

PALESTINIAN ECONOMIC BULLETIN

Bulletin 168
September 2020

Main reports

The PNA continues to pay 50% of public employees' salaries one month in arrears, as it lacks the necessary liquidity to pay the salaries in full

East Jerusalem has been hit hard by the pandemic, with systematic neglect by Israeli authorities

The Gaza Strip has been under lockdown since 24 August, after the first cases of community transmission outside quarantine zones were found

In August, Al-Quds index reached 446.0 points on the last day of trading, a decrease of 3.2% from the previous month and 15.2% from the corresponding month in 2019

Public Policy Response to COVID-19

By 23 September, the total cases of COVID-19 in Palestine reached 37,083, an 20.8% increase compared to the preceding month, following the emergence of a first wave of community infections in the Gaza Strip. Despite these developments and minimum public compliance with safety procedures, most economic activities have resumed. About 1.3 million elementary students returned to school on 6 September for the first time since March, and the Government is seeking to avoid a renewed lockdown.¹ With huge pressure on public finances, the Palestinian National Authority (PNA) is concentrating efforts on mitigating the economic ramifications of the pandemic through allowing economic activity to return to normal levels.

Public Finances

Adding to an already critical fiscal situation, the onset of the COVID-19 pandemic, continued Israeli deductions from PNA tax revenues, and a new clearance revenue standoff in the wake of the Government of Israel's (GoI) declaration of its plans to annex parts of the West Bank² all dealt a larger blow to public finance compared to the PNA fiscal crisis of 2019. The first six months of 2020 resulted in a 16.7% decrease in net public revenues compared to the corresponding period in 2019.

The pandemic alone has far-reaching fiscal implications. The slowdown in imports decreased clearance revenues by 18.9%, while the reduction in labour supply, freeze in economic activities, and deterioration in output decreased domestic revenues by 12.6%.³ Public expenditure has been needed more than ever during the pandemic, reducing at a slower pace than revenues resulting in a 65.8% increase in the current account deficit before financing. With reduced revenues, the already low level of development expenditure further decreased by 40.4%. Donor budget support also dropped significantly by 18.2%. In short, this year's public finance illiquidity crisis portends a greater insolvency crisis.

Table 1: Palestinian public budget, H1 of 2019 and 2020, million ILS (accrual basis)

Item	H1 2020	H1 2019	% Change
1. Net public revenues	5,246.6	6,299.1	-16.7%
A. Domestic revenues	1,974.9	2,260.6	-12.6%
B. Clearance revenues	3,472.5	4,283.8	-18.9%
C. Tax rebates (-)	200.7	245.3	-18.2%
2. Public expenditure and net lending	6,840.9	7,260.7	-5.8%
A. Salaries and wages	3,316.8	3,239.2	2.4%
B. Social transfers	330.6	328.8	0.5%
C. Other current expenditures	2,691.7	3,120.7	-13.7%
D. Net lending	501.8	572	-12.3%
3. Current account deficit before financing	-1,594.2	-961.6	65.8%
Development expenditure	324.8	545	-40.4%
4. Total deficit before aid and grants	-1,919	-1,506.6	27.4%
A. Budget support	790.8	966.5	-18.2%

Source: Palestinian Ministry of Finance

For over a decade, the PNA pursued fiscal reforms and had succeeded in reducing the budget deficit from 23.3% of GDP in 2006 to 6.3% of GDP by 2018, a significant and impressive

¹ <https://english.wafa.ps/Pages/Details/119119>

² Accounts for an annual loss of \$144m

³ <http://www.pmf.ps/pmf/documents/accounts/monthly/2020/Jun2020Ar.pdf>

performance. However, in 2019, the PNA fiscal situation took a negative turn following Israeli deductions from taxes it collected on behalf of the PNA, which resulted in the latter not accepting the reduced clearance revenue for over six months.⁴ As a result, the fiscal deficit increased to 9% of GDP (\$1.4bn) and 2019 ended with the largest financing gap in years (\$800m). The situation was exacerbated by the continued decline in donor budget support, which reached 3.5% of GDP in 2019, falling from 32% of GDP in 2008. The declining trend in aid, combined with its political unpredictability and fluctuations, has been a constant source of fiscal uncertainty. Consequently, the PNA relied on domestic sources to finance two thirds of the budget deficit. Commercial banks accounted for 64% of domestic financing and net arrears to the private sector accounted for the rest. Public debt rose by 8% in 2019, reaching \$2.8 billion, or 16.4% of GDP, of which domestic debt accounted for \$1.6 billion. This reflects a perverse situation whereby a national (if not sovereign) government with a sound fiscal performance, tasked with providing for public services and welfare for over 4 million citizens, cannot access international multilateral or market finance like any other country.

Fiscal and Monetary Response

The PNA continues to pay 50% of public employees' salaries one month in arrears, as it lacks the necessary liquidity to pay the salaries in full.⁵ The PNA will continue to pay salaries in this way as long as the transfer of clearance revenues remains suspended as a result of the PNA ceasing all forms of coordination with the Gol established under the Oslo and Paris Accords. It has so far refused the resumption of financial coordination (including the mutual clearance of trade tax revenues) unless the Israeli plans to annex parts of the West Bank are abandoned definitively and not merely 'suspended'.⁶ The Gol is refusing to transfer the revenues without resumption of clearance coordination.⁷

On 25 August, Mohammad Manasrah, Director of the Supervision and Inspection Department at the Palestine Monetary Authority (PMA), announced that \$32m in credit facilities were extended to SMEs affected by the COVID-19 pandemic through the 'Estidama' (sustainability) programme.⁸ The PMA launched the initiative in May 2020, with the aim of providing \$300m in financing for SMEs and micro-projects affected by the pandemic. These loans are provided at a reduced interest rates of 3% with a repayment period of up to 36 months.⁹ On 31 August, the PMA issued instructions to postpone July loan payments for all public servants without incurring any additional fees or interest.¹⁰

East Jerusalem Economic and Health Crisis

East Jerusalem has been hit hard by the pandemic, with systematic neglect by Israeli authorities.¹¹ The Israeli

Health Ministry confirmed the first COVID-19 case in Israel on 21 February 2020 but it was not until 2 April that Israeli medical services set up a drive-through testing facility in East Jerusalem.¹² For Palestinian communities on the Palestinian side of Separation Wall, the first testing centres opened as late as 13 April 2020. The disadvantaged status of East Jerusalem in official policies is also reflected in the inaccurate and unreliable tracking of the COVID-19 spread, the absence of official figures and the involvement of different bodies in collecting data. Moreover, East Jerusalem Palestinians' permanent residency status exacerbates the issues, as they are only entitled to access one out of Israel's four healthcare organisations, giving them limited access to testing.

These factors have resulted in a disproportionate impact of the pandemic on Palestinians in East Jerusalem compared to other parts of municipal Jerusalem, as well as the rest of Palestine. Over half of the cases in Jerusalem are in East Jerusalem even though Palestinians constitute less than 40% of Jerusalem's population. Around 43% of East Jerusalemites tested exhibit positive results, compared to 7% in Israel as a whole.¹³ Official new cases in East Jerusalem are rising even with limited access to tests, implying a large number of undetected cases.¹⁴

Impact on the Healthcare System

East Jerusalem's hospitals are handling enormous pressure in the midst of the pandemic. Whilst facing systemic underfunding, the hospitals also rely heavily on income from patient referrals from the West Bank and Gaza.¹⁵ After the PNA ended coordination with Gol, referrals dropped significantly, and some hospitals are unable to cover employee salaries. Al-Makassed Hospital, for example, has been struggling and is facing potential closure. The bed occupancy rate has decreased by 50% as the Palestinian Ministry of Health has often subsidised treatment at the hospital. Izz al-Din Hussein, the head of the hospital, stated that the hospital's debt is approximately \$47m, of which \$18m are unpaid commitments from the PNA, while the hospital itself owes \$20m to medical supply companies, and \$9m in taxes and health insurance.¹⁶

Impact on Economic Life

Private sector sources report that about 50% of shops in the Old City of Jerusalem are currently closed due to the lockdowns.¹⁷ The Old City has around 1,400 shops, 45% of which depend entirely on tourism. Currently, around 5,000 people visit the Old City every day compared to an average of 200,000 visitors prior to the pandemic.¹⁸ As part of public safety procedures, the Gol has stopped street vendors from operating in the Old City, depriving thousands of families mainly from the poorer rural areas south of Jerusalem, from their main source of

4 See B157

5 www.aliqtisadi.ps/article/77127/

6 <https://nyti.ms/35D7H8N>

7 <https://bit.ly/3kijzBc>

8 www.alquds.com/articles/1598343530437801600/

9 <https://bit.ly/2FG6SRy>

10 <https://bit.ly/3hur2eN>

11 www.alhaq.org/publications/17118.html

12 <https://bit.ly/3klildq>

13 <https://bit.ly/2ZDTvbT>

14 <https://bit.ly/3hTfUrT>

15 <https://bit.ly/3hTfUrT>

16 <https://bit.ly/3604Oix>

17 <https://bit.ly/2FHIQ96>; <https://bit.ly/3cit004>; <https://bit.ly/3h0DOVB>

18 <http://pnn.ps/news/537216>

income.¹⁹ Palestinian vendors reported unfair treatment, with increased security presence and fines over small violations such as a slightly lowered mask, whereas in West Jerusalem restrictions and sanctions are more relaxed.²⁰

Although economically dependent upon both Palestine and Israel, East Jerusalem is not integrated into the Palestinian or the Israeli economies, existing in a “developmental limbo”.²¹ Many Old City vendors stated that they have not received any money from the Israel National Insurance Institute (NII), despite paying their regular contributions to the fund like all other residents. Shopkeepers have also received little support from the PNA, where a private sector stimulus fund for workers affected by the pandemic, called “Waqfet Izz”, and social welfare payment schemes channeled through the PNA Ministries of Social Development or Labour have not included East Jerusalem residents.²² East Jerusalemites are facing further hardship, with the Gol demolishing 51 Palestinian structures during August 2020 alone, displacing 85 people.²³

As a result, East Jerusalem faced a precarious economic situation prior to the pandemic, with more than 77% living below the poverty line, compared to 23% among West Jerusalem residents.²⁴ A survey by the Palestine Central Bureau of Statistics (PCBS) in 2018 showed that 81.4% of the households in East Jerusalem are in need of cash assistance and 45% require food assistance.²⁵ The economy of East Jerusalem is heavily dependent on economic sectors that are the most vulnerable to the consequences of the pandemic. Commerce, trade and services sectors, including accommodation and food, constituted around 79.1% of East Jerusalem’s GDP and 64.9% of its labour force.²⁶ Additionally, 84.3% of the workforce in East Jerusalem are wage employees and are at significant risk of losing their income during the pandemic.

Further deterioration in Gaza

The Gaza Strip has long faced devastating socioeconomic and humanitarian conditions, and the pandemic has exacerbated the situation. The enclave has been under lockdown since 24 August, after the first cases of community transmission outside quarantine zones were found. Over 2,400 people have tested positive since then.²⁷ Tamara Al-Rifai, spokeswoman for UNRWA, warned of the dangers of this renewed spread, due to the high population density (2 million individuals within 160 square kilometers) and a lack of key medical equipment such as ventilators.²⁸ The Qatari Red Crescent Society is working to provide urgent aid to fight the pandemic in Gaza, with a total budget of \$95,000. So far, they have provided 800 COVID-19 rapid tests, 13,000 litres of disinfectant, as well as other supplies such as gloves and shoe covers.²⁹

Intensified Restrictions During the Pandemic

The renewed lockdown coincides with increased Israeli restrictions on the Gaza Strip. After Gazan youths fired incendiary balloons over the border at Israeli farmland, the Gol has repeatedly conducted air raids on the enclave, imposed a fishing ban, closed the main crossing for goods and suspended fuel imports.³⁰ The Israeli military began near daily air raids on Gaza beginning 6 August, until a ceasefire agreement was reached on 31 August, where the Gol also agreed to reopen the fishing zone.³¹

The Gol barred the entry of fuel (including donor-funded supplies) causing the Gaza Strip’s sole power plant to shut down since 18 August.³² The closure of the power plant resulted in a decline in power supply to 2-3 hours per day.³³ This is especially dangerous during the pandemic, as it jeopardises hospitals and quarantine centres. According to Ignacio Casares Garcia, head of the Red Cross in Gaza, the healthcare system in the Strip cannot handle more than a few dozen coronavirus patients, and there are insufficient medical supplies and equipment for treating COVID-19 patients. The electricity shortages have also threatened water desalination and distribution services, as well as sewage treatment centres. Raw sewage may be dumped into the Mediterranean Sea, which would harm the Gaza Strip’s fishing industry. This temporary halt in fishing activities has further harmed the economy and employment, as tens of thousands of Gazan families are dependent on the fishing industry.³⁴

Impact on Economic Life

On 18 August, the Palestinian NGO Network published a paper highlighting the effect of the pandemic on the economic situation in the Gaza Strip.³⁵ At the end of the first quarter of 2020, the unemployment rate reached 46% in the Gaza Strip, one of the highest rates of unemployment in the world. Tourism, which employed approximately 8,700 workers, has completely halted since the start of the pandemic. The transportation sector’s activity decreased by 80%, with over 3,000 workers affected. Almost 10,000 workers in industry have lost their jobs, with the construction, paper, metal, and aluminum sectors taking the largest hits. Commercial sectors saw a 60-70% decline in productive capacity, while agriculture also suffered heavy losses due to the closure of crossings causing reduced access to external markets.

August Trading

In August, Al-Quds index reached 446.0 points on the last day of trading, a decrease of 3.2% from the previous month and 15.2% from the corresponding month in 2019.³⁶ During the month, a total of 5.3m shares with a total value of \$11.1m were traded, marking a 33.6% decrease in the number and 36.3% in the value of traded shares compared to the previous month.

19 <https://bit.ly/3korKvF>

20 <https://bit.ly/3iPs8D5>

21 <https://bit.ly/3kvphzK>

22 <https://bit.ly/3mKlI9M>

23 www.sadaa.ps/237075.html

24 www.mas.ps/files/server/20191703143807-1.pdf

25 <http://www.pcbs.gov.ps/Downloads/book2531.pdf>

26 <https://bit.ly/2RGNEyh>

27 <https://bit.ly/32RNMRM>

28 <https://bit.ly/32zgFIi>; <https://bit.ly/2H40rIU>

29 <https://bit.ly/3moY6sk>

30 <https://bit.ly/2ZBIRSL>

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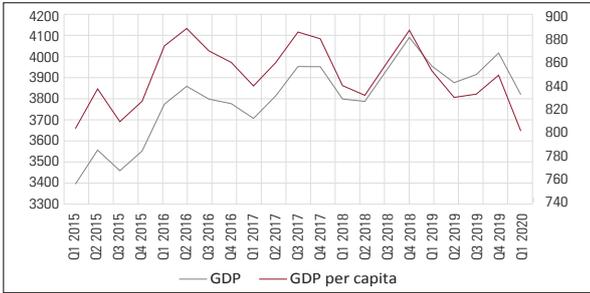
35 <https://bit.ly/3i0YRnH>

36 <https://bit.ly/2FBYXEY>

Palestine Economic Dashboard

Growth

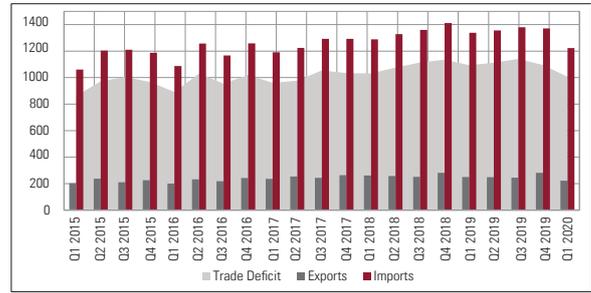
GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2015 – Q1 2020



GDP (Q1 2020): \$3,820.4m GDP per capita (Q1 2020): \$802
Source: PCBS

Trade

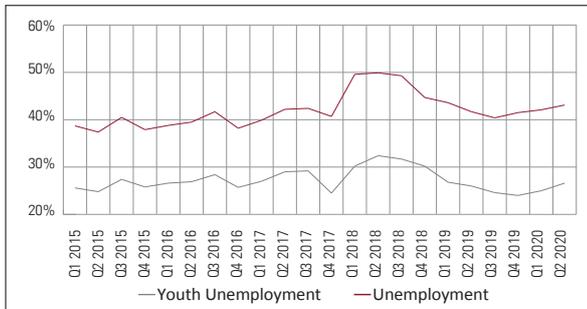
Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2015 – Q1 2020



Imports (Q1 2020): \$1,296.7m Exports (Q1 2020): \$230.6m
Trade deficit (Q1 2020): \$1,066.1m Source: PCBS

Unemployment

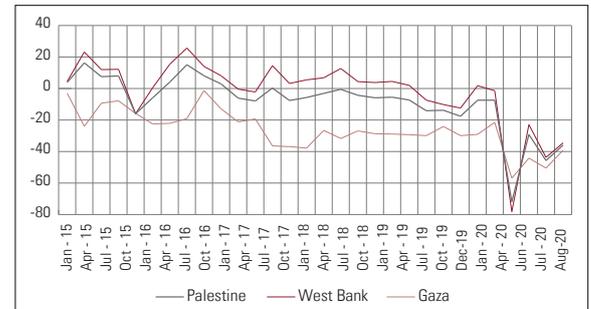
Unemployment and Youth Unemployment in Palestine, Q1 2015 – Q2 2020



Unemployment rate(Q1 2020): 26.6% Youth Unemployment rate (Q2 2020): 43.1%
Source: PCBS

Business Cycle Index

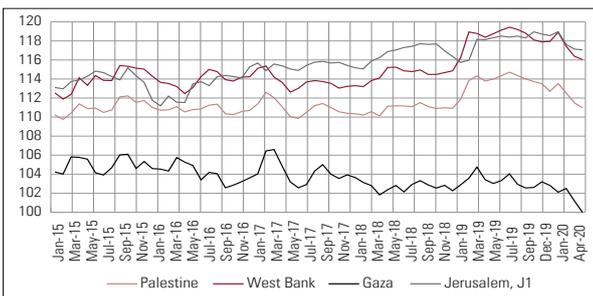
Palestine Monetary Authority Business Cycle Index, January 2015 – August 2020



Palestine (August 2020): -35.9 West Bank (August 2020): -34.5
Gaza (August 2020): -39.2 Source: PMA

Inflation

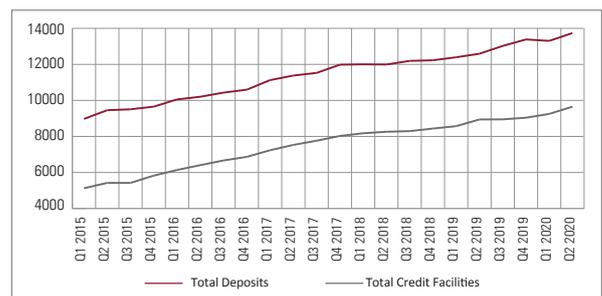
Consumer Price Index (Base year = 2010), January 2015 – August 2020



Palestine (August 2020): 110.8 West Bank (August 2020): 115.9
Gaza (August 2020): 99.7 Source: PCBS

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2015 – Q2 2020



Total Credit (Q2 2020): \$9,652.7m Total Deposits (Q2 2020): \$13,738.7m
Source: PMA

The Portland Trust



The Palestinian Economic Bulletin is prepared by the Palestine Economic Policy Research Institute (MAS) and edited by The Portland Trust. Please send any comments, suggestions, or complaints to feedback@portlandtrust.org

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