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Preliminary Findings on the Impacts of the Cessation of Palestinian Labor in Israel on Key Palestinian Macroeconomic Indicators

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Potential Impacts on the Macro-economy

The cessation of workers' compensation (in a range from 20% up to 100%) will impact final household consumption expenditure, causing consumption expenditure to decline by as much as 15.9% in 2024 (compared to previous levels) if the stoppage is total and prolonged. This will lead, inter alia, to a decrease in imports of up to 10% and together impact through accumulated multiplier effects in the economy, key macro indicators at the below rates and depending on the volume of decrease in compensation.

Volume of the decrease in workers' compensation	20%	40%	60%	80%	100%
Change in gross domestic product (GDP)	10.9%-	15.4%-	19.9%-	24.5%-	29.0%-
Change in gross national income (GNI)	12.2%-	19.0%-	25.8%-	32.7%-	39.5%-
Change in gross national disposable income (GNDI)	11.0%-	17.1%-	23.3%-	29.4%-	35.6%-

Potential Impacts on Public Revenues

First conduit: Income tax on the wages of the laborers in Israel will drop from about 1.69% of clearance revenues (ILS 188.2 million) in 2022 to 0 for the period of full cessation of labour (three months or more).

Second conduit: The decline in total imports of goods (imports of commodities) by approximately 10 to 20% will result, on average, in the decline of Palestinian Authority (PA) revenues by 7 to 14%.

Third conduit: In terms of local value-added tax (VAT), the decline in the final household consumption expenditure by 10 to 15% will result in the decline of the collections of the PA's gross and net revenues by 0.9 to 1.3%.

Potential Impacts on Unemployment

Percentage of the decline in the number of laborers from the West Bank working in Israel	20%	40%	60%	80%	100%
West Bank	%22.8	%26.7	%30.6	%34.5	%38.4
Gaza Strip	%79.1	%79.1	%79.1	%79.1	%79.1
Palestine	%42.4	%45.0	%47.5	%50.1	%52.7

* Assuming a loss of 61% of jobs in the Gaza Strip compared to pre-war level

1. The Dilemma of Palestinian Labour in Israel Since 1994

Palestinian laborers usually are the first to fall prey to the successive and systematic Israeli policies restricting the Palestinian economy. The Israeli occupation policies have been focused on undermining and restricting any economic growth, particularly since 2000, as manifested in restricting the exploitation of Palestinian resources, controlling trade policies and public revenues, and restricting the movement of goods as well as the flow of labor to the Israeli market. Therefore, a large part of the Palestinian residents' income and livelihoods is subject to the mood swings of Israeli policies. We today face the reality of the cessation of the income of a fifth of the Palestinian laborers in the West Bank and increased occupation hegemony over the Palestinian economy. It is worth recalling, in this regard, that experts, particularly the Palestine Economic Policy Research Institute (MAS), have for long cautioned against the risks of this channel as part of the state of colonial economic dependency.

This is not the first time that the occupation authorities have decided to freeze or halt the use of Palestinian laborers in Israel since the signing of the Oslo Accords and Paris Protocol, which regulates the movement of labor. Shortly after the launching of the Second Intifada in September 2000, the occupation stopped the issuance of work permits for Palestinians for over a year until gradually reissuing them in 2002. Even with the re-issuance of the permits, the difficulty of movement and the hazards entailed in working in Israel restricted the flow of Palestinian laborers at the time, and Palestinian laborers in Israel remained limited until the occupation eased the restrictions imposed on the West Bank.[1] Since 2006, the Occupation denied Palestinian laborers from Gaza access to work in Israel, and only in 2021 were Gaza laborers allowed access to work in Israel. It will be recalled that due to the coronavirus outbreak, the occupation introduced a moratorium on the issuance of permits for Palestinian laborers in Israel for approximately four months in 2020. However, it quickly reinstated them to work given the need for Palestinian labor in the industry, agriculture, and construction sectors and out of the recognition that such reinstatement would not have an impact on the spread of the virus, which spread in Israel at a much higher rate than in the West Bank.[2] Since 2021, the Occupation has issued only a very limited number of work permits for Palestinians from Gaza, starting with 13,000 work permits and reaching approximately 20,000 work permits on the eve of the war.[3]

All current indications are that the impact of this round of the conflict on the phenomenon of Palestinian laborers in Israel might endure for a long period. Many media sources have reported Israeli plans to recruit expatriate laborers as a replacement for Palestinian laborers. This came at a time when the "Coordinator of Government Activities in the Territories (COGAT)" announced the closure of all crossings until further notice and halted the entry of Palestinian laborers to the settlements in the West Bank. The closure also affected a number of Israeli checkpoints, which separate Palestinian cities and communities and dismember the West Bank, transforming it into isolated cantons.
This coincided with unprecedented reprisals against Palestinian laborers in Israel during the first month of the war, particularly laborers from the Gaza Strip, many of whom were detained by Israel and prevented from returning to the Gaza Strip. Some of them were "deported" by the occupation to the West Bank, and a large number to the Gaza Strip following interrogation. This might result in a fewer number of Palestinians opting to work in Israel, even if the occupation decides to reissue work permits for them, since this poses a real threat to their lives.

This Brief is intended to identify the impacts of the stoppage of Palestinian laborers in Israel on three key, pivotal Palestinian macroeconomic indicators, namely: national accounts, public finance, and unemployment. This paper uses simplified hypotheses in order to simulate the reality and understand the trends of the impact of the stoppage of Palestinian laborers in Israel within the existing political and

1 https://www.un.org/unispal/document/auto-insert-209304/

2 https://www.ilo.org/wcmsp5/groups/public/---arabstates/---ro-beirut/documents/publication/wcms_774731.pdf

3 https//:www.kavlaoved.org.il/en/wp-content/uploads/sites/3/2013/06/KLO-Palestinian-Report-Aug.2012-pdf and https://www.inss.org.il/publication/workers-from-gaza/

economic arrangements, apart from the structural changes that might be witnessed by the economy during the next few months. As such, the paper offers a reasonable reference point to assess and measure the initial repercussions of this shock at the national level, and to attempt to address them before this shock turns into a profound economic crisis that could drag on for several years.

There are several models and methodologies that simulate the Palestinian economy for the purposes of predicting and examining policy alternatives, and that could be used to assess the economic impact of the current shock facing the Palestinian economy. However, here we are driven by several considerations to use simplified hypotheses based on available data instead of more complex macro-econometric models. These considerations manifest in the abrupt rapidly-moving events whose current data could not be monitored, the need to recalibrate the previous metric models in light of the recent developments, and the high uncertainty regarding the direction that the war might take, not to mention how far these models are able in "normal" conditions to simulate the distorted reality of the Palestinian economy.

The estimates contained in this Brief are not intended to represent the reality or model the various impacts on the Palestinian economy as a result of the war, particularly that the crisis is only in its infancy and no one knows its political and security repercussions, including the trends of the Israeli economy to deny Palestinian laborers access to Israeli markets. The hypotheses and estimates could not take into account the impact of the mass destruction in the Gaza Strip, the halt of economic activity in the Strip, and the impact of the increasing economic slowdown in the West Bank on GDP. Thus, the Brief only focuses on showing the extent to which the Palestinian economy is exposed to labor in Israel and the channels of the impacts of labor cessation. Whereas the West Bank is where most of the expected impact will be felt, the assessment calculates the impact of labor stoppage in Israel on the Palestinian economy as a whole. Despite the political and geographic separation between the West Bank and the Gaza Strip, this analysis does not separate one from the other and continues to consider them a single economic unit.

The Brief assumes that the present situation, namely the complete cessation of Palestinian laborers in Israel (0 laborers),[4] will persist throughout 2024. It recalculated or retraced the change in the components of national accounts and unemployment rate based on this hypothesis along with others detailed herein. In order to produce a better picture of the scope of the impact, the paper also assessed the impacts accompanying the decrease of laborers by approximately 70% just as it occurred in the Second Intifada, and by approximately 50% i.e., to half of what their number was in 2022. It is worth noting that the methodology and hypotheses do not claim to offer a definitive estimate of the impact of the stoppage of laborers in Israel on the Palestinian economy. We do not expect any of these estimates to be more probable than another, but they offer a preliminary reading and point of reference on the volume and direction of the potential impact of this situation on gross domestic product, public finance, and unemployment.

2. Potential Impacts on the Macroeconomy

2.1 Statistical and Economic Background

It is currently difficult to speculate on the fate of up to 200,000 Palestinian laborers, (officially and unofficially registered alike), who work in Israel or the settlements. The stoppage of work in Israel would cause a significant jump in unemployment rates and inflict direct income losses on Palestinian families. Such direct losses may be estimated at around ILS 3.2 billion in the last three months of 2023.[5] During the period from 7 to 31 October 2023, laborers lost around 17 working days,

4 Some field data indicate that only a very slight percentage of Palestinian laborers continued to work in the Israeli labor market. However, and for the purposes of this paper, it will be assumed that all laborers who used to work in Israel and the settlements have lost their jobs/ stopped working.

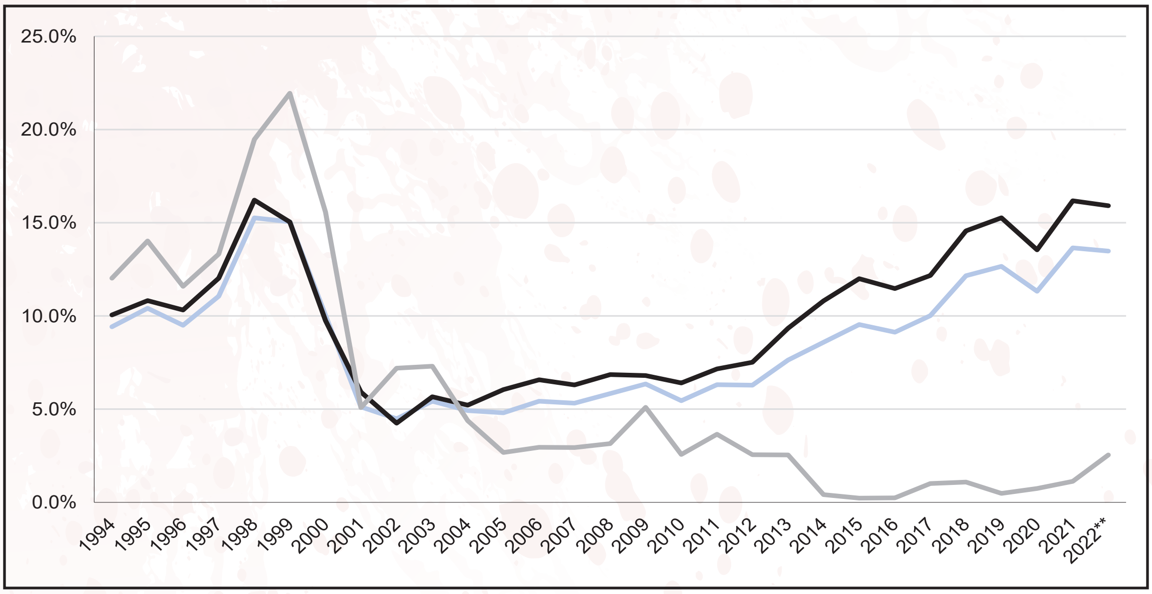
5 i.e. the outcome of the average daily wage times the number of laborers (according to the Palestinian Central Bureau of Statistics and the International Labor Organization respectively) and the number of days of stopping from work. According to the PCBS' statistics, the number of Palestinian laborers in Israel and the settlements amounted to 193,000 with an average daily wage of ILS 276.4 during 2022.

corresponding to approximately ILS 907 million as lost income according to the figures provided by the Palestinian Central Bureau of Statistics (PCBS). The decline of the income generated from working in Israel, which accounted for 13.5% of the gross disposable income (GDI) in 2022, will have an impact on the levels of domestic aggregate demand, the economic activity of the private sector as well as on the trade balance. This will ultimately have an adverse impact on public revenues as well as on social and economic indicators.

The past decade witnessed a remarkable upsurge in the contribution of labor in Israel to economic growth, making the Palestinian economy more linked to the Israeli economy and more exposed to the occupation's collective punishment policies. Due to successive shocks and the restrictions imposed by the occupation, the production base of the local economy has weakened, precluding the possibility of absorbing the growing Palestinian labor in the local economy. Moreover, there has been unfair competition with Israeli companies, which attract Palestinian laborers by offering high wages to them. Such wages equal more than two times the average wage in the West Bank and five times the average wage in the Gaza Strip.

Chart 1 shows that the compensations of laborers (99% of which belong to laborers working in Israel) have grown, on average, by approximately 11.3% on an annual basis during the period from 2010 to 2022. It also shows that the contribution of such compensations to the gross disposable income increased from 5.4% to 13.5% during the same period. However, this remarkable increase was not sufficient to restore the contribution of laborers' compensations to the pre-Second-Intifada situation, i.e., 15% as it was in 1999. Moreover, the bulk of this increase occurred in the West Bank, given the near total interruption of the flow of laborers from the Gaza Strip to Israel, except for 2021 and 2022, during which period the occupation issued a limited number of work permits for some Palestinians from the Gaza Strip.

Chart 1: The contribution of net laborers' compensations to gross disposable income distributed by region, 1994- 2022



*These are preliminary estimates, which are subject to review and amendment.

Source: The researchers' calculations and the data of the Palestinian Central Bureau of Statistics

2.2 The wider economic context impacting the labor market outcomes in light of a previous shock experience

The experience of the shock of the second Intifada offers important indicators of the impact of the decline or stoppage of labor in Israel on national accounts. The occupation's recent arbitrary decision to stop Palestinian laborers in Israel, declare war on Gaza, and impose tightened restrictions on the West Bank is similar to the decisions and measures that accompanied the launching of the Second Intifada, albeit that it comes in a political and economic context. Therefore, the analysis of the impact of the stoppage of Palestinian laborers in Israel requires scenarios that simulate possible various events or previous experiences. As part of the experience of the second Intifada, the Palestinian Authority (PA) attempted to absorb a part of Palestinian labor through increasing public-sector employment. This inflated the wage and salary bill, plunged the PA into a chronic financial crisis, and compelled it to follow strategies to reduce the bill.

The last two decades witnessed a significant change in the structure of the Palestinian economy, characterized by the growth of the service-oriented sectors at the expense of production sectors as well as by the increasing importance of the banking and financial sector in the Palestinian economy. All of this meant that the Palestinian economy has now become more vulnerable to shocks and less capable of confronting and recovering from them given the limited PA capability and the structural changes of the economy.

In order to understand the potential impacts of the stoppage of laborers in Israel through previous experiences, the remainder of this section recalls the economic changes that occurred during the second Intifada, particularly the changes in the major economic indicators during the period from 1999 and 2001.[6] This approach of recalling such changes is more aligned with the goals of this Brief than recalling the short-term and general changes that occurred during the pandemic crisis in 2020. Expelling laborers from their workplaces in October 2022 is similar in nature to the expulsion of laborers in September 2000. In the same vein, the war on and destruction in the Gaza Strip, tightened restrictions on the West Bank, and the infrastructure destruction are rather similar to the circumstances of the second Intifada, albeit of course with substantial differences pertaining to all of these factors.

The Palestinian economy has become now more vulnerable to external shocks for a number of reasons, including its incomplete recovery from the Coronavirus shock; increasing dependence on the trade, finance, and service-oriented sectors; ongoing decline in donors' support; increased exposure of households, companies and the government to credit risks; and the impact of rising interest rates and fluctuations of currency exchange rates on the economy. Such reasons also include the increased fundamentalism of successive Israeli governments and increased hegemony of the occupation over the Palestinian public revenues. This has plunged the PA into a profound financial crisis, rendering it unable to pay fully the public servants' wages for more than two years. All of this means that the changes that occurred during the Second Intifada period do not reflect or match the current reality. Nevertheless, they provide a beneficial comparative context of the direction of the change in the major economic variables and the nature of the interventions necessary to address the economic crisis that would arise from the stoppage of laborers in Israel.

It is apparent from Table 1 (in the annex) that net laborers' compensations declined by approximately 70.3% during the period from 1999 to 2001. However, this decline was offset by a rise in net remittances (including external aid) by 143.8% and a rise in net property income by 162.4%. As a result, the gross disposable income only dropped by approximately 12.8%, and it was accompanied by a drop in final consumption and saving by approximately 8.7% and 42.2% respectively. (This shows that any simple change in income leads to significant changes in investment, i.e., increases the propensity for consumption). It is also apparent in Table 2 (in the annex) that government spending increased by approximately 8% during the period from 1999 to 2001, contributing to the reduction of the adverse impact of the drop in household final consumption expenditure on the gross domestic product (by approximately 12.7%).

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6 Representing the first year of the Second Intifada, the year 2001 is used to infer the changes that could occur in 2024. Representing the year before the Second Intifada, the year 1999 is used as a base year just like 2022. The year 2000 is the year that saw the eruption of the Second Intifada, and is similar to the current year 2023 in terms of the event.

In terms of the aggregate demand components, and as a result of the decline in income and consumption, revenues declined by approximately 20.1% during the same period, contributing to the reduction of the trade deficit as well as the crisis impact on the gross domestic product. In contrast, however, there was a significant decline in investment (by approximately 44.7%), particularly in the buildings item (47.3%) as well as in exports (by approximately 21.5%), ultimately leading to a decline in the gross domestic product by approximately 17.1%. This decline in private consumption, investment, and trade led to a decline in the added value from all economic activities, except for the industry, information, communications, and public administration sectors. The construction sector was the most impacted during that period, experiencing a decline of approximately 68.3%, which is expected given declining investment in buildings. It was followed by the tourism sector (the accommodation and catering services, which experienced a decline of approximately 65.8%), the transport and storage sector (-34.8%), the agriculture sector (-29.6%) and the health and social work sector (-21.8%).

2.3 The most significant projections of impact on the domestic product and national income components

Assuming that:

1. The halting of laborers' compensations will only reflect upon the household final consumption expenditure at the same rate of the average propensity for consumption, without having any compounding impact on the gross domestic product, in general (i.e. the momentary change according to the equations for the calculation the gross domestic product);[7]
2. Despite the exacerbation of the state of uncertainty and political instability households and companies will not be compelled to engage in preventive consumption (i.e. to change the average propensity for consumption);
3. Current remittances, government spending, and exports will maintain the same level as in 2022;
4. There is a constant linear relationship between imports and final consumption expenditure; and,
5. Net investment will be only impacted by declining savings arising from the decline in the income of laborers in Israel,

Thus, maintaining the occupation's current decision to stop all labor in Israel during 2024 would be the worst scenario, and lead to the decline of final household consumption expenditure by at least approximately 15.9% compared to the level in 2022. Given that imports account for approximately 49.5% of the final consumption expenditure (FCE), the decline in FCE because of the interruption of laborers' compensations in Israel will necessarily lead to a decline in imports. Assuming that the coefficient of the slope of the linear relationship between the imports and FCE is 0.424, the stoppage of labor in Israel in 2024 would lead to the decline of imports by approximately 10% from their level in 2022.[8]

Moreover, assuming that the stoppage of laborers' compensations would reflect upon gross capital formation (GCF) at the same rate as the average propensity for saving (a very conservative hypothesis given that investment is impacted by the uncertainty level),[9] GCF would drop by 7.2% compared to its level in 2022. Given this conservative hypothesis that does not take into account the compounding effects of declining expenditure, the final outcome is that the GDP will decline by at least 11% compared to its level in 2022 due to the labor market shock or by approximately 6.5% should it be assumed, while holding all other factors constant "ceteris paribus", that laborers' compensations will decline only to the half. However, if the potential outcome of all the components

7 Around 89% of the gross disposable national income is allocated to final consumption (the average propensity for consumption during the previous five years). Considering that most households will not be able to save as the incomes drops and might even start exhausting savings, it is expected that the propensity for consumption will increase on the short term. This will reduce the decline in the gross domestic product on the short run. However, on the long run, and through compounding impact, this will lead to an increase of the volume of the decline in the gross domestic product.

8 Using the annual imports and consumption data from 1994, the coefficient of the slope was assessed at 0.424. This is a reasonable assessment that reflects indispensable basic imports.

9 The proportion of the average propensity for saving equals one minus the average propensity for consumption – the actual decline in investment might equal times this conservative estimate.

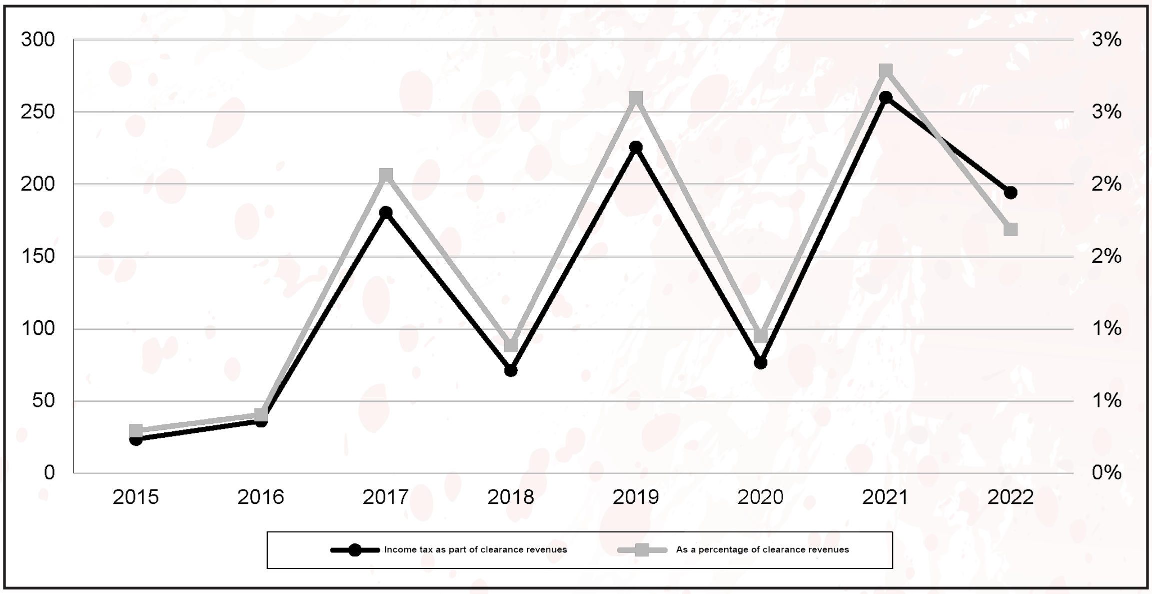
of gross national income (GNI), including both the domestic product and remittances of laborers in Israel, is calculated, the drop in GNI is likely to reach 24.3% in 2024 compared to 2022 (should a total stoppage of laborers in Israel be enforced). It is likely also to drop by approximately 12.1% should only half the previous annual remittances are collected (See Table 3 in the annex).

In calculating the compounding effects of the total stoppage of labor in Israel on the household final consumption expenditure (HFCE), imports and the production capacity of the economy, we refer to the consumption multiplier in an open economy, whereby imports are dependent on the level of income. Assuming that the local economy is unable to absorb the abrupt increase in the number of unemployed people while holding constant (ceteris paribus) all other factors (eg. propensity for consumption, taxes, government consumption expenditure, gross capital formation (GCF), exports, import propensity, current remittances), GDP may decline by 29.0% from its level in 2022. It is expected to decline by 17.7% if it is assumed that laborers' compensations would drop by only half (See Table 4 in the annex).

3. Potential Impacts on Public Finance

The stoppage of labor in Israel has several channels of impact on public revenues. The first and direct channel through which the stoppage of labor in Israel has such an impact is through the income tax on the laborers' wages in Israel, which the Israeli government transfers to the PA on a quarterly basis. Such taxes amounted in 2022 to approximately 1.69% of the clearance revenues, corresponding to ILS 188.2 million, following the deduction of the administrative handling fee (collection fees of 3%). These tax collections are characterized by high fluctuations and the method of their calculation or estimation by the Israeli government is shrouded in a great deal of ambiguity. It is also important to mention that no taxes were collected on Palestinian laborers who work in Israel without work permits (see Chart 2).

Chart 2: The net income tax on Palestinian laborers in Israel in ILS million and as a percentage of the clearance revenues, 2015- 2022



Source: MAS calculations in addition to the Palestinian Ministry of Finance and Planning data

Much more impactful than the first one, the second channel is the decline in the tax collections on imports. This includes, among others, the decline in customs, value-added tax (VAT), fuel tax and purchase tax, i.e., the PA's main sources of revenue (see Table 5 in the annex). Taken together, these items accounted for 69.8% of the PA total net revenues and 40.6% of total imports of goods in 2022. The fall of imports of goods by 10 to 20% will lead to a decline in PA revenues by 7 - 14%, and the volume and power of such a decline will depend on the extent of the change in revenues according to the country of origin and the commodity nature. In this context, it is expected that the demand for Israeli goods will also fall as a result of boycott campaigns, as well as the demand for durable goods, such as cars, and for fuel as well.

The third channel is the local value-added tax, which amounted to ILS 1.4 billion in 2022, corresponding to 8.8% of the PA total net revenues in the same year. The decline in household final consumption expenditure by 10 - 15% will lead to a decline in the local value-added tax collections at the same rate, and therefore also a decline in PA net revenues by 0.9% - 1.3%.

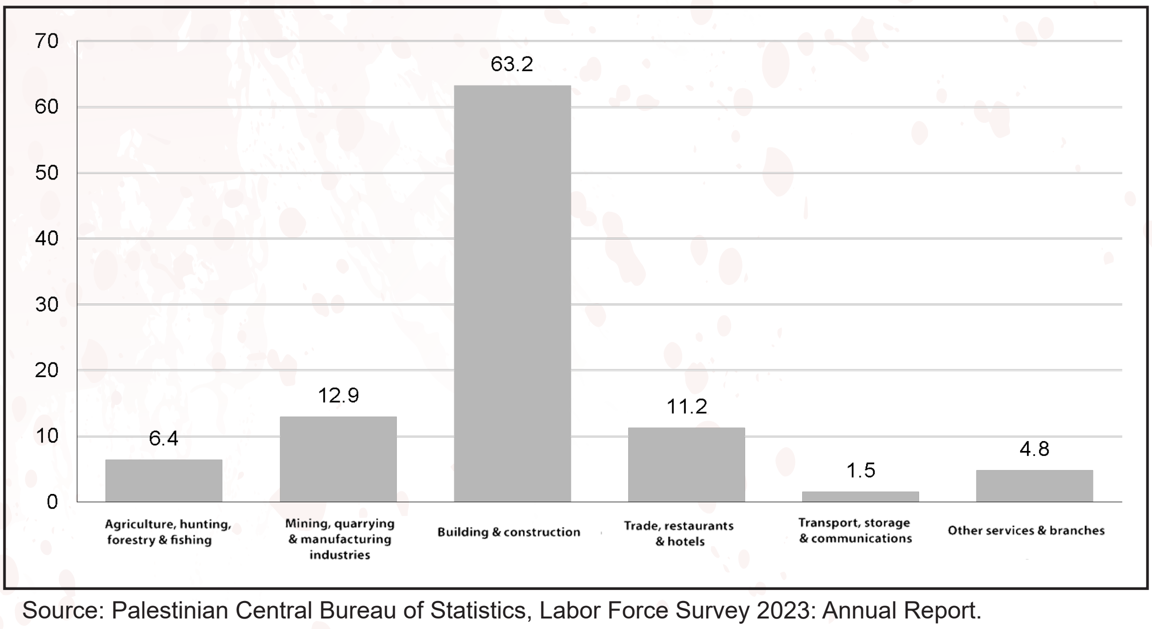
These channels are not the only channels of impact on public revenues. The decline in consumption and investment will also lead to a decline in the local income tax as well as to a decline in other local taxes and local non-tax fee revenues. However, the impact of this channel on public revenues is less important than the impact of the above-listed three channels, a focus area in the context of the stoppage of labor in Israel, and it is more complicated and difficult to assess the possible change that it will cause.

4. Potential Impacts in the Palestinian Labor Market

4.1 The impact on unemployment

Palestinian laborers in the Israeli labor market account for approximately a fifth of the total Palestinian laborers, reaching around 17% of the latter in 2022. They have come mainly from the West Bank residents since 2007, accounting for 22% of the total West Bank labor force, whereas only 0.1% of the total laborers in the Gaza Strip have been allowed access to Israel for work after 2020. The main attraction for Palestinian laborers to work in Israel is the higher wages in the Israeli labor market compared to the Palestinian labor market. A Palestinian laborer in the Israeli labor market earns double the average wage of a Palestinian laborer in the West Bank and five times the average wage of a Palestinian laborer in the Gaza Strip. Chart 3 illustrates the distribution of Palestinian laborers in Israel according to economic activities. It shows that the building and construction sector is the main employer of Palestinian labor, employing 63% of them, followed by mining, quarrying, and manufacturing industries at 12.9%, trade and restaurant sector at 11.2%, while Israeli agriculture employs 6.4% of the total Palestinian laborers in Israel.

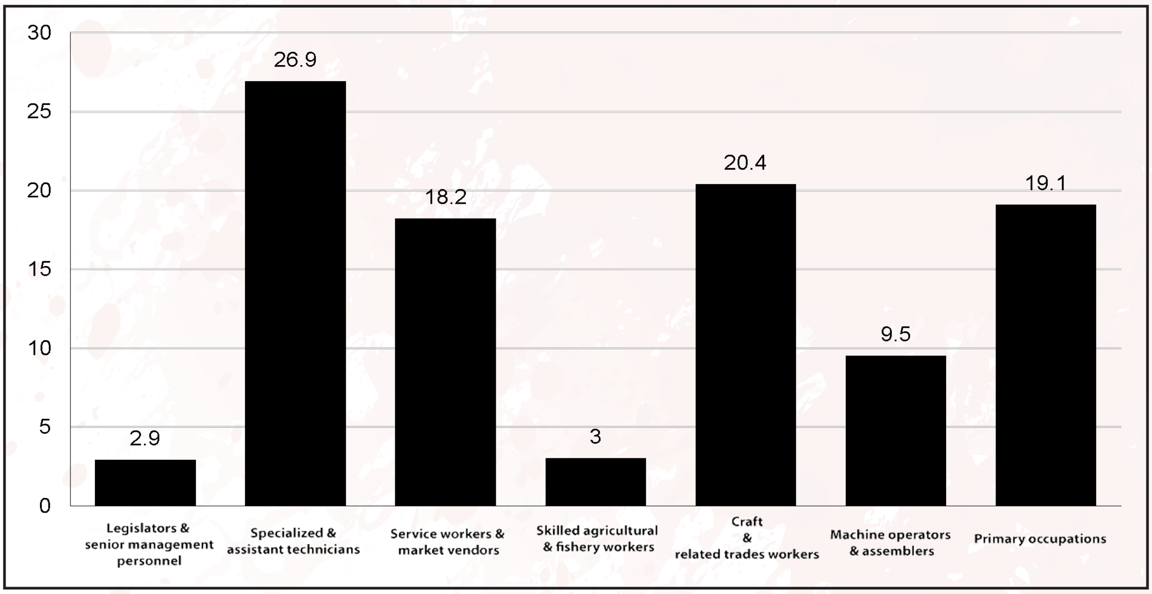
Chart 3: Relative distribution of Palestinian laborers in Israel by the economic activity, 2022



Source: Palestinian Central Bureau of Statistics, Labor Force Survey 2023: Annual Report. Ramallah- Palestine, 2022.

Palestinians in the Israeli labor market mainly work at primary and artisanal occupations, which do not require high academic qualifications. Based on the data of the labor force survey 2022, it is evident from Chart 4 that 27% of Palestinian laborers in the Israeli labor market are specialized and assistant technicians such as electric and telecommunication technicians and health care technicians, 20.4% of them are craftsmen such as carpenters and blacksmiths, 19% of them work at primary occupations, and 18% work as market vendors. Although these occupations do not require persons with academic degrees, Palestinian laborers' resort to work in Israel regardless of their educational level. The biggest factor behind this direction is the high wages offered in Israel in contrast to high unemployment in Palestine, particularly among persons with academic qualifications. The unemployment rates have reached 29% among persons with diplomas and higher degrees (15.3% in the West Bank, 48.8% in the Gaza Strip), noting that persons with diplomas and higher degrees account for a fifth of Palestinian workers in Israel and the settlements.

Chart 4: Relative distribution of Palestinian laborers in Israel by the major occupational groups, 2022



Source: the Palestinian Central Bureau of Statistics 9PCBS), 2023. Palestinian Labor Force Survey: Annual Report 2022: Ramallah - Palestine.

4.2 Local sectorial impacts arising from the closure of the Israeli labor market to Palestinian labor

In order to conduct an initial assessment of the impacts of the closure of the Israeli labor market to Palestinian labor, we recalculated the unemployment rates, assuming that all laborers in Israel and the settlements would return to the Palestinian labor market in search of jobs in the same sectors where they previously worked. Such an assessment was conducted as the same percentage of participation in the labor forces was maintained and apart from the economic impacts arising from the war on Gaza and as well as from the closures in the West Bank, i.e. with holding all other factors and determinants constant "ceteris paribus".

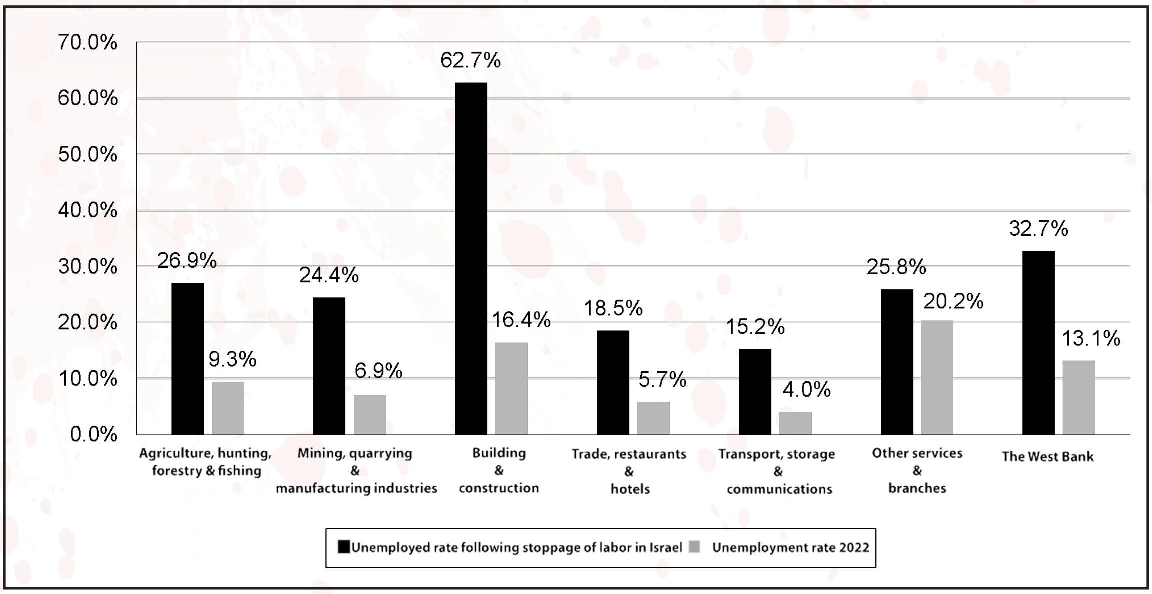
Within the hypotheses referred to herein, the unemployment rate will rise from 13.1% to 32.7% in the West Bank, corresponding to a rise from 24.4% to approximately 37% in Palestine (such a rise will occur only as a result of the stoppage of labor in Israel without its compounding effects). Should the Israeli labor market remain closed to Palestinian laborers, it is expected that unemployment rates will be higher than that. This is because calculations did not take into account the stoppage of labor in the Gaza Strip and the downturn of economic activity in the West Bank, manifested mainly in the decline in the employment rates in the local economy and the trend of some employers to lay off their employees or even shut down their enterprises. Furthermore, calculations did not assume that the participation rate in the labor force would change in terms of exiting by some laborers of the labor market due to frustration, failure, permanent disability arising from war or others. They did not address the possible changes in the level of wages and their impacts on the labor market. Thus, the estimates provide an indicator of the sectors that are the most impacted by the stoppage of labor in Israel, and are not intended to provide an accurate assessment of potential future unemployment rates.

As indicated in the International Labor Organization’s (ILO) recent report, we may assume that only 61% of jobs in the Gaza Strip are lost compared to pre-war situation and that around 10% of private sector employees in the West Bank also lost their jobs due to the impact of the restrictions imposed on the movement of goods and persons, closures, military operations on economic activity in the West Bank. Holding constant all other factors (particularly the participation rate in the labor force), the unemployment rate would rise from 13.1% in 2022 to 38.4% in the West Bank and from 45.3% to 79.1% in the Gaza Strip. These changes would lead to a rise in unemployment rates in Palestine from 24.4% to 42.4% (see Table 6 in the annex).

In light of the foregoing, and according to Chart 5, it is evident that, among the major sectors, the building and construction sector, the agriculture sector and the industry sector are the most impacted in the West Bank by the rising number of unemployed persons and, thus, require urgent interventions in terms of operation. This does not mean that the other sectors would not be impacted by the significant increase in labor force supply vis-à-vis the supply of jobs. For example, the service-oriented sector depends on the revenue generated from laborers in Israel as well as on the spending by Palestinian citizens of Israel in the West Bank. Thus, it is expected that service-oriented activity will witness a significant decline that would have an impact on the rising unemployment rates in the sector.

Chart 4 shows the sectors that will see the most significant increase in unemployment rates at the level of the West Bank, even before the declining compensation of labor in Israel becomes impacted by the war, closures, and increasingly volatile political and uncertainty levels. Unemployment rates will ultimately be determined by the extent of the exposure of all of these sectors to external shocks, the level of the precautionary savings by laborers in Israel in anticipation of the possibility of stoppage of their work (and the availability of alternatives), in addition to the public policies and interventions that might be followed to mitigate the crisis.

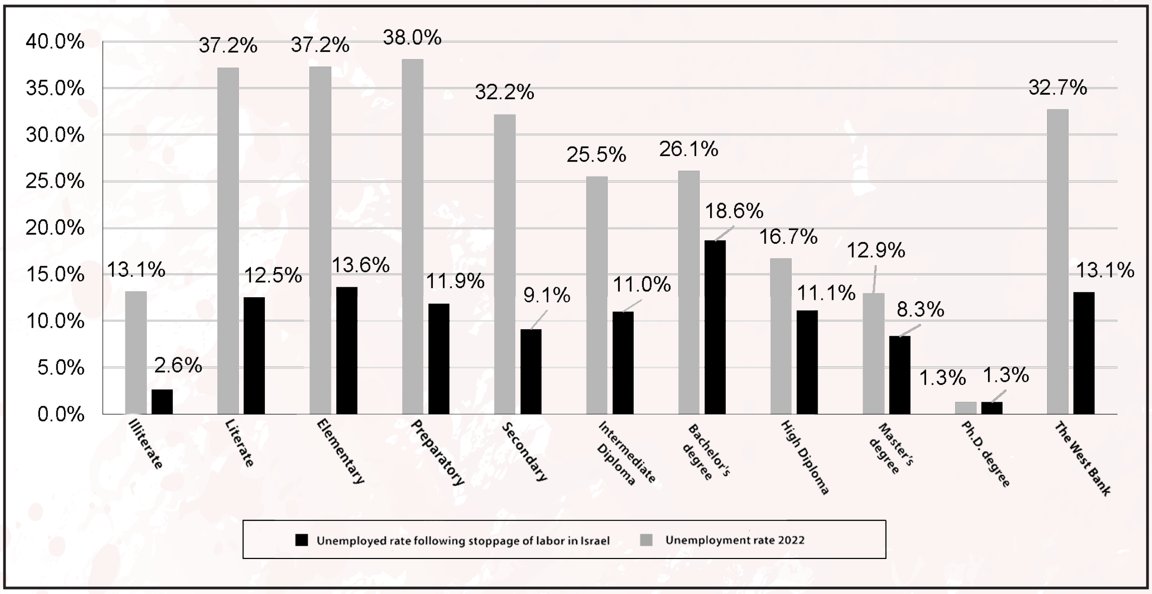
Chart 5: The increase in unemployment rate in the West Bank by the laborers’ economic sector before and after the stoppage of labor in Israel



Source: the researcher’s calculations and the Palestinian Central Bureau of Statistics data.

As for the educational status level of unemployed persons, and acting within the same hypotheses and goals, the unemployment rate among persons without postgraduate academic degrees will rise much greater than it will among the other segments (see Chart 6). Such a rise will place an onerous burden on the Palestinian government and labor market, and further exacerbate the significant economic repercussions arising from unemployment, war, and the erosion of external income sources, not to mention the social repercussions this will entail after the war grinds to a halt.

Chart 6: Unemployment rate by educational status before and after the stoppage of labor in Israel



Source: the researcher's calculations and the Palestinian Central Bureau of Statistics data.

5. Summary and Conclusions

The abrupt cessation of labor entry into Israel leads to a lot of repercussions on the local economy and direct impacts on the labor market. It eliminates the largest part of external income sources, limits individuals' ability to consume and invest, and pushes them to engage in preventive saving. This will exacerbate economic downturn as a result of the war, the total destruction of the Gaza Strip, the tightened restrictions imposed on the West Bank in addition to the fragmentation of the West Bank and transforming it into isolated cantons that restrict the movement of goods and persons. This war will undo the fragile economic progress already achieved in the West Bank, further aggravate the already poor economic indicators for Gaza, and have destructive impacts on households and the already marginalized segments of the society.

Considering its dire need for labor force to re-operationalize some important economic sectors, such as the agriculture, industry, and health services-oriented sectors, and given the flight of foreign labor and the difficulty- even the impossibility- of recruiting substitute expatriate labor in light of the security situation, it might seem that Israel has a clear interest in allowing laborers to return to their work. However, as known, security considerations in Israel take precedence over any other considerations. From a security perspective, Israel has contradictory security interests. On the one hand, it wants literally to take revenge on the Palestinian people and considers allowing laborers to return to their work a security hazard. On the other hand, the occupation state is aware that not allowing laborers to return to their work entails –perhaps greater- security risks. This explains the recent Israeli decision to allow a partial return of 8,000 laborers from the West Bank to their work and the inclination to discuss allowing a number of others to return very soon. This indicates that the occupation may be inclined to allow the West Bank laborers to return in a gradual and well-planned manner that strikes a balance between its security and economic interests.

Despite this, all current field data indicate that the impact of this round of conflict on the phenomenon of Palestinian laborers in Israel will extend beyond the period of hostilities. The Occupying Power will reconsider its position with regard to this issue, and perhaps carry out its schemes concerning the recruitment of expatriate labor as a replacement for the Palestinian labor. The public mood among Israelis will become more aggressive towards the employment of Palestinians, and, at the same time, a fewer number of Palestinians will head to their work should they feel a real threat to their lives.

This requires urgent interventions in order to mitigate the impending economic crisis. It is difficult to know today the fate of 160,000 - 200,000 Palestinian laborers who used to work in Israel or in the settlements. However, the Palestinian government, policymakers, and all relevant institutions have to ponder temporary solutions and other strategic solutions to employ those laborers in the local economy or mitigate the social repercussions that would accompany their stoppage from work.

This Brief presented the potential adverse effects of the stoppage of labor on the thwarting of aggregate demand, the major components of national incomes, the decline in revenues, and the rising unemployment rates. This will reflect upon Palestinian households in terms of their spending ability, as well as upon the economic activity of companies and the government's spending ability. These findings indicate that there is an urgent need for international aid to prevent the collapse of the Palestinian economy, and it is necessary to search for income sources and alternative jobs for the laborers who have lost their sources of livelihood, and, in some cases, to rehabilitate them in the service of the local economy.

This, in turn, requires serious focus on providing support to the agriculture and industry sectors in order to provide sources of livelihood for tens of thousands of Palestinians and compensate for imports that come with high costs for the future economy. It is important to draw on the Israeli experience and scale up investment in infrastructure as well as in affordable housing in order to absorb laborers in the building sector and alleviate the social impacts of the crisis. Supporting these sectors does not mean devising plans and strategies that are disconnected from reality and challenges and unworkable, but rather searching for the optimal and most affordable ways to reinforce Palestinians' attachment to their land and villages, within the available resources and sources, and within the framework of a realistic economic and social vision that primarily depends on Palestinian resources.

Finally, it should be stressed that the PA's ability to confront the repercussions of this crisis is very limited, not only because it does not have the financial resources or capacity to do that. Moreover, continuing to fulfill the PA administrative responsibilities has become more dependent on the occupation's decisions as well as on the extent of the donor countries' willingness to provide aid to it, at a time when the war-stricken Gaza Strip needs all of the available resources and more. What makes the situation more difficult is the uncertainty over the clearance revenues withholding/deducting by Israel. Even if they are transferred, the analysis indicates that there will be a decline in clearance revenues as well as in the local revenues as a result of the contraction of demand under the current circumstances, and, thus, a decrease in the PA financial capability. Nevertheless, increasing government consumption expenditure, particularly the social transfers to the poor and marginalized households, has become essential to reducing the depletion of the gross domestic product and assisting the groups suffering the most from the crisis.

Annex

Table 1: The major national income variables in Palestine for the years 1999 and 2001 in USD million (fixed rates 2015)

Variable	1999	2001	Percentage of change
Gross domestic product	**7,784.4**	**6,455.6**	**-17.1%**
Net income from abroad	1,607.7	732.7	-54.4%
Net laborers' compensations	1,509.2	448.0	-70.3%
Net property income	87.6	229.9	162.4%
Gross domestic income	**9,392.1**	**7,188.4**	**-23.5%**
Net outward remittances	636.7	1,552.5	143.8%
Gross disposable income	**10,028.8**	**8,740.9**	**-12.8%**
Final consumption	8,796.3	8,028.8	-8.7%
Saving	1,232.5	712.1	-42.2%

Table 2: The gross domestic product and expenditure on GDP in Palestine for the years 1999 and 2001 in USD million (fixed rates 2015)

End-use	1999	2001	Percentage of change
Final consumption expenditure	**8,796.3**	**8,028.8**	**-8.7%**
Final household consumption expenditure	6,895.5	6,020.9	-12.7%
Final government consumption expenditure	1,595.0	1,722.3	8.0%
Final consumption expenditure for non-profit institutions serving households (NPISHs)	316.6	288.3	-8.9%
Gross capital formation	**3,239.1**	**1,790.1**	**-44.7%**
Gross fixed capital formation	2,896.5	1,701.0	-41.3%
- Buildings	2,146.1	1,131.4	-47.3%
- Non-buildings	704.3	512.1	-27.3%
Change in inventory	190.7	26.1	-86.3%
Net exports of goods and services	**-4,323.5**	**-3,474.0**	**-19.6%**
Exports	1,170.6	919.2	-21.5%
Imports	5,459.2	4,364.2	-20.1%
Net errors and omissions	32.0	76.9	140.2%
Gross domestic product	**7,784.4**	**6,455.6**	**-17.1%**

Table 3: Possible instantaneous changes in the major national income items compared to 2022 for the various decline rates in the compensations of laborers in Israel from what they reached in 2022 in light of the previous hypotheses and analysis

Volume of the decrease in laborers' compensations	20.0%	40.0%	60.0%	80.0%	100%
Change in the gross domestic product	-2.2%	-4.4%	-6.6%	-8.8%	-11.0%
Change in the gross national income	-4.9%	-9.7%	-14.6%	-19.4%	-24.3%
Change in the gross national disposable income	-4.4%	-8.8%	-13.1%	-17.5%	-21.9%

Table 4: Possible changes in the major national income items compared to 2022 for the various decline rates in the compensations of laborers in Israel after taking the rebound effects on the economy in account and in light of the aforementioned hypothesis

Volume of the decrease in laborers' compensations	20.0%	40.0%	60.0%	80.0%	100.0%
Change in the gross domestic product	-10.9%	-15.4%	-19.9%	-24.5%	-29.0%
Change in the gross national income	-12.2%	-19.0%	-25.8%	-32.7%	-39.5%
Change in the gross national disposable income	-11.0%	-17.1%	-23.3%	-29.4%	-35.6%

Table 5: The major clearance revenues items in ILS million and as a percentage of the total clearance revenues as well as of the Palestinian Authority's total net revenues, 2022

Item	Value (in ILS million)	As a percentage of clearance revenues	As a percentage of total net revenues
Customs	5151.9	44.8%	31.8%
Value-added tax	2795.2	24.3%	17.2%
Fuel tax	3364.5	29.3%	20.7%

Source: The researcher's calculations in addition to the Palestinian Ministry of Finance and Planning's data

Table 6: Possible unemployment rates by region for the various percentages of decline in the number of West Bank laborers in Israel compared to 2022 in light of the aforementioned hypotheses and analysis included in the text*

Percentage of the decline in the number of West Bank laborers in Israel	20.0%	40.0%	60.0%	80.0%	100.0%
West Bank*	22.8%	26.7%	30.6%	34.5%	38.4%
Gaza Strip**	79.1%	79.1%	79.1%	79.1%	79.1%
Palestine	42.4%	45.0%	47.5%	50.1%	52.7%

* Assuming that the number of private sector employees in the West Bank will fall by 10% as a result of the economic downturn while maintaining the same level of participation in the labor force (i.e. their transition to unemployment but not out of the labor market)

** Assuming that the number of laborers in the West Bank will fall by 61% as a result of the war on the Gaza Strip while maintaining the same level of participation in the labor force.