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# socio-economic developments in the occupied Palestinian territory



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## executive summary

There was continued growth in the occupied Palestinian territory (oPt) economy in 2011. Mostly private sector led output and employment expanded at a relatively strong pace in both the West Bank and Gaza. In both cases, however, the spending power of relatively large public sector work forces, as well as direct public sector spending, contributed to private sector growth. As in 2010, construction activity was the single most important element in private sector growth in 2011 in the oPt. Economic growth in Gaza, starting from a much diminished base, was faster than that in the West Bank. The divergence between the two region's economies remained sharp with much higher levels of unemployment, and much lower levels of income, in Gaza. Economic growth was driven mainly by private and public expenditures in 2011 while private sector investment and exports—indicators of long-term macroeconomic health—dropped off significantly.

### a. Macroeconomic trends

Macroeconomic growth in 2011 was relatively robust with real GDP rising an estimated 9.8 per cent in real terms. More than three-fourths of the growth was accounted for by the private sector. While productive activities such as manufacturing, agriculture and construction contributed to importantly to overall growth, private services as a whole accounted for nearly half of GDP gains. Bank financing—particularly mortgage and consumer lending—boosted domestic demand for goods and services. So too did public sector spending, itself supported by external assistance.

Consistent with the pattern of recent years, this was not matched by growth in productive investment or export activity. Quite the contrary, both these strategic elements receded in 2011 with negative consequences for future growth, development and internal labour absorption capacity. Investment in plant, equipment, tools and other business infrastructure fell nearly 40 per cent while goods exports from the oPt dropped by one-third in 2011 relative to 2010.

Real per capita GDP grew an estimated 6.6 per cent in 2011, in line with such growth in 2010. In the West Bank per capita GDP grew about 2.4 per cent while in Gaza such income rose 18.8 per cent in real terms. The IMF has estimated that by 2009, real per capita GDP in the oPt had recovered to 1994 levels. The macroeconomic growth witnessed in 2010 and 2011 contributed to returning average income levels witnessed in the late 1990s, more than a decade ago. Per capita GDP in the West Bank was estimated at about 64 per cent greater than that of Gaza in 2011.

The IMF projects a 6.2 per cent growth rate for real GDP in the oPt in 2012, a significant slowdown relative to 2011. This is based on a growing liquidity problem in the PA's fiscal situation, reduced growth in bank lending and continued constraints on the mobility of people and goods within the oPt, between each territory and the other, and between the oPt and neighbouring countries' markets.

### b. Labour market trends

Relative to 2010, average employment grew 11.1 per cent in the oPt in 2011 while the average number of unemployed under the narrow ILO definition declined 5.4 per cent. Both refugees and non-refugees gained employment in tandem and the numbers of both who were unemployed declined. The overall labour force grew by an average of 7.2 per cent, more than twice the estimated rate of population growth.

On a regional basis, employment growth in Gaza was four times as fast as the West Bank's 6.1 per cent rate. The number of unemployed in the West Bank grew 8.2 per cent while that in Gaza fell 18.7 per cent. Refugee employment gains in both the West Bank and Gaza were weaker relative to non-refugees, while

the decline in unemployment among refugees was somewhat stronger than for non-refugees. The narrow unemployment rate among refugees stood at 25.8 per cent versus 18.1 per cent for non-refugees in the oPt as whole.

Nearly nine out of ten new jobs were in the private sector, a trend equally apparent in both the West Bank and Gaza. Unlike GDP growth, where construction was dominant, the commerce, hotels and restaurants group of activities was the single most important source of new private sector jobs in 2011, followed by construction activity. More than 55 per cent of private sector job growth in the oPt was accounted for by these two activity groups. In the West Bank commerce contributed to more than half of the job gains while in Gaza commerce provided for about one-quarter of private employment growth with agriculture adding another fifth of such gains.

Both narrow and broad ILO unemployment rates fell in 2011. The narrow ILO average unemployment rate fell almost 3 percentage points to 20.9 per cent while the broad rate fell nearly 4 percentage points to 26 per cent. Nonetheless, unemployment rates remained stubbornly high and among the highest in the world with an average broad ILO unemployment rate of 22.8 per cent in the West Bank and 32.9 per cent in Gaza.

The youth labour force grew about twice as rapidly as the overall labour force. Youth employment grew well above average but the number of unemployed youth also grew while unemployment in the oPt generally fell in this period. The surge in Gaza youth employment accounted for a disproportionate share of these outcomes. Unemployment rates for young women remained significantly higher than for young men. On average, young males had an average unemployment rate of 32 per cent as compared to a 54.1 per cent unemployment rate for females in 2011. This disparity has widened in recent years to the disadvantage of young women.

The women's labour force continued to grow at a rate well in excess of the broader labour force in 2011. Evidence from 2011 confirms data from recent years indicating a trend of growing and persistent commitment of an increase number of women working outside of the home. But women's employment growth was below average—accounting for only about 15 per cent of total job growth. In the private sector, women gained less than 12 per cent of new jobs while in the public sector women accounted for nearly 64 per cent of new hires—mainly new teachers. Unemployment among women increased significantly as general unemployment fell with women's average unemployment rate remaining significantly above average.

Unemployment continued to disproportionately affect youth, women and refugees in the oPt. Youth—ages 15-24—had an average unemployment rate of 35.5 per cent while those 35 years old and above had an average unemployment rate below 14 per cent. Women's average unemployment rate in the oPt was 28.6 per cent compared to 19.1 per cent for men. The unemployment rate for refugees was 25.8 per cent versus 18.1 per cent for non-refugees.

Despite continued and significant employment growth and overall reductions in unemployment, the average real monthly wage fell a further 1.3 per cent in 2011. The rate of decline was more subdued than in recent years but the trend remained negative as stubbornly high levels of unemployment continued to erode the real value of wages. The trend toward falling real wages in recent years has bolstered the phenomenon of working poverty, whereby employed people fall below the poverty line, in the oPt. This is suggested by the fact that the number of persons and households in deep poverty continued to grow on a post-assistance basis in 2010, the last year for which household expenditure data is available, despite significant employment gains in that year.

## Concluding observations

The important growth witnessed in 2011 did not alter the basic context. Despite marginally reduced movement restrictions, the oPt economy remains restrained by the policies of an occupying power and vulnerable to Israel's tactical and strategic political objectives. Most pressing, perhaps, is the degree to which Palestinian productive investment and external trade are hampered by the policies—stated and unstated—of the Government of Israel (GOI). As Palestinian Authority (PA) fiscal management and governance have improved markedly in the past several years, it has contributed to economic growth.

While further institutional reforms are needed, observers generally concede that the policies of the PA do not pose the main obstacles to growth and development. Rather, the main impediments to higher levels of private sector investment and employment are those that emanate from the policies of the GOI. As pointed out by the IMF, had the oPt not been subjected to restrictions on resource use and the free mobility of people, vehicles and goods in the period after 1994, the level of per capita GDP would have been between 50-100 per cent greater than what they were in 2010.

Characteristic of this situation has been an underlying labour market unable to adequately absorb a labour force growing, on average, faster than the overall population. The resulting hyper-unemployment has fallen disproportionately on youth, women and refugees with catastrophic consequences for living levels and the extent and depth of poverty. This situation stands in stark contrast to conditions in neighbouring countries with similar demographic dynamics but significantly lower unemployment rates.

Uncertainty in the political environment, movement restrictions and inaccessibility to land and water resources, the continuing blockade on Gaza and the decline in incomes over the past decade have dampened investor expectations about the future, discouraging private sector investment in productive activities. Notably, in 2011 the level of productive investment—that directed to plant, equipment and other productive inputs—declined by nearly 40 per cent relative to 2010 while the value of Palestinian goods exports fell by 33 per cent.

The bulk of the growth achieved in 2011 was driven by public consumption, supported by external assistance and bank lending and by private consumption, supported by increased housing and consumer credit. These sources of growth lack sustainability as the PA's donors face greater fiscal constraints of their own and as the fundamentally conservative banking system approaches the limits of its risk-taking capacity.

Knowledgeable observers have noted repeatedly that sustainable growth in the Palestinian economy requires significant investment in productive capacity and in the ability to export goods to regional and global markets. Such investment would enable the small and resource-scarce economy to productively absorb more of the labour force. The notable decline in investment spending and exports in 2011 highlight the instability of the Palestinian economy and the lack of sustainability of its pattern of growth.

In both the West Bank and in Gaza Strip, official unemployment rates in the first quarter of 2012 were higher than in any quarter of 2011. Furthermore, the IMF projects a much lower GDP growth rate for the oPt in 2012—about 6.2 per cent—with slower growth in both the West Bank and Gaza owing to the PA's fiscal challenges and continuing constraints on the functioning of the Palestinian economy on the part of Israel.

## I. introduction

This is UNRWA's eighth general report on socio-economic developments in the occupied Palestinian territory (oPt).<sup>1</sup> The present report covers changes in 2011 relative to 2010. The report is divided into two substantive sections. The first addresses developments in Gross Domestic Product (GDP) and income through an assessment of national accounts data. Levels and changes in the contributions of the Palestinian public and private sectors is the focus of this section. The second section covers the oPt labour force and labour market. Data and analysis in the labour market section are disaggregated by refugee status. As is the case with previous work, this report relies on special data series produced by PCBS at the request of UNRWA.

UNRWA has two main objectives in producing this series of reports. First, to monitor and assess general economic and social conditions in two of UNRWA's five fields of operation. The West Bank and Gaza Strip together account for a major portion of UNRWA activities. Second, these reports provide important data, information and analysis on the socio-economic conditions of refugees in the oPt. Palestine refugees are clients of the Agency and regularly monitoring their conditions allows UNRWA to better plan its activities and assess the impacts of its programmes.

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1 This report series begins in late 2006. Reports are available in PDF format at [www.unrwa.org](http://www.unrwa.org).

## II. notes on methodology

After the 2007 census, PCBS has revised its estimates of national income accounts (e.g. GDP) and changed the base year prices used to denominate the revised data. Thus, national accounts data for the period 1994-2003 are given in 1997 USD market prices, while those for 2004 and after are denominated in 2004 USD prices. Evaluating the market value of goods and services produced in any year using prices that prevailed in 2004 leads to higher estimates than evaluating them using 1997 prices. Readers are cautioned that GDP estimates in this report constitute a break with estimates provided in UNRWA reports produced before 2009.

It is also important to note that, in accordance with international best practices, PCBS has recently revised the way it reports the national income accounts. PCBS has issued data using the revised methodology—the International Standard Industrial Classification (Revision 4, 2008)—for 2009-2011. The new methodology redefines and/or reclassifies certain economic activities and either reports these separately or combines them into redefined branches (a group of related economic activities). Thus, the national income account tables for 2009-2011 are reported somewhat differently than tables for 1994-2008. These changes are reflected in the present report. The reader, therefore, should be attentive to these changes when making comparisons with data and analysis in previous UNRWA reports.

In regards to estimates of the numerical size of the various components of the oPt labour market (e.g. labour force, employed, unemployed, underemployed) in this report are based on the results of the 2007 census. This too constitutes a break with the data series provided in UNRWA reports covering periods prior to 2008. Caution is advised in making labour market comparisons between the present report and previous UNRWA reports.

The definition of unemployment and the unemployment rate used mainly in this report is the “narrow” ILO definition. By this commonly-used definition, the unemployed are defined as the number of persons who were not working during the week prior to being surveyed and who were actively seeking employment during that period. Thus, those who were unemployed but did not seek employment in the week prior to the PCBS survey—for whatever reason—are excluded from the narrow definition of unemployment. The narrow ILO unemployment rate is the number of unemployed thus defined as a proportion of the labour force. The labour force is defined as the sum of those employed plus those unemployed. These commonly-used ILO definitions are used in this report in order to avoid confusion in comparing results in this report with those reported elsewhere.

Reference is also made in this report to the “broad” or “relaxed” definition of unemployment as defined by the ILO. This definition expands the unemployed to include those who did not seek work in the week prior to the labour force survey due to a conviction that no work could be found. This group of potential workers is referred to by the ILO and the PCBS as discouraged workers. The broad or relaxed unemployment rate is the number of unemployed—including discouraged workers—as a proportion of the “broad” labour force. The broad labour force includes all employed, all those not employed but seeking work plus all those not employed who want to work but who have not looked for work because they believe none will be found (discouraged workers).

The ILO advises that in countries where unemployment is persistently high, and/or where there is significant informal economic activity, the broad definition is more relevant in assessing the true extent of unemployment. As both these conditions pertain in the oPt, UNRWA reports until now have mainly used the broad definition of unemployment. However, in response to requests for reporting consistency, the present report mainly uses the narrow ILO definition of unemployment but also reports on the broad rates. The reader is therefore advised to exercise care when making comparisons with data and analysis in previous UNRWA reports.

The focus of this report is the economic and social developments in 2011 as they compare to 2010. Such year-on-year comparisons yield better understanding of the trajectory of socio-economic conditions for at least two reasons. First, that approach largely corrects for seasonality in the data, i.e. the fact that certain types of economic activity are subject to «normal» fluctuations related to weather or cultural season. Second, the parallel annual approach is based on larger samples of data from field surveys with smaller degrees of associated statistical error. As such, this approach provides a more accurate picture of trends.

### III. domestic output and income

#### a. Gross domestic product: private and public sectors

The Gross Domestic Product (GDP) is the market value of all goods and services produced minus the market value of resources (e.g. raw materials, labour power) used up in producing those same goods and services. GDP is thus a measure of the value-added generated in the domestic economy as well as the extent and efficiency of use of the country's natural, human and capital resources. Table 1 presents estimates of GDP in the oPt in 2011 at about USD 6.32 billion.<sup>2</sup>

The estimated relative weight of various economic activities is given in the last column of Table 1. Productive activities—those involving the production of physical commodities such as vegetables, furniture, electricity or housing (items A, B and C)—accounted for about 29.3 per cent of domestic value-added; commerce, which consists of wholesale and retail trade (item D) for 9.2 per cent, and private and public services (items E, F, G, H, I and J) for about 49.1 per cent.

The items “below the line” are part of the national accounting convention of subtracting “FISIM”—a measure of the profitability of financial institutions—and adding the central governments' revenues from customs and value-added taxes (VAT) on imports. Excluding the “below-the-line” accounting items, total GDP or value-added produced is estimated at USD 5.5 billion at 2004 market prices.<sup>3</sup>

Private sector GDP, which includes the activities of domestic and foreign NGOs, is estimated at about 76.1 per cent of total GDP. This is accounted for by items A-G, H.1, H.2, H.3, H.4, H.7 and H.8 plus 26.8 per cent of item H.5 (education) plus 47.8 per cent of H.6 (health and social work) plus item I (refer to Table 1).

Public sector GDP, the market value of services provided by the Palestinian Authority (PA) and local government employees,<sup>4</sup> accounted for about 21.2 per cent of the GDP in 2011. This included about 48.2 per cent of item H.5 (education), about 34 per cent of item H.6 (health and social work) and 100 per cent of item I (public administration and defence).

**Table 1**

*Estimates of GDP by economic activity and activity shares for the oPt, 2011<sup>5</sup>*  
(USD millions at 2004 market prices)

	<b>Economic activity</b>	<b>2011</b>	<b>Share</b>
A	Agriculture, forestry and fishing	346.1	5.47%
B	Mining, manufacturing, electricity and water	798.7	12.63%
1	Mining and quarrying	23.4	0.37%
2	Manufacturing	552.5	8.74
3	Electricity, gas, steam, air conditioning supply	177.6	2.81

2 For purposes of comparing growth in output over time—rather than the effects of price changes—GDP is estimated at market prices prevailing in 2004, the base year. In nominal, that is current, USD terms, the oPt GDP in 2011 is estimated at USD 8.76 billion.

3 Below-the-line GDP in current USD terms in 2011 is estimated at USD 7.86 billion.

4 Public sector GDP is estimated as the value of salaries paid to public employees on an accrual basis (i.e. the value of the salaries owed to employees whether or not salaries are actually paid) minus the value of other inputs (i.e. rental payments for use of office space, fuel, electricity, furniture and equipment)—so-called “intermediate consumption”—minus the depreciation on public capital assets (i.e. buildings and physical infrastructure). Local government's share of GDP is included in public administration and defense activity (item I). To the extent that public sector employment is bloated, i.e. where the total public sector wage bill is high (or average productivity in the public sector is low), such an accounting method tends to overestimate the contribution of the public sector to GDP.

5 PCBS preliminary estimates for the oPt excluding East Jerusalem.

4	Waters supply, sewerage, waste management	45.2	0.71%
C	Construction	708.2	11.20%
D	Wholesale and retail trade	587.0	9.28%
E	Transportation and storage	133.3	2.11%
F	Finance and insurance	298.9	4.73%
G	Information and communication	404.8	6.40%
H	Services	1,375.6	21.76%
1	Accommodation and food service	91.0	1.44%
2	Real estate	396.5	6.27%
3	Professional, scientific and technical	94.0	1.49%
4	Administrative and support service	38.3	0.61%
5	Education	478.8	7.57%
6	Human health and social work	168.7	2.67%
7	Arts, entertainment and recreation	28.2	0.45%
8	Other services	80.1	1.27%
I	Public administration and defence	884.0	13.98%
J	Households with employed persons	6.4	0.10%
	FISIM	-263.7	-4.17%
	Customs duties	442.7	7.00%
	VAT on imports, net	601.0	9.50%
	Gross domestic product	6,323.0	100.00%
	"Above the line" GDP	5,543.0	

UNRWA generated an estimated 2.7 per cent of total GDP, about USD150.1 million in all, consisting of 24.9 per cent of item H.5 (education) and 18.1 per cent of item H.6 (health and social work).<sup>6</sup>

## b. Background to developments in 2011

There were no significant developments regarding a political solution for ending the occupation and establishing an independent Palestinian state in 2011. As such the oPt economy remained captive to the political exigencies of the occupying power for a 44th year and subject to stifling mobility restrictions for a 17th year in sequence. External assistance by key donor states remained vitally critical to maintaining Palestinian Authority recurring budget operations for the 12th year in sequence.<sup>7</sup>

While donor assistance for the PA in 2011 remained significant—USD 940 million in budget and development assistance—it was about one-fourth less than the USD 1.27 billion received in 2010. More narrowly, the PA had a recurring budget deficit (revenues minus running costs) of USD 1.27 billion of which donor

<sup>6</sup> PCBS has provided estimates of the respective shares of education and health GDP produced by the private sector, the public sector and UNRWA for 2010 but has not yet produced such estimates for 2011. To estimate the sector GDP contributions in education and health for 2011, the 2010 shares are augmented by the respective rates of growth of employment in the respective sectors. Thus, employment growth in public, private and UNRWA education in 2011 are used to estimate the changes in GDP contribution of each of these sectors in education relative to 2010. In estimating the contributions of the various providers of education and health and social services, the accounting items "below the line" have been excluded. Sector employment data are provided by PCBS by special request.

<sup>7</sup> By 1998, the PA had balanced its recurring fiscal budget. All donor assistance was in the form of development or capital projects. See Patricia Alonso-Gamo, Max Alier, Thomas Baunsgaard and Ulric Erickson von Allmen *West Bank and Gaza Strip: Economic Developments in the Five Years Since Oslo* International Monetary Fund (November 1999). Since the beginning of the second intifada in late 2000, donor assistance has been mainly for recurring budget deficits at a rate of approximately USD 1 billion per year. See IMF concurrent reports since 2001.

budgetary assistance—USD 771 million—covered only 60 per cent.<sup>8</sup> The PA financed the rest of the recurrent budget deficit mainly by accumulating arrears to the private sector (i.e. postponing payments to local vendors) and by borrowing from domestic banks.<sup>9</sup> In so doing, the PA was able to increase capital expenditures (e.g. infrastructure, schools, roads, equipment, etc.) from about USD 275 million in 2010 to USD 295 million in 2011.<sup>10</sup>

Continued growth in the West Bank and Gaza in 2011 can be attributed, in part, to PA direct expenditures and the household expenditures of PA employees. While such expenditures and their multiplier effects in the local economy remained significant, fiscal retrenchment dampened the impetus in 2011, particularly in the West Bank.<sup>11</sup>

Private sector activity in the West Bank and Gaza continued to expand in 2011, in part due to continued high levels of government employment and spending and improvements in governance, in part due to marginally relaxed movement restrictions. In Gaza, in addition to marginally eased border restrictions on the part of the GOI, there was a surge in informal trade activity through the Egyptian border. Preliminary estimates indicate real West Bank GDP grew by 5.25 per cent while Gaza GDP expanded about 23 per cent from a severely depressed base. Both fixed capital investment in the oPt economy and oPt exports declined relative to 2010. Bank lending continued to grow, although at a slower pace than in 2010 and remained disproportionately concentrated in activities that do not produce sustainable employment growth such as commerce, services, real estate and construction (see below).

Employment in the West Bank grew about 6.1 per cent in 2011 relative to 2010 while in Gaza employment grew about 25 per cent due to a surge in the tunnel economy and marginally increased import restrictions through the Israeli-controlled borders. This reduced the number of unemployed in Gaza, as well as the unemployment rate. However, in the West Bank, the number of unemployed persons grew faster than employment with the unemployment rising marginally (see below).<sup>12</sup>

### c. Inter-temporal comparisons of GDP

#### 1. Comparing 2010 and 2011

Comparing results for 2011 with 2010 as a whole eliminates most of the seasonality in economic data and provides a better assessment of economic and social trends. Table 2 indicates that conventionally measured GDP in the oPt grew by an estimated 9.8 per cent in 2011 relative to 2010. Excluding the accounting items below the line, GDP growth was nearly 11 per cent.

Excluding the accounting items below the line suggests GDP growth of USD 548.2 million. The private sector accounted for about 76 per cent of this growth. Of private sector growth, 36.1 per cent was accounted for by construction activity; commerce (wholesale and retail trade) contributed about 11.6 per cent; accommodations and restaurants' share of private sector growth was about 11.4 per cent; manufacturing accounted for 9.7 per cent; agriculture contributed 7.5 per cent; information and communication accounted for 4.7 per cent; financial services contributed 4 per cent of private sector growth.

8 This compares to USD 1.35 billion in budget support in 2009 and USD 1.15 billion in 2010. See *op cit IMF, Macroeconomic and Fiscal Framework for the West Bank and Gaza*, April 2011, p. 18.

9 See *IMF Recent Experience and Prospects of the Economy of the West Bank and Gaza; Staff Report prepared for the Meeting of the AD HOC Liaison Committee*, Brussels, March 21, 2012.

10 See *op cit IMF, Recent Experience and Prospects of the Economy of the West Bank and Gaza*, March 21, 2012.

11 One indication of PA fiscal constraints was its inability to pay employee salaries and fully pay employee transfers in mid-2011. See *World Bank Sustaining Achievements in Palestinian Institution-Building and Economic Growth; Economic Monitoring Report to the Ad Hoc Liaison Committee*, 18 September 2011, pp. 9-12.

12 See section on labour market below.

Certain activities grew disproportionately fast, first among these was accommodations and restaurant activity which more than doubled in added value in the year-on-year period.<sup>13</sup> Construction activity expanded by nearly 27 per cent; this was accounted for mainly by Gaza where such activity doubled as the public and private sector were able to access significantly more building materials in 2011. The public sector—particularly central administration—also grew significantly faster than the overall economy. Notably, growth in manufacturing value-added lagged behind the economy in general.

**Table 2**

*Estimates of GDP by economic activity for the oPt, 2010-2011<sup>14</sup>*  
 (in USD millions at 2004 market prices)

		Annual	Annual	Absolute	Relative
	<b>Economic activity</b>	2010	2011	Change	Change
A	Agriculture, forestry and fishing	314.9	346.1	31.2	9.91%
B	Mining, manufacturing, electricity and water	742.5	798.7	56.2	7.57%
1	Mining and quarrying	23.4	23.4	0.0	0.00%
2	Manufacturing	512.0	552.5	40.5	7.91%
3	Electricity, gas, steam, air conditioning supply	166.8	177.6	10.8	6.47%
4	Water supply, sewerage, waste management	40.3	45.2	4.9	12.16%
C	Construction	557.9	708.2	150.3	26.94%
D	Wholesale and retail trade	538.8	587.0	48.2	8.95%
E	Transportation and storage	118.7	133.3	14.6	12.30%
F	Financial and insurance activities	279.1	298.9	19.8	7.09%
G	Information and communication	388.1	404.8	16.7	4.30%
H	Services	1,267.5	1,375.6	108.1	8.53%
1	Accommodation and food service	43.7	91.0	47.3	108.24%
2	Real estate	392.7	396.5	3.8	0.97%
3	Professional, scientific and technical	88.0	94.0	6.0	6.82%
4	Administrative and support service	35.8	38.3	2.5	6.98%
5	Education	442.3	478.8	36.5	8.25%
6	Human health and social work	164.3	168.7	4.4	2.68%
7	Arts, entertainment and recreation	26.4	28.2	1.8	6.82%
8	Other services	74.3	80.1	5.8	7.81%
I.	Public administration and defence	782.1	884.0	101.9	13.03%
J.	Households with employed persons	5.2	6.4	1.2	23.08%
	FISIM	-236.3	-263.7	-27.4	11.60%
	Customs Duties	409.0	442.7	33.7	8.24%
	VAT on imports, net	586.8	601.0	14.2	2.42%
	Gross domestic product	5,754.3	6,323.0	568.7	9.88%
	"Above the line" GDP	4,994.8	5,543.0	548.2	10.98%

As indicated in Table 3.A, and in real terms, the "above-the-line" GDP in 2011 is estimated to have grown 10.9 per cent relative to 2010. Private sector GDP grew 10.6 per cent while public sector GDP (public administration and the public components of education and health and social welfare) expanded 12.7 per cent in the same period. The portion of GDP accounted for by UNRWA is estimated to have grown by 7.3 per cent. As noted, the private sector accounted for more than three-quarters of GDP growth in this pe-

13 In Gaza, such activity expanded more than 250 per cent starting from an unusually small base.

14 Preliminary PCBS estimates for the oPt excluding East Jerusalem.

riod, with the public sector responsible for about one-quarter.

**Table 3.a**

*Estimates of GDP by sector in the oPt, 2010-2011<sup>15</sup>*  
(USD millions at 2004 market prices)

			<b>Absolute</b>	<b>Relative</b>
<b>Sector</b>	2010	2011	Changes	Changes
Private Sector	3,815.1	4,220.5	405.4	10.63%
Public Sector	1,039.8	1,172.4	132.5	12.75%
UNRWA	139.8	150.1	10.3	7.33%
Total GDP (above the line)	4,994.8	5,543.0	548.2	10.98%

**Table 3.b**

*Estimates of GDP by selected activity groups in the oPt, 2010-2011<sup>16</sup>*  
(USD millions at 2004 market prices)

			<b>2011</b>	<b>Absolute</b>	<b>Relative</b>
<b>Selected activity groups</b>	2010	2011	Share	Changes	Changes
Productive activities	1,615.3	1,853.0	33.43%	237.7	14.72%
Commerce activities	538.8	587.0	10.59%	48.2	8.95%
Service activities	2,840.7	3,103.0	55.98%	262.3	9.23%
of which private	1,870.9	2,063.2	37.22%	192.2	10.27%
of which public	969.8	1,039.8	18.76%	70.1	7.22%
Total GDP (above the line)	4,994.8	5,543.0	100.00%	548.2	10.98%

#### **d. Strategic activities: investment, exports and credit**

In a small, open and resource-scarce country like the oPt, building a sustainable economy requires, in part, an export capacity. Such a capacity in a country with relatively high wage costs (in USD terms), requires increasing labour productivity sufficiently to reduce unit labour costs so as to allow Palestinian products to compete in international markets. This, in turn, necessitates sustained and growing investment in the physical means with which Palestinian workers produce—plant, equipment and other productive inputs.

In real terms, investment in buildings, mainly residential housing, rose only 0.4 per cent in 2011, as indicated in Table 4.A. On the other hand, there was a 39.7 per cent decline in non-building investment (e.g. plant, equipment, tools, etc.) necessary to produce goods and services in the future. Thus, significant growth in the GDP did not coincide with enhanced capacity for future production and employment. This highlights an underlying imbalance in the oPt economy. On the one hand, there has been insufficient investment in the means by which future good and services (and employment) can be generated; on the other hand, there have been relatively high levels of private and public consumption.

Likewise, export performance declined. As shown in Table 4.B, exports in real terms fell an estimated 33.1 per cent relative to 2010. At the same, goods imports declined 23.8 per cent, indicative of both waning income growth and the decline in capital investment (productive inputs) of which many are from Israel and other countries. Exports from Gaza remained severely constrained by Israeli border authorities with

15 Data for 2010 are preliminary PCBS estimates for the oPt excluding East Jerusalem and excluding “below the line” accounting items, i.e. FISM, customs duties and VAT on imports.

16 Preliminary PCBS estimates for the oPt excluding East Jerusalem and excluding “below the line” accounting items, i.e. FISM, customs duties and VAT on imports

the total value of exports estimated at only USD 12.1 million—about one-third their level in 1994.<sup>17</sup>

**Table 4.a**

*Estimates of gross fixed capital formation in the oPt, 2010-2011<sup>18</sup>*  
(USD millions at 2004 market prices)

<b>Gross fixed capital formation</b>	<b>2010</b>	<b>2011</b>	<b>Changes</b>
Buildings	971.3	975.6	0.44%
Non-Building	382.1	230.4	-39.70%
Totals	1,353.4	1,206.0	-10.89%

**Table 4.b**

*Estimates of exports and imports of goods in the oPt, 2010-2011<sup>19</sup>*  
(USD millions at 2004 market prices)

<b>Goods trade</b>	<b>2010</b>	<b>2011</b>	<b>Changes</b>
Exports	999.3	668.2	-33.13%
Imports	3,419.5	2,604.0	-23.85%
Balance	-2,420.2	-1,935.8	-20.01%

Bank credit continued to grow at a relatively rapid pace in 2011, as indicated in Table 4.C. In absolute terms, the USD value of outstanding bank credit—the value of existing and new loans minus the value of loans paid back during the year—provided to domestic businesses, households and the public sector—increased by about USD 716.7 million to USD 3.45 billion at the end of 2011. This amounted to a 26.1 per cent increase in 2011. This followed a 30.8 per cent increase in net credit creation in 2010.

The private sector—both businesses and households—received a net increase of USD 438.6 million in bank credit, a 22.8 per cent increase relative to end-2010 accounting for 61.1 per cent of credit growth during the year and for 68.1 per cent of outstanding loans at the end of 2011. Net lending to businesses grew only 3.9 per cent, the smallest increase since 2003, as businesses accounted for only 8 per cent of the overall increase in credit creation. Credit for productive activities—as defined above—accounted for only about one-fifth of total outstanding bank lending at the end of 2011. At the same time, outstanding credit for commerce and services was more than 55 per cent of the total.

**Table 4.c**

*Value of outstanding bank credit to resident entities in the oPt, end-2010 and end-2011<sup>20</sup>*  
(nominal USD)

		<b>Absolute</b>	<b>Relative</b>	
<b>Borrowing entity</b>	<b>End 2010</b>	<b>End 2011</b>	<b>Changes</b>	<b>Changes</b>
Private sector	1,919,993,486	2,358,620,823	438,627,337	22.85%
Businesses	1,481,696,212	1,539,482,975	57,786,763	3.90%
Households	438,297,273	819,137,848	380,840,575	86.89%
Public sector	822,565,181	1,100,694,268	278,129,087	33.81%
Palestinian Authority	821,178,324	1,098,888,063	277,709,739	33.82%
Palestinian local authorities	1,386,857	1,806,205	419,348	30.24%

17 Based on PCBS national accounts data with preliminary estimates for 2011.

18 See PCBS *Press Report: Preliminary Estimates of Quarterly National Accounts*, Fourth Quarter 2011, March 2012. It is important to note that the significant informal trade, overwhelmingly imports, through the tunnels on the Gaza-Egypt border are not reflected in this data.

19 Based on PCBS national accounts data with preliminary estimates for 2011.

20 Data in this section are provided by the Palestinian Monetary Authority (PMA).

Total	2,742,558,666	3,459,315,091	716,756,425	26.13%
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Outstanding credit to households for personal land purchases, mortgages for homes, automobiles and other consumer and personal lending accounted for about 22 per cent of total bank lending at end-2011 jumping from about 16 per cent at end-2010. Total net lending to households and consumers grew 86.8 per cent during the year, more than three times faster than the pace of growth of lending overall. In particular, mortgage lending grew by 239.5 per cent to USD 375.6 million. Such lending was less than USD 50 million at end-2009 and has expanded rapidly since.<sup>21</sup> A significant portion of the increase in consumer loan bank lending in the past several years has been to the large number of public sector employees who are seen as having stable employment and incomes.

The public sector absorbed USD 278.1 million more in bank credit in 2011, a growth rate of 33.8 per cent. The central PA government accounted for almost all of this growth as revenues fell short of expenditures and donor assistance declined.<sup>22</sup> The total stock of outstanding bank credit to the PA at end-2010 stood at USD 1.1 billion, accounting for about 31.8 per cent of total outstanding bank lending in the oPt.

Credit available to residents of Gaza in 2011 grew by 53.7 per cent in 2011, with outstanding loans rising to USD 295.7 million (see Table 4.D). Nonetheless, outstanding credit at end-2011 in Gaza was about half its level in 2005. The political pressure to boycott the Hamas administration in Gaza has resulted significant reductions in all bank lending, contributing to the private sector depression there. Bank lending in the West Bank, on the other hand, grew by 21 per cent and, at year-end, accounted for 91.5 per cent of all outstanding bank credit in the oPt.

**Table 4.d**

*Value of outstanding bank credit by Palestinian territory, end-2010 and end-2011<sup>23</sup>*  
(nominal USD)

			<b>Absolute</b>	<b>Relative</b>
<b>Territory</b>	End-2010	End-2011	Changes	Changes
West Bank	2,633,247,303	3,192,917,216	559,669,913	21.25%
Gaza Strip	192,318,420	295,767,006	103,448,586	53.79%
<b>Total</b>	2,825,565,723	3,488,684,222	663,118,499	23.47%

#### e. Summarising macroeconomic conditions: 2010 and 2011

Macroeconomic growth continued at a relatively healthy pace in 2011, with conventionally measured real GDP rising an estimated 9.8 per cent. More than three-fourths of the growth was accounted for by the private sector. About 43.6 per cent of private sector growth was accounted for by productive activities—mainly construction—with private services accounting for about 47.8 per cent of the growth and commerce for 8.7 per cent. Continued rapid growth in bank financing—particularly mortgage and consumer lending—boosted domestic demand for goods and services. Public sector spending contributed to demand-side growth and the public sector accounted for nearly one-quarter of overall GDP growth. UNRWA contributed to nearly two per cent of estimated GDP growth in 2011.

It is noteworthy that the macroeconomic growth witnessed in recent years has not been matched by

21 In part, this is due to new PMA regulations requiring private banks to lend a minimum of 45 per cent of resident deposits to residents (including the public sector). The resident outstanding loan-to-deposit ratio was 50 per cent at end-2011, a historic high. It was as low as 28 per cent as recently as 2008. See IMF *Macroeconomic and Fiscal Framework for the West Bank and Gaza*, April 13, 2010, p. 7.

22 See above.

23 Data in this table includes credit extended by banks in the oPt to non-residents whereas Table 4 includes bank lending to resident entities only.

growth in productive investment or growth in export activity. Rather, the impulse for growth has been demand-led: public spending assisted by external donors and household spending boosted by bank lending. The decline in capital formation and exports—in particular—further hinder the attainment of greater labour productivity and a self-sustaining economy in the medium term.

Starting from a severely depressed economic base, GDP growth was significantly more rapid in Gaza compared to the West Bank. The estimated 22.9 per cent growth rate for Gaza is accounted for by expansion in construction in both the private and public sectors, public sector expansion, hotel and restaurant activity and commerce. These four activities accounted for three-quarters of the growth there. The marginal easing on import restrictions on the part of the GOI, and the surge in informal trade through the tunnels were the backdrop to a partial recovery. West Bank GDP grew by about 5.2 per cent. There, the main contributions to growth came from the public sector, manufacturing, commerce, construction and education, in that order. In both the West Bank and Gaza, the private sector played the leading role in the reported growth. A significant expansion in bank credit contributed to these results in both the public and private sectors.

Real per capita GDP grew an estimated 6.6 per cent in 2011, in line with such growth in 2010. In the West Bank per capita GDP grew about 2.4 per cent while in Gaza such income rose 18.8 per cent in real terms. The IMF has estimated that by 2009, real per capita GDP in the oPt had recovered to 1994 levels. The macroeconomic growth witnessed in 2010 and 2011 contributed to returning average income levels witnessed in the late 1990s, more than a decade ago. Per capita GDP in the West Bank was estimated at about 64 per cent greater than that of Gaza in 2011.

The IMF projects a 6.2 per cent growth rate for real GDP in the oPt in 2012, a significant slowdown relative to 2011. This is based on a growing liquidity problem in the PA's fiscal situation, reduced growth in bank lending and continued constraints on the mobility of people and goods with the oPt, between each territory and the other and between the oPt and neighbouring countries' markets.<sup>24</sup>

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24 See IMF *Recent Experience and Prospects of the Economy of the West Bank and Gaza; Staff Report prepared for the Meeting of the AD HOC Liaison Committee*, Brussels, March 21, 2012. The West Bank GDP growth rate is projected to fall to 5 per cent in 2012 from 5.7 per cent in 2011. Gaza GDP growth is projected to fall from 20.2 per cent in 2011 to 9 per cent in 2012.

## IV. the labour market: 2010 and 2011

Comparing labour market conditions between parallel annual periods yields much better insight into underlying trends because it largely eliminates the seasonality in data and utilizes a larger database derived from four field surveys in each year, rather than two. What follows is an analysis of oPt labour market conditions comparing conditions as between 2010 and 2011.

### a. Labour force

Based on the 2007 census, it is estimated that the total population of the oPt, including East Jerusalem averaged 4.06 million in 2010 and 4.18 million in 2011, with an implied population growth rate of about 3 per cent. The working age population (15 years and above) for the same periods is estimated at an average of 2.32 and 2.38 million respectively, with a corresponding estimated growth rate of 3.4 per cent.<sup>25</sup>

The labour force, as indicated in Table 5, increased by an estimated 7.2 per cent to about 1.04 million persons. There were an estimated 70,615 new labour force participants. The refugee and non-refugee labour forces increased by the same rates. In 2011, the labour force participation rate averaged 42.5 per cent of the working age population, an increase of about 1.5 percentage points relative to 2010.

On a regional basis, the labour force in the West Bank is estimated to have increased by about 6.5 per cent with a 4.9 per cent increase in the size of the refugee labour force and a 7 per cent increase in non-refugee labour market participants. In Gaza, the labour force is estimated to have increased by about 8.7 per cent with a 9.1 per cent increase in the number of refugees in the labour force and an 8 per cent increase in the non-refugee labour force. The average labour force participation rate in the West Bank in 2011 was 45.1 per cent while it stood at 38.1 per cent in Gaza.

**Table 5**

*Estimates of average labour force, employment and unemployment in the oPt by refugee status, 2010 and 2011 averages*

			<b>Absolute</b>	<b>Relative</b>
	2010	2011	Changes	Changes
Total population	4,060,718	4,184,548	123,830	3.05%
of which refugees	1,738,539	1,795,202	56,663	3.26%
of which non-refugees	2,322,179	2,389,346	67,167	2.89%
Working-age population (15+)	2,376,090	2,457,610	81,520	3.43%
of which refugees	1,009,172	1,033,791	24,620	2.44%
of which non-refugees	1,366,918	1,423,819	56,900	4.16%
Labour Force (narrow ILO)	975,588	1,046,202	70,614	7.24%
of which refugees	354,546	380,225	25,680	7.24%
of which non-refugees	621,043	665,977	44,934	7.24%
Employment	744,040	827,236	83,196	11.18%
of which refugees	250,128	282,119	31,991	12.79%
of which non-refugees	493,912	545,117	51,205	10.37%
Unemployment (narrow ILO)	231,549	218,967	-12,582	-5.43%
of which refugees	104,418	98,107	-6,311	-6.04%
of which non-refugees	127,131	120,860	-6,271	-4.93%

25 Population estimates are based on 2007 data results as provided by the PCBS. Working-age population estimates are from the PCBS labour force survey data.

Average employment in the oPt increased by an estimated 83,195 jobs in net terms, an 11.1 per cent increase relative to 2010. Non-refugees accounted for 61.5 per cent of job growth with refugees filling 38.5 per cent of new positions. On a regional basis, employment in the West Bank grew by 6.1 per cent, with refugee employment growing 2.9 per cent and non-refugee employment rising 7.1 per cent. In Gaza employment rose 25.4 per cent with refugee employment growing 23.2 per cent and non-refugee employment rising 28.9 per cent.

The number of unemployed by the narrow ILO definition stood at an average of almost 219,000 persons in 2011, a decline of about 12,580 relative to 2010. Refugees were about 45 per cent of all unemployed, somewhat above their share in the overall labour force.

## b. Employment

As noted, average total employment in the oPt rose 11.1 per cent in 2011 (refer to Table 6). The private sector accounted for more than 87 per cent with the public sector accounting for 7.5 per cent of job growth. Employment in Israel and settlements contributed to 5.8 per cent of the new employment. In absolute terms, employment in the public sector grew more slowly while that in the private sector grew most rapidly in this period.

**Table 6**

*Estimates of oPt employment by sector and refugee status, 2010 and 2011 averages*

			<b>Absolute</b>	<b>Relative</b>
<b>Sector employment</b>	2010	2011	Changes	Changes
Public sector	179,105	185,394	6,289	3.51%
of which refugees	85,979	89,836	3,857	4.49%
of which non-refugees	93,127	95,559	2,432	2.61%
Private sector	485,632	558,113	72,481	14.93%
of which refugees	151,374	179,696	28,322	18.71%
of which non-refugees	334,258	378,417	44,159	13.21%
Israel, industrial zones, settlements	78,171	83,045	4,874	6.24%
of which refugees	12,682	12,586	-96	-0.76%
of which non-refugees	65,489	70,459	4,970	7.59%
<b>Total employment</b>	744,040	827,236	83,196	11.18%
of which refugees	250,128	282,119	31,991	12.79%
of which non-refugees	493,912	545,117	51,205	10.37%

On a regional basis, public sector employment fell 0.5 per cent in the West Bank but grew 7.6 per cent in Gaza. West Bank private sector employment grew 7.9 per cent while in Gaza such employment grew an estimated 40.6 per cent.

As indicated in Table 7, there was growth in every private sector activity group in 2011 relative to 2010. The commerce, hotels and restaurants group of activities contributed to about 37 per cent of net private sector employment growth. Construction accounted for another 18.7 per cent followed by manufacturing with 17.1 per cent. Fourth in line were other private services which generated about 12 per cent of all new jobs. Agriculture and transport and communications each accounted for 7.5 per cent of employment growth.

On a regional basis, private employment growth in the West Bank was dominated by commerce, hotel and restaurant activity, accounting for almost 52 per cent of gains and manufacturing which contributed to

27.7 per cent. In Gaza, commerce, hotels and restaurants accounted for 26.4 per cent of new private sector employment with agriculture contributing 20.4 per cent and construction responsible for 19.5 per cent. Transport and communications contributed 12.1 per cent and private services accounted for 11.7 per cent of new jobs.

**Table 7**

*Estimates of oPt private sector employment by activity and refugee status, 2010 and 2011 averages<sup>26</sup>*

			Absolute	Relative
<b>Private sector employment</b>	2010	2011	Changes	Changes
Agriculture, fishing	81,713	87,123	5,410	6.62%
of which refugees	17,659	23,217	5,558	31.47%
of which non-refugees	64,054	63,906	-148	-0.23%
Manufacturing, mining, utilities	74,774	87,229	12,455	16.66%
of which refugees	18,292	20,474	2,182	11.93%
of which non-refugees	56,482	66,755	10,273	18.19%
Construction	59,334	72,907	13,573	22.88%
of which refugees	15,841	22,330	6,490	40.97%
of which non-refugees	43,493	50,577	7,084	16.29%
Commerce, hotels, restaurants	130,185	156,976	26,790	20.58%
of which refugees	42,995	49,867	6,871	15.98%
of which non-refugees	87,190	107,109	19,919	22.85%
Transportation, communication	39,472	45,090	5,618	14.23%
of which refugees	13,244	16,088	2,844	21.47%
of which non-refugees	26,228	29,002	2,775	10.58%
Other private services	100,155	108,788	8,634	8.62%
of which refugees	43,343	47,720	4,377	10.10%
of which non-refugees	56,812	61,068	4,256	7.49%
<b>Total private sector employment</b>	<b>485,632</b>	<b>558,113</b>	<b>72,481</b>	<b>14.93%</b>
of which refugees	151,374	179,696	28,322	18.71%
of which non-refugees	334,258	378,417	44,159	13.21%

Refugees gained 39.1 per cent of new private sector jobs in the oPt as a whole. In the West Bank, refugees accounted for only 12.2 per cent of new jobs in the private sector while in Gaza their share was 57.3 per cent. In all cases, refugee gains were proportionally smaller than their representation in the general labour force. Women accounted for about 15 per cent of new job holders in 2011 relative to 2010. In the private sector, women gained less than 12 per cent of new jobs while in the public sector women—mainly new teachers—accounted for nearly 64 per cent of new hires.

### c. Unemployment

Unemployment rates declined in 2011 relative to 2010. The overall ILO unemployment rate in the oPt fell from about 23.7 per cent to 20.9 per cent, while the broad rate declined from about 30 per cent to 26 per cent (see Table 8). Refugees and non-refugees alike experienced lower unemployment rates, with refugee rates declining a bit faster. Nonetheless, refugee unemployment rates remained substantially higher than those of non-refugees—more than 7.5 percentage points higher by both the narrow and broad ILO definitions.

26 Data in this table excludes Palestinian employment in Israel.

**Table 8**

*Estimates of narrow and broad unemployment rates and unemployment in the oPt by refugee status, 2010 and 2011 averages<sup>27</sup>*

			<b>Relative</b>	
<b>Unemployment rates</b>	2010	2011	<b>Changes</b>	
Unemployment rates (narrow ILO)	23.73%	20.93%	-11.82%	
refugees	29.45%	25.80%	-12.38%	
non-refugees	20.47%	18.14%	-11.36%	
Unemployment rates (broad ILO)	29.95%	26.09%	-12.90%	
refugees	35.74%	31.04%	-13.16%	
non-refugees	26.60%	23.24%	-12.65%	
			<b>Absolute</b>	<b>Relative</b>
Unemployed			Changes	Changes
Unemployment (narrow ILO)	231,549	218,967	-12,582	-5.43%
of which refugees	104,418	98,107	-6,311	-6.04%
of which non-refugees	127,131	120,860	-6,271	-4.93%
Unemployment (broad ILO)	318,132	291,796	-26,336	-8.28%
of which refugees	139,117	126,893	-12,224	-8.79%
of which non-refugees	179,015	164,903	-14,112	-7.88%

Under the narrow ILO definition, there was only a 5.4 per cent decline in the total number of unemployed persons, a total of 12,580. The decline in the number refugees unemployed was greater than for non-refugees. Under the broad definition, the number of unemployed declined by 26,335 or 8.2 per cent. The more rapid decline in the broad unemployment rate suggests that the ranks of discouraged workers shrank significantly in the period under review. In 2010, there were an estimated 88,580 discouraged workers; this fell to about 72,830 in 2011, a decline of 17.7 per cent.<sup>28</sup>

There were significant differences in unemployment trends as between the West Bank and Gaza. In the former, the number of unemployed under the narrow ILO definition, rose by 8.2 per cent or 9,385 persons. In Gaza, on the other hand, the number of unemployed declined 18.7 per cent or 21,965. The West Bank unemployment rate rose marginally from 17.1 to 17.4 per cent, while in Gaza that rate declined from 37.7 to 28.2 per cent. The broad unemployment rate in Gaza averaged 32.9 per cent in 2011 as compared to 22.8 per cent in the West Bank.

Employment growth and the reduction in unemployment reduced the estimated dependency ratio<sup>29</sup> from 5.4 in 2010 to 5 in 2011, a 7.3 per cent reduction in the number of people supported by each employed person's income. At the same time, a dependency ratio of 5 implies that one unemployed person affected the well-being and living levels of 4 others. The dependency ratio in Gaza is estimated at 8 in 2010 and 6.6 in 2011. In the West Bank that ratio was 4.5 in 2010 and 4.4 in 2011.

27 The broad definition of unemployment combines the ILO definition with discouraged workers, i.e. those who have given up searching for work due to their belief that none can be found.

28 In the labour force survey this translates to fewer people reporting that they have given up searching for work due to discouragement or more reporting that they are no longer searching for work and/or no longer want to work. Respondents reporting that they are no longer searching for work and/or no longer want to work are recorded as having left the labour force.

29 The dependency ratio is defined here as the total population divided by the number of employed persons in the oPt.

**Table 7***Estimates of oPt private sector employment by activity and refugee status, 2010 and 2011 averages*

			Absolute	Relative
<b>Private sector employment</b>	2010	2011	Changes	Changes
Agriculture, fishing	81,713	87,123	5,410	6.62%
of which refugees	17,659	23,217	5,558	31.47%
of which non-refugees	64,054	63,906	-148	-0.23%
Manufacturing, mining, utilities	74,774	87,229	12,455	16.66%
of which refugees	18,292	20,474	2,182	11.93%
of which non-refugees	56,482	66,755	10,273	18.19%
Construction	59,334	72,907	13,573	22.88%
of which refugees	15,841	22,330	6,490	40.97%
of which non-refugees	43,493	50,577	7,084	16.29%
Commerce, hotels, restaurants	130,185	156,976	26,790	20.58%
of which refugees	42,995	49,867	6,871	15.98%
of which non-refugees	87,190	107,109	19,919	22.85%
Transportation, communication	39,472	45,090	5,618	14.23%
of which refugees	13,244	16,088	2,844	21.47%
of which non-refugees	26,228	29,002	2,775	10.58%
Other private services	100,155	108,788	8,634	8.62%
of which refugees	43,343	47,720	4,377	10.10%
of which non-refugees	56,812	61,068	4,256	7.49%
<b>Total private sector employment</b>	485,632	558,113	72,481	14.93%
of which refugees	151,374	179,696	28,322	18.71%
of which non-refugees	334,258	378,417	44,159	13.21%

#### d. Social composition of the labour force

##### 1. Youth in the labour market<sup>30</sup>

The labour force participation rate among youth 15-24 years of age rose by about 2.3 percentage points to 28 per cent in 2011, as indicated in Table 9. However, population growth in this demographic segment led to a 12.7 per cent increase in the youth labour force, i.e. those working or actively seeking work. In total, there was an estimated average of about 242,470 youth in the labour force, about 23.1 per cent of the total oPt labour force by the ILO definition. On a regional basis, the West Bank youth labour force grew 5 per cent while that in Gaza grew about 16.7 per cent.

**Table 9***Estimates of labour market conditions for oPt Youth, 2010 and 2011 Averages*

			Absolute	Relative
oPt youth labour force profile	2010	2011	Changes	Changes
Population (15-24)	834,238	863,665	29,427	3.53%
Labour force (narrow ILO)	214,993	242,471	27,478	12.78%

30 Separate estimates for the refugee youth population and refugee youth labour force are not available from PCBS. Thus estimates here are for the entire youth segment in the oPt.

Employed	131,547	156,347	24,800	18.85%
Unemployed (narrow ILO)	83,446	86,123	2,677	3.21%
Labour force participation rate (ILO)	25.77%	28.07%	--	8.94%
Unemployment rate (narrow ILO)	38.81%	35.52%	--	-8.49%
Unemployment rate (broad ILO)	47.76%	41.83%	--	-12.43%

Youth employment grew 18.8 per cent to about 156,345 while the number of unemployed youth rose 3.2 to about 86,125. Thus, youth employment grew more rapidly than the labour force, the number of unemployed youth and substantially faster than employment in the labour force at large. At the same time, youth unemployment continued to grow while unemployment in the general labour force declined. The ILO youth unemployment rate declined from 38.8 to 35.5 per cent—about 14 percentage points above the overall rate in the oPt. In contrast—those 35 years old and above—had an average unemployment rate below 14 per cent. The broad youth unemployment rate fell from 47.7 to 41.8 per cent. Youth were only 18.8 per cent of all employed persons in the oPt in 2011 but 39.3 per cent of all the unemployed.

Unemployment rates for young women in the oPt remained substantially higher than for young men. On average, young males aged 15-24 had an average unemployment rate of 32 per cent as compared to a 54.1 per cent unemployment rate for females in the same age cohort in 2011. The labour survey data also suggest that, since 2008, the male youth unemployment rate has fallen gradually each year while that for women has grown each year.

In the West Bank, youth experienced a 9.7 per cent increase in employment but a 13.9 per cent increase in the number of unemployed in 2011 relative to 2010. The narrow ILO unemployment rate was up slightly to 28.9 per cent while the broad rate declined from 37 to 35.7 per cent. In Gaza, there was a 59.4 per cent increase in the number of employed youth and a 7.8 per cent decline in the unemployed. The youth narrow ILO unemployment rate there fell from 63.4 to 50 per cent while the broad rate declined from 70.5 per cent to 55.1 per cent.<sup>31</sup>

## 2. Women in the labour market

As indicated in Table 10, women's labour force participation rate increased nearly 1.5 percentage points in 2011 relative to 2010 to about 16 per cent of the female working age population. Women's labour participation rate was therefore well below that of youth and less than one-third of the overall average rate. Women were about one-fifth of the economically active population in the oPt in 2011. Some 84 per cent of adult women were outside of the formal oPt labour force, most of these reporting they were homemakers and/or housewives or students.

In 2011, the number of women in the labour force increased by 11.2 per cent, an estimated 21,000 persons, considerably faster than the 7.2 per cent labour force growth rate in the oPt as a whole. The number of employed women rose by 9.8 per cent, as compared to 11.1 per cent growth for the work force as a whole. The number of unemployed women jumped 14.1 per cent, while unemployment in general fell 5.4 per cent. Women's average unemployment rate in 2011 was 28.6 per cent, more than 7.5 percentage points above the oPt average but about 8 percentage points below that of youth. By contrast, the average unemployment rate for men was 19.1 per cent.

31 Unemployment rates in the oPt are among the highest in world. Among 196 countries and territories listed in the CIA *World Fact Book*, Gaza was ranked 17th in terms of unemployment rates while the West Bank was ranked 46th. See [www.cia.gov/library/publications/the-world-factbook/rankorder/2129rank.html](http://www.cia.gov/library/publications/the-world-factbook/rankorder/2129rank.html).

**Table 10***Estimates of women's labour market conditions in the oPt, 2010 and 2011 averages*

			<b>Absolute</b>	<b>Relative</b>
<b>Women's labour force profile</b>	2010	2011	<b>Changes</b>	<b>Changes</b>
Population	1,995,996	2,053,157	57,161	2.86%
Working-age population	1,274,231	1,298,797	24,566	1.93%
Labour force (narrow ILO)	187,145	208,158	21,013	11.23%
Employed	126,345	138,767	12,422	9.83%
Unemployed (narrow ILO)	60,800	69,390	8,591	14.13%
Labour force participation rate (narrow ILO)	14.69%	16.03%	--	9.12%
Unemployment rate (narrow ILO)	26.76%	28.68%	--	7.19%
Unemployment rate (broad ILO)	32.49%	33.35%	--	2.65%

PCBS labour force data going back more than a decade indicates that prior to 2009, female unemployment rates were consistently below that of men's. The relationship was reversed in 2009 with women's rates consistently above those of men. This suggests an increasing commitment by women to the labour market, partly a result of higher educational attainment rates as well as a need to supplement household incomes.

As in the past, the main concentrations of women's employment was in services, accounting for 61.5 per cent of female employment in 2011. About half of this was in public services and half in private services, including such specific activities as education, health, government administration and business and personal services, NGOs and UNRWA. Services added some 7,425 additional jobs, accounting for about 60 per cent of net new positions for women in 2011. Another 2,655 new jobs for women were generated in manufacturing (including utilities), contributing about 21.2 per cent of net new employment.

**Table 11***Estimates of the activity distribution of employed women in the oPt, 2010 and 2011 averages*

			<b>Absolute</b>	<b>Relative</b>
<b>Womens' activity distribution</b>	2010	2011	<b>Changes</b>	<b>Changes</b>
Agriculture, hunting & fishing	27,087	27,590	502	1.85%
Manufacturing, mining, utilities	9,430	12,085	2,655	28.15%
Construction	--	--	--	--
Commerce, hotels, restaurants	10,268	12,140	1,872	18.23%
Transportation, communication	1,082	942	-140	-12.93%
Other services	78,030	85,458	7,428	9.52%
Total employment	126,293	138,766	12,473	9.88%
Public employment	38,476	42,500	4,024	10.46%

Commerce, hotels and restaurants accounted for another 15 per cent of the increased employment of women. There was relatively minor growth of agricultural employment among women in 2011, even though that activity accounted for about one-fifth of female employment where they are mainly unpaid family labour. Agricultural employment for women grew 1.8 per cent, far slower than agricultural employment growth in general. It is noteworthy that the labour force survey data indicate a strong correlation between female employment in agriculture and the proportion of women recorded as unpaid family members.

Women's real average daily wage declined about 1 per cent in 2011. Cumulatively, women's real daily wage has declined about 12 per cent since 2006 with declines in every year since 2007. During the same interval, female employment in the oPt grew about 15 per cent. Real daily wages declined about 10 per cent for the working population as whole while total employment grew about 24 per cent between 2006 and 2011. Thus, while real wages have been falling on average, the decline in women's compensation has fallen faster.

About 18.2 per cent of adult women in the West Bank and 12 per cent in Gaza were engaged in economic activity outside of the home in 2011. In the case of the West Bank, this was a one percentage point increase and in Gaza, almost a two percentage point increase relative to 2010. In the West Bank the female labour force grew by about 9.8 per cent while that in Gaza grew 22.6 per cent. The number of employed women grew 4.7 per cent in the West Bank and jumped 33.2 per cent in Gaza in 2011 relative to 2010. Meanwhile, by the broad definition, the number of unemployed women rose nearly 19 per cent in the West Bank and 7.8 per cent in Gaza.

### 3. Types of employment

In the aggregate, the number of employers grew faster than overall employment suggesting relatively rapid business formation (see Table 12). This is usually an indication of improved conditions for small business. Self-employment (in which no other persons are employed) grew by about the rate of overall employment. As self-employment is usually associated with informal activities, continued growth of this type suggests that the informal economy kept pace with the broader economy, at least in terms of employment. Wage employment—the most common type—also kept pace with overall employment growth. Finally, unpaid family labour, associated with agriculture and commerce mainly, grew significantly faster than overall employment. This may have been due to the disproportionate growth in commerce employment, although the relatively small growth rate in commerce GDP suggests that such employment did not generate much in additional value-added. It is noteworthy that youth and women constitute the bulk of unpaid family labour.

On a regional basis, in the West Bank, the number of employers grew more than twice the rate of employment growth in general and there was a decline in the number of self-employed. The number of unpaid family members grew at less than half the rate of employment growth. The trends in the West Bank suggest relatively rapid small business formation and marginally reduced informal activities. Developments in the West Bank were driven by continuing private sector growth, itself buoyed by significant public sector spending, and increased amounts of consumer credit from the banking system.

**Table 12**

*Estimates of employment status in the oPt by refugee status, 2010 and 2011 averages*

			<b>Absolute</b>	<b>Relative</b>
<b>Employment status</b>	2010	2011	<b>Changes</b>	<b>Changes</b>
Employer	47,212	53,911	6,700	14.19%
of which refugees	12,933	13,571	638	4.93%
of which non-refugees	34,279	40,341	6,062	17.68%
Self-employed	139,490	154,391	14,901	10.68%
of which refugees	39,685	46,844	7,159	18.04%
of which non-refugees	99,805	107,547	7,742	7.76%
Wage employee	502,172	553,759	51,587	10.27%
of which refugees	186,383	204,913	18,530	9.94%
of which non-refugees	315,789	348,845	33,057	10.47%

Unpaid family member	54,035	64,491	10,456	19.35%
of which refugees	11,033	16,789	5,756	52.17%
of which non-refugees	43,002	47,702	4,700	10.93%
<b>Total employment</b>	742,908	826,552	83,644	11.26%
of which refugees	250,034	282,117	32,083	12.83%
of which non-refugees	492,874	544,435	51,561	10.46%

Gaza was characterized by disproportionately low growth in the number of employers but the number of self-employed grew at more than twice the rate of employment generally. Meanwhile, the number of unpaid family members nearly tripled as wage-employment grew well below the average rate of employment growth. As such, the trends in the West Bank were mirror opposites of those in Gaza. The unusually high growth in agricultural and commerce employment in Gaza probably explains the surge in unpaid family labour. At the same time, the continuing economic crisis explains the rapid growth in self-employment.

### e. Wage rates and monthly wage incomes

Despite significant employment growth, real wages of working people continued to deteriorate in 2011. Table 13 presents data on average wages and monthly days worked for all employed persons in the oPt. The average daily wage in nominal terms barely changed, rising only 0.1 per cent to NIS 91.9 (about USD 25.7 at the average USD/NIS exchange rate of 3.56). The average number of days worked on a monthly basis rose 0.8 per cent, the result being a 1.2 per cent increase in the average nominal monthly wage in the oPt to NIS 2,059 (about USD 578.3).

Consumer level inflation rose at a rate of 2.64 per cent in 2011, about twice as fast as nominal monthly wages. In inflation-adjusted terms, the real average monthly wage was down 1.3 per cent year-on-year and down.<sup>32</sup>

**Table 13**

*Estimates of nominal and real average daily and monthly wages in the oPt by refugee status, 2010 and 2011 averages<sup>33</sup>*

<b>Average daily wages (nominal NIS)</b>	<b>2010</b>	<b>2011</b>	<b>Changes</b>
All employed persons	91.7	91.9	0.18%
Employed refugees	79.6	80.2	0.87%
Employed non-refugees	97.8	97.8	0.03%
Average monthly days			
All employed persons	22.2	22.4	1.06%
Employed refugees	22.7	22.8	0.48%
Employed non-refugees	21.9	22.2	1.34%
Average monthly wages (nominal NIS)			
All employed persons	2,034	2,059	1.24%
Employed refugees	1,809	1,833	1.35%

32 It is also important to note that the USD lost about 4.5 per cent of its value against the NIS as between 2010 and 2011. To the extent that the USD prices of imported goods did not rise as quickly as the prices of domestically-produced goods and services, this would mitigate to some extent the decline in purchasing power of consumers in the oPt.

33 CPI deflator (with 2004 base year) is from PCBS consumer price surveys for the respective periods. Average monthly wages (in real NIS) are derived by dividing the average monthly wages (in nominal NIS) by the CPI deflator and reflect the purchasing power of wages.

Employed non-refugees	2,141	2,170	1.37%
CPI deflator (2004 = 1.0)	1.29	1.32	2.64%
Average monthly wages (real NIS)			
All employed persons	1,576	1,555	-1.36%
Employed refugees	1,402	1,384	-1.26%
Employed non-refugees	1,660	1,639	-1.24%

In the West Bank the average real monthly wage declined 1.8 per cent in 2011 while in Gaza the average increased 5.8 per cent. Refugees in the West Bank lost 4.8 per cent in real terms while non-refugees lost 0.9 per cent. In Gaza, refugees experienced an 8.8 per cent increase in purchasing power of their wages with non-refugees gaining 2.6 per cent. It is noteworthy that average monthly wages in real terms were more than 10 per cent below their level in 2005 while the loss in the purchasing power of wages in Gaza in the same interval has been about 25 per cent.

Women's average daily wages were about 17 per cent below that of men's in 2011, as compared to a 19 per cent differential in favour of men in 2010. Disaggregating the data by sector of employment indicates that men's public sector daily wages were about 1.5 per cent more than for women while men's private sector daily wages were about 2.6 per cent greater than women's in 2011. The bulk of the advantage in men wages was due to the large sex discrepancy in employment in, and wages from, Israel and settlements. Men constituted 98.5 per cent of Palestinians employed in Israel and, on average, men's daily wages there were 45.5 per cent above those of women in 2011.

#### **f. Summarising labour market trends: 2010 and 2011**

There were an average of 11.1 per cent more people working and 5.4 per cent fewer people not working but seeking work in the oPt in 2011 relative to 2010. Both refugees and non-refugees gained employment in tandem and the numbers of both who were unemployed declined. These two trends summed to a 7.2 per cent labour force growth rate, more than twice the rate of population growth.

On a regional basis, employment growth in Gaza was four times as fast as the West Bank's 6.1 per cent rate. Conversely, the number of unemployed in the West Bank grew 8.2 per cent while that in Gaza fell 18.7 per cent. Refugee employment gains in both the West Bank and Gaza were weaker relative to non-refugees, while the decline in unemployment among refugees was somewhat stronger than for non-refugees.

More than 87 per cent of job gains were in the private sector with the public sector contributing to another 7.5 per cent of employment growth in the oPt. The trend was equally apparent in both the West Bank and Gaza. In the West Bank, the public sector shed employment while in Gaza the public sector continued to grow at a robust rate. The commerce, hotels and restaurants group of activities was the single most important source of new private sector jobs in 2011, followed by construction activity. More than 55 per cent of private sector job growth in the oPt was accounted for by these two activity groups. In the West Bank commerce contributed to more than half of job gains while in Gaza commerce provided for about one-quarter of private employment growth with agriculture adding another fifth of such gains.

Both narrow and broad unemployment rates receded in 2011. The narrow ILO average unemployment rate fell almost 3 percentage points to 20.9 per cent while the broad rate fell nearly 4 percentage points to 26 per cent. Despite robust job growth—especially in Gaza—unemployment rates remained stubbornly high and among the highest in the world. While refugee unemployment rates fell somewhat faster, they remained significantly higher than those of non-refugees.

The youth labour force grew by about twice the rate of the overall labour force. In Gaza, the youth labour force grew by more than 16 per cent, while in the West Bank, it grew nearly 11 per cent. Youth employment

also grew substantially faster than for the overall working population, with nearly a 60 per cent increase in Gaza pulling up the youth average. On the other hand, the number of unemployed youth grew 3.2 per cent while unemployment in general fell. Gaza youth fared much better than West Bank youth, with more robust employment growth and an absolute decline in unemployment. Nonetheless, the youth broad unemployment rate in Gaza remained some 20 percentage points above that in the West Bank and among the very highest in the world. Unemployment rates for young women in the oPt remained substantially higher than for young men. On average, young males aged 15-24 had an average unemployment rate of 32 per cent as compared to a 54.1 per cent unemployment rate for females in the same age cohort in 2011.

Despite the lowest participation rate of any demographic group in the oPt, the women's labour force continued to grow at a rate well in excess of the broader labour force in 2011. At the same time, women's employment growth was somewhat below average, especially in the private sector. The public sector had the slowest rate of employment growth on a sector basis. Women accounted for nearly two-thirds of new employment, mainly as teachers. Nonetheless, women's unemployment increased significantly as general unemployment fell. Women's average unemployment rate remained significantly above average. Prior to 2009, women's unemployment rates were consistently below average. This suggests a growing and persistent commitment of more and more oPt women to work outside of the home. Public and private services, the "traditional" economic activities in which women are concentrated, absorbed the bulk of newly-employed women in 2011. Manufacturing and utilities generated another fifth of new jobs in this period. About 18.2 per cent of adult women in the West Bank participated in the work force outside of the home as compared to 12 per cent in Gaza.

It is noteworthy that unemployment continued to disproportionately affect youth, women and refugees in 2011. Youth had an average unemployment rate of 35.5 per cent while those 35 years old and above had average unemployment rates below 14 per cent. Women's average unemployment rate was 28.6 per cent while that for men was 19.1 per cent. The unemployment rate for oPt refugees was 25.8 per cent versus 18.1 per cent for non-refugees.

Employment trends in the oPt in 2011 suggests more rapid small business formation as the number of employers rose disproportionately. At the same time, the degree of informality receded as the number of self-employed persons declined. This was mitigated somewhat as unpaid family labour rose disproportionately fast. These overall trends were accounted for by developments in the West Bank. By contrast, there was disproportionately slow growth in the numbers of employers and rather rapid growth in self-employment and unpaid family labour in Gaza during that period.

Despite continued employment growth and overall reductions in unemployment, the average real monthly wage was down about 1.3 per cent. Persistently high levels of unemployment continued to erode the real value of wage incomes in 2011, bolstering the phenomenon of working poverty, whereby employed people still fall below the poverty line, in the oPt. This is suggested by the fact that the number of persons and households in deep poverty continued to grow on a post-assistance basis in 2010, the last year for which household expenditure data is available, despite significant employment gains in that year.<sup>34</sup>

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34 Estimates are based on PCBS household consumption and expenditure and poverty data for 2010 relative to 2009.

## V. moving forward

The oPt economy in 2011 was marked by significant growth in output and employment. Yet despite noteworthy growth in 2010 and 2011, the fundamental context of the oPt economy for well over a decade has been the inability to fully utilize human and natural resources to greatest advantage mainly due to the restrictive policies of the GOI. Characteristic of this situation has been an underlying labour market unable to adequately absorb a labour force growing, on average, faster than the overall population.

The resulting hyper-unemployment has fallen disproportionately on youth, women and refugees with catastrophic consequences for living levels and the extent and depth of poverty. The hyper-unemployment experienced by Palestinians in the oPt since the mid-1990s stands in stark contrast to conditions in neighbouring and more distant Arab countries with similar demographic dynamics but markedly lower unemployment rates. As pointed out by the IMF, had the oPt not been subjected to restrictions on resource use and the free mobility of people, vehicles and goods in the period after 1994, the level of per capita GDP would have been between 50-100 per cent greater than what they were in 2010.<sup>35</sup> Levels of unemployment would be considerably lower as well.

The important growth witnessed in 2010 and 2011 did not alter the basic context. Despite marginally reduced movement restrictions, the oPt economy remains restrained by the policies of an occupying power and vulnerable to Israel's tactical and strategic political objectives. Most pressing is the degree to which Palestinian external trade is hampered by the policies—stated and unstated—of the GOI. As PA fiscal management and governance have improved markedly in the past years, it has contributed to economic growth. Unlike the situation a decade ago, it is generally conceded that the policies of the PA do not pose major obstacles to growth and development. Rather, the main impediments to higher levels of private sector investment and employment are those that emanate from the policies of the GOI.

Given robust growth in the working-age population, it is estimated that an average of 127,000 jobs would have to be created and sustained in the oPt each year between 2011 and 2015 in order to reduce the narrow ILO unemployment rate to 10 per cent, about the average rate in the Middle East and North Africa.<sup>36</sup> This compares to average annual job growth of about 55,000 in 2010 and 2011, good years by recent standards. In other words, sustainable employment generation would have to be more than 2.5 times as fast as it has been in the past two years. This is indicative of the additional burden imposed by the occupation on the Palestinian economy.

Uncertainty in the political environment, movement restrictions and inaccessibility to land and water resources, the continuing blockade on Gaza and the decline in incomes over the past decade have dampened investor expectations about the future, discouraging private sector investment in productive activities. With still significant amounts of external assistance supporting a captive economy, service activities have grown at the expense of productive activities. Instability and restrictions on mobility have also inhibited tourism, an activity that should be an important source of job and income generation.

It must be reiterated that unsettled politics—both internal and with regard to a final status settlement with the GOI—remain the main obstacle to recovery from the prolonged socio-economic crisis that has afflicted the oPt for more than 15 years. The strategic, long-term and sustainable development of the Palestinian economy can occur if a political solution is reached that allows for greater certainty, greater access

35 See op cit IMF, *Macroeconomic and Fiscal Framework for the West Bank and Gaza: Seventh Review of Progress*, April 13, 2010, pp. 9-10.

36 This estimate assumes: 1) the growth of the working-age population during 2011-2015 is equal to its annual average growth rate during the 2000-2010—about 4 per cent and; 2) that the labour force participation rate is maintained at its average rate during the 2000-2010 period—about 40 per cent. The average unemployment rate in the Middle East and North Africa in 2008 was 9.7 per cent according to the World Bank. See World Bank on-line data base at <http://data.worldbank.org/indicator/SL.UEM.TOTL.ZS>.

to indigenous land and water resources and markets, greater internal and external mobility and, thus, more coherent planning and investment. The continuing occupation amounts to a massive tax on people and resources; an end to the occupation would be the most important contribution to sustainable development in the oPt.





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