

## PALESTINIAN ECONOMIC BULLETIN

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### Main reports

*PCBS forecasts published in December 2020 confirm that prospects for growth in 2021 could be on the upturn*

*The second annual International Conference for Entrepreneurship - Palestine (ICEP) was launched on 14 December with the theme "Empowering the Digital Generation"*

*In an effort to strengthen financial resilience during the COVID-19 pandemic, the EBRD announced on 21 December \$15 million in financing to the Bank of Palestine, to support of SMEs and women-led businesses*

*Al-Quds index grew by 1.83% in December, reaching 471.26 points on 2020 last day of trading*

### Economic Outcomes in 2020 and Forecasts for 2021

According to provisional estimates by the Palestinian Central Bureau of Statistics (PCBS) and the Palestine Monetary Authority (PMA), real GDP<sup>1</sup> decreased by 11.6% during 2020, with gross consumption falling by 6% and gross investment facing a staggering 36% drop.<sup>2</sup> Real GDP per capita decreased by a sharp 13.7%, pushing more households into poverty. The World Bank estimates that the poverty rate increased from 24% in 2018 to 27.5% in 2020, with approximately 1.4 million people living in poverty, representing some 120,000 newly poor.<sup>3</sup>

The contraction was driven by a 20% drop in GDP in Q2 2020, which followed a 4% reduction in the previous quarter. The economic downturn affected all economic activities, with value-added construction activity falling by 35% over the year, industry by 12%, agriculture by 11% and services by 10%. As a result, PCBS estimates that 14% of Palestinian businesses had to lay-off employees, with more than 66,000 jobs lost in 2020. The slowdown of economic activity and consequent disruption in incomes and consumption created deflation of 1% and a 24% increase in public debt to \$3.5bn in 2020.

Although the COVID-19 pandemic had a significant impact on employment, the unemployment rate increased only slightly, from 26.3% in 2019 to 27.8% in 2020. The modest increase in unemployment is explained by a sharp reduction in the labour force participation rate, which fell to just 35.4% in Q3 2020 compared to 41.2% in Q3 2019. Quarterly statistics show that 78,000 jobs were lost in Q2 2020 and in Q3 2020 only 12,000 of these jobs were recovered.<sup>4</sup> The number of Palestinian workers in Israel and Israeli settlements in the West Bank dropped by 34,000 between Q1 and Q2 2020, but increased by 33,000 in Q3, with a net loss of around one thousand additional jobs.

The economy witnessed a partial recovery in the second half of 2020: a 10.8% rise in GDP in Q3 2020 from Q2, following the lifting of COVID-19 preventive measures. The rebound was also driven by a 58.5% increase in the compensation of Palestinian workers in Israel and a 22.8% increase in current transfers to non-governmental sectors. These developments allowed an 8.2% quarter-on-quarter growth in household consumption and 18.5% in investment, partially offsetting the negative trend in the first half of the year.

Economic performance in 2020 demonstrated in the provisional quarterly data (still to be revised and published as final annual data) was better than had been forecast by both the PCBS and MAS at the beginning of the pandemic, but it is worse than the PMA and World Bank forecasts (see Table 1). Differences in the underlying assumptions at the time account for the variation in forecasts among these institutions. PCBS quarterly data indicate that the economy had contracted by 11.6% in 2020 compared to the 13.5% previously projected.<sup>5</sup> MAS had forecast a 20% decline in GDP while the World Bank and PMA had foreseen a 7.9% and 5.2% contraction, respectively.

1 Real GDP is an inflation-adjusted measure that reflects the value of all goods and services produced by an economy in a given year expressed in base-year prices, in this case 2015

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

3 <https://bit.ly/3n05UmL>

4 <https://bit.ly/3sv5RjI>; <https://bit.ly/3sv5wNs>; <https://bit.ly/36hmxBj>

5 [www.pcbs.gov.ps/post.aspx?lang=en&ItemID=3724](http://www.pcbs.gov.ps/post.aspx?lang=en&ItemID=3724)

**Table 1: Actual Results vs Forecasts for 2020<sup>6</sup>**

Scenario	Actual <sup>7</sup>	Actual <sup>8</sup> (Provisional data)	Pre-COVID19 baseline <sup>9</sup> (Forecast)	PCBS <sup>10</sup> (Forecast)	PMA <sup>11</sup> (Forecast)
Indicator/ year	2019	2020	2020	2020	2020
GDP (\$m)	15,829	13,999	16,137	13,638	14,949
Real GDP Growth (%)	1.4	-11.6	2.4	-13.5	-5.2
per Capita (\$)	3,378.4	2,915.5	-	-	-
Unemployment Rate (%)	26.3	27.8	24.4	-	-
Consumption (% change)	2.1	-6.3	2.5	-5.2	-6.1
Investment (% change)	-2.0	-35.9	5.6	-43.4	-11.3
Trade deficit (% change)	1.2	-13.3	5.1	-10.4	-
Exports (% change)	2	-6.8	3.9	-2	-25%
Imports (% change)	1.4	-11.3	4.7	-7.8	19%

Sources: PCBS and PMA

## Forecast for 2021

The volatility of Palestinian economic activity and structural vulnerability to external shocks makes forecasting a particularly challenging task in the Palestinian context. In addition, the unprecedented socio-economic impacts introduced by the pandemic complicate the measurement and estimation process further, especially as it is still unclear what course the pandemic will take in 2021. The year has already begun with a range of restrictions on movement and gathering, but with most economic sectors able to operate. It is not yet clear whether the country will undergo another full lockdown in the first half of the year, especially as Israel entered a third major lockdown in January. Furthermore, the prospects for an early or comprehensive vaccination roll-out in Palestine remain bleak.<sup>12</sup>

Amidst the uncertainty, PCBS forecasts published in December 2020 confirm that prospects for growth in 2021 could be on the upturn, with political developments so far this year indicating that the assumptions of the more optimistic scenario might well prevail. The annual projection exercise considered different scenarios, as outlined below:<sup>13</sup>

- **The Baseline Scenario** assumes a continued spread of COVID-19 countered with partial to full lockdowns over limited periods and that vaccination will start in Q1 2021. This scenario assumes that the internal political situation and external diplomatic relations will return to their pre-2020 status.
- **The Optimistic Scenario** assumes an improved political and economic situation following progress in Palestinian political reconciliation, and the preparations for the legislative and presidential elections in Palestine. The scenario further assumes the return of normal diplomatic relationships with the USA, increased donor support and public revenues, and the continuation of partial and full lockdowns due to COVID-19 outbreaks.

<sup>6</sup> Each of the PCBS and PMA had two scenarios concerning the expected course of the pandemic, but the table only includes the ones that assumed a continued partial and complete lockdown for three or four months from the eruption of the pandemic. For more details refer to B163.

<sup>7</sup> [www.pcbs.gov.ps/post.aspx?lang=en&ItemID=3636](http://www.pcbs.gov.ps/post.aspx?lang=en&ItemID=3636)

<sup>8</sup> <https://bit.ly/2XshRE1>

<sup>9</sup> [www.pcbs.gov.ps/post.aspx?lang=en&ItemID=3636](http://www.pcbs.gov.ps/post.aspx?lang=en&ItemID=3636)

<sup>10</sup> [www.pcbs.gov.ps/post.aspx?lang=en&ItemID=3724](http://www.pcbs.gov.ps/post.aspx?lang=en&ItemID=3724)

<sup>11</sup> <https://bit.ly/3qkxm1m>

<sup>12</sup> <https://bit.ly/3sxUEP9>

<sup>13</sup> [www.pcbs.gov.ps/post.aspx?lang=en&ItemID=3879#\\_ftn3](http://www.pcbs.gov.ps/post.aspx?lang=en&ItemID=3879#_ftn3)

- **The Pessimistic Scenario**, however, assumes a worsening situation with increased movement and trade restrictions with Israel undergoing full lockdowns to combat the virus. The scenario also assumes an accelerated spread of COVID-19 along with delays in obtaining the vaccine, a persistent decline of donor support and increased tax evasion.

**Table 2: PCBS, PMA and World Bank Forecasts for 2021**

Institution	PCBS and PMA	World Bank		
Scenario	Baseline Scenario	Optimistic Scenario	Pessimistic Scenario	2021 Forecast
Real Gross Domestic Product (\$m)	14,843.4	15,825.1	14,126.5	-
Real GDP Growth (%)	6	13	0.9	2.3
GDP Per Capita (\$)	3,018.2	3,217.8	2,874.0	-
GDP Per Capita Growth (%)	3.5	10.4	-1.4	-
Unemployment Rate (%)	27.2	26.4	27.5	-
Change in Gross Consumption	3	6.9	1.1	-
Change in Gross Investment	31.5	62.1	2.5	5.0
Change in Trade Balance (Deficit)	9.9	19.3	2.1	
Change in Gross Exports	4.4	6.9	1.4	3.8
Change in Gross Imports	8.1	15.2	1.9	5.6

Sources: PCBS and PMA

## Developments in Tech Entrepreneurship

The Palestinian technology startup ecosystem is young, but growing quickly and thriving, with the number of startups increasing by 34% between 2009-2015.<sup>14</sup> There are 40+ venture capital-funded startups in Palestine, over \$150 million invested in startups, and thousands of jobs created, 12% of which are in the ICT sector.

In light of the COVID-19 pandemic, the tech entrepreneurship sector gained renewed attention as demand for digital solutions coincided with mounting restrictions on movement and access. The sector is perceived by many to have great growth potential, owing to a proven track record for outsourcing from multinationals, a highly educated young population, low cost of talent, as well as market readiness to practice new technology solutions.<sup>15</sup> However, many constraints remain; the ecosystem as a whole suffers from a lack of funding and specialised quality assurance, in addition to numerous bureaucratic hurdles.

## International Conference for Entrepreneurship - Palestine

On 14 December, the Global Shapers Hubs (a World Economic Forum community), in cooperation with the Ministry of Entrepreneurship and Empowerment and the German Hubert Burda Media company launched the second annual International Conference for Entrepreneurship - Palestine (ICEP) with the theme "Empowering the Digital Generation".<sup>16</sup> The event, which was held virtually, included sessions on a range of topics such as the start-up ecosystem in Palestine, Palestine as an outsourcing hub, and start-up success in a post-COVID digital landscape.<sup>17</sup> A variety of international speakers including innovation experts, business people, investors

<sup>14</sup> <https://icep.ps/wp-content/uploads/2020/12/ICEP-BROCHURE-Final-16-Dec.pdf>

<sup>15</sup> <https://icep.ps/wp-content/uploads/2020/12/ICEP-BROCHURE-Final-16-Dec.pdf>

<sup>16</sup> <https://icep.ps/>

<sup>17</sup> <https://bit.ly/3ppBTey>

and senior figures from development agencies and multinational tech companies participated from Japan, the MENA region, the UK, Germany, France, Norway and the US.<sup>18</sup>

Prime Minister Mohammad Shtayyeh opened the conference by announcing that the Government will soon issue reforms to company laws that will facilitate the work of startups. He also announced the planned opening of a vocational and technical training university, adding that coding courses have already been adopted in some institutions in the West Bank and Gaza. He stressed the uniqueness and importance of Palestine's human resources and quality of education.<sup>19</sup>

### **Palestine-India Techno Park**

On 8 December, India donated \$3 million to complete the construction of the Palestine-India Techno Park, a "launch pad" and nurturing environment for Palestinian tech start-ups and entrepreneurs, connecting them to national, regional, and international markets. The Park will aid innovation and research and development initiatives, as well as helping to create an infrastructure supporting young tech companies, ultimately to create jobs and generate business for young Palestinian entrepreneurs. India has contributed a total of \$12 million to the project, established in 2016 and constructed near Birzeit University. The Park is planned to be inaugurated in early 2021. India is also aiding Palestinian professionals by providing 150 places in the Indian Technical and Economic Cooperation (ITEC) programme for Palestinian professionals and experts.<sup>20</sup> The ITEC is an Indian bilateral assistance programme, for Indian professionals to share their developmental and technical expertise and knowledge, through providing scholarships, training courses and assisting with establishing infrastructure facilities with friendly countries. Over 900 Palestinians have undergone training in various Indian institutes through this programme.<sup>21</sup>

### **Food Security**

The COVID-19 pandemic continues to have a significant impact on Palestinian food security, as Palestinian households' overall monthly spending on food decreased by 41%. As previously reported, during the lockdown period 61% of Palestinian households worried about not having enough food, 57% had a less diverse diet, and 47% could not maintain a healthy and nutritious diet.<sup>22</sup> Prior to the pandemic, 58% of households borrowed money or bought on credit to afford food items. Since the pandemic, this has increased to 63%, with the highest at 79% in the Gaza Strip.

Gaza has been especially harshly affected by the pandemic, due to the pre-existing high rates of poverty, unemployment, insufficient public health services and severely deteriorated public utility infrastructure due to

over a decade of blockade, and consecutive wars and minimal public investment and donor aid. A family in Gaza living below the poverty line spends half of its monthly income on food, limiting its ability to meet other needs such as housing, health services, etc, leading to coping strategies such as borrowing.<sup>23</sup> Experts in Gaza have noted that existing food insecurity and malnutrition prior to the pandemic could play a role in decreased overall immunity, and thus a bigger spread of the virus, witnessed by a recent surge of cases in Gaza.<sup>24</sup>

### **Donor support**

Several countries have contributed to the World Food Programme (WFP) to counter food insecurity amongst Palestinians. Switzerland donated approximately \$5m, to provide cash assistance to 1,150 families living in the Gaza Strip. Each family receives a card with monthly credit that allows them to purchase basic food supplies at local markets. Spain also contributed approximately \$490,000 to the WFP for over 34,000 vulnerable Palestinians (mainly women and children) in the Gaza Strip. The donation will be used to provide electronic food vouchers that can be used at over 200 shops across the Gaza Strip. The vouchers are found to be effective due to their providing families with freedom of choice, thereby dignity and flexibility, as well as positively benefiting the local economy.<sup>25</sup> Germany also donated approximately \$10.5 million to the WFP.<sup>26</sup>

In light of the increased food insecurity under the pandemic, the UN Food and Agriculture Organization (FAO) released a report covering the period of May-December 2020, in which they outlined their main interventions. FAO will focus on providing inputs to small-scale farmers and herders whose supply chain was disrupted due to coronavirus restrictions and lockdowns, providing technical support to food processors run by women's cooperatives, and stimulating investments in the agri-food value chain, particularly businesses heavily impacted by the pandemic. Other interventions include improving market access for Palestinian products by improving marketing tactics, consumer awareness, and improving linkages between West Bank and Gaza Markets.<sup>27</sup> Regional market linkages are now especially important, due to coronavirus lockdown restrictions hindering the export of important crops from Gaza to the West Bank.<sup>28</sup> Additionally as part of the international response to the pandemic-induced socio-economic crisis, FAO will work on providing training and support to the Ministry of Agriculture and Ministry of Health's food contamination surveillance, as well as designing a campaign to raise awareness among farmers and those in the agri-food value chain on how to deal with pandemic-related issues.<sup>29</sup>

### **EBRD Supports Women-led MSMEs**

On 21 December, the European Bank for Reconstruction and Development (EBRD) announced that it is supporting

18 <https://icep.ps/>

19 [www.maannews.net/news/2026972.html](http://www.maannews.net/news/2026972.html)

20 <https://bit.ly/3pn2o4x>

21 [www.roiramallah.gov.in/press.php?id=75](http://www.roiramallah.gov.in/press.php?id=75)

22 See B170

23 <https://bit.ly/35nbWEo>

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

25 <https://english.wafa.ps/Pages/Details/122295>

26 [www.palestineconomy.ps/ar/Article/17590](http://www.palestineconomy.ps/ar/Article/17590)

27 [www.fao.org/3/cb0203en/CB0203EN.pdf](http://www.fao.org/3/cb0203en/CB0203EN.pdf)

28 [https://portlandtrust.org/sites/default/files/peb/bulletin\\_171\\_-\\_english\\_a4.pdf](https://portlandtrust.org/sites/default/files/peb/bulletin_171_-_english_a4.pdf)

29 [www.fao.org/3/cb0203en/CB0203EN.pdf](http://www.fao.org/3/cb0203en/CB0203EN.pdf)

Palestinian micro, small, and medium-sized enterprises (MSMEs) and women entrepreneurs by providing \$15 million in financing to the Bank of Palestine (BOP), the largest bank in Palestine, in an effort to strengthen financial resilience during the COVID-19 pandemic.<sup>30</sup>

The EBRD financial package includes a \$13 million credit line to provide critical liquidity to small businesses, enabling BOP to extend short-term loans to MSMEs facing liquidity strains due to the pandemic. MSMEs are the backbone of the Palestinian economy, constituting 98 percent of all businesses.<sup>31</sup> This is in line with the rest of the MENA region in which MSMEs account for 80-90 percent of businesses, significantly contributing to job creation and national GDP.<sup>32</sup>

Additionally, the package includes a loan of \$2 million targeted towards helping women-led businesses access necessary funds and create more job opportunities.<sup>33</sup> The loan will be accompanied by a first-loss risk cover mechanism, enabling the bank to test new products, offer more favorable lending conditions, and improve women's access to finance. The EBRD package will also include an assistance programme, funded by the Netherlands through the EBRD Multi-Donor Trust Fund for the West Bank and Gaza.<sup>34</sup> The programme aims to assist the BOP to strengthen its capacity in lending to women-led businesses, including support in product development, risk management, and marketing. Palestinian women in business have less diverse networks and do not enjoy equal access to market, finances, business development programmes.<sup>35</sup>

### Response to the COVID-19 Pandemic

The EBRD boost programme comes at a critical time for small businesses, especially those led by women, as they continue to suffer from the repercussions of closures enforced due to the outbreak of COVID-19.<sup>36</sup> 71% of MSMEs (92% in the West Bank and 27% in Gaza) were shut-down during the first lockdown period (March-May 2020).<sup>37</sup> In a recent survey conducted by the Ministry of National Economy (MNE) and Palestinian Central Bureau of Statistics (PCBS) on a sample of 2,600 establishments,

63% of businesses reported disruptions in supplies, 89% faced a decline in cash flow evidenced by an increase in returned cheques, and 14% had to let go of their employees.<sup>38</sup> Compared to pre-COVID levels, productivity and sales were cut by 50% on average, with a 93% decrease in the first three months of the lockdown. The establishments also expected a 47% drop in sales over the three months following the first lockdown and a 24% drop in employment.

Approximately 95% of women-led businesses reported being negatively impacted by the pandemic, 27% had to shut down their projects as of July 2020, according to a recent UN Women survey on the impact of COVID-19 on women-led MSMEs in Palestine.<sup>39</sup> A gender assessment study conducted by CARE Palestine in April 2020 found that women are three times more likely than men to report not being able to work at all due to COVID-19.<sup>40</sup> About 90% of women are unable to access financial services compared to 73% of men.

### December Trading

Al-Quds index grew by 1.83% in December, reaching 471.26 points on the last day of trading of 2020.<sup>41</sup> A total of 11 million shares were traded with a value of \$27.6 million, marking an increase of 23.4% in the volume and 31.1% in the value of traded shares.

On an annual basis, the Al-Quds index decreased by 10.6% compared to the last day of trading in 2019. In 2020, a total of 86.5 million shares were traded on the Palestine Exchange (PEX) with an overall value of \$190.1 million. This marks a significant decrease in the volume (-39.5%) and value (-30.6%) of traded shares compared to 2019, driven by the impact of COVID-19 on business activity and the deterioration in the political environment.

30 [www.ebrd.com/news/2020/](http://www.ebrd.com/news/2020/)

31 [www.ps.undp.org/content/papp](http://www.ps.undp.org/content/papp)

32 [www.imf.org/~media/Files/Publications/PP/2019/](http://www.imf.org/~media/Files/Publications/PP/2019/)

33 [www.ebrd.com/news/2020](http://www.ebrd.com/news/2020)

34 [www.ebrd.com/news/2020](http://www.ebrd.com/news/2020)

35 [www.ps.undp.org/content/papp](http://www.ps.undp.org/content/papp)

36 Women-led businesses make up 25% of Palestinian MSMEs

37 [www.pcbs.gov.ps/portals/\\_pcbs](http://www.pcbs.gov.ps/portals/_pcbs)

38 [www.pcbs.gov.ps/portals/\\_pcbs](http://www.pcbs.gov.ps/portals/_pcbs)

39 [www.ps.undp.org/content](http://www.ps.undp.org/content)

40 <https://reliefweb.int/sites/reliefweb.int/files/resources/5eaebacaa7de5.pdf>

41 <https://bit.ly/38MXxU8m>

## 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](mailto:feedback@portlandtrust.org)

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