

PALESTINIAN ECONOMIC BULLETIN

Bulletin 171
December 2020

Main reports

According to a recent World Bank report, Palestinian GDP is expected to contract by 8% in 2020 due to the resurgent COVID-19 outbreak, a severe economic slowdown, and the PNA's political stand-off with Israel

According to the World Bank, 121,000 people lost their jobs in the second quarter of 2020, while the third quarter saw an improvement with 50,000 regaining their employment. This improvement puts the unemployment rate at 28.8% at the end of the third quarter

UNCTAD published a report on 25 November, investigating the economic cost of the closures and restrictions on the Gaza Strip

Al-Quds index reached 462.8 points on the last day of trading in November, an increase of 6.4% from the previous month

End of the Clearance Revenues Dispute

On 2 December, the Government of Israel (GoI) transferred \$1.14bn in clearance tax revenues to the Palestinian National Authority (PNA), ending six months of political and economic standoff. The decision by the PNA to restore ties with the GoI and accept fund transfers came two months after Israel froze its annexation plans, and two weeks after the US electoral victory of Joe Biden, who pledged to push for the return of negotiations over a two-state solution and to resume U.S aid to Palestinians.¹

The dispute was sparked by the announcement by the GoI of plans to annex parts of the West Bank as of 1 July 2020. In response, the PNA cut off all economic, security and civil affairs ties with the GoI and refused to accept monthly payments of the 'clearance tax revenues' due to the PNA on its imports from and through Israel.² These revenues are Palestinian fiscal revenues (Value Added Tax and customs duties) collected by the Government of Israel on behalf of, and transferred monthly to, the PNA.

The clearance revenues are a key source of public finance, as they comprise about two thirds of the PNA's total revenues and cover 50% of public spending.³ From 1996 to 2019, clearance trade tax revenues grew from 10% to 14% as a share of GDP, and their importance in funding wages and other recurrent spending continues to increase.

Temporary Relief

After months of drastic salary cuts for civil servants, severe economic losses following the outbreak of COVID-19 and an 80.8% drop in aid from Arab countries⁴, the tax transfers provide a liquidity injection to the financially strapped PNA.⁵ On 3 December, 130,000 public sector employees received their full November salaries (\$260m) and 50% of their remaining unpaid accrued salaries over the previous six months (\$365m).⁶ The Palestinian Ministry of Finance (MoF) promised to pay the remaining amount by the end of December. In addition to the \$625m paid in salaries, the MoF will cover \$183m of private sector arrears, mainly to hospitals and pharmaceutical companies, and \$137m of bank loan installments.⁷ The remainder will be used to ensure uninterrupted social transfers and resume the most vital programmes to support healthcare, education, agriculture and other vital economic sectors.⁸

Public Finance

The latest available public finance data show that net public revenues in Q3 2020 were 61% lower than the corresponding period in 2019. This clearly reflects the halted clearance revenues, but the deterioration in economic activity also meant that domestic revenues were 1.9% lower in Q3 2020 compared to the corresponding quarter in 2019, notwithstanding tighter enforcement of compliance.⁹ Donor budget support also dropped significantly by 51.0% in Q3. With reduced revenues, much-needed public expenditure dropped by 2% and the already low level of development expenditure further decreased by 14.8%. Net accumulated arrears increased by 41.9%.

1 <https://yhoo.it/3425Dp8> / <https://wapo.st/3qL1i3C>
2 <https://reut.rs/3gGfWVg>; <https://nyti.ms/3nasAhA>
3 <http://documents1.worldbank.org/curated/en/574441606230442130>
4 <https://bit.ly/2LoyXzJ>
5 <https://yhoo.it/3gB1DRE>
6 www.aliqtisadi.ps/article/78726/
7 www.aliqtisadi.ps/article/78747/
8 <https://english.wafa.ps/Pages/Details/122087>
9 <https://bit.ly/34kr1GD>

Table 1: Palestinian public budget for the third quarter of 2019 and 2020, million ILS (accrual basis)

Item	Q3 2020	Q3 2019	% Change
1. Net public revenues	926.5	2366.9	-60.9%
A. Domestic revenues	1002.5	1021.8	-1.9%
B. Clearance revenues	0.00	1475.6	-100.0%
2. Public expenditure and net lending	3862	3942.7	-2.0%
A. Salaries and wages	1736.2	1678	3.5%
B. Social transfers	171	164	4.3%
C. Other current expenditures	1,986.10	2,100.70	-5.5%
3. Current account deficit before financing	-2935.4	-1575.8	86.3%
Development expenditure	245.1	287.8	-14.8%
4. Total deficit before aid and grants	-3180.5	-1863.6	70.7%
A. Budget support	253.8	517.6	-51.0%
B. Net financing from local banks	1688.5	-790.8	313.5%
5. Net accumulated expenditure arrears	1469.3	1035.1	41.9%

Source: Palestinian Ministry of Finance¹⁰

According to a recent World Bank report, the restoration of the clearance revenue transfers should give a lift to the Palestinian economy. Nonetheless, the Bank forecasts a budget deficit of \$760 million for the year.¹¹ To avoid further economic contraction and spending cuts, the Bank calls on the Gol and donor nations to work with the PNA to help close the gaps in its fiscal budget.¹²

PNA Public Finance Management

The Palestinian Minister of Finance, Shukri Bishara, clarified that the Government has been working with only \$60-70m per month since May 2020 (30% of its usual revenues), in addition to \$35m in foreign aid.¹³ In addition to the cut of about \$200m per month in clearance revenues, local tax collection also dropped by 10% over the same period due to the deterioration in economic activity. Bishara added that the PNA would face a budget deficit of \$850m this year (somewhat higher than the World Bank projection), compared to an estimated deficit of \$1.56bn if the PNA had continued not to accept the transfers.

Without alternatives, the Government relied on local banks as a source of funding to pay partial salaries for civil servants.¹⁴ The Government borrowed \$100-120m per month until it accumulated \$2.2bn in loans compared to \$1.5bn in April. According to the World Bank referred to above, increased PNA borrowing from the local banking sector generated new risks for banks as they exceeded exposure limits set by the Palestinian Monetary Authority (PMA).¹⁵ The PMA reported that the profitability of the financial sector has declined significantly to the lowest in recent years, new income represented a 36% decline in Q3 2020 compared to the corresponding period in 2019, and returns on equity dropped to 4% compared to 8.3% in 2019.¹⁶ The World Bank report highlights the need for continued independence of the PMA, as the PNA financing dilemma continues to pose a significant risk to the financial sector stability as a result of increased borrowing, risking the crowding out of private sector borrowing and magnifying credit risks and liquidity problems.¹⁷

Recurring Distress

Since the establishment of the PNA in 1994, the transfer of clearance revenues has been interrupted 10 times and

for a cumulative period of more than five years. Each time, public spending was abruptly curtailed, depriving the PNA of its only fiscal and aggregate demand management tool, adversely affecting the Palestinian economy and resulting in economic hardship to the population through volatile unemployment and increased rates of poverty.¹⁸

The most recent clearance revenue standoff is the second in the span of a year.¹⁹ Starting in February 2019, the PNA refused to receive the clearance revenues for a period of seven months because the Gol deducted an amount equivalent to the payments made by the PNA to Palestinian prisoners held in Israeli prisons.²⁰ According to the World Bank, the suspension of clearance revenues for 6 months during 2019 resulted in a reduction in GDP growth from the 1.9% projected by the Bank to 0.9%.

Economic Impact of COVID-19

The COVID-19 pandemic recently reached a record number of daily cases, bringing about renewed partial lockdown measures.²¹ As of 27 December, there were 150,046 cases of COVID-19 in Palestine, 111,909 in the West Bank (including 16,953 in East Jerusalem), and 38,137 in the Gaza Strip. Of these, 1,434 have died, 124,614 recovered, and the majority of the remainder are asymptomatic.²²

The renewed lockdown measures as of the second half of December, beginning in four governorates and subsequently extended to the rest of the West Bank and Gaza Strip, are likely to have a renewed severe impact on businesses and individuals. More statistics indicate a large downturn in economic activity when the Government imposed the first lockdown measures in March-May 2020.

Effect on Business Activity

The World Bank predicts an 8% contraction in GDP this year due to the resurgent COVID-19 outbreak, a severe economic slowdown, and the PNA's political stand-off with Israel that disrupted public spending and consumption for the last six months.²³ Projections made earlier in the year by the Palestinian Central Bureau of Statistics (PCBS) and Palestine Economic Policy Research Institute (MAS) had expected a more significant fall in GDP, of between 14-21%.

According to a recent survey conducted by the Ministry of National Economy (MNE) and PCBS over a sample of 2,600 business establishments, the March-May lockdown resulted in a 50% drop in production and/or in sales, forcing 14% of those surveyed to downsize.²⁴ The businesses also expected a 47% drop in sales over the three months following the lockdown and a 24% drop in employment.

Overall, 93% of respondents reported a drop in sales/production following a 5% fall in consumption during the first lockdown period. Construction and services were severely affected, with a 56% drop in sales. Clothing/garment activities partially ceased while tourism and crafts activities almost completely stopped.

The survey also showed that 63% of the establishments faced difficulty in obtaining the required inputs for production, with the construction sector being the most affected (73%)

10 www.pmf.ps/pmfof/documents/accounts/monthly/2020/October.2020.ar.pdf

11 <https://bit.ly/345NOWe>

12 <https://bit.ly/370TyTd>

13 www.aliqtisadi.ps/article/78747/

14 www.aliqtisadi.ps/article/78574/

15 <https://bit.ly/345NOWe>

16 <https://bit.ly/2W24GZy>

17 <https://bit.ly/3m5pRVp>

18 <https://bit.ly/2WunhxD>

19 www.aliqtisadi.ps/article/78470/

20 <http://documents1.worldbank.org/curated/en/574441606230442130>

21 www.aliqtisadi.ps/article/78549/

22 <https://corona.ps/>

23 In April 2020, the World Bank expected Palestinian GDP to contract by only 2.5%.

After the recent stand-off, it expected 11%. See: <https://bit.ly/2VWV1Ua>

24 <https://bit.ly/2WeHGXD>

followed by trade (71%) and industry (69%). An alarming 89% of businesses suffered a decline in cash flow availability, which ultimately resulted in a 36% increase in their bounced cheques. To cope, 37% of the establishments delayed payments to suppliers and employees, 36% were forced to take loans from friends and relatives, 14% downsized, 9% cut salaries and wages, and 11% gave their employees unpaid leave. Around 59% of the establishments reported having difficulty in reaching formal financial services.

Effect on Employment

According to the World Bank, employment in Palestine deteriorated with the onset of the COVID-19 outbreak after a slight improvement in 2019.²⁵ It estimates that 121,000 people lost their jobs in the second quarter, while the third quarter saw an improvement with 50,000 regaining their employment. This improvement puts the unemployment rate at 28.8% at the end of the third quarter in 2020.

Chairman of the General Federation of Palestinian Trade Unions, Shaher Saad, has estimated that workers' losses resulting from the pandemic amounted to approximately \$1.25bn, of which \$800m resulted from the unemployment of tens of thousands of workers who were working in Israel. Saad stated that the total number of affected workers in the West Bank and Gaza is about 300,000, only a third of whom received one-time governmental aid of NIS 700. He also estimates that approximately 180,000 workers have been laid off since the beginning of the pandemic, a large portion of whom were working in the construction sector.²⁶

Despite the increase in unemployment, the number of Palestinian workers in Israel and its settlements increased by about 30,000 in the third quarter of 2020, reaching 132,000, more or less its pre-2020 level. This is due to Israel easing its COVID-19 restrictive measures. The biggest rebound was in the construction sector, with the number of workers rising by 21,000 from lows earlier in 2020.²⁷

Economic Distress in Gaza

Gazan workers have suffered great losses as a result of the spread of the virus and the subsequent lockdowns. On 22 November, the Palestinian Authority for Hotels and Tourist Restaurants in Gaza launched an appeal asking local and international organisations to provide support to over 10,000 unemployed workers in the tourism sector.²⁸

Agricultural workers were also affected. Total production of strawberries, a significant crop and export in Gaza, is expected to grow this year, as the cultivated area increased by 700 dunums. Total production is expected to reach 7,000 tonnes, a 1,000 increase from last year. However, due to market and border closures, farmers will be unable to export or market their crop beyond the West Bank. This would affect 404 strawberry farmers, and a cultivated area of 2,427 dunums.²⁹

The Gaza Strip reached a record 49.1% unemployment rate in Q2 2020, followed by slight drop to 48.6% in Q3 2020.³⁰ Unemployment among youth is currently at 74.1% compared to the pre-pandemic level of 69%.

Economic Cost of Blockade and War in Gaza

On 25 November, the United Nations Conference on

Trade and Development (UNCTAD) published a report investigating the economic cost of the closures and restrictions on the Gaza Strip.³¹ The report, submitted for consideration by the United Nations General Assembly, showed that from 2007-2019 the cumulative economic cost of the blockade and Israeli military operations in Gaza amounted to \$16.7bn, 107% of total Palestinian GDP.

Retracting Economy

The Gazan economy grew by only 5% from 2007 to 2018, with its total contribution to the Palestinian economy dropping from 38% in 2007 to a mere 18% in 2018.³² In the same period, GDP per capita decreased by 27%, unemployment increased by 49% and poverty increased by 42%.

The report estimates that had there not been prolonged military operations, the poverty rate could have fallen from 40% in 2007 to 15% in 2017, instead of rising to 56% at present. Similarly, the poverty gap, reflecting the intensity of poverty in the population, could have decreased from 14% in 2007 to 4.2% in 2017, instead of growing to its current rate of 20%.

Erosion of Productive Capacity

The blockade and military operations expedited the pre-existing trends of structural transformation in the Gazan economy since the establishment of the PNA in 1995. Investment greatly decreased from 11% of GDP in 1994 to only 2.6% in 2018. Between 1995 to 2018, the contributions of the productive sectors also declined significantly. The shares of agriculture and manufacturing in Gaza's GDP decreased from 34% to 23%, and their contribution to employment declined from 26% to 12%.

The Road Ahead

In the report, UNCTAD posed a series of recommendations for restoring economic growth. It stated that only the full lifting of the Israeli siege will solve the crisis, as well as ending the launching of rockets from Gaza at civilian centres in Israel. The report also stated that the Gaza Strip should be able to trade freely with the rest of Palestine, as well as neighbouring countries and global markets. Freedom of movement for businesses, education, family reunification, and medical care should also be reinstated. The reconstruction of destroyed infrastructure and Gaza's productive base, in addition to the construction of seaports and airports, should be prioritised. Moreover, Gaza's power plant needs to be rehabilitated, and a water desalination plant should be constructed, to ensure safe and consistent water and electricity supplies for the population. Finally, UNCTAD recommended that Palestine should be allowed to develop the offshore natural gas fields off the coast of Gaza, which would greatly rehabilitate and boost Gaza's economy.

November Trading

In November, the Al-Quds index reached 462.8 points on the last day of trading, an increase of 6.4% from the previous month and decrease by 10.6% from the corresponding month in 2019.³³ A total of 7.7m shares worth \$17.1m were traded during the month, marking a 67% increase in the number of traded shares and a 148% increase in the trading value compared to October 2020.

25 <https://bit.ly/345NOWe>

26 www.al-ayyam.ps/ar_page.php?id=144a3176y340406646Y144a3176

27 www.aliqtisadi.ps/article/78465/

28 www.al-ayyam.ps/ar_page.php?id=1449abbay340372410Y1449abba

29 www.al-ayyam.ps/ar_page.php?id=14463798y340146072Y14463798

30 www.al-ayyam.ps/ar_page.php?id=144a3176y340406646Y144a3176

31 https://unctad.org/system/files/official-document/a75d310_en_1.pdf

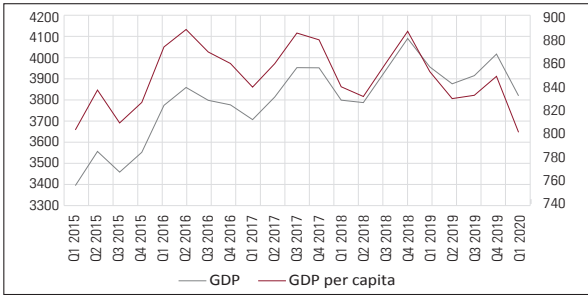
32 <https://news.un.org/en/story/2020/11/1078532>

33 <https://web.pex.ps/eyJDT05UUKVTSUQi0iJlb21liwiTEFOR0IEljo1NzkifQ%3D%3D>

Palestine Economic Dashboard

Growth

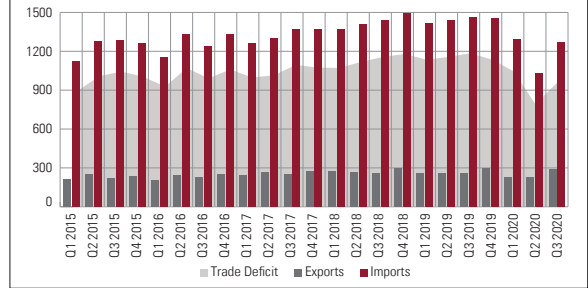
GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2015 – Q1 2020



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

Trade

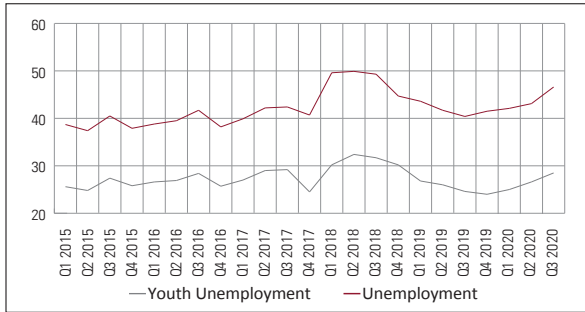
Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2015 – Q3 2020



Imports (Q3 2020): \$1,269.8m Exports (Q3 2020): \$291.8m
Trade deficit (Q3 2020): \$978m Source: PCBS

Unemployment

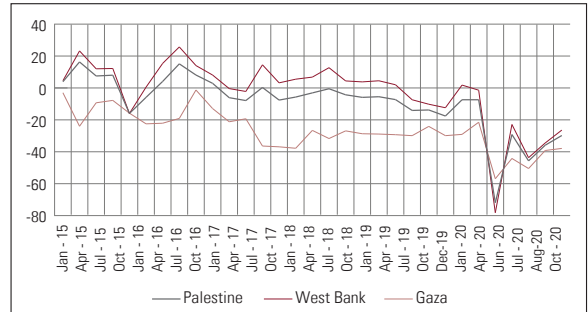
Unemployment and Youth Unemployment in Palestine, Q1 2015 – Q3 2020



Unemployment rate(Q3 2020): 28.5% Youth Unemployment rate (Q3 2020): 46.6%
Source: PCBS

Business Cycle Index

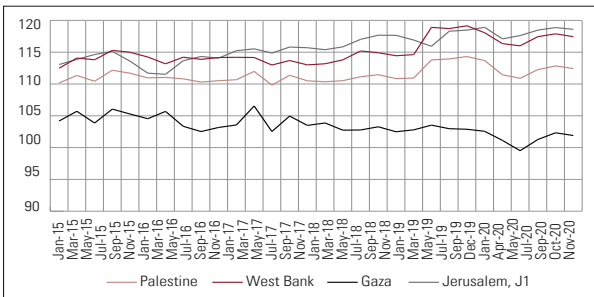
Palestine Monetary Authority Business Cycle Index, January 2015 – November 2020



Palestine (November 2020): -29 West Bank (November 2020): -21.4
Gaza (November 2020): -48.6 Source: PMA

Inflation

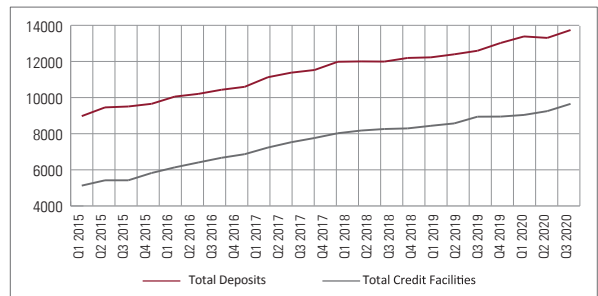
Consumer Price Index (Base year = 2010), January 2015 – November 2020



Palestine (November 2020): 112.4 West Bank (November 2020): 117.4
Gaza (November 2020): 101.9 Source: PCBS

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2015 – Q3 2020



Total Credit (Q3 2020): \$9,894m Total Deposits (Q3 2020): \$14,061.9m
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

Printed for The Portland Trust in Ramallah by Al Nasher Advertising and PR. © 2020 The Portland Trust