

# PALESTINIAN TERRITORIES

**Table 1** **2023**

Population, million	5.2
GDP, current US\$ billion	17.4
GDP per capita, current US\$	3372.3
National poverty rate <sup>a</sup>	32.8
Gini index <sup>a</sup>	32.5
School enrollment, primary (% gross) <sup>b</sup>	91.8
Life expectancy at birth, years <sup>b</sup>	73.4

Source: WDI, Macro Poverty Outlook, and official data.  
a/ Most recent value (2023).  
b/ Most recent WDI value (2022).

One year since the outbreak of the Middle East conflict, centered in Gaza, the Palestinian territories have experienced a historic economic decline. In Gaza, the economy has plunged into the deepest recession ever recorded for the Strip, as the conflict has led to a near complete halt of economic activity. The knock-on effects in the West Bank have been severe due to massive job losses, shrinking consumption, and a deepening fiscal crisis for the Palestinian Authority (PA). The outlook heavily hinges on the conflict's evolution and extent of movement and access restrictions imposed by Israel.

## Key conditions and challenges

Between 2017 and 2022, the Palestinian real GDP grew by a mere 0.6 percent annually. Economic potential has been heavily curtailed by the restrictions relating to the Israeli occupation of the West Bank and a near-blockade of Gaza. According to the Government of Israel, restrictions are in place to enhance the security of Israel and its citizens. A combination of depressed aid inflows, COVID-19, low private capital attraction, incomplete reform efforts by the PA, and the divide between the West Bank and Gaza, further stifled the economy. Amid sluggish growth, high unemployment, dwindling aid, and lack of traditional economic policy instruments, the fiscal situation in the Palestinian territories has progressively deteriorated. The conflict has worsened income per capita disparities across the territories. In 2023, GDP per capita in Gaza was US\$1,087—a fifth of the West Bank's at US\$5,081. Recent World Bank data show an 11 percent drop in the Palestinian Gross National Income (GNI) per capita in 2023, which shifted the territories' income classification from higher-middle income status—prior to the conflict—to lower-middle income. Poverty has followed a similar trend as according to the national household survey from 2016/17, almost half of the Gaza population lived below the upper-middle

income poverty line (\$6.85 2017 PPP a day), compared to less than 10 percent in the West Bank.

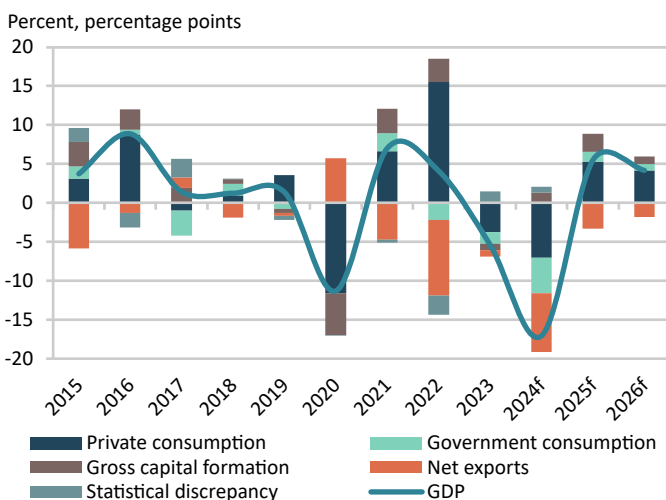
## Recent developments

Since the conflict's outbreak, the Palestinian economy has dramatically plummeted. According to the Palestinian Central Bureau of Statistics (PCBS), after a 29 percent year-on-year (y-o-y) contraction in Q4 of 2023, the territories registered their largest decline on record in Q1 of 2024, with real GDP declining by 35 percent.

In Gaza, an almost complete halt to economic activity is reflected in a staggering 86 percent GDP drop in Q1 2024. Consequently, the share of the Strip's economy in the Palestinian economy has fallen from 17 percent (prior to the conflict) to less than 5 percent currently. In parallel, the shock in the West Bank was largely triggered by tighter restrictions on movement within cities and denied access for Palestinian commuters to the Israeli labor market and more recently an Israeli military operation in the North of the West Bank. This, coupled with increased withholdings by Israel on clearance revenues payable to the PA, escalated an already dire fiscal crisis, and contributed to causing a 25 percent GDP contraction in the West Bank in Q1 2024 (y-o-y).

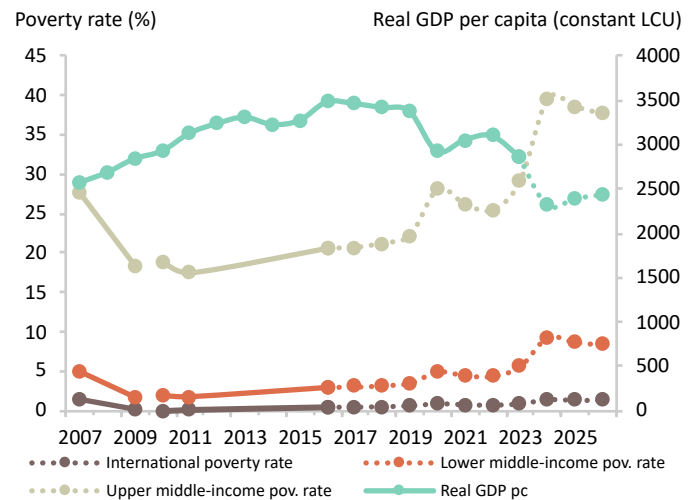
In August 2024, prices in Gaza almost stabilized with the consumer price inflation (CPI) increasing by 2.0 percent only,

**FIGURE 1** Palestinian territories / Real GDP growth and contributions to real GDP growth



Sources: Palestinian Central Bureau of Statistics and World Bank estimates.

**FIGURE 2** Palestinian territories / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

month-on-month, due to larger aid provisions. But, on a yearly basis, it soared by 248 percent, reflecting major supply chain disruptions. In the context of widespread essential goods shortages, most Gazan households have experienced a massive crunch in their purchasing ability, regardless of their financial means. In the West Bank, price trends continue to be relatively stable, with the CPI for August 2024 being only 1.6 percent higher than the previous month.

The PA's fiscal crises escalated in 2024, as Israel increased deductions from revenues that are payable to the PA (clearance revenues), which represent the PA's main source of income. Since October 2023, these transfers have roughly halved, and were fully halted for a couple of months in mid-2024 until being resumed on June 30, 2024. This, on top of the natural decline in revenues given the economic contraction and the low levels of aid, forced the PA to further delay and reduce salary payments to an average of 60-70 percent, since October 2023. Official data by the PA Ministry of Finance (MoF) for the first six months of 2024 indicate that their financing need, after aid and considering clearance revenue deductions, reached US\$803 million. This gap was mostly filled with borrowing from domestic banks and arrears to the private sector,

public employees, and the pension fund. On the upside, various development partners—especially the EU and the World Bank—recently signaled large increases in financial aid flows, over the short term, which could help cover a portion of the fiscal deficit.

The ongoing conflict in Gaza and the economic contraction in the West Bank have had a severe impact on an already weak labor market. Based on a recent report by the PCBS and the International Labor Organization (ILO), it is estimated that unemployment in the Palestinian territories exceeded 50 percent in June 2024—the highest on record. In Gaza, unemployment soared to 79 percent, while in the West Bank it was estimated at 35 percent due to the abrupt loss of commuters' jobs in Israel and the settlements as well as job losses in the local economy.

The sharp contraction of GDP per capita will result in a rapid increase in the poverty rate. The national poverty rate at the international line of \$6.85 a day is estimated to have stood at around 25.5 percent in 2022. The conflict pushed this up to almost 30 percent in 2023, with the expectation that this will have increased further to around 35.5 percent in 2024—by far the highest it has been in at least 20 years.

## Outlook

Fixed asset losses will limit economic activity in Gaza at least for the medium term. Workers' mobility within the West Bank and to the Israeli market will largely shape growth outcomes in the West Bank. The Palestinian economy is expected to contract by 17 percent in 2024. Assuming that reconstruction efforts start in 2025, growth should start its rebound, while GDP levels are not anticipated to recover to the pre-conflict baseline any time soon. Consequently, the poverty rate is expected to remain high, exceeding 30 percent, in the outlook. On the fiscal front, an increase in clearance revenue transfers to pre-conflict levels is assumed, as well as a gradual uptick in domestically managed taxes, reflecting rebounding economic activity. This will drive revenues up, improving the fiscal deficit over the medium term. However, these assumptions are subject to extreme uncertainty. Downside risks remain elevated. The severity of the economic contraction will hinge on the evolution of the conflict and the resolution of the clearance revenues dispute. Absent a cessation of the hostilities and a substantial increase in external aid, the risks of disorderly fiscal adjustments cannot be excluded.

**TABLE 2** Palestinian territories / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
<b>Real GDP growth, at constant market prices</b>	7.0	4.1	-5.4	-17.1	5.5	4.2
Private consumption	7.5	17.7	-3.8	-7.0	4.6	3.7
Government consumption	10.3	-9.3	-7.0	-22.4	6.5	4.3
Gross fixed capital investment	13.7	12.2	-3.4	5.0	7.0	2.7
Exports, goods and services	17.3	5.9	5.7	4.6	5.0	2.7
Imports, goods and services	14.8	19.7	3.0	12.4	5.0	2.7
<b>Real GDP growth, at constant factor prices</b>	6.2	1.4	-6.0	-17.1	5.5	4.2
Agriculture	-0.7	-5.6	-11.5	-15.0	7.0	8.0
Industry	4.5	3.5	-8.6	-13.0	2.8	2.7
Services	7.5	1.6	-4.7	-18.4	6.1	4.2
<b>Inflation (consumer price index)</b>	1.2	3.7	5.9	35.8	2.5	2.2
<b>Current account balance (% of GDP)</b>	-9.8	-10.6	-16.6	-18.1	-17.9	-16.7
<b>Net foreign direct investment inflow (% of GDP)</b>	1.6	2.0	0.6	-1.5	-1.2	-1.2
<b>Fiscal balance (% of GDP)</b>	-5.8	-1.8	-3.9	-12.0	-8.7	-8.5
<b>Revenues (% of GDP)</b>	25.0	27.2	26.9	17.9	21.2	21.5
<b>Debt (% of GDP)</b>	56.0	53.1	58.4	68.8	72.7	76.9
<b>Primary balance (% of GDP)</b>	-5.1	-1.1	-3.3	-11.2	-7.9	-7.6
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>a,b</sup></b>	0.8	0.8	1.0	1.5	1.4	1.4
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>a,b</sup></b>	4.5	4.5	5.7	9.4	8.8	8.5
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>a,b</sup></b>	26.1	25.4	29.1	39.6	38.6	37.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ Calculations based on 2016-PECS. Actual data: 2016. Nowcast: 2017-2023. Forecasts are from 2024 to 2026.

b/ Projection using neutral distribution (2016) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.