
Cash-Strapped Gaza and an Economy in Collapse Put Palestinian Basic Needs at Risk

Jerusalem, September 25, 2018 –The economy in Gaza is collapsing, suffering from a decade long blockade and a recent drying up of liquidity, with aid flows no longer enough to stimulate growth according to a new World Bank report. The result is an alarming situation with every second person living in poverty and the unemployment rate for its overwhelmingly young population at over 70 percent.

The latest World Bank report to the Ad Hoc Liaison committee (AHLC), a policy-level meeting for development assistance to the Palestinian people will be presented at the bi-annual meeting on September 27, 2018 in New York. The report highlights the critical challenges facing the Palestinian economy and identifies the needs going forward.

“A combination of war, isolation, and internal division has left Gaza in a crippling economic state and exacerbated the human distress. A situation where people struggle to make ends meet, suffer from worsening poverty, rising unemployment and deteriorating public services such as health care, water and sanitation, calls for urgent, real and sustainable solutions” said **Marina Wes, World Bank Country Director for West Bank and Gaza.**

Gaza’s economy is in free fall, marking minus 6 percent growth in the first quarter of 2018 with indications of further deterioration since then. While the decade long blockade is the core issue, a combination of factors has more recently impacted the situation in Gaza; including the decision of the Palestinian Authority (PA) to reduce the monthly payments by USD30 million to the area, the winding down of the US\$ 50- 60 million per year of the US Government aid program, and the cuts to the United Nations Relief and Works Agency program. While the West Bank situation is not as dire currently, past consumption driven growth is faltering, and the economy is expected to slow considerably in the coming period.

The economic deterioration in both Gaza and West Bank can no longer be counteracted by foreign aid, which has been in steady decline, nor by the private sector which remains confined by restrictions on movement, access to primary materials and trade. Moreover, the deterioration in the fiscal situation leaves the PA with limited scope to provide relief. With donor funding declining and a full year deficit of USD1.24 billion, the financing gap is projected at US\$600 million. Against this background, a significant downside risk is the recent Israeli legislation to withhold clearance revenues (Tax and VAT collected by Israel on behalf of the Palestinian Authority), estimated at US\$350 million per year.

“The economic and social situation in Gaza has been declining for over a decade but has deteriorated exponentially in recent months and has reached a critical point. Increased frustration is feeding into the increased tensions which have already started spilling over into unrest and setting back the human development of the region’s large youth population,” added **Wes.**

The World Bank report stresses the need for a balanced approach to the situation in Gaza that combines an immediate crisis response, with steps to create an environment for sustainable development. Among the immediate responses is to ensure the continuation of key services, such as energy, water, education and health. These basic services are critical for both people’s livelihoods and for the economy to function. Another urgent need is to increase household purchasing power to enable a return to basic economic activity, and to boost traditional livelihoods by extending the fishing zone beyond the highly restrictive three miles towards the 20-mile zone agreed in the 1990s.

Beyond a crisis response, the Government of Israel could support a conducive environment for economic growth by lifting restrictions on trade and allowing the movement of goods and people, without which the economic situation in Gaza will never improve. The PA should initiate policies and projects needed for sustainable economic development, including support for trade in digital services, which could play a leading role in the interim period. Legitimate institutions to govern Gaza in a transparent and efficient

manner and reforms to create a positive business environment are also necessary for sustained economic recovery.

“Palestinian human capital, with its young and relatively well-educated population, could be a source of immense potential. A renewed emphasis on job creation will pay off hugely in terms of economic development. Now is the time for all parties to come together and create an environment that generates opportunities for these young people,” added **Wes**.

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