

PALESTINIAN TERRITORIES

| Table 1 | 2019 |
|---|--------|
| Population, million | 4.9 |
| GDP, current US\$ billion | 17.1 |
| GDP per capita, current US\$ | 3463.3 |
| Upper middle-income poverty rate (\$5.5) ^a | 21.9 |
| Gini index ^a | 33.7 |
| School enrollment, primary (% gross) ^b | 98.6 |
| Life expectancy at birth, years ^b | 73.9 |

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011 PPPs.
(b) Most recent WDI value (2018).

After successful containment of COVID-19 in the spring, the second wave has returned by July. Economic activity suffered during the lockdown in the second quarter and is expected only to stabilize in the second half if the current conditions prevail. The fiscal position has worsened not only due to the outbreak but also due to a political standoff that is disrupting the flow of revenues. The outlook remains precarious and subject to numerous political, security and health risks.

Recent developments

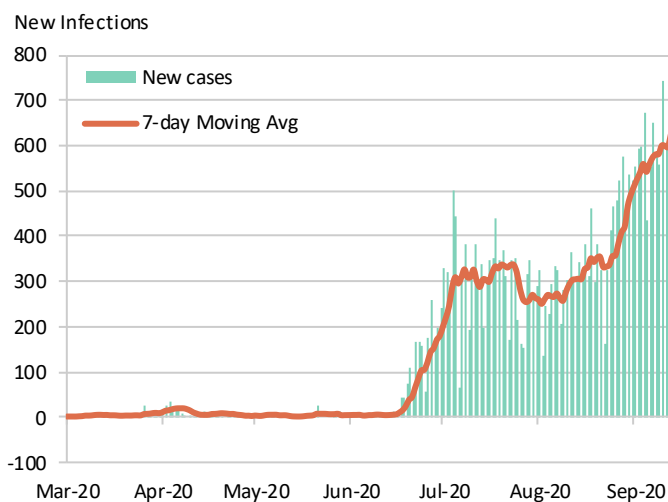
Following three consecutive years of economic growth below two percent, 2020 is proving to be an exceptionally difficult year as the Palestinian economy faces triple reinforcing crises: i) resurgent COVID-19 outbreak, ii) a severe economic slowdown, and iii) another political standoff between the Palestinian Authority (PA) and Government of Israel (GoI), disrupting clearance revenues.

Measures to restrict the spread of COVID-19 were introduced in March with a full lockdown occurring in April and for most part of May until it was eased afterwards. However, by the end of June, infection levels continued to rise reaching an average of 500 per day by the end of August, up from dozens a day at the end of March. By the beginning of July new measures, although limited in scope, were reintroduced restricting movement and activity. Even though initial lockdowns only affected one month in the first quarter, the declines in activity were rapid and broad; GDP registered a contraction of 4.9 percent compared to the previous quarter (q/q) or a contraction of 3.4 percent compared to the same quarter of the previous year (y/y). All components of the GDP declined with public consumption, capital investments, and exports falling by most. By June, prices were 2 percent lower than in the same month of 2019 reflecting weak demand by consumers, and shekel appreciation had a deflationary effect on the prices of imported goods.

The PA's fiscal stress heightened in the first half of 2020 due to COVID-19 outbreak and the decision to halt coordination with GoI which resulted in the latest suspension of clearance revenue receipts. As expected, the public health measures negatively impacted local revenue collection. On the expenditure side, the PA managed to reduce its overall expenditure in the first half of 2020, despite increasing medical and social spending to deal with the outbreak. The first half financing need (deficit after grants) amounted to US\$354 million, forcing the PA to increase local borrowing and accumulate more arrears to the private sector.

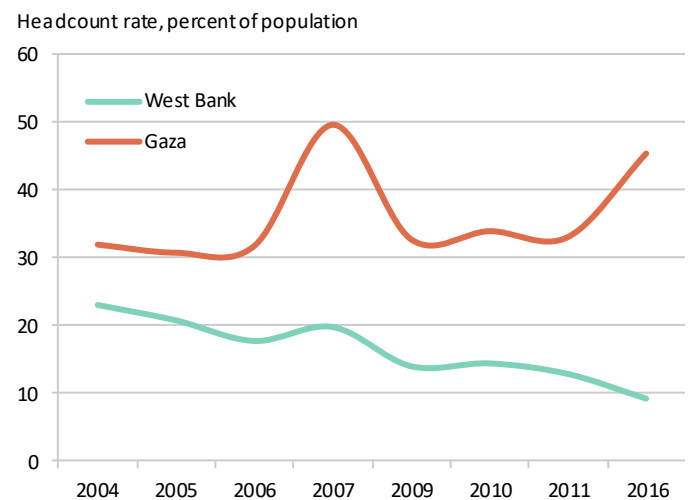
Growth in consumer prices had been modest prior to the outbreak of COVID-19, where prices generally moved in the 1-2 percent range. However, since April, growth in prices has turned negative and by June, prices were 2 percent lower than in the same month of 2019, reflecting weak demand by consumers. The Israeli Shekel, which is the main currency in circulation in the Palestinian territories, has continued its appreciation and this had a deflationary effect on the prices of imported goods. In addition, the prices of food products (most of which are produced domestically or in Israel) remained stable. The unemployment rate rose to 26.6 percent in the second quarter as COVID-19 struck, up from 24 percent at the end of 2019. This headline story, however, masks a regional divergence. In Gaza, 49 percent of those in the labor force were unemployed in the second quarter of 2020, while the West Bank recorded an unemployment rate of 15 percent during the

FIGURE 1 Palestinian territories / New daily Covid-19 infections



Sources: John Hopkins University CSEE.

FIGURE 2 Palestinian territories / Poverty rate at USD5.5 2011 PPP poverty line



Sources: PECS, World Bank staff calculations.

same time. Furthermore, the modest increase in the unemployment rate is explained by a sharp reduction in the labor force participation rate, which fell to just 39 percent in the second quarter, down from 43 percent in the previous quarter. With the onset of COVID-19 outbreak, some 121 thousand people have lost their jobs in the second quarter alone. Of this, some 96 thousand people have lost a job in the Palestinian territories, especially in sectors that have been affected by social distancing measures, such as tourism, restaurants and construction. Some 25 thousand Palestinian workers that regularly cross to Israel for work lost their job in the second quarter of 2020.

Around 22 percent of Palestinians lived below the US\$5.5 2011 PPP a day poverty line in 2016/17. In the West Bank, poverty status is sensitive to even small shocks in household expenditures, while in Gaza any change in social assistance flows can significantly affect the population's well-being. As a consequence, projections based on GDP per capita growth indicate that the poverty rate is constantly increasing since 2016, being at 24 percent in 2018

and 27.5 percent in 2020, an increase of 5.6 percentage points in the last four years. This amounts to approximately 1.4 million people living in poverty in 2020.

Outlook

A difficult year is already assured even with no further escalation of public health measures. While some measures to curb the movements and gatherings are still in place, the great majority of activity remains open. Assuming that the lockdowns remain limited, the severe first half contraction will likely avoid repetition, though not sufficiently to offset the losses in the first half. Consequently, GDP for 2020 is expected to contract by about 8 percent. A modest bounce back is expected in the forecast period with growth averaging 2.5 percent as full normalization of activity is not expected to occur before the second half of 2021. The poverty rate is projected to stall around 27.5 percent in 2021. On the fiscal side, the outlook depends on whether there is a resumption of clearance

revenue transfers. Assuming that domestic revenues slowly recover and that clearance revenue transfers are resumed, the PA's deficit is expected to reach 4.4 percent of GDP in 2020. This outcome will be an improvement compared to 2019 when higher deductions were made by the GoI from clearance revenues. If the political standoff continues, the fiscal deficit could double in size.

Risks and challenges

Should the outbreak in the West Bank get worse during the fall and winter of 2020, another complete lockdown might become necessary, adversely affecting the outlook. Further, if the recent spike in the number of cases in Gaza continues or if violence escalates, the Strip may be placed under a long-term lockdown, which would further squeeze an already weak economy. Potential sources of growth will be very limited even in the post-Covid environment due to the external constraints on trade and movement.

TABLE 2 Palestinian territories / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

| | 2017 | 2018 | 2019 | 2020 e | 2021 f | 2022 f |
|---|-------|-------|------|--------|--------|--------|
| Real GDP growth, at constant market prices | 1.4 | 1.2 | 0.9 | -7.9 | 2.3 | 2.4 |
| Private Consumption | -1.1 | 1.1 | 4.2 | -7.0 | 2.4 | 2.5 |
| Government Consumption | -13.7 | 7.3 | -6.1 | -2.1 | 5.6 | 2.3 |
| Gross Fixed Capital Investment | 6.9 | 2.5 | -1.9 | -13.0 | 5.0 | 1.7 |
| Exports, Goods and Services | 13.9 | 2.5 | 1.8 | -15.0 | 3.8 | 1.5 |
| Imports, Goods and Services | 1.3 | 4.5 | 1.4 | -8.5 | 5.6 | 2.1 |
| Real GDP growth, at constant factor prices | 0.2 | 1.9 | 0.8 | -7.9 | 1.8 | 2.3 |
| Agriculture | -6.0 | 1.6 | 0.0 | -3.6 | 0.0 | 1.3 |
| Industry | 11.6 | 2.2 | -0.9 | -10.0 | 3.0 | 2.0 |
| Services | -2.2 | 1.8 | 1.5 | -7.7 | 1.6 | 2.6 |
| Inflation (Consumer Price Index) | 0.0 | 1.2 | 0.8 | -1.0 | 0.7 | 0.9 |
| Current Account Balance (% of GDP) | -9.7 | -10.2 | -8.7 | -9.3 | -10.1 | -10.1 |
| Net Foreign Direct Investment (% of GDP) | -1.4 | -1.4 | -0.8 | -0.8 | -0.8 | -0.8 |
| Fiscal Balance (% of GDP) | -3.2 | -2.5 | -4.6 | -4.4 | -4.3 | -4.1 |
| Debt (% of GDP) | 15.8 | 14.5 | 16.7 | 20.4 | 21.0 | 20.7 |
| Primary Balance (% of GDP) | -2.7 | -2.1 | -4.3 | -4.1 | -3.9 | -3.7 |

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.