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# Forecasting the Economic and Social Impacts of Israel's War on Gaza\*

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As Israel pummels the Gaza Strip, inflicting enormous human casualties on the Palestinian people in full view of the world, the economic impact of the violence may seem a secondary issue. Yet the truth is that Israel sees the destruction of the economy as central to its efforts to crush any form of Palestinian resistance. Indeed, this is evident in the systematic destruction it is inflicting on Gaza.

At this stage, with the Israeli offensive still ongoing, it is not possible to measure the cost of the war or estimate the value of the losses it could cause. However, this paper will attempt to sketch out some key primary impacts the war is likely to inflict on the Palestinian economy, along with their knock-on consequences. It will also examine the economic, financial and social shocks that have already taken place or are likely to come soon, for which preparations must be made. It will discuss the task of rebuilding Gaza and making the territory possible to inhabit after this catastrophe, taking into account Israeli and American statements on arrangements for "governance" on "the day after". This spiky yet existential issue will be determined by the outcome of the war on the ground and the degree to which Israel achieves its stated aims of ending Hamas rule in Gaza, something that is impossible to predict at this stage.

To examine the various possible impacts of the war, we must distinguish between the economy of Gaza and that of the West Bank and neighbouring Palestinian communities (in East Jerusalem and inside the Green Line) which together are home to some seven million Palestinians. While these areas will undergo a string of similar shocks and suffer hostile and racist Israeli policies, there are also remain major differences between Gaza and the other areas of Palestine.

## 1. Gaza's Economy: From Crisis to Devastation

Gaza was already at the point of collapse on the eve of the current war, after more than a decade and a half of division and siege. Years of destruction, killing and displacement had crippled the economy by the first quarter of 2023. Inasmuch as "economic activity" even takes place in Gaza, it is an economy of subsistence which barely allows the territory's residents to cling to life.

Weeks of unprecedented destruction of Gaza's economic and residential infrastructure mean that talk of economic "losses" like those seen in previous Israel offensives is ungrounded in reality and thus of little use. Facing the full impact of a military giant backed by an economy 150 times bigger than its own means that Gaza can only dream of returning to its pre-2023 situation, and the concept of economic "recovery" is largely meaningless. Conditions had already deteriorated dramatically in the territory since 2007. It will be impossible to re-start the wheels of Gaza's commodities, service and financial sectors until the immeasurable humanitarian needs of food, shelter and medical of more than two million destitute, displaced, wounded and traumatised Palestinians are met.

However, certain past indicators give a preliminary idea of the impacts this war is likely to leave in its wake: a collapse in Gross Domestic Product and massive physical destruction to residential and economic facilities, both private and public. Previous rounds of war on Gaza (especially 2008 / 2009



and 2014) were less ferocious and did not extend to all parts of the Gaza Strip. Nor did they involve a full-scale humanitarian crisis or population displacement on the scale we are currently witnessing, with the accompanying, ever-rising levels of hunger, thirst, disease and psychological trauma. Previous wars in against Gaza created "setbacks" for the Gaza economy, in the form of a GDP decline that did not exceed 10% in 2014, from which it quickly recovered thanks to a reconstruction programme the following year. That said, the Gaza Strip's economy has failed to recover to its size prior to the division and siege, when it represented a third of the "Palestinian national economy". On the eve of the current war, it amounted to around 17% of that economy, with local production totalling less than \$3 billion.<sup>1</sup>

The Palestinian Central Bureau of Statistics has estimated Gaza's GDP for this quarter at approximately \$700 million, representing a massive blow of at least 25% from the already measly 2023 figure. A similar figure can be expected in the first quarter of 2024, which may not see normal economic activity resume even if a ceasefire is reached. At issue here is not only the scale of the potential shock to economic production, but whether or not the wheels of the economy can be restarted, allowing it to "recover" after a shock that will have caused a total economic halt for 3 months or more. It could be months or even years before the Strip's economy returns to its pre-war levels of production. It will also likely take three to six months of relief and support to 2.2 million Gazans before they are able to return to any form of productive labour.

What distinguishes the economic challenges posed by this war from those of previous rounds of violence is the sheer and ever-growing scale of physical destruction being inflicted upon housing, factories and commercial establishments as well as educational, health and service facilities. No meaningful estimate can yet be made of this. Yet after four weeks of war, it was clear that the war had left widespread destruction and pulverised entire neighbourhoods of Gaza City. To date, an estimated 44,000 homes have been totally destroyed and a further 132,000 housing units partially destroyed. This represents some 50% of the territory's housing. In addition, 150 factories, 120 schools and many public buildings have been flattened.<sup>2</sup> This amounts to suspending the entire economic fabric of the northern Gaza Strip and severely disrupting what remains of the economy in the south of the territory.

For the purposes of comparison with previous shocks, the World Bank reports that in 2014, Gaza's GDP declined by some \$460 million.<sup>3</sup> The United Nations Conference on Trade and Development (UNCTAD) indicates that the direct economic damage resulting from the 2008 / 2009 war amounted to \$2.5 billion, and that the 2012 and 2014 wars had inflicted physical damage worth \$2.7 billion.

<sup>1</sup> Palestinian Central Bureau of Statistics, Public Finances Data (Ramallah, 2022).

<sup>2</sup> "Economic Summary of the War on the Gaza Strip: The Economic Dimensions of the War on the Gaza Strip under International Humanitarian Law, Making Gaza Uninhabitable," *Palestine Economic Policy Research Institute – MAS*, No. 1., 2023,

<sup>3</sup> "Economic Summary of the War on the Gaza Strip: Fundamental Shocks Had Put Gaza's Economy on the Edge of Collapse on the Eve of the War," *Palestine Economic Policy Research Institute – MAS*, No. 3., 29/10/2023, <https://bit.ly/3QRqCUw>.



The Palestinian Authority estimated reconstruction costs at \$3.9 billion.<sup>4</sup> These figures give us some idea of the vast potential costs the war will inflict on production and infrastructure in Gaza.

## 2. The West Bank: Managing a Fragmented and Besieged Economy

In contrast to the mounting destruction of the Gaza Strip's economy, that of the West Bank has not yet broken down - despite restrictive Israeli security measures and escalating attacks by settlers in various areas. On the one hand, Palestinians in PA-administered zones have staged continuous demonstrations to demonstrate their solidarity with Gaza, as well as carrying out acts of both peaceful and armed resistance, in which more than 150 Palestinians had lost their lives as of November 1. Yet on the other hand, the private sector has continued to function, albeit on a reduced scale, government and municipal services are still being provided, workers carry on trying to reach their workplaces, and the commercial sector is working to keep goods and services flowing as much as possible. The situation is far from normal, but nor is it in total crisis, given that a minimum level of internal stability remains, guaranteed by the Palestinian security services (although residents of West Bank villages beyond the authority's reach continue to face attacks by Israeli settlers).

Yet even in the absence of widespread military confrontations in the West Bank, it has become clear that the war will have various economic impacts here too, suggesting that as in the case of Gaza, this sector of the Palestinian economy will not return to the status quo ante.

Pressure is growing on the economy in PA-run areas of the West Bank from several sources; some pressing and immediate, and others that will take longer to appear but whose effects will be less reversible. Previous economic shocks in the West Bank have included material losses resulting from Israeli incursions between 2001-2004, an economic decline of nearly 20% over the same period, and the destruction of buildings and public facilities with a cost estimated at \$2.5 billion.<sup>5</sup> In 2020, the Palestinian economy shrank by no less than 12% within a year, due to the coronavirus pandemic. It had not been expected to recover until the end of 2023, assuming GDP growth of 3%. That possibility disappeared in the dust of Israel's war on Gaza. Thus, the West Bank can be expected to face successive waves of economic crisis which could combine into a tsunami if they coincide and reinforce each other.

### **These waves can be summarised as follows:**

The first wave, which has already struck, may represent the biggest shock to the West Bank economy, particularly overall demand and consumption. From the first day of the war, about 160,000 West Bank workers (approximately 20% of the territory's workforce) along with 20,000 Gazans who had been allowed for the past year to enter Israel for work, stopped working for Israeli employers. These workers, mostly day labourers, had been bringing around \$3 billion annually into the Palestinian

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<sup>4</sup> Ibid.

<sup>5</sup> Ibid.



economy, approximately 15% of the national income, helping keep unemployment levels in the West Bank below 2%, as compared to 45% in Gaza.<sup>6</sup> This suggests that unless job opportunities are provided for these people in the short term, unemployment is likely to rise to more than 30% in the West Bank and perhaps as high as 90% in the Gaza Strip over the course of the war.

Given the unsurprising reluctance of Israeli employers to continue keeping "enemy" workers on the books (except perhaps in conditions resembling prison labour camps), and the unwillingness of workers themselves to shoulder the risks associated with working for Israelis, the vast majority are unlikely to return to work at least until the war is over, perhaps many months later – or in the case of those from Gaza, maybe never. This doubling of jobseekers in the West Bank will spark immediate declines in consumer demand, the purchasing power of the poorest rural families and liquidity in the market. It will also place downward pressure on local wages. Other, subsequent declines will be difficult to absorb without rapid measures including investments and subsidies aimed at rapidly creating local job opportunities in the manufacturing, construction and service sectors.

The second wave, the effects of which are already being felt, is the drop in visits by Palestinian citizens of Israel and residents of Jerusalem to the markets of the northern West Bank along with tourist sites in Jericho, Nablus and Ramallah. In normal times, these visitors spent approximately \$1.5 billion annually in the West Bank, and recently, many had invested in apartments and houses in Jericho and the Ramallah district.<sup>7</sup> The suspension of this important income stream constitutes another form of downward pressure on consumer demand and private spending that had helped drive production, consumption and investment in a private sector that had been doing relatively well until disaster struck.

The next major wave could be devastating to the Palestinian economy. Israeli Minister of Finance Bezalel Smotrich has threatened to withhold the tax revenues it gathers and transfers monthly to the Palestinian treasury. That money makes up the majority of the PA's budget and is the main source of salaries for about 150,000 public servants, as well as operational expenses amounting to about \$300 million per month. These funds also help enable indebted families to repay their debts to local banks, which add up to about \$7 billion, and service the PA's own debts to the banking sector, which amount to \$2 billion.<sup>8</sup> Even if Israel, under US pressure, continues to respect these Oslo-era financial obligations to the PA, the expected decline in imports from Israel and elsewhere, as well as the decline in the Palestinian economy, are still bound to reduce these monthly dues. Moreover, any budget crisis lasting longer than three months would generate major problems for the government as well as highlighting weaknesses in the banking system, although the latter is still holding up one month into the war.

The last major wave in the series of possible shocks that could undermine the West Bank economy's ability to survive, at least in a way that would leave it able to recover at a later stage, lies in the

<sup>6</sup> Palestinian Central Bureau of Statistics, Workforce Survey Data (Ramallah, 2022), <https://bit.ly/3Qzu3y1>.

<sup>7</sup> "Towards Economic Cooperation and Integration Between Palestinians on Either Side of the Green Line," Policy Analysis, *Palestine Economic Policy Research Institute – MAS and ACRPS*, <https://bit.ly/40uT81q>.

<sup>8</sup> State of Palestine, Finance Ministry, "General Budget" (Ramallah, 2022).

disruption of domestic markets and their disconnection from each other due to Israeli isolation measures and the carte blanche authorities have given settlers to attack Palestinians. It is not yet clear to what extent the deterioration of commercial transport and the movement of workers will affect internal markets and the arrival of consumer goods to market, not to that of mention industrial and agricultural inputs. However, as with the factors mentioned above, preparations must be made for whatever is to come for the commercial and service sectors, which account for the majority of economic output and the largest number of small and medium enterprises. The effects of the other shocks outlined above would multiply in the case of a general decline in purchasing power, the suspension of tourism and transfers of workers between West Bank governorates and into Israel, especially as service sector jobs are closely linked to other economic sectors.

A final factor is the risk stemming from the economic crisis facing Israel itself, starting with a major decline in the value of the shekel, a decline in local agricultural and industrial production and the policy of urgently buying basic commodities on global markets to support the Israeli "war economy". Therefore, even if the West Bank does become the scene of full-scale conflict, economic war is likely to take place on more than one front, placing the West Bank's economy in the firing line and meaning it could be reduced by half in a matter of months or even weeks.

### 3. Occupied Jerusalem and Palestinians in Israel: Islands in an Israeli Sea

The economic outlook for residents of occupied East Jerusalem and for Palestinian citizens of Israel is no less grim, even if we exclude the possibility of that these areas too witness fighting, which could incite the Israeli racist right to carry out yet more attacks. A third of the workforce of East Jerusalem depends on jobs in Israeli markets, which have become increasingly tenuous. A similar percentage lives off the traffic of international and Palestinian tourism in the city, including the weekly influx of Palestinians from within Israel who visit the city weekly to pray and shop. This traffic has now completely stopped.

These trends mean an increase in the number of unemployed people, whose livelihoods depend on Israeli social insurance for basic monthly aid and limited health and municipal services. Furthermore, the 350,000 Palestinians of Jerusalem are almost completely cut off from jobs, relatives, and services in the West Bank. They are also at the mercy of the Israeli security services, which are set up to suppress any popular movement or national expression, and live alongside some 650,000 Israelis in Jerusalem, including approximately 250,000 in illegal East Jerusalem settlements.

The economic outlook for the approximately 1.8 million Palestinians within Israel, viewed by the rest of the country as a potential "fifth column," is not much better. Arab citizens in Israel face the same racist treatment in the workplace as workers in the West Bank and Jerusalem. The stream of Jewish shoppers to Arab towns has slowed or stopped entirely. At least 40% of workers in these





towns depend on jobs outside them, at Israeli institutions, which may lay these workers off if the war intensifies, even in the absence of Israeli alternatives to fill their positions. A return to the pre-war status quo would take months, perhaps years. Thus, this segment of the Palestinian people can depend on no-one but itself and the State of Israel to provide relief and meet its basic needs. It is now isolated from Palestinians in other areas, despite having significantly increased its economic dealings with them in recent years.

Therefore, there is little hope for this major component of the Palestinian people, beyond staying politically silent and supporting each other. They could even face the same *Nakba* that is being inflicted on the rest of the Palestinian people, at this historic and fateful moment in its long struggle for liberation from Zionist settler colonialism and for national self-determination in its homeland.

The table below shows major indicators of the weakness of the Palestinian economy even before the war on Gaza, which suggest that major economic repercussions are ahead for this fragile economy.

## Conclusion

Following previous external shocks, international humanitarian aid and contributions to reconstruction and economic recovery led the way in bearing the financial consequences of Israeli destruction and the occupation's restrictions on economic activity. The global political situation today is fundamentally different. International aid has declined to about half a billion dollars over the past five years, and the Palestinian Authority no longer relies on it except to finance part of its development budget and its already minimal social transfers. In addition, total American and European support for Israel in this war could leave Palestinians facing boycotts. In any case, any role for international donors in the reconstruction of the Gaza Strip will be linked to political goals they share with Israel regarding the future of governance there.

Accordingly, the role of these Americans and Europeans remains doubtful in terms of their intentions and the conditions they will impose. The scale of the challenge of "compensating" for what was destroyed and "reviving" an afflicted people is impossible to predict, but it could reach \$10-20 billion over the next five years. This begs the question: Even if the Arab countries are unable to defend the Palestinians, will they step up, unlike their allies in the West, to bear the financial burden of this humanitarian and economic catastrophe, without conditions or restrictions? Or is it possible that a new role could emerge for friends of the Palestinian people in Latin America, Asia and the Islamic countries of the South, so they become allies in the battle to preserve the Palestinian cause and restore the Palestinians' stolen rights?

## Major Indicators of the Weakness of the Palestinian Economy Prior to the Gaza War, 2018 - 2022

### Population (Thousands)

	2018	2019	2020	2021	2022
<b>Palestine</b>	4915.3	5039	5101.2	5227.2	5403
<b>West Bank</b>	2953.9	3020	3053.2	3120.4	3214
<b>Gaza Strip</b>	1961.4	2019	2048	2106.7	2188.9

### Labour Market (using Palestinian Central Bureau of Statistics' new definition of workforce)

	2018	2019	2020	2021	2022
<b>Workers (thousands)</b>	956.3	1013	956	1036	1136
<b>Percentage of West Bank workforce employed in Israel</b>	18.2%	17.2%	17.1%	18.8%	22.5%
<b>Average daily wage of West Bank labourers working in Israel (in Shekels)</b>	234.2	247.7	258.6	266.1	276.9
<b>Percentage of Gaza workforce employed in Israel</b>	0%	0%	0.1%	0.1%	0.8%

### Unemployment

	2018	2019	2020	2021	2022
<b>Palestine</b>	26.2	25.3	25.9	26.4	24.4
<b>West Bank</b>	17.3	14.6	15.7	15.5	13.1
<b>Gaza Strip</b>	43.1	45.1	46.6	46.9	45.3

### Macroeconomic Indicators

	2018	2019	2020	2021	2022
<b>GDP (in 2015 prices, millions)</b>	\$15,616.2	\$15,829	\$14,037.4	\$15,027.1	\$15,612.5
<b>Of which Gaza</b>	18.1%	17.9%	17.6%	17.2%	17.4%
<b>Gross National Disposable Income (millions)</b>	\$19,608.6	\$19,960.7	\$17,173.2	\$18,982.4	\$20,497.8
<b>Of which Gaza</b>	\$17.8	\$17.6	\$17.4	\$16.8	\$18.2
<b>Percentage of Gross National Disposable Income made up of revenue from workers in Israel</b>	12.7	11.6	12.5	14.9	15.0

### Private consumer spending (in 2015 prices, millions)

<b>Public spending (in 2015 prices, millions)</b>	\$3,318.9	\$3,202.3	\$3,213.5	\$3,544.9	\$3,174.4
<b>Gross fixed capital formation (in 2015 prices, millions)</b>	\$4,260.3	\$4,177.1	\$3,328.6	\$3,770.2	\$4,197.6
<b>Of which Gaza</b>	9.8%	10.1%	7.6%	6.9%	7%
<b>Exports (current prices, millions)</b>	\$2,578.7	\$2,630.5	\$2,335.9	\$2,740.4	\$2,911.4
<b>Of which Gaza</b>	6.0%	5.5%	5.7%	5.4%	6.1%
<b>Exports (current prices, millions)</b>	\$8,256.8	\$8,376.1	\$7,189.1	\$8,256.4	\$10,377.6
<b>Of which Gaza</b>	14.2%	14.3%	14.5%	13.6%	14.5%

### GDP Per Ccapita (at 2015 prices) (\$)

	2018	2019	2020	2021	2022
<b>Palestine</b>	\$3,417.7	\$3,378.3	\$2,922.5	\$3,051.5	\$3,086.8
<b>Gaza</b>	\$1,458.3	\$1,422.2	\$1,207.6	\$1,223.9	\$1,256.8

**Public Finances (Cash Basis, millions)**

	2018	2019	2020	2021	2022
<b>Net domestic revenues (including clearing)</b>	\$3,462.9	\$3,290.6	\$3,526.2	\$4,224.7	\$4,685.1
<b>Total clearing revenue</b>	\$2,255.3	\$2,219.2	\$2,399.9	\$2,776.9	\$3,146.2
<b>Current expenditures</b>	\$3,660	\$3,660.1	\$3,954.9	\$4,035.1	\$4,158.1
<b>Public debt</b>	\$2,369.5	\$2,795.1	\$3,649.4	\$3,848.1	\$3,542.7

**Banking Sector (millions)**

	2018	2019	2020	2021	2022
<b>Bank Assets / Liabilities</b>	\$16,125	\$17,825.5	\$19,886.2	\$21,673	\$21,404.4
<b>Public deposits</b>	\$12,227.3	\$13,384.7	\$15,138.3	\$16,518.1	\$16,468.2
<b>Credit facilities</b>	\$8,432.3	\$9,039.1	\$10,078.7	\$10,747.2	\$11,045

## Sources:

- Palestinian Central Bureau of Statistics, Workforce Survey Data (Ramallah, 2022), <https://bit.ly/3Qzu3y1>.
- Palestinian Central Bureau of Statistics, Public Finances Data (Ramallah, 2022).
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