PALESTINIAN TERRITORIES

Table 1	2023
Population, million	5.1
GDP, current US$ billion	17.5
GDP per capita, current US$	3401.8
Upper middle-income poverty rate ($6.85)[a]	20.5
Gini index[a]	33.7
School enrollment, primary (% gross)[b]	91.8
Life expectancy at birth, years[b]	73.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2017 PPPs.
b/ WDI for School enrollment (2022); Life expectancy (2021).

Since October 2023, the Palestinian economy has experienced one of the largest shocks recorded in recent economic history. In Gaza, the loss of life, the speed and extent of fixed assets damage, and the reduction in production flows are unparalleled. The knock-on effects in the West Bank include massive job losses and a spiraling fiscal crisis for the Palestinian Authority, leading to further cuts and delays in public salary payments. The outlook is tied to the conflict's evolution and level of future restrictions imposed by Israel.

Key conditions and challenges

From 2017 to 2022, the Palestinian economy barely grew, with an average annual real GDP growth of 0.6 percent. Economic potential has been principally curtailed by the restrictions stemming from the Israeli occupation which, according to Israel, are in place for security reasons. A combination of depressed aid inflows, COVID-19, low private capital attraction, incomplete reform efforts by the Palestinian Authority (PA), and the internal divide between the West Bank and Gaza, also contributed to economic stagnation. Before the onset of the ongoing conflict, the Palestinian economy was already slowing, especially in Gaza reflecting an Israeli decision restricting Gazan fish sales in the West Bank, since August 2022. In a context of weak growth outcomes, high unemployment, dwindling foreign aid, and no access to traditional economic policy instruments, the fiscal situation in the Palestinian territories has steadily deteriorated over the years.

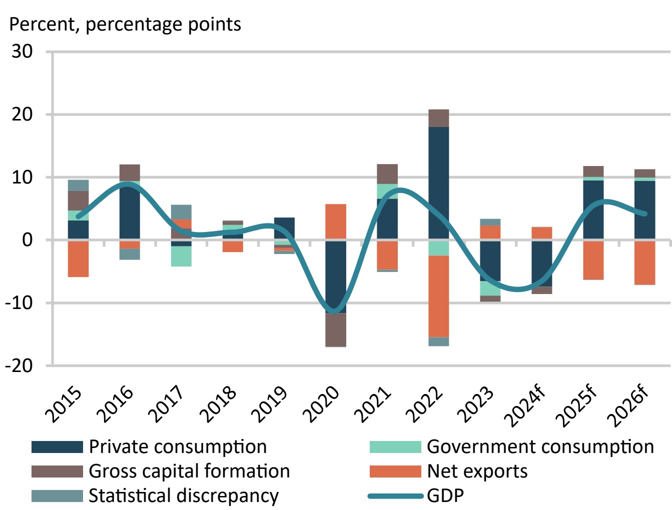
Income per capita trends have been highly heterogeneous, across the territories. In 2022, the GDP per capita in Gaza was US$1,253 - approximately a quarter of the West Bank's at US$4,491. Poverty has followed a similar trend as according to the latest national household survey from 2016/17, almost half of the Gaza population lived below the upper-middle income poverty line ($6.85 2017 PPP a day), compared to less than 10 percent in the West Bank.

Recent developments

Since the onset of the conflict on October 7, activity in Gaza has come to a near-complete stop: GDP declined by 86 percent in the fourth quarter (Q4) of 2023. Simultaneously, additional movement and access restrictions imposed by Israel within the West Bank heavily dampened demand resulting in an estimated 22 percent contraction of the West Bank's GDP in Q4 2023. The pre-conflict projection by the World Bank, forecasting a 3.2 percent real GDP growth for the Palestinian economy in 2023, turned into a 6.4 percent contraction. The destruction in the economy's productive capacity has been severe and will have a lasting impact. In Gaza, as of January 26, 2024, an estimated 82 percent of private sector establishments have either been partially damaged or destroyed. Further, 62 percent of residential buildings in Gaza have incurred some form of damage. Infrastructure is heavily impacted, with over 62 percent of all roads damaged or destroyed. Overall CPI in Gaza increased by 33 percent in Q4 2023 compared to the previous quarter, largely owing to supply disruptions stemming from the conflict. Food prices, specifically, increased by 39 percent, quarter-on-quarter (q/q) driven by reduced access to food, heightened transportation costs, and lower volumes of aid. In contrast, the CPI in the West Bank increased marginally by 0.9 percent, q/q, over the same period.

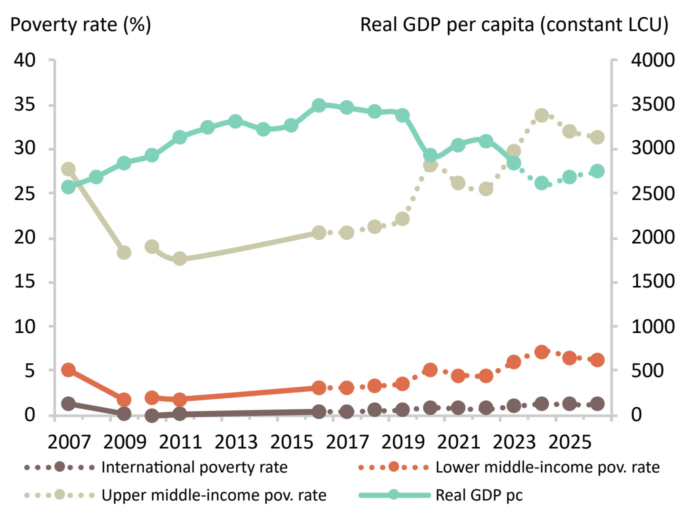
On the fiscal front, additional deductions by Israel from the revenues it collects

FIGURE 1 Palestinian territories / Real GDP growth and contributions to real GDP growth



Sources: Palestinian Central Bureau of Statistics and World Bank estimates.

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



Source: World Bank. Notes: see Table 2.

on behalf of the PA (clearance revenues) increased from an average of NIS200m to NIS500-600m per month since October 2023. According to Israel, the additional deductions are equivalent to the amount that the PA spends in Gaza, including salaries to PA civil servants hired before 2007. Given the transition to a cash-based economy as a result of the conflict, Israel says it is concerned the money could fall into the wrong hands. The PA disputes this risk and asserts that payments to Gaza have been occurring consistently since before 2007, with no alteration in the type of recipients or the mechanism. Due to the deductions, clearance revenue transfers shrank by over 50 percent and, as a response, the PA decided to decline several of the monthly transfers of the sharply reduced amount. Notably, clearance revenues, prior to deductions, have shrunk drastically due to the contraction of economic activity and Palestinian trade. This, paired with decreased domestic tax collection has made the 2023 fiscal deficit balloon fivefold vis-a-vis the pre-conflict baseline, reaching US$516 million, or 3.0 percent of GDP.

Even before the start of the conflict, unemployment in Gaza stood at 45.1 percent (September 2023), with youth unemployment at 59.5 percent. Preliminary estimates indicate that approximately 74 percent of employees in Gaza have been out of work since the start of the conflict. Around 170,000 workers from the West Bank, working in Israel and the settlements prior to October 7, have either lost their jobs or are no longer able to access them. Furthermore, owing to the new Israeli-imposed restrictions on movement within the West Bank, approximately 67,000 workers who commute from different governorates can no longer reach their workplaces.

The sharp contraction of GDP per capita will result in a rapid increase in the poverty rate. The national poverty rate at the international line of $6.85 a day is estimated to have stood at around 25.5 percent in 2022. The conflict pushed this up to almost 30 percent in 2023, with the expectation that this will increase further to around 33.8 percent in 2024 – the highest it has been in at least 20 years. This corresponds to around 1.8 million people living in poverty.

Outlook

The lagging effect of the fixed assets losses will keep economic activity subdued in Gaza, at least for the medium term. Workers' mobility within the West Bank and to the Israeli market will largely shape growth outcomes in the West Bank. The Palestinian economy is expected to contract further in 2024, by 6.5 percent. Assuming an end to the hostilities, and reconstruction efforts starting in 2025, growth should rebound to 5.5 percent in 2025 while GDP levels are not anticipated to recover to the pre-conflict baseline any time soon. Consequently, the poverty rate is expected to remain high, exceeding 30 percent, in the outlook.

On the fiscal front, an increase in clearance revenue transfers to the levels seen before the conflict is assumed as well as a gradual uptick in domestically managed taxes, reflecting rebounding economic activity. This will drive total revenues up, improving the fiscal deficit over the medium term. However, these assumptions are subject to very high levels of uncertainty.

Downside risks remain elevated. The severity of the economic contraction will directly hinge on the evolution of the conflict and the resolution of the clearance revenues dispute. Absent a cessation of the hostilities and a substantial increase in external aid, the risks of potentially disorderly fiscal consolidation measures cannot be excluded.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	7.0	3.9	-6.4	-6.5	5.5	4.2
Private consumption	7.5	20.5	-6.4	-7.3	9.4	9.0
Government consumption	10.3	-10.5	-11.3	0.3	2.7	2.5
Gross fixed capital investment	13.7	11.8	-3.4	-4.0	6.2	4.7
Exports, goods and services	17.3	6.2	2.9	3.0	10.7	8.4
Imports, goods and services	14.8	25.7	-2.6	-2.0	12.0	11.8
Real GDP growth, at constant factor prices	6.2	1.3	-6.4	-6.5	5.5	4.2
Agriculture	-0.7	-5.7	-11.3	-5.2	3.3	2.7
Industry	4.5	3.4	-7.5	-6.0	9.0	8.6
Services	7.5	1.5	-5.6	-6.8	4.7	3.0
Inflation (consumer price index)	1.2	3.7	5.9	4.6	3.0	2.5
Current account balance (% of GDP)	-9.8	-15.0	-14.7	-19.2	-16.3	-16.1
Net foreign direct investment inflow (% of GDP)	1.6	1.3	1.1	0.7	0.9	1.3
Fiscal balance (% of GDP)	-5.8	-1.4	-3.0	-2.9	-2.7	-1.7
Revenues (% of GDP)	25.0	27.3	25.5	27.9	27.7	28.2
Debt (% of GDP)	56.0	53.2	58.2	64.9	64.2	63.3
Primary balance (% of GDP)	-5.1	-0.7	-2.2	-2.2	-2.0	-1.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.8	0.8	1.1	1.4	1.3	1.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	4.5	4.5	5.9	7.1	6.5	6.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	26.1	25.5	29.7	33.8	32.0	31.2

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: 2017-2023. Forecasts are from 2024 to 2026.
b/ Projection using neutral distribution (2016) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.