

PALESTINIAN TERRITORIES

Table 1 **2021**

Population, million	4.9
GDP, current US\$ billion	18.0
GDP per capita, current US\$	3664.6
Upper middle-income poverty rate (\$5.5) ^a	21.9
Gini index ^a	33.7
School enrollment, primary (% gross) ^b	96.4
Life expectancy at birth, years ^b	74.1

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2016), 2011 PPPs.
 b/ WDI for School enrollment (2020); Life expectancy (2019).

Following eased lockdowns and an improvement in the health situation in 2021, the Palestinian economy started its recovery from the pandemic. Despite strong revenues, the fiscal situation remained difficult in 2021 due to very low aid. This forced the Palestinian Authority to accrue large arrears to the private sector, public pension fund and pay partial salaries to its employees. Given the ongoing pandemic, the outlook remains precarious and subject to additional political and security risks.

Key conditions and challenges

The Palestinian economy was stagnant and the socio-economic situation already difficult prior to the breakout of COVID-19. This is attributed to restrictions by Israel (on trade, movement and access), recurrent hostilities, internal divide, and falling aid inflows. During 2017-19, annual GDP growth averaged 1.3 percent—lower than the population growth rate resulting in decreasing per capita incomes and increasing poverty. Growth decomposition shows that this was driven by accumulation of factors and not improvements in productivity. In recent years, gross investment has averaged about 26 percent of GDP, but the bulk of this has been channeled into activities in the non-tradable sectors, rather than sectors that could have served as escalators for growth. Likewise, foreign direct investment, at a mere 1 percent of GDP, is very low.

There is significant regional disparity in economic activity and income per capita between the West Bank and Gaza. According to the latest national household survey, around 22 percent of Palestinians lived below the upper-middle income poverty line (\$5.5 2011 PPP a day) in 2016/17. Poverty is significantly higher in Gaza with 46 percent of the population below the poverty line in 2016/17 compared to only 9 percent in the West Bank.

COVID-19 has exacerbated existing economic and social challenges. As of mid-March

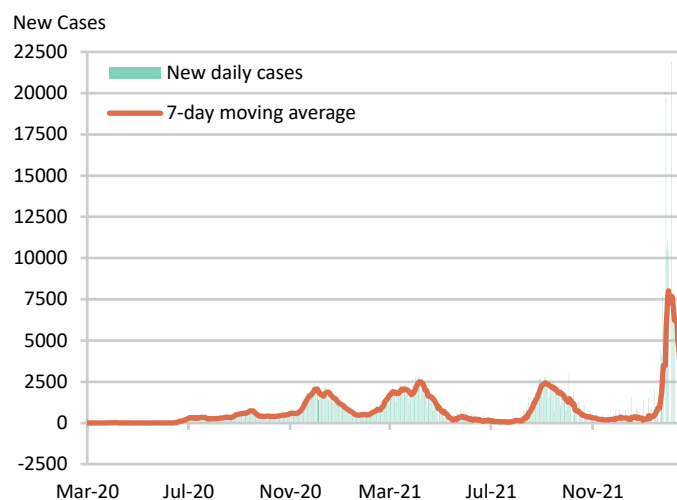
2022, the Palestinian territories are going through a fifth wave, dominated by the Omicron virus. Around 43 percent of the population has received at least one dose of the vaccine, but estimates suggest that there are sufficient vaccine doses to meet vaccination needs only up to mid-2022.

Recent developments

Despite new waves of COVID-19, lockdowns were significantly eased in 2021. This, combined with the pickup of the vaccination campaign, allowed consumer confidence to slowly pick up and business activity to gradually rebound. Latest data show that the Palestinian economy grew by 7.0 percent in 2021. The improved economic performance was mostly driven by the West Bank, which grew by 7.8 percent, while the May 2021 conflict in Gaza slowed the Strip's recovery resulting in a growth rate of 3.4 percent in 2021.

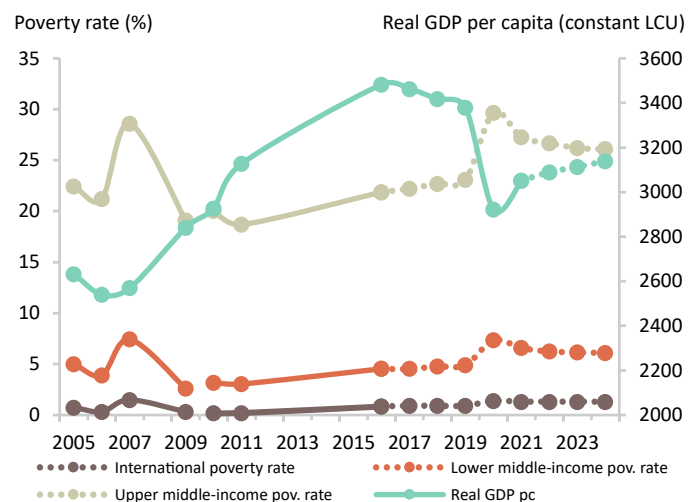
Inflation began to rise from negative territory in 2020, registering an average of 1.2 percent in 2021 due to a pickup in demand and rising global food and energy prices. This trend has continued in early 2022 with the CPI rising by 2.7 percent in January, y-o-y. Recently, the Palestinians took to the streets of the West Bank demonstrating against tax hikes that the Palestinian Authority (PA) implemented on sugary drinks and one-time use plastics in February 2022, to abide by the Paris Protocol following similar measures on the Israeli side.

FIGURE 1 Palestinian territories / New daily COVID-19 infections and 7-day moving average



Sources: John Hopkins University CSEE and World Bank staff calculations.

FIGURE 2 Palestinian territories / Actual and projected poverty rates and real GDP per capita



Sources: Palestine Expenditure and Consumption Survey (PECS), World Bank staff calculations.

Public revenues bounced back with the economic recovery, while growth in expenses was limited due to cuts in transfers. The fiscal deficit after grants and after accounting for deductions made by Israel from revenues collected on behalf of the PA narrowed to 5.8 percent of GDP in 2021 from 7.5 percent in 2020. The deficit was largely financed by the accumulation of arrears to the private sector and the public pension fund. The PA also started paying partial salaries to its employees since December 2021.

The unemployment rate in the Palestinian territories edged up to 24.2 percent in Q4 2021 from 23.4 percent a year earlier, due to a rise in the participation rate. The overall rate masks a wide regional divergence whereby unemployment in the West Bank reached 13.2 percent while in Gaza it was 44.7 percent.

Estimates based on GDP per capita growth suggest that in 2020 the poverty rate spiked to 29.7 percent, an increase of

nearly 8 percentage points from 2016 (latest available official data). As the impact of the pandemic receded, the poverty rate is estimated to have declined to 27.3 percent in 2021. Current poverty rates represent a poor population of approximately 1.5 million people.

Outlook

Under a baseline scenario that assumes a continuation of the Israeli restrictions, persistence of the internal divide between the West Bank and Gaza and stagnating aid levels, growth is expected to hover around 3.7-3.1 percent over the forecast period. The poverty rate is projected to decline to 26.7 percent in 2022, and then to further gradually decrease to 26.1 percent by 2024. On the fiscal front, revenue is projected to grow in 2022, reflecting increased tax rates

on sugary drinks and single-use plastics, higher collections on tobacco excise and higher VAT revenue due to implementing an e-VAT system with Israel. Yet, these efforts would be offset by Israeli unilateral deductions from revenues it collects on behalf of the PA, projected at 1.6 percent of GDP in 2022. Expenditure is expected to decline with partial payments of salaries until May 2022. With grants, the fiscal deficit (on a cash basis) is expected to fall to 4.5 percent of GDP in 2022.

The economic consequences of the Russian invasion and associated sanctions may also affect the outlook through mounting inflationary pressure. The ongoing pandemic may also cause risks to the outlook, especially if no additional vaccines are secured beyond mid-2022. Further, if recent clashes between Palestinians and the Israeli forces in the West Bank and in Gaza escalate, there is little room left to absorb such shocks.

TABLE 2 Palestinian territories / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	1.4	-11.3	7.0	3.7	3.2	3.1
Private Consumption	4.1	-13.1	6.3	4.2	2.9	3.3
Government Consumption	-3.5	0.3	11.1	-5.5	7.6	3.0
Gross Fixed Capital Investment	-2.6	-20.9	14.7	10.0	1.0	3.0
Exports, Goods and Services	2.0	-11.2	18.8	6.0	3.8	3.8
Imports, Goods and Services	1.4	-14.2	16.6	4.0	3.6	3.6
Real GDP growth, at constant factor prices	1.3	-12.0	6.2	3.7	3.2	3.1
Agriculture	0.9	-9.1	-2.3	3.0	3.0	3.0
Industry	-0.5	-19.4	6.2	3.5	3.2	3.2
Services	2.0	-10.0	7.2	3.8	3.3	3.1
Inflation (Consumer Price Index)	1.6	-0.7	1.2	2.8	2.4	2.4
Current Account Balance (% of GDP)	-10.4	-12.3	-8.2	-8.1	-8.0	-7.9
Net Foreign Direct Investment (% of GDP)	1.1	0.9	0.0	0.8	0.8	0.8
Fiscal Balance (% of GDP)	-7.5	-7.5	-5.8	-4.5	-3.7	-3.5
Debt (% of GDP)	39.5	53.9	54.9	55.8	56.1	56.1
Primary Balance (% of GDP)	-7.2	-7.1	-5.1	-3.8	-3.0	-2.8
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	0.9	1.4	1.3	1.3	1.3	1.3
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	4.9	7.3	6.6	6.2	6.2	6.1
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	23.1	29.7	27.3	26.7	26.2	26.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

a/ Calculations based on 2016-PECS. Actual data: 2016. Nowcast: 2017-2021. Forecasts are from 2022 to 2024.

b/ Projection using neutral distribution (2016) with pass-through = 0.87 based on GDP per capita in constant LCU.