

PALESTINIAN ECONOMIC BULLETIN

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Main reports

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The Palestine Monetary Authority issued instructions on 5 May for local institutions to operate and provide electronic payment services

In the Gaza Strip, the negative economic consequences of the pandemic started appearing immediately after the declaration of the state of emergency in early March

Economic Support Measures

On 20 April, Prime Minister Mohammed Shtayyeh announced the easing of the economic closure measures in Palestine ahead of the holy month of Ramadan. The measures included the reopening of businesses in some sectors, on specific days, during set hours and within specific districts. Manufacturing for export purposes resumed at 50% staffing levels in all governorates, in line with health and safety measures taken by the Palestinian Ministry of Health.¹ The announcement came 45 days after the Palestinian Government imposed a lockdown on areas under its jurisdiction in the West Bank due to the outbreak of COVID-19. The government introduced further easing for the banking and the financial sector on 3 May, as the stock market and banks were allowed to reopen with reduced staff.

Support for SMEs

On 7 May, the Palestinian Monetary Authority (PMA) announced the launch of the "Sustainability" programme, which will provide financial aid to SMEs and micro-projects harmed by the COVID-19 crisis. The financing of the project will amount to \$300m, of which the PMA will contribute \$210m and the rest to be provided by other sources through the help of the government. The programme will allow affected enterprises to access funding at a low cost (3% interest) to maintain their liquidity and operations, as well as their capacity to maintain their employees. The project will be implemented through lending institutions and banks.²

The Palestinian Investment Fund (PIF) launched an emergency lending programme, 'Esnad', to provide microfinance to small and micro enterprises that are non-bankable, with a total amount of \$25 million.³ The project focuses on allowing eligible enterprises to gain access to the liquidity necessary to maintain their operations and employees, and is expected to support 2,500 businesses, and aid in retaining and creating over 5,000 jobs.⁴

Workers in Israel

A two-day opening of crossings was permitted to allow approximately 40,000 Palestinians to enter Israel for work.⁵ Under the agreement with the Government of Israel (GoI) and the PNA, workers would remain in Israel for at least three weeks, to prevent the spread of the virus, with accommodation provided by their employers.

Rami Mahdawi, representative for the Ministry of Labour, stated that 500 workers would be allowed to enter every hour, through various crossings. He stressed the need for workers to wear masks and gloves and continue to engage in social distancing.⁶ It was subsequently reported that only 14,500⁷ workers entered Israel under this scheme, in addition to the estimated 19,000 who have remained there since the crisis began.⁸ The return of these workers to the West Bank during the Eid al Fitr holiday (marking the end of Ramadan on 23 May) was expected to be a challenge for the PNA in its efforts to control and trace the possible sources of contagion. The unregulated movement of workers back and forth through multiple,

1 <http://english.wafa.ps/page.aspx?id=2x3usDa115859747949a2x3usD>

2 www.pma.ps/Default.aspx?tabid=205&ArtMID=793&ArticleID=2517&language=en-US

3 Businesses unable to obtain institutional financing due to insufficient collateral, cash flow, and probability of success

4 <https://bit.ly/2Zk88Ss>

5 <https://bit.ly/3g4huYf>

6 <https://www.aliqtisadi.ps/article/75091/>

7 <https://bit.ly/2TEB16W>

8 www.plo.ps/article/52566/

unofficial openings in the West Bank Barrier continues at a significant scale on a daily basis.⁹ In response, the PNA ordered a strict lockdown for the three days of the Eid and conducted tests for workers returning from Israel. Based on the results, the PNA announced the return to pre-crisis business activity in all sectors.

Given that Palestinian workers in Israel bring in approximately \$2.5bn in revenue annually, preventing their travel to and from Israel is particularly challenging, despite such movement accounting for the majority of Coronavirus infections in Palestine.

Update: Fiscal, Economic and Social Impact

While the easing of measures is expected to bring economic relief, the crisis has already led to significant losses due to the overall decrease in economic activity.

Decline in Government Revenues

Prime Minister Shtayyeh stated that government revenues will decrease by up to 50%, representing 45% of total government expenditure.¹⁰ The effect can already be seen, as revenues collected by the PNA in March totaled NIS 243.5m, compared to NIS 506.5m in February (a 52% decrease). Domestic tax revenue stood at NIS 146m in March, compared with NIS 339.3m in February (a 56% decrease).¹¹

In March, the PNA requested a syndicated loan of NIS 1.4bn from the local banking system, to cope with the anticipated decrease in revenues.¹² By the end of March, public debt had reached NIS 10.27bn, its highest level since the clearance revenue crisis in 2019. At the end of February, prior to the coronavirus outbreak in Palestine, public debt stood at NIS 9.94bn.

Slowdown of Business

On 30 April, the Ramallah and al-Bireh Chamber of Commerce released the results of a survey it conducted on businesses operating in the governorate. The results showed a 78% decline in local markets' sales since the beginning of lockdown. The survey found that production decreased by 84%, leading 75% of business owners to face difficulties in paying their employees' salaries. Only 16% of establishments maintained their level of production, while 59% stopped production completely. 10% of respondents stated being unable to continue operating under these circumstances, 38% stated being able to continue for one more month, and 30% for another 2 months.¹³

The survey included the contracting and professional craftwork sectors, the services sector, and the commercial sector. After Shtayyeh's announcement allowing shops to open on specific days, shop owners reported insufficient sales for shops to operate and stimulate the market,¹⁴ signaling the expected demand shock starting to be felt even after relieving the supply constraint.¹⁵

9 <https://bit.ly/3ehX0K0>

10 www.aliqtisadi.ps/article/75059/

11 www.aliqtisadi.ps/article/74988/

12 www.aliqtisadi.ps/article/74435/

13 www.aliqtisadi.ps/article/75060/

14 www.aliqtisadi.ps/article/75083/

15 According to the MAS Economic Monitor Special issue (<https://bit.ly/36t8eZi>), the projected annualized fall in private consumption could reach over 22%.

Increased Poverty

Shtayyeh stated that the government will give NIS 137m in aid to 116,000 impoverished families through the Ministry of Social Development.¹⁶

The current crisis has led to an increase in families living below the poverty line. Dawood al-Deek, Undersecretary to the Ministry of Social Development, stated that it is expected more than 100,000 Palestinian families' income will fall below the poverty line, including 53,000 families previously reported. These estimates of the 'newly poor', imply a jump in the number of poverty-stricken households in Palestine by about a third.

Prisoners' Stipends Under Threat

On 6 May, representative of the Prisoners' and ex-Prisoners' Affairs Authority, Hassan Abd Rabo, stated that some families of prisoners and ex-prisoners had complained that their bank accounts were abruptly closed.¹⁷ The Authority confirmed that two Jordanian banks and other Palestinian banks had started closing the accounts of prisoners, following warnings they received from an Israeli lawyer on 20 April against continuing to pay the salaries of Palestinians imprisoned in Israeli prisons. The banks have been threatened with Israeli civil lawsuits under the accusation of provision of assistance to 'terrorist activities'.¹⁸

On February 9, Israeli military authorities issued an amendment to existing security orders, considering the PNA's payment of monthly stipends to Palestinians imprisoned in Israeli prisons a prohibited act of 'financing terrorism'.¹⁹ The new order, which was due to take effect on 9 May, applies substantial parts of Israel's 2016 Anti-Terror Law to the West Bank.

On 8 May, the PMA affirmed the rights of families of prisoners to receive their stipends in their personal bank accounts, and stated that it will coordinate with the government the continuity of these payments.²⁰ Prime Minister Shtayyeh later stated that an agreement was reached with the banks to freeze any actions regarding the prisoners' accounts. He announced that a committee had been formed to deal with the issue, consisting of the PMA, the Prisoners' Affairs Authority, the Association of Banks, and the Ministry of Finance. He noted that the committee will meet and present its recommendations within days, forming a unified position regarding the Israeli threat against the banks. Shtayyeh also noted that prisoners' families will be able to activate their accounts starting from 10 May. He reiterated his rejection of Israeli threats to Palestinian banks, noting that the PNA will seek solutions that protect the rights of prisoners and their families.²¹

World Bank Updates

On 23 April, the World Bank distributed a report entitled, "COVID-19: Economic Assessment and Proposed Action

16 www.aliqtisadi.ps/article/74798/

17 www.alhadath.ps/article/120052/

18 www.alquds.com/articles/1587409793379314200/

19 <https://bit.ly/2zgJR40>

20 www.wafa.ps/ar_page.aspx?id=JTBf2Ua875922079725aJTBf2U

21 http://www.wafa.ps/ar_page.aspx?id=JTBf2Ua875918272713aJTBf2U

for the Palestinian Authority” to Palestinian partners.²² The report discusses the impact of the COVID-19 pandemic on the Palestinian economy and gives recommendations to Palestinian National Authority (PNA).

The report posits two economic scenarios for Palestine during the coronavirus pandemic. In the first scenario, the spread of the virus slows, and containment measures are lifted after two months (22 May). In the second scenario, the spread of the virus continues, and lockdown measures are eased after four months.

Table 1: Economic Growth Forecasts

World Bank Scenario	Palestine	West Bank	Gaza
Scenario 1 - 2 months	-5%	-5.1%	-4.2%
Scenario 2 - 4 months	-9.9%	-10.3%	-8.4%

The report’s recommendations focus on a number of sectors during the relief period, including:

- **Households:** the report recommends the enhancement of the PNA’s cash transfer programme and proposes the use of cash-for-work schemes to aid the health sector
- **Businesses:** the report recommends assisting solvent firms to gain liquidity without wasting resources on insolvent firms
- **Financial Sector:** the report recommends that the PMA retains operational independence and improves digital financial services. It also highlights the need for further donor support to improve the sector’s liquidity and credit guarantee schemes for SMEs

To meet these needs, the report calls on the PNA to focus its resources and cash on maintaining healthcare and other key services, in addition to supporting local government. This includes a 50% solidarity reallocation from the wage bill which would generate \$348m for this purpose. It also calls on Israel and donors to allocate additional resources, expanding current contributions.

Waqfet Izz Fund

Thousands of employees of dozens of leading companies in Palestine have committed to donate a part of their May salaries to the “Waqfet Izz” Fund to support those who have become unemployed due to the economic impact of the COVID-19 pandemic. The voluntary donations were valued at two working days per employee, matched by an additional amount worth one working day per employee from the employers.²³

‘Waqfet Izz’ Fund has received numerous donations in the past month from leading Palestinian corporations. Paltel, the Palestine Telecommunications company, contributed NIS 8m to the fund, in addition to the NIS 1.2m contributed by its employees.²⁴ The Arab Bank donated USD 2m²⁵, Al-Quds bank NIS 3m,²⁶ and the Bank of Palestine NIS 500,000.²⁷

By mid-May, some NIS 60m had been secured and a first tranche of NIS 28m was paid out to 40,000 unemployed day/informal sector workers (NIS700 per eligible claimant). A second tranche of payments is due at the end of June for an additional batch amongst the estimated 25,000 applicants to a relief payment request portal established by the Ministry of Labour.

Electronic Payments

On 5 May, the Palestine Monetary Authority (PMA) issued instructions for local institutions to operate and provide electronic payment services, such as e-wallets and prepaid cards.²⁸ The instructions are aimed at regulating the provision of electronic payment services in Palestine.

This follows the licensing of the first electronic payment services company in Palestine, which will launch its services in the coming months.²⁹ Work is underway to grant licenses to five further companies that received the necessary approvals in 2019.³⁰ The PMA stressed that electronic payment services companies will undergo intensive supervision and control to ensure the highest degree of security, transparency, effectiveness and adherence to international standards.

Electronic payment services will enable subscribers to complete their financial transactions, such as depositing and withdrawing money at any time, transferring money to anyone in Palestine, shopping, paying for purchases and paying bills. Payments will be facilitated through authorised agents across the West Bank and Gaza. Services are subscribed to electronically and verified through each company’s agents. Individuals will not need a bank account to use these services, allowing electronic payment access to the unbanked. This new arrangement will permit cashless transactions with transaction ceilings and ensure that available points-of-sale expand local mobile financial services and integrate prepaid cards and electronic wallets that are loaded onto smart devices.

This reflects the long-standing commitment of the PMA to facilitate a shift towards electronic payment methods and improving FinTech. The COVID-19 lockdown has intensified efforts to provide access to and improve services in Palestine. The provision of electronic payment services is expected to increase financial inclusion through the delivery of financial services to unbanked individuals (63.6% of the adult population³¹), entrepreneurs, and small businesses. In addition, e-payments and other electronic financial services enable the shift towards e-government.

The licensing of electronic payment services is also expected to facilitate the demand for e-commerce, a trend that had already been evident before the COVID-19 pandemic.³² The uptake of these services is increasing in Palestine, although still nascent. Despite 79.6% of Palestinian households having internet access, only 8.1%

²² Unpublished informal note for discussion

²³ www.aliqtisadi.ps/article/75047

²⁴ <https://www.aliqtisadi.ps/article/75224/>

²⁵ <https://www.aliqtisadi.ps/article/75225/>

²⁶ <https://www.aliqtisadi.ps/article/75117/>

²⁷ <https://www.aliqtisadi.ps/article/75170/>

²⁸ <https://bit.ly/2AGtmPX>

²⁹ <https://www.aliqtisadi.ps/article/75024/>

³⁰ <https://www.aliqtisadi.ps/article/75023/>

³¹ <https://www.safabank.ps/uploads/files/Financial%20Inclusion%20Brochure.pdf>

³² www.aliqtisadi.ps/article/74962/

of adult internet users engaged in e-commerce in 2019.³³ As for the payment method, 86% used cash on delivery, 15.2% used credit cards, 7.5% used bank transfer, 3.6% made use of online payment services. Only 1.9% used payment methods through mobile financial accounts (accounts linked to phone numbers).

Gaza's Economy under COVID-19

As of 26 May, there were 55 confirmed cases of COVID-19 in the Gaza Strip and one death.³⁴ Gaza's first cases of COVID-19 were reported on 22 March among two Palestinians returning from abroad, after which the local authorities started imposing preventive measures.³⁵

As a result of the thirteen-year old blockade, ongoing conflict, political separation from the West Bank and decline of donor aid, the economy in the Gaza Strip is fragile and dependent on public spending and international support as the main drivers of economic activity. The COVID-19 pandemic is another addition to the long list of shocks, adding to the severity of the already disastrous and unlivable situation with unemployment at 45%³⁶ in 2019 and 53% of the population was living below the poverty line.³⁷

Collapsing healthcare system

The Gaza Strip is one of the most densely populated areas in the world, and a spread of COVID-19 would be catastrophic. This is further intensified by the constraints on the healthcare system and its lack of capacity to treat those who have been infected. Even before the outbreak, the World Health Organisation had warned that Gaza's healthcare system was "on the brink of collapse".³⁸ Gaza has approximately 78 intensive care beds and 63 ventilators serving a population of over two million people. Issues such as food insecurity, a lack of safe drinking water and sanitation facilities, mental health issues, and limited electricity supplies present further difficulties.³⁹

Devastating Economic Impact of COVID-19

The negative economic consequences of the pandemic started appearing immediately after the declaration of the state of emergency in early March. This was followed by a number of decisions in Gaza which included closing crossing points and the temporary shutdown of markets, wedding halls, hotels and other tourist facilities, and

a reduction in working hours.⁴⁰ This has resulted in a complete halt of the tourism, recreational and education sectors, and a 50% drop in transportation activities.⁴¹

Thousands of people became unemployed and lost their main source of income as a result of COVID-19 and the related precautionary measures, particularly day labourers and those with temporary contracts. Ali Hayek, head of the Palestinian Businessmen Association, warned that the industrial sector in Gaza is at the highest risk, as it has lost over 10,000 jobs since the beginning of the COVID-19 crisis leading to a 19% drop in productivity.⁴² Gaza Hotels and Tourist Restaurants Commission chairman Salah Abu Hasira said: "about 5,000 workers in tourist establishments in the Gaza Strip — who support about 25,000 people — are now unemployed without any other source of income."⁴³ This has reduced the purchasing power of households in Gaza and indirectly affected other economic sectors that were not part of the precautionary measures. Jamal al-Khudari, head of the Popular Committee Against the Siege in the Gaza Strip said: "the economic losses in Gaza amounted to \$200 million during the month of March. These losses include the economic, industrial, commercial, contracting, and tourism sectors. Most work is suspended, and economic stalemate prevails in the Strip, making matters worse for Gaza's 2 million citizens."⁴⁴

April Trading

The Palestine Exchange (PEX) was suspended between 23 March and 3 May because of the lockdown and other measures to combat the spread of COVID-19.⁴⁵ Trading resumed on 3 May but under reduced hours and with remote operations.

During 2019, the net annual profits of PEX listed companies reached \$306.4m, an increase of 2.9% from 2018.⁴⁶ Preliminary financial results for 2019 show that 39 of the 48 listed companies reported profits with a total reported net profit of \$316.3m (3.2% increase from 2018). Total losses among the six lowest performing companies reached \$9.9m compared to \$8.8m in 2017. Three companies (two suspended from trading) did not disclose their results within the legal time frame. The services sector was the most profitable (\$105m) followed by banking and financial services (\$97m) and investment (\$50m).

33 www.pcbs.gov.ps/Downloads/book2510.pdf

34 www.corona.ps/

35 <https://bit.ly/2zNAqdk>

36 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_13-2-2020-LF2019-en.pdf

37 www.pcbs.gov.ps/Document/pdf/txt_e_poverty2017.pdf?date=16_4_2018_2

38 www.emro.who.int/images/stories/WHO_Gaza_donor_alert.pdf?ua=1

39 www.ecfr.eu/article/commentary_defeating_covid_19_in_gaza_is_it_enough1

40 www.mas.ps/files/server/2020/PR-QM-P2.pdf

41 www.mas.ps/files/server/20200705223647-2.pdf

42 <http://famagusta-gazette.com/2020/04/14/gazas-economy-severely-impacted-by-covid-19/>

43 <https://bit.ly/3e4MG7N>

44 <https://bit.ly/2TiZXBQ>

45 <https://bit.ly/2WJLQ09>

46 <https://bit.ly/2WLJyIrl>

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