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Overview of current economic conditions in Palestine

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Palestine is Under Financial Embargo: ¼ of Palestinian workers were not paid their salaries for the past six months which caused a situation of severe poverty

The Palestinian economy, unlike other economies, lacks national strategic control and a self monitoring system, because it has never been under full Palestinian sovereignty despite the peace process which started in 1993. The economy has experienced dramatic changes since the Israeli occupation of the West Bank, Gaza Strip and East Jerusalem (the occupied Palestinian territories) in 1967. These changes are always linked to external factors such as employment in the Israeli labor market and the rich Arab Gulf States and are also subject to the volume of external donations. The repeated closures imposed by the Israeli Authorities on the movement of people and goods in the Palestinian territories since the first Gulf war (1991) have had negative impacts on the economy. Economic factors keep fluctuating. The unemployment rate, for example, has been subjected to wide swings; poverty rates have also moved drastically along with per capita income. This economic instability is mainly connected to the Israeli security and economic measures, which are the chief obstacle faced by Palestinian planning mechanisms.

From 1993 through September 2000, the Palestinian economy steadily improved. Unemployment rates decreased and income and production increased, thanks to the peace process and foreign aid. However, in September 2000, the area entered a new era of violence, and Israel imposed a tight closure on Palestinian areas, prohibiting movement of goods and people within the Palestinian territories, between these areas and Israel, and from the Israeli-controlled border crossings to foreign countries. Throughout the year 2002, Israeli troops invaded “areas A” of the West Bank, which had been liberated during 1993-1994 according to the peace accord signed by the two parties. These military operations caused a partial destruction of the Palestinians’ means of living. On September 2005, Israel pulled the last settler from the Gaza Strip followed by a withdrawal of troops to the Gaza-Israeli borders, while keeping all crossing points under its control. Two years after the 2002 invasions and up to the Palestinian elections held on 25th of January 2006, the Palestinian economy partially recovered its loses. However, after Hamas won these elections, Israel refused to transfer approximately 60-70 million US\$ monthly of taxes collected by the Israeli border Authorities on behalf of the Palestinian Authority (PA)¹. On the other hand, the international community not only stopped their donations to PA budgets (approximately 13 US\$M monthly²), but some of them went to the extent of stopping other activities in the West Bank and Gaza Strip including developmental activities. While Israel imposed more restrictions between localities in the West Bank, it launched the most extensive military actions in the Gaza Strip including the closure of all border crossings, invading areas and declaring others as a no man’s land, bombing bridges, houses and establishments causing a halt down in all economic activities especially those which are export oriented.

Reflecting on the past five years, according to the World Bank, two distinct periods are discernable: a) October 2000 through 2002, the period of severe crisis, in which GDP per capita declined by about 36 percent point, and b) 2003 through 2005, a period of stabilization and gradual recovery, in which GDP growth has averaged about 7 percent points per annum.

¹ Only 68.7 US\$M have been transferred since elections.

² The PA monthly recurrent expenses was estimated at 160 US\$M, of which 52% goes to salaries

Table 1
Palestine Macro Economic Trend

	2000	2001	2002	2003	2004	2005 p
Real GDP growth	-5.6%	-14.8%	-10.1%	6.1%	6.2%	8.7%
Cumulated growth since 1999	-5.6%	-19.6%	-27.7%	-23.3%	-18.5%	-11.4%
Cumulated growth since 1999, per capita	-9.5%	-25.9%	-35.7%	-34.1%	-32.4%	-29.0%
Population (million)	2.93	3.05	3.16	3.27	3.39	3.51
GNI per capita, US\$	1,626	1,217	1,001	1,088	1,181	1,318
Consumer price inflation	2.7%	1.2%	5.7%	4.4%	3.0%	3.0%

World Bank and PCBS estimates. Figures exclude East- Jerusalem. (p): projection

According to the World Bank, today's Palestinian economy still operates at well below its potential; by the end of 2005, real GDP per capita was almost 30% lower than in 1999. At the pace of economic growth witnessed during 2003-2005, pre-*Intifada* (the uprising, started in September 2000) per capita income levels would only be restored by 2010-12.

According to the Palestinian Central Bureau of Statistics, following the formation of the Hamas-led Government, GDP in real terms dropped sharply by 7% in the first quarter of 2006 compared to the last quarter of 2005 which was not the best in the year 2005. A drop by 1.7% was again witnessed in the second quarter of 2006.

Employment Analysis

Unemployment with its grave economic and social consequences is still one of the most pressing problems facing Palestinian policy-makers since the start of the peace process in 1993. This was not always the case. Before the period of the first *Intifada* (uprising 1987-1993), the unemployment rate had never exceeded 5% of the labor force. With the advent of the peace process, Palestinians were promised a better life, but found themselves trapped in economic stagnation and Israeli control over factors of production.

Due to the political stability during the period 1998-third quarter of 2000, the unemployment rate continued to decrease from 23.8% in 1997 to less than 10% in the third quarter of 2000. Other employment indicators showed a better picture too, leading to a better standard of living among the Palestinian population of the Occupied Palestinian Territories

Since the end of September 2000, Israeli measures against the Palestinian population have caused a collapse of the Palestinian labor market. A large number of formerly employed persons have joined the ranks of the unemployed or the "discouraged" who have given up looking for work. Those who managed to hold on to their jobs were often unable to reach their workplaces for long periods, with serious repercussions on their incomes and output. The withdrawal from the Gaza Strip in September – October 2005 did not lead to a better life for one third of the Palestinian population living there; in fact, the unemployment and poverty rates attained levels which had never been reached before in recent Palestinian history.

The overall unemployment rate according to the ILO standards jumped from 10.0% during the 3rd quarter 2000 to 28.3% during the 4th quarter of the same year, then to 31.3% during 2002. It fluctuated slightly during the subsequent 2003-2005, the average unemployment rate during the three years was 25.3%. The same rate was also registered in the first quarter of 2006, to drop sharply to 22.9% in the second quarter of 2006, which is considered to be one of the lowest rates since 2001 (following the *Intifada*). This decline of the unemployment rate was against expectations, with the worsening of the political and economic situation (embargo on PNA became more chronic in this quarter and GDP decreased by 1.7% compared to the previous quarter).

This decline in the unemployment rate is accompanied by a decrease in the number of unemployed by 13,300 workers between the two quarters. They shifted from the status of unemployed to the status of fully and partly employed. The West Bank showed a better capacity of absorbing the unemployed compared to the Gaza Strip (15,300 decrease in the number of unemployed in the case of the first, compared to 2,000 increase in this number in the Gaza Strip). In total, the number of new persons who joined the status of employed was 41 thousand in the second quarter 2006 compared to the first quarter of the same year. The absorption of the 41 thousand was also in favor of the underemployment status; the percentage increase in the number of full employed workers was (5%), much less than the percentage increase in the number of underemployed (22%). Again, this increase in number of employed was in favor of female workers³ compared to male workers: 39% (or 16 thousands) and 61% (or 25 thousands) respectively. This increase was also accompanied by a decrease in the number of workers in Israel and settlements, from 60 thousands in the first quarter to 57 thousands⁴ in the second quarter. Despite this increase in employed workers, the percentage of workers whose monthly wages are below the poverty line increased from 50.4% in the first quarter to 51.1% in the second quarter. This means that the actual average wage decreased in the second quarter compared to the first one.

As for job quality, the share of full-time employed (working for 35 hours or more per week) to total participants in the labour force (full- and part-time workers, workers on short time, workers in poor conditions with low incomes, and the unemployed) dropped from 83.6% in the 3rd quarter of 2000, to 66.9% during the 4th quarter of 2000. In 2002, it further dropped to 64.4%, but increased during 2003 to 68.2%. In the first half of 2006, this percentage decreased to 68% (67.5% in the first quarter of the year and 68.7% in the second quarter) (See Table 2.)

The percentage of workers in Israel and Israeli settlements⁵ in the occupied Palestinian territories, relative to the total participants in the Palestinian labour force, dropped sharply from 22.1% in the third quarter 2000, to 9.1% (44,000 persons) in the 4th quarter 2000. Then, it increased slightly during 2002 to 10.3%, to decrease again to 9.7% (58,000 persons) during 2003. In 2005 and first half of 2006, the rate was 10% (63000 persons) and 9.3% respectively (61,000 and 57,800 persons in the two quarters of 2006 respectively).

³ In favor of female workers because women participation rate in labor force is always less than 14%.

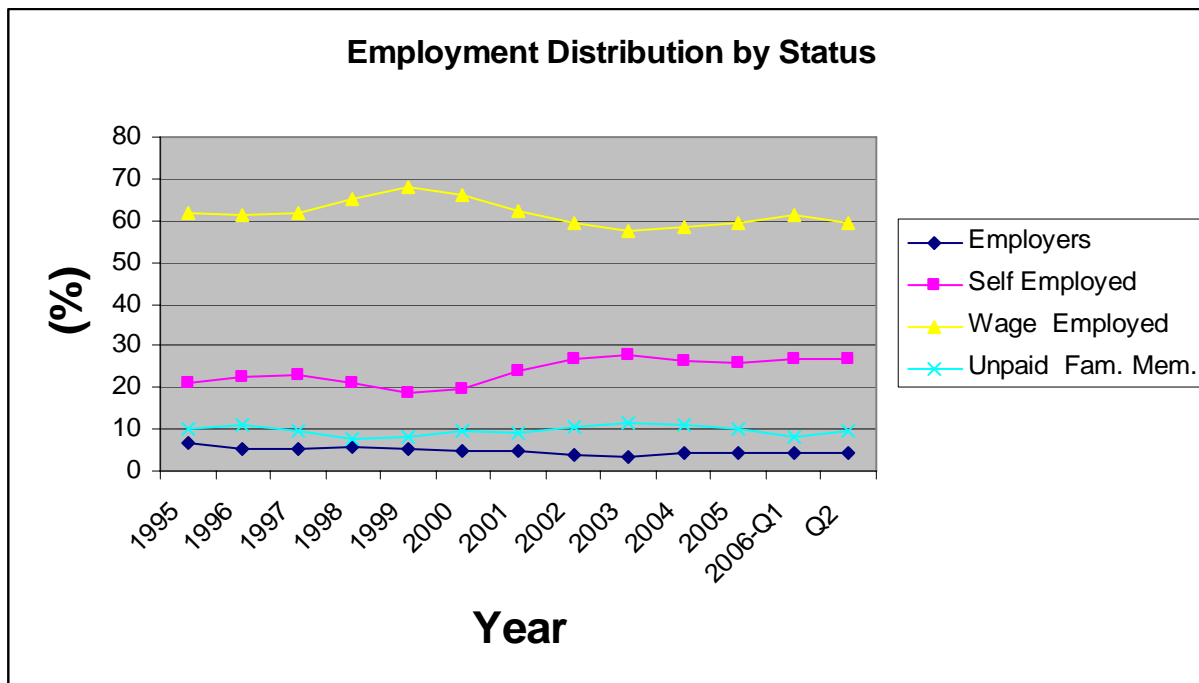
⁴ Half of this number are holding Israeli ID, but living in the Occupied Territories.

⁵ More or less half of them are holding Israeli ID but living in the West Bank.

Table 2: Labour force status: Q2, 2006
Figures in thousands

	Men	Women	West Bank	Gaza Strip	Overall
Population aged 15 years and over (man power)	1060	1041	1366	735	2101
Full employment (working full time: 35 hours and above)	479	111	427	163	590
Working less than usual (lack of employment)	33	3	31	5	36
Working in poor conditions or for insufficient income	35	2	31	6	37
Did not work and seeking job	170	27	108	89	197
Did not work and did not seek job due to discouragement	55	13	48	20	68
Population less than 15 years	903	869	1070	702	1772
Total population	1962	1911	2436	1437	3873

Source: Labour Force Department, PCBS



The distribution of Palestinians employed in the local economy by sector shows a decreasing trend of employment in the manufacturing and construction sectors, and an increasing trend of employment in agriculture and service sectors, mainly after the start of the Intifada in 2000 and the Israeli military invasions in 2002. From an economic point of view, such changes are unfavorable to the economy, as agriculture and services have lower value added than

manufacturing and construction. This picture also reflects a shortage of investments into the Palestinian economy during the period, as manufacturing and construction activities need more investment than agricultural and services activities. The increased employment in agricultural activities reveals the creation of more unpaid, or low-paid jobs. Moreover, the increased employment in services reveals more self-employed persons, as most enterprises in the services sector in Palestine are micro-enterprises. The following table shows these trends.

Table 3: Employment distribution by sector and status: 1995-Q4, 2006-Q2
(Percent of work force)

	Employment by Sector					Employment Status			
	Agricul- ture	Construc- tion	Manufac- turing	Services	Others*	Employers	Self Employed	Wage Employed	Unpaid Fam. Mem.
1995	12.7	19.2	18.0	25.6	24.5	6.9	21.2	61.7	10.2
1996	14.2	16.8	16.8	29.2	23.0	5.5	22.3	61.4	10.8
1997	13.1	18.4	16.4	28.2	23.9	5.3	22.9	62.0	09.8
1998	12.1	22.0	15.9	27.1	22.9	5.8	21.0	65.3	07.9
1999	12.6	22.1	15.5	28.1	21.7	5.5	18.7	67.8	8.0
2000	13.7	19.7	14.3	29.9	22.4	4.6	19.6	66.1	9.7
2001	12.0	14.6	14.0	34.5	24.9	4.7	23.9	62.2	9.2
2002	14.8	10.9	12.9	36.9	24.5	3.7	26.8	59.2	10.3
2003	15.7	13.1	12.5	32.9	25.8	3.5	27.8	57.3	11.4
2004	15.9	11.7	12.7	34.9	24.8	4.1	26.5	58.3	11.1
2005	15.4	12.9	13.0	34.5	24.2	4.3	26.1	59.5	10.1
2006-Q1	13.2	12.2	11.6	36.4	26.6	4.2	26.6	61.1	8.1
Q2	15.2	11.5	12.3	36.1	24.9	4.3	26.6	59.6	9.5

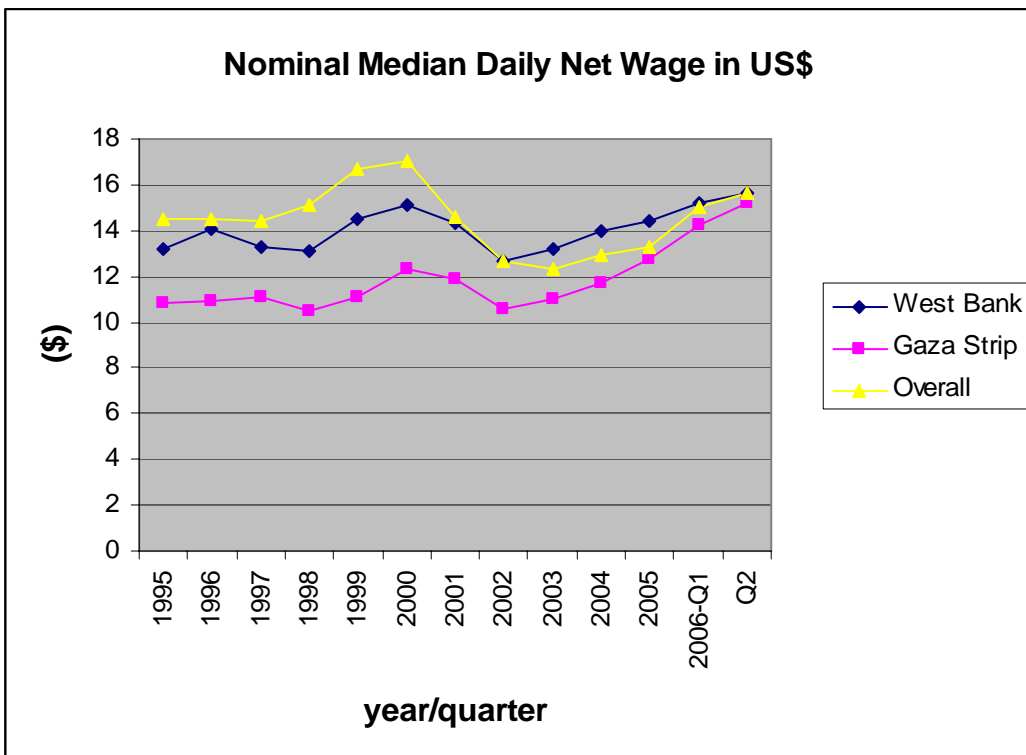
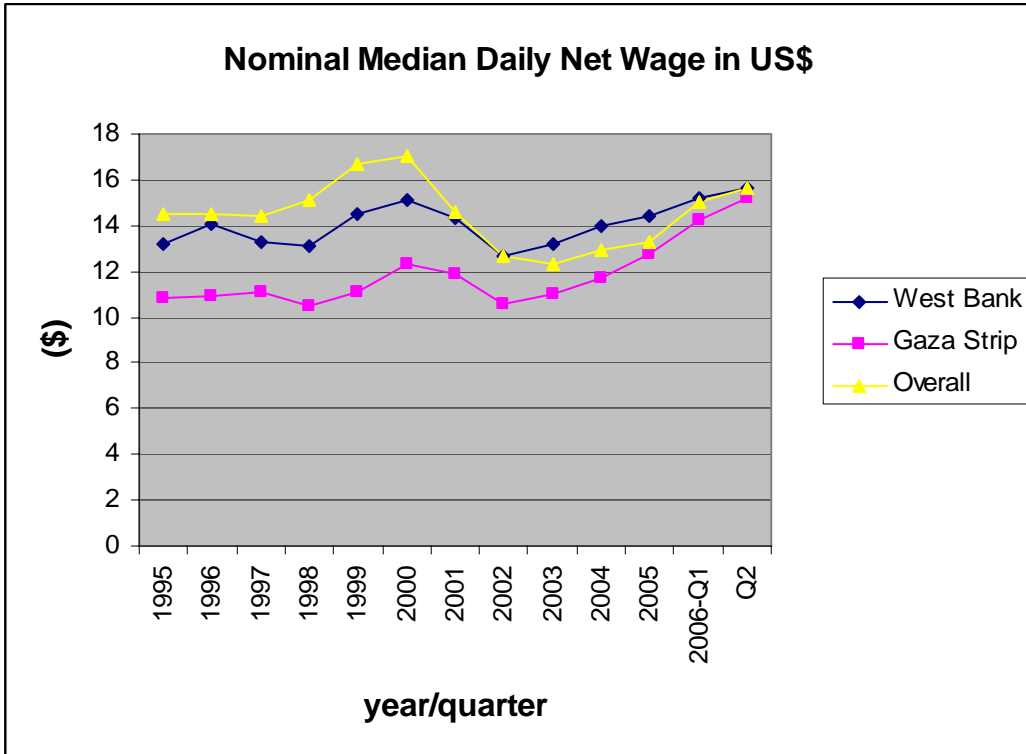
* Include: Commerce, restaurants and hotels, transportation, storage and communication sectors.
Source: Labour Force Department, PCBS

Wages

In terms of US dollars, the median daily net wage in Palestine slightly recovered in 2005 (from 12.9US\$ in 2004 to 13.3US\$ in 2005), while in the first half of the year 2006 it registered an unpredictable growth (it registered an average of 15.3US\$ during this period). The year 2000 was the best year in real wages compared with 1996 as the base year, which means: with an inflation rate of 20% during this period, the daily wage should be 55.4 NIS, but it registered as high as 69.2 NIS. However, following the year 2000, the real wages deteriorated. The NIS value in terms of US dollars dropped by 41% in nominal terms between 1996 and 2005, and the NIS inflation rate during this period was 43%⁶, which means a daily salary of 46.2 NIS in 1996 should be 66.2 NIS in 2005, but it registered 60 NIS only (see table 4), which means that the worker was getting daily wage less by 10% of what he should get. However, this was not the case in the first half of 2006, when the net wage became closer to the pre-Intifada period. In the

⁶ www.pcbs.gov.ps (on line calculation)

Gaza Strip as well the situation of the net wage was better than during any other period; it is getting closer to the West Bank wage.



On the other hand, high inflation rates were registered during this period. Consumer prices during the crisis (Sep. 2000-present) have increased at an accelerated rate compared with the pre-crisis period. Price inflation accelerated from negative 0.3% in 1999 to 5.2% in 2002. Again in 2003, the inflation rate registered 4.4% compared with 2002. In 2004 and 2005, the rate increased by 3.47% and 3.0% respectively.

Such a situation reveals the need for a minimum wage law and a wage protection system.

Table 4
Nominal Median Daily Net Wage in NIS* and US\$ (All Sectors)

NIS	US\$		
	West Bank	Gaza Strip	Overall
1995	42.3	34.6	46.3
1996	44.7	34.6	46.2
1997	46.3	38.5	50.0
1998	50.0	40.0	57.7
1999	60.0	46.2	69.2
2000	61.5	50.0	69.2
2001	60.0	50.0	57.7
2002	60.0	50.0	57.7
2003	60.0	50.0	55.8
2004	61.5	52.5	57.7
2005	65.4	57.7	60.0
2006-Q1	70.0	65.4	69.2
Q2	69.2	67.3	69.2

* NIS: New Israeli Shekels, Workers in Israel and Settlements are not included

**Converted to US dollars using the annual and quarter simple average of market exchange rates.

Source: PCBS (Department of Labour Force Statistics) and DWRC calculation (PCBS was consulted if there is any mistake in the table)

For those who work in the Israeli labor market, the daily net wage represents more than double the daily net wage of those who work in the West Bank and Gaza Strip. The daily net wage for those who worked in the Israeli labor market increased slightly during the last three years (e.g. from 110.4 NIS in 2000 to 117 NIS in 2002 to 131.8 NIS in 2003 to 135 NIS during the first half of 2006).

Poverty and living conditions:

Available data indicate that about 51.6% of the Palestinian households lost more than 50% of their usual income because of the Israeli measures against the Palestinian population that started in September 2000. The monthly median income decreased from 2,600 NIS before the *Intifada* in September 2000 to 1,600 in October-December 2005.

On the other hand, available labor force data indicate that the economic dependency rate in Palestine increased from 4.8 in the third quarter 2000 to 6.2 in the second quarter of 2006.

Linking the monthly decline to the average monthly household income (from US \$ 644 to US \$ 343)⁷ and the increase of the economic dependency rate (from 4.8 to 6.2), shows that individual monthly allocations do not exceed US \$ 55 (i.e. less than US \$ 1.8 per day) which is a very small amount as compared to international standards.

Due to the recent financial boycott due to which approximately 154 thousand public workers were not able to get their salaries, the recent surveys (2nd quarter 2006) show that the percentage of families who are under the equivalent poverty line reached 66% of the total number of the Palestinian families (88% in Gaza and 55% in the West Bank (or 2,4 million individuals) in the second quarter 2006.

Table 5
Poverty Rates (% to total population)

	West Bank	Gaza Strip	Overall
1996	17.5	46.1	26.9
1997	17.1	41.3	26.3
1998	15.4	37.2	23.2
1999	n.a	n.a	n.a
2000	n.a	n.a	n.a
2001*	55.7	81.4	64.2
2002**	57.8	84.6	66.5
2003***	53.7	83.6	63.3
2004	na	na	Na
2005	na	na	Na
2006-Q1	na	na	Na
Q2	54.6	87.7	65.8

* March 2001, ** Jan.-Feb., 2002, *** April-May, 2003

Source: PCBS

Income inequality in Palestine

The Palestinian Central Bureau of Statistics releases some income data based on quarterly surveys conducted to measure the effect of Israeli measures on the economic conditions of Palestinian households. The April-May 2003 round of the survey indicates that the average monthly income of the Palestinian family is 1771 NIS (or 394 US\$). The average monthly income of the poorest 20% of families is 411 NIS (91 \$), while the average monthly income of the wealthiest 20% of families is 4,343 NIS (967 \$). This means that a family in the category of the poorest 20% of the population lives with only \$ 1,092 each year, or \$ 3 per day, or 0.5 \$ per family member per day.

⁷ Nominal exchange rate used: 2600 NIS*4.04 exchange rate in Dec. 2000. 1600 NIS*4.66 exchange rate during Oct.-Dec.

On the other hand, data reveals that there are great income inequalities in Palestine. If families are ranked by their income level from highest to lowest, the wealthiest 20% of the Palestinian families receive 48.5% of all market income, against 4.6% for the bottom 20% of families.

Family Income distribution by quintile: May 2003

Quintile (fifth):	Family income distribution (% of total)	Monthly average family income in NIS	Monthly average family income in US\$
Top 20%	48.5	4,343	907
Fourth 20%	22.1	1,978	413
Middle 20%	14.8	1,329	277
Second 20%	10.0	897	187
Lowest 20%	4.6	411	86

Calculation made on the basis of a survey conducted quarterly by PCBS, April-May 2003

Palestinian per capita income is less than 8% of the Israeli per capita income, and this percentage has been deteriorating over time.