Position Paper

The expected economic impact of Covid-19 crisis on the Palestinian economy in 2020

Palestine Monetary Authority

Research and Monetary Policy Department

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Foreword

The Palestinian economy operates in a highly risky and challenging environment, which over the past years has caused a series of crises and shocks, both political and economic, most recently the Palestinian clearing revenue crisis with the Israeli side in 2019. The repercussions and effects of these shocks on macroeconomic performance have been reflected in fluctuations and instability in growth rates, inflation, interest rates and exchange rates.

The year 2020, is not an exception. The Palestinian economy was exposed at the end of February to a new crisis (Covid-19 crisis). Although its nature is different from previous ones, as it is a health crisis of a global nature, which covered many countries of the world to varying degrees and impact due to the different capabilities of these countries to face this crisis and to cope with it.

This type of crisis is the first of its kind to be experienced in Palestine in its modern history and is expected to have many repercussions on the level of some activities and economic sectors, and at the macroeconomic level.

Global Economic Developments under Covid-19

Effects on Economic Growth

With the rapid pace of worsening global Covid-19 crisis, and the lack of readiness in some major economies to cope with the crisis in a timely and effective manner, it is difficult to predict future growth trends globally. The prediction will depend heavily on the speed and boldness of government interventions to cope with the spread of the virus and its implications for economic activity and financial markets during and after the period of rapid spread. However, the global economy will certainly suffer the impact of the major shocks of trade and production in the major economies, particularly those concentrated in the tourism, travel, transport and other services sectors. For IMF, global growth rates in 2020 are likely to fall below the 2.9 percent level achieved in 2019\(^{(1)}\). The OECD also lowered its growth forecast for 2020 from 2.9 percent to 2.4 percent and expected such forecast to reach 1.5 percent if no sufficient action was taken to contain the virus\(^{(2)}\).

In China, preliminary data indicate that industrial production and retail trade have been significantly affected by quarantine procedures, exceeding initial expectations and

\(^{(1)}\) Financial Times, “Global recession already here, say top economists”. Date published 16/3/2020.
exceeding those seen during the global financial crisis\(^3\). Some analysts predict that the Chinese economy will need at least six months to recover, assuming no renewed crisis and another spread of the virus.

In Europe, with a marked increase in the numbers of infections, particularly in Italy, France, Germany and Spain. J.P. Morgan Bank economists expect the Euro Area to experience an economic contraction of 1.8 percent in the first quarter of 2020 and 3.3 percent in the second quarter, depending on the measures of quarantine, the social dimension, and the closure of community centers, service businesses, and tourist attractions\(^4\). The Italian economy is currently a major concern given the high level of public debt and the fragility of the banking sector.

In the United States, J.P. Morgan economists expect economic contraction to return at 2.0 percent in the first quarter and 3.0 percent in the second quarter, consistent with financial market volatility, expected production disruptions and a partial halt in air traffic.

The IMF’s preliminary analysis points to signs of increased movement of funds outside emerging and developing markets, which may create financial crises in markets with financial and economic imbalances, which may turn into a hard-to-contain contagion in similar economies\(^5\).

This capital drain has resulted in significant fluctuations in the prices of major currencies globally over the past week after demand for the US dollar increased as a safe haven. Global exchange rates are expected to continue to fluctuate according to the degree to which economic activity in the relevant economies has been disrupted, monetary policy developments and the response of their financial markets to successive developments.

*Financial markets in developed countries also suffered heavy losses* reflecting global investor panic. The Dow Jones Index down nearly 10 percent, and the S&P500 Index down 9.5 percent. European markets also fell, with the European Index (Stoxx 600) down 11.5 percent and Britain’s FTSE Index by more than 11 percent\(^6\).

*This coincided with dramatic declines in world oil markets* of more than 55 percent\(^7\) since the beginning of this month, due to the decline in global demand coupled with a price

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war between Russia and Saudi Arabia, which will affect exporting economies, particularly shale oil producers such as the United States.

Regionally, in Arab countries, it is expected that about USD 42 billion will be lost in the combined GDP of Arab countries in 2020, in addition to the loss of about 1.7 million jobs. The mechanisms for addressing the current crisis in many Arab countries, particularly the Gulf, have focused on allocating more than USD 120 billion (as of the time of writing this report) in support packages to mitigate the effects and repercussions of the Covid-19 crisis on the economy. They ranged from support for SMEs, consumer protection, liquidity to banks and ministries, support to affected sectors (Saudi Arabia allocated USD 32 billion, United Arab Emirates USD 27 billion, Qatar USD 21 billion, Oman USD 21.8 billion, Bahrain USD 11.4 billion, and Kuwait about USD 1.6 billion). Egypt has allocated USD 7.5 billion in a comprehensive recovery plan for the economy, and Morocco has allocated about USD 14 billion in emergency medical expenditures and assistance to the affected sectors. Tunisia has allocated USD 855 million to help low-income people.

Jordan and Israel are considered to be the most influential neighbors in the Palestinian economy. The Jordanian economy is expected to suffer from the effects of economic activity stymie as a result of the near-total closure of facilities, curfews and lockdown in major cities, and the disruption of tourism. The Jordanian economy will have to track the movement of monetary policy in the United States (due to the fact that the Jordanian Dinar is pegged to the United States Dollar) to ensure the stability of monetary conditions. Similarly, Amman Financial Market suffered losses of about 7 percent in the 10 days up to March 16, and trading was closed on March 17 until further notice to avoid further losses(8).

In Israel, the Israeli Ministry of Finance expects that the Israeli economy will suffer heavy losses from the disruption of tourism sectors and airlines, the disruption of work at many service facilities, and the Israeli construction sector, which has been affected by a partial or total halt in the flow of Palestinian workers to the Israeli market. According to the Ministry, these developments will cause losses of approximately 45 billion shekels (USD 12 billion). So, the Israeli economy is not expected to grow significantly in 2020, against earlier forecasts of 3 percent growth. The Central Bank of Israel has instructed banks to postpone mortgage loan installments, facilitate access to loans for affected SMEs, and expand the network of electronic services and delivery services for citizens in

(8) www.ase.com.jo
quarantine\(^9\). The Israeli government has also allocated additional packages to its current budget to cope with the crisis, estimated at 6 billion shekels\(^{10}\).

In general, \textit{the mechanisms for coping with the current crisis} in many countries are focused on the use of available monetary and financial instruments to mitigate the damage to individuals and small economic enterprises in particular, which implicitly indicates higher levels of government spending, which will lead to increasing the levels of public debt, thus exposing high indebted countries, particularly in Europe, to high interest rates on their sovereign debt and could cause crises similar to those in 2010.

In this regard, the IMF has announced USD 50 billion in aid packages to affected countries. Many governments have also provided support packages for small enterprises and affected businesses. Central banks have tended to reassure financial markets and ease monetary conditions to provide sufficient liquidity to cope with the crisis. The following table summarizes the most important monetary policy measures to face this crisis.

<table>
<thead>
<tr>
<th>Central Bank</th>
<th>Interest Rate</th>
<th>Quantitative Easing</th>
<th>Required Reserve</th>
<th>Other Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Federal Reserve</td>
<td>0.5 percent reduction to range (0.0-0.25%)</td>
<td>Program with a minimum of USD 700 billion</td>
<td>No change</td>
<td>Required reserve reduction for many banks</td>
</tr>
<tr>
<td>European Central Bank</td>
<td>No change (-0.5%)</td>
<td>120 billion euros added to the current asset purchasing program</td>
<td>No change</td>
<td>Facilitate the terms of access to refinancing agreements</td>
</tr>
<tr>
<td>Bank of England</td>
<td>0.5 percent reduction to 0.1%</td>
<td>No change</td>
<td>Reducing volatility reserve to 0%</td>
<td>Freezing the payment of profits by banks to their investors</td>
</tr>
<tr>
<td>People's Bank of China</td>
<td>No change (4.05%)</td>
<td>There isn’t any</td>
<td>From 12.5% to 12.0%</td>
<td>There isn’t any</td>
</tr>
<tr>
<td>Central Bank of Japan</td>
<td>No change -0.1%</td>
<td>USD 120 billion</td>
<td>No change</td>
<td>There isn’t any</td>
</tr>
<tr>
<td>Bank of Israel</td>
<td>No change up to the moment (0.25%)</td>
<td>Intervention in the bond market</td>
<td>No change</td>
<td>Postponing mortgage repayments and encouraging lending to small businesses</td>
</tr>
<tr>
<td>Central Bank of Jordan</td>
<td>1.5 percent percentage point reduction to 2.5%</td>
<td>There isn’t any</td>
<td>Reduced from 7.0% - 5.0%</td>
<td>Deferring loan installments</td>
</tr>
</tbody>
</table>


The impact of global developments on the Palestinian economy in light of Covid-19 crisis

In light of the global economic developments following Covid-19 pandemic, the Palestinian economy's financial transactions with regional and global financial institutions and markets are expected to include some potential risks, whose impact varies depending on their source and type. In this context, five major sources of potential risks can be monitored. They could move to the Palestinian economy in general, and the banking sector in particular: foreign investments; interest rates; exchange rates; oil and raw materials prices; and income flows and current transfers in the balance of payments.

External investments (assets)

These assets include the investments of institutions and individuals residing in the Palestinian economy abroad in the form of foreign direct investment, portfolio investments and other investments including currency and deposits. As of the third quarter of 2019, it was about NIS 7.4 billion, of which external direct investment and portfolio investments accounted for about 23 percent, which came almost entirely from the private sector. The value of these assets is expected to decline unevenly either as residents move to monetize some of their investments abroad or depending on the volatility of global and regional markets. However, the closure of the Amman Financial Market until further notice would mitigate the effects of the prevailing fear on the value of Jordanian shares held by Palestinian individuals and institutions residing in Palestine.

These assets also include placement of the Palestinian banking sector abroad\(^{(11)}\). Data indicate that the external placements of banks operating in Palestine account for about 18.9 percent of the total assets of the banking system, or 23.0 percent of total deposits (the maximum ceiling set by the PMA's instructions is 55 percent). With lower global interest rates, external investments are expected to decline due to lower asset profitability and increased potential credit risk.

Interest rates

In light of the emergency economic shock, central banks in major economies have flocked to expand monetary policy, many of which have lowered interest rates. Given the lower

\(^{(11)}\) Placements abroad defined in accordance with the Instructions of PMA No. (5/2008, 5/7) as "cash balances deposited at financial institutions outside Palestine, in addition to investments either in the capital markets or in the form of loans granted for use outside Palestine. It also includes certificates of deposit, bonds and sukuk issued by foreign governments and institutions, investment in shares of foreign companies, foreign investment funds, bank pool loans and other facilities granted for use outside Palestine."
interest rate on the US dollar and the Jordanian dinar, banks operating in Palestine will suffer from a decline in interest rates in 2020 on both currencies, which will negatively affect their earnings and therefore their level of profitability.

**Exchange rates**

The exchange rates of major currencies have fluctuated significantly since the worsening of the virus crisis. Accordingly, and with regard to the Palestinian situation, the exchange rate of the U.S. dollar (and consequently the Jordanian dinar) began to rise against the Israeli shekel. During 10 days (from end of the first week till March 17) the decline reached 12.5 percent, to 3.86 Shekels/USD\(^{(12)}\). This decline affecting by the movements of the U.S. capital markets, which resulted in a large number of requests for cover margin calls\(^{(13)}\) for many Israeli investors, especially banks and financial institutions, which increased the demand for the dollar against the shekel significantly\(^{(14)}\).

This prompted the Bank of Israel to intervene to provide liquidity of about USD 15 billion to banks in order to support the shekel position in the currency market\(^{(15)}\), which reduced pressure and reduced the exchange rate by more than 1 percent on March 18 to 3.82 Shekels/USD. In this context, the US dollar continued to decline against the Israeli shekel during 2019, losing an average of 0.9 percent of its value, to an average exchange rate of 3.56 Shekels/USD.

These changes and fluctuations in the exchange rate affect more than one aspect of the Palestinian economy and the financial system. On the one hand, these changes affect the government's finances, as a result of receiving foreign grants in currencies such as the dollar and the euro, which account for about 17 percent of its revenues\(^{(16)}\), or the equivalent of an average of USD 600 million per year, while most of its spending is in shekel currency. The direct impact is shown in the budget deficit and public debt and accumulated arrears.

These fluctuations also affect the assets of the banking sector. Banks are constantly trying to match their assets and liabilities in different currencies and to be prudent for such risks,\(^{(12)}\) Representative Exchange Rate, Central Bank of Israel, March 18, 2020.\(^{(13)}\) Also referred to as margin call or request for additional funds, a request by a broker or financial contractor to an investor to increase the value of the coverage margin (the minimum percentage of the investor's contribution to his or her own capital from the entire investment value). Margin demand follows a losing process in order to maintain the legal minimum that must be kept in the account for new purchases or sales.\(^{(14)}\) www.globes.com, “Shekel gains, halting dramatic slide”. Published: 18/3/2020.\(^{(15)}\) www.globes.com, “Bank of Israel to lend $15b to support shekel”. Published: 18/3/2020.\(^{(16)}\) Percentage of foreign grants in total revenues, average for the period of 2017-2019. Palestinian Ministry of Finance Data, 2020.
especially since the US dollar acquired about 36.6 percent of the bank's assets at the end of 2019, while the assets in dinar reached approximately 22.9 percent and 37.7 percent in shekel about and 2.8 percent in other currencies.

In addition, exchange rate fluctuations affect the prices of goods imported from the rest of the world (excluding Israel), which account for 42 percent of imports, particularly fuel, food and raw materials priced in US dollars.

**Oil and food prices**

As mentioned earlier, oil prices fell significantly in March, and the decline is also expected to affect the prices of basic food commodities and other raw materials in light of weak global demand in the coming months, which will have a positive impact on the import bill, and then the trade balance.

Expectations about the length of the Saudi-Russian dispute and the accumulation of production surpluses are mixed. However, the majority of analysts have tended to lower previous oil price forecasts. They think it is more likely for the decline to continue during the second quarter at expected prices ranging from USD 20\(^{17}\) to USD 37 per barrel\(^{18}\). Prices would resume to rise during the second half of the year. Therefore, the prices of imported goods in the Palestinian market are expected to decline, which in turn will reduce domestic inflation rates.

**Income flows and external transfers**

Closures in Israeli cities and settlements are expected to disrupt the movement of 135,000 Palestinian workers in Israel and settlements\(^{19}\) (111,500 workers in Israel, and 23,500 in settlements). The average daily wage for these workers is about NIS 250. If we assume that settlement workers stop entering their places of work, the expected daily loss will be NIS 5.9 million. It is not expected that all other workers will continue to enter and work freely in the Israeli market, particularly those over 50 years of age, which will increase the value of losses in net income from abroad. On the other hand, the value of investment income flows abroad, estimated at USD 243 million per year\(^{20}\), is expected to decline, depending on the global interest levels.

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In terms of current transfers, transfers to the government sector in the form of external assistance are expected to increase in the current crisis and the support provided by international institutions to the affected states. However, private sector transfers, which come mostly from Palestinians living abroad and average USD 1.6 billion annually\(^{(21)}\), are expected to decline as their incomes decline or lose their jobs if the current crisis persists for a long time.

**Covid-19 crisis and its expected effects on the Palestinian economy**

Covid-19 appeared in Palestine in Bethlehem specifically, which led to the declaration of a state of emergency. In addition, the government took a series of precautionary measures to limit its spread, including the closure of schools for a month, followed by additional measures by some governors at different degrees based on their concerns about the spread of the disease in their governorates. This included closure of restaurants, clubs and cafés. Further precautionary measures by the government are expected to follow in later stages, depending on the developments and repercussions of the pandemic.

The pandemic is expected to have economic and social implications, affecting various aspects of the lives of Palestinian citizens. However, the severity of these effects will vary depending on the expected time of the continuation of the pandemic and even the development of the appropriate vaccine to treat the virus.

It is also expected that some sectors and activities will be affected more directly than others will. On the top of these sectors, the tourism sector, which has been directly affected by the closure of border crossings and suspension of movement, and the departure of all tourists from Palestine, in addition to some sectors and other activities related to tourism such as transportation and some handicrafts, restaurants and hotels. The same applies to the education sector, which has been completely suspended as a result of the declaration of a state of emergency and the subsequent closure of all educational institutions at all stages and the accompanying impact on other economic activities directly associated with this sector. It is also expected that this crisis will have a direct impact on the government’s finances, through increased commitments by the government to confront this virus, as many economic activities are affected by the impact of the virus leading to their decline, which will directly affect the volume of government revenue, which is expected to decline significantly.

In order to determine the extent of the expected impact to the Palestinian economy due to the consequences of the spread of this virus, the PMA has assessed the losses if the crisis lasts for four months, or if the crisis lasts for six months, based on the following scenarios and hypotheses:

1st Scenario: The impact of Covid-19 crisis on the Palestinian economy if it is extended for four months (March to June).

This scenario is based mainly on some of the measures announced by the government during this period and its continuation, in addition to Israeli actions, for a period of time extending until the end of the second quarter of 2020, against the backdrop of the increasing severity and intensity of this crisis and therefore its expected effects. It is expected to witness:

- The tourism sector continues to be completely suspended and all tourists are leaving the Palestinian territory.

- Continued partial closure of restaurants, and the total closure of cafes and sports clubs.

- Continued closure of schools and universities and closure of all educational institutions.

- Government measures regarding minimizing movements between the governorates of the country and preventing bus traffic, as well as curfews in Bethlehem, Beit Sahour and Beit Jala. Palestinian workers are also prevented from going to work at settlements and Israel.

- Significant reduction in foreign trade as a result of the global situation and action taken to combat the virus.

- Exempt working mothers from going to work while continuing to pay their wages and salaries.

- The number of Palestinian workers in Israel has decreased significantly as a result of actions taken by Israel, as well as the actions and decisions of the Palestinian government concerning these workers to reduce the spread of the virus. In this context, Israel has announced a package of measures, including the denial of entry of Palestinian workers over the age of 50. A decision has been taken to prevent workers from leaving their workplace for one month and/or two months depending on the nature of work and the sector. Israeli employers are also required to provide suitable accommodation for the workers. In addition, the
Palestinian Government's decision to prohibit Palestinian workers from entering their places of work in settlements, as well as requiring workers in Israel to either stay at their places of work or to stop working altogether. These measures are expected to lead to a 30 percent decline in Palestinian employment in Israel during the second quarter of 2020, and about 10 percent during the third quarter of the same year.

- Closure of border crossings with the outside world.

- Increased government spending on the healthcare sector as a result of increased government measures and precautions to combat the spread of the pandemic.

Under this scenario, **economic growth is expected to decline by 3.7 percent during the first quarter of 2020** (real GDP is expected to decrease to USD 3,810.0 million from USD 3,956.1 million in the first quarter of 2019). This decline is driven by declining private consumption and investment by 4.5 percent and 7.0 percent during the same period, as a result of the decline of most economic activities during the quarter. The biggest impact of this decline will be in the service sector, especially tourism, accommodation and food services, which is expected to decline by about 25 percent during the quarter. Arts and entertainment activities are expected to decline by approximately 20 percent. Transport and storage activities are expected to decline by about 15 percent during the same quarter, as a result of the closure of educational institutions and some facilities such as cafes, restaurants and sports clubs, and the suspension of tourist activities in March, based on the government's decision. Economic activities associated with foreign trade (e.g. manufacturing and stone mining) are also expected to decline as a result of lower exports or lower production inputs because of declining imports.

As an inevitable result of declining economic activity and declining consumption and investment spending during the first quarter of 2020, due to fears of a continuing crisis and declining incomes, government revenues are expected to decline significantly. VAT revenues on imports in the first quarter are expected to decline by about 13 percent and customs duties by about 8 percent. Local tax revenues are expected to decline as a result of the government's decision to postpone the collection of government service fees. In contrast, government consumption spending, specifically in the area of health, is expected to rise during the same period.

According to this scenario, the crisis is expected to intensify during the second quarter of 2020, as a result of increased action and measures taken by both the Palestinian government and Israel, particularly with regard to Palestinian workers in Israel. **Economic growth is expected to decline by 8.9 percent in the second quarter of 2020** (real GDP is
expected to decrease to about USD 3,532.8 million compared to USD 3,876.6 million in the second quarter of 2019). This decrease is driven by a decline in value added in both the tourism sector and accommodation activities and services and restaurants by about 65 percent during the quarter. In addition to the worsening of the public budget deficit, and a marked rise in unemployment due to the decline in the number of Palestinian workers in Israel. With a decline in inflation as a result of deteriorating demand, where total consumption is expected to decline by about 12 percent and private and public investment are expected to decrease by about 17 percent if this crisis continues until the end of the second quarter of 2020.

Moreover, the effects of this scenario is expected to extend to the banking system. The credit granted is expected to decline by about 1 percent during the second quarter of 2020, with a further slowdown in the growth rates of deposits to about 4.6 percent during the same period, due to the increasing fear among citizens about the possibility of bank closures as was the case in some neighboring countries.

The impact of this crisis on the government’s finances is expected to be exacerbated by the increased intensity and extension of procedures for a longer period (until the end of the second quarter). Under this scenario, customs revenues are expected to decline by about 25 percent in the second quarter. Import VAT revenues are expected to decline by about the same percentage during the same period.

2nd Scenario: The impact of the crisis on the Palestinian economy if it is extended for six months (March to August).

If this scenario occurs and the previous procedures continue to extend until the end of the third quarter of 2020, economic growth in the third quarter is expected to decline by about 6 percent (real GDP will then fall to USD 3,680.6 million from USD 3,915.3 million in the third quarter of 2019). Following a decline in private consumption by 9 percent and investment by 12 percent. Unemployment rates are also expected to continue to rise significantly as a result of measures against Palestinian workers in Israel.

In terms of economic activities, it is expected that the decline will continue mostly as a result of continued preventive measures to counter and prevent the spread of the virus. The value added in accommodation and food activities is expected to continue to decline by about 50 percent in the third quarter of 2020. Value added in tourism, entertainment and entertainment sector will decline by about the same percentage. Customs revenues are expected to decline by about 21 percent in the third quarter of 2020, while import VAT revenues are expected to decline by about 14 percent during the same period.
Based on this scenario, bank credit is expected to decrease by about 1.5 percent in the third quarter of 2020, while deposits are expected to rise by a very small percentage (0.9 percent) compared to the corresponding quarter.

**Figure 1: Projected economic losses according to previous scenarios**

![Graph showing projected economic losses]

**Required Intervention**

There is no doubt that the Covid-19 has succeeded in spreading panic around the world, prompting many countries to take a number of measures to mitigate the damage to their economies caused by the current crisis. The response mechanisms have focused on the use of available monetary and fiscal policy instruments, by injecting additional liquidity into several aspects of the economy.

In this context, many central banks have resorted to lowering interest rates to zero or close to zero, to provide liquidity by pumping billions, reassuring markets, alleviating their panic and restoring calm.

**PMA’s actions and its role in alleviating the crisis**

The PMA’s actions focused on injecting more liquidity into the economy, to mitigate the effects and repercussions of the crisis, as well as to stimulate economic activity, by targeting these measures in the following areas:

1. The health sector, to cope with the spread of the pandemic and support the health sector, by directing social responsibility funds to support the health services
sector. In the past few days, the banking sector provided USD 0.5 million in emergency assistance to the Ministry of Health.

2. Financial and social safety nets, by focusing on deferring monthly (periodic) installments for all borrowers for the next four months, and for the next six months for the tourism and hotel sector; subject to extension. In addition, credit card limits and limits to individuals and SMEs affected by economic conditions are extended.

3. Supporting SMEs and start-ups by directing new credit to these projects and granting temporary ceilings to customers in order to keep the economic cycle going.

4. PMA has expressed its readiness to provide the overnight liquidity needed to assist banks in emergencies.

5. PMA is keen to continue to provide banking services to ensure the continuity of the business cycle in the economy, and to provide basic goods and services to citizens throughout the crisis. This is based on contingency and business continuity plans available to banks and maintaining the continuity of critical jobs.

6. Call on the banking sector to make more contributions to alleviate the crisis through the planned emergency fund.

In order to maximize the benefit of PMA's actions and thereby mitigate the expected effects of the current crisis on the economy, the efforts of all relevant parties must be combined. The actions of the PMA must be combined with those of other parties, which should focus particularly on the private sector and provide more support to it, through for example:

1. To cover part of workers' wages and to facilitate their access to care leaves without losing their jobs and incomes.

2. Expand social safety nets by accelerating the disbursement of unemployment payments and social assistance.

3. Reducing the tax burden of individuals and companies wherever possible, and extending the grace period and payment, especially for affected sectors.

4. Develop business continuity plans in private enterprises and maintain the continuity of critical functions.

The PMA's actions to mitigate the crisis have also been accompanied by a partial or total suspension of some of its policies and procedures at the following levels:
- At the supervisory and regulatory level:
  - Suspending procedures of defaulting and reduce the number of checks books granted to customers, especially individuals, to the lowest possible level.
  - Suspend the classification of those affected by economic conditions on the bounced checks system for the next four months.

- At the level of payment systems and monetary operations,
  - Take emergency measures to settle clearing outcomes due to the interruption of the counterparty's activities and daily operations in part or in whole.

- At the senior management level,
  - Providing the necessary overnight liquidity require from the PMA to lend these banks to settle their accounts, which may result in a breach of the ceilings granted and placed on some or all banks, without restrictions on the amounts or duration of the breach.
  - This situation requires approval from the Investment Committee, the Board of Directors or any party authorized by the Board.

There is no doubt that the actions taken by the PMA have had an effective impact and have contributed to mitigating the impact of this crisis on the Palestinian economy. In this context, it is estimated that these measures have contributed to mitigating the decline in GDP under the first scenario from about 8.9 percent during the second quarter of 2020, to about 3.4 percent. The impact of these measures is expected to be more obvious on growth rates during the third quarter of 2020 and according to the second scenario. These measures are expected to help mitigate the decline in growth to about 3.7 percent, compared with a decline of about 6 percent without these measures.
Figure 2: Impact of PMA’s actions on projected economic losses
## Annexes

### Table 1: Projected Impact of Covid-19 Crisis on Growth Rates of Some Other Economic Indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Economic growth</th>
<th>Consumption</th>
<th>Investment</th>
<th>Deposits*</th>
<th>Loans*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1st</td>
<td>2nd</td>
<td>1st</td>
<td>2nd</td>
<td>1st</td>
</tr>
<tr>
<td>Scenarios</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1 2020</td>
<td>-3.7</td>
<td>-4.7</td>
<td>2.4</td>
<td>-6.8</td>
<td>5.89</td>
</tr>
<tr>
<td>Q2 2020</td>
<td>-8.9</td>
<td>-8.9</td>
<td>-16.3</td>
<td>4.2</td>
<td>4.2</td>
</tr>
<tr>
<td>Q3 2020</td>
<td>3.4</td>
<td>-6.0</td>
<td>5.0</td>
<td>-13.1</td>
<td>2.0</td>
</tr>
<tr>
<td>Q4 2020</td>
<td>1.8</td>
<td>3.1</td>
<td>3.0</td>
<td>3.0</td>
<td>2.0</td>
</tr>
<tr>
<td>2020</td>
<td>-1.8</td>
<td>-3.8</td>
<td>-3.2</td>
<td>-7.7</td>
<td>2.6</td>
</tr>
</tbody>
</table>

* It should be noted that the growth rates of loans and deposits projected during the first quarter of 2020 before the crisis were about 7.7 percent and 9.5 percent.

### Table 2: Expected values of some economic indicators in the midst of the crisis

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Economic growth</th>
<th>Consumption</th>
<th>Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1st</td>
<td>2nd</td>
<td>1st</td>
</tr>
<tr>
<td>Scenarios</td>
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<td>3,810.0</td>
<td>3,266.8</td>
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<td>2,826.3</td>
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<td>Q3 2020</td>
<td>4,048.5</td>
<td>3,680.6</td>
<td>3,570.9</td>
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<tr>
<td>Q4 2020</td>
<td>4,128.9</td>
<td>4,179.9</td>
<td>3,514.8</td>
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<tr>
<td>2020</td>
<td>15,520.2</td>
<td>15,203.3</td>
<td>13,178.8</td>
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### Table 2 continue:

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<th>Indicator</th>
<th>Deposits</th>
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<tr>
<td>Scenarios</td>
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Table 3: The magnitude of projected losses of GDP in the previous scenarios compared to the baseline scenario

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<th>Gross Domestic Product (GDP)</th>
<th>Projected losses</th>
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<td>2nd</td>
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<tr>
<td>Scenarios</td>
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<td>230.0-</td>
<td>230.0-</td>
<td>230.0-</td>
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<td>417.2-</td>
<td>204.2-</td>
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<td>256.0-</td>
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<td>74.9</td>
<td>23.9</td>
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<td>916.7-</td>
<td>290.5-</td>
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