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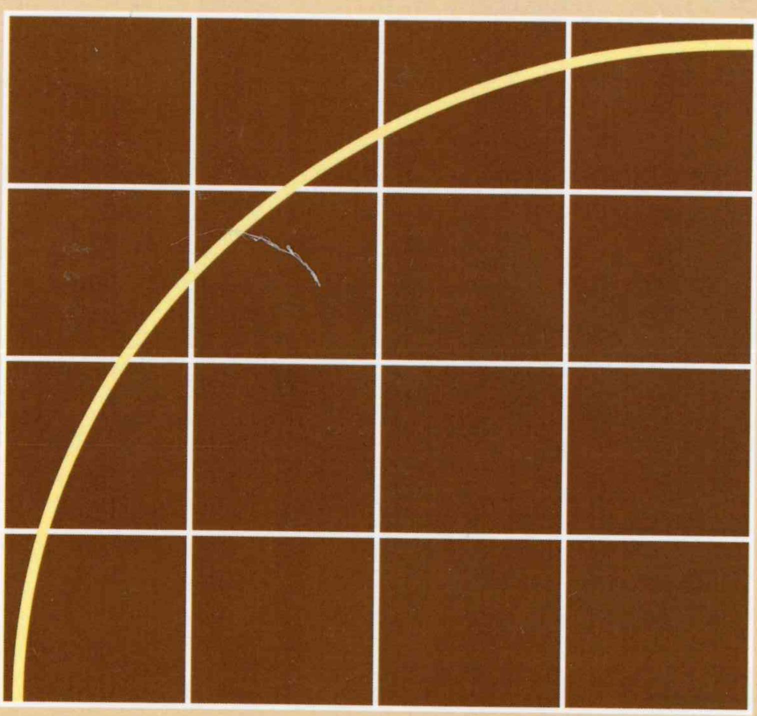

Palestine Economic Policy Research Institute (MAS)
Palestinian Central Bureau of Statistics (PCBS)
Palestine Monetary Authority (PMA)

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October, 2011

Foreword

This issue of the ***Economic and Social Monitor*** presents a general statistical review and analysis of the main economic trends in the Palestinian Territory during the second quarter of 2011. Among the topics discussed in this issue are: National accounts data, public finance, labor markets, the indicators of economic activity, and prices and purchasing power. Also included in this addition, is an analysis of foreign trade figures (the trade balance and balance of payments). Finally, the traditional sections of the ***Monitor***, such as banking sector data, Palestine securities exchange are also included.

The ***Economic and Social Monitor*** is a quarterly bulletin. We would like to emphasize once more that economic activity has a seasonal nature, meaning that some activities flourish in certain quarters and naturally shrink in others. Thus, comparing the economic activity in successive quarters often fails to account for seasonal dynamics and produces a skewed view of the inherent tendencies in economic performance. In order to account for seasonal shifts, the ***Economic and Social Monitor*** favors comparing analogous quarters from various years and thus provides time-series of quarterly figures.

The present issue of the ***Monitor*** includes twelve independent text boxes, each of which addresses a topical issue either directly or indirectly related to the policies and economic situation in the Palestinian Territory. For example, one box concentrates on the severe fiscal crisis faced by the Palestinian National Authority while others deal with issues such as the cost of the occupation on the Palestinian economy, and the increase in food prices on the international market. An additional box reviews with an econometric study that distinguishes between who attacks and who retaliates in the Palestinian-Israeli conflict. Another sheds light on traffic violations as source of fiscal leakage of Palestinian income to the Israeli budget.

We hope that this issue further strengthens the role of the ***Economic and Social Monitor*** as a reliable reference to the regular changes occurring in the Palestinian economy. Finally, we hope that this issue opens the door for necessary debate on the current restrictions and future possibilities of economic growth in the Palestinian Territory.

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Executive Summary

Gross Domestic Product: The Palestinian GDP grew by 7.1% between the first and second quarter of 2011. Moreover, GDP per capita increased by 6.3% in the second quarter 2011 compared to the previous quarter, and increased by 10.6% compared with the second quarter 2010.

The labour market: The number of workers in the West Bank and Gaza increased from 780.2 thousand in the first quarter to 852.4 thousand in the second quarter of 2011. Distribution of workers by region is as follows: 60.7% in the West Bank, 29.4% in the Gaza Strip, and 9.9% in Israel and Israeli settlements. The unemployment rate decreased from 21.7% in the first quarter to 18.7% in second quarter of this year. Furthermore, the average wage of workers in the Gaza Strip increased by some 6% in the second quarter 2011 when compared to with the corresponding quarter in 2010. Consequently, the average daily wage rose to 61.8 NIS; up from 58.1 NIS in the second quarter of 2010.

Public Finance: Net domestic revenues decreased to $537 million in the second quarter 2011, a drop of 8.8% from the previous quarter. Additionally, public expenditures increased to $745 million in the second quarter 2011, an increase of 10% from the first quarter. The combination of these two factors increased the second quarter budget deficit to $208.2 million, compared with the $89 million budget shortfall in the first quarter of 2011.

The banking sector: The net assets of banks operating in the Palestinian territories (18 banks) were up by 1.2% from the first quarter 2011. Total direct credit facilities accounted for $3.4 billion, an increase of 11% when compared to the first quarter of 2011.

Palestine Securities Exchange: At 72 million, the number of shares traded during the second quarter of 2011 rose 45% when compared to the previous quarter. Moreover, the value of shares traded increased by 57% during the same period. At the end of the second quarter of 2011 the Al-Quds index closed at 492.71 points, a decline of 4.96 points from the first quarter 2011.

Company registration: At 373, the total number of new companies registered in the West Bank during the second quarter of 2011 was less than 4% of the first quarter of 2010, and 13% less than the same quarter in 2010. Moreover, the total capital (53.5 million Jordanian dinars) of newly-registered companies decreased by approximately 34% from the first quarter of 2011, and a decrease of 27% compared with corresponding quarter of last year.

Building licenses and cement imports: The number of building permits issued in the West Bank in the second quarter of 2011 increased by 12.4% when compared to the second quarter of 2010. In line with the increase in construction, the quantity of cement imported into the West Bank during the second quarter of 2011 rose by about 28.5% from the previous quarter. In the Gaza Strip, the quantity of cement imported rose by 338% between the first and second quarters of 2011.

Car registration: In the second quarter of 2011, 9,600 cars were imported into the West Bank. This represents an 84% increase when compared to the first quarter of 2011, and a 65% increase when compared with the second quarter of 2010.

Hotel activity: The total number of guests staying in hotels located in the Palestinian territories was 131,659 in the second quarter 2011. 15% of hotel guests were Palestinians while 32% were European. The total nights stayed during the second quarter of 2011 (338,639 nights) represents a 16.4% increase compared to the previous quarter.

Prices and purchasing power: The Consumer Price Index (CPI) in the Palestinian territories decreased by 0.05% in the second quarter of 2011 when compared to the previous quarter. Conversely, the Construction Price Index for residential and non-residential buildings in the West Bank increased by 0.43% when compared to the previous quarter. Moreover, the second quarter of 2011 saw the purchasing power of the US dollar and the Jordanian dinar decline by

4.5% and 4.8% respectively, when compared to their values in the first quarter of 2011.

Trade balance: The total value of commodity imports recorded during the second quarter of 2011 was about $1.1 billion. The value of commodity exports recorded during the same period amounted to approximately $202 million. Consequently, the commodity trade balance deficit dropped to $969 million when compared to the first quarter deficit of $1,114 million.

Health Status: The number of registered live births during the first half of this year was 55,269; 29,505 of these were in the West Bank, and 25,764 took place in the Gaza Strip. The total number of registered deaths during the same period was 5,575, including 3,028 males and 2,547 females. According to traffic accident figures, the number of injuries resulting from traffic accidents registered in the Ministry of Health during the same period was 3,612.

Box topics – The following boxes cover the twelve different topics that have been discussed for this issue:

The cost of the Israeli occupation: $7 billion a year!: The Palestinian Ministry of National Economy recently issued a report measuring the cost of the Israeli occupation on the Palestinian economy. According to the report, the costs inflicted by the Israeli occupation amounted to about $6.8 billion in the year 2010 (85% of GDP). It is worth noting that the report argues that the occupation costs the Palestinian budget about $1.8 billion annually. This means that the end of the occupation would cancel out the Palestinian Authority's reliance on international aid.

PISA report: The Organization for Economic Co-operation and Development (OECD) has been conducting periodic tests on 15 year old pupils to assess the efficiency of the education system in different countries. This evaluation is known as the Programme for International Student Assessment (PISA), and is done every three years. The last PISA report, conducted in 2009, examines the efficiency of education in about 65 countries, including 4 Arab countries. This box discusses the main results of that evaluation. The report finds that there are four factors that play an important role in the evaluation of the efficiency of the educational system: the decentralization of schools, a special focus on the most vulnerable students, the use of various methods of teaching, and most importantly; the presence of competent teachers.

Palestinian national authority financial crisis: The Palestinian Authority experienced a financial crisis beginning in the middle of 2011 which resulted in delays in the disbursal of public sector employees' salaries for a number of months. The analysis in this box shows that there were defects in the structure of the Palestinian budget which have contributed to the crisis; particularly, the imbalance in the size of government spending (50% of GDP), including a wage bill which totals 58% of all government expenditure.

Higher education institutes budgets in the Palestinian territories: This box analyzes the causes of the financial crisis suffered by the Palestinian higher education sector. Universities rely heavily on premiums paid by students while the bulk of their resources go toward faculty salaries. It appears that the higher education sector is caught in a vicious circle: the decline in premiums leads to the fiscal deficit which is reflected in lower salaries for teachers. This in turn causes a decrease in the quality of education and a reduction in scientific research. Taken together, these elements work to reduce the efficiency of the graduates and may justifies the increase in premiums.

Big Mac Index: the dollar should equal 4.86 shekels!: 25 years ago *The Economist* created the 'Big Mac Index' to measure the deviation of exchange rates from the levels predicted by the "purchasing power parity" theory. This theory holds that exchange rates between currencies must equalize so that prices of goods in different countries are comparable. *The Economist* has used the idea of a standardized commodity available in almost all countries of the world - the Big Mac - to compare prices. In the latest survey conducted (July 2011), *The Economist* concluded that the dollar should be equivalent to 4.86 shekels.

A new income tax law in the Palestinian Territories: The Palestinian president signed a decision recently to abolish the previous income tax law and all its amendments. The aim of the new law is to increase tax revenue; primarily by expanding the tax base and by closing loopholes found in the old law. While income tax rates remained the same they are now calculated in the shekels instead of dollars. The box reviews the amendments in the new law.

High food prices in the international markets; conflicting interpretations: The FAO food price index rose from 168 points in June 2010 to 234 points in June 2011. This box discusses the different schools of thought which offer competing accounts of the rise in food prices. While some schools gives optimistic interpretation which argues that the rise in food prices is a natural, cyclical phenomenon and will not continue in the long run, others gives pessimistic explanation, arguing that the rise in food prices is an early indication of a long-term food crisis which is the result of slowdown in agricultural production due to the depletion of natural resources and rapid population growth.

The effects of the devaluation of the dollar and dinar on the Palestinian local economy: This box discusses the impact of the devaluation of the dollar and dinar against the shekel on both the economy and individuals. The devaluation lead to higher prices for goods and services denominated in dinars and dollars, increase the local revenues of government budget (taxes collected in NIS but reported in dollar), lowere the value of saving deposits held in dollars or dinars, weakened the competitiveness of Palestinian products abroad and increased the Palestinian demand for the shekel.

The World Bank: public investment is not a substitute for good governance in the Middle East and North Africa region: The World Bank issued a report last September entitled "Investing for growth and jobs". The report predicted that the growth rate in the MENA region would reach 4.1% this year, but forecasts a 3.8% decline next year due to the transformations brought on by the Arabic Spring and the risk of slowing global economic growth more generally. The report indicates that the expansion of public investment in oil-exporting countries is a source of concern in the absence of law and good governance. Moreover, private investment in oil-importing countries requires a legitimate legal environment.

Traffic violations on the roads between Palestinian cities: draining the treasury: Palestinians paid $3.7 million shekels between September 2008 and July 2011 in the form of traffic violations to the Israeli authorities (this figure represents only tickets paid through Palestinian banks). This box shows the increase in the amount of tickets issued by Israeli authorities recently. While Palestinians has to pay a total of 796.4 thousand shekels in 2009 in the form of traffic violations, this figure jumped to about 1.7 million shekels in 2010, and to 1.1 million shekels during the first seven months of. Most of the observed traffic violations were in southern and central West Bank.

Do the Palestinians attack or react?: This box discusses the findings of an article called "Both sides retaliate in the Israeli–Palestinian conflict". It aims to refute the argument that Palestinians are inherently violent, and instead demonstrates that a significant proportion of Palestinian violence occurs in response to Israeli aggression.

The relative weight of Jerusalem, the Golan Heights and West Bank settlements in the Israeli economy: The Organization for Economic Cooperation and Development (OECD) issued a detailed report to discuss Israeli statistics, focusing specifically on the areas that were occupied after 1967 (Jerusalem, the Golan and various settlements). This box focuses on the economic weight and demographic status of the three areas which are usually combined in Israeli statistics.

1. Gross Domestic Product

The growth the GDP saw during the quarters of the last year has continued, growing by 7.1% over the first and second quarters of 2011. Given that the national product is strongly influenced by quarterly shifts, economists appear in favor of comparing GDP in terms of corresponding quarters rather than successive quarters. Accordingly, there was a 10.6% rise in the second quarter of 2011compared to the second quarter of 2010. Two points are of concern: first, this rise is real (at constant prices), i.e., the nominal increase minus the impact of price inflation; and second, there is no information available from the Palestinian Central Bureau of Statistics on the nominal figures. On the other hand, the per capita GDP was up by 6.3% in the second quarter of 2011 compared to the first quarter in 2011, while it grew by 7.4% compared to the corresponding quarter of the previous year. Noticeably, there was a marked improvement in GDP per capita in the Gaza Strip, recording a growth of 26% during the second quarter of 2011 compared with the corresponding quarter of the previous year.

Table 1.1: GDP and the % distribution of the contributions of sectors in GDP - excluding Jerusalem (at constant prices, **base year 2004**)

Economic activity	2010					2011	
	Q 1	Q 2	Q 3	Q4	Total	Q1	Q2
GDP ($ millions)	1,369.3	1,444.7	1,436.9	1,477.1	5,728.0	1,598.2	1,492.8
GDP per capita	363.2	380.4	375.6	383.2	1,502.4	408.5	384.4
Percentage distribution of the sectoral contributions to GDP							
Agriculture and fishing	6.6	6.7	5.1	6.8	6.3	6.5	6.2
Mining, industry, water and electricity	14.3	12.1	11.4	11.6	12.3	12.8	12.8
Mining and quarrying	0.5	0.4	0.4	0.4	0.4	0.4	0.3
Manufacturing	10.1	8.8	8.1	8.4	8.8	9.1	9.4
Water and power supply	3.7	2.9	2.9	2.8	3.1	3.3	3.1
Construction	7.4	9.5	10.2	9.4	9.2	9.9	11.5
Wholesale and retail	10.8	11.0	11.1	11.4	11.1	10.6	10.6
Transport, storage and communications	7.6	7.7	7.9	8.0	7.8	7.3	7.3
Financial intermediation	5.4	5.1	5.2	5.2	5.2	5.2	5.0
Services	21.1	20.9	21.1	20.3	20.9	20.9	20.1
Real Estate and renting	7.5	7.8	7.6	7.2	7.6	7.4	6.7
Community and personal services	1.7	1.7	1.6	1.5	1.6	1.7	1.6
Restaurants and hotels	1.2	1.3	1.6	1.5	1.4	1.7	1.7
Education	8.0	7.5	7.7	7.6	7.7	7.6	7.7
Health and social work	2.7	2.6	2.6	2.5	2.6	2.5	2.4
Public administration and defense	14.3	13.9	14.1	13.6	13.9	15.1	14.4
Home services	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Less: brokerage and clearing	(4.2)	(4.0)	(4.2)	(4.2)	(4.1)	(4.3)	(4.1)
Plus: custom duties	6.3	6.9	7.3	7.9	7.1	7.2	6.8
Plus: Net value added tax on imports	10.3	10.1	10.7	9.9	10.2	8.7	9.3
GDP (%)	100	100	100	100	100	100	100

Source: Palestinian Central Bureau of Statistics 2011, national accounts statistics.
The value of the public sector-owned companies was distributed across trade and real estate, as well as across renting and education.
Data of 2010 quarters and first quarter of 2011 are preliminary and subject to further revision. Data of the second quarter of 2011 is preliminary and subject to revision and amendment.

As for the structure of GDP over the second quarters of 2010 and 2011, one can notice the following (see Table 1-1):

- ✧ A 7.5% decline in the agriculture sector contribution (from 6.7% to 6.2%). The decline in the quarterly contribution of agriculture in GDP occurred despite the fact that the agriculture's contribution to GDP in the Gaza Strip increased by almost 48%.
- ✧ A rise of 21% in the relative contribution of the construction sector in GDP. This is mainly due to the significant growth in the construction sector in the Gaza Strip during the second quarter of 2011. This growth was spurred by the Israeli's relative ease of the siege in terms of partially allowing construction materials into the Gaza Strip.

Box 1: The cost of the occupation: $ 7 billion a year!

The Palestinian Ministry of National Economy, in collaboration with the Applied Research Institute Jerusalem (ARIJ), released a report on the cost of the Israeli occupation for the Palestinian economy. The report found that the occupation inflicted $6.8 billion on the Palestinian economy in 2010. The report concluded that ending the occupation could directly lead to an increase in the Palestinian GDP by 85%.

The report, which was published in early September, drew this conclusion through calculating the cost borne by the economy as a result of restrictions placed on movement and on the exploitation of natural resources by Israel. The study applied different approaches to work out the cost of various elements. The following table shows the cost details as outlined in the report.

Table 1: The economic losses incurred by the Palestinian economy as a result of Israeli occupation- 2010 ($ millions)

	Cost	% to GDP
Gaza blockade	1,909	23.5
Restrictions on the exploitation of water	1,903	23.4
Restrictions on the exploitation of natural resources	1,838	22.6
The direct costs of the use of electricity and water from Israel	493	6.1
- Costs of buying electricity	441	5.4
- Costs of buying water	52	0.6
Loss due to restrictions on international trade	288	3.5
Loss generated by restrictions on movement	185	2.3
Loss as a result of the lack of tourism in the Dead Sea area	144	1.8
Loss as a result of the uprooting of trees	138	1.7
Direct costs	3,012	37.1
Indirect costs	3,884	47.8
Total	**6,896**	**84.9**

Source: The economic costs of the Israeli occupation of the Palestinian territory. The Ministry of National Economy and the Applied Research Institute Jerusalem (ARIJ), September, 2011.

The report states that the cost of Gaza's blockade appears in the lack of growth rate achieved in the West Bank since 2006. This loss was estimated at $ 1.9 billion (or 23.5% of GDP). The loss of the West Bank and the Gaza Strip from the restrictions on water use has been calculated as part of the loss of agricultural production that otherwise could have been achieved. This loss has also been aligned with the adverse health consequences of water shortage. The table also shows that the total direct costs are 37%, while the indirect costs are 48% of GDP of the West Bank and the Gaza Strip.

The report further indicates that these figures are minimum estimates of the true cost and that a wide range of costs born cannot be calculated due to a lack of information.

Perhaps the most striking finding of the report was that the Israeli occupation drains the Palestinian budget by about $ 1.796 billion per year. This estimation builds on the assumption that there is a constant relationship between budget revenues and the value of GDP (i.e. the increase in GDP will increase budget revenues at a constant rate). Assuming that this figure is true, it would mean that ending the occupation would make the PNA independent of international aid, and what's more, there would be a budget surplus of up to $ 438 million in 2010 instead of the actual deficit which stood at $ 1.358 billion in that year.

2. The labor market

2.1 The labor force and participation rate

The participation rate (i.e. the ratio of the workforce to those of working age) was 42.7% during the second quarter of 2011 in the West Bank and the Gaza Strip compared with 41% in the first quarter of the same year. This growth resulted from the increase of the participation rate by 1.1 percentage points in the Gaza Strip and by 2.1 percentage points in the West Bank. Comparing the second quarter of 2011 with the corresponding quarter of the previous year, one can spot a growth in the participation rate in both the West Bank and Gaza by about 3%. Table 2.1 shows an ongoing disparity between the West Bank and Gaza Strip in terms of the participation rate (45.3% in the West Bank compared to about 38.1% in the Gaza Strip). This results out of a low rate of female participation in Gaza compared to the West Bank (11.6% and 18.8%, respectively).

Table 2.1: Percentage of labor force participation for individuals 15 years and over in the West Bank and the Gaza Strip by region and sex- quarters of 2010 and the first and second quarters of 2011 (%)

Region and Sex	Q1/2010	Q2/2010	Q3/2010	Q4/2010	Q1/2011	Q2/2011
Both sexes						
West Bank	43.2	43.9	43.0	44.5	43.2	45.3
Gaza Strip	36.3	37.0	36.0	36.3	37.0	38.1
West Bank & Gaza Strip	40.7	41.5	40.5	41.5	41.0	42.7
Males						
West Bank	70.0	69.6	69.1	69.3	69.0	71.2
Gaza Strip	60.9	62.5	61.5	63.4	62.5	64.0
West Bank & Gaza Strip	66.7	67.1	66.4	67.2	66.7	68.6
Females						
West Bank	15.8	17.6	16.3	19.1	16.7	18.8
Gaza Strip	11.2	11.0	10.0	8.7	11.0	11.6
West Bank & Gaza Strip	14.1	15.2	14.0	15.3	14.7	16.2

Source: PCBS, 2011, Labor Force Survey, 2010-2011.

Quarterly data signals an increase in the number of workers in the West Bank and the Gaza Strip- from 780.2 thousand in the first quarter of 2011 to 852.4 thousand in the second quarter of 2011. Employment also increased by almost 13% in the second quarter compared to the corresponding quarter of the previous year. Distribution of workers, by place of work, was 60.7% in the West Bank, 29.4% in Gaza and 9.9% in Israel and the settlements in the second quarter of 2011 (see Table 2.2). Interestingly, the ratio of workers in the Gaza Strip to the total numbers of workers in the second quarter of 2011 rose to 29.4% compared to 25.3% during the corresponding quarter of the previous year. By contrast, the rate of workers in the West Bank declined by 4 percentage points in the second quarter compared with the corresponding quarter of the previous year, while the rate of workers in Israel and the settlements remained almost unchanged.

Table 2.2: Individuals, 15 years or more, working in the Palestinian Territory-by place of work (quarters of 2010 and Qs 1 and 2, 2011)

Place of work	Q1/10	Q2/10	Q3/10	Q4/10	Q1/11	Q2/11
Manpower (thousands)	2,342.4	2,365.0	2,387.2	2,490.7	2,432.2	2,454.7
Workforce (thousands)	953.9	980.4	966.9	1,001.2	996.9	1,047.9
No. of workers (thousands)	743.7	756.0	709.5	767.2	780.2	852.4
West Bank (%)	61.7	64.6	63.5	63.9	61.2	60.7
Gaza Strip (%)	27.2	25.3	26.0	25.8	28.8	29.4
Israel & settlements (%)	11.1	10.1	10.5	10.3	10.0	9.9

Source: PCBS, 2011, Labor Force Survey, 2010-2011.

Table 2.3 shows that the private sector was the main employer of the Palestinian labor in the West Bank during the second quarter of 2011- absorbing more than 69% of the total employees, followed by the public sector with an employment rate of 14.5%. In Gaza, the main employer was the public sector (39%). In parallel, the number of workers in the private sector in Gaza rose significantly during the second quarter of 2011 compared with the corresponding quarter of the previous year (from 45.5% to 54.6%).

Table 2.3: Percentage distribution of workers, 15 years and over, in the Palestinian Territory- by region and sector (quarters of 2010 and the first and second quarters of 2011) %

Sector	Q1/2010	Q2/2010	Q3/2010	Q4/2010	Q1/2011	Q2/2011
			Palestinian Territory			
Public Sector	23.2	23.5	24.7	24.6	22.9	21.6
Private Sector	61.8	62.5	61.4	61.3	63.3	64.8
Other Sector	3.9	3.9	3.4	3.8	3.8	3.7
Israeli Settlements	11.1	10.1	10.5	10.3	10	9.9
			West Bank			
Public Sector	15.9	15.7	16.9	16.5	15.4	14.5
Private Sector	66.2	68.2	66.5	67.2	68.2	69.1
Other Sector	2.6	2.6	2.4	2.5	2.4	2.4
Israeli Settlements	15.3	13.5	14.2	13.8	14	14.0
			Gaza Strip			
Public Sector	42.8	46.9	47	48	41.7	38.6
Private Sector	49.9	45.5	46.9	44.3	51.3	54.6
Other Sector	7.3	7.6	6.1	7.7	7	6.8

Source: PCBS, 2011, Labor Force Survey, 2010-2011.

With respect to the employment status of workers, the data indicates a decline of 3.5% in the number of wage earners over the first and second quarters of 2011. By contrast, the number of workers in the family-based enterprises rose by 2.1 percentage points over the two quarters. In the Gaza Strip, there was a significant increase in the number of self-employed people between the second quarter of 2011and the corresponding quarter of the previous year (see Table 2.4).

Table 2.4: Percentage distribution of workers in the Palestinian Territory - by Employment Status and Region (quarters of 2010 and the first and second quarters of 2011)

Region & employment status	Q1/10	Q2/10	Q3/10	Q4/10	Q1/11	Q2/11
			West Bank			
Employer	7.1	7.3	7.0	7.0	8.0	7.6
Self-employed	21.4	20.6	20.2	19.3	18.9	19.0
Wage earner	63.3	62.3	64.9	64.0	66.7	64.7
Unpaid family member	8.2	9.8	7.9	9.7	6.4	8.7
Total	100	100	100	100	100	100
			Gaza Strip			
Employer	4.3	4.7	4.7	3.2	3.0	3.0
Self-employed	17.1	13.6	14.0	12.4	18.7	20.3
Wage earner	75.0	80.0	79.1	81.8	73.9	70.3

Region & employment status	Q1/10	Q2/10	Q3/10	Q4/10	Q1/11	Q2/11
Unpaid family member	3.6	1.7	2.2	2.6	4.4	6.4
Total	100	100	100	100	100	100
Palestinian Territory						
Employer	4.8	6.6	6.4	6.0	6.6	6.3
Self-employed	18.2	18.8	18.6	17.6	18.8	19.4
Wage earner	73.6	66.8	68.6	68.6	68.8	66.4
Unpaid family member	3.4	7.8	6.4	7.8	5.8	7.9
Total	100	100	100	100	100	100

Source: PCBS, 2011, Labor Force Survey, 2010-2011.

According to quarterly data, there was a slight change in the distribution of employees by economic activity. The number of workers in the agriculture sector in the West Bank decreased by two percentage points in the second quarter of 2011 from the corresponding quarter of the previous year, while this number rose by two points in the Gaza Strip. On the other hand, there was a growth in the number of workers in the construction sector during the two corresponding quarters, especially in the Gaza Strip where the figure jumped by about 4 percentage points between the two quarters. Similarly, the number of workers in quarries and manufacturing in the West Bank increased from 13.2% in the second quarter of 2010 to 15.0% in the second quarter of 2011 - evidently at the expense of agriculture and services. In the Gaza Strip, the percentage of workers in quarries and manufacturing rose from 3.8% in the second quarter of 2010 to 5.7% in the corresponding quarter of 2011- mainly at the expense of the services sector.

Table 2.5: Distribution of workers in the Palestinian Territory by Economic Activity & Region- quarters of 2010 and the first and second quarters of **2011(%)**

Region & Economic Activity	Q1/10	Q2/10	Q3/10	Q4/10	Q1/11	Q2/11
Palestinian Territory						
Agriculture, hunting and forestry	11.8	12.7	10.2	12.5	10.6	11.5
Quarries and manufacturing industry	12.6	10.9	11.4	10.7	11.5	12.3
Building and construction	12.7	13.4	13.8	12.7	13.8	14.5
Services and others	37.7	38.4	38.9	38.7	37.7	35.2
West Bank						
Agriculture, hunting and forestry	12.5	14.4	10.9	15.1	10.6	12.3
Quarries and manufacturing industry	15.1	13.2	13.6	12.9	14.1	15.0
Building and construction	17.0	17.1	17.2	15.8	17.4	18.0
Services and others	29.9	30.1	31.6	30.8	30.7	28.2
Gaza Strip						
Agriculture, hunting and forestry	9.9	7.8	8.0	5.1	10.5	9.5
Quarries and manufacturing industry	6.0	3.8	5.1	4.3	5.0	5.7
Building and construction	1.3	2.5	4.0	4.0	4.9	6.2
Services and others	58.2	63.0	59.9	61.3	55.2	52.0

Source: PCBS, 2011, Labor Force Survey, 2010-2011.

2.2 Unemployment

The unemployment rate in the second quarter of 2011 stood at 18.7% (15.4% in the West Bank and 25.6% in Gaza Strip), indicating a decrease by 3 percentage points from the first quarter of 2011. This decline resulted from a drop in unemployment rate in the Gaza Strip by about

6.5 percentage points from the previous quarter. On the other hand, the unemployment rate in the second quarter of 2011 fell significantly (approximately 4 percentage points) compared with the corresponding quarter of the previous year, though the unemployment rate among females edged up by more than three percentage points (see Table 2.6).

Table 2.6: Unemployment rate among individuals participating in the labor force (15 years and over) in the Palestinian Territory- by region and sex— quarters of 2010 and the first and second quarters of 2011 (%)

Region & Sex	Q1/10	Q2/10	Q3/10	Q4/10	Q1/11	Q2/11
Palestinian Territory						
Males	21.1	22.4	25.4	23.4	20.5	16.4
Females	26.8	25.0	32.6	23.2	27.3	28.6
Total	22.0	22.9	26.6	23.4	21.7	18.7
West Bank						
Males	15.9	14.9	18.9	16.5	16.3	13.4
Females	19.1	16.4	25.3	18.6	21.8	23.3
Total	16.5	15.2	20.1	16.9	17.4	15.4
Gaza Strip						
Males	31.7	37.5	38.3	37.0	28.9	22.4
Females	46.0	49.7	53.9	40.9	42.1	43.6
Total	33.9	39.3	40.5	37.4	30.8	25.6

Source: PCBS, 2011, Labor Force Survey, 2010-2011.

Features of unemployment in the Palestinian Territory:

Unemployment in the Palestinian Territory is high among young people, aged 15-24, with 30.3% (51% among young females and 26.4% among young males). This suggests that a large proportion of the unemployed are new entrants to the labor market (see Table 2.7). The decreased rate of unemployment among young people in the second quarter of 2011, compared to the same quarter of the previous year (from 37.4% to 30.3%), only however, applied to males; as the unemployment rate among young males fell by more than 9 percentage points between the quarters. Yet, the unemployment rate among young females rose by 4 percentage points between the quarters.

Table 2.7 Unemployment rate among individuals participating in the labor force (15 years and over) in the Palestinian Territory- by sex and age group - quarters of 2010 and the first and second quarters of 2011 (%)

Sex and Age Group	Q1/10	Q2/10	Q3/10	Q4/10	Q1/11	Q2/11
Both sexes						
15-24	35.3	37.4	42.5	39.9	38.2	30.3
25-34	22.4	23.8	28.0	22.5	22.5	20.6
35-44	15.5	14.2	16.6	14.1	12.2	10.2
45-54	14.7	14.8	18.2	18.0	13.6	12.1
55+	12.3	15.6	15.5	13.1	10.0	9.8
Total	35.3	37.4	26.6	23.4	21.7	18.7
Males						
15-24	33.7	35.6	39.2	38.5	35.3	26.4
25-34	19.0	21.6	24.9	21.3	19.6	16.0
35-44	15.4	14.6	17.2	14.8	12.3	9.6
45-54	16.9	17.2	20.6	21.0	15.6	13.3

Sex and Age Group	Q1/10	Q2/10	Q3/10	Q4/10	Q1/11	Q2/11
55+	14.5	18.8	17.4	14.8	10.9	11.3
Total	21.1	22.4	25.4	23.4	20.5	16.4
			Females			
15-24	44.3	46.9	59.5	47.1	53.8	51.0
25-34	36.1	32.7	41.0	27.1	33.8	37.3
35-44	16.2	12.1	13.8	10.9	11.9	12.9
45-54	3.1	3.4	5.1	2.5	3.1	6.9
55+	1.5	1.7	2.1	3.2	4.5	3.0
Total	26.8	25.0	32.6	23.2	27.3	28.6

Source: PCBS, 2011. Database of Labor Force Survey, 2010-2011

For males, unemployment is rampant among the less educated: There is a substantial difference between unemployed males and females in terms of years of education. Table 2.8 shows that the fewer the years of education, the higher the unemployment rate among males. This is exactly the opposite when it comes to females: the unemployment rate among females obtaining 13 years of education and above was 39.2%, while the rate among uneducated females was barely 5.1%. Table 2.8 also shows that the unemployment rate among the educated females (obtaining more than 13 years of education) rose by 11% between the second quarter of 2010 and the corresponding quarter of 2011; still, this rate also rose sharply among uneducated females (from 1.5% to 5.1%).

Table 2.8 Unemployment rate among individuals participating in the labor force (15 years and over) in the Palestinian Territory- by sex and years of education— quarters of 2010 and the first and second quarters of 2011 (%)

Sex and Years of Education	Q1/10	Q2/10	Q3/10	Q4/10	Q1/11	Q2/11
			Both sexes			
0	10.5	14.4	15.9	15.6	15.5	11.9
1-6	24.5	24.9	28.0	25.7	23.1	16.5
7-9	23.2	23.9	27.7	24.4	22.6	17.8
10-12	20.8	22.9	24.9	24.2	20.5	16.1
13+	22.1	21.8	27.5	21.3	22.1	22.8
Total	22.0	22.9	26.6	23.4	21.7	18.7
			Males			
0	20.7	27.2	24.4	25.2	23.4	18.5
1-6	27.2	28.4	30.6	28.3	25.6	18.4
7-9	24.1	25.3	29.1	26.2	23.4	18.6
10-12	21.5	23.9	25.2	25.4	20.6	16.4
13+	13.7	14.1	19.3	15.5	15.1	13.1
Total	21.1	22.4	25.4	23.4	20.5	16.4
			Females			
0	-	1.5	2.7	2.6	4.1	5.1
1-6	5.1	3.5	5.2	6.8	2.2	4.3
7-9	10.6	7.7	7.7	5.6	9.9	7.4
10-12	13.4	10.7	20.8	10.8	19.5	12.6
13+	37.2	35.3	41.6	31.4	34.9	39.2
Total	26.8	25.0	32.6	23.2	27.3	28.6

Source: PCBS, 2011, Labor Force Survey, 2010-2011.

2.3 Unemployment among graduates of universities and institutes

This sections sheds light on unemployment among individuals with intermediate and higher diploma by major. Table 2.9 shows a rise in the unemployment rate among graduates as a whole between the second quarter of 2010 and the corresponding quarter of 2011 (from 21% to 24%). The table also demonstrates that the unemployment rate among those who obtained a degree in personal services was the lowest during the second quarter of 2011 (7.8%). On the other hand, the unemployment rate among those who obtained a degree in journalism and media was the highest (45.2% in the second quarter of 2011). The quarter saw a marked improvement in employment rate among business and management graduates as well as a significant increase in unemployment rate among law graduates between the corresponding quarters**.**

Table 2.9: Unemployed graduates (with an intermediate diploma and above) by Major-- quarters of 2010 and the first and second quarters of 2011(%)

Major	Q1/10	Q2/10	Q3/10	Q4/10	Q1/11	Q2/11
Educational sciences & preparation of teachers	34.4	37.6	46.2	33.1	32.9	39.9
Humanities	25.8	22.6	33.6	23.3	23.9	26.4
Social and behavioral sciences	28.8	31	30.2	21.1	26.6	20.7
Journalism and media	29.6	41.6	40.2	21	33.4	45.2
Business and administration	24.9	23.7	26.2	22.9	20.9	18.9
Law	7.4	4.1	12.9	24.7	12.2	15.2
Natural sciences	27.5	25.8	26.1	21.8	22.1	23.3
Math and statistics	22.7	21.3	20.6	19.7	31.4	28.6
Computer	28.6	24.5	40.7	31.5	24.8	33.1
Engineering and engineering professions	16.3	20.4	18.9	16.1	18	15.1
Architecture and construction	21.5	22.4	22.8	20.7	20	18.2
Health	13.1	12.2	18.3	14.6	16.9	16.7
Personal services	18.3	10.3	9.6	14.4	18.5	7.8
Others	13.2	19.4	29.5	21.2	23.6	27.7
Total	23.7	21.1	28.6	22.4	23.3	24.0

Source: PCBS, 2011, Labor Force Survey, 2010-2011.

2.4 Wages and working hours

During the second quarter of 2011, the average wage in the West Bank fell slightly from the previous quarter. In comparison with the corresponding quarter of the previous year, the average wage in the West Bank grew by less than one shekel (less than 1%). On the other hand, the average wage of workers in the Gaza Strip fell from NIS 64.6 in the first quarter to NIS 61.8 (5%) in the second quarter of 2011. Compared to the corresponding quarter of the previous year, the average wage of Gaza's workers increased by four shekels (6%). By contrast, the average wage of workers in Israel and Israeli Settlements declined by 3.5 shekels between the first and second quarter of 2011 (see Table 2.10). Notably, the median daily wage in Gaza (the pay received by a person directly in the middle of the highest and lowest wage) reflects the great disparity between the wages in the Gaza Strip and the West Bank: the median wage in Gaza was only 62.5% of that in the West Bank. This continuing disparity in wage rates between the West Bank and the Gaza Strip reflects the demand for labor under the Israeli siege. With regard to the weekly working hours during the second quarter of 2011, they remained around the average achieved in previous quarters. There was however, an ongoing increase of weekly working hours for workers in the West Bank compared to those working in Gaza, Israel and the settlements (see Table 2.10).

Table 2.10: Average weekly working hours, monthly working days and daily wages in NIS of known wage workers in the Palestinian Territory- by place of work - quarters of 2010 and the first and second quarters of 2011

Place of work	Average weekly hours	Average monthly working days	Average daily wage	Median daily wage
		Q1 2010		
West Bank	42.8	22.0	85.7	76.9
Gaza Strip	39.1	23.1	56.9	46.2
Israel and Settlements	39.6	20.1	160.8	150.0
Total	41.3	21.9	92.5	76.9
		Q2 2010		
West Bank	43.6	22.6	84.1	76.9
Gaza Strip	38.8	23.7	58.1	50.0
Israel and Settlements	39.4	20.5	155.5	150.0
Total	41.8	22.3	89.8	76.9
		Q3 2010		
West Bank	43.4	22.4	86.6	76.9
Gaza Strip	39.9	23.2	58.0	50.0
Israel and Settlements	39.4	21.3	154.7	150.0
Total	41.9	22.4	92.4	76.9
		Q4 2010		
West Bank	43.2	22.1	86.8	76.9
Gaza Strip	37.8	23.7	59.5	50.0
Israel and Settlements	39.0	20.4	160.5	150.0
Total	41.2	22.2	92.2	76.9
		Q1 2011		
West Bank	42.6	22.0	85.0	76.9
Gaza Strip	39.2	23.3	64.6	50.0
Israel and Settlements	39.8	20.9	164.0	153.8
Total	41.3	22.2	92.4	76.9
		Q2 2011		
West Bank	42.8	22.5	84.8	76.9
Gaza Strip	37.5	23.7	61.8	48.1
Israel and Settlements	38.9	20.6	160.5	153.8
Total	40.9	22.5	90.8	76.9

Source: PCBS, 2011, Labor Force Survey, 2010-2011.

2.5 Vacancy announcements[1]

The number of vacancies posted in the second quarter of 2011 was about 851, a 17.5% decline from the first quarter of the same year, and a 35.7% drop from the corresponding quarter of the previous year (see Table 2.11). It is worth noting that in the second quarter of this year, there were 61 announcements with no specific number of vacant posts. In addition, there were four engineering vacancies posted for engineers to work in Saudi Arabia. However, the posted vacancies do not necessarily cover all available job opportunities, though all government jobs, as per law, must be advertised[2].

The private sector still accounts for the largest share of job vacancies advertised in the second quarter of 2011 (52.3%), while the shares of the public sector and NGO sector were 16.5% and 31.2%, respectively. The number of

1 MAS collected job advertisements from daily newspapers (Al-Quds, Al-ayyam and Al-Hyah) as well as from the website www.jobs.ps

2 Article (19) of the Civil Service Law No. (4) of 1998 states that the government departments shall announce job vacancies in which appointment are made by the competent authority within two weeks of vacancy in at least two daily newspapers. The announcement shall contain detailed information about the job and the competencies required.

vacancies posted by the private sector and NGO sector rose by 9% each. Analogous, the number of vacancies advertised by the public sector dropped by 63.3% compared with the first quarter of the same year. With regard to the distribution of posted vacancies by geographical area, data shows that the central West Bank accounted for the majority of vacancies advertised (75.8%). The shares of both Northern and Southern West Bank posted were 12% and 10.3%, respectively. The Gaza Strip's contribution amounted to only 1.9%[3]. As for the distribution of vacancies by the required degree, the BA degree was the most needed (63.9%), where as the demand for masters, intermediate diploma and below diploma degrees was 9%, 12.3% and 14.7% respectively (see Table 2-11).

Table 2.11: Number of vacancies advertised in daily newspapers in the Palestinian Territory during the second quarter of 2010, and the first and second quarters of 2011

	Q2 2010	Q1 2011	Q2 2011			
			April	May	June	Total
By sector						
Private sector	561	407	168	108	169	445
Public sector	178	381	33	53	54	140
NGOs	584	244	47	66	153	266
By area						
Northern West Bank	178	149	21	18	63	102
Central West Bank	865	683	207	195	243	645
Southern West Bank	140	129	17	9	62	88
Gaze Strip	140	71	3	5	8	16
By degree						
MA and above	121	47	8	25	44	77
BA	929	736	157	138	249	544
Intermediate Diploma	148	105	50	19	36	105
Below Diploma	125	144	33	45	47	125
Total						
	1323	1032	248	227	376	851

Source: MAS collected job advertisements from daily newspapers (Al-Quds, Al-ayyam and Al-Hyah) as well as from the website www.jobs.ps

With a percentage of 37.4%, the demand for administrative and economic sciences had the largest share of advertised vacancies. At the same time, the demand for humanities and social sciences; applied sciences; and medical sciences was 19.3%, 18.3% and 6.6% respectively, while other specializations and professions accounted for 18.4% of announced vacancies (see Table 2.12).

Table 2.12: Number of vacancies advertised in daily newspapers in the Palestinian Territory- by major and sector— Q2 2011

Major	Public sector	Private sector	Civil sector	Total
Medical sciences	9	35	12	56
Humanities and social sciences	25	38	101	164
Applied sciences	52	70	34	156
Administrative and economic sciences	46	174	98	318
Other (craftsmen, maintenance, secretarial work, etc.)	8	128	21	157
	140	445	266	851

Source: MAS collected job advertisements from daily newspapers (Al-Quds, Al-ayyam and Al-Hyah) as well as from the website www.jobs.ps

3 The low number of vacancies advertised in the Gaza Strip may be attributed to the fact that the three daily newspapers, Al-Quds, Al-ayyam and Al-Hyah, are not distributed in the Gaza Strip.

Box 2: PISA Report on the Efficiency of Education in the Arab world

Since 2000, the Organization for Economic Co-operation and Development (OECD) has been conducting intensive periodic tests on pupils aged 15 years to evaluate the success and efficiency of the educational systems in different countries. This is known as PISA (Program for International Student Assessment). The report is very much like an Olympic competition among countries which takes place every three years. Educators and politicians need this report to see their students' ranking on the international scale. They also need it for feedback on the reform and development policies they want to produce.

The release of the report for the first time in 2000, strikingly triggered concerns and was a surprise in many countries which came to know that their educational system lags behind other countries which they had expected to be lower in ranking, performance and efficiency. Since then, countries are frantically searching for the reasons of failure, and success, of some national systems.

PISA studies the efficiency of education in about 65 countries, 30 of which are OECD (or members in the Club of the Rich). The rest are participating countries. There were four Arab countries participating in the 2009 program: Jordan, Tunisia, Qatar and Dubai.

Table 1 gives a summary of the results that emerged in the last PISA Report. Strikingly, students of a developed country such as Britain ranked 19th in the reading skill and 23rd in mathematics. Even worse, students of Sweden ranked 25th in science out of 65 participating countries. None of the four Arab States (or Israel) came among the first thirty countries in any of the three areas: reading, mathematics and science.

What are the reasons behind this disparity? What is the secret behind the overwhelming, ongoing superiority of education systems in countries such as South Korea and Finland?

Table 1: PISA Test Results of 15-year-old Students Achievement Ranking of countries 2009

Country	Reading	Math	science
Shanghai (China)	1	1	1
South Korea	2	3	4
Finland	2	4	2
Hong Kong (China)	3	3	2
Canada	5	9	7
New Zealand	6	12	6
Japan	5	8	4
Australia	8	13	7
Netherland	8	8	7
USA	11	29	19
Sweden	13	21	25
Germany	14	13	10
France	14	19	22
UK	19	23	14
Israel	33	42	42
Dubai	41	41	40
Jordan	53	55	50
Tunisia	54	59	53
Qatar	61	61	60

Source: OCED

In the past, people used to think that there were only three factors impacting on the efficiency and success of education: the amount of money spent per student, the social class of the student and the dominant culture (the degree of attention given to education). However, recent research has confirmed that these factors are important and play a role in the efficiency of education, but they are not decisive. Obviously, many countries increased their spending on education (twice or three times) without achieving real, tangible results which could have been manifested in the PISA ranking. In fact, spending on education per student is the highest in the United States, yet American students did not rank among the top five as is evident from the table. Andreas Schleicher, head of analysis at PISA, thinks that only about 10% of the variation in pupil performance has anything to do with money.

Family class plays a central role in the performance of students. Some studies suggest that family income can explain 60% of the variance in the performance of students in

Family class plays a central role in the performance of students. Some studies suggest that family income can explain 60% of the variance in the performance of students in the same school. However, the impact of this factor is not entirely obvious in the PISA Study. The inequality in income is enormously large in China, yet China (Shanghai and Hong Kong) still occupies the first position.

Culture and tradition are also very critical as they explain the superiority of Asian countries (the impact of Confucian). Nevertheless, Finland, which has a traditional Western culture, also achieved a leading position.

Evidently then, there are other factors that decide the efficiency of an education system. The plethora of studies conducted recently outlined four additional factors: 1) decentralization (relative autonomy of the school); 2) a special focus on underperforming pupils; 3) the existence of various schools with different systems and methods of teaching; 4) (this is probably the most important factor) competent teachers. Interestingly, the best performing students who finish matriculation exams in Finland and South Korea enroll into teacher training programs. Teachers in these countries are well-paid and enjoy a distinctive social status.

Assessment of Palestine's students

The Trends in International Mathematics and Science Study (TIMSS) is another report assessing students' knowledge in mathematics and science of fourth and eighth grade students around the world. TIMSS was developed by the International Association for the Evaluation of Educational Achievement to allow participating nations to compare students' educational achievement across borders. The Association issued its fourth report, which covered the performance of fourth graders in 36 countries and eighth graders in 48 countries in 2007. Palestine was one of the regions/countries whose eighth grade students were evaluated.

The average mathematics mark achieved by eighth grade students in the 48 participating nations was the 500 mark. The students of China (Formosa) and Korea ranked first (598 marks). Palestinian students scored only 367 in mathematics, and ranked 42nd out of the 48 countries. As for science, Palestine's students ranked 43rd, ahead of Saudi Arabia, but trailing Egypt and Algeria.

3. Public Finance

The performance of public finance receded significantly during the second quarter of 2011 in comparison with the first quarter of the same year, manifesting in the financial crunch the PNA experienced.

- The total public revenues and grants (net) declined by 12% to $ 682.7 million as a result of the decline in the net total domestic revenues, grants and foreign aid.
- The total public expenditure rose by 17% (to $ 837.2 million) due to an increase in current expenditures.
- The current deficit increased to about $ 208 million (about 10% of GDP) compared to 4.5% in the first quarter.
- The outstanding public debt balance grew by 11% (up to 2.171 million) due to an increase in domestic debt.

Table 3.1 summarizes the financial developments in the PNA budget in accordance with the cash basis during the second quarter of 2011:

Table 3.1: Summary of the **financial status of the PNA during the second quarter of 2011** ($ millions) *

	2010				2011	
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Public revenues and grants (net)	667.6	850.0	727.0	932.8	775.4	682.7
Total domestic revenues (net)	447.8	491.3	522.3	439.0	588.8	536.8
Domestic revenues	455.8	499.6	526.0	505.8	599.7	539.4
Tax revenues	119.2	134.7	115.3	104.9	134.8	121.6
Non-tax revenues	46.7	59.5	104.8	59.5	52.6	69.1
Clearing revenues	289.9	305.4	305.9	341.4	412.3	348.8
Tax returns	8.0	8.3	3.7	66.8	10.9	2.6
External revenues (grants and aid)	219.8	358.7	204.7	493.8	186.6	145.9
For budget support	207.6	317.6	177.9	443.4	162.9	126.8
To support developmental projects	12.2	41.1	26.8	50.4	23.7	19.1
Total public expenditure	774.3	819.2	784.5	880.3	716.7	837.2
Current expenditure, including:	723.5	765.1	690.8	803.8	677.8	745.0
Wages and salaries	371.2	395.4	373.8	423.3	433.1	453.7
Non-wage expenses	260.8	303.0	258	334.2	200.6	248.1
Net lending	91.5	66.7	59	46.3	44.1	43.1
Development expenses	50.8	54.1	93.7	76.5	38.9	92.2
Treasury-funded	38.6	13.0	66.9	26.1	15.2	73.1
Donor-funded	12.2	41.1	26.8	50.4	23.7	19.1
Current deficit / surplus	(275.7)	(273.8)	(168.5)	(364.8)	(89.0)	(208.2)
Total deficit / surplus (before grants and aid)	(326.5)	(327.9)	(262.2)	(441.3)	(127.9)	(300.4)
Total deficit / surplus (after grants and aid)	(106.7)	30.8	(57.5)	52.5	58.7	(154.5)
Financing	106.7	(30.8)	57.5	(52.5)	(58.7)	154.5
Net financing from local banks	111.5	(31.5)	40.2	(36.6)	(53.9)	167.5
The remaining balance	(4.8)	0.7	17.3	(15.9)	(4.8)	(13.0)
The financial gap	0	0	0			

Source: The data available in the financial reports issued by the Palestinian Ministry of Finance (cash basis).

* Data for financial operations of the 2010 quarters are in US dollars. They were included in the table as they came from the source, and they are updated. Data for financial operations of the 2011 quarters are in NIS. The NIS monthly exchange rate was taken from source. The shekels were converted to US dollars and the monthly totals for each quarter were calculated accordingly. Data for the second quarter of 2011 are preliminary, issued by the Palestinian Ministry of Finance and are subject to updating and revision. Figures in brackets are of a negative value.

3.1 Analysis of items of income and grants

Public revenues and grants decreased by 12% during the second quarter of 2011- posting only about 682.7 million dollars due to the decline in gross net domestic revenues (8.8%) and the drop of grants and foreign aid (22%). With respect to the components of the total revenues, local data indicates that clearance revenues accounted for the lion's share (65%), followed by tax revenues (22%) and then non-tax revenues (13%).

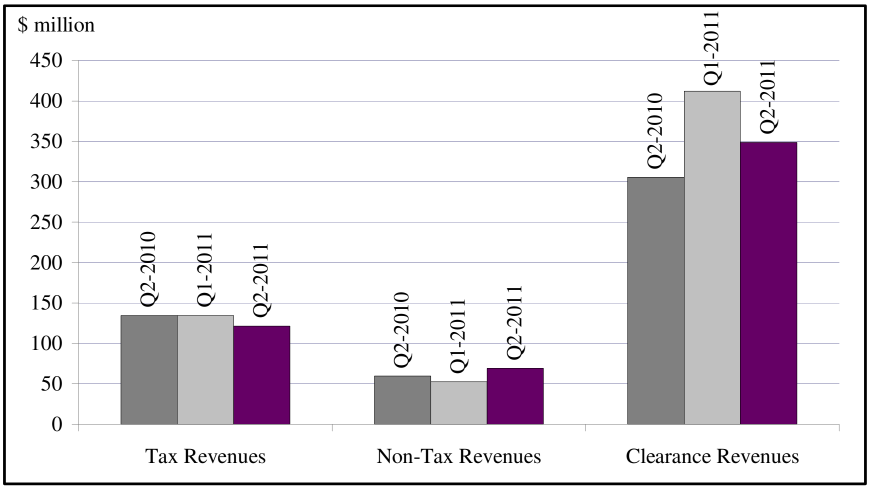
Clearance revenues fell during the second quarter of 2011 by 15% compared to the previous quarter, totaling $ 349 million. However, clearing revenues in the second quarter were 14% higher than the corresponding quarter of 2010. Obviously, part of the rise in clearance revenues between the corresponding quarters was a result of the decline in the exchange rate of the dollar against the shekel, since the depreciation of the dollar raises the clearance revenues that are collected in NIS. This means that part of the increase is due to the change in exchange rate rather than a real increase in revenues.

Tax revenue saw a 10% decline during the second quarter of 2011 compared to the previous quarter- totaling $121.6 million, the first quarter however, is the period when income and property taxes are due. This means that the decline in tax revenue does not necessarily indicate a structural trend. Yet, tax revenues also declined by 10% compared to the corresponding quarter of 2010. These facts require attention and must be taken into consideration during the coming quarters.

Non-tax revenues increased to $69 million during the second quarter of 2011, up by 31% from the previous quarter. The increase resulted from the investment returns which achieved unusual revenues of about $25 million during April 2011.

External funding (grants and aid) stood at about $146 million in the second quarter of 2011, a decline of 22%. The drop was a result of a 25% decline of grants from the European Union and a 16.5% drop of grants from the World Bank. The total grants and aid during the second quarter declined by nearly 60% compared to the corresponding quarter of 2010.

Figure 3.1: Structure of domestic revenues



Source: Data published in the financial reports of the Palestinian Ministry of Finance

Table 3.2: Indicators of public revenue and grants during the 2nd quarter of 2011

Item	2010				2011	
	Q1	Q2	Q3	Q4	Q1	Q2
Total domestic revenue (net) million dollars	447.8	491.3	522.3	439	588.6	536.8
Ratio to total revenue and grants (%)	67.1	57.8	71.8	47.1	75.9	78.6
Ratio to total current expenditure (%)	61.9	64.2	75.6	54.6	86.9	72.1
Ratio to GDP (%)	25.6	26.6	28.1	22.6	29.9	25.5
External revenue (grants and aid) million dollars	219.8	358.7	204.7	493.8	186.6	145.9
Ratio to total revenue and grants (%)	32.9	42.2	28.2	52.9	24.1	21.4
Ratio to total current expenditure (%)	30.4	46.9	29.6	61.4	27.5	19.6
Ratio to GDP (%)	12.6	19.4	11.0	25.4	9.5	6.9
Public revenues (local and external) million dollars	667.6	850	727	932.8	775.3	682.7
Ratio to Total public expenditure and net lending (%)	86.2	103.8	92.7	106	108.2	81.6
Ratio to GDP (%)	38.2	46.1	39.1	48.1	39.4	32.4
GDP (million dollars)	1747	1844	1859	1941	1968	2107

Source: Table (3.1)

(1) Real GDP was changed to nominal GDP using quarterly inflation rate: Nominal GDP_{it} = Real GDP_{it} *[(CPI_{it} / CPI_{2004}), where i = 1,2,3,4 represents the quarters and t represents the years.

On the other hand, with about $ 101 million, international donations accounted for 79% of the total grants and assistance to the Palestinian Authority to support the budget during the second quarter of 2011. This aid was a contribution from the Palestinian European mechanism PEGASE ($44.7 million), the World Bank ($41 million) and France (about $14 million). The developmental support totaled about $19 million during the second quarter of 2011 (see Table 3.3).

With regard to budget support, Arab countries' contribution totaled about $ 26 million (20% of the total grants and foreign aid to support the budget) during the second quarter of 2011. Algeria was the main source of this fund.

Table 3.3: Grants and foreign aid to the Palestinian Authority during the second quarter of 2011 (million dollars)

Item	2010				2011	
	Q1	Q2	Q3	Q4	Q1	Q2
Budget support	207.7	317.6	177.9	443.5	162.9	126.8
Grants from Arab countries	0	57.5	60	113.3	53	26
International aid	207.7	260.1	117.9	330.2	109.9	100.8
The Palestinian European Mechanism	106.5	72.02	88.6	107.4	59.8	44.7
World Bank	87.1	95.22	29.2	73.6	49.1	41
USA	0	74.62	0	148.1	0	0
France	9.9	15.72	0	148.1	0.0	14
Old grants for ministries	4.2	2.52	0.1	1.1	1	1.1
Developmental financing	12.2	41.1	26.8	50.4	23.7	19.1
Total external financing	220	360	205	494	188.1	147.3

Source: Table of external financing - data published in annual reports of the Palestinian Ministry of Finance

3.2 Analysis of public expenditure items

During the second quarter of 2001, public expenditure and net lending stood at about $ 837 million, an increase of 17%, due to the rise in current expenditure and development expenditure. The total expenditure accounted for 40% of the gross domestic product.

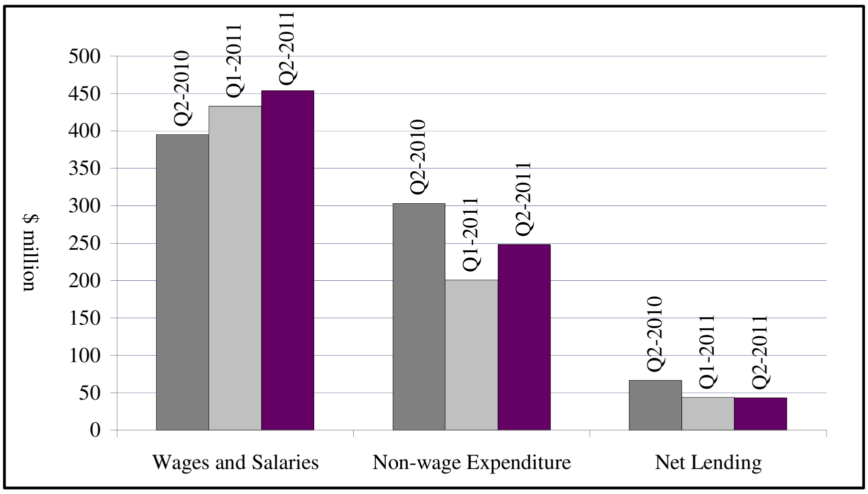
Current expenditure represented 89% of total public expenditure and net lending in the second quarter of 2011. With 61%, the wages and salaries accounted for the lion's share of the items of current expenditures ($454 million). The wage bill and payroll grew by 4.8% compared to the first quarter of 2011, and by 15% compared with the corresponding quarter of 2010. However, there was a slight change in the value of the wage bill when calculated by the Israeli shekel; which means that the increase in the wage bill was a result of the depreciation of the dollar against the shekel.

Table 3.4: **Indicators of public expenditure during the 2nd quarter of 2011**

Item	2010				2011	
	Q1	Q2	Q3	Q4	Q1	Q2
Current expenditure (million dollars)	723.5	765.1	690.8	803.8	677.6	745
Ratio to total public expenditure (%)	93.4	93.4	88.1	91.3	94.6	89
Ratio to GDP (%)	41.4	41.5	37.2	41.4	34.4	35.4
Development expenses (million dollars)	50.8	54.1	93.7	76.5	38.9	92.2
Ratio to total public expenditure (%)	6.6	6.6	11.9	8.7	5.4	11
Ratio to GDP (%)	2.9	2.9	5.0	3.9	2.0	4.4
Total public expenditure (million dollars)	774.3	819.2	784.5	880.3	716.5	837.1
Ratio to GDP (%)	44.3	44.4	42.2	45.4	36.4	39.7

Source: Table (3.1)

Figure 3.2: Structure of current expenditures



Source: Data published in reports of the Palestinian Ministry of Finance

Spending on net lending[4] fell by about 2.3% during the second quarter of 2011 compared with the first quarter of 2011, posting only $ 43.1 million. The share of net lending of current expenditure was in steady decline (from 8.7% in the second quarter of 2010 to about 5.8% in the second quarter of 2011). In contrast, development expenses rose from $ 39 million in the first quarter of 2011 to $ 92 million in the second quarter. Grants and international aid financed $ 19 million of development expenditure, while the PNA budget financed $ 73 million of development expenditure.

3.3 Surplus / Deficit

The increasing current expenditure and the decreasing net gross domestic revenues led to a $ 208 million deficit in the balance of the budget in the second quarter of 2011 compared with $ 89 million during the first quarter of 2011 and $ 274 million in the corresponding quarter of the previous year. This deficit represented about 10% of GDP compared with 4.5% in the first quarter of 2011.

Table 3.5: Indicators of fiscal deficit during the 2nd quarter of 2011

Item	2010				2011	
	Q1	Q2	Q3	Q4	Q1	Q2
The current deficit relative to GDP	15.8-	14.8-	9.1-	18.8-	4.5-	9.9-
Overall deficit before grants and aid relative to GDP	18.7-	17.8-	14.1-	22.7-	6.5-	14.3-
Deficit after grants and aid relative to GDP	6.1-	1.7	3.1-	2.7	3.0	7.3-

Source: Table (3.1)

The overall deficit before grants and aid was about $ 300 million during the second quarter of 2011, representing 14.3% of GDP (compared with 6.5% in the first quarter of 2011). As for the deficit after grants and aid, it totaled about $ 154.5 million, compared with a surplus of about $ 59 million during the first quarter of 2011 and a surplus of about $ 31 million in the corresponding quarter of the previous year. The deficit was fully financed through borrowing from local banks.

[4] Net lending represents the amount that is transferred directly to the Gaza Electricity Distribution Corporation in Gaza, as well as the amount allocated to pay the liabilities of local government bodies; or indirectly via the amount that is deducted from revenue clearing, and thus transferring them to utility companies in Israel.

3.4 Net accumulation of arrears and the surplus / deficit: cash basis vs. commitment basis

The PNA net accumulation of arrears[5] totaled approximately $116 million during the second quarter of 2011. The arrears of this quarter were twofold: clearance revenue arrears owed by Israel to the Palestinian Treasury ($16.5 million) and PNA liabilities ($26 million) as tax returns. Arrears to the private sector stood at $79.5 million, while arrears of wages and salaries were $27 million. Adding the net accumulation of arrears (116 million) to the current deficit on a cash basis ($208 million), the balance of the current deficit in accordance with the commitment basis becomes $324 million.

3.5 Clearing Revenue

Table 3.6 shows the developments in the clearance revenues according to the commitment basis during the first and second quarters of 2011. The table indicates that the revenues were nearly $ 365.3 million during the second quarter of 2011 compared to 329.1 million dollars during the first quarter (up by 11% from the previous quarter). Evidently, there is an accumulation of about 17 million dollars as clearing arrears to the Palestinian Treasury. In addition, data shows that clearing revenues increased in the second quarter on commitment basis, but fell on cash basis.

Table 3.6: Clearance revenues ($ millions)

Item	2010				2011	
	Q1	Q2	Q3	Q4	Q1	Q2
Clearance revenues	302.9	300.9	318.8	336.1	329.1	365.3
Customs	98.6	105.3	112.1	118.2	115.9	130.0
Value added	94.4	91.3	97.1	96.9	104.1	118.0
Fuel	106.4	102.8	108.6	119.6	109.9	115.6
Purchase tax	0.7	1.5	1.0	0.6	0	0
Income tax	0	0	0	0.4	0	0
Other	2.8	0	0	0.4	(0.8)	1.8
Clearance revenues relative to net domestic revenues	67.7	62.3	60.8	71.1	69.8	69.2
Clearance revenues in relation to total public revenues and grants (net)	45.4	35.8	43.7	34.8	50.0	54.2
Clearance revenues in relation to GDP	17.3	16.3	17.2	17.3	16.7	17.3

Source: Tables of financial operations, details of revenue, expenditure and funding sources (commitment basis), Ministry of Finance.
* Commitment basis was used since it is the only basis whose data tables contain details of the different items of clearing.
* GDP at current prices

When considering the components of clearance, one notices a 5.2% rise in fuel tax; a 12% increase in customs revenue (due to increased imports); and a 13% growth in value-added tax. Besides, the contributions of the three main components in clearance revenues are almost equal (almost one-third each).

Clearance revenues (on a commitment basis) contributed 70% to the total local revenues in the first quarter of 2011 compared to about 69% in the second quarter of 2011. Incorporating foreign aid into the budget, the share of clearance revenues dropped to about 50% and about 54% in the first and the second quarter respectively. Table 3.6 reveals that the contribution of clearance revenues to GDP was approximately 17.3% during the second quarter of 2011.

5 Net accumulation of arrears = liabilities due to the PNA minus arrears owed by the PNA. This represents the difference between the balance of the current deficit in accordance with the cash basis and the balance of the current deficit in accordance with the accrual basis. On the other hand, this item represents the liquidity of the PNA, whereby a lower value indicates improved liquidity status and vice versa.

3.6 Public Debt

During the second quarter of 2011 an 11% increase in the public debt brought the figure to about $2.2 billion. External debt accounted for 48% while the domestic debt was 52% of total public debt. Data indicates that nearly 13.4% of the total domestic debt owed to the banking system was in the form of liabilities owed by the Petroleum Authority (see Table 3.7). The external debt did not change during the second quarter of 2011- standing at about one billion dollars. Arab financial institutions claimed 51.6% of external debt, international and regional institutions claimed 33%, while the bilateral loans accounted for 15.4%.

Table 3.7: Public debt during 2010 and the first and second quarters of 2011 (million dollars)

Item	2010				2011	
	Q1	Q2	Q3	Q4	Q1	Q2
Domestic public debt	745.4	780.7	875.6	839.6	907.2	1123.7
Local banks	737.4	772.8	866.9	830.8	898.0	1114.1
Loans	411.7	432.6	397.8	345	402.6	433.4
Overdraft	218.7	244.6	369.8	390.7	362.2	529.9
Petroleum Authority	107	95.5	99.3	95	133.2	150.8
Other public agencies	8	7.9	8.8	8.8	9.2	9.6
External public debt	1067.6	1064.6	1071.4	1043.3	1045.6	1046.9
Arab financial institutions	551	550.3	552.5	539.4	539.2	539.8
Al-Aqsa Fund	444.1	444.1	444.1	444.1	444.1	444.1
Arab Fund for Economic and Social Development	54.4	54.8	54.8	42.6	42.1	42.2
Islamic Development Bank	52.5	51.5	53.6	52.7	53	53.5
International and regional institutions	352	353.1	350.6	348.3	346.6	346.1
World Bank	306	305.9	304	302.9	301	300
European Investment Bank	25.2	25.5	24.6	23.4	23.4	23.9
International Fund for Agricultural Development	3.4	3.3	3.5	3.4	3.5	3.5
OPEC	17.3	18.4	18.5	18.6	18.7	18.8
Bilateral loans	164.8	161.1	168.3	155.6	159.8	161.0
Spain	93	93	92.9	93	92.9	92.9
Italy	29.7	27.5	31.3	31.2	33.6	34.8
China	4.8	4.8	4.9	5	5	5
Sweden	24.5	23	26.3	26.5	28.3	28.2
Greece	12.9	12.9	12.9	0	0	0
Total public debt at the end of the period	1813	1845.3	1947	1882.8	1952.8	2170.6

Source: Data published in reports of the Palestinian Ministry of Finance

Box 3: The PNA Financial Crisis

The PNA financial crisis emerged in early July when the Prime Minister announced that the government would pay only 50% of the salaries of employees in that month (with a minimum of NIS 1,400 and a maximum of 4,500 NIS for each employee). Although the government paid the salaries on time the following month, which marked the start of Ramadan, the announcement of the deficit dealt a serious blow to the government which gained popularity and reputation on the availability and sustainability of funding as well as on prudence of financial management.

This financial crunch has brought to the forefront the vulnerability of the Palestinian National Authority budget, which experiences a chronic structural imbalance. The flaw is manifested in two elements: the wide gap between current expenditure and domestic revenue; and the reliance of the bulk of revenue on unreliable sources, namely the clearance transfers from Israel and international aid. The accumulation of the imbalance between revenues and expenditures, even when considering international aid, led to the accumulation of a public debt that is relatively large (about $ 2 billion in the mid-2010), creating a pileup of outstanding payments.

The PNA financial crisis evokes the issue of public employment, since one of the major reasons for such strain is the large number of employees whose salary bill represents a significant financial burden on the budget. The financial status of the PNA has experienced five basic stages, and it was an integral part of the political and economic developments prevailing during these phases[6].

First: The Establishment Phase (1994-1999)
During this phase, the current expenditure was mainly financed through domestic revenues, and current budget deficit was steadily declining (there was a surplus in 1998, while the budget was almost balanced in the following year). In 1998, the developmental expenditure-- current expenditure ratio was high (approximately 22%). In 1999, the number of government employees was 98 thousand people (about 44% in security services), with a salaries bill of $ 524 million. It turns out that the imbalance in the budget (where 55% of current expenditure goes to salaries) had started in this initial stage.

Second: The Intifada years (2000-2002)
The vicious political circumstances and the crippling economic blockade had seriously influenced the budget during this stage. The domestic revenues fell sharply, especially when Israel stopped transferring the clearing funds (from 2000 until the end of 2002 Israel only transferred 16% of the amounts due). Finding itself under increasing social pressure as the movement of labor to Israel was nearly zero, the PNA had to increase spending and employment. In 2002, the number of public employees jumped to 124.000 and the bill of salaries and wages swelled to about $ 665 million annually (23% of GDP). The gap between expenditure and revenues had been minimized through two main sources: first, a very significant increase in international aid for the current expenditure ($ 471 million in 2002); and second, an increase in outstanding debt and borrowing from local banks. The loans from local banks during 2000-2003 totaled $ 456 million.

By the end of 2002, a bottleneck of the financial crisis had been building up: the PNA loans from domestic banks totaled $ 135 million at very high interest rates (10% in dollars and 15% in shekels). In addition, PNA outstanding debts doubled during this period (domestic and external debt of approximately $ 1.2 billion by the end of 2002).

Third: The Start of the financial reform (2003-2005)
Responding to the endemic financial (and political) crisis and the pressures from donor countries, the PNA struck out a reform effort in June 2002. The most salient features of this reform were the creation of a unified account; aggregating the wealth of the PNA in the Investment Fund (and thus reducing its business activities); and putting a ceiling to public employment. The transferring of clearing revenues and promises from donor countries both helped in realizing the goals of these efforts.

By late 2005, the figure for public employees was 146.000 (up from 98.000 in1999). The bill of wages and salaries was increased sharply over two stages. The first was in late 2003 as cumulative increments since 1998 in the light of the Civil Service Act, raising the bill by 20%. The second was in the second half of 2005, with an increase of 20%. These two stages (along with an increase in the number of employees: 31 thousand were recruited in the late years of the Intifada) led to a enlarged bill of $ 1.001 billion in 2005. This rise occurred despite the measures taken to reduce employment and early retirement.

On the other hand, since 2003, the bill of net lending significantly increased ($ 344 million in 2005). The continued increase in spending resulted in a 49% increase in the ratio of public spending to GDP in 2005 (double the ratio in 1999). At this time it was the second highest ratio in the world (after Eritrea).

Fourth: The Hamas Government and the Government of National Unity (2006 -2007)
Immediately after Hamas won the parliamentary elections in early 2006 and established a government about a month later, the budget experienced something that was completely new. Israel stopped transferring the clearing revenues (during 2006, the PNA received only 40% of revenue from clearing). In addition, the tax collection fell and local banks reduced their overdraft (for fear of sanctions and prosecution abroad) through deducting their tax liabilities from the balance of government debt.

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[6] All figures in this box are taken from the web page of the Palestinian Ministry of Finance; the periodic reports published by the International Monetary Fund - West Bank and Gaza Office; and from ILO web page.

To respond to this strict constraint on liquidity, the government at the time reduced spending at all levels which included that public servants received only about 40% of their salaries on average (this varied and was generally higher for low-wage earners). Despite the austerity measures, spending remained higher than revenues, thus the PNA had to finance the deficit through withdrawing cash from the Palestinian Investment Fund. During this period, the PNA reneged on the unified account due to the multiplicity of sources of spending and centers who receive aid. Consequently, controlling spending and revenue became unattainable and lacked transparency.

The number of public servants in 2006 totaled 159.000, distributed equally between civil servants and security forces. Early 2007, the national unity government was formed, but it could not survive for more than half a year. 2007 saw a persistence of the same trends prevailed in 2006, except for the clearing revenues which started flowing again. These trends took two forms: an increase in external support for the current budget (from $ 738 million in 2006 to $ 1.012 billion in 2007) and a sharp rise in current expenditure (from $ 1,426 billion to $ 2.567 billion).

Fifth: The current period (2009 – 2010)
Signs of improvement in the budget started looming during this period. The net domestic revenues rose from $1.6 to $1.9 billion. They came mainly from the increase in clearance revenues. While the domestic revenues increased by 18%, spending saw a slight rise due to controlling the net lending (which fell by about 45%). This recovery figured in a 28% decrease in the current budget deficit (before foreign aid), bringing the figure to about one billion dollars in 2010. On the other hand, external support for the current budget fell from $1.76 billion to $1.13 billion between 2008 and 2010.

Despite this relative recovery between 2008 and 2010, foreign aid remained vital in financing the current expenditure (more than one third). Besides, the deficit in the total budget persisted (current and investment), causing a steady increases in public debt.

It is noteworthy that the PNA cannot permanently borrow from the banking sector. The Public Debt Law defines in Article V a ceiling to public debt of 40% of the GDP. Additionally, the increase of domestic public debt negatively impacts on private investment as it raises the interest rate and reduces the loans available to private investment.

During the first six months of 2011, public spending stood at $1.6 billion (of which $131 million went to developmental spending). At the same time, the gross domestic revenue amounted to $1.1 billion, i.e., the deficit during the six months totaled $ 436 million. International aid financed part of the this deficit ($ 337 million). The actual deficit was $ 99 million, which was financed through borrowing from local banks.

The structural flaw
The previous analysis suggests that the PNA budget has always been on the edge of acute crisis. The delay in paying or cutting salaries occurred frequently, though less frequently since 2007. Undoubtedly, the current situation is the result of the bulk of wrong decisions the PNA had taken during the past years on the one hand, and due to the dire political and economic conditions, on the other.

It is likely that part of the problem resulted from timing, as the aid did not always arrive in a timely manner to be available on the payment dates. The Prime Minister said in a press conference that the immediate cause of the crisis is the lack of aid from Arab countries. If it was only due to timing, the PNA's current financial crisis would be a liquidity problem rather than a problem of bankruptcy.

Obviously, this is not a mere liquidity problem. There is a structural flaw in the Palestinian budget. According to relevant criteria, the PNA public spending and public employment are high. The ratio of current expenditure to GDP is around 50%. MAS Institute projected the number of government employees in 2010 to be 170.000 in the West Bank and the Gaza Strip (see Table 1). MAS estimates the bill of salaries to be $ 1.7 billion annually (58% of the total current expenditure). This rate is very high, since the average ratio of salaries to current expenditure in the Arab world is only 38% (though, according to the ILO, this ratio is twice the global rate). Perhaps the worst thing is the belief that the settlement of the political conflict (whether in terms of reconciliation between Gaza and the West Bank or regarding ending the occupation) will automatically lead to ending the financial crisis.

Table 1: Public Employment and Salaries in the Palestinian Territory

	No. of employees (thousands)	Salaries ($ millions)	(%) of total no. of employees	Percentage of salaries to current expenditure
Civil Administration	22			
2000	115	678	19%	56%
2006	166	1,190	24%	83%
2010	146	1,560	19%	53%
Gaza Government	*23	180		
Total of West Bank & Gaza	170	1,700	23%	58%

Source: A reference paper for the round-table session on the financial crisis of the Palestinian National Authority, MAS, 2011.
* New employment (civil) 4200 + reemploying 3400 + new employment (security) 15500 = 23.000

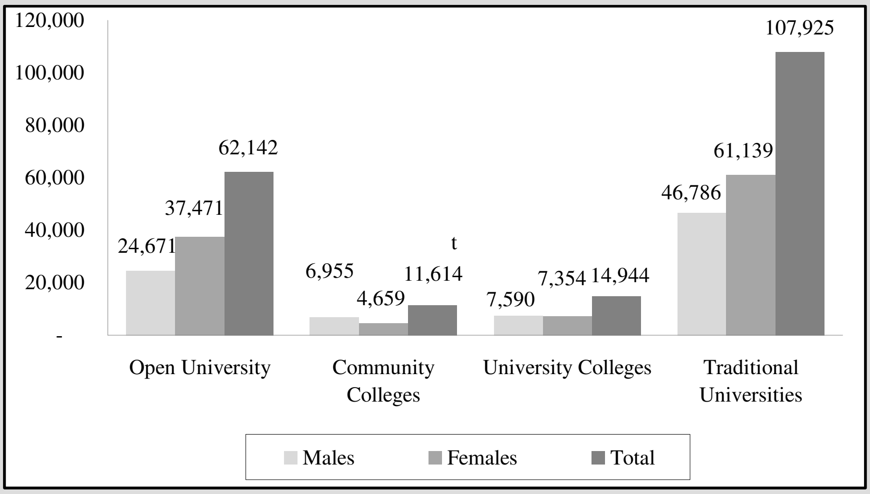
Undoubtedly then, avoiding a recurrence of the current financial crisis requires radical but gradual solutions that take into consideration the two main items of the budget: revenues (through increasing the direct local tax collection) and expenditure (through reducing public spending until revenues equal expenditure).

Box 4: Higher Education Institutions in the Palestinian Territory and their Budgets

The first Palestinian higher education institution was established back in the 1970s. The College of Islamic Law was founded in 1971, Birzeit University in 1972, Bethlehem University in 1973 and Al-Quds University, the Islamic University in Gaza and An-Najah University in 1977. In 1994, some colleges were recognized as universities, such as Al-Aqsa University and the University of Palestine, bringing the number of universities to 12, while the colleges that award Bachelor degrees (in a limited number of subjects) reached 12. The number of colleges that teach different subjects for two years totaled 19 (PECDAR, 2009). Palestinian higher education institutions are classified into four categories:

- Traditional universities
- University colleges
- Community colleges / intermediate colleges
- Open education universities (Al-Quds Open University).

Figure 1: Number of students enrolled in institutions of higher education in Palestine 2009/2010 by institution and sex



Source: "Higher education in Palestine, figures and statistics- 2009/2010", Palestinian Ministry of Education and Higher Education

Table 1 shows the number of students enrolled in institutions of higher education in different specializations. The table reveals that the total number of students enrolled in universities in the academic year 2009/2010 was 196.625 whereby 30% were studying in open education institutions and 13% in colleges.

Table 1: Students enrolled in higher education institutions by program, 2009/2010

Program	Institution's category				
	Open education	Traditional university	University college	Community college	Total
Education	31,873	27,729	2,240	821	62,663
Humanities and Fine Arts	--	18,190	1,614	393	20,197
Social sciences, Business and Art	23,174	28,870	6,171	5,448	63,663
Engineering, Manufacturing and Construction	--	11,959	731	923	13,613
Sciences	3,371	11,741	1,292	,6571	18,061
Agriculture	211	714	--	--	925
Health and Social Services	--	8,493	2,837	2,311	13,641
Services	--	211	59	61	331
Other	3,513	18	--	--	3,531
Total	**62,142**	**107,925**	**14,994**	**11,614**	**196,625**

Source: "Higher education in Palestine, figures and statistics 2009/2010", Palestinian Ministry of Education and Higher Education

In a study conducted by the Palestinian Economic Council for Development and Reconstruction in 2008, budgets of 8 Palestinian universities were analyzed (Birzeit, An-Najah, Bethlehem, Hebron, AL-Quds, Palestine Polytechnic and Al-Azhar University). The study reported the following key data about the budgets:

Table 2: Revenue of 8 Palestinian universities in 2008 (JD)

Item	Amount	Percentage
Tuition fees	57,632,444	79%
Operating revenues	1,751,604	2.4%
Aid from PNA	7,407,992	10.2%
In-kind donations	4,437,682	6.1%
Cash donations	1,561,358	2.1%
Total	**72,791,107**	**100%**
Deficit	**7,775,855**	

Source: "The Development and Reform of the Palestinian Higher Education: Problems and Future Implications" – PECDAR

As the table shows, tuition fees account for about 80% of the total revenue. It also reveals that the universities sustained a deficit of JD 7.8 million. Table 3 demonstrates that the bulk of the deficit was in AL-Quds University (JD 3.5 million), followed by An-Najah University (JD 2.3 million). At the same time the deficit at the University of Bethlehem was only JD 59.000.

Table 3: Revenues and Expenditure of the 8 universities (2008)

University	Revenues	Expenditure	Deficit
Islamic University- Gaza	14,200,000	15,800,000	1,600,000
Birzeit University- Ramallah	10,112,103	10,297,910	185,807
Palestine Polytechnic University	4,530,506	3,809,553	720,953
AL-Quds University- Ramallah	11,851,102	15,339,250	3,488,148
University of Bethlehem	4,646,754	4,705,662	58,908
Al-Azhar University- Gaza	6,079,235	7,062,411	983,176
Hebron University	4,596,407	4,471,176	125,231
An-Najah University- Nablus	16,775,000	19,081,000	2,306,000
Total	**72,791,107**	**80,566,962**	**7,775,855**

Source: "The Development and Reform of the Palestinian Higher Education: Problems and Future Implications" – PECDAR

With respect to expenses, Table 4 shows that the staff salaries accounted for the lion's share of total spending with about JD 58 million (71%).

Table 4: Expenditure (JD)

Item	Amount	Percentage
Staff salaries	57,310,047	71%
Operating expenses	23,256,915	29%
	80,566,962	

Source: "The Development and Reform of the Palestinian Higher Education: Problems and Future Implications" – PECDAR

The tables above presents the main reasons behind the crisis in the Palestinian higher education institutions. They depend heavily on the tuition fees collected from students and the bulk of their revenue is spent on staff salaries. The tables also reveal an inescapable whirlpool: lower tuition fees lead to fiscal deficit which is, in turn, reflected on the staff salaries, leading to low-quality education and dearth of scientific research. This eventually affects students' aptitude and thus eliminates the possibility of raising salaries.

4. The Banking Sector7

The performance of banks operating in the Palestinian Territory did not change significantly during the second quarter of 2011 compared to previous quarters. The fluctuations reported in the main items of the consolidated budget remained within the acceptable range occurring between quarters. The upward trend in growth of assets/liabilities of the banks operating in Palestine persisted, with a 1.2% growth rate during the second quarter of 2011 compared to the first quarter of the same year. The most significant developments in both assets and liabilities of the consolidated balance sheet for banks can be summarized as:

Assets
- ✧ 11% growth in net direct credit facilities [7]
- ✧ 9% decline in overseas assets of banks[8]
- ✧ 7.2% decline in assets of banks held by the Palestinian Monetary Authority
- ✧ 7.2% rise in the assets of banks operating in the Palestinian Territory[9]
- ✧ 13% decline in investment

Liabilities
- ✧ 0.8% growth in total holdings
- ✧ 0.3%.growth in customer deposits
- ✧ 13% rise in assets of PMA held by banks
- ✧ 3% growth in total capital (equity) of banks

The number of banks operating in the Palestinian Territory at the end of the second quarter of 2011 remained at 18. However, the number of branches and offices rose by 7, bringing the total number of branches to 223.

Table 4.1: Number of banks and branches in the Palestinian Territory, local and foreign by the end of the 2nd quarter of 2011

	No. of banks	No. of branches and offices	
	Q2	Q1	Q2
Local banks	8	111	117
Foreign banks	10	105	106
Total	18	216	223

Source: Palestinian Monetary Authority

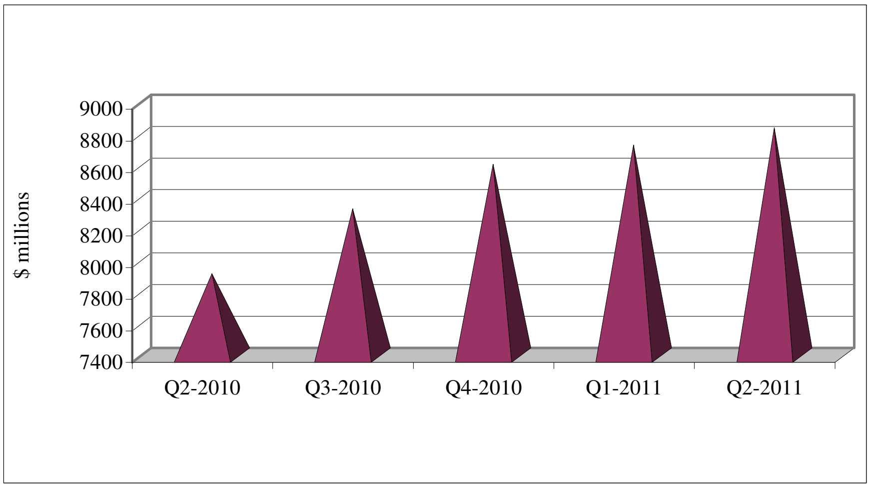
7 The data in this section is preliminary and subject to change.
8 Direct credit facilities consist of loans, overdraft facilities and finance lease.
9 Foreign funds are those deposited offshore by banks operating in the Palestinian Territory.

4.1 Key developments in the consolidated balance sheet for banks

1. Assets

Data from the consolidated balance sheet indicate that the net assets of banks rose by 1.2%, totaling about $ 107 million during the second quarter of 2011 compared with the previous quarter. In comparison to the corresponding quarter of 2010, the net holdings of banks grew by about 11.7%, suggesting that the net assets of banks rose by about $ 922 million between the end of the second quarter of 2010 until the end of the second quarter 2011.

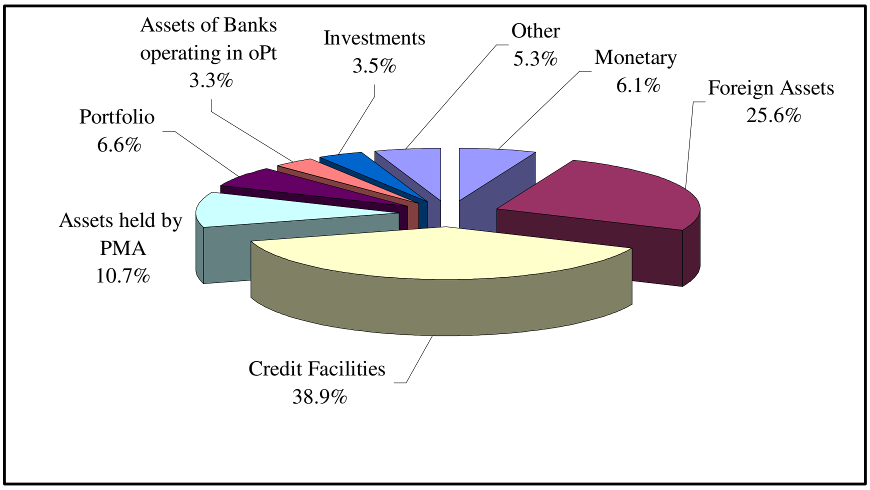
Figure 4.1: Net assets of banks operating in the Palestinian Territory, from the 2nd quarter of 2010 to the 2nd quarter of 2011



Source: Palestinian Monetary Authority - the consolidated balance sheet for banks

Direct credit facilities were among the most important items which enjoyed a rise (11%) in the second quarter compared to the first quarter of 2011. In parallel, the holdings of banks operating in the Palestinian Territory increased by 7.2% during the same period. Similarly, fixed assets and other assets grew by 7% and 18%, respectively. With the same trend, the monetary item rose by 8.4% during the same period.

Figure 4.2: Structure of the assets of banks by the end of the first quarter of 2011



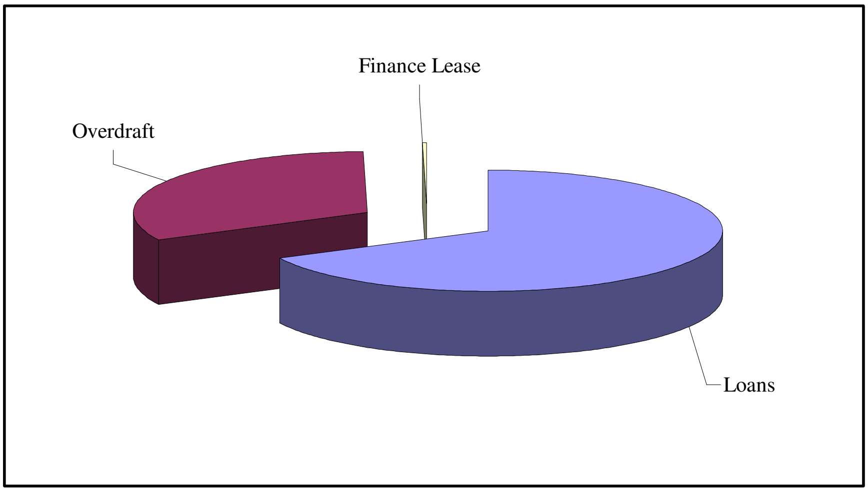
Source: Palestinian Monetary Authority - the consolidated balance sheet for banks

Some items saw declines, particularly the 7.2% decline in assets of banks held by the Palestinian Monetary Authority. Similarly, the assets of foreign banks fell by 9% with a value of $ 226.5 million during the period under consideration.

- **Direct credit facilities**

The growth in credit facilities granted by banks to various economic sectors continued during the second quarter of 2011, resulting in a rise of $339.1 million during the second quarter of the year: $193 million for overdrafts and $145.5 million for loans.

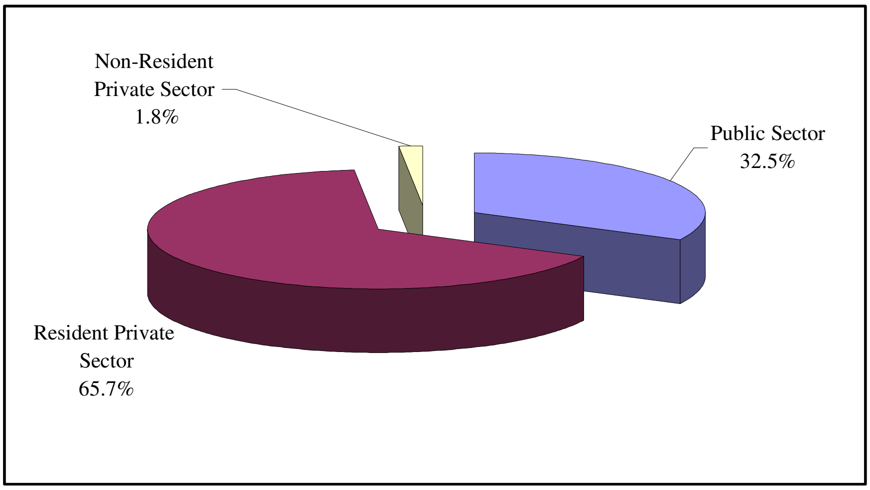
Figure 4.3: Distribution of net direct credit facilities- by type of facility for the 4th quarter of 2011



Source: Palestinian Monetary Authority - the consolidated balance sheet for banks

The credit facilities were distributed among the private and public sectors with 67.5% and 32.5%, respectively. When comparing these rates with those of the previous quarter, we notice a growth in the facilities granted to the public sector by 3 percentage points during the second quarter at the expense of the local private sector.

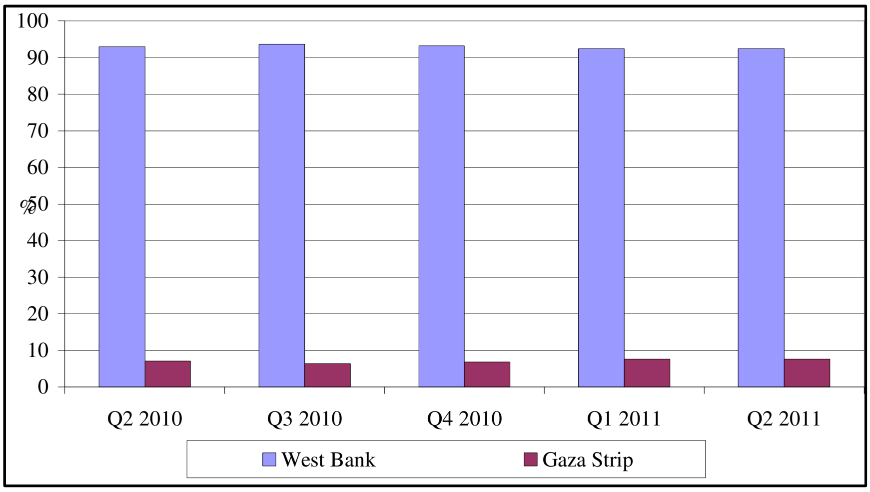
Figure 4.4: Distribution of credit facilities by beneficiary sector in the 2nd quarter of 2011



Source: Palestinian Monetary Authority - the consolidated balance sheet for banks

When distributed regionally, the West Bank appears to have received most of the credit facilities, with a percentage of 92.4%. Though the rate remained unchanged through the first and second quarters of 2011, the value of the credits rose from $ 2.8586 billion in the first quarter to $3.1733 billion in the second quarter (the share of the West Bank encompasses the facilities granted to the public sector). By comparison, the share of the Gaza Strip grew from $236.2 million to $ 261.5 million during the same period.

Figure 4.5: Shares of the West Bank and Gaza Strip of the net credit facilities granted by banks from the 2nd quarter of 2010 to the 2nd quarter of 2011



Source: Palestinian Monetary Authority - the consolidated balance sheet for banks

Table 4.2: Distribution of direct credit facilities portfolio from the 2nd quarter of 2010 to the second quarter of 2011 ($ millions)

	2010			2011	
	Q2	Q3	Q4	Q1	Q2
By geographic area					
West Bank*	2402.8	2604.3	2633.2	2858.6	3173.3
Gaza Strip	185.0	178.4	192.3	236.2	261.5
By beneficiary					
Public sector	824.7	885.3	837.4	915.7	1118.1
Resident private sector	1712.5	1844.6	1930.3	2116.8	2256.2
Non-resident private sector	50.6	52.8	57.8	61.3	60.5
By type of credit					
Loans	1885.9	1960.9	1953.9	2169.7	2316.2
Overdraft	694.0	814.3	864.7	918.2	1111.1
Finance lease	7.9	7.5	6.9	6.9	7.5
By currency					
US $	1656.8	1700.7	1714.9	1873.3	2011.5
JD	229.7	243.1	236.6	320.5	454.0
NIS	688.5	822.4	857.8	879.8	948.6
Other	12.8	16.5	16.2	21.2	20.7

Source: Palestinian Monetary Authority - the consolidated balance sheet for banks

* In the West Bank, loans include facilities granted to the National Authority and those granted to non-residents.

In terms of currencies traded in the Palestinian Territory, data shows that the credit facilities granted in US Dollar held the highest share (58.6%), down by about two percentage points from the previous quarter. The facilities given in the Israeli Shekel constituted 27.6% of total facilities, while facilities granted in the Jordanian Dinar grew to 13.2% in the second quarter.

✧ **Distribution** of **direct credit facilities among the various economic sectors**[10]

Table 4.3 shows the distribution of direct credit facilities among the various economic sectors until the end of the second quarter of 2011.

Table 4.3: Shares of various economic sectors of the facilities granted to the private sector in the first and second quarter of 2011

Sector	Share ($ millions)			
	Q1 2011	%	Q2 2011	%
Real estate and construction	368.2	16.4	385.3	16.2
Land development	83.3	3.7	27.4	1.2
Mining and industry	287.7	12.8	295.3	12.4
Internal and external trade	427.5	19.1	498.3	20.9
Agriculture and livestock	49.5	2.2	31.8	1.3
Tourism, hotels and restaurants	52.6	2.4	49.4	2.1
Transport and communications	21.9	1	24.3	1
Services	458.8	20.5	383.0	16.1
Financing investment through equity and financial instruments	54.5	2.4	70.0	2.9
Financing car purchase	93.2	4.3	97.5	4.1
Financing consumer commodities	172.4	7.7	330.9	13.9
Other	168.8	7.5	188.4	7.9
Total	2238.4	100	2381.6	100

Source: Palestinian Monetary authority

The data shown above demonstrates that the trade sector, internal and external, held the largest share with 21% of the total facilities. The construction sector had a share of 16.2% which declined slightly in the second quarter. The service sector lost 4.5 percentage points during the second quarter, claiming 16% of total facilities. The financing of consumer goods was one of the most increasing sectors, growing by 6.2 percentage points, bringing its share to 14% compared with 7.7% in the previous quarter.

✧ Offshore holdings of banks

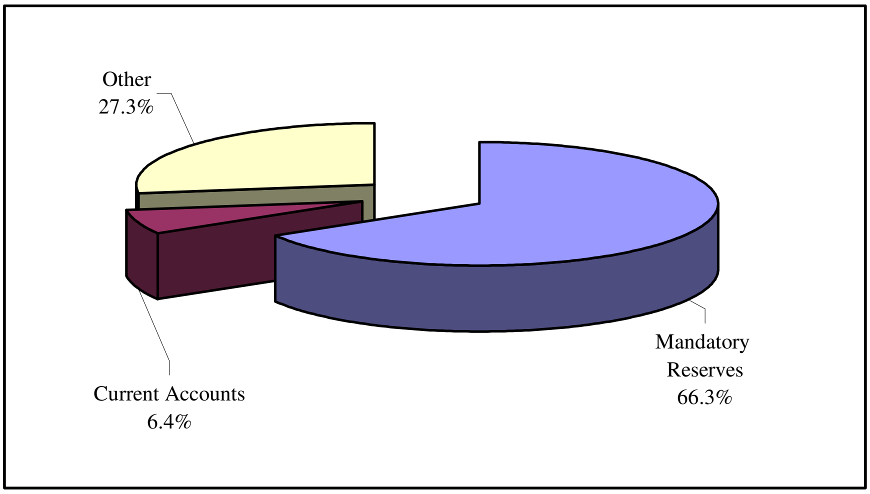
Palestinian Monetary Authority has put a ceiling to offshore investments by banks at of 28.5% in the first quarter. banks constituted 25.6% of the total holdings of banks ($ 2.2628 billion) compared with 55% of the total holdings of banks. By the end of the second quarter of 2011, overseas assets.

✧ Assets of banks held by PMA

During the second quarter of 2011, the assets of banks held by the Palestinian Monetary Authority represented 11% of total assets of banks operating in the Palestinian Territory. This ratio is equivalent to about $ 947.6 million, down by one percentage point from the previous quarter. These holdings were in the form of mandatory reserves (66%) and current accounts (6.4%).

10 Each sector's shares also include allocations, thus the figures shown here might not match the figures of net credit facilities that appear in the text.

Figure 4.6: Structure of banks' assets held by PMA in the 2nd quarter of 2011



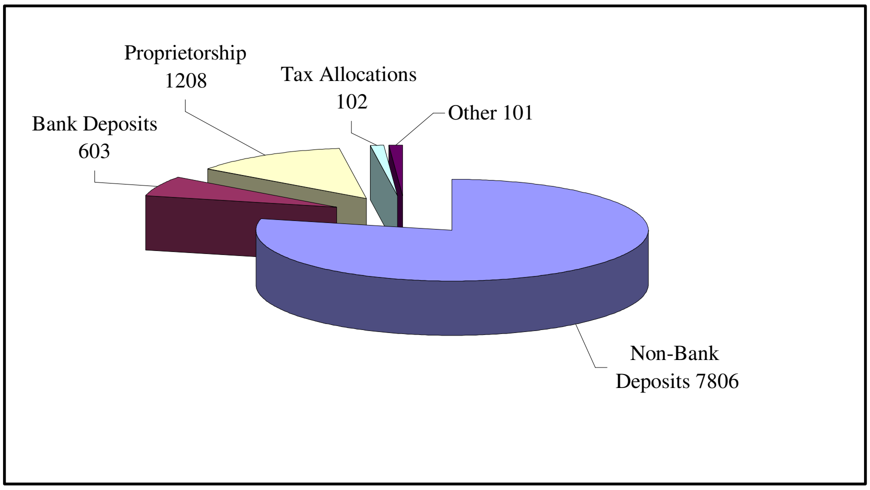
Source: Palestinian Monetary Authority

2. Liabilities

The item 'total deposits' is the largest component of liabilities in the consolidated balance sheet for banks. This item constituted about 84% of banks' liabilities in the second quarter of 2011. Therefore, the changes that occur in this item significantly impact the overall liabilities side. The total outstanding balance was approximately $7.403 million at the end of the second quarter of 2011which constitutes an increase of 0.8% compared to the end of the previous quarter.

The deposits of the public (non-bank deposits) accounted for 94% of the total holdings in the second quarter of 2011. These deposits were claimed by the public and private sectors with 8% and 92% respectively, thus the deposits of the public sector lost two percentage points of share to the private sector in comparison with the first quarter of the year.

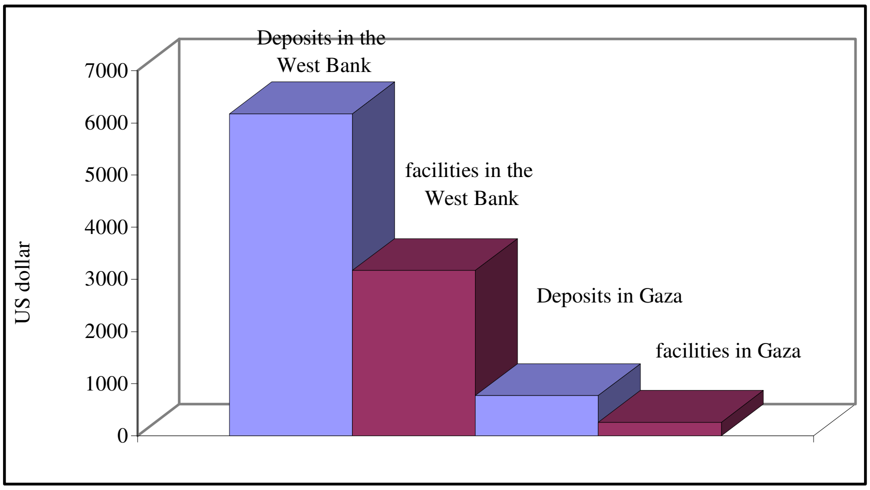
Figure 4.7: Structure of liabilities of banks operating in the Palestinian Territory by the end of the 2nd quarter of 2011



Source: Palestinian Monetary Authority - the consolidated balance sheet for banks
Other liabilities include acceptances: executed and outstanding

The deposits of the public were also disparate by region. With 90% of total public deposits the West Bank held the highest share, while Gaza's contribution was only 10%. Compared to the first quarter, Gaza's contribution continued to decline, both in value and percentage, losing about 1.2 percentage points ($ 8 million) during the period.

Figure 4.8: Credit facilities and public deposits in the West Bank and Gaza at the end of the 2nd quarter of 2011

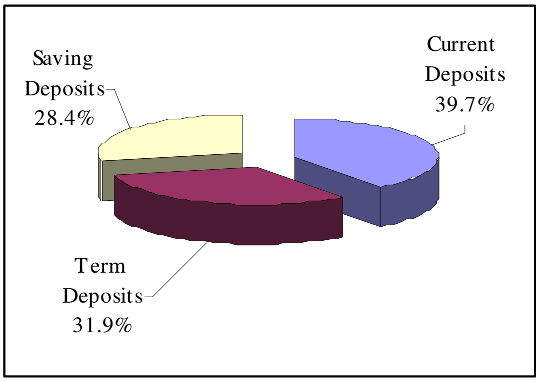


Source: Palestinian Monetary Authority - the consolidated balance sheet for banks

During the second quarter of 2011, the major portion of public deposits was in the form of on-demand deposits (constituting 40%), while time deposits and saving deposits accounted for 32% and 28% respectively.

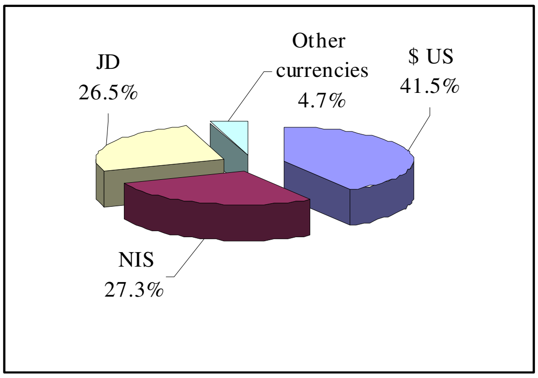
The US dollar maintained its position as the main currency of public deposits in banks operating in the Palestinian Territory with a percentage of 41.5%, while 27% and 26.5% of public deposits were held in Israeli Shekels and Jordanian Dinar respectively.

Figure 4.9: Distribution of public deposits by type of deposit at the end of the 2nd quarter of 2011



Source: Palestinian Monetary Authority - the consolidated balance sheet for banks

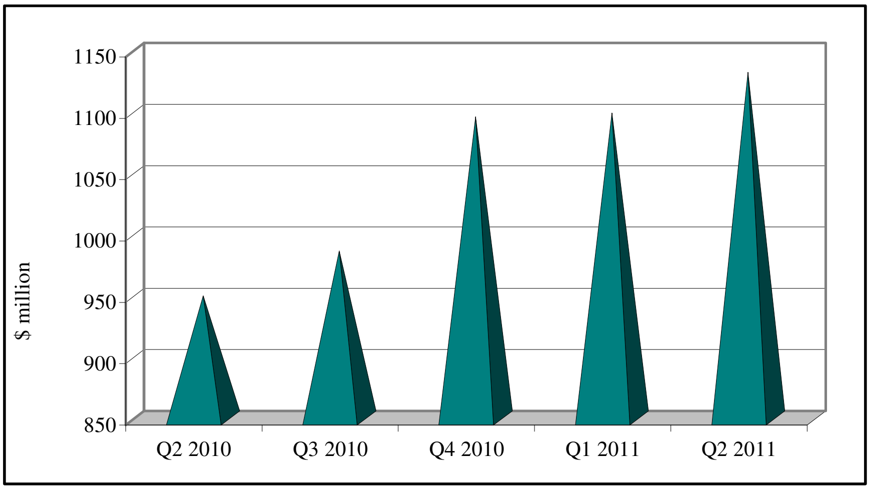
Figure 4.10: Distribution of public deposits by currency at the end of the 2nd quarter of 2011



Source: Palestinian Monetary Authority - the consolidated balance sheet for banks

At the end of the second quarter of 2011 the total capital (equity) for all banks operating in the Palestinian Territory grew by 3% compared to the previous quarter. As such, this item rose from $ 1,098.6 million to $ 1,131.7 million during the comparison period.

Figure 4.11: The capital of banks from the 2nd quarter of 2010 to the 2nd quarter of



Source: Palestinian Monetary Authority - the consolidated balance sheet for banks

Table 4.4: Consolidated balance sheet for the banking system operating in the Palestinian Territory from the 2nd quarter of 2010 to the 2nd quarter of 2011 ($ million)

Budget Item	2010			2011	
	Q2	Q3	Q4	Q1	Q2
Cash and precious metals	465.7	605.4	542.8	497.9	539.6
Deposits at Monetary Authority & Banks	3681.7	3732.6	3949.3	3782.3	3502.2
Portfolio	689.3	691.3	574.1	588.7	582.0
Direct credit facilities	2587.7	2782.7	2825.5	3094.8	3434.8
Bankers' acceptances	4.9	4.5	3.6	3.7	5.4
Investments	133.7	132.4	349.6	357.8	311.5
Fixed assets	142.8	138.5	144.2	142.7	152.9
Other assets	209.2	238.4	200.8	261.0	308.7
Assets (total)	7915.0	8325.8	8589.9	8728.9	8837.2
Deposits of Monetary Authority & Banks	318.7	438.7	420.6	418.6	452.8
Total deposits of the public	6379.7	6621.3	6802.2	6928.8	6950.3
Executed and outstanding bankers' acceptances	13.4	14.4	15.3	13.4	17.8
Other liabilities	118.5	126.0	108.3	114.5	117.5
Tax benefits & other benefits	134.8	139.1	147.9	155.7	167.1
proprietorship	949.8	986.3	1095.6	1098.6	1131.7
Liabilities (total)	7915.0	8325.8	8589.9	8728.9	8837.2

Source: Palestinian Monetary Authority – the consolidated balance sheet for banks

4.2 Performance indicators of the banking system[11]

The general indicators for the performance of banks operating in the Palestinian Territory reveal varying changes in the second quarter of 2011 compared to the first quarter. The consolidated balance sheet shows that the ratio of credit facilities to non-bank deposits

[11] For more details on this topic and other developments concerning the Palestinian banking sector, please see the Financial Stability Report's section on profits and losses of the banks operating in the Palestinian Territory.

(deposits of the public) rose by 4.7 percentage points, representing 49.4% during the comparison period. The share of credit facilities (granted to the private sector) in the deposits of the private sector posted a rise of 1.3 percentage points, bringing its share to 36.2%. Similarly, the ratio of facilities granted to the resident private sector to deposits of the same sector was 36.4%, up by 1.4 percentage points during the comparison period.

Table 4.5: Indicators of the performance of the banking system in % from the 2nd quarter of 200 to the second quarter of 2011

Indicator	2010			2011	
	Q1	Q2	Q3	Q1	Q2
Credit facilities / Non-bank deposits	40.6	42.0	41.5	44.7	49.4
Credit facilities of the private sector / private sector deposit	30.7	31.8	32.5	34.9	36.2
Credit facilities of the resident private sector / deposits of the resident private sector	32.2	32.2	32.5	35.0	36.4
Overseas holdings / total deposits	37.3	35.6	36.2	33.9	31.0
Customer deposits / total assets	80.6	79.5	79.0	79.4	78.7

Source: Palestinian Monetary Authority – the consolidated balance sheet for banks

✧ **Profits and losses of banks operating in the Palestinian Territory**

The net revenues of banks operating in the Palestinian Territory during the second quarter of 2011 totaled about $32 million, compared with $38.6 million in the first quarter of the year. Thus, the net income of banks during the first half of the year was about $70.5 million compared with $72.4 million in the corresponding period of the previous year.

4.3 Clearing-Houses Activity

Data from the Palestinian Monetary Authority clearing-houses in both Ramallah and Gaza indicate a growth of 2.1% in the number of checks presented for clearing in various currencies during the second quarter of 2011, compared to the first quarter of the year. The value of these checks rose by 6 % during the same period. As a result of the increase in the number and value of checks presented for clearing, a slight increase occurred in the number of checks returned, constituting a rise of 0.8 percentage points from the previous quarter. The ratio of returned checks to the total presented checks was 11.6% compared with 10.8% in the previous quarter. However, the value of the returned checks to the total value of checks presented for clearing remained unchanged and almost constant (5.7%) during the target period.

Table 4.6: Number and value of checks presented for clearing and returned from the 2nd quarter of 2010 to the second quarter of 2011

Period	Checks presented for clearing		Returned checks		Percentage of checks returned/presented for clearing	
	Number of checks	Value ($ millions)	Number of checks	Value ($ millions)	No. %	Value %
2Q2010/	882,782	2,347.8	83,098	131.8	9.4	5.6
3Q2010/	940,280	2,380.1	99,652	156.6	10.6	6.6
4Q2010/	984,926	2,620.4	98,896	155.3	10.0	5.9
1Q2011/	981,188	2,882.7	106,141	167.2	10.8	5.8
2Q2011/	1,001,249	3,059.2	115,883	175.6	11.6	5.7

Source: PMA, Monthly Statistical Bulletin

4.4 Palestine Stock Exchange

Market security is a key players in attracting capital and investment, in that they provide resources for companies to finance investments. They can also be catalysts for businesses to improve their economic performance and increase profitability in order to maintain their stock price. This volume of the Monitor analyzes three groups of financial indicators of the Palestine Stock Exchange and its developments.

✧ **Indicators of the financial market**

Market capitalization is measured by dividing the market value of listed equities in the market with GDP at current prices. This rate is calculated for the entire year and not for the quarters. The rate of market capitalization was 43% in 2010 compared to 46.4% in 2009[12].

Number of listed companies: The number of companies listed on the Palestine Stock Exchange at the end of the second quarter of 2011 totaled 46. During this quarter, four new companies were listed: Palestine Mortgage and Housing Corporation (PMHC), Al Aqariya Trading Investment Company (AQARIYA), Takaful Palestinian Insurance (TIC), and Al Shark Electrode Company.

✧ **Liquidity Indicators**

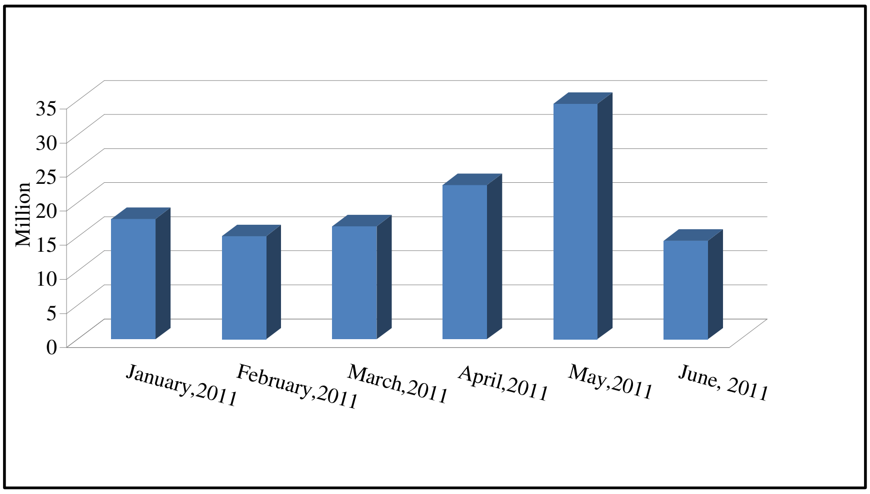
Ratio of traded shares to GDP: This ratio was 8.5% in the second quarter compared to 6% in the first quarter of 2011.

Turnover: Turnover is the volume or value of shares traded on a stock exchange during a day, month or year. This rate was 4.8% in the second quarter of 2011compared to 3% in the first quarter. As per sector, the turnover of the investment sector stood at %11.9; industry sector 6.5%; banking sector 3.4%; services sector 3.1%; and insurance sector 3%.

Degree of Concentration: This indicator 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 on the stock market. The five largest companies in the Palestine Stock Exchange held 78% of the total value of shares traded during the second quarter of 2011.

These companies are Palestinian Telecommunications (28%); Palestine Development and Investment (27%); Palestine Industrial Investment Company (10%); Bank of Palestine (9%); and Golden Wheat Mills (4%).

Figure 4.12: Number of shares traded on the Palestine Stock Exchange in the 1st and 2nd quarter of 2011



Source: Palestine Stock Exchange www.pse.com

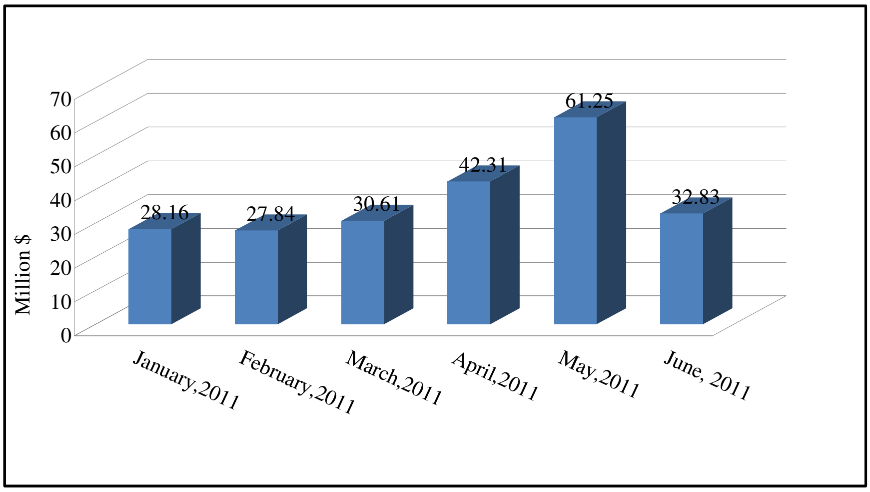
With regard to the developments in the Palestine Stock Exchange during the second quarter of 2011, indicators show that the number of stocks traded was $72 million, a

[12] This indicator is usually calculated with relevance to GDP at current prices, yet because data of national accounts of 2011 are only available at constant prices, the rate was worked out in accordance with constant prices rather than current prices.

45% rise from the first quarter. However, the number declined by 16% in comparison to the second quarter of 2010 (see Figure 4.12). The value of shares traded during the second quarter of 2011 totaled $136 million, up by 57% from the previous quarter but down by 8% from the second quarter of the previous year (see Figure 4.13).

Figures 4.12 and 4.13 reveal that during the second quarter of 2011, the performance of the finance market saw significant improvement compared to the first quarter, particularly in May. This recovery is attributed to the fact that the distribution of profits occurs during this time of year, triggering more investment activities.

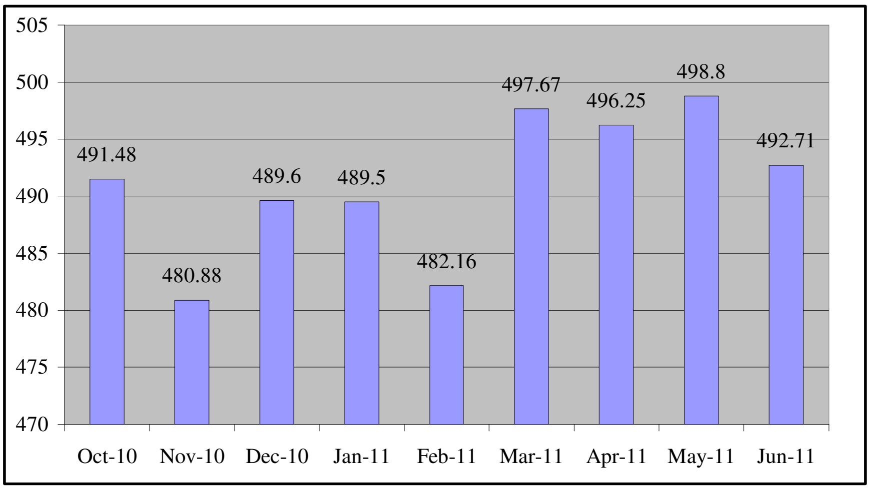
Figure 4.13: Value of shares traded on the Palestine Stock Exchange in the 1st and 2nd quarter of 2011



Source: Palestine Stock Exchange www.pse.com

By the end of the second quarter of 2011, Al-Quds Index closed at 492.71 points, down by 4.96 (1%) from the first quarter, and up by %0.64 compared with the previous year (see Figure 4.14). Despite this decline, the Al-Quds Index came first among indices of markets in the Arab World at the end of the first half of 2011, where all Arab indices experienced steep declines owing to the political unrest in the region[13].

Figure 4.14: Al-Quds Index- 4th quarter of 2010; 1st and 2nd quarter of 2011



Source: Palestine Stock Exchange www.pse.com

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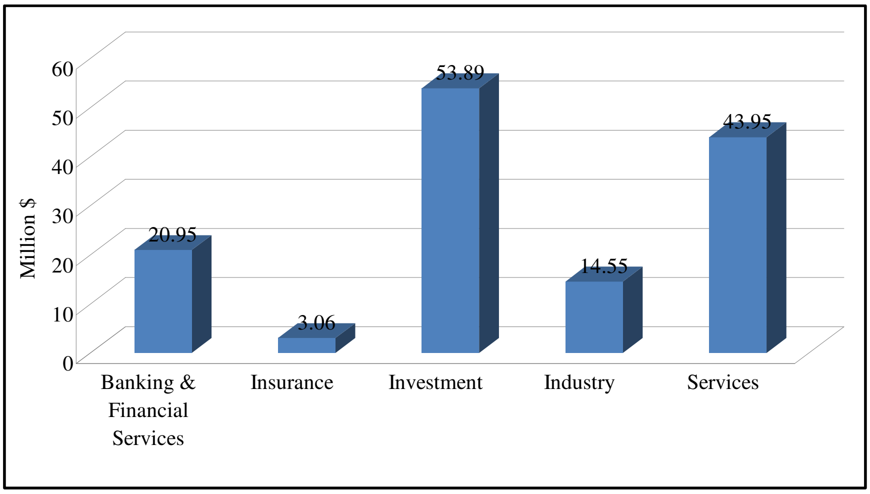
At the sectoral level the investment sector, with 39.5%, had the largest share of the value of stocks listed on the Palestine Stock Exchange during the second quarter of 2011, up by 61% from the first quarter. The second largest contributor was the service sector, with a share of 32%, down by 34% from the first quarter (see figure 4.15).

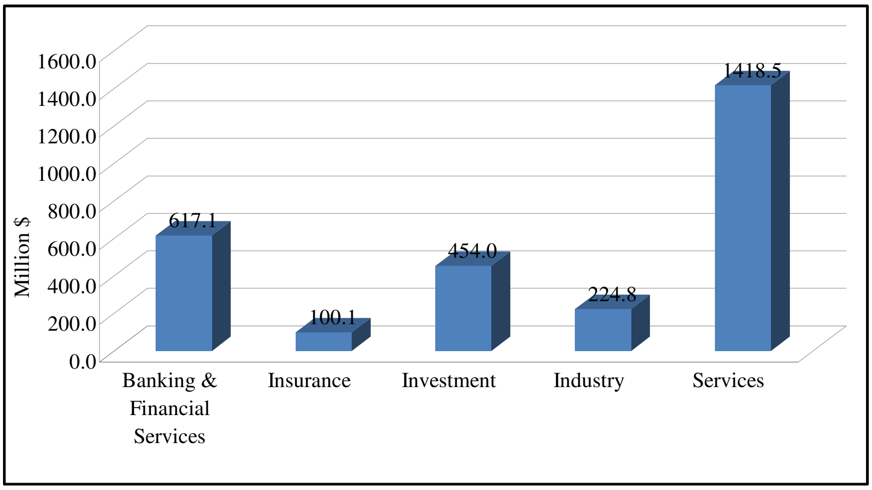
Figure 4.15: Value of stocks traded on the Palestine Stock Exchange by sector in the 2nd quarter of 2011



Source: Palestine Stock Exchange www.pse.com

The value of the shares traded on PSE stood at $ 2,814 million in the second quarter of 2011, thus retaining the same value traded during the first quarter, but posting a 10.6% rise from the second quarter of 2010. As by sector, the service sector continued holding the largest share (50%) of the total market value of stocks at the end of the second quarter (see Figure 4.16).

Figure 4.16: Value of stocks listed on the Palestine Stock Exchange by sector in the 2nd quarter of 2011



Source: Palestine Stock Exchange www.pse.com

Box 5: The Big Mac Index: US dollar = NIS 4.86

Back in 1968, the Big Mac Index was published by *The Economist* as an informal way of measuring the purchasing power parity (PPP) between two currencies. It provides a test of the extent to which market exchange rate results in goods costing the same in different countries. For example if the price of a kilogram of rice is one Dinar in Jordan, and the price of the same quality of rice is $ 4 in the U.S., then JD-$ implied PPP is 4:1. This exchange rate unites the exchange rate of the purchasing power of each of the dinar and the dollar. Of course, this does not only apply to the price of a single commodity, rather it applies to the broad consumption basket. It is therefore important that the quality of goods must be identical in the consumption baskets across different countries.

Given that obtaining detailed information on changes in commodity prices takes a long time, let alone the problems of different kinds of goods, *The Economist* has alternatively take the price of one standard commodity that is available in almost all countries around the world: the hamburger sandwich (Big Mac). Soon this measure gained ground as it gives quick, rough information of the extent of deviation of exchange rates from PPP.

Example:

- The price of a Big Mac is $ 5 in the U.S.
- The price of a Big Mac in the Euro zone is € 3.5.
- The implied purchasing power parity is € 3.5 = $ 5.
- This means that every euro must be equal to $ 1.43.
- This compares with an actual exchange rate of € 1 = $ 1.1.
- The Euro is thus undervalued against the dollar by 30% (1.43-1.1) / 1.1.

We can conclude from a survey conducted by *The Economist* (July 2011) that the Israeli Shekel is overvalued against the dollar by 15% (i.e. the Dollar should be equivalent to 3.91 Shekels instead of the actual value of NIS 3.4 in July 2011). *The Economist* has recently improved the scale in order to include the variation in the prices of non-traded goods (wages) resulted from variation in economic development between countries. In applying this standard, *The Economist* concluded that the Israeli Shekel is overvalued against the Dollar by 43% (i.e. the Dollar should be equivalent to 4.86 Shekels).

It is interesting to note that the calculation of the Big Mac Index according to the first method showed that the Chinese Yuan is undervalued against the dollar by 44%. This figure was taken by members of Congress as pretext for 'trade war' with China. However, when using the second method (with amendments), it turns out that the market value of the Yuan is close to the value of purchasing in the long term, which casts doubt on the claim that the Yuan is significantly lower than the equilibrium value.

The Big Mac Index is a rough indicator and may not be taken as hundred percent reliable. Still, it can give a general estimation of the forecast of exchange rates and inflation rates in the long run. Perhaps the reason behind its popularity is the desire of individuals and investors to obtain quick information and easy indexes on the state of the economy without having to wait for the release of official statistics.

There are actually many other indices used by investors to get quick and timely information on the trends and the future of an economy. One of these indicators is the rate of purchasing new cars, which demonstrates the expectations of individuals and companies about the future of an economy. There are also some exotic indicators, such as the 'Lipstick Index.' The speculation was that women substitute more expensive purchases, like dresses, for lipstick in times of economic distress. Another indicator is the 'Crane Index.' The idea of a "crane" index is a long-established one, implying that the number of big cranes on the skyline indicates economic activity and confidence. Another indicator which has recently been used is the 'R Index': the frequency of the word 'recession' in newspapers and magazines.

5. Business Indicators

5.1 Registration of Companies

The Ministry of National Economy registers companies in the Palestinian Territory under two different laws which are in effect in the West Bank and the Gaza Strip[14]. This volume of the Monitor tackles the registration of new companies in the second quarter of 2011 in the West Bank only because the Ministry of Economy in Ramallah does not have any data on the registration of companies in the Gaza Strip. The number of registered companies in the West Bank in the second quarter of 2011 was 373, down by 4% from the previous quarter and by 13% from the second quarter of the previous year (see Table 5.1).

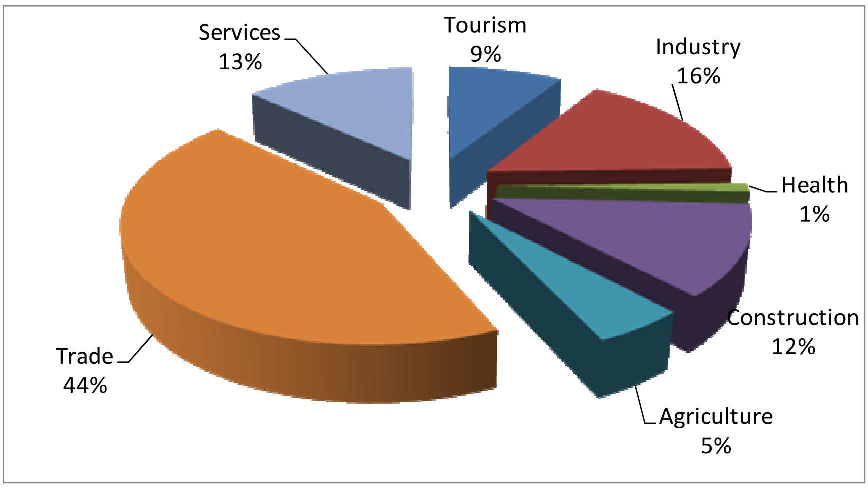
Table 5.1: Development of the number of new companies registered in the West Bank during the years 2008-2011

Quarter	2008	2009	2010	2011
1	247	454	334	389
2	334	412	428	373
3	315	349	164	
4	287	438	290	
Total	1,183	1,653	1,216	

Source: Ministry of National Economy- Ramallah, Department of Company Registration, 2011.

The capital of new companies registered in the West Bank in the second quarter of 2011 totaled about JD 53 million[15], down by 34% from the previous quarter and by 27% from the corresponding quarter of 2010. The capital of the newly-registered companies ranged from JD 200 to JD 500.000 while 'Rift Valley for Development and Investment' in Ramallah reported the highest individual capital of newly registered companies (JD 2 million).

Figure 5.1: Percentage distribution of the capital of new companies registered in the West Bank by economic activity in the 2nd quarter of 2011



Source: Ministry of National Economy- Ramallah, Department of Company Registration, 2011

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14 Jordanian Companies Law No. (12) of 1964 is applied in the West Bank, while the Companies Law No. (18) of 1929 is applied in the Gaza Strip.

15 In the second quarter of 2011, the companies were registered in three currencies: the Jordanian Dinar, the U.S. Dollar and the Euro. The total value of capital in these currencies: 45.8 million in Jordanian Dinars (329 companies), $ 10.7 million (43 companies) and 76.5 thousand Euros (one company) at an exchange rate of USD - JD 0.70, Euro - JD 1.02.

With respect to the distribution of the capital by sector, data available show that the trade sector had the highest share of the capital of newly registered companies (44%). At the same time, the share of the construction sector fell from 57% in the first quarter to 12% in the second quarter of 2011 (see Figure 5.1).

Concerning the legal form of companies registered in the second quarter of 2011, data shows that 156 companies took the form of public ordinary companies, 212 were private joint stock companies, and 5 of them were foreign private companies. These three forms had shares of 38%, 60% and 2%, respectively

Table 5.2: Distribution of the value of capital of companies registered in the West Bank by Legal Form in the four quarter of 2010 and the first two quarters of 2011(JD millions)

Year	Legal Form				Total
	Public Ordinary	Private Shareholding	Public Shareholding	Foreign Private Shareholding	
Q1/2010	20.809	22.225	0	0.595	43.629
Q2/2010	21.399	39.355	0	12.605	73.359
Q3/2010	9.941	10.044	0	2.958	22.943
Q4/2010	12.196	42.180	182.664	3.945	236.805
2010	64.345	113.804	182.664	20.103	376.736
Q1/2011	19.505	61.200	0	0.070	80.775
Q2/2011	20.306	32.259	0	0.920	53.486

Source: Ministry of National Economy- Ramallah, Department of Company Registration, 2011

Regarding the distribution of these companies by governorate, data of the second quarter of 2011 showed that the largest contributors were the governorates of Ramallah, Hebron and Nablus, by 37%, 17.2% and 15%, respectively, while Salfit and Tubas lagged behind other governorates with respect to the newly registered companies in the West Bank (see table 5.3).

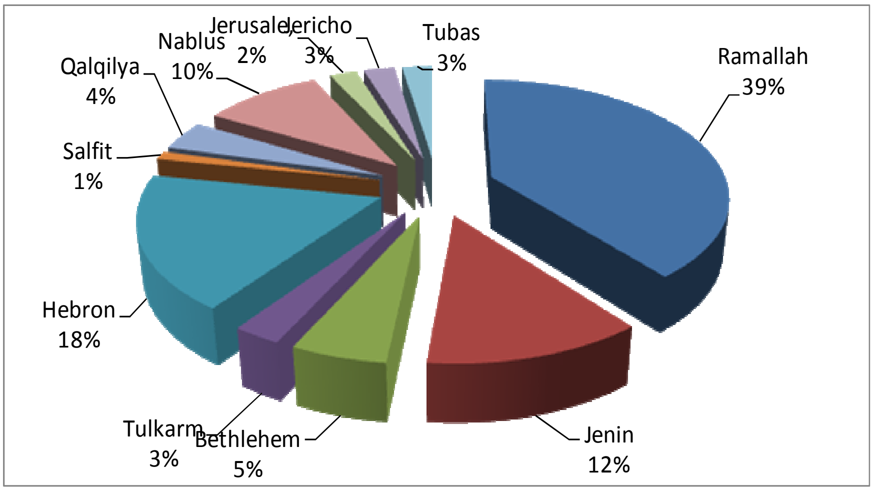
As for the capital of the newly registered companies, again, Ramallah had the highest share with nearly 39% of the total capital.

Table 5.3: Distribution of the number of newly-registered companies in the West Bank by Governorate in the four quarters of 2010 and the first two quarters of 2011

Governorate	Q1/2010		Q2/2010		Q3/2010		Q4/2010		Q1/2011		Q2/2011	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Ramallah & al-Bireh	113	34.0	167	39.0	48	29.3	126	43.4	135	34.7	137	36.7
Hebron	54	16.2	58	13.6	22	13.4	39	13.4	63	16.2	64	17.2
Nablus	49	14.7	44	10.3	19	11.6	14	4.8	68	17.5	56	15.0
Tulkarm	8	2.4	16	3.7	9	5.5	8	2.8	26	6.7	14	3.8
Jenin	34	10.2	40	9.3	14	8.5	28	9.7	29	7.5	33	8.8
Jericho & the Jordan Valley	4	1.2	15	3.5	1	0.6	3	1.0	4	1.0	10	2.7
Jerusalem (Suburbs)	15	4.5	25	5.8	12	7.3	19	6.6	6	1.5	9	2.4
Bethlehem	23	6.9	38	8.9	19	11.6	34	11.7	39	10.0	26	7
Qalqilya	16	4.8	11	2.6	10	6.1	11	3.8	11	2.8	12	3.2
Salfit	9	2.7	14	3.3	9	5.5	7	2.4	5	1.3	6	1.6
Tubas	8	2.4	0	0.0	1	0.6	1	0.3	2	0.5	6	1.6
Total	333	100	428	100	164	100	290	100	389	100	373	100

Source: Ministry of National Economy- Ramallah, Department of Company Registration, 2011

Figure 5.2: Percentage distribution of the capital of new companies registered in the West Bank by Governorate in the 1st quarter of 2011



Source: Ministry of National Economy- Ramallah, Department of Company Registration, 2011

5.2 Building License

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 changes seasonally, increasing in the second and third quarters (during summer), while declining in the first and fourth quarters (winter time). Besides, the number of licenses issued in the Palestine Territory does not include all building activities in the construction sector since part of the construction activities, especially in rural areas, is not registered or licensed.

Data of building licenses shows an increase of 12% in the number of building permits in the West Bank during the second quarter of 2011 compared to the corresponding quarter of 2009. The total area licensed during the third quarter of 2010 was about 824.000 square meters, up by about 24% from the corresponding quarter of 2010. The number of licensed residential units (both new and existing) rose significantly to 5.333 during the second quarter of 2011 compared with 2.396 units in the previous quarter.

Table 5.4: Some indicators of building licenses and licensed areas in the West Bank in the four quarters of 2010 and the first two quarters of 2011

Total licenses issued		1,528	1,741	1,449	1,518	2,058	1957
Residential building		1,330	1,470	1,258	1,316	1,840	1761
Non-residential building		198	271	191	202	218	196
Total licensed area (1000 Sq. m)		531.4	663.9	650.1	693.5	900.5	824.0
Licensed housing units							
New Units	No.	1,513	1,976	1,921	2,127	2,666	2787
	Area (1000 sq. m)	293.2	375.6	347.2	357.1	485.5	485.0
Existing Units	No.	461	420	414	643	1,082	746
	Area (1000 sq. m)	95.4	74.4	72.7	90.0	193.3	128.0

Source: Palestinian Central Bureau of Statistics (2011): Building Licenses Statistics, Ramallah - Palestine

5.3. Cement Import

For the first time since 2006, there is data available on the quantities of cement imported to the Gaza Strip. According to the PCBS, the quantity of cement that had been allowed into Gaza during the second quarter of 2011 was 11.4 thousand tons, compared to 2.6 thousand tons during the previous quarter and 4.3 thousand tons during the entire 2010. Despite this increase, Gaza is still in need of twice as much cement. This is due to the rising demand through the rebuilding of the Gaza Strip which still has thousands of buildings devastated by the Israeli air force during the 2008/2009 offensive. Data also reveals that since the blockade had been placed on Gaza, only 15.7 thousand tons of cement were allowed into the Strip. In the West Bank, the quantity of cement imported during the second quarter of 2011 increased by 28.5% compared to the first quarter. This is exactly equivalent to the quantity entered the West Bank in the corresponding quarter of the previous year (see Table 5.5).

Table 5.5: Quantity of cement imported into West Bank and Gaza—years 2009-2010 & 1st and 2nd quarters of 2011

Period	West Bank	Gaza	Opt
2009	1,230	0	1,230
Q1/2010	302	0	302
Q2/2010	381.5	0.6	382.1
Q3/2010	313	1	314
Q4/2010	344	2.7	346.7
2010	1,340	4.3	1,344.3
Q1/2011	297	2.6	299.6
Q2/2011	381	11.4	392.4

Source: Palestinian Central Bureau of Statistics: Administrative records, 2011. Ramallah, Palestine

5.4 Car Registration

This section monitors the number of cars (new and used) registered for the first time in the West Bank. This indicator can reflect the economic situation of the population, on the one hand, and the degree of reliability and optimism about the future economic conditions, on the other. Because cars are expensive, they are often purchased through borrowing from banks. This indicator thus reflects the confidence of both people and banks in the sustainability of employment and the ability to pay obligations.

Table 5.6: No. of new and used cars registered in the West Bank in 2010 and the 1st quarter of 2011

	Cars from international market (new)	Cars from international market (used)	Cars from Israeli market (new)	Total
Q1 2010	1,058	3,036	870	4,964
Q2 2010	1,715	3,389	717	5,821
Q3 2010	1,278	3,629	763	5,670
Q4 2010	1,038	3,607	947	5,592
2010	5,089	13,661	3,297	22,047
Q1 2011	676	4,036	518	5,230
April	1,122	1,545	0	2,667
May	1,025	2,544	0	3,569
June	953	2,408	0	3,361
Q2 2011	3,100	6,497	0	9,597

Source: Department of Customs and Excise, unpublished data

During the second quarter of 2011, 9.600 new and used cars were registered in the West Bank, up by 84% from the previous quarter and by 65% from the corresponding quarter of the previous year. Sixty-eight percent of cars registered in the West Bank during the second quarter of 2011 were imported, used cars and 32% were new imported cars. No cars were imported from Israel during this quarter.

5.5 Hotel Activity

The hotel activity in the Palestinian Territory has witnessed some improvement. The total number of hotels rose to 98 during the second quarter of 2011 compared with 94 hotels in the corresponding quarter of 2010. During the second quarter of 2011, the number of nights spent in hotels rose by 16% compared with the previous quarter (and 6% compared with the corresponding quarter of 2010). The number of nights spent in hotels totaled 338.639 divided into 12.2% occupied by Palestinians, 36.3% by European Union nationals and 7.1% by United States and Canadian nationals. The number of guests increased by 0.3% compared with the first quarter of 2011 and decreased by 6% compared with the corresponding quarter of 2010. The total number of guests in Palestinian hotels during the second quarter of 2011 was 131.659 of whom 15% were Palestinians and 32% from the European Union.

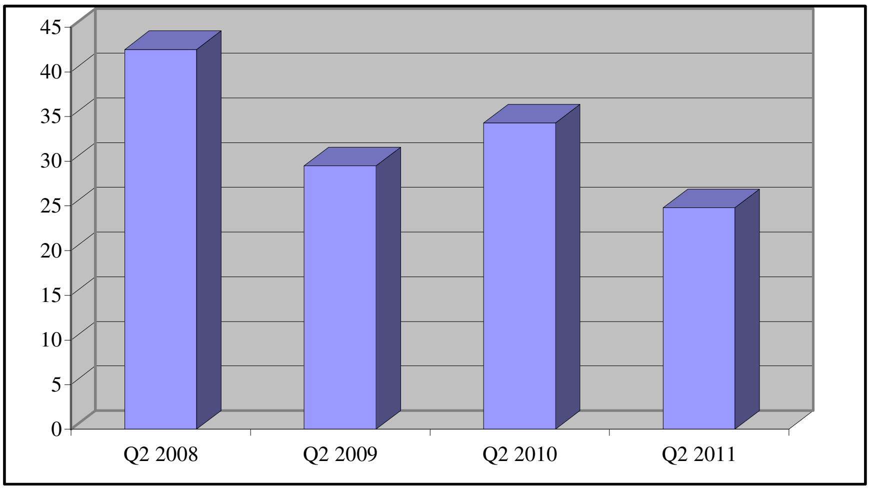
Table 5.7: Key hotel indicators in the Palestinian Territory in the 1st and 2nd quarter of 2011

Indicator	Q2 2010	Q1 2011	Q2 2011
Number of Operating Hotels at the end of the Quarter	94	97	98
Average Number of Employees during the Quarter	1,707	2,114	2,215
Number of Hotel Guests	140,009	132,112	131,659
Number of Nights stayed	318,371	290,842	338,639
Average Room Occupancy	1,648.0	1,569.5	1,335.9
Average Bed Occupancy	3,511.7	3,231.6	3721.3
Rate of Room Occupancy (%)	34.3	30.3	24.8
Rate of Bed Occupancy (%)	34.1	29.8	33.2

Source: PCBS (2011). Hotel Activity in the Occupied Palestinian Territory, 1st and 2nd Quarters 2011

In the second quarter of 2011, the average length of stay in the country's hotels was 2.6 nights per guest. The average room occupancy stood at 1.336 room per day (i.e. 25% of total available rooms during the second quarter 2011 (see Figure 5-3). With a percentage of 42.2%, hotels of Jerusalem accommodated the major number of guests.

Figure 5.3: Hotel Room Occupancy Rates, second quarters of 2008, 2009, 2010 and 2011



Source: PCBS (2011). Hotel Activity in the Occupied Palestinian Territory, second quarters of 2008, 2009, 2010 and 2011

Box 6: The new Income Tax Law in the Palestinian Territory

When the Palestinian Authority was established in 1994, there were two laws of income tax, one in the Gaza Strip (the Mandatory Income Tax Act No. 13, 1947) and the other one in the West Bank (Jordanian Income Tax Law No. 25, 1964). After several attempts, the PNA was able to enact an income tax law for both, the West Bank and the Gaza Strip (Income Tax Law No. 17, 2004) which came into effect on January 1, 2005. This law sought to ease the tax burden on low income and encourage savings and investment.

Owing to the emergence of some problems concerning the application of this law (as well as the desire of the National Authority to ease the tax burden on citizens in the distressing years of 2006 and 2007), the PNA made some amendments to the Income Tax Act (Decision No. (1), 2008). This decision sought three goals: 1) reducing the rate of income tax on individuals in order to increase consumption, which, in turn, helps in stimulating economic activity and thus increases tax revenues; 2) increasing exemptions in order to stimulate savings and investment; and 3) cutting the tax rate on profits to offset the increased instability and uncertainty, which, in turn, encourages domestic and foreign investment.

On September 26, 2011, the Palestinian President signed the draft Law No. 8 of 2011 on income tax. The Law, which was published in the Official Gazette on October 24, 2011, shall take effect from the date of publication, and it will be applied to earned incomes in 2011. However, the law has come under fire from the private sector and from individuals alike, at the pretext that the law imposes additional financial burdens on citizens. On the other hand, a number of large companies protested in particular against two issues: first, the responsibility of the taxpayer rather than the Tax Service (as provided for in the former law) to prove that the funds invested abroad are not Palestinian; and second, the drop in the exemption on the profits of share sale in the new law from 100% to 25%.

The following is a summary of the major amendments that apply to legal persons in the new law

- The person engaging in any business or investment activity shall register with the Income Tax Department from the commencement of the activity or business.
- The law retained the three income tax rates: 5%, 10% and 15%. However the tax is calculated in NIS rather than in Dollars, as in the previous law.
- Cancelling the tax exemption of personal income earned abroad if this income is generated from funds or deposits in Palestine.
- Tax exemption of only 25% of the profits gained through trading of stocks and bonds, i.e., 75% of profits are subject to tax rather than a full exemption as in the previous law.
- Cancelling the tax exemption of the value of owner-occupied rental property, whether the property is occupied by the owner or any member of his/her family.
- The law reduced the rate of promotional discount to 4% (instead of 6%) for the person who submits the tax form in the first month of the end of the fiscal year and to 2% (instead of 4%) for the person who submits the form in the second or third month.
- The law reduced the time a person must keep the records and financial documents organized duly and in accordance with applicable regulations to 5 years instead of 7 years in the previous law.
- The law granted the Director General of the Income Tax Department and the staff of the Department a judicial police status, i.e., the Director General is able to take actions of judicial nature against tax payers.
- The law levied 10% on lottery prizes: cash and in-kind.
- The law levied 5% on the value of the amounts paid as fees for the self-employed

The key amendments relating to individuals

- The law exempted the paid end-of-service benefits for no more than one month for each year of service, compared to full exemption in the previous law.
- The law cancelled the existing tax exemption granted to farmers in the previous law.
- A university-student exemption of 6.000 Shekels a year, with a maximum of two students per year per family.
- The law cancelled the existing tax exemption granted to capital gains arising from sale of land or real estate.
- The law set 10.000 Shekels as a ceiling for fines of evading tax or committing fraud as stated in penalties Article 10 (instead of one thousand Dollars in the former law).
- The law raised the penalty ceiling on a tax officer who misuses information in his/her possession to one year's imprisonment or a fine of not less than 40.000 Shekels (instead of 6 months imprisonment or a fine of $ 1,500).

Major amendments relating to companies

- ✧ The law canceled exempting the income of foreign companies operating in Palestine (i.e., generated from engaging in offshore activities).
- ✧ The law canceled the existing tax exemption granted to capital gains from the sale of securities in the investment portfolios of banks and financial institutions.
- ✧ The law raised the ceiling on research and development expenditures, on scientific research and on the expenses of searching for new markets or new export prospects to 2% of gross income instead of 1% of net income. The law also raised the amount to 500.000 Shekels instead of one hundred thousand Dollars.
- ✧ The law lowered the ceiling of hospitality expenses to 1% instead of 3% of gross income.
- ✧ The law imposed a 5% tax on income generated from interest, commissions and deposit profits in banks and non-interest financial companies.

Obviously, the new law aims at filling the gaps in the previous law and increasing tax revenues, not necessarily through raising the tax rate, but mainly through expanding the tax base, since the tax brackets and rates remained unchanged (though tax is now calculated in Shekels):

- ✧ 1-40.000 Shekels: 5%
- ✧ 40.000-80.000 Shekels: 10%
- ✧ More than 80.000Shekels: 15%

Similarly, the rate of income tax for legal persons (companies and the like) remained unchanged (15%).
It should be noted that income taxes accounted for only 7% of total local revenues (including clearance) in the 2010 PNA budget.

6. Prices and Purchasing Power

Indices of consumer prices in the Palestinian Territory posted a slight decline of 0.05% during the third quarter of 2011 compared to the previous quarter, but was up by 3.25% from the corresponding quarter of the previous year. The highest increases were in drinks and food, up by about 3% from the corresponding quarter of 2010 (see Table 6.1).

Table 6.1: Average Change in CPI in the Palestinian Territory by Commodity Group (Base Year: 2004 = 100)

Group	Change in Q1 vs. Q2, 2011	Change in Q2, 2011 vs. Q2, 2011
Food Stuff and soft drinks	(1.01)	2.97
Alcohol beverages and Tobacco	0.59	10.77
Textiles, apparels, and footwear	2.24	5.50
Housing and related supplies	0.49	2.09
Furniture, home products and appliances	(0.91)	0.02
Medical care	(0.55)	0.76
Transportation & travel	0.96	4.75
Telecommunications	0.31	0.21
Recreational & cultural goods & services	0.89	1.90
Educational Services	0.56	1.16
Restaurant, Cafe, and Hotel Services	2.03	5.54
Miscellaneous goods and services	0.77	3.47
General CPI	(0.05)	3.25

Source: PCPD.
* Figures in brackets indicate negative values

Prices of consumer goods had undergone various changes during the second quarter of 2011. Table 6.2 shows the movement of prices of some commodity groups in the Palestinian Territory during the second quarter of 2011 compared to the previous quarter. The prices of zucchini declined sharply by 42% (down by 2.74 Shekels per kg in May). Tomato price fell by 15% (the price of 1 kg of greenhouse-grown tomato was NIS 1.95 during May 2011).The price of rice also saw a 4.5% drop. On the other hand, the prices of dairy, eggs and fresh fruit increased by 14% (see Table 6.2).

Table 6.2: Price of main commodity groups- Q2, 2011 vs. Q2, 2010

Group	Percentage Change
Car fuel	1.70
Domestic fuel	0.40
Fresh Vegetables	(14.01)
Fresh Meat	(2.93)
Sugar	(3.41)
Rice	(4.49)
Fresh Chicken	1.90
Flour	0.31
Dairy Products & eggs	4.32
Fresh Fruit	13.77

Source: PCBS.

6.1 Producer Prices and Wholesale

The Wholesale Price Index (the sale price to retailers or to producers, including VAT and freight/shipping costs) rose by 0.60% during the second quarter of 2011 compared to the first quarter. This resulted from 1) a 0.33% increase in the prices of agricultural commodities (which constitute 29% of the producer price basket); 2) a 0.74% rise in the prices of manufacturing goods (which represents 70% of the producer price basket); 3) a 0.23% rise in fish and shrimp prices. On the other hand, the prices of mining and quarrying fell by 0.77%. The index of wholesale prices rose by 4.36% between the second quarter of 2011 and the corresponding quarter of the previous year. The increase of prices of both, imported goods and locally produced goods, equally led to the increase in wholesale prices during this quarter compared with the previous quarter.

The Producer Price Index (prices received by domestic producers for their output after all taxes are deducted, including VAT and freight/shipping costs) decreased by 3.63% during the second quarter of 2011 compared to the first quarter. This decline occurred as a result of a 9.27% drop in the prices of agricultural commodity and a 0.43% decline in the prices of manufacturing goods. This decrease was attributed to a drop in the prices of goods which are produced locally as well as exported goods by 3.94% and 0.54%, respectively. It should be noted that the Producer Price Index was updated in early 2011 taking January as a base month (January 2011 = 100). Besides, this index will be published monthly.

6.2 Construction and Road Costs Index

The construction cost index measures the changes that occur in the prices of construction materials and services. During the second quarter of 2011, the construction cost index in the West Bank rose by 0.43% from the first quarter. There is no updated data on the Gaza Strip.

Table 6.3: Indices and average monthly and quarterly percentage changes in the construction cost index (CCI) in the West Bank (Base Month: January 2007 = 100)

Period	CCI	Monthly Percentage	Quarterly Percentage
January, 2011	111.55	0.87	
February, 2011	111.51	(0.03)	
March, 2011	111.48	(0.03)	
Average/ Q1, 2011	111.51		1.35
April, 2011	111.45	(0.03)	
May, 2011	111.79	0.30	
June, 2011	112.76	0.87	
Average/ Q2, 2011	112.00		0.43

Source: PCBS, (2011).
*Figures in brackets indicate negative values

The road coast index detects changes in the prices of materials and services used in the construction of roads in the West Bank. This index rose by 1.22% in the West Bank in the second quarter of 2011 from the previous quarter. Again, there is no updated data on the Gaza Strip (see Table 6.4).

Table 6.4: Average monthly and quarterly percentage changes in the road cost index (RCI) in the West Bank (Base Month: January 2008 = 100)

Period	RCI	Monthly	Quarterly Percentage
January, 2011	109.02	0.62	
February, 2011	109.31	0.26	
March, 2011	109.65	0.31	
Average/ Q1, 2011	109.33		1.28
April, 2011	110.16	0.47	
May, 2011	110.83	0.61	
June, 2011	110.98	0.13	
Average/ Q2, 2011	110.66		1.22

Source: PCBS, (2011).
*Figures in brackets indicate negative values

6.3 Exchange rates and purchasing power

During the second quarter of 2011, purchasing power declined by 4.5% measured in Dollars, and by about 4.8% measured in Dinars compared to the first quarter of 2011. This decline is mainly attributed to two factors: inflation and the decline of the exchange rate of these currencies against the Shekel.

The index of consumer prices fell by 0.01% in the second quarter of 2011 compared to the first quarter of the same year, which improves the purchasing power. Regarding the second factor, the second quarter of 2011 saw a decline in the exchange rate of the Dollar against the Shekel by 4.5% (one Dollar = 3.44 Shekels), bringing a decline in purchasing power as measured in Dollars. There was also a decline in purchasing power as measured in Dinars due to the stability of the exchange rate of the Dinar and the Dollar. Compared to the corresponding quarter of 2010, the second quarter of 2011 witnessed a decline in the exchange rate of the Dollar and the Dinar against the Shekel by about 9.1% and 9.2%, respectively. The inflation rate at the time was 3.3%, causing a 12.3% decline in purchasing power between the corresponding quarters as measured in Dollars, and a 12.4% drop as measured in Dinars (see Table 6.5).

6.4 Currency Exchange Rates and Purchasing Power[16]

Table 6.5: Average monthly exchange rates of U.S. $ and JD against NIS

Period	Change in the CPI (change in the NIS purchasing power)	US $ / NIS			JD / NIS		
		Average Exchange	Change Rate	Change Rate in The Purchasing	Average Exchange	Change Rate	Change Rate in the Purchasing
Q1, 2010	0.46	3.74	(0.69)	(1.16)	5.27	(0.70)	(1.16)
Q2, 2010	0.07	3.78	1.24	1.18	5.34	1.31	1.24
Q3, 2010	1.32	3.80	0.33	(0.99)	5.35	0.27	(1.06)
Q4. 2010	1.58	3.62	(4.65)	(6.24)	5.10	(4.65)	(6.24)
Q1, 2011	0.32	3.60	(0.50)	(0.82)	5.09	(0.20)	(0.53)
January	0.12	3.58	(0.87)	(0.99)	5.09	0.03	(0.10)
February	0.43	3.66	2.38	1.94	5.16	1.46	1.03
March	(0.05)	3.56	(2.64)	(2.58)	5.03	(2.63)	(2.58)
Q2, 2011	(0.01)	3.44	(4.46)	(4.45)	4.85	(4.78)	(4.77)
April	(0.03)	3.43	(3.70)	(3.67)	4.84	(3.70)	(3.67)
May	(0.26)	3.47	1.00	1.26	4.89	1.00	1.26
June	0.14	3.41	(1.55)	(1.69)	4.81	(1.54)	(1.69)

Source: Calculations based on data provided by the PMA and the PCBS
* Figures in brackets indicate negative value.

Box 7: High Food Prices in World Markets: Conflicting Interpretations

The year 2011 will always be remembered as a year of financial crises and deterioration of currencies. This is true, yet another setback is also in evidence: 2011 also saw large-scale world famines. African countries like Somalia, Ethiopia, Kenya and others have witnessed unprecedented droughts, at least over the last fifty years. That led the United Nations to sound alarm over a famine in 'the triangle of death' that threatens the lives of more than 12 million people[17].

The Arab world is not immune to drought either. In Saudi Arabia, for example, wheat production fell by more than two-thirds during the period 2007-2010 as a result of groundwater depletion. At this rate of dilapidation, Saudi Arabia is expected to stop wheat production by 2012 and rely entirely on food imports to meet the needs of its citizens[18].

Alongside this decline in domestic production as a result of climate change, there has been a sharp rise in food prices in world markets. The world has witnessed successive leaps in food prices since early 2011. The FAO food price index jumped from 168 points in June 2010 to 234 points in June 2011 (rising by about 40%), a reminded of the sharp rise in food prices in the period 2007-2008 (then the crisis came as a shock after three decades of continuing decline in food prices in international markets[19]). Although the brunt of the crisis eased in 2009 and the first half of 2010, it emerged more acutely in the second half of 2010 (see Table 1).

Year		Price Index	Meat	Dairy products	Oils	Sugar	Grain
2005		117	120	135	103	104	140
2006		127	119	128	121	112	210
2007		159	125	212	167	169	143
2008		200	153	220	238	225	182
2009		157	133	142	174	150	257
2010		185	152	200	183	193	302

16 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 and the exchange rate of traded currencies. Therefore, the change in purchasing power at constant income equals the change in the currency exchange rate against the Shekel – the change in the CPI.

17 http://www.npr.org/blogs/thetwo-way/2011/07/20/138535552/triangle-of-death-in-horn-of-africa-famine-grips-southern-somalia

18 http://www.foreignpolicy.com/articles/2011/01/10/the_great_food_crisis_of_2011

19 See *The Monitor,* Volume 16, Box 2.

Year		Price Index	Meat	Dairy products	Oils	Sugar	Grain
2010	June	168	152	203	151	168	225
	July	172	151	198	163	174	247
	August	183	156	193	185	192	263
	September	194	153	198	208	198	318
	October	205	158	203	220	220	349
	November	213	161	208	223	243	373
	December	223	166	208	238	263	398
2011	January	231	167	221	245	278	420
	February	238	171	230	259	279	418
	March	232	175	234	251	260	372
	April	235	180	229	265	259	346
	May	231	180	231	261	259	312
	June	234	180	232	259	257	358

Source: FAO http://www.fao.org/worldfoodsituation/wfs-home/foodpricesindex/en/

As the table shows, food prices in June 2011 were up by 17% from 2008. The sugar group saw the highest rise (more than 96% between 2008 and June 2011). This rise came as a result of restrictions Brazil (the worlds' largest producer of sugar) placed on the export of sugar. The dairy group was the most stable (however, the dairy price index posted a 5% rise in June 2011 compared with 2008).

Three different perspectives explain the reasons for this sharp, frequent spike in food prices in global markets:

- The optimistic perspective believes that this rise is a natural cyclical phenomenon that reoccurs and it will not last for long. Supporters of this explanation reinforce this hypothesis through monitoring the development of food prices since 2007 and thus examining whether the development of prices during the past five years had been beyond the usual level. Experts believe that although food prices during the past five years were higher than the rate of the past two decades, they are still below the rates of the 1970s. They also believe that one of the reasons behind the high prices is the increase in market liberalization during the past two decades. This led to linking domestic food prices with prices on world markets. In addition, the speculative factor encouraged monopolizing crops with expectations of a spike in the future.
- The justificatory approach argues that the rise in food prices is a necessity linked to the change in investment trends in the medium term. In other words, the rise in food prices is necessary to drive investment in the agricultural sector, which is needed to increase production and reduce prices. On the other hand, lower prices de-motivate investment in the agricultural sector, leading to a decline in production and a rise in prices, which, in turn, creates a new investment cycle. This explanation assumes a privacy of the agricultural sector: that there is a relative time lag between supply and demand (this model is called cobweb model).
- The pessimistic interpretation maintains that the current rise in food prices is only an early indication of a food crisis that will last long. Given the limited, exhausted natural resources, as well as the change in climate, it is difficult for agricultural production to keep going at this pace. In addition, the increased demand for agricultural crops to produce bio-fuels and the rapid population growth has lately worsened the pressure on the agricultural sector. This perspective is reminiscent of the theory of Malthus, back in1798, which believes that the power of population is so superior to the power of the earth to produce subsistence for man, and that famine and epidemics are inevitable destiny of mankind.

The sharp rise in food prices led specialized international bodies, such as the World Bank and FAO to sound alarm. The food crisis was on the table before the Ministers of Agriculture in the G20 countries met in Franc's capital city in June 2011for the twentieth summit. . The ministers tried to develop an operational plan to address this crisis. French Agriculture Minister Bruno Le Maire described the meeting as 'a fantastic achievement.' The participants recognized the need to increase production, and monitor and control food prices. The ministers urged for developing a comprehensive information system of stocks of food and its uses worldwide. They also called on concerned authorities to enact more laws to curb speculation. However, the director of the International Institute for Food Policy Research Institute (IFPRI), criticized the outcome of the meeting which called for an increase in agricultural production and improving productivity, saying that the summit did not say how to practically achieve these aims in developing countries, the most affected by the crisis. He also criticized the reluctance of ministers of the G20 to take a clear position towards the use of agricultural crops in the production of bio-fuels[20].

[20] http://www.voanews.com/english/news/economy-and-business/G20-Farm-Ministers-Take-Steps-to-Control-Food-Prices-124463639.html

Box 8: The Impact of the Devaluation of the US Dollar and JD on the oPt Economy

Three currencies are traded in the Palestinian territory (US $, NIS and JD). However, the Shekel remains the main currency in circulation (because the Dinar and the Dollar are often used for the purposes of savings or in certain business transactions). The recent considerable decline in the value of the Dinar and the Dollar against the Shekel has had strong repercussions on the Palestinian economy in general, and on the citizens in particular. The implications can be summarized as follows:

1. The decline in the value of the Dollar (and the Dinar) against the Shekel directly affected the value of all cash transactions estimated in Dollars: rising in the prices of goods and services priced in Dollars or Dinars (land and housing rents). This also led to inflate revenues in the local government budget (since these are priced in NIS, but they converted to dollars in the budget reports). Besides, the purchasing power of employees has also been impacted since these employees receive their salaries in dollars or dinars.
2. A decline in the value of savings deposits and term deposits that have been accumulated in Dollars and Dinars. This led to an increase in the cost of loans in these currencies.
3. Diminishing the competitiveness of Palestinian products abroad (except in Israel) as a result of the high cost of production elements that are paid in NIS.
4. An increase in the public demand for the Shekel (as a reserve for value and savings), giving the Bank of Israel additional revenue (a mintage charge called seigniorage).

These disadvantages are the result of the existence of three currencies traded in the Palestinian territory, where the economy endures the consequences of the rise and fall of these currencies against each other. Despite this, there are also many advantages related to this multiplicity of traded currencies. The existence of more than one currency allows some flexibility and opportunities to escape from one currency to another. For example, individuals receiving their salaries in NIS have benefited little from the current situation due to lower prices of imports from international market.

7 Foreign Trade

7.1 Balance of trade

The balance of trade is the difference between the monetary value of exports and imports of output in an economy over a certain period. This volume of the Monitor detects the quarterly developments in the trade balance in the Palestinian Territory. The value of imports of goods during the second quarter of 2011 totaled about 1.171 billion, a decrease by 10% from the previous quarter. The commodity imports from Israel represented about 70% of the total imports. In contrast, commodity exports rose to $ 202 million, up by 55% from the previous quarter. Ninety-two percent of these exports went to Israel. This means that the deficit of the balance of trade in commodities was $ 969 million during the second quarter of 2011, compared with $1.114 billion during the previous quarter.

Table 7.1: Exports and imports of goods and services-- Q2, 2011 (million dollars)

	Imports		Exports	
	Commodity	Services*	Commodity	Services*
April	408.1	15.5	61.6	11.5
May	396.4	13.3	67.7	12.5
June	366.5	12.0	72.9	13.2
Total (Q2)	1,171	40.7	202.2	37.2
Q1	1,305.3	46.7	191.7	35.6

Source: Registered external trade in April, May and June, PCBS (2011).
* Exports and imports of goods and services from and into Israel only

As for trade in services with Israel, the value of imports totaled $ 40.7 million, while the value of exports stood at $ 37.2 million during the second quarter of 2011. The deficit of the balance of trade in services with Israel was about $ 3.5 million in the second quarter of 2011 compared with a deficit of $ 11 million during the previous quarter. Thus the deficit of both commodities and services in the second quarter of 2011 totaled $ 972 million, down by 14% from the previous quarter, but up by 23% from the corresponding quarter of 2010.

7.2 Balance of payments

Balance of payments' accounts are an accounting record of all monetary transactions between a country and the rest of the world. These transactions include payments for the country's exports and imports of goods, services, financial capital and financial transfers. Figures of the balance of payments stood at $ 611 million during the second quarter of 2011 compared with a deficit of $ 681 million during the previous quarter. This deficit constituted about 30% of the gross domestic product. The most striking element of the current account was the commodity trade deficit which totaled $1.029 billion. A second element was the end-of-service funds paid to Palestinian workers abroad ($266 million), including $ 241 million as income for Palestinians working in Israel and the settlements, as well as net current transfers ($212 million) with 45% of which came from donor countries (see Table 7.2).

This deficit ($ 611 million) is 10% less than the deficit reported in the previous quarter. This deficit was financed by capital and financial accounts which provided about $ 677 million. This allocation came from different sources: $ 61 million from capital transfers of donors, $ 61 million from net foreign direct investment, $ 66 million from investment portfolios, $ 394 million from other investments, and $ 94 million as withdrawals from reserve assets. This item (the capital-financial account) represents a debt on the national economy as long as it has a positive value.

Technically, there should be a perfect balance between the current account deficit, on the one hand, and the surplus of capital and financial accounts, on the other. This means that the net value of these two items must be zero. However, there is often a slight difference between them, which is recorded under 'account errors and omissions', the value of which was $-66 million.

Table 7.2: Palestinian Balance of Payments-Q2, 2011 (million dollars)

1.098-	**1. The trade balance of goods and services***
1.029-	Net goods
68-	Net services
276	**2. Balance of** income
266	- Workers' compensation received from abroad
14	- Investment income from abroad arrested
5-	- Income paid abroad
212	3. Balance of current transfers
107	- Net transfers to the government
105	- Net other transfers
611-	**4. Balance of current account (1 +2 +3)**
677	**5. Net capital and financial account**
61	- Net capital transfers
616	- Net financial account
61	Net direct foreign investment
66	Net portfolio investment
394	Other net investment
94	Lack of reserve assets
66-	**6. Net errors and** omissions

Source: Palestinian Central Bureau of Statistics and the PMA 2011. Preliminary results of the Palestinian Balance of Payments in the second quarter of 2011.

* Figures of exports and imports of commodities and services in the balance of payments differ from the figures contained in the trade balance because the latter records only exports and imports that are registered (i.e. recorded in the clearing accounts and billing), while the balance of payments records the total expectations of import and export. In addition, import and export of services from Israel were recorded only in the trade balance, while the balance of payments records services from different sources.

Box 9: World Bank: Public Investment Cannot Substitute for Good Governance in the MENA Region

In September 2011, the World Bank published the 'Investing for growth and jobs[21]. report on economic prospects in the Middle East and North Africa (MENA region). The report expected economic growth in the Middle East and North Africa (MENA) region to average 4.1 percent in 2011 and improve by half a percentage point from May forecast for the year[22] This positive development is largely due to increases in public spending that have boosted demand across the region, increases in oil production in most MENA oil exporters (except for Libya), and a quicker than expected pickup in industrial production in Egypt. In addition, Iran's growth prospects improved as subsidy reform took effect and efficiency gains started taking place.

The slight deceleration in regional growth to 3.8 percent in 2012 is mainly linked to an anticipated global slowdown, which is likely to depress oil production and prices. While this year's regional growth outlook has improved relative to the May forecast, uncertainty about it has increased in line with growing risks for a global downturn.

The report divides the MENA region into three main groups: the GCC oil exporters, developing oil exporters and oil importers. The report found that MENA's investment record over the past decade suggests that the region has been investing at rates which compare favorably with those of other regions. However, in oil exporting countries, investment has been mainly supported by large and expanding public investment. Oil importers (such as Egypt and Morocco) have shown more strength in private investment which increased in recent years. The report continues to say that the expanding role of public investment is a cause for concern in developing oil exporters, as in economies with weak rule of law, as there is no evidence that public investment stimulates private investment and growth. In contrast, in countries with an adequate level of property rights protection, accountability, and legal institutions, public investment is strongly linked to growth. In addition, good rule of law helps attract private investment (especially in manufacturing and services) and countries with good rule of law show higher levels of investment efficiency, thus leading to better job opportunities and growth in the income of individuals.

Creating job opportunities in the MENA countries is a major concern in light of the rapid growth of the labor force. The report states that in the 2000s, MENA created only 3.2 million jobs per year – considerably less than the estimated 6 to 7 million identified as needed by the region. The report concludes that the region has been creating jobs at a higher pace than other parts of the world, as measured by the average of MENA countries' employment-growth elasticity in the 2000s. However, once again we have to differentiate between the MENA oil importers (which have a job creation problem) and MENA oil exporters (which were able to create jobs at a faster pace, though mostly governmental jobs).

21 Investing for Growth and Jobs. World Bank Middle East and North Africa Region. Economic Developments and Prospects, 2011.

22 Facing Challenges and Opportunities. World Bank Middle East and North Africa Region. A Regional Economic Update, May 2011.

8. Transport and communications sector in the Palestinian Territory, 2010

The Palestinian Central Bureau of Statistics published a report in July, 2011 describing the transport and communications sector in the Palestinian Territory in 2010, based on administrative records in the ministries, governmental agencies and private institutions concerned with this sector. The report included three main sections: the labor force and wages in the transport and communications sector; the road transport sector and; postal and telecommunications sector.

8.1 Labor force and wages

The number of workers in the transport and communications sector constituted 5.9% of the total labor force in the Palestinian Territory during 2010, maintaining the same rate as in 2009. As for wages, PCBS data shows that the average daily wage in the Palestinian Territory fell by 16% compared with 2009 (in Gaza, the average daily wage dropped by 25%) (see Table 8.1). In the transport and communications sector, the average daily wage is 17% lower than the average daily wage in other sectors (the average daily wage was 70 Shekels in 2010: 76.9 in the West Bank and 46.2 in the Gaza Strip).

Table 8.1: Average daily wage of transport and communications' workers (in NIS) - (2008-2010)

Year	oPt	West Bank	Gaza Strip
2008	65.4	76.9	36.4
2009	69.2	76.9	40.0
2010	58.4	90.0	30.0

Source: PCBS, 2008-2010.

8.2 Road transport sector

As of 2010, the Palestinian Territory had a paved road network of about 4.686 kilometers (4.389 in the West Bank and 297 in the Gaza Strip). The length of the roads linking Israeli colonial settlements increased by 112% during 2010. This growth is due to the increased settlement expansion in the West Bank, which resulted in a need to link the new settlements to Israeli towns and existing settlements (see Table 8.2).

Table 8.2: Length of paved road network in the oPt, 2010 (kilometers)

	2009	2010		
	oPt	West Bank	Gaza Strip	oPt
Main	607	646	76	740
Inter-district	1,095	1092	122	1,214
Local	2,590	1453	99	1,552
Bypass	439	333	0	333
Settlement	400	848	0	848
Total	5131	4389	297	4,686

Source: Ministry of Public Works and Housing, 2010

The licensed vehicles in the Palestinian Territory at the end of 2010 totaled 182.500 (67% in the West Bank and 33% in Gaza Strip), with private cars constituting 63%. By type of fuel used, 61% of these vehicles used gasoline and 39% used diesel. By make, 42.4% of the vehicles in the Palestinian Territory were produced in 1997 or before, 53.8% were produced after 1997 (1998-2009) and 3.7% were produced in 2010.

Data also shows that there were 265 driving schools in the West Bank at the end of 2010. During 2010, 28.736 driver's licenses were issued in the West Bank compared with 25.677 in 2009 and 18.422 in 2008. This increase is probably due to the facilities granted for the purchase of vehicles.

In the West Bank, there are 84 bus companies (each company has 10.3 buses on average); 247 rental car companies (each company has 4.6 cars on average); and 459 Taxi companies (each company has 9.2 taxis on average).

8.3 Post and Telecommunications

The number of incoming international postal items to the West Bank during 2010 totaled 247.4000, down by 45% from 2009. In 2010, the postal service reported about 116.000 outgoing postal items compared with 13.400 in 2009. There are 12,875 post office boxes and 304 centers of postal services in the West Bank.

By the end of 2010, there were 360.402 main landlines in the Palestinian Territory (68% in the West Bank and 32% in Gaza Strip), down by 2% from 2009. The Palestinian Territory's population made about 1.2 billion local phone calls in 2010 (64.4% in the West Bank and 36.6% in Gaza Strip).

Cellular service subscribers in the Palestinian Territory at the end of 2010 totaled about 2.6 million compared with 1.8 million in 2009 and 1.3 million in 2008.

Box 10: Traffic Tickets on the Roads between Palestinian Cities: Another Treasury Drain

The Palestinian cities in the West Bank are linked via a road network mostly located in Area (C) under the control of Israeli occupation. These roads are classified as main roads and bypass roads[23] More than 2.5 million Palestinians largely use the main roads to move between towns, while they use some bypass roads in some areas to access the main roads.

According to the current situation and the laws in force, any traffic offense committed on roads that are under Israeli control is subject to the terms and provisions of the Israeli Traffic Act which imposes traffic tickets starting from 250 Shekels (for not buckling up) to thousands of Shekels and seizure of vehicles (in cases of wrong overtaking and endangering life). The fines the Palestinian drivers pay go to the Israeli Treasury. These tickets are paid either directly (in court), via some local banks or via the Israeli post.

Available data indicate that Palestinian drivers paid, through Palestinian banks only, NIS 3.701.200 during the period between September 2008 and July 2011. The value of paid fines has increased significantly during the past few years. While Palestinian drivers paid a total of NIS 796400 in 2009, the amount rose to NIS 1.719.050 in 2010 and to NIS 1.131.200 during the first seven months of 2011, an increase of about 115% and 42%, respectively.

This significant increase is probably due to the tougher procedures the Israeli police are enforcing because of the frequency of traffic accidents, especially since many of the incidents involved colonial settlers, which triggered protests among settlers last year when a number of them killed in road accidents. Some settlers have even equipped their vehicles with cameras to take pictures of traffic offenses committed by Palestinians and passed pictures to the Israeli police. The other reason behind this increase is the active movement of Palestinian vehicles on the highways due to the relative stability observed in the West Bank.

Most of the tickets were issued in the southern and central West Bank, while they are quite lower in the northern governorates. The value of the tickets issued in Hebron, Ramallah, and Bethlehem represented 84% of the total value of tickets paid via Palestinian banks. The rest of the tickets was reported in Jenin, Nablus, Jericho, Tulkarm, and Qalqilya (Table 1). This pressure in the southern governorates is probably a result of the proximity of these areas to Jerusalem, the extensive use of these roads by settlers, and an increased pressure by the police.

[23] Bypass roads are those built by Israel in the West Bank to link settlements with each other, with a total length of about 794 km at the end of August, 2008.

Table 1: Distribution of the values of traffic fines paid by West Bankers to Israeli authorities via Palestinian banks— between September 2008 and July, 2011

Governorate	Traffic fines (%)
Hebron	38
Ramallah	30
Bethlehem	16
Jenin	6
Nablus	3
Jericho	3
Tulkarm	3
Qalqilya	1
Total	100% (NIS 3.7 million)

9. Health status in the Palestinian Territory

The Palestinian Ministry of Health, through the Center for Palestinian Health Information, released a health report in the West Bank in mid2011. The report reviewed the overall health situation in the Palestinian Territory, providing some key indicators:

9.1 Live births

During the first half of 2011, the Palestinian Ministry of Health reported 55.269 live births, 29.505 in the West Bank (52% males) and 25.764 in the Gaza Strip (52% males). The data indicate that 98.4% of births were in hospitals and 1.7% of births were at home (see Table 9.1).

Table 9.1: Distribution of live births by governorate and sex - first half 2011

Governorate	Females	Males	Total
West Bank	14.210	15.295	29.505
Jerusalem	529	554	1.083
Jenin	1.673	1.854	3.527
Tubas	304	381	685
Tulkarm	679	775	1.454
Qalqilya	546	566	1.112
Salfit	459	468	927
Nablus	1.704	1.752	3.456
Ramallah	1.452	1.655	3.107
Bethlehem	939	1.029	1.968
Jericho	292	316	608
Hebron	5.633	5.945	11.578
Gaza Strip	12.367	13.397	25.764
Northern Gaza	2.079	2.289	4.368
Gaza	4.523	4.928	9.451
Deir al-Balah	1.750	1.863	3.613
Khan Younes	2.423	2.658	5.081
Rafah	1.592	1.659	3.251
Total	26.577	28.692	55.269

Source: Ministry of Health - Center for Palestinian Health Information - Health Report – Northern Governorates - Palestine - mid-year, 2011.

9.2 Mortality rate

The Ministry of health reported 5.575 deaths in the first half of 2011(3.028 males and 2.547 females), with 64% and 36% in the West Bank and the Gaza Strip, respectively. Hebron governorate recorded the highest number of deaths (741), while Jerusalem reported the lowest number of deaths (38) (see Table 9.2). The leading causes of death were heart disease, brain vascular disease, cancer and diabetes.

Table 9.2: Mortality rate by governorate – first half 2011

Governorate	No. of deaths	Females	Males
West Bank	3.556	1.657	1.899
Jerusalem	38	18	20
Jenin	601	293	308
Tubas	85	38	47
Tulkarm	329	164	165
Qalqilya	156	75	81
Salfit	106	53	53
Nablus	688	301	387
Ramallah	477	225	252
Bethlehem	261	108	153
Jericho	74	32	42
Hebron	741	350	391
Gaza Strip	2.019	890	1.129
North Gaza	324	135	189
Gaza	727	332	395
Deir al-Balah	286	129	157
Khan Younes	432	191	241
Rafah	250	103	147
Total	5.575	2.547	3.028

Source: Ministry of Health - Center for Palestinian Health Information - Health Report – northern governorates - Palestine - mid-year, 2011

9.3 Traffic accidents

This section covers the number of injuries resulting from traffic accidents in the West Bank (no data available from the Gaza Strip). The Ministry of Health reported 3.612 casualties (including 45 deaths and 34 disabilities) in the West Bank, involving 2.723 males and 889 females during the first half of 2011 compared to 3.474 injuries during the first half of 2010. The age group 15-24 years claimed the highest number of injuries, then the age group 25-34 years. By governorate, Ramallah reported the highest number of injuries (844), followed by Nablus (715), while Tubas recorded the lowest rate of injuries (19). No data is available on traffic accidents in Jerusalem (see Table 9.3).

Table 9.3: Distribution of traffic accident injuries, by region and type of injury- first half 2011

Governorate	Deaths	Injuries	Total
Jerusalem			
Jenin	2	462	464
Tubas	0	19	19
Tulkarm	0	235	235
Qalqilya	2	155	157

Governorate	Deaths	Injuries	Total
Salfit	1	112	113
Nablus	5	715	720
Ramallah	0	844	844
Bethlehem	1	412	413
Jericho	5	157	162
Hebron	2	475	477
Northern Hebron	0	26	26
Total	18	3,612	3,630

Source: Ministry of Health - Center for Palestinian Health Information - Health Report – Northern Governorates - Palestine - mid-year, 2011.

9.4 Transfers for treatment outside the facilities of the Ministry of Health

The number of transfers for treatment outside the facilities of the Ministry of Health totaled 29.665 in the first half of 2011, an increase of 15% from the same period of 2010. With 9.660 transfers, Gaza governorate ranked first in terms of the number of transfers (32.6% of total transfers) (see table 9.4). The cost of purchasing medical services during the first half of 2011 stood at NIS 215,1 million, up by 36.5% from the same period of 2010. Data also show that 76.2% of the value of this service was purchased from Palestinian medical facilities, while 23.8% went to external hospitals. The leading causes of such transfers were tumors, magnetic resonance imaging, eye surgery, internal diseases, cardiac catheterization and urinary tract diseases.

Table 9.4: Distribution of transfers for treatment outside MOH facilities, by governorate - first half of 2011

Governorate	Admission	Counseling and medical	Total
West Bank	15,949	3,898	19,847
Jerusalem	3,835	506	4,341
Jenin	1,177	322	1,499
Tubas	179	52	231
Tulkarm	840	285	1,125
Qalqilya	400	163	563
Salfit	287	115	402
Nablus	1,822	580	2,402
Ramallah	2,235	626	2,861
Bethlehem	1,261	250	1,511
Jericho	348	86	434
Hebron	3,546	908	4,454
Other	5	3	8
Unknown	14	2	16
Gaza Strip	9,586	232	9,818
North Gaza	9,436	224	9,660
Gaza	59		59
Deir al-Balah	18		18
Khan Younes	44	6	50
Rafah	24	2	26
Other	5		5
Unknown			0
Total	25,535	4,130	29,665

Source: Ministry of Health - Center for Palestinian Health Information - Health Report – Northern Governorates - Palestine - mid-year, 2011.

Box 11: Do the Palestinians Attack or Retaliate?

Does Israel initiate attacks or only retaliate? Are the Israeli attacks against the Palestinians a result of an inherent , aggressive nature or a reaction to Palestinian attacks? Which one of them is the assailant and who is the retaliator?

Can an econometric abstract analysis find an objective, neutral answer to such a question? Lately, many studies that apply econometric techniques have emerged to answer questions of profound political and moral nature in the context of the Israeli-Palestinian conflict. The studies have been conducted by renowned professors in leading universities. They published their findings in a number of leading economic journals.

For example, Eckstein & Tisiddon (2004) studied the impact of 'terrorist' operations on the macroeconomic variables in Israel, while Berrebi & Klor (2006) addressed the impact of these operations on the financial markets in Israel. Berrebi & Klor (2008) discussed the correlation between the armed Palestinian organizations and the Israeli political system. Kydd & Walter (2002) concluded that violence is not random or irrational, as it often occurs in conjunction with major events in the path of peace. Thus, the goal of this violence is to disrupt the diplomatic effort. Similarly, Kaplan et al (2005) examined the effect of Israeli tactics against terrorism on the recruitment of Palestinian 'terrorists'. They concluded that the arrest of 'terrorists' leads to a reduction in attempts of suicide bombings, while the intentional killing of ‘terrorists’ increases suicide bombings. Finally, Jaeger & Paserman (2006) reviewed Israel's different reactions to operations involving various Palestinian organizations.

Jaeger & Paserman (2008) published a study entitled "The Cycle of Violence? An Empirical Analysis of Fatalities in the Palestinian-Israeli Conflict"[24]. This study sought to answer the question that we posed at the beginning of this article: Does the violence committed by Palestinians or Israelis determine the pace and degree of violence from the other side? Do attacks by both Israel and Palestinians lead to violent retaliation from the other side? Is the Israeli-Palestinian violence of a tit-for-tat nature, i.e. does one side's violence lead to retaliation from the other side, or is it only a one-way causality?

To answer these questions, Jaeger & Paserman analyzed data on the number of deaths which occurred between September 2000 and January 2005, during which more than 3.300 Palestinians and around 1.000 Israelis were killed.

The study is based on the idea that violence from one side can affect the dynamic behavior of the other side, either by stripping it off its ability to respond, deterring it, or instigating it to retaliate. Based on these assumptions, the study developed a 'reaction function' for each side with a bar of three variables. The figures were used to determine the impact of the number of victims incurred by each party on the victims of the other party. After conducting a series of complex mathematical applications, the authors concluded with two findings: First, there is little evidence that violence on either side has a direct deterring or incapacitating effect. Second, there is unidirectional Granger causality from Palestinian violence to Israeli violence, but not vice versa (i.e. the frequency and the number of Palestinian victims are predictable in the light of the frequency and the number of Israeli victims, but there is no direct causal relationship between the number of Palestinian victims and fatal Palestinian reactions

One possible explanation the authors give for the latter finding (that Palestinian violence is unpredictable in the light of the previous Israeli violence) is that the Palestinians might want to retaliate, but they cannot because of the Israeli countermeasures. The authors argue that the difference in the nature of the reaction of the two parties may be due to the significant differences between them in terms of decision-making and technological capabilities. The authors however believe that the unpredictability of the Palestinian attacks leads to more effective 'terrorist' operations that disrupt and sabotage the daily life in Israel.

A team of scholars from the University of Zurich, the Massachusetts Institute of Technology, and Tel Aviv University have found that attacks by both, Israel and Palestinians, lead to violent retaliation from the other side. In 2010, the team conducted a study entitled "Both sides retaliate in the Israeli – Palestinian conflict"[25]. These researchers used the same economic-statistical techniques that we reviewed briefly earlier, but they used a database that is larger than the data used in previous studies which only took into account the number of victims

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[24] Jaeger, D. and D. Paserman (2008) “The cycle of violence? An empirical analysis of fatalities in the Palestinian – Israel conflict.” *American Economic Review* 98: 1591-1604.

[25] Haushofer J., Biletzki A., Kanwisher N. (2010) “Both sides retaliate in the Israeli – Palestinian conflict.” Proceedings of the National Academy of Sciences.

killed on both sides (owing to the difficulty of applying quantitative analyses to other forms of violence). The University of Zurich' study, considers the incidents of rocket fire (fatal and non-fatale) and includes them in the 'reaction function' of the Palestinian side. Based on this analysis, the study echoed the finding of previous studies that after Palestinians kill Israelis, the Israeli killing increases as a response. However, this study concluded with other findings as well: The Palestinian violence suggests a pattern of retaliation, as the rocket attacks increase significantly after Israel kills Palestinians, and that the probability (not necessarily the number of victims) of killing Israelis increases after Israelis kill Palestinians.

The Zurich study might have done justice to the Palestinian side. Yet, we still have no answer to the question where to start and where to conclude in such statistical studies. Jaeger & Paserman (2008) found that the Israeli retaliation is predictable and it can be statistically significant as a response to the violence inflicted by the Palestinians. At the same time they argue that the Palestinian behavior appears to be unrelated to Israeli violence as it is not intended as revenge or deterrence. Amid all this, a question persists: Would these studies have arrived at these conclusions if they had taken the 'original sin' into consideration? In other words, would the findings have been different if these studies had considered the initial, grand violence that was committed against the Palestinians who were expelled by Israel?

10 Conceptions of industry facilities' owners and managers of economic conditions

This section of the *Monitor* presents the conceptions of industry facilities' owners and managers of economic conditions. These perspectives have been surveyed by the Palestinian Central Bureau of Statistics in July 2011, representing the second quarter of 2011. The survey examined a number of factors, including the performance of industrial enterprises in general; borrowing and financing; the change in sales volume, barriers to the export, the judicial system and conflict resolution; government facilities; and expectations for the next quarter.

With regard to performance, 33.5% of the managers of industrial enterprises reported that the performance of their organizations in July, 2011 was better than it was during April, 2011 (34.4% in the West Bank and 29.7% in Gaza Strip). With respect to borrowing and financing, the results show a low demand for loans from banks operating in the Palestinian Territory during the second quarter of 2011, as 94.8% of the owners of industrial enterprises had no intentions of borrowing from banks, compared to 5.2% who sought loans, once or more.

Concerning sales volume, 48% of the managers of industrial facilities operating in the Palestinian Territory believed that the main reason for the decline in sales was the low purchasing power of consumers in the Palestinian Territory during the second quarter of 2011 (44.6% in the West Bank and 66.7% in Gaza Strip). However, 21.8% of managers attributed the reasons of this decline to competing goods (19.6% in the West Bank and 33.3% in Gaza Strip). On the other hand, 93% of the owners/managers reported the existence of competition of the facilities' main products (92% in the West Bank and 98.6% in Gaza Strip).

With respect to barriers to export, 77.3% of the owners of the exporting enterprises believed that closing the crossings was the biggest barrier to the export operations, while 46.6% of the owners of the exporting enterprises in the West Bank said that their businesses faced problems related to the lack of guarantees of payment by buyers.

The results of the survey showed that 76.6% of the owners and managers of industrial facilities in the Palestinian Territory were satisfied with the integrity of the police on issues related to their businesses. At the same time, 58.6% said they were satisfied with the effectiveness of the Palestinian courts (61.6% in the West Bank and 44.6% in Gaza Strip). With regards to the facilities provided by government agencies to obtain the necessary permits and licenses, the results showed that 62.8% of the target group in the West Bank and 16.4% of the target group in the Gaza Strip were satisfied with the facilities provided to their organizations.

Regarding expectations for the third quarter of 2011, 35% of the target group anticipated improvement in the performance of their organizations (38% in the West Bank and 32.4% in Gaza Strip). Finally, as for the sales volume, 37% predicted an improvement during the third quarter of 2011.

Box 12: The Relative Weight of Jerusalem, the Golan Heights and Settlements in the Israeli Economy

When Israel bid in March 2010 for membership in the 'Organization for Economic Co-operation and Development' (also known as ' The Club of the Rich'), some members questioned the accuracy of Israeli statistics, as the Israeli figures (relating to gross domestic product, spending and number of the population) cover geographical areas that the Organization does not recognize as part of the Israeli territory. These areas include East Jerusalem, Israeli settlements in the West Bank and the Golan Heights. The Organization also raised doubts about the methodology of collecting some data and the integrity of some Israeli figures, among these, for example, the figures relating to the activities of the 'Jewish communities' which imply an exclusion of the activities of other ethnic groups or nationals living and working in these 'Jewish communities'.

Thus, the OCED formed a committee of specialists (from Australia, Norway and the United Kingdom) to examine the problems in Israeli statistics and assess the role of different factors in the ambiguity of figures. The Committee issued a detailed report with a number of recommendations presented to the Israel Central Bureau of Statistics[26].

This Box focuses on the findings of this report regarding the economic and demographic weight of the three occupied territories which are usually included in the statistics of 'Israel'. The authors of the report sorted the figures into two parts: the statistics of pre-1967 Israel (within the Green Line); and the statistics of the territories annexed by Israel after 1967, i.e. the economic weight of East Jerusalem, the Golan Heights and settlements in the Israeli economy is now accessible.

Table 1: Population in 2009

	Population	% to pre-1967 Israel
East Jerusalem	444,300	6.6
West Bank settlements	298,200	4.3
Golan	40,800	0.6
Total: post- 1967 territories*	774,400	11.5
Pre-1967 Israel	6,711,200	100

*Post-1967 territories include East Jerusalem, the settlements in the West Bank and the Golan Heights.

Table 1 illustrates that the population of the three occupied territories was 774.400 in 2009, representing 11.5% of the population within the borders of pre-1967 Israel (10.3% of Israel's total economic territory). The report found that the population in the three occupied territories are younger and have a higher growth rate than the population of pre-1967 Israel. The report also revealed that the rate of annual population growth in the West Bank settlements was 8% between 1997-2009.

It should be noted that the number of Arabs in the three territories totaled 272.800 in 2007 (250.8000 in the J1-area of Jerusalem and 22.000 in the Golan Heights). This means that about 35% of the residents in the three territories are Arabs[27].

Table 2: Distribution of place of residence and place of work (%)

Residency	Place of work				
	East Jerusalem	Settlements	Golan	Pre-1967 Israel	Other
East Jerusalem	25.7	2	0	52.4	19.9
Settlements	3.0	37.7	0.1	50.5	8.7
Golan Heights	0.1	0.3	67.1	25.1	7.4
Total: post- 1967 territories	14.3	17.5	3.8	50.1	14.3

26 OECD – Statistical Directorate – Study on the Geographic Coverage of Israeli Data (undated).

27 The figures for Palestinian population in J1-area of Jerusalem were attained from PCBS http://www.pcbs.gov.ps/DesktopDefault.aspx?tabID=3751&lang=ar-JO, while the figures for Arab population in the Golan were attained from Israel Central Bureau of Statistics http://www1.cbs.gov.il/reader/shnaton/shnatone_new.htm?CYear=2010&Vol=61&CSubject=2

pre-1967 Israel	0.4	0.4	0.1	91.3	7.9

Table 2 shows that a quarter of those who reside in East Jerusalem work in East Jerusalem, but over half (52.4%) work in pre-1967 Israel. Similarly, 37.7% of settlers work in settlements, while half of them work in pre-1967 Israel.

The report also reveals that the rates of labor force participation and employment are lower in the three territories compared to the total of Israel's total economic territory. In addition, the rates of poverty (standing at 23.4%) in the three territories are significantly higher than they are in pre-1967 Israel (20.2%).

The report concludes that inequality in income distribution in Israel (pre and post 1967) is one of the highest among OECD countries: the income of the richest 10% of the population is 8 times higher than the income of the poorest 10% of the population in Israel.

Table 3 presents an estimated contribution of the three territories (East Jerusalem, the Golan Heights and the settlements) in the gross domestic product of Israel. The table indicates that the contribution of the three territories is 4% lower than the contribution of pre-1967 Israel in GDP (or 3.7% of GDP of Israel's total economic territory).

Table 3: Distribution of GDP, 2007

	Pre-1967 Israel	**East Jerusalem, the**	**%**
GDP	588,735	23,044	3.9
Agriculture, forestry and fishing	10,537	818	7.8
Industry	96,342	2,268	2.4
Construction	28,245	2,159	7.6
Trade, restaurants & hotels	66,055	1,419	2.1
Public administration	38,919	4,324	11.1
Education	42,395	2,728	6.4
Other	306,242	9,328	3

The table also shows a relative high contribution of the three occupied territories in the value added of the three main sectors: public administration; agriculture and fishing; and building and construction.

Evidently, the economic contribution of the three occupied territories in the Israeli economy is limited, given the fact that only 10% of Israel's population live in these three areas which raise the GDP of Israel only by 4%, and thus causing a 6.5.%. decline in GDP per capita. The report introduces the same idea in a different way: the inclusion of post-1967 areas changed Israel's relative position internationally. If we consider an index of GVA per capita, where the total for all other OECD countries is 100, the index for GVA for pre-1967 Israel stands at 82. Additionally the post- 1967 areas would reduce Israel's index to 77.

Key Economic Indicators in the West Bank* and the Gaza Strip for the years 2000-2010

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Population by mid year (thousands)											
Occupied Palestinian Territory	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	4,048.40
West Bank	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	2,513.3
Gaza Strip	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	1,535.12
National Accounts (Million Dollars)											
GDP**	4,118.5	3,765.2	3,264.1	3,749.6	4,198.4	4,559.5	4,322.3	4,554.1	4,878.3	5,241.3	5,728.0
*GDP per capita (USD)***	1,450.2	1,287.9	1,084.8	1,210.9	1,317.0	1,387.2	1,275.4	1,303.2	1,356.3	1,415.7	1,502.4
*Household Expenditure***	3,982.0	3,901.4	3,627.8	4,103.1	4,400.3	4,467.5	4,197.5	4,591.2	4,851.9	5,285.4	-
Public Expenditure	1,100.7	1,022.7	947.9	903.1	1,048.9	833.3	870.4	892.7	995.9	1,105.5	-
*Gross Capital Formation***	1,561.1	1,120.0	954.1	1,204.0	1,022.3	1,265.7	1,347.2	1,122.9	1,060.5	1,137.3	-
*Net Balance of Goods Trade***	(2181.9)	(1999.4)	(1473.1)	(1751.9)	(2335.8)	(2680)	(2795)	(3178.2)	(3234.4)	(3502)	-
Commodity Imports**	2721.5	2394.2	1800.5	2119.9	2736.5	3114.7	3245.4	3824.7	3902.8	4146.9	-
Commodity Exports**	539.5	394.8	327.4	368.0	400.7	434.7	450.4	646.5	668.4	644.9	-
*Net Balance of Services Trade***	(75.2)	(494.7)	(476.5)	(314.3)	(360.9)	(221.2)	(300.4)	(373.1)	(340.3)	(281.5)	-
Services Imports**	548.2	674.8	673.3	573.3	601.3	503.7	560.3	742.6	836.4	860.8	-
Services Exports**	472.9	180.1	196.9	259.0	240.4	282.4	259.9	369.5	496.1	579.3	-
Prices and Inflation											
Average Exchange Rate of the USD Against the Shekel	4.086	4.208	4.742	4.550	4.478	4.482	4.454	4.110	3.567	3.93	3.73
Average Exchange Rate of the JOD Against the Shekel	5.811	5.928	6.674	6.417	6.307	6.317	6.292	5.812	5.042	5.54	5.27
Inflation Rate (%)***	2.8	1.2	5.7	4.4	3.0	4.1	3.8	1.9	9.9	2.75	3.75
Labor Market											
Number of Employees (thousands)	600	505	477	564	578	603	636	690	667	718	745
Participation Rate (%)	41.5	38.7	38.1	40.3	40.4	40.4	41	41.7	41.2	41.6	41.1
Unemployment (%)	14.1	25.2	31.3	25.6	26.8	23.5	23.7	21.7	26.6	24.5	23.7
Social Conditions											
Poverty Rate (%) ****	-	27.9	-	-	25.9	24.3	24	31.2	-	26.2	25.7
Deep Poverty Rate (%) ****	-	19.5	-	-	14.2	15.3	13.7	18.8	-	13.7	14.1
Public Finance (Million Dollars)											
Net Domestic Revenues *****	939	273	290	747	1,050	1,370	722	1,616	1,780	1,548.4	1900.4

Indicator	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Current Expenditures and Net Lending	1,199	1,095	994	1,240	1,528	1,994	1,426	2,567	3,273	2,919.6	2983.2
Development Expenses	469	340	252	395	0	287	281	310	-	46.8	275.1
Surplus (deficit) Budget before Support	(260)	(822)	(704)	(493)	(478)	(624)	(704)	(951)	(1,493)	(1341.9)	(1082.8)
Total Grants & Assistance	510	849	697	620	353	636	1,019	1,322	1,763	1,402	1277
Total Surplus (deficit) Budget	(219)	(313)	(259)	(268)	(125)	(275)	34	61	270.2	(144)	(80.9)
Public Debt	795	1,191	1,090	1,236	1,422	1,602	1,494	1,439	1,406	1,732	1,883
Banking Sector (Million Dollars)											
Assets/Liabilities	4,593	4,430	4,278	4,728	5,101	5,604	5,772	7,004	5,645	7,893	8590
Equity	242	206	187	217	315	552	597	702	857	910	1,096
Clients' Deposits	3,508	3,398	3,432	3,625	3,946	4,190	4,216	5,118	5,847	6,111	6,802
Credit Facilities	1,280	1,186	942	1,061	1,417	1,788	1,843	1,705	1,829	2,109	2,825
Number of Banks	21	21	20	20	20	20	21	21	21	20	18

Source: Palestinian Central Bureau of Statistics, the Palestinian Monetary Authority. For a series data for the period before 2000, please refer to issue 23 of Monitor between hands.

* West Bank: means the West Bank except that part of Jerusalem governorate which was annexed by Israel (with the exception of the data on unemployment and population).

** Data in constant prices. Base year for the 2000-2003 is 1997; base year for 2004-2010 is 2004. Data for 2010 is preliminary and subject to revision and amendment and is based on quarterly estimates.

*** The inflation rate is based on the comparison of average indices of consumer prices for the comparison year with its average in the previous year. Base year for the period 2000-2006 was 1996 (1996=100), base year for the period 2007-2010 is 2004 (2004=100).

**** The PCBS defines poverty in relation with the family budget. Deep Poverty: any standard family (5 members: two adults and 3 children) with a budget less than NIS 1,783 in 2010 to cover the expenses of food, clothing and housing Relative Poverty: any standard family possessing a budget of NIS 2,237 in 2010 to cover the expenses of food, clothing, housing ,health, education, transportation and other expenses.

***** Total net revenues is the total current revenues after the deduction of taxes.

- Figures in brackets are negative.