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PALESTINE ECONOMIC POLICY  
RESEARCH INSTITUTE (MAS)

# Palestine Economic Update

June 2024

## Key Developments

- Israeli Finance Minister Bezalel Smotrich released PA frozen tax funds and extended a waiver allowing Israeli banks to maintain relations with Palestinian counterparts. However, this came after the Israeli security cabinet approved legalizing five West Bank settlements and imposing sanctions on the PA.
- Israel's mounting deductions and freeze on transferring tax funds have pushed the PA into a dire financial situation, severely impacting the provision of public services. After various deductions, the PA receives less than 43.1% of its clearance revenues entitlements.
- The war on Gaza has significantly impacted the Palestinian economy, with GDP plummeting by 32.8% and unemployment rising to 50.8%. Surveys revealed profound negative impacts on businesses and workers in the West Bank.
- Israel reduced water supply to major Palestinian cities in the West Bank, prioritizing Israeli settlements. Gaza faces a severe water crisis, with most infrastructure destroyed and critically low water availability.
- The Palestine Exchange (PEX) reported a 47% decrease in net profits for Q1 2024, totaling \$52mn, compared to Q1 2023.

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## 1. Palestinian Financial Turmoil - the Smotrich Effect

On June 27, the Israeli security cabinet approved legalizing five settlements in the West Bank and imposing sanctions on the Palestinian National Authority (PA).<sup>1</sup> In return, Israeli Finance Minister Bezalel Smotrich unofficially agreed to release the last three months of withheld tax funds and extend as of 1 July a waiver allowing Israeli banks to maintain relations with their Palestinian counterparts for four months. Smotrich is on record advocating that his mission is to prevent the possibility of an independent Palestinian state, vigorously expand settlement activities in the occupied West Bank, and collapse the PA.<sup>2</sup>

In significant signs of the seriousness with which the international community views these threats, strong statements of concern were issued over the past month by the US Treasury Secretary, the Group of 7 Summit, and most recently by 53 US Congress members.<sup>3</sup> These influential voices noted the grave impacts that Smotrich's threatened financial sanctions would have if implemented. Members of Congress specifically requested the US Administration to "communicate to Prime Minister Netanyahu and Finance Minister Smotrich that actions intentionally undermining the financial stability of the PA and security in the West Bank, such as refusing to renew banking waivers, are unacceptable to the United States and will be met with an appropriate response by the Biden administration." On 28 June it was confirmed that Israel would not go through with these measures for the moment.<sup>4</sup>

1 <https://www.timesofisrael.com/cabinet-okays-legalizing->

2 <https://bit.ly/4btgEzC>

3 <https://bit.ly/3LauaxA> ; <https://bit.ly/4bJqj5D> ; <https://bit.ly/3XNGTxH>

4 <https://bit.ly/4bspayT>

### 1.1 Frozen, Withheld and Deducted Tax Revenues

On May 22, Smotrich announced a freeze on transferring tax funds to the PA, starting with those due for April, in retaliation to Norway, Ireland, and Spain's recognition of Palestinian statehood and the International Criminal Court's pursuit of arrest warrants against top Israeli officials.<sup>5</sup> He also said he would repudiate the escrow account arrangement with Norway, which Israel had agreed in January to deposit PA trade tax clearance funds it had unilaterally deducted from PA entitlements. A recent World Bank report noted that since October 2023, the PA's challenging fiscal situation has escalated into a full-blown, ongoing crisis with increasing risks of systemic collapse.<sup>6</sup>

The tax funds Israel collects on behalf of the PA, known as clearance revenues, made up 66% of PA revenues in 2023. Israel has long made unilateral deductions from these funds and frequently uses them as a punitive measure against the PA, including six instances of freezing transfers since it began collecting these taxes in the 1990s.<sup>7</sup> Between 2000 and 2017, the PA incurred \$6.6bn in losses due to delayed revenue transfers, primarily from lost interest and borrowing costs for alternative financing.<sup>8</sup> Israel has never compensated the PA for these costs, one of many fiscal, economic, and material costs of prolonged occupation.

The most significant and longest-standing deduction, dating back to the establishment of the PA, is net lending. This refers to Israel's unilateral deductions for unpaid electricity,

5 <https://bit.ly/4eGYbmh> and <https://bit.ly/3VKW08B>

6 <https://bit.ly/4eQF3lF>

7 <https://bit.ly/3RTyFjJ>

8 <https://bit.ly/3RTyFjJ>

water, health, and sewage services provided to Palestinian communities, as well as court rulings against Palestinians and loan repayments. In 2023, net lending amounted to \$576.6mn, or 17.8% of clearance revenue entitlements.<sup>9</sup>

Since 2019, Israel has withheld additional amounts from clearance revenues equal to the funds paid by the PA to Palestinians imprisoned by Israel and the families of those killed by Israeli forces. In 2023, these withheld funds totaled \$252.1mn, or 7.8% of the PA's clearance revenue entitlements.

Following the war on Gaza, Israel withheld an additional \$75mn per month from the clearance revenues it collects on behalf of the PA, equivalent to the Gaza Strip's share of the PA budget. Between November 2023 and April 2024, Israel withheld \$416.9mn under this pretext, or 31.3% of clearance revenue entitlements. These funds were agreed to be transferred to an escrow account in Norway, but Israel later revoked this decision.

As part of the raft of sanctions threatened by Smotrich, he signed on June 13 an order to seize \$35mn from these frozen funds and allocate them to the Israeli war budget, a move within his prerogatives as Minister of Finance but condemned by the US administration, which called for the funds' immediate release.<sup>10</sup> This follows a draft law advanced by Smotrich and approved by the Israeli Knesset's Ministerial Committee for Legislation in May to seize all withheld clearance funds.<sup>11</sup> If enacted, this law would allow Israel to allocate all the deductions withheld since 2019 to its treasury, totaling \$1.6bn as of May 2024.<sup>12</sup>

After accounting for all deductions and withheld amounts, the PA receives less than 43.1% of its clearance revenue entitlements on average,

excluding the 3% administrative fee. This has devastated the Palestinian government, already in a financial crisis, and the lives of many Palestinians dependent on civil service salaries. The PA is struggling to pay its 147,000 employees and is accumulating ever-mounting arrears, which reached \$4.4bn in April 2024, amidst anaemic international aid flows. This financial strain has severely impacted public services and the private sector.

For instance, the Palestinian health sector has been critically affected, hindering the Ministry of Health's ability to provide essential medicines and services. The Ministry's debt exceeded ILS 2.7bn, leading to shortages of critical supplies.<sup>13</sup> In June, 78 out of 592 medicines (13%) were completely out of stock, and 138 types were available for less than a month. Additionally, 605 out of 3,330 general medical consumables (18%), 153 out of 618 surgical medical consumables (25%), and 25 out of 200 laboratory materials (12.5%) were depleted. This has forced the Ministry to rely on private hospitals, which face financial strain due to accumulating arrears, resulting in significant gaps in patient care, long waiting lists for surgeries, and increased financial burdens on patients.

## 1.2 Waiver for Correspondence Banking

After some grandstanding and political horse-trading with coalition partners, on June 30, Smotrich backed off from some of his demands and extended a waiver for four months that allows cooperation between Israel's banking system and Palestinian banks in the West Bank.<sup>14</sup> This waiver, originally set to expire on 30 June, permits Israeli banks to process shekel payments for services and salaries tied to the PA. Without it, the Palestinian economy could face a liquidity crisis and a potential meltdown with severe consequences.<sup>15</sup>

9 <https://www.pmf.ps/documents/accounts/monthly/>

10 <https://rb.gy/6ovf4u>

11 <https://www.alquds.com/ar/posts/122442>

12 <https://english.wafa.ps/Pages/Details/143811>

13 <https://www.bnews.ps/ar/node/23464>

14 <https://rb.gy/xp9ysq>

15 <https://www.crisisgroup.org/united-states-israelpalestine/>

Since 2016, Israel's finance ministry has annually granted Israel Discount Bank and Bank Hapoalim a waiver, enabling them to maintain business ties with Palestinian banks and act as intermediaries for financial transactions with Israel and the rest of the world. This waiver shields them from legal risks related to money laundering and terrorism financing in their dealings with Palestinian banks.<sup>16</sup> It facilitates payments for PA-linked services, salaries, and essential imports like food, water, and electricity. Additionally, it is the sole method for transferring tax revenues collected by Israel on behalf of the PA and allows Palestinian banks to convert shekels into other currencies through the Bank of Israel, as agreed in the 1994 Protocol on Economic Relations between Israel and Palestine.

In 2023, Palestinians imported \$4.4bn worth of goods from Israel, accounting for 62.4% of total imports, including electricity, water, and fuel.<sup>17</sup> They exported \$1.3bn worth of goods, comprising 86.1% of total exports, with many transactions facilitated through financial interactions between Israeli and Palestinian banks. During the year, Palestinian banks handled ILS transactions totaling \$14.4bn.<sup>18</sup>

## 2. War Impact on Labour Market and Livelihoods

On June 7, the International Labour Organisation (ILO) released its fourth bulletin on the impact of the war in Gaza on the labor market and livelihoods in Palestine, showing a staggering economic toll amid ongoing conflict.<sup>19</sup> According to ILO-PCBS estimates, from October 2023 to May 2024, GDP plummeted by 32.8% compared to the corresponding pre-war period, with Gaza's economy contracting by 83.5% and the West

Bank by 22.7%. Unemployment soared to an average of 50.8%, hitting 79.1% in Gaza and 31.9% in the West Bank. Amid job losses and reduced incomes, inflation skyrocketed, eroding individuals' purchasing power and ability to meet the most basic needs. Assuming the war would continue until the end of August 2024, ILO-PCBS projections foresee a further GDP decline of 16.1% in 2024, on top of a 5.5% decline in 2023.<sup>20</sup> Unemployment is expected to reach an unprecedented level of 47.1% in 2024, representing an additional 222 thousand unemployed individuals compared to 2023.

In addition to its macroeconomic projections, the ILO, in partnership with the Palestinian General Federation of Trade Unions (PGFTU) and the Federation of Palestinian Chambers of Commerce, Industry, and Agriculture (FPCCIA), conducted two independent surveys to assess the war's impact on employers and workers in the West Bank. Data collection in the Gaza Strip was not possible.

### 2.1 Impact on Employers

The ILO/FPCCIA employers' survey, targeting 700 companies across the West Bank, reveals the profound impacts of the war, with 98.8% of businesses reporting negative impacts. Challenges include reduced sales (affecting 93% to 97.2% of surveyed businesses), inability to meet financial obligations (90.8%), disrupted supply chains (83.8%), and increased costs (82.5%). To mitigate these challenges, 65.3% of the surveyed businesses resorted to workforce reductions, with 52.7% implementing temporary dismissals (52.7%) and 39.9% reporting permanent layoffs. Most notably, 73.3% of companies cut employee work hours or days, with sectors like tourism (84.4%), finance (83.3%), and

<sup>16</sup> <https://www.crisisgroup.org/united-states-israelpalestine/>

<sup>17</sup> <https://www.pcbs.gov.ps/statisticsIndicatorsTables>.

<sup>18</sup> <https://rb.gy/jp3iva>

<sup>19</sup> <https://www.ilo.org/publications/impact-war-gaza-labour->

<sup>20</sup> <https://www.pcbs.gov.ps/statisticsIndicatorsTables>.

transport (77.8%) being the most affected. Companies also cut overtime (80.8% of surveyed companies that permitted overtime) and annual leave benefits (37.1% of surveyed companies that previously offered paid annual leave), and many halted development projects (75.6%) or reduced credit sales (71.6%) to adapt to the new economic landscape. Alarming, 48% of surveyed companies shut down one or more production lines, and 34.8% sold the company's production assets.

## 2.2 Impact on Employees

The ILO/PGFTU surveyed 463 wage employees in the West Bank, revealing worsening labor market challenges and significant impacts of the war. Results show that 33.5% of the surveyed workers experienced job loss, while 58.5% retained their jobs, and 8% transitioned to new roles. Before the war on Gaza, 22.2% of surveyed workers were employed in Israel and the settlements, dropping to 2.3% by January 2024 as Israel revoked the work permits of about 160,000 Palestinians. Worsening economic conditions and Israeli movement restrictions resulted in additional job losses locally. The majority of workers who lost their jobs did not receive their end-of-service entitlements, with only 31.4% receiving them.

The war has also shifted employment status, with part-time work increasing from 9.0% to 41.0% for men and 14.2% to 40.3% for women. Over half of those employed post-October 7th faced reduced weekly hours (51%), and 39.6% of private sector workers reported wage decreases due to reduced hours. About 12.8% of workers experienced wage cuts without promise of future compensation despite maintaining full-time hours.

About 87.2% of surveyed workers reported decreased household income due to worsening labor market conditions. To cope, households have reduced entertainment expenses (95%), expenditure on food (82.3%), used personal savings (71.1%), delayed loan payments (48.5%), increased purchases on credit (47.9%), and defaulted on utility payments (44.5%). About a quarter reduced expenditure on education and/or sold assets. Some pursued training for another profession (16.8%) or took up subsistence farming (9.7%). Alarming, 7.4% resorted to child labor, highlighting long-term social repercussions.

## 3. Water Shortages

In early June, in a procedure repeated every year, the Israeli national water company (Mekorot), which manages Israeli and Palestinian water resources, reduced supply for Hebron and Bethlehem by 35% and Ramallah by over 50%.<sup>21</sup> The Palestinian Water Authority (PWA) asserted that this is an established Israeli policy that regulates and rations Palestinian water supply.<sup>22</sup> During rising temperatures and high demand, Mekorot prioritizes Israeli settlements over Palestinian towns. Over 700,000 Israeli settlers in the occupied West Bank enjoy higher per-capita water consumption at lower unit costs compared to Palestinians.

### 3.1 Access to Water

Although most Palestinian households (93.3%) were connected to a public water network before the war on Gaza, there is not enough water to provide continuous running water.<sup>23</sup> Only 36% of Palestinians in the West Bank were supplied with running water daily.

<sup>21</sup> <https://wafa.ps/Pages/Details/97319>  
<https://www.maannews.net/news/2118922.html>

<sup>22</sup> <https://www.wafa.ps/Pages/Details/97602>

<sup>23</sup> <https://www.pcbs.gov.ps/site/512/default>

To cope with the water shortages, 92% of Palestinians in the West Bank store water in tanks on their rooftops.<sup>24</sup> When the supply is cut off and water in tanks runs out, Palestinian households and businesses are forced to buy water from mostly unregulated tankers, which are expensive and lack oversight. In 2015, around 48% of Palestinian localities reported having subscribers who needed to use high-cost water tankers to meet their basic needs.<sup>25</sup> This figure is likely much higher, given the increased frequency of supply interruptions. Pumped water costs between ILS 4.5 and 10 per cubic meter (depending on the type of user and consumption bracket), while water tankers charge between ILS 30 and 67 per cubic meter.<sup>26</sup>

In 2022, the per capita share of water consumed in Palestine was 85.7 litres per person per day.<sup>27</sup> After accounting for water pollution in the Gaza Strip and including only the water suitable for human use from available quantities, the per capita share of fresh water drops to only 20.5 litres per person per day. In comparison, Israel's average per capita water consumption was about 377 litres per person per day in 2020.<sup>28</sup>

### 3.2 Water Crisis in Gaza

The Gaza Strip faces a severe water crisis exacerbated by the ongoing war and destruction of infrastructure. On June 27, UNICEF announced Israel's agreement to re-establish the medium-voltage feeder power line for the Southern Gaza Desalination Plant, potentially providing much-needed water to the displaced population.<sup>29</sup> Once resupplied with electricity, the plant should produce 15,000 cubic meters of water daily

24 [https://www.btselem.org/publications/202305\\_parched](https://www.btselem.org/publications/202305_parched)

25 [https://www.pcbs.gov.ps/Portals/\\_Rainbow/Documents/](https://www.pcbs.gov.ps/Portals/_Rainbow/Documents/)

26 <https://www.wafa.ps/Pages/Details/97602>

27 <https://bit.ly/3VGY15q>

28 <https://rb.gy/ke0q8i>

29 <https://www.barrons.com/news/unicef-says-deal-agreed-with->

at full capacity, helping meet the minimum humanitarian standard of 15 liters per day for nearly a million people.

More than two-thirds of Gaza's sanitation and water facilities have been destroyed or damaged, and only intermittent bottled water supplies have been allowed since October 2023.<sup>30</sup> About 40% of the water networks have been destroyed, and main pumps have been disrupted due to bombing or fuel shortages.<sup>31</sup> By March 2024, only one of the three pipelines that provided Gaza with drinking water from Mekorot was operating, but only at 47% of its capacity. The other two have been non-operational for months.<sup>32</sup>

Per capita, water consumption in Gaza has dropped to between 3-15 litres per day, with only half deemed safe for consumption.<sup>33</sup> Displacement sites report critically low water availability, with some sites providing less than two litres per person per day, far below the emergency minimum of 7.5 litres set by WHO.<sup>34</sup> The overall water available in Gaza is now estimated at only 10-20% of the already very low pre-aggression levels, heavily dependent on fuel availability.<sup>35</sup> Before the war, only 4% of Gaza's population had access to safely managed water.<sup>36</sup> Now, most residents barely have access to water.

### 3.3 Forced Dependency

Under the Oslo Accords, Palestinians are entitled to 118 MCM of groundwater annually in the West Bank, a figure unchanged since 1995 despite the population doubling.<sup>37</sup> In 2022, Palestinians extracted about 109.1 MCM.<sup>38</sup> Israel denies Palestinians access

30 Ibid

31 <https://www.pcbs.gov.ps/site/512/default>

32 <https://rb.gy/rnm6ck>

33 <https://www.pcbs.gov.ps/site/512/default>

34 <https://bit.ly/4bJqDkR>

35 <https://www.pcbs.gov.ps/site/512/default>

36 <https://english.wafa.ps/Pages/Details/123755>

37 [https://www.btselem.org/publications/202305\\_parched](https://www.btselem.org/publications/202305_parched)

38 <https://www.pcbs.gov.ps/site/512/default>

to the Jordan River, freshwater springs, and the transfer of water from the West Bank to Gaza. Gaza relies solely on the Coastal Aquifer, which is increasingly depleted by contamination and over-extraction by Palestinians and Israel. Palestinians extracted 192.5 MCM from the Coastal Aquifer in 2022.

Israeli Military Order 158 (1967) requires Palestinians to obtain permits from the Israeli army for new water installations, which are nearly impossible to obtain and rarely granted.<sup>39</sup> Israel often demolishes any wells and water infrastructure built by Palestinians, with 906 WASH structures destroyed since 2009.<sup>40</sup> Consequently, Israel controls most water sources in the West Bank, extracting and reselling it to Palestinians.

Palestinians compensate for water shortages by purchasing increasing amounts from Mekorot, paying several times the cost. In 2022, the PWA bought 98.8 MCM from Mekorot, 22.2% of the total annual water supply, marking a 74.6% increase in the past 10 years. This reliance is expected to grow due to population increase and urbanization, with the limits imposed on Palestinian extraction from groundwater in the West Bank leading to more severe water cuts and higher costs in the future. Despite Israel achieving a water surplus through intensive technological and other investments in desalination, the costs are disproportionately passed on to Palestinian consumers.

The PNA's growing dependence on Mekorot has resulted in rising public debt. In 2023, Israel unilaterally deducted NIS 392.8mn for water from PNA's clearance revenues, accounting for 3.3% of total clearance revenue.<sup>41</sup>

39 <https://www.amnesty.org/ar/latest/campaigns/2017/11/>

40 <https://bit.ly/3EGJHlr>

41 <https://www.pmf.ps/documents/accounts/monthly/2023/>

## 4. Renewed Focus on Renewable Energy

On May 4, the Palestinian Prime Minister, Dr Mohammed Mustafa, chaired a meeting to discuss the challenges and advancements in alternative and renewable energy in Palestine.<sup>42</sup> Mustafa emphasized the sector's significance, highlighting its alignment with the government's reform and development program. He promised extensive support to propel the sector forward and advocated for stronger partnerships with the private sector.

Zafer Milhem, head of the Energy and Natural Resources Authority, noted that the government plans to expand the Solar Rooftops Program to all public facilities and facilitate its installations on private homes.<sup>43</sup> Melhem also proposed several strategies to address the sector's challenges, including developing and expanding transmission networks and conversion stations, inventorying land suitable for renewable energy projects, and ensuring government guarantees for project developers to secure necessary financing. There is also a need to review and update legislation related to renewable energy.

On May 5, the Palestine Economic Policy Research Institute (MAS) initiated an advocacy project to encourage the transition of Palestine towards renewable energy.<sup>44</sup> The project's inaugural meeting marks a concerted effort to develop specific policy recommendations to enhance this shift and improve the energy landscape in Palestine. Participants emphasized that policies need to be introduced to increase renewable energy usage, reduce net metering, establish a robust transmission system, and address financial issues in the sector. Special policies are also required to address the Gaza Strip's unique situation

42 <https://wafa.ps/Pages/Details/97042>

43 <https://www.massader.ps/en/project/1518342187>

44 <https://www.bnews.ps/ar/node/23461>

and encourage the industrial, commercial, service, and household sectors to transition to renewable energy.

Palestine relies heavily on Israeli electricity companies, which supply over 87% of its electricity imports. The Palestinian government aims to diversify energy sources, reduce energy imports by 50%, and produce over 600 megawatts of renewable energy by 2030. Currently, the production stands at approximately 254 megawatts, but this has decreased to around 200 megawatts due to the destruction of solar power plants in Gaza by Israel. According to the World Bank, the cost of electricity infrastructure damaged or destroyed in Gaza, including rooftop solar photovoltaic (PV) electricity supply systems, is estimated to largely exceed US\$ 400mn.<sup>45</sup>

## 5. May Trading Activity

Al-Quds Index decreased by 0.7% in May 2024 compared to the previous month, reaching 537.5 points on the last trading day.<sup>46</sup> A total of 13.5m shares worth \$24.5m were traded during the month, marking a 178.3% increase in the number and a 190.5% increase in the value of traded shares compared to April 2024.

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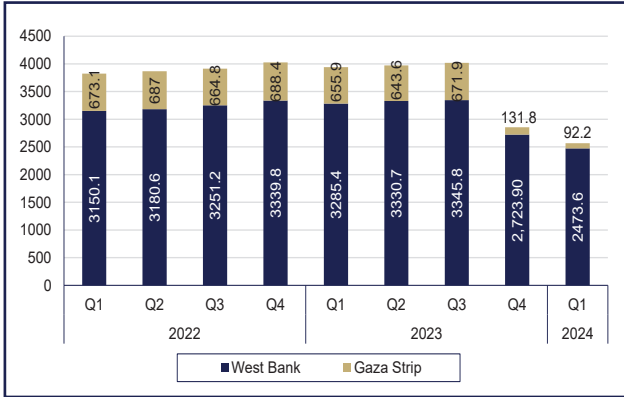
<sup>45</sup> <https://bit.ly/3zlsE96>

<sup>46</sup> <https://bit.ly/3OP1xY1>



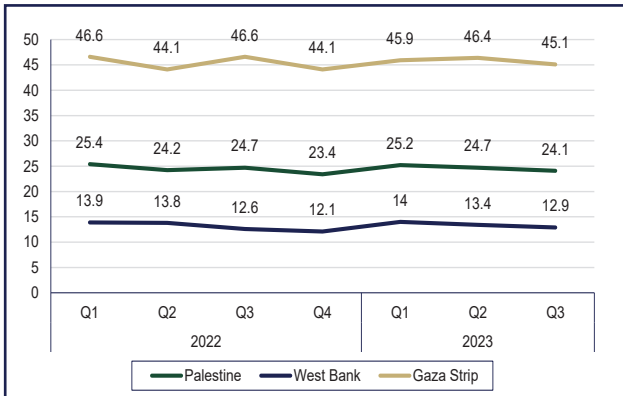
### Gross Domestic Product

**Quarterly Real GDP (million USD in 2015 prices) in Palestine by Region, Q1 2022 - Q1 2024**



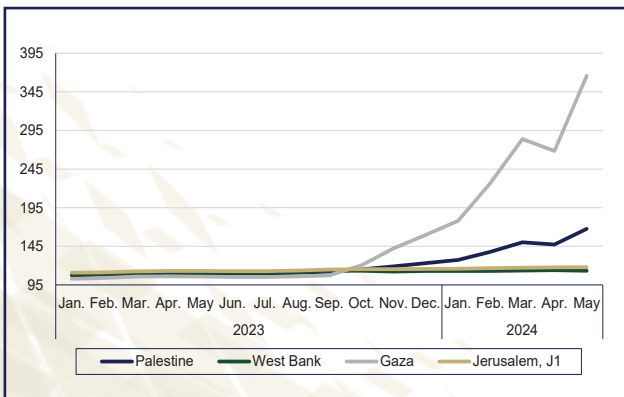
### Unemployment

**Quarterly Unemployment (%) in Palestine by Region, Q1 2022 - Q3 2023**



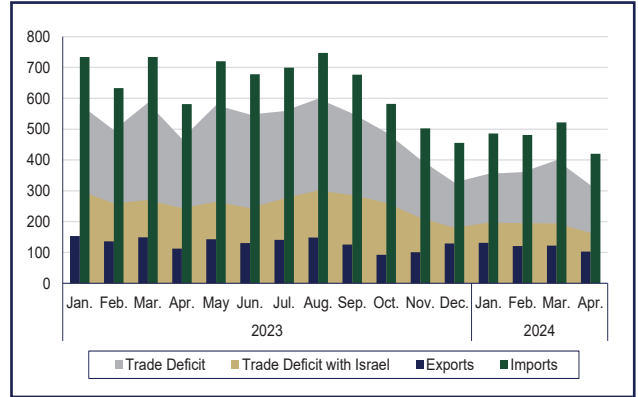
### Inflation

**Monthly Consumer Price Index (Base year = 2018) in Palestine by Region, January 2023 - May 2024**



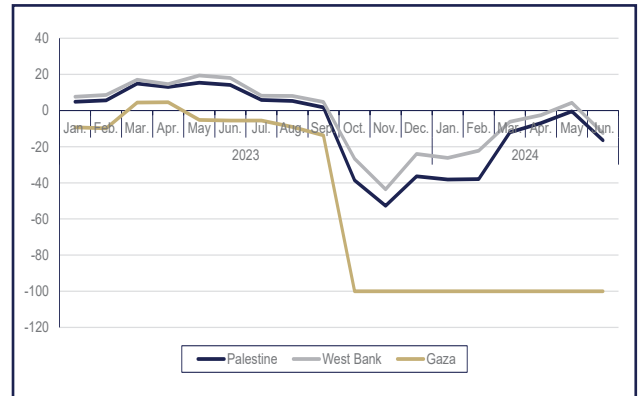
### Trade

**Monthly Export, Imports, Trade Deficit and Trade Deficit with Israel (million USD) in Palestine, January 2023 - April 2024**



### PMA Business Cycle Index

**Monthly Palestine Monetary Authority Business Cycle Index, January 2023 - June 2024**



### Banking

**Monthly Customer Deposits and Credit Facilities (million USD) in Palestine, January 2023 - May 2024**

