

Economic Monitor

64

**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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Arab Fund for Economic and Social Development

The Year 2020 in brief:

- **GDP:** On a year-on-year basis, GDP declined by 11.5% to reach USD 19bn (at 2015 fixed prices). This is attributed to a drop of 11.3% in the West Bank and 12.3% in the Gaza Strip. At current prices, GDP declined by USD1bn, standing at USD15.6bn. Taking the population growth into consideration shows a drop of 13.7% in the GDP per capita in Palestine; it reached USD 3,913.9 in 2020 and was distributed as USD 4,176.1 in the West Bank against USD 1,211.9 in the Gaza Strip.
- **Unemployment:** The unemployment rate in Palestine saw a slight drop of 0.6 percentage points in 2020 compared with 2019, reaching 25.9%. This high rate can be ascribed to its increase in the West Bank (from 14.6% to 15.7%) and the Gaza Strip (from 45.1% to 46.6%). About a third of private-sector waged workers earn a monthly salary of NIS 740 on average, which is equal to half the official monthly minimum wage level.
- **Public Finance:** Over 2019 and 2020, net public revenues and grants increased by 1%, reaching around NIS 13.6bn. This is due to a 2% rise in clearance revenues, against a drop of 5% in domestic revenues and 4% in foreign grants. On the other hand, actual public expenditures rose by 1% to NIS 13.9bn. This led to a deficit in the total balance (current and developmental) of NIS 0.3bn (cash-basis). In 2020, government arrears totaled NIS 2.1bn with public debt rising by 17%, compared with the previous year, to reach NIS 11.7bn.
- **Banking Sector:** During 2020, credit facilities increased by 12% compared with the previous year to reach USD 10.1bn, 21.9% of which were granted to the public sector. On the other hand, total deposits rose by 12%, reaching USD 16.5bn. Banks' profits reached USD 104.1 million, a drop of 35% compared with the previous year's profits.
- **PEX** By the end of 2020, the market value of shares traded at PEX was USD 3.4bn, a drop of 8% compared with 2019.
- **Inflation and Prices:** During 2020, the Palestinian economy witnessed negative inflation of 0.73% compared with the previous year, i.e., the purchasing power of the shekel rose by 0.73% compared with the previous year. By contrast, the purchasing power for those who receive and spend salaries in USD and JD declined by 2.72% compared with the previous year, 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.

CONTENTS

1. The Real Economy	3
2. Labor Market	13
3. Public Finance	16
4. The Non-banking Financial Sector	19
5. Social Development: The Condition of Working Women in the Palestinian Territories during the Coronavirus Pandemic	25
6. Recent Publications	27
Economic Concepts and Definitions: Externalities	28
Summary of the Most Important Economic Developments and News	30
Key Economic Indicators in Palestine 2016-2020	32



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هيئة سوق رأس المال الفلسطينية
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2020: the year of all the shocks
Foreword by
the Director General – Annual Monitor 64

The Palestine Economic Policy Research Institute (MAS) is pleased to present to our readers and the general public the annual issue (2020) of the Economic Monitor. The publication of this issue comes one year after the Monitor first appeared in its renewed and updated appearance. This is the fruit of the work of the Institute's research staff, in cooperation with its three partners: the Palestine Monetary Authority (PMA), the Palestinian Central Bureau of Statistics (PCBS), and the Palestine Capital Markets Authority (PCMA). This issue covers all economic developments in 2020, with additional commentary on the fourth quarter specifically.

This year was one in which Palestine was exposed to all forms of economic and social shocks. After the conclusion of the financial clearance crisis at the end of 2019, Palestine faced the most dangerous and hostile plans in the form of the "Deal of the Century" and the threat of annexation. Following this, the COVID-19 pandemic swept across the country, leaving behind thousands of victims, and eliminating 12% of GDP amid renewed confrontation over clearance funds and the relationship with the occupation authorities. Perhaps the only glimmer of hope was the advent of a new American administration at the end of 2020, which is expected to be less hostile to Palestinian rights. This year toppled almost everything, but it has passed, and Palestine's heart is still beating.

The Economic Monitor enjoys wide confidence across various readerships, and it has become an important source of reliable information. First published in 1997, the Monitor has remained a constant spring of knowledge, appearing in different formats (annually and quarterly), and under different headings (economic and/or social). This is compelling evidence of the Monitor's flexibility and responsiveness in monitoring local economic developments, continuously adding to the base of existing scientific knowledge. Since the initial publication of the Monitor, MAS has strived to ensure that it is available to policy-makers in the economic and social spheres, as well as researchers and others interested in the Palestinian economy.

In light of the increasing pace of change in economic and developmental realities in Palestine during this difficult and critical year, influenced by the dangers of Israeli settler-colonialism on the one hand, and the spread of COVID-19 on the other, MAS issued a special issue of the Monitor in May 2020. This issue provided forecasts on the potential macroeconomic and sectoral impact of the pandemic's outbreak, which among other official and international estimates contributed, at the time, to guiding Palestinian policy-makers in formulating responses to the crisis. MAS also started an internal and consultative review with its three partner institutions on its research content, sectoral coverage, and methodological frameworks, taking into account major, ongoing transformations, as well as developments in the political/economic landscape since the adoption of the Quarterly Monitor in 2005, and the renewal of its design in 2016.

Since the release of the first issue of the renewed 2020 Monitor, the regular reader will find that it covers all previously monitored indicators, with more emphasis on an analytical approach. Moreover, additional emphasis has been placed on the Palestinian economy through the updated, first section (the real economy), which examines the economy from the perspective of its main productive sectors, and the most prominent aspects of accompanying infrastructure. A new, permanent section has also been added covering social development, focusing on poverty, marginalization, and the challenges of social transformation under conditions of occupation. This is in addition to a section summarizing some of the most noteworthy publications on the Palestinian and global economies released during the period covered by the Monitor. Finally, an appendix has been added on main quarterly economic developments, documenting the policy and field contexts for systematic statistical monitoring across the main sectors.

All said and done, we hope that the researcher, policy-maker, and interested citizen alike will benefit from this version of the Monitor, which has made following up on vital developments in the Palestinian economy and society a top priority, assisting in the realization of progress.

1. The Real Economy

The previous issue of the Monitor highlighted a few signs of economic recovery in commercial activity in Q3 2020, compared to very low activity levels in Q2 of the same year. However, this recovery coincided with the reemergence of COVID-19 cases, which necessitated new closure measures and restrictions on movement, commencing in December 2020. Despite the recovery that occurred in the same month due to the end of the clearance revenue crisis, the signs of sustainable recovery are still weak, and the profoundly negative social and economic effects created by the pandemic continue to threaten the livelihoods of Palestinian families, increasing the number of families whose income falls below the poverty line. Perhaps the most prominent issue resulting from this situation is the difficulties associated with highly contagious viruses. The latest studies show that finding a balance between healthcare and the economy is not feasible in the absence of effective plans, which are in themselves dependent on the speed and efficiency of obtaining and distributing vaccines.¹

In this issue, we review economic performance in 2020 and the most prominent indicators during Q4. Special attention is paid to the transport and communications' sector, given the urgent need for its further development and modernization.

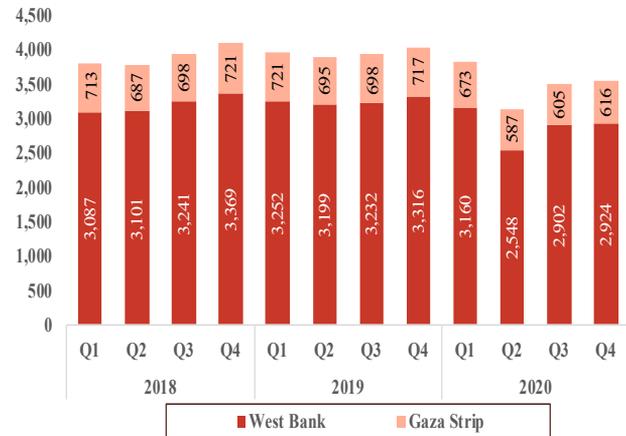
1.1 Economic Activity²

The spread of COVID-19 and the imposition of total closure to contain the pandemic starting from March 2020 had a severe, negative impact on economic activity in 2020. This was reflected in a decrease in GDP, or the monetary value of all types of goods and services that are produced locally, by 11.5%, measured at fixed prices.³ At current prices, GDP declined by about \$1.6 billion, reaching about \$15.6 billion.

The decline in GDP at constant prices resulted from a sharp setback in demand and production, which included a significant decrease in household consumption (12.6%) and total investment (23.2%). As for foreign trade, its contribution was positive due to the decrease in the value of imports (15.4%), which outweighed the decrease in the value of exports (7%). In terms of production, 2020 witnessed a decrease in value-added across all major sectors, except for the financial and insurance sector, and public administration.

At the quarterly level, GDP increased by about 1% in Q4 2020 compared with the previous quarter. This increase occurred as a result of a 0.8% growth in the West Bank and a 2.0% growth in the Gaza Strip between the two successive

Figure 1.1: GDP in Palestine by Quarter for 2018-20 at Constant Prices (\$ million) (base year 2015)



quarters (see Figure 1.1). The effects of the pandemic were still visible in Q4 2020 when compared with the level of economic activity in 2019. GDP was 12.2% less than its value in the corresponding quarter of 2019 (11.8% lower in the West Bank, and about 14.0% lower in the Gaza Strip).

With the end of the financial crisis of the Palestinian National Authority in Q4 2020, public spending witnessed an increase of 13.1% compared with the previous quarter, and by about 8.7% compared with the corresponding quarter of 2019 (see Figure 1.2). Q4 2020 also witnessed an increase of 7.5% in total investment, compared with the previous quarter. On the other hand, the deficit in the trade balance grew by 8.8% due to a greater increase in imports (\$253.8 million at current prices) compared to exports (\$101.7 million). The high number of COVID-19 infections and the resumption of restrictions during the last quarter led to a decline in disposable income. It also exacerbated the prevailing state of uncertainty caused by the absence of a fundamental solution to the crisis, which prompted families to decrease their consumption. It should be noted that household consumption remained almost constant in Q4 2020 compared with the previous quarter, with a slight increase of about 0.2%. Given the nature of the Palestinian economy and its reliance on consumption, where household consumption constitutes about 85% of GDP, the lack of growth in household consumption limited economic recovery.

With regards to production levels, Q4 2020 witnessed an increase in the value added of all the major productive sectors compared with the previous quarter. Conversely, most components of the service sector witnessed a decline, except for information and communications technology (3.7% growth) and public administration (14.6% growth). The sectors that witnessed the largest decline were transportation and storage (11.9%) and trade (6.5%).

1 http://mas.ps/files/server/2021/Covid-19_Modelling_Press%20%D9%90%20Ar.pdf

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

3 In this section, we adopt constant prices to measure relative change for all indicators, in order to neutralize the impact of fluctuations in prices and exchange rates.

GDP per Capita

GDP per capita witnessed a slight increase in Q4 2020, by about 0.3% at constant prices, reaching \$837.40 at current prices. At the annual level, the decline in nominal GDP, in addition to the increase in population, led to a decline in GDP per capita by about 13.7% at constant prices (13.4% in the West Bank and 14.8% in the Gaza Strip), reaching \$3,235.00 at current prices (\$2,913.00 in 2015 prices). It should be noted that this is the lowest value for GDP per capita since 2010, which indicates the seriousness of the decline in economic activity during this year.

Palestinian Monetary Authority's (PMA) Business Cycle Index⁴

The PMA's Business Cycle Index confirms that economic activity for 2020 reached its lowest level in April and then began to recover from May onwards, in conjunction with the gradual easing of closure measures. However, the value of the Index in Q4 was still lower than its value in the corresponding quarter of 2019, and less than its value before the pandemic at the beginning of 2020. This is due to the fact that the Index was still influenced by the sharp decline in Q2 2020, in which it remained negative (see Figure 1.3).

Car Registration

After a decline that persisted for three consecutive quarters, data from the Palestinian Ministry of Transport and Communications indicate that there has been an increase in car registration by about 98.6% in Q4 2020 compared with the previous quarter. 5,536 cars were registered (see Figure 1.4). This is mainly due to an increase in the registration of used cars imported from overseas markets by approximately 144.7%. These typically constitute about three-quarters of new, local car registrations. This significant increase is due to the return of coordination between the Palestinian government and their Israeli counterparts, which enabled the transport of vehicles from Israeli ports to the Palestinian territories.⁵ Despite this, the impact of the pandemic is clearly visible in annual comparisons, as only 18,288 cars were registered in 2020, compared with 26,337 cars in 2019.

⁴ The Business Cycle Index is calculated based on a survey of the opinions of a representative sample of managers of industrial establishments in the West Bank and Gaza Strip. It covers current levels of employment, production and sales, and expectations of change for the coming months. The Index gives an overview of the general performance of the Palestinian economy during that month, and expectations for the coming months.

The maximum value of the Index is +100, while the minimum value is -100. If the value of the Index is positive, then economic conditions are good. An increase in the value of the Index indicates an improvement in the general economic situation. Conversely, with regard to negative values, these indicate that economic conditions are bad, worsening as the value approaches -100. If the value of the Index is close to zero, this indicates that conditions have remained stable, and that they are not about to change in the near future.

⁵ https://www.alhaya.ps/ar_page.php?id=5f35527y99833127Y5f35527

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

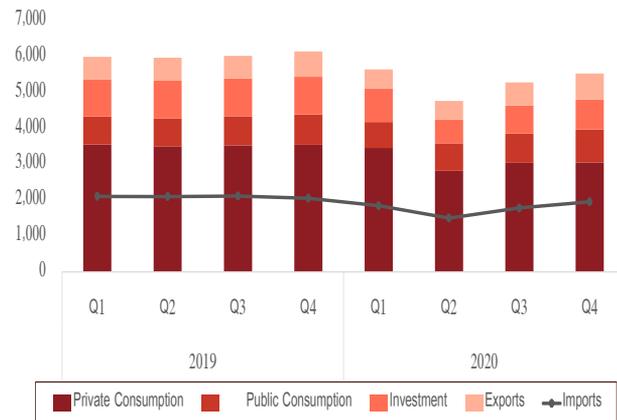
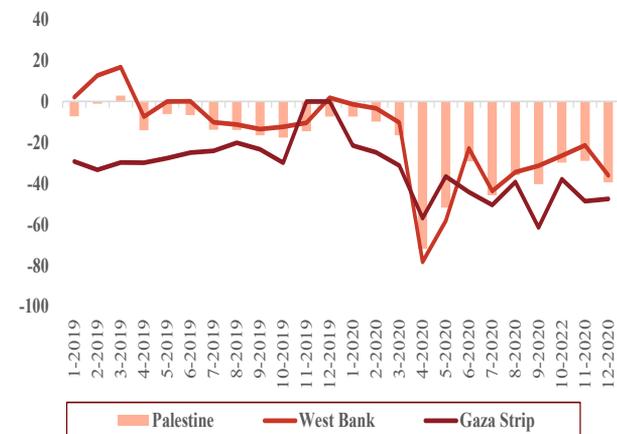
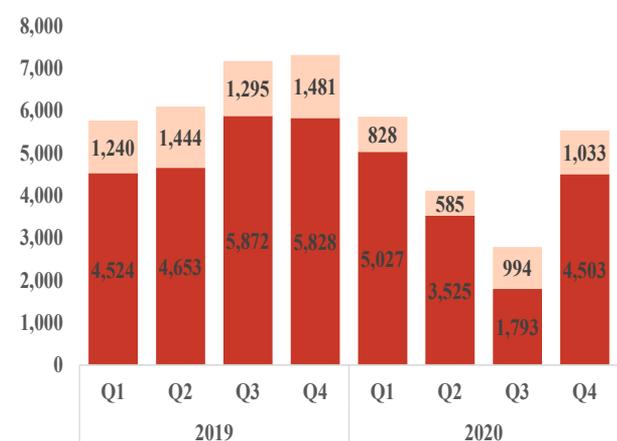


Figure 1.3: PMA's Business Cycle Index for 2018-20



Source: PMA, 2020. The Business Cycle Index, 2019-20. Ramallah, Palestine.

Figure 1.4: Quarterly Imported Car Registrations (2019-20)



Source: Ministry of Transport and Communications, 2021. Monthly Vehicle Registration Data, 2019-20. Ramallah, Palestine.

1.2 Productive Sectors: Agriculture, Industry and Construction ⁶

The value added of the productive sectors increased by 2.3% in Q4 2020 compared with the previous quarter. However, it was 19.8% lower compared with the corresponding quarter of 2019. As for performance at the annual level, the value added of the productive sectors decreased by 16.7%, while its contribution to GDP fell from 25.7% in 2019 to 24.1% in 2020.

Agricultural Sector

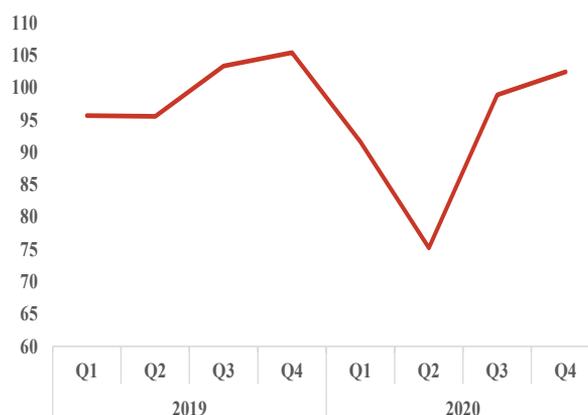
After a decline that continued for three consecutive quarters, the value added of agriculture, forestry, and fishing activities witnessed a growth of about 2.4% in Q4 2020 compared with the previous quarter. The contribution of agricultural activities to GDP reached about 6.8% in Q4 2020. However, the improvement in the last quarter was modest when compared with the decline witnessed across all of 2020. This led to a decrease in the value added of agricultural activities by about 9.2% compared with 2019.

Industrial Sector

In 2020, the value added of the industrial sector was 12.7% lower compared with 2019, despite the fact that in Q4, this sector maintained the recovery that began in the previous quarter. The sector maintained its contribution to GDP when compared with both the previous quarter of 2020 and corresponding quarter of 2019 (see Table 1.1).

Moreover, the overall index of industrial production quantities increased by 3.5% during Q4 2020 compared with the previous quarter. However, it decreased by 2.8% compared with the corresponding quarter of 2019, to reach 102.4 points (base year 2019). At the annual level, the total index of industrial production quantities declined by 8.0%, reaching 92.1 points (see Figure 1.5).

Figure 1-5: Overall Index of Quarterly Industrial Production Quantities (2019-20)



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

Construction Sector

The construction sector was one of the most productive sectors in Q4 2020, as the value added of this sector increased by 8% compared with the previous quarter. However, it was lower by 36.7% compared with the corresponding quarter of 2019. As a result, the construction sector's contribution to GDP increased to about 4.1%, compared with 3.8% in Q3 2020. However, its value was still 5.7% lower than the value recorded for its corresponding quarter of 2019. Overall, in 2020 the value added of the construction sector decreased by 35.6% relative to 2019, which reflects the high sensitivity of this sector to changes in the local economy and the investment environment.

In terms of building permits, preliminary estimates indicate a significant increase of 38.4% in granted permits in Q4 2020, compared with the previous quarter. This also represents an increase of 2.9% compared with the corresponding quarter of 2019 (see Figure 1.6). However, the improvement in the second half of 2020 was not sufficient for this sector to recover fully from the downturn that it experienced in the first half of 2020. Granted construction permits decreased by 16.3% in 2020 compared with 2019.

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

Economic Activity	Q4 2019	Q3 2020	Q4 2020	Percentage Change from Previous Quarter	Percentage Change from Corresponding Quarter
Mining and quarrying	15.9	11.9	12.7	6.7%	-20.1%
Transformative Industries	456.2	398.5	398.5	0.0%	-12.7%
Supply of electricity, gas, steam and air conditioning	39.8	33.9	34.9	2.9%	-12.3%
Water supply and sanitation, waste management and treatment	15.7	16	17.3	8.1%	10.2%
Industrial sector (Total)	527.6	460.3	463.4	0.7%	-12.2%

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

⁶ Source of figures in this section: PCBS, 2020. Quarterly National Accounts' Statistics, 2000-2020. Ramallah, Palestine.

The number of construction licenses issued for residential

and non-residential buildings reached 2,732 during Q4 2020, including 1,798 licenses for new buildings. As for the number of new housing units, this also recorded a recovery of 52% compared with the previous quarter. However, it was 8% lower when compared with the corresponding quarter of 2019.⁷ The number of licensed housing units reached 5,482 in Q4 2020, covering a total area of 887,000 square-meters.

As for prices, PMA's residential, real-estate price index in Palestine witnessed an increase of about 7.3% and 0.7% in Q4 2020, compared with Q3 2020 and Q4 2019 respectively. It reached a value of 105.6 points (see Figure 1.7). The overall index represents the sum of two indicators: the first is an indicator for apartments (this reached 97.4 points, with a growth rate of about 0.4% and 0.7% respectively); and the second is an indicator for houses, including villas (this reached 111.2 points, with a growth rate of 11.9% and 0.7% respectively).

With regards to the overall year of 2020, the value of the index in Palestine reached about 104.7 points, up by 2.9% compared with 2019. The value of residential apartments' price index declined to 96.7 points, down by 1.2% compared with 2019, while house prices increased by 5.7%. The value of the index reached 110.0 points.

1.3 Commercial, Financial, and Service Sectors

Table 1.2 outlines economic activities in the commercial, financial, and service sectors within the Palestinian economy. The total value added of these sectors did not change in Q4 2020 compared with the previous quarter. However, it was 11.5% less than the corresponding quarter in 2019, reaching \$2,117 million (2015 base year). This is also reflected in annual data that show a decrease in the value added of these sectors by 10.2% in 2020 compared with 2019. It is clear from Table 1.2 that the unchanged value added of these activities, compared with the previous quarter, was the result of a recovery in some sectors such as public administration, real-estate activities, ICT, and administrative services. This was offset by a decrease in other activities such as trade, transportation, warehousing, arts/entertainment, and others.

1.4 Prices⁸

The Consumer Price Index (CPI) is the average price of a basket of basic goods and services that reflects the consumption patterns of a typical family in a country. This selected set of goods and services is called the "consumption basket". The inflation rate is the rise in the value of this index between two specific dates. It expresses the change in the purchasing power of income.

CPI Maximum Value

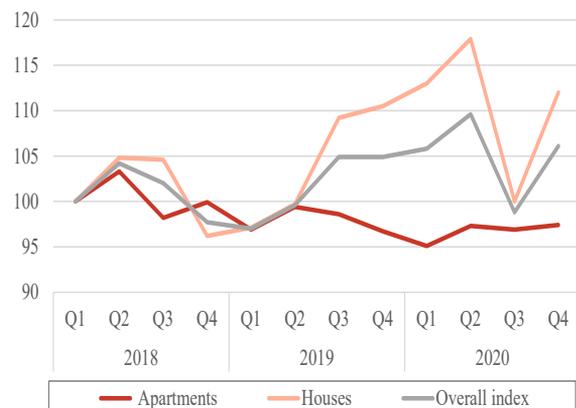
The figure below shows two curves. The first depicts movement in the CPI between Q1 2019 and Q4 2020. The second curve measures the percentage change in the CPI in each quarter

Figure 1.6: Building Licenses issued in Palestine and the Value Added of the Construction Sector (base year 2015) from Q1 2019 to Q4 2020



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

Figure 1.7: PMA's Index of Residential Real-Estate Prices in Palestine from Q1 2018 to Q4 2020



Source: PMA, 2021. Residential Real-Estate Price Index in Palestine.

Figure 1.8: Trends in CPI's Inflation Rate (base year 2018)



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

⁷ PCBS, 2020. Statistics on Building Licenses.

⁸ Source of figures for this section: PCBS, 2020. *Survey of Index Numbers, 2010-2020*.

Table 1.2: Quarterly Comparison of the Value Added of the Services' Sectors (\$ million) (base year 2015)

Economic Activity	Q4 2019	Q3 2020	Q4 2020	Percentage Change from Previous Quarter	Percentage Change from Corresponding Quarter
Wholesale/retail trade and repair of vehicles and motorcycles	856.3	725.3	678.2	-6.5%	-20.8%
Transportation and storage	69.2	59.5	52.4	-11.9%	-24.3%
Financial and insurance services	160.3	165	164.2	-0.5%	2.4%
Information and communications technology	123.6	118	122.4	3.7%	-1.0%
Accommodation and food services	61.1	28	27.4	-2.1%	-55.2%
Real estate and rental activities	181.4	115.9	123.9	6.9%	-31.7%
Professional, scientific and technical activities	45.6	34.5	32.7	-5.2%	-28.3%
Administrative and support services	23	21.4	22.6	5.6%	-1.7%
Education	232.4	235	226.9	-3.5%	-2.4%
Health services and social work	138	153.9	150.9	-2.0%	9.4%
Arts, entertainment, leisure and other services	86.6	52.3	46.5	-11.1%	-46.3%
Public administration and defense	414.6	409.1	468.9	14.6%	13.1%
Homecare services	2	2	2	0.00%	0.00%
Service Sectors	2,394.1	2,119.9	2,119.0	-0.0%	-11.5%

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

compared with the previous one, i.e. the inflation rate for every quarter. The figure shows that the inflation rate was positive in Q4 2020, following a negative rate in the four preceding quarters. That is, even before the pandemic, economic shocks had occurred (see Figure 1.8).

The value of the CPI in Q4 2020 reached 101.4 points, compared with 100.1 in Q3 2020. The inflation rate rose to 1.22%, compared with -0.2% in the previous quarter. The CPI decreased by 0.57% compared with the corresponding quarter of 2019.

At the annual level, in 2020 the CPI's value reached 100.83 points, compared with 101.58 points in 2019, meaning that the annual inflation rate was negative, amounting to -0.73%. This decrease during 2020 reflects a pandemic-related decrease in the consumption of textiles, clothing, and footwear (-3.3%); ICT services (-2.6%); food and beverages (-2.5%); and transportation and communications (-1.9%). However, this decline was offset, to some extent, by inflationary pressure due to higher prices for entertainment, sports, culture, parks, and veterinary services (3.5%); personal care and social protection (2.9%); and housing, water, electricity, and gas (0.6%).

The annual inflation rate was negative in the West Bank (-0.9%) and the Gaza Strip (-0.5%), but was positive in Jerusalem (0.7%).

Wholesale and Product Prices ⁹

The wholesale price index (the selling price to retailers) decreased by 1.6% between Q4 and Q3 2020 (see Figure 1.9). This resulted from a sharp decline in the wholesale prices of local commodities by about 3.9%, especially the price of commodities in the agricultural sector. At the annual

level, the wholesale price index decreased by 0.1% in 2020 compared with 2019. This occurred as a result of the decline in the wholesale prices of imported goods by 1.0%, compared to an increase in wholesale prices for local goods by 0.7%. As for the product price index (prices charged by local producers), it recorded an increase of 1.8% between the two successive quarters (Q3 and Q4 2020). This was the result of a sharp increase in the prices of agricultural products (7.4%), as well as water supply and sanitation services (3.7%). At the annual level, the product price index decreased by 4.5% in 2020 compared with 2019 due to a decline in product prices for both local (-4.7%) and exported goods (-2.9%).

Figure 1.9: Trends in Wholesale Price Index and Product Price Index (base year 2018)



Source: PCBS, 2020. Survey of Index Numbers, 2018-2020, and researchers' calculations.

⁹ PCBS, 2021. Prices and Indices, 2020.

The Real Economy

The purchasing power of the New Israeli Shekel (NIS): During Q4 2020, the CPI increased by 1.22% compared with the previous quarter, meaning that the purchasing power of the NIS decreased by the same amount during this period. The CPI decreased by 0.57% compared with the corresponding quarter of 2019, meaning that the purchasing power of the NIS increased by the same amount during this period (see Figure 1.10). At the annual level, CPI decreased by 0.73% in 2020 relative to 2019. This signifies an improvement in the purchasing power of individuals who received their wages/income in NIS currency by the same magnitude as the decline in prices. It should be noted that the trend in the purchasing power of the NIS is equivalent, and opposite, to the rate of change in consumer prices during the same period.

The purchasing power of the U.S. Dollar (USD) and the Jordanian Dinar (JOD): Q4 2020 witnessed a fall of 2.48% and 4.52% in the average exchange rate of the USD against the NIS compared with the previous and corresponding quarters, respectively. Accordingly, the purchasing power of individuals who received their wages in USD, while covering their expenditure in NIS, decreased by 3.70% and 3.95%, respectively, during the same comparison periods. Given that the JOD is pegged to the USD at a fixed exchange rate, the purchasing power of the dinar witnessed similar developments as the dollar.

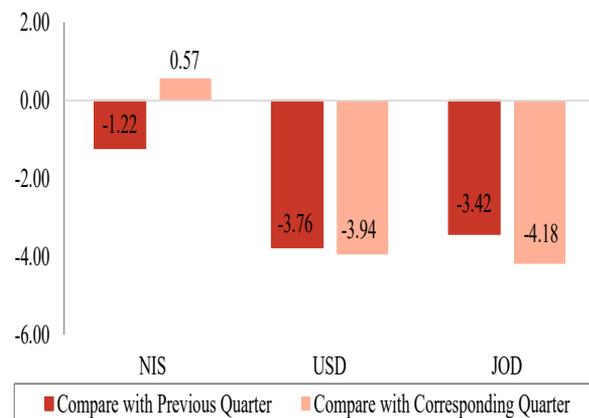
At the annual level, the value of the USD decreased by about 3.45% against the NIS. Accordingly, the purchasing power of individuals who received their wages in USD while covering their expenditure in NIS, decreased by 2.72% during 2020 compared with 2019. Similar developments can be observed among individuals who received their salaries in JOD, while covering their expenditure in NIS.

1.5 Services Infrastructure: Transport and Communications

The transportation and communications sector is a major driver of all economic sectors as it provides networks and physical assets on which the economy depends for the movement of people and the production and distribution of goods. Therefore, an economy needs high-quality infrastructure, able to meet the growth needs of different sectors. The importance of developed infrastructure is a fundamental component of this particular sector, given its impact on the quality of life and the efficiency of the business environment in general. The development of transport infrastructure, and the quality of its services, contribute to improving the competitiveness of a country, and promoting justice in economic and social opportunities. However, as is the case with all major components of our economy, the Occupation imposes its control over the transportation sector,

¹⁰ Purchasing power is defined as the ability to purchase goods and services using an individual's own wealth. It depends on the consumer's income, and on changes in prices and currency exchange rates. A change in purchasing power, assuming stable income = the rate of change in the exchange rate of a currency against the Shekel – the inflation rate.

Figure 1.10: Trends in the Purchasing Power of Different Currencies during Q4 2020 (%)



Source: Figures were calculated based on data sourced from PMA and PCBS.

controlling road networks and setting arbitrary policies and procedures that prevent Palestinians from developing this infrastructure outside city centers and villages. In addition to these obstacles, the Palestinian National Authority is unable to further develop this sector outside the scope of international aid projects. Land transportation has become the only effective mechanism in Palestine, and its condition is not ideal; it suffers from erosion, chaotic application, under-investment, and continuous attacks on this public right.

In this section of the Monitor, we review the most prominent indicators related to the infrastructure of the transport and communications sector to determine the developmental needs of this vital sector.

Economic Indicators

The transportation and communications sector in Palestine comprises 756 economic establishments, in addition to 10,979 vehicles. It directly employs about 17,400 individuals (see Figure 1.11). According to the latest, available, annual data, the transportation and storage sector contributes about 1.7% of the value of GDP. Public passenger vehicles belonging to individuals contributed about 48% of this value. ¹¹ This reflects the nature of the transport sector, which is characterized by a high degree of irregularity and depends, to a large extent, on individuals' enterprises.

Investment in transportation amounted to 2.1% of total investment in economic establishments operating in Palestine. The market value of institutions engaged in transportation constituted 1.1% of the total market value of these institutions. ¹² However, official indicators do not necessarily reflect the importance of the transportation sector, as they cover only economic establishments that operate directly in this sector. If we look at alternative indicators, we note that, on average,

¹¹ PCBS, 2020. *Palestinian Labor Force Survey: Annual Report 2019*.

¹² CBS, 2019. *Economic Survey Series, 2018*: <http://www.pcbs.gov.ps/Downloads/book2474.pdf>

a Palestinian family spends 14.2% of their monthly budget on transportation, while individuals aged 10 years and over spend about 53 minutes per day using different means of transportation. This reflects the pivotal role that this sector plays in the daily lives of Palestinians.¹³

The Road Network

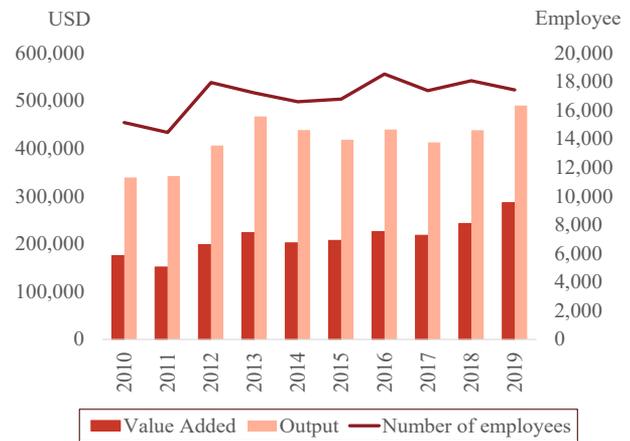
The road network in the West Bank extends over 3,922 km¹⁴, the vast majority of which are paved (88.2%). However, nearly half (48.0%) needs rehabilitation.¹⁵ The main roads - that is, roads that connect the main cities - constitute 19.5% of the total length of the paved road network, followed by regional roads at 33.5% (extensions of the main roads within cities), and local roads at 47.0% (roads within Palestinian population centers: their development and maintenance is supervised by local authorities). Although the Hebron governorate accounts for the largest part of the road network (21.6%), given its size in terms of area and population, there is a disparity between the governorates of the West Bank in terms of the shape and type of roads, as shown in Figure 1.12 below. This may reflect the nature of the geographical location of each governorate, the volume of vehicle traffic that passes through it, as well as the disparity in infrastructural investments.

Vehicles

There are about 269,500 licensed vehicles in the West Bank. 84.1% are private cars, followed by trucks and commercial vehicles (9.3%), and other types of vehicles, such as taxis (3.5%).¹⁶ This number includes 1,246 private buses and 1,055 public buses. This distribution illustrates the high level of dependence on private vehicles in light of the weakness of public transport routes: there are only 35 public buses per 100,000 inhabitants in the West Bank, compared with 638 buses per 100,000 inhabitants in South Africa, and 842 buses in Thailand.¹⁷ This structural imbalance negatively affects social justice in Palestine, placing more burdens on poor and less affluent families.

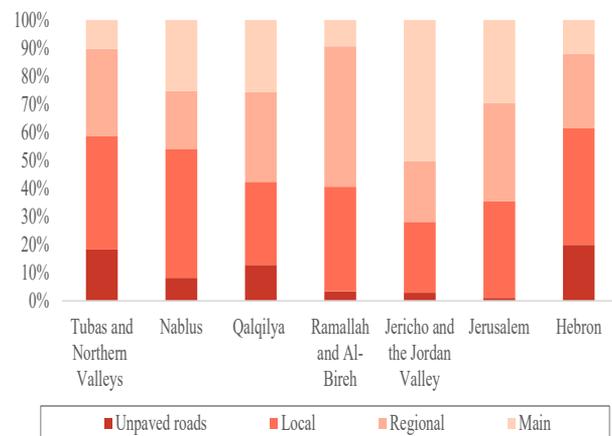
A large discrepancy can be observed in the distribution of vehicles across governorates. The Ramallah/Al-Bireh governorate accounts for the largest percentage of licensed vehicles (36.9%), followed by the Hebron governorate (17.2%), and the Nablus governorate (14.3%) (see Figure 1.13). It is worth noting that the majority of licensed

Figure 1.11: Most Prominent Indicators for the Transportation Sector in Palestine, 2010-19



Source: PCBS. Transport sector data within establishments.

Figure 1.12: Relative Distribution of the Length of the Road Network lengths in Selected Governorates in the West Bank, by Road Type (2019)



Source: PCBS. Transportation and Communications Statistics in Palestine, Annual Report 2019.

Figure 1.13: Number of Licensed Vehicles per 1,000 Inhabitants in West Bank Governorates (2019)



Source: Figures were calculated based on PCBS data.

13 PCBS, 2018. *Main Findings of Living Standards in Palestine (Expenditure, Consumption and Poverty) in 2017*: http://www.pcbs.gov.ps/Downloads/book2368.pdf?date=7_5_2018

PCBS, 2014. *Time-Use Survey 2012/2013: Final Results*: <http://www.pcbs.gov.ps/Downloads/book2068.pdf>

14 Updated information on the road network in the Gaza Strip is not available. According to the latest available statistics (2014), the length of the road network in the Strip was 297 km.

15 PCBS. *Transport and Communications Statistics in Palestine, Annual Report 2019*. The Ministry of Transport and Communications. *Annual Statistical Report, 2015*.

16 That is, 90.2 vehicles per 1,000 inhabitants in the West Bank, compared to 132 in South Africa, 243 in Thailand, 804 in the USA, 394 in Israel, and 123 in Jordan.

17 https://morth.nic.in/sites/default/files/srtucopy_compressed.pdf

vehicles are fairly new: 59.4% of them (appear) to have been produced after 2009. Data from the Ministry of Transport and Communications also indicates that 21.5% of all vehicles registered for the first time are mortgaged to banks.¹⁸

Transport Companies and Offices

There are four, private transport companies and five, tourist transport companies operating in the West Bank, in addition to 370 taxi companies and 86 public bus (transport) companies. There are 4,455 private travel licenses, 1,210 public transport licenses, 3,985 external service licenses, and 1,479 internal service licenses.¹⁹

The Impact of the Pandemic on the Transportation Sector

The COVID-19 pandemic intensified the challenges facing the transportation sector, given the restrictions put in place by the government to limit the spread of the virus. These restricted freedom of movement, impeding the ability of transport service-providers (companies and individuals) to engage in the transport of passengers and goods. It also reduced the availability of investment in transport infrastructure, due to the emergence of other, urgent priorities such as healthcare and social protection. As a result, transport revenues decreased significantly. Consequently, the income of workers in the transport sector decreased. Many lost their jobs, in addition to the closure of some transport facilities. Preliminary data issued by PCBS indicates a decline in the value added of the transport and storage sector by 13.4% in 2020, compared to 2019. A new PCBS survey noted that establishments operating in the transportation sector were closed for more than 46 days during the period May 3-May 31 2020. This, in turn, led to a decline in sales by about 60% compared to the normal situation.²⁰ The direct losses incurred by the transportation and communications sector as a result of closure are estimated at about \$4 million per week, in addition to \$7 million in indirect losses.²¹

18 Ministry of Transport and Communications, 2020. *Annual Statistical Report 2019*.

19 Ministry of Transport and Communications, 2020. *Annual Statistical Report 2019*.

20 PCBS, 2020. *The main results of the survey on the impact of the Corona pandemic on economic institutions during the period 3 May-31 May 2020*. http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_Ar_20-4-2021-cov-ar.pdf

21 http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_Ar_23-6-2020-trans.pdf

In Focus: The Impact of the COVID-19 Pandemic on Health and the Economy

Recently, the Palestine Economic Policy Research Institute (MAS) released a study on the health and economic damage caused by the COVID-19 pandemic in Palestine. The study also outlines various policies that can be adopted to reduce the damage caused by the pandemic. The study arrived at two main results: the first is that, when taking into account the trade-off imposed on the decision-maker between healthcare and economic priorities, it is more useful to focus on pandemic hotspots, rather than comprehensive closure. The second is that the correct solution to the trade-off dilemma is to speed up the vaccination process for the largest possible number of citizens. In this section, we present a summary of the study.²²

Methodology

The study utilized dynamic, stochastic, general equilibrium modeling (DSGE). The significance of this model is that it takes into account disparities in the impact of the pandemic on individuals, according to their demographic characteristics (age and gender), and their health status (the elderly and people with health problems are classified as the most vulnerable groups). Therefore, the study classifies individuals into eight groups, according to these characteristics. The study mainly relies on data issued by the Palestinian Ministry of Health on²³ and national accounts statistics issued by PCBS. Due to the lack of detailed, health-sector data on the Gaza Strip, the study was limited to studying the impact of the pandemic on the West Bank. The study's main objective is to examine the health and economic impacts of the pandemic using a number of epidemiological and policy scenarios:

- First scenario: A general epidemiological shock,²⁴ which is a shock resulting from an epidemic that threatens the health of the entire population in equal measure, meaning that all population groups are equally at risk of contracting the virus, regardless of their demographic characteristics and health status.
- Second scenario: Based on the assumption that all population groups are equally exposed to the risk posed by the epidemic, this scenario assumes the presence of government intervention (immediate political response). This involves increasing public investment in the health sector in order to support this sector's capabilities in facing the spread of the epidemic (increasing the share of direct spending on health in the public budget).
- Third scenario: The COVID-19 pandemic has a different impact on various population groups, varying according to their demographic characteristics and health status.

This scenario does not assume political intervention by
22 http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_Ar_23-6-2020-trans.pdf

23 Data was collected during the period March-August 2020 covering the following variables: the number of cases infected with the virus, the number of cases of recovery from the virus, and the number of deaths resulting from infection with the virus.

24 Epidemic shock is a function of various epidemic indicators such as infection rate, treatment rate, mortality rate, and testing rate.

the government (herd immunity).

- Fourth scenario: The same scenario as above is accompanied by a policy response on the part of the government, characterized by an increase in public spending on healthcare, in order to enhance the health system's capabilities in confronting the spread of the pandemic.
- Fifth scenario: It assumes that the vaccine is available in required quantities and that it can be distributed to the entire population at no cost.
- Sixth scenario: It assumes a partial distribution of the vaccine, giving priority in distribution to the elderly and people with chronic health problems.
- Seventh scenario: This is the closure scenario. This scenario assumes that the government will implement a partial closure, similar to the closure that took place during April-June 2020.

The second and fourth scenarios represent those that include a political response to confronting the pandemic, while the fifth and sixth scenarios are essentially preventive in terms of confronting the pandemic. After simulating the model for these seven scenarios, the study monitored and compared their impact on a set of indicators at the micro level (at the level of individuals): labor supply, health capital,²⁵ and health expenditure; as well as a set of indicators at the macro level: government expenditure on the health sector, government expenditure on other sectors, and GDP.

Results and Recommendations

The study arrived at important results and findings that can provide solid, scientific support when formulating policy recommendations to respond to the pandemic, whether it be public health policies or economic policies. These results and recommendations are summarized below.

First: When simulating the model for both the first and third scenarios, the results show that the epidemiological effects of the COVID-19 pandemic are somewhat similar to the effects of a general epidemiological shock. The results show that the most vulnerable groups are the elderly, people with health problems and adult women. The results also show that direct household spending on health increased significantly as a result of the general pandemic, which in turn, exacerbates the difficult conditions of poor and marginalized families. Therefore, greater emphasis must be placed on sensitizing different demographic and social groups to the unequal impact of the pandemic, especially the double burden suffered by the most vulnerable population groups. The health capital of the groups that are most at-risk decreased by 11.8% in the first scenario, and by 11.1% in the third scenario. Moreover, the health capital of the groups that are least exposed to risks witnessed a decrease of 7% in the first scenario, and by 3.2% in the third scenario. The results also show that the economic effects of each of the first and third scenarios are somewhat similar: GDP decreased by 3.4% in the first scenario, compared to a decrease of 3.2% in the third scenario. Meanwhile, government spending on health

²⁵ Health capital is a measure of the satisfaction of an individual or population with public health.

increased by 36.2% in the first scenario, compared to a rise of 33.2% in the third scenario. This can be explained by the fact that both scenarios have similar effects on employment. Second: The results of the simulation of the fourth scenario (policy response) to confront the COVID-19 pandemic shows that increasing government spending on the health sector will reduce the negative effects of the pandemic on the health of the population, especially the groups that are most at-risk (the elderly, people with diseases, adult women). The results show that the additional burden of direct health expenditures on families is less in the fourth scenario, compared to the third scenario (no policy intervention): household expenditure on healthcare increased by 110.8% in the fourth scenario, compared to 141.6% in the third scenario. These results illustrate the importance of policy interventions directed at supporting the health sector through increased government spending. This, in turn, requires reallocating government resources in favor of the health sector, rather than adopting a general, expansionary fiscal policy that does not target supporting a specific sector. This approach coincides with a major obstacle: the Palestinian government's limited ability to increase government spending, given its inability to increase public revenues in a manner that matches the required increase in public spending. From another perspective, the reallocation of government resources may not be sufficient for the economy to recover from the devastating effects of the pandemic. This observation highlights the importance of adopting a comprehensive policy response, as opposed to a policy targeting a particular sector per se. However, as we mentioned earlier, it mainly depends on the government's ability to increase its budget such that it can confront the pandemic and its consequences, in order to protect the most-affected groups, and support economic activities that have been more affected than others.

Third: In light of the wide spread of COVID-19 at the end of 2020 (the time at which this study was prepared) and the high number of daily infections, as well as deaths resulting from infection, the Palestinian government adopted comprehensive closure measures to confront the pandemic. The study took this into account in analyzing the seventh scenario. When simulating the model for this scenario (the closure scenario) and comparing its results with the third scenario (taking no action), the results show that the scenario of imposing closure appears to be more beneficial than taking no action. The results also show that GDP decreased by 2% in the closure scenario, compared to a decrease of 3% in the no-action scenario. This is mainly due to a decrease in the labor supply in the closure scenario, which outweighs the decrease in the labor supply in the no-action scenario. Although imposing closure for long periods limits the spread of the virus, it also has serious consequences for the economy. Therefore, the option of imposing closure does not appear to be a viable policy option. This, in turn, calls for searching for more reasonable, alternative measures in balancing the health of citizens and reducing economic losses through the adoption of less stringent measures. In this regard, the study recommends using data on the number of daily/new cases recorded in order to identify, map, and isolate infection 'hotspots', rather than impose comprehensive closure.

Fourth: The results indicate that it is preferable to shape a policy response to support the health sector (the fourth scenario), over imposing comprehensive closure (the seventh scenario). The results show that there is no difference between a policy response targeting the health sector, and closure, in terms of the comprehensive, preventive impact on the health of individuals (total decline in health capital by about 5.6% under the policy response scenario, compared to a decline of 4.2% under the imposition of comprehensive closure). However, imposing closure will protect the most vulnerable groups in particular (health capital declined by 6.3% under the closure scenario compared to 8.3% under the policy response scenario). This result highlights the importance of taking into account the disparity in impact resulting from the implementation of these preventive measures on different social and economic groups within the population. Although the pandemic does not distinguish between rich and poor, the consequences can vary greatly, especially for unprotected, low-income groups.

Fifth: When simulating the model for the closure scenario, the results show that closure is accompanied by a small increase in government spending on the health sector (3.4%), compared to a 23.5% decrease in government spending on other sectors. This result indicates that imposing a comprehensive closure would reduce government expenditures necessary for confronting the pandemic. However, comprehensive closure

limits the possibility of the pandemic spreading more widely, and thus, it spares the government even greater expenses in confronting the pandemic.

Sixth: The results of the simulation of preventive scenarios illustrate the positive effects of vaccine distribution on partial and total indicators, as shown in Table 1. The results also illustrate the positive health and economic effects of the vaccine on the most at-risk groups (the elderly, people with health problems, and adult women). These findings confirm the value and vital role of a vaccine in providing effective and safe prevention against COVID-19. Undoubtedly, the provision of a vaccine will put an end to the debate on the part of the policymakers about giving priority to setting policies that save lives, or prioritizing policies to save the economy.

In light of the current situation of the pandemic in the country and its reclassification from medium to high risk, while taking into account the availability of resources, achieving a balance between healthcare and the economy seems unlikely in the absence of effective plans that depend on the speed and efficiency of obtaining and distributing the vaccine. Thus, until the vaccine becomes fully available, the most appropriate policy is one that targets infection hotspots, rather than the entire population indiscriminately.

Table 1: The Economic and Epidemiological Effects of the COVID-19 Pandemic on Micro and Macro Indicators, in Light of the Full and Partial Distribution of the Vaccine

Indicator	Full Vaccine Distribution	Partial Vaccine Distribution
Micro Indicators		
Labor supply	5.4	1.5
Health capital	2.7	0.8
Direct household spending on healthcare	-18.8	-4.0
Macro Indicators		
Government expenditure on healthcare	-1.0	-0.4
Government expenditure on other sectors	16.1	4.6
GDP	1.3	0.4

2- Labor Market

The state of the Palestinian labor market continues to reflect the effects of the coronavirus pandemic and its related containment measures which reduced the volume of economic activity across most sectors. However, it stimulated economic activity in a few sectors that directly contributed to combating the pandemic and to securing basic necessities.

Labor Market Statistics

In 2020, the population of Palestine reached about 5.1 million people, while manpower totaled 3.1 million people.¹ The size of the labor force amounted to about 1.3 million people², representing a decrease of about 5% (66,000 people) compared with 2019. This decrease in the size of the labor force was the result of restrictive measures on work and movement initiated by the Palestinian government. These measures were enforced starting from March 2020 in order to confront the coronavirus pandemic and to contain its spread. This decrease was negatively reflected in labor force participation rates (the ratio of the labor force to manpower) in 2020, which amounted to about 41% in that year, a decrease of 3% from 2019. Figure 2.1 outlines the exact figures for population, manpower, and labor force in 2020.

Quarterly Trends in the Distribution of Workers

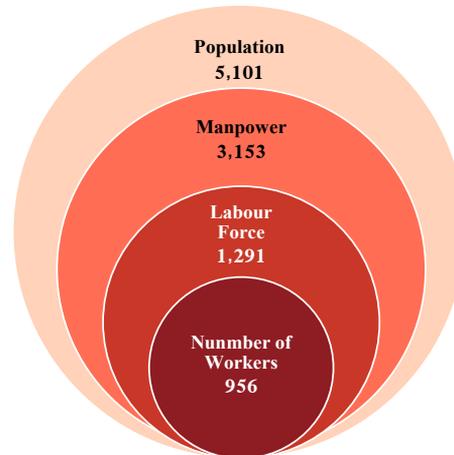
The number of workers in Palestine witnessed an increase of about 6% (about 60,000 workers) between Q3 and Q4 2020. This increase was mainly due to the increase in the number of workers in the local market by 53,000 workers (7%), and by 7,200 (5%) in Israel and the settlements.

In Q4 2020, the distribution of workers by geographic location stood at 63% in the West Bank, 22% in the Gaza Strip, and 15% in Israel and the settlements (about 142,000 workers, 21% of whom do not have work permits). As for the distribution of workers by employment sector in Q4 2020, it was as follows: 21% in the public sector, 62% in the private sector, and about 17% in other sectors.³ Workers in the West Bank were concentrated in the private sector at 64% of the total workforce (54% in the Gaza Strip), compared to 15% in the public sector (39% in the Gaza Strip). (See Figure 2.2).
Figure 2.2: Relative Distribution of Workers by Location of Work and by Sector in Q4 2020 (%)

With regards to economic activity, the number of workers in the local market witnessed an increase across all economic activities during Q4 2020 compared with the previous quarter, with the exception of trade, restaurants, and hotels. The number of workers in the transport, storage and communications sectors increased by 24%. In the industry, construction, and building sectors, the number of workers increased by 16% within each sub-sector. Moreover, the

- 1 Manpower, as defined by the Palestinian Central Bureau of Statistics (PCBS), includes all individuals over the age of 15 years.
- 2 The labor force is the sum of the number of employed and unemployed looking for work.
- 3 Other sectors include civil-society and non-profit organizations.

Figure 2.1: Population, Manpower, and Labor Force in Palestine in 2020 (1,000 individuals)



number of workers increased in both the agricultural and services sectors by 7% and 4%, respectively. Finally, the number of workers in trade, hotels, and restaurants decreased by 3%.

Table 2.1 shows that there is a discrepancy in the relative distribution of workers across different sectors in the West Bank and Gaza Strip. The employment rate in industry and quarries increased in the West Bank (15% in the West Bank compared with 8% in the Gaza Strip), complemented by an increase in the employment rate in the services sector in the Gaza Strip (55% in the Gaza Strip compared with 36% in the West Bank). The figures also reveal a significant decrease in the percentage of construction workers in the Gaza Strip (only 4%). This is due to the severe blockade imposed by Israel on the entry of construction materials into the Gaza Strip (see the figure on restrictions imposed by the Israeli occupation on the import of dual-use materials in Issue #57 of the Quarterly Economic Monitor).

As for the distribution of workers according to their employment status, we note a significant increase in the number of salaried workers, by 74,000 (or 11%) from Q3 to Q4 2020. The number of workers who are unpaid, family members decreased by 8% from Q3 to Q4 2020 (from 38,000 to 35,000 workers). The number of self-employed workers (employers and self-employed) also witnessed a decrease of 5% (by 11,000 workers) during the same period.

Annual Trends in the Distribution of Workers

The coronavirus pandemic significantly affected the number of Palestinian workers during 2020 (956,000 workers), as their number decreased by 5% compared with 2019 (1,013,000 workers). The decrease in employment was distributed across 47,000 workers in the local market (a decrease of 2% in the West Bank and 13% in the Gaza Strip), and 8,000 workers in Israel and the settlements.

Table 2.1: Relative Distribution of Workers in Palestine by Geographic Location and Economic Sector in Q4 2020 (%)

Economic Sector	West Bank		Gaza Strip		Israel and Settlements		Palestine (excluding Israel and settlements)	
	Q3 2020	Q4 2020	Q3 2020	Q4 2020	Q3 2020	Q4 2020	Q3 2020	Q4 2020
Agriculture, hunting and forestry	7	6	4	8	5	7	6	6
Quarries and manufacturing industries	15	15	5	8	14	16	12	13
Building and construction	14	14	3	4	57	59	11	12
Trade, restaurants and hotels	24	23	21	17	15	11	23	21
Transportation, storage and communications	6	6	8	8	2	2	6	7
Services and other sectors	34	36	59	55	7	5	42	41
Total:	100	100	100	100	100	100	100	100

As for the employment status of workers, in 2020 the number of salaried workers decreased by 32,000 workers (by 8%) compared with 2019. The number of self-employed workers (employers and self-employed) decreased by 23,000 workers (by 10%) during the same period. In general, the decrease in the number of self-employed workers, especially among youth, clearly indicates the extent of the impact of the coronavirus pandemic on the investment environment, on small- and micro-enterprises, and on entrepreneurial activities, especially those managed by youth.

Quarterly Trends in Unemployment in Palestine

During Q4 2020, the unemployment rate in Palestine witnessed a remarkable decrease of 4.9% compared with Q3 2020, reaching 23.4% (see Table 2.2). This decrease in the unemployment rate was the result of an increase in the number of workers, by 60,000, between the two successive quarters. The labor force participation rate remained stable during Q4, 2020 relative to the previous quarter, amounting to about 41%. It should be noted that there is some variation

in unemployment rates between the West Bank and Gaza Strip; unemployment decreased by 3.6% in the West Bank and by 5.5% in the Gaza Strip (see Table 2.2).

Annual Trends in Unemployment in Palestine

In 2020, the unemployment rate in Palestine witnessed a slight increase of 0.6% compared with 2019, reaching 25.9% (see Table 2.2). This slight rise in the unemployment rate (despite the impact of the coronavirus pandemic on the entire economy during 2020) contradicts the majority of local and international figures and forecasts issued by official authorities and research centers. This discrepancy can be accounted for by the significant decrease in the labor force participation rate in Palestine (41% in 2020 compared to 44% in 2019). That is, a large number of those who lost their jobs during the pandemic exited the labor market, either because of restrictions on movement associated with the closure imposed by the Palestinian government to limit the spread of the virus, or because some of them (especially new graduates and youth) felt that it was not worth looking for job

Table 2.2: Unemployment Rate among Individuals Participating in the Labor Force in Palestine by Region and Gender (%)

Region/Gender		Q4 2019	Q3 2020	Q4 2020	2019	2020
West Bank	Male	10.6	15.8	12.0	12.1	13.0
	Female	25.9	30.8	27.4	25.8	27.2
	Total	13.3	18.5	14.9	14.6	15.7
Gaza Strip	Male	39.0	44.4	39.0	39.6	42.1
	Female	66.4	65.0	60.4	63.7	63.6
	Total	45.1	48.6	43.1	45.1	46.6
Palestine	Male	20.3	25.0	20.1	21.4	22.4
	Female	42.3	43.0	37.4	41.2	40.3
	Total	24.6	28.3	23.4	25.3	25.9

Note: Tabulated numbers are based on the new definition of unemployment, as adopted by PCBS in association with the International Labor Organization (ILO). The new, narrow definition states that unemployment includes only those individuals who did not work during the reference period, but who actively searched for work, and were willing and able to work. Accordingly, those who gave up on looking for work (those who did not seek work during the reference period) are excluded from the unemployment calculation.

opportunities, given the closure of most economic facilities. Below are the most prominent characteristics of unemployment in Palestine in 2020:

- 1) Unemployment was concentrated, in particular, among youth. The unemployment rate for those in the age group 15-24 years was about 42.1%, reaching 32.4% among the age group 25-34 years.⁴ This also indicates that a large proportion of the unemployed are new entrants to the labor market.⁵
- 2) The unemployment rate for females is greater than for males. This is due to the limited number of economic sectors open to female employment compared with males. Female employment in Palestine is concentrated in the services sector, at a rate of 73.6%.⁶
- 3) Unemployment in Palestine decreases with the increase in educational attainment for males, but not females. The unemployment rate for males with a primary education reached 24.5%, compared to about 19.6% for males with an intermediate diploma or higher. However, the unemployment rate for females with a primary education reached about 19.6%. About 5.2% of women have completed primary education only, compared to about 45.6% of women who hold an intermediate diploma or higher. This is mainly due to the significant increase in the rate of labor force participation of educated females compared to males (see Box No. 1 in Issue #53 of the Monitor, which shows that the high unemployment rate of educated females compared to non-educated ones is not due to their education, but rather, due to the significant increase in their participation rates in the labor market).

Quarterly Trends in Wages

The average daily wage for all workers increased by NIS 1.9 from Q3 2020 (NIS 137.1 per day) to Q4 2020 (NIS 139.0 per day). This increase was the result of a rise in the average daily wage of workers in Israel and the settlements by NIS 6.6, and the average daily wage in the Gaza Strip by NIS 6.1. Meanwhile, the average daily wage of workers in the West Bank increased by NIS 2.3.

Annual Trends in Wages

The average daily wage increased by NIS 4.1 in 2020 compared with 2019, reaching NIS 132.7. This increase was the result of a growth in the average wage of workers in the West Bank by NIS 2.7, by NIS 0.1 in the Gaza Strip, and by NIS 4.1 in Israel and the settlements. The median wage in Palestine increased from NIS 103.8 to NIS 115.4 between the two years. The average wage in Palestine during 2020 hides large discrepancies between the average wage of workers in the West Bank and the Gaza Strip, and between the average wage of workers in the West Bank/Gaza Strip and those in Israel and the settlements.

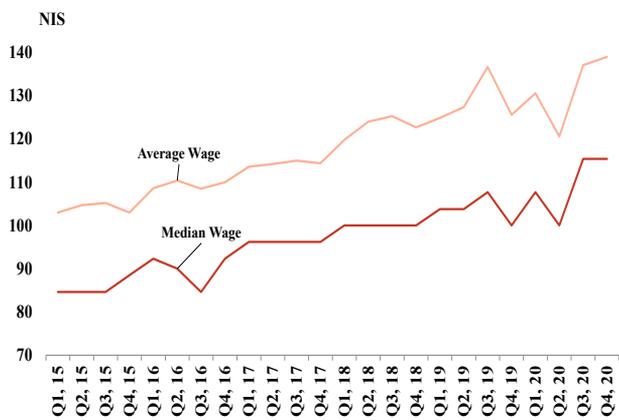
4 For more information on youth unemployment, see the Fund's "Survey of Youth Transition from Education to the Labor Market". Issue #47.
 5 Ibid.
 6 For more information, see "Females in the Palestinian Labor Market: Why is their Participation Rate Low and Unemployment High?" Issue #51.

Figure 2.2 Average and Median Daily Wage for Workers with Declared Wages (NIS)



Source: PCBS 2020, Labor Force Survey, Ramallah, Palestine.

Table 2.3: Average and Median Daily Wages of Workers with Declared Wages in Palestine (NIS, 2019-20)



Source: PCBS 2020, Labor Force Survey, Ramallah, Palestine.

Table 2.3: Average and Median Daily Wage for Workers with Declared Wages (NIS, Q4 2020)

Location of Work	Average Daily Wage	Median Daily Wage
West Bank	123.5	115.4
Gaza Strip	65.6	46.2
Israel and settlements	260.8	250.0
Total	139.0	115.4

Source: PCBS 2020, Labor Force Survey, Ramallah, Palestine

The data in Table 2.4 indicates that the average daily wage of workers in Israel and the settlements (NIS 258.5) is more than double the average wage of workers in the West Bank (NIS 121.9), and four times the wages of workers in the Gaza Strip (NIS 61.4). In the Gaza Strip, the average wage is about half the prevailing level in the West Bank. This gap widens even more when the median wage is taken into account, instead of the average wage (see Table 2.4).

Minimum Wage from Q3 to Q4 2020

The minimum monthly wage in Palestine is about NIS 1,450. PCBS figures for Q4 2020 indicate that 24% of workers in Palestine receive a monthly wage less than the minimum wage (23.3% among females, 26.7% among males). The average wage for those receiving less than the minimum wage was NIS 750. The percentage of those who earned a monthly wage less than the minimum wage in Q3 2020 was about 26.2%, with an average wage of NIS 747.

Minimum Wage from 2019 to 2020

The percentage of salaried employees who received less than the minimum wage decreased from about 30% at the end of 2019 to about 28% at the end of 2020. The average monthly wage that they received was about NIS 741 in 2020 compared with NIS 753 in 2019.

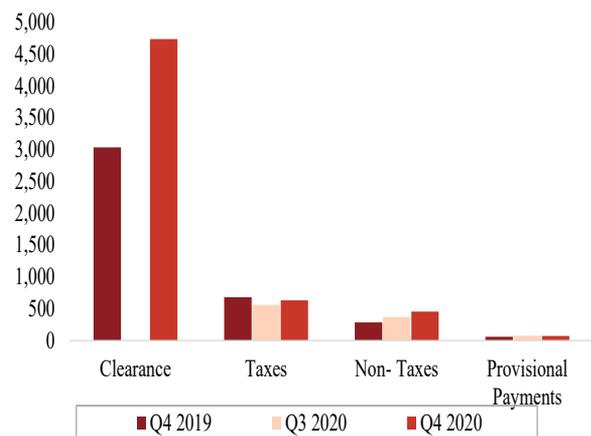
3. Public Finance¹

During Q4 2020, the Palestinian economy was still suffering from the negative impacts of the coronavirus. By the end of Q4, Israel resumed the payment of clearance revenues, which enabled the PNA to pay wage bills during this quarter as well as salaries that had not been paid during the previous months. The following section presents recent developments on public revenues, expenditures, and budget during the quarter, compared with Q3 2020 and the corresponding quarter 2019.

Public Revenues

Quarter 4: During Q4 2020, the PNA received around NIS 4.7 billion in clearance revenues from the Israeli government, while it did not receive any such revenues during the previous quarter. It should be noted that clearance revenues constitute approximately two-thirds of public revenues. During Q4, domestic revenues increased by 15% and 13% compared to the previous and corresponding quarters, respectively, reaching about NIS 1.2 billion. This rise is attributed to the easing of coronavirus-related restrictions during the quarter and the implementation of partial rather than complete lockdowns, which allowed partial resumption of economic activities (Figure 3-1). On the other hand, foreign grants and aid continued to decrease during Q4 compared to the previous and corresponding quarters--by 27% and 29%, respectively--to reach about NIS 0.3 billion (Table 3-2).

Figure 3-1: Structure of Public Revenues (NIS millions)



In sum, during Q4 2020 the value of net public revenues and grants increased fivefold in the previous quarter to reach NIS 6.1bn, compared with NIS 1.3bn in the previous quarter and NIS 4.3bn in the corresponding quarter.² These revenues constituted about 92% of actual public spending, compared with 51% and 89% in the previous and corresponding quarters, respectively. However, this figure reached 98% of

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

² It should be noted that tax refunds amounted to about NIS 51.3m during Q4 compared with NIS 62.2m in the previous quarter and NIS 192m in the corresponding quarter.

Table 3-1: Grants and Foreign Aid to the PA (NIS millions)

Item	2019				2020		2021	
	Q1*	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Budget support	598.4	368.1	517.5	292.4	246.1	544.3	278	151
Arab grants	396.3	94	278.7	107.3	111.1	21.3	0	0
Other Countries	202.1	274.1	238.8	185.1	135	523	278	151
Development funding*	-352.7	99.5	107.7	114.7	38.6	153.3	121	138
Total	245.7	467.6	625.2	407.1	284.7	697.6	398.9	289.5

* During Q1 (2019), a sum of NIS 448.1 million was refunded to the US consulate to close an old US grant. This reflected a drop of NIS 352.7 million in the value of developmental project grants.

public expenditures due during the quarter (commitment-basis) compared with 33% in the previous quarter.

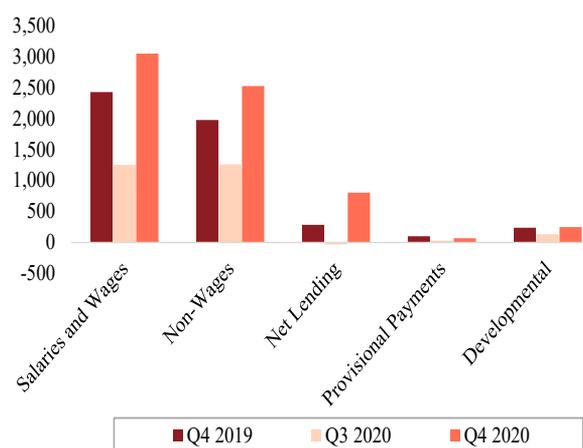
Year-on-Year Comparison: During 2020, net public revenues and grants remained at the same level as the previous year (with a slight increase of 1%), standing at NIS 13.6bn. Clearance revenues increased by 2% compared with the previous year, reaching NIS 8bn against a drop in domestic revenues of 5% compared with the previous year, reaching NIS 4.1bn. This resulted from tax revenues dropping by 8%, to reach NIS 2.5bn, whereas non-tax revenues stayed at the same level of the previous year (a slight drop of 0.1%), to reach NIS 1.3bn with allocated payments standing at NIS 0.3 bn. Grants and foreign aid on an annual basis dropped by 4% compared with the previous year, to reach around NIS 1.7bn.

Public expenditure

Quarter 4: Compared to the previous quarter, actual public expenditures tripled during Q4, increasing by 33% compared to the corresponding quarter to reach NIS 6.7bn. Actual spending on wages and salaries increased by 143% and 26% during the period under comparison, to reach NIS 3bn. Non-wage expenditures also increased by 101% and 28% compared to the previous and corresponding quarters, reaching about NIS 2.5bn. Actual development spending increased by 87% and 5% during Q4 compared with the previous and corresponding quarters, reaching NIS 248.6m. Net lending increased significantly during the quarter, reaching NIS 0.8bn (Figure 3-2). Notably, the increase in spending during Q4 2020 resulted from receiving clearance revenues and paying full salaries and wages of public sector employees for this period. In addition, the government paid off arrears that had been accumulated while clearance revenues were being withheld in 2020.

Year-on-year Comparison: During 2020, actual public expenditures remained unchanged (with a slight increase of 1%) to reach NIS 13.9bn, constituting 80% of expenditure on commitment basis. The wage and salary bill increased by 7% reaching NIS 6.4bn, while net lending increased by 3% up to NIS 1.2bn. On the other hand, non-wage expenditures decreased by 1% to reach NIS 5.6bn, with development spending dropping by 20% to stand at NIS 0.6bn.

Figure 3-2: Structure of Public Expenditure (NIS millions)



PUBLIC BUDGET

Financial Surplus/Deficit

Quarter 4: 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, before grants and aid money. After grants and foreign aid, the deficit turned into a surplus of NIS 557.2m (cash-basis) that made up about 4.2% of GDP. In terms of commitments, the total balance deficit, before grants and aid, reached about NIS 3.1bn (22.9% of GDP). Grants and aid contributed to the reduction of this deficit to about NIS 2.8bn (about 20.8% of GDP) during the same period³ (Figure 3-3 and Table 3-2).

Table 3-2: Budget Deficit (Cash-Basis and Commitment-Basis) in Q4 2020 and 2020 (NIS millions)

Item	2020		2021	
	Q1	Q2	Q3	Q4
Budget support	246.1	544.3	278	151
Arab grants	111.1	21.3	0	0
Other Countries	135	523	278	151
Development funding*	38.6	153.3	121	138
Total	284.7	697.6	398.9	289.5

Figures between brackets indicate a negative value

³ Note that GDP data is preliminary and subject to revision and amendment.

Year-on-Year Comparison: During 2020, the total deficit in the balance, discounting grants and aid, was NIS 331.4m (or 0.7% of nominal GDP), compared with NIS 289m in 2019 (or 0.5% of nominal GDP). On a commitment basis, the total deficit was NIS 3.9bn (or 7.6% of nominal GDP), compared with NIS 2.7bn during the same comparison period (or around 5.3% of nominal GDP) (Table 3-3).

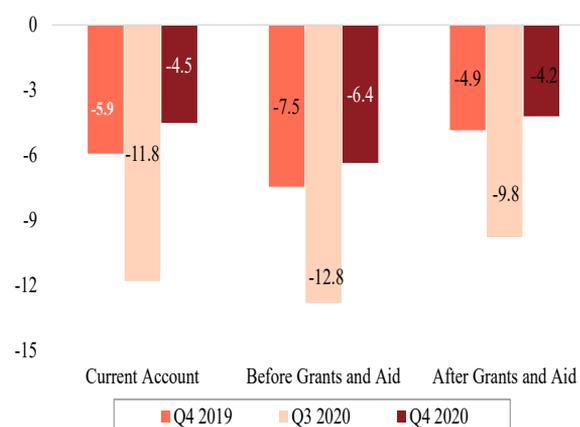
Government Arrears

Quarter 4: During Q4, the PNA managed to pay NIS 1.2bn in wages and salaries arrears, but was unable to pay around NIS 0.7bn in non-wage expenditures. Arrears of development expenditures amounted to about NIS 134.1m, while arrears of tax returns amounted to about NIS 63.8m. Thus, the net value of arrears that the government accumulated during 2020 reached NIS 1.2bn (Table 3-3).

Total public debt

At the end of Q4 2020, governmental debt (denominated in dollars) increased by 5.5% compared with the previous quarter, whereas it increased by 30.6% compared with the corresponding quarter (on an annual basis). It reached about USD 3.6bn (equivalent to NIS 11.7bn), or 23.5% of nominal GDP. This increase can be attributed to an increase of 7.8%

Figure 3-3: Government's Financial Balance (Cash-Basis) as % to Nominal GDP



in domestic government debt compared with the previous quarter, and of 47.4% compared with the corresponding quarter, to reach USD 2.3bn. Additionally, external government debts rose by 1.7% and 8.8% during the period under comparison, standing at USD 1.3bn. Paid debt service reached NIS 45.2m during the quarter, NIS 38.5m of which was interest paid on domestic debt, while NIS 6.7m were paid on external debt (Table 3-4).¹

Table 3-3: the PA's Accumulated Arrears (NIS millions)

	2019							
	Tax refunds	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Tax refunds	38.5	17.6	19.6	57.3	30.9	(4.3)	13.7	63.8
Wages and Salaries	359.9	593.6	409.6	(689.8)	155	1085.8	485.2	(1 208.5)
Non-wage Expenditures	333.4	556.7	492.7	490.2	209	801	825.1	667.4
Development Expenditures	105.0	130.8	122.9	144.4	72.5	61.7	111.9	134.1
Provisional Payments	75.1	27.6	9.9	(45.6)	97.2	8.1	47.1	1.4
Total arrears	911.9	1326.3	1054.7	(43.5)	564.6	1952.3	1483	(341.8)
Arrears for goods, services and expenses for previous years	257.9	223.2	422.0	608.8	239.7	246.7	344.2	731.9
Net arrears	654.0	1103.1	632.7	(652.3)	324.9	1705.6	1138.9	(1073.3)

Figures between brackets indicate a negative value

Table 3-4: Palestinian Government Public Debt (NIS millions)

	2019				2020			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Domestic debt	1284.7	1577.0	1780.4	1577.1	1597.3	1786.9	2157.3	2324.7
Banks	1270.7	1562.8	1765.9	1562.5	1583.1	1772.2	2099.1	2262.3
Public institutions	14.0	14.2	14.5	14.6	14.2	14.7	58.2	62.4
External debt	1030.5	1060.1	1134.4	1217.9	1289.0	1294.1	1302.8	1324.7
Total public debt	2315.2	2637.1	2914.8	2795.0	2886.3	3081.0	3460.1	3649.4
Public debt as % to nominal GDP	13.9%	15.7%	17.3%	16.3%	17%	21.4%	21.7%	23.5%

¹ Note that percentages differ slightly when calculating the figures in shekel, due to the effect of the shekel's exchange rate against the dollar; by the end of 2020 this had dropped significantly, to NIS 3.216, compared to NIS 3.457 at the end of the previous year.

4- The Non-banking Financial Sector

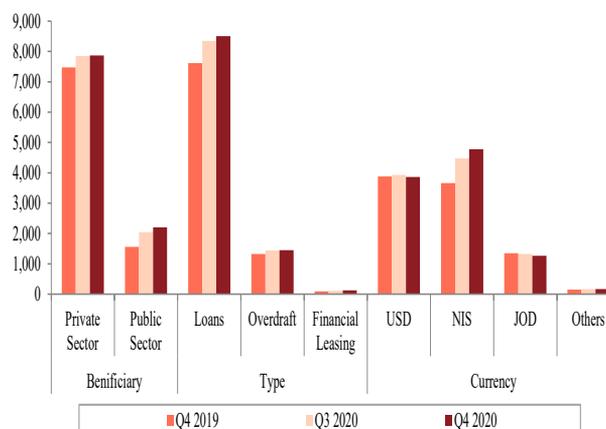
4-1 Banking Sector:¹

There are 13 banks operating in Palestine, 7 of which are local, operating through 379 branches and offices. The total number of deposit accounts is 3.8 million, of which 68% are held by local banks. By the end of Q4 2020, net assets/liabilities of the banking sector increased by 7% and 11% compared with the previous and corresponding quarters, reaching USD 19.9bn (Table 4-1). This growth is ascribed mainly to increase in credit facilities and balances at PMA and banks outside Palestine. Additionally, the changes in the exchange rates were reflected by growth in most of the banks' consolidated budget items, as the NIS/USD exchange rate dropped by the end of Q4 2020 to 3.216 compared to 3.445 and 3.457 at the end of Q3 and the corresponding quarter of 2019 respectively. It is worth noting that about 40% of total bank assets and 43% of liabilities are in shekel.

Credit Facilities

The value of credit facilities at the end of Q4 2020 increased by 2% and 12% compared with the previous quarter and the corresponding quarter of 2019 respectively, reaching around USD 10.1bn. This increase came as a result of the growth of credit facilities granted to the public sector by 8%, reaching about USD 2.2bn, and a modest increase in facilities granted to the private sector by 0.2%, reaching about USD 7.8bn, including the increase resulting from the change in the exchange rate. Thus, the ratio of credit facilities to GDP, at current prices, increased to 65% against a drop in their ratio to public deposits to about 67% compared with about 70% in the previous quarter and 68% in the corresponding quarter of 2019. By region, the West Bank had the biggest share of total credit facilities - 91% compared with only 9% for the Gaza Strip.

Figure 4-1: Distribution of Total Direct Credit Facilities (USD million)



In terms of the type of credit, loans dominated the credit portfolio with a share of 84% of the total, compared with 15% for overdraft accounts, and 1% of Ijarah/lease ending with ownership. In terms of currency, facilities granted in shekels accounted for about 47% of total facilities, while those granted in JOD and US dollars accounted for 13% and 38% respectively. 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 (80%) are in shekels (Figure 4-1).

Table 4-1: Consolidated Balance Sheet of Licensed Banks Operating in Palestine (USD millions)

Item	2019		2020		
	Q4:	Q1	Q2	Q3	Q4:
Total assets	17,921.6	17,709.5	18,237.1	18,625.0	19,934.5
Direct Credit Facilities	9,035.2	9,249.9	9,652.4	9,894.0	10,075.1
Deposits at PMA & Banks	4,425.8	4,565.3	4,438.8	4,138.7	5,589.3
Securities Portfolio and Investments	1,406.3	1,365.2	1,352.9	1,310.7	1,368.9
Cash and Precious metals	1,942.7	1,252.0	1,537.9	1,981.3	1,715.3
Other Assets	1,111.4	1,277.2	1,255.2	1,300.3	1,186.0
Total Liabilities	17,921.6	17,709.5	18,237.1	18,625.0	19,934.5
Total Deposits of the Public (non-bank deposits)**	13,384.7	13,303.8	13,814.1	14,061.9	15,137.4
Equity	1,975.6	1,991.6	1,984.7	1,959.1	1,973.8
Deposits of PMA and Banks (bank deposits)	1,370.9	1,165.1	1,168.8	1,209.3	1,392.3
Other Liabilities	400.4	426.9	414.0	499.3	492.3
Provisions and Depreciation	789.9	822.2	855.5	895.4	938.7

* Items in the table are totals (including provisions).

**Non-bank deposits including the private and public sectors' deposits.

¹ PMA, Feb 2021. The Consolidated Balance Sheet for Banks, List of profits and losses, PMA database.

Q4 2020 witnessed a decline in the private sector's share of the total credit portfolio, falling to about 78.1%, compared with 79.4% in Q3. On the other hand, the public sector's share of total credit facilities increased significantly from 20.6% to 21.9% during the same period. The data shows an increase in facilities granted to real estate, construction, and trade. However, facilities granted to the consumer goods, mobile finance, and service sector declined. (Table 4-2).

Non-performing Loans

The level of non-performing loans rose again remarkably at the end of Q4 2020, by 14.2% compared with Q3 2020, and by 13.6% compared with the corresponding quarter of 2019, reaching about USD 422.2m, equivalent to 4.2% of total loan facilities (see Figure 4-2). This is mainly due to a decline in bad loans for the service sectors, as well as in real estate and construction by 14%, internal and external trade by 9%, and consumer goods by 16% compared with the previous quarter of the year.

As for the structure of bad loans according to the 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. Doubtful loans accounted for 8% of the total, and substandard loans accounting for about 16% of the total.

Deposits at PMA & Banks

During Q4 2020, balances at the PMA and banks saw a remarkable rise of about 35% compared with the previous quarter, reaching USD 5.6bn, as overseas bank balances (the largest and most important item) increased by 55% during the quarter compared with the previous quarter, reaching USD 3.4bn. The rise resulted from the cash transfers done by some chartered banks to their branches outside Palestine, in addition to shipping about NIS 6.0bn to Israel during Q4 2020. Data analysis also indicates an increase in inter-bank balances between banks operating in Palestine by 5% compared with the previous quarter, reaching USD 412.5m.

Figure 4-2: Final Balance of Non-performing Loans (million USD)

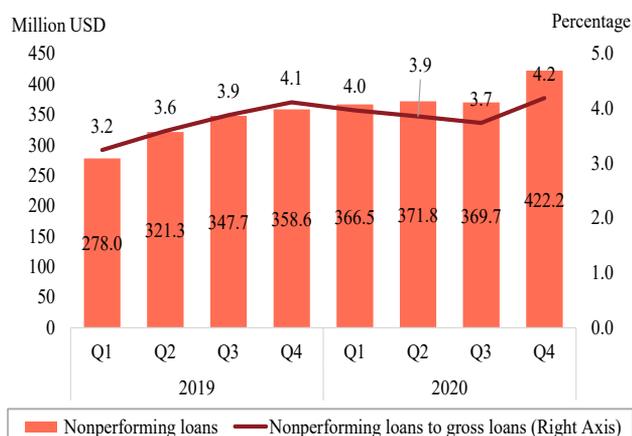
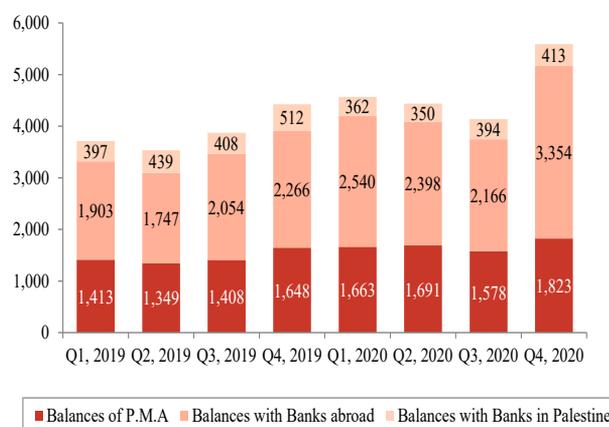


Figure 4-3: Deposits at PMA & Banks (%)



As a result of the increase in the number of customer deposits, balances at the Palestine Monetary Authority (PMA) and banks grew during Q4 2020 by 15% compared with the previous quarter, reaching USD 1.8bn. It is worth noting that reserves make 8% of these deposits (Figure 4-3).

Table 4-2: Sectoral Distribution of Credit Facilities (\$ million)

Sector	2019	2020			
	Q1	Q1	Q2	Q3	Q4
Public Sector	1,558.1	1,577.2	1,742.4	2,041.8	2,205.4
Real Estate and Construction	1,712.7	1,707.2	1,740.4	1,786.1	1,810.4
Mining and Industry	477.7	485.1	487.3	490.5	470.7
Trade	1,535.6	1,539.9	1,486.2	1,479.7	1,508.3
Services	937.3	1,067.1	1,227.2	1,173.7	1,131.5
Vehicle Purchase Financing	370.0	362.6	374.2	442.5	404.7
Consumer Goods Financing	1,370.9	1,347.8	1,501.8	1,426.5	1,393.6
Other Private Sector Financing *	1,076.8	1,163.0	1,092.8	1,053.3	1,150.4

* 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.

Year-on-year basis, balances at PMA and banks increased notably by 26%, standing at USD 5.6bn compared with USD 4.4bn in the previous year. Data indicate a growth in overseas bank balances by 48%, and PMA balances by 11%, and a 19% decline in inter-banks balances.

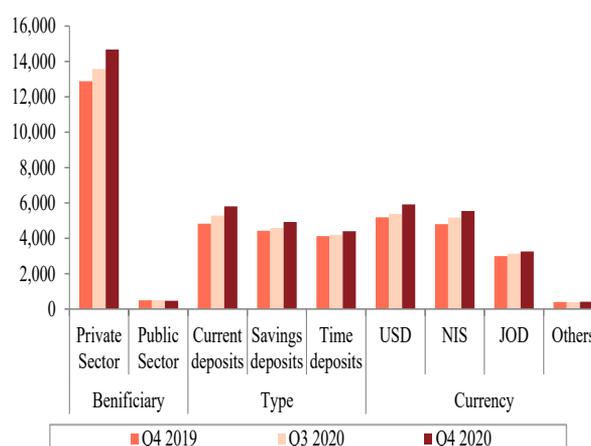
Deposits

The total value of deposits (both banking and non-banking deposits) increased by 8% and 12% at the end of Q4 2020 compared with the previous quarter and corresponding quarter of 2019, to reach about USD 16.5bn, or about 83% of total liabilities. This growth is attributed to the recovery of the labor market and increase in the number of workers and the drop in the exchange rate of the US dollar against the shekel, as 67% of balances and 37% of the public deposits are in shekel. Public deposits accounted for about 92% of total deposits during this quarter (amounting to USD 15.1bn), distributed between current deposits (38%), savings deposits (33%), and time deposits (29%). As for the currency of deposits, their distribution remained at the same levels in the past: 39% for the US dollar, 37% for the shekel, 21% for the Jordanian dinar, and about 2% for other currencies.

Bank Profits

In Q4 2020, the net income of banks declined by 17% compared with the previous quarter, reaching USD 25.4m. This resulted from a rise in expenditures by 20% (around USD 36.7m) driven mainly by the growth of expenditure related to foreign currency exchange rates, operational expenditures, provisioning expenses, in addition to the increase in taxes. On the other hand, bank revenues increased by 14% to USD 249.4m (Table 4-3). On a year-on-year basis, the net income of banks declined by 35% compared with the previous year, reaching USD 104.1m.

Figure 4-4: Distribution of Deposits (USD million)



Average Interest Rates on Deposits and Loans

Data analysis for the last quarter of 2020 indicates that there has been a slight decline in average interest rates for the US dollar and Jordanian dinar currencies compared with the previous quarter: for dollar loans it was 5.34% compared with 5.36% in the previous quarter; for loans in Jordanian dinars was 6.78% compared with 6.90% in the previous quarter. As for Israeli shekel loans, it rose during the reference period from 6.75% to 6.82%. This rise in interest paid on the shekel is ascribed to the fact that the value of the shekel, relative to the US dollar, reached a record high at the end of the year. It is well known that this rise came as a consequence of the COVID-19 pandemic, which has significantly diminished demand by Israelis for foreign currencies. This correlates to two main reasons: a noticeable decline in the number of Israeli tourists in Europe, America, and the rest of the world, and the decline in the volume of Israeli imports due

Table 4-3: Sources of Revenues and Expenditure of Licensed Banks (USD millions)

	2019	2020			
	Q1	Q1	Q2	Q3	Q4
Revenues	249.4	218.0	208.7	240.9	233.0
Paid Interest	169.5	165.7	156.0	167.9	169.4
Commissions revenues	26.0	30.3	29.2	33.9	37.7
Other Revenues	53.9	22.0	23.5	39.1	25.9
Expenditures	224.0	187.3	199.6	202.0	196.2
Paid interests	34.0	33.4	35.8	39.1	37.1
Commissions	3.5	3.1	3.1	3.2	4.0
Other expenditures	60.3	38.6	40.6	37.0	33.6
Operational Expenditures	108.1	103.2	107.3	112.6	119.1
Taxes	18.1	9.0	12.8	10.0	2.4
Net Income	25.4	30.7	9.1	38.9	36.8

*Others include expenditures and revenues of financial securities and investments, currency exchange deals, off-budget operations, and other operational expenditures and revenues, in addition to allocations.

to the recession that hit the Israeli economy following the pandemic. On the other hand, average interest rates on public deposits declined as well: 2.31% for deposits in US dollar compared with 2.38% in the previous quarter, and 2.29% for the Jordanian dinar deposits compared with 2.74%, while the interest rate on shekel deposits rose to 2.36% from 2.46% during the same comparison period. These changes resulted in a rise in the margins between the deposit interest rates and that of lending facilities in all currencies traded in the Palestinian market (Table 4-4).

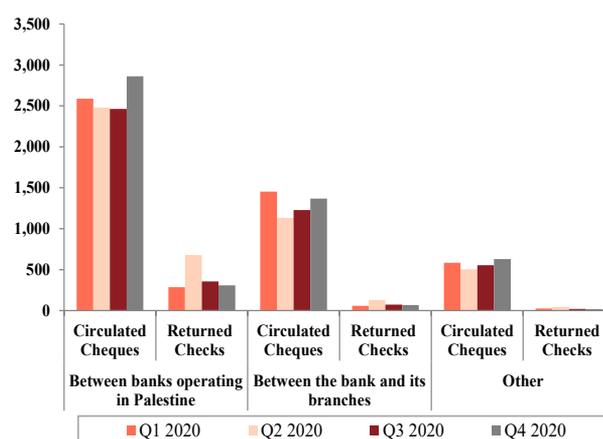
On a year-on-year basis, there has been a decline in average interest rates for US dollar and shekel loans, reaching 5.52% and 6.88% respectively, compared with 5.93% and 7.07% in 2019. Rates on Jordanian dinar loans remained unchanged at 6.84%. Average interest rates on deposits declined, reaching 2.62%, 2.43%, and 2.23% for Jordanian dinar, US dollar, and the shekel, respectively.

Check Circulation

The value of checks traded or presented for exchange in Palestine during Q4 2020 amounted to about USD 4.9bn, a remarkable increase of 14% compared with the previous quarter, while the value of returned checks stood at USD 395.2m, a decline of 13% during the same period. This data includes the value of checks that passed through national clearing houses in the West Bank and the Gaza Strip and checks handled between banks and their branches or by Israeli banks.

Data analysis of these checks shows a noticeable rise in the value of checks submitted for clearing at the last quarter of 2020 by 16%, compared with the previous quarter, reaching about USD 2,860.1m. Their value also recorded a significant decline of 16% compared with the corresponding quarter of 2019, noting that their volume increased by 8% compared with the previous quarter, reaching about 1,341,003 (Figure 4-5).

Figure 5- 4: Check Circulation (\$ million)



After the gradual return to economic activity and the lifting of COVID-19 measures in Q4 2020, the value of checks returned by national clearing houses decreased by 13% compared with Q3 2020, reaching USD 309.4m, and by 8% compared with the corresponding quarter of 2019. These developments led to the decline in the value of returned checks (measured as a percentage of the total value of checks submitted for clearing) to about 11% during Q4, compared with 15% in the previous quarter, and by 10% in the corresponding quarter of 2019 (Figure 4-6).

On a year-on-year basis, the value of checks presented for clearance amounted to USD 10.4bn, a decrease of 19% compared with 2019, while the value of returned checks increased by 28% during the study period, reaching USD 1.6bn, or 16% (measured as a percentage of the total value of checks submitted for clearing) as compared with 10% in 2019.

Specialized Credit Institutions (SCIs)

At the end of Q4 2020, data on the specialized credit sector indicate that the total assets of the eight SCIs licensed by the

Table 4-4: Average Interest Rates on Deposits and Loans by Currency, (%)

Currency	Deposit Interest (%)		Loan interests (%)		Margin (percentage point)	
	Q3 2020	Q4 2020	Q3 2020	Q4 2020	Q3 2020	Q4 2020
US Dollar	2.38	2.31	5.36	5.34	2.98	3.03
Jordanian Dinar	2.74	2.29	6.90	6.78	4.16	4.49
Shekel	2.46	2.36	6.75	6.82	4.29	4.46

Table 4-5: SCIs data

	2019		2020			
	Q3	Q4	Q1	Q2	Q3	Q4
Total of Loans Portfolio (USD millions)	213.7	262.5	259.4	265.2	259.7	249.8
- West Bank	167.9	214.6	214.4	220.2	216.7	211.0
- Gaza Strip	45.8	47.9	45.0	45.0	43.0	38.8
Active Clientele	76,502	75,444	74,065	73,853	72,360	68,027
No. of Offices and Branches	93	100	100	100	97	96
Employees	843	910	900	852	846	849

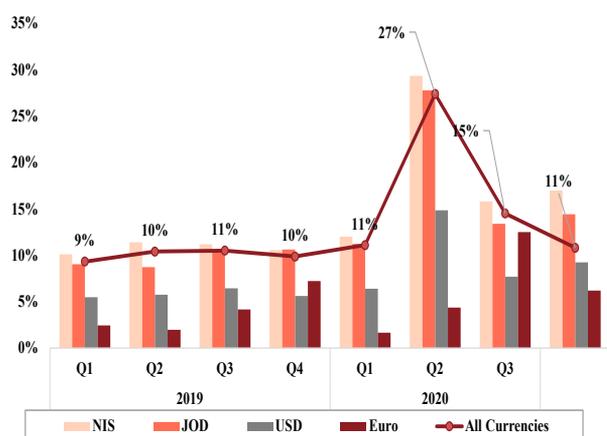
PMA increased by 4% compared with the previous quarter, reaching USD 335.2m. These assets grew by 3% as compared with their value last year.

The value of the SCIs credit portfolio decreased during the quarter by 4% compared with the previous quarter, reaching about USD 249.8m (3% in the West Bank, around USD 211m, and 10% in the Gaza Strip, USD 38.8m) The number of borrowers also decreased to 68,027, of whom 65% are male and 35% are female (Table 4-5).

Loans granted to the real estate sector continued to account for the largest share (33%) of the total portfolio of SCIs, followed by the commercial sector (30%), public services (12%), the agricultural sector (11%), the consumer goods sector (8%), the industrial sector (5%), and finally, the tourism sector (2%).

Year-on-year basis, the loan portfolio of SCIs dropped by 4.8% compared with the previous year, reaching around USD 249.8m. In terms of total assets/liabilities, SCIs grew by 2.8% during the same period, reaching USD 335.2m.

Figure 4-6: Percentage of Cheques Presented for Clearance to Returned Cheques (%)



4-2 The Non-banking Financial Sector²

The Securities Sector

Year-on-Year Comparison: PEX was affected by the difficult economic conditions seen in 2020, as the overall market value of the traded shares of listed companies fell by 8% compared with 2019, standing at USD 3.4bn (Table 4-7). By the end of 2020, the total volume and value of traded shares dropped by 39% and 31%, respectively, compared with the end of 2019. This drop was caused by the government restrictions on economic activity to combat the coronavirus, including the suspension of trading on PEX between 23/3/2020-3/5/2020. This is in addition to the heightened levels of uncertainty and the decline in investments that have weakened demand for financial shares and led to a drop in the share prices of most listed companies. By the end of 2020, there were 70,058 traders in the market, 5% of whom were foreigners and mostly from Jordan.

Table 4-7: A Selection of Financial Indicators on the Trading Activity in PEX

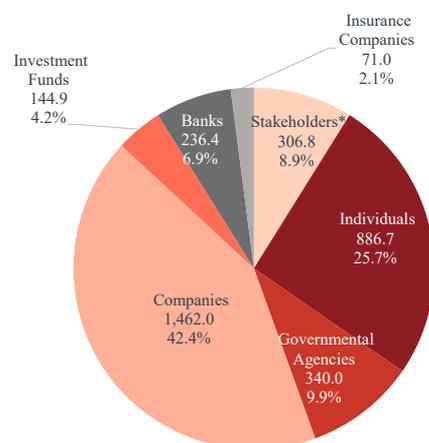
	Q4 2019	Q3 2020	Q4 2020	2019	2020
Number of traded shares	25.1	39.2	24.6	142.8	86.5
Value of traded shares	73.4	87.4	55.4	273.9	190.1
Market value	3,757.5	3,271.8	3,446.9	3,757.5	3,446.9
No. of Deals	6,041	3,533	5,597	29,276	17,243
Number of trading sessions	65	62	64	246	220
Market value as a percentage of GDP (at current prices) *	21.9%	21.0%	22.2%	21.9%	22.2%

GDP at current prices for 2019 and 2020 were used, as the market value of shares traded is at current prices.

Quarter-on-Quarter Comparison: By the end of Q4 2020, the total volume and value of traded shares decreased by 37% compared with the end of Q3 2020, and by 25% compared with the corresponding quarter 2019, respectively. The market value of shares increased by 5% at the end of Q4 2020, compared with the end of the previous quarter 2020, and declined by 8% compared with the corresponding quarter 2019.

Figure 4-7 illustrates the characteristics of traders on PEX, according to their relative share of the market value of traded shares of companies listed in PEX at the end of 2020. It indicates that the share of companies reached 42% while the share of individuals reached 26%.

Figure 4-7: Distribution of Market Capitalization by Trader Type (as of the end of 2020) (USD million)



* Individuals who have direct or indirect relations with the company because of their job position or relation.

At the end of 2020, there were 64,066 shareholders in companies listed on PEX, about 84% of whom were in the West bank, and 16% in the Gaza Strip. The total number of accounts opened at PEX reached 118,433, with a higher rate of participation among males than females in both the West Bank and the Gaza Strip.

² Source of Figures: The Palestinian Capital Market Authority (PCMA), 2020.

Financial Leasing Sector

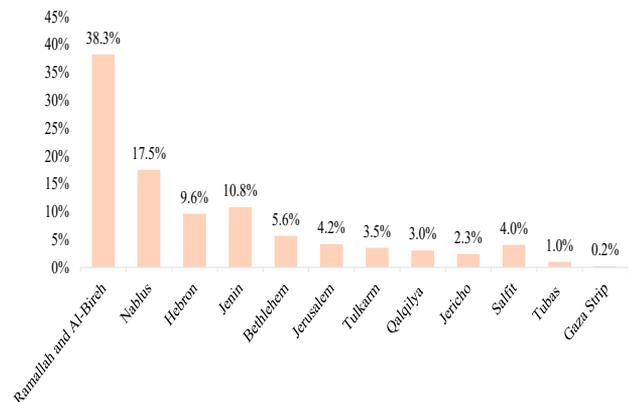
Year-on-Year Comparison: By the end of 2020, ten licensed financial leasing companies were operating in Palestine compared with nine in 2019. At the end of Q4 2020, the activities of these companies in terms of the volume and value of contracts dropped by 32% and 24% compared with 2019. The volume of contracts was 1,364, amounting to a total investment value of USD 70m (Table 4-8). The decrease is due to the economic impact of the coronavirus pandemic, which negatively affected the performance of companies and caused a contraction in the volume of their activities.

Table 4-8: Total Value and Volume of Financial Leasing Contracts

	Total Value of Financial Leasing Contracts (USD Million)	Total Volume of Financial Leasing Contracts
Quarter 4, 2019	26.4	581
Quarter 3, 2020	16.2	327
Quarter 4, 2020	24.5	369
2019	90.9	1,998
2020	68.9	1,364

At the end of 2020, financial leasing contracts remained concentrated in the city of Ramallah, which accounted for 38% of the total, followed by Nablus and Jenin at 18% and 11%, respectively (Figure 4-9). 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 (70%) at the end of 2020. The reason for this is the ease of registering vehicle ownership at the transportation department, and the low risk of leasing due to the existing secondary market for re-acquisition. Trucks and heavy vehicles accounted for 23% of the portfolio, while movable assets (equipment, production lines, etc.) constituted 8% of the total.

Figure 4-8: Geographical distribution of registered financial leasing contracts by volume at the end of 2020



Quarter-on-quarter Comparison: By the end of Q4 2020, the total value of leasing contracts investments reached USD 25m (369 contracts), representing an increase of 51% and 13% in the value and volume of contracts, respectively, compared with the previous quarter. Compared with the corresponding quarter in 2019, the value and volume of contracts declined by 7% and 36%, respectively (Table 4-8).

5- Social Development

The Condition of Working Women in the Palestinian Territories during the Coronavirus Pandemic

Reports issued by expert international institutions indicate that, around the world, the impact of the coronavirus pandemic on women was more severe than on men. Although the pandemic does not differentiate between members of society, impacting all individuals and areas of life, women are considered to be more affected than men. The “Inequality Virus” report issued by Oxfam indicates that the proportion of working women worldwide has risen in sectors that are most affected by the coronavirus pandemic, especially those in the informal sector. The International Labor Organization (ILO) has estimated that 64 million women around the world have lost their jobs due to the pandemic.¹ Moreover, the ILO report “COVID-19 and the World of Work,” demonstrates that female workers have been affected more than others by the pandemic, which reflects negatively on efforts made in recent decades to achieve gender equality, especially in the labor market. The report emphasizes that the significant impact of the pandemic on working women is due to their high concentration in economic sectors that are most affected by the crisis, such as housing, food production, sales, and manufacturing. Nearly 40% of all female workers (about 510 million women) work in these four, most-affected sectors, compared to 36.6% of male workers.² Oxfam’s report also noted that most workers in these sectors have no financial resources other than their monthly income. Should they lose their jobs due to the pandemic, they will be at risk of poverty and hunger immediately. In many countries, this danger is exacerbated by the absence of an integrated social security system that provides unemployment insurance, guaranteeing the income of families who lost their jobs due to the pandemic.

Below we will review the conditions of working women in Palestine during the coronavirus pandemic, and its impact on the multidimensional poverty index. According to the Multidimensional Poverty Report for the Palestinian Territories (2017), the labor dimension constitutes 12.5% of total multidimensional poverty. This is the second-highest contributing factor among all components of multidimensional poverty after material poverty, which constitutes 45.4%. Hence, the decline in the working conditions of women will be directly reflected in the rise of the multidimensional poverty index, unless policies are taken that can protect working women in the Palestinian labor market.

The Condition of Women in the Palestinian Labor Market

The Palestinian labor market suffers from major challenges, characterized by high unemployment rates (the unemployment rate reached about 25.9% in 2020), as well as an inability to generate new job opportunities due to

1 <https://bit.ly/325ZQNZ>

2 <https://www.unwomen.org/en/digital-library/publications/2020/09/gender-equality-in-the-wake-of-covid-19>

the weakness of the productive base. These challenges stem mainly from structural problems in the labor market resulting from the Israeli occupation of the Palestinian territories and its control over Palestinian economic and natural resources. This situation significantly limits any opportunity for real economic growth.

Table 1: The Condition of Females compared to Males in the Labor Market in terms of Participation and Unemployment Rates in 2020, and the Average Daily Wage in 2019

	Females	Males
Labor Market Participation Rate	15%	65%
Unemployment Rate	40.3%	22.4%
Average Daily Wage in NIS	104.8	122.7

Source: Palestinian Central Bureau of Statistics (PCBS), Labor Force Data 2020 (unpublished). The average daily wage is based on labor force data for 2019, published on the PCBS website.

It is clear from Table 1 that the position of Palestinian women in the labor market is fragile and poor. Their participation rate in the labor market is among the lowest in the world, reaching only 15% in 2020, compared to 65% for males³ in the same year. Moreover, the unemployment rate among women is also rising, reaching 40.3% in 2020 compared to 22.4% for men. Women working in Palestine also suffer from wage discrimination, as the average daily wage for male workers was NIS 122.7 in 2019, compared to NIS 104.8 for females.⁴ A recent study by the Palestine Economic Policy Research Institute (MAS)⁵ indicates that in the Palestinian private sector women receive lower wages than their male counterparts in the same positions and with the same qualifications. This means that part of the wage gap between women and men cannot be accounted for by differences in educational qualifications, experience, or other factors. Rather, it is fundamentally a case of discrimination against women in the labor market. The study also establishes that working women in the Palestinian private sector are more likely to work for less than the minimum wage when compared to men. This possibility increases in the informal private sector.

The Condition of Working Women in the Palestinian Labor Market during the Coronavirus Pandemic

Large numbers of men and women in the local Palestinian market lost their jobs due to the coronavirus pandemic. A report issued by PCBS on losses associated with the

3 Palestinian Central Bureau of Statistics (PCBS). *Labor Force Data 2020* (unpublished).

4 <http://www.pCBS.gov.ps/Downloads/book2515.pdf>

5 Palestine Economic Policy Research Institute (MAS). *Gender wage gap and female labor force participation*. 2020. <http://www.mas.ps/download.php?id=911c7y594375Y911c7>

coronavirus pandemic⁶ indicates that about a third of families' primary breadwinners stopped working during March-May 2020, due to the declaration of a state of emergency and the total lockdown imposed by the Palestinian government to limit the spread of the coronavirus. In addition, more than two-thirds of enterprises shut down during the total lockdown between March-May 2020. This was especially the case in the service sector, where 48% of primary breadwinners working in this sector stopped working.

It should be noted that the conditions of working women in the West Bank and Gaza Strip do not differ from those of other women across the world, as demonstrated by the reports cited above. They are mainly concentrated in sectors that have been most affected by the coronavirus pandemic, namely the service and tourism sectors. This means that they have been at greater risk of losing their jobs when the volume of economic activity in these specific sectors contracted. Labor force data for 2020, issued by PCBS, shows that the service, trade, restaurant, and hotel sectors have absorbed most of the pool of working women. The Palestinian service sector employs 73.4% of working women, while trade, hotels, and restaurants employ about 9% of working women in the Palestinian territories. The high percentage of women working in the informal sector,⁷ and their high levels of concentration in sectors most affected by the pandemic, means that working women in Palestine are more likely than others to stop being paid or to be laid off.

62,800 women work in the Palestinian private sector. More than a third of them (35%) receive less than the minimum wage, at a rate of NIS 817 per month (NIS 971 in the West Bank, compared to NIS 588 in the Gaza Strip) according to 2019 data.⁸ This means that, at the start of the pandemic, more than a third of female workers were already suffering from material poverty, according to official data. It is anticipated that this will add to the suffering that they have endured during the pandemic in meeting their basic needs and the needs of their families, given that a large number of them lost what was their primary (and often only) source of income.

Labor force data issued by PCBS indicates that a large number of workers in the Palestinian private sector do not have documented employment contracts that guarantee their rights, as stipulated in labor laws. These rights would ensure that they could not be arbitrarily laid off during the pandemic period (as of 2019, 20% of employees in the Palestinian private sector work according to verbal contracts, while 48% work without any form of contract at all).⁹ According to the latest available data, 24% of working women do not have a written employment contract, while 32.5% of women work in enterprises that are not registered with tax authorities.¹⁰

The data also indicates weak enforcement of compliance with

6 <http://www.pcbs.gov.ps/Downloads/book2554.pdf>

7 See the above percentage (32.5% of women work in enterprises that are not registered with tax authorities).

8 <http://www.pcbs.gov.ps/Downloads/book2515.pdf>

9 <http://www.pcbs.gov.ps/Downloads/book2515.pdf>

10 These figures were calculated based on raw labor force data for the year 2019.

laws. For example, 31% of working women are not entitled to paid annual leave¹¹ as stipulated by the law, and less than half of working women are afforded paid maternity leave (48.2%).¹² Official figures all suggest that workers in the Palestinian private sector were subject to a significant reduction in their wages, or layoffs, during the pandemic. This occurred in light of weak adherence to labor laws and disregard for the rights of male and female workers.

On the other hand, during the pandemic, women were subjected to great pressures as a result of increased household burdens amid the closure of nurseries, kindergartens, and schools. In accordance with the traditional social division of labor, women are responsible for household and childcare burdens. For every 1 hour and 17 minutes spent by men on helping with housework, women spend 3 hours and 51 minutes of their time on such work. In addition, for every 2 hours that women spend on childcare, men spend less than 1 hour; and both, it should be noted, are part of the workforce.¹³ The absence of employment contracts that protect the rights of working women and guarantee their right to different types of leave means that many of them are forced to leave their jobs in order to devote themselves to home care and to supporting the rest of the family in work, education, and other spheres of life. This is in addition to the domestic violence that has been faced by women during periods of total lockdown and which increased significantly compared to previous years.¹⁴ In light of the economic and material pressures faced by families during the pandemic, women were more vulnerable to various forms of gender-based violence.

The Impact of the Pandemic on Women's Work Conditions and its Contribution to Multidimensional Poverty

As noted above, the employment indicator plays a major role in the multidimensional poverty index. In addition to its role in securing incomes that prevent material poverty, it also plays a role in enhancing the social status of the family and society. The multidimensional poverty report issued by PCBS indicates that the benefits of work, in terms of the right to sick leave, annual leave, and paid maternity leave, constitute 5.3% of the weight of employment in multidimensional poverty. The dimension of work conditions (in terms of work in an informal establishment, without an employment contract, and in a seasonal or sporadic job) constitutes 3.1% of the weight of employment in multidimensional poverty. As for the indicator concerning women's participation in the labor market and income security, it constitutes 5.3% of total poverty. This is a high percentage that negatively affects the value of multidimensional poverty, given the weak participation of women in the labor market.

From the analysis above, we can deduce that if the condition of working women in the Palestinian private sector is

11 Ibid.

12 <http://www.pcbs.gov.ps/Downloads/book2515.pdf>

13 <http://www.pcbs.gov.ps/Downloads/book2336.pdf>

14 Palestine Economic Policy Research Institute (MAS). 2021. *Comprehensive response to the economic and social impact of the Covid-19 pandemic in occupied Palestine*. <http://www.mas.ps/files/server/20212502175651-2.pdf>

evaluated in terms of the dimension of employment within the multidimensional poverty index (as detailed above), we find that the negative impacts of the pandemic on women in the labor market directly contribute to the increase in both economic and social poverty rates. This further increases the number of newly poor individuals, leading to a deterioration in the multidimensional poverty index.

These indicators require rapid and effective policy-making by decision makers to support female-headed families before they descend into the cycle of extreme poverty and food insecurity. The success of public policies also depends on a change in social norms, such that women are employed in certain sectors that complement their household and childcare roles, such as in the health and education sectors. There must also be a greater role for trade unions in defending the rights of workers and raising awareness about their rights. This stands alongside the role of the Ministry of Labor in monitoring the implementation of labor laws and protecting the rights of male and female workers in the Palestinian labor market.

6- Recent Publications

The Inequality Virus: Bringing together a world torn apart by the coronavirus through a just, equitable, and sustainable economy

“The novelty of coronavirus has been likened to x-rays that reveal fractures in the fragile spines of the societies that we have built. It has exposed falsehoods and lies everywhere: from the lie that free markets can provide healthcare for all, to the fictional narrative that unpaid care work is pointless, to the illusion that we live in a world that transcends racism, to the myth that we are all passengers on the same vessel. While we are all floating on the same sea, it is clear that some of us have luxury yachts, while others cling to the debris scattered on the water’s surface.”

António Guterres:
Secretary-General of the United Nations

In January 2021, Oxfam¹ released a report entitled “*The Inequality Virus: A world wracked by the coronavirus can be united through a just, equitable and sustainable economy*,”² nearly one year after the coronavirus pandemic spread across the globe. This report focuses on the economic and social effects of the coronavirus pandemic, which unjustly impacted different social groups. Its impact has been more severe on poor and marginalized communities, while the world’s richest have maintained, and even increased, their wealth since the beginning of the pandemic. The coronavirus pandemic revealed structural inequalities in society, as well as racism, patriarchy, weak social protection systems, and the fragile conditions of large sections of society such as the poor, black communities, women, and workers in the informal sector in particular. The pandemic also revealed the weakness of various public services, such as poorly-equipped and inadequately-funded public health systems, and the failure and lack of transparency in the privatization of health services.

The report surveys the opinions of economic experts at various international institutions such as the World Bank, the International Monetary Fund, the United Nations and the International Labor Organization. It analyzes the most important data that have come out of these organizations from investigating and documenting the effects of the coronavirus pandemic on less-fortunate groups in society. One of its most significant conclusions is that the poorest people will need more than a decade to recover from the effects of the coronavirus pandemic, while it will take only nine months for the fortunes of the world’s richest thousand billionaires to return to pre-pandemic levels. This growth in the wealth of the world’s richest people is sufficient to prevent the world’s population from falling into poverty due to the pandemic and cover the cost of vaccinating the entire world.

1 Oxfam is one of the largest, independent, international, charitable organizations in the field of relief and development, founded in 1942. Today, Oxfam operates as an international confederation of 19 fellow organizations, with centers around the world operating in more than 90 countries, in partnership with local and international organizations dedicated to finding durable solutions to poverty.

2 <https://bit.ly/3vfDyGj>

The report highlights the role of extreme inequality in the divergent impacts of the pandemic within societies, as billions of people were already living on the brink of disaster when the pandemic struck and did not have sufficient resources to withstand it. For example, more than 3 billion people around the world did not have access to healthcare, while more than half of the world's workers lived in poverty. Three-quarters of workers did not receive unemployment benefits or sick leave. One indicator of inequality in the provision of health services among black communities and other marginalized groups in the USA is that 22,000 black and Hispanic people would still be alive if death rates from the coronavirus for these communities were similar to those of white Americans. Moreover, in Brazil, people of African descent were 40% more likely to die from coronavirus than white Brazilians.

The report concludes that governments today have two options: either allow inequality to rise, thereby increasing the number of poor people in the world, or adopt policies that will reduce inequality. The World Bank estimates that if governments allow inequality to increase by 2% each year, there will be about 501 million people around the world living on less than \$5 a day by 2030. However, if governments seek to reduce inequality by 2% annually, poverty levels will return to pre-pandemic levels within three years. The report proposes a set of steps that ought to be taken toward a more equitable world after the coronavirus pandemic. They begin with combating racial and gender inequality and strengthening comprehensive public services by ending severe and unsustainable austerity policies, while making the provision and quality of services such as health and education unrelated to people's wealth and social status. Cancelling the debt of poor countries would make available \$3 billion a month, which these countries could invest in the provision of comprehensive, free healthcare for all.

Additional measures that promote equality are the protection of workers' rights through the implementation of minimum wage laws, as well as income guarantees and unemployment benefits, job security, and the right to various vacations and leaves. Governments and societies should recognize the unpaid or low-wage care work that women perform; such as nursery workers whose work has social value and deserves the recognition as other kinds of work in terms of wages, rights, and acknowledgment in national accounts. It is also necessary to review tax systems and strive towards achieving justice in taxation. For example, imposing additional taxes on the large profits that companies made during the coronavirus pandemic could generate \$104 billion. This amount is sufficient to provide unemployment protection for all the world's workers, as well as universal financial support for children and the elderly in the poorest countries. Finally, the report warns of significant climatic deterioration, and calls for the building of green and sustainable economies.

Economic Concepts and Definitions

Externalities

The theory of the "free market economy" is based on a basic premise, namely, that the mechanisms of supply and demand operate automatically to ensure that: (1) the production of sufficient quantities of goods and services matches prevailing demand; (2) the price of these goods/services fully covers their production costs on the one hand, while, on the other, maximizing producer profits and the benefits that consumers derive from spending their money to purchase them; and (3) quantities and prices not only guarantee the achievement of optimal conditions for individuals who engage in production and consumption, but for society as a whole. That is to say, optimization at the societal level is the sum of optimization at individual levels.

Market Failure

Neoclassical welfare theory recognizes that there are cases in which free market mechanisms fail to achieve optimal conditions for production and consumption. These cases are termed "market failures." One such situation is that in which producers do not bear the full production costs of the goods that they produce and sell. This would be the case, for example, when a building contractor excavates foundations for a new construction project in a populated area and takes into account the costs of excavation and construction but not the additional costs incurred by neighbors as a result of noise and dust (and perhaps a beautiful view being obscured, while competition for parking space increases, etc.). This entrepreneur does not bear all the costs of his/her production activity, which means that there is a difference (a gap) between individual costs and social costs (the total costs borne by all members of society from the productive activity in question). This fundamentally contradicts the three principles outlined above. As long as price does not cover all costs associated with production, or as long as there is a discrepancy between individual and social accounts, the free market mechanism does not guarantee optimal quantitative production whereby price equals marginal cost and the interests of society as a whole automatically coincide with individual interests. The negative consequences that affect third parties, and that are not factored into the production process that generates them, are called "negative externalities." These are equal to the difference between the individual costs and social costs of production processes. They are also called "external costs." The most common and obvious examples of negative externalities relate to environmental pollution of air, rivers, seas, and land. These costs, which some producers (still) consider external, are borne by other members of society. Estimating the monetary value of negative externalities, and ways to reduce them, forms the core of environmental economic research.

Negative and Positive Externalities

There are also cases in which the burden of bearing part of the costs falls on the shoulders of a third party, and not the producer/seller or the consumer/buyer. Moreover, there are cases in

which individuals achieve free benefits/gains at the expense of others, who have invested and paid for them. Take, for example, the case of vaccinations against a spreading pandemic. When an individual is vaccinated, this is accompanied by two effects: the first is the individual's protection from the pandemic, and the second is the social impact, namely reducing the possibility of the infection of others. Once communal 'herd immunity' is reached, unvaccinated individuals gain almost complete protection due to the vaccination of others. Let us consider another, less abstract, example. When a person refurbishes the entrance to his/her house, paving the sidewalk and planting trees and flowers, this leads to an improvement in the quality of his/her life and that of his/her family, as well as increasing the value of the refurbished property. This may also lead to an increase in the price of other, adjacent houses. Thus, the private investment of the individual is accompanied by free, "excess" gains that are realized by parties that did not bear the cost of the expenditure or effort. These may be called "external benefits" or "positive externalities". Moreover, in this case, the benefits that arise from consuming a particular commodity cannot be limited to the person who paid for it, as the free competitive market does not lead to optimal social conditions. Examples of positive externalities are numerous. Among the most prominent are externalities that are generated from the process of an individual's education (which also positively impacts society as a whole) as well as research efforts and inventions (the benefits of which are difficult to limit to those who are responsible for spending on - and investing in - them). Positive externalities form the theoretical basis for the role that the state must play in terms of financing basic scientific research efforts from which everyone benefits, while supporting research and development activities in the private sector.

It is useful to note that public goods are in fact a special case of positive externality. This is because the party which produces the public good does not only obtain benefits derived from it, but others also benefit, without contributing to the costs of its production. A public good is defined as that which is: (1) non-excludable, i.e., its usage cannot be limited to only those who have paid for it; and (2) Non-rivalrous, meaning that one person's consumption of this good does not reduce its availability to others. Public goods, therefore, are by definition the antithesis of private goods, which are characterized by exclusivity and competition at the same time. This means that the private free market will not produce it, despite the presence of demand for it, given the lack of incentives to invest in its production. National defense services and measures to protect against earthquakes, floods, and epidemics are examples of public goods. Ideas and innovations that are impossible to patent, or primary education and basic research, are other examples.

Finally, it must be emphasized that both negative and positive externalities can appear in production and consumption activities. Negative externalities are associated with production (and consumption) that hold a higher value than what is socially optimal. Meanwhile, positive externalities lead to consumption (and production) that has a lower value than the socially optimal.

Externality and Property Rights

Some economists emphasize that externalities often appear as a result of inaccuracies or ambiguities in defining property rights: who owns fresh air or water streams? The English economist Ronald Coase (1910-2013) suggested that state intervention is not necessary: the free market could achieve effective resource allocation in the presence of externalities if property rights were fully defined; winning and losing parties would thus be able to agree on the amount of compensation required to neutralize the impact of external costs and benefits. However, it is generally agreed that the solution provided by the Coase Theorem requires the fulfillment of a number of conditions that are difficult, if not impossible, to fulfill in practice. Another economist, the American Kenneth Arrow (1921-2017), argued that state intervention was not necessarily the best solution to externalities. As an alternative, he suggested creating markets where pollution permits could be bought and sold. For example, the party that is affected by pollution would offer permits that could be auctioned, allowing for the release of a certain level of pollution. A competitive market for such pollution permits can be structured to ensure effective resource allocation and the elimination of external costs (ensuring that the marginal cost of pollution matches its marginal benefit). A similar model has been applied around the world, whereby permits to release pollutant gases are bought and sold by companies. However, economists now unanimously agree that free market forces are incapable of solving the problem of externalities and that there is a need for external interventions which, in one way or another, reform markets and limit their failure in terms of externalities.

Pigou Tax

The pioneering English economist Arthur Pigou (1877-1959) proposed a tax on any market activity that causes negative externalities, raising the private costs of production or consumption to the level of social costs. Today, this form of taxation is termed the "Pigou tax", which aims to correct market failures and achieve social optimization. In the same context, economists suggest directing assistance to producers or consumers in cases where the gains generated from consumption or production activities cannot be limited to those who paid for them. In these cases, the benefits that society as a whole incurs as a whole are of higher value than individual gains/benefits.

Tax or Quantitative Restrictions?

There are several cases in which it is difficult to estimate the monetary value of losses incurred by a third party, or to distribute costs across a large number of producers that create externalities. Therefore, the theory suggests imposing quantitative restrictions and control measures on producers, instead of a tax. Economists continue to study the areas in which one of these tools might be more effective than the other in reducing externalities. This theory also seeks to propose innovative ways to motivate producers to take the cost of externalities into consideration, without negatively impacting the efficiency and quantity of production and the employment of labor.

Appendix: Summary of the Most Important Economic Developments and News

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

The social and economic impact of the COVID-19 pandemic

On October 4, the Palestinian Central Bureau of Statistics (PCBS) released the results of a survey measuring social and economic changes resulting from the COVID-19 pandemic, specifically during the period of lockdown from March 5 to May 25, 2020.¹ The survey covered a sample of 9,926 families. Its results show that household income fell by half (or more) during the lockdown for 42% of Palestinian families. Nearly two-thirds (63%) of families would not be able to cover their living expenses for more than one month if lockdown were re-imposed. The survey also showed that 58% of Palestinian families typically borrow money, or buy on credit, in order to cover their living expenses (for food and other basic needs). This percentage increased during the lockdown to reach about 63% and forcing 41% of families to reduce their spending on food compared to the months prior to the pandemic (February/March).

COVID-19 and social security

On 14 October, MAS held a Policy Roundtable on the importance of developing the Palestinian social protection system, given the impact of the COVID-19 pandemic.² Dr. Bader Al-Araj, Professor of Sociology at Birzeit University, presented a background paper that he had prepared on the subject, commissioned by MAS. Representatives from the public and private sectors, experts, academics and policy-makers participated in the meeting.

Israel grants Bezeq a license to operate in the West Bank

On October 18, the Israeli government granted the Israeli telecom company Bezeq a license to operate in Area C of the West Bank, under the pretext of providing high-speed telecom and internet services to Israeli settlements in the West Bank.³ This decision will cause the Palestinian telecom sector to incur huge losses, as it will allow the Israeli company to expand its coverage and services to reach all of Area C (which constitutes more than 60% of the West Bank).

Establishment of “Qudra” company

On October 19, the Bank of Palestine and the National Aluminum and Profile Company (NAPCO) announced the establishment of Qudra, a company specializing in renewable

energy solutions.⁴ Qudra has begun concluding partnership agreements in the energy sector for the construction of solar power plants with a production capacity of 100 megawatts. The company signed an agreement with the Jerusalem District Electricity Company (JDECO) to establish a solar power plant with a production capacity of 5 megawatts in the village of Deir Abu Misha'al. This plant will feed electricity to the network of villages that are located northwest of Ramallah.

Noor Jenin

On October 26, 2020, the Palestine Investment Fund (PIF) and the North Electricity Distribution Company (NEDCO) inaugurated the “Noor Jenin” solar power plant.⁵ The plant is located on an area of 60 dunums in the village of Kafr Dan in the Jenin governorate. It consists of about 13,500 solar panels, with a production capacity of 5 megawatts.

Threats directed at the banking sector

On October 29, the Occupation informed the Palestinian Authority that Palestinian banks which fail to freeze the accounts of families of prisoners and martyrs would be subject to penalties and lawsuits, and that the decision would enter into force on December 30.⁶

The Palestinian Energy and Natural Resources Authority (PENRA) and the Ministry of Agriculture

On November 5, PENRA commenced the implementation of a solar energy project funded by the Ministry of Agriculture.⁷ The project covers the installation of 350 solar panels with a production capacity of 530 kilowatts in the Jordan Valley, as well as other areas threatened with confiscation. The project is part of an aid package for the Jordan Valley, approved by the Council of Ministers, to support citizens residing in these areas and enhance their resilience in the face of the imminent annexation plan.

Emergency appeal by the UN Relief and Works Agency (UNRWA)

On November 9, 2020, Mr. Philippe Lazzarini, Commissioner-General of UNRWA, announced that UNRWA needed to raise \$70 million to be able to pay the salaries of its 28,000 employees for November and December. The funding shortfall totaled \$130 million.⁸

Deepening crisis in the Gaza Strip

On November 11, the results of a study indicated that the average monthly income of workers in the Gaza Strip has fallen by about 90% since the outbreak of the pandemic,

1 http://pcbs.gov.ps/portals/_pcbs/PressRelease/Press_Ar_4-10-2020-covid-ar.pdf

2 <http://www.mas.ps/files/server/20202010094306-1.pdf>

3 <https://www.jpost.com/israel-news/pa-telecoms-brace-for-losses-after-israeli-firm-gets-west-bank-license-647053>

4 <https://bop.ps/en/media-center/newsroom/details/745>

5 <https://www.pif.ps/2020/10/27/7087/>

6 <https://www.aliqtisadi.ps/article/78125/>

سراييل -- توجه - تهديد - للقطاع - المصرفي - الفلسطيني

7 <https://www.aliqtisadi.ps/article/78241/>

8 <https://www.unrwa.org/newsroom/press-releases/unrwa-issues-emergency-call-humanitarian-assistance-amid-end-year-shortfall>, and <https://www.aliqtisadi.ps/article/77845/>

فجوة - تمويل - الأونروا - تبلغ - 130 - مليون - دولار

while tens of thousands have lost their jobs.⁹ According to the study, 60% of the population of the Gaza Strip does not have the financial ability to purchase basic foodstuffs and medicines. 82% suffer from psychological problems such as anxiety and stress, while 80% of small farmers and agricultural workers have lost their jobs. More importantly, 92% of surveyed workers stated that they have not received any governmental or non-governmental cash assistance since the outbreak of the pandemic. It should be noted that only 42% of surveyed workers have access to protective equipment such as face masks or are able to afford them.

The impact of the pandemic on the business sector

On November 14, the results of a survey conducted by the Ministry of National Economy, in cooperation with PCBS, were released, covering a sample of 2,600 economic establishments. The survey showed that the lockdown imposed during March-May 2020 led to a 50% decline in the level of production and/or sales, forcing 14% of surveyed enterprises to reduce the number of their employees.¹⁰ The results of the survey indicate that 47% of enterprises expect their sales to plummet further during the three months following the lockdown, accompanied by a 24% decrease in employment.

A new set of measures to curb the spread of the virus

On November 23, the Palestinian government announced a set of new measures to contain the virus.¹¹ The measures included closing all public facilities in the West Bank on Fridays and Saturdays, as well as their closure from 7 P.M. to 6 A.M. on the remaining days.

The impact of the pandemic on employment

On November 24, a World Bank report highlighted the deterioration in work conditions in Palestine since the start of COVID-19 after having improved slightly in 2019.¹² The report estimates that 121,000 workers lost their jobs in Q2. On the same day, Mr. Shaher Sa'ad, Director of the General Federation of Palestinian Trade Unions (GFPTU), confirmed that workers' losses resulting from the pandemic are estimated to total \$1.25 billion, \$800 million of which represents the value of losses resulting from the layoffs of tens of thousands of workers in Israel. Sa'ad stated that the total number of workers affected by the pandemic amounted to about 300,000 workers in the West Bank and Gaza Strip. Only one-third of these workers benefited from one-time disbursements of governmental cash assistance totaling NIS 700.¹³

The economic costs of the war and siege on the Gaza Strip

On November 25, 2020, the UN Conference on Trade and Development (UNCTAD) published a report on economic costs incurred by the Gaza Strip as a result of blockade, lockdown, and restrictions.¹⁴ The report, submitted to the UN General Assembly, estimates that cumulative economic costs resulting from the prolonged siege and military operations in the Strip, during the period 2007-2018, totaled about \$16.7 billion, or 107% of Palestine's GDP.

Resolution of the clearance revenues' crisis

On December 2, the Israeli government transferred \$1.14 billion in tax clearance revenues to the Palestinian Authority, after a six-month political and economic crisis. The Palestinian Authority's decision to restore relations with the Israeli government and accept the transferred funds came two months after Israel froze its annexation plans, and two weeks after the victory of Joe Biden in the U.S. presidential elections. He pledged to press for the return of negotiations on the basis of the two-state solution, and the resumption of US aid to the Palestinians.¹⁵

National Cash Transfer Program

On December 23, the European Union and the Government of Spain provided a €19.5 million contribution to the third annual payment of social benefits, via the National Cash Transfer Program that benefits 115,000 poor families.¹⁶

9 <https://reliefweb.int/report/occupied-palestinian-territory/new-study-shows-shocking-economic-and-psychological-toll-covid>

10 http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_14-11-2020-covid-est-en.pdf

11 <https://www.aliqtisadi.ps/article/78549/>
لحكومة-تقرر-الإغلاق-الشامل-الجمعة-والسبت-في-مختلف-المحافظات

12 <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/574441606230442130>

13 https://www.al-ayyam.ps/ar_page.php?id=144a3176y340406646Y144a3176

14 https://unctad.org/system/files/official-document/a75d310_en_1.pdf

15 <https://yhoo.it/3425Dp8> / <https://wapo.st/3qL1i3C>

16 <https://www.aliqtisadi.ps/article/79108/195->

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Key Economic Indicators in Palestine, 2016-2020

Indicator	2016	2017	2018	2019	2020	2019	2020 ¹			
						Q4	Q1	Q2	Q3	Q4
Population (One thousand)										
oPt	4,632.0	4,733.4	4,915.3	5,039.0	5,101.2	5,023.3	5,054.5	5,075.2	5,116.9	5,148.4
West Bank	2,803.4	2,856.7	2,953.9	3,020.0	3,053.2	3,011.6	3,028.3	3,039.3	3,061.6	3,078.4
Gaza Strip	1,828.6	1,876.7	1,961.4	2,019.0	2,048.0	2,011.7	2,026.2	2,035.9	2,055.3	2,070.0
Labor market (based on the new definition adopted by PCBS)²										
No. of workers (thousand)	939.6	948.7	956.3	1,010	956	1,044.30	1,009.80	888.7	936.0	995.0
Participation rate (%)	43.8	44	43.5	44.3	40.9	44.4	43.1	38.5	41	41.0
Unemployment rate (%)	23.9	25.7	26.2	25.3	25.9	24	25	26.6	28.3	23.4
- West Bank	17.5	18.4	17.3	14.6	15.7	13.7	14.2	14.8	18.5	14.9
- Gaza Strip	35.4	38.3	43.1	45.1	46.6	42.7	45.5	49.1	48.6	43.1
National accounts (at constant prices) (base year 2015) (million dollars)³										
GDP	15,211.0	15,426.9	15,616.2	15,764.4	14,015.4	4,016.4	3,820.4	3,134.9	3,506.2	3,540.6
- Household expenditure	3,342.9	13,420.3	13,570.1	14,135.4	12,367.2	3,546.3	3,456.2	2,821.0	3,042.4	3,049.9
- Government expenditure	3,584.7	3,093.6	3,318.9	3,115.3	3,207.6	818.7	702.0	761.3	809.3	915.0
Gross capital formation	3,873.8	4,166.9	4,260.3	4,198.7	3,207.1	1,056.4	934.2	658.1	780.1	838.8
Exports	2,208.3	2,515.6	2,578.7	2,623.8	2,445.9	706.2	538.1	526.7	652.5	727.2
Imports (-)	7,796.3	7,901.5	8,256.8	8,368.4	7,084.7	2,052.3	1,843.9	1,501.3	1,782.1	1,955.9
GDP per capita (USD)										
at Current prices	3534.4	3620.5	3562.3	3640.1	3,235.00	938.6	887	706.7	800.9	837.4
at Constant prices (base year 2004)	3489.8	3463.1	3417.7	3364.5	2,913.90	848.8	802	653.8	726.5	728.8
Balance of Payment (USD millions)										
Trade Balance	(5,664.5)	(5,967.4)	(6,425.7)	(6,500.7)	(5,452.9)	(1,556.5)	(1,478.9)	(1,120.0)	(1,351.0)	(1503.0)
Income Balance	1,896.0	2,129.0	2,786.2	2,658.0	2,546.6	685.1	684.6	424.0	697.0	741.0
Current Transfers Balance	1,626.2	1,708.7	1,499.1	2,009.2	1,833.6	458.8	445.6	464.0	454.0	470.0
Current account Balance	(2,142.7)	(2,129.7)	(2,140.4)	(1,833.5)	(1,072.7)	(412.6)	(348.7)	(232.0)	(200.0)	(292.0)
Exchange Rates and Inflation										
USD/NIS exchange rate	3.84	3.6	3.59	3.56	3.441	3.492	3.496	3.514	3.419	3.335
JOD/NIS exchange rate	5.42	5.08	5.07	5.03	4.840	4.926	4.931	4.943	4.798	4.692
Inflation rate (%) ⁴	(0.22)	0.21	(0.19)	1.58	(0.73)	(0.27)	(0.39)	(1.20)	(00.2)	1.21
Public Finance (cash basis USD million)										
Net domestic revenues (including clearance)	3,551.0	3,656.5	3,462.9	4,361.3	3,802.1	1,099.4	973.5	487.7	275.8	1,789.1
Current expenditure	3,659.3	3,791.4	3,660.1	4,518.6	4,686.8	1,362.9	830.9	419.1	731.9	1,972.8
Developmental expenditure	216.5	255.3	276.9	246.6	207.8	67.9	21.4	33	39.1	75.3
current budget deficit\surplus (before grants)	(324.8)	(390.2)	.0474	(403.9)	(1,092.6)	(331.4)	121.2	35.6	(495.1)	(258.9)
Total grants and aid	766.3	720.4	664.8	669.2	565.9	115.8	79.7	196.8	101.8	85.0
Total budget deficit\surplus (after grants and aid)	442.1	329.6	190.9	265.3	(526.7)	(215.6)	200.9	232.4	(393.3)	(173.9)
Public debt	2,483.8	2,543.2	2,369.5	2,795.1	3,649.2	2,795.0	2,886.7	3,080.9	3,460.2	3,649.2
The Banking Sector (USD millions)										
Banks assets/liabilities	14,196.4	15,850.2	16,125.0	17,825.5	19,934.5	17,825.5	17,710.0	18,248.1	18,625.0	19,934.5
Equity	1,682.4	1,892.7	1,912.0	1,985.2	1,973.8	1,985.2	1,996.9	1,994.6	1,959.1	1,973.8
Deposits at banks	10,604.6	11,982.5	12,227.3	13,384.7	15,137.4	13,384.7	13,303.8	13,738.7	14,061.9	15,137.4
Credit facilities	6,871.9	8,026.0	8,432.3	9,039.1	10,075.1	9,039.1	9,249.9	9,652.7	9,894.0	10,075.1

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.