



**MEDIUM-TERM MACROECONOMIC AND FISCAL FRAMEWORK
FOR THE WEST BANK AND GAZA**

**REPORT FOR THE DONORS' CONFERENCE
Paris, December 17, 2007**

**MEDIUM-TERM MACROECONOMIC AND FISCAL FRAMEWORK
FOR THE WEST BANK AND GAZA¹**

EXECUTIVE SUMMARY

Following the passage of the 2007 emergency budget, the Palestinian Authority (PA) has initiated a number of fiscal reforms. Despite political uncertainty and a difficult security situation, a prudent fiscal policy is being pursued, including through a strict government employment policy and a tightening of nonwage spending commitments. The medium-term macroeconomic and fiscal framework adopted by the authorities builds on the improved fiscal performance in the second half of 2007. It aims at steadily reducing the recurrent budget deficit by an average of 3.7 percent of GDP per year during 2008–10. The fiscal adjustment will rely on sustained reduction in recurrent expenditures and net lending, in particular through: (i) a freeze in the wage rate and on new employment (except for health and education); (ii) measures to lower subsidies for utility bills; and (iii) continued improvements in the public finance management system. The staff considers that the contemplated adjustment is ambitious but also achievable, especially given the track record since June 2007.

Sustained fiscal adjustment by the PA will be facilitated by solid private sector growth. The West Bank and Gaza (WBG)'s growth is heavily reliant on trade with Israel and the free movement of goods and people within the territories. In addition, the revival of private investment will require a major reconstruction effort. Thus it is essential that Israeli restrictions on movement and access be relaxed. Donor assistance will also need to be scaled up, both to finance the recurrent budget deficit (an average of \$1.3 billion per year over 2008–10) and for the public investment program (an average of \$550 million per year). With these expectations, real GDP would then grow by an average of 5 percent per year over 2008–10. Given the population growth of 4 percent per year and rapid rise in the labor force, real income per capita would rise only slightly, and the rate of unemployment would not decline significantly. A more ambitious relaxation of restrictions by Israel and greater assistance by donors will be needed to substantially raise living standards.

Close cooperation among all three parties, the PA, the government of Israel, and donors, is thus critical to the success of the medium-term strategy. From the perspective of any one of the parties, going forward presents some risks, especially given past experiences of disappointed hopes at similar junctures. However, the alternative of not moving ahead implies a continued downward spiral for the WBG economy, with rising unemployment and poverty, which would ultimately be costly to the WBG and to Israel.

¹This report was prepared by a team composed of Oussama Kanaan, Henry Ma, Bright Okogu, Joël Toujas-Bernaté, and Roman Zyttek.

REPORT:

[Complete document in PDF format](#) (Requires [Acrobat Reader](#))