



Summary

Economic Monitor, Special Supplement 2020

Preliminary Assessment of the Possible Impacts of COVID-19 Health Crisis on the Palestinian Economy

1. Preface

Since the Palestinian Government announced a series of precautionary measures in an attempt to curb the spread of the novel Coronavirus, the Palestine Economic Policy Research Institute (MAS) – true to its mission and strategic goals - responded at once by directing all its research capacities and focus towards assessing the macro and sectoral socioeconomic impacts of the recent developments caused by the global health crisis. The Institute also began to examine the policy alternatives and the national response required to move from crisis to recovery in the shortest possible time.

MAS devoted its full research team in a collective effort to analyze the impacts of the crisis, track global economic developments and policy shifts, in what is truly a historic juncture for the world's economies. Such policy reassessments are no less important than the social transformations that this crisis will for sure entail. Meanwhile, the Institute continued its ongoing research activities and organizing meetings and focus groups as much as possible, through remote communication means, to stay connected with experts and stakeholders from the different sectors, so to better inform its research activities. Clearly the unique situation of Palestine as a non-sovereign state without access to the common fiscal or monetary instruments will inform the institute's analytical framework of what is and what may not be feasible when it comes to policy responses. In the same context of keeping abreast of the new policy landscape, the Institute launched early March a special news digest service on its website (Coronavirus and the Global Economy <https://www.mas.ps/category.php?id=b9bey47550Yb9be>) to alert readers to important global economic developments and documents, including selected news, opinions and research material on the economic dimensions of this unexpected and unprecedented global crisis.

As a concrete research product, MAS prepared this special supplement of the Economic Monitor (issued quarterly), presenting its macro and sectoral socioeconomic research conclusions. It includes summaries of the analyses conducted by the Monitor's partners, namely the Palestinian Central Bureau of Statistics (PCBS), the Palestine Monetary Authority (PMA), and the Palestinian Capital Market Authority (PCMA), with whom we have together monitored the course of the crisis and its implications. Each of these Palestinian institutions has contributed to informing policy makers and to their understanding of these developments, according to their respective competencies. The main focus of this special supplement was providing first



preliminary assessment of the crisis possible impacts on the Palestinian economy, at the macro and sectoral levels.

Certainly, this is merely a first step in monitoring the size of the crisis in its multiple aspects. However, the identification of the methods that the government, the society and the economy should resort to, to jointly manage this ongoing health- economic- social crisis, and how to benefit from the successful global experiences in facing this crisis will be of more value and more difficult to achieve than producing this first assessment of losses and identification of problem areas. Moreover, the Institute's research in the coming months will also focus on identifying the most efficient and possible policies, in this limited Palestinian policy space, to support the society and the economy's vulnerable groups, and to fortify the national economy to withstand any new shocks that may follow.

While amid this crisis, we cannot ignore or underestimate the strategic risks of the Israeli occupation and plans, intensifying its policies and colonial expansion in the coming period. This reminds us that Palestine is currently fighting on many fronts, yet armed with science, thought, solidarity and determination to stand up and resist both the colonial enemy and the pandemic contagion.

2. Background

On 21 February 2020, the World Health Organization (WHO) announced the new Corona virus (COVID-19), which had begun its spread in China, a global pandemic. The virus's first incidence in Palestine, was discovered on 5th March, following a visit by a group of Greek tourists to Bethlehem City, who transmitted the disease to Palestinians there from Israel. On the same day, Palestinian President Mahmoud Abbas declared a 30-day emergency state throughout the Palestinian territory, in order to control the threat of the virus and to prevent its spread. In light of this declaration, Prime Minister Dr. Muhammad Shtayyeh, approved a number of measures, first implemented in Bethlehem governorate, before extending implementation into the West Bank's governorates, to prevent the virus's spread. At the forefront of these first decisions were the closure of all educational institutions, curtailing the freedom of movement between Governorates, preventing gatherings in all its forms and closing all touristic facilities. Each Governor was charged, within his/her governorate borders, to ensure implementing these precautionary procedures, and to form follow-up committees with representatives from concerned agencies.

The first signs of restricting economic activities began several days after declaration of the state of emergency, with successive decisions taken to close hotels, catering services, restaurants and cafes. On 22 March, restrictive measures were intensified, following the Government decision limiting citizens' movement and restricting the commercial activity to bakeries, pharmacies, supermarkets, the food manufacturing sector, the agricultural sector and the pharmaceutical manufacturing sector, while allowing goods flow into OPT. The banking sector was allowed as well to work partially in order to ensure the continued cash flow, especially for Palestinian companies, and to enable citizens to meet their basic expenditure needs.



Despite these measures, the number of infected people started to rise after the accelerated outbreak of the Coronavirus in Israel and the successive transmission of infected cases to the OPT. After largely controlling the first Palestinian epicenter in Bethlehem governorate, the virus started to spread from Israel through Palestinian workers returning home from work there. Israel became the greatest source for the spread of the virus in the West Bank. To reduce this risk, the Palestinian government instructed Palestinian workers who wish to work in the Israeli labor market not to return to the West Bank until the end of the crisis. In addition, the government issued a decision preventing workers from working in Israeli colonies. The Israeli government also took similar measures and prevented Palestinian workers over the age of fifty from entering into its market. Despite these measures, workers smuggling back and forth continued.

The lack of a Palestinian control over crossings with Israel and in area “C” limited the Palestinian government’s ability to control the movement of Palestinian workers from and to West Bank. Moreover, Israeli authorities did not commit to its announcement regarding preventing Palestinian workers who decide to stay inside Israel from returning to the OPT. Given the new developments, Palestinian President Mahmoud Abbas declared renewal of the 30-days emergency state on 3rd April, with the ease of some restrictions on movement and economic activity starting the second half of the month of April.

Amidst all these developments, and not following in their aftermath as is customary for economic policy research the Institute started work on this supplement of the Economic Monitor. Naturally, there has so far been little documented information, official statistics or other evidence showing where things are headed. Therefore, this special supplement relies on the latest available time series data on the various sectors that are expected to be largely affected by the crisis. This data is used in drawing a diagnostic overview of the impacts of this crisis on the key affected sectors and the potential size of losses at the macro and sectoral levels that may be incurred by the Palestinian economy in 2020. This preliminary research is intended to pave the way for the analytical policy studies that will be needed and initiated in the coming phase, on the sectoral, economic and social issues that were identified in this supplement as the most affected and thus the priority sectors for feasible interventions to support and revive them in the coming recovery phase.

3. Projections for Economic Performance 2020

This special supplement is divided into two parts. The first diagnoses the current situation and provides an assessment of the impact of the Corona virus outbreak in Palestine on the macro-economic level, i.e. the expected GDP decline and the components of gross demand. It also tackles the impact of the crisis on the sectoral level of the major economic sectors, and projects the percentage and value of decline for each economic indicator and sector. The first part, provides the reader with a thorough diagnosis that is based on Palestinian economic modeling. Part Two of the Monitor looks at more detail at the expected impacts in nine sectors: the local labour market, workers in Israel, manufacturing industry, trade and services, the banking sector, social sectors, disadvantaged communities, health and education, and public finance. Special-focus Boxes in Part Two also examine PCBS economic projections, Ministry of National Economy estimates of sectoral losses, non-banking financial services, an analysis of the expected



impact of PMA measures on economic performance and a profile of the Gaza Strip economy during the crisis.

MAS's estimates presented in this part, were prepared by measuring the impact of the Palestinian government's policies implemented for curtailing the spread of the virus on the Palestinian economy. In parallel with this research effort, similar estimates were issued by the PCBS and the PMA. Although these estimate results show discrepancies in scale, this is ascribed to the different methodologies and temporal scenario design and assumptions about severity of restrictions adopted by the three institutions. MAS, on one hand, used a Computable General Equilibrium Model (CGE) and calculated estimates for the West Bank only, excluding the Gaza Strip, due to insufficient information required for the model. PCBS estimated the Palestinian economy's losses according to the same economic simulation model it usually uses for calculating its annual economic forecasts. This model is built on time series of data and a number of functional equations. As for the PMA, it relied on its usual set of discretionary equations it uses for fulfilling its role in supervising the banking system and ensuring financial stability. This special supplement presents alongside MAS projections, a summary of the main findings of the PCBS modeling and PMA forecasting. This is intended to provide a 360-degree account of Palestinian first readings of the impact of the crisis, which by all accounts will be severe.

To estimate losses, MAS framed its analysis within two scenarios, assessed against a baseline scenario of projected performance in line with the trend between 2017-2019. The first assumes that the Palestinian government will have successfully contained the spread of the virus during the emergency period of two months, in a way that allows gradually returning to normal life during the third month. In the second scenario, the emergency state will be extended for a month and a half and restrictions will be gradually removed, but at a slower pace than in the first scenario. The PCBS and PMA estimates were based on scenarios with differences in expected duration of the crisis, severity and scope of closures, in addition to other criteria that define simulating each methodology for the structure and work mechanisms of the Palestinian economy.

Consequently, in such current emergency state, and without recent data on actual developments, all these estimates rely on analysis of historical data for the Palestinian economic performance, using methodologies none of which are able to capture all aspects of the Palestinian economic activity which is characterized by fluctuations, shocks, fragility and uncertainty in general. Therefore, we consider that the multiple methodologies, results and proactive planning is a proof of the vitality of the Palestinian scientific and policy making environment and an incentive for all concerned institutions to cooperate even more closely. Also, we would like to think that these diverse efforts will encourage policymakers to rely more on nationally generated data, knowledge, and expertise in such difficult times to build and safeguard the national economy.

The following are the main findings of the modelling exercise:



Table 1: Projections of Major Economic Indicators in the West Bank, 2020

| Economic indicator | Scenario 1 | | Scenario 2 | |
|--|--|--|--|--|
| | Change against baseline scenario constant prices | Value of losses at 2019 prices * (USD million) | Change against baseline scenario constant prices | Value of losses at 2019 prices * (USD million) |
| Final private consumption expenditure | -22.0% | 2,775.2 | -33.2% | 4,193.8 |
| -Final Government Consumption expenditure | -15.9% | 388.7 | -20.0% | 489.8 |
| - Gross capital formation | -26.3% | 1,126.1 | -38.1% | 1,629.2 |
| - Exports | -3.0% | 85.5 | -17.2% | 490.6 |
| - Imports (-) | -17.3% | 1,366.7 | -22.5% | 1,775.7 |
| GDP | -20.9% | 3,008.9 | -35.0% | 5,027.7 |
| Gross National Income (GNI) | -25.6% | 4,326.1 | -37.6% | 6,352.4 |
| Local labor (other than workers in Israel) | -17.4% | - | -24.6% | |
| Public revenues | -24.4% | 1,183.1 | -32.8% | 1,591.4 |



Table 2: Losses in the Value-added of Economic Activities in the West Bank, 2020

| Economic activities | Scenario 1 | | Scenario 2 | |
|---|---|--|---|--|
| | Change against baseline scenario at constant prices | Value of losses at 2019 prices (USD million) * | Change against baseline scenario at constant prices | Value of losses at 2019 prices (USD million) * |
| Agriculture and livestock | -6.1% | 51.2 | -5.2% | 43.5 |
| Mining and quarrying | -25.1% | 22.5 | -54.0% | 48.4 |
| Manufacturing industries | -22.4% | 413.1 | -41.7% | 768.2 |
| Electricity, gas, steam and air conditioning business | -18.4% | 17.1 | -28.4% | 26.4 |
| Water, sanitation, waste management and treatment | -18.4% | 9.0 | -28.4% | 13.9 |
| Construction | -20.4% | 169.1 | -41.7% | 345.3 |
| Wholesale and retail trade, and vehicles and motorcycles repair | -19.5% | 635.7 | -34.1% | 1,116.2 |
| Transportation & Storage | -29.0% | 64.4 | -44.9% | 99.7 |
| Financial and insurance activities | -22.5% | 144.6 | -36.3% | 233.6 |
| Information and telecommunication | -15.9% | 80.1 | -18.6% | 93.9 |
| Accommodation and food catering services | -27.0% | 51.9 | -41.5% | 79.9 |
| Real estate and administrative services | -23.6% | 203.4 | -37.9% | 326.6 |
| Educational services | -22.9% | 175.1 | -40.3% | 308.3 |
| Health services | -22.9% | 91.2 | -40.3% | 160.5 |
| Other services | -16.2% | 61.8 | -41.2% | 156.9 |
| Public administration and defense | -22.9% | 243.7 | -40.3% | 429.1 |
| Custom duties | -24.4% | 287.21 | -36.3% | 386.1 |
| Net VAT on imports | -24.4% | 287.84 | -32.8% | 386.9 |
| GDP | -20.9% | 3,008.9 | -35.0% | 5,027.7 |

* the GDP deflator for 2019 which equals 108.4 was used to calculate the change in the GDP at fixed prices.



To download a copy of the special Supplement (available in Arabic only)

<http://www.mas.ps/files/server/20200705223647-2.pdf>