



UNITED NATIONS
Trade and Development Board
Fifty-seventh session - Geneva, Sept. 2010

Report on UNCTAD assistance to the Palestinian people
Developments in the economy of the occupied Palestinian territory
TD/B/57/4

Presented by: Mahmoud Elkhafif
Coordinator- Assistance to the Palestinian People





2010: *Palestinian economy far from recovery*

- *The Palestinian economy held back by:*
 - *The enduring cost of Israeli military operation in Gaza*
 - *The closure policy in the West Bank*
 - *The siege of Gaza*
- *A **weakened tradable goods sector** and an **eroded productive base** are at the heart of the Palestinian development bottleneck.*
- *Rehabilitation of the Palestinian economy requires **complete removal of all Israeli restrictions** on the movement of Palestinian people and goods.*
- *Without lifting the West Bank closures and ending the blockade on Gaza, the impact of donor aid and PA development efforts will continue to be minimal.*





2010: Economic performance well below potential

- The **6.8% GDP growth** rate in 2009 should be **cautiously** viewed in the context of the low base of 2008 GDP, the continuing isolation of the Palestinian economy from regional and global markets, the more than 30% decline in per capita GDP during the preceding ten years, eroded productive base, and shrinking access to land, and natural and economic resources.
- The economy continued to perform **well below potential**:
 - **30% Unemployment** in 2009 exceeded the pre-Intifada (1999) by more than 9% (2009 Gaza unemployment is 14% above the national average).
 - **Poverty** has become a persistent and salient feature of life
 - **Food insecurity** affects 61% of the population in Gaza and 25% in the West Bank (resulting from 60% drop in agricultural output, and decline in per capita GDP over the last 10 years as well as the depletion of households' coping strategies).
- Movement restrictions on Palestinian goods and labour, and the destruction of much of the productive base, **marginalized the economic benefits of large aid and government expenditure.**



Regional disparities within oPt

- ***Modest relaxation*** in the Israeli mobility restrictions within/to/from the West Bank. However, serious restriction continue to be applied in Gaza and most parts of the West Bank.
- The well-below potential growth in 2009 should be combined with concerns over its ***sustainability***, deepening aid dependence, diminishing access to natural and economic resources and worsening regional welfare ***divergence and fragmentation*** of the West Bank, Gaza and East Jerusalem.





No signs of private sector resurgence

➤ Obstacles:

- *Movement restrictions both within the oPt and at main border crossings;*
- *Unpredictability of closure policies and the risk of introducing new restrictions unexpectedly;*
- *The Separation Barrier;*
- *Settlement activities;*
- *Loss of and limited access to land, and natural resources;*
- *Geographical and market fragmentation.*

➤ Consequences:

- *Productive sector deprived of its most vital resources ;*
- *Prohibitive transaction costs;*
- *Restructuring towards low-productivity activities;*
- *Expanding trade deficit ;*
- *Low wages in the private sector.*





Expanding trade deficit & Declining public revenues

- ***Trade deficit rose from 57% of GDP in 2008 to 59% in 2009.***
- ***Deepening trade dependence on Israel: In 2009 trade with Israel constituted $\frac{3}{4}$ of Palestinian trade; 7% larger than the \$2.4 billion of donors support transferred to the oPt in that year.***
- ***Share of domestic revenues in GDP increased by less than 1% from 4.5% in 2008 to 4.9% in 2009, reflecting an eroded productive base and a shrinking tax base.***
- ***Total PA revenues, at 24.2% of GDP, decreased by 1.5% compared to 2008.***
- ***PA spending on Gaza: \$1.4 billion in 2009, and is expected to consume half of the \$3.9 billion budgeted for 2010, exceeding expected donor budget support.***



Elusive fiscal sustainability

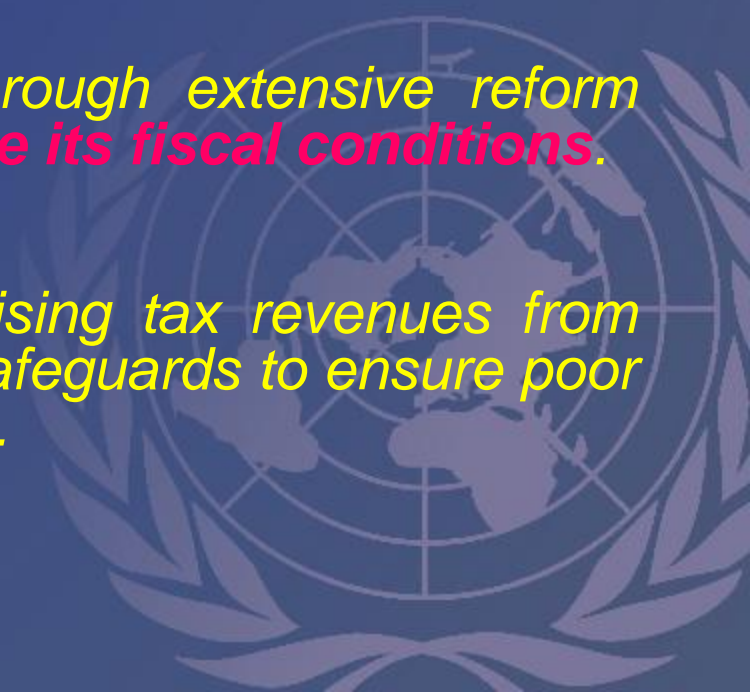
- *The rise in **non-wage expenditure**, spending on Gaza and a **shortfall in donors' support** → forced the PA to resort to short term borrowing from domestic banks → **accumulate arrears**, which will burden future budgets.*
- *The attack on Gaza and continuation of the siege → **serious decline in tax and customs revenues**.*
- *The need to respond to the deteriorating health and humanitarian situation → **drained budget and aid resources**.*





Fiscal reforms in a difficult environment

- ***The PA continued to pursue fiscal sustainability in 2009 despite the unfavourable humanitarian conditions and the private sector's inability to generate additional employment and tax revenue.***
- ***Yet, efforts to increase revenue through extensive reform measures are insufficient to improve its fiscal conditions.***
- ***The PA measures aimed at maximising tax revenues from citizens should be accompanied by safeguards to ensure poor households' access to vital resources.***





The enduring costs of closure and blockade

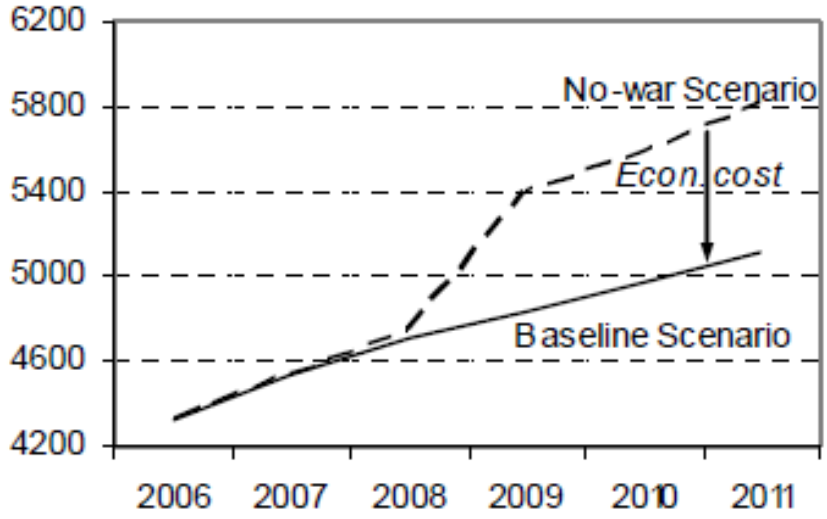
Continued blockade and closure costs the oPt economy between \$600-800 million a year in lost income, or about 13% of its GDP

- **If the Israeli blockade and closure on the oPt continue to the end of 2011, the 2008-2011 cumulative cost could reach \$2.6 billion, or 54% of the size of 2008 oPt GDP**
- **For the same reasons, between 60-80 thousand jobs per year are lost.**
- **The projected cumulative *loss in Palestinian employment* for 2008-2011 is 260 thousand jobs (40% of the number of jobs that the economy generated in 2008).**
- **Taking into account the \$1.3 billion cost of physical damages caused by the war on Gaza, the oPt's *direct and indirect economic losses* for the period 2008-2010 adds up to \$3.1 billion.**
- **Economic losses would increase to \$3.9 billion in 2011 (80% of the oPt's 2008 GDP) if Israel maintains *Gaza blockade and closure policy in the West Bank.***

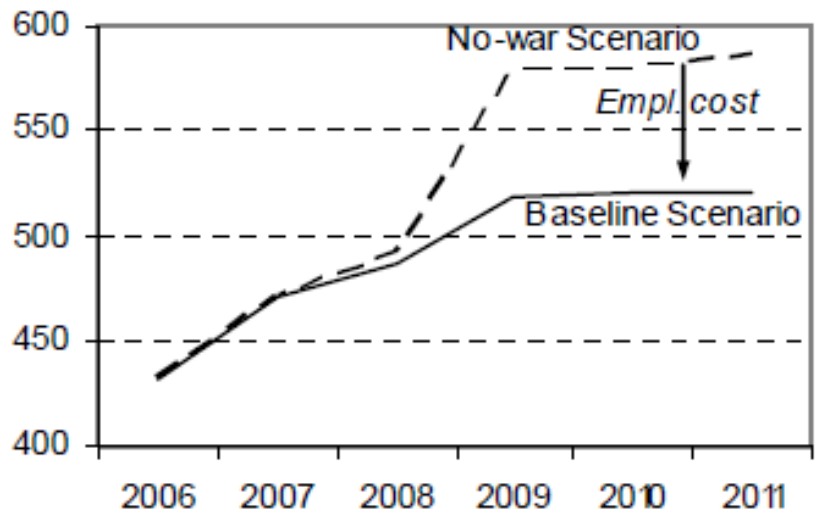


Economic and employment cost of war, blockade and closures

GDP (2004 \$ million)



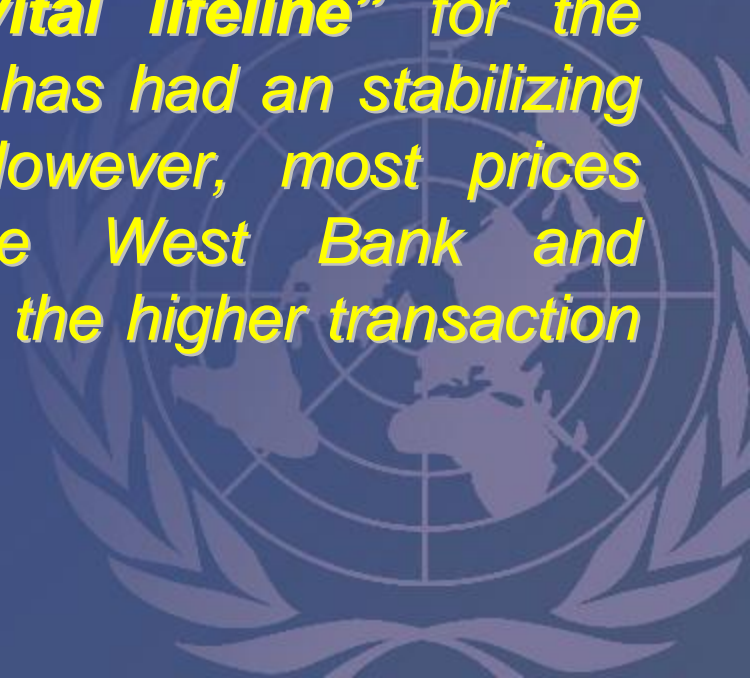
Employment (thousands)





Informal and tunnel economy in Gaza

- ***Informal importation of goods into Gaza accounted for about two-third of economic activity in Gaza.***
- ***The tunnel economy is a “vital lifeline” for the isolated economy of Gaza and has had an stabilizing effect on consumer prices. However, most prices remain above those of the West Bank and unaffordable to many, reflecting the higher transaction costs and risk levels.***





Ineffective economic rehabilitation under closure

- **Reconstruction** has not yet started; effective reconstruction is not possible without ending the blockade and lifting the closure.
- The prolonged closure continues to undermine the economy's productive base, and thus prevents the injection of funds from stimulating domestic output as it **increases imports rather than the demand for domestically produced goods**.
- Investing \$1.6 billion for reconstruction **under conditions of blockade and closure** may increase GDP by less than \$50 million on average per year during 2010-2012, which is **less than 1%** above the 'baseline scenario' (continuation of the West Bank closure, siege of Gaza and annual aid flows of \$2 billion).
- If injected under the conditions of **relaxed blockade and closures**, the \$1.6 billion construction fund could increase GDP by \$710 million or **14%** above the 'baseline scenario'.



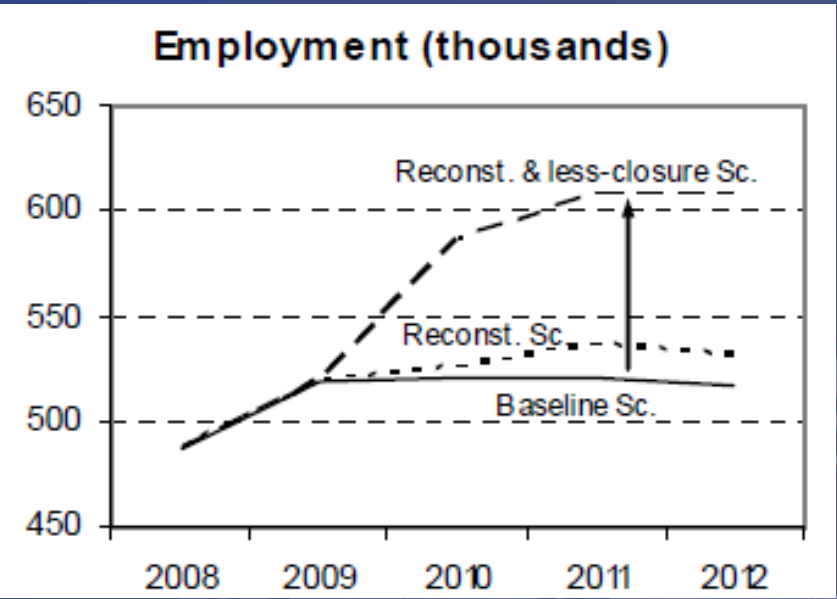
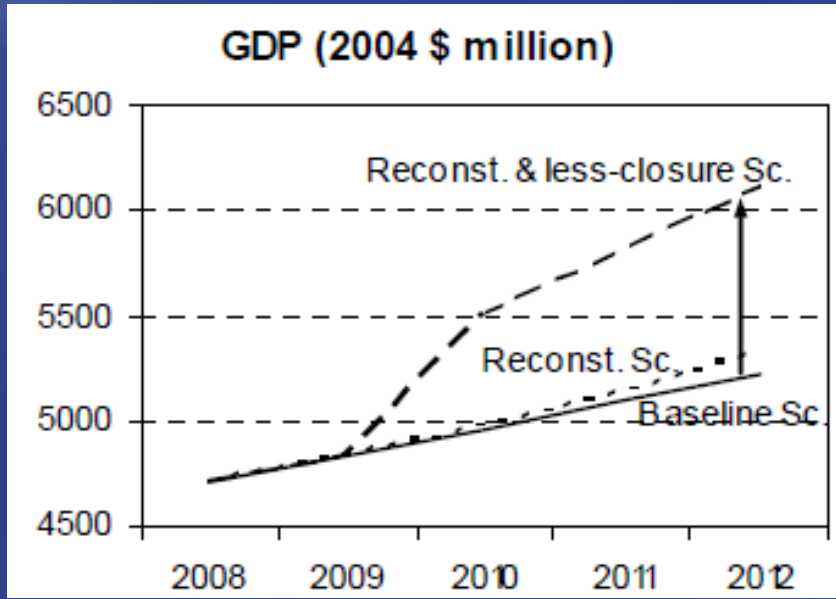


Reviving the Palestinian tradable good sector

- *Destruction of the productive base + high transaction costs + uncompetitive exchange rates as a result of using the Israeli currency → **increased share of the non-tradable goods sector in GDP** (services & construction) at the expense of the industrial and agricultural sectors.*
- *1995-2008: share of agriculture in GDP declined from 12% to a minuscule 5% while the share of industry fell from 21% to 12%. At the same time, the combined share of the non-tradable goods sector- services and construction - rose from 67% to 83%, with services accounting for all the increase.*
- ***Reviving the Palestinian tradable goods sector** requires: (i) rebuilding the eroded productive base; (ii) reducing transaction costs; and (iii) establishing a development strategy that targets promising subsectors in the agriculture and industrial sectors.*



Economic and employment impact of economic rehabilitation





UNCTAD Technical Assistance Activities

Political instability has compelled the secretariat to suspend planned technical assistance activities in the Gaza Strip.

- *ASYCUDA III: Significant achievements were consolidated in the area of trade facilitation under the ASYCUDA III project for customs modernization, currently its third and final phase. The year 2010 has seen the strengthening of the national team of experts within the PA with additional skills; the consolidation of a small community of customs experts in the private sector; and tailor-made training manuals for future use by Palestinian Customs.*
- *PSC: The Secretariat has also continued to support the Palestinian Shippers' Council efforts to launch new products to address the emerging needs of its members of importers and exporters, and the Palestinian shipping community at large.*





UNCTAD Technical Assistance Activities

- *Development Account project: UNCTAD activities in the area of trade policy registered significant progress under the Development Account project for promoting sub-regional growth-oriented economic and trade policies towards achieving MDGs 1 and 8 in the oPt and four other Arab countries. Three regional workshops were held, which resulted in concrete policy recommendations on pro-poor trade and growth strategies, harmonization of trade statistics, infrastructure and institutions to facilitate regional trade integration.*
 - *Cluster on Trade and Productive Capacity: The secretariat designed a multi-faceted proposal for a work programme to support PA renewed development efforts, within the framework of UN Chiefs Executive Board (CEB) interagency cluster on Trade and Productive Capacity. Progress to date includes the articulation of the programme's strategic objectives, inter- and intra-agency coordination mechanism and delivery modalities.*
- 



UNCTAD Technical Assistance Activities

- *However - and despite appeals to the donor community - UNCTAD remains unable to build on previous achievements under its "Strengthening Capacities in Debt Monitoring and Financial Analysis" project.*
- *Lack of funds may also force the Secretariat to suspend or delay planned activities under the "Investment Retention Programme", and "Support for small and medium enterprise development (EMPRETEC Palestine)" project.*

