



Economic Report 2023

Occupied Palestinian Territory (OPT)

14 July 2023 (KIT/AAR/DBU)

Executive Summary

Political instability, Israel's long-lasting occupation, restrictions on movement and access, and the fragmentation of the Territory continue to restrain the potential of the Palestinian economy and limit the attractiveness of the OPT as a market and investment location for foreign companies. Tensions have further escalated in the OPT during the past year with a high number of Palestinian casualties during Israeli security forces' operations in the West Bank and while attacks on Israelis also increased significantly.

The new Israeli government has implemented measures against the Palestinian Authority (PA) in response to it pursuing a case on the legitimacy of the Israeli occupation at the International Court of Justice. These measures include increasing deductions from Palestinian clearance revenues which acerbates the fiscal crisis.

Growth in the OPT is estimated to have moderated to 4% in 2022 from 7% in 2021, as domestic fiscal challenges and high political, security and social tensions weighed on economic activity, while the post-COVID recovery slowed. Inflation increased to 3.7% on average over 2022, up from 1.2% in 2021, as PA subsidies and tax breaks cushioned the impact of increased food and fuel import prices, which decelerated during the second half of 2022. Gaza continues to suffer from a particularly difficult economic situation with extremely high unemployment and deteriorating social conditions. In terms of trade exchanges, the OPT has recorded a trade deficit since the signing of the Oslo Agreements and remains heavily dependent on Israel as a trade partner. Bilateral trade between Switzerland and OPT remains very limited.

In the current economic context, the outlook is uncertain as sustainable sources of growth remain narrow. Despite these challenges, opportunities for doing business exist, as exemplified by Swiss and other European firms successfully doing business with Palestinians, as well as by innovative Palestinian entrepreneurs. Notwithstanding relatively low per capita GDP, there is a sizeable middle/upper-middle class in the West Bank. The OPT boasts one of the highest per capita rates of university graduates in the Arab world. The West Bank counts with a relatively small but growing market population, which relies on importing 90% of its needs. Among the promising sectors with steady growth rates are the Tech and ICT sectors. Fostered by global digital transformation, the demand of the local and

regional market for Tech services is increasing. The number of Palestinian youth working as coders and software developers for private companies or who sell Tech services and social media content as freelancers on the global market is increasing. In a context where most economic sectors struggle with trade restrictions and other constraints imposed by the occupation, the Tech sector opens perspectives for the youth and an avenue for economic growth.

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1 ECONOMIC OUTLOOK AND ECONOMIC POLICY DEVELOPMENTS

The OPT¹ continues to be characterized by increased political instability under a prolonged Israeli occupation, a stalled peace process, a protracted Palestinian fiscal crisis, and recurrent outbursts of violence in Gaza Strip and the West Bank including East Jerusalem (EJ). Accordingly, the livelihoods of hundreds of thousands of Palestinians remain strained, due to limited access to economic and decent work opportunities. In particular, the complex system of rules to control the movement of people and goods has impaired the Palestinian private sector, dampened the investment atmosphere and de-developed many sectors of the economy; thus, contributing to high levels of unemployment, mainly among young men and women. The key features of this down spiral process have been heightened by the effects of the physical separation of the West Bank and Gaza Strip (with Israeli closure of the Strip in 2007) and the expansion of Israeli settlement enterprise leading to the enclavization of the Palestinian areas within the West Bank. The Palestinian Authority (PA)'s repeated financial and economic crises are also rooted on the limitation of the Paris Protocol that ignored issues related to sovereignty, control over land and water, movement within the OPT as well as control over international borders and tax revenues.

During the year 2022, the Palestinian economy achieved a growth of about 3.6%, compared to a growth of 7.0% during the year 2021. This moderation is partly due to the almost complete cessation of external support provided to the PA to support its budget, the continuation of the Israeli deductions of tax revenues (clearance revenues) throughout the year, as well as, to a certain extent, the repercussions of the Ukrainian- Russian crisis. The Palestinian economy was nevertheless driven by the improvement in the level of aggregate demand, whereas the level of gross consumption increased by 7.0%, and gross investment increased by 15.3%. The year 2022 also witnessed a continued post-pandemic recovery in the labor market, as the total number of employees increased by 7.6% compared to 2021. In terms of foreign trade, the preliminary estimates indicated an increase in the value of exports by 7.3% in 2022 compared to an increase in the value of imports by 16.9%, which led to a rise in the trade balance deficit by 21.7% compared to the previous year.²

Inflation in Palestine is moderate to low, and often below global rates, as well as significantly lower than in the MENA region. However, inflation in the OPT turned positive in 2021 and reached 2.68% in January 2022 reflecting the gradual increase in demand. Inflationary pressures and global price increases continued to be reflected in the level of domestic prices in 2022, especially since the Palestinian economy imports most of its consumption of goods and services from abroad. This caused a rise in the general level of prices throughout 2022. During that year, the inflation rate in Palestine reached about 3.7% compared to the previous year (1.2%). This is the highest rate in nearly ten years.³ PA subsidies and tax breaks cushioned the impact of increased food and fuel import prices, which decelerated during the second half

¹ Mirroring the political division on the ground, the Palestinian economy is separated into **two main entities** with different economic realities and evolutions. On the one hand, there is the **West Bank**, which is itself sub-divided into 3 zones (A, B, C) as per the Oslo Accords (see footnote on page 3). Control exerted by the Palestinian Authority (PA) is biggest in zone A, while it is close to zero in zone C, a large area - 61% of the West Bank - with major natural resources. East Jerusalem, also part of the West Bank but annexed by Israel illegally in 1980, offers yet another economic reality. On the other hand, there is the **Gaza Strip**, which has been closed off by Israel since 2007. The long and ongoing blockade – and the cycle of wars hitting the Strip – has led to the impoverishment of Gaza, which mostly survives on humanitarian aid. Average economic indicators for the whole OPT mask considerable differences between the two main entities. Tables with separate economic indicators for West Bank and Gaza are rare: see here [separately listed economic indicators](#) for the years 2011-19 (source: French Finance Ministry, Jan. 2020).

² [The Performance of the Palestinian Economy in 2022, and Economic Forecasts for 2023](#)

³ [The Performance of the Palestinian Economy in 2022, and Economic Forecasts for 2023](#)

of the year.⁴ During 2023, inflation is expected to slow to around 2.2 percent, given slow levels of inflation among trading partners and a decline in food prices, along with slow levels of domestic demand in light of the slowdown of economic growth over the coming year.

The overall Producer Price Index (PPI) in the OPT with its base year (2019=100) reached 105.32 in 2022, which indicates a sharp increase by 7.43% compared to 2021. Prices of PPI for 2022 increased due to the sharp increase in the prices of goods in the following major activities: electricity, gas, steam and air conditioning supply activities by 12.76%, agriculture, forestry and fishing activities by 12.26%, water supply; sewerage, waste management and remediation activities by 6.31%, manufacturing activities by 4.78%, and mining and quarrying activities by 3.03% in 2022 compared to 2021. The prices of locally consumed products sharply increased by 7.69% and the prices of local exported products sharply increased by 5.14%.⁵

The fiscal deficit in 2022 was a modest 0.9 percent of GDP, compared with 5.2 percent in 2021. This included measures to contain the pass-through of food and fuel import prices to consumers through temporary VAT exemptions on flour and bread and an increase of fuel subsidies to 1.1 percent of GDP (from 0.4 in 2021). The PA was successful in mobilizing domestic tax revenues by broadening the tax base, mainly through efforts to expand their revenue task force and improve coordination with the customs police. The launch in March 2022 of the e-VAT pilot under which Palestinian and Israeli traders issue invoices digitally also helped boost revenue. At the same time, the PA missed some payments on the (partly donor-funded) cash transfer program for poor and vulnerable households, while development spending has remained well below pre-COVID levels. The PA has been paying public sector employees and pensioners 80 percent of their salaries/pensions (except the lowest earners whose earnings were not cut) since November 2021 to manage liquidity pressures, but have yet to define a full menu of sustainable policies to contain the wage bill. Similarly, while they have set up a portal to collect data on cross claims between the Ministry of Finance (MoF) and local governments, no specific policy measures to contain net lending have been announced.⁶

During this period, one of the main contributors to the PA's fiscal deficit was the high public spending and very low international aid, which reached a record low in 2021 (donor aid amounted to USD184 million, 38% less of what was received in 2020)⁷. Additional deductions by the Government of Israel (GoI) from the monthly taxes it collects on behalf of the PA (clearance revenues), added to the fiscal stress. The PA may encounter difficulties in meeting its recurrent commitments. No longer able to borrow from domestic banks, the administration may be forced to accumulate further arrears to the private sector, pulling away more liquidity from the market.⁸ The Gross External Debt Stock on the Palestinian economic sectors reached USD 2,191 million at the end of the fourth quarter of 2022, thus decreasing by 1% compared with the previous quarter. On the other hand, the government's external debt increased by 2% to reach about \$1.3 billion at the end of 2022. The stock of external debt has been distributed between debt on the general government sector which represented 59%, while the debt on the banking sector (deposits of non-residents in banks operating in Palestine) reached 34%. The debt on other sectors (non-banking financial institutions, non-financial corporations, NGOs, and household sector) amounted to 5%, and the lending between affiliated companies reached

⁴ [IMF West Bank and Gaza Report to the AHLC 2023](#)

⁵ [Increase in the Producer Price Index \(PPI\) during 2022.](#)

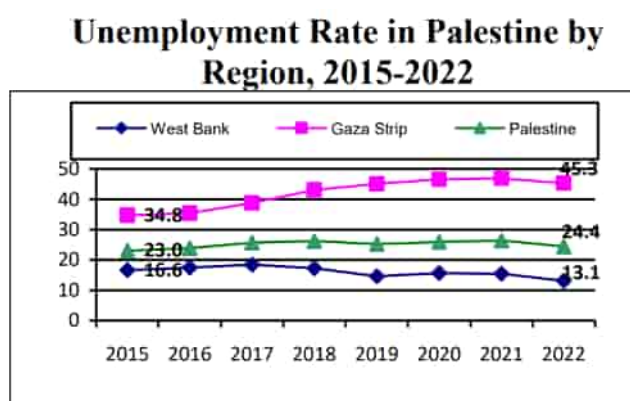
⁶ [IMF West Bank and Gaza Report to the AHLC](#)

⁷ Donor aid decreased from 27% of GDP in 2008 to 1.8% in 2021.

⁸ [Economic Monitoring Report to the Ad Hoc Liaison Committee- November 2021](#)

2%.⁹ Public debt reached 48.1% of the GDP in 2022 in comparison to an estimated 7.3% of the GDP being external debt.¹⁰

Unemployment fell to 23.4 % on strong West Bank employment gains but remains very high in Gaza. At the end of 2022, unemployment in the West Bank stood at 12.1%, its lowest level since 2015, even as labor force participation increased to 47.3%. This was in part due to an increase in the number of West Bank Palestinians working in Israel and the settlements. At 44% at the end of 2022, unemployment remained high in Gaza, resulting in more than 60% of the population living below the poverty line, compared to 19% in the West Bank. These numbers persisted despite a limited number of Palestinians from Gaza being allowed to work in Israel.¹¹



Source: [PCBS Labor Force Survey 2022](#)

Poverty has been adversely affected by slow growth over the past few years and the pandemic. Based on the latest available data provided by the Palestinian Central Bureau of Statistics (PCBS), 30% of Palestinians lived below the poverty line in 2016-2017. In the West Bank, poverty rates are lower but sensitive to shocks in household expenditures, while in Gaza any change in social assistance flows can significantly affect the population's wellbeing. Projections based on GDP per capita growth suggest that the poverty rate has been constantly increasing since 2016. Recurrent escalations in Gaza have worsened social conditions in the Strip. Experts' estimates suggest that the conflict has pushed poverty in Gaza to more than 60% in 2022¹².

According to a new World Bank report, Palestinian economic growth is expected to soften in 2023. While the economy had continued to rebound at a rate of 4% in 2022, this was driven by the ongoing recovery of private consumption as COVID-19 mobility restrictions eased. However, increased tensions in the OPT and the spillovers from the Russian invasion of Ukraine continue to pose significant downside risks.¹³ Forecasts indicate the possibility of the Palestinian economy achieving a growth rate of about 2.5% during the year 2023, compared to estimated growth of about 3.6% during the year 2022.¹⁴

⁹ :[Palestinian Central Bureau of Statistics \(PCBS\), 2022.](#)

¹⁰ [IMF AHLC 2023, p. 20/ 28](#)

¹¹ [IMF West Bank and Gaza Report to the AHLC](#)

¹² Using the reference of USD 5.50 a day (2011 PPP) international poverty line.

¹³ [World Bank, The Palestinian Economy Remains Vulnerable Amid Socio-Political Instability](#)

¹⁴ [PCBS](#)

2 PRIORITY SECTORS AND OPPORTUNITIES FOR SWISS COMPANIES

Despite the challenges, opportunities for doing business exist within the Palestinian market in the West Bank and Gaza. Notwithstanding relatively low per capita GDP, there is a sizeable middle/upper-middle class in the West Bank. The West Bank and Gaza boast one of the highest per capita rates of university graduates in the Arab world. Palestinians have a long-standing tradition of spending generously on higher education. The West Bank counts with a relatively small but growing market population, which relies on importing 90% of its needs.

The information and communication technology (ICT) sector is a growing area of the Palestinian market, as are cellular and landline telephone services. Palestinian stone and marble sectors are also relatively strong. The handicraft market has begun to expand into export markets for a range of products.

The Palestinian economy also counts with a small but dynamic tech ecosystem and start-up scene. Fostered by global digital transformation, the demand of the local and regional market for Tech services is growing. As in other low/middle-income countries with limited natural resources, the Tech sector holds promising prospects also for the Palestinian economy, especially for young graduates. More than 3000 young Palestinians complete degree programs in engineering and technology every year. Some find work with Palestinian, Israeli and international companies locally, others find jobs in the Gulf countries, but a majority can't find employment at all. There is thus a large pool of talented and well-trained individuals available. In a context where most economic sectors struggle with trade restrictions and other constraints, the Tech sector opens perspectives for youth and an avenue for economic growth. To develop its potential as a new pillar of the Palestinian economy able to create jobs for youth, the sector requires investments in human resources (upskilling) and infrastructure as well as stronger linkages to the global market. A few Palestinian start-ups and partnerships are already successfully raising funds and expanding beyond the OPT. In October 2020, the Swiss Representative Office (SRO) in Ramallah launched a project aimed at supporting the development of the innovation ecosystem in the OPT and developing sustainable linkages with the Swiss innovation scene. As a result of this workshop, a new project in collaboration between Birzeit and An-Najah universities and EPFL emerged. The project employed the Swiss expertise of EPFL to develop curricula for six professional development training modules focused on Digital Transformation. Al Najah and Birzeit Universities joined forces to deliver two cohorts, six modules each, targeting at least 100 Palestinian private sector businesses and entrepreneurs to help them increase efficiency and profitability of their businesses by utilizing the latest technologies and methodologies in Digital Transformation. While the courses were delivered through an in-person setting, online access is available on [Digital Labs](#). The first cohort ended in June 2023, and the second cohort will begin later in the third quarter of 2023.

In 2022 and 2023, the SRO has continued to work with the local innovation/startup ecosystem on small scale projects that seek to strengthen Swiss-Palestinian links in the field, while also transferring the Swiss know-how. In 2022, SRO supported a Tourism Hackathon, which gathered local startups in the field of tourism for a month-long exchange that resulted in a hackathon competition; whereby the winner received wide scale startup support in order to further support the growing needs of the Palestinian tourism sector. Additionally, SRO collaborated with "Growth for Training and Development"¹⁵ in order to conduct a startup

¹⁵ Growth for Training and Development is a local organization that offers startup support in the form of trainings, consultancies, and mentoring, with the aim of fostering and promoting the growth of startups with the relevant business knowledge into strong and enduring

support project. The project was twofold, firstly, it brought Swiss startup trainer Marcel Gasser to Ramallah for a 2-day training for local startups and entrepreneurs. As a second phase, one Palestinian entrepreneur was selected to travel to Switzerland to attend the [Start Global](#), and to meet different actors and institutions from the Swiss startup ecosystem. In the end, 2 additional Palestinian entrepreneurs traveled to Switzerland and had the opportunity to meet with Venture Capitalists, impact hubs, and network toward Swiss-Palestinian cooperation in the field of innovation. Many activities are currently being implemented in this field with the ultimate goals a) to create sustainable and dignified jobs for youth and women, b) to strengthen the linkages between the academia and the private sector and c) to enhance knowledge transfer and cooperation between the Swiss and Palestinian IT sector:

- Switzerland, through SDC, is partnering with the **World Bank TechStart** project to help advance the nascent Palestinian software development and outsourcing subsector, feed the sector with talented and upskilled HR, upgrade its infrastructure, creating links to international clients, and incentivize FDI (foreign direct investment) into the sector. This intervention aims at increasing the competitiveness of the sector and decrease unemployment by creating high-value job opportunities.
- SDC is **working with UNDP on fostering linkages between academia and industry** through creating Research and Development (R&D) joint opportunities with potential for commercialization. SDC is also creating linkages with Swiss EPFL University to create **internships for Palestinian engineering students from Gaza to spend time in Switzerland**, transferring knowledge from and building relationships with Swiss businesses and startup ecosystem actors. EPFL is also partnering with Birzeit and Al Najah universities to develop an **extra-curricular professional development training program focusing on developing the skills** within the Palestinian businesses and startups in relation to leadership skills, customer experience management, designing user interfaces and user experiences among others.
- SDC is currently designing two new projects to **transfer Swiss knowledge and expertise to the Palestinian partners in the fields of IT outsourcing and entrepreneurship** incubation. The first project intends to provide software development services to Swiss businesses, hiring 75 Palestinian engineers in Ramallah and Gaza, while the second will work with young Palestinian entrepreneurs to establish and scale up their tech startup business.

In May 2023, SRO/SDC organized a Swiss-Palestinian Tech Encounter in Ramallah. The encounter gathered about 30 Swiss C-Level Tech Executives from leading companies in the Swiss tech and cybersecurity domain, with a number of leading Palestinian tech executives. The event entailed a lively panel discussion on the Palestinian tech sector, and a B2B exchange between the Swiss and Palestinian guests. It offered a perfect networking opportunity for the guests, and ongoing follow-up is in process to foresee potential new Swiss-Palestinian collaborations as a result.

There are several support facilities and investment funds for Palestinian start-ups, often established with the help of foreign donors. One such example is the Ibtikar Fund, financed by the International Finance Corporation, the Dutch Good Growth Fund, and the private sector, in particular the Bank of Palestine. Ibtikar looks for motivated and skilled Palestinian

companies and organizations. The organization is the manager of the Global Entrepreneurship Week (GEW) in Ramallah. The founder and main contact person is Mr. Salah Amleh. <https://growth-dev.com/about/>

entrepreneurs, from both within and outside the OPT, expecting however that the majority of operations be located in the OPT. They search for ideas and start-ups that are scalable and can serve the Middle East/North Africa region or global needs. Ibtikar has already founded 26 start-ups for a total amount of USD 15 million, resulting in the creation of 250+ jobs. Another vehicle is the MENA Catalyst Foundation – a support centre for Palestinian start-ups, supported by Germany (GIZ) and South Korea. Two recent examples of promising and expanding Palestinian start-ups include: (1) Gamiphy, which offers businesses plug and play tools that empower business strategies in different areas, such as customer acquisition and human resource management. (2) Mashvisor, which provides real estate/property analytics and support for investment decisions.

In reference to the activities of the Palestine Monetary Authority (PMA) in promoting new and improved services in line with global trends (digitalization of the financial system), the PMA signed an agreement with the « Dufaati » application in February 2023. Dufaati was chosen as the first electronic app to be tested under the regulatory sandbox¹⁶ launched in the previous year. Moreover, the PMA has adopted several endeavors to facilitate the work of young entrepreneurs and SMEs. For example, it launched [Monshati Platform](#) in October 2021, in cooperation with UNDP and other partners, which is the first electronic platform in the OPT to provide quality services to support the financial and administrative capabilities of the entrepreneurs of micro, small and medium enterprises. Furthermore, they have engaged in several agreements with different local authorities and municipalities in order to advance the e-payment systems in the country. Switzerland, with its crypto-valley and its extensive know-how in the field of financial technologies could provide technical assistance in FinTech regulation.

The microfinance sector also presents some opportunities for the Swiss financial institutions. Although the allocated capitals are still very low, some Swiss sustainable asset managers like BlueOrchard and ResponsAbility Investments have been including Palestine in their portfolios.

3 FOREIGN ECONOMIC POLICY

3.1 Host country's policy and priorities

Israeli constraints on movement of persons and goods, access to borders and natural resources, as well as restrictive policy interventions in the OPT's trade policy, represent the biggest obstacle for the development of the Palestinian economy. The PA does not have the policy space needed for an effective control of its national economy, and there is little room to implement a sustainable development strategy, such as an export-led growth strategy, a sensible approach for any country with a small internal market.

The Paris Protocol, signed in 1994 as part of the Oslo Accords, remains the key framework agreement defining economic relations between the Gol and the PA. Even though it was supposed to last 5 years only, it remains the basis for all OPT trade with Israel and beyond. The Protocol enshrines a "customs union", as imposed by Israel after the 1967 war.¹⁷ Its practical effect has been the preservation of a Palestinian economy integrated in and

¹⁶ In March 2022 the PMA launched the Regulatory [Sandbox](#), which is considered an experimental environment for testing innovative technological solutions and new financial services (FinTech) in an enhancing and supportive environment.

¹⁷ The form of a customs union (vs. a FTA) was then preferred by Israel, as it did not want to establish an economic border with the PA, an act that may have created a precedent on the final status stage. Moreover, under the Oslo Accords, full control over zones B and C in the West Bank was to be gradually handed over by the Gol to the PA, but that never happened. The foreseen handing over of increased policy competences to the PA in the economic sphere all remained stuck. The Paris Protocol has led to and continues to produce enormous costs for the Palestinian economy (see the 2019 UNCTAD [report](#) and recommendations for a revised customs arrangement, cf. page 49).

dependent on the Israeli economy. Over 28 years later, the economic equation as set down by the Paris Protocol is recognized as an unequal customs union, giving Israel the sole control over all Palestinian external borders and the collection of import taxes and VAT. Each time the flow of clearance revenues is interrupted by the Gol, public spending is abruptly curtailed, adversely affecting the Palestinian economy and resulting in economic hardship to the population through increased unemployment and poverty¹⁸. There is neither autonomy nor possibility for the PA to devise its own trade policy. UNCTAD¹⁹ estimates the costs for export to be twice as high for Palestinian producers than for their Israeli counterparts. For similar goods, import procedures are estimated to cost four times more for Palestinian vs. Israeli importers. All PA trade agreements with third countries are submitted to approval by Israel. The PA's dependence on the Gol leads to problems, as experienced by the 1998 [Interim Agreement with EFTA States](#), which cannot be fully implemented due to lack of recognition by Israel.

Lacking control over economic and financial resources, the PA does not possess the means to set independent fiscal or monetary policies neither. However, it has sought to manage the current economic crisis by increasing domestic bank borrowing, accumulating debt to the private sector, appealing to donors for budgetary aid, cutting services and development spending, and slashing wages.

In February 2023, a high-level partners' meeting was held in Amman with regards to the Palestinian National Employment Strategy (NES). The meeting included officials from the ILO, the Palestinian Ministry of Labour, the Prime Minister's Office, the Government of Germany and the Arab Labour Organization, among others. The meeting was held in order to garner support to the strategy, namely to identify funding gaps, to discuss the implementation of the strategy, and to promote the "investment in people". During the meeting, a new Palestinian Decent Work Programme (DWP) for the period 2023-2025 was signed, which draws on key achievements under the three pillars of the previous Programme: labour governance, employment promotion and social protection.

Since 2021, Israel's government has also taken steps that slightly mitigate the dire economic situation of Palestinians in the West Bank and Gaza, under the mantra of "*shrinking the conflict*". The Israeli government has lent the Palestinian government USD 156 million to help it survive a financial crisis; allowed a further 20'000 West Bank Palestinians to work in Israel (a move that raised the total number of permits to 150'000); and pledged to regularize the status of thousands that lack proper paperwork. In the aftermath of the eleven-day war in May 2021, Israel also took a number of steps in Gaza to relieve the pressure generated by its siege. It extended the range in which it permits fishing up to 20 km off the coast. Israel assented to renewal of Qatari funding (USD 35 million)²⁰; and, most importantly, issued more permits to Gazans wanting to work in Israel, starting with 5'000 and more recently upped to 20'000²¹ workers. Although these measures have provided some relief to the Palestinian economy, the lack of a political process, violence and the ongoing restrictions and the settlement expansion

¹⁸ In early 2020, a short but potentially harmful commercial war erupted between Israel and the OPT over the PA's decision to ban the import of Israeli calves, as part of "economic disengagement from occupation" efforts spearheaded by Palestinian PM Shtayyeh. This was followed by an Israeli-imposed worldwide prohibition of Palestinian agricultural exports. Without quick resolution - on Feb. 21, 2020, an [arrangement](#) was agreed upon between the Gol and the PA -, the Israeli-imposed Palestinian agriculture export ban would have had negative effects on both the Palestinian economy and its international buyers, including Switzerland, whose OPT imports mainly consist of agricultural products (close to 95%).

¹⁹ [The besieged Palestinian agriculture sector](#) (UNCTAD, 2015)

²⁰ Since 2018, Qatar has been providing monthly assistance to the Palestinian coastal enclave. The \$30 million grant includes \$10 million distributed monthly to 100,000 underprivileged families, at a rate of \$100 per family. The cash grants have continued in 2023, although some [delays](#) have been witnessed more recently.

²¹ [OCHA 2023](#)

in the West Bank, make it difficult to foresee a substantial improvement of the economic situation.

3.2 Outlook for Switzerland (potential for discrimination or comparative advantage)

The Paris Protocol, as currently implemented, is a major impediment to free trade with the OPT: Swiss-Palestinian economic relations are constrained by this agreement, and the potential for normal bilateral economic relations cannot be fully exploited. Those adverse Palestinian business conditions negatively impact Switzerland as well as other trade partners²².

There is no specific discrimination against Swiss companies in the OPT. Nonetheless, the multiple problems and costs arising in connection with the Paris Protocol result in a discrimination against the Palestinian economy, which also affects its foreign business partners, including Switzerland. With its biased treatment of Palestinian imports and non-tariff barriers geared specifically towards the Palestinian economy, Israel is violating its commitments under the WTO Agreement on Trade Facilitation.

During his official visit to Palestine in October 2021, the former President of the Swiss Confederation, Federal Councilor Guy Parmelin discussed about how to strengthen cooperation in innovation and job creation for young Palestinians. FDFA is gradually building a new project portfolio in the fields of inclusive economic development, youth employment and innovation as announced recently in the [Swiss Cooperation Programme for the Near East 2021–24](#) (see details in chapter 2).

4 FOREIGN TRADE

4.1 Developments and general outlook²³

Due to the above-mentioned conditions, the OPT exports much less than it imports and has recorded a trade deficit since the signing of the Oslo Agreements in 1993. In 2022 the trade balance is estimated to have deteriorated mainly because of higher oil import prices. As a result, the external current account deficit reached an estimated 12.2% of GDP, up from 8.2 % of GDP in 2021. The real effective exchange rate appreciated by a modest 0.3%.²⁴

4.1.1 Trade in goods

In 2022 the OPT exported for USD 1.32 billion of products (USD 1.35 billion in 2021) and imported for USD 6.57 billion (USD 7.82 billion in 2021), resulting in a massive negative trade balance of USD 5.25 billion.²⁵

Top Palestinian imports include electricity, diesel, preparation for animal feeding, cement, cigarettes, medicine gasoline, rods of steel, mobile phones, and bovines. Top exports include building stone, sacks and bags, olive oil, seats, dates, scrap of iron, marble, gravel, wooden furniture, and footwear.²⁶

²² Among [EU](#) member states, Germany has so far been the most successful foreign business partner in the OPT (see more under 3.2). Some European governments (F, I) are offering support to their firms doing business in the OPT. Here is a March 2018 [report](#) on EC Measures to facilitate trade of Palestinian products with other Euro-Mediterranean partners.

²³ It is difficult to obtain accurate trade figures for the OPT because of the above-mentioned customs union with Israel. Many goods marked for Israel have a final destination in the OPT, but are not necessarily recorded as such. Trade figures for the OPT may be understated (and overstated for Israel).

²⁴ [IMF AHLC Report](#)

²⁵ [IMF Data](#) (see Annex 3)

²⁶ PCBS data, 2021 (no new available updates).

In 2022, the main Palestinian export partner was Israel (USD 1'097.19 million, representing over 80% of total exports). Other export partners included the United States (USD 48.41 million) Jordan (USD 37.46 million) Turkey (USD 20.24 million) and Saudi Arabia (USD 17.47 million). The OPT's main import partner was Israel (USD 3.1 billion, representing almost 50% of total imports). Other import partners included Turkey (USD 787.34 million), China (USD 512.82 million), Jordan (USD 242.39 million) and Spain (USD 216.50 million).²⁷ Business people in the West Bank are eager to diversify the number and location of their trading partners.

4.1.2 Trade in services (if data available)

In 2020 (latest available data), the OPT imported USD 214 million worth of services from Israel and exported for a total of USD 203 million to Israel. The OPT mostly imported business and transportation services and it exported construction and goods processing services.²⁸

4.2 Bilateral trade

Due to the above-mentioned difficult business conditions, bilateral trade remains very limited. In 2021, the volume of trade between the two countries stood at CHF 52 million²⁹. The value of exports from Switzerland to the OPT totalled CHF 51.3 million, while the value of imports amounted CHF 0.7 million. Swiss imports from the OPT consisted almost uniquely of agricultural products, primarily olive oil, but also fruits, dates and nuts. Swiss exports to the OPT were mainly pharmaceutical products and cigarettes.³⁰

There seem to be opportunities for increased Swiss exports to the OPT, especially in renewable energy, waste treatment, healthcare and food technology. A few successful and growing business partnerships between Swiss companies and Palestinian agents/dealers/importers already exist. Swiss firms that are interested in entering the Palestinian market should look for Palestinian partners rather than handing over extensive dealer rights, incl. OPT coverage, to Israeli agents. The geographical coverage of Israeli agents should be limited to Israel in its pre-1967 borders (see here the [Swiss official position](#)).

5 DIRECT INVESTMENTS

5.1 Developments and general outlook

According to the PCBS, the stock of foreign investments in the OPT amounted to a modest USD 1.9 billion at the end of 2021 (latest available data). The only three significant investors were Jordan (81.5% of total FDI) and to a lesser extent Qatar (8.0%) and Saudi Arabia (5.5%).

Cross-border inward remittances amount to USD 2.6 billion, representing more than 17% of total GDP. Currently, only banks and money changers can offer remittance services. As most inward remittances are disbursed in cash, steps should be taken to facilitate crediting remittance proceeds to bank accounts and electronic money accounts. At present, only two Money Transfer Operators (MTO) are permitted to operate locally and the choice and competition is further limited by agents only being allowed to operate on behalf of one MTO.

²⁷ [IMF Data](#)

²⁸ There is no updated data on this as of June 2023

³⁰ There is no updated data on this as of June 2023

Considering the critical importance of remittances for the Palestinian economy, the current efforts in banning such exclusivity agreements should be accelerated to further open up the market for remittances.³¹

With the advice of the World Bank, continued reforms and steps have been undertaken by the PA to steadily improve the business environment and strengthen institutions. There is still much room for improvement. Current efforts are focusing on turning the Palestinian Ministry of National Economy into an e-Ministry, with the aim of digitalizing all services and creating investor-friendly processes online. According to the Ministry, the PA is working on increasing the demand for national (vs. imported) products by encouraging more people to invest and produce high quality products with up-to-date machinery. The PMA has launched several initiatives to promote digital payments and foster greater financial inclusion. It lowered regulatory barriers to enter into the digital payment market, limited interchange and credit card fees, and licensed new digital payments and e-commerce service providers. It also organized financial awareness campaigns to encourage the use of credit and debit cards and e-wallets and launched a regulatory sandbox to test innovative financial solutions and technologies. The PMA recently upgraded the national payment switch system to allow it to process point-of-sale and other non-bank payment service provider transactions, in addition to ATM withdrawals. It is also developing an instant electronic payment and bill presentment system to better support retail payments and facilitate electronic billing and payment. This is supported by the recent adoption of a new payments law, which allows for the creation of financial digital IDs and aids the development of a digital government services platform.³²

Another impediment that has to be tackled in order to achieve a substantial increase in FDI is the Jordanian Company Law of 1966, which is still in effect in the West Bank. This law states that a foreign investor should own no more than 49 percent of a company. Foreign investors can obtain exceptions, but this clause and many other aspects of this law are widely seen as outdated. Since April 2022, a new, modern Companies [Law](#) has been enacted, implemented, and entered into force on the ground. The implementation of the law has been funded through a World Bank project, and efforts are currently taking place on the ground to further issue regulations that would complement the implementation of the law. The law allows for online registration of companies, which is a major positive development, especially for local SMEs and emerging entrepreneurs.

5.2 Bilateral investment

According to IMF, the stock of Swiss direct investments in the OPT reached USD 2 million in 2018 (latest available data)³³. The SRO in Ramallah has no information on the origins of those inflows; neither does it have information on Palestinian direct investments in Switzerland.

Only few big Swiss companies (Nestlé, Novartis, Roche, Schindler) have a presence/office headed by a Palestinian General Manager in the OPT. Several other Swiss companies sell their products in the OPT with the help of Palestinian agents or via established importer contacts; this seems to be the only way for Swiss firms to handle the many complex Israeli-imposed rules and regulations. The Palestinian Investment Promotion Agency (PIPA) presents a list of targeted investment sectors on its website. The Swiss-Palestinian Joint Business Council (see under chap. 6) aims at offering networking support to Swiss firms interested in

³¹ [Worldbank, Economic-Developments in the Palestinian Territories, 24 November 2020](#)

³² [IMF AHLC Report p. 18](#)

³³ Since 2018, the information of inward and outward direct investments between Switzerland and the OPT is not reported.

doing business in the OPT. There is a Palestinian demand for innovative technologies, incl. clean tech, able to respond to OPT specific challenges and needs (renewable energy, water saving, waste treatment, healthcare, food production, etc.). Increased cooperation between Swiss and Palestinian researchers and entrepreneurs could also lead to new business partnerships.

6 ECONOMIC AND TOURISM PROMOTION

6.1 Swiss foreign economic promotion instruments

Currently, none of the traditional Swiss economic promotion institutions are actively engaged in the OPT. The context marked by Israeli-imposed restrictions is difficult and the Palestinian market small, even though opportunities exist. The SRO in Ramallah has no trade officer and limited economic capacities. S-GE in Zürich and SPJBC in Ramallah both offer some support to Swiss firms.

At the moment, the most important Swiss government institution active in the OPT is the Swiss Agency for Development and Cooperation ([SDC](#)) with annual financing of about CHF 20-25 million (plus CHF 20 million allocated to UNRWA).³⁴ In the past, SDC has been supporting mostly agro-economic development and employment for youth and women in the West Bank and Gaza. Through its local governance program, SDC also supports small-scale municipal infrastructure projects and contributes to the improvement of service delivery of Palestinian Local Government Units. Within its Cooperation Programme for the Near East 2021-2024, Switzerland works on inclusive economic development, youth and innovation in the OPT. Several projects to enhance skills, foster entrepreneurship and create jobs within the Tech Sector have been launched. One of the projects that was officially launched in March 2022, focuses on fostering the knowledge transfer in Digital Business Transformation between EPFL and two Palestinian universities (see above). Being a hub for innovation, Switzerland is well placed to foster exchanges and knowledge transfer with Palestinian institutions.

On November 29th 2020, the Swiss-Palestinian Joint Business Council (SPJBC) was officially launched in the presence of Federal Councilor Ignazio Cassis. It aims at supporting informal exchanges among businesspeople from both sides and contributing to address obstacles for Swiss and Palestinian firms that wish to do business with each other.

During his visit to the OPT in October 2021, the former President of Swiss confederation Guy Parmelin also highlighted Switzerland's focus in seeking cooperation with the private sector to create prospects, jobs and income-generating opportunities for young Palestinians, particularly in the field of new technologies.

During the visit of State Secretary for Education, Research and Innovation, Martina Hirayama in April 2022, the Swiss delegation and Palestinian counterparts discussed about opportunities to promote scientific cooperation between researchers in Swiss institutions and partners in the OPT, particularly through the *Leading House MENA* or the *Geneva Science and Diplomacy Anticipator*.

6.2 The host country's interest in Switzerland

³⁴ Presently, the largest provider of external assistance to the West Bank, Gaza and UNRWA is [the EU \(UNRWA: EUR 102.3 million\)](#). Qatar also provided substantial relief, channeled via the UN and PA, and directly to the *de facto* authorities in Gaza. In April 2021, [the US announced](#) the restart of economic, development and humanitarian assistance for the Palestinian people, with a total amount of USD 235 million (incl. USD 150 million for UNRWA).

There is a great interest among the Palestinian business community for more and closer interaction with Swiss counterparts and institutions. In 2022 a total of 660 visas were processed (In comparison to 228 visas in 2021, which was significantly lower due to the COVID pandemic).

ANNEX 1 – Economic structure

Economic structure

	2015			2020			2022		
	OPT	Gaza Strip	West Bank	OPT	Gaza Strip	West Bank	OPT	Gaza Strip	West Bank
Distribution of GDP (%)	100%	100%	100%	100%	100%	100%	100%	100%	100%
Primary sector (Agriculture, Forestry and Fishing)	7.8	12.0	6.8	7.1	12.2	6.0	6.2	11.3	5.1
Manufacturing sector (incl. Mining, Quarrying, Construction)	18.0	11.2	19.7	17	13.4	18.7	16.3	11.4	17.3
Services (incl. Trade, Tourism, Transport, Finance, ICT, other)	61.4	73.9	58.2	60.6	74.7	58.4	58.8	70.1	56.5
<i>Other (Customs Duties, VAT on imports, etc.)</i>	12.8	2.9	15.3	15.5	8.1	16.9	18.7	7.2	21.1
Employment distribution ³⁵(%)	100%	100%	100%	100%	100%	100%	100%	100%	100%
Primary sector	10.4	8.7	11.5	6.7	5.9	7.1	6.7	6.0	7.0
Manufacturing sector	27.9	6.9	28.2	31.7	11.6	29.8	31.2	10.1	29.6
Services	61.7	84.4	60.3	61.6	82.5	63.1	62.7	83.9	63.4

Sources: Palestinian Central Bureau of Statistics (PCBS)

PCBS, Preliminary Estimates of Quarterly National Accounts, Fourth Quarter 2022,

PCBS, Employment distribution: Labour Force Surveys, 2015 and 2020 and 2022

³⁵ Employment Distribution in OPT also includes workers employed in Israel and Israeli settlements in the West Banks.

ANNEX 2 – Main economic data

Host country's main economic data

	2020A	2021A	2022E
GDP (USD bn)*	15.5	18.1	19.5
GDP per capita (USD)*	3,045	3,464	3,647
Growth rate (% of GDP)*	-11.3	7.0	4.0
Inflation rate (%)*	-0.7	1.2	3.7
Unemployment rate (%)*	25.9	26.4	23.4**
Fiscal balance (% of GDP)*	-7.4	-5.2	-0.9
Current account balance (% of GDP)*	-12.3	-8.2	-12.2
Total external debt (% of GDP)*	13.2%	12%	15%
Debt-service ratio (% of exports)**	N/A	N/A	N/A
Reserves (months of imports)**	N/A	N/A	N/A

A stands for actual, E for estimates

* Source: IMF, World Economic Outlook (April 2023)

- <https://www.imf.org/en/Publications/CR/Issues/2023/04/24/West-Bank-and-Gaza-Report-to-the-AD-HOC-Liaison-Committee-532738>

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ANNEX 3 – Trade partners

Trade partners of the host country³⁶ Year: 2022

Rank	Country	Exports from the host country (USD million)	Share	Change ³⁷	Rank	Country	Imports to the host country (USD million)	Share ¹⁰	Change
1	Israel	1'097.20	82.7%	-3.4%	1	Israel	3'126.49	47.5%	-5.6%
2	USA	48.410	3.7%	2.6%	2	Turkey	787.34	12.0%	1.7%
3	Jordan	37.468	2.8%	-2.3%	3	China	512.82	7.8%	1%
4	Turkey	20.246	1.5%	0.7%	4	Jordan	242.39	3.7%	0.4%
5	KSA	17.477	1.3%	0.4%	5	Spain	216.50	3.3%	1.9%
...
...	Switzerland	N/A	N/A	N/A	12	Switzerland	84.55	1.3%	-0.4%
	Total	1'326.39	100%	-2.3%		Total	6'578.21	100%	-15.95%

Source: [IMF Data](#)³⁸

³⁶ It is difficult to obtain accurate trade figures for the OPT because of the customs union with Israel. Many goods marked for Israel have a final destination in the OPT, but are not necessarily recorded as such. As a result, trade figures from different data sources may diverge enormously. Therefore, bilateral trade between Switzerland and the OPT reported by the IMFA and the Swiss Federal Office for Customs and Border Security is very different.

³⁷ Change from the previous year in %.

³⁸ Because of the scarce available data for the OPT this IMF source is used, which changes figures constantly. The numbers in this table are only a snap-shot of the available data as of 13th July 2023.

ANNEX 4 – Bilateral trade

Bilateral trade between Switzerland and the host country³⁹

	Export (CHF)	Change (%)	Import (CHF)	Change (%)	Balance (CHF)	Volume (CHF)
2017	346'570	31.3	28'860'322	4.7	28'513'752	29'206892
2018	346'373	10.4	31'858'099	-0.1	31'511'726	32'204472
2019	500'615	11.4	35'488'352	44.5	35'488'352	35'988967
2020	403'257	19.4	42'385'560	-19.4	42'385'560	42'788817
2021 (Total 1)*	737'021	21.1	51'315'3142	82.8	51'315'314	52052335
2022 (I-VI)**	N/A	N/A	N/A	N/A	N/A	N/A

*) 'Economic' total (total 1): not including gold bars and other precious metals, currencies, precious stones and gems, works of art and antiques

***) Change (%) from the previous year

Exports	2020 (% of total)	2021 *** (% of total)
1. Chemical and pharmaceutical industry	58.6	58.6
2. Forestry and agricultural products, fisheries	36.1	36.1
3. Machines, appliances, electronics	0.8	2.7

Imports	2020 (% of total)	2021*** (% of total)
1. Forestry and agricultural products, fisheries	98.9	97.0
2. Others	1.1	3.0

*** Provisional Data

Source: Federal Office for Customs and Border Security

³⁹ No update found as of July 2023

ANNEX 5 – Main investing countries

Main investing countries in the OPT in 2021 (latest year available)

Rank	Country	Direct investments (Stock in million USD)	Share%	Variation	Inflows (value in million USD)
1	Jordan	1,610	81.5%	19.4%	261
2	Qatar	158	8.0%	6.0%	9
3	Kingdom of Saudi Arabia	109	5.5%	19.8%	18
4	Egypt	59	3.0%	20.5%	10
5	Cyprus	26	1.3%	18.2%	4
7	UAE	8	0.4%	33.3%	2
...	Switzerland ⁴⁰	N/A	N/A	N/A	N/A
	Total	1'975	100%	18.2%	304

Source: Palestinian Central Bureau of Statistics/PCBS, [The Preliminary Results Of The Foreign Investment Survey Of Resident Enterprises In Palestine As Of End Of Year 2021](#)

⁴⁰ Since 2018, the information is not available.