

PALESTINIAN ECONOMIC BULLETIN

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Main reports

The Palestinian National Authority is facing a deepening revenue crisis due to the huge strains that the COVID-19 pandemic and growing political tensions have imposed on the public budget

The Ad Hoc Liaison Committee convened on 2 June via video conference to discuss the economic and humanitarian situation in Palestine

Al-Quds index reached 470.8 points on the last day of trading in June, a decrease of 1% from the previous month

Second Wave of COVID-19

On 1 July, the Palestinian National Authority (PNA) re-imposed complete lockdown in the West Bank for 11 days in response to soaring numbers of COVID-19 cases. As of 29 July, a total of 13,938 Palestinians in the West Bank and Gaza Strip have been confirmed to have contracted COVID-19, up from a total of 630 cases on 2 June.¹ Transmissions in the second wave started through contact with workers in Israel and then spread exponentially through large gatherings at weddings and funerals with limited compliance with precautionary measures, especially in Area C of the West Bank where the PNA has no jurisdiction. The vast majority of currently active cases are in the West Bank (13,863), particularly in the Hebron and Jerusalem governorates (7,204 and 3,000, respectively). At the time of publishing, 82 Palestinians had died from the virus, 6,033 recovered, and the remainder tested positive but are asymptomatic.

The COVID-19 pandemic has exposed the ill-equipped Palestinian health sector. PNA officials have expressed concern over the shortage of quarantine centres and the limited capacity at local hospitals to accommodate patients requiring medical attention in case the recent surge is not contained.

Devastating economic impact

The first wave of COVID-19, beginning in March 2020, exposed the fragility of the Palestinian economy that is burdened with structural deformities arising from decades of conflict, stifling Israeli procedures, limited economic policy space, a decline in foreign financial aid and weak public finance resources. Preliminary official estimates of aggregate performance in the first quarter of 2020 indicate a 4.9% drop in GDP compared to the previous quarter and a 3.4% drop year-on-year compared to the corresponding quarter in 2019.²

Table 1: Main Economic Indicators; Q1 2020, Q4 2019 and Q1 2019, PCBS

Indicator	Q1 2020 (million \$)	Q4 2019 (million \$)	Q1 2019 (million \$)	% change Q1 2020 compared to Q4 2019	% change Q1 2020 compared to Q1 2019
GDP	3,820.4	4,016.4	3,956.1	-4.9%	-3.4%
Exports	538.1	706.2	641.1	-23.8%	-16.1%
Imports	1,843.9	2,052.3	2,103.1	-10.2%	-12.3%
Gross External Debt	2,051.0	1,966.0	1,680.0	4.3%	22.1%
Net International Investment Position	1,763.0	2,098.0	1,724.0	-16.0%	2.3%
Unemployment	31.70%	30.30%	32.80%	-	-

During March, exports of goods decreased by 17% compared to the previous month and by 29% compared to the corresponding month in 2019. Imports also decreased by 5% and 12% over the same period. Deposits and credit facilities decreased during March by 2% and 0.7%, respectively.³ The industrial production index also witnessed a sharp decline of 24.6%, following a deterioration in all economic activities except for water supply and waste management. The consumer price index (inflation) increased by 0.7%, following a price surge in food products, mainly dried vegetables (30.2%) and fresh chicken (10.5%).

1 www.corona.ps

2 www.pcbs.gov.ps/pcbs_2012/PressEn.aspx

3 www.pma.ps/Default.aspx?tabid=201&language=en-US

These figures provide early validation of projections published earlier in the year by the Palestine Central Bureau of Statistics (PCBS) and Palestine Economic Policy Research Institute (MAS), forecasting an annual decline in GDP of between 13.5% and 20.3%, respectively, well above more optimistic projections by the Palestine Monetary Authority (PMA) and the World Bank.⁴

PNA Revenue Crisis

The PNA is facing a deepening revenue crisis due to the huge strains that the COVID-19 pandemic and growing political tensions have imposed on the public budget. The Palestinian Ministry of Finance estimates that, due to the lack of domestic economic activity and external trade, revenues collected locally will fall by about 75-85%, while clearance revenues will fall by between 50-70%. This is in addition to a decision by the PNA on June 4 to halt security, civil and economic coordination with the Government of Israel (GoI), and the refusal by the PNA to accept around \$200m monthly in clearance revenue⁵ in response to declared intention of the GoI to annex parts of the West Bank.⁶

Palestinian Minister of Finance, Shukri Bishara, clarified that June 2020 witnessed an 80% (ILS 1.1bn) drop in public revenues including ILS 720m in clearance revenue, ILS 280m drop in domestic revenues due to COVID-19 and a delay in receiving ILS 100m in external financial aid.⁷ June's monthly expenditure totaled ILS 760m, including ILS 550m in salaries and ILS 210m in other, mainly public health, expenditures⁸ The resulting public budget deficit was covered through a loan from local banks of ILS 250m.⁹

The crisis has severely depleted the PNA's fiscal capacity, limiting its ability to pay its 132,300 employees. After two months of uncertainty surrounding civil service salaries, stipends and pensions, the PNA announced on 2 July the payment of May salaries and pensions, with only 50% paid and a minimum cap of ILS 1,750 (approximately \$500, 25% of the PNA employees). The PNA expects salary payments to continue at the same rate until the end of the year unless the government is able to secure additional funding.¹⁰

This revenue crisis also comes at a time when the PNA had barely recovered from the economic shocks of the 2019 fiscal crisis following the GoI decision to deduct from transferred clearance revenues the stipends paid by the PNA to Palestinian political prisoners in Israel and their families.

As with previous crises, the PNA resorted to local banks in order to pay salaries, but this time it has reached the maximum public credit allowed according to PMA regulations. This means that the PNA is left with limited to no liquidity alternatives and is adding pressure to the banking sector which already faces the risk of a costly

legal battle following lawsuits filed in the US against Palestinian banks for opening accounts for the families of Palestinians killed or injured by Israeli forces.¹¹ At the end of May 2020, the PNA owed local banks around \$1.6bn, in addition to \$1.1bn in external loans.¹²

Foreign aid to Palestine dropped by 25.6% during the first four months of 2020 compared to the same period in 2019. Palestinian public debt reached ILS 10.9bn by May 2020.¹³ On 8 July, and in response to the escalating humanitarian crisis in Palestine, the European Union announced €22.7m in aid to vulnerable segments of the population, who are increasingly threatened by economic hardship and a lack of essential services.¹⁴ On 17 June, the PNA submitted an official request at the Arab League to activate the Arab Safety Net of \$100 million in loans per month to be paid after the resolution of the clearance revenue transfer standoff.¹⁵ However, no official Arab aid to the PNA has been announced to date.

Meeting of the Ad Hoc Liaison Committee

On 2 June, the Ad Hoc Liaison Committee (AHLC) convened via video conference to discuss the economic and humanitarian situation in Palestine. The AHLC is a 15-member committee of major international donors and Palestinian and Israeli representatives serving as a policy coordination forum to guide development assistance to the Palestinian people.¹⁶

The Chair's Summary published following the meeting called for donors to increase budget support for the PNA, continue supporting the response plans to COVID-19 in Palestine, disburse UNRWA contributions immediately, and resume supporting the Gaza Reconstruction Project. Donors called for the PNA and the GoI to resolve financial issues and develop mechanisms to ensure continued banking relations. The AHLC called on the PNA to prioritise expenditure targeting education and healthcare, and on the GoI to facilitate movement and access for medical supplies, relevant equipment, humanitarian workers, and Palestinian workers access to the Israeli labour market.¹⁷ A number of AHLC members warned against the consequences of Israeli annexation of the West Bank, stating it is in violation of international law and undermines any negotiated two-state solution. Other members also questioned Palestinian President Mahmoud Abbas' decision to end cooperation and security agreements with Israel.

PNA report

Ahead of the AHLC meeting, the PNA published a report largely focusing on the issues of annexation and the effect of the COVID-19 pandemic.¹⁸

The report stated that annexation would result in an end to all agreements between the PNA and the GoI, undermining

4 www.mas.ps/files/server/20202204173236-1.pdf; <https://bit.ly/39kNaFU>

5 Taxes that Israel collects on behalf of the PNA based on previous agreements; Israel refused to transfer the funds without resumption of direct coordination.

6 <https://n.pr/2WK9BiJ>

7 <http://english.wafa.ps/page.aspx?id=XKysuja118623638661aXKysuj>

8 *Ibid*

9 www.aliqtisadi.ps/article/76172/

10 <https://bit.ly/2P5I9sv>; <https://bit.ly/39Er3KU>; <https://bit.ly/2X1j9pD>

11 <http://english.wafa.ps/page.aspx?id=fNcKBCa108117237294afNcKBC>

12 www.aliqtisadi.ps/article/75843/

13 www.aliqtisadi.ps/article/76138/

14 https://ec.europa.eu/commission/presscorner/detail/en/IP_20_1298

15 <https://bit.ly/39zRIs8>

16 <https://bit.ly/32JvwKP>

17 www.un.org/unispal/wp-content/uploads/2020/06/AHLCCHAIRSUM_020620.pdf

18 www.lacs.ps/documentsShow.aspx?ATT_ID=45264

three decades of international efforts to achieve peace. The PNA called on the international community to recognise Palestine on the pre-1967 borders with East Jerusalem as its capital, reject unilateral border changes, refrain from financial support to unlawful Israeli activities, and exert efforts to end the occupation and achieve peace based on relevant agreements and UN resolutions.

In its report, the PNA asked for additional donor funding of \$4bn to cover its growing budget deficit. According to the report, the deficit has increased to \$2.6bn following a dramatic fall in tax revenues. The report states that \$1.2bn of the deficit will be financed through borrowing, aid, and reductions in spending, leaving a gap of \$1.4bn.

UNSCO report

In its report to the AHLC, the Office of the UN Special Coordinator (UNSCO) focused on the impact of the COVID-19 pandemic on public health in Palestine and the implications of prolonged deterioration in Israeli-Palestinian relations.¹⁹

According to the report, the current crisis exposed the vulnerability of bilateral Israeli-Palestinian relationships due to pre-existing political situations. The report commented on unilateral economic and political decisions by the Gol and the PNA and the imbalances in the implementation of the Paris Protocol,²⁰ which further complicated economic recovery planning. According to UNSCO, the current crisis highlighted that the PNA cannot respond with the same urgency or resources as other states due to the lack of sovereignty.

The report urged donors to increase financial assistance to address Palestinian health needs and the negative socioeconomic impact of the COVID-19 pandemic. UNSCO called for the modernisation of the current economic framework of bilateral relations, calling on the Gol to improve mechanisms for health and unemployment insurance, and pensions for Palestinian workers. The report also called for a negotiation of power purchase agreements that grant Palestinians greater autonomy in the energy sector, and a Customs Clearance Agreement that digitises the collection and clearance of VAT and customs fees for the PNA.

The UNSCO report also addressed developments in Gaza over the past year. According to the report, the 'Urgent Humanitarian and Economic Interventions for Gaza' assistance package, endorsed by the AHLC in 2018, led to increased fuel supplies to the Gaza Power Plant and a greater supply of electricity (about 11 hours a day for certain areas). This has consequently improved water supply and sanitation. Employment improved by the end of 2019, with over 37,000 temporary jobs created by UNRWA, UNDP, and World Bank projects. However, the pandemic could reverse these improvements, with 35% of industrial firms reportedly ceasing operation, and 13,000 industrial workers and 10,250 hospitality workers losing their jobs.

¹⁹ http://lacs.ps/documentsShow.aspx?ATT_ID=45265

²⁰ The framework establishing the interim-period economic relations between the Gol and the PNA. The Protocol was signed in 1994 and is part of Oslo I, which was signed a few days later

World Bank Report

The World Bank Group's (WBG) report to the AHLC also focused on the negative impact of the COVID-19 crisis on the Palestinian economy. According to the report the Palestinian economy could shrink by as much as 11% in 2020. Economic decline is expected to be worse in the West Bank compared to the Gaza Strip, due to the decrease in income from Palestinian workers in Israel. Additionally, the majority of the poorest groups in Gaza rely on aid rather than income from labour.

As the pandemic inflicts yet another blow to the PNA's already strained finances, the report expected a government funding gap of over \$1.5 billion this year, up from \$800 million in 2019.²¹ The Palestinian banking system is also at risk, according to the WBG, due to increased PNA borrowing as well as borrowing by PNA employees facing suspended salaries.

The WBG report advised the PNA to increase its expenditure by \$473m beyond its planned budget, through Cash for Work schemes to provide employment, wage subsidies for struggling businesses, and aid for local governments. To cover the additional expenditure, the report suggested that the PNA could mobilise donor aid, work with the Gol on addressing fiscal leakages and continued domestic borrowing, along with redirecting expenditure from the public sector payroll. The latter suggestion is something the PNA has avoided, since its primary aggregate demand stimulus instrument has relied for many years on enabling consumption by public sector employees.

OQ Report

The Office of the Quartet's²² report to the AHLC focused on the development of water, energy and telecommunications infrastructure.²³ According to the report, funding for the Gaza Central Desalination Plant has been secured, and construction of a wastewater treatment plant is near completion. However, the PNA needs a sustainable approach to operations in the sector, as financing is still required for operation and maintenance costs for wastewater treatment and desalination facilities. Moreover, there has been a delay in implementing wastewater projects in the West Bank due to a \$468m financing gap.

June Trading

In June 2020, Al-Quds index reached 470.8 points on the last day of trading, a decrease of 1% from the previous month.²⁴ During the month, a total of 4.3m shares with a total value of \$8.0m were traded, marking a 31.7% increase in the number and 10.5% in the value of traded shares compared to the previous month.

²¹ <https://bit.ly/30G2Sr4>

²² Consists of the United Nations, the European Union, the United States and Russia, with a mandate to help mediate peace negotiations while supporting Palestinian economic development and institution building

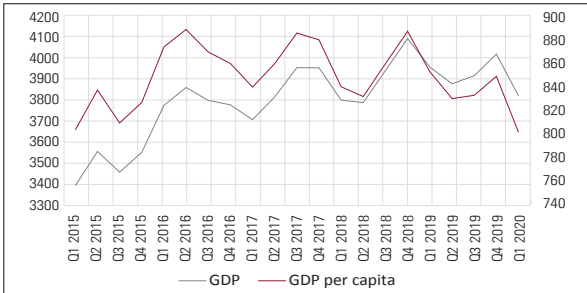
²³ <https://bit.ly/3hCyLYL>

²⁴ <https://bit.ly/2CX8JQR>

Palestine Economic Dashboard

Growth

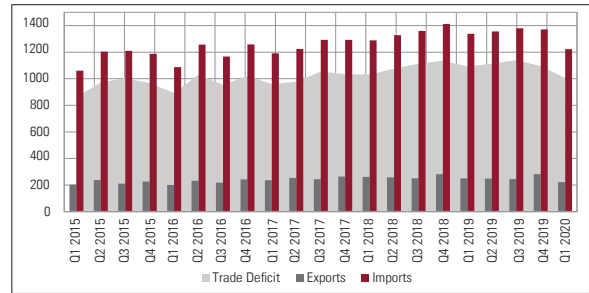
GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2015 – Q1 2020



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

Trade

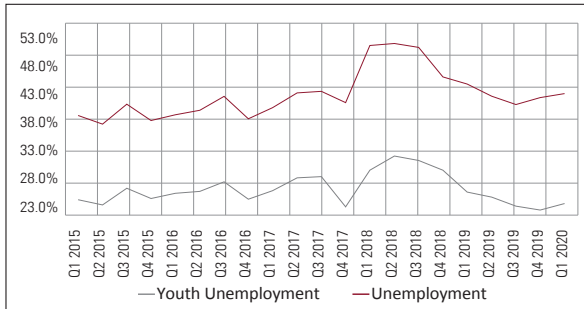
Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2015 – Q1 2020



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

Unemployment

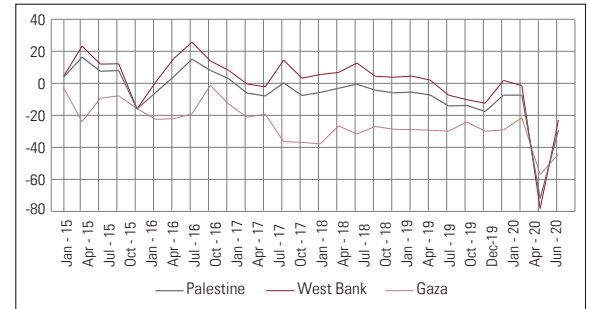
Unemployment and Youth Unemployment in Palestine, Q1 2015 – Q1 2020



Unemployment rate (Q1 2020): 25% Youth Unemployment rate (Q1 2020): 42.1%
Source: PCBS

Business Cycle Index

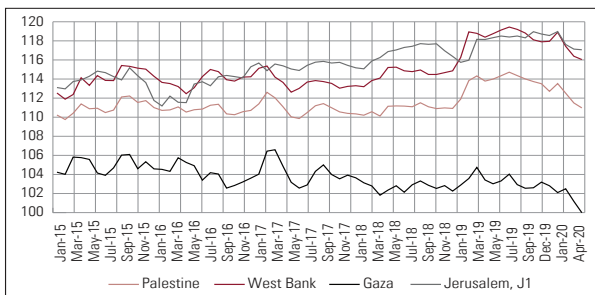
Palestine Monetary Authority Business Cycle Index, January 2015 – June 2020



Palestine (June 2020): -29.2 West Bank (June 2020): -22.9
Gaza (June 2020): -44.2 Source: PMA

Inflation

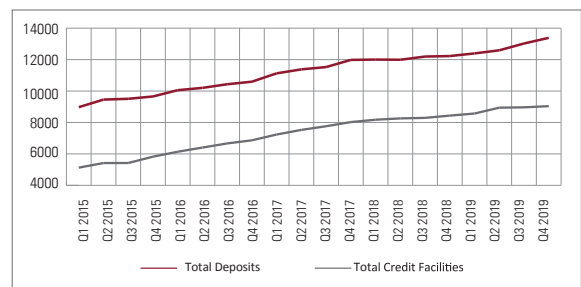
Consumer Price Index (Base year = 2010), January 2015 – June 2020



Palestine (June 2020): 110.9 West Bank (June 2020): 116
Gaza (June 2020): 99.9 Source: PCBS

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2015 – Q4 2019



Total Credit (Q4 2019): \$9039.1m Total Deposits (Q4 2019): \$13,384.7m
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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