

Palestinian Central Bureau of Statistics (PCBS)

Economic Forecasts for the Year 2020, in Light of the Current Coronavirus Pandemic

The Palestinian economy will incur losses of about USD 2.5 billion in case the coronavirus pandemic lasts for three months, in addition to the economy's attempt of recovery to its status before the crisis. Thus, it is predicted that the Gross Domestic Product (GDP) will decline with a percentage of 14% in 2020 compared to 2019.

Hence, this scenario assumes that the impact of the crisis resulted from the coronavirus continues for 3 months and its impact on the year 2020, from the beginning of March up to the end May 2020, in addition to the economy's attempt of recovery to its status before the crisis, based on the recent developments, most importantly, the announcement of the emergency in the West Bank as of March 5th 2020. This emergency started when Bethlehem Governorate recorded the first infection cases of the virus, and followed by the government decree that restricts the movement between governorates and cities on March 22nd 2020; for two weeks. However, this decree was renewed for an additional month. And because of the decrees announced by the Palestinian government regarding the necessity for all Palestinian workers to come home and leave the 1948 lands; in order to prevent the transmission of the virus to the West Bank and Gaza Strip. due to the wide spread of the coronavirus in the Israeli occupation side, the continuation of the complete closure of restaurants, hotels and cafes (Tourism Sector), the continuation of the closure of supermarkets and shops, except for food staple, health facilities, medical staffs, pharmacies, bakeries, gas stations and other specific activities, the continuation of closing the kindergartens, schools, colleges and universities, the sharp decline in the number of the Palestinian workers in Israel, especially during April and May 2020, as well as the predicted decline in the foreign trade movement of the outer world due to closing some factories or enterprises specialized in producing some goods in the partner countries in commerce, in addition to the decline of the trade movement with Israel in particular, where it is concentrated only on basic goods. Increase of the government expenditure directed for the health care sector related to the direct treatment cost, the expenses of sanitizing institutions, support provided to governorates to fight the spread of the coronavirus, the sharp decline of taxes collection whether domestic taxes or clearance taxes, in addition to the decline in the enterprises capability to pay salaries, especially small and medium sized ones due to the decline of production and revenues.

At the level of expenditure and based on the aforementioned assumptions, the results of this scenario indicate that it is expected for the GDP for 2020 to decline by 14% compared to 2019. Hence, the losses of the gross economy (GDP) are estimated to be around USD 2.5 billion compared to the status quo for 2020, resulting from the decline of the public and private gross consumption, which reached about USD 1.3 billion, in addition to the decline of the investment of about USD 2.1 billion, and the decline of imports of about USD 1 billion.

Losses of Economic Activities:

At the level of economic activities, it is expected that the size of the losses in the activity of agriculture, forestry and fishing to be about USD 200 million, and the activity of industrial to be USD 362 million, and the activity of constructions to be USD 220 million, and the services activities to be USD 1,175 billion.

Based on the components of the service activities from the Economic surveys database and taking into consideration the activities that totally closed such as the hotels and restaurants, passengers transportation and the activities which were closed partially such as the Wholesale and retail trade for some goods and stores; the estimates show that for the total losses of the service activities of USD 1,175 million about 59% of those losses were due to the losses for the wholesale and retail trade activity from the total losses of the services activity (USD 689 million), and the losses of the other services activity were about 31% of the total losses of the services activity (USD 374 million), meanwhile the losses of closing the hotels and restaurants totally were 10% of the total losses of the services activity (USD 112 million).

Economic Forecasts in Palestine for the Year 2020, in light of the Current Coronavirus Pandemic for the most Important Macroeconomic Indicators

Value in USD Million

Indicator	2019	Baseline Scenario for 2020	Scenario on the Continuation of the Pandemic 2020 for 3 Months	Losses in 2020 (Difference between Baseline Scenario and Pandemic Scenario)	Percentage of Change in Normal Status (Baseline Scenario for 2020) Compared to 2019 %	Percentage of Change in Pandemic Scenario for 2020 compared to 2019 %
GDP Components by Expenditure Side						
Gross Domestic Product	15,764	16,137	13,638	-2,499	2.4	-13.5
Final consumption	17,310	17,746	16,409	-1,337	2.5	-5.2
Gross Capital Formation	4,199	4,432	2,376	-2,056	5.6	-43.4
Net exports of goods and services	-5,745	-6,040	-5,146	894	5.1	-10.4
Gross exports	2,624	2,725	2,570	-155	3.9	-2.0
Gross Imports	8,368	8,766	7,716	-1,049	4.7	-7.8
Economic Activities						
Agriculture, forestry and fishing	1,092	1,131	931	200-	3.7	14.7-
Mining and manufacturing	1,823	1,849	1,487	362-	1.4	18.4-
Constructions	898	933	713	220-	3.9	20.6-
services and other branches	9,617	9,700	8,525	1,175-	0.9	11.4-
Of which: Wholesale and Retail Trade	3,372	3,401	2,712	689-	0.9	19.6-
Other Services	6,012	6,064	5,690	374-	0.9	5.4-
Hotels and Restaurants	233	235	123	112-	0.9	47.2-
Adjustment Items	2,334	2,524	1,982	542-	8.1	15.1-

Data at constant prices, and the base year 2015, the data excluded those parts of Jerusalem which were annexed by Israeli occupation in 1967 .

Notes:

1. Final consumption includes net errors and omissions.
2. The activity of services and other branches (includes the services activity, in addition to electricity and water supplies, wholesale and retail trade, transportation and storage, financial and insurance, information and communications, public administration and defense, and households with employed persons).
3. Adjustment items include the custom duties and net VAT on imports

Hence, the economic model adopted by PCBS was used to formulate economic forecasts for the year 2020 in light of the current coronavirus pandemic, the size of the Palestinian economic losses for all gross economic indicators was estimated, based on the base scenario for 2020, which was published at the end of December 2019 (Status quo), which concluded that the GDP's growth at constant prices increased by 2.4% compared to 2019 to reach USD 16.1 billion.

When returning back to the results of the Establishments Census 2017, they indicate that the number of operating enterprises in the private and non governmental organization sector in Palestine reached 146,866. Those enterprises employed 444,086 persons. The majority of such enterprises are small sized ones, where the percentage of enterprises that employ 1-4 persons reached 88.6% out of the total number of enterprises. Accordingly, those enterprises employed 50.5% of the total number of employed persons. Also, medium sized enterprises (5-19 employed persons) constitute about 10% of the total number of enterprises, where those enterprises employ 26% of the total number of employed persons in enterprises. Moreover, big size enterprises comprise about 1.4% of the total number of enterprises, where such enterprises employ 23.5% of the total employed persons in enterprises.

The Concept of the Economic Model Adopted at PCBS: It is An econometric model based on the using of time series data.

The Integrated Simulation Framework (ISF) was adopted. Whereas, the Palestinian Central Bureau of Statistics reconstructed the model with a new time series, behavioral equations, economic identities, and a structure for economic activities. The model covered all categories of aggregate demand: private and public consumption and investment, as well as exports and imports of goods and services.

The model simulates 151 endogenous variables generated from 35 behavioural equations and 116 identities. These are distributed among five blocks:

1. Labour and Demographic Block: 11 behavioral equations and 34 identities.
2. Government Block: 3 behavioral equations and 14 identities.
3. National Accounts and Foreign Trade: 10 behavioral equations and 62 identities.
4. Prices and Deflators Block: 7 behavioral equations and 6 identities.
5. Value Added Block: 4 behavioral equations for the 4 economic activities.