

PALESTINIAN ECONOMIC BULLETIN

Bulletin 163
April 2020

Main reports

The PCBS, PMA and MAS present their projections of the impact of the COVID-19 crisis on the economy

The board of the newly founded "Waqfet Izz" (Standing Proud) fund, held its first meeting in Ramallah on 6 April

During the Jewish Passover holiday, around 8,000 Palestinian workers returned to the West Bank and an estimated 25,000 Palestinian workers remained in Israel

The Palestine Capital Market Authority suspended trade in Palestine Exchange on 22 March

Economic Impact of the COVID-19 crisis in Palestine

As of 29 April, a total of 501 cases of COVID-19 have been confirmed in Palestine, 326 in the West Bank, 17 in the Gaza Strip and 158 in East Jerusalem. Of these, 4 died, 95 people have recovered, and the majority of the remainder are asymptomatic.¹

In addition to its humanitarian cost, the COVID-19 pandemic crisis is having a significant impact on various economic sectors in Palestine. The Palestinian Central Bureau of Statistics (PCBS) expects a \$2.5bn (13.5%) decrease in GDP compared to its baseline projection for 2020 assuming that the closures continue until end of May.² Under this scenario, private and public consumption are expected to decrease by a total of \$1.3bn (5.2%), and investment by \$2.1bn (43.4%). The PCBS projects that the services sector will be the most affected by the crises, with possible losses of around \$1.2bn, followed by the industrial sector (\$362), construction (\$220m) and agriculture (\$200m).

The Palestine Economic Policy Research Institute (MAS) foresees an even larger impact on the economy, using a Computable General Equilibrium (CGE) model that compares two different scenarios.³ In the first scenario, under which the current closure measures would not be fully relaxed before the mid-May, GDP is expected to decline by 20.3%, due to a demand-side shock driven by a decrease in private and public spending (by 21.8% and 15.3% respectively). In the second scenario, which assumes an extension of the closure and gradual recovery for an additional month and a half (until end June), GDP is expected to decline by over 35%, driven by a further decrease in private and public spending (33.2% and 20% respectively). Unemployment is expected to increase from 25% in 2019⁴ to 30% in the first scenario, and to 36.5% in the second. MAS projections also estimate the impact to Gross National Income (GNI) resulting from the loss of income from labour in the Israeli market, forecasting a contraction of at least 25% in GNI.

Table 1: Projected Losses due to the COVID-19 crisis, 2020

Organisation	PCBS		MAS
	Closure until end of May	Closure until mid-May	Closure until end of June
Gross Domestic Product	-13.5%	-20.3%	-35%
Private Spending	-5.2%	-21.8%	-33.2%
Government Spending		-15.3%	-20%
Gross Capital Formation (Investment level)	-43.4%	-26.3%	-38.1%
Exports	-2%	-1.2%	-17.2%
Imports	-7.8%	-17.2%	-22.5%
Government Revenue	-	-23.9%	-32.8%
Employment	-	-17.2%	-24.6%

Source: PCBS and MAS

The Palestine Monetary Authority (PMA), also provided its own estimates on the impact of the current crisis.⁵ The analysis is based on two different scenarios, the first assuming the continuation of the closure until the end of June and the second until the end of August. For each scenario, the PMA offers a quarter-by-quarter prediction of the impact of the crisis based on key economic indicators. These estimates are more optimistic than those presented by the PCBS and MAS, largely because they were modeled at an earlier period in the crisis and only focus on major economic aggregates.

1 www.corona.ps/

2 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_23-4-2020-forc-en.pdf

3 MAS Economic Monitor – Special Supplement, forthcoming, May 2020, <https://bit.ly/2S5mktT>

4 <https://bit.ly/2zt1pNx>

5 <https://bit.ly/2K9y9uH>

Table 2: Projected impact of the COVID-19 crisis on the growth rates of key indicators

Indicator	GDP Growth		Private consumption		Gov. consumption		Investment	
	1 st (Closure to end-June)	2 nd (Closure to end-August)	1 st (Closure to end-June)	2 nd (Closure to end-August)	1 st (Closure to end-June)	2 nd (Closure to end-August)	1 st (Closure to end-June)	2 nd (Closure to end-August)
Quarter 1	-3.7%	-3.7%	-4.7%	-4.7%	2.4%	2.4%	-6.8%	-6.8%
Quarter 2	-8.9%	-8.9%	-16.3%	-16.3%	4.2%	4.2%	-17.4%	-17.4%
Quarter 3	3.4%	-6%	5%	-13.1%	2%	5.7%	4.3%	-12.7%
Quarter 4	1.8%	-3.1%	3%	3%	2%	2%	0%	7.2%
Year 2020	-1.8%	-3.8%	-3.2%	-7.7%	2.6%	3.6%	-4.9%	-7.2%

Source: PMA

In the first scenario, economic growth would decrease by 1.8% during 2020, driven by a decrease of 4.5% in private consumption and 4.9% in investment. In the second scenario, economic growth is expected to decrease by 3.8% during the year, driven by a decrease of 7.7% in private consumption and 7.2% in investment.

The PMA expects government consumption to increase during the crisis, particularly as expenditure on public healthcare services rises. Government consumption is expected to increase by 2.6% in 2020 in the first scenario and 3.6% in the second.

Tourism, accommodation and food service

All the available estimates show that the services sector will be most affected by the crisis. In particular, activities in sectors related to tourism (hotels and accommodation, food service and transport) are expected to be severely disrupted. According to PCBS, the number of workers in activities related to the tourism sector reached over 38 thousand in 2018 (4% of the Palestinian workforce).⁶

The closure of the borders is expected to pose a severe threat to the hotel and accommodation sector, which is dependent on the inflow of tourists. In 2018, 3.4m tourists visited Palestine, spending over \$1.3bn, of which \$300m was spent in the hotel and accommodation sector.⁷ Bethlehem hosted 38% of inbound visits to Palestine in 2018, followed by Jericho and the Jordan Valley (35%). In addition, total spending of Palestinians on domestic tourism in 2018 was \$160m.

PCBS statistics show there are approximately 5,000 restaurants and cafes in Palestine, 700 in Ramallah alone, all of which have been closed since mid-March. These establishments employ 21,000 workers (2% of the labour force), most working on a daily or hourly basis, meaning the closures represents a complete loss of income. There could be a potential loss of more than NIS 400m a month for this sector, which could push many of these establishments to bankruptcy if the crisis continues for a longer period of time.⁸

Healthcare

The health sector faced severe challenges prior to the first cases of COVID-19 reported in Palestine. In February, doctors across the West Bank went on a two-week partial strike over the acute shortage of staff, equipment and beds.⁹

The shortage of medical facilities and equipment is expected to severely constrain the healthcare system's ability to provide care for critical cases during the current outbreak, were it to intensify.¹⁰ Palestine has a total of 375

adult intensive care unit (ICU) beds in all public and private hospitals. There are also 295 ventilators (175 in the West Bank and 120 in Gaza), of which 80-90% were already in use as of 2 April, according to recent reports.¹¹

There are approximately 19,200 healthcare workers, making up 12.7% of service sector workers and 4% of the total workforce in Palestine. Employment is expected to increase in the healthcare sector, as the number of patients will rise, leading to a greater need for workers. This includes doctors with specialties related to the diagnosis or treatment of the virus symptoms, as well as nurses and lab technicians. Conversely, private, non-essential health clinic activities such as dental care, optometry, and physiotherapy will face temporary closures.

Another anticipated effect on the healthcare sector will be an increase in fixed-capital investment, as the demand for artificial respirators and other intensive care supplies intensifies. Healthcare operating expenses are also expected to increase, with expenditure on Personal Protective Equipment (PPE) such as masks, sterilisers, protective suits, safety goggles, as well as antibiotics and antivirals. There has been some local response to this increase in demand, with factories shifting to produce more masks, sterilisers, and protective suits.¹²

Based on a recent analysis conducted by MAS, the healthcare sector is expected to face little to no change in productivity if the closure measures continue until the end of May. However, the second scenario with extended closure sees a potential 25% decrease in productivity.

The GoP announced direct credit to the health services sector to enable the private sector to respond to the epidemic.¹³

Banking Sector

The impact of the crisis on the Palestinian banking sector is expected to be limited, mainly because of the pre-existing, high risk operating environment, the maintenance of high reserves ratios, conservative financial stability measures and generally high credit quality. In 2019, the capital adequacy of banks reached 16.6%, which is much higher than the minimum requirement according to Basel III (10.5%) and PMA regulations (12%). The ratio of capital to total assets is about 9.1%, well above the minimum requirement according to Basel III (3%).¹⁴

Global interest rates are expected to continue their decline, pushing local rates down and resulting in a decrease in banks' net income from interest. The lower interest rates could increase demand for loans, mortgages, and refinancing requests, in addition to the high demand for credit due to the poor economic conditions resulting from the crisis. Additionally, credit losses and default rates are expected to increase after the crisis¹⁵ and the default rate could reach 8% in the current year (compared to 4% in 2019),¹⁶ leading to losses in revenue and profitability.

The use of digital financial services and the demand for financial technology will likely increase, creating a need for cashless payment services in pharmacies, groceries,

6 www.pcbs.gov.ps/site/512/default.aspx?lang=en&ItemID=3555

7 www.aliqtisadi.ps/article/74517/

8 www.aliqtisadi.ps/article/74314/

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

10 www.corona.ps/files/Palestine_COVID-19_Response_Plan_Final.pdf.pdf

11 <https://bit.ly/2yTIE46>

12 <http://english.wafa.ps/page.aspx?id=08J7cva115382919696a08J7cv,https://bit.ly/2RU4D04>

13 <https://bit.ly/2XTY6vJ>

14 <https://bit.ly/2xcAwtW>

15 During the crisis there are credit payment holidays and hence there will be no changes in

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

and other establishments that mostly lack these facilities.¹⁷ Furthermore, the volume of credit directed to the public sector by the Palestinian banking sector is expected to increase due to the increase in public expenditure and the decline in tax revenues, though clear limits have been agreed to ensure no crowding-out effect on private credit.

In order to mitigate the impact of COVID-19, the PMA instructed banks and financial institutions operating in Palestine to offer a four-month loan payment holiday to their customers (and six months for enterprises in tourism and hospitality), and this period can be extended according to the state of emergency declared by the government.¹⁸ The PMA instructions also included extending credit card ceilings and lines of credit granted to clients, SMEs, and individual clients affected by this new development. It also clarified that it will suspend the credit classification of affected individuals and SMEs on the bounced cheques system. The PMA also asked the banks to direct new credit to small and medium enterprises and startups, and to provide direct credit to the health sector.

The potential losses that banks could incur from the crisis could be mitigated by a recent PNA request to the PMA, asking for a combined loan for the banking sector with a total value of NIS 1.4bn. The loan would be provided over the course of six months, allowing banks to manage their declining revenue.¹⁹ Despite the importance of the PMA measures, the Palestinian banking sector remains exposed to the potential risk of facing liquidity-related difficulties, especially if worst case scenarios materialise.

Palestinian Government Response

The Government of Palestine (GoP) responded firmly and swiftly to the COVID-19 crisis, gradually scaling up restrictions on movement and physical isolation measures. President Mahmoud Abbas declared a State of Emergency on 5 March, following the confirmation of the first cases in Bethlehem.²⁰ The same day, Prime Minister Mohammad Shtayyeh established the Emergency Command Center to oversee containment measures and public outreach, mobilise resources, and activate public communication channels.²¹ Measures included the closure of public spaces, schools and universities, prohibition of public gatherings, and the cancellation of tourism and religious activities.²² Mandatory quarantine and testing were introduced for all incoming travelers to the West Bank from Jordan.²³

As the crisis developed the GoP introduced additional measures. On 16 March, the GoP reached an agreement with private sector representatives for private institutions to pay 50% of employee salaries for March and April.²⁴ Economic protection measures were also initiated including prohibiting price gouging.²⁵ By 22 March, the GoP had put in place a comprehensive curfew.²⁶ The PNA released a COVID-19 Response Plan on 26 March, outlining the strategic measures from a number of key sectors, including health,

economy and social protection to contain the outbreak.²⁷

The government is currently easing these measures gradually after achieving a low virus spread rate through a combination of distancing, quarantine, testing and mobility restriction. However, despite the initial success of the GoP's rapid response, the risk of contagion remains high as the health sector lacks capacity and resources to respond to a full-fledged pandemic.²⁸ The threat is particularly severe in the Gaza Strip, where the health system has been eroded by shortages in medical staff, drugs, and equipment, and a chronic deficit in water and electricity due to the longstanding blockade.²⁹ Any spread of the disease there could lead to a devastating humanitarian crisis.

The GoP has expressed concern over the impact of the economic crisis on government finances. Prior to the COVID-19 pandemic, the PNA was still recovering from the 2019 clearance revenue crisis with the Gol, and decreasing foreign aid over recent years.³⁰ The GoP estimates a 40% drop in government revenues due to the COVID-19 crisis that will increase the public deficit from \$800m to \$1.8-2.4bn, severely limiting its ability to maintain existing public services and intensifying its need for immediate economic support.

COVID-19 and Palestinian Workers in Israel

According to PNA sources, around 8,000 Palestinian workers returned to the West Bank during the Jewish Passover holiday.³¹ An estimated 25,000 Palestinian workers had remained in Israel as of 29 April.³²

On 17 March, Prime Minister Shtayyeh announced a three-day period after which entry from the West Bank to Israel was not allowed. The announcement came after an agreement with the Gol to allow Palestinian workers to remain at their workplaces in Israel, so long as employers provided appropriate housing and proper sanitary conditions approved by the Israeli authorities.³³ In response, tens of thousands of workers entered Israel for a prolonged period, before the crossings were closed, and since then the only way for Palestinians to enter Israel is by infiltrating through breaches in the separation barrier.

Despite increased coordination between the PNA and the Gol throughout the crisis,³⁴ PNA officials stress that the Israeli measures regarding the movement of Palestinian workers between Israel and the West Bank are insufficient.³⁵ The PNA is concerned that the need for Palestinian workers by Israeli employers in the construction and agriculture sectors are leading Israeli authorities to refrain from fully enforcing restrictions on the movement of workers across the border. Several media reports have reported that the Gol is not taking enough measures to prevent workers from re-entering Israel, including incidents whereby Israeli forces allowed Palestinian workers into the West Bank through unmonitored areas.³⁶

A report published by the Israeli financial newspaper Calcalist on 6 March warned of the losses that the Israeli

17 See PEB 161 for further details: <https://bit.ly/2XClhVY> (English); <https://bit.ly/2XzDnlf> (Arabic)

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

19 www.aliqtisadi.ps/article/74435/

20 <https://reut.rs/3cu5M6P>; <https://www.facebook.com/watch/?v=135831187789289>

21 <https://bit.ly/2ViUF1a>

22 <https://bit.ly/2VXgxHQ>; <https://bit.ly/3eQ5rNs>

23 www.facebook.com/pal.border/photos/a.283298038535811/1300393933492878/

24 www.aliqtisadi.ps/article/74165/

25 Price gouging occurs when a seller increases the prices of goods, services or commodities to a level much higher than is considered reasonable or fair. Usually, this event occurs after a demand or supply shock.

26 <http://english.wafa.ps/page.aspx?id=jo0Vpia115478094996ajo0Vpi>

27 www.un.org/unispal/document/coronavirus-disease-2019-covid-19-who-update-17/

28 <https://bit.ly/2YyW5TV>

29 www.ochaopt.org/content/covid-19-emergency-situation-report-1

30 See PEB 157: <https://bit.ly/2wVATJa>

31 <https://bit.ly/2wXtIWj>

32 <https://bit.ly/2Vfko45>

33 www.facebook.com/120393554694691/posts/2813531572047529/?d=n

34 <https://bit.ly/2VzHgdC>

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

36 <https://bit.ly/2S48RCl>; <https://bit.ly/3anvPLj>; <https://bit.ly/2VBQIE2>;

<https://bit.ly/3bBMfRE>

construction sector might incur if Palestinian workers are not allowed to re-enter Israel. The report finds that restrictions on the entry of 65,000 Palestinians working in the Israeli construction sector would lead to delays in the delivery of around 70,000 apartments, which is expected to cause a monthly loss of ILS 4.56 billion (\$1.18 billion) in GDP.³⁷

As the borders with Jordan and Egypt have been closed for over a month, the only significant source for COVID-19 infections in Palestine is Israel, which has experienced higher transmission rates with 15,782 cases as of 29 April.³⁸ The majority of cases (77%) in the West Bank are among workers returning from Israel,³⁹ with community transmission mostly limited to workers' families and those who were in direct contact with them.⁴⁰ The daily overcrowding at crossings and checkpoints, contact with Israeli employers, and daily movement between the West Bank and Israel are all factors that also may be leading to a faster spread of the virus among the workers.⁴¹

With no control over entry into the West Bank and limited cooperation by Israeli authorities, the GoP is struggling to stop the movement of workers into and out of the West Bank. The Palestinian Ministry of Health deployed testing teams behind Israeli checkpoints, however, systematic tracking has been weak since many workers cross through unmonitored areas.⁴²

Workers in Israel are a major source of income for the Palestinian economy, providing subsistence for tens of thousands of families, and stimulating local consumption.⁴³ The average worker in Israel earns more than double the average wage in the West Bank. In 2019, there were 133,000 Palestinians working in Israel and Israeli settlements, generating \$2.55bn in income (15% of GDP).⁴⁴

“Waqfet Izz” Fund

On 6 April, the board of the newly founded “Waqfet Izz” (Standing Proud) fund, held its first meeting in Ramallah. The board, consisting of 30 Palestinian business leaders, began to mobilise support to aid the government in its fight against the impact of COVID-19. The fund aims to collect donations from the private sector and individual citizens, locally and abroad, to support the efforts of ministries of Social Development and Health, as well as the healthcare sector.⁴⁵

The fund, which is targeting \$28m (JOD 20m) in donations for the benefit of 75 thousand vulnerable families,⁴⁶ had

raised around \$12.5m (JOD 8.8m) by 29 April.⁴⁷

International Community's Response

The COVID-19 Response Plan invited international organisations to join a GoP-led coordination mechanism to share vital needs, coordinate responses, and jointly track key indicators and delivery targets. The GoP identified \$120m as an urgent requirement to support the direct health response to COVID-19, including the provision of medical staff, equipment, and medicine. The GoP identified an additional need of \$1.8-2.4bn in budgetary support to cover its operational expenses, including salaries, pensions, and the maintenance of safety networks for the most vulnerable.

On 9 April, the European Union (EU) announced an assistance package of €71m to support the GoP efforts in fighting the pandemic.⁴⁸ The EU welcomed the preventive measures taken so far by the GoP. The assistance package, which also includes humanitarian aid, is a direct response to the GoP's COVID-19 Response Plan and commits €49.5m to Healthcare (including six East Jerusalem hospitals), €5.5m to SMEs, €5m to vulnerable communities, and €10.9m for humanitarian aid including UN agencies, UNRWA, and NGOs.

On 2 April, the World Bank Group (WBG) approved a new \$5m emergency operation to help Palestine address urgent healthcare needs.⁴⁹ This funding follows a previous reallocation of \$800,000 which the World Bank approved on 6 March 2020 as an immediate support to the Palestinian Ministry of Health.

Other nations have also responded to requests for support. China supplied 10,000 coronavirus testing kits to Palestine, Turkey offered medical assistance to Gaza, and the United States pledged \$5m in support.⁵⁰

March Trading

On 22 March, the Palestine Capital Market Authority (PCMA) suspended trade in Palestine Exchange (PEX), in light of the government's decision to enforce closure measures.⁵¹ On April 21, PCMA decided to resume trading as of 3 May 2020 based on the latest government decision for a gradual lifting of the curfew.⁵²

Al-Quds Index witnessed a steady decrease throughout March, falling to 498.9 points (6.6% drop) on the last day of trading. During March 3.7m shares were traded with a total value of \$8.1m, marking a 30% decrease in the volume and value of traded shares.⁵³

37 www.calcalist.co.il/real_estate/articles/0,7340,L-3799030,00.html

38 www.haaretz.com/ [9:45am GMT], <https://bit.ly/3eIEQIq>

39 As announced by the Prime Minister (<https://www.facebook.com/Dr.Shtayyah>)

40 www.alquds.com/articles/1586248416063681700/

41 <https://bit.ly/2K9NoUF>

42 <https://bit.ly/3ag3LJG>

43 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_13-2-2020-LF4th-en.pdf

44 <https://bit.ly/3ex7Axo> / <https://bit.ly/3bkKM1W> / <https://bit.ly/3bkKTdS>

45 <https://bit.ly/350BI5l>

46 www.alwatanvoice.com/arabic/news/2020/04/06/1327550.html

47 www.waqfetizz.ps/

48 <https://bit.ly/3cz1prb>

49 <https://bit.ly/2ViuZv5>, <https://bit.ly/2RZVOIF>

50 <https://bit.ly/2Vxb3F7>, <https://bit.ly/2XRM150>

51 <https://www.pcma.ps/Pages/newsPage.aspx?IDs=1111>

52 <https://www.pcma.ps/Pages/newsPage.aspx?IDs=1117>

53 <https://bit.ly/3cKBzjT>

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