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Economic Monitor



PALESTINE ECONOMIC POLICY
RESEARCH INSTITUTE - MAS



الجهاز المركزي
للإحصاء الفلسطيني



هيئة سوق رأس المال الفلسطينية
Palestine Capital Market Authority



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**PALESTINE ECONOMIC POLICY
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Q1 2021 in Brief

- ❖ **GDP:** During Q1 2021, GDP grew by 1.9% compared with the previous quarter, reaching USD 3,607.5m (at 2015 fixed prices). This is attributed to a rise of 1.7% in the West Bank and 2.8% in the Gaza Strip. This also reflected on the GDP per capita in Palestine which rose by 1.2% (1.1% in the West Bank and 2.1% in the Gaza Strip), reaching USD 7,37.9 (USD 1,060.4 in the West Bank compared with USD 303.9 in the Gaza Strip).
- ❖ **Labour and Unemployment:** The unemployment rate in Palestine increased by 4.4 percentage points between Q1 2021 and Q4 2020, reaching 27.8% (17.1% in the West Bank and 47.9% in the Strip). The average daily wage in Palestine was NIS 135.8; NIS 124.9 in the West Bank, NIS 60.6 in the Gaza Strip, and USD 263.8 in Israel and its colonies. About 29% of private-sector waged workers earn the official monthly minimum wage level, which equals NIS 733 on average.
- ❖ **Public Finance:** During Q1 2021, net public revenues and grants decreased by 7%, reaching around NIS 3.4bn compared with NIS 3.7bn in the corresponding quarter. On the other hand, public expenditures (on commitment basis) rose by 11% during the same period to NIS 3.9bn. In Q1 2021, government arrears totaled NIS 1.7bn with public debt rising by 15%, compared with the corresponding quarter, to reach NIS 11.8bn.
- ❖ **Banking Sector:** During Q1 2021, credit facilities increased by 1% compared with the previous quarter to reach USD 10.1bn, 21% of which were granted to the public sector. On the other hand, total deposits rose slightly, reaching USD 16.5bn. Banks' net profits reached USD 55.3m during the quarter, doubling compared with the previous quarter.
- ❖ **PEX:** By the end of Q1 2021, the market value of shares traded at PEX was USD 3.5bn, almost maintaining the same level in the previous quarter. Al Quds index closed at 466.2 points, a drop of 1% compared with the previous quarter.
- ❖ **Inflation and Prices:** During Q1 2021, the Palestinian economy witnessed negative inflation (drop in prices) of 0.26% compared with the previous quarter, i.e., the purchasing power of the shekel improved by 0.26% compared with the previous quarter. By contrast, the purchasing power for those who receive and spend salaries in USD declined by 1.63%, due to a drop in the USD exchange rate against the shekel. Given that the JD is pegged to the USD at a fixed exchange rate, the purchasing power of the JD witnessed approximately the same developments as the USD.

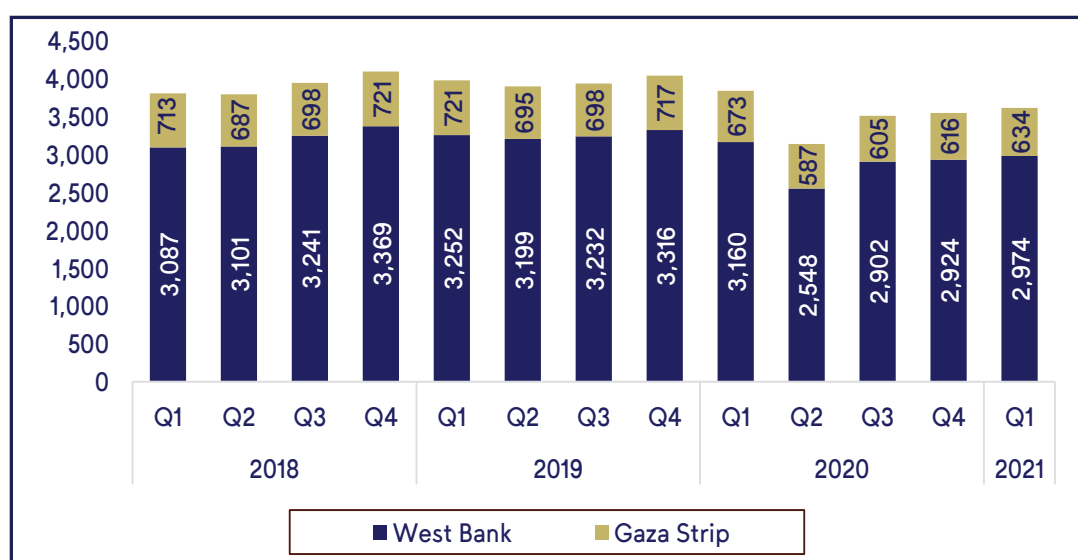
1- The Real Economy: Renewed Pandemic Setbacks

During Q1 2021, economic activities were affected by two contradictory factors: the first is positive, represented by large-scale vaccination against COVID-19, which has spurred hopes about the nearing end of the pandemic, reduced fears and risks, and improved expectations of businessmen; and the second factor is negative, represented by a new surge in the pandemic, which led to a new lockdown and restrictions on economic activity in some sectors. In this section, we review economic performance during Q1 2021. Special focus is given to the indicators and requirements of solid waste management, which is one of the infrastructure service sectors that lack proper management and implementation and suffer from arbitrary Israeli measures which threaten the economy, environment, and public health.

1-1 Economic Activity¹

Preliminary data released by the PCBS show a growth of 1.9% in GDP, or the monetary value of all types of goods and services that are produced locally (base year 2015), measured at fixed prices during Q1 2021 compared to the previous quarter (Figure 1.1). This growth resulted from an increase of 1.7% in the West Bank and 2.8% in the Gaza Strip, over the successive quarters. Despite this improvement, real GDP was 5.9% less than its value in the corresponding quarter 2020. At current prices, the GDP at the quarterly level amounted to USD 4,235.5m. It should be noted that Figure 1-1 demonstrates that the value of GDP in real prices in Q1 2021 is still 10% less than its corresponding value in 2019, i.e. prior to the pandemic.

**Figure 1.1: GDP in Palestine by Quarter, 2019-2021 (USD million)
(base year 2015)**



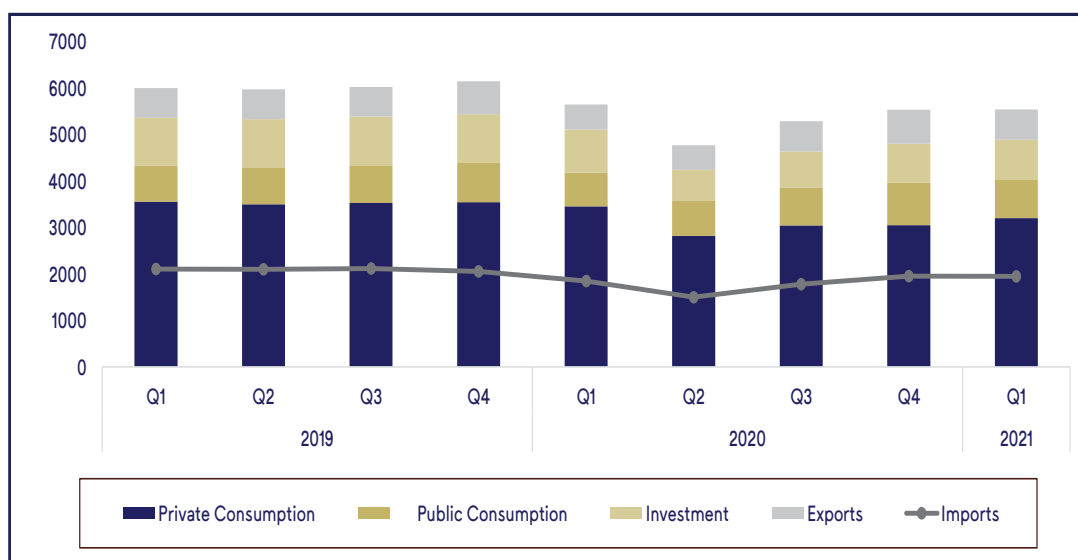
During Q1 2021, total investment and private consumption increased by 2.9% and 5.2% respectively, compared to the previous quarter (Figure 1.2). On the other hand, government consumption expenditure declined by 10.1% during the same period, while the trade balance deficit grew by 5.9% due to the decline in exports (10.8%) against the relative stability in imports (a drop of 0.3%). Com-

¹ Most of the statistics in this section are from the Palestinian Central Bureau of Statistics (PCBS), especially quarterly statistics on national accounts. Other sources are referenced when they are used. Also we use constant prices (base year 2015) to measure relative change for all indicators, in order to neutralize the impact of fluctuations in prices and exchange rates unless otherwise indicated.

pared with the corresponding quarter 2020, expenditure on GDP declined in all indicators except for government spending. In addition, the deficit in the trade balance diminished due to the increase in merchandise exports (24.6%).

With regards to production, compared to the previous quarter, Q1 2021 witnessed an increase in the value added of all the main services sectors except for information and communications (-2.7%), public administration (-1.9%), and other services sectors (-8.0%). Regarding productive activities, the building and construction sector witnessed an increase of about 6.9% during Q1 2021 compared with the previous quarter, while the agricultural and industrial sectors decreased by 3.3% and 0.8%, respectively.

Figure 1.2: Quarterly expenditure on GDP for the years 2019-2021 at constant prices (base year 2015)



GDP per capita

The increase in real GDP during Q1 2021 compared to the previous quarter led to an increase in GDP per capita of about 1.2% (1.1% in the West Bank and 2.1% in the Gaza Strip). At the same time, it is noted that per capita real GDP for this quarter was 8.3% lower than it was last year (-8.2% in the West Bank, and -8.5% in the Gaza Strip). It is also worth noting that GDP per capita amounted to USD 866.3 at current prices in Q1 2021.

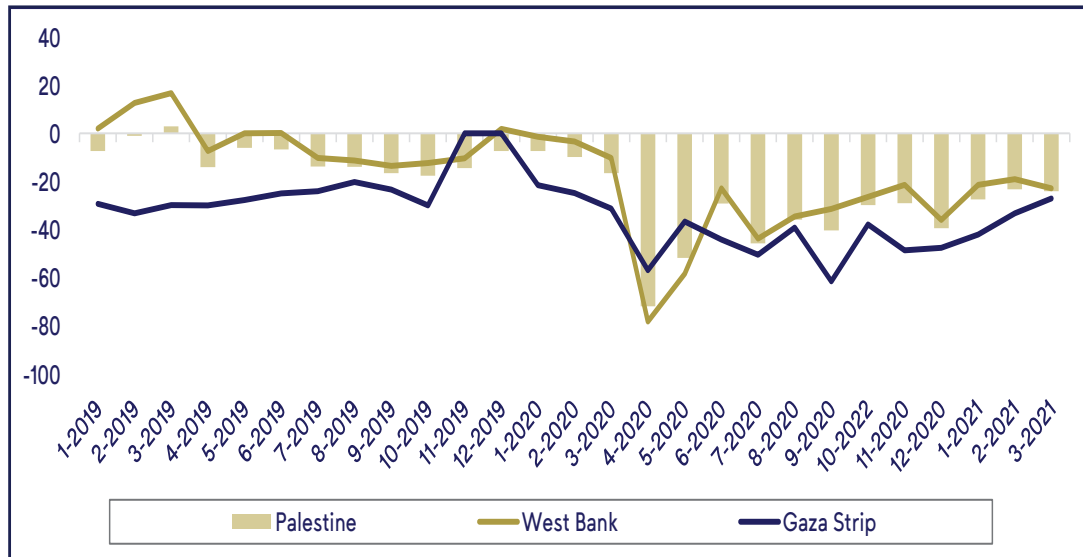
PMA's Business Cycle Index²

The PMA's Business Cycle Index shows an improvement in economic activity during Q1 2020. However, the value of the Index in Q1 2021 was still lower than in the corresponding quarter 2020 (Figure 1.3).

² The Business Cycle Index is calculated based on a survey of the opinions of a representative sample of managers of industrial enterprises in the West Bank and Gaza Strip. It covers current levels of employment, production and sales, and expectations of change for the coming months. The Index gives an overview of the general performance of the Palestinian economy during that month, and expectations for the coming months.

The maximum value of the Index is +100, while the minimum value is -100. If the value of the Index is positive, then economic conditions are good. An increase in the value of the Index indicates an improvement in the general economic situation. Conversely, with regard to negative values, these indicate that economic conditions are bad, worsening as the value approaches -100. If the value of the Index is close to zero, this indicates that conditions have remained stable, and that they are not about to change in the near future.

Figure 1.3: PMA's Business Cycle Index, 2019-2021

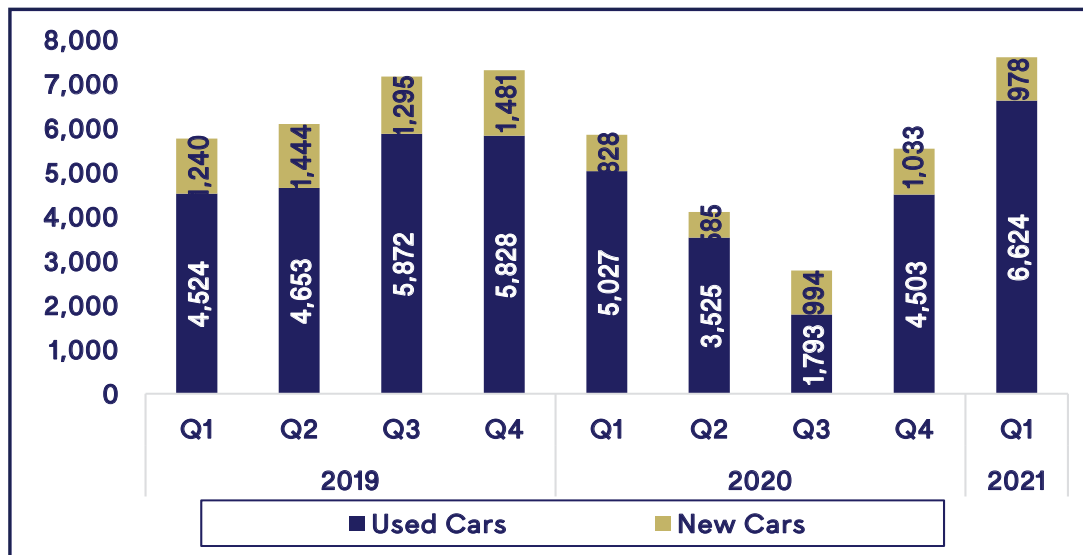


Source: PMA, 2021. PMA Business Cycle Index, 2019-2021. Ramallah, Palestine.

Car Registration

Data from the Palestinian Ministry of Transport and Communications indicate that there has been an increase in car registration of about 37.3% in Q1 2021 compared with the previous quarter, with around 7,602 cars registered. This is mainly due to an increase of about 24.8% in the registration of used cars imported from overseas markets. These typically constitute about three-quarters of new car registrations locally. The impact of the pandemic is clearly visible in that the total number of registered cars increased by 29.8% compared with Q1 2020 (Figure 4.1).

Figure 1.4: Quarterly Imported Car Registrations, 2019-2021



Source: Ministry of Transport and Communications, 2021. Monthly Vehicle Registration Data, 2019-2021. Ramallah, Palestine.

1.2 Productive Sectors: Agriculture, Industry, and Construction³

In Q1 2021, the value added of the productive sectors fell by 0.2% and 9.5% compared with the previous quarter and corresponding quarters 2020, respectively. This decline led to a drop in the sectors' contribution to GDP from 24.0% in Q4 2020 and 24.5% in Q1 2020 to 23.5% in Q1 2021.

Agriculture sector

The value added of agriculture, forestry, and fishing activities fell by about 3.3% in Q1 2021, compared with the previous quarter, and by 16.1% compared with Q1 2020. As a result, its contribution to GDP dropped from 6.8% in Q4 2020 and 7.3% in Q1 2020 to 6.5% in Q1 2021.

Industry sector

During Q1 2021, the value added of the industrial sector was 0.8% lower than in Q4 2020. Consequently, the sector's contribution to GDP dropped from 13.2% to 12.8% during the same period and increased by 0.4 percentage points because of the greater decline in the value added of other sectors (Table 1.1).

Table 1.1: Quarterly Comparison of the Industrial Sector's Value Added (\$ million) (base year 2015)

Economic activity	Q1 2020	Q4 2020	Q1 2021	Change from the Previous Quarter	Percentage change from the corresponding quarter
Mining and quarrying	12.9	12.7	13.7	% 7.9	% 6.2
Manufacturing industries	401.8	398.5	391.5	-1.8%	-2.6%
Electricity, gas, steam and air conditioning business	46.8	34.9	36.5	4.6%	-22.0%
Water, sanitation, waste management and treatment	16.0	17.3	18.1	4.6%	13.1%
Industry sector	477.5	463.4	459.8	-0.8%	-3.7%

Source: PCBS, 2021. Periodic Statistics on National Accounts, 2000-2021. Ramallah, Palestine.

The overall index of industrial production quantities decreased by 1.2% during Q1 2021 compared with the previous quarter. However, it increased by 10.4% compared with the corresponding quarter, reaching 105.1 points (base year 2018) (Figure 1-5).

Construction Sector

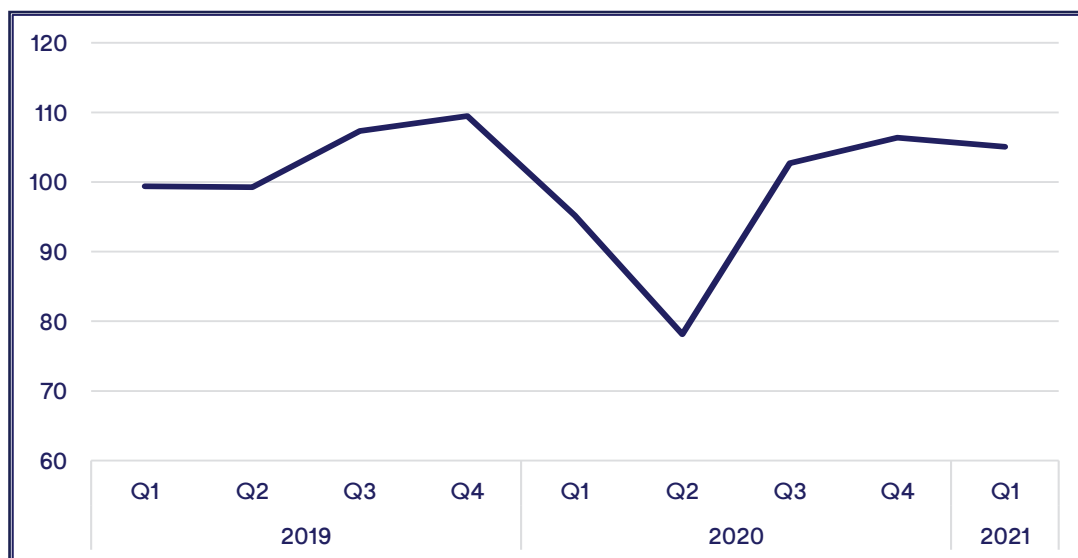
Despite the decline in the productive sectors, the value added of the construction sector increased by 6.9% in Q1 2021 compared with the previous quarter, but it was still 14.8% lower compared with the corresponding quarter of 2020. As a result, the construction sector's contribution to GDP increased to about 4.3%, compared with 4.1% in Q4 2020. However, its value was still 4.7% less than in Q1 2020.

In terms of building permits, preliminary estimates show a drop of 17.8% in granted permits in Q1 2021 compared with the previous quarter, although this number increased by 1.5% compared with the corresponding quarter 2020 (Figure 1.6). The number of construction licenses issued for residential and non-residential buildings reached 2,245 during Q1 2021, 1,285 of which were licenses for new buildings. There were 4,287 licensed housing units in Q1 2021, covering a total area of 698

³ Source of Figures: PCBS, 2021. Periodic Statistics on National Accounts, 2000-2021. Ramallah, Palestine

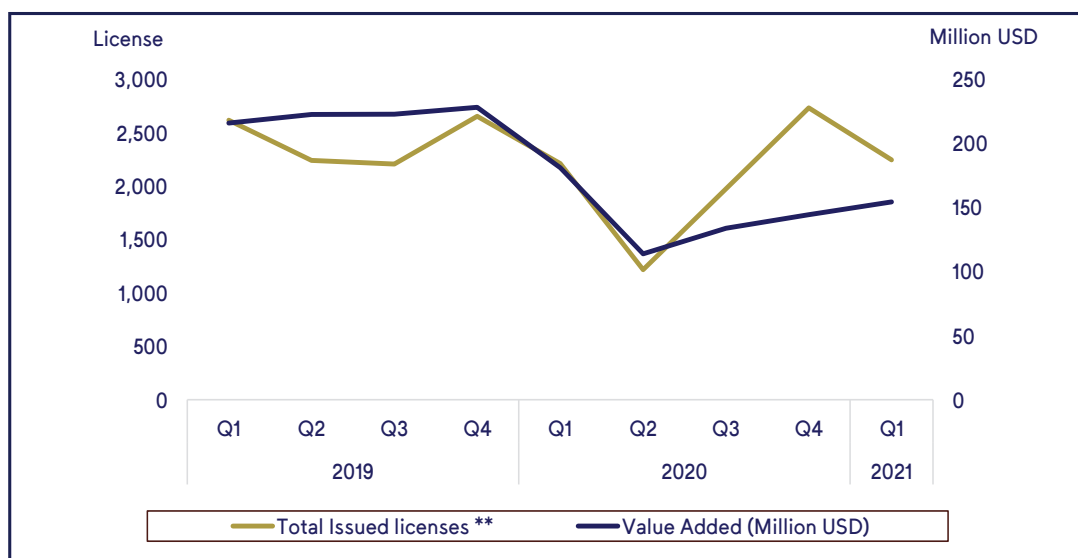
thousand square meters. The number of new housing units declined by about 32% compared with the previous quarter and by 14.6% compared with the corresponding quarter 2020.⁴

Figure 1.5: Overall Index of Quarterly Industrial Production Quantities (2019-2021) (base year 2018)



Source: PCBS, 2021. Price Indices Surveys, 2010-2021.

Figure 1.6: Building licenses issued in Palestine and the added value of the construction sector (base year 2015) from Q1 2019 to Q1 2021

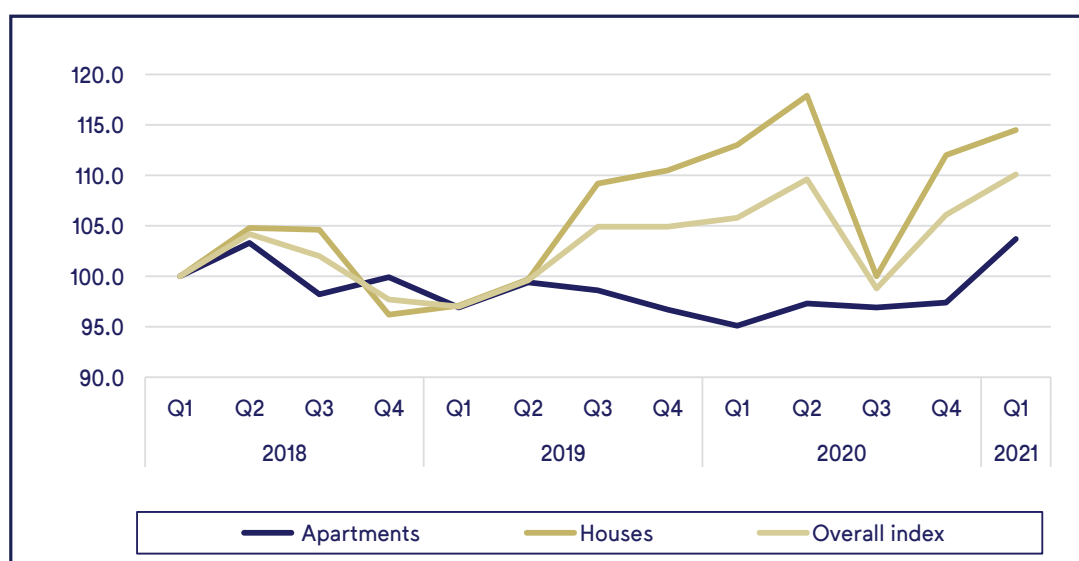


Source: PCBS 2021 Building licenses quarterly national accounts statistics, 2000-2021. Ramallah, Palestine

As for prices, in Q1 2021 PMA’s residential real-estate price index witnessed an increase of about 3.8% and 4.1% compared with the previous and corresponding quarters 2020, respectively (Figure 1.7). The overall index represents the sum of two sub-indicators: the first is an indicator for apartments (which reached 103.7 points, with a growth rate of about 6.5% and 9.0% respectively); and the second is an indicator for houses (which reached 114.5 points, with a growth rate of 2.2% and 1.3% respectively).

4 PCBS, 2021, Statistics on Building Licenses.

Figure 1.7: PMA's Index of Residential Real-Estate Prices in Palestine from Q1 2018 to Q4 2020



Source: PMA Residential real estate price index in Palestine.

1.3 Commercial, Financial, and Service Sectors

Table 1-2 outlines economic activities in the commercial, financial, and service sectors within the Palestinian economy. The total value added of these sectors increased by 2.6% in Q1 2021 compared to the previous quarter, but fell by 6.4% compared to the corresponding quarter 2020. It is clear from Table 1.2 that this increase over the previous quarter was the result of a recovery in certain sub-sectors such as education, trade, health and real estate activities. This shows the relatively speedy recovery of these service activities following the slowdown in 2020 and their role in driving aggregate demand.

Table 1.2: A quarterly comparison of the value added of the service sectors for the years 2020 and 2021 (Million dollars) (base year 2015)

Economic activity	Q4 2020	Q4 2020	2021	Change from the previous quarter	Percentage change from the corresponding quarter
Wholesale and retail trade, repair of motor vehicles, and motorcycles	840.2	678.2	695.4	2.5%	-17.2%
Transportation & Storage	70.8	52.4	55.9	6.7%	-21.0%
Financial and Insurance Activities	159.1	164.2	167.5	2.0%	5.3%
Information and Telecommunication	117.5	122.4	119.1	-2.7%	1.4%
Accommodation and Food Services	49.7	27.4	29.9	9.1%	39.8%
Real Estate Activities	144.0	123.9	133.5	7.7%	-7.3
Professional, Scientific and Technical Activities	61.3	32.7	35.2	7.6%	-42.6%
Administrative and Support Services Activities	37.0	22.6	23.6	4.4%	-36.2%

Economic activity	Q4 2020	Q4 2020	2021	Change from the previous quarter	Percentage change from the corresponding quarter
Education	232.7	226.9	248.3	9.4%	6.7%
Human Health and Social Work Activities	135.3	150.9	161.2	6.8%	19.1%
Arts, Entertainment, Leisure and Other Service Activities	17.0	7.6	7.6	0.0%	-55.3%
Other Services	68.0	38.9	35.8	-8.0%	-47.4%
Public Administration	389.2	468.9	459.8	-1.9%	18.1
Homecare services	2.0	2.0	2.0	0.0%	0.0%
Service Sectors	2,323.8	2,119.0	2,174.8	2.6%	-6.4%

Source: PCBS 2021, Quarterly National Accounts Statistics, 2000-2021. Ramallah, Palestine

1.4 Balance of Payments (BoP), International Investment Position (IIP), and External Debt

The Palestinian trade balance runs a chronic deficit because the value of imports is at least three times the value of exports. During Q1 2021, this deficit grew worse. Compensation for workers in Israel, foreign aid, foreign remittances, and income from investments abroad contribute to curbing part of the deficit, but they are not sufficient to cover all domestic consumption. As a result, Palestine suffers from a persistent deficit in the current account, which is usually financed by borrowing or investment.⁵

Table 1.3: Quarterly comparison of selected indicators from the balance of payments for 2020 and 2021 (USD Millions at current prices)

Item	2020 Q1	2020 Q4	2021 Q1	Change from % the previous quarter	Change from % the corresponding quarter
Current Account Deficit (net)	348.7	291.8	428.0	46.7	22.7%
Compensations of Palestinian workers in Israel	663.2	704.2	707.0	0.4%	6.6%
Investment income	47.4	57.8	83.0	43.6	75.1%
Current Transfers (net)	445.6	469.9	422.0	-10.2%	5.3%
Donor support for general budget	72.3	54.1	9.0	-83.4%	-87.6%
Other external transfers	421	460.8	453.0	-1.7%	7.6%
Capital Transfers (Net)	71.8	117.1	74.0	-36.8%	3.1%
Net Borrowing (financial account)	484.2	265.9	369.0	38.8%	-23.8%
Direct Investment (net)	0.2	-58.9	43.0	173.0%	-
Deposits (in foreign currencies)	464.6	-483.4	421.0	187.1%	-9.4%

Source: PCBS 2021, Quarterly National Accounts Statistics, 2000-2021. Ramallah, Palestine

⁵ The current account is a record of a country's international transactions with the rest of the world. It contains the trade balance, net profits from foreign investments, and net transfer payments. The current account deficit indicates that the country's external debt exceeds its net income and received transfers.

During Q1 2021, the current account deficit rose by 46.7% compared to the previous quarter, reaching USD428m. It was driven by an 8.2% increase in the trade balance due to a drop in exports and a reduction of 83.4% in donor countries' support to the PA's budget.⁶ Net capital transfers likewise declined, by 36.8%, which in turn dampened private consumption and public spending and undermined economic recovery prospects in Q1 2021. As a result of the growing trade balance deficit and decline in current transfers, external net lending increased by 38.8% compared to the previous quarter. A year-on-year comparison shows a drop in the current account, although capital and financial accounts increased, as shown in Table 1.3.

During Q1 2021, the total investments of Palestinians residing outside Palestine (i.e. total external invested assets) exceeded non-resident investments in Palestine (total foreign liabilities) by about USD2.9bn.⁷ Palestine's international investment portfolio (IIP) increased by 1.9% compared with the previous quarter and by 56.3% compared with Q1 2020 (Table 4.1). At the quarterly level, this increase resulted from an increase in reserve assets and net portfolio investments, while the year-on-year increase resulted from the rise in domestic deposits in foreign banks and foreign currency circulating in the Palestinian economy. Foreign investments in the banking sector accounted for about 71% of the total assets invested abroad in Q1 2021, with 66% of these assets being circulated currency and deposits. On the other hand, foreign investments constituted around 51% of total external liabilities, whereas other investments (mostly loans and deposits from abroad) made up 37%. At the sectoral level, bank investments abroad constituted about 36% of total external liabilities on the Palestinian economy.

**Table 1.4: Quarterly comparison of IIP, 2020 and 2021
(USD Million at current prices)**

Item	Q1 2020	Q4 2020	Q1 2021	Change from the previous quarter	Percentage change from the corresponding quarter
NIIP	1,763	2,859	2,914	1.9%	65.3%
Direct investment (net)	-2,427	-2,462	-2,486	1.0%	2.4%
Portfolio Investments (net)	670	608	635	4.4%	-5.2%
Other investment (net)	2,781	4,016	4,031	0.4%	44.9%
Reserve Assets	739	697	734	5.3%	-0.7%

Source: PCBS and PMA 2021, IIP and Quarterly External Debt Statistics, 2010-2021. Ramallah, Palestine. The net sub-items were calculated based on the data of PCBS and PMA.

Total external debt (accumulated) amounted to nearly USD2.0bn by the end of Q1 2021, a drop of about 1.2% compared with the previous and corresponding quarters 2020 (Table 5.1). At a quarterly level, the drop in the total external debt was due to the decline in long-term debts on the government and banks. On a year-on-year basis, the decrease resulted from the decline in long-term debts on banks against the increase in long-term debts on the Palestinian government.

⁶ Palestinian Central Bureau of Statistics 2021, Quarterly Balance of Payments Statistics, 2000-2021. Ramallah, Palestine

⁷ International investment position (IIP) is a statistical statement that shows at a given point of time the value and composition of external financial assets of residents of an economy that are claims on non-residents on one hand, and external financial liabilities of residents of an economy to non-residents at the other. The net IIP (NIIP) is the difference between an economy's external financial assets and liabilities.

Table 1.5: Quarterly Comparison of External Debt Components, 2020 and 2021 (USD Million at current prices)

Economic sector	Q1 2020	Q4 2020	Q1 2021	Change from % the previous quarter	change from % the corresponding quarter
Palestinian Government	1,290	1,325	1,314	-0.8%	1.9%
Banks	719	684	670	-2.0%	-6.8%
Other sectors	36	37	37	0.0%	2.8%
Total External Debt	2,051	2,052	2,027	-1.2%	-1.2%

Source: PCBS and PMA 2021, IIP and Quarterly External Debt Statistics, 2010-2021. Ramallah, Palestine

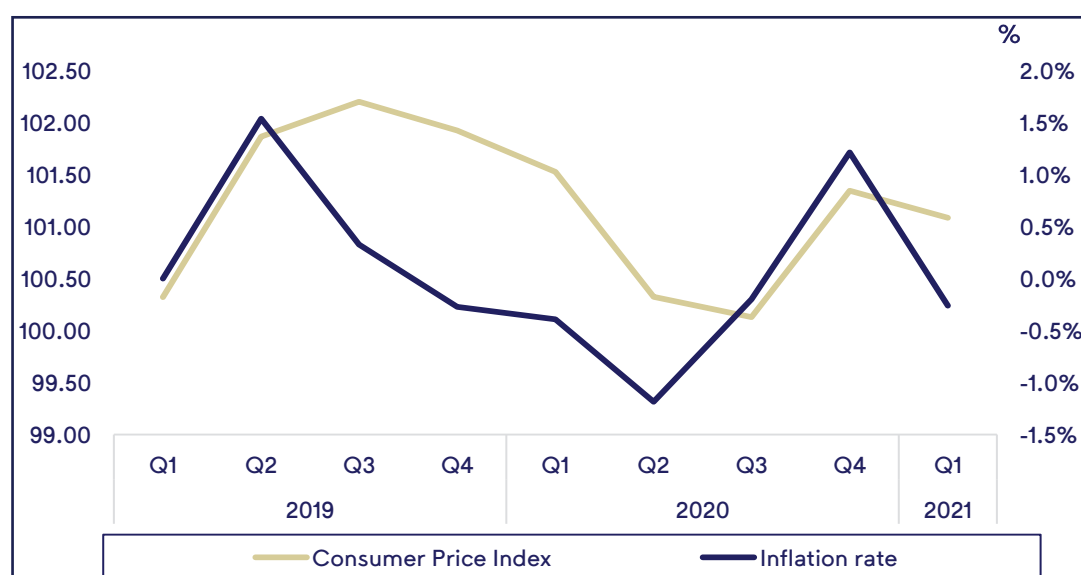
1.5 Prices⁸

The Consumer Price Index (CPI) is the average price of a basket of basic goods and services that reflects the consumption patterns of a typical family in a given country. The set of goods and services that are selected is called the “consumption basket.” The inflation rate is the rise in the value of this index in a given period and expresses the change in income purchasing power.

Consumer Price Index

The figure below shows two curves. The first depicts movement in the CPI between Q1 2019 and its corresponding quarter (Q1 2021). The second curve measures the percentage change in the CPI in each quarter compared with the previous one, i.e. the inflation rate for every quarter. The figure shows that the inflation rate was negative in Q1 2020, following a negative rate in the previous quarter (Figure 1.8). The value of the CPI in Q1 2021 reached 101.9 points, compared with 101.35 in Q4 2020. The inflation rate declined to -0.3%, compared with a rise of 1.2% in the previous quarter. The CPI decreased by 0.44% compared with the corresponding quarter 2020.

Figure 1.8: Quarterly Trends in CPI and Inflation Rate, 2019-2021 (base year 2018)



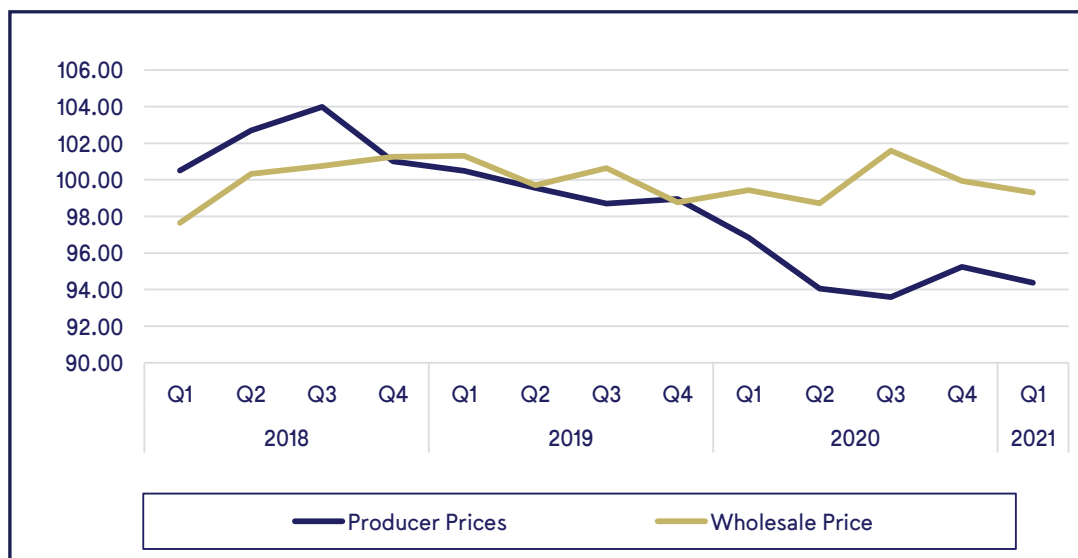
PCBS, 2021. Price Indices Surveys, 2010-2021.

8 Source for figures in this section: PCBS, 2021. Price Indices Surveys, 2010-2021.

Wholesale Prices and Producer Prices⁹

The wholesale price index (the selling price to retailers) decreased by 0.64% between Q1 2021 and Q4 2020 (Figure 1.9). This resulted from a drop of almost 1.52% in the wholesale prices of local commodities, against the rise of 0.27% in wholesale prices of imported commodities. The producer price index (prices charged by local producers) fell by 1.49% over the consecutive quarters.

Figure 1.9: Quarterly Trends in WPI and PPI, 2019-2021 (base year 2019)



Source: PCBS, 2021. Price Indices Surveys, 2019-2021.

Purchasing Power¹⁰

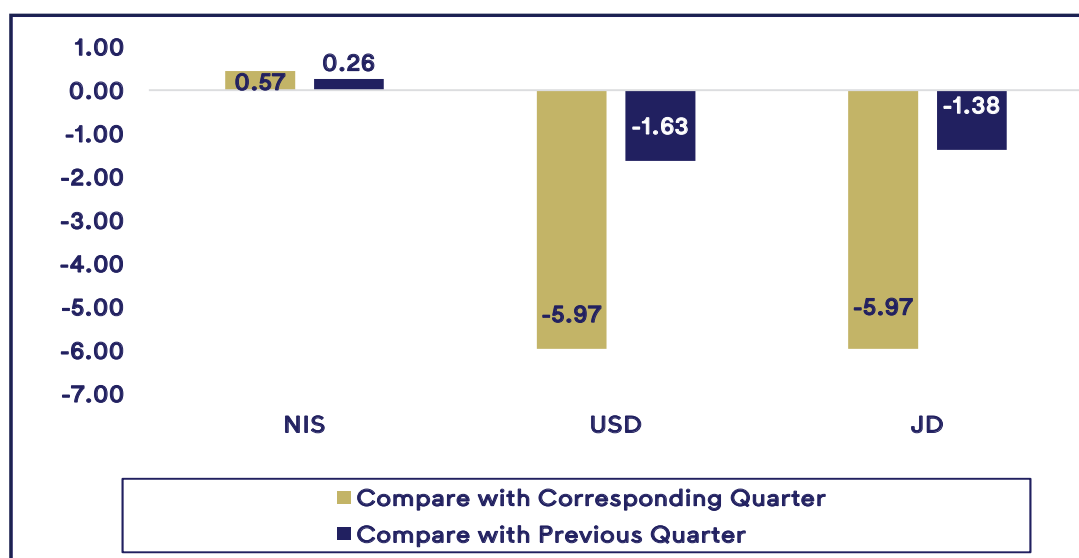
Purchasing power of the New Israeli Shekel (NIS): During Q1 2021, CPI decreased by 0.26% compared with the previous quarter and by 0.44% compared with the corresponding quarter. This means that the purchasing power of the NIS improved by the same amount during this period (Figure 1.10). It should be noted that the trend in the purchasing power of the NIS is equivalent to the rate of change in consumer prices, but in the opposite direction.

Purchasing power of the U.S. Dollar (USD) and the Jordanian Dinar (JoD): Q1 2020 witnessed a fall of 1.89% and 6.41% in the average exchange rate of the USD against the NIS compared with the previous and corresponding quarters, respectively. Accordingly, the purchasing power of individuals who received their wages in USD and spent them in NIS fell by 1.63% and 5.97%, respectively, during the same periods. Given that the JoD is pegged to the USD at a fixed exchange rate, the purchasing power of the JoD witnessed approximately the same developments as the USD.

⁹ PCBS, 2021. Prices and Indices, 2021.

¹⁰ Purchasing power is defined as the ability to purchase goods and services using an individual's own wealth. It depends on the consumer's income and changes in prices and currency exchange rates. A change in purchasing power, assuming stable income = the rate of change in the exchange rate of a currency against the shekel – the inflation rate.

Figure 1.10: Quarterly Trends in the Purchasing Power by Type of Currency (%)



Source: Figures were calculated based on PMA and PCBS data.

1.6 Service Infrastructure: Solid Waste Management

Solid waste management is considered a basic infrastructure service in any society. It aims to reduce and eliminate the negative impacts of consumption and waste on the environment and human health, support economic development, and ensure environmental sustainability and better quality of life. To achieve these goals, waste needs to be managed systematically and efficiently to reduce costs, prevent waste from accumulating, and ensure best environmental practices. Yet population growth, urbanization, and changing consumption patterns have increased the quantity and diversity of disposed waste, soil and water pollution, and compounded waste management problems. Consequently, societies, especially in developing countries, will suffer the most from a future health crisis unless sustainable waste management policies are adopted and more focus is given to planning and environmental awareness.

The situation is even worse and more complicated in Palestine because of the interference of the Israeli occupation in the daily life of Palestinians and its control over land and water resources, as well as a lack of public awareness about the importance of hygiene practices. As in the case in other infrastructure, solid waste management also reflects spatial, geographic, and political complexities that demonstrate the difficulty of sustaining the status quo. However, unlike water, fuel, and electricity, which flow into populated areas under the control of the occupation, waste flows outside the populated areas, where its mismanagement adversely affects Palestinian communities and the surrounding environment. Accordingly, waste and the infrastructure designed to management in Palestine are also of importance to occupation authorities and neighbouring countries, which cannot isolate themselves from its effects.¹¹

Solid waste is generated from household consumption, economic activities, and public services activities. It can be classified based on their materials, potential hazards, or the origin of the waste. There are six functional components of the waste management system: waste generation, storage, collection, transportation, onsite handling, processing, and disposal.¹² This section aims to give an

¹¹ <https://academiccommons.columbia.edu/doi/10.7916/D8XS5TTX>

¹² <https://www.thebalancesmb.com/an-introduction-to-solid-waste-management-2878102>

overview of the current situation regarding solid waste management in Palestine, based on available information and data.

Solid Waste Generation

There are no precise, comprehensive, and up-to-date official data on the total volume of solid waste generated in Palestine. The available data are estimates provided in studies and reports commissioned by donor agencies, in addition to some official statistics at the level of households and economic enterprises. According to the latest figures, the total volume of solid waste in Palestine was around 1.78 million tons in 2018, or on average about 4,889 tons of solid waste per day of solid waste and 0.99 kg per day per capita.¹³ The volume is distributed as 3,163 tons/day in the West Bank (including estimates for East Jerusalem) (1.08 kg/day on average per capita) and about 1,726 tons/day in the Gaza Strip (0.89 kg/day on average per capita).¹⁴ Figures show a regional discrepancy in solid waste generation, with an average of 0.75 kg/day is collected in rural areas compared to 1-2 kg/day in urban areas.¹⁵ The largest share of solid waste comes from the household sector (45-50% as in 2015, the latest available data), followed by commercial and services enterprises (25-30%) and then the industrial and construction sectors (20-25%).

Using one of the reference studies estimates¹⁶ of solid waste growth (about 4% annually, 3% of which is ascribed to the natural population growth and 1% to the increase in solid waste generation per capita), the total volume of solid waste in Palestine is expected to reach around 2.0 million/tons in 2021. This potentially amounts to a waste generation rate of 5,485 tons/day.

According to PCBS data for 2015, the total volume of household waste generation in Palestine reached 2,551 tons/day (1,835 tons/day in the West Bank and 716 tons/day in Gaza Strip), whereas the daily average per household was 2.9 kg (3.2 kg/day in the West Bank and 2.4 kg/day in Gaza).¹⁷ Assuming a 1% annual increase in average daily household waste generation since 2015 (according to the estimates of the study referred to earlier),¹⁸ average waste generation is expected to reach 3.1 kg/day in 2021. Assuming that there are 1,024,940 households in the same year,¹⁹ the average household solid waste generation is expected to reach 3,155 tons/day in 2021. On the other hand, and assuming that previous estimates of household solid waste generation are accurate, waste generation in non-household sectors is expected to reach 2,330 tons/day.

Generally speaking, according to the Ministry of Local Government estimates, around 50% of solid waste in Palestine is organic, followed by plastic waste (14.6%), then paper & cardboard waste (12.5%) (Refer to Figure 1.11).²⁰ Organic waste forms the largest component of household solid waste (59.8%), followed by baby diapers (27%), cardboard (12.3%), and plastic (0.6%). On the other hand, 89.8% of economic enterprises generate paper/cardboard wastes, 76.6% generate plastic and rubber, 45.6% generate soil and stones. The physical composition of solid waste plays a major part in the management of these materials, as does the selection of disposal methods. Though a large part of waste in Palestine could be separated, recycled or used for energy production, such initiatives are still very limited due to implementation difficulties and their economic unfeasibility.

13 https://www.cesvi.eu/wp-content/uploads/2019/12/SWM-in-Palestine-report-Thoni-and-Matar-2019_compressed-1.pdf
Data include East Jerusalem.

14 The average daily waste generation per capita was calculated by dividing the total average daily waste generation by the projected mid-year 2018 population for each region.

15 Ibid

16 <http://www.environment.pna.ps/ar/files/Country%20report%20on%20the%20solid%20waste%20management.pdf>

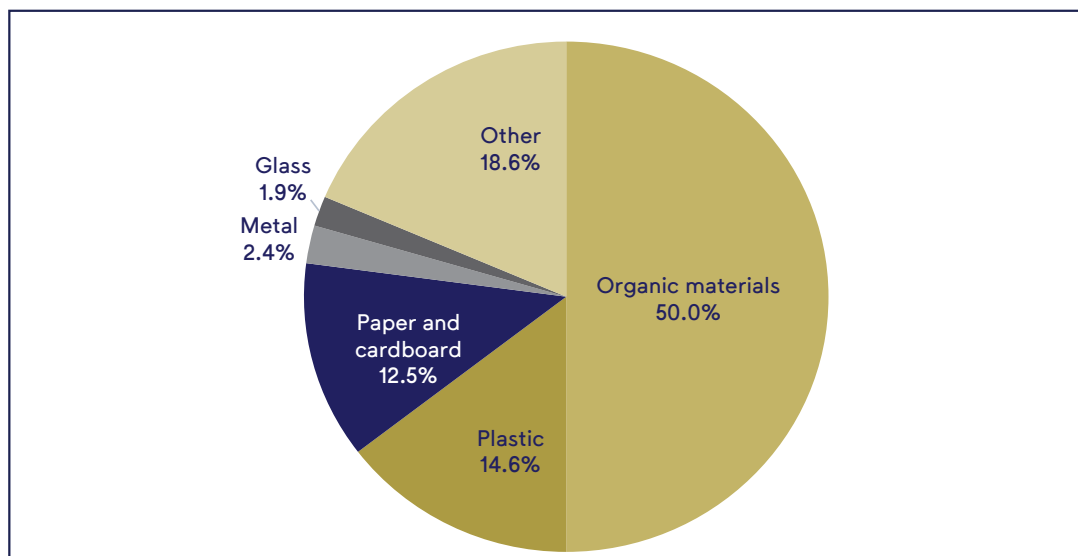
17 https://www.pcbs.gov.ps/Portals/_Rainbow/Documents/HHE%202015%20a%205.htm

18 <http://www.environment.pna.ps/ar/files/Country%20report%20on%20the%20solid%20waste%20management.pdf>

19 The projected average population in mid-2021 divided by the average household size (5.1 persons).

20 Ibid.

Figure 1.11: % distribution of solid waste by composition, 2016



Source: https://www.cesvi.eu/wp-content/uploads/2019/12/SWM-in-Palestine-report-Thoni-and-Matar-2019_compressed-1.pdf

Waste Collection and Transportation

Waste collection and transportation is undertaken by Local Government Units (LGUs), the UNRWA, or individuals. In big towns and cities, municipality workers manually collect plastic waste bags that are placed in front of buildings, institutions, shops, etc. by citizens and transfer them to plastic bins or steel containers (with a small capacity of 800-1000 litres and a large capacity of 5-6 m³). The competent authority then collects waste containers by means of compressors, trucks, or cranes to sanitary or informal landfills or transport stations, and then to sanitary landfills for disposal. Collection service differs in small villages. Usually, there are no containers or compactors to collect waste. People in rural communities usually collect waste once a week manually, door-to-door, and by means of tractors. Furthermore, waste collection systems in the West Bank is different than in the Gaza Strip: in the latter, donkey-drawn carts are used for more than a third of primary waste collection; this is a new method that has been used since the 2008 energy crisis.

Municipalities and LGUs (including Joint Service Councils for Solid Waste Management-JSCs) collect around 83.4% of solid household waste in Palestine, while 9.4% is collected by UNRWA and 5.5% do not have access to solid waste collection services at all (see Table 1.6). Around 39.4% of households who have access to collection services receive this service 1-3 times/week, while 39.9% receive 4-6 times/week and 20.7% receive it 7 or more times/week. Around 82.5% of economic enterprises in the OPT used local authority disposal services, while 12% disposed of their solid waste by themselves and 4.8% through UNRWA (see Table 1.7). The vast majority of the unseparated waste of these enterprises is transported manually (97.8%). Waste is collected 3 times/week at most from 52% of enterprises, 4-6 times/week from 29%, and 7 times/week or more from 19%. There is no data for estimating the percentage and volume of total waste that is collected from other sources.

Table 1.6: Percentage Distribution of Households in Palestine by Solid Waste Collector and Region, 2015

Authority Responsible for Collection	Municipality or Local Authority	Household Member (No Access to Solid Waste Collection Services)	UNRWA	Private contractor or other parties
Palestine	83.4	5.5	9.4	1.7
West Bank	84.5	7.3	6	2.2
Northern West Bank	90.6	2.3	6.7	0.4
Central West Bank	87.5	5	7.5	0
Southern West Bank	74.5	15.2	3.7	6.6
Gaza Strip	81.3	2.1	15.9	0.7

Source: PCBS, 2021. Household Environmental Survey, 2015. Ramallah, Palestine.

Table 1.7: Percentage Distribution of Economic Enterprises in Palestine* by Solid Waste Disposal Doer and Region, 2017

Disposal Doer	The Establishment	Local Authority	Private Contractor	UNRWA	Other
Palestine	12	82.5	0.3	4.8	0.4
- West Bank	12.4	85.2	0.4	1.5	0.5
North of West Bank	3.9	95.3	0.4	0.4	0
Middle of West Bank	15.7	79.9	0	2.6	1.8
South of West Bank	22.1	75.1	0.8	2	0
- Gaza Strip	10.8	77	0.2	11.7	0.3

Source: PCBS, 2021. Economic Environmental Survey, 2017. Ramallah, Palestine

There are 13 JSCs in charge of solid waste management in the West Bank, 12 of which are responsible for waste collection and transportation with 4 councils responsible for landfills management. JSCs are non-profit associations of several Local Authorities that provide one or more services for all member authorities. Trucks, compactors, or tractors transport waste to transfer stations, or directly to landfills. With the exception of Jericho and Bethlehem governorates, the average transportation distance to landfills is about 25km and in some cases exceeds 80km, which significantly affects the operational costs of the JSCs (see Table 1-8 for more details). In the Gaza Strip, there are three solid waste management service providers: the Joint Solid Waste Management Services Councils, 25 municipalities, and UNRWA operating in eight refugee camps. All local authorities in Gaza receive a waste transportation service, and 97% of the population is covered.²¹

²¹ https://www.cesvi.eu/wp-content/uploads/2019/12/SWM-in-Palestine-report-Thoni-and-Matar-2019_compressed-1.pdf

Table 1.8: Main characteristics of the collection system run by the JSCs in West Bank, 2018

JSCs	Waste Collection System Type (WCS).	Number of LGU served	Total LGUs Number	Percentage of population covered	Number Of Vehicles
Jenin	70% street containers and 30% door to door	75	77	93.00%	32
Tubas	95% street containers	12	12	100%	4
Nablus	85% street containers	32	57	47%	5
Tulkarem	40% street containers	27	31	87%	10
Qalqilya	96% street containers	25	25	97%	12
Salfit	90% street containers	19	19	100%	8
Jericho	99% street containers	14	17	87.40%	16
Ramallah and Al-Bireh	No data available	60	70	79%	13
Jerusalem	No data available	60	26	100%	26
Bethlehem	90% street containers	28	36	80%	25
Hebron	75% street containers	32	55	53%	27

Source: https://www.cesvi.eu/wp-content/uploads/2019/12/SWM-in-Palestine-report-Thoni-and-Matar-2019_compressed-1.pdf

* House-to-house or door-to-door collection is done by street sweepers with wheelbarrows or trucks.

Currently in Palestine there are 15 waste transfer stations, i.e., places where solid waste is temporarily deposited to be later transferred to the final disposal site. 12 of these sites are in the West Bank and 3 in the Gaza Strip. JSCs manage 7 of the West Bank stations, and 3 are managed by municipalities. About half of the waste collected is transported through these stations. These stations allow waste segregation and recycling activities, which help reduce the amount of waste disposed of in landfills. However, the use of these stations is still limited and underdeveloped. Table 9.1 below shows the characteristics of solid waste transfer stations in Palestine.

Waste Treatment

In the process of collection, most solid waste coming from households, commercial enterprises, public institutions, and some industrial sites is mixed and are not recycled. About 16.4% of economic enterprises separate chemical waste, 14.2% segregate sharp waste, and 12.3% segregate metal waste. However, as of today there are no facilities or special mechanisms in place for waste segregation, and in the final destination phase, all waste end up mixed at the landfill (see Table 1.10).²² Construction and demolition debris are usually dumped in special sites. In general, hazardous waste is not allowed in existing landfills, but it is not clear where it is effectively treated and dumped. Based on the Ministry of Local Government (MoLG) data, a scant percentage of this waste is recycled on an informal basis. On the other hand, based on data from the Environment Quality Authority (EQA), the percentage of treated hazardous waste out of the total waste generated is just 2% approximately.²³

²² PCBS, 2021. Economic Environmental Survey, 2017. Ramallah, Palestine

²³ https://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_Ar_6-3-2021-env-en.pdf

Table1.9: Characteristics of solid waste transfer stations in Palestine, 2018

Transfer Stations	Quantity Transfered (tons/day)	Transfer Distance (km)	Final Disposal Landfill
West of Jenin	50	35	Zahrat Al Finjan
Tubas	43	28	Zahrat Al Finjan
Al Sayrafi (Nablus)	180	40	Zahrat Al Finjan
Tulkarem	132	30	Zahrat Al Finjan
Qalqilya	123	60	Zahrat Al Finjan
Ramallah	100	120	Zahrat Al Finjan
Al Bireh	100	80	Zahrat Al Finjan
Al-Ram (Jerusalem)	60	55	Al Minya
Al Fahs (Hebron)	400	33	Al Minya
Yata (Hebron)	140	35	Al Minya
Tarqumia (Hebron)	100	39	Al Minya
Wadi Al Nar (Jerusalem)	-	30	Al Minya
Al Eizariya (Jerusalem)	60	35	Al Minya
El Yarmouk (Gaza)	350	10	Johr Al Diek
Khan Younis	0	14	Al Fukhary
Rafah	0	16	Al Fukhary

The main methods of waste disposal in Palestine are landfilling and dumping (whether informal or regulated). However, illegal methods such as informal burning in landfills or containers are also common. The MoLG data for 2019 indicate that the vast majority of solid waste (98%) is dumped in sanitary landfills.²⁴ Other sources estimate that only 65% of solid waste is landfilled, 3% is recycled, and 32% is disposed of through illegal methods.²⁵ There are 7 sanitary landfills in Palestine: 4 are in the West Bank and 3 in the Gaza Strip, as shown in Table 1.11.²⁶

The main problems facing sanitary landfills relate to their inability to absorb the steady increase in waste production due to their limited capacity and space. There is currently no possibility for expansion because of restrictions imposed by the occupation and land scarcity; most adjacent land that could be used as landfills is located in Area C. There is also the difficulty of obtaining the necessary approvals and permits to construct new landfills and the poor primary waste segregation. Also, there is little public enthusiasm for landfills and the populations resist the establishment of new ones. The Rammun landfill, for example, has been in the planning stage since 2006 due to opposition from the residents of nearby villages who fear its negative impacts.²⁷

²⁴ https://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_Ar_6-3-2021-env-en.pdf

²⁵ https://www.cesvi.eu/wp-content/uploads/2019/12/SWM-in-Palestine-report-Thoni-and-Matar-2019_compressed-1.pdf

²⁶ Sanitary landfills is allotted piece of land constructed and designed to use an engineered method of disposing of solid wastes on land in a manner that do not harm human public health and the environment.

²⁷ <https://palestineconomy.ps/ar/Article/8201>

Table1.10: Percentage of Economic Enterprises by Region, Type of Solid Waste and Percentage of Segregated Waste by Type, 2017

		Paper and cardboard	Plastic and rubber	Glass and metal	Soil and stones	Organic Waste	Sharp Waste	Infectious waste	Radioactive waste	Chemical waste	Other
Palestine	Type of Generated Solid Waste	89.8	76.6	29.4	45.6	39.2	7	1.3	0.4	1.4	3.2
	Percentage of Segregated Waste	4.5	3.1	6.8	4	4.8	14.2	12.3	0.6	16.7	7.5
West Bank	Type of Waste	91	85	31	23.7	37.5	6.1	1.6	0.4	1.4	3.7
	Percentage of Segregated Waste	4.7	2.6	5.7	4.3	5.1	20.2	0.6	0	0.9	7.7
Gaza Strip	Type of Waste	87.2	59.4	26	90.3	42.6	8.8	0.7	0.4	1.5	2.3
	Percentage of Segregated Waste	4	4.5	9.6	3.8	4.2	5.9	64.5	1.7	47.4	6.9

Source: PCBS, 2021. Economic Environmental Survey, 2017. Ramallah, Palestine.

Solid Waste Disposal

Given these challenges, the many informal landfills (more than 160 dumpsites) represents the only alternative for making up for the limited capacity of sanitary landfills; this has led to health hazards for communities, the environment, and the economy.²⁸ Improper or unsustainable waste management leads to the leakage of leachate and toxic materials (such as chloride and arsenic) and heavy metals (such as cadmium, mercury, and lead) into the soil and groundwater. This affects human health and incurs very high costs for the state due to the diseases arising from it.²⁹

In 2019, the volume of waste dumped in informal dumpsites was estimated at 343 tons/day in the West Bank and 433 tons/day in the Gaza Strip. Some of these dumpsites are adjacent to agricultural lands or urban areas, on top of the waste that is incinerated.³⁰ About 20% of solid waste generated in the West Bank and Gaza Strip is disposed of in informal landfills.³¹

Table 1.11: Sanitary Waste Landfills in Palestine, 2018

Landfills	Year of establishment	Space	Capacity (million cubic meters)	Daily coming waste	Expected lifespan
Flower of the cup (Jenin)	2007	240,000 square meters	2.25	1200 tones	30-35 years
Al Minya (Bethlehem)	2014	250,000 square meters	4.9	1100	20 years
Jericho	2007		0.0685	50 tones	
Beit Annan (Northwest of Jerusalem)	2018	3,000 square meters		65 tones	3-4 years
Ramon (Ramallah - planned)	Not yet established	208,000 square meters	2.75		20 years
Al Fukhari (Khan Younis)	1996	26,000 square meters		170 tones	
	2014	140,000 square meters			
Deir al Balah	1995	59,900 square meters	0.7725	450 tones	
Johr al Deik (Gaza)		140,000 square meters and 120,000 square meters		700 tons/day	

Source: https://www.cesvi.eu/wp-content/uploads/2019/12/SWM-in-Palestine-report-Thoni-and-Matar-2019_compressed-1.pdf

²⁸ Random landfills are uncontrolled dumpsites that have been randomly selected to dump solid waste without taking into account its impact on public health or the environment. These are the result of the difficulty of establishing new sanitary dumps and the weak structural and strategic planning.

²⁹ <https://www.eea.europa.eu/publications/horizon-2020-mediterranean-report/file>

³⁰ <https://www.un.org/unispal/document/state-of-environment-and-outlook-report-for-the-opt-2020-un-environmental-program-report/>

³¹ Ibid

Table 1.12: Landfills Distribution By Governorate, 2014

Governorate	Ramallah	Salfit	Nablus	Tulkarem	Hebron	Bethlehem	Jenin	Qalqilya	Jericho	Tubas	Gaza Strip	Total
Landfills number	83	10	34	12	1	4	0	7	2	0	9	163
not used	41	2	23	11	0	1	0	7	1	0	1	87

Source: <http://www.environment.pna.ps/ar/files/Country%20report%20on%20the%20solid%20waste%20management.pdf>

Settlements Waste

Israeli settlement waste dumped in Palestinian land exacerbates the solid waste crisis that is facing the waste management sector. Currently, there are more than 200 Israeli settlements in the West Bank, with a population of 620,000 settlers. Those settlers produce 411 tons of waste per year (not including waste produced from Israeli industrial areas in the West Bank).³² While there are landfills are operating solely for Israeli use in the West Bank, some settlements dump their waste in Palestinian landfills.³³ Additionally, settlements' solid waste is disposed of illegally in different informal, unregulated dumpsites and sites, most of which are close to Palestinian communities.³⁴ A study for the Applied Research Institute- Jerusalem (ARIJ) published in 2011 indicates that about 80% of settlement waste is disposed of in informal dumpsites in the West Bank.³⁵ Moreover, occupation authorities dump Israeli solid waste in the West Bank without any restrictions. More than half of the electronic waste generated in Israel is disposed of in the West Bank. Occupation authorities systematically transfer Israeli hazardous waste to the West Bank for treatment, adding to the negative environmental and public health impacts of waste.³⁶

32 <http://www.btselem.org/topic/settlements>, and <http://www.environment.pna.ps/ar/files/Country%20report%20on%20the%20solid%20waste%20management.pdf>

33 <https://ps.boell.org/en/2020/10/07/palestine-solid-waste-management-under-occupation>

34 Ibid.

35 <http://www.arij.org/files/admin/2011/Palestinian%20landscape%20and%20the%20Israeli-Palestinian%20conflict.pdf>

36 <https://ps.boell.org/en/2020/10/07/palestine-solid-waste-management-under-occupation> and <http://dmop.pt/category/settlements/>

In Focus

The Human and Economic Losses Resulting from the May War on Gaza Strip

Beginning on May 10 2021, Israel conducted military airstrikes on the Gaza Strip for 11 consecutive days, until a ceasefire agreement brokered by Egypt was reached on 21st May 2021 between Israel and Palestinian factions in the Gaza Strip. All over Gaza the intense and brutal aggression caused severe damage to residential buildings; civil, governmental, security, and commercial facilities; hospitals and healthcare centers; water and sanitation facilities; and transport, energy and communications networks.

The airstrikes on the Gaza Strip killed 260 people, including 56 children, 39 women, and 79 elderly persons. Moreover, more than 1,900 people were injured, 90 of whom suffered severe injuries.¹ According to the findings of the World Bank Rapid Damage and Needs Assessment² on the damage and losses resulting from the airstrikes, physical damage amounted to around USD380m³ while economic losses amounted to USD190m.⁴ On the other hand, immediate and short-term recovery and reconstruction needs (during the coming 24 months) are estimated at USD485m.

Table 1, which is based on the findings of the World Bank report, shows the sectors that were affected by the aggression, the extent of physical damage and economic losses that each sector incurred, as well as the needs of each sector for the recovery and reconstruction process. As Table 1 figures show, physical damage ranges between USD 290-380m, with the hardest-hit being the social sectors, including the housing, health, education, social protection, and labour sectors. The physical damages incurred by these sectors were estimated at between USD140-180m. The housing sector alone incurred the lion's share of damage, constituting almost 93% of total damage. By comparison, physical damage totaling USD 60-85m was incurred by the infrastructure sector, including municipal services, transport, water and sanitation, energy and digital infrastructure. The productive and financial sectors are estimated to have sustained between USD75–90m in damages, including in: agriculture, services, trade, industry, and the financial sector. In a similar context, the overlapping sectors (government and the environment) have incurred between USD 15–25m in damage.

Economic losses range between USD 105–190m, and again social sectors were hit the hardest compared to other sectors, incurring between USD60–80m. Around 87% of these losses are due to additional (actual or expected) health, social protection and unemployment expenditures that will be allocated to support the groups affected by the airstrikes. These costs will doubtless grow if the poor and most vulnerable groups were among those affected. Additionally, the productive sectors and the financial sector have sustained high losses of USD35–70m, while the losses to the infrastructure sector ranged between USD10–35m, whereas losses to the governance and environment sectors (overlapping sectors) will reach around USD5m.

It is expected that from now until the end of 2021, immediate recovery needs will reach between USD125–195m, with the recovery needs rising over the next 24 months to USD 485m. These needs include rebuilding destroyed or damaged assets/facilities including residential buildings, economic enterprises, hospitals, and governmental institutions, in addition to rebuilding damaged infrastructure and networks. The successful implementation and maintenance of the recovery process depend on several factors, including:

- The availability of funding from donors for reconstruction.
- The degree to which restrictions on the movement of goods and people into Gaza are eased, in

1 <https://www.aljazeera.net/news/politics/2021/5/21/%D8%AD%D8%B5%D8%A%D8%A93%D8%A7%D8%B9%D8%AF%D8%A7%D8%D8%A7%D>

2 The data in this box is based on the World Bank report's figures and estimates, which was released in June 2021: World Bank (2021): Gaza Rapid Damage and Needs Assessment: <https://documents1.worldbank.org/curated/en/178021624889455367/pdf/Gaza-Rapid-Damage-and-Needs-Assessment.pdf>

3 Damages are estimated as the replacement value of completely, partially, or minimally damaged physical assets.

4 Losses are estimated in the flows of the economy that arise from the temporary absence of the damaged assets.

conjunction with the reduction of internal constraints on the private sector and the creation of a more favorable environment for private investments.

- Establishment of a more effective and sustainable governance system and better public institutions.

Table 1: Total damage, losses, and recovery and reconstruction needs (USD million)

Sector	Damage		Losses		Needs (0-24 months)	
	Low base	High base	Low base	High base	Low base	High base
Social Sectors						
Housing	130	160	5	10	45	60
Health	10	15	15	20	30	40
Education	-	5	-	-	40	55
Social protection and labour	-	-	40	50	45	55
Sub Total for Social Sectors	140	180	60	80	160	210
Infrastructure Sectors						
Municipal Services	25	30	-	5	30	40
Transport	15	20	-	5	10	20
Water Supply and Sanitation	10	15	-	5	15	25
Energy	10	15	5	10	20	30
Digital Infrastructure	-	5	5	10	10	20
Sub-total for Infrastructure Sectors	60	85	10	35	85	135
Productive and Financial Sectors						
Agriculture	40	45	10	15	25	35
Services, Trade, and Industry	35	45	15	25	45	60
The Financial Sector	-	-	10	30	-	-
Sub-total for Productive and Financial Sectors	75	90	35	70	70	95
Overlapping Sectors						
Governance	-	5	-	5	5	10
Environment	15	20	0	0	25	35
Sub-total for Overlapping Sectors	15	25	-	5	30	45
Grand Total	290	380	105	190	345	485

Source: World Bank (2021): Gaza Rapid Damage and Needs Assessment

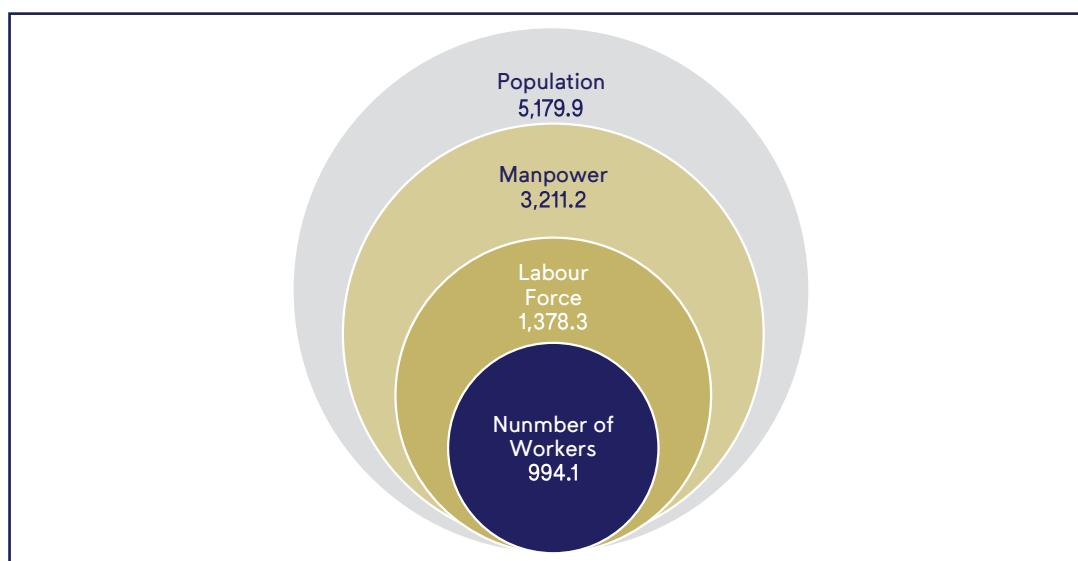
Note: The dash (-) in the table above indicates a negligible amount less than USD2.5m.

The Gaza Strip has been suffering for many years now from the impact of successive Israeli wars on the Strip, which have been accompanied by the ongoing and unjust siege since 2007. Additionally, the Coronavirus pandemic continues to undermine economic life in the Strip. As a result, the recent Israeli aggression against the Gaza Strip for 11 consecutive days and the consequent disruption of economic activity, damage to economic and commercial establishments, and destruction of infrastructure will exacerbate the already deteriorating economic situation. Based on the World Bank report, Gaza's GDP is expected to contract by about 0.3%, against expectations before the aggression of 2.5% growth. The GDP contraction will translate into worsening social conditions for Gazans. This is evident in the rising unemployment rate in Gaza, which is expected to reach 50% in the 47% in 2020 (During Q1 2021 the unemployment rate was around 48%).

2- Labor Market¹

By the end of Q1 2021, Palestinian manpower totalled 3,211.2 thousand people, which includes all persons over 15 years of age, as defined by the PCBS. Whereas the labor force, which represents the number of employed and unemployed people (looking for work), increased during Q1 2021 by about 6% (around 72 thousand people) compared with the previous quarter, and increased by 2% compared with the corresponding quarter in 2020, reaching about 1,378.3 thousand people. The increase in the labor force was positively reflected in the labor participation rate (the ratio of the labor force to manpower), which amounted to about 44% in Q1 2021 (males and females). This represents an increase of two percentage points from Q4 2020, while it maintained the same level compared with the corresponding quarter in 2020. Figure 2.1 illustrates the relationship between the population, manpower, and the labor force at the end of Q1 2021.

Figure 2.1: Population, Manpower, and Labor Force in Palestine, Q1 2021 (1,000 individuals)



2-1 Distribution of Workers

The number of workers in Palestine witnessed a slight drop of about 0.1% (about 700 workers) compared with the previous quarter, standing at 994.1 thousand workers. This decrease was mainly due to the drop in the number of workers in the West Bank by 22.1 thousand (4%) and by 4.3 thousand (3%) in Israel and the settlements. However, in the Gaza Strip, the number of workers increased significantly by 25.7 thousand (12%).

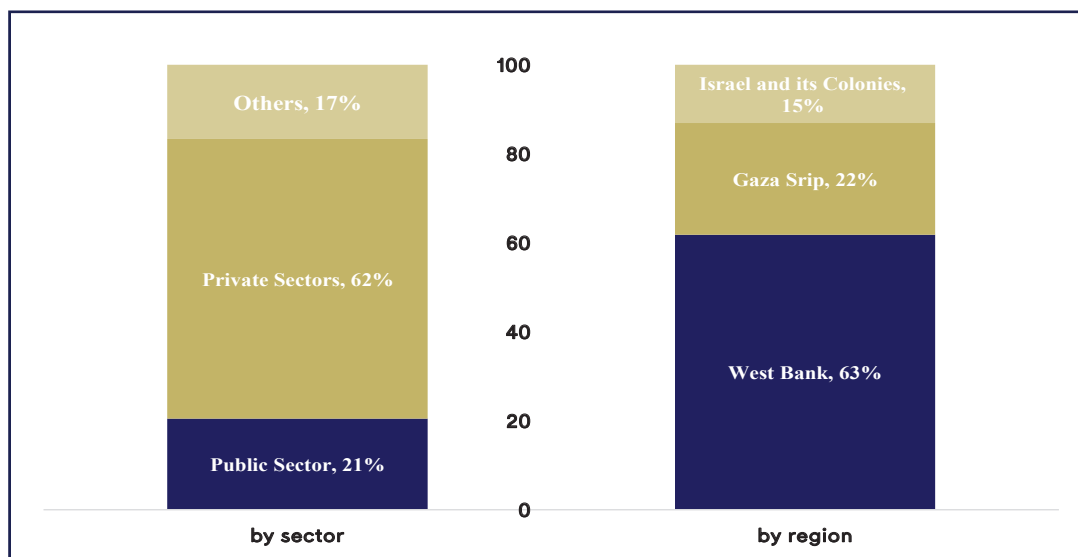
In Q1 2021, the distribution of workers by geographic location stood at 61% in the West Bank, 25% in the Gaza Strip, and 14% in Israel and the settlements (about 138 thousand workers, 20% of whom do not have work permits). As for the distribution of workers by sector in Q1 2021, it was distributed as follows: 20% in the public sector (21% in Q4 2020), 63% in the private sector (62% in Q4 2020), and about 17% in Israel and settlements and the other sectors (same as in Q4 2020).² Workers in the West Bank were concentrated in the private sector, comprising 64% of the total workforce compared to 15% in the public sector. In the Gaza Strip, 57% of workers were concentrated in the private sector, compared to 35% in the public sector. The main reason for the decrease in the

¹ Source of Figures: PCBS Labor Forces Survey, 2021, Ramallah, Palestine.

² Other sectors include NGOs and non-profit organizations.

percentage of Gazans working in the private sector is ascribed to the deteriorating economic and social conditions in the Gaza Strip resulting from the Israeli siege - imposed since 2006 - which has adversely affected all economic activities in the private sector (Figure 2.2).

Figure 2.2: % Distribution of Palestinian Workers by Region and Sector, Q1 2021 (%)



In terms of economic activity, the number of workers in the local market (the West Bank and the Gaza Strip) witnessed an increase across all economic activities during Q1 2021 compared with the previous quarter, except for in quarrying & manufacturing and service activities, which decreased by 7% and 3% respectively. The number of workers in trade, restaurants and hotels increased by 7%, in construction and building activity by 6%, and in transport, storage, and communications by 2%, and in agricultural activities by 1%.

Table 2.1: Relative Distribution of Workers in Palestine by Geographic Location and Economic Sector, Q1 2021 (%)

Economic activity	West Bank (%)		(%) Gaza Strip		Israel and its (%) Colonies		Palestine (does not include workers in Israel (%) (and its settlements)	
	Q4 2020	Q1 2021	Q4 2020	Q1 2021	Q4 2020	Q1 2021	Q4 2020	Q1 2021
Agriculture, fishing and forestry	6	6	8	7	7	7	6	7
Quarries and manufacturing industries	15	15	8	6	16	14	13	12
Building and Construction	14	15	4	6	59	60	12	12
Trade, restaurants, and hotels	23	25	17	19	11	11	21	23
Transportation & Storage and Communications	6	6	8	9	2	2	7	7
Services and more	36	34	55	53	5	6	41	40
Total	100	100	100	100	100	100	100	100

Table 2.1 shows a variation in the relative distribution of workers across the different sectors in the West Bank and the Gaza Strip. The employment rate in manufacturing industries and quarries is higher in the

West Bank (15% in the West Bank compared with 6% in the Gaza Strip), while the employment rate in the services sector is higher in the Gaza Strip (53% in the Gaza Strip compared with 36% in the West Bank). The figures also indicate a significant decrease in the percentage of construction workers in the Gaza Strip (only 6%). This is due to the severe blockade imposed by Israel on the entry of construction materials into the Gaza Strip (see the box on restrictions imposed by the Israeli occupation on the import of dual-use materials in Issue 57 of the Quarterly Economic Monitor).

As for the distribution of workers according to their employment status, from Q4 2021 to Q1 2021, we note a significant increase in the number of unpaid family members by 6% (10,000 workers). During this same period, self-employed workers (employers and self-employed) increased by 6% (12,000 workers), while wage workers dropped by 3% (23 thousand).

2-2 Unemployment

During Q1 2021, the unemployment rate in Palestine witnessed a remarkable increase of 4.4 percentage points compared with Q4 2020, and an increase of 2.8 percentage points compared with the corresponding quarter in 2020, reaching 27.8%. This increase was the result of an increase in the labor force participation rate by 2%, accompanied by a decrease in the number of workers (around 0.1%) between Q4 2020 and Q1 2021 (see Table 2.2).

It is worth noting that there are variations between the unemployment rates in the West Bank and the Gaza Strip. While the unemployment rate in the West Bank increased by 2.2 percentage points in Q1 2021 compared with Q4 2020, and 2.9 percentage points compared with the corresponding quarter in 2020, it witnessed a remarkable increase in the Gaza Strip of 4.8 percentage points in Q1 2021 compared with Q4 2020, and 2.4 percentage points compared with the corresponding quarter of the previous year (see Table 2.2).

Table 2.2: Unemployment Rate among Individuals Participating in the Labor Force in Palestine by Region and Gender (%)

Region/Gender		Q1 2020	Q4 2020	Q1 2021
West Bank	Males	12.0	12.0	14.3
	Females	24.2	27.4	29.9
	Total	14.2	14.9	17.1
Gaza Strip	Males	40.4	39.0	43.3
	Females	62.1	60.4	66.2
	Total	45.5	43.1	47.9
Palestine	Males	21.4	20.1	24.2
	Females	39.6	37.4	43.2
	Total	25.0	23.4	27.8

The most prominent characteristics of unemployment in Palestine in 2021:

- 1) Unemployment was concentrated, in particular, among the youth. The unemployment rate was 44% among the age group 15-24 years, and 43% among the age group 20-24 years. Meanwhile, it was

12% among the age group 45-49 years, and 11% among the age group 50 years and above.³ This indicates that a large proportion of the unemployed is new entrants to the labor market.

- 2) Table 2.2 above shows that the unemployment rate for females is greater than that of males. This is due to the limited number of economic sectors open to female employment compared with males. Female employment in Palestine is concentrated in the services sector, at a rate of 76% compared with 28% for males.⁴
- 3) Unemployment in Palestine decreases as educational attainment increases for males, but not females. The unemployment rate for males with a primary education reached 27%, compared to about 23% for males with an intermediate diploma or higher. However, the unemployment rate for females with a primary education reached about 2%, while it was about 50% for women holding an intermediate diploma or higher. This is mainly due to the high rate of participation of educated females in the labor market as compared to males.⁵

2-3 Wages

The average daily wage decreased by NIS 3.2 from Q4 2020 (NIS 139.0 per day) to Q1 2021 (NIS 135.8 per day). This decrease was the result of a drop in the average wage of workers in the Gaza Strip by NIS 5. On the other hand, the average wage of workers in Israel and its settlements, and the West Bank increased by NIS 1.4 and NIS 3.0, respectively.

The average daily wage of workers in Palestine during Q1 2021 (NIS 135.8 per day) masks the wide divergence between:

- 1) The average wage of workers in the West Bank and the Gaza Strip; where in the latter the average wage is about half the prevailing level in the West Bank. This gap widens even more when the median wage is taken into account instead of the average wage. This is because it marks the topmost wage level for half of all workers (the other half receiving wages above that level (Figure 2.3). For example, although the average daily wage of workers in the Gaza Strip is 49% of that in the West Bank, the median wage in the Gaza Strip is 33% of that in the West Bank (Table 2.3).
- 2) The average wage of workers in the West Bank and the Gaza Strip on the one hand, and that of workers in Israel and its settlements on the other hand. The figures in Table 2.3 indicate that the average daily wage of workers in Israel and the settlements (NIS 263.8) is more than double the average daily wage of workers in the West Bank (NIS 124.9), and four times the average daily wage of workers in the Gaza Strip (NIS 60.6).

Table 2.3: Average and Median Daily Wages of Workers with Declared Wages in Palestine (NIS, Q1 2021)

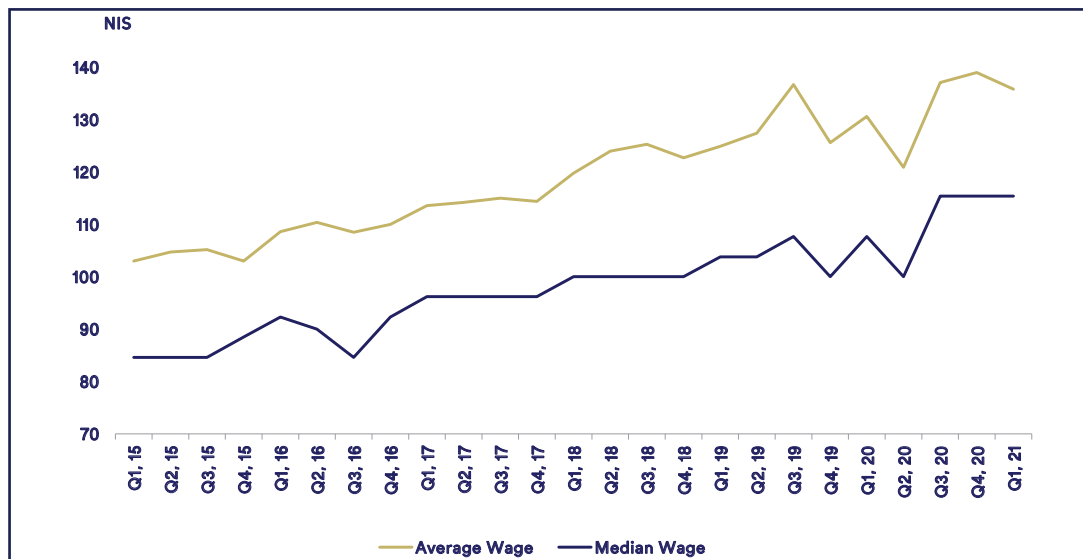
Work Location	Average Daily Wage	Median Daily Wage
West Bank	124.9	115.4
Gaza Strip	60.6	38.5
Israel and its settlements	263.8	250.0
Total	135.8	115.4

3 For more information on youth unemployment, see Box 1: Results of the Survey of the Youth Transition from Education to the Labor Market in Issue 47 of the Economic Monitor.

4 For more information, see "Females in the Palestinian Labor Market: why is their Participation Rate Low and Unemployment High?" Issue 51 - Economic Monitor.

5 Refer to Box 1 in Issue 53 of the Economic Monitor, which argues that the high unemployment rate among educated females compared with uneducated females is associated with their high participation rate in the labour market rather than their education.

Figure 2.3: Average and Median Daily Wage for Workers with Declared Wages (NIS)



2-4 Minimum Wages

The minimum monthly wage in Palestine is NIS 1,450. PCBS figures for Q1 2021 indicate that there was a 5 percentage points increase in the percentage of workers whose monthly wages are less than the minimum wage, as compared with Q4 2020. During Q1 2021, 29% of workers received a monthly wage below the minimum wage, earning an average wage of NIS 733. During Q4 2020, 24% of workers received a monthly wage below the minimum wage, earning an average wage of NIS 750.

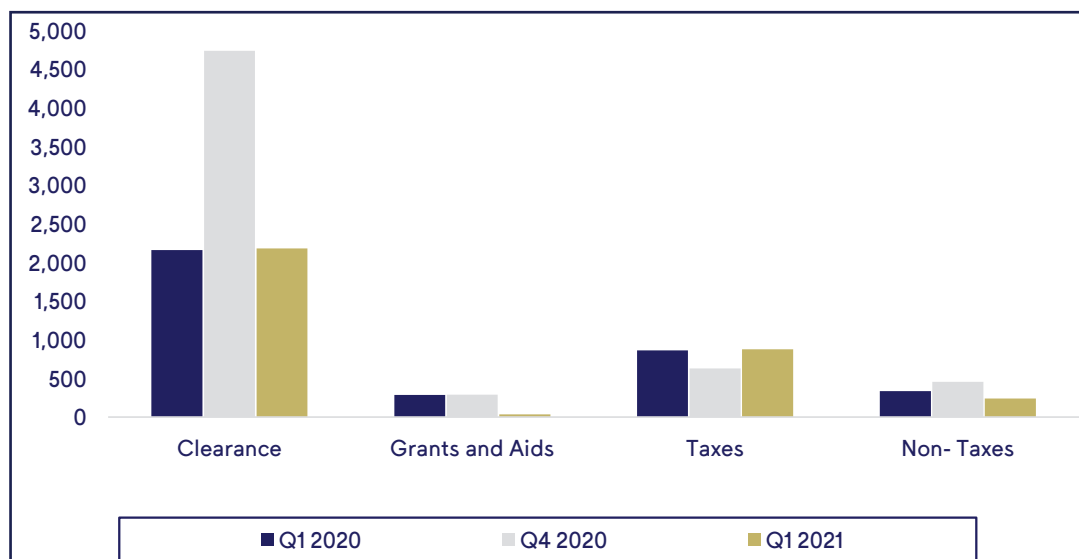
3- Public Finance¹

3-1 Public Revenues

Before presenting and analyzing the public finance data for this quarter, it should be noted that it is difficult to compare this quarter's data with the previous quarter in 2020, which witnessed the resumption of the regular flow of clearance revenues that were suspended between May and November. Consequently, the government paid part of the accumulating arrears during the clearance suspension period. This resulted in inflated revenues and expenditures for the previous quarter. Additionally, because of changes in the accounting policy and entries related to recording expenditures, wages and salaries for the month of January were recorded on a commitment basis while it was paid in February, which means that it was not recorded under the expenditure items on a cash basis during that month. Accordingly, the analysis of revenues and expenditures during this quarter on a commitment basis better reflects the actual public finances, and the quarterly comparison on an annual basis more clearly and realistically shows the position of public finances.

In this context, the challenges and repercussions of the health crisis on the Palestinian economy continued during Q1 2021, leading to a decline in public revenues. The government did not receive any grants or foreign aid (budget support) during this quarter, which further aggravated difficulties in public finances. During Q1 2021, the PA received around NIS 2.2bn in clearance revenues, which is close to the amount collected during the corresponding quarter in 2020. Clearance revenues during this quarter constituted 63.4% of total Palestinian public revenues, while domestic revenues decreased by 6.6% compared with the same period last year, reaching about NIS 1.3bn (Figure 3.1). On the other hand, foreign grants and aid continued their downward trend during Q1, as the government did not receive any external aid except for a modest sum of NIS 35.2m to support development projects (Table 3.1).

Figure 3.1: Structure of Public Revenues (NIS million)



In sum, net public revenues and grants collected during Q1 2021 decreased to NIS 3.4bn, compared with approximately NIS 3.7bn in the corresponding quarter in 2020.² This constituted around 87.6%

¹ Source of Figures: MOF, Monthly Financial Reports 2021: Financial Operations, Expenditure and Revenues, and Sources of Funding (Mar 2021). The data is preliminary, subject to modification and revision.

² It should be noted that tax refunds amounted to about NIS 57.4m during Q1 compared with NIS 114.4m in the corresponding quarter.

of accrued public expenditures during Q1 2021 (on a commitment basis), compared with 104.8% in the corresponding quarter in 2020.

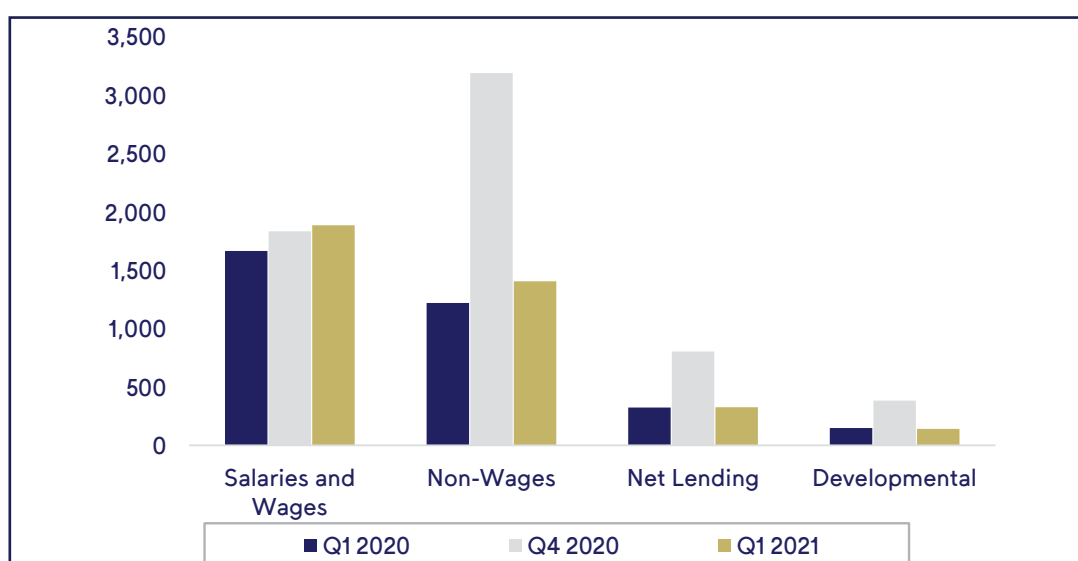
Table 3-1: Grants and Foreign Aid to the PA (NIS million)

Item	2020				2021
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1
Budget Support	246.1	544.3	278	151	0
-Arab grants	111.1	21.3	0	0	0
-Other Countries	135	523	278	151	0
Development aid	38.6	153.3	121	138	35.2
Total	284.7	697.6	399	289	35.2

3-2 Public Expenditure

By the end of Q1 2021, public expenditure on a commitment basis rose by 11.2% compared with the corresponding quarter in 2020, amounting to USD 3.9bn. Salaries and wages (on a commitment basis) also increased by 13.2% compared with the corresponding quarter in 2020, reaching about NIS 1.9bn, while non-wage expenditures rose by 15.3% compared with the corresponding quarter in 2020, reaching about NIS 1.4bn. In contrast, development expenditure decreased by 5.1% in Q1 2021 compared with the corresponding quarter in 2020, amounting to about NIS 140.5m. However, net lending in Q1 2021 settled at the level of the corresponding quarter in 2020 at about NIS 0.3bn (see Figure 3.2). Notably, actual public expenditures (on a cash basis) decreased by 23.4% compared with the corresponding quarter in 2020, reaching NIS 2.3bn, driven by the aforementioned factors - specifically changes in accounting policy and entries related to recording expenditures.

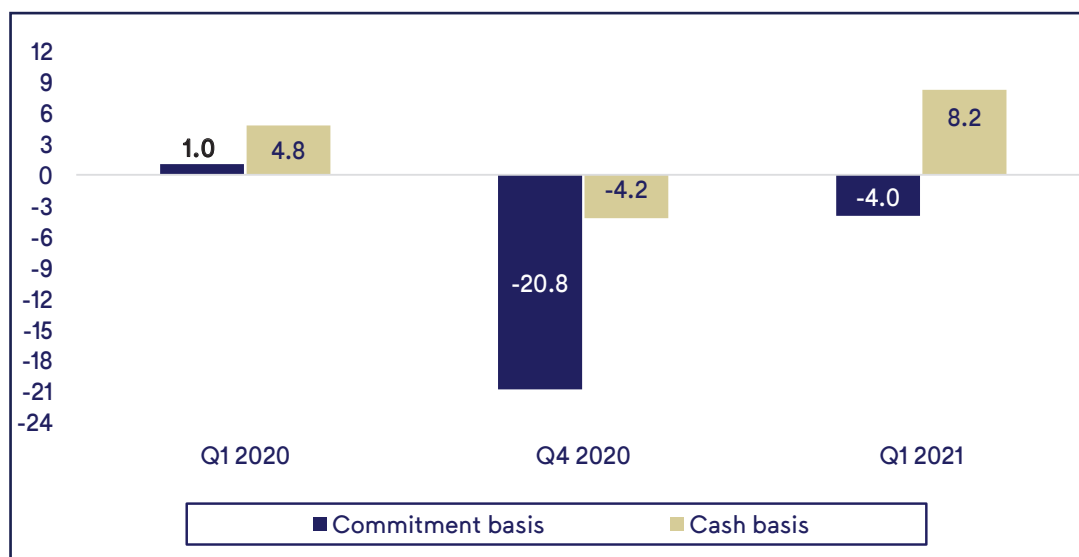
Figure 3.2: Structure of Public Expenditure- commitment basis (NIS million)



3-3 Financial Surplus/Deficit

Developments on both revenue and expenditure sides during Q1 2021 led to a surplus in the overall balance (after grants and aid) on a cash basis of NIS 1.1bn (8.2% of nominal GDP).³ However, this surplus does not reflect the actual financial position of the government, as it is mainly related to the accounting policy and entries used in recording expenditures. The overall balance on a commitment basis reflects the actual real position of the government's finances. The overall balance, after grants and aid, on this basis was a deficit of about NIS 0.6bn, or 4% of nominal GDP (Figure 3.3).

Figure 3.3: Government's Financial Balance as % to Nominal GDP



3-4 Government Arrears

The total value of accumulated public arrears during Q1 2021 reached NIS 1,714.3m, of which NIS 789.3m were in wages and salaries arrears, NIS 658.9m in non-wage arrears, and NIS 68.6m in development expenditure arrears. Meanwhile, provisional payment arrears amounted to approximately NIS 107.5m, and tax refunds arrears were nearly NIS 90m (Table 3.2).

Table 3.2: the PA's Accumulated Arrears (NIS million)

Item	2020				2021
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1
Tax refunds	30.9	(4.3)	13.7	63.8	900
Wages and Salaries	155	1,085.8	485.2	(1,208.5)	789.3
Nonwage expenditures	209	801	825.1	667.4	658.9
Development expenditures	72.5	61.7	111.9	134.1	68.6
Provisional Payments	97.2	8.1	47.1	1.4	107.5
Total Arrears	564.6	1,952.3	1,483.0	(341.8)	1,714.3
Arrears for goods, services and expenses for previous years	239.7	246.7	344.2	731.9	263.7
Net arrears	324.9	1,705.6	1,138.9	(1,073.3)	1,450.6

Note: Figures between brackets indicate negative value.

³ Note that GDP data is preliminary and subject to revision and amendment.

3-5 Total Public Debt

By the end of Q1 2021, public debt (denominated in USD) decreased by 2.9% compared with the previous quarter, whereas it increased by 22.8% compared with the corresponding quarter in 2020 (on an annual basis). It reached about USD 3.5bn (equivalent to NIS 11.8bn), or 20.9% of nominal GDP. These changes can be attributed to a decrease of 4% in domestic government debt compared with the previous quarter, whereas it rose by 39.7% compared with the corresponding quarter in 2020, reaching USD 2.2bn. Additionally, external public debt decreased by 0.8% compared with the previous quarter, while it rose by 2% compared with the corresponding quarter in 2020, amounting to USD 1.3bn. Paid debt service reached NIS 30.6m during the quarter, NIS 25.4m of which was interest paid on domestic debt, while NIS 5.2m was paid on external debt (Table 3.3)⁴

Table 3.3: Palestinian Government Public Debt (NIS million)

Item	2020				2021
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1
Domestic public debt	1,597.3	1,786.9	2,157.3	2,324.7	2,231.1
Banks	1,583.1	1,772.2	2,099.1	2,262.3	2,1710
Public institutions	14.2	14.7	58.2	62.4	60.1
External public debt	1,289.0	1,294.1	1,302.8	1,324.7	1,314.4
Total public debt	2,886.3	3,081.0	3,460.1	3,649.4	3,545.5
Public debt as % to nominal *GDP	17.0%	21.4%	21.7%	23.5%	20.9%

4 Note that figures differ slightly when calculated in Shekels due to changes in exchange rates.

4- The Financial Sector

4-1 The Banking Sector¹

By the end of Q1 2021, there were 380 bank branches and offices operating in Palestine, 322 of which were in the West Bank and 58 in the Gaza Strip. According to the consolidated balance sheet of banks, by the end of the quarter net assets/liabilities of the banking sector grew by 0.9% compared with the previous quarter and by 13.3% compared with the corresponding quarter, to reach USD 20.1bn (Table 4.1). This growth is ascribed mainly to an increase in credit facilities, balances, and the financial stocks portfolio during the period of comparison. Additionally, the 6.3% drop in the NIS²/USD exchange rates, compared with the corresponding quarter, was reflected in a fictitious increase in the volume of dollar-dominated net assets/liabilities. By contrast, compared with the previous quarter, the exchange rate had a limited effect as it saw a slight increase during the quarter. It is worth noting that about 40% of total bank assets and 33% of liabilities are Shekel-denominated.

Table 4.1: Consolidated Balance Sheet of Licensed Banks Operating in Palestine (USD millions)

Item	2020				2021
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1
Total assets	17,709.5	18,237.1	18,625.0	19,886.2	20,059.9
Direct Credit Facilities	9,249.9	9,652.4	9,894.0	10,078.7	10,150.6
Deposits at PMA & Banks	4,565.3	4,438.8	4,138.7	5,509.1	5,126.9
Securities Portfolio and Investments	1,365.2	1,352.9	1,310.7	1,368.8	1,377.2
Cash and precious metals	1,252.0	1,537.9	1,981.3	1,770.9	2,151.6
Other assets	1,277.2	1,255.2	1,300.3	1,158.6	1,253.7
Total Liabilities	17,709.5	18,237.1	18,625.0	19,886.2	20,059.9
Total deposits of the public (non-bank deposits)**	13,303.8	13,814.1	14,061.9	15,138.3	15,182.4
Equity	1,991.6	1,984.7	1,959.1	1,967.4	2,016.7
Deposits of PMA and Banks (bank deposits)	1,165.1	1,168.8	1,209.3	1,349.5	1,337.7
Other liabilities	426.9	414.0	499.3	488.6	564.6
Provisions and depreciation	822.2	855.5	895.4	942.5	958.6

Items in the above table are totals (including provisions).

Non-bank deposits include private and public sector deposits.

4-1-1 Credit Facilities

By the end of Q1 2021, the value of credit facilities had increased by 0.7% compared with the previous quarter, reaching around USD 10.1bn. This increase came as a result of the 1.7% growth of credit

¹ Source of Figures: The source of data in this section: PMA, June 2021. The Consolidated Balance Sheet for Banks, List of profits and losses, PMA database.

² The quarterly average (end of the period) of the US dollar exchange rate against the Shekel was 3.334 NIS/USD in Q1 2021 compared with 3.306 NIS/USD in the previous quarter and 3.558 NIS/USD in the corresponding quarter.

facilities granted to the private sector, which reached about USD 8.0bn, against a 2.9% drop in facilities granted to the public sector, which reached about USD 2.1bn. Thus, the ratio of credit facilities to public deposits stood at about 70% and 59.9% of GDP at current prices. Regionally, the West Bank had the biggest share of total credit facilities, at 91.6%, compared with only 8.4% for the Gaza Strip

In terms of type, credit facilities adhered to the same general structure compared with the previous quarters, except for slight changes. Loans dominated the credit portfolio, with a share of 83.2% of the total, compared with 15.5% for overdraft accounts and 1.6% of ijarah (leases ending in ownership) (Figure 4.1). In terms of currency, facilities granted in Shekels constituted a bigger share of facilities, accounting for 47% of the total compared with 37.9% for USD and 12.7% for JOD.

Figure 4.1: Distribution of Total Direct Credit Facilities (USD million)

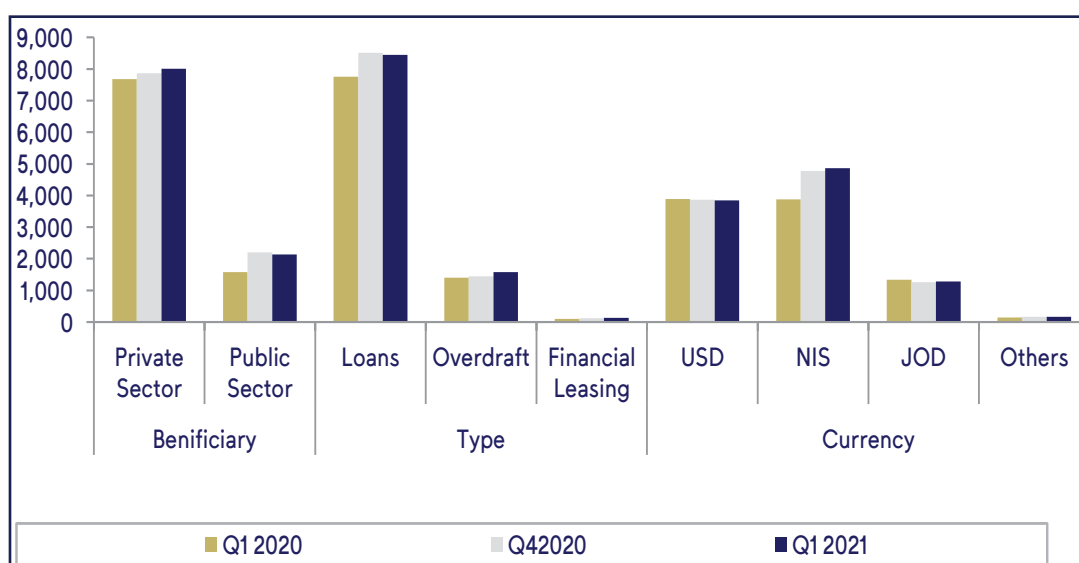


Table 4.2: Sectoral Distribution of Credit Facilities (million USD)

Item	2020				2021
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1
Public Sector	1577.2	1742.4	2041.8	2205.4	2141.7
Real Estate and Construction	1707.2	1740.4	1786.1	1801.9	1808.2
Mining and Industry	485.1	487.3	490.5	443.6	467.7
Trade	1539.9	1486.2	1479.7	1523.0	1711.0
Services	1067.1	1227.2	1173.7	1125.2	1068.5
Vehicle Purchase Financing	362.6	374.2	442.5	405.3	392.0
Consumer Goods Financing	1347.8	1501.8	1426.5	1415.0	1349.0
Other Private Sector Financing*	1163.0	1092.8	1053.2	1159.3	1212.5
Total	9249.9	9652.3	9894.0	10078.7	1015.6

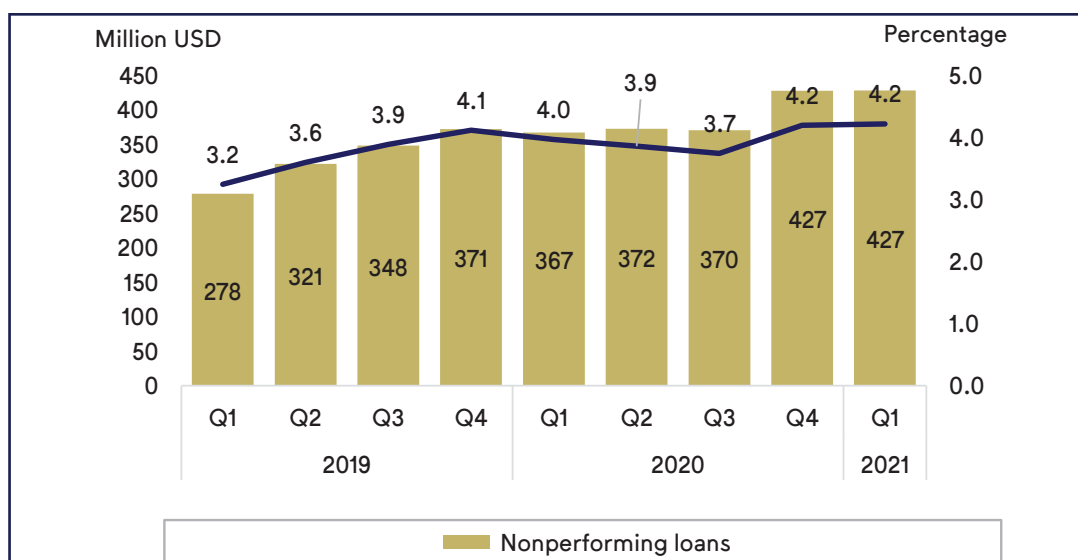
* Others in the private sector include facilities granted to the following sectors: land development, agriculture and livestock, tourism, hotels and restaurants, and transport; this is in addition to financing investments in stocks, as well as other facilities not related to any of these sectors.

Q1 2020 witnessed an increase in the private sector's share of the total credit portfolio, which reached 78.9% compared with 78.1% in Q4 2020. On the other hand, the public sector's share dropped from 21.9% to 21.1% during the same period of comparison. By sector, facilities granted to productive sectors, such as real estate and construction, increased by 0.4% to the and mining and industry sector by 5.4%. However, those granted to the agricultural and livestock sector declined by 5.8% as well as in most of the service sectors with the exception of the trade, e equity financing sector, and tourism sectors (Table 4.2).

4-1-2 Non-performing Loans

By the end of Q1 2021, non-performing loans had maintained the same level as the previous quarter, seeing a marginal growth of 0.1% and reaching about USD 427.5m (equivalent to 4.2% of all facilities) (Figure 4.2). Sectorally, the percentages of non-performing loans recorded minor changes and remained almost at the same level as the previous quarter: it stood at 7.1% in the trade sector, 5.6% in consumer goods financing, 4.3% in real estate and construction, 5.9% in industry, 4.0% in services, and 2.3% in vehicle purchase financing (given the limited risks associated with this sector).

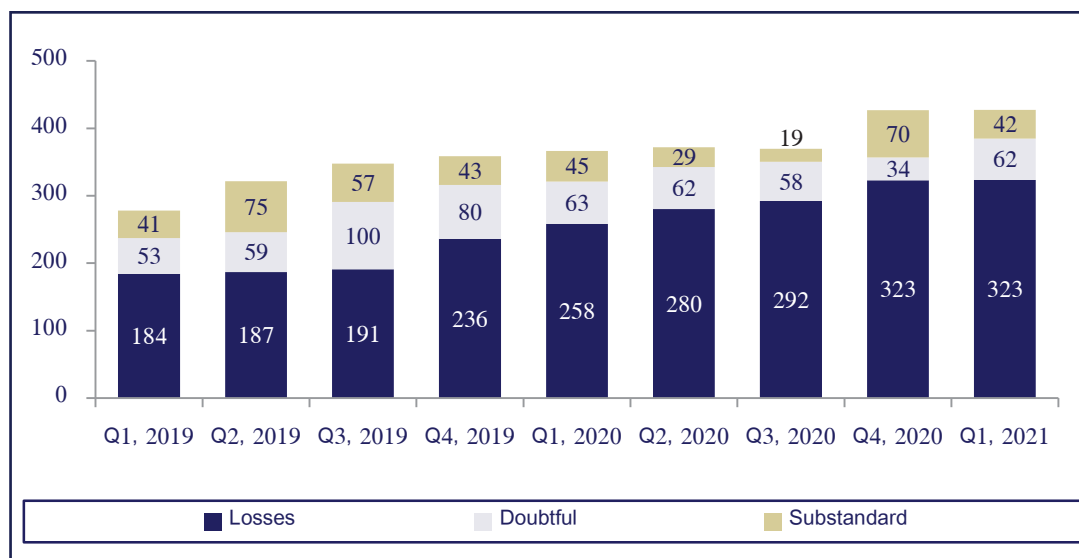
Figure 4.2: Non-performing Loans Structure



Regarding the structure of non-performing loans in terms of the default period³, data show that the highest percentage of bad loans (more than three-quarters) had been classified as losses by the banking sector. Doubtful loans accounted for 14.4% of the total, and sub-standard loans accounted for about 13.1% (Figure 4.3).

³ According to the instructions of the PMA, non-performing loans are classified by the default period into: (1) Sub-standard facilities, which are facilities that have been overdue for a period of 91-180 days. (2) Doubtful facilities, are those whose repayment period has elapsed by 181-360 days. (3) Losses, where the repayment period has elapsed by +360 days.

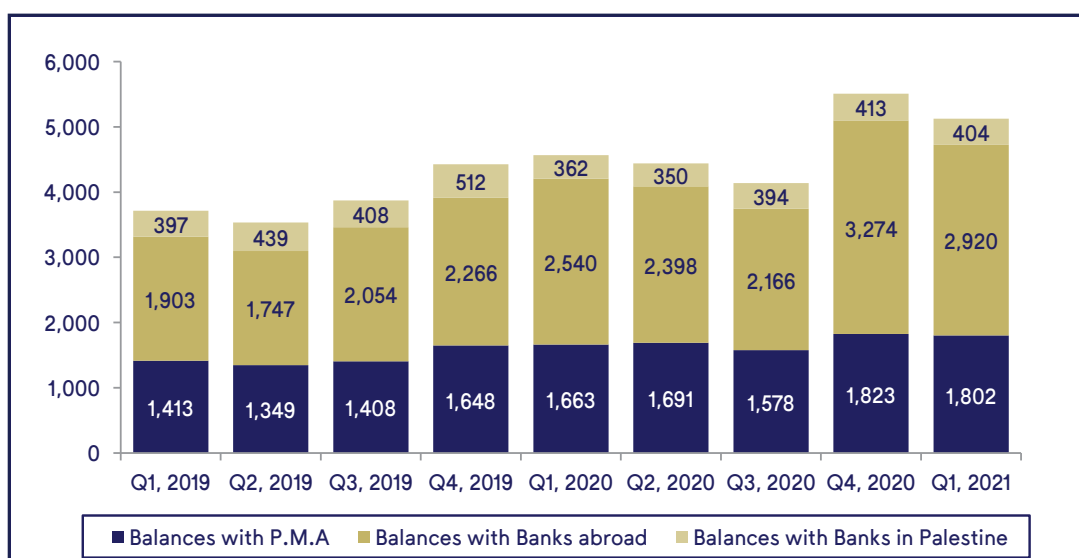
Figure 4.3: Non-performing Loans Structure (millions USD)



4-1-3 Deposits at PMA & Banks

During Q1 2021, balances at the PMA and banks declined significantly, by about 6.9% compared with the previous quarter to reach USD 5.1bn (Figure 4.4). This resulted from the decline in balances at overseas banks. These balances, which are(the largest and most important component at PMA and banks at 57% of all balances, declined by 10.8% compared with the previous quarter to reach USD 2,920.3m. It is worth noting that about 45.1% of these balances are held Jordanian dinars, 37.0% in dollars, and 9.6% in Shekels, while other currencies accounted for the remaining 8.4%. Data analysis also show a decline of 2.0% in inter-bank balances compared with the previous quarter, which reached about USD 404.3m, about half of which (53%) were Shekel-denominated. Correspondent accounts accounted for 46% of the total, while other deposits constituted 54% of total inter-bank balances. In addition, bank balances held by the PMA dropped by 1.1% during the same period to reach USD 1802.3m, 75% of which are required reserves.

Figure 4.4: Balances at the PMA and Banks (million dollars)



4-1-4 Cash and Precious Metals

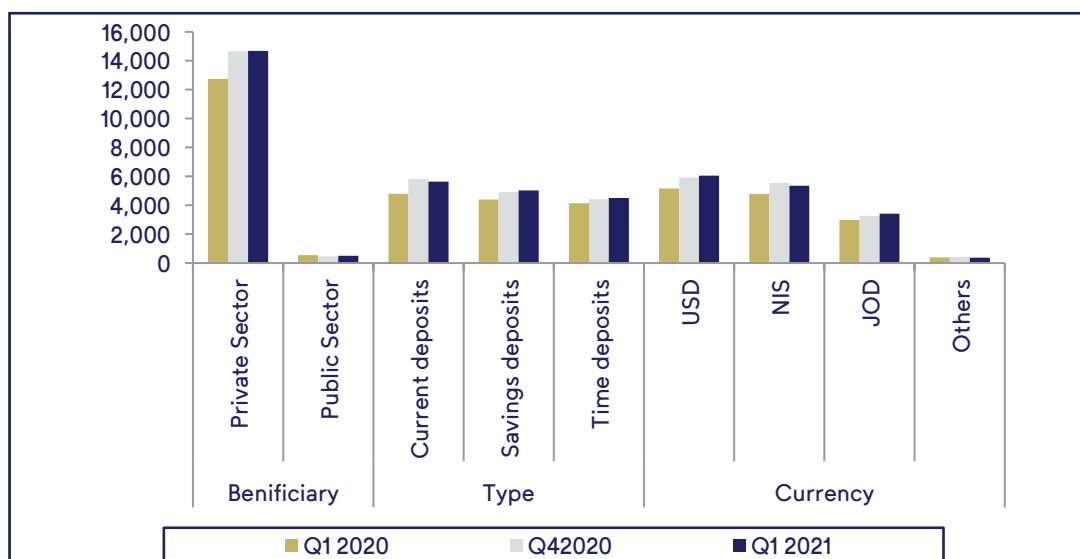
The consolidated balance sheets of banks show a significant increase in cash and precious metals. Their value rose by 21.5% and 71.9% compared with the previous and corresponding quarters, respectively, to reach USD 2.1bn. Since the start of the Coronavirus pandemic in March 2020 and heightened fears about its impacts, cash withdrawals of customers increased. It then began to return to their normal levels during the subsequent quarters, which explains this rise. Also, the Shekel surplus transferred to Israel was less than the volumes transferred previously, which has contributed to the rise of this item. In addition, the drop in the USD/NIS exchange rate clearly contributed to its increase (denominated in US dollars), especially since 71% of this item is Shekel-denominated.

4-1-5 Deposits

By the end of Q1 2021, there was a slight increase (0.2%) in the total value of deposits (banking and non-banking) compared with the previous quarter, while there was a marked increase (of 14.2%) compared with the corresponding quarter 2020. Deposits reached USD 16.5bn, constituting about 82% of total liabilities.

Notably, public deposits accounted for about 92% of total deposits during this quarter, having risen meagerly (0.3%) because of the 8.9% growth in public sector deposits, compared with the previous quarter, to stand at USD 506.7m. However, private sector deposits remained stable at USD 14,7bn, constituting the majority of public deposits (96.7%). Data analysis indicated that current deposits make up 37.2% of total public deposits, while saving deposits and time deposits make up 33.1% and 29.7% of the total, respectively. The distribution of deposits by currency remained at the same level as in the past: 39.9% for the dollar, 35.2% for the NIS, 22.5% for the Jordanian dinar, and about 2.5% for other currencies. This modest growth in deposits during the current quarter led to a decline in GDP share, which fell to 89.6% compared with 97.3% in the previous quarter and 78.1% compared with the corresponding quarter 2020.

Figure 4.5: Distribution of Deposits (USD million)



4-1-6 Banks' Profits

The net income of banks started to recover in Q1 2020, when it doubled; in comparison with the previous quarter. It has seen a rise of 42.0% compared with the corresponding quarter 2020, to reach USD 55.3m compared with USD 22.0m in the previous quarter and USD 39.0 million in the corresponding quarter. This resulted mainly from a 19.6% decline in expenditures (USD 128.1m) and a 1.1% increase in revenues driven by non-interest income, which had reached USD 183.4m by the end of Q1 2021 (Table 4.3).

Table 4.3: Sources of Revenues and Expenditures of Licensed Banks (USD millions)

Item	2020				2021
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1
Revenues	179.8	165.2	170.8	181.4	183.4
Net income from paid interests	128.8	120.2	132.3	137.6	132.1
Non-interest income	51.0	45.0	38.5	43.8	51.3
Commissions	30.7	26.1	27.2	23.0	25.9
Profits and losses of financial instruments	3.6	6.7	-2.2	3.2	6.0
Other revenues	16.7	12.2	13.6	17.6	19.4
Expenses	140.8	156.2	140.2	159.4	128.1
Non-interest expenses	114.1	112.5	104.1	113.4	109.2
Provisions	16.7	30.9	27.1	27.3	6.1
Taxes	10.0	12.8	9.0	18.7	12.8
Net income	39.0	9.0	30.65	22.0	55.3

4-1-7 Average Interest Rates on Deposits and Loans

Interest rates on deposits and loans in the currencies traded in the Palestinian market are interlinked with the prevailing rates in issuing countries, competition between banks, and the degree of risks associated with the Palestinian market. Data analysis for Q1 2021 indicates that there has been a drop in the average interest rate on loans for the Shekel and Jordanian Dinar currencies to 6.46% and 6.66%, respectively. For US dollar loans, average interest rates rose to 5.59%, up from 5.34% in the previous quarter (Table 4.4).

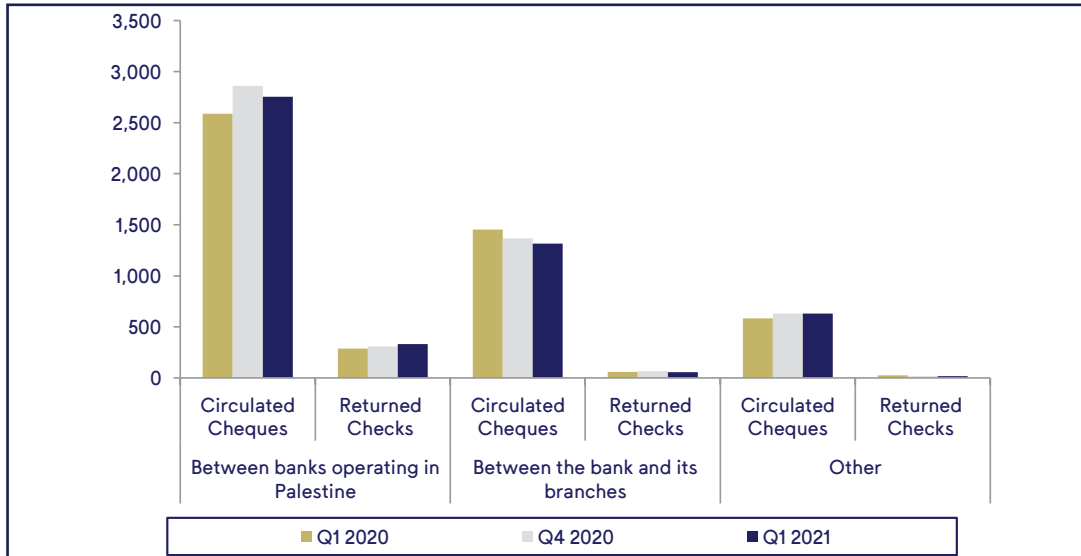
Table 4.4: Average Interest Rates on Deposits and Loans by Currency, (%)

Currency	(%) Deposits interest		(%) Loans Interest		Margin (percentage point)	
	Q4 2020	Q1 2021	Q4 2020	Q1 2021	Q4 2020	Q1 2021
US Dollar	2.31	2.24	5.34	5.59	3.03	3.35
JOD	2.29	2.34	6.78	6.46	4.49	4.12
NIS	2.36	2.26	6.82	6.66	4.46	4.40

4-1-8 Circulation of Checks

During Q1 2021, the value of checks circulated in Palestine declined by 3.3% compared with the previous quarter, reaching about USD 4.7bn (Figure 4.6), while the value of returned checks rose by 2.7%, reaching USD 405.8m during the same period. This data includes the value of checks that passed through national clearing houses in the West Bank and the Gaza Strip, between the bank and its branches, in addition to checks handled by Israeli banks.

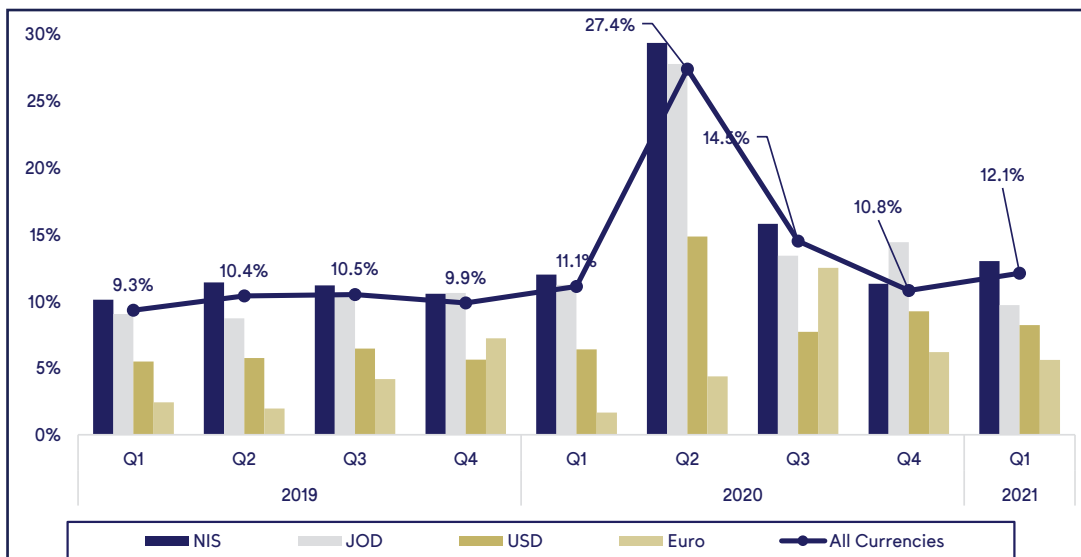
Figure 4.6: Circulation of Checks (Million USD)



On the other hand, the average interest rates on deposits decreased compared with the previous quarter: US dollar deposits decreased from 2.31% to 2.24%, while Shekel deposits decreased from 2.36% to 2.26%. In contrast, interest rates on JOD deposits rose from 2.29% in the previous quarter to 2.34%. These changes resulted in a decline in the interest rates margins of JOD and NIS, reaching 4.12 points and 4.40 points, respectively. Meanwhile, USD interest rate margins increased to 3.03 points.

The data analysis of checks submitted for clearing and returned checks through the electronic clearing system indicates a drop in their value during Q1 2021 by 3.7% compared with the previous quarter, reaching around USD 2.7bn. However, their value rose by 6.4% compared with the corresponding quarter in 2020. It should be noted that the number of checks decreased by 6.8% compared with the previous quarter, amounting to 1,250,269 checks. This is ascribed to the reimposition of closure measures once again by the Palestinian government to fight the third wave of the Coronavirus in March 2021.

Figure 4.7: Percentage of Checks Presented for Clearance to Returned Checks, by Currency (%)



This was also reflected by the data on returned checks, whose value increased by 7.5% compared with the previous quarter, standing at USD 332.5m, and by 15.9% compared with the corresponding quarter in 2020. These developments led to the decline in the value of returned checks (measured as a percentage of the total value of checks submitted for clearing in banks operating in Palestine in all currencies) to 12.1% during Q1 2021, compared with 10.8% in the previous quarter and 11.1% in the corresponding quarter in 2020 (Figure 4.7). By currency, the percentage of NIS returned checks increased from 11.3% in the previous quarter to 13.0% in Q1 2021, while the percentage of returned checks in JOD, USD, and Euro stood at 9.7%, 8.2%, and 5.6%, respectively in Q1 2021.

In the context of the PMA's strenuous efforts to develop the banking infrastructure, the PMA announced in June 2020, that it had begun operating an electronic clearance system. The new system allows the electronic exchange of check images and information, as an alternative to the exchange of the original paper checks, to facilitate clearance processes between banks operating in Palestine. The system will also enhance confidence in the check as a form of payment and increase the speed of cash turnover and cash flow in the local economy by reducing the cash float period. The PMA issued its instructions No. (1/2021) to regulate the electronic clearing processes of checks between banks.

4-1-9 Specialized Credit Institutions (SCIs)

At the end of Q1 2021, the total assets of the SCIs⁴ decreased by 1.1% compared with the previous quarter, while they grew by 1.8% compared with the previous year, standing at USD 331.6m. The value of the SCIs' credit portfolio decreased during the quarter by 1.0% compared with the previous quarter, reaching about USD 247.3m (table 4.5): this consisted of a drop of 0.5% in the West Bank (USD 210.0m) and 3.9% in the Gaza Strip (USD 37.3m). The number of borrowers also decreased to 65,790; 65% of whom were males and 35% were females.

Table 4.5: Specialized Credit Institutions (SCIs) Data

Item	2020				2021
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1
Total of Loans Portfolio (USD millions)	259.4	265.2	259.7	249.8	247.3
West Bank	214.4	220.2	216.7	211.0	210.0
Gaza Strip	45.0	45.0	43.0	38.8	37.3
Active Clientele	74,065	73,853	72,360	68,027	65,790
No. of Offices and Branches	100	100	97	96	96
Employees	900	852	846	849	845

In terms of economic sector, the real estate sector comprised the largest share of the overall SCI portfolio (32.7%, USD 80.9m), followed by the commercial sector (29.7%, USD 73.4m), the public services sector (11.7%, USD 28.9m), the agricultural sector (11.6%, USD 28.6m), and finally the consumption sector, the industrial sector, and the tourism sector (14.4%, USD 35.6m).

The data also indicates a decrease in the value of the risky portfolio (the irregular portfolio) of these institutions during Q1 2021 by 10.7%, amounting to USD 28.7m; 80.2% of which were in the West Bank and 19.8% were in the Gaza Strip. In addition, allocations covered a large part of this portfolio (around 91% compared with 81% during the previous quarter).

4 During the quarter, the number of SCIs licensed by PMA was 8.

4-2 The Non-banking Financial Sector

4-2-1 The Securities Sector

Al-Quds Index closed at 466.2 points by the end of Q1 2021, decreasing by 1% compared with the end of the previous quarter (Q4 2020) and by 7% compared with the corresponding quarter (Q1 2020). On the other hand, the market value of traded shares saw a slight growth by the end of Q1 2021 compared with the end of the previous quarter, yet it decreased by 4% compared with the end of the corresponding quarter in 2020, reaching USD 3.5bn. The market value of the shares of companies listed on the PEX is equivalent to 22% of GDP at current prices - a decrease of one percentage point compared with the corresponding quarter in 2020 (see Table 4.6).

The volume and value of traded shares decreased by 7% and 12% respectively, compared with the previous quarter, while they rose significantly by 50% and 54% respectively, compared with the corresponding quarter in 2020. This rise is mainly attributed to the increase in insurance and services sectors (see Table 4.6), while the decrease in trading activities during Q1 2021 compared with the previous quarter was caused by economic conditions and political tensions prevailing in Palestine, in addition to the drop in the share prices of some companies. The marked increase at the end of Q1 2021 compared with the corresponding quarter in 2020 is ascribed to the drop-off in trading activity over that year's quarters, especially Q1 and Q2. This was primarily caused by the suspension of trading on the PEX following the pandemic (between 23/3/2020 and 3/5/2020), in addition to uncertainty and the decline in investments. Moreover, the first quarter of the year is usually the time when companies consolidate their investment positions, hold their general assemblies, and distribute their dividends.

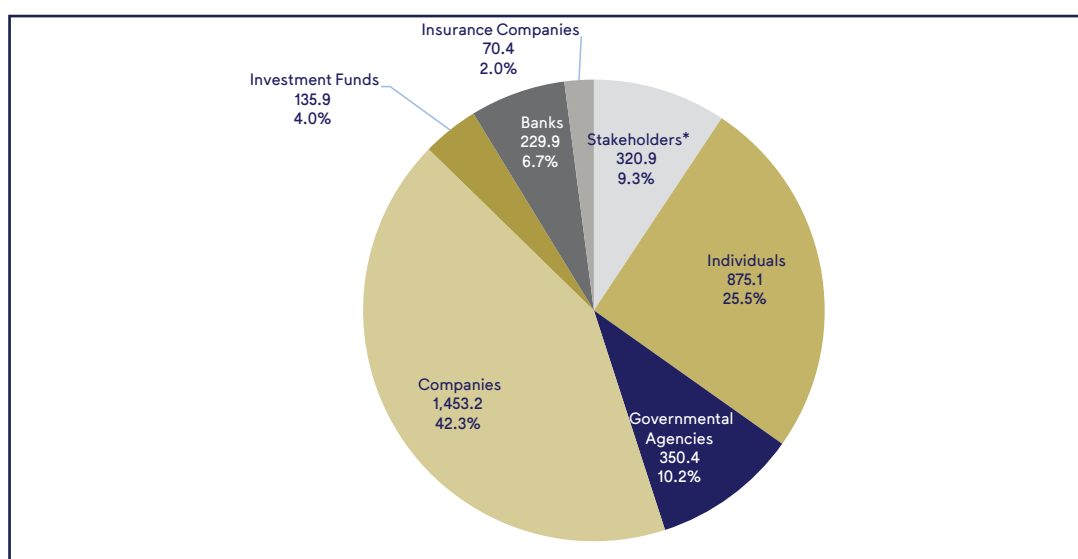
Table 4.6: A Selection of Financial Indicators on the Trading Activity on the PEX

Item	Q1 2020	Q4 2020	Q1 2021
Volume of Traded Shares (million share)	15.2	24.6	22.8
Value of Traded Shares (USD million)	31.9	55.4	49.0
Market value (million dollars)	3,598.7	3,446.9	3,451.3
No. of deals	4,840	5,597	5,455
No. of trading sessions	54	64	61
Market value as a percentage of GDP (at current prices)*	23.1%	22.2%	22.2%

* GDP at current prices for 2020 was used, as the market value of shares traded is at current prices.

Figure 4.8 illustrates the characteristics of traders on the PEX, according to their relative share of the market value of transactions at the end of Q1 2021. The share held by companies reached 42%, while the share held by individuals reached 26%.

**Figure 4.8: Distribution of Market Capitalization by Trader Type
(as of the end of Q1 2021) (USD million)**



Individuals who have a direct or indirect relationship with the company, by virtue of their position or relationship.

The total number of shareholders in companies listed on the PEX reached 63,970 at the end of Q1 2021; 84% were in the West Bank and 16% were in the Gaza Strip, with a higher rate of participation among men than women in both regions.

4-2-2 Financial Leasing

By the end of Q1 2021, nine licensed financial leasing companies were operating in Palestine. The volume and value of financial leasing contracts registered at PCMA reached 1,364 amounting to a total investment value of USD 22m, down by 10% in the value of contracts and a 5% increase in their volume compared with the previous quarter. Compared with the corresponding quarter, the value of contracts increased by 16% while its volume decreased by 16% (Table 4.7).

Table 4.7: Total Volume and Value of Financial Leasing Contracts

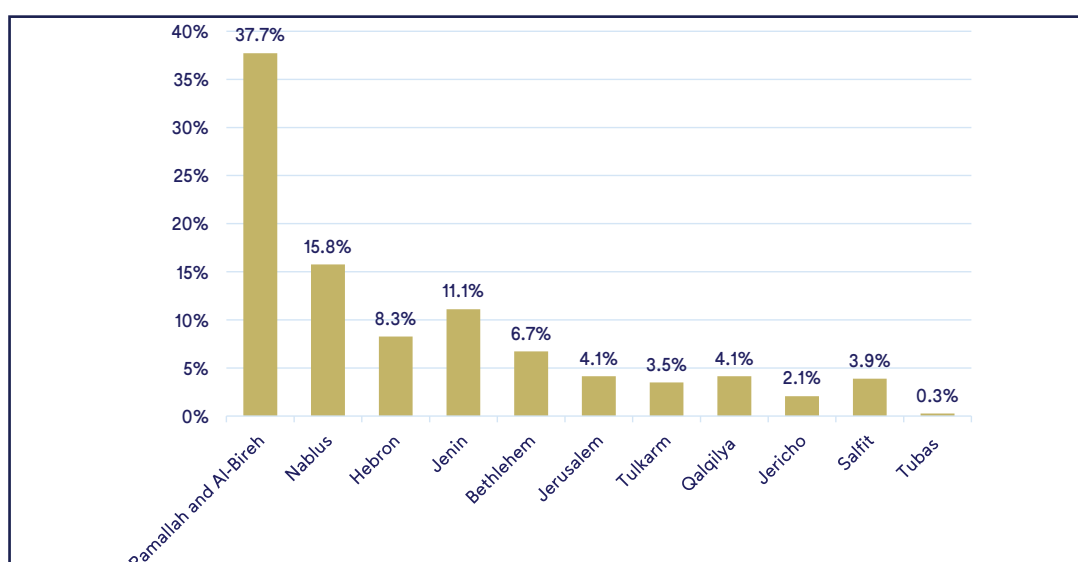
Quarter/ Year	Total Value of Financial Leasing Contracts (USD million)	Total Volume of Financial Leasing Contracts
Quarter 1, 2020	19.0	458
Quarter 4, 2020	24.5	369
Quarter 1, 2021	22.0	387

By the end of Q1 2021, contracts for financial leasing remained concentrated in the city of Ramallah, which accounted for 38% of all contracts, followed by Nablus and Jenin at 16% and 11%, respectively. Notably, the percent distribution of contracts has been relatively stable in recent years as a result of factors related to the structure of the economy and the concentration of businesses in particular governorates.

At the end of Q1 2021, vehicles (for personal use) still comprised the largest share of the financial leasing portfolio (48%). This is attributed to the ease of registering ownership of vehicles at the transportation department, and therefore, the low risk associated with leasing vehicles due to the

presence of a secondary market for re-acquisition. Trucks and heavy vehicles accounted for 43% of the portfolio, while movable money (equipment, production lines, etc.) constituted 10% of the total (See Figure 4.9). Starting from Q4 2020, the leased assets were reclassified in the PCMA's registry, such that vehicles which were used for commercial purposes were registered as commercial-use vehicles, despite being licensed for personal use. Previously, these vehicles were classified by the agency in accordance with their licensing at the transportation department, i.e., as private vehicles.

Figure 4.9: Geographical Distribution of Financial Leasing Contracts by Number (as of the end of Q1 2021)



4-2-3 Insurance Sector

There were ten insurance companies licensed by the end of Q1 2021. By the end of the quarter, the insurance portfolio (total written premiums) reached USD 93m, and net earned premiums reached USD 72m, while net compensations incurred were USD 45m. Total investments made by insurance companies reached around USD 215m, 41% of which were real estate investments (Table 4.8). It should be noted that financial statements for Q1 2021 do not include the data of Al Ahlia Insurance company.⁵

Table 4.8: A Selection of Financial Indicators of the Insurance Sector in Palestine (Million USD)

Item	Q1 2020	Q4 2020	Q1 2021
Gross written Insurance premiums	83.9	72.0	93.3
Total investments of insurance companies	243.2	266.3	215.4
Net compensations incurred by the insurance sector	(43.0)	(35.2)	(45.0)
Retention ratio	84.8%	93.3%	77.4%
Claims ratio	60.4%	52.3%	62.4%

* The financial statements of Al Ahlia Insurance Company are preliminary.

** The statistics do not include the financial data of Al Ahlia Insurance Company.

Note: The numbers in parentheses are negative.

⁵ It is worth noting that it was not possible to draw a quarterly comparison between the financial indicators of the insurance sector (studied quarter compared with the previous and corresponding quarters), due to data heterogeneity; the data for Q2 2021 do not include the financial data of Al Ahlia Insurance Group Company.

5- Social Development

The Impact of COVID-19 Pandemic on Health Care Services - One of the Multidimensional Poverty Components-

The coronavirus pandemic has been a serious test to healthcare systems worldwide, especially in developing countries. It has revealed the systems' structural flaws and fragility, its modest capacities and the lack of government funding necessary for withstanding disasters and emergencies. During the pandemic, we have seen many healthcare systems rendered incapable of handling the pressure caused by the large number of people infected with the Coronavirus in critical condition. This is mainly caused by the shortage of medical equipment, supplies and kits, the number of medical staff, and treatment medications – resulting in the death of large numbers of people. In response to this situation, many countries have resorted to imposing strict closures and lockdowns in order to enforce social distancing to slow the spread of the virus. Poor and marginalized groups were among the most affected by the Coronavirus pandemic at different levels, including in terms of healthcare. Reports show that these groups are more vulnerable to contracting the virus and dying from it during the pandemic. As expected, poor and marginalized groups were among the hardest-hit groups. For instance, a report titled “The Inequality Virus” highlights the unfair differences in accessing healthcare services among different vulnerable groups in society; in the USA, for example, the lives of 22,000 Black and Latino people could have been saved had they had the same access to healthcare services as their white counterparts. In Brazil, had the mortality ratio among black people been close to the ratio prevailing among white people, 9,200 black lives would have been saved.

Reports issued by different officials, local and international organizations,¹ the “Aman” coalition (2020),² and the Palestinian Ministry of Health (MoH) (2020),³ highlighted the impact of the coronavirus pandemic on the health sector in Palestine. Reports stressed that pandemic-related emergency measures, focused governmental efforts, and the redirection of a large portion of already limited public resources to fight the pandemic have impeded the provision of basic services to citizens. This comes in addition to measures taken by the MoH inside its facilities to reduce mingling and overcrowding. Moreover, rising levels of poverty and the loss of income among households have also affected their access to healthcare services at public healthcare centers.

This section is complementary to the previous Social Development section in Monitor 64 which provides a review of the impacts of the coronavirus pandemic on the different indicators of the multidimensional poverty index. It highlights health indicators in Palestine during the pandemic and its varied impacts on poor and marginalized groups. For this purpose, data published in the MoH annual reports will be used to conduct a comparison of indicators related to access to healthcare services between 2019 and 2020.

The health indicator, one of the dimensions of the multidimensional poverty index, is comprised of four key indicators: access to healthcare services, health insurance, disability, and chronic diseases. A household is classified as impoverished or deprived in the health indicator if all of its members aged over 30 years are diagnosed by a specialist to have a chronic health problem; if the head of the

1 <https://www.ochaopt.org/content/covid-19-emergency-situation-report-1>

2 <https://www.aman-palestine.org/activities/14020.html>

3 Annual Health Report 2020. Palestinian Ministry of Health.

http://site.moh.ps/Content/Books/chup6JkjmKecG8zGx6hnXjllLuGecGmPq7Bt4Q4HsFj6vv7tW2W4aGE_ZiCE-qSMuZx7v6kHVcDAjC59QDCVuSXx3NmQBmUfwX6pdf

household or any of its members do not have health insurance coverage; if one of its members suffers from severe hearing, visionary, mobility or hand-using, communication, memory, or focusing problems; or if the distance to the nearest hospital or primary healthcare clinic is more than 5 km from the household's location. These four indicators hold the same weight in the health index, which constitutes 13.3% of the overall multidimensional poverty index.⁴

5-1 Access to Health Services

Geographical accessibility is one of the indicators of accessibility to healthcare services. It is measured by the distance or travel time from a household's place of residence to a healthcare facility or to a city centers. Ease of access to health services, in terms of its distance from the household's residence, is an important factor determining whether members of a household receive suitable treatment at the right time. In Palestine, the restrictive measures taken by the government to curb the spread of the virus (like closures and restricted movement of individuals and vehicles) have adversely affected citizens' ability to access the different healthcare services and exacerbated the suffering of poor households, especially given the additional transportation costs incurred to reach these services as well as the costs of services themselves.

There are five entities responsible for the provision of healthcare services in Palestine: MoH healthcare centers, NGOs, the private sector, the United Nations Relief and Works Agency (UNRWA), and the Military Medical Services. In 2020, there were 475 MoH primary healthcare centers in Palestine – the same as in 2019. These centers are involved in providing a wide array of healthcare services like preventive care services for mothers and children, immunization and health education, and curative services like first aid primary health care, medical consultation visits to General Practitioners' clinics, and medical consultation visits to specialists like laboratories and dental clinics.

In 2020, around 2,012,524 visits were made to primary healthcare centers compared with 2,149,468 visits in 2019, representing a decrease of 6%. The number of medical staff visits to clinics decreased from 54,105 in 2019 to 44,610 in 2020, as well as the average number of patients' visits to healthcare centers or clinics which dropped from 39.5 in 2019 to 36.9 in 2020, while patients' visits to specialized clinics dropped from 402,132 in 2019 to 368,574 in 2020. All these figures and data clearly show how primary health care services have been negatively affected by the pandemic in light of the lack of access or the absence of medical staff relative to their pre-pandemic levels.⁵

Women, especially pregnant women, were among the groups most affected by the coronavirus pandemic, the subsequent restrictions on movement, the reduction in the number of doctors' visits to clinics in MoH health centers, and the fear of contracting the virus. In 2020, the total number of visits made by pregnant women to healthcare centers reached 97,360 compared with 151,830 visits in 2019. The total number of pregnant women registered in MoH centers also decreased to 28,547, compared with 36,048 in 2019. Similarly, the total number of visits made by mothers to maternal and child centers in 2020 was only 10,252 compared with 17,918 in 2019.

Despite the challenging circumstances and the surge in the number of infections and fatalities, MoH was able to implement its regular comprehensive and free vaccination program during 2020, prioritizing children's health and ensuring control of diseases transmission among them. During 2020, the coverage rate of the vaccination program against communicable diseases in children under the age of two was fully complete.

4 PCBS, 2020 Multidimensional Poverty Report, 2017. Ramallah, Palestine.

5 Annual Health Statistical Report 2019 and 2020. Palestinian Ministry of Health.

5-2 Chronic or Noncommunicable Diseases

During 2020, the percentage of cancer cases reported in Palestine increased by 0.5% compared with 2019. Deaths from complications associated with diabetes saw a significant increase of 27% compared with 2019, with a mortality rate of 41.4 death per 100,000 people in the West Bank. Despite the rise in chronic disease patients during 2020, services for this group have been reduced and a large portion of these program's financial resources was redirected towards the treatment of Coronavirus cases. For example, during the lockdown, around 7,000 planned surgeries in the West Bank were postponed. The services of the private healthcare centers were reduced to allow only the treatment of emergency cases, and the wards of private hospitals were closed so that they could be used as alternative coronavirus treatment centers.⁶ In other words, lockdowns and restrictive measures have further compounded the suffering of patients with chronic diseases such as cancer, diabetes, kidney failure, etc., because of the poor healthcare services provided to this patient group. This is confirmed by MoH statistics in 2020, indicating a decrease in the total number of referrals outside MoH centers by 23.7% from 104,881 in 2019 to 80,020.

5-3 Health Insurance

Health insurance is one of the social protection pillars, especially for groups who cannot afford the cost of medical treatment. The coronavirus pandemic has amply demonstrated the importance of ensuring that all citizens have access to affordable health insurance and healthcare services. The ministry's data shows a slight increase in the number of households (less than 1,000 households) who have joined the Governmental Health Insurance program during 2020. Meanwhile, health insurance revenues have risen significantly (exceeding last year's revenues by more than NIS 3 million). However, the PCBS Labor Force Survey 2020, shows an increase in the percentage of wage workers who have free/partially free health insurance from 11.8% in 2019 to 15.2% in 2020. Similarly, the percentage of wage workers who have free public health insurance increased from 33.3% in 2019 to 33.8% in 2020 all over Palestine. This applies also to wage workers who have insurance against work injuries; a rise from 28.4% in 2019 to 33.8% in 2020. This can be explained by the higher demand for healthcare services induced by people's fear of complications resulting from the virus, and the related high costs incurred by patients requiring hospitalization. This is especially true because of the large number of critical cases that have been treated in private hospitals when public hospitals could not absorb more patients who needed medical attention or ventilators, especially during the second half of 2020 which witnessed surges case infections. Notably, in the Gaza Strip, the number of wage workers who have private health insurance dropped from 18.7% in 2019 to 14.8% in 2020. This has undermined their ability to access healthcare services and further compounded multidimensional poverty in the Gaza Strip as compared to the West Bank.

5-4 Disability

The pandemic has exacerbated the suffering of people with disabilities (PwD) because of the disruption in health care services and support services provided to them through NGO associations and healthcare centers. Also, those with physical disabilities faced difficulties in adhering to the imposed precautionary measures, such as the recommended personal hygiene routines and the repeated cleaning of surfaces and houses. Additionally, social distancing has posed a new challenge for PwD given their need for regular assistance and support from others, sometimes on a daily basis.

⁶ Palestine Economic Policy Research Institute (MAS) Comprehensive Response To Socio-Economic Impacts Of The Covid-19 Pandemic In Palestine Under Occupation: Pillar Three: Resilient Communities and Access to Key Services, Ramallah -Palestine <http://www.mas.ps/files/server/2021/main%20services%203%20a.pdf>

All these factors stress the importance of creating a disability-friendly and supporting environment, in addition to establishing a social security system that safeguards the rights of PwD in all circumstances, including the right to enjoy a decent life. PwD in Palestine is at the center of the MoSD's focus, which runs several assistance programs for the benefit of this socially marginalized group, especially for disabilities that are usually linked to poverty.

5-5 Summary

The MoH health care services were noticeably affected by the pandemic in 2020, which is mainly ascribed to the redirection of a large portion of its human and financial resources towards combating the pandemic. This necessitated a reduction in programs and services delivered to different patient groups like people with chronic diseases, PwD, and maternity programs targeting women, especially pregnant women. Consequently, these groups had to seek treatment at private health facilities and bear the expensive medical bill under difficult economic conditions, or seek the services of NGO medical associations and institutions that provide services free of charge. The pandemic has revealed the fragility of the healthcare system due to modest governmental resources and the inability of the system to handle sudden surges in demand for healthcare services in times of emergencies. Additionally, a large percentage of poor and marginalized groups were deprived of access to necessary healthcare services, especially for those who cannot afford private medical services. All of this has exacerbated the difficult conditions faced by this large segment of society, thereby negatively affecting the multidimensional poverty index.

6- Recent Publications

Prospects for Economic Development in Palestine for 2019-2025

The United Nations Conference on Trade and Development (UNCTAD) released a report presenting the prospects for the development of the Palestinian economy between 2019-2025.¹ The projection was made by simulating the macroeconomic model of the Palestinian economy that was developed by UNCTAD in 2006 and updated and modified in 2018.² The simulation model assumes the continuation of current economic arrangements between Israel and Palestine under the 1994 Paris Economic Protocol,³ without any major changes in the current political scene or to the Israeli blockade of Gaza that has been ongoing since 2006.

The results of the simulation did not signal favorable prospects for the Palestinian economy during 2020. It forecasted a sharp contraction of 15.5% in real GDP caused by the Coronavirus pandemic, which struck at the lifeline of the local, regional, and world economy. According to the simulation, this decline in GDP, accompanied by population growth, will result in a decrease of 17.5% in GDP per capita during 2020.

The results also show that it will take the Palestinian economy two years to recover from the impacts of the pandemic. GDP is projected to grow by 11% and 6% in 2021 and 2022, respectively. Subsequently, while the Palestinian economy is projected to sustain a steady growth rate of 3.7% between 2023-2025. This increase will result in a 1.2% annual increase in GDP per capita during the same period given annual population growth.

These growth rates are not expected to have a significant impact on the structure of the economy, with the sectoral shares in GDP forecasted to remain the same between 2018-2025. On the other hand, these growth rates are expected to significantly contribute to reducing the ratio of the trade deficit to GDP, from 35% in 2018 to 30% in 2025.

Regarding unemployment forecasts, the model results show that the unemployment rate will reach 30% in 2020 due to the impact of the Coronavirus pandemic and will continue to rise steadily to around 31% by 2025. The major cause of the unemployment rate forecasted for 2025 is the Palestinian economy's inability to generate enough jobs to diminish the persistently high unemployment rates given the persistence of the current political and economic situation. Forecasts of domestic employment (workers in the local market or in Israel and its settlements) do not show a significant increase, with the number of workers expected to rise to 919,250 by the end of 2025 compared with 834,000 in 2019 (a growth rate of about 10%, between the beginning and the end of the period).

Employment in Israel is projected to increase to 145,000 jobs by 2025 from 115,000 jobs in 2018. However, UNCTAD sees that the rise in the number of workers regardless of where they work (whether in the Palestinian market or in Israel) is not sufficient to drive the unemployment rate below 30%.

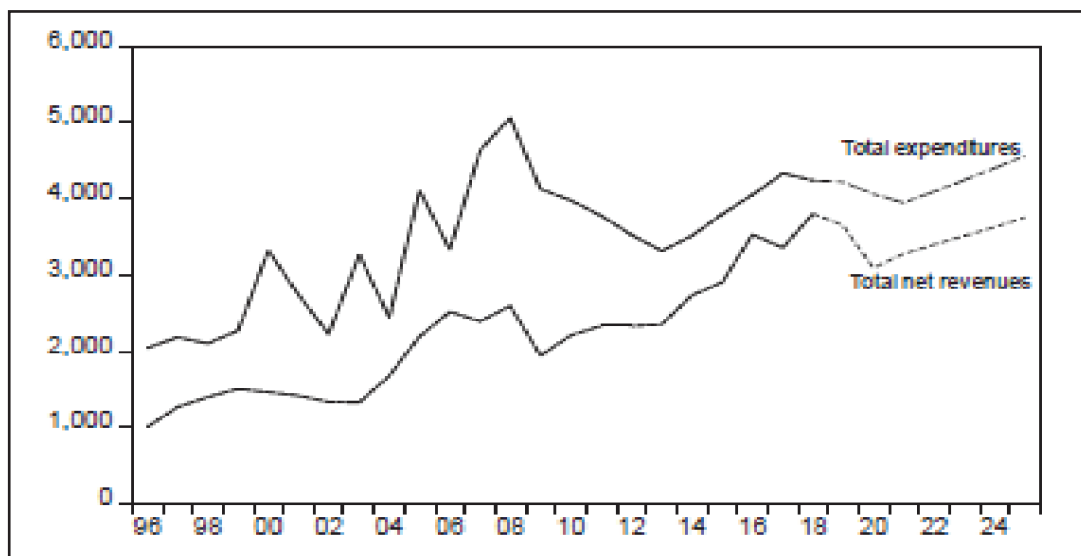
1 UNCTAD (2021): Integrated Simulation Framework - II Model for Palestinian Economic Policy: https://unctad.org/system/files/official-document/gdsapp2021d1_en.pdf

2 The model used is essentially a Keynesian model that focuses on the demand side, but differs from traditional Keynesian models in that it includes the supply side as well. It uses an integrated simulation framework.

3 It should be noted that the successive Israeli governments did not abide by all the provisions of the Paris Protocol, and that they suspended the work of some of those provisions to serve their political positions.

With regards to public finance, the simulation assumes that the public budget will continue to run a deficit (as shown in Figure 1) between 2019-2025. This deficit is attributed to a more rapid growth of consumption than revenues, with the latter expected to fall further behind given the continued administrative separation of the Gaza Strip from the West Bank; and the expected reduction in imports and customs and other taxes collected on these imports, which constitute a large portion of the PA's revenues (half of its revenues on average during the last decade)⁴. The simulation has forecasted a decrease in the share of imports to GDP⁵, mainly from Israel and the rest of the world (ROW).

Figure 1: Total Public Revenues and Expenditures, 1996-2025



Based on these results, the UNCTAD report concludes that achieving sustainable economic growth in Palestine and reducing the high unemployment rate require the following:

1. Easing restrictions on the Palestinian economy imposed by the Israeli occupation.
2. Lifting the blockade on the Gaza Strip
3. Increasing donor support
4. Providing a greater policy space for Palestinian policymakers so that they can develop effective monetary, fiscal, and trade policies capable of responding to the evolving needs of the Palestinian economy.

⁴ Ministry of Finance (MoF), Monthly Financial Reports for the Years 2011-2020: Financial Operations - Revenues, Expenditures and Funding Sources.

⁵ For more information on the relationship between the budget deficit and the trade balance deficit, refer to the Economic Monitor Issue 49, Box titled "Palestine: Twin deficit or an imposed resource gap?"

7- Economic Concepts and Definitions

Sovereign Rent (Seigniorage)

Ever since man began making coins from precious metals (around 600 BC), using these as a medium of exchange and wealth preservation, princes who issued these coins earned a commission which became known as the “Prince’s Right” (Seigniorage). To understand how this revenue was obtained, we must note that at the time the coins were made of gold or silver, and their value was supposed to match the value/weight of the precious metals from which they were made. However, the princes who issued these coins diluted precious metals with cheaper ones to improve the consistency and durability of the coins on the one hand, and to increase their weight on the other. For example, a 100g silver coin actually contained only 80g of silver. In other words, the prince earned the value of 20g of silver from every coin he issued and circulated in the market. This difference was a form of compensation for the costs of issuing the currency. It represented the profits that the prince made, in return for users’ confidence in the value of his currency. The princes (or kings, caliphs) were obliged to maintain a delicate balance between their desire to increase profits (by increasing the quantity of cheap metals that they used in the minting process) and the need to maintain the confidence of users, ensuring that they continued to accept and use these coins.

By the start of the seventeenth century, the wealthy could deposit their wealth at banks and conduct their transactions by writing “pledge receipts for payment”. This allowed a pledge holder to visit the bank and exchange the pledge for its value in precious metals. Receipts for payment eventually led to the emergence of banknotes (the paper currency that we know and use today, which may also be on its way to disappearing at the expense of electronic cash accounts).

7-1 From Pledge Receipts to Paper Currency

It only required two developments to shift from the system described above to the contemporary monetary system. The first development was that governments (represented by central banks) monopolized the right to issue pledge receipts, rather than individuals or banks. The second was the curtailment of the right of individuals to exchange these pledges for precious metals. With the gradual reduction of this right, and then its outright abolition, central banks came to monopolize the issuing of pledge receipts (i.e. banknotes), without necessarily having to keep equivalent quantities of precious metals. With this new system, the new concept of sovereign rent (Seigniorage) emerged.¹

7-2 Sovereign Rent

Sovereign rent is the income generated by the entity that monopolizes the right to issue currency. It is equivalent to the difference between the nominal recorded value of bank notes/coins, and the costs of “printing” banknotes (paper currency) and minting coins. For example, when the central bank issues a 10 Dinar banknote, the government receives an income equivalent to 10 Dinars, which it uses to purchase goods and services from the market at that value. Assuming that the cost of printing this banknote is equivalent to 0.5 Dinar, then the government’s net income (sovereign rent) from this issue is 9.5 dinars. This simplified presentation allows us to conclude the following: first, the value of annual sovereign rent is directly proportional to the increase in individuals’ need for paper money and coins in an economy. Second, since the need for money in an economy increases exponentially with the growth of that economy, with the passage of time, the monopoly on the issuance of currency is accompanied by the generation of increased income.

¹ Of course, the individual can buy precious metals from the market in exchange for his banknotes, i.e. exchange his currency for metals. However, government does not guarantee the individual that the value of the precious metal remains fixed, relative to the nominal value of the currency that he/she initially carried.

7-3 Trust and Need

It is natural to wonder why individuals accept pieces of paper, which are worthless in themselves, in exchange for their efforts and produce, with the full knowledge that there are no reserves of precious metals in exchange for them, and no actual guarantee of their value. The simple answer is trust and need: confidence in the central bank's pledge to maintain the purchasing value of "paper" currency, and confidence that others will always accept these papers as a means of payment. In cases where this confidence collapses (as in the case of runaway inflation), the government's imposition of the currency as the only tool of exchange in the economy forces individuals to use it, even though it becomes their habit to dispose of currency speedily. They exchange it for goods and necessities or buy foreign currencies in which they have confidence (hard currency or rare coins).

7-4 The Paradox between Sovereign Rent and Inflation

Some may ask why, then, does the central bank not print unlimited amounts of currency notes so that the government can have as much funding it needs, thus dispensing with the hassle and costs of taxation. This is, of course, not an option because the amount of annual sovereign rent that the government receives is equal to the amount of growth in the demand for money in the economy. If the government prints banknotes in quantities that exceed the increase in the public's demand for these notes (or money), this will directly lead to an increase in inflation. The high rate of inflation, in turn, leads to a decrease in the public's demand for money, which, in turn, means a decrease in the collection of sovereign rent. Herein lies the paradox: when the government increases the money supply by more than the increase in the demand for money, proceeds from sovereign rent may be less than what was collected before the additional issuance of notes.

7-5 Sovereign Rent in Palestine

Palestine, as is well known, does not have its own national currency. This means that the proceeds of sovereign rent realized from the issue of cash return to the issuers of the three currencies in circulation (New Israeli Shekel, Jordanian Dinar, U.S. Dollar). Studies on sovereign rent in Palestine have focused on two of its aspects: the losses incurred by the Palestinian party from not securing sovereign rent, and the possible revenue from sovereign rent in the event that Palestine issues its own currency. In both cases, estimating the amount of sovereign rent requires knowing the amount of money in circulation (i.e. demand for money) in the Palestinian territories, and the annual rate of its (demand) increase.

Initial studies that sought to estimate the amount of lost revenues from sovereign rent in the West Bank and the Gaza Strip, which Israel withheld during 1970-87, ranged from 1.6% to 4.2% of annual GNP. It is important to note that the Shekel witnessed high inflation during this period, reflected in a relative increase in lost sovereign rent. The same study measured the amount of lost sovereign rent for the immediate period after the Oslo Accords (1994-98), and found it to range from 0.31% to 1.68% of annual GNP.²

Another study (1996) sought to estimate the value of potential sovereign rent for a Palestinian state in the event that it issued its own national currency. It found that, with a growth rate of 5% annually and an annual inflation rate of 5%, revenue from sovereign rent would amount to 4.5% of annual GDP across the first five years. This high rate is mainly due to the replacement of other currencies by the new currency. After the first five years have elapsed, it is assumed that the process of replacing other currencies with the national cur-

² Hamed & Shaban (1993), and Hamed (1999). "Current monetary arrangements between Israel and the West Bank and Gaza Strip and possible alternatives." Paper commissioned by the E.U.

rency would have been completed. Thereafter, revenues from annual sovereign rent would not exceed 1.9% of GDP.³

A study conducted in 2004 argued that previous estimates of sovereign rent in Palestine were exaggerated. It was based on a survey conducted by the Bank of England on the value of sovereign rent in 44 countries during three periods from 1979 to 1993. The study found that, in light of a stagnant inflation rate and a relatively independent central bank, the value of sovereign rent ranged, on average, from only 0.5% to 1% of GDP in those countries.⁴

It is clear that discrepancies in estimates of sovereign rent in Palestine are caused by the lack of accurate estimates of the quantity of demand for money in the Palestinian territories, and of the annual rate of growth in this demand. Among the reasons that complicate the estimation process are the presence of three currencies in circulation and the absence of accurate information regarding the market share of each of these currencies.

What can be inferred from the value of both lost and possible sovereign rents in the Palestinian territories? Two points can be noted: first, the amounts of sovereign rent that have been lost (and are being lost) on the Palestinian side, as a result of the primary use of the Shekel in the Palestinian economy, are not insignificant. The Palestinian side has to claim them, and the Israeli side has a duty to return them to the Palestine Monetary Authority (PMA). Second, revenues from sovereign rent that can be realized in the event of issuing a national currency for Palestine are relatively small. Under the present conditions, they do not, in themselves, justify exposure to the serious risks associated with the issuance of a Palestinian currency.

3 Arnon & Spivak (1996). "On the introduction of a Palestinian currency." *Middle East Business and Economic Review*, 8 (1): 1-14.

4 Cobham (2004). "Alternative currency arrangement" in "The Economics of Palestine". David Cobham & Numan Kana-fani (eds.) Routledge, London.

Key Economic Indicators in Palestine, 2016-2021¹

Indicator	2016	2017	2018	2019	2020	2020 ¹				2021 ¹
						Q1	Q2	Q3	Q4	Q1
Population (One thousand)										
oPt	4,632.0	4,733.4	4,915.3	5,039.0	5,101.2	5,054.5	5,075.2	5,116.9	5,148.4	5,179.9
West Bank	2,803.4	2,856.7	2,953.9	3,020.0	3,053.2	3,028.3	3,039.3	3,061.6	3,078.4	3,095.2
Gaza Strip	1,828.6	1,876.7	1,961.4	2,019.0	2,048.0	2,026.2	2,035.9	2,055.3	2,070.0	2,084.7
Labor market (based on the new definition adopted by PCBS)²										
No. of workers (thousand)	939.6	948.7	956.3	1,010	956	1,009.80	888.7	936.0	995.0	994.1
Participation rate (%)	43.8	44	43.5	44.3	40.9	43.1	38.5	41	41.0	42.9
Unemployment rate (%)	23.9	25.7	26.2	25.3	25.9	25	26.6	28.3	23.4	27.8
- West Bank	17.5	18.4	17.3	14.6	15.7	14.2	14.8	18.5	14.9	17.1
Gaza Strip	35.4	38.3	43.1	45.1	46.6	45.5	49.1	48.6	43.1	47.9
National accounts (at constant prices) (base year 2015) (million dollars)³										
GDP	15,211.0	15,426.9	15,616.2	15,764.4	14,015.4	3,820.4	3,134.9	3,506.2	3,540.6	3,607.5
- Household expenditure	3,342.9	13,420.3	13,570.1	14,135.4	12,367.2	3,456.2	2,821.0	3,042.4	3,049.9	3,200.9
- Government expenditure	3,584.7	3,093.6	3,318.9	3,115.3	3,207.6	702.0	761.3	809.3	915.0	822.2
Gross capital formation	3,873.8	4,166.9	4,260.3	4,198.7	3,207.1	934.2	658.1	780.1	838.8	863.5
Exports	2,208.3	2,515.6	2,578.7	2,623.8	2,445.9	538.1	526.7	652.5	727.2	648.8
(-) Imports	7,796.3	7,901.5	8,256.8	8,368.4	7,084.7	1,843.9	1,501.3	1,782.1	1,955.9	1,949.9
GDP per capita (USD)										
at Current prices	3534.4	3620.5	3562.3	3640.1	3,235.0	887	706.7	800.9	837.4	866.3
at Constant prices (base year 2015)	3489.8	3463.1	3417.7	3364.5	2,913.9	802	653.8	726.5	728.8	737.9
Balance of Payment (USD millions)										
Trade Balance	(5,664.5)	(5,967.4)	(6,425.7)	(6,500.7)	(5,452.9)	(1,478.9)	1,120.0)	(1,351.0)	(1503.0)	(1,600.0)
Income Balance	1,896.0	2,129.0	2,786.2	2,658.0	2,546.6	684.6	424.0	697.0	741.0	750.0
Current Transfers Balance	1,626.2	1,708.7	1,499.1	2,009.2	1,833.6	445.6	464.0	454.0	470.0	422.0
Current account Balance	(2,142.7)	(2,129.7)	(2,140.4)	(1,833.5)	(1,072.7)	(348.7)	(232.0)	(200.0)	(293.0)	(428.0)
Exchange Rates and Inflation										
USD/NIS exchange rate	3.84	3.6	3.59	3.56	3.441	3.496	3.514	3.419	3.335	3.272
JOD/NIS exchange rate	5.42	5.08	5.07	5.03	4.840	4.931	4.943	4.798	4.692	4.615
Inflation rate (%) ⁴	(0.22)	0.21	(0.19)	1.58	(0.73)	(0.39)	(1.20)	(0.20)	1.21	(0.26)
Public Finance (cash basis USD million)⁵										
Net domestic revenues (including clearance)	3,551.0	3,656.5	3,462.9	4,361.3	3,802.1	973.5	487.7	275.8	1,789.1	1,026.3
Current expenditure	3,659.3	3,791.4	3,660.1	4,518.6	4,686.8	830.9	419.1	731.9	1,972.8	665.9
Developmental expenditure	216.5	255.3	276.9	246.6	207.8	21.4	33	39.1	75.3	21.7
Current budget deficit/surplus	(324.8)	(390.2)	(474.0)	(403.9)	(1,092.6)	121.2	35.6	(495.1)	(258.9)	338.7
Total grants and aid	766.3	720.4	664.8	669.2	565.9	79.7	196.8	101.8	85.0	10.7
Total budget deficit/surplus	442.1	329.6	190.9	265.3	(526.7)	200.9	232.4	(393.3)	(173.9)	349.3
Public debt	2,483.8	2,543.2	2,369.5	2,795.1	3,649.2	2,886.7	3,080.9	3,460.2	3,649.2	3,545.2
The Banking Sector (USD millions)										
Banks assets/liabilities	14,196.4	15,850.2	16,125.0	17,825.5	19,934.5	17,710.0	18,248.1	18,625.0	19,934.5	20,059.9
Equity	1,682.4	1,892.7	1,912.0	1,985.2	1,973.8	1,996.9	1,994.6	1,959.1	1,973.8	2,016.7
Deposits at banks	10,604.6	11,982.5	12,227.3	13,384.7	15,137.4	13,303.8	13,738.7	14,061.9	15,137.4	15,182.4
Credit facilities	6,871.9	8,026.0	8,432.3	9,039.1	10,075.1	9,249.9	9,652.7	9,894.0	10,075.1	10,150.6

Data do not include that part of Jerusalem which was annexed by Israel following its occupation of the West Bank in 1967 (except for data on unemployment and population).
¹ Quarter's figures for 2019-2020 are preliminary and subject to further revision.

² PCBS and the ILO adopted a new revised definition of unemployment stating that unemployment include only those who did not work during the reference period and who actively sought employment or were willing and capable of working. The new standard excluded those who were frustrated and were not looking anymore for jobs (did not seek an employment during the reference period). The table includes calculations of the Palestinian labor market indicators based on the old and the new definitions.

³ PCBS has revised the national accounts data at current and constant prices for the years 2004-2018. Therefore, the figures of previous years and quarters will differ in light of these revisions.

⁴ The inflation rate estimation is based on year-over-year comparisons of the average CPI in the target year (each quarter) with its average in previous year (quarter).

* The figures in the table are based on the latest update of data issued by PCBS, PMA, and PCMA.

** Figures between brackets indicate negative values.