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Economic Monitor

Annual Issue



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RESEARCH INSTITUTE - MAS



Palestinian Central
Bureau of Statistics



هيئة سوق رأس المال
Capital Market Authority



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Economic Monitor

Part One

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The Year 2021 in Brief

- ✧ **Gross Domestic Product (GDP):** In 2021, GDP at constant prices grew by 7.1% (2015 as base year) between 2020 and 2021, reaching about US\$15 billion. This increase reflects a growth rate of 7.8% in the West Bank and 3.4% in the Gaza Strip. Considering population growth, the per capita share of GDP shows a rise of 4.2%, reaching US\$3,045.3 (US\$4,410.5 in the West Bank and US\$1,213.4 in the Gaza Strip). At current prices, GDP grew by 16.1% to reach US\$18 billion, with the per capita share of the GDP amounting to about US\$3,654.6.
- ✧ **Unemployment:** By the end of 2021, the unemployment rate had recorded a slight increase of half a percentage point compared with 2020, reaching 26.4% (15.5% in the West Bank and 46.9% in the Gaza Strip). The average daily wage for Palestinian workers was ILS136.5 (124.3 for workers in the West Bank, 60.4 in the Gaza Strip, and 266.2 for those working in Israel and settlements). In the private sector, 29% of workers received below-minimum wages, making ILS740 on average 40.
- ✧ **Public Finance:** In 2021, net public revenues and grants grew by 8.4% compared with the previous year, reaching about ILS14.7 billion. On the other hand, actual public expenditures slipped by 2.1% compared with last year, reaching about ILS13.6 billion on a cash basis. The overall balance generated about ILS1.4 billion in surplus. Total arrears owed by the government, however, amounted to about ILS4.5 billion. Standing at about ILS12 billion (US\$3.8 billion), the government's public debt, denominated in USD, increased by 5.4% compared with the previous year.
- ✧ **The Banking Sector:** Compared with 2020, credit facilities increased by about 6.6% in 2021, reaching US\$10.7 billion—of which 23.0% were for the public sector. On the other hand, customer deposits grew by 9.1%, standing at US\$16.5 billion. Banks' profits amounted to about US\$178.4 million, marking a 77.3 percent increase compared with their value in 2020.
- ✧ **Palestine Stock Exchange:** The market value of the shares of companies listed on the Palestine Exchange reached US\$4.4 billion at the end of 2021, marking a growth of 8% compared with 2020. At the end of 2021, the Al-Quds Index closed at 608.5 points —29% higher than in 2020.
- ✧ **Inflation and Prices:** In 2021, the Palestinian economy witnessed positive inflation of 1.24% compared with the previous year, meaning the purchasing power of the New Israeli Shekel decreased by 1.24% compared with 2020. As for the purchasing power of those who receive their income in US dollars and spend their income in the New Israeli Shekel dropped by 7.31% compared with the previous year. This turn was driven by the decrease in the dollar exchange rate relative to the New Israeli Shekel. Given that the Jordanian dinar is pegged to the US dollar at a fixed exchange rate, the purchasing power of JOD fell by about 5%.

1. The Real Economy and Infrastructure: Fragility and an Incomplete Recovery

After the coronavirus vaccination campaign began in 2021—along with the lifting of preventive measures and a subsequent uptick in consumption and investment—the Palestinian economy began to show signs of gradual recovery compared with the previous year. GDP grew by 7.1% in 2021 compared with 2020. This growth was driven primarily by the public administration sector, which contributed about 1.62% in real GDP—followed by the services and trade sectors, which contributed 1.46% and 0.81% to the real economic growth, respectively. Similarly, the value-added of all key productive sectors grew except for agriculture, where value-added fell by 2.3%.

Despite the good performance, key sectors and subsectors have not yet returned to their pre-pandemic performance levels. Specifically, value-added in the construction, commerce, industry, and transportation sectors is still more than 10% below pre-pandemic levels. Because of the significant stagnation in travel and tourism and concerns about novel variants of COVID-19, the value-added of hospitality and restaurant services, arts and entertainment, vocational activities, and other service activities also remain far below 20% of its levels before the outbreak of the pandemic.

At the level of spending, despite the discernible uptick in exports and public consumption and the rebound in private consumption and investment, recovery possibilities were undermined by the growing dependency on imported goods and services. It also limited the decrease in the current account deficit despite the increase in compensation to workers in Israel, income from investments abroad, and current transfers to nongovernmental sectors. Notably, the latest Israeli assault on the Gaza Strip and the tightening of the blockade in May 2021 reduced the chances of economic recovery in the Gaza Strip (3.4%) compared with the West Bank (7.8%). Moreover, the limited sources of growth and development, the continuous spike in prices of goods and services globally, and the persistent deduction of clearance revenues by the occupation authorities will further strain the prospects for recovery in 2022. By and large, the harmful overlap between these short-term impacts and the historical fragility in the structure of the Palestinian economy adds yet another *annus horribilis* to the record of the cumulative development deficit of the occupied Palestinian territory (OPT).

This section is devoted to economic performance in 2021, including production, consumption, prices, and the balance of payments. It also focuses on some of the quarterly indicators in the last quarter of 2021. In another section, as part of its sustained effort to cover various aspects of economic infrastructure in Palestine, Economic Monitor addresses the information and communications sector. This section highlights the latest indicators for access to information and communication technology in Palestine, comparing them with similar global and regional indicators to determine the efficiency of the basic Internet and communication infrastructure in Palestine.

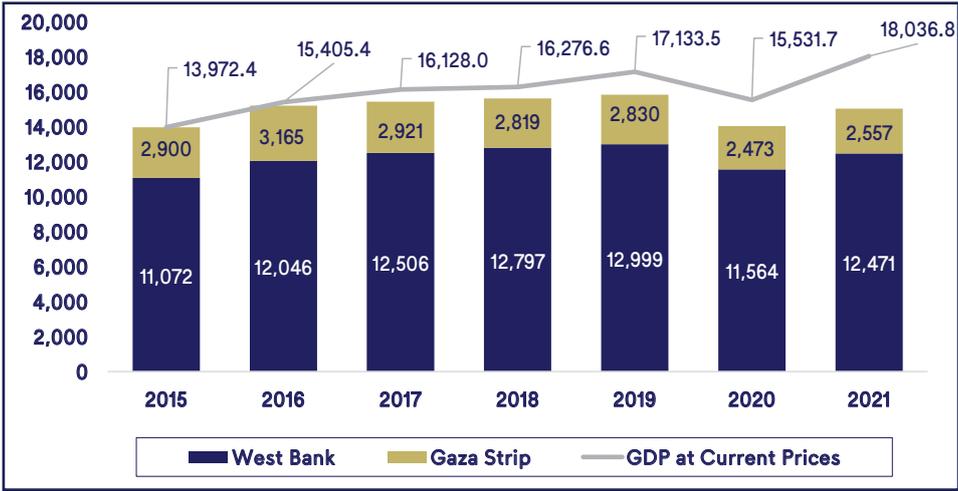
1.1 Macroeconomic Activity¹

Preliminary data from the Palestinian Central Bureau of Statistics (PCBS) indicates growth in real GDP or the monetary value of all types of goods and services produced domestically (base year 2015). In 2021, GDP grew by about 7.1% compared with last year's low level (see Figure 1). This growth was driven by an increase of 7.1% in the West Bank and 3.4% in the Gaza Strip (see Figure 1), reaching about US\$15 billion. Despite this improvement, GDP is still below its pre-pandemic level, standing at about 5.1% less than that it had in 2019 (lower by 4.1% in the West Bank and 9.7% in the Gaza Strip) even it surpassed the official estimates released at the beginning of 2021 (about 6% according to the baseline scenario).² At current prices, GDP stood at US\$18 billion in 2021.

¹ Most of the statistics quoted in this section originate from PCBS—especially the national accounts statistics. Other sources are indicated where they are used. Unless otherwise indicated, all change ratios are measured at constant prices (base year 2015).

² https://pcbs.gov.ps/portals/_pcbs/PressRelease/Press_Ar_20-12-2020-eco-ar.pdf

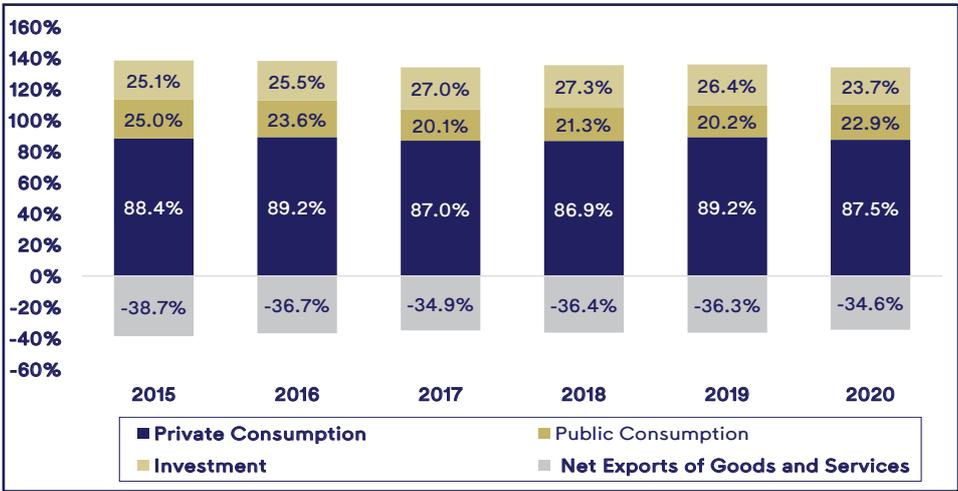
Figure 1: GDP at Current and Constant Prices 2015–21 (USD, Millions) (Base year 2015)



In terms of spending, private consumption remains the main catalyst for growth, accounting for 86.9% of GDP, followed by investment (25.3%) and government spending (23.8%). Inhibiting economic growth prospects, the trade balance deficit, in contrast, stands at around 37.3% of GDP (see Figure 2). In 2021, private and governmental final consumption expenditure grew by 6.3% and 11.1%, respectively, compared with the previous year.³ Total investment (gross capital formation) also rose by 14.2% during the same period as a result of the increase in the gross fixed capital formation in buildings (11%) and non-buildings (20.8%). On the other hand, the trade balance deficit widened by 15.5% due to the surge in imports (US\$1.2 billion or 16.6%) compared with exports (US\$439.1 million or 18.8%). The impact of the pandemic is still evident in private consumption spending and total investment, which fell by about 7.6% and 9% compared with 2019, respectively. In contrast, the government’s final consumer spending and exports grew by 11.5% and 5.5% during the same period, respectively.

On the production side, 2021 saw an increase in the value-added by all major service sectors compared with the previous year. The construction and industry sectors witnessed a rise of 10.4% and 4.7%, respectively, compared with 2020. However, agriculture declined by 2.3% during the same period. Being the slowest to recover from the pandemic repercussions, the value-added of the construction and trade sectors fell by nearly 20% and 18.2%, respectively, compared with 2019. Still, the financial and information and communication sectors grew by 6.2% and 3.2%, respectively, compared with 2019.

Figure 2: Annual Expenditure on GDP 2016–21⁴



³ Private consumption expenditure includes final consumption by households and final consumption by non-profit enterprises serving households.
⁴ The sum of the percentages does not equal 100% due to the net omissions and errors.

Gross National Income

Gross National Income (GNI) refers to the sum market value of all finished products and services produced by a nation's economy over a specific period, whether the productive assets are located within the country's border or beyond. The difference between GDP and GNI lies in the income citizens receive from abroad plus nonresidents' income earned within the country. In the OPT, real GNI increased by about 9.5% between 2020 and 2021, driven by a 26.6% rise in net receipts from abroad (at constant prices). Besides, GDP witnessed an increase.

GNI reflects the resources available to Palestinians better than GDP does. The substantial net earnings from Palestinian production abroad— totaling about US\$3.4 billion at current prices in 2021 (16.8% of the GDP at constant prices)—is evidence to this effect. The mainstay (about 94.8%) of these net returns came from the income of Palestinian workers abroad, mainly in the form of compensation to workers in Israel and settlements; the rest is generated from net property income abroad.

Gross National Disposable Income

Gross national disposable income is the sum of the disposable income of all citizens of a country. Gross national disposable income measures the income available to the nation for final consumption and gross saving. The national income aside, this indicator includes net current transfers receivable from abroad—including aid and gifts sent by expatriates overseas to their families and friends in Palestine and support and grants from abroad to private and public institutions and bodies. This means that the Gross national disposable income provides further insights into the annual resources available to the Palestinians compared with GDP and GNI—especially since current transfers constitute an important source of income for Palestinians. In 2021, the value of net current transfers from abroad amounted to about US\$2.2 billion at current prices (11.9% of GDP at constant prices). And the gross national disposable income rose by about 12.6% between 2020 and 2021 due to a 7.3 percent increase in final consumption and 61.9% in saving. During the same period, the net current transfers from abroad increased by 56.9%.

GDP per Capita

The upward curve in GDP in 2021—at a rate exceeding annual population growth—led to a rise of 4.2% in real GDP per capita: It grew by 5.1% in the West Bank and by nearly 0.5% in the Gaza Strip. This growth amounted to US\$3,045.3 (US\$4,410.5 in the West Bank and US\$1,213.4 in the Gaza Strip). Although GDP per capita reached US\$3,654.6 at current prices in 2021, the overall performance figures in the economy of the OPT conceal an alarming gap in the economic performance between the West Bank and the Gaza Strip. While the World Bank classifies the West Bank as a middle-income economy (US\$5,307.1), the United Nations categorizes the Gaza Strip among the least developed countries (US\$1,437.6).

1.2 Productive Sectors: Agriculture, Industry, and Construction⁵

Even though the value-added of the productive sectors increased in 2021 by about 3.7% compared with the previous year, it still stood about 13.5% below that of 2019. The contribution of the productive sectors to GDP fell from 24.1% in 2020 to 23.4% in 2021 and remains below what was recorded in 2019 (25.7%). These figures reflect the persistently fragile growth and the distorted structural transformation of the Palestinian economy. Overall, this year was marked by the recovery of the industrial and construction sectors while agriculture lagged behind.

⁵ Source of figures for this section: PCBS, 2021. National Accounts Quarterly Statistics, 2000–2021. Ramallah, Palestine.

Agriculture Sector

In 2021, the value-added of agriculture, forestry, and fishing decreased by about 2.3% compared with the previous year, and by nearly 11.2% compared with 2019. In the same vein, this sector's contribution to GDP fell from 7.1% in 2020 to 6.5% in 2021.

Industry

The value-added of the industrial sector in 2021 was 4.7% higher than that in 2020. Still, the sector's contribution to GDP fell from 12.4% to 12.1% during the same period due to greater growth in the service sector. The industry's value-added remains about 12% lower than that in 2019—mainly for the production of manufacturing industries is still lower than its pre-pandemic level (see Table 1-1). The manufacturing industries contribute about 85.7% of the value-added of the industrial sector.

Construction

In 2021, the value-added of the construction sector increased by 10.4% compared with 2020. As a result, the construction sector's contribution to GDP slightly rose to 4.7%, compared with 4.6% in 2020. The construction industry has been the slowest to recover from the pandemic's effects, with its value-added still down by around 20% from where it was in 2019. The sector's contribution to GDP is still 0.9% lower than that in 2019.

1.3 Commercial, Financial, and Service Sectors

The scale of growth in the commercial, financial, and service sectors was greater than that of productive sectors in general. Accordingly, their contribution to the GDP slightly increased from 60.5% in 2020 to 60.6% in 2021.⁶ Table 1.2 shows the economic activities comprising the commercial, financial, and service sectors in the Palestinian economy, the total value-added of which increased by 7.3% in 2021 compared with the previous year. Table 2 also shows the increase in the value-added of these activities compared with last year as a result of the recovery of all sub-sectors barring hospitality and food services; arts, entertainment, and leisure; and household and other services. These sectors are still affected by the negative repercussions of the pandemic, especially the decline in tourism, which is not expected to witness a normal resumption of its activity before 2022. In addition, the table shows the enduring impact of the pandemic on trade, transportation and storage, professional activities, and administrative services, which remain below their pre-pandemic levels.

Table 2: Annual value-added of service sectors in 2021 and the percent changes in annual value-added between 2019 and 2021

Economic activity	2021	Change from 2020	Change from 2019
Wholesale and retail trade and vehicle and motorcycle repair	30.3%	4.3%	(18.2%)
Transportation and storage	2.7%	9.3%	(10.3%)
Financial and insurance activities	7.4%	5.0%	6.2%
Information and communication	5.5%	4.4%	3.2%
Accommodation and food services	2.2%	(0.4%)	(23.1%)
Real estate and rental services	7.5%	10.6%	(3.4%)

⁶ The year 2021 witnessed a significant increase (about 23.4%) in the value-added from customs duties.

Economic activity	2021	Change from 2020	Change from 2019
Professional, scientific and technical activities	1.6%	1.7%	(22.6%)
Administrative and support services activities	1.1%	5.5%	(6.1%)
Education	10.9%	8.2%	6.3%
Health and social work	7.5%	21.2%	27.4%
Arts, entertainment, leisure, and other service activities	0.5%	(25.3%)	(45.5%)
Other services	2.2%	(19.5%)	(29.6%)
Public administration	20.6%	13.8%	20.1%
Home Services	0.1%	(3.2%)	(23.1%)
Service sectors	100.0%	7.3%	(3.4%)

* Numbers in parentheses are negative

1.4 Balance of Payments, International Investment Position, and External Debt

Palestine suffers from a chronic trade balance deficit, as the value of imports is usually more than three times the value of exports. Although compensation to workers in Israel, foreign aid, remittances, and income from investments abroad partly pay off the deficit, they are insufficient to cover domestic consumption. As a result, Palestine suffers from a structural current account deficit that is usually financed through borrowing.⁷ To address this deficit, the obstacles and restrictions on sources of production and movement that the occupation has imposed need to be surmounted—including but not limited to restrictions on investment in Area C, land use, economic infrastructure development, and control over borders and crossings. These restraints limit the Palestinian economy's productivity, restrict the access of Palestinian products to global markets, and deepen the dependence of the Palestinian economy on the economy of the Israeli occupation. Israel acts as a supplier of a substantial part of private and public consumption, accounting for about half of Palestinian imports.

In 2021, the current account deficit decreased by 21.9% compared with 2020 to reach US\$1,486.5 million, or 8.2% of GDP at current prices. The current account deficit contraction could be attributed to the increase in compensation to workers in Israel (32.4%), investment income (41.4%), donor support for the government sector (34.2%), and current transfers to nongovernmental sectors (55.1%)—which was greater than the widening trade balance deficit (24.4%)—and the decline in donor support for nongovernmental sectors (11.9%). As a result, net borrowing from abroad decreased by 28.8% compared with 2020 (see table 3).

At the end of 2021,⁸ total investments made by Palestinians residing abroad (i.e., total assets invested abroad) exceeded nonresident investments in Palestine (total foreign liabilities) by about US\$3.7 billion.⁹ Net foreign investment in Palestine had also increased by about 30.7%, compared with that of 2020 (see table 4). This growth resulted from higher domestic deposits in offshore banks and increased foreign exchange circulating in the Palestinian economy. It is worth mentioning that about 65.6% of total assets invested abroad are in the form of currency and deposits (US\$6.3 billion).

⁷ A current account is a country's record of transactions with the rest of the world. The register contains the trade balance, net profit on foreign investment and net transfer payments. The current account deficit indicates that the country has greater financial obligations abroad than the income and transfers it receives from abroad.

⁸ The preliminary results of the international investment position and external debt were approved at the end of the fourth quarter of the year 2021 to estimate the values at the end of the year 2021, because the annual statements were not issued by the official authorities until the date of the preparation of the observer.

⁹ The international investment position is a statistical statement showing, at a given date, the status of the financial assets of residents in a given economy, including both claims on non-residents on the one hand and the obligations of residents to non-residents on the other. The net international investment position takes into account the difference between external financial assets, and their counterpart at the level of liabilities.

Table 3: Annual comparison of select indicators from the balance of payments 2020–2021 (US\$, Million, at current prices)

Indicator	2020	2021	Change from 2020 (%)	Change from 2020 (US\$, Millions)
Current Account Deficit (Net)	(1,902.8)	(1,486.5)	(21.9%)	416.3
Trade balance deficit (exports - imports)	(5,680.0)	(7,064.7)	24.4%	(1384.7)
Exports	2,385.2	3,180.3	33.3%	795.1
Imports	8,065.2	10,244.9	27.0%	2179.7
Primary Income (Net)	2,492.3	3,397.8	36.3%	905.5
Compensation to workers in Israel	2,407.7	3,188.6	32.4%	780.9
Investment Income	217.1	306.9	41.4%	89.8
Secondary Income (Current Transfers) (Net)	1,285.0	2,180.5	69.7%	895.5
Transfers from donor countries to government	266.2	357.2	34.2%	91.0
Current Transfers to nongovernmental sectors (including donor's support)	1,277.8	1,982.0	55.1%	704.2
Capital Transfers (Net)	431.4	439.0	1.8%	7.6
Net Borrowing (financial account)	(1,471.4)	(1,047.5)	(28.8%)	423.9
Direct investment (net)	(138.8)	(177.6)	28.0%	(38.8)
Portfolio investment (net)	(69.1)	66.5	(196.2%)	135.6
Deposits (in foreign currencies)	(602.5)	(1,045.0)	73.4%	(442.5)

Sources: PCBS and PMA 2021, Balance of Payments Statistics, 2010–2021. Ramallah, Palestine.

* Numbers in parentheses are negative.

Table 4: Annual comparison of the international investment position 2020–2021 (US\$, Millions, at current prices)

Category	2020	2021	Change from 2020 (%)	Change from 2020 (USD, Millions)
Net international investment	2,799.0	3,659.0	30.7%	860.0
1. Foreign direct investment (net)	(2,391.0)	(2,644)	10.6%	(253.0)
2. Portfolio investments (net)	795.0	685.0	(13.8%)	(110.0)
3. Other investments (net)	3,698.0	4,745.0	28.3%	1,047.0
4. reserve assets	697.0	873.0	25.3%	176.0

Source: PCBS and PMA 2021, International Investment Status and External Debt Statistics, 2010–2021. Ramallah, Palestine. The net sub-items were calculated based on the data from PCBS and PMA.

* Numbers in parentheses are negative.

The total external debt (accumulated) stood at roughly \$2.16 billion at the end of 2021, up by 4.4% from f 2020 (see table 5). This position is attributable to a rise in short- and long-term external debts of banks (15.6% and 12.6%, respectively) and government short-term external debt (59.2%), as well as a decrease in long-term government external debt (6.4%). It is worth noting that the government's debt is essentially long-term and constitutes 61.1% of total Palestinian external debt.

Table 5: Annual comparison of external debt components in 2020 and 2021 (US\$, Million, at current prices)

Economic sector	2020 (US\$, Millions)	2021 (US\$, Millions)	Change from the previous quarter	Change from the corresponding quarter
Palestinian government	1,325.0	1,319.0	(0.5%)	(%6.0)
Short term debt	120.0	191.0	59.2%	%71
Long-term debt	1,205.0	1,128.0	(6.4%)	(%77.0)
Banks	684.0	780.0	14.0%	%96.0
Short-term debt	327.0	378.0	15.6%	%51.0
Long-term debt	357.0	402.0	12.6%	%45.0
Other sectors	43.0	43.0	0.0%	%0.0
Total external debt	2,069.0	2,159.0	4.3%	%90.0

Source: PCBS and PMA, 2021. International Investment Status and External Debt Statistics, 2010–2021. Ramallah, Palestine.

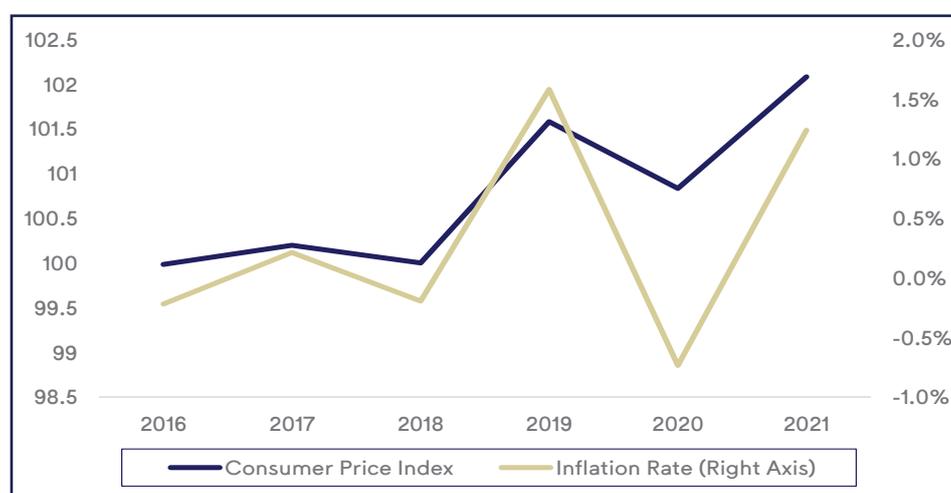
* Numbers in parentheses are negative.

1.5 Prices¹⁰

The Consumer Price Index (CPI) is the average price of a selection of basic goods and services that reflects the consumption patterns of the average household in a given country. This group of select goods and services is termed the “consumption basket.” The rate of inflation is the rise in the value of this Index in a given period, expressing the change in an income’s purchasing power.

Figure 3 below shows two curves. While the first curve depicts the CPI trends between 2016 and 2021, the second curve measures the percentage change in the CPI in each year compared with the previous year, i.e., the annual inflation rate. The CPI reached around 102.1 points in 2021, up from about 100.8 in 2020—and 100 in the base year. Driven by the uptick in economic activity and import prices stirred by global inflationary pressures in the second half of 2021, the inflation rate reached about 1.24%. The rise in inflation manifested as a 4.4 percent rise in the price of transportation, a 3.6% increase in the price of housing, water, electricity, gas, and other fuels, a 2.2% increase in the price of furniture, house equipment, routine home maintenance, and a 0.9% increase in the price of food and nonalcoholic beverages; there was a slight decline (0.9%) in the price of clothing and footwear

Figure 3: CPI trends and inflation rate between 2016 and 2021 (base year 2018)



Source: PCBS, Survey of Index Values, 2016–2021.

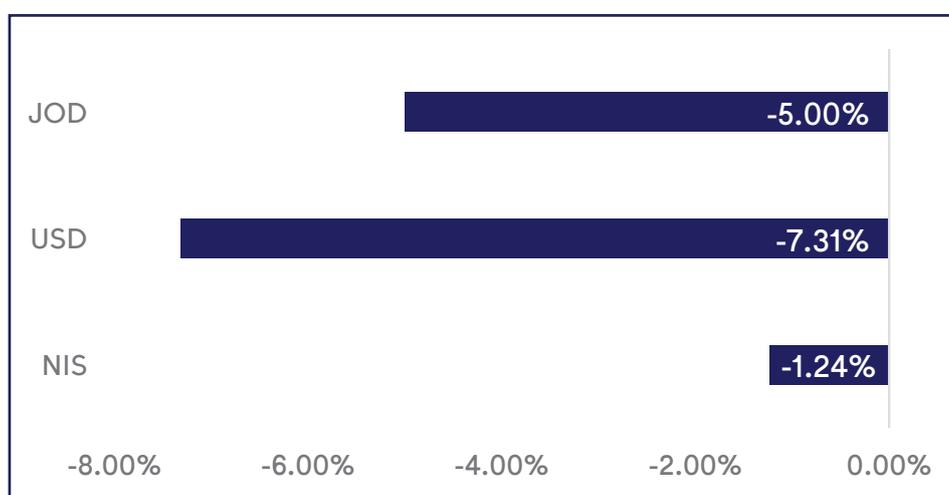
¹⁰ Source of figures in this section: PCBS, 2021. World Records Surveys, 2010 – 2021.

Purchasing Power¹¹

Purchasing Power of the New Israeli Shekel: In 2021, CPI grew by 1.24% compared with the previous year. This upward curve indicates a decrease in the purchasing power of the new Israeli shekel by the same value during the indicated period. It should be noted that trends in the purchasing power of the Shekel are inversely proportional to the increase in consumer prices.

Purchasing power of the US Dollar and Jordanian Dinar: In 2021, the average exchange rate of the dollar relative to the shekel decreased by about 6.07% compared with 2020. As a result, the purchasing power of those earning income in dollars but covering expenses in shekels fell by around 7.31% compared with 2020. Because the dinar is pegged to the dollar at a fixed exchange rate, the dinar's purchasing power also decreased by approximately 5% (see figure 4).

Figure 4: Trends in the purchasing power of major locally-traded currencies in 2021 compared with 2020 (%)



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

1.6 Economic Infrastructure: Information and Communication

The latest data from PCBS and the Ministry of Communications and Information Technology (MoCIT) indicate significant development in Palestine's communications and information technology sector, with more and more Palestinians using the Internet, smartphones, computers, and other digital technologies. However, although progress has been made, much more might be done. This is especially true when comparing the indicators of ICT diffusion in Palestine to those tracked in developed countries. For example, the level of Internet penetration is still lower than the global average of 13.6 Internet access lines per 100 inhabitants. Moreover, the vast majority of those with access line subscribers opt for lower speeds. The high cost of higher-speed access lines and the overall cost of Internet service in the OPT compared with other countries worldwide explains this situation.¹² Also, Palestine ranks 123rd worldwide in the ICT development index, 136th in terms of ICT services licenses, 114th in terms of access line speed, and last in the world in mobile internet speed.¹³ Nonetheless, these metrics show that Palestine has a great potential to improve its digital infrastructure, increase the quality of services offered, and lower pricing in order to better facilitate economic growth and the transition to a knowledge-based economy. This, of course, calls for overcoming the many obstacles and obstacles that the Israeli occupation places in the way of developing the infrastructure of the communications and information technology sector (see Table 6).

¹¹ Purchasing power is "the ability to purchase goods and services using one's wealth and based on consumers' income and changes in prices and exchange rates. Therefore, the change in purchasing power, assuming constant income is equal to the rate of change in the exchange rate of other currencies versus the Shekel, less the rate of inflation."

¹² <http://documents1.worldbank.org/curated/en/844141590600764047/pdf/Economic-Monitoring-Report-to-the-Ad-Hoc-Liaison-Committee.pdf>

¹³ <https://www.itu.int/myitu/-/media/Publications/2020-Publications/ICT-Price-Trends-2019.pdf>; <https://www.speedtest.net/global-index/palestine>

Table 6: Selected ICT Penetration Indicators, 2010 and 2020

Variable	2010	2020
Fixed telephone lines (thousands)	360	466
Fixed broadband subscriptions per 100 inhabitants	9.0	9.1
Mobile subscriptions in Palestine (millions)	2.6	4.3
Mobile penetration rate per 100 inhabitants	64	83
Internet subscribers via access lines in Palestine (thousands)	119	373
Internet penetration via access lines per 100 inhabitants	3.0	7.3
Average internet speed	0.5 Mbps	13.5 Mbps

Source: MoCIT, published data. Ramallah, Palestine.

Fixed and Cellular Lines

The past decade witnessed the development and expansion of telecommunications network infrastructure, which led to an increase of about 29.4% in fixed telephone lines (domestic, commercial, and governmental) and by about 65.4% in cellular subscribers between 2010 and 2020.¹⁴ The results of the ICT household survey in 2019 showed that 31.2% of households have landlines (39.3% in the West Bank and 17% in Gaza Strip).¹⁵ The results also showed that 97.3% of the households have cellphones, with a very small margin of discrepancy (0.1%) between the West Bank and the Gaza Strip. At the level of individuals, about 86.1% of individuals aged ten years and over use a cell phone, with a higher prevalence rate in the Gaza Strip (87.5%) compared with the West Bank (85.2%). Table 7 shows that fixed and mobile penetration rates are close to those recorded in the Arab countries but are lower than the global level.

Table 7: Landline and mobile penetration rates in Palestine and the world, 2019

Indicator	Palestine	Arab Countries	Asia and the Pacific	Africa	World
Mobile subscribers per 100 inhabitants	86.3	100.6	111.7	80.1	108
Fixed-line subscribers per 100 inhabitants	9.4	8.8	8.9	0.8	14.9

Source: ITU/ICT Indicators, published data.

Internet Subscriptions

The number of Internet subscribers via access lines in Palestine doubled between 2010 and 2020. The average Internet speed increased from 0.5 megabytes per second in 2010 to 13.5 megabytes per second in 2020. The ICT household survey for 2019 showed that 79.6% of Palestinian households, or one of their members, have home Internet access (83.5% in the West Bank and 72.7% in the Gaza Strip). On the other hand, the percentage of individuals aged ten and over who use the Internet reached 70.6% in Palestine (74.1% in the West Bank and 65.2% in Gaza Strip).

It is worth noting that 33.9% of households in the West Bank that have internet service at home depend on Israeli cellular companies. In comparison, the percentage of households in the West Bank that have internet service at home and use the 3G mobile network stands around 35.4%.

¹⁴ https://www.pcbs.gov.ps/pcbs_2012/Pressar.aspx?CatId=22&scatId=52

¹⁵ https://pcbs.gov.ps/PCBS_2012/Publications_AR.aspx?CatId=21&scatId=287

However, this service is not available in the Gaza Strip. Table 8 shows that the rates of Internet use are relatively high in Palestine compared with the Arab countries and the world in general. On the other hand, the number of mobile Internet subscribers is very low due to measures and policies imposed by Israeli occupation authorities, which prevent Palestinians from accessing 4G mobile services in the West Bank and 3G mobile services in the Gaza Strip.

Table 8: Internet penetration and usage in Palestine and the world, 2019

Index	Palestine	Arab Countries	Asia and the Pacific	Africa	World
Internet penetration rate among households at home	79.6	57.1	50.9	17.8	57
Mobile Internet subscribers per 100 inhabitants	19.3	67.3	89	34	83
Internet subscribers using fixed broadband per 100 inhabitants	7.3	8.1	14.4	0.4	14.9
People who use the Internet per 100 inhabitants	70.6	51.6	48.4	28.2	53.6

Source: ITU/ICT Indicators, published data.

Internet Subscription Prices

The results of the 2019 Household Survey on Information and Communications Technology showed that 59% of families who do not have Internet service at home avoid such service because of the very high operating costs of the service. This notion is highlighted in table 9. In fact, the prices of Internet lines in Palestine are higher than the general average in most countries. In 2019, they ranked 136th globally in terms of the affordability of the high-consumption mobile data-and-voice basket and 128th in terms of the affordability of the fixed broadband basket.

Table 9: Price indicators of select ICT services in Palestine and the world, 2019

Country	Fixed broadband basket, 2019				High-consumption mobile-data-and-voice basket, 2019			
	Relative to GNI per capita (% of GNI p.c.)	US\$	Purchasing power parity (US\$) (PPP\$)	Global ranking	Relative to GNI per capita (% of GNI p.c.)	US\$	Purchasing power parity (US\$) (PPP\$)	global ranking
Palestine	8.4	25.85	37.16	128	9.5	30.25	43.48	136
Israel	0.8	27.57	23.36	16	0.3	11.11	9.42	4
Arab countries	7.2	22	46	-	7.3	22	39	-
World	10.3	28	43	-	10.3	25	38	-

Source: Telecommunication Development Bureau of the International Telecommunication Union (ITU), published data <https://www.itu.int/myitu/-/media/Publications/2020-Publications/ICT-Price-Trends-2019.pdf>

IT Tools

The Household Survey on Information and Communications Technology – 2019 showed that 97.3% of Palestinian households have at least one mobile phone. The findings also revealed that 86.2% of households have at least one smartphone. As for individuals (18 years and over), 90.1% own a mobile, and 72.8% own a smartphone. In terms of computers, about 33.2% of Palestinian households

have a computer (desktop, laptop, or tablet), and 22% of individuals aged 18 years old have used a computer from any location. These rates are considered relatively low compared with both the average of Arab countries and globally (see table 10).

Table 10: Information technology penetration rate in Palestine and the world, 2019

Indicator	Palestine	Arab Countries	Asia and the Pacific	Africa	World
Computer penetration rate among households	33.2	51.9	43.5	10.7	49.7

Source: ITU/ICT Indicators, published data.

ICT Skills

In terms of the ICT usage skills in Palestine, Table 11 shows a significant spread of some skills, such as copying or transferring a file or folder and using copy and paste tools to repeat or transfer information within the document. However, other ICT skills still need further development, especially more sophisticated skills like using a spreadsheet to perform basic arithmetic and using a programming language to write computer programs.

**Table 11: Youth/adults with ICT skills
Arranged by type of skill in Palestine, Egypt, and Qatar, 2019**

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

Source: PCBS (2020). The Household Survey on Information and Communications Technology, 2019.

ITU/ICT published data.

In focus: The Economic Situation in the Gaza Strip After Years of Siege, Wars, and Political Division

Since 2005, the Gaza Strip's economy has been enduring exceptionally challenging economic conditions due to the stifling Israeli blockade and devastating military assaults—to say nothing from the persistent political division of Palestine. This box is a quantitative, statistical attempt to track the extent of damage that has befallen the economy of the Gaza Strip—and thus the Palestinian economy at large—over the past fifteen years through a quantitative, statistical prism. It also presents some international estimates of the volume of spending necessary to initiate an economic recovery in the Gaza Strip.

In the first part, we present the status of the sector's economy before 2005 and its contribution to the Palestinian economy. We then turn to track the decline it endured over the past fifteen years and the subsequent impact on the Palestinian economy at large. The last section of this part is given over to the extent of the human and material damage caused by the Israeli assault on the Gaza Strip in May 2021. The second part provides estimates of the damage inflicted on the Gaza Strip between 2005 and 2022 and the expected damage over the next decade (2020–2030) if the siege and political division continue.

1. The Economic Situation in the Gaza Strip Before and After 2005

The Gaza Strip is considered a major part of the Palestinian economy. As the PCBS's data stand, before 2005, the Gaza Strip housed 40% of the population of the occupied State of Palestine. Its economy constituted a third of the Palestinian economy, contributing 36% to the Palestinian GDP. The political and economic challenges Palestine went through, especially in the Gaza Strip, have impacted Palestinian economic growth and worsened the economic position in the Gaza Strip in particular. This debilitation has unfolded at all levels due to the siege and wars of 2008, 2012, 2014, and 2021. Since the summer of 2007, political division has stunted economic development that would entail mutual benefits for the northern and southern regions of the State of Palestine. Since the onset of political conflict with Palestinian authorities in the West Bank, Hamas has had de facto control over the Gaza Strip even though it is still theoretically under the jurisdiction of the Palestinian National Authority. The division has caused the Gaza Strip to lose out on huge amounts of aid and investment, given the reluctance of donors to provide support to Hamas (which the United States, European Union, and some Arab Gulf states have designated a terrorist organization). This label has cast long shadows over Gaza's commercial and productive capabilities, restricting imports and exports and reducing Gaza's contribution to Palestinian GDP to 25% on average between 2006 and 2013. The share has since declined further, especially in 2014, reaching 19.6% between 2014 and 2019. Rubbing salt in the wound, the coronavirus pandemic exacerbated the economic decline in the Gaza Strip, bringing the contribution of the Gaza Strip to GDP to 17.7% in 2020 (see figure 1).¹⁶

The biggest challenges faced by the productive sectors in the Gaza Strip are the prolonged blockade, economic and trade restrictions, restrictions on movement, and repeated Israeli bombardment over fourteen years.¹⁷ Since 2007, Israel has prevented most trade into and out of the Gaza Strip through its almost total control over sea, air, and land borders. This has led to a significant reduction in trade revenues and impeded the ability of economic sectors to develop markets and grow revenues. In addition, since 2007 the Israeli blockade has severely restricted trade and production factors (particularly resources and production inputs). These constraints have reduced the ability of factories to produce regularly and effectively, expand and maintain competitive prices, and create jobs. This situation could be attributed to the fact that most of the raw materials and equipment needed for industrial production (e.g., fertilizers, pesticides and seeds

¹⁶ Source: PCBS (2021). National Accounts Statistics, 1994–2020. Ramallah, Palestine.

¹⁷ UNCTAD. (2020). Report on UNCTAD assistance to the Palestinian people: Developments in the economy of the Occupied Palestinian Territory.

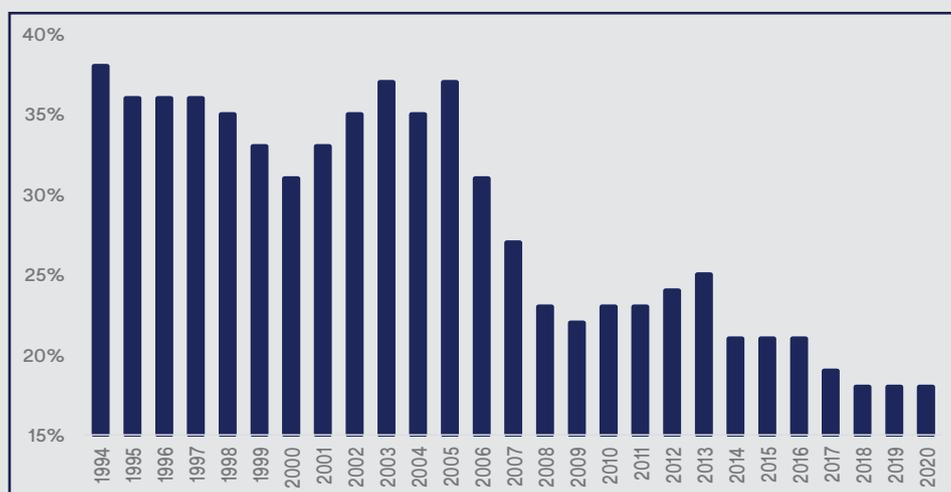
spare parts, hardware, telecommunication equipment, steel pipes, chemicals, building materials, water pumps, medical equipment, and gas) fall within the “dual-use” goods category, which Israel prevents Palestinians from importing on the grounds that they may be used for military purposes.¹⁸ In addition, Israel’s control of borders prevents the Gaza Strip from accessing the West Bank, which is considered one of the most important markets for the Gaza Strip.

All this has led to a slowdown in the real growth of the industrial sector in the Gaza Strip (the annual growth rate between 1994 and 2020 stood at about 1%). The value-added of this sector, which was once among the most important components of GDP, fell from 25.8% in 1994 to just 7.1% in 2020. The slowdown in the value-added growth of the industrial sector is greater than in other sectors such as wholesale and retail trade, where value-added grew at a faster pace (annual growth of 4.7% between 1994 and 2020).¹⁹

Likewise, the agricultural sector has suffered a continuous decline since 2007. The agricultural sector’s share of GDP declined from 13.3% in 1994 to 7.1% in 2021.²⁰ This is mostly due to repeated material damage, restricted access to resources, and reliance on imports from the Israeli side (e.g., seeds, fertilizers, pesticides). Moreover, less than 1% of the PA’s budget is allocated to the agricultural sector. By the same token, about 1% of the international aid administered by the PNA goes to agriculture, with even less than that allocated to the agricultural sector in Gaza.²¹

This massive decline in the productive sectors has led to a decline in the contribution of the Gaza Strip to GDP. The contribution of the Gaza Strip to GDP has declined from 37% in 1994 to 18% in 2020 (see figure 1). This was reflected in a decrease in GDP per capita in the sector by half between 1994 and 2020 (from 2,328.2 in 1994 to 1,207.6 in 2020). The economic downturn in the sector intensified unemployment, bringing the unemployment rate to 46.6% in 2020 (one of the highest in the world).²²

Figure 1: Contribution of the Gaza Strip to GDP 1994–2020



Source: PCBS. (2021). National Accounts Statistics, 1994–2020. Ramallah, Palestine.

Last year, Israel carried out a military assault against the Gaza Strip that lasted for 11 days, from May 10 to 21, 2021. This brutal assault included violent and intense air raids on various areas of the Gaza Strip, including residential, civil, governmental, security, and commercial facilities, in addition to hospitals, health centers, water and sanitation facilities, transportation, energy, and communications networks.

18 UNCTAD. (2020). Report on UNCTAD assistance to the Palestinian people: Developments in the economy of the Occupied Palestinian Territory.
 19 Source: PCBS. (2021). National Accounts Statistics, 1994–2020. Ramallah, Palestine.
 20 Source: PCBS. (2021). National Accounts Statistics, 1994–2020. Ramallah, Palestine.
 21 Source: Ministry of Finance. (2021). Monthly financial reports for the year 2021: Financial Operations - Revenues, Expenditures and Funding Sources (December, 2021).
 22 Source: PCBS. (2021). National Accounts Statistics, 1994–2020. Ramallah, Palestine.

These raids resulted in human casualties, with 232 dead among them 65 children, 39 women, and 17 elderly people. These raids also resulted in the injury of more than 1,900 people, 90 of them were classified as severely wounded. Based on the results of a report prepared by the World Bank to assess the damage and needs in the Gaza Strip in the aftermath of the aggression, the material damage and economic losses amount to about US\$380 million, and the economic losses are projected to reach about US\$190 million. On the other hand, the recovery and reconstruction will require about \$485 million over the next two years.²³

Table 1, which is based on the results of the World Bank report, shows the sectors affected by the recent Israeli assault along with the amount of material damage and economic losses incurred by each sector. It also indicates the needs that should be addressed by the recovery and reconstruction process at each sectoral level. The figures in the table show that the material damages are estimated between US\$290 and US\$380 million and that the most affected sectors are the social sectors.

Table 1: Total damages, losses, and recovery and reconstruction needs (US\$, Millions)

Sector	Damage		Losses		Needs (0–24 months)	
	Low	High	Low	High	Low	High
Social sectors	140	180	60	80	160	210
Infrastructure sectors	60	85	10	35	85	135
Productive and financial sectors	75	90	35	70	70	95
Cross-cutting sectors	15	25	-	5	30	45
Total	290	380	105	190	345	485

Source: World Bank (2021): Gaza Rapid Damage and Needs Assessment

Note: The hyphen (-) indicates that the amount is less than US\$2.5 million

2. Estimating the size of economic sector losses between 2005 and 2020 and 2020 and 2030

In the previous section, we demonstrated the extent to which the Gaza Strip's contribution to the Palestinian economy had declined between 2005 and 2020. In this section, we will estimate the size of the economic losses that led to that decline, using a linear trend forecast method to do so.

To measure the various losses across economic activities between 2005 and 2020, we will calculate the hypothetical size of economic activity as if it continued from 2005 to 2020 according to its linear trend from 1994 to 2005. The difference between that hypothetical size and the actual size should constitute the size of the loss of that activity.

To estimate the size of losses in economic activities between 2020 and 2030, we will compare two hypothetical volumes for each activity. The first is the hypothetical volume that we used previously, and the second is the hypothetical volume of activity as if it had continued from 2020 to 2030 according to its linear trend for the preceding period (2005–2020). The difference between these two hypothetical sizes should constitute the size of loss in the activity. Below we present estimates of losses in specific economic activities based on these accounts:

- It is estimated that total losses in the industrial sector between 2005 and 2020 amounted to US\$4.9 billion. If the current conditions of the blockade and comprehensive trade restrictions continue, it is estimated

²³ World Bank (2021): Gaza Rapid Damage and Needs Assessment

that these losses will amount to about \$7.1 billion by 2030. This means that the industrial production base of the Gaza Strip will have been eroding continuously since 2005 and the production gap constantly widening (as shown in Figure 2). It should be noted that this process entailed a decline in the Palestinian production index and significant and unprecedented pressure on the Gaza Strip economy. Moreover, it had adverse impacts on the West Bank's economy, as purchases made from the Gaza Strip were now made by another party at a cost much higher than in Gaza Strip. Thus, losses in economic activity and the erosion of industrial production in Gaza negatively impacted the entire Palestinian economy.

Figure 2: Gap in estimated and actual production for the Gaza Strip industrial sector between 1994 and 2020 (US\$, Millions)

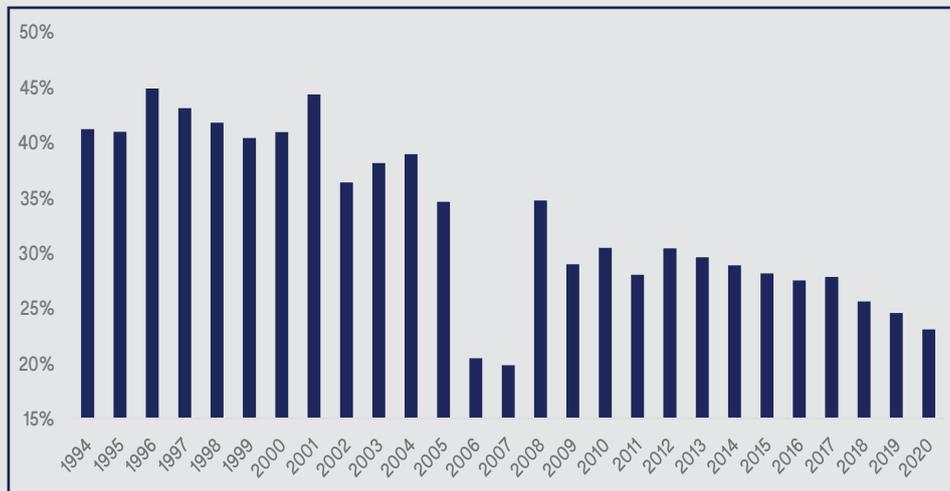


Source: These calculations were worked out by the researcher based on the National Accounts Statistics.

- As for foreign trade, the industrial imports that were examined here have been expected to range between US\$775 million and US\$1 billion between 2015 and 2018. However, actual imports for the period under study amounted to US\$165 million on average annually. In other words, the rate of the industrial imports considered here has fallen by more than 75%.
- It should also be noted that food industry imports made up the largest part of this gap (i.e., the decline of imports), constituting up to 35% of the gap; they were followed by chemical industries at 17% and then metal industries at 13%.
- Imports across the entire industrial sector were impacted in the same manner and at the same pace. Actual imports amounted to about US\$452 million annually between 2015 and 2020, while they were expected to have ranged between US\$1.2 and US\$1.5 billion. In other words, the rate of decline in the imports in the industrial sector as a whole reached about 65%.
- Exports declined very dramatically, such that most industrial subsectors exported almost nothing and the total industrial exports from those subsectors never exceeded US\$325,000 in the best years. This situation indicates the widening gap between anticipated and actual exports, as the exports of industrial subsectors should have ranged between US\$70 to US\$92 million under normal conditions while the total industrial exports should have reached US\$105 million.
- If agricultural produce from the Gaza Strip could be marketed in the West Bank, Gaza would experience job creation and economic growth while agricultural commodities could be provided to the West Bank market at reasonable prices. This would, in turn, enhance the purchasing power of Palestinians and reduce the need to import such commodities from the Israeli market

- Government spending data for the West Bank and Gaza Strip indicate a sudden change in the percentage and value of spending in the Gaza Strip. Between 1994 to 2005, spending in Gaza soared to constitute more than 40% of the total budget expenditure. In recent years, however, it has shrunk to around 25% due to declined budget capabilities and changing priorities on the part of the PNA following the political split between authorities in Gaza and the West Bank (see figure 3).

Figure 3: Expenditure in the Gaza Strip as a percentage of total government spending



Source: PCBS. (2021). National Accounts Statistics, 1994–2020. Ramallah, Palestine.

- This remarkable decline in spending is the result of several factors, the most important of which is the political split between authorities in the West Bank and Gaza; added to this is the decline in the contribution of Gaza’s revenues to the general budget. Gaza Strip revenues used to constitute about a third of Palestinian revenues, but due to the Israeli siege, closures, and political conditions they have fallen to just 10%. The decline in revenues from the Gaza Strip has weakened the financial capabilities of the Palestinian public budget. Nevertheless, securing these revenues still helps to address the deficit in the public budget, which has been dependent on international aid that has grown increasingly scarce over the past decade.
- This decline in spending and revenues has had a direct negative impact on the economic capacities and purchasing power of the population. It has also impacted demand insofar as a decline in public spending has induced an economic recession that affected all economic indicators. This is evident when considering employment, production, and growth, with the unemployment rate in Gaza skyrocketing to 46.6% marking one of the highest rates in the world.

2. Labor Market²⁴

Three main indicators determine the number of workers in a given economy: the working-age population, the labor market participation rate, and the unemployment rate. The place of workers in economic activity is determined by indicators related to the human capital owned by workers, the amount of material capital available to them, and the nature of institutions that directly and indirectly impact the production process. Labor market conditions also reflect the reality of macroeconomic and political conditions in Palestine ar. In general, we noted a rise in the growth rates of the working-age population, yet a rise in the unemployment rate as well.

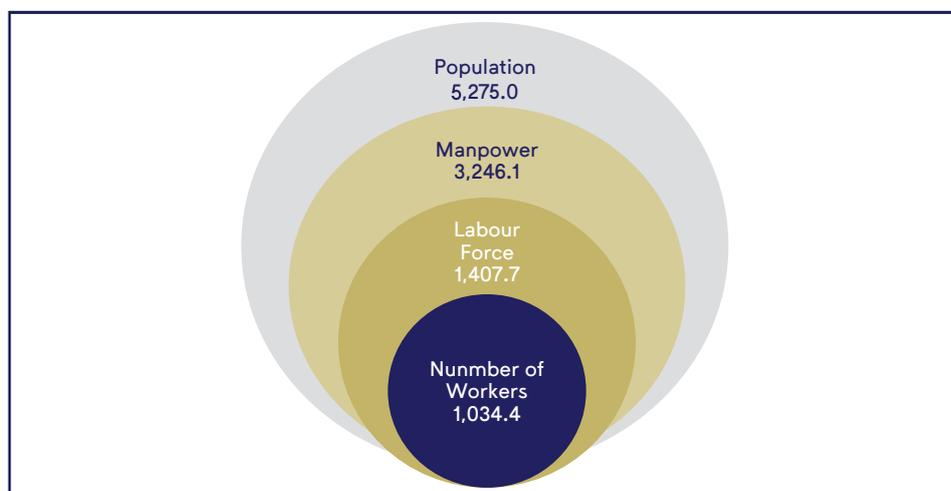
In the Palestinian labor market, the supply of labor severely exceeds demand for labor.

When examining the reasons for this, we find insufficient annual GDP growth rate to be the main driver, as it fails to generate job opportunities that can absorb the annual increase in the workforce²⁵ – due to a variety of economic and political reasons and challenges. In the same context, local economic activity absorbs only 63.2% of the labor force, while about 10.3% of them work in the Israeli economy leaving about a quarter of the labor force to endure unemployment.

Labor Force and Participation Rate

As Figure 1 shows, the population of Palestine in 2021 was about 5.2 million. While manpower amounted to about 3.2 million (i.e., all individuals over the age of 15 years), the labor force—which accounts for both employed and unemployed people who are looking for work—reached 1.4 million. In 2021 there was a remarkable increase of 9% in the size of the labor force (approximately 115 thousand people), mainly due to the Palestinian government lifting restrictions on work and movement that it had imposed in 2020 to prevent the spread of the pandemic. This development encouraged a large number of those who left the labor market in 2020 to re-enter it in 2021. This rise was positively reflected in the labor force participation rate, i.e., the ratio of the labor force to manpower, which rose by 2.5% from 2020 to reach 43.4%. Looking at the participation rate across different regions in Palestine reveals that the disparity between the West Bank and the Gaza Strip continued to persist at the end of 2021, with the rate standing at 45.8% in the West Bank compared with 39.4% in the Gaza Strip.

Figure 1: Total population, manpower, and labor force in Palestine (Thousands)



²⁴ PCBS. Labor Force Survey. Ramallah, Palestine .

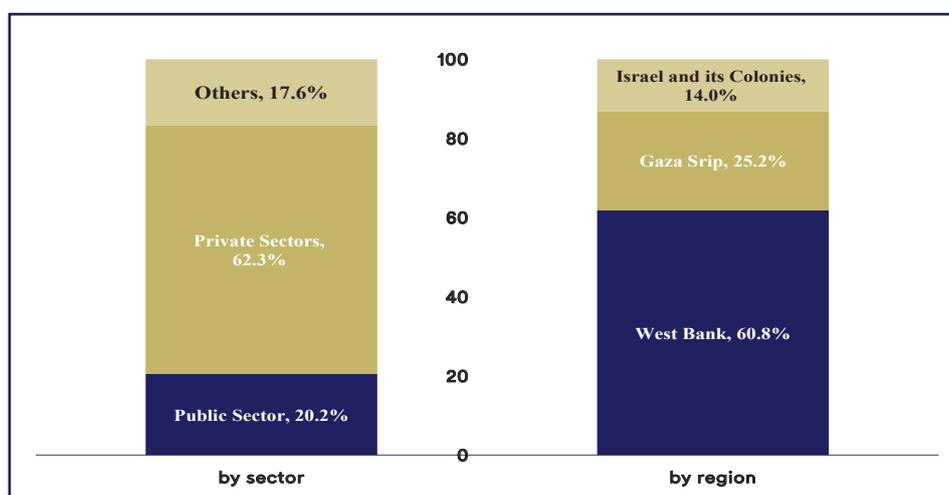
²⁵ https://mas.ps/cached_uploads/download/migrated_files/financing-20of-20government-20activitypmaclean-1640017383.pdf

2.1 Labor Distribution

Annual data indicate that the number of workers in Palestine grew by 8%, from 956 thousand in 2020 to 1,034 thousand in 2021. This employment growth was distributed as 58.2 thousand workers in the domestic market (4% in the West Bank and 15% in the Gaza Strip), and 19.8 thousand in Israel and the settlements.

In terms of geographic distribution in 2021, 60.8% of Palestinian workers were employed in the West Bank, 25.2% in the Gaza Strip, and 14.0% in Israel and the settlements (a group that constitutes about 145,000 workers, 25% of whom do not have work permits). Sectorally, 20.2% of workers were absorbed by the public sector, 62.3% by the private sector, and about 17.6% in other sectors and Israel and the settlements.²⁶ Workers in the West Bank were concentrated in the private sector, which absorbed 63.9% of all workers (57.4% in the Gaza Strip), compared with 15.2% in the public sector (35.2% in the Gaza Strip) (see Figure 2).

Figure 2: Geographical and sectoral distribution of labor in 2021 (%)



In terms of economic activities, in 2021 there was an increase in the number of workers in the local market across all activities compared with the previous year. The building and construction sector recorded an increase of 17.7% in the number of workers it employed, 10.4% in agriculture, 3.4% in industry, 12.6% in trade, hotels and restaurants, 4.8% in transport, storage and communications, and 2.6% in services .

Table 2.1 shows the relative distribution of workers across different activities in the West Bank and Gaza Strip. A higher percentage of workers were employed in industry and quarrying in the West Bank (15% in the West Bank, compared with 6.3% in the Gaza Strip), while more were employed in the services sector in the Gaza Strip (54% in Gaza Strip, compared with 33.2% in the West Bank). The figures also indicate a significant decline in the percentage of construction workers in Gaza Strip (about 3.8%), a pattern resulting from the severe restrictions that Israel imposes on the entry of construction materials into Gaza (for more information, see the box on restrictions imposed by Israeli occupation authorities on the import of dual-use materials in Issue No. 57 of the *Quarterly Economic Monitor*).

Palestinian employment in Israel and settlements is largely concentrated in the building and construction sector, with the percentage of workers in this sector reaching about 63.2%. By comparison, the percentage of workers in the industrial sector stood around 12.9% and the percentage of workers in trade, restaurants, and hotels reached about 11.3%. The percentage of workers in agriculture, services, transportation, storage , and communications stood at 6.5%, 4.7%, and 1.5%, respectively (see table 2-1).

²⁶ Other sectors include NGOs and nonprofit organizations .

Table 1: Labor in Palestine by region and economic activity in 2021 (%)

Economic activity	West Bank	Gaza strip	Israel and settlements	Palestine (does not include workers in Israel and settlements)
Agriculture, hunting, and forestry	6.9	6.0	6.5	6.8
Quarries and manufacturing	15.0	6.3	12.9	12.3
Building and Construction	14.7	3.8	63.2	11.5
Trade, restaurants, and hotels	24.9	20.5	11.3	23.6
Transportation, storage, and communication	5.6	8.7	1.5	6.6
Services and other	33.2	54.7	4.7	39.5
Total	100.0	100.0	100.0	100.0

In terms of employment status, in 2021 the number of waged workers increased by 53 thousand (7.7%) compared with 2020, while the number of self-employed (whether those who are employers or are self-employed) grew by 23 thousand (about 10%). The number of people working as unpaid family members rose about 5.5% to reach two thousand.

2.2 Unemployment

In 2021, unemployment in Palestine witnessed a slight increase of 0.5% compared with 2020, reaching 26.4%. This was driven by a 9.0% growth in the labor force, at a rate higher than the number of workers in the same period (8.2%). Table 2 shows the variation in the unemployment rate between the West Bank and Gaza Strip, with the unemployment rate decreasing slightly in the West Bank (by 0.2%) and increasing slightly in the Gaza Strip (by 0.3%).

The problem of unemployment is not new to the Palestinian economy. In fact, the unemployment rate in Palestine is one of the highest regionally and globally. The global unemployment rate stood around 6.5% in 2021, compared with about 10% in Arab states and 10.5% throughout the Middle East and North Africa.²⁷

There is no doubt that the high unemployment rate in Palestine is a result of the slew of restrictions and punitive measures that Israeli occupation authorities have imposed on the West Bank and the Gaza Strip. Such actions have deepened the Palestinian economy's dependence on the Israeli economy, while Israeli measures have led economic conditions in Palestine to deteriorate over time. The Palestinian economy suffers from structural economic distortions that hinder its ability to absorb new entrants into the labor market, given the erosion of the productive sectors (i.e., agriculture and industry).²⁸ With the domestic market offering few local job opportunities in addition to low wages, the Israeli labor market has become a major employer. This process has deepened Palestine's dependence on the Israeli economy, as the number of workers in Israel and the settlements reached about 145,000 workers by the end of 2021—that is about 18.5% of the workforce working in the West Bank. Their remittances contribute about 13% of the Palestinian annual NGI (about US\$2.4 billion).

²⁷ <https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS>

²⁸ Refer to the section on economic concepts and definitions in issue 55 of the Economic Observer, which explains the symptoms of Dutch disease in Palestine.

Table 2: Unemployment rate among individuals participating in the labor force in Palestine by region and gender (%)

Region/Gender		2020	2021
West Bank	Male	13.0	12.5
	Female	27.2	29.0
	Total	15.7	15.5
Gaza strip	Male	42.1	41.8
	Female	63.6	65.0
	Total	46.6	46.9
Palestine	Male	22.4	22.4
	Female	40.3	42.8
	Total	25.9	26.4

Below are highlights of the most prominent characteristics of unemployment in Palestine in 2021:

1. Unemployment was particularly concentrated among young people, with the unemployment rate standing at about 41.7% among those aged 15–19 and 32.6% among those aged 25–34.²⁹ This indicates that a significant proportion of the unemployed are new entrants to the labor market.³⁰
2. The unemployment rate for females was greater than that of males. This is due to the limited number of economic sectors open to female employment compared with males. In Palestine, female employment is concentrated in the services sector, which employs 73.3% of women.³¹
3. As in past years, there was a substantial difference between the percentages of unemployed males and females in terms of education. For males, the unemployment rate decreases as higher educational levels are attained, while the opposite is true among females. For example, among males with primary education, the unemployment rate was about 24.5%, compared with about 19.6% among males with secondary education or higher. The unemployment rate for females with a primary education was about 5.2%, compared with about 45.6% for those who attained at least a secondary education. This can be explained by the significant increase in the labor market participation rate of educated females, a rate that is exceeding the demand for females in the labor market compared with males. (See Box: 1 in Quarterly Economic Monitor, Issue no. 53, which shows that higher unemployment rates among educated females compared with uneducated females are not due to their education as such, but due to a significantly higher rate of participation in the labor market.

2.3 Wages

The average daily wage for all Palestinian workers increased in 2021 by ILS3.8 compared with 2020, reaching ILS136.5. This increase was driven by a rise of ILS2.5 in the average wage in the West Bank and of NIS 3.8 in Israel and the settlements. By contrast, the average wage in the Gaza Strip decreased by ILS1.3. The average wage in Palestine in 2021 masks some wide discrepancies between:

1. The average wage in the West Bank and the Gaza Strip, with the average wage in the latter standing about 49% of the average wage in the former. The gap is even wider when the median

²⁹ For more information on youth unemployment, see the box "Youth Transition Survey from Education to the Labour Market" in Quarterly Economic Monitor, Issue no. 47.

³⁰ Ibid

³¹ For more information, see the box "Female in the Palestinian Labour market: why their participation is low and their unemployment higher?" in Quarterly Economic Monitor, Issue no. 51.

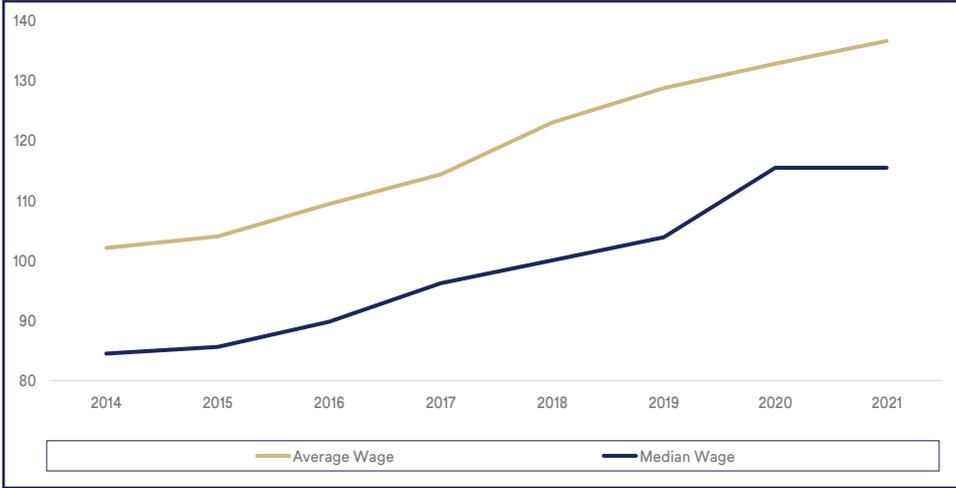
wage is considered, instead of the average wage. The median wage is more indicative than the average wage, since it marks the highest wage level for the bottom half of all workers whereas the average wage conceals significant disparities between higher-paid and lower-paid workers (see Figure 3). For example, while the average wage in the Gaza Strip is 49% of the average wage in the West Bank, the median wage in Gaza is just 35.7% of that in the West Bank(see table 3).

2. The average wage of workers in the West Bank and Gaza, on the one hand, and the average wage of workers in Israel and the settlements on the other. The data in Table 3 indicate that the average daily wage of workers in Israel and the settlements (ILS266.2) is twice that of those in the West Bank (ILS124.3 shekels) and four times that of wages in Gaza Strip (ILS60.3).

Table 3: Average and Median Daily Wage for Employees with Known Wages in Palestine between 2020 and 2021 (ILS)

Workplace	2020		2021	
	Average daily wage (ILS)	Median daily wage (ILS)	Average daily wage (ILS)	Median daily wage (ILS)
West Bank	121.9	107.7	124.3	111.5
Gaza strip	61.6	40.0	60.4	38.5
Israel/settlements	257.9	250.0	266.2	250.0
Total	132.7	115.4	136.5	115.4

Figure 3: Average and median daily wage for employees known wages in Palestine (ILS)



2.4 Minimum Wage

The minimum monthly wage in Palestine is about ILS1,450. However, annual data released by the PCBS indicate an increase in the number of waged workers who receive less than the minimum wage—from about 28% at the end of the year 2020 to about 29% at the end of 2021, with an average wage of about ILS740 in 2021 compared with ILS741 in 2020. According to the PCBS, the average monthly expenditure for a five-member family in the West Bank is about US\$1,602.85, nearly four times the minimum wage. These figures reflect the wide gap between the average minimum monthly wage and the levels that are acceptable for securing a dignified life for Palestinian families.

Raising the minimum wage in Palestine by 30% to bring it up to ILS1,880

In 2021, the Palestinian government decided to raise the minimum wage by 29.6%, from ILS1,450 to ILS1,880. Thus the daily wage for day laborers increased from ILS65 to ILS85, while the minimum hourly wage rose from ILS8.5 to ILS10.5. These changes are to enter into force in early 2022.

In 2021, about 140 thousand workers in Palestine receive a monthly wage of less than ILS1,880, 86% of whom work in the private sector. This group is distributed between 54 thousand workers in the West Bank and 86 thousand workers in the Gaza Strip. These workers constitute about 17% of all workers in the domestic market. In terms of economic activity, the service sector accounts for about 31% of them, followed by the trade, restaurants and hotel sector at 29% (see Table 4).

Table 4: The average and median monthly wage for workers who earn less than ILS1,880 per month and the increase in the wage bill by sector and economic activity (2020)

	of workers	Average wage	Median wage	Increase in the monthly wage bill (ILS, Millions)
Sector				
Governmental sector	19,300	1,428	1,500	9
Private sector	119,200	989	900	106
Economic activity				
Agriculture, hunting, forestry, and fishing	12,600	802	520	14
Mining, quarrying, and manufacturing	21,000	1,138	1,200	16
Building and construction	8,200	1,201	1,300	6
Trade, restaurants, and hotels	41,000	964	800	38
Transportation, storage, and communication	14,300	757	520	16
Services and other	42,900	1,230	1,350	28
Total	140,000	1,050	1,000	116

Source: PCBS, Labor Force Survey, 2020. Reliable data on 2020.

According to the data from 2020, the average wage of workers receiving less than ILS1,880 per month amounted to about NIS 1,050. This fact means that the minimum wage decree should raise the average monthly wage for this category by ILS830, i.e., an increase of about ILS116.2 million per month in the payroll (NIS 830 x 140,000 workers). The West Bank wage bill will account for about one-fifth of this amount (NIS 23 million), while the Gaza Strip will bear the rest (NIS 93 million); in terms of gender, the female wage bill will account for 16% of the total (NIS16 million) (see table 5).

The weak commitment to the minimum wage varies across sectors. It can be attributed to economic and political reasons as well as factors related to trade union dynamics. Therefore, measuring the effectiveness of the new minimum wage decree implementation in Palestine will depend on three indicators: the degree of compliance with the decree, the impact of the increase in minimum wages on employment, and the effect of the increase on prices and inflation

Table 5: Average and median monthly wage for workers earning less than ILS1,880 in monthly wages; and the increase in wage bill by gender and region (2020)

	of workers	Average wage	Increase in the monthly wage bill (ILS, Millions)
Gender			
Male	116,900	1,019	101
Female	23,100	1,204	16
Region			
West Bank	54,000	1,458	23
Gaza Strip	86,000	793	93
Palestine	140,000	1,050	116

Source: PCBS, Labor Force Survey, 2020. Reliable data on 2020.

3. Public Finance³²

3.1 Public Revenues

Domestic collection revenues during the year 2021 amounted to about ILS5 billion, marking a remarkable increase of 20.5% compared with the previous year. This growth is attributed to a rise in tax revenues by 27.6%, reaching about ILS3.2 billion, and non-tax revenues by 2.1% (about ILS1.3 billion). In 2021, the allocated collections amounted to ILS458.2 million, compared with ILS335.9 million in 2020. Clearance revenues increased by 11.8%, reaching ILS9 billion. On the other hand, grants and foreign aid drastically decreased by 38.6%, compared with 2020. Standing at about ILS1.0 billion, grants and foreign aid reached their lowest levels in history. In the final analysis, the net public revenues and grants increased by 8.4% compared with 2020, reaching about ILS14.7 billion, mainly as a result of the improvement in economic activity (see table 1).

Table 1: Public revenues in 2020 and 2021 (ILS, Millions)

Variable	2020	2021
Gross domestic revenues	4,133.2	4,979.7
Tax revenue	2,523.4	3,221.4
Non-tax revenue	1,273.9	1,300.1
Gross clearance revenues	8,041.8	8,990.8
Total net revenue	11,887.5	13,759.2
Grants and aid	1,670.3	1,026.0
Net public revenues and grants	13,557.8	14,785.2

3.2 Public Expenditure

The expenses of wages and salaries paid (on cash basis) rose by 1% in 2021 compared with 2020, standing at ILS6.4 billion and constituting 82.5% of the wage and salary bill due in the same year. Net lending also increased in 2021 by 3.5%, reaching ILS1.2 billion. On the other hand, non-wage expenses decreased by 6.2% compared with the previous year, reaching NIS 5.3 billion (69.6% of non-wage due expenses). However, development expenditures decreased by 5.5% to about NIS 0.5 billion (constituting 69.2% of development expenditures on a commitment basis). In the final analysis, actual public expenditures decreased by 2.1% in 2021, compared with the previous year, reaching around ILS13.6 billion (76.4% of the public expenditure) due in the same year (see table 2).

Table 2: Public expenditure on a cash basis in 2020 and 2021 (ILS, Millions)

Variable	2020	2021
Salaries and wages	6,369.1	6,435.4
non-wage expenses	5,602.1	5,252.2
Net lending	1,165.5	1,207.6
Ad hoc payments	182.3	161.7
Development expenditure	572.2	540.5
Total expenses	13,891.2	13,369.1

³² The data source in this section is the Ministry of Finance, Monthly Financial Reports 2021: Financial Operations - Revenue, Expenditure and Funding Sources (December, 2021). These are raw data that can be adjusted and revised.

3.3 Fiscal Surplus/Deficit

The total deficit after grants and aid based on commitment amounted to about NIS 3 billion in 2021, compared with a NIS 3.9 billion deficit in 2020. On the other hand, total balance on a cash basis generated a surplus of ILS1.4 billion in 2021 (1.9% of GDP), compared with a deficit of about ILS0.3 billion in 2020.

3.4 Government Arrears

In 2021, gross arrears amounted to about ILS4.5 billion, compared with ILS3.7 billion in 2020, marking an increase of 22.7%. Total arrears included non-wage expenditure (approximately NIS 2.3 billion), wages and salaries arrears (ILS1.4 billion), development expenditure arrears (approximately ILS0.2 billion), and arrears of allocated payments and tax returns (about ILS0.3 billion).

Bringing net arrears to ILS3.1 billion, the government paid ILS1.4 billion from the previous years' arrears (2020). (For more details see table 3 and Box 3: Development of the Palestinian Government's Public Debt and Arrears, 2012-2019 in the Economic Monitor)

Table 3: Arrears owed by the Palestinian government in 2020 and 2021 (ILS, Million)

Item	2020	2021
Tax returns	104.1	299.6
Wages and salaries	517.5	1,360.2
non-wage expenses	2,502.5	2,264.8
Development expenditure	380.2	228.3
Ad hoc payments	153.8	308.1
Total arrears	3,658.1	4,488.0
Payments in arrears for goods, services and expenses for preceding years	1,562.5	1,391.1
Net arrears	2,095.7	3,096.9

3.5 Government Public Debt

By the end of 2021, dollar-denominated government public debt rose by 5.4% compared with the previous year, reaching about US\$3.8 billion (equivalent to ILS12 billion), accounting for about 21.3% of the nominal GDP. The domestic government debt increased by 8.8% during the same corresponding period in 2020 (about US\$2.5 billion). In comparison, the external government debt stabilized at the level of the previous year with a slight decrease by 0.4%, reaching about US\$1.3 billion. The interest paid on the debt in 2021 amounted to about ILS343 million, of which ILS334 million is domestic debt and nearly ILS9 million is external debt. (For more details on the government public debt, see Box 3: Development of the Palestinian Government's Public Debt and Arrears, 2012-2019 in *the Economic Monitor*)

4. Financial Sector

4.1 Banking Sector³³

By the end of 2021, the number of bank branches and offices licensed to operate in Palestine reached 379: 249 are branches and offices of domestic banks, and 130 are foreign banks (including five Jordanian banks and an Egyptian bank). There are also 81 branches and offices of Islamic banks that provide their services in accordance with Islamic Sharia (Islamic banks). = 322 branches and offices are based in the West Bank and 57 operate in the Gaza Strip.

The consolidated budget data for banks at the end of 2021 indicate a growth in the assets and liabilities of banks by 9.0% compared with those of 2020, reaching US\$21.7 billion.³⁴ Similarly, the assets of Islamic banks recorded an annual growth of about 11.9%, bringing their total assets to US\$3.9 billion, compared with an increase of 8.4% for commercial banks, bringing their total assets to about US\$17.8 billion in the same period. (See table 1)

Table 1: Consolidated budget of licensed banks in Palestine (US\$, Million)

Line item*	2020	2021
Total assets	19,886.20	21,673.00
Direct credit facility	10,078.70	10,747.20
Balances with PMA	5,509.10	5,876.90
Stock and investments' portfolio	1,368.80	1,492.10
Cash and precious metals	1,770.90	2,497.30
Other assets	1,158.60	1,059.50
Total liabilities	19,886.20	21,673.00
Customer Deposits**	15,138.30	16,518.10
Property rights	1,967.40	2,107.50
Balances with PMA	1,349.50	1,500.10
Other liabilities	488.5	536.2
Depreciation and allowances	942.5	1,011.10

* Figures cited in the table totals (allowances included).

** Customer deposits include both private sector and public sector deposits.

4.1.1 Credit Facilities

Data indicate an increase in credit facilities by 6.6% compared with 2020, reaching US\$1.7 billion. This increase was driven by the growth of the facilities for the private sector by 5.2% and the growth of the public sector facilities by 11.9%. These developments increased the public sector's share of total credit facilities to 23.0%, compared with 21.9% in 2020. The facilities granted in the Israeli new shekel also grew significantly by about 12%. The facilities granted in JOD and USD also rose, but at the lowest rates (3.8% for JOD and 1.2% for USD), as the cost of lending in NIS and JOD decreased this year compared with 2020—with a slight growth in the cost of borrowing in USD.

³³ Data source in this section: Palestinian Monetary Authority, August 2021, Combined bank balance sheet, profit and loss list, and Monetary Authority database.

³⁴ There is a clear impact of the decline in the exchange rate of the dollar against the shekel on the growth of the consolidated budget items, especially as the shekel constitutes a large part of the budget. The exchange rate declined at the end of the period from 3.220 ILS/dollar in the previous quarter and 3.216 ILS/ dollar in the corresponding quarter to 3.117 ILS/dollar.

4.1.2 Balances with the PMA

Balances with the PMA and banks increased by 6.7%, equivalent to US\$368 million. This growth was driven by a rise in balances with the PMA by about US\$210.9 million (57% of the increase in total balances). The growth in interbank balances and balances with offshore banks also contributed to this rise in varying degrees.

4.1.3 Cash and Precious Metals

Cash and precious metals grew by about 41%, compared with its value in 2020. This increase was driven by several factors, including the increase in deposits and shekel surpluses, the ongoing economic recovery from the pandemic, and the return to economic activity in markets in the West Bank as the COVID-19 preventive measures were eased. In addition, the increase in workers in Israel and the settlements by about 7.4% compared with the previous year also played a role in the increase.

4.1.4 Customer Deposit

In 2021, customer deposits grew by 9.1%, compared with 2020, reaching US\$16.5 billion. This increase resulted from the growth of private sector deposits by 8.3% (approximately US\$1.2 billion). This also reflects the increase in Palestinian workers in Israel and the settlements and net current transfers (in- and- outflows to/from Palestine) by about half in the first nine months of 2021 compared with the same period in 2020.

4.1.5 Banks' Profits

By the end of 2021, net banking income after taxes reached about US\$178.4 million, a 77.3% increase compared with its value in 2020. This remarkable growth was driven by the increase in the total revenues of the banking sector by about \$71.3 million compared with the previous year. In addition, data indicate an increase in banks' net interest income by about 7.8% and a rise in net non-interest income (especially net income from commissions, securities, investments, exchange, and valuation of foreign currencies). On the other hand, the decline in expenditures boosted the increase in net income, as expenditures declined by 1.1%, reaching US\$590.2 million. This decrease resulted from a 36.5% decline in net provisions after the COVID-19 pandemic. (See table 2)

Table 2: Sources of revenue and expenditure for licensed banks (US\$, Millions)

Item	2020	2021
Revenues	697.2	768.6
Interest income	518.8	559.2
Non-interest income	178.4	209.4
Commissions	107	113.1
Profits and losses of financial instruments	11.3	18.7
Other revenue	60.1	77.6
Expenses	596.6	590.2
Non-interest expenses	444	460
Allowances	102.1	64.7
Taxes	50.5	65.5
Net Income	100.6	178.4

4.1.6 Average Deposit and Lending Interest Rates

Interest rates on lending and deposits in different currencies declined at varying rates. The average interest rates on deposits in JOD declined by 42 points, reaching 2.19% in 2021. USD deposits also decreased by 19 basis points to reach 2.24%. On the other hand, interest rates on deposits in NIS remained stable at 2.23%. While the average interest rates on lending in JOD and the NIS declined by 45 and 12 basis points, respectively, US dollar-denominated loans rose slightly by 3 basis points to reach 5.55%. (See table 3)

Table 3: Average debt and credit interest rates for different currencies

Currency	Deposit interest (%)	Lending interest (%)
USD	2.24	5.55
JOD	2.19	6.39
ILS	2.23	6.77

4.1.7 Check-Handling Movement in Palestine

Approximately 7.9 million checks were traded, with a total value of more than US\$21.4 billion. While the total number of traded checks decreased by 1.8%, their total value increased by 19.8% compared with 2020. In terms of returned checks, they contracted significantly by 43.1% in quantity and 26.5% in value, reaching 817,081, with a value of US\$1.5 billion at the end 2021. This decreased the proportion of returned checks relative to the value of checks in circulation at the annual level, standing at 7.1% compared with 11.6% in 2020.

4.1.8 Specialized Lending Firms

The data indicate a slight increase (0.6%) in the value of the assets of the specialized lending sector compared with 2020. The bulk of this increase is attributable to a rise in the commercial loan portfolio by 20% and the value of fixed assets by about 5% during the corresponding period—in contrast to varying declines in cash and balances with these institutions and a decline in the Islamic loan portfolio. As for the total outstanding credit portfolio, it recorded an increase of 10% over its value at the end of the previous year, increasing by 12% in the West Bank and slightly decreased in the Gaza Strip.

4.2 Non-banking Financial Sector³⁵

4.2.1 Securities Sector

The Al-Quds Index closed at 608.5 points by the end of 2021, recording an increase of 29% compared with its closure at the end of 2020. Additionally, the market value at the end of 2021 witnessed a remarkable growth of 28% compared with the end of 2020, reaching US\$4.4 billion - equivalent to 24% of GDP at current prices (an increase of nearly two percentage points compared with the year 2020). The total trading volumes and values increased at the end of 2021 by 133% and 120%, respectively, compared with the end of 2020 (see table 4). The insurance and banking sectors led this rise in trading volumes and values. The noticeable rise in the stock sector indicators at the end of 2021, compared with the previous year, is attributed to the natural rebound of the trading curve following the deteriorated economic performance associated with the spread of COVID-19; the weakness of the demand side for securities as a result of the reluctance of investors to invest in securities; and the suspension of trading on the Palestine Stock Exchange from March 23 to May 3, 2020 as a precautionary measure amid the

³⁵ The source of the figures in this section: Palestinian Capital Market Authority 2022.

pandemic. This coincided with the increase in the share prices of most listed companies at the end of 2021, compared with 2020. The total number of dealers on the Palestine Exchange reached 69,768 by the end of 2021, including 5% of foreign dealers, the majority of whom are from Jordan.

Table 4: Select indicators on PSE trading activity

Statement	2020	2021
Number of shares traded (million shares)	86.5	201.2
Shares traded value (US\$, millions)	190.1	418.7
Market value (US\$, Millions)	3,446.9	4,407.1
Number of deals	17,243	33,531
Number of trading sessions	220	245
Market value as a percentage of GDP (at current prices) *	22.2%	24.4%

* GDP was used at current prices for 2020 and 2021, because the market value of traded shares is at current prices.

4.2.2 Leasing Finance Sector

As of the end of 2021, there were nine financial leasing companies licensed by the Palestine Capital Markets Authority. Their performance witnessed a remarkable increase by the end of 2021, concluding 1,900 contracts with a total investment value of US\$102.2 million. This represents an increase of 39% and 48% in the number and value of contracts, respectively, compared with 2020 (see table 5). This remarkable rise is attributed to the resumption of economic activity following the easing of measures intended to stem the spread of COVID-19. Such measures had negatively affected the performance of companies and caused a decrease in the volume of their activity.

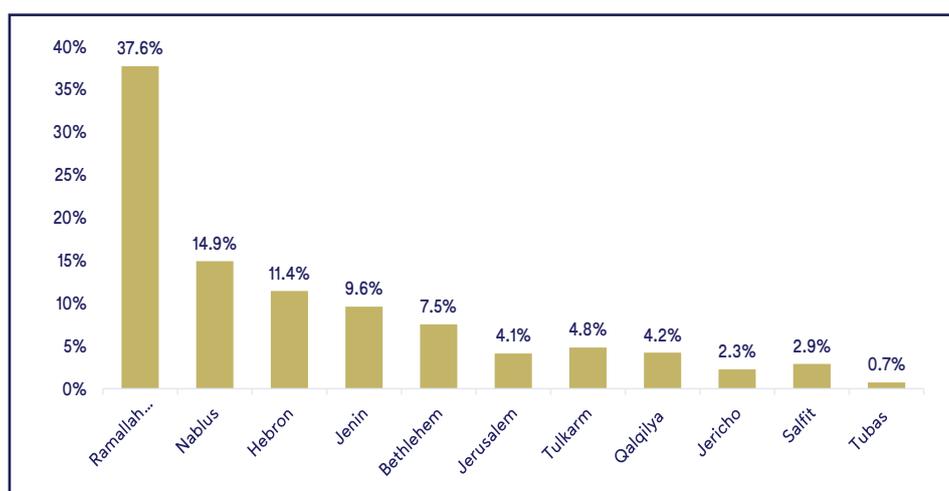
Table 5: Total value and number of finance leasing contracts

Public	Total value of the financial leasing contracts (US\$, Millions)	Number of financial leasing contracts (contract)
2020	68.9	1,364
2021	102.2	1,900

By the end of 2021, there was still a high concentration in the number of financial leasing contracts in the city of Ramallah, where 38% of contracts were agreed, followed by the cities of Nablus and Hebron with 15% and 11%, respectively. It is noteworthy that the distribution of financial leasing contracts among cities in Palestine has been relatively stable over the previous year, as a result of factors related to the structure of the economy and the concentration of businesses in certain governorates (see figure 1).

Vehicles still hold the largest share (51%) of the financial leasing portfolio as of the end of 2021. The reason for this is due to the ease of registering the ownership of vehicles in traffic services and the low risks of having a secondary market for repossessing them. While trucks, heavy vehicles, and commercial vehicles accounted for 42% of financial leasing, money in transit (equipment, production lines, etc., not including vehicles) accounted for 7%.

Figure 1: Geographical distribution of registered financial leasing contracts EO 2021



4.2.3 Insurance sector

The number of insurance companies licensed by the PA reached ten companies at the end of 2021. The total insurance portfolio at the end of 2021 amounted to about US\$342 million. The total investments of insurance companies amounted to about US\$252 million. On the other hand, the net compensation incurred in the sector amounted to US\$199 million. It should be noted that the financial statements related to 2021 do not include the data of the Al Ahlia Insurance Group (see table 6).³⁶

Table 7 shows the most significant insurance indicators that reflect the relative importance of the insurance sector in the national economy. The insurance sector's contribution to GDP is still modest, despite its growth over the past three years, reaching 2% by the end of 2021. The "insurance penetration ratio" refers to the total insurance portfolio attributable to GDP at current prices. The insurance density - the individual's share of the total insurance portfolio - reached about US\$69 by the end of 2021.

Table 6: Select financial indicators for the insurance sector in Palestine (US\$, Millions)

Statement	2020	2021*
Gross written premiums	303.2	341.5
Net premium earned	266.4	285.8
Total investments of insurance companies	266.3	252.0
Net compensation incurred in the insurance sector	175.5	198.7
Net earned premiums/gross written premiums	87.8%	83.7%
Net compensation incurred/net premium earned	-65.9%	-69.5%

* The statistics do not include the financial data related to Al Ahlia Insurance Group.

³⁶ It should be noted that an annual comparison of the insurance sector financial indicators with the previous year (2020) was not performed owing to data inconsistency, as the data related to 2021 do not include the financial statements of Al Ahliya Insurance Group.

Table 7: Penetration of insurance services and products

Public	Insurance penetration rate	Insurance density (US\$)
2018	1.7%	56.8
2019	1.8%	60.0
2020	1.9%	58.7
2021*	2.0%	68.6

* Statistics related to Al Ahlia Insurance Group are preliminary.

5. Social Development

5.1 The Weak Palestinian Care Economy and the Increasing Multidimensional Poverty Rates

The social development section shines a light on the concept of the “care economy” and its importance in combating multidimensional poverty. This can strengthen the ability of those who perform unpaid home care to join the paid labor market and improve the conditions of women working in the paid care service sectors. While women still play the main role in providing free home care activities to all, especially child-care services, strengthening the social protection system in this sector would enhance women’s participation in the labor market.

The International Labor Organization (ILO) defines care work as “activities and relations involved in meeting the physical, psychological and emotional needs of adults and children, old and young, frail and able-bodied.”³⁷ The care may be unpaid by way of family members, or paid through the labor market. The concept of the care economy became increasingly popular, especially in Palestine, following the COVID-19 pandemic. The pandemic unveiled the marginalization of those who provide free family care services. This was mainly reflected in a large percentage of women leaving their jobs, either forcibly or voluntarily, to devote themselves to unpaid home care work. This was also reflected in the high levels of unemployment among women and their low participation in the labor market, and consequently, low income levels and high rates of poverty. The care service sector was severely affected by the consequences of the pandemic, which led to the temporary and permanent suspension of many female workers in this sector. According to some statistics, about 64 million women³⁸ around the world lost their paid jobs amid the pandemic due to the increase in care responsibilities after children dropped out of school, and the transition to e-learning, which became an additional burden on women. This comes on top of the increase in care work and other household chores with the presence of all family members at home, the erosion of income, and the shrinkage of care services such as nurseries, among others.

A study issued by the ILO in 2018 indicates that women dedicate on average 3.2 times more time to unpaid care work than men - 4 hours and 25 minutes per day,³⁹ compared with 1 hour and 23 minutes for men. The same study also shows that women and girls are responsible for three-quarters of the unpaid care work needed to sustain their families and the wider society. If we assume that these people were to receive the minimum wage stipulated in their countries, their wage bill would be US\$11 trillion (approximately 15% of the world’s gross product). The dilemma of unpaid domestic work stems from its necessity for children and the elderly, forcing women and some men with family responsibilities to give up paid work. According to the ILO, in 2018, 606 million women and 41 million men reported that unpaid care work prevented them from entering the formal labor market and obtaining paid employment.⁴⁰

5.1.1 Care economy and multidimensional poverty

The work dimension is a major contributor to the multidimensional poverty index in Palestine. It comes in second place after monetary poverty, the primary cause of poverty. It constitutes 12.5% of the multidimensional poverty index in Palestine (14.9% in the West Bank, and 11.7% in the Gaza Strip).⁴¹ The strength of the care economy in any country is linked to the levels of multidimensional poverty, as it can reduce discrimination against those with family responsibilities for working parents; increase their inability to obtain equal opportunities as other workers in the labor market; increase the ability of society or the state to provide services and various arrangements that parents need for care services for their children; and ensure

37 https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_633135.pdf

38 https://www.ilo.org/global/about-the-ilo/how-the-ilo-works/ilo-director-general/statements-and-speeches/WCMS_774827/lang--en/index.htm

39 https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_633135.pdf

40 https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_633135.pdf

41 PCBS. 2020. Multidimensional Poverty in Palestine, 2017- Key Findings. Ramallah - Palestine.

that they can actively engage in work with the fewest number of obstacles. In fact, women are the most vulnerable to this type of discrimination. They are still the main provider of care tasks due to stereotypical gender-based roles. In Palestine, on average, women spend about 19% of their time in unpaid domestic and care activities. In comparison, men spend only 4% of their daily time in these activities.⁴²

The importance of providing procedures and services that facilitate child-care in Palestinian society has increased, as it is a young society in which the percentage of children who need care, especially those aged 0-4 who have not entered pre-school, has increased as well. As of 2021, 718,921 children in Palestine fell into this category.⁴³ In light of the colonial reality, the underdevelopment of the Palestinian territories, the rise in gender inequality, poverty, and unemployment, it is necessary to invest in strengthening human resources and raising their ability to actively participate in the labor market to challenge these economic and social problems and their devastating effects on society .

The traditional social division of labor is primarily reflected in the situation of women in the Palestinian labor market. The percentage of women's participation in the labor market is still among the lowest rates, both globally and in the Arab world. As of 2021, it did not exceed 17.2% , compared with 68.9% for males.⁴⁴ Likewise, 73.3% of working women are concentrated in the service sectors, an extension of the domestic and care work that women mainly carry out. The concentration of women in specific sectors indicates horizontal discrimination⁴⁵ against women in the Palestinian labor market. As such, it also leads to pressure on wages in industries where the percentage of women working is high. In sum, this is reflected in the rate of women's participation in the labor market and, consequently, in the income they earn and their poverty levels . Poverty statistics in Palestine indicate that poverty rates are higher among members of families headed by females than those headed by males. Families headed by females constituted 10.1% of Palestinian households in 2017 and statistics showed that the poverty rate among individuals in households headed by females reached 30.6%, compared with 29.2% for households headed by males . Likewise, poverty rates among members of families whose heads are unemployed were higher, reaching 59.6% according to consumption patterns in 2017. Meanwhile, poverty rates among members of families whose heads are employed reached 24.2%.⁴⁶ This indicates the importance of increasing the proportion of women participating in the labor market and securing decent work opportunities for them.

Statistics indicate that the percentage of women working in the private sector earning less than the minimum wage reached 64% of the number of working women, with an average monthly wage of ILS849, compared with 28% among males in 2020.⁴⁷ Statistics also indicate that about 64.9% of women stayed out of the labor market because they devoted themselves to housework, compared with 0% of men.⁴⁸ Domestic and care work remains excluded from GDP figures despite its role in reproducing family members and securing their needs as active members of society. Therefore, women are more vulnerable to poverty due to the traditional division of labor and their responsibility for care work.

5.1.2 Social protection systems and labor laws to support male and female workers with family responsibilities

It is crucial to analyze the adequacy and efficacy of measures that facilitate the reconciliation of work and family responsibilities—whether through Palestinian labor legislation or comprehensive social protection systems, or even through the availability of institutions that provide care services, especially child-care services, and their accessibility to all groups. Based on this analysis, it is possible to predict the suitability of the labor market for women and men with family responsibilities, primarily women for the aforementioned reasons.

42 PCBS. 2016. Analytical study from the 2012/2013 Time Use Survey: <https://www.pcbs.gov.ps/Downloads/book2202.pdf>

43 Press release: Palestinian Central Bureau of Statistics and the United Nations Population Fund. On the occasion of World Population Day, 07/11/2021.

44 PCBS. 2022. Palestinian Labor Force Survey: Annual Report 2021. Ramallah - Palestine: <https://www.pcbs.gov.ps/Downloads/book2605.pdf>

45 The term horizontal discrimination refers to the concentration of women in specific sectors in large proportions, usually the service sectors such as health, education and agriculture, which largely correspond to the gender roles of women, and therefore, they are cut off from work in other sectors, such as construction and communications, which are sectors related to physical powers that are stereotypically associated with men.

46 PCBS. 2018. The main results of living standards in Palestine (expenditure, consumption, and poverty), 2017. Ramallah - Palestine.

47 PCBS. 2022. Palestinian Labor Force Survey: Annual Report 2021. Ramallah - Palestine: <https://www.pcbs.gov.ps/Downloads/book2605.pdf>

48 The previous reference.

The Palestinian Labor Law guarantees only two weeks' leave each year for male and female workers who have spent less than five years with the same employer. The period of leave increases to three weeks in some high-risk professions and for those who have spent five years or more in the same workplace. According to the General Personnel Council's communication on vacations on December 31, 2005, government employees are entitled to an annual leave of fifteen days during the first year of work. After completing their first year of work, employees are entitled to 30 days of annual leave. The Palestinian Labor and Civil Service Law guarantees only ten weeks of paid maternity leave.⁴⁹

Women working in the public sector do not face any problems in obtaining paid maternity leave as guaranteed to them by law, but statistics indicate that about 50% of women working in the private sector did not receive paid maternity leave.⁵⁰ Also, the fact that employers pay workers' wages during the period of maternity leave makes the employment of women costly from the employer's point of view, which makes many employers reluctant to employ women, and thus prefer men. Likewise, a large percentage of female and male workers in the private sector work without contracts. This is especially evident in the informal sector, which suggests that the commitment to maternity leave and other rights of female workers and workers with family responsibilities is still weak.⁵¹ Additionally, the Palestinian Labor Law does not provide leave for health risks associated with pregnancy and childbirth. Among the developments in this field, the government decided in its session on March 1, 2022, to increase the days of maternity leave from 10 to 14 weeks and to give every man with a newborn baby a 3-day paid paternity leave. Furthermore, in a decree that was ratified and published in the Official Gazette, issue no. 191, the Cabinet decided that child-care days of absence be counted as an entitlement within the years of retirement.

In this regard, there are developments in supporting female workers, workers with family responsibilities, and child-care duties. However, this amendment applies only to the Civil Service Law and not to the Labor Law; it is applied voluntarily by private sector establishments and other institutions. On the other hand, failing to implement a just and comprehensive social security system for all groups remains a weakness. The Social Security Law passed in 2016 - which was dropped after civil labor protests against several provisions - was based on the principle of cost-sharing between employers and male and female employees, and covered safety, retirement, and maternity entitlements. The implementation of a social security law would achieve many gains for women in the labor market—including starting official work and obtaining rights such as end-of-service gratuity and various leaves, in addition to maternity leave. Such an initiative would enhance women's participation and provide decent job opportunities.

5.1.3 The availability and effectiveness of child-care services in supporting female workers and workers in the Palestinian labor market

The Ministry of Education guarantees the right to free primary and secondary education through its schools in all cities, villages, and UNRWA schools, which provide primary and secondary education for the residents of Palestinian camps. To a large extent, students' time in school corresponds with the time mothers spend working in the government sector. However, the biggest dilemma arises for mothers working in the private sector, which often entails longer working hours (about 8 hours per day). In comparison, children's time in government schools does not exceed 6 hours per day. The mismatch between parents' working hours and children's attendance at school creates a gap in providing care for them, which may force several women to leave the paid labor market to carry out unpaid care for their children.

The issue becomes more complicated when the working mother has a newborn or child less than the school age, which means that they need care services in nurseries or kindergartens. As for kindergartens, in 2012, the Ministry of Education began offering kindergarten programs for a year before school as part of the general government education system and opened a number of kindergarten classes in

49 Abu Hamid, Karen & Tibi, Maryam (2021). *The Rights of Male and Female Workers with Family Responsibilities in the Palestinian Labor Market: An Exploratory Study*. The Democracy and Workers Rights Center in Palestine: Ramallah - Palestine.

50 PCBS. 2022. *Palestinian Labor Force Survey: Annual Report 2021*. Ramallah - Palestine. <https://www.pcbs.gov.ps/Downloads/book2605.pdf>

51 See the section on social development in issue (64) of the Economic and Social Monitor for an expansion on the status of commitment to women's rights in the labor market as defined by the Palestinian Labor Law.

government schools in villages and marginalized communities in Area “C”. By the end of the 2015/2016 school year, the number of public kindergarten classes reached 221 in the West Bank, but only 13 in the Gaza Strip. The number of children enrolled in government kindergartens reached 4,759 in the West Bank and 333 children in the Gaza Strip, representing 5.8% and 0.5%, respectively, of the total number of children enrolled in kindergartens in the academic year 2018/2019.⁵² Therefore, it cannot be assumed that all children at the age of four are enrolled in kindergartens because the majority of services in this sector are provided by the private sector and may represent a high cost for many families.

Mothers resort to nurseries for children before the age of four to provide them with care while they are at work. Through the MiLSty of Social Development, government intervention in this sector is still limited to issuing licenses and supervision through annual visits to nurseries. Such measures are taken to ensure that the facilities comply with safety and security conditions, and deal with complaints and violations, in addition to some interventions to train supervisors and teachers. However, these actions are being taken slowly. There are no government nurseries, which means that nurseries are entirely established and run by the private sector, which charges fees for the services it provides. The prices of services provided by nurseries vary based on the services offered and their quality. They also vary according to the type of population (e.g., city, village, camp). In fact, the fees differ from one city to another. The prices in nurseries in Ramallah, for example, range between about ILS500-900 per month. Accordingly, it is not feasible for many mothers to send their children to nurseries, especially those who receive low wages.

Consequently, some may devote themselves to care work, leave the labor market, or resort to unlicensed nurseries of lower quality and safety. According to the MiLSty of Social Development, 235 licensed nurseries operate in the West Bank, with about 4,900 children enrolled. As for the Gaza Strip, there are far fewer licensed nurseries, as records indicate that there are only 25 licensed nurseries, and the number of registered children in these nurseries is 670. Comparing the number of children registered in nurseries with those in the age group from 0-4 years reveals that the percentage of children in licensed nurseries is less than 1%. This conclusion indicates that some parents resort to other unlicensed, often cheaper child-care services during work hours. In addition to the fact that the cost may constitute a financial burden for a large number of parents, many unlicensed or home-based nurseries operate within residential buildings or within some neighborhoods, increasing their accessibility. Still, these nurseries are not affiliated with the supervisory authorities, and as a result, their compliance with safety and security requirements cannot be ensured.

5.1.4 The need for an effective Palestinian care economy that enhances the reality of women in the labor market and reduces multidimensional poverty:

An analysis of the relationship between an effective care economy and the reduction of multidimensional poverty - in the absence of legal legislation that deals with women’s double burden and the availability of comprehensive child-care services - shows that the responsibility of women for providing free care and domestic work reduces their ability to participate in the labor market. This is already manifest in women’s low participation rates, more precarious working conditions, and lower wages—a set of factors that increase monetary and multidimensional poverty.

Through a brief analysis of some of the care items and services that are partially available in the Palestinian territories, it appears that the public care sector is still neglected despite its important role under an ongoing occupation that eliminates any opportunity for real development and makes living conditions for Palestinians in the West Bank and Gaza Strip difficult. The lack of adequate, accessible care services and weak paid maternity/care-leave systems fundamentally weaken women’s ability to join the labor market and generate independent income. This affects the multidimensional poverty of women and families, in addition to increasing gender inequality as women are still the primary caretakers in charge of household chores. Supporting public and available care services would increase women’s ability to participate in various economic sectors, allow them to advance more smoothly, and support their access to decision-making and leadership positions in multiple institutions. This would improve the social status of women and support the efforts geared to bridge the gender inequality gap as spelled out in the 2030 Sustainable Development Goals.

⁵² MiLSty of Higher Education & Scientific Research (MoHE) (2020). Higher Education Statistical Yearbook for Scholastic Year 2019. (School and kindergarten statistics) Ramallah-Palestine.

6. Recent Publications

6-1 Palestine Development Prospects 2021: A Structurally Distorted Economy⁵³

The report presents a comprehensive picture of the current state of development in Palestine and provides a thorough scholarly reading of the political, economic, and social developments of the past 25 years, following the signing of the Oslo Accords. It also analyzes the repercussions of the Oslo Accords and prospects for overcoming such challenges. The report includes an introduction and two main parts. The introductory section provides an overview of the state of regression in Palestinian development. While the first part reviews the progress based on human development indicators in Palestine between 2014 and 2019, the second part consists of six chapters that discuss areas of structural deficit in the Palestinian developmental process since the establishment of the PA, placing a particular focus on four main themes: structural economic distortion, the effects of financial liberalization, the difficult road to social development, and the Palestinian agency for governance.

In this section, we focus on the chapter dealing with structural distortions in the Palestinian economy. This chapter monitors the most prominent trends in the performance of the Palestinian economy in the long-term and sheds light on the most critical issues that must be considered when formulating development and trade policies. It helps to achieve a sustainable improvement in the living conditions of Palestinians in the West Bank and the Gaza Strip.

The crux of the analysis is that the structural and performance distortions in the Palestinian economy over the past 25 years are a natural product of the interplay of political, economic, and governance gaps under the conditions of occupation and the dominance of a large, advanced and experienced economy. Thus, the occupation has stood in opposition to any efforts geared at achieving sustainable and stable growth in Palestine. It has also exacerbated the deficit in growth and development over the years. In addition, the occupation prevented the revitalization of the industrialization process and the expansion of the production base. In light of the globalized economy, and with the data and indicators over the past 25 years pointing to low productivity growth, limited technological progress, and weak competitiveness, it is clear that the ability of Palestinian development to progress is highly questionable, unless there is a deep shift in the foundations of Palestinian political horizons and frameworks.

The most prominent features of the performance of the Palestinian economy during the past decades:

- **Wasted Development Decades**

According to several estimates, the Palestinian economy could have achieved growth rates two to three times higher than the growth rates achieved during the past decades. However, the performance of the Palestinian economy stood weak over the past decades compared with countries that share many characteristics (e.g., Jordan) and witnessed the same conditions of conflict and political instability (Lebanon). For example, in 2019, GDP in Palestine, adjusted for purchasing power parity, did not exceed 28.6% and 29.6% of that of Jordan and Lebanon, respectively.

With regards to foreign trade, and based on the gravity model estimates, the levels of exports and imports from Palestine, in relation to the size and income of the Palestinian economy, could have been twice their current level. Concerning the labor force, the Palestinian economy has not been able to absorb the growing labor force over the past decades, thus maintaining a high structural

⁵³ Palestinian Economic Policy Research Institute (MAS). (2022). Development prospects in Palestine 2021: https://mas.ps/cached_uploads/download/2022/04/22/development-report-1650653342.pdf

unemployment rate.

- The harmful impact of the prolonged occupation

The Israeli occupation is considered the biggest challenge to Palestine's economic growth and sustainable development. Depriving the Palestinians of exploiting many resources, the Israeli occupation imposes a slew of restrictions and measures, perhaps the most prominent of which are those set on the movement of people and goods (e.g., the Israeli restrictions on the import of dual-use goods).⁵⁴ Israeli restrictions and measures have had a very negative impact on the economic performance in Palestine—a fact that has been confirmed by all studies and reports in this field. For example, the International Monetary Fund stated in its periodic report in 2016 on the Palestinian economy, that if there were no occupation, GDP per capita in Palestine would have reached higher values, ranging between 40-83%. Another study conducted by the World Bank in 2017 indicates that easing some restrictions would increase the value of GDP by about 36% in the West Bank, increasing to 40% by the end of 2025. Regarding the import of dual-use goods, the World Bank addressed this issue in its periodic report on the Palestinian economy in April 2019. It estimated that easing restrictions imposed on the import of dual-use goods to Palestine would generate additional cumulative growth in GDP equivalent to 6% in the West Bank and 11% in the Gaza Strip by 2025.⁵⁵

- Distorted and ineffective markets

During the past decades, measures devoted to perpetuating the occupation have created structural distortions in the Palestinian economy—including the growth of non-tradable goods sectors at the expense of tradable goods sectors,⁵⁶ slowdowns in private sector development, increases in informal economy activities, population displacement, and distorted spatial allocation of economic activity. Undoubtedly, these distortions have had a profound negative impact on economic growth and development in Palestine.

- Geographical fragmentation and shrinking limited spaces

The path of growth and development in the West Bank and the Gaza Strip varied after the Palestinian political division in 2007. After that date, the West Bank and the Gaza Strip became independent entities/territories, separate from each other in the political and economic realms. This devastating division exacerbated the problematic situation, undermining the prospects for development in the West Bank and the Gaza Strip. For example, the division led Palestinian companies in the West Bank to lose 33% of their potential market.⁵⁷

On the other hand, the restrictions imposed by the occupation fragmented the economy of the West Bank and weakened the economic ties between the various regions of the West Bank. The World Bank used the “archipelago economy” term to describe the economic status quo in the West Bank. This made companies in the West Bank limit their activities to small isolated sectors of the market while facing the occupation's restrictions in isolating their geographical enclaves. Over the past decades, this reality has hindered the development and advancement of the private sector.

A fragile fluctuating growth path

Figure 1 shows the fluctuations in the real growth of GDP and GDP per capita between 1995 and 2019. The figure shows that growth witnessed boom and bust cycles and a clear annual variation. The compound annual real growth rate of the Palestinian economy during this period amounted to about 4.65%, while the annual real growth rate in the per capita share was only 1% during the same

54 Dual-use goods are products or technologies that are normally used for civilian purposes, but which can have military/war applications which justify international trade control requirements for them.

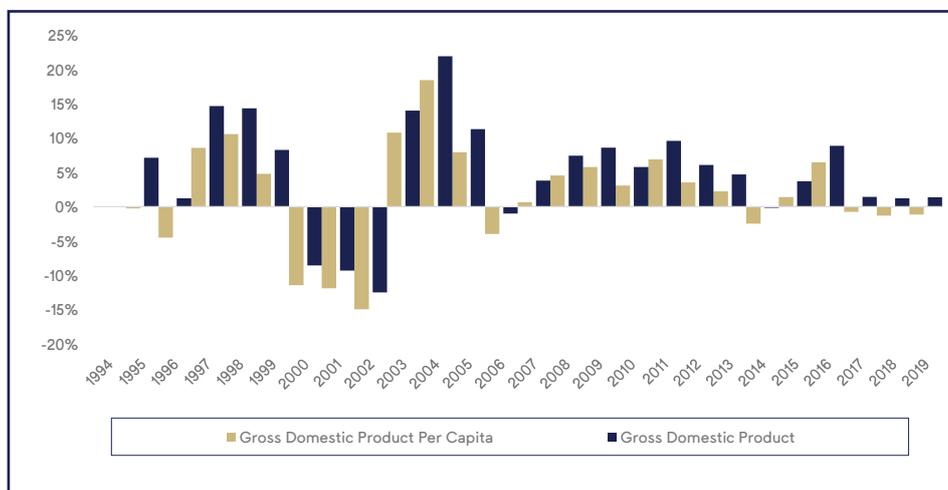
55 For more details on Israeli restrictions on the import of dual-use goods, see the Economic Monitor, Issue 57.

56 For more details on tradable and non-tradable goods, see Box 1: Economic Concepts and Definitions: The Dutch Disease, The Economic Monitor, Issue no. 55.

57 For more details about the impact of the division on the economy of the Gaza Strip, see Box 1: Under the Microscope: The Economic Situation in the Gaza Strip After Years of Siege, Wars, and Political Division in this issue.

period. The performance of the Palestinian economy witnessed a noticeable deterioration in 2020 due to the COVID-19 pandemic. GDP contracted by 11% compared with 2019. As a result, the per capita share decreased by 13% compared with 2019. This contraction is the lowest value per capita of GDP since 2010, highlighting the gravity of the decline in economic activity in 2020.

Figure 1: Real growth rate in GDP and per capita GDP from 1995 to 2019 (2015 as a base year)



Source: PCBS. (2020). National Accounts Statistics, 1994-2020. Ramallah, Palestine.

The growth path of the Palestinian economy during this period raises an array of essential points, including:

1. Total final consumption was the main driver of economic growth, as it always exceeded the level of GDP, and remittances from abroad (transfers of production factors and current transfers) are the primary fuel for such consumption growth. The increase in consumption is usually satisfied by the increase in imports and the consequent increase in the deficit toward the outside world, indicating the widening gap between the use of resources and their local production. This gap represents the most prominent distortion in the Palestinian economy.
2. After the split in 2007, the path of economic growth diverged between the West Bank and the Gaza Strip. From 1994 to 2019, the annual real growth rate of the West Bank economy was about 6.4%, while the real annual growth rate of the Gaza Strip economy was only 0.38%. This slowdown in the economic growth of the Gaza Strip led to the erosion and regression of its share of the wider Palestinian economy. It widened the gap between the contribution of the Gaza Strip and the West Bank to the Palestinian GDP over the past decade. The share of the Gaza Strip is now less than a fifth of Palestine's gross domestic product, down from 31% in 2006. In addition, the disparity in economic growth between the West Bank and the Gaza Strip led to the gap in GDP per capita between the two regions. In 2006, the GDP per capita in the Gaza Strip was 68% of the GDP per capita in the West Bank, but by 2019, the GDP per capita in the Gaza Strip did not exceed 29% of the GDP per capita in the West Bank.
3. The fluctuations in the performance of the Palestinian economy from 1994 to 2019 did not serve the economic growth and development process in Palestine, as these fluctuations created an unpredictable and uncertain business environment which discouraged the investment process in various economic sectors. Furthermore, the political instability in the country weakened investment opportunities and negatively affected various economic activities.

These fluctuations came as a result of various factors, most notably: relations between the Palestinian Authority and Israel (which affects clearing transfers and restrictions imposed by Israel on the movement of people and goods) and incoming income factors (transfer of wages of Palestinian

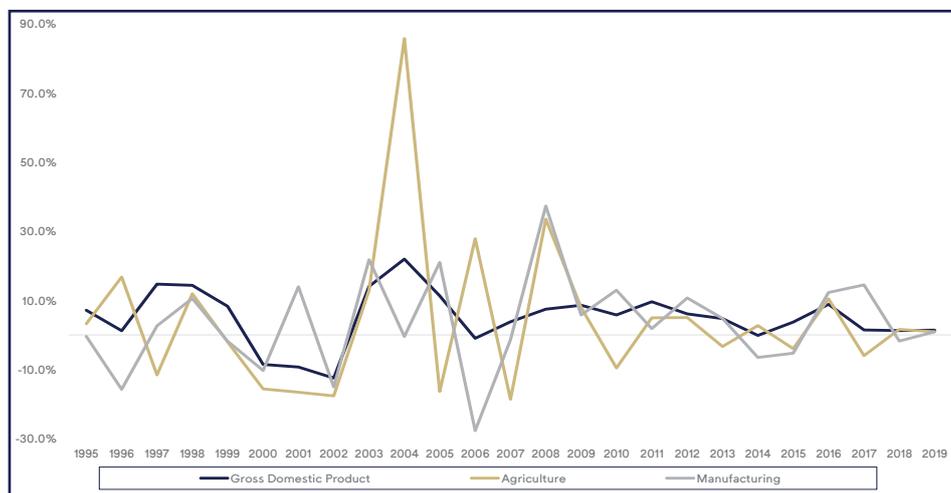
workers in Israel and current transfers from abroad). As mentioned earlier, levels of final consumption (private and government) are the primary drivers of growth.

Structurally underdeveloped economy

Over the past 25 years, the Palestinian economy witnessed a tangible transformation in the contribution of economic activities to overall GDP. The contribution of the service sectors increased at the expense of the agricultural and industrial sectors producing basic commodities. The contribution of the service sectors to the Palestinian economy increased from 67.7% in 1994 to 75.9% in 2019. In contrast, the contribution of the commodity-producing sectors declined from 34.3% in 1994 to only 19.6% in 2019. The restrictions imposed by the occupation greatly hindered the competitiveness and productivity of the commodity-producing sectors, which is reflected in their low-performance levels and long periods of stagnation. Figure 2 shows the growth rates during the same period in the two main activities of the commodity-producing sectors, namely agriculture and industry. The figure shows that both activities witnessed fluctuations in growth more volatile than that of GDP, which suggests that the negative impact of growth fluctuations was more severe in these activities. This also explains, in part, their weak performance for long periods during the past decades.

On the other hand, the service sectors were better able to withstand shocks and fluctuations. Moreover, there are no promising prospects for agricultural development in Palestine, especially in light of the inability to access agricultural lands and obtain sufficient water, not to mention the current structure of the agricultural sector which impedes development. With regard to the industrial sector, the prospects for its development are not more promising than the agricultural sector. It consists mainly of small and micro companies characterized by low capital accumulation and low technology assimilation capabilities, and has not shown any shift toward modernity and development during the past decades. The structure of the industrial sector remains unchanged, with worrying signs of decline in the basic capabilities of the industrial sector to achieve higher productivity and efficiency.

Figure 2: Annual real growth rates for the agricultural and industrial sectors between 1994 and 2019



Source: PCBS. (2020). National Accounts Statistics, 1994-2020. Ramallah, Palestine.

There is an essential paradox regarding the contribution of the service sectors to GDP, as it is one of the highest contributions of services to GDP in the world, much higher than the expected contribution rate according to the level of GDP per capita. These data indicate that the Palestinian situation is an anomaly. The excessive growth in the service sectors is one of the central distortions resulting from the restrictions imposed by the occupation, as these restrictions have changed the structure of the economy and made improvement in its economic performance excessively dependent on non-tradable services (non-exchange goods) with low productivity. The past decades can be summarized

as a structurally weak Palestinian economy in which the labor force gradually shifted from agriculture and industry to non-commercial services with low productivity.

International competitiveness and structural change limiting growth

The competitiveness of Palestinian producers at the international level is affected by two main factors that have significantly affected the tradable sectors of production, namely:

- **Exchange rate:** The exchange rate is a determining factor in competitiveness in the international market. Over an extended period, the shekel witnessed a significant and continuous increase in value in relation to major global currencies, which means that local prices in Palestine (prices of non-tradable goods, local production inputs, labor force costs) and prices expressed in US dollars increased significantly. This rise has hampered the competitiveness of local producers, who, at the same time, face fierce competition from imported goods. The increase in the exchange rate means a decline in the competitiveness of Palestinian goods in export markets, which has negatively affected the growth of Palestinian exports.
- **Wages:** The cost of the labor force is also a decisive factor affecting the competitiveness of Palestinian producers at the international level. Relatively high wages compared with wages in competing countries greatly limit competitiveness, especially in the industrial sector. Moreover, wages paid to Palestinians workers in Israel and the settlements raises the level of wages received by Palestinian workers in the local market. Similarly, the flow of wages from Palestinian workers in Israel and the settlements to the local market pushes the prices of non-tradable goods, compared with the tradable goods in Palestine. This effect is equivalent to the effect of a rise in the real exchange rate: the disproportionate rise in the prices of non-tradable commodities in relation to the productive capacity of the local economy weakens the productive capacity of the productive sectors (agriculture and industry), as they have to compete with tradable Israeli products.

Economic growth and sustainable development require gradually shifting investible surpluses and the labor force from low-productivity to higher-productivity activities. In this regard, Palestine has witnessed structural changes that have reduced growth.

Key Economic Indicators in Palestine, 2016-2021¹

Indicator	2017	2018	2019	2020	2021	2020 ¹		2021 ¹		
						Q4	Q1	Q2	Q3	Q4
Population (One thousand)										
oPt	4,733.4	4,915.3	5,039.0	5,101.2	5,227.2	5,148.4	5,179.9	5,227.2	5,243.1	5,275.0
West Bank	2,856.7	2,953.9	3,020.0	3,053.2	3,120.4	3,078.4	3,095.2	3,120.4	3,128.9	3,146.0
Gaza Strip	1,876.7	1,961.4	2,019.0	2,048.0	2,106.7	2,070.0	2,084.7	2,106.8	2,114.2	2,129.1
Labor market (based on the new definition adopted by PCBS)²										
No. of workers (thousand)	948.7	956.3	1,013.00	956.0	1,034.0	995.0	994.1	1,015.6	1,036.0	1,091.9
Participation rate (%)	44	43.5	44.3	40.9	43.4	41.0	42.9	43.0	43.8	44.0
Unemployment rate (%)	25.7	26.2	25.3	25.9	26.4	23.4	27.8	26.4	27.3	24.2
West Bank-	18.4	17.3	14.6	15.7	15.5	14.9	17.1	16.9	14.7	13.2
Gaza Strip-	38.3	43.1	45.1	46.6	46.9	43.1	47.9	44.7	50.2	44.7
National accounts (at constant prices) (base year 2015) (million dollars)³										
GDP	15,426.9	15,616.2	15,829.0	14,037.4	15,027.1	3,543.1	3,738.8	3,736.4	3,611.0	3,940.9
- Household expenditure	13,420.3	13,570.1	14,126.5	12,367.2	13,055.8	3,028.9	3,178.2	3,169.8	3,217.2	3,490.6
- Government expenditure	3,093.6	3,318.9	3,202.3	3,213.5	3,569.3	916.7	823.7	910.1	937.8	897.7
Gross capital formation	4,166.9	4,260.3	4,177.1	3,328.6	3,801.6	866.4	893.7	905.0	943.5	1,059.4
Exports	2,515.6	2,578.7	2,630.5	2,335.9	2,775.0	693.6	619.2	673.9	682.7	799.2
Imports (-)	7,901.5	8,256.8	8,376.1	7,189.1	8,381.5	1,984.7	1,978.7	2,003.1	2,056.8	2,342.9
GDP per capita (USD)										
at Current prices	3,620.5	3,562.3	3,656.7	3,233.6	3,654.6	837.4	976.9	905.3	904.9	867.5
at Constant prices (base year 2015)	3,463.1	3,417.7	3,378.3	2,922.5	3,045.3	731.0	791.4	755.5	759.7	738.7
Balance of Payment (USD millions)										
Trade Balance	(5,967.4)	(6,425.7)	(6,502.0)	(5,680.0)	(7,064.7)	(1,570.7)	(1,677.1)	(1,644.6)	(1,736.4)	(2,016.7)
Income Balance	2,129.0	2,786.3	3,030.9	2,492.3	3,397.8	726.6	749.6	831.7	906.4	910.1
Current Transfers Balance	1,708.5	1,499.1	1,691.7	1,285.0	2,180.5	333.9	431.9	519.2	514.1	715.3
Current account Balance	(2,129.7)	(2,140.4)	(1,779.4)	(1,902.8)	(1,486.5)	(510.1)	(485.5)	(293.8)	(315.9)	(391.3)
Exchange Rates and Inflation										
USD/NIS exchange rate	3.6	3.59	3.56	3.441	3.231	3.335	3.272	3.264	3.234	3.158
JOD/NIS exchange rate	5.08	5.07	5.03	4.841	4.552	4.692	4.615	4.593	4.548	4.454
Inflation rate (%) ⁴	0.21	(0.19)	1.58	(0.73)	1.24	1.21	(0.26)	1.14	0.07	0.36
Public Finance (cash basis USD million)										
Net domestic revenues (including clearance)	3,651.5	3,462.9	3,290.6	3,526.2	4,224.7	1,789.1	1,026.3	1,047.5	1,099.7	1,051.2
Current expenditure	3,794.8	3,660.0	3,660.1	3,954.9	4,035.1	1,972.8	665.9	1,159.0	1,090.9	1,109.4
Developmental expenditure	257.9	276.9	200.0	168.8	168.1	75.3	21.7	32.6	39.9	73.8
current budget deficit\surplus	(401.3)	(474.0)	(569.5)	(597.5)	21.5	(258.9)	(328.7)	(144.1)	(31.1)	(131.9)
Total grants and aid	720.4	664.8	492.1	464.1	321.4	85.0	11.0	64.6	35.4	210.7
Total budget deficit\surplus	319.1	190.9	(77.3)	(133.4)	342.9	(173.9)	(317.8)	(79.6)	4.3	78.8
Public debt	2,543.2	2,369.5	2,795.1	3,649.4	3,848.1	3,649.2	3,545.5	3,702.4	3,793.9	3,848.1
The Banking Sector (USD millions)										
Banks assets/liabilities	15,850.2	16,125.0	17,825.5	19,886.2	21,673.0	19,886.2	20,059.9	20,624.4	21,321.6	21,673.0
Equity	1,892.7	1,912.0	1,985.2	1,967.4	2,107.5	1,967.4	2,016.7	1,994.0	2,062.6	2,107.5
Deposits at banks	11,982.5	12,227.3	13,384.7	15,138.3	16,518.1	15,138.3	15,182.4	15,726.5	16,224.6	16,518.1
Credit facilities	8,026.0	8,432.3	9,039.1	10,078.7	10,747.2	10,078.7	10,150.6	10,350.7	10,473.7	10,747.2

Data do not include that part of Jerusalem which was annexed by Israel following its occupation of the West Bank in 1967 (except for data on unemployment and population).
¹ Quarter's figures for 2019-2020 are preliminary and subject to further revision.

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

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

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

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

** Figures between brackets indicate negative values.