

OPT: Growing Economy, Uneven Benefits

RAMALLAH, 12 July 2011 (IRIN) — The Palestinian economy is growing but remains unsustainable, with large sections of the population still unemployed and trapped by rising poverty, says a [new report](#) by the International Monetary Fund (IMF).

The current growth rate would not be sustainable without a further easing of the Israeli blockade of Gaza and restrictions on movement and access in the West Bank, and between the West Bank and Gaza, said the IMF in an [assessment report](#) on the West Bank and Gaza.

To sustain economic growth and reduce unemployment, Israel must ease restrictions on access by the private sector to about 60 percent of the West Bank's territory ([Area C](#)), it said, and pointed out that growth in Gaza reflected recovery from a very low base reached during the second intifada and is donor-driven and limited to the non-tradable sector.

Still, the IMF is upbeat. "The Palestinian Authority [PA] in the West Bank is now able to conduct sound economic policies expected of a future Palestinian state," it said.

The assessment came at the end of Palestinian Prime Minister Salam Fayyad's ambitious two-year state-building plan, and is based on the PA's track record in reforms and institution-building in public finance and other financial areas.

Salary Cuts

But the economic news is not all good: A recent delay by donors in disbursing funds to the Palestinian Authority (PA) forced salary cuts in June which left government employees on half pay for the month.

Prime Minister Salam Fayyad said the PA was facing a major budget shortfall after international donors — notably Arab countries — failed to deliver funding. Foreign donations account for just over a quarter of the total Palestinian budget of US\$3.7 billion.

"Donor budget support to the PA in 2010 was US\$1.1 billion, [which] used to pay PA salaries and other government spending," IMF representative Udo Kock in Jerusalem told IRIN. "At least US\$300 million was spent on development projects in the occupied Palestinian territory in 2010, most of which came from donors." The ideal situation for the PA would be to increase the amount of donor funds allocated to development projects, instead of budgetary support, as was the case in the mid-1990s, when the Palestinian economy was doing relatively well, he said.

Experts said the PA's current financial crisis would negatively affect the economy — a situation that has been exacerbated by uncertainty surrounding the bid for statehood at the UN in September 2011 and the outcome of reconciliation between Palestinian factions Fatah in the West Bank and Hamas in Gaza.

World Bank Report

Another [report by the World Bank](#) said the PA has been strengthening its institutions, delivering public services, and promoting reforms that have well-positioned the Authority for the establishment of a state in the near future.

Economic growth in the West Bank and Gaza reached about 9 percent in 2010, exceeding the PA's budget projection, with a marked reduction in the recurrent deficit from 26 to 16 percent of gross domestic product (GDP).

Currently, unemployment hovers at 17 percent in the West Bank and 31 percent in Gaza, down from 37 percent, according to an [April socio-economic report](#) released by the Office of the UN Special Coordinator for the Middle East Peace Process (UNSCO).

In 2010, some 18 percent of Palestinians in the West Bank and 38 percent in Gaza were living below the poverty line, according to the Palestinian Central Bureau of Statistics (PCBS).

Israeli Prime Minister Benjamin Netanyahu says Israel has helped improve the Palestinian economy by removing hundreds of (West Bank) barriers and roadblocks to the free flow of goods and people.

Israel is looking for "an economic peace," says Netanyahu, but charges that the Palestinians are going the other direction in their potential bid for statehood.

Palestinian officials said they may go to the UN in September to ask for international recognition of an independent Palestinian state in the West Bank, Gaza Strip and East Jerusalem — occupied by Israel since the 1967 Six Day War — if bilateral negotiations between Israel and the Palestinians continue to stall.

"The specific request to the UN is still being formulated," Ghassan Khatib, spokesperson for Prime Minister Salam Fayyad, told IRIN.

IMF Hails Monetary Reforms

The IMF touts the institutional reforms achieved by the Palestine Monetary Authority (PMA) that have enabled it to fulfil the core functions of a central bank, including a rigorous banking supervision and regulatory framework, providing strong credit and payment infrastructure, and monitoring compliance.

"The banking system is the nerve system of any economy," PMA Governor Jihad Al-Wazir said. "With the infrastructure that is in place, and if the Israeli restrictions are removed, the chance of GDP growth in the double digits would be possible in less than two years, which the population would directly feel."

Al-Wazir added: "In 2006, when donor assistance to the PA was suspended after the elections [won by Hamas] the bank capital was US\$220 million, but loans that the banks had given PA employees, whose salaries were suspended, were US\$380 billion. Come 2010, bank capital is about US\$1.1 billion, while PA employee loans from local banks are about US\$140 million, so instead of being exposed we are now heavily fortified."

The PMA hopes to issue a Palestinian currency or to choose an appropriate currency regime, rather than the current multi-currency system including the shekel, the dollar and the Jordanian dinar.

"Under Oslo II we are restricted from issuing our own currency and from setting interest rates," says Al-Wazir. There are also restrictions on setting taxation and customs rates.

Growing Businesses

The economic situation has enabled the growth of small businesses despite the high risk to private investment in the West Bank and Gaza. These businesses are, however, primarily Palestinian. Real, sustainable growth would require access for foreign investors as well to the West Bank and Gaza, says the IMF.

Ata, who declined to provide his family name, a 34-year-old, opened a taxi service in Ramallah in spring 2010. He has grossed about \$25,000 and says he is doing better than expected.

"I also want to open a clothing store, but I will wait until after September," said Ata, fearing the situation may change for the worse.

Jack Saadeh, head of Pal-Mark, one of the major hotel and restaurant suppliers in the West Bank, opened a cosmopolitan new café, Jasmine, in the A-Tira section of Ramallah. Since May, the café has been bustling.

Pal-Mark increased its profits by about 25 percent in 2010, said Saadeh, attributing the growth to Fayyad's government.

He, however, faces the most difficulty distributing goods internally within the West Bank. "The checkpoints and access roads we must use to bypass settlements slow down the process," Saadeh told IRIN, and "prices of basic commodities are inflated by the flat sales tax set by Israel."

The highest 2010 growth levels in the West Bank and Gaza were seen in the construction, and hotel and restaurant sectors, reports the World Bank.

[This report does not necessarily reflect the views of the United Nations]

