

## PALESTINIAN ECONOMIC BULLETIN

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### Main reports

Deployment of the fibre optics network continued in 2022, growing from an estimated 3,000 subscribers in 2021 to 51,759 by the end of 2022

On 3 April, the Palestinian Cabinet approved an emergency budget for 2023

On 12 April, the Palestinian Economic Policy Research Institute organised a roundtable discussion on activating the Unified National Social Registry

AI-Quds index reached 654.3 points in April 2023, a 0.36% decrease from the previous month

### AHLC Meeting

On 3 May, the Ad Hoc Liaison Committee (AHLC) met in Brussels to track progress made since September 2022 to support individual, multilateral, and international efforts to improve economic and institutional conditions in Palestine.<sup>1</sup> The AHLC is a 15-member group of donor and international organisations' representatives set up in 1993 as the primary policy coordination mechanism for the delivery of international aid to Palestine.<sup>2</sup> The Office of the United Nations Special Coordinator for the Middle East Peace Process (UNSCO), the World Bank Group (World Bank), the Office of the Quartet (Quartet), and the International Monetary Fund (IMF) regularly present reports for the AHLC's consideration.

### Economic outlook

International monitoring reveals a slowdown in economic recovery towards pre-pandemic output levels. Real GDP growth rate dropped from 7% in 2021 to 3.9% in 2022 and is expected to slow to 3.5% during 2023 as the post-pandemic rebound tapers off, following a 11.3% shock to GDP in 2020.<sup>3</sup>

Unemployment fell from 26.4% in 2021 to 24.4% in 2022, through strong West Bank employment gains.<sup>4</sup> In 2022, unemployment in the West Bank stood at 13.1%, its lowest level since 2015. This was in part due to an increase in the number of West Bank Palestinians working in Israel and Israeli settlements (a 30.8% increase to 191,000 workers). In the Gaza Strip, however, unemployment remained stubbornly high in 2022 at 45.3%, partly as only a limited number of Palestinians from Gaza (18,000 workers) were allowed to work in Israel for the first time in some 18 years. Of those Palestinians employed in the West Bank, 22.5% worked in Israel and the settlements in 2022, compared to just 0.8% of employed Gazans.

Private consumption was the main driver of growth in 2022, prompted by an increase in the compensation of employees working in Israel and the settlements (by 6.7% to \$2.8bn) and in net current transfers from abroad (by 60.2% to \$2bn). However, given the eroded productive capacity of the Palestinian economy, increased domestic demand fed an import surge of 25.7%, adding to an already high current-account deficit (a 61.2% increase to \$2.9bn, or 15% of GDP). The trade deficit increased from \$6.95bn in 2021 (34.2% of GDP) to \$9.3bn in 2022 (39.7% of GDP).

Inflation increased from 1.2% in 2021 to an average of 3.7% in 2022 amid rising prices globally and stronger demand for imports. Palestine has the second highest food import share in the region, behind only Yemen, with food imports comprising about 34% of total imports. It also has very high import dependency ratios of wheat (91%) and vegetable oil (95%). In the first half of 2022 Palestinian National Authority (PNA) subsidies and tax breaks cushioned the impact of increased food and fuel import prices.

### Renewable energy

Following an EU request at the May 2022 AHLC meeting, the Quartet facilitated a series of discussions with the PNA, Israel and the international community to enable additional renewable energy projects in the West Bank.

The international community expressed interest in supporting the development of renewable energy in Area C to meet growing Palestinian demand for energy and help address the net lending issue, whereby Israel deducts payment for unpaid electricity, water and sewage services from clearance revenues it collects on the PNA's behalf. The PNA has identified over 200 MW of solar PV sites in the West Bank, and is engaging with the Government of Israel (GoI) to advance their development. The GoI has established an inter-ministerial committee to advance green energy projects in the West Bank, which had previously approved two locations there, in Bani Naim (Area A) and Aqbat Jabr (Area C), for solar PV.

West Bank electricity demand is expected to increase by 2.91% annually from its current level of 1,360 MW.<sup>5</sup> More than 90% of current electricity demand is met through imports from Israel.

1 <https://bit.ly/3Bjo3SB>

2 <https://unsco.unmissions.org/ahlc-socioeconomic-reports>

3 <https://bit.ly/3BkquEE>

4 <https://pcbs.gov.ps/Downloads/book2658.pdf>

5 <https://bit.ly/3pKu4FA> and <https://bit.ly/3BzziXo>

Electricity imports from Jordan increased from 40 MW in 2021 to 80 MW in 2022 and could increase further with additional investment. The PNA has a renewable energy target of 630 MW by 2030, more than three times the recorded capacity in 2021 (178.5 MW).<sup>6</sup>

In the Gaza Strip, the Quartet commissioned an electricity grid impact assessment of the Gaza power plant network. The assessment, due to be completed in Q3 of 2023, aims to identify the existing and future capacity of the grid to absorb renewable energy and will also propose upgrades to enable greater absorption. With funding from Norway, the EU, and the Islamic Development Bank, the first phase (1.7 MW out of a total of 7 MW) of the solar PV plant at the Khan Younis WWTP in Gaza was completed at the end of 2022.

Electricity supply in the Gaza Strip (approximately 190 MW) is less than half the demand (more than 430 MW on average), resulting in electricity availability of only 12 hours per day on average. Gaza continues to receive 120 MW of electricity from Israel, while the Gaza Power Plant (GPP) generates around 70 MW using Qatari-funded diesel. The supply of natural gas to the GPP through a gas pipeline (via the Gas for Gaza project) and the implementation of associated infrastructure, specifically grid upgrades, are essential components of the overall structural solution for Gaza's energy sector.

### Telecommunication

Deployment of the fibre optics network continued in 2022, growing from an estimated 3,000 subscribers in 2021 (compared to 405,000 using ADSL) to an estimated 51,759 by the end of 2022 (compared to 358,000 using ADSL).<sup>7</sup> This promoted Palestine's global internet speed ranking from 140th to 73rd, with download speeds recorded at 53 Mbps.

The introduction of 4G and 5G technologies to the Palestinian market has been significantly delayed, pending the prolonged conclusion of technical and commercial arrangements between the Palestinian cellular communications service providers and spectrum management company. This delay has had an adverse effect on the economy's broader development.<sup>8</sup> No commercial discussions have taken place so far, reducing the likelihood of meeting the target of 4G deployment by the end of 2023 set by US President Biden during his July 2022 visit.

### VAT clearance mechanism

The World Bank report noted that the pilot e-VAT system, introduced in March 2022 to replace the paper-based administrative process for tracking traders and transactions, has modestly helped increase VAT revenues. However, efforts are undermined by the limited take-up by Israeli traders.

As of 31 December 2022, 2,975 Palestinian and 942 Israeli active users were registered on the system. Over the ten-month period since March 2022, approximately 170,000 invoices with a total transactional value of ILS 5bn and a VAT amount of ILS 690m were issued through the Palestinian system, the use of which is mandatory for Palestinian traders. The corresponding figures on the Israeli side are much lower (50,000 invoices worth ILS 1.4bn and a VAT amount of ILS 244m), since the e-VAT system is not mandatory for Israeli traders. Registered imports from Israel over the same period amounted to ILS 13.6bn.<sup>9</sup> The fiscal leakage incurred by the PNA owing to inadequate VAT compliance (which effectively accrues to the Israeli Treasury) is estimated at around \$310m annually.<sup>10</sup>

## PNA Emergency Budget 2023

On 3 April, the Palestinian Cabinet approved an emergency budget for 2023.<sup>11</sup> The adoption of the emergency budget came in response to the PNA's ongoing fiscal crisis and the high uncertainty surrounding public finances, particularly Israeli

deductions from Palestinian clearance revenues,<sup>12</sup> which have amounted to \$72m since the beginning of 2023.<sup>13</sup>

While the details of the 2023 budget have not yet been published, the Palestinian Minister of Finance, Shukri Bishara, announced revenues are expected to grow by 6.7%, reaching \$5.38bn in 2023, compared to \$5.04bn in 2022.<sup>14</sup> Total public expenditure is expected to increase by 11.6%, reaching \$6.17bn at year end, while budget support is not expected to exceed \$100m. As a result, the fiscal deficit (after grants) is expected to increase by 46% to \$609m in 2023 (or 9.9% of the total budget), after accounting for unilateral deductions made by Israel from clearance revenues (forecast at \$250m).<sup>15</sup>

### Measures to address fiscal constraints

In 2023, the PNA is expected to continue its reforms aimed at broadening the tax base and containing public spending. Revenue reforms include the implementation of the new VAT Law, the amendment of the Income Tax Law and finalising discussions with the Palestinian Cabinet on a new Customs Law. Spending reforms include efforts to reduce the wage bill, external health referrals and net lending. However, despite the PNA's commitment to significantly reducing public sector hiring, the wage bill is expected to increase following negotiations with the teachers', doctors' and engineers' unions in the wake of a series of strikes this past winter.

On 21 April, Israel approved new measures to financially bolster the PNA.<sup>16</sup> These include reducing the fuel handling fee from 3% to 1.5%, raising the percentage of revenues Israel transfers to the PNA from the fees it collects at the Allenby Bridge, and expanding the list of tax-free imports that Israel handles on the PNA's behalf.

While these three measures are long-standing PNA requests, their impact is expected to be limited. Minister Bishara noted that the reduction in the fuel handling fee is expected to unlock savings of only around ILS 4-5m per month.<sup>17</sup> He also stressed that Israel still withholds ILS 900m from the departure tax it owes to Palestinians from previous years, and has not made any commitment to transfer the outstanding dues.

### Fiscal performance in 2022

Public revenues increased considerably in 2022 (up 18.3% to ILS 16.2bn) following a 19.3% increase (to 5.9bn) in domestic tax revenues and a 19.6% increase in clearance revenues (to ILS 11.2bn).<sup>18</sup> Revenue growth was partly offset by a sharp increase in the fuel subsidy to mitigate the global spike in oil prices, which rose by 191% in 2022 (from 0.4% of GDP in 2021 to 1.1% of GDP in 2022).<sup>19</sup> Revenues also grew despite a temporary VAT exemption on flour and bread to contain the increase of food import prices to consumers.<sup>20</sup>

Public spending remained almost unchanged compared to 2021 in nominal ILS terms (0.4% increase), with the wage bill increase (4.1%) being offset by lower current transfers (a 16.3% decrease). Accounting revisions related to security sector pensions were the main contributor to this drop in transfers in 2022. Also, the PNA provided fewer payments to poor households through the National Cash Transfer Programme in 2022, while development spending has remained well below pre-pandemic levels. On a cash basis, the PNA has been paying public sector employees and pensioners only 80% of their salaries/pensions (other than the lowest earners, whose earnings were not cut) since November 2021.

Strong revenues and stable spending resulted in a 60% drop in the fiscal deficit (before grants) to \$526m. Donor financing totalled \$350m (\$244m in budget support and \$106m in development financing) in 2022, with EU funding reinstated

6 <https://bit.ly/3Mhd29G> and <https://bit.ly/43c27E0>

7 <https://bit.ly/42M00FL> and <https://bit.ly/437IXBa>

8 A spectrum management company defines the radiocommunication service allocations, the technical specifications, and determines which types of services and technologies can operate in a country.

9 <https://shorturl.at/ekEKX>; 1 USD = 3.4 ILS

10 [https://unctad.org/system/files/official-document/gdsapp2013d1\\_en.pdf](https://unctad.org/system/files/official-document/gdsapp2013d1_en.pdf)

11 <https://english.wafa.ps/Pages/Details/135175>

12 Revenue collected by Israel on behalf of and transferred to the Palestinian Authority.

13 [www.pmf.ps/documents/accounts/monthly/2023/March.2023.ar.pdf](http://www.pmf.ps/documents/accounts/monthly/2023/March.2023.ar.pdf)

14 [www.wafa.ps/pages/details/69457](http://www.wafa.ps/pages/details/69457)

15 [www.wafa.ps/pages/details/68922](http://www.wafa.ps/pages/details/68922)

16 <https://bit.ly/3BIYBvG>

17 [www.aliqtisadi.ps/ar/Article/94188](http://www.aliqtisadi.ps/ar/Article/94188)

18 [www.pmf.ps/documents/accounts/monthly/2022/Dec-2022.ar.pdf](http://www.pmf.ps/documents/accounts/monthly/2022/Dec-2022.ar.pdf)

19 <https://bit.ly/3LWwTjN>

20 <https://bit.ly/41wy2yL>

since August of last year. Fiscal deficit after grants and after accounting for Israeli deductions stood at \$416m in 2022.

**Table 1: Key Fiscal Indicators as a Percentage of GDP, 2019-2022**

Item	2019	2020	2021	2022
<b>Total Revenues</b>	<b>18.9</b>	<b>22</b>	<b>22.9</b>	<b>24.4</b>
Domestic Tax Revenues	4.4	4.7	5.5	6
Income tax	1.2	1.2	1.2	1.5
Value added tax	1.8	2	2.1	2.2
Customs and excises	1.4	1.5	2.2	2.3
Non-Tax Revenues	2.1	2.4	2.2	2.4
Earmarked Collections*	0.5	0.6	0.8	0.9
Clearance Revenues	12.9	15	15.4	16.4
Tax Refunds	-1	-0.7	-1	-1.3
<b>Total Expenditures</b>	<b>29.3</b>	<b>32.6</b>	<b>30.3</b>	<b>28</b>
Current Expenditures	24.8	27.8	25.9	23.6
Wages and compensation	13	14.1	14.6	13.9
Current transfers	7.7	9.1	6.3	4.8
Goods and services	3.8	4.2	4.4	4.2
Interest payments	0.3	0.4	0.6	0.7
Capital Expenditures	2.1	2	1.5	1.6
Net lending	1.9	2.2	2.1	1.9
Earmarked Payments	0.5	0.6	0.8	0.9
Grants	2.9	3.1	1.7	1.8
<b>Government Financing</b>	<b>7.5</b>	<b>7.5</b>	<b>5.77</b>	<b>1.8</b>

\* Earmarked collections and payments are collections from taxes and revenues due to local government units.

Source :World Bank, April 2023

## Public debt and arrears

To cover the fiscal shortfall, and without access to international capital markets and bank financing constraints for prudential reasons, the PNA continued to accrue a large and growing stock of arrears to the private sector, pension funds, and public sector employees.

The latest World Bank report to the AHLC flags the large stock of arrears as a risk to macroeconomic stability, as it drains liquidity from the economy.<sup>21</sup> These arrears stood at 34.8% of GDP at the end of 2022. The bulk of private sector arrears, estimated at around \$1bn, are owed to hospitals, pharmaceutical firms, contractors and the civil service pension fund. These total about \$3bn (excluding the security sector pension fund). Meanwhile, arrears to public sector employees due to partial salary payments, reached an estimated \$400m at the end of 2022.

According to data published by the Ministry of Finance (MoF), the PNA's public debt stood at NIS 12.5bn in 2022 (18.5% of GDP), compared to NIS 12bn in 2021 (21.2% of GDP) and NIS 9.66bn in 2019 (16.3% of GDP).<sup>22</sup> This is lower than the limit permitted by the Law on Public Debt No. 24 (2005), which sets it at 40% of GDP. However, after accounting for arrears, which are not included in the MoF public debt calculations, the PNA's public debt was some 48.1% of GDP at the end of 2022 (compared to 34.5% in 2019 and 50.2% in 2021). This is still lower than other countries in the region (75.1% in Jordan and 60.9% in Israel).

## A Unified National Social Registry

On 12 April, the Palestinian Economic Policy Research Institute (MAS) organised a roundtable discussion on the benefits and determinants of activating the Unified National Social Registry (UNSR).<sup>23</sup>

The UNSR, launched in December 2021 by the Ministry of Social Development (MoSD), is an inclusive system that aims to ensure equitable access and fair opportunities for social protection services for Palestinians.<sup>24</sup> Citizens can submit

a preliminary request for assistance either through MoSD offices or the Social Protection Programme platform. If the citizen's household meets the required criteria, they are then visited by a social worker (case manager) for a comprehensive assessment. If need is identified, the social worker works closely with the family to implement a planned programme and also coordinate with relevant parties until defined progress has been achieved.

By helping the MoSD identify and direct assistance towards the poorest and most marginalised households, the UNSR aims to address multidimensional poverty<sup>25</sup> and contribute to achieving the first Sustainable Development Goal of eradicating poverty by 2030. The programme also serves as a coordination tool to streamline service delivery, requiring 13 ministries to align their systems and protocols to provide the required assistance.

## Progress towards social protection

Since the launch of UNSR in late 2021, the MoSD has conducted 47,000 field visits to registered vulnerable households in the West Bank, and 88,000 in the Gaza Strip, with support from the World Bank.

According to the MoSD, Palestinian poverty rates peaked in 2020 due to the pandemic (which brought 40% of the population under the poverty line).<sup>26</sup> The multidimensional poverty rate currently stands at around 24% of the population, while the income poverty rate stands at around 29.2%. More than 60% of the population in Gaza were below the poverty line in 2022, compared to 19% in the West Bank.<sup>27</sup>

As of 2023, 130,000 households were enrolled as eligible for assistance from the MoSD's National Cash Transfer Programme,<sup>28</sup> which represents an increase from the 115,000 households enrolled in 2022, attesting to the limited impact of current poverty mitigation measures.<sup>29</sup>

## Challenges and the way forward

While the activation of UNSR brings significant benefits, it also faces several challenges. The cost of activation, especially with limited budgets, poses a major hurdle. Additionally, technical challenges and the need for continuous maintenance and development require competent human resources.

Currently, only a small percentage of MoSD field researchers (230) are qualified to become case managers. Furthermore, the alignment of systems and protocols among ministries remains a challenge, as each has its own procedures for providing assistance.

Expert commentators at the MAS roundtable stressed the need for developing universal social security systems and other interventions that can help citizens escape the poverty trap. Some criticised the limited capacity and coverage of the current system, noting that the fact it is not equally accessible to all marginalised groups weakens its benefit. Others proposed the focus should shift towards registering the entire population rather than the materially poor only, providing informational reference for various social development programmes. Participants also noted the need for a comprehensive social protection law.

## April Trading

Al-Quds index reached 654.3 points in April 2023, a 0.36% decrease from the previous month.<sup>30</sup> A total of 8.56m shares with a total value of \$16.96m were traded during the month, marking a 45.6% decrease in the number and 57.3% drop in the value of traded shares compared to March 2022. Trading volume tends to drop during Ramadan, which began on March 22, 2023, and ended April 20.

<sup>25</sup> An index that captures the percentage of households in a country deprived along three dimensions of well-being – monetary poverty, education, and basic infrastructure services.

<sup>26</sup> [www.mosd.gov.ps/page/about-social/ar](http://www.mosd.gov.ps/page/about-social/ar)

<sup>27</sup> <https://bit.ly/3pTdnaZ>

<sup>28</sup> A programme intended to provide payments to the poorest Palestinian households to alleviate poverty.

<sup>29</sup> <https://shorturl.at/hSKS6>

<sup>30</sup> <https://bit.ly/3lpzVqm>

<sup>21</sup> <https://bit.ly/44QAzqn>

<sup>22</sup> [www.pmf.ps/documents/accounts/monthly/2022/Dec-2022.ar.pdf](http://www.pmf.ps/documents/accounts/monthly/2022/Dec-2022.ar.pdf)

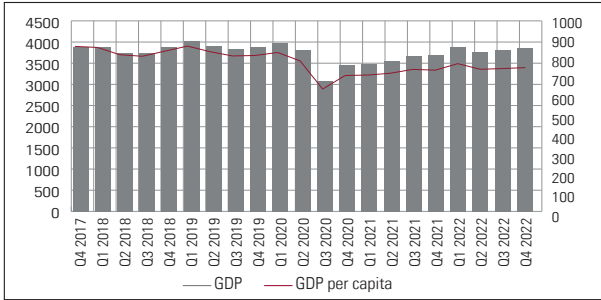
<sup>23</sup> <https://mas.ps/news/7434.html>

<sup>24</sup> [www.mosd.gov.ps/page/about-social/ar](http://www.mosd.gov.ps/page/about-social/ar)

# Palestine Economic Dashboard

## Growth

GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q4 2017 – Q4 2022

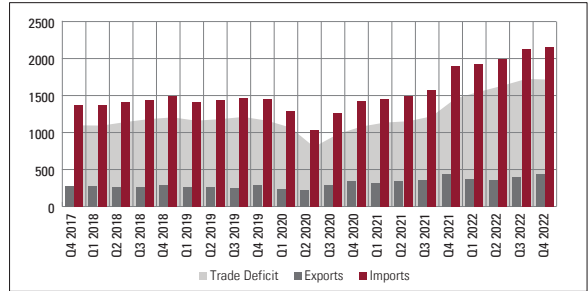


GDP (Q4 2022): \$4,201.7m  
Source: PCBS

GDP per capita (Q4 2022): \$787.9

## Trade

Exports, Imports and Trade Deficit in Palestine ('000 USD), Q4 2017 – Q4 2022

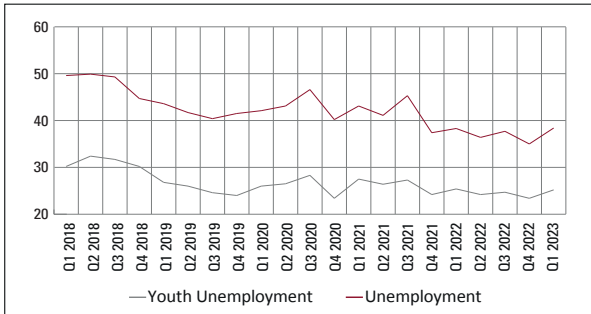


Imports (Q4 2022): \$2,158.2m  
Trade deficit (Q4 2022): \$1,712.5m

Exports (Q4 2022): \$445.7m  
Source: PCBS

## Unemployment

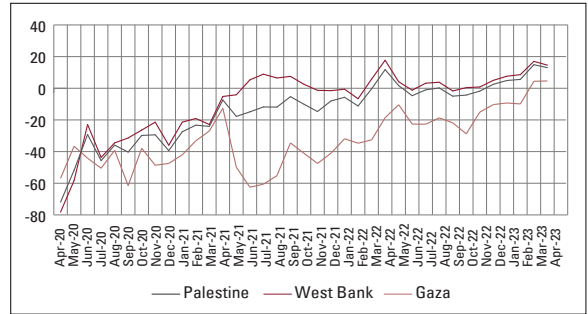
Unemployment and Youth Unemployment in Palestine, Q1 2018 – Q1 2023



Unemployment rate (Q1 2023): 25.20% Youth Unemployment rate (Q1 2023): 38.40%  
Source: PCBS

## Business Cycle Index

Palestine Monetary Authority Business Cycle Index, April 2020 – April 2023

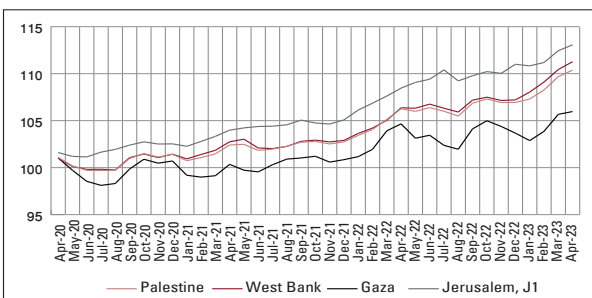


Palestine (April 2023): 13  
Gaza (April 2023): 4.6

West Bank (April 2023): 14.6  
Source: PMA

## Inflation

Consumer Price Index (Base year = 2018), April 2020 – April 2023

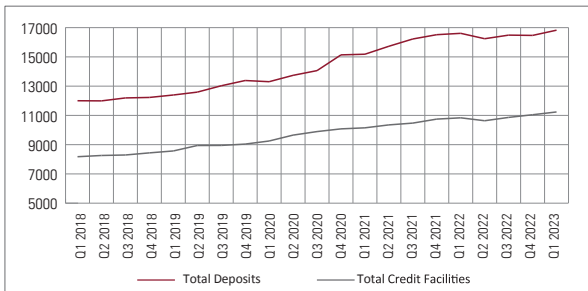


Palestine (April 2023): 110.37  
Gaza (April 2023): 105.97

West Bank (April 2023): 111.27  
Source: PCBS

## Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2018 – Q1 2023



Total Credit (Q1 2023): \$11,235.81m  
Source: PMA

Total Deposits (Q1 2023): \$16,825.49m

## 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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