
SOCIO-ECONOMIC DEVELOPMENTS IN THE OCCUPIED PALESTINIAN TERRITORY 2010

Executive Summary

Developments in the occupied Palestinian territory (oPt) economy in 2010 suggest continued growth in output and employment, on the one hand, and an underlying labour market unable to absorb a labour force growing in excess of 3.5 percent per year, i.e. at a rate more rapid than average population growth. The private sector led growth in output and employment in both the West Bank and Gaza but in both cases the spending power of large public sector work forces, as well as direct public sector spending, contributed fundamentally to private sector growth. Private sector growth was led in both the West Bank and Gaza by construction activity. In Gaza, the construction surge helped partially alleviate a deficit in residential housing caused by years of siege and the inability to import significant amounts of building materials. Despite above average GDP growth in Gaza, the divergence between its economy and that of West Bank remained stark with severely constricted growth in output and much higher levels of unemployment in Gaza.

Gross Domestic Product

There was continued macroeconomic growth in 2010 with conventionally measured real GDP rising an estimated 9.2 percent. Excluding formal accounting items which do not add to output, real GDP rose by 8 percent. The private sector accounted for two-thirds of the GDP growth. More than half of private sector growth was accounted for by productive activities, particularly construction and agriculture, with private services contributing about 27.8 percent and commerce representing 21.2 percent of GDP growth during the year. Continued rapid growth in bank financing—particularly consumer and mortgage lending—boosted domestic demand for goods and services.

At 15 percent, GDP growth in Gaza was estimated to be twice as that in the West Bank. Moderate growth in employment from a greatly diminished economic base accounted for this relatively rapid growth rate. Nonetheless, the West Bank accounted for about 64 percent of overall GDP growth in the oPt in 2010. In both the West Bank and Gaza, the private sector played the leading role in the reported growth. In the case of the West Bank, a boost in construction activity and a bumper olive harvest fuelled growth, even as the manufacturing base shrank. In the case of Gaza, the informal tunnel economy made an important contribution to a more than tripling of construction activity, allowing for the import of relatively inexpensive building materials, raw materials and fuels. In both the West Bank and Gaza there was marginal relaxation in the degree of severity of Israeli restrictions on mobility and access. A significant expansion in bank credit to the private sector also contributed to better economic results.

Per capita GDP growth in the West Bank is estimated at about 5 percent and at about 11.4 percent in Gaza in 2010 in real terms. The IMF has estimated that by 2009, real per capita GDP in the oPt had recovered to 1994 levels. Substantial growth in 2010 contributed further to returning to levels of average income witnessed in the late 1990s, more than a decade ago.

Labour Market Trends

In 2010 and on average employment grew 3.7 percent in the oPt relative to 2009, an increase of about 26,725 jobs. At the same time, broad unemployment grew 3.2 percent, an addition of about 10,000 persons, raising the total number of unemployed to an average of 318,000 in 2010. Refugee employment declined 3 percent, while non-refugee employment grew an about 7.5 percent. At the same time, the number of unemployed refugees declined by 1.1 percent. This was due to a decline, for the second year in a row, in the refugee labour force participation rate. Meanwhile the number of unemployed non-refugees rose by 6.9 percent.

On a regional basis, employment in the West Bank grew by 4.2 percent, all of it accounted for by non-refugees, while in Gaza overall employment rose 2.3 percent with non-refugees accounting for the bulk of employment growth there. The number of unemployed in the West Bank rose 4.5 percent, all of it among non-refugees while the number of unemployed in Gaza rose 1.8 percent, most of these refugees.

More than 83 percent of job gains in 2010 were in the private sector with employment in Israel and settlements accounting for the remainder of the growth. Public sector employment declined by about 1.1 percent relative to 2009. The private sector accounted for 79 percent of new jobs in the West Bank and all new employment in Gaza in 2010. This was a major change for Gaza where the vast bulk of new jobs in 2009 were generated by the public sector. Construction was the single most important source of job growth in both the West Bank and Gaza in 2010, followed in Gaza by agriculture and in the West Bank by private services. Non-refugees dominated job growth in the private sectors of both regions as refugee labour force participation continued to decline.

Both core and broad unemployment rates receded marginally in 2010. The narrow ILO rate of unemployment averaged 24.5 percent in 2009 and 23.7 percent in 2010. The broad unemployment rate fell from 30 percent in 2009 to 29.9 percent in 2010. Despite good job growth, unemployment rates remained stubbornly high and among the highest in the world. Broad unemployment in the West Bank averaged 23.4 percent in 2010, slightly higher than its 2009 rate. In Gaza, the broad rate of unemployment averaged 43.6 percent in 2010, about 0.1 percentage points less than in 2009.

The ILO unemployment rates of both refugees and non-refugees declined with that for non-refugees falling faster. In broad terms, the refugee unemployment rate rose marginally to 35.7 percent while that for non-refugees declined 0.1 percentage points to 26.6 percent. Thus, the unemployment rate gap between the two groups increased to the disadvantage of refugees in 2010.

Youth employment expanded some 2.2 percent, far more slowly than for the labour force as a whole. Youth unemployment on the other hand grew by 8.4 percent, significantly faster than for the population as a whole, such that youth accounted for 43.4 percent of all unemployed persons in the oPt. West Bank youth fared

better with 4.8 percent employment growth and a 4.6 percent decline in the number of unemployed. By contrast, Gaza youth lost 13.4 percent of their employment base, the unemployed among them rose 10.2 percent. The broad youth unemployment rate in the oPt in 2010 averaged 47.7 percent, nearly 18 percentage points above the oPt average. On a regional basis, the youth unemployment rate in the West Bank averaged 34.9 percent in 2010 while that in Gaza was an unprecedented average of 70.5 percent, among the very highest in the world.

The number of women in the oPt labour force fell about 1 percent in 2010. The number of employed women declined 2.3 percent while number of unemployed ones rose 1.8 percent. Women's average broad unemployment rate—32.4 percent—was significantly above the overall average. Until 2009, women's unemployment rates were consistently below average. The only employment gains for women were in agriculture, commerce and hotel and restaurant activities and these were meagre, there were losses in public employment. About 18.6 percent of adult women in the West Bank participated in the work force outside of the home as compared to 11.6 percent in Gaza in 2010. The West Bank female labour force increased 3.4 percent versus an 11.8 percent decline in Gaza.

Despite continued employment growth, the average real monthly wage of employed persons declined 3.7 percent. This consisted of a 2.2 percent decline in the West Bank and a 9.3 percent decline in Gaza with real wage deterioration worse among refugees in 2010.

Looking Ahead

Despite the noteworthy growth in GDP and employment in 2010, the fundamental context of the oPt economy for well over a decade has been the inability to fully utilize human and natural resources to greatest advantage mainly due to the imposed policies of the Government of Israel (GOI). Estimates generated by the IMF suggest that had the oPt not been subjected to restrictions on resource use and the free mobility of people, vehicles and goods in the period after 1994, the level of per capita GDP would have been between 50 and 100 percent greater than what they were in 2010. The important growth witnessed in both 2009 and 2010 did not change the basic context of an economy restrained by an occupying power.

Private sector growth remained severely constrained and vulnerable to Israel's tactical and strategic political objectives. As the IMF, World Bank, the UN and others have noted repeatedly over the past decade, the pace of growth and recovery is intimately dependent on freedom of mobility within the oPt and between the oPt and the rest of the world. While 2009 and 2010 witnessed some reduced mobility restrictions in the West Bank and Gaza, those restrictions remained significant and the blockade imposed on Gaza remained severe. Moreover, oPt external trade remained greatly constrained by the policies—stated and unstated—of the GOI. Such conditions are the main obstacle to higher levels of private sector investment and employment.

As repeatedly noted in previous reports in this series, good governance practices and resource constraints dictate that the oPt public sector cannot absorb significant amounts of additional employment in the future. Indeed, 2010 witnessed a marginal decline in total public employment in the oPt. The private sector must therefore bear the brunt of long-term, sustainable employment generation. Given robust growth in the working-age population, it is estimated that an average of 127,000 jobs would have to be created and sustained in the oPt each year between 2011 and 2015 in order to reduce the narrow ILO unemployment rate to 10 percent, the average rate in the Middle East. This compares to average annual job growth of about 38,000 in 2009 and 2010, relatively good years. In other words, employment generation would have to be more than three times as fast as it has been in the past two years.

Uncertainty in the political environment, movement restrictions and inaccessibility to land and water resources, the continuing blockade on Gaza and the decline in incomes over the past decade have dampened investor expectations about the future, discouraging private sector investment in productive activities. The shift in the production pattern—noted by the IMF—is one in which private services account for a higher share of private sector GDP, while agriculture and manufacturing account for a much smaller share, than was the case 15 years ago. This reflects the regime of severe border and mobility restrictions on people and commodities rather than the comparative advantage of the local economy.

Low levels of private investment have coincided with low levels of public investment. The bulk of very significant donor support to the PA since 2000 has been absorbed as wages and other compensation for public sector employees or as assistance to repair damages caused by Israeli military incursions. Only a very small portion has been invested in improving education, health, and social welfare services; in fostering an enabling legal, regulatory and institutional environment that would encourage private sector development and growth or; in improving public infrastructure. The imbalance between employee compensation and institutional and infrastructural development continued to hamper development in both in the West Bank and Gaza.

It must be reiterated that unsettled politics—both internal and with regard to a final status settlement with the GOI—remain the main obstacle to recovery from the prolonged socio-economic crisis. The strategic, long-term and sustainable development of the Palestinian economy can occur if a political solution is reached that allows for greater certainty, greater access to indigenous land and water resources and markets, greater internal and external mobility and, thus, more coherent planning and investment. Many of the problems facing the public and private sectors are rooted in political uncertainties and continuing occupation. An equitable and permanent settlement of these issues would be the most important contribution to sustainable development in the oPt.