




Press Release

MAS Hosts a Press Conference to Launch the IMF Report on the Palestinian Economy to the AHLC

Ramallah, 7 September 2016. Today the Palestine Economic Policy Research Institute (MAS) hosted a video conference with Ms. Karen Ongley, IMF Mission Chief for the West Bank and Gaza, which constituted the official release of IMF's latest report on the economy of the West Bank and Gaza for the next meeting of the Ad Hoc Liaison Committee (AHLC) to be held in New York later this month. The AHLC, a coordination mechanism for development assistance to the Palestinian people, chaired by Norway, meets twice a year – in March and in September – to discuss the state of the Palestinian economy and the actions required by donors. A number of stakeholders, including the IMF, the World Bank, the Palestinian government, and the Israeli government prepare and submit biannual reports prior to the meetings.



INTERNATIONAL MONETARY FUND

WEST BANK AND GAZA

REPORT TO THE AD HOC LIAISON COMMITTEE¹

August 26, 2016

KEY ISSUES

Context: The Israeli-Palestinian peace process remains stalled and it is unclear whether renewed international peace efforts will gain momentum. With domestic political reconciliation deadlocked, the outlook for parliamentary elections is uncertain amid strained security conditions. Reconstruction in Gaza appears to have gathered pace since late 2015, although the humanitarian situation there remains severe.

Outlook and risks: Political and security uncertainties weigh heavily on the prospects for growth. Under these conditions and with sustained moderate policy reforms by the Palestinian Authority, real GDP growth in the West Bank and Gaza will likely reach 3.3 percent in 2016 (2.7 percent in the West Bank, and 5.5 percent in Gaza) and around 3½ percent in the medium term—insufficient to reduce unemployment and boost per capita incomes. This outlook is subject to significant risks: (i) escalating violence; (ii) further declines in donor support; (iii) the inability to effectively contain spending; and (iv) threats to correspondent bank relations. While assertive policy actions are needed to mitigate risks, a more fundamental improvement in the outlook requires a political breakthrough.

Key policy recommendations: The priority in 2016 should be to alleviate pressures associated with the nearly \$500 million projected financing gap, and mitigate the risk of an even larger gap. The Palestinian Authority should focus on resisting pressures on the wage bill, intensifying revenue enforcement efforts, and considering possible contingency plans. To ensure fiscal and economic sustainability in the medium term, the authorities need to maintain a gradual and balanced approach to fiscal consolidation, underpinned with fiscal structural reforms. Improving economic cooperation with Israel remains important. Reversing the decline in donor aid will be crucial to avoid too rapid budget compression and create space for growth-friendly investment. Efforts to maintain financial stability and develop a longer-term policy vision can help create conditions for private sector-led growth.

¹ The IMF provides technical services to the West Bank and Gaza, including policy advice in the macroeconomic, fiscal, and financial areas, as well as technical assistance, with a focus on tax administration, public expenditure management, banking supervision and regulation, and statistics. See www.imf.org/Topics for recent reports.

According to the newly released IMF report, the prospects for growth in the Palestinian economy remain unpromising due to the continued political and security uncertainties. Despite sustained moderate policy reforms by the Palestinian National Authority (PNA), real GDP growth in the West Bank and Gaza is expected to reach 3.3% this year (2.7% in the West Bank and 5.5% in Gaza) and 3.5% in the medium term. This growth does not suffice to reduce unemployment and boost per capita income. Even this moderate forecast is uncertain and subject to significant risks, including escalating violence, further decline in donor support, inability to effectively contain spending, and threats to correspondent bank relations.

With regards to policy recommendations, the IMF once again emphasizes the need for the PNA to maintain a gradual and balanced approach to fiscal consolidation (resisting pressures on the wage bill and intensifying revenues collection efforts), enhanced by structural fiscal reforms. Improving economic cooperation with Israel is crucial to secure the smooth flow of clearance revenues. Last but not least, reversing the drop in donor aid is needed in order to avoid too rapid budget compression and create the necessary space for growth-friendly investment.

To read the report follow this [link](#).