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► Impact of the COVID-19 Pandemic on the Labour Market in the Occupied Palestinian Territory

A Forecasting Model Assessment
September 2020



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► Introduction

Following the diagnoses of the first COVID-19 cases in Bethlehem on 5 March 2020, the Palestinian Authority acted swiftly by instating measures to contain the spread of the virus, including closing infected areas, setting up specialized health care centres as well as limiting gatherings and transport links with the rest of the world. A full lockdown was instated on 22 March and lifted partially on 6 May, before it was completely lifted on 25 May. As of 8 June, 651 cases had been detected in the Occupied Palestinian Territory (OPT), 27% of which were in the Jerusalem governorate, 61% in the rest of the West Bank and 11% in Gaza. More than 60% of the cases were linked to workers in Israel. Yet, this period represents the first wave of the pandemic, as more cases started accumulating after a month of lifting the lockdown. The second wave was much more severe, with 7,734 cases registered in the OPT and 47 deaths by mid-July 2020. The majority of these cases (70%) are located in the southern governorate of Hebron. This surge in numbers of cases propelled the government to impose a second lockdown for a 10-day period, from 3-13 July, after which restrictions were eased off (Palestinian Prime Minister Office, 2020).

Although the overall COVID-19 infection rate in the first wave was low in the OPT,¹ economic repercussions of the pandemic are expected to be grave, not least in view of the rise in the number of confirmed cases in the second wave and the repeated need for a lockdown. The pandemic transformed from a health crisis into a profound economic and labour market shock. As in the rest of the world, this shock has not only impacted supply (production of goods and services) but also demand (consumption and investment), whereby disruptions to production have spread to supply chains. At the same time, all businesses, regardless of size, have been facing serious challenges, especially those in tourism and hospitality industries, as well as services in general, with a real threat of significant declines in revenue, insolvencies and job losses in specific sectors (ILO, 2020a). The effects of the pandemic further compound the economic impact of the Israeli occupation, which has been characterized by the imposition of restrictions on movement of people and goods and the confiscation of natural resources, resulting in an eroded productive capacity of the Palestinian economy. At the same time, Israel has been restricting the entry of necessary lab equipment and medications required for testing and treating COVID-19, thereby putting the lives of the Palestinians at a greater risk (Palestinian Ministry of Health, 2020).

From a labour market perspective, travel bans and quarantine/lockdown measures, made it difficult for enterprises, including in particular Small and Medium-sized Enterprises (SMEs), to sustain business operations. Many workers could not go to their places of work or carry out their jobs, resulting in reduced incomes and increased poverty rates. In addition, and given the current environment of uncertainty, enterprises are likely to delay investments, purchases of goods and the hiring of workers. Prospects for the economy and the quantity and quality of employment are bleak. As a result, the International Monetary Fund (IMF) has already announced that the world economy has formally entered into recession (IMF, 2020). The purpose of this report is to highlight the impact of COVID-19 on the labour market in the OPT, despite the lack of detailed data. Policy recommendations are provided based on the results of the analysis and with a view to mitigating the impact of the pandemic on the labour market in the OPT. Accordingly, three key dimensions were considered in assessing the contextual framework of the impact of COVID-19 on the labour market: Firstly, the quantity of jobs (both unemployment and underemployment); secondly, the quality of work (e.g. wages and access to social protection); and thirdly, effects on specific groups who are more vulnerable to adverse labour market outcomes. The present analysis is also guided by the ILO's four-pillar policy framework aimed at guiding government interventions and the policy responses needed to facilitate a sustainable and equitable recovery.

¹ By end of May 2020, the infection rate in the OPT stood at 0.04 per 100,000 compared to 3.3 in Israel, 2.2 in the UAE, 8.4 in Iran, 77 in Belgium, 58.5 in Spain and 50 in the UK (BBC, 2020)

► 1. Literature review on the labour market impact of COVID-19

1.1 Across the World

In the context of the current COVID-19 pandemic, a major challenge has been the lack of adequate data regarding the impact of the pandemic. The scarcity of data has also hampered research efforts globally whereby economists have had to make predictions using limited information. Similarly, governments have had to make decisions with limited information on associated costs and benefits of the lockdown measures. This is also the case for this research since detailed data on the impact of COVID-19 are still not available.

In terms of the impact of COVID-19 on the economy as a whole, the French statistical office estimated on March 26 that the French economy was operating at around 65% of its normal level. At the same time, the OECD (2020) estimated a drop in immediate GDP for OECD countries of around 25%. Another study by Barro et al. (2020) estimates industry level shocks by considering the list of essential industries, the closure of schools, and an estimate of the ability to work from home (based on ICT use surveys); using these shocks in a multisector input-output model, they estimate that six weeks of social distancing would bring GDP down by 5.6%.

Studies regarding the impact on labour markets that are based on large data collection initiatives have mainly focused on developed countries (Fetzer et al., 2020; Adams-Prassl et al., 2020). Belot et al. (2020) for example contribute to the effort of assessing the impact of COVID-19 on the labour markets by conducting assessments based on representative samples across six countries: China, South Korea, Japan, Italy, the UK and the four largest states in the US. The six surveys focused on work and living situations, income, behaviour (such as social-distancing, hand-washing and wearing a face mask), beliefs about the pandemic and exposure to the virus, socio-demographic characteristics and pre-pandemic health characteristics. In Korea, where contact tracing has been particularly effective,

they observe that a large share of workers continue to work as normal. China, the authors note, has been effective in moving its workers to teleworking arrangements while western countries in Europe and North America have struggled the most to maintain their workforce productivity, as apparent by the high shares of employed respondents that are currently not at work. The study shows that all surveyed countries exhibit a high ability to telework in the education sector. At the same time, 51% of respondents with a job were able to start teleworking, while the retail trade sector exhibited high vulnerability. At the same time, 31% of employed respondents had to cease working.

To assess the degree to which workers are able to work from home during the COVID-19 pandemic, Zhang et al. (2020) conducted a survey of Chinese citizens in late February (one month into the coronavirus-induced lockdown in China) and found that 27% of the workforce continued working at the office, 38% worked from home, and 25% stopped working. Adams-Prassl et al. (2020) surveyed US and UK citizens in late March, and reported that the share of tasks that can be performed from home varies widely between occupations (from around 20 to 70%), and that higher wage occupations are more likely to be performed from home.

Dingel and Neiman (2020) use data from responses to two occupational information network surveys and estimate that about 37% of jobs can be performed from home, whereas Mongey et al. (2020) document that employees that are less likely to be able to work from home are mainly non-white and without a college degree. Andersen et al. (2020), Chen et al. (2020), and Baker et al. (2020) studied the consumption response to the COVID19 pandemic and find that consumption has been altered in favour of food and medical supplies. On the quantitative side, a growing literature jointly models the dynamics of the pandemic and the economy to quantify the economic costs and benefits of different policies (Kaplan et al., 2020; Krueger et al., 2020).

What this brief literature review shows is that the economy and labour markets have been impacted dramatically by the COVID-19 pandemic with huge repercussions on GDP growth, employment, consumption and standards of living. This applies to the entire world and not just a particular region, yet the impact is disproportionate across countries, with European countries and the US suffering the most dramatic economic consequences so far.

1.2 COVID-19 in the Occupied Palestinian Territory

MAS's economic monitor (2020) examined the impact of COVID-19 in April 2020 on the West Bank economy through using an input-output model designed by the World Bank. Their assessment considers two main scenarios: The first assumes that the measures introduced by the Palestinian Authority on 22 March will remain in effect for 1.5 months and will be lifted gradually thereafter. The second more pessimistic scenario assumes 3 months of lockdown followed by gradual easing of measures.

According to MAS's first scenario, GDP will contract by 21% (increases to 26% when accounting for losses from work in Israel) compared to 35% in the second scenario (38% with losses for workers from Israel). At the same time, unemployment is expected to increase in the West Bank to reach 30% in the first scenario and 36% in the second. Unemployment rates in the West Bank during 2019 stood at 15%, which means that the predictions expect a doubling of unemployment. The results further show that the decline in employment for non-skilled workers (19%) will be much higher than for skilled workers (15%).

MAS's economic monitor identifies sectors that are expected to be most and least affected by the COVID-19 pandemic. The most affected sectors include mining and stone cutting, trade, transport and storage as well as services in general. The least affected sectors on the other hand include healthcare, education, food and medical supplies and manufacturing, amongst others.

When discussing unemployment, the monitor differentiates between three types of workers, according to their level of exposure to

unemployment: temporarily unemployed workers who will go back to their jobs after the pandemic, workers laid off because of the pandemic, and jobseekers. The analysis focuses on those expected to be laid off, with the majority of them expected to be irregular wage workers. According to 2017 data, the latter constitute 17% of workers, and are concentrated in low skilled jobs and elementary occupations. (MAS, 2020).

As for the Palestinian Central Bureau of Statistics (PCBS, 2020a) their estimates which are based on an in-house forecasting model suggest a 13.5% decline in GDP, resulting from both demand and supply side shocks. PCBS (2020b) further estimate the continued operation of only 37,336 establishments out of a total of 142,400 establishments as a result of the Palestinian Authority's decision to restrain economic activity on 22 March, 2020 (26.2% of the total number of establishments). These establishments employ 105,345 workers in the OPT out of 424,904 (71,043 in the West Bank and 34,302 in Gaza).

The World Bank (2020) also ran an input-output model based estimation of the impact of COVID-19 on the Palestinian economy. The Bank's estimates indicate that the economy will shrink by 5% if the lockdown lasts for two months and 10% if it remains in effect for 4 months. As a result, aggregate demand in the West Bank economy will shrink by 25% from workers in the Palestinian economy and by 50% from workers in Israel with an overall total of 30%. These estimates are based on a number of assumptions based on the loss of jobs and decline in consumption. In the Gaza Strip, the decline in demand is expected to amount to 25% since the public sector is the largest employer and the salaries of its workers have not been affected.

These estimates show that the impact of COVID-19 on the Palestinian economy is dramatic, with significant effects on GDP growth, demand/consumption as well as the labour market. However, these reports do not assess in detail the impact on the labour market, in terms of employment, economic sectors or participation. This report will hence attempt to provide a more detailed insight into the impact of COVID-19 on the labour market dynamics in the OPT.

► 2. The Palestinian Economy: between Israel's occupation and COVID-19 pandemic

The Palestinian economy functions under severe constraints arising mainly from structural distortions in the various economic sectors as a result of restrictions imposed by Israel's occupation since 1967. Despite the peace process signed over 26 years ago, Palestinians still lack control over vital domains such as natural resources, labour and goods mobility, borders, land zoning, and economic tools such as monetary policy. As a result, the Palestinian economy's productive base has been eroded, as evidenced by the changing structure of GDP; whereby the shares of agriculture, construction and manufacturing have all declined over the years. In 1994, agriculture accounted for 12% of GDP; by 2018, its share was only 7%. Over the same period, manufacturing declined from 22% to 13%. The weak production base and lack of investment in the Palestinian economy is also evidenced by the minimal decline in the contribution of the construction sector to GDP from 6% in 1994 to 5.3% in 2018. On the other hand, the contribution of the services sector and public administration rose from 60% in 1994, to 74.5% in 2018 (PCBS, National Accounts, 2019).

Israel's declared intention to annex more territory from the West Bank will further exacerbate the impact of Israel's policies on the Palestinian economy. Confiscation of land, water and other natural resources as well as the restriction of movement will impact the capacity of Palestinians to produce, trade and grow.

These unfavourable structural challenges had and continue to have serious repercussions on the labour market and its capacity to generate jobs and absorb jobseekers. If Israel's annexation plans go through, the Palestinian economy and labour markets are expected to witness a new phase of devastation.

2.1 Employment trends and unemployment rates

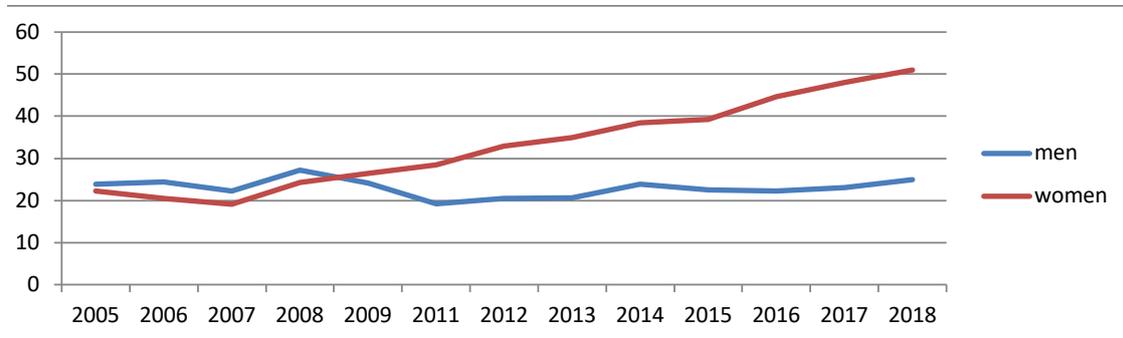
According to the PCBS (2020c) statistics, the number of workers in the OPT stands at 1,010,000, of whom 616,000 work in the West Bank, 261,000 in the Gaza Strip and 133,000 in Israel and the Israeli settlements. Labour force participation rates in 2019 stood at 44.3% of those between 15 and 65 years of age: 69.9% for men and 18.1% for women. Although women's labour force participation is low by international standards, it has been rising from its very low level of 11% in 1995. As has been indicated by many studies regarding the paradox of women's high education and low participation rates; the Israeli occupation has played a central role in keeping women's participation low (PCBS, LFS, 2019)². It remains to be seen whether the current devastating COVID-19 episode will induce a rise in participation, since families are facing an

increasing compression on their income.

In terms of employment distribution, around 66% of workers are employed in the private sector, 13.2% work in Israel and the settlements, and 20.7% work in the public sector (PCBS, March 2020). At the same time, unemployment rates in the OPT are very high, registering 17.6% in the West Bank and 52% in the Gaza Strip. These rates are even higher among the youth, registering 42% in the OPT, 64% among young women and 38% among young men. Furthermore, and while the unemployment rate decreases with the level of education of men, this is not the case for women, mainly because of the significant increase in educated females' labour force participation rates (MAS, 2019).

² For further insight into this issue, see the work of Islah Jad (1999), Rema Hammami (2001) and Samia Al-Botmeh (2013).

Figure 1: Unemployment rates in the OPT



Source: PCBS, Labour Force Survey, various years

Additionally, the unemployment rate is expected to soar as a result of the loss of jobs in the Israeli labour market accompanying the COVID-19 associated lockdown. Pre-pandemic, the number of workers in the Israeli labour market and the settlements had reached 133,300 workers (110,400 in Israel and 22,900 in the settlements) (PCBS, LFS, 2019). These are predominantly men, since women account for only 1% of workers in Israel.

More broadly, however, the COVID-19 crisis is expected to have a disproportionate impact on women and the youth as well as other less advantaged groups of workers. Job losses will also increase the dependency ratio in the economy (i.e. the number of people supported by each worker), which may have negative repercussions for poverty and household sustenance.

2.2 Sectoral distribution of workers

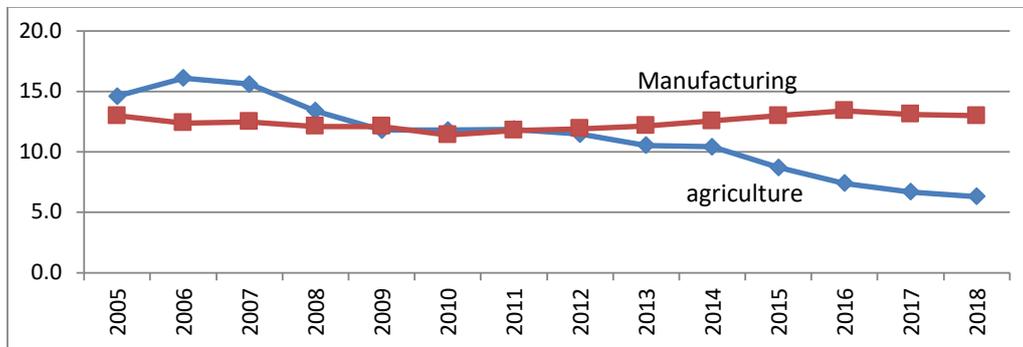
The sectoral distribution of Palestinian workers (including those working in Israel and the settlements) in the West Bank and Gaza shows that the biggest employer is the services sector, accounting for 37% of the employed population (30% in the West Bank and 56% in Gaza). The number of workers in the construction and building sector was 17% in 2019. The share of workers employed in the trade, restaurants & hotels and agriculture sectors in the West Bank is close to that in Gaza, registering around 22% and 5% respectively. The share of workers employed in mining and manufacturing industries was 14% in the West Bank and less than 6% in Gaza (MAS, 2020).

The services sector is the first sector to be hit harshly by the current pandemic, since this

sector was the first to shut down in order to limit the spread of the virus. Given the fact that this sector is the largest employer, its disruption will have huge labour market and employment repercussions.

At the same time, the productive sectors of agriculture and manufacturing were already suffering from a decline in their contribution to employment, as Figure 2 shows. This is mainly due to the impact of the Israeli occupation and related policies that hindered the development of these two sectors, as explained earlier. For women, the situation is even worse, the percentage of female workers in the agricultural sector decreased from 13.1% in 2015 to 6.7% in 2019 (PCBS, LFS, 2019).

Figure 2: Contribution of the productive sectors to employment



Source: PCBS, Labour Force Survey, various years

The reliance of the economy on the services sector for employment and the declining contribution of the productive sectors to job generation have huge implications on the labour market, exacerbating pre-existing vulnerabilities.

As of 2019, 71% of Palestinian workers were wage employees. This percentage is particularly high and indicates the significant dependence of workers on wages both from the private and public sectors. Employers on the other hand accounted for only 6.5% of the working population in the OPT, suggesting a significant pressure imposed on this segment in case of a further lockdown. The self-employed accounted for 18% of workers, a category devastated by the lockdown, as will be explained later (PCBS, LFS, 2019).

At the same time, and as of 2019, workers in informal employment constituted 57% of the total workers in the OPT, of whom 59% were in the West Bank, and 51% in the Gaza Strip. This implies a high share of unprotected workers who are at a higher risk of economic hardship in light of the limited income security that they have. (PCBS, 2020c).

Looking closely at wage employees, 2019 data indicate that 30% of wage employees working in the private sector received less than the monthly minimum wage of 1,450 NIS, with a share of 29% among men and 35% among women. This means that any loss or reduction in these meagre wages will be dramatic for this low-paid group of workers, with a severe impact on women, whose wages tend to be lower than those of men. Equally worrisome is the group of workers working without an employment contract and who constitute 48% of wage employees in the private sector. These workers are less likely to receive any form of support from the government and are particularly vulnerable to being laid off or having their salaries reduced by their employers (PCBS, LFS, 2019).

2.3 Wages

The average daily wage for workers in the OPT registered 128.6 NIS in 2019, with large differences between workers in the West Bank, Gaza and Israel. As the PCBS (2019) data indicate, the average wage of workers in Israel is double the wage of workers in the West Bank and four times the wage of workers in Gaza. The average wage of workers in Gaza is 51% of that in the West Bank (PCBS, LFS, 2019).

The loss or decline in wages of workers in the Israeli economy is expected to have detrimental effects on consumption in particular, with further

impact on imports and supply chain networks. There is a need to assess the propensity of saving of these workers to understand better their capacity to survive this economic shock.

What this brief assessment of the conditions in the Palestinian labour market shows is that this economy has been hit by the Coronavirus pandemic while being highly vulnerable and weak. This means that the impact on the economy is going to be grave if the pandemic persists for a prolonged period or has a second wave.

► 3. Impact of COVID-19 on the Palestinian labour market

In response to the first diagnosed cases in the OPT, on 5 March, 2020, a number of economic sectors and activities were halted following a presidential decree declaring state of emergency for 30 days across the OPT. Following this, the Prime Minister issued a set of regulations to impose a lockdown on all education centres, prohibiting movement between governorates, restricting social interaction and shutting down all tourist locations and cancelling all tourists' reservations. On 22 March, the Prime Minister further restricted movement and imposed a curfew in the West Bank for 14 days, obliging people to stay at home. Only a handful of economic activities, including bakeries, pharmacies, supermarkets and food manufacturers as well as open air sectors, such as agriculture, were allowed to function. Banks were also partially functional to provide liquidity in the economy. On 25 May, and as the number of infections in the West Bank and Gaza subsided, the Palestinian Authority decided to ease restrictions and allowed return to a quasi-normal economic life, while keeping social distancing and other preventive measures in place.

However, as noted earlier, this has come to represent the first wave of the pandemic in the OPT. Following the easing of restrictions, and by early July, the number of cases increased sharply, which led the government to reinstate a lockdown for 10 consecutive days starting 3 July. By 15 July, movement between governorates remained prohibited while restrictions were eased within governorates.

Given the repeated lockdowns, the first lasting for nearly two and a half months, while the second was in place for around two weeks, the following sections will consider the impact of the disruption to economic life on the OPT labour market using two main tools:

- Descriptive data from the PCBS that consider supply and demand consequences of the Palestinian labour market shut down.
- Forecasting model simulations based on PCBS economic data, including the impact on the labour market.

3.1 Employment-based dependency ratio

When studying the economic consequences of economic shocks, looking at economic dependency ratios could provide some descriptive and intuitive initial insights into the increase in the burden on those who remain at work. Kluge et al. (2014) point out that increasing dependency ratios are likely to be a burden if the working population is supporting a large segment of the population. A high dependency ratio could also indicate a high poverty ratio.

The employment-based economic dependency ratio is an indicator that provides aggregate information on the degree of economic dependency in a given society. Unlike demographic dependency ratios that are based on the entire working age population, the employment-based dependency ratio takes into account the actual working population and their dependents, which provides a more accurate picture of the actual dependency situation in a country (Prskawetz and Hammer, 2018).

- The demographic dependency ratio =
 - $\frac{\text{Non-working age population (children below 15 years old + over 65 years old)}}{\text{working age population (individuals between ages 15 \& 65)}}$
- Economic dependency ratio = $\frac{\text{Non employed population}}{\text{employed population}}$
 - The non-employed population includes)children under 15+ retirees + unemployed + those outside the labour force

As of 2016 the demographic dependency ratio stood at 1.6 in the OPT, while the economic dependency ratio registered 4, compared to 1.8 in Italy and 1.6 in Spain (Prskawetz and Hammer, 2018).

It is hence clear that the economic dependency ratio in the OPT is very high compared to other countries, even those that have a high proportion of aging populations, such as Spain. This is mainly the result of the low female labour force participation rates, the high levels of unemployment and the high proportion of the population that is below the age of 15.

With the significant rise in the unemployment rate during the pandemic (rose by 7 percentage point after two months lockdown according to our forecasting model), this dependency rate is expected to have further increased, suggesting rising poverty rates along with the economic labour market contraction.

3.2 COVID-19 supply & demand side shocks to the Palestinian labour market

When thinking about the impact of COVID-19 on the labour market, it is important to examine both supply and demand side shocks caused by health measures put in place to combat the pandemic, as well as by changes in people's preferences as they attempt to protect themselves and avoid infection. The supply-side implications are primarily due to the closure of certain industries and workers not being able to perform their activities at their work places or at home. On the other hand, the demand-side changes are due to peoples' immediate response to the pandemic, such as increased demand for healthcare and reduced demand for goods or services that are likely to place people at risk of infection such as tourism (Rio-Chanona, 2020). Most industries around the world have been affected by either a supply or demand side shock, or both. Yet, these effects vary substantially across different industries and sectors. Within the Palestinian context, the fiscal crisis, as experienced by the Palestinian Authority, is particularly detrimental. The government relies on taxes from the population, customs duties transferred from Israel on Palestinian imports as well as budgetary support from abroad. These three sources have been largely jeopardized by the COVID-19 pandemic, with huge repercussions on income and poverty levels.

As Rio-Chanona (2020) notes, economic studies on the impact of the pandemic across the world have found that supply shocks rather than the demand side shocks are the main driver of the reduction in GDP and employment. In this section we draw on these studies to identify which sectors in the Palestinian economy are more likely to be affected by the supply side and demand side shocks, given the particular fragile context of the economy. Weighing out the supply and demand shocks is important because industries will react to policies depending on the type of the constraints that they had faced as a result of the pandemic. Hence, in order to devise policies that are relevant and effective, it is important to establish whether the deterioration in the labour market occurred as a result of a supply or demand side shock.

3.2.1 Supply side shocks

Supply shocks to the economy from pandemics are usually considered as labour supply shocks. Given the scale of COVID-19 pandemic, travel restrictions and social distancing measures must have had a much larger economic effect than the direct effects from mortality. This is in part because the stricter the lockdown and disruptions to economic activities are, the larger is the impact of the supply side shock on the economy and the labour market in particular. In this section we will look at the sectors least and most affected by the

pandemic in the OPT and assess the impact that this pandemic has had on workers and working hours.

There are two broad sets of sectors/occupations that did not experience supply side shocks, with a minimal impact on the labour market. In other words, the workers within these sectors continued to work and earn their payroll.

- Sectors/occupations that managed to work remotely (teleworking) or sectors that require

minimal social interaction; and

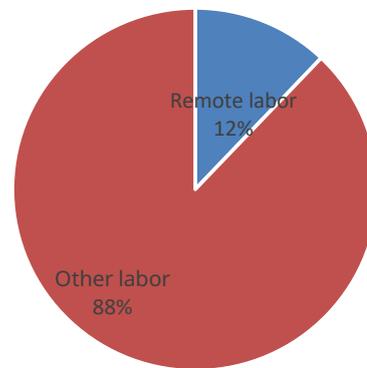
- Essential sectors/occupations.

A. Teleworking or remote working from home

A number of sectors/occupations have been minimally affected by the pandemic. This is partly due to the fact that workers in these sectors were able to work remotely, including through the internet and/or over the phones. The sectors where teleworking was possible during the pandemic, and where workers continued to be paid, are shown in Table 1 below, along with the number of workers working in these sectors.

Table 1: Teleworkers in the OPT during the two-month COVID-19 pandemic lockdown

Remote labour sector	Number of workers
Education (schools, colleges and universities)	108,700
Non-governmental organizations	10,800
International organizations	1,900
International governments representatives	8,100
Information technology (IT)	10,000
Total	139,500



Source: Data provide by PCBS for this report (2020)

Only a fraction of workers in the OPT (139,500) were able to work remotely from home, here estimated at 12% of workers. These workers are mostly in education as well as non-governmental, international organizations and the IT sector. These segments of the workforce managed to continue with their tasks during the pandemic and their wages were also paid normally. However, it is important to keep in mind that the numbers here are just estimates, since some sectors did not work fully, while workers in other sectors could also have had the option and possibility to work online during the pandemic, but are not listed here.

B. Essential industries

Across the world, many governments have mandated that certain industries deemed 'essential' should remain open during the COVID-19 crisis. Essential services are those services that the interruption of which would endanger the lives or health of individuals.

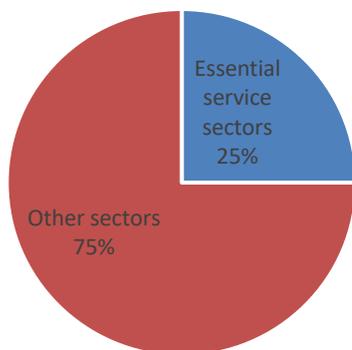
What constitutes an 'essential' industry has been the subject of significant debate, hence the endorsed set of essential industries vary across countries. As the Palestinian Authority has not produced a definitive set, here we draw a list of essential industries based on the Palestinian Authority's directives and daily announcements regarding which sectors can operate during the period of the lockdowns in the OPT.

Based on the Palestinian Authority's announcements between 22 March and 15 July, the following is a list of essential services in the OPT.

Table 2: List of essential services in the OPT

Economic activity	Workers number	Economic activity	Workers numbers
Banks	6231	Communication (phone, internet, television)	9984
Pharmacies	4474	Storage and goods shipments	49123
supermarkets, bakeries and grocery shops	30752	Agriculture and fisheries	61216
Health care	36265	Food manufacturers	33005
Gas stations and fuel distribution	24	Chemicals and pharmaceutical manufacturers	2173
Government officials (Governors offices and municipalities)	5257	Care homes (elderly and people with disability)	5001
Fire, police and security services	77383	Launderettes and dry cleaning shops	556
Garbage and waste management collection	2437	Utilities provision and maintenance (electricity, water)	4889
Total	328770		

Distribution of workers in the OPT between essential and non-essential sectors, 2020



Source: Data provided by PCBS for this report (2020).

As can be noted, the number of workers in essential industries is 328,770 workers or 25% of the total number of workers in the West Bank and Gaza Strip. It is assumed that the vast majority of these workers continued to work, given the nature of their work. Wages of these workers were also unchanged.

Taking into account the two categories, that is, essential services workers and teleworkers, it is estimated that 468,270 or 46% of workers in the OPT managed to continue to work during the pandemic. These workers are wage employees that predominantly work in the formal sector and hence are protected by legal contracts (with the exception of workers in the agricultural sector who are predominantly without contracts). For workers in essential services, working hours were reduced since not all workers worked full time and shifts have instead been introduced in many sectors.

Overall, the percentage of workers who remained employed during the pandemic in the OPT has been less than that observed in some other countries, such as Egypt, for example, where economic sectors including public transport and shops, did not stop working, but were instead requested to reduce the number of opening hours. In the OPT, on the contrary, all aspects of people's movement were disrupted.

The working hours have also been disrupted. If we assume that the 1,013,000 Palestinian workers work for 8 hours on a daily basis, this means that the daily working hours are 8,104,000 while the hours lost as a result of the pandemic amount to 4,376,160 every day.

C. Workers benefitting from tripartite agreement between the government, private sector and trade unions

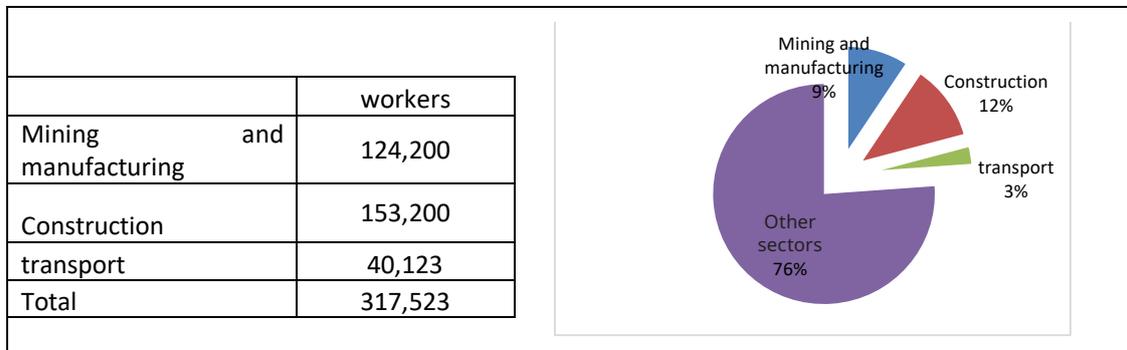
On 16 March, the Palestinian Authority signed an agreement with private sector representatives and the Palestinian General Federation of Trade Unions (PGFTU) through which employers committed to pay at least 50% of all workers’ wages (with a minimum of NIS 1,000) for the months of March and April, with the remaining wages to be paid after the lockdown is eased.

This agreement covers wage employees in the tourism sector, retail and wholesale trade, restaurants, hotels and manufacturing, among others. There is no concrete data to establish whether employers fulfilled their part of the agreement or not, but ‘social media’ suggests that a large segment of employers did adhere to it, particularly in the first month of the lockdown. Since there is no data on this group of workers, it is not possible to come up with estimates of the actual number of workers who benefited or which sectors they work in.

D. Industries/occupations affected by supply side shock

Supply shocks affect industries and occupations that are non-essential and cannot be performed from home. If we consider only the immediate supply-side effects of social distancing, workers in these occupations are more likely to face reduced hours of work or risk losing their job altogether.

Figure 3: Sectors impacted by a supply side shock as a result of the pandemic in the OPT



Source: PCBS Labour Force Survey, 2019.

Manufacturing, mining, transport and construction are the most affected sectors by a labour supply shock. This is because for mining manufacturing and construction, consumers’ preferences do not change abruptly since consumption and production decisions within these sectors are long term based. As a result, the decline in production in these activities mostly arise from the inability of workers to reach their workplaces rather than from a sudden decline in demand or a change in consumer preferences. The same applies for transport, in the sense that if the sector was operating, consumers would travel and hence the decline in its activity is mostly the result of workers restricted from work.

Hence, workers in these sectors did not manage to continue working. These workers account for 24% of the employed population. Nevertheless, some proportion of these workers may have benefited from the PGFTU deal with the private sector, which covers half of their wages for two months. Yet it is not possible to estimate the number of these workers or for how many months they received half of their wages.

3.2.2 Demand side shocks

The pre-COVID-19 literature on epidemics and the discussions of the current crisis make it clear that epidemics strongly influence patterns of consumer spending. In addition to increasing their demand for health services, consumers are also likely to seek to reduce their risk of exposure to the virus and decrease demand for products and services that involve close contact with others. In the early days of the outbreak, stockpiling behaviour also drove a direct demand increase in the retail sector (Baker et al. 2020).

Here we do not tackle the important question of whether demand reductions are just postponed or whether they are permanent. It is assumed that these reductions will remain longer than the lockdown is implemented but that demand will return to normal with a short-delayed lag after the lockdown is lifted.

Healthcare, considered as an essential service, has unsurprisingly experienced an overall increase in demand for its output, all across the world. The same applies to workers in security services who had to be mobilized to monitor the containment of the pandemic in infected areas. Hence these sectors/occupations have experienced an increase in demand for their services, including in the OPT.

Entertainment, restaurants and hotels, on the other hand, experienced very large supply and demand shocks, with the demand shock dominating. The demand shock dominates in this sector because consumers' decisions are strongly affected by the pandemic, even if these establishments remain open. The same applies to wholesale and retail trade that is not related to food or medicine, but instead to less essential products such as furniture, cosmetics and flowers. Similarly, demand for government services that are not considered key, including for example car licenses or issuing certificates, has also significantly declined. Transport experienced a strong demand side shock, amidst the curfew and lockdown measures that were imposed.

3.2.3 Combining supply and demand shocks to the labour market in the OPT

Essential industries, such as utilities, experienced no supply or demand side shocks, since these continued to operate during lockdown and immediate demand for their output is assumed to remain the same. Other essential sectors, on the other hand, such as healthcare experienced an increase in demand. As such, workers in essential services as well as in sectors where telework was possible, were not affected by the pandemic and their wages continued to be paid.

Transport experienced a reduction in supply, since the only way this sector would shut down is by restricting workers from reaching their workplace and these workers cannot perform their tasks from home. Non-essential industries such as entertainment, restaurants and hotels, experienced both a demand reduction (due to consumers seeking to avoid infection) and a supply reduction (as many workers are unable to perform their activities at home). It is likely that the demand shock to this sector is larger than the supply shock. Other non-essential industries such as manufacturing, mining and retail are likely to have supply shocks that are larger than their demand shocks.

All these sectors were not able to operate as normal and as a result, workers were affected, and those who managed to benefit from the PGFTU deal with employers received only half of their wages.

On the other hand, government employees who did not manage to reach their workplaces, still received their wages, which means their work was disrupted but not their incomes.

As noted earlier, identifying the direction of the shock, be it supply or demand side, is important in devising policy responses to reactivate these sectors.

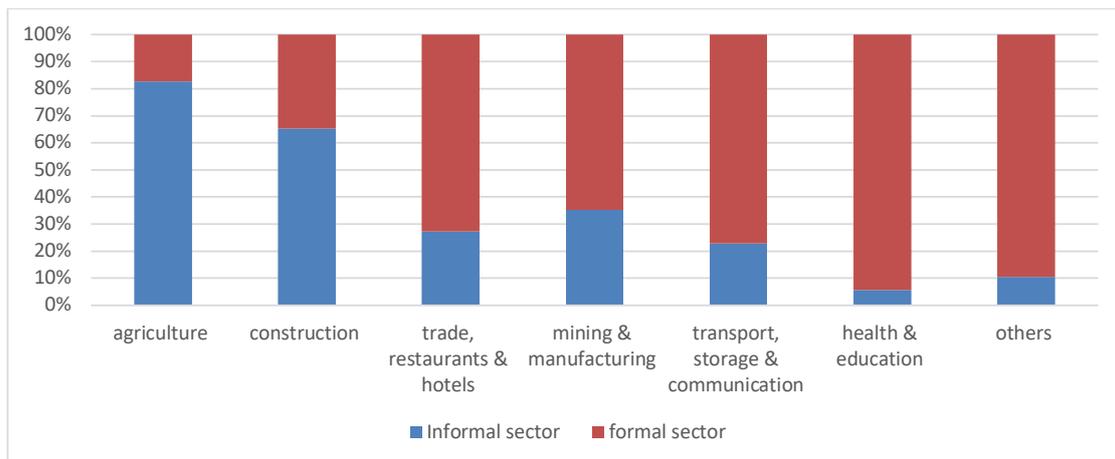
3.3 Vulnerable groups: Informal sector/economy workers

Across the world, wages and incomes of different groups of workers have been affected differently by the pandemic based on two main factors. The first is whether they were able to access their workplaces or telework. The second is the extent to which governments were able to strike deals with the private sector to reach a particular group of workers and protect their rights and wages.

In the OPT, a significant proportion of formally employed wage employees were less impacted by the pandemic, as they were either essential workers or teleworkers or were covered by the PGFTU agreement. This means that these workers received all or part of their wages during the past four months of the pandemic.

However, one of the most affected segments of workers as a result of the pandemic, who fall outside the categories listed above, are those working informally. This is because they do not meet the two conditions noted above; the vast majority of informal workers could not access their workplaces nor were they able to work from home. At the same time, they did not meet the conditions set by the government to enable employers to compensate workers.

Figure 4: Distribution of informal sector workers in the Palestinian labour market compared to formal sector workers, 2019



Source: Data provided by PCBS for this report (2020).

Informal economy workers are employed with no contracts, they include both informal sector workers and the informally employed and constitute 57% of total employed individuals in the OPT (59% in the West Bank and 51% in the Gaza Strip).³ These workers constitute nearly 80% of workers in the agricultural sector as well as 65% of workers in construction (PCBS, 2020c).

Many of informal economy workers are self-employed, particularly those working in the transport sector, or retail trade. These workers are also not part of the tripartite agreement to pay 50% of workers’ salaries.

Female workers were also particularly hit by the pandemic since many of them could not telework given their domestic duties as well as their child care responsibilities. Women are also predominantly employed in the health care sector, and hence were at the frontline of the crisis. At the same time, women are over-represented in the agricultural sector, which tends to employ workers informally, hence did not receive much protection during the pandemic.

³ According to PCBS, informal sector workers are the employers or self-employed who work in establishments/enterprises where he/she works does not have tax record nor a book accounting record. The informally employed include wage employees who do not receive any of the labor market rights whether it is retirement/end-of-service gratuity, or a paid annual leave, not paid sick leave (PCBS, 2020c).

3.4 Palestinian workers in Israel

Palestinian workers in Israel have had a special situation during this pandemic. This is because of the discrepancy in the prevalence of the pandemic between the West Bank⁴ and Israel. Initially, there were fears in Israel that Palestinian workers would be a source of spreading the virus. Yet, as time passed, it became evident that the spread of the virus in Israel was substantially higher than that in the OPT.

Before the start of the pandemic and according to PCBS LFS 2019 figures, there were 134,000 Palestinian workers in the Israeli labour market (13.2% of total Palestinian workers). As new COVID-19 cases started to increase at a much higher rate in Israel compared to the OPT, Israel indicated that it needed Palestinian labourers working in the manufacturing, construction and agriculture to continue working in the Israeli labour market. The Palestinian and Israeli sides agreed that 80 thousand workers who are below the age of 50 years old will head to their work locations inside the Israeli economy before 22 March and remain there for at least a month without commuting back and forth to the West Bank. It was agreed that Israel would provide accommodation and decent living conditions for these workers. But on 25 March, the Israeli authorities 'dumped' a Palestinian worker who was showing symptoms of COVID-19 at one of the checkpoints. At the same time, and contrary to the agreement with the Israelis, the majority of workers had no accommodation inside Israel and were sleeping rough on the streets. As a result, the Palestinian Prime Minister called upon workers to leave their work in Israel and return to the West Bank, while remaining in quarantine for two weeks, before rejoining their families.

As a result, and according to the Palestinian Prime Minister, by 2 April, more than 30,000 workers returned to the West Bank from Israel. More workers returned just before the Jewish Passover on 8 April. The Palestinian Authority estimated that by mid-April, around 25,000 Palestinian workers remained inside the Israeli labour market. However, on 28 April, as part of Israel's attempts to revive its economy, it granted 50,000 Palestinian workers permits to enter Israel for work while promising to secure accommodation

for them. The Palestinian Authority requested that these workers remain in Israel until the end of Ramadan (23 May).

What the data show is that the number of Palestinian workers inside Israel between mid-March and end of June 2020 fluctuated between 25,000 – 70,000 workers. It is important to note that these figures account for workers with permits, yet there are scores of workers who do not have work permits, but have either kept on commuting to work in Israel, contrary to the request of the Palestinian Authority, or have stayed in Israel without permits. Therefore, based on available data, we can estimate that nearly 70,000 workers previously working in Israel remained unemployed during the past four months (mid-March to mid-July).

The situation of Palestinian workers in Israel is highly precarious. Nonetheless, working in Israel remains a preferable option for many Palestinians as a result of the wage premium. In fact, earnings of Palestinian workers in Israel are substantial, accounting for 25% of total wage earnings in 2018, yet these workers account for only 13.2% of total Palestinian workers. This means that their earnings are a substantial source for the survival of at least 50,000 Palestinian households. The disruption of these earnings during the pandemic must have been detrimental to families whose workers remained unemployed.

Summary:

According to the above analysis, we estimate that around 60% of Palestinian workers continued to work and/or receive whole or part of their salaries during the pandemic. These include:

- Public sector workers (who were paid their entire salaries for the months of March and April, but half of their salary for the month of May).
- Essential workers as noted earlier in this report.
- Teleworkers in the education sector and non-governmental organizations.
- Palestinian workers who continued to work in Israel.
- A proportion of wage employees in the formal economy who received half of their salaries from their employers as part of the tripartite deal

⁴ Palestinian workers in Israel come from just the West Bank since Gaza is totally closed off as a result of the Israeli blockade.

between the Palestinian Authority, PGFTU and employers.

Yet a significant proportion of workers could not continue to work or receive income during the lockdown periods, these include:

- Informal economy waged workers, casual and temporary workers (including workers in the transport sector, domestic workers, construction workers and peddlers).
- Micro-entrepreneurs and the self-employed (including wholesale and retail trade providing non-essential services and products, transport workers, and restaurants).
- Formal economy workers whose employers did not adhere to the tripartite agreement (including some in the tourism, manufacturing, and construction sectors).

- Young workers whose jobs are mostly in the services sector and are highly sensitive to changes in demand, such as restaurants, hotels and sales.

The latest rise in infections in the OPT means that the hardship is not over yet, but actually may worsen. The increase in the number of cases casts a shadow over the labour market for the coming period. This is particularly true in relation to informal economy workers who work in sectors with significant public exposure.

Now the paper turns to present the econometric based model results, which provide a more accurate picture into the loss of work and wages during the 4-month period since the lockdown in the OPT was imposed in early March 2020.

► 4. Impact of COVID-19 on the Palestinian labour market – A forecasting model analysis

4.1 Model

The projection of the Palestinian economy in 2020 under COVID-19 will be estimated using the extended version of the PCBS forecasting model. The model, which was developed in 2018, through joint collaboration between PCBS, the ILO and MAS, divided the services sector into 5 sub-sectors: Trade, transportation and storage, information and communication, health and education, and other services. The model will provide projections for the number of employees in the 8 sectors of the economy in addition to other macroeconomic indicators.

The model is specifically made to project annual forecasting of national accounts and labour market outcomes. However, the model is demand driven. In other words, it is modelled in a way where most economic fluctuations are driven by aggregate demand changes, including fiscal changes. The current outbreak due to COVID-19 has both demand and supply shock dimensions. Although the model does not sufficiently capture the supply shock and underestimates the macroeconomic effect, the model performs well for the labour market outcomes.

The projection is based on assumptions about the exogenous variables in 2020 (income tax ratio, VAT ratio, number of closure days for workers in Israel, number of closure days for goods, private inflows from outside the OPT, government transfers, government investment, public employment, GDP in Israel and Jordan, and productivity factor in each sector). The assumptions vary between two scenarios. The first assumes that the duration of the crisis will be four months, while the second assumes a second wave of the pandemic in the autumn of 2020 for another period of two months.

4.2 Assumptions

The assumptions of tax revenues and government investment are based on a March 2020 monthly report of the Ministry of Finance and compared to March 2019. The Assumption of the GDP growth rate in Israel in the first scenario is obtained from the forecast of the Bank of Israel,⁵ while the assumption on the growth rate in Jordan is obtained from the IMF's projection of the Jordanian economy.⁶ Government transfers and public employment are not assumed to change in the first scenario, but they are assumed to decline in the second scenario due to the persistence of the fiscal crisis and the inability of the Palestinian Authority to sustain payment of wages and transfers.

Changes in the sector-specific productivity factors are based on the quarterly value added per sector for 2019 in constant prices. The change in productivity assumptions, presented in the below table, are due to the lockdown and restrictions of activity, and not due to the economic recession. The economic response of the different sectors in terms of value added, will be endogenously projected by the model. In the first scenario, changes in the productivity factors are calculated by assuming two months of lockdown in the second quarter of 2020, followed by one month of opening during June 2020, two weeks of lockdown during July 2020 and 50% of regular activity during the other two weeks of July 2020 (Total period of four months). In the second scenario, changes in the productivity factors are calculated by assuming six additional weeks of lockdown in the fourth quarter 2020 and 50% of regular activity in the subsequent two weeks (Total period of six months). This calculation excludes the sectors of agriculture, information

5 <https://www.boi.org.il/en/NewsAndPublications/PressReleases/Pages/06-04-20.aspx>

6 <https://www.reuters.com/article/us-health-cornavirus-jordan-growth/jordan-sees-economy-down-3-in-2020-due-to-coronavirus-idUSKBN22F0P8>

and communication. Agriculture is unaffected in the first scenario since agricultural activities have been allowed to work normally, but its activity decreases by 2.5% in the second scenario, under the assumption that agricultural exports, that represent 26% of the sector's value added, will decrease by 50% in the fourth quarter due to closures imposed by Israel restricting the movement of goods in and out of the OPT. Health and education activities are unaffected but they are assumed to decrease by 10% in the second scenario since public employment is assumed to decrease by 20% due to the ongoing fiscal crisis. Communication and information activities are assumed to operate normally in both scenarios.

Table 3: Percentage change from the baseline scenario in the exogenous variables

Variable	COVID-19 4 Months	COVID-19 6 Months
Income tax revenues	-27.1%	-54.2%
VAT revenues	-70.0%	-90.0%
Number of closure days for workers	+25.0%	+50.0%
Number of closure days for goods	0.0%	+12.5%
Private inflows from outside the OPT	-30.0%	-50.0%
Government transfers	0.0%	-10.0%
Government investment	-73.7%	-90.0%
Public employment	0.0%	-20.0%
GDP in Israel	-5.3%	-7.0%
GDP in Jordan	-3.0%	-7.0%
Productivity factor in agriculture	0.0%	-2.5%
Productivity factor in mining and manufacturing	-18.1%	-19.4%
Productivity factor in construction	-13.4%	-15.3%
Productivity factor in trade	-10.5%	-12.1%
Productivity factor in transportation and storage	-10.2%	-19.2%
Productivity factor in information and communication	0.0%	0.0%
Productivity factor in education and health	0.0%	-10.0%
Productivity factor in other services	-8.6%	-16.9%

4.3 Projection Results

4.3.1 Macroeconomic Projections

The projections of the model indicate that real GDP would decline by 6.4% relative to 2019 in the first scenario and by 10.8% in the second scenario, while it was predicted to grow by 3.9% in 2020 in the baseline scenario (without the outbreak). Most of the decline in GDP is due to a decline in total consumption by 7.8% in the first scenario and by 10.5% in the second scenario. The consumption decline is due to both labour market supply and demand shocks, that is the inability of workers to reach their jobs and work, but also less demand for certain goods and services that are not considered essential.

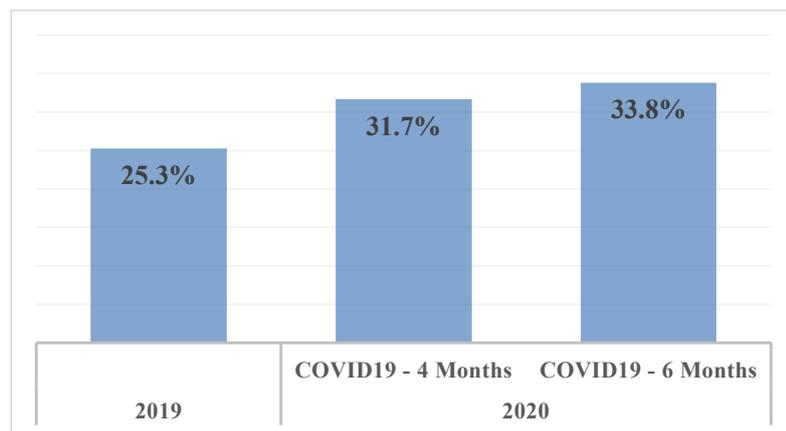
Table 4: Percentage Change in Macroeconomic Indicators in 2020 relative to 2019

	COVID-19 4 Months	COVID-19 6 Months
Real GDP	-8.3%	-10.8%
Total Consumption	-9.5%	-10.5%
Gross Investment	-3.0%	-9.2%
Exports of Goods and Services	-6.9%	-8.8%
Imports of Goods and Services	-7.4%	-8.7%

4.3.2 Labour Market Projections

These projections focus on the main labour market outcomes that the PCBS model allows for, yet it is not an exhaustive set of indicators. To start with, the unemployment rate in 2020 is projected to grow to 31.7% in the scenario of a four-month lockdown and to 33.8% in the scenario of a six-month lockdown. The labour force participation does not respond to short-run shocks. Thus, the rising unemployment rate is due to losses in the number of jobs rather than changes in the long-term labour supply.

Figure 5: Unemployment Rate in the OPT in 2019 and 2020



At the sectoral level, the effect of the pandemic on employment is not uniform. According to Table 5, the most negatively affected activities are mining and manufacturing, transportation and storage, and other services (including restaurants and hotels). This is in line with our earlier descriptive analysis that suggested that these sectors are affected by both supply and demand side shocks.

On the other hand, the sectors of construction and trade experience moderately positive growth rates of employment, yet these growth rates are much lower than the growth rates expected under the baseline scenario. The value added of the sectors of construction, mining and manufacturing are dependent on capital goods. As investment is expected to decrease by 3.0 – 9.2%, it explains why the fall in employment demand is larger than in other sectors. Moreover, the value added of the construction sector is positively related to the final private consumption. Thus, as consumption is expected to decrease by 9.5 – 10.5%, construction is expected to experience a lower growth rate of employment demand than the potential growth rate under no COVID-19 pandemic effects.

The sectors of communication, education and health services do not experience changes in employment demand relative to the baseline scenario. The employment growth rates remain positive despite the COVID-19 spread. This is in line with our descriptive analysis and studies in other countries, given that these sectors continued to operate despite the pandemic.

The impact of the COVID-19 pandemic on employment in the agricultural sector seems to be positive. While employment in agriculture was expected to decline by 0.9% in the baseline scenario, it exhibits significantly positive growth rates in both COVID-19 scenarios. This is not totally surprising given the fact that the agricultural sector has remained functional and it may be the case that more people enrolled in this sector as a result of the pandemic. In a similar context, employment in agriculture increased by 21.6% in 2002, during the second Intifada, while restrictions on movement, the curfew and invasion by Israel resulted in a deep recession in the Palestinian economy. The rising employment in agriculture is explained by the fact that more people will likely want to work in agricultural activities when they lose their jobs in other sectors or in Israel.

Table 5: Percentage Change in Employment by Sector in 2020 relative to 2019

	Baseline	COVID-19 4 Months	COVID-19 6 Months
Employment in agriculture	-0.9%	5.0%	4.4%
Employment in mining and manufacturing	3.9%	-18.2%	-20.9%
Employment in construction	14.6%	1.1%	0.2%
Employment in trade	10.1%	4.3%	2.5%
Employment in transportation and storage	2.7%	-8.7%	-9.3%
Employment in communication and Information	4.0%	5.5%	3.2%
Employment in education and health services	3.8%	4.3%	-5.1%
Employment in other services	-2.1%	-7.1%	-8.0%

4.3.3 Wages

Further to the impact on employment, wages of employees are expected to decline in 2020. Workers in all sectors, with the exception of those working in communication and information, would earn lower wages, by 2.1% on average, in the scenario of a four-month lockdown, and by 2.8% in the scenario of six months of lockdown. The wage bill would also decline by 3.6% and 5.9% in the scenarios of four months and six months of lockdown, respectively. As construction, mining and manufacturing are the most affected by lower employment demand, wages in these sectors are also the most affected. Although we did assume that the sector of education and health services is not directly affected by the lockdown in the first scenario, the wages of employees in this sector would slightly decline by 1.2% and 2.1% in the four- and six-month lockdown scenarios, respectively. This result is due to the decline in the government's revenues, which would imply a decline in government expenditure and wages to the public sector employees in education and health activities.

Table 6: Percentage Change in Average Daily Wage by Sector

	Baseline	COVID-19 4 Months	COVID-19 6 Months
Agriculture	-0.6%	-2.2%	-2.1%
Mining and manufacturing	0.6%	-3.5%	-3.9%
Construction	1.7%	-3.4%	-4.5%
Trade	1.1%	-2.4%	-3.0%
Transportation and storage	-6.4%	-0.2%	-0.6%
Communication and information	1.6%	1.7%	1.6%
Education and health services	1.7%	-1.2%	-2.1%
Other services	1.8%	-1.1%	-2.0%
Average daily wage	1.1%	-2.1%	-2.8%
Wage bill	4.5%	-3.6%	-5.9%

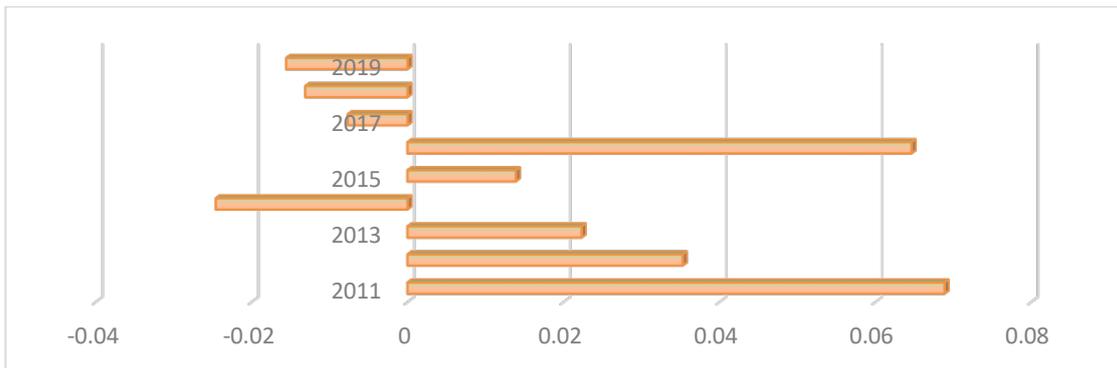
These model-based results have provided insight into the impact of the pandemic on the labour market and particularly the loss of employment and wages across the various sectors. Some sectors are projected to lose employment, while others actually are projected to have an increase in employment, but less than the baseline scenario, yet other sectors are projected to experience a net increase in employment despite the pandemic. It depends on whether the workers in these sectors were able to access their jobs as essential services and/or were able to telework. This capacity to work reflects itself on wages, whereby certain sectors, such as telecommunication, are projected to experience a rise in wages, under the two scenarios of lockdown, four and six months. At the same time, workers in other sectors including in mining and manufacturing, trade and construction are projected to experience a decline in wages. This is due to the fact that establishments are devising mechanisms to keep workers employed, while reducing hours of work or switching to part time jobs with reduced wages as coping mechanisms.

► 5. Sustainable Development Goals (SDG – 8): Decent Work and Economic Growth

The projected deep recession of the Palestinian economy in 2020 will directly and heavily impact the achievement of the SDG 8 goal of sustained, inclusive and sustainable economic growth, and full, productive and decent employment. The growth target of 7% in real GDP per capita in the least developed countries has been much higher than growth in the OPT since 2014. The gap is expected to triple in 2020 after the pandemic.

Per capita GDP growth rates have been identified as an important indicator of the well-being of an economy and its population. The volatility of growth rates of per capita GDP in the OPT is shown in Figure 6 below. These rates have been negative since 2017, which means that there has been a decline in per capita GDP, and are expected to worsen as a result of the COVID-19 pandemic, given that GDP growth rates will decline while the population continues to grow.

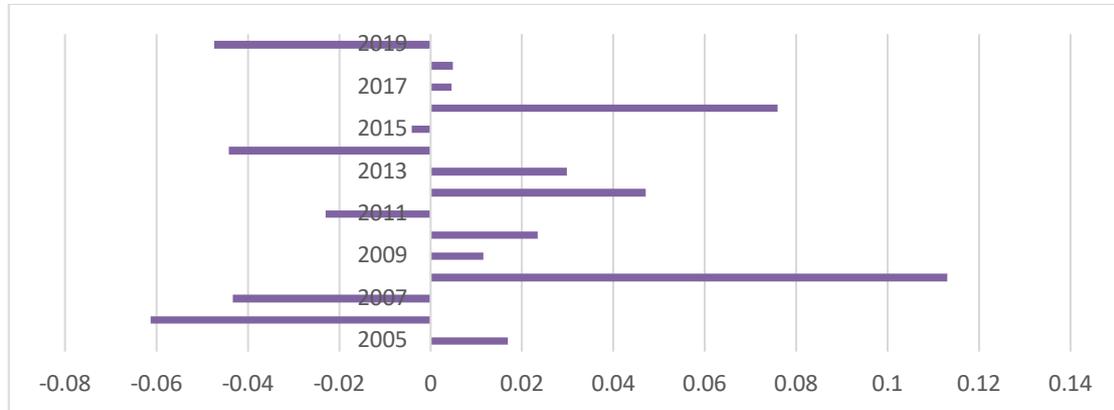
Figure 6: Per capita GDP growth rates, 2010-2019



Source: PCBS, National Accounts Statistics, various years.

Another target for the SDGs is to achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors. Labour productivity is an important indicator to examine in this regard. As Figure 7 below shows, GDP per worker has been highly volatile, determined mainly by the size of GDP, which fluctuates drastically depending on political factors arising from the Israeli occupation, particularly the movement restrictions policy. We could realistically expect GDP per worker to further decline as a result of the pandemic, with negative implications for the economy and well-being of workers.

Figure 7: Change in GDP per worker, 2005-2019



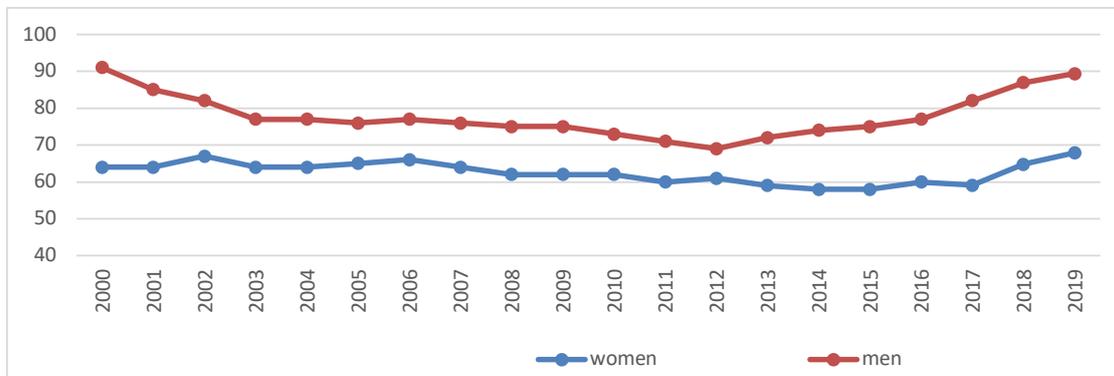
Source: calculations based on data from PCBS Labour Force Survey (various years) and National Accounts Statistics, various years.

The outbreak has left at least 90,500 employees jobless. The unemployment rate is estimated to grow to 31.7 – 33.8%, while it was 25.3% in 2019. Labour underutilization has increased and the gap to full employment has widened. Employees in the mining and manufacturing sector, one of the most productive sectors in the Palestinian economy, have been the most affected by the outbreak, whereby 18.2 – 20.9% of employees in this sector are projected to lose their jobs in 2020. Thus, unemployment is largely increasing among productive workers.

With more than 28% of wage-employees in the West Bank and Gaza earning less than the official minimum wage, and a majority of employees without basic rights such as paid annual leave, paid sick leave, a written contract and pension contributions, Palestinian workers are far from enjoying decent work conditions. With the average wage expected to further decline by 2.1 – 2.8%, working poverty is expected to rise with widened prevalence of decent work deficits in the country.

As Figure 8 below shows, the real wage rates in 2019 were similar to those in 2000, while the wage gap between men and women persists. This is partly the result of men working in Israel, who end up earning double the average wage of the domestic economy in the West Bank and Gaza. Average real wages are expected to decline as a result of the labour market compression.

Figure 8: Real wages in the OPT along gender lines by sex

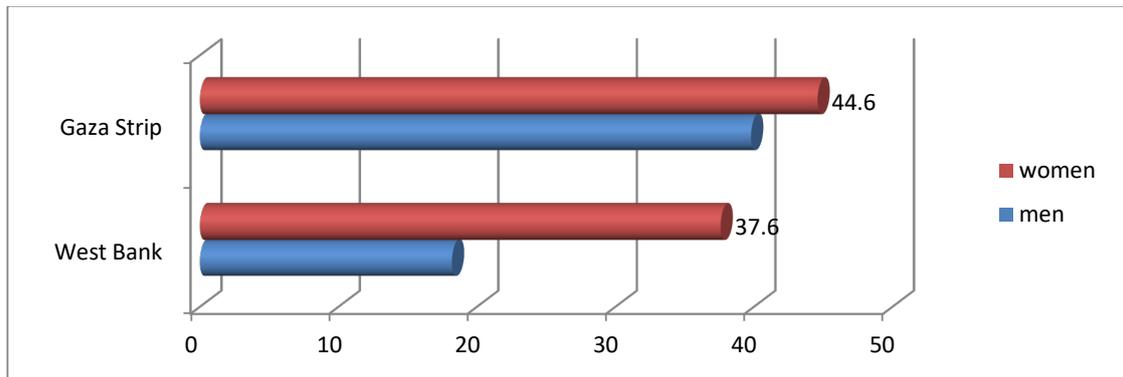


Source: PCBS Labour Force Survey, various years.

SDGs also call for reducing the proportion of youth not in employment, education or training. This should enable a full utilization of resources and setting the youth on a track of productive employment and education.

In 2019, more young women than men (those aged 15-24 years old) were outside education or employment. The pandemic is expected to add a layer of difficulty to those youth entering the labour market in particular, given the loss in employment as a result of the lockdowns.

Figure 9: Percentage of Youth not in employment, education or training, 2019



Source: PCBS Labour Force Survey, 2019.

The Palestinian Authority declared that it is expecting a 50% decline in its revenues in 2020. An emergency budget was announced to support the healthcare sector and other affected sectors. The political tension due to the Israeli annexation plan in the West Bank and non-payment of the customs revenues to the Palestinian Authority has exacerbated the fiscal crisis. Consequently, the implementation of programmes to promote SDGs has been suspended.

► 6. Policy Interventions

Handling the repercussions of the COVID-19 pandemic is akin to handling a sword that sharply cuts both ways. On the one hand, measures to protect people's lives including lockdown measures and disruption of economic activities have resulted in devastating economic and labour market consequences, while at the same, if such measures are not enforced, people risk being infected and losing their lives. As a result, most countries have grappled with trying to create an appropriate balance between policies to mitigate the public health and economic impacts of the crisis.

In addition to the health measures instated by countries, including social distancing, quarantines and health screening centres, countries used either total lockdown for short periods of time or semi-lockdowns for longer periods of time to contain the pandemic. Hence, lockdowns across different time periods became a mechanism to handle the pandemic both in developed and developing countries with different degrees of success.

Economic policies during this pandemic around the world focused on two main tracks. The first is to mitigate the impact of the economic shock on households, particularly the devastation to livelihoods incurred as a result of the reduction in labour supply. This included income transfers either in the form of handouts or as a proportion of wages, exemptions from certain taxes, as well as payment deferrals related to certain bills, debts and fees.

The second track focused on reviving businesses through attempting to keep certain production lines and supply chains running. This track worked to maintain the integrity of the banking system and currencies in order to provide needed liquidity in the economic sectors. These two tracks of intervention are apparent in both developed and developing countries.

6.1 Policy interventions in the OPT

The Palestinian Authority responded swiftly to limit the spread of the COVID-19 pandemic; on 5 March and following the first diagnosed cases with the virus, it declared a 'state of emergency'. This entailed closing down all schools and universities, restricting movement in and out of Bethlehem (where the first cases were diagnosed), and required the population to implement social distancing procedures. On 22 March, stricter suppression measures were rolled out in the West Bank, preventing movement between all governorates, closing all non-essential facilities, and requiring citizens in the West Bank to stay at home for 14 days. After 45 days of closure and on 20 April, a series of relaxation measures aimed at allowing the resumption of certain economic activities were instated, particularly that the month of Ramadan was to follow shortly (23 April).

The Palestinian Authority continued to restrict gatherings, including in mosques and churches, weddings and festivals. Schools, university and nurseries remained closed. Palestinian workers in Israel were not allowed to commute to the Israeli market and work in the settlements was prohibited. Markets were allowed to operate from 10am to 7:30pm, not only food related businesses, but retail trade in general. The banking sector was allowed to operate with 60% capacity, while the public sector was instructed to operate within its regions, so workers did not have to commute between governorates. These measures were further relaxed on 25 May, whereby economic life was allowed to operate closer to normality on the condition that the public adhered to social distancing measures. The lockdown period (both semi and total) lasted from 5 March – 25 May,

around 80 days.

Yet, this period represented only the first wave of the pandemic, since more cases started accumulating one month after lifting the lockdown. The wave that started in July 2020, has been much more severe, so that by 15 July, around 7,734 were registered in the OPT, an unprecedented ten-fold rise. As a result, the Palestinian Authority reinstated a 10-day lockdown on 3 July, which was partially lifted on 13 July, allowing more businesses to operate (Palestinian Prime Minister's Office, 2020).

As in the rest of the world, the lockdown of activities in the OPT has pushed the economy to its limits, as explained earlier. Therefore, policy actors moved to formulate policies to respond to the devastating economic impact of the pandemic. This section maps out these policies and provides an evaluation and assessment of their impact on the labour market.

The Palestinian Authority: The Palestinian Authority's approach to contain COVID-19 has been multi-layered. An emergency response plan was prepared in late February, which aimed to address the capacity of the health sector to deal with the pandemic. The choice was made to test and quarantine symptomatic and infected citizens, respectively, rather than running random tests on everyone, as a result of limited available capacities. Individuals suspected of having COVID-19 are quarantined at home and all in-coming travellers are placed in quarantine for two weeks. Individuals with positive results or symptoms have been treated in public hospitals. The Prime Minister's Office provided twice daily briefings through the national media, including updates on COVID-19 cases and official guidelines for citizens. The Palestinian Authority policy interventions can be summarized as follows:

Public Health Response: to support direct public health response to the COVID-19 pandemic across the OPT (in the West Bank, including East Jerusalem, and Gaza Strip) and strengthen the capacity of medical staff, medical supplies and equipment and availability of medicine.

Budget support: to cover operating expenses, pay public sector salaries and pensions, and maintain the social safety network, with a potential temporary expansion of payments to cover those whose livelihoods are directly

impacted by official containment measures.

Economic recovery: establishment of 'Waqfit Izz' fund to support vulnerable families and provide SMEs with liquidity to continue working. The Palestinian Authority aimed to set up a plan with the World Bank for economic recovery.

Support for refugees, prisoners and workers in Israel: Emphasized the need to support refugees locally and in their diaspora. The Palestinian Authority also called upon Israel to provide protection for Palestinian prisoners and workers, as under international law, Israel is mandated to ensure the well-being of these two groups.

The Palestinian Authority utilized the funds of 'Waqfit Izz', which gathered donations from private sector businesses and the population at large, to provide grants for vulnerable workers who lost their income as a result of the pandemic. More than 130,000 workers registered electronically for assistance. Around 40,000 workers were selected based on weights reflecting the degree to which they were affected by the pandemic; the loss to their economic sector, level of income and marital status as well as number of children.

A labour sector response plan was also developed by the Ministry of Labour with support from the ILO to not only mitigate the impact of the pandemic on the Palestinian economy but to provide grounds for recovery and future development in the area of labour in the OPT.

In addition, early on in March, the Ministry of Labour signed an agreement with representatives of the private sector and the PGFTU to pay workers half of their salaries, with the rest to be paid at the end of the crisis.

The Ministry of Labour has also supported 1,500 workers in the private education sector through financial grants from the Red Cross. This includes workers in nurseries, private vocational training centres, and catering in private educational centres. More than 16,275 workers work in this sector. Beneficiaries were selected from those who registered at the Ministry's website and proved their need. Lending schemes have also been launched by the banks and the Palestinian Fund for Employment and Social Protection

(PFESP).

These efforts by the Palestinian Authority provided much needed support for workers in the economy, although these fall short in terms of coverage. Nevertheless, these efforts are to mitigate the impact of the pandemic, but are lacking a long-term vision to overcome the repercussions of lockdowns and setting the economy on a recovery track.

The World Bank: In its policy discussion of the impact of COVID-19 on the Palestinian economy, the World Bank (2020) emphasized the lack of policy tools at hand for the Palestinian Authority and the limited fiscal space, which restricts the capacity to respond to the economic impact of COVID-19. The Palestinian Authority lacks the tools that other countries may have at their disposal, such as issuing bonds and/or increasing external borrowing. Rather, the options available, according to the World Bank, include maintaining basic service delivery through postponing non-essential expenditures and prioritizing spending that allows social assistance to be provided for the neediest families, in addition to creating critical liquidity support for SMEs and maintaining basic public services through maintaining the operations of the banking sector.

The Bank also recommended providing cash transfers to households and assisting solvent and sound firms to deal with the liquidity shocks. The Bank further emphasized the importance of safeguarding the independence of the Palestine Monetary Authority (PMA) to secure the stability of financial sector as well as looking for resources to enhance the liquidity of this sector. The Bank also recommended that the Palestinian Authority should seek resources that Israel is withholding and provide support to local government.

These recommendations emphasize managing the crises with available resources in order to keep the economy going without generating further debt and while safeguarding the integrity of the financial sector. However, the recommendations do not provide insight into the structural policies that can push the economy forward beyond this pandemic.

The Palestine Economic Policy Research Institute (MAS) (2020) has also articulated a set of policy interventions tackling all economic sectors, including fiscal and monetary

interventions, trade and manufacturing. The institute's recommendations with regard to industry focused on providing loans and banking facilities to enhance the capacity of this sector. It also called for policies to save the tourism sector through compensating workers as well as providing loans and grants to revive its activities, even if based on local tourism, and providing guarantees for small loans for businesses that were adversely affected by the pandemic. MAS's recommendations also focused on providing assistance for the unemployed, poor and emphasized the monitoring of the minimum wage policy. As for workers in Israel, MAS pointed towards pressuring Israel to take responsibility for workers' rights and their compensation.

UN Humanitarian Country Team: COVID-19 response plan of the UN Humanitarian Country Team (April 25, 2020) focused on six main areas: health care, protection, provision of water and sanitation, shelter and non-food items, education and food security. The first three focused on improving the capacity of the health system and enhancing the preventive capacity to ensure inclusion of those in need of protection, including through activities focusing on child protection, gender-based violence and disability as well as providing hygiene items and carrying out communication awareness campaigns. The fourth item tackles the provision of shelter and non-food items such as hygiene materials, cleaning supplies and cash for families at risk of being affected by COVID-19, and families at risk of losing their income. The fifth relates to education and the need to provide the needed support and awareness raising to effectively combat the virus and ensure a successful online learning experience. Finally, the last area on food security focuses on various aspects including supporting vulnerable households, including persons with disabilities, the elderly and children with in-kind and cash assistance, including e-vouchers. These recommendations also raised the case of Bedouins, herders and farmers and the importance of improving the supply chain networks, particularly of small producers.

These interventions and policy recommendations are part of a humanitarian response aimed to address the impact of COVID-19, with a focus on marginalized groups and communities, but require the availability of large fiscal resources

that are currently not fully available.

6.2 Labour Market Policy Recommendations

Recommendations articulated by various policy actors on the Palestinian scene have tackled both humanitarian and economic considerations. Our contribution adds to these in two main ways. It emphasizes and details some of the recommendations put forward by other policy actors with a particular focus on the labour market, but goes beyond these by focusing more on a longer-term set of recommendations to revitalize the labour market.

Within a longer-term perspective, a number of issues need to be taken into consideration when formulating labour market policy responses:

- The measures and policies of the Israeli occupation place tremendous pressure on the Palestinian economy in the short and long run. Israel's economic need to attract Palestinian workers to stay in the Israeli labour market during the pandemic, but then not taking responsibility for their housing and health requirements should stir the Palestinians towards thinking about measures to lessen the dependency on the Israeli labour market, in the short and long run.
- Women are already more disadvantaged than men in the labour market, registering higher unemployment rates, lower wages, while also being subject to increased discrimination and gender-based segregation. The pandemic exacerbated these vulnerabilities, as women who had to work from home had to also shoulder their household responsibilities. These compounded burdens on women should be taken into account during the pandemic.
- The large number of workers working in the informal economy in the West Bank and Gaza implies that daily workers and minimum wage earners are a persistent reality of the Palestinian labour market. Strengthening the labour market in the face of economic shocks should account for the high percentage of these workers and the need to not only provide them with relief assistance, but also address the legal, structural and economic factors underlying their vulnerable

position in the labour market. This implies addressing the challenges of formalization of both enterprises and workers.

- The economy relies on employment in the services sector, which tends to be highly vulnerable and erratic. At the same time, the declining contribution of the productive sectors to employment highlights the critical position that the economy finds itself in during this pandemic and beyond.

Given these characteristics and constraints of the labour market in the OPT, our proposed policy interventions take into account the labour market supply and demand shocks discussed earlier. Identifying the direction of the impact, be it supply or demand side based, will enable us to suggest better targeted policy recommendations. While keeping in mind supply and demand side aspects, we formulate our recommendations along two main categories:

- i) Immediate economic interventions that mitigate the impact of the lockdown on workers and their families.
- ii) Structural economic interventions to set the economy on an indigenous based growth path, with less dependency on the Israeli economy.

Immediate economic interventions

These interventions are particularly relevant during and right after lockdowns. Since the OPT is already experiencing a second wave of the pandemic, it is possible to implement these policy interventions upon a repeated possible lockdown. These policies can benefit workers who either lose their work as a result of a lockdown or those who are employed but are temporarily affected. In other words, these policies are relevant to workers affected by both supply and demand side shocks, but predominantly a supply shock:

- Income support schemes for workers who lost their jobs/income as a result of the lockdown (targeted schemes for nursery workers, taxi and service drivers, domestic workers and other daily workers, both in the formal and informal economies). The registration and decision on these workers should be done in coordination with the MOSD and MOL. The funding for such schemes relies on international funding support,

but also locally collected donations through nationally established funds.

- Wage subsidies to targeted sectors including restaurants, hotels, transportation, and the manufacturing sector, etc. This can be done in coordination with employers and trade unions, whereby agreements on reduced salaries, minimum wage payment or subsidized wages could be envisaged. It is yet important to establish mechanisms to implement these agreements to protect the rights of these workers. Such intervention requires pooling of resources from existing programmes and potential donors.

- Support MOL and trade unions in providing legal advisory services to workers whose rights have been violated, including non-payment of lawful compensations. Electronic platforms should be set up for these workers with clear requirements in order to provide such advice without having workers physically visit the Ministry or trade union premises, in view of the lockdown.

- Support MOL to issue directives regarding women's telework to allow for work flexibility, given women's heavy domestic duties and care responsibilities in the absence of day care facilities during lockdowns.

- Deferral of payments by the population at large, but businesses in particular, including loans, utility bills, taxes, and fees. This provides a form of a temporary subsidy that relieves workers of costs incurred on their wages.

- Enforce workers' health and safety measures during the COVID-19 pandemic. There should be a distinction between safety measures for workers conducting their jobs during a lockdown and beyond. General guidelines should be issued by the MOL and inspected randomly in order to ensure its enforcement. Some of these guidelines will be sector specific and others are general.

- Follow-up on labour rights and the reinforcement of the tripartite agreement signed in March 2020 for protection of workers' wages and preservation of worker-employee relations. This requires setting up a mechanism to ensure the implementation of not only this agreement, but also future ones in case of further waves of the pandemic.

- Strengthening home based agricultural farming during lockdowns, since this has a positive

economic impact without exposing individuals to social interaction.

- Soft loans to micro-businesses, to cover all forms of costs, including wages and compensation to workers, but also to support other activities of the establishment, particularly if the establishment's workers can telework or work on premises with reduced capacity. This can be combined with setting up loan guarantee schemes for businesses in order to provide incentives for businesses to continue their operation within safety limits, rather than shutting down totally.

- Maintaining the operation of the financial sector, through keeping banks open and maintaining the integrity of this sector which is vital for support to other sectors.

Structural economic interventions

Policy responses should encompass long term initiatives and strategies that appropriately consider the skewed nature and distorted imbalances in the Palestinian labour market. The aim is to strengthen the base of the economy through investment in productive activities that generate employment and avoid job creation that solely focuses on temporary transfer of income. This calls for more structural interventions that link micro to macroeconomic policies, focusing on investment and trade in order to provide more stable productive employment in the Palestinian economy.

The productive sectors of manufacturing and agriculture may generate more stable, quality employment opportunities, and lessen dependence on the Israeli economy. Therefore, it is essential to strengthen and support these two sectors. This could be done in the manufacturing sector through:

- Prioritizing certain sub-sectors/domains within manufacturing for support. In addition to economic requirements, the selection of these subsectors should take into account the restrictions imposed on the Palestinians as a result of Israel's occupation.

- Better training of human resources working in these sectors through providing quality vocational training, particularly on issues related to technology use, innovation, marketing and

inputs use.

- Improving financial intermediation services to micro and large enterprises working in these particular sectors and providing loan and loan guarantee services.
- Strengthening supply chain networks related to these sectors, particularly local supply chains to better utilize local inputs and expertise and lessen imports from the Israeli economy in particular.
- Building better import/export links while utilizing the Palestinian Authority's right to restrict Israeli products if and when it deems appropriate.

While in the agricultural sector, the focus should be on:

- Improving the productivity of this sector through encouraging land cultivation while utilizing technology and innovation.
- Encouraging the setup of agro micro-enterprises through incentives including loans and loan

guarantee schemes.

- Providing information to agro micro-enterprises on experiences in cultivation in water deprived terrains, and use of technology in cultivation as well as state of the art information on agricultural innovation.
- Strengthening supply chain networks as well as backward and forward linkages in the agricultural sector.
- Facilitating the set-up of agricultural cooperatives that can be catalysts for production, marketing and sales.
- Utilizing trade policy to reduce/increase imports and exports that may serve to improve efficiency and productivity within this sector.

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• معهد ابحاث السياسات الاقتصادية الفلسطيني - ماس (٢٠٢٠) تقييم أولي للآثار المحتملة على الاقتصاد الفلسطيني لتفشي وباء كوفيد ١٩ في الضفة الغربية. المراقب الاقتصادي - عدد خاص. رام الله: فلسطين.

• ---- (٢٠١٩) المراقب الاقتصادي رقم ٥٧. رام الله: فلسطين.

► Annex 1

General ILO policy recommendations and guidelines:

Based on International Labour Standards, the ILO (2020b) has suggested four pillars to address the issues arising in the labour market as a result of measures aimed at fighting COVID-19.

The first focuses on stimulating the economy and employment through providing immediate stimulus packages to strengthen the health sector while mitigating the impact on economies and labour markets. These measures could include financial relief for enterprises, particularly micro and small enterprises, and income support for workers. Following the resumption of activities after the spread of the virus is contained, a demand-led employment strategy for a medium to longer-term recovery of jobs and incomes will be needed, including supporting employment creation in strategic sectors, restoring a conducive business environment and reinvigorating productivity growth, diversifying the economy and spurring structural transformation, making best use of technological advancement.

The second pillar focuses on the role of governments in supporting enterprises in the sectors most affected and for workers and households facing job and income losses. Public works policies across labour-intensive sectors can be utilized to mitigate the impact on workers. Measures in support of formal and informal economy enterprises to cover their fixed costs during the crisis are needed. Possible other measures include the waiver of payments, grants, tax incentives, employment-intensive investment and government procurement with preference given to SMEs, including women-owned enterprises. Governments can work to set up rapid and effective digital market platforms for investment, and promoting the transfer of technology and expertise. At the same time, employment retention measures should provide incentives to employers to hold on to workers even if a firm has to close or decrease its activity. Such measures may include work sharing and shorter working weeks, wage subsidies, temporary suspensions of tax payments and social security contributions. The crisis has drawn attention once again to the importance of ensuring universal access to social protection systems.

The third pillar recommended by the ILO aims to strengthen occupational safety and health measures and promote the implementation of public health measures in workplaces. Measures should be oriented towards minimizing the spread of the virus in the workplace, such as adjusting work arrangements (e.g. promoting telework, staggered working hours and breaks) and work environments (e.g. to implement physical distancing), promoting workplace hygiene, providing workers with reliable and accessible information on healthy behaviours, and identifying and managing suspected COVID-19 cases.

Pillar four focuses on strengthening social dialogue on socio-economic policies. Bipartite and tripartite social dialogue may help to devise robust and tailored policy solutions to the immediate challenges brought about by the crisis. Such policies may include promoting economic resilience and the sustainability of enterprises, limiting redundancies and providing income support to workers and their families. Social dialogue must be inclusive so as to ensure that the socio-economic policies adopted address the needs of the most vulnerable workers and enterprises as a matter of priority, in line with Sustainable Development Goal 8.

