PALESTINIAN TERRITORIES

Table 1	2020
Population, million	4.8
GDP, current US$ billion	15.6
GDP per capita, current US$	3250.0
Upper middle-income poverty rate ($5.5)[a]	21.9
Gini index[a]	33.7
School enrollment, primary (% gross)[b]	97.7
Life expectancy at birth, years[b]	74.1
Total GHG Emissions (mtCO2e)	

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2016), 2011 PPPs.
(b) Most recent WDI value (2019).

Following an improvement in the health situation, lockdowns were eased in Q1 2021 and the Palestinian economy started showing signs of recovery. The recovery was interrupted in Gaza by an 11-day conflict in May while the West Bank continued its upward trajectory. Despite strong revenues, the fiscal situation remained difficult in 2021 due to high public spending and very low aid. Given the start of a fourth COVID-19 wave, 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 the COVID-19 pandemic. This is attributed to ongoing restrictions by Israel on trade, movement and access, recurrent hostilities, the 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. Decomposing growth historically makes it evident that it was driven by accumulation of factors (both capital and labor) and not improvements in productivity. In recent years, gross investment 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 (FDI), at a mere 1 percent of GDP, is very low. Potential sources of growth will be limited going forward, even in the post-COVID environment.

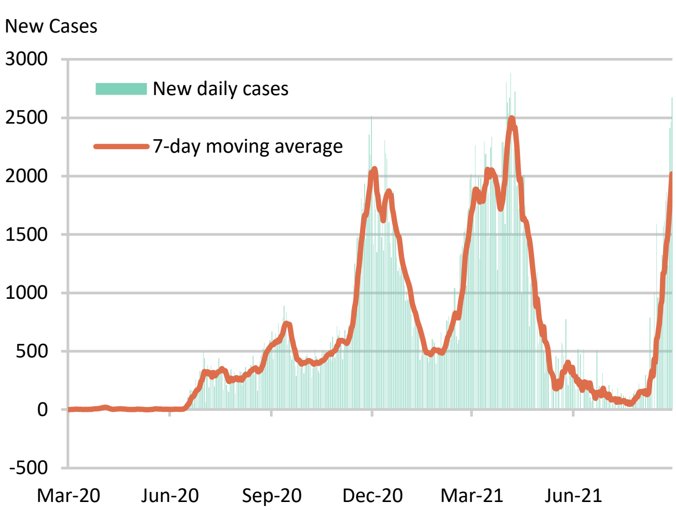
COVID-19 has exacerbated existing economic and social challenges. The Palestinian territories are currently going through a fourth wave, dominated by the delta variant, with no immediate sign of a flattened curve. If this continues and given that so far only 18 percent of the population is vaccinated, further stringent lockdowns may become necessary, amid eroding compliance; this would further impact growth.

Recent developments

The Palestinian Authority (PA) took a decision to significantly ease lockdowns in January and February 2021, following a decline in the daily number of new COVID-19 cases. The ease in lockdowns combined with the launch of the vaccination campaign allowed business activity to gradually rebound. Real GDP of the Palestinian economy grew by 1.9 percent in Q1 2021, compared to the previous quarter. However, comparing the economic performance in Q1 2021 to the same quarter in 2020 results in a contraction of 5.9 percent, indicating that the economy has not yet rebounded to its pre-COVID levels. Even though GDP figures for Q2 2021 are not available yet, business cycle indicators suggest that the West Bank economy continued on an upward trajectory while the recovery in Gaza was short lived due to the 11-day conflict in May 2021, which resulted in the destruction of about 2 percent of Gaza's capital stock.

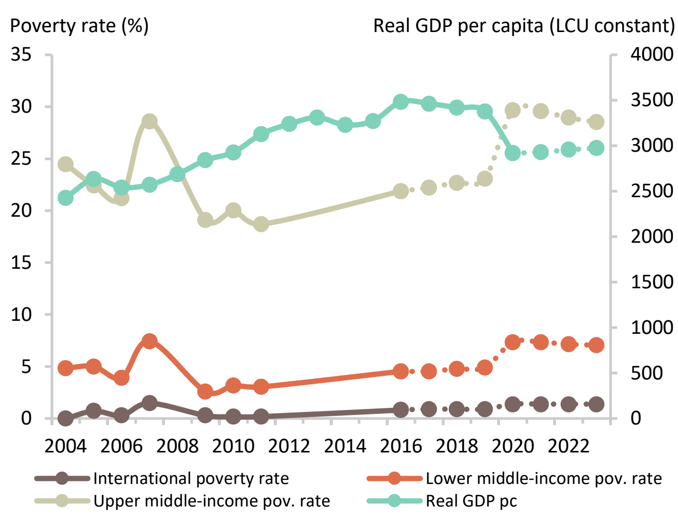
Growth in consumer prices had been modest prior to the outbreak of COVID-19, where prices generally moved in the 1-2 percent range. However, prices in 2020 were 0.7 percent lower than in 2019, reflecting weak demand by consumers and a widening output gap. In 2021, consumer prices have started to gradually increase and by July, they were 2.3 percent higher than in July 2020 reflecting a pickup in demand.

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) and World Bank staff calculations.

The PA's revenues grew by 19 percent in the first half of 2021, year-on-year, driven by an improvement in economic activity. Public spending also grew by 19 percent mainly due to an increase in the wage bill following the PA's decision to reinstate the wages of Gaza employees to 100 percent in March 2021. The total deficit amounted to US$472 million in the first half of 2021 while aid received was US$75 million resulting in a financing gap (deficit after aid) of US$397 million. To finance it, the PA mostly relied on arrears to the private sector and the public pension fund.

The unemployment rate in the Palestinian territories increased from 23.4 percent in Q4 2020 to 26.4 percent in Q2 2021. The increase could be explained by a 1.9 percentage point rise in the participation rate as a higher number of men and women were encouraged to join the labor market with the improvement in economic conditions. The overall rate masks a wide regional divergence whereby unemployment in the West Bank reached 16.9 percent in Q2 2021 while in Gaza it was 44.7 percent.

Based on the latest official data, about 22 percent of Palestinians lived below the upper-middle income poverty line (US$5.5 2011 PPP a day) in 2016/17 – a 2.8 percentage points increase with respect to 2011. There is a significant regional income disparity with 46 percent of the population in Gaza below the poverty line in 2016/17 compared to only 9 percent in the West Bank.

Outlook

If the pace of the reconstruction process in Gaza remains slow, the Strip's economy is expected to shrink in 2021 due to the lingering effect of the conflict. The West Bank's performance, however, is expected to be more positive, especially if the vaccination campaign continues and the lockdown measures continue to be relaxed for most of the remainder of the year. We project a growth rate of 2.9 percent for the Palestinian economy in 2021, implying a near stagnation in real per capita income and worsening social conditions, especially in Gaza. Growth is expected to hover around 3 percent in 2022 and 2023 as the impact of the conflict in Gaza is slowly reversed, and the West Bank continues to regain what was lost in 2020 due to COVID-19. However, if some of the confidence-building measures that have recently been discussed between the PA and the Government of Israel (GoI) materialize, including easing the movement of goods and people in and out of Gaza, and increasing the number of Palestinian workers in Israel, growth could further strengthen, as would living standards.

Gross public revenue is projected to grow in 2021. However, unilateral deductions by the GoI from revenues it collects on behalf of the PA are projected to increase to 1.5 percentage points of GDP, offsetting this growth and pushing down the share of net revenue in GDP to 21.4 percent in 2021. Total expenditure, including on development projects, is projected to remain constant as a share of GDP at 32.1 percent, due to GDP growth and not expenditure control. Put together, the deficit before financing is projected at US$1.73 billion. Identified financing is expected to reach US$512 million: US$264 million in aid to the budget (almost half of what was received in 2020) and US$248 million from the GoI in the form of an advance revenue payment. This results in a government deficit of US$1.22 billion or 7.5 percent of GDP—up from 7.4 percent in 2020.

Projections based on GDP per capita growth suggest that the poverty rate has continued to be high since 2016, reaching 29.6 percent in 2021—a significant increase of approximately 8 percentage points in the last five years. This represents approximately 1.5 million people living in poverty in 2021.

TABLE 2 Palestinian territories / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	1.2	1.4	-11.5	2.9	3.3	3.1
Private Consumption	1.1	4.1	-12.5	1.5	3.0	2.5
Government Consumption	7.3	-3.5	0.2	9.8	1.6	2.2
Gross Fixed Capital Investment	2.5	-2.6	-24.0	6.9	9.2	8.3
Exports, Goods and Services	2.5	2.0	-7.0	2.0	3.0	3.0
Imports, Goods and Services	4.5	1.4	-15.4	5.0	4.5	4.0
Real GDP growth, at constant factor prices	1.9	1.3	-12.1	2.9	3.3	3.1
Agriculture	1.6	0.9	-9.2	3.3	3.4	3.3
Industry	2.2	-0.5	-19.5	4.0	4.3	4.2
Services	1.8	2.0	-10.1	2.5	3.0	2.7
Inflation (Consumer Price Index)	-0.2	1.6	-0.7	1.0	1.2	1.2
Current Account Balance (% of GDP)	-13.1	-10.4	-6.9	-7.5	-7.8	-7.9
Net Foreign Direct Investment (% of GDP)	1.7	1.1	0.7	0.6	0.7	0.8
Fiscal Balance (% of GDP)	-2.5	-4.7	-7.4	-7.5	-7.4	-7.3
Debt (% of GDP)	36.1	38.6	53.5	58.9	61.5	63.3
Primary Balance (% of GDP)	-2.1	-4.4	-7.0	-7.1	-6.9	-6.7
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.9	0.9	1.4	1.4	1.4	1.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	4.8	4.9	7.3	7.3	7.1	7.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	22.7	23.1	29.7	29.6	29.0	28.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2016-PECS.Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021to 2023.

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