



ECONOMY AND EMPLOYMENT

In recent years, the Palestinian economy has been characterized by positive but weakening Gross Domestic Product (GDP) growth, high unemployment, and high pressure on real wages.¹ The Palestinian government is burdened by high public debt, especially to the private sector. Private sector growth has been stifled by Israeli restrictions on access and movement, as well as other influences associated with the occupation's highly capricious regime. Data from Palestinian firms surveyed in 2006 and again in 2013 showed no significant growth in capital investment or employment during this period due to the uncertainty and fragmentation related to Israeli-imposed restrictions.²

When considering economic development in Palestine, it is important to note that growth patterns have been different in the Gaza Strip and the West Bank (including East Jerusalem). These trends and supporting Israeli government policies threaten the economic and social cohesiveness of these two regional entities, contradicting their designation as a single territorial and legal entity as enshrined in UN resolutions and the Oslo Accords.

Real Gross Domestic Product (GDP)³ per capita for Palestine, as calculated by the PCBS, was \$461 during the second quarter of 2014.⁴ Regional disaggregation reveals, however, severe disparity in living standards between the West Bank and the Gaza Strip: \$591 per capita in the West Bank, and \$274 in the Gaza Strip. For the period of the second quarter of

¹ IMF (2014) 'Between a Rock and a Hard Place - Recent Economic Developments in the Palestinian Economy', presented by Dr. Udo Kock, Ramallah, 19 Feb. 2014, available at <http://www.imf.org/external/country/WBG/RR/2014/021914.pdf>

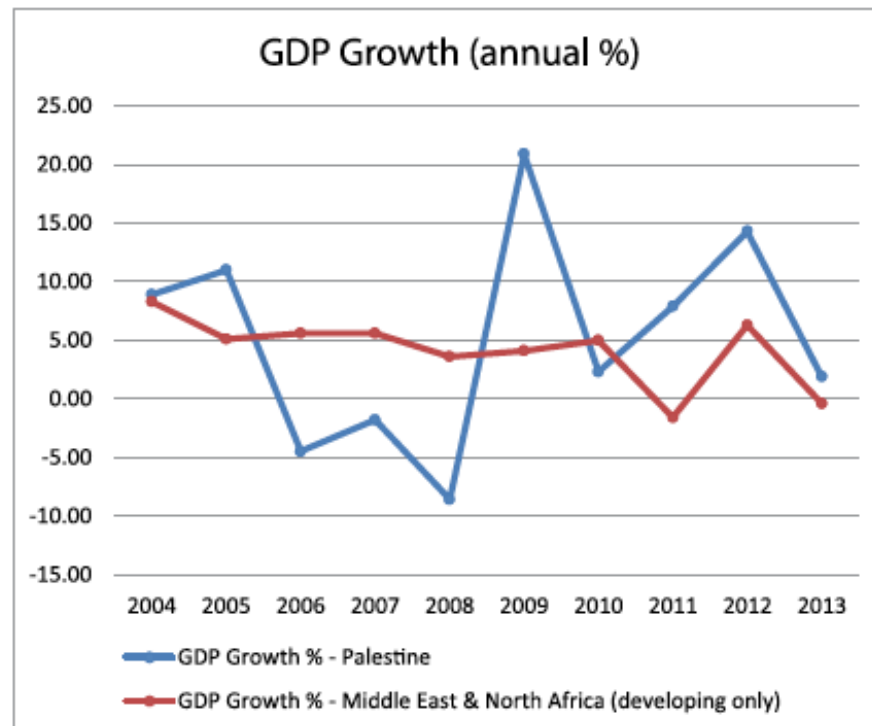
² World Bank (2014) 'West Bank and Gaza Investment Climate Assessment: Fragmentation and Uncertainty', available at <http://documents.worldbank.org/curated/en/2014/01/20189765/west-bank-gaza-investment-climate-assessment-fragmentation-uncertainty>

³ Gross Domestic Product or GDP is intended to be a measure of the value created by the productive activity of resident institutional units during a certain period in time.

⁴ PCBS (2014) 'Preliminary Estimates of Quarterly National Accounts (Second Quarter 2014)', Press Report, available at http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_NationalAccounts-Q2-2014e.pdf

2013 until the second quarter of 2014, growth in real GDP for Palestine overall was 0.9%. Again, analysis requires a regional perspective, as although the GDP for the West Bank grew by 5.2% in this 12-month period, the GDP of the Gaza Strip fell by 10.2%. (An important note: these figures consider the circumstances before the latest Israeli attack on Gaza, July-August 2014, which undoubtedly severely impacted the economy of the Gaza Strip, in particular.)

Figure 1: Palestine GDP growth (annual %)



Source: The World Bank

World Bank data show erratic trends of Palestinian GDP growth from 2004 to 2012, with overall annual growth as low as -8.6% (2008) and as high as 20.9% (2009).⁵ This lack of economic predictability can be largely attributed to factors associated with the Israeli occupation. Periodic outbreaks of violence, the injection of foreign aid, and the initiation or cessation of peace talks can have dramatic impacts on Palestine's economic performance and outlook. These factors are often mutually reinforcing, and they contribute to the volatility of the economic climate.

The US-brokered peace talks of 2013 did not succeed and the consequent macroeconomic impact is yet to be seen. With crises of liquidity, public finances and unemployment having been a prevalent characteristic of the West Bank and Gaza for the past few years, however, and with the pre-existing conditions having been very weak, it is likely that overall economic conditions will worsen substantially in the aftermath of the failure of the most recent round of

⁵ The World Bank. World Databank. Accessed January 1 2015. <http://databank.worldbank.org/data/home.aspx>

diplomacy, especially in view of the fact that the economic component of that round, namely, the “Economic Initiative for Palestine”, never really took off.

The effect of political- and security-related factors on the economy was especially evident during the 2004-2014 period. The Second Intifada, which erupted in late 2000, led to a severe contraction of the economy, and by the end of 2006, real GDP was 23% below its 1999 peak. Indeed, it was not before the year 2008 that the Palestinian economy, especially in the West Bank, started to fundamentally recover, on the strength of a combination of a substantial infusion of external aid, an easing of Israeli-imposed restrictions on movement in the West Bank, a substantial reduction in the PNA’s overdue financial obligations to the private sector, and the beginning of implementation of what ended up being a \$1.1 billion package of small- to medium-size infrastructure projects, including in previously marginalized areas. In addition to the clearly positive impact the implementation of these projects had on the scope for job creation, it also helped impart a sense of hope and possibility, as well as a sense of empowerment, amongst the public.

Indeed, the confluence of the aforementioned factors helped propel the economy to an overall growth rate of 20.9% in 2009.⁶ This overall improvement in economic achievement masks, however, the very poor performance in the Gaza Strip for much of the period since 2006 due to an intensification of the Israeli-imposed siege of Gaza, several rounds of major military escalation, as well as the process of political separation between the West Bank and the Gaza Strip since mid-2007. Despite this decidedly poor economic performance in the Gaza Strip, there were sporadic, and at times major, recoveries, albeit from a very low base, that were driven by the reconstruction in the aftermath of military escalation. This was evident in the post-2008/2009 Israeli attack on Gaza. Indeed, the stellar overall Palestinian economic performance in 2009, when the rate of economic growth reached 20.9%, largely reflected the substantial rebound in the Gaza Strip, when the rate of economic growth reached 26.6%. However, with the reconstruction effort yet to meaningfully begin, no such rebound, nor any rebound at all, has yet taken place in the aftermath of the July-August 2014 assault.

The volatile political and security situation likewise impacts the cost of living for the Palestinian population, as shown by abrupt, large fluctuations in the Consumer Price Index (CPI). The overall CPI for Palestine for September 2014 was 110.42 (base year 2010 = 100).⁷ In the one-month period between June 2014 and July 2014, the overall CPI rose by 1.53%, and the CPI in the Gaza Strip alone increased by 3.14%. This sharp rise in inflation can be

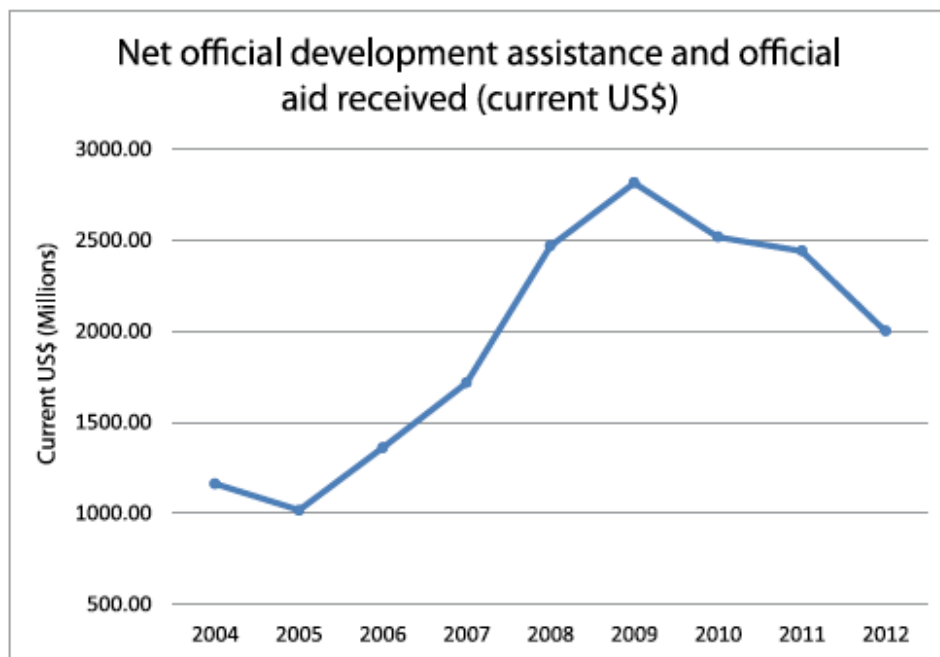
⁶ World Bank (2012) ‘Towards Economic Sustainability of a Future Palestinian State: Promoting Private Sector-Led Growth’, July 2012, available at <http://siteresources.worldbank.org/INTWESTBANKGAZA/Resources/GrowthStudyEng.pdf>.

⁷ PCBS calculates CPI on sub-groups of fresh vegetables, milk products, flour, rice, fresh fruit, potatoes and other tubers, fresh meat, dried vegetables, and fresh poultry. See PCBS (2014) ‘Palestinian Consumer Price Index, September, 09/2014: Increase in the CPI during September 2014 compared with previous month’, 14 Oct. 2014, available at http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_CPI092014E.pdf.

linked to the last round of military escalation in the Gaza Strip, in mid-June. It may be noted that from September 2013 to September 2014, the CPI grew by 2.11%.⁸

Another impediment to orderly economic development in Palestine is the heavy reliance on foreign aid. Despite overall levels of aid falling since 2009, Palestine remains one of the world's largest recipients of foreign aid on a per-capita basis, and the PNA has become increasingly dependent on donor assistance to fund its basic operations.⁹

Figure 2: Net official development assistance and official aid¹⁰ received by Palestine, 2004-2012



Source: The World Bank

⁸ PCBS (2014) 'Palestinian Consumer Price Index, July, 07/2014: A sharp rise in the CPI due to the Israeli aggression on Gaza Strip during July 2014 compared with previous month', 14 Aug. 2014, available at <http://www.pcbs.gov.ps/site/512/default.aspx?tabID=512&lang=en&ItemID=1187&mid=3171&wversion=Staging>.

⁹ World Bank (2012) 'Towards Economic Sustainability of a Future Palestinian State: Promoting Private Sector-Led Growth', July 2012, available at

<http://siteresources.worldbank.org/INTWESTBANKGAZA/Resources/GrowthStudyEng.pdf>.

¹⁰ See <http://data.worldbank.org/indicator/DT.ODA.ALLD.CD>: "Net official development assistance (ODA) consists of disbursements of loans made on concessional terms (net of repayments of principal) and grants by official agencies of the members of the Development Assistance Committee (DAC), by multilateral institutions, and by non-DAC countries to promote economic development and welfare in countries and territories in the DAC list of ODA recipients. It includes loans with a grant element of at least 25 percent (calculated at a rate of discount of 10 percent). Net official aid refers to aid flows (net of repayments) from official donors to countries and territories in part II of the DAC list of recipients: more advanced countries of Central and Eastern Europe, the countries of the former Soviet Union, and certain advanced developing countries and territories. Official aid is provided under terms and conditions similar to those for ODA. Part II of the DAC List was abolished in 2005. The collection of data on official aid and other resource flows to Part II countries ended with 2004 data. Data are in current U.S. dollars."

The impact of the injection of aid during the 2005-2010 period was seen in the disparate development across sectors, favouring non-tradeables and the public sector. Public administration and public services grew from less than 20% of GDP in 1994 to more than 27% in 2010; industry and agriculture declined from 13% to 10% and 9% to 6%, respectively.¹¹ In its 2012 report, the World Bank stressed the need for the establishment of a dynamic, private sector led economy as a key part of Palestinian state building. This fundamentally requires the easing of restrictions imposed by the Government of Israel, which prevent the development of a sustainable economic base by hindering investment and the movement of goods. Other comprehensive reports making the link between macroeconomic policy and human well being have supported this statement.

“All measures to revive the productive capacity of the Palestinian economy should be undertaken with a view to promote its ability to produce and export goods, including food.”¹²

- WFP/UNRWA/FAO 2012

Notwithstanding the dominant impact of the occupation’s capricious control regime on the performance and prospects of the Palestinian economy, the effectiveness of domestic policy choices and implementation can still be seen in the success of a policy agenda, which the PNA adopted in late 2007 with the aim of empowering local communities through investment in infrastructure in accordance with the priorities as seen by those communities. As a result, over the 2008-2012 period, that investment amounted to \$1.7 billion and, in all, more than 4000 projects were implemented, which led to a substantial increase in job creation, mainly in the construction sector. Indeed, the number of people employed in the construction sector nearly doubled during the 2009-2012 period, relative to the average of the 1997-2012 period, with noticeable positive spill-over effects in other sectors of the economy.¹³

Employment in general, however, is still critically insufficient in Palestine. There has consistently been high rates of unemployment across the oPt. In the second quarter of 2014, 45.1% of labour force participants¹⁴ in the Gaza Strip and 16% of those in the West Bank were unemployed.¹⁵ The unemployment rate in Palestine was 26.2%, overall.

¹¹ World Bank (2012) ‘Towards Economic Sustainability of a Future Palestinian State: Promoting Private Sector-Led Growth’, July 2012, available at <http://siteresources.worldbank.org/INTWESTBANKGAZA/Resources/GrowthStudyEng.pdf>.

¹² PCBS/UNRWA/FAO/WFP (2012) ‘Socio-Economic and Food Security Survey 2012: West Bank and Gaza Strip, Palestine’, available at http://unispal.un.org/pdfs/UN-PCBS_SocEconFoodSecSurvey2012.pdf.

¹³ PCBS (2014) ‘Number of Enterprises, Persons Engaged, and Main Economic Indicators in Palestine for Construction Activities 1997-2013’, available at <http://www.pcbs.gov.ps/Portals/Rainbow/Documents/Number%20of%20Enterprises,%20Persons%20Engaged%20and%20Main%20Economic%20Indicators%20in%20Palestine%20For%20Construction%20Activities%201997%20-%202012.htm>

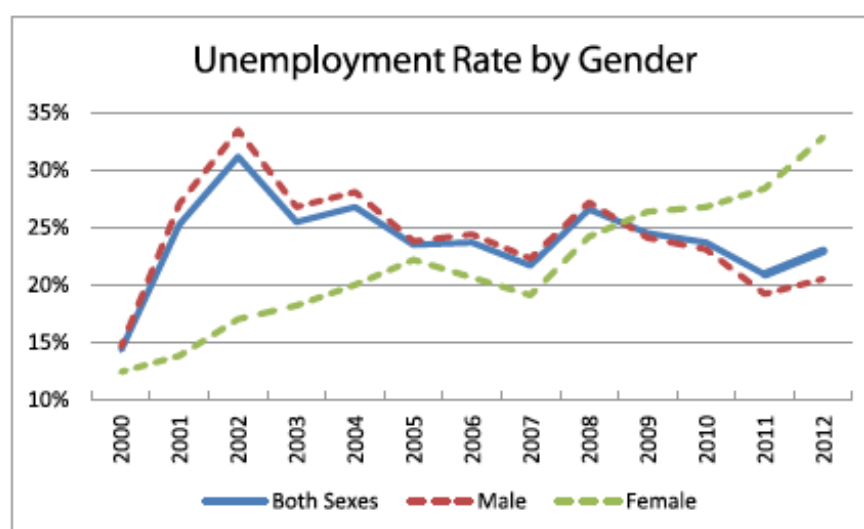
¹⁴ Unemployed persons are those individuals aged 15 years and above who did not work at all during the reference period, who were not absent from a job, were available for work and actively seeking a job during the reference period by one of the following methods: newspaper, registered at employment office, asked friends or relatives or any other method.

¹⁵ PCBS (2014) ‘Main Statistical Indicators in the West Bank and Gaza Strip’, available at http://www.pcbs.gov.ps/Portals/Rainbow/StatInd/StatisticalMainIndicators_E.htm.

Broken down by gender, a severe disparity can be seen: 22.6% of males were unemployed, while more than a third (39.4%) of women were unemployed. The highest rates of unemployment overall were concentrated in the 20-24 year age group (42.8%). When considering individuals with full education (at least 13 years of schooling), the incidence of the highest rates was among females, with more than one of every two out of work (52.4%).

Since 2000, unemployment has consistently been highest in Gaza (approximately 34% on average versus 19% on average in the West Bank). Youth and females were consistently the least employed.

Figure 3: Unemployment rate by gender, 2000-2012



Source: PCBS

The International Labour Organization (ILO) has stressed that future employment is one of the biggest concerns facing Palestinian youth.¹⁶ In a 2012 report, the organization listed key factors contributing to high and persistent unemployment in the oPt: restrictions on imports and exports (particularly impacting job creation in Gaza), restrictions on labour mobility and capital reallocation between the West Bank and the Gaza Strip, low private sector investment in non-construction related industries, high reservation wages,¹⁷ and the small size of most enterprises.¹⁸

¹⁶ ILO (2012) 'The situation of workers of the occupied Arab territories', Report of the Director-General (Appendix), Conference Paper, June 2012, available at http://www.ilo.org/ilc/ILCSessions/101stSession/reports/reports-submitted/WCMS_181071/lang--en/index.htm.

¹⁷ The reservation wage is defined as the lowest wage rate at which a worker would be willing to accept a particular type of job. In the Palestinian context, a problem has been that some job seekers choose to accept temporary unemployment or underemployment while waiting for a job in the public sector or in Israel or Israeli settlements, where wages are higher than those in the Palestinian private sector.

¹⁸ IMF (2012) 'West Bank and Gaza: Labor Market Trends, Growth and Unemployment', available at <https://www.imf.org/external/country/WBG/RR/2012/121312.pdf>.

Like overall economic growth, unemployment rates have risen and fallen based largely on political and security factors. Looking at IMF-reported statistics from 1995-2012, it can be seen that, after a sharp decline in unemployment in the years immediately following Oslo, unemployment in Palestine rose overall from 2000-2014. Unemployment rates went from a low of 12.4% in 1999,¹⁹ to a peak of 32% in 2002 (during the Second Intifada, corresponding to tightened Israeli restrictions), falling, and then rising again to 26% in 2008 (corresponding to the blockade on Gaza).²⁰ Similarly, given its high dependence on work in Israel, the Palestinian economy was unique in experiencing abrupt, substantial increases in the rate of unemployment – sometimes a doubling of that rate overnight – as a consequence of a full enforcement of the “closure regime”, which has been a part of the landscape to varying degrees since the mid-1990s.

Since 2010, unemployment rates have been lower in East Jerusalem than in the West Bank overall.²¹ Lower unemployment rates – especially amongst females – are unique characteristics of the labour force in East Jerusalem. The main reason for this is the absorption of labour force into the Israeli labour market, and also low labour force participation ratios. As such, the measure does not reflect on indigenous source of strength. Palestinians in East Jerusalem are often disproportionately impacted by restrictive Israeli policies and practices, like those related to obtaining licences and the very high cost thereof. Indeed, employment opportunities in East Jerusalem are quite limited, with that largely reflected in housing and business development.

Labour force participation is a key indicator of the extent of labour market activity and effectiveness in providing job opportunities. Latest statistics (October 2014) show that the labour force participation in Palestine for persons aged 15 years and above is 46%.²² This breaks down to 46.4% in the West Bank and 45.2% in the Gaza Strip. There is a significant gap in the participation rate between males and females: 71.8% of males were participating in the labour force, and only 19.7% of females. Annual statistics for 2013 were similar, with participation at that time four times higher amongst men than women at year’s end.²³ Female participation in the Palestinian labour force is especially low amongst those living in East Jerusalem, probably due to the smaller role of the agricultural sector in Jerusalem, and the

¹⁹ PCBS (2012) ‘Labour Force Participation, Employment, Unemployment and Average Daily Wage in NIS for Wage Employees in the Palestinian Territory by Governorate (ILO Standards), January - March, 2012’, available at http://www.pcbs.gov.ps/Portals/_Rainbow/Documents/Labor%20Force%20Annual.htm.

²⁰ IMF (2012) ‘West Bank and Gaza: Labor Market Trends, Growth and Unemployment’, available at <https://www.imf.org/external/country/WBG/RR/2012/121312.pdf>.

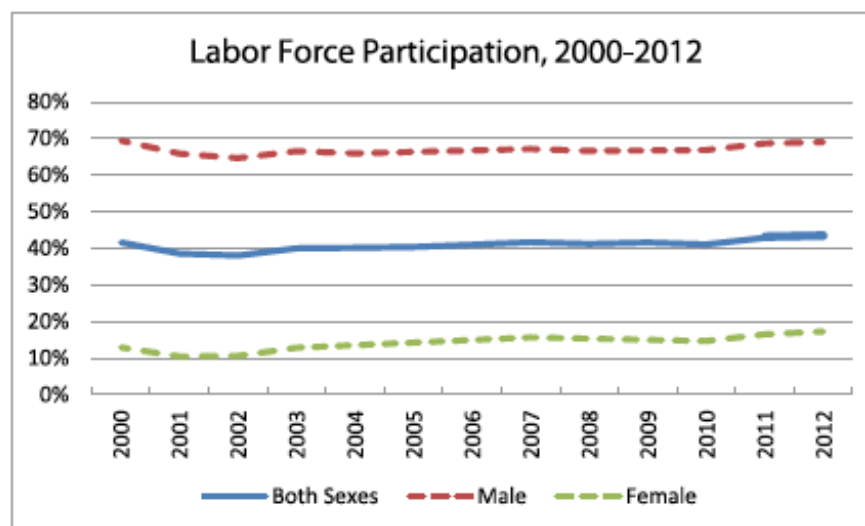
²¹ UNCTAD (2013) ‘The Palestinian Economy in East Jerusalem: Enduring annexation, isolation and disintegration’, available at http://www.un.org/depts/dpa/qpal/docs/2014Ankara/P2%20MAHMOUD%20ELKHAFIF%20gdsapp2012d1_en.pdf.

²² PCBS (2014) ‘Labour Force Survey: April-June 2014, Round (Q2/2014)’, Revised Press Report on the Labour Force Survey Results, 2 Oct. 2014, available at http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_LFSQ22014E.pdf.

²³ PCBS (2014) ‘Palestinian Labour Force Report 2013 - On the occasion of May 1st, International Worker’s Day’, Press Release, 1 May 2014, available at http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_IWD2014E.pdf.

reluctance of women in East Jerusalem to seek employment in the Israeli economy.²⁴ It is important to note that a PCBS study found that women outside the labour force were more vulnerable to physical violence.²⁵

Figure 4: Labor force participation, 2000-2012



Source: PCBS

Labour market developments in Palestine over the past two decades have reflected slow growth performance, and employment growth has been insufficient to absorb the growing labour force. An estimated real annual growth rate of at least 8% (and 3% productivity growth) is needed to absorb new entrants and achieve reasonable unemployment and wage growth rates.²⁶ Both the IMF and the World Bank have stressed the need to remove restrictions on movement and access in order to improve the functioning of Palestine's labour market.²⁷

As of November 2014, wage employees made up 63.5% of the labour force in the West Bank, and 75.3% in the Gaza Strip.²⁸ The private sector was the largest employer in Palestine (67.5% of employed persons in the West Bank and 54% in Gaza). The public sector (15.6% of the employment in the West Bank and 41% in Gaza), UNRWA (0.6% in the West Bank and 5% in Gaza), and Israeli settlements (16.3% in the West Bank) were the next largest

²⁴ UNCTAD (2013) 'The Palestinian Economy in East Jerusalem: Enduring annexation, isolation and disintegration', available at http://www.un.org/depts/dpa/qpal/docs/2014Ankara/P2%20MAHMOUD%20ELKHAFIF%20gdsapp2012d1_en.pdf

²⁵ UN Women/Palestinian National Authority Ministry of Women's Affairs (2011) 'Cross-Sectoral National Gender Strategy: Promoting Gender Equality and Equity 2011-2013', available at <http://www.unwomen.org/~media/headquarters/media/publications/en/unwomenoptfullpalestiniangenderstrategy2011.pdf>.

²⁶ IMF (2012) 'West Bank and Gaza: Labour Market Trends, Growth and Unemployment', available at <https://www.imf.org/external/country/WBG/RR/2012/121312.pdf>.

²⁷ World Bank (2012) 'Towards Economic Sustainability of a Future Palestinian State: Promoting Private Sector-Led Growth', July 2012, available at <http://siteresources.worldbank.org/INTWESTBANKGAZA/Resources/GrowthStudyEng.pdf>.

²⁸ PCBS (2014) 'Main Statistical Indicators in the West Bank and Gaza Strip', available at http://www.pcbs.gov.ps/Portals/Rainbow/StatInd/StatisticalMainIndicators_E.htm.

employers.²⁹ The average daily wage for wage employees was NIS 90.7 in the West Bank and NIS 66.1 in the Gaza Strip.^{30,31} Wages were significantly lower in the private sector than in the public sector, with a real average daily wage of only 53 NIS in 2013. Since 2008, private sector real wages declined in both the West Bank and the Gaza Strip. This discrepancy can be attributed to downward pressure on the private labour market, caused by restrictions on access and movement that hinder investment and thus job creation.³²

While higher than in the private sector, wage payments in the public sector were often subject to interruption and delay, particularly during periods when Israel resorted to punitively suspend the revenues it collects on behalf of the PNA, and also under the fiscal pressures emanating from aid shortfalls. In addition to the harm they inflicted on public sector employees and the banking system, wage delays had the effect of undermining confidence in the PNA, hampering its institution-building effort, and, more generally, discrediting its state-building programme.

As highlighted by the IMF mission to the West Bank and Gaza in late 2013, the delaying of wage payments to public sector employees is a major obstacle faced by the Palestinian economy. The Mission Chief blamed this delay on a lack of financing options for the PNA, the repeated delay of the transfer of clearance revenues, and the insufficiency of donor aid to cover fiscal deficits.³³ Unpaid wages stifle institution building and contribute to social instability.

Restrictions on so-called “Area C” and economic losses

Over 60% of the land mass of the West Bank is under full Israeli administrative and security control. These swaths of land, so-called “Area C”, pose insurmountable obstacles to sustainable economic development in Palestine. In a 2013 study of the impact of Israeli-imposed restrictions in “Area C”, the World Bank estimated annual output losses associated with those restrictions at \$3.4 billion – or an equivalent of 35% of Palestinian GDP in 2011 – with a consequent loss of \$800 million in tax revenues annually.³⁴ Thus, the lifting of the restrictions would not only help to address the high degree of fragmentation of the Palestinian economic space in the West Bank, with clear implications for Palestinian empowerment, but it could cut the PNA’s fiscal deficit by half, thereby substantially reducing its need for donor support.

²⁹ PCBS (2014) ‘Main Statistical Indicators in the West Bank and Gaza Strip’, available at http://www.pcbs.gov.ps/Portals/_Rainbow/StatInd/StatisticalMainIndicators_E.htm.

³⁰ The approximate exchange rate for NIS to USD for 2013 was 3.48.

³¹ Numbers for Palestine overall, not given. See PCBS (2014) ‘Labour Force Survey: April-June 2014, Round (Q2/2014)’, Revised Press Report on the Labour Force Survey Results, 2 Oct. 2014, available at http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_LFSQ22014E.pdf.

³² IMF (2012) ‘West Bank and Gaza: Labour Market Trends, Growth and Unemployment’, available at <https://www.imf.org/external/country/WBG/RR/2012/121312.pdf>.

³³ IMF (2014) ‘Statement at the Conclusion of an IMF Mission to the West Bank and Gaza’, Press Release no.14/44, 6 Feb. 2014, available at <https://www.imf.org/external/np/sec/pr/2014/pr1444.htm>

³⁴ World Bank (2013) ‘West Bank and Gaza: Area C and the Future of the Palestinian Economy’, 2 Oct. 2013, available at <http://documents.worldbank.org/curated/en/2013/10/18836847/west-bank-gaza-area-c-future-palestinian-economy>.