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Palestine Economic Policy Research Institute (MAS)
Palestinian Central Bureau of Statistics (PCBS)
Palestine Monetary Authority (PMA)
Palestine Capital Market Authority (PCMA)

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Third quarter 2020 in brief:

- GDP: GDP grew during Q3 2020 by 11.8% compared with the previous quarter (at constant prices), reaching USD 3,506.2m, resulting from increase in the West Bank by 13.9% and 2.9% in the Gaza Strip, which reflected as an increase in per capita GDP by 11.1% (13.2% in the West Bank and 2.2% in the Gaza Strip), standing at USD 726.2 (USD 1,047.3 in the West Bank and USD 294.1 in the Gaza Strip).
- Employment and Unemployment: The unemployment rate in Palestine decreased by 1.8 percentage points over the consecutive quarters Q3 and Q4 2020, reaching 28.3% (18.5% in the West Bank and 48.6% in the Gaza Strip). The average daily wage in Palestine reached NIS 137.1; around NIS 121.1 for workers in the West Bank, NIS 59.4 for workers in the Gaza Strip, and NIS 254.2 for workers in Israel and its colonies. The percentage of private sector minimum wage earners was 26.2% (23.3% for females and 26.7% for males).
- Public Finance Net public revenues and grants declined by 47%, reaching NIS 1.3bn, due to delayed clearance revenues, and a significant drop in foreign aid and grants by 50%, while domestic revenues increased by 60%. Public revenues fell by 65% reaching NIS 2.6bn (cash basis); government arrears reached NIS 1.5bn, and public debt rose by about 12% compared with the previous quarter, standing at NIS 11.9bn.
- Banking Sector: Credit facilities increased by 3% compared with the previous quarter, reaching USD 9.9 bn, 21% of which were granted to the public sector. Deposits, as well, increased by 2% compared with the previous quarter, reaching USD 15.3bn. Banks' profits reached USD 30.7m during the quarter, tripling compared with the previous quarter.
- PEX: By the end of Q3 2020, the market value of PEX traded shares was USD 3.3bn, a drop of 5% compared with the previous quarter. Al Quds index closed at 438.1 points, a decrease of 7% compared with the previous quarter.
- Inflation and prices: During Q3 2020, the Palestinian economy witnessed negative inflation (decrease in prices) of 0.2% compared with the previous quarter. Therefore, the purchasing power for those who receive their salaries and spend them in NIS improved by the same ratio over the consecutive quarters, whereas, it declined by 2.5% for those who receive their salaries in USD and spend them in Shekel due to a drop in the USD exchange rate against the Shekel.

Note: The fractional components of ratios in the Monitor's sections, except for GDP and Prices and Inflation and Interest Rates, are presented as integer figures.

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1. The Real Economy

Economic activity recorded an improvement in Q3 2020 compared with Q2, largely due to the easing of coronavirus-related restrictions. This allowed for the regeneration of some economic activities, especially in the construction sector. It also led to an increase in the number of Palestinian workers employed in Israel and its settlements in the West Bank. On the other hand, the circumstances of the pandemic and accompanying closures demonstrated the importance of modern communications technology, especially the internet, in mitigating the negative effects of closure through remote production and service activities. In this issue, we discuss the activities of various economic sectors in Q3 2020. We also provide a detailed narrative on the development of modern communications technology in Palestine and its future requirements.

1.1 Production and Spending [1]

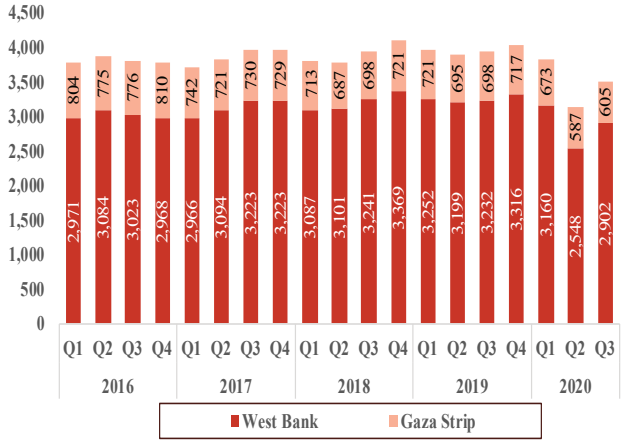
Gross domestic product (GDP), or the monetary value of all locally-produced goods and services, increased by 11.8% in Q3 2020 compared with Q2, reaching $3,506.2 million (measured at constant prices for 2015), according to preliminary statistics issued by the Palestinian Central Bureau of Statistics (PCBS) (see Figure 1.1).

This increase featured a growth rate of 13.9% in the West Bank and 2.9% in the Gaza Strip over the 2 successive quarters. Despite this noticeable improvement in value relative to Q2 2020, GDP was 10.8% less than its corresponding value in Q3 2019 (10.2% less in the West Bank, and about 13.4% less in the Gaza Strip). Economic activity in 2019 was already in a state of stagnation and decline due to the financial crisis faced by the Palestinian Authority that year.

Statistical results indicate that the improvement in local economic activity in Q3 2020, after the easing of measures to contain the COVID-19 pandemic, was not sufficient to return GDP to its previous level. In addition, financial measures adopted by the Palestinian Authority, in light of the clearance crisis (such as disbursing half of public sector employees' salaries for six months), had negative effects on domestic production and aggregate demand, at the time when they were in dire need of incentives to facilitate their recovery. There is no certainty that growth will continue in Q4 2020 at the same pace as Q3, especially given the expectations that new closures will be imposed to contain the pandemic in Q4, especially in the Gaza Strip.

The spread of the COVID-19 virus, and the complete closure of the West Bank for the purposes of containing the pandemic starting in March 2020, resulted in a severe negative impact on economic activity, which was reflected in a decrease in GDP of 18.2% in Q2 2020. This resulted in a sharp decline in demand and production, especially household consumption (18.6%) and total investment (29.2%) (see Figure 1.2). As for foreign trade, its contribution was positive during Q2, due to the decrease in the value of imports (by 18.6% or $344.1 million) which was greater than the decrease in the value of exports (by 2.4% or $12.8 million).

Figure 1.1: GDP in Palestine by Quarter for 2018-2020 at Constant Prices (USD million) (base year 2015)

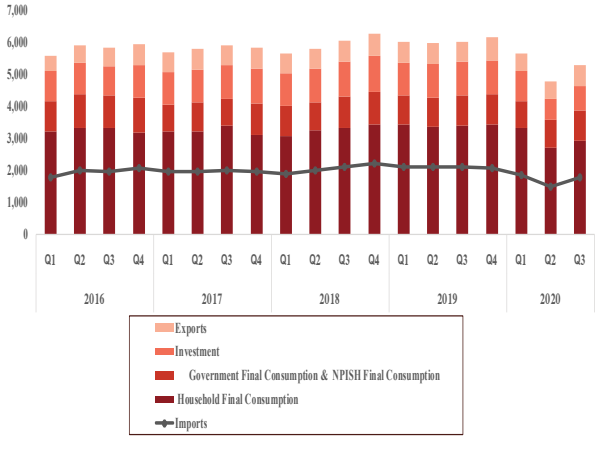


Source: PCBS 2020. Quarterly National Accounts Statistics, 2000-2020. Ramallah, Palestine.

The following factors led to an increase in household consumption by 8.2%, and an increase in domestic investment by 18.5%, in Q3 2020 relative to Q2 (see Figure 1.2):

- Broad relaxation of measures to contain the COVID-19 virus since the end of May 2020.
- The number of workers in Israel increased from 102,000 in Q2 2020 to 132,400 in Q3, due to the easing of movement restrictions. This raised the net compensation for workers in Israel in Q3 2020 by 58.5% (or $653 million) compared to Q2.[2]
- Increase in net current transfers to the non-governmental sector in Q3 2020 by 22.8% (or $426 million) compared with Q2.

Figure 1.2: Quarterly Spending on GDP for 2019-20 at Constant Prices (base year 2015)



Source: PCBS, 2020. Quarterly National Accounts Statistics, 2000-2020. Ramallah, Palestine.

1 Most of the statistics in this section are sourced from the Palestinian Central Bureau of Statistics (PCBS), especially quarterly national accounts. Other sources are referenced when used.

2 PCBS. *Labor Force Survey Q2 and Q3 2020.* PCBS. *Preliminary results of the Palestinian balance of payments for Q2 and Q3 2020.*

Despite the financial crisis of the Palestinian Authority, government spending also increased by 6.3% in Q3 2020 compared with Q2. On the other hand, Q3 2020 witnessed an increase in the trade deficit by 15.9% due to a larger increase in imports ($280.8 million) compared to exports ($125.8 million). In summary, there was a rise in GDP by 11.8% in Q3 2020 compared with Q2. A comparison with Q3 2019 shows a decline in all GDP spending indicators, with the exception of the deficit in the trade balance, which decreased due to a decline in imports and an increase in exports.

It seems that the recovery in Q3 was based mainly on easing the closure of basic economic activities. Statistics on new vehicle registrations have altered, suggesting a continuation in the trend towards preventive savings due to the decline in disposable income and continuing uncertainty resulting from the lack of a solution to the crisis. There is no expectation of a COVID-19 vaccine being made available in Palestine before mid-2021. Data from the Ministry of Transport and Communications indicates that new vehicle registration continued to decline during Q3 2020, reaching about 39% of its corresponding level in Q3 2019 (see Figure 1.3). There is no indication that this decline may stop given the Ministry's decision to cease importing used cars from abroad starting from October to prevent fluctuations in car prices in the West Bank and to protect car showrooms from collapse. [3]

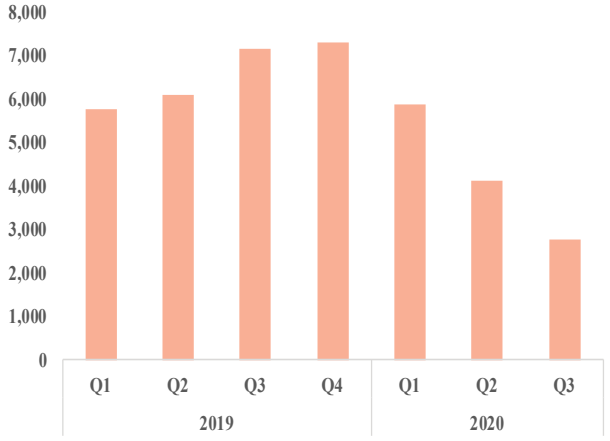
Per Capita Share of GDP

The increase in GDP in Q3 2020 (compared with Q2 when it recorded a significant decline) combined with the increase in population led to an increase in GDP per capita of 11.1% (13.2% in the West Bank and 2.2% in the Gaza Strip), where it reached $726.20 (base year 2015). Concurrently, GDP per capita for Q3 2020 was 13.1% less than Q3 2019 (12.4% in the West Bank and 15.8% in the Gaza Strip). It should be noted that GDP per capita is still much lower than the quarterly average for the past four years ($859.3), highlighting the magnitude of the decline in economic activity during the crisis.

Palestine Monetary Authority's Business Cycle Index[4]

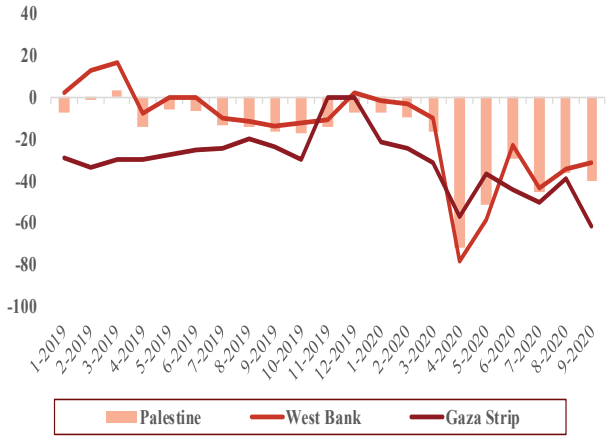
The Business Cycle Index reached its lowest level in April, then started to recover from May onwards, in conjunction with the gradual easing of lockdown measures. However, the Index's value was still lower than the corresponding value in Q3 2019. It was also less than its pre-pandemic value at the start of 2020, which was followed by a sharp decline in Q2 2020 (see Figure 1.4).

Figure 1.3: Quarterly Vehicle Registration Data (2019-20)



Source: Ministry of Transport and Communications, 2021. Monthly vehicle registration data, 2019-2020. Ramallah, Palestine.

Figure 1.4: Palestine Monetary Authority's Monthly Business Cycle Index for 2019-2020



Source: Palestine Monetary Authority, 2020. Business Cycle Index, 2019-2020. Ramallah, Palestine.

1.2 Productive Sectors[5]

The value-added of the productive sectors (agriculture, industry, and construction) increased in Q3 2020 by 8.4% compared with Q2. However, it was 17.9% lower than Q3 2019, reaching $830.5 million (base year 2015). Despite the increase in the value-added of these sectors, their contribution to GDP decreased from 24.4% in Q2 2020 to 23.7% in Q3 of the same year.

Agricultural Sector

Despite the fact that the agricultural sector was among the least-affected sectors by closures and other measures to combat the pandemic, the decline in the added value of agricultural, forestry, and fishing activities continued in Q3 2020 (by 2.3%), after declining by 13.2% in Q2 relative to Q1 2020. Added-value for Q3 2020 was 13.1% less when compared with Q3 2019. Agricultural activities contributed

3 https://www.aliqtisadi.ps/article/77412/

4 The *Business Cycle Index (BCI)* is calculated based on a survey of opinions from a representative sample of managers of industrial establishments in the West Bank and Gaza Strip, concerning current levels of employment, production and sales, and their expectations of change in the coming months. BCI gives an overview of the general performance of the Palestinian economy during that month, and expectations for the coming months. The maximum value of BCI is 100, while the minimum value is -100. If the value of BCI is positive, then economic conditions are good. An increase in the BCI indicates an improvement in the general economic situation. On the contrary, negative values indicate that economic conditions are bad, becoming worse as BCI approaches -100. A BCI value approaching zero indicates that conditions are stable, and are not anticipated to change in the near future.

5 Source of figures in this section: PCBS 2020. *Quarterly National Accounts Statistics, 2000-2020*. Ramallah, Palestine.

about 6.7% of GDP in Q3 2020, equivalent to $236.5 million (see Figure 1.5).

The Industrial Sector

The added value of the industrial sector in Q3 2020 was 11.0% lower compared with Q3 2019. The sector showed signs of slow recovery, represented by an increase of 12.2% compared with Q2 (see Table 1.1). It maintained its share of GDP when compared with Q2 2020 and Q3 2019.

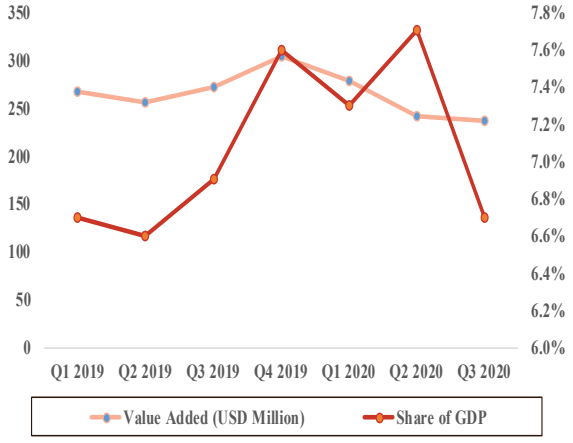
The total industrial production index increased by 1.36% in July 2020 compared with the previous month. This increase continued in August (6.27%) and September (7.93%) to reach 110.11 points. This change reflects the nature of the industrial sector, which may be able to compensate for losses incurred during closure by increasing production - if demand and productive capacity are available. This feature is not available to other sectors, except for the construction sector (see Figure 1.6).

Construction Sector

The construction sector was one of the most prosperous and productive sectors in Q3 2020, as its value-added increased by 17.5% compared with the previous quarter. However, it was 40% less than the corresponding quarter (Q3, 2019). The contribution of the construction sector to GDP increased at the end of Q3 2020 to about 3.8% compared with 3.6% in Q2. Yet, it is still less than the 5.7% recorded for Q3 2019. These changes reflect the high sensitivity of this sector to dynamics in the local economy and the investment environment.

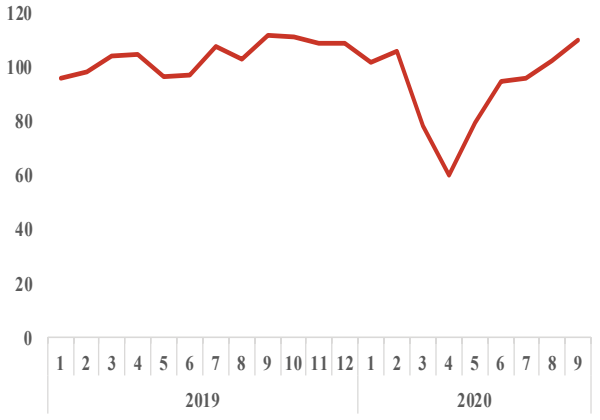
Initial estimates indicate a significant recovery of 62.2% in issued construction permits for Q3 2020 compared with the previous quarter, while it was still down by 10.5% compared with the corresponding quarter of 2019. The number of construction licenses issued for residential and non-residential buildings reached 1,974 during Q3 2020, of which 1,353 were licenses for new buildings. As for the number of new housing units, these registered a 64% recovery during Q3 2020, compared with the previous quarter. However, this number is 12% lower when compared with Q3 2019 (see Figure 1.7). The number of licensed housing units reached 3,614 in Q3 2020, with a total area of 596,000 square-meters.

Figure 1.5: Value Added at constant prices (base year 2015) and the Agricultural Sector's Contribution to Quarterly GDP (2019-2020)



Source: PCBS, 2020. Quarterly National Accounts Statistics, 2000-2020. Ramallah, Palestine.

Figure 1.6: General Index of Quantity of Monthly Industrial Production in 2020



Source: PCBS, 2020. Surveys of Index Numbers 2010-2020.
Note: Data on the industrial production index for 2020 has been revised based on updated industrial production values and producer price index. The two processes of dissuasion and optimization are examined together, using the modified Laspeyres Index to calculate the industrial index (floating base instead of fixed base), in line with the latest international recommendations in this field.

Table 1.1: Quarterly Comparison of the Industrial Sector's Value Added ($ million) (base year 2015)

Economic Activity	Q3 2019	Q2 2020	Q3 2020	Percentage change from previous quarter	Percentage change from corresponding quarter
Mining and quarrying	17.4	10.9	11.9	9.2%	-31.6%
Transformative industries	445.9	351.0	398.5	13.5%	-10.6%
Electricity, gas, steam and air conditioning	39.4	33.9	33.9	0.0%	-14.0%
Water supply, sanitation, waste management and treatment	14.6	14.6	0.16	09.6%	9.6%
Mining, transformative industries, water and electricity	517.3	410.4	460.3	12.2%	-11.0%

Source: PCBS, 2020. Quarterly National Accounts Statistics, 2000-2020. Ramallah, Palestine.

1.3 Commercial, Financial, and Services Sectors

Table 1.2 outlines economic activities that make up the commercial, financial, and services sectors in the Palestinian economy. The total value-added of these sectors increased in Q3 2020 by 11.0% compared with Q2 2020. Yet, it was 9.3% less compared with Q3 2019, reaching $2,119.9 million (base year 2015). It is evident from Table 1.2 that the increase in the added value of these activities, compared with the previous quarter, was the result of a recovery in sub-sector activity, with the exception of administrative and support services, which decreased by 9.7%. Despite the increase in value-added in the services sector, its contribution to GDP decreased from 60.9% in Q2 2020 to 60.5% in Q3 2020. This is due to the increase in the contribution of customs duties, and net VAT on imports, from 14.6% to 15.9% during the same period.

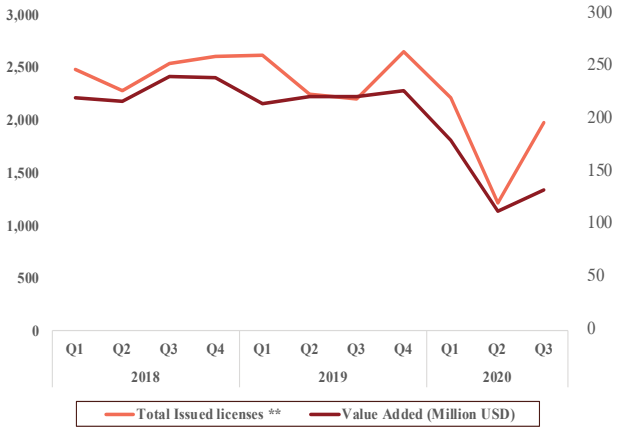
1.4 Prices[6]

The consumer price index (CPI) represents average prices for a selected group of basic goods and services, reflecting the consumption patterns of the average family in a country. This group of selected goods and services is called the "consumption basket". The rate of increase in CPI between two specified dates is the rate of inflation. It expresses the change in the purchasing power of income.

Record Prices

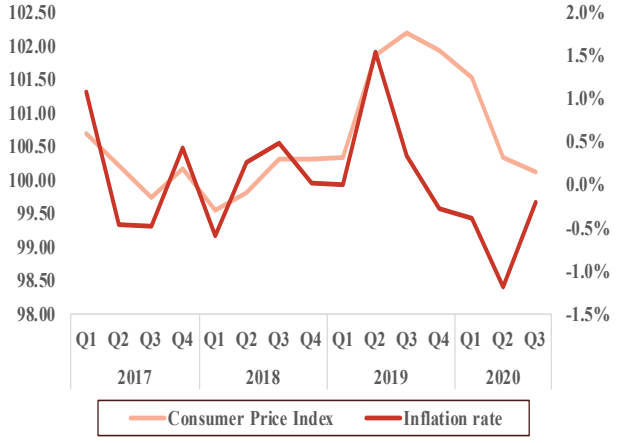
The figure below shows two curves: the first depicts CPI developments (on the left axis) between Q1 2017 and Q3 2020, while the second curve (on the right axis) measures the percentage change in CPI in each quarter, relative to the previous one. This is equivalent to the rate of inflation in each quarter.

Figure 1.7: Construction Licenses issued in Palestine and the Value Added of the Construction Sector (base year 2015) from Q1 2018 to Q3 2020



Source: PCBS 2020, Building Permits Statistics and Quarterly National Accounts Statistics, 2000-2020. Ramallah, Palestine.

Figure 1.8: Tracking the CPI Inflation Rate (base year 2018)



Source: PCBS, 2020. Surveys of Index Numbers 2010-2020.

Table 1.2: Quarterly Comparison of Value Added for the Services Sector ($ million) (base year 2015)

Economic Activity	Q3 2019	Q2 2020	Q3 2020	Percentage change from previous quarter	Percentage change from corresponding quarter of 2019
Wholesale/retail trade and repair of vehicles or motorcycles	838.1	600.7	725.3	20.7%	-13.5%
Transportation and storage	62.2	51.6	59.5	15.3%	-4.3%
Financial and insurance activities	156.8	163.5	165	0.9%	5.2%
Information and communications	120.6	111	118	6.3%	-2.2%
Accommodation and catering activities	57.8	27.2	28	2.9%	-51.6%
Real estate and rental activities	177.4	100.7	115.9	15.1%	-34.7%
Professional, scientific, and technical activities	48	30.3	34.5	13.9%	-28.1%
Administrative and support services	26.8	23.7	21.4	-9.7%	-20.1%
Education	230.8	226.5	235	3.8%	1.8%
Health and social work	133.9	141.9	153.9	8.5%	14.9%
Arts, entertainment, recreation, and other services	91.6	42.6	54.3	27.5%	-40.7%
Public administration and defense	393.7	390.1	409.1	4.9%	3.9%
Home services	2.0	2.0	2.0	0%	0%
Services sectors	2,337.7	1,909.8	2,119.9	11.0%	-9.3%

Source: PCBS 2020, Quarterly National Accounts Statistics, 2000-2020. Ramallah, Palestine.

6 Source: PCBS 2020. *Surveys of Index Numbers 2010-2020.*

The 2020 trend shows the impact of the pandemic, in terms of a decline in public demand and a resulting deflationary shock. CPI reached 100.13 in Q3 2020 compared with 100.33 in Q2, meaning that average inflation in Q3 2020 was negative, but the rate of change had increased from -1.2% in Q2 to -0.2% in Q3 2020. CPI also decreased by 2.0% in Q3 2020 compared with the corresponding quarter of 2019 (see Figure 1.8).

Exchange Rates and Purchasing Power

Purchasing power is defined as the individual's ability to purchase goods and services. This depends on consumers' income levels, changes in prices, and currency exchange rates. This means that the change in purchasing power, assuming constant income, equals the rate of change in currency exchange rates against the Shekel, or the rate of inflation.

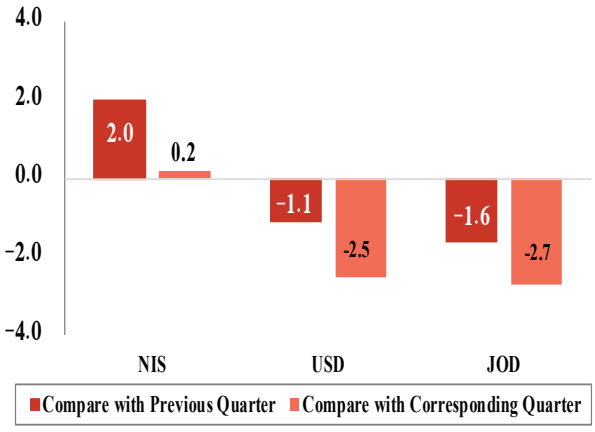
The purchasing power of the Shekel: the rate of price inflation in the economy is a measure of developments in the purchasing power of all individuals. They receive their salaries in Shekel and spend their entire income in this currency. This means that the development of the purchasing power of this currency equals (and reflects) the rate of change in prices during the same period. PCBS data indicates a decrease in CPI during Q3 2020 by 0.2% and 2.0% compared with previous and corresponding quarters, respectively. This means an improvement in purchasing power of the Shekel by the same amount. Note that the improvement in the purchasing power of the Shekel is negatively proportional to the rate of change in consumer prices during the same period.

The purchasing power of the US Dollar and the Jordanian Dinar: Q3 2020 witnessed a decline in the value of the Dollar against the Shekel, by about 2.7% and 3.12%, compared with the previous and corresponding quarters, respectively. Accordingly, the purchasing power of individuals who receive their salaries in US Dollar and spend in Shekels[7] decreased during this quarter by approximately 2.5% and 1.1%, compared with the previous and corresponding quarters, respectively.[8] Given that the Jordanian Dinar is directly pegged to the US Dollar at a fixed exchange rate, the Dinar's purchasing power witnessed the same developments as the Dollar, more or less (see Figure 1.9). It should be noted that about 7% of salaried workers receive their wages in US Dollar (4.5%) or Jordanian Dinar (2.5%). This percentage rises to 61.8% for non-governmental organizations.[9]

Economic Infrastructure: Information and Communications

The importance of the information and communications technology (ICT) sector has multiplied over the past two decades. It has become an essential part of daily life for individuals, and an essential tool in business operations. It is a crucial component in necessary economic infrastructure. As we previously emphasized, the importance of this sector has multiplied locally and globally, due to the new realities imposed by the pandemic, creating the need for digital infrastructure to connect society and to ensure the continuation of economic activities across numerous sectors, especially the education sector. From this viewpoint, and given the great importance of this sector, this section focuses on indicators related to access to ICT in Palestine, and their development over the past decade. This section compares local indicators with similar, regional and global ones to determine the efficiency of basic internet and communications infrastructure in Palestine.

Figure 1.9: The Purchasing Power of Different Currencies during Q3 2020 (percentage change)



Source: Figures were calculated based on data from the Palestine Monetary Authority and PCBS.

In one way or another, ICT is linked to all economic activities. The availability of appropriate infrastructure and comprehensive digital technologies helps to provide an appropriate environment for the creation of new companies and industries, in line with the fourth industrial revolution (Industry 4.0). ICT also changes the methods for conducting economic activities while reducing costs. ICT reduces the costs of commercial transactions and increases competitiveness, improving investment opportunities and public services provided to citizens. Thus, it contributes to economic development while creating new jobs.[10]

Despite obstacles and limitations imposed by the occupation, an adequate, digital infrastructure in Palestine could create new momentum in the Palestinian economy by improving connectivity between the two parts of the country that are geographically separate, and even across different areas in the West Bank, where colonial outposts and settlement networks are widespread. Such an infrastructure can digitally

7 The vast majority of consumer goods and services in the Palestinian market are priced in New Israeli Shekel (the most traded currency), while investments (such as stocks, land and real estate) are often in Dinar or US Dollar. In most cases, such behavior is the result of high variation in the Shekel's exchange rate against other currencies, which adds to the risks of holding Shekel. This is in addition to the great inflation that occurred in Israel in the 1980s and 1990s.

8 Change in purchasing power = change in exchange rate - rate of inflation.

9 Source: PCBS survey conducted for MAS Institute.

10 http://documents1.worldbank.org/curated/en/844141590600764047/pdf/Economic-Monitoring-Report-to-the-Ad-Hoc-Liaison-Committee.pdf. Palestinian Central Bureau of Statistics, 2020. *Dissemination and Analysis Project for Census 2020 Data, Palestinian Households' Access to Information and Communication Technology Means 2007 and 2017*. Ramallah - Palestine.

integrate Palestine with neighboring countries and the rest of the world, unleashing new economic opportunities. Despite this optimistic vision, [11] Palestine ranks 123 in the global *ICT Development Index*, and 136 in terms of affordable ICT services. There is much potential in further developing digital infrastructure in order to support economic development and the transition to a knowledge economy. [12]

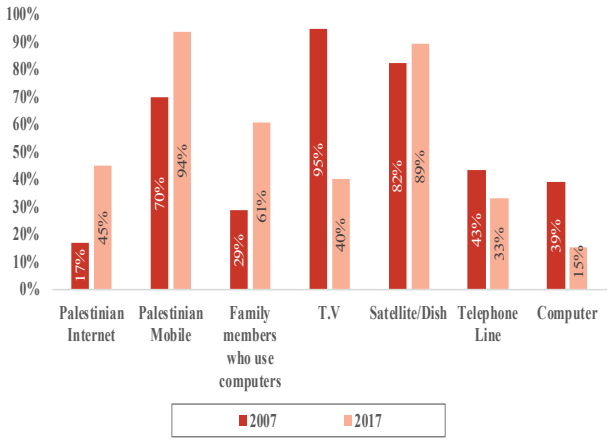
The occupation is considered one of the main factors contributing to Palestine's low rank in the *ICT Development Index*, through its control over ICT infrastructure in Palestine. This limits the ability of Palestinians to develop their own ICT network. [13] For example, Palestine was one of the last countries in the Middle East to obtain a third-generation (3G) network for mobile broadband services due to security pretexts that delayed the roll-out of this service until 2018, and only in the West Bank. In contrast, Israeli companies began providing fifth-generation (5G) mobile broadband services in September 2020. [14] In addition, the occupation has created many obstacles for Palestinian companies in obtaining sufficient frequencies to operate telecom networks, provide internet services, and import the necessary equipment required for their development. This makes competition with Israeli companies - operating in the Palestinian market illegally - difficult, not only in terms of price, but also in terms of the quality of service. [15]

Despite the fact that the value-added of the ICT sector more than tripled from 1999 to 2019, its contribution to GDP is still modest, at only 3%.[16] At the level of establishments, this sector accounts for less than 1% of the total number of economic establishments operating in Palestine, employing approximately 2% of the total workforce in public, private and civil-society establishments. [17] In terms of the use of ICT at the level of individuals and families, it should be noted that the last decade has witnessed a significant growth in the use of the internet, mobile phones, and computers (see Figure 1.10 and Table 1.3), in line with global trends. The *General Population, Housing and Establishments Census* for 2017 highlights the use of new technological tools that were not observed in the previous census in 2007. This includes laptops (27.6% of Palestinian families), digital tablets (17.5%), and smart phones (83.1%).

Data released by the Ministry of Communications and Information Technology indicates a significant growth (199%) in the number of ADSL subscribers in Palestine, as well as a significant increase in the penetration rate from 1.5 internet lines per 100 inhabitants in 2007 to 7.5 internet lines per 100 inhabitants in 2017 (see Table 1.3). However, the level of penetration is still lower than the global average of 13.6 internet lines per 100 inhabitants (see Table 1.4). There has also been a significant improvement in the speeds available for mobile internet services relative to ADSL lines, which increased from 1 Mbps maximum speed in 2007 to 100 Mbps in 2017 (see Table 1.3). Despite this significant increase in available internet speeds, Figure 1.11 shows that the largest percentage of subscribers resort to the lower speeds. This can be explained by the rise in access line prices for higher speeds, as well as high prices for internet services in general, as compared to other countries. This is shown in Table 1.5.

The latest indicators on the spread of information technology show that Palestine is close to the levels recorded in other Arab and developing countries, on occasion out-performing them in certain indicators, such as the spread of internet usage. This is shown

Figure 1.10: The Prevalence of ICT among Palestinian Households (2007 and 2017)



Source: Palestinian Central Bureau of Statistics, 2020. Dissemination and Analysis Project for Census 2020 Data, Palestinian Households' Access to Information and Communication Technology Means 2007 and 2017. Ramallah – Palestine.

Table 1.3: Selected Indicators on ICT Spread (2007 and 2017)

Indicator	2007	2017
Number of fixed telephone lines (thousand)	350	472
Fixed telephone penetration rate per 100 inhabitants	9.2	9.1
Number of mobile phone lines in Palestine (thousand)	1,020	3,997
Mobile phone penetration rate per 100 inhabitants	36.0	83.6
Number of ADSL subscribers in Palestine (thousand)	56	357
ADSL penetration rate per 100 population	1.5	7.5
Maximum internet speed available	1 Mbps	100 Mbps

Source: Palestinian Ministry of Communications and Information Technology, published data. Ramallah, Palestine.

11 https://al-shabaka.org/briefs/ict-the-shackled-engine-of-palestines-development/

12 http://documents1.worldbank.org/curated/en/844141590600764047/pdf/Economic-Monitoring-Report-to-the-Ad-Hoc-Liaison-Committee.pdf and https://www.itu.int/myitu/-/media/Publications/2020-Publications/ICT-Price-Trends-2019.pdf

13 Arab Center for Social Media Development, 2019. Intermittent communication: *Israeli control of Palestinian ICT infrastructure and its impact on digital rights*.

14 https://www.jpost.com/jpost-tech/5g-network-officially-launches-across-israel-643855

15 Palestinian Central Bureau of Statistics, 2020. *Dissemination and Analysis Project for Census 2020 Data, Palestinian Households' Access to Information and Communication Technology Means 2007 and 2017*. Ramallah, Palestine.

16 Palestinian Central Bureau of Statistics, 2020. *National Accounts Statistics, 2000-2020*. Ramallah, Palestine.

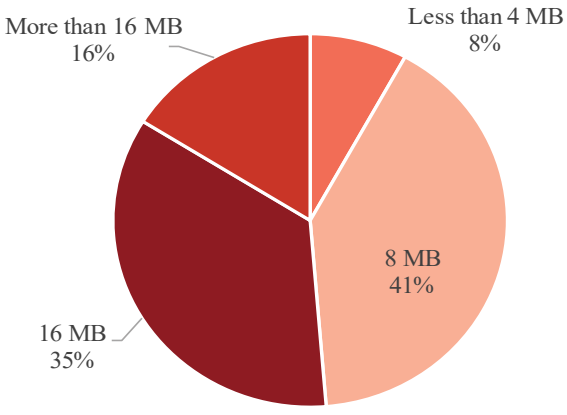
17 Palestinian Central Bureau of Statistics, 2018. *Preliminary results of the General Census of Population, Housing and Establishments 2017*, Ramallah, Palestine.

in Table 1-4. Other indicators include the internet penetration rate among households (79.6%), the number of individuals who use the internet per 100 of the population (70.6), the number of fixed-line telephone subscribers per 100 of the population (9.4), and the number of mobile phone subscribers per 100 of the population (86.3). However, the same indicators reveal a large deficit when compared to developed countries. There is a need to improve Palestinians' ability to access ICT services, especially if the Palestinian government wants to achieve the goal set by the *International Telecommunication Union* (ITU) of reaching an internet penetration rate of 75% by 2025. [18]

The price of ICT tools in Palestine are higher than the general average in most countries. Palestine ranked 136 in the world in 2019 in terms of the cheapest prices for a high-volume cellular communications basket, and 128 in terms of the price of a fixed-broadband basket. This calls for identifying the reasons for the high prices of ICT components in Palestine, and ways to address this, in order to further increase their spread and support the transition to a knowledge economy. Here, it is necessary to distinguish between various restrictions caused by the occupation that raise the cost of establishing, operating, and maintaining Palestinian networks, combined with their control over Palestinian digital space; and the risks posed by dividing the (relatively small) Palestinian market between exclusive suppliers. With regards to the usage of ICT tools in Palestine, Table 1.6 shows the prevalence of some skills, such as copying or moving a file or folder, and the use of copy and paste tools to duplicate and move information within a document. However, many other ICT skills are still in urgent need of further development, especially advanced skills such as using basic mathematical formulas in a spreadsheet, and coding a computer program using a specialized programming language.

The data above highlights the significant development of the ICT sector in Palestine, including an increase in the use of the internet, mobile phones, computers, and other technological tools. However, there is still room for further growth and improvement. This concerns indicators on the spread of ICT, which are still modest compared to developed countries. Therefore, there is an urgent need to improve the ICT infrastructure [19] in order to improve individuals' ability to access the internet, as well as raising the quality of services and reducing prices. [20] To meet this need, we must overcome the obstacles that the occupation puts in the way of developing ICT infrastructure, while addressing other challenges related to the extent of the commitment of local ICT companies to developing and modernizing the existing infrastructure, and achieving spatial expansion across various Palestinian areas. In particular, this applies to the main and sole provider of fixed broadband services, high-speed internet lines, fixed telephones, business services, connectivity, and data transmission. In many regions, the high cost of developing communications infrastructure, compared to expected profits, is the main obstacle to infrastructural development. [21]

Figure 1.11: Percentage Distribution of ADSL Subscribers in Palestine by Speed (Megabytes) (2018)



Source: Ministry of Communications and Information Technology, published data (http://mtit.pna.ps/2018.pdf). Ramallah, Palestine.

Table 1.4: ICT Access Indicators in Palestine and Globally (%) (2019)

	Computer penetration among households (%)	Home-based internet penetration rate among households (%)	Mobile phone internet subscribers per 100 individuals	Mobile phone subscribers per 100 individuals	Fixed phone subscribers per 100 individuals	Internet subscribers using fixed broadband, per 100 individuals	Individuals who use the internet, per 100 inhabitants
Palestine	33.2	79.6	19.3	86.3	9.4	7.3	70.6
Arab World	51.9	57.1	67.3	100.6	8.8	8.1	51.6
Asia/Pacific	43.5	50.9	89.0	111.7	8.9	14.4	48.4
Africa	10.7	17.8	34	80.1	0.8	0.4	28.2
Americas	65.7	71.8	104.4	110.1	22.5	22.0	77.2
Europe	78.0	86.5	97.4	118.4	33.6	31.9	82.5
Global Average	49.7	57.0	83.0	108.0	14.9	14.9	53.6

Source: International Telecommunications Union, ICT Indicators, published data:
https://www.itu.int/en/ITUD/Statistics/Pages/stat/default.aspx
https://www.itu.int/en/ITU-D/Statistics/Documents/facts/FactsFigures2019.pdf

18 https://www.itu.int/en/council/planning/Documents/ITU_Strategic_plan_2020-2023.pdf

19 Internet capacity and speed, number of fixed and basic switches, fixed and mobile broadband lines, etc.

20 Palestinian Central Bureau of Statistics, 2020. Dissemination and Analysis Project for 2020 Census Data. *Palestinian Households' Access to Information and Communication Technology Means 2007 and 2017*. Ramallah, Palestine.

21 Ibid.

Table 1.5: Price Indicators of ICT Services in Palestine and Globally (2019)

Country	Price of fixed broadband basket in 2019				Price of high-volume cellular basket in 2019			
	Relative to GNI per capita (% of GNI p.c.)	US dollar value ($)	Purchasing Power Parity ($)	Global ranking	Relative to GNI per capita (% of GNI p.c.)	US dollar value ($)	Purchasing Power Parity ($)	Global ranking
Palestine	8.4	25.85	37.16	128	9.5	30.25	43.48	136
Israel	0.8	27.57	23.36	16	0.3	11.11	9.42	4
Arab World	7.2	22	46	-	7.3	22	39	-
Asia-Pacific	6.4	22	34	-	6.5	22	31	-
Africa	33.3	33	62	-	31.2	25	50	-
Americas	7.5	33	47	-	5.6	32	43	-
Europe	1.5	29	34	-	1.4	24	30	-
Global Average	10.3	28	43	-	10.3	25	38	-

Source: International Telecommunication Union, published data https://www.itu.int/myitu/-/media/Publications/2020-Publications/ICT-Price-Trends-2019.pdf. Date accessed: 23/1/2021.

Table 6-1: Youth and Adults with ICT Skills in Palestine, Egypt and Qatar, by Type of Skill (%) (2019)

Skill	Palestine	Egypt	Qatar
Connect and install new hardware (such as a modem, camera, or printer)	27.2	50.0	34.0
Copy or move a file or folder	61.6	57.2	57.0
Create electronic presentations	23.2	15.8	23.4
Find, download, install, and configure software	18	38.5	37.3
Send emails with attachments	43.6	35.6	57.7
Transfer files between computer and other devices	45.3	50.4	34.7
Use basic mathematical formula in a spreadsheet	29.4	13.7	26.8
Use copy and paste tools to duplicate and move information within a document	57.2	55.2	41.5
Write a computer program using a specialized programming language	10.7	8.8	5.3

Source: International Telecommunication Union, published data.
https://www.itu.int/en/ITU-D/Statistics/Documents/intlcoop/sdgs/4.4.1_ICT%20skills_UPDATED%2020200203xlsx.xlsx
Date accessed: 23/1/2021.
Palestinian Central Bureau of Statistics (2020). Information and Communication Technology Household Survey, 2019.
http://www.pcbs.gov.ps/Downloads/book2510.pdf

2- Labor Market[1]

Both the Palestinian National Authority and the Israeli government have eased coronavirus-related restrictions. These measures have had an impact on the Palestinian labor market in Q3 2020, compared to Q2. This impact is reflected in the increase in the size of the workforce, and the increase in the number of workers in the Palestinian economy, the Israeli economy, and the settlements. The services sector (especially trade, restaurants and hotels) has also witnessed an increase in activity. This improvement was accompanied by a significant increase in the number of unemployed: the increase in the rate of work participation exceeded the increase in the number of workers (see Table 2.1).

Table 1.2: The Labor Market in Q2 and Q3 2020

Indicator	Between Q2 and Q3 2020
Increase in manpower	22,800 individuals
Increase in number of employees	45,000 employees
Increase in number of laborers in Israel and the settlements	33,000 laborers
Increase in unemployment	55,600 individuals

Labor Market Indicators

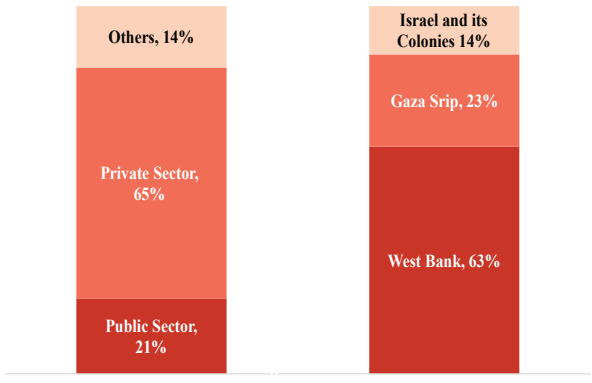
Manpower in Palestine amounted to 3,165,200 individuals at the end of Q3 2020. According to the Palestinian Central Bureau of Statistics (PCBS), this accounts for all individuals aged 15 years and above. The size of the labor force - the total of the number of employed combined with those who are unemployed but looking for work - increased in Q3 2020 by 8% (100,300 people) compared to Q2 2020. Compared to Q3 2019, it decreased by 4% to reach about 1,306,300 people. The increase in the size of the workforce between Q2 and Q3 2020 can be attributed to the Palestinian government's easing of restrictions on work and movement that it initially imposed across most of the Palestinian territories in March 2020 to limit the spread of Coronavirus. The increase in the workforce had a positive impact on the participation rate (the ratio of workforce to manpower), which reached 41% in Q3 2020; this represents an increase of 2% relative to Q2 2020 and a decrease of 2% relative to Q3 2019. Figure 2.1 shows the relationship between manpower, the number of workers, and total population at the end of Q3 2020.

Labor Distribution

In terms of geographic distribution, in Q3 2020 63% of workers were in the West Bank, 23% in the Gaza Strip, and 14% in Israel and the settlements (about 135,000 workers, 22% of whom do not have work permits). As for their sectoral distribution in Q3 2020, about 21% of workers are employed in the public sector (22% in Q2 2020), 65% in the private sector (67% in Q2 2020), and about 14% in other sectors, Israel, and the settlements (11% in Q2 2020).[2] Workers in the West Bank

Figure 2.1: Population, Manpower and Number of Workers in Palestine in Q3 2020

Figure 2.2: Distribution of Workers by Place of Work and Sector in Q3 2020 (%)



are concentrated in the private sector, which accounts for 64% of the total number of employed compared to 15% in the public sector. In the Gaza Strip, the private sector accounted for 52% of workers, compared to 41% in the public sector. The main reason for the decline in the percentage of workers in the private sector in the Gaza Strip is the deterioration of economic and social conditions due to the blockade that Israel has imposed since 2006. This, in turn, has negatively affected economic activity in the private sector (see Figure 2.2).

The number of workers in Palestine witnessed an increase of about 5% (about 45,000 workers) between Q2 and Q3 2020. This was mainly due to the additional 33,000 workers in Israel and settlements, (an increase of 32%); 9,000 workers in the Gaza Strip (an increase of 4%); and 4,000 workers in the West Bank (an increase of 1%). The increase in the number of workers can be attributed to the easing of measures to limit the spread of coronavirus, whether by the Palestinian government or the Israeli occupation, which has facilitated the reentry of Palestinian workers into the Israeli labor market.

1 Data source for this section: Palestinian Central Bureau of Statistics, 2020, *Labor Force Survey*, Ramallah, Palestine.

2 Other sectors include NGOs and non-profit institutions.

Table 2.2: Relative Distribution of Workers in Palestine by Geographical Location and Type of Economic Activity in Q3 2020 (%)

Type of Economic Activity	West Bank		Gaza Strip		Israel and the Settlements		Palestine (excluding Israel and the settlements)	
	Q2 2020	Q3 2020	Q2 2020	Q3 2020	Q2 2020	Q3 2020	Q2 2020	Q3 2020
Agriculture, fishing, and forestry	7	7	6	4	5	5	7	6
Industrial manufacturing and quarrying	16	15	7	5	15	14	14	12
Building and construction	12	14	2	3	56	57	9	11
Trade, restaurants, and hotels	23	24	20	21	14	15	22	23
Transport, storage, and communications	7	6	9	8	4	2	7	6
Services and other sectors	35	34	56	59	6	7	41	42
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Concerning the distribution of workers by type of employment, there was a significant increase in the number of workers who are self-employed (an employer who works for himself), with 22,000 new workers in this category between Q2 and Q3 2020 (an increase of 10%). The number of salaried workers increased by 30,000 workers (5%) during the same period. The number of unpaid family members decreased from about 45,000 to 38,000 workers between Q2 and Q3 2020 (a 15% decrease).

The number of workers in the local market (West Bank and Gaza Strip) witnessed a slight increase (of about 2%) in Q3 2020 compared to Q2. The increase was concentrated in trade, restaurant and hotel activities and construction and building activities, which respectively registered 7% and 17% increases in the number of workers during Q3 2020 compared to Q2 of workers. This is due to the easing of restrictions on the business practices of these activities, which were greatly affected by the first lockdown, from March to June 2020. The number of workers in services increased by 3% in Q3 2020 compared to Q2, while the number of workers in agriculture, industry, and transport, storage, and communications decreased by 12%, 8%, and 11, respectively. As for Palestinian workers in Israel and the settlements, their number increased by about 33,000 workers (32%) in Q3 2020 compared to Q2. The number of workers in trade, restaurants, and hotels also increased by a very large percentage, about 49% (7,000 workers). Similarly, the number of workers in construction activities increased by 36% (20,000 workers) and by 19% in industrial activities (about 3,000 workers).

Table 2.2 shows that there is variation in the relative distribution of employment between the West Bank and the Gaza Strip, where the percentage of employment in industry and quarrying increased in the West Bank (15% in the West Bank, compared to 5% in the Gaza Strip). There was also a corresponding increase in the employment rate in the services sector in the Gaza Strip (59% in the Gaza Strip, compared to 34% in the West Bank). The numbers also highlight the very low percentage of workers in construction and building activities in the Gaza Strip (only 3%). This is due to the tight blockade that Israel has imposed on the entry of building materials into the Gaza Strip (see the box for restrictions on importing dual-use materials in *Issue #57 of the Economic Monitor*).

Table 2.3: The Unemployment Rate among Individuals Participating in the Labor Force in Palestine, by Region and Gender (%)

Region/Gender		Q3 2019	Q2 2020	Q3 2020
West Bank	Males	10.6	12.1	15.8
	Females	25.9	26.1	30.8
	Total	13.3	14.7	18.5
Gaza Strip	Males	39.0	44.4	44.4
	Females	66.4	66.8	65.0
	Total	45.1	49.1	48.6
Palestine	Males	20.3	22.9	25.0
	Females	42.3	40.9	43.0
	Total	24.6	26.5	28.3

Note: The numbers are based on the new definition of unemployment, as set by PCBS in cooperation with the International Labor Organization. The new, narrow definition states that unemployment only includes people who did not work during the reference period, who actively searched for employment, and were willing and able to work. Accordingly, those who did not search for work (who did not seek employment during the reference period) are excluded from the number of unemployed. The adoption of the revised definition led to a slight change in the unemployment rate in the West Bank, and a much greater change in the Gaza Strip, where widespread frustration with finding employment was more pronounced (the unemployment rate in the Gaza Strip declined from 52.0% to 43.2% in 2018). See the current issue of the Economic Monitor and the statistical annex in Issue #56 of the Economic Monitor for a comparison of participation and unemployment rates according to the old and new standards.

Unemployment

The number of unemployed in Palestine witnessed a remarkable increase of 15% in Q3 2020 compared to Q2, reaching 370,700 individuals out of a total 1,306,300 in the

workforce. The unemployment rate stood at 28.3%, compared to 26.5% in Q2 2020 and 24.6% in Q3 2019. The increase in the number of unemployed can be attributed to the economic stagnation caused by the coronavirus pandemic. Many of those who lost their jobs during the pandemic re-entered the labor market, searching for new job opportunities, especially after the Palestinian government eased restrictions on movement.

It should be noted that there is some variation in unemployment rates in both the West Bank and Gaza Strip. In Q3 2020 the unemployment rate in the West Bank increased by 4% compared to Q2 and by 5.1% compared to Q3 2019, as is shown in Table 2.3. The unemployment rate in the Gaza Strip in Q3 2020 witnessed a slight decrease of 0.5% compared to Q2 2020, an increase of 3.5% compared to Q3 2019 (see Table 2.3).

Some of the most prominent characteristics of unemployment in Palestine in Q3 2020 are detailed below:

1) Unemployment is particularly concentrated among youth. The unemployment rate among young adults aged 15-19 years was about 44%, and 40% for those in the 25-29 years age bracket. [3] This indicates that a large percentage of the unemployed are new entrants to the labor market. [4]
2) Unemployment decreases with the attainment of higher educational levels among males, in contrast with females. This is mainly due to the large increase in the participation of educated females in the labor market, compared to males. (See Box No. 1 in Issue #53 of the *Economic Monitor*, which explains that the rise in the unemployment of educated females compared to non-educated females is not due to their education but rather their significant increased participation in the labor market).
3) Table 2.3 above shows that the unemployment rate for females is greater than the unemployment rate for males. This is due to the limited number of economic sectors available for female employment compared to males. Female employment in Palestine is concentrated in the services sector, at a rate of 75%.[5]

Wages

The average daily wage increased significantly, for all workers, by NIS 16.2 between Q3 2020 (NIS 137.1 per day) and Q2 2020 (NIS 120.9 per day). This increase came as a result of the increase in the average wage of workers in Israel and the settlements by NIS 5.6, and an increase in the average daily wage in both the Gaza Strip (by NIS 0.1) and the West Bank (by NIS 0.8).

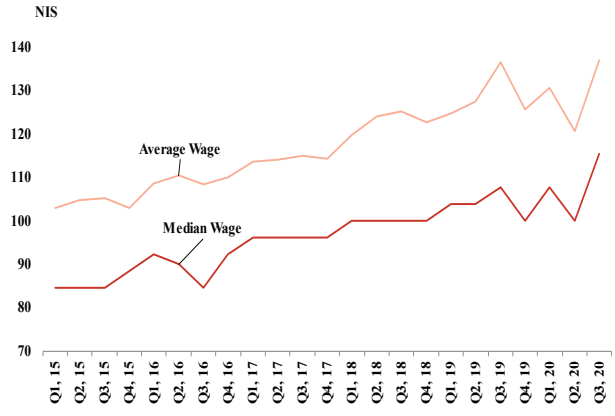
The average wage in Palestine (NIS 137.1 per day) during Q3 2020 hides some large discrepancies, especially between the average wage of workers in the West Bank and Gaza Strip, on the one hand, and between the West Bank and Gaza Strip and Israel and the settlements, on the other. The data in Table 2.4 indicates that the average daily wage of workers in Israel and the settlements (NIS 254.2 per day) is more than double the average wage of workers in the West Bank (NIS 121.1 per day), and four times the wage of workers in the Gaza Strip (NIS 59.4 per day). Average wages in the Gaza Strip were about half the level in the West Bank. The gap widens further when taking into consideration the median wage instead of the average wage. The median wage is more illustrative than the average wage as it represents the wage that divides workers into two equal groups: the first with lower wages, and the second with higher wages (see Figure 2.3). For example, while the average wage in the Gaza Strip is 50% of the level in the West Bank, the median wage in the Gaza Strip is only 36% of the median wage in the West Bank (see Table 2.4).

Table 2.4: Average and Median Daily Wage for Workers with Recorded Wages in Palestine in Q3 2020 (NIS)

Location of Work	Average Daily Wage	Median Daily Wage
West Bank	121.1	107.7
Gaza Strip	59.4	38.5
Israel and settlements	254.2	250.0
Total	137.1	115.4

Source: Palestinian Central Bureau of Statistics, 2020, Labor Force Survey, Ramallah, Palestine.

Figure 2.3: Average and Median Daily Wage for Workers with Recorded Wages in Palestine (NIS)



Source: Palestinian Central Bureau of Statistics, 2020, Labor Force Survey, Ramallah, Palestine.

Minimum Wage

The minimum monthly wage in Palestine is about NIS 1,450. The figures issued by PCBS for Q3 2020 indicate that 26.2% of workers in Palestine (23.3% among females, 26.7% among males) earned less than the monthly minimum wage. This is lower than the percentage recorded for Q2 2020, when about 34.1% (24.9% among females 35.5% among males) earned less than the minimum wage; and also, lower than the percentage

3 For more information on youth unemployment, see the "*Survey of Youth's Transition from Education to the Labor Market*" in Issue #47.
4 For more information on youth unemployment, see the "*Survey of Youth's Transition from Education to the Labor Market*" in Issue #47.
5 For more information, see "*Females in the Palestinian Labor Market: Why is their participation low and their unemployment higher?*" in Issue #51.

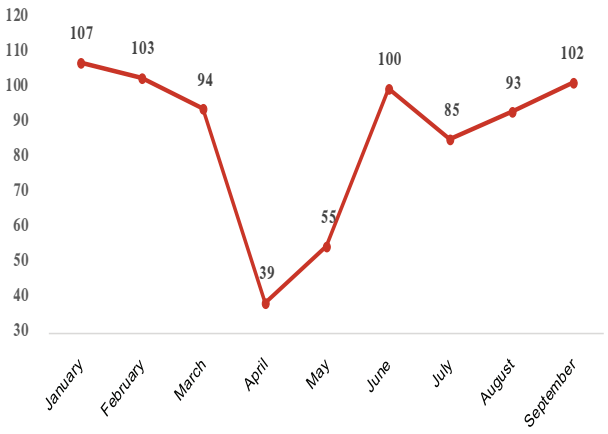
recorded for Q3 2019 (when 32% of females earned less than the minimum wage compared to 30% of males). The reason for this decline is that the increase in the number of salaried workers in the private sector was greater than the increase in the number of workers with sub-minimum wages (an increase of 31% and 2% respectively during Q3 2020, compared to Q2). As for comparing the West Bank with the Gaza Strip, 6% of salaried employees in the private sector in the West Bank earned sub-minimum wage, compared to 84% in the Gaza Strip.

Palestinian Employment in the Israeli Economy during Coronavirus [6]

Figure 2.4 shows that the number of salaried Palestinian workers in April 2020 the Israeli economy witnessed a sharp decline of 64% compared to January 2020 (an amount equivalent to 68,000 jobs). The construction sector witnessed the largest decrease in the number of jobs, having shed a total of about 47,000 jobs or the equivalent to two-thirds of all jobs lost during the period in question. The reasons for the decline are rooted in restrictions imposed by the Israeli government to limit the spread of the coronavirus, which prevented Palestinian workers from accessing workplaces inside Israel or the settlements. Starting in May 2020, the number of workers began to rise. In September, the number of workers reached a level close to what it was before the crisis commenced.

The Palestinian Center for Public Opinion (PCPO) conducted two opinion polls among Palestinian workers in Israel. The first poll monitored the first lockdown period, while the second poll monitored the period from the start of 2020 (before the first lockdown) and until August. According to the results of the first survey, about 22% of salaried Palestinian workers continued to work in Israel during the lockdown. The monthly wage for a worker decreased from NIS 7,050 before the closure to approximately NIS 6,145. The number of working days per month decreased from 20 days per month before the lockdown to 17 days per month during the lockdown.

Figure 2.4: Number of Salaried Palestinian Workers in the Israeli Economy, from January to September 2020 (thousand workers)



The surveys also showed that Palestinian workers who continued to work in Israel, both during the first lockdown and up to August, were somewhat younger than those Palestinian workers who stopped working during the lockdown. In addition, during the coronavirus pandemic, there was a preference in employment in favor of workers who had worked for several days before the lockdown, and who also enjoyed higher wages. The monthly wages of workers who continued to work during the lockdown were 9% higher compared to wages paid before the lockdown to workers who were no longer able to access their workplace. According to another survey conducted by PCPO on Palestinian workers, most of those who worked in Israel in August resided there for at least part of that month. Providing reasonable accommodation for Palestinian workers facilitates the continuity of their employment in Israel, in cases where mobility restrictions are still in place due to a high number of coronavirus infections.

6 This section provides a review of the most prominent changes concerning salaried Palestinian workers in the Israeli economy, based on a research paper drafted by the researcher Haji Atticus from the Bank of Israel's research department on Palestinian employment in the Israeli economy during the Coronavirus pandemic. Additional data is sourced from the Israeli Central Bureau of Statistics, and PCPO's polls.

3- Public Finance [1]

Fiscal data shows that the Palestinian treasury's revenues were significantly affected during Q3 2020 compared to previous and corresponding quarters, despite the easing of coronavirus-related restrictions. Clearance revenues fell to zero during this quarter, and a result public revenues lost nearly two-thirds of their value. Consequently, it was not possible to sustain the volume of low-level spending from the previous quarter, especially with regard to public sector wages and salaries. These revenue and expenditure-related developments increased the budget deficit, thus increasing public debt.

Public Revenues

Q3 2020 witnessed the continuation of the political crisis concerning clearance revenues, as the Palestinian Authority (PA) did not receive any such revenues during this quarter. The last amount that the PA received was in April 2020, which amounted to NIS 1.2 billion. It should be noted that clearance revenues constitute approximately two-thirds of public revenues. Conversely, during Q3 domestic collection revenues increased by 60% compared to the previous quarter, reaching about NIS 1 billion. Tax revenues increased by 18% compared to the previous quarter, but were 12% less than the corresponding quarter. Q3 2020 also witnessed an increase in non-tax revenues, rising to about three times their level during the previous quarter (NIS 0.4 billion in total). The increase in the components of domestic collection revenues during Q3, compared to the previous quarter, is due to the easing of government measures restricting production and commercial movement in favor of a partial lockdown policy (see Figure 3.1).

Foreign grants and aid decreased significantly during Q3, by 50% and 45% respectively, compared to the previous and corresponding quarters, to reach about NIS 0.3 billion (see Table 3.1).

Figure 3.1: Structure of Public Revenues (NIS million)

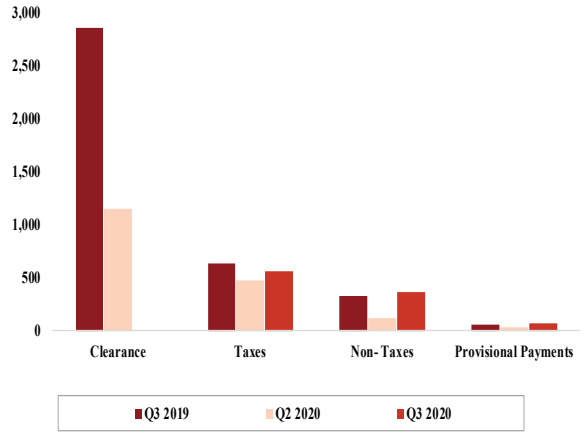
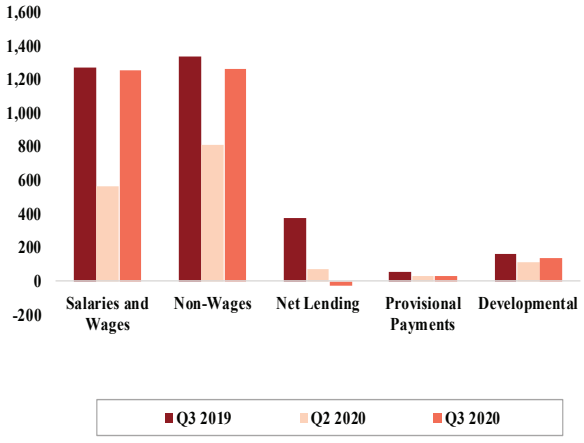


Figure 3.2: Structure of Public Expenditure (NIS million)



In sum, this quarter witnessed a decrease in net public revenues and grants by about 47% and 71% compared to the previous corresponding quarters, respectively. Their value fell to approximately NIS 1.3 billion, constituting about 49% of actual public spending and about 31% of public expenditure receivables.[1]

Table 3.1: Grants and Foreign Aid provided to the Palestinian Government (NIS million)

Item	2019				2020		
	Q1*	Q2	Q3	Q4	Q1	Q2	Q3
Budget Support	598.4	368.1	517.5	292.4	246.1	544.3	254
From Arab sources	396.3	94	278.7	107.3	111.1	21.3	0
Other sources	202.1	274.1	238.8	185.1	135	523	254
Development finance	352.7-	99.5	107.7	114.7	32.1	145.1	93
Total grants and aid	**245.7**	**467.6**	**625.2**	**407.1**	**278.2**	**689.4**	**347**

* During Q1 2019, an amount of about NIS 448.1 million was returned to the US Consulate, in order to close the account of a previous American grant. This is reflected in the value of grants to support development projects, which has decreased by NIS 352.7 million.

1 Source of data for this section: Ministry of Finance, *Monthly Financial Reports for 2020: Financial Operations - Income, Expenditure and Funding Sources* (September 2020). The data is preliminary, subject to modification and revision.

1 The volume of tax returns during Q3 2020 amounted to about NIS 62.2 million, compared to NIS 59.6 million in the previous quarter and NIS 110.8 million in the corresponding quarter.

Table 3.2: Governmental Arrears (NIS million)

Item	2019				2020		
	Q1*	Q2	Q3	Q4	Q1	Q2	Q3
Tax returns	38.5	17.6	19.6	57.3	30.9	(4.3)	13.7
Wages and salaries	359.9	593.6	409.6	(689.8)	155.0	1,085.8	485.2
Non-wage expenses	333.4	556.7	492.7	490.2	209.0	801.0	825.1
Development expenses	105.0	130.8	122.9	144.4	72.5	61.7	111.9
Earmarked expenditures	**75.1**	**27.6**	**9.9**	**(45.6)**	**97.2**	**8.1**	**47.1**
Total arrears	**911.9**	**1,326.3**	**1,054.7**	**(43.5)**	**564.6**	**1,952.3**	**1,483.0**
Arrears for goods, services and expenses for previous years	**257.9**	**223.2**	**422.0**	**608.8**	**239.7**	**246.7**	**213.0**
Net arrears	**654.0**	**1,103.1**	**632.7**	**(652.3)**	**324.9**	**1,705.6**	**1,270.0**

* Numbers in brackets are negative numbers.

Public Expenditure

Actual public expenditures increased by 65% during Q3 2020 compared to the previous quarter, while it decreased by 13% compared to the corresponding quarter to reach about NIS 2.6 billion. Actual spending on wages and salaries increased by 121% compared to the previous quarter (i.e. it more than doubled), amounting to about NIS 1.3 billion in total. Non-wage expenditures also increased by 55% compared to the previous quarter, reaching about NIS 1.3 billion. Actual development spending increased by 16% during Q3 2020 compared to the previous quarter, but it was 19% less compared to the corresponding quarter, reaching about NIS 133.1 million.

The increase in the volume of spending during Q3 2020 was mainly financed through increased government borrowing from the banking sector. The debt of local authorities and the electricity company fell by NIS 31.4 million during Q3 2020. This debt appeared in the monthly statements of the Ministry of Finance with a negative value, resulting from the failure to receive clearance funds and the consequent inability to forecast the value of net lending. This amounted to about NIS 69.7 million during the previous quarter and NIS 373.5 million during the corresponding quarter (see Figure 3.2).

Governmental Arrears

Arrears owed by the government during Q3 2020 amounted to NIS 1,483 million, while non-wage arrears amounted to NIS 825 million. Wage and salary arrears amounted to NIS 485 million during Q3, while arrears in development expenditures amounted to about NIS 112 million. Arrears in allocated payments reached NIS 47 million, while arrears in tax returns amounted to about NIS 14 million. Despite the difficult financial situation, during Q3 the government managed to pay NIS 213 million in order to settle arrears in expenditures on goods and services during previous years. Thus, the net amount of arrears accumulated by the government during Q3 2020 was about NIS 1,270 million (see Table 3.2).

Figure 3.3: Governmental Fiscal Balance (Cash Basis) relative to Nominal GDP (%)

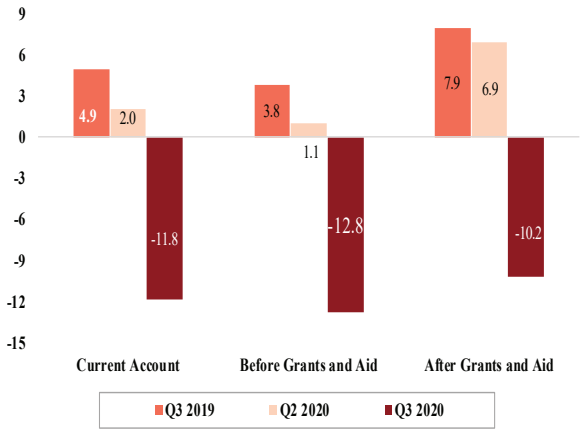


Table 3-3: Budget Deficit (Cash-Basis and Commitment-Basis) in Q3 2020 (NIS million)

Item	Q3 2020	
	Cash	Commitment
General revenue	940.3	926.5
Grants and foreign aid	346.6	346.6
Expenses	2,637.9	4,107.1
Balance before grants and foreign aid	(1,697.6)	(3,180.6)
Balance after grants and foreign aid	(1,351.0)	(2,834.0)
Ratio of public revenues and grants to expenditures (%)	49	31

* Numbers in brackets are negative numbers.

Table 3.4: Public Sector Debt (NIS million)

Item	2019				2020		
	Q1*	Q2	Q3	Q4	Q1	Q2	Q3
Local government debt	4,668.0	5,628.8	6,200.2	5,451.8	5,684.5	6,164.3	7,432.6
Banks	4,617.3	5,578.2	6,149.6	5,401.2	5,633.9	6,113.7	7,232
Public institutions	50.7	50.6	50.6	50.6	50.6	50.6	200.6
External government debt	3,744.3	3,783.7	3,950.2	4,210.5	4,588.7	4,465.2	4,488.8
Government public debt	**8,412.2**	**9,412.5**	**10,150.4**	**9,662.0**	**10,273.2**	**10,629.5**	**11,921.4**
Paid interest	**41.1**	**57.3**	**37.5**	**31.6**	**20.6**	**34.7**	**37.6**
Ratio of public debt to nominal GDP *	**13.5%**	**15.4%**	**17.0%**	**16.3%**	**17.0%**	**21.4%**	**21.7%**

* Note that percentages differ slightly when calculating the figures in US dollars, due to the effect of the exchange rate.

Fiscal Surplus/Deficit

Actual revenues and expenditures during Q3 2020 led to a deficit on a cash basis of about NIS 1.7 billion (or 12.8% of GDP) in the overall balance, discounting grants and aid money. Approximately NIS 1.4 billion in grants and foreign aid contributed to reducing this deficit, an amount that was equivalent to about 10.2% of GDP. In terms of commitments, the total balance deficit, before grants and aid, reached about NIS 3.2 billion (24.1% of GDP). Grants and aid contributed to reducing this deficit to about NIS 2.8 billion shekels (equivalent to 21.5% of GDP) during the same period (see Figure 3.3 and Table 3.3).[2]

Public Sector Debt

At the end of Q3 2020, governmental debt (denominated in NIS) increased by 12% and 17% compared to the end of the previous quarter and corresponding quarter, respectively. It reached about NIS 11.9 billion, the equivalent to about 21.7% of nominal GDP.[3] This increase can be attributed to the noticeable increase in domestic government debt due to a halt on clearance revenues during this quarter, in addition to financial obligations on the government relating to the health crisis that prompted it to increase its borrowing from the Palestinian banking sector. During Q3 2020, local government debts increased by 21% compared to the previous quarter, to reach about NIS 7.4 billion. On the other hand, external government debts stabilized at about NIS 4.5 billion compared to the previous quarter, which was about 14% higher compared to the corresponding quarter. Interest on debt paid during this quarter amounted to about NIS 37.6 million, including NIS 28.8 million as interest payments on domestic debts and NIS 8.8 million interest paid on external debts. It should be noted here that during Q3 2020 due interest amounted to about NIS 67.5 million (see Table 3.4).

2 Note that GDP data is preliminary, subject to revision and amendment.

3 Note that the government's debts in Q3 2020, when denominated in US dollars, increased by 12.3% and 18.7% compared to the previous and corresponding quarter, respectively. Its debts reached about $3.5 billion. The discrepancy in these ratios is due to changes in the exchange rate of the US dollar against the shekel.

In Focus: The World Bank's Recommendations on the Status of the Clearing Mechanism and its Role in the Palestinian Authority's Finances

Clearance revenues are taxes collected by Israel on behalf of the PA, as agreed in the Paris Economic Protocols that govern economic relations between the two sides during the transitional phase. Accordingly, Israel deducts 3% of the total amount of clearance revenues in exchange for the collection and services that it performs. These revenues include three types of taxes:

- Indirect taxes on imports from Israel (VAT on goods imported from Israel, purchase tax on oil and alcoholic products only).
- Direct taxes: Income tax on the wages of Palestinian workers in Israel and the settlements.
- Indirect taxes on imports from abroad: VAT, customs, purchase tax and others.

The World Bank's last semi-annual report on the Palestinian economy (November 2020) examined the issue of clearance revenues, focusing on their importance in providing a permanent source of finance to support a large part of the PA's expenditures in the local economy.

In 2019 clearance revenues constituted about 67% of the PA's total net revenues (about NIS 7.9 billion, out of NIS 11.7 billion). On the other hand, in the same year, total public expenditure amounted to about NIS 13 billion. Clearance revenues covered approximately 60% of total public expenditures, including wages and salaries for governmental employees.

It should be noted that clearance transfers are made on a monthly basis, which helps address the problem of liquidity shortages that arise from delays in the arrival of international aid supporting the Palestinian budget or in the collection of local revenues. In 2019 the ratio of clearance revenues to GDP was about 14%, compared to 10% in 1996. As a result, the restriction of clearance funds usually has negative impacts on the Palestinian economy. In this context, the World Bank report indicates that the six-month-long suspension of clearance revenues in 2019 led to a decline in anticipated GDP growth from 1.9% to about 0.9%.

Since the late 1990s, successive Israeli governments have used clearance transfers as a political tool for pressuring the PA. The transfers were first interrupted in 1997, while the PA refused to receive clearance funds in 2019 and 2020, after it lodged repeated protests regarding obscure accounts and deductions as well as the arbitrary, selective seizure of clearance transfers.

The report concluded with the following recommendations:

- The necessity of establishing an electronic system for VAT, in order to introduce electronic exchange of VAT information between the Israeli and Palestinian sides. This would reduce the financial leakage and tax evasion that arises from the use of the current paper-based VAT system. [1]
- Responsibility for customs on Palestinian goods should be transferred from Israel to the PA. The report also recommended the necessity of establishing Palestinian customs' warehouses (special locations for the customs clearance of Palestinian goods). During the past two years, negotiations have taken place between the two sides regarding the transfer of responsibility for customs on such goods to the Palestinian side.
- The PA should obtain more detailed information about trade exchange between Israel and the Gaza Strip in order to exercise its entitlement to impose VAT on this trade. Since 2007, the PA has not been able to monitor this exchange. Therefore, the report recommends that PA employees be present at the Kerem Shalom border crossing so as to monitor this exchange and determine the associated VAT.
- Given the PA's repeated protests over obscure accounts, unilateral deductions, and the repeated seizure of clearance transfers by Israel, the report recommends the greatest possible transparency regarding deductions made by the Israeli side from clearance revenues.
- Israel deducts 3% of the total amount of clearance revenues in exchange for collection and services that it performs. Therefore, the report recommends re-negotiating and reducing this high percentage so as to make it more aligned with the volume of trade exchange.
- Transferring the fuel-tax collection process to the PA. According to the Paris Protocols, fuel imported by the Palestinian Authority must be in line particular standards that fuel produced by neighboring countries do not meet. Therefore, the Palestinian Authority has to buy fuel from Israeli companies and pay all necessary taxes (the blue tax). [2] After that, these taxes are transferred to the PA after 45 days have elapsed, minus 3% (collection fees). In 2019, a one-time agreement was reached between the two sides, according to which the PA purchased fuel from Israel without the blue tax being levied and also collected due taxes. However, it has not been confirmed if this arrangement will be maintained in the future.

1 Financial leakage are taxes that are paid by the Palestinian consumer but retained by Israel and not returned to the Palestinian Authority through clearance accounts.

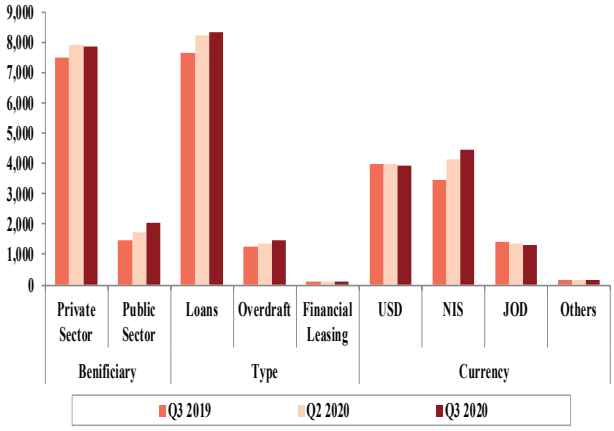
2 The blue tax is a tax imposed on fuels, in both Israel and the Palestinian territories, with an average value of NIS 3 per liter of fuel. A lesser percentage (NIS 2.7) is applied to fuel needed to generate energy.

4- The Financial Sector

4.1 The Banking Sector[1]

During Q3 2020, the number of banks operating in Palestine decreased to thirteen, after the National Bank (TNB) acquired the assets and liabilities of Jordan Commercial Bank at the end of July. Despite the decrease in the number of banks, the assets and liabilities of the banking sector increased by 2.1% compared to Q2 2020 and 7.6% compared to Q3 2019, reaching about $18.6 billion (see Table 4.1). It should be noted, in this context, that the US dollar's exchange rate against the shekel declined to record levels during Q3 2020. This was reflected by growth in most of the banks' consolidated budget items, especially since shekel accounts amount to about 39% of total banking assets and about 34% of the banking sector's total liabilities. The average exchange rate of the US Dollar against the Shekel stood at NIS 3.487/$1 (Q2 2020) and NIS 3.497/$1 (Q3 2019). It reached NIS 3.409/$1 in Q3 2020, leading to an increase in assets and liabilities held in shekels but denominated in US dollars.

Figure 4.1: Total Direct Credit Facilities ($ million)



Credit Facilities

The value of credit facilities at the end of Q3 2020 increased by 3% compared to the previous quarter and about 11% compared to their value one year ago, reaching approximately $9.9 billion. This improvement, compared to the previous quarter, came as a result of the growth of credit facilities granted to the public sector, by 17%, reaching about $2.0 billion. The government's need for funding increased as it sought to alleviate the repercussions of the health crisis, which coincided with the clearance funds' crisis and a decline in external budget support. On the other hand, the value of credit facilities granted to the private sector decreased slightly, by 1%, to reach about $7.9 billion. Thus, the ratio of credit facilities to public deposits increased to about 70.4%, compared to about 69.9% in the previous quarter. Their percentage of GDP, at current prices, increased to 65%, compared to 63% in the previous quarter and 53% in the corresponding quarter. The West Bank accounted for most of the credit facilities, with a share of about 91%, compared to about 9% for the Gaza Strip.

In terms of the type of credit, loans dominated the credit portfolio structure, with a share of about 84% of total

Table 4.1: Combined Budgets of Licensed Banks in Palestine ($ million)

Item	2019		2020		
	Q3	Q4	Q1	Q2	Q3
Total assets	17,303.5	17,921.6	17,709.5	18,237.1	18,625.0
Direct credit facilities	8,947.9	9,035.2	9,249.9	9,652.4	9,894.0
Balances with the Monetary Authority and banks	3,870.5	4,425.8	4,565.3	4,438.8	4,138.7
Stock portfolio and investments	1,373.7	1,406.3	1,365.2	1,352.9	1,310.7
Cash and precious metals	1,883.6	1,942.7	1,252.0	1,537.9	1,981.3
Other assets	1,227.7	1,111.4	1,277.2	1,255.2	1,300.3
Total liabilities	17,303.5	17,921.6	17,709.5	18,237.1	18,625.0
Public deposits (non-bank deposits) **	13,025.5	13,384.7	13,303.8	13,814.1	14,061.9
Property rights	1,942.4	1,975.6	1,991.6	1,984.7	1,959.1
Balances with the Monetary Authority and banks (deposits)	1,151.3	1,370.9	1,165.1	1,168.8	1,209.3
Other liabilities	408.9	400.4	426.9	414.0	499.3
Allocations and depreciation	775.5	789.9	822.2	855.5	895.4

Items in the schedule are aggregate (including provisions).

** Non-bank deposits include both private and public sector deposits.

1 Data sources for this section: Palestine Monetary Authority (PMA), September 2020: consolidated budget for banks, profit and loss lists, and PMA's own database. It should be noted that this is preliminary data and may be subject to modification.

Table 4.2: Sectoral Distribution of Credit Facilities ($ million)

Sector	2019		2020		
	Q3	Q4	Q1	Q2	Q3
Public sector	1,462.9	1,558.1	1,577.2	1,742.4	2,041.8
Real estate and construction	1,723.0	1,712.7	1,707.2	1,740.4	1,786.1
Mining and Industry	494.1	477.7	485.1	487.3	490.5
Trade	1,664.2	1,535.6	1,539.9	1,486.2	1,479.7
Services	884.0	937.3	1,067.1	1,227.2	1,173.7
Vehicle purchase financing	314.1	370.0	362.6	374.2	442.5
Consumer goods financing	1,375.6	1,370.9	1,347.8	1,501.8	1,426.5
Other private sector financing *	1,024.8	1,076.8	1,163.0	1,092.8	1,053.3

* Others in the private sector include facilities granted to each of the following sectors: land development, agriculture and livestock, tourism, hotels and restaurants, transport and communications, in addition to financing investments in shares, as well as other facilities not related to any of these sectors.

facilities, compared to about 15% of the share of overdue facilities, and 1% of the share of *Ijarah* ending with ownership. In terms of currency, facilities granted in shekels accounted for about 45% of total facilities, while those granted in US dollars accounted for 40%. Facilities granted in Jordanian dinars accounted for about 13%, while the share of other currencies remained largely stable at 2%. It should be noted that the share of facilities granted in shekels increased during the period of the health and clearance crises, as a result of the increase in government borrowing from banks during this period. The majority of these facilities are dominated in shekels (see Figure 4.1).

Q3 witnessed a decline in the private sector's share of the total credit portfolio, falling to about 79%, compared to 82% in Q2. On the other hand, the public sector's share of total credit facilities increased from 18% to 21% during the same period. The data illustrates a decline in facilities granted to the consumer goods, services, and trade sectors. However, facilities granted to real estate, construction, tourism, hotels, industry and mining increased (see Table 4.2).

Bad Loans

The level of non-performing loans decreased slightly (by 0.6%) at the end of Q3 2020, compared to Q2 2020. However, compared to the corresponding quarter (Q3) of 2019, it was higher by about 6%,9. It reached about $369.7 million, equivalent to 3.7% of total loan facilities (see Figure 4.2). This is mainly due to a decline in distressed facilities for the mining and industrial sectors, as well as in the financing of FMCGs during Q3 2020. The government paid part of what it owed in wages and salaries to public sector employees during this quarter, enabling some employees to settle part of their debts (see Table 4.3).

As for the structure of bad loans according to default period, the data shows that the highest percentage of bad loans (more than three-quarters) have been classified as losses by the banking sector, constituting about 79% of total non-performing loans. Doubtful loans accounted for 16% of total

Figure 4.2: Trends in Bad Loans

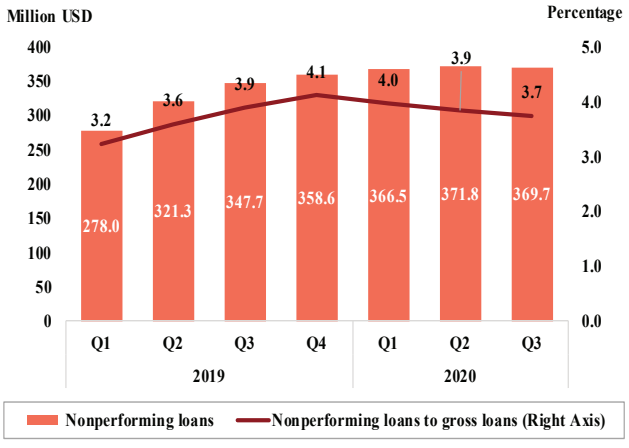
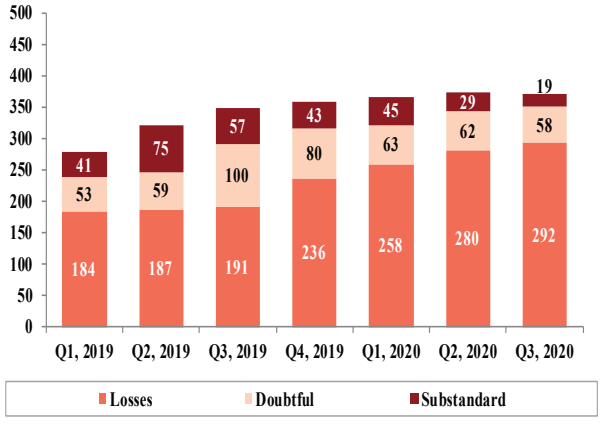


Figure 4.3: Structure of Bad Loans ($ million)



non-performing loans, with sub-standard loans accounting for about 5% of the total (see Figure 4.3).[2]

2 Bad loans are classified by their period of default, according to the instructions of the Palestine Monetary Authority. These classifications are: (1) *Sub-standard facilities*, which are facilities that have been overdue for a period of 91-180 days. (2) *Doubtful facilities*, where the repayment period has elapsed by 181-360 days. (3) *Losses*, wherer the repayment period has elapsed by 360+ days.

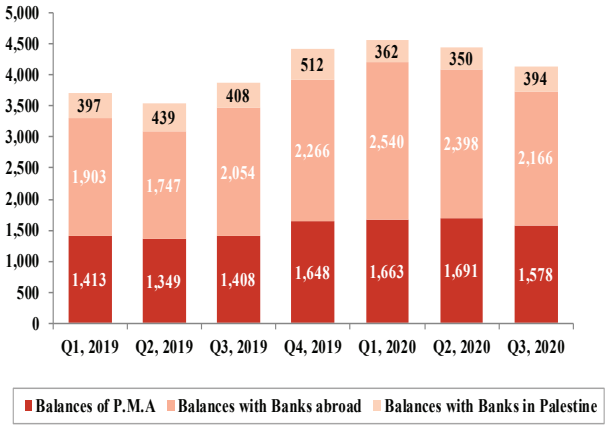
Table 4.3: Sectoral Distribution of Non-Performing Credit Facilities ($ million)

Sector	2019		2020		
	Q3	Q4	Q1	Q2	Q3
Real estate and construction	73.3	73.9	70.0	67.4	68.2
Mining and Industry	28.4	32.7	33.8	34.6	28.5
Trading	103.1	105.5	112.3	106.3	116.9
Services	23.8	30.2	28.0	29.2	34.3
Vehicle purchase financing	2.9	3.1	3.9	4.9	5.1
Consumer goods financing	58.5	56.9	57.3	60.5	51.0
Other private sector	57.7	56.3	61.2	68.9	65.7
Total	347.7	358.6	366.5	371.8	369.7

Balances at the Monetary Authority and Banks

Balances at the Palestine Monetary Authority (PMA) and banks continued to decline during Q3 2020, compared to the previous quarter, by about 7%. However, they grew by 7% relative to their value a year ago, reaching about $4.1 billion to constitute 22% of total banking assets. The decline from Q2 to Q3 came as a result of a 10% contraction in overseas bank balances, and a 7% decline in balances at the Monetary Authority. On the other hand, balances at local banks in Palestine grew by 12% over the same period (see Figure 4.4).

Figure 4.4: Structure of Balances at the Palestine Monetary Authority and Banks ($ million)

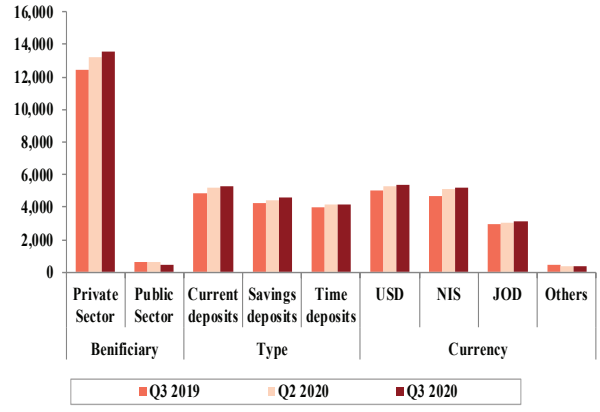


Deposits

The total value of deposits (both banking and non-banking deposits) increased by 2% at the end of Q3 2020 compared to the previous quarter, to reach about $15.3 billion, or about 82% of total liabilities. This growth came as a result of an increase of 2% in public deposits (non-banking deposits), which reached $14.1 billion. This growth is attributed to two main reasons, namely: the 29% increase in the number of workers in Israel and the settlements during the same period, and the decline in the exchange rate of the US dollar against the shekel. Furthermore, banking sector deposits (at the Monetary Authority and banks) increased by 4% during the same period. When compared to the corresponding quarter 2019 (Q3), total deposits increased by 7.7%, while public deposits grew by 8% and bank deposits by 5%. The main reason for this rise is the decline in the exchange rate of the US dollar against the shekel, as 67% of bank deposits and 37% of public deposits are held in shekels.

Public deposits accounted for about 92% of total deposits during this quarter (amounting to $14.1 billion), distributed between current deposits (about 38%) and savings or time-defined deposits (about 32% and 30% respectively). As for the currency of deposits, their distribution remained stable at about 38% for the US dollar, 37% for the shekel, 22% for the dinar, and about 3% for other currencies (see Figure 4.5).

Figure 4.5: Distribution of Public Deposits ($ million)



Banking Sector Profits

The net income of banks recovered in Q3 2020, with the return of economic activity due to coronavirus-related measures being eased. It more than tripled compared to the previous quarter, to reach $30.7 million, compared to about $9.1 million in the previous quarter. When compared to the corresponding quarter (Q3) of 2019, the net income of banks decreased by 22% as a result of a decline in revenues that exceeded the decline in expenditures (revenues decreased by 9% while expenditures decreased by 6%). This was to be expected, in light of the impacts of the health crisis. Among the measures taken by PMA to mitigate the effects of this crisis were postponing monthly installments for borrowers for a period of four months across all sectors, and for

Table 4.4: Sources of Revenue and Expenditure for Licensed Banks ($ million)

Item	2019		2020		
	Q3	Q4	Q1	Q2	Q3
Revenues	238.7	233.0	240.9	208.7	218.0
Interest received	171.9	169.4	167.9	156.0	165.7
Income from commissions	32.7	37.7	33.9	29.2	30.3
Other income*	34.1	25.9	39.1	23.5	22.0
Expenses	199.3	196.2	202.0	199.6	187.3
Interest paid	37.2	37.1	39.1	35.8	33.4
Commission expenses	3.4	4.0	3.2	3.1	3.1
Other expenses *	35.5	33.6	37.0	40.6	38.6
Operating expenses	113.6	119.1	112.6	107.3	103.2
Taxes	9.6	2.4	10.0	12.8	9.0
Net income	39.4	36.8	38.9	9.1	30.7

* Other includes income and expenditure from debt securities and investments, foreign currency exchange and valuations, out-of-budget line operations, expenditures and other operating income, in addition to allocations.

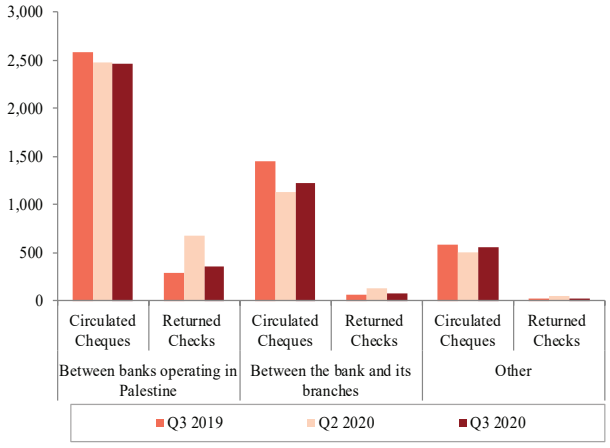
a period of six months for loans in the tourism and hotel sectors. Additional measures included a prohibition on the collection of any fees, commissions, or additional charges on deferred installments; and an exemption of electronic banking and ATM services from commissions and fees. The collection of fees for the settlement of returned checks was suspended, as were commissions on checks returned due to insufficient funds. The net income of banks at the end of the first nine months of 2020 reached about $778 million, compared to about $124 million for the same period in 2019 (see Table 4.4).

Average Interest Rates on Deposits and Loans

Data analysis for Q3 2020 indicates that there has been a decline in average interest rates for all currencies compared to the previous quarter. The average interest on dollar-denominated loans i was about 5.36%, compared to about 5.71% in the previous quarter. The average interest on loans in Jordanian dinars was 6.9%, compared to 6.95 in the previous quarter. As for the Israeli shekel, the average interest rate on loans was 6.75%, compared to 7.08% during the previous quarter.

On the other hand, the average interest rate on deposits rose for all currencies. It stood at 2.38% for US dollar deposits, compared to 2.32% in the previous quarter. The rate was 2.74% for the dinar (compared to 2.51% in Q2), and 2.46% for the shekel (compared to 2.07% during Q2). These changes resulted in a decline in the margins between the deposit interest rates and that of lending facilities in all currencies traded in the Palestinian market (see Table 4.5).

Figure 4.6: Check Circulation ($ million)



Check Circulation

The value of checks traded or presented for exchange in Palestine, during Q3 2020, amounted to about $4.2 billion, an increase of 3% compared to Q2 2020. The value of returned checks stood at $452.2 million, having declined sharply by 47% compared to Q2 2020 (see Figure 4.6). This data includes the value of checks that passed through national clearing houses in the West Bank and Gaza Strip. This

Table 4.5: Average Credit and Debit Interest Rates for Different Currencies

	Deposit Interest (%)		Loan Interest (%)		Margin (%)	
	Q2 2020	Q3 2020	Q2 2020	Q3 2020	Q2 2020	Q3 2020
US Dollar	2.32	2.38	5.71	5.36	3.39	2.98
Jordanian Dinar	2.51	2.74	6.95	6.90	4.44	4.16
New Israeli Shekel	2.07	2.46	7.08	6.75	5.01	4.29

Table 4.6: Specialized Lending Companies

	2019			2020		
	Q2	Q3	Q4	Q1	Q2	Q3
Total Loan Portfolio ($ million)	216.3	213.7	262.5	259.4	265.2	259.7
West Bank	166.5	167.9	214.6	214.4	220.2	216.7
Gaza strip	49.8	45.8	47.9	45.0	45.0	43.0
Number of active borrowers	78,186	76,502	75,444	74,065	73,853	72,360
Number of branches and offices	93	93	100	100	100	97
Number of employees	843	843	910	900	852	846

group constituted about 58% of the total value of checks in circulation, and 79% of the value of returned checks between banks and their branches (29% of checks in circulation, 16% of those returned), as well as checks handled by other (Israeli) banks (13% of checks in circulation, 5% of those returned). It should be noted that this decline in value was accompanied by a decrease in both the number of checks in circulation and the number of returned checks during Q3.

It should be noted that the value of checks submitted for clearing at the end of Q3 2020 decreased by 1% compared to the previous quarter, reaching about $2.5 billion. Their value also recorded a significant decline of 23% compared to the same period a year ago. This decline was accompanied by an approximately 19% decrease in the number of checks submitted for clearing compared to the previous quarter; and a decline of about 23% compared to the corresponding quarter (Q3) of 2019. In terms of geographical area, the value of checks submitted for clearing in the West Bank decreased by 1%, amounting to $2.3 billion, while in the Gaza Strip their value decreased by 3%, to reach $140.6 million. The data indicates that about 80% of the value of checks submitted for clearing are in shekels, 14% in US dollars, and 6% in Jordanian dinars.

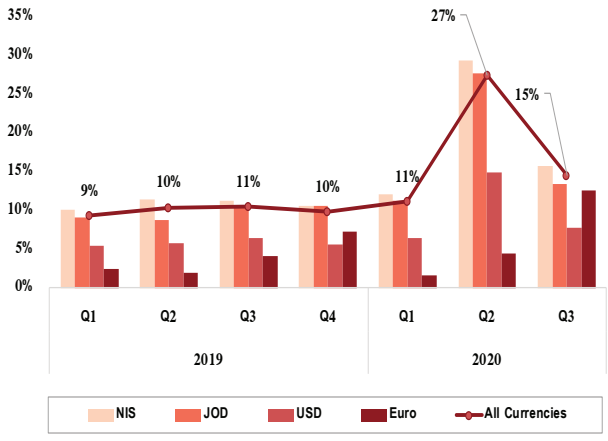
After the gradual return to economic activity in Q3 2020, the value of checks returned by national clearing houses decreased by 47% compared to Q2 2020, reaching $357.0 million. This represented an increase of 6% compared to the corresponding quarter (Q3) of 2019. These developments led to the value of returned checks (measured as a percentage of the total value of checks submitted for clearing across banks operating in Palestine) declining by about 15% during Q3 2020, compared to about 27% in the previous quarter, and by about 11% in the corresponding quarter of 2019 (see Figure 4.7).

Specialized Lending Companies

Available data on the specialized lending sector points to a 2% increase in the total assets of these firms at the end of Q3 2020, compared to the previous quarter, to reach about $323.5 million. These companies recorded a 26% increase in the value of their total assets compared to one year ago, due to the licensing of two new companies.

The assets of these companies were distributed between commercial loans (56%), Islamic loans (11%), deposits

Figure 4.7: Ratio of Returned Checks to Total Checks Presented for Clearing



(17%), and other assets (16%) like fixed assets, other types of assets, and cash. Despite the increase in assets, the number of jobs decreased slightly in Q3. The credit portfolio provided through specialized lending companies decreased by 2% during this quarter, compared to the previous quarter, while it rose by 22% compared to the corresponding quarter (Q3) of 2019. The value of the credit portfolio reached about $259.7 million (83% of which was concentrated in the West Bank and 17% in the Gaza Strip). The number of borrowers also decreased to 72,360, of whom 65% are males and 35% are females (see Table 4.6).

The loan portfolio retained its historical distribution among economic sectors, with loans granted to the real estate sector accounting for the largest share (32%) of the total portfolio of specialized lending companies. This was followed by the commercial sector (about 30%), public services (about 12%), agricultural sector (11%), consumer goods' sector (8%), industrial sector (5%), and finally the tourism sector (2%).

The value of non-performing loans (high-risk portfolio) amounted to $30.7 million, of which about $22.1 million originated in the West Bank and $8.6 million in the Gaza Strip. As for their sectoral distribution, the data indicates that loans granted to the consumer goods and real estate sectors were the most risky, each recording a default rate of 14%. They were followed by loans to the industrial sector (10%), and each of the tourism and commercial sectors (9% each). Finally,

the agricultural and public services' sectors each recorded a default rate of 7%. In the same context, allocations constituted about 89% of the total value of this high-risk portfolio.

4.2 The Non-Banking Financial Sector[3]

The Securities Sector

The Al-Quds Index closed at 438.1 points on the last trading day of Q3 2020, down by 7% compared to the previous quarter (470.8 points), and by 15% compared to the corresponding quarter (Q3) of 2019 (517.7 points). During Q3 2020, 39.2 million shares were traded at a total value of $87.4 million, representing a very significant increase (by more than five times) relative to the volume and value of shares traded in Q2, when there were tight restrictions on economic activity. The volume and value of shares increased by 26% and 75%, respectively, compared to Q3 2019. The market value of the shares of companies listed on the Palestine Exchange decreased by 5% at the end of Q3 2020 compared to the end of the previous quarter and by 12% compared to the corresponding quarter of 2019, to reach $3.3 billion (equivalent to 19% of GDP). This increase in trading activities at the end of Q3 2020, specifically in the investment and industry sectors, reflects the fact that Q2 witnessed the suspension of trading on the Palestine Exchange between March 23 and May 3 2020. Meanwhile, the corresponding quarter (Q3) in 2019 saw liquidity shortages among individuals as a result of the clearing crisis. By the end of Q3 2020 there were 70,107 traders on the Palestine Exchange, 5% were foreigners, mostly from Jordan (see Table 4.7).

Table 4.7: Select Indicators of Trading Activity on the Palestine Exchange

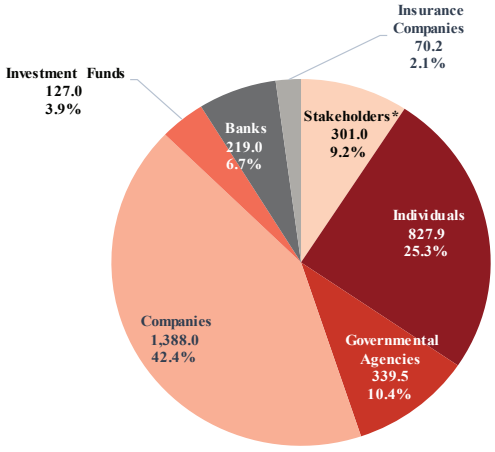
Item	Q3 2019	Q2 2020	Q3 2020
Number of shares traded (million shares)	31.0	7.5	39.2
Value of shares traded ($ million)	49.9	15.3	87.4
Market value ($ million)	3,702.6	3,437.1	3,271.8
Number of deals	6,884	3,273	3,533
Number of trading sessions	61	40	62
Market value as a percentage of GDP (at current prices) *	21.6%	20.1%	19.1%

* GDP at current prices for 2019 was used, as the market value of shares traded is at current prices.

Figure 4.8 illustrates the characteristics of traders on the Palestine Exchange, according to their relative share of the market value of transactions at the end of Q3 2020. The share of companies reached 42% while the share of individuals reached 25%.

The total number of shareholders in companies listed on Palestine Exchange reached 64,114 at the end of Q3 2020 (see Figure 4.8), constituting about 2% of all adults in Palestine (those aged 15 years and above). The total number of accounts opened at Palestine Exchange reached 116,018 accounts at the end of 2019, with a higher rate of participation among men than women in both the West Bank and the Gaza Strip.

Figure 4.8: Distribution of the Market Value of Shares according to Type of Trader at EO Q3 2020 ($ million)



* People who have a direct or indirect relationship with the company, by virtue of their position or relationship.

Insurance Sector

There were ten insurance companies licensed by the end of Q3 2020. The insurance portfolio (total written premiums) grew by about 6% compared to the end of the previous quarter, but still constituted a slight decrease of 1% compared to the end of the corresponding quarter (Q3) in 2019. This comes in the context of the natural fluctuation of gross written premiums between quarters.

On the other hand, total investments made by insurance companies did not witness growth at the end of Q3 2020 relative to the previous quarter, and indeed they by about 4% compared to the corresponding quarter of 2019. Net compensation incurred at the end of Q3 2020 witnessed a sharp increase of 47% and 26% compared to the previous and corresponding quarters, respectively (see Table 4.8).

Table 4.8: Select Financial Indicators for the Insurance Sector in Palestine ($ million)

Item	Q3 2019	Q2 2020	Q3 2020
Total written premiums	76.8	71.6	75.8
Total investments made by insurance companies	251.3	238.3	240.3
Net compensation incurred	(45.2)	(38.7)	(56.8)
Net Earned Premiums/Gross Written Premiums	85.1%	85.8%	87.9%
Net Compensation Incurred/ Net Earned Premiums	69.1%	63.0%	85.2%

3 The source for data in this section: The Palestinian Capital Markets Authority, 2020.

Figure 4.9 shows that the insurance portfolio continues to witness a large concentration in favor of motor insurance, which accounted for 66% of the total insurance portfolio at the end of Q3 2020, followed by health insurance at 12%. It should also be noted that there is significant concentration in the market shares of insurance companies, with three out of ten companies operating in this sector accounting for about 51% of all written premiums at the end of Q3 2020 (see Figure 4.10).

Financial Leasing Sector

Ten licensed financial leasing companies operate in Palestine. Business volume increased at the end of Q3 2020, with the of 327 overall contracts amounting to a total investment value of $16.2 million. This represents a significant increase in the number and value of contracts (56% and 76%, respectively), compared to the previous quarter. When compared with Q3 2019, the number of contracts and their value witnessed a sharp decline of 35% and 27% respectively. The decrease is due to the economic impact of the coronavirus pandemic, which negatively affected the performance of companies and caused a decrease in the volume of their activity (see Table 4.9).

Table 4.9: Total Value and Number of Financial Leasing Contracts

Quarter	Value of financial leasing contracts ($ million)	Number of financial leasing contracts
Q3 2019	22.1	504
Q2 2020	9.2	210
Q3 2020	16.2	327

At the end of Q3 2020, financial leasing contracts remained concentrated in the city of Ramallah, which accounted for 38% of the total, followed by the cities of Nablus and Jenin at 18% and 12%, respectively. Notably, the percent distribution of contracts has been relatively stable in recent years, as a result of factors related to the structure of the economy and the concentration of business in particular governorates. Vehicles still hold the largest share of the financial leasing portfolio (82% at the end of Q3 2020). The reason for this is the ease of registering vehicle ownership at the transportation department, and the low risk of leasing due to there being a secondary market for re-acquisition. Trucks and heavy vehicles accounted for 12% of the portfolio, while movable money (equipment, production lines, etc.) constituted 6% of the total.

Figure 4.9: Distribution of Insurance Portfolio Components by Type of Insurance Product at EO Q3 2020

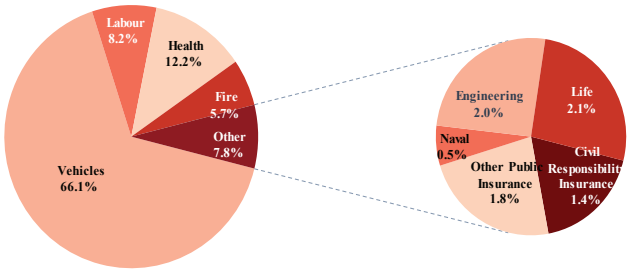
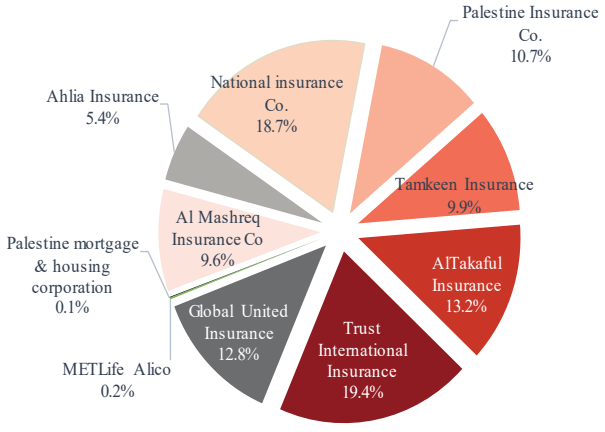


Figure 4.10: Distribution of Insurance Portfolio by Company operating in Palestine at EO Q3 2020



5- Social Development in Palestine: The Quality of Education as a Factor in Multidimensional Poverty in the Context of Remote Learning

The quality of education plays a pivotal role in influencing the levels of multidimensional poverty. The impact of the coronavirus pandemic on the quality of education, due to total and/or partial closure of schools, has been one of the most significant, negative effects of the pandemic, with important long-term repercussions. In this section on social development, we examine the information available to us (as a matter of priority) on this topic.

With the acceleration of the spread of the coronavirus pandemic and the closure of educational institutions such as schools, universities, and institutes, the Palestinian Ministry of Education adopted a policy of integrated education. It includes face-to-face education as its main strategy, with an automatic switch to remote learning in the event that schools are inaccessible. As for Palestinian universities, they have almost completely adopted remote learning systems for the first semester of the 2020/21 academic year. This is expected to continue during the second semester.

The closure of schools and the turn to remote learning raises questions about the impact of the coronavirus pandemic on the quality of education, and as a result, on the increase in poverty rates – using a broad definition of poverty - in Palestine. The results of the *Multidimensional Poverty Survey* for 2017 showed that the contribution of the "quality of education" index was among the indicators with a high contribution to the multidimensional poverty index. It contributed about 3.6% of the value of the index.[1] Other indicators directly related to education (examination failure rates, educational attainment rates, and school dropout rates) contributed less than the "quality of education" index to multidimensional poverty.

5-1 How did Countries Around the World Manage their Education Sector in Light of the Coronavirus Pandemic?

The closure of schools has seen a large number of students around the world become disconnected from education, especially in low and middle-income countries. There are difficulties in poor and marginalized groups' ability to access remote learning, due to the lack of technological requirements, such as online connectivity and computers/tablets. This is largely due to their weak financial capabilities and the lack of an adequate infrastructure, especially in rural areas far from city centers. A joint report by UNICEF, UNESCO, and the World Bank highlights the inability to hold lessons on a regular basis and to cover all material specified in remote learning curricula. The report states that "the remote learning process, even in developed countries and in the best cases, was not an adequate substitute for face-to-face education and interaction between students and teachers" (*UNESCO, UNICEF and the World Bank, 2020*).[2] A report issued by UNICEF indicates that about 31% of pre-primary to high-school students across the world were deprived of access to education after the outbreak of the coronavirus pandemic, due to the closure of schools and their families' inability to provide the necessary tools for remote learning. The report also indicates that 90% of countries have adopted remote education policies that differ according to income levels. Education via radio was the most popular method in low-income countries at 80%, and to a lesser extent in middle-income countries, including those in the upper-middle income bracket. Education via the internet and TV was less popular in low-income countries (47% and 60%, respectively). However, it was extensively used in countries that fall into the upper-middle income bracket (95% and 92% respectively).[3]

Students from rural areas accounted for 3 out of 4 students who could not access any of the technologies necessary for remote learning (e-learning, radio or television broadcasts). The percentage is higher for low-income countries. Children from poorer families account for 75% of students who have been unable to use any form of remote learning technologies. Access to education rates improve with higher grade educational levels; about 70% of children in the pre-primary stage (kindergarten) faced access difficulties, compared to only 18% of advanced level, high-school students.

5-2 Access to Education in Palestine during COVID-19, and the Ministry of Education's Response

With the outbreak of coronavirus in the Palestinian Territories, on March 5, 2020 the Ministry of Education announced the closure of all schools, kindergartens, and universities. "*The closure covered 3,037 schools - 2,300 schools in the West Bank and 737 schools in the Gaza Strip – and 1.43 million students, who stopped going to school (57% of them in the West Bank and 43% in the Gaza Strip). The closure included about 360,000 children in isolated and impoverished areas; that is, they do not have internet connectivity*".[4] At that time, attempts began to replace face-to-face education with some means of remote learning, such as broadcasting televised lessons, sending assignments to students and evaluating them academically based on these assignments.

A survey carried out by the Palestinian Central Bureau of Statistics (PCBS) on the impact of the Covid-19 pandemic (for the period 5 March-25 May, 2020) indicated that only 51% of families with children (6-18 years) enrolled in the educational process before the closure continued to participate in remote learning activities during the closure (as shown in Table 5.1). This includes watching educational programs, using e-learning applications, and completing homework and tasks assigned by teachers. The table shows a significant increase in the participation of students from the Gaza Strip in learning activities through the internet, compared to the participation of students in the West Bank,

1 For more information on the concept of multidimensional poverty and its various components, please see *Economic and Social Monitor*, Issue #62.

2 http://tcg.uis.unesco.org/wp-content/uploads/sites/4/2020/10/National-Education-Responses-to-COVID-19-WEB-final_EN.pdf

3 https://www.unicef.org/brazil/media/10006/file/remote-learning-factsheet.pdf

4 https://www.ochaopt.org/ar/content/covid-19-emergency-situation-report-1

Table 5.1: Percentage of Families with Children (age 6-18 years) who Participated in Remote Learning, by Type of Educational Activity and Region (%)

Type of distance education activity	Region		
	Palestine	West Bank	Gaza Strip
Completing homework/duties assigned by teachers	95.7	95.3	96.1
Using online education applications	78.1	71.6	85.9
Watching educational programs on TV	38	23.4	55.2
Recording videos at home and sending them to teachers	51.2	58.3	42.8
Other	1.2	2	0.2
Percentage of families with children (6-18 years) enrolled in the educational process before the closure who continued to participate in remote learning activities during the closure.	51	53.3	48.5

Source: Palestinian Central Bureau of Statistics. 2020. "Palestinians at the end of 2020".

although the participation of students in remote learning in general is higher in the West Bank than in the Gaza Strip. This difference in internet learning can be attributed to the higher number of UNRWA schools in the Gaza Strip (276 schools compared to 96 in the West Bank) [5] and their development of an educational platform that they obliged students to use.[6] Educational materials and assignments were uploaded onto the platform, allowing students to download them. This method was less expensive than other educational methods, such as recording videos and sending them to the teacher. As a result, it boosted students' participation rates, compared to other educational methods.

Before the start of the 2020/21 academic year, the Palestinian Ministry of Education developed a return-to-school plan that began in the first week of September 2020, adopting a blended or hybrid education system which combined face-to-face and remote education. The plan stipulates that students receive face-to-face education when health and safety conditions permit, switching to remote learning in the event that the epidemic worsens and schools remain closed. The Ministry has adopted a broad concept of remote learning that is not limited to e-learning, but extends to other activities, including TV programs. The pattern of education and traditional examination methods changed, as acknowledged by the Minister of Education. [7] The plan also stipulates that students in Grades 1-4 should be afforded more time for face-to-face education, stressing the importance of interaction between the teacher and the student at this stage. Each class is divided into two groups, with each group taught separately for five days a week. The Ministry also enacted several measures related to sterilization, while ensuring social distancing by reviewing levels of overcrowding in classrooms and dividing classes according to health recommendations. Students in Grades 5-11 receive face-to-face education in the form of divided classes, such that each student receives five days every two weeks. Grade 12 is an exception where attendance is face-to-face. The Palestinian Ministry of Education tried to maximize the utilization of the time available for face-to-face education, focusing on the most important, basic concepts and subjects such as mathematics, sciences, and languages. Students are encouraged to read and research, while strengthening the partnership between school and the family, such that the latter contribute as much as possible to bear the burden of their children's educational needs during this period.

5-3 The Role of Increased Technology Utilization in Accessing Distance Education in Palestine

The expanded use of ICT plays a major role in students' ability to access remote learning. This requires the ready availability of tools necessary for internet connectivity and access to televised material or radio programs. These are the tools adopted by countries around the world to continue the education process during closure. The lack of access to schools was consistent with income levels and levels of economic development in different countries. We will shed light on some statistics through the *ICT Household Survey* (2019)[8], in an attempt to examine the readiness of Palestinian families to participate in remote learning. The survey indicates that only 33.2% of families in the West Bank and Gaza Strip have a computer (desktop, laptop, or tablet), which deprives a high proportion of students from participating in remote learning. This requires the presence of a computer in the household. The availability of computers in refugee camps (27.6%) is less widespread than cities (33.6%) and rural areas (33.7%). There is a need to take into account the possibility of Palestinian families not owning computers (or in sufficient numbers), and therefore, requiring different methods to reach students. The availability of internet connectivity at home is also a key factor in students' ability to access e-learning. Data indicates that 79.6% of Palestinian families have internet services at home, highlighting that a significant number of students will not be able to participate in remote learning if it relies solely on direct internet connectivity. As for the reasons that limit access to internet services, the survey emphasizes the high cost of services (57.9% of households) combined with high operational costs (59% of households: 42% in the West Bank and 77% in Gaza Strip). This reality necessitates finding other methods of supporting such families in order to enable them

5 Palestinian Central Bureau of Statistics, 2020. Palestine Statistical Yearbook 2020. No. 21. Ramallah, Palestine. http://www.pcbs.gov.ps/Downloads/book2545.pdf.

6 http://ilp.unrwa.org/

7 https://www.facebook.com/Palestinian.MOE/videos/654381261829644/

8 Source: Palestinian Central Bureau of Statistics. 2020. The ICT Household Survey, 2019. http://www.pcbs.gov.ps/Downloads/book2510.pdf.

Table 5.2: Indicators on the Prevalence of ICT across Households in the Palestinian Territories (%)

Indicator	Area			Type of Locality		
	Palestine	West Bank	Gaza Strip	Urban	Rural	Camp
Households that have a computer (desktop, laptop, tablet) (%)	33.2	35.7	28.7	33.6	33.7	27.6
Individuals (10 years and over) who use a computer (%)	26	24.8	27.8	27	25.8	20.8
Households with internet access at home (%)	79.6	83.5	72.7	79.8	80.9	74.5
Individuals (10 years and over) who use the internet (%)	70.6	74.1	65.2	71.3	69.7	65.4
Families with children in the age group 5-17 years who use the internet (%)	41.8	43.1	39.7	42.7	39.1	37.5
Households with a TV set (%)	90.7	96.5	80.5	90.1	96.8	84.5

Source: Palestinian Central Bureau of Statistics. 2020. The ICT Household Survey, 2019.

Table 5.3: Computer and Internet Usage Skills for the Age Group 10-17 Years

	Copy or move a file or folder	Use copy and paste tools to duplicate or move information in a document	Copy or move files between computer and other devices	Send emails with attach-ments	Use basic mathematical formulas in spreadsheets	Connect to new devices	Create elec-tronic presen-tations using software
Age Group 10- 17 Years (percentage who do not possess this skill)	46.2	41.2	29.8	17.8	18.4	13.9	13.3

Source: Palestinian Central Bureau of Statistics. 2020. The ICT Household Survey, 2019.

to access the internet, or try to find mechanisms that do not depend on direct internet connectivity in order to ensure that the largest possible number of students exercise their right to education.

Table 5.2 summarizes the prevalence of computers of all kinds, the availability of internet at home, the presence of a TV set among Palestinian families, and the prevalent rate according to the type of community. When comparing the difference between internet availability and TV ownership, we find that the availability of a TV set (90.7%) is higher than the availability of the internet (about 80%). Thus, the use of TV as a platform for remote learning may result in reaching a greater number and wider social segments of students. This can be combined with e-learning, which allows for greater interaction between students and teachers.

The age group 10-17 years is the category that uses computers the most, among all other age groups, with a rate of 38.8%. However, the computer skills of this category are poor, as indicated in Table 5.3. More than half of computer users in the age group of 10-17 years do not possess the skills required for the educational process. In terms of e-mail, no more than 80% are capable of using it. Furthermore, no more than 85% are proficient in skills such as creating presentations. 50% of users in this age group are unaware of very basic "copy and paste" tools, meaning that they face difficulties in their transition to e-learning, since they lack the required skills. There is a need for adopting programs that train students to use computer devices in order to ensure that the largest proportion of students benefit from remote learning activities, while maintaining the quality of education.

5-4 Quality of Education in Palestine and its Relation to Multidimensional Poverty, in Light of the Experience of Distance Education

According to a report issued by UNICEF,[9] the enrollment in kindergarten index (or at least one year of preschool) is one of the most important global indicators, with a direct impact on educational attainment in later school years. The enrollment rate in kindergartens in Palestine is still low (34.2% during 2019/20).[10] This is possibly due to the high costs of services, as a large percentage of kindergartens are privately operated (1,300 kindergartens), compared to only 500 public kindergartens.[11] This means that the number of children enrolled in kindergartens could decline further, due to the repercussions of the coronavirus pandemic on the economic and social conditions of a large number of families.[12] Remote learning policies did not cover the kindergarten stage because of the difficulties of working with young children through the internet. In this regard, face-to-face education ceased completely, without the adoption of any alternative method of remote learning. In the event of repeated closures, this group of students may be deprived of achieving the desired educational attainments for that year, forfeiting the expected return on education.

9 UNICEF. 2020. Are Children able to continue learning during Schools closures? https://www.unicef.org/brazil/media/10006/file/remote-learning-factsheet.pdf

10 Palestinian Central Bureau of Statistics, 2020. Palestine Statistical Yearbook 2020. No. 21. Ramallah, Palestine. http://www.pcbs.gov.ps/Downloads/book2545.pdf

11 The numbers of private and government kindergartens were obtained through a personal interview with the kindergarten department in the Palestinian Ministry of Education.

12 Palestinian Central Bureau of Statistics. 2020. The Palestinians at the end of 2020. Ramallah, Palestine. http://www.pcbs.gov.ps/Downloads/book2546.pdf

The coronavirus pandemic will almost certainly affect the quality of education in Palestine, as is the case in most countries around the world. Therefore, the ability to achieve the desired goals of the educational process will be limited in light of the closure of schools and the adoption of new education systems that take into account social distancing requirements. However, this is biased towards one group of society at the expense of other groups, depriving the latter of their right to education, even if only on a temporary basis. It should be noted that the negative effects of the coronavirus pandemic do not manifest themselves equally across all groups. The poor and the marginalized will completely lose their right to education, possibly for a long period of time, while other groups will be able to overcome such losses by making use of remote learning methods. Moreover, with worsening social and economic conditions, returning to the classroom may be difficult, especially for older, male students who have switched to employment, given their inability to participate in and benefit from remote learning. Therefore, we may witness an increase in school dropout rates and higher repetition rates, especially in poorer regions, and in areas where families have little access to the internet and devices required for remote learning.

Different dimensions of education are related to multidimensional poverty and the socio-economic conditions of families. In light of the spread of the virus, the contribution of education indicators to multidimensional poverty is likely to increase if measures are not taken to address the needs of poor and marginalized groups. PCBS socio-economic survey data on the impact of the Covid-19 pandemic indicated that 39.5% of families with children enrolled in remote learning during the first closure period reported that their experience was negative, and that this form of education was not fit for purpose. Close to 39% evaluated their experience of remote learning as positive, with potential for improvement.[13] Household survey data indicates that information technology is less prevalent in poorer areas, such as in refugee camps (see Table 5.2). The results of the *Multidimensional Poverty Survey* (2017)[14] show that material poverty is more prevalent in refugee camps, as compared to urban and rural areas. This is evidenced by the low percentage of families that have access to internet services in the camps, given its high costs.

13 Palestinian Central Bureau of Statistics. 2020. The Palestinians at the end of 2020. Ramallah, Palestine. http://www.pcbs.gov.ps/Downloads/book2546.pdf

14 Palestinian Central Bureau of Statistics, Multidimensional Poverty Survey (2017) – Main Results. Ramallah, Palestine. https://mppn.org/wp-content/uploads/2020/06/book2524-Palestine-1-27.pdf.

Recent Publications

6-1 Temporary Basic Income

Rationale

In July 2020, the United Nations Development Program (UNDP) issued a report on temporary basic income,[1] and its relation to the accelerating rate of COVID-19 cases around the world. The report also touched on the large potential costs of lost jobs and sources of income, noting that social protection systems in most developing countries are weak, typically targeting workers in the formal sector only. This leaves the poor, the marginalized, and their families, partially or completely without protection. The rapid spread of COVID-19 in developing countries, and the devastating social and economic crises that have followed from job losses, indicate the need for unprecedented policy measures. In this context, unconditional, emergency cash transfers can mitigate the direct impact of the COVID-19 crisis on poor and semi-poor families, who currently cannot access social assistance or insurance protection.

Data indicates that high-income economies account for the lion's share of global total spending on social assistance, while the total spending of low- and middle-income countries amounted to about $77.9 billion, or 13.2% of total global spending on this sector ($589.6 billion). In per capita terms, low- and middle-income countries spend about $7 per head on social assistance on average, or $9.5 if social insurance programs are included. This contrasts starkly with the corresponding averages of $121-123 recorded by high-income economies. At the same time, developing countries are less prepared and less resilient to shocks than advanced economies. Past crises have revealed structural inequalities that are deeply rooted in these countries. If not addressed decisively, these could dramatically exacerbate the direct effects of the current crisis and its impact on lives and livelihoods.

On the other hand, the development of the pandemic has exacerbated widespread gender inequality, increasing the burden of care on working mothers, while sectors with a relatively large female employment rate have been affected more negatively than others. Additionally, there are potentially harmful and long-lasting consequences for human development. It is estimated that the impact on education alone could cause the Human Development Index (HDI) to decline for many countries for the first time since 1990, erasing the progress made over the past six years.

Summary of the Paper's Basic Concept

This paper details estimates of Temporary Basic Income (TBI), which is the minimum guaranteed income above the poverty line targeting at-risk individuals in 132 developing countries. The paper focuses on estimating the potential size of income transfers to about 1.07 billion poor individuals,

1 UNDP (2020): Report on Temporary Basic Income: https://www.undp.org/content/undp/en/home/librarypage/transitions-series/temporary-basic-income--tbi--for-developing-countries.html

and 1.71 billion people at risk, in these countries. This is performed through several policy tools:

First: a grant in excess of current average income in each country, up to the vulnerability threshold, which varies by region. Three different options lead to varied cost structures:

1. A cash transfer equivalent to the average income shortfall for each country in relation to the corresponding vulnerability threshold. This amounts to $3.2 per day for countries in south Asia and sub-Saharan Africa; $5.50 for countries in east Asia, the Pacific, the Middle East and north Africa; and $13 for countries in Europe, central Asia, Latin America and the Caribbean.
2. A cash transfer equivalent to half of average household income or consumption in each country.
3. A flat $5.5 cash transfer per day.

Second: Total transfers are affected (or change) according to differences in the average standard of living between countries, covering about 2.78 billion people in poverty.

Third: Standardized total transfers, regardless of the country in which the population lives, amounting to double the cost of total transfers. It varies with differences in the average standard of living across countries. The paper estimates that the total cost of a standardized transfer of $5.5 per day to the poor/at-risk in developing countries is $465 billion per month.

The paper's methodology is based on the assumption that although the costs of the crisis are widespread, entrenched, and long-lasting, TBI may help people cover part of their basic spending. There is strong evidence that in developing countries, the presence of unconditional cash transfers can protect and enhance the accumulation of human capital, through spending on more and better food systems, health, and education services. It also assists in the protection and accumulation of productive assets and in the diversification of livelihoods.

The idea behind TBI arose out of an unprecedented set of responses to an unprecedented crisis. Such responses are offered using different titles, and with varying thresholds, in different countries around the world. It intersects with current social assistance and insurance systems, as well as with the idea of universal basic income (UBI), [2] which guarantees a minimum basic income for all persons.

Challenges

The paper reviews some of the challenges in implementing these policies, including how to expand coverage and combine digital/cash payment systems to reach excluded populations; methods to finance TBI without collecting new taxes; means to address complex political-economy challenges; and difficulties in specifying a minimum threshold for TBI.

2 See the *Unified Basic Income Fund for All Citizens* in Issue #47 of the Quarterly Economic Monitor.

6-2 Impact of the Covid-19 Pandemic on the Arab Region

In July 2020, the United Nations issued a report on the economic impact of the COVID-19 pandemic on the Arab region.[3] Most socio-economic indicators witnessed a sharp decline in 2020 compared to the previous year, as shown in Table 1. Moreover, the effects of the pandemic are expected to continue in the coming years.

Table 1: Expected Effects of the Corona Pandemic on the Arab Region

Indicator	Rate of Change
Gross Domestic Product (GDP)	Decreased by $152 billion
Number of Jobs	17 million jobs lost
Number of Poor Individuals	Increase of 14.3 million individuals

The GDP of the Arab region is expected to contract by about 5.6% in 2020 relative to 2019. In other words, the Arab region will lose about $152 billion in GDP value. The reasons for this decline are the significant decline in oil prices given the decline in global demand, combined with a substantial decline in current transfers, in addition to the complete paralysis of the tourism sector. The pandemic affected financial markets in the Arab region, where the most prominent Arab stock markets recorded a decrease of 23%.

The Arab region relies heavily on government revenues in order to finance the stimulus packages needed for economic recovery. However, in light of the pandemic, the Arab region is expected to record losses in indirect tax revenues of $20 billion, while the public sector's fiscal deficit is set to rise from 2.9% of GDP in 2018, to about 10% in 2020. As a result of this increase in the fiscal deficit, governments will have to borrow to fill the gap in financing. This means that the ratio of public sector debt to GDP (which is already high, reaching about 91% in 2018) is expected to further increase. This, in turn, is reflected in the ability of governments to finance response operations in order to mitigate the effects of the pandemic.

The Arab region is one of the regions that has the most wage discrimination between males and females, where females earn 79% less in wages than males. In addition, females account for about 62% of all workers in the informal sector. Therefore, it is expected that females will suffer more from the consequences of the pandemic, as 700,000 individuals in the Arab region are expected to lose their jobs. Concerning overall employment levels/rates in the region, the number of jobs will decrease by 17 million in Q2 2020 compared with Q4 2019, against the backdrop of restrictive measures taken by most countries to limit the spread of the pandemic. Hospitality and food services, manufacturing, retail, commerce and professional services witnessed the largest decline in the number of jobs. The increase in the number of the unemployed will increase the economic and social

3 United Nations (2020): *The Impact of COVID-19 on the Arab Region - An Opportunity to Build Back Better*: https://unsdg.un.org/sites/default/files/2020-07/sg_policy_brief_covid-19_and_arab_states_english_version_july_2020.pdf

responsibility of governments in the region, and this, in turn, will lead to an increase in government expenditure.

Approximately 55.7 million people in the Arab region are receiving humanitarian aid, and their number is expected to increase by 1.7 million people due to the pandemic. It is also anticipated that the number of poor in the Arab region will increase by 14.3 million people, bringing the total number to nearly 115 million. Given the dependence of the Arab region on food imports to meet its needs, it is possible that a food crisis will arise in some countries as a result of the pandemic, accompanied by an increase in food prices. If this occurs, the suffering of these groups will increase dramatically.

Several factors can impede the recovery process. The first factor is the decline in trade, as the Arab region relies on oil exports, which are expected to decline by 40% in 2020 relative to 2019. This decline is due to both lower oil prices and a sharp decline in production. The continuing decline in oil prices and production can exacerbate the effects of the pandemic and make it difficult to recover from its effects in the longer term.

Arab imports are expected to decline significantly in comparison to pre-pandemic levels. The bulk of this decline will impact consumer goods, raw materials, and equipment. The decline in these imports will play a role in hindering the recovery process, due to their important role in domestic consumption and the importance of imports of equipment/raw materials for various industries. The second factor is poor transport infrastructure, which will undoubtedly hinder the recovery process.

The third factor is a sharp drop of 45% in foreign direct investment, denying the region $17.8 billion for recovery and job creation. The final factor is the state of conflict and dispute between several countries in the region.

With regards to the process of responding to the effects of the pandemic, the report recommends reformulating economic and development plans, focusing on the need to enhance government investment in three strategic areas:

- Economic sectors that add greater value to the economy.
- Green and innovation economies.
- Human capital and infrastructure, given their contribution to enhancing productivity.

These investments will create permanent and appropriate jobs. The report also recommends the need to assist and support the private sector in order to reduce layoffs. It also puts forward several proposals to help workers by postponing the settlement of social contribution payments that they owe, granting them more tax exemptions and providing cash assistance.

Economic Concepts and Definitions

Randomized Controlled Trials

Social science researchers face dilemmas in measuring the expected impact of interventionist policies that they propose, since evaluating the effect of a particular intervention requires isolating the impact generated by that intervention from effects generated by other sources. In the natural sciences, a British statistician named Ronald Fisher solved this puzzle in 1920. In his quest to measure the effects of the use of fertilizers on potato yields, Fisher divided the field into equal parts, randomly selecting some for treatment with compost, while leaving others unfertilized. Given that all plots were subject to uniform external factors (such as rain, temperature, and type of soil), Fisher concluded that the yield difference between fertilized and non-fertilized plots of land could be attributed exclusively to the effect of compost.

In the past century, Fisher's method has come to be used in various disciplines, the most important of which is testing the efficacy of medicinal drugs and their side effects. This is performed through the random selection of two groups of individuals who suffer from a specific disease. One of these groups is given a specific treatment (the treated group), and the other a placebo treatment (the control group). The difference in the average health of the treated group, compared to the control group, can be attributed to the effect of the drug or vaccine being tested.

From the Natural Sciences to the Social Sciences

Fisher's methodology, which has become widely applied in experimental sciences, was transferred to social science research (and development economics in particular) about two decades ago. It received the distinguished name: "randomized controlled trials". The use of this methodology spread rapidly. It is estimated that 20% of evaluation studies conducted by the World Bank during 2000-2010 followed the randomized controlled trials methodology. This increased to 80% in the following five years.[1] The methodology received exceptional academic and ceremonial validation and support when three economists - who adopted and developed this methodology and used it in their research - won the Nobel Prize for Economics in 2019.[2]

With the widespread application of this methodology, researchers can collect information on variance between two samples. In order to evaluate a policy or intervention, the researcher must ensure that two samples are randomly selected, and one sample

1 https://theconversation.com/2019-nobel-prize-in-economics-the-limits-of-the-clinical-trial-method-125888.

2 Two of the three winners work at MIT's Abdul Latif Jameel Poverty Action Lab, which a Saudi businessman's family agreed to fund two years after its establishment in 2003. The laboratory is a committed user of the methodology for randomized controlled trials. The number of studies it completed using this research methodology reached 689 by the end of 2015 (*The Economist*, Dec 10, 2015).

is then exposed to the stated policy intervention. In the next step, the researcher analyzes the information, using advanced statistical techniques, and draws out recommendations. [3] By comparing specific behavior under two different circumstances (for example, US states that allow abortion vs. others who prohibit it), the researcher can identify differences in behavior (on crime rates, for example, as did a famous study that found a correlation between the prohibition of abortion and higher crime).[4]

In order to better clarify the methodology of randomized controlled trials, we will summarize one of the most important studies that promoted the use of this methodology in order to assess the impact of interventionist policies in developing countries. The study was co-authored by Michael Kremer, one of the three Nobel Prize winners.

Evaluating the Impact of Treating Abdominal Worms in Children

This study aimed to assess the effect of the treatment of stomach-worm disease in terms of reducing pupils' absence from school in rural Kenya while increasing their academic achievements. [5] World Health Organization statistics indicate that about a quarter of the world's population suffers from abdominal worm diseases, and that it is especially prevalent among school-children in poor countries. The study sampled more than 30,000 male and female students, studying at 75 primary schools in a county near Lake Victoria, western Kenya. Schools were initially selected and their pupils divided into groups in a random manner. Some groups were provided with periodic treatment for stomach-worms, but not others. After three years (1998-2001), the study reached a number of results, comparing the average performance of treated and untreated groups, the most important of which are: [6]

- Treatment resulted in a reduction in severe/moderate disease symptoms by at least 31% in treated children, and an improvement in their height-to-age ratio (an indication of improved nutrition), compared to untreated children.
- Health education and health advice (including hygiene monitoring, and ensuring that shoes are worn) had very little impact on realized health improvements. That is, the improvement was exclusively due to medical treatment.
- The treatment of stomach-worms reduced pupils' absence and increased school attendance by 9.3% compared to untreated schoolchildren. However, treatment was not associated with an improvement in the educational performance (test scores) of treated students. The treatment of schoolchildren was associated with positive external effects (spillover) on other children who live within 3 kilometers of the schools where the pupils were treated, due to a decrease in infection rates in those areas. The study showed that rates of sickness decreased, and school attendance for students in the surrounding areas increased. The research also found that the total absence rate in treated schools decreased by a third, on average, compared to untreated schools.
- The treatment of stomach-worms for primary-school pupils is very cost-effective, as every $100 spent on treatment coincides with an increase of 11.91 years of education for pupils (as a result of reducing absences). As an investment, it makes this program better than other alternatives in terms of realizing returns.

A New Horizon in Policy Evaluation Studies

Despite critical reviews directed at this study, it was a breakthrough, not only because states adopted its recommendation to launch national treatment campaigns for stomach-worms (Kenya, Nigeria, Vietnam, a number of states in India and others), but also because charitable organizations, both local and international, compete over funded programs to combat abdominal worm sickness in poor countries. The publication of this study, in one of the most prominent, academic, economic journals, provided a certificate of recognition that helped cement this new methodology and its widespread application in testing and realigning policy.

The Economist reviewed the research published (in English) in specialized economic journals during the period 1990-2019, covering about 910,000 studies. It concluded that the percentage of research papers that addressed countries in Africa and Asia (including the Middle East) increased from 17% at the start of the period, to 41% at the end of it. [7] The magazine identified the widespread application of the methodology of randomized controlled trials as one of the reasons for this rise. This approach conferred academic recognition on development studies after a long period of neglect. It allowed complementary studies (with quantitative analyses and results) to be conducted on the economies of poor countries, despite problems associated with the absence of reliable statistical data.

This is not limited to quantitative expansion, as the use of this method extends to evaluating interventions across many diverse areas. This includes education-sector reform, motivating teachers to attend work, providing small loans to the poor, replacing in-kind food aid with cash, using smart cards in refugee camps, distributing water filters and mosquito protection nets, and factors that affect young men's decision to commit suicidal operations. [8]

Proponents of the approach assert that recommendations from controlled trials are based exclusively on observed facts, and they are practical, non-contradictory, and implementable. Random experiments are quasi-natural ones that generate accurate and cautious recommendations, and are not contaminated by political passions or ideological preconceptions. The appreciation of this methodology reached its climax with the comments made by the Nobel Prize Committee: "The randomized controlled experimental approach, which now has full control over development economics, has made it possible to identify the most reliable solutions to fight poverty".

Reasons for the Rapid Spread of the Methodology and Critics Claiming the Exaggeration of its Benefits

There are a number of reasons behind the rapid spread of this method's application, and its acceptance by developmental aid agencies, including its general bias towards results and recommendations

3 Among the most important of these techniques is "Meta-Regression Analysis of Randomized Controlled Trials".

4 Please see *The Impact of Legalized Abortion on Crime*: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=174508

5 Miguel, E., and M. Kremer. 2004. "*Worms: Identifying Impacts on Education and Health in the Presence of Treatment Externalities.*" *Econometrica* 72(1): 159-217

6 https://www.povertyactionlab.org/evaluation/primary-school-deworming-kenya

7 *The Economist*, Dec 12, 2020.

8 See, for example, *Employment Restrictions and Political Violence in the Israeli-Palestinian Conflict*. https://www.boi.org.il/deptdata/mehkar/papers/dp1204e.pdf

of a quantitative nature (compared to recommendations that are not associated with digital calculations and quantitative analysis). Additionally, economists insist that policy recommendations related to macroeconomics must be based on, and find justification in, microeconomics; that is, on the basis of individual or enterprise behavior in their quest to maximize utility or profits respectively. Finally, there is a shift in donor preferences and priorities to focusing on multiple small projects that provide quick and visible results. The financing of programs that aim to address the behavior of individuals and eliminate obstacles to the launch of individual initiatives to improve living conditions has taken preference over financing infrastructure projects/programs linked to national development policies.

A heated debate took place between the proponents of the new methodology and those who believe that randomized controlled trials are useful in certain applications/fields, but do not agree with exaggerated generalizations made by its advocates in the assessment of anti-poverty policies. Three arguments support their point of view:

- Findings and recommendations generated from randomized controlled trials are deficient in their external and internal forms. From an external point of view, they are local results, to the extent that they cannot be generalized to any degree. The results of an experiment in a certain area of the Moroccan countryside, for example, are not necessarily valid in other rural areas, and may not even be replicable in another part of Morocco. Internally, the behavior of individuals is often varied and heterogeneous, and the results of experiments express behavioral commonality. They cover a wide range of reactions that reflect conflicting interests in most cases.
- The randomized trials approach neglects theory and relies on experimentation only. The methodology lets the results speak for itself, akin to someone who throws a fishing rod without any prior idea of what she/he will catch. It does not give definitive directions on fighting poverty or enabling sustainable growth. It creates a gap that is difficult to bridge between micro and macroeconomics, given that recommendations stem from single and multiple experiences that cannot be collectively framed in a systematic and coherent manner.
- Developed countries have become rich as a result of vast transformations that affect various aspects of life, and not as a result of specific technocratic procedures. The remarkable success stories in poverty reduction in the past century, such as in China, were achieved by an expansion of international trade, and comprehensive, radical reform. These were not the result of mere measures to treat stomach-worms or reform education, for example. The comparative experimental approach cannot answer big questions such as: why and how did such great development happen?

In short, there is no doubt that the randomized controlled trials method has realized important academic and practical achievements in the field of development economics. However, the method's shortcomings limit the validity of its results and limit the chances of its application in many areas. This fact needs to be recognized.

Summary of the Most Prominent Economic Developments in Q3 2020

This section provides a summary of the most prominent economic events and news during the period covered by the *Monitor*, in chronological order.

Complete Closure of the West Bank

On July 1, 2020, the Palestinian National Authority imposed a complete closure of the West Bank for the second time, after a marked increase in the number of coronavirus cases. This closure lasted for eleven days, followed by the imposition of strict preventive measures and the adoption of restricted working hours that limited movement between governorates and closed all "non-essential" economic establishments.

Sharp Decline in Public Revenues

On July 2, 2020, the Minister of Finance, Dr. Shukri Bishara, stated that public revenues had witnessed a decline of 80% (NIS 1.1 billion) during June 2020 as a result of the decline in clearance revenues (NIS 720 million) and local revenues (NIS 280 million), as well as delays in receiving foreign aid (valued at NIS 100 million). The decline in public revenues is the result of the dual effect of the Covid-19 pandemic and the suspension of coordination with the Israeli government.[1] As part of its efforts to overcome the crisis and cover expenses, the government resorted to borrowing from local banks. On July 2, it announced that in May 50% of salaries and pensions would be disbursed (at a minimum of NIS 1,750) to about 25% of its employees.[2]

Government Support for the Tourism Sector

On July 9, 2020, the Minister of Finance, Dr. Shukri Bishara, announced support measures to benefit the hotel sector in the West Bank, amounting to NIS 11 million, so that it can cope with the economic repercussions of the coronavirus pandemic.[3]

Reducing Commissions on Dishonored (Returned) Checks

On July 22, 2020, the Palestinian Monetary Authority (PMA) announced the reduction of commissions on (returned) checks that were dishonored due to insufficient funds. These commissions fell to $6,[4] compared to $15 dollars before the decision was issued. The commission on checks returned for technical reasons remained $10.[5] This decision was made against the backdrop of protests by chambers of commerce, companies, and citizens about the deteriorating economic situation caused by the outbreak of the epidemic. These difficult conditions prevented them from being able to fulfill their financial obligations, and therefore they called for the adoption of a mechanism to repay the value of returned checks in deferred installments.[6]

1 http://bit.ly/3t963Fo
2 http://bit.ly/3pmt6u2. http://bit.ly/3sYm151. http://bit.ly/2M5KMvu. http://bit.ly/3op7KL8.
3 http://bit.ly/2Nvz1yI
4 https://bit.ly/2Q2KoMJ
5 https://bit.ly/2YaC6H4. https://bit.ly/2YdNB02
6 https://felesteen.ps/post/64164/ and https://www.wattan.net/ar/

The European Union Supports the Emergency and Social Protection Budgets

On July 27, 2020, the European Union provided emergency budget support, totaling about €23 million, for the payment of part of the June salaries of more than 43,000 civil servants and retirees in the West Bank, most of whom work in social services (health and education).[7] Moreover, on July 28, 2020, the European Union, Austria, and Ireland provided a grant of €23.5 million to help the Ministry of Social Development pay social benefits to poor Palestinian families through the cash transfer program in the West Bank. [8]

World Bank Grant to Support Social Protection

On July 27, the World Bank approved a $30 million grant under the umbrella of the "West Bank Emergency Social Protection COVID-19 Response Project."[9] This new project provides cash assistance and short-term job opportunities to people who have lost their income as a result of the pandemic and recently entered the cycle of poverty; or were already poor before the pandemic's outbreak.

Negative Impact of the Pandemic on Women-owned Businesses in Palestine

The Minister of National Economy, Mr. Khalid Al-Esseily, announced on August 11, 2020 that statistical surveys showed that 95% of working women in Palestine have seen the epidemic negatively impact their businesses. [10]

The Impact of the Pandemic on Economic Life in Gaza

The Palestinian NGO Network published a paper on August 18, 2020 highlighting the repercussions of the coronavirus epidemic on economic conditions in the Gaza Strip.[11] At the end of Q1 2020, the unemployment rate in the Gaza Strip reached nearly 46%. Tourism activities have completely ceased since the outbreak of the epidemic, and the transport sector's activities have decreased by 80%. About 10,000 workers in the industrial sector lost their jobs. The construction, paper, metal-works and aluminum industries were hit hardest. The productive capacity of the commercial sector decreased by 60%-70%. The agricultural sector incurred heavy losses as a result of the closure of border crossings and the halt on agricultural exports to foreign markets.

The Occupation Prevents Fuel from Entering the Gaza Strip

On August 18, 2020, the occupation prevented fuel supplies from entering the Gaza Strip (including fuel supplied by donors). This led Gaza's power plant, the only operational one in the Gaza Strip, to partially suspend services.[12] The partial closure of the power plant led to a decrease in the number of hours of electricity supply, to only 2-3 hours per day.[13]

video/313959.html

7 https://bit.ly/3kUx1Mz

8 https://bit.ly/3g72oQB

9 https://bit.ly/2Y9wVHe

10 https://www.alhadath.ps/article/126200/

11 https://bit.ly/2MoIrf4

12 http://bit.ly/3iM2DUe

13 https://bit.ly/2Fw86iK

The Palestinian Authority's Pandemic Recovery Plan

On August 19, 2020, the Prime Minister's Office presented a proposal outlining the Authority's plans for recovering from the effects of the pandemic.[14] The plan includes a wide range of economic policies: both those adopted by the Palestinian government during the pre-pandemic period; and other measures proposed to mitigate the social and economic impact of the crisis. The government's plan includes the following:

- Work intensively to implement development strategies in economic clusters within one year. Complete infrastructure facilities and legal frameworks for cluster-based projects within three years.
- Adopt a plan for the efficient distribution of land use. Enhance the efficiency of the Land and Water Settlement Authority so as to accelerate the pace of work for land settlement projects.
- Activate and improve production by activating laws, encouraging the export of local products, and imposing restrictions on imports from Israel. Levy an income tax on workers in Israel. Reduce reliance on the Shekel as the currency of denomination in commercial transactions. Examine the possibility of preventing Palestinian workers from working in Israeli settlements.
- Mobilize financial resources to invest in high-impact, local development projects, such as by establishing a cement factory, an oil refinery, and renewable energy projects.
- Find ways to break free from the Paris Economic Protocols. Arrive at a new economic framework with Israel that takes into account the developmental requirements of the Palestinian economy.
- Reduce VAT imposed on local products by 1%-4%, while completely exempting local agricultural products from VAT.
- Oblige the government to exclusively purchase local products when bidding for school and military uniforms.
- Increase the amount of credit made available to the industrial sector from its current level of 5.3% of total credit facilities to 10%.
- Expand the scope of financing options for industrial companies, rehabilitating the sector's infrastructure while harmonizing its needs with those of the higher and vocational education sectors. Identify local and foreign partnerships to invest in new industries, or in restructuring existing industries to increase their competitiveness.
- Allocate cash funds to skilled workers recently made unemployed in the tourism sector, through the Palestinian Fund for the Employment and Social Protection of Workers. Allocate $750,000 to the hospitality sector's lending fund.
- Provide financial subsidies to small farmers and activate the Agricultural Risk Prevention and Insurance Fund.
- Accelerate the adoption of the Palestinian Companies Law.

Closure of the Gaza Strip and an Escalation in Occupation Measures

A tight lockdown was imposed on the Gaza Strip starting on August 24, 2020 after coronavirus cases were discovered

14 https://www.palestineeconomy.ps/ar/Article/f2739cy15889308Yf2739c

outside quarantine centers for the first time.[15] The closure of the Gaza Strip coincided with a deterioration in the security situation and the tightening of Israeli restrictions on the Strip.[16] On August 6, 2020, Israel began launching (almost daily) air strikes on the Gaza Strip, an assault which lasted until August 31, when a ceasefire agreement was reached. The Israeli government subsequently agreed to reopen fishing areas.[17]

Credit Facilities for Small and Medium-Sized Enterprises (SMEs)

On August 25, 2020, the Director of the Control and Inspection Department at PMA, Mr. Muhammad Manasrah, said that about $32 million in credit facilities were to be granted to SMEs affected by COVID-19, through the Sustainability (*Istidama*) Program.[18] This is an initiative launched by PMA last May, with the aim of pumping $300 million into micro-enterprises and SMEs affected by the pandemic. These loans are offered at low interest rates of up to 3%, and a repayment period of up to 36 months. [19] PMA also announced that it issued instructions to banks to postpone the deduction of loan installments due for July for all public sector employees, and not to collect any additional fees or charges.[20]

Makassed Hospital Crisis

On August 26, 2020, the Makassed Hospital Workers Union announced a strike, due to the worsening financial crisis that had led to the non-payment of salaries for several months. They called on the Palestinian government to respond quickly to help secure a bank loan and to resume medical transfers to the hospital, in order to help pay off its debts. [21] The hospital's administration also pledged to implement a program of financial reform to prevent the recurrence of the financial crisis and the accumulation of more debts.

Affordability of Housing

In a study published at the end of August 2020, the Palestinian Central Bureau of Statistics (PCBS) indicated that 70.1% of families do not have the financial ability to build or buy their own house,[22] and only a quarter of Palestinian families can afford to build or buy a housing unit. Moreover, only 1.4% of families can afford to build or purchase two or more housing units. Undoubtedly, the situation has worsened after the pandemic, especially in light of the fact that 42% of Palestinian families have lost half their income since the beginning of the crisis.[23]

Qalqilya Agricultural Cluster

Palestinian Prime Minister, Dr. Muhammad Shtayyeh, announced on September 20, 2020, the success of efforts to establish the Qalqilya Agricultural Cluster, which was launched last year.[24] He pointed out that the formation of this cluster contributed to the construction of more than 100 agricultural roads, the reclamation and rehabilitation of 1,822 dunums of land, the cultivation of 43,550 fruit-bearing trees, as well as the direct creation of 426 jobs.[25]

Start of Mobile Number Transfer Services

On September 20, 2020, the Ministry of Communications and Information Technology announced the introduction of mobile number transfer services in Palestine. [26] This feature allows users to switch from one service provider to another while preserving their original mobile phone number. It gives the consumer the freedom to choose between service providers.

Losses of the Tourism Sector Exceed $1 billion due to the Pandemic

PCBS and the Ministry of Tourism and Antiquities issued a joint press release on September 27, coinciding with International Tourism Day. They reviewed the latest developments in the tourism sector, which has suffered the full range of the pandemic's devastating effects.[27] According to this statement, the number of inbound tourists decreased by 64% during the first half of 2020 compared to the same period in 2019. The number of booked hotel nights decreased by 60% during the same period. PCBS estimates that the sector's losses may reach about $1.15 billion by the end of the year. The share of inbound tourism losses (relative to total losses) is estimated at $1.02 billion, compared to $0.134 billion for domestic tourism (a 68% decline in revenues compared to 2019).

Supporting the UN Relief and Works Agency (UNRWA)

On September 4, the United Nations Relief and Works Agency for Palestinian refugees (UNRWA) appealed to the international community to mobilize $94.6 million to address economic damage caused by the COVID-19 pandemic. [28] The Agency is requesting this funding in order to mitigate the worst effects of the pandemic on more than 5.6 million registered Palestinian refugees across the Middle East, with a special focus on health, cash assistance, and education.

15 http://bit.ly/3a5sjqW
16 https://bit.ly/2ZBIRSL
17 https://bit.ly/2YgN2Cx
18 http://www.alquds.com/articles/1598343530437801600/
19 https://bit.ly/2FG6SRy
20 https://bit.ly/3hur2eN
21 https://www.wattan.net/ar/news/318088.html, https://qudsn.net/post/178284.
22 http://pcbs.gov.ps/Downloads/book2529.pdf
23 https://palsawa.com/post/278835/
24 https://www.facebook.com/Dr.Shtayyah
25 https://www.alwatanvoice.com/arabic/news/2020/09/20/1368611.html
26 https://www.aliqtisadi.ps/article/77506/
27 http://pcbs.gov.ps/portals/_pcbs/PressRelease/Press_Ar_27-9-2020-tour-ar.pdf
28 http://bit.ly/2NvCtta

Key Economic Indicators in Palestine, 2015-2020

Indicator	2015	2016	2017	2018	2019	2019		2020[1]		
						Q3	Q4	Q1	Q2	Q3
Population (One thousand)										
oPt	**4,530.4**	4,632.0	4,733.4	4,915.3	5,039.0	**4,992.2**	**5,023.3**	**5,054.5**	**5,075.2**	**5,116.9**
West Bank	2,750.0	2,803.4	2,856.7	2,953.9	3,020.0	**2,995. 0**	**3,011.6**	**3,028.3**	**3,039.3**	**3,061.6**
Gaza Strip	1,780.4	1,828.6	1,876.7	1,961.4	2,019.0	**1,997.2**	**2,011.7**	**2,026.2**	**2,035.9**	**2,055.3**
Labor market (based on the new definition adopted by PCBS)[2]										
No. of workers (thousand)	**928.9**	**939.6**	**948.7**	**956.3**	**1,010**	**1,025.3**	**1,044.30**	**1,009.80**	**888.7**	**936.0**
Participation rate (%)	**44**	**43.8**	**44**	**43.5**	**44.3**	**44.2**	**44.4**	**43.1**	**38.5**	**41.0**
Unemployment rate (%)	**23**	**23.9**	**25.7**	**26.2**	**25.3**	**24.6**	**24**	**25**	**26.6**	**28.3**
- West Bank	**16.6**	**17.5**	**18.4**	**17.3**	**14.6**	**13.3**	**13.7**	**14.2**	**14.8**	**18.5**
- Gaza Strip	**34.8**	**35.4**	**38.3**	**43.1**	**45.1**	**45.1**	**42.7**	**45.5**	**49.1**	**48.6**
National accounts (at constant prices) (base year 2015) (million dollars)[3]										
GDP	**13,972.4**	**15,211.0**	**15,426.9**	**15,616.2**	**15,764.4**	**3,915.3**	**4,016.4**	**3,820.4**	**3,134.9**	**3,506.2**
- Household expenditure	**12,348.3**	**3,342.9**	**13,420.3**	**13,570.1**	**14,135.4**	**3,528.3**	**3,546.3**	**3,456.2**	**2,821.0**	**3,042.4**
- Government expenditure	**3,494.5**	**3,584.7**	**3,093.6**	**3,318.9**	**3,115.3**	**789.0**	**818.7**	**702.0**	**761.3**	**809.3**
Gross capital formation	**3,505.4**	**3,873.8**	**4,166.9**	**4,260.3**	**4,198.7**	**1,054.1**	**1,056.4**	**934.2**	**658.1**	**780.1**
Exports	**2,244.3**	**2,208.3**	**2,515.6**	**2,578.7**	**2,623.8**	**635.4**	**706.2**	**538.1**	**526.7**	**652.5**
Imports (-)	**7,645.5**	**7,796.3**	**7,901.5**	**8,256.8**	**8,368.4**	**2,113.9**	**2,052.3**	**1,843.9**	**1,501.3**	**1,782.1**
GDP per capita (USD)										
at Current prices	**3277.9**	**3534.4**	**3620.5**	**3562.3**	**3640.1**	**914.8**	**938.6**	**887**	**706.7**	**800.9**
at Constant prices (base year 2004)	**3277.9**	**3489.8**	**3463.1**	**3417.7**	**3364.5**	**832.9**	**848.8**	**802**	**653.8**	**726.5**
Balance of Payment (USD millions)										
Trade Balance	**(5,400.9)**	**(5,664.5)**	**(5,967.4)**	**(6,425.7)**	**(6,500.7)**	**(1,696.2)**	**(1,556.5)**	**(1,478.9)**	**(1,120.0)**	**(1,351.0)**
Income Balance	**1,712.20**	**1,896.00**	**2,129.00**	**2,786.20**	**2,658.00**	**770**	**685.1**	**684.6**	**424.0**	**697.0**
Current Transfers Balance	**1,749.40**	**1,626.20**	**1,708.70**	**1,499.10**	**2,009.20**	**538.9**	**458.8**	**445.6**	**464.0**	**454.0**
Current account Balance	**(1,939.1)**	**(2,142.7)**	**(2,129.7)**	**(2,140.4)**	**(1,833.5)**	**(387.3)**	**(412.6)**	**(348.7)**	**(232.0)**	**(200.0)**
Exchange Rates and Inflation										
USD/NIS exchange rate	**3.88**	**3.84**	**3.6**	**3.59**	**3.56**	**3.529**	**3.492**	**3.496**	**3.514**	**3.419**
JOD/NIS exchange rate	**5.48**	**5.42**	**5.08**	**5.07**	**5.03**	**4.977**	**4.926**	**4.931**	**4.943**	**4.798**
Inflation rate (%)[4]	**1.43**	**(0.22)**	**0.21**	**(0.19)**	**1.58**	**0.33**	**(0.27)**	**(0.39)**	**(1.20)**	**(0.20)**
Public Finance (cash basis USD million)										
Net domestic revenues (including clearance)	**2890.2**	**3551.0**	**3656.5**	**3462.9**	4361.3	**1070.7**	**1099.4**	**973.5**	**487.7**	**275.8**
Current expenditure	**3424.3**	**3659.3**	**3791.4**	**3660.1**	4518.6	**858.6**	**1362.9**	**830.9**	**419.1**	**731.9**
Developmental expenditure	**176.7**	**216.5**	**255.3**	**276.9**	246.6	**46.6**	**67.9**	**21.4**	**33.0**	**39.1**
current budget deficit\surplus (before grants)	**(710.8)**	**(324.8)**	**(390.2)**	**(474.0)**	(403.9)	**165.5**	**(331.4)**	**121.2**	**35.6**	**(495.1)**
Total grants and aid	**796.8**	**766.3**	**720.4**	**664.8**	669.2	**177.1**	**115.8**	**79.7**	**196.8**	**101.8**
Total budget deficit\surplus (after grants and aid)	**88.2**	**442.1**	**329.6**	**190.9**	265.3	342.6	(215.6)	200.9	232.4	(393.3)
Public debt	2537.2	2483.8	2543.2	2369.5	2,795.1	2914.8	2795.0	2886.7	3080.9	3460.2
The Banking Sector (USD millions)										
Banks assets/liabilities	**12,602.3**	**14,196.4**	**15,850.2**	**16,125.0**	**17,825.5**	**17,303.5**	**17,825.5**	**17,710.0**	**18,248.1**	**18,625.0**
Equity	**1,461.7**	**1,682.4**	**1,892.7**	**1,912.0**	**1,985.2**	**1,942.4**	**1,985.2**	**1,996.9**	**1,994.6**	**1,959.1**
Deposits at banks	**9,654.6**	**10,604.6**	**11,982.5**	**12,227.3**	**13,384.7**	**3,025.5**	**13,384.7**	**13,303.8**	**13,738.7**	**14,061.9**
Credit facilities	**5,824.7**	**6,871.9**	**8,026.0**	**8,432.3**	**9,039.1**	**8,947.9**	**9,039.1**	**9,249.9**	**9,652.7**	**9,894.0**

Data do not include that part of Jerusalem which was annexed by Israel following its occupation of the West Bank in 1967 (except for data on unemployment and population).

1 Quarter's figures for 2019-2020 are preliminary and subject to further revision.

2 PCBS and the ILO adopted a new revised definition of unemployment stating that unemployment include only those who did not work during the reference period and who actively sought employment or were willing and capable of working. The new standard excluded those who were frustrated and were not looking anymore for jobs (did not seek an employment during the reference period). The table includes calculations of the Palestinian labor market indicators based on the old and the new definitions.

3 PCBS has revised the national accounts data at current and constant prices for the years 2004-2018. Therefore, the figures of previous years and quarters will differ in light of these revisions.

4 The inflation rate estimation is based on year-over-year comparisons of the average CPI in the target year (each quarter) with its average in previous year (quarter).

* The figures in the table are based on the latest update of data issued by PCBS, PMA, and PCMA.

** Figures between brackets indicate negative values.