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FOR THE MIDDLE EAST PEACE PROCESS

UN: New Economic Figures for West Bank and Gaza Show Rapid Deterioration Leading to Human Catastrophe

Jerusalem, August 29 – The Palestinian economy is mired in a deep crisis, with unemployment levels rising significantly over the first half of 2002, according to preliminary figures released today by the Office of the United Nations Special Co-ordinator (UNSCO). These figures, part of a report due out next month, are the first international economic statistics on the Palestinian economy since Israel reoccupied West Bank urban areas last spring.

Particularly hard hit are the West Bank cities and towns, which the Israeli military has placed under lengthy curfews in response to a wave of terror attacks earlier this year. On days with curfew, the estimated unemployment rate reached 63.3 percent. Income losses now total US\$3.3 billion since October 2000. Poverty levels continue to increase at alarming rates, reaching 70 percent in the Gaza Strip.

“I am deeply disturbed by the figures. But I am not surprised -- given the iron grip that Israel has applied on the West Bank,” said Mr. Terje Roed-Larsen, the UN Special Co-ordinator. “Aid cannot fill the gap, but without it the economy would collapse. Against this backdrop, and before the eyes of the world, the Palestinian civilian population is scrambling to survive.”

Mr. Larsen unequivocally condemned the terror attacks by Palestinian groups that prompted the Israeli action, and emphasized Israel’s legitimate right to self defense. But in the face of the growing human catastrophe, Mr. Roed-Larsen asked Israeli officials to review their severe restrictions on the movement of Palestinian people and goods.

“In light of the hardships facing Palestinian civilians, within the next few days I will meet with senior Israeli officials and urge them to re-examine the application of their security measures. While I welcome Israeli statements that it will take steps to ease the situation, I would argue that some of its measures, in fact, are not reinforcing security,” he said. “Indeed, there is a gray area where legitimate defense of Israeli civilians has the de facto consequence of collective punishment for Palestinian civilians.”

Preliminary Figures Reveal Rapid and Steady Deterioration

UNSCO has been providing economic data and analysis on a regular basis for several years. These figures are widely recognized as useful for governments and major organizations. They provide credible estimates of the development – or in this case, the rapid deterioration – of the Palestinian economy, a linchpin in the pursuit of peace.

The numbers reveal an economy in dire straits, one that has deteriorated steadily since the beginning of a closure regime in October 2000. There are three main preliminary findings -- unemployment, poverty levels and income losses -- which are part of a 30-page report to be released next month on the performance of the Palestinian economy in the first half of 2002.

** Unemployment*

UNSCO estimates that the overall adjusted unemployment rate for the West Bank and Gaza Strip during the second quarter of 2002 increased from roughly 36 percent to approximately 50 percent. Unemployment fluctuates greatly according to the extent of curfews. UNSCO estimates that on curfew days involving approximately 600,000 people, the non-Jerusalem West Bank unemployment rises as high as 63.3 percent. Unemployment in the Gaza Strip has remained steady at! nearly 50 per cent.

** Income Losses*

Income losses stand at \$7.6 million per day, for a total of almost \$3.3 billion dollars since October 2000. This includes income from jobs in Israel as well as from domestic productive activities. Loss of income as a result of closures and restrictions far exceeds anything that the international aid community can provide.

** Poverty Levels*

UNSCO estimates put poverty -- based on two dollars or less consumption per day -- at 70 percent in Gaza and 55 percent in the West Bank.

A Devastating Impact on the Civilian Population

Throughout the West Bank and Gaza Strip, Palestinians have run out of money and are unable to work to earn it. They increasingly must rely on handouts, selling personal items, credit -- anything simply to survive. According to the Palestinian Central Bureau of Statistics, the period from just before Operation Defensive Shield to the weeks that followed, more than 56% of households lost at least half their income, and nearly 20% lost their income altogether.

The World Food Programme says that it will soon deliver food assistance to more than half a million beneficiaries. In addition, UNRWA has provided ongoing food aid to nearly a million refugees since October 2000. Aid money has largely shifted from projects intended to build a prosperous Palestinian state. Now it goes to short-term relief for the Palestinian people intended to reduce such things as malnutrition and epidemics.

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Notes on Methodology

Unemployment

UNSCO's unemployment figures are based on Palestinian Central Bureau of Statistics data. There are three levels of analysis. The first, and most, narrow, is the International Labor Organization rate. The second is the "adjusted" unemployment rate. The third is UNSCO's estimate of unemployment when factoring in curfew days in the West Bank.

Any person who reports having worked one hour or more per week is considered employed by ILO standards. In a period of crisis, the standard ILO unemployment definition is deficient. The large majority of the working population ends up working fewer hours and many are forced to take pay cuts. The value of an indicator such as the ILO standard is, therefore, significantly diminished.

The UNSCO estimate is for "adjusted" unemployment, as based on PCBS figures. This includes the discouraged: those who no longer seek employment, and who, by definition, are excluded from the narrow ILO standards.

In just three months, the ILO unemployment rate, as measured by the PCBS, increased from 28.9 percent to 33.6 percent in the Palestinian Territory. Due to the prevalence of curfew in the West Bank, and the inability of field workers to move about freely, this credible estimate should be seen as conservative, based on areas to which the PCBS had access.

In order to understand what happened to the labor market in Q2-2002, the PCBS estimates for ILO unemployment must be explained. First, this number was obtained from a survey that selected 7,559 households, but to which only 4,508 households were able to respond. That is a 60 percent response rate; average response rates typically exceed 85 percent. The results of the survey, therefore, should be understood to be valid for those areas to which the PCBS had access, on days that those areas were accessible. Therefore, this ILO unemployment rate must be understood to reflect reality in some of the places, some of the time – or, in more basic terms, in the economically active areas during relatively favorable time periods.

Based on PCBS data, UNSCO has re-estimated the unemployment rate on a curfew day in order to count among the unemployed and most vulnerable cross sections of the population, who are from the non-Jerusalem West Bank. Re-estimation of the non-Jerusalem West Bank unemployment rate results in a 63.3 percent adjusted unemployment rate when the West Bank urban centers are under curfew.

Furthermore, under the rough assumption that the main non-Jerusalem urban centers of the West Bank were under curfew for an average of 20 percent of Q2-2002, then the overall adjusted unemployment rate for the entire Palestinian Territory during Q2-2002 would increase from roughly 45 to between 50 and 55 percent.

Income Losses

Income losses are calculated based on 1999 PCBS National Income Account data for Gaza and the “remaining” West Bank (non-Jerusalem), and an estimated 5 percent growth in the absence of closure during 2000-2001. Actual GDP figures are calculated based on IMF estimated GDP losses of -1.8 and over -15.9 for 2000 and 2001 respectively. Total losses are the difference between projected growth and estimated losses. Daily losses are calculated based on 390 working days over the first fifteen month period.

Losses during 2002 are calculated based on regular closure losses, as observed in the first fifteen months of closure, in addition to more severe losses on curfew and partial curfew days. Curfew day losses are estimated based on the assumption that 50 percent of the non-Jerusalem West Bank potential GDP activities are halted, an admittedly conservative assumption.

During 2002 Israeli military incursions, there were essentially two waves of curfew imposed over the West Bank: one that began on March 29, 2002 and the other in the latter part of June. In between the two periods, there were many cases of curfew, in addition to more than 90 smaller-scale military incursions that were carried out in Palestinian localities in May 2002. The assumption is made that there were no ‘normal’ days as regards economic activity in the 2Q-2002 non-Jerusalem West Bank. All days in the quarter are therefore assigned as either under curfew or partial curfew (the latter designation being used for income loss estimates only), because, due to the instability under such circumstances, economic activity is highly constrained.

Income losses due to employment losses in Israel are calculated, not based on an assumed GNI growth rate, but on the simplification that employment levels in Israel would have remained the same in 2001-2002 as they were prior to the implementation of closure policies in October 2000.

In Q3-2000, there were 29,800 Gazans working in Israel, Israeli Settlements and Industrial Zones (ISI); there were also 116,100 West Bank Palestinians working in (ISI). At prevailing wage rates of \$24.4 in Q1-2002, and \$23.1 in Q2-2002, total daily losses due to lost employment in Israel equals US \$2.7 million.