

ECONOMIC and SOCIAL CONDITIONS in the WEST BANK and GAZA STRIP
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Foreword

The present report presents an overview of economic and social developments in the West Bank and Gaza Strip during the first half of 1997, as well as the economic effects of the August-September closures.

The principal findings of the report are as follows:

- Until the August-September closures, labour and commodity flows from the WBS to Israel during 1997 were better than expected. Despite a relatively slow rate of donor disbursements in support of the Palestinian Public Investment Programme, and the loss of about 14 per cent of working and trading days during the first half of the year, the WBS economy was poised to achieve a healthy growth rate for the year;
- Employment conditions continued to improve during the first half of 1997, with labour force surveys showing lower unemployment and underemployment rates as compared to 1996. Most job creation during 1996-1997, however, was from employment in Israel and in Palestinian Authority agencies, while most job loss occurred in the private economy. Moreover, women's labour force participation has declined, as their unemployment rate has risen;
- Nonetheless, wages continued to fall in 1997 as compared to 1996 as a result of repeated closure-related shocks to the labour market, which have created high unemployment rates. At the same time, consumer prices have continued to rise, depressing the purchasing power of wages and contributing to a 5.8 per cent decline in household living levels during the first quarter of 1997, in comparison to 1996.
- The extended closures during August-September reversed many of the gains of the previous seven months, raised unemployment rates from about 20 to 30 per cent and caused direct and indirect income losses of about US\$ 230 million. Fiscal losses for the Palestinian Authority have also been significant, due to the direct effects of the closures on clearance revenues and the effects of slower third-quarter economic activity on the tax base. The recurrent budget deficit for 1997 can be expected to be significantly higher than the original estimate of US\$ 52 million. The longer term effect of the closures will be further reductions in private investment.

The report shows two conflicting trends. On the one hand, it is clear that the Palestinian economy can grow at considerable rates in times of relative political stability. On the other hand, it is disconcerting to note that the total losses inflicted on the Palestinian economy by the recent closure measures may be as high as twice the donor disbursements during the first half of this year. In addition, and maybe even more troubling, are the generally negative trends in private sector investment, per capita income and living standards.

In order to successfully address these negative trends, it is imperative that the triangular partnership between the Palestinian Authority, the Government of Israel and the donor community is restored, supported by the United Nations, the World Bank and the International Monetary Fund. Since the beginning of the peace process, all participants have emphasized the centrality of improving the living conditions of the Palestinian people in the West Bank and Gaza Strip in order to support and complement the political process, as well as to enhance stability and security.

It is my belief that a fuller understanding of economic and social conditions will facilitate the development effort and, ultimately, contribute to the peace process. It is with this conviction that the third *Quarterly Report* is presented.

Chinmaya R. Gharekhan

United Nations Special Coordinator in the Occupied Territories
Gaza, 15 October 1997

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Foremost among these is the Palestinian Central Bureau of Statistics (PCBS) which continues to produce the fundamental data on economic and social conditions in the West Bank and Gaza Strip on which our reports rely. The PCBS President, the Labour Statistics Unit, the Economics Statistics Directorate, the Income and Expenditures Unit and the Public Relations and User Services Unit have continued to generously offer their data and assistance, despite their own resource constraints.

Our reports continue to benefit from the fine research and analysis of our colleagues at the World Bank and the International Monetary Fund. Likewise, our work has been enriched by the original research, publications and fora undertaken by the Palestine Economic Policy Research Institute (MAS).

Besides the PCBS, a number of Palestinian Authority agencies have also provided important data and assistance in the preparation of our third report. These include the Ministry of Labour, the Ministry of Economy and Trade, the Ministry of Finance, the Ministry of Planning and International Cooperation, the National Security Service-Northern Area Command, Gaza and the Crossings Authority. Likewise, the office of the Coordinator of Government Activities in the Territories in the Israeli Ministry of Defense and the Israeli Ministry of Finance Budget Department have kindly provided data used in this report.

Any shortcomings in the use of the data and information provided by these sources remain the sole responsibility of UNSCO.

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EXECUTIVE SUMMARY

The Office of the United Nations Special Coordinator in the Occupied Territories' Summer 1997 *Quarterly Report on Economic and Social Conditions in the West Bank and Gaza Strip* presents updated data and information from Palestinian, Israeli and international sources on macroeconomic, labour market and household living level conditions during the first half of 1997. The report also examines the economic effects of the August-September closures imposed on the West Bank and Gaza Strip.

WBGS Macroeconomic Performance: First-Half 1997

The comprehensive and internal closures imposed on the West Bank and Gaza Strip (WBGS) in August and September have undermined the significant economic recovery witnessed over the preceding year. In late 1996, based on improved second-half 1996 economic performance, the Palestinian Ministry of Finance (MoF) and the International Monetary Fund (IMF) projected 1997 real GDP and real GNP growth rates of about 5.5 and 8 per cent respectively based on certain assumptions: 1) WBGS labour flows to Israel of 35,000 workers on monthly basis; 2) expansion in exports of 14 per cent with an 8 per cent increase in imports; 3) significant public sector investment growth under the Palestinian Public Investment Programme (PIIP), with the assistance of donors, the United Nations, the World Bank and the IMF; 4) no severe comprehensive closures.

During the first six months of 1997, average monthly WBGS labour flows to Israeli-controlled areas were an estimated 37,100, somewhat higher than the MoF/IMF assumptions and two-thirds higher than monthly average in 1996. The volume of merchandise flows leaving and entering the WBGS through monitored commercial crossings, based on truckload movements, rose by about one-third during first-half 1997 relative to 1996. Specifically, truckload exports rose an estimated 37.3 per

cent while truckload imports grew by about 32.4 per cent. These estimates suggest an expansion in trade flows beyond the MoF/IMF projections.

Regarding the PPIP, donors pledged about US\$ 881 million in assistance for 1997 at the November 1996 Consultative Group meeting. By mid-1997 about US\$ 483.3 million had been committed. Disbursements at mid-year were only about US\$ 116.1 million. The amount of funds disbursed during the first half of 1997 for public investment has been about 50 per cent lower on an annualized basis as compared to 1996.

As of end-June 1997, comprehensive and internal closures had disrupted about 14 per cent of potential annual working days as they relate to labour and merchandise trade flows between the WBGS and Israel. On an annualized basis, this was under half the proportion of lost working and trading days as compared to 1996. Despite these closures, labour and commodity flows were significantly higher during first-half 1997 as compared to 1996 averages.

Thus the overall macroeconomic picture during first-half 1997 appeared better than predicted by the MoF/IMF. This was confirmed by modest improvements in the WBGS labour market in comparison with 1996. There was a small increase in the number of employed persons, a reduction in the number of underemployed and a stabilization in the number of unemployed in the first half of the year. Until the August-September closures, the one area of concern regarding growth projections was the pace of donor disbursements for the PPIP.

WBGS Labour Market Conditions

The fifth Palestinian Central Bureau of Statistics (PCBS) labour force survey indicates the labour force participation rate in the WBGS declined from a 1996 average of 42.3 per cent to 40.9 during the first-quarter 1997. In absolute terms, the labour force declined from a 1996 average of 528,319 to 525,898 during the first-quarter 1997, despite the growth in the working-age population. This may reflect a discouraged worker phenomenon—the unemployed who have ceased looking for work—but also the sharp seasonal decline in the number of unpaid family members in the agricultural labour force.

The full-employment rate rose from a 1996 average of 64.1 per cent to 70.3 per cent during first-quarter 1997. The total number of fully-employed persons rose by more than 9 per cent from about 339,037 to 369,814 persons, reflecting improvements in full-time job opportunities. The underemployment rate fell from about 12 to 9.1 per cent reducing the number of underemployed persons from an average of 63,576 to 48,000. The average unemployment rate fell from about 24 per cent in 1996 to about 20.5 per cent during first-quarter 1997, with a reduction in the number of unemployed from an average of 126,000 to an average of 108,000. The PCBS has suggested, however, that the standard definition of unemployment excludes a large number of people who experience unemployment. If discouraged workers and the severely underemployed are factored into the calculation, the actual unemployment rate in the WBGS during first-quarter 1997 may have been as high as 49.1 per cent. Underlying dynamics suggest continuing stresses in the labour market. Most job creation during 1996-1997 has been dominated by employment in Israel and in Palestinian Authority agencies, with the WBGS private economy producing only about one-quarter of new jobs. On the other hand, most job destruction has occurred in the private economy with certain economic branches—like transportation—experiencing closure-related structural retrenchment.

Women's formal labour force participation declined more rapidly than that of men during first-quarter 1997. In addition, women's full-employment rate declined and their unemployment rate rose to a level higher than that for men. Part of this regression was due to the seasonal decline in agricultural employment, one-third of which was female. Moreover, economic branches which witnessed significant average employment increases (e.g. employment in Israel, PA employment, construction and commerce) hire relatively few women. Manufacturing and services, where women have relatively high participation rates, grew only modestly. More generally, the method of labour force surveys underestimates work in the informal economy where women constitute over half the persons engaged. If such work were included, women's labour force participation and full-employment rates would be higher and their unemployment rate would be lower than indicated in the formal labour force surveys.

Labour market stress could also be detected in wage trends. Employed Palestinians suffered real daily and monthly wage declines of 9.3 and 9.4 per cent respectively. Average real daily wages fell from US\$ 17.23 to US\$ 15.62 while average monthly wages fell from US\$ 377.11 to US\$ 341.63. Real monthly wage levels in the West Bank fell more rapidly than in Gaza. Real daily wages for WBGS workers employed in Israeli-controlled areas rose about 1.4 per cent to US\$ 26.64 while the average real monthly wage rose 10.8 per cent to US\$ 532.89. This reflected the increase in average monthly days worked, the result of higher and more regular labour flows to Israel in 1997 as compared to 1996. The higher average labour flows to Israeli-controlled areas thus mitigated to some extent the decline in average real wages for WBGS workers.

Despite the general improvement in employment conditions, as shown by successive PCBS labour force surveys over an 18-month period, wages—nominal and real—have continued to decline. Real wages in early 1997 were considerably lower than in late 1995. Yet the full employment rate was higher and the underemployment rate lower in 1997, while unemployment rates were virtually identical in the two periods. Declining real wages appear to be the cumulative effective of repeated closure-related shocks to the labour market, which have created historically high average unemployment rates and falling nominal wage rates. At the same time consumer prices in the WBGS have risen persistently, although there have been reduced inflation rates since 1994. This suggests a fundamental realignment in the WBGS real wage structure where the lack of strong unions or a minimum wage policy, combined with a consumer price level still largely determined by high Israeli prices, have compressed the purchasing power of wage incomes.

While lower wage costs have improved the potential international competitiveness of WBGS products, lower real wages have resulted in reduced living levels. Pressure on living levels could be mitigated through increased importation of less expensive consumer goods from neighbouring Arab countries or the world market. This would soften the blow of the realignment in wages. Other policy options would be a significant increase in WBGS employment in Israel or in Arab countries to reduce the unemployment rate, and/or the enforcement of minimum wage laws, to arrest the decline in nominal wages.

WBGS Household Living Levels

PCBS data indicate that real monthly household expenditures declined from an average of US\$ 801 during 1996 to US\$ 754.5 during the first quarter-1997—a drop of 5.8 per cent. This can be explained, in part, by declines in household income, partly due to falling real wage incomes. Basic monthly expenditures (food, housing, medical care, education, etc.) fell an average of 8.3 per cent and accounted for three-quarters of monthly household purchases during first-quarter 1997 as compared to two-thirds of such purchases during 1996. This suggests adaptations in household consumption patterns in response to continuing income losses.

While household expenditures on specific commodities and services are subject to significant seasonal variability, the first-quarter 1997 witnessed declines in every category except clothing and footwear and other cash expenditures. This may have been due to four major Muslim and Christian holidays during the first-quarter, in which Palestinian households traditionally spend more on new clothing and footwear and on gifts for relatives and friends.

First-quarter 1997 also witnessed a continuing decline in wage sufficiency, defined as the proportion of the average basic and average total household monthly purchases which can be covered by an average full-time monthly wage. While a single average worker's monthly income could cover 63.5 per cent of basic needs and 47 per cent of total expenditures during 1996, these ratios fell to 62.8 and 45.3 per cent respectively in early 1997.

Looking Ahead

The extended comprehensive and internal closures imposed on 30 July following a double suicide bombing in Jerusalem, have negatively changed growth prospects for 1997. The unemployment rate, which stood at about 20 per cent in June, rose immediately to over 30 per cent as a result. By end-September, direct income losses to workers and export business owners were an estimated US\$ 113.5 million. Second-round losses and those associated with the extended internal closure in the West Bank are expected to be as large, and perhaps larger, than the direct income effects. Thus, total losses from the recent closures could top US\$ 227 million—nearly twice the amount disbursed by donor countries for assistance to the Palestinian people during the first half of 1997.

The collapse in labour and trade flows will also result in significant fiscal losses for the Palestinian Authority which derives over 60 per cent of its revenues from clearances associated with trade and labour flows. Slower economic activity in the WBGS in the third-quarter will further erode the PA's domestic tax base, while higher unemployment and reduced household income will probably raise fiscal expenditures in the form of social assistance to mitigate the economic distress caused by the closures. A significantly higher recurrent budget deficit can be expected for 1997.

The longer term effect of the August-September closures will be to further undermine investor confidence and exacerbate the decline in private investment experienced in the WBGS over the past few years. This will further weaken the ability of the WBGS to produce output and create employment and income in the future. Thus, while macroeconomic performance during the first half of 1997 was better than anticipated, the aftermath of the recent closures necessitates a less optimistic revision in economic growth and development prospects for 1997 and beyond.

I. AGGREGATE TRENDS in the WBGs ECONOMY

1. Reviewing 1996 in the West Bank and Gaza Strip

In 1996 the Gross National Product (GNP)—the broadest measure of national income—of the West Bank and Gaza Strip (WBGs) is estimated to have declined about 3 per cent, to about US\$ 4,000 million. Real Gross Domestic Product (GNP less remittances from employment in Israel) fell an estimated 1.5 per cent to about US\$ 3,800 million. Estimated average income losses were higher: an 8.6 per cent decline in per capita GNP (to about US\$ 1,700) and a 7.4 per cent decline in per capita GDP (to about US\$ 1,600).[1]

Comprehensive and internal closure disrupted labour and commodity flows during 29 per cent of normal working days. Average monthly labour flows from the WBGs to Israel were estimated at 22,250 as compared to 32,000 in 1995 and WBGs exports and imports were depressed[2] due to closures and reduced economic activity and income. The average unemployment rate for the year was an estimated 24 per cent, with the average underemployment rate at 14 per cent of the labour force. Real average monthly wages fell 10 per cent from about US\$ 411 to US\$ 370, despite a 4 per cent increase in average monthly hours worked. Real household consumption expenditures on a monthly basis declined 5 per cent, with a 7 per cent decline in basic expenditures.[3]

There were also disruptions and delays in the development and capacity-building operations of the Palestinian Authority (PA), as well as in the technical and material assistance of donors, the United Nations, the World Bank and Non-Governmental Organisations (NGOs). Unanticipated emergency expenditures by the PA were US\$ 51 million, while donor assistance for emergency employment generation amounted to US\$ 49 million. This constituted diversions of funds from the PA's public investment programme to public consumption. Emergency expenditures contributed to an US\$ 112 million shortfall in PA capital expenditures for the year (US\$ 160 million), as compared to plans in the 1996 draft budget (US\$ 272.7 million) and to a recurrent budget deficit of US\$ 95 million, rather than the planned US\$ 75 million.[4]

2. Projections and Results: First-Half 1997

Based on improved second-half 1996 economic performance, the PA Ministry of Finance and the International Monetary Fund (IMF) projected real GDP and real GNP growth rates of about 5.5 and 8 per cent respectively for 1997.[5] While seemingly high, the projections take into account economic compression in 1996, and therefore, the lower income base and the existence of unutilized productive capacity. The growth estimates are also contingent on several key assumptions. First, that WBGs labour flows to Israel will average 35,000 workers on monthly basis. Second, that exports will expand by 14 per cent over their 1996 level, while imports will only rise 8 per cent in value terms. Third, while private investment is predicted to stagnate, public sector investment is expected to expand significantly under the Palestinian Public Investment Programme, with the assistance of donors, the United Nations, the World Bank and the IMF. These projections also assumed that comprehensive closures would not be as severe as those imposed in 1996. **The comprehensive and internal closures imposed on the West Bank and Gaza Strip (WBGs) in August and September have undermined significant improvements in the economy during the first half of 1997.**

A. WBGs Labour Flows to Israeli-Controlled Areas

For the first six months of 1997, monthly average WBGs labour flows to Israeli-controlled areas (Israel and Israeli settlements and industrial zones in the WBGs) are estimated at 37,100, somewhat higher than the assumptions used to project the macroeconomic growth rates, and about two-thirds higher than the monthly average in 1996. Estimated flows, as shown in Table 1, declined for the first three months of the year then dropped precipitously in late March and April as a result of the comprehensive closure imposed by Israel on the WBGs from 21 March to 13 April 1997.

Table 1

Israeli Permit Quota and Estimated WBGs Permitted Labour Flows to Israeli-Controlled Areas, QI-QII 1997 [6]

	Israeli Permit	Labour Flows to All	Running
Month	Quota	Israeli-Controlled Areas	Averages
January	55,195	44,217	44,217
February	55,757	43,395	43,806
March	56,700	34,006	40,539
April	45,531	16,567	34,546
May	55,707	38,819	35,401
June	61,601	45,606	37,102

B. WBGs Trade Flows

Judging from information on the flow of truckloads of merchandise leaving and entering the WBGs through monitored commercial crossings, there has been a significant increase in the trade volume during the first-half 1997 relative to 1996.[7] **During the first six months of 1997 the average monthly flow of truckload exports rose an estimated 37.3 per cent as compared to the 1996 monthly average. Truckload imports grew an estimated 32.4 per cent.** The apparent improvement in relative trade flows is due, in part, to low levels of trade caused by the severity of closure-related trade restrictions in 1996, and partly to improvements in trade flows in late 1996 and first-half 1997. Assuming a constant average value of a truckload of merchandise as between 1996 and 1997, these estimates suggest an expansion in trade flows beyond those used by the PA Ministry of Finance and the IMF to project 1997 growth rates.

Table 2

Estimates of Average Monthly and Daily WBGs Truckload Exports and Imports through

Monitored Commercial Crossings, 1996 Average and QI-QII 1997 [8]

	Monthly	Monthly	Daily	Daily
	Exported	Imported	Exported	Imported
	Truckloads	Truckloads	Truckloads	Truckloads
1996				
Average	2,710	9,251	113	385

1997				
January	3,371	12,971	138	529
February	3,011	9,684	137	440
March	4,125	10,882	172	453
April	3,599	6,771	150	282
May	4,380	15,651	186	666
June	3,849	17,533	160	731
Average	3,722	12,249	157	518
Average				
Change	37.38%	32.41%	39.31%	34.27%

Support for this conclusion, at least from the import side, comes from data on value-added tax (VAT), import tax and fuel excise tax transfers from the Government of Israel (GOI) to the PA for 1997 in comparison to 1996. These tax revenues are collected by the GOI and transferred to the PA, by agreement, on the basis of purchases by WBCS Palestinians of Israeli merchandise, foreign goods imported through Israel and fuel products respectively. As such, they are indicators of trends in the value of WBCS imports. On a monthly basis, the transfers were 24.2 per cent, 53.6 per cent and 13.8 per cent higher during first-half 1997 as compared to 1996 averages. The average value of the combined transfers rose 27.8 per cent during first-half 1997.

Table 3

Average Monthly Value Added, Import and Petroleum Tax Transfers to the Palestinian Authority
from the Government of Israel, 1996 Average and QI-QII 1997 [9]
(in NIS millions)

	Value		Petroleum	
	Added	Import	Excise	All
1996	Tax	Tax	Tax	Taxes
Average	61.50	23.78	27.84	113.13
1997				
January	49.8	49.8	29.8	129.40
February	168.1	24.4	33.4	225.90
March	72.6	30.1	29.2	131.90
April	54.9	28.1	31.1	114.10
May	53.4	32.8	33	119.20
June	59.8	54	33.7	147.50
Average	76.43	36.53	31.70	144.67
Average				
Change	24.28%	53.61%	13.86%	27.88%

C. Palestinian Public Investment Programme and Donor Disbursements

The Conference on Assistance to the Palestinian People, held in Paris in January 1996, resulted in donor commitments of US\$ 893.5 million and US\$ 525.8 million in disbursements during 1996. At the Fourth Consultative Group Meeting in Paris in November 1996, donors pledged some US\$ 881 million in assistance for 1997. As of mid-1997, donors had committed about US\$ 483.3 million to the Palestinian Public Investment Programme (PIIP) while disbursements were running at about US\$ 116.1 million.[10] As compared to 1996, the amount of disbursements in 1997 has been about 50 per cent lower on an annualized basis. As public sector investment in infrastructure and institution-building relies mainly on such disbursements, indications are that such activities have not kept pace with those in 1996, although the situation may change as disbursements are generally higher during the second half of the year.

D. Comprehensive Closures: 1997

As of end-June 1997, comprehensive and internal closures had disrupted about 14 per cent of potential annual working days, as these relate to labour and merchandise trade flows between the WBCS and Israel.[11] These losses were incurred from 21 March to 13 April and from 11 May to 13 May 1997. On an annualized basis, this was under half the proportion of lost working and trading days as compared to 1996. Despite these closures, there were significantly higher average labour and commodity flows during the first six months of 1997 as compared to 1996.

The extended comprehensive and internal closures imposed effectively on 31 July 1997 following a double suicide bombing in Jerusalem, combined with the closing of the international borders to Jordan and Egypt for the first time, altered the growth prospects for 1997.[12] Estimates for July indicate there were 51,000 WBCS permitted workers in Israel, Israeli settlements and industrial zones--approximately 12 per cent of all employed WBCS workers at the time. The average daily net wage for these workers was about US\$ 27.[13] **These workers immediately lost access to their jobs and incomes, amounting to a daily direct income loss of about US\$ 1.35 million for each potential working day.** The unemployment rate, which was about 20 per cent in June, rose immediately to more than 30 per cent as a result. Based on IMF estimates of 1996 WBCS exports,[14] and the evidence presented above on the growth rate of truckload exports, average daily WBCS exports are estimated at US\$ 1.56 million for each potential trading day. This figure can be seen as the initial income loss to WBCS business-owners who are unable to export goods.[15]

Between 31 July and 30 September 1997, there was a total of 49 comprehensive closure days for a total of 39 effective closure days (excluding weekends and holidays). This constituted 14 per cent of all potential working and trading days for the year. In addition, internal closures were imposed in the West Bank on 28 of

these days. **Thus, direct income losses to workers and export businesses in August and September are estimated at US\$ 113.5 million** (US\$ 2.91 million times 39 effective comprehensive closure days). To these must be added second-round losses including reduced sales of retail and wholesale businesses as households adjust their consumption levels downward due to reduced incomes from work in Israel. Likewise, export businesses affected by the closure will reduce their purchases of inputs from other businesses, resulting in further losses.

Second round income effects of this sort can be as large or larger than direct income effects, but usually after a time lag. The closure, and especially the internal closure in the West Bank, also disrupted input and labour flows to businesses who were forced to reduce or cease operations for varying periods of time. The resulting decline in output due to such supply-side shocks, difficult to estimate, must also be factored in as a loss due to the 31 July and 5 September closures. **Total short- and medium-term losses from nearly two months of closure could top US\$ 227 million—nearly twice the value of donor disbursements in assistance to the Palestinian people during the first half of 1997.**

The collapse in labour and trade flows will result in significant fiscal losses for the PA. **Over 60 per cent of PA revenues comes from the VAT, import and excise taxes on trade flows and from income and health taxes imposed on WBGS in Israel, taxes which are transferred to the PA. Such transfers were approximately US\$ 43 million in June 1997.** The PA will likely lose most of such revenues for August and September. In addition, lower household incomes will result in reduced income tax revenues, while reduced output and sales will result in lower internal VAT revenues from WBGS businesses. **In general, reduced economic activity will create a smaller tax base from which the PA receives income tax revenues.** Reduced household income and higher unemployment rates will no doubt increase pressure on the PA budget from the expenditure side in the form of social assistance to mitigate economic distress. The result of lower revenues and higher expenditures will likely be a higher than anticipated recurrent budget deficit.

Reductions in household incomes and business and government revenues are the short-term effects of the closure. **The longer term effect is to undermine investor confidence and exacerbate the decline in private investment in the WBGS witnessed over the past few years.**^[16] This would further weaken the ability of the WBGS economy to generate output, employment and income in the future.

E. Summarizing Macroeconomic Trends: First-Half 1997

Until the imposition of the extended comprehensive and internal closures on 30 July, the overall macroeconomic situation appeared better than projected by the Ministry of Finance and the IMF. **For the year prior to the recent closures, WBGS labour and commodity flows generally grew and exceeded expectations for 1997.** The employment picture also improved somewhat in comparison with 1996, with modest increases in the number of employed persons and a stabilisation in the number of unemployed in the first half of the year. Real wages, however, continued their downward trend (see below). Until the 30 July comprehensive closure, the one area of concern regarding growth projections was the pace of donor disbursements in relation to the PPIP. The recent closures have disrupted the positive trends manifest during the previous year. Growth and development projections for 1997 will therefore require significant revision in light of these new circumstances.

II. POPULATION, LABOUR FORCE and WAGES

1. An Update on Population and Labour Force Growth

In the first three months of 1997, the *total population* of the WBGS grew by an estimated 1.5 per cent as compared to end-1996, and over 2.9 per cent as compared to the average of the last three quarters of 1996, with total population estimated at 2,646,622 persons.^[17] The *working-age population* (persons aged 15-64) grew by around 3 percent in comparison with the average of the last three quarters of 1996, reaching 1,285,499 persons.^[18] The higher working-age population growth rate reflects the relatively young profile of the WBGS population.

The *labour force participation rate* (LFPR)—the proportion of the working-age population working or seeking work—declined from an average of 42.3 per cent during 1996 to 40.9 during the first-quarter 1997. In absolute terms, the labour force declined by about 0.5 per cent during first-quarter 1997 **from 528,319 to 525,898, a decline of more than 2,400 persons. This suggests that, despite the growth in the working-age population, there was an over 800-person net decline in the labour force each month during first-quarter 1997.** This may be the result of a discouraged worker phenomenon, caused by persistently high unemployment rates in the WBGS during the last year, but also the result of a sharp seasonal decline in the number of unpaid family members in the work force (see below).^[19]

2. An Update on Employment, Underemployment and Unemployment

On average, employment conditions during first-quarter 1997 were better than 1996. **The full-employment rate—the proportion of the labour force working at least 35 hours per week—rose from 64.1 per cent to 70.3 per cent.** In absolute terms the fully-employed labour force increased by more than 9 per cent from 339,037 to 369,814 persons (see Table 4). This stems from improvements in employment opportunities in both the WBGS and Israeli labour markets. **This improvement was mirrored in the decline in the under employment rate—the proportion of the labour force obliged to work less than 35 hours per week—which fell from about 12 to 9.1 per cent.** In absolute terms, there was a 24.5 per cent decline in the number of underemployed from 63,576 to 48,000 persons. Growing employment opportunities probably accounts for this. Some of the underemployed may have left the labour force which would also reduce their number in the labour force statistics. Increased employment and reduced underemployment were matched by a reduction in the average unemployment rate and in the absolute number of unemployed. **The average unemployment rate in 1996 is estimated at approximately 24 per cent—its highest annual rate in recent history—and declined to an estimated 20.5 per cent during first-quarter 1997. The absolute number of unemployed declined from over 126,000 to about 108,000.**

Table 4

Estimates of the Working-Age Population, Labour Force, Employment, Underemployment and

Unemployment for the WBGS, Average 1996 and Q1-1997 ^[20]

Rates	AVG96	Q1-97	
Labour Force Participation Rates	42.33%	40.91%	
Full-Employment Rates	64.18%	70.32%	
Underemployment Rates	12.03%	9.13%	
Unemployment Rates	23.90%	20.57%	
			Total
Totals			Change
Total Working-Age Population	1,248,218	1,285,499	2.99%
Total Labour Force	528,319	525,898	-0.46%
Total Fully-Employed	339,037	369,814	9.08%
Total Underemployed	63,576	48,000	-24.50%
Total Unemployed	126,305	108,084	-14.43%

These improvements in the labour market situation were due to a number of factors. First, there was an increase in Palestinian public sector employment which averaged about 71,600 persons in the last three quarters of 1996 and grew to 78,200 during first-quarter 1997—an average increase of 6,600 jobs. Employment in all

Israeli-controlled areas rose from an average of 32,500 during the last three quarters of 1996 to 40,500 during first-quarter 1997—an average increase of 8,000. Together, these increases accounted for about half the total increase in the average number of employed between the two periods, with the WBGs private economy generating the other half of the increase. **Nonetheless, the overall unemployment rate during first-quarter 1997 was still slightly higher than fourth-quarter 1995, the time of the first PCBS labour force survey.** This may be due, in part, to the continued robust growth rate of the working-age population. It may also be due, in part, to the long-run effects of repeated and severe shocks to the labour market produced by the closure policy, effects such as business bankruptcies and fundamental shifts in the underlying economic branch distribution of employment not related to seasonal factors.

3. A Note on Labour Statistics Methods and WBGs Unemployment^[21]

Unemployment, as defined by the International Labour Organisation (ILO), includes persons in the working-age population (15 years and above) who did not work a single hour during the labour force survey week, who were not absent from a job because of illness, labour dispute or natural disaster, who were available for work and who actively sought work during the survey week. **Thus the standard method for calculating unemployment excludes a potentially large number of persons who do not work for reasons beyond their control.**

Persons who have no job and who are not actively pursuing work, according to this method, are not counted as unemployed. **For example, those in the working-age population who do not seek work because of their belief that no work can be found—referred to as discouraged workers—are, by definition, outside of the labour force.** They may have searched for work in the past but, because they were not doing so during the survey week, they are classified as outside the labour force.

Thus, the standard method underestimates the true extent of unemployment.

The PCBS has suggested that discouraged workers should be included in the unemployment statistics, given the incentive structure in the WBGs labour market.

Firstly, official employment offices do not provide services to assist an unemployed person in the search for work. Second, there is no unemployment compensation which, in many countries, provides a payment to those actively seeking work and thus tends to result in higher official unemployment rates.

Using the standard method and definition, the PCBS estimated the WBGs unemployment rate during first-quarter 1997 at 19.5 per cent—17.7 in the West Bank and 23.1 per cent in Gaza. **The PCBS also found that 8.7 per cent of the WBGs working-age population were discouraged workers, 9.6 per cent of the working-age population in the West Bank and 6.9 per cent in Gaza.** In addition, the PCBS has argued that three other categories of persons should properly be considered unemployed. First, are the severely underemployed, those who work less than 15 hours per week, and whose incomes are insufficient. Second, those who have filled out job applications and are waiting for responses, rather than actively seeking work. Third, those who work only seasonally, especially in agriculture, and who do not seek work in the off-season.

If the definition of unemployment is expanded to include these three categories of persons, the PCBS estimates that, for the first quarter of 1997, **the size of the labour force aged 15 years and above would expand from 554,000 to 612,000 persons and the overall unemployment rate would rise from 19.5 to 49.1 per cent.**

Unemployment in the West Bank would rise from 17.7 per cent to 49.8 per cent and that in Gaza from 23.1 to 48 per cent. This approach, while unconventional, accounts for the significant segment of the actual and potential labour force which suffers from unemployment and severe underemployment, but which falls outside the strict definition of unemployment. In that sense, this method provides a more complete picture of the extent of the unemployment crisis among Palestinian in the WBGs.

4. An Update on Labour Market Dynamics

A. Social Composition of Employment

Data on the social composition of the employed labour force during first-quarter 1997 suggest a continuation in troubling structural changes in the labour market. The proportion of employers in the labour force continued its decline, first noted in second-quarter 1996, at the height of the February comprehensive closure.^[22] While the proportion and the absolute numbers of employers recovered in second-half 1996, the proportion declined to its lowest reading in five labour force surveys during first-quarter 1997. In absolute terms, the number of employers fell 5.3 per cent in comparison with 1996 and by over 10 per cent in comparison to the fourth quarter. **This suggests a continuing wave of business bankruptcies, probably the product of declining output and income in the WBGs economy over the past several years, and of the particularly bad conditions in 1996.**

There was a decline in unpaid family labour, both relatively and absolutely, reflecting the seasonal changes in West Bank agriculture, where the autumn harvest of olives significantly raises the use of family labour. The fact that the absolute number of such family members during first-quarter 1997 (37,600) was lower than during any labour force survey to date may be related to the increase in business bankruptcies noted above. Small businesses in the WBGs, in service branches especially, rely heavily on unpaid family labour.^[23] Their bankruptcy in large numbers would also result in a reduction in the employment of family labour. Fewer unpaid family members may also reflect a tendency of business-owners to encourage children to gain employment outside the family business as a strategy to diversify income sources and, thus, protect household incomes in more uncertain economic times.

First-quarter 1997 also witnessed a stabilisation in the trend toward self-employment, which grew significantly in 1996. While the proportion (22.1 per cent) declined slightly in comparison to 1996, the absolute number increased. As compared to fourth-quarter 1996, both the proportion and absolute number were lower. This type of employment reflects one-person businesses—both formal and informal—which are usually marginal and unstable. The longer term trend in self-employment was one of growth. **However, more opportunities in relatively stable jobs during first-quarter 1997 may have been responsible for the small decline in the numbers of persons engaged in such activities as compared to fourth-quarter 1996.**

Most of the growth in employment in first-quarter 1997, as shown in Table 5, continued to be in wage-work where both the proportion and absolute number of workers rose significantly as compared to 1996. In comparison to fourth-quarter 1996, there were declines in the proportions of all types of employment except wage-work. Apart from the seasonal shifts in unpaid family labour, the first-quarter 1997 data reflect a decline in small business and single-person business activities (both formal and informal) and the growth in employment in the public sector, in Israel (as there were fewer comprehensive closure days) and, perhaps, in larger private businesses and institutions in the WBGs.

Table 5

Social Composition of the Employed WBGs Labour Force, Average 1996 and Q1-1997 ^[24]

Ratios	AVG96	Q1-97	
Employers	5.70%	5.20%	
Unpaid Family Labour	10.70%	9.00%	
Self-employed	22.77%	22.10%	
Wage-workers	60.83%	63.70%	
Total Employed	100.00%	100.00%	
			Total
Totals			Change
Employers	22,961	21,726	-5.38%
Unpaid Family Labour	42,853	37,603	-12.25%

Self-employed	91,579	92,337	0.83%
Wage-workers	245,220	266,148	8.53%
Total Employed	402,613	417,814	3.78%

B. Economic Branch Distribution of Employment

Employment shifts between economic branches may reflect seasonal factors or retrenchment and growth in particular economic activities. In the WBGS such shifts may also be caused by external shocks such as extended closures, as well as the extent of employment in Israel. Data in Table 6 comparing 1996 and first-quarter 1997 show **significant absolute declines in the numbers of employed in agriculture (16.5 per cent) and in transportation and communication (11.4 per cent), with significant absolute increases in the construction branch (15.3 per cent), commerce, hotel and restaurant branches (10.4 per cent) and Palestinian Authority employment (9.1 per cent).** There were also small increases in the average size of the work force in manufacturing and services. These shifts occurred in an employed labour force which expanded by 3.7 per cent on average between the two periods.

Table 6

Estimates of Employed Labour Force Branch Distribution in the WBGS Including Employment in Israel, Average 1996 and Q1-1997 [25]

	Ratios		Totals		Total
	AVG 96	Q1-97	AVG 96	Q1-97	Change
Agriculture, Fishing	14.50%	11.60%	58,085	48,466	-16.56%
Manufacturing, Quarrying	16.87%	16.60%	67,810	69,357	2.28%
Construction	16.93%	19.00%	68,851	79,385	15.30%
Commerce, Hotels, Restaurants	18.07%	19.20%	72,622	80,220	10.46%
Transport, Communication	5.13%	4.40%	20,750	18,384	-11.40%
Services and Other	10.58%	10.48%	42,433	43,787	3.19%
Palestinian Authority	17.81%	18.72%	71,654	78,215	9.16%
Total Employed Persons	100.00%	100.00%	402,613	417,814	3.78%

As noted elsewhere,[26] one of the effects of closures was to precipitate a movement of workers into agriculture, especially in the West Bank where agriculture functions as a labour market "shock absorber" in times of high unemployment. The 1996 average employment in agriculture thus reflects the severity of closures during the year. The steep average decline in agricultural employment in 1997 probably stems from two factors--increased employment in Israel and, at least for the West Bank, seasonally low demand for agricultural labour. **The increasing difficulty and uncertainty regarding the ability to export agricultural products in a timely manner may also have led to reduced production of export crops, especially in Gaza, which would indicate a structural shift in the labour market.**

Restricted mobility of people, vehicles and goods caused by closures and falling incomes may be responsible for the decline in transportation and communication employment as well. Data from 1996 show a decline in the second quarter, the effects of the February closure, and significant recovery in the third and fourth quarters.[27] But in absolute terms, employment in that branch was lower during first-quarter 1997--a relatively healthy period--than the fourth quarter of 1995, also a relatively good period economically. **The decline may therefore reflect reduced demand for transport and travel caused by severely restricted access of vehicles to Israel and by declining income, both of which are longer-term and structural phenomena.** The decline in employment may, therefore, indicate bankruptcies and exit from trucking, taxi, shipping, storage and travel agent activities.

The growth in construction employment seems to be mainly the result of increased average employment in Israel in 1997, where some 60 per cent of workers are engaged in that branch. To some extent, and especially in the West Bank, the declines in agricultural employment were compensated for by increases in construction employment in Israel. It may also be that the slowdown in private domestic construction activities witnessed in 1996,[28] may have been reversed in 1997. The expansion of PA employment reflects the continued growth of the Palestinian public sector in both its civilian and security dimensions. Growth in commerce, hotel and restaurant activities may have been related to a seasonal surge in tourism and/or the growth of wholesale and retail trade activities, boosted by the relative economic improvement during late 1996 and early 1997. It may also be that internal commercial trade activities, which require relatively small amounts of capital outlays for start-up, are perceived as less prone to closure-related obstacles. This may have caused a redirection of investment into such activities. Finally, the modest average increases in manufacturing and service branches were probably due to growth in employment in Israel where, after construction, most WBGS workers are employed.

In the aggregate, and on average, there were about 27,600 new jobs created in five branches between the two periods and about 12,000 job losses in two branches for a net gain of 15,600 jobs for WBGS workers in both the Palestinian and Israeli labour markets. Of these job gains, about 48.6 per cent (construction, manufacturing and services) were mainly the result of increased average employment levels in Israel. Another 27.5 per cent were increases in commercial, hotel and restaurant activities and 23.7 per cent were increases in PA employment. Of the 12,000 job losses, 80.2 per cent were in agriculture and 19.8 per cent occurred in transportation.

The evidence suggests that most job creation between the two periods under study was the direct or indirect result of employment in Israel and in PA institutions. The WBGS private economy was responsible for producing only about one-quarter of new jobs. The bulk of job losses in agriculture was due to a seasonal cycle, while losses in the transportation branch seem to have resulted from closure-related structural constraints. **Thus, the WBGS private sector incurred net employment losses.** These trends highlight the continued importance of job availability in Israel, given the budgetary limits on PA employment and the relatively stagnant WBGS private economy. The evidence also highlights the effects of the closure policy on the cyclical and structural conditions in the WBGS labour market.

5. An Update on Women in the Formal and Informal Labour Market

While conditions for women in the formal labour market during 1996 were on average better than men's,[29] the female labour force profile apparently changed course between 1996 and first-quarter 1997 as indicated in Table 7. Both male and female LFPRs declined, but the relative decline for females was much larger. Although the male full-employment rate increased, that for females declined but remained higher, on average, than male's. The male unemployment rate continued to decline in 1997, but that of females rose to a level higher than for males, a trend that was already noticeable during third-quarter 1996.

Table 7

Comparing Female and Male Labour Force Profiles for the Working-Age Population

in the WBS, Average 1996 and Q1-1997 [30]

	Rates		Totals		Total
	AVG 96	Q1-97	AVG 96	Q1-97	Change
LFPR					
Males	73.06%	70.98%	448,304	453,967	1.26%
Females	13.06%	10.86%	83,730	70,158	-16.21%
Full-Employment					
Males	62.10%	69.60%	278,528	315,958	13.44%
Females	76.16%	73.17%	64,104	51,335	-19.92%
Underemployment					
Males	13.81%	9.84%	59,771	44,649	-25.30%
Females	5.34%	4.94%	4,471	3,465	-22.51%
Unemployment					
Males	23.59%	20.57%	111,580	93,360	-16.33%
Females	20.68%	21.89%	17,427	15,358	-11.87%

In absolute terms, the size of the average male labour force increased by 1.2 per cent, while that of females declined by 16.2 per cent. Male full-employment rose by more than 13 per cent while female full-employment declined by around 20 per cent. Underemployment of males declined 25.3 per cent while female underemployment fell 22.5 per cent. Male unemployment fell 16.3 per cent while that of females fell 11.8 per cent. **Thus, the trend was for less female representation in the formal labour market and for generally worsening conditions for women.**

The findings from the branch distribution of employment might explain the changes in the female labour force profile. **Given that 33 per cent of persons engaged in agriculture are women,[31] the 16.5 per cent seasonal decline in agricultural employment, noted above, is mainly responsible for the decline in the female labour force participation and in the female full-employment rate.** Moreover, the branches which witnessed significant average employment increases (e.g. construction, commerce and PA employment) have overwhelmingly male work forces. Manufacturing and services, where women have relatively high LFPRs, grew only modestly.

Furthermore, just as the economic downturn in the first half of 1996 resulted in greater female labour force participation and relatively improved conditions for working women—an apparent response to higher male unemployment and distress in family incomes[32]—improvements in male employment conditions generally have resulted in a reversal of this situation. This inverse relationship seems to be confirmed by the evidence over the course of the 15 months covered by the first five PCBS labour force surveys (fourth-quarter 1995 to first-quarter 1997). In part, this was due to very low female participation in employment in Israel which improves the profile of men relative to women and to structural factors which limit female employment in many occupations.[33] Thus, women's relative labour force standing worsens with the cyclical expansion of employment. It is interesting to note that the superior labour profile of women during mid-1996 seems to have been an anomaly. **Women's unemployment rates, for example, had historically been higher than men's until the era of the closure policy during which has been a substantial reduction in the flow of WBS labour—nearly all male—to Israel. This drove male unemployment rates above female rates.[34]**

More generally, the methodology of formal labour force surveys does not fully record the work of many women in the informal economy where, studies indicate, women constitute over half the persons engaged. While the number of such women is not known with accuracy, their informal work includes public activities such as street vending and cleaning vegetables for merchants, and private activities such as home-based manufacturing of prepared foods and clothing, hairdressing and babysitting. The majority of women in the informal economy are middle-aged and older, especially those involved in public activities.

Those in home-based activities are younger and with some vocational training in sewing or hairdressing. **The majority of women in private activities are married with children suggesting that such activity is seen as a way to generate additional family income.** Informal activities offer flexibility in work to women with child-rearing responsibilities, unlike formal sector professional jobs. In addition, informal activity offers women "second career" opportunities in post-child-rearing years, as indicated by the participation of older women. This suggests women's desire to re-enter the labour market after children are grown.

Although some women in the informal economy perceive themselves as temporary workers who would cease participation if a male wage-earner could provide them with sustenance, others see themselves as unable to obtain formal employment. **If the work of such women were included in labour force statistics, the female LFPR and the full-employment rate would be significantly higher and the unemployment rate lower than those indicated by the formal labour force surveys.** Information from the informal economy suggests that women's formal labour market profile is tied to their marital status and their roles as child-rearers. Under different circumstances—for example, the existence of inexpensive child care facilities—informal activities could be transformed into higher levels of formal participation.

6. An Update on Working Time and Wage Incomes

As noted in previous *Quarterly Reports*, employed Palestinians tended to dedicate more time and effort in the labour market during 1996 to offset the declines in their real wage incomes. Evidence from first-quarter 1997 shows that this trend has stabilised, at least with respect to the number of days worked per month (see Table 8). **There was, however, a 3.3 per cent reduction in the average number of monthly hours worked, along with a 9.3 and 9.4 per cent decline in the real average daily and monthly wage rates respectively.** These averages, however, hide some significant variations by place of work, i.e. the West Bank, Gaza or in Israel.

Table 8

**Estimates of Average Monthly Days and Hours Worked and Average Real Daily and Monthly Wages
for Employed WBS Workers by Place of Work, Average 1996 and Q1-1997 [35]**

(wages expressed in constant 1996 US\$)

West Bank				Gaza Strip		
	AVG 96	Q1-97	Percent Change	AVG 96	Q1-97	Percent Change
Monthly Days	22.60	22.00	-2.65%	23.60	26.00	10.17%
Monthly Hours	173.73	168.00	-3.30%	175.47	192.00	9.42%
Real Daily Wage	US\$ 15.26	US\$ 13.04	-14.57%	US\$ 13.29	US\$ 10.31	-22.44%
Real Monthly Wage	US\$ 345.08	US\$ 286.84	-16.88%	US\$ 313.81	US\$ 267.98	-14.60%

WBGS Workers in Israel				All WBGS Workers		
			Percent			Percent
	AVG 96	Q1-97	Change	AVG 96	Q1-97	Change
Monthly Days	18.30	20.00	9.29%	21.87	22.00	0.59%
Monthly Hours	170.13	180.00	5.80%	173.73	168.00	-3.30%
Real Daily Wage	US\$ 26.26	US\$ 26.64	1.45%	US\$ 17.23	US\$ 15.62	-9.35%
Real Monthly Wage	US\$ 480.90	US\$ 532.89	10.81%	US\$ 377.11	US\$ 341.63	-9.41%

Palestinians employed in the West Bank were the only group to experience reductions in work time between 1996 and first-quarter 1997, reversing the upward trend during the last three quarters of 1996. This came in the context of a precipitous decline in real average daily wages. Fewer days worked and lower daily wages resulted in a 16.8 per cent decline in the average monthly wage, the steepest decline among WBGS workers. The reversal in work time has to do, in part, with the higher seasonal decline in agricultural employment in the West Bank during first-quarter 1997. In part, it may be a response to the severe deterioration in wages. There may be a perception in the West Bank that greater effort does not secure a better income, which may also explain the decline in the West Bank LFPR in first-quarter 1997 in comparison to fourth-quarter-1996. **This may indicate a greater discouraged worker problem—those unemployed who have abandoned the search for work and who are, therefore, not counted in the labour force.** It may also indicate the existence of relatively more attractive alternatives in the informal labour market. Perhaps the Muslim and Christian holidays which occurred during first-quarter 1997 are responsible for part of the decline in work time.

In the Gaza Strip, despite a more severe decline in the real daily wage (22.4 per cent), partly due to a higher rate of inflation relative to the West Bank, **average work time increased sharply, both with regard to the number of days (10.1 per cent) and monthly hours (9.4 per cent), as between the two periods.** The data indicate the LFPR continued to grow in first-quarter 1997 as compared to fourth-quarter 1996, the unemployment rate declined and underemployment dropped sharply. **Greater work time, and improved labour profile in Gaza, probably reflects the continued growth of PA employment which has a disproportionate impact on the relatively small Gaza labour market.** But, while PA employment is fairly secure, wage rates are relatively low which, combined with a consistently higher level of unemployment relative to the West Bank, may account for the more rapid deterioration in the average *daily* wage in Gaza between these two periods. Gaza workers seem to have responded to declining wages with more work effort, rather than less, the result being a smaller decline in average monthly wages as compared to the West Bank.

WBGS workers employed in Israeli-controlled areas were working significantly more monthly days and monthly hours on average as between the two periods. **This, combined with an average real increase in the daily wage (1.4 per cent), resulted in a 10.8 per cent increase in the average real monthly wage for these workers.** Higher average labour flows to Israeli-controlled areas in first-quarter 1997 relative to 1996[36] thus mitigated the overall decline in work time and wages in the WBGS.

Permitted labour flows averaged about 40,500 during first-quarter 1997 and accounted for about 10 per cent of all employment among WBGS workers. Proportionally, labour flows to Israel accounted for 8 per cent of all jobs for West Bank workers and almost 14 per cent of all jobs for Gazans. **Average daily wages in Israel were over twice their level in the West Bank and more than 2.5 times their level in Gaza during first-quarter 1997. The effect of higher employment and higher wages in Israel was, therefore, to moderate the overall decline in real daily and monthly wages in the WBGS.**

7. Accounting for Longer Term Change in the WBGS Labour Market

The more or less continuous improvements in reducing unemployment during late 1996 and early 1997 was mainly due to increased employment opportunities in Israel and in PA institutions and the eased flow of commodity exports from the WBGS. The employment and income effects of donor-assisted development projects were also factors in employment creation. A diversion of household expenditures from higher-priced Israeli consumer products to lower-priced WBGS substitutes may have also played a role in boosting demand for both local products and local labour.

Nonetheless, wages—nominal and real—have continued to decline despite the improvement, as indicated by successive PCBS labour force surveys over an 18-month period.[37] **Real wages in early 1997 were considerably lower than in late 1995. Yet the full-employment rate was higher, and the underemployment rate was lower in 1997, while unemployment rates were virtually identical in the two periods.** The decline in real wages appears to be the cumulative result of repeated closure-related shocks to the labour market in the post-1993 period. This has created historically high average unemployment rates and consistently falling nominal wage rates. At the same time, consumer prices in the WBGS have risen continuously, although there have been reduced inflation rates—disinflation—since 1994.[38] **This constitutes evidence of a fundamental realignment in the real wage structure of the WBGS.** Nominal wages have declined due to conditions in the WBGS labour market—higher unemployment rates and the lack of unions or minimum wage laws to counter wage declines. Such declines are mainly the result of the closure and separation policies. At the same time, since most WBGS consumer goods are still imported from Israel, the higher Israeli price structure continues to dominate the price level in the WBGS.

While declining real wages have increased the potential cost competitiveness of WBGS products, and increased the near- to medium-term profitability of WBGS business, reduced labour incomes have resulted in lower levels of household consumption (see below) which are a limiting factor on local business sales. **The situation for households and businesses in the WBGS could improve in the medium term with freer importation of cheaper consumer goods and inputs from neighbouring Arab countries or the world market. This would soften the blow of falling wages on household living levels and reduce input costs for businesses.** In the longer term, of course, real wages and business costs would adjust to cheaper input and commodity prices.

Thus, in the medium term, policy-makers are left with several options to mitigate the declining real wage incomes and living levels in the WBGS. One option is to significantly increase WBGS employment in Israel or in the Arab Gulf countries to stem unemployment and further wage declines. Another would be to substantially increase the level of trade between the WBGS and neighbouring countries and other lower wage/ lower price economies. A third would be to establish effective minimum wage laws to arrest the decline of nominal wages in the WBGS.

III. HOUSEHOLD EXPENDITURES and the LEVEL of LIVING

1. An Update on Household Consumption Expenditures: First-Quarter 1997

As reported in the last *Quarterly Report*, average real household expenditures—the principal measure of levels and changes in the level of living—declined about 5 per cent during the first nine months of 1996.[39] The household survey was discontinued during the last quarter of 1996, but recommenced in January 1997, leaving a three-month gap in the survey data. Furthermore, PCBS has changed the base period of the WBGS consumer price index (CPI) based on its findings from the household consumption surveys during their first year. The base-period of the CPI has been changed from November 1995 to average prices during 1996 as a whole.[40] The three-month gap in household expenditure data and the new CPI require a modification in the reporting method for real expenditures. **The method used here is to calculate average nominal monthly WBGS household expenditures for the nine-month period in 1996, which was covered in the survey, and to use this average as the base consumption and price level.** To measure changes in living levels during first-quarter 1997, the average nominal monthly level for 1996 will be compared to average monthly expenditures of Palestinian households during the first three months of 1997 adjusted for inflation.[41] Using this method to compare these two periods shows that **average real monthly household expenditures declined from US\$ 801 during the first three quarters of 1996 to US\$ 754.5 during the first quarter-1997—a decline of 5.8 per cent.** This may be explained by declines in levels of real household income, the cumulative and lingering effect of declining aggregate income over the last year, and the continuing fall in real wage incomes in 1996 and 1997. Also noteworthy is the fact that **basic expenditures accounted for three-quarters of monthly household purchases during first-quarter 1997, as compared to two-thirds of such purchases during the first nine months of 1996.** This indicates a reduced level of living since lower-income families tend to spend higher portions of household income on basics such as food.

The data on household expenditures show that spending on specific commodities and services are subject to significant seasonal variation. For example, education, clothing and footwear expenditures rise at the beginning of the academic year and fall thereafter. Clothing and other cash expenditures (inter-family transfers of cash mainly) increase around major holidays and decline afterwards. Income taxes are paid at the end of the calendar year, which raises the profile of this item in household expenditures, followed by declines in subsequent months. During the first three quarters of 1996, average monthly household expenditures declined in every category except education, taxes and recreation.^[42]

By comparison, first-quarter 1997 witnessed declines in every category except clothing, footwear and other cash expenditures. This may be explained by the fact that the first-quarter coincided with four major holidays. Christmas, the Christian New Year, Eid el Fitr and Eid al Adha all occurred just before or during the first quarter. It is a traditional pattern for Palestinian households to spend more on new clothing and footwear, and on cash and non-cash gifts for relatives and friends, during these holidays. The category "other cash expenditures" also captures inter-family cash transfers—or informal social assistance practices—motivated by economic distress and an increasingly common feature of Palestinian society. These factors probably explain the exceptional increase in other cash expenditures, despite the overall declines in household spending.

Table 9

Estimates of Average Real Monthly Expenditures on Basic and Secondary Commodities and Services in Seven-Persons Households in WBCS, 1996 Average and Q1-1997 ^[43]
(in constant 1996 US\$)

	1996 AVG	Q1-1997	Total Change
Basic Expenditures			
Housing	US\$ 55.49	US\$ 51.73	-6.77%
Food	321.69	291.81	-9.29%
Clothing and Footwear	70.37	75.51	7.30%
Medical Care	28.58	24.88	-12.94%
Transportation and Communication	81.56	76.44	-6.27%
Education	31.47	21.38	-32.07%
Taxes	4.29	2.21	-48.46%
Basic Expenditures Sub-Total	US\$ 593.44	US\$ 543.96	-8.34%
Secondary Expenditures			
Household Operations	US\$ 11.85	US\$ 9.04	-23.69%
Furniture and Utensils	39.34	30.97	-21.28%
Personal Care	18.29	15.21	-16.87%
Recreation	26.27	14.11	-46.28%
Tobacco	35.75	35.54	-0.57%
Other Cash Expenditures	76.19	105.65	38.67%
Secondary Expenditures Sub-Total	US\$ 207.70	US\$ 210.53	1.36%
Total Average Expenditures	US\$ 801.14	US\$ 754.49	-5.82%

Real monthly basic expenditures fell 8.3 per cent, on average, during first-quarter 1997. There were continuing declines in every category, except clothing and footwear. **Food expenditures—which accounted for nearly 40 per cent of all expenditures in both periods—declined by more than 9 per cent.** Combined with the declines in 1996, this suggests continuing adjustments to accumulated household income losses. Education expenditures reached their highest level in September 1996 (the beginning of the academic year) but declined 32 per cent during first-quarter 1997. The value of housing expenditures declined by 6.7 per cent, suggesting continuing moderation in real estate prices and rental rates, due to increasing housing supply, but probably also declining effective demand caused by falling incomes. Taxes declined by almost 50 per cent, indicating lower income tax collections after the year-end tax payments, but probably also the effects of reduced household income levels.

Transportation and communications expenditures declined by 6.3 per cent (as compared to over 25 per cent in 1996 alone) which suggests the effects of declining incomes and continued restrictions on personal movement due to the general closure policy. Medical care expenditures declined by 11 per cent during 1996 and by 12.9 per cent during first-quarter 1997 in comparison to the 1996 average. This may mean that Palestinians are continuing to forgo medical services, despite need. Part of the decline may also be explained by the relative increase in persons covered by the PA employee health insurance policy and the expansion of public health facilities which require less out-of-pocket expenses for users of these services. The longer term trend may also reflect restricted access of WBCS residents to higher-priced Israeli medical services.

The 1.3 per cent increase in secondary expenditures during first-quarter 1997 (which increased 2.3 per cent in the first nine months of 1996), was due to the increase in "other cash expenditures," the largest category. There were declines in every other category. The sharpest decline—more than 46 per cent—was on recreational goods and activities, which may indicate satiation on the part of WBCS households for such goods as televisions, video recorders and still cameras, the largest component of such expenditures.^[44] The fact that these are relatively expensive durable goods suggests this decline may not be reversed for some time. There were also significant declines in household operations (23.7 per cent), furniture and utensils (21.3 per cent) and personal care (16.9 per cent). In the case of household operations—household cleaning products and dry-cleaning services—this was a reversal of the trend during 1996 when such expenditures rose about 4 per cent. Furniture and utensils expenditures continued the precipitous decline witnessed during 1996. Personal care expenditures (mainly hairdressing services and toiletries) experienced an accelerated decline as between the two periods. **These declines, which do not seem to be seasonally variable, suggest changes in household expenditures stemming from declining incomes and harder economic times.**

While overall monthly expenditures declined by about 5.8 per cent in real terms between 1996 and first-quarter 1997, **if seasonally sensitive expenditures (clothing, footwear, education, taxes and other cash expenditures) are excluded from the calculations, the overall percentage decline in expenditures was 11.1 per cent. Thus, household adaptation to difficult economic circumstances may have been more pronounced than the overall expenditure decline indicates.** This trend seems to have been more pronounced in 1996 when the real decline, excluding seasonally sensitive expenditures, was 11.3 per cent. The decline in basic expenditures was 13.7 per cent in 1996, with a 2.6 per cent decline in secondary expenditures. This compares to an 8.7 per cent decline in basic expenditures and a 20.2 per cent decline in secondary expenditures between 1996 and first-quarter 1997.

This indicates that WBCS households tended to reduce basic expenditures more readily in 1996. The ability or willingness to reduce basic expenditures has diminished since then, while the willingness to forgo secondary commodities and services has increased. As basic expenditures absorbed about three-quarters of the total in 1996, households seem to have reduced overall expenditures by forgoing what would be considered essential items. Excluding seasonally sensitive commodities and services, absolute expenditure declines were most pronounced in food, transport and communications during 1996. During first-quarter 1997, the largest absolute declines were in recreation, furniture and utensils—what are considered non-essential items.

Without reliable information on non-wage incomes and household savings, it is difficult to know how much "consumption smoothing" there has been, i.e. to what

extent previously-earned income (savings) has been used to maintain consumption levels in the face of downward pressure on current incomes. From the trend in 1996, it does appear that Palestinian households were providing more informal social assistance which is captured in "other cash expenditures." This suggests that either current income or past savings were being used to support the current expenditures of other households. The continuous increase in such expenditures, as well as the large seasonal increases in spending on education, clothing and footwear at the beginning of the academic year—despite falling wage incomes and declines in every other category of expenditures between 1996 and 1997—suggest two things. **First, Palestinian households, on average, are adapting to the economic depression by reducing expenditures generally, indicative of a decline in levels of living. Second, households generally place a premium on traditional holiday gift-giving and informal assistance, as well as educating their children, and may be willing to forgo other types of consumption to maintain such expenditures.**

2. An Update on Household Wage Incomes and the Level of Living

As noted above, the purchasing power of average monthly wage incomes of WBGS workers declined by 9.4 per cent as between 1996 and 1997.[45] Combining information on household expenditures with that on wage incomes for the two periods, allows for an analysis of **wage sufficiency, defined as the proportion of the average basic and total household monthly expenditures which can be covered by an average full-time monthly wage.**

First-quarter 1997 witnessed a continuing decline in wage sufficiency. **While a single average worker's monthly income could cover 63.5 per cent of basic needs and 47 per cent of all expenditures during 1996, these ratios fell to 62.8 and 45.3 per cent respectively in early 1997.**[46] This excludes income earned by additional family members, as well as non-wage sources of income which, for some families, are considerable. It nonetheless suggests that the significant proportion of families, who rely principally on wages and salaries, were experiencing increased economic distress in 1997, a continuation of the trend experienced in 1996.

Table 10
Estimates of Basic and Total Households Expenditures in Seven-Persons Households in the WBGS
and the Average Real Monthly Wage as a Proportion of Expenditures, 1996 Average and Q1-1997
(in constant 1996 US\$)

	1996 AVG	Q1-1997
Average Basic Expenditures	US\$ 593.44	US\$ 543.96
Average Total Expenditures	801.14	754.49
Real Monthly Wage	377.11	341.63
Real Monthly Wage as a Percentage of Basic Expenditures	63.5%	62.8%
Real Monthly Wage as a Percentage of Total Expenditures	47.0%	45.3%

3. A Note on Poverty and Informal Social Support Systems in the WBGS

A recently released study by the Palestine Economic Policy Research Institute (MAS) analyzes the first round of the PCBS household expenditure survey, covering the period October-December 1995.[47] The report indicates that there had been substantial deterioration in living standards in the WBGS over the years prior to the expenditure survey, with an estimated 14.2 per cent decline in per capita GDP between 1993 and 1995. **The study notes that per capita GDP declines in the West Bank (19.7 per cent) were more severe than in Gaza (8.4 per cent).**[48] Per capita annual consumption expenditures were estimated at US\$ 1,450 for the WBGS as a whole—US\$ 1,616 for the West Bank and \$1,121 for the Gaza Strip.[49]

Using a poverty line of \$US 650 per capita annually, the study estimated both the **poverty head count index**, which measures the *extent* of poverty, and the **poverty gap**, which measures the *intensity* of poverty. The head count index is the ratio of the number of poor to the total population, while the poverty gap is an estimate of the amount of expenditures needed to raise every poor person's expenditures up to the poverty line. The poverty head count index for the WBGS was estimated at 19 per cent of the total population under the given poverty line. The poverty gap was estimated at 2.4 per cent, meaning that the amount of money needed to eliminate the poverty gap was equal to 2.4 per cent of the population's total expenditures.[50]

However, there were significant differences in the extent and intensity of poverty as between the West Bank and Gaza Strip. **In the West Bank, an estimated 10.5 per cent of the population lived in poverty as compared to 36.3 per cent in the Gaza Strip using the poverty line of \$US 650. Using a lower poverty line of US\$500, to allow for the lower cost of living in Gaza, yields a poverty rate of 20.2 per cent of the population.** The incidence of poverty was found to be greater among camp residents—31 per cent—compared to 17 per cent for urban and rural areas. Residents of East Jerusalem had the lowest poverty rates—3.9 per cent. The intensity of poverty was also found to be greater in the Gaza Strip—6.3 per cent of total expenditures were needed to bring the poor up to the poverty line, as compared to 1.1 per cent for the West Bank.[51] More or less continuous declines in the real household expenditures during 1996 and 1997 (noted above) have probably increased the incidence and severity of poverty since late 1995, the period covered by the MAS study.

MAS has also published a study on informal social support systems, based on a sample survey of 1,500 households in WBGS.[52] Informal support complements the formal mechanisms currently used to provide social assistance to approximately 190,000 persons in poor households by the Ministry of Social Affairs, UNRWA, the World Food Programme and various NGOs. Formal assistance takes the form of small cash transfers, food rations, in-kind assistance and health insurance. **In January 1997, the Ministry of Social Affairs assisted about 30,000 families, up from 21,550 families in 1995.** Most of the increase was attributed to families of prisoners and martyrs in need of assistance. However, while the number of beneficiaries has increased the value of monetary assistance has not kept up with inflation, resulting in a decrease in the real purchasing power of such assistance.

The study focused mainly on the informal social safety net provided by friends and relatives and found that 4.7 per cent of families surveyed received cash assistance from friends, relatives and neighbours. **Moreover, 24 per cent of the sample reported that without social assistance, whether formal or informal, they would not be able to cover basic household needs. Informal assistance was found to be more widespread in the West Bank than the Gaza Strip.** In the West Bank, 5.2 per cent of those surveyed received informal cash assistance while 0.5 per cent received in-kind assistance. In Gaza the figures were 4 and 0.2 per cent respectively. This was explained by the more rural nature of the West Bank where kinship relations are strong, as well as the more prominent role of UNRWA in Gaza, where the refugee population is a higher proportion of the total population.[53]

Notes

[1] Labour market and real wage estimates are based on Palestinian Central Bureau of Statistics labour force surveys and consumer price indexes. Income figures are quoted in 1995 US\$. See UNSCO *Quarterly Report on Economic and Social Conditions in the West Bank and Gaza Strip*, 1 April 1997. For a copy of the *Quarterly Report*, call UNSCO at 07-822746. From outside the West Bank, Gaza Strip and Israel, call +972-7-822746. The *Quarterly Report* can also be downloaded as WordPerfect 6.0 files from the UNSCO WWW site at: <http://www.arts.mcgill.ca/mepp/unsco/unfront.html>

[2] Joint Liaison Committee Secretariat *A Preliminary Report on Truckload Haulage between the West Bank and Gaza Strip and Israel, Jordan and Egypt*, 13 May 1997.

[3] UNSCO *Quarterly Report*, 1 April 1997.

[4] Palestinian Ministry of Finance "Report on Fiscal Developments in January-September 1996," 21 October, 1996 and "Report on Fiscal Developments in October-December 1996", 23 February 1997.

[5] Palestinian Ministry of Finance "Palestinian Authority's Preliminary Budget Projections for 1997," 17 November 1996; IMF *Recent Economic Developments, Prospects, and Progress in Institution Building in the West Bank and Gaza Strip* (Washington, DC February 1997).

[6] Table 1 excludes West Bank labour flows to Israel for which permits have not been issued. Permit quota data for Israel, Israeli settlements and industrial zones are from the Coordinator of Government Activities in the Territories (COGAT), Israeli Ministry of Defense and the Palestinian Ministry of Labour, Gaza. Actual labour flow estimates for Gaza are based on the daily records of the Palestinian National Security Service, Northern Command Area, Gaza. Calculations assume that the per cent difference between the Israeli permit quota and the actual labour flows on a monthly basis in the West Bank was the same as that for Gaza.

[7] These include the Gaza Strip crossings points at Erez/Beit Hanoun, the Erez Industrial Zone, Nahal Oz, Kami/Muntar, Sufa/Qararah and Rafah and the West Bank crossings to Jordan--the Damiyeh/Adam and Allenby bridges. The significant volume of commercial truck traffic between Israel and the West Bank is not monitored at fixed crossing points and is, therefore, not included in these estimates.

[8] Data were gathered by UNSCO researchers in the West Bank and Gaza with the cooperation of the PA Ministry of Economy and Trade and the PA crossing authorities. Crossings include the Allenby Bridge in the West Bank and Erez/Beit Hanoun, Erez Industrial Zone, Kami/Muntar, Nahal Oz, Sufa and Rafah crossings in the Gaza Strip. Data for the Damiyeh/Adam bridge crossing were provided by COGAT as were import data through the Rafah crossing for 1997. Estimates do not include exports through the Rafah crossing to Egypt--generally quite small--for which no data were made available. Daily figures exclude Saturdays and half of the Fridays in any given month.

[9] Data were provided by the Israeli Ministry of Finance Budget Department, 30 June 1997.

[10] Draft Minutes of Joint Liaison Committee Meeting, 5 December 1996; Palestinian Ministry of Planning and International Cooperation, Aid Coordination Department *Summary Tables of Donor Assistance*, 4 October 1997.

[11] For an analysis of the effects of the closure policy since 1993, refer to UNSCO *Quarterly Report*, 1 April, 1997.

[12] The analysis here supplements information in Local Aid Coordination Committee Secretariat (World Bank and UNSCO) "Closure on the West Bank and Gaza; Fact Sheet", 5 September 1997.

[13] Estimates of WBGS employed labour force and average net daily wages are based on PCBS *Labour Force Survey; April-June 1997 Round; Press Conference on the Labour Force Survey Results*, 22 July, 1997 and *PCBS Demography of the Palestinian Population in the West Bank and Gaza Strip*, December 1994.

[14] See IMF *Recent Economic Development*, February 1997.

[15] Some of these losses can be recouped when checkpoints are reopened but time delays reduce cash flows to businesses.

[16] See UNSCO *Quarterly Report*, 1 April, 1997.

[17] All population and labour force comparisons to 1996 in this section are based on the last three quarters of the year due to the fact that the PCBS did not conduct a labour force survey during first-quarter 1996. Thus references to 1996 averages are based on the second, third and fourth quarters of the year, unless otherwise noted.

[18] Population estimates are based on PCBS *Demography of the Palestinian Population*, 1994, medium series. PCBS labour force surveys, consistent with international standards, define "manpower" as the total population 15+ years of age. The analysis in this report uses the narrower "working-age population," defined as the population aged 15-64, which better reflects the reality in the WBGS where retirement age is nominally 60 years of age. See PCBS in *Expenditures and Consumption Levels; A Quarterly Report*, April 1996, p. 15.

[19] The International Labour Organisation defines the labour force (the economically active population) as those persons 15 years old and above, who are employed plus those unemployed but seeking employment. Those not working and not seeking work, for whatever reason, are considered outside of the labour force (the inactive population). See PCBS, *Methodology for Measuring Unemployment in the Palestinian Territories; Readings in the Labour Force Survey (February-March 1997)*, June 1997 (in Arabic), p. 12.

[20] Calculations based on PCBS *Labour Force Survey: Main Findings*, Nos. 2-5. Labour force participation, full-employment, underemployment and unemployment rates are weighted by age group for persons 15-64 years of age. Population data used to calculate absolute magnitudes are middle-series estimates as given in PCBS *Demography of the Palestinian Population*, 1994.

[21] Based on PCBS, *A Methodology for Measuring Unemployment in the Palestinian Territories; Readings in the Results of Labour Force Survey (February-March 1997 Round)*, June 1997 (in Arabic).

[22] See UNSCO *Quarterly Report*, 1 April 1997, p. 26

[23] See PCBS *The Internal Trade Survey, 1994* and *The Services Survey, 1994* (November 1996).

[24] Based on PCBS *Labour Force Survey: Main Findings*, Nos. 2-5.

[25] Based on PCBS *Labour Force Survey: Main Findings*, Nos. 2-5. Palestinian Authority employment estimates are from Palestinian Ministry of Finance "Report on Fiscal Developments in January-March 1997," 5 May 1997, p. 4.

[26] See UNSCO *Quarterly Report*, 29 October, 1996.

[27] See UNSCO *Quarterly Report*, 1 April 1997.

[28] Palestine Economic Policy Research Institute *MAS Economic Monitor*, Issue No. 1, June 1997, pp. 17-18.

[29] See UNSCO *Quarterly Report*, 1 April 1997, p. 29.

[30] Based on PCBS *Labour Force Survey: Main Findings*, Nos. 2-5. Labour force participation, full-employment, underemployment and unemployment rates are weighted by age group for persons 15-64 years of age.

[31] PCBS *Labour Force Survey: Main Findings* No. 3, pp. 80, 83-84.

[32] See UNSCO *Quarterly Report*, 29 October 1996.

[33] Rema Hammami "Women, Labor and the Palestinian Economy," Women's Studies Program, Bir Zeit University, December 1996 (draft).

[34] Unemployment among women is concentrated among the young, educated and unmarried mainly--first-time job market entrants who have no child-rearing responsibilities. See Hammami "Women, Labor and the Palestinian Economy." The following analysis of the informal labour market is also based on Hammami's work.

[35] Data in this table come from PCBS *Labour Force Surveys* Rounds 2-5 and weighted averages of employment in the West Bank, Gaza and Israel as taken from PCBS *Press Conference on Labour Force Results* Rounds 2-5. Nominal NIS daily and monthly wages were converted to US\$ using average quarterly exchange rates and deflated using the average regional CPI for the first quarter of 1997 with a 1996 base period. See PCBS *Consumer Price Index*, various issues. Monthly wage incomes are calculated by multiplying the average daily wage rate by the average number of days worked per month. Furthermore, the depreciation of the NIS relative to the US\$ is responsible for approximately 2.5 percentage points of the reduction in daily and monthly wages.

[36] Average monthly permits issued for WBGS workers in Israeli-controlled areas during first-quarter 1997 were 25 per cent higher than the 1996 average. See Palestinian Ministry of Labour, Directorate of Employment, *Annual Report*, 1996, and unpublished monthly reports (January-March 1997). Actual labour flows during first-quarter 1997 were 28 per cent higher than the 1996 monthly average. UNSCO estimates.

[37] See PCBS *Labour Force Survey* Rounds 1-5.

[38] See IMF *Recent Developments* (February 1997), p. 13.

[39] See PCBS *Expenditure and consumption Levels: Annual Report, October 1995-September 1996*, January 1997.

[40] See PCBS *Consumer Price Index (Revised Series) February 1997*, May 1997.

[41] Based on PCBS unpublished data on average monthly household expenditures for seven-person households. It should be noted that PCBS data is expressed in Jordanian Dinars (JDs). Since the US\$/JD exchange rate was stable throughout the period under analysis, there is no significant exchange rate distortion which would amplify the estimated changes in consumption expenditures.

[42] See UNSCO *Quarterly Report*, 1 April 1997.

[43] Household expenditures for 1996 were calculated by averaging the first nine months of the year (during which the survey was conducted), and using this as the base period. See PCBS *Expenditure and Consumption Levels; Annual Report*, January 1997. Original survey data, expressed in nominal JDs, were converted to US\$ using average JD/US\$ exchange rate of the period. Expenditures during first-quarter 1997 are from unpublished PCBS data expressed in JDs and converted to US\$

using the average JD/US\$ exchange rate for the period. These expenditures were then defaulted using the average CPI for each expenditure group for the period with base period in 1996. Taxes and other cash expenditures were defaulted using the average overall CPI. See PCBS Consumer Price Index (Revised Series) February 1997, May 1997.

[44] There was a significant increase in spending on such items during third-quarter of 1996. See UNSCO *Quarterly Report*, 1 April 1997, p. 35.

[45] Real monthly wage incomes for 1996 were calculated by averaging wages for the last three quarters of the year, since PCBS did not conduct a labour force survey in first-quarter 1996. Real monthly household expenditures for 1996 were calculated by averaging expenditures for the first three quarters of the year, since PCBS did not conduct an expenditures survey during the last quarter. This synchronisation problem, however, does not alter the basic conclusions.

[46] Household expenditure calculations were converted to US\$ from figures expressed in JDs while the real monthly wage was converted from NISs. The US\$/JD exchange rate was stable during the period under analysis while the NIS depreciated against the US\$. Therefore, the decline in real monthly wages, expressed in US\$, reflects the effects of the exchange rate movement. This overstates, to some extent, both the purchasing power decline in average monthly wages and the decline in wage sufficiency.

[47] Radwan A. Shaban *Living Standards in the West Bank and Gaza Strip*, (Ramallah and Jerusalem, August 1997).

[48] *ibid*, p. 5.

[49] *ibid*, p. 4.

[50] *ibid*, p. 16.

[51] *ibid*, pp. 17-18, 23.

[52] Jamil Hilal and Majdi El-Malki, *The Informal Social Support System in the West Bank and Gaza*, (Jerusalem and Ramallah, January 1997) (in Arabic).

[53] See MAS *Economic Monitor*, Issue No 1, pp. 14-15.