



## PRESS RELEASE

### MAS Hosted a Presentation on “The Regional Economic Outlook and Prospects for the Palestinian Economy” by IMF’s Resident Representative

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Wednesday, 11 November, Ramallah. Today MAS once again hosted the presentation titled “The Regional Economic Outlook and Prospects for the Palestinian Economy”, delivered by Mr. Ragnar Gudmundsson, the IMF Resident Representative for the West Bank and Gaza.

The first part of the talk was based on the most recent edition of the “Regional Economic Outlook: Middle East and Central Asia” report, published by the IMF in October this year. According to the IMF, the near-term outlook for the MENAP region continues to be determined by geopolitical as well as oil price developments. While uncertainties resulting from the conflicts in Iraq, Libya, Syria, and Yemen undermine confidence, low oil prices have an ambiguous effect on the region. Whereas oil exporters are facing slowdown in economic activity, oil importers are benefiting from lower oil prices in addition to domestic economic reforms and euro area growth. The IMF expects MENAP growth to remain modest – a 2.5% – this year, 0.5 percentage points below the IMF’s projections in May 2015. Regional economic growth is projected to go back to 4% in 2016 as a result of improved prospects for Iran, some recovery in oil production and exports, and assumed easing of regional conflicts. However, this projection is highly uncertain. Finally, better long-term economic prospects will require significant structural reforms in the MENAP countries.



The rest of Mr. Gudmundsson's presentation discussed recent developments in as well as prospects for the Palestinian economy. The IMF Representative emphasized that economic growth in the past three years was not enough to keep up with population growth, leading to very high unemployment. While overall one out of four Palestinians is unemployed, the rate in Gaza (two out of five) is one of the highest worldwide. This led to a major drop in living standards. According to the IMF, the fact that growth is fueled by consumption rather than by investment poses a threat to future economic prospects. Currently the World Bank economy is slowing down due to Israeli restrictions and limited access to two thirds of its territory and natural resources, whereas the Gaza economy has started to slowly recover from war and is facing a dire humanitarian situation.

Mr. Gudmundsson commended the ability of the Palestinian Authority (PA) to tackle the severe economic crisis at the beginning of the year, when Israel withheld clearance revenue for four months. Nevertheless, the ever-decreasing donor aid, the limited room to borrow domestically, and the large financing gap pose a real risk of new payment arrears accumulation, which would further depress private sector activity.

Thus, strong fiscal discipline is required. With regards to revenues, the PA should focus on registering new taxpayers, broadening the tax base, and strengthening tax collection. With respect to expenditures, priority should be given to containing the high wage bill and further reducing fuel and electricity subsidies, combined with an increase in directed and timely transfers to the most vulnerable populations.

In conclusion, growth is expected to remain below the level needed to durably reduce unemployment and improve living standards, without a political breakthrough. The IMF emphasized that progress on the peace front and easing of Israeli restrictions have the potential to improve economic outcomes dramatically by improving the investment climate and changing the role of the government into an investor in human and physical capital, away from an employer of last resort. However, even in the absence of peace progress, enhanced Palestinian-Israeli economic cooperation at the technical level could prove highly beneficial.