Stagnation or Revival?
Palestinian Economic Prospects

Economic Monitoring Report to the Ad Hoc Liaison Committee
March 21, 2012

The World Bank

www.worldbank.org/ps

A. Executive Summary

a. The Palestinian Authority continues to experience a severe fiscal crisis, which threatens to become protracted given recent and projected declines in donor assistance. The Palestinian Authority is making a concerted effort to strengthen its fiscal position, including taking steps to raise domestic revenues and control expenditures. However, these efforts will not be successful unless they are supported by concrete and known actions of the Government of Israel, such as the sharing of relevant tax information on Palestinian revenues. In addition, in the short-term it is imperative that additional donor funding be identified as the Palestinian Authority simply cannot take enough steps to reduce the projected recurrent deficit to the currently expected level of aid. A continuation of the current trend of reduction in donor aid would likely aggravate the Palestinian fiscal crisis, potentially jeopardizing gains made in recent years in institution-building.
b. The West Bank economy grew in 2011 at a slower rate than it did in 2010. The slowdown in growth in the West Bank can be attributed to falling donor support combined with the uncertainty caused by the Palestinian Authority's fiscal crisis, as well as lack of significant new easing of Israeli restrictions.
c. Ultimately, sustainable economic growth and an end to the fiscal crisis will require unleashing of the Palestinian private sector's potential. This in turn necessitates a lifting of Israeli restrictions on access to land, water, a range of raw materials, and export markets. But it also requires that the Palestinian Authority improves the business environment and attracts needed investment through such measures as expanding land registration in the West Bank; reforming the current collection of laws governing business; and building its own capacity to regulate the economy and ensure competition.
d. Gaza experienced double-digit growth, demonstrating continued recovery. The high growth in Gaza reflects, in part, the low base from which it is starting – the average Gazan today remains worse off than s/he was in the late nineties. But it can also be attributed to a combination of aid inflows and easing of restrictions by Israel, in particular on entry of building materials for infrastructure projects implemented by international organizations. In addition to increased movement of materials through the tunnels from Egypt, this has led to a construction boom in Gaza. However, the state of Gaza infrastructure is such that massive investments in key sectors such as water and wastewater, electricity, and solid waste remain desperately needed. Such investments would generate short-term employment but also promote longer term growth and job creation. These investments would not fulfill their potential, however, in the absence of a lifting of the Israeli blockade on Gaza.

Complete document in PDF format (Requires Acrobat Reader)