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PALESTINE ECONOMIC POLICY
RESEARCH INSTITUTE (MAS)

Palestine Economic Update

October 2024

Key Messages :

- As Israel's war on Gaza enters its second year, Palestinians face escalating humanitarian and economic crises, with national output shrinking by nearly a third and over half the labour force unemployed, excluding discouraged workers who have exited the workforce.
- Gaza's suffering is staggering. Israel has killed tens of thousands and inflicted widespread destruction, leaving the Gaza Strip in ruins. Gaza's economy has been decimated, and nearly all Gazans live in poverty, enduring intensified bombardment, displacement, and rising threats of starvation, particularly in the northern region.
- An uncertain continuation of Palestinian-Israeli correspondence banking threatens severe disruptions in trade, essential services, and fiscal revenues in the West Bank, potentially leading to economic collapse.
- Despite a drop in company registrations amid the ongoing conflict, the new Automated Business Registry System (ABRS) is expected to streamline the process and reduce registration costs.
- The EBRD's \$3 million investment in Ibtikar Fund II, its first in a Palestinian venture capital fund, aims to support digital transformation and strengthen the tech startup ecosystem.

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1. One Year of War on Gaza

One year since the onset of Israel's war on the Gaza Strip, the political, humanitarian, and economic situation in Palestine is only worsening. Life-threatening challenges facing Palestinians have intensified with no resolution in sight. As Israel presses its military campaign in the northern Gaza Strip, where over half a million Palestinians still take refuge, the recorded death toll has surpassed 43,392 individuals, around 67.2% of which are children and women, with 106,045 injured.¹ In the West Bank, Israeli forces and settlers have killed 759 Palestinians since October 2023, 165 of whom are children. The amount of suffering inflicted on Palestinians is unimaginable, especially as Israel seeks to designate the northern Strip a closed military zone and has begun to displace remaining residents southwards, in line with an (unofficial) Israeli generals' proposal to empty the north of Palestinians and reestablish a military and colonial presence there.²

1.1 Economic Activity

According to preliminary estimates from the Palestine Central Bureau of Statistics (PCBS), the Palestinian economy contracted by 32.3% in Q2 2024 compared to Q2 2023.³ The Gaza Strip's GDP fell by 85.9%, reducing its share of the Palestinian GDP to just 3.4% in Q2 2024, down from 16.7% in Q2 2023. In the West Bank, tightened Israeli restrictions, closures, raids, settler violence, and heightened uncertainty led to a 22% decline in GDP over the same period.⁴

1 https://www.pcbs.gov.ps/site/lang_en/1405/Default.aspx

2 <https://www.bbc.co.uk/news/articles/c1e82yy0wxno>
<https://www.972mag.com/>

3 https://www.pcbs.gov.ps/pcbs_2012/Pressar.aspx?CatId=18

4 The Palestinian GDP increased by 4.8% in Q2 2024 compared to Q1 2024, with a 5.1% increase in the West Bank and a 1.3% contraction in the Gaza Strip. The superficial improvement in the West Bank was mainly driven by a seasonal increase in agriculture value added and a partial and limited recovery in retail trade.

All economic sectors in Palestine saw significant and alarming year-on-year declines in value-added in Q2 2024. The Mining, Manufacturing, Electricity, and Water sectors dropped by 34%, with a 27% decrease in the West Bank and a steep 94% in Gaza. Construction declined by 49% overall (41% in the West Bank, 98% in Gaza), while agriculture, forestry, and fishing fell by 29% (11% in the West Bank, 93% in Gaza). The Wholesale and Retail Trade sector, including motor vehicle repairs, contracted by 28%, with declines of 18% in the West Bank and 96% in Gaza. In Gaza, nearly all economic activities have been decimated, leaving only some essential health, education, and public services, while the shocks to all sectors of the West Bank economy are no less notable from the most recent data.

Real GDP per capita fell by 33% in Q2 2024 compared to Q2 2023, averaging \$512, with \$863.2 in the West Bank (a 24% year-on-year decline) and an unprecedented \$40.6 in Gaza (an 86% decline). The gap between incomes in Gaza and the West Bank widened significantly, with Gaza's per capita income now at only 4.7% of the West Bank's, compared to 25.7% before the war. A recent World Bank report estimates that almost all of Gaza's population lives in poverty, while the poverty rate in the West Bank has more than doubled, from 12% at the end of 2023 to 28% by mid-2024.⁵

1.2 Employment

Between October 2023 and September 2024, Palestine's unemployment rate more than doubled, rising to 51.1% from 25.4% in the same period the previous year.⁶ The West Bank's unemployment rate

5 <https://tinyurl.com/4wku5xre>

6 <https://www.ilo.org/publications/year-war-gaza-impacts>

increased to 34.9%, compared to 14% in the corresponding period a year earlier, while Gaza's rate surged to 79.7%, up from 45.3% in the corresponding period a year earlier. Over these two comparison periods, the labour force participation rate fell to 43.5% (39% in Gaza and 46.6% in the West Bank), down from 45.2% (40.5% in Gaza and 48.3% in the West Bank) a year earlier. The severe decline in employment conditions is due to the extensive economic destruction in Gaza and the war's impact on the West Bank.

In Q2 2024, the West Bank's unemployment rate spiked to 31%, up from 13.4% a year earlier, as Israel closed its labour market to Palestinian workers and West Bank businesses struggled to maintain employment.⁷ In Q2 2023, approximately 160,000 Palestinians were employed in Israel and its settlements, making up 18.4% of the West Bank workforce. By Q2 2024, this number had dropped sharply to about 27,300, mostly in settlements, representing just 4% of West Bank workers. Due to the ongoing war, official unemployment data for the Gaza Strip is currently unavailable.

1.3 Inflation

Amid declining incomes, Gazans have faced soaring prices, with inflation reaching 282.6% year-on-year in September 2024, driven by supply chain disruptions, high transportation costs, and reduced aid. Food and beverage prices surged by 312.4%, severely eroding Gazans purchasing power and making it increasingly difficult to meet basic needs. Prices in the West Bank rose 3.0% over the same period, while overall price levels in the Palestinian territories increased by 60.1%.

2. Disruptions in the Financial Sector

In the latest Israeli political threat to Palestinian financial stability, on 19 September, Israeli Prime Minister Benjamin Netanyahu instructed government ministries and the Bank of Israel (BoI) to explore the possibility of phasing out the NIS 200 banknotes, citing efforts to combat "black money and money laundering," with a focus on Arab communities in Israel.⁸ This move triggered concern among Palestinians in the West Bank, prompting many to deposit their cash, convert NIS to USD or JOD, and purchase gold.

On 26 September, the BoI issued a statement emphasizing that it did not intend to withdraw the NIS 200 banknotes or alter the currency mix in circulation.⁹ The Palestine Monetary Authority (PMA) also sought to reassure the public, emphasizing that reports of the banknote's removal were inaccurate and that there was no threat to its continued circulation.¹⁰ Nevertheless, rumors of the note's withdrawal had already caused a spike in demand for USD and JOD, resulting in a cash shortage.¹¹ The crisis was further aggravated by challenges in importing cash from Jordan, as the closure of the King Hussein Bridge disrupted the flow of JOD and USD coins and cash into the West Bank. In response, banks imposed limits on currency withdrawals to manage the shortage.

The situation unfolded against a backdrop of uncertainty, as the waiver for correspondence banking was nearing expiration, and Israeli banks were already rejecting NIS cash transfers from Palestinian banks.¹² This triggered another dispute between businesses and Palestinian banks over NIS deposits, with a threatened strike by petrol stations called off at the last

7 https://www.pCBS.gov.ps/portals/_pCBS/PressRelease/

8 <https://www.ynetnews.com/business/article/sy4h0s5a0>

9 <https://tinyurl.com/53ut6j3n>

10 <https://tinyurl.com/yv92e8y9>

11 <https://www.aliqtisadi.ps/ar/Article/101522/>

12 <https://www.jpost.com/breaking-news/article-815698>

moment.¹³ The severity of these conditions, along with broader uncertainty and a widening war, led to a temporary black-market premium on foreign currencies and gold.

2.1 Market Chaos

The surge in demand for foreign currencies, alongside difficulties in importing them, created opportunities for price manipulation in the West Bank. Money exchangers sold USD and JOD at premiums of up to 400 basis points over official rates, leading to arbitrage. People bought USD and JOD from banks at official rates using NIS and then sold them in the market for profit at higher rates. In response, banks halted withdrawals of USD and JOD, prompting the Palestine Monetary Authority (PMA) to issue warnings against price manipulation.¹⁴ The PMA instructed banks and money exchangers to use global currency charts, such as Reuters and Bloomberg, to set exchange rates and mandated that the spread between buying and selling prices not exceed 200 basis points.¹⁵ The PMA also emphasized that customers should not face extra charges due to exchange rate fluctuations or for using point-of-sale systems and e-commerce payment cards.

Amid fears of deteriorating NIS, shortages in USD/JOD, and rising market volatility, many turned to gold as a safe-haven asset. While demand for gold surged, supply struggled to keep pace, especially after the closure of the King Hussein Bridge—the primary entry point for gold into the West Bank.¹⁶ Gold prices in the local market are typically \$50-70 per ounce higher than global rates due to issues related to gold imports.¹⁷ However, recent

supply shortages and demand pressures pushed local prices to unprecedented levels, with an ounce of gold selling for \$300 above global market prices.¹⁸

Following the war on Gaza, there has been a sharp decline in the amount of gold hallmarked by the Palestine Precious Metals Stamping and Control Directorate (PMSCD), a department within the Ministry of National Economy (MoNE). Between October 2023 and June 2024, the PMSCD stamped only 5.8 tons of gold in the West Bank—nearly half of the 11.5 tons stamped in the nine months prior to the war on Gaza (see Figure 1 below).¹⁹ With tens of thousands of Palestinians losing their jobs and many families having little to no savings, cash-strapped households were forced to sell their gold – mostly from traditional celebrations - to cover daily expenses. Local demand for gold remained weak, and goldsmith artisans limited their supply. However, following Israel's invasion of Lebanon and Moody's downgrade of Israel's credit rating,²⁰ financially capable Palestinian Israelis—who have been less affected by the economic fallout of the war—have driven demand for gold.

Gold purchases in West Bank markets by Palestinian Israelis contribute to the influx of excess NIS into the West Bank, adding to the strain facing banks in Palestine.²¹ The Palestinian National Authority (PA) treats gold as a currency, exempting it from VAT per a 1999 Cabinet Resolution, while Israel considers it a taxable commodity.²² This tax disparity incentivizes Palestinian Israelis to purchase gold from the West Bank at a favorable price. It has also complicated the mechanism for importing gold into the West

13 <https://tinyurl.com/ypswzyym>

14 <https://tinyurl.com/3u8n7nhn>

15 <https://tinyurl.com/3u8n7nhn> ; <https://tinyurl.com/yv92e8y9>

16 <https://www.aliqtisadi.ps/ar/Article/100226>

17 A recent investigation by a local news agency uncovered that much of the gold entering the West Bank is smuggled in, bypassing customs. Once inside, the gold undergoes processing and goldsmithing before being hallmarked by the Palestine Precious Metals Stamping and Control Directorate for retail sale. More information is available through this link: <https://www.aliqtisadi.ps/ar/Article/100226>

18 <https://tinyurl.com/4v9tnysa>

<https://www.wafa.ps/pages/details/104461>

19 There is no available data for the Gaza Strip.

20 <https://www.reuters.com/world/middle-east/>

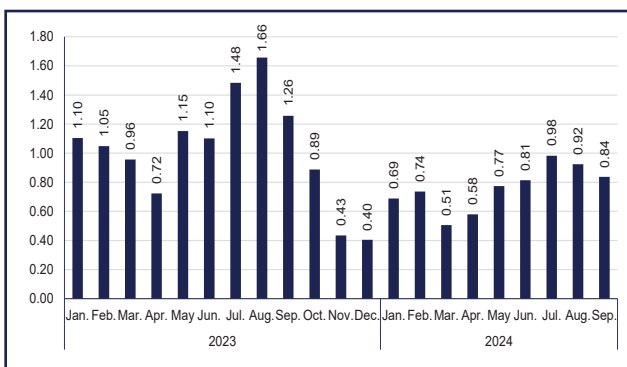
21 <https://tinyurl.com/3ajv5js5>

22 <https://tinyurl.com/2vjtk6h>

<https://www.aliqtisadi.ps/ar/Article/101499/>

Bank, where merchants wary of the PA's ability to provide tax rebates have resorted to smuggling gold through unofficial channels to avoid Israeli customs. Due to the informal nature of the market and a lack of structured import mechanisms, gold prices in Palestine became vulnerable to monopolistic practices by 'importers' or diplomatic smugglers, as referred to in the Allqisadi-Arij investigation.²³

Figure 1: Amount of gold stamped by the PMSCD in Palestine in tons January 2023 - September 2024



Source: MoNE

2.2 Fear of Collapse

In late September, US and G7 officials raised concerns that the extremist Israeli Finance Minister Bezalel Smotrich may not extend a waiver facilitating transactions between Israeli and Palestinian banks, set to expire by the end of October.²⁴ Officials are concerned that even if a timely third-party review of the Palestinian banking system regarding compliance with international counterterrorism and anti-money laundering statutes is completed, Smotrich may impose additional conditions unrelated to banking—particularly those concerning settlement expansion in the West Bank, as he did in June.²⁵

Smotrich controls the authorization for Israeli banks to transact with Palestinian banks without risk of money laundering or terrorism financing accusations. In June, he used the threat of withholding this waiver to pressure Prime Minister Benjamin Netanyahu into approving thousands of new settlement units, ultimately granting only a four-month extension.²⁶ These waivers are crucial for maintaining Correspondent Banking Relationships (CBRs).²⁷ Without them, Israeli banks, i.e. Bank Hapoalim and Israel Discount Bank, refuse transactions with banks in Palestine, risking termination of these relationships. The PMA has assured the public of the banking system's stability and highlighted the negative impacts of halting the waiver on both economies.²⁸ The PMA has also noted that ending the waiver does not affect international financial transactions between banks in Palestine and other (non-Israeli) banks abroad.²⁹ Yet, if the waiver is not extended, the West Bank economy could collapse.³⁰

The waivers are vital for trade between Palestinian and Israeli markets.³¹ A disconnection from the Israeli banking system would severely restrict access to essential goods and services. In 2023, Palestinian exports to Israel were valued at \$1.34bn, while imports totaled \$4.44bn, with trade with Israel constituting 88% of Palestinian exports and 57.3% of imports.³² The inability to transact would also hinder the PA's ability to pay for electricity, water, fuel, and other utilities—comprising more than half the total imports from Israel—jeopardizing essential services for households.³³ Additionally, disruptions in cash transfers threaten the transfer of PA clearance revenues, exacerbating the ongoing fiscal crisis.

²³ <https://www.aliqtisadi.ps/ar/Article/100226>

²⁴ <https://www.axios.com/2024/09/20/>

²⁵ <https://www.timesofisrael.com>

²⁶ <https://tinyurl.com/yspvr5am>

<https://www.bnews.ps/ar/node/23943>

²⁷ https://mas.ps/cached_uploads/download/2024/10/11/

²⁸ <https://tinyurl.com/mrxfsp2>

²⁹ <https://tinyurl.com/yz9bcmar> and <https://tinyurl.com/2as8nppn>

³⁰ <https://www.axios.com/2024/09/20/israel-palestinian-bank-us>

³¹ <https://tinyurl.com/yz9bcmar>

³² <https://www.pcbs.gov.ps/statisticsIndicatorsTables>

³³ <https://tinyurl.com/5bw6rnsz>

As the four-month deadline approached again, on 21 October, the Palestinian Prime Minister Mohammad Mustafa spoke with the Deputy US Treasury Secretary Wally Adeyemo.³⁴ Mustafa reaffirmed that the Palestinian banking sector fully complies with the highest global standards regarding risks of illicit financial flows. Adeyemo commended the PA for completing a risk assessment of its financial system and scheduling an evaluation by the Middle East and North Africa Financial Action Task Force (MENAFATF). While these steps demonstrate the PA's efforts to meet the requirements set by Israel for extending the indemnification necessary for correspondent banking, Israel has yet to issue an official statement on the matter.³⁵

3. Automated Business Registry System (ABRS)

On 15 September, the Ministry of National Economy (MoNE) launched the Automated Business Registry System (ABRS), developed by DAI and funded by the World Bank and the European Union.³⁶ This system, mandated in the new Companies Law No. 42 of 2021, is designed to streamline the registration process for Palestinian companies.³⁷ Work on the registry began in April 2022, four months after the law's enactment, and was officially launched this past month.

The ABRS aims to boost the private sector by simplifying and speeding up the registration process, reducing costs and time.³⁸ Traditionally, company registration costs range from NIS 456 to 4,500 depending on the type of company and required physical

submission of documents to MoNE offices.³⁹ The new system is expected to lower costs, though exact figures are yet to be clarified.

Currently, the ABRS offers services such as reserving a company name, creating a company, and updating specific company details like management information.⁴⁰ It also includes a public registry of all registered companies. Future updates will allow for changes to ownership, shares, capital, legal status, and the submission of annual statements.

In 2023, the Ministry of National Economy (MoNE) registered 2,564 new companies with a total capital of \$310mn.⁴¹ This represented a 1.6% increase in the number of newly registered companies compared to 2022, although the total capital decreased by 55%. The impact of the war on Gaza was significant, evident in the last quarter of 2023, when newly registered companies fell by 40% compared to the same period in 2022, contributing to moderate annual growth. This downward trend continued into 2024, with only 1,533 new companies registered by September.⁴² Despite this decline, the MoNE emphasized that the new Companies Law has significantly increased the number of newly registered companies since its enactment in 2021.

4. Ibtikar Fund II

On 25 September, the European Bank for Reconstruction and Development (EBRD) announced a \$3mn investment in Ibtikar Fund II, marking its first equity investment in a venture capital fund in the West Bank.⁴³ Founded in 2015, Ibtikar is the only active venture capital firm in Palestine, managing

34 <https://home.treasury.gov/news/press-releases/jy2661>

35 https://www.timesofisrael.com/liveblog_entry/

36 <https://www.mne.gov.ps/newsdetails.aspx?NewsId=7655>

37 <https://maqam.najah.edu/legislation/1211/>

38 <https://tinyurl.com/h8htw7r8>

<https://www.mne.gov.ps/newsdetails.aspx?NewsId=7655>

39 http://www.pipa.ps/ar_page.phpa

40 <https://tinyurl.com/5ma7e4d9>

41 <https://tinyurl.com/49fjw292>

42 <https://mne.gov.ps/mnestatistic.aspx>

43 <https://tinyurl.com/3a7y9e8s>

two funds that invest in innovative companies founded by Palestinian entrepreneurs.⁴⁴ With the EBRD's support, Ibtikar Fund II closed at \$25mn.

The first phase of capital mobilization for Ibtikar Fund II began in early 2022, raising \$15mn with contributions from the Dutch Good Growth Fund (DGGF), the International Finance Corporation, and private sector investors. Its predecessor, Ibtikar Fund I, launched in 2016 with \$10.35mn and supported 26 Palestinian startups.

Ibtikar Fund II aims to generate long-term capital appreciation through equity investments in up to 25 early-stage Palestinian tech startups, focusing on sectors such as artificial intelligence, e-commerce, and financial technology.⁴⁵ The fund seeks to help pre-seed and seed-stage Palestinian technology startups build scalable businesses targeting global or MENA markets. It promotes digital transformation and job creation, particularly for young entrepreneurs and women.

Micro and small businesses are vital to the Palestinian economy, accounting for over 98% of local enterprises and more than 60% of GDP. However, these businesses often face significant challenges, including limited access to capital. Ibtikar Fund II seeks to address these obstacles by equipping tech startups with the resources to scale their operations, access new markets, and drive economic growth. The initiative is designed to advance digitalization and create job opportunities.

5. September Trading Activity

Al-Quds Index decreased by 3% in September 2024 compared to August 2024 and 23.6% compared to September 2023, reaching 484.1 points on the last trading day.⁴⁶ About 9.7mn shares worth \$16.7mn were traded during the month, marking a 39.7% increase in the number and a 50.8% increase in the value of traded shares compared to August 2024.

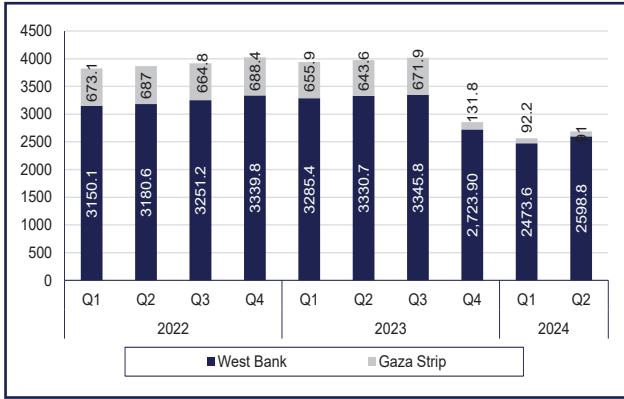
⁴⁴ https://ibtikarfund.com/2021/?page_id=428

⁴⁵ <https://www.bnews.ps/ar/node/23945>

⁴⁶ <https://tinyurl.com/yc7z64ut>

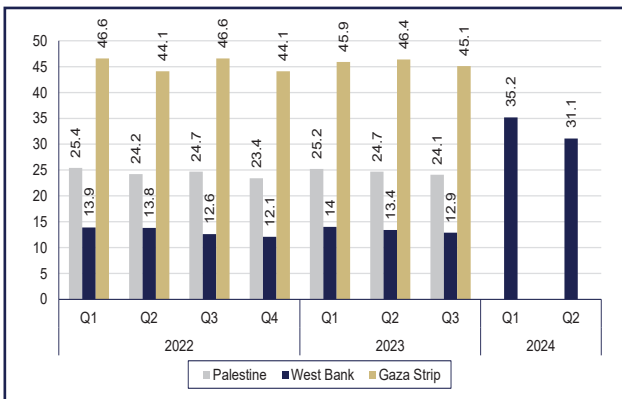
Gross Domestic Product

Quarterly Real GDP
(million USD in 2015 prices) in Palestine
by Region, Q1 2022 - Q2 2024



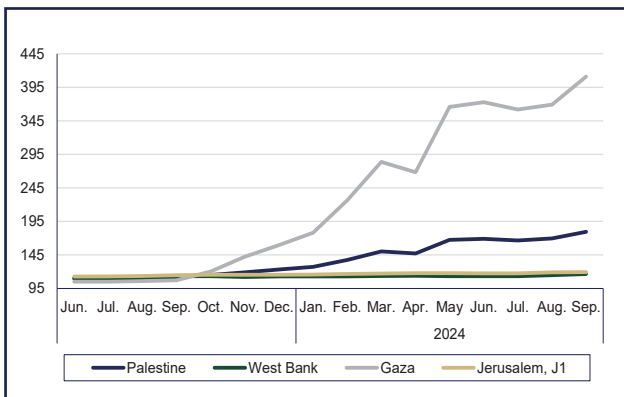
Unemployment

Quarterly Unemployment (%) in Palestine by
Region, Q1 2022 - Q2 2024



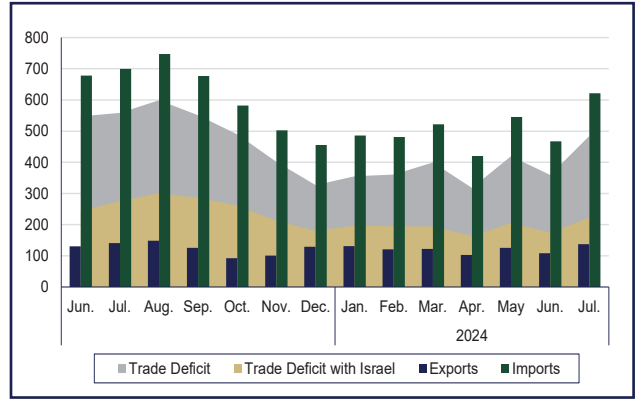
Inflation

Monthly Consumer Price Index
(Base year = 2018) in Palestine by Region
June 2023 - September 2024



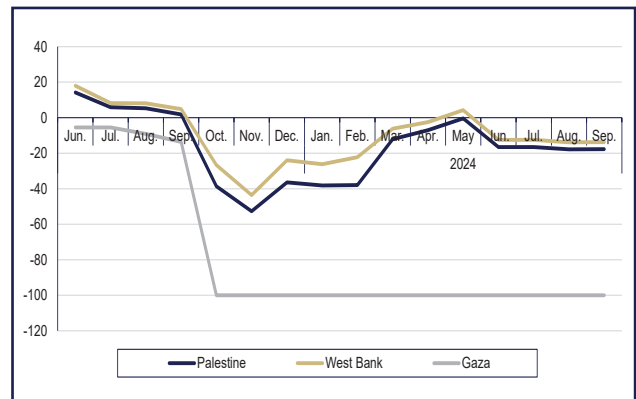
Trade

Monthly Export, Imports, Trade Deficit and Trade
Deficit with Israel (million USD) in Palestine
June 2023 - July 2024



PMA Business Cycle Index

Monthly Palestine Monetary
Authority Business Cycle Index
June 2023 - September 2024



Banking

Monthly Customer Deposits and Credit
Facilities (million USD) in Palestine
June 2023 - August 2024

