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PALESTINE ECONOMIC POLICY
RESEARCH INSTITUTE - MAS

Palestine Economic Update

December 2023

Key Developments

- Ongoing third month of war with intensified Israeli attacks, destruction, and humanitarian crisis.
- Pledges cover 50% of the \$1.2 billion Flash Appeal; critical funding gaps persist, notably in health and nutrition, shelter, and WASH.
- Most water systems need repair, 70% of households use contaminated water, and diseases are rising.
- Gaza's food system is on the brink of collapse; 100% reported food insecurity, severe hunger levels, scarcity, rising prices, and essential items disappearing.
- Projections downgrade 2023 Palestinian economic growth rates from 3.2% to a contraction of 3.7%; \$1.5 billion GDP loss; fiscal crisis threatens basic functions.
- Economic collapse looming in the West Bank with 29% of establishments closed, sales sharply declining, and significant workforce reductions.
- PNA and Gol reached an agreement on clearance revenues, subsequently repudiated by Israeli Minister of Finance - yet deductions continue, local tax revenues are declining, and the fiscal deficit is projected at \$887M, leading to further accumulation of arrears.

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1. Situation Update

In the ongoing third month of war, the Gaza Strip faces intensified Israeli attacks, widespread destruction, and a dire humanitarian crisis. Despite a brief 7-day pause, the past month witnessed the obliteration of neighbourhoods, increased displacement, and warnings of famine, with catastrophic levels of acute food insecurity affecting over a quarter of households.¹ The West Bank, especially refugee camps, also experienced intensified assaults, including daily raids, arrests, killings, and infrastructural damages. The bleak reality persists with limited prospects for ending the aggression.

1.1 Fatalities

As of December 18, the Gaza Strip fatality toll reached 19,453, including 5,153 women and 7,729 children, with over 52,000 injuries and approximately 7,600 Palestinians missing under rubble.² In the West Bank, 291 Palestinians, including 75 children, were killed by Israeli forces and/or settlers between October 7 and December 18.³ Before October 7, 200 people (including 42 children) had been killed by Israeli settlers and military, already making it the deadliest year since 2005. Since October 7, there have been 347 recorded Israeli settler attacks in the West Bank, averaging 35 attacks per week, resulting in casualties and property damage.

1.2 Destruction and Displacement

Since last reported on November 22, satellite imagery showcases destruction to an additional 27,300-31,900 buildings, bringing the total number of damaged or destroyed buildings to 95K to 120K by 11 December.⁴ In the northern half, an estimated 61.1% to 72.9% of buildings have likely sustained damage, constituting

about 65.4% to 68.8% of all damage across the Strip. As of 18 December, over 60% of Gaza's housing units were reportedly destroyed (52.5K) or damaged (254K).⁵ This is in addition to 352 damaged educational facilities, 11 destroyed bakeries, 102 damaged ambulances and 22 hospitals and 52 health care centres forced out of service.

By December 18, 1.8 million people, or 85% of the Gaza Strip population, were internally displaced persons (IDPs), grappling with severe humanitarian conditions, overcrowding and rising spread of communicable diseases. The situation is especially alarming for vulnerable groups, including nearly one million displaced women and girls and 50,000 pregnant women.⁶ In the West Bank, 3,326 people have been displaced by Israeli forces and settlers since the beginning of this year, including 1,992 displaced since October 7, 1,027 of whom are children.⁷ As of 18 December, 69 residential structures were destroyed during Israeli operations across the West Bank.

1.3 Water, Sanitation, and Hygiene (WASH)

Concerns rise over disease outbreaks and dehydration due to dire sanitary and water conditions. Approximately 55% of water systems urgently need repair or are inoperable due to fuel shortages, with only 35% of the required fuel available.⁸ This results in a sharp decrease in water availability, with about 70% of people resorting to desalinated and contaminated water, increasing the risk of waterborne diseases.⁹ Cases of scabies, lice, chickenpox, and diarrhoea in children under five are ten times

1 <https://reliefweb.int/report/>

2 <https://www.ochaopt.org/content/hostilities-gaza-strip>

3 <https://www.ochaopt.org/content/hostilities-gaza-strip-and-israel-flash-update-72>

4 <https://www.conflict-damage.org/>

5 <https://www.ochaopt.org/content/hostilities-gaza-strip>

6 <https://bit.ly/3RU7F3Z>

7 <https://www.ochaopt.org/content/hostilities-gaza-strip>

8 <https://bit.ly/3S55VW1> and <https://bit.ly/3TIBkyJ>

9 <https://www.ohchr.org/en/press-releases/2023/11/>

the pre-aggression monthly average, raising the risk of death by disease.¹⁰ Dehydration risks are also increasing, with a 92% drop in water consumption to only 1-3 litres per person per day, about one-tenth of the basic survival-level water requirement.¹¹ The WHO warned that the near-total collapse of the healthcare, water and sanitation system means more people could die from the disease than from Israeli attacks.¹²

1.4 Humanitarian Response

Growing concerns about hunger and disease emphasise the urgent necessity to enhance ongoing humanitarian efforts. As of December 22, pledges for the 2023 Flash Appeal for the Occupied Palestinian Territory have reached 50% of the required \$1.2 billion, marking significant progress from our previous report on November 28 (21%).¹³ However, critical funding gaps persist, notably in health and nutrition (76% unmet), shelter and non-food items (79%), and water, sanitation, and hygiene (83%). UN officials expressed concern that the 7-day humanitarian pause fell short of meeting desperate aid needs.¹⁴ Local authorities assert that 1,000 trucks per day are needed for recovery. Aid distribution, initially halted on December 5, resumed with 100 daily trucks carrying humanitarian supplies, severely impairing the UN agencies' ability to provide aid.¹⁵ Movement restrictions and continuous bombardment have further impeded aid distribution.¹⁶ On December 17, Kerem Shalom Crossing between Israel and Gaza opened for the first time in two months, permitting 79 aid trucks on the first day and possibly increasing the number of aid trucks that can enter Gaza on a daily basis.

10 <https://bit.ly/3Rz7CJF> and <https://bit.ly/3RzsFfg>

11 https://www.pcbs.gov.ps/portals/_pcbs/PressRelease/

12 <https://bit.ly/3RzsFfg>

13 <https://bit.ly/3TDOrB5>

14 <https://www.ochaopt.org/content/hostilities-gaza>

15 <https://bit.ly/41EogMK>

16 <https://www.unocha.org/publications/report/>

2. From Food Insecurity to Mass Starvation

The Gaza Strip's food system teeters on the brink of total collapse, and warnings from local and international entities emphasise the imminent threat of starvation if current conditions persist. The ongoing aggression has worsened an already severe food crisis, affecting 64% of households before the current war, with the situation now reported as 100% food insecurity.¹⁷

During the first half of December, a remote food security assessment by the World Food Programme (WFP) revealed severe hunger levels in over half (56%) of households in the southern Gaza Strip.¹⁸ The vast majority of internally displaced persons (IDP) households reported inadequate food consumption (93%), lacking daily staples, vegetables, fruits, and protein-rich foods like meat and dairy. Additionally, the vast majority (96%) resorted to extreme consumption-based coping strategies, such as reducing portion sizes, limiting daily meals or limiting adult consumption to prioritise children's access to food to address food shortages. Although a representative assessment in northern Gaza was not feasible, numerous media and personal testimonies and previous assessments suggest an even more dire situation. Factors like bombardment of agricultural lands, access restrictions and limited influx of humanitarian aid exacerbate catastrophic food insecurity.¹⁹

Coupled with scarcity and the depletion of many essential items in the Gaza Strip, prices are estimated to have spiked by 18% in November compared to October 2023 (628.8% on an annual basis).²⁰ This adds to a 12% increase in October compared to

17 <https://bit.ly/3RDUFhO>

18 <https://bit.ly/3TE79IW>

19 https://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_AggresAgriculturalSector2023E.pdf

20 https://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_Ar_CPI112023A.pdf

September 2023. Gazans' already weak purchasing power dropped by 25% in October and November. Critical commodities like milk, dairy products, fresh fruits, vegetables, water, soft drinks, and more have vanished from markets. Essential items such as flour, canned goods, oils, salt, sugar, rice, legumes, eggs, meat, medicines, baby food, health supplies and fuel are severely scarce despite soaring prices. Around 15% of households have no access to any type of cooking fuel, and 13% of IDPs are burning solid waste as their primary source of cooking fuel, exposing themselves to health risks.²¹

As of December 22, 77% of the 2023 Flash Appeal for food security (\$303.8M) has been met.²² Yet, only 24% of the funding needed for the health and nutrition cluster (\$227.5M) has been met thus far. Even when counting the increased food assistance and funds raised, only 10% of necessary food supplies have been entering the Gaza Strip, making it insufficient to prevent a hunger crisis on a mass scale.²³

3. Deepening Economic Crisis

The Palestinian economy, already suffering from a deepening fiscal crisis, is now grappling with unprecedented economic destruction from the offensive on the Gaza Strip and Israeli measures in the West Bank. This crisis follows a moderate recovery from the COVID-19-induced recession in 2022, struggling to achieve pre-pandemic GDP levels.²⁴ The World Bank's November report on the Palestinian economy confirms lasting effects on both Gaza and the West Bank. Projections for 2023 have downgraded pre-offensive growth rates from 3.2% to a contraction of 3.7%, resulting in a devastating loss of \$1.5 billion in nominal GDP for 2023.²⁵

21 <https://bit.ly/3TEIAeY>

22 <https://bit.ly/3TDOrB5>

23 <https://www.wfp.org/news/gaza-faces-widespread-hunger-food-systems-collapse-warns-wfp>

24 <https://www.pCBS.gov.ps/Downloads/book2662.pdf>

25 <https://bit.ly/47aFh2c>

Such loss would push the poverty rate beyond the peak of 26.5% during COVID-19. Quarterly estimates show a disruption to all semblance of normal economic activity in Q3 2023, leaving 11.3% of the population in need of basic sustenance and endangering at least 17.4% of Palestinian GDP. Furthermore, economic relations across the Green Line faced severe disruptions, embodied in a near-total halt in movement between Israel's interior, East Jerusalem and the West Bank. This has caused estimated direct economic losses of NIS 850-930M over two months, accounting for about 2% of the West Bank's GDP for 2022 and impacting sectors such as shopping, services, and real estate activities.²⁶

3.1 Production and Employment

On December 5, the Ministry of National Economy (MoNE) reported a deepening economic collapse in the West Bank.²⁷ Since the start of the Gaza offensive, 29% of the 1,102 surveyed economic establishments in the West Bank closed completely or partially, and 7.2% faced assaults by Israeli forces or settlers, causing damage. Sales sharply declined for most businesses, with 94.2% reporting an average 54.6% drop. The consumer discretionary sector saw the largest decrease, with 94.5% of service establishments reporting a decrease in monthly revenues. The most affected service activities include hotels, restaurants, vehicle rental services, travel and tourism agencies, transportation, and vehicle maintenance.

About 84.6% of industrial establishments reported a drop in production compared to pre-offensive levels, averaging a 43.5% drop. Another survey by the MoNE showed that 58 out of 80 large factories, 66% of which were engaged in export activity, had to either reduce their output or half operations.²⁸

26 https://mas.ps/cached_uploads/download/2023/12/06/gaza

27 <https://bit.ly/47dB5ys>

28 <https://bit.ly/3H2edqZ>

56% of the factories cited difficulties in their employees' ability to reach work locations due to restrictive Israeli measures. The industrial production index saw a 25.1% drop in the in October 2023.²⁹

Workforce reductions were significant, with 41.5% reporting layoffs and a 61.8% average drop in employee numbers.³⁰ Additionally, 57.1% of businesses reduced monthly working days post-offensive and 43.2% reduced daily working hours. The services sector saw the highest workforce reduction (66.2%), followed by industry (49.7%) and commerce (27.5%). Hebron governorate was the hardest hit, with 79% of businesses reporting workforce declines.

3.2 Market Access

During the first month of the offensive, the MoNE surveyed 80 major producers and 51 importers in the West Bank, focusing on sectors crucial for food security. In the food sector, 60% of essential item importers faced disruptions due to increased security checks and issues at Israeli ports, leading to a 15% rise in transport costs, a 22% increase in storage fees, and a 57% jump in insurance rates.³¹ Additionally, 62% of export-engaged producers (33 out of 53 producers) encountered obstacles, including crossing closures, limited operating hours, higher transportation costs, and payment collection issues from Israeli companies. Concerning local distribution, 85% of establishments faced hurdles due to movement restrictions, settler attacks, and military incursions. Half of these establishments ceased distribution in East Jerusalem. These suffocating movement restrictions persist a month after the report's release.

3.4 Public Finance

On December 18, the Palestinian National Authority (PNA) and the Israeli Government (Gol) reportedly reached an agreement regarding the transfer of clearance revenues that Gol collects on behalf of the PNA.³² This followed the PNA's refusal to receive the funds for over a month after Gol decided to deduct further funds - the transfers to Gaza for former PNA salaried staff who lost their positions when Hamas took over in 2006, and pensioners. Under the new US-brokered arrangement, Israel was to "verify" the names of salary recipients on behalf of the PNA in the Gaza Strip. However, the extremist Israeli Minister of Finance Bezalel Smotrich has so far succeeded in blocking this arrangement, insisting that no funds will be transferred to the PNA under any circumstances, noting "I want to say as clearly as possible, it will never happen... as long as I am finance minister of the State of Israel."³³

Between 2019 and 2022, Israel has retained approximately \$630M from the PNA clearance revenues, which equates to about 4% of the Palestinian GDP in 2022.³⁴ In the first three quarters of 2023, the Israeli Government (Gol) withheld ILS 770M (\$211.5M) or 8.5% of the PNA clearance revenues, equivalent to stipends paid to the families of those killed or imprisoned by Israeli forces.³⁵ This is on top of ILS 1.5 billion (\$412M) in "net lending", unilateral deductions for Israeli utilities provided to PA consumers, and other deductions

Lacking options to compensate for these revenue losses, the PNA has been paying partial salaries and arrears to suppliers (i.e. for public spending on goods and services) since November 2021, inflating the systematic

29 <https://www.pcbs.gov.ps/postar>.

30 <https://bit.ly/47dB5ys>

31 <https://bit.ly/3H2edqZ>

32 <https://www.maannews.net/news/2108284.html>

33 <https://www.timesofisrael.com/>

34 <https://www.elibrary.imf.org/downloadpdf/>

35 <https://www.pmf.ps/documents/accounts/f>

risk to the financial system.³⁶ To maintain minimum liquidity, the PNA has been able to date to resort to covering only 50% of October 2023 salaries as advances funded by local banks, totalling ILS 468M for 243,000 public sector employees and retirees.

Recent shocks are expected to widen the fiscal gap, projecting a \$887M fiscal deficit (before aid) and a \$580M financing gap in 2023, equivalent to 3.2% of GDP.³⁷ The downturn is driven by a decline in domestic revenues due to slow economic activity and ongoing deductions from ongoing clearance revenue. The World Bank foresees a 13% contraction in total government revenues (excluding grants) compared to pre-war estimates for 2023.

3.5 Limited Policy Options

The PNA lacks traditional fiscal tools due to constrained policy space, depleted resources, limited borrowing capacity, and minimal reserves.³⁸ The ongoing PNA fiscal crisis poses a threat to basic functions, let alone implementing policies aimed at mitigating the economic fallout. Relying on international aid and accumulating arrears, projections indicate a concerning trend in the coming months that would deprive the private sector and the public pension fund of vital resources. Total arrears are expected to increase by two percentage points beyond initial predictions, reaching 37% of GDP by the end of 2023.³⁹

Development aid and minimal policy tools emerge as essential buffers amid ongoing crises, providing temporary relief while awaiting clarity on future conditions. Recent initiatives from the Palestinian Monetary Authority (PMA) include directives allowing

current borrowers options like instalment deferment and debt restructuring, along with emergency commercial loans for working capital.⁴⁰ On 29 November, the PMA launched the Estidama+ fund with ILS 500M, offering low-interest loans (5%) to conflict-affected small and medium businesses, succeeding the 2020 fund for COVID-19 relief that granted \$159M in facilities to about 3000 projects.⁴¹

Current challenges worsen existing structural weaknesses tied to the occupation and political impasse, limiting economic growth and fiscal stability.⁴² Addressing issues like restricted access to resources and control over territories, especially Area C, could significantly enhance the economy. Allowing Palestinian businesses in Area C and easing trade restrictions might increase the annual growth rate by up to 4 percentage points — an impactful boost for long-term economic growth.⁴³

4. October Stock Market Performance

Continuing last month's trend, the Al-Quds index reached 580.5 points on the last day of trading in November 2023, declining by 2.9%.⁴⁴ This month, the investment index witnessed the largest drop, -4.7%, followed by the banking and financial services index, -3.0%. Despite the looming economic downturn, stock trading activity improved from last month's weak base; 23.6 million shares with a total value of \$28.4 million were traded during November, marking a 100.6% increase in the number and a 27.8% increase in the value of traded shares compared to October 2023.

36 <https://bit.ly/47aFh2c>

37 Ibid

38 <https://unctad.org/news/>

39 <https://bit.ly/47aFh2c>

40 <https://bit.ly/3v4GR8f>

41 <https://www.wafa.ps/Pages/Details/85404>

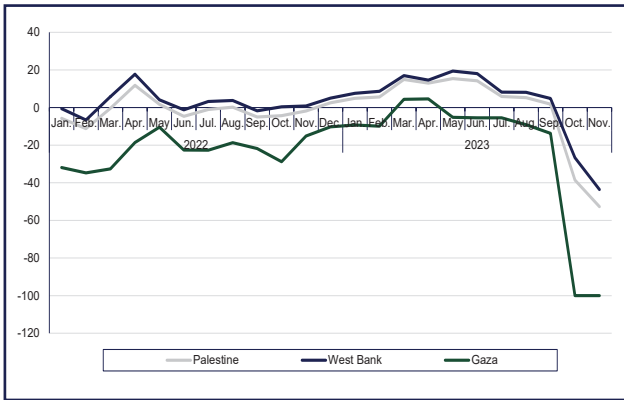
42 <https://www.elibrary.imf.org/>

43 <https://bit.ly/3GVTeGt>

44 <https://bit.ly/3OP1xY1>

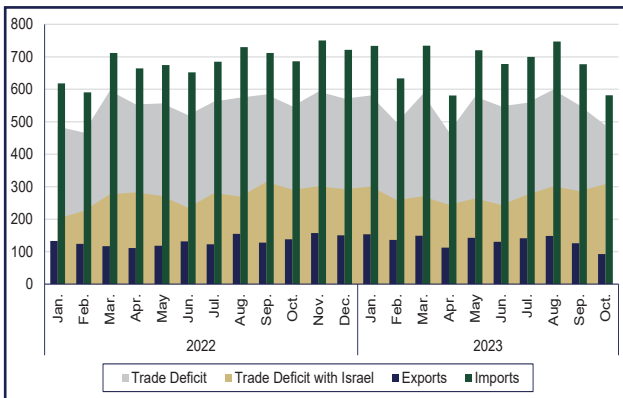
PMA Business Cycle Index

Monthly Palestine Monetary Authority Business Cycle Index, January 2022 - October 2023



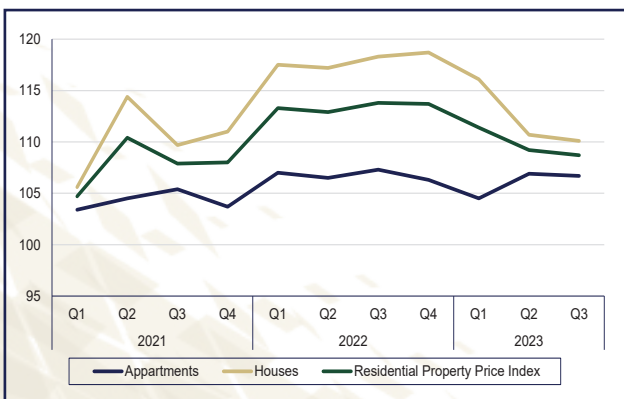
Trade

Monthly Export, Imports, Trade Deficit and Trade Deficit with Israel in Palestine, January 2022 - September 2023



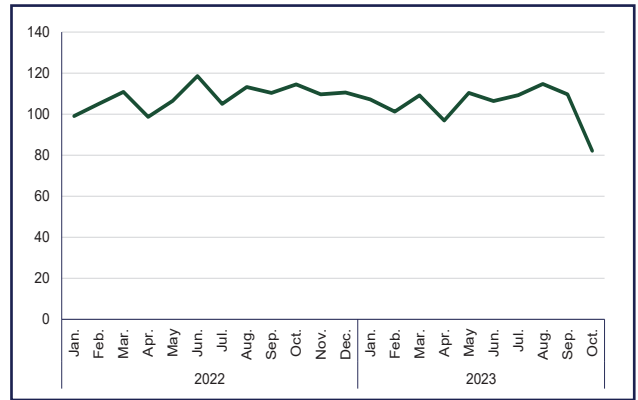
Residential Property Price Index

Residential Property Price Index (Base year = 2018) in Palestine by Type, Q1 2021 – Q3 2023



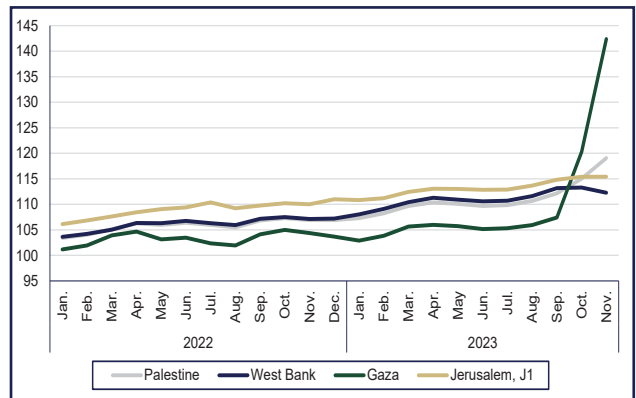
Industrial Production Index

Monthly Industrial Production Index (Base year = 2019) in Palestine, January 2022 – October 2023



Inflation

Monthly Consumer Price Index (Base year = 2018) in Palestine by Region, January 2022 – October 2023



Stock Market Index

Al-Quds Index Monthly Closing, January 2022 - October 2023

