

The Palestinian Strategic Report 2007



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Chapter Eight

*The Economic Situation in the West
Bank and Gaza Strip*

The Economic Situation in the West Bank and Gaza Strip

Introduction

The year 2007 marked massive political, economic and social changes that affected all aspects of life in the WB and GS. These changes swept everything away like a hurricane. At the economic level, the unrelenting Israeli policies, aimed at retaining its full control over the key sectors of the Palestinian economy in the WB and GS, led to a reduction in the performance of the Palestinian economic sectors. The Israeli policies led to serious economic crises and problems at a time when the Palestinian economy was trying to develop. The impact of these challenges intensified with the escalated intensity of the Israeli siege and military operations against the Palestinian people, institutions and economic infrastructure.

The Palestinian society faces an increased rate of poverty and unemployment in addition to the high price increase. There has been also a steep drop in investments and an increasing budget deficit (approximately \$1.4 billion in 2007). This is mainly due to the absence of an encouraging political and peaceful atmosphere, in addition to the continuous blockades and total restriction of the transport of goods and people. It is impossible to imagine that the WB would record economic growth in an environment marked by the presence of 563 Israeli military barriers in the WB, in addition to 185 settlements, 480 thousand settlers and the Separation Wall, not to mention the denial of access to Jerusalem and large areas of the Jordan Valley. The situation is much worse in the GS, where there is a total collapse of all aspects of life due to the Israeli blockade, which is in place since mid-June 2007. In GS, nearly 80% of the population live on humanitarian aids provided by various international organizations and agencies.

The Palestinian economy continued to suffer in the WB and GS in 2007 due to the economy's structural problems. For one, the economy is fundamentally dependent on the Israeli economy. WB and GS export 64% of their products to Israel, while 86% of their imports are from Israel. Palestinian economy depends

on the Israeli economy because of the Israeli occupation and military conditions on ground. The damage done to the Palestinian economy by the Israeli occupation can be seen directly on the agricultural and industrial sectors, and on the Palestinian competencies and professionals. The Palestinian economy is surviving on international aids and grants, which are by nature conditional and limited to only certain projects. If the current situation continues, this economy, and hence the Palestinian people in the WB and GS, will sink into a much deeper crisis than the current one.

Most of those who are concerned with the Palestinian economy agree that 2007 was the worst year ever since the Israeli occupation of the WB and GS in 1967. It is worth noting that the level of deterioration and slump in overall economic activities in the GS were greater than those in the WB are. The siege imposed on the WB, specifically since June 2007, affected all of its economic sectors and had an impact on all economic indicators. It also deprived the population of the most basic requirements of daily life; as the rates of poverty and unemployment surged to unprecedented levels and economic growth simply ceased to exist. Such were the immediate results of the Israeli siege of Gaza and of the political and economic positions taken by various local, regional and international parties in the wake of Hamas's control over Gaza. The World Bank's report stated that the rate of poverty exceeded 67% of the population in the GS, while other organizations brought this estimate to 80%. In contrast, the international community showed sympathy towards the PA in the WB, where the pumping of international aids was resumed. The Paris Donors' Conference held in December 2007 also promised to provide \$7.4 billion of aids and grants to the PA within the next three years.

Two other features marked the year 2007:

1. There was an unprecedented rise in prices, particularly those of basic and vital commodities in the WB and GS, as compared to those at the end of 2006. This introduced direct challenges and effects on the purchasing power of citizens and on the demand for commodities, services and production in general.

2. There was a collapse in the exchange rates of the US dollar against other currencies, particularly the Israeli shekel, with which it registered a reduction of 8% by the end of 2007 as compared to its rate at the end of 2006. This collapse

had various effects on individuals, institutions and the Palestinian economy in general. However, the continuation of this collapse without proper economic, financial or monetary policies to limit its negative effects threw the burden of facing the crisis on individuals, whether within families or institutions. This will lead to economic losses that could have been reduced if appropriate policies had been in place.

As the Palestinian economy almost totally depends on the political and security considerations of external forces, particularly those pertinent to Israel, this has led to the restriction of its chances for development and further led to its increased dependence on imports, especially those coming from Israel. At the same time, its exports have decreased dramatically because of the siege imposed on it. This has led to an increase in the trade deficit to unprecedented levels.

Since 1967, the private sector in the occupied Palestinian lands, and particularly in the GS, has been playing the major role in the Palestinian economy. In GS, the private sector is the primary driver behind the economic development and advancement process, and the generator of more than 50% of all job opportunities. For this reason, the Israeli authorities have continuously focused on targeting it with their arbitrary practices that aim at curbing the ability of this sector to grow and develop. The productivity of the private sector in the GS has decreased from 76% in 2000 to 11% after the total closure on GS was imposed in mid-June 2007.

First: National Accounts

The preliminary estimates of the national accounts issued by the PCBS for 2007 indicates a slight growth in the GDP at fixed prices in 2007; a percentage of 0.7% compared to the situation in 2006. The GDP value rose from \$4.11 billion in 2006 to about \$4.14 billion in 2007.

On the other hand, some economic activities, such as industry, mining, construction and services suffered a slight decline, while other sectors, such as agriculture, wholesale and retail trade, transport and storage, financial brokerage, general administration and defense witnessed an increase.

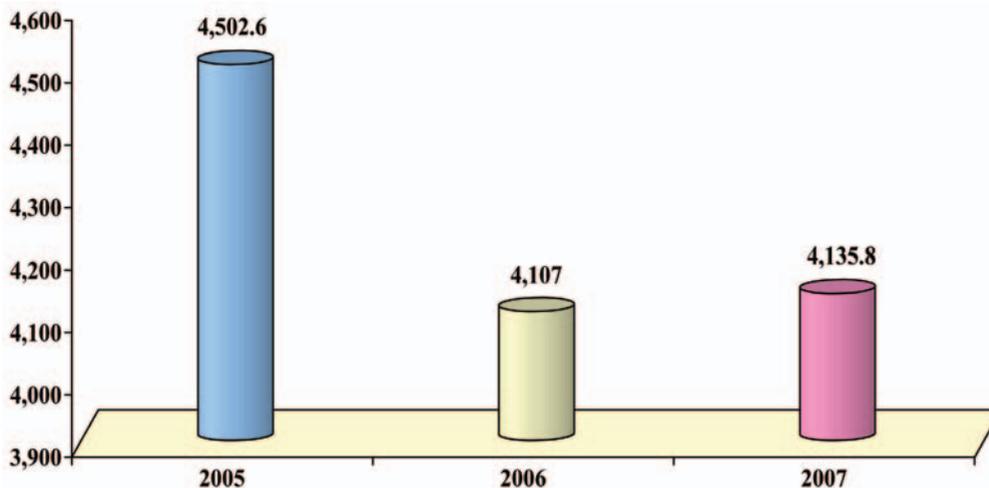
**Table 1/8: GDP in WB and GS 2005–2007 at Constant
Prices: Base Year is 1997 (\$ million)**

Year	2005	2006	2007*
GDP	4,502.6	4,107	4,135.8

Source: PCBS.

* Preliminary estimates (first release).

GDP in WB and GS 2005–2007 (\$ million)



Second: Economic Sectors

According to the preliminary estimates available on the performance of the economic sectors that comprise the 2007 GDP, the general trend is marked with confusion and unbalance due to the difference in situations, occupation conditions, and siege between the WB and GS, especially during the second half of the year. There was a relative improvement in the WB, while the siege was intensified and the suffering exacerbated in the GS.

1. Agriculture and Fishing

Agricultural production in the WB and GS is an important, productive activity. The agricultural sector plays a major role in the Palestinian economy through its significant share of foreign trade. These exports represent 25% of the overall Palestinian exports. The agricultural sector also provides many raw and primary materials to various other economic sectors.

The area of cultivated land is approximately 1.8 million donums; 91% of which are in the WB and 9% in the GS. They represent 30% of the total area of the WB and GS. The agricultural sector consumes approximately 60% of the total consumption of water, i.e., 160 million cubic meters of water for irrigation, most of which are groundwater.

Preliminary estimates available with the PCBS indicate that the total value added by agricultural and fishing economic activities in 2007 registered a growth of \$6.8 million, which represents approximately 2%. It increased from \$334 million in 2006 to \$340.8 million in 2007. The agriculture and fishing sectors' contribution to the GDP was approximately 8.2%.

2. Mining, Manufacturing, Water and Electricity

The mining and industry sectors in the WB and GS faced numerous difficulties and problems related to the structure and volume of the industry and the inability to find new markets for its products. In addition, it suffered from problems related to the shortage in the necessary funding, equipment and industrial supplies, lack of raw materials as well as the irregularity in receiving imported raw materials. The industrial sector also suffered from lower productive efficiency rates, higher production costs, a clear deficiency in the specialized and the absence of administration and planning within the industrial sector. These problems and obstacles are linked to the Israeli occupation policy that focuses on preventing or impeding any development or growth of the industrial sector in the WB and GS. The number of factories, plants and workshops that have been affected negatively in one-way or another reached approximately 3,900 industrial facilities.

According to the industrial survey conducted by the Ministry of Industry in 1998, the number of industrial facilities in the WB and GS is approximately 13,850. Most of them are small facilities of a workshop nature. Manufacturing come on the top of the list in terms of the number of facilities, followed by the mining industry.

Preliminary estimates indicate a decrease in the added value of mining, Manufacturing, water and electricity in the WB and GS in 2007; as it went down from \$531.1 million in 2006 to \$527.3 million in 2007, at a decline rate of approximately 0.7%. Manufacturing formed the major part of this sector, with a contribution of 82.7% of the total activity of mining, manufacturing, water and electricity in 2007. The mining, manufacturing, water and electricity sector contributed 12.7% of the GDP in the same year.

3. Construction

The gross value added to the construction sector in the WB and GS witnessed a slight decline in 2007, where it dropped from \$104 million in 2006 to \$103.8 million in 2007, i.e., 0.2%. It should be noted that this sector came to a halt in the second half of 2007 in Gaza after the Israeli occupation imposed a complete closure on GS thus preventing the entrance of all supplies necessary for the construction sector, and hence the suspension of construction projects in Gaza. This means that the set back in this sector in GS was covered up mainly by that in the WB. The construction sector's contribution to the GDP in 2007 was 2.5%, which is the same percentage registered in the previous year.

4. Wholesale and Retail Trade

The available preliminary estimates indicate 8.5% growth in the value added to the wholesale and retail trade in the WB and GS in 2007, increasing in value from \$382.7 million in 2006 to \$415.2 million in 2007. This sector's contribution to the GDP in 2007 was 10%.

5. Transport, Storage and Communications

According to the preliminary estimated data for 2007, the transport, storage and communications sectors in the WB and GS reported a growth of 2.7%; as it increased from \$466 million in 2006 to \$478.5 million in 2007. The contribution made by these sectors to the GDP rose from 11.3% in 2006 to 11.6% in 2007.

6. Financial Intermediation

The preliminary estimates indicate 3.1% growth in the value added on the financial intermediation activity in the WB and GS in 2007 from \$186.7 million in 2006 to \$192.5 million in 2007. The contribution of this sector to the GDP in 2007 was 4.7%.

7. Services

The total value added on the services sector has witnessed a set back for the second year in a row in 2007. The value of these activities went down from \$940.2 million in 2006 to an estimated \$906.1 million in 2007, marking a decline of 3.6%. In 2007, the service sector accounted for 21.9% of the GDP, compared to 22.9% in 2006. A detailed look at the activities in this sector shows that real estate, renting and commercial services represented 37.9% of the sector's total, at a value of \$343.2 million. Next was education, with a contribution of \$314.8 million

in value and 34.7% of the service sector's total. The health sector represented a 15.1% share of this sector's total, at a value of \$136.4 million, followed by the restaurants and hotels sector, at a value of \$67.8 million, and then the community, social and personal services activities, at a value of \$43.9 million.

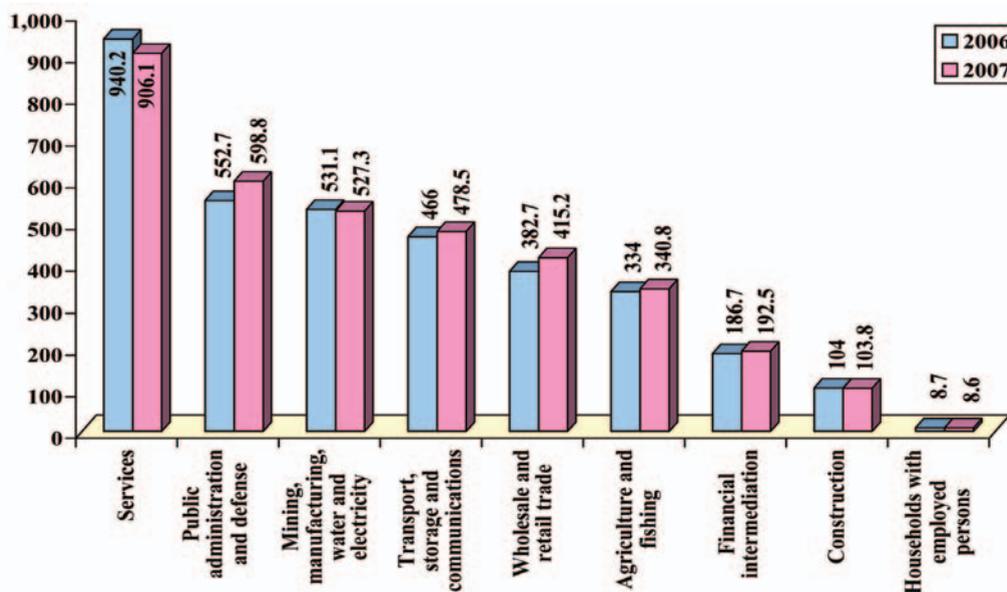
Table 2/8: GDP in WB and GS by Economic Activity 2006–2007 at Constant Prices: Base Year is 1997 (\$ million)

Economic Activity	2006	2007*
Agriculture and fishing	334	340.8
Mining, manufacturing, water and electricity	531.1	527.3
- Mining and quarrying	18	21.3
- Manufacturing	444	436
- Electricity and water supplies	69.1	70
Construction	104	103.8
Wholesale and retail trade	382.7	415.2
Transport, storage and communications	466	478.5
Financial intermediation	186.7	192.5
Services	940.2	906.1
- Real estate, renting and business services	447.8	343.2
- Community, social and personal services	43.6	43.9
- Restaurants and hotels	67	67.8
- Education	255.3	314.8
- Health and social work	126.5	136.4
Public administration and defense	552.7	598.8
Households with employed persons	8.7	8.6
Less: Financial Intermediation Services Indirectly Measured (FISIM)	-138.3	-139.8
Plus: Custom duties	284.9	284
Plus: Value Added Tax (VAT) on imports, net	454.3	420
GDP	4,107	4,135.8

Source: PCBS.

* Preliminary estimates (first release).

GDP in WB and GS by Economic Activity 2006–2007 (\$ million)



8. Public Administration and Defense

The value added on the public administration and defense sector reported an approximate growth of 8.3% in 2007 as compared to 2006. This sector grew from \$552.7 million in 2006 to approximately about \$598.8 million in 2007. Its contribution to the GDP climbed from 13.5% in 2006 to 14.5% in 2007. It is believed that the increase in the value of this sector is due to the increase in government expenditures in the form of salaries due to the public sector and security apparatus employees.

Third: The GDP per Capita

Table 3/8 depicts the change in the GDP per capita in the WB and GS during the period 2005–2007 at fixed prices according to the preliminary estimates issued by the PCBS. The GDP per capita in 2007 registered a growth of 4.3%, rising from about \$1,129 in 2006 to about \$1,178 in 2007. It indicates a drop in the GDP per capita in the GS due to the choking Israeli siege, and an increase in the WB, which caused the overall increase in the GDP per capita for both zones.

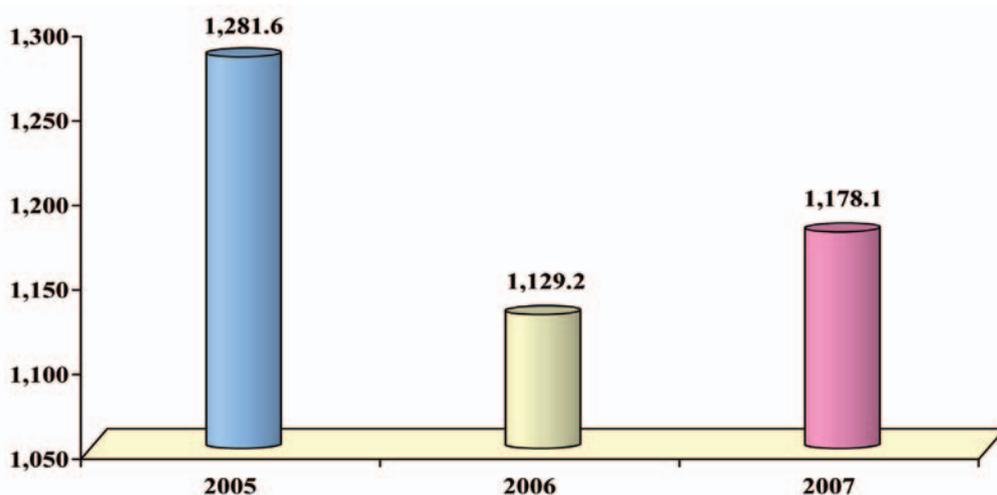
Table 3/8: GDP per Capita in WB and GS 2005–2007 at Constant Prices: Base Year is 1997 (\$)

Year	2005	2006	2007*
Estimated GDP per capita	1,281.6	1,129.2	1,178.1

Source: PCBS.

* Preliminary estimates (first release).

GDP per Capita in WB and GS 2005–2007 (\$)



Fourth: Public Finance

The financial situation of the PA in 2007 was marked by confusion and dearth in documented data. The Ministry of Finance provided its data quite late. This forced the researchers to search for relevant information in the press, from the officials of the Ministry of Finance, the PCBS, the Palestinian Monetary Authority (PMA) and various international organizations. We should note in this context that the territories of the PA have been witnessing an exceptional situation since mid-2007, with the WB is under the control of the Presidency and Ramallah’s emergency government, whereas the GS is under the control of the dismissed government headed by Isma‘il Haniyyah. In these

conditions, any improvement in the Palestinian Authority's financial situation will not necessarily reflect on both regions; While the WB witnessed a relative improvement, GS had been increasingly suffering from suffering the siege, hardships, and poverty.

1. Public Revenues

The Ministry of Finance's report on the financial operations of the PA, in terms of revenues, expenditures and finance sources on a cash basis in 2007, indicates that the total revenues were about \$1.62 billion. However, among the total revenue, local revenues were no more than \$323 million, out of which \$202 million were tax revenues. Most of the revenues were clearance revenues (resulting from Palestinian imports and exports) collected by the Israeli government. These amounted to about \$1.32 billion, but the actual clearance revenues in 2007 were no more than \$896 million, according to the PA's data. The remaining clearance balance (\$422 million) was collected from outstanding dues in 2006, which were withheld by Israel. It had refused to deliver them to the Hamas-led government. This means that the sum of revenues was about \$1.19 billion, after deducting the 2006 outstanding dues. There is a large increase in the PA revenues in 2007 in comparison to 2006 (about \$1.62 billion as opposed to \$676 million, i.e., an increase of 139.1%). That reflects the improvement of relations between the Palestinian presidency and the Ramallah's emergency government on one side and Israel and the US on the other side, brought about by the dismissal of the national unity government headed by Hamas.

2. Public Expenditure

The PA's Ministry of Finance indicated that the total spending in 2007, on a cash basis, were about \$2.57 billion, compared to \$1.39 billion in 2006, an increase of 84.7%. Salaries and wages represented 53.3% (about \$1.37 billion) compared to 47.5% in 2006 (about \$660 million), according to the data of the Ministry of Finance.

The PA's budget deficit was covered by the foreign budgetary support, which amounted to about \$1.01 billion in 2007 (see table 4/8).

Table 4/8: Report on the Financial Operations of the Palestinian National Authority: Revenues, Expenditures and Finance Resources (Cash Basis) 2006–2007 (\$ million)

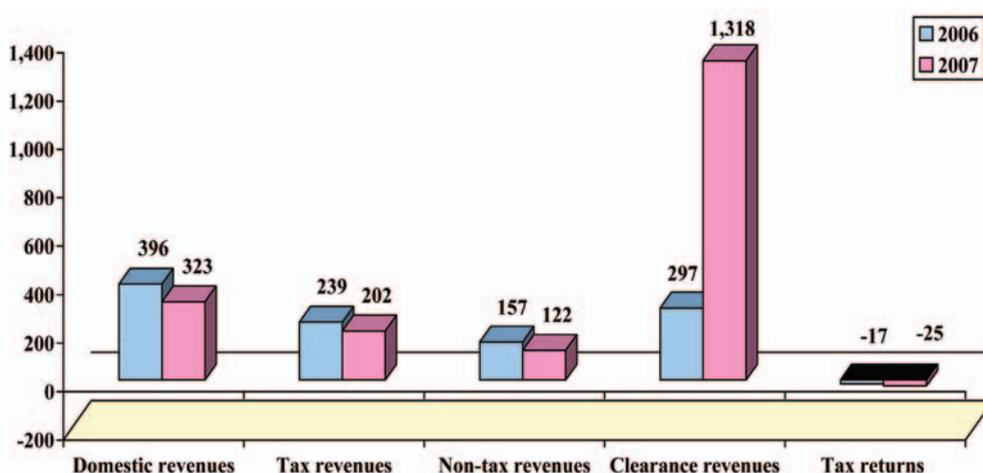
Financial Operations	2006	2007
Net public revenues	676	1,616
Domestic revenues	396	323
- Tax revenues	239	202
- Non-tax revenues	157	122
Clearance revenues	297	1,318
Tax returns (-)	-17	-25
Total current expenditure and net lending		
	1,390	2,567
Salaries and wages	660	1,369
Other current expenses*	393	663
Net lending**	337	535
Balance		
	-714	-951
Budget subsidization	741	1,012
Balance after budget subsidization	27	61
Finance of development costs	281	310
Total balance (incl. development costs)	-254	-249
Other sources of financing		
	254	249
Advances from Palestinian Investment Fund (PIF)	146	78
Net bank finance	-172	-132
External financing for development costs	281	310
External debt	0	0
Remaining balance	-1	-6
Remarks		
Dollar exchange rate, budget	4.5	4.2
Dollar exchange rate, actual (annual average)	4.46	4.1

Source: Ministry of Finance–PA.

* Includes locally funded simple development costs.

** Includes transfers related to marketing oil products.

PA Revenues 2006–2007 (\$ million)



Fifth: Grants and Foreign Aids

As is well known, a severe siege was imposed on the elected Palestinian government in early 2006 with the suspension of foreign aids and grants that were used to support the PA's budget and the Palestinian economy in the WB and GS. This is in addition to the restrictions imposed on the operation of banks to prevent them from dealing with the Palestinian government, and disallowing them to pass funds transferred from some donors to the unified treasury account. However, international aids and grants were resumed in 2006. According to the data of the Ministry of Finance, foreign aid received by the PA from various donors (EU, Arab and Islamic states, Russia, and international organizations and agencies) in 2006 amounted to approximately about \$738.2 million.

Grants and foreign aids in support of the PA's budget in 2007 amounted to about \$1.01 billion, according to the figures of the Ministry of Finance. However, the preliminary estimates indicate an increase in the overall size of grants and international aids in 2007 to approximately about \$1.42 billion.

Parts of these aids were provided without any coordination with the government. Instead, they were received in unsystematic flows of content, management, or dates; which diminished the possibility of managing, directing, planning or investing this aid on the basis of a unified plan or vision. This weakened the Palestinian Authority's financial system and reduced its capacity to influence developments in the economy.

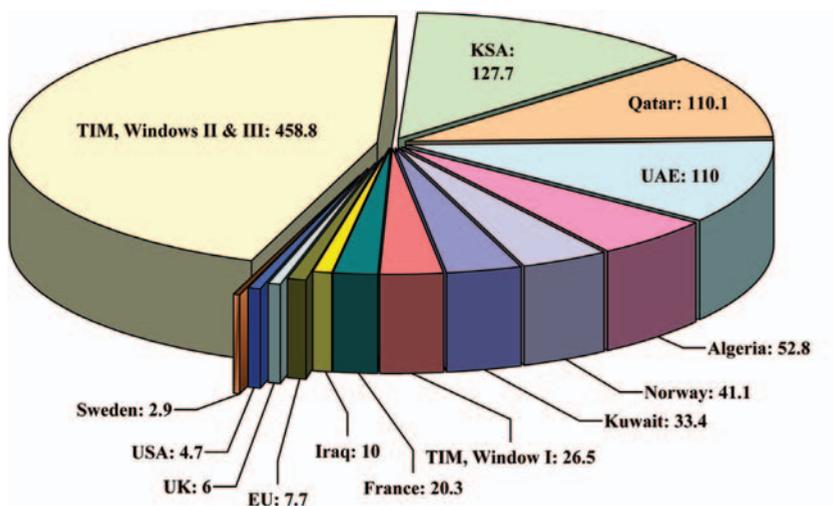
It is also noteworthy that the flow of aid from donor states and organizations resumed directly to the PA following the formation of the caretaker government. Previously, as the flow took indirect forms.

Table 5/8: Foreign Aid for the PA's Budget 2007 (\$ million)

Donor Countries	2007
Qatar	110.1
UAE	110
KSA	127.7
Algeria	52.8
Kuwait	33.4
Iraq	10
France	20.3
Sweden	2.9
Norway	41.1
USA	4.7
UK	6
EU	7.7
Temporary International Mechanism (TIM), Windows II & III	458.8
TIM, Window I, Emergency Services Support Program	26.5
Total External Funding	1,012

Source: Ministry of Finance-PA.

Foreign Aid for the PA's Budget 2007 (\$ million)



The report issued by the EU on the total European aid provided through the Temporary International Mechanism indicated that the total accrued amounts within the program was about €421.07 million (approximately \$632 million) through the three following windows:

1. Window I: It aimed at providing essential supplies and running costs of hospitals and health care centers, education and social services. through the World Bank's Emergency Services Support Program.
2. Window II: The European Commission solely funded this and it is implemented through the Interim Emergency Relief Contribution (IERC). It was used to provide access to electricity, health care, water and sanitation.
3. Window III: It provided payment of social allowances to the poorest (Social Hardship Cases) and to key workers delivering essential public services (Low Income Cases—LIC). Over 77 thousand households receive TIM social allowances under the LIC scheme. The total expenditure through this window was about €225.96 million (approximately \$339 million).

Development and Reform plan

In this context, 87 countries and international organizations pledged, during the “International Donors’ Conference for the Palestinian State” held in Paris on 17/12/2007, to give aid amounting to \$7.4 billion to the PA over a period of three years. The PA had presented the conference with a three-year fiscal framework (the Palestinian Reform and Development Plan—PRDP) that covers the course of 2008–2010. This plan gives off a rescue nature and includes reconstruction of the infrastructure and providing the salaries for the PA employees. It states three major foundations for actual development in the WB and GS:

1. The enforcement of law and order in the WB and GS; and carrying out vital reforms that enable the PA to establish a sustainable economy and active institutions that would form the nucleus of the independent state.
2. The removal of all obstacles put by Israel that hinder the progress of the government and economy, and consequently the establishment of a viable Palestinian state.
3. Requesting the continued support of the international community to the Palestinian people and their steadfastness; and providing coordinated and flexible support to the PA.

The plan promises the donors with achieving real change and development in four areas: good governance, social sector, private sector, and infrastructure. The execution of this plan is based on the implementation of the three aforementioned foundations.

Sixth: The Israeli Siege and Closure

Economic observers notice that the siege and closure imposed by the Israeli occupation on the Palestinian economy over the past years had great negative effect on all sectors of the Palestinian economy. This was due to the link and interrelationship existing between the economy in the WB and GS on the one hand, and the Israeli economy on the other. The post–Oslo years failed to reinforce the Arab and regional depth of this economy, and hence failed to end the state of subservience to and dependence on Israel.

The siege is nothing new. In fact, it is a feature of the Israeli occupation and a vital part of its policy. However, the damage and loss inflicted on the Palestinian economy in 2007 because of the Israeli siege were great. They included the following major features:

- A drop in the production capacity of working facilities.
- A large drop in the employment of the labor force.
- A large drop in sales volume.
- A drop in the construction and services sectors.
- A negative impact on the agricultural sector, due to the procedures applied by Israel to destroy and ruin Palestinian agricultural lands.
- A drop in the volume of investments, in general, and particularly, in the GS.

Following the control of Hamas of the GS on 14/6/2007, Israel intensified the siege on Gaza by sealing off all its access points and isolated it from the outside world. The Israeli government even issued a decision on 23/9/2007 declaring the GS a hostile entity. It punished its residents by allowing only limited amount of food and fuel, into the GS. The Popular Committee Against Siege (PCAS) issued a report explained the impact and results of the siege from all aspects and on all sectors, and on the 1.5 million people living in GS. The Committee mentioned that the direct monthly losses caused by the siege are over \$45 million; \$15 million for the industrial sector, \$10 million for the agricultural sector and \$20 million for

the other sectors: commercial, construction, services and fishing. According to the report, unemployment in the GS exceeded 60%.

The effects of the total closure on the GS (following Hamas's control over the GS) are summarized in the following way:

- Sealing of crossings halted the flow of exports and imports from and to the GS; this led to a negative impact on the capacity of all economic sectors and to severe suffering in all aspects of life.
- More than 90% of industrial establishments in the GS ceased to operate and the number of workers there dropped from 35 thousand to approximately two thousand workers. The same goes true for the agricultural sector, whose exports almost totally ceased. Additionally, more than 80% of the crops were damaged as fertilizers and pesticides were not allowed into Gaza. There was also a major deterioration in the construction, trade and service sectors. Hence, many workers lost their jobs and income.
- Continuous increase in the general level of prices (by approximately 10%). This led to a forced change in the patterns of consumption among Palestinian families.
- Increase in unemployment and poverty. It should be emphasized that unemployment in the GS exceeds 60% of the 300 thousand workers.
- Tourism sector was completely paralyzed. Tourism and travel companies and bureaus are on the verge of bankruptcy. Hotel owners suffered too, as the number of guests were almost nil. In general, hotel activities in the GS suffered a decline in 2007 in terms of the number of guests and nights that were booked compared to 2006. The number of hotel guests dropped by 38.3%, whereas the number of nights that were booked dropped by 17.6%.

Many economists believe that the occupation policies made the GS an unparalleled, catastrophe zone. The population is suffering from a siege that has paralyzed the movement of people and goods from and to the GS and destroyed all forms of trade exchange. Hence, the GS has depended almost totally on importing goods from or through Israel since the start of its siege. The occupation forces do not allow either the entry of any raw material into the GS or the export of any of its products.

Seventh: Work, Unemployment and Living Standard

The Palestinian community is a vigorous one, known for its high rates of fertility, economic dependence and large number of family members compared to regional and international averages. The percentage of individuals under 15 years of age is 45.5% of the population in the WB and GS. The overall fertility rate in the WB and the GS is 4.6 children per woman, with an average of 4.2 children per woman in the WB and 5.4 children per woman in the GS. This explains the high natural growth rates in the WB and GS. The rate of economic dependence has increased, due to the increased rates of unemployment from 4.8% in 2000 to 7.7% in August 2007. This rate rose in the GS to 8.5% due to the total lack of job opportunities, increased rates of unemployment, and increased and rapid spread of poverty due to the siege and tight blockade imposed by the Israeli occupation authorities. Accordingly, the rate of poverty has increased among Palestinian families. The percentage of Palestinians living below the poverty line rose from 22% in 2000 to approximately 67% in 2007, according to the sum total of the figures for the WB and GS. By the end of 2007, the rate of poverty in Gaza reached 90%. The rate of unemployment increased from 11% in 2000 to 40% in 2007. In the GS, this rate exceeded 60% after the intense blockade and siege.

It is worth noting that tens of thousands of Palestinian workers work illegally within the Green Line and without work permits. More than 50 thousand Palestinian workers work inside the line. They are extorted and not paid their full wages and given rights. Additionally, the majority of these workers live in difficult and inhumane conditions, as they live in deserted buildings, which lack basic services.

Eighth: The Banking Sector

Indicators show a 22% growth in the banking sector in the WB and GS in 2007 as compared to 2006. Total bank assets amounted to \$7 billion, the paid capital rose to \$530 million and bank deposits amounted to \$5.1 billion. The banking sector managed to avoid the political tensions resulting from the division that followed the schism in Gaza, isolating the banking system from this condition as

much as possible. Banks overcame the risks posed by the problem of failure to pay salaries and the ensuing liabilities. This situation was a threat to some banks due to the increased rate of loans provided to the employee sector, in WB and GS, in comparison to the overall lending portfolio.

Banks operating in the GS suffered grave crises and immense pressure due to the financial siege imposed by Israel on GS. This led to a shortage in foreign currencies, which are used by Palestinians in their economic dealings. However, the financial exchange transactions in GS continued to be hindered, causing a reduction in the liquidity available there. This is in addition to the threats by Israeli banks to sever their links with banks operating in the GS that dealt with the Hamas government.

Ninth: Consumer Price Index

The PCBS announced in 2007 that the Palestinian Consumer Price Index (CPI) in the WB and GS have increased by 2.69% compared to 2006. The overall CPI with its 1996 base year (1996=100) reached 156.41, as compared to 152.31 in 2006. It might be prudent to be cautious when considering this ratio, as some estimates indicate that CPI increased by 10.5% in 2007. According to the PCBS itself, comparing November 2007 with November 2006, reveals a 5.97% increase in the CPI in the WB and GS. It is also worth noting that this increase was mainly in food and basic supplies, which made the poor families more vulnerable. For example, in August 2007 the price of flour went up by 21.14%, the price of bread by 8.32%, dairy products and eggs by 4.66%, oils and fats by 5.28%, tobacco products by 8.08%, and fuel and energy by 2.35%. Prices of vital commodities increased successively during the following months, while the prices of unessential commodities dropped. Assessing the consumption in US dollar and considering the Jordanian dinar exchange rates, we find that the steep increase in the CPI doubles to 13.6% and 12.9% respectively.

Focusing on Gaza alone, particularly in the second half of 2007, we find that consumers faced tremendous suffering due to the complete siege. Gaza markets witnessed severe deficiency in basic food supplies and a large number of food commodities disappeared from the market. Gaza experienced a rise in

the prices of numerous food and essential commodities and supplies. The report issued by Al Dameer Association for Human Rights indicates that the rise in prices in six months, because of the intense siege since June 2007, ranged between 30–1,000%, depending on the availability of supplies. Following are a few examples of the severe increase in prices, according to the report developed by Al Dameer Association for Human Rights.

Table 6/8: Price Increase in the GS in the Second Half of 2007

Commodity	Weight/ Quantity	Before siege on 15/6/2007		Six months after the siege	
		Price in shekels	Price in dollars*	Price in shekels	Price in dollars*
Meat	1 kg	38	9.9	60	15.7
Chicken	1 kg	-	-	9.5	2.5
Flour	Sack (50 kg)	90	23.5	135	35.2
Sugar	Sack (50 kg)	110	28.7	115	30
Olive oil	Gallon (1 liter)	19	5	21	5.5
Regular tea	1 kg	18	4.7	26	6.8
Horse beans (Ful)	Sack (25 kg)	87.5	22.8	125	32.6
Chickpeas	1 kg	5	1.3	6	1.6
Cement	Sack (50 kg)	16	4.2	200	52.2
White cement	Sack (50 kg)	40	10.4	270	70.5
Home butane	Cylinder (14 kg)	40	10.4	59	15.4
Gasoline	1 liter	5.13	1.3	6	1.6
Diesel fuel	1 liter	3	0.8	5	1.3
White kerosene	1 liter	3	0.8	5	1.3
Cigarettes	1 pack	5–10	1.3–2.6	15–30	3.9–7.8
Molasses tobacco	Small pack	2	0.5	23	6

Source: Al Dameer Association for Human Rights.

*US\$ exchange rate: 3.83 shekels.

Tenth: Palestine Securities Exchange

In spite of the events of 2007 that rocked the different sectors of economic life in the WB and GS, Palestine Securities Exchange (PSE) was slightly affected. The yearly results showed a reasonable drop in the values of circulated shares, which was approximately \$800 million. The market capitalization value at the end of 2007 was approximately \$2.4 billion. The number of transactions exceeded 150 thousands and the volume of circulated shares was approximately 300 million. On the performance level, indicated by the major market indices, al-Quds index closed by the end of 2007 at 527.26 points, dropping 77.74 points, i.e., 12.85% less compared to the 2006 closing. This decrease is due to the fall of the indices of all the sectors, where the banking sector index fell by 23.14%, the industry sector index a drop of 40.27%, the insurance sector a drop of 3.75%, the services sector a drop of 8.82% and the investment sector a drop of 14.39%.

Eleventh: Foreign Trade

The Palestinian economy still suffers from structural disorders due to the Israeli occupation. It remains a “dependent economy,” reliant on Israeli political, security and economic developments. Israel’s control of crossing points, airports and borders greatly affects the Palestinian foreign trade. Israel also uses this situation to grant itself preferential and monopolizing advantages, forcing the Palestinian economy to deal with it as a de facto or as an inevitable choice. As such, Israel has been the origin of 86% of the imports of the PA territories in 2007, and the destination of 64% of the Palestinian exports. Even though the occupation was partially alleviated in the WB, in comparison to the suffocating siege on the GS, yet the deplorable Israeli occupation continued to pin down both areas to prevent the Palestinian economy from achieving any true growth that would actually underscore the abilities and capacities of the Palestinian people.

The figures of the PCBS show that the overall Palestinian exports in 2007 were \$397.4 million, compared to \$339.1 million in 2006. Total imports in 2007 were about \$2.61 billion, compared to about \$2.84 billion in 2006. The following table depicts the Palestinian foreign trade with the countries of the world, according to the PCBS.

Table 7/8: Total Value of Exports, Imports, Net Balance and Transaction Trade in Goods for WB* and GS 1995–2007 (\$ million)

Year	Total value of exports	Total value of imports	Net balance trade	Transaction trade
1995	394.2	1,658.2	-1,264	2,052.4
1996	339.5	2,016.1	-1,676.6	2,355.6
1997	382.4	2,238.6	-1,856.2	2,621
1998	394.8	2,375.1	-1,980.3	2,769.9
1999	372.1	3,007.2	-2,635.1	3,379.3
2000	400.9	2,382.8	-1,981.9	2,783.7
2001	290.3	2,033.6	-1,743.3	2,323.9
2002	240.9	1,515.6	-1,274.7	1,756.5
2003	279.7	1,800.3	-1,520.6	2,080
2004	312.7	2,373.2	-2,060.5	2,685.9
2005	335.4	2,666.8	-2,331.4	3,002.2
2006**	339.1	2,835.4	-2,496.3	3,174.5
2007***	397.4	2,605	-2,207.6	3,002.4

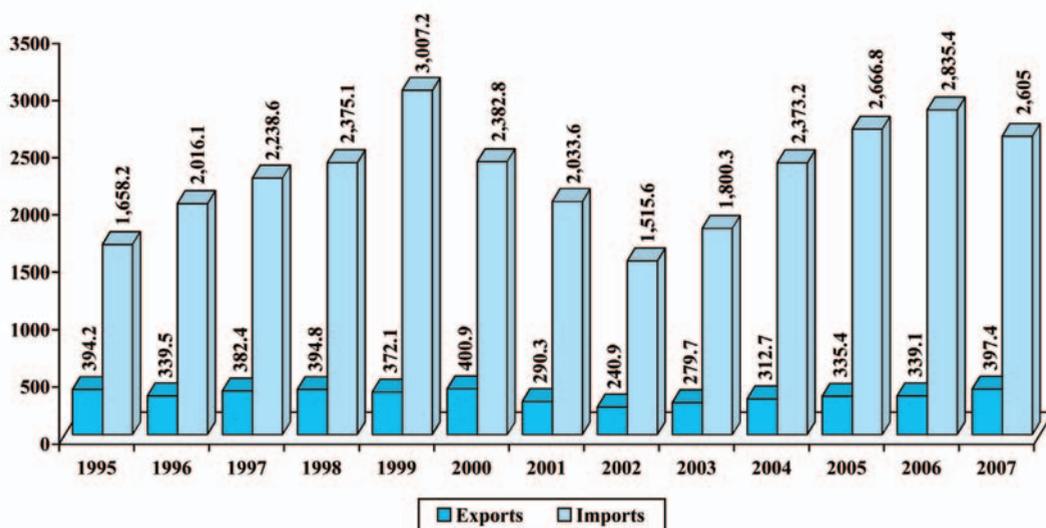
Source: PCBS.

* Excluding the areas of East Jerusalem which were annexed by Israel in 1967.

** Preliminary data–PCBS.

*** Estimated data.

Total Value of Exports and Imports of WB and GS 1995–2007 (\$ million)



Twelfth: Management of the Economic Situation by the PA and the Government

The PA has no economic and developmental vision, and this has had detrimental effects on the Palestinian economy. In fact, the economic reality in the presence of the PA has been, in many aspects, worse than the periods preceding its advent following the Oslo agreement. The major factor of the increasing economic ordeal under the PA is the absence of its sovereignty over the land and population, as it has no power to make and implement sovereign decisions on the Palestinian ground. The Paris Economic Agreement also intensified its dependence and imposed additional restrictions on the Palestinian economy to increase its dependence on the Israeli occupation authorities, who have full control of the land, borders, crossing points and barricades, and hence control of the internal and external trade sectors in the WB and GS. Following the advent of the PA, the Israeli occupation authorities continued to be the actual controller of the economy and of its capacities to develop and grow.

The PA should have developed plans to break free from the restrictions of the Israeli occupier and encourage the establishment of a public economic sector that would have worked towards producing part of the local market's basic needs and towards assisting the private sector to increase its investments in the productive sectors. This should have been done instead of building a sluggish and aged bureaucratic apparatus that set the authority's expenditure far beyond its resources and subjected it to the stipulations of donor states. This brought recipes for increasing and entrenching the dependence of the Palestinian economy in the WB and GS on the Israeli economy.

The mismanagement and corruption that are the characteristics of the PA have contributed to exacerbating the Palestinian economy's ordeal and increasing its dependence on external directives and wills. This has maximized the dependence of the Palestinian economy on the occupier and aggravated its crises. The overall indicators of this economy show a large increase in unemployment and external and internal debts. Prices have increased, the citizen's purchasing power has declined, as has their ability to save, and the Palestinian trade's dependence on the occupier has increased.

To emerge from the economic ordeal experienced by the WB and GS, the current dominant approach must be changed and different policies that will end the Palestinian economy's dependence on the occupier. This is to be done by adopting policies based on developing national production, encouraging productive investments, combating corruption, and following scientific management policies that enjoy credibility and transparency. Ending the dependence of the Palestinian economy on the Israeli economy is a process that can only succeed when there are policies, plans and actual activity on the ground that work towards linking the Palestinian economy with other Arab economies, benefiting from the abilities of the Arab markets, and realizing free and varied external economic relationships.

Thirteenth: The Economic Link with Israel

The policies and practices of the Israeli occupying authorities have contributed to deepening the dependence of the Palestinian economy on the Israeli economy, marred it with structural distortions, and made it weak, fragile and dependent. Controlling the crossing points and borders has placed external trade in the WB and GS under the full control of the Israeli occupation authorities. The Palestinian market has become the second largest market for Israeli exports. As such, the contribution made by the industrial sector remained within the same limits as it was in 1967. Because of the siege, blockade, prevention of movement of people and goods, separation of markets, destruction of the infrastructure and control of external trade, the GDP suffered fluctuations that affected the level and development of economic life in the WB and GS. A number of factors have led the Palestinian economy to be a slave economy with the following features: mandatory customs unity with Israel under an open market system; high direct taxes; dependence and reliance on Israeli economy. Furthermore, the use of the Israeli currency in the WB and GS has enabled the Israeli occupying authorities to tighten their hold on the Palestinian economy and control its development. It has also made the Palestinian economy sensitive to any fluctuations in the value of shekel and Israeli monetary policies, and it has weakened the ability of the Palestinian people to save and invest.

Conclusion

The deep economic crisis suffered by the WB and GS cannot be discussed and the attempts to solve it cannot be made unless the current Palestinian reality is taken into consideration. The features of this reality are:

- The presence of an occupier with racial practices.
- The current efforts to intensify the partition between the WB and GS.
- The resulting signs and indicators of political, economic and social disintegration.
- The ordeal of Israel's unilateral control over the form and essence of proposed solutions in accordance with its political and security aims.
- Pushing the Palestinian people towards despair and helplessness.
- The degradation and weakness of the Palestinian political system within both the PA and the PLO. A continuation of this situation will lead to the total destruction of the Palestinian national liberation endeavor.

Therefore, finding solutions for the economic crisis in the WB and GS requires working towards the development of a new formula and vision that replaces the previous means and methods, and towards the development of an equation, that concurrently combines politics and economy. This is because all the signs indicate that it would be difficult to fulfill the development and growth of the Palestinian economy under the presence of the Israeli occupation and its destructive policies.

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This Report

Al-Zaytouna Centre is glad to present to its reader The Palestinian Strategic Report 2007, the third in an annual series. The Report aims at monitoring the Palestinian issue through an informative and analytical approach. The Report covers the Palestinian internal political situation, issues concerning the Land and the holy sites, the economy, the Palestinian demographic indicators, the Israeli scene and the Israeli-Palestinian relations. It focuses on the Arab, Islamic, and international stances towards the Palestinian issue.

This Report is distinguished for its updated information till the end of 2007 and for its outstanding team of academics and experts.

Despite the unfortunate state of schism that characterized the Palestinian arena, and despite the hot and sensitive issues discussed, the Report did its best to be professional, scientific and objective. Thus, this Report is a distinguished addition to the Palestinian studies.

The Palestinian Strategic Report 2007



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