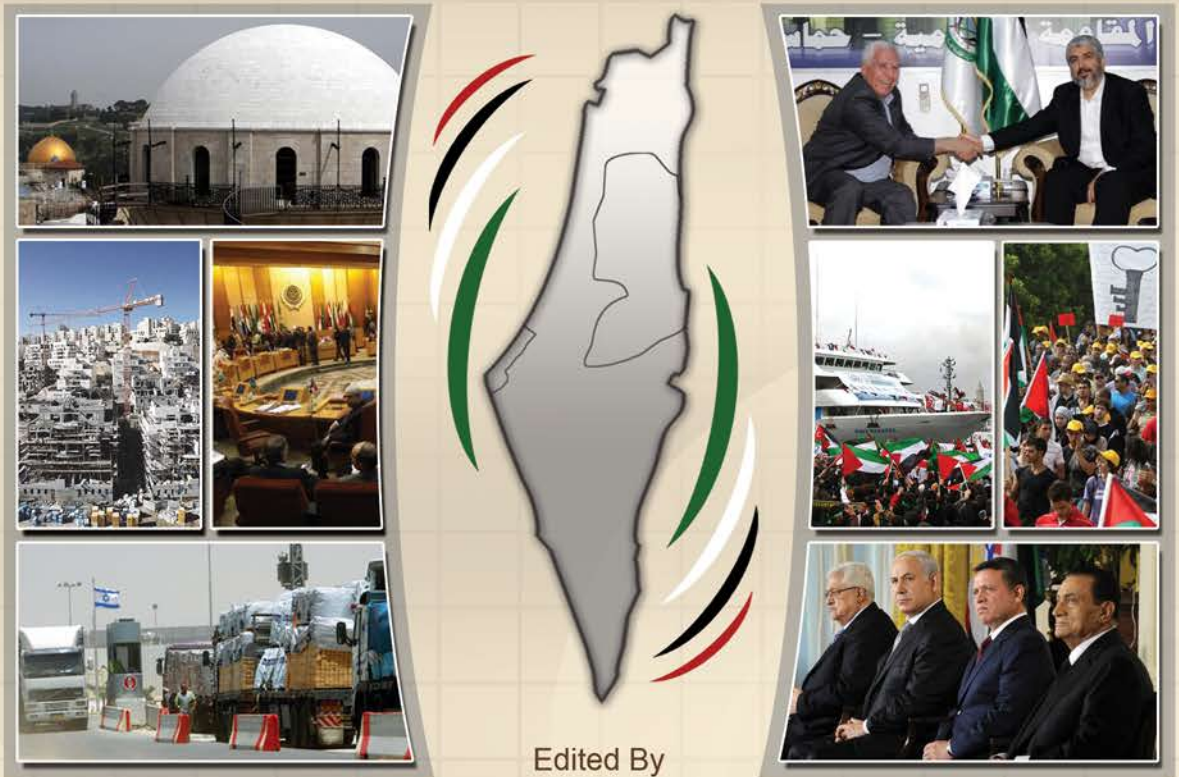


# The Palestinian Strategic Report 2010/11



Edited By

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# **Chapter Eight**

*The Economic Situation in the  
WB and GS*

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# The Economic Situation in the WB and GS

## *Introduction*

While the reasons of the economic crises around the world have much to do with problems emanating from rising prices, inflation, the discrepancy between supply and demand, scarcity of resources, volatility of stock and bond markets, unemployment and poverty, the essence of the problems faced by the Palestinian economy is the Israeli occupation. Indeed, it is a brutal occupation seeking to destroy the infrastructure, agricultural wealth and factories, and to disrupt trade, confiscate property, besiege people and create repellent environment which suppresses the promising potentials of the Palestinian economy.

This chapter tries to provide an overview of the Palestinian economy in the WB and the GS during 2010 while trying to explore its future prospects. Even if the economy has achieved some positive results, as we shall see, its development depends on a number of factors the most notable of which are ending the occupation, achieving security and political stability besides the full investment of material and human resources in a free, transparent environment which fights corruption.

## *First: Indicators of Economic Development*

The Gross Domestic Product (GDP) is considered an important indicator of national economic growth which reflects the changes in production activity in a specific year compared to previous years. Thus, it facilitates the assessment of the overall economic performance and the scope of its progress or decline.

Despite the criticism directed at this indicator, it is still considered one of the most important progress criteria worldwide together with GDP per capita.

### **1. GDP Growth**

Generally speaking, the year 2010 showed an increase of 9.3% in the GDP in the WB and GS, excluding those parts of Jerusalem which were annexed by Israel in 1967, as compared to 7.4% in 2009. The GDP increased from \$5,241.3 million

to \$5,728 million. The growth achieved in the first half of the year was relatively high amounting to an average of 5.5% as compared to 3.8% in the second half of the same year (see table 1/8).<sup>1</sup> These results are consistent with the expectations of the World Bank and the IMF regarding the continued growth, yet at less frequency.<sup>2</sup>

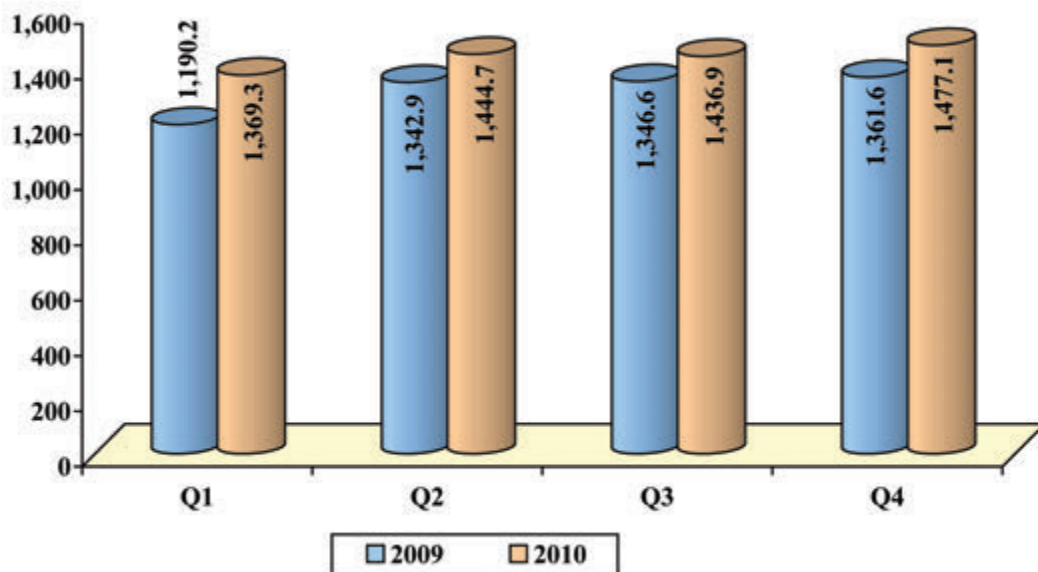
**Table 1/8: Quarterly and Annual GDP Growth in the WB and GS 2009–2010 at Constant Prices: Base Year 2004 (\$ million)**

Quarter (Q)	2009	2010*	Annual and quarterly growth rate (%)
Q1	1,190.2	1,369.3	3.6
Q2	1,342.9	1,444.7	1.9
Q3	1,346.6	1,436.9	1.7
Q4	1,361.6	1,477.1	2.1
<b>Total</b>	<b>5,241.3</b>	<b>5,728</b>	<b>9.3</b>

Note: The data excludes those parts of Jerusalem which were annexed by Israel in 1967, and this will be applied to all tables in this chapter.

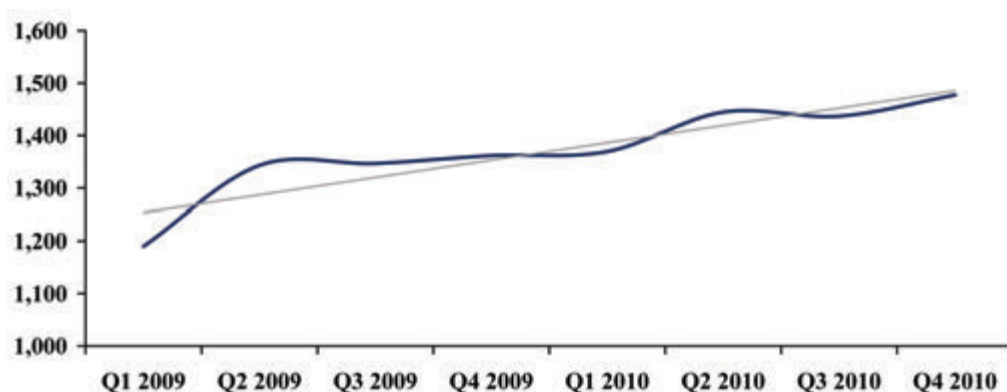
\* Figures of the first three Qs are second revision while those of Q4 are flash estimates.

**Quarterly GDP in the WB and GS 2009–2010 (\$ million)**



Tracing the quarterly growth of the GDP in 2009 and 2010 shows a growth estimated at 3.1%. Thus, the general track of the growth tended to increase despite its fluctuation where an increase amounting to \$33.1 million was achieved every quarter year starting from \$1,222.2 as shown in the following chart.

**General Trend of the Quarterly GDP Growth 2009–2010 (\$ million)**



Tracing the growth of the GDP over a period of time extending from 1999 to 2010 shows that an average annual growth has been achieved at 2.2%, i.e., the GDP tends to increase albeit slightly (see table 2/8).

**Table 2/8: GDP in the WB and GS 1999–2010 at Constant Prices\* (\$ million)<sup>3</sup>**

Year	1999	2000	2001	2002	2003	2004
<b>GDP</b>	4,511.7	4,118.5	3,765.2	3,264.1	3,749.6	4,198.4
<b>Average annual growth or deterioration (%)</b>	+8.8	- 8.7	- 8.6	-13.3	+14.9	+12

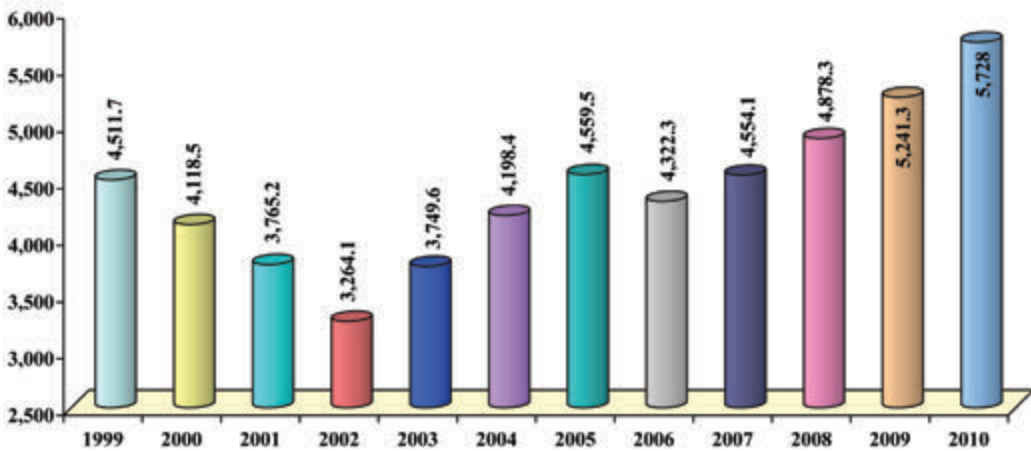
Year	2005	2006	2007	2008**	2009**	2010***
<b>GDP</b>	4,559.5	4,322.3	4,554.1	4,878.3	5,241.3	5,728
<b>Average annual growth or deterioration (%)</b>	+8.6	-5.2	+5.4	+7.1	+7.4	+9.3

\* Base year for the period 1999–2003 is 1997 and for the period 2004–2010 is 2004. This should apply to all tables.

\*\* First revision.

\*\*\* Flash estimates.

**GDP in the WB and GS 1999–2010 (\$ million)**



Comparing the figures in the above two tables, shows that the GDPs in 2009 and 2010 are the best as compared to 1999–2010 period.

On the other hand, tracking the Israeli GDP which amounted to \$195,377 million in 2009 and \$217,134 million in 2010, we notice that it is 38 folds higher than the Palestinian GDP (3,791%). This discrepancy shows the dire impact of the Israeli occupation on the Palestinian economy and the repercussions of preventing the Palestinians from using their potentials freely and efficiently.

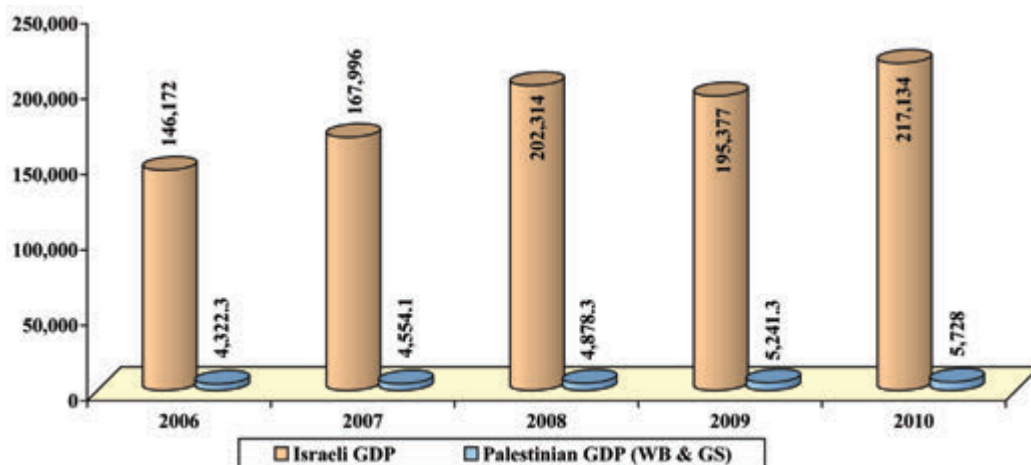
**Table 3/8: Comparing the Israeli and Palestinian GDP 2006–2010 (\$ million)<sup>4</sup>**

Year	Israeli GDP	Palestinian GDP (WB & GS)
2006	146,172	4,322.3
2007	167,996	4,554.1
2008	202,314	4,878.3*
2009	195,377	5,241.3*
2010	217,134	5,728**

\* First revision.

\*\* Flash estimates.

**Comparing the Israeli and Palestinian GDP 2006–2010 (\$ million)**



The GDP of the WB represented the greater part of the GDP in the WB and GS as it amounted to 76.5% in 2010 compared to 23.5% in the GS. This means that the GS share in the GDP is low especially when compared to the total population in the WB and GS. The population in the latter reached 1.56 million in 2010, i.e., 38% of the total Palestinian population in the WB and GS.<sup>5</sup> The difference in the GDPs of the WB and GS dates back to before 1967 and is due to many factors, mainly the large disparity in the population size between the two, their workforce, land and natural resources. The following table displays the quarterly GDP growth in the WB and GS in 2010.

**Table 4/8: Quarterly GDP Growth in the WB and GS 2010 at Constant Prices (\$ million)<sup>6</sup>**

Quarter	WB		GS		WB & GS	
	GDP	%	GDP	%	GDP	%
Q1*	1,046.7	(...)	322.6	(...)	1,369.3	(...)
Q2*	1,118.9	+6.9	325.8	+1	1,444.7	+5.5
Q3*	1,078.4	- 3.6	358.5	+10	1,436.9	- 0.5
Q4**	1,137.4	+5.5	339.7	- 5.2	1,477.1	+2.8
<b>Total</b>	<b>4,381.4</b>	<b>(...)</b>	<b>1,346.6</b>	<b>(...)</b>	<b>5,728</b>	<b>(...)</b>

Note: (...) means unavailable data and this should apply to all tables.

\* Second revision.

\*\* Flash estimates.



**The General Trend of the Quarterly GDP Growth in the WB and GS 2010**  
 (\$ million)

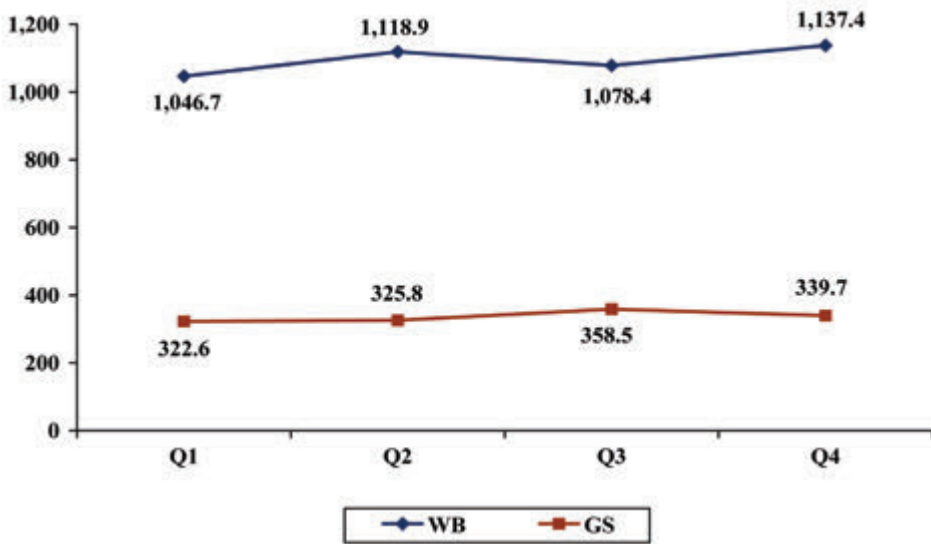


Table 4/8 shows the clear disparity in the quarterly GDP growth rates in the WB and GS. Thus, a positive 5.5% growth was achieved in Q4 2010 in the WB compared to Q3 2010, while a negative 5.2% growth was achieved in the GS over the same period.

It is striking that a negative growth rate of 3.6% was recorded in Q3 2010 in the WB as compared to that of Q2 2010, while the growth rate increased by 10% in the GS over the same period. Despite the siege, high growth was achieved after Israel was forced to take additional measures to ease the access restrictions that it had imposed on GS, in a partial or limited way. These measures followed Israel’s attack on the Freedom Flotilla in late May 2010 and led to an increase in the number of truckloads entering GS from 2,425 on a monthly average in the first half of 2010 to 4,167 truckloads in the second half, i.e., a 71.8% increase. Consequently, this increase was reflected on the level of production and economic growth in Q3 and Q4. However, this level remained low compared to the January 2005–May 2007 monthly average of 10,400 truckloads.<sup>7</sup> Thus it could be said that the GDP growth in the WB and GS varied from one period of time to another.

The disparity between the economic situation of the WB and GS was further enhanced by the Israeli siege and the consequent measures in addition to the current state of Palestinian division. Indeed, it has attracted the attention of research centers concerned with studying economic issues in the WB and GS.<sup>8</sup>

It is worth mentioning that the growth was partly achieved because of the international support for the PA, which amounted to \$1,763.1 billion in 2008 and continued in 2009 with slight deterioration as it amounted to \$1,401.7 billion. In 2010, this support decreased to around \$1,277 billion.<sup>9</sup>

### Gross National Disposable Income (GNDI)

On another hand, it is possible to benefit from the indicators of the GNDI measures available income of residents, which can be spent on consumption of goods and services (locally produced or imported goods and services) or for savings. GNDI can be measured by adding the following components: Gross National Income (GNI), current payable current taxes on income and wealth and others payable to residents, residents social security contributions and revenues, net insurance premiums and claims other than life insurance payable to residents, local different transactions, current transactions of non-residents (which can take any of the aforementioned forms), less the same articles above on payments side.

GNDI can also be measured in a simplified way by adding the net transactions from non residents to the GNI.

**Table 5/8: GNI and GNDI 2008–2010 at Constant Prices (\$ million)<sup>10</sup>**

Year	Indicator	WB		GS		WB & GS	
		Value	%	Value	%	Value	%
2008	GNI	4,159.4	76.9	1,250.4	23.1	5,409.8	100
	GNDI	5,897.3	71	2,411.2	29	8,308.5	100
2009	GNI	4,467.2	78.1	1,249.5	21.9	5,716.7	100
	GNDI	5,643.7	73.5	2,038.9	26.5	7,682.6	100
2010*	GNI	4,797.7	79.4	1,243.3	20.6	6,041	100
	GNDI	5,041	71	2,062	29	7,103.8	100

\* The figures of 2010 are estimated data based on the growth rates of 2008 and 2009.

## 2. The GDP per Capita Growth

This measure is considered one of the most widespread indicators reflecting the average per capita income owing to the ease of calculation and the possibility of comparing it on the domestic and international levels. However, it does not reflect the distribution of income among citizens and thus remains a general normative indicator.

In addition, the calculation of the GDP per capita comes in response to the increase in the Palestinian population size, whether from one quarter year to another or from one year to another; where this change is continuously increasing in spite of the natural population decline.

The natural population growth rate in the WB and GS has reached 2.9% in the mid of 2010, with 2.7% in the WB and 3.3% in GS.<sup>11</sup> This means that to keep the GDP per capita without any decrease then it is important to maintain a minimum of 2.9% of GDP growth at constant prices.

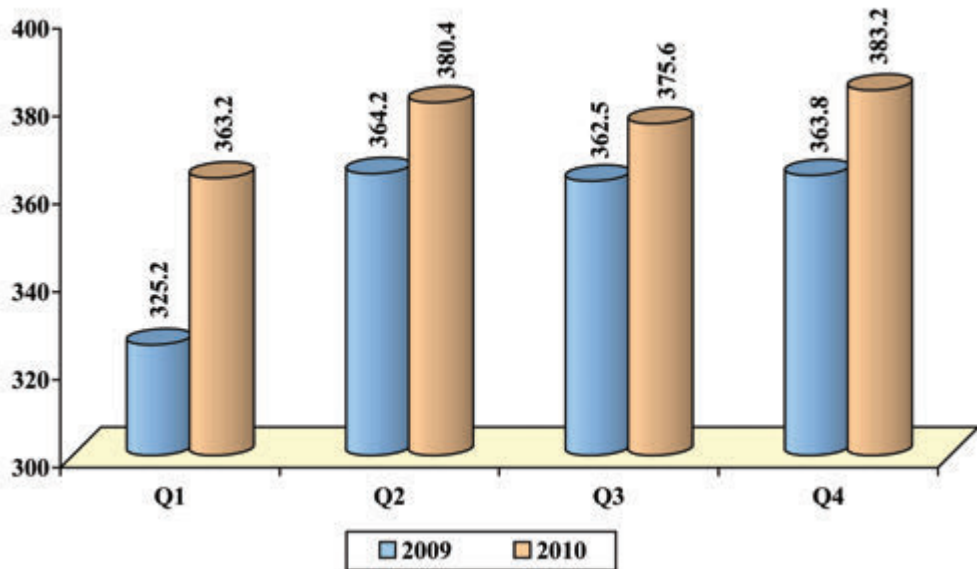
Since the society's aspirations require the achievement of a further increase of GDP which leads to improving the standards of living of the population, the efforts should always be directed at achieving a GDP growth higher than the natural population increase. This is what actually happened in 2010 and what is expected to happen in the coming years.

The GDP per capita in 2010 has increased to \$1,502.4 compared to \$1,415.7 in 2009 thus achieving a growth estimated at 6.1%. Table 6/8 displays the evolution of the quarterly GDP per capita in 2009 and 2010.

**Table 6/8: Quarterly Evolution of GDP per Capita in the WB and GS  
2009–2010 at Constant Prices (\$) <sup>12</sup>**

Quarter	2009		2010	
	GDP per capita	Quarterly growth (%)	GDP per capita	Quarterly growth (%)
Q1	325.2	(...)	363.2	- 0.2
Q2	364.2	+12	380.4	+4.7
Q3	362.5	- 0.5	375.6	- 1.3
Q4	363.8	+0.4	383.2	+2
<b>Total</b>	<b>1,415.7</b>	<b>(...)</b>	<b>1,502.4</b>	<b>(...)</b>

## GDP per Capita in the WB and GS 2009–2010 (\$)



Comparing the GDP in the WB and GS on one hand versus the GDP per capita on another hand, we notice that the GDP per capita remains always lower than the growth of the GDP given that there is a population growth to be taken into account.

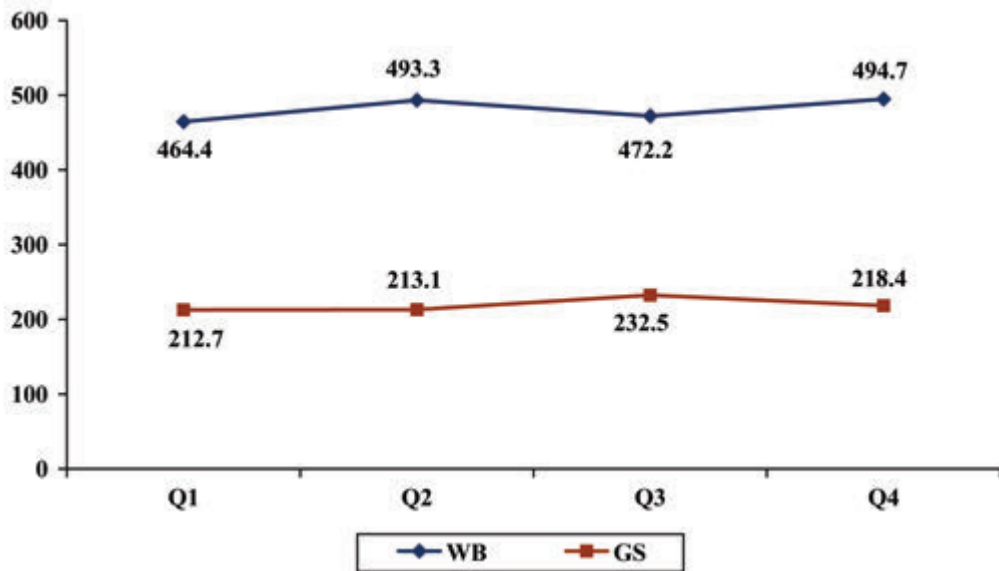
However, if we compare the 2010 GDP per capita in the WB with that in GS, we notice a discrepancy between the two sides and a higher level in the WB. In the WB, the per capita has achieved a positive growth of 4.8% in Q4 2010 compared to the Q3 of the same year, while GS achieved a negative growth of 6.1% over the same period (see table 7/8).

It is striking that a negative growth rate of 4.3% was recorded in Q3 2010 in the WB as compared to that of Q2 2010, while the growth rate increased by 9.1% in the GS over the same period. This increase is an outcome of the Israeli measures to ease the access restrictions that it had imposed on GS. It had positively reflected on the GDP and consequently on the GDP per capita. In this respect, the value added by construction sector in the GS GDP increased from \$27 million in Q2 2010 to \$46.2 million in Q3 2010. However, it decreased in the WB from \$110.7 million to \$100.9 million over the same period.

**Table 7/8: Quarterly Evolution of GDP per Capita in the WB and GS 2010 at Constant Prices (\$) <sup>13</sup>**

Quarter	WB		GS		WB & GS	
	GDP per capita	Quarterly growth (%)	GDP per capita	Quarterly growth (%)	GDP per capita	Quarterly growth (%)
Q1	464.4	(...)	212.7	(...)	363.2	(...)
Q2	493.3	+ 6.2	213.1	+ 0.2	380.4	+ 4.7
Q3	472.2	- 4.3	232.5	+ 9.1	375.6	- 1.3
Q4	494.7	+ 4.8	218.4	- 6.1	383.2	+ 2
Total	1,924.6	(...)	876.7	(...)	1,502.4	(...)

**General Trend of the Quarterly Evolution of GDP per Capita in the WB and GS 2010 (\$)**



The GDPs per capita in the WB and GS in 1999–2010 show that in 1999 it reached \$1,612 and then deteriorated and fluctuated in the following years without restoring its original size (see table 8/8).

**Table 8/8: GDP per Capita in the WB and GS 1999–2010**  
**at Constant Prices (\$)¹⁴**

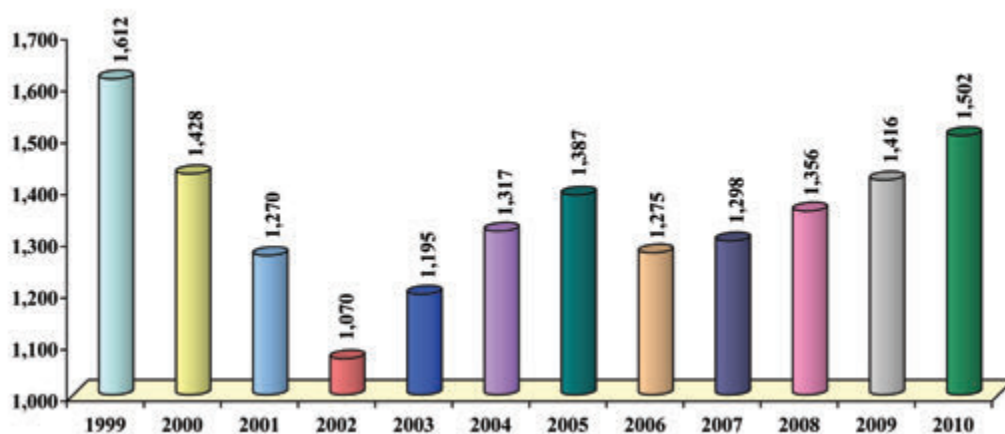
Year	1999	2000	2001	2002	2003	2004
Annual value	1,612	1,428	1,270	1,070	1,195	1,317

Year	2005	2006	2007	2008	2009	2010
Annual value	1,387	1,275	1,298	1,356	1,416	1,502

Note: The figures above are rounded to the nearest integer.

**GDP per Capita in the WB and GS 1999–2010 (\$)**



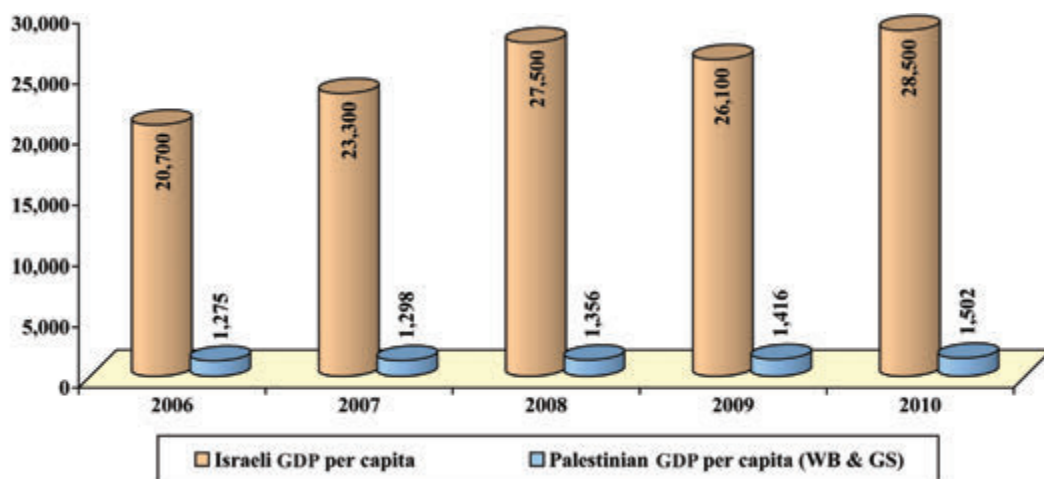
Israel’s GDP per capita amounted to \$26,100 in 2009 and \$28,500 in 2010; making it crystal clear how the Israeli individual has enjoyed a higher standard of living at the expense of the Palestinian individual and his pains. As a matter of fact, the average 2009 Israeli per capita income was 18 folds higher than the Palestinian per capita income and around 19 folds in 2010. While the Palestinians do not lack the human potential and capabilities, it is easy to highlight the Israeli role in weakening the development opportunities and the chances of improving the living standards of the Palestinian individual.

**Table 9/8: Comparing the Israeli and Palestinian GDP per Capita  
2006–2010 (\$) <sup>15</sup>**

Year	Israeli GDP per capita	Palestinian GDP per capita (WB & GS)
2006	20,700	1,275
2007	23,300	1,298
2008	27,500	1,356
2009	26,100	1,416
2010	28,500	1,502

Note: The figures above are rounded to the nearest integer.

**Comparing the Israeli and Palestinian GDP per Capita 2006–2010 (\$)**



### 3. Consumption, Saving and Investment Indicators

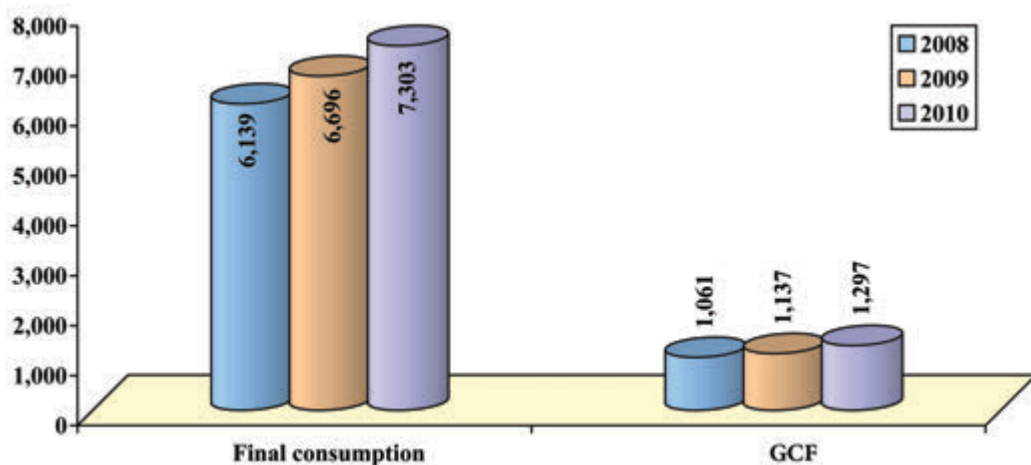
Based on the figures of the PCBS regarding the final consumption in the WB and GS during 2008 and 2009, it is expected to amount to \$7,303 million in 2010 with a growth rate estimated at 9.1% compared to 2009. Regarding Gross Capital Formation (GCF), estimates show that it amounted to \$1,297 million in 2010 with a growth rate amounting to 14.1% compared to 2009.

**Table 10/8: Final Consumption, GCF and Savings in the WB and GS  
2008–2010 at Constant Prices (\$ million)<sup>16</sup>**

Indicator	2008			2009			2010*		
	WB	GS	Total	WB	GS	Total	WB	GS	Total
<b>Final consumption</b>	4,559	1,580	<b>6,139</b>	5,084	1,613	<b>6,696</b>	5,669	1,634	<b>7,303</b>
<b>GCF</b>	958	103	<b>1,061</b>	1,088	49	<b>1,137</b>	1,202	95	<b>1,297</b>
<b>Savings</b>	1,338	832	<b>2,170</b>	560	426	<b>986</b>	418	211	<b>629</b>

\* The figures of 2010 are estimated and are based on the growth rates of 2008 and 2009.

**Final Consumption and GCF in the WB and GS 2008–2010 (\$ million)**



Based on the above, we notice a continued increase in the level of final consumption whether in the WB or GS in a way which exceeds the GDP. The same applies to the GCF with an ongoing decrease in the savings. This might be due to the fact that the per capita national disposable income is still low compared to the essential needs.

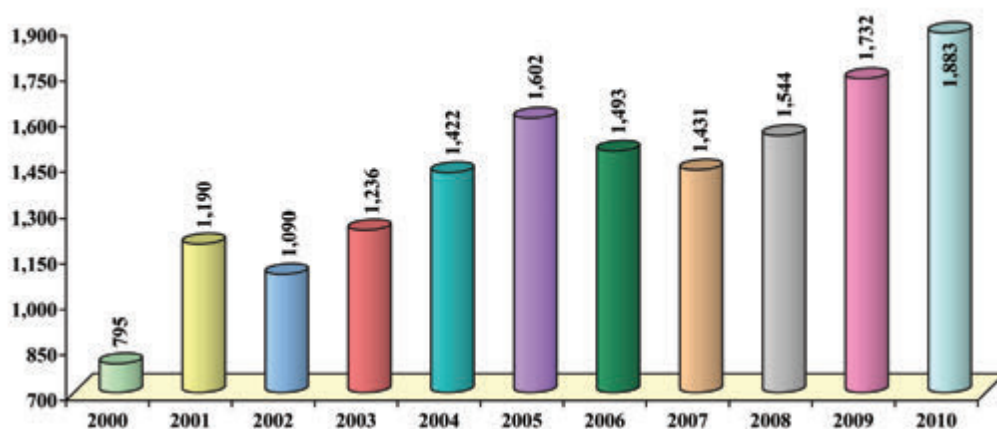
#### 4. Public Debt

The total public debt increased continuously in 2009–2010. It increased from \$1,732 million in 2009 to \$1,883 million in 2010, i.e., 8.7%. The table below shows the evolution of total public debt over 2000–2010.



**Table 11/8: Total Public Debt Evolution 2000–2010 (\$ million)**<sup>17</sup>

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Total public debt</b>	795	1,190	1,090	1,236	1,422	1,602	1,493	1,431	1,544	1,732	1,883

**Total Public Debt Evolution 2000–2010 (\$ million)**

### ***Second: The PA's General Budget (Ramallah)***

The general budget of any country reflects the governmental role in economic activity through two essential tools: public revenues and public expenditures, which together form the state general budget. In addition, these two tools could be used to achieve the general fiscal policy of the state.

The government in any country is required to perform the usual duties towards its citizens to meet the needs of the widest possible segment of the population. These duties are public and indivisible, thus there is no substitute for the government.<sup>18</sup>

The success of the government in achieving its economic role depends on collecting sufficient public revenues without overburdening the citizens. Sometimes, the government has to borrow money from local or international

financial institutions or it might resort to issuing more national currency while ignoring safety standards. However, this policy might lead to inflation which varies according to what extent the standards are exceeded.

As for the PA, it has not been able to issue national currency or liberate itself from the Israeli control. Consequently, it is deprived of the revenue which any country should get when the Central Bank issues national currency, taking into account the strenuous efforts to transform the Palestine Monetary Authority (PMA) into a Central Bank with full powers including the issuance of national currency.<sup>19</sup>

In the light of this situation, donor countries were committed since the signature of the Declaration of Principles on Interim Self-Government Arrangements in 1993—Oslo Accords—to provide financial support till the establishment of the Palestinian state and meet all its financial responsibilities. However, the financial support mentioned has been allocated to close the general budget deficit. Thus, the support of the donor countries has become a prominent feature of the Palestinian financial situation in addition to focusing on financing development expenditures.

The annual increase of the budget is not unusual especially on the level of expenditures. This was the case with the PA budget which has grown even further in light of the decline in private sector investments and in production activity, in addition to the limited job opportunities it is likely to provide. This was coupled with a wide gap between public expenditures and revenues, reaching 83.9% in 2008 and was covered by external funding.

To follow the evolution of the PA's general budget and analyze the fiscal situation in 2010 in particular, we address the general budget as follows:

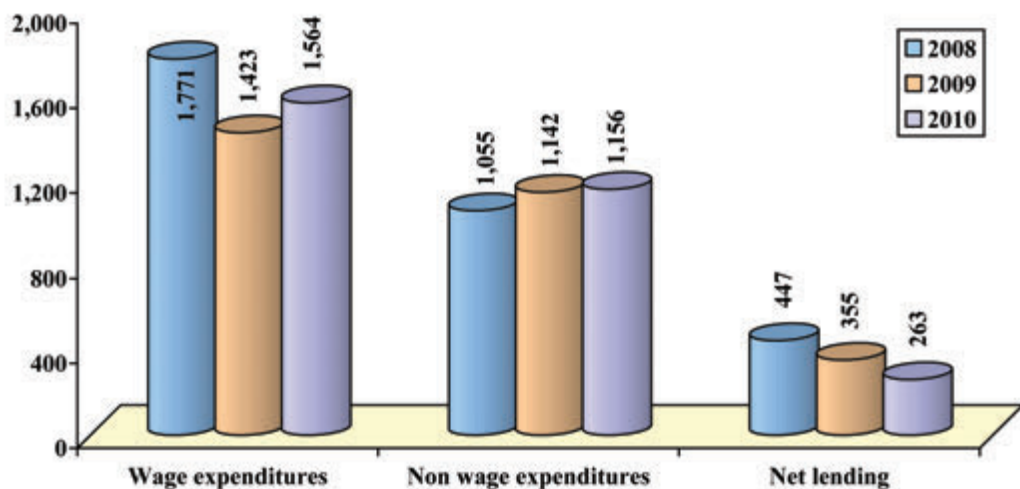
### **1. Expenditures**

The expenditures of the PA have increased year after year, from 2008 to 2013, as shown in the following table:

**Table 12/8: Evolution of the PA Expenditures 2008–2013 (\$ million)<sup>20</sup>**

Fiscal operation	Actual						Budget*		Projections					
	2008		2009		2010		2010		2011		2012		2013	
	value	%	value	%	value	%	value	%	value	%	value	%	value	%
Wage expenditures	1,771	54.1	1,423	48.7	1,564	52.4	1,550	48.9	1,710	53	1,796	53.3	1,885	53.8
Non wage expenditures	1,055	32.2	1,142	39.1	1,156	38.8	1,370	43.2	1,358	42	1,426	42.3	1,497	42.8
Net lending	447	13.7	355	12.2	263	8.8	250	7.9	160	5	147	4.4	120	3.4
<b>Total expenditures and net lending</b>	<b>3,273</b>	<b>100</b>	<b>2,920</b>	<b>100</b>	<b>2,983</b>	<b>100</b>	<b>3,170</b>	<b>100</b>	<b>3,228</b>	<b>100</b>	<b>3,369</b>	<b>100</b>	<b>3,502</b>	<b>100</b>

\* There are relative differences between the 2010 budget and the actual figures.

**Evolution of the PA Expenditures 2008–2010 (\$ million)**


The previous table shows the following:

- The wage expenditures on PA employees is considered the main expenditure provision in the budget, where it represented an average of 52.6% of total expenditure and net lending, over the period 2008–2013 with a general increasing trend.

The wages share of GDP is estimated at 36.3% in 2008, 27.1% in 2009 and around 27.3% in 2010. However, it is expected to decrease to 17.1% in 2013 according to the report of Staff Report for the Meeting of the Ad Hoc Liaison Committee (AHLC). The decrease in wage percentage share of GDP has to do with the PA budget policy in 2011. It considered that the increase in the wage bill would be limited to an adjustment of 3.5% in wage rates to compensate for the 2010 inflation, the 1.25% automatic yearly increase, and the increase in net employment by three thousand employees. This means that structural reforms will include diminishing the share of the PA employees relative to the whole Palestinian workforce. To guarantee the success of the previous step, bold measures are needed to reach a comprehensive civil service reform that would reduce the wage bill while improving public sector efficiency. It will become increasingly difficult to reduce the wage bill by relying on a “blanket” restraint on wage rates and new employment. Notwithstanding this notable decreasing trend and its significance, this percentage is still significantly higher than the 10–15%, which is typical of countries at a similar stage of development.<sup>21</sup>

- Non wage expenditures, including transfers and operational expenditures, continued to rise during 2008–2010. This increase is expected to continue in the next three years.
- Net lending, a PA commitment, constituted 13.7% of public expenditure in 2008 with an inclination to decrease year after year to reach 8.8% in 2010. This refers to improved control, inducements to pay bills and increasing the amounts paid by the Gaza Electricity Distribution Company. Accordingly, this reflects an inclination towards decreasing this fiscal operation which is a burden for the government budget.

## **2. Public Revenues<sup>22</sup>**

Total net revenues decreased in 2009 by 13% compared to 2008 and increased by 22.8% in 2010. According to the Staff Report for the Meeting of the AHLC, total net revenues are expected to increase from \$1,780 million to \$3,051 million during 2008–2013, at annual growth rate 11.4%. This increase is due to the continued control by the PA of the general fiscal operations in 2008 where total net revenues achieved about 6% growth, which is generally consistent with the budget orientations.<sup>23</sup>

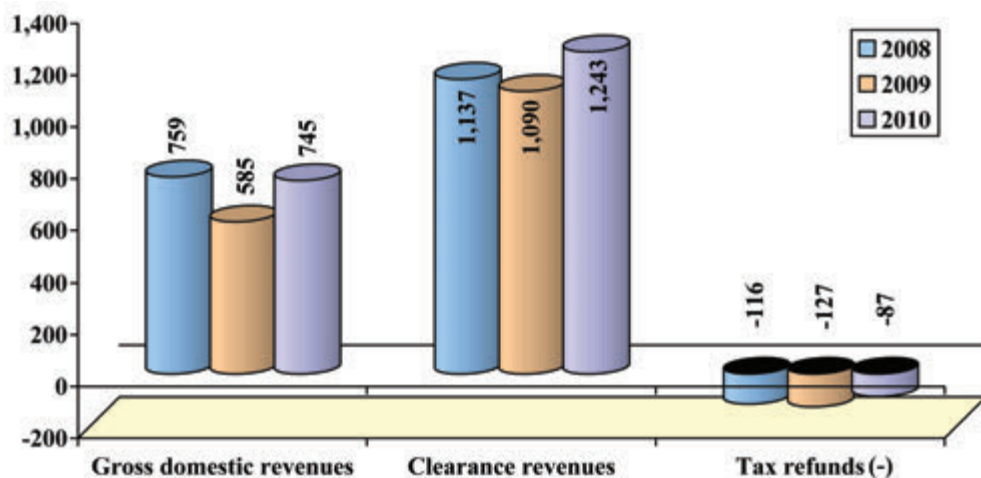
On another hand, the activation of tax revenues since 2007 has led to improving domestic revenues thus leading to lowering total external support from \$1,978 million in 2008 to \$1,277 million in 2010. This is part of the inclination to dispense with the use of foreign donations to reduce the budget deficit (see tables 13/8 and 26/8).

**Table 13/8: Evolution of the PA Revenues 2008–2013 (\$ million)<sup>24</sup>**

Fiscal operation	Actual			Budget*	Projections		
	2008	2009	2010	2010	2011	2012	2013
Gross domestic revenues	759	585	745	707	810	1,010	1,303
Tax refunds (-)	- 116	- 127	- 87	- 100	- 107	- 121	- 137
Net domestic revenues	643	458	658	607	703	889	1,166
Clearance revenues	1,137	1,090	1,243	1,320	1,442	1,649	1,885
<b>Total net revenues</b>	<b>1,780</b>	<b>1,548</b>	<b>1,901</b>	<b>1,927</b>	<b>2,145</b>	<b>2,538</b>	<b>3,051</b>
Net domestic revenues to total net revenues (%)	36.1	29.6	34.6	31.5	32.8	35	38.2

\* There are relative differences between the 2010 budget and the actual figures.

**Evolution of the PA Revenues 2008–2010 (\$ million)**



Comparing the total net revenues to the GDP, it is clear that the assumed ratio will decrease from 36.5% to 27.7% during 2008–2013. This is a negative indicator of improvement in taxation and financial efficiency regarding the various forms of revenues.

Tracking the forms of revenues, in terms of their structure or components, we find that they consist of two major parts: domestic revenues, which include taxes and services fees, and the clearance revenues, which Israel collects and transfers to the PA. These latter revenues comprised the major part of public revenues in 2008, 2009 and 2010 and amounted to 63.9%, 70.4% and 65.4% respectively.

Although both kinds of revenues assume an increasing trend, the growth of domestic revenues will assume higher rate especially between 2010 and 2012. These revenues are collected by different government bodies, which might lead to progress in total financial performance. Given the growth rate of net domestic revenues, these revenues are expected to amount to around 38.2% in 2013 as compared to 36.1% in 2008. This expected growth is due to the PA continued efforts to strengthen the management of public revenues which would contribute to the implementation of varied measures aiming at enhancing transparency and accountability since 2007. This comes together with the enforcement of tax management with technical support from the United States Agency for International Development (USAID).

In light of the improvement of tax collection and the consequent increase in tax revenues, in addition to the reasonable reduction in expenditures according to priorities, the deficit in the PA budget is likely to decrease. Worth of mention is that the World Bank has praised the implementation of the PA's reform agenda, where in the first half of 2010, tax revenues were nearly 15% above budget projections.<sup>25</sup>

The expectations for the coming years are based on the continuation of the political and economic conditions which have prevailed during 2007–2010. However, the collapse of the peace process, the failure of the negotiations with the Israeli side, the likelihood of the outburst of a new *Intifadah* and the deterioration of relations between the PA and the Israeli government might lead to completely different results. On another hand, the Palestinian reconciliation agreement signed on 3/5/2011 will open the door for different scenarios including the return of the siege of the WB, Israel's withholding of tax revenues from the PA besides preventing financial aid and international support for the Palestinian government. It is not likely for the PA, in the light of this reconciliation, to develop its economic capacities effectively, unless genuine pressures were exercised on the Israeli side.

### 3. General Budget Deficit

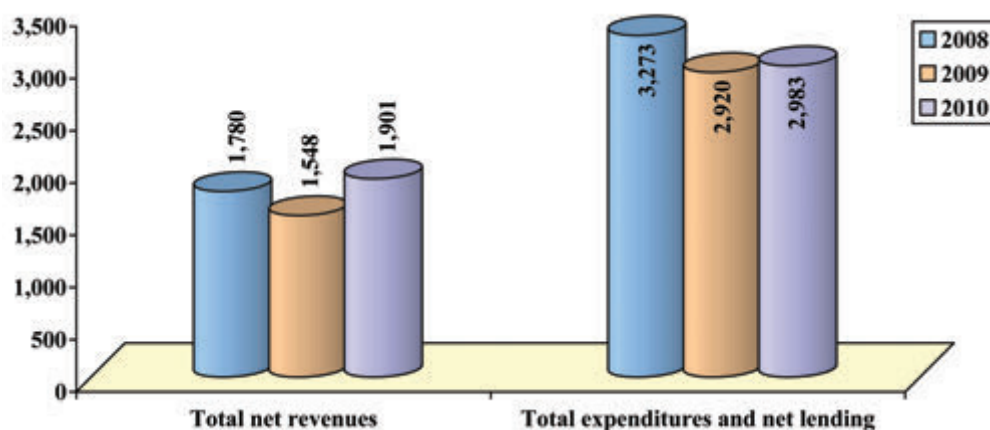
The PA revenues and expenditures show that the 2009 budget deficit reached \$1,372 million as compared to \$1,493 million in 2008. Hence, it fell by \$121 million, i.e., an annual average of 8.2%. The 2010 budget deficit reached \$1,082 million, thus falling by 21.1% from a year earlier level. According to the Staff Report for the Meeting of the AHLC, and provided the stability of the economic and political conditions, the 2013 budget deficit it expected to decrease gradually till it reaches \$451 million. This is due to the expected growth of future revenues at a rate faster than the growth of public expenditures as shown in the following table:

**Table 14/8: Evolution of the PA Budget Deficits 2008–2013 (\$ million)**

Fiscal operation	Actual			Budget*	Projections		
	2008	2009	2010	2010	2011	2012	2013
Total net revenues	1,780	1,548	1,901	1,927	2,145	2,538	3,051
Total expenditures and net lending	3,273	2,920	2,983	3,170	3,228	3,369	3,502
Balance	- 1,493	- 1,372	- 1,082	- 1,243	- 1,083	- 831	- 451

\* There are relative differences between the 2010 budget and the actual figures.

**PA Revenues and Expenditures 2008–2010 (\$ million)**



Tracing the final balances of 2008, 2009 and 2010 and the relevant estimates over the following years, the deficits reached 30.6%, 26.2% and 18.9% of the GDPs, respectively. These deficits represent a major burden for national economy, and were covered by donor countries. Consequently, the PA was strengthened in the face of any collapse or severe financial crises.

This was a motivation for seeking appropriate policies to remedy the deficit through activating revenues and reducing rapid growth of expenditures, with the hope that the deficit be diminished to a minimum amounting to \$451 million in 2013. It is important to mention here that the PA has to adapt its finances to dispense completely with foreign financial aid since it is likely to stop at any time.

### ***Third: The Budget of the Caretaker Government in GS***

On 31/12/2009, the 2010 general budget of the caretaker government in GS was adopted. The expenditures were estimated at \$540 million with an 89.1% deficit. These expenditures were used to cover wage expenditures by 37%, operational expenditures by 11%, transfers by 28%, development expenditures by 18.5%, whereas 5.5% were used for the development of Jerusalem.<sup>26</sup> However, what was actually spent amounted to \$297.31 million, thus accounting for 55.1% of what was estimated.

The domestic revenues in 2010 amounted to \$83.01 million while the government received an external budgetary support of \$149.19 million. Thus, the actual deficit in the budget amounted to around \$65.11 million. The majority of the budget was spent to cover wage expenditures which amounted to \$228.73 million, i.e., around 76.9% of total expenditures.

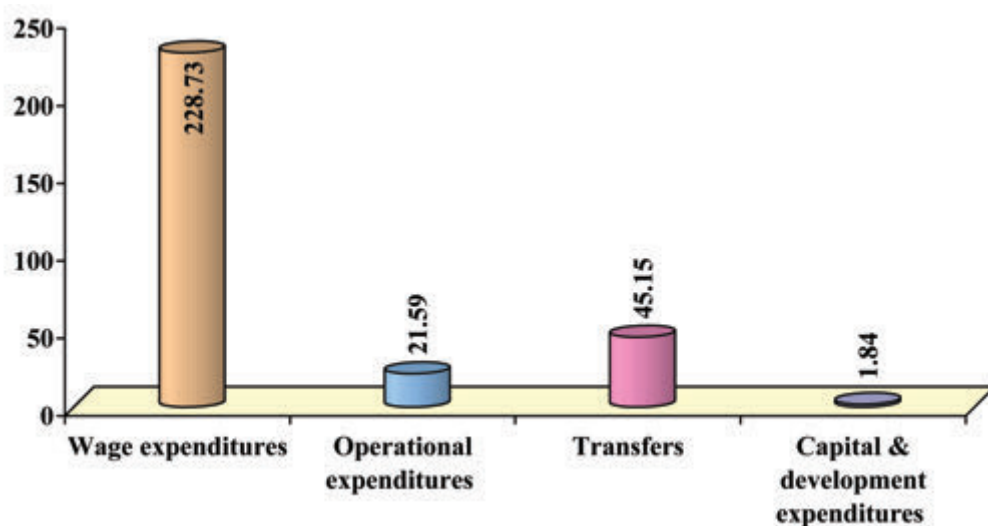
The following table shows the budget of the Caretaker Government in GS in 2010.



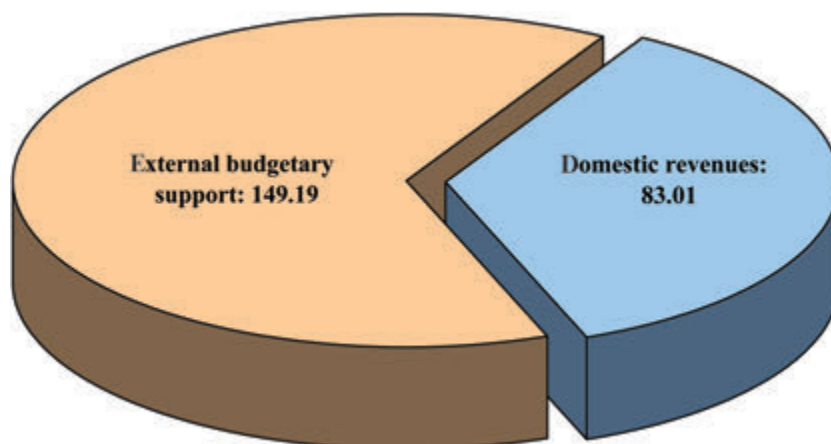
**Table 15/8: Fiscal Operations of the Caretaker Government in GS  
2010 (\$ million)<sup>27</sup>**

Fiscal operation	Value
<b>Total revenues &amp; external budgetary support</b>	<b>232.2</b>
– Domestic revenues	83.01
– External budgetary support	149.19
<b>Total expenditures</b>	<b>297.31</b>
– Wage expenditures	228.73
– Operational expenditures	21.59
– Transfers	45.15
– Capital & development expenditures	1.84
<b>Actual deficit</b>	<b>– 65.11</b>

**The Expenditures of the Caretaker Government in GS 2010 (\$ million)**



**The Revenues of the Caretaker Government in GS 2010 (\$ million)**

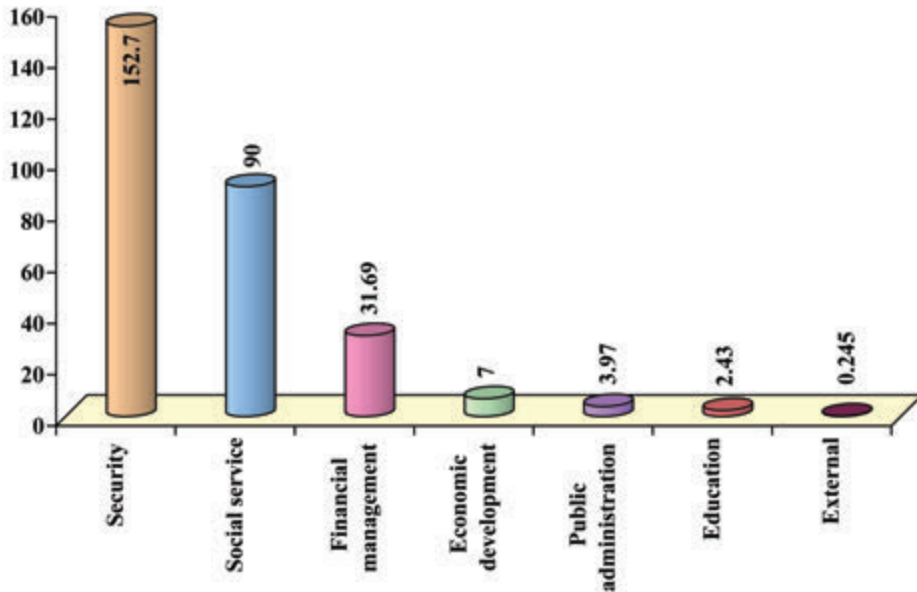


The security sector has garnered the highest share of expenditures amounting to \$152.7 million, whereas the social service sector received around \$90 million. On the other hand, the economic development sector only received \$7 million, while the education sector share was around \$2.43 million. The following table shows the actual expenditures of a number of sectors of the caretaker government in GS during 2010.

**Table 16/8: Actual Expenditures of a Number of Sectors of the Caretaker Government in GS 2010 (\$ million)<sup>28</sup>**

Sector	Value
Security	152.7
Social service	90
Financial management	31.69
Economic development	7
Public administration	3.97
Education	2.43
External	0.245

### Actual Expenditures of a Number of Sectors of the Caretaker Government in GS 2010 (\$ million)



The previous figures show the hardship of the caretaker government in GS because of the siege and its need to manage different sectors within the minimum means available.

## *Fourth: Work and Unemployment*

### **1. Importance of the Human Element**

The human element is one of the most important elements of production in any society. It is the source needed to provide goods and services essential to domestic and international markets alike. In addition, the human element is the target of production activity, since people are the source of demand for goods and products, whether local or imported.

### **2. Man Power, Labor Force and Employed Persons**

According to the PCBS figures, labor force participation rate in the WB and GS reached 41.1% in 2010 compared to 41.6% in 2009.<sup>29</sup>

**Table 17/8: Man Power, Labor Force and Employed Persons in the WB and GS 2009–2010 (thousands)<sup>30</sup>**

	2009				2010			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Man power</b>	2,255.1	2,276.8	2,298.6	2,320.7	2,342.4	2,365	2,387.2	2,490.7
<b>Labor force</b>	934	949.8	955.4	963.5	953.9	980.4	966.9	1,001.2
<b>Employed persons</b>	697.1	738.7	709.2	724.2	743.7	755.9	709.5	767.2

Table 17/8 shows that the indicators above are likely to grow where the man power increased from around 2.26 million people in Q1 2009 to around 2.49 million in Q4 2010 at quarterly average amounting to 1.4%.

The number of persons participating in labor force increased in the same period from 934 thousand to one million persons at quarterly growth rate 1% only. This means that the growth of the population at working-age was faster than the growth of persons participating in labor force. Consequently, the entrants to the labor force increased at lower rate, where they amounted to 40.2% of the total man power in Q4 2010; thus comprising a low percentage if compared to the previous few years. The number of employed persons increased during the same period from 697.1 thousand to 767.2 thousand, i.e., at a quarterly average amounting to 1.4%. This growth is also considered low compared to the population growth, which is thus reflected on the increasing rates of unemployment.

On another hand, in Q4 2010, around 64.1% of the employed persons work in the WB compared to about 25.7% in the GS. There are also 78,800 workers from the WB, who are employed in Israel and Israeli settlements, i.e., around 10.3% of the total employed persons.<sup>31</sup> This means that a major segment of the employed Palestinians work in Israel and the settlements. However, this is limited to the employment in the WB as Israel still imposes siege on the GS preventing the Gazans from working inside Israel.

Concerning the distribution of employed persons by economic activity, a relative decline was noticed in commodity sectors compared to larger growth in the service sectors. In Q4 2010, those working in agriculture, fishing, forestry, mining, quarrying, manufacturing and construction represented 35.9% of employed persons, compared to 64.1% in other sectors over the same period.<sup>32</sup>

### 3. Unemployment

The high level of unemployment in the WB and GS is one of the Palestinian intractable economic problems which have persisted since the outbreak of *al-Aqsa Intifadah* in late September 2000. In 2010, unemployment rate amounted to 17.2% in the WB compared to 37.8% in GS. The unemployment rate in the WB and GS reached 23.7%, which is one of the highest internationally and in the Arab world.<sup>33</sup>

Given the continuity of unemployment over the past years, it is considered as a chronic rather than emergent or temporary situation. Accordingly, this problem needs radical solutions which suit its nature, size and forms and the mobilization of all national efforts to solve it. The following table shows the evolution of unemployment over quarters of 2008, 2009 and 2010 in the WB and GS.

**Table 18/8: Quarterly Evolution of Unemployment in the WB and GS  
2008–2010<sup>34</sup>**

Year	Quarter	WB & GS		WB (%)	GS (%)
		Number (thousands)	%		
2008	Q1	197.6	22.6	19	29.8
	Q2	231.8	25.8	16.3	45.5
	Q3	252.1	27.5	20.7	41.9
	Q4	250.4	27.9	19.8	44.8
2009	Q1	236.9	25.4	19.5	37
	Q2	211.1	22.2	15.9	36
	Q3	246.2	25.8	17.8	42.3
	Q4	239.3	24.8	18.1	39.3
2010	Q1	210.2	22	16.5	33.9
	Q2	224.5	22.9	15.2	39.3
	Q3	257.4	26.6	20.1	40.5
	Q4	234	23.4	16.9	37.4

The number of unemployed remained high ranging between 197.6 and 257.4 thousand persons during the quarters of 2008–2010 with obvious difference between the rates of the WB and the GS and among governorates. Ultimately, the unemployment rate in the GS is higher than that in the WB amounting to around the double.

There is no doubt that the war launched by Israel on GS in late 2008 and early 2009 has exacerbated the situation there due to the destruction of many industrial enterprises, agricultural land and infrastructure. Still, the rate of unemployment in the GS decreased in Q1 2009 to 37% after it reached 44.8% in Q4 2008, and that was due to the new projects that were implemented by international organizations in GS.

These conditions have many negative consequences, which include increasing the poverty gap between different social strata, and the concentration of wealth in the hands of a few, thus creating wealth distribution imbalance. Although the government has tended to raise taxes on high-income earners, in order to increase its resources and decrease unemployment rates, this measure was to no avail.

The results indicated in the Labour Force Survey in 2010 that in the WB and GS unemployment was concentrated among the youth aged 15–24 years at 38.8%; 36.8% for males and 49.6% for females. These high rates are because this age group includes new job seekers whether school dropouts or university graduates. Consequently, they find difficulty getting suitable jobs and many of them have to wait many years to get one.<sup>35</sup>

#### **4. Child Labor**

The phenomenon of child labor is widespread in the WB and GS. This is due to poor living conditions and high unemployment rates. Consequently, many children have to leave school, look for a job, and suffer harsh conditions while they try to support their families. Some of them work as beggars, others risk their lives trying to sell candies in the streets.

On the other hand, some children have to assume arduous jobs with long work hours under unfit inhumane conditions, in return for low wages and a dim future. They have to sacrifice the opportunity of going to school with their peers. This phenomenon requires more attention from the competent authorities given its gravity and implications.<sup>36</sup>

#### **5. Investment Growth and Employment Opportunities**

There is a close correlation between the growth of investments on one hand and increasing job opportunities on the other. Thus, governmental bodies are keen to promote investments by all possible means, particularly investments of the private sector since it is open for all production activities and able to withstand business risks.

This is undoubtedly related to the efforts of the official authorities to overcome the obstacles facing investors. Yet, it remains subject to the facilitations which Israel might grant or withhold. Therefore, we expect progress in employment opportunities especially with increased investments of the private sector in services and production activities.<sup>37</sup>

## *Fifth: Industrial and Agricultural Activity*

### **1. Industrial Activity**

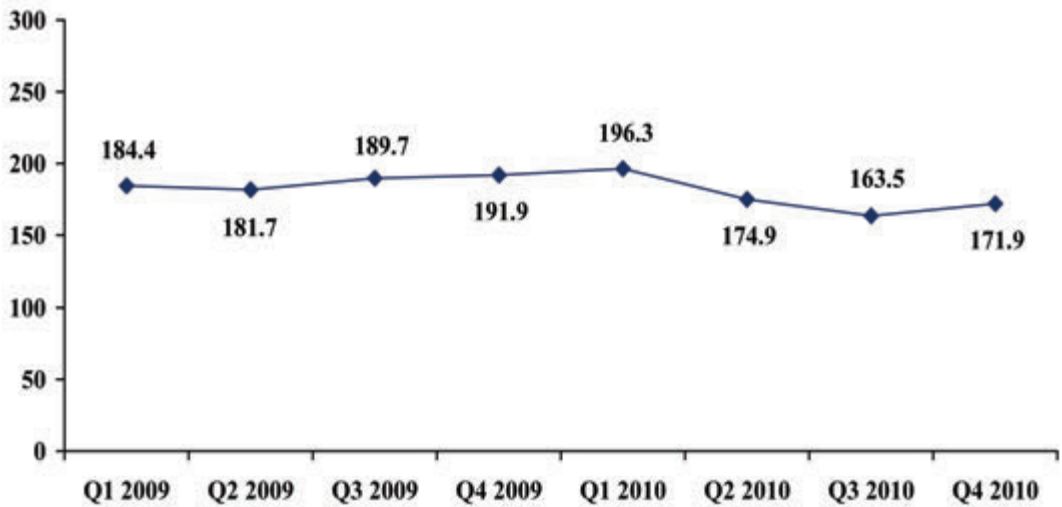
Developed countries owe their achievements to industrial activity, which is considered one of the leading sectors that enhance economic growth. It has the ability to produce huge amounts of diverse and advanced services and goods based on the use of advanced technology. Therefore, many countries take measures to promote the industrial sector so as to join international markets and dispose with major amounts of surplus products intended for export, thus securing substantial financial resources.

In general, the industrial activity witnessed a decline in 2010 estimated at 5.5% compared to 2009. Table 19/8 shows the fluctuation of the industrial activity growth compared to 2009 as the general trend is inclined to a quarterly negative growth estimated at 1% over the mentioned quarters.

**Table 19/8: Quarterly Evolution of GDP Growth of Industrial Activity in the WB and GS 2009–2010 at Constant Prices (\$ million)<sup>38</sup>**

Quarter	2009		2010	
	GDP	Quarterly growth (%)	GDP	Quarterly growth (%)
Q1	184.4	(...)	196.3	+ 2.3
Q2	181.7	- 1.5	174.9	- 10.9
Q3	189.7	+ 4.4	163.5	- 6.5
Q4	191.9	+ 1.2	171.9	+ 5.1
<b>Total</b>	<b>747.7</b>	<b>(...)</b>	<b>706.6</b>	<b>(...)</b>

**General Trend of the Quarterly Evolution of GDP of Industrial Activity in  
the WB and GS 2009–2010 (\$ million)**



Examining the entire industrial activity in the WB and GS in 1999–2010, we find that industrial GDP has maintained a relatively stable growth where it increased from \$655.5 million to \$706.6 million at 7.8% and annual rate 0.7%. Industrial GDP reached a peak in 2005 amounting to \$789.1 million compared to lowest rate in 2002 estimated at \$534.7 million with margin rate 47.6%. The improvement might be due to the presence of suitable economic conditions including an economic climate conducive to achieving industrial growth. On the other hand, the role of this activity is diminished under unfavorable economic conditions. In all cases, it is not possible to ignore the Israeli policies impeding industrial activity including the repression of *al-Aqsa Intifadah* and the continuous efforts to subjugate the Palestinian people. Consequently, industrial activity witnessed a decline especially in 2000–2003, but started to recover with the end of the *Intifadah*. However, it started to suffer again after Hamas won the elections and formed the 10th and 11th governments, then because of the Israeli siege imposed on the GS (see table 20/8).



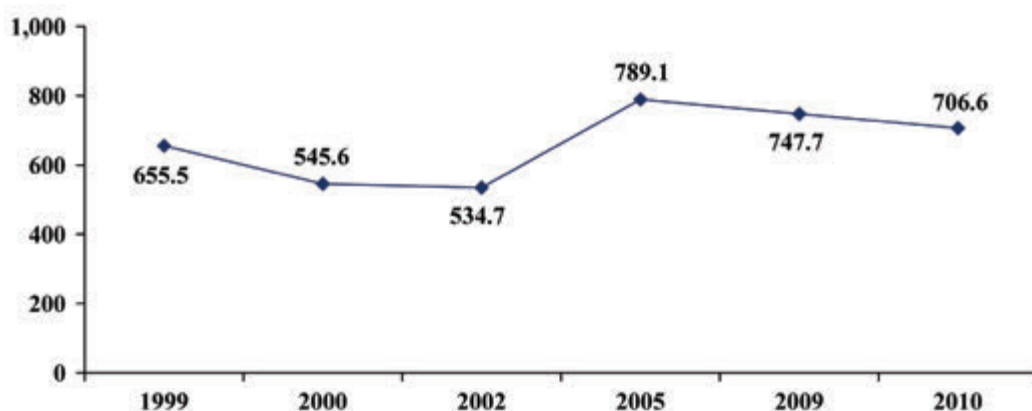
**Table 20/8: Evolution of GDP by Industrial Activity in the WB and GS for Selected Years at Constant Prices (\$ million)<sup>39</sup>**

Economic activity	1999	2000	2002	2005	2009*	2010**
Mining and quarrying	35.7	23.8	25.2	40.8	22.6	23.2
Manufacturing	566.4	472.4	385.9	591.8	539.8	507.8
Electricity & water supply	53.4	49.4	123.6	156.5	185.3	175.6
<b>Total</b>	<b>655.5</b>	<b>545.6</b>	<b>534.7</b>	<b>789.1</b>	<b>747.7</b>	<b>706.6</b>

\* First revision.

\*\* Flash estimates.

**General Trend of the Evolution of GDP of Industrial Activity in the WB and GS for Selected Years (\$ million)**



The industrial activity includes three main sectors: mining and quarrying, manufacturing, and electricity and water supply. It is noticed that manufacturing has represented the highest share of industrial activity where it accounted for 86.4% and 71.9% in 1999 and 2010 respectively. Yet, the role of manufacturing industry is declining in favor of water, gas and electricity supply which has increased from 8.1% to 24.9% for the two mentioned years respectively. The decline in manufacturing activity is due to the obstacles facing industrial activity including the competition from the Israeli products and WB settlement products, besides the Israeli siege of GS. On the other hand, activities related to gas and electricity supply tend to increase from year to year to meet the increased daily demand of

the consumers. The mining activity is focused in the WB and it is affected by the restrictions on freedom of movement and what Israel allows in this respect.

## 2. Agricultural Activity

Agricultural activity is a vital and traditional one. It is based on the production of essential food crops indispensable for human and animal life alike, and has been a source of livelihood for a large number of workers. In addition, it provides local markets with their needs of most types of cereals, vegetables and fruits.

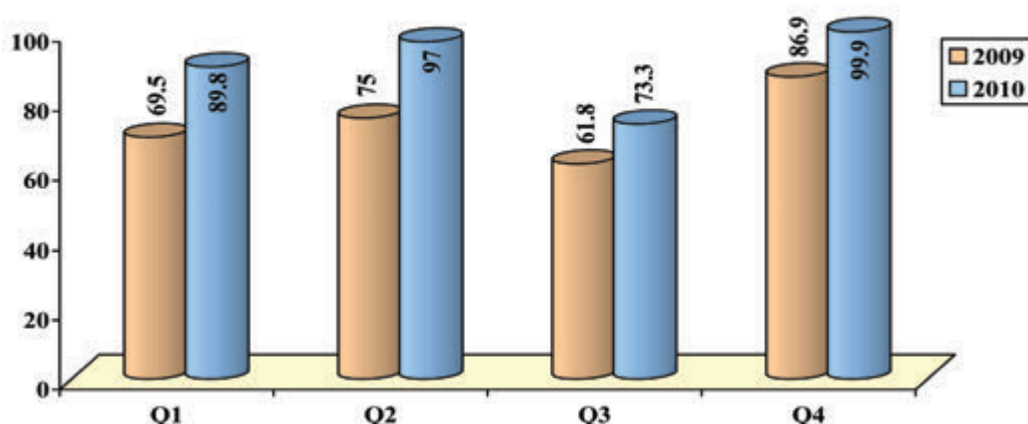
The Palestinian farmer has been able to dispose of a large part of the surplus production in foreign markets. Thus, the proceeds from exports formed an important source of foreign currency necessary to pay for imported goods and reduce its trade balance of payments deficits.<sup>40</sup> Moreover, the importance of this activity is further obvious in exceptional situations such as crises, wars and the increase in the prices of cereals and essential crops (see table 21/8).

**Table 21/8: Quarterly Evolution of Agriculture GDP in the WB and GS 2009–2010 at Constant Prices (\$ million)<sup>41</sup>**

Year	Q1	Q2	Q3	Q4	Total
2009	69.5	75	61.8	86.9	293.2
2010*	89.8	97	73.3	99.9	360

\* Figures of the first three Qs are second revision while those of Q4 are flash estimates.

**Quarterly Evolution of Agriculture GDP in the WB and GS 2009–2010 (\$ million)**



Comparing the Qs of 2010 with corresponding Qs of 2009, we notice a positive quarterly growth amounting to 5.3%. The general trend of growth in 2010 compared to 2009 achieved an increase estimated at 22.8%.

On the other hand, examining the general growth trend of the agricultural activity during 1999–2010 shows a notable decline in production from \$470.7 million to \$360 million at negative growth estimated at 2.4%. Thus, the contribution of agricultural activity in the GDP decreased from 10.4% in 1999 to 6.3% in 2010 (see table 22/8).

**Table 22/8: Evolution of Agriculture GDP and its Percentage of total GDP in the WB and GS 1999–2010 at Constant Prices (\$ million)<sup>42</sup>**

Year	1999	2000	2001	2002	2003	2004
Agriculture and fishing	470.7	403.6	340.8	251.3	297.6	296.7
% of total GDP	10.4	9.8	9.1	7.7	7.9	7.1

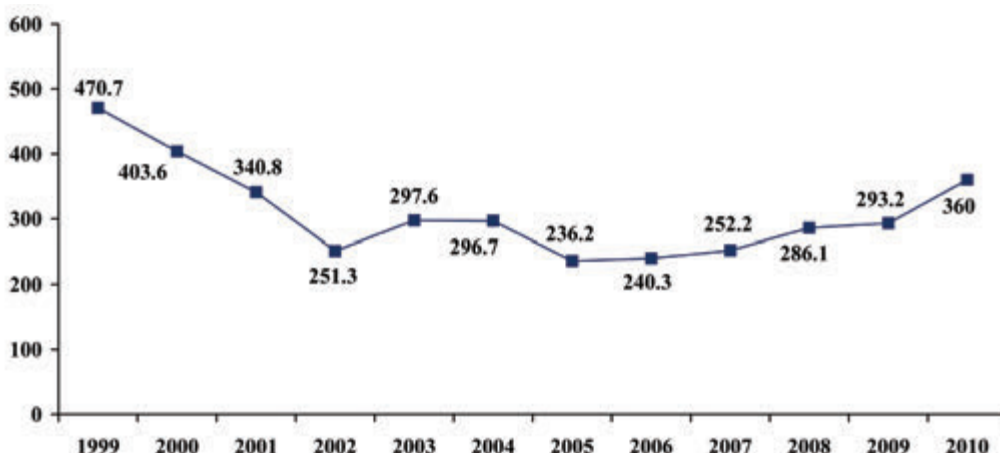
  

Year	2005	2006	2007	2008*	2009*	2010**
Agriculture and fishing	236.2	240.3	252.2	286.1	293.2	360
% of total GDP	5.2	5.6	5.5	5.9	5.6	6.3

\* First revision.

\*\* Flash estimates.

### General Trend of the Evolution of Agriculture GDP in the WB and GS 1999–2010 (\$ million)



Hence, it becomes clear that the decline in agricultural activity is related to the Israeli uptight practices during *al-Aqsa Intifadah*, in addition to the consequences of building the Separation Wall and the Israeli barriers.

### **3. The Private Sector and Its Role in Enhancing Industrial and Agricultural Activities**

The private sector bears the major burden in production activity, while industry and agriculture are critical for the provision of various agricultural crops and industrial products needed in the market. The private sector, together with industrial and agricultural activities, contribute to achieving a higher level of self-sufficiency in key food commodities and to achieving export goals, too. In addition, it contributes to the rise in job opportunities. However, the restrictions which continue to impede the production activity will be an obstacle to economic growth.

In addition, the World Bank has asserted that “recent economic growth will not be sustainable in the absence of private sector-led growth, which is dependent on easing movement and access restrictions within West Bank and to the international markets.”<sup>43</sup>

#### **The Importance of Bank Credit Facilities for Businessmen**

Credit facilities granted to businessmen increased significantly especially after the PA had taken gradual steps to enhance deposits available for the banking sector where the minimum facilities increased to 45% of total deposits. The increase in credit facilities would increase local investments and consequently new projects will be established or existing ones will be revitalized. This in turn would be reflected on the job market where unemployment levels would decline.

These credit facilities will cover some of the needs of factory and plantation owners who have suffered damage during the Israeli war on GS and its ongoing violations. However, banks commitment to credit facilities will vary between the WB and GS because the investment opportunities in the WB are more favorable than those in GS. It remains important to focus more on enhancing the investment opportunities that can be provided by the banking system in the GS while giving it preferential treatment to overcome the many obstacles facing the investment activity there.

As to the specialized lending institutions, the final version of licensing and supervisory regulations of such institutions have been completed by the PA, as part of their reorganizing, control and supervising to ensure their effectiveness, maintain the stability of the financial system, and enhance their contribution to sustainable economic development.<sup>44</sup> The following table shows direct credit facilities granted by the Palestinian banking system in 2010.

**Table 23/8: Quarterly Direct Credit Facilities 2010 (\$ million)<sup>45</sup>**

Quarter	Public sector	Resident private sector	Non-resident private sector	Total
Q1	870	1,663	54	<b>2,587</b>
Q2*	825	1,713	51	<b>2,589</b>
Q3	885	1,845	53	<b>2,783</b>
Q4**	893	1,943	50	<b>2,886</b>

\* Q1 2010 shows the total facilities (facilities + benefits), while Q2 2010 shows net facilities only.

\*\* The data in Q4 are estimated figures based on the growth rates between Q1 2010 & Q3 2010.

### **The Need to Expand the Scope of Microfinance Institutions**

Microfinance institutions are of great importance in developed and developing countries alike. The private sector plays a major role in the production activity which is based on small enterprises with low capitals and a small number of employees. Most of the investments offered by microfinance institutions are suitable to these enterprises. Besides, there are many individual and family enterprises which benefit from microfinance institutions.

One of the leading microfinance institutions is UNRWA's Microfinance Department in the GS. Its value of lending grew by 92%, from \$3.7 million in 2009 to \$7.1 million in 2010. The number of loans reached 3,622 in 2010, while it was 2,399 in 2009, i.e., an increase of about 51%.<sup>46</sup>

One of the positive signs of this lending is that 95% of borrowers showed commitment to pay their debt which means that they have indeed benefited from the money they obtained. Among the factors which contributed to this achievement is the Small and Medium Enterprise Business Training (SMET) program run by the Microfinance Department where about 79 sessions were held in 2010 and attended by 1,829 trainees.<sup>47</sup> The efforts of the Department were not emergent or innovated, for since its establishment in 1995 the training program has conducted 723 training courses for 15,872 participants.<sup>48</sup>

Subsequently, micro-financing, together with training of human element, is an important form of investment which helps in refining the skills of the trainees and providing appropriate advice whenever needed. Thus, it is important to expand the scope of such activities, which allow lending institutions to deal with them easily.

### ***Sixth: Economic Ties with Israel***

The various forms of these ties reflect the relationship between two unequal parties where one controls the other at the economic, social and political levels. They are based on a number of criteria or indicators summarized in the following points.

#### **1. Declaration of Principles on Interim Self-Government Arrangements**

On 13/9/1993, this Declaration was signed in Washington, D.C., defining a transition period paving the way for a final solution for all pending issues. However, after the lapse of 16 years, no conclusive results have been attained regarding the deferred issues. The WB and GS remained under occupation, whether directly or indirectly, and the Palestinians could not so far get their right to establish an independent or viable state. On top of that, the Israeli establishment of new settlements and expanding the existing ones led the negotiations between the two sides to a dead end. Accordingly, the Palestinians were denied the right to invest in their natural resources and the freedom to establish international economic relations based on mutual interests and benefits. Thus, one of the forms of dependence on Israel is denying the Palestinians the right to an independent economic decision.

In this context, the PA was inclined to invest \$1.4 billion in a tourist resort on the Dead Sea shore and further \$700 million on a new city near Jericho. The former project, Moonlight Tourism City, consists of hotels, chalets, a mall, a teaching hospital, a center for health research and therapy centers, exploiting the rich minerals of the Dead Sea. The latter, Madenat al-Qamar, is to contain agricultural, industrial and housing development. Both projects would create 50 thousand jobs. However, the implementation of such a vital project is subject to the Israeli approval which confirms the Palestinian dependence on Israel.<sup>49</sup>

The same applies to the establishment of Rawabi, a new planned city near Ramallah located within area A, which is controlled by the PA. It is a project worth

at least \$700 million, and will create up to 10 thousand jobs. The PA had applied for a permit from the Israeli authorities to build an access road for the new city which crosses area C, an area controlled by the Israelis. Yet, launching this project remains subject to Israel's approval.<sup>50</sup>

## **2. Paris Protocol**

The Protocol on Economic Relations between the Government of the State of Israel and the PLO, representing the Palestinian people, was signed on 29/4/1994. According to this protocol, both “parties view the economic domain as one of the cornerstone in their mutual relations with a view to enhance their interest in the achievement of a just, lasting and comprehensive peace.”

This agreement has addressed many vital issues including import taxes and import policy, monetary and financial issues, direct taxation, indirect taxes on local production, labor, agriculture, industry, tourism and insurance issues. However, there are many negative points regarding the implementation of this protocol as it deprives the Palestinians from making independent economic decision as they are required to refer to the Israeli authorities in every step.<sup>51</sup>

## **3. The Israeli Control over the Crossings**

The border crossings which are supposed to link the Palestinians to the outside world are still under the Israeli control while the Palestinians are deprived of sea ports and airports. Thus, the bridges or ports which link the WB to Jordan and then to the rest of the world, are far from complete control of the Palestinians despite the Israeli withdrawal from Jericho area where the bridges are present at its borders.

Similarly, the GS border crossings are under Israeli control, except for the Rafah border, which connects GS with Egypt and is restricted to the movement of individuals.

On the other hand, the Yasser Arafat International Airport in the far southeast of the GS is no longer fit for navigation since the destruction of its facilities in 2006. Furthermore, Israel has disrupted the implementation of the project for the only seaport in the GS, with the exception of very limited attempts by supporters and sympathizers belonging to international NGOs. As for the safe corridor between the WB and GS, it was active for a limited period only.

It follows from the above that opening the crossings and the movement of goods and individuals are subject to the decisions and orders issued by the Israeli side. This stresses the total and fundamental dependence on Israel.

#### 4. Consolidation of External Trade Relations with Israel

The PA territories have varied commercial exchanges with Israel since these exchanges are not subject to the strict restrictions imposed on trade with the outside world. Faced with this situation, a high proportion of Palestinian external exchange is conducted with Israel and is mainly concentrated in the import operations while the export operations are very limited. Hence, the Palestinian economy suffers much harm from this trade policy which has reduced international commodity exchange to importing products mostly from Israel.

The following table shows the size of PA foreign trade in selected years over 2000–2009 and it shows to what extent Israel controls the movement of export and import.

**Table 24/8: Palestinian Foreign Trade, Selected Years (\$ million)<sup>52</sup>**

Year	2000	2002	2004	2006	2007	2008	2009
<b>Total Palestinian exports</b>	<b>400.9</b>	<b>240.9</b>	<b>312.7</b>	<b>366.7</b>	<b>513</b>	<b>558.4</b>	<b>518.4</b>
– Total exports from WB	323	208.1	272.8	332.8	490.7	558.4	518.4
– Total exports from GS	78	32.7	35	33.9	22.3	(...)	112
<b>Total Palestinian imports</b>	<b>2,382.8</b>	<b>1,515.6</b>	<b>2,373.2</b>	<b>2,758.7</b>	<b>3,284</b>	<b>3,466.2</b>	<b>3,600.8</b>
<b>Total Palestinian imports from Israel</b>	<b>1,739</b>	<b>1,117</b>	<b>1,747.9</b>	<b>2,002.2</b>	<b>2,442.8</b>	<b>2,794.8</b>	<b>2,651.1</b>
<b>Total Palestinian exports to Israel</b>	<b>370</b>	<b>216</b>	<b>281.1</b>	<b>326.6</b>	<b>455.2</b>	<b>499.4</b>	<b>453.5</b>

Note: The figures are rounded numbers to the nearest tenth (\$100 thousand).

The following table shows the size of trade exchange during 2008–2009 between the WB and GS on one hand and selected countries on the other hand. The table also shows the weak trade exchange with the Arab countries compared to a number of Islamic and foreign countries such as China, Turkey, Germany and South Korea.

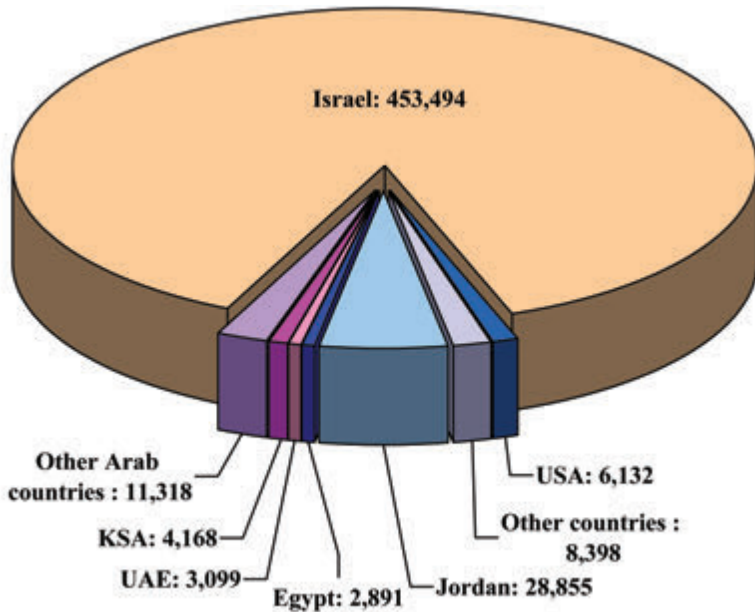


**Table 25/8: Imports, Exports and Trade Transaction in the WB and GS by Selected Countries of Origin and Destination 2008–2009 (\$ thousand)<sup>53</sup>**

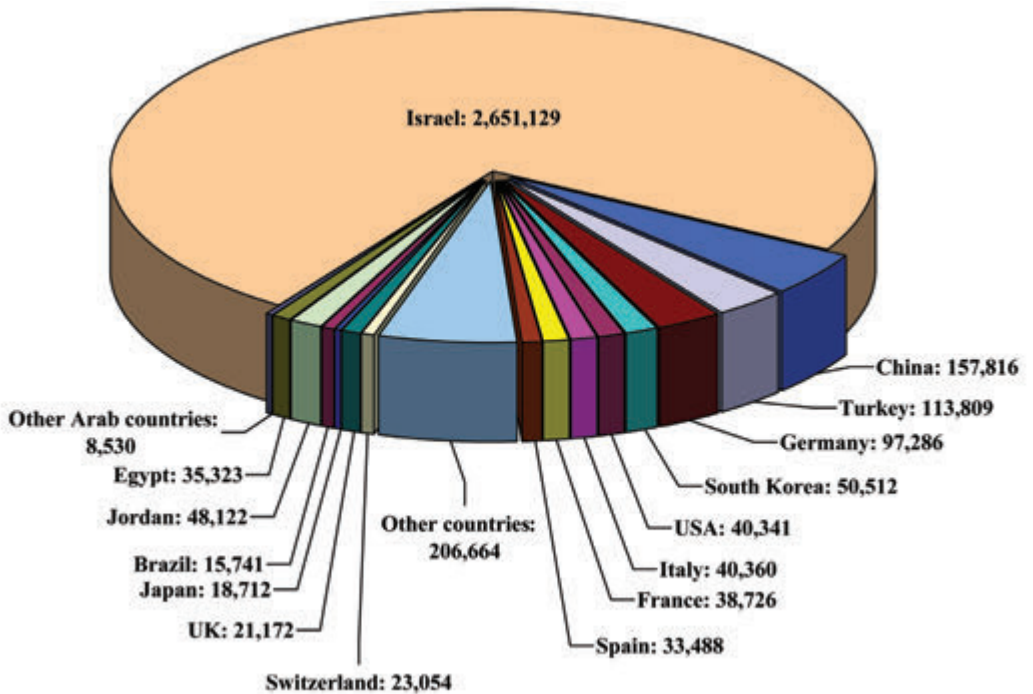
Country	Trade transaction		Palestinian exports to:		Palestinian imports from:	
	2009	2008	2009	2008	2009	2008
Jordan	76,977	81,248	28,855	34,122	48,122	47,126
Egypt	38,214	23,245	2,891	984	35,323	22,261
UAE	7,629	6,481	3,099	3,710	4,530	2,771
KSA	7,155	5,799	4,168	3,568	2,987	2,231
Other Arab countries	12,331	4,151	11,318	3,449	1,013	702
Israel	3,104,623	3,294,252	453,494	499,423	2,651,129	2,794,829
China	157,828	121,064	12	47	157,816	121,017
Turkey	113,862	66,417	53	567	113,809	65,850
Germany	97,380	61,738	94	203	97,286	61,535
South Korea	50,563	26,333	51	(...)	50,512	26,333
USA	46,473	36,702	6,132	3,559	40,341	33,143
Italy	42,584	33,638	2,224	2,162	40,360	31,476
France	39,084	27,741	358	1,252	38,726	26,489
Spain	33,488	22,486	0	24	33,488	22,462
Switzerland	23,227	13,697	173	117	23,054	13,580
UK	21,882	18,907	710	2,967	21,172	15,940
Japan	19,172	16,330	460	193	18,712	16,137
Brazil	15,741	18,036	(...)	(...)	15,741	18,036
Other countries	210,927	146,349	4,263	2,099	206,664	144,250
<b>Total</b>	<b>4,119,140</b>	<b>4,024,614</b>	<b>518,355</b>	<b>558,446</b>	<b>3,600,785</b>	<b>3,466,168</b>

Note: The PCBS has not provided exact figures of the Palestinian exports to Brazil during 2008 and 2009 and to South Korea in 2008 and it calculated the total considering the Palestinian exports to both countries nil.

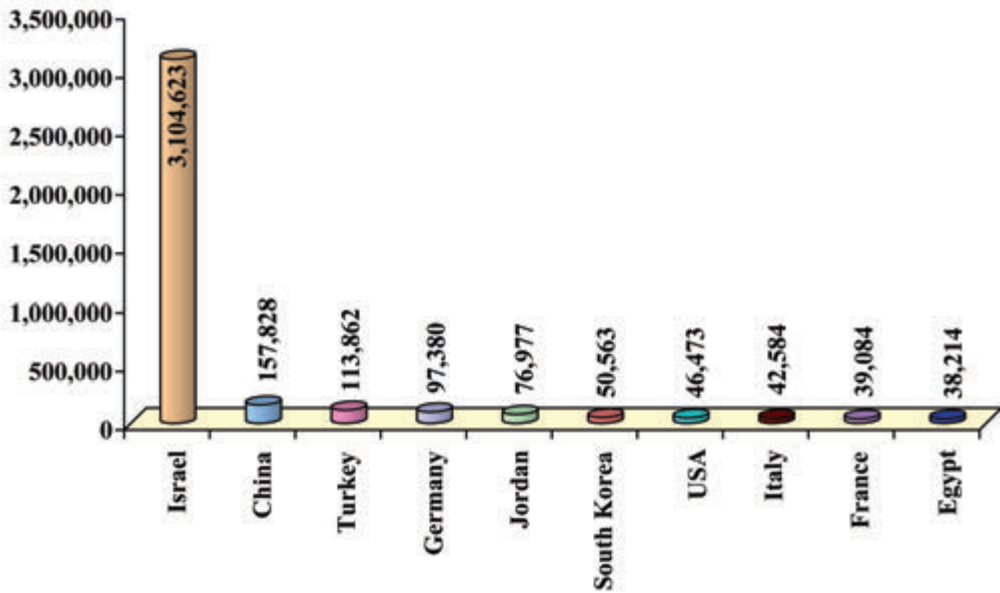
**Palestinian Exports to Selected Countries 2009 (\$ thousand)**



**Palestinian Imports from Selected Countries 2009 (\$ thousand)**



Palestinian Trade Transaction by Selected Countries 2009 (\$ thousand)



### *Seventh: Foreign Aid and Its Orientations*

There are many forms of foreign aid received by the PA to serve the Palestinian economy, provide humanitarian support and enhance the position of the PA. The most prominent forms of this aid include: funds of donor countries, activities of international organizations, grants transferred by convoys and solidarity activists besides the grants to civil society institutions. These forms will be addressed in the following section.

#### **1. Funds of Donor Countries**

These funds reflect the commitment of donor countries towards the PA to allow it to carry out major responsibilities and enhance its institutions till the establishment of an independent state. These funds come within a mechanism which allows the collection of the money and re-pumping it to the PA.

It is also noted that these funds continuously flow in response to the needs of the PA which are increasing over time. In addition, the IMF staff prepares reports about the performance of macroeconomy and public finance.<sup>54</sup> The following table displays the evolution of these funds over the achieved period 2008–2010 and the estimated period 2011–2013.

**Table 26/8: Evolution of External Budgetary Support and Development Financing 2008–2013 (\$ million)<sup>55</sup>**

Fiscal operation	Actual			Budget*	Projections		
	2008	2009	2010	2010	2011	2012	2013
<b>External budgetary support</b>	1,763	1,355	1,146	1,243	967	881	501
<b>Development financing</b>	215	47	131	670	500	873	1,095
<b>Total</b>	<b>1,978</b>	<b>1,402</b>	<b>1,277</b>	<b>1,913</b>	<b>1,467</b>	<b>1,754</b>	<b>1,596</b>

\* There are relative differences between the 2010 budget and the actual figures.

The above table shows that external financing amounted to \$1,978 million in 2008, then it reached \$1,402 million in 2009, i.e., a \$576 million decrease with 29.1% negative growth rate. In 2010, it dropped to \$1,277 million with 8.9% negative growth rate. However, it is expected to increase again in 2011 to reach \$1,596 million in 2013, yet less than that of 2008. Consequently, external financing has been on a downward trend during 2008–2013, with a negative annual growth rate of 4.2%.

On the other hand, external budgetary support is expected to drop significantly where it will decrease from \$1,763 million to \$501 million over 2008–2013, i.e., a \$1,262 million decrease with 22.2% negative annual growth, and where the total percentage decrease is 71.6%.

It can also be noticed that external financing will not constitute more than 80.7% in 2013 compared to its size in 2008, while external budgetary support will not exceed 28.4% of its size in 2008. In addition, the development financing in 2013 will constitute 50.9% of its size in 2008. This signifies a major structural change represented in an overall reduction, but it is associated with tremendous increase in development financing at the expense of external budgetary support.

This is supposed to come within the draft Palestinian National Plan (PNP) in a manner consistent with improving public sector efficiency. However, for this step to succeed, bold measures are needed to implement a comprehensive civil service reform that would reduce the wage bill while improving public sector efficiency.<sup>56</sup>

The feasibility of the draft PNP is subject to an exact diagnosis of the problems and a precise estimation of the available economic resources. Then appropriate programs should be developed while seriously working to achieve the goals of the PA plan. Moreover, the success of the draft PNP depends on the ability of the private sector to engage in different activities under favorable conditions, where available capacities will be utilized and job opportunities will be created. Consequently, this would contribute to the reduction of growth of employment in government jobs and sustain the reduction in the wage bill. However, the success of the draft PNP is unlikely in case of deterioration in the economic, security or political situation, especially if Israel attempts to thwart the Palestinian reconciliation or exercises pressure on the resistance movements and on the Palestinian side.

Apparently, the draft PNP is trying to adapt to the policies of donor countries. It tends toward improving financial governmental performance regarding the increase of tax and non-tax revenues and then reducing the budget deficit, while focusing on the development expenditures which represent an urgent need for the Palestinian society.

Previous developments suggest that public revenues and expenditures in the draft PNP will be more reliant on local revenues to replace foreign aid and then reduce it to the lowest possible level. This policy is consistent with the IMF recommendations urging the PA to proceed with strict cost-saving measures and the prioritization of expenditures, including the postponement of lower-priority projects, to meet the shortfalls in aid.<sup>57</sup>

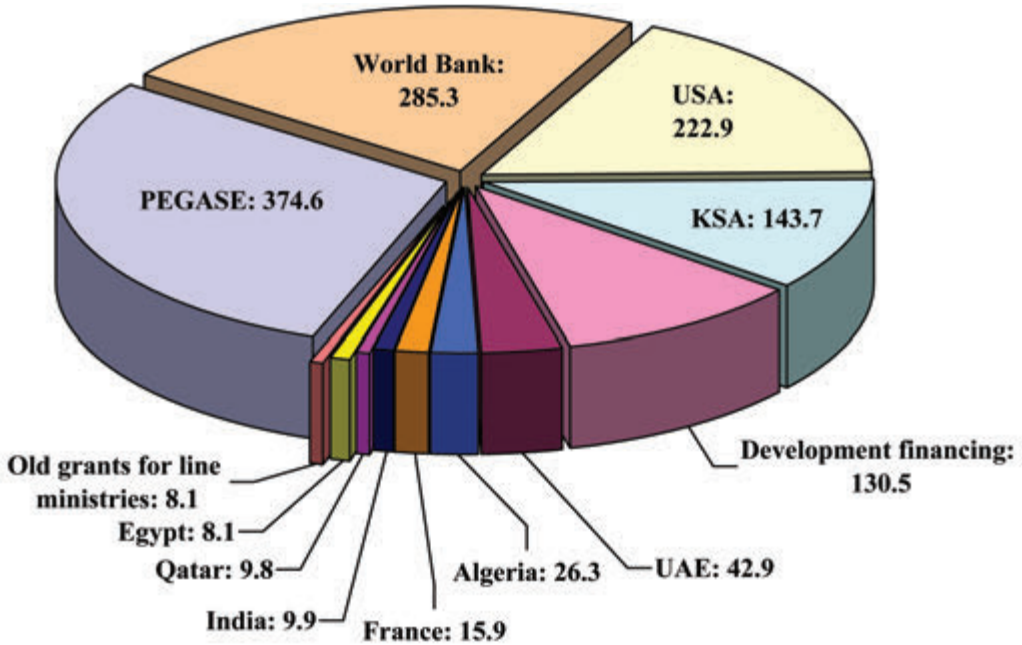
In 2010, the Palestino-Européen de Gestion et d'Aide Socio-Economique (PEGASE) which means the Palestinian-European Mechanism for Management of Socio-Economic Aid ranked first in terms of funding with \$374.6 million, then the World Bank with \$285.3 million followed by the US with \$222.9 million and then the KSA with \$143.7 million. The following table summarizes the size of external funding for the PA in 2010 compared to 2009.

**Table 27/8: Sources of External Financing for the PA 2009–2010 (\$ million)<sup>58</sup>**

Donor	2010	2009
<b>Arab donors</b>	<b>230.8</b>	<b>461.6</b>
KSA	143.7	241.1
UAE	42.9	173.9
Algeria	26.3	26
Qatar	9.8	(...)
Egypt	8.1	17.8
Oman	(...)	2.9
<b>International donors</b>	<b>908.6</b>	<b>893.3</b>
PEGASE	374.6	433.2
World Bank	285.3	135.1
USA	222.9	273.2
France	15.9	27.7
India	9.9	10.1
Turkey	(...)	10.3
Greece	(...)	2.7
Grants for the Ministry of Social Affairs	(...)	1.1
Old grants for line ministries	8.1	(...)
<b>Development financing</b>	<b>130.5</b>	<b>46.8</b>
<b>Total</b>	<b>1,278*</b>	<b>1,401.7</b>

\* According to the figures of the PA Finance Ministry, the total external financing is \$1,277 million, yet the figures provided by the ministry here indicate that the total is \$1,278 million. This difference might refer to rounding the detailed figures.

Sources of External Financing for the PA 2010 (\$ million)



## 2. International Aid Organizations

Many international organizations are engaged in various activities in the GS and WB. They provide services and assistance as international organizations affiliated with the UN or independent from it. These organizations have sought to intensify their activities especially after the war on the GS in the winter of 2008. They usually have to mobilize donors and supporters and appeal to the international community to ensure that the necessary funds are available.

In this context, the 2010 Consolidated Appeal Process (CAP) of OCHA-oPt requested a total of \$664.47 million for humanitarian and early recovery projects,<sup>59</sup> and then it launched 2011 CAP with a total of \$575 million in requested funds.<sup>60</sup>

On the other hand, the USAID having provided the WB and GS more than \$3.5 billion since 1994 for programs in the areas of democracy and governance; education; health and humanitarian assistance; private enterprise; and water resources and infrastructure.<sup>61</sup> According to USAID Mission Director Michael Harvey, “The total US government assistance program for Palestine is about \$700 million, of that about \$400 million is going through USAID” in 2010 and 2011.<sup>62</sup>

Since 1994, USAID has provided \$670 million in assistance to Palestinians to implement infrastructure projects. The \$300 million Infrastructure Needs Program (INP) was launched in 2008 to provide critical infrastructure that promotes economic growth, improves quality of life for Palestinians in the WB and helps the PA address both immediate and long-term infrastructure needs.<sup>63</sup> There are no accurate statistics on the distribution of funds between the WB and GS, yet it is clear that most these funds have been spent in the WB due to the known American policy of besieging the GS.

Among important international organizations supporting the Palestinian refugees is the UNRWA which provides food aid to around 80% of these refugees besides its programs in health, education and others. Aid is also provided by the World Food Programme (WFP), United Nations Development Programme (UNDP) and Cooperative Housing Foundation (CHF).

Worth of mention is that there are many Arab and Islamic organizations which provide aid to the Palestinian people such as the Union of Good which is also known as the Charity Coalition, Palestinian Relief and Development Fund (Interpal), the Palestine Charitable Committee of the International Islamic Charitable Organization (IICO), Al Quds International Institution, Palestinian Business Forum, The Turkish Foundation for Human Rights and Freedoms and Humanitarian Relief (IHH) and others.

### **3. Humanitarian Aid Convoys**

The relief convoys organized within the framework of public support are meant to alleviate the suffering of the besieged people of GS. These convoys try to provide a part of the health needs, medical equipment, medicines and ambulances. In addition, medical delegates provide treatment services to the Palestinians who cannot afford to get necessary treatment because of the high costs and restrictions on movement.

On 21/10/2010, Lifeline 5, a convoy organized by the former British MP George Galloway, reached the GS via Rafah crossing. The convoy included around 342 pro-Palestinian activists of 30 nationalities and 137 trucks. The aid was worth around \$5 million, and consisted of medicines, medical, relief and food supplies, in addition to school equipment and worth of around.<sup>64</sup>



On 8/11/2010, the UAE Red Crescent sent aid convoy to GS including 35 truckloads of medical and food supplies. On 25/11/2010, the European Road to Hope convoy entered GS including 37 solidarity activists from UK, Ireland, France, Spain, New Zealand and Argentina, 30 vehicles and 95 tons of aid supplies, medicines and educational materials.<sup>65</sup> On 27/11/2010, a seven member cross party delegation of the European Parliament visited GS, WB and East Jerusalem, where their purpose was to meet with the elected representatives of all political parties in the PLC in order to assess the living conditions there, as well to discuss the issue of reconciliation.<sup>66</sup>

The Jordan Hashemite Charity Organization for Arab and Muslim Relief Development and Cooperation (JHCO) launched an aid convoy to the GS on 13/1/2011 including five trucks loaded with 76 tons of food supplies and products. In January 2011, the Libyan Al-Quds 5 reached the GS via the Rafah crossing with 80 tons of medicines and medical supplies. The convoy included also 20 trucks that carried two thousand tons infant formula, supplies for the disabled, food supplies, blankets and tents.<sup>67</sup> On 3/1/2011, Asia 1 aid convoy arrived in GS. The convoy comprised 112 members from Malaysia, Indonesia, India, Pakistan, Japan, Kuwait and New Zealand. They brought \$1 million worth of cargo. It included 300 tons of medicine, food and toys, as well as four buses and 10 power generators for hospitals.<sup>68</sup>

However, these aid convoys only supply urgent food needs but not those needs which appear in the medium and long runs.

#### **4. Civil Society Organizations**

There are many civil society organizations working in the WB and GS. They provide agricultural aid and medical relief, promote women empowerment and youth activism, and provide care for children and the disabled, etc. These organizations address the needs of the civil society and their work is complementary to that of the private and public sectors. They are non-profit and depend on external funding, yet there is no data regarding the annual financial support they receive.

## ***Eighth: The PA and Government Management of the Economic Situation***

### **1. The Palestinian Schism**

The Palestinian schism in June 2007 led to the establishment of two governments; one in the WB and the other in the GS. Based on the Arab and international recognition enjoyed by the PA in the WB, the Ramallah-based government has worked to extend its authority over the WB and GS, especially in the general budget allocations, as it receives financial support from donor countries.

While each of the two governments seeks to carry out its responsibilities, these efforts succeed in some areas and fail in others. Ultimately, the Palestinian division is one of the negative aspects depriving the Palestinian economy of demonstrating the elements of power it enjoys.

### **2. Annual General Budget**

According to financial regulations, the general budget is prepared every year prior to its implementation. Consequently, the ministries and governmental bodies would be able to collect funds and spend them after the adoption of this budget.

In the WB, the presidential decree approving the 2010 general budget was issued on 29/3/2010,<sup>69</sup> i.e., a three-month delay. Consequently, different governmental bodies have exercised their financial authority over three months without budget allocations. However, the GS caretaker government approved its 2010 general budget on 31/12/2009.<sup>70</sup>

### **3. Quality and Price Control on Goods**

Governmental authorities have shown increased concern about price control and the availability of commodities in the markets and their conformity to standard specifications. This control is achieved through organized campaigns pursued by the concerned governmental bodies such as the Ministry of Economy, Ministry of Health, municipalities, local authorities, security forces and other bodies which exercise joint or independent efforts.

These bodies seek to apply regulations related to prevention of smuggling and verification of expiry of the products displayed in the market or stored, to insure their suitability for human consumption. The competent authorities have succeeded in seizing and disposing of large quantities of contaminated food and

products inconsistent with standard specifications, including tobacco, medicines and fuel while the offenders were referred to the competent judicial authorities. Some merchants store goods to sell them later at a higher price. However, long-term storage damages the goods, and despite that, the merchants try to sell them.

#### **4. No Substitute for Palestinians Working in Israel and the WB Settlements**

Since the occupation's early years, Israel has isolated the WB and GS and restricted their contact with the outside world to a minimum, while urging them to deal mainly with Israel. Moreover, different decisions and legislations were passed to ensure their dependence on Israel, while focusing mainly on paralyzing their agricultural and economic activities by replacing local products with Israeli agricultural crops. This compelled many industrial institutions and agricultural enterprises to dispense with large number of workers and forced the Palestinians to seek jobs in Israel.

Thus, tens of thousands of Palestinians flowed into Israel in pursuit of better chances and higher wages. This situation continued till the outbreak of *al-Aqsa Intifadah* in 2000 when Israel reduced the Palestinian workforce in Israel proper or the WB settlements, while completely rejecting any workers from the GS and limiting permits to those from the WB. Consequently, the number of these workers dropped to 78,800 in Q4 2010.

Israeli measures participated in increasing unemployment rates while a large number of Palestinians work in the WB settlements, which are illegal according to international law and the international community does not commit itself to buy any of their products. Nonetheless, the decline of employment opportunities urge the Palestinians to accept work in these settlements while the Ramallah-based authority has turned a blind eye to this violation despite its decision to boycott the products of WB settlements.

The PA signed a law banning Palestinians from working in WB settlements and selling their goods. Palestinian government officials estimate that between 20 and 30 thousand Palestinians work in WB settlements and that between \$200 million and \$500 million worth of settlement goods are sold to Palestinians in the WB every year. Palestinian Economics Minister Hassan Abu Libdeh said the PA would try to find alternatives for those currently working in settlements but suggested they would not face punishment.<sup>71</sup>

## **5. The Anti-Corruption Commission**

The files of corruption since four years have been recently opened and the cases were referred to the Anti-Corruption Commission which was founded by President Mahmud ‘Abbas on 20/6/2010 to replace the Illicit Gain Commission.<sup>72</sup> The Attorney-General Ahmad al-Mughni has sent 80 files to be investigated by the Anti-Corruption Commission, some of them related to the corruption of prominent figures in the PA. This step was taken even in the cases filed against suspects living abroad.<sup>73</sup>

### ***Ninth: The Siege and the Impact of the Palestinian-Israeli Conflict on the Economic Situation***

The Israeli siege of the Palestinian economy takes many forms. The Israeli measures on the crossings hinder the flow of goods and restrict the movement of businessmen, thus limiting investments in the private sector and reducing it to a minimum despite the efforts made by the PA in this respect.<sup>74</sup> The situation is further exacerbated by the internal barriers which hinder movement of individuals and goods in northern governorates and consequently increase losses suffered by producers and consumers. The following section presents the main forms of the current Israeli siege.

#### **1. Severe Economic and Trade Restrictions on Hebron**

The citizens in the WB city of Hebron live under difficult conditions due to the constraints laid by the Israeli occupation; where there are 122 closures blocking Palestinian access in the Israeli-controlled 4.2 square kilometer area of Hebron (H2) according to a survey by the Temporary International Presence in Hebron (TIPH) in cooperation with OCHA-oPt. Ninety-three of these closures include: checkpoints, partial checkpoints, road blocks, an earthmound, and road gates; most of which have been in place since late 2000. The remaining 29 closures consisted of road barriers and cement barriers, barbed wires and iron gates. These closures, along with ongoing settler violence, have affected both commercial activities and social life inside the Old City of Hebron. Consequently, through 2010, more than one thousand homes are estimated to have been vacated by their former Palestinian residents, and more than 1,800 commercial businesses

have closed. Nearly 650 Palestinian shops in the heart of the city were closed by military orders, which are renewed every six months, in addition to the low tourist and visitor movement.<sup>75</sup>

## **2. The GS Embargo Despite the Partial Easing of the Siege**

Since 2007, the GS continues to be under siege with partial opening of the crossings and a limited list of allowed items. While Israel deprives the Palestinians of economic development and its resources, it has a strategy of a “humanitarian minimum” in GS, as stressed in Israeli official documents. This makes economic growth limited, unbalanced and dependent on the services sector which is unstable.

## **3. Limiting the GS Crossings to One**

The Israeli authorities decided on 2/3/2011 to permanently close the largest commercial crossing point, al-Mintar (Karni) crossing east of Gaza City. The movement via this crossing, which is used for the transport of wheat, grains and gravel, would be diverted to south-east of GS to the Karm Abu Salim crossing, the last operational commercial crossing.

This measure which aims at reducing the number of crossings is an extension of an old Israeli policy. In June 2007, for example, opening al-Mintar commercial crossing was limited to two days per week to allow the transport of wheat, animal feed and gravel. On 12/9/2008, Sofa crossing to the south-east of GS was closed completely, which was used to import gravel and construction materials. On 1/1/2010, al-Shuja'iyyah (Nahal Oz) crossing, which was used to import fuel and cooking gas, was totally closed. Thus, three out of four crossings were closed between mid 2007 and the beginning of 2011.

These developments come within a systematic policy to limit goods trade to one crossing which would be subject to congestion and probable partial or even complete closure under security pretexts. A few months after the second *Intifadah* in 2000, the Israel closed the department of importing goods at the Beit Hanoun (Erez) and Rafah crossings.<sup>76</sup>

## **4. Access-Restricted Areas in GS**

Another face of the Israeli siege is its restrictions on Palestinian access to areas located up to 1,500 meters from the fence (an area comprising 17% of the GS's territory). Thus, 35% of the GS agricultural land is currently located in an

access-restricted area; the ability to export will mean little for many agricultural producers who are currently unable to safely reach their land.<sup>77</sup>

## **5. Adverse Effects of the Embargo on GS Living Conditions**

Deterioration was a common feature to different aspects of life in the GS in 2010 despite the limited economic growth. This deterioration was the result of the weakness of the said growth, the poor state of the infrastructure and the relative stagnation of reconstruction. Consequently, these conditions reflected on the income of a wide social segment leading to the spread of poverty and urging around 80% of the total population in GS to depend on relief aid. Some of the forms of this decline include:

### **a. Degradation of Water Resources**

Water supply in the WB and GS for human beings is less than the minimum required level both in quantity and quality. Around 60% of the population does not have water supplies except once every few days for limited hours per day. The experts confirm that this water is not potable because it's polluted and contains high level of salts and nitrates. Potable water is limited to 10% of the total needs.

This degradation is caused by falling water levels in GS aquifer, especially after Israel dug wells in the settlements built on a large area of government lands in the GS causing depletion to much of its fresh water.

Although Israel unilaterally withdrew from the GS in 2005 and stopped using the mentioned wells, it dug huge trap wells at deep levels on the Israeli side of the borders with GS, "siphoning water supplies from the aquifer before they reach Gaza." That's because GS is a "'downstream' of the portion of the aquifer that lies beneath Israel, with lateral groundwater flows coming from Israel into the Gaza portion of the aquifer."<sup>78</sup>

The problem of drinking water and irrigation sector has worsened significantly due to the random digging of wells by residents in their agricultural lands without official licenses. This phenomenon has triggered the concerns of the local and municipal authorities, the Palestinian Water Authority (PWA) besides the Agriculture Ministry to organize well drilling and distribution.<sup>79</sup>

### **b. Poor Sanitation**

The sewage problem in the GS is due to the inability to purify waste water or make it suitable for irrigation, and this is due to the limited capacity of the sewage treatment plants.

Consequently, wastewater further complicates living conditions especially when it is discharged into the sea at close distances from the shore, thus leading to significant contamination. Ultimately, citizens are deprived of the sea, in addition to the negative impact on the fisheries. Besides, a part of the sewage water finds its way to the aquifer, to contaminate it and increase its salinity.

## **6. Interruption and Irregularity of Electricity Services**

Despite the urgent need for electric power for domestic and production needs, power outages extend over hours per day and the Gazans are deprived of regular electricity supply. Thus, the dire consequences of power cuts are inflicted on the whole population.

The electricity problem in the GS is represented in the lack of supply quantities needed for consumer market as Israel restricts the fuel quantities allowed into the Strip. While the GS needs between 270–300 megawatt of power, only 190 megawatt is available per day, i.e., around 65% of the total need.<sup>80</sup> Electricity deficit exceeds one third the actual needs not to mention the increased demand on this service which has become of vital importance.

## ***Conclusion***

The year 2010 showed an increase of 9.3% in the GDP in the WB and GS, where the growth was originally at low levels. The main factor which helped to achieve this growth was the external financing provided by donor countries and the aid provided from different countries including the US, EU and some Arab governments.

Other factors include the relative state of stability, the efforts to enhance economic performance in the WB and GS, the limited relaxation of the restrictions on the movement of individuals, and allowing the GS to export a limited amount of its products.

Despite the difficulties it is facing, the Palestinian economy enjoys a great potential for growth and has the capacities to advanced investments. Its strong points are found mainly in its advanced banking system and modern financial market both of which enjoy the public's confidence in the absence of any Palestinian obstacle to free movement of capital.

Based on the above factors, accompanied by partial breakthrough in economic activity, it could be said that the Palestinian economy has promising future growth at rates faster than what has been achieved so far, especially when economic obstacles are removed from the WB and GS and the state of Palestinian schism is ended. Hence, some estimates expect a growth of 7% in 2011.

In general, the Israeli occupation remains the major impediment to the Palestinian economy, which works in a hostile environment intent on subjugating the Palestinian, expelling him from his home and land and imposing political conditions on him. This economy remains vulnerable to violent shocks because of the Israeli measures, for as long as the Palestinians seek liberation and independence.



## Endnotes

- <sup>1</sup> PCBS, *News Release: Preliminary Estimates of Quarterly National Accounts (Fourth Quarter 2010)* (Ramallah: PCBS, March 2011), [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/NationalACc\\_Q410E.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/NationalACc_Q410E.pdf)
- <sup>2</sup> The Underpinnings of the Future Palestinian State: Sustainable Growth and Institutions, Economic Monitoring Report to the Ad Hoc Liaison Committee, The World Bank, 21/9/2010, <http://siteresources.worldbank.org/INTWESTBANKGAZA/Resources/WorldBankSep2010AHLReport.pdf>
- <sup>3</sup> PCBS, *News Release: Preliminary Estimates of Quarterly National Accounts (Fourth Quarter 2010)*.
- <sup>4</sup> *Ibid*; and for Israeli GDP 2006–2010, see CBS, [http://www1.cbs.gov.il/hodaot2010n/08\\_10\\_316t11.pdf](http://www1.cbs.gov.il/hodaot2010n/08_10_316t11.pdf)
- <sup>5</sup> See PCBS, *al-Filastiniyyun fi Nihayat 'Am 2010*.
- <sup>6</sup> PCBS, *News Release: Preliminary Estimates of Quarterly National Accounts (Fourth Quarter 2010)*.
- <sup>7</sup> “Gaza Strip Crossings Bi-Monthly Monitoring Report August-September 2010,” site of Palestine Trade Center (PalTrade), 14/10/2010, <http://www.paltrade.org/cms/images/enpublications/GAZA%20REPORT%20Aug%20-%20Sep.pdf>
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## This Report

The Palestinian Strategic Report 2010/11 is the sixth in a series of annual resourceful scientific studies. The Report discusses the developments of the Palestinian issue of this period, in an objective and comprehensive manner. The meticulous analytical reading of events tries also to foresee the future. This Report has become a basic reference in Palestinian studies, it is a must read for all those concerned.

An outstanding team of 14 academics and experts contributed to this Report. It is divided into eight chapters, that cover the internal Palestinian situation, the Israeli scene and the Israeli-Palestinian relations, the Arab, Muslim and international stances toward the Palestinian issue. This Report focuses also on the issue of Jerusalem and the holy sites; whereas, the demographic and economic indicators are studied and analyzed in two separate chapters.

As a serious addition to Palestinian studies, those interested in this field, including specialists, experts, libraries of universities and research centers, should have their copies of this Report.

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ISBN 978-9953-500-70-6



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