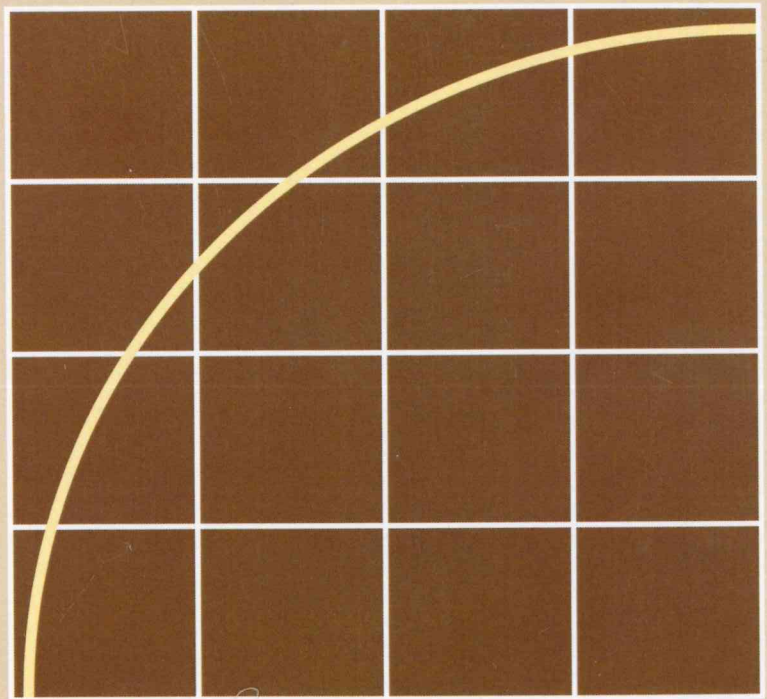


2011

Economic & Social Monitor



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

Volume 23
January



**Palestine Monetary Authority
(PMA)**



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



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

Quarterly
Economic and Social Monitor

Volume 23

January 2011

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January, 2011

Foreword

We are pleased to present the 23rd volume of the Economic and Social Monitor, which tracks the most significant economic and social trends that took place during the third quarter of 2010. This volume evaluates the national accounts in the third quarter (GDP in constant prices) and labor market conditions (labor force, unemployment and wages). This volume highlights the main results of the economic institutions survey (number of employees, production and value added). It also includes the traditional sections of governmental budget development, the banking sector, investment indices, prices and purchasing power during the third quarter. In addition, it presents the legal and legislative environment and Israeli measures during the same period. Finally, it highlights the results of cultural institutions survey of 2010 conducted by PCBS.

In light of the widening gap and decreasing communication between the West Bank and Gaza Strip, the reader will notice that there's some data lacking in regards to the latter. We hope that this division will come to an end in the near future so that sound and comprehensive economic policy may be formulated for the advancement of a unified Palestine.

On another note, this volume also includes six independent topical boxes addressing important local and international economic issues. The first box shows the main results of a report about the economical activities in Gaza Strip. The second box analyzes the results of the Global Entrepreneurship Monitor concerning the activities and conditions of entrepreneurs and the launching of new businesses in a number of countries in the Middle East and North Africa, including the Palestinian Territories. The third box revises the report issued by one of the World Bank organizations analyzing the activities of the World Bank in the Palestinian Territories over the last decade. The fourth box shows the Research and Development indicators in the West Bank; while the fifth box presents the successes and difficulties of the technology industry in Israel. Finally, the last box presents the "Happiness index", a better indicator of social and economic well-being than the traditional GDP per capita measures.

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Executive Summary

Economic Activity: Palestinian GDP has been stable between the 2nd and 3rd quarter of 2010, with a slight decline in the GDP per capita by 1.3%. However, GDP grew by 7.8% in the 3rd quarter 2010 compared to 3rd quarter 2009. As for the contribution of different economic sectors in GDP, the construction sector recorded the highest growth in contribution to GDP, reaching 14% compared to 2nd quarter 2010.

Labor Market: Quarterly data showed a decrease in employment numbers, from 755.9 thousand in the 2nd quarter 2010 to 709.5 thousand in the 3rd quarter 2010. The distribution of workers by place of work was: 63.5% in the West Bank, 26% in Gaza Strip and 10.5% in Israel and settlements. In addition, the unemployment rate in the Palestinian Territories increased to 26.6% during the 3rd quarter compared to 22.9% in the 2nd quarter. With regard to daily wages, the average daily wage in Gaza Strip equals about 67% of the wage rate in the West Bank, and 37.5% of the average wage of those working in Israel during the 3rd quarter of 2010. On the other hand, advertisements for job openings in newspapers amounted to a total of 1,724 ads. This represents a 30.3% increase compared with the 2nd quarter.

Economic Institutions in the Palestinian Territories (2009 survey): The PCBS published in November 2010 the annual survey for the economical institutions working in the Palestinian Territories in 2009. The number of economical institutions working in the Palestinian Territories within the economical activities covered in the survey was 102,483 institutions (29,759 in Gaza Strip and 72,724 in the West Bank). The number of workers in those institutes was 292,609 workers, with an increase of 13.4% compared to 2008. The total production of the economic activities in economical institutions working in the Palestinian Territories was \$5,717.2 million, with an increase of 10% compared to 2008.

Public Finance: Total government revenues in the 3rd quarter increased remarkably, to reach \$504.5 million (up almost 10.69%

compared to 2nd quarter 2010). In addition, total public expenditure decreased in the 3rd quarter by 5% to reach 768 million compared to the previous quarter. Public expenditure decrease and revenue increase resulted in the decrease of the budget deficit during the 3rd quarter to reach \$169.7 million compared to a \$300.1 million deficit in the 2nd quarter 2010.

Banking Sector: Net assets of banks operating in the Palestinian territories increased by 5.2% by the end of the 3rd quarter compared with the 2nd quarter of 2010. Total credit facilities reached \$2782.7 million during the 3rd quarter of 2010, an increase of 7.5% compared with the previous quarter. Additionally, the number of checks presented for clearing increased by 6.5%, as their value rose by 7.5% between the quarters. This increase (in the number and total value of checks presented for clearing) met the increase in the number and value of the returned checks, so its number increased by 1.2% and its value increased by 1% compared to the previous quarter.

Palestinian Securities Exchange: The number of shares traded in the market for the 3rd quarter, decreased by 57.6% to reach 36.3 million shares. The decrease of traded shares was accompanied by a sharp decrease in the value of shares between July and August, registering a decrease by 53.7% between the end of the 2nd and 3rd quarters of 2010. Finally, the Al-Quds index closed at 503.74 points at the end of the 3rd quarter, a decrease of 2.4% compared to the previous quarter.

Company registration: The number of companies registered in the West Bank witnessed a remarkable decrease of about 62% compared with the previous quarter. This comes as a result of the new procedures followed in company registration. The registry document is checked by the lawyers syndicate for 500 J.D for the regular public company and 700 J.D for the private stock-holding company, in addition to original registration fees. Total capital for newly registered companies in the West Bank amounted approximately to 23 J.D million, recording a decrease of 68.7% compared to the previous

quarter. Regarding the distribution of the listed companies, 3rd quarter data shows that the largest proportion of those companies- resembling the previous quarter- were in Ramallah and Al-Bireh (29.3%), Hebron(13.4%), Nablus and Bethlehem(11.6%).

Building licenses and cement imports: Factors which influence the number of building licenses are also very closely related to cement importation. The number of building licenses in the West Bank increased by 12% during the 2nd quarter of 2010 compared to the equivalent quarter in 2009. The number of licensed dwelling also increased, 610 more than in 2009. Furthermore, the amount of imported cement increased in the 3rd quarter of 2010 by 9% compared to the 3rd quarter of 2009. There has been no available data about building licenses and cement imports for the Gaza Strip.

Hotel Activity: The total number of guests in hotels located in the Palestinian Territories was 137,733 during the 3rd quarter of 2010, of which 11.1% Palestinian and 35.1% European. Compared to the 2nd quarter of 2010, it's vivid that there was a decrease in the number of guests by 1.7%, but a 1.3% increase from the 3rd quarter of 2009.

Prices and purchasing power: Compared to the previous quarter, the Consumer Price Index (CPI) in the Palestinian Territories increased by 1.32% during the 3rd quarter of 2010. At basic consumer price levels, the cost of fuel such as the fuel of the cars, recorded the highest decrease during the 3rd quarter amounting to 0.02%. Sugar recorded a remarkable increase of 8.52% compared to the previous quarter. Additionally, the producer price index increased by 0.58% during the 3rd quarter compared to the 2nd quarter. The Construction Price Index for residential and non-residential buildings in the West Bank during the 3rd quarter of 2010, increased by 0.42% compared to the 2nd quarter. Moreover, purchasing power of the US Dollar decreased by 5.3% and of the Jordanian Dinar decreased by 5.5%. This means that the first nine months of 2010 witnessed a remarkable decline of the Jordanian Dinar (3.8%), and the US Dollar (3.7%).

Legal and legislative environment: The president of the Palestinian Authority didn't issue any decisions about laws regarding the economic situation in the Palestinian Territories during the 3rd quarter. According to decisions issued by the president during the 2nd quarter of 2010, there's a significant progress regarding the application of prohibiting the selling of settlement goods and exchanging them with local goods. The Council of the Ministries, in its meeting held on 23/8/2010, decided to withdraw government cars from employees and transferring them to public service. This lies in the framework of the rationalization plan that the government follows.

Israeli measures: The number of martyrs reached 22 Palestinians in the 3rd quarter 2010, including 17 martyrs in the Gaza Strip, and 5 in the West Bank. Additionally, 158 were injured. The number of prisoners reached 673, mostly in the West Bank and two in the Gaza Strip. The occupation force continue its policy in placing permanent and temporary checkpoints throughout the West Bank reaching 613 in July, and 484 in August and 979 September. The crossing points between Gaza and Israel were closed 300 times during the 3rd quarter. Moreover, the crossing points between Gaza and Egypt were closed 95 times during the same period.

The cultural Institutions in the Palestinian Territories, 2010 Survey: The PCBS issued in October 2010, the results of the cultural institutions survey in the Palestinian Territories during the year. The number of cultural institutions in the Palestinian Territories was 611 institutions (475 institution in the West Bank and 136 in Gaza Strip). The cultural institutions were divided into 6 categories: cultural centers, which had the biggest portion of total cultural institutions (350 in the West Bank and 121 in Gaza Strip). Museums amounted to 6, distributed in the West Bank only. T.V and radio channels reached 45 channels in the West Bank versus 11 channels in Gaza Strip. Public libraries amounted to 65 (52 in the West Bank and 13 in Gaza Strip). Theaters amounted to 15 and publishing and distribution houses amounted to 9.

Areas of discussion in this issue: In this issue of the monitor, six different topics have been discussed separately in independent boxes.

Economic activity in Gaza Strip: “Portland Trust” institution published in December 2010 a brief report regarding the economic situation in Gaza Strip. The report began by presenting the development of the labor force and operations between 2006 and 2010. The report showed that the operating level in Gaza Strip remained the same (160 thousand workers). However, the distribution among sectors witnessed a radical change. The share of the public sector from the total operations increased from 28% in 2006 to 70% in 2010. The report confirmed that, regardless of the growth of the public sector in the preceding year (16%), and the optimism after the ending of the Israeli siege on Gaza, the situation didn’t improve a lot.

Global Entrepreneurship Monitor, regional report for the Middle East and North Africa, 2009: The Global Entrepreneurship Monitor (GEM) is a consortium of research institutions aiming at providing high-quality information regarding the level of entrepreneurial activities in the world. This regional report was issued in December 2010. The number of countries participating in the consortium for the Middle East and North Africa was 13 countries. The results show that the percentage of entrepreneurial spreading in the Palestinian Territories is only 3% (the least of the Middle East and North Africa). These low percentages compared to other countries, specifically the Middle East and North Africa, encouraged the researchers to formulate a group of recommendations to increase entrepreneurial rates among Palestinians.

The World Bank: “We didn’t succeed but we’re not responsible for the failure”: The World Bank published a report in October 2010 assessing the performance of the World Bank organizations in the Palestinian Territories during the preceding decade (2001-2009). On the contrary of the report issued in 2002, which assessed the performance of the World Bank organizations in the West Bank and Gaza Strip during 1993-2000, the recent report uniquely provided a more comprehensive coverage for the organizations activities. In addition, the recent report

provided a more sincere and realistic assessment for the World Bank activities in the Palestinian Territories. The report came up with a vital result:” The main goals that the Bank organizations are aiming at, are now further and harder to reach than in the nineties.” According to this result, the report recommends that: “The World Bank organization has to review its warrants, roles and activities in Gaza Strip and the West Bank. In addition, it must recognize that its efficiency in supporting the long-term growth goals depends mainly on the political framework of the Palestinian-Israeli relations”.

Research and Development in Palestine: The PCBS issued in November 2010, the results of the Research and Development indicators in the West Bank during 2009. The survey covered the High Education sectors, N.G.O’s and Palestinian Government institutions. The survey showed that total expenditure on research and development in the West Bank was \$29 million (approximately 0.54% of the GDP). Expenditure on research and development was divided as: 34.2% in government sector, 17.5% in N.G.O’s and 48.3% in High Education institutions. The number of researchers rose from 150 to 232 researchers for every million person in the West Bank during 2008 and 2009, respectively. In addition, the number of people working in research institute recorded a significant increase (90%) in 2009 compared to 2008.

The success and failure of technological activities in Israel: The “Economist” magazine published in its first volume this year, an article about the technology in Israel. The article pointed that during the last two decades, Israel shifted from a semi-socialist economy to a “superpower” in technology. Israel is the first country in launching “start up” companies and venture capital. The article dealt with 4 issues which doubt that this success will last for long, because the technological economy lies on a weak base. Secondly, Israel is poor at transferring its projects into big local institutions. Third, the activities of the Israeli technology companies are limited to “hardware” and “software”, and its contribution in the internet contents is very poor. Fourth, the “miracle technology” records on of the least participation rates in market

power between developed countries (only 55%). The article ends up with the following warning:” The problem facing the success of the Israeli economy in the long-run may not be its ability to establish companies, but its failure in merging the Arab-Israelis with Orthodox Jews, which are the 2 sections which will represent 1/3 of Israel citizens till 2015, in its framework.”

The Happiness Index: This box argue that the basic economical indices, like wages or GDP per capita, aren't sufficient or true indicators for social well-being. The average number of Japanese people who said that they're happy, for example, remained the same between 1958 and 1987, knowing that the wage of the typical Japanese increased 5 times during the same period. Also, the percentage of Americans who said that they're “very happy” remained the same (about 30%) from the fifties of the preceding century up till now. This box shows that many countries, like France, Britain and Canada became interested in increasing their interest in humanitarian indices, which measure happiness levels, instead of using traditional indicators.

1. Economic Activity – Overview

GDP has remained stable between the second and third quarters of 2010, with a slight decline in the GDP per capita (1.3%). Compared to the corresponding quarter of the previous year; however, GDP grew by 7.8% in the third quarter of 2010. This corresponds to a growth of 4.7% in GDP per capita. It is clear that the growth of the GDP is higher than the growth in per capita due to the population growth during that period.

Conditions in the labor market worsened during the third quarter of 2010 as the labor force participation rate fell by one percentage point and the unemployment rate rose to 26.6% (up more than 3 percentage points). Furthermore, the inflation rate increased significantly between the second and third quarters of 2010 – from almost zero to 1.32%. Given the rising unemployment rate, rising inflation is of much concern since those people who are out of work and living on a shrinking budget will have to cut costs even further.

Table 1: Key quarterly economic indicators in the Palestinian Territory (excluding Jerusalem) - in million US \$

| Index | 2 nd quarter 2009 | 3 rd quarter 2009 | 4 th quarter 2009 | 1 st quarter 2010 | 2 nd quarter 2010 | 3 rd quarter 2010 |
|--|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| GDP | 1,298.8 | 1,307.1 | 1,327.4 | 1,344.3 | 1,417.8 | 1409.5 |
| GDP per capita (USD) | 352.1 | 351.8 | 354.6 | 356.6 | 373.4 | 368.4 |
| Participation in labor force (%) | 41.4 | 41.7 | 41.6 | 40.7 | 41.5 | 40.5 |
| No. of workers (per thousand) | 738.7 | 709.2 | 724.2 | 743.7 | 755.9 | 709.5 |
| Unemployment rate (%) | 22.2 | 25.8 | 24.8 | 22.0 | 22.9 | 26.6 |
| Inflation rate (%) | 0.86 | 1.90 | 1.30 | 0.46 | 0.06 | 1.32 |
| Total domestic revenue | 355.3 | 453.8 | 397.3 | 447.1 | 455.5 | 504.2 |
| Total current public expenditure | 644.4 | 952.2 | 597 | 708.1 | 755.5 | 673.8 |
| Current budget deficit before funding | (289.1) | (498.4) | (199.7) | (261) | (300.1) | (169.7) |
| External funding for current budget | 148.3 | 663.4 | 284.2 | 207.6 | 317.6 | 177.9 |
| Current budget deficit after funding | (140.8) | 165 | 84.5 | (53.4) | 17.5 | 8.2 |
| Development Expenditures * | 61.8 | 56.8 | 58.6 | 50.4 | 52.5 | 94.2 |
| External funding for development expenditure | 12.7 | 5.1 | 9.9 | 2.2 | 22.2 | 16.9 |
| The total budget deficit before funding | (350.9) | (552.2) | (258.3) | (311.4) | (352.6) | (263.9) |
| The total budget deficit after funding | (189.9) | (113.3) | 35.8 | (101.6) | (12.9) | (92.2) |
| People deposits in the banks | 5,988.7 | 6,385.9 | 6,295.3 | 6495.5 | 6379.7 | 6621.3 |
| Credit facilities | 2,099.7 | 2,261.2 | 2,233.9 | 2,586.5 | 2587.7 | 2782.7 |
| Total public debt | | | 1,732 | 1,813 | 1,845 | 1,940 |
| -to local banks | | | 561 | 630 | 677 | 767.7 |

Source: Palestinian Central Bureau of Statistics provided National Accounts, Labor Market, Price indices data, and the Palestinian Monetary Authority provided the Indicators of Public Finance and Banking Indicators).

* Figures of national accounts at constant prices (base year 2004). Figures of 2009 quarters have been revised more than once, and they are still subject to further revision. Figures of the first quarter of 2010 have been revised once. Since this is the first version of the 2010 second-quarter, it is open to revision and editing.

** Inflation rate for the quarters was calculated by comparing the index of consumer prices in each quarter with the previous quarter.

*** Part of the development expenses was included in the small capital expenditures in January, February and March, 2009.

The PNA's budget balance has seen a remarkable improvement, while domestic revenues rose by about \$50 million, and expenditure in 2010 decreased by about \$80 million. This improvement is further illustrated by the availability of surplus \$8 million in the current expenditure budget (provided foreign funding has been received). The budget deficit in the third quarter of 2010 was lower than it had been in recent years due to the amount of foreign funding currently being received by the PNA. Nonetheless, the lack of external funding in relation to developmental spending led to an overall budget deficit (after receiving foreign funding) of \$ 92 million. The deficit was financed by borrowing from domestic and external sources, raising the public debt to \$ 1.9 billion (about 37% of GDP).

The sectoral distribution of GDP has not changed substantially during the third quarter (see Table 2). It is noteworthy that a comparison between corresponding quarters is better than comparison between successive quarters when assessing the sectoral contribution of GDP. This is due to the seasonal fluctuations in sectoral activity, such as the construction boom during summer months. Comparing the third quarter of 2010 with the third quarter of 2009, there was an increase of construction-to-GDP ratio of four percentage points, while the services sector contribution was two points. Yet the services sector remains the largest contributor to GDP – contributing almost a quarter.

Table 2: % Distribution of the sectoral contributions to GDP (excluding Jerusalem) (constant prices, base year 2004)

| Economic activity | 2009 | | | | 2010 | | |
|--|---------|---------|---------|---------|---------|---------|---------|
| | Q2 | Q3 | Q4 | Total | Q1 | Q2 | Q3 |
| Agriculture and fishing | 5.1 | 4.1 | 5.2 | 4.8 | 5.0 | 5.5 | 3.9 |
| Mining, manufacturing, water, electricity | 14.5 | 14.4 | 14.4 | 14.6 | 14.5 | 12.4 | 11.5 |
| Construction | 8.2 | 7.6 | 6.9 | 7.4 | 7.5 | 9.7 | 11.1 |
| Wholesale and retail trade | 10.2 | 10.6 | 10.9 | 10.7 | 10.7 | 10.7 | 11.1 |
| Transport, storage and telecommunications | 8.4 | 8.5 | 8.7 | 8.7 | 8.5 | 8.6 | 8.8 |
| Financial Intermediation | 5.3 | 5.7 | 5.8 | 5.5 | 5.8 | 5.5 | 5.6 |
| Services | 24.3 | 23.4 | 22.8 | 23.7 | 22.8 | 22.3 | 21.6 |
| Real Estate, Renting and Business | 9.6 | 8.7 | 7.8 | 8.9 | 8.0 | 8 | 7.2 |
| Community, social and personal service activities | 1.9 | 1.9 | 1.7 | 1.8 | 1.9 | 1.9 | 1.7 |
| Restaurants and hotels | 1.2 | 1.5 | 1.5 | 1.3 | 1.5 | 1.7 | 1.7 |
| Education | 8.7 | 8.5 | 8.9 | 8.8 | 8.7 | 8 | 8.4 |
| Health and social work | 2.9 | 2.8 | 2.9 | 2.9 | 2.7 | 2.7 | 2.6 |
| Public administration and defense | 14.0 | 14.3 | 14.7 | 14.5 | 14.7 | 14.2 | 14.5 |
| Home Services | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Less: financial intermediation services, clearing indirect | -5.2 | -5.4 | -5.4 | -5.3 | -5.1 | -4.8 | -5 |
| Plus: Customs duties | 6.0 | 6.2 | 5.8 | 5.8 | 5.5 | 6 | 6.5 |
| Plus: Imports net value added tax | 9.1 | 10.5 | 10.1 | 9.5 | 10.0 | 9.8 | 10.3 |
| GDP (%) | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| GDP | 1,298.8 | 1,307.1 | 1,327.4 | 5,147.2 | 1,344.3 | 1,417.8 | 1,409.5 |

Source: Central Bureau of Statistics 2010, National Accounts Statistics, Ramallah - Palestine.

The total value of the public sector companies was distributed to the wholesale, retail, real estate, rental, commercial, education, restaurants and hotels activities.

Box 1: Economic activity in the Gaza Strip

Portland Trust, a British non-governmental organization, released in December 2010 a brief report outlining the economic situation in the Gaza Strip. Based on a survey conducted by the Palestinian Federation of Industries, the report focused on the conditions of the productive private sector there¹. The report reviewed the development of the labor force and employment in Gaza between 2006 and 2010*. Table 1 shows that although the rate of employment in Gaza remained the same between 2006 and 2010 (160,000), the distribution of employment across sectors changed significantly.

Table 1: Labor Force and employment distribution in the Gaza Strip

| | 2006 | | 2010 | |
|----------------------------------|---------|----|---------|----|
| | Total | % | Total | % |
| Labor force | 265,000 | | 400,000 | |
| Employment | 160,000 | | 160,000 | |
| - in International organizations | 22,000 | 14 | 15,000 | 9 |
| - in the public sector | 45,000 | 28 | 112,000 | 70 |
| o PNA | 45,000 | 28 | 77,000 | 48 |
| o HAMAS | 0 | 0 | 35,000 | 22 |
| - in the private sector | 93,000 | 58 | 33,000 | 21 |
| o Agriculture | 18,000 | 11 | 10,000 | 6 |
| o Construction | 4,900 | 3 | 1,150 | 1 |
| o Industry | 33,150 | 21 | 6,546 | 4 |
| o Services | 38,000 | 24 | 15,000 | 9 |

Source: The Private Sector in Gaza, the Portland Trust, December, 2010.

The share of the public sector in total employment rose from 28% in 2006 to 70% in 2010. This was coupled with a decline in the share of the private sector – from 58% to 21%. During this period, the labor force increased by 135,000, while the unemployment rate rose from 39% to 60%. The 2010 report indicated that despite the 16% growth from the previous year, and regardless of the prevailing optimism after the Israeli announcement – in June 2010 –that the blockade on Gaza would be eased, the situation on the ground did not significantly improve. Recently, some consumer goods in Gaza have become more widely-available, however, the import of construction materials and other vital production supplies have remained virtually unavailable. Furthermore, Gaza has almost completely lost its ability to export. In response to widespread international pressure, Israeli authorities have recently announced their intention to allow the export of three types of goods from the Strip: agricultural products, furniture and simple industrial goods. Despite this, there has been no visible impact on the economic situation in Gaza.

There are approximately 13,000 businesses registered with the Gaza Strip Chamber of Commerce. Most of these are small businesses. There is currently no credible data available regarding the number of business that have gone bankrupt, closed down, or are still operating. There are also some 1,600 facilities registered in the Palestinian Federation of Industries. These most likely are representative of the hub of Gaza's private sector economy.

Table 2 provides a comparison between industrial and construction companies operating in the Gaza Strip between 2006 and 2010. The table shows that the number of companies operating in Gaza decreased by two-thirds from 2,577. In addition, the number of workers in these companies fell by almost 80%. This decline was most apparent in the apparel and mineral industries. Regarding employment, the handicraft, paper, and chemical industries saw the largest number of lay-offs. Contrastingly, approximately 80-85% of Gaza's plastic factories and food and beverages companies are still operating. It must be noted that most companies have been operating at no more than one third of their capacity.

¹ The Private Sector in Gaza. Economic Feature. The Portland Trust. December 2010.

* Note: All the figures in the box are taken from the source, and thus MAS does not assume any direct responsibility for the content and figures presented.

Table 2: Comparison between the industrial and construction companies operating in the Gaza Strip in 2006 and 2010

| Sector | 2006 | | 2010 | | |
|---------------------------|------------------|----------------|------------------|----------------|-----------------------|
| | No. of companies | No. of workers | No. of companies | No. of workers | Production capacity % |
| Clothing | 928 | 16000 | 200 | 1500 | 20 |
| Wood and furniture | 600 | 6000 | 300 | 2200 | 30 |
| Construction | 495 | 4900 | 161 | 1150 | 14 |
| Metals and engineering | 300 | 3500 | 45 | 200 | 25 |
| Plastic | 70 | 3500 | 60 | 1500 | 25 |
| Food and beverage | 40 | 1800 | 32 | 1000 | 50 |
| Chemicals and cosmetics | 44 | 300 | 9 | 18 | 10 |
| Paper and packaging | 16 | 200 | 8 | 18 | 15 |
| Textile | 20 | 250 | 5 | 20 | 10 |
| Leather industry | 32 | 300 | 6 | 80 | 30 |
| Hand traditional industry | 32 | 1300 | 10 | 10 | 5 |
| Total | 2577 | 38050 | 836 | 7696 | |

Source: The Private Sector in Gaza, the Portland Trust, December, 2010.

2. Labor Market

There are three main indicators determining the number of workers in the economy: the number of working-age population, the rate of participation in the labor market, and the rate of unemployment. The role of the labor market in stimulating growth and promoting economic activity is determined by human capital indicators – the physical capital available to workers – and the nature of the institutions that have a direct and an indirect impact on the production process.

In general, labor market conditions are directly correlated with the Palestinian economy. During 2010, unemployment rose mainly due to increases in the working-age population. Since weak demand – stemming partly from low levels of investment – from the private and public sectors does not meet the supply of workers, high unemployment rates abound in both the West Bank and Gaza.

2.1 The Labor Force and Rate of Participation

Labor disparities continue to grow between the West Bank and Gaza Strip. Labor participation

rates in the third quarter of 2010 were 43.0% in the West Bank and 36% in the Gaza Strip. A major cause of this disparity is the low rate of female participation in Gaza (10%) compared to the West Bank (16.3%). Furthermore, the rate of female participation in Gaza declined from 13.5% in the first quarter of 2009 to 10% in the third quarter of 2010. This is the lowest rate of female participation in Gaza since the beginning of 2009 (see Table 3).

According to quarterly data, the number of employees declined from 755,900 in the second quarter of 2010 to 709,500 in the third quarter of 2010. Quarterly data indicates a 2.7% increase in the wage-earner rate during the third quarter of 2010, compared to the second quarter of the same year (increasing from 66.8% to 68.6%). The participation rate of business owners and unpaid workers in family-run enterprises fell by 19% in the second quarter and by 4% in the third quarter of 2010 (see Table 4).

Table 3: Labor force participation rates of persons aged 15 years and over in the Palestinian Territory by Region and Sex for the 4 quarters of 2009 and the first three quarters of 2010

| Region and Sex | Percentage | | | | | | |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | Q1/2009 | Q2/2009 | Q3/2009 | Q4/2009 | Q1/2010 | Q2/2010 | Q3/2010 |
| Both sexes | | | | | | | |
| The West Bank | 42.8 | 44.4 | 43.7 | 44.1 | 43.2 | 43.9 | 43.0 |
| The Gaza Strip | 38.9 | 36.9 | 37.7 | 36.9 | 36.3 | 37.0 | 36.0 |
| Palestinian Territory | 41.4 | 41.7 | 41.6 | 41.5 | 40.7 | 41.5 | 40.5 |
| Males | | | | | | | |
| The West Bank | 68.5 | 69.6 | 69.5 | 70.5 | 70.0 | 69.6 | 69.1 |
| The Gaza Strip | 63.8 | 61.4 | 63.1 | 61.6 | 60.9 | 62.5 | 61.5 |
| Palestinian Territory | 66.9 | 66.7 | 67.2 | 67.3 | 66.7 | 67.1 | 66.4 |
| Females | | | | | | | |
| The West Bank | 16.5 | 18.7 | 17.3 | 17.1 | 15.8 | 17.6 | 16.3 |
| The Gaza Strip | 13.5 | 11.8 | 11.9 | 11.6 | 11.2 | 11.0 | 10.0 |
| Palestinian Territory | 15.4 | 16.2 | 15.4 | 15.1 | 14.1 | 15.2 | 14.0 |

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

Table 4: Distribution of workers in the Palestinian Territory by Employment, Status and Region- years 2008, 2009 and 2010

| Employment Status and Region | Percentage | | | | | | | | | | |
|------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | Q1/08 | Q2/08 | Q3/08 | Q4/08 | Q1/09 | Q2/09 | Q3/09 | Q4/09 | Q1/10 | Q2/10 | Q3/10 |
| West Bank | | | | | | | | | | | |
| Employer | 4.2 | 4.3 | 4.5 | 5.0 | 6.0 | 7.0 | 7.5 | 7.3 | 7.1 | 7.3 | 7.0 |
| Self-employed | 22.9 | 24.1 | 22.8 | 16.4 | 20.8 | 19.8 | 20.2 | 22.0 | 21.4 | 20.6 | 20.2 |
| Wage-earner | 64.2 | 60.4 | 62.2 | 67.9 | 64.6 | 62.5 | 63.1 | 62.0 | 63.3 | 62.3 | 64.9 |
| Unpaid family member | 8.7 | 11.2 | 10.5 | 10.7 | 8.6 | 10.7 | 9.2 | 8.7 | 8.2 | 9.8 | 7.9 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Gaza Strip | | | | | | | | | | | |
| Employer | 2.9 | 3.3 | 4.6 | 3.5 | 5.3 | 3.9 | 3.6 | 4.8 | 4.3 | 4.7 | 4.7 |
| Self-employed | 27.3 | 16.9 | 15.7 | 12.0 | 14.9 | 13.2 | 15.4 | 16.3 | 17.1 | 13.6 | 14.0 |
| Wage earner | 58.5 | 71.3 | 73.3 | 79.0 | 73.7 | 79.5 | 78.2 | 74.2 | 75.0 | 80.0 | 79.1 |
| Unpaid family member | 11.3 | 8.5 | 6.4 | 5.5 | 6.1 | 3.4 | 2.8 | 4.7 | 3.6 | 1.7 | 2.2 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Palestinian Territory | | | | | | | | | | | |
| Employer | 3.8 | 4.0 | 4.5 | 4.6 | 5.8 | 6.2 | 6.5 | 6.6 | 4.8 | 6.6 | 6.4 |
| Self-employed | 24.3 | 22.4 | 21.0 | 15.3 | 19.1 | 18.0 | 19.0 | 20.5 | 18.2 | 18.8 | 18.6 |
| Wage earner | 62.5 | 63.0 | 65.1 | 70.7 | 67.2 | 66.9 | 66.9 | 65.1 | 73.6 | 66.8 | 68.6 |
| Unpaid family member | 9.4 | 10.6 | 9.4 | 9.4 | 7.9 | 8.9 | 7.6 | 7.8 | 3.4 | 7.8 | 6.4 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

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

The quarterly data shows changes in the distribution rates of employees by economic activities. Compared to other sectors, agriculture witnessed the lowest participation rate in the third quarter of 2010 – particularly in the West Bank, where the rate of workers fell from 14.4% to 10.9% between the second and third quarters of 2010. In the Gaza Strip, there was a slight rise in the participation rate of workers in the agriculture sector (from 7.8% in the second quarter to 8% in the third quarter of 2010 (see Table 5).

During the third quarter of 2010, 63.5% of the workforce was employed in the West Bank, 26% in the Gaza Strip and 10.5% in Israel and settlements. The contribution of workers in the West Bank fell by only one percentage point between the second and third quarters, while the contribution of their counterparts in Gaza and Israel increased by less than one point each (see Table 6).

Table 5: Distribution of workers in the Palestinian Territory by Economic Activity and Region- years 2008, 2009 and 2010

| Economic Activity and Region | Percentage | | | | | | | | | | |
|-------------------------------------|------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | Q1/08 | Q2/08 | Q3/08 | Q4/08 | Q1/09 | Q2/09 | Q3/09 | Q4/09 | Q1/10 | Q2/10 | Q3/10 |
| Palestinian Territory | | | | | | | | | | | |
| Agriculture, fishing, and forestry | 12.9 | 14.9 | 12.7 | 13.0 | 11.7 | 12.3 | 10.7 | 12.4 | 11.8 | 12.7 | 10.2 |
| Mining, quarrying and manufacturing | 13.0 | 12.1 | 12.4 | 11.1 | 12.6 | 11.4 | 11.8 | 12.6 | 12.6 | 10.9 | 11.4 |
| Building and construction | 9.4 | 10.8 | 12.7 | 10.8 | 11.1 | 12.3 | 12.2 | 11.4 | 12.7 | 13.4 | 13.8 |
| Services and other branches | 38.5 | 38.2 | 37.2 | 39.4 | 40.5 | 40.4 | 39.4 | 37.9 | 37.7 | 38.4 | 38.9 |
| West Bank | | | | | | | | | | | |
| Agriculture, fishing, and forestry | 13.0 | 15.7 | 13.5 | 15.0 | 13.1 | 14.9 | 12.6 | 14.2 | 12.5 | 14.4 | 10.9 |
| Mining, quarrying and manufacturing | 16.2 | 14.5 | 15.0 | 13.9 | 15.4 | 13.9 | 13.8 | 15.0 | 15.1 | 13.2 | 13.6 |
| Building and construction | 12.7 | 14.1 | 16.8 | 14.2 | 15.1 | 16.5 | 16.0 | 15.1 | 17.0 | 17.1 | 17.2 |
| Services and other branches | 32.8 | 30.9 | 29.1 | 29.8 | 31.6 | 30.9 | 31.5 | 30.0 | 29.9 | 30.1 | 31.6 |
| Gaza Strip | | | | | | | | | | | |
| Agriculture, fishing, and forestry | 12.5 | 12.3 | 10.6 | 7.1 | 8.4 | 4.8 | 4.9 | 7.3 | 9.9 | 7.8 | 8.0 |
| Mining, quarrying and manufacturing | 5.5 | 4.6 | 4.8 | 2.7 | 5.6 | 4.2 | 6.0 | 5.7 | 6.0 | 3.8 | 5.1 |
| Building and construction | 1.6 | 0.4 | 0.7 | 0.8 | 1.0 | 0.7 | 0.9 | 1.0 | 1.3 | 2.5 | 4.0 |
| Services and other branches | 52.0 | 61.4 | 60.7 | 67.9 | 16.9 | 67.0 | 63.2 | 60.1 | 58.2 | 63.0 | 59.9 |

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

Table 6: Employment among persons aged 15 and older in the Palestinian Territory - by Place of Work.: 2008, 2009 and 2010

| Place of work | Q1/08 | Q2/08 | Q3/08 | Q4/08 | Q1/09 | Q2/09 | Q3/09 | Q4/09 | Q1/10 | Q2/10 | Q3/10 |
|----------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Manpower (per thousand) | 2,169.1 | 2,190.3 | 2,211.7 | 2,233.4 | 2,255.1 | 2,276.8 | 2,298.6 | 2,320.7 | 2,342.4 | 2,365.0 | 2,387.2 |
| Labor force | - | - | - | 896.1 | 934.0 | 949.8 | 955.4 | 963.5 | 953.9 | 980.4 | 966.9 |
| Employed (per thousand) | 675.8 | 666.7 | 665.4 | 664.2 | 697.1 | 738.7 | 709.2 | 724.2 | 743.7 | 755.9 | 709.5 |
| West Bank (%) | 59.0 | 65.3 | 62.4 | 62.9 | 61.6 | 63.7 | 63.9 | 64.2 | 61.7 | 64.6 | 63.5 |
| Gaza Strip (%) | 29.8 | 23.9 | 25.5 | 25.0 | 28.4 | 26.1 | 25.4 | 25.8 | 27.2 | 25.3 | 26.0 |
| Israel and Settlements (%) | 11.2 | 10.8 | 12.1 | 12.1 | 10.0 | 10.2 | 10.7 | 10.0 | 11.1 | 10.1 | 10.5 |

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

2.2 Unemployment

Chronic and high unemployment rates plague the Palestinian economy. Unemployment rates before the Al-Aqsa Intifada were lower than they are today; however, they have remained high since the beginning of the Israeli occupation (starting in 1967). Beginning in 2008, the unemployment rate in the Gaza strip increased dramatically as a result of the Israeli blockade. The unemployment rate in Gaza

reached 40.5% in the third quarter of 2010 – one of the highest rates of unemployment in the world. Table 7 illustrates that during this period the unemployment rate also worsened in the West Bank; rising by more than 32% during the third quarter compared to the second quarter of 2010. This is mainly due to the cohorts of university graduates entering the workforce during the third quarter.

Table 7: Unemployment rate among persons aged 15 years and over (who are part of the workforce) in the Palestinian Territory: by Region and Sex- years 2008, 2009 and 2010

| Region and Sex | Percentage | | | | | | | | | | |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | Q1/08 | Q2/08 | Q3/08 | Q4/08 | Q1/09 | Q2/09 | Q3/09 | Q4/09 | Q1/10 | Q2/10 | Q3/10 |
| Palestinian Territory | | | | | | | | | | | |
| Males | 22.7 | 26.5 | 27.3 | 29.1 | 25.7 | 21.6 | 24.9 | 24.3 | 21.1 | 22.4 | 25.4 |
| Females | 21.7 | 22.7 | 28.2 | 22.5 | 23.8 | 24.7 | 29.8 | 27.3 | 26.8 | 25.0 | 32.6 |
| Total | 22.6 | 25.8 | 27.5 | 27.9 | 25.4 | 22.2 | 25.8 | 24.8 | 22.0 | 22.9 | 26.6 |
| West Bank | | | | | | | | | | | |
| Males | 19.9 | 16.6 | 20.5 | 21.0 | 20.1 | 15.1 | 17.2 | 17.9 | 15.9 | 14.9 | 18.9 |
| Females | 15.0 | 15.2 | 21.6 | 14.9 | 16.8 | 18.8 | 20.3 | 19.1 | 19.1 | 16.4 | 25.3 |
| Total | 19.0 | 16.3 | 20.7 | 19.8 | 19.5 | 15.9 | 17.8 | 18.1 | 16.5 | 15.2 | 20.1 |
| Gaza Strip | | | | | | | | | | | |
| Males | 28.2 | 45.8 | 41.2 | 45.1 | 36.6 | 34.9 | 40.0 | 37.5 | 31.7 | 37.5 | 38.3 |
| Females | 39.3 | 43.3 | 45.7 | 42.9 | 39.0 | 41.6 | 54.7 | 48.9 | 46.0 | 49.7 | 53.9 |
| Total | 29.8 | 45.5 | 41.9 | 44.8 | 37.0 | 36.0 | 42.3 | 39.3 | 33.9 | 39.3 | 40.5 |

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

Unemployment characteristics in the Palestinian Territory:

- ✧ Workers aged 15-24 suffer from high unemployment (42.5%). This means that a large number of the unemployed are new entrants to the labor market (see Table 8).
- ✧ Concentrated among the least qualified males: In terms of years of education, there is a substantial difference between unemployed males and females. As illustrated in Table 9, lower education equates to a higher unemployment rate among males. However, this is the opposite among females. While the unemployment rate for females who completed 13 years or more of schooling is 41.6%, it has never exceeded 2.7% among uneducated females.
- ✧ The unemployment rate is significantly higher among females.

Table 8: Unemployment rate among persons aged 15 years and over (who are part of the workforce) in the Palestinian Territory: by Sex and Age Group- years 2008, 2009 and 2010

| Age Group and Sex | Percentage | | | | | | | | | | |
|-------------------|------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | Q1/08 | Q2/08 | Q3/08 | Q4/08 | Q1/09 | Q2/09 | Q3/09 | Q4/09 | Q1/10 | Q2/10 | Q3/10 |
| Both sexes | | | | | | | | | | | |
| 15-24 | 37.0 | 39.7 | 42.1 | 41.7 | 39.1 | 35.7 | 40.9 | 39.7 | 35.3 | 37.4 | 42.5 |
| 34-25 | 21.9 | 25.6 | 27.8 | 26.7 | 25.1 | 23.2 | 26.9 | 24.6 | 22.4 | 23.8 | 28.0 |
| 35-44 | 16.6 | 20.5 | 18.7 | 22.0 | 19.5 | 14.7 | 16.8 | 16.7 | 15.5 | 14.2 | 16.6 |
| 45-54 | 15.7 | 18.2 | 19.7 | 19.7 | 17.0 | 15.1 | 17.3 | 18.0 | 14.7 | 14.8 | 18.2 |

| Age Group and Sex | Q1/08 | Q2/08 | Q3/08 | Q4/08 | Q1/09 | Q2/09 | Q3/09 | Q4/09 | Q1/10 | Q2/10 | Q3/10 |
|-------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| 55+ | 11.1 | 11.9 | 15.3 | 19.4 | 15.6 | 10.9 | 10.3 | 13.7 | 12.3 | 15.6 | 15.5 |
| Total | 22.6 | 25.8 | 27.5 | 27.9 | 25.4 | 22.2 | 25.8 | 24.8 | 22.0 | 22.9 | 26.6 |
| Males | | | | | | | | | | | |
| 15-24 | 35.0 | 38.6 | 39.4 | 41.7 | 38.0 | 33.1 | 38.7 | 38.8 | 33.7 | 35.6 | 39.2 |
| 34-25 | 21.4 | 25.4 | 26.5 | 27.1 | 24.0 | 21.0 | 23.9 | 22.1 | 19.0 | 21.6 | 24.9 |
| 35-44 | 17.6 | 22.6 | 20.7 | 23.9 | 21.4 | 15.6 | 17.8 | 17.6 | 15.4 | 14.6 | 17.2 |
| 45-54 | 18.2 | 20.4 | 22.1 | 22.5 | 19.4 | 17.5 | 19.7 | 19.6 | 16.9 | 17.2 | 20.6 |
| 55+ | 13.4 | 14.6 | 18.2 | 23.3 | 17.9 | 13.1 | 11.4 | 15.3 | 14.5 | 18.8 | 17.4 |
| Total | 22.7 | 26.5 | 27.3 | 29.1 | 25.7 | 21.6 | 24.9 | 24.3 | 21.1 | 22.4 | 25.4 |
| Females | | | | | | | | | | | |
| 15-24 | 47.3 | 44.6 | 55.0 | 41.9 | 44.6 | 47.4 | 51.1 | 44.4 | 44.3 | 46.9 | 59.5 |
| 34-25 | 24.1 | 26.1 | 33.1 | 25.2 | 29.4 | 31.0 | 38.8 | 34.6 | 36.1 | 32.7 | 41.0 |
| 35-44 | 11.2 | 11.7 | 9.1 | 11.8 | 10.6 | 10.8 | 12.4 | 12.5 | 16.2 | 12.1 | 13.8 |
| 45-54 | 3.9 | 7.8 | 7.4 | 5.5 | 5.2 | 3.1 | 5.0 | 9.4 | 3.1 | 3.4 | 5.1 |
| 55+ | 2.9 | 1.7 | 2.3 | 3.0 | 6.0 | 0.9 | 4.6 | 5.0 | 1.5 | 1.7 | 2.1 |
| Total | 21.7 | 22.7 | 28.2 | 22.5 | 23.8 | 24.7 | 29.8 | 27.3 | 26.8 | 25.0 | 32.6 |

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

Table 9: Unemployment rate among persons aged 15 years and over (who are part of the workforce) in the Palestinian Territory: by Sex and Years of Schooling- years 2008, 2009 and 2010

| Years of Schooling and Sex | Percentage | | | | | | | | | | |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | Q1/08 | Q2/08 | Q3/08 | Q4/08 | Q1/09 | Q2/09 | Q3/09 | Q4/09 | Q1/10 | Q2/10 | Q3/10 |
| Both sexes | | | | | | | | | | | |
| 0 | 7.8 | 11.9 | 16.9 | 11.9 | 14.5 | 13.1 | 14.8 | 16.9 | 10.5 | 14.4 | 15.9 |
| 6-1 | 23.7 | 28.9 | 30.1 | 33.9 | 29.2 | 23.8 | 27.8 | 26.6 | 24.5 | 24.9 | 28.0 |
| 7-9 | 22.4 | 27.5 | 29.1 | 29.8 | 27.2 | 22.0 | 26.8 | 25.9 | 23.2 | 23.9 | 27.7 |
| 10-12 | 23.8 | 25.2 | 25.4 | 29.5 | 26.3 | 22.6 | 25.1 | 24.1 | 20.8 | 22.9 | 24.9 |
| 13+ | 21.9 | 24.5 | 27.9 | 22.9 | 22.1 | 21.8 | 25.5 | 24.6 | 22.1 | 21.8 | 27.5 |
| Total | 22.6 | 25.8 | 27.5 | 27.9 | 25.4 | 22.2 | 25.8 | 24.8 | 22.0 | 22.9 | 26.6 |
| Males | | | | | | | | | | | |
| 0 | 16.0 | 25.3 | 27.5 | 21.6 | 25.8 | 23.9 | 22.7 | 32.0 | 20.7 | 27.2 | 24.4 |
| 6-1 | 26.3 | 32.9 | 34.4 | 38.1 | 32.8 | 27.2 | 31.2 | 29.3 | 27.2 | 28.4 | 30.6 |
| 7-9 | 23.8 | 29.0 | 31.1 | 31.7 | 28.3 | 23.4 | 28.4 | 27.2 | 24.1 | 25.3 | 29.1 |
| 10-12 | 25.4 | 26.5 | 26.6 | 30.6 | 27.1 | 23.3 | 26.0 | 25.1 | 21.5 | 23.9 | 25.2 |
| 13+ | 15.7 | 19.8 | 20.2 | 18.6 | 17.0 | 14.7 | 16.9 | 17.3 | 13.7 | 14.1 | 19.3 |
| Total | 22.7 | 26.5 | 27.3 | 29.1 | 25.7 | 21.6 | 24.9 | 24.3 | 21.1 | 22.4 | 25.4 |
| Females | | | | | | | | | | | |
| 0 | 1.2 | 2.3 | 4.8 | 3.1 | 4.5 | 0.7 | 5.3 | 2.7 | - | 1.5 | 2.7 |
| 6-1 | 8.5 | 7.5 | 6.3 | 7.2 | 4.9 | 4.0 | 6.0 | 6.4 | 5.1 | 3.5 | 5.2 |
| 7-9 | 5.5 | 11.0 | 4.4 | 6.8 | 11.8 | 5.5 | 6.1 | 10.0 | 10.6 | 7.7 | 7.7 |
| 10-12 | 7.3 | 14.2 | 12.1 | 18.1 | 19.1 | 15.3 | 13.1 | 12.8 | 13.4 | 10.7 | 20.8 |
| 13+ | 33.8 | 33.1 | 41.8 | 30.5 | 31.0 | 33.7 | 40.2 | 37.5 | 37.2 | 35.3 | 41.6 |
| Total | 21.7 | 22.7 | 28.2 | 22.5 | 23.8 | 24.7 | 29.8 | 27.3 | 26.8 | 25.0 | 32.6 |

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

2.3 Wage and working Hours

The average daily wage in the Gaza Strip in the third quarter of 2010 is only about 67% of that of the daily wage in the West Bank, and 37.5% of the wage rate of Palestinians working in Israel (Table 10). This represents a decline in the Gaza Strip from the previous quarter, where the average wage was 69% of

the wage rate in the West Bank. The median daily wage in Gaza reflects wage disparities between the Gaza Strip and the West Bank. Although large wage differentials existed prior to the Israeli siege and blockade of Gaza, the present situation has heightened wage differences and economic instability

Table 10: Average weekly working hours, monthly working days and daily wage of known-wage workers (in NIS) in the Palestinian Territory: by Place of Work- years 2008, 2009 and 2010

| Place of work | Average weekly hours | Average monthly working days | Average daily wage | Median daily wage |
|------------------------|----------------------|------------------------------|--------------------|-------------------|
| Quarter 4, 2008 | | | | |
| West Bank | 43.1 | 22.7 | 87.4 | 76.9 |
| Gaza Strip | 39.9 | 25.0 | 61.2 | 57.7 |
| Israel & Settlements | 44.7 | 21.6 | 138.0 | 134.6 |
| Total | 42.7 | 23.0 | 90.6 | 76.9 |
| Year 2008 | | | | |
| West Bank | 42.5 | 22.4 | 85.5 | 76.9 |
| Gaza Strip | 40.8 | 24.7 | 60.9 | 57.7 |
| Israel & Settlements | 43.6 | 20.9 | 139.7 | 146.2 |
| Total | 42.4 | 22.6 | 91.0 | 76.9 |
| Quarter 1, 2009 | | | | |
| West Bank | 42.0 | 22.1 | 83.8 | 76.9 |
| Gaza Strip | 38.8 | 21.3 | 62.2 | 57.7 |
| Israel & Settlements | 42.8 | 20.9 | 142.1 | 150.0 |
| Total | 41.5 | 22.2 | 89.5 | 76.9 |
| Quarter 2, 2009 | | | | |
| West Bank | 42.7 | 22.6 | 86.6 | 76.9 |
| Gaza Strip | 39.5 | 24.9 | 64.0 | 57.7 |
| Israel & Settlements | 42.5 | 20.1 | 145.9 | 150.0 |
| Total | 41.9 | 22.7 | 76.9 | 90.7 |
| Quarter 3, 2009 | | | | |
| West Bank | 43.3 | 22.7 | 87.5 | 76.9 |
| Gaza Strip | 41.2 | 23.9 | 62.1 | 57.7 |
| Israel & Settlements | 41.4 | 20.2 | 147.7 | 150.0 |
| Total | 42.5 | 22.5 | 93.2 | 76.9 |
| Quarter 4, 2009 | | | | |
| West Bank | 42.3 | 22.3 | 85.6 | 76.9 |
| Gaza Strip | 38.1 | 23.7 | 62.3 | 54.7 |
| Israel & Settlements | 40.2 | 20.2 | 156.4 | 150.0 |
| Total | 41.0 | 22.3 | 91.8 | 76.9 |
| Year 2009 | | | | |
| West Bank | 42.5 | 22.4 | 85.9 | 76.9 |
| Gaza Strip | 39.4 | 23.6 | 62.7 | 57.7 |
| Israel & Settlements | 41.7 | 20.3 | 148.1 | 150.0 |
| Total | 41.7 | 22.3 | 91.3 | 76.9 |
| Quarter 1, 2010 | | | | |
| West Bank | 42.8 | 22.0 | 85.7 | 76.9 |
| Gaza Strip | 39.1 | 23.1 | 56.9 | 46.2 |

| Place of work | Average weekly hours | Average monthly working days | Average daily wage | Median daily wage |
|------------------------|----------------------|------------------------------|--------------------|-------------------|
| Israel & Settlements | 39.6 | 20.1 | 160.8 | 150.0 |
| Total | 41.3 | 21.9 | 92.5 | 76.9 |
| Quarter 2, 2010 | | | | |
| West Bank | 43.6 | 22.6 | 84.1 | 76.9 |
| Gaza Strip | 38.8 | 23.7 | 58.1 | 50.0 |
| Israel & Settlements | 39.4 | 20.5 | 155.5 | 150.0 |
| Total | 41.8 | 22.3 | 89.8 | 76.9 |
| Quarter 3, 2010 | | | | |
| West Bank | 43.4 | 22.4 | 86.6 | 76.9 |
| Gaza Strip | 39.9 | 23.2 | 58.0 | 50.0 |
| Israel & Settlements | 39.4 | 21.3 | 154.7 | 150.0 |
| Total | 41.9 | 22.4 | 92.4 | 76.9 |

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

2.4 Vacancy Announcements

The Monitor keeps count of the number of vacancies advertised in the local daily newspapers in order to keep track of and record local demand for Palestinian labor. Although job openings advertised in the daily newspapers do not account for all employment opportunities available to Palestinians, they do provide for a better understanding of demand for certain specializations and academic degrees. In addition, they

demonstrate the geographical distribution of jobs. It should be noted that governmental vacancies must be announced to the public by law. Article (19) of the Civil Service Law No. (4) for 1998 states that “governmental institutions shall announce vacancies... in two daily newspaper two weeks after the position becomes available. The announcement shall include information about the job and conditions of employment.”

Table 11: Vacancy announcements in daily newspapers in the Palestinian Territory during quarters two and three of 2010

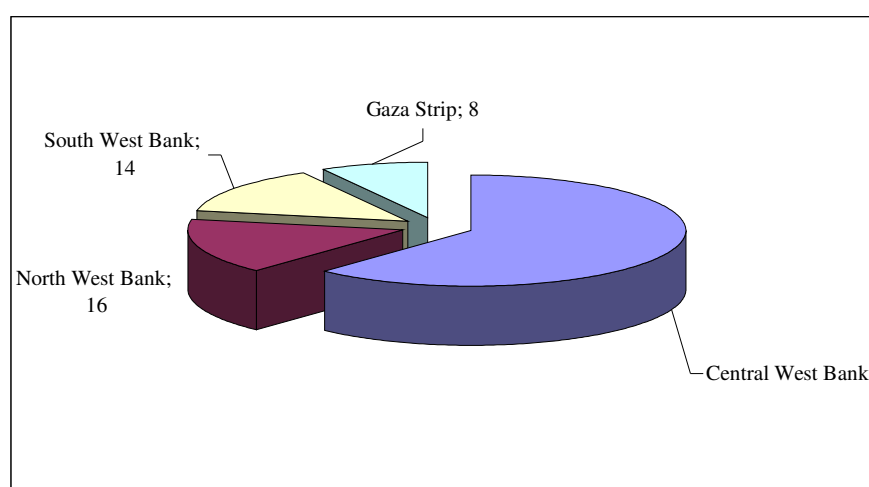
| | Q2/2010 | | | | Q3/2010 | | | |
|-----------------------------|------------|------------|------------|--------------|------------|------------|------------|--------------|
| | April | May | June | Total | April | May | June | Total |
| By sector | | | | | | | | |
| Private sector | 163 | 202 | 196 | 561 | 260 | 177 | 242 | 679 |
| Public sector | 46 | 36 | 96 | 178 | 142 | 128 | 144 | 414 |
| NGOs | 169 | 267 | 148 | 548 | 220 | 224 | 187 | 631 |
| By geographical area | | | | | | | | |
| North West Bank | 31 | 76 | 71 | 178 | 118 | 50 | 106 | 274 |
| Central West Bank | 273 | 285 | 307 | 865 | 377 | 356 | 332 | 1,065 |
| South West Bank | 46 | 53 | 41 | 140 | 95 | 53 | 98 | 246 |
| Gaza Strip | 28 | 91 | 21 | 140 | 32 | 70 | 37 | 139 |
| By academic degree | | | | | | | | |
| PhD | 17 | 11 | 8 | 36 | 4 | 13 | 0 | 17 |
| MA | 34 | 26 | 25 | 85 | 26 | 60 | 14 | 100 |
| BA | 247 | 364 | 318 | 929 | 423 | 327 | 352 | 1,102 |
| 2-year Diploma | 53 | 53 | 42 | 148 | 54 | 60 | 99 | 213 |
| Less | 27 | 51 | 47 | 125 | 115 | 69 | 108 | 292 |
| Total | | | | | | | | |
| | 378 | 505 | 440 | 1,323 | 622 | 529 | 573 | 1,724 |

Source: Mas compiled this data from *Al-Quds*, *Al-Ayyam* and *Al-Hayat* daily newspapers and from the website www.jobs.ps

Job announcements in the third quarter of 2010² totaled 1,724, an increase of 30.3% from the previous quarter (see Table 11). The number of announcements that did not specify an actual number of vacancies was 117. This means that the number of vacancies was higher than the number of announcements. The percent increase of job announcements was highest in the public sector (132.6%) and lowest in the NGO sector (15%). Overall, the West Bank private sector offered the most

jobs, taking up 34% of announcement in the third quarter. Additionally, vacancy announcements in the north, south and central West Bank rose by 53.9%, 75.7% and 23.1%, respectively. In the Gaza Strip, there was virtually no change in the number of job advertisements (140 announcements in the 2 quarters). Figure 1 shows the relative distribution of vacancy announcements to the geographical areas in the third quarter of 2010.

Figure 1: Relative Distribution of the Vacancies Advertised in Newspapers by Geographical Area during the third quarter of 2010



Source: MAS collected this data from *Al-Quds*, *Al-Ayyam* and *Al-Hayat* daily newspapers and from the website www.jobs.ps

With regard to vacancy announcements by qualification in the third quarter of 2010, 63.9% of soliciting employers sought applicants with bachelor's degrees, while 17% were seeking applicants with secondary school certificates or less. Of the NGOs advertising job vacancies, roughly 75% requested applicants with bachelor's degrees,

and about 9% were seeking applicants with Master's degrees (See table 12).

The demand for administrative sciences and economics graduates took the lead in the third quarter of 2010 with a total of 37.5%. The demand for humanities and applied sciences came second, nearly 20% each.

Table 12: Number of job vacancies announced in daily newspapers- by Qualification and Sector during the second and third quarters of 2010

| Quarter | Q2/2010 | | | Q3/2010 | | |
|------------------|---------------|----------------|------------|---------------|----------------|------------|
| | Public sector | Private sector | NGOs | Public sector | Private sector | NGOs |
| PhD | 1 | 0 | 35 | 7 | 0 | 10 |
| MA | 4 | 5 | 76 | 37 | 8 | 55 |
| BA | 141 | 364 | 424 | 225 | 407 | 470 |
| Two-year Diploma | 22 | 92 | 34 | 97 | 65 | 51 |
| Less | 10 | 100 | 15 | 48 | 199 | 45 |
| Total | 178 | 561 | 584 | 414 | 679 | 631 |

Source: Mas compiled these data from *Al-Quds*, *Al-Ayyam* and *Al-Hayat* daily newspapers and from the website www.jobs.ps

² The Ministry of Education in the Gaza Strip said that in August 2010, it appointed 1206 teachers in the Strip. These figures were not included in the analysis in order to avoid swelling in figures.

Table 13: Number of vacancies by specialization and sector during the third quarter of 2010

| Specialization | West Bank | | | Gaza Strip | | | Total |
|--|---------------|----------------|------------|---------------|----------------|------------|-------------|
| | Public sector | Private sector | NGOs | Public sector | Private sector | NGOs | |
| Medical and health sciences (medicine, nursing, pharmacy, etc) | 43 | 42 | 31 | 4 | 1 | 11 | 132 |
| Human and social sciences (sociology, psychology, media, arts, etc.) | 73 | 64 | 162 | 0 | 4 | 43 | 346 |
| Applied sciences (engineering, information technology, physics, chemistry, etc.) | 107 | 138 | 75 | 0 | 4 | 16 | 340 |
| Administrative and economic sciences (management, marketing, accounting, etc.) | 122 | 259 | 222 | 4 | 6 | 34 | 647 |
| Other (artisans, technicians, maintenance, secretariat, etc.) | 60 | 161 | 30 | 1 | 0 | 7 | 259 |
| Total | 405 | 664 | 520 | 9 | 15 | 111 | 1724 |

Source: Mas compiled these data from *Al-Quds*, *Al-Ayyam* and *Al-Hayat* daily newspapers and from the website www.jobs.ps

Box 2: Global Entrepreneurship Monitor: 2009 Regional Report The Middle East and North Africa

The Global Entrepreneurship Monitor (GEM) is an academic research consortium that produces and makes available high quality information and statistics regarding global entrepreneurial activity. The goal of the GEM is to make this information available to as wide an audience as possible. In December 2010, GEM released the 2009 regional report. This report was created by an academic research consortium of 13 countries spanning the Middle East and North Africa – of which the Palestine Economic Policy Research Institute (MAS) is a contributing member.²

The International Development Research Center (Canada) funded the participation of seven of these countries: Algeria, Jordan, Lebanon, Morocco, Palestine, Syria, and Yemen. MAS analyzed data from the Global Entrepreneurship Monitor in these seven countries and compared regional entrepreneur performance.

The report includes nine chapters. The first chapter overviews entrepreneurship rates in Middle Eastern and North African countries. Chapter II identifies entrepreneurs in the region under study – along with their motives for engaging in entrepreneurship. The third chapter discusses varying types of start-up businesses/activities present in these countries. Chapter IV features start-up requirements, including capital and sources of funding and training. Chapter V addresses the main causes of refraining from entrepreneurship in the countries of the region. Chapter VI reviews the cultural and social context of entrepreneurship. Chapter VII examines the impact of the global economic crisis on entrepreneurship. Chapter VIII seeks to devise policies and tendencies needed in order to support the survival of entrepreneurial enterprises and encourage more people to start new projects. Chapter IX summarizes the main features of entrepreneurship in the seven countries.

Entrepreneurship in the Palestinian Territory³:

Survey results show that the rate of entrepreneurship in the Palestinian Territory was only 3% (i.e., in 2009 there were around 56 thousand young entrepreneurs ages 18-64 who were attempting to start new ventures). Data also indicates that only 6% of Palestinians took part in new ventures (i.e., there are another 111,000 nascent entrepreneurs ages 18-64 who have start-up ventures of less than three years and a half). Perhaps these rates are not surprising given the difficult, unstable conditions in the Palestinian Territory (see the table).

² Global Entrepreneurship Monitor: 2009 Regional Report (the Middle East and North Africa). The International Development Research Center and Palestinian Economic Policy Institute (MAS), December, 2010.

³ There are many terms the Global Entrepreneurship Monitor uses as indicators. Entrepreneurship refers to the percentage of nascent entrepreneurs aged 18-64 (who are engaged in starting enterprises that they will own by themselves or in partnerships with others, provided that they receive no salaries or wages for their work in the enterprises for more than three months). The term may also refer to new business owners (individuals who own and manage a new business that has paid salaries for more than three months but less than 42 months. See the report for more details on the Global Entrepreneurship Monitor indicators.

**Table 1: Entrepreneurship in the Palestinian Territory
by Demographic Factors**

| Entrepreneurship activity | Prevalence among 18-64 population (%) | Ranking among the 7 countries of the Middle East and North Africa |
|---|---------------------------------------|---|
| Activity stage | | |
| Nascent entrepreneurs | 3 | 7 |
| New business owners | 5.9 | 4 |
| Entrepreneurs who may start a business within three years | 26.2 | 6 |
| Gender | | |
| Nascent activity- males | 13.6 | 7 |
| Nascent activity- females | 3.4 | 6 |
| Age group | | |
| 18-24 | 5.2 | 7 |
| 25-34 | 10.5 | 7 |
| 35-44 | 10.2 | 6 |
| 45-54 | 7.9 | 5 |
| 55-64 | 10.4 | 3 |
| Level of education | | |
| Illiterate | 4.4 | 7 |
| Less than 12 years of schooling | 6.7 | 7 |
| 12 years of schooling | 8.8 | 7 |
| BA | 14.7 | 5 |
| Graduate studies | 25 | 1 |
| Population classification by income | | |
| Lower third | 6 | 5 |
| Middle third | 7.1 | 7 |
| Upper third | 10.4 | 7 |
| Region | | |
| Urban | 7.7 | 7 |
| Rural | 11 | 5 |
| Workforce | | |
| Full or part-time job | 17.7 | 6 |
| Looking for job | 6.8 | 3 |
| Student | 4.5 | 4 |
| Retired | 4.5 | 5 |
| Housewife | 1.3 | 7 |

We can conclude from the table that:

- ✧ Entrepreneurship among males in the Palestinian Territory is four times higher than the rate among females (13.6% compared to 3.4%). This is the second largest gender gap among the Middle East and North Africa countries- after Syria.
- ✧ Entrepreneurship is lowest among adults aged 18-24 (5.2%). This rate rises to 8% among adults aged 45-54, while the rates are constant for other age groups (10%).
- ✧ Entrepreneurship rates are higher among people with high levels of education compared to those with low levels of education (25% and 4.4%, respectively).
- ✧ The higher the family income, the higher the rate of entrepreneurship (6% in the lower third compared to 10.4% in the upper third).
- ✧ Nascent entrepreneurship among rural adults is higher than among their counterparts from urban areas (11% compared to 7.7%).
- ✧ With respect to the labor force, entrepreneurship rates among adults who work full or part-time, reaching 17.75, are significantly higher than in other groups.

It is self-evident that the 3% rate of nascent entrepreneurs in the Palestinian Territory during 2009 was the lowest among Middle Eastern and North African countries⁴. Low entrepreneur participation rates in the Palestinian Territory prompted the authors of this report to suggest a set of recommendations that would increase rates of entrepreneurship among the Palestinians:

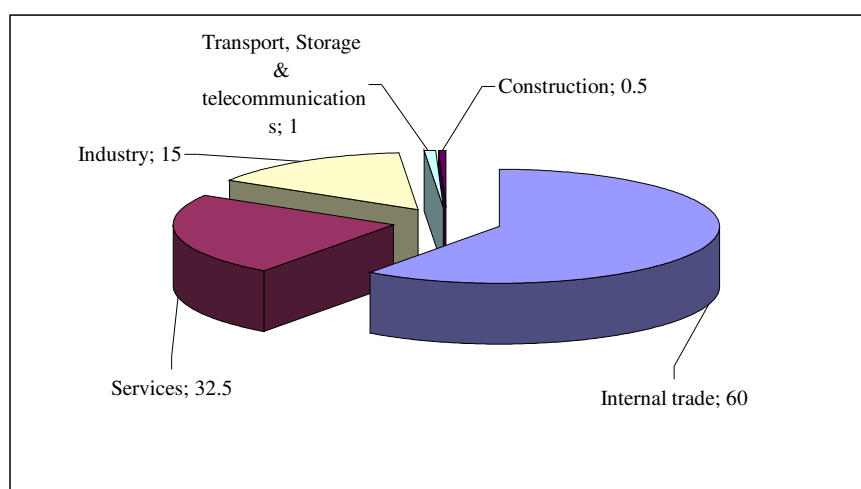
- ❖ Policy-makers should consider implementing measures that aim to promote entrepreneurship among women, thereby narrowing the gender gap.
- ❖ Entrepreneurship is lowest among 18-24 year-olds than the rest of the population. It is necessary for policy makers to promote entrepreneurship among young people to create a new generation of entrepreneurs in the future.
- ❖ A technical support center at the provincial level should be created in order to provide development services for businesses from the very beginning in order to be able to enter the market to avoid early failure.

3. Economic Institutions in the Palestinian Territory (2009 survey)

In October 2010, the Palestinian Central Bureau of Statistics released a survey concerning cultural institutions operating in the Palestinian Territory in 2009.⁶ The survey provided statistical data on most key economic indicators, such as the number of

institutions, the number of employees, production, indemnities for paid-employees, intermediate consumption aggregates, and value-added. Essentially, the survey provides a detailed database on numerous economic activities.

Figure 2: Relative distribution of the institutions operating in the Palestinian Territory- by Economic Activity, 2009



Source: Palestinian Central Bureau of Statistics, Economic Surveys Series for the year 2009.

In 2009, 102,483 economic enterprises were operating in the Palestinian Territory (29,759 in the Gaza Strip and 72,724 in the West Bank). These institutions were grouped into five categories according to their primary economic activity: (1) internal trade activities, which accounted for 60% of the total

economic institutions operating in the Palestinian Territory in 2009 (about 61,340), (2) service institutions (24%), (3) industrial activities (with 15% contribution), (4) transport, storage and telecommunications (1%), and (5) the construction sector (0.5%) share of total institutions (see Figure 2).

⁴ The rate of nascent entrepreneurs in Yemen, for example, was more than 22% during 2009.

⁶ Palestinian Central Bureau of Statistics, *Economic Surveys Series* for the year 2009. November 2010.

3.1 Number of Employees

With an increase of 13.4% from 2008, the number of workers in enterprises operating in the Palestinian Territory rose to 292,609 in 2009 (Table 14). Despite the low number of institutions working in the construction sector, this sector reported the highest increase in the number of workers compared to other industries (an increase of 20% from 2008).

Similarly, the number of workers in the services sector increased by 17% during the same period. The Israeli blockade on the Gaza Strip has negatively affected the construction, transport and telecommunications sectors in Gaza. Consequently, Gazan construction workers accounted for only 14% of total West Bank workers in 2009.

Table 14: Number of workers in different economic enterprises in the West Bank and the Gaza Strip- 2009

| Economic activity | West Bank | Gaza Strip | Relative weight % (Gaza-West Bank) |
|----------------------------------|-----------|------------|------------------------------------|
| Industry | 54,064 | 12,988 | 24 |
| Construction | 4,558 | 642 | 14 |
| Internal trade | 82,090 | 42,943 | 52 |
| Services | 61,407 | 24,349 | 40 |
| Transport and telecommunications | 8,107 | 1,461 | 18 |
| Total | 210,226 | 82,383 | 39 |

Source: Palestinian Central Bureau of Statistics. Economic Surveys Series for the year 2009.

3.2 Total Production

Total production value generated by economic institutions operating in the Palestinian Territory in 2009 was \$ 5,717.2 million (an increase of 10% from 2008). The construction sector witnessed the highest increase, 40.9%, while internal trade and industrial activities had respective increases of 12.7% and 11.5%. Meanwhile, the service sector and the transport, storage and telecommunications sector saw slight increases in production of 2.7% and 2.6% respectively.

Regionally, Gaza only contributed about 16% to the total production of the Palestinian Territory in 2009 (see table 15). When comparing the 2009 output value with the previous year, we notice that⁷:

- ✧ The value of production increased in both the West Bank and the Gaza Strip during

2009 compared to 2008. While the West Bank saw a 6% increase, production in the Gaza Strip rose by 45%. For the most part, this boom is attributed to the partial opening of border crossings in 2009, compared to the strict closures in 2008.

- ✧ Construction companies in the West Bank reported the highest increase in production value during 2009 compared to 2008 (43% change). In the Gaza Strip, the largest growth in value of production during 2009 was reported in the industry sector (with a rise of 127% from the previous year).
- ✧ The Israeli blockage prohibits the importation of construction materials into the Gaza Strip, resulting in a lower production value of the institutions working in construction. This engendered a \$ 7.9-million decline in the value of production in the construction sector in 2009, compared to a decline of \$ 8.4 million during 2008.

⁷ PCBS defines production as the value of the final products and services produced by an organization, and these products and services are used by other units for the purposes of internal consumption or for gross fixed capital formation. Production encompasses two types of goods: final goods and under-operation products. Production is classified into marketed output; production outputs used for internal purposes; and other non-marketed output.

Table 15: Value of production in economic institutions operating in the West Bank and the Gaza Strip for 2008 and 2009

Million dollars

| Economic activity | 2008 | | 2009 | |
|--------------------------------|----------------|------------|----------------|--------------|
| | West Bank | Gaza Strip | West Bank | Gaza Strip |
| Industry | 1,893.8 | 162.4 | 1,925.5 | 368.1 |
| Construction | 156.3 | 8.4 | 224.1 | 7.9 |
| Internal trade | 1,124.8 | 219 | 1,253.5 | 260.4 |
| Services | 752.4 | 142.8 | 775.7 | 143.6 |
| Transport & telecommunications | 730.8 | 8.4 | 749.8 | 8.5 |
| Total | 4,658.1 | 541 | 4,928.7 | 788.5 |

Source: Palestinian Central Bureau of Statistics. Economic Surveys Series for the years 2008 and 2009.

3.3 Gross Value Added

In 2009, economic institutions operating in the Palestinian Territory had a gross value added (GVA) of \$3,692 million (an increase of 9.1% from 2008). The gross value added in the construction industry peaked at 82.1%. In regards to internal trade, the GVA increased by 15.3%, while it rose in the manufacturing industry by 8.1%. Finally, the GVA increased in the services sector and transport, storage and telecommunications sector by 1.4% and 2.7%, respectively. Table 16 draws a comparison between 2008 and 2009 in terms of the GVA of economic institutions operating

in the West Bank and the Gaza Strip. Two conclusions can be drawn from the table:

- ✧ In 2009 (compared to 2008) the GVA in the West Bank and the Gaza Strip rose by 6.4% and 36%, respectively.
- ✧ Despite the rise in GVA in the Gaza Strip during 2009, its ratio to the gross production was 51% compared with 55% in 2008. This is primarily due to the higher production costs in Gaza due to the blockade.

Table 16: Gross value added of the economic institutions operating in the Palestinian Territory- 2008 & 2009

Million dollars

| Economic activity | 2008 | | | | 2009 | | | |
|----------------------------------|----------------|-------------------------------|--------------|-------------------------------|----------------|-------------------------------|--------------|-------------------------------|
| | West Bank | Share in gross production (%) | Gaza Strip | Share in gross production (%) | West Bank | Share in gross production (%) | Gaza Strip | Share in gross production (%) |
| Industry | 925.9 | 50 | 42.5 | 26 | 928 | 48 | 118.5 | 32 |
| Construction | 47.8 | 30 | 3.5 | 42 | 90.9 | 40 | 2.3 | 29 |
| Internal trade | 894.6 | 80 | 157.7 | 72 | 1,021.1 | 82 | 191.7 | 74 |
| Services | 567.7 | 75 | 91.3 | 64 | 577.8 | 75 | 90.5 | 63 |
| Transport and telecommunications | 649.6 | 88 | 3.5 | 42 | 667.3 | 89 | 3.7 | 44 |
| Total | 3,085.6 | 66 | 298.5 | 55 | 3,285.1 | 66 | 406.9 | 51 |

Source: Palestinian Central Bureau of Statistics. Economic Surveys Series for the years 2008 and 2009.

4. Public Finance

The third quarter of 2010 saw a remarkable improvement in the performance of the Ministry of Finance, particularly in tax collection, balancing public expenditure and net lending. However, it is paramount that other issues be addressed, including the rise in

spending and scarce domestic financial resources. The following is a summary of the most important developments in Ministry's financial operations during the third quarter of 2010 compared to the second quarter of the same year.

- ✧ The budget deficit dropped by \$169.7 million (more than 43%), which represents about 9.3% of GDP.
- ✧ The public debt rose by 5.1% (bringing it to \$1.9403 billion), which represents 36.2% of GDP (September, 2010).
- ✧ Total public revenues and donations declined by 12.1% to \$699 million due to a reduction of grants and foreign aid.
- ✧ Total public expenditure dropped by about 5% to \$768 million due to the decline in current expenditures.
- ✧ The austerity plan affected employment and net lending, two large sources of expenditures.

4.1 Budget Summary⁸

Data released by the Ministry of Finance shows that total cash domestic revenues during the third quarter of 2010 were \$504.2 million, compared with \$455.5 million in the second quarter of the same year. Given that revenue collected in the third quarter of 2009 was about \$453.8 million, the increase could have stemmed from a larger tax base (in terms of production and trade) and/or an improvement in the tax collection system.

Grants and foreign aid dropped about 42.7% compared to the second quarter and 71% compared with the corresponding quarter of

2009. This is consistent with the Ministry of Finance's goal of foreign aid independence, substituting the aid in the budget with local financing alternatives. As a result of the decline in donations and foreign aid, total public revenues decreased by 12.1% in the third quarter compared to the second quarter – and by 37.7% compared to the third quarter of 2009 – thereby lowering the total public revenues to \$699 million.

Public expenditure declined by about 5% to \$768 million during the third quarter compared to the previous quarter. This drop in current expenditures, coupled with an increase in revenues, led to a decline of \$169.7 million in the current deficit in the third quarter (compared with a deficit of about \$ 300.1 million in the second quarter). The limited access to grants and aid has caused the total deficit (after receiving grants) to increase by \$92.2 million in the third quarter (compared to \$ 12.9 million in the second quarter). However, the deficit was less than in the corresponding quarter of 2009 (113.3 million dollars).

The following is an analysis of the items that make up revenues and expenditures during the third quarter of 2010.

Table 17: Summary of the financial status of the Palestinian National Authority during the third quarter of 2010

| Item | 2009 | | | | 2010 | | |
|--|-------|-------|--------|-------|-------|-------|-------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Public revenues and grants (net) | 620.2 | 516.3 | 1122.3 | 691.4 | 656.9 | 795.3 | 699.0 |
| Total domestic revenues (net) | 342.1 | 355.3 | 453.8 | 397.3 | 447.1 | 455.5 | 504.2 |
| Domestic revenues | 352.6 | 359.4 | 554.7 | 408.4 | 448.2 | 463.7 | 513.1 |
| Tax revenues | 71.2 | 60.8 | 84.1 | 85.4 | 116.6 | 101.9 | 115.7 |
| Non-tax ⁽¹⁾ revenues | 40.2 | 39.6 | 158.6 | 45.2 | 43.7 | 59.9 | 91.5 |
| Clearance revenues | 241.2 | 259 | 312 | 277.8 | 287.9 | 301.9 | 305.9 |
| Recoverable tax ⁽²⁾ | 10.5 | 4.1 | 100.9 | 11.1 | 1.1 | 8.2 | 8.9 |
| External revenues (grants and aid) | 278.1 | 161 | 668.5 | 294.1 | 209.8 | 339.8 | 194.8 |
| To support the budget | 259 | 148.3 | 663.4 | 284.2 | 207.6 | 317.6 | 177.9 |
| To support developmental projects | 19.1 | 12.7 | 5.1 | 9.9 | 2.2 | 22.2 | 16.9 |
| Total public expenditure and net lending | 734.7 | 706.2 | 1009 | 655.6 | 758.5 | 808.1 | 768.0 |
| Current expenditures, including: | 726 | 644.4 | 952.2 | 597 | 708.1 | 755.5 | 673.8 |
| Wages and salaries ⁽³⁾ | 321.3 | 341.1 | 509 | 251.8 | 373.1 | 393.8 | 376.1 |
| Non-wage expenditures ⁽⁴⁾ | 328.2 | 221.6 | 327.9 | 264 | 261.1 | 294.1 | 237.4 |

⁸ Data in this section are preliminary. They are released by the Ministry of Finance and are subject to updating and revision.

| Item | 2009 | | | | 2010 | | |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Net lending | 76.5 | 81.7 | 115.3 | 81.2 | 73.9 | 67.7 | 60.3 |
| Developmental expenditure ⁽⁵⁾ | 8.7 | 61.8 | 56.8 | 58.6 | 50.4 | 52.5 | 94.2 |
| Funded by the Treasury | 10.4 | 49.1 | 51.7 | 48.7 | 48.2 | 30.3 | 77.3 |
| Funded by donor countries | 19.1 | 12.7 | 5.1 | 9.9 | 2.2 | 22.2 | 16.9 |
| Current deficit (surplus) | 383.9- | 289.1- | 498.4- | 199.7- | 261- | 300.1- | 169.7- |
| Total deficit (surplus) before grants and aid | 392.6- | 350.9- | 552.2- | 258.3- | 211.4- | 352.6- | 263.9- |
| Total deficit (surplus) after grants and aid | 114.5- | 189.9- | 113.3- | 35.8 | 101.6- | 12.9- | 92.2- |
| Financing | 114.5 | 189.9 | 113.3- | 35.8- | 101.6 | 12.9 | 92.2 |
| Net financing from local banks | 90.6 | 225.3 | 175.6- | 35.5 | 97.7 | 23.3 | 112.6 |
| Balance | 23.9 | -35.4 | 62.3 | 71.3- | 3.9 | 10.4- | 20.4- |
| Fiscal gap | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

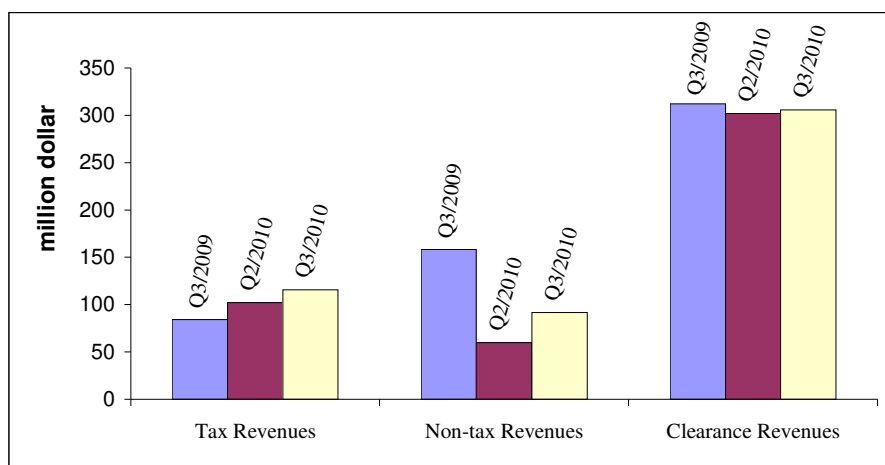
Source: Tables of financial operations, details of revenues, expenditure and sources of funding (cash basis), Ministry of Finance.

- (1) The third quarter of 2009 includes an amount of \$100 million as fees for licenses. This was received in July from Jawwal mobile company (\$60 million) and Zain Communications (\$40 million), when the two companies merged.
- (2) In the third quarter of 2009, recoverable taxes included \$90 million from the cumulative recoverable. This sum was transferred to the Petroleum Authority in July.
- (3) Payroll for September 2009 included two payments: \$131.4 million for September 2009, and \$148.5 million for October (paid in advance). Further, Payroll for November 2009 included two payments: \$132 million in November and \$118.9 million in December.
- (4) Non-wage expenditures for the months of January - September were reviewed to address the problem of repeated inputs. In addition, after the Council of Ministers' approval of the supplement to the budget law on September 29, 2009, the non-wage expenditure budget increased by \$300 million.
- (5) Part of the development expenditure is included in the small capital expenditures in January, February and March, 2009.

4.2 Analysis of Revenues and Expenditures

During the third quarter of 2010, total domestic revenues rose by about 10.7% compared to the second quarter, and by around 11.1% compared to the third quarter of 2009. The increase in revenues to \$504.2 million is due mainly to the tax and administrative reforms undertaken by the Ministry of Finance, particularly regarding the income tax and VAT. Total domestic revenues covered about 65.7% of total public expenditure in the third quarter, compared to 56.4% in the second quarter – about 45% in the third quarter of 2009. Among the components of domestic revenue, clearance revenues were the major contributor (60.7%). The income tax accounted for 22.9% and non-tax revenues accounted for 18.1%. Lastly, the share of recoverable taxes totaled 1.8%.

Figure 3: Structure of Domestic Revenues



Source: Table (17).

In spite of the increase in clearance revenues (1.3%) in the third quarter (from the previous quarter), these revenues declined 2% compared to the third quarter of 2009 by. Clearance revenues totaled about \$306 million in the third quarter compared to \$302 million in the second quarter, and \$312 million in the third quarter of 2009.

Tax revenues increased by 13.5% during the third quarter of 2010 and by 36% during the third quarter of 2009. This growth has increased total tax revenues to \$115.7 million. It should be noted that the average tax revenues during the first three quarters of 2010 was \$111.4 million versus \$72 million during the same period in 2009. Correspondingly, non-tax revenues rose in the third quarter of 2010 compared to the second quarter, but declined in comparison with the third quarter of 2009. The data indicates that non-tax revenues were \$91.5 million in the third quarter of 2010, compared to \$60 million in

the second quarter and \$158.6 million in the third quarter of 2009.

It is worth mentioning that the Ministry of Finance paid \$8.9 million during the third quarter of 2010 as recoverable tax, which is almost the same as the amount recovered during the second quarter of the same year (\$8.2 million).

In the third quarter of 2010, net domestic revenues accounted for around 27% of GDP, compared to 25% in the second quarter. During the first three quarters of 2010, combined revenues accounted for 73% of the 2010 budget's 'target amounts'. If economic performance and tax collection continue at the same pace during the last quarter of the year, generated domestic revenues will cover all the targets in the budget – a sign of efficient and effective performance by the Finance Ministries.

Table 18: Indicators of public revenues and grants during the third quarter of 2010

(Million dollars)

| Item | 2009 | | | | 2010 | | |
|---|--------------|--------------|---------------|--------------|--------------|--------------|--------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Total domestic revenue (net) | 342.1 | 355.3 | 453.8 | 397.3 | 447.1 | 455.5 | 504.2 |
| As a percentage of total revenue and grants | 55.2 | 68.8 | 40.4 | 57.5 | 68.1 | 57.3 | 72.1 |
| As a percentage of current expenditure | 47.1 | 55.1 | 47.7 | 66.5 | 63.1 | 60.3 | 74.8 |
| As a percentage of GDP ⁽¹⁾ | 23.1 | 22.2 | 27.7 | 23.6 | 26.1 | 25.2 | 27.5 |
| External revenues (grants and aid) | 278.1 | 161 | 668.5 | 294.1 | 209.8 | 339.8 | 194.8 |
| As a percentage of total revenue and grants | 44.8 | 31.2 | 59.6 | 42.5 | 31.9 | 42.7 | 27.9 |
| As a percentage of current expenditure | 38.3 | 25.0 | 70.2 | 49.3 | 1.1 | 45.0 | 28.9 |
| As a percentage of GDP | 18.8 | 10.1 | 40.8 | 17.4 | 209.8 | 18.8 | 10.6 |
| Public revenues and grants | 620.2 | 516.3 | 1122.3 | 691.4 | 207.6 | 795.3 | 699.0 |
| As a percentage of total public expenditure | 84.4 | 73.1 | 111.2 | 105.5 | 2.2 | 98.4 | 91.0 |
| As a percentage of GDP | 41.9 | 32.3 | 68.5 | 41.0 | | 43.9 | 38.1 |

Source: Table (17).

⁽¹⁾ Real GDP was changed into nominal GDP using the quarterly rate of inflation as a deflator:

] Nominal GDP_i = Real GDP_i * [(CPI_{it} - CPI₂₀₀₄) / CPI₂₀₀₄] * 100

Where 1,2,3,4 = i are quarters and t stands for 2009 & 2010.

For the most part, grants and aid received by the PNA were intended to finance current expenditures – 26.4% of current expenditures came from aid, compared to 42% in the second quarter of the same year and 69.7% in the third

quarter of 2009. Remaining grants and aid (\$16.9 million) were allocated to financing development projects. This is significantly less than the amount allocated in the second quarter (\$22.2 million).

In the third quarter, Arab countries donated \$60 million in aid, which constituted about 33.7% of the total grants allocated to support the budget (United Arab Emirates: \$43 million, Saudi Arabia: \$15.2 million and Egypt: \$1.9 million). The other 66.3% of the total foreign aid (\$118 million) came mainly

from the European Union (\$88.6 million) – aid delivered through the Palestinian - European mechanism. The World Bank also provided \$29.3 million worth of assistance. The United States did not provide anything during the third quarter of 2010.

Table 19: Grants and Foreign Aid to the Palestinian Authority in the third quarter of 2010

| Item | (Million dollars) | | | | | | |
|----------------------------------|-------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2009 | | | | 2010 | | |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Budget support | 259.2 | 148.2 | 663.5 | 284.2 | 207.7 | 318.5 | 178.0 |
| Grants from Arab countries | 73.9 | 21.1 | 217.8 | 148.9 | 0.0 | 57.5 | 60.0 |
| International Grants | 185.3 | 127.1 | 445.7 | 135.3 | 207.7 | 261.0 | 118.0 |
| Palestinian - European Mechanism | 94.2 | 120.3 | 163.9 | 54.7 | 106.5 | 72.2 | 88.6 |
| World Bank | 53.3 | 3.0 | 72.9 | 5.9 | 87.1 | 95.4 | 29.3 |
| United States | | | 198.6 | 74.7 | | 74.8 | |
| Other States * | 37.8 | 2.7 | 10.3 | 0.0 | 9.9 | 15.9 | 0.0 |
| Old grant for the ministries | | 1.1 | | | 4.2 | 2.7 | 0.1 |
| Developmental Funding | 19.1 | 12.7 | 5.1 | 9.9 | 2.2 | 22.2 | 16.9 |
| Total foreign funding | 278.3 | 160.9 | 668.6 | 294.1 | 209.9 | 340.7 | 194.9 |

Source: Ministry of Finance, Foreign Aid, (Table 7).

* India, France, Greece, and Turkey

A quick glance at *total foreign funding* (Table 19) during the four quarters of 2009 and the three quarters of 2010 clearly reveals a trend of sharp fluctuations in aid flow. This inconsistency directly influences the performance of the Ministry of Finances' capacity to meet its obligations and plan properly. This also forces the Treasury to borrow from the banking system in order to avoid both deterioration of its liquidity position and an accumulation of arrears.

4.3 Analysis of public expenditure items

Public expenditure and net lending in the third quarter of 2010 totaled \$768 million, a 5% decline from the second quarter – a 24% decline from the third quarter of 2009. Public expenditure and net lending represented 42% of the GDP during the third quarter, compared with 44.6% in the second quarter of the same year. This decline is attributed to PNA austerity measures, which include public spending cuts.

During the third quarter, the largest share of total public spending was allocated to current

expenditures and net lending (87.7% compared with 93.5% in the second quarter and 94.4% in the third quarter of 2009). Current expenditures in the third quarter of 2010 totaled \$673.8 million, a 10.8% decline from the second quarter, and nearly a 29% decline from the third quarter of 2009.

Looking at current expenditure items, data demonstrates that 55.8% of expenditure went toward wages and salaries of public servants. Non-wage expenditures totaled 35.2%, while 8.9% went for net lending during the third quarter. Despite the increase in the salary bill (\$376.1 million), its value declined by 4.5% from the second quarter and by 26.1% from the third quarter of 2009.

During the third quarter of 2010, non-wage expenditures (operational, services, cash payments and capital) totaled \$237.4 million, a drop of 19.3% from the second quarter and 27.6% from the third quarter of 2009. These expenditures constituted 35.2% of total current expenditures, compared to 38.9% in the second quarter.

Table 20: Indicators of public expenditure and net lending during the first and second quarters of 2010

Million dollars

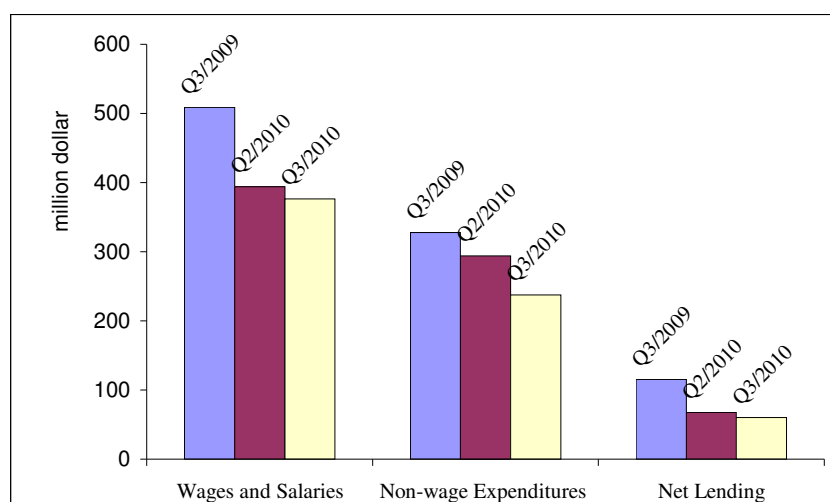
| Item | 2009 | | | | 2010 | | |
|---|--------------|--------------|---------------|--------------|--------------|--------------|--------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Current expenditures, including: | 726.0 | 644.4 | 952.2 | 597.0 | 708.1 | 755.6 | 673.8 |
| As a percentage of public expenditure | 98.8 | 91.2 | 94.4 | 91.1 | 93.4 | 93.5 | 87.7 |
| As a percentage of GDP | 49.0 | 40.3 | 58.1 | 35.4 | 41.3 | 41.7 | 36.7 |
| Developmental expenditure | 8.7 | 61.8 | 56.8 | 58.6 | 50.4 | 52.5 | 94.2 |
| As a percentage of public expenditure | 1.2 | 8.8 | 5.6 | 8.9 | 6.6 | 6.5 | 12.3 |
| As a percentage of GDP | 0.6 | 3.9 | 3.5 | 3.5 | 2.9 | 2.9 | 5.1 |
| Total public expenditure | 734.7 | 706.2 | 1009.0 | 655.6 | 758.5 | 808.1 | 768.0 |
| As a percentage of GDP | 49.6 | 44.2 | 61.6 | 38.9 | 44.2 | 44.6 | 41.9 |

Source: Table (17).

As a result of the accumulated spending cuts from the first three quarters, non-wage spending will be 22.9% less than the amount projected in the budget. In turn, this allows the government to use the surplus to pay insurance and pension fund arrears and/or to pay debts owed to the private sector.

Net lending⁹ during the third quarter amounted to \$ 60.3 million, a 10.9% decline from the second quarter – 47.7% from the third quarter of 2009. During the third quarter, expenditure on this item constituted 8.9% of total current expenditures, compared with 9% in the second quarter – decreasing lending is also part of the government austerity plan.

Figure 4: Structure of current expenditures



Source: Table (17).

In contrast to lending, development expenditure doubled, reaching \$94.2 million during the third quarter of 2010, compared with \$52.5 million during the second quarter of the same year – about \$56.8 million during

the third quarter of 2009; thus, making up 12.3% of total public expenditure and net lending, compared with 6.5% in the second quarter of 2010 and 5.6% in the third quarter of 2009. Furthermore, development

⁹ Net lending sums are transferred from the Treasury directly to the company generating and distributing electricity in Gaza and for reimbursing the debts owed by local government bodies, or indirectly through the amounts that are deducted from the clearing revenues and transferred to the utility companies in Israel.

expenditures made up 5.1% of nominal GDP during the third quarter of 2010, compared to 2.9% during the previous quarter of the same year. It should be noted that 18% of development expenditures were funded by grants and foreign aid during the third quarter of 2010, while the remaining part (82%) was financed by the PNA budget.

If developmental expenditure continue to grow at the same pace throughout the last quarter of 2010, the entire expenditure of 2010 will probably account for 39.2% of the target amounts stated in the budget – this will negatively affect total capital formation and future growth in the Palestinian Territory.

4.4 Financial Surplus (deficit)

Necessary current expenditures that keep the PNA afloat have generally eclipsed the smaller amounts of domestic revenues, creating chronic budget deficits. However, the current budget deficit fell by \$169.7 million during the third quarter, compared with \$300.1 million in

the second quarter, and \$498.4 million in the third quarter of 2009. In other words, the current third quarter deficit dropped by about 43.5% compared to the previous quarter of the same year and by about 66% compared to the third quarter of 2009. The current deficit in the third quarter accounted for about 9.3% of nominal GDP.

The total deficit (before grants and foreign aid) totaled \$263.9 million during the third quarter, a 25.2% decline from the previous quarter, and 52.5% from the third quarter of 2009. The total deficit represented 14.4% of the gross domestic product during the third quarter (compared to 19.5% during the second quarter and about 33.9% during the corresponding quarter of 2009).

Despite the decline in the deficit during the third quarter – before grants and foreign aid – the drop in foreign aid led to a deficit increase of \$79 million –after grants and foreign aid – compared to the second quarter.

Table 21: Indicators of fiscal deficit as a percentage of nominal GDP during the third quarter-2010

(Million dollar)

| Item | 2009 | | | | 2010 | | |
|--|-------|-------|-------|-------|-------|-------|-------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| The current deficit-GDP | -25.9 | -18.1 | -30.4 | -11.8 | -15.2 | -16.6 | -9.3 |
| The total deficit before grants and aid- GDP | -26.5 | -22.0 | -33.9 | -15.3 | -18.2 | -19.5 | -14.4 |
| The total deficit after grants and aid- GDP | -7.7 | -11.9 | 6.9 | 2.1 | -5.9 | -0.7 | -5.0 |

Source: Table (17).

Since the treasury was not able to receive any additional foreign aid, not, it sought funding from the Palestinian banking system to finance the \$92.2 million deficit. During the third quarter, the treasury managed to pay arrears and recoverable taxes from \$112.6 million in bank loans.

4.5 Public Debt

The public debt during the third quarter of 2010 rose by about 5.1% compared to the previous quarter, bringing the total debt – until the end of September, 2010 – to \$1.9402 billion. During the third quarter, the external debt accounted for 55% of the public debt, while the domestic debt made up 45%. The external debt fell from 62.8% at the end of

2009, to 55.2% at the end of September – a clear signal of an overall downward trend. It should also be noted that the public debt constituted 36.2% of GDP at the end of the third quarter, compared to 27% at the end of 2009. Conversely, the share of domestic debt as total public debt was 45.1% by the end of September 2010, an increase of approximately 37.2% from the end of December 2009.

Domestic debt during the third quarter of 2010 stood at \$875.6 million, a 12.2% increase from the second quarter of the same year. Government debt to local banks is about 87.7% of total debt. Additionally, government loans from local banks grew by 51.8% and overdraft by 48.2%, compared to 63.9% and 36.1% (respectively) during the second quarter

of 2010. The Petroleum Authority's contribution was 11.3% of the total internal debt during the third quarter, while other public institutions contributed only 1% of the total domestic debt during the same period.

In contrast, there was no significant change in the balance of external debt during the third quarter, compared to the second quarter of the same year (\$1.0714 billion by the end of September, 2010). The external debt was made up of 51.6% from Arab financial institutions, 32.7% from international and regional institutions and 15.7% from bilateral loans.

Debt to Arab financial institutions during the third quarter stood at \$552.5 million, an increase of about 0.4% from the second

quarter. Debt included about 80.4% from Al-Aqsa Fund, 10%, from the Arab Fund for Economic and Social Development, and 9.6% from the Islamic Development Bank. However, debt to international and regional institutions – the World Bank, the European Investment Bank, OPEC, and the International Fund for Agricultural Development – declined by about 0.7%, down to \$350.6 million.

Finally, during the third quarter of 2010, bilateral loans jumped to \$168.3 million, a 4.4% increase from the second quarter. Spain was the main contributor (with approximately 55.2%). Italy, Sweden, Greece, and China contributed by 18.6%, 15.7%, 7.6%, and 2.9%, respectively.

Table 22: Public Debt- 2010

| Item | (Million dollar) | | | |
|---|------------------|----------------|----------------|----------------|
| | 2009 | 2010 | | |
| | Q4 | Q1 | Q2 | Q3 |
| Domestic public debt | 644.79 | 745.43 | 780.69 | 875.64 |
| Local banks | 561.15 | 630.40 | 677.26 | 767.60 |
| Loans | 304.20 | 411.68 | 432.63 | 397.80 |
| Overdraft | 256.95 | 218.72 | 244.63 | 369.80 |
| Petroleum Authority | 78.37 | 106.99 | 95.50 | 99.27 |
| Other public institutions⁽¹⁾ | 5.27 | 8.04 | 7.93 | 8.77 |
| External public debt | 1086.93 | 1067.55 | 1064.60 | 1071.38 |
| Arab financial institutions | 551.22 | 550.98 | 550.33 | 552.47 |
| Al-Aqsa Fund ⁽³⁾⁽²⁾ | 444.09 | 444.09 | 444.09 | 444.10 |
| Arab Fund for Economic and Social Development | 54.71 | 54.38 | 54.78 | 54.79 |
| Islamic Development Bank ⁽³⁾ | 52.42 | 52.51 | 51.46 | 53.58 |
| International and regional institutions | 370.58 | 351.81 | 353.14 | 350.64 |
| World Bank ⁽⁴⁾ | 308.22 | 305.95 | 305.91 | 304.00 |
| European Investment Bank ⁽³⁾ | 41.51 | 25.23 | 25.53 | 24.63 |
| International Fund for Agricultural Development | 3.65 | 3.38 | 3.31 | 3.49 |
| OPEC ⁽²⁾ | 17.20 | 17.25 | 18.39 | 18.52 |
| Bilateral loans | 165.13 | 164.76 | 161.13 | 168.27 |
| Greece | 12.85 | 12.85 | 12.85 | 12.85 |
| Spain ⁽²⁾ | 92.95 | 92.95 | 92.95 | 92.94 |
| Italy ⁽⁴⁾ | 29.75 | 29.67 | 27.53 | 31.28 |
| China ⁽²⁾ | 4.77 | 4.77 | 4.81 | 4.86 |
| Sweden ⁽²⁾ | 24.81 | 24.52 | 22.99 | 26.34 |
| Total public debt end of the period | 1731.72 | 1812.98 | 1845.29 | 1940.25 |

Source: Ministry of Finance, Table No. (8), Report of the public debt (internal and external).

⁽¹⁾ Loans from the Orphanage Foundation to the Petroleum Authority.

⁽²⁾ Preliminary information needs to be confirmed.

⁽³⁾ Include loan securities.

⁽⁴⁾ Include lending.

Box 3: World Bank: "We did not succeed, but we should not be blamed for the failure!"

The World Bank released in October 2010 a report assessing the performance of the World Bank Group Institutions in the Palestinian Territory over the past decade 2001-2009⁵. The report was prepared by the Independent Evaluation Group (IEG), an independent office within the World Bank Group. The World Bank Group comprises three main institutions: the International Bank for Reconstruction and Development (IBRD) and its subsidiary the International Development Association (IDA), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA).

Unlike the report which was released in 2002 to assess the performance of the World Bank Group in the West Bank and Gaza during 1993-2000, the 2010 report provided more comprehensive coverage and deeper analysis of the group's activities. Further, the report provided a more honest, realistic and defiant assessment of the work of the World Bank in the Palestinian territory. The key finding read "Today this objective seems to be even more distant and difficult to attain than in the beginning of the Bank supported process." Based on this finding, the report framed a key recommendation: "In order to better position itself to help achieve medium-term development outcomes that go beyond humanitarian assistance, the World Bank Group needs to rethink its mandate, role, and scope of activities in the West Bank and Gaza. The Bank Group program needs to recognize that the long-term development effectiveness of its support is heavily dependent on the Israeli-Palestinian political framework, as well as close alignment of its efforts with those of other donors." In other words, the report makes it very clear that the prospect of economic development in the Palestinian Territory, and the success of the World Bank in performing its role, hinges - to a large extent- on the political settlement. This conclusion is very crucial as the World Bank, and other large international institutions believe that the economic development of Palestine is possible under Israeli occupation, and that a healthy economy can take precedence over politics.

From the very beginning, the report acknowledges that the assessment of the World Bank's performance is not easy because there is no document outlining the strategic goals of the institutions' work in the West Bank and Gaza – as is the case in other countries where the World Bank operates. This is why the evaluation committee has implemented a series of implicit goals. The committee classified these strategic goals into four groups: governance (public finance management and fiscal reform); private sector development; infrastructure development; and finally social and human development. The committee further categorized the strategic goals of these four groups into sub-goals. The committee then evaluated all of the projects carried out by the World Bank Group and estimated the degree of attainment for each of the set objectives (see Table 1).

Table 1: Evaluation of the performance of the World Bank Group in the West Bank and Gaza: 2001-2009

| Strategic Goals | Outcome ratings |
|--|----------------------------------|
| Governance (public finance management and fiscal reform) | Moderately Satisfactory |
| Fiscal management and fiscal stability | Moderately Unsatisfactory |
| Transparency and accountability | Satisfactory |
| Municipal finance and development | Moderately Satisfactory |
| Private Sector Development | Moderately Unsatisfactory |
| Reducing barriers to private sector development | Unsatisfactory |
| Improving business climate | Moderately Satisfactory |
| Improving competitiveness | Moderately Satisfactory |
| Infrastructure Development | Moderately Unsatisfactory |
| Water and sanitation | Unsatisfactory |
| Solid waste | Satisfactory |
| Electricity | Moderately Satisfactory |
| Transport | Unsatisfactory |

⁵ The World Bank Group in the West Bank & Gaza 2001-2009. Evaluation of the World Bank Group Program. IEG, World Bank, Washington, 2010.

| Strategic Goals | Outcome ratings |
|--|--------------------------------|
| Telecommunications | Moderately Satisfactory |
| Social and Human Development | Moderately Satisfactory |
| Maintaining basic services (access, quality, and reaching the poor). | Moderately Satisfactory |
| Institutional capacity for service delivery | Moderately Unsatisfactory |
| Social and economic security | Moderately Satisfactory |

In terms of goals attainment, the report evaluated the overall performance of the World Bank Group in the West Bank and Gaza as ‘Moderately Satisfactory’. This, in fact, is an accurate assessment. The report admits that (high-flying rhetoric aside) the performance is highly frustrating and the achievement is far from what had been expected: “Overall, after almost two decades of active engagement, little progress had been made toward achievement of the overarching objectives of the Bank Group. Despite some recent progress, institutional development is uneven. Most infrastructure sectors continue to face technical and political issues. Recent economic growth is driven mainly by donor subsidies.” In spite of the modest evaluation of the achievements, the report reiterates more than once that it is not the Bank to blame and that the Bank should not be held responsible for the situation: “However, the Bank Group should not be blamed for lack of success because the main constraints to securing peace and achieving Palestinian statehood were beyond its control.”

Of course there are different views on this matter. Some development experts say that the World Bank is to some extent responsible for this failure. The acknowledgment that it is impossible to achieve development-under the severe restrictions imposed by Israel on the freedom of movement and the exploitation of natural resources- came too late. Further, it took the Bank too much time to admit that the process of institution-building is not just a technical matter that can be accomplished under the political and security constraints placed by Israel. The World Bank has wasted much effort and a lot of resources (and resources from other donors since the Bank is the leader of international development efforts) on the illusionary coexistence of occupation and development. It also took the Bank too much time to realize its dilemma: a task of a political nature (selling a political settlement for the Palestinians) without securing a real path of peace.

Thus, after two decades, in which 11 billion dollars (from the international community during 2001-2008 only) were spent, the goals seem more hardly attainable than they were in the past. Yet, in the end, what matters is that the diagnosis of the World Bank was right. After all, to be late in knowing and admitting the truth is better than not knowing it at all!

5. Banking Sector

From the consolidated balance sheet of banks operating in the Palestinian Territory during the third quarter of 2010, we can infer that the main items of the budget, including assets and liabilities, have undergone remarkable growth compared with the previous quarter of the same year. The findings are summarized below:

Assets

- ✧ Growth of the bank’s net assets by 5.2%.
- ✧ Rise of bank’s overseas assets by 0.7%¹¹.

¹¹ Overseas assets are funds that banks operating in the occupied Palestinian territory deposited outside Palestine.

- ✧ Increase in net direct credit facilities of more than 7.5%¹².
- ✧ Increase of the bank’s assets with the Monetary Authority by 2.5%.

Liabilities

- ✧ Growth of total deposits by 5.5%¹³.
- ✧ Growth of public deposits by 3.8%.
- ✧ Rise in total capital by 3.8%.
- ✧ Increase of assets held by Monetary Authority and banks by 37.6%.

¹² Credit facilities are made up of direct loans, overdraft facilities and finance lease.

¹³ Total deposits include bank deposits and non-bank deposits (deposits of the public and those of the customers).

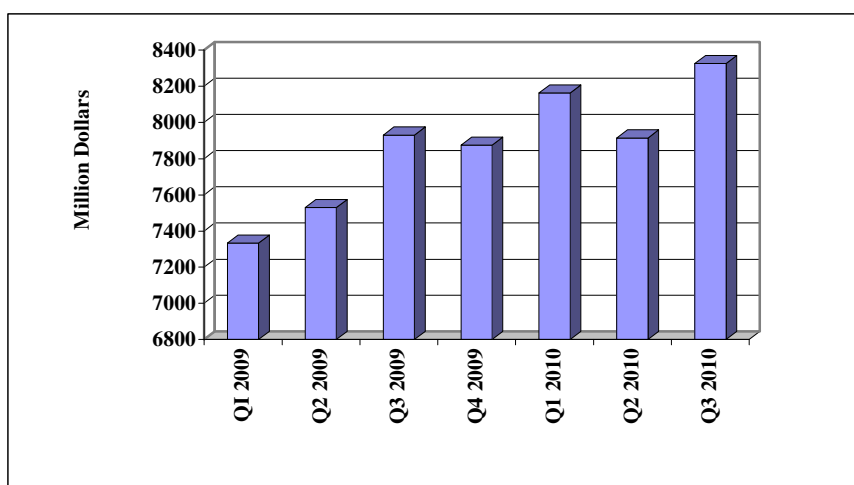
5.1 Major Developments in the Consolidated Balance Sheet of Banks

✧ Assets

Net assets of banks operating in the Palestinian Territory recovered in the third quarter of 2010 after a decline in the preceding quarter. The data from the consolidated balance sheet of the banks show that by the end of September, the

net assets increased by 5.2% compared to the end of June. The increase confirms the upward trend of the assets of banks operating in the Palestinian Territory.

Figure 5: Net assets of banks operating in the Palestinian Territory during the period from the first quarter of 2009 until the third quarter of 2010

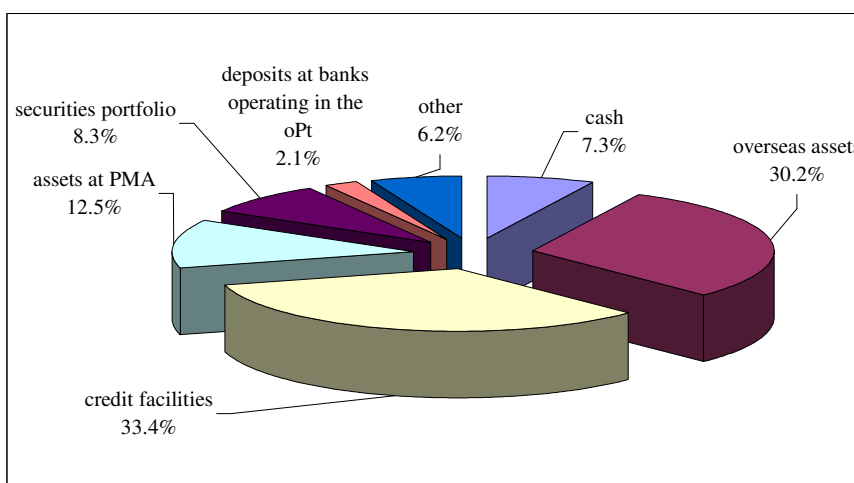


Source: Palestinian Monetary Authority - the consolidated balance sheet of banks, 2009-2010

Reported net assets by the end of the third quarter of 2010 were \$8,325.8 million. The 'cash' item rose by 30% during the third quarter. Assets of banks (at the Palestinian

Monetary Authority) increased by 2.5% during the period. Furthermore, inter-bank deposits rose by 3.8%.

Figure 6: Structure of banks assets: as of the end of the third quarter 2010



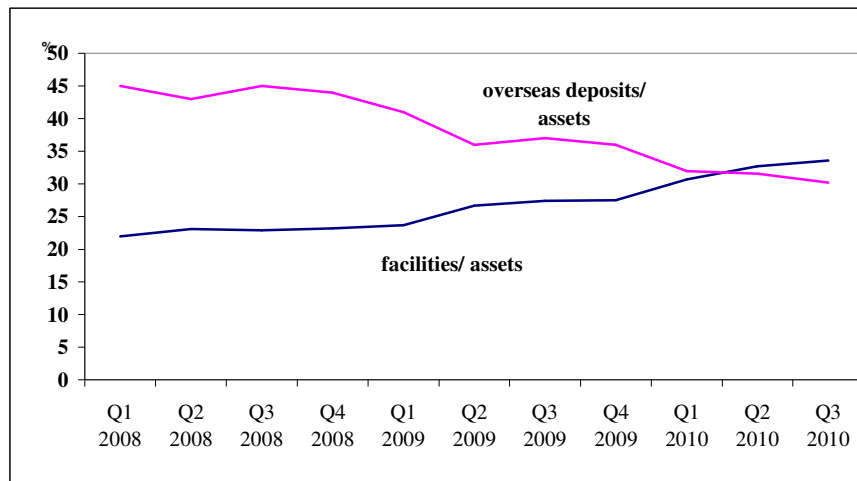
Source: Palestinian Monetary Authority - the consolidated balance sheet of banks, 2010. Other: bank acceptances, investments, fixed assets, and other assets.

Out of country bank deposits – the main source of external investments in the Palestinian Territory – have increased less than 1%. Furthermore, the ratio to total deposits decreased in the third quarter, a reflection of the overall decline in external investments. These investments maintained alignment with the rules and guidelines of the Palestinian Monetary Authority¹⁴. The proportion of external investments to total deposits (46.4%) declined during the third quarter of 2010. Moreover, the ratio of overseas bank deposits to net assets fell by 30.2% during this period. Also, the portfolio

investments increased by 1%, as the held-for-trading portfolio decreased by 5.3%.

Net direct credit facilities continued rising during the third quarter of the year, a growth of \$2.7827 billion. This was an increase of more than 7.5% from the previous quarter. That is, the ratio of credit facilities to bank assets has increased steadily, and stood at 33.5% by the end of the third quarter. Thus, the ratio of credit facilities to bank assets outnumbers the ratio of overseas assets to bank assets (30.2%).

Figure 7: Development of the direct credit facilities and overseas deposits as a percentage of the total assets of banks- years 2008, 2009 and 2010



Source: Palestinian Monetary Authority - the consolidated balance sheet of banks.

There has been improvement in the ratio of credit facilities to total public deposits; an increase of 42% during the third quarter, 1.5% during the second quarter, and about 7% from the corresponding quarter of 2009.

Direct credit facilities were made up of loans (70.5%), overdraft (29.3%) and rental financing (0.2%). This distribution indicates an increase of 2.5 percentage points in overdraft facilities at the expense of loans during the third quarter. Similarly, no significant change was reported in the distribution of credit facilities by sector during the third quarter of the year. The share of the public sector in credit facilities was 31.8%, while that of the private sector stood at 68.2%. Most of the direct credit facilities to

the public sector went to the Palestinian National Authority (99% of the total facilities provided to the public sector). The Gaza Strip's share of such facilities fell by half a percentage point in the third quarter of 2010. The West Bank currently holds 93.5% of the facilities.

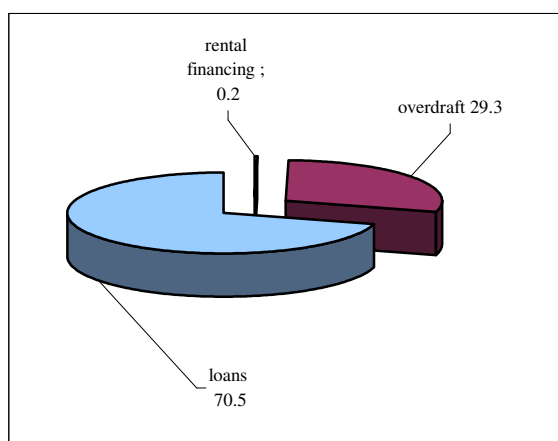
With regard to the distribution of credit facilities by currency at the end of the third quarter of 2010, the U.S. dollar accounted for the largest share of the facilities (61%). The Israeli shekel and the Jordanian dinar contributed 29.6% and 8.8%, respectively, while the collective contribution of all other currencies remained marginal (about 0.6%). By comparing these rates to those at the end of the previous quarter, it is clear that the rate of

¹⁴ Palestinian Monetary Authority Instructions require that overseas investments by banks must not exceed 55% of total deposits.

the facilities granted by the U.S. dollar has dropped by three percentage points for facilities granted by the Israeli shekel, while the rates of the Jordanian dinar and other currencies have remained unchanged. The

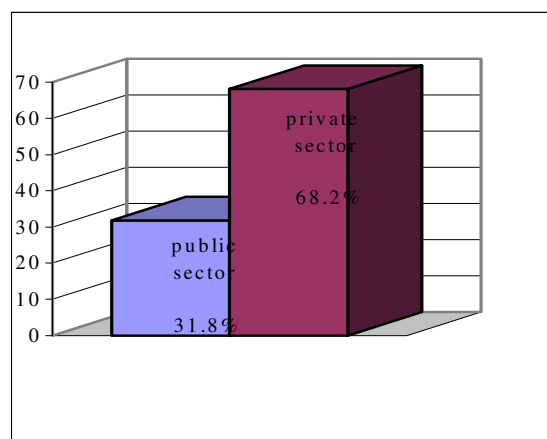
fluctuations in the exchange rates of international currencies – particularly the U.S. dollar against the Israeli shekel – have contributed to the change of these ratios.

Figure 8: Distribution of credit facilities by Type end of 3rd Quarter 2010



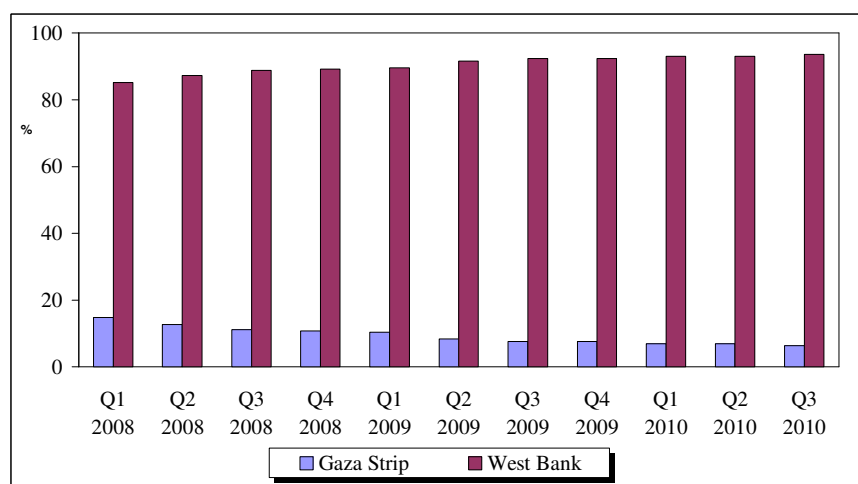
Source: Palestinian Monetary Authority- The consolidated balance sheet of banks.

Figure 9: Distribution of credit facilities by Target Sector- end of 3rd Quarter 2010



Source: Palestinian Monetary Authority – The consolidated balance sheet of banks.

Figure 10: Share of each of the West Bank and Gaza from the total facilities-years 2008, 2009 and 2010



Source: Palestinian Monetary Authority – The consolidated balance sheet of banks.

Table 23: Distribution of direct credit facilities portfolio- from third quarter of 2008 until the third quarter of 2010

| Item | 2008 | | 2009 | | | | 2010 | | |
|------------------------------|--------|--------|--------|--------|--------|--------|-------|--------|--------|
| | Q1 | Q2 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2** | Q3 |
| By geographical distribution | | | | | | | | | |
| West Bank* | 1603.1 | 1625.5 | 1650.7 | 1924.2 | 2087.3 | 2061.2 | 2408 | 2402.8 | 2604.3 |
| Gaza Strip | 204.4 | 202.7 | 192.2 | 175.5 | 173.6 | 172.7 | 178.5 | 185.0 | 178.4 |
| By beneficiary | | | | | | | | | |

Million dollars

| Item | 2008 | | 2009 | | | | 2010 | | |
|------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Q1 | Q2 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2** | Q3 |
| Public sector | 544.8 | 532.7 | 581.6 | 748.8 | 722.2 | 637.4 | 870.1 | 824.7 | 885.3 |
| Resident private sector | 1129.6 | 1165.9 | 1123.2 | 1216.2 | 1365.2 | 1448.6 | 1662.4 | 1712.5 | 1844.6 |
| Non-resident private sector | 133.1 | 129.6 | 138.1 | 134.7 | 151.0 | 147.9 | 54 | 50.6 | 52.8 |
| By type of facilities | | | | | | | | | |
| Loans | 1109.2 | 1114.2 | 1159.0 | 1338.9 | 1500.2 | 1566.8 | 1873.6 | 1885.9 | 1960.9 |
| Overdraft | 687.8 | 703.7 | 673.6 | 750.7 | 753.3 | 659.3 | 705.1 | 694.0 | 814.3 |
| Rental financing | 10.5 | 10.3 | 10.3 | 10.2 | 7.5 | 7.8 | 7.9 | 7.9 | 7.5 |
| By currency | | | | | | | | | |
| \$ US | 1163.1 | 1190.2 | 1225.9 | 1301.7 | 1388.6 | 1427.4 | 1602.4 | 1656.8 | 1700.7 |
| JD | 146.2 | 147.5 | 142.5 | 200.3 | 208.5 | 218.0 | 220.9 | 229.7 | 243.1 |
| NIS | 483.9 | 474.3 | 460.6 | 582.7 | 650.7 | 579.0 | 753.4 | 688.5 | 822.4 |
| Other currencies | 14.3 | 16.2 | 13.8 | 15.0 | 13.1 | 9.5 | 9.8 | 12.8 | 16.5 |

Source: Palestinian Monetary Authority – The consolidated balance sheet of banks.

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

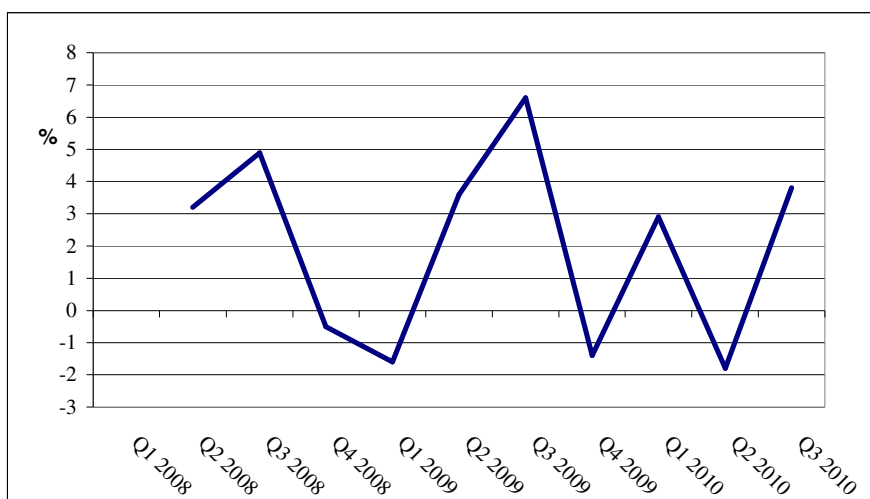
** Data until the first quarter of 2010 show the total facilities (facilities + benefits), while the second quarter of 2010 shows net facilities only.

◇ Liabilities

The total deposits (public deposits + bank deposits) made up 84.5% of the liabilities (\$7 billion). Public deposits are the main component of liabilities in the consolidated balance sheet of banks, accounting for 79.5%

of the liabilities of banks operating in the Palestinian Territory – a value of \$6,621.3 million. This rate increased by 3.8% during the third quarter of 2010, compared with a decline of 1.8% in the second quarter.

Figure 11: The developments of the growth in deposits of the public from the first quarter 2008 until the third quarter 2010



Source: Palestinian Monetary Authority – The consolidated balance sheet of banks.

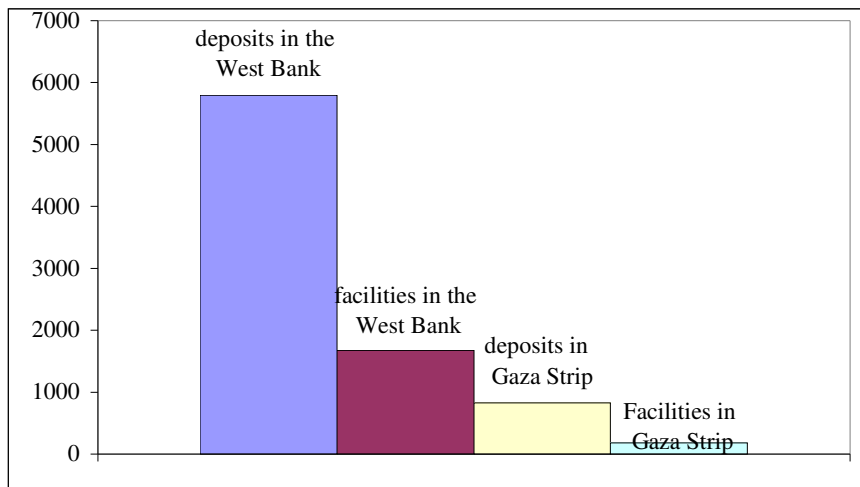
Public deposits are made up of deposits from both the private sector (90.3%) and the public sector (9.7%). Private sector deposits include resident deposits (96%) and non-resident deposits (4%).

Given the continuing deterioration of the political and economic situation in the Gaza

Strip, the share of public deposits continued to decrease (to 12.5%) during the third quarter, declining by about one percentage point from the previous quarter. By contrast, the West Bank's share rose to 87.5% of the total public deposits in the Palestinian banking system.

Figure 12: Credit facilities and the public deposits in the West Bank and Gaza – end of the third quarter 2010

Million dollars



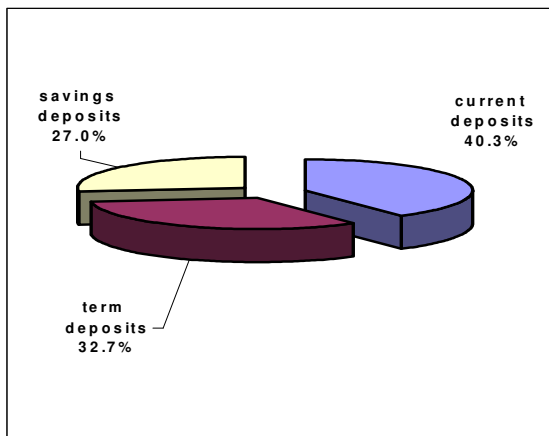
Source: Palestinian Monetary Authority – The consolidated balance sheet of banks.

Public deposits are divided into current deposits (40.3%), term deposits (32.7%) and saving deposits (27%). A comparison between these rates and those of their counterparts (in Quarter two) shows a marginal growth (about a percentage point) in the current deposits at the expense of the term deposits.

The U.S. dollar accounted for 41.2% of the total public deposits, while deposit rates of the Israeli shekel was 27.7% and the Jordanian dinar 27.3%. The other currencies accounted for only about 5.8% of total public deposits.

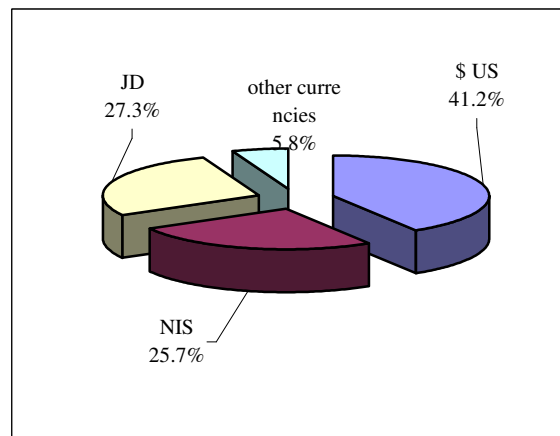
Data shows that the share of Jordanian dinar deposits has continued to decline in the face of the growing value of the Israeli shekel. This can be attributed to – as explained in previous volumes of the Monitor – the inherent volatility of the Jordanian dinar; the JD is linked to the U.S. dollar at a fixed rate, while the Israeli shekel is not. Thus, when the U.S. dollar loses value – as it has in recent years – the JD falls with it; meanwhile the Israeli shekel may lose or gain value during the same period.

Figure 13: Distribution of the public deposits by deposit type- end of the third quarter 2010



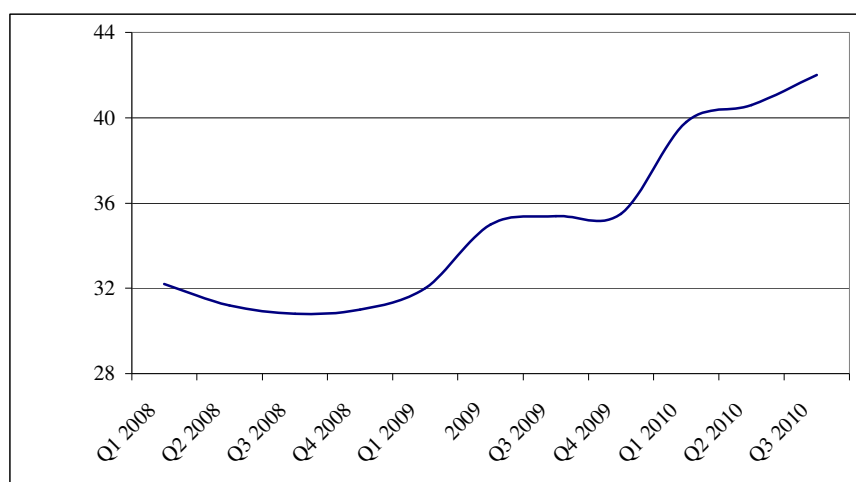
Source: Palestinian Monetary Authority- The consolidated balance sheet of banks.

Figure 14: Distribution of the public deposits by depositing currency- end of the third quarter 2010



Source: Palestinian Monetary Authority – The consolidated balance sheet of banks.

Figure 15: Ratio of credit facilities to the total deposits of the public- from first quarter 2008 until third Quarter 2010 (%)

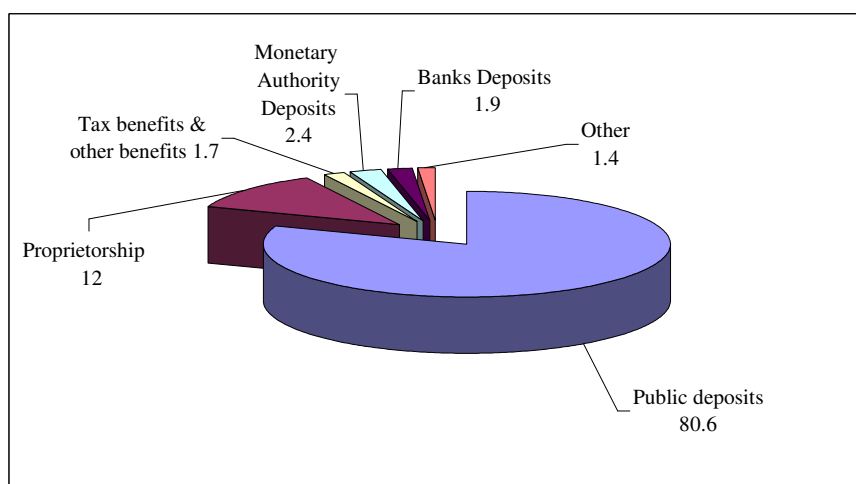


Source: Palestinian Monetary Authority – The consolidated balance sheet of banks.

By the same token, ‘capital items’ (or equity) increased in bank liabilities by 2.7% during the third quarter (compared with a decline of 2.1% during the second quarter of the year). This rise is attributed to the increase in paid-up capital. Stocks of the Monetary Authority and

banks increased by 37.6% during the third quarter. Because the share of this item in the total bank liabilities does not exceed 4%, the disparities in this item, though large, have a limited impact on total liabilities.

Figure 16: Structure of liabilities of banks operating in the Palestinian Territory- end of third quarter 2010



Source: Palestinian Monetary Authority.
Other liabilities include stocks of banks outside Palestine.

Table 24: Consolidated budget of the Palestinian banking system- from the second quarter of 2008 until the third quarter of 2010

| Item | 2008 \$ million | | | 2009 \$ million | | | | 2010 \$ million | | |
|--|-----------------|--------|--------|-----------------|--------|--------|--------|-----------------|--------|--------|
| | Q1 | Q2 | Q3 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Budget Statement | | | | | | | | | | |
| Cash and precious metals | 367.5 | 273.9 | 346.2 | 334.6 | 501.0 | 515.8 | 534.9 | 551.5 | 465.7 | 605.4 |
| Deposits at Monetary Authority & Banks | 4332.2 | 4708.9 | 4674.0 | 4513.5 | 4086.8 | 4265.3 | 4185.5 | 3935.8 | 3681.7 | 3732.6 |
| Portfolio | 217.9 | 214.4 | 206.6 | 233.1 | 429.7 | 467.5 | 535.6 | 685.6 | 689.3 | 691.3 |

| Item | 2008 \$ million | | | 2009 \$ million | | | | 2010 \$ million | | |
|--|-----------------|---------------|---------------|-----------------|---------------|---------------|---------------|-----------------|---------------|---------------|
| | Q1 | Q2 | Q3 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Budget Statement | | | | | | | | | | |
| Direct credit facilities | 1746.6 | 1807.5 | 1828.2 | 1842.9 | 2099.7 | 2261.2 | 2233.9 | 2586.5 | 2587.7 | 2782.7 |
| Banker's acceptances | 4.2 | 4.3 | 6.2 | 3.2 | 3.5 | 4.2 | 3.9 | 3.6 | 4.9 | 4.5 |
| Investments | 188.6 | 173.5 | 144.6 | 188.1 | 172.8 | 165.7 | 162.2 | 127.6 | 133.7 | 132.4 |
| Fixed assets | 224.4 | 225.9 | 237.3 | 243.9 | 252.8 | 255.9 | 267.9 | 140.0 | 142.8 | 138.5 |
| Other assets | 236.0 | 249.3 | 197.3 | 213.2 | 208.7 | 220.9 | 167.3 | 205.8 | 209.2 | 238.4 |
| Assets (total) | 7308.3 | 7657.6 | 7640.4 | 7570.7 | 7755.0 | 8156.5 | 8091.1 | 8249.1 | 7915.0 | 8325.8 |
| Deposits of Monetary Authority & Banks | 466.0 | 456.2 | 442.9 | 417.6 | 426.4 | 383.6 | 381.4 | 457.3 | 318.7 | 438.7 |
| Total deposits of the public | 5599.0 | 5873.6 | 5846.9 | 5772.5 | 5988.7 | 6385.9 | 6295.3 | 6495.5 | 6379.7 | 6621.3 |
| Executed and existing banker's acceptances | 15.9 | 15.2 | 21.0 | 9.3 | 10.7 | 13.2 | 12.4 | 11.7 | 13.4 | 14.4 |
| Other liabilities | 155.7 | 158.3 | 135.2 | 144.0 | 111.9 | 115.7 | 93.2 | 101.1 | 118.5 | 126.0 |
| Tax benefits & other benefits | 320.3 | 337.5 | 341.5 | 346.3 | 337.2 | 346.6 | 341.4 | 126.8 | 134.8 | 139.1 |
| proprietorship | 751.5 | 817.0 | 853.0 | 880.9 | 880.1 | 911.5 | 967.8 | 970.4 | 949.8 | 986.3 |
| Liabilities (total) | 7308.3 | 7657.6 | 7640.4 | 7570.7 | 7755.0 | 8156.5 | 8091.1 | 8249.1 | 7915.0 | 8325.8 |

Source: Palestinian Monetary Authority – The consolidated balance sheet of banks.

Note: The net credit facilities, as well as net assets- included in the table above- have been taken as of the second quarter 2010. So please be careful when making comparisons.

5.2 Performance Indicators of the Banking System¹⁶

The consolidated balance sheet (3rd quarter) of banks operating in the Palestinian Territory an improvement in the key performance indicators of the Palestinian banking sector. The share of credit facilities to both total deposits and non-bank deposits has continued

to rise; total deposits have risen by 0.8 percentage points, and non-bank deposits have risen 1.5 percentage points. Furthermore, the ratio of credit facilities to total assets, has increased by 0.7 percentage points during the same period.

Table 25: Indicators of the performance of the banking system- from 2008 until the third quarter of 2010

| Indicator | 2008 | Percentage | | | | | | | |
|--|------|------------|------|------|------|------|------|------|----|
| | | 2009 | | | | 2010 | | | |
| | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Credit facilities / Total deposits | 29.1 | 29.8 | 32.7 | 33.4 | 37.2 | 37.2 | 38.6 | 39.4 | |
| Credit facilities / Non-bank deposits | 31.3 | 32.0 | 35.1 | 35.4 | 39.8 | 39.8 | 40.6 | 42.0 | |
| Credit facilities / total assets | 24.0 | 24.3 | 27.0 | 27.7 | 31.4 | 31.4 | 32.7 | 33.4 | |
| Credit facilities of the private sector / private sector deposits | 24.7 | 24.1 | 24.6 | 26.6 | 29.4 | 29.4 | 30.7 | 31.8 | |
| Credit facilities of the resident private sector / deposits of the resident private sector | 22.8 | 22.3 | 23.3 | 25.4 | 30.3 | 30.3 | 32.2 | 32.2 | |
| Overseas holdings / total deposits | 52.1 | 52.4 | 42.5 | 43.2 | 37.7 | 37.7 | 37.3 | 35.6 | |
| Customer deposits / total assets | 76.6 | 76.2 | 77.2 | 78.4 | 78.7 | 78.7 | 80.6 | 79.5 | |

Source: Palestinian Monetary Authority – The consolidated balance sheet of banks.

Note: The net credit facilities, as well as net assets- included in the table above- have been taken as of the second quarter 2010. So please be careful when making comparisons.

¹⁶ For more details on this topic, and other developments concerning the Palestinian banking sector, please see the Financial Stability Report which was started in 2010 by the Palestinian Monetary Authority.

The share of the facilities granted to the Palestinian private sector from private deposits has risen by about one percentage point, whereas the ratio of facilities to deposits of the resident private sector has remained stable at 32.2%. In contrast, overseas bank assets have continued to decline; now amounting to 35.6% of total deposits, a decline of 1.7 percentage points from the previous quarter. Furthermore, customer deposits to total assets have decreased by 0.9 percentage points.

5.3 Clearing-house activities

Data from the Palestinian Monetary Authority (PMA) clearing-houses – in both Ramallah and Gaza – indicate growth in the number and value of checks presented to the PMA for clearing. During the 3rd Quarter, the number of checks presented for clearing rose by 6.5%, while the value increased by 1.4%. Moreover, the returned checks increased by about 1.2 percentage points in terms of number and by one percentage point in terms of value.

Table 26: Number and value of checks presented for clearing and returned-from 2008 until first quarter 2010

| Period | Checks presented for clearing | | Returned checks | | Percentage of checks returned/presented for clearing | |
|---------|-------------------------------|--------------------|------------------|--------------------|--|---------|
| | Number of checks | Value (\$ million) | Number of checks | Value (\$ million) | No. % | Value % |
| 2008/Q1 | 603,281 | 1935.3 | 72,649 | 136.4 | 12.2 | 7.0 |
| 2008/Q2 | 647,267 | 2144.3 | 72,762 | 132.4 | 11.2 | 6.2 |
| 2008/Q3 | 686,097 | 2179.4 | 81,125 | 144.6 | 11.8 | 6.6 |
| 2008/Q4 | 717,579 | 2009.4 | 86,669 | 147.0 | 12.1 | 7.3 |
| 2009/Q1 | 668,531 | 1749.4 | 88,789 | 141.8 | 13.3 | 8.1 |
| 2009/Q2 | 741,186 | 2016.6 | 76,523 | 109.2 | 10.3 | 5.4 |
| 2009/Q3 | 813,545 | 2089.7 | 91,833 | 144.1 | 11.3 | 6.9 |
| 2009/Q4 | 845,135 | 2247.8 | 101,896 | 155.4 | 12.0 | 6.9 |
| 2010/Q1 | 817,520 | 2220.1 | 80,071 | 127.2 | 9.8 | 5.7 |
| 2Q2010/ | 882,782 | 2347.8 | 83,098 | 131.8 | 9.4 | 5.6 |
| 3Q2010/ | 940,280 | 2380.1 | 99,652 | 156.6 | 10.6 | 6.6 |

Source: Palestinian Monetary Authority - Monthly Statistical Bulletin

5.4 Palestine Stock Exchange

Securities markets assume a crucial role in attracting capital and investment. Financial markets provide resources for companies to finance investments. They can also be catalysts for businesses to improve economic performance and increase profitability in order to maintain or raise stock value.

In theory, effective financial markets are characterized by the fast response rates of stock market companies/investors to new information about the current and future status of the companies listed, whether at the productive or at the financial level, such that a company's share price reflects the information available on a variety of financial and economic indicators. For a financial market to be efficient, there should be sufficient information available to all at the same time

and at reasonable costs. Moreover, participatory financial firms should be able to trade (sell and buy), any number of shares without high transaction cost. In order to avoid individual influences on the activities and prices of shares in the market, it is preferable to have a large number of listed corporations or mutual organizations. The following financial indicators monitor the Palestine Stock Exchange and its developments:

Financial market Indicators:

- ✧ **Market capitalization** is measured by dividing the market value of listed equities in the market to GDP at current prices. This index is used to measure the importance and role of the financial market in the national economy. It should be noted that this rate is calculated for the

entire year and not for the individual quarters. The rate was reported at 46.4% in 2009¹⁸, which means that the value of capital traded in the Palestinian stock market is roughly 50% of the Palestinian production.

- ✧ The **Number of listed companies** reflects the market depth and diversity. The number of companies listed on the Palestine Stock Exchange at the end of the third quarter of 2010 totaled 40, this number includes the three companies that were suspended from trading.

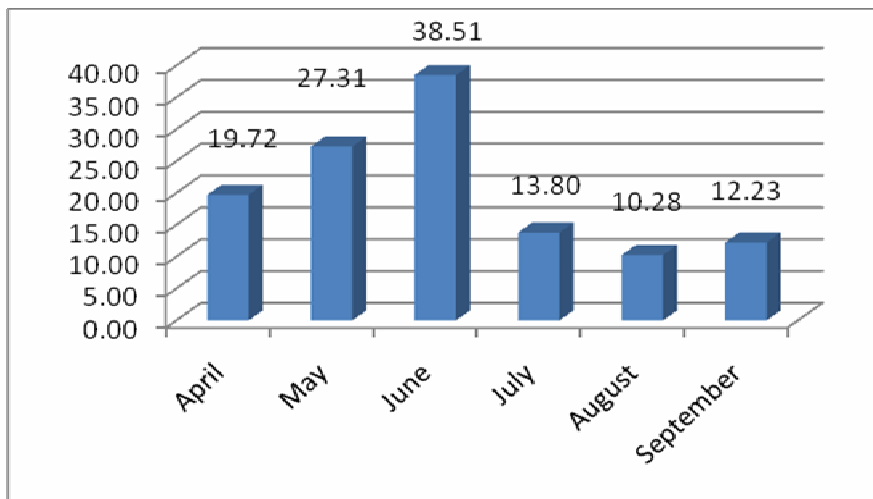
Liquidity Indicators:

- ✧ The **Ratio of traded shares to GDP** was 5% in the third quarter of 2010, compared to 10.5% in the second quarter. This is mainly due to the decline in the number of shares traded during the third quarter.
- ✧ Turnover is calculated by dividing the total value of shares traded by the total value of shares listed on the market. This rate was 2.75% in the third quarter of 2010, compared to 5.8% in the second quarter. Evidently, the market has

undergone a decline in turnover during the third quarter compared with the second quarter, probably because of the relatively high value of shares traded in the second quarter compared to the third quarter. On the margin, this could also be due to vacations/holidays, which increase in the 3rd quarter and often cause investors to liquidate their shares or to refrain from speculation in order to keep cash for other expenses.

- ✧ **Degree of Concentration** is used to determine the influence of some giant companies on changes in stock market indices, especially the stock prices. The influence is measured by calculating the contribution of the top five or ten companies to the value of shares traded in the stock market. In the third quarter of 2010, the five largest companies in the Palestine Stock Exchange acquired 80.3% of the total value of shares traded, compared to 77.8% in the second quarter. This high concentration, in principle, allows the five major companies to heavily influence the stock market indices¹⁹.

Figure 17: Number of shares traded on the Palestine Stock Exchange- the second and third quarters of 2010 (Figures in millions)



Source: Palestine Stock Exchange www.pse.com

¹⁸ Because national accounts data for 2009 are available only at constant prices, the ratio was calculated based on fixed (not current) prices.

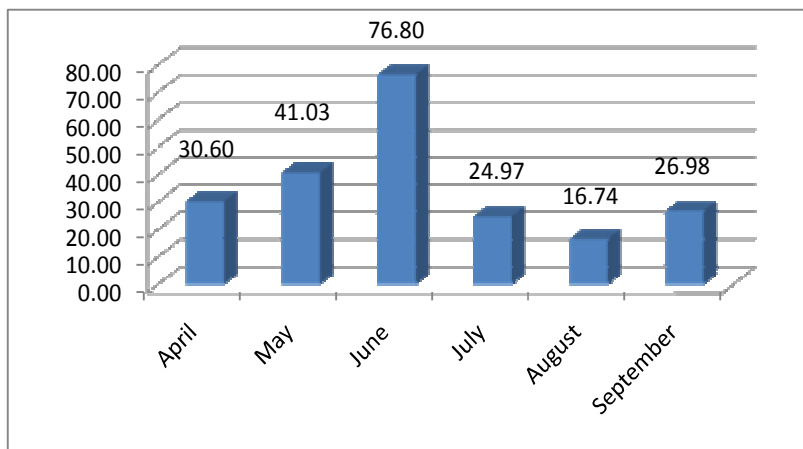
¹⁹ There are four companies that maintained the largest share of the total value of stocks traded during the third quarter of 2010: Palestine Development and Investment (PADICO), Palestinian Telecommunications (PALTEL), Bank of Palestine (POB), and Palestine Industrial Investment Company (PIIC).

Concerning the developments in the Palestine Stock Exchange during the third quarter of 2010, indicators show a significant decline in the market during the third quarter compared to the previous quarter of 2010. The numbers of shares traded fell by 57.6% from the previous quarter (and a 28.6% decrease from the third quarter of 2009, i.e., it was below the annual average). The shares traded during the third quarter of 2010 totaled 36.3 million (see Figure 17).

The value of shares traded during July and August fell sharply, yet they rose slightly in September as a result of the increase in the number of shares traded, posting a decline of \$ 53.7% between the end of the third quarter and second quarter of 2010 (see Figure 18).

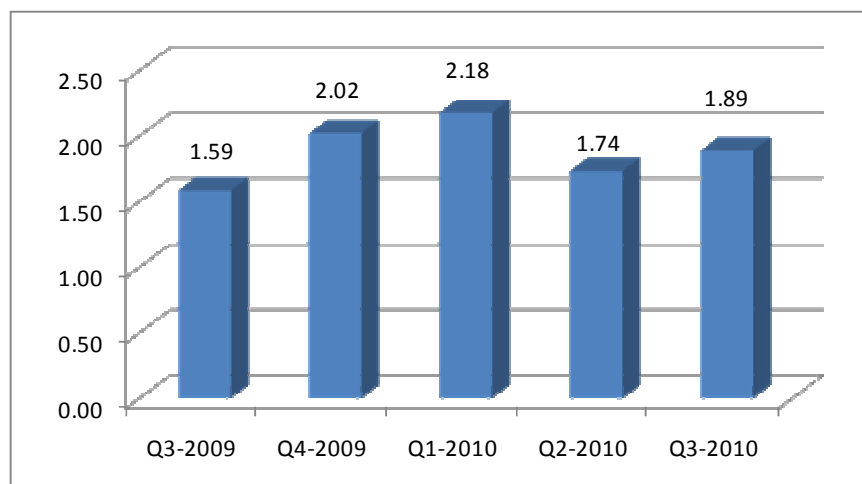
Palestine Stock Exchange data revealed that the average price per share grew by 9% compared to the average share price in the previous quarter (see Figure 19).

Figure 18: Value of shares traded on the Palestine Stock Exchange- the second and third quarters of 2010 (Million dollars)



Source: Palestine Stock Exchange www.pse.com

Figure 19: Average share price in Palestine- third quarter of 2010 and previous Quarters

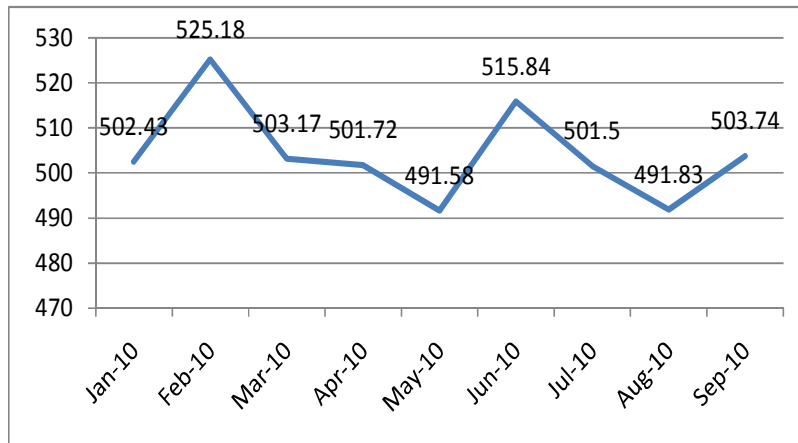


Source: Palestine Stock Exchange www.pse.com

By the end of the third quarter, Al-Quds index closed at 503.74 points, down by 2.4% (12.1 points) from the end of the second quarter of

2010, and up by 0.11% compared with the end of the first quarter (see Figure 20).

Figure 20: Al-Quds index- the first three quarters of 2010

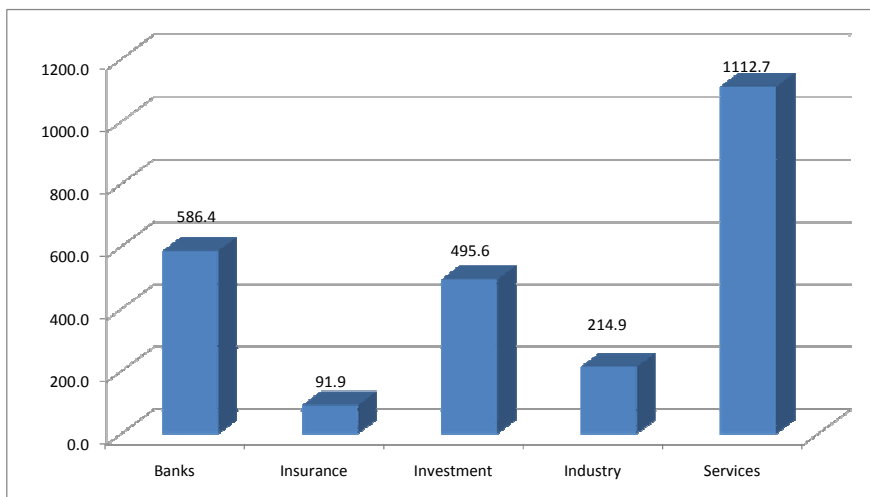


Source: Palestine Stock Exchange www.pse.com

The number of companies listed on the Palestine Stock Exchange in July, August and September was 41, 41 and 40, respectively. At the sector level, with a total of \$1,112.7 million, the services sector had the largest share of the value of stocks listed on the Palestine Stock Exchange during the third

quarter of 2010. This value represents 44.5% of the total value of shares listed on the market. The second largest contributor was the banking sector with a share of 23.4%. The investment sector, the industry sector and the insurance sector accounted for 19.8%, 8.6% and 3.7%, respectively (See Figure 21).

Figure 21: The value of stocks listed on the Palestine Stock Exchange by Sector- third quarter of 2010 (Million dollars)

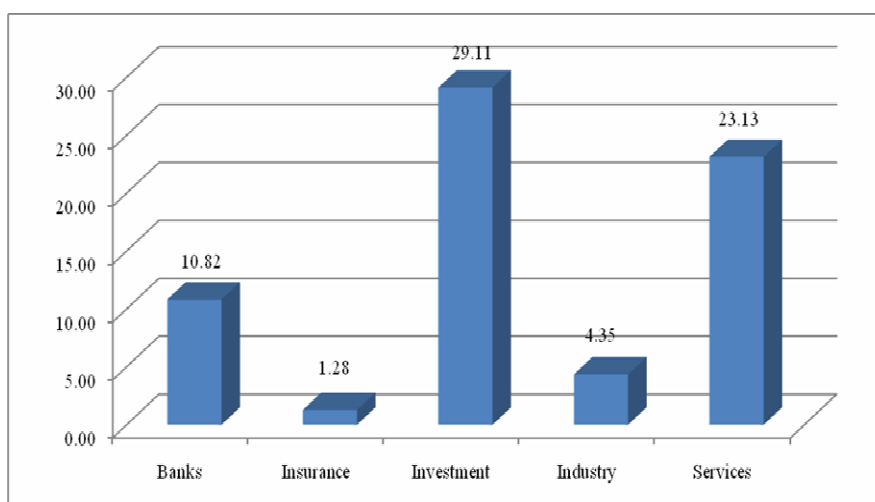


Source: Palestine Stock Exchange www.pse.com

In regards to the value of traded shares (\$29.11 million), the investment sector accounted for the largest share of the value of stocks traded on the Palestine Stock Exchange (42.4% of the total value of shares traded in the market). The services sector came second, with a share of

33.7%. The banking sector and the industry sector contributed 15.7% and 6.3%, respectively. Finally, the insurance sector share was the least, with a contribution of 1.9% of the total value of shares traded in the third quarter of 2010 (see Figure 22).

Figure 22: The value of stocks traded on the Palestine Stock Exchange by Sector- third quarter of 2010 (Millions of USD)



Source: Palestine Stock Exchange www.pse.com

6. Investment Indicators

6.1 Registration of companies

The Ministry of National Economy (MNE) registers companies in the Occupied Palestinian Territory under various company laws in effect in the West Bank and the Gaza Strip. This volume of the Monitor only considers new companies registered in the third quarter of 2010 in the West Bank because the MNE in Ramallah does not have any data on the registration of companies in the Gaza Strip in the third quarter of 2010. The number of registered companies in the West Bank in the third quarter of 2010

declined significantly by about 62% compared to the previous quarter (see Table 27). Registered West Bank Firms held capital totaling about 23 million Jordanian dinars, down by 68.7% from the previous quarter. This decline is attributed to the new procedures in the registration of companies, where the applications are to be approved by the Bar Association at a cost of JD 500 for the general-trading companies and JD 700 for the shareholding private companies, in addition to the routine fees²⁰.

Table 27: Development of the number of new companies registered in the West Bank during the period from 2008 until 2010

| Quarter | 2008 | 2009 | 2010 |
|--------------|--------------|--------------|------|
| 1 | 247 | 454 | 334 |
| 2 | 334 | 412 | 428 |
| 3 | 315 | 349 | 164 |
| 4 | 287 | 438 | |
| Total | 1,183 | 1,653 | |

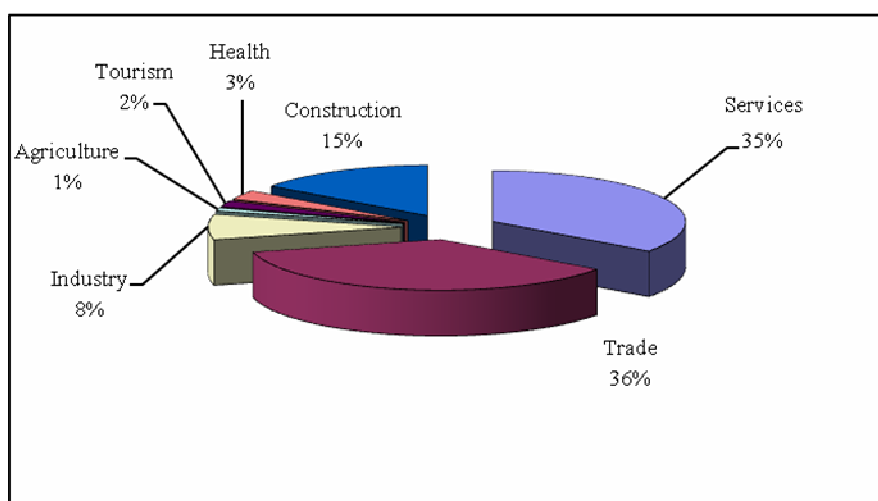
Source: The Ministry of National Economy, Department of Company Registration, 2010.

²⁰ This is based on telephone interview conducted with Mr. Yousef Joda, head of adjustments department at the Ministry of National Economy on Sunday, November 28, 2010.

Differences are evident in the capital distribution of registered companies by economic sector between the third and second quarter of 2010. Although the service sector held the largest share of new company capital, its share declined to 35% (down from 41% in the previous quarter). The share of the trade

sector, by comparison, rose to 36% (up by 8% from the previous quarter). The share of the industrial sector remained stable at 8%. The construction sector fell by about two percentage points. The contributions of health, agriculture and tourism sectors were 2.6%, 1.2% and 1.9%, respectively (see Figure 23).

Figure 23: Distribution of the capital of new companies registered in the West Bank by Economic Activity during the third quarter of 2010 (%)



Source: The Ministry of National Economy, Department of Company Registration: years 2008-2010.

With regard to the legal status of companies registered in the third quarter of 2010, data confirms that there has been a significant change compared to the second quarter. The share of private joint stock companies fell by about 43.8% (53.6% in the previous quarter).

Furthermore, the share of limited companies rose from 29.2% in the second quarter to 43.3% in the third quarter while the share of foreign private corporations dropped to 12.9%, a decline of 17.2% from the previous quarter (see Table 28).

Table 28: Distribution of the value of capital of companies registered in the West Bank- by Legal Classification: the four quarters of 2009 and the second quarter of 2010 (JD)

| Year | Legal Form | | | | | | | Total |
|--------------|------------------|-----------------------------|------------------|------------------------------|---------------------|----------------------|-------------------|--------------------|
| | Ordinary Limited | Foreign Public Shareholding | Foreign Ordinary | Foreign Private Shareholding | Public Shareholding | Private Shareholding | Public Ordinary | |
| Q1/2009 | 100,000 | 0 | 0 | 1,603,770 | 0 | 69,548,440 | 22,179,040 | 93,431,250 |
| Q2/2009 | 0 | 0 | 0 | 413,528,125 | 0 | 197,102,459 | 15,076,424 | 625,707,0 |
| Q3/2009 | 0 | 0 | 0 | 300,000 | 0 | 22,895,540 | 17,987,800 | 41,183,340 |
| Q4/2009 | 0 | 0 | 0 | 1,173,000 | 0 | 32,396,000 | 30,384,000 | 63,952,600 |
| Total | 100,000 | 0 | 0 | 416,604,499 | 0 | 321,942,439 | 85,627,264 | 824,274,202 |
| Q1/2010 | 0 | 0 | 0 | 595,376 | 0 | 22,224,935 | 20,808,628 | 43,628,940 |
| Q2/2010 | 0 | 0 | 0 | 12,604,830 | 0 | 39,354,540 | 21,399,180 | 73,358,550 |
| Q3/2010 | 0 | 0 | 0 | 2,958,330 | 0 | 10,043,550 | 9,941,300 | 22,943,180 |

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

Regarding the geographical distribution of newly-registered companies, the third quarter (2010) data showed that the largest contributors – just like the previous quarters – were found in the governorates of Ramallah, Hebron and Nablus, by 29.3%, 13.4% and 11.6%, respectively. It is possible that healthier nature of infrastructure in these governorates (compared to other governorates) may explain these high shares. Conversely, the number of companies registered in the Jenin governorate fell from 40 to 14, and their

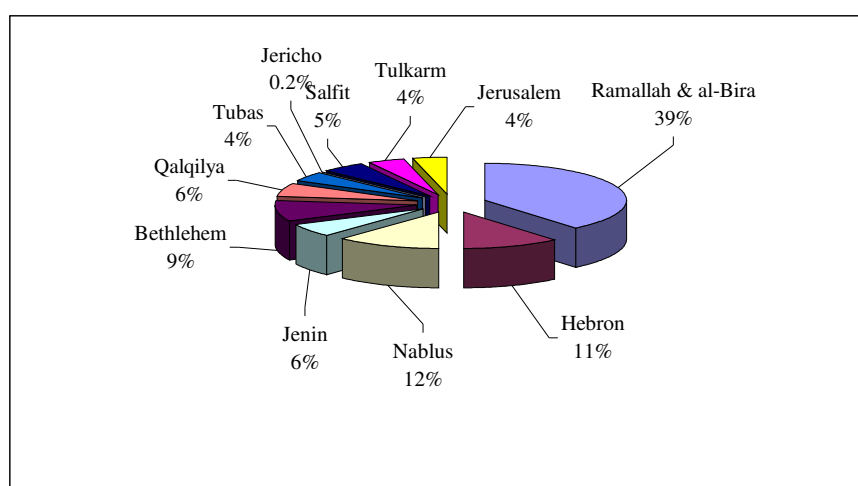
contribution to the total number declined from 9.3% to 8.5%. In the outskirts of Jerusalem, the number of registered companies dropped from 25 to 12 companies; however, their total contribution to the amount of registered companies rose from 5.8% in the second quarter to 7.3% in the third quarter of 2010. Finally, the number of companies registered in Jericho and the Jordan Valley governorate fell from 15 companies to only one company in the third quarter (see Table 29).

Table 29: Distribution of the number of newly-registered companies in the West Bank- by Governorate: the four quarters of 2009 and the second quarter of 2010

| Governorate | Q1/2009 | | Q2/2009 | | Q3/2009 | | Q4/2009 | | Q1/2010 | | Q2/2010 | | Q3/2010 | |
|-------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | No. | % | No. | % | No. | % | No. | % | No. | % | No. | % | No. | % |
| Ramalla & al-Bira | 144 | 31.7 | 152 | 37 | 123 | 28.2 | 138 | 13.5 | 113 | 34 | 167 | 39 | 48 | 29.3 |
| Hebron | 91 | 20 | 58 | 14.1 | 51 | 15.5 | 88 | 20.1 | 54 | 16.2 | 58 | 13.6 | 22 | 13.4 |
| Nablus | 66 | 14.5 | 63 | 15.3 | 71 | 22.1 | 99 | 22.6 | 49 | 14.7 | 44 | 10.3 | 19 | 11.6 |
| Tulkarm | 22 | 4.8 | 19 | 4.6 | 4 | 0.7 | 16 | 3.7 | 8 | 2.4 | 16 | 3.7 | 9 | 5.5 |
| Jenin | 57 | 12.6 | 42 | 10.2 | 47 | 14.7 | 40 | 9.1 | 34 | 10.2 | 40 | 9.3 | 14 | 8.5 |
| Jericho & Jordan Valley | 7 | 1.5 | 7 | 1.7 | 6 | 2.4 | 6 | 1.4 | 4 | 1.2 | 15 | 3.5 | 1 | 0.6 |
| Jerusalem outskirts | 18 | 4 | 12 | 2.9 | 14 | 3.3 | 12 | 2.7 | 15 | 4.5 | 25 | 5.8 | 12 | 7.3 |
| Bethlehem | 33 | 7.3 | 35 | 8.5 | 19 | 9.4 | 23 | 5.3 | 23 | 6.9 | 38 | 8.9 | 19 | 11.6 |
| Qalqilya | 9 | 2 | 10 | 2.4 | 10 | 2.7 | 12 | 2.7 | 16 | 4.8 | 11 | 2.6 | 10 | 6.1 |
| Salfit | 7 | 1.5 | 13 | 3.2 | 4 | 1.0 | 3 | 0.7 | 9 | 2.7 | 14 | 3.3 | 9 | 5.5 |
| Tubas | - | - | - | - | - | - | - | - | 8 | 2.4 | 0 | 0 | 1 | 0.6 |
| Total | 454 | 100 | 412 | 100 | 349 | 100 | 437 | 100 | 333 | 100 | 428 | 100 | 164 | 100 |

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

Figure 24: Percentage Distribution of the capital new companies Registered in the West Bank- by Governorate: the first quarter of 2010 (%)



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

6.2 Building Licenses

The number of building licenses issued during a given period may be taken as a significant

indicator of investment activity in general and investment in the housing sector in particular.

The number of building licenses issued depends to a large extent on weather conditions (ie. Yearly seasonal changes) during the period. Usually, construction activity increases during the second and third quarters (summer), while it declines during the

fourth and first quarters (winter). It should be made clear that the number of licenses issued does not include all building activities in the construction sector, since part of the construction activities, especially in rural areas, are not registered or licensed.

Table 30: Some indicators of building licenses and licensed areas in the West Bank- from the first quarter of 2009 until the third quarter of 2010

| | Q1/2009 | Q2/2009 | Q3/2009 | Q4/2009 | Q1/2010 | Q2/2010 | Q3/2010 | |
|--|-------------------|--------------|--------------|--------------|--------------|--------------|--------------|-------|
| Total licenses issued | 1,219 | 1,309 | 1,296 | 1,482 | 1,528 | 1,741 | 1,449 | |
| Residential building | 1,052 | 1,144 | 1,135 | 1,296 | 1,330 | 1,470 | 1,258 | |
| Non-residential building | 167 | 165 | 161 | 186 | 198 | 271 | 191 | |
| Total licensed areas (1000 Square meters) | 469.2 | 522.9 | 510.3 | 593.7 | 531.4 | 663.9 | 650.1 | |
| Licensed housing units | | | | | | | | |
| New units | No. | 1,266 | 1,485 | 1,311 | 1,668 | 1,513 | 1,976 | 1,921 |
| | Area (1000 sq. m) | 245.6 | 311.2 | 241.4 | 297.8 | 293.2 | 375.6 | 347.2 |
| Existing units | 261 No. | 261 | 322 | 495 | 423 | 461 | 420 | 414 |
| | Area (1000 sq. m) | 74.3 | 85.6 | 88.5 | 74.5 | 95.4 | 74.4 | 72.7 |

Source: Palestinian Central Bureau of Statistics (2010): Building Licenses Statistics, Ramallah - Palestine.

Building license statistics show an increase of 12% in the number of building permits in the West Bank during the third quarter of 2010 compared to the corresponding quarter of 2009.⁶ The total area licensed during the third quarter of 2010 was about 650,000 square meters, up by about 27% from the corresponding quarter of 2009. The number of licensed dwelling units rose significantly to 1,921 during the third quarter of 2010, compared with 1,311 residential units in the previous year (an increase of 47%). The total area of newly-licensed housing units also saw an increase of 44% (See Table 30).

6.3 Cement Import

Weather conditions also serve as determinants of the volume of cement imported. Data shows an increase of the amount of cement imported into the West Bank during the third quarter of 2010, up by 9% from the third quarter of 2009 (no data is available on the import of cement into Gaza). This rise is attributed to two factors: the increased activity in the construction sector, and the importation of cement from Jordan – as of February 2010²¹. Neshar (an Israeli Company), remained the main supplier of cement in the third quarter of 2010, providing 96% of all imports of cement into the Palestinian Territory (see Table 31).

Table 31: The amount of cement imported into the West Bank- from the first quarter of 2009 until the third quarter of 2010

| Period | From Israel | From Jordan | Amount |
|---------|-------------|-------------|---------|
| Q1/2009 | 275,269 | 0 | 275,269 |
| Q2/2009 | 361,430 | 0 | 361,430 |
| Q3/2009 | 285,128 | 0 | 285,128 |
| Q4/2009 | 303,148 | 0 | 303,148 |
| Q1/2010 | 301,385 | 5,029 | 306,414 |
| Q2/2010 | 368,665 | 12,915 | 381,580 |
| Q3/2010 | 297,839 | 13,205 | 311,044 |

Source: Palestinian Company for Commercial Services

⁶ There is no data available on building licenses in the Gaza Strip on account of the split between Fatah and Hamas.

²¹ Based on a telephone call with Sales and Marketing Director of the Palestinian Commercial Services Company on December 12, 2010

6.4. Hotel Activity

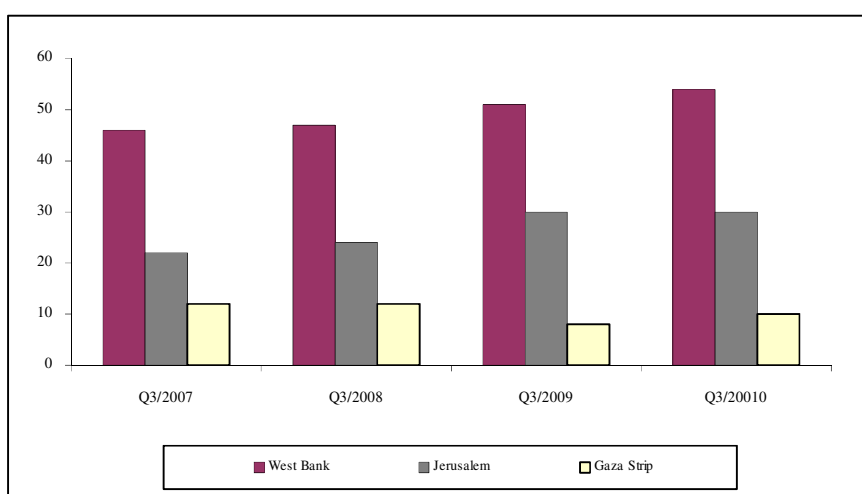
Tourism has enjoyed some growth in the Palestinian Territory since the beginning of 2007. In the third quarter of 2010, hotel activity increased; however, this development was limited to the West Bank.

The number of hotels in the Occupied Palestinian Territory totaled 102 – including those operating and those temporarily closed down. The number of operating hotels varies from month to month. In September 2010, for

example, only 94 hotels were operating; with a capacity of 10,252 beds in 4,811 rooms (see Figure 25).

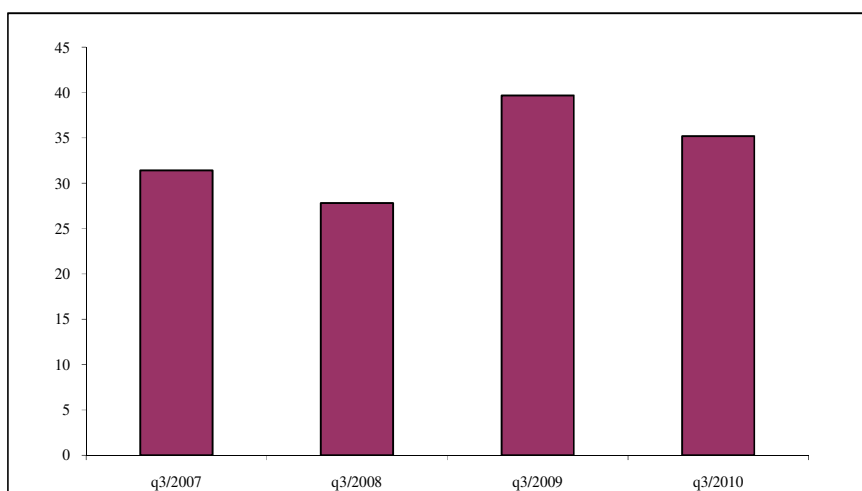
In the third quarter of 2010, the number of guests in the country's hotels totaled 137,733, of whom 11.1% were Palestinians and 35.1% were from European Union countries. This is a 1.7% decline from the second quarter of 2010 and a 1.3% increase from the third quarter of 2009.

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



Source: PCBS, 2010, Hotel Activity in the Occupied Palestinian Territory, 3rd Quarters 2007 - 2010.

Figure 26: Hotel Room Occupancy Rates, Quarter Three 2007-2010



Source: PCBS, 2010, Hotel Activity in the Occupied Palestinian Territory, 3rd Quarters 2007 - 2010.

The average daily room occupancy in hotels operating in the Palestinian Territory was 1,700 rooms, or 35.2% of the total number of rooms (see Figure 26). Guests staying in Jerusalem hotels comprised 45.6% of the total number of guests, while those in the south and the central West Bank represented 34.3% and 14.8%, respectively. The share of guests in the northern West Bank hotels was only 5%, while Gaza's share was insignificant (only 0.3%).

During the third quarter of 2010, the number of nights spent in Palestinian hotels totaled 304,504, including 10.4% and 37.1% of the total nights occupied by Palestinians and

European nationals, respectively. The share of US and Canadian guests was 11.1%. This was a 2% decline from the corresponding quarter of 2009 and a 4.6% decrease from the second quarter of 2010.

In the third quarter of 2010, the average length of stay in Palestinian hotels was 2.2 nights per guest. The highest average length of stay was in the Gaza Strip (with 2.8 nights per guest). In the northern region of the West Bank and the central region of the West Bank, the rates were 1.3 and 2.5 nights per guest, respectively. Finally, in Jerusalem hotels, the average length of stay was 2 nights per guest (see Table 31).

Table 32: Change in Hotel Activity in the third quarter of 2010 compared to the second quarter of 2010 and the third quarter of 2009

| Indicator | Percentage Change compared to Q2 2010 | Percentage Change compared to Q3 2009 |
|--|---------------------------------------|---------------------------------------|
| Number of Operating Hotels at the end of the Quarter | 0.0 | 5.3 |
| Average Number of Employees during the Quarter | 4.3 | 14.6 |
| Number of Hotel Guests | * (1.7) | 1.3 |
| Number of Nights stayed | * (4.6) | * (2.0) |
| Average Room Occupancy | 3.1 | * (7.4) |
| Average Bed Occupancy | * (6.1) | * (2.0) |
| Rate of Room Occupancy (%) | 2.6 | * (12.8) |
| Rate of Bed Occupancy (%) | * (6.2) | * (5.0) |

Source: PCBS (2010). Hotel Activity in the Occupied Palestinian Territory, 3rd Quarter 2010.

* Figures in brackets indicate negative values.

Box 4: Research and development in the Occupied Palestinian Territory

Research and Development plays a key role in the economies of countries in general, and developed countries in particular. Studies show that increases in research and development – in terms of expenditure and employment – are bound to positively affect production and exports, bringing about high rates of economic growth.⁷ The top ten countries by expenditure on research and development (as Table 1 above shows) are among the top twenty countries by GDP per capita (except for Israel and Korea, where expenditure on research and development is high while their GDP does not place them among the top twenty).

Despite the low rate of spending on research and development in the West Bank (0.5%) compared to developed countries (about 2.5%), it is well higher than the rates reported in neighboring countries. Data show that rates of expenditure on research and development in Jordan, Lebanon and Egypt were 0.3%, 0.30% and 0.19%, respectively.

⁷ The role of research and development in enhancing the competitiveness of the Palestinian private sector- (MAS): 2008.

Table 1: Top ten countries by spending on research and development as a percentage of GDP

| Ranking | Expenditure/GDP ratio* | State | GDP Per capita (U.S. \$) ** | Sequential order of States by GDP |
|---------|------------------------|---------------|-----------------------------|-----------------------------------|
| 1 | 4.46 | Israel | 27,500 | 1 |
| 2 | 3.74 | Sweden | 47,667 | 2 |
| 3 | 3.46 | Finland | 43,134 | 3 |
| 4 | 3.15 | Japan | 42,325 | 4 |
| 5 | 3.01 | Iceland | 39,563 | 5 |
| 6 | 2.68 | United States | 47,132 | 6 |
| 7 | 2.64 | South Korea | 20,165 | 7 |
| 8 | 2.63 | Denmark | 55,113 | 8 |
| 9 | 2.57 | Switzerland | 67,074 | 9 |
| 10 | 2.49 | Germany | 40,512 | 10 |

*World Bank (various years)⁸

** International Monetary Fund, 2010⁹

In November 2010, the PCBS released the results of a survey of research and development indicators in the West Bank during 2009. The survey included data from higher education institutions, NGOs and Palestinian government institutions. The survey reveals that total expenditure on research and development in the West Bank totaled \$29 million in 2010- about 0.54% of total GDP. The government sector made up 34.2% of total expenditure on research and development, while NGOs and higher education institutions accounted for 17.5% and 48.3%, respectively¹⁰.

The survey also included data concerning researchers within these organizations. In the West bank, the number of full-time researchers per million people (a human capital indicator) rose from 150 in 2008 to 232 in 2009. In addition, the number of staff working in research and development increased significantly (90%) in 2009 compared to 2008 (2,951 in 2009 compared to 1,542 in 2008). Additionally, the number of both male and female researchers approximated half the staff size (1,550 in the West Bank). This represented a 56% increase from the previous year, although female participation did not exceed 18%.

In conclusion, research and development experienced a rise of investment across the board which, in theory, should allow public and private institutions to improve planning and growth. However, the Israeli occupation and internal security apparatus function in a way that prohibits research and development from having an overall positive effect on growth in the Palestinian Territory.

7. Prices and Purchasing Power

7.1.Consumer Prices²⁸

Overall inflation increased moderately in the 3rd quarter of 2010. Indices of consumer prices in the Palestinian Territory rose by 1.32% during the third quarter of 2010, compared to

the previous quarter. This increase indicates a consistent trend since the beginning of 2010. During the third quarter, alcoholic and tobacco product prices rose by 8.66%, the sharpest

⁸ http://www.nationmaster.com/graph/eco_res_and_dev_exp_of_gdp-economy-research-development-expenditure-gdp
⁹ <http://www.imf.org/external/pubs/ft/weo/2010/02/weodata/index.aspx>

¹⁰ Information retrieved from PCBS does not include indicators of research and development in the Gaza Strip.

²⁸ The Palestinian Central Bureau of Statistics updated the base year in calculating the index of consumer prices in accordance with international standards (a transition from 1996 to 2004). The year 2004 was selected as it was the most stable among the years following the second intifada. In addition, goods were classified by 'individual consumption by purpose' (COICOP). This classification was published by the European Union. It is based on classifying groups into twelve core groups instead of ten. It changes the distribution of some goods within some groups.

increase among consumer goods. Prices of food and soft drinks rose by 2.14%, while the prices of ‘miscellaneous goods and services’ grew by 1.42%. The prices of textiles, clothing

and footwear rose by 0.64%. In contrast, prices of housing and related supplies declined by 0.95% (see Table 33).

Table 33: Average Change in CPI by Commodity Group in the Palestinian Territory in the third quarter of 2010, Compared to the second quarter of 2010 and the third quarter of 2009 (Base Year: 2004 = 100)

| Group | Percentage Change (Q2 – Q3 2010) | Percentage Change (Q3 2009 – Q3 2010) |
|--|----------------------------------|---------------------------------------|
| Food Stuff and soft drinks | 2.14 | 2.91 |
| Alcohol beverages and Tobacco | 8.66 | 12.10 |
| Textiles, apparels, and footwear | 0.64 | 3.42 |
| Housing and related supplies | (0.95) | 3.86 |
| Furniture & home products and appliances | (0.63) | 1.40 |
| Medical care | (0.32) | 0.76 |
| Transportation & travel | (0.08) | 1.14 |
| Telecommunications | (0.14) | (2.89) |
| Recreational & cultural goods & services | 0.16 | 1.68 |
| Educational Services | 0.14 | 5.74 |
| Restaurant, Cafe, and Hotel Services | 0.34 | 3.02 |
| Miscellaneous goods and services | 1.42 | 6.19 |
| General CPI | 1.32 | 3.18 |

Source: PCPD.

** Figures in brackets indicate negative values.

Prices of consumer goods have undergone various changes during the third quarter of 2010. Table 34 shows the movement of prices

of some commodity groups in the Palestinian Territory during the third quarter of 2010.

Table 34: Price movement of main commodity groups in the third quarter of 2010 Compared to the second quarter of 2010

| Group | Percentage Change (Q2 – Q3 2010) |
|-----------------------|----------------------------------|
| Automobiles fuel | 0.02 |
| Domestic fuel | 1.53 |
| Vegetables | 11.61 |
| Fresh Meat | 0.42 |
| Sugar | 8.52 |
| Rice | (3.65) |
| Fresh Chicken | 1.72 |
| Flour | (4.31) |
| Dairy Products & eggs | (0.79) |
| Fresh Fruit | 6.03 |

Source: The PCBS, prices department, 2010

Prices of vegetables, especially tomatoes, rose by 11.61%. Two reasons explain the high increase in tomatoes prices. The first is the agricultural damage caused by the ‘Toto Obsoleta’ pest, and the second reason is the high temperatures that destroyed a

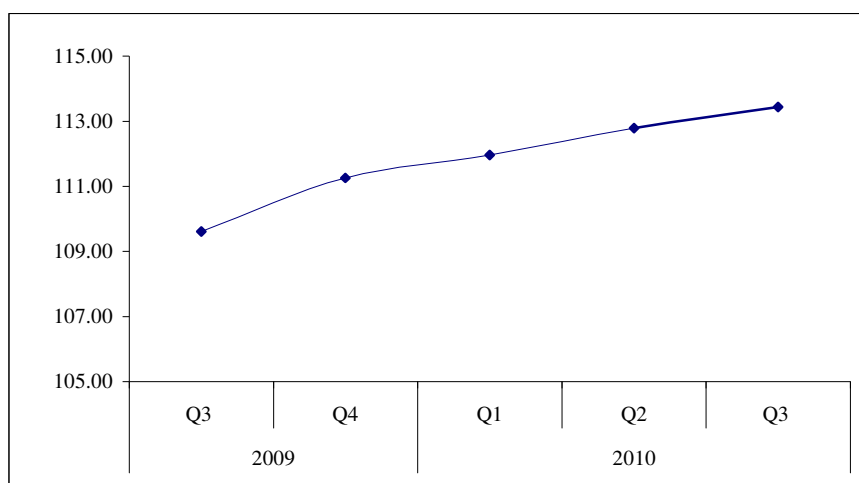
considerable part of the crop, causing an acute undersupply of tomatoes in the West Bank. Contrastingly, many basic food staples, such as flour and rice, have witnessed a significant drop in prices.

7.2. Producer Prices and Wholesale

The Producer Price Index¹¹ increased by 0.58% during the third quarter of 2010 compared to the second quarter (see Figure 27). This resulted from a 1.07% rise in the prices of agricultural commodities (which constitute 35% of the producer price basket).

The prices of mining and quarrying (which represent 1.3% of producer price basket) also edged up by 0.73%. Further, manufacturing goods (which constitute 63.5% of producer price basket) increased by 0.30% during the third quarter of 2010, compared with the second quarter.

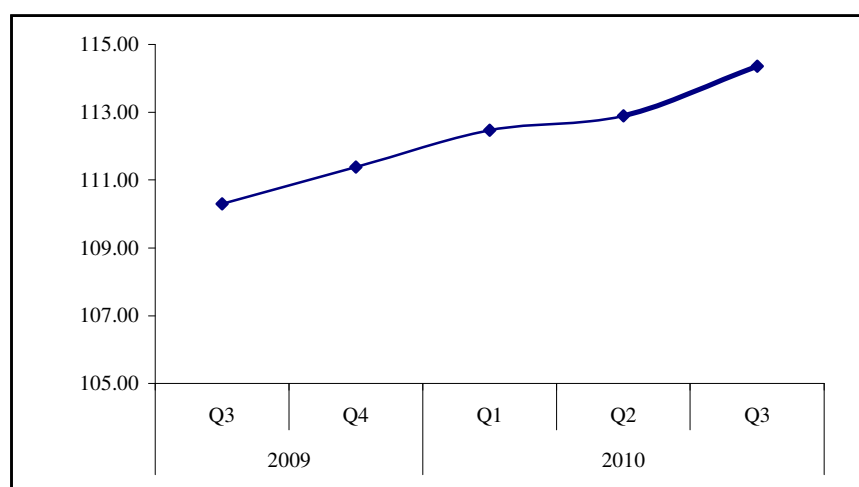
Figure 27: General trend of the producer prices indices in the Palestinian Territory, quarter three 2009 and quarter three 2010 (Base year: 2007 = 100)



Source: PCBS, prices department, 2010

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

Figure 28: General trend of the wholesale prices indices in the Palestinian Territory, quarter three 2009 and quarter three 2010 (Base year: 2007 = 100)



Source: PCBS.

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

¹¹ prices received by domestic producers for their output after all taxes are deducted, including VAT and freight/shipping costs

Producer prices during the third quarter of 2010 rose by 3.49% (compared to Quarter three of 2009). This was caused by an increase cost of locally produced products (which edged up by 0.63%) and exported products (which rose by 0.26%).

Wholesale prices¹² increased by 1.29% during the third quarter of 2010, compared to the second quarter (see Figure 28). This increase resulted from a 1.88% rise in the prices of agricultural commodities (which make up 29% of the wholesale price basket). Prices of manufactured goods increased as well, by 1.05% (with a 70% weight of the wholesale

price basket). The prices of mining and quarrying products increased by 0.61% during the third quarter compared with the second quarter. At the same time, the wholesale price index ballooned by 3.69% in the third quarter of 2010 compared to the corresponding quarter of 2009. This increase in prices was caused by the rising costs of imported (up 1.44%) and locally produced goods (up 1.29%).

7.3. Construction and Road Costs Index

The construction cost index¹³ for residential and non-residential buildings in the West Bank rose by 0.42% in the 3rd quarter (see table 25).

Table 35: Average monthly and quarterly percentage changes in the construction cost index (CCI) in the West Bank, quarter two and quarter three 2010 (Base Month: January 2007 = 100)

| Period | CCI | Monthly Percentage Change in CCI | Quarterly Percentage Change in CCI |
|--------------|--------|----------------------------------|------------------------------------|
| April, 2010 | 110.55 | 2.20 | |
| May, 2010 | 110.04 | (0.47) | |
| June, 2010 | 109.23 | (0.73) | |
| Average/ Q2 | 109.94 | | 1.83 |
| July, 2010 | 109.31 | 0.07 | |
| August, 2010 | 109.62 | 0.29 | |
| September | 109.53 | (0.09) | |
| Average/ Q3 | 109.48 | | (0.42) |

Source: PCBS, (2010).

*Figures in brackets indicate negative values.

Similarly, during the third quarter of 2010, costs of road construction in the West Bank

increased by 0.22% compared to the second quarter.¹⁴ (see Table 36).

Table 36: Average monthly and quarterly percentage changes in the road cost index (RCI) in the West Bank, quarter two and quarter three 2010 (Base Month: January 2008 = 100)

| Period | RCI | Monthly Percentage Change in the RCI | Quarterly Percentage Change in the RCI |
|--------------|--------|--------------------------------------|--|
| April, 2010 | 107.93 | 1.07 | |
| May, 2010 | 107.99 | 0.05 | |
| June, 2010 | 107.59 | (0.37) | |
| Average/ Q2 | 107.84 | | 1.56 |
| July, 2010 | 107.50 | (0.08) | |
| August, 2010 | 107.71 | 0.19 | |
| September | 107.57 | (1.13) | |
| Average/ Q3 | 107.60 | | (0.22) |

Source: PCBS, (2010).

*Figures in brackets indicate negative values.

¹² The sale of goods or merchandise to retailers, to industrial, commercial, institutional, or other professional business users, or to other wholesalers and related subordinated services; including VAT and freight/shipping

¹³ measures the changes that occur in the prices of construction materials and services used in the Palestinian Territory

¹⁴ The road cost index detects changes in the prices of materials and services used in the construction of roads in the Palestinian Territory.

7.4. Currency Exchange Rates and the Purchasing Power

The exchange rates of major currencies traded in the Palestinian market remained volatile. During the second quarter of 2010 the U.S. dollar had gained 2.9 % in value, however, it then lost 3.1% against the Israeli shekel in the continuing quarter. Since the Jordanian dinar is pegged to the US dollar on a fixed exchange rate base, the relative decline in the dollar's value affected the exchange rate of the JD, which lost 3.3% of its value against the Israeli shekel, in the third quarter. Since the beginning of 2010, the U.S. dollar declined by 1.4% against the Israeli shekel, while the

Jordanian dinar lost 1.5%. As a result, this led to a relative decline in the purchasing power of both the U.S dollar and the Jordanian dinar in the Palestinian market during that period²⁹.

The purchasing power of a currency unit is negatively correlated with the CPI and positively correlated with the exchange rate. This means that the purchasing power of the U.S. dollar and the JD depends (given that income remains constant) on the index of consumer prices (which is measured in NIS) as well as on their exchange rate with the Israeli shekel.

Table 37: Average monthly exchange rates (U.S. \$ and JD against NIS) and changes in purchasing power

| Month | Change in the CPI (%) | US \$ | | | JD | | |
|---------------|-----------------------|-----------------------|-----------------|---|-----------------------|-----------------|---|
| | | Average Exchange Rate | Change Rate (%) | Change Rate in the Purchasing Power (%) | Average Exchange Rate | Change Rate (%) | Change Rate in the Purchasing Power (%) |
| December 2007 | 0.34 | 3.8952 | (0.85) | (1.19) | 5.5241 | (0.96) | (1.30) |
| December 2008 | (0.52) | 3.8276 | (1.32) | (0.80) | 5.4427 | (0.51) | 0.01 |
| January 2009 | (0.71) | 3.9012 | 1.92 | 2.63 | 5.5107 | 1.08 | 1.79 |
| February | (0.02) | 4.1074 | 5.29 | 5.31 | 5.7726 | 4.92 | 4.95 |
| March | 1.05 | 4.1626 | 1.34 | 0.29 | 5.8710 | 1.71 | 0.65 |
| April | (0.22) | 4.1877 | 0.60 | 0.82 | 5.8972 | 0.45 | 0.67 |
| May | 0.41 | 4.0736 | (2.73) | (3.13) | 5.7456 | (2.57) | (2.98) |
| June | 0.35 | 3.9276 | (3.58) | (3.93) | 5.5678 | (3.09) | (3.44) |
| July | 0.60 | 3.8989 | (0.73) | (1.33) | 5.4997 | (1.22) | (1.82) |
| August | 1.11 | 3.8291 | (1.79) | (2.90) | 5.4006 | (1.80) | (2.91) |
| September | 0.54 | 3.7701 | (1.54) | (2.08) | 5.3174 | (1.54) | (2.08) |
| October | (0.05) | 3.7242 | (1.22) | (1.17) | 5.2530 | (1.21) | (1.16) |
| November | 0.63 | 3.7710 | 1.26 | 0.63 | 5.3189 | 1.26 | 0.63 |
| December | 0.58 | 3.7874 | 0.43 | (0.15) | 5.3476 | 0.54 | (0.04) |
| January 2010 | 0.06 | 3.7173 | (1.85) | (1.91) | 5.2430 | (1.96) | (2.02) |
| February | (0.27) | 3.7480 | 0.83 | 1.10 | 5.2864 | 0.83 | 1.10 |
| March | (0.03) | 3.7431 | (0.13) | (0.10) | 5.2794 | (0.13) | (0.10) |
| April | 0.05 | 3.7086 | (0.92) | (0.97) | 5.2308 | (0.92) | (0.97) |
| May | 0.08 | 3.7880 | 2.14 | 2.06 | 5.3427 | 2.14 | 2.06 |
| June | 0.24 | 3.8512 | 1.67 | 1.43 | 5.4422 | 1.86 | 1.63 |
| July | 0.47 | 3.8626 | 0.30 | (0.17) | 5.4380 | (0.08) | (0.55) |
| August | 0.30 | 3.7915 | (1.84) | (2.15) | 5.3477 | (1.66) | (1.96) |
| September | 1.39 | 3.7314 | (1.59) | (2.97) | 5.2629 | (1.59) | (2.97) |

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

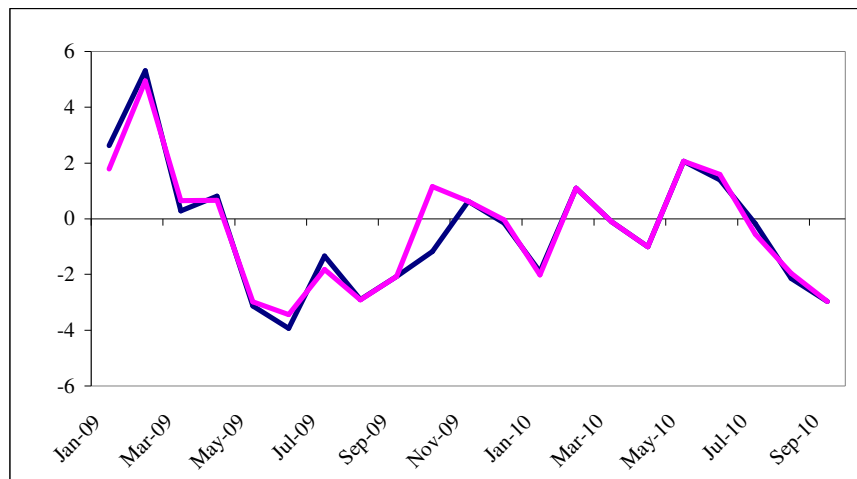
* Figures in brackets indicate negative value.

²⁹ Purchasing power refers to the number of goods/services that can be purchased with a unit of currency. The purchasing power depends on the consumer income and changes occurring to this income. It also depends on the index of consumer prices. In Palestine, people use the NIS, the U.S \$ and the JD in trading, while only the NIS is used to calculate the CPI. Therefore, the exchange rate of the USD and the JD against the NIS affects the purchasing power (the purchasing power of the currency = the change in the currency exchange rate – the change in the CPI).

During the third quarter of 2010, the purchasing power of the U.S. dollar declined by about 5.3%, compared to a gain of about 2.5% in the second quarter of 2010. Similarly, during the third quarter of 2010, the purchasing power of the Jordanian dinar dropped by about 5.5%, compared with a 2.7%

gain in the second quarter of the same year. According to this information, the first nine months of 2010 saw a decline in the relative purchasing power of both the US dollar and the Jordanian dinar (3.7% and 3.8%, respectively).

Figure 29: Monthly change in the purchasing power of the US \$ and JD in the Palestinian Territory



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

Box 5: Successes and failures of high-technology industry in Israel

In its first issue of 2011, the Economist published an article about the activities of high technology in Israel¹⁵. It stated that over the past two decades, Israel has been transformed from a semi-socialist backwater into a high-tech 'superpower.' The article further claimed that Israel leads the world in the number of high-tech start-ups and the size of the venture-capital industry. What's more: Israel has become a 'Start-Up Nation' (the title of a book recently issued by Shaul Singer on the 'Israeli Miracle').

Despite admitting that Israel should be proud of its entrepreneurship and the large volume of high tech shares of start-up companies offered for subscription to, and despite the considerable economic growth achieved (4% between September 2009 and September 2010), the author of the article casts doubt on the sustainability of this achievement in the long term. There are four troubling issues:

1. The technological economy rests on too narrow base. High-tech industries employ only 10% of the workforce but account for 40% of exports.
2. Israel has proved so bad at turning start-ups into domestic giants. It has 3,800 high-tech start-ups but only four high-tech companies with sales of more than \$1 billion a year.
3. Israel might not be capable of producing content for the internet as it is able to produce hardware and software that constitute its plumbing.
4. The land of the 'high-tech miracle' has one of the rich world's lowest labor-participation rates, just 55%.

The article underscores that going beyond Israel's 'Start-Up Nation' model is not an easy thing to do. The country's business culture focuses more on deal-making than on company-building. Further, the army's technological prowess, which provided the know-how behind many a start-up, does not translate as well into providing the internet with content as it did in providing it with plumbing.

The article concludes that the main obstacle to Israel's long-term economic success lies in its failure to assimilate into its business culture both Arab-Israelis and ultra-orthodox Jews, who will together be about one-third of the population by 2025.

¹⁵ The Economist, January 1, 2011.

8. Legal and Legislative Environment

The Palestinian Legislative Council is presently paralyzed while national reconciliation efforts attempt to bring about an agreement on the date of the legislative and presidential elections.

Meanwhile, the President of the Palestinian Authority did not issue any decision concerning laws pertaining to the economic situation in the Palestinian Territory. Most of the decisions issued by the President during this period were related to administrative affairs such as appointments, promotions and allocation of land for ministries and local councils.

Significant progress was made concerning the presidential decision to boycott goods produced in Israeli settlements and replace them with local products. National teams of volunteers started inspecting all businesses in all governorates of the West Bank to make sure they were free of the Israel settlements products and services. The PA rewarded compliant businesses with the 'National Reward of Dignity', a precondition for licensing businesses. Presently, the governorates of Ramallah, Hebron and Nablus were declared settlement products-free.

On August 23, 2010 the presidential cabinet decided to recall the cars of government officials and put them under control of ministries and governmental institutions. This decision formed part of the governmental austerity plan to cut expenditure and reduce the public budget's reliance on foreign aid. The recall was suppose to be in effect by late November, 2010 and was going to curve the circulation of about 600 vehicles with maintenance and fuel costs totaling ninety million shekels in 2009. However, Public Staff Union, along with other stakeholders, voiced strong opposition to the decision since it affects staff members whose rankings are

lower than that of an Undersecretary of a Ministry.

The Public Staff Union filed a case with the Supreme Court, which on November 7th, 2010 temporarily suspended the implementation of the resolution pending consideration of the case. On December 9th, 2010 the Supreme Court of Justice issued its final decision, which rejected Union claims by declaring the cabinet decision legal.

The resolution was finally put into effect in mid-January 2010. On January 13, 2011 the General Directorate of Governmental Transport in the Ministry of Transport started a campaign to control the use of government vehicles in all governorates of the country in order to ensure the appropriate use of government vehicles.

9. Israeli Violations

9.1. Palestinians killed and Injured

Twenty-two people were killed by the Israeli military during the third quarter of 2010 (17 in Gaza and 5 in the West Bank). On Thursday (July, 22, 2010) at dawn, Bilal Mahmoud Abu Libda of Qalqilya were killed at the entrance to the 'Borkan' settlement near Haris village-Salfit. Four other Palestinians from the West Bank were killed in September of 2010. In the Gaza Strip, four Palestinians were killed in July, two in August and eleven in September. During the third quarter, the number of the wounded totaled 158, of whom 99 were from the West Bank. Finally, Israel detained 673 Palestinians during the third quarter- two from the Gaza Strip and the rest from the West Bank (see Table 38).

Table 38: Israeli violations in the Palestinian Territory- quarter three 2010

| Incident | July | | August | | September | | Total |
|--------------|------------|------------|------------|------------|------------|------------|------------|
| | West Bank | Gaza Strip | West Bank | Gaza Strip | West Bank | Gaza Strip | |
| Killed | 1 | 4 | 0 | 2 | 4 | 11 | 22 |
| Wounded | 29 | 29 | 19 | 13 | 51 | 17 | 158 |
| Detained | 231 | 2 | 218 | 0 | 222 | 0 | 673 |
| Total | 261 | 35 | 237 | 15 | 276 | 28 | 852 |

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

9.2. Obstacles to the Movement of People and Goods

The Israeli military continued placing permanent and temporary roadblocks in Gaza, effectively closing crossings between the Gaza Strip and Israel as well as international crossings into the Strip. The number of temporary roadblocks in the West Bank fluctuated from 613 in July, 484 in August and

979 in September (a 102% increase from August). The Israeli forces closed crossings between Gaza and Israel 300 times in the third quarter of 2010 (101 in July, 96 in August and 103 in September). They also closed the crossings between Gaza and Egypt 95 times during the same period (see Table 39).

Table 39: Total closure of border crossings with Israel- quarter three 2010

| Barriers | July | August | September | Total |
|---|------------|------------|-------------|-------------|
| Temporary roadblocks in the West Bank | 613 | 484 | 979 | 2076 |
| Closure of crossings between Gaza and Israel | 101 | 96 | 103 | 300 |
| Closure of international crossings between Gaza and Egypt | 31 | 31 | 33 | 95 |
| Total | 745 | 611 | 1115 | 1996 |

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

9.3. Violations Against Education and Health Sectors

During the third quarter of 2010, Israeli forces violated various education and health institutions throughout the West Bank. In July, the occupying forces raided an Islamic School in Hebron. Four other assaults were reported in September, the first of which occurred in Jerusalem. In Hebron, Israeli occupying forces attacked a school in the old city and arrested two students while on another occasion they evacuated a Palestinian school to allow Israeli settlers to take part in a celebration. A fourth

attack was reported in Nablus, where soldiers took control of the roof of a Palestinian school. Two violations against the health sector were reported during the third quarter of 2010. In the first attack(August, 2020), the Israeli military stopped an ambulance in Qalqilya and arrested an injured Palestinian. In September the same year, the Israeli military assaulted and searched a medical center in Hebron (see table 40).

Table 40: Israel attacks on education and health sectors in the West Bank- quarter three 2010

| Assault | July | August | September | Total |
|---------------------|----------|----------|-----------|----------|
| On education sector | 1 | 0 | 4 | 5 |
| On health sector | 0 | 1 | 1 | 2 |
| Total | 1 | 1 | 5 | 7 |

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

9.4. Israeli Attacks on Palestinian Homes in the West Bank (excluding Jerusalem)

Israeli occupation forces continue to intimidate and marginalize Palestinians throughout the West Bank by means of housing destruction and home invasion. Israeli forces demolished 6 houses in the West Bank (three in Hebron).

They also occupied 35 houses in 2010, 21 of which were in Hebron (see table 41). These figures, however, do not cover the part of the city that is under Israeli security control (known as H2).

Table 41: Israeli attacks on Palestinian homes in the West Bank (excluding Jerusalem)

| Month | Demolition | Occupation |
|-----------|------------|------------|
| July | 5 | 8 |
| August | 1 | 12 |
| September | 0 | 15 |
| Total Q3 | 6 | 35 |

9.5 Violations in Jerusalem

In December 2010, Al-Maqdisi Foundation for Community Development released a statistical report of houses and buildings threatened with demolition and seizure. The report covered

demolitions in Jerusalem from the beginning of 2010 until the end of November, 2010. Table 42 summarizes the most notable of these attacks:

Table 42: Israeli attacks on Jerusalem during 2010

| Assault | No. of assaults | No. of people displaced as a result of the assault |
|--------------------------------------|-----------------|--|
| Demolished buildings | 50 | 75 |
| Buildings threatened with demolition | 1322 | 3655 |
| Occupied buildings | 39 | 167 |
| Buildings threatened with seizure | 26 | 65 |

A statistical report on demolition of houses and buildings threatened with demolition and seizure in 2010. Al-Maqdisi Foundation for Community Development

Table 42 demonstrates that Israeli occupying forces demolished at least fifty houses in Jerusalem (whether directly by these forces or indirectly through demolition notices). As a result, 35 adults and 40 children were displaced after their homes were demolished. Demolition mainly occurred in the Al-Tour and Isawiya neighborhoods.

At the time of the report, a number of buildings were threatened with demolition and seizure. The number of demolition orders totaled 1,322. The destruction of these building would result in the displacement of 3,655 people (including 1,699 children). Orders mainly targeted east Jerusalem, including Silwan and Beit Hanina. During the same period, 39 buildings/apartments were seized by the Israel military- displacing 167 people (including 85 children) while 26 buildings/apartments had been threatened with seizure.

10. Survey of Cultural Institutions in the Palestinian Territory (2010)

In October of 2010 the Palestinian Central Bureau of Statistics released a survey of the cultural institutions¹⁶ working in the Palestinian Territory during 2009. The survey aimed to provide data on the volume of cultural institutions, their nature of distribution, property, programs, staff and affiliated persons.

Cultural institutions totaled 611, of which 475 functioned in the West Bank and 136 in the Gaza Strip (see table 43). Nablus and Hebron host 91 and 83 institutions, respectively. Tubas, Jericho & the Jordan Valley host the fewest, with only 7 institutions each.

¹⁶ Cultural institutions have been classified into six types, namely *cultural centers; museums; radio stations and TV channels; public libraries; theaters; and publishing houses.*

Table 43: Distribution of Cultural Institutions in the Palestinian Territory by Type and Governorate- 2010

| Area/ Governorate | Operating Cultural Institutions | | | | | | Total |
|-----------------------------|---------------------------------|---------|----------|------------------|----------------------------------|--------------------------------|-------|
| | Cultural Centers | Museums | Theatres | Public Libraries | Publishing & Distribution Houses | Radio Stations and TV Channels | |
| Palestinian Territory | 471 | 6 | 15 | 65 | 9 | 45 | 611 |
| WEST Bank | 350 | 6 | 14 | 52 | 8 | 45 | 475 |
| Jenin | 52 | – | 1 | 7 | 1 | 5 | 66 |
| Tubas | 6 | – | – | 1 | – | – | 7 |
| Tulkarm | 19 | – | 1 | 9 | – | 3 | 32 |
| Nablus | 70 | 1 | 2 | 6 | 2 | 10 | 91 |
| Qalqilya | 4 | – | – | 2 | – | 2 | 8 |
| Salfit | 21 | – | – | 2 | – | – | 23 |
| Ramallah & al-Bireh | 39 | 1 | 4 | 9 | 3 | 8 | 64 |
| Jericho & the Jordan Valley | 1 | – | 2 | 1 | – | 3 | 7 |
| Jerusalem | 33 | 1 | 3 | 3 | – | – | 40 |
| Bethlehem | 40 | 2 | – | 5 | 1 | 6 | 54 |
| Hebron | 65 | 1 | 1 | 7 | 1 | 8 | 83 |
| Gaza strip | 121 | – | 1 | 13 | 1 | – | 136 |
| North Gaza Strip | 34 | – | 1 | 4 | – | – | 39 |
| Gaza city | 30 | – | – | 2 | – | – | 32 |
| Deir al-Balah | 24 | – | – | 2 | – | – | 26 |
| Khan Younes | 18 | – | – | 3 | 1 | – | 22 |
| Rafah | 15 | – | – | 2 | – | – | 17 |

Source: PCBD (2010), Survey of cultural institutions, 2010, the main findings.

Below we review the main findings on cultural institutions:

Cultural Centers

Cultural centers held the largest share of total cultural institutions operating in the Palestinian Territory during 2010. Furthermore, 74% of these centers have capacity building programs aimed at young leaders as well as projects that seek to prepare young workers for the labor market. Results also indicate that 64% of cultural centers in the Palestinian Territory are financially and/or morally backed by their own communities (68% in the West Bank and 52% in the Gaza Strip).

Museums

During 2010, six museums operated in the Palestinian Territory (all are in the West Bank). Two of them are based in Bethlehem while the rest are located in the cities of Hebron, Nablus, Ramallah and Jerusalem. In total, the museums are staffed by 14

employees, including 9 males and 5 females. Only five of these employees work on a full-time basis. Because the Palestine museum guide (2009) enumerates about thirty museums and museum collections in the Palestinian Territory³³, the above information suggests that a large number of museums – usually under the management of the Ministry of Tourism – have been closed or are unprepared to receive visitors

Radio stations and TV channels

As of 2010, 45 radio stations and TV channels were operating in the West Bank, compared to eleven in the Gaza Strip. The survey results showed that more than 50% of broadcasting services in the West Bank are radio stations;

³³ Museums Guide in Palestine (2009). Department of Antiquities and Cultural Heritage, the Ministry of Tourism and Antiquities, Ramallah

17 are TV channels; and 3 of them are both TV and radio stations. In terms of distribution, the report found that 10 of these services are based in Nablus, while 16 are evenly distributed between Ramallah and Hebron. There is no data available on Radio stations and TV channels in the Gaza Strip.

Public Libraries

The number of public libraries operating in the Palestinian Territory totaled 65 (52 in the West Bank and 13 in the Gaza Strip). According to the survey, 140 people were employed in these libraries. Of these libraries, 94% have a section especially for children. The results also showed that of the libraries that have computers, 76.5% provide users with Internet service. It was also found that only 15.6% of public libraries have an indexing system. In 2010, 90,040 individuals benefited from public library services in the Palestinian Territory.

Theaters

The survey found that during 2010 there were fifteen theatres in the Palestinian Territory (fourteen in the West Bank and one in the Gaza Strip). These theatres employed 87 people, the majority of them males (more than 60). Over 60% of the people working in the theaters are volunteers.

Publishing and Distribution Houses

Nine publishing and distribution houses were operating in the Palestinian Territory during 2010 (eight in the West Bank and one in the Gaza Strip). One of the nine publishing houses only does offset printing, while two only provide printing services, and six provide both printing and publishing services. These publishing houses employ 21 people, including six females.

Box 6: Happiness Index

It is the consensus of many academics and politicians that purely economic indicators such as income or GDP per capita are not alone sufficient or real indicators to gauge social welfare. Social happiness in individuals, according to many sociologists, cannot only be measured by their income or by financial indicators. For example, a study found that the average number of people who said they were happy in Japan between 1958 and 1987 remained the same despite the fact that Japan's per capita income has increased fivefold during the same period. The number of Americans who say they are 'very happy' with their lives has remained at a constant rate (about 30%) since the mid 20th century even though income per capita and GDP have risen dramatically in the last sixty years.¹⁷

Last year, French President Nicolas Sarkozy adopted a proposal developed by two leading contemporary economists, Amartya Sen and Joseph Stiglitz (the Nobel prize-winning economists). Both called on leaders of the world to abandon quantitative economic indicators as population welfare measures. Moreover, they asked leaders to reduce the reliance on production as a measurement, to give greater importance to humanitarian indicators and to pay attention to the negative effects of development and growth on the environment. The French president announced that he will seek to develop an index measuring people's happiness in France, and that this index would be more accurate than the conventional economic indicators in measuring well-being and economic development.

These ideas resonated throughout Europe as illustrated by the British government's November 2010 announcement of support for this new standardization. The UK government announced it would ask the national census office to develop a periodical index to gauge the well-being of the British people. Furthermore, the office of the Prime Minister has commissioned a renowned statistician to formulate the questions that will be added to a 2011 survey designed to measure the welfare and happiness of the British people. According to the British government, this index can be issued on a quarterly basis. This index will develop and formulate a series of questions that will be asked to a large sample of the population¹⁸.

'Statistics Canada' (Canada's national statistical agency) issues a periodical index about satisfaction and happiness of the Canadian people, however, this index has not seen the same successes as its French counterpart. So far, initiatives have been limited to Europe and North America. In terms of the happiness index becoming a global reality, we still have a ways to go.

¹⁷ See R. Layard: Happiness-Lessons from a New Science. Penguin, 2005

¹⁸ See Guardian Newspaper, 14th November 2010

Will an equivalent happiness index emerge in Palestine? Maybe in some future; but it is doubtful that such an index would have any meaningful value in the Palestinian Territory given the present situation. The reality of the Israeli Occupation would, in practical survey and analysis terms, add to many complications to the index. Clear-cut cause and effect relationships would be distorted by a combination of factors, most important of which are the occupation and the internal political divisions within the Palestinian population. So until there is an end to Israeli occupation, any kind of index trying to measure things as complex as welfare and 'happiness' will undoubtedly face an almost impossible task.

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

| Indicator | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|-----------|-----------|-----------|-----------|
| Population by MidYear (Thousands) | | | | | | | | | | | | | | | | |
| 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 |
| <i>GDP per capita (US \$)**</i> | 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 |
| <i>Household Expenditure**</i> | 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 | - |
| <i>Public Expenditure</i> | 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 | - |
| <i>Gross Capital Formation**</i> | 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 | - |
| <i>Net Balance of Goods Trade**</i> | (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 US \$ Against the Shekel | 3.010 | 3.010 | 3.239 | 3.554 | 3.802 | 4.162 | 4.086 | 4.208 | 4.742 | 4.550 | 4.478 | 4.482 | 4.454 | 4.110 | 3.567 | 3.93 |
| Average Exchange Rate of the JD Against the Shekel | 4.304 | 4.304 | 4.548 | 5.007 | 5.351 | 5.839 | 5.811 | 5.928 | 6.674 | 6.417 | 6.307 | 6.317 | 6.292 | 5.812 | 5.042 | 5.54 |
| Inflation Rate (%)*** | - | - | - | 7.6 | 5.6 | 5.5 | 2.8 | 1.2 | 5.7 | 4.4 | 3.0 | 4.1 | 3.8 | 1.9 | 9.9 | 2.75 |
| 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 | - | - |
| Public Finance (Million US \$) | | | | | | | | | | | | | | | | |
| 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 |

| Indicator | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---------------------------------------|------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 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 US \$) | | | | | | | | | | | | | | | | |
| Assets/Liabilities | - | - | - | 2,908 | 3,337 | 3,857 | 4,593 | 4,430 | 4,278 | 4,728 | 5,101 | 5,604 | 5,772 | 7,004 | 5,645 | 7,893 |
| Equity | - | - | - | 216 | 222 | 246 | 242 | 206 | 187 | 217 | 315 | 552 | 597 | 702 | 857 | 910 |
| Clients' Deposits | - | - | - | 2,090 | 2,415 | 2,875 | 3,508 | 3,398 | 3,432 | 3,625 | 3,946 | 4,190 | 4,216 | 5,118 | 5,847 | 6,111 |
| Credit Facilities | - | - | - | 578 | 777 | 967 | 1,280 | 1,186 | 942 | 1,061 | 1,417 | 1,788 | 1,843 | 1,705 | 1,829 | 2,109 |
| Number of Banks | 7 | 13 | 15 | 19 | 21 | 21 | 21 | 21 | 20 | 20 | 20 | 20 | 21 | 21 | 21 | 20 |

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

* West Bank: means the West Bank except that part of the Jerusalem governorate which was annexed forcefully by Israel following its occupation of the West Bank in 1967 (with the exception of the data on unemployment).

** Data in constant prices. The base year for the 1994-2003 is 1997; the base year for 2004-2009 is 2004. Data for 2009 is preliminary and subject to revision and amendment and is based on quarterly estimates.

*** According to the inflation rate based on the comparison of average indices of consumer prices for the comparison year with its average in the previous year. The base year for the period 1994-2006 was 1996 (1996=100), the base year for 2007, 2008, and 2009 is 2004 (2004 = 100).

**** The PCBS defines poverty in relation with the family budget. Deep Poverty: any standard family (6 members: two adults and 4 children) possessing a budget that is less than NIS 1,886 monthly (2007) to cover for the expenses of food, clothing, and housing. Relative poverty: any standard family (6 members: 2 adults and 4 children) possessing a budget less than NIS 2,362 monthly to cover the expenses of food, clothing, housing, health, education, transportation, and others.

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

- Figures in brackets are negative.

Monetary and Fiscal Institutional Information: Palestine

| Monetary Policy | |
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| Introduction | <p>Monetary affairs in the Palestinian Territories are managed by the Palestine Monetary Authority (PMA). The PMA's responsibilities and functions are governed by two documents: the Paris Protocol on Economic Relations between Israel and the PLO, signed in 1994, and the PMA's Law issued by the Palestinian Authority in 1997. A new draft law regulating the works of the PMA and updating the old one has been prepared by the PMA in consultation with international experts. The new law is expected to be issued officially in the coming future.</p> <p>The PMA is a unique institution since Palestine has no national currency and uses three currencies (the New Israeli shekel-NIS, Jordanian dinar and American dollar). The PMA is not a national bank, although it has strong aspiration to become one. The basis for such a shift is secured in the new law of the PMA.</p> |
| Objective and Targets | <p>Paris Protocol states that the PMA will act as the PA's official economic and financial advisor and sole financial agent. Furthermore, the PMA will license, regulate and supervise the work of banking sector and will establish a clearing house in order to clear money orders between the banks operating in the Territories.</p> <p>The PMA Law adds to the PMA duties the issuing (in due time) of national currency and the preparation/publication of the Balance of Payments for the Palestinian Territories (which is being carried out in cooperation with Palestine Central Bureau of Statistics, PCBS.)</p> |
| Instruments | <p>The greatest challenge the PMA face is to conduct monetary policy in absence of national currency. This situation leaves very little room for monetary policy. So far one main instrument has been used: the Banks reserve ratio (although Paris Protocol dictates that reserve ratio on various kinds of NIS deposits will not be less than 4% to 8%.) Also, the PMA has been active in regulating the maximum ratio of investment abroad to total deposits in order to encourage domestic lending. This ratio has been reduced recently from 65 to 55%.</p> <p>The other main instrument which the PMA is planning to use is the Inter Bank Certificates of Deposits (CD). These CDs, expected to be launched in 2011, can be used by banks, as well as the PMA, to borrow and lend between themselves.</p> <p>In as far as the regulatory role with regard to the banking system, the PMA has done admirable work in supervising the 19 foreign and local Banks (200 branches) in the Palestinian Territories. The latest achievement in this regard is the establishment of the Credit Bureau. This Bureau consists of three systems; the first is the PMA Credit Registry System which is a comprehensive database with credit and demographic information on individual and company borrowers and their guarantors. The second is the bounced checks system, and the third is the credit scoring system.</p> <p>Also the PMA has issued a new Bank Law which escape most of the shortcomings of previous law and introduces best international practice in banking. The Law was signed by the PNA's President and published in the Official Gazette in 2010.</p> |
| Governing board appointment and mandate | <p>The PMA governor and his deputy are appointed by the PA President based on nomination from the Council of Ministers. The PMA is managed by a Board with 9 members: the Governor, his deputy, a representative of the Ministry of Finance (MoF) and six independent economists and legal experts (technocrats or academics). The President nominates and appoints 2 members, the Cabinet nominates three members (along with nominating the Governor and his deputy), the MoF nominates its representative, and one member is nominated by the Governor. The tenure for the Governor and his deputy is a renewable 4 years while it is 3 years for the members of the Board.</p> |
| Government financing by the central bank | <p>The PMA Law makes clear that, upon the request of the Finance Minister, the PMA <i>may</i> provide interest-free loans to the PA's treasury to cover its budget provided that the loan does not exceed 10% of the domestic revenues (as in the estimated budget) and for a period of three month that can be renewed for a maximum of 4 three-month rounds.</p> <p>The President, the Minister of Finance and the Cabinet are called upon to consult</p> |

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| | <p>with the Governor when dealing with matters related to money and credit. Also, when dealing with fiscal matters that have some effects on monetary and credit in the Palestinian Territories. The opinion of the governor regarding monetary and fiscal policy is not obligatory for the president.</p> <p>The PMA can (if it chooses) buy and sell treasury bonds directly or indirectly.</p> <p>So it appears that the PMA enjoys a great deal of independence from the executive authorities, although the PA's President has some influence on appointment of the members of the Board, the external auditor. However, it is difficult to judge the real independence of the PMA on the ground and in actual experience since the instruments at the disposal of this institution are not yet as powerful and significant as in the case of a normal central bank.</p> |
| Accountability | The PMA's Board is the highest authority in the PMA and has a full mandate to design and supervise the policies. However, the Board is held accountable to the PNA's President, and it has to submit a quarterly detailed report including its work and activities, the banking and monetary environment. In addition to an annual, brief report within 3 months after the end of the fiscal year. |
| Fiscal Policy | |
| Medium term – results oriented budgeting | To reduce dependency on international aid. International aid to support the PA's budget amounted to about \$ 1.28 billion in 2010 (\$ 1,147 m for the recurrent budget and 130 m for the development budget) compared with about \$ 2 b in 2008 (\$1,760 m and 250 m respectively). The goal of the government is to reduce the need for international support to the recurrent budget to \$1 billion in 2011, and to become fully self-finance for recurrent expenditures by the end of 2013. |
| Public debt management | <p>A new Public debt law was introduced in 2005. The law established a committee headed by the Minister of Finance and include the PMA Governor and DG of Palestine Capital Market Authority as members, with a mandate to design strategies for public debt management. Also a department of public debt was established at the MoF to provide technical support with regard to debt and foreign loans. The law imposed a ceiling on public debt should (not exceeding 40% of GDP) and defined the specific expenditure purposes for which government may borrow</p> <p>The PA's total public debt at the end of 2010 amounted to \$ 1,883 m, 55% of which was foreign public debt.</p> |
| Budget Classification | In full conformity with international best practices. |
| Efficiency of Fiscal Management | Following the deep and comprehensive reform and re-structuring since 2005, the IMF has highlighted the PA's financial transparency as a model of good governance among the developing countries. Full and up to date data on the financial stance of the PA are posted regularly on the MoF's web site. |
| Commodity Subsidies | <p>No food or fuel subsidies in the classical meaning of the term.</p> <p>However, the Palestinian Territories receive considerable amount of food aid annually (mainly from the UNRWA and World Food Program WFP). Total food aid amounted to some 224,000 tons of grain equivalents in 2009. The two agencies provided food aid to some 1.9 m persons, i.e. to some 47% of the entire population in the Territories. Also, part of bills of electricity and water purchases from Israel which the Palestinian municipalities fail to pay is paid for from the budget.</p> |