



الجهاز المركزي للإحصاء الفلسطيني

Palestinian Central Bureau of Statistics



سلطة النقد الفلسطينية
PALESTINE MONETARY AUTHORITY

The Palestine Monetary Authority and The Palestinian Central Bureau of Statistics

The Performance of the Palestinian economy during 2019, as well as the economic forecasts for the year 2020

The Palestine Monetary Authority (PMA) and the Palestinian Central Bureau of Statistics (PCBS) announced the performance of the Palestinian economy 2019, and Economic Forecasts for 2020, under the joint issuance, which represents a continuation of the joint efforts undertaken by the two institutions. It should be noted that the data excludes those parts of Jerusalem which were annexed by Israel occupation in 1967.

Palestinian Economic¹ Performance during 2019

Stability in GDP in Palestine during the year 2019 compared to 2018.

During 2019, GDP increased by 1.2% compared to 2018. Thus, the Palestinian economy maintained its previous growth rate for the year 2018 in spite of the financial crisis that befallen upon the economy that witnessed a withholding for clearance revenues for more than 6 consecutive months, and what resulted from it including liquidity problems and accumulation of government's arrears as well as the continuing decline of external grants and aids, especially the suspension of American aid for government and civil organizations and institutes (UNRWA and USAID), in addition to the continuing settlement expansion as well as continuing confiscating more lands in the West Bank and not allowing the exploitation of natural resources in areas (C). Hence, GDP per capita declined by 1.3% compared to 2018 due to the natural population growth with a pace higher than the growth in GDP. Accordingly, the first quarter of 2019 witnessed a decline in the real GDP by 3.3% compared to the fourth quarter of 2018. The decline continued during the second quarter of 2019 by 2.0% compared to the first quarter of 2019 as a result of the clearance revenues crisis with the Israeli occupation; the clearance revenues constitute almost two thirds of the government's revenues. In the context of the financial crisis management, the government adopted an emergency budget resulted in a partial suspension for government obligations towards paying its wage bill to public sector employees. In the third quarter of 2019, estimates indicated that there is a slight

¹ Data at constant prices with 2015 as the base year. Data excludes those parts of Jerusalem which were annexed by Israeli occupation in 1967. Data for 2019 were based on preliminary estimates and may be revised.



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improvement in the level of economic activity; thus, it recorded an increase of 1.0% compared to the previous quarter of the same year. During the fourth quarter of 2019, GDP continued to increase, recording a growth of 3.6% compared to the third quarter of 2019 due to the expectation of the recovery of domestic demand, especially household consumption expenditure, the improvement of growth pace of main economic activities, and the accelerating levels of government expenditure after the resumption of transferring a big part of government's clearance revenues on a monthly basis and in retrospectively of the past months of 2019, in addition that the government paid a large part of its arrears that were accumulated during the past period to public sector employees and to suppliers from private sector.

On the level of economic activities during 2019, the service activities witnessed the highest increase in the value added comparing to 2018, preliminary estimates showed that value added recorded an increase of 2.9%, it increased in the fourth quarter of 2019 by 8.0% compared to the third quarter of the same year, it also increased in the third quarter of 2019 by 1.0% compared to the previous quarter in the same year, while the second quarter of 2019 recorded a decline by 3.0% compared to the previous quarter of the same year, the first quarter of 2019 witnessed a decline by 1.9% compared to the fourth quarter of 2018.

On the level of construction activities, the value added witnessed a growth by 1.1% compared to 2018, the value added increased by 17.0% in the fourth quarter of 2019 compared to the third quarter of the same year, while recorded stability compared to the previous quarter, while in the second quarter of 2019, it recorded a growth by 3.1% compared to the previous quarter of the same year, the first quarter of 2019 witnessed a decline by 9.4% compared to the fourth quarter of 2018.

In regards to industry activities, the valued added recorded a slight growth of 0.2% during 2019 compared to 2018, the value added recorded a growth rate by 4.1% during the fourth quarter of 2019 compared to the third quarter in the same year, in which it also recorded a slight growth rate of 0.8% compared to the previous quarter. Additionally, the second quarter of 2019 witnessed a growth by 1.4% compared to the first quarter of 2019 which recorded a decline by 3.2% compared to the fourth quarter of 2018.

Regarding agricultural activities, the value added recorded a notable growth in the fourth quarter of 2019 by 7.8% compared to the third quarter 2019 in which it increased by 6.1% compared to the previous quarter in the same year. While in the second quarter of 2019, it declined by 4.1% compared to the previous quarter. In the first quarter, it also decreased by 11.8% compared to the fourth quarter of 2018. So, the value added for agricultural activities decreased by 1.0% during 2019 compared to 2018.

A slight decrease in the unemployment rate in Palestine and a stability in the number of employees in the labor market during 2019

Preliminary estimates indicated a stability in the total number of employed persons in the labor market during the year 2019 compared to 2018. On the other hand, estimates showed that the unemployment rate decreased in 2019 and reached 26.0% compared to 26.8% in 2018; where the unemployment rate decreased in the fourth quarter of 2019 to reach 23.6% compared to 25.6% in



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the third quarter of the same year. While it reached 27.1% in the second quarter of 2019, it reached 27.8% in the first quarter of the same year.

An increase in the Palestinian trade balance deficit during 2019.

Preliminary estimates of the Palestinian foreign trade movements which are represented in the value of exports and imports, indicated that the value of exports increased by 3% compared to 2018 and the value of imports increased by 6% compared to 2018, which led to an increase in the trade balance deficit by 7% compared to the previous year.

Prices²

Preliminary estimates showed that the average of overall consumer prices index in Palestine recorded an increase of 1.6% in 2019 compared with 2018.

Economic Forecasts³ for 2020

The following forecasts were mutually prepared between the Palestine Monetary Authority and the Palestinian Central Bureau of Statistics based on the average of forecasts results in the two institutes. Moreover, various of scenarios were adopted for Palestine as a whole, which did not separate between the West Bank and Gaza Strip despite the gap between them, and in consultation with the Advisory Committee for Economic Statistics, which consists of local economists and academics, in addition to the Ministry of Finance and Planning. Each scenario took into consideration internal political and economic circumstances for 2020, of which the blockade imposed upon Gaza Strip, foreign aid, Israeli occupation measures, the number of Palestinian workers in Israel and economic and social variables.

1. Baseline Scenario⁴

This scenario is based on the assumption that the political situation between the State of Palestine and the Israeli occupation will remain the same as it was during 2019, which is represented in the existing obstacles imposed by Israel occupation on the movement of people and goods from/ and to Palestine. It is also based on the implementation of government policies related to gradual economic disintegration from the Israeli occupation which is represented in supporting and developing the economic clusters which is accompanied by an increase in credit facilities, an increase in government transfers, in addition to an increase in the collection of income tax and clearance revenues, as well as an increase in the current transfers to the private sector from the outside, and an improvement in international grants and aids provided to support development projects.

² Data includes those parts of Jerusalem which were annexed by Israeli occupation in 1967.

³ Data at constant prices with 2015 as the base year. Data excludes those parts of Jerusalem which were annexed by Israeli occupation in 1967.

⁴ The assumptions of the Ministry of Finance and Planning are preliminary assumptions.



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Expectations of Base Scenario

Real Sector:

Gross Domestic Product (GDP): It is expected to increase by 2.4% in 2020; the value of GDP per capita is expected to decrease by 0.1%, and the value of gross consumption (private and public) is also expected to increase by 2.1%. The value of total investment is expected to increase by 5.0%.

On the level of economic activities, the value added of agricultural activities is expected to increase by 2.2%, industry activities by 2.9%, construction activities by 3.3% and services activities by 2.9% during the year 2020 compared to 2019.

Labor and employed individuals: A decrease in the unemployment rate to reach 24.4% in 2020 compared to 26% in 2019.

Fiscal Sector:

An increase by 7.1% in the value of government revenues is anticipated. Also, an increase in the value of government expenses by 4.3%, and the decrease by 9.6% of the public budget deficit (Central Government).

External Sector:

A decrease by 18.8% is anticipated in the net current account⁵ deficit value of Palestine due to an increase in the value of net income by 9.2% and an increase in the value of net current transfers by 15.5%, despite of the increase value of the trade balance deficit by 3.5%. Also the value of gross national income and gross national disposable income will increase by 3.7%, 4.7%, respectively.

2. Optimistic Scenario

This scenario is based on an improved political and economic situation due to the great progress in the political reconciliation and starting preparation for the legislative and presidential elections between the West Bank and Gaza Strip. It that there will be an increase in the value of assistance provided by donor countries to finance the budget of the State of Palestine (Central Government), as well as an increase in development expenditures and credit facilities directed to entrepreneurial projects for the youth category that are in line with the Palestinian Government's plan, as well as integrating plans of clusters development that the government is implementing in the governorates along with the programs and plans of government departments in the budget for the year 2020, this scenario is based on fighting tax evasion, increase income tax and value-added tax (domestic, clearance) collection, it also assumes a decrease in obstacles imposed by Israel occupation on the movement of people and goods from/ and to Palestine, as well as an increases in the current transfers to Gaza Strip for the private sector from the outside with a percentage higher than its annual percentages.

⁵ The net current account includes the net trade balance, net current transfers and net factor income.



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Expectations of the Optimistic Scenario

Real Sector:

Gross Domestic Product (GDP): It is anticipated to increase by 5.0% during 2020 and GDP per capita will increase by 2.5%. It also assumes that gross consumption value (private and public) will increase by 3.8% and the value of gross investments will increase by 9.1%.

On the economic activities level, the value added of agricultural activities is expected to increase by 17.4%, industry activities by 6.2%, construction activities by 16.7% and services activities by 5.6% during the year 2020 compared to 2019.

Labor and employed individuals: An increase by 3.6% in the number of employees is anticipated and the unemployment rate is expected to decrease to 22.6% during 2020 compared 26% in 2019.

Fiscal Sector:

An increase in the value of government revenues by 11.4% is anticipated, as well as an increase in the value of government expenses by 14%.

External Sector:

A decrease by 43.7% is anticipated in the net current account deficit value of Palestine due to an increase in the value of net income by 17.8% and the increase in the value of net current transfers by 27%, despite of the increase value of the trade balance deficit by 4.7%, and the value of gross national income and gross national disposable income will increase by 8%, 9.6%, respectively.

3. Pessimistic Scenario

This scenario is based on the assumption that the political and economic situation will deteriorate by increasing the obstacles imposed by Israel occupation on the movement of people and goods from/ and to Palestine, as well as more Israeli occupation regulations on production inputs related to electricity, in addition to the anticipated closures which lead to decreasing the number of issuing permits to the Palestinian employees and traders from Israeli occupation. The scenario also assumes a decrease in aids from donor countries to finance the budget of the State of Palestine (Central Government) submitted to development projects, delay or non-transfer of clearance revenues from Israel occupation to Palestinian Government, an increase in tax evasion, a decline in collection of the domestic value added tax and income tax collection, and a decrease in the development expenditures. And inability in providing necessary funds needed for the continuity of civil society organizations performance, especially UNRWA, as well as elimination of grants that poor families benefit.

Expectations of the Pessimistic Scenario

Real Sector:

Gross Domestic Product (GDP): GDP is expected to decrease by 2.2% during 2020 and GDP per capita will decrease by 4.5%. Also, gross consumption value (private and public) will decrease by 1.2% and the value of gross investments will decrease by 3.8%.



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On the economic activities level, the value added of agricultural activities is expected to decrease by 14%, industry activities by 2.4%, construction activities by 12.3% and services activities by 0.7% during the year 2020 compared to 2019.

Labor and employed individuals: The number of Palestinian employees in Israel occupation is anticipated to decrease by 10.2%, the unemployment rate is expected to increase from 26.0% in 2019 to 28.9% during 2020.

Fiscal Sector:

Government revenues value are expected to decrease by 2.7% as a result of Israel occupation freezing a proportion of tax revenues, in addition to an increase in tax evasion, and a decrease in the value of government expenses by 9.5%.

External Sector:

An increase by 44.9% is anticipated in the net current account deficit value of Palestine, due to a decrease in the value of net current transfers by 30.7%, and a decrease in the value of net income by 1.4% assuming that the number of workers in Israel will decrease and constraints imposed within Palestine will increase as well as an decrease in the value of the trade balance deficit by 0.7%. Also, the value of gross national income is expected to decrease by 2%, and gross national disposable income will decrease by 4.4% respectively.

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