

## PALESTINIAN ECONOMIC BULLETIN

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### Main reports

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### Socio-economic Impact of COVID-19

The COVID-19 pandemic has had a significant socio-economic impact globally, and Palestine is no exception. Due to the downturn in business activity, rising uncertainty, and closures to combat the pandemic, the livelihoods of many families in Palestine are at risk with tens of thousands of families sinking into poverty.

The Palestinian Central Bureau of Statistics (PCBS) recently published the results of a survey it had conducted to assess socio-economic changes and found worrying results.<sup>1</sup> The survey examined a sample of 9,926 households, and covered the lockdown period of 5 March - 25 May. For some, the economic situation has improved since then as the government eased pandemic-related movement restrictions. While the spread of the virus has been on a downward trend during October, brief local lockdowns have been required in some areas of the West Bank and Gaza Strip to slow the rate of infection. The assessment of the Spring 2020 lockdown provides important indicators of the perilous impacts of any possible future generalised lockdowns.

#### Work and income

According to the survey results, the main income earners of 14% of Palestinian households ceased working during the lockdown, while 13% were already unemployed prior to the pandemic. The remainder continued to work, however 54% were absent from work during lockdown (unable to work due to lockdown but still employed). The majority (51%) of those who stopped working were from the industrial sector, while 7% were from the agricultural sector. The results do not specify the percentages for other sectors.

As a result of the interruption to work during lockdown, only 23% of main income earners who work as wage employees continued to receive their normal wage, 25% received a reduced wage, and 52% received no wage at all (95% of which were in the private sector). The impact was more severe in the West Bank, with 61% of wage employees not receiving any income, compared to 31% in Gaza, where the spread of COVID-19 - and consequently lockdown measures - was much more limited in that period.

Due to the decline in work and wages, 42% of households witnessed their income decrease by half or more during lockdown compared to February/March (46% in the West Bank and 38% in Gaza). Almost two thirds (63%) of households could only cover their expenses for a month or less if the lockdown was renewed, and only 10% could cover their expenses for four months or more.

The survey also revealed that 58% of Palestinian households usually borrow money or buy on credit to cover household consumption, including food and other basic expenditure. This percentage increased to 63% during the lockdown and as a result, 41% of households decreased their food expenditure compared to February/March.

#### Access to services

According to the PCBS, approximately 4% of households that required health services were unable to access them; 39% of them because the health centres and

<sup>1</sup> [http://pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_Ar\\_4-10-2020-covid-ar.pdf](http://pcbs.gov.ps/portals/_pcbs/PressRelease/Press_Ar_4-10-2020-covid-ar.pdf)

hospitals refused to receive patients, 23% due to inability to cover costs, and 11% feared leaving their homes. However, Ministry of Health admission statistics for hospital and primary health care centres in the West Bank for the period March-May indicate a fall in admissions by between 30-45% during the period.

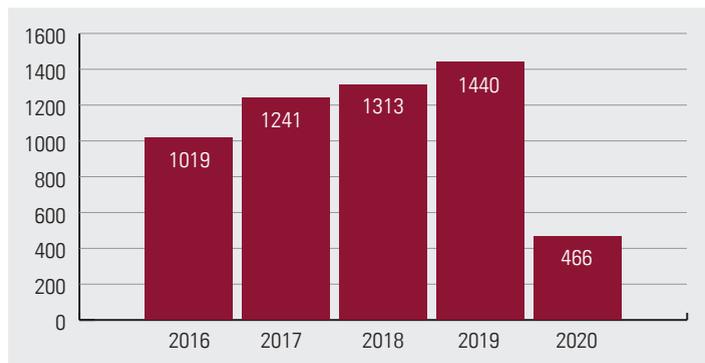
About 49% of households with children enrolled in education (between 6 and 18 years old), suspended educational activities during the lockdown. Hebron was most affected (61%) while Jerusalem was the least affected (15%). Moreover, 49% of households reported poor internet access as the main barrier to their children participating in remote learning.<sup>2</sup> The majority of Palestinian households (80%) have access to internet, however only 26% have access to a computer at home.<sup>3</sup> The percentages are higher for households with children (10-17 years old) enrolled in education; 86% and 44%, respectively. The high cost of internet connection and inability to develop ICT infrastructure in Area C are among the main reasons for the limited access to the internet.

The survey also shows that only 15% of total households received food coupons and parcels, 5% received cash transfers through social aid and protection programmes, whereas 4% received assistance through family and friends.

## Tourism

On World Tourism Day, 27 September, the PCBS and the Ministry of Tourism (MoT) issued a joint press release on the latest developments in the tourism sector, which was devastated by the pandemic.<sup>4</sup> According to the release, the number of inbound tourists decreased by 64% during the first half of 2020, compared to the corresponding period in 2019, and the number of guest nights decreased by 60% over the same period. As a result, about 10,000 jobs were lost in the sector during the lockdown, constituting a 23% decrease compared to the same period in 2019. PCBS estimates that the sector will lose \$1.15bn in revenues by the end of the year, of which \$1.02bn are from losses of inbound tourism (68% decrease in revenue compared to 2019) and \$134m from domestic tourism.

**Figure 1: Expenditure from inbound tourism, 2016-2020, millions USD**



Source: PCBS, 2020 data is an estimated value based on past months

<sup>2</sup> [www.pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_En\\_4-10-2020-covid-en.pdf](http://pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_4-10-2020-covid-en.pdf)

<sup>3</sup> [www.pcbs.gov.ps/post.aspx?lang=en&ItemID=3738](http://www.pcbs.gov.ps/post.aspx?lang=en&ItemID=3738)

<sup>4</sup> [http://pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_Ar\\_27-9-2020-tour-ar.pdf](http://pcbs.gov.ps/portals/_pcbs/PressRelease/Press_Ar_27-9-2020-tour-ar.pdf)

Bethlehem and Jerusalem, accounting for 81% of Palestine's tourist visits, were the most affected cities. In East Jerusalem, tourist hotels, which in 2019 employed over 8,800 workers and accounted for \$176m of sectoral revenue, faced direct losses of \$145m.<sup>5</sup> In Bethlehem, where the tourism sector constitutes 80% of the city's income, the lockdown has been especially devastating as 70 hotels employing 3,000 workers have been closed since March. As a result, hotels in Bethlehem are expected to have lost over \$100m by the end of the year.<sup>6</sup> Tourism sector establishments in Gaza City have also been affected, with 500 of them closing since the beginning of the pandemic, leading to unemployment for over 7,000 employees.<sup>7</sup> Other cities such as Ramallah and Nablus saw an 88% and 60% drop in inbound visits respectively.<sup>8</sup>

Many hospitality and tourism workers reported not receiving support from the government or the "Waqfet lzz fund"<sup>9</sup>, and note that the government has not followed through on its promises to provide interest-free loans to tourism businesses.<sup>10</sup>

## Construction

The construction sector was also impeded by the pandemic, with a 45% decrease in building licenses issued during the second quarter of the year compared to the first quarter, and 46% compared to the corresponding quarter in 2019.<sup>11</sup> The total areas licensed by the government for construction decreased by 48% and 52% respectively.

A survey by PCBS had indicated a problem with housing affordability prior to the pandemic, with 70.1% of households financially incapable of building/purchasing their own housing unit.<sup>12</sup> One quarter of households are able to afford one housing unit and 4.1% two units or more.

## PNA Recovery Plan

On 19 August, the Prime Minister's office presented the draft Palestine National Authority (PNA) Recovery Plan to representatives of ministries, the private sector, civil society groups, and various economists and academics. The Prime Minister's economic adviser, Dr Shaker Khalil, stated that the recovery plan will address the economic consequences of the pandemic in the short-, medium-, and long-term, with respective policies. He added that despite the Government's limited revenues, it was planning to do everything possible to respond to the crisis.<sup>13</sup> The draft plan constitutes an economy-wide set of proposed policies that at once encompass pre-pandemic policies pursued by the Government, as well as measures

<sup>5</sup> [http://pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_Ar\\_27-9-2020-tour-ar.pdf](http://pcbs.gov.ps/portals/_pcbs/PressRelease/Press_Ar_27-9-2020-tour-ar.pdf)

<sup>6</sup> <https://rb.gy/u7fx4h>

<sup>7</sup> [www.xinhuanet.com/english/2020-09/18/c\\_139377119.htm](http://www.xinhuanet.com/english/2020-09/18/c_139377119.htm)

<sup>8</sup> <http://pnn.ps/news/544228>

<sup>9</sup> "Waqfet lzz" is a fund established by the PNA to support those who have become unemployed due to the economic impact of the COVID-19 pandemic. Contributions to the fund come from donations from Palestinian individuals and corporations

<sup>10</sup> [www.maannews.net/news/2014636.html](http://www.maannews.net/news/2014636.html)

<sup>11</sup> [www.pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_En\\_7-9-2020-buildingLic-en.pdf](http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_7-9-2020-buildingLic-en.pdf)

<sup>12</sup> <http://pcbs.gov.ps/Downloads/book2529.pdf>

<sup>13</sup> [www.palestineconomy.ps/ar/Article/f2739cy15889308Yf2739c](http://www.palestineconomy.ps/ar/Article/f2739cy15889308Yf2739c)

intended to mitigate the socio-economic impact of the current crisis.

### **Unlocking Economic Potential and Resources**

The Government plans to intensify its strategy for developing economic clusters within one year, including regulations, supporting institutions, financing, and incentives. The completion of all infrastructure facilities and legal frameworks for the cluster project is expected within 3 years. Economic clusters are geographic concentrations of companies and firms of the same industry or sector, allowing the firms to gain advantages through their colocation. The clusters can include any aspect of a specific industry, from suppliers of inputs to trade associations.<sup>14</sup>

The Government also plans to adopt a strategy for the efficient distribution of land use, and to improve the efficiency of the Land and Water Settlement Authority to accelerate the pace of work on the land settlement project within 1 year. Within 5 years, the Government aims to complete the land settlement project for 2,500 km<sup>2</sup> in the West Bank, which is expected to help achieve its goal of doubling the share of the productive sectors in the GDP during the same period.

### **Disengagement from the Israeli Economy**

In the short-term the PNA plans to activate and approve local laws stimulating local production and exports, placing technical restrictions on imports from Israeli traders, imposing income tax on workers in Israel, reducing dependence on the shekel in commercial transactions, and potentially prohibiting work in Israeli settlements. The government also plans to mobilise financial resources to invest in high-impact local development projects, such as a cement factory, oil refinery and renewable energy projects.

In its long-term vision (within 5 years), the Government aims to reduce the import bill from Israel by more than 70% and reduce the percentage of workers in Israel by 10%. Ultimately, the Government aims to annul the Paris Protocol on Economic Relations<sup>15</sup> and reach a new economic framework with Israel that is more conducive to Palestinian economic development.

### **Public Finance**

In the shorter-term, the Government aims to rationalise spending, in addition to protecting its revenues by collecting tax (income & VAT) in advance from firms whose revenues have been minimally affected by COVID-19 restrictions, expand its tax base and enact additional measures to reduce evasion and leakage. The Government is also evaluating the option to reduce VAT

on domestic production by 1-4%, with the possibility of 0% VAT on local agriculture products.

In the medium and long-term, the Government aims to enact a contemporary legal system free of Israeli restrictions. It also aims to introduce a Palestinian presence on border crossings to regulate clearance revenue collection, potentially through international mediation on border crossings, and reform the tax system and the customs police apparatus.

### **Banking Sector**

Within the coming year, the PNA will urge banks to speed up the processing of loan applications and will continue to implement policies to expand the availability of credit, including the reduction of mandatory reserves and liquidity requirements.

For the medium and long-term, the Government aims to enact a bankruptcy law to legally protect creditors' rights, establish a public loan guarantee institution, and accelerate the registration of movable (machinery, equipment, etc.) and immovable assets (land, buildings, etc.) in accordance to related laws<sup>16</sup> so businesses can use them as collateral to raise funds through the formal banking sector.

### **Industrial Sector**

In the short-term, the Government proposes to reduce the shock to the industrial sector by subsidising 50% of the wages of laid-off workers in the affected sub-sectors for 3 months. It also suggests boosting industrial capacity by subsidising fuel prices in quarries and stone factories, which constitute 3.6% of the sector's total contribution to GDP of 14%, and issuing immediate decisions regarding government use of national products when sourcing public school uniforms and military clothing. The Government is also currently studying ways to rapidly raise the percentage of credit facilities provided to the industrial sector from its current level of 5.3% to 10% of total credit facilities.

In the medium and long-term, the Government aims to expand financing options for industrial firms and rehabilitate industrial infrastructure, better align higher and professional education with the requirements of industries and search for local and foreign partnerships to invest in new industries or to help restructure existing industries to increase their competitiveness.

### **Other Sectors Impacted by COVID-19**

- **Tourism sector:** the PNA aims within one year to allocate cash payments to unemployed skilled workers in the sector through the Protection and Employment Fund, and allocate \$750,000 to the lending fund for hospitality establishments. Within three years, the Government will build a comprehensive national plan to rehabilitate and promote domestic tourism

<sup>14</sup> [www.fao.org/3/i1560e/i1560e.pdf](http://www.fao.org/3/i1560e/i1560e.pdf)

<sup>15</sup> The Paris Protocol is the framework establishing the interim-period economic relations between Israel and the Palestinian Authority, signed in April 1994 and is part of Oslo 1

<sup>16</sup> Decree-Law No. (11) of 2016 regarding movable assets rights guarantee

- **Agricultural sector:** small-scale farmers should receive subsidies within the next year. The Agricultural Credit Fund and the Risk Prevention Fund will play a more active role within the next three years, while in the next five years, accurate and comprehensive agricultural statistics should be published by PCBS and the Ministry of Agriculture for researchers and academics to develop effective plans and interventions
- **Internal trade:** within one year, affected firms should be able to access \$5,000-50,000 in soft loans. The Government also aims to speed up enacting the Palestinian corporate law.

## Qalqilya Agricultural Cluster

On 20 September, Palestinian Prime Minister Mohammed Shtayyeh announced that efforts over the past year to establish the Qalqilya agricultural cluster have been successful.<sup>17</sup> He noted that since the cluster's inception in September 2019, over 100 agricultural roads have been constructed, 1,822 dunums rehabilitated, 43,550 fruit saplings planted and 426 direct jobs created.<sup>18</sup> The amount of water provided for irrigation over the past year reached 350,000 cubic litres covering 800 dunums of agricultural land and three agricultural packing houses were established along with production units for women's associations. In total, 9,000 people have benefited from the project so far at a total investment of \$6.7m, of which \$4.3m was covered from the public budget and the rest from private sector and civil society organisations.

The Qalqilya cluster was part of the PNA's "100-day economic plan", which focused on encouraging local production and promoting economic growth through cluster development.<sup>19</sup> The Qalqilya cluster, which is expected to see a total investment of \$23m over three years,<sup>20</sup> aims to strengthen the region's competitive advantage by developing the use of land and water resources, providing infrastructure for agricultural laboratories and research centres, and establishing water tanks and freezing facilities.<sup>21</sup>

17 [www.facebook.com/Dr.Shtayyeh](https://www.facebook.com/Dr.Shtayyeh)  
 18 [www.alwatanvoice.com/arabic/news/2020/09/20/1368611.html](http://www.alwatanvoice.com/arabic/news/2020/09/20/1368611.html)  
 19 [www.aa.com.tr/ar/1482623](http://www.aa.com.tr/ar/1482623)  
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 21 [www.alquds.com/articles/1567401305811314800/](http://www.alquds.com/articles/1567401305811314800/)

**Table 1: Objectives and status of Qalqilya's agricultural cluster development**

Objective	Year 1 out of 3 (percentage of overall objective)
Increase the irrigated agricultural area by 37%	800 additional dunums (percentage not available)
Increase the amount of irrigation water by 2.8m cubic meters	12.5% completed
Increase the amount of agricultural production by 25-30%	Not Available
Create 2,310 permanent jobs and 178,000 temporary working days	18.4% completed
Plant 180,000 fruit saplings, with a focus on avocado, pineapple, and subtropical crops <sup>22</sup>	24.2% completed
Add 5,000 dunums in agricultural land	36% completed
Construct and rehabilitate 360km of agricultural roads to serve 32,000 dunums	28.6% completed

Source: Palestinian Prime Minister Office, the Ministry of Agriculture and research team estimates<sup>23</sup>

The development of the Qalqilya agricultural cluster comes in the midst of a very difficult time for the Palestinian agricultural sector. In addition to the many challenges that are impeding the development of agriculture, such as limited access to land and water, settlement expansion, restricted access to inputs, demolitions and dumping of Israeli agricultural products, the COVID-19 pandemic brought new difficulties.<sup>24</sup> Many agricultural workers have reported challenges in accessing key agricultural inputs, such as shortages and increased prices of supplies such as fodder, as well as border closures and reduced market hours limiting the availability of agricultural inputs. Producers also reported decreased demand.<sup>25</sup>

## September Trading

In September, Al-Quds index reached 438 points on the last day of trading, a decrease of 3.2% from the previous month and 16.7% from the corresponding month in 2019.<sup>26</sup> During the month, a total of 25.9m shares with a total value of \$59m were traded, marking an increase of 386% in the number and 433% in the value of traded shares compared to the previous month.

PEX listed companies' net profits reached \$77m in the first half of 2020, a decline of 53% compared with the corresponding period in 2019.<sup>27</sup> Thirty-one out of forty-eight listed companies made \$85.7m in profit, a decline of 49%. Eleven companies made a total loss of \$8.3 (increase of 138% in total losses). Six companies failed to disclose within the set deadline.

22 <https://bit.ly/37uFge5>  
 23 <http://pmo.gov.ps/WebSite/Upload/Documents/GOVPLAN/3naqeed3.pdf>  
 24 <http://library.mas.ps/files/1497.aspx?down=1>  
 25 <http://www.fao.org/3/ca8714en/CA8714EN.pdf>  
 26 <https://bit.ly/31q2scb>  
 27 <https://bit.ly/2H9xT08>

## The Portland Trust



The Palestinian Economic Bulletin is prepared by the Palestine Economic Policy Research Institute (MAS) and edited by The Portland Trust. Please send any comments, suggestions, or complaints to [feedback@portlandtrust.org](mailto:feedback@portlandtrust.org)

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