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socio-economic developments
in the occupied palestinian territory 2010

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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.

I. Introduction

This is UNRWA's eighth general report on socio-economic developments in the occupied Palestinian territory (oPt).[1] The present report covers changes in 2010 relative to 2009. The report is divided into two substantive sections. The first addresses developments in Gross Domestic Product (GDP) and income through an assessment of national accounts data. Levels and changes in the contributions of the Palestinian public and private sectors is the focus of this section. The second section covers the oPt labour force and labour market. Data and analysis in the labour market section are disaggregated by refugee status. As is the case with previous work, this report relies on special data series produced by PCBS at the request of UNRWA.

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

II. Notes on Methodology

After the 2007 census, PCBS has revised its estimates of national income accounts and changed the base year prices used to denominate the revised data. Thus, national accounts data for the period 1994-2003 are given in 1997 USD market prices, while those for 2004 and after are denominated in 2004 USD prices. This raises two methodological problems.

First, PCBS has not yet produced a linking coefficient that would allow for accurate comparisons between the two periods. One imperfect way around this problem is to apply the growth rates of various national account variables for 2003-2004, as provided in previous 1997 base-year series estimates, to "link" the two series.

Second, evaluating goods and services produced in any year using prices that prevailed in 2004 leads to higher estimates than evaluating them using 1997 prices. Readers are cautioned that GDP estimates in this report constitute a break with estimates provided in UNRWA reports produced before 2009.

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

The focus of this report is the economic and social developments in 2010. Two types of comparisons are made. First, in order to highlight sequential changes, first-half 2010 is compared to second-half 2010.[2] Second, the report makes a year-on-year or parallel periods comparison by contrasting 2010 as a whole with 2009 as a whole. The parallel annual comparison approach yields a better understanding of the trajectory of socio-economic conditions for at least two reasons.

[1] This report series begins in late 2006. Most are available in PDF versions at www.unrwa.org.

[2] Semi-annual data are derived by averaging quarterly data.

First, that approach largely corrects for seasonality in the data, i.e. the fact that certain types of economic activity are subject to "normal" fluctuations related to weather or cultural season. Second, the parallel annual approach is based on larger samples of data from field surveys with smaller degrees of associated statistical error. As such, this approach provides a more accurate picture of trends.

III. Domestic Output and Income

B. Gross Domestic Product: Private and Public Sectors

The Gross Domestic Product (GDP) is the market value of all goods and services produced **minus** the market value of resources (e.g. raw materials, labour power) used up in producing those same goods and services. GDP is thus a measure of the **value-added** generated in the domestic economy as well as the extent and efficiency of use of the country's natural, human and capital resources. Estimates of GDP in the oPt in 2010, Table 1 presents estimated at about USD 5.72 billion.[3]

The estimated relative weight of various economic activities is given in the last column of Table 1. *Productive activities*—those involving the production of physical commodities such as olives, furniture, electricity or housing (items A, B and C)—accounted for about 27.8 percent of domestic value-added; *commerce* (item D) for 11 percent and *private and public services* (items E, F, G, H and I) for about 47.9 percent.

The items "below the line" are part of the national accounting convention of subtracting "FISIM"—a measure of the profitability of financial institutions—and adding the central governments' revenues from customs and value-added taxes (VAT) on imports. Excluding the "below-the-line" accounting items, total GDP or value-added produced is estimated at USD 4.97 billion.

Private sector GDP, which includes the activities of domestic and foreign NGOs, is estimated at about 76.6 percent of total GDP. This is accounted for by items A-F, G.1, G.2 and G.3 plus 32.5 percent of item G.4 (education) plus 53.3 percent of G.5 (health) plus item I (refer to Table 1).

Public sector GDP, the market value of services provided by the Palestinian Authority (PA) and local government employees,[4] accounted for about 20.7 percent of the GDP in 2010. This included about 40.3 percent of item G.4 (education), about 44.4 percent of item G.5 (health and social work) and 100 percent of item H (public administration and defence).

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[3] For purposes of comparing growth in output over time—rather than the effects of price changes—GDP is estimated at market prices prevailing in 2004, the base year. As there has been some amount of inflation in the oPt since 2004, GDP would be greater if measured using market prices prevailing in 2010. The IMF estimates the GDP of the oPt at USD 7.39 billion in current 2010 prices. See IMF, *Macroeconomic and Fiscal Framework for the West Bank and Gaza: Seventh Review of Progress; Staff Report for the Meeting of the Ad Hoc Liaison Committee*, Brussels, April 13, 2010, p. 33.

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

UNRWA generated an estimated 2.9 percent of total GDP, about USD 145.5 million in all, consisting of 27.1 percent of item G.4 (education) and 17 percent of item G.5 (health).[5]

Table 1

GDP by Economic Activity and Activity Shares for the oPt, 2010[6]

(USD millions at 2004 market prices)

	Economic Activity	2010	Share
A.	Agriculture and Fishing	360.0	6.28%
B.	Mining, Manufacturing, Electricity and Water	706.6	12.34%
1	*--mining and quarrying*	*23.2*	*0.41%*
2	*--manufacturing*	*507.8*	*8.87%*
3	*--electricity and water supply*	*175.6*	*3.07%*
C.	Construction	525.6	9.18%
D.	Wholesale and Retail Trade	634.7	11.08%
E.	Transport, Storage and Communications	446.5	7.80%
F.	Financial Intermediation	297.2	5.19%
G.	Other Services	1,196.0	20.88%
1	*--real estate, renting and business services*	*430.9*	*7.52%*
2	*--community, social and personal services*	*93.1*	*1.63%*
3	*--hotels and restaurants*	*79.9*	*1.39%*
4	*--education*	*442.5*	*7.73%*
5	*--health and social work*	*149.6*	*2.61%*
H.	Public Administration and Defense	798.8	13.95%
I.	Households with Employed Persons	4.6	0.08%
	Minus: FISIM	-236.5	-4.13%
	Plus: Customs Duties	408.1	7.12%
	Plus: VAT on Imports (net)	586.4	10.24%
	Gross Domestic Product	5,728.0	**100.00%**
	"Above the Line" GDP	*4,970.0*	

B. Background to Developments in 2010

Improvements in macroeconomic conditions in the West Bank and Gaza in 2010 can be attributed, in part, to continued public sector spending supported by significant amounts of external assistance. Donor countries contributed about USD 1.15 billion in budget support to the PA in 2010.[7] This significantly contributed to domestic spending. Public sector capital

[5] PCBS has provided estimates of the respective shares of education and health GDP produced by the private sector, the public sector and UNRWA for 2009 but has not yet produced such estimates for 2010. To estimate the sector GDP contributions in education and health for 2010, the 2009 shares are augmented (or diminished) by the respective rates of growth (or decline) of employment in the sectors. Thus, employment growth (or decline) in public, private and UNRWA education in 2010 are used to estimate the changes in GDP contribution of each of these sectors in education relative to 2009. In estimating the contributions of the various providers of education and health and social services, the accounting items "below the line" have been excluded. Sector employment data are provided by PCBS by special request.

[6] PCBS preliminary estimates for the oPt excluding East Jerusalem.

[7] This compares to USD 1.35 billion in budget suport in 2009. See op cit IMF, *Macroeconomic and Fiscal Framework for the West Bank and Gaza*, April 2011, p. 18. This assistance was used in part to pay wages and other compensation to public sector employees. Public sector wage payments from the PA were about USD 1.61 billion in 2010. Such incomes bolster household consumer expenditures that

expenditures (e.g. infrastructure, schools, roads, equipment, etc.) declined from about USD 400 million in 2009 to about USD 275 million in 2010 as anticipated projects in Gaza could not be undertaken in Gaza due to Israeli restrictions on imports of investment inputs and shortfalls in donor development assistance. Public sector employment rose by about 3,300 persons in 2010.[8]

Private sector activity in both the West Bank and Gaza increased in 2010, in part due to continued high levels of government employment and spending and improvements in governance, in part due to increased perceptions of stability and to marginally relaxed movement restrictions on people and goods in the West Bank and on goods in Gaza. While there were signs of growing private investment, enhanced by rapid growth of bank lending to the private sector (see below), such investment and lending was disproportionally concentrated in activities that do not produce sustainable employment growth such as commerce, services, real estate and construction.[9]

Marginally reduced movement restrictions in the West Bank contributed to economic growth, leading to an estimated 4.5 percent increase in employment relative to 2009. In Gaza, the resurgence of the tunnel economy, marginally increased imports through the Israeli-controlled borders and increased public sector activity yielded a 2.3 percent growth in employment.[10] However, in neither case did the employment increases stem the growth of total unemployment.

C. Inter-Temporal Comparisons of GDP

Comparing the first and second halves of 2010 highlights shorter-term changes in macroeconomic conditions, but does not adjust for seasonality in economic activity. Certain activities included in the GDP can fluctuate significantly from period to period due to seasonal, rather than "exogenous," factors such as Israeli-imposed movement restrictions and/or falling incomes. Comparing 2010 as a whole to 2009 as a whole largely resolves the seasonality problem and provides a better assessment of economic and social trends. Both types of comparisons are presented below.

1. Comparing First-Half 2010 and Second-Half 2010

As indicated in Table 2, the GDP in the oPt expanded by USD 100 million or 3.5 percent as between the first and second halves of 2010. There were declines in the strategically important activities of agricultural and manufacturing as well as real estate and business services; community and social services and; health services. There was growth in construction; commerce; transport and communications; financial intermediation; hotels and restaurants; education and; public administration.

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generate multiplier effects in the local economy. In addition, the PA itself purchases goods and services from local businesses, further enhancing aggregate demand.

[8] See op cit IMF, *Macroeconomic and Fiscal Framework for the West Bank and Gaza*, pp. 16, 18.

[9] See World Bank *Underpinnings of the Future Palestinian State: Sustainable Growth and Institutions; Economic Monitoring Report to the Ad Hoc Liaison Committee*, September 2010, pp. 8-10.

[10] See labour market section below.

Table 2

Estimates of GDP by Economic Activity for the oPt,
First-Half 2010 and Second-Half 2010[11]
(USD millions at 2004 market prices)

	Economic Activity	First-Half 2010	Second-Half 2010	Absolute Change	Relative Change
A.	Agriculture and Fishing	186.8	173.2	-13.6	-7.28%
B.	Mining, Manufacturing, Electricity and Water	371.2	335.4	-35.8	-9.64%
1	*--mining and quarrying*	*12.2*	*11.0*	*-1.2*	*-9.84%*
2	*--manufacturing*	*266.3*	*241.5*	*-24.8*	*-9.31%*
3	*--electricity and water supply*	*92.7*	*82.9*	*-9.8*	*-10.57%*
C.	Construction	239.7	285.9	46.2	19.27%
D.	Wholesale and Retail Trade	305.7	329.0	23.3	7.62%
E.	Transport, Storage and Communications	214.8	231.7	16.9	7.87%
F.	Financial Intermediation	146.6	150.6	4.0	2.73%
G.	Other Services	591.5	604.5	13.0	2.20%
1	*--real estate, renting and business services*	*216.1*	*214.8*	*-1.3*	*-0.60%*
2	*--community, social and personal services*	*47.9*	*45.2*	*-2.7*	*-5.64%*
3	*--hotels and restaurants*	*34.9*	*45.0*	*10.1*	*28.94%*
4	*--education*	*217.6*	*224.9*	*7.3*	*3.35%*
5	*--health and social work*	*75.0*	*74.6*	*-0.4*	*-0.53%*
H.	Public Administration and Defense	396.4	402.4	6.0	1.51%
I.	Households with Employed Persons	2.5	2.1	-0.4	-16.00%
	Minus: FISIM	-115.4	-121.1	-5.7	4.94%
	Plus: Customs Duties	186.5	221.6	35.1	18.82%
	Plus: VAT on Imports (net)	287.7	298.7	11.0	3.82%
	Gross Domestic Product	2,814.0	2,914.0	100.0	3.55%
	"Above the Line" GDP	*2,455.2*	*2,514.8*	*59.6*	*2.43%*

Growth in construction, commerce, transport and communications and hotels and restaurants was well above average in the second half of the year relative to the first half. Construction activity grew by 19.2 percent while hotel and restaurant activities jumped 28.9 percent. Activities associated with the public sector—education, health and public administration—evinced slower than average growth. In absolute terms, value-added in productive activities—agriculture, manufacturing and construction—declined by USD 3.2 million while value-added in commerce (wholesale and retail trade) grew by USD 23.3 million and services added USD 39.5 million as between the two halves, the latter accounting for 62.8 percent of such growth.

The "below-the-line" accounting items buoyed GDP growth as higher financial sector profitability (FISM) were offset by much higher customs duties. Excluding these items yields real GDP growth of only 2.4 percent.

2. Comparing 2009 and 2010

Table 3 indicates that conventionally measured GDP in the oPt grew by an estimated 9.2 percent in 2010 relative to 2009. If we exclude the accounting items below the line, GDP growth was about 8 percent relative to 2009.

[11] PCBS preliminary estimates for the oPt excluding East Jerusalem.

Table 3

Estimates of GDP by Economic Activity for the oPt, 2009-2010[12]

(in USD millions at 2004 market prices)

	Economic Activity	Annual 2009	Annual 2010	Absolute Change	Relative Change
A.	Agriculture and Fishing	293.2	360.0	66.8	22.78%
B.	Mining, Manufacturing, Electricity and Water	747.7	706.6	-41.1	-5.50%
1	*--mining and quarrying*	*22.6*	*23.2*	*0.6*	*2.65%*
2	*--manufacturing*	*539.8*	*507.8*	*-32.0*	*-5.93%*
3	*--electricity and water supply*	*185.3*	*175.6*	*-9.7*	*-5.23%*
C.	Construction	387.7	525.6	137.9	35.57%
D.	Wholesale and Retail Trade	566.5	634.7	68.2	12.04%
E.	Transport, Storage and Communications	421.0	446.5	25.5	6.06%
F.	Financial Intermediation	269.1	297.2	28.1	10.44%
G.	Other Services	1,157.5	1,196.0	38.5	3.33%
1	*--real estate, renting and business services*	*437.3*	*430.9*	*-6.4*	*-1.46%*
2	*--community, social and personal services*	*88.7*	*93.1*	*4.4*	*4.96%*
3	*--hotels and restaurants*	*54.6*	*79.9*	*25.3*	*46.34%*
4	*--education*	*429.4*	*442.5*	*13.1*	*3.05%*
5	*--health and social work*	*147.5*	*149.6*	*2.1*	*1.42%*
H.	Public Administration and Defense	750.6	798.8	48.2	6.42%
I.	Households with Employed Persons	4.6	4.6	0.0	0.00%
	Minus: FISIM	-231.9	-236.5	-4.6	1.98%
	Plus: Customs Duties	345.5	408.1	62.6	18.12%
	Plus: VAT on Imports (net)	529.8	586.4	56.6	10.68%
	Gross Domestic Product	**5,241.3**	**5,728.0**	**486.7**	**9.29%**
	"Above the Line" GDP	*4,597.9*	*4,970.0*	*372.1*	*8.09%*

Among private sector activities, only manufacturing, electric and water production and real estate and business services witnessed declines. Manufacturing value-added in real terms was down 5.5 percent; electric and water was down 5.2 percent and real estate and business services[13] fell 1.4 percent on a year-on-year basis. Every other activity—both private and public—moved up or was unchanged.

The 22.7 percent increase in agricultural GDP was due mainly to the large olive harvest[14] affecting the West Bank mainly, but also to significant growth in agriculture in Gaza. The latter was likely due to the rehabilitation and reconstruction of assets destroyed by Israeli military incursions in 2009.[15] Construction; commerce; financial intermediation and; hotels

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[12] Preliminary PCBS estimates for the oPt excluding East Jerusalem.

[13] Business services include legal, accounting, market research, mangament, engineering, advertising, maintenance and other services.

[14] A main feature of West Bank agricultural is the significant biennial fluctuation in olive output with good harvest years being followed by a bad harvest in the following year. PCBS reports that the quantity of pressed olives in 2009 was 19,860.4 tonnes of pressed olives with a yield of 4,771.3 tonnes of extracted oil. By comparison, there were 102,162 tonnes of pressed olives in 2010 with 23,754 tonnes of extracted oil, a nearly five-fold increase relative to 2009. More than 90 percent of olive and olive oil production in the oPt is accounted for by the West Bank.

[15] See the compelling report UNOCHA and WFP *Between the Fence and a Hard Place*; *The Humanitarian Impact of Israeli-Imposed Restrictions on Access to Land and Sea in the Gaza Strip,* August 2010 at www.ochaopt.org.

and restaurants all grew more rapidly than average while mining and quarrying; transport and communications; community, social and personal services;[16] education; health and social work and; public administration grew less rapidly than average in value-added terms.

Overall, the private sector expanded 9.3 percent in real terms as indicated in Table 3.A, accounting for about two-thirds of "above the line" GDP growth in 2010. Construction activity accounted for 37.1 percent of the private sector growth with commerce and agriculture each accounting for about 18 percent of such growth. Finance contributed to 7.5 percent of the increase while transport/communication and hotels and restaurants each contributed 6.8 percent. Education, health and social and personal services combined accounted for only 5.3 percent of GDP growth.

Table 3.A

Estimates of GDP by Sector in the oPt, 2009-2010[17]

(USD millions at 2004 market prices)

Sector	2009	2010	Absolute Change	Relative Changes
Private Sector	3,450.6	3,774.6	324.0	9.39%
Public Sector	979.7	1,030.3	50.6	5.17%
UNRWA	167.6	165.0	-2.5	-1.51%
GDP ("above the line")	4,597.9	4,970.0	372.1	8.09%

Public sector GDP grew by an estimated 5.1 percent in 2010. Administration and defence value-added rose 6.4 percent while the public services component of the GDP (education and health and social welfare) are estimated to have grown by only 1.1 percent. Overall, the public sector accounted for about one-third of GDP growth in 2010. The value of UNRWA education and health activities is estimated to have declined by 1.7 percent with UNRWA education accounting for the fall.

Another way to view economic growth to understand underlying trends is to classify GDP by the components as outlined in section III.A above. Table 3.B indicates that value-added in productive activities (agriculture, manufacturing and construction) grew by 11.4 percent in 2010. Commerce activities grew even faster, rising by 12 percent. By contrast, service activities that account for about half of all private sector activities and nearly all public sector activities grew by only 5.3 percent, with public sector activities growing 5.1 percent. **As compared to 2009, when services accounted for more than 75 percent of the growth in real GDP (with private services responsible for about 44 percent of that growth), services contributed only 55.1 percent of overall GDP growth in 2010 with productive activities accounting for 32 percent.** This was mainly due to the surge in construction activity in 2010 as well as the much larger olive harvest in the West Bank.

[16] Community, social and personal services include recreation, radio and television, news agency, sporting, washing and dry cleaning, hairdressing and other services.

[17] Data for 2010 are preliminary PCBS estimates for the oPt excluding East Jerusalem and excluding "below the line" accounting items, i.e. FISM, customs duties and VAT on imports.

Table 3.B

GDP Estimates of Selected Activity Groups in the oPt, 2009-2010[18]

(USD millions at 2004 market prices)

Selected Activities	2009	2010	Absolute Changes	Relative Changes
Productive Activities	1,428.6	1,592.2	163.6	11.45%
Commerce Activities	566.5	634.7	68.2	12.04%
Service Activities	2,602.8	2,743.1	140.3	5.39%
--of which : private	*1,623.1*	*1,712.8*	*89.7*	*5.53%*
--of which: public	*979.7*	*1,030.3*	*50.6*	*5.17%*
Total GDP (above line)	4,597.9	4,970.0	372.1	8.09%

It is noteworthy that two accounting items below the line—customs duties and VAT on imports—grew more rapidly than the overall GDP. They thus served to boost the growth of conventionally measured GDP. Rapid growth of these items suggests that there was a surge of imports. Based on the evidence from the clearance revenues, the West Bank accounted for this surge as clearances from the formal economy in Gaza, despite the relative easing of the siege, were nearly unchanged.[19]

PCBS data suggests that the West Bank accounted for about 76 percent of the real GDP in the oPt in 2010 with Gaza accounting for 24 percent. Real GDP growth in the West Bank in 2010 is estimated at about 8 percent while that in Gaza is estimated at 15 percent. In both the West Bank and Gaza, construction activity, mainly residential housing, was central to private sector and overall growth. In Gaza, the estimated value added in construction more than tripled in 2010 relative to 2009.[20] Employment growth in the West Bank is estimated at 4.5 percent suggesting that value-added of the newly employed was relatively high. The more rapid growth in Gaza is accounted for in large part by the diminished size of the Gaza economy during the previous four years. Thus, relatively small increments to a reduced base result in high growth rates. Nonetheless, employment in Gaza is estimated to have grown by only 2.3 percent.

D. Credit and Macroeconomic Trends

Bank credit continued to grow at a rapid pace in 2010, as indicated in Table 4. In absolute terms, the USD value of outstanding bank credit—the value of existing and new loans minus the value of loans paid back during the year—provided to domestic businesses, households and the public sector—increased by about USD 646.9 million to USD 2.74 billion at end-2010. This amounted to a 30.8 percent increase in 2010. This followed a 30.9 percent increase in net credit creation in 2009.

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[18] Preliminary PCBS estimates for the oPt excluding East Jerusalem and excluding "below the line" accounting items, i.e. FISM, customs duties and VAT on imports.

[19] See op cit IMF, *Macroeconomic and Fiscal Framework for the West Bank and Gaza: Seventh Review of Progress*, pp. 15-16. Unchanged clearances from Gaza, despite the marginal easing of the severe restricitons on imports through the Israeli-controlled crossings, is suggestive of the continued importance of the informal trade links through the tunnel passages.

[20] See PCBS *News Release on the Preliminary Estimates of Quarterly National Accounts (Fourth Quarter 2010)*, March 2011.

Table 4

Value of Outstanding Bank Credit to Resident Entities in the oPt, End-2009 and End-2010[21]

(nominal USD)

<u>Borrowing Entity</u>	End-2009	End-2010	Absolute Changes	Relative Changes
Private Sector	1,467,085,474	1,919,993,486	452,908,012	30.87%
--Businesses	1,160,083,467	1,481,696,212	321,612,745	27.72%
--Households	307,002,007	438,297,273	131,295,267	42.77%
Public Sector	628,532,761	822,565,181	194,032,420	30.87%
--Palestinian Authority	627,200,870	821,178,324	193,977,454	30.93%
--Palestinian Local Authorities	1,331,891	1,386,857	54,966	4.13%
Total	2,095,618,235	2,742,558,666	646,940,432	30.87%

The private sector—both businesses and households—received a net increase of USD 452.9 million in bank credit, a 30.8 percent increase relative to end-2009 accounting for 70 percent of outstanding loans at end-2010. Businesses represented about 54 percent of the outstanding stock of bank lending. Lending growth for construction; professional services; hotels and restaurants; and private education and health care was particularly rapid.

Outstanding credit to households for personal land purchases, mortgages for homes, automobiles and other consumer and personal lending accounted for about 16 percent of total bank lending at end-2010. **Household and consumer lending grew by 42.7 percent, considerably faster than the pace of growth of lending overall.** In particular, lending for land purchases, mortgages and automobiles and personal loans expanded at a much faster than average pace. A significant portion of the increase in consumer loan bank lending in the past several years has been directed at the large number of public sector employees who are seen as having stable employment and incomes.

The public sector absorbed USD 194 million more in bank credit in 2010, a growth rate of 30.8 percent. The central PA government accounted for almost all of this growth as revenues fell short of expenditures and donor assistance was both less than anticipated and late in arriving.[22] The total stock of outstanding bank credit to the PA at end-2010 stood at USD 822.5 million, accounting for about 30 percent of total outstanding bank financing in the oPt.

Credit available to the private sector in Gaza in 2010 grew for the first time since 2005 to USD 192.3 million, a growth rate of 24.3 percent (see Table 5). Nonetheless, outstanding credit at end-2010 in Gaza was 67.6 percent below its level in 2005. The political pressure to boycott the Hamas administration in Gaza has resulted significant reductions in all bank lending, contributing to the private sector depression there. Bank lending in the West Bank, on the other hand, grew by 31 percent in 2010 and, at year-end, accounted for 93.2 percent of all outstanding bank credit.

[21] Data in this section are provided by the Palestinian Monetary Authority (PMA).

[22] See op cit IMF, *Macroeconomic and Fiscal Framework for the West Bank and Gaza: Seventh Review of Progress.*

Table 5

Value of Outstanding Bank Credit by Palestinian Territory, End-2009 and End-2010[23]

(nominal USD)

Territory	End-2009	End-2010	Absolute Changes	Relative Changes
West Bank	2,009,635,768	2,633,247,303	623,611,535	31.03%
Gaza Strip	154,726,028	192,318,420	37,592,392	24.30%
Total	**2,164,361,796**	**2,825,565,723**	**661,203,927**	**30.55%**

Bank lending to the private sector remained a relatively small share of private sector bank deposits. Palestinian households and businesses accounted for about 90 percent of all bank deposits in the oPt which totaled about USD 6.8 billion at end-2010. Outstanding bank lending to the private sector stood at about USD 1.9 billion. This was only 31.3 percent of private sector deposits, an improvement compared to 26.4 percent in 2009, but still below the 36.6 percent ratio achieved at end-2006.[24]

E. Summarising Macroeconomic Conditions

There was continued macroeconomic and credit growth in 2010. Conventionally measured real GDP rose 9.2 percent, with "above the line" real GDP rising an estimated 8 percent. Two-thirds of the growth was accounted for by the private sector. More than half of private sector growth was accounted for by productive activities--mainly construction and agriculture—with private services accounting for about 27.8 percent of the growth and commerce for 21.2 percent. Continued rapid growth in bank financing—particularly consumer and mortgage lending—boosted domestic demand for goods and services. The public sector accounted for about one-third of overall GDP growth. The estimated contribution of UNRWA activities to GDP declined by about 1.7 percent.

GDP growth was about twice as rapid in Gaza as in the West Bank. The estimated 15 percent growth rate for Gaza is accounted for by moderate growth in employment and activity on a diminished economic base. Overall, the West Bank accounted for about 64 percent of GDP growth in 2010 relative to 2009. 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 an increase in productive activities, even as manufacturing waned. In the case of Gaza, the informal tunnel economy made an important contribution to a more than a tripling of construction activity as it allowed 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

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

[24] PMA data indicates that, at end-2010 some 91.7 percent of all bank deposits were from residents of the oPt. At the same time, about 55 percent of all bank claims (i.e. loans, investments and other assets) were against foreign—not Palestinian—entities. In other words, after setting aside sufficient reserves, oPt banks invest the bulk of their resources abroad. About 95 of these foreign assets were overseas government-guaranteed bank deposits with the remainder being broadly diversified securities, shares and foreign loans. As late as 2009, more than 60 percent of bank assets were held in foreign banks and other financial institutions. A PMA regulation, implemented in 2010, put a 55 percent limit on the share of total deposits that oPt banks can invest aborad. See IMF *Macroeconomic and Fiscal Framework for the West Bank and Gaza*, February 2009, p. 14; e op cit IMF, *Macroeconomic and Fiscal Framework for the West Bank and Gaza*, April 13, 2010, p. 7.

and access. Improved business expectations, as well as a significant expansion in bank credit to the private sector also contributed to better economic results.

2010 per capita GDP growth in the West Bank is estimated at about 5 percent and at about 11.4 percent in Gaza in real terms. The IMF has estimated that by 2009, real per capita GDP in the oPt had recovered to 1994 levels. The substantial macroeconomic growth in 2010 contributed to returning further to levels of average income witnessed in the late 1990s, more than a decade ago. Per capita GDP in the West Bank was estimated at about 2.2 times that of Gaza.

IV. The Labour Market: First-Half and Second-Half 2010

It is important to keep in mind that comparisons between two semi-annual periods reflect seasonal variations. Differences in weather, the occurrence of holidays, the beginning and end of academic years and central government budget cycles all influence labour force participation, as well as the demand for labour.

A. Labour Force

Based on the 2007 census, the total population of the oPt at end-2010 is estimated at about 4.1 million persons. For the same period, the population age 15 years and above—referred to as the working-age population—is estimated at about 2.4 million persons. Of these, an estimated 1 million or 42.4 percent were refugees.

Table 6

Estimates of Working Age Population and Broad Labour Force, Employment and Unemployment by Refugee Status in the oPt, First-Half 2010 and Second-Half 2010 Averages [25]

	First-Half 2010	Second-Half 2010	Absolute Changes	Relative Changes
Working-Age Population (15+)	2,353,667	2,398,513	44,846	1.91%
of which: refugees	999,362	1,018,981	19,619	1.96%
of which: non-refugees	1,354,305	1,379,532	25,227	1.86%
Labour Force (Broad Definition)	1,045,869	1,078,474	32,606	3.12%
of which: refugees	387,441	391,048	3,606	0.93%
of which: non-refugees	658,427	687,427	28,999	4.40%
Employment	749,794	738,286	-11,508	-1.53%
of which: refugees	255,494	244,761	-10,733	-4.20%
of which: non-refugees	494,300	493,525	-776	-0.16%
Unemployment (Broad Definition)	296,075	340,189	44,114	14.90%
of which: refugees	131,947	146,286	14,339	10.87%
of which: non-refugees	164,127	193,902	29,775	18.14%

The broadly-defined labour force includes three components of the working age population: a) all employed persons (fully-employed, under-employed and temporarily absent from work); b) all unemployed persons actively seeking employment; and c) all discouraged workers, i.e. those able and willing to work but not seeking employment due to a conviction

[25] All labour force component estimates in this report include Arab East Jerusalem and are based on projections derived from the 2007 census in the oPt.

that no job can be found. The first two components are included in the narrow ILO definition of the labour force. Combining the three components provides a broader—and more realistic—measure of the number of people working and willing to work in the oPt.

As indicated in Table 6, the broad labour force is estimated to have increased by 3.1 percent to about 1,078,475 persons in second-half 2010. The refugee labour force increased by only .9 percent to about 391,050 while the non-refugee labour force increased by about 4.4 percent to 687,425 persons. The overall broad labour force participation rate increased by about one-half percentage point to 44.9 percent of the working age population in second-half 2010 relative to the first half of the year. The participation rate of refugees, however, declined by about 0.35 percentage points to 38.3 percent while that of non-refugees rose about 0.2 percentage points to 49.8 percent in second-half 2010. Participation rates were significantly lower for refugees in both the West Bank and Gaza in both halves of the year.

B. Employment

Average total employment in the oPt was down about 1.5 percent to 738,285 jobs relative to first-half 2010 (see Table 7). Public sector employment recorded a 3.2 percent increase, a gain of some 5,700 positions. Private sector employment dropped by about 2.9 percent or 14,740 positions, while employment in Israel and Israeli settlements fell 3.6 percent or some 2,900 jobs. On average, there were about 76,725 Palestinians employed in Israel in second-half 2010.[26] Thus, only the public sector added jobs in net terms in the second half of the year.

Table 7

Estimates of oPt Employment by Sector and Refugee Status, First-Half 2010 and Second-Half 2010 Averages

Sector Employment	First-Half 2010	Second-Half 2010	Absolute Changes	Relative Changes
Public Sector	176,247	181,963	5,716	3.24%
of which: refugees	*85,736*	*86,731*	*995*	*1.16%*
of which: non-refugees	*90,511*	*95,232*	*4,720*	*5.22%*
Private Sector	493,004	478,260	-14,743	-2.99%
of which: refugees	*155,670*	*146,567*	*-9,103*	*-5.85%*
of which: non-refugees	*337,333*	*331,693*	*-5,640*	*-1.67%*
Israel, Industrial Zones, Settlements	79,619	76,723	-2,896	-3.64%
of which: refugees	*13,969*	*11,394*	*-2,575*	*-18.44%*
of which: non-refugees	*65,650*	*65,329*	*-321*	*-0.49%*
Total Employment	749,794	738,286	-11,508	-1.53%
of which: refugees	*255,494*	*244,761*	*-10,733*	*-4.20%*
of which: non-refugees	*494,300*	*493,525*	*-776*	*-0.16%*

On a net basis, refugee employment in second-half 2010 was down by about 4.2 percent with non-refugee employment falling only slightly. The bulk of public sector job gains were by non-refugees, who expanded employment by 5.2 percent. This compared to a 1.1 percent increase for refugees. Refugee employment in the private sector declined by 5.8 percent, a loss of more than 9,000 jobs. Non-refugees, on the other hand, saw a 1.6 percent decline in private sector employment. Refugee employment in Israel and Israeli settlements plunged

[26] By comparison, there were some 120,000 Palestinians (including those from Jerusalem) employed in Israel in 2000 when the oPt labour force was about 30 percent smaller.

18.4 percent in second-half 2010 relative to the first half, entailing a loss of 2,575 jobs while non-refugees losses were relatively small.

As indicated in Table 8 there were job losses in five of six main private sector activities in the domestic oPt economy in second-half 2010. These totalled about 19,640 jobs in agriculture, manufacturing, construction, transportation and communications and other private services. Job gains were limited to about 4,900 in commerce and hotels and restaurants.

In proportional terms, agriculture lost most employment, about 8.7 with manufacturing losing about 6.6 percent percent while transport and communications gained most, some 8.5 percent. In absolute terms, agriculture lost the most jobs—about 2,665—while commerce, hotels and restaurants gained the most—7,555.

Table 8

Estimates of oPt Private Sector Employment by Economic Activity and Refugee Status, First-Half 2009 and Second-Half 2009 Averages[27]

<u>Economic Activity</u>	First-Half 2010	Second-Half 2010	Absolute Changes	Relative Changes
Agriculture, Fishing	85,444	77,983	-7,461	-8.73%
of which: refugees	*19,458*	*15,861*	-3,597	-18.48%
of which: non-refugees	*65,986*	*62,122*	-3,864	-5.86%
Manufacturing, Mining	77,331	72,198	-5,134	-6.64%
of which: refugees	*18,934*	*17,634*	-1,300	-6.86%
of which: non-refugees	*58,398*	*54,564*	-3,834	-6.57%
Construction	59,899	58,811	-1,088	-1.82%
of which: refugees	*15,673*	*16,046*	373	2.38%
of which: non-refugees	*44,226*	*42,765*	-1,460	-3.30%
Commerce, Hotels & Restaurants	127,726	132,624	4,898	3.84%
of which: refugees	*42,644*	*43,329*	685	1.61%
of which: non-refugees	*85,082*	*89,295*	4,213	4.95%
Transportation, Communication	40,066	38,868	-1,198	-2.99%
of which: refugees	*12,873*	*13,607*	734	5.70%
of which: non-refugees	*27,193*	*25,261*	-1,932	-7.10%
Other Private Services	102,538	97,777	-4,761	-4.64%
of which: refugees	*46,089*	*40,091*	-5,998	-13.01%
of which: non-refugees	*56,448*	*57,686*	1,238	2.19%
Total Private Sector Employment	493,004	478,260	-14,743	-2.99%
of which: refugees	*155,670*	*146,567*	-9,103	-5.85%
of which: non-refugees	*337,333*	*331,693*	-5,640	-1.67%

Refugees experienced a sharper decline in domestic private sector employment. However, refugee employment in construction and transport and communications grew while non-refugees lost employment in those activities. Refugee gains in commerce, hotels and restaurants were disproportionately small and their losses in agriculture and private services were disproportionately large.

[27] Data in this table excludes Palestinians employed in Israel and Israeli settlements.

C. Unemployment

As indicated in Table 9 both narrow and broad unemployment rates increased in second-half 2010 relative to the first half. The ILO rate rose by about 2.5 percentage points to 25 percent. The total number of unemployed under this definition grew by 28,400 or 13 percent to a total of about 245,750 persons. The broad unemployment rate, which includes discouraged workers, also increased by 3.2 percentage points to 31.5 percent. Total broad unemployment is estimated to have grown by 44,115 to 340,190 persons in the second half of the year, an increase of 14.9 percent. Refugee unemployment rates remained about 9 to10 percentage points above those of non-refugees in second-half 2010. While refugee unemployment rates remained higher than for non-refugees in both periods, non-refugee unemployment grew faster in relative terms in the second half of the year.

Table 9

Estimates of ILO and Broad Unemployment Rates and Unemployment in the oPt by Refugee Status, First-Half 2010 and Second-Half 2010 Averages

Unemployment Rates	**First-Half 2010**	**Second-Half 2010**	**Absolute Changes**	**Relative Changes**
Unemployment Rates (ILO)	22.47%	25.00%	--	11.28%
refugees	*28.14%*	*30.76%*	--	9.32%
non-refugees	*19.17%*	*21.78%*	--	13.61%
Unemployment Rates (Broad)	28.31%	31.57%	--	11.53%
refugees	*34.04%*	*37.40%*	--	9.90%
non-refugees	*24.93%*	*28.25%*	--	13.30%
Unemployed				
Unemployment (ILO Definition)	217,349	245,748	28,400	13.07%
of which: refugees	*100,141*	*108,695*	8,555	8.54%
of which: non-refugees	*117,208*	*137,053*	19,845	16.93%
Unemployment (Broad Definition)	296,075	340,189	44,114	14.90%
of which: refugees	*131,947*	*146,286*	14,339	10.87%
of which: non-refugees	*164,127*	*193,902*	29,775	18.14%

D. Social Composition of the Employed Labour Force

1. Youth in the Labour Market

As indicated in Table 10, there were about 295,960 youths in the oPt labour force in second-half 2010, accounting for about 27.4 percent of the broad labour force in this period. Of these, about 146,920 were employed, accounting for about 20 percent of all employed persons in the oPt. This was a decline of some 9,000 working positions for youth between the first and second halves of the year. Meanwhile, the number of broadly unemployed youth is estimated to have grown by 21,550 persons to 149,045, accounting for about 43.8 percent of all the unemployed in the second half of the year. **As youth employment fell some 5.7 percent in second-half 2010, the growth in the youth labour force in second-half 2010 was due solely to an increase in youth unemployment. The broad youth unemployment rate at 50.3 percent remained the highest of any demographic segment in the oPt.**

Table 10

Estimates of Labour Market Conditions for oPt Youth, First-Half 2010 and Second-Half 2010 Averages[28]

<u>Youth Labour Force Profile</u>	First-Half 2010	Second-Half 2010	Absolute Changes	Relative Changes
Population (15-24)	829,259	841,881	12,622	1.52%
Labour Force (Broad)	283,437	295,961	12,524	4.42%
Employed	155,942	146,918	-9,024	-5.79%
Unemployed (Broad)	127,496	149,044	21,548	16.90%
Labour Force Participation Rate (ILO) (15-24)	25.55%	25.99%	--	1.73%
Discouraged Rate	8.63%	9.17%	--	6.18%
Labour Force Participation Rate (Broad)	34.18%	35.15%	--	2.85%
Unemployment Rate (ILO)	36.35%	41.19%	--	13.32%
Unemployment Rate (Broad)	44.98%	50.36%	--	11.95%

2. Women in the Labour Market

Women's average broad labour market participation rate rose about 0.2 percentage points in second-half 2010 to 16.2 percent as indicated in Table 11. The number of women actively involved in the labour market, whether working, seeking work or willing to work, increased 2.9 percent to an average of 189,860 in second-half 2010. This was the result of about 780 job losses, or about 0.6 percent of first-half 2010 employment and about 6,540 more unemployed women (including the discouraged), an increase of 11.3 percent. Women comprised about 17.6 percent of the broad labour force in the oPt in second-half 2010.

Table 11

Estimates of Labour Market Conditions for Women in the oPt, First-Half 2010 and Second-Half 2010 Averages

<u>Female Labour Force Profile</u>	First-Half 2010	Second-Half 2010	Absolute Changes	Relative Changes
Population	1,989,442	2,015,656	26,213	1.32%
Working-Age Population	1,128,424	1,146,261	17,837	1.58%
Labour Force (Broad)	184,431	189,858	5,427	2.94%
Employed	126,736	125,955	-781	-0.62%
Unemployed (Broad)	57,772	64,312	6,540	11.32%
Labour Force Participation Rate (ILO)	14.68%	14.68%	--	-0.01%
Discouraged Rate	1.36%	1.56%	--	14.12%
Labour Force Participation Rate (Broad)	16.05%	16.24%	--	1.19%
Unemployment Rate (ILO)	25.87%	27.89%	--	7.78%
Unemployment Rate (Broad)	31.32%	33.87%	--	8.14%

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

In the second-half of 2010, about 30 percent of employed women had jobs in private services (education, health, business services), 33.1 percent in the public sector (education, health and administration), 20.9 percent in agriculture (largely as unpaid family labour), about 6.7 percent in manufacturing and 8.3 percent in commerce, hotels and restaurants.[29] Overall, private sector employment of women fell significantly in second-half while public sector employment surged limiting total job losses to about 780.

Women's broad unemployment rate averaged 33.8 percent in second-half 2010, up 2.5 percentage points relative to the first half of the year and about 2.5 percentage points above the oPt average broad unemployment rate. The second half of 2010 was the fourth semi-annual period in a row during which average broad unemployment rates among women exceeded the overall average. The purchasing power of the average monthly wage of an employed women in the oPt increased by about 3.8 percent in the second half of the year.

3. Types of Employment

The employment status of working people, and changes in this over time, are suggestive of the quality of work and/or the social composition of the population. For example, a growing proportion of employers suggests expanded business formation and improved economic conditions and vice versa. In the Palestinian context, a growing proportion of the self-employed—those who neither employ nor employed by others—suggests higher levels of unemployment and/or greater informality and vice versa. Increases in unpaid labour suggest disguised unemployment and growing informality, usually in agriculture and commerce.

Table 12

Employment Status in the oPt by Refugee Status, First-Half 2010 and Second-Half 2010 Averages

Employment Status	**First-Half 2010**	**Second-Half 2010**	**Absolute Changes**	**Relative Changes**
Employer	48,767	45,656	-3,111	-6.38%
of which: refugees	*13,076*	*12,790*	*-286*	*-2.19%*
of which: non-refugees	*35,691*	*32,866*	*-2,825*	*-7.91%*
Self-Employed	145,992	132,988	-13,003	-8.91%
of which: refugees	*43,011*	*36,359*	*-6,652*	*-15.47%*
of which: non-refugees	*102,980*	*96,629*	*-6,351*	*-6.17%*
Wage Employee	498,956	505,387	6,431	1.29%
of which: refugees	*187,905*	*184,860*	*-3,045*	*-1.62%*
of which: non-refugees	*311,050*	*320,527*	*9,476*	*3.05%*
Unpaid Family Member	55,155	52,914	-2,241	-4.06%
of which: refugees	*11,383*	*10,683*	*-700*	*-6.15%*
of which: non-refugees	*43,773*	*42,231*	*-1,541*	*-3.52%*
Total Employment	749,794	738,286	-11,508	-1.53%
of which: refugees	*255,494*	*244,761*	*-10,733*	*-4.20%*
of which: non-refugees	*494,300*	*493,525*	*-776*	*-0.16%*

Table 12 indicates that, while total net employment was down 1.5 percent as between the first and second halves of the year, the number of the self-employed declined by 8.9 percent; the

[29] From PCBS labour force survey data provided by special request.

number of employers fell 6.3 percent; the number of unpaid family members fell 4 percent. Meanwhile, wage employment increased 1.2 percent.

The decline in self-employment, unpaid family members and the increase in wage labour suggests less informality in the economy. On the other hand, the decline in the number of employers is indicative of a falling small business ownership or formation.

E. Wage Rates and Monthly Wage Incomes

As indicated in Table 13 average nominal daily wages rose 1.2 percent in second-half 2010 to about NIS 92.3. Non-refugee daily wages were up by nearly 0.5 percent to NIS 98 while those of refugees rose 2 percent to NIS 80.4. In both periods, non-refugee wages remained above those of refugees.

Table 13

Nominal and Real Average Daily and Monthly Wages in the oPt by Refugee Status, First-Half 2010 and Second-Half 2010 Averages[30]

Average Daily Wages (Nominal NIS)	**First-Half 2010**	**Second-Half 2010**	**Relative Change**
All Employed Persons	91.2	92.3	1.23%
Employed Refugees	78.7	80.4	2.09%
Employed Non-Refugees	97.5	98.0	0.51%
Average Monthly Days			
All Employed Persons	22.1	22.3	0.89%
Employed Refugees	22.5	23.0	1.96%
Employed Non-Refugees	21.9	21.9	0.42%
Average Monthly Wages (Nominal NIS)			
All Employed Persons	2,013	2,056	2.13%
Employed Refugees	1,773	1,846	4.09%
Employed Non-Refugees	2,132	2,152	0.93%
CPI Deflator (2004 = 1.0)	1.28	1.30	2.16%
Average Monthly Wages (Real NIS)			
All Employed Persons	1,577	1,577	-0.03%
Employed Refugees	1,389	1,416	1.89%
Employed Non-Refugees	1,671	1,651	-1.20%

Refugees and non-refugees increased their work effort as measured by the average monthly days worked. Refugees worked an average of 1.9 percent more days per month in the second half of the year while non-refugees increased theirs by 0.4 percent.

Multiplying the average daily wage by the average number of days worked yields an average nominal monthly wage income of NIS 2,056 in second-half 2010, up 2.1 percent relative to

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

the first half of the year. The average monthly wage for employed refugees was about NIS 1,846 and for non-refugees about NIS 2,152. Consumer prices increased by 2.1 percent in the second half of the year. This resulted in the a slight decline in the purchasing power of average wage incomes with refugees witnessing a gain of 1.8 percent and non-refugees suffering a 1.2 percent decline in such wages.

F. Summarising Labour Market Trends: First-Half 2010 and Second-Half 2010

Overall employment declined marginally while unemployment rose sharply in the oPt in the second half of the year. There were about 11,500 fewer people employed and about 44,115 more unemployed ones in this period. In net terms, the public sector generated more jobs while the private sector and employment in Israel fell off. Refugee employment in both the private sector and Israel fell disproportionately fast. Refugees lost employment in both the West Bank and Gaza. Non-refugees in the West Bank saw a slight decline in employment while those in Gaza gained jobs at a rate of 2.9 percent. The private sector in both the West Bank and Gaza shrank while the public sector in each expanded.

About 31.5 percent of the broad labour force in the oPt were unemployed in second-half 2010. In the West Bank, the rate stood at about 25.5 percent; in Gaza at about 45.2 percent. Youth unemployment—the highest of any demographic segment—in the West Bank was 39.5 percent; in Gaza it reached an unprecedented 73.1 percent in second-half 2010.

Women experienced a marginal reduction in employment and saw a sharp increase in unemployment levels but growth in average real wages during this period. Their average broad unemployment rate was about 33.8 percent, about 3 percentage points higher than the oPt average and, since second-half 2009, consistently above those of men.

Employment stagnation, rising unemployment and price inflation were associated with stagnant real average monthly wages. While non-refugee average real monthly wages remained well above those of refugees, non-refugees saw a 1.2 percent decline in these wages in second-half 2010 while refugees saw a gain of 1.8 percent relative to first-half 2010.

V. The Labour Market: 2009 and 2010

Comparing labour market conditions between parallel annual periods yields much better insight into underlying trends because it largely eliminates the seasonality in data and utilizes a larger database derived from four field surveys in each year, rather than two. What follows is an analysis of oPt labour market conditions comparing conditions as between 2009 and 2010.

A. Labour Force

Based on the 2007 census, it is estimated that the total population of the oPt, including East Jerusalem averaged 3.94 million in 2009 and 4.06 million in 2010, with an implied population growth rate of about 3 percent. The working age population (15 years and above) for the same periods is estimated at an average of 2.25 million and 2.34 million respectively, with a corresponding estimated growth rate of 3.9 percent.[31]

The broadly-defined labour force, as indicated in Table 14, increased by an estimated 3.5 percent to about 1.06 million persons. There were an estimated 36,700 new labour force participants, all of them non-refugees. In net terms, the refugee labour force declined by

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

about 2.3 percent as some 9,385 refugees left the labour market. The non-refugee labour force grew by 46,100 persons or 7.3 percent. In 2010, the broad labour force participation rate averaged 44.7 percent of the working age population, a decline of about 0.1 percentage points relative to 2009.

Table 14

Estimates of Average Labour Force, Employment and Unemployment in the oPt by Refugee Status, 2009 and 2010 Averages

Labour Market	**2009**	**2010**	**Absolute Changes**	**Relative Changes**
Working-Age Population (15+)	2,287,812	2,376,090	88,278	3.86%
of which: refugees	*970,732*	*1,009,172*	38,440	3.96%
of which: non-refugees	*1,317,080*	*1,366,918*	49,839	3.78%
Labour Force (Broad Definition)	1,025,455	1,062,172	36,717	3.58%
of which: refugees	*398,630*	*389,245*	-9,386	-2.35%
of which: non-refugees	*626,824*	*672,927*	46,103	7.35%
Employment	717,315	744,040	26,725	3.73%
of which: refugees	*257,912*	*250,128*	-7,785	-3.02%
of which: non-refugees	*459,403*	*493,912*	34,509	7.51%
Unemployment (Broad Definition)	308,113	318,132	10,018	3.25%
of which: refugees	*140,700*	*139,117*	-1,583	-1.13%
of which: non-refugees	*167,413*	*179,015*	11,602	6.93%

On a regional basis, the broadly-defined labour force in the West Bank is estimated to have increased by about 4.3 percent with a 6.3 percent decline in the size of the refugee labour force and an 8.3 percent increase in non-refugee labour market participants. In Gaza, the broad labour force is estimated to have increased by about 2.1 percent with a 1.2 percent increase in the number of refugees in the labour force and a 3.5 percent increase in the non-refugee labour force. The average broad labour force participation rate in the West Bank in 2010 was 47.2 percent while it stood at 43.6 percent in Gaza.

Average employment in the oPt increased by an estimated 26,725 jobs in net terms, a 3.7 percent increase relative to 2009. Non-refugees accounted for all job growth, adding some 34,500 positions or 7.5 percent, while refugees suffered a loss of 7,785 jobs on average or about 3 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 almost no gains for refugees.

The broad number of unemployed—the number of persons actively seeking work combined with discouraged workers—in 2010 rose by an average of 10,000 persons or 3.2 percent relative to 2009. On average there were about 318,130 unemployed persons in the oPt in 2010, of which 43.7 percent were refugees. The withdrawal of refugee from the labour force was reflected in a 1.1 percent decline in the number of unemployed in their ranks. Thus, there were fewer refugees working and fewer available for work in 2010. Meanwhile, the number of unemployed non-refugees rose by some 11,600 or 6.9 percent.

B. Employment

On a year-on-year basis and on average, total employment in the oPt rose 3.7 percent in 2010 (refer to Table 15). The private sector accounted for 83.2 percent with employment in Israel and settlements accounting for the remainder of the growth. The public sector shed more than

2,100 jobs on average in 2010, a decline of about 1.1 percent. The private sector added an average of 25,160 positions or 5.4 percent. Palestinian employment in Israel and settlements grew by about 5,000 positions or 6.9 percent. Net refugee employment declined 3 percent as they lost ground in all three sectors. Non-refugees gained employment in all sectors with a 7.5 percent increase overall.

Table 15

Estimates of oPt Employment by Sector and Refugee Status, 2009 and 2010 Averages[32]

Sector Employment	2009	2010	Absolute Changes	Relative Changes
Public Sector	180,417	178,301	-2,116	-1.17%
of which: refugees	88,138	85,979	-2,159	-2.45%
of which: non-refugees	92,279	92,322	43	0.05%
Private Sector	461,272	486,436	25,164	5.46%
of which: refugees	151,772	151,374	-398	-0.26%
of which: non-refugees	309,500	335,062	25,562	8.26%
Israel, Industrial Zones, Settlements	73,103	78,171	5,068	6.93%
of which: refugees	17,390	12,682	-4,709	-27.08%
of which: non-refugees	55,713	65,489	9,777	17.55%
Total Employment	717,315	744,040	26,725	3.73%
of which: refugees	257,912	250,128	-7,785	-3.02%
of which: non-refugees	459,403	493,912	34,509	7.51%

On a regional basis, public sector employment fell 0.5 percent in the West Bank and declined 1.8 percent in Gaza. West Bank private sector employment grew 5.2 percent while in Gaza such employment grew 6.2 percent. West Bank employment in Israel and settlements expanded by 6.9 percent, growing faster than domestic employment there.

In the West Bank, refugee employment fell 5.3 percent while in Gaza there was virtually no change in the number of employed refugees in 2010 relative to 2009. **Thus, the West Bank accounted for all of the decline in refugee employment in the oPt in 2010.** Non-refugee employment in the West Bank grew by 7.9 percent, mainly accounted for by the private sector. In Gaza, the employment of non-refugees increased 6.4 percent with more, nearly all of it in the private sector.

Manufacturing was the only private sector activity to lose employment in 2010 with an estimated net loss of 530 jobs (see Table 16). There was only slight manufacturing growth in the West Bank and a net loss in Gaza. Every other private sector activity saw an increase in employment. Of the 25,640 gross private sector job gains, 43.8 percent were in construction; 17 percent were in commerce, hotels and restaurants and 12 percent were in other private services.

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

Table 16

Estimates of oPt Private Sector Employment by Activity and Refugee Status, 2009 and 2010 Averages[33]

Private Sector Activity	2009	2010	Absolute Changes	Relative Changes
Agriculture, Fishing	76,432	81,713	5,281	6.91%
of which: refugees	15,559	17,659	2,100	13.50%
of which: non-refugees	60,873	64,054	3,181	5.23%
Manufacturing, Mining	75,305	74,774	-532	-0.71%
of which: refugees	20,203	18,292	-1,911	-9.46%
of which: non-refugees	55,103	56,482	1,379	2.50%
Construction	48,097	59,334	11,237	23.36%
of which: refugees	12,314	15,841	3,527	28.64%
of which: non-refugees	35,783	43,493	7,710	21.55%
Commerce, Hotels & Restaurants	125,829	130,185	4,356	3.46%
of which: refugees	46,146	42,995	-3,151	-6.83%
of which: non-refugees	79,683	87,190	7,507	9.42%
Transportation, Communication	37,794	39,472	1,678	4.44%
of which: refugees	12,491	13,244	753	6.03%
of which: non-refugees	25,302	26,228	925	3.66%
Other Private Services	97,869	100,959	3,090	3.16%
of which: refugees	45,059	43,343	-1,716	-3.81%
of which: non-refugees	52,810	57,616	4,806	9.10%
Total Private Sector Employment	461,326	486,436	25,110	5.44%
of which: refugees	151,772	151,374	-398	-0.26%
of which: non-refugees	309,554	335,062	25,508	8.24%

In proportional terms, employment growth in construction was by far the most rapid, rising 23.3 percent in the year-on-year comparison. While construction employment grew about 15.5 percent in the West Bank or by about 7,200 jobs, such employment rose in Gaza grew by an estimated 242 percent, rising from about 1,665 jobs in 2009 to 5,700 in 2010.[34] Besides construction, only employment in agriculture grew at a rate above average private sector employment growth in the oPt in 2010. About 54.3 percent of growth in agricultural employment was accounted for by Gaza, probably due to reconstruction of lands and assets destroyed by the Israeli assault in 2009 and by increased availability of inputs. Employment in transportation and communication and other private services, which each grew by double-digit rates in 2009, grew at rates below average in 2010.

[33] Data in this table excludes Palestinian employment in Israel.

[34] What appears to be a rebound in construction in Gaza was fueled by the increasing availablity of construction materials mainly due to rising imports of such inputs through the tunnel economy and partly to the marginal easing of import restrictions imposed by the GOI. Construction employment growth in Gaza must be kept in perspective: such employment in 2005 was about 16,700, nearly three times its level in 2010.

In net terms, non-refugee accounted for all job growth in the private sector with 8.2 percent more jobs. Refugee employment in the sector was down marginally. There was more or less proportional refugee employment growth in agriculture, construction and transport and communications. On the other hand, refugees lost employment in manufacturing, commerce and other private services while non-refugees gained employment in each of these activities.

C. Unemployment

Both core and broad unemployment rates declined marginally in 2010 relative to 2009. The ILO unemployment rate fell from about 24.5 percent to 23.7 percent, while the broad rate declined from 30 percent to 29.9 percent (see Table 17). Refugees and non-refugees alike experienced lower ILO unemployment rates, although that of non-refugees declined more rapidly, widening the disparity in rates for the two groups in favour of non-refugees. On the other hand, the refugee broad unemployment rate rose marginally to 35.7 percent while that of non-refugees declined 0.1 percentage points to 26.6 percent. Thus, the refugee broad unemployment rate in 2009 was about 9 percentage points higher than that of non-refugees.

Table 17

Estimates of Narrow and Broad Unemployment Rates and Unemployment in the oPt by Refugee Status, 2009 and 2010 Averages[35]

Unemployment Rates	**2009**	**2010**	**Relative Changes**	
Unemployment Rates (ILO Definition)	24.56%	23.73%	-3.38%	
refugees	*29.50%*	*29.45%*	-0.17%	
non-refugees	*21.48%*	*20.47%*	-4.68%	
Unemployment Rates (Broad Definition)	30.05%	29.95%	-0.34%	
refugees	*35.30%*	*35.74%*	1.25%	
non-refugees	*26.71%*	*26.60%*	-0.40%	
Unemployed			**Absolute Changes**	**Relative Changes**
Unemployment (ILO Definition)	233,354	231,549	-1,805	-0.77%
of which: refugees	*107,807*	*104,418*	-3,389	-3.14%
of which: non-refugees	*125,546*	*127,131*	1,584	1.26%
Unemployment (Broad Definition)	308,191	318,132	9,941	3.23%
of which: refugees	*140,718*	*139,117*	-1,601	-1.14%
of which: non-refugees	*167,473*	*179,015*	11,542	6.89%

Under the ILO definitions of labour force and unemployment, there was only a 0.7 percent decline in the total number of unemployed persons. This was due mainly to a drop in refugee labour force participation as noted above. With fewer refugees seeking work, the number of unemployed refugees declined 3.1 percent while the number of unemployed non-refugees grew by 1.2 percent. Under the broader definitions of labour force and unemployment, even with an increase in the refugee broad unemployment *rate*, there was a 1.1 percent reduction in the total *number* of unemployed refugees. On the other hand, greater rates of labour force

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

participation among non-refugees contributed to a 6.8 percent increase in the absolute numbers of unemployed non-refugees.[36]

Gaza accounted for about 47 percent of the broadly unemployed in the oPt as the total number of unemployed there rose 1.8 percent. **The broad unemployment rate in Gaza averaged 43.6 percent as compared to 23.4 percent in the West Bank where the ranks of the unemployed rose by 4.5 percent.**

Employment growth and the reduction in unemployment reduced the estimated dependency ratio[37] from 5.7 in 2008 to 5.5 in 2009, a 3.8 percent reduction in the number of people supported by each employed person's income. At the same time, a dependency ratio of 5.5 implies that one more unemployed person affects the well-being and living levels of 4.5 others. For 2009, the dependency ratio in Gaza is estimated at 7.9 in 2009, down 2.2 percent relative to 2008 and at 4.6 in the West Bank, down 4.5 percent.

D. Social Composition of the Employed

1. Youth in the Labour Market[38]

The labour force participation rate among youth 15-24 years of age declined by about one percentage point in 2010, as indicated in Table 18. However, population growth in this demographic segment led to a 5.1 percent increase in the broad youth labour force, i.e. those working, seeking work or those wanting to work but not actively seeking. In total, there was an estimated average of about 289,000 youth in the labour force, about 27.2 percent of the total oPt labour force. On a regional basis, the West Bank youth labour force grew 1.3 percent while that in Gaza grew about 2 percent.

Youth employment grew 2.2 percent to about 151,000 while the number of unemployed youth rose 8.4 percent to about 138,000. Thus, youth unemployment grew nearly four times faster than youth employment. Furthermore, youth employment grew more slowly, and youth unemployment grew more rapidly, than the population at large. Youth were only 20.3 percent of all oPt employed in 2010 but 43.4 percent of all unemployed persons.

[36] It is important to remember that the broad labour force has three components: the employed, those actively seeking work and those wanting to work but not actively seeking work. A reduction in the unemployment rate when those surveyed report that they either have found work, are no longer searching for work and/or no longer want to work. Respondents reporting that they are no longer searching for work and/or no longer want to work will be recorded as having left the labour force. In the context of persistently high unemployment, such responses suggest elevated levels of frustration with the labour market experience. The broad unemployment rate may decline but this does not imply improved socio-economic conditions. The same applies to the narrow ILO definition of unemployment.

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

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

Table 18

Estimates of Labour Market Conditions for oPt Youth, 2009 and 2010 Averages

<u>**Youth Labour Force Profile**</u>	**2009**	**2010**	**Absolute Changes**	**Relative Changes**
Population (15-24)	805,865	832,414	26,550	3.29%
Labour Force (Broad)	274,889	289,004	14,115	5.13%
Employed	147,635	150,973	3,338	2.26%
Unemployed (Broad)	127,254	138,031	10,777	8.47%
Labour Force Participation Rate (ILO)	26.72%	25.77%	--	-3.56%
Discouraged Rate	7.39%	8.95%	--	21.10%
Labour Force Participation Rate (Broad)	34.11%	34.72%	--	1.78%
Unemployment Rate (ILO)	38.90%	38.81%	--	-0.23%
Unemployment Rate (Broad)	46.29%	47.76%	--	3.17%

In the West Bank, youth experienced a 4.8 percent increase in employment and 4.6 percent decline in the number of unemployed. In Gaza, there was 13.4 percent decline in the number of employed youth and a 10.2 percent increase in the broadly unemployed.

The broad youth unemployment rate in the oPt in 2010 was 47.7 percent. In the West Bank the rate was 34.9 percent while in Gaza the rate was an unprecedented 70.5 percent, certainly one of the highest in the world. [39]

2. Women in the Labour Market

As indicated in Table 19, the women's broad labour force participation rate declined marginally in 2010 to about 16.1 percent of the female working age population. Women's labour participation rate was therefore less than half that of youth and well below half the overall average rate. Women were about 17.6 percent of the economically active population in the oPt in 2010. Some 84 percent of adult women were outside of the formal oPt labour force, most of these reporting they were homemakers and housewives in the labour force surveys.

The number of women in the labour force declined by 1 percent, an estimated 1,880 persons, in 2010, as compared to 3.5 growth in the oPt as a whole. The number of employed women declined 2.3 percent, as compared to a 3.7 percent growth for the work force as a whole. The number of unemployed women climbed 1.8 percent, while unemployment in the labour force in general rose 3.2 percent. Thus, employment losses were the main reasons behind the decline in the size of the female labour force in 2010. The broad female unemployment rate was 32.4 percent, some 2.5 percentage points above the 29.9 percent average for the work force as a whole but well below the 47.7 percent youth unemployment rate. [40]

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[39] Unemployment rates in the oPt are among the highest in Middle East and North Africa which have the highest unemployment rates in the world. The average ILO unemployment rate in Middle East in 2008 was estimated at 9 percent and in North Africa at 10 percent. Very few countries—among them Bosnia and Herzogovina, Kosovo, Macedonia and Montenegro—had ILO unemployment rates of 30 percent or above in 2007-2008, according to ILO *Key Indicators of the Labour Market, Cahpter 4,* 2009. The CIA *World Fact Book* lists only 16 countries or territories (among 200) as having unemployment rates higher than that of Gaza in 2010. See www.cia.gov/library/publications/the-world-factbook/rankorder/2129rank.html.

[40] PCBS labour force data going back a decade indicates that, prior to 2009, female ILO unemployment rates were consistently below that of men's. The relationship was reversed in 2009 with women's rates now above those for men.

Table 19

Estimates of Women's Labour Market Conditions in the oPt, 2009 and 2010 Averages

Female Labour Force Profile	2009	2010	Absolute Changes	Relative Changes
Population	1,940,673	1,995,996	55,322	2.85%
Working-Age Population 15+	1,216,812	1,274,231	57,419	4.72%
Labour Force (Broad)	189,028	187,145	-1,884	-1.00%
Employed	129,389	126,345	-3,044	-2.35%
Unemployed (Broad)	59,683	60,800	1,117	1.87%
Labour Force Participation Rate (ILO)	15.53%	14.69%	--	-5.46%
Discouraged Rate	1.39%	1.46%	--	5.29%
Labour Force Participation Rate (Broad)	16.92%	16.15%	--	-4.58%
Unemployment Rate (ILO)	26.43%	26.76%	--	1.24%
Unemployment Rate (Broad)	31.57%	32.49%	--	2.92%

In 2010 about 21.5 percent of employed women in the oPt were engaged in agriculture, mainly as unpaid family labour.[41] Agricultural employment for women grew 2 percent in 2010 relative to 2009, as noted in Table 20. This was far slower than agricultural employment growth in general. The main concentration of employed women has been in public and private service employment including education, health, government administration, business and personal services, NGOs and UNRWA. Such services accounted for 61.7 percent of female employment in 2010, virtually unchanged from 2009. Services shed some 1,825 women from the ranks of the employed in 2010, a 2.2 percent decline.

Table 20

Estimates of the Activity Distribution of Employed Women in the oPt, 2008 and 2009 Averages

Womens' Activity Distribution	2009	2010	Absolute Changes	Relative Changes
Agriculture, Hunting & Fishing	26,545	27,087	542	2.04%
Mining, Quarrying & Manufacturing	11,498	9,430	-2,068	-17.98%
Construction	--	--	--	--
Commerce &Hotels & Restaurants	9,489	10,268	779	8.20%
Transportation& Storage & Communication	1,746	1,082	-664	-38.04%
Services & Other Branches	79,855	78,030	-1,825	-2.29%
Total Employed Females	129,313	126,293	-3,020	-2.34%
Public Employment	*38,756*	*38,476*	-280	-0.72%

The remainder of working women in 2010 were employed in commerce and hotels and restaurants—about 8.1 percent—and in manufacturing—7.4 percent. The number of women working in these activities grew 8.2 percent, a gain of about 780 positions. Meanwhile,

[41] PCBS labour force data indicates a strong correlation between female employment in agriculture and the proportion of women recorded as unpaid family members in the labour force surveys.

manufacturing employment declined nearly 18 percent for women in 2010, a loss of more than 2,000 positions. Women's real average daily wage declined by about 3.6 percent in 2010 as consumer price inflation outpaced average wage increases. Female real wages fell by a similar amount in 2009.

About 18.6 percent of adult women in the West Bank and 11.6 percent in Gaza were engaged in economic activity outside of the home in 2010. In the case of Gaza, this was a decline of about 2 percentage points relative to 2009. In the West Bank the female labour force grew by about 3.4 percent in 2010 while that in Gaza fell 11.8 percent. The number of employed women grew 1.1 percent in the West Bank and fell 15.9 percent in Gaza in 2010. Meanwhile, in broad terms, the number of unemployed women rose 10.6 percent in the West Bank but fell 7.9 percent in Gaza.

3. Types of Employment

The number of employers grew faster than overall employment suggesting relatively rapid business formation, a sign of improved small business conditions (see Table 21). Self-employment grew by 1.8 percent while wage employment grew 5.6 percent which, when combined with the growth in the number of employers and the nearly 6 percent decline in unpaid family labourers are suggestive of reduced levels of informality in the Palestinian economy in 2010.

Table 21

Estimates of Employment Status in the oPt by Refugee Status, 2009 and 2010 Averages

Employment Status	2009	2010	Absolute Changes	Relative Changes
Employer	44,914	47,212	2,297	5.11%
of which: refugees	*13,229*	*12,933*	-296	-2.24%
of which: non-refugees	*31,685*	*34,279*	2,593	8.18%
Self-Employed	136,913	139,490	2,577	1.88%
of which: refugees	*39,641*	*39,685*	44	0.11%
of which: non-refugees	*97,272*	*99,805*	2,533	2.60%
Wage Employee	475,487	502,172	26,684	5.61%
of which: refugees	*191,299*	*186,383*	-4,916	-2.57%
of which: non-refugees	*284,188*	*315,789*	31,600	11.12%
Unpaid Family Member	57,478	54,035	-3,443	-5.99%
of which: refugees	*13,125*	*11,033*	-2,092	-15.94%
of which: non-refugees	*44,353*	*43,002*	-1,351	-3.05%
Total Employment	717,315	744,040	26,725	3.73%
of which: refugees	*257,912*	*250,128*	-7,785	-3.02%
of which: non-refugees	*459,403*	*493,912*	34,509	7.51%

Developments in the West Bank—where employer numbers grew by 6.8 percent—were responsible for all growth in that category. The number of employers in Gaza fell 2.3 percent in this period. In absolute terms, there were 2.8 percent more self-employed in the West Bank in 2010 while in Gaza the numbers of self-employed fell 1.8 percent. Wage employment grew 5.8 percent in Gaza, a bit faster than in the West Bank where it rose 5.5 percent. In absolute terms, the West Bank generated about 18,300 more wage jobs with Gaza producing about 8,400 more. The decline in unpaid family labour was accounted for mainly by Gaza where such employment declined 39.7 percent compared to a 0.4 percent decline in the West Bank.

Developments in the West Bank were driven by continuing and substantial public spending supported by significant external assistance. Secondary spending in the private economy, as well as greater amounts of bank credit, generated increased consumer demand that contributed to small business formation. In Gaza, the re-emergence of commercial activity, much of it related to the tunnel economy, and marginally eased border restrictions on goods, as well as high levels of public sector and UN employment, had the effect of generating more wage employment, especially in construction activity and transportation. However, this did not translate into more business formation. The relative withdrawal of refugees from the labour force resulted in declines in three of four employment categories with almost no change in self-employment. The decline in refugee wage employment and unpaid family labour in Gaza was particularly sharp.

E. Wage Rates and Monthly Wage Incomes

Despite employment growth, real wages of working people continued to deteriorate in 2010. Table 22 presents data on average wages and monthly days worked for all employed persons in the oPt. The average daily wage in nominal terms increased 0.4 percent in 2010 to NIS 91.7 (about USD 24.5 at the average USD/NIS exchange rate of 3.73). The average number of days worked on a monthly basis declined 0.6 percent. The combined effect of wage and work day changes was a 0.1 percent fall in the average nominal monthly wage in the oPt to NIS 2,034 (about USD 545.2). Refugees experienced a 3.9 percent decline in nominal average monthly wages while non-refugees had a 0.8 percent increase.

There was also a 3.75 percent increase in the average level of consumer prices in the oPt in 2010 relative to 2009. In inflation-adjusted terms, the real average monthly wage was down 3.7 percent year-on-year and down about 7.4 percent for refugees. Inflation depressed the average real monthly wage of non-refugee by 2.8 percent.[42]

[42] It is also important to note that the USD lost about 4.7 percent of its value against the NIS as between 2009 and 2010. To the extent that the USD prices of imported goods did not rise as quickly as the prices of domestically-produced goods and services, this would mitigate to some extent the decline in purchasing power of people in the oPt.

Table 22

Estimates of Nominal and Real Average Daily and Monthly Wages in the oPt by Refugee Status, 2009 and 2010 Averages[43]

Average Daily Wages (Nominal NIS)	**2009**	**2010**	**Changes**
All Employed Persons	91.3	91.7	0.45%
Employed Refugees	83.2	79.6	-4.39%
Employed Non-Refugees	95.9	97.8	1.91%
Average Monthly Days			
All Employed Persons	22.3	22.2	-0.60%
Employed Refugees	22.6	22.7	0.47%
Employed Non-Refugees	22.1	21.9	-1.04%
Average Monthly Wages (Nominal NIS)			
All Employed Persons	2,037	2,034	-0.15%
Employed Refugees	1,883	1,809	-3.94%
Employed Non-Refugees	2,123	2,141	0.85%
CPI Deflator (2004 = 1.0)	1.24	1.29	3.75%
Average Monthly Wages (Real NIS)			
All Employed Persons	1,638	1,576	-3.76%
Employed Refugees	1,514	1,402	-7.41%
Employed Non-Refugees	1,707	1,660	-2.80%

In the West Bank the average real monthly wage declined 2.2 percent in 2010 while in Gaza the average decline was 9.3 percent. Refugees in the West Bank lost 4.8 percent of the purchasing power of the average real monthly wage while non-refugees lost 1.8 percent. In Gaza refugees saw a 7.7 percent decline in purchasing power of their wages with non-refugees suffering a 10.8 percent loss. It is noteworthy that the decline in the purchasing power of wages has been a trend in the West Bank since 2005 and in Gaza since 2006.

F. Summarising Labour Market Trends: 2009 and 2010

In 2010 and on average there were 3.7 percent more people working and 3.2 percent more people wanting to work in the oPt relative to 2009. Refugee employment declined by 3 percent, while non-refugee employment grew an estimated 7.5 percent. Nonetheless, the ranks of unemployed refugees declined by 1.1 percent as the refugee participation rate declined for a second year in a row, while 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 almost no gains for refugees. 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 with most of these refugees.

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

More than 83 percent of job gains 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 in 2010 relative to 2009. **The private sector accounted for 79 percent of new jobs in the West Bank and all of new employment in Gaza in 2010. This was a major reversal of the role of the public sector in Gaza relative to 2009 when the vast bulk of new jobs were generated by the public sector.** In both the West Bank and Gaza, public sector employment receded in 2010.

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 ILO average rate of unemployment was 23.7 percent as compared to 24.5 percent in 2009. The broad rate fell to 29.9 percent from 30 percent in 2009. Despite fairly strong job growth, unemployment rates remained stubbornly high and among the highest in the world. Broad unemployment in the West Bank averaged 23.4 percent, very slightly higher than where it stood in 2009. In Gaza, the broad rate of unemployment averaged 43.6 percent in 2010, about 0.1 percentage points below its 2009 reading.

Core 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.

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. Youth were only 20.3 percent of all oPt employed in 2010 but 43.4 percent of all unemployed persons. 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 while the number of 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. At 34.9 percent and an unprecedented 70.5 percent, respectively, the youth unemployment rates for the West Bank and especially Gaza were among the highest in the world.

The women's labour force decline by about 1 percent in absolute terms in 2010, as employment fell 2.3 percent and unemployment grew 1.8 percent. The women's unemployment rate—at 32.4 percent—was significantly above the overall average, a phenomenon that emerged only in 2009. The only employment gains for women were in agriculture and commerce and hotel and restaurant activities and these were meagre. Women even lost positions in the public sector. 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. The West Bank female labour force increased 3.4 percent versus an 11.8 percent decline in Gaza.

The number of employers continued to rise in 2010, a trend dominated by developments in the West Bank. A relatively large decline in unpaid family labourers was due mainly to developments in Gaza. Likewise, Gaza was disproportionately responsible for the significant wage employment growth during that period.

Despite continued employment growth, the average real monthly wage was down about 3.7 percent with a 2.2 percent decline in the West Bank and a 9.3 percent decline in Gaza. Persistently high levels of unemployment continued to erode the real value of wage incomes in 2010. In general, the real wage deterioration was worse among refugees.

VI. Looking Ahead

Developments in the 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 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 the noteworthy growth 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.[44] 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.[45] 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

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

[45] This estimate assumes: 1) the growth of the working-age population during 2011-2015 is equal to its annual average growth rate during the 2000-2010—about 4 percent and; 2) that the labour force participation rate is maintained at its average rate during the 2000-2010 perriod—about 40 percent. The average ILO unemployment rate in the Middle East was estimated at 9 percent and about 10 percent in North Africa in 2008 according to ILO *Key Indicators of the Labour Market, Cahpter 4*, 2009.

sector investment in productive activities. The shift in the production pattern—noted by the IMF[46]—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.

[46] See IMF, *Macroeconomic and Fiscal Framework for the West Bank and Gaza: Fifth Review of Progress*, Madrid, April 13, 2009, pp. 5-6.