Prior to Current Crisis, Decades-long Blockade Hollowed Gaza's Economy, Leaving 80% of Population Dependent on International Aid

Inflation, a shrinking fiscal space, a decline in foreign aid and the build-up of debt kept the economy of the Occupied Palestinian Territory below its 2019 pre-pandemic level.

By UNCTAD
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In-depth Report: PALESTINE

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The latest report by the United Nations Conference on Trade and Development (UNCTAD) on its assistance to the Palestinian people says 2022 was another bad year for Palestinians.

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Report on UNCTAD assistance to the Palestinian people

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.

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** This report should not be quoted by the press before 25 October 2023, 5 p.m. GMT.

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Read the full report here.

Against a backdrop of heightened political tensions, deepening dependency on the occupying Power and a stalled peace process, the Palestinian economy continued to operate below potential in 2022 as other persistent challenges intensified.

These include loss of land and natural resources to Israeli settlements, endemic poverty, a shrinking fiscal space, declining foreign aid and the build-up of public and private debt.

Economy Still Reeling from COVID-19 Shock

Even though the Palestinian GDP grew by 3.9% in 2022, per capita real GDP was still 8.6% below its 2019 pre-pandemic level. In Gaza, real GDP was 11.7% below the 2019 level and close to its lowest level since 1994.

Unemployment remained high at 24% across the Occupied Palestinian Territory, 13% in the West Bank and 45% in Gaza – with women and youth hit hardest. Poverty increased, rendering 40% of the population in need of humanitarian assistance.

With the rise in global food and energy prices, poorer households suffer disproportionately because food accounts for a greater share of their total expenditure.

Three decades after the Oslo Accords, the hoped-for convergence between the Palestinian economy and Israel's remains obstructed by occupation policies. Instead, the two economies have diverged, with the Palestinian per capita GDP currently standing at just 8% of Israel's.

Forced Economic Dependence

The report highlights the Palestinian economy's forced dependency on Israel. Excessive production and transaction costs and barriers to trade with the rest of the world have resulted in a chronic trade deficit and a pervasive, lopsided dependence on Israel, which accounted for 72% of total Palestinian trade in 2022.

Meanwhile, lack of a national currency and reliance on the Israeli shekel leave little space for monetary policy while the strong shekel exchange rate undermines the already impaired competitiveness of Palestinian producers in domestic and foreign markets.

The dearth of jobs forces many Palestinians to seek employment in Israel and settlements. In 2022, 22.5% of employed Palestinians from the West Bank worked in Israel and settlements, where the average wage is higher. But broker fees and other associated costs account for 44% of gross pay, wiping out the premium over the average domestic wage, which indicates that search for employment in Israel and settlements is largely driven by limited employment opportunities in the domestic economy.

Over-reliance on precarious employment in Israel and settlements exposes the Palestinian economy to shocks in a volatile environment characterized by frequent crises, while lack of monetary and fiscal space leaves little room for effective policy response to shocks and crises, the report warns.

Since its birth in 1994, the Palestinian government has coped with unique and complex economic, political and social responsibilities far greater than the political and economic resources at its disposal.

In the past, donor aid helped soften the impact of occupation. However, in 2022 the Palestinian government received just $250 million in donor budget support and $300 million for development projects. This is a steep decline from a total $2 billion, or 27% of GDP in 2008, to less than 3% of GDP in 2022.

Gaza: A Decade and a Half of Suppressed Development

Since June 2007, Gaza suffered several military operations and has been under a land, sea and air closure. Gazans need permits to move in and out of the strip through two land crossing points controlled by Israel.

Restrictions on the movement of people and goods, destruction of productive assets in frequent military operations and the ban on the importation of key technologies and inputs have hollowed out Gaza's economy.

Investment in 2022 diminished to 10.7% of Gaza's GDP – or a meagre 1.9% of the Palestinian GDP. Between 2006 and 2022, Gaza's real GDP per capita shrank by 37%, while its share in the Palestinian economy contracted from 31% to 17.4%.

The restrictions on movement also impede access to health and other essential services, as 80% of Gazans depend on international aid.

Living in Gaza in 2022 meant confinement in one of the most densely populated spaces in the world, without electricity half the time, and without adequate access to clean water or a proper sewage system.

It meant a 65% probability of being poor, 41% probability of dropping out of the labour force in despair, and for those looking for work, a 45% probability of being unemployed, the report concludes.

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