

IMPACTS OF THE CONFLICT IN THE MIDDLE EAST ON THE PALESTINIAN ECONOMY

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EXECUTIVE SUMMARY

Eleven months into the conflict in the Middle East, the Palestinian territories are nearing economic freefall, amidst a historic humanitarian crisis in the Gaza Strip. Official data reveals a 35 percent decline in real GDP in the first quarter of 2024 for the Palestinian territories overall, marking its largest economic contraction on record. The conflict has brought Gaza's economy to the brink of total collapse, with a staggering 86 percent contraction in Q1-2024. The near-complete halt of economic activity has left the Strip in a deep recession, with its share of the Palestinian economy plummeting from 17 percent—on average in previous years—to less than 5 percent currently. In parallel, the West Bank economy contracted by 25 percent in Q1-2024, with trade, services, construction, and manufacturing sectors experiencing the most significant declines. The impact on people has been catastrophic: an estimated 40,000 people have died and 30,000 left severely injured.¹ The ongoing hostilities and closures have prevented the entry of essential supplies in the Strip, leading to widespread food insecurity and severe shortages of water, fuel, and medical equipment, alongside the collapse of service provision. The humanitarian situation is exacerbated by the displacement of approximately 1.9 million people,² with shelters overflowing and insufficient sanitation services. Reports of famine-like conditions, malnutrition and disease are increasing, while major barriers

continue to severely limit access for humanitarian aid, hampering efforts to address the crisis.

The Palestinian Authority's (PA) financing gap is projected to reach US\$1.86 billion in 2024,³ more than double the gap of 2023, which may pose elevated risks for a systemic failure, especially affecting public service delivery. Worryingly, the gap continues to be mostly filled with borrowing from domestic banks and arrears to the private sector, public employees, and the pension fund. On a positive note, there is an anticipated rise in donor contributions. Between July and August 2024, both the World Bank and the European Commission formally announced their intentions to boost grant allocations to the Palestinian Authority (PA) in the near term, as part of a comprehensive reforms plan.

¹ UN Population Fund (UNFPA), <https://www.un.org/unispal/document/statement-unfpa-19aug24>. And UN OCHA, <https://reliefweb.int/report/occupied-palestinian-territory/gaza-thousands-dead-bodies-still-missing-under-rubble-no-international-action-enar>.

² UNFPA, <https://www.unfpa.org/occupied-palestinian-territory>, consulted online on August 20, 2024.

³ This figure reflects the projected fiscal deficit as calculated by the Palestinian Authority. Several downward risks exist which could lead to a larger fiscal gap, trending towards US\$ 2 bln, based on World Bank staff estimates.

In the face of Gaza’s economic stall and the West Bank’s subdued demand, unemployment has reached record highs in both the West Bank and Gaza. The private sector in the West Bank has demonstrated resilience by favoring underemployment over layoffs. Nonetheless, due to the job losses and shortened work hours, 87.2 percent of workers in the West Bank saw their household incomes shrink since the conflict’s onset. Recent surveys by the Palestinian Central Bureau of Statistics (PCBS) and the International Labour Organization (ILO)⁴ indicate that roughly two-thirds of firms in the West Bank reported some form of reduction in their workforce.

The halt of most commercial operations in Gaza has left most households without any source of income, while the cost of basic commodities has skyrocketed by close to 250 percent. The destruction or damage of most businesses, coupled with the displacement of both owners and workers, have left most households without any source of income. The surviving economic activities are mostly informal, with essential goods being sold on the black market at exorbitant prices. Compounded by elevated transportation costs and restrictive import policies, these factors have led to a 250 percent increase in the prices of basic commodities in Gaza in August 2024 compared to August of 2023.

The agri-food economy has been severely damaged, compounding the humanitarian crisis. Damage to agricultural infrastructure, including wells and solar panels, has hindered farming activities and increased production costs. Prior to 2020, agriculture provided formal employment to around 13 percent of the workforce in Gaza and supported the livelihoods of the vast majority, offering informal employment to over 90 percent of the population. Recent remote sensing analysis by the United Nations Satellite Centre (UNOSAT) reveals that 63 percent of Gaza’s permanent croplands have experienced a decline in crop health and density (an increase of 9 percent since May 2024). Khan Younis, Gaza City, and North Gaza governorates are particularly affected, with approximately 70 percent of their croplands damaged.

As a result, food insecurity in Gaza has soared, pushing nearly 2 million people to the

edge of widespread famine. Nearly all Gazans face acute shortages. The latest IPC analysis indicates that 15 percent of the population (350,000 individuals) is experiencing famine-like conditions, with an almost complete lack of food. Additionally, one-third of the population is in a state of emergency, suffering from sharp food deficits and higher death rates. These conditions are particularly severe in the northern regions, Gaza City, and the governorates of Deir al-Balah, Khan Younis, and Rafah, with the threat of famine projected to continue through September 2024. An alarming 90 percent of children under the age of two, along with 95 percent of pregnant and breastfeeding women in Gaza are suffering extreme food poverty, consuming two or fewer food groups. Around 95 percent of households limit meals and portion sizes, with two out of three households eating one meal a day.

The education system in Gaza has collapsed. All 625,000 school-aged children of Gaza have been out of school since October 7, 2023. Preliminary estimates suggest that nearly 95 percent of basic, secondary and tertiary education facilities have been damaged or destroyed. The conflict has also severely disrupted education services in the West Bank, with public schools reducing in-person schooling due to fiscal constraints and security concerns.

Gaza’s health system has been significantly compromised. The impact of the conflict on the health sector is both direct, through damage to health infrastructure, as well as indirect, through the losses incurred as a result of interruptions in service delivery due to the loss of personnel and missing medical supplies and medicines. The destruction of water supply infrastructure and solar panels combined with a lack of grid electricity, fuel for back-up generators and essential inputs have caused 80 percent of the primary care centers (PHCs) to no longer be functional. As a result of the collapse of the healthcare system, three field hospitals have recently been put in place. Only 17 out of the 36 hospitals with inpatient capacity are partially functional,⁵ which represents 53 percent of the total pre-crisis inpatient, ICU, and maternity bed

⁴ ILO, https://www.un.org/unispal/wp-content/uploads/2024/07/ILO_OPT_Impact_businesses_2024.pdf.

⁵ As of June 2024.

capacity. Approximately 1,500 hospital beds are currently available throughout the Gaza Strip, down from 3,500 beds available before the conflict.⁶ The estimated average bed occupancy is almost 300 percent.

In line with these findings, close to 100 percent of the Gaza population lives in poverty, while households in the West Bank are also suffering from significant welfare losses. Multidimensional poverty in Gaza describes a profoundly distressed situation, affecting both people's well-being and mental health, with impacts expected to last into the future. The large economic contraction in the West Bank since the end of 2023 is estimated to have translated into a more than doubling of the short-term poverty rate calculated as of mid-2024—from 12 percent to 28 percent.

The Palestinian financial sector—historically a stabilizing force—is showing increased signs of strain. The conflict has intensified existing challenges and introduced new ones such as a critical cash shortage in Gaza. The ongoing economic contraction, the Palestinian Authority's fiscal struggles, and the increased volatility of cross-border payments all contribute to add pressure. In particular, the severe cash shortage in Gaza is impacting the ability of Gazans to access humanitarian assistance and deposits through ATMs and remittances through money transfer operators. This precarious situation underscores the urgent need for measures to safeguard the sector's integrity and support its recovery.

Maintaining correspondent banking relationships (CBRs) between Palestinian and Israeli banks continues to be critical to prevent systemic economic repercussions. CBRs are essential for the Palestinian economy to conduct financial transactions with Israel and the international community. The recent issues with the renewal of "Letters of Indemnity" have underscored the risks to the Palestinian banking system from a potential disconnection from

Israeli banks. Risks were only temporarily mitigated by a 4-months renewal granted by the Government of Israel. A severance of CBRs would likely cause rapid disruption in key banking services and have profound negative impacts on the Palestinian real sector, especially as the Palestinian economy uses the Israeli Shekel as the primary de facto currency. Importantly, such a severance could also lead to a rise in informal or unregulated financial activities, complicating financial regulation and oversight.

As consistently emphasized in the World Bank's previous Economic Updates, there are several key actions that must be taken to mitigate the already dire recession, rising poverty, and escalating humanitarian crisis. Foremost, a cessation of hostilities is essential to mitigate the devastating human toll, and to begin to restore basic services and kick-start socioeconomic recovery. Second, it is imperative to reverse recent unilateral decisions regarding deductions from Clearance Revenues to ensure that the PA has the means to cover vital budgetary obligations, including salaries, pensions, and social services. Concurrently, there is an urgent need for the international community to quickly scale up funding, to maintain essential public services and to commence planning for long-term recovery and reconstruction. Additionally, measures to facilitate trade and strengthen private sector activities in both the West Bank and Gaza are crucial to stimulate income generation. Lastly, it is of paramount importance that the new Palestinian government remains steadfast in convincingly implementing its reform agenda, with a particular emphasis on governance and fiscal sustainability. Since the new Government's inauguration less than five months ago, there has been progress in the definition and prioritization of reforms, and the upcoming weeks and months will need to see further acceleration in both design and implementation.

⁶ UN OCHA, <https://www.unocha.org/publications/report/occupied-palestinian-territory/humanitarian-situation-update-193-gaza-strip>.

ASSESSMENT

Since the outbreak of the conflict in the Middle East, centered in Gaza, the Palestinian territories have experienced a historic economic decline. Following a contraction of 29 percent in the fourth quarter (Q4) of 2023, year-on-year (y/y), official data by PCBS indicate that the Palestinian territories registered their largest decline on record in the first quarter (Q1) of 2024, with real GDP declining by a staggering 35 percent.

Gaza's economy is in tatters as a direct consequence of the conflict. The Gaza economy has sunk into a much deeper recession than the West Bank, as the conflict resulted in a near complete halt of all economic activities. Thus, Gaza's economy shrank by 86 percent in Q1-2024. Gaza's economic contribution to the overall Palestinian economy has significantly declined from approximately 17 percent before the conflict to less than 5 percent currently, as a result of a sharp reduction in economic activity in the Strip.

The situation on the ground in Gaza has developed into a full-fledged humanitarian catastrophe, with continued hostilities and sieges preventing entry of essential supplies, including water, food, fuel, non-food items, essential medical supplies and medicines. An estimated 40,000 people have been killed and close to 30,000 severely injured in the Gaza Strip. An estimated

70 percent of fatalities are among women and children. Repeated mass internal displacement has affected approximately 1.9 million people, as people have sought safety in ever-smaller geographic areas. As conditions deteriorate, reports of famine like conditions, malnutrition and disease are increasing with insufficient resources to address the unfolding humanitarian crisis. There has been minimal evacuation of the injured or ill, and a limited number of humanitarian workers have been able to enter or exit.

Concurrently, the economic downturn has also hit the West Bank, primarily by impacting employment and earnings. Since the start of the conflict, new restrictions on movement within cities and denied access for the vast majority of Palestinian commuters to the Israeli labor market have significantly hampered growth. Palestinian workers in Israel—mainly in the construction sector—have been able to earn salaries up to NIS 10,000⁷ per month—substantially more than they would for similar jobs in the West Bank. This, compounded with Israeli measures to withhold higher amounts from clearance

⁷ KavLaoved: We must speak about the Palestinian workers: the occupation of labor, version 2024: <https://kavlaoved.org.il/en/jobless-unpaid-uncompensated-the-plight-of-palestinian-workers-amidst-crisis> , consulted on August 1st, 2024.

TABLE 1 • Percentage Change in Economic Sectors; Q1-2024 vs. Q1-2023

Sector	West Bank	Gaza
Agriculture, Forestry and Fishing	-11	-93
Mining, Manufacturing, Electricity and Water	-29	-95
Manufacturing	-31	-95
Construction	-42	-99
Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles	-27	-96
Transportation and Storage	-32	-97
Financial and Insurance Activities	-14	-98
Information and Communication	-18	-93
Services	-24	-67
Public Administration and Defense	-10	-88
Gross Domestic Product	-25	-86

Source: Palestinian Central Bureau of Statistics.

revenues, caused the West Bank economy to contract by 25 percent in Q1-2024 on a yearly basis. Trade and services, two of the largest contributors to the West Bank economy, contracted by 27 and 24 percent respectively, in Q1-2024 (y/y). On the sectoral front, the largest decline was seen in construction (42 percent) and manufacturing (31 percent) (see Table 1). Overall, demand witnessed a significant drop, with consumption falling by 28 percent in Q1-2024, reflecting a cutback in spending as most Palestinian workers in Israel lost their jobs and PA employees struggled to make ends meet, receiving only partial salaries due to the spiraling fiscal crises. Given that a large share of consumption is covered by imports, the latter also declined—by 31 percent in Q1-2024. The contraction in manufacturing and the slowdown in the Israeli economy (the PA's largest trading partner) caused exports to decrease by 16 percent.

The conflict has severely reduced living standards for the Palestinian households, resulting in a drop to lower-middle-income status in the World Bank's country income classification. According to the World Bank's latest World Development Indicators, the Palestinian territories' Gross National Income (GNI) per capita dropped to

US\$4,220 in 2023, 11 percent lower than in 2022.⁸ As a result, the Palestinian territories' income classification has been downgraded to a lower-middle income country, down from its higher-middle income status prior to the conflict. In addition, the conflict has created further divergence between the living standards in Gaza and those of the West Bank. In Gaza, nominal GDP per capita dropped by 28 percent (y/y), reaching US\$1,087 in 2023, and representing roughly just one fifth of the West Bank's per capita GDP.

Despite the absence of official data beyond the first quarter of 2024, available indicators suggest no improvement vis-à-vis the trend. National accounts data is still unavailable beyond Q1-2024, but other indicators suggest that the situation has continued to be extremely difficult. The Palestine Monetary Authority's (PMA) Business Cycle Index⁹ for Gaza continues to be estimated at zero between April and August 2024 indicating the halt in most economic activity. In the West Bank, the indicator witnessed a temporary improvement in early Q2-2024 until it registered further decline in June, July and August 2024 (Figure 1). Industrial production did not witness any improvement in Q2-2024 compared to the previous quarter and only registered a small increase in July 2024 while remaining much lower than its pre-conflict levels (Figure 2), and the proportion of returned checks (i.e., the number of checks issued that could not be cleared) witnessed a similar trend (Figure 3).

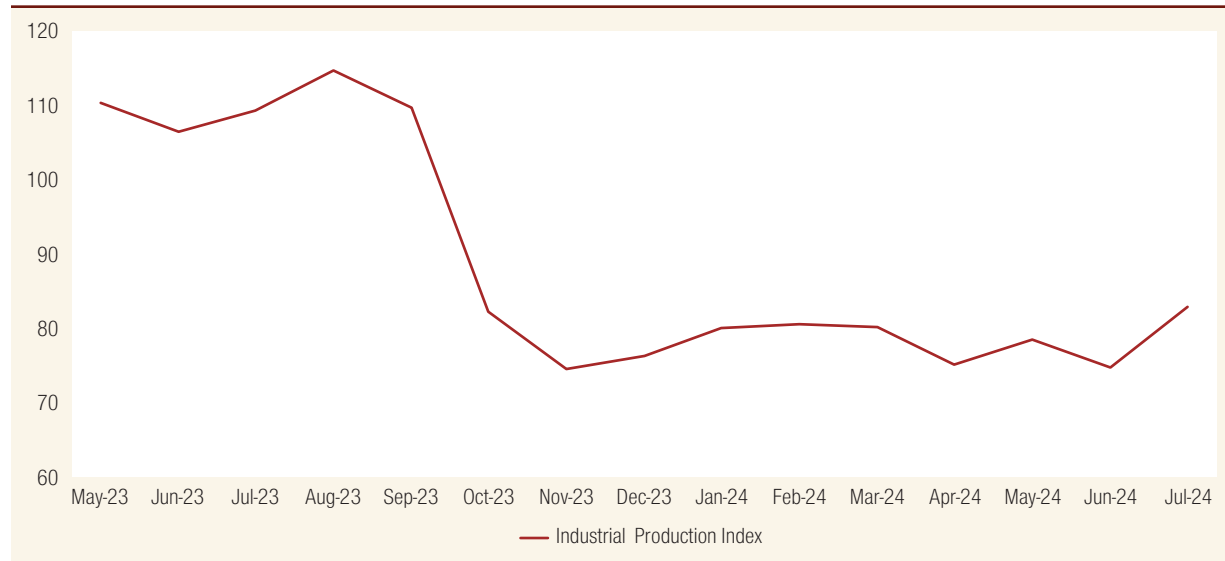
In this context, unemployment has reached record highs in both the West Bank and Gaza. Based on a recent report by the PCBS and ILO,¹⁰ it is estimated that, overall, unemployment in the

⁸ GNI is calculated using the Atlas method at current US\$. The data can be accessed here: <https://data.worldbank.org/indicator/NY.GNP.PCAP.CD?locations=PS>.

⁹ The BCI is represented as a diffusion index, which means that it gives a central tendency within the group of businesses surveyed. A value of zero indicates unchanged conditions, a positive value indicates improving conditions (up to 100) and a negative value indicates deteriorating conditions (up to -100). Since October 2023, the Gaza index is estimated to be at its lowest.

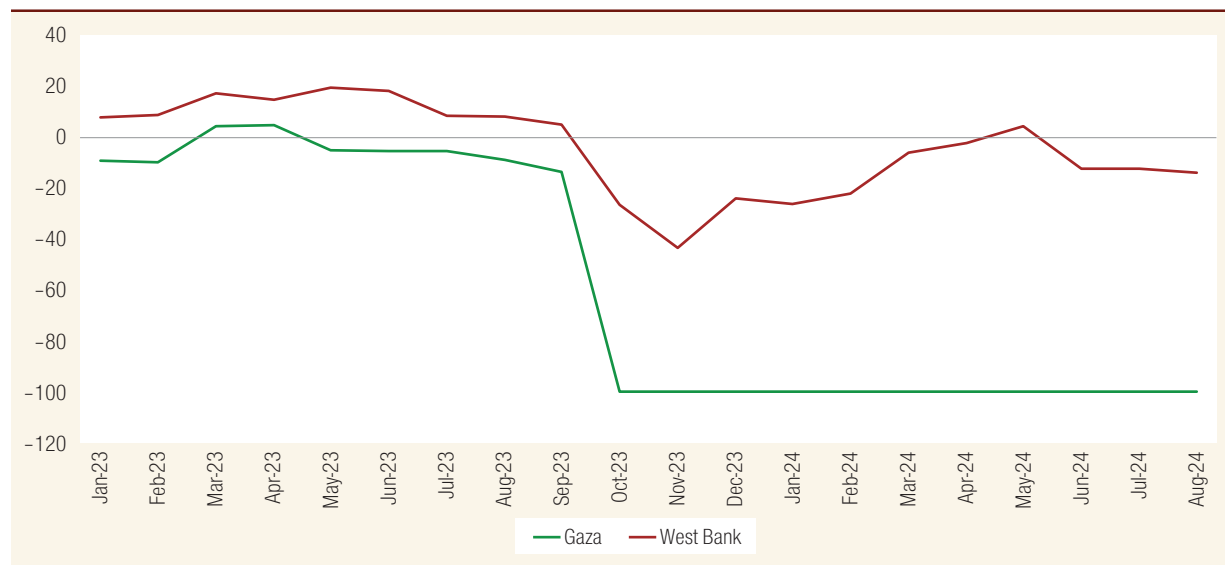
¹⁰ ILO, <https://www.ilo.org/publications/impact-war-gaza-labour-market-and-livelihoods-occupied-palestinian-0>.

FIGURE 1 • Business Cycle Index 00



Source: PMA.

FIGURE 2 • Industrial Production Index (2019=100)



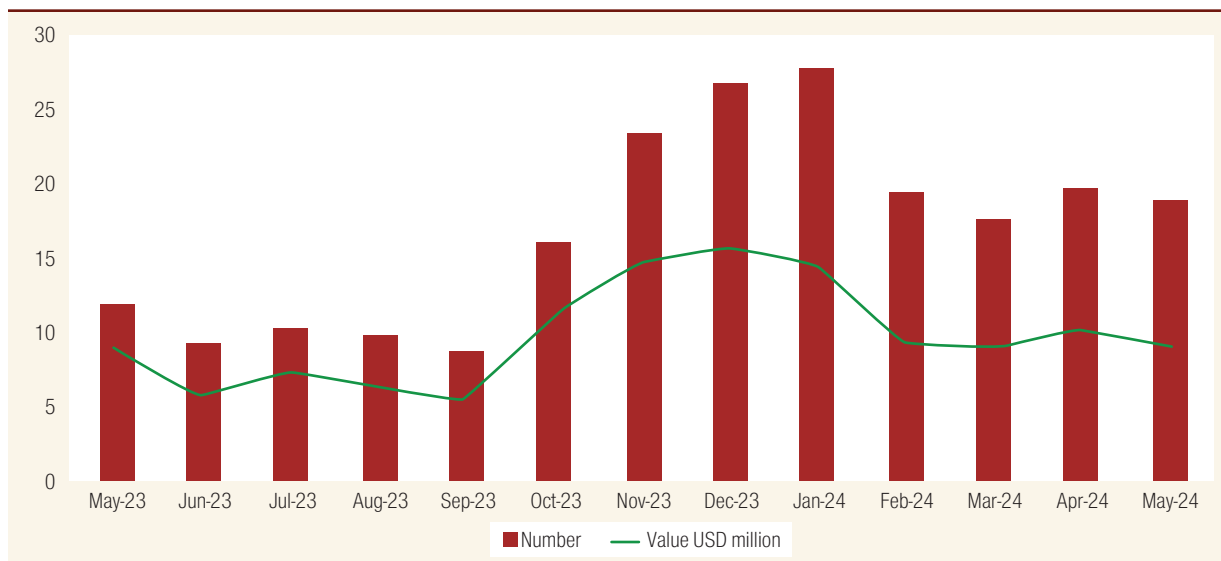
Source: PCBS.

Palestinian territories reached 50 percent in June 2024—the highest on record. In the West Bank, the unemployment rate is estimated at 35 percent due to the abrupt loss of jobs in Israel and the settlements as well as job losses in the local economy.¹¹ According to recent surveys led by the ILO, 22.2 percent of surveyed workers were employed in Israel and the settlements prior to the conflict, but by January 2024, this

figure dropped to 2.3 percent. Since the first months of 2024, there is evidence of a change in trend, with several thousand of Palestinian commuter workers regaining access to the Israeli market, estimated at 33 thousand, according to PCBS.

¹¹ PCBS, https://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_LFIQ12024E.pdf.

FIGURE 3 • Returned Checks as a Share of Total Checks Issued



Source: PMA.

In August 2024, prices in Gaza stabilized, with monthly Consumer Price Index (CPI) at 1.9 percent; however, annual CPI surged massively, by close to 250 percent, due to supply chain disruptions from the conflict. Widespread shortages of essential goods have significantly constrained the purchasing ability of hundreds of thousands of households, regardless of their financial means. Food prices remained 140 percent higher than in August 2023 driven by challenges in accessing food, increased transportation costs, and decreased volumes of aid. **In the West Bank, price trends continue to be relatively stable, with the CPI for August 2024 being 1.5 percent higher than the previous month, reflecting the demand-side nature of the shock.**

The PA fiscal crisis reached unprecedented levels in 2024, largely as a consequence of increased Israeli deductions from Clearance Revenues in the aftermath of the conflict. Since October 2023, Israel has increased the monthly deductions to an average of NIS500 million, up from the previous NIS200 million monthly average. As a result, clearance revenue transfers, the PA's lion's share of income, shrank by over 50 percent in only a few months. Clearance revenue transfers were also fully halted for roughly two months in the first half of

2024, and were resumed on June 30, 2024. This, on top of the natural decline in revenues given the economic contraction, plus the low levels of aid, resulted in the PA further reducing salary payments to an average of 60 percent, since October 2023.

Preliminary data on the financing gap for the PA describe a situation that is at least twice as severe as in 2023. The 2024 deficit is expected to reach US\$1.86 billion,¹² but significant downward risks exist.¹³ In the absence of financing alternatives, covering such a deficit is expected to prove almost impossible for the PA and may pose elevated risks for a systemic collapse, especially affecting service delivery. Official data from the PA's Ministry of Finance (MoF) for the first six months of 2024 indicate that the PA's financing need, after aid and considering clearance revenue deductions, reached US\$803 million.¹⁴ Worryingly, the gap contin-

¹² According to World Bank's projections; accounting for Israeli deductions and aid in line with the current trend.

¹³ The US\$1.86 bln figure reflects the projected fiscal deficit as calculated by the Palestinian Authority. Several downward risks exist which could lead to a larger fiscal gap, trending towards US\$ 2 bln, based on World Bank staff estimates.

¹⁴ At the end of 2023, the financing gap for the full year, after aid, was equivalent to US\$682 million.

ues to be mostly filled with borrowing from domestic banks and arrears to the private sector, public employees, and the pension fund. The 2024 year-end estimate reflects formal commitments, assuming full salary payments to public employees, at 100 percent, as well as that Israeli deductions from clearance revenues will continue at the same level as in the first half of 2024, throughout the rest of the year. It also assumes that aid through the budget will almost double in 2024 compared to the previous year, which may not fully materialize creating a risk for a higher financing need. As such, the estimate is exposed to significant downside risks.

In the face of Gaza’s economic collapse and the West Bank’s depressed demand, the Palestinian private sector in the West Bank demonstrated resilience, favoring underemployment over layoffs. In the aftermath of the conflict, the West Bank’s average monthly working days plummeted from 21 to 11 by early 2024,¹⁵ with smaller companies bearing the brunt of this reduction, while larger firms were generally more adept at maintaining their staffing levels. With job losses and shortened work hours, 87.2 percent of workers saw their household incomes shrink since the conflict’s onset, according to recent ILO surveys. The same surveys indicate that, nevertheless, roughly two-thirds of firms in the West Bank reported some form of reduction in their workforce.

The West Bank has seen increased violence, severe disruptions to local businesses and agricultural production, including rising restrictions on movement and trade, and increasing operational costs. Since October 2023, the establishment of new checkpoints and roadblocks between governorates, increased military incursions, rising settler violence, and episodes of domestic disturbance have contributed to a heightened sense of insecurity. This has constrained the movement of people and goods to markets in major cities such as Jenin and Tulkarem. An overwhelming 98.8 percent of enterprises in the West Bank confirmed being negatively affected by the war.¹⁶ Over four surveyed businesses out of five identified disruptions to supply chains and an increase in transportation costs as the top two most significant challenges they face.¹⁷

In Gaza, private sector establishments were severely affected, particularly those operating in commerce, manufacturing, hospitality, and professional services. These sectors, typically concentrated in densely populated urban areas, have experienced physical destruction akin to those in the housing sector due to the dual use of buildings. Business activity in Gaza has been crippled, with a significant portion of establishments damaged or destroyed, and many business owners and employees displaced. The remaining economic activity is largely informal, focusing on essential goods often sold on the black market at inflated, unregulated prices.

Ongoing hostilities and resulting economic constraints have significantly disrupted markets in Gaza, exacerbating the humanitarian situation, especially in the north of the Strip. Continued hostilities, coupled with closures of key crossings and economic constraints (namely, a severe cash shortage) have made market conditions highly volatile. Importing basic goods has become very challenging, contributing to high price increases. The reliance on black markets, high transportation and security costs, and restrictive import policies have worsened the humanitarian crisis, making it difficult for people to obtain necessary goods at any price. Northern Gaza has experienced the most acute supply-side shocks. As of end-July, markets in Rafah were also still non-operational.¹⁸

The Palestinian agri-food economy has been strained by the ongoing war, exacerbating economic hardship and food insecurity. Before the cumulative impacts of the COVID-19 pandemic and ongoing conflicts in Gaza, primary agriculture

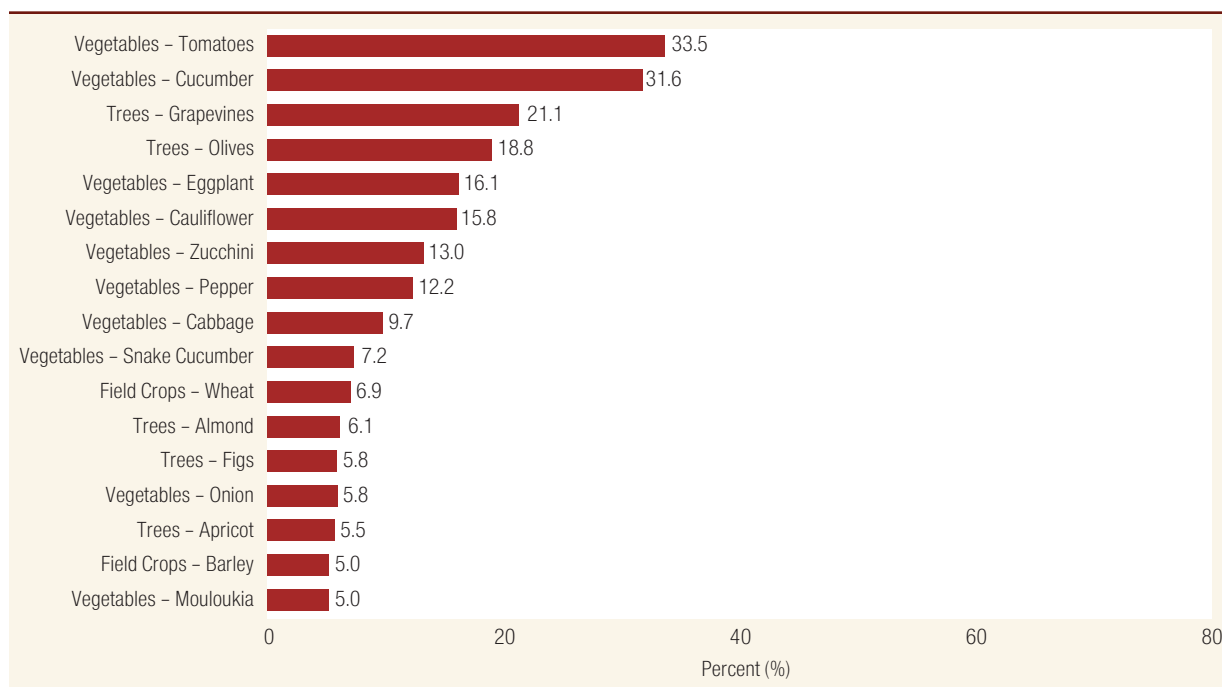
¹⁵ Chamber of Commerce (Ramallah Governorate), Impact of the Conflict on the Business Sector, 2024.

¹⁶ Data from ILO and the Federation of Palestinian Chambers of Commerce, Industry, and Agriculture (FPCCIA), 2024. Study covering the period from October 2023 to January 2024.

¹⁷ ILO: Impact of the war in Gaza on private sector workers and businesses in the West Bank: https://www.un.org/unispal/wp-content/uploads/2024/07/ILO_OPT_Impact_businesses_2024.pdf.

¹⁸ Office of the Quarter, Informal Gaza Update, 29 July 2024.

FIGURE 4 • Products with Greatest Declined Revenue or Profit in Percent(N=361)



Source: World Bank staff.

provided formal employment to around 13 percent of the workforce in Gaza and supported the livelihoods of the vast majority, offering informal employment to over 90 percent of the population, including the agri-food value chain.¹⁹ The sector was previously pivotal in ensuring food security and bolstering socio-economic conditions through local food production given the near-total blockade on Gaza already prior to October 7, 2023. Recent UNOSAT analysis²⁰ based on satellite imagery indicates a concerning trend: as of June 2024, 63 percent of Gaza’s permanent crop fields exhibit a marked deterioration in crop health and density, an increase of 9 percent since just May 2024. The North Gaza and Gaza City governorates are particularly affected, with approximately 70 percent of their croplands damaged. In the south, the Khan Younis governorate has suffered extensive damage to its greenhouse areas, losing 42 percent of them, while the Gaza City governorate experienced the most severe greenhouse damage, with almost 90 percent²¹ being affected. The war has also taken a heavy toll on Gaza’s water resources, with 1,049 agricultural wells (46 percent of the total), reported as damaged.²² The

ongoing security situation further exacerbates these challenges, as it hinders farmers from cultivating their land, posing life-threatening risks due to military activities. FAO assessment indicates that 1,695 solar water pumps (65 percent of the total) have been damaged. Similarly, fishermen are restricted from accessing the sea, and those who persist face grave dangers from the ongoing hostilities.

In a context of massive economic and security challenges, many farmers in the West Bank halted vegetable cultivation.²³ Sixteen percent of

¹⁹ World Bank, 2023: West Bank and Gaza Country Climate and Development Report.

²⁰ UNOSAT, 2024: FAO Gaza Strip Cropland Damage Assessment.

²¹ Food Security Cluster, 2024: <https://fscluster.org/state-of-palestine/document/damage-greenhouses-due-conflict-gaza>.

²² Food Security Cluster, 2024: <https://fscluster.org/state-of-palestine/document/damage-agricultural-wells-due-conflict>.

²³ The World Bank conducted a rapid survey to analyze the impacts of the war in Gaza on the agricultural sector’s

West Bank farmers ceased to cultivate key vegetables because of low demand, restricted access, and increased violence from settlers and local turmoil. Seventy-four percent of surveyed farmers in the West Bank have experienced an average revenue decline of 50 percent since the war began, severely affecting their livelihoods, and profit margins are squeezed in a range between 20 and 100 percent, particularly in vegetable production. In addition to some limited layoffs—a large portion (roughly one third) of those employed in the sector has been undergoing wage cuts, further stifling their livelihoods and the sector’s role in generating employment. This impact is significant as farm workers have no job security and are mostly paid on a per-day basis, receiving about 100 shekels a day (roughly \$27 USD), a 5 percent drop from average wages prior to the war.

In Gaza, the delivery of food aid through border crossings and ports is very challenging.²⁴

Ongoing hostilities continue to hamper the effective dissemination of aid. A temporary reprieve was experienced when Israel allowed trucks with commercial goods into the North during parts of April and May 2024, however this was short-lived due to a combination of resurgence²⁵ of hostilities and escalating social disorder in Gaza. The volume of aid entering Gaza, since the start of the Rafah ground operation and the closure of Rafah Crossing in May, has roughly halved; daily truck deliveries plummeted from an average of 169 in April to 94 in May, and further declined to under 80 in the months of June and July. Among other challenges, merchants face large price fluctuations, which hinder the procurement of inventory and can contribute to extended periods of product unavailability. Consequently, the cost of available goods remains prohibitively high for consumers, and especially fresh produce—which leads to the decrease in dietary variety.

As a result, food insecurity in Gaza has soared, pushing nearly 2 million people to the edge of widespread famine. The latest IPC food insecurity analysis,²⁶ which spans from May 1 to June 15, reveals a dire situation where nearly the entire Gaza population is grappling with acute food insecurity, categorized as Phase 3 (Crisis). The threat of famine looms, with its onset already affecting northern areas and Gaza City: approximately 350,000 indi-

viduals, representing 15 percent of the population, are enduring famine conditions (Phase 5). An additional 650,000 people, or 29 percent of the population, are in a state of emergency (Phase 4), facing significant food consumption deficits that result in acute malnutrition and increased mortality rates. Vulnerable groups are especially affected. An alarming 90 percent of children under two years old, along with 95 percent of pregnant and breastfeeding women in Gaza are experiencing severe food poverty, consuming two or fewer food groups and with poor nutritional quality. Around 95 percent of households are currently limiting meals and portion sizes, with 64 percent of households eating only one meal a day. Over 95 percent of households said they had restricted the amount of food adults received to ensure small children had food to eat. According to Oxfam, by April 2024, people in northern Gaza were forced to survive on 245 calories per day.²⁷

performance in the West Bank since October 7, 2023, focusing on livelihoods, food security, mobility, and trade. The survey aimed to understand the challenges faced by farmers, the impact on agricultural production, and the overall economic implications. The instrument used was a Business-to-Business (B2B) survey with farm owners, employing a mix of CATI (computer-assisted telephone interviewing) and in-person CAPI (computer-assisted personal interviewing). The sample included farmers from various governorates in the West Bank, particularly smallholders who make up 93% of the agricultural community and are primarily located in administrative divisions A and B, as established by the 1995 Oslo II Accord. The survey excluded Area C, which is administered by Israel, as well as regions in areas A and B that are close to the separation wall, settlements, declared Israeli military zones, main road intersections, and fenced-off lands due to inaccessibility. The sample size was 394 farmers, with a margin of error of 4.83%.

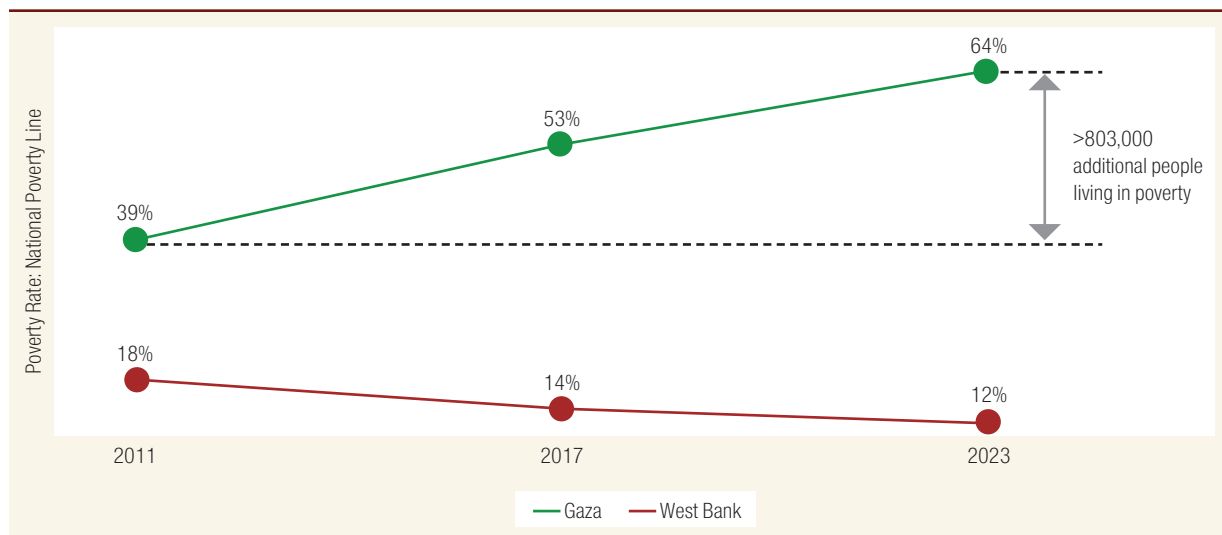
²⁴ OCHA, 2024: Hostilities in the Gaza Strip and Israel | Flash Update #166.

²⁵ United Nations, <https://www.unognewsroom.org/story/en/2271/gaza-update-who-ohchr-unicef>.

²⁶ IPC, 2024: GAZA STRIP: IPC Acute Food Insecurity Special Snapshot.

²⁷ Oxfam: People in northern Gaza forced to survive with less than a can of beans; Oxfam’s analysis is based on the latest available data used in the recent Integrated Food Security Phase Classification (IPC) analysis for the Gaza Strip.

FIGURE 5 • Even Before the Current Conflict, Poverty Had Been Increasing in Gaza



Source: Palestinian Expenditure and Consumption Surveys 2011, 2017, and 2023.

In line with these findings, nearly every Gazan currently lives in poverty—and at least over the short term—with the West Bank’s households also suffering welfare repercussions from the hostilities. The recent large contraction of the West Bank’s economy is estimated to have translated into a more than doubling of the short-term poverty rate since end 2023—which reached 28 percent as of mid-2024. The combination of increased restrictions, job and income losses, and a sharp decline in demand has led to adverse welfare effects, which was further exacerbated by lower pro-poor social spending as a result of the worsening public financial position.

Multidimensional poverty in Gaza describes a profoundly distressed situation, affecting both people’s well-being and mental health, with impacts expected to last into the future. As adequate access to food and safe water decreases in many parts of the strip, and violence and displacement persist, the associated risks are high. The cases of malnutrition and severe malnutrition²⁸ continue to sharply rise. The number of orphans is also on the rise: in February 2024, UNICEF estimated that at least 17,000 children in the Gaza Strip were unaccompanied or have been separated from their immediate relatives since October 7.²⁹ Exposure to traumatic experiences is expected to have lasting consequences throughout

a lifetime. Before October 7, UNICEF estimated that more than 500,000 children in Gaza needed mental health and psycho-social support. The psychological toll of the hostilities also has severe consequences on reproductive health, including a rise in stress-induced miscarriages, stillbirths, and premature births.³⁰

The education system in Gaza has collapsed. A total of 625,000 school-aged children have been out of school since October 7, and as of June 2024 preliminary estimates based on satellite imagery suggest that nearly 95 percent of basic, secondary and tertiary education facilities have been damaged or destroyed.³¹ At least 500 teachers and university faculty are dead as a result of the conflict.³²

²⁸ UNICEF, <https://www.unicefusa.org/stories/rising-malnutrition-puts-childrens-lives-grave-risk-gaza>.

²⁹ UNICEF, <https://www.unicef.org/press-releases/stories-loss-and-grief-least-17000-children-are-estimated-be-unaccompanied-or>.

³⁰ Harvard School of Public Health, Probing links between trauma and reproductive health harms, 2023. <https://www.hsph.harvard.edu/news/hsph-in-the-news/probing-links-between-trauma-and-reproductive-health-harms/>.

³¹ IPSOS Gaza Damage Assessment Monthly Report: June 2024 Edition

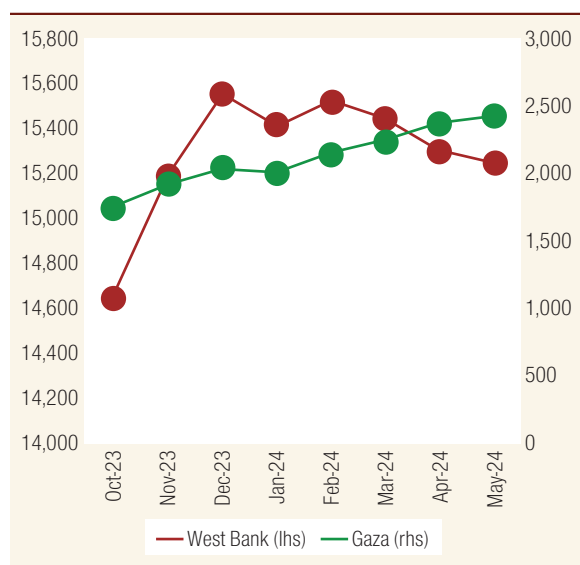
³² Palestinian Ministry of Education and Higher Education, 2024.

Education services have also been disrupted in the West Bank, with public schools reducing in-person schooling due to fiscal constraints. Every month, US\$62 million is required to sustain the payroll of 42,000 educational staff.³³ A combination of increased withholding of tax revenues by Israeli authorities (following October 7) and reduced domestic revenues, has led the PA to delay and make incomplete salary payments for teachers, by the PA. As a result, public schools in the West Bank have switched to a hybrid model with limited in-person schooling and approximately 600 thousand students attending from home for up to three days per week. In addition, heightened security volatility in the West Bank has caused education disruptions, impeding the safe access of teachers and students to schools.

The learning disruptions, trauma, student and teacher fatalities, and destruction of educational infrastructure will have a large and lasting impact on Palestinian human capital. Over 45,000 six-year-old children in Gaza, who are expected to start grade one in September 2024, have missed pre-school and crucial early learning experiences. Primary students have missed acquiring essential literacy and numeracy skills for almost a year, and approximately 39,000 secondary students have been unable to complete their Tawjih³⁴ exams. Furthermore, 87,000 tertiary students' pursuits of higher education have stalled.³⁵

Gaza's health system has been significantly compromised by the conflict. As of 4 July 2024, the World Health Organization has documented 466 military incidents affecting healthcare facilities. These events have resulted in 727 fatalities and 933 injuries. Additionally, there have been reports of 214 healthcare professionals being detained or arrested, 102 medical facilities impacted, and 113 ambulances either destroyed or damaged.³⁶ Ongoing destruction, fuel shortages, and a scarcity of essential supplies have led to a situation where 80 percent of primary care centers are no longer operational. In response to the healthcare system's shortages, three field hospitals have been established, providing a range of essential services, including trauma and emergency care, maternity services, and child health care. As of early June 2024, less than half of hospitals that pre-

FIGURE 6 • Geographic Distribution of Customer Deposits (USD Million)



Source: PMA.

viously offered inpatient services³⁷ are partially functioning. Of the roughly 2,800 beds available before the crisis, only 1,500 are currently in use. The bed occupancy rate has soared to an estimated average of almost 300 percent.

The Palestinian financial sector—historically a stabilizing force—shows signs of increasing strain. While banking IT infrastructure has largely withstood the crisis, due to preemptive relocation and robust business continuity plans, the financial sector faces a grim reality with potential losses far exceeding the physical destruction. The banking portfolio in Gaza, worth nearly one billion US dollars, and the microfinance portfolio worth US\$54 million, are at risk, with uncertain recovery prospects. The conflict has not only intensified existing challenges but also

³³ World Bank Education Finance Watch, <https://www.worldbank.org/en/topic/education/publication/education-finance-watch>.

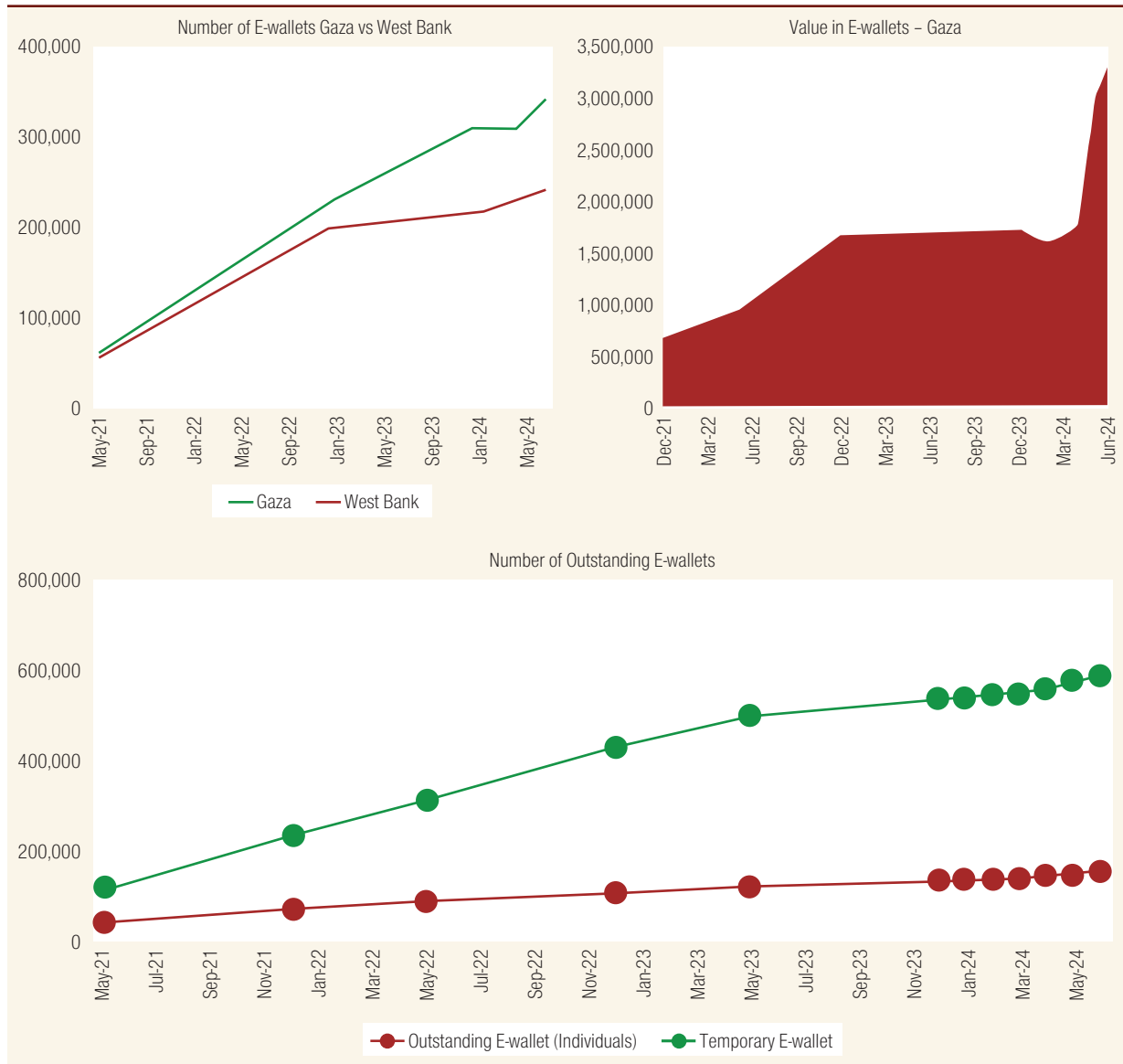
³⁴ Tawjih is the name of the general secondary education certificate examination in the West Bank and Gaza.

³⁵ PCBS: Tawjih examination 2024; <https://www.pcbs.gov.ps/post.aspx>.

³⁶ WHO, <https://www.un.org/unispal/wp-content/uploads/2024/05/WHO-PHSA-oPt-020524-FINAL.pdf>.

³⁷ 17, against a total of 36 pre-conflict.

FIGURE 7 • Growth in E-Wallets



Source: PMA.

introduced new ones such as a critical cash shortage in Gaza, jeopardizing access to deposits and remittances, and the volatility of cross-border payments. This precarious situation underscores the urgent need for measures to safeguard the sector’s integrity and support its recovery.

The banking sector has largely scaled back its lending activities and adopted a risk-averse stance in anticipation of any potential deterioration, which can lag behind business cycle trends.

The Palestinian banking sector has maintained a risk-averse posture during Q1-2024, with flat levels of lending and credit-to-deposit ratio. Available 2024 data (January through May) indicate an incremental uptick in customer deposits in Gaza, in contrast with a modest decline in West Bank deposits. Loan loss provisions across the banking system increased by over 55 percent in the previous 12-month period, signaling further deterioration in the quality of lending portfolios. On the upside, the escalation of the conflict in Gaza and eco-

conomic crisis in the West Bank come on the back of a period of post-COVID financial sector growth and profitability, which placed the financial sector in a better position to weather potential shocks. The banking system has proven well capitalized, liquid, and fully compliant with the Capital Adequacy Requirements set by the Palestine Monetary Authority, in line with Basel III. At the same time, the financial sector has been substantially impacted both by direct damages, with losses to facilities in Gaza estimated at over US\$14 million, and by the worsening economic conditions affecting the overall banking sector's portfolio. Preventing the financial sector from becoming an additional source of instability is nothing less than imperative.

Severe cash shortage in Gaza is impacting the ability of Gazans to access humanitarian assistance and deposits through ATMs and remittances through money transfer operators. Consistent anecdotal evidence indicates that financial operators in Gaza, including banks and money changers, are charging up to 15–20 percent in cash-out fees. In parallel, in recent months Payment Service Providers (PSPs) have reported a large uptick in usage and volume of digital payments. This uptick also coincides with emergency response measures implemented by the PMA to alleviate the cash shortage, including the launch of several payment measures such as cost-free instant payment services in Gaza, the introduction of offline USSD³⁸ capabilities, and the adoption of electronic Know Your Customer (e-KYC) procedures.³⁹ These measures are deemed positive and expected to help facilitate access through streamlined onboarding of new e-wallet customers, cheaper funds transfer, and round the clock availability of financial services 24/7.

Safeguarding correspondent banking relationships between Palestinian banks and Israeli banks continues to be essential. The Palestinian economy operates primarily using the Israeli shekel as its de facto currency. This makes the Palestinian economy reliant on ties to Israel for its financial transactions both with Israel (its main economic counterpart) and the broader international community. These transactions are facilitated through the Bank of Israel and private Israeli banks. For years, the Government of Israel has issued timebound “letters of indemnity and immunity” to shield the Israeli banks from any risks or

legal repercussions in Israel concerning real or perceived risks of money laundering and terrorism financing related to their services provided to Palestinian banks in the Palestinian territories. These indemnity letters have been consistently renewed—usually for six months or a year by the Israeli Finance Minister. The indemnity period that concluded on June 30th, 2024, was extended at the last minute, with the new deadline being the end of October 2024. The Palestinian economy would be critically at risk if the renewal of CBRs with Israeli banks was not secured in a stable fashion. Losing this connection to the Israeli banking system would disrupt essential banking services such as check clearing, fund transfers, and card transactions, impacting exports and imports (including fuel and food). A more stable arrangement for cross-border payments was being jointly developed by the Bank of Israel and the PMA, although progress toward implementation—already slow—appears to have stalled.

The banking system's exposure to the public sector is at historic highs, and the growing number of returned checks indicates a potential rise in the macro-financial risk profile. The banking system's significant direct exposure to the public sector—over US\$2.5 billion as of July 2024—necessitates careful and active management by authorities to safeguard overall macroeconomic stability. In recent months, the percentage of returned checks has continued to rise, reaching 9 percent of the value of checks in Q1 of 2024, and in some cases up to 25 percent, significantly exceeding the 2023 pre-conflict average of 4–5 percent per quarter. These developments likely reflect a rise in instances of non-payment of wages to both public and private sector employees. At the same time, the volume of checks has been decreasing significantly, as 19 percent fewer checks were issued in Q4 of 2023 (y/y). Further, the microfinance sector has been experiencing significantly less liquidity than the banking system—as it does not offer deposit-taking services—which jeopardizes the sustainability of local microenterprises and informal establishments.

³⁸ Unstructured Supplementary Service Data.

³⁹ <https://www.centralbanking.com/central-banks/financial-stability/fmi/7961314/pma-launches-instant-payments-amid-gaza-cash-shortage>.

As consistently emphasized in the World Bank's previous Economic Updates, there are several key actions that must be taken to mitigate the already dire recession, rising poverty, and escalating humanitarian crisis. Foremost, a cessation of hostilities is essential not only to mitigate the devastating human toll of the conflict but also to enable the restoration of basic services and kick-start socioeconomic recovery. Secondly, it is imperative to reverse recent unilateral decisions regarding deductions from Clearance Revenues to ensure that the PA has the means to cover vital budgetary obligations, including salaries, pensions, and social services. Concurrently, there is an urgent need for the international community to urgently

scale up funding, to maintain essential public services and to commence planning for long-term recovery and reconstruction. Additionally, measures to facilitate trade and strengthen private sector activities in both the West Bank and Gaza are crucial to stimulate income generation. Lastly, it is of paramount importance that the new Palestinian government remains steadfast in convincingly implementing its reform agenda, with a particular emphasis on governance and fiscal sustainability. Since the new Government's inauguration less than five months ago, there has been progress in the definition and prioritization of reforms, and the upcoming weeks and months will need to see further acceleration in both design and implementation.



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