



MAS

PALESTINE ECONOMIC POLICY
RESEARCH INSTITUTE - MAS

Palestine Economic Update

February 2024

Key Developments

- The concentration of displaced persons in Rafah, with threats of invasion, poses a risk of magnifying the humanitarian disaster. The Gaza Strip is in famine-like conditions, with the population struggling for necessities and an increasing number of people dying every day from hunger.
- Reconstruction costs of housing units are conservatively estimated at \$15 billion, and the economic losses are projected to persist for decades.
- East Jerusalem faces economic challenges due to intensified Israeli restrictions, resulting in a downturn in trade, commerce, tourism, and transportation sectors. The city is experiencing a developmental stalemate. East Jerusalem's health and education sectors are also suffering.
- Economic devastation is unfolding in Jenin and Nablus, along with other cities across the West Bank, with challenges in industrial, commercial, and service activities and significant economic losses.
- The suspension of funds to UNRWA poses a grave threat to Palestinian refugees in Gaza and elsewhere, affecting essential services, food distribution, and healthcare, with potential shutdown warnings if funding is not restored.
- The Palestine Monetary Authority assures the resilience of the Palestinian banking system amidst the ongoing aggression on Gaza, highlighting stress tests and increased customer deposits.

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1. A Rapidly Collapsing Situation from Rafah to Jenin

As Israel continues in its fifth-month-long war on the Gaza Strip, the death toll has surged to over 29,514 since October 7, leaving approximately 70,000 people injured and displacing 1.7 million residents.¹ Hundreds of Palestinians are still being killed and wounded daily. The full human toll has yet to be known. According to recent projections by Johns Hopkins University and the London School of Hygiene and Tropical Medicine, in the absence of epidemics, 6,550 excess deaths would occur under a ceasefire scenario over the next six months, climbing to 58,260 under a status quo scenario and 74,290 under an escalation scenario.² The projections are higher for scenarios that account for the occurrence of epidemics. Meanwhile, a looming humanitarian disaster portends in the concentration of over 1.5 million displaced persons in the Rafah Governorate, which, with its population, now hosts about 70% of the Strip's population, subject to an imminent Israeli military campaign and forced mass displacement.³

As of February 14, between 54.2% and 66.2% of all structures in the Gaza Strip were likely damaged or destroyed, with over 65 thousand housing units obliterated and triple as many damaged.⁴ Using advanced estimation methodologies, UNCTAD reports that, from one-quarter of war, Gaza's economy suffered a 25% decline in 2023 compared to 2022, accompanied by a 26.1% drop in GDP per capita and a surge in unemployment to a staggering 79.3%.⁵ Even in the optimistic scenario of an immediate end to the aggression and prompt reconstruction, assuming GDP

growth reaches 10% annually, Gaza's GDP per capita is projected to recover only by 2028 to the 2022 level and by 2035 to the pre-blockade level of 2006. Mohammad Mustafa, the Chairman of Palestine Investment Fund (PIF), has conservatively estimated reconstruction costs for the destroyed housing units in the Gaza Strip at \$15 billion over many years.⁶

The International Monetary Fund (IMF) further underscores the severe economic repercussions on the Palestinian economy following the Israeli aggression against Gaza.⁷ Real GDP in Palestine is estimated to have plummeted by 6% in 2023, a significant deviation from the initial 2023 forecast of 3% growth. The IMF also highlights a substantial rise in inflation, exceeding 15%. These figures align closely with provisional estimates from the Palestinian Central Bureau of Statistics (PCBS), which reports an overall unemployment rate of 46%. Regarding industrial activity, the PCBS recently reported an 8% annual contraction in Palestine's Industrial Production Index (IPI) in 2023.⁸ Nevertheless, the different estimates by various sources underscore that it remains too early to understand or calculate the full cost of this catastrophe, especially as destruction and death continue unabated.

1.1 Jerusalem's Economic Struggle

On 4 January, the Palestine Economic Policy Research Institute (MAS) issued a Brief in its special series on the economic dimensions of the war, shedding light on the dire economic repercussions of the Gaza War on East Jerusalem.⁹ The Brief outlined

1 <https://www.ochaopt.org/>

2 <https://bit.ly/3uPEgiS>

3 <https://bit.ly/3SUxZKT>

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

5 <https://unctad.org/press-material/>

6 <https://www.bnews.ps/ar/node/22698>

7 <https://www.imf.org/en/Publications/REO/>

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

9 https://mas.ps/cached_uploads/

the efforts of the Israeli government to undermine the resilience of Jerusalemites, analyzing the severe restrictions imposed on the city's economic activities and vital social services. It reveals a multifaceted economic impact, exacerbating existing challenges. The city, already marginalized politically and economically due to Israeli policies aimed at eroding Palestinians' presence, has entered a developmental stalemate, increasingly integrating into the Israeli economy at the expense of its Palestinian identity and historic connections eastwards. Trade, commerce, tourism, and transportation sectors have experienced a significant downturn, leading to an estimated 80% of businesses in the Old City ceasing operations partially or completely. The tourism sector, which was projected to recover to pre-pandemic levels in 2023, has been crippled, witnessing a decline in the number of hotels and room occupancy rates. Significant financial losses, cancellations, and a shift in tourism dominance to Israeli hotels have compounded the sector's decline. The industrial and construction sectors face challenges due to restrictions on raw material transportation and entry of Palestinian labor, exacerbating unemployment and poverty among Jerusalemites. The brief projects a substantial economic loss of approximately ILS 72 million annually for the Palestinian economy, under the assumption of a 50% reduction in Jerusalem's shopping movement to the West Bank due to Israeli movement restrictions.

Israel's denial of access to hospitals in East Jerusalem for Palestinian medical and nursing staff from the rest of the West Bank is jeopardizing the hospitals' ability to provide essential services to patients. Palestinian patients with cancerous tumors and those receiving treatment in Jerusalem hospitals, like the Augusta Victoria Hospital (al-Mutala'),

are experiencing heightened suffering due to Israel's access restrictions. Control measures, including heightened security restrictions, school raids, inspections, and curriculum censorship against teachers and students, have peaked, while students detained by Israel are prevented from pursuing education in Israeli-run schools in Jerusalem. The scarcity of fiscal budgets poses a threat to Arab education, leading to higher school dropout rates or a shift towards enrollment in Israeli-run schools, reflecting a systematic approach toward cultural erasure.

1.2 Jenin and Nablus

On 25 January, MAS issued another Brief on the economic devastation unfolding in Nablus and Jenin.¹⁰ These key economic centers in the northern West Bank were examined for the economic and infrastructural damage suffered preceding and following the war on Gaza. The Brief highlights deteriorating economic conditions that have been intensifying over several years.

Jenin city, home to 55,933 people, is a vital hub for education, services, agriculture, and handicrafts. It has over 4800 economic establishments and represents 26% of Palestine's cultivated land. The city's proximity to the Green Line and relatively lower prices have long attracted Palestinians living in Israel, accounting for approximately 85% of the city's purchasing power. The economic situation in the city has been deteriorating rapidly in 2023, even before the war on Gaza, with strict movement restrictions and continuous military raids.

The city's industrial, commercial, and service activities were dealt a significant blow in early July when Israel carried out its largest-scale military operation in the West Bank in

¹⁰ https://mas.ps/cached_uploads/download/2024/01/25

nearly two decades, involving both air and ground forces. The cost of reconstruction of buildings and basic infrastructure following this military operation was estimated at around \$19m.¹¹ Following the war on Gaza, Israel has intensified its military operation and movement restrictions, compounding the city's economic losses. In November, most economic establishments in the city (91%) reported a drop in productive capacity, 95.8% reported a drop in sales, and 5.9% reported direct damage to their assets. The sales of basic goods have dropped by 65%.

Nablus, with a population of 156,156, has faced severe economic setbacks since the war's onset.¹² Stringent Israeli control measures, including barriers and checkpoints, concentrated in the critical Huwwara suburb along the main north-south artery, have hampered transportation, negatively affecting all of Nablus's 9,568 economic establishments. This has been compounded by continuous military sieges and incursions by Israeli forces and settlers, causing substantial losses. Nablus has seen a 90% decrease in purchasing power, with 96.4% of establishments reporting a decline in monthly sales, with an average decline of 57.3%. About 8% of businesses have reported direct property damage.

1.3 A Sharp Rise in Prices

In January 2024, PCBS reported a 3.27% CPI increase in Palestine.¹³ Gaza experienced an 11.41% increase, while Jerusalem and the West Bank saw modest upticks of 0.26% and 0.15%, respectively. Substantial hikes in specific food items fueled the rise in living costs. Year-on-year, Palestine's CPI increased by 19% compared to January 2023, with a 71.70% increase in Gaza, 5.50% in the West Bank, and 4.38% in Jerusalem. Gaza

¹¹ <https://wafa.ps/Pages/Details/74632>

¹² https://mas.ps/cached_uploads/download/2024/01/25

¹³ <https://pcbs.gov.ps/postar.aspx?g>

faced a cumulative 66% increase in living costs since October 2023, with substantial price hikes in essential goods. Purchasing power in Gaza plummeted by 40% over the same period.

Black markets and reports of famine-like conditions underscore a dire humanitarian crisis in the Gaza Strip.¹⁴ The struggle for necessities intensifies due to limited resources and the looting of aid trucks, reflecting acts of desperation driven by acute hunger and scarcity of food supplies.¹⁵ Some 400,000 north Gaza residents still sheltering there are especially pressured. Basic family meals now exceed \$50 in a place with a GDP per capita of less than \$1500.¹⁶ Somalia-like conditions are increasingly manifested in Gaza, according to U.S. officials.¹⁷

2. Defunding UNRWA

In the wake of an ongoing Israeli delegitimization campaign, as of 1 February, sixteen countries had announced halting their financial support to UNRWA, the primary humanitarian agency in Gaza. This followed allegations made by Israel that 12 of the agency's 13,000 Gaza employees were involved in Hamas's attack on 7 October.¹⁸ UNRWA immediately terminated the contracts of the accused staff members (two of whom were dead), even before initiating an independent external investigation. The suspended funds amount to \$440m, about half of the agency's core budget for 2024.¹⁹ UNRWA has warned that it may be obliged to shut down operations in the Gaza Strip unless funding is restored by the end of February. Other spheres of operations would soon face funding pressures. This

¹⁴ <https://bit.ly/3OYn8OL>

¹⁵ <https://bit.ly/3SWTNoW>; <https://www.ft.com/content/>

¹⁶ <https://islamic-relief.org/news/sky-high-food-prices>

¹⁷ <https://www.axios.com/2024/02/24/gaza-humanitarian-aid-israel-hamas-police-biden>

¹⁸ <https://bit.ly/3SX9EUy>

¹⁹ <https://www.unrwa.org/newsroom/official-statements/>

would significantly aggravate the ongoing dramatic humanitarian crisis in the Gaza Strip and of millions of Palestine refugees around the region.

2.1 A Threat to Palestinian Refugees

The looming collapse of UNRWA poses a grave threat to 1.7 million Palestinian refugees and an additional 400,000 Palestinians without refugee status who rely on its infrastructure in the Gaza Strip.²⁰ UNRWA plays a vital role in supplying food, medicine, and water to 1.1 million people grappling with severe hunger and disease in Gaza, making the suspension of funds a risk to essential service provision.²¹ Since the start of the war, UNRWA has distributed flour to 370,317 families outside shelters.²² It currently offers shelter to approximately one million displaced Palestinians in 154 facilities and provides 23,000 medical consultations daily. The war on Gaza has resulted in the tragic loss of 158 UNRWA employees, with 153 UNRWA premises affected by Israeli bombardment or shelling. Only seven of UNRWA's 23 healthcare centers in the Gaza Strip remain operational, underscoring the urgent need for sustained support to maintain critical humanitarian services.

UNRWA does not only provide essential services in war-torn Gaza, but it also supplies healthcare, education, and other vital services to some 5.9 million Palestine refugees in the West Bank Jordan, Lebanon, and Syria. It employs nearly 30,000 individuals, predominantly teachers, doctors, and nurses, contributing to education, healthcare, and social protection. In 2022, UNRWA facilitated education for 543,075 children, provided food assistance to 1.8 million people, offered social protection services to 325,180 vulnerable individuals,

²⁰ <https://bit.ly/42WxqVd>

²¹ <https://www.eeas.europa.eu/eeas/defunding-unrwa>

²² <https://bit.ly/3UTaDrq>

and recorded over 7 million annual patient visits in 140 primary healthcare facilities.²³ Before 7 October, UNRWA's operations in the Gaza Strip involved nearly 40% of its Palestinian staff and consumed 41% of its overall budget.²⁴ Its record of humanitarian service to a people denied their national rights, is unassailable, except to the most extreme elements in Israel who are advancing measures and legislation to consider UNRWA a terrorist organization.

2.2 UNRWA's Struggle for Funding

The suspension of recent funds compounds an already limited funding. In 2023, UNRWA launched an appeal for \$1.6bn for its programmes and operations.²⁵ This includes \$848m for its core activities under the Programme Budget and \$781.6m for emergency response in the West Bank and Gaza (\$344.9m), as well as Syria, Lebanon and Jordan (\$436.7m). Following the war on Gaza, UNRWA issued an additional flash appeal for \$481m to cover the most critical humanitarian needs of 1.6 million people in the Gaza Strip and 150,000 persons in the West Bank, covering the period from October to December 2023.²⁶ As of 8 November 2023, confirmed pledges covered only 24% of the flash appeal, 46% of the emergency response budget, and 80% of the core Programme Budget.

UNRWA has been grappling with a persistent financial crisis since 2021, following the previous US administration's decision to cut \$360m of its funding, despite partial funding resumed under the current Biden administration. Addressing the recent funding cuts and the growing political pressure to dismantle UNRWA, Josep Borrell, High Representative of the European Union for

²³ <https://www.unrwa.org/sites/default/files/content/>

²⁴ <https://www.unrwa.org/newsroom/official-statements/>

²⁵ https://www.unrwa.org/sites/default/files/finance_and

²⁶ <https://www.unrwa.org/resources/emergency-appeals/>

Foreign Affairs and Security Policy / Vice-President of the European Commission, noted, “UNRWA’s continued existence since it was established in 1949 is the direct consequence of the fact that the Israeli-Palestinian conflict has never been resolved UNRWA’s mission will automatically end once a sovereign Palestinian state, living peacefully side-by-side with Israel, has been established.”²⁷

3. Banking Resilience

On 28 January, the Palestine Monetary Authority (PMA) reassured the public about the resilience of the Palestinian banking system amidst the ongoing aggression on Gaza, asserting the safety of customer deposits.²⁸ PMA stress tests revealed the system’s ability to withstand economic shocks, including scenarios where half the depositors withdraw their funds.²⁹ The PMA further noted that the banking system maintains regulatory compliance with capital adequacy (13.5%) and liquidity coverage (100%) ratios.³⁰ To bolster financial stability, the PMA instructed banks in Palestine to allocate resources to address potential risks, supplementing earlier measures aimed at strengthening capital formation and enhancing risk management. According to the PMA, this has prepared the banks to absorb potential losses.

In Q4 2023, customer deposits increased by 4.9% compared to the previous quarter, reaching \$17.6bn.³¹ This signal continued trust in the banking system’s resilience and perceived safety for transferring and storing funds, among other considerations. Credit facilities increased by 5.2% during the same period, reaching \$12bn. The

significant rise can be primarily attributed to a 19.2% increase in credit facilities to the public sector, driven by a \$400 million syndicated loan extended by local banks to the Palestinian National Authority (PNA).

However, concerns arise from the banking system’s exposure to the public sector, amounting to \$2.4 billion or 20.3% of total credit facilities by the end of 2023. Together, borrowing by the PNA and public employees amounts to more than \$4bn, about a quarter of total banking-sector credits.³² This exposure becomes particularly worrisome amidst the deepening fiscal crisis of the PNA and the Israeli government’s withholding of tax revenues. As of year-end, the Loan-to-Deposit ratio stood at 68.1%, and the non-performing loan (NPL) ratio was maintained at 4.2%, reflecting a conservative lending strategy.³³ However, projections suggest a potential increase in NPL after the Gaza Strip loan moratorium concludes in April 2024, coupled with a rise in non-payment of wages for both public and private sector employees.

3.1 Exposure to the War on Gaza

The banking landscape demonstrates a limited exposure to the Gaza Strip compared to the West Bank. The Gaza Strip constitutes 10.6% of total private credit facilities and 11.6% of customer deposits within the banking system. Approximately 8% of the total assets, valued at \$22.8 billion, are in the Gaza Strip. Infrastructure-wise, the Gaza Strip is served by 57 bank branches and offices and 91 ATMs, in contrast to the West Bank’s 321 bank branches and 624 ATMs. Concerns related to Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT), along with operational risks and other factors, have led the majority of the 13 banks in the West Bank to limit their exposure to Gaza.³⁴

27 <https://www.eeas.europa.eu/eeas/defunding-unrwa>

28 <https://www.bnews.ps/ar/node/22741>

29 <https://www.aa.com.tr/ar/3124608>

30 The minimum capital adequacy ratio is 10.5% under Basel III.

31 <https://www.pma.ps/ar/Statistics/>

32 <https://bit.ly/3UX8NpK>

33 <https://bit.ly/42Si5Fm>

34 Ibid.

Initial data reveals severe damage to the banking sector in Gaza, encompassing physical assets, losses in cash stored in vaults and ATMs, and anticipated credit losses in loan portfolios. With only 6 out of 91 ATMs operational, some bank branches destroyed, and limited financial services accessible through point-of-sale (POS) systems, accessing personal funds is challenging and delayed.³⁵ The Palestinian banking system faces additional challenges, such as new procedures and complications imposed by international financial institutions on international transfers and letters of credit, adversely affecting trade activities.³⁶ These factors, coupled with the broader ramifications of the war on economic activity, are expected to impact banks' profits significantly.

3.2 Support Programmes

In addition to providing the PNA with crucial liquidity, the banking system has taken proactive steps to support individuals and businesses during the ongoing war. On January 16, Istiqlal Bank, Palestine's recently established public bank, unveiled its first program.³⁷ This initiative offers SME loans at a reduced compound interest rate of 3%, ranging from a minimum of \$50,000 to a maximum of \$1 million. These loans focus on supporting SMEs operating in developmental sectors like industry, agriculture, green economy, digital transformation, innovation, and entrepreneurship. While the ultimate role of the Bank as a source of credit possibly undercutting (higher interest rate) micro-finance institution loans remains to be seen, a MAS study in 2021 cautioned that Istiqlal should follow best public banking practices in terms of focused mandate, level of financing and scope of operations.³⁸

³⁵ <https://www.aa.com.tr/ar/3124608>

³⁶ <https://www.bnews.ps/ar/node/22814>

³⁷ <https://www.bnews.ps/ar/node/22688>

³⁸ <https://mas.ps/publications/3612.html>

Meanwhile, on February 5, the Ministry of Labor (MoL), in collaboration with the PMA, introduced a lending initiative tailored to support Palestinian workers who were expelled from Israel.³⁹ This program aims to assist unemployed workers by extending zero-interest loans, up to \$15,000, facilitating the establishment of small and medium-sized enterprises (SMEs). These efforts supplement existing programs offered by the PMA, including 'Estidama Plus,' launched in November 2023 with a fund of ILS 500 million. This initiative provides low-interest loans (5%) to SMEs affected by the war.⁴⁰

4. Stock Market Performance

The Al-Quds index decreased by 5.4% in January 2024, reaching 557.1 points on the last trading day.⁴¹ A total of 3.25M shares were traded during the month, worth \$5.95M, marking a stark decrease of 64.9% in the volume and 65.7% in the value of traded shares compared to the previous month. This continued drop in market liquidity poses yet another source of risk for Palestinian investors.

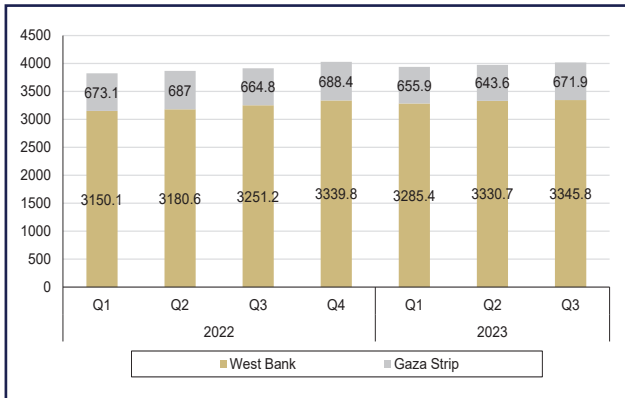
³⁹ <https://aliqtisadi.ps/ar/Article/98718/>

⁴⁰ <https://www.wafa.ps/Pages/Details/85404>

⁴¹ <https://www.pex.ps/eyJDT05UUkVTSUQOiJlb21lliwi>

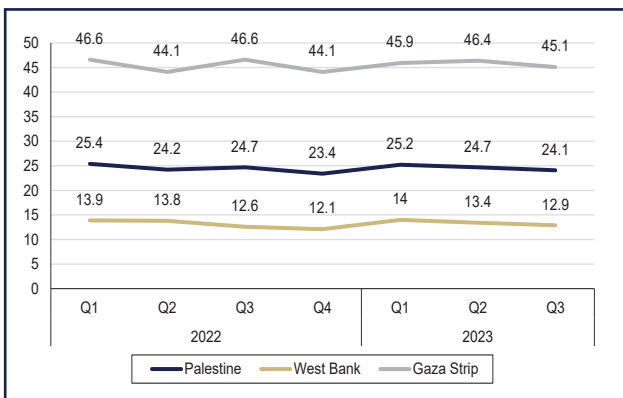
Gross Domestic Product

Quarterly Real GDP (million USD in 2015 prices) in Palestine by Region, Q1 2022 - Q3 2023



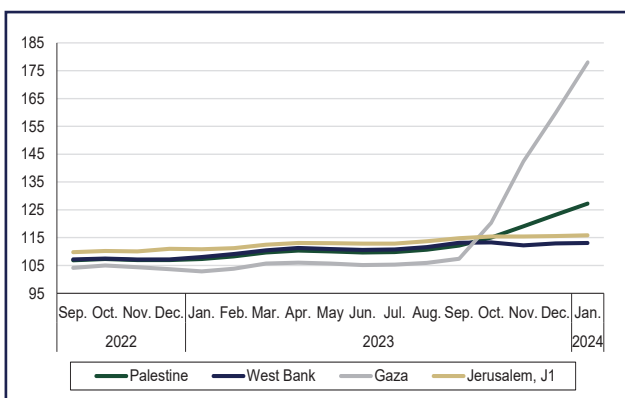
Unemployment

Quarterly Unemployment (%) in Palestine by Region, Q1 2022 - Q3 2023



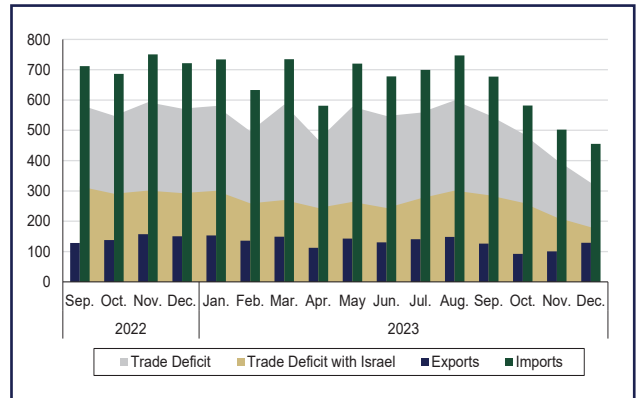
Inflation

Monthly Consumer Price Index (Base year = 2018) in Palestine by Region, September 2022 - January 2024



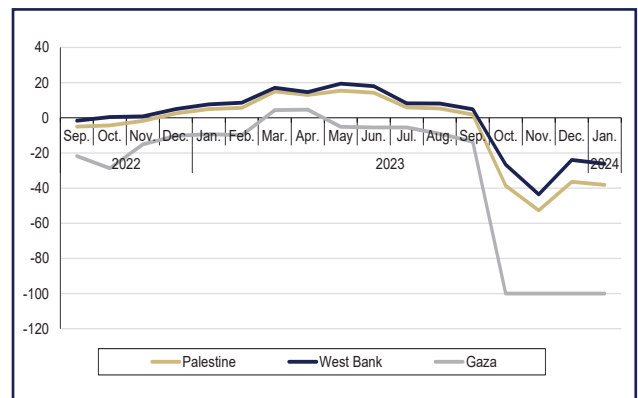
Trade

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



PMA Business Cycle Index

Monthly Palestine Monetary Authority Business Cycle Index, September 2022 - January 2024



Stock Market Index

Al-Quds Index Monthly Closing, September 2022 - January 2024

