# Economic Monitor

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2020

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

# Economic Monitor Issue 61-62/2020

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## The major development over Q1 and Q2 2020

- Q1 GDP: GDP dropped during Q1 2020 by 4.9% (at constant prices) and 3.4% compared with the previous and corresponding quarters, reaching USD 3.8 billion. This is attributed to a contraction in the West Bank by 4.6% and 6.1% in the Gaza Strip. This drop accompanied by an increase in the population, resulted in an increase in the per capita GDP by 5.5% (5.2% in the West Bank and 6.8% in the Gaza Strip) compared with Q4 of 2019 reaching USD 802.
- Q2 GDP: According to the PCBS, the majority of economic activities were on the decline in Q2 2020 compared with the previous quarter and the corresponding quarter 2019, except for the public administration and defense, and the financial and insurance sector. The construction sector was among the hardest hit productive sectors by the pandemic. The sector's added value decreased in Q2 2020 by 37% compared with the previous quarter, and 48.8% compared with the corresponding quarter 2019; then comes the trade sector by 28.5% and 27.1%; the transport and storage sector by 26.8% and 18.7%; the added value of the services sector decreased as well by 20.5% and 23.7%, respectively.
- Employment and Unemployment: The unemployment rate in Palestine increased by 1.6 percentage points over the consecutive quarters Q1 and Q2 2020, reaching 26.6% (14.8% in the West Bank and 49.1% in the Gaza Strip). The average daily wage in Palestine reached NIS 120.6; around NIS 120.2 in the West Bank, NIS 59.3 in the Gaza Strip, and NIS 254.6 in Israel and its colonies. The private sector waged workers who earn wages below the minimum wage was 34% (25.1% for females and 35.4% for males).
- Public Finance: Net public revenues and grants declined by 34% in Q2 2020 compared with the previous quarter, reaching NIS 2.4 billion. This is due to the decline in clearance revenues by 47%, domestic revenues by 54%, while grants and foreign aid increased significantly by 149%. Public revenues decreased by 46% reaching NIS 1.6 billion (cash basis). During the quarter, government arrears reached NIS 2 billion, and public debt rose by about 3% compared with the previous quarter, standing at NIS 10.6 billion.
- Banking Sector: During Q2 2020, credit facilities increased by 4% compared with the previous quarter, reaching USD 9.7 billion, 18% of which were granted to the public sector. Additionally, deposits rose by 3% compared with the previous quarter, reaching USD 14.9 billion. Banks' profits reached USD 13.1 million, a drop of 66% compared with the previous quarter.
- PEX: By the end of Q2 2020, the market value of traded shares in PEX was USD 3.4 billion, a drop of 4% compared with the previous quarter. Al Quds index closed at 470.8 points, a decrease of 6% compared with the previous quarter.
- Inflation and Prices: Negative inflation (decrease in prices) during Q2 2020 was 1.2% compared with the previous quarter. This reflected as an improvement in the purchasing power of those who receive their salaries and spend them in NIS by the same ratio over the consecutive quarters, whereas, those who receive their salaries and spend them in USD and JD has declined by 1.70%.

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

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# FOREWORD

It is an honor to present, for the first time in person, this double issue of the Economic Monitor, covering the first and second quarters of 2020. The first-ever issue of the Monitor was published 22 years ago in 1997. Since then, the Economic Monitor has been published continuously, in different formats (annually and quarterly), and under various headings (economic and social). This is evidence of its vitality and responsiveness to emerging conditions, and its continuous scientific progress and expansion. Today, in its 23rd year, the quarterly Monitor appears in a modern format, in line with current developments and influenced by a generation of capable, young researchers. We hope that the new formula for presenting the Monitor helps spread its benefits to a wider base of readers.

This double issue of the Monitor is grounded in difficult economic, social, and political circumstances. The first is the escalating danger of Israeli settler-colonialism, and the second is the spread of the Covid-19 pandemic. Since the spring of 2020, the pandemic has had an impact on all aspects of life, work, and planning. It has also affected the sustainability of public, private, and civil institutions, not only financially, but also in terms of the usefulness of their functions and the relevance of their existence.

This global phenomenon, which reconsiders the "value of things", includes a reassessment of many axes, such as the importance of good health, job security, the value of jobs and work, freedom of travel, tourism, consumption, and the need for protection and social justice. There has been a marked shift in global economic thought and policies regarding the role of government in securing health and social care and in protecting jobs, as well as other issues that the scientific community has long argued over.

MAS was not immune to the effects of the 2020 crisis; it faced challenges in the scientific, functional, and administrative reorganization of its own efforts in order to "respond and recover". First, a special issue of the Economic Monitor was published in May, providing a preliminary reading of anticipated macroeconomic and sectoral developments, as well as potential transformations in the social system due to the significant economic downturn. MAS also held a number of roundtable sessions devoted to the issue of the pandemic and its policy implications, as well as additional, thorny economic issues facing Palestine. MAS undertook a number of in-depth studies on various economic and social dimensions of the 2020 crisis.

With regards to the Economic Monitor, since the emergence of the current economic crisis, MAS conducted an internal review and consultative process with three institutional partners on improving research content, sectoral coverage, and analytical methods. This process has taken into account major transformations and developments in the economic and political landscape since the adoption of the quarterly format for the Monitor in 2005, and its subsequent re-design in 2016. In this new issue, regular readers of the Monitor will find updates on all indicators that were previously monitored, with more emphasis on analytical methods and less on narrative ones wherever possible, while keeping entire sections unchanged in their coverage (labor markets, public finance, banking/non-banking financial sectors, as well as the section on economic definitions).

Focus has been placed on the Palestinian economy, reinforced through a new first section (real economy) which looks at economics from the perspective of the main productive sectors and the most prominent aspects of associated infrastructure. A regular section on social development has also been integrated into the Monitor, focusing on poverty, marginalization, and the challenges of social transformation under occupation. There is also a new section summarizing some notable publications on the Palestinian and global economy during the period covered. An appendix entitled "Quarterly Economic Highlights" has also been included, documenting the policies that shape the systematic monitoring of statistical indicators across different sections of the Monitor. Emergency circumstances necessitated a double issue of the Economic Monitor for the first two quarters of 2020. In light of upcoming developments, this may be repeated for the third and fourth quarters of this transitional year in the life of the Monitor.

Last but not least, a group of both veteran and young researchers and editors participated in the modernization of the Monitor's design. Since 2012, Dr. Numan Kanafani has had the arduous task of presiding over the publication of 32 quarterly issues of this distinguished Palestinian periodical. Here, we record the Institute's appreciation of his distinguished research efforts and contributions, well as the efforts of those who preceded him. They brought the Economic Monitor to its current position as the most-sustainable, scientific periodical in Palestine, when many others have lost momentum. We hope that new editorial and research content adopted this year will help to preserve this valuable legacy.

In this publication on vital developments in the Palestinian economy and society, we hope that researchers, policy-makers, and interested citizens alike will find knowledge that will benefit them and their contribution to progress.

Raja Khalidi
Director-General
Palestine Economic Policy Research Institute (MAS)

# 1. The Real Economy

## 1.1 Production and Spending[1]

Gross Domestic Product (GDP) is the monetary measure of the market value of all types of goods and services produced in an economy during a specific period of time. Palestinian GDP continued declining in Q1 2020, by 4.9% compared with the previous quarter, reaching USD 3,820.4 million (at 2015 constant prices), based on the preliminary statistics released by the PCBS (Figure 1-1). This decline distributes as 4.6% in the West Bank and 6.1% in the Gaza Strip. However, GDP grew by 3.4% compared with the corresponding quarter (Q1 2019). Given the current economic stagnation in Q2 2020 following the lockdown measures taken to control the COVID-19 pandemic in April and the following months, as well as the PNA's heightened fiscal crisis in June, it is expected that GDP will continue its downward trajectory.

GDP rose by 2.6% during the last three months of 2019 compared with the previous quarter, which was driven by the positive contribution of domestic consumption (1.1%), significant improvement in external trade which is ascribed to the large export increase (11.1%), and the drop in imports (2.9%). Despite no detailed data on exports yet, this seasonal change in foreign trade may be attributed to the increase in olive oil exports during the last quarter of the year. As for the decline in imports, it is ascribed to the political and economic uncertainty that was looming in 2019, and the clearance crisis that the PNA faced then, which led to public employees receiving half their salaries during Q2 and Q3; a situation that led to the decline in consumption and the pile up of goods. During the last quarter, the improvement in consumption was driven by the PNA's payment of all deferred dues to public employees following an agreement with the Israeli authorities, upon which a large portion of the withheld clearance revenues was released. During the last quarter of 2019, the rise or the static added value of the main economic activities was noticeable as well.

However, the spread of COVID-19 has reversed this positive improvement, severely impacting economic activity by the end of February 2020. As shown in PCBS data, the 4.9% drop in GDP during Q1 2020 is mainly the result of the sharp decline in demand and production, especially household consumption (-2.6%), government spending (-14.3%), and total investment (-11.6%) (Figure 1-2). The contribution of foreign trade, on the other hand, was positive during the studied quarter, as the drop in imports (USD 208.4 million) outpaced that of exports (USD 168.1 million).

During Q1 2020, the added value of all the main sectors declined compared with Q4 2019, especially in industry (-9.4%) and construction (-20.7%). Similar indicators are shown below, compared with the corresponding quarter of the previous year (Figure 1-2).

**Figure 1-1: Palestinian GDP by quarter. 2016-2020 (at constant prices) (USD million) (Base year 2015)**

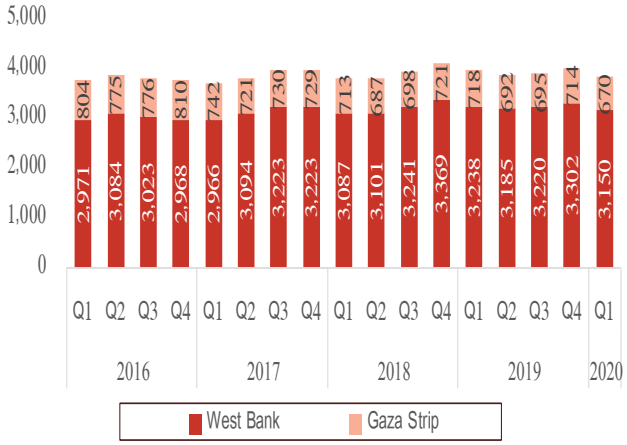
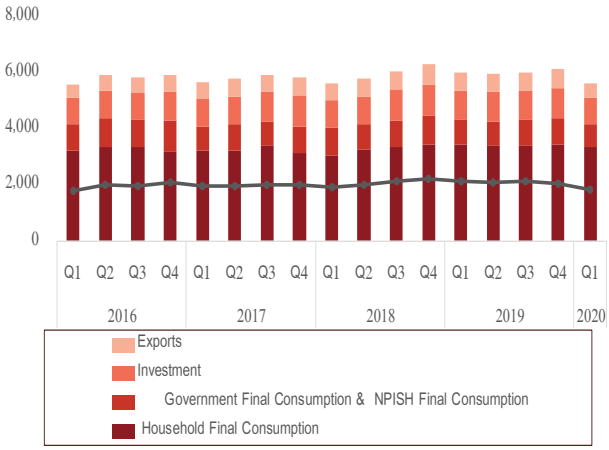



**Figure 1-2: Expenditure on Palestinian GDP, 2016-2020 (Constant prices, Base year 2015) (USD billion)**




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

Based on preliminary indicators, GDP is expected to decline in Q2 2020. Additionally, this decline is expected to exceed the decline in Q1 2020; the economic slowdown in Q1 was sharper than Q2, as Q1 witnessed the spread of the pandemic and the PA's introduction of precautionary measures to curb its spread. These include the closure of all "non-essential and essential" economic activities from mid-March to the last third of April, representing about 40% of the total value added of all activities.[2]

The latest periodic indicators, such as the PMA's Business Cycle Index (PMABCI) and the overall Industrial Production

1 Most of the statistical data in this section is taken from PCBS, especially the Periodic Statistics on National Accounts. Other sources of data will be referred to when used.
At the time of preparing this issue of the Monitor, the statistical data for Q2 2020 was not yet released officially. Thus, the analysis is based on Q1 2020, with a special subsection presenting the most important developments in economic activities during Q2 2020, based on unpublished data, subject to revision and amendment.

2 Estimated figures.

Index (IPI), show that economic activity reached its lowest point in all main economic sectors in April, and showed signs of improvement from May onward. This happened in conjunction with the gradual easing of measures applied to production (closure) and the advent of the holy month of Ramadan, which is a significantly busy month for markets. However, still affected by the fall in Q1, PMABCI remained in the negative zone (Figure 1-3), and its contraction trebled in Q2 compared with its already low level in Q1.

Although there is no official data available yet, household spending is forecasted to continue to fall starting in April because of measures introduced to contain the pandemic. Yet, with the advent of Ramadan and Eid al-Fitr and the gradual easing of lockdown measures, the situation may improve in the month of May. Overall, a periodic review of performance indicators in Q2 presents a drop in consumption as well, especially of some types of services and durable goods. For example, the registration of new cars recovered partially in May, following its drop to nearly zero in April; yet, it is still less than half of its level before the spread of the pandemic and the imposition of lockdown measures (Figure 4-1).

Notably, the shrinking disposable income, uncertainty, and increased precautionary savings can cause suppression in consumption for the rest of the year, which coincided with the reemergence of the PA's financial crisis by the end of June, i.e. paying only half of public employees' salaries and the rationalization in public spending. All of these issues are expected to put further negative pressure on GDP in the second half of 2020.

During Q1 2020, investments dropped by 11.6% compared with the previous quarter, as a result of the decrease in building capital formation by 15.9%, non-building by 4.8%, and inventory by 4.7%. It appears that Q2 expectations are more unpromising, as the preliminary estimates of the PCBS show a 16.7% drop in building permits in Q1 2020, followed by a 45.0% drop in Q2.[3]

### GDP per capita

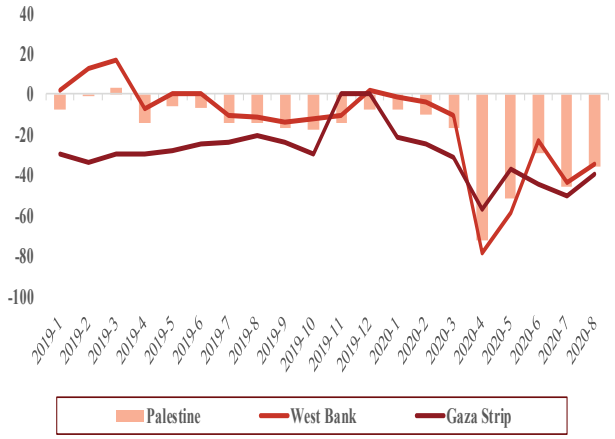
During Q1 2020, the GDP decline that was accompanied by an increase in the population resulted in a decrease in the per capita GDP by 5.5% (5.2% in the West Bank and 6.8% in the Gaza Strip) compared with Q4 2019, reaching USD 802. Compared with the corresponding quarter in 2019, per capita GDP decreased by 5.9% (5.1% in the West Bank and 9.4% in the Gaza Strip), which is its lowest point since Q3 2014.

### Economic Impacts of COVID-19

At the end of April 2020, the PCBS forecasted that the coronavirus pandemic would cause a loss in GDP of nearly USD 2.5 billion (13.5%,the difference between the pandemic and baseline scenarios), assuming that the effects of the lockdown measures will continue until the end of May.[4] The PCBS predicted a decrease in private and public spending of USD 1.3 billion (5.2%) and investments by nearly USD 2.1 billion (43.4%). At the level of economic activities, it is expected that the services sector will be the most affected by the crisis with USD 1.2 billion in losses, followed by the industrial sector (USD 362 million), the construction sector (USD 220 million), and the agriculture sector (USD 200 million).

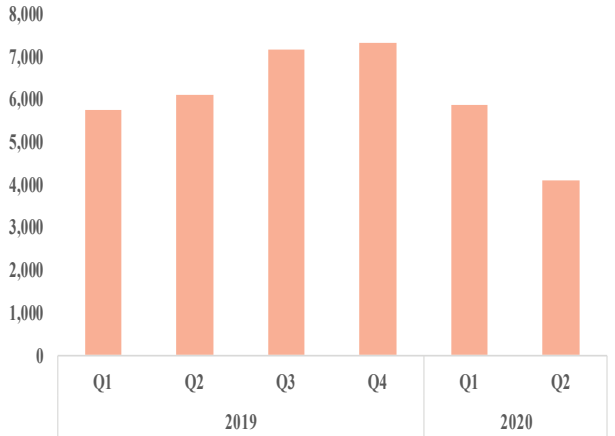
MAS projections of the pandemic's impacts on the West Bank were different. In relation to the baseline scenario, Palestine's GDP is expected to shrink by 20.9% in 2020 compared with 2019, which is ascribed to the demand shock caused by the reduction in private and government consumption spending (by 22% and 15.9%, respectively), investments by 26.3%, exports by 3%, compared to a decline of 17.3% in imports.[5] The PMA has also issued its own projections, which were less severe than the forecasts of the PCBS and MAS (Refer to Table 1-1, and the special issue of the Economic Monitor).[6]

**Figure 1-3: PMABCI, 2018-2020**




Source: PMA, PMABCI, Aug 2020.

**Figure 1-4: New and Second-hand Vehicles Registered for the First Time in the West Bank by Quarter, 2019-2020**




Source: MoF 2020, Palestinian Customs and Excise Dep. Unpublished data.

3 PCBS, 2020, Statistics on Building Licenses, and the MoF, 2019,

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

5 The first scenario is built on the assumption that the government succeeds in containing the spread of the virus during the emergency state, and the precautionary measures are lift gradually upon the end of that period : http://www.mas.ps/files/server/20200705223647-2.pdf

6 https://bit.ly/2K9y9uH

## 1.2 Productive sectors[7]

During Q1 2020, the value added of the productive sectors dropped by 11.6% compared with the previous quarter, and 6.0% compared with the corresponding quarter in 2019, reaching USD 931.9 million (base year 2015). The contribution from these sectors to GDP decreased as well from 26.2% in Q4 2019 to 24.2% in Q1 2020. By the end of Q1 2020 until the middle of Q2 2020 (mid-March to May), as a result of the measures introduced to combat the spread of the pandemic, the productive sectors witnessed several changes; some improved along with the improvement in some activities, while others declined. Following that period, some productive activities started expanding, yet other sectors continue to suffer from the persistent crisis and decline compared with previous years.

### Agriculture Sector

The data show that the value added of agricultural, forestry, and fishing activities decreased in Q1 2020 by 8.5% compared with Q4 2019, while it increased by 4.3% compared with the corresponding quarter in 2019. This is ascribed to olive harvesting (agricultural activity) in the fourth quarter of the year, which has increased annual agricultural production and contribution to GDP. The contribution of agricultural activities to GDP reached 7.2% compared with 6.7% in Q1 2019. The value of the agricultural sector's contribution to GDP amounted to USD 276.4 million in Q1 2020 (Figure 1-5).

### Industrial Sector

During Q1 2020, the value added of the industrial sector declined by 9.4% compared with the previous quarter, and 7.0% compared with the corresponding quarter in 2019. This decline resulted from the drop in the value added of mining and quarrying activities by 19% and 26.9% respectively and manufacturing activities by 11.9% and 7.7% respectively. At the same time, the value added of electricity, gas, and steam supplies; and air conditioning increased by 17.4% and 5.1% respectively, and water supply; sanitation, waste management, and treatment activities increased by 1.9% and 0% respectively. Nevertheless, their impact on the overall industrial activity was limited due to their modest contribution of less than 13.5% to the value added of the industrial sector (Table 1-2). The share of the industrial sector in GDP decreased by the end of Q1 2020 to around 12.4%, compared with 13.0% in Q4 2019 and about 12.9% in the corresponding quarter in 2019.

Additionally, the total IPI decreased by 24.6% during March 2020 compared with the previous month, but it began to rise and recover in May, exceeding the general level for the year 2019 in June, and is showing signs of recovery that may continue during the third quarter of 2020. This change reflects the special nature of the industrial sector, which may be able to compensate for its losses during the closure period by increasing production afterwards, if demand and production capacity allow. Such a characteristic is not present in other sectors (see Figure 6-1).

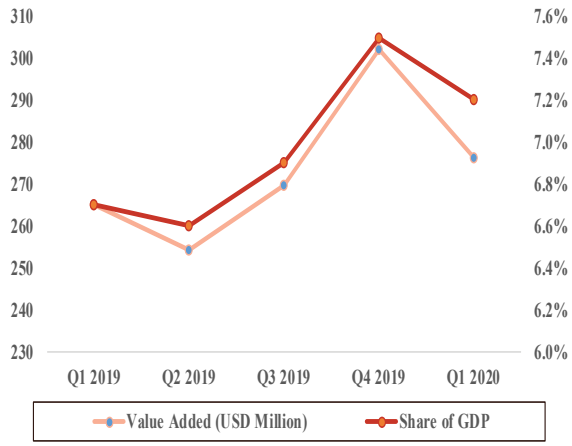
7 Source of Figures: PCBS, 2020. Periodic Statistics on National Accounts, 2000-2020. Ramallah, Palestine

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

| Institution | PCBS | MAS | PMA |
|---|---|---|---|
| GDP | -13.5% | -20.9% | -8.5% |
| Private Spending | -5.2% | -22.0% | -10.0% |
| Government expenditure | - | -15.9% | 3.2% |
| - Gross capital formation | -43.4% | -26.3% | -21.2% |
| Exports | -2.0% | -3.0% | -25.4% |
| Imports | -7.8% | -17.3% | -18.9% |
| Public revenues | -25.5% | -24.4% | - |
| Manpower | -16.6% | -17.4% | - |

Source: PCBS, PMA, and MAS.

**Figure 1-5: The value added and the quarterly contribution of the agricultural sector to GDP, 2019-2020**




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

### Construction

The construction sector was one of the Palestinian productive sectors most affected by the spread of the pandemic, as the added value of the sector decreased in the first quarter of 2020 by 20.7% compared with the previous quarter, and 16.1% compared with the corresponding quarter in 2019. By the end of Q1 2020, the construction sector's contribution to GDP decreased to about 4.8%, compared with 5.7% in Q4 2019 and 5.4% in Q1 2019. This reflects the high risks and vulnerability of the construction sector to any changes in the market, and uncertainty among Palestinian consumers during the study period, as most of the investments in Palestine are located in the construction sector (61% of investments in 2019). As mentioned earlier, the same declining trend is expected to continue during Q2 2020, as preliminary estimates show a 16.7% decline in building permits in Q1 2020, followed by a 45.0% drop in Q2 2020. The number of building licences issued for residential and non-residential buildings reached 1,217 during Q2 2020, only 813 of which were new building licences. The number of new residential units, on the other hand, decreased by 50% during Q2 2020 compared with Q1 2020, and 44% compared with the corresponding quarter 2019 (Figure 7-1).[8]

8 PCBS, 2020, Statistics on Building Licenses, 2020.

**Table 1-2: Quarterly comparison of the value added of the industrial sectors (USD million) (base year 2015)**

| Economic activity | Q1 2019 | Q4 2019 | Q1 2020 | % Change compared to previous quarter | % Change compared to corresponding quarter |
|---|---|---|---|---|---|
| Mining and quarrying | 17.5 | 15.8 | 12.8 | -19.0% | -26.9% |
| Manufacturing industries | 429.4 | 449.8 | 396.2 | -11.9% | -7.7% |
| Electricity, gas, steam and air conditioning business | 45.5 | 40.7 | 47.8 | 17.4% | 5.1% |
| Water, sanitation, waste management and treatment | 15.9 | 15.6 | 15.9 | 1.9% | 0.0% |
| Mining, manufacturing industries, water and electricity | 508.3 | 521.9 | 472.7 | -9.4% | -7.0% |

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

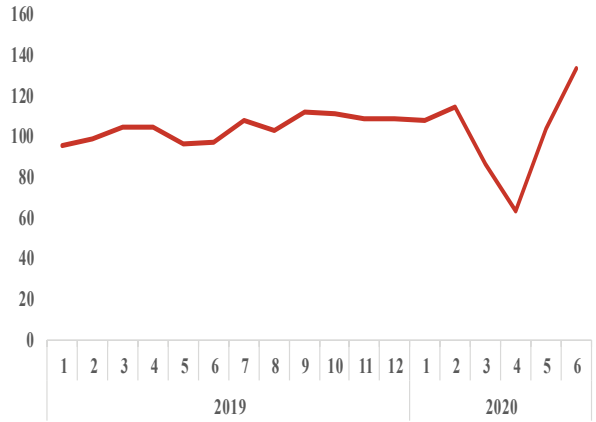
## 1.3 Service sectors

Table 1-3 shows the economic activities that make up the service sectors in the Palestinian economy. The added value of these sectors decreased in Q1 2020 by 2.9% compared with Q4 2019, and by 2.3% compared with the corresponding quarter in 2019, reaching USD 2,316.7 million (base year 2015). Yet, the contribution of these sectors to GDP increased from 59.5% in Q4 2019 to 60.6% in Q1 2020 (Figure 1-8). The high contribution of the service sectors is explained by the significant decline in the added value of the productive sectors, reaching 11.6% and 6.0% respectively, as mentioned earlier.

As shown in the same Table (1-3), the decline in the added value of the service sectors compared with the previous quarter resulted from a decline in economic activity in all sub-sectors except for transportation and storage, professional and scientific activities, education, administrative and support services. Arts, entertainment, and recreation activities saw the biggest drop in Q1 2020, with a 23.5% fall compared with the previous quarter, followed by a drop of 20.6% in real estate and leasing activities, and a drop of 17.8% in accommodation and food services. These developments reflect the significant impact of the coronavirus pandemic. For example, during the first lockdown imposed in March, demand for storage services increased. Also, strategies to combat the pandemic required investing in professional and scientific activities to develop tools for remote working, which in turn, necessitated additional administrative support services. Apart from that, hotels, restaurants, sports clubs, wedding halls, and others were the first economic activities that were closed during the pandemic. The high uncertainty and negative expectations about the future has led to shifts away from consumer demand for discretionary and durable goods and services. The significant decline in these activities may indicate the size of the expected decline in Q2 2020, which experienced longer closure periods lasting for more than a whole month continuously, and two months intermittently.

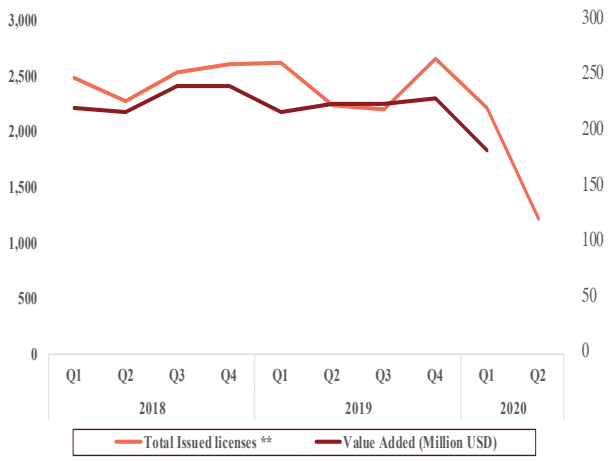
Although the national accounts statistics for the whole period of Q2 2020 are still unavailable, primary data on the tourism sector show clearly the adverse impact of the pandemic on

**Figure 1-6: Overall monthly index of industrial production quantities, 2020**




Source: PCBS, 2020. Price Indices Surveys, 2010-2019.

**Figure 1-7: Building licences issued in Palestine and value added of the construction sector (Base year 2015), Q1 2018 - Q2 2020**




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

**Table 1-3: The Added Value of the Service Sectors by Quarter ( Million USD) (base year 2015)**

| Economic activity | Q1 2019 | Q4 2019 | Q1 2020 | % Change compared with previous quarter | % Change compared with corresponding quarter |
|---|---|---|---|---|---|
| Wholesale and retail trade, and vehicles and motorcycles repair | 853.6 | 856.4 | 840.2 | -1.9% | -1.6% |
| Transportation and storage | 71.4 | 65.4 | 66.7 | 2.0% | -6.6% |
| Financial and insurance activities | 156.9 | 159 | 157.8 | -0.8% | 0.6% |
| Information and telecommunication | 126.5 | 124.4 | 118.2 | -5.0% | -6.6% |
| Accommodation and food catering services | 66.9 | 55.2 | 45.4 | -17.8% | -32.1% |
| Real estate and leasing activities | 169.5 | 177.5 | 141 | -20.6% | -16.8% |
| Professional, scientific and technical activities | 48 | 46.1 | 62 | 34.5% | 29.2% |
| Administrative services and support services | 28.9 | 23.7 | 38.2 | 61.2% | 32.2% |
| Education | 230 | 227.8 | 228.1 | 0.1% | -0.8% |
| Health and social work activities | 130.5 | 136.3 | 133.6 | -2.0% | 2.4% |
| Arts and entertainment | 18.4 | 22.6 | 17.3 | -23.5% | -6.0% |
| Other services | 76.2 | 61.7 | 65.8 | 6.6% | -13.6% |
| Public administration and defense | 393.1 | 426.7 | 400.4 | -6.2% | 1.9% |
| Housekeeping services | 1.4 | 1.4 | 1.4 | 0.0% | 0.0% |
| Financial intermediation services measured indirectly | 0 | 0 | 0 | 0.0% | 0.0% |
| Service sectors | 2371.3 | 2384.2 | 2316.1 | -2.9% | -2.3% |

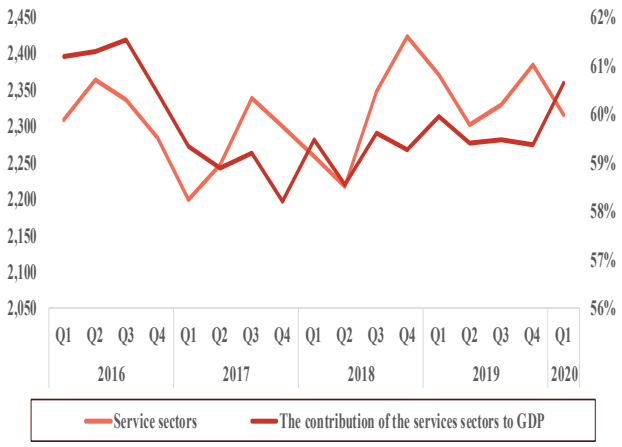
Source: PCBS 2020, Quarterly National Accounts, 2000-2020. Ramallah, Palestine.

the sector. Despite a 7% increase in tourist site visitors in the West Bank during January and February 2020, the first half of 2020 witnessed a significant decrease in the number of inbound visits by 64% compared with the corresponding period in 2019, reaching approximately 658,200 visits. By governorate, the number of inbound visits decreased in all the governorates of the West Bank except for Tulkarm where it increased by 17% compared with the corresponding period in 2019. Also, despite the increase in the number of nights stayed in hotels in January and February by 22% and 8%, respectively, these figures decreased by 60% during the first half of 2020 as compared with the corresponding half of 2019, reaching around 377,500 nights (Figure 1-9).

### 1.4 Preliminary estimates of national accounts statistics for Q2 2020

While GDP data for Q2 2020 have not yet been released, based on the PCBS's preliminary sectoral estimates, most of the economic activities recorded a decline, which confirms the analysis of the first indicators referred to previously. Table 4-1 shows that most economic activities in Palestine were affected by the pandemic and declined compared with the previous quarter and corresponding quarter in 2019, except for the public administration and defense sector, and the finance and insurance sector. Among the productive sectors, the construction sector was most affected by the pandemic, with a drop of 37% in Q2 2020 compared with the previous quarter, and 48.8% compared with the corresponding quarter in 2019. The second-most impacted sector was the trade sector, declining by 28.5% compared with the previous quarter and 27.1% compared with the corresponding quarter in 2019.

**Figure 1-8: The Added Value of the Service Sectors and their Contribution to GDP, million USD (base year 2015)**




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

Following that was the transport and storage sector, which decreased by 26.8% compared with the previous quarter and 18.7% compared with the corresponding quarter in 2019.
Similarly, the added value of the services sector decreased by 20.5% and 23.7% compared with the previous and the corresponding quarters, respectively. Among the services sector,accommodation and food services; professional, scientific, and technical activities; and the arts, entertainment, and recreational activities were the sectors most affected during Q2 2020, as compared with the previous quarter. These sectors were subject to shocks associated with the flow of international, regional, and local tourism in Palestine, which were no less harmful than what other countries

**Table 1-4: Change in GDP by Region and Economic Activity, Q2 2020 (at constant Prices) (Base Year 2015)**

| Economic activity | Palestine | | West Bank | | Gaza Strip | |
|---|---|---|---|---|---|---|
| | Palestine | West Bank | Gaza Strip | Corresponding quarter | Previous quarter | Corresponding quarter |
| | Previous quarter | Corresponding quarter in 2019 | Previous quarter | | | |
| Agriculture and fisheries | -13.1% | -5.6% | -9.1% | -5.8% | -21.6% | -5.2% |
| Mining, manufacturing, water and electricity | -14.1% | -20.5% | -15.1% | -21.7% | -6.8% | -11.7% |
| Mining and quarrying | -14.8% | -40.4% | -14.4% | -41.2% | -33.3% | 100.0% |
| Manufacturing industries | -12.7% | -20.5% | -14.8% | -21.8% | 11.1% | -7.2% |
| Electricity, gas, steam, and air conditioning businesses | -27.4% | -16.2% | -23.6% | -7.5% | -31.8% | -25.4% |
| Water, sanitation, waste management and treatment | -8.8% | -11.6% | -7.8% | -18.1% | -12.9% | 35.0% |
| Construction | -37.0% | -48.8% | -40.1% | -50.0% | -24.0% | -44.4% |
| Wholesale and retail trade, and vehicles and motorcycles repair | -28.5% | -27.1% | -29.3% | -26.8% | -23.6% | -28.7% |
| Transportation and storage | -26.8% | -18.7% | -29.6% | -19.8% | -11.1% | -12.9% |
| Financial and insurance activities | 2.8% | 4.1% | 2.9% | 4.5% | 1.8% | 1.2% |
| Information and telecommunication | -5.5% | -7.3% | -5.4% | -7.3% | -7.1% | -7.1% |
| Services | -20.5% | -23.7% | -24.2% | -26.1% | -8.5% | -16.3% |
| Accommodation and food catering services | -45.4% | -57.2% | -43.6% | -60.4% | -49.3% | -47.1% |
| Real estate and leasing activities | -29.4% | -43.1% | -40.1% | -50.0% | 1.4% | -25.9% |
| Professional, scientific, and technical activities | -50.6% | -35.4% | -51.6% | -35.6% | -35.9% | -34.2% |
| Administrative and supporting services | -36.1% | -19.5% | -39.1% | -20.5% | -3.1% | -11.4% |
| Education | -2.7% | -3.9% | -2.4% | -3.3% | -3.7% | -5.9% |
| Health and social work activities | 4.9% | 4.9% | 6.0% | 6.2% | 2.8% | 2.6% |
| Arts and entertainment | -53.2% | -59.1% | -69.7% | -77.2% | -16.7% | 12.5% |
| Other services | -51.8% | -52.3% | -52.0% | -50.1% | -51.0% | -61.7% |
| Public administration and defense | 0.2% | 5.7% | 0.5% | 6.7% | -0.3% | 3.6% |
| Housekeeping services | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |

Source: PCBS, 2020. Quarterly National Accounts Statistics 2020, Ramallah, Palestine. Estimates, unpublished data.

dependent on this important source of income, labor, and investment had experienced. As long as restrictions on global movement remain in place, they pose an imminent threat to these sectors. At the regional level, the impact of the pandemic on the economic sectors in the West Bank was more severe than its impact on the economic sectors in the Gaza Strip, except for the agricultural sector and the information and communication sector (compared with the previous quarter).[9]

## 1.5 Prices[10]

The consumer price index (CPI) measures the prices of a selection of primary goods and services that reflect the average consumption pattern of families in an economy. This group of goods and services is referred to as the "consumption basket". The average change in the CPI between the beginning and the end of a given period measures the inflation rate, which reflects the average change in the purchasing power of families and individuals' income.

### Price Index

The figure below shows two curves. The first curve measures the average change in CPI (left axis) between Q1 2017 and Q2 2020. The second curve (right axis) measures the percentage change in the CPI each quarter compared with its previous quarter, i.e. the quarterly inflation rate.

During Q2 2020, the Palestinian CPI was 100.33 compared with 101.53 in Q1 2020, i.e. the inflation rate in Q2 2020 was negative, dropping to -1.2% from -0.4% in Q1 2020. The drop in the CPI inflation during Q1 mainly represents the drop in the transport and communications index (-4.3%), food and soft drinks (-2.0%), and textile, garments, and footwear (-1.1%). However, this decline was offset, to some extent, by slight inflationary pressures driven by increased prices of insurance and financial services (1.2%), and recreational and cultural goods and services (0.8%). During Q2 2020, the Palestinian CPI decreased by 1.5% compared with the corresponding quarter in 2019 (Figure 1-10).

9 Source: PCBS, 2020. Quarterly National Accounts Statistics 2020, Ramallah, Palestine. Estimates, unpublished data.

10 Source of figures: PCBS, 2020. Price Indices Surveys, 2010-2020.

**Figure 1-9: The % change in the number of inbound visits by month during 2020 compared with the corresponding month in 2019**


Source: PCBS and the Ministry of Tourism and Antiquities (MOTA) A Special Press Release on the occasion of the World Tourism Day

## Wholesale Prices and Producer Prices

The wholesale price index (WPI; sale price to retailers) declined by 0.6% between Q1 and Q2 2020, driven by a decline in wholesale prices of local goods by 0.8% and imported goods by 0.4%. The producer price index (PPI; prices received by domestic producers) also rose by 2.9% quarter on quarter. This resulted from the decline in the producer prices of locally-produced and consumed goods by 3%, and the producer prices of locally-produced exports by 1.5% (Figures 1-11 and 1-12).

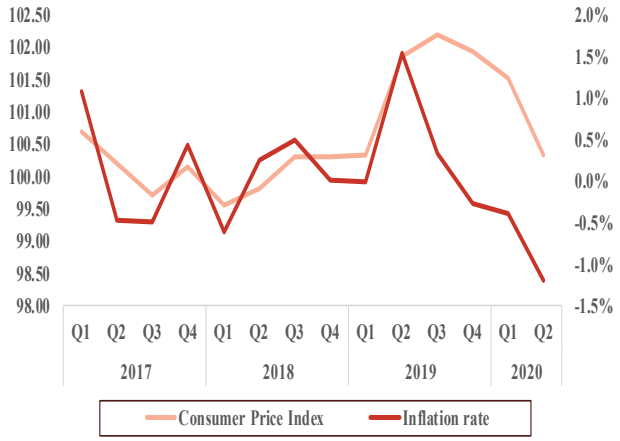
## Prices and Purchasing Power

The purchasing power measures the ability of individuals to buy goods and services using the income that they generate. It is dependent on the level of income, changes in average prices, and the currency's exchange rate. Based on this, the change in the purchasing power (assuming income is constant) = the average change in the exchange rate of the currency against the shekel – the inflation rate.

NIS Purchasing Power: the rate of inflation in an economy measures the development in the purchasing power of all individuals who receive their salaries in NIS and spend all their income in that currency, i.e. the change in the NIS purchasing power is equivalent to the inflation rate, but in the opposite direction, during the same period. The PCBS data indicate that the CPI dropped during Q2 2020 by 1.2% and 1.5% compared with the previous and corresponding quarters, respectively, which represents an improvement in the NIS purchasing power of the same amounts. Note that the development of the NIS purchasing power is negatively proportional to the rate of change in consumer prices during the same period.

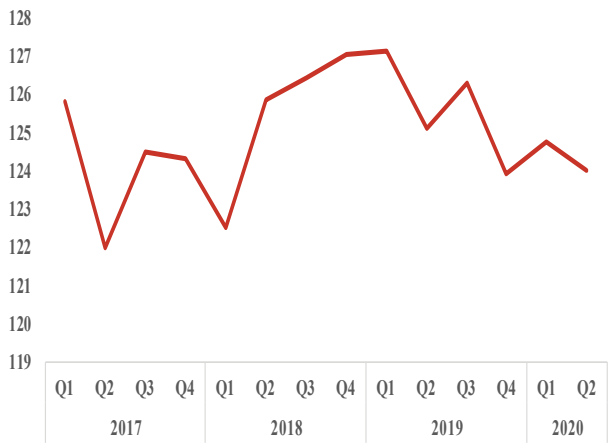
USD Purchasing Power: During Q2 2020, the USD exchange rate against the shekel rose by 0.51% compared with the previous quarter, and by 2.17% compared with the

**Figure 1-10: Change in the Average CPI and the Inflation Rate (Base year 2018)**



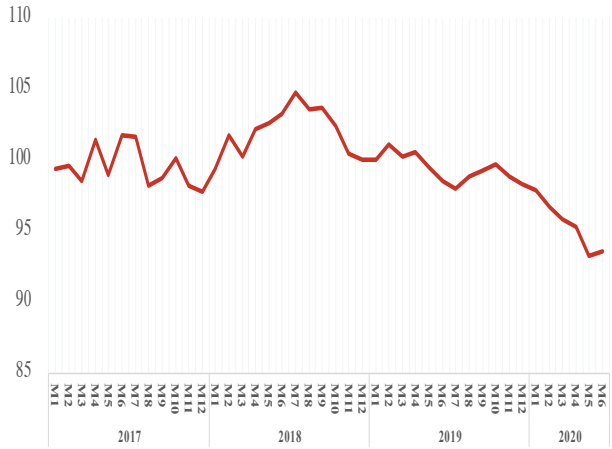

PCBS, 2020. Price Indices Surveys, 2010-2020.

**Figure 1-11: Evolution of WPI and PPI (Base year 2007)**




PCBS, 2020. Price Indices Surveys, 2010-2020.

**Figure 1-12: Evolution of PPI (Base year 2018)**




PCBS, 2020. Price Indices Surveys, 2010-2020.

corresponding quarter in 2019. Therefore, the USD purchasing power of individuals who receive their salaries in USD and spend it in NIS has increased by 1.70% during this quarter compared with the previous quarter, yet it decreased by 0.66% compared with the corresponding quarter in 2019 (Figure 1-13). Given that the JOD exchange rate is pegged to that of the USD, the purchasing power of the JOD has seen almost the same developments as the USD (Figure 1-14).

## 1.6 Economic and social infrastructure

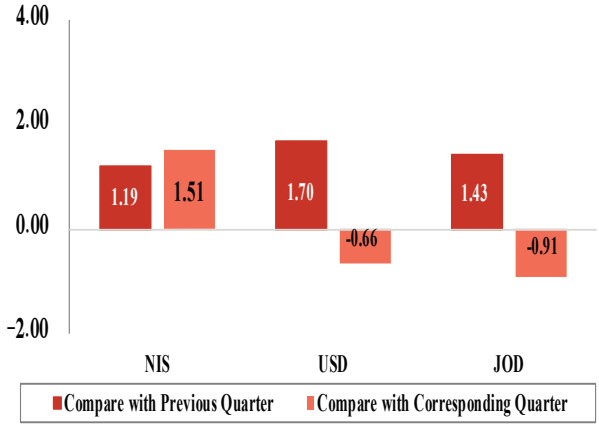
Economic infrastructure is a combination of basic facilities, systems, and services that are necessary for the development of economic and social activities. It includes public and private facilities such as roads, water networks, sewage, electricity, and telecommunication networks (including internet, broadband connection, etc). On the other hand, social infrastructure includes the basic facilities necessary for the provision of social services such as healthcare, education, and security, which will be discussed in section five of this issue of the Monitor. This section discusses water and electricity, while the next issue will discuss roads, sewage, and telecommunications.

Increasing investments in infrastructure have a direct positive impact on GDP and job creation, if managed effectively. This is achieved through the multiplier effect; investments are likely to increase income, leading to an increase in spending, which in turn leads to a second increase in income, etc. The improvement in the stock of the infrastructure creates positive economic externalities, as different types of infrastructure are necessary for all economic sectors. Additionally, its development helps in improving work efficiency for institutions and businesses, not to mention its social importance for the population in providing access to housing and social services. The unique characteristics of infrastructure distinguish it from other types of investments. First, it requires large initial investments given the large size of projects and the high costs of planning and implementation. Also, it shares some characteristics with public goods, such as non-excludability, i.e. it is not possible to exclude people from using these services or infrastructures even if they do not pay for it directly. Therefore, most of the infrastructure projects are either fully funded by the government and/or heavily subsidized, and/or may lead to a natural monopoly[11]. Palestine is no exception. Since the establishment of the PNA, most infrastructure projects have been funded by donor countries, except for the telecommunications and electricity sectors, which depended on private investments, and therefore operated as natural monopolies.

needs. This is especially evident in the domination of the occupying power over the supply of energy and the exploitation of water and mineral resources by considering these assets as commodities that Palestinian citizens can access in return for a price. In the following sections, we review the available performance indicators of infrastructure in a context of geographical and market constraints that limit its development chances. By using facts on the ground, this may serve to formulate a long-term development vision to break free from the grip of the hostile Israeli capitalist colonial

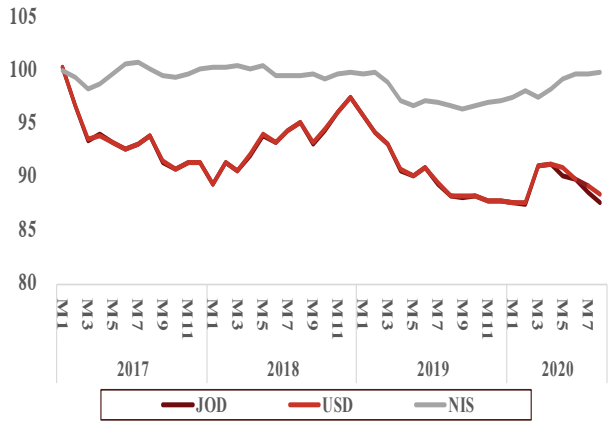
11 A type of monopoly that exists due to the high start-up costs or powerful economies of scale of conducting a business in a specific industry.

**Figure 1-13: The Change in Purchasing Power by Type of Currency, Q2 2020 (percentage)**




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

**Figure 1-14: Evolution of the PPI for fixed income in JOD, USD, and NIS (base year 2016)[1]**




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

Before the establishment of the PNA, the Israeli occupation followed a systematic policy of neglecting infrastructural development in Palestine. To this day, it continues to create many obstacles to hinder the development of infrastructure, especially in so-called area "C", under Israeli security and administrative control. Other forms of obstacles include the prohibition of dual-use imports which contain highly essential goods, as well as the consecutive attacks on the Gaza Strip causing severe damages to infrastructure systems. Moreover, it is well known that the establishment and distribution of Palestinian physical infrastructure networks (energy, water, sewage, and transportation) is evidence of colonial legacies of dependency.[2] The long-lasting occupation has embedded and normalized daily control mechanisms in everything related to the provision of human and physical

1 The purchasing power index was developed using the cumulative linear relative change in the purchasing power assuming fixed income and spending the whole income in the same month.

2 Refer to:
Jabary Salamanca, Omar (2014) "Hooked on electricity: the charged political economy of electrification in the Palestinian West Bank ". Working paper (February) presented in the symposium "Political Economy and Economy of the Political" at Brown University.

project. In addition to providing a quarterly review of the development of economic infrastructure in Palestine, and identifying gaps and manageable solutions, this new section of the Economic Monitor highlights the latest available statistics on economic infrastructures.

## Electricity[12]

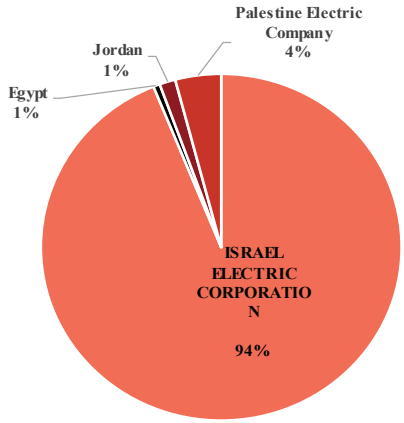
Over the last decade, the electricity sector witnessed positive legislative developments. Yet, the sector struggles with a wide array of challenges; most importantly, restrictions imposed on development in area "C", which preclude the development of a unified electricity network and overhead power lines connecting all Palestinian communities. As a result, the power sector faces structural challenges. These include, the very high power losses amounting to 22%; the dependence on a large number of local authorities for the distribution of electricity who do not pay electricity dues on time and accumulate net lending; their non-compliance with the General Electricity Law, No. 13 of 2009; and the fact that 30% of these authorities have not joined the Electricity Regulatory Council.[13] Other challenges include the weak enforcement of laws and sanctions, and the lack of diversified electricity sources, as Palestine imports around 90% of its power needs. The Israeli Electric Corporation (IEC) supplies the West Bank with more than 99% of its electricity demand and the Gaza Strip with 65%. All these factors affect the quality of services provided and raise costs for distribution companies and citizens.

Most of the Palestinian population has access to electricity. Households consume 60.2% of total energy consumption, which amounted to around 5,576 GWh in 2018. While trade and public services consume 26.4% of total energy consumption, the industrial sector accounts for only 12.8% of total energy consumption. The vast majority of electricity (94%) is imported from the IEC, while only 4% is produced locally (in the Gaza Strip) (Figure 1-5). Also, the average annual per capita of electric power consumption is around 1149 kWh, which is less than the global average of 3131 kWh.[14] The average cost per kWh is around NIS 0.4834 (USD 0.1422) for residential use, NIS 0.6090 (USD 0.1791) for commercial use, and NIS 0.4960 (USD 0.1459) for industrial use, which are higher than the average rates in Jordan (USD 0.11) and Lebanon (USD 0.08), but less than the average rates in Israel (USD 0.17).

## Water

Palestine suffers from severe and chronic water shortages caused mainly by Israeli policies and practices that control Palestinian resources and deprive Palestinians of their legitimate right to water. In addition, Israel controls 90% of the shared groundwater resources in the West Bank, confiscates and exploits Palestinian wells, prevents Palestinians from either drilling artesian wells deeper than 140 cubic metres or establishing water development projects,

**Figure 1-15: Proportional distribution of electric power sources in Palestine, 2018 (MW/h)**




Source: PANRA, 2019. Ramallah, Palestine

especially in area "C", and demolishes hydro projects and deprives Palestinians of their rights to water resources in the Jordan River, estimated at 250 million cubic metres annually.[15] All of these measures are reflected by the per capita daily water consumption of87 litres, which is around the minimum per capita daily amount recommended by the WHO, ranging between 50-100 litres per day in order to meet basic daily needs and prevent diseases. However, Palestinian per capita daily water consumption is well below the levels in Israel and Israeli settlements, which amount to 242 litres per day - another indicator of inequality in access to water between Israeli settlers and Palestinian citizens.[16]

Based on recent estimates, the average water consumption of the household sector is 16.4 million cubic metres per month (MCM/month); 10.5 MCM/month in the West Bank, and 5.9 MCM/month in the Gaza Strip. The average household consumption of water is 18.7 MCM/month; 18.3 MCM/month in the West Bank and 19.7 MCM/month in the Gaza Strip. The vast majority of Palestinian households are connected to a public water network (93.3%), yet data show higher use of water tanks and mineral water in the Gaza Strip (65.4% and 24.9%, respectively) compared with the West Bank (40.6% and 13.5% respectively). This regional discrepancy is caused by the high levels of salinity, contamination, and expansion of areas and types of water pollution in the Gaza Strip, in addition to the depletion of the groundwater basins by an amount that exceeds the annual renewable capacity.[17]

The amount of water available in Palestine is about 389.5 MCM/year: 274.2 MCM are pumped from groundwater wells, 85.7 MCM are purchased from the Israeli Water Company, 25.5 MCM are spring water, and 4.1 MCM are desalinated drinking water. The share of the domestic sector

12 Sources of this section: PNERA, 2019. Ramallah, Palestine PCBS, 2019. Foreign Trade Database, 2018. Ramallah, Palestine PCBS, 2019. Economic Surveys Series, 2018. Ramallah, Palestine

13 http://www.mas.ps/files/server/20191211110418-2.pdf

14 https://data.worldbank.org/indicator/EG.USE.ELEC.KH.PC

15 https://library.palestineeconomy.ps/public/files/server/20151002140337-2.pdf

16 https://www.btselem.org/gap-water-consumption-between-palestinians-and-israelis

17 References: Palestinian Monetary Authority (PMA), 2018. Water Information system Ramallah, Palestine PCBS, 2018. Estimates are based on the final results of the General Census of Population, Housing and Establishments 2017. Ramallah, Palestine

is 55% of the total amount of available water annually, yet water losses account for 31% of the total. In terms of household water quality, 61.1% of Palestinian households stated that it is of good quality, compared with 13.1% who think that it is of bad quality. Table 1-5 presents the average consumer price for water tariffs by region in 2018. The table shows a high discrepancy between the West Bank and the Gaza Strip, which is the result of the West Bank's heavy reliance on water imported from Israel.

**Table 1-5: Average Consumer Price for Water Tariffs by Region, 2018 (NIS/cubic metres)**

| Description | Palestine | West Bank | Gaza Strip |
|---|---|---|---|
| Water tariffs for consumption category (0-5) cubic metres/month | 3.07 | 3.98 | 1.12 |
| Water tariffs for consumption category (5.1-10) cubic metres/month | 3.09 | 4.00 | 1.16 |
| Water tariffs for consumption category (10.1-20) cubic metres/month | 4.45 | 5.31 | 2.44 |

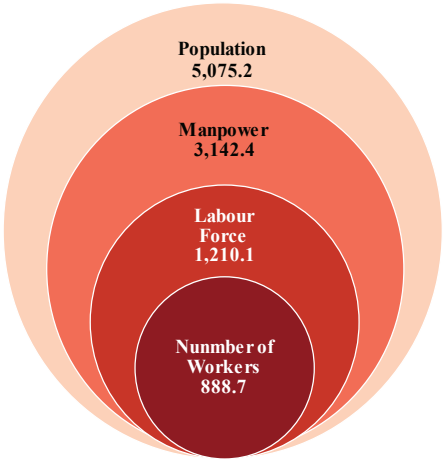
Source: PCBS, 2019. Consumer Price Survey, 2018. Ramallah, Palestine

## 2. Labor Market [1]

Manpower in Palestine reached approximately 3,142,400 persons by the end of Q2 2020. According to the definition provided by the Palestinian Central Bureau of Statistics (PCBS), this includes all individuals over the age of 15 years. The labor force (the total number of people employed and people unemployed looking for work) witnessed a significant decrease in Q2 2020, falling by 10% compared with Q1 2020 and Q2 2019, to reach about 1,210,100 persons.

The size of the workforce in Q2 2020 was clearly affected by the restrictive measures adopted by the Palestinian government since the beginning of March 2020, to confront the coronavirus pandemic and limit its spread. This included restricting citizens from leaving their homes and limiting commercial activity to bakeries, pharmacies, supermarkets, and certain sectors: food processing, agriculture, and pharmaceutical manufacturing. As a result of these measures, the size of the workforce decreased by 136,000 persons between Q1 and Q2 2020. This decrease was negatively affected by the decreasing participation rate in the workforce, representing the ratio of workforce to manpower, reaching about 38.5% in Q2 2020 nationwide - a decrease of 4.6% from Q1 2020, and 5.7% from Q2 2019. Figure 2-1 illustrates the relationship between the categories of manpower and workforce within the total population at the end of Q2 2020. It shows that the largest proportion of workers who lost their jobs as a result of pandemic-related restrictions were reluctant to search for new job opportunities during Q2. Rather, they left the workforce entirely, which explains why the unemployment rate was not affected in Q2, reaching about 26.6% compared with about 25% in Q1 2020.

**Figure 2-1: Population, Manpower, and Workforce in Palestine (Q2 2020, 1,000 persons)**



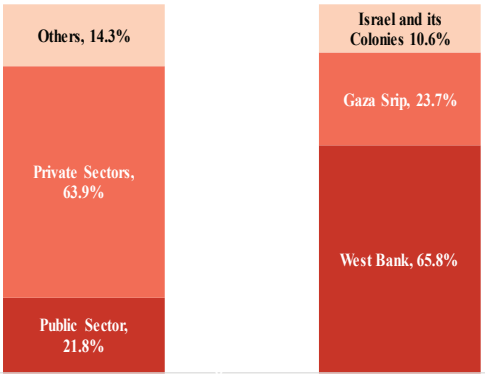

### Labor Distribution

The distribution of labor in Q2 2020, according to geographic location, was 65.8% in the West Bank, 23.7% in the Gaza Strip, and 10.6% in Israel and the settlements (about 93,700 workers, where 16% do not have work permits). As for the

1 Source for figures in this section: Palestinian Central Bureau of Statistics 2020, Labor Force Survey, Ramallah - Palestine.

distribution of labor by sector in Q2 2020, about 22% of workers are employed in the public sector (21% in Q1 2020), about 64% work in the private sector (64% in Q1 2020), and about 14% work in other sectors and in Israel and the settlements (15% in Q1 2020).[2] Labor in the West Bank is concentrated in the private sector, which employs 68% of total workers, compared with 16% in the public sector. In the Gaza Strip, the percentage of workers in the private sector reached 52%, compared with 40% in the public sector. The main reason for the lower percentage of workers in the private sector in the Gaza Strip is the deterioration of economic and social conditions as a result of the Israeli blockade that began in 2006. This, in turn, has negatively affected all economic activities in the private sector (see Figure 2-2).

**Figure 2-2: Percentage Distribution of Workers by Place of Work and by Sector (Q2 2020) (%)**




The number of workers in Palestine witnessed a sharp decline of about 12% (about 121,000 workers) between Q1 and Q2 2020, mainly due to the repercussions of the coronavirus pandemic. This decline represents a fall in the total number of workers in the West Bank by 8% (equivalent to 52,000 workers); a fall in the total number of workers in the Gaza Strip by 17% (equivalent to 43,000 workers); and a fall in the total number of workers in Israel and the settlements by 22% (equivalent to 27,000 workers). The decrease in the number of workers in Israel and the settlements was mainly confined to the age-group of 50 years and above, following measures taken by the Israeli government to limit the spread of the virus, which necessitated preventing those over the age of 50 from entering the Israeli labor market.

The number of self-employed workers (self-employed business owners) witnessed a decrease of 101,000 workers (44%) between Q2 and Q1 2020. The number of waged workers witnessed a decrease of 115,000 workers (16%) between Q2 and Q1 2020, while the number of unpaid family members increased from about 39,000 to 133,000 workers (about three-fold) during the same period. The largest decrease in the number of self-employed workers was in the age group of 25-34 years, as their numbers decreased by 52% (approximately 34,000 workers) in Q2 2020 compared with Q1 2020. The largest decrease in the number of waged workers was among youth in the age group 15-24 years, as well as those in the age group 25-29 years. The number of workers in these two age groups decreased by 30% and 15%, respectively. The decrease in the number of workers in general, and the number of self-employed workers in particular, especially among the youth, clearly indicates the extent of the impact of the coronavirus pandemic on the investment environment, on small and microenterprises, and on entrepreneurial activities in general, especially those managed by youth. Direct intervention by the government is required in order to provide the liquidity and the necessary support for such projects, especially since small enterprises constitute 89% of total establishments in the private sector.

The data in Table 2-1 indicates that most economic sectors in the local market witnessed a decrease in the number of workers during Q2 2020 compared with Q1, with different impacts on different sectors. Restrictive measures taken by the Palestinian government to confront the virus affected economic sectors differently. For example, the retail, restaurant, and hotels sector witnessed a sharp decrease in the number of workers, by about 17% in Q2 2020 compared with Q1. Similarly, the building and construction sector witnessed a 14% drop, demonstrating the significant impact of measures on these sectors. During the quarantine period, commercial activity was limited to bakeries, pharmacies, supermarkets, agriculture, and food and drug manufacturing sectors. The number of workers in the services sector decreased significantly by 11% in Q2 2020 compared with Q1. However, the number of workers in agriculture; industry; transport, storage, and communications decreased less markedly, at 3%, 1% and 6% respectively. As for Palestinian workers in Israel and the Israeli settlements, their numbers decreased by about 22% in Q2 2020 compared with Q1. Agricultural and industrial activities decreased significantly by 29% (about 2,000 workers) and 15% (about 2,700 workers), respectively. This decrease is due to the measures taken by the Israeli government to prevent Palestinian workers over the age of 50 from entering the Israeli labor market.

Table 2-1 shows that there is a variation in the relative distribution of employment between the West Bank and the Gaza Strip, where the employment rate has increased in industry and mining in the West Bank (16% in the West Bank, compared with 7% in the Gaza Strip). There has been an increase in the employment rate in the services sector in the Gaza Strip (56% in the Gaza Strip, compared with 35% in the West Bank). The figures also highlight the significant decline in the number of workers in the construction sector in the Gaza Strip (employing only 3%). This is due to the strict blockade imposed by Israel on the entry of building materials into Gaza (for restrictions on importing dual-use materials, see quarterly Economic Monitor Issue No. 57).

## Unemployment

The number of unemployed persons in Palestine reached 321,400 at the end of Q2 2020, out of a total 1,210,100 persons in the workforce. That is, the unemployment rate stood at 26.6%, compared with 25% in Q1 2020 and 26% in

2 Other sectors include NGOs and non-profit organizations.

**Table 2-1: Relative Distribution of Workers in Palestine by Economic Sector in Q2 2020 (%)**

| Economic Sector | West Bank | | Gaza Strip | | Israel and the settlements | | Palestine (without Israel and the settlements) | |
|---|---|---|---|---|---|---|---|---|
| | Q1 2020 | Q2 2020 | Q1 2020 | Q2 2020 | Q1 2020 | Q2 2020 | Q1 2020 | Q2 2020 |
| Agriculture, fishing and forestry | 7 | 8 | 5 | 6 | 6 | 5 | 6 | 7 |
| Mining and manufacturing industry | 15 | 16 | 7 | 7 | 15 | 16 | 12 | 14 |
| Building and construction | 13 | 12 | 3 | 3 | 63 | 59 | 10 | 10 |
| Retail, restaurants and hotels | 24 | 23 | 22 | 20 | 10 | 12 | 24 | 22 |
| Transportation, storage and communications | 6 | 7 | 8 | 9 | 3 | 3 | 7 | 7 |
| Services and others | 35 | 35 | 55 | 56 | 4 | 5 | 41 | 40 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

Q2 2019. The slight increase in unemployment rates, despite the effects of the coronavirus pandemic on the economy during Q2, contradicts most of the local and international figures, as well as the expectations of official authorities and research centers. This contradiction can be explained - as we indicated earlier – by the significant decline in the participation rate in the labor force in Palestine (38.5% in Q2 2020, compared with 43.1% in Q1 2020 and 44.2% in Q2 2019). In other words, a large number of those who lost their jobs during this quarter (Q2 2020) exited the labor market, either exclusively or in part because of restrictions on movement associated with the lockdown imposed by the Palestinian government to limit the spread of the virus. This is especially true for recent graduates and youth who feel that it is futile to search for opportunities due to the closure of most economic establishments, or because they are not convinced of the possibility of finding job opportunities.

When highlighting the most prominent changes in participation rates during Q2 2020, according to age group and level of education, we note that the largest decrease in the participation rate was for the age group 25-29 years. The participation rate for this group was about 50.6% in Q2 2020, compared with 59% in Q1 2020 and 61.1% in Q2 2019. This was followed by the age group of 20-24 years: the participation rate for this group was about 36.7% in Q2 2020, compared with 44.5% in Q1 2020 and 45.4% in Q2 2019. As for levels of education, participation rates for individuals with an undergraduate diploma or higher have decreased, reaching about 51.2% in Q2 2020, compared with 56% in Q1 2020 and about 58% in Q2 2019.

It should be noted that there is some variation in unemployment rates between the West Bank and the Gaza Strip. Unemployment rates in the West Bank did not witness a significant change in Q2 2020 compared with Q1 2020 and Q2 2019. This is demonstrated in Table 2-2. The unemployment rate in the West Bank in Q2 2020 reached 14.8%, contradicting the projections of the Palestine Economic Policy Research Institute (MAS). The projected unemployment rate following the effects of the coronavirus pandemic was 30.2% for all of 2020 according to the first scenario, and 35.8% according to the second scenario. As mentioned earlier, this discrepancy is explained by the shrinking of the workforce in the West Bank. The participation rate decreased from 46% in Q1 2020 to 41% in Q2 2020. [3]

In the Gaza Strip, the unemployment rate was more affected by the coronavirus pandemic than in the West Bank, as it increased by 3.6% in Q2 2020 relative to Q1 2020, and by 2.4 percentage points from Q2 2019, to reach 49.1% (see Table 2-2).

**Table 2-2: Unemployment Rate for Individuals Participating in the Labor Force in Palestine, by Region and Gender (%)**

| Region/Gender | | Q2 2019 | Q1 2020 | Q2 2020 |
|---|---|---|---|---|
| West Bank | Males | 12.4 | 12.0 | 12.2 |
| | Females | 26.4 | 24.2 | 26.2 |
| | Total | 15.0 | 14.2 | 14.8 |
| Gaza Strip | Males | 39.7 | 40.4 | 44.4 |
| | Females | 68.3 | 62.1 | 66.8 |
| | Total | 46.7 | 45.5 | 49.1 |
| Palestine | Males | 21.5 | 21.4 | 23.0 |
| | Females | 43.6 | 39.6 | 41.1 |
| | Total | 26.0 | 25.0 | 26.6 |

Note: Data is based on the new definition of unemployment established by PCBS, in cooperation with the International Labor Organization. The new, narrower definition states that unemployment only includes people who did not work during the reference period, but who were seriously looking and willing/able to work. Accordingly, those who were discouraged from searching for work (who did not seek to work during the reference period) were excluded from the unemployment account. The adoption of the revised unemployment measure led to a slight change in the unemployment rate in the West Bank, unlike the Gaza Strip, where the change was greater due to more widespread frustration with finding a job (the decrease in the unemployment rate in the Gaza Strip fell from 52% to 43.2% in 2018). Compare participation/unemployment rates according to old and new methodologies in the statistical appendix at the end of the current issue of Economic Monitor with the statistical appendix in Issue No. 56 of the Monitor.

3 In the first scenario, the government succeeds in containing the spread of the virus during the emergency period, and restrictions are gradually lifted. As for the second scenario, there is a failure to control the spread of the virus, and emergency measures are extended. For more information on the assumptions related to the first and second scenarios, see the special issue of the Economic Monitor: http://www.mas.ps/files/server/20200705223647-2.pdf.

The most prominent characteristics of unemployment in Palestine in Q2 2020 are as follows:

1) Unemployment in Palestine is particularly concentrated among youth. The unemployment rate among young people, aged 15-19 years, reached 40.9%; and 43.1% for those aged 25-29 years; compared with 13.3% for the age group 45-49 years; and 8% for 50 years and over. For more information on youth unemployment, see "Survey of Youth's Transition from Education to the Labor Market" in Issue No. 47 of the Monitor.
2) Unemployment in Palestine decreases as education increases among males, but the opposite is true for females. The unemployment rate for males with primary education was about 22.9%, compared with about 19.4% for males with an undergraduate diploma or higher. For females, the unemployment rate for those with primary education was about 1.2% compared with about 45.1% for females with an undergraduate diploma or higher. This is mainly due to the large increase in the participation rates of educated females in the labor market compared to males. (See Box No. 1 in Issue No. 53 of the Observer. It shows that the high unemployment of educated females compared to non-educated females is due to the large increase in the percentage of their participation in the labor market, and not due to the nature of their education).

## Wages

The average daily wage decreased significantly for all workers by 10 NIS between Q2 (120.6 NIS/day) and Q1 (130.6 NIS/day) in 2020. This resulted from the decrease in the average wage of workers in the West Bank by 3.2 NIS, in Israel and the settlements by 9.9 NIS, and in the Gaza Strip by 0.6 NIS. The average wage in Palestine (120.6 NIS/day) during Q2 hides some of the large discrepancies between the average wages of workers in the West Bank and those in the Gaza Strip, as well as between the average wage of workers in the West Bank and Gaza Strip, and those in Israel and the settlements.

Data in Table 2-3 indicates that there is a large gap in wages between workers in the West Bank, Gaza Strip, Israel and the settlements. The average wage of workers in Israel and the settlements is more than double the average wage of workers in the West Bank, and four times the wage of workers in the Gaza Strip. Average wages in the Gaza Strip were about half the level of average wages in the West Bank (49%). The gap also widens when considering the median wage instead of the average wage. The median wage is a more valid measurement than the average wage, as the latter conceals the great disparity between high-wage and low-wage workers. As for the median wage, it marks the highest wage level for the bottom half of all workers (see Figure 2-3). For example, while the average wage in the Gaza Strip is 49% of its level in the West Bank, the median wage in the Gaza Strip is only 37% of the median wage in the West Bank (see Table 2-3).

**Table 2-3: Average and Median Daily Wage in NIS for Registered Employees in Palestine (Q2 2020) (NIS)**

| Place of work | Average Daily Wage (NIS) | Median Daily Wage (NIS) |
|---|---|---|
| West Bank | 120.2 | 103.8 |
| Gaza Strip | 59.3 | 38.5 |
| Israel and the settlements | 254.6 | 250.0 |
| Total | 120.6 | 100.0 |

**Figure 2-3: Average and Median Daily Wage for Registered Employees in Palestine (NIS)**


## Minimum Wage

The minimum monthly wage in Palestine is about 1,450 NIS. Data released by the PCBS for Q2 2020 indicate that 34% of workers (25.1% among females, 35.4% among males) in Palestine earn a monthly wage less than the minimum wage, which is higher than the figures recorded during Q1 2020 - approximately 29% (30% among females, 29% among males). In Q2 2019, these figures were approximately 27% (29% among females, 27% among males). The reason for the increase in this percentage is due to the effects of the pandemic, where private sector employers have been forced to lay-off a large number of waged workers, especially since about 46% of these workers do not have employment contracts. This, in turn, facilitated the process of dismissing them from their jobs, and thus the number of workers decreased. Waged workers in the private sector decreased by 41% and 42% compared with Q1 2020 and Q2 2019, respectively. This decrease was greater than the decrease in the number of workers in the private sector who receive less than the minimum monthly wage, as the latter decreased in Q2 2020 by 27% and 32% compared with Q1 2020 and Q2 2019, respectively. For this group, the average monthly wage was 722 NIS. As for differences between the West Bank and the Gaza Strip, 8% of waged workers in the private sector in the West Bank earn less than the minimum wage, compared with 82% in the Gaza Strip.

# 3-Public Finance[1]

## Public Revenues

Public finance faced a wide array of challenges and difficulties from the beginning of 2020. Specifically, in March, the country faced a different kind of crisis: a health crisis that was caused by the outbreak of the coronavirus pandemic, which led to the declaration of a state of emergency and the imposition of a complete lockdown for about two months, in an attempt to curb the spread of the pandemic. Furthermore, in May the clearance revenues crisis erupted once again due to Israeli policies and the annexation plan, which has further strained public finance.

Public finance faced many challenges as a result, with clearance revenues declining by 47% during Q2 2020, compared with the previous quarter, to stand at NIS 1.2 billion - although it grew significantly (by 194%) compared with the corresponding quarter.[2] Domestic revenues declined as well, by 54% and 28% during the same period, reaching NIS 0.6 billion. This decline is attributed to a drop in tax revenues of 45% and 17% compared with the previous quarter and corresponding quarter 2019 respectively, reaching NIS 0.5 billion. Additionally, non-tax revenues declined by 66% and 53% during the same period, reaching NIS 0.1 billion. Foreign aid and grants grew significantly during the quarter, by 148% and 48% compared with the previous quarter and corresponding quarter 2019 respectively, standing at NIS 0.7 billion. Ultimately, net public revenues and grants dropped by 34% during the quarter, compared with the previous quarter, and increased by 44% compared with the corresponding quarter 2019, reaching around NIS 2.4 billion (Figure 3-1 and Table 3-1).[3]

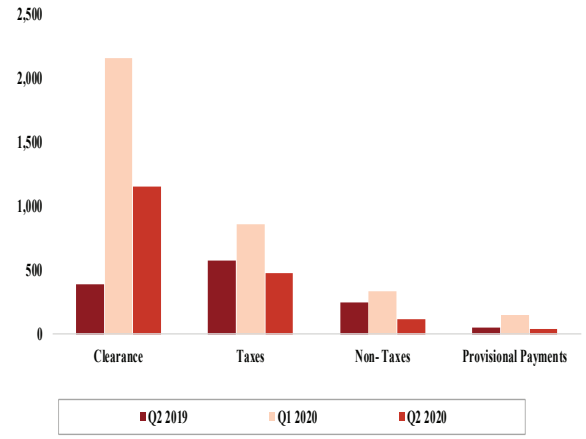
**Table 3-1: Grants and Foreign Aid to the PA (NIS million)**

| Item | 2019 | | | | 2020 | |
|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| Budget support | 598.4 | 368.1 | 517.5 | 292.4 | 246.1 | 544.3 |
| Arab grants | 396.3 | 94 | 278.7 | 107.3 | 111.1 | 21.3 |
| Other countries | 202.1 | 274.1 | 238.8 | 185.1 | 135 | 523 |
| Development funding | (-352.7)* | 99.5 | 107.7 | 114.7 | 32.1 | 145.1 |
| Total | 245.7 | 467.6 | 625.2 | 407.1 | 278.2 | 689.4 |

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

Net public revenues and grants were equivalent to 151% of actual public expenditures during the quarter, compared with 123% in the previous quarter. This percentage was made up 66% of accrued public expenditure during the quarter (commitment basis), compared with about 105% during the previous quarter. This indicates that the government was unable to pay around 34% of total liabilities in Q2 2020.

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




## Public Expenditure

Actual public expenditures dropped by 46% and 40% compared with the previous quarter and corresponding quarter 2019, respectively, reaching NIS 1.6 billion. Salaries and wages decreased by 63% and 43% compared with the previous and corresponding quarters, respectively, reaching about NIS 0.6 billion. In addition, non-wage expenditures decreased by 20% and 33% during the quarter reaching NIS 0.8 billion. Net lending also decreased during the quarter, by 79% and 73% compared with the previous quarter and corresponding quarter 2019 respectively, reaching NIS 69.7 million.[4] This item strains the public budget and delays a large portion of the Palestinian government revenues, which is in dire need of these resources under the recurrent, years-long fiscal troubles. Given the growing financing gap and decreasing grants and foreign aid, net lending is becoming a heavy burden and a challenge that the Palestinian government must address.

Actual development expenditures rose during Q2 2020 by about 53% compared with the previous quarter, yet it declined by 28% compared with the corresponding quarter 2019, reaching NIS 115.1 million (Figure 3-2).

## Government Arrears

During Q2 2020, government arrears reached NIS 1,952.3 million. Around NIS 1085.8 million of arrears were in wages and salaries, NIS 801 million in non-wages, and NIS 61.7 million in developmental expenditure. Provisional payment arrears were NIS 8.1 million and NIS 4.3 million of tax refunds arrears were paid in advance during the quarter (Table 3-2).

1 Source of data: MOF, Monthly Financial Reports 2020: Financial Operations, Expenditure and Revenues, and sources of Funding (June, 2020).

2 During Q2 2019, the PNA refused to receive the clearance revenues in an incomplete fashion, estimated to reach NIS 3 billion for the period Feb-June ( refer to EM 57- Box on clearance revenues)

3 Notably, tax refunds during Q2 2020 reached NIS 59.6 million compared with NIS 114.4 million in the previous quarter, and NIS 61.9 million in the corresponding quarter 2019.

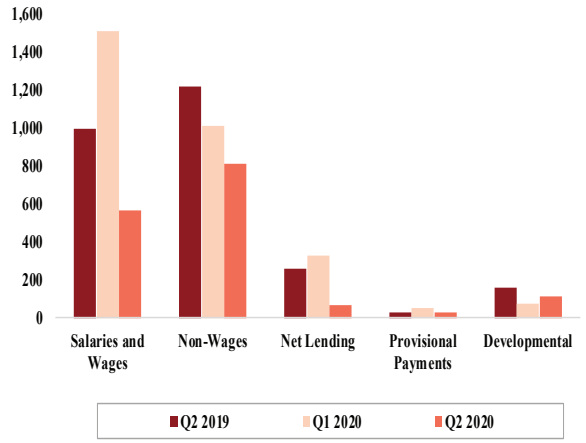
4 Net lending equals the amounts deducted from clearance revenues by the Israeli side to settle debts owed to Israeli companies supplying electricity and water to municipalities and Palestinian distribution companies and parties.

**Table 3-2: the PA's Accumulated Arrears (NIS million)**

| Item | 2019 | | | | 2020 | |
|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| Tax refunds | 38.5 | 17.6 | 19.6 | 57.3 | 30.9 | (4.3) |
| Wages and salaries | 359.9 | 593.6 | 409.6 | (689.8) | 155 | 1,085.8 |
| Non-wage Expen-ditures | 333.4 | 556.7 | 492.7 | 490.2 | 209 | 801 |
| Development Expenditures | 105 | 130.8 | 122.9 | 144.4 | 72.5 | 61.7 |
| Provisional Payments | 75.1 | 27.6 | 9.9 | (45.6). | 97.2 | 8.1 |
| Total arrears | 911.9 | 1,326.3 | 1,054.7 | (43.5) | 564.6 | 1,952.3 |

Figures between brackets indicate a negative value

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




## Financial Surplus/Deficit

Developments on both the revenue and the expenditure fronts during Q2 2020 led to a surplus in the total balance (before grants and aid) of NIS 0.1 billion (1.1% of GDP). After grants and foreign aid, the surplus rose to NIS 0.8 million (on cash basis), about 6.9% of GDP. This surplus does not show the real financial position of the government, as the total balance on commitment basis (before grants and aid) exhibits a deficit of NIS 1.8 billion, dropping to NIS 1.1 billion after grants and aid during the same period (Figure 3-3).

**Figure 3-3 Government's Financial Balance (cash basis) as % to Nominal GDP**

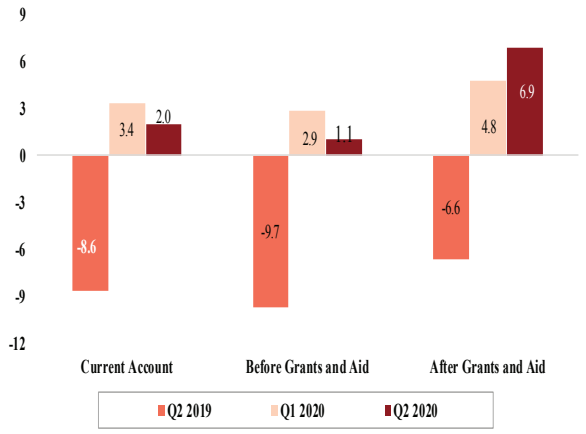



**Table 3-3: The Budget Deficit on Cash Basis and Commitment Basis, Q2 2020 (NIS million)**

| Item | Q2 020 | |
|---|---|---|
| | Cash | Commitment |
| Public revenues | 1,717.6 | 1,880.0 |
| Grants and foreign aid | 689.9 | 689.9 |
| Expenditures | 1,594.2 | 3,658.5 |
| Balance before grants and foreign aid | 123.4 | (1,778.5) |
| Balance after grants and foreign aid | 813.3 | (1,088.6) |
| % total public revenues and grants to expenditures | 151.0 | 65.8 |

* Figures between brackets indicate negative value

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

| Item | 2019 | | | | 2020 | |
|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| Domestic debt | 4668 | 5,628.8 | 6,200.2 | 5,451.8 | 5,684.5 | 6,164.3 |
| Banks | 4617.3 | 5,578.2 | 6,149.6 | 5,401.2 | 5,633.9 | 6,113.7 |
| Public institutions | 50.7 | 50.6 | 50.6 | 50.6 | 50.6 | 50.6 |
| External debt | 3,744.3 | 3,783.7 | 3,950.2 | 4,210.5 | 4,588.7 | 4,465.2 |
| Total public debt | 8,412.2 | 9,412.5 | 10,150.4 | 9662 | 10,273.2 | 10,629.5 |
| Paid interests | 41.1 | 57.3 | 37.5 | 31.6 | 20.6 | 34.7 |
| Public debt as % to nominal GDP | 14.0.% | 15.8.% | 17.4.% | 16.4% | 17.1% | 21.5.% |

* Figures differ slightly when calculated in USD due to changes in exchange rate.

## Public Debt

During Q2 2020, total public debt (denominated in NIS) increased by 3% and 13% compared with the previous and corresponding quarter 2019, respectively, reaching NIS 10.6 billion (around 21.5% of GDP).[5] Paid debt service reached NIS 34.7 million during the quarter, NIS 21.9 million of which was paid on domestic debt while around NIS 12.8 million were paid on foreign debt. Notably, interest paid on debt during the same period was NIS 54.3 million. (Table 3-4).

5 It should be mentioned that by the end of Q2 2020, the government's dollar-denominated debt denominated rose by 6.7% compared with the previous quarter and by 16.8% compared with the corresponding quarter, reaching USD 3.1 billion.

# 4- Financial Sector[1]

## 4.1 The Banking Sector

During Q2 2020, there were 14 banks operating in Palestine, half of which were chartered banks. They were operating through 375 branches and offices, 317 of which were located in the West Bank and 58 in the Gaza Strip. By the end of Q2 2020, the net assets and liabilities of the banking sector increased by 3% compared with the previous quarter, and by 9% compared with the corresponding quarter 2019, reaching USD 18.2 billion (Table 4-1)

### Credit Facilities

By the end of Q2 2020, credit facilities reached USD 9.7 billion. This constitutes a rise of 4% compared with the previous quarter and 53% of the total banking assets, reaching USD 8,947.9 million. This improvement is fundamentally an effect of the 11% increase in facilities granted to the public sector, reaching USD 1.7 billion. This resulted from the increased public borrowings from banks to cover deficits following the withholding of clearance revenues. On the other hand, facilities granted to the private sector increased by 3% to stand at USD 7.9 billion. Credit facilities accounted for about 64% of nominal GDP during Q2 2020, compared with 54% in the previous quarter and 52% in the corresponding quarter 2019.[2]

By region, the West Bank had the biggest share of total credit facilities (91%), compared with only 9% for the Gaza Strip. By type of facility, loans were the predominant form of total credit facilities, at 85%, against about 14% for overdraft accounts. By currency, the US dollar continued to account for the biggest share of credit (43%) compared with 40% granted in Shekels, and 15% in Jordanian Dinars (Figure 4-1).

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

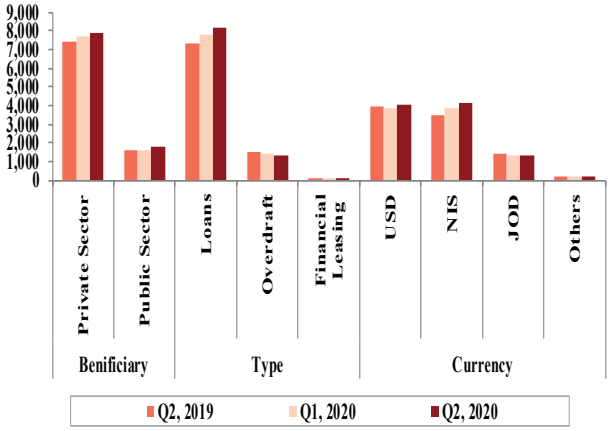



**Figure 4-2: Distribution of Credit Facilities by Sector (%)**

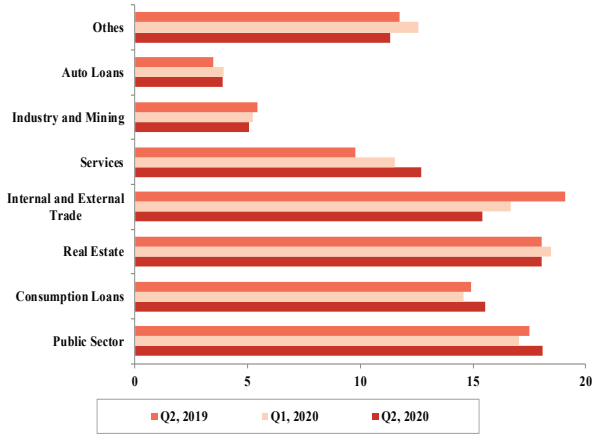



**Table 4-1: Consolidated Balance Sheet of Licensed Banks Operating in Palestine (USD millions)**

| Item | 2019 | | | | 2020 | |
|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| Total assets | 16,503.2 | 16,690.1 | 17,303.5 | 17,825.5 | 17,710.0 | 18,248.1 |
| Direct credit facilities | 8,569.5 | 8,941.6 | 8,947.9 | 9,039.1 | 9,249.9 | 9,652.7 |
| Deposits at PMA & Banks | 3,712.9 | 3,534.5 | 3,870.5 | 4,329.1 | 4,565.3 | 4,361.7 |
| Securities portfolio and investments | 1,362.2 | 1,382.1 | 1,373.7 | 1,406.5 | 1,365.2 | 1,354.3 |
| Cash and precious metals | 1,711.4 | 1,620.8 | 1,883.6 | 1,939.6 | 1,252.0 | 1,522.9 |
| Other assets | 1,147.2 | 1,211.1 | 1,227.7 | 1,111.2 | 1,277.6 | 1,356.6 |
| Total liabilities | 16,503.2 | 16,690.1 | 17,303.5 | 17,825.5 | 17,710.0 | 18,248.1 |
| Total deposits of the public (non-bank deposits)** | 12,394.4 | 12,591.4 | 13,025.5 | 13,384.7 | 13,303.8 | 13,738.7 |
| Equity | 1,931.4 | 1,956.0 | 1,942.4 | 1,985.2 | 1,996.9 | 1,994.6 |
| Deposits of PMA and banks (bank deposits) | 1.116.8 | 1,041.7 | 1,151.3 | 1,274.1 | 1,165.0 | 1,119.0 |
| Other liabilities | 361.3 | 363.5 | 408.9 | 392.5 | 424.9 | 525.8 |
| Provisions and depreciation | 699.3 | 737.5 | 775.5 | 789.0 | 819.4 | 870.0 |

* Items in the table are totals (including provisions).
**Non-bank deposits including the private and public sectors' deposits.

1 Source of Figures: PMA, Sep 2020, the Consolidated Balance Sheet for Banks, list of profits and losses, PMA database; PCMA, 2020.
2 The PMA research team has provided the estimates of the GDP value.

On the other hand, the private sector had the biggest share of credit facilities (82% of total) against 18% for the public sector. In terms of the distribution of credit facilities granted to the private sector by economic sector, real estate loans had the biggest share, reaching around 18% of the total (USD 1.7 billion), followed by consumption loans at 16% (USD 1.5 billion), then commercial loans at 15% (USD 1.5 billion), and the service sector at 13% (USD 1.2 billion). However, the productive sectors' share of loans were low, standing at 5% for industry and mining, about 1.6% for agriculture and livestock, and 3.3% for land development (see Figure 4-2).

Credit facilities increased by USD 402.8 million over the consecutive quarters, driven by a 15% increase in credit facilities granted to the services sector (equivalent to USD 160 million). Just as credit facilities granted to the public sector rose by 11% (equivalent to USD 166.7 million), so too did consumption loans rise by 11% (USD 153.4 million) and real estate and construction loans by 2% (USD 33.2 million). By contrast, commercial loans decreased by 3% (USD 53.7 million).

## Non-performing Loans

During Q2 2020, the value of non-performing loans at banks increased by 1% (USD 5.2 million) compared with the previous quarter. The final balance of the non-performing loans stood at USD 371.8 million, equivalent to 4% of total loans and 5% of total credit facilities granted to the private sector (Figure 4-3). Similarly, compared with the corresponding quarter 2019, non-performing loans increased by 16%.

By the end of Q2 2020, non-performing loans were distributed across the following sectors: 22% in the transportation sector; 15% in the tourism, restaurants and hotels sector; 7% in both the trade and industry sectors; 4% in real estate and construction; 4% in consumption loans; 3% in both the agriculture and livestock sectors; 2% in the service sector; and 1% in loans for purchasing cars. By contrast, the percentage did not exceed 0.5% in either the equity, financing investments, and financial instruments sector or the land development sector.[3]

By the default period (structure of non-performing loans), two-thirds of loans were classified as bad loans and doubtful loans constituted 17% of the total, while watch list facilities made up 8%.[4]

## Deposits at PMA & Banks

During Q2 2020, balances at PMA and banks declined by 4% compared with the previous quarter, against a rise of 23% a year ago, reaching USD 4.4 billion (making up 24% of total banks assets). This is ascribed to a decrease in balances at banks abroad (6%), PMA balances (1%), and balances at banks in Palestine (14%). Compared with the corresponding quarter 2019, balances at PMA and banks grew by 23%, driven by 22% growth in PMA balances and 37% in balances at banks abroad (Figure 4-4).

3 Sectoral default percentage is calculated by dividing the economic sector's non-performing loans on the sector's total portfolio.

4 Based on PMA instructions, non-performing loans are classified by default period: (1) Watch List facilities are facilities where one or more of its installments are between 91 to 180 days past due. (2) Doubtful Loans are loans where one or more of its installments are between 181 to 360 days past due. (3) Bad Loans are loans were one or more of its installments are more than 360 days past due

**Figure 4-3: Final Balance of Non-performing Loans (million USD) and its Percentage to Total Loans (%)**

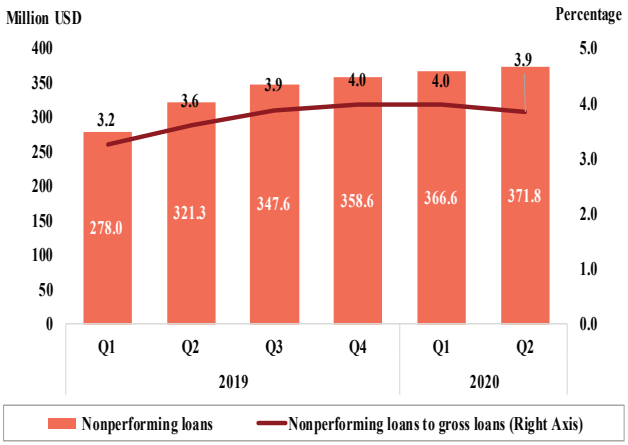
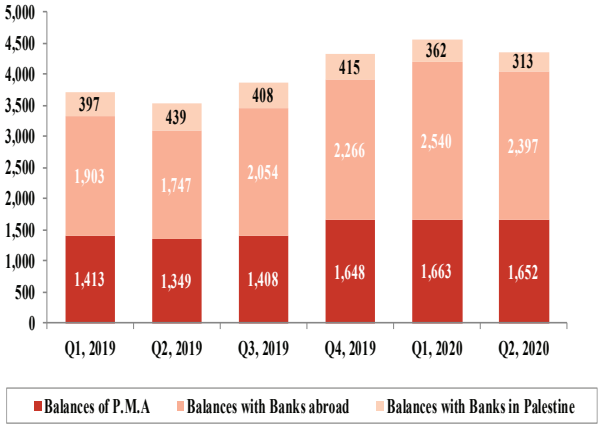



**Figure 4-4: Deposits at PMA & Banks (USD Million)**




## Deposits

Deposits (bank and non-bank deposits) are the most important component of liabilities, constituting 81% during Q2 2020. By the end of the quarter under study, total deposits rose by 3% compared with the previous quarter, reaching USD 14.9 billion. Also, deposits were 9% higher compared with the corresponding quarter 2019. Public deposits (non-bank deposits) constituted around 92% of total deposits during the quarter, compared with 8% for bank deposits. The West Bank's share of total deposits was 90%, against 10% for the Gaza Strip. Private sector deposits constituted around 96% of the total against 4% for the public sector. By currency, the US dollar continued to dominate (39% of the total public deposits), followed by the Shekel (36%), the Jordanian Dinar (22%), and the remainder of currencies (3%). Finally, current deposits constituted 37% of the total, while saving deposits and time deposits were 32% and 31%, respectively (Figure 4-5). Deposits by the public made up 81% of nominal GDP by the end of Q2 2020, compared with 78% in the previous quarter and 74% in the corresponding quarter.

## Bank Profits

During Q2 2020, the income statement of the banking system shows a sharp decline in the net income of banks, of 66% compared

with Q1 2020, and 61% compared with the corresponding quarter 2019, reaching around USD 13.1 million. Obviously, the coronavirus crisis had impacts on the banking sector, leading to a larger increase in expenditures than revenues compared with the previous quarter, as the former fell by 1% (USD 199.3 million) compared with 12% for the latter (USD 212.4 million) (Table 4-2).

**Table 4-2: Sources of Revenues and Expenditure of Licensed Banks (USD millions)**

| Item | 2019 | | | | 2020 | |
|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| Revenues | 230.9 | 234.6 | 238.7 | 231.7 | 240.9 | 212.4 |
| Paid interest | 163.1 | 166 0 | 171.9 | 169.6 | 167.9 | 157.4 |
| Commissions revenues | 30.6 | 32.3 | 32.7 | 35.2 | 33.9 | 30.1 |
| Other revenues | 37.2 | 36.3 | 34.1 | 26.9 | 39.1 | 24.9 |
| Expenditures | 183.2 | 200.7 | 199.3 | 191.5 | 202 | 199.3 |
| Paid interests | 33 | 36.7 | 37.2 | 38.7 | 39.1 | 36.1 |
| Commissions | 3.0 | 3.0 | 3.4 | 4.0 | 3.2 | 3.1 |
| Other expenditures | 23.9 | 31.5 | 35.5 | 23.0 | 37.0 | 40.1 |
| Operational expenditures | 110.6 | 109.6 | 113.6 | 116.5 | 112.6 | 107.1 |
| Taxes | 12.7 | 19.9 | 9.6 | 9.3 | 10 | 12.9 |
| Net Income | 47.7 | 33.9 | 39.4 | 40.2 | 38.9 | 13.1 |

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

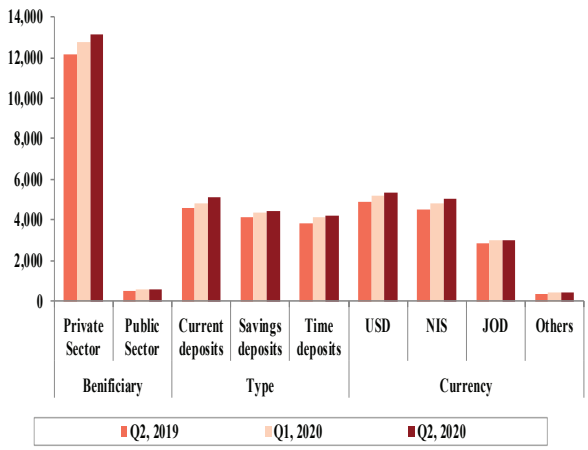
## Average Interest Rates on Deposits and Loans

Average interest rates on loans in the three currencies rose during Q2 2020 compared to the previous quarter, reaching 6.95%, 5.71%, 7.08% for JOD, USD, and NIS loans, respectively. Similarly, average interest rates on deposits in JOD and USD fell, reaching 2.51% and 2.32% respectively, while it rose to 2.07% on Shekel deposits These changes have caused a rise in the margins between the deposit interest rates and that of lending facilities in the three currencies, compared to the previous year, as the margin on the JOD rose from 3.80 to 4.44 percentage points; and from 2.95 to 3.39 percentage points for USD. Finally, the margin on NIS rose from 4.84 to 5.01 percentage points (Table 4-3).

## Clearance

During Q2 2020, the value of cheques presented for clearance decreased by 4% compared with the previous quarter, and by 19% compared with the corresponding quarter, amounting to USD 2.5 billion (94% in the West Bank and 6% in the Gaza Strip). This followed the declaration of the state of emergency limits on movement and economic activities to contain the virus. The value of returned cheques in the West Bank dropped by 3% (reaching USD 2.3 million), and in the Gaza Strip by 16% (USD 145 million). Data show that about 83% of cheques presented for clearance were in Shekels, while 13% were in Dollars and 4% in Jordanian Dinars.

**Figure 5-4: Distribution of Deposits (USD million)**




## Returned Cheques

The value of returned cheques doubled (137%) during Q2 2020 compared with the previous quarter, while it rose by 113% compared with the corresponding quarter, reaching USD 679.3 million. This large increase is linked to the impacts of the health crisis, as economic activities ceased for more than two months. This situation has affected the ability of individuals and corporations to honor their financial commitments. Notably, the PMA issued a number of instructions during the emergency period to mitigate the impacts of the crisis. One of these instructions was to suspend the scoring of clients and SMEs affected by the outbreak through the Bounced Cheques System.[5]

Around 97% of cheques presented for clearance were in the West Bank and 3% in the Gaza Strip. By currency, about 89% of cheques presented for clearance were in Shekels, while 4% were in Jordanian dinars, and 7% were in dollars. The value of returned cheques as a percentage to total cheques presented to clearance increased during Q2 2020 to 27%, compared with 11% in the previous quarter and 10% in the corresponding quarter 2019 (Figure 4-6)

**Table 4-3: Average Interest Rates on Deposits and Loans by Currency, (%)**

| Currency | Interest on credit % | | Interest on loans % | | Margin (percentage points) | |
|---|---|---|---|---|---|---|
| | Q1 2020 | Q2 2020 | Q1 2020 | Q2 2020 | Q1 2020 | Q2 2020 |
| Dollar | 2.71 | 2.32 | 5.66 | 5.71 | 2.95 | 3.39 |
| Dinar | 2.92 | 2.51 | 6.72 | 6.95 | 3.80 | 4.44 |
| Shekel | 2.04 | 2.07 | 6.88 | 7.08 | 4.84 | 5.01 |

5 https://www.pma.ps/%D8%A7%D9%84%D8%A5%D8%B9%D9%84%D8%A7%D9%85/%D8%A8%D9%8A%D8%A7%D9%86%D8%A7%D8%AA-%D8%B5%D8%AD%D9%81%D9%8A%D8%A9/ArtMID//4451//ArticleID/2495

### Specialized Credit Institutions (SCIs)

By the end of Q2 2020, there were 8 licensed SCIs in Palestine. Consolidated data indicate that by the end of the quarter the total assets of SCIs had declined by 2% compared with the previous quarter, reaching USD 318.0 million. This resulted from a 16% drop in the Islamic loans portfolio and a 18% drop in deposits (balances). On the other hand, the commercial loans portfolio increased by 2%, while other assets and fixed assets also increased by 9% and 1%, respectively, during the period under study due to the International Standard (no. 16) being applied to lease contracts. Also, the total assets of these companies grew by 26% compared to its value a year ago.

The assets of those companies are distributed as 58% commercial loans and 12% Islamic loans and deposits. The remaining percentage (18%) are distributed as fixed assets, other assets, and cash. The number of SCIs employees dropped during the quarter to 852, compared to 900 in the previous quarter.

The credit portfolio granted by SCIs grew during the quarter by 2% compared with the previous quarter, while it grew by 23% compared with the corresponding quarter 2019, reaching USD 265.2 million (Table 4-4).

**Table 4-4: SCIs data**

| Item | 2019 | | | | 2020 | |
|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| Loans Portfolio (USD millions) | 217.2 | 216.3 | 213.7 | 262.5 | 259.4 | 265.2 |
| West Bank | 163.7 | 166.5 | 167.9 | 214.6 | 214.4 | 220.2 |
| Gaza Strip | 53.5 | 49.8 | 45.8 | 47.9 | 45.0 | 45.0 |
| Active Clientele | 80,314 | 78,186 | 76,502 | 75,444 | 74,065 | 73,853 |
| No. of Offices and Branches | 93 | 93 | 93 | 100 | 100 | 100 |
| Employees | 864 | 843 | 843 | 910 | 900 | 852 |

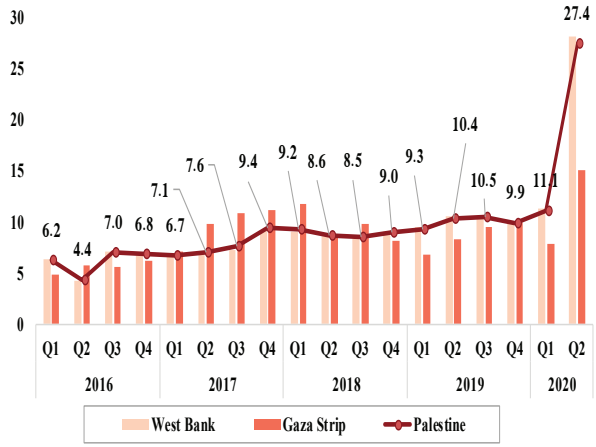
By economic sector, real estate loans had the lion's share of loans (32%), followed by the commercial sector (29%); and then the agriculture and public services sectors (12% each). The share of commercial loans in the SCI's total portfolio came in fourth place (8%), followed by the industrial sector (5%), and finally the tourism sector (2%).

## 4.2 The Non-banking Financial Sector

The Palestinian Capital Market Authority (PCMA) works diligently to develop the capital market in Palestine. Following the outbreak of the coronavirus, PCMA intensified efforts to safeguard the capital market in Palestine. Closely monitoring COVID-19 effects and impacts since its outbreak in March 2020, PCMA prepared a comprehensive report on the impacts of the coronavirus pandemic on the non-banking financial sector.[6] The authority has also issued a number of circulars and precautionary measures for use by its employees, while

6 The impact of the coronavirus pandemic on the non-banking financial sector, PCMA, April, 2020: file:///Z:/الاقتصادي/Q61-Q62/Coronavirus-effect-05_04_2020.pdf

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




others were for the use of institutions operating in the non-banking financial sector. Firstly, it has issued Circular No. (9/2020), on precautionary measures for curbing the spread of the coronavirus in sectors operating under the supervision of PCMA. Resolution No. (15819/2020) was issued to extend the validity period of vehicle insurance during the state of emergency, while another decision was issued suspending trading activity at PEX. There was also Resolution No. (15772/2020) on extending the period of disclosure of audited financial statements for 2019, in addition to a resolution extending the period of disclosure of Q1 2020 financial statements. In addition, there was a resolution extending the period of disclosure of the first half of 2020 financial statements, and Resolution No. (15845/2020), regarding the resumption of trading activity at PEX according to special arrangements.

### The Securities Sector

By the end of Q2 2020, the Al-Quds index closed at 470.8 points, a decrease of 6% compared with the previous quarter 2020 (498.9 points), and by 9% compared with corresponding quarter 2019 (519.8 points). A total of 7.5 million shares worth USD 15.3 million were traded during the quarter, marking a 51% and 52% drop in the volume and value of traded shares, respectively, compared with the previous quarter. By comparison, there was an increase of 73% and 68% in the volume and value of traded shares, respectively, compared with the corresponding quarter 2019. By the end of Q2 2020, the market value of traded shares of listed companies was USD 3.4 billion (equivalent to 20% of GDP at current prices), marking a drop of 4% compared with the previous quarter and 7% compared with the corresponding quarter.[7] The performance of the securities sector was adversely affected by the overall economic situation in Palestine during the reference period, and the prevailing fears and concerns surrounding the spread of the coronavirus. All in all, demand went down, in conjunction with the decline in most of the listed companies' share prices. Added to that was the suspension of trading at PEX between 23/3/2020 and 3/5/2020 as a precautionary measure.

7 The 2019 current prices of GDP are used to reflect the accumulative market value of traded shares.

On the other hand, the total number of market traders stood at 70,104 by the end of Q2 2020, around 5% of whom were foreigners, mostly from Jordan.

**Table 4-5: A Selection of Financial Indicators on the Trading Activity in PEX**

| Item | Q1 2019 | Q2 2019 | Q1 2020 | Q2 2020 |
|---|---|---|---|---|
| Volume of Traded Shares (million share) | 59.0 | 27.8 | 15.2 | 7.5 |
| Value of Traded Shares (USD million) | 103.3 | 47.3 | 31.9 | 15.3 |
| Market Value (million USD) | 3,757.8 | 3,710.1 | 3,598.7 | 3,437.1 |
| No. of Deals | 8,698 | 7,653 | 4,840 | 3,273 |
| Not all sessions | 62 | 58 | 54 | 40 |
| Market value as a percentage of GDP (at current prices) * | 23.1% | 22.8% | 22.1% | 21.1% |

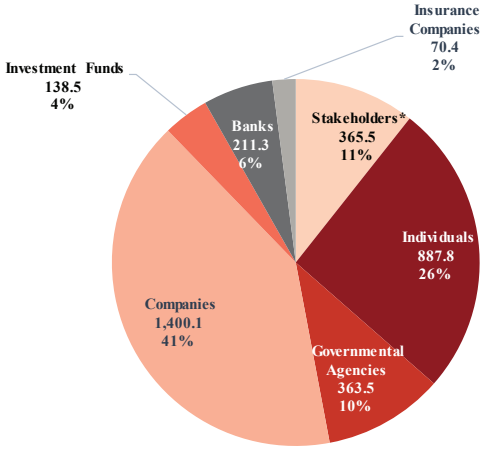
The 2018 current prices of GDP are used to reflect the accumulative market value of traded shares, which is at current prices.

Figure 4-5 shows the distribution of market capitalization by their market shares by the end of Q2 2020, showing that the share of corporations was 41% (USD 1,400.1 million) compared with 26% for individuals (USD 887.8 million).

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

The number of PEX traders was 64,240 by the end of Q2 2020 (Figure 8-4), making up 2% of the total adult population (15 years and above) in Palestine. By the end of 2019, the total number of opened accounts at PEX was 116,018. By geographical and gender distribution, as seen in figure 4-8, male traders outpaced female traders.

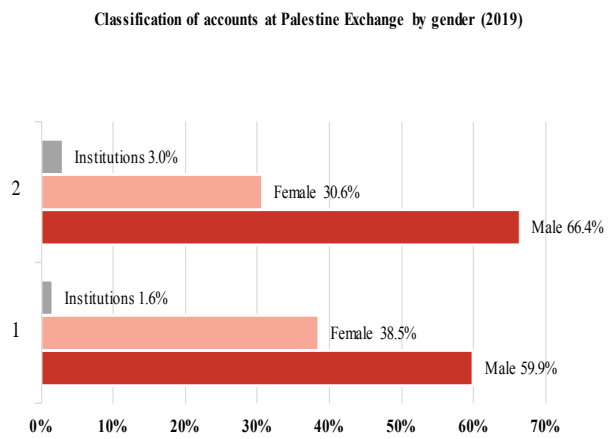
**Figure 4-7: Distribution of Market Capitalization by Trader Type (as of the end of Q2 2020) (USD million)**

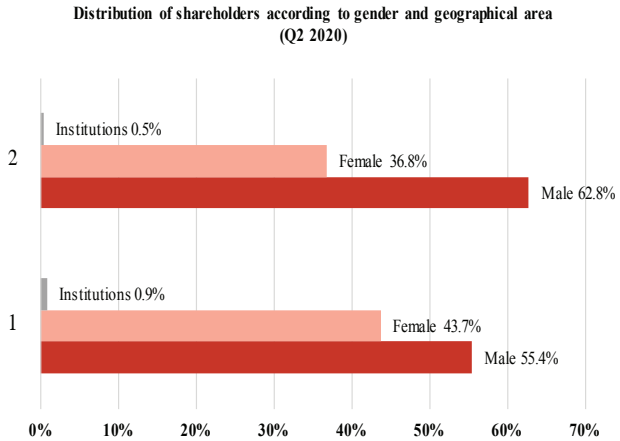



By the end of Q2 2020, there were 8 leasing companies registered with PCMA. The performance of leasing companies deteriorated noticeably during Q2 2020: the volume of contracts reached 210 with an investment value of USD 9.2 million, representing a drop of 54% and 52% in the volume and value of contracts, respectively, compared with the previous quarter. Compared with the corresponding quarter, the volume and value of contracts declined by 58% and 59%, respectively (Table 4-6). This is attributed primarily to the irregular and reduced working days during the lockdown that was imposed to prevent the outbreak of the C=coronavirus. Additionally, there was shrinking demand for financial leasing services by SMEs and productive enterprises as their productive activities slowed down.

Financial leasing contracts remain highly concentrated in Ramallah (36%), which is followed by Nablus (17%) and Jenin (12%); and then the rest of the governorates (35%). Notably, these percentages remained at the same level over the past years, due to structural factors in the economy and higher leasing activities in some governorates over others. Vehicles still constitute the largest share of the leasing portfolio by end of the Q2 2020, accounting for 87% of the total value of

**Figure 4-8: the distribution of shareholders by the listed companies' names by the end of Q2 2020**
**Opened accounts at PEX as of the end of 2019 by geographical and gender distribution**




*Dormant Accounts: accounts whose balance is zero which have been inactive for a year or more.

**Table 4-6: Total Value and Volume of Financial Leasing Contracts**

| Quarter | Total Value of Financial Leasing Contracts (USD Million) | Total Volume of Financial Leasing Contracts |
|---|---|---|
| Quarter 1, 2019 | 20.1 | 407 |
| Quarter 2, 2019 | 22.2 | 506 |
| Quarter 1, 2020 | 19.0 | 458 |
| Quarter 2, 2020 | 9.2 | 210 |

contracts. This is attributed to the ease of registering vehicles at the transportation department, and therefore the low risk associated with its leasing. Heavy trucks constitute 8% of the total value of leasing contracts, compared with 5% for movable assets (equipment, production lines, and others).

**Table 4-7: A Selection of Financial Indicators of the Insurance Sector in Palestine**

| Item | Quarter 1 2019 | Quarter 2 2019 | Quarter 1 2020 | Quarter 2 2020 |
|---|---|---|---|---|
| Gross written insurance premiums | 81.9 | 71.2 | 83.9 | 71.6 |
| Total investments of insurance companies | 251.6 | 250.0 | 243.2 | 238.3 |
| Net compensations incurred by the insurance sector | (40.7) | (43.7) | (43.0) | (38.7) |
| Retention ratio | 79.5% | 88.3% | 84.8% | 85.8% |
| Claims ratio | 62.5% | 69.5% | 60.4% | 63.0% |

## Insurance Sector

By the end of Q2 2020, there were 10 registered insurance companies. The insurance portfolio (gross written premiums) declined by about 15% compared with the previous quarter. By contrast, there was a meagre increase of 1% compared with the corresponding quarter 2019, as a consequence of the seasonal fluctuation of the number of written premiums from one quarter to another. On the other hand, insurance sector investments dropped by 2% and 5% compared with the previous and corresponding quarters, respectively. Net compensations incurred by the insurance sector decreased significantly as well: by 10% and 11% compared with the previous and corresponding quarters, respectively (Refer to Table 4-7).

Table 4-8 presents key insurance indicators that reflect the relative importance of the insurance sector in the Palestinian national economy. The table shows that the contribution of insurance to GDP was modest - although the percentage was on the rise over the last three years, reaching around 1.9% by the end of 2019. Insurance Density grew as well during the last three years, reaching USD 60 by the end of 2019.

**Table 4-8: The spread of insurance services and products**

| General | Penetration ratio (%) | Insurance density (US $) |
|---|---|---|
| 2016 | 1.4% | 44.1 |
| 2017 | 1.6% | 53.4 |
| 2018 | 1.7% | 56.8 |
| 2019 | 1.9% | 60 |

*Insurance Penetration rate: the ratio of premium underwritten to GDP at current prices.

**Insurance Density: the individual's share of the total insurance portfolio (the ratio of total premium underwritten to the total population).

As figure 4-9 shows, there is a significant concentration in vehicle insurance in the insurance portfolio in Palestine, constituting 62% of the total insurance portfolio and followed by the health sector at 13%. Figure 4-10 presents the market share of insurance companies, where three companies of the ten operating companies dominated 54% of gross written premiums in the Palestinian insurance sector by the end of Q2 2020.

**Figure 4-9: Distribution of the Insurance Portfolio Components by the Insurance Sector Activities (as of the end of Q2 2020)***

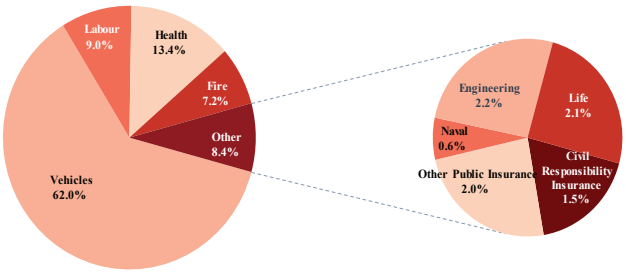
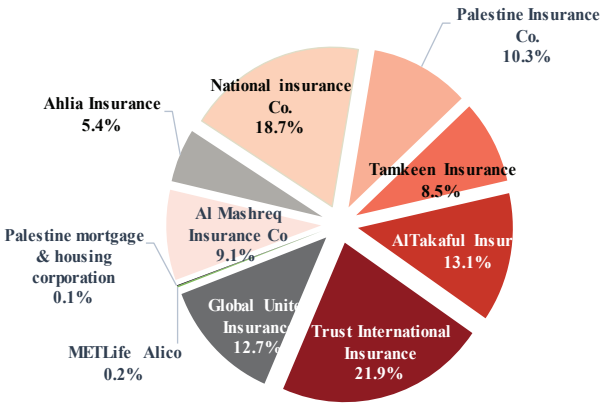



**Figure 4-10: Distribution of the Insurance Portfolio Components by Insurance Company (as of the end of Q2 2020)**



## 5. Social Development in Palestine[1]

After reviewing the contents of the Economic Monitor, and to sharpen the comprehensive picture it presents of the reality in Palestinian light of the successive crises plaguing the country (economic, political, health, and social), MAS decided to use this issue of the Monitor to shed light on the crisis of poverty. This is especially relevant given the recent intensification and expansion of poverty. We examine poverty according to new concepts that express different aspects of "multidimensional poverty": deprivation, exclusion, and lack of opportunity. The number of families affected by these aspects of poverty ranges from 200,000 to 300,000[2] depending on the severity of each crisis, distributed across villages, camps, cities, and slums all over the country. MAS decided to examine this crisis from an economic viewpoint, because an appropriate form of human development for these vulnerable groups continues to be critical to sustainable, stable, and equitable economic growth. Such human development will lead to greater productivity (a healthy society within a healthy economy), and address moral and scientific concerns with the issue of poverty.

In upcoming issues of the Monitor, MAS will continue to address each dimension of multidimensional poverty in detail and relying on existing specialized databases, allowing the reader to periodically follow up on the state of anti-poverty social development in Palestine.

### 5.1 Multidimensional Concept of Poverty

Coinciding with the renaming of the Ministry of Social Affairs to the Ministry of Social Development, and as a practical application of this change, in its meeting at the beginning of 2020 the Council of Ministers approved the adoption of the concept of multidimensional poverty.[3] This concept goes beyond the narrow definition of poverty that is limited to the monetary dimension. It includes other social dimensions that more accurately measure the standard of living of individuals, such as education, health, work, housing, access to services, safety, freedom to use assets, and personal freedom. Each of these dimensions is measured according to specific indicators that, when combined, account for 80% of total poverty (deprivation), in addition to the monetary dimension, which constitutes 20% of the weight of total poverty. The latter is typically calculated through data obtained via expenditure and consumption surveys.

Relying on the findings of the Palestinian Multidimensional Poverty Report (2017) issued by the Palestinian Central Bureau of Statistics (PCBS) at the beginning of 2020, the new concept of poverty (multidimensional poverty) is based on human rights concepts contained in the Basic Law, the Convention on the Rights of the Child, the Labor Law, and discussions of the National Anti-Poverty Team.

It is worth noting that using the concept of multidimensional poverty increases the ability of states and governments to better invest available public money, in order to meet the needs of poor and deprived groups by providing the services of which they are in need - even if not monetary. For example, while a certain percentage of households need direct cash transfers, another percentage may need in-kind assistance or health insurance, depending on its position on the Multidimensional Poverty Index.

### 5.2 Key Findings of the 2017 Multidimensional Poverty Report with regard to Monetary Poverty

In terms ofo monetary poverty, nearly a third of the population in the Palestinian Territories suffered from this type of poverty in 2017 (about 29.2%), according to PCBS.[4] The Report showed that the level of monetary poverty in the Gaza Strip (about 53%) is four times higher than in the West Bank (about 13.9%). The Extreme Poverty Index also shows that economic and social conditions for residents of the Gaza Strip are more difficult, as about a third of the population of the Gaza Strip suffers from extreme poverty, compared to 5.8% in the West Bank. In practice, this means that they cannot meet their families' basic needs for housing, clothing, and food.

The Extreme Poverty Index includes a number of indicators of deprivation. All poverty indicators in the Gaza Strip are four times higher than in the West Bank. The disparity decreases if we look at the severe poverty indicator (43.3% in the Gaza Strip compared to 40% in the West Bank). This indicates that the poor in the West Bank and Gaza Strip face the same causes and relative severity of deprivation.

Despite the relatively low poverty rates in the West Bank, there are noticeable differences between the different geographical areas. Poverty rates in the governorates of the southern West Bank (13.6%) and the northern West Bank (10.5%) are higher than in those of the central West Bank (7.3%). The latter are the least poor, according to PCBS data for 2017. Poverty rates also vary according to type of residence. The Report shows that poverty rates are highest in refugee camps (38.1%), followed by cities (24.4%) and rural areas (13.9%).

**The Link between Monetary Poverty and Multidimensional Poverty:**

The results of the 2017 Multidimensional Poverty Survey show that multidimensional poverty in Palestine is related

1 References for this section:
Economic Monitor. 2020. Special Issue. MAS. http://www.mas.ps/files/server/20200705223647-2.pdf
Al-Araj, Badr. 2020. "The Coronavirus Pandemic and the Need to Develop the Social Protection Sector in Palestine." MAS. http://www.mas.ps/files/server/20200710145907-2.pdf
Palestinian Central Bureau of Statistics. (2020). "PCBS announces results of survey on the impact of the COVID-19 pandemic on the social and economic conditions of Palestinian families." http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_Ar_4-10-2020-covid-ar.pdf
Social Protection Rapid Response Plan, Ministry of Social Development. 2020. A study of the social impact of the coronavirus pandemic in Palestine, and its implications for governmental and non-governmental policies and interventions.

2 Statements by Ministry of Social Development officials. About 200,000 poor families were registered with the Ministry's databases before the coronavirus crisis. About 60,000-100,000 new poor families were then added.

3 https://www.alwatanvoice.com/arabic/news/2020/01/09/1305546.html

4 Palestinian Central Bureau of Statistics. (2020). Multidimensional Poverty in Palestine, Key Findings Report 2017.

to - and mainly stems from - monetary poverty. Monetary poverty alone contributes to 45.4% of cases (46.6% in the West Bank compared to 45% in Gaza Strip). In addition, the rate of multidimensional poverty in Palestine (24%) is less than the rate of monetary poverty (29.2%). Although the rate of monetary poverty in the Gaza Strip is much higher than in the West Bank, as mentioned previously, its contribution to multidimensional poverty was less significant than in the West Bank. This means that the social deprivation afflicting the Gaza Strip continues to deteriorate as a result of the Israeli blockade since 2006, which has led to an increase in the contribution of non-monetary drivers of multidimensional poverty. In other words, poverty in the Gaza Strip is not only material, but also is also expressed in deteriorating indicators of employment, health, education and access to services.

**Table 5-1: The Contribution of Multidimensional Poverty Indicators to the Multidimensional Poverty Index for 2017 (West Bank and Gaza Strip)**

| Indicator | Area | | |
|---|---|---|---|
| | West Bank | Gaza Strip | Palestine |
| Education | 11 | 10.7 | 10.8 |
| Health | 7.7 | 4.4 | 5.3 |
| Employment | 14.9 | 11.7 | 12.5 |
| Living conditions and access to services | 9.9 | 11.7 | 11.2 |
| Personal safety and freedom to use assets | 5.6 | 9.3 | 8.4 |
| Personal freedom | 4.4 | 7.2 | 6.5 |
| Monetary poverty | 46.6 | 45 | 45.4 |

PCBS 2020. Multidimensional Poverty in Palestine, Key Findings Report 2017.

The data in Table 5-1 indicates that the deprivation of employment, education, housing conditions, access to services and health are the largest causes of multidimensional poverty in the West Bank, after monetary poverty. The indicators of employment benefits (7%) and work conditions (3.9%) constitute the largest contribution to in-work poverty in the West Bank. The quality of education indicator (4.8%) constitutes the largest contribution to education poverty indicators.

Concerning the Gaza Strip, Table 5-1 indicates that, after monetary poverty, the causes of deprivation are concentrated in work, housing conditions and access to services. These are followed by deprivation of education, personal safety and freedom to use assets. An inability to access health services constituted the lowest proportion of total poverty in the Gaza Strip. Among work-related indicators in the Gaza Strip, the employment benefits indicator is the largest contributor (4.8%) to overall poverty. Regarding education-related indicators and their contribution to overall poverty, the quality of education indicator was the highest (3.1%).

That the quality of education was the most significant educational indicator contributing to multidimensional poverty - compared to other dimensions of education, such as access to education services - indicates that there is a fundamental problem in the quality of education in both the West Bank and Gaza Strip, rather than a problem of access to education (in terms of the cost of education or lack of space for students-). The problem of a lack of high-quality education is reflected in the high unemployment rates among the ranks of college and university graduates.

## 5.3 Impact of the Coronavirus Pandemic on the Economic and Social Conditions of Marginalized and Poor Groups

Certainly, the coronavirus pandemic dealt a painful blow to development plans in Palestine, increasing the suffering of poor and low-income families at all levels. Its consequences will lead to the localization of multidimensional poverty this year and in the years to come. With poverty rates rising to new levels, the Palestinian government will find itself facing enormous challenges that require rational economic policies in the face of such a dilemma. This section discusses the most prominent social and economic repercussions of the coronavirus pandemic on the most vulnerable groups (for example, the poor, working people, the elderly, people with special needs), providing clear evidence of the deterioration of multidimensional poverty indicators in Palestine.

### 5.3.1 The Poor:

The coronavirus pandemic and the subsequent declaration of a state of emergency, combined with the cessation of most economic activities, have led to an increase in the number of poor and unemployed people in the West Bank and Gaza Strip, as well as the emergence of the "new poor." Their appearance is linked to circumstances that resulted from the pandemic.

According to estimates by the Ministry of Social Development, the pandemic will increase the number of poor families by 53% (from 275,819 families to 422,915 families). In the West Bank, the number of poor families increased from 96,065 families to 205,854 families, amounting to an increase of 114%. In the Gaza Strip, the number of poor families increased from 179,754 to 217,061 (a 21% increase) after the pandemic. The reason for this disparity between the West Bank and the Gaza Strip is due to the West Bank being directly affected by the virus during its first three months, which necessitated the adoption of preventive measures: comprehensive closure from March 5 to May 25, 2020. This had negative social and economic repercussions for large segments of the population in the West Bank. However, Gaza remained open in the first phase of the pandemic, during which there were limited cases from abroad. These cases were quarantined in isolated areas near the Rafah crossing, which prevented the virus from spreading.

### 5.3.2 Workers:

PCBS released the results of its survey on the impact of the COVID-19 pandemic on the social and economic conditions of Palestinian families (March-May 2020). The results show that one in every seven breadwinners in the West Bank (14%) stopped working during the closure period, whereas before the closure period one in eight breadwinners was not working (13%). The declaration of a state of emergency was a major reason for a 75% absenteeism rate in the West Bank during

March-May.[5] Table 5-2 shows that 52% of workers in the West Bank did not receive any wages or salaries during March-May 2020. Only 23% received their wages as usual, while 25% received partial wages. There was a gender discrepancy in obtaining full wages, as 26% of female breadwinners did not receive full wages, compared to 52% of male breadwinners.

The largest percentage of those who did not receive their wages are workers in the private sector (see Figure 5-1). There was a commitment by the Palestinian government to pay salaries during the period of comprehensive lockdown and partial lockdowns that followed, but the private sector wages were greatly affected. A large number of employers did not abide by the agreement signed at the beginning of the pandemic by the Ministry of Labor, the General Federation of Palestinian Trade Unions, and the Coordination Council for the Private Sector. According to this agreement, private sector employers were obliged to pay 50% of wages for March and April 2020 (or at least 1,000 NIS), with the remainder payable after the crisis ended.[6]

The survey results also show that only 31% of Palestinian families had sources of income that covered their needs during the lockdown period (31% of which were male-headed households and 40% were female-headed).

The disparity between males and females in obtaining a full wage - or in accessing sources of income that cover basic needs - may be due to the fact that 31% of all working women in Palestine are employed in the governmental sector, according to 2019 statistics. This is a healthy percentage, indicating that one-third of working women received their wages for the period in question.[7] Moreover, the informal sector is one of the sectors that has been most affected by the pandemic, due to the precarious nature of informal work. According to 2019 statistics, the construction sector is one of the largest sectors employing informal enterprises. For example, more than 70% of workers in the construction sector work in informal enterprises.[8] Labor force statistics for 2019[9] indicate that the construction sector employs 20.6% of males, compared to 0.5% of females. The construction sector was affected by the comprehensive lockdown and the inability of workers to move between home and worksite. This may explain the high percentage of male workers who did not receive full wages for March-May 2020, including the period of total closure.

### 5.3.3 The Elderly and Persons with Special Needs

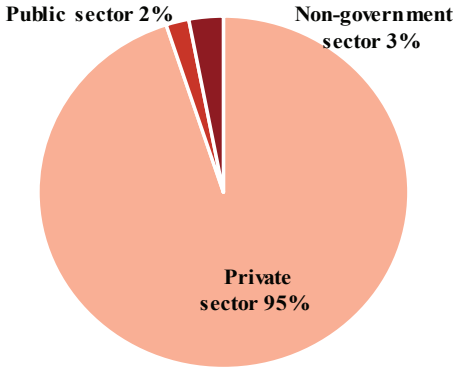
The coronavirus pandemic has weighed on the shoulders of most marginalized groups, such as the elderly, people with special needs, and children - especially during the period of total lockdown. The ability of the elderly to move has been affected, their isolation has increased, and services have become difficult to access. According to statistics issued by the Palestinian Ministry of Health, the largest percentage of deaths due to the coronavirus was among the elderly. In addition, the reduction or cessation of income in many families has made it difficult to purchase goods, food, and medicine required by the elderly.

**Table 5-2: The Effect on the Flow of Salaries and Wages in the West Bank and Gaza Strip during March-May 2020**

| Flow of Salaries and Wages | West Bank | Gaza Strip |
|---|---|---|
| Paid as usual | 23% | _ |
| Partially paid | 25% | 23% |
| Unpaid wages/salaries | 52% | _ |

PCBS 2020. "PCBS announces results of survey on the impact of the COVID-19 pandemic on the social and economic conditions of Palestinian families."

**Figure 5-1: Distribution of Unpaid Workers by Sector (Percentage)**




PCBS 2020. "PCBS announces results of survey on the impact of the covid 19 pandemic on social and economic conditions of Palestinian families." http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_Ar_4-10-2020-covid-ar.pdf

The same applies to people with special needs, especially in terms of their need for continuous care and their inability to practice social distancing. On the other hand, a survey carried out by the "Stars of Hope" Association and the Economic and Social Policy Institute monitored cases of the dismissal of disabled women from their work, non-payment of their wages or dues, and their inability (or lack of knowledge) to obtain legal aid. Women with disabilities also complained of being marginalized in local decision-making on the work of emergency committees and the distribution of aid.[10]

According to several statements by the Minister of Social Development regarding the social protection sector and the Ministry's priorities, the elderly and the disabled are priorities at the Ministry of Social Development. According to data provided by the Ministry[11] and derived from the cash transfer program, in the West Bank and Gaza Strip 39,147 households headed by an

5 http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_Ar_4-10-2020-covid-ar.pdf
6 https://www.maannews.net/news/1010157.html
7 Economic Monitor. 2020. Special Issue. MAS. http://www.mas.ps/files/server/20200705223647-2.pdf
8 Ibid.
9 Palestinian Central Bureau of Statistics. 2020. "Palestinian Labor Force Survey: Annual Report", 2019, Ramallah-Palestine.
10 The coronavirus pandemic and the need to develop the social protection sector in Palestine: http://www.mas.ps/files/server/20200710145907-2.pdf
11 The Ministry of Social Development provided us, through databases on cash transfer program beneficiaries, with demographic details about the beneficiaries of its programs during the first half of 2020.

elderly person and 17,740 households headed by a disabled person benefited from the program during the first six months of 2020.

#### 5.3.4 The Ministry of Development's Cash Transfer Program: Tracking the Demographic Characteristics of Beneficiaries during January-June 2020

According to data provided by the Ministry of Social Development, there were 567,297 beneficiaries of the Cash Transfer Program in total, 294,242 of whom were women and 273,055 were men. Beneficiaries in the Gaza Strip constituted the largest portion (75%) of total beneficiaries. There are 106,385 household heads benefiting from the program, most of whom (58%) are male. 70,501 of them live in the governorates of the Gaza Strip, constituting 66% of total beneficiary families.

As for employment, 55,372 beneficiaries work in the West Bank and Gaza Strip, a number that amounts to less than 10% of total beneficiaries. The majority of these works are men, with 51,852 male workers or 94% of total workers benefiting from the Ministry of Social Development's aid.

According to the Ministry's data, the majority of household heads benefiting from the cash transfer program work in the informal sector. Out of the 17,381 workers in the informal sector, 64.5% are men (17,086 men and 295 women). This segment is followed by workers in the private sector, where there are 8,621 beneficiaries, or 32% of all head-of-household beneficiaries.

It should be noted that, due to the impacts of the corona pandemic, there has been a significant increase in the number of newly poor registered in the Ministry's databases. This means that there will be a significant increase in the percentage of workers benefiting from this aid in the future. The percentage of employed beneficiaries is about 10% of total current beneficiaries of the cash transfer program, according to data for the first half of 2020. But what of the newly poor now registered in the program? We find twice as many workers have been affected by the coronavirus crisis, and they will be included in the poverty database at the Ministry of Social Development.

#### 5.3.5 Trends

Finally, and to return to the concept of multidimensional poverty, the Palestinian territories may witness an increase in the level of multidimensional poverty as a result of declining indicators, including in the quality of and access to education. The latter is itself a result of an inability of Palestinian families to access internet services which have become an urgent necessity for remote learning. There may also be declining access to health services due to the inability of hospitals and health centers to receive patients and visitors given the large increase in coronavirus infection cases; and due to the lack of material and human resources, especially with the refusal of Israel to release clearance funds. These and other burdens will certainly increase the demand for services provided by the Ministry of Social Development. Furthermore, they require developing existing social protection programs so as to realize a comprehensive, national-level social protection system that prioritizes poor and marginalized groups. These are among the urgent issues of social development that coming issues of the Economic Monitor will address.

## 6. Recent Publications

### 6.1 First Publication: Prospects for Human Development 2020: The Coronavirus Pandemic and Human Development: Assessing Crisis and Envisioning Recovery

**Introduction**

The United Nations Development Program (UNDP) has devoted its report on the prospects for human development for 2020 to studying the negative effects of the coronavirus pandemic on human development conditions around the world, and to presenting a preliminary vision of the means and mechanisms of developmental recovery from the pandemic. [1]

The coronavirus pandemic has severely affected income levels as a result of its impact on economic activities, to a degree unprecedented since the Great Depression in the 1930s. It has also caused serious health effects, in the form of millions of infections and deaths and violence against women and children. It likewise resulted in the educational process at schools and universities being suspended in most of the countries that have been affected by the pandemic, with students forced to adapt to the methods of e-learning or remote learning. This has created significant challenges in a large number of countries in terms of the availability of ICT infrastructure such as internet connectivity and computers. It is anticipated that levels of basic education will decline around the world, to match levels prevailing in the 1980s.

The report focused on the issue that the pandemic occurred at a time when the world was already suffering from tensions and growing problems between people and technology, between people and the planetary system; and between the haves and have-nots. This created many forms of inequality in prospects and basic needs in the twenty-first century, as defined in the Human Development Report for 2019. Accordingly, methods of addressing the negative effects of the pandemic should aim to reduce these high levels of inequality.

**Methodology and Results**

The report's methodology relies on an evaluation model to assess the impact of the pandemic, and the forms of responses or policies highlighting what people can realistically do to achieve their aspirations, regardless of the availability of material resources or economic activities. It is common knowledge that the pandemic continues to spread in a large number of countries, and it is too early to conduct a comprehensive assessment of the pandemic's impact on human development. Therefore, the report studies the impact of the coronavirus pandemic on people by using a modified version of the Human Development Index that is more sensitized to the effects of the pandemic. This version preserves most of the basic indicators, while indicators for the education index are adjusted to reflect the impact of school closures and associated mitigation measures. This version also uses IMF projections regarding per capita gross national income for 2020. Average life expectancy at birth for 2020 has been modified in this revised version, to take into account the potential effects of the coronavirus pandemic on health. This is based on a minimal-impact scenario (average

1 undp.org/sites/default/files/covid-19_and_human_development_0.pdf http://hdr.

life expectancy at birth in 2020 is very close to the average for 2019), as published recently in a specialized study in Lancet Global Health on estimated child mortality.[2] In conducting this simulation, the report assumes that current conditions in the spread of the coronavirus pandemic will be further accompanied by a sharp and unprecedented decline in human development indicators. This decline primarily attributed to a massive setback in effective learning, with 9 out of 10 students globally affected by school closures, combined with unprecedented economic recession in a large number of countries.

The report indicates that the decline in the Human Development Index for this year is equal to the progress achieved by the Index in the last six years combined. The shock to state capacities or resources is without precedent since the introduction of the Human Development Index in 1990 (see Figure 1 below). If conditions for returning to school are restored, this will immediately impact the recovery of education-related capacities, while the income index will depend on the speed of the post-crisis economic recovery. The simulation emphasized the importance of promoting equality in resources and capacities. For example, concerning the scenario related to equal access to the internet - that is, enabling countries with low development indicators to bridge the gap between themselves and those countries with high development indicators - the human development index declines by more than half. Estimates for 2018 show that $100 billion is sufficient to bridge the gap in internet access between low- and middle-income countries. This is a small amount, equivalent to only 1% of total monies allocated to combatting the effects of the pandemic around the world, until the date of the report's publication (May 2020).

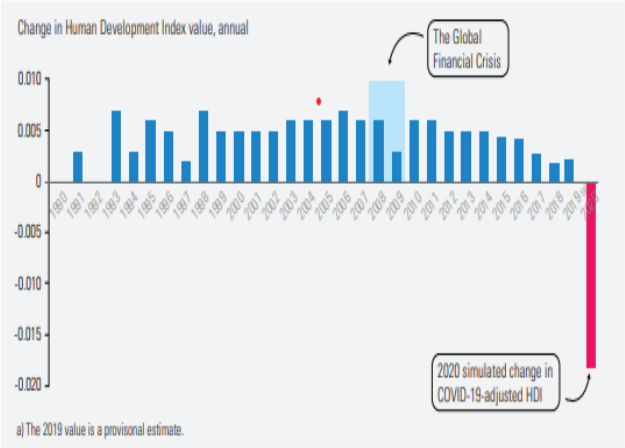
**Recommendations**

The report issued a set of recommendations covering most aspects of the response to the crisis, including:

1. The importance of prioritizing equality in choosing between methods of response, as poorer countries and groups are more greatly affected by the pandemic. Therefore, failing to provide them with adequate assistance will have significant and long-term adverse effects on human development indicators.
2. Focus on strengthening people's capabilities (enhanced capabilities), which will lead to a clearer balance between health and the economy while enhancing people's resilience in the event of future shocks.
3. Adopt a coherent and interconnected multi-dimensional approach, as the coronavirus pandemic is an interlocking, health, economic, social and environmental crisis. It is important to integrate responses across sectors, rather than deal with each sector separately. For example, in a new survey carried out in 14 countries, 71% of adults indicated that climate change is as serious a threat as the coronavirus. Therefore, most of them see the need for governments to prioritize climate change in their recovery plans from the coronavirus pandemic.
4.

2 https://www.thelancet.com/journals/langlo/article/PIIS2214-109X(20)30229-1/fulltext

**Figure 1: Human Development Index from 1990 to 2020**




Source: United Nations Development Program (UNDP), Human Development Outlook 2020.

5. Recognize the importance of collective action at the level of society, the state, and the globe, in order to confront the effects of the coronavirus pandemic. For example, the social distancing necessary to limit the spread of the pandemic cannot be achieved without the commitment of all members of society around the world, as the danger is not limited to just one country. Rather, it transcends countries and continents, evidenced by the fact that the pandemic began in Wuhan, China, and then spread to all other countries and areas.

## 6.2 Second Publication:The Gap in Value-Added Tax in the West Bank: 13% of GDP

Last June, the World Bank published a study entitled "Estimating the VAT Gap," as part of the Bank's series of reports on the evaluation of fiscal policy in Palestine.[3] The ratio of tax revenues to GDP in Palestine, amounting to 21.8% in 2019, is severely low when compared to other countries, including Arab ones: for example, this percentage reached 26.4% in Jordan and 31.1% in Tunisia. The study aims to identify the causes of insufficient tax collection and recommend specific policies to address this situation. The study was supposed to estimate gaps in the collection of income tax on wages and profits as well as through VAT. However, due to the non-availability of data, it limited its assessment to cover the gap in VAT only. The average ratio of VAT to GDP in Palestine was 5.7% between 2015 and 2019, divided between 1.8% in the form of local collection and 3.9% as clearance from Israel.

**Methodology and Results**

Determining the size and structure of the gap in VAT is important, as it helps decision-makers to assess the effectiveness of financial policies and identify areas in which they must intervene to reform tax collection. The tax gap is defined as the difference between tax revenue that can and should be collected, and tax revenue that is actually collected. This gap can be further divided into two main derivative gaps:

3 http://documents1.worldbank.org/curated/en/988251593063216893/pdf/Palestinian-Territories-Impact-of-Fiscal-and-Economic-Policies-Estimation-of-VAT-Tax-Gap.pdf

**Table 1: The Gap in Indirect Taxes on Imports to the West Bank Only (USD Million, 2019)**

| Tax revenues that should be collected (without exemptions or deductions) | Tax revenue that can be collected (after exemptions and deductions) | Actual revenues | Tax policy gap | Tax compliance gap |
|---|---|---|---|---|
| 1,344 | **1,306** | **545** | **38** | **761** |

- Gap in VAT policy, which measures the difference between VAT revenues that can be collected at the rate specified by law (without exemptions or any preferential tax procedures), and actual VAT revenues, collected in light of prevailing reductions and exemptions. In other words, this gap measures revenues lost by the government, resulting from VAT policies related to exemptions and reductions. The study estimates that in 2019 this gap amounted to about 4% of GDP in the West Bank alone (= 19% - 15%).
- Compliance gap, which is the difference between VAT revenue within the applicable framework (including exemptions/reductions) and VAT revenue actually collected. This gap measures the amount of non-compliance by taxpayers. This gap is about 9% of GDP in the West Bank (= 15% - 6%).

The model used by the report to estimate the gap in VAT was mainly based on supply and usage data for 2017 issued by PCBS and tax records from the Ministry of Finance. Given the lack of data on tax revenues in the Gaza Strip, the report is limited to estimating the value of the VAT gap in the West Bank only.

The results of the report showed that the total VAT gap in the West Bank amounted to 13% of GDP in 2019, which is a high percentage by all standards. This percentage is divided between 4% for the tax policy gap, and 9% for the tax compliance gap, as mentioned above. The study also found out that more than half of the tax compliance gap is due to the non-collection of VAT on imports. Table 1 shows that in 2019 the compliance gap in the payment of VAT on imports amounted to $761 million in the West Bank alone. The reasons for this tax evasion are either due to a lack of information in clearing bills about the correct quantities and values of imported goods, or due to approved reductions in the real value of imports from abroad. The study estimates that the value of reported Palestinian imports is 32% less on average than the actual value of imported goods (as stated by trading partners and suppliers). The study notes that tax evasion is particularly concentrated in Palestinian imports linked to trade with Israel. It also found that the tax compliance gap prevails in the industrial, agricultural, and trade sectors in Palestine.

The World Bank's study reached a number of recommendations, the most important of which are:

- Modernizing and reformulating VAT laws to reduce the tax compliance gap.
- In order to reduce the tax policy gap, exemptions from VAT should be reduced. This must be taken into account when reformulating VAT laws.
- To reduce tax evasion on imports, the report recommends continuing efforts to introduce electronic exchange of information on VAT between the Israeli and Palestinian sides.

## 6.3 Third Publication: The Extent to which the National Cash Transfer Program in Palestine Responds to Changes in Forms and Levels of Vulnerability in the Gaza Strip

**Introduction**

The siege imposed on the Gaza Strip continues to worsen the economic, social and living conditions of the population, a large part of whom depend on aid in order to meet their basic needs. The continuation of this situation is driving new groups into the cycle of marginalization, especially with the unprecedented escalation of rates of unemployment rates (45% in 2019) [4], poverty (53%)[5], and food insecurity (68%).[6].

There are numerous relief programs aimed at reducing further deterioration in economic and social conditions in the Gaza Strip and limiting their negative effects on a large segment of the population. The most notable of these programs is the National Program for Cash Transfers, implemented via the Ministry of Social Development. This program, like other aid programs, concentrates on families that fall below the extreme poverty line, as well as marginalized families that fall between the local poverty line and the international extreme poverty line. Such families include marginalized or less fortunate groups like the disabled, the elderly, orphans, family members with chronic diseases, and female-headed households. The Cash Transfer Program provides cash assistance to more than 115,000 families in the West Bank and Gaza Strip: 74,000 families in the Gaza Strip and 41,000 in the West Bank. [7]

Oxfam, in cooperation with Arab World for Research and Development (AWRAD), studied changes in the form and type of vulnerable groups in the Gaza Strip, as well as the effectiveness of the Ministry of Social Development's Cash Transfer Program, by examining selection criteria and their effectiveness in achieving stated goals.[8]

The study is of great importance to donors such as the European Union and the World Bank, giving them a detailed picture to help design programs and mechanisms to provide better assistance to the residents of the Gaza Strip. It also provides civil society institutions in Palestine with information that enables them to conduct advocacy campaigns in both domestic and international forums. This study also contributes to designing risk management and poverty alleviation strategies associated with cash transfer programs.

4 http://www.pcbs.gov.ps/postar.aspx?lang=ar&ItemID=3665
5 OCHA. (2018). Humanitarian Needs Overview 2019, op. cit.
6 Ibid.
7 http://www.mosa.pna.ps/ar/content/برنامج-التحويلات-النقدية
8 https://oxfamilibrary.openrepository.com/bitstream/handle/10546/620989/rr-responsiveness-palestinian-national-cash-programme-shifting-vulnerabilities-gaza-280520-en.pdf?sequence=1&isAllowed=y

**Methodology and Results**

The study adopted a multi-disciplinary approach (quantitative and qualitative) using the following sources: household survey of vulnerable groups, focus groups, in-depth interviews with experts and concerned parties, review of data on the Cash Transfer Program provided by the Ministry of Social Development, and a comprehensive review of literature on the Gaza Strip. The household survey covered 600 poor and vulnerable families, according to data from the Ministry of Special Development. It included all types of beneficiaries of the Cash Transfer Program, families on the waiting list, families removed from the program, or those who requested to join the program but were rejected. The analysis was not limited to survey results on the experience of families in the Gaza Strip, but also included their impressions, attitudes, and social behaviors. The analysis covered the overlap between individuals, families, society, and various institutions and geographical areas in the Gaza Strip, in order to arrive at an accurate picture of the reality on the ground.

While most measures of fragility focus on factors such as income, economic inequality, poverty, and shock dynamics, this study is distinguished by its focus on socio-political dimensions of life in Gaza such as gender, and new segments of vulnerable groups: people with special needs, those suffering from psycho-social problems, and those wounded in demonstrations around the right of return.

The study confirmed the existence of a general and comprehensive deterioration in conditions in the Gaza Strip as a result of successive crises to which the population has been subject over the past two decades. Numerous groups that are supposed to be able to effectively participate in economic activity under normal conditions have found themselves exposed to vulnerability and danger, leaving them with no option but to seek humanitarian aid. These groups include farmers, fishermen, merchants, contractors, women and girls, Palestinian National Authority employees, the wounded, the handicapped, recent graduates, and families that include people who are ill and unable to receive treatment. The study found that the majority of families included in the survey depend on debt and borrowing, either from a family member or the community, leading them to feel weak and humiliated compared to other segments of society that are less vulnerable. The study showed that the vast majority of the new poor are young people who have high levels of education and sufficient qualifications to enter the labor market.

With regard to the vulnerability indicators used by the Cash Transfer Program, the study concluded that they are insufficient due to their over-dependence on physical assets and income levels as eligibility criteria. Such criteria are ignoring vulnerable groups from unusually affluent backgrounds who are becoming increasingly dependent on aid for their basic needs. This is due to the large increase in unemployment rates, shrinking opportunities for participation in the workforce, fear of future risks and shocks, and the exhaustion of coping mechanisms. Although the expanded inclusion mechanisms adopted by the program appear to take into account or accommodate vulnerable groups, this is not explicitly stated in documents or selection criteria focusing on the nature of shifts in the composition or form of vulnerability, and on the new poor. A variety of factors impede the process of monitoring and defining changes in the forms and levels of vulnerability, including occasional mismanagement in collecting data on marginalized groups; the lack of accountability regarding decisions to include or not include vulnerable groups; and conflict in roles between the employees of PA and the de facto government in the Gaza Strip.

The study observed a high degree of ambiguity or variation in both the collection and entry of data for the Cash Transfer Program. Moreover, the program does not fully take into account gender-related factors, people with special needs, and the elderly, or multi-dimensional socio-political factors that affect vulnerable groups, in addition to social factors. It is evident that in the Gaza Strip there are overlaps among beneficiaries of various aid programs—, whether they offer monetary, in-kind, humanitarian or developmental aid—due to the fragmented nature of various governmental and developmental structures. For example, while new applicants to the program appear to be poorer than those who have been removed from the program (or whose applications were rejected), some already have the ability to access other sources of aid. This requires reviewing admission criteria or carefully studying submitted applications for such duplication.

**Recommendations**

The study put forward a set of recommendations directed at the Palestinian government, donors, and international non-governmental organizations. These propose a rethinking of the definition of "vulnerability" and "least-vulnerable actors" in the Gaza Strip, as well as a review of the criteria for admission to the Ministry of Social Development's National Program for Cash Transfers. This will help halt the rising levels of vulnerability, and raise Gazans' levels of empowerment and resilience in facing shocks.

1. The government should take serious and committed steps to unify various forms of aid under a unified mechanism and method of supervision for all actors engaged in providing such aid. This includes the Ministry of Social Development, the UN Relief and Works Agency (UNRWA), the World Food Program, and other international institutions active in the field.
2. Increase the volume of support provided by the Palestinian government to the National Program for Cash Transfers, given increased demand for the program by families in the Gaza Strip as a result of deteriorating economic/social conditions. The de facto government in the Gaza Strip needs to fulfill its financial obligations to its workers and reconsider its spending priorities in order to increase the level of social assistance provided to citizens.
3. Expand the Program's eligibility criteria in order to respond to changes in forms and levels of vulnerability in the Gaza Strip, and the general rise in such vulnerability, in response to new realities on the ground.
4. Create a new acceptance mechanism for the program in order to respond to people with special needs and the elderly, such that they automatically meet eligibility requirements.
5. Activate the supervisory role of civil society institutions over relevant de facto government institutions in the Gaza Strip, in order to reduce patrimonialism, favoritism. and partisan considerations in the process of selecting beneficiaries.
6. Encourage donors and international non-governmental organizations to support the activity of civil society institutions in order to afford them more space for expression and social activities. This allows poor and vulnerable groups to express their needs and choose their own priorities in ways they deem appropriate.

## Economic Concepts and Definitions
## The Elephant Curve

From the beginning of the 21st century, economists in the U.S. became increasingly interested in the issue of national income distribution, given persistently poor income distribution throughout the 1980s and 1990s. It is common knowledge that increasing inequality in society leads to economic harm, where the most important forms are:

- Reducing the volume of investment in human capital, thus reducing the rate of economic growth.
- The accumulation of wealth by a few persons, leading to an increase in risky, financial speculation in financial markets.
- The consolidation of political power in the hands of the rich, which leads to the imposition of an inefficient tax system that favors the wealthy. This leads to diminishing capabilities of the public sector in spending on public health, protecting the environment, and facing climatic fluctuations.

With the start of the 2020s, popular opinion in the U.S. centered on the notion that inequality had reached dangerously high levels. This was one of the causes of the financial crisis of 2008, as was the high level of inequality in the 1920s that caused the Great Depression of the 1930s. In 2011, public anger over the growing degree of inequality in American society imploded with the "Occupy Wall Street" protests in New York City, coining the slogan "We are the 99%". This expressed the common feeling that only 1% of the population owns most of the wealth and political power. These protests spread to most American cities and many other countries, especially capitalist countries, thus confirming that the problem of "poor income distribution", or the growing degree of inequality, is a global issue.

In academic circles, there has been a focus on two factors believed to be the main causes of this problem. The first is the process of dismantling the foundations of the "welfare state" in capitalist societies that began in the early 1980s under the Reagan administration in the U.S. and the Thatcher government in Britain. The tax system was modified in favor of capital, while the influence of trade unions was shattered. There was a reduction in public spending on health, education, and in the fight against environmental pollution. The second factor is globalization, which redrew the map of the global distribution of labor and capital. It also reduced the ability of states to adopt economic policies that contradicted the goals of colossal, multinational, and transnational companies; or policies that did not align with monetary and financial imperatives of the World Bank and the International Monetary Fund. In certain media circles in capitalist countries, there is a growing belief that the desire for a global realignment of income distribution was one of the reasons for the spread of populism in many capitalist countries, which culminated in the election of Donald Trump as the President of the U.S. in 2016.

There is much talk that, while globalization increased inequality in the rich, industrialized countries, it had the opposite effect in poor countries, especially developing economies such as China and India. Naturally, this raises an important question about whether globalization affected income distribution at the global level. Did globalization improve income equality at the global level, or did it cause increased inequality? What follows is a presentation of one of the most important studies that tried to answer this question, which is a study that resulted in the concept of the "elephant curve".

There are three approved statistical methods for measuring global income distribution and studying changes in the degree of global inequality.

The first approach measures the degree of inequality by measuring the discrepancy between average incomes in different countries. This method centers on measuring the disparity between countries and not between individuals; it is not the case that all individuals in a country actually earn the average income. Average income at the country level is included in this approach, without taking into account any other factors. Each average country income (in a country like India, for example, with a population of 1.4 billion) is equivalent in importance to each average income in another country (in Kuwait, with a population less than five million, for example). This means that the effect of improved average income in India on global income distribution will equal the effect of an income improvement in any other poor country, regardless of its population. In other words, this approach does not measure inequality between individuals in the world, but rather the discrepancy between average income levels in different countries. It does not actually describe the development of international inequality, since it does not weigh population numbers and take into account their effect on changes in average income in each country.

The second approach takes into account average income in each country of the world (as above), but this average is weighted by population numbers. The rise in average income in a country with a relatively poor and large population (such as India) will have a greater impact in reducing international inequality than a parallel rise in average income in a country with a limited population (such as the Comoros Islands, for example). Note that the first and second approaches take into account the average income of different countries (GDP per capita), rather than the real income of individuals. That is, they measure the variation in average income between countries while neglecting the variance in income distribution within each country.

The third approach measures disparities in income distribution among individuals across the globe, regardless of country boundaries. While the first and second approaches are based

on grouping middle-income countries together (from the poorest 10% of countries to the richest 10%), this approach groups individuals directly: the poorest 10% of the world's population (these, of course, come from different countries) compared to the richest 10% of the world's population. In the third approach, inequality is based on the individual and his/her real income, not the average income in the country in which he/she resides. Inequality computed in this way is termed global inequality. The real income level of individuals in each country is obtained directly from household surveys conducted periodically by statistical institutes in different countries.

## The mother of all debates on inequality

From his pioneering research on poverty and income distribution, economist Branko Milanovic published a study in 2012 in which he sought to determine the winners and losers during the important years in the rise of globalization, from the collapse of the Berlin Wall to the outbreak of the global financial crisis, that is, spanning two decades between 1988 and 2008.[1]

Firstly, Milanovic's study found that global inequality in income distribution increased during this period when the first approach is used. This happened, in general, because rich countries grew faster than poor countries, and because the growth miracles in China and India did not have a strong impact, as their growth numbers were not weighted by their high population numbers. As for the second approach in calculating inequality, the results indicate that the years of globalization were accompanied by a decline in international inequality. The reason for this is exclusively due to the exceptional growth of middle-income groups in China and India, the two countries that began with very low-income levels in the last decades of the 20th century. Milanovic states that this solves the mystery of the "mother of debates" that prevailed between the proponents of globalization and its opponents. While proponents of globalization stress the need to measure international inequality according to the second statistical approach, their opponents insist on measuring it using the first approach.

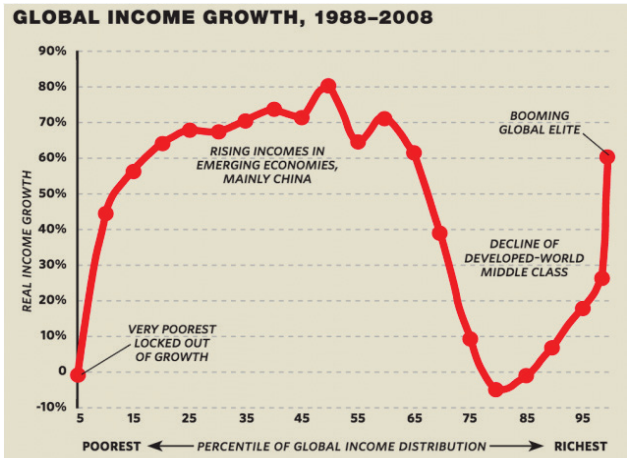
## The Elephant Curve

What happens to income distribution during the years of globalization if inequality is measured using the third statistical approach? This is, of course, the most accurate way for depicting global income distribution and for tracking changes in this distribution over time. This is precisely what Milanovic's study presented. He summarized the results of his study in a simplified graph. This diagram was distributed widely and became known as the "elephant curve" as it resembles the drawing of an elephant with its humped back and raised trunk.

The horizontal axis in Figure 1 records the distribution of the world's population according to their income level. The poorest 5% of the world's population are on the extreme left of the horizontal axis. Following this is the second-poorest group of people in the world, and so on, until we reach the richest 5% of the planet's population, who are at the far right of the horizontal axis. The vertical axis measures the growth rate in average real income earned by each decile during the two decades between 1988 and 2008. Notice that the resulting curve, the "elephant curve," depicts income growth rates but not income levels. Relative income is shown on the horizontal axis of the graph.

Real income levels for the world's population were obtained through household surveys that statistical institutes conduct periodically every 5 years in various countries. The number of these surveys reached 565. All income was converted from local currencies to an equivalent purchasing value in U.S. dollars. [2]

**Figure 1: Real Income Growth Rates for the World's Population Classified in Deciles from the Poorest to the Richest during 1988-2008 (%)**




Source: Reference 1

## Winners and Losers from Globalization

The study concluded with a number of important results, primarily that inequality in the distribution of global income has not undergone any significant changes during the two decades of globalization, as the value of the "Gini coefficient" remained almost constant, at around 70%.[3] This ratio means that if we divide global income into two equal halves, the richest 8% of the world's population is allocated one of the two halves, and the remaining 92% is allocated the other half (the corresponding ratios are 78% and 22% in USA, and 71% and 29% in Germany). The two decades of globalization were accompanied by a rearrangement and realignment of income distribution between different income groups in the world, as illustrated by the "elephant curve". This realignment can be summarized as follows:

1 Branko Milonovic (2012): Global Income Inequality by the Numbers: in History and Now-An Overview. Policy Research Working Paper 6259. The World Bank.

2 For more information and a definition of dollar-based purchasing power parity (PPP), see quarterly *Economic Monitor*, issue No. 48.

3 The Gini coefficient is a measure of equality in national income distribution among citizens of a country, or any group of people. Coefficients range between zero and one (100%) where zero indicates complete equality (everyone gets the same income) and one indicates complete inequality (one individual gets all the national income). For more on the uses and interpretations of the Gini coefficient, see quarterly Economic Monitor, Issue No. 50.

- There are two groups that have reaped the most gains during the two decades of globalization. The first is the very rich; that is, the richest 5% of the world's population. Their real income has grown by 60% during the two decades, as shown by the extreme point of the elephant's trunk in the graph. Indeed, gains were concentrated to a greater extent among the richest 1% of the planet's population, who number nearly 60 million people (12% of whom were citizens of the United States). The second group is the middle class with income levels between the fifth and sixth deciles of the distribution. Their average income has grown by more than 70% over the past two decades. This social class includes about 200 million Chinese, 90 million Indians, and 30 million from Indonesia, Brazil, Egypt, and others.
- The primary losers during the two decades of globalization fall into two groups. The first group is the poorest 5% of the world's population (located on the far left on the horizontal axis). Most of them reside in sub-Saharan Africa, some reside in Latin America, and some in former communist countries. While the average income of every sub-Saharan African was equivalent to two-thirds of median global income per capita in 1988, this fell to less than half in 2008. The second group of losers is what Milanovic calls "the upper middle classes", with income levels between the seventh and ninth deciles of the distribution. The incomes of this class did not witness significant growth, but rather, a decline during the two decades. This group includes citizens of former socialist countries, unskilled workers in rich countries, in addition to large numbers of the middle class in Latin America and the Middle East.
- Global income distribution has seen an important realignment during the two decades of globalization. This is mainly due to the growth of the incomes of the poorest third of the world's population (excluding the poorest 5%) at a real rate of 40%-70%. This remarkable achievement is reflected in the decline in the percentage of individuals who suffer from absolute poverty (daily income less than $1.25 purchasing power equivalent). This percentage fell from 44% in 1988 to 23% of the world's population in 2008. It must be noted that the largest section of those who benefited from this achievement are first, Chinese citizens, and second, Indian citizens.

## Key Economic Developments in Q1 and Q2 2020

This section provides a summary of the key economic developments and events that took place during the period covered in this issue of the Monitor, arranged by topic and in chronological order.

### Political Economy

***The American-Israeli Vision for Peace***

On February 26, 2020, MAS held a roundtable session to discuss the economic implications and impacts of implementing President Trump's vision for peace in the Middle East, entitled "Peace to Prosperity," consisting of two frameworks.[1] The political framework of the vision was announced on January 28, 2020, while the economic framework was announced in June 2019.[2] The vision was rejected by all sectors of Palestinian society, whether political, business, or civil society, as it ignores the rights of the Palestinian people, especially their right to an independent, viable, and sovereign Palestinian state.

***Israeli Plans to Annex Land from the West Bank***

On April 20, 2020, the Israeli government announced the introduction of a bill allowing the annexation of the Jordan Valley and Israeli settlements in the occupied West Bank as of July 1, 2020.[3] Although the plan was not launched on the specified date, the Israeli government did not officially announce the cancelation of the plan.

In response, on May 19, 2020, Palestinian President Mahmoud Abbas announced on the ceasing of all security coordination with Israel.[4] Following the announcement, Hussein al-Sheikh, head of the Palestinian Civil Affairs Authority, stated that the PNA refused to accept the transfer of clearance revenues for May from Israel and that the PNA considers itself absolved of all agreements and understandings signed with Israel.[5]

***Israel Threatens PNA's Stipends Paid to Prisoners***

On May 6, 2020 representative of the Prisoners and ex-Prisoners' Affairs Authority, Hassan Abd Rabo, announced receiving complaints from some families of prisoners and freed prisoners regarding the sudden closure of their bank accounts.[6] The Authority confirmed that two Jordanian banks and one Palestinian bank had to close the accounts of families of prisoners and martyrs, after the banks received warnings from an Israeli lawyer on April 20 about the consequences of continuing to pay the salaries of Palestinian prisoners in Israeli prisons, and threatening the PA to file civil lawsuits against the banks.[7]

On May 9, 2020, Prime Minister Mohammad Shtayyeh announced that an agreement had been reached with banks

1 http://www.mas.ps/files/server/20200203154439-1.pdf
2 https://www.whitehouse.gov/peacetoprosperity/
3 https://bit.ly/2ULL3oj
4 https://nbcnews.to/2YGbKvQ
5 http://english.wafa.ps/page.aspx?id=37R4Uca117299750238a37R4Uc
6 https://www.alhadath.ps/article/120052/
7 http://www.alquds.com/articles/1586248416063681700/

to freeze any actions related to the prisoners' accounts following the Israeli threats.[8]

## Public Finance

***Israel Deducts More Funds from Clearance Revenues***

On December 29, 2019, the Government of Israel (GoI) announced freezing an additional NIS 149 million per year from the clearance revenues it collects on behalf of the PNA. The amount deducted is equivalent to the amount the PNA transfers to Palestinian families of martyrs and those injured.[9] Adding this amount to other deducted funds brings the total of withheld clearance revenues to NIS 650 million annually, following a bill approved by the Knesset to withhold clearing revenues equivalent to the amount transferred to Palestinian prisoners and their families.[10]

***Emergency Budget***

On June 17, 2020, the PNA approached the Arab League to activate the Arab Safety Net, requesting a monthly loan of USD 100 million, to be repaid after the resolution of the clearance revenues crisis.[11] However, none of the Arab states announced providing any assistance to the PNA.[12] The growing political and regional tension, especially since the announcement of the Israeli-UAE normalization agreement, has further exacerbated the financial challenges facing the PNA.

## International Support

***Ad Hoc Liaison Committee Meeting***

On June 2, 2020, the Ad Hoc Liaison Committee (AHLC) convened via video conference to discuss the economic and humanitarian situation in Palestine. The AHLC is a 15-member committee of major international donors and Palestinian and Israeli representatives that serves as a policy coordination forum to guide development assistance to the Palestinian people.[13]

***The World Bank Funds A New IT Program***

On June 12, 2020, the World Bank approved a USD 15 million grant aiming to create sustainable economic opportunities for Palestinian youth through the Information Technology (IT) sector. [14] The Technology for Youth and Jobs (TechStart) Project aims to help the Palestinian IT sector upgrade the capabilities of firms and create more high-quality jobs.

***Aid to the Agricultural Sector***

On April 14, 2020, Assistant Undersecretary of MoA announced that the European Union (EU) committed to an assistance package of USD 731,300 to support 150 Gazan farmers.[15]

***UNRWA's Financial Crisis***

On November 11, 2019, the Acting Commissioner-General of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), Christian Saunders, stated that the Agency is facing "the worst cash-flow situation in its 70-year history".[16] Again, on January 31, 2020, Saunders announced that the Agency needs a minimum of USD 1.4 billion to finance its core activities and services in 2020.

## The Business Environment

***Global Entrepreneurship Week - Palestine***

Palestine celebrated the Global Entrepreneurship Week (GEW) for the seventh year in a row, which took place between November 18-24, 2019, with a special focus on education and the role of skills development in supporting the growth of startups.[17] GEW is an international initiative that aims to introduce the concept of entrepreneurship to young people.[18]

***Development Impact Bond (DIB) for Job Creation***

On November 5, 2019, the World Bank launched its first DIB in Palestine, with the aim of creating job opportunities under the Finance for Jobs project which focuses on skills development, youth employment, and bridging the gender gap in employment opportunities.[19] The project targets 1500 beneficiaries, particularly youth aged 18–29 years (including at least 30 percent of women). In the event that Palestinian youth finish their training and obtain a job opportunity through DIB, the World Bank will then remunerate investors via the Palestinian Ministry of Finance (MoF).[20] An initial investment commitment of USD 1.8 million in private capital was secured from DIB's four investors: Palestine Investment Fund, European Bank for Reconstruction and Development (EBRD), the Dutch Entrepreneurial Development Bank (FMO), and Invest Palestine. The World Bank's West Bank and Gaza Trust Fund and Nation-building and Peace Fund committed an additional USD 5 million that will be paid through the MoF following the completion of the project outcomes.

DIBs are new results-focused financing instruments, which seek to mobilize private sector capital to invest in development programs. Private investors are repaid by a third sponsor only if agreed-upon outcomes are achieved, and then measured by a third independent party.

***Gaza Production On the Decline***

On January 10, 2020, the chairman of the Popular Committee for Ending the Gaza Siege stated that the average annual production of Gaza's factories dropped by 20% of the total production capacity under ordinary circumstances. This drop is the result of the Israeli siege and the closure of all of Gaza's crossings.[21]

8 https://www.aljazeera.net/news/politics/2020/5/9/%D8%A7%D9%84%D8%A8%D9%86%D9%88%D9%83-%D8%A7%D9%84%D9%81%D9%84%D8%B3%D8%B7%D9%8A%D9%86%D9%8A%D8%A9-%D8%AA%D8%AF%D8%B9%D9%88-%D8%A7%D9%84%D8%A8%D9%86%D9%88%D9%83-%D9%84%D8%AA%D8%AC%D9%85%D9%8A%D8%AF

9 https://www.jpost.com/Israel-News/Bennett-freezes-NIS-150-million-in-pay-for-slay-funds-612387

10 https://www.alhadath.ps/article/112019/

11 https://www.aa.com.tr/en/middle-east/palestine-seeks-100m-loan-from-arab-league/1880887

12 https://felesteen.ps/post/69122/

13 https://bit.ly/32JvwKP

14 https://bit.ly/3kSbLHw

15 https://www.al-ayyam.ps/ar_page.php?id=13fab743y335198019Y13fab743

16 https://bit.ly/2PfLllj

17 http://maannews.net/Content.aspx?id=1001866

18 http://www.aliqtisadi.ps/article/71927/

19 https://www.worldbank.org/en/news/feature/2019/11/11/rethinking-job-creation-for-palestinian-youth

20 https://bit.ly/2EaCeMq

21 http://www.alquds.com/articles/1578653397789103900/

***"Esnad" Program***

On May 4, 2020, the Palestinian Investment Fund (PIF) announced the launch of the "Esnad" lending program in support of Micro and Small Enterprises (SMEs) "with a total portfolio of USD 25 million". The program aims to enable SMEs to access the needed liquidity for maintaining their operations.[22]

***E-payment Services***

On May 5, 2020, the Palestinian Monetary Authority (PMA) issued instructions on operating and providing electronic payment services, which include both e-wallet and prepaid cards.[23] These instructions aim at regulating the provision of electronic payment services in Palestine. Noting that the first e-payment licensed company started providing its services.[24]

***Al Istiqlal Governmental Development and Investment Bank***

On June 1, 2020, the Palestinian Cabinet approved a proposal to establish a government bank to manage public funds and expenses in Palestine, and submitted its recommendation to Palestinian President Mahmoud Abbas.[25] The proposal includes the establishment of a financial institution that provides banking services to the public, as well as small grants and microloans to individuals and companies. On June 20, the Cabinet nominated a General Manager for the bank, which will be established soon.

***Initiative for Enhancing Access to Credit by SMEs***

On June 3, 2020, the European Palestinian Credit Guarantee Corporation announced the launching of a new EU-sponsored initiative of NIS 65 million, aimed at enhancing the ability of SMEs to access credit following the economic crisis caused by the coronavirus pandemic.[26]

***Flooding the Palestinian Market with Israeli Products***

As of June 4, 2020, the Israeli policy had widely affected Palestinian markets and products. Palestinian markets are flooded with the leftover and second-grade watemelon products of Israeli packing houses and settlements, driving down the price of Palestinian watermelon and inflicting significant material losses on Palestinian farmers.[27]

***Aid Packages***

On June 15, 2020, the Palestinian Cabinet approved an aid package to support citizens in the Jordan Valley and area "C." According to the Palestinian Investment Promotion Agency (PIPA), at least 200 projects will be registered within the coming three years, creating 1,400 direct jobs. The incentives package includes a 66% tax reduction for an additional five years on available or existing tax brackets.[28]

***Supporting the Agricultural Sector***

On June 29, 2020, Minister of Agriculture, Mr. Riad Atari, and head of the Water Authority, Eng. Mazen Ghoneim, announced that mechanisms and plans for supporting the agricultural sector in the Jordan Valley are all in place. This initiative will allow the provision of additional amounts of water to the agricultural sector, and the region's palm sector in particular.[29]

## International Trade

***Palestinian-Israeli Trade Disputes***

On February 9, 2020, GoI announced an unprecedented ban on Palestinian agricultural exports (including fruits, vegetables, dates, and olive oil) via Jordan, the West Bank's only direct export route to the outside world. Preventing Palestinians from exporting agricultural products to the rest of the world is considered a breach of the Paris Protocol as well as World Trade Organization (WTO) agreements and regulations.[30] The Israeli decision came as retaliation for the PNA's move on 5 February to ban the entry of Israeli products into the Palestinian market, including vegetables, fruits, juices, mineral water, and carbonated drinks.[31]

On February 20, 2020, however, reports indicated that the escalation during the past months, which had been rising throughout Q1 2020, may have been defused.[32] Following the agreement, the ban was lifted by the two sides, allowing Palestinians to directly import cattle from abroad and export eggs to the Israeli market.

***Stone Exports Sharply Decline***

On February 12, 2020, the Union of Stone and Marble Industry announced a significant drop of 20% in sales in foreign and local markets during 2019, compared with the previous year. This drop is related to competition from imported marble.[33]

## The Coronavirus Pandemic

***Waqft Ezz Fund***

In April 2020, the board of Waqfat Ezz fund held its first meeting in Ramallah. The fund began accepting donations to help the government deal with the impacts of COVID-19. The fund was established to solicit funds and donations locally and internationally, from both the private sector and citizens, to support MoSD, MoH, and the health care sector in their efforts.[34] As of May 5, the fund had raised USD 17.7 million out of the targeted USD 30 million.[35]

***Ramallah and Al-Bireh Governorate Losses***

On May 5, 2020, a newly-released study estimated the total losses incurred by enterprises in Ramallah and Al-Bireh governorates as a result of the coronavirus pandemic at USD 40 million.[36]

22 https://www.al-ayyam.ps/ar_page.php?id=13db1130y333123888Y13db1130
23 https://bit.ly/2AGtmPX
24 https://www.aliqtisadi.ps/article/75024/
25 http://www.palestinecabinet.gov.ps/portal/meeting/details/50376
26 https://www.al-ayyam.ps/ar_page.php?id=13ecd428y334287912Y13ecd428
27 http://www.alhayat-j.com/arch_page.php?nid=354661
28 http://www.alhayat-j.com/arch_page.php?nid=355156
29 https://www.al-ayyam.ps/ar_page.php?id=13fddd62y335404386Y13fddd62\
30 https://www.timesofisrael.com/israel-blocks-palestinian-agricultural-export-in-escalating-trade-crisis/
31 http://english.wafa.ps/page.aspx?id=uCwp0va110502330312auCwp0v
32 https://www.timesofisrael.com/israel-palestinian-authority-appear-to-reach-arrangement-to-end-trade-war/
33 https://www.al-ayyam.ps/ar_page.php?id=139bf555y328987989Y139bf555
34 https://bit.ly/350Bl5I
35 https://www.waqfetizz.ps/ar
36 http://www.alhayat-j.com/arch_page.php?nid=353313

***Tourism Sector Losses***

On May 31, 2020, a study indicated that the total losses of the tourism sector during the first three months of the pandemic reached around USD 122 million.[37] On June 22, another study indicated that the Palestinian tourism sector was one of the sectors most affected by the coronavirus, with more than a 40% drop in net revenues.[38]

***Transport Sector Losses***

As of June 24, 2020, the direct losses of the transport sector in the West Bank were estimated at USD 11 million per week. These losses were the result of mobility restrictions that completely prohibited the movement of public transport vehicles between governorates, city centers, towns, and surrounding villages, as a precautionary measure to curb the spread of the coronavirus. [39]

## Infrastructure:

***JDECO Debt Crisis***

On December 29, 2019, Prime Minister Mohammad Shtayyeh announced the resolution of the Jerusalem District Electricity Company (JDECO) debt crisis. Before the announcement, NIS 670 million syndicate loan was provided to JDECO by banks operating in Palestine. Commenting on these new developments, General Manager of JDECO Hisham al-Omari stated that the new 7-year syndicated loan will be used to pay the IEC's debt, bringing a stop to its measures of cutting electricity to JDECO's concession areas. [40]

***Energy Imports from Jordan***

On January 15, 2020, the JDECO signed an agreement with the Jordanian National Electric Power Company (NEPCO) to increase electricity supply from Jordan to Palestine from the current level of 26 megawatts (MW) (3.5% of total consumption) to 80 MW (10.7% of total consumption). According to Palestinian sources, the increased supply will be available within 7 months of the completion of the construction of the 33/132 kilovolt Power transmission station in Al Rama, Jordan. JDECO will bear the costs of constructing the transmission station.[41]

***USD 117 Million Investments in Water Infrastructure in Gaza Strip***

On February 10, the World Bank announced a USD15 million grant for several components associated with the first phase of the Gaza Central Desalination Program (GCDP) and Associated Works Project.[42]

The GCDP is the largest infrastructure project in the Gaza Strip thus far, aiming to address the water crisis in the besieged enclave by generating up to 55MCM/y of desalinated water by 2023 and up to 110MCM/y during the second phase of the project.[43] GCDP was launched in March 2018 through a coordinated international effort and in partnership with the Palestinian Water Authority (PWA).[44] By April 2019, GCDP received total pledges of € 456 million from donors for a total estimated cost of € 562.3 million.[45]

On June 11, 2020, the World Bank announced that it was granting USD 10 million to finance the operation and maintenance of the North Gaza Wastewater Treatment Plant over four years, and to create an environment that enables the provision of sustainable wastewater treatment services.[46]

***Losses Due to Theft and Infringements***

On May 18, 2020, the Water Authority released a statement condemning water theft and infringements on water networks and pipelines, which are leading to the loss of more than 6 million cubic meters of water and financial losses of NIS 22 million a year.[47]

37 http://www.alhayat-j.com/arch_page.php?nid=354515
38 http://www.alhayat-j.com/arch_page.php?nid=350057
39 https://www.al-ayyam.ps/ar_page.php?id=13fabafay335198970Y13fabafa
40 https://bit.ly/39YlITT
41 https://bit.ly/2NKxthL & https://bit.ly/2NiO2Ro
42 https://bit.ly/3aF2nkv
43 https://www.eib.org/attachments/country/bringing_water_to_gaza_en.pdf
44 المفوضية الأوروبية والبنك الاستثماري الأوروبي والاتحاد من أجل المتوسط وبنك التنمية الإسلامي والبنك الدولي https://bit.ly/2Iyaof3 :
45 https://bit.ly/38A7gKq
46 https://www.al-ayyam.ps/ar_page.php?id=13f28460y334660704Y13f28460
47 http://www.alhayat-j.com/arch_page.php?nid=354138

## Key Economic Indicators in Palestine, 2015-2020

| Indicator | 2015 | 2016 | 2017 | 2018 | 2019 | 2019[1] | | | 2020[1] | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Q2 | Q3 | Q4 | Q1 | Q2 |
| **Population (One thousand)** | | | | | | | | | | |
| oPt | 4,530.4 | 4,632.0 | 4,733.4 | 4,915.3 | 5,039.0 | 4,961.3 | 4,992.2 | 5,023.3 | 5,054.5 | 5,075.2 |
| West Bank | 2,750.0 | 2,803.4 | 2,856.7 | 2,953.9 | 3,020.0 | 2,978.5 | 2,995. 0 | 3,011.6 | 3,028.3 | 3,039.3 |
| Gaza Strip | 1,780.4 | 1,828.6 | 1,876.7 | 1,961.4 | 2,019.0 | 1,982.8 | 1,997.2 | 2,011.7 | 2,026.2 | 2,035.9 |
| Labor market (based on the new definition adopted by PCBS)[2] | | | | | | | | | | |
| No. of workers (thousand) | 928.9 | 939.6 | 948.7 | 956.3 | 1,010 | 998.1 | 1,025.3 | 1,044.30 | 1,009.80 | 888.7 |
| Participation rate (%) | 44 | 43.8 | 44 | 43.5 | 44.3 | 44.2 | 44.2 | 44.4 | 43.1 | 38.5 |
| Unemployment rate (%) | 23 | 23.9 | 25.7 | 26.2 | 25.3 | 26 | 24.6 | 24 | 25 | 26.6 |
| - West Bank | 16.6 | 17.5 | 18.4 | 17.3 | 14.6 | 15 | 13.3 | 13.7 | 14.2 | 14.8 |
| - Gaza Strip | 34.8 | 35.4 | 38.3 | 43.1 | 45.1 | 46.7 | 45.1 | 42.7 | 45.5 | 49.1 |
| **National accounts (at constant prices) (base year 2015) (million dollars)[3]** | | | | | | | | | | |
| GDP | 13,972.4 | 15,211.0 | 15,426.9 | 15,616.2 | 15,764.4 | 3,876.6 | 3,915.3 | 4,016.4 | 3,820.4 | - |
| - Household expenditure | 12,348.3 | 3,342.9 | 13,420.3 | 13,570.1 | 14,135.4 | 3,503.3 | 3,528.3 | 3,546.3 | 3,456.2 | - |
| - Government expenditure | 3,494.5 | 3,584.7 | 3,093.6 | 3,318.9 | 3,115.3 | 758.5 | 789.0 | 818.7 | 702.0 | - |
| Gross capital formation | 3,505.4 | 3,873.8 | 4,166.9 | 4,260.3 | 4,198.7 | 1,052.6 | 1,054.1 | 1,056.4 | 934.2 | - |
| Exports | 2,244.3 | 2,208.3 | 2,515.6 | 2,578.7 | 2,623.8 | 641.1 | 635.4 | 706.2 | 538.1 | - |
| Imports (-) | 7,645.5 | 7,796.3 | 7,901.5 | 8,256.8 | 8,368.4 | 2,099.1 | 2,113.9 | 2,052.3 | 1,843.9 | - |
| **GDP per capita (USD)** | | | | | | | | | | |
| at Current prices | 3277.9 | 3534.4 | 3620.5 | 3562.3 | 3640.1 | 894.5 | 914.8 | 938.6 | 887.0 | - |
| at Constant prices (base year 2004) | 3277.9 | 3489.8 | 3463.1 | 3417.7 | 3364.5 | 830.1 | 832.9 | 848.8 | 802.0 | - |
| **Balance of Payment (USD millions)** | | | | | | | | | | |
| Trade Balance | (5,400.9) | (5,664.5) | (5,967.4) | (6,425.7) | (6,500.7) | (1,637.7) | (,696.2) | (1,556.5) | (1,478.9) | |
| Income Balance | 1,712.2 | 1,896.0 | 2,129.0 | 2,786.2 | 2,658.0 | 630.8 | 770.0 | 685.1 | 684.6 | |
| Current Transfers Balance | 1,749.4 | 1,626.2 | 1,708.7 | 1,499.1 | 2,009.2 | 478.4 | 538.9 | 458.8 | 445.6 | |
| Current account Balance | (1,939.1) | (2,142.7) | (2,129.7) | (2,140.4) | (1,833.5) | (528.5) | (387.3) | (412.6) | (348.7) | |
| **Exchange Rates and Inflation** | | | | | | | | | | |
| USD/NIS exchange rate | 3.88 | 3.84 | 3.6 | 3.59 | 3.56 | 3.592 | 3.529 | 3.492 | 3.496 | 3.514 |
| JOD/NIS exchange rate | 5.48 | 5.42 | 5.08 | 5.07 | 5.03 | 5.066 | 4.977 | 4.926 | 4.931 | 4.943 |
| Inflation rate (%)[4] | 1.43 | (0.22) | 0.21 | (0.19) | 1.58 | 1.54 | 0.33 | (0.27) | (0.39) | (1.20) |
| **Public Finance (cash basis USD million)** | | | | | | | | | | |
| Net domestic revenues (including clearance) | 2,890.2 | 3,551.0 | 3,656.5 | 3,462.9 | 4,361.3 | 332.8 | 1,070.7 | 1,099.4 | 973.5 | 487.7 |
| Current expenditure | 3,424.3 | 3,659.3 | 3,791.4 | 3,660.1 | 4,518.6 | 694.0 | 858.6 | 1,362.9 | 830.9 | 419.1 |
| Developmental expenditure | 176.7 | 216.5 | 255.3 | 276.9 | 246.6 | 44.0 | 46.6 | 67.9 | 21.4 | 33.0 |
| current budget deficit\surplus (before grants) | (710.8) | (324.8) | (390.2) | (474.0) | (403.9) | (405.3) | 165.5 | (331.4) | 121.2 | 35.6 |
| Total grants and aid | 796.8 | 766.3 | 720.4 | 664.8 | 669.2 | 129.5 | 177.1 | 115.8 | 79.7 | 196.8 |
| Total budget deficit\surplus (after grants and aid) | 88.2 | 442.1 | 329.6 | 190.9 | 265.3 | (275.8) | 342.6 | (215.6) | 200.9 | 232.4 |
| Public debt | 2,537.2 | 2,483.8 | 2,543.2 | 2,369.5 | 2,795.1 | 2,637.1 | 2,914.8 | 2,795.0 | 2,886.7 | 3,080.9 |
| **The Banking Sector (USD millions)** | | | | | | | | | | |
| **Banks assets/liabilities** | 12,602.3 | 14,196.4 | 15,850.2 | 16,125.0 | 17,825.5 | 16,690.1 | 17,303.5 | 17,825.5 | 17,710.0 | 18,248.1 |
| Equity | 1,461.7 | 1,682.4 | 1,892.7 | 1,912.0 | 1,985.2 | 1,956.0 | 1,942.4 | 1,985.2 | 1,996.9 | 1,994.6 |
| Deposits at banks | 9,654.6 | 10,604.6 | 11,982.5 | 12,227.3 | 13,384.7 | 12,591.4 | 13,025.5 | 13,384.7 | 13,303.8 | 13,738.7 |
| Credit facilities | 5,824.7 | 6,871.9 | 8,026.0 | 8,432.3 | 9,039.1 | 8,941.6 | 8,947.9 | 9,039.1 | 9,249.9 | 9,652.7 |

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).
Figures for 2017 are preliminary and subject to further revision.
Figures between brackets indicate negative values. Figures between brackets indicate negative value
PCBS and the ILO adopted a new revised definition of unemployment stating that unemployment includes 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.
PCBS revised the national accounts figures at current & fixed prices for the years 2004-2018. Therefore, figures differ from previous quarters and years.
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 updated data from PCBS, PMA, and PCMA.