Developments in the economy of the Occupied Palestinian Territory

Note by the UNCTAD secretariat* **

Summary

In 2022, the already fragile socioeconomic conditions in the Occupied Palestinian Territory deteriorated as a result of worsening political tensions and security crises that affected all regions. Restrictions on investment and the movement of Palestinian people and goods persisted, with one-sided fiscal deductions by the occupying Power and the further loss of land and natural resources to settlements. As the economy continued to operate well below potential, other persistent challenges intensified, including inflation, poverty, shrinking fiscal space, a decline in foreign aid and the build-up of public and private debt. With heightened political tensions and a long-stalled peace process, 2022 was one of the worst years for Palestinians in recent history.

In addition, as detailed in this report, the inhabitants of the Gaza Strip are confined in one of the most densely populated spaces in the world, in chronic conflict conditions, with inadequate access to clean water, without electricity for half the day and without a proper sewage system. Two thirds of the population live in poverty, with a 41 per cent probability of dropping out of the labour force and, for those who continue to seek work, there is a 45 per cent probability of being unemployed.

* The designations employed, maps and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the United Nations Secretariat concerning the legal status of any country, territory, city or area, or of its authorities, or concerning the delimitation of its frontiers or boundaries. In accordance with the relevant resolutions and decisions of the General Assembly and Security Council, references to the Occupied Palestinian Territory or territories pertain to the Gaza Strip and the West Bank, including East Jerusalem. Use of the term “Palestine” refers to the Palestine Liberation Organization, which established the Palestinian National Authority. References to the “State of Palestine” are consistent with the vision expressed in Security Council resolution 1397 (2002) and General Assembly resolution 67/19 (2012).

** This report should not be quoted by the press before 25 October 2023, 5 p.m. GMT.
I. Sluggish recovery and deepening dependency

A. Real gross domestic product still far below pre-pandemic levels

1. In 2022, the Palestinian economy continued on a weak rebound from the coronavirus disease (COVID-19) pandemic-related slump. Gross domestic product (GDP) grew by 3.9 per cent, yet the economy has yet to fully recover from the COVID-19 shock. Following the onset of the pandemic in 2020, real GDP shrank by 11.3 per cent, then grew in 2021 from a low base, by 7 per cent. However, by the end of 2022, real GDP per capita remained at 8.6 per cent below the level in 2019 (table 1 and figure 1). Data from the Palestinian Central Bureau of Statistics (PCBS) show that, as pandemic-related restrictions were lifted, GDP growth in 2022 was fuelled by a rise in private consumption and investment facilitated by an increasing number of Palestinian workers, mostly from the West Bank but, for the first time since 2004, a small number from the Gaza Strip, who were employed in Israel and settlements. In the West Bank, 3.6 per cent GDP growth in 2022 resulted in GDP per capita increasing by 0.8 per cent, yet this remained 7.6 per cent below the level in 2019. In Gaza, real GDP grew by 5.6 per cent and GDP per capita increased by 2.7 per cent, still 11.7 per cent below the level in 2019 and close to the lowest level since 1994.

Figure 1

Real gross domestic product per capita
(Constant 2015 dollars)

Source: UNCTAD calculations, based on data from PCBS.

Note: In panel (a), the dotted line represents the level in 2019 and in panel (b), the dotted horizontal lines represent the level in 2019 in the West Bank (upper line) and in Gaza (lower line).
2. PCBS data show that in 2022, unemployment fell to 24 per cent, compared with 26 per cent in 2021, and was 13 per cent in the West Bank compared with 45 per cent in Gaza. Over the years, occupation-related policies have led to greater socioeconomic disadvantages for women and made them more vulnerable. PCBS data show that women are affected disproportionately; in 2022, women’s labour force participation was at 18.6 per cent and unemployment was at 40 per cent, compared with 71 and 20 per cent, respectively, for men. Among youth, those of 15–24 and 25–34 years of age also faced significant challenges, with unemployment rates of 31 and 61 per cent, respectively.\(^1\)

3. The unemployment crisis and the poverty it entails has rendered 2.1 million Palestinians, or 40 per cent of the population, in need of humanitarian assistance in 2023, with 58 per cent of the population of Gaza and one quarter of the population of the West Bank requiring assistance. In addition, the World Food Programme notes that over one third of the population is classified as food insecure and 61 per cent, severely food insecure.\(^2\) One quarter of all households is identified as being in severe conditions, a 20 per cent increase over 2022. Households respond to the crises and dearth of opportunities through a combination of aid dependency and negative coping strategies, some of which entail long-term costs, including borrowing and reducing the quantity and quality of food, education and health care.

4. Following the COVID-19 shock, in 2022, the global economy experienced a combination of supply and demand shocks that triggered inflation, led by food and energy price hikes, which have been transmitted to the Palestinian economy given its high level of dependency on imported energy and food, with imported food accounting for two thirds of food consumed and one third of the total import bill. In the Occupied Palestinian Territory, a slight deflation in 2020 was followed by inflation of 1.2 per cent in 2021. However, the era of low inflation was interrupted in 2022, with inflation of 3.7 per cent, driven by the rise in global food and fuel prices and, to some extent, by the recovery in domestic aggregate demand as pandemic-related restrictions were eased. Inflationary pressures persisted in early 2023, at around 4 per cent. Poorer households are disproportionately affected because food accounts for a greater share of their total expenditure. As noted by the World Bank, the share of wheat and vegetable oil is estimated at one third of the total expenditure of the poorest 10 per cent of the population.\(^3\)

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\(^3\) World Bank, 2022, Economic Monitoring Report to the Ad Hoc Liaison Committee, September.
Table 1
Economy of the Occupied Palestinian Territory: Key indicators

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<td>4 208</td>
<td>3 770</td>
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<td>Population (millions)</td>
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<td>3.23</td>
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<td>33.0</td>
<td>36.0</td>
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<td>Total employment (thousands)</td>
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<td>588</td>
<td>452</td>
<td>636</td>
<td>913</td>
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<td>956</td>
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<td>In public sector</td>
<td>51</td>
<td>103</td>
<td>105</td>
<td>147</td>
<td>209</td>
<td>210</td>
<td>201</td>
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<td>In Israel and settlements</td>
<td>68</td>
<td>135</td>
<td>42</td>
<td>55</td>
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<td>133</td>
<td>125</td>
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<td>Fiscal balance (percentage of GDP)</td>
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<td>Revenue, net, of arrears/clearance withheld</td>
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<td>Current expenditure</td>
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<td>Overall balance (commitment basis)</td>
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<td>-10.5</td>
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<td>Net current transfers (millions of dollars)</td>
<td>400</td>
<td>373</td>
<td>1 051</td>
<td>1 291</td>
<td>1 405</td>
<td>1 545</td>
<td>1 141</td>
<td>1 269</td>
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<tr>
<td>Exports of goods and services (millions of dollars)</td>
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<td>752</td>
<td>478</td>
<td>1 046</td>
<td>2 320</td>
<td>2 631</td>
<td>2 336</td>
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<td>Imports of goods and services (millions of dollars)</td>
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<td>2 234</td>
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<td>6 929</td>
<td>8 376</td>
<td>7 189</td>
<td>8 256</td>
<td>10 378</td>
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<tr>
<td>Trade balance (millions of dollars)</td>
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<td>-2 612</td>
<td>-1 756</td>
<td>-4 218</td>
<td>-4 610</td>
<td>-5 746</td>
<td>-8 453</td>
<td>-5 516</td>
<td>-7 466</td>
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<td>Trade balance (percentage of GDP)</td>
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<td>-61.2</td>
<td>-49.4</td>
<td>-78.9</td>
<td>-33.0</td>
<td>-36.3</td>
<td>-34.6</td>
<td>-36.7</td>
<td>-47.8</td>
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<tr>
<td>Trade balance with Israel (millions of dollars)</td>
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<td>-1 598</td>
<td>-886</td>
<td>-1 887</td>
<td>-2 869</td>
<td>-3 788</td>
<td>-3 373</td>
<td>-4 251</td>
<td>-5 281</td>
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<td>Trade balance with Israel (percentage of GDP)</td>
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<td>-37.4</td>
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<td>-22.2</td>
<td>-21.7</td>
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<td>-27.6</td>
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<td>PNA trade with Israel/total PNA trade (percentage)</td>
<td>83.5</td>
<td>67.5</td>
<td>56.9</td>
<td>46.3</td>
<td>63.0</td>
<td>63.9</td>
<td>66.8</td>
<td>74.7</td>
<td>71.8</td>
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<tr>
<td>PNA trade with Israel/total Israeli trade (percentage)</td>
<td>4.2</td>
<td>3.8</td>
<td>1.9</td>
<td>2.3</td>
<td>3.1</td>
<td>3.4</td>
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</table>

Sources: Palestinian Ministry of Finance and Planning, Palestinian Monetary Authority and PCBS. The source of data on trade with Israel is the Central Bureau of Statistics of Israel.

Abbreviation: PNA, Palestinian National Authority.

* Preliminary estimates.

a In 2019, PCBS revised national accounts data from 2004 onwards.

b Except for population figures, all data exclude East Jerusalem, due to the fact that PCBS has no access to the city.

* In 2019, PCBS began to apply the guidelines of the nineteenth International Conference of Labour Statisticians. The stability of the unemployment rate in the last few years reflects weak labour market participation.

d Includes domestic and external debt but not arrears or government debt to the pension fund.

ej Israeli and Palestinian trade data refer to goods and non-factor and factor services.
B. Deepening economic dependency on the occupying Power

5. Nearly three decades since the signing of the Paris Protocol, and a quarter of a century after its presumptive ending in 1999, it remains the framework that shapes Palestinian economic reality. The customs union, de facto monetary union and fiscal arrangements in the Protocol tie the Palestinian economy to that of Israel, cultivating conditions of significant dependency and vulnerability.

1. Increasing trade dependency

6. The restrictions imposed under occupation on Palestinian trade inflate costs and serve as significant non-tariff barriers. The World Bank notes that they erode the competitiveness of Palestinian exports; with the average trade cost per transaction for a Palestinian firm nearly three times as high as for an Israeli firm and the average duration of the import process for a Palestinian firm nearly four times as long as for an Israeli firm. In addition, the restrictions and closures, in effect since 2007, have severed the trade links of Gaza with the West Bank, East Jerusalem and regional and global markets. The barriers to trade with the rest of the world create an uneven dependency on Israel as the dominant trading partner. In 2022, Israel accounted for 72 per cent of total Palestinian trade, and the bilateral trade deficit with Israel reached $5.3 billion, or 28 per cent of Palestinian GDP. The trade deficit with Israel and its share in total Palestinian trade has peaked in recent years (figure 2).

Figure 2
(a) Share of Israel in total Palestinian trade
(Percentage)

(b) Bilateral Palestinian trade deficit with Israel
(Millions of dollars)

Source: UNCTAD calculations, based on data from the Central Bureau of Statistics of Israel and PCBS.

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4 World Bank, 2023, Economic Monitoring Report to the Ad Hoc Liaison Committee, April.
7. In 2022, imports of goods and services rose by 26 per cent, from $8.3 billion in 2021 to $10.4 billion in 2022. Exports failed to match this growth, rising by just over 6 per cent, from $2.7 billion to $2.9 billion. As a result, the trade deficit increased from 37 per cent of GDP to 48 per cent of GDP in 2022, among the highest in the world.

8. Excessive trade costs and restrictions on domestic investment cultivate a high, chronic trade deficit, with export revenues consistently covering only a small fraction of the import bill. In 2022, exports financed less than one quarter of total imports, and the gap was financed by income earned by workers in Israel and settlements, foreign aid and expatriate remittances. The tradable goods sector will remain depressed, with weak exports and a deep level of import dependence, as long as political barriers continue to elevate the cost of trade and production to levels that significantly weaken the competitiveness of Palestinian producers.

9. In the years following the Oslo Accords, the small, open Palestinian economy was expected to benefit from integration and free access to the larger and more sophisticated Israeli market, leading to a process of convergence between the two economies. Three decades later, potential convergence has been pre-empted by the multiple restrictions imposed under occupation. Instead of convergence, the two economies have diverged, with Palestinian per capita GDP currently at just 8 per cent of that of Israel.5

2. Monetary dependency

10. Occupation implies that the Palestinian economy is incorporated into the more advanced economy of Israel, with the new Israeli shekel as the main currency in circulation in the Occupied Palestinian Territory. Geographical proximity, the customs union and the de facto “currency union” combine to tie prices and costs with those in Israel despite the significant difference in income, whereby the average Palestinian earns 8 cents for every dollar earned by an Israeli citizen.

11. Lack of a national currency and independent monetary policy leaves the Palestinian economy subject to changes in Israeli economic policies and circumstances. The stability of the new shekel protects against imported inflation through the exchange rate. However, the strong shekel constrains the already impaired competitiveness of Palestinian producers because the exchange rate is determined in the structurally different, advanced economy of Israel, a member of the Organisation for Economic Co-operation and Development.

12. Forced dependency on Israel pervades every aspect of the Palestinian economy, yet the payment system linking the two economies is complex and inefficient, and imposes costs and uncertainties for Palestinian economic agents. In recent years, as noted by the World Bank, Israeli banks have indicated a wish to narrow or terminate their limited correspondent services to Palestinian banks, citing concerns with regard to terrorism and money laundering.6 In addition, International Monetary Fund data show that the inadequacy of correspondent banking services has led to the accumulation of about NIS 4.5 billion in excess new shekel-denominated liquidity in Palestinian banks, equivalent to 6.4 per cent of assets.7 The opportunity cost and the cost of safeguarding excess new shekels are not trivial.

3. Dependency on employment in Israel and settlements

13. In 2022, 22.5 per cent of employed Palestinians from the West Bank worked in Israel and settlements, where they earned more than twice the average domestic wage in the West Bank, with total earnings in the range of $4 billion, or 25 per cent of GDP. Their incomes contribute significantly to aggregate demand, which sustains GDP growth.

14. However, Palestinian workers pay an average of 30 per cent of their gross monthly wage to brokers. As noted by the International Labour Organization, adding the cost of transport and meals reduces the net earnings to 44 per cent of gross pay, thereby eroding the

5 See https://data.worldbank.org/.
6 World Bank, 2022.
7 International Monetary Fund, 2023, West Bank and Gaza: Report to the Ad Hoc Liaison Committee, May.
difference between the average domestic wage and that paid to Palestinians employed in Israel and settlements. Long commute times compound the cost, indicating that Palestinian employment in Israel and settlements is driven by the dearth of jobs in the domestic economy, not by greater remuneration in Israel and settlements.\(^8\)

15. Greater access to the Israeli labour market explains much of the regional employment disparity between Gaza and the West Bank. That is, without employment in Israel and settlements, unemployment and poverty in the West Bank would be much closer to the significant levels in Gaza. Similarly, the International Labour Organization has noted that the nearly all-men employment in Israel and settlements accounts for much of the gender gap in employment and income.\(^9\)

16. For the first time in recent years, workers in Gaza have been allowed access to the job market in Israel and settlements. However, the permits issued, in the range of 1 per cent of employed workers in Gaza, are too few to make a dent in the high unemployment rate of 45 per cent, which correlates with a high level of poverty.

17. Most Palestinian workers in Israel and settlements are employed in jobs considered low skill and often below their educational levels, implying low returns to education and reduced incentives for human capital accumulation. Data from PCBS show that professionals account for a mere 3.4 per cent of the total, many of whom are health-care professionals, with the numbers of information technology professionals increasing.\(^10\)

18. Overreliance on precarious employment in Israel and settlements exposes the Palestinian economy to shocks in an environment characterized by frequent political tensions and security crises. In addition, it decouples domestic wages from productivity growth, undermines competitiveness and stunts the tradable goods sector. The International Labour Organization notes that the outflow of Palestinian workers to the economy of Israel and settlements has also created labour shortages, skill gaps and mismatches in certain areas in which Palestinian firms find it difficult to attract and retain skilled workers.\(^11\)

C. **Settlements and de facto annexation undermine prospects for achieving the two-State solution**

19. The United Nations Security Council, in its resolution 2334 (2016), reiterated its demand that Israel immediately and completely cease all settlement activities and reaffirmed that the establishment of settlements in the Occupied Palestinian Territory, including East Jerusalem, had no legal validity and constituted a flagrant violation under international law, and condemned all measures aimed at altering the demographic composition of the Occupied Palestinian Territory, including East Jerusalem. However, settlements and outposts continued to grow in 2022 and 2023. In the first two months of 2023, the occupying Power announced the retroactive legalization of nine settlement outposts and plans to establish 10,000 settlement units, more than in 2021 and 2022 combined.\(^12\)

20. Occupation bars almost all Palestinian development in large parts of the West Bank. Israeli Civil Administration data indicate that less than 1 per cent of Palestinian construction requests have been approved since 2016, and the approval rate has further dropped in recent years; this policy forces Palestinians to build without permits, to meet basic human needs, yet Israeli authorities issue demolition orders for these structures, as noted by the Office for the Coordination of Humanitarian Affairs.\(^13\) The resulting evictions entail the violation of many human rights, with women and girls disproportionately

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\(^9\) Ibid.


\(^12\) See https://ecfr.eu/article/tipping-point-what-israels-illiberal-turn-means-for-palestinians/.

\(^13\) See https://www.ochaopt.org/content/west-bank-demolitions-and-displacement-december-2022.
impacted. In the year 2022, the highest number of demolitions of Palestinian structures in over a decade took place. Israel demolished 953 structures, including water cisterns, storerooms, agricultural buildings, businesses and public buildings. Of 144 buildings demolished in East Jerusalem, 74 were demolished by their owners, to avoid additional fines.

21. Violence across the West Bank persisted and, as noted by the Office for the Coordination of Humanitarian Affairs, 2022 was the deadliest year for Palestinians since the beginning of systematic recording in 2005. The growing settler population, destruction of Palestinian assets and settler violence alter the demographic composition of Area C in the West Bank by worsening the coercive environment that forces Palestinians to leave their homes.

22. In 2002, the occupying Power commenced the construction of a 713 km barrier made up of concrete walls, fences, ditches, razor wire, sand paths, an electronic monitoring system and military checkpoints, 85 per cent of which has not been built along the internationally recognized border and instead runs inside the West Bank, leaving over 85 per cent of the settler population inside the “seam zone”, effectively rendering it an annexation tool. As noted by the Office for the Coordination of Humanitarian Affairs, once the remaining one third of the barrier has been completed, it will isolate 9 per cent of the territory of the West Bank, including East Jerusalem, and keep 150 Palestinian communities in the seam zone, whereby they will need a permit from the occupying Power to live in and work on their land. The barrier disrupts the social life of Palestinians on both sides and undermines access to work and essential social services, including health care and education. The approval rate for permits to access agricultural land behind the barrier has dropped to 24 per cent in recent years and, when access is granted, it is costly and limited in duration, which means that farmers cannot fully engage in basic productive activities. This has forced Palestinians to cease cultivation altogether or to shift from labour-intensive to rain-fed, low-value crops. For example, a report by the Office for the Coordination of Humanitarian Affairs shows that olive trees in the area between the barrier and the Green Line have approximately 60 per cent less yield than the equivalent on the other side of the barrier, where essential agricultural activities can be carried out on a regular and predictable basis.

D. Enduring occupation, onerous responsibilities and scant resources undermine the functioning of the Palestinian Government

23. Since its formation in 1994, for three decades, within an extremely narrow policy space, the Palestinian Government has been tasked with managing economic, political and social responsibilities far greater than the economic and political resources at its disposal. However, it continues to deliver in a difficult context of enduring occupation.

24. The Palestinian Government has been facing significant fiscal challenges in recent years. A confluence of adverse conditions has aggravated a chronic fiscal crisis, including decreasing donor aid, one-sided deductions by Israel from its revenues and the economic fallout of the pandemic. These obstacles, examined in previous UNCTAD reports, jeopardize the capacity of the Palestinian Government to assume basic state functions and provide critical public services.

25. The Palestinian Government has continued to implement far-reaching fiscal reforms intended to increase revenue and contain expenditure. It reduced its deficit from 7 per cent of GDP in 2021 to 2.9 per cent of GDP in 2022, primarily through greater revenue collection and the maintenance of recurrent expenditure at 2021 levels. Net revenue rose

14 Ibid.
16 A/77/493.
17 See https://www.ochaopt.org/content/humanitarian-impact-20-years-barrier-december-2022.
18 Ibid.
19 Ibid.
from 23.6 per cent of GDP in 2021 to 26.3 per cent of GDP in 2022. Public debt fell from $3.85 billion to $3.54 billion, or from 21.3 to 18.5 per cent of GDP.

26. In 2022, during the global cost-of-living crisis and worsening domestic humanitarian and political conditions, the Palestinian Government received only $250 million in donor budget support and $300 million for development projects. This was a steep decline in aid from a total of $2 billion, or 27 per cent of GDP, in 2008, to $550 million, or less than 3 per cent of GDP, in 2022, as noted by the World Bank.20

27. Lack of access to external financial markets, coupled with a significant decline in foreign aid, pushed the Palestinian Government to deal with the problem through a combination of accumulated more arrears to the private sector and the pensions fund, which is equivalent to borrowing. It added $1.07 billion in arrears, which have grown to a concerning total of $3.5 billion.

28. Since November 2021, the Palestinian Government has been paying partial salaries to public sector employees, ranging between 75 and 85 per cent of monthly salaries. Salary cuts have pushed public employees to borrow from banks and informal sources. By mid-2022, 43 per cent of households in the West Bank and 83 per cent in Gaza declared a burden of incurred debt.

29. The accumulation of arrears is not sustainable in coping with fiscal crises, and clearing them will be economically and socially disruptive unless there is support from donors. Budget cutbacks and the payment of partial salaries will ultimately weigh down economic growth by constraining demand and thereby weakening public revenue growth. In addition, the fact that the occupying Power collects trade tax revenues on behalf of the Palestinian Government means that it in effect controls two thirds of Palestinian tax revenue, a form of leverage used to impose deductions, delays or withholding.

30. In May 2022, the Palestinian Government adopted a reform plan for economic and financial recovery and strengthening resilience. The ambitious plan aims for administrative, fiscal, economic, social and security reforms. The goal is to achieve, among other things, economic and financial recovery and to invest in development; strengthen resilience and the rule of law; enhance economic security, democratic renewal and civil services reform; deliver high-quality public services; and restore trust. The plan is also aimed at ensuring transparency, eliminating corruption and strengthening the private sector by improving the business environment and the legal and regulatory framework.

31. These reforms, however, have received insufficient support from donors at a time when the restrictions imposed under occupation weaken the fiscal position of the Palestinian Government indirectly by stifling economic growth and directly through one-sided deductions from Palestinian revenue and the continuous leakage of Palestinian fiscal resources to the treasury of the occupying Power through several channels, as identified in UNCTAD reports and studies.21

32. The damage inflicted under occupation extends to all sectors of the economy through several other channels, most salient among which is the loss of land and natural resources to settlements, the ban or restrictions on the importation of certain technology and inputs under the dual-use list system and the barriers to movement that elevate production, transaction and trade costs and thereby erode and stunt the competitiveness of all Palestinian producers.

33. Economic prospects are dim. GDP growth is expected to decelerate as the pandemic-related low-base effects fade. Occupation-related constraints are recognized as the key impediment to economic development in the Occupied Palestinian Territory. The International Monetary Fund estimates that the impact of loosening occupation-related restrictions would be about three times greater than the impact of improving the Palestinian

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20 World Bank, 2023, Economic Monitoring Report to the Ad Hoc Liaison Committee, April.
business climate, electricity and water supply. In addition, the World Bank states that removing constraints on Area C would enlarge the West Bank economy by one third. UNCTAD estimates that the partial easing of restrictions in 30 per cent of Area C would increase the size of the West Bank economy by 25 per cent.

There is consensus that the performance of the Palestinian economy depends on the severity of restrictions imposed under occupation, on donor support and on policy reforms. Of the three decisive actors, the one party that has been delivering consistently over the last decade is the Palestinian Government, while occupation has tightened and donor aid has decreased. Unless aid inflows improve and occupation-related restrictions are loosened, studies show that GDP growth is expected to fall below population growth and hover at around 2 per cent in the medium term, implying higher levels of unemployment, lower levels of income per capita, greater poverty and increased overall fragility.

II. Anatomy of the de-development of Gaza

A. Closure, restrictions and a cycle of destruction and reconstruction

Israel occupied Gaza and the West Bank, including East Jerusalem, in June 1967. Despite the “withdrawal” by Israel in 2005, Israel has retained control over the airspace of Gaza and all land and sea borders, except for the 12 km border with Egypt.

Gaza has one of the highest population densities in the world. The population density per square kilometre at end-2021 was 878 individuals in the Occupied Palestinian Territory, 557 in the West Bank and 5,855 in Gaza, which increased to 5,934 in 2022, according to PCBS data. Added to this issue is the fact that Israel restricts Palestinian access to areas within 300 metres of the Gaza side of the perimeter fence, and identifies an additional several hundred metres as not safe, thereby preventing or restricting human and productive activities, as noted in a report by the United Nations Children’s Fund. PCBS data show that the resulting buffer zone along the eastern border of Gaza implies that the occupying Power effectively controls about 24 per cent of the total area of Gaza.

Exit and entry by air and sea is banned by the occupying Power, which operates only two crossing points through which the population of Gaza can access the West Bank and East Jerusalem for business, trade, health care and social functions. These restrictions on the movement of people and goods were imposed in the early 1990s and were intensified after June 2007, with closures and restrictions that have persisted since that date.

In 2022, the number of exit permits issued by the occupying Power increased, and more people were allowed to travel outside Gaza. However, movement remained highly restricted, with the majority of residents virtually “locked in”. The unpredictability of the level of restrictions, which can be tightened by the occupying Power at any time, heightens business risk and pre-empts private sector investment. Data from the Office for the Coordination of Humanitarian Affairs show that most of the recent relaxation of restrictions is accounted for by permits issued for Palestinians to work in Israel and settlements, which in 2022, accounted for 83 per cent of the total, while patients seeking treatment in East

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22 International Monetary Fund, 2022, West Bank and Gaza: Report to the Ad Hoc Liaison Committee, September.
26 See https://www.ochaopt.org/data/crossings.
Jerusalem and the West Bank, as well as their companions, accounted for 7 per cent. In January 2023, 88 per cent of exit permits were for day labourers in Israel and traders. However, one third of applications for medical treatment outside Gaza were denied, and the list of goods that can be exported remains restricted to mostly agricultural products.

39. Israel controls not only pedestrian and commercial crossing points but also the sea and airspace of Gaza. Israel does not allow the construction and operation of air or seaports. Israel makes fishing off the coast of Gaza hazardous for Palestinians, who rarely have full access to the fishing zone of 20 nautical miles stipulated in the Oslo Accords. In practice, access for Palestinian fishing boats has ranged from 6 to 15 miles. In mid-2022, they were allowed access to 10 miles. This has led to overfishing, which endangers the sustainability of fishing resources.

40. Another significant constraint on Palestinian productive activities is the ban on the importation of certain technology and inputs under the dual-use list system. The list includes civilian items such as machinery, spare parts, fertilizers, medical equipment, appliances, telecommunications equipment, metals, chemicals, steel pipes, milling machines, optical equipment and navigation aids. More items are banned with regard to Gaza compared with the West Bank. The list is far-reaching, “opaque and stringent compared to prevailing international practices”. Despite recent relaxation, the list continues to exact a significant toll, with the continuation of the ban on the importation of hundreds of essential goods, inputs and technologies. Data from the Office for the Coordination of Humanitarian Affairs show that imports recently permitted to enter Gaza have been dominated by construction materials, which accounted for half; food accounted for one quarter and humanitarian items accounted for 4 per cent.

41. Several military operations have taken place in Gaza, in 2008, 2012, 2014, 2021 and 2022. These operations have resulted in thousands of casualties, internal displacement and the destruction of infrastructure, capital stock and physical and productive assets in Gaza. In May 2021, a military operation was conducted that was the worst experienced in Gaza since 2014. The operation inflicted damage on an already shattered infrastructure. This damage affected agricultural land, crops, livestock sheds, greenhouses, fruit trees, storage facilities, boats, fishing equipment, agribusinesses, irrigation canals, water pumping systems, electricity networks, Internet networks, factories, office buildings, housing units, educational facilities and health-care centres. As noted by the Office of the Quartet, damages from this military operation remain unrepaired.

B. Maldevelopment in Gaza: Trends and structural deformation

42. The impact of military operations on the productive base of Gaza has been examined by the International Monetary Fund, which notes that the military operation in 2008–2009 destroyed the equivalent of over 60 per cent of the total capital stock of Gaza and that the military operation in 2014 resulted in a decline of 85 per cent of the capital stock that had survived the previous operation. These two operations, not including the operations that followed, resulted in the collapse of the productive base of Gaza. The erosion of the capital stock has stunted growth potential, constrained productivity growth and entrenched poverty and dependency on international aid.

43. UNCTAD has estimated the impact of restrictions and military operations on household welfare, noting that, if the economy of Gaza had been allowed to continue to grow at the same rate as that of the West Bank, that is, by 6.6 per cent, the annual GDP of

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30 See https://www.ochaOPT.org/content/movement-and-out-gaza-2022.
33 See https://www.ochaopt.org/data/crossings.
34 Office of the Quartet, 2022, Report to the Ad Hoc Liaison Committee, September.
35 International Monetary Fund, 2017, West Bank and Gaza: Report to the Ad Hoc Liaison Committee, August.
Gaza would have been 50 per cent higher in 2017 and GDP per capita would have been 105.5 per cent higher than its actual level.\textsuperscript{36}

44. The economy of Gaza has gone through three structural phases. In the period 1994–1999, the economy grew, by an average of 6.1 per cent annually, and that of the West Bank grew by 10.7 per cent. In the period 2000–2006, much of the Palestinian infrastructure, including institutions of the Palestinian National Authority, was significantly damaged, workers were banned from employment in Israel and settlements and the movement of goods was restricted, precipitating a 2 per cent drop, on average, in annual GDP growth.

45. Since June 2007, Gaza has been subjected to a land, sea and air closure and several military operations. A vicious circle of destruction and insufficient reconstruction was set in motion. In the period 2007–2022, annual average real GDP growth dropped to 0.4 per cent. Some economic indicators before and after the closures show aspects of the development of Gaza (table 2). In addition, investment virtually disappeared, falling from 31 per cent of the national total in 1994 (equivalent to 11 per cent of Palestinian GDP) to 7 per cent in 2022 (equivalent to 1.9 per cent of Palestinian GDP). Non-building investment in Gaza remained low, at 1.3 per cent of GDP in 2022.

Table 2

\begin{table}[h]
\centering
\begin{tabular}{|l|c|c|c|c|}
\hline
\textbf{Indicator} & \textbf{2006} & \textbf{2022} & \textbf{Difference} & \textbf{Percentage change} \\
\hline
Population (thousands) & 1 349 & 2 166 & 817 & 61 \\
Population density (people/km\textsuperscript{2}) & 3 696 & 5 934 & 2 238 & 61 \\
Real GDP (millions of 2015 dollars) & 2 691 & 2 723 & 32 & 1.1 \\
Real GDP per capita (millions of 2015 dollars) & 1 994 & 1 257 & -536 & -27 \\
Share of Gaza in Palestinian GDP (percentage) & 31.1 & 17.4 & -13.7 & -44 \\
Gaza investment as share of Palestinian GDP (percentage) & 9.5 & 1.9 & -76 & -80 \\
Labour force (thousands) & 267 & 527 & 300 & 112 \\
Unemployed workers (thousands) & 93 & 239 & 146 & 157 \\
Unemployment rate (percentage) & 34.8 & 45.3 & 10.5 & 30 \\
Poverty (percentage) & 39 (2007) & 65 & 26 & 67 \\
\hline
\end{tabular}
\caption{Economy of Gaza before and after the closures, selected indicators}
\end{table}

\textit{Source:} UNCTAD calculations, based on data from PCBS.

46. In the period 2006–2022, the population of Gaza grew by 61 per cent, but GDP grew by only 1.1 per cent and real GDP per capita shrank by 27 per cent, from $1,994 in 2006 to $1,257 in 2022, compared with $2,923 and $4,458 in the West Bank, respectively. In the same period, the regional divergence in living conditions widened, as the share of Gaza in the Palestinian economy contracted from 31 to 17.4 per cent (figure 3). In addition, in the same period, the labour force grew by 112 per cent, the number of unemployed workers increased by 157 per cent and unemployment increased from 34.8 to 45.3 per cent, one of the highest levels in the world. Population and labour force growth and the dearth of jobs have resulted in lost generations of impoverished, unskilled and deskillied workers.

47. At the time of the establishment of the Palestinian National Authority in 1994, Gaza had about the same standards of living as the West Bank, with its ratio of GDP per capita to that of the West Bank at 97 per cent. This ratio fell to 44 per cent with the onset of the restrictions and closures in 2007 and reached an all-time low in 2021, at 27.7 per cent. The economy of Gaza has undergone a significant structural distortion because of restrictions on movement, limited access to imported inputs, the destruction of the productive base and semi-autarkic isolation from domestic and global markets. This transformation has reduced the share of agriculture and manufacturing in the economy, from 32 per cent in 1995 to 17.6 per cent in 2022. Meanwhile, the contribution of Gaza to

\textsuperscript{36} UNCTAD, 2020, \textit{The Economic Costs of the Israeli Occupation for the Palestinian People: The Impoverishment of Gaza under Blockade} (United Nations publication, Geneva).
employment has fallen from 34 to 14.3 per cent. This negative transformation raises concerns because the agricultural and manufacturing sectors account for most exports and have greater capacity for technological innovation, productivity growth, economies of scale and job creation.

Figure 3
Share of Gaza in total Palestinian gross domestic product
(Percentage)

Source: UNCTAD calculations, based on data from PCBS.

48. Comparing the economic performance of Gaza with that of the West Bank should not obscure the fact that the latter is also subjected to restrictions that, while less onerous, remain significant constraints on capacity to grow and develop. Such comparisons therefore reflect only the impact of the difference in the intensity of occupation to which the two Palestinian regions are subjected.

C. A deep socioeconomic crisis persists

49. The result of the restrictions and closures and military operations has been the suppression of investment and productive activities and the collapse of the economy of Gaza, as well as its separation from the world and the rest of the Palestinian economy in the West Bank and East Jerusalem. UNCTAD has noted that the blockade, frequent military operations and restrictions on the entry and exit of people and essential goods have stifled the economy, impeded access to health and other essential services and undermined the living conditions of more than 2 million Palestinians. A chronic humanitarian crisis has evolved, fostering the dependency of 80 per cent of the population on international aid. Humanitarian indicators show that by mid-2022, 65 per cent of the population of Gaza was food insecure, compared with 62.2 per cent in mid-2021, and the poverty rate rose from 59 to 65 per cent. In addition, as noted by the Office for the Coordination of Humanitarian Affairs, 70 per cent of the population face challenges in obtaining enough money to buy food or access essential health care. The shortage of resources to meet other essential needs such as education and transportation is similarity high. Households cope through mechanisms that have damaging long-term effects, such as reducing the quantity and quality of food, education or other essentials and by resorting to debt.

37 Ibid.
38 See https://www.ochaOPT.org/content/movement-and-out-gaza-2022.
In recent years, Gaza has registered one of the world’s highest unemployment rates, which correlates with deep and widespread poverty that has pushed two thirds of the population below the poverty line. The loss of potential GDP growth compounds poverty and the cost of eliminating it. UNCTAD has estimated that, without the restrictions and military operations, by 2017, the poverty rate in Gaza would have been 15 per cent instead of 56 per cent and the poverty gap would have been 4 per cent instead of 20 per cent.\textsuperscript{40} Given that the minimum total annual cost of eliminating poverty is proportional to the poverty gap, by 2017, the cost of eliminating poverty would have been only one fifth of the actual level if it had not been for the restrictions and military operations. The socioeconomic conditions have further deteriorated since then, with the poverty rate increasing from 56 per cent in 2017 to 62 per cent in 2021 and 65 per cent in 2022.

The inhabitants of Gaza are confined in one of the most densely populated spaces in the world, in chronic conflict conditions, with inadequate access to clean water, without electricity for an average of 12 hours per day and without a proper sewage system. As noted by the Office for the Coordination of Humanitarian Affairs, two thirds of the population live in poverty, with a 41 per cent probability of dropping out of the labour force and, for those who continue to seek work, there is a 45 per cent probability of being unemployed.\textsuperscript{41}

### D. Conclusion and recommendations

52. Border closures and repeated military operations have set in motion a vicious circle of economic and institutional collapse that has rendered Gaza a case of “development in reverse”. The impact is not confined to the short term. Indirect and long-term effects will reverberate through future generations. For example, the ramifications of poor health and education and persistently high unemployment rates on the standard of living and human capital formation in Gaza will be long-lasting. Long spells of unemployment de-skill workers and render their education and training obsolete.

53. Since the onset of the restrictions and closures, Gaza has experienced 16 years of de-development and suppressed human potential and the right to development. International efforts for recovery remain inadequate and below the level of pressing needs. To date, international interventions have been primarily focused on limited reconstruction and humanitarian relief, leaving few resources for development and the rebuilding of the shattered productive base.

54. Securing the right of the Palestinian people to development is of paramount importance. They are capable of self-sustaining growth if allowed to produce and trade normally with the rest of the world. However, this is not possible under conditions of air, land and sea restrictions and closures and the periodic destruction of infrastructure and private assets.

55. While lifting all restrictions is a necessary condition for sustainable recovery, it is by no means sufficient. Donors and the international community need to extend significant economic aid to repair the extensive damage Gaza has experienced under prolonged restrictions and closures and frequent military operations, which has stifled the economy and decimated infrastructure. The magnitude of the investment required for rebuilding is well beyond the capacity of the fiscally constrained Palestinian Government.

56. The vicious circle of destruction and partial reconstruction needs to be broken by negotiating a peaceful solution, based on international law, and relevant United Nations and Security Council resolutions, to end hostilities, and by increasing donor support for the recovery of the war-torn economy. While donor aid is important, to assist the people of Gaza, it should not be viewed as a substitute for ending the restrictions and closures and calling on Israel and all parties to bear their responsibilities under international law.

\textsuperscript{40} UNCTAD, 2020. The poverty gap is the ratio by which the mean income of the poor falls below the poverty line; the ratio thereby captures the depth of poverty.

\textsuperscript{41} See https://www.ochaOPT.org/content/movement-and-out-gaza-2022.
57. Given the high dependency ratio (1:6), whereby, on average, one income earner supports six dependents, a small drop (or rise) in income translates into greater poverty (or socioeconomic progress). Therefore, the need for measures that facilitate labour market recovery is urgent, along with a greater level of and better targeted international aid.

58. Finally, the importance of the reintegration of Gaza and the West Bank at all levels, administrative, fiscal, political, legal and economic, cannot be overstated. Reunification would increase the reach and effectiveness of efforts to revive the economies of both regions. The international community should exert all efforts for reunification by providing sustained political, technical and financial support. The envisaged reunification of Gaza with the West Bank needs to be complemented by enabling the Palestinian Government to unlock significant growth potential by establishing a seaport and an airport, as well as by enabling it to develop the natural gas fields in the Mediterranean Sea off the shore of Gaza.42

III. UNCTAD assistance to the Palestinian people

A. Framework and objectives

59. For over three and a half decades, UNCTAD has been supporting the Palestinian people through policy-oriented research, the implementation of capacity-building and technical cooperation projects, the provision of advisory services and the promotion of international consensus on the needs of the Palestinian people and their economy.

60. The UNCTAD programme of assistance to the Palestinian people responds to paragraph 127 (bb) of the Bridgetown Covenant, which requests UNCTAD to “continue to assess the economic development prospects of the Occupied Palestinian Territory and examine economic costs of the occupation and obstacles to trade and development... with a view to alleviating the adverse economic and social conditions imposed on the Palestinian people”. Furthermore, the United Nations General Assembly, in eight resolutions (69/20, 70/12, 71/20, 72/13, 73/18, 74/10, 75/20 and 77/22), requests UNCTAD to report to the General Assembly on the economic costs of the Israeli occupation for the Palestinian people.

61. The UNCTAD programme, which aims to build and strengthen the institutional capacities of the Palestinian public and private sectors, addresses the constraints to and emerging needs of the Palestinian economy through the following four clusters:

(a) Trade and macroeconomic policies and development strategies;
(b) Trade facilitation and logistics;
(c) Finance and development;
(d) Enterprise, investment and competition policy.

B. Operational activities under way

62. In response to the above-mentioned resolutions, in 2022, UNCTAD submitted a report to the General Assembly on the economic costs of occupation.43 An assessment of the economic cost of the Israeli occupation of Area C, which accounts for about 60 per cent of the total area of the occupied West Bank, was provided, along with an estimate of the cost of the additional restrictions on economic activities in Area C, using the innovative methodology of measuring night-time luminosity, captured by satellite sensors over a span of time, to estimate levels of economic activity.

43 A/77/295.
63. In November 2022, UNCTAD delivered two workshops on quantitative aspects of impact evaluations, methodologies and the use of satellite data in economic analysis. The first workshop was held at the Palestine Economic Policy Research Institute (MAS). Researchers and officials from the Applied Research Institute–Jerusalem, MAS, the Ministry of Agriculture, the Ministry of Finance and Planning, the Office of the Prime Minister and PCBS, as well as Al-Marsad and the Food and Agriculture Organization of the United Nations participated. The second workshop, held at Birzeit University, targeted the academic community, faculty members, researchers and students from relevant disciplines. In addition, UNCTAD conducted an expert group meeting to discuss the economic cost of the occupation for the Palestinian people.

64. In October 2022, UNCTAD signed a grant agreement with MAS, under which UNCTAD and MAS updated the MAS macroeconometric model and organized training for Palestinian government professionals and researchers on the structure and use of the UNCTAD integrated simulation framework.

65. In December 2022, UNCTAD issued a study entitled The Economic Costs of the Israeli Occupation for the Palestinian People: The Cost of Restrictions in Area C Viewed from Above that elaborated on the cost of restrictions on Palestinian economic activities in Area C.

66. In early 2022, UNCTAD signed an agreement with the Palestinian Ministry of Finance and Planning on a new round of cooperation on customs management based on the Automated System for Customs Data (ASYCUDA). The project aims, among others, to update the ASYCUDA World system to the most recent release. The goal of the project is to strengthen the fiscal position of the Palestinian Government and support its efforts towards trade facilitation and enhancing competitiveness.

67. In 2022, UNCTAD collaborated with the Palestinian Ministry of Finance and Planning on a project to reintroduce the UNCTAD Debt Management and Financial Analysis System to Palestinian institutions. The project involved installing the system and providing training to staff on using the system effectively, aimed at strengthening the quality and scope of Palestinian fiscal management.

C. Coordination, resource mobilization and recommendations

68. In 2022, UNCTAD continued its support to the Palestinian people in coordination with the Palestinian Government, international organizations, donors, the United Nations country team and other stakeholders, including civil society. The programme continued to strengthen its ongoing support for the Palestinian people despite insufficient resources and adverse and increasingly difficult field conditions.

69. In late 2020, UNCTAD received a grant from the Government of Saudi Arabia to sustain the professional capacity required at UNCTAD to fulfil its mandates and support the efforts of the Palestinian people to achieve the Sustainable Development Goals. The grant funds a project that aims to maintain UNCTAD capacity to examine the economic costs of the occupation and obstacles to trade and development, with a view to alleviating the adverse socioeconomic conditions imposed on the Palestinian people under occupation.

70. A shortage of extrabudgetary resources continues to limit the ability of UNCTAD to deliver on its mandates and meet the growing need for technical assistance by the Palestinian people and other stakeholders, including civil society and the private sector. Therefore, member States are invited to consider extending extrabudgetary resources to enable UNCTAD to fulfil the requests made in the Nairobi Maafikiano and the Bridgetown Covenant and in United Nations resolutions.