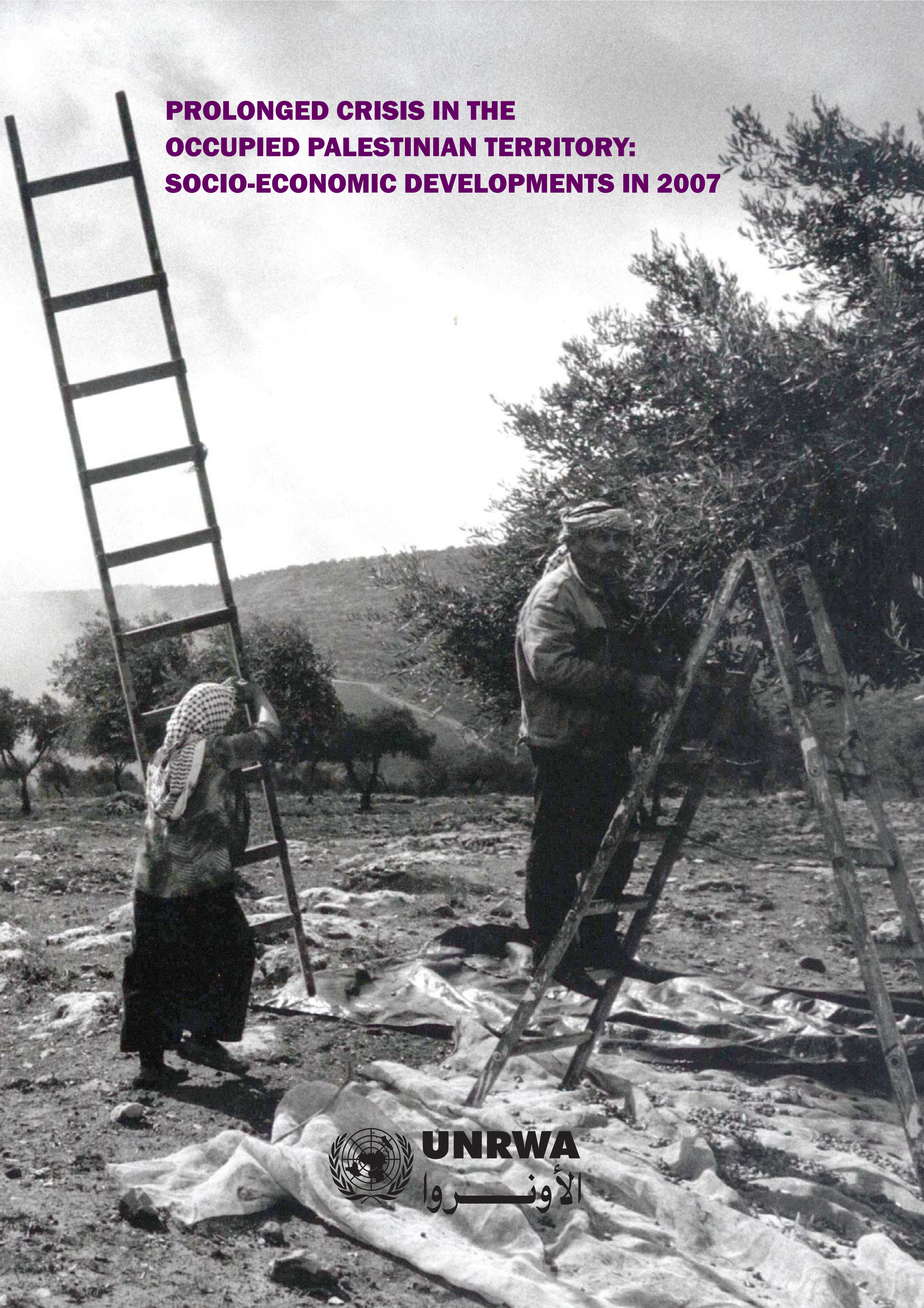
PROLONGED CRISIS IN THE OCCUPIED PALESTINIAN TERRITORY: SOCIO-ECONOMIC DEVELOPMENTS IN 2007



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United Nations Relief and Works Agency for Palestine Refugees
in the Near East

Prolonged Crisis in the occupied Palestinian territory: Socio-Economic Developments in 2007

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EXECUTIVE SUMMARY

The Palestinian economy continued to perform badly in 2007. Real Gross Domestic Product (GDP) in 2007 – estimated at about USD 4.1 billion – was virtually unchanged from 2006, itself a year of severe economic regression. There was a rebound in the public sector after mid-2007 due to the end of the fiscal crisis that began in 2006 with the Government of Israel (GOI) and donor boycott of the Palestinian Authority (PA) and public employee strike. But this was offset by continued stagnation in the private sector. GDP in 2007 remained around 8.3 percent below its 1999 level. With population growth of about one-third during the intervening period, per capita GDP in 2007 was almost a third below its 1999 level. The occupied Palestinian territory (oPt) continued to have the worst performing economy in the Middle East North Africa sub-region (MENA).

The real average unemployment rate in the oPt in 2007 remained amongst the highest in the world at 29.5 percent. When adjusted to account for the sharp increase in unpaid absentee workers in Gaza during the second half of the year, joblessness in Gaza between July and December 2007 reached an unprecedented high of 45.3 percent. At 46.1 percent, rates were slightly higher for refugees in Gaza. In the West Bank, unemployment for the year remained unchanged at 24.5 percent, around double the MENA average, with higher rates for refugees (26.8 percent). Labour force growth continued to outpace population growth and rates rose in the second half of the year.

At the household level, consumption poverty fell in the West Bank from 24 percent in 2006 to 19.1 percent in 2007, likely driven down by the lifting of the international embargo on the PA at mid-year. In Gaza, where restrictions on access were tightened following Hamas's takeover in June, the number of households below the consumption poverty line continued to grow, reaching 51.8 percent for the year as a whole, despite significant amounts of emergency and humanitarian assistance.

A. Gross Domestic Product and National Income in the oPt

Macroeconomic developments in the occupied Palestinian territory (oPt) in 2007 were conditioned by the economic turmoil of 2006. The Government of Israel (GOI) and donor boycott of the newly-elected Hamas government, loss of fiscal revenues and the strike of public employees in the last trimester of 2006, combined to produce a 7.8 percent reduction in real GDP in 2006. This decline was accounted for mainly by regression in public sector GDP combined with a stagnant private sector. The assumption of power by Hamas in Gaza in mid-2007, the dismissal of the elected PA government and the formation of a caretaker government in the West Bank created further turbulence. This was followed by a period of differential policies and actions on the part of GOI and donors vis-à-vis Gaza and the West Bank, producing significant differences in economic performance between these regions.

1. Comparing Six-Monthly and Annual Periods

On a semi-annual basis, estimates for second-half 2007 suggest that the Palestinian GDP increased about 3 percent relative to the first half of the year. This was accounted for exclusively by growth in commerce and private and public services, while agriculture, manufacturing and construction – sectors of strategic importance for the Palestinian economy – registered net declines in the second half. The end of the public employee strike in early 2007 and the resumption of fiscal clearance transfers by GOI, as well as renewed external assistance in the second half of the year, resulted in a rebound in public sector GDP, particularly in education and health. The slight growth in private sector activity was accounted for by developments in the West Bank, while in Gaza, the intensification of the Israeli siege after mid-2007 led to further compression in private sector activity.

On an annual basis, the public sector grew in 2007, largely regaining its share of the GDP after the public sector strike. While in 2006, the decline in GDP was accounted for by retrenchment in the public sector with a minor decline in private sector GDP, in 2007 the public sector rebound accounted for a large portion of net growth, while the private sector continued a slow regression led by major declines in business services and manufacturing. Disaggregated regional data are unavailable, but private sector losses are presumed to be concentrated in Gaza. In net terms, GDP performance in 2007 was not substantially different than that in 2006, the latter being the worse year since 2002.

2. Credit

Accompanying and contributing to the economic malaise was a 7.6 decline in the value of outstanding bank credit in the oPt – the first annual decline since 2002 and only the third since 1994. The decline in credit was from two main sources. First was the payment by the PA of a portion of its debt to private banks due to the resumption of regular revenue clearances from the GOI and increased budget support from donors in the second half of 2007. Second, with the resumption of regular salary payments, PA employees paid back much of their personal/consumer loans. Bank lending in Gaza was down sharply, accounting for the overall net decline, while lending in the West Bank actually rose.

Bank lending to private businesses, on the other hand, expanded by 9.7 percent in 2007 or by some USD 102 million in net terms. Anecdotal information indicates, however, that banks have become increasingly reluctant to extend loans to public sector employees, given their experience of non-payment of such loans in 2006. Moreover, banks' heightened perception of risk – especially in Gaza – partly explains the decline in credit availability. The contraction in net outstanding credit no doubt contributed to the macroeconomic malaise in 2007, especially in Gaza. On the other hand, the continued growth of credit extension in the West Bank probably mitigated the downward pressures on production and incomes and partly accounts for better performance there, especially for specific branches of the private sector.

3. Longer Term Trends

More troubling for the medium- and long-run has been the low level of investment spending in both the public and private sectors. Significant public investment is necessary for the development of better quality housing, education, health, social welfare and public infrastructure and an enabling legal, regulatory and institutional environment that would encourage private investment. Significant private investment is necessary to generate employment and income sufficient to absorb a rapidly growing labour force. Public investment in 2007 – all of it financed by donors – is estimated at USD 306 million, up from USD 183 million in 2006, but not much changed from 2005. Private sector investment, estimated at about USD 665 million in 2006, showed no sign of growth in 2007.

Israeli-imposed movement restrictions in the oPt, whose population is estimated to have grown by about one-third since 1999, have resulted in considerable regression over the past eight years and remain the main barrier to economic recovery and development.

B. Labour Market Trends in the oPt

1. Comparing First-Half and Second-Half 2007

There was moderate labour force growth in second-half 2007, accompanied by a decline in employment and a rapid increase in unemployment. Labour force growth in this period was translated into about 29,500 more unemployed persons in the oPt. There was stagnant public sector employment, a decline in domestic private sector employment and moderate growth of employment in Israel.

Non-refugees accounted for all labour force growth, all new net employment and for 84.2 percent of new unemployment in second-half 2007. In broad terms, non-refugee unemployment grew more quickly in absolute and relative terms in comparison to refugees. By contrast, refugees experienced a slight decline in labour force size and comparatively small declines in employment and small increases in unemployment. Refugee employment gains were concentrated in transport and communications and construction activity. Their job losses were particularly heavy in manufacturing and agriculture.

There were significant differences in labour market developments as between the West Bank and Gaza. In the West Bank, the public sector shed jobs while employment in the private sector and in Israel grew modestly. In Gaza the public sector jobs increased while the private sector shed a significant number of jobs. There were modest gains in West Bank private sector employment in second-half 2007 while political turmoil and siege-related supply side shortages resulted in significant job losses in the Gaza private sector. Developments in Gaza are mainly responsible for disproportionate refugee job losses in the oPt in the second half of the year.

The broad unemployment rate in the oPt is estimated at about 29 percent in second-half 2007. That for the West Bank is estimated at about 25.5 percent. In Gaza, there was a nearly five-fold increase in temporarily absent workers in second-half 2007. Such workers included a) PA security personnel who stayed away from their jobs as directed by the PA caretaker government, and; b) private sector workers released from work for lack of fuel and raw materials needed to produce. In the standard ILO methodology both groups are considered employed and are assumed to be receiving their normal wages. But while the first group continued to receive their wages, the second group did not. When this second group is factored into the calculations, the rate of unemployment in Gaza is estimated at an unprecedented 45.3 percent for the second half of the year. In both the West Bank and Gaza the youth segment of the labour force was the least likely to gain employment and the most prone to increased unemployment in this period.

Persistently high unemployment and an acceleration in consumer prices combined to produce a 2 percent decline in the average purchasing power of monthly wages as between the first and second halves of 2007. The decline among refugees was more than double that rate on average. In Gaza, the real wage decline was 8.3 percent; in the West Bank the decline was 2.7 percent.

2. Comparing 2006 and 2007

An increase in the labour force participation rate in 2007 produced labour force growth of 5.8 percent – more rapid than the growth of the working age population. Half of labour force growth – a disproportionate share – was accounted for by refugees. The labour force growth rate in the West Bank was 3.7 percent while in Gaza it was 9.5 percent. Refugee labour force growth in the West Bank was significantly above average, while refugee labour force growth in Gaza was below average for that region.

Using the standard ILO definition, average employment in the oPt increased by an estimated 8.3 percent with refugees accounting for about half of all new jobs. According to the broad definition, unemployment declined slightly in 2007. If the estimates are adjusted to account for unpaid absentee workers in Gaza, then employment is estimated to have risen by about 6.2 percent while broad unemployment is estimated to have increased by 3.8 percent.

Almost 75 percent of employment growth in the oPt was generated in the private sector, all in West Bank, about 18.6 percent in the public sector, mostly in Gaza, and about 6.7 percent in job growth in Israel. In all sectors, refugee employment gains in 2007 were more rapid than for non-refugees, consistent with the more rapid increase in the refugee labour force. Refugees accounted for about 56.7 percent of public sector employment growth, 46.3 percent of job growth in the private sector and about 71 percent of employment growth in Israel.

While the overall ILO and broad unemployment rates declined slightly in 2007, total unemployment did not budge, driven by rapid labour force growth. Non-refugees accounted for nearly all the decline in broad unemployment while refugee unemployment actually increased. When adjustment is made for the unpaid absentee worker phenomenon in Gaza, the year-on-year broad unemployment rate increased to 29.5 percent for the oPt as a whole – 34.5 percent for refugees and 26.3 for non-refugees. On a regional basis, the broad rates adjusted for unpaid absenteeism were 24.5 in the West Bank and 41.6 percent in Gaza. In absolute terms, the ranks of the unemployed increased by about 3.8 percent when adjustment is made for absentees.

There was increased informality in oPt labour market in 2007, i.e. more self-employed persons and unpaid family members. There was also a decline in the number of employers. This continues the noticeable trend toward informality since 2000. This trend has been more pronounced among non-refugees relative to refugees and in the West Bank relative to Gaza.

There was a 6.8 percent decline in the real value of average monthly wages in the oPt in 2007. Employed non-refugees lost 7.1 percent of their purchasing power while employed refugees lost about 6.6 percent on average. Growth of informal activities, where wage incomes tend to be lower, and the preponderance of relatively low wage private sector jobs, seems to explain this. In the West Bank real monthly wages declined an average of 6.9 percent while in Gaza real average monthly wages declined 12.4 percent.

C. Poverty in Brief: Main Findings, 2007

Due to the late release of full data on household consumption and poverty levels, only a brief summary of results is provided here. Based on the Palestinian Expenditure and Consumption Survey (PECS) for 2007, it is estimated that per capita consumption in the oPt increased by an average of 3.4 percent relative to 2006 in nominal terms. There was a large discrepancy in the changes in per capita consumption. There was an 8.4 percent increase in the West Bank but a 13.6 percent decrease in Gaza.

The official and deep poverty lines for a six-person household (two adults and four children) in the oPt were established at NIS 2,362 (USD 572) and NIS 1,886 (USD 457) in monthly expenditures respectively for 2007 (using the average NIS/USD exchange rate of 4.1). Given the established poverty lines, some 30.3 percent of households in the oPt had levels of consumption below the official poverty line as compared to 30.8 percent in 2006. At the same time 18.3 percent of households fell below the deep poverty line in 2007 as compared to 18.5 percent in 2006.

On a post-assistance basis, official poverty among households in the West Bank was down from 24 percent in 2006 to 19.1 percent in 2007. In Gaza official poverty was up from 50.7 percent in 2006 to 51.8 percent in 2007. Deep poverty in the West Bank was down from 13 percent in 2006 to 9.7 percent in 2007 while in Gaza it was up slightly from 34.8 percent in 2006 to 35 percent in 2007.

The official household poverty rate based on income levels, rather than consumption levels, was 57.2 percent in 2007 (45.7 percent in the West Bank and 79.4 percent in Gaza). Deep household poverty using the income measure was estimated at 46.3 percent of households in 2007 (34.1 percent in the West Bank and 69.9 percent in the Gaza Strip).

The PECS data indicates that the external assistance reduced overall official household poverty from 34.1 percent to 30.3 percent of all households in the oPt, a decline of 11.6 percent in relative terms.

I. INTRODUCTION

This is UNRWA's third report on recent economic and social developments in the occupied Palestinian territory (oPt)[1]. The present report is an update covering 2007 relative to conditions that prevailed in 2006. The report is divided into three substantive sections. The first addresses developments in domestic output and income through an assessment of national income accounts. Levels of, and changes in, the domestic product of the Palestinian public and private sectors is the focus of this section. The second section covers oPt population and labour force growth and changes in employment, unemployment and wage incomes. Data and analysis are presented by refugee status

[1] These include: *Prolonged Crisis in the Occupied Palestinian Territory: Recent Socio-Economic Impacts* (Gaza, November 2006) and *Prolonged Crisis in the Occupied Palestinian Territory: Recent Socio-Economic Developments* (Gaza, November 2007) available at www.unrwa.org.

and, to some extent, by Palestinian region (West Bank and Gaza Strip). Living levels and poverty at the individual and household levels are examined in the third section.

However, given the late release by the Palestinian Central Bureau of Statistics (PCBS) of detailed results from the Palestinian Expenditure and Consumption Survey (PECS) for 2007, living level and poverty data and analysis in this report are more limited than in previous reports. A separate, detailed report on household living levels and poverty by refugee status in the oPt for 2007 will be produced following the release of that data. Like previous reports, 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 the estimated 1.8 million registered refugees in the oPt. These refugees are clients of the Agency and regularly monitoring their conditions allows UNRWA to assess the effects of its programmes.

II. NOTES ON METHODOLOGY

Estimates of the numerical size of the various components of the oPt labour market (e.g. labour force, employed, unemployed) are generated on the basis of quarterly labour force surveys (expressed in rates or ratios) and on underlying population estimates (expressed in absolute figures). The population estimates, in turn, are based on projections developed by the PCBS using the 1997 census data and revised in 2003 in light of more recent population growth data.

Until the fourth quarter of 2007, PCBS data regularly included numerical estimates of the various labour market components. Given the expected discrepancies between existing population estimates for 2007 and the population census of December 2007[2], PCBS has decided not to release numerical estimates of labour market components for fourth-quarter 2007. Rather, PCBS released all labour market data *as rates* only. For example, rather than estimating the total number of employed persons, PCBS has provided the *rate* of employment; rather than offer an estimate of the number of unemployed, PCBS only released an unemployment *rate.*

For purposes of consistency, all population and labour market data in this report – including those for fourth-quarter 2007 – are based on *existing* population estimates. Numerical estimates of labour market components for fourth-quarter 2007 were generated by multiplying the relevant *rates* by the existing absolute population estimates for that period. Given the recent census results, the absolute

[2] For example, preliminary census data for the oPt indicates a total population of 3,761,646 in December 2007. The existing population estimate for fourth-quarter 2007 is 4,081,290. This discrepancy – nearly 320,000 persons– results in an overestimate of 8.4 percent relative to the existing population estimate. Overestimates of population result in overestimates in labour market components of similar magnitude.

size of the various labour market components presented in this paper is overestimated. However, the trends implied by changes over time are largely accurate. It is expected that the results of the 2007 census will provide a basis for better estimates of labour market components in recent years, as well as a new baseline for projections into the future.

Some results in this report seem counterintuitive, given the socio-economic crisis currently gripping the oPt. In particular, the growth of employment and the reduction in unemployment in 2007 relative to 2006 seem at odds with the reality on the ground. This discrepancy can be explained – in large part – by PCBS's use of standard International Labour Organization (ILO) definitions and methodology.

In particular, the standard methodology regards persons "absent from work" to be employed and receiving their usual wages. Thus, thousands of PA employees – most notably in the security services – who have heeded the calls of the PA caretaker government in the West Bank not to report for work in Gaza are counted as employed. Likewise, respondents to the field surveys who indicated that they were temporarily absent from work due to their employer's lack of fuel or raw materials are also considered employed under standard ILO practice. These two groups of "employed" persons numbered in the tens of thousands in Gaza in 2007. The result is an upward bias in the estimated number of employed and a downward bias in the number of unemployed. Estimates of the degree of bias are provided in this report. In particular, the report includes labour market data as calculated through use of standard ILO definitions and data that adjusts for the phenomenon of absentees, both paid and unpaid. The conceptual framework for this analysis is provided in Annex A.

The temporal focus of this briefing paper is 2007. Because of the dramatic changes that took place in the Gaza Strip at mid-year, two types of comparisons will be made. First, in order to highlight changes during 2007, comparisons will be made between the first and second halves of the year.[3] Second, to put 2007 as a whole into perspective, results for all of 2007 will be compared to those of 2006.

III. DOMESTIC OUTPUT AND INCOME

A. Gross Domestic Product: Private and Public Sectors

The Gross Domestic Product (GDP) is calculated as 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 the goods and services. Thus, GDP is a measure of the value-added generated as well as the extent and efficiency of use of the country's natural, human and capital resources. Table 1 presents the annual GDP in the occupied Palestinian territory (oPt) for 2007, estimated at about USD 4.1 billion when measured in millions of 1997 USD.

[3] Semi-annual data are derived by averaging quarterly data. As a method, comparing sequential periods (first and second halves of 2007) is inferior in assessing changes between parallel periods (e.g. second-half 2006 and second-half 2007) due to the seasonality of some labour market indicators.

Table 1
GDP by Economic Activity and Activity Shares for the oPt, 2007[4]
(in USD millions at 1997 market prices)

	Economic Activity	GDP	Share
A.	Agriculture and Fishing	340.8	8.25%
B.	Mining, Manufacturing, Electricity and Water	527.3	12.76%
1	*- mining and quarrying*	*21.3*	*0.52%*
2	*- manufacturing*	*436.0*	*10.55%*
3	*- electricity and water supply*	*70.0*	*1.69%*
C.	Construction	103.8	2.51%
D.	Wholesale and Retail Trade	411.6	9.96%
E.	Transport, Storage and Communications	478.5	11.58%
F.	Financial Intermediation	192.5	4.66%
G.	Other Services	906.1	21.92%
1	*- real estate, renting and business services*	*343.2*	*8.30%*
2	*- community, social and personal services*	*43.9*	*1.06%*
3	*- hotels and restaurants*	*67.8*	*1.64%*
4	*- education*	*314.8*	*7.62%*
5	*- health and social work*	*136.4*	*3.30%*
H.	Public Administration and Defense	570.0	13.79%
I.	Households with Employed Persons	8.6	0.21%
	Minus: FISIM	-139.8	-3.38%
	Plus: Customs Duties	284.0	6.87%
	Plus: VAT on Imports (net)	450.0	10.89%
	Gross Domestic Product	4,133.4	100.00%

Economic activity was distributed as indicated in the last column of the table with productive activities (items A, B and C) accounting for about 23.5 percent of domestic value-added, commerce (item D) for 10 percent and private and public services (items E, F, G, H and I) for about 53 percent. The items "below the line" reflect the national accounting convention of subtracting "FISIM," a measure of profitability of financial institutions and adding the central governments' revenues from customs and value-added taxes (VAT) on imports.

Looked at another way, excluding the "below-the-line" accounting items, value-added produced in the **private sector** (including NGOs) is estimated at about 73.6 percent of total GDP, including items A-F, G.1-G.3, 8.2 percent of item G.4 (education), 45.9 percent of G.5 (health) and item I. **Public sector** GDP is the market value of services provided by the Palestinian Authority (PA) and local government

[4] PCBS preliminary estimates for the oPt excluding East Jerusalem. For purposes of comparing real growth over time – rather than the illusion of growth imparted by rising prices – GDP is estimated at market prices prevailing in 1997, the base year. GDP would be significantly – roughly 50 percent – greater in nominal terms, i.e. using market USD prices prevailing in 2007.

employees.[5] In Table 1, this consists of about 71.4 percent of item G.4 (education), about 42.3 percent of item G.5 (health and social work) and 100 percent of item H (public administration and defense). Applying these ratios suggests the public sector accounted for about 24.1 percent of GDP in 2007. UNRWA education and health activities are estimated to have generated about 2.3 percent of total GDP including 20.3 percent of item G.4 (education) and 11.8 percent of item G.5 (health).[6]

B. Background to Developments in 2007

The backdrop to macroeconomic developments in the current reporting period was a significant recession in economic activity in 2006. The GOI impounding of most PA fiscal revenues, the boycott of the newly-elected Hamas government by major donors and the GOI and the strike of public employees in the last trimester of 2006, combined to produce a 7.8 percent reduction in real GDP relative to 2005. These were the worst results in the oPt since 2002.[7] This decline was accounted for mainly by retrogression in public sector GDP – unprecedented since the establishment of the PA in 1994 – but was combined with a stagnant private sector.

The continuation of the public sector strike into 2007, as well as the assumption of power by Hamas in Gaza, the dismissal of the elected PA government and the formation of a caretaker government in the West Bank created significant economic turbulence in the current reporting period. Moreover, the impounding of PA revenues by the GOI and the donor boycott of the PA continued until the assumption of power of a Hamas administration in Gaza and a caretaker government in the West Bank. Since then differential policies and actions of the GOI and major donors vis-à-vis Gaza and the West Bank have produced significant differences in economic performance as between the two regions.

[5] 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 H). To the extent that public sector employment is bloated, i.e. where average productivity is low, such an accounting method tends to overestimate the contribution of the public sector to GDP.

[6] In the absence of official data for 2006 and 2007, the respective shares of *education* GDP accounted for by the private sector, the public sector and UNRWA are derived by averaging their respective shares of total students and teachers in basic education for the 2006/2007 academic year. Data are taken from PCBS website. In the absence of more recent *health* data (social work is excluded for lack of separate data), the relative shares of the private sector, the public sector and UNRWA are derived on the basis of their shares in total health expenditures as provided in PCBS *Health Care Providers and Beneficiaries Survey, 2005.*

The shares of education and health accounted for by public, private and UNRWA providers using the above method are distorted by the exclusion of kindergartens, vocational schools and post-secondary education from the education estimates and by the absence of any social work data. While 2006 and 2007 data are not available, PCBS has estimated the average contributions to *education* GDP between 2000-2005 as follows: private sector 19.7 percent; public sector 51.9 percent; UNRWA 28.3 percent. PCBS estimates the average contributions to *health and social work* GDP during the same period as follows: private sector 47.9 percent; public sector 41.1 percent; UNRWA 10.9 percent. With the assistance of PCBS.

[7] See UNRWA *Prolonged Crisis in the Occupied Palestinian Territory: Recent Socio-Economic Developments*, (Gaza, November 2007) available at www.unrwa.org.

Table 2
GDP by Economic Activity for the oPt, First-Half 2007 and Second-Half 2007[8]
(in USD millions at 1997 market prices)

	Economic Activity	First-Half 2007 GDP	Second-Half 2007 GDP	Absolute Change	Relative Change
A.	Agriculture and Fishing	173.0	167.8	-5.2	-3.01%
B.	Mining, Manufacturing, Electricity and Water	264.9	262.4	-2.5	-0.94%
1	*-mining and quarrying*	*10.6*	*10.7*	*0.1*	*0.94%*
2	*-manufacturing*	*219.1*	*216.9*	*-2.2*	*-1.00%*
3	*-electricity and water supply*	*35.2*	*34.8*	*-0.4*	*-1.14%*
C.	Construction	57.1	46.7	-10.4	-18.21%
D.	Wholesale and Retail Trade	202.9	208.7	5.8	2.86%
E.	Transport, Storage and Communications	225.2	253.3	28.1	12.48%
F.	Financial Intermediation	92.9	99.6	6.7	7.21%
G.	Other Services	397.8	508.3	110.5	27.78%
1	*-real estate, renting and business services*	*145.0*	*198.2*	*53.2*	*36.69%*
2	*-community, social and personal services*	*21.1*	*22.8*	*1.7*	*8.06%*
3	*-hotels and restaurants*	*26.3*	*41.5*	*15.2*	*57.79%*
4	*-education*	*141.7*	*173.1*	*31.4*	*22.16%*
5	*-health and social work*	*63.7*	*72.7*	9.0	14.13%
H.	Public Administration and Defense	289.5	280.5	-9.0	-3.11%
I.	Households with Employed Persons	4.2	4.4	0.2	4.76%
	Minus: FISIM	-68.5	-71.3	-2.8	4.09%
	Plus: Customs Duties	131.2	152.8	21.6	16.46%
	Plus: VAT on Imports (net)	266.2	183.8	-76.8	-30.95%
	Gross Domestic Product	2,036.4	2,097.0	66.2	2.98%

C. Inter-Temporal Comparisons of GDP

Macroeconomic developments in 2007 can best be understood by comparing performance in the first half of the year to that in the second half and performance in 2007 as a whole to 2006. Using the *sequential* periods method, second-half 2007 GDP will be compared to first-half 2007. This highlights shorter-term changes but does not adjust for seasonality in economic activity. For example, value-added in agriculture, construction, internal trade and services such as education can fluctuate significantly from period to period due to seasonal, rather than "exogenous," factors such as Israeli-imposed movement restrictions and reduced incomes. A comparison of 2007 and 2006 largely resolves the seasonality problem and provides a more general evaluation of economic developments.

[8] PCBS estimates for the oPt excluding East Jerusalem. Estimates for the first, second and third quarters of 2007 are second revisions; those for the fourth quarter are first revision.

1. Comparing First-Half 2007 with Second-Half 2007 GDP

Estimates for second-half 2007, presented in Table 2, suggest that the Palestinian GDP increased about 3 percent relative to the first half of the year. This was accounted for exclusively by growth in commerce and public and private services. All "productive" activities – agriculture, manufacturing, construction – registered net declines in value-added in the second half.

The public employee strike which began in September 2006 ended in early 2007. With the resumption of fiscal clearance transfers by the Government of Israel (GOI), as well as renewed external assistance in the second half of the year, public sector GDP – which had been depressed by the boycott of the newly-elected PA government during 2006-rebounded.[9] The 22.1 percent increase in education GDP and the 14.1 percent increase in health GDP largely reflect this. The 3.1 percent decline in public administration and defense GDP probably reflects the PA's fiscal reforms that entail reductions in public sector employment. In the private sector, there was a 57.8 percent rebound in hotel and restaurant GDP, as well as a 36.7 percent jump in real estate and business service activities.

Growth in private sector activity was mainly accounted for by developments in the West Bank. In Gaza, the imposition of the Israeli siege after the assumption of power by Hamas at mid-year, led to significant compression in private sector activity.[10] Further dampening growth was the decline in PA VAT revenues from imports, largely due to the siege imposed on Gaza which reduced total oPt imports. By standard national accounting methods, such revenues constitute additions to estimated GDP.

2. Comparing 2006 and 2007 GDP

Table 3 indicates that overall GDP in the oPt was nearly unchanged as between 2006 and 2007, rising an estimated 0.6 percent in real terms. The public sector appears to have been responsible for most GDP growth in 2007. Excluding the accounting items below the line, there were a total of USD 146 million in increases in value-added across all activities in 2007 relative to 2006. At the same time GDP growth in education, health and social work, and public administration and defense activities accounted for USD 86.7 million or about 60 percent of the increases. Assuming that private and UNRWA schools and health are facilities continued to deliver regular services in 2006 and 2007 then the significant growth in these services can only be accounted for by the public sector. On the other hand, there were USD 112.9 million in GDP declines across activities relative to 2006. Real estate, renting and business services and manufacturing accounted for about 99.7 percent of these declines. **Thus overall economic performance in 2007 was not substantially different than that in 2006, the latter being the worse year since 2002 in the oPt.** Real GDP in 2007 remained about 8.3 percent below its level in 1999.

In 2006, the decline in GDP was accounted for by significant retrenchment in the public sector with a minor decline in private sector GDP. In 2007 the public sector rebound generated some GDP growth, while the private sector continued a slow regression. Combined growth in education, health and

[9] For a detailed economic analysis of that period, refer to UNRWA *Prolonged Crisis in the Occupied Palestinian Territory: Recent Socio-Economic Developments*, (Gaza, November 2007) available at www.unrwa.org.

[10] See PalTrade *Gaza Terminal Movement Monitoring Annual Report, 2007*, 12 February 2008.

Table 3
Estimates of GDP by Economic Activity for the oPt, 2006-2007[11]
(in USD millions at 1997 market prices)

	Economic Activity	Annual 2006 GDP	Annual 2007 GDP	Absolute Change	Relative Change
A.	Agriculture and Fishing	334.0	340.8	6.8	2.04%
B.	Mining, Manufacturing, Electricity and Water	531.1	527.3	-3.8	-0.72%
1	*-mining and quarrying*	18.0	21.3	*3.3*	*18.33%*
2	*-manufacturing*	444.0	436.0	*-8.0*	*-1.80%*
3	*-electricity and water supply*	69.1	70.0	*0.9*	*1.30%*
C.	Construction	104.0	103.8	-0.2	-0.19%
D.	Wholesale and Retail Trade	382.7	411.6	28.9	8.49%
E.	Transport, Storage and Communications	466.0	478.5	12.5	2.68%
F.	Financial Intermediation	186.7	192.5	5.8	3.11%
G.	Other Services	940.2	906.1	-34.1	-3.63%
1	*-real estate, renting and business services*	447.8	343.2	*-104.6*	*-23.36%*
2	*-community, social and personal services*	43.6	43.9	*0.3*	*0.69%*
3	*-hotels and restaurants*	67.0	67.8	*0.8*	*1.19%*
4	*-education*	255.3	314.8	*59.5*	*23.31%*
5	*-health and social work*	126.5	136.4	*9.9*	*7.83%*
H.	Public Administration and Defense	552.7	570.0	46.1	8.34%
I.	Households with Employed Persons	8.7	8.6	-0.1	-1.15%
	Minus: FISIM	-138.3	-139.8	-1.5	1.08%
	Plus: Customs Duties	284.9	284.0	-0.9	-0.32%
	Plus: VAT on Imports (net)	454.3	450.0	-34.3	-7.55%
	Gross Domestic Product	4,107.0	4,133.4	26.4	0.64%

[11] PCBS estimates for the oPt excluding East Jerusalem. All data in this table are preliminary in nature and, therefore, subject to revision.

public administration GDP, presumably accounted for mainly the public sector, was USD 86.7 million or 9.2 percent. While public sector GDP is estimated to have rebounded over its depressed 2006 level, it remained well below its level in 2005.[12]

While several private sector activities registered solid gains, e.g. an 18.3 percent gain in mining and quarrying and an 8.5 percent increase in commerce (wholesale and retail trade), strategically important manufacturing activity continued to slide. Excluding education and health activities, the private sector is estimated to have shed about USD 50 million in value-added in 2007 relative to 2006, a decline of about 2 percent. Presumably, the continued compression of the private sector was accounted for mainly by developments in Gaza where the Israeli-imposed siege wreaked havoc on agriculture, manufacturing, electricity generation and construction in particular.[13]

D. Credit and Macroeconomic Trends

Credit availability is an important determinant of general economic conditions, especially for the private sector. Bank credit in the oPt has grown rapidly since 1994 as more than 20 banks opened offices and branches in the West Bank and Gaza. Such credit has served to support business investment and household consumption spending and, therefore, economic growth. Bank lending in the oPt has consistently outpaced GDP growth since 1994, even during the past eight years of socio-economic crisis.[14]

Table 4 indicates that in absolute USD terms, the value of outstanding bank credit – the value of existing and new loans minus the value of loans paid back during the year – to the private and public sectors in the oPt declined 7.6 percent or about USD 144.8 million to about USDD 1.75 billion in 2007. This was the first decline in overall domestic credit levels since 2002 and only the third year since 1994 that there has been such a decline. Overall bank credit grew by 12%, 33%, 25% and 6.2% in 2003, 2004, 2005 and 2006 respectively.

Among private sector borrowers, the overall decline in outstanding credit was 6.3 percent with household credit (consumer loans) falling off by more than half in value terms by some USD 192.6 million. Meanwhile, bank net lending to private businesses expanded by 9.7 percent in 2007 or by some USD 102 million in net terms.

[12] The data indicates that the public administration and defense component of GDP in 2007 was some 28.4 percent below its 2005 level. Overall education and health GDP in 2007, in which the public sector has a significant presence, was about 23.7 percent below its 2005 level.

[13] Disaggregated national income account data for the West Bank and Gaza are not available. Refer to PalTrade *Gaza Terminal Movement Monitoring Reports,* various, 2007-2008 for estimates of the impact of the Israeli siege on the Gaza private sector.

[14] See UNRWA *Prolonged Crisis in the Occupied Palestinian Territory; Recent Socio-Economic Impacts* (November 2006) available at www.unrwa.org.

PA net borrowing from domestic banks declined significantly in 2006 as the banks complied with the boycott of the PA.[15] The banks, however, continued to collect PA revenues in the form of taxes and fees (such as income taxes, property taxes, education taxes, auto registration fees, etc.) – normally paid by residents at private banks and deposited into PA accounts at these banks – using the funds to pay down outstanding PA debt.[16] This resulted in a net decline of some USD 110 million – or 19.3 percent – in the value of outstanding PA debt to domestic banks in 2006 relative to 2005.

Table 4
Value of Outstanding Bank Credit to Resident Entities in the oPt, End-2006 and End-2007[17]
(nominal USD millions)

	Outstanding Credit	Share	Outstanding Credit	Share	Absolute Change
Borrowing Entity	2006	2006	2007	2007	2006-2007
Private Sector	1,417.0	74.54%	1,326.7	75.55%	-6.37%
- Businesses	*1,044.9*	*54.97%*	*1,147.2*	*65.32%*	*9.79%*
- Households	*372.1*	*19.58%*	*179.5*	*10.22%*	*-51.76%*
Public Sector	483.9	25.46%	429.4	24.45%	-11.25%
- Palestinian Authority	*455.7*	*23.97%*	*410.57*	*23.38%*	*-9.91%*
- Palestinian Local Authorities	*28.2*	*1.48%*	*18.86*	*1.07%*	*-33.05%*
Total	1,900.9	100.00%	1,756.1	100.00%	-7.62%

As indicated in Table 4, the value of PA outstanding debt to the PA declined further in 2007. This was partly due to a continuation of the 2006 trend (during the first half of 2007) and partly to the PA's improved liquidity situation after the establishment of the caretaker government in the West Bank at mid-year. The resumption of clearance transfers from the GOI and increased budgetary support from donors resulted in a significant increase in the flow of resources. Those resources allowed the PA caretaker government to pay down some of its arrears and reduce somewhat its outstanding debt with domestic banks. The IMF estimates that the total value of outstanding bank credit to the PA declined by some USD 70 million in 2007.[18]

[15] This followed the promulgation by the U.S. Treasury of a regulation prohibiting bank transactions with the PA. Fearing their own USD accounts in New York banks would be frozen, local banks suspended all transactions with the PA. See International Crisis Group *Palestinians, Israel and the Quartet: Pulling Back from the Brink,* 13 June 2006, p. 23.

[16] Banks also sold off assets (from the Palestinian Investment Fund) used as collateral by the PA against bank loans. IMF *West Bank and Gaza: Fiscal Performance in 2006*, March 2007.

[17] Figures in this table are year-end values as provided by the Palestinian Monetary Authority (PMA), June 2008. "Businesses" refers to non-financial enterprises. Inter-bank lending is excluded from this table.

[18] See IMF *Medium-Term Macroeconomic Framework for the West Bank and Gaza; Report for the Donor's Conference,* Paris, 17 December 2007.

On a regional basis, Palestinian Monetary Authority (PMA) data indicates that outstanding credit in Gaza declined by about USD 198 million relative to 2006, while that in the West Bank increased by about USD 53 million.[19] Thus, the nearly USD 145 million overall decline in credit levels in 2007 is explained by changes in Gaza (a decline, as indicated by PMA data, that began in 2006). While data for a breakdown on public and private credit on a regional basis are not available, the aggregated data suggests the decline in private sector credit was due to a major reduction in household loans. Anecdotal information indicates that banks have become increasingly reluctant to extend such loans, particularly to public sector employees, given their experience in 2006 when thousands of borrowers were unable to repay loans previously taken due to the non-payment of public sector salaries. The resumption of PA salary payments allowed these loans to be paid back, but banks in general have cut back on such lending, explaining most of the decline in the value of outstanding bank loans.

Moreover, depressed economic conditions and uncertainty are more pronounced in Gaza than in the West Bank. Banks' heightened perception of risk partly explains the decline in credit availability in Gaza. The contraction in outstanding credit no doubt contributed to the macroeconomic malaise in 2007, especially in Gaza. On the other hand, the continued growth of credit extension in the West Bank probably mitigated the downward pressures on production and incomes and partly accounts for better performance there, especially for specific branches of the private sector.

E. Longer Term Trends and Implications

1. Declining Worker Productivity

As discussed in the section on the labour market, overall employment in the oPt is estimated to have increased by more than 6 percent in 2007 relative to 2006. Yet real GDP in 2007 was only slightly above that in 2006. This suggests that the productivity of labour – what a worker can produce in value-added during the year – in the oPt has declined. Such a phenomenon may be related to at least two factors. First, the lack of private investment in the physical means to produce goods and services (e.g. machinery, equipment, communications, etc.) limits the growth in the amount of output that workers can produce in a given period of time (see section below regarding private investment trends). A lack of public investment in infrastructure and social services also limits worker productivity in both the public and private sectors.

Second, the growth of self-employment and unpaid family labour in 2007 (see labour market section) suggests increasing informality and the growth of relatively low productivity activities. The surge of unpaid family labour in 2007, for example, can be related to the surge in agricultural employment. Such informal labour is characterised by redundancy and low productivity. While political and economic conditions in the oPt in 2006 and 2007 have been unusual, the trend toward informality and potentially low productivity has been pronounced in the past eight years of crisis.

[19] Palestinian Monetary Authority data, June 2008. The outstanding credit data is disaggregated by region and by sector but not by sector in each region. Thus it is not possible to determine the extent to which the decline in credit availability in Gaza was accounted for by the private sector or public sector there.

2. The Decline of Manufacturing

Overall domestic value-added was unchanged in 2007 relative to 2006, a year of economic recession. While the public sector – responsible for the downturn in 2006 – rebounded to a large extent, the private sector, which had held its ground in 2006, regressed for the most part in 2007. The assumption here is that most of this regression was due to conditions in Gaza. With regard to the private sector, beyond some growth in commerce and transportation and communications, there was stagnation and decline. Of most concern was continued regression in manufacturing, an activity with strategic long-term significance for the oPt economy.[20] In addition to the Israeli-imposed siege on Gaza and movement restrictions in the West Bank, the decline in manufacturing is related to that in construction as about half the manufacturing enterprises in the oPt produce metallic, wood and plastic products used in construction.[21] Thus the downturn in construction in 2006 and 2007 would have a noticeable impact on manufacturing businesses. The decline in construction activity is presumably driven by the generally depressed conditions since late 2000, which have reduced incomes and, therefore, construction activity, as well as the more recent siege on Gaza and the inability of builders to obtain needed materials.[22] In addition, Israel's more liberal trade policies in the past decade – which effectively apply in the oPt – have resulted in cheaper imports which have driven some domestic producers (e.g. garments, shoes, some food processing) out of the market.

3. Public Sector Investment

More troubling for the medium- and long-run has been the low level of investment spending in both the public and private sectors. Such investment is necessary for the development of better quality housing, education, health, social welfare and public infrastructure and an enabling legal, regulatory and institutional environment that would encourage private investment. Since 1994, nearly all investment in public infrastructure and institutional development has been financed by external sources.

Figures for 2006 indicate that the PA itself spent only USD 8 million on capital spending from its own budget – less than one-third the amount spent in the previous three years – despite the fact that it received some USD 747 million in external budgetary support during the year – more than twice the amount received in 2005. Such budgetary support rose even further to USD 907 million in 2007.[23] The World Bank estimates that, in addition to the PA's own capital spending, development projects –

[20] See World Bank *Trade Policy and Labor Services; Final Status Options for the West Bank and Gaza,* Policy Research Working Paper 2824, April 2002; World Bank *Long-Term Policy Options for the Palestinian Economy,* July 2002.

[21] See manufacturing activity statistics for 2005 at PCBS website. For an earlier discussion of the relation between manufacturing and construction, see UNSCO *Special Report on the West Bank and Gaza Strip Private Economy: Conditions and Prospects,* February 1998.

[22] Areas licensed for construction in the oPt on a monthly basis in 2007 were down by some 38 percent relative to their base period in 2000: a 34 percent decline in the West Bank and a 71 percent drop off in Gaza. See UNSCO *Socio-Economic Report,*November 2007.

[23] See IMF *West Bank and Gaza: Fiscal Performance in 2006*, March 2007 and IMF *Medium-Term Macroeconomic Framework for the West Bank and Gaza; Report for the Donor's Conference,* Paris, 17 December 2007.

mainly public in nature and financed by external support – totalled about USD 183 million in 2006, a drop of some 47 percent relative to 2005, and the smallest amount since 1999. In 2007, the IMF estimates that the PA capital expenditures (i.e. public investment) were USD 306 million, all of it financed by donors, well above 2006 but not much above its level in 2005. [24]

4. Private Sector Investment

In recent years private investment – net additions to the productive capacity of business and farming enterprises – has also been compressed. This has been due to the decline in incomes and consumer demand, as well as producers' dampened expectations about the future. The World Bank estimated private investment in the oPt in 2006 at about USD 665 million, 11.3 percent below its 2005 level and less than half its level in 1999. The Bank further notes that less than one-quarter of private sector businesses had undertaken any investment at all in 2005/2006 and there were no indications that private investment in 2007 had grown.[25] Monthly new company registrations in the oPt – an important indicator of potential business formation and employment growth – in 2007 were below half their levels as compared to a year 2000 baseline. In the West Bank they were about 32 percent below the referenced base period while in Gaza they were about 72 percent off.[26]

It is important to note that bank credit to the private sector has been and remains unbalanced in that the relative distribution of credit by economic activity in the oPt is not consistent with long-term development of productive activities. As indicated in Table 5, at end-2007 about one-third of outstanding bank credit to the private sector was for wholesale and retail trade, activities which accounted for only about 16.4 percent of private sector GDP that year. Furthermore, commerce in the oPt economy has for decades been overrepresented, largely due to the fact that most income generated by labour export to Israel was spent on goods imports from Israel, rather than investment in productive capacity. After Oslo, the inflows of donor assistance, private investment inflows and remittances disproportionately encouraged consumption – both public and private – rather than production. Thus wholesale and retail trade activities (commerce) have remained prominent as a portion of private sector GDP. Bank credit, attracted by shorter-term and less risky commerce, has reinforced this tendency.

At the other extreme, only 1.7 percent of outstanding loans were for agricultural purposes, while agriculture accounted for 13.6 percent of GDP in 2007 and has, since 2000, absorbed increasing amounts of labour, much of it informal in character. Bank lending to manufacturing accounted for less than 11 percent of all credit while manufacturing accounted for an estimated 18.2 percent of private sector GDP in 2007. The World Bank and others have noted that, in the context of a small, export-

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[24] See IMF and World Bank *West Bank and Gaza: Economic Developments in 2006—A First Assessment*, March 2007 and IMF *Medium-Term Macroeconomic Framework for the West Bank and Gaza; Report for the Donor's Conference,* Paris, 17 December 2007.

[25] See IMF and World Bank *West Bank and Gaza: Economic Developments in 2006—A First Assessment*, March 2007 and World Bank *Investing in Palestinian Economic Reform and Development; Report for the Pledging Conference*, Paris, 17 December 2007.

[26] UNSCO *Socio-Economic Report,* November 2007.

oriented and developing economy, manufacturing would and should be much more prominent in the Palestinian economy than at present.[27] In addition to agriculture and manufacturing, bank lending to transport and financial services has also been disproportionately low. On the other hand, in addition to commerce (mentioned above), bank credit for construction and other private services[28] has been disproportionately high, given their contributions to private sector GDP.

Thus, to the extent that the present activity distribution of the Palestinian economy is inconsistent with the longer-term expansion of a sustainable employment base, present bank credit policies tend to reinforce this bias. Whatever the reasons for the present configuration of private bank credit (e.g. relative risk perceptions and rewards), sustained development will require more credit to productive activities. Financing agriculture and manufacturing, in particular, requires longer-term credit given the longer production cycles in these activities. Domestic banks seem averse to such financing.

This may require the emergence of different types of banks, perhaps specialized in the finance and development of particular activities such as manufacturing and agriculture. Filling the gaps left open by private banks also suggests opportunities for micro-lending and small business enterprise development activities.

Table 5
GDP and Outstanding Bank Credit by Private Economic Activity in the oPt, 2007[29]

	Private Economic Activity	GDP 2007	GDP Share	Outstanding Bank Credit End-2007	Outstanding Bank Credit Share End-2007
A.	Agriculture and Fishing	340.8	13.6%	18.9	1.7%
B.	Manufacturing and Mining	457.3	18.2%	118.8	10.8%
C.	Construction	103.8	4.1%	177.1	16.1%
D.	Wholesale and Retail Trade	411.6	16.4%	369.9	33.7%
E.	Transport Services	478.5	19.1%	94.3	8.6%
F.	Financial Services	192.5	7.7%	26.3	2.4%
G.	Other Private Services	524.9	20.9%	294.0	26.7%
	Private Sector GDP	**2,509.4**	**100.0%**	**1,099.3**	**100.0%**

[27] See World Bank *Trade Policy and Labor Services; Final Status Options for the West Bank and Gaza,* Policy Research Working Paper 2824, April 2002; World Bank *Long-Term Policy Options for the Palestinian Economy,* July 2002.

[28] Other private services include utilities, business, social and personal services and hotel and restaurant activities but exclude private education and health services.

[29] GDP in this table is measured in USD millions at 1997 market prices while outstanding credit is expressed in current USD millions. Inter-bank lending is excluded from this table. GDP data is from PCBS while credit data is from the Palestinian Monetary Authority (PMA), June 2008.

5. National and Per Capita Income

The depth and duration of the socio-economic crisis in the oPt is highlighted by the fact that, while the population has grown by about 34 percent since 1999, real GDP in 2007 was about 8.3 percent below its 1999 level, as indicated in Table 6. As population growth has outpaced economic growth over the past eight years, real per capita income in 2007 was almost one-third below its 1999 level. In 2007 alone, real per capita GDP fell by about 2.7 percent relative to 2006.

Table 6
Population and National Income Estimates for the oPt, Annual, 1999, 2006-2007[30]
(GDP in constant 1997 USD)

				2006-2007	1999-2007
	1999	2006	2007	Change	Change
Mid-Year Population (oPt)	2,797,780	3,636,411	3,761,646	3.44%	34.45%
GDP (USD millions)	4,511.70	4,107	4,133	0.64%	-8.38%
Per Capita GDP (USD)	1,612.60	1,129.4	1,098.8	-2.71%	-31.86%

As noted elsewhere, the sharp regression in the oPt economy has stood in marked contrast to the performance of other sub-regional economies.[31] Generally, neighbouring economies have produced double-digit growth in per capita GDP during much of the past decade.[32]

These disturbing trends are directly attributable to movement restrictions on people and goods imposed by the GOI on and within the oPt in the years since 2000 which produced unprecedented levels of unemployment and poverty and steep declines in average incomes. Such restrictions also have impeded the public and private investment necessary to sufficiently expand future employment and incomes for a young and growing population.

[30] PCBS data for the Remaining West Bank and Gaza Strip, i.e. excluding East Jerusalem.

[31] See UNRWA *Prolonged Crisis in the Occupied Palestinian Territory: Recent Socio-Economic Developments*, (Gaza, November 2007) available at www.unrwa.org.

[32] Comparative data for Egypt, the oPt, Jordan, Syria, Lebanon and Israel is from UN Statistics Division available at www.unstats.un.org.

IV. LABOUR FORCE AND THE LABOUR MARKET: FIRST- AND SECOND-HALF 2007

A. Labour Force

The broadly-defined labour force includes the three components: a) all employed persons (full-time employed, part-time employed and temporarily absent from work); b) all unemployed persons actively seeking employment; and c) all the discouraged unemployed, i.e. those able and willing to work but not seeking employment due to a conviction that no job will be found. The sum of the first two components equals the narrow ILO definition of the labour force. Adding the third component yields a truer picture of the number of people working and willing to work – the broad labour force.
Data presented in Table 7 suggests that estimated working-age population growth (1.9 percent) was

Table 7
Estimates of Average oPt Population, Labour Force, Employment and Unemployment by Refugee Status, First-Half 2007 and Second-Half 2007[33]

	First-Half 2007	Second-Half 2007	Absolute Changes	Relative Changes
Total Population	4,000,401	4,065,072	64,671	1.62%
of which: refugees	*1,636,399*	*1,664,449*	*28,049*	*1.71%*
of which: non-refugees	*2,364,001*	*2,400,623*	*36,622*	*1.55%*
Working-Age Population (15+)	2,183,515	2,226,221	42,705	1.96%
of which: refugees	*892,566*	*906,899*	*14,333*	*1.61%*
of which: non-refugees	*1,290,950*	*1,319,322*	*28,372*	*2.20%*
Labour Force (Broad Definition)	987,935	1,013,941	26,006	2.63%
of which: refugees	*397,526*	*397,459*	*-67*	*-0.02%*
of which: non-refugees	*590,409*	*616,482*	*26,073*	*4.42%*
Employment	723,632	720,006	-3,625	-0.50%
of which: refugees	*274,906*	*270,161*	*-4,745*	*-1.73%*
of which: non-refugees	*448,726*	*449,845*	*1,120*	*0.25%*
Unemployment (Broad Definition)	264,304	293,934	29,631	11.21%
of which: refugees	*122,620*	*127,298*	*4,678*	*3.81%*
of which: non-refugees	*141,684*	*166,636*	*24,953*	*17.61%*

[33] All population and labour force component estimates in this report include Arab East Jerusalem and are based on projections derived from the 1997 census.

more rapid than oPt population growth (1.6 percent) as between the first and second halves of 2007. The broadly-defined labour force grew even more rapidly (2.6 percent), by an estimated 26,000 persons to some 1.01 million persons. The estimated refugee labour force was virtually unchanged in size while the non-refugee labour force grew by an estimated 26,000 persons or 4.4 percent. Given similar population growth rates, slower refugee labour force growth is accounted for by a 0.7 percentage point decline in the refugee broad labour force participation rate in the second half of the year.[34] Of the 26,000 additional labour market participants in second-half 2007, more than 80 percent were from the West Bank.

B. Employment

As indicated in Table 8, average total employment in the oPt declined slightly in second-half 2007, down by 0.52 percent or about 3,750 jobs. All net job gains were made by non-refugees as total refugee employment is estimated to have fallen by about 3 percent or 8,250 jobs. Public sector employment was virtually unchanged while the domestic private sector shed 1.4 percent of jobs –

Table 8
Estimates of oPt Employment by Sector and Refugee Status, First-Half 2007 and Second-Half 2007

OPT Sector Employment	First-Half 2007	Second-Half 2007	Absolute Changes	Relative Changes
Public Sector	168,059	168,085	27	0.02%
of which: refugees	*85,108*	*83,659*	*-1,449*	*-1.70%*
of which: non-refugees	*82,951*	*84,427*	*1,476*	*1.78%*
Private Sector	489,047	481,828	-7,219	-1.48%
of which: refugees	*176,601*	*168,962*	*-7,638*	*-4.33%*
of which: non-refugees	*312,446*	*312,866*	*420*	*0.13%*
Israel, Industrial Zones, Settlements	66,014	69,451	3,437	5.21%
of which: refugees	*16,584*	*17,413*	*828*	*5.00%*
of which: non-refugees	*49,430*	*52,038*	*2,608*	*5.28%*
Total Employment	723,119	719,364	-3,755	-0.52%
of which: refugees	*278,293*	*270,034*	*-8,259*	*-2.97%*
of which: non-refugees	*444,826*	*449,330*	*4,504*	*1.01%*

[34] In the absence of separate population projections for Palestinian refugees in the PCBS data, two simplifying assumptions have been used in estimating the average size of the refugee and non-refugee labour forces. First, that refugee and non-refugee age structures are similar. Second, that refugee and non-refugee population growth rates are similar.

about 7,200 jobs – in the second half of the year relative to the first half.[35] The only source of employment growth in the second half of the year was the Israeli labour market, an estimated 3,400 more job opportunities or an increase of about 5.2 percent relative to first-half 2007.[36]

Differences in employment results for refugees and non-refugees are closely linked to regional

Table 9
Estimates of oPt Private Sector Employment by Economic Activity and Refugee Status, First-Half 2007 and Second-Half 2007[37]

	First-Half 2007	Second-Half 2007	Absolute Changes	Relative Changes
Agriculture, Fishing	110,425	106,702	-3,723	-3.37%
of which: refugees	*30,127*	*26,467*	-3,660	*-12.15%*
of which: non-refugees	*80,298*	*80,235*	-63	*-0.08%*
Manufacturing, Mining	79,460	78,164	-1,296	-1.63%
of which: refugees	*26,389*	*22,792*	*-3,597*	*-13.63%*
of which: non-refugees	*53,071*	*55,372*	*2,300*	*4.33%*
Construction	50,108	35,567	-14,541	-29.02%
of which: refugees	*13,161*	*14,293*	*1,132*	*8.60%*
of which: non-refugees	*36,947*	*21,274*	*-15,674*	*-42.42%*
Commerce, Hotels & Restaurants	128,360	128,108	-252	-0.20%
of which: refugees	*48,437*	*47,344*	*-1,094*	*-2.26%*
of which: non-refugees	*79,923*	*80,765*	*842*	*1.05%*
Transportation, Communication	37,405	41,219	3,814	10.20%
of which: refugees	*13,985*	*17,898*	*3,913*	*27.98%*
of which: non-refugees	*23,420*	*23,320*	*-99*	*-0.42%*
Other Private Services	83,288	92,710	9,422	11.31%
of which: refugees	*41,056*	*41,766*	*710*	*1.73%*
of which: non-refugees	*42,232*	*50,944*	*8,713*	*20.63%*
Total Private Sector Employment	489,047	481,828	-7,219	-1.48%
of which: refugees	*173,156*	*168,962*	*-4,194*	*-2.42%*
of which: non-refugees	*315,891*	*311,909*	*-3,982*	*-1.26%*

[35] The stagnancy in public employment, as measured by the labour force surveys, contrasts with Palestinian Authority measures taken in second-half 2007 to reduce total public employment from 170,000 to 150,000. See World Bank *Implementing the Palestinian Reform and Development Plan*; *Economic Monitoring Report to the AHLC*, 02 May 2008, p. 11.

[36] Increased employment in Israel may have been due to an increase in work permits issued by the authorities in an effort to bolster the PA in the West Bank and/or to an increase in the number of Jerusalem Palestinians working in Israel. By comparison, there were an estimated 94,000 West Bank Palestinians (including those from Jerusalem) who were employed in Israel in 2000 in addition to some 25,000 from Gaza.

[37] Employment in Israel is excluded from the data in Table 9.

differences between Gaza (where refugees predominate) and the West Bank (where non-refugees are the majority). In the public sector, there was a decline of about 5,000 jobs in the West Bank while in Gaza there was an increase of about the same number. Most of the new public sector hires in Gaza were non-refugees. In the private sector, there were about 2,850 more jobs in the West Bank in the second half of the year while in Gaza there were 10,000 job losses, disproportionately – though not absolutely – among non-refugees. Employment growth in Israel was entirely accounted for by the West Bank with no Gazan employment there. On a net basis – i.e. subtracting losses from gains – refugees suffered all job losses during this period.

As indicated in Table 9, there were job losses in four of six private sector activities in the second half of 2007 (agriculture, manufacturing, construction and commerce). Only transportation and communications and other private services added employment in that period. On a net basis, some 7,200 jobs were lost.

In absolute and proportional terms, construction accounted for the most losses with more than 14,500 jobs lost. This was followed by agriculture and manufacturing with combined losses of some 5,000 positions. (The decline in agricultural employment reflects a smaller 2007 olive harvest.)[38] Private services (real estate, business and personal services)[39] accounted for the greatest employment increase with some 9,400 new jobs, followed by transport and communications with about 3,800 new positions.

On a regional basis, there were significant differences in private sector performance. In the West Bank, only agriculture and commerce experienced job losses while other private sector activities added about 3,500 jobs on a net basis in second-half 2007. In Gaza, where political turmoil and the Israeli-imposed siege severely limited the import of productive inputs, raw materials and energy, the private sector lost more than 10,000 positions, mainly in construction, manufacturing and private services. On the whole, and on a net basis, refugees lost some 4,200 jobs, some 58 percent of all losses, while they were only 40 percent of the labour force and 38 percent of the employed in first-half 2007. Developments in Gaza mainly account for refugee job losses in the private sector.

C. Unemployment

Unemployment rates – both narrow and broad – rose in the second half of 2007. The narrow (ILO) rate rose by 2.4 percentage points to 22.7 percent as the total number of unemployed increased by some 26,700 or 14.4 percent (see Table 10). The broad unemployment rate, which includes discouraged workers, increased by 2.2 percentage points to 28.9 percent in second-half 2007. Under the broad definition, there were an estimated 293,930 unemployed persons in second-half 2007, an increase of some 29,630 or 11.2 percent relative to first-half 2007.

[38] The 2006 harvest is estimated at 159,059 tons of pressed olives, yielding 34,002 tons of olive oil while the 2007 harvest was only 36,033 tons of pressed olives and 8,870 tons of extracted oil. See 17 April 2008 press release at PCBS website.

[39] In the labour force survey, employment in UNRWA and NGOs is included in private services.

Non-refugees, due to more rapid labour force growth, experienced disproportionate growth in unemployment in second-half 2007 (see Table 7). The refugee broad unemployment rate increased by some 1.2 percentage points, while the total number of unemployed refugees increased by about 3.8 percent. The non-refugee broad unemployment rate rose by about 3 percentage points while the total number of unemployed non-refugees grew 17.6 percent. Refugees accounted for about 43.3 percent of broad unemployment in the oPt in the second half of the year, somewhat above their share of the labour force in the previous half-year.

1. A Special Note on Absenteeism and Gaza Unemployment

On a regional basis, the broad unemployment rate in the West Bank was about 25.5 percent compared to 36.4 percent in Gaza – among the highest unemployment rates in world.[40] However, this unemployment picture must be qualified by the extraordinary circumstances in Gaza in particular. The combined effect of internal political turmoil and the Israeli-imposed siege has been to vastly expand the number of "workers absent from their usual work." In the standard International Labour Organization (ILO) methodology employed by the PCBS, such employees are assumed to be temporarily away from their jobs, due to illness, work stoppage, natural disaster or for other reasons, but still receiving their normal wages.

Table 10
Estimates of ILO and Broad Unemployment Rates and Unemployment in the oPt by Refugee Status, First-Half 2007 and Second-Half 2007

OPT Unemployment Rates	First-Half 2007	Second-Half 2007	Absolute Changes	Relative Changes
Unemployment Rates (ILO)	20.34%	22.71%	-	11.62%
refugees	24.88%	25.79%	-	3.65%
non-refugees	17.29%	20.73%	-	19.94%
Unemployment Rates (Broad)	26.75%	28.99%	-	8.36%
refugees	30.85%	32.03%	-	3.83%
non-refugees	24.00%	27.03%	-	12.64%
OPT Unemployed				
Unemployment (ILO Definition)	184,806	211,516	26,710	14.45%
of which: refugees	91,032	93,866	2,834	3.11%
of which: non-refugees	93,774	117,650	23,876	25.46%
Unemployment (Broad Definition)	264,302	293,934	29,633	11.21%
of which: refugees	122,621	127,298	4,677	3.81%
of which: non-refugees	141,681	166,636	24,955	17.61%

[40] Only seven countries in the world had unemployment rates above 30 percent in 2005. See ILO *Key Indicators of the Labour Market 4,* June 2007. The average ILO (narrow) unemployment rate in the Middle East and North Africa region in 2005 was about 12 percent. See World Bank *Economic Developments and Prospects for the MENA Region*, *2007*, August 2007.

While the share of absent employees in the West Bank labour force was virtually unchanged as between the first and second halves of 2007, in Gaza their numbers increased almost five-fold as indicated in Table 10.A. This was due to two phenomena. First, after the seizure of power by the Hamas movement in mid-2007, tens of thousands of PA security personnel heeded the instructions of PA authorities and ceased reporting to work. Second, the Israeli siege on Gaza severely reduced the quantities of raw materials, building materials, fuel and other inputs, thereby causing widespread work stoppages among private sector firms. In all, it is estimated that nearly 45,000 persons became "absentee" workers in Gaza in second-half 2007.

Table 10.A
Estimates of Average Absenteeism from Usual Work in the Gaza Strip, First-Half 2007 and Second-Half 2007

Absent from Usual Work	First-Half 2007	Second-Half 2007	Absolute Changes	Relative Changes
Total	11,722	56,680	44,957	383.5%
refugees	*8,693*	*40,492*	*31,798*	*365.8%*
non-refugees	*3,029*	*16,188*	*13,159*	*434.4%*

Table 10.B
Estimates of Adjusted Broad Unemployment in the Gaza Strip Excluding Paid Absentees by Refugee Status, First-Half 2007 and Second-Half 2007

	First-Half 2007	Second-Half 2007	Absolute Changes	Relative Changes
Adjusted Broad Unemployment	118,450	145,124	26,674	22.52%
of which: refugees	80,835	94,551	*13,717*	*16.97%*
of which: non-refugees	37,615	50,573	*12,958*	*34.45%*
Adjusted Broad Unemployment Rates	37.56%	45.32%	-	20.68%
of which: refugees	39.07%	46.05%	-	*17.89%*
of which: non-refugees	34.68%	44.02%	-	*26.94%*

Perhaps the majority of absentee workers in Gaza were PA security personnel who continued to receive their normal monthly salaries. Thus, including them among the ranks of the unemployed overestimates the impact of joblessness on hardship. If it assumed that half the absentee workers were paid PA personnel (and that paid absentees are not in dire conditions), then the total number of actually unemployed and unpaid workers in Gaza, and in the oPt as a whole, in second-half 2007 should be adjusted upward by about 28,500 persons.

Such an adjustment raises average broad unemployment in the oPt to about 322,225 persons and the broad unemployment rate from 28.9 percent to 31.7 percent in second-half 2007. Among refugees, the adjustment raises the broad unemployment rate from about 32 to about 36.8 percent.

With no noticeable effect in the West Bank, the unpaid absentee worker phenomenon raises the average broad unemployment rate in Gaza to about 45.3 percent, (see Table 10.B) – some 9 percentage points above the Gaza broad unemployment rate. The Gaza refugee rate of unemployment is accordingly estimated at 46 percent and that for non-refugees at 44 percent.

D. Youth in the Labour Market

Due to the fact that significant numbers of youth remain in school – and, therefore, outside the labour force – youth aged 15-24 years had a labour force participation rate of some 10 percentage points lower than average in first-half 2007. Nonetheless, they accounted for some 278,450 persons or 28.2 percent of the total broad labour force in the oPt in first-half 2007 (see Table 11). With about 161,700 employed youth, they accounted for only 22.3 percent of all employed persons. At the same time, with some 116,700 unemployed, youth accounted for 44.1 percent of broad unemployment in first-half 2007. Youth unemployment rates were the highest of any demographic segment, about 42 percent in the first half of the year.

Table 11
Estimates of Labour Market Conditions for oPt Youth, First-Half 2007 and Second-Half 2007[41]

	First-Half 2007	Second-Half 2007	Absolute Changes	Relative Changes
Population (15-24)	786,883	802,915	16,032	2.04%
Labour Force (Broad)	278,464	289,344	10,879	3.91%
Employed	161,732	154,309	-7,423	-4.59%
Unemployed (Broad)	116,732	135,034	18,302	15.68%
Labour Force Participation Rate (ILO)	26.01%	27.21%	-	4.63%
Discouraged Rate	9.38%	8.83%	-	-5.93%
Labour Force Participation Rate (Broad)	35.39%	36.04%	-	1.83%
Unemployment Rate (ILO)	32.54%	37.84%	-	16.31%
Unemployment Rate (Broad)	41.92%	46.67%	-	11.33%

[41] Separate estimates for the *refugee* youth population and *refugee* youth labour force were not available from PCBS. Thus estimates here are for the entire youth segment in the oPt.

While the estimated broad youth labour force rose some 4 percent, the number of employed youth declined by 7,400, more than double the average job losses for the oPt as a whole. Thus non-youth gained jobs on a net basis while youth lost ground in the job market. **Youth have been disproportionately affected by unemployment during 2007 and are a main element in increasing unemployment rates.** The average broad youth unemployment rate (excluding worker absenteeism) increased by nearly 5 percentage points to 46.6 percent.

On a regional basis, youth broad unemployment rates in Gaza during 2007 ranged between 52 and 58 percent while those in the West Bank were 36 – 41 percent. In absolute terms, Gaza accounted for about 40 of all unemployed youth in the oPt in 2007. Youth tend to be more vulnerable for at least two reasons. First, they have less experience and are at a competitive disadvantage relative to those with more education and/or experience. Second, many youth are not heads of households and, therefore, tend not to be given priority by potential employers. (Due to a lack of data, the degree of worker absenteeism among youth cannot be estimated.)

E. Social Composition of the Employed Labour Force

The employment status of working people, and changes over time, are suggestive of the social composition of the population. A growing proportion of employers among those working, for example, suggests expanded business formation and improved economic conditions and vice versa. In the Palestinian context, a growing proportion of the self-employed – those who neither employ nor are employed by others – suggests higher levels of disguised unemployment and/or greater informality and vice versa. Large or increased numbers of unpaid family members suggests disguised unemployment and growing informality, usually in agriculture and commerce.

Table 12 indicates that, while total net employment declined by more than 3,000 jobs in second-half 2007, the estimated number of employers increased by some 3,250 or 11.7 percent, relative to the first half of the year. Self-employment declined by 11,750 persons or 6.5 percent. Wage employment increased by some 1,880 jobs, up only 0.4 percent, while unpaid family labour grew by some 3,500 jobs or 4.1 percent.

The increase in the number of employers is indicative of improved business conditions (at least in the West Bank). Slight growth in wage employment would seem to confirm this but, as noted above, the source of most wage employment growth was in Israel, not the oPt, in second-half 2007. The significant decline in the number of self-employed suggests reduced informality in the economy, despite the modest growth in unpaid family labour, largely in agriculture and commerce.

Table 12
Social Composition of the Employed Labour Force in the oPt

Employment Status	First-Half 2007	Second-Half 2007	Absolute Changes	Relative Changes
Employer	27,657	30,907	3,250	11.75%
of which: refugees	*9,664*	*9,289*	*-375*	*-3.88%*
of which: non-refugees	*17,993*	*21,618*	*3,625*	*20.14%*
Self-Employed	180,156	168,395	-11,761	-6.53%
of which: refugees	*58,697*	*54,085*	*-4,612*	*-7.86%*
of which: non-refugees	*121,459*	*114,310*	*-7,149*	*-5.89%*
Wage Employee	430,312	432,197	1,885	0.44%
of which: refugees	*179,622*	*182,375*	*2,753*	*1.53%*
of which: non-refugees	*250,690*	*249,823*	*-868*	*-0.35%*
Unpaid Family Member	84,995	88,507	3,512	4.13%
of which: refugees	*26,866*	*24,412*	*-2,454*	*-9.13%*
of which: non-refugees	*58,129*	*64,095*	*5,966*	*10.26%*
Total Employment	723,119	720,006	-3,113	-0.43%
of which: refugees	*274,848*	*270,161*	*-4,687*	*-1.71%*
of which: non-refugees	*448,271*	*449,845*	*1,574*	*0.35%*

Reflecting increasingly divergent development patterns, there were nearly diametrically opposite changes in labour force composition as between the West Bank and Gaza. The number of employers in the West Bank grew by nearly 29 percent (nearly all non-refugees) while in Gaza there was a decline of about 31 percent (mainly non-refugees as well). In the West Bank the number of self-employed declined some 9 percent while there was an increase of 1.6 percent in Gaza. Wage labourer ranks grew 2.8 percent in the West Bank and declined 4.7 percent in Gaza. Finally, the number of unpaid labourers in the West Bank was nearly unchanged (with a steep decline in such employment among refugees and sharp rise among non-refugees) but grew some 13.2 percent in Gaza (mainly non-refugees).

F. Wage Rates and Monthly Wage Incomes

Average nominal daily wages (see Table 13) increased by 3.9 percent as between first- and second-half 2007 to about NIS 84.8. Non-refugee average wages increased by 4.8 percent compared to 1.9 percent for refugees. The growth in average wage may be due to increased employment in Israel, as well as private services, where wage rates are relatively high. In both periods, average daily wages of non-refugees remained above those of refugees with the discrepancy rising from about 8.8 percent in first-half 2007 to about 11.9 percent in second-half 2007.

The disparity reflects concentrations of employed refugees in relatively low-wage economic activities. Other than disproportionately high representation in the relatively well-paid public sector, the highest concentrations of refugees in 2007 were in private services and transport and communications where average daily wages are relatively low. On the other hand, the lowest concentration of refugees was in construction where average daily wages were highest.

Table 13
Nominal and Real Average Daily and Monthly Wages in the oPt by Refugee Status, First-Half 2007 and Second-Half 2007[42]

Average Daily Wages (Nominal NIS)	First-Half 2007	Second-Half 2007	Relative Change
All Employed Persons	81.6	84.8	3.89%
Employed Refugees	77.6	79.1	1.92%
Employed Non-Refugees	84.4	88.5	4.83%
Average Monthly Days			
All Employed Persons	22.3	21.9	-1.73%
Employed Refugees	22.9	22.4	-2.16%
Employed Non-Refugees	21.9	21.6	-1.31%
Average Monthly Wages (Nominal NIS)			
All Employed Persons	1,822	1,860	2.09%
Employed Refugees	1,778	1,773	-0.28%
Employed Non-Refugees	1,850	1,914	3.46%
CPI Deflator (1996 = 1.0)	1.53	1.60	4.09%
Average Monthly Wages (Real NIS)			
All Employed Persons	1,189	1,166	-1.92%
Employed Refugees	1,160	1,111	-4.20%
Employed Non-Refugees	1,207	1,200	-0.61%

[42] CPI deflator (with 1996 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.

There was 1.7 percent decline in the average number of days worked each month in second-half 2007 with refugees working 2.1 percent fewer days per month. (Reductions in work days were more pronounced in Gaza relative to the West Bank, especially among refugees.) Multiplying the average daily wage by the average number of days worked yields the average nominal monthly wage income which in first-half 2007 was about NIS 1,778 for employed refugees and NIS 1,850 for non-refugees. The refugee average monthly wage declined some 0.28 percent in second-half 2007 to NIS 1,773 while that for non-refugees increased 3.4 percent to NIS 1,914. It is important to emphasize that in the above calculations, the wage incomes of absentee workers are assumed to be paid. If the assumption is made that half the absentees in Gaza were, in fact, not paid their normal wages, actual wage income results are worse than indicated here.

With consumer price inflation of about 4 percent between the first and second halves of the year, the purchasing power of average wage incomes declined about 2 percent, with refugees absorbing an average loss of 4.2 percent.

On a regional basis, real average purchasing power losses were smaller in the West Bank where the decline was 2.7 percent, with refugees absorbing an average loss of 3.8 percent. Meanwhile in Gaza, the overall real decline in average wages was 8.3 percent with refugees suffering a 10.5 percent.

G. Summarising Labour Market Trends in First- and Second-Half 2007

Overall there was moderate labour force growth in second-half 2007, accompanied by a decline in employment and a rapid increase in unemployment. Labour force growth in this period was translated into about 29,500 more unemployed persons in the oPt. There was stagnant public sector employment, a decline in domestic private sector employment and moderate growth of employment in Israel.

Non-refugees accounted for all labour force growth, all new net employment and for 84.2 percent of new unemployment in second-half 2007. In broad terms, non-refugee unemployment grew more quickly in absolute and relative terms in comparison to refugees. By contrast, refugees experienced a slight decline in labour force size and comparatively small declines in employment and small increases in unemployment. Refugee employment gains were concentrated in transport and communications and construction activity. Their job losses were particularly heavy in manufacturing and agriculture.

There were significant differences in labour market developments as between the West Bank and Gaza. In the West Bank, the public sector shed jobs while employment in the private sector and in Israel grew modestly. In Gaza public sector employment expanded while the private sector shed a significant number of jobs. The West Bank private sector performed better than that in Gaza, with modest net job gains in second-half 2007. In Gaza, political turmoil and siege-related supply side shortages resulted in significant job losses in the private sector. Developments in Gaza are mainly responsible for disproportionate refugee job losses in the oPt in the second half of the year.

The broad unemployment rate in the oPt is estimated at about 29 percent in second-half 2007. That for the West Bank is estimated at about 25.5 percent. When workers absent from their jobs, and not receiving their wages, due to the Israeli siege are factored into the calculations, the comparable rate of unemployment is estimated at more than 45.3 percent in Gaza. In both the West Bank and Gaza the youth segment of the labour force was the least likely to gain employment and the most prone to increased unemployment in this period.

Persistently high unemployment and an acceleration in consumer prices combined to produce a 2 percent decline in the average purchasing power of monthly wages as between the first and second halves of 2007. The decline among refugees was more than double that rate on average. In Gaza, the real wage declines were significantly greater than in the West Bank, especially among refugees. Thus the gap between average wages of refugees and non-refugees widened in favour of the latter.

V. LABOUR FORCE AND THE LABOUR MARKET: 2006 AND 2007

A comparison of labour market conditions in 2007 as a whole relative to 2006 provides better insights into underlying trends for two main reasons. First, such a comparison largely eliminates the seasonality in data. Second, annual averages – that draw on four field surveys – are statistically more reliable than quarterly or semi-annual data. What follows is an annual comparative analysis for 2007.

A. Labour Force, Employment and Unemployment in Perspective

Existing population projections (see Table 14) indicate that the working-age population in the oPt increased by an average of 3.9 percent in 2007 relative to 2006. The broadly-defined labour force is estimated to have increased by about 5.8 percent to some 1 million persons. Of the estimated 55,000 new labour force participants, almost 52 percent were refugees, significantly above the refugee share of the broad labour force in 2006 (about 39 percent). This was due to a refugee labour force growth rate (7.9 percent) that was well above that of non-refugees (4.4 percent). The broad refugee labour force participation rate increased by about 1.6 percentage points to about 44.1 percent in 2007 while that of non-refugees rose by 0.2 percentage points to 46.2 percent.

On a regional basis, the broadly-defined labour force in the West Bank is estimated to have increased by about 3.7 percent with refugees accounting for about half of new labour market entrants. The refugee labour force growth rate of 7.4 percent was three times faster than that of non-refugees (2.4 percent). In Gaza, the broadly-defined labour force is estimated to have increased by about 9.5 percent, about 55.6 percent of whom were refugees. The less than proportional share of refugee labour force growth was due to a slower refugee labour force growth rate (8.6 percent), relative to the non-refugee rate (11.1 percent).

Using the standard ILO definition and as reflected in Table 14, average employment in the oPt increased by an estimated 55,440 jobs in 2007 relative to 2006, a growth rate of 8.3 percent. New refugee employment amounted to some 27,640 or about half of all new jobs. This gain was well above the refugee share of total employment in 2006 (36.7 percent). Refugee employment grew by a rate of 11.3 percent while that for non-refugees grew 6.6 percent. According to the broad definition of unemployment used in Table 14 (the ILO unemployed plus discouraged workers), total unemployment declined slightly in 2007 to about 279,000 persons. The number of unemployed refugees actually increased.

The standard estimates of employment and unemployment in Table 14 must be qualified due to the extraordinary circumstances in Gaza during 2007. In particular, thousands of PA security personnel did not report to work in the second half of the year (but continued to receive their wages) while thousands of private sector workers were "temporarily" away from work due to input shortages caused by the Israeli siege (but did not continue to receive their wages). This accounts for the six-fold increase in absenteeism in Gaza, as illustrated in Table 14.A. There was an eight-fold increase in absenteeism among non-refugees in Gaza.

Table 14
Estimates of Average oPt Population, Labour Force, Employment and Unemployment by Refugee Status, 2006 and 2007

	2006	2007	Absolute Changes	Relative Changes
Total Population	3,904,422	4,032,736	128,314	3.29%
of which: refugees	*1,594,912*	*1,650,424*	*55,512*	*3.48%*
of which: non-refugees	*2,309,510*	*2,382,312*	*72,802*	*3.15%*
Working-Age Population (15+)	2,121,385	2,204,868	83,483	3.94%
of which: refugees	*866,563*	*899,732*	*33,170*	*3.83%*
of which: non-refugees	*1,254,823*	*1,305,136*	*50,313*	*4.01%*
Labour Force (Broad Definition)	945,901	1,000,938	55,037	5.82%
of which: refugees	*368,391*	*397,492*	*29,101*	*7.90%*
of which: non-refugees	*577,510*	*603,445*	*25,936*	*4.49%*
Employment	666,375	721,819	55,443	8.32%
of which: refugees	*244,891*	*272,533*	*27,642*	*11.29%*
of which: non-refugees	*421,484*	*449,285*	*27,801*	*6.60%*
Unemployment (Broad Definition)	279,526	279,119	-407	-0.15%
of which: refugees	*123,500*	*124,959*	*1,459*	*1.18%*
of which: non-refugees	*156,025*	*154,160*	*-1,865*	*-1.20%*

Table 14.A
Estimates of Average Absenteeism from Usual Work in the Gaza Strip, 2006 and 2007[43]

	2006	2007	Absolute Changes	Relative Changes
Total	5,668	34,183	28,515	503.09%
refugees	*4,498*	*24,756*	*20,258*	*450.32%*
non-refugee	*1,170*	*9,427*	*8,257*	*706.06%*

Given this information, it is possible to better estimate employment and unemployment, by making the simplifying assumption that half the average number of absentees in Gaza was effectively unemployed.[44] With this adjustment, employment is estimated to have risen by 41,150 jobs in 2007 or by 6.2 percent as indicated in Table 14.B, rather than by 8.3 percent. Adjusted broad unemployment is estimated to have increased by some 13,850 persons or about 5 percent, rather than a decline of 0.1 percent. More details on unemployment are given in section IV.C below.

Table 14.B
Estimates of Adjusted Employment and Adjusted Broad Unemployment in the oPt, 2006 and 2007

	2006	2007	Absolute Change	Relative Change
Employment	666,375	721,819	55,443	8.32%
minus half Gaza absentees	2,834	17,091	14,257	503.09%
Adjusted Employment	663,541	704,727	41,186	6.21%
Broad Unemployment	279,526	279,119	-407	-0.15%
plus half Gaza absentees	2,834	17,091	14,257	503.09%
Adjusted Broad Unemployment	282,360	296,210	13,851	4.91%

[43] To repeat, "absence from usual work" is defined as all those reporting they were temporarily away from work due to illness, holiday, labour strike, curfew, lock-out, temporary work stoppage or some other reason. See PCBS Labour Force Survey Annual Report, 2007, April 2008, p. 27. PCBS adds that absentees are assumed to be paid their normal wages during their absence.

[44] Only absenteeism in Gaza is included in the analysis as absenteeism in the West Bank was unexceptional. PCBS data indicates that absenteeism as a proportion of the West Bank labour force declined in 2007.

B. Employment

By sector of employment, as indicated in Table 9, almost 75 percent of employment growth – some 41,400 jobs – was generated in the private sector (UNRWA and NGOs are included in the private sector), about 18.6 percent in the public sector and the balance, about 6.7 percent, in Israel. Refugees accounted for about 56.7 percent of public sector employment growth in 2007, 46.3 percent of that in the private sector and about 71 percent of employment growth in Israel. In all sectors, refugee employment gains were more rapid in 2007 than for non-refugees. This can be correlated with the more rapid growth of the refugee labour force, as indicated in Table 14.

Table 15
Estimates of oPt Employment by Sector and Refugee Status, 2006 and 2007[45]

Sector	2006	2007	Absolute Changes	Relative Changes
Public Sector	157,705	168,072	10,367	6.57%
of which: refugees	*78,503*	*84,383*	*5,881*	*7.49%*
of which: non-refugees	*79,203*	*83,689*	*4,486*	*5.66%*
Private Sector	444,358	485,758	41,400	9.32%
of which: refugees	*151,957*	*171,123*	*19,166*	*12.61%*
of which: non-refugees	*292,401*	*314,636*	*22,235*	*7.60%*
Israel, Industrial Zones, Settlements	64,027	67,732	3,706	5.79%
of which: refugees	*14,372*	*16,998*	*2,626*	*18.27%*
of which: non-refugees	*49,655*	*50,734*	*1,079*	*2.17%*
Total Employment	666,090	721,563	55,473	8.33%
of which: refugees	*244,832*	*272,505*	*27,673*	*11.30%*
of which: non-refugees	*421,258*	*449,058*	*27,800*	*6.60%*

[45] Data on absenteeism in Gaza at the sector level are not available. Thus, data in this table are based on the narrow ILO definition of employment.

Table 16
Estimates of oPt Private Sector Employment by Activity and Refugee Status, 2006 and 2007

Economic Activity	2006	2007	Absolute Changes	Relative Changes
Agriculture, Fishing	101,517	108,543	7,027	6.92%
of which: refugees	*22,210*	*28,292*	*6,082*	*27.38%*
of which: non-refugees	*79,306*	*80,251*	*945*	*1.19%*
Manufacturing, Mining	69,908	78,859	8,950	12.80%
of which: refugees	*21,705*	*24,602*	*2,897*	*13.35%*
of which: non-refugees	*48,203*	*54,257*	*6,053*	*12.56%*
Construction	48,871	42,871	-6,000	-12.28%
of which: refugees	*14,889*	*13,736*	*-1,154*	*-7.75%*
of which: non-refugees	*33,982*	*29,136*	*-4,846*	*-14.26%*
Commerce, Hotels & Restaurants	114,497	128,188	13,691	11.96%
of which: refugees	*43,075*	*47,879*	*4,804*	*11.15%*
of which: non-refugees	*71,422*	*80,309*	*8,888*	*12.44%*
Transportation, Communication	36,823	39,297	2,474	6.72%
of which: refugees	*13,630*	*15,938*	*2,308*	*16.93%*
of which: non-refugees	*23,193*	*23,359*	*166*	*0.71%*
Other Private Services	72,742	87,999	15,258	20.98%
of which: refugees	*36,447*	*40,676*	*4,228*	*11.60%*
of which: non-refugees	*36,294*	*47,324*	*11,029*	*30.39%*
Total Private Sector Employment	444,358	485,758	41,400	9.32%
of which: refugees	*151,957*	*171,123*	*19,166*	*12.61%*
of which: non-refugees	*292,401*	*314,636*	*22,235*	*7.60%*

On a regional basis, about three-quarters of employment growth in the West Bank was generated in the private sector (including UNRWA and NGOs), about 16.6 percent in Israel and about 9.1 percent in the public sector. **In all sectors in the West Bank, refugee employment gains were more rapid in 2007 than for non-refugees.** In Gaza, and including absentee workers, the private sector also generated about three-quarters of all new jobs. While the Gaza private sector has been hit hard by job losses, some new employment was generated in informal activities and in activities related to the "tunnel economy" in the Rafah area. In addition, the public sector continued to add jobs, including public sector job creation programmes instituted by the Hamas administration, accounting for one-quarter of job growth in 2007.

Closer examination of the private sector (see Table 16) suggests the construction branch of the oPt economy shed an average of about 6,000 jobs in 2007 relative to 2006. Employment in every other private sector activity is estimated to have grown. In absolute terms, private services grew most, adding some 15,250 jobs (nearly 21 percent). This was followed by commerce with the addition of about 13,700 jobs (about 12 percent) and manufacturing with 8,950 new jobs (12.8 percent). Agriculture added some 7,000 jobs on average and transport and communication added some 2,450 new jobs. In all, private sector employment grew by an estimated 41,400 jobs or 9.3 percent.[46]

As noted above, refugees accounted for a disproportionate share of the growth in the private sector. On average, while they accounted for about 34.2 percent of private sector employment in 2006, they gained 46.3 percent of new private sector positions in 2007. Refugees made employment gains in every activity except for construction with their largest absolute gains in agriculture, commerce and private services. In proportional terms, refugees accounted for about 93 percent of the growth in transportation and communications and about 86 percent of agricultural employment growth but only 27.7 percent of job growth in private services.

In the West Bank, agriculture and the transport and communication activities shed an average of about 4,400 jobs in 2007, while manufacturing, construction, commerce and private services combined added an average of about 21,675 jobs. On a net basis, there was an estimated increase of 17,275 private sector jobs in 2007, a 5 percent increase over 2006. Employment in private services, manufacturing and commerce grew fastest in proportional and absolute terms while construction employment grew a modest 2.9 percent. In Gaza, using the ILO definition of employment which includes absentees, of an estimated 24,125 more private sector jobs in 2007, 32.3 percent were in agriculture, 31 percent were in commerce, 18.6 percent were in transportation and communication, 12.8 percent were in private services and 11.5 percent were in manufacturing. Employment in construction activity was down by an average of 1,560 positions.

[46] Data on absenteeism in Gaza at the economic activity level are not available. Thus, data in Table 16 are based on the narrow ILO definition of employment.

C. Unemployment

Both the core and broadly defined unemployment rates declined in 2007, although they remained high by regional and world standards.[47] The overall ILO unemployment rate declined from about 23.5 percent in 2006 to 21.5 percent in 2007 (see Table 17). The broad rate declined from 29.5 to 27.8 percent. Both the core ILO unemployment rate and the broad unemployment declined for both refugees and non-refugees. In all cases, refugee unemployment rates remained substantially higher than those for non-refugees.

Table 17
Estimates of Narrow and Broad Unemployment Rates and Unemployment in the oPt by Refugee Status, 2006 and 2007[48]

OPT Unemployment Rates	2006	2007	Relative Changes	
Unemployment Rates (ILO Definition)	23.58%	21.54%	-8.64%	
refugees	*27.56%*	*25.33%*	-8.09%	
non-refugees	*21.05%*	*19.05%*	-9.53%	
Unemployment Rates (Broad Definition)	*29.55%*	*27.89%*	-5.64%	
refugees	*33.52%*	*31.58%*	-5.81%	
non-refugees	*27.02%*	*25.47%*	-5.72%	
OPT Unemployed			Absolute Changes	Relative Changes
Unemployment (ILO Definition)	205,571	198,161	-7,410	-3.60%
of which: refugees	*93,165*	*92,449*	*-717*	*-0.77%*
of which: non-refugees	*112,406*	*105,712*	*-6,693*	*-5.95%*
Unemployment (Broad Definition)	279,525	279,119	-406	-0.15%
of which: refugees	*123,500*	*124,959*	*1,459*	*1.18%*
of which: non-refugees	*156,025*	*154,160*	*-1,866*	*-1.20%*

[47] The oPt 's ILO unemployment rate was about 23.5 percent in 2006, compared to an average MENA regional rate of about 12 percent in 2006. The MENA average was the highest of any region in the world. See World Bank *Economic Developments and Prospects for the MENA Region*, *2007*, August 2007.

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

Lower unemployment rates did not substantially reduce the total estimated number of unemployed persons in the oPt. While there were about 7,400 fewer unemployed under the ILO definition, the unemployed under the broader definition declined by only 400 or 0.1 percent. Non-refugees accounted for nearly all the decline in unemployment under the ILO definition. **Refugees, on the other hand, accounted for all the *increase* in unemployment under the broad definition.** With an average of 279,120 unemployed persons in 2007, and with households averaging 6.4 persons (based on the PECS 2006), the lower incomes and poverty caused by unemployment affected about 1.78 million people in the oPt, more than 44 percent of the population.

Table 17.A provides estimates of adjusted unemployment rates, taking into account the exceptional number of unpaid Gaza absentees in 2007. **Such an adjustment results in year-on-year increases in the average ILO and broad unemployment rates, rather than declines.** In the case of the narrow ILO definition of unemployment, the 2007 rate rises from 21.5 to 25.2 percent, while under the broader definition, the rate rises from 27.8 to 31.3 percent. The broad unemployment rate in the West Bank was an average of 24.5 percent in 2007 while in Gaza, the broad unemployment rate adjusted for unpaid absentee workers was an average of 41.6 percent.

Table 17.A
Estimates of Adjusted ILO and Broad Unemployment in the oPt by Refugee Status, 2006 and 2007[49]

OPT Unemployment Rates	2006	2007	Relative Changes	
Unemployment Rates (Adjusted ILO Definition)	24.23%	23.40%	-3.42%	
refugees	*28.89%*	*28.72%*	-0.58%	
non-refugees	*21.27%*	*19.90%*	-6.47%	
Unemployment Rates (Adjusted Broad Definition)	30.15%	29.59%	-1.85%	
refugees	*34.75%*	*34.55%*	-0.56%	
non-refugees	*27.22%*	*26.33%*	-3.28%	
OPT Unemployed			Absolute Changes	Relative Changes
Unemployment (Adjusted ILO Definition)	211,239	215,252	4,013	1.90%
of which: refugees	*97,664*	*104,827*	*7,163*	*7.33%*
of which: non-refugees	*113,575*	*110,426*	-3,149	-2.77%
Unemployment (Adjusted Broad Definition)	282,360	296,210	13,850	4.9%
of which: refugees	*127,999*	*137,337*	*9,339*	*7.30%*
of which: non-refugees	*154,361*	*158,873*	*1,678*	*1.03%*

[49] Adjusted ILO and broad unemployment are obtained by adding half the average number of absentee workers in Gaza in 2007 to the definitions given in Table 17. In other words, the assumption in Table 17.A is that half the absentees in Gaza were unpaid during the reporting period and, therefore, suffered the hardships of unemployment.

D. Youth in the Labour Market[50]

As noted in section III.D, youth aged 15-24 years, despite lower labour force participation rates, account for a significant portion of the oPt labour force and experience the highest levels of unemployment of any labour force segment. As indicated in Table 18, the youth labour force is estimated to have grown by 5.8 percent in 2007 to an average of about 282,400 persons. Youth accounted for an average of 28.2 percent of the oPt labour force in 2007.

Table 18
Estimates of Labour Market Conditions for oPt Youth, 2006 and 2007[51]

Youth Labour Force Profile	2006	2007	Absolute Changes	Relative Changes
Population (15-24)	759,650	790,773	31,123	4.10%
Labour Force (Broad)	266,885	282,405	15,520	5.82%
Employed	147,530	157,315	9,785	6.63%
Unemployed (Broad)	119,355	125,090	5,735	4.80%
Labour Force Participation Rate (ILO)	26.10%	26.61%	-	1.95%
Discouraged Rate	9.03%	9.10%	-	0.79%
Labour Force Participation Rate (Broad)	35.13%	35.71%	-	1.65%
Unemployment Rate (ILO)	35.69%	35.19%	-	-1.40%
Unemployment Rate (Broad)	44.72%	44.29%	-	-0.95%

Although youth employment grew by about 6.6 percent – or an estimated 9,785 jobs – these accounted for only 17.6 percent of all new jobs. Employed youth made up only 21.7 percent of all employed persons in the oPt in 2007. While both the ILO and broad unemployment rates for youth declined slightly, the growth of discouraged youth workers increased the total number of unemployed youth by 5,735 or 4.8 percent. On average, about 44.2 percent of youth in the labour force were unemployed in 2007. Thus youth employment grew less than average for the labour force as a whole, while youth unemployment grew faster than average. Unemployed youth – an average of some 125,000 persons in 2007 – accounted for 44.8 percent of all the unemployed under the broad definition.

[50] 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.

[51] Due to a lack of data, the degree of youth absenteeism cannot be estimated. The data in Table 18 are therefore unadjusted for absenteeism.

On a regional basis in the West Bank, youth employment grew less than average while youth unemployment grew faster than average in 2007. About 38.9 percent of West Bank youth in the labour force were unemployed in 2007, comprising 44.4 percent of all the unemployed in the West Bank. In Gaza, youth accounted for 22.5 percent of all new employment in 2007, as the total number of unemployed youth increased by an estimated 2,100 persons or 4.3 percent. At the same time, unemployed youth under the ILO definition accounted for nearly 45 percent of all the unemployed in the Gaza Strip.

E. Social Composition of the Employed Labour Force

A parallel annual comparison of employment status in the oPt in 2007 relative to 2006 (see Table 19) reveals a 4.1 percent decline in the number of employers, a 4.6 percent increase in the number of self-employed persons, a 9.1 percent increase in wage employment and a 17.4 percent increase in unpaid family labour.

Fewer employers suggests stagnant business conditions while the growth in self-employment and unpaid family labour indicates increased informality in the economy, particularly in agriculture and commerce where unpaid family labour tends to concentrate. Growth in wage employment is partly due to increased job availability in Israel for West Bank workers and for public sector workers in Gaza. As in the foregoing analysis, if the absentee phenomenon in Gaza is included, the real growth in wage employment would be below that indicated in Table 19.[52]

It is noteworthy that the oPt has experienced a noticeable increase in informal economic activity since the onset of the prolonged socio-economic crisis in 2000. The proportion of the economically engaged population who were employers in 2007 declined to about 4 percent, down 11.2 percent in relative terms compared with 2000 (see Table 20). This is indicative of the persistent erosion of general business conditions. Likewise, the relative decline in wage employment – from 66 percent to less than 60 percent of the employed – suggests reduced formal job opportunities, despite the fact that the public sector absorbed some 23.3 percent of the employed in 2007 relative to about 19 percent in 2000. Much of the decline in wage employment has been the result of significantly reduced access to the Israeli labour market.

On the other hand, self-employment in relative terms has grown some 22.8 percent since 2000 and, in 2007, engaged about one-quarter of the employed in the oPt. Unpaid family labour has grown even more rapidly rising 23.3 percent in relative term since 2000. Self-employment and unpaid family labour combined accounted for more than 36 percent of all employment in 2007 as compared to less than 30 percent in 2000.

The data in Table 20 indicate that the decline in the proportion of employers and wage employees among non-refugees has been more rapid indicating that informality has affected non-refugees more than refugees. At the same time, the growth of self-employment among non-refugees was also more rapid. The share of unpaid family labourers among refugees, however, grew faster largely due to a near doubling of such employment in Gaza in 2007. Nonetheless, on a regional basis, the degree of informality is greater in the West Bank than in Gaza due to the fact that nearly half of the employed there work in the public sector or in UNRWA.

[52] The lack of data on absenteeism by type of employment makes it impossible to estimate its relative effect on wage employment.

Table 19
Social Composition of the Employed Labour Force in the oPt by Refugee Status, 2006 and 2007

Employment Status	2006	2007	Absolute Changes	Relative Changes
Employer	30,562	29,282	-1,281	-4.19%
of which: refugees	*9,354*	*9,476*	*123*	*1.31%*
of which: non-refugees	*21,209*	*19,805*	*-1,403*	*-6.62%*
Self-Employed	166,597	174,275	7,678	4.61%
of which: refugees	*52,009*	*56,391*	*4,382*	*8.43%*
of which: non-refugees	*114,588*	*117,884*	*3,296*	*2.88%*
Wage Employee	395,046	431,255	36,209	9.17%
of which: refugees	*165,954*	*180,998*	*15,044*	*9.07%*
of which: non-refugees	*229,092*	*250,256*	*21,164*	*9.24%*
Unpaid Family Member	73,885	86,751	12,866	17.41%
of which: refugees	*17,515*	*25,639*	*8,124*	*46.38%*
of which: non-refugees	*56,370*	*61,112*	*4,742*	*8.41%*
Total Employment	666,090	721,563	55,473	8.33%
of which: refugees	*244,832*	*272,505*	*27,673*	*11.30%*
of which: non-refugees	*421,258*	*449,058*	*27,800*	*6.60%*

Table 20
Social Composition of the Employed Labour Force in the oPt by Refugee Status, 2000, 2006 and 2007

	2000	2006	2007	Relative Change 2000-2007
Employers	4.57%	4.59%	4.06%	-11.26%
refugees	*3.72%*	*3.82%*	*3.48%*	*-6.41%*
non-refugees	*5.07%*	*5.03%*	*4.41%*	*-12.98%*
Wage Workers	66.02%	59.31%	59.77%	-9.47%
refugees	*72.18%*	*67.78%*	*66.42%*	*-7.98%*
non-refugees	*62.46%*	*54.38%*	*55.73%*	*-10.77%*
Self-Employed	19.67%	25.01%	24.15%	22.81%
refugees	*16.83%*	*21.24%*	*20.69%*	*22.97%*
non-refugees	*21.31%*	*27.20%*	*26.25%*	*23.21%*
Unpaid Family Labour	9.74%	11.09%	12.02%	23.39%
refugees	*7.28%*	*7.15%*	*9.41%*	*29.30%*
non-refugees	*11.17%*	*13.38%*	*13.61%*	*21.85%*

F. Wage Rates and Monthly Wage Incomes

Table 21 presents annual average data on wages and monthly days worked for all employed persons in the oPt. The average daily wage in nominal terms declined slightly (0.17 percent) in 2007 relative to 2006 to NIS 83.2 (about USD 20 at the average 2007 USD/NIS exchange rate of 4.15). It is important to note that nominal wages in the oPt, until the prolonged crisis that began in 2001, have not tended to fall, partly due to the domestic wage boosting effects of Palestinian employment in Israel.

There was also a 4.1 percent reduction in the average number of monthly work days (perhaps due to the greater degree of informality, as well as work slowdowns due to the siege on Gaza). The combined effect of wage and work day reductions was a 4.3 percent decline in the average nominal monthly wage in the oPt to NIS 1,841 (about USD 443.6). Refugees, whose nominal average monthly wage was 6.5 percent below that of non-refugees in 2006, declined less rapidly (4.1 percent). This reduced the average monthly wage gap to 6 percent in 2007 in favour of non-refugees.

When the rise in consumer prices (about 2.7 percent) is taken into account, real monthly wages in the oPt declined an average of 6.8 percent in 2007 as compared to 2006. Employed non-refugees lost 7.1 percent of their purchasing power while employed refugees lost about 6.6 percent.

Relatively rapid growth of the labour force resulted in moderate growth in both employment and unemployment in 2007.[53] This was accompanied by increased informal activities where wage incomes tend to be lower, thus eroding the average real monthly value of wages in the oPt. In addition to the effects of inflation on real wages, the fact that some three-quarters of net employment gains in 2007 were in the relatively lower wage private sector also helps to explain this erosion.

In the West Bank real monthly wages declined an average of 6.9 percent in 2007 as compared to 2006. Employed non-refugees lost 7.1 percent of that purchasing power while employed refugees lost about 6.1 percent. Relatively more rapid growth of refugee employment in the public sector and in Israel, where average wages are higher than in the private sector, may explain the smaller proportional losses in both nominal and real monthly wages. In Gaza real average monthly wages declined 12.4 percent in 2007. Employed non-refugees lost 13.6 percent of that purchasing power while employed refugees lost about 11.5 percent. Smaller losses among refugees may be due to their disproportionate representation in the relatively high-wage public sector and in UNRWA.

G. Summarising Labour Market Trends in 2007

Labour market developments on a year-on-year basis provide a more general picture of conditions in the oPt in 2007. There was a continuation of the trend in which the broadly-defined labour force outpaced growth of the working-age population. This was due to an increase in the overall labour force participation rate in 2007. A disproportionate share of labour force growth was accounted for by refugees who accounted for more than half of new labour market entrants. The labour force growth rate in

[53] See 14.B for the best estimates of the growth in employment and unemployment in 2007.

Table 21
Nominal and Real Average Daily and Monthly Wages in the oPt by Refugee Status, 2006 and 2007[54]

Average Daily Wages (Nominal NIS)	2006	2007	Changes
All Employed Persons	83.3	83.2	-0.17%
Employed Refugees	78.3	78.3	0.01%
Employed Non-Refugees	86.9	86.5	-0.54%
Average Monthly Days			
All Employed Persons	23.1	22.1	-4.19%
Employed Refugees	23.7	22.7	-4.18%
Employed Non-Refugees	22.7	21.8	-4.11%
Average Monthly Wages (Nominal NIS)			
All Employed Persons	1,925	1,841	-4.35%
Employed Refugees	1,853	1,776	-4.17%
Employed Non-Refugees	1,974	1,882	-4.62%
CPI Deflator (1996 = 1.0)	1.52	1.56	2.69%
Average Monthly Wages (Real NIS)			
All Employed Persons	1,264	1,177	-6.86%
Employed Refugees	1,217	1,135	-6.68%
Employed Non-Refugees	1,296	1,204	-7.12%

the West Bank was substantially below that in Gaza. Refugee labour force growth in the West Bank, on the other hand, was significantly above average, while refugee labour force growth in Gaza was below average for that region.

Using the standard ILO definition, average employment in the oPt increased by an estimated 8.3 percent with refugees accounting for about half of all new jobs. Under the broad definition, unemployment declined slightly in 2007. If the employment and unemployment figures are adjusted to account for unpaid absentee workers in Gaza, then employment is estimated to have risen by about 6.2 percent while broad unemployment is estimated to have increased by 3.8 percent.

Almost 75 percent of employment growth in the oPt was generated in the private sector, about 18.6 percent in the public sector and about 6.7 percent in job growth in Israel. Refugees accounted for

[54] CPI deflator (with 1996 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.

about 56.7 percent of public sector employment growth in 2007, 46.3 percent of job growth in the private sector and about 71 percent of employment growth in Israel. In all sectors, refugee employment gains were more rapid in 2007 than for non-refugees, consistent with the more rapid increase in the refugee labour force.

While the overall ILO and broad unemployment rates declined slightly in 2007, total unemployment did not budge, driven by rapid labour force growth. Non-refugees accounted for nearly all the decline in broad unemployment while refugee unemployment actually increased. When adjustment is made for the absentee worker phenomenon in Gaza, there was a year-on-year increase in the broad unemployment rate, rather than a decline. The adjusted broad unemployment rate was 29.5 percent for the oPt, 34.5 percent for refugees and 26.3 for non-refugees. On a regional basis, the broad rates adjusted for absenteeism were 24.5 in the West Bank and 41.6 percent in Gaza. In absolute terms, the ranks of the unemployed increased by about 3.8 percent when adjustment is made for unpaid absentees.

The oPt labour market in 2007 was characterized by increasing levels of informality, i.e. more persons engaged in self-employment in petty commerce, informal transportation and/or as unpaid family members in commerce and agriculture. This entailed a decline in the number of employers and a rapid increase in the number of self-employed and unpaid family labourers, particularly in agriculture and commerce where unpaid family labour tends to concentrate. This continues the noticeable trend toward greater informality since 2000 whereby formal wage labour positions have been replaced by self-employment and unpaid family labour. The trend toward informality has been more pronounced among non-refugees relative to refugees and in the West Bank relative to Gaza.

There was a 6.8 percent decline in the real value of average monthly wages in the oPt in 2007. Employed non-refugees lost 7.1 percent of their purchasing power while employed refugees lost about 6.6 percent on average. Growth of informal activities, where wage incomes tend to be lower, was behind this phenomenon, as was the preponderance of relatively low wage private sector employment in job growth in 2007. In the West Bank real monthly wages declined an average of 6.9 percent while in Gaza real average monthly wages declined 12.4 percent.

VI. POVERTY: A BRIEF OVERVIEW OF MAIN FINDINGS, 2007

Due to the late release of full data on household consumption and poverty levels, only a brief summary of results are provided here. Based on the Palestinian Expenditure and Consumption Survey (PECS) for 2007, it is estimated that per capita consumption in the oPt increased by an average of 3.4 percent relative to 2006 in nominal terms. There was a large discrepancy in the changes in per capita consumption. There was an 8.4 percent increase in the West Bank but a 13.6 percent decrease in Gaza.

The official and deep poverty lines for a six-person household (two adults and four children) in the oPt were established at NIS 2,362 (USD 572) and NIS 1,886 (USD 457) in monthly expenditures respectively for 2007 (using the average NIS/USD exchange rate of 4.1). Given the established poverty lines, some 30.3 percent of households in the oPt had levels of consumption below the official poverty line as compared to 30.8 percent in 2006. At the same time 18.3 percent of households fell below the deep poverty line in 2007 as compared to 18.5 percent in 2006.

On a post-assistance basis, official poverty among households in the West Bank was down from 24 percent in 2006 to 19.1% in 2007. In Gaza official poverty was up from 50.7 percent in 2006 to 51.8% in 2007. Deep poverty in the West Bank was down from 13 percent in 2006 to 9.7 percent in 2007 while in Gaza it was up slightly from 34.8 percent in 2006 to 35 percent in 2007.

Poverty rates based on income levels, rather than consumption levels, were 57.2 percent of households at the official poverty line in 2007 (45.7 percent in the West Bank and 79.4 percent in Gaza). Deep household poverty using the income measure was estimated at 46.3 percent of oPt households in 2007 (34.1 percent in the West Bank and 69.9 percent in the Gaza Strip).

The PECS data also indicates that the external assistance reduced overall official household poverty from 34.1 percent to 30.3 percent of all households in the oPt, a decline of 11.6 percent in relative terms.

Annex A: Population and broad labour force in the oPt, Gaza and West Bank, 2007 *(adapted from the ILO labour force framework)*

i. occupied Palestinian territory

Total Population = 4,032,736 persons
Refugees = 41% ; Non-refugees = 59%

Working Age Population, i.e. 15 years or older = 2,204,868 persons (55%)
Refugees = 41%; Non-refugees = 59%

Persons below 15 years = 1,827,868 persons (45%)
Refugees = 41%;
Non-refugees = 59%

Persons included in Labour Force, i.e. economically active = 1,000,938 persons (46%)
Refugees = 40%; Non-refugees = 60%

Outside the Labour Force = 1,203,930 persons (54%)
Refugees = 42%;
Non-refugees = 58%

Employed persons = 721,819 persons (72.1%)
Refugees = 38%; Non-refugees = 62%

Unemployed persons, ILO definition = 198,161 persons (21.5%)
Refugees = 46.7% ;
Non-refugees = 53.3%

Discouraged workers = 80,958 persons (8.1%)
Refugees = 40.2%
Non-refugees = 59.8%

Full-time employment = 600,631 persons (83.2%)

Part-time employment = 67,773 persons (9.4%)

Paid absentee workers = 36,323 persons (5% of employed)

Unpaid absentees (Gaza) = 17,092 persons (2.4% of employed)

Key:
ILO unemployment rate in oPt : 21.5% (Refugees = 25.3%, Non-refugees = 19.05%)
Broadly defined unemployment rate (including discouraged workers): 27.9% (Refugees = 31.6%, Non-refugees = 25.5%)
Broad unemployment rate adjusted for unpaid absentee workers in Gaza: 29.6% (Refugees = 34.6%, Non-refugees = 26.3%)

Notes:
(i) The number of persons listed under each category is based on projections from the 1997 PCBS census and should be considered estimates only.
(ii) The ILO definition of unemployment is calculated based on the narrowly defined labour force, i.e. the employed plus the ILO unemployed (919,980 persons).
(iii) The broad definition of unemployment is calculated based on the broadly defined labour force, i.e. the employed plus the ILO unemployed plus discouraged workers.
(iv) Absentee workers are proportionally distributed as between full-time and part-time employees.

ii. Gaza Strip

Total Population = 1,506,553 persons
Refugees = 65% ; Non-refugees = 35%

Working Age Population, i.e. 15 years or older = 775,411 persons (51%)
Refugees (502,171) = 65%; Non-refugees (273,240) = 35%

Persons below 15 years = 731,142 persons (49%)
Refugees = 66%;
Non-refugees = 34%

Persons included in Labour Force, i.e. economically active = 317,789 persons (41%)
Refugees = 65%; Non-refugees = 35%

Outside the Labour Force = 457,622 persons (59%)
Refugees = 63%;
Non-refugees = 37%

Employed persons = 206,033 persons (64.8%)
Refugees = 64%; Non-refugees = 36%

Unemployed persons, ILO definition = 86,997 persons (29.7%)
Refugees = 66% ;
Non-refugees = 34%

Discouraged workers = 24,759 persons (7.8%)
Refugees = 66%
Non-refugees = 34%

Full-time employment = 160,629 persons
(78% of employed)

Part-time employment = 11,221 persons
(5.4% of employed)

Paid absentee workers = 17,092 persons
(8.3% of employed)

Unpaid absentees = 17,092 persons
(8.3% of employed,

Key:
ILO unemployment rate in Gaza : 29.7% (Refugees = 30.1%, Non-refugees = 28.7%)
Broadly defined unemployment rate (ILO + discouraged workers): 35.2% (Refugees = 33.7%, Non-refugees = 34%)
Broad unemployment plus unpaid absentee workers: 40.5%

Notes:
(i) The number of persons listed under each category is based on projections from the 1997 PCBS census and should be considered estimates only.
(ii) The ILO definition of unemployment is calculated based on the narrowly defined labour force, i.e. the employed plus the ILO unemployed (293,030 persons).
(iii) The broad definition of unemployment is calculated based on the broadly defined labour force, i.e. the employed plus the ILO unemployed plus discouraged workers.
(iv) Absentee workers are proportionally distributed as between full-time and part-time employees.

iii. West Bank

Total Population = 2,526,183 persons
Refugees = 26% ; Non-refugees = 74%

Working Age Population, i.e. 15 years or older = 1,428,418 persons (57%)
Refugees = 26%; Non-refugees = 74%

Persons below 15 years = 1,097,765 persons (43%)
Refugees = 26.6%
Non-refugees = 73.4%

Persons included in Labour Force, i.e. economically active = 683,149 persons (47.8%)
Refugees = 28% Non-refugees = 72%

Outside the Labour Force = 745,269 persons (52.2%)
Refugees = 24.8%
Non-refugees = 75.2%

Employed persons = 515,786 persons (75.5%)
Refugees = 27.1% Non-refugees = 72.9%

Unemployed persons, ILO definition = 111,164 persons (17.7%)
Refugees = 31.6%
Non-refugees = 68.4%

Discouraged workers = 56,199 persons (8.2%)
Refugees = 28.5%
Non-refugees = 71.5%

Full-time employment = 449,533 persons
Refugees = 27%
Non-refugees= 73%

Part-time employment = 47,169 persons
Refugees = 25%
Non-refugees = 75%

Absentee workers = 19,084 persons
(3.7 percent of employed)

Key:
ILO unemployment rate in West Bank: 17.7% (Refugees = 21.2% Non-refugees = 17.3%)
Broadly defined unemployment rate (ILO + discouraged workers): 24.5% (Refugees = 26.7% Non-refugees = 23.5%)

Notes:
(i) The number of persons listed under each category is based on projections from the 1997 PCBS census and should be considered estimates only.
(ii) The ILO definition of unemployment is calculated based on the narrowly defined labour force, i.e. the employed plus the ILO unemployed (626,950 persons).
(iii) The broad definition of unemployment is calculated based on the broadly defined labour force, i.e. the employed plus the ILO unemployed plus discouraged workers.
(iv) Absentee workers are proportionally distributed as between full-time and part-time employees.

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to palestine refugees since 1950

Headquarters Public Information Office