



INTERNATIONAL MONETARY FUND

WEST BANK AND GAZA

STAFF REPORT PREPARED FOR THE SEPTEMBER 2013

MEETING OF THE AD HOC LIAISON COMMITTEE¹

KEY ISSUES

Context: The political environment remains highly challenging, but recent developments provide a basis for optimism. U.S.-sponsored efforts have resulted in renewed direct peace negotiations between the Israelis and Palestinians. This development could facilitate the launch of an economic plan, which is being designed by Office of Quartet Representative Tony Blair. The specifics of this plan have not yet been divulged, but it contains ambitious macroeconomic objectives.

Outlook and risks: Recent years' worrisome trends in the economy—slowing growth, high unemployment, and large fiscal deficits—have continued. Under the assumption of status quo, medium-term economic prospects are dim and there are downside risks. On the other hand, if there is a breakthrough in the peace negotiations and the supporting economic package is implemented, the economic outlook would improve.

Key policy recommendations: While there has been some relief from the fiscal liquidity crisis experienced recently, fiscal risks in 2013 are again on the rise and measures are needed to fill the projected financing gap and contain these risks.

Beyond the immediate challenges, the broader viability of the West Bank and Gaza's public finances is in doubt if the current model of financing persistently large deficits with unpredictable aid flows is maintained. The fiscal deficit should be reduced significantly over time and government spending made more growth-friendly. At the same time, the economy would benefit from increased donor aid during a transitional period, and a broad-based and sustained easing of restrictions, not linked to specific projects, by Israel.

¹The 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 macroeconomic statistics (Annex III). See www.imf.org/wbg for recent staff reports.