. 2008 (%)	Share of 2009 in the Budget (%)
Total Net Revenues *	1779.8	342.0	355.3	453.8	397.3	1548.4	1631	-12.5	-13.0	94.9
Tax Returns	116.3	10.5	4.1	100.9	11.1	126.6	118.0	-89.0	8.9	107.3
Total Revenues	1896.1	352.5	359.4	554.7	408.4	1675	1749	-26.4	-11.7	95.8
Domestic Revenues	759.1	111.4	100.4	242.7	130.6	585.1	626	-46.2	-22.9	93.5
Tax Revenues	272.8	71.2	60.8	84.1	85.4	301.5	273	1.5	10.5	110.4
Non-tax Revenues	486.3	40.2	39.6	158.6	45.2	283.6	353	-71.5	-41.7	80.3
Clearance Revenues	1137.0	241.1	259.0	312.0	277.8	1089.9	1123	-11.0	-4.1	97.1
Grants and Assistance	1763.1	278.3	160.9	668.6	294.1	1401.9	1653	56.0-	-20.5	84.8
Grants in Support of Budget	1763.1	259.2	148.2	663.5	284.2	1368	1150	-57.2	-23.1	117.8
Grants in Support of Development projects	NA	19.1	12.7	5.1	9.9	46.8	503	94.1		9.3
Total Public Revenues and Grants	3659.2	620.3	516.2	1122.4	691.4	3076.9	3402	38.4-	-15.9	90.4

Source: Ministry of Finance, Financial Transactions Report, Revenues, Expenditures and Sources of funding, December 2009.

4.2 External Financing

Following the fluctuations and instability in external financing since the beginning of 2009, the amount transferred by donor countries in support of the Palestinian Authority budget reached \$284.3 million in the 4th quarter with a decline estimated by 57.2% compared to the support provided in the 3rd quarter. This sharp decline is in view of the considerable level of support provided in the 3rd quarter which was higher than expected following the decline in international assistance since the end of 2008. The support provided in the 4th quarter remains higher than that provided in the 1st and 2nd quarters of 2009 (see figure 5).

The total amount of grants and assistance provided by the Arab countries in support of the budget during the 4th quarter of 2009 amounted to \$148.9 million (\$70 million less than what was provided in the 3rd quarter), all provided by the United Arab Emirates. International Grants amounted to \$135.3 million (less than the 3rd quarter by about \$310.4); of which the Palestinian European Mechanism for Social and Economic Assistance (PEGASE) provided \$54.7 million while the United States transferred \$74.7 million.

The total support¹¹ provided in 2009 amounted to \$1,368 million with a decrease of 22% from that received in 2008.¹² The Arab grants reached \$461.7 million, accounting for 33% of the total grants in 2009, while international grants were worth \$893.4 million in 2009 accounting for 64% of the total grants and aid. It is remarked that Saudi Arabia is the largest Arab donor while European Countries, through the PEGASE mechanism, remained the largest international donor, followed by the United States (see table 18).

With regard to the grants in support of the community development projects, they amounted to \$9.9 million in the 4th quarter with \$4.8 million more than the 3rd quarter. On the level of 2009 as a whole, those grants reached \$46.8 million, a proportion not exceeding 10% of the amount expected in the 2009 budget, estimated at \$503 million. It is noticed that this proportion has not exceeded 50% over the past years.

¹¹ The donor countries pledged at the Paris conference to support the Palestinian Authority according to the Medium-term Palestinian Reform and Development Plan (PRDP) where the donors pledged to provide \$7.7 billion over 3 years for implementing the PRDP 2008-2010, which exceeded the amount requested by the Palestinian Authority at that time and estimated by \$5.6 billion for the needs of the Plan.

¹² It is noted that the support provided in 2008 exceeded the amount of \$129 million expected by the 2008 budget in order to assist the Palestinian Authority in paying its obligations including arrears.

Financial Assistance to the Palestinian Authority
and the Quarters of 2009

Donor							(USD million)	
	2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	2009	Percentage of total budget support grants in Q4 2009	Percentage of total budget support grants in 2009
Arab Grants	445.9	73.9	21.1	217.8	148.9	461.7	52.4	34.1
Arab League	0.1	0	0	0	0	0	0	0
Algeria	62.9	26	0	0	0	26	0	1.9
Egypt	14.6	0	3	15	0	18	0	1.3
Saudi Arabia	234.1	22.9	15.4	202.8	0.0	241	0	17.8
Oman	0	0.0	2.9	0	0	3	0	0.2
United Arab Emirates	134.2	25	0	0	148.9	174	52.4	12.8
International Grants	1317.2	185.3	127.1	445.7	135.3	893.4	47.6	65.9
PEGASE mechanism*	470.8	94.2	120.3	164	54.7	433	19.2	32.0
European Union	180.3	0	0	0	0	0	0	0
India	0	10.1	0	0	0	10	0	0.7
China	0.3	0	0	0	0	0	0	0
France	35.7	27.7	0	0	0	28	0	2
Japan	9.5	0	0	0	0	0	0	0
Russia	9.9	0	0	0	0	0	0	0
The United States of America	302.3	0	0	198.5	74.7	273	26.3	20.2
Greece	0	0	3	0	0	3	0	0.2
Turkey	0	0	0	10.3	0	10	0	0.8
World Bank (or through the Bank)	282.9	50.6	0.0	28.8	0	79	0	5.9
Grants for the Palestine Central Bureau of Statistics (PCBS)	3.5	0	0	0	0	0	0	0
Services Support Emergency Program **	22	2.7	3	3.9	5.9	16	2.1	1.1
Grants for the Ministry of Social Affairs	0	0	1.1	0	0	1	0	0.1
Development Grants	0	0	0	40.2	0.0	40	0	3.0
Total Budget Support***	1763.1	259.2	148.2	663.5	284.2	1355.1	100	100
Development Projects Support Grants****	0	19.1	12.7	5.1	9.9	46.8	—	—
Total External Grants & Assistance	1763.1	278.3	160.9	668.6	294.1	1401.9	—	—

Source: Palestinian Ministry of Finance, Fiscal Operations Report, Revenues, Expenditure and Funding Sources, December 2009.

* The Palestinian European Mechanism for Social & Economic Assistance (PEGAS), was launched on Feb 1, 2008 for the provision of financial support from the EU and other international parties to the PNA for 3 years in alignment with the Palestinian Reform and Development Plan (PRDP). Thus, all EU assistance to the Palestinians was channeled through this mechanism following the 1st Quarter of 2008.

** In support of health, education, water and electricity services.

*** According to the last update of the Ministry of Finance data in December 2009, the total grants and aid provided in the 1st and 2nd quarters of 2009 amounted to about 252.9 million and 167.2 million respectively which contradicts with the details of grants and assistance in the table.

**** Refers to the donors direct grants allocated for the implementation of development projects that are not included in the budget. No quarterly data is available on those grants. However, 2008 data indicates that the total grants for 2008 reached \$250 million, but it is believed that it did not actually exceed \$190 million.

Total expenditures amounted to \$577 million in the 4th quarter with a decline of 37.3% of the expenditures in the 3rd quarter. This decline in public expenditures in the 4th quarter is attributed to the decline in the salaries and wages bill by 50.5% which amounted to 251.8%. This is not considered to be a real decline as it is due to the fact that the bill of the 4th quarter included the employees' salaries and wages for November and December only while the October bill has been disbursed in September and thus recorded in the bill for the 3rd quarter.

The non-wages expenditures (the second component of current expenditures) decreased by 19.5% and reached \$264 million, remaining higher than its levels in the 1st and 2nd quarters. Those expenses had risen remarkably in the 3rd quarter of 2009 due to the rise in operational expenditures and transfer payments disbursed by the government on benefits that had accumulated in the past as well as the higher allocations paid for the martyrs' families, the wounded and detainees in addition to their usual monthly allocations.

Net lending items are what the Ministry of Finance pay as direct lending and the net lending deducted from clearance revenues for the cost of electricity bills for local authorities, the cost of fuel for the Gaza electricity company and the expenses related to marketing of petroleum and its derivatives. Net lending amounted to about \$81.2 million in the 4th quarter with a decline by 29.6% from the 3rd quarter, which points to the improvement in the collection of charges for utilities by local councils.

The total current expenditures¹³ of the Palestinian Authority amounted to about \$2919.6 million with a decline of 10.8% from the total of the year 2008. Part of this decline is a result of the relative improvement that occurred in the various expenditure items achieved through different policies carried out by the government during 2009 in order to control public spending and reach a sustainable financial situation. Salaries and

wages expenditures decreased by 19.6% and reached \$1423.2 million¹⁴ due to the implementation of a policy for limiting recruitment; besides that the salaries and wages bill in 2008 included the arrears that had accumulated for the government. As for non-wage expenditures, it increased by approximately 8.2% and reached \$1141.7 million as a result of the increase in transfer and operational expenditures due to the payment of bills that were due in 2008 and also due to the increase of social assistance to the Gaza Strip for early relief following Israeli aggression. This was in addition to implementing a number of procurement and supply contracts for the Ministry of Health and the Ministry of Education and Higher Education.

Transfer expenditures included payments transferred for the benefit of the retired security personnel as the Palestinian Authority had not transferred any amount to this fund for several years (these transfers are considered payments for arrears accrued by the Palestinian Authority). As for the pension fund, the Authority had not transferred any amounts since 2002 due to scarcity in financial resources. The Government's contribution to this fund amounts to \$11 million based on its commitments (transfers to the fund are considered the largest share of the transfer items). These amounts remain dues that the Palestinian Authority must pay and which may cause confusion because of the raise in its cost in the future when the Ministry of Finance has to disburse to retired employees.

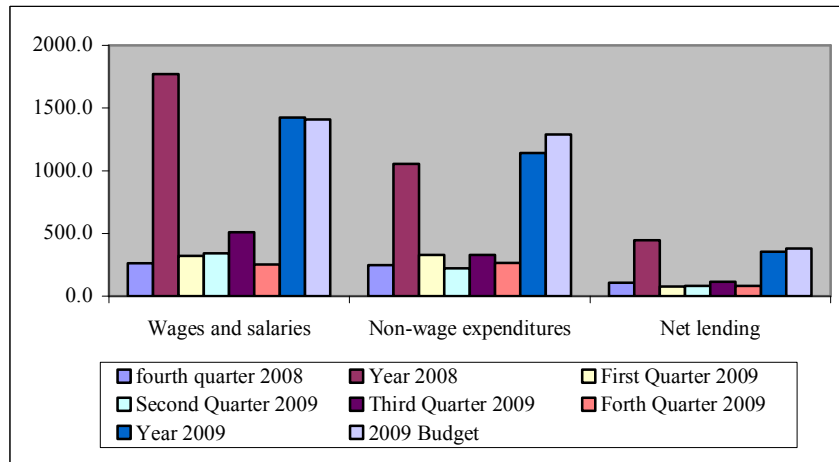
Net lending items declined in 2009 by 20.6% compared to the previous year, amounting to about \$355 million. This decline is a result of the constant attempts to control this item through the plan implemented by the government in cooperation with local authorities since the beginning of 2008, urging them to improve their performance in collecting various utility fees provided by local councils. This item did not exceed the amount allocated in the budget which was \$380 million (see figure 5).

¹³ The total current expenditures (commitment basis) amounted to about \$3190 million in the year 2009 which is higher than the amount actually spent. Wage expenditures amounted to \$1467 million, and non-wage expenditures \$1349 million and net lending \$374 million.

¹⁴ Domestic revenues covered about 41% of the salaries in 2009 while it covered 43% in the year 2008 reflecting a slight rise in the budget dependency on the grants and clearance revenues.

Public Expenditures Developments for 2008 – 4th Quarter 2009

Million dollar



Source: Palestinian Ministry of Finance, Fiscal Operations Report, Revenues, Expenditure and Funding Sources, December 2009.

It is noticed that wage expenditures accounted for 48.7% of total expenditures in 2009, while non-wage expenditures and net lending accounted for 39% and 12.1% respectively. The state of imbalance between the components of total public expenditures still exists where wage expenditures constitute about half of the total expenditures similar to the rates in previous years, although the government sought in 2009 to raise the non-

wage expenditure items in order to improve the quality of services provided by ministries and government institutions. The proportion of total expenditures and net lending amounted to 95% of the amount earmarked for spending according to the 2009 budget (the wage expenditures, non-wage expenditures and net lending constituted 101%, 88.5% and 93.3% respectively from the amount allocated in the budget).

Table 19: Development of Public Expenditures for 2008 And the Quarters of 2009

(USD million)

	2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	2009	Budget 2009	The change in Q4 Vs. Q3 2009 (%)	The change in 2008 Vs. 2009 (%)	Proportion of 2009 in the Budget(%)
Wages and salaries	1770.8	321.3	341.1	509.0	251.8	1423.2	1410	-50.5	-19.6	100.9
Non-wage expenditures	1055.0	328.2	221.6	327.9	264	1141.7	1290	-19.5	8.2	88.5
Net Lending	446.9	76.5	81.7	115.3	81.2	354.7	380	-29.6	-20.6	93.3
Total expenditures and net Lending	3272.7	726.0	644.4	952.2	597	2919.6	3080	-37.3	-10.8	94.8
Development expenditure	NA	8.7	61.8	56.8	58.6	185.9	503	3.2	NA	37.0

Source: Palestinian Ministry of Finance, Fiscal Operations Report, Revenues, Expenditure and Funding Sources December 2009.

The development expenditures¹⁵ that are partially financed through direct funding from donors amounted to \$185.9 million in 2009,

with a decrease of \$64 million of the amount disbursed in 2008. It is noted that the proportion of development expenditures accounted for 37.0% of the targeted amount in the 2009 budget, it is noted that the pattern of development expenditures in previous years did not exceed 50% of the amounts allocated in the annual budgets (see table 19) and no change occurred in 2009 in this regard, although the government has given attention to

¹⁵ Development expenditures include small capital expenditures for purchasing vehicles, computers and furniture, funded from the budget. The expenditures spent on development projects are directly funded from donor countries while the government funds part of these expenditures from the treasury, especially for community development projects.

derived Plan, as for increasing and expanding development expenditures in comparison with the levels of previous years.

4.4 Surplus (Deficit)

In view of the developments in the financial performance, witnessed during the 4th quarter of 2009 and with the decline of net revenues (\$397.3 million) and the decline in public expenditures and net lending (\$597.0 million), the current budget deficit amounted to \$199.7 million. With the external aid received in support of the budget in the 4th quarter (\$284.2 million), a surplus of \$84.5 million in the balance of trade has been achieved. Total budget deficit comprising of development expenditures (at the value of \$58.6 million) before external support amounted to \$258.3

million. With the provision of external support, in addition to an amount of \$9.9 million in support of community development projects (development expenditures), the total budget surplus amounted to about 35.6 million.

As for the year 2009 and with the developments witnessed by the Palestinian Authority's revenues and expenditures, the current budget deficit prior to donors support amounted to \$1371.2 million and was reduced to \$3.2 million after external support of the budget; while the total budget deficit without the support of donor countries amounted to \$1557.1 million. With all the support received during 2009, the budget deficit settled at \$144 million, which has been covered through local commercial banks, as net financing from local banks reached about \$176.0 million during 2009.

Table 20: Budget Surplus (Deficit) Developments For 2008 and the Quarters of 2009

	(USD million)						
	2008	Q1/ 2009	Q2/ 2009	Q3/ 2009	Q4/ 2009	2009	2009 Budget
Current Budget Surplus (Deficit)	(1,492.9)	(384)	(289.1)	(498.4)	(199.7)	(1,371.2)	(1,449)
Current Budget Surplus (Deficit) After External Support of the Budget	270.2	(124.8)	(140.9)	165.1	84.5	(3.2)	(299)
Total Budget Surplus/Deficit (Including Development Expenditures) Prior to External Support of the Budget	NA	(392.7)	(350.9)	(555.2)	(258.3)	(1,557.1)	(1,952)
Total Budget Surplus/Deficit (Including Development Expenditures) After External Support of the Budget and Support of Development Expenditures	NA	(114.4)	(190)	113.4	35.8	(144)	(299)

Source: Palestinian Ministry of Finance, Fiscal Operations Report, Revenues, Expenditure and Funding Sources, December 2009.

As for the development that occurred during 2009, the government tried to keep its commitment to certain policies as stipulated in the budget proposal for 2009 and derived from the midterm Palestinian Reform and Development Plan (PRDP) 2008-2010, specifically with regard to the control of the salaries and wages bill, the increase of allocations to the social sector, to reduce net lending and to reform local government authorities. But the government could not commit to increasing its development expenditures, reform of the pension system and reduction of the Pension Board appropriations due to the scarcity of financial

resources and the developments that occurred in external funding during 2009.

The Palestinian government that was reassigned and expanded in 2009 has issued a two years program entitled 'Palestine: ending the occupation and building the state' which comprises of the government's political vision and the plans of the ministries and development institutions for the coming two years.

The Palestinian Customs Service begun to work by ASYCUDA world system for customs communications in 2009. ASYCUDA is an automated system to

and customs has distributed in August the budget statement for ministries and institutions in order to propose their development projects in accordance with the thirty projects distributed by the four sectors (governance, infrastructure, economic and social sectors), components of the midterm PRDP 2008-2010. It is expected that the Council of Ministers will approve the budget by mid March of 2010.

Following the inception of the Ministry of Finance unit for handling the registration and oversight of the payment of public debt and the establishment of the Financial & Debt Department with the objective of producing monthly and annual projections regarding the fiscal flows of receipts and payments, in an attempt to control this item, reduce the payments of interest for banks, limit the accumulation of arrears and manage the local and external debt, figures indicate that local debt for the commercial banks operating in the Occupied Palestinian Territory has rose from the end of December 2008 until December 2009 by \$176 million, bringing the total local debt to \$561 million. If the local debts of the general Petroleum Corporation of \$78 million are added, the total amount of local debt will reach \$639 million; while external debt decreased by \$8.6 million, bringing the total external debt to \$359 million. It is noted that the external debt has to do with long term loans. At the end of 2009, the public debt of the Palestinian Authority amounted to \$998 million.¹⁶

4.5 2010 Budget

During April of this year, the Palestinian Authority's 2010 budget was approved. The budget has been prepared in light of the plans and objectives of the Palestinian Authority's various ministries and public institutions and on the grounds of the development projects that need to be implemented in accordance with the midterm term PRDP (2008-2010). The size of the budget and its structure were estimated on the basis of a scenario of the macroeconomic conditions that depends on the following assumptions:

- ✧ A real growth in GDP by 7% in 2010 (rising to 8% in 2011 and 10% in the year after).
- ✧ An inflation rate of 3% during 2010 and the following two years.
- ✧ An increase in total investment to 24.9% of GDP (compared to 21% in 2009).

Revenues:

The 2010 budget projects a growth in net revenues by 20% to reach \$1,917 million which is the highest level for net revenues since the establishment of the Palestinian Authority in 1994. The expectations for growth in net revenues is in light of the expectation of the increase in locally levied tax revenues by over 25% to reach \$377 million, in addition to an increase in tax and customs revenues through clearance (income tax and value added tax – VAT) by about 20% to reach \$1,320 million.

It is worth noting that tax revenues in 2009 were 10% higher than what was anticipated in the budget at the amount of \$28 million. The reason for that is attributed to the improvement of the tax levying system, and thus improving the ability to follow up and collect. Moreover, the growth of GDP in 2009 by 6.8% contributed to the increase in the income of individuals and corporations, thus increasing the aggregate income subject to tax. It seems that the expectations of a rise in the value of tax revenues in 2010 mainly stem from projections of growth in GDP by 7% during 2010.

Expenditures:

The amount earmarked for total current expenditures and net lending in the 2010 budget amounted to about \$3,128 million, with a rise of 2.7% from the year 2009. The salaries and wages bill is expected to grow by 4.4% and other current expenditures (operational, transfer payments and capital expenditures) by 7.5%. On the other hand, net lending is expected to decline by 19.8%,¹⁷ while the amount allocated for development expenditures reached \$667 million, with a rise of 66.8% from the previous year.

¹⁶ Source: Ministry of Finance.

¹⁷ Net lending is the difference between what the Palestinian Authority pays to Israeli companies that provide the Occupied Palestinian Territory with electricity and water and between what the municipalities and the Palestinian distribution institutions pay.

increase in external funding by 11.5% only amounting to \$1,878 million. However, it is important to note that the increase in expected funding for the year 2010 stems all in all from the prospects for a substantive increase in the funding required for development expenditures in 2010. With regard to external support of the budget (for development expenditures), it is expected to decline by 11.5% compared to what was received in 2009. This reflects the trends attempting to reduce dependency on donors for the support of the budget

Deficit:

In light of the expectations of growth in revenues and expenses in 2010, it is expected to have a budget deficit of \$1,211 million, with a decline of about 16.5% from the current deficit for 2009. But in view of the increase in allocated amounts for development expenditures in 2010 to \$667 million (compared with \$400 million), total budget deficit/surplus prior to donor support, to reach \$1,878 rising by 1.5% from the previous year.

Palestinian Authority Budget 2010

	2008	2009	2010 Budget	Percentage Change in 2010 Budget to 2009
Local Revenues	562	585	707	20.9
Tax revenues	273	301	377	25.2
Non-tax revenues	234	281	275	-2.1
Dividends	55	3	55	1733.3
Clearance Revenues	1,122	1,103	1,320	19.7
Tax Returns	116	91	110	20.9
Net Public Revenues	1,568	1,597	1,917	20.0
Salaries & wages	1,453	1,467	1,531	4.4
Other Current expenditures	984	1,206	1,297	7.5
Net Lending	447	374	300	-19.8
Total Current expenditures & Net lending	2,884	3,047	3,128	2.7
Deficit in current trade balance prior to funding	1,316	1,450	1,211	-16.5
Development Expenditures	250	400	667	66.8
Total Deficit prior to funding	1,566	1,850	1,878	1.5
Budget Support	1,763	1,368	1,211	-11.5
Funding Development expenditures	250	205	667	225.4
Released Frozen Clearance Revenues	(15)	13		
Banks' Funding	(30)	176		
Funding	1,566	1,850	1,878	1.5
Exchange Rate USD/NIS	3.54	3.9	3.8	

Source: Ministry of Finance, Public Budget Department, 2010.

* Banks' Funding: the payment of the Authority debts for banks.

New Purchase Tax on Vehicles

used resolution number (م.و.س.ف/13/37/01)¹⁸ regarding the amendment of the policy for purchasing vehicles and the reduction of purchase tax on vehicles. The resolution stipulates the reduction of purchase tax on new and used vehicles run on petroleum fuel from 75% to 50%. The resolution had allocated for each of the hybrid cars (designed environmentally) and electrical cars a special purchase tax after they had been subjected to the tax on vehicles run on petroleum. While a 30% tax has been specified for hybrid cars, the tax for genuine electrical cars with no exhaust was 10%.

According to the Ministry of Transportation, the resolution mainly aims to "modernize the fleet of civil vehicles in Palestine and to enable the citizens to obtain cars at reasonable prices".¹⁹ The Ministry expects that this step will enhance the revenues ensuing from purchase tax on cars. The substantial reduction of purchase taxes on hybrid and electrical cars which are characterized by their high prices compared to those running on petroleum aims to encourage the purchase of such cars for being environmentally friendly and for saving fuel. It must be pointed out that it is not permitted to buy cars that are over three years old.

The reduction in purchase tax from 75% to 50% saves the citizen 16% of the cost. However, this depends on providing high competitiveness in the market. At the same time, the reduction will depreciate the prices of cars currently in the market which means that a loss of their value for those individuals who own them.

It is early to talk about the ability of this resolution to achieve its goals as it is uncertain that the reduction of the purchase tax will necessarily lead to a large demand on vehicles thus affecting the value of achieved tax revenues. In economic terms, the size of generated demand due to the change in prices will be determined by the price flexibility of vehicles which measure the extent of response of the quantity demanded to the change in prices. It is important to realize that one of the important determinants of demand for commodities, after price, is income. In the case of vehicles which are considered luxuries, income plays a key role in the decision of the buyer. It is worth noting also that luxury goods are usually characterized by high price demand elasticity which means that the response of the quantity required to the change in prices is high. This in its turn, in theory, results in increased expenditure on these goods.

5. Banking Developments*

The consolidated balance sheet of banks operating in the Occupied Palestinian Territory at the end of the 4th quarter of 2009 indicated slight fluctuations in the main indicators of the banking sector in both assets and liabilities as follows:

- ✧ A decline in bank assets by less than 1% as compared to the previous quarter.
- ✧ Client deposits declined by 1.4%.
- ✧ Increase in equity by over 6%.
- ✧ Decline of net credit facilities' portfolio by 1.2%.
- ✧ Decline in balances with banks abroad by more than 1.4%.
- ✧ presented for clearance.

- ✧ Increase in the balances of banks with the Palestine Monetary Authority (PMA) by nearly 6.5%.
- ✧ Increase in checks presented for clearance by 15.5% by the end of the 4th quarter compared to its corresponding quarter of 2008.

Increase in the number of bounced checks by 0.7% at the end of the 4th quarter compared to the previous quarter and settled at 6.9% of the total value of checks

* All the data in this section are preliminary and subject to modification.

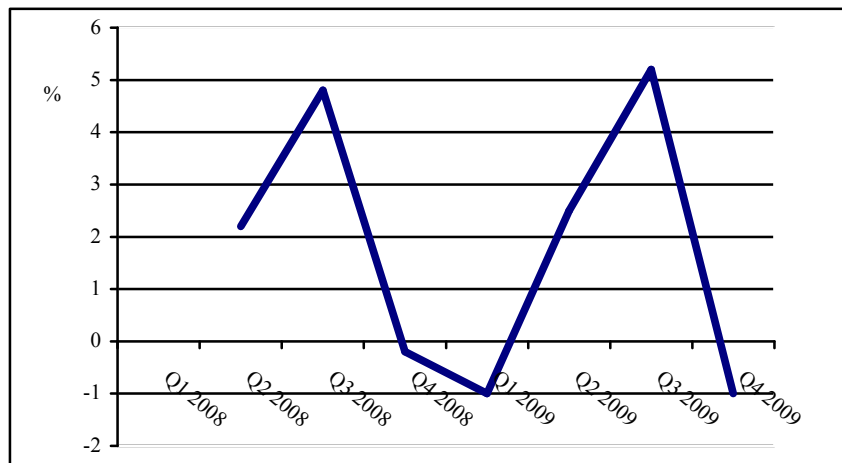
¹⁸ Refer to the text of the resolution at <http://www.palestinecabinet.gov.ps/site/466/DesktopDefault.aspx?PageID=466>

¹⁹ According to Dr. Saadi AlKronz, Minister of Transportation.

Data of the consolidated balance sheet of banks operating in the Occupied Palestinian Territory (table 22) indicates that banks' total assets declined during the 4th quarter of 2009

compared to the 3rd quarter. In comparison with the corresponding quarter of the previous year, an increase of 6.0% occurred in the total assets of banks (see figure 6).

Figure 6: Growth Rate Development on Assets of Banks Operating in the Occupied Palestinian Territory By Quarters of 2008, 2009



Source: The Palestine Monetary Authority (PMA)

The structure of bank assets shows that balances with banks abroad declined by the end of the 4th quarter 2009 by around 1.4% compared to the 3rd quarter of the same year. When compared to its level a year before, we notice that a decline by about 13.8% has occurred on this item. This change is in line with the instructions of the Palestinian Monetary Authority PMA to reduce bank investments abroad, not to exceed 55% of total deposits by the end of August 2009. Obviously, the PMA propose to stimulate banks to increase local credit facilities to encourage investment in the Palestinian economy.

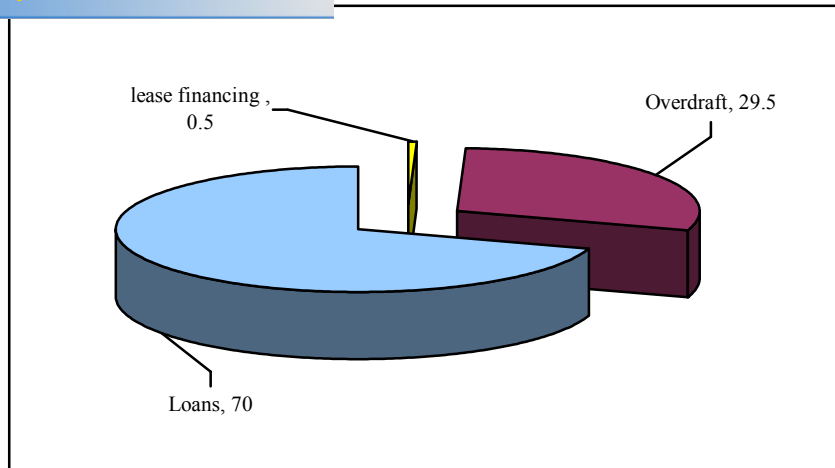
In spite of the continuous decline in banks' investments abroad as a proportion of total banks assets and clients deposits, it remained a main direction for banks investments. The balances of banks with the Palestine Monetary Authority (PMA) continued to rise and reached a proportion of 6.5% by the end of the 4th quarter of 2009 compared to the end of the 3rd quarter and by over 9% of its level at the

end of the 4th quarter, 2008. This is a by-product of the policy of reducing banks' investments abroad.

During the 4th quarter, total clients deposits declined slightly to 1.4%. The credit facilities portfolio declined slightly to 1.2% as well compared to the previous quarter, while it increased by about 22.2% compared to the corresponding quarter of 2008. Apparently, the slight decline that occurred in total deposits reflected the size of direct credit facilities as the ratio of decline in both items close to each other.

Loans constituted the bulk of the credit facilities extended by 70% of the total credit facilities in the 4th quarter of 2009, while overdraft and lease financing constituted a rate of 29.5% and 0.5% respectively from the total credit facilities. It is noticed that the proportion of overdrafts is eroding in favor of loans, i.e. the change in the structure of credit facilities which has emerged over the last years is still on going (see figure 7).

Distribution of Credit Facilities by Type of 4th Quarter 2009

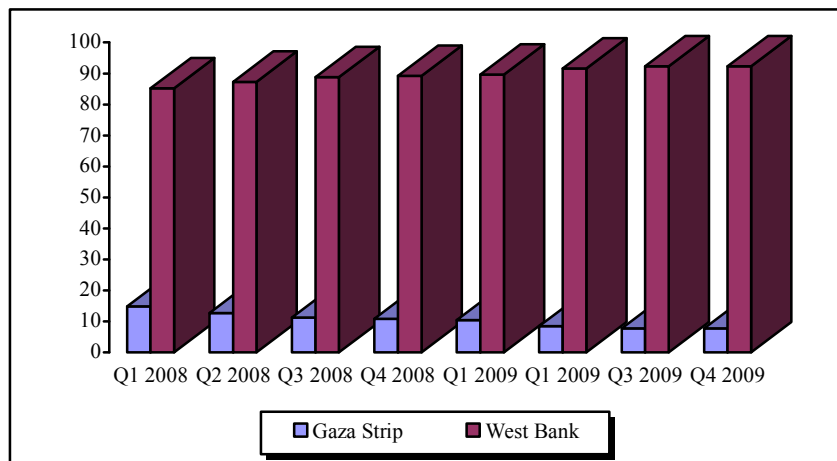


Source: PMA - The consolidated balance sheet of banks.

The credit facilities were divided between the private and public sectors by 71.5% and 28.5% respectively during the 4th quarter of 2009. In comparison with the previous quarter, we find that the share of credit facilities extended to the public sector decreased by the end of the 4th quarter by 11.8% in favor of the private sector which reached about 32.3% by the end of the previous quarter.

The West Bank captured 92.3% of the total credit facilities while the rest went to the Gaza Strip. These proportions did not change from the previous quarter. In comparison with the corresponding quarter of 2008, the geographic distribution of credit facilities was as follows: 89% for the West Bank, 11.0 for the Gaza Strip. This change is attributed to the imposed siege on the Gaza Strip as well as insecurity and instability (see figure 8).

Figure 8: Distribution of Credit Facilities by Region: 1st Quarter 2008 – 4th Quarter 2009



Source: PMA - The consolidated budget of banks.

The credit facilities extended are distributed by various trading currencies in the Occupied Palestinian Territory at varying rates. The credit facilities that were extended in USD remained dominant and constituted 63.9% by the end of the 4th quarter 2009 compared to

61.4% at the end of the previous quarter while it constituted 65.1% in the corresponding quarter of 2008. As for credit facilities in NIS, they amounted to 25.9% during the 4th quarter of 2009 compared to 28.8% at the end of the previous quarter and

the 4th quarter of 2009, they constituted 9.8% with a slight rise from the previous quarter; while the proportions of credit facilities in other currencies remained small, below 0.5% (see table 21). When compared with previous

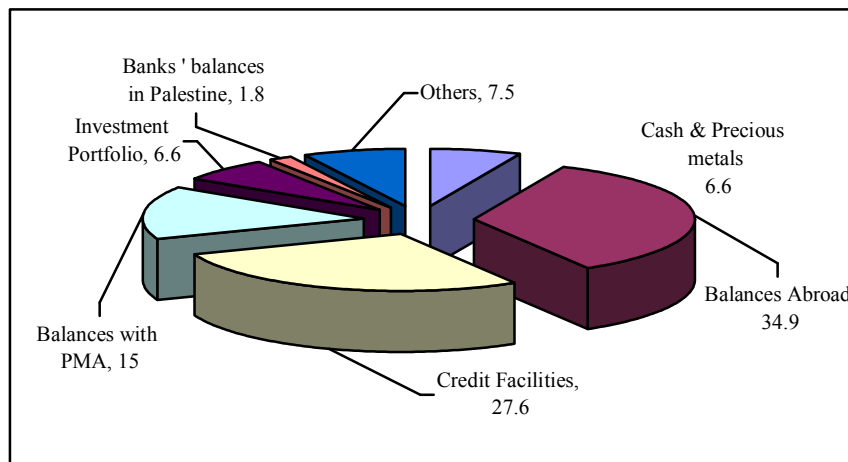
periods, a continuous decline is noticed in the proportion of credit facilities extended in USD in favor of the NIS. It appears that the instability of the USD exchange rate versus the NIS as well as the interest rate influence the process of determining the currency of the facilities whether by banks or by clients (in both supply and demand).

Table 21: The Distribution of the Direct Credit Facility Portfolio For the Quarters of 2008 and 2009

Budget Item	(USD Million)							
	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009
By Geographical Distribution								
West Bank	1460.7	1509.1	1603.1	1625.5	1650.7	1924.2	2087.3	2061.2
Gaza Strip	313.2	237.6	204.4	202.7	192.2	175.5	173.6	172.7
By Depositing Party								
Public Sector	511.3	511.3	544.8	532.7	581.6	748.8	722.2	637.4
Private sector/resident	1191.3	1140.5	1129.6	1165.9	1123.2	1216.2	1365.2	1448.6
Private Sector/non-resident	82.0	95.3	133.1	129.6	138.1	134.7	151.0	147.9
By Type of facility								
Loans	1062.0	1066.5	1109.2	1114.2	1159.0	1338.9	1500.2	1566.8
Overdrafts	700.9	669.3	687.8	703.7	673.6	750.7	753.3	659.3
Leases	10.9	10.8	10.5	10.3	10.3	10.2	7.5	7.8
By Type of Currency								
US Dollar	1159.5	1117.7	1163.1	1190.2	1225.9	1301.7	1388.6	1427.4
Jordanian Dinar	173.5	151.1	146.2	147.5	142.5	200.3	208.5	218.0
New Israeli Shekel	419.4	463.1	483.9	474.3	460.6	582.7	650.7	579.0
Other	21.4	14.7	14.3	16.2	13.8	15.0	13.1	9.5

Source: PMA - Banks' consolidated balance sheet.

Figure 9: Structure of the Assets of Banks Operating in Occupied Palestinian Territory At the end of the 4th Quarter of 2009



Source: PMA - Banks' consolidated balance sheet.

Others include: banks' acceptances, investments, fixed assets and other assets

...en by ...o the ...pared with the corresponding quarter of 2008. The portfolio for trading and investments has also risen by 14.6% compared to the 3rd quarter, and by about 159.0% in comparison with the corresponding quarter of the previous year. Other items have also risen including fixed assets by 4.7% and other assets declined by 24.0% compared to the previous quarter.

Figure 9 illustrates the relative distribution of the assets of banks' operating in the Occupied Palestinian Territory at the end of the 4th quarter of 2009. Balances with banks abroad formulated 34.9% of the total assets of banks, while credit facilities amounted to 27.6% of the total assets of banks.

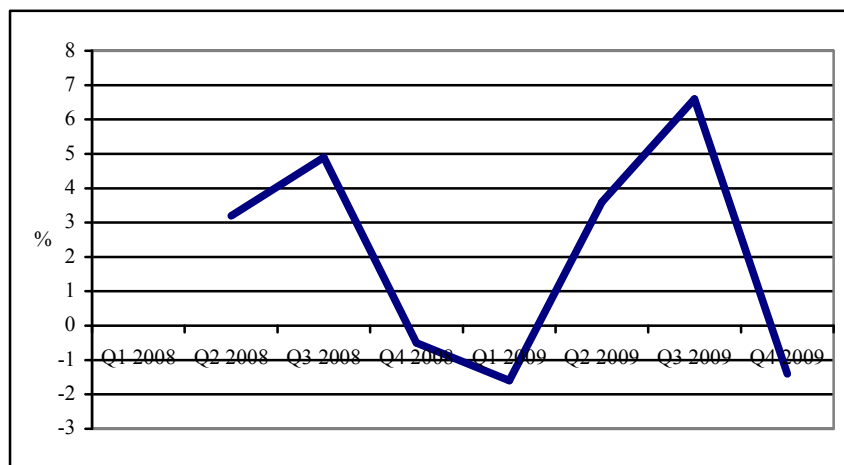
5.1.2 Liabilities

The data of the consolidated balance sheet of banks operating in the Occupied Palestinian

Territory indicate that a slight decline occurred in the total clients' deposits at the end of the last quarter of 2009 compared to the end of the previous quarter with a decline rate of about 1.4%. When compared with the corresponding quarter of 2008, we find that an increase of 7.7% was achieved in clients' deposits (see figure 10).

It is known that the importance of clients' deposits comes from being the main component of the total liabilities of banks operating in the Occupied Palestinian Territory, constituting 77.8% of the total liabilities by the end of the last quarter of 2009. The continuing rise in this item year after year is considered an inherent characteristic in spite of the seasonal disparities that may appear in the short term.

Figure 10: Clients' Deposits Development by Quarters of 2008 and 2009



Source: PMA, 2010

It is noted that private sector deposits compose the bulk of clients' deposits, constituting about 91% at the end of the 4th quarter of 2009, while the share of the public sector did not exceed 9%. These deposits were distributed by region at a rate of 85.3% for the West Bank and 14.7% for the Gaza Strip. This means that the contribution of the Gaza Strip continues to decline in favor of the West Bank. This is obvious through the comparison with the situation a year before where the Gaza Strip's contribution was over 15.0%. Moreover, the

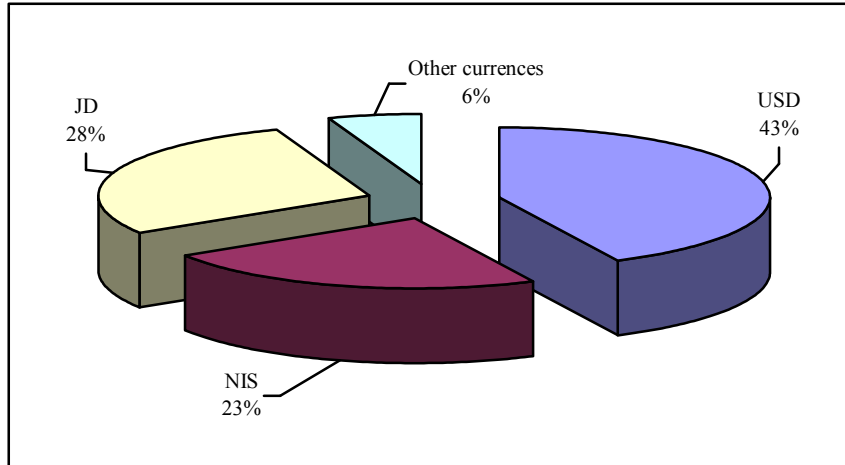
decline in the total clients' deposits is partially attributed to the decline of the contribution of the Gaza Strip to private sector deposits.

When clients' deposits are distributed by type, 37.4% of those deposits are current account and demand deposits, 26.5% are saving account deposits and 36.1% are time deposits. Therefore, demand deposits have declined by 2% from their level in the previous quarter to the benefit of the two other types that have risen by around 1% each.

ion of USD determined with 12.0% of total deposits. The share of the JOD and the NIS amounted to

28.4% and 23.3% respectively and 5.5% for other currencies, a close rate to that of the previous quarter (see figure 11).

Figure 11: Clients' Deposits Distribution by Type of Currency, End of 4th Quarter 2009

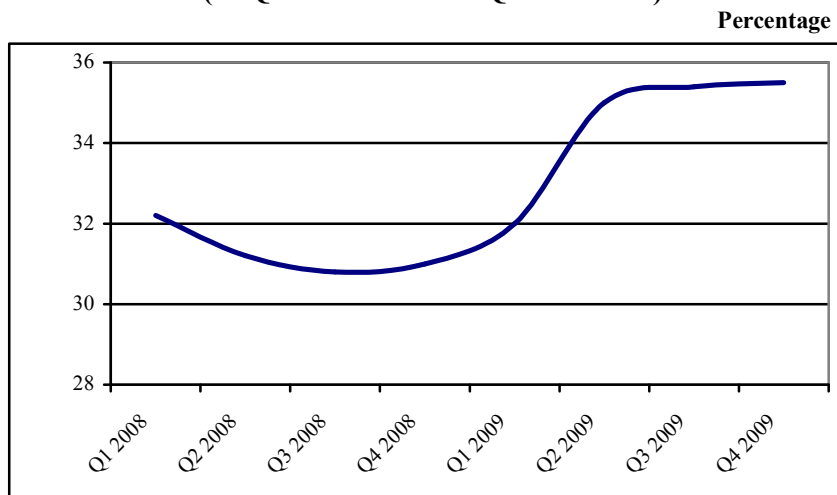


Source: PMA, 2010.

A continued improvement is noted in the proportion of credit facilities to total deposits. It had risen by 35.5% by the end of the 4th quarter of 2009, compared to 35.4% in the previous quarter, while it was around 31% by the end of the corresponding quarter of 2008. In spite of the constant rise in this proportion, it remains below the prevalent levels in

neighboring countries. This rate usually reflects, to a certain extent, the match between supply and demand in credit facilities under normal circumstances, but this is not the case for the Palestinian banking sector, given the prevalent situation and the high degree of risk and instability (see figure 12).

Figure 12: Credit Facilities Ratio to Total Client Deposits (1st Quarter 2008 – 4th Quarter 2009)

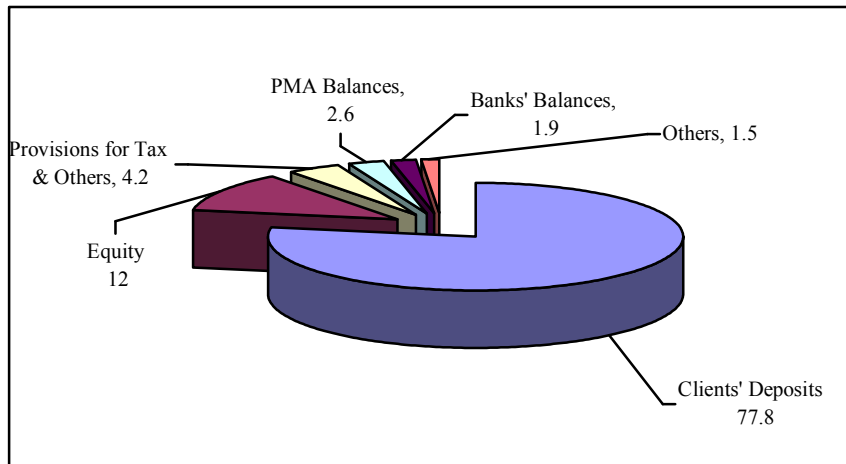


Source: PMA, 2010.

Equity items continued to rise, by over 6% by the end of the 4th quarter compared to the 3rd

quarter of 2009 and about 13.5% compared to the corresponding quarter of 2008.

Composition of Liabilities in Banks Operating in the Territory by the End of the 4th Quarter 2009



Source: PMA, 2010.

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

The PMA balance with banks continued to rise and increased by 15% compared to the previous quarter. While banks' balances with other banks in Palestine declined by 22.5%.

Provisions for tax and other provisions increased by about 1.5% during the same period of comparison.

Table 22: Banks' Consolidated Balance Sheet (1st Quarter 2008 – 4th Quarter 2009)
(USD Million)

Budget Item	2008				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Cash & Precious Metals	357.3	367.5	273.9	346.2	334.6	501.0	515.8	534.9
Balances with the PMA & Banks	4,492.9	4,332.2	4,708.9	4,674.0	4,513.5	4,086.8	4,265.3	4,185.5
Investments Portfolio	185.7	217.9	214.4	206.6	233.1	429.7	467.5	535.6
Direct Credit Facilities	1,773.1	1,746.6	1,807.5	1,828.2	1,842.9	2,099.7	2,261.2	2,233.9
Banks Acceptances	3.4	4.2	4.3	6.2	3.2	3.5	4.2	3.9
Investments	190.1	188.6	173.5	144.6	188.1	172.8	165.7	162.2
Fixed Assets	218.3	224.4	225.9	237.3	243.9	252.8	255.9	267.9
Other Assets	250.4	236.0	249.3	197.3	213.2	208.7	220.9	167.3
Total Assets	7,471.9	7,308.3	7,657.6	7,640.4	7,570.7	7,755.0	8,156.5	8,091.1
Deposits of PMA and Banks	660.4	466.0	456.2	442.9	417.6	426.4	383.6	381.4
Total Clients' Deposits	5,424.7	5,599.0	5,873.6	5,846.9	5,772.5	5,988.7	6,385.9	6,295.3
Acceptances Executed & Outstanding	16.7	15.9	15.2	21.0	9.3	10.7	13.2	12.4
Other Liabilities	217.8	155.7	158.3	135.2	144.0	111.9	115.7	93.2
Provisions for Tax & Others	390.0	320.3	337.5	341.5	346.3	337.2	346.6	341.4
Equity	762.3	751.5	817.0	853.0	880.9	880.1	911.5	967.8
Total Liabilities	7,471.9	7,308.3	7,657.6	7,640.4	7,570.7	7,755.0	8,156.5	8,091.1

Source: PMA, 2010 - Banks' consolidated balance sheet.

s of Palestinian banks witnessed growth while some others witnessing a decline during the 4th quarter of 2009 compared to the previous quarter. The net income indicator to average assets rose by 0.3 percentage points. The net income indicator to average equity has also risen by 2.4 percentage points. The credit facilities extended to the private sector over

the private sector deposits increased by 4.9%. This reflected the credit facilities extended to the resident private sector over the resident private sector deposits, which increased by 1.3%. With regard to indicators of balances abroad to total deposits, clients' deposits to total assets and credit facilities to total assets, it witnessed a decline during the 4th quarter of 2009 as illustrated in table 23.

Table 23: Bank Performance Indicators 2006- 4th Quarter 2009

Indicator	2006	2007	2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009 (%)
Net Income to Average Assets	1.5	1.6	1.6	1.4	1.6	1.5	1.8
Net Income to Average Equity	14.8	14.8	14.8	11.7	13.8	13.2	15.6
Credit Facilities to Total Deposits	39.5	29.8	29.1	29.8	32.7	33.4	33.5
Credit Facilities to Clients' Deposits	43.7	33.3	31.3	32.0	35.1	35.4	35.5
Private Sector Credit Facilities to Private Sector Deposits	35.4	27.8	24.7	24.1	24.6	26.6	27.9
Resident Private Sector Credit Facilities to Private Sector Deposits	34.1	26.9	22.8	22.3	23.3	25.4	26.8
Balances Abroad to Total Deposits	50.8	55.0	52.1	52.4	42.5	43.2	42.3
Clients Deposits to Total Assets	73.4	73.1	76.6	76.2	77.2	78.4	77.8
Credit Facilities to Total Assets	32.0	24.3	24.0	24.3	27.0	27.7	27.6

Source: PMA - Banks' consolidated balance sheet.

5.3 Clearing House Activities

The data of the clearing house of the Palestinian Monetary Authority PMA shows that there had been a rise in the number of checks presented for clearing as well as in their value by the end of the 4th quarter compared to the previous quarter. The number

of checks presented for clearing increased by nearly 3.9% while their value increased by 7.5%. Also, the number of checks grew by over 17.7% compared to the previous quarter while their value increased by more than 11.8%.

Table 24: The Number and Value of Checks Presented for Clearing and the Number and Value of Bounced Checks (1st Quarter 2008 – 4th Quarter 2009)

Period	Checks Presented for Clearing		Bounced Checks		Percent Bounced/checks presented for clearance	
	Number of checks	Value of checks (million \$)	Number of checks	Value of checks (million \$)	Number %	Value %
1 st Q 2008	603,281	1935.3	72,649	136.4	12.2	7.0
2 nd Q 2008	647,267	2144.3	72,762	132.4	11.2	6.2
3 rd Q 2008	686,097	2179.4	81,125	144.6	11.8	6.6
4 th Q 2008	717,579	2009.4	86,669	147.0	12.1	7.3
1 st Q 2009	668,531	1749.4	88,789	141.8	13.3	8.1
2 nd Q 2009	741,186	2016.6	76,523	109.2	10.3	5.4
3 rd Q 2009	813,545	2089.7	91,833	144.1	11.3	6.9
4 th Q 2009	845,135	2247.8	101,896	155.4	12.0	6.9

Source: PMA, Monthly Statistical Bulletin.

ed in 09 by ed in value at 6.9% of the total value of checks presented for clearance. When these figures are compared to those of the corresponding quarter of 2008, we notice that the ratio is almost equal in terms of the number of bounced checks versus a decline in their value by about 0.5% compared to the value of bounced checks at the end of the current quarter (see table 24).

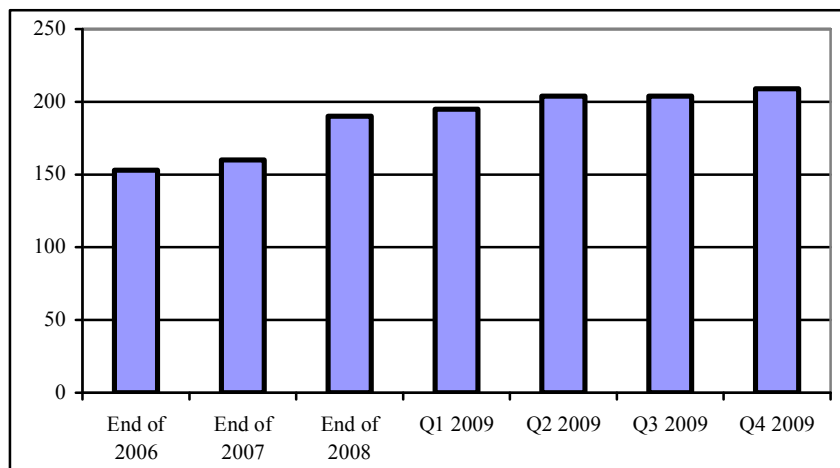
5.4 Number of Banks and Branches

With the purpose of providing banking services to the largest possible percentage of the population and within the available resources, more branches and offices of the various banks operating in the Occupied

Palestinian Territory were opened, for which the Palestinian Monetary Authority PMA assigns considerable importance. By the end of the 4th quarter of 2009, the number of banks and branches in the Occupied Palestinian Territory amounted to 209, with an increase of 5 branches and new offices compared to the previous quarter and an increase of 19 branches and offices compared to the corresponding quarter of 2008.

The number of branches and offices of local banks amounted to 104 and 105 for foreign banks, given that the number of banks operating in the Occupied Palestinian Territory amounted to 20. These are equally distributed between local and foreign banks (see figure 14).

Figure 14: The Number of Branches and Offices of Banks Operating in the Occupied Palestinian Territory, 2006-2009



Source: PMA.

6. Palestine Securities Exchange

Stock markets play a significant role in attracting surplus and non-employed capital in to the national economy. They do this by transferring it from static capital into active capital in the economic cycle, through investment in stocks and bonds traded by the Palestine Securities Exchange (PSE). Financial markets also provide real financial resources for companies issuing the stocks to finance 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 important issue in this regard is the distinction between the efficiency of the stock market and that of the listed companies. The high price of the stocks of a certain company does not necessarily indicate the high efficiency of the market, as it may be attributed to an improvement in the profitability of the company or the leak of

in the market is characterized by the rapid response of the prices of stocks of listed companies to any piece of new information received by dealers and that may change their perspective of the company issuing these stocks. Stock prices tend to rise or fall depending on the nature of news whether positive or negative. In other words, a company's stock price in the efficient financial market reflects the available information about the company whether in the form of financial statements or as information pertaining to its activity transmitted by the media. The more rapid the response of the stock to information, the more efficient the market is. Thus in order to have an efficient financial market, information about the market must be available for all, at once, at no cost and with no restrictions on transactions such as taxes etc. This is in addition to the ability of the investor to sell and buy the number of stocks as he wants, easily and without any conditions. Also, there is a need for a large number of investors, numerous enough to prevent the impact on the prices of stocks as a result of the practices of some investors.

The following are the financial indicators usually used to monitor the reality of and developments in the Palestine Securities Exchange:

1. Financial market size indicators:

- ✧ Market capitalization: it is measured 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 role of the financial market in the national economy. It is worth noting that this rate is calculated for the year as a whole and not by quarters.²⁰ As the data for the year 2009 is available at constant prices only, GDP data has been used for the year 2009 as a whole and at constant prices instead of current prices. Based on this, the market

²⁰ The market value of shares for a given quarter is the average of all months of the quarter. Hence, the value for the year is also the average for all months or quarters of the year while GDP is the sum of the quarters. Therefore it is not possible to calculate the market capitalization for the quarter due the different basis for the calculation of the numerator (market value) than the denominator (GDP).

capitalization has been calculated and amounted to 46.4% in the Palestine Securities Exchange for the year 2009. In other words, the value of capital employed in the PSE is equivalent to almost half the value of Palestinian production.

- ✧ The number of listed companies: this indicator points out the depth and diversity of the market. The number of companies listed in the Palestine Securities Exchange amounted to 39 in the year 2009, 3 of which are suspended from trading. This number accounts for 30% of the total public shareholding companies operating in the Occupied Palestinian Territory.

2. Liquidity indicators:

- ✧ The value of traded shares to GDP: this ratio amounted in the PSE to 9.7% only in spite of the fact that the value of the shares listed reached half of GDP. This means that the liquidity rate is modest in the Palestine Securities Exchange.
- ✧ 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 amounted to around 21% in the year 2009. It is a very low rate that may be attributed to the investors' fear of the unexpected volatility of prices or to the low percentage of speculators versus those who invest for the purpose of obtaining dividends or for saving.

3. Degree of concentration

This is measured through the share of the largest five or ten companies in the value of stocks traded or listed in the securities exchange market. This indicator is used to determine the extent of impact of these companies on the changes in the securities exchange indices and most important, the stocks prices. In the Palestine Securities Exchange, the five largest companies captured 82.7% of the total shares traded. This is a high concentration that provides these companies with the capability to influence the PSE indices.

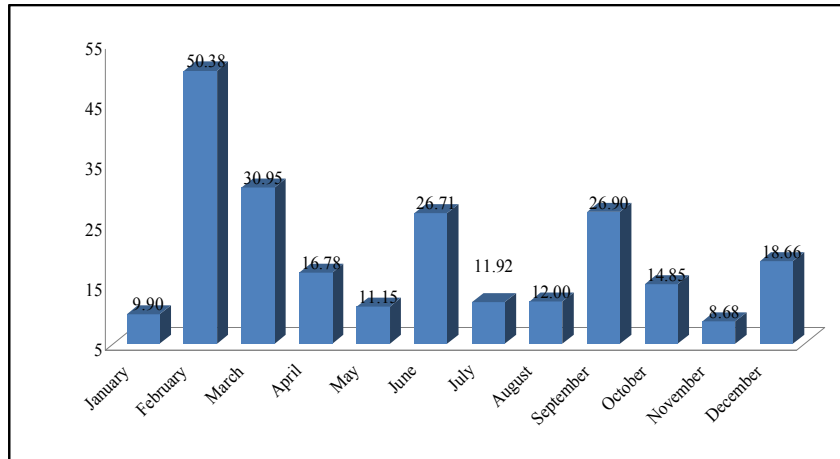
The following is a detailed review of developments in the Palestine Securities Exchange during the 4th quarter of 2009

the number of shares traded in the 4th quarter of 2009 and in the whole year dropped to 42.16 million (compared to 50.8 million in the previous quarter) and 238.9 million (compared to 339.2 million in the previous year 2008) (see figure 15).

the number of shares traded in the 4th quarter of 2009 and in the whole year dropped to 42.16 million (compared to 50.8 million in the previous quarter) and 238.9 million (compared to 339.2 million in the previous year 2008) (see figure 15).

Figure 15: The Number of Shares Traded in the Palestine Securities Exchange During the Months of 2009

(USD Million)



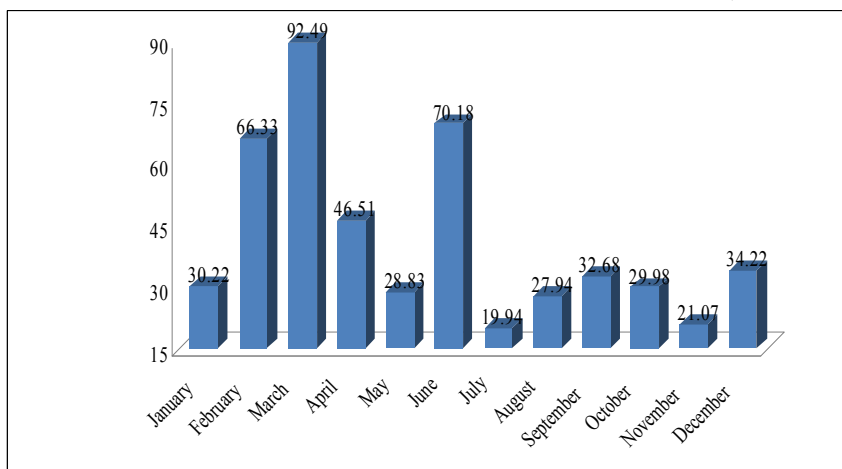
Source: The Palestine Securities Exchange. www.pse.com

With regard to the value of shares, this has risen by around USD4.7 million in the 4th quarter of 2009 in spite of the decline in number, while their value in the year 2009 has dropped considerably in comparison with the year 2008, with the rate of decline reaching 136.9% (see figure 16). The rise in the value of shares coupled with slight increases or even

decreases in the numbers of shares listed indicates that trading is usually carried out on the shares of companies characterized by high value shares, which in turn indicates that investors are selective in buying shares and they usually concentrate on the so-called leading shares.

Figure 16: The Value of Shares Traded in the Palestine Securities Exchange during the Months of 2009

(USD million)

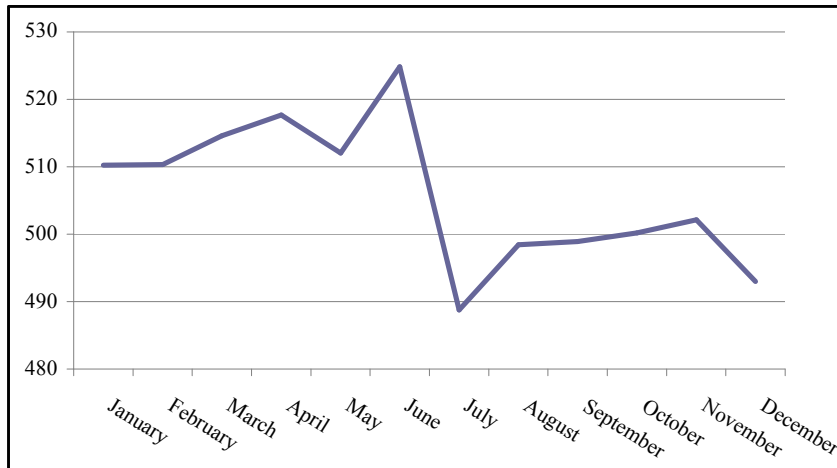


Source: The Palestine Securities Exchange. www.pse.com

index the 4th quarter of 2009 to reach 493.0 points compared to 498.9 points at the end of the 3rd quarter (see figure 17). When the Al-Quds

index at the end of 2009 is compared to its level at the end of 2008, we notice a large drop in the index over the two years where it dropped by 17.3% from 596.09 to 493.0 points.

Figure 17: Al-Quds (Jerusalem) Index For the Months of 2009 (Points)



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

On the level of corporation performance, data indicates that out of the 34 companies trading their shares, the value of the shares of 17 companies dropped in October versus 12 companies that achieved a rise. In November, 16 companies suffered a loss in their share

value versus 10 companies that achieved a rise. As for 2009 as a whole, out of 36 companies trading their shares, 17 companies achieved a rise in their shares versus 13 companies that witnessed a drop in the prices of their shares (see table 25).

Table 25: Key indicators of the Palestine Securities Exchange During the Months of the 4th Quarter of 2009 and the Preceding Three Quarters

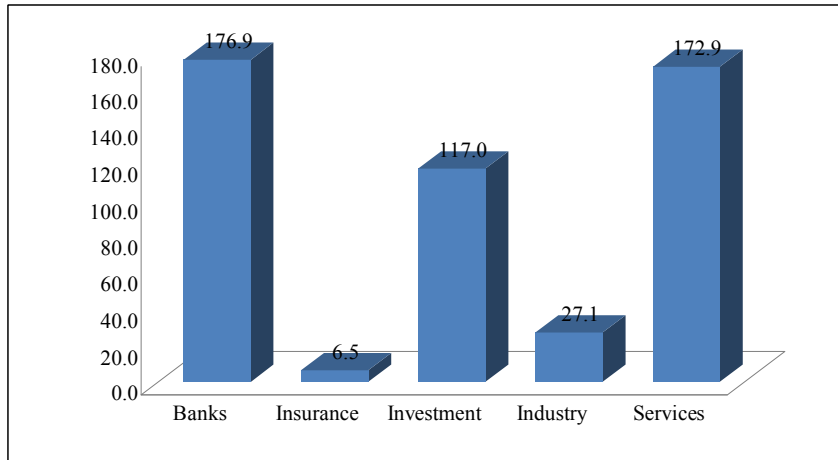
Period	Market capitalization (USD billion)	The number of trading sessions	Al-Quds Index (At the end of each month)	Trading Volume (value of traded stocks) (USD million)	The number of traded stocks (USD million)
1 st Q 2009	2.38	60	514.61	189	91.23
2 nd Q 2009	2.39	65	524.85	145.5	54.64
3 rd Q 2009	2.33	61	498.92	80.6	150.8
October	2.39	21	500.18	29.98	14.85
November	2.40	18	502.12	21.07	8.68
December	2.38	21	493.00	34.24	6618.
4 th Q 2009	2.39	60	493.00	85.29	8142.
2009	2.39	246	493.00	500.39	238.88
2008	2.12	244	596.09	1,185.20	339.17

Source: The Palestine Securities Exchange

With regard to sectors, the banking sector captured the lion's share of traded shares in the PSE during the year 2009, at a value of \$176.9 million comprising (35.4%) of the total value of shares traded in the market. The services sector follows at the value of \$172.9

million (34.6%), followed by the investment sector, worth \$117 million (23.4%) and the industry sector worth \$27.1 million (5.4%). Whereas the insurance sector gained the least at a value of \$6.5 million (1.3%) (See figure 18).

Value of Shares Traded in the Palestine Securities Exchange by Sector for the Year 2009
(USD million)

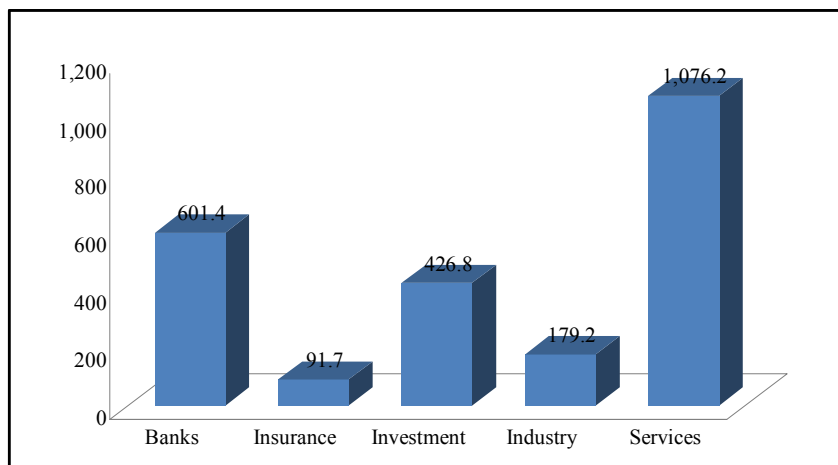


Source: The Palestine Securities Exchange. www.pse.com

Although the share of the service sector comes second in terms of the value of shares traded, it ranks first in terms of shares listed in the market amounting to \$1,076.2 million and comprising 45.3% of the total value of listed shares. The banking sector follows with a value of \$601.4 million (25.3%). This proves once again that the turnover rate in the

banking sector is higher than in the service sector. The investment sector ranked third with a value of \$426.8 million (18%), then comes the industry sector with a value of \$179.2 million (7.6%) and the last is the insurance sector with a value of \$91.7 million (3.9%) (See figure 19).

Figure 19: The Value of Shares Listed in the Palestine Securities Exchange By Sector For the year 2009
(USD million)



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

During the Consumer Price Index (CPI) in the Occupied Palestinian Territory shows an increase in the 4th quarter of 2009 compared to the previous quarter. This increase in the CPI is a continuation of the increase that occurred in the 3rd quarter of 2009. But, this increase remains limited when compared to the sharp rise during the quarters of 2008.

7.1 Prices

With the persistent recession in the wave of increases in international prices, especially with the stabilization in the prices of basic food commodities the stabilization in oil prices at a relatively moderate price, the CPI in the Occupied Palestinian Territory witnessed a rise by 1.30% in the 4th quarter of 2009. The CPI

increased from 125.37 in the 3rd quarter of 2009 to 126.99 in the 4th quarter of 2009 (see table 26).

It is noted that the category that most affected the CPI during the 4th quarter is the rise in the food stuff and refreshing beverages group, at 1.41%, which in its turn was affected by the rise in the prices of fresh vegetables, sugar, rice and oil and fat. In addition, the prices of housing and related items group increased by 2.75%, affected by the rise in gas and liquid fuel prices for home use. Also, the education services group recorded a rise by 4.89%, the Textiles, apparels and footwear by 1.64%, the furniture, home goods and appliances by 1.25% and the prices of various good and services by 2.33% (see table 27)

Table 26: The CPI and its Monthly and Quarterly Percentage Changes in the Consumer Prices in the Occupied Palestinian Territory During the Months of the 3rd & 4th Quarters of 2009 (Base year 2004 =100)

Time Period	CPI	Monthly Percentage Change (%)	Quarterly Percentage Change (%)
July 2009	124.22	0.60	
August 2009	125.60	1.11	
September 2009	126.28	0.54	
3rd Quarter Average	125.37		1.90
October 2009	126.22	(0.04)	
November 2009	127.01	0.63	
December 2009	127.75	0.58	
4th Quarter Average	126.99		1.30

Source: Palestinian Central Bureau of Statistics, 2009

Table 27: Average Change in CPI by Main Commodity Categories in the Occupied Palestinian Territory in the 4th Quarter of 2009 Compared to the Previous Quarter and the Corresponding Quarter of 2008 (Base year 2004 =100)

Group	Q4/2009 over Q3/2009 Percentage Changes	Q4/2009 over Q4/2008 Percentage Changes
Food Stuff and Refreshing Beverages	1.41	2.46
Alcohol Beverages and Tobacco	(0.04)	13.42
Textiles, apparels and footwear	1.64	3.11
Housing and related items	2.75	2.08

²¹ 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 in a new way which depends on classification of goods according to the purpose of use.

	Q4/2009 over Q3/2009 Percentage Changes	Q4/2009 over Q4/2008 Percentage Changes
Furniture and house goods and appliances	1.25	6.12
Healthcare	1.01	(0.06)
Transportation and Travel	(0.02)	0.50
Telecommunication	(2.87)	(2.66)
Recreational and Cultural goods and services	0.57	1.93
Education services	4.89	8.26
Restaurants, Cafes and Hotels Services	1.57	4.32
Various good and services	2.33	5.83
General CPI	1.30	3.07

Source: the PCBS.

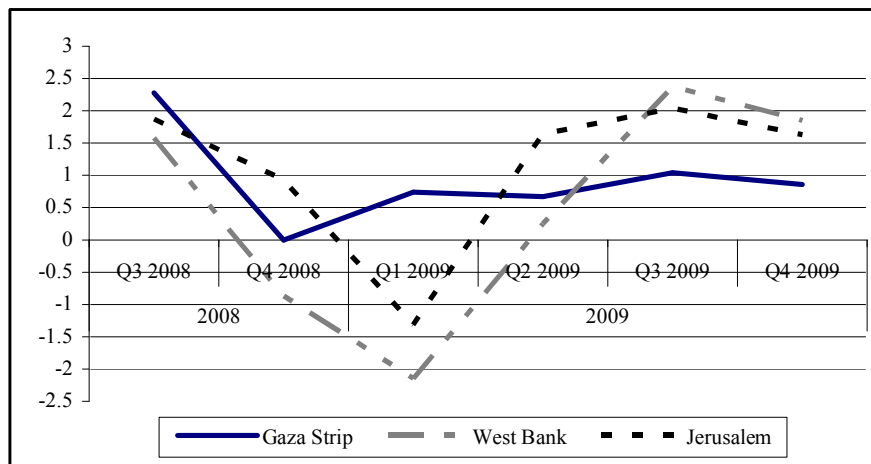
Figures in brackets indicate a negative value (decline in prices).

At the local level, prices witnessed a rise of 1.85% in the West Bank during the 4th quarter of 2009 compared to the previous quarter, while it witnessed a drop by 2.46% in comparison with the corresponding quarter of 2008. Prices in Jerusalem recorded a rise of 1.63% during the 4th quarter of 2009 compared to the previous quarter, while it increased by 4.02% when compared to the corresponding

quarter of 2008. With regard to the Gaza Strip, the CPI points to a rise of 0.86% during the 4th quarter of 2009 compared to the 3rd quarter of the same year, while prices increased by 3.34% compared to the corresponding quarter of 2008. As for the rest of the groups, it recorded a slight rise in average prices during the 4th quarter compared to the 3rd quarter of 2009 (see table 20).

Figure 20: Shekel-based Inflation Rate in Jerusalem, the West Bank and the Gaza Strip By Quarters 3rd 2008 – 4th 2009

Percentages



Source: calculations based on the PCBS data, the Consumer Price Index (CPI), various issues.

At the local level, it is noted that the alcoholic beverages and tobacco group witnessed an increase of 2.25% in Jerusalem during the 4th quarter of 2009 compared to the previous quarter, while it increased by 2.94% in the West Bank and by 0.30% in the Gaza Strip. The housing and related items group registered a rise in both the West Bank and Jerusalem at rates of 3.16% and 1.93% respectively. The education services group registered a rise as

well, by 5.94% in the West Bank, by 4.69% in the Gaza Strip and by 2.95% in Jerusalem; while the telecommunication category registered a decline in the three regions during the same period. As for the other groups, a variations were registered in the Occupied Palestinian Territory during the 4th quarter of 2009 compared to the previous quarter (see table 28).

CPI in the Occupied Palestinian Territory Commodity Group in the 4th Quarter Compared to the Previous Quarter

Group	West Bank (%)	Gaza Strip (%)	Jerusalem (%)
Food and soft drinks	2.94	0.30	2.25
Alcoholic beverages and tobacco	0.21	(0.38)	(0.02)
Textiles, clothing and Footwear	0.66	0.04	3.43
Housing & related items	2.07	3.16	1.93
Furniture, household goods	1.27	2.84	0.97
Medical care	1.04	0.20	2.57
Transportation	(0.01)	0.52	0.55
Telecommunication	(3.02)	(2.13)	(3.30)
Recreational cultural goods and services	0.46	0.11	1.24
Education services	5.94	4.69	2.95
Restaurants, Cafes and Hotels Services	1.30	2.20	1.35
Various goods and services	2.25	1.88	1.74
General CPI	1.85	0.86	1.63

Source: the PCBS.

Figures in brackets indicate a negative value.

7.2 Average Prices of Selected Consumer Goods

Prices of certain consumer goods witnessed varying changes in the Occupied Palestinian Territory during the 4th quarter of 2009. Following is a review of price movements for selected groups of goods during the 4th quarter of 2009, compared to the previous quarter:

Oil and fat prices:

The prices of the oil and fats group recorded a noticeable rise of 12.08% during the 4th quarter of 2009 compared to the 3rd quarter of 2009 due to the obvious rise in the price of olive oil.

Fuel prices:

Prices for the automobile fuel group witnessed an increase of 1.08% during the 4th quarter compared to the 3rd quarter of 2009. The prices of fuel for home use registered a rise of 4.05% over the same period.

Vegetables prices:

The prices of the vegetables group recorded an increase of 5.08% during the 4th quarter of 2009.

Sugar prices:

The prices of the sugar group rose by 3.14% during the 4th quarter of 2009.

Rice prices:

The prices of the rice group registered a rise of 0.93% during the 4th quarter

Fresh Fruits prices:

The prices of the fresh fruits group recorded a decline of 1.93% during the 4th quarter of 2009.

Cigarettes prices:

The cigarettes group recorded a slight drop of 0.10% during the 4th quarter of 2009.

Flour prices:

The prices of the flour group registered a slight drop of 0.39% during the 4th quarter of 2009 compared to the 3rd quarter.

Fresh meat prices:

The prices of the fresh meat group registered a decline of 1.35% during the 4th quarter of 2009.

Fresh chicken prices:

The prices of the fresh chicken group recorded a drop of 0.89% during the 4th quarter of 2009 compared to the 3rd quarter of 2009.

group the 4th quarter of 2009.

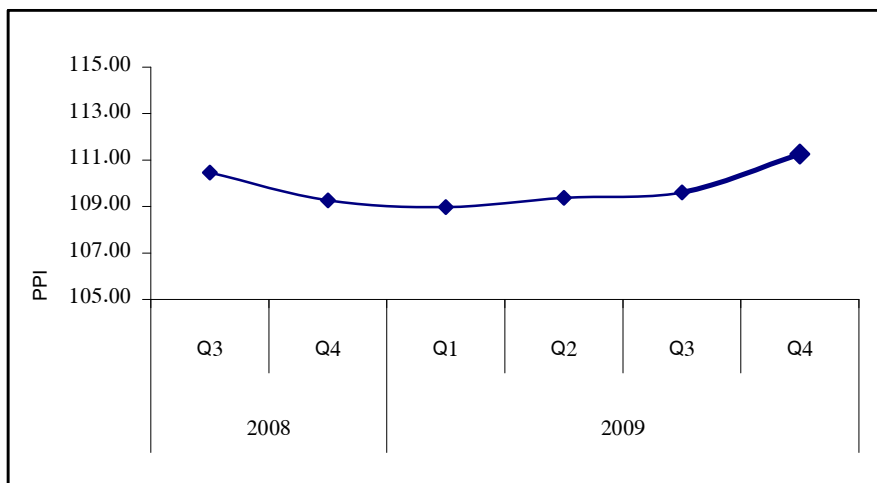
7.3 Producer Prices

Producer prices (the prices received by a producer from a buyer in exchange for a certain commodity, minus the value added tax (VAT), or any other deductible tax recorded on a buyer's receipt, excluding transportation costs) recorded a rise in the general CPI by 1.51% during the 4th quarter of 2009 compared to the previous quarter. On average the CPI rose from 109.61 during the 3rd quarter to 111.26 during the 4th quarter (base year 2007=100) (see figure 21). This resulted from the increase in produced goods, prepared for

sale to the manufacturing sector by 0.28%, the weight of which in the basket of producer prices constitutes 63.48%. Also, the prices of agricultural goods recorded a rise of 3.88% and its relative importance constitutes 35.06%. The prices of metallurgical and extracting industries witnessed a slight decline of 0.30%, its relative importance constitutes 1.26%. The prices of fishery decreased slightly by 0.31%, its relative importance constitutes 0.20%.

The main reason for the rise in the principal activity is attributed to the rise in the prices of both locally produced commodities and exported commodities of 1.69% and 0.31% respectively. When compared with the corresponding quarter of 2008, the average producer prices recorded a rise of 1.82%.

Figure 21: The General Direction of the Movement of the Producer Prices Indices (PPI) In the Occupied Palestinian Territory for the Quarters: 3rd 2008 – 4th 2009 (Base year 2007=100)



Source: the PCBS.

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

7.4 Currency Exchange Rates

The exchange rate of the USD fluctuated against the NIS during the 4th quarter of 2009. While it declined by 1.22% in October 2009, it started to rise again in the following two months by 1.26% and 0.43% respectively. The exchange rate of the USD dropped during the 4th quarter of 2009 compared to the previous quarter by 1.91% (see figure 29).

As for the JOD, as with the USD it dropped by the same rate (1.2%) at the beginning of the 4th quarter and then started to rise in the following two months by 1.26% and 0.54% respectively. The exchange rate of the JOD dropped during the 4th quarter compared to the 3rd quarter of 2009 by 1.85%.

Monthly Exchange Rate of USD and IS October 2008 - December 2009

Period	US Dollar		Jordanian Dinar		
	Average Exchange Rate	Percentage Change (%)	Average Exchange Rate	Percentage Change (%)	
2008	October	3.67	3.88	5.17	3.75
	November	3.87	5.55	5.47	5.68
	December	3.82	(1.32)	5.44	(0.51)
2009	January	3.90	1.91	5.50	.1
	February	4.10	5.29	5.77	4.92
	March	4.16	1.34	5.87	1.71
	April	4.18	0.5	5.90	0.5
	May	4.07	(2.6)	5.75	(2.5)
	June	3.98	(2.2)	5.57	(3.1)
	July	3.90	(0.73)	5.50	(1.22)
	August	3.83	(1.8)	5.40	(1.8)
	September	3.77	(1.54)	5.32	(1.54)
	October	3.72	(1.22)	5.25	(1.21)
	November	3.77	1.26	5.32	1.26
	December	3.79	0.43	5.35	0.54

Source: the PMA.

* Figures in brackets indicate negative value.

Values were calculated according to the monthly average exchange rate for buying and selling.

7.5 Purchasing Power

The fluctuation in the exchange rate of both the US Dollar and the Jordanian Dinar vis-à-vis the NIS reflects directly on the purchasing power of the two currencies, being among the currencies used in the Palestinian market. During the last quarter of 2009, the total purchasing power decline amounted to 0.69% for the USD and 0.49% for the JOD. Thus, the purchasing power of both currencies decreased during the 3rd and 4th quarters of the year by about 7.0% and 7.30% respectively (see table 30).

**Table 30: Average Monthly Exchange Rates (USD & JOD against NIS)
and Changes in their Purchasing Power January – December 2009**

Month	Percentage Change in the CPI (%)	Currency	Percentage Change in the Currency Exchange Rates (%)	Percentage Change in the Purchasing Power of the Currency (%)
January 2009	(0.71)	USD	1.91	2.63
		JOD	0.1	1.79
February 2009	(0.02)	USD	5.29	5.31
		JOD	4.92	4.94
March 2009	1.05	USD	1.34	0.29
		JOD	1.71	0.66
April	(0.22)	USD	0.60	0.82
		JOD	0.45	0.67
May 2009	0.41	USD	(2.73)	(3.14)
		JOD	(2.57)	(2.98)
June 2009	0.35	USD	(3.58)	(3.93)
		JOD	(3.09)	(3.44)

		Currency	Percentage Change in the Currency Exchange Rates (%)	Percentage Change in the Purchasing Power of the Currency (%)
July 2009	0.60	USD	(0.73)	(1.33)
		JOD	(1.22)	(1.82)
August 2009	1.11	USD	(1.79)	(2.90)
		JOD	(1.80)	(2.91)
September 2009	0.54	USD	(1.54)	(0.2)
		JOD	(1.54)	(0.2)
October 2009	(0.05)	USD	(1.22)	(1.17)
		JOD	(1.21)	(1.16)
November 2009	0.63	USD	1.26	0.63
		JOD	1.26	0.63
December 2009	0.58	USD	0.43	(0.15)
		JOD	0.54	0.04

Source: PMA, PCBS.

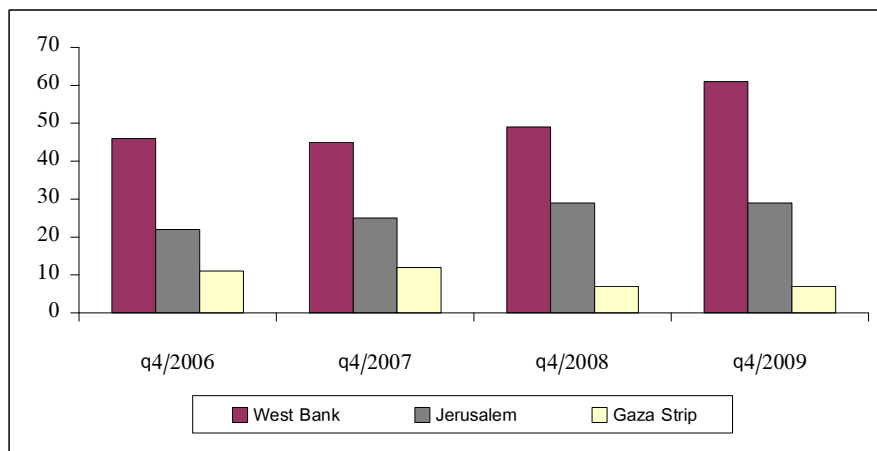
* Figures in brackets indicate negative value.

8. Hotel Activity

Tourism activity in the Occupied Palestinian Territory witnessed some improvement since the beginning of 2007. In the 4th quarter of 2009 the hotel activity recorded a rise in the number of guests compared to the corresponding quarter of the previous year. The tourism sector continues to suffer from fluctuations and instability as a result of persistent Israeli arbitrary practices and various security troubles.

The total number of hotels in the Occupied Palestinian Territory reached 126, including those operating and temporarily closed. The number of operating hotels changes according to the month of the year. In December 2009, there were 97 operating hotels which had 4,986 rooms, having a total of 11,042 beds (see figure 22).

Figure 22: Number of Operating Hotels in the Occupied Palestinian Territory By 4th Quarters of 2006-2009



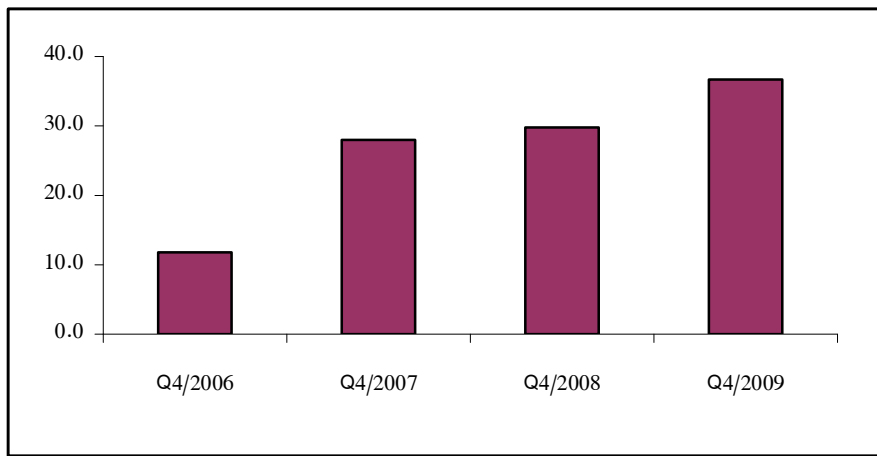
Source: PCBS, 2009, Hotel Activity in the Occupied Palestinian Territory, 4th Quarters 2006 - 2009.

tinian the 4th quarter of 2009, 10.7% of them were Palestinians and 36.6% from the European Union. When compared with the 4th quarter of 2008, we realize an increase in the number of guests by 21.2% and by 4.8% compared to the 3rd quarter of 2009.

The average room occupancy in operating hotels in the PT reached 1,791.1 daily, i.e.

36.7% of available rooms (see figure 23). Hotel guests were concentrated in hotels in Jerusalem, reaching a percentage of 49.1% of the total number of guests. This was followed by hotels in the south and centre of the West Bank, where the percentage reached 30.2% and 18.7% respectively. The percentage of guests in hotels in the north of the West Bank was 1.8%, while it was 0.2% in hotels in the Gaza Strip.

Figure 23: Hotel Room Occupancy Rates During the 4th Quarters, 2006-2009



Source: PCBS, 2009, Hotel Activity in the Occupied Palestinian Territory, 4th Quarters 2006 - 2009.

The number of nights spent in hotels in the Occupied Palestinian Territory totaled 311,617 nights during the 4th quarter of 2009, where the total number of nights for Palestinian guests constituted 8.9% and 40.9% for the guests from the European Union. The percentage of

guests from the USA and Canada was 12.2%. In comparison with the corresponding quarter of 2008, a rise of 0.6% is realized in the number of nights spent in hotels during the 4th quarter of 2009 and a rise of 0.3% compared to the previous quarter of 2009.

Table 31: Percentage Change in Hotel Activity Indicators during The 4th Quarter of 2009 Compared to the Previous Quarter And the Corresponding Quarter of 2008

Indicator	Percentage Change Over the Q4/2008	Percentage Change Over the Q3/2009
Number of Operating Hotels at the End of the Quarter	14.1	9.0
Average Number of Employees During the Quarter	16.7	8.2
Number of Hotel Guests	21.2	4.8
Number of Nights Accommodation	0.6	0.3
Average Rooms Occupancy	44.3	(1.9)*
Average Beds Occupancy	0.6	0.3
Rate of Rooms Occupancy (%)	23.2	(7.6)*
Rate of Beds Occupancy (%)	(17.4)*	(6.8)*

Source: PCBS, 2009, Hotel Activity in the Occupied Palestinian Territory, 4th Quarter 2009.

* Figures in brackets indicate negative value.

in the nights per guest during the 4th quarter of 2009. The highest average length of stay was 2.3 nights per guest in the south of the West Bank. In the north and center of the West Bank, the average was 1.9 and 2.0 nights per guest respectively. In Jerusalem, the average length of stay in hotels amounted to 2.2 nights per guest and to 1.7 nights per guest in the Gaza Strip (see table 31).

9. Investment Indicators

9.1 Company Registration

There are still different company laws in effect in the Occupied Palestinian Territory. While the Jordanian Companies Law Number (12) of 1964 is applied in the West Bank, there are two company laws applicable in the Gaza Strip. This includes the Companies' Law number (18) of the year 1929 and the Ordinary Companies' Law number (19) of the year 1930, where the Ministry of National Economy registers companies in accordance with these laws.

The economic monitor analyzes the data on companies in terms of the number of

companies registered, their types and registered capital. A sectoral analysis of the registered companies and their legal status is also undertaken. According to the legal status, companies are classified into three types: shareholding companies (public and private), ordinary companies, and foreign shareholding and ordinary companies. This is in addition to company classification by geographic area. The Monitor concludes with an analysis of company statements, a preliminary indication regarding the course of investment activity and the economy's ability to attract domestic and foreign capital.

The number of registered companies in the West Bank witnessed an increase by about 25.5% during the 4th quarter of 2009 compared to the previous quarter, where 438 companies were registered from the end of September until the end of December, compared to 349 companies during the previous quarter (see table 32). The registered capital had considerably risen with the increase in the number of registered companies in the West Bank by over 55%, reaching JOD63.9 million. It is worth mentioning that the Ministry of National Economy has no information pertaining to the registration of companies in the Gaza Strip during the 4th quarter of 2009 (which has been the case since November 2007).

Table 32: Development of the Number of New Companies Registered In the West Bank during the Years: 2008 - 2009

Quarter	2008	2009
1 st Quarter	247	454
2 nd Quarter	334	412
3 rd Quarter	315	349
4 th Quarter	287	438
TOTAL	183,1	653,1

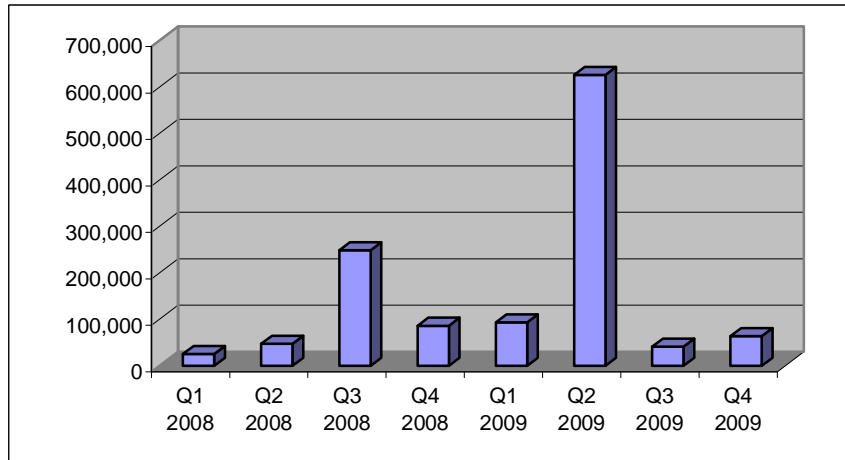
Source: Ministry of National Economy, Department of Company Registration, 2008 and 2009.

A comparison between the value of the capital of companies registered during 2008 and 2009 shows that the capital of companies registered rose during the two years by over 100%, from around JOD 406.9 million in 2008 to about JOD 824.3 million in 2009. The largest increase in the capital of companies registered

occurred in the 2nd quarter of 2009, which witnessed the registration of companies with quantities of capital. But if we exclude this significant increase in the 2nd quarter of 2009, it might be said that the capital of companies registered in the past two years witnessed a slight increase (see figure 24).

Capital for New Companies Registered in the West Bank for the Quarters of 2008 – 2009

Thousand JD

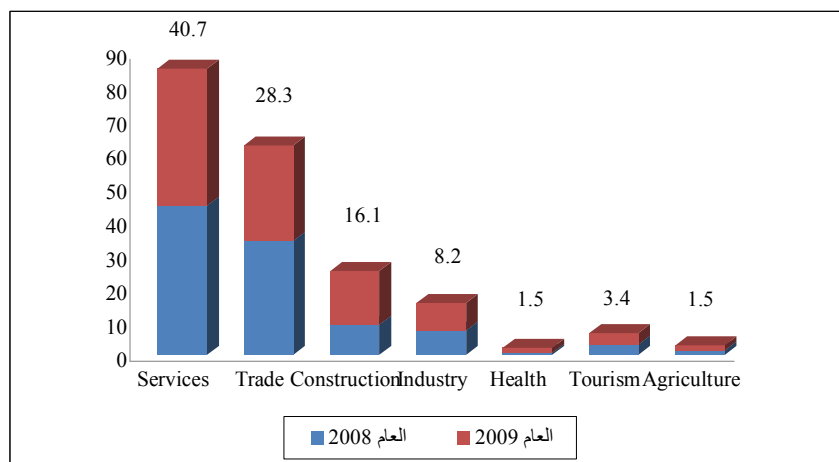


Source: Ministry of National Economy, Department of Company Registration, 2008 and 2009.

The 4th quarter of 2009 witnessed many changes in the shares of the different economic sectors with regard to registered capital in the West Bank. The share of the services sector in the capital of newly registered companies rose from 27.4% to 31.5% in the 4th quarter of 2009 compared to the previous quarter. Thus the services sector ranked second after the trade sector the share the total capital of newly registered companies of which dropped from 39.3% to 36.7%. What is remarkable is the dramatic rise in the share of the industrial

sector in the registered capital to total capital from 4.4% in the 3rd quarter to 20.7% in the 4th quarter of 2009. The share of the construction sector has declined considerably from 18.4% to 9.6% during the 4th quarter. As for the remaining sectors, they captured the smallest share of capital in the 4th quarter, distributed amongst them as follows: the health sector (from 3% to 0.1%), the agriculture sector (from 2.4% to 0.5%) and tourism (from 5.1% to 0.8%).

Figure 25: Distribution of Capital for Newly Registered Companies in the West Bank by Economic Activity During 2008 and 2009 (%)



Source: Ministry of National Economy, Department of Company Registration, 2009.

In general, figure 25 illustrates the distribution of capital of the companies registered in the

West Bank by different economic sectors during 2009. When these figures are compared

...ed in sectors that typically capture the majority of capital such as services, and the trade and construction sectors (see figure 25).

Company data is not the only indicator of investment considered, but also of the trends and the legal status of companies in the Occupied Palestinian Territory. Looking at the legal status of registered companies during the 4th quarter of 2009, we notice a clear change in distribution of capital according to the type of company, compared to the previous quarter. The share of private shareholding companies

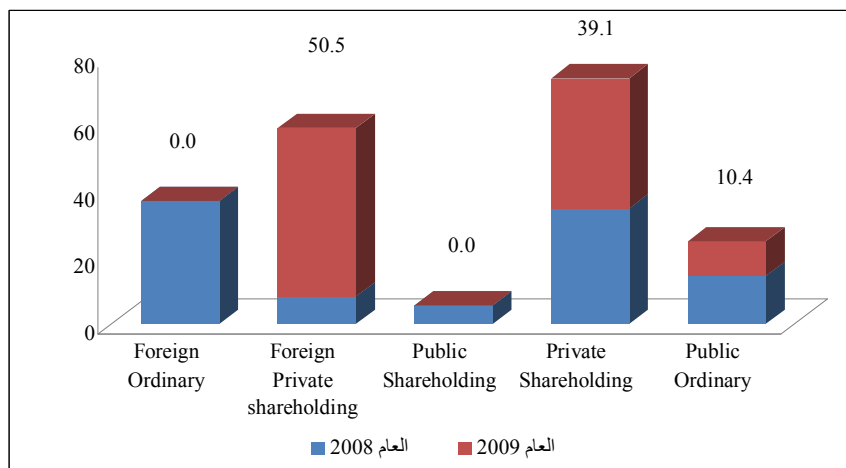
increased to around 60% compared to 55.6% in the previous quarter. The share of ordinary companies declined from 43.7% during the previous quarter to 39% during this quarter. During the 4th quarter, 5 foreign private shareholding companies were registered. Thus, their share increased to about 1% of the total capital registered in this quarter, compared to 0.7% during the previous quarter. At the same time, no public shareholding company, foreign ordinary company, foreign public shareholding company or ordinary limited company was registered during the 4th quarter of 2009 (table 33 illustrates the distribution of capital by legal status).

Table 33: The Distribution of Capital for Newly Registered Companies in the West Bank by Legal Classification during the Quarters of 2009

2009	Legal Form							Total
	Public Ordinary	Private Shareholding	Public Shareholding	Foreign Private Shareholding	Foreign Ordinary	Foreign Public Shareholding	Ordinary Limited	
Q1	22,179,040	69,548,440	0	1,603,770	0	0	100,000	93,431,250
Q2	15,076,424	197,102,459	0	413,528,125	0	0	0	625,707,0
Q3	17,987,800	22,895,540	0	300,000	0	0	0	41,183,340
Q4	30,384	32,396	0	1,173	0	0	0	63,952.6
Total	85,627,264	321,942,439	0	416,604,499	0	0	100,000	824,274,202

Source: The Ministry of National Economy, Department of Company Registration, 2009.

Figure 26: Relative Distribution of Capital for Newly Registered Companies in the West Bank by Legal Form during 2008 and 2009



Source: The Ministry of National Economy, Department of Company Registration, 2009.

Generally speaking, most of the companies registered in the West Bank and during the last two years have taken the following three legal

forms: public ordinary, private shareholding and foreign private shareholding, in addition to the categories of public shareholding company

lower legal wide variations in the relative distribution of capital over the three types of company and thus its difference over the years. Figure 26 illustrates the relative distribution of capital according to legal status for the years 2008 and 2009 which shows the differences referred to above.

The 4th quarter data indicates that most of the new companies registered in the West Bank, as in previous quarters, are concentrated in Ramallah & Al-Bireh, Nablus and Hebron governorates at rates of 31.5%, 22.6% and 20.1% respectively. These rates have risen in the 4th quarter compared to the previous quarter. The infrastructure in the three governorates is more developed and better equipped to serve investment objectives as compared with other governorates. Moreover, both Hebron City and the City of Nablus are surrounded by urban population centers which explain the high percentage of companies registered in the two Governorates. The same applies to Jenin Governorate in spite of the fact that its population is smaller than the aforementioned governorates; but there has been an increase in the economic viability of

the city's surrounding areas due to increases in infrastructure availability in the surrounding communities. In the 4th quarter, the level of newly registered companies in Jenin Governorate was 9.1%, less than the ratio of 5.6% recorded in the previous quarter. As for adjacent governorates (Tulkarem, Qalqilya and Salfit) which possess primarily agricultural economies similar to that of Jenin. These governorates obtained a percentage of 3.7%, 2.7% and 0.7% respectively, regarding the level of of the newly registered companies. A significant rise in the level of companies registered in Tulkarem governorate is noticed. While the ratio of companies registered remaining constant in Qalqilia governorate, it declined slightly in Salfit. As for newly registered companies in the suburbs of Jerusalem, they amounted to 2.7% of the total number of newly registered companies. Whereas the percentage of newly registered companies in the Bethlehem governorate was 5.3%, it was 1.4% in governorate of Jericho and the Jordan Valley, which is characterized by an agricultural economy that limits the possibilities of investment in other sectors (see table 34).

Table 34: The Distribution of the Newly Registered Companies in the West Bank By Governorates during the Quarters of 2009

Governorate	Q1 2009	Percent to Total %	Q2 2009	Percent to Total %	Q3 2009	Percent to Total %	Q4 2009	Percent to Total %	2009	Percent to Total %
Ramallah and Al-Bireh	144	31.7	152	37.0	123	28.2	138	31.5	557	33.7
Hebron	91	20.0	58	14.1	51	15.5	88	20.1	288	17.4
Nablus	66	14.5	63	15.3	71	22.1	99	22.6	299	18.1
Tulkarem	22	4.8	19	4.6	4	0.7	16	3.7	61	3.7
Jenin	57	12.6	42	10.2	47	14.7	40	9.1	186	11.3
Jericho & the Jordan Valley	7	1.5	7	1.7	6	2.4	6	1.4	26	1.6
Jerusalem Suburbs	18	4.0	12	2.9	14	3.3	12	2.7	56	3.4
Bethlehem	33	7.3	35	8.5	19	9.4	23	5.3	110	6.7
Qalqilia	9	2.0	10	2.4	10	2.7	12	2.7	41	2.5
Salfit	7	1.5	13	3.2	4	1.0	3	0.7	27	1.6
Total	454	100	412	100	349	100	437	100	1,652	100

Source: The Ministry of National Economy, Department of Company Registration, 2009.

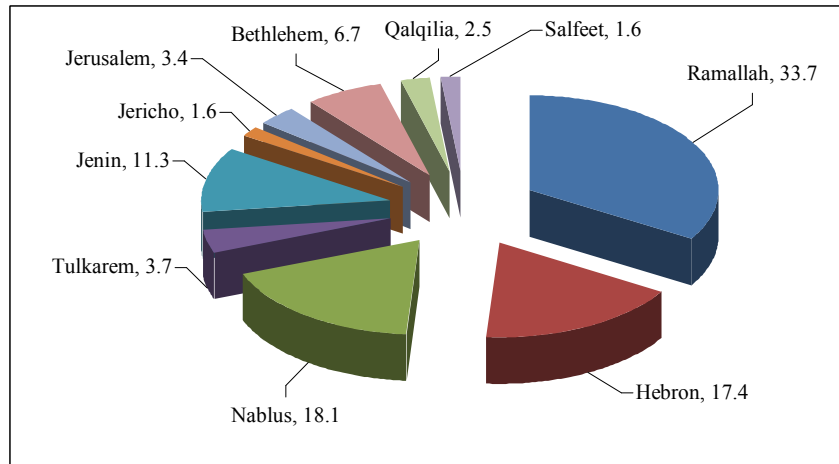
In spite of the rise in the ratios of registered companies in certain governorates and not in

others during the 4th quarter, their order in terms of the number of companies registered

2009. newly

registered companies by various governorates.

Figure 27: Relative Distribution of Capital for Newly Registered Companies in the West Bank by Governorate during 2009



Source: The Ministry of National Economy, Department of Company Registration, 2009.

9.2 Building Licenses

Building licenses, issued during a certain period of time, are considered an indicator of investment activity in the construction sector, taking into account that the number of issued licenses does not include all building activity in the construction sector. The reason is that in certain cases, especially in rural areas, new buildings are not registered and no licenses are issued for them.

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

corresponding quarter in a previous year, more meaningful and accurate.

Statistics for building licenses point to a rise in their number during the 4th quarter of 2009, compared to the corresponding quarter of 2008, by 51.2%. No statistics are available for the Gaza Strip for the 4th quarter of 2009 which was the case for the 1st, 3rd and 4th quarters of 2008, as well as the 1st, 2nd and 3rd quarters of 2009.

The total area of licensed buildings during the 4th quarter of 2009 was nearly 593.7 thousand sq. m., with an increase of nearly 54.0% over the corresponding quarter of 2008. The number of housing units witnessed a substantial increase during the 4th quarter of 2009. Whereas the number of licensed housing units during the 4th quarter of 2008 was around 1,111 units, it had risen to 1,668 units, an increase of 50.1%, and consequently the area of those units increased by 52.6%. The number of existing licensed dwellings has also risen to 423 units, an increase of nearly 109.4% (see table 35).

for Building Licenses and Licensed Areas Territory during the Quarters of 2008 and 2009

	Q2 2008	Q3 2008*	Q4 2008*	Q1 2009*	Q2 2009*	Q3 2009	Q4 2009	
Total Licenses Issued	1,155	1,096	980	1,219	1,309	1,296	1,482	
Residential Building	979	931	827	1,052	1,144	1,135	1,296	
Non-residential Building	176	165	153	167	165	161	186	
Total Area Licensed (Thousand Sq. m.)	354.8	458.8	385.5	469.2	522.9	510.3	593.7	
Licensed Residential Units								
New Units	Numbers	1,062	1,174	1,111	1,266	1,485	1,311	1,668
	Area (Thousand Sq. m.)	195.2	234.3	195.5	245.6	311.2	241.4	297.8
Existing Units	Numbers	331	223	202	261	322	495	423
	Area (Thousand Sq. m.)	60.7	62.5	51.6	74.3	85.6	88.5	74.5

Source: The PCBS (2009). Statistics of Building Licenses, Ramallah - Palestine.

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

10. Expectations of Owners and Managers of Industrial Establishments

10.1 General performance of industrial establishments

28.8% of the owners and managers of industrial establishments found that the general performance of their establishments improved during December 2009 compared to November of 2009 (29.3% in the West Bank and 20.5% in the Gaza Strip).

10.2 Production

The rise in prices and costs of raw materials was the main factor affecting the costs of production according to 91.5% of the owners and managers of industrial establishments in the Occupied Palestinian Territory during the 4th quarter of 2009, 92.1% in the West Bank and 82.1% in the Gaza Strip. 89.4% of the owners and managers of industrial establishments pointed to the great influence of the current political conditions, 90.1% in the West Bank and 84.6% in the Gaza Strip.

10.3 Employment

10.0% of the owners and managers of industrial establishments in the Occupied Palestinian Territory indicated that they had laid-off workers during December 2009 (10.3% in the West Bank and 5.1% in the

Gaza strip). 80.9% pointed that no change occurred in the number of workers (80.4% in the West Bank and 88.5% in the Gaza Strip).

The expectations of the owners and managers of industrial establishments with regard to employment during January 2010 show that only 13.9% of them expect a rise in the level of employment (13.6% in the West Bank and 17.9% in the Gaza Strip). With regard to the expectations of the owners and managers of industrial establishments in the medium term (i.e. during the next six months), expectations indicated that 26.7% in the West Bank expect a rise in the level of employment in the Occupied Palestinian Territory vis-à-vis 26.9% in the Gaza Strip.

10.4 Financial conditions and financing by borrowing

The survey results show a weak demand on loans from the banks operating in the Occupied Palestinian Territory by industrial establishments during the 4th quarter of 2009. 93.6% of the owners and managers of industrial establishments indicated that they did not request loans from operating banks (93.2% in the West Bank and 100% in the Gaza Strip). 5.8% of the operating industrial establishments that submitted a request

of the owing Bank, while none of the industrial establishments in the Gaza Strip requested loans 2-5 times).

As for their future expectations during January 2009, 21.5% of the owners and managers of industrial establishments expect an improvement in their financial situation and 2.7% expect improvements in bank facilities only.

11. Israeli Measures²²

11.1 Those Killed and Injured

The number of those killed was 11 during January and February 2010, one of them was a child and 10 were from the Gaza Strip. The number of wounded Palestinians during the same period was 104 persons; including 23 children, 2 women and 2 journalists. The number of detainees in the Occupied Palestinian Territory was 628 persons, 95% of them from the West Bank (see table 36).

Table 36: Israeli Violations in January & February 2010

Event	January		February		Total
	West Bank	Gaza Strip	West Bank	Gaza Strip	
Killing	0	8	1	2	11
Wounding	46	16	24	18	104
Detaining	262	6	334	26	628
Total	3	30	359	46	743

Monthly Reports of the Palestinian Monitoring Group PMG (2010) for January and February. Website of the Palestinian Monitoring Group: <http://www.nad-plo.org>.

11.2 Obstacles to Movement and Travel

The Israeli forces continue to deny Palestinian citizens freedom of movement. They have continued to restrict all types of movement and transport through the policy of imposing closures. Data shows that the number of Israeli military road blocks that were temporarily set

up in the West Bank was 1,192 during January and February of 2010. The crossing points between the Gaza Strip and Israel were closed 192 times and international border crossing points were closed 91 times in the same period (see table 37).

Table 37: Total Closure of Border Crossings with Israel During January & February 2010

Barriers	January	February	Total
Crossing Points	88	104	192
International Border Crossings	43	48	91
Total	131	152	283

Monthly Reports of the Palestinian Monitoring Group PMG (2010) for January and February. Website of the Palestinian Monitoring Group: <http://www.nad-plo.org>.

11.3 Assaults on the Education and Health Sectors

There were 9 Israeli assaults against the Palestinian education sector during January and February 2010. Those assaults occurred inside the West Bank (3 in January and 6 assaults in February). The assaults included the

establishing of two military posts on the roofs of two schools in Nablus, raiding a kindergarten and the inspection and demolition of several schools. As for the health sector, it was exposed to 2 assaults in

²² Monthly Reports of the Palestinian Monitoring Group PMG (2010) for January and February. Website of the Palestinian Monitoring Group: <http://www.nad-plo.org>.

led in ented from transferring a patient with a serious condition to hospital in Ramallah.

and the number of assaults on Palestinian property reached 162 during the same period. Israeli harassments of of Palestinian security forces amounted to 42, all of which occurred in the West Bank area (see table 38).

11.4 Assaults on Palestinian Property and Security Forces

The number of houses occupied during January and February 2010 amounted to 18

Table 38: Israeli Assaults on Palestinian Property and Security Forces During January & February 2010

Event	January		February		Total
	West Bank	Gaza Strip	West Bank	Gaza Strip	
House Occupation	7	0	11	0	18
House Demolition	1	1	0	2	4
Harassment against Security Forces	13	0	29	0	42
Assaults on Property	56	19	69	18	162

Monthly Reports of the Palestinian Monitoring Group PMG (2010) for January and February. Website of the Palestinian Monitoring Group: <http://www.nad-plo.org>.

11.5 Settlement Activity and Settlers Assaults

Settlement activity in the Occupied Occupied Palestinian Territory continued, reaching 14 occurrences during January and February 2010. They included confiscations of agricultural land, the building of new housing units in settlements and the construction of military watch towers. Assaults by Israeli settlers against Palestinian citizens and their properties amounted to 125 incidents of shootings or the raiding of villages.

Data indicates that 55.9% of women 15 years and above are married. 6.1% of them are widows, 1.3% are divorced, 0.2% are separated from their husbands while 36.5 of the women 15 years and above are single. Unmarried women in the age group 30 and above amounted to 9.9%. Taking into account that the median age for females for their first marriage was 19.5 in 2007, this gives an image of the level of unmarried women.

12. The Status of Palestinian Women in the Occupied Palestinian Territory²³

12.1 Demographic Indicators

The estimated number of females in the Occupied Palestinian Territory was around 1.965 million by the end of 2009. The life expectancy at birth for females was 73.2 years, higher than that among males which reached 70.5.

12.2 Education Indicators

Data point to high illiteracy rates among females compared to these rates among males. While illiteracy rates amounted to 8.3% among females aged 15 and above, it drops to 2.6 among their male counterparts. On the other hand, data shows that more than half the students enrolled in universities and university graduates are females (54.8%). There were 54 females out of each one hundred students enrolled at the secondary school level in the academic year 2008/2009, while the proportion of females at the primary education level amounted to 49.5% of the total students enrolled in this stage for the same academic year.

²³ The PCBS (2010). Press Report on the occasion of International Women's Day. Ramallah - Palestine

The labor force participation rate (LFPR) for women is still very low compared to other countries in the region. The female LFPR amounted to 15.5% in the Occupied Palestinian Territory in 2009 (17.4% in the West Bank and 12.2% in the Gaza Strip). This shows the low percentage of participation when compared to neighboring countries where female participation in the labor market reached 23.4% in Jordan, 21.8% in Lebanon and 22.8 in Egypt.²⁴ As for the unemployment rate among females, it reached 26.4% during 2009, with the highest rate being among those who completed 13 years of schooling or more.²⁵

The female LFPR is higher in some sectors rather than others. The female participation rate in the education sector reached 34.7%, followed by the agricultural, forestry, hunting and fisheries sectors at 20.5%, then in the health sector at 9.4%. In the health sector data from 2008 shows that there were 56 female nurses out of every one hundred nurses working in the Occupied Palestinian Territory. One fifth of the dentists and almost half of the pharmacists are also females.

With regard to political life, the number of female ministers was 3 out of 22 ministers by the end of 2009. During 2009, a woman was appointed for the first time as President of the Palestine Capital Market Authority. At the beginning of 2010, a woman was appointed for the first time as a Governor. Also the first woman has been appointed as a member of the Palestine Liberation Organization executive committee. In 2008, 12% of the judges were women. Moreover, until March 2008, the number of female ambassadors was 5. Women comprised 12.9% of the Palestinian Legislative Council during 2006.

12.4 Palestinian Women in Israeli Prisons

The number of Palestinian women detainees in Israeli prisons amounted to 34, of whom 20

detainees are sentenced; 5 of them sentenced to lifetime imprisonment, 12 are detained and 2 are under administrative detention.

13. Palestinian Refugees

The latest data issued by the United Nations Relief and Works Agency UNRWA indicate that the number of registered Palestinian refugees during the first half of 2009 amounted to 4.7 million, 42% in Jordan, 9% in Lebanon and 10% in Syria while their proportion amounted to 16% in the West Bank and 23% in the Gaza Strip. The annual population increase rate among the refugees in 2008 and 2009 ranged between 1.3% in Lebanon and 3.0% in the Gaza Strip.

Palestinian refugees are distributed over 10 refugee camps in Jordan, 12 camps in Lebanon and Syria and 19 camps in the West Bank and 9 camps in the Gaza Strip. UNRWA data indicates that the majority of the registered Palestinian refugees reside outside the refugee camps. In the first half of 2009, the proportion of refugees residing in the camps was 29.4% of the total refugee population registered which means that only around 1.7 million Palestinian refugees live in the refugee camps. The same data indicate that the smallest proportion of refugees living in camps is in Jordan, which amounted to 17% of the total number of registered refugee in Jordan, followed by Syria (27%), then the West Bank (25%) and the Gaza Strip (46%). More than half of the registered refugees in Lebanon are still living in camps (53%). However, it is worth mentioning that the data pertaining to the West Bank and the Gaza Strip differs to some extent from the data issued by the PCBS, which indicates that the number of Palestinian refugees residing in the Palestinian camps has reached 350.3 thousand in 2007, with 126.8 thousand citizens in West Bank refugee camps and 223.5 thousand in the Gaza Strip's camps in 2007.²⁶ But when the numbers of refugees residing in camps are calculated on the basis of data provided by the UNRWA, the number amounts to 188 thousand in the West Bank

²⁴ The World Bank database on the Internet: <http://data.worldbank.org/indicator/SL.TLF.CACT.FE.ZS>

²⁵ For more details, refer to section 3 of the Monitor on Labor Force.

²⁶ The Palestinian Central Bureau of Statistics PCBS (2008). Population, Housing and Establishment Census. 2007. Main indicators by type of locality. Ramallah – Palestine.

Palestinian students residing in the camps study in UNRWA schools which amounted to 689 schools at the beginning of the academic year 2009/2010, distributed as follows: 174 schools in Jordan, 119 schools in Syria and 81 schools in Lebanon; Whereas the number of schools in the West Bank are 94 versus 221 schools in the Gaza Strip. The number of schools may seem inconsistent with the number of refugees registered in various countries and regions, but this is attributed to the large disparities in the proportions of refugees residing in the refugee camps at the regional level. The total number of students enrolled in those schools for the same academic year reached around 479,156 students, 123,917 of them in Jordan, 34,516 in Lebanon and 65,479 in Syria; Whereas their number in the West Bank and the Gaza Strip amounted to 56,384 and 198,860 respectively. When the number of students enrolled is divided by the number of schools, it demonstrates that the Gaza Strip schools are the largest in terms of the average of students per school, which reached about 900 students, followed by schools in Jordan at an average of 712 students. The least was in Lebanon at an average of 426 students per school. There is no data regarding the number of teachers in those schools or the number of departments or the size of schools. It is worth noting that the

average proportion of female students in the UNRWA schools reached 50% in the same academic year with the highest rate in the UNRWA schools in Lebanon, followed by schools in Jordan, then Syria, then schools in the Gaza Strip and last in the West Bank schools at the following rates 53.2%, 49.3%, 48.9%, 48%, 57.3% respectively.

With regard to the UNRWA vocational training centers, the number reached 10 for the same period, 3 of which are in the West Bank, 2 in each of Jordan, Lebanon and the Gaza Strip and one center in Syria. UNRWA also runs 3 colleges known as Colleges of Educational Sciences, with one college in Jordan and two in the West Bank.

UNRWA provides the Palestinian refugees residing in the refugee camps a range of health services. Until the first half of 2009, the number of UNRWA health centers in Palestinian camps reached 137 centers, distributed by 24 centers in Jordan, 29 in Lebanon and 23 in Syria; Whereas the centers in the West Bank amounted to 41 and in the Gaza Strip to 20 centers. Moreover, the number of centers providing dental and laboratory services reached 119, while the number of health centers providing services for diabetic & hypertension patients and maternal and child care & family planning amounted to 132 and 134 centers respectively.

Economic Fluctuations Introduction

The previous four parts of the series of economic issues were dedicated to 'economic growth'. We found that reaching the stage of sustainable growth takes a long time as sustainable growth is achieved only by high productivity within the available factors of production (this comes through technological progress and high levels of efficiency within institutions). It is known that technological progress involves major development in the quality and quantity of human capital, which requires in its turn investment in education and health. This also necessitates a great development in scientific research facilities which in its turn involves investment in R&D activities. Given that those investment operations take quite a long time to yield the desired economic results, the reform of institutions (public and private) and improving their efficiency and effectiveness will certainly require a long time. Thus, the governments of developing countries planning to reach the stage of sustainable growth must follow a policy of persistence and must adopt plans towards long-term objectives regarding the accumulation of human capital and the acquisition of technological knowledge and scientific research. This also requires the political resolve capable of carrying out institutional reform. At the same time, we must notice that those governments will not achieve sustainable development if all efforts are devoted to long-term objectives ignoring the short-term objectives relevant to unemployment, or the balance of payment deficit. Economic shocks will occur within weeks or months which derails economic activity, making it extremely difficult or impossible to achieve the long-term objectives if short-term objectives related to the size of production and employment and the stability of prices are not pursued. Therefore, development planners must imitate the captain of a ship who always directs his ship towards the city harbor where he intends to anchor and who at the same time would be ready to deal with the storms that may occur and lead the ship astray.

Thus, we believe that ensuring continued growth needs a capability to deal with economic fluctuations, which is the topic to which we will dedicate the second series of 'economic issues'. In this issue of the Monitor we will start the first part by talking about the essence of economic fluctuations provide and a historic overview.

(1) Business Cycles

If we calculate the average growth of GDP for a given country for a specific period of time such as 1900-2000, we find that the average growth rate was 4% for that period. We can consider the real average growth in any year during this period as comprising of two parts: the first equals 4% and represents the long-run trend and the second equals the amount of deviation from 4% and represents the growth resulting from economic fluctuations. For example, if the real growth rate was 7%, this means that the trend growth rate is 4 and the fluctuation growth rate is 3. But if the real growth rate was 2%, this means the trend growth rate is 4% and the fluctuation growth rate is -2%. In the first example, the economic growth was strong while it was a period of contraction and stagnation in the second example. The term 'business cycle' is used in economic literature as a synonym for 'economic fluctuations' indicating the rapid changes that take place in levels of economic activity between a period of prosperity and expansion and a period of contraction and stagnation. Changes in the scale of employment, unemployment rates and the general level of prices accompany the changes in the volume of production.

(2) Cycles Terminology

The business cycle comprises of a period of prosperity and expansion where growth rates increase to a peak and a contraction and stagnation period where production decreases to reach the trough. The expansion period is measured from the point of previous 'trough' up to the 'peak' as the contraction period is measured from the point of the previous 'peak' to the 'trough'. The duration of the period is measured by the length of time between two successive peaks or two successive troughs. Business cycles occur frequently but not regularly. While the duration of the business cycle in the rich industrial countries ranges between 2 and 8 years, it ranges between 4 to 6 years in developing countries.

Some of the economic variables move in the same direction as GDP during the business cycle and are thus described as 'procyclical' such as consumption, investment, money stock, employment and real wage. Other variables move against the direction of GDP and are described as 'countercyclical' such as the general level of prices. The change occurring on the money stock usually precedes that occurring in

ribed as a variable leading the cycle while the opposite happens variable lagging behind the cycle.

(3) Cycles Frequency

As mentioned above, economic fluctuations occur frequently. For example, in the United States where the best statistical data regarding business cycles are available, 32 cycles occurred in the era from the mid nineteenth century until the end of the twentieth century. The average duration of a cycle amounts to 4 and a half years. As illustrated in table 1, the average duration of the cycle has increased in the first half of the twentieth century and the average period of prosperity and expansion has been longer than the average period of contraction and stagnation during the whole era.

Table 1: Average Duration of Business Cycles in the United States of America (1845-2001)

Era	Number of Cycles	(Months)		
		Contraction	Expansion	Duration
1845-1919	16	22	27	48
1919-1945	6	18	35	53
1945-2001	10	10	57	67
1845-2001	32	17	38	55

Source: Business Cycles Expansions and Contractions. *National Bureau of Economic Research* :www.nber.org/cycles

Obviously, there are important queries concerning the topic of the business cycle, most important of which are:

- ✧ What is the cause of business cycles and to what extent are they caused by internal or external factors?
- ✧ What is the role of the state in dealing with business cycles?

We will devote the coming parts of ‘Economic Issues’ series to answer these questions as well as others.