

## **Palestinian Central Bureau of Statistics (PCBS) Press Report on Economic Forecasts for 2023**

**H.E. Dr. Awad, President of PCBS, demonstrates the following:**

- **The performance of the Palestinian economy during 2022.**
- **The economic forecasts for the year 2023.**

**H.E. Dr. Ola Awad, President of PCBS, demonstrated today Wednesday 28/12/2022, the performance of the Palestinian economy during 2022, as well as the economic forecasts for the year 2023, as follows:**

### **The performance of the Palestinian Economy<sup>1</sup>during 2022**

#### **The slowdown in the growth rates of the Palestinian economy**

With the continued receding of the COVID - 19 pandemic and its repercussions on all societal sectors in the world, this year brings a long another global crisis that resulted from the Russian-Ukrainian war, which still affects all aspects of life among the nations of the world. In Palestine, we suffer from complex crises that affect our social and economic reality.

**The level of recovery in the Palestinian economy during 2022 is still limited as a result of a group of factors, the most important of which is** the sharp decline of external support provided to the State of Palestine to support the budget, and the continued Israeli occupation with deducting of part of the tax revenues (clearance) throughout the year, in addition to the repercussions of the Ukrainian- Russian crisis, which led to a slowdown in the growth rates of the Palestinian economy. Moreover, the gross domestic product increased by 3.7% during 2022 compared to a growth rate of 7.0% during 2021, and at the level of expenditure, gross consumption in Palestine increased during the same year by 7.0%, as gross investment increased by 15.3%.

#### **The increase in the value added of most economic activities**

Most economic activities witnessed an increase in the value added during 2022 compared to 2021. The industry activity recorded the highest growth rate by 6.3%, and the services activity grew by 2.9%, followed by the construction activity, which increased by 2.3% during 2022, while the agricultural activity witnessed a decrease of 2.6%.

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<sup>1</sup> 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 2022 were based on preliminary estimates and may be revised.

### **A decrease in the unemployment rate during 2022**

Preliminary estimates indicate that the total number of employees in the labor market increased by 7.6% in 2022 compared 2021. In contrast, the unemployment rate decreased to 25.7% compared with 27.6% in 2021.

### **A rise in the trade balance deficit, an increase in the volume of trade exchange with the outside world during 2022**

In terms of the foreign trade movement in Palestine, which is represented in the total exports and imports, preliminary estimates indicated an increase in the value of exports by 7.3% compared to 2021. Also, the value of imports increased by 16.9% during the same period, where the value of imports is three times the value of exports, which led to a rise in the trade balance deficit by 21.7% compared to the previous year.

### **An increase of consumer Prices<sup>2</sup> during 2022**

The repercussions of the Russian-Ukrainian war that the world is witnessing have had direct and indirect impacts on the global economy, but its impact on this crisis remains directly linked with other economies, as the level of inflation in Palestine is imported from abroad and is affected by three basic joints, the first is that we are talking about a joint customs cover between the Israeli occupation and State of Palestine, which requires us to maintain value-added tax rates within a margin of two percentage points, and the second is our lack of control over borders and crossings, and thus control of supply chains, and the third there is no national currency, and thus we remain a bet on global fluctuations, as preliminary estimates, the average of overall consumer price index in Palestine recorded an increase of 3.75% during 2022 compared with 2021.

## **Economic Forecasts<sup>3</sup> for 2023**

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 circumstances for 2023, the siege imposed on Gaza Strip, foreign aids, Israeli occupation measures against Palestine, the number of Palestinian employees in Israel and the economic and social variables.

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

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

## 1. Baseline Scenario<sup>4</sup>

**This scenario is based on the assumption of the stability of the health situation related to the COVID- 19 pandemic and its impacts on the economic and social aspects of life that it was in the previous year, in addition to a set of key assumptions, where this scenario assumes the following:**

1. This scenario also assumes the continuation of the normal political situation between the State of Palestine and the Israeli occupation as it was during 2022, it also assumes the continuation of the unjust deduction carried out by the Israeli occupation of the clearance revenues.
2. The government continues to support the production sectors, focus on transformation and dependence on the use of clean energy sector, especially in government institutions, and to provide the necessary support in technological creativity field.
3. The government continues its efforts to fight tax evasion and increasing the efficiency of tax collection, especially services sector.
4. An increase in the credit facilities required to implement such policies on the ground.
5. It continues providing the governmental transfer in the form of comprehensive balanced support to face the economic and social rebounds of the COVID- 19 pandemic.
6. The continuation of the current transfers provided to the private sector from abroad.
7. The continuation of international grants and aids provided to support the central government's budget and other development projects as was the case in 2022.
8. The continuation of the entry of Palestinian workers from Gaza Strip to work in occupied Palestine.
9. The continued of the obstacles imposed by the Israeli Occupation on the movement of individuals, exported, and imported goods from and to Palestine.

## Expectations of Base Scenario

### Real Sector:

Gross Domestic Product (GDP): It is expected to increase by 2.1% in 2023. The value of GDP per capita is expected to record a decrease by 0.2%, and the value of gross consumption (private and public) is also expected to increase by 1.6%. The value of gross investment is expected to increase by 3.3% compared with 2022.

At the level economic activities, the value added of agricultural activities is expected to increase by 2.4%, construction and services activities by 2.3%, and industrial activities by 1.6% during 2023 compared to 2022.

Work and Workers: Unemployment rate is expected to reach 25.5% in 2023 compared to 25.7% in 2022.

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<sup>4</sup> The assumptions of the Ministry of Finance are preliminary assumptions.

## **External Sector:**

An increase of 1.2% in Palestine's net current account<sup>5</sup> deficit value is anticipated, as a result of a decrease of 0.3% in the value of net factor income and an increase of 1.6% in the value of the trade balance deficit, despite of the increase of 6.4% in the value of net current transfers. The value of gross national income and gross national disposable income will also increase in 2023 by 1.7% and 2.1%, respectively, compared to 2022.

## **2. Optimistic Scenario**

**This scenario is based on the assumption that the political situation will improve compared to 2022 through improvements at the local level with developments in the Palestinian reconciliation efforts and conducting the Palestinian parliamentary and presidential elections in the West Bank and Gaza Strip, and on the international side, by the fulfillment of the promises of the new American administration will become clear and will be based on international agreements and references. Such an effort will reflect positively on the political and economic situation, in addition to a set of key assumptions, this scenario assumes the following:**

1. The United States assistance will continue to its pre-2019 levels.
2. An increase in the aids provided by donor countries and the commitment of Arab countries to provide support to finance the budget of the Palestinian central government.
3. Increasing the support provided to development projects needed to fund small and micro projects and combat unemployment and poverty.
4. Continue to take practical and actual regulations to combat tax evasion and raising the efficiency of tax collection.
5. Improving income tax and VAT collection (both domestic and related to clearance revenues from Israel), which will accompany the improvements in the economy including transferring the clearance revenues that the Israeli occupation collects on behalf of the Palestinian government on a regular basis.
6. The decreasing of the obstacles imposed by the Israeli occupation on the movement of individuals, exported, and imported goods from and to Palestine.
7. Increasing the number of permits issued to Palestinian workers in occupied Palestine.
8. Increase the current transfers provided to the private sector from abroad to above-annual levels accompanied by an improvement in the economic situation at the regional and international level.

## **Expectations of the Optimistic Scenario**

### **Real Sector:**

Gross Domestic Product (GDP): It is anticipated to increase by 6.3% during 2023. The GDP per capita will increase by 3.8%. It also assumes that gross consumption value (private and public) will increase by 4.2% and the value of gross investments will increase by 7.6% compared to 2022.

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<sup>5</sup> The net current account includes the net trade balance, net current transfers and net factor income.

At the level economic activities: The value added of construction activities will increase by 19.1%, agricultural activities is expected to increase by 15.2%, industrial activities by 7.4%, and services activities by 5.5% during 2023 compared to 2022.

Work and Workers: An increase of 7.5% in the total number of Palestinian employees in domestic market and inside Israel and Israeli settlements is anticipated. Also, the unemployment rate decreased to 23.8% during 2023 compared to 25.7% in 2022.

### **External Sector:**

A decrease of Palestine's net current account deficit value by 25.0% is anticipated as a result of a 7.4% increase in net factor income value and an increase in net current transfers by 27.7%, despite the increase in the value of the trade balance deficit by 1.5% compared to 2022, and the value of gross national income and gross national disposable income will also rise by 6.5% and 8.0%, respectively, during 2023.

### **3. Pessimistic Scenario**

**This scenario is based on the deterioration of the political situation with the Israeli occupation, which negatively affects the economic situation, in addition to a set of key assumptions, this scenario assumes the following:**

1. The continuation of the partial or complete freezing by the Israeli occupation of the clearance revenues, which will negatively affect the government's ability to fulfill its obligations towards the employees in the government sector and suppliers from the private sector.
2. A decrease in the aids provided by donor countries and the Arab countries not committing to provide support to finance the budget of the Palestinian central government.
3. Suspension of support for development projects in addition to a decrease in support for small and micro projects.
4. The growing of tax evasion.
5. A decrease in the income tax and VAT ( local and clearance) collection, as a result of the economic recession, including stopping the transfer of clearance revenues that the Israeli occupation collects on behalf of the Palestinian government on a regular basis.
6. The increasing of the obstacles imposed by the Israeli occupation on the movement of individuals, exported, and imported goods from and to Palestine.
7. A decrease of number of work permits issued by the Israeli occupation.

### **Expectations of the Pessimistic Scenario**

#### **Real Sector:**

Gross Domestic Product (GDP): GDP is expected to decrease by 2.0% during 2023, and GDP per capita is expected to decrease by 4.3%. In addition, the gross consumption value (private and public) will decrease by 1.0% compared to 2022.

At the level of economic activities, the value added of construction activities is expected to decrease by 11.5%, agricultural activities by 8.7%, industrial activities by 5.5%, and services activities will drop by 1.6% during 2023 compared to 2022.

Work and Workers: The unemployment rate is expected to increase and reach 27.8% compared to 25.7% in 2022.

### External Sector:

Palestine's net current account deficit value is anticipated to increase by 35.3% due to a decrease of 14.9% in net current transfers and a decrease of 9.9% in the net factor income value, assuming that the number of workers in Israel will decrease, and an increase of trade balance deficit value of 3.4%. In addition, a decrease of 3.3% in gross national income value is anticipated as well as a decrease of 4.2% in the value of gross national disposable income during 2023 compared to 2022.

### The most significant outputs of economic forecasts based on the assumed scenarios in Palestine for 2023\*.

Main Indicators	2021	Preliminary Estimates 2022	Baseline Scenario 2023	Optimistic Scenario 2023	Pessimistic Scenario 2023
<b>Gross Domestic Product ( USD Million)</b>	15,021.7	15,575.9	15,905.5	16,558.4	15,258.7
<b>GDP per capita (USD)</b>	3,051.5	3,089.1	3,081.4	3,207.9	2,956.1
<b>Unemployment Rate (%)</b>	27.6	25.7	25.5	23.8	27.8
<b>Percentage Change (%)</b>					
<b>Percentage Change in Gross Domestic Product</b>	7.0	3.7	2.1	6.3	-2.0
<b>Percentage Change in Gross Final Consumption Expenditure</b>	7.7	7.0	1.6	4.2	-1.0
<b>Percentage Change in Gross Capital Formation</b>	13.3	15.3	3.3	7.6	2.0
<b>Percentage Change in Trade Balance (Deficit)</b>	13.7	21.7	1.6	1.5	3.4
<b>Percentage Change in Gross Exports</b>	17.3	7.3	0.5	2.4	-1.5
<b>Percentage Change in Gross Imports</b>	14.8	16.9	1.3	1.8	1.9
<b>Percentage of GDP (%)</b>					
<b>Percentage of Final Consumption Expenditure of GDP</b>	111.6	115.2	114.6	112.9	116.4
<b>Percentage of Gross Capital Formation of GDP</b>	25.1	27.9	28.2	28.3	29.1
<b>Percentage of Trade Balance (Deficit)of GDP</b>	-36.7	-43.1	-42.9	-41.2	-45.5
<b>Percentage of Gross Exports of GDP</b>	18.2	18.9	18.6	18.2	19.0
<b>Percentage of Gross Imports of GDP</b>	55.0	62.0	61.5	59.3	64.4
<b>Percentage Contribution of Agricultural Activity Value Added of GDP</b>	6.6	6.2	6.2	6.7	5.8
<b>Percentage Contribution of Industrial Activity Value Added of GDP</b>	10.6	10.8	10.8	10.9	10.5
<b>Percentage Contribution of Construction Activity Value Added of GDP</b>	4.7	4.6	4.7	5.2	4.2
<b>Percentage Contribution of Services and Other Branches Activities Value Added of GDP</b>	62.1	61.6	61.7	61.2	61.9

(\*) 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 (include 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.