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# **Gaza War Economy Brief**

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## **How To Read the Economic and Social Implications of the War on Gaza**

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# 1. Introduction

As the Israeli military aggression against the Gaza Strip and its resilient people continues and escalates, targeting the Palestinian people wherever they may be, and in light of the accumulating humanitarian tragedies in Gaza and the horrible human losses that continue increasing day by day, the economic implications of these events may seem to be secondary affairs. After the fourth week of the war, with the uncertainty about its timeline and its potential military and geopolitical outcomes, attempts to estimate its eventual cost or potential losses appear hypothetical and academic today. Such estimates are questionable or inappropriate while children continue to fall, and while blood continues to be shed.

Therefore, at this early stage, it is possible to identify and highlight the most prominent expected channels of impact of the war on the Palestinian economy and its consequences, as well as the nature of the ongoing and forthcoming economic, financial, and social shocks for which we must be prepared to respond to their implications. In addition, the discussion on the reconstruction of Gaza and making it viable in the aftermath of this catastrophe is also premature, especially amidst what Israel and the United States are promoting in terms of the “governance” arrangements for the Gaza Strip in what is called “the day after.” The field results of the war will determine the fate and path of this complex and critical issue and whether Israel’s declared objectives of destroying/removing/ending Hamas’s rule in Gaza are achieved or fail, which are outcomes that cannot be speculated about usefully.

To facilitate the task of understanding the various occurring and expected impacts, it is necessary to separate the diagnosis of the Gaza Strip from that of the West Bank’s economy and neighboring Palestinian territories (occupied Jerusalem and the 1948-occupied territories). All of these areas, inhabited by 7 million Palestinians, will be subject to similar shocks and Israeli hostile and discriminatory economic policies, with a significant difference between what is happening in Gaza and the rest of the Palestinian territories.

## 2. Gaza Strip Economy: From Catastrophe to Destruction

While the Gaza Strip was described as on the verge of collapse after 15 years of division and blockade, it could be concluded from the volume of destruction, killing, and displacement until now that Gaza’s economy ceased to function as of the last quarter of 2023, and will continue to be so indefinitely. If there is any “economic” activity in Gaza today, it does not extend beyond a subsistence economy or an economy of survival.

In light of the ongoing destruction of the economic and housing infrastructure over weeks, if not persisting for months, discussing economic “losses”, as in previous rounds, is unrealistic, unproductive, and pointless. Over a war between two forces, one of which is a military giant driven by an economy amounting to 150 times the size of the already exhausted Palestinian side, the goal of restoring Gaza’s economy to what it was before 2023 is inadequate, and the concept of “economic recovery” does not apply in this context. In any case, it will not be possible to restart the wheel of the commodity, service, and financial economy after this war, except after meeting the unprecedented and immeasurable humanitarian needs to feed, shelter, and care for more than two million displaced, wounded and traumatized Palestinians in the severely devastated Gaza Strip, which has been deteriorating significantly since 2007.

On the other hand, some historical indicators provide a preliminary picture on the two main aspects of post-war challenges: the loss in Gross Domestic Product (GDP) and the material destruction of residential units and economic, service, public, and private facilities. It is evident that previous rounds of wars on Gaza (especially in 2009 and 2014) were less fierce and did not affect all the Gaza Strip areas. They did not involve humanitarian crises and population displacement on the scale that we have witnessed and continue to witness. They did not result in a situation of mass hunger, thirst, disease, psychological trauma, and other humanitarian consequences as have resulted in this war, and of which we continue to see new forms daily. The shock of previous wars resulted in a setback for Gaza’s economy with a decline did not exceed 10% in

2014, which was quickly recovered through reconstruction efforts in the following year. Since then, the Gaza Strip economy has not recorded any growth that would bring it back to its pre-division and blockade levels, when it constituted one-third of the “Palestinian national economy”, whereas its share had dropped to about 17% on the eve of the war, with a GDP under 3 billion US dollars.

Thus, the Palestinian Central Bureau of Statistics estimates Gaza Strip’s quarterly GDP at approximately \$700 million, indicating a severe blow with a loss of at least 25% of the (limited) GDP in 2023, and perhaps the same in the first quarter of 2024, which may not resume normal economic activity even if the guns are silenced. The important point here is not just the potential shock to GDP, but the ability to restart the economic wheel and “recover” from a shock that has brought the economy to ground zero for three months or more. This is a task that may take a year or many before the Gaza Strip economy returns to its pre-war GDP level. Therefore, there will be a need for at least 3-6 months to provide relief to 2.2 million Gazans and support them until it becomes possible to return to productive work.

What makes the challenge of restarting the economy after this war significantly different from previous experiences is the enormous and unknown scale of material destruction of homes, factories, commercial and service facilities, educational and healthcare and livelihood institutions. However, the available indicators show, up to the fourth week of the war, a picture of widespread destruction in the Gaza Strip, intensively in entire blocks of Gaza City, resulting in flattened blocks of rubble. As of now, it is estimated that more than 44,000 homes have been fully destroyed and more than 132,000 housing units partially destroyed, representing approximately 50% of the “housing stock” in the Strip, in addition to (at last count) 150 factories, 120 schools, and many public buildings. Therefore, what we face is a complete disruption of the economic infrastructure in the northern part of the Strip so far, and disruption of the remaining economy and its infrastructure in the southern part.

For the purpose of comparison with previous shocks that the Gazan economy has experienced, the World Bank, for example, points out that in 2014, \$460 million of Gaza’s economy was lost in a sharp decline in GDP. UNCTAD indicates that the direct economic losses resulting from the 2008 war amounted to \$2.5 billion. that the assets damaged by the wars of 2012 and 2014 amounted to \$2.7 billion, and that the Palestinian Authority estimated the reconstruction cost at \$3.9 billion. From that baseline, we can only imagine the potential staggering cost of the war on Gaza in terms of both production and infrastructure.

### **3. The West Bank: Management of a Fragile and Besieged Economy**

In contrast to the escalating economic destruction in the Gaza Strip, the economy in the West Bank has not yet shown cracks, despite numerous Israeli security restrictions and increasing attacks by settlers in various areas. Palestinians in areas under the control of the Palestinian Authority (PA) are expressing broad national solidarity through continuous protests and widespread popular support for the resistance and the people of Gaza, and participating in armed and popular resistance, which has so far claimed 110 martyrs. The private sector economy in the West Bank continues to operate, albeit at a slower pace, and government and municipal services are still functioning, with many workers finding difficulty in reaching workplaces. The commercial sector is also working to maintain the flow of goods and services and sustain business operations as much as possible. The situation is far from normal but not yet at a standstill, as long as there is a minimum level of internal stability in Areas “A” and “B” maintained by the Palestinian security forces, while villagers outside the PA’s security jurisdiction confront the settler attacks on their own.

Even without the outbreak of an “eastern front” leading to large-scale military confrontations in the West Bank, anticipated channels of economic implications from the Palestinian-Israeli war are beginning to emerge, which indicates, as in the Gaza Strip, that the Palestinian economy is unlikely to return to the pre-October 7th situation.

There are several growing pressures on the West Bank economy fabric under the jurisdiction of the PA, some of which may be sharp and imminent, while others have less immediate consequences and will take longer



to materialize. In all cases, previous experiences in absorbing economic shocks in the West Bank entailed significant material losses due to the Israeli invasion during 2001-2004, with an economic decline of nearly 20% during those four years as well as damage to public buildings and facilities amounting to approximately \$2.5 billion. In 2020, the Palestinian economy contracted by at least 12% in one year only due to the COVID-19 pandemic. Recovery was not expected until 2023, had a projected 3% growth been achieved, an expectation that has evaporated with the dust of the Gaza war. Therefore, the economic crises that the West Bank will face will come in successive waves, potentially reaching tsunami levels if they converge and reinforce each other. We outline these likely pressures below, based on their urgency and the expected timing of their effects.

The first of these waves that has appeared so far may represent the most significant shock to the West Bank's economy, total demand, and consumption. Since the first day of the war and during its first month, most of the 160,000 workers from the West Bank (about 20% of its workforce) and 20,000 from Gaza (who were allowed to work in Israel since last year) have ceased working inside Israeli markets. These workers, mostly daily-basis laborers, contribute around \$3 billion annually to the Palestinian economy, or approximately 15% of the disposable national income, which helped to keep the unemployment rate in the West Bank below 20%, while it remained around 45% in Gaza. This means that without creating employment opportunities for these workers in the short term, the unemployment rate could rise to over 30% in the West Bank (and possibly up to 90% in the Gaza Strip) over the course of the war.

Given that Israeli employers are unlikely in the near term to reemploy the "enemy" labor force (except perhaps under conditions similar to prison labor camps), and the unreadiness of those workers themselves to take the risk of working for Israelis, it is not expected that the majority of these workers will return before the end of the war, and possibly not for months after, and in the case of Gaza, perhaps not at all. The direct effects of this situation, in addition to the increasing number of unemployed in the West Bank, will entail an immediate decline in public demand and the purchasing power of the poorest rural families, a decrease in liquidity in the market, and downward pressure on local wage levels. These, among other subsequent repercussions, will be difficult to absorb without quick action, investments, and aid to create urgent local job opportunities in production, construction, and service sectors.

The second shock that the impacts of which started to be felt in the West Bank, will result from the expected prolonged absence of visitors and shoppers from the Palestinians of 1948 areas and East Jerusalem to markets in the northern West Bank and its tourist sites (Jericho, Nablus, and Ramallah). Those visitors spend approximately \$1.5 billion annually in the West Bank, and recently significant numbers of them have invested in apartments and houses in Jericho and Ramallah. This means that the lack of this important economic resource is another component of the decline in public demand and private consumption that "fuels" the productive, consumptive, and investment economic cycle in an economy that was on the brink of growth before this catastrophe.

The next major blow that could be crippling for the Palestinian economy is the threat from the Israeli Finance Minister to stop the monthly transfer of commercial clearance tax revenue to the Palestinian Authority's treasury. The clearance tax revenue is the lifeline of the public budget and the primary source of funding for the salaries of around 150,000 employees and the operational expenses of the PA which amount to about \$300 million monthly. If this funding source for the PA is cut off, it will become a crucial factor in reducing the purchasing power of consumers and, at the same time, supporting indebted families in repaying their loans to local banks (amounting to about \$7 billion), as well as the government's ability to repay its debts to the banking sector (amounting to \$2 billion). Even if Israel continues to respect its financial obligations towards the PA (perhaps under American pressure), the expected decline in imports from Israel and abroad, along with the gradual economic contraction in the Palestinian economy, will reduce monthly clearance tax transfer. In other words, any public budget crisis exceeding a few months will create major problems for the government and highlight weaknesses in a banking system that is still considered robust after one month of the war.

The final expected significant upcoming wave in the series of anticipated shocks that may undermine the

West Bank economy's ability to continue operating in a way that keeps the possibility of "recovery" open for later times is the disruption of internal markets and their isolation from each other due to Israeli lockdown measures and settler attacks. It is not yet clear how deteriorating commercial transportation conditions and the halt of the movement of employees and workers will affect the internal markets, the access of consumer goods, as well as inputs for industrial and agricultural production. However, just as for the other above-mentioned implications, it is necessary to prepare for the fragility of business and service sectors (which account for the lion's share of the local GDP and the number of small and medium-sized enterprises) during the coming period. The effects of other expected shocks will be compounded, given the decreased purchasing power, the cessation of tourism, the movement of workers between governorates and to Israel, and the other functions of the service sectors closely related to other economic sectors.

It is clear that the Palestinian economy is facing a multi-layered economic crisis that threatens its stability, resilience, and prospects for growth. Economic uncertainty will have a depressive effect across the board. This necessitates concerted efforts, both locally and internationally, to address these challenges and support the Palestinian people during these difficult times.

All those mentioned above did not address the impacts on the Palestinian economy of upcoming economic challenges facing Israel itself in terms of the significant depreciation of the Shekel value, the decline in local agricultural and industrial production, and the emergency purchasing policies for essential goods in global markets, which will be allocated exclusively to support the Israeli "war economy. Even if the West Bank does not enter a military conflict with Israel, we are facing an economic war on multiple fronts created and exacerbated by Israel's aggression against the Gaza Strip. As a result, the West Bank's economy may itself become a war target, reducing its activity to as little as 40-50% of its usual income level within months or weeks.

#### **4. Occupied Jerusalem and the 1948 Palestinian Areas in Israel: Isolated Islands in an Israeli Ocean**

Last but not least, the economic situation in occupied Jerusalem and the Palestinian areas inside Israel is not less challenging, even if we exclude the possibility of entering military confrontations, which may incite right-wing extremists to commit even more attacks and killings exceeding what we have seen so far. Regarding East Jerusalem, where about a third of its workforce relies on jobs in Israeli markets, these jobs are now at risk or cannot be easily preserved. A similar percentage of residents heavily depends on international and Palestinian tourism, which has come to a complete halt, including the weekly convoys of Palestinian residents from the 1948 territories who visit the city for prayers and shopping. These trends indicate an increase in unemployment and people reliance on minimal monthly allowances, healthcare, and municipal services. Additionally, the 350 thousand Palestinian Jerusalemites are isolated and disconnected from jobs, relatives, and services in the West Bank. They go about their lives at the mercy of the Israeli security apparatuses that are equipped to suppress any popular movement or national expression and face approximately 650,000 Israelis who live in the city of Jerusalem, including about 250,000 settlers.

As for the economic prospects of approximately 1.8 million Palestinian Arabs inside Israel, who are often viewed by the State as a potential fifth column, these might not be much better compared to Jerusalem or the West Bank. Arab citizens of Israel face the same racial discrimination in workplaces as workers from the West Bank and Jerusalem. Furthermore, the regular Jewish shopping in many of these towns has begun to decline, while at least 40% of workers rely on jobs outside Arab towns and in Israeli institutions. Their service might be terminated during the ongoing war for economic or political reasons, even with the absence of Israeli alternatives to fill these positions, and therefore, returning to the previous status might take months or even years. This sector of the Palestinian population has only themselves and the state of Israel to rely on for basic livelihood, and they have become suddenly disconnected from the Palestinian territories with which they had significant economic interactions in recent years.

Thus, there is no glimmer of hope or a clear path for future recovery for this vital component of the Palestinian people. Their only recourse is political silence, community, and human resilience, as they may face a similar catastrophe “Nakba” to that looming over the rest of the Palestinian people in this historical and fateful moment of a legitimate struggle for liberation from Zionist colonialism and national self-determination in their homeland.

## **5. Conclusions: Who Will Pay the War's Economic Bill?**

In previous experiences of dealing with external shocks, international humanitarian aid played a leading role in bearing the financial consequences of Israeli destruction and the restrictions imposed by the occupation on economic activities, in addition to their contribution to the reconstruction and economic recovery. However, the current political and global situation is fundamentally different, international aid has dwindled to approximately half a billion dollars over the past five years and it is no longer a substantial source of funding for the PA, except for financing part of its development budget and social transfers, which are already low.

Moreover, American and European support to Israel in this war may lead to popular and perhaps official boycotts by Palestinians. In any case, any role of these parties in the reconstruction of Gaza will be closely tied to their joint political goals with Israel regarding the future governance of the Gaza Strip.

Therefore, the intentions and potential conditions of these actors remain in doubt. This significant challenge of “compensating” for the destruction and revitalizing the beleaguered people’s lives remains unknown in scale but could reasonably reach as much as 10-20 billion dollars over the next five years. In conclusion, we must ask: If Arab countries are unable to defend the vulnerable Palestinian people at this moment, can they rise to the occasion differently from their allies in the West and bear the financial consequences of this humanitarian and economic catastrophe unconditionally? Furthermore, is there a new role in the Palestinian or regional arena for the friends of the Palestinian people in the Global South, in South America, Asia, and the Islamic world, to become allies in the struggle to preserve the Palestinian cause and achieve the denied rights and livelihoods?



<b>Key indicators and weaknesses of the Palestinian economy</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Population (thousand)</b>					
Palestine	4,915.30	5,039.00	5,101.20	5,227.20	5,403.00
- West Bank	2,953.90	3,020.00	3,053.20	3,120.40	3,214.00
- Gaza Strip	1,961.40	2,019.00	2,048.00	2,106.70	2,188.90
<b>Labor Market</b>					
<b>(Based on the new definition of the labor force adopted by PCBS [1])</b>					
Number of workers (thousand)	956.3	1,013.00	956	1,036.00	1,136.00
Percentage of workers in Israel (to the West Bank labor force)	18.2	17.2	17.1	18.8	22.5
Average daily income of West Bank workers in Israel (NIS)	234.2	247.7	258.6	266.1	276.9
Percentage of workers in Israel (to Gaza Strip labor force)	0%	0%	0.1%	0.1%	0.8%
Unemployment rate Palestine (%)	26.2	25.3	25.9	26.4	24.4
West Bank (%)	17.3	14.6	15.7	15.5	13.1
Gaza Strip (%)	43.1	45.1	46.6	46.9	45.3
<b>WBG National Accounts</b>					
GDP (2015 Constant prices – Million USD)	15,616.20	15,829.00	14,037.40	15,027.10	15,612.50
- for Gaza Strip (%)	18.1%	17.9%	17.6%	17.2%	17.4%
GNDI (USD Million - Constant Prices)	19,608.6	19,960.7	17,173.2	18,982.4	20,497.8
- For Gaza Strip (%)	17.8%	17.6%	17.4%	16.8%	18.2%
- Compensations of workers in Israel (%)	12.7%	11.6%	12.5%	14.9%	15.0%
Private consumer expenditure (at 2015 constant prices) million USD)	13,570.10	14,126.50	12,367.20	13,207.20	15,908.70
Public consumer expenditure (at 2015 constant prices- USD million)	3,318.90	3,202.30	3,213.50	3,544.90	3,174.40
Gross capital formation (at 2015 constant prices- USD million)	4,260.30	4,177.10	3,328.60	3,770.20	4,197.60
- for Gaza Strip (%)	9.8%	10.1%	7.6%	6.9%	7.0%
Exports (current prices -USD million)	2,578.7	2,630.5	2,335.9	2,740.4	2,911.4
for Gaza Strip (%)	6.0%	5.5%	5.7%	5.4%	6.1%
Imports (current prices million dollars)	8,256.8	8,376.1	7,189.1	8,256.4	10,377.6
- for Gaza Strip (%)	14.2%	14.3%	14.5%	13.6%	14.5%

**GDP per capita (at constant prices - base year 2015 (USD))**

At constant prices (Palestine)	3,417.7	3,378.3	2,922.5	3,051.5	3,086.8
At fixed prices (Gaza)	1,458.3	1,422.2	1,207.6	1,223.9	1,256.8

**Public Finance (cash basis, USD million)**

Net domestic revenues (including clearance revenues)	3,462.90	3,290.60	3,526.20	4,224.70	4,685.10
Total clearance revenues (USD million)	2,255.3	2,219.2	2,399.9	2,776.9	3,146.2
Current expenditure	3,660.00	3,660.10	3,954.90	4,035.10	4,158.10
Government public debt	2,369.50	2,795.10	3,649.40	3,848.10	3,542.70

**Banking Sector (USD million)**

Assets/liabilities of banks	16,125.00	17,825.50	19,886.20	21,673.00	21,404.40
Public deposits	12,227.30	13,384.70	15,138.30	16,518.10	16,468.20
Credit facilities	8,432.30	9,039.10	10,078.70	10,747.20	11,045.00

[1] PCBS and the ILO adopted a new revised definition of unemployment stating that unemployment includes 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 employment during the reference period). The table includes calculations of the Palestinian labor market indicators based on the old and the new definitions.

[2] 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.