**Palestinian Central Bureau of Statistics (PCBS)**

**Press Report on Economic Forecasts for 2021**

**H.E. Dr. Awad, President of PCBS, demonstrates**

* **The performance of the Palestinian economy during 2020.**
* **The economic forecasts for the year 2021.**

**H.E. Dr. Ola Awad, President of PCBS, demonstrated today, 20/12/2020, the performance of the Palestinian economy during 2020, as well as the economic forecasts for the year 2021, as follows:**

**The Performance of the Palestinian Economy[[1]](#footnote-1) during 2020**

**The Economy during the times of the Pandemic and the Crisis of Clearance Revenues**

As a result of the impacts of the Coronavirus pandemic, the Palestinian economy has recorded a sharp decline reaching 12% during 2020, as most economic activities experienced setbacks in the value added leading to a noticeable decrease in the GDP per capita and a rise in unemployment rates with new segments of the population entering the poverty cycle, which led to a decline in the public demand on the consumption and gross investment indicators.

The year 2020 witnessed a decline in Gross Domestic Product (GDP) of 12% compared to 2019. Due to the early effects of the Coronavirus pandemic during the first quarter of 2020, the Palestinian economy witnessed a decline of around 4% compared to the same quarter of 2019. However, this decline deepened with the impacts of the pandemic, which made the Palestinian government take a number of emergency measures to be imposed, including partial and total lockdowns. The aim of such lockdowns was to contain the outbreak of COVID- 19, as they where were mostly imposed during the second quarter of 2020 in which the GDP recorded a sharp decline of around 20% compared to the same quarter of the previous year. During the second half of 2020, most economic activities began to recover gradually due to the policy of balancing between the aspects of economy and health. GDP has increased but remained at a lower level than its pre-pandemic rates. This was also due to the Israeli occupation measures of withholding clearance tax revenues which lasted for more than seven consecutive months. It is well-known that those funds constitute 70% of the total Palestinian revenues and are considered the main source of funds used to cover current expenditures. At the expenditure level, gross consumption in Palestine dropped during the same period by 6%, whereas gross investment dropped by 36%.

**A decline in most of the economic activities due to the full and partial lockdown, affecting most economic sectors**

Most economic activities witnessed a noticeable decline in the value added during 2020 compared to 2019. The services activity recorded a high decline value by 10%, whereas the tourism activity, including restaurants and hospitality, was the most affected activity, as it witnessed of 10 thousand employees lost their jobs. The construction activity witnessed a decline of 35% due to the sharp decline in demand for construction during that period, as the number of construction licenses dropped by 45% during the lockdown period (second quarter 2020), which was followed by the industry activity that witnessed a decline of 12% during 2020. The first half of 2020 witnessed a decline of 6% in the industrial production quantities. Whereas, industrial activity began to recover gradually during the second half of 2020, remaining at a lower level than its pre-pandemic levels due to the clearance revenues crisis. The agriculture activity witnessed a decrease of 11%.

A Continuation in the trade balance deficit, and a decline in the volume of trade exchange with the world and a decline in the imports and exports to and from Palestine.

In 2020, the volume of trade exchange to and from Palestine reached USD 10 billion with a decline of 10% compared to 2019. This resulted from a decline of 7% in exports, which reached USD 2.5 billion and a decline of 11% in imports, which reached USD 7.4 billion. Therefore, the trade balance witnessed a deficit of around USD 5 billion.

More than 66 thousand employees lost their jobs during 2020, leading to an increase in the unemployment rate which reached 27.8% and resulting a decline of 14% in the GDP per capita and new segments of the population entering poverty and extreme poverty.

The total number of employees in the labor market dropped from 951 thousand employees in 2019 to 884 thousand in 2020. Also, and the unemployment rate increased from 26.3% to 27.8%, due to the effects of the Coronavirus pandemic on all aspects of the economy. During the full lockdown imposed (during second quarter 2020), the number of employees in the Palestinian domestic labor market dropped by 78 thousand, and the number of working inside Israel and the Israeli settlements declined by around 34 thousand. Such declines in these numbers were caused by the preventative measures taken to limit the outbreak of COVID-19. However, as those preventative measures were recently loosened and work was gradually resumed, the number of employees in the Palestinian domestic labor market increased by 12 thousand during the third quarter of 2020 compared to the previous quarter, and the number of employees working inside Israel and Israeli settlements increased by around 33 thousand.

**Palestine’s public debt exceeds USD 3 billion.**

Public debt reached USD 3.5 billion by the end of the third quarter of 2020 with an increase of 24% compared to the fourth quarter of 2019, in which the public debt was USD 2.8 billion.

**Establishments private sector lost more than half of their production or sales during the lockdown period**

Results indicated that more than two third of the Palestinian economic establishments were forced to close down for about a month and a half during the period (5/3/2020-31/5/2020). This closure was concentrated in the services sector in the governorate of Bethlehem. 63% of those establishments suffered a stoppage in the supplies related to production inputs such as raw materials and production requirements, which led to a decline in production levels or sales to about the half; therefore, about 14% of Palestinian establishments were forced, in order to face this crises, to let have of their employees go.

**A decrease of consumer Prices[[2]](#footnote-2) during the year 2020**

Preliminary estimates showed that the average of overall consumer prices index in Palestine recorded a decrease of 1% during 2020 compared with 2019.

**Economic Forecasts[[3]](#footnote-3) for 2021**

Those forecasts were developed based on various scenarios for Palestine, 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 the Palestinian Monetary Authority. Each scenario took into consideration internal political, economic and health circumstances for 2021, including the continued impacts the Coronavirus pandemic, the siege imposed on Gaza Strip, foreign aids, Israeli occupation measures against Palestine, the number of Palestinian employees in Israel and of the economic and social variables.

1. **Baseline Scenario**[[4]](#footnote-4)

This scenario is based on the assumption that the Coronavirus pandemic will continue to impact the economic and social aspects of life and that the government will attempt to balance between the economy and the health of citizens by imposing full lockdowns on outbreak areas for limited periods of time not exceeding one month and during separated periods in 2021. Such closures will aim to flatten the curve of the pandemic while taking all preventative measures into consideration and ensuring that minimum amounts of necessary supplies reach residents during full lockdown periods. This will be coupled with a breakthrough in the COVID- 19 vaccine. As it will be available and ready for distribution during the first quarter of 2021. The scenario also assumes a return to the normal political situation between the State of Palestine and the Israeli occupation as it was during 2019, including the regular transfer of clearance revenues collected by the Israeli occupation on part of the Palestinian government and the continuance of sectorial strategies and cluster development plan with focus on production sectors, such as the clean energy sector and technological creativity. These strategies will help the government implement economic policies related to the gradual detachment from the Israeli occupation’s economy along with increased credit facilities required to implement such policies on the ground and increased government transfer in the form of comprehensive balanced support to face the economic and social rebounds of the Coronavirus pandemic. This shall also involve a gradual return to current transfers provided to the private sector from abroad and to the normal amounts of international grants and aids provided to support the central government’s budget and other development projects as was the case in 2019.

**Expectations of Base Scenario**

**Real Sector:**

Gross Domestic Product (GDP): It is expected to increase by 6.0% in 2021. The value of GDP per capita is expected to increase by 3.5%, and the value of gross consumption (private and public) is also expected to increase by 3.0%. The value of total investment is expected to increase by 31.5% compared with 2020.

At the economic activities level, the value added of agricultural activities is expected to increase by 12.2%, industrial activities by 6.5%, construction activities by 42.4% and services activities by 2.6% during 2021 compared to 2020.

Work and Workers: The unemployment rate is expected to reach 27.2% in 2021 compared with 27.8% in 2020.

**External Sector:**

A decrease of 10.8% in Palestine’s net current account[[5]](#footnote-5) deficit value is anticipated, as a result of an increase of 10.1% in the value of net factor income and an increase 54.4% in the value of net current transfers, despite the increase of 9.9% in the value of the trade balance deficit. The value of gross national income and gross national disposable income will also increase in 2021 by 6.6% and 9.0%, respectively, compared to 2020.

1. **Optimistic Scenario**

This scenario is based on the assumption that the political situation will improve compared to 2020 through improvements at the local level with developments in the Palestinian reconciliation efforts and the preparations for Palestinian parliamentary and presidential elections in the West Bank and Gaza Strip. On the international side, the political vision of the new American administration will become clear and will be based on international agreements and references. An international conference will be held to discuss all current political and economic issues between Palestine and the Israeli occupation. Such an effort will reflect positively on the political and economic situation as it is expected that United States assistance will return to its pre-2019 levels. Thus, there will be an increase in the aids provided by donor countries to finance the Palestinian central government’s budget, and the support for development projects will increase, as well as increasing the support provided to development projects and credit facilities needed to fund youth projects in line with the Palestinian government’s plan to support youth and combat unemployment and poverty. This scenario is also based on combating tax evasion and raising the efficiency of tax collection by increasing the numbers of staff and using modern technological systems, and through improving income tax and VAT collection (both domestic and related to clearance revenues from Israel), which will accompany the improvements in the economy. This will be accompanied by the assumption that the occupation will loosen its grip on the movement of individuals and goods from and to Palestine and that there will be an increase in current transfers provided to the private sector from abroad to above-annual levels. This scenario assumes that the impacts of the Coronavirus pandemic will continue on economic and social aspects of life and; therefore, the government’s shall continue with its attempt to create balance between the economy and the health of citizens, through imposing limited partial lockdowns and other full lockdowns lasting for a few days on areas with COVID-19 outbreaks in order to flatten the curve. There will also be a breakthrough in the COVID- 19 vaccine, as it will be available and ready for distribution in 2021.

**Expectations of the Optimistic Scenario**

**Real Sector:**

Gross Domestic Product (GDP): It is anticipated to increase by 13.0% during 2021. The GDP per capita will increase by 10.4%. It also assumes that gross consumption value (private and public) will increase by 6.9% and the value of total investments will increase by 62.1% compared with 2020.

At the economic activities level, the value added of agricultural activities is expected to increase by 22.3%, industrial activities by 10.1%, construction activities by 73.4% and services activities by 6.7% during 2021 compared to 2020.

Work and Workers: An increase of 11% in the total number of Palestinian employees in domestic market and inside Israel and Israeli settlements is anticipated. The unemployment rate is expected to reach 26.4% during 2021 compared to 27.8% in 2020.

**External Sector:**

A decrease of 31.6% Palestine’s net current account deficit value is anticipated as a result of 18.5% increase in net factor income value and an increase in net current transfers by 131.6%, despite the increase in the value of the trade balance deficit by 19.3%. Compared to 2020, The value of gross national income and gross national disposable income will also rise by 13.8% and 19.8%, respectively, during the year 2021.

1. **Pessimistic Scenario**

This scenario is based on the assumption that there will be acceleration in the numbers of Coronavirus cases due to a new wave of the pandemic, especially during the first quarter of 2021. A full lockdown is expected on both sides of the country as was the case in 2020 due to a significant increase in the new cases and delays in obtaining the vaccine. This scenario also assumes that the amounts of assistance provided by donor countries to finance the Palestinian government’s budget and to fund development projects will remain the same as 2020 due to a downturn in the global economy, including the donor economies and Arab countries. There will also be an increase in tax avoidance and a decrease in local VAT and income tax collection, as a result of the economic recession. Also, no new development projects will be implemented and the previous projects will not be completed. This scenario also assumes tighter restrictions on the movement of individuals and goods to and from Palestine imposed by the Israeli occupation and an expected closure that will limit the numbers of permits issued by Israeli occupation to the Palestinians workers and merchants.

**Expectations of the Pessimistic Scenario**

**Real Sector:**

Gross Domestic Product (GDP): GDP is expected to remain approximately the same value of 2020 and GDP per capita is expected to decrease by 1.4%. In addition, the gross consumption value (private and public) will increase by 1.1% compared to 2020.

At the of economic activities level, the value added of agricultural activities is expected to increase by 12.8%, construction activities by 19.2% and industrial activities by 2.0%, while services activities will drop by 2.2% during 2021 compared to 2020.

Work and Workers: The unemployment rate is expected to reach 27.5% during the next year 2021

**External Sector:**

Palestine’s net current account deficit value is anticipated to decrease by 23.9% due to an increase of 54.4% in net current transfers and an increase of 3.7% in the net factor income value, assuming that the number of workers in Israel will increase despite the increase of trade balance deficit value of 2.1%. An increase of 1.3% in gross national income value is anticipated in addition to an increase of 4.0% in the value of gross national disposable income during 2021 compared to 2020.

**The most significant outputs of economic forecasts based on the assumed scenarios in Palestine for 2021\*.**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Main Indicators** | **2019** | **Preliminary Estimates 2020** | **Baseline Scenario** **2021** | **Optimistic Scenario** **2021** | **Pessimistic Scenario 2021** |
|  |
| **Gross Domestic Product ( USD Million)**  | 15,829.0 | 13,999.1 | 14,843.4 | 15,825.1 | 14,126.5 |
| **GDP per capita (USD)** | 3,378.4 | 2,915.5 | 3,018.2 | 3,217.8 | 2,874.0 |
| **Unemployment Rate (%)**  | 26.3 | 27.8 | 27.2 | 26.4 | 27.5 |
| **Percentage Change (%)** |
| **Percentage Change in Gross Domestic Product**  | 1.4 | -11.6 | 6.0 | 13.0 | 0.9 |
| **Percentage Change in Gross Final Consumption Expenditure**  | 2.1 | -6.3 | 3.0 | 6.9 | 1.1 |
| **Percentage Change in Gross Capital Formation**  | -2.0 | -35.9 | 31.5 | 62.1 | 2.5 |
| **Percentage Change in Trade Balance (Deficit)** | 1.2 | -13.3 | 9.9 | 19.3 | 2.1 |
| **Percentage Change in Gross Exports**  | 2.0 | -6.8 | 4.4 | 6.9 | 1.4 |
| **Percentage Change in Gross Imports**  | 1.4 | -11.3 | 8.1 | 15.2 | 1.9 |
| **Percentage of GDP (%)** |
| **Percentage of Final Consumption Expenditure of GDP**  | 109.9 | 116.5 | 113.2 | 110.1 | 116.6 |
| **Percentage of Gross Capital Formation of GDP**  | 26.4 | 19.1 | 23.7 | 27.4 | 19.4 |
| **Percentage of Trade Balance (Deficit)of GDP**  | -36.3 | -35.6 | -36.9 | -37.5 | -36.0 |
| **Percentage of Gross Exports of GDP**  | 16.6 | 17.5 | 17.2 | 16.6 | 17.6 |
| **Percentage of Gross Imports of GDP**  | 52.9 | 53.1 | 54.1 | 54.1 | 53.6 |
| **Percentage Contribution of Agricultural Activity Value Added of GDP**  | 7.0 | 7.0 | 7.4 | 7.6 | 7.8 |
| **Percentage Contribution of Industrial Activity Value Added of GDP**  | 11.7 | 11.6 | 11.6 | 11.3 | 11.7 |
| **Percentage Contribution of Construction Activity Value Added of GDP**  | 5.6 | 4.1 | 5.5 | 6.3 | 4.9 |
| **Percentage Contribution of Services and Other Branches Activities Value Added of GDP**  | 61.0 | 61.8 | 59.8 | 58.4 | 59.9 |

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

 **Note:**

1- The gross consumption includes net errors and omissions.

2- Services and Other Branches (includes services, in addition to electricity and water supply, wholesale and retail trade, transportation and storage, financial and insurance, information and communications, public administration and defense, and households services) excluding customs duties and net VAT on imports.

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 2020 were based on preliminary estimates and may be revised. [↑](#footnote-ref-1)
2. Data includes those parts of Jerusalem which were annexed by Israeli occupation in 1967. [↑](#footnote-ref-2)
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. [↑](#footnote-ref-3)
4. The assumptions of the Ministry of Finance are preliminary assumptions. [↑](#footnote-ref-4)
5. The net current account includes the net trade balance, net current transfers and net factor income. [↑](#footnote-ref-5)