



WEST BANK AND GAZA

REPORT TO THE AD HOC LIAISON COMMITTEE¹

April 26, 2022

KEY ISSUES

The Palestinian economy is enduring a fiscal crisis and the economic outlook is dire. Against the background of repeated political and security shocks, the combination of the COVID-19 pandemic and spending priorities have driven deficits to unprecedented levels. With limited financing options, the authorities have accumulated large domestic arrears. Public debt (including arrears) increased from 34.5 percent of GDP in 2019 to 49.3 percent of GDP in 2021. The fiscal challenges are largely structural in nature. Under unchanged policies, the economic outlook is dire with debt on an unsustainable path and per capita GDP projected to decline. This is against the backdrop of already persistently high unemployment and poverty, particularly in Gaza.

Overcoming these challenges will require transformational reform with efforts required from the Palestinian Authority (PA), Israel, and the donor community.

The PA needs to implement spending reform centered on the wage bill, health referrals, pension transfers and net lending, further increase tax revenue, and undertake structural reform. Working together, the Government of Israel and the PA would need to resolve fiscal leakages to boost revenue and reduce impediments to the movement of goods and people to unleash the economy's growth potential. An increase in donor flows would meanwhile help ease the burden on the population during the transition of the economy to a more sustainable footing. A comprehensive and joint effort would strengthen macroeconomic stability and pave the way for faster economic growth, job creation and poverty alleviation.

This IMF report to the AHLC is the first since September 2018. Following limited engagement over the past three years, policy discussions have intensified in recent months. These discussions have focused mainly on establishing a medium term macro-fiscal framework, including the broad outlines of a reform scenario.

¹ The 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 statistics. See www.imf.org/wbg for previous reports.

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Discussions were held in virtual format during February 17–March 3, 2022. The team comprised Messrs. Tieman (head) and Ioannou, Mses. Coulibaly and Ma (all MCD), Mr. Laursen and Ms. Qassis (Resident Representative office). Ms. Pineda assisted with the preparation of the report. The mission met with Prime Minister Mohammad Shtayyeh, Finance Minister Shukry Bishara, Palestine Monetary Authority Governor Feras Milhem, Minister of National Economy Khalid Al-Esseily and other members of the Palestinian economic team, as well as Israeli officials and representatives of the Palestinian private sector, donors, and international organizations. The mission issued a press release at the end of the discussions.

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CONTEXT

A. The Palestinian Economy is Recovering from the Depths of COVID-19...

1. The Palestinian economy has been hit hard by repeated shocks. Multiple waves of the COVID pandemic have led to nearly 650 thousand infections and more than 5,000 deaths. The disease and associated lockdowns have severely depressed economic activity. Together with the cessation of the Palestinian Authority's (PA) economic and security relations with Israel between May and November in 2020 and the associated PA emergency spending cuts, this resulted in an economic contraction of 11.3 percent in 2020 (Figure 1). As COVID vaccines became available in late spring 2021 (Annex I), the Palestinian economy partially rebounded thanks to a recovery in consumption, growing by an estimated 6 percent in 2021 overall and by 7 percent in the West Bank. Meanwhile, in part due to the May 2021 conflict between Israel and Hamas, the economy in Gaza is estimated to have grown by just 2 percent. Despite the rebound, Palestinian GDP is projected to reach its pre-pandemic level only toward the end of 2023.

2. Inflation remained subdued. In 2020, the economic contraction combined with appreciation of the shekel resulted in modest deflation, driven by lower prices of goods and services imported from Israel, in particular food, clothing, and telecommunications prices. In 2021, modest inflation returned, reflecting base effects as economic activity improved, and higher prices of Palestinian imports from Israel.

3. Unemployment has stayed stubbornly high and poverty worsened, with Gaza suffering disproportionately. At end-2021 the unemployment rate stood at 24 percent. It improved to 13 percent in the West Bank, but remained very high in Gaza, at 45 percent, reflecting the 2021 conflict and existing restrictions on movement of people and goods. Extremely high unemployment in Gaza is closely associated with high and increasing poverty, with the World Bank estimating that almost 60 percent of the Gazan population lives below the poverty line.² This represents a large increase of more than 17 percentage points from the last household survey in 2016–17.

4. The economy's external position weakened in 2021 as the lingering effects of the pandemic and the appreciation of the real effective exchange rate (REER) weighed on the trade balance. Shekel appreciation led to the appreciation of WBG's REER by more than 10 percent.³ Low donor support also contributed to the worsening of the external position. Higher net income inflows, mainly from Palestinian workers in Israel, mitigated the impact of the trade imbalance on the current account, which nevertheless deteriorated to a 13.6 percent of GDP deficit at end-2021.⁴ The persistently high current account deficit to a large extent reflects structural factors, including lack of

² Using the US\$5.50 a day 2011 PPP international poverty line ([World Bank, 2021, Economic Monitoring Report to the Ad Hoc Liaison Committee](#)).

³ The REER is calculated as the product of trade-weighted exchange rate movements and inflation differentials. No external sector assessment was undertaken.

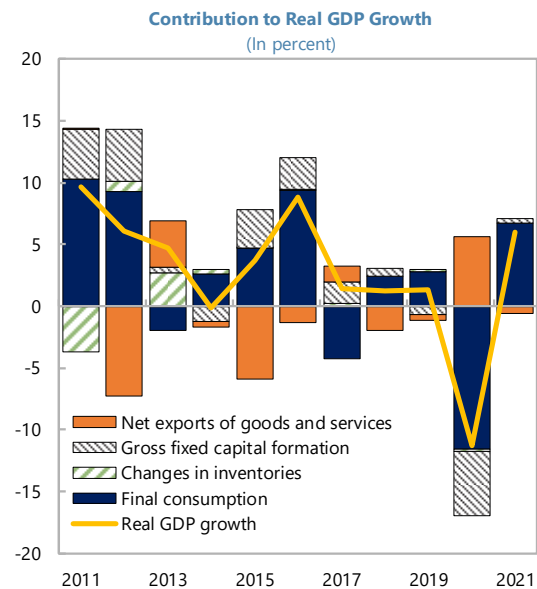
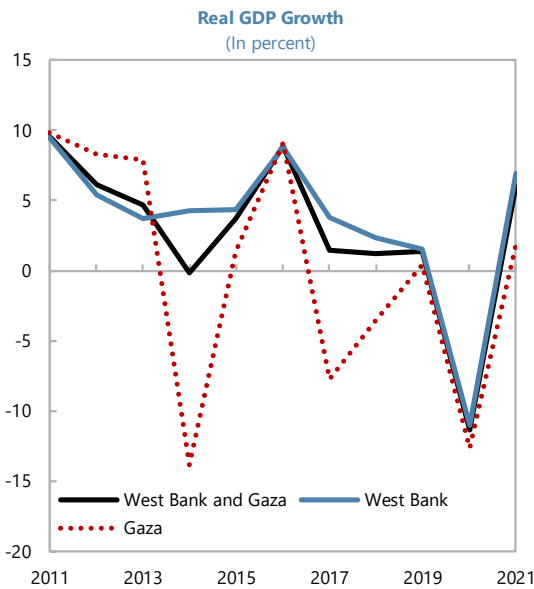
⁴ There are data discrepancies between BOP and IIP numbers. Improving consistency is a priority for the Palestine Central Bureau of Statistics, who are also receiving IMF Technical Assistance on this issue.

access to productive resources (e.g., economic activity in Area C, access to land and water for agriculture) and restrictions on the movement of goods, which hinders production and access to international markets. These constraints more than offset advantages stemming from low wages and a young and educated workforce.

Figure 1. West Bank and Gaza: Recent Economic Developments, 2011–21

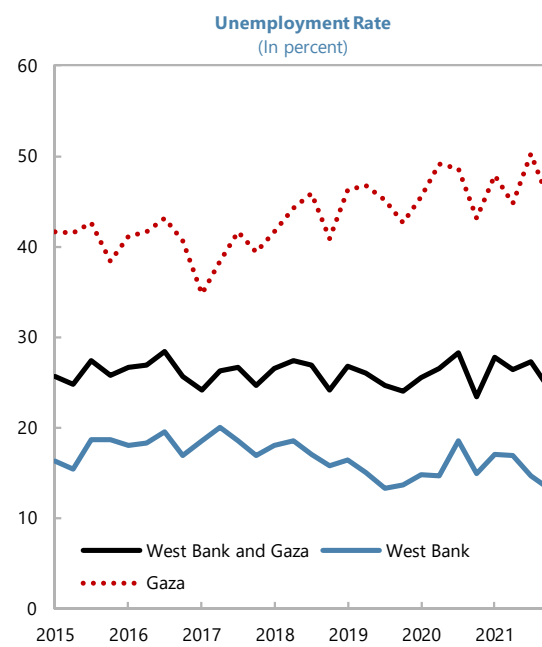
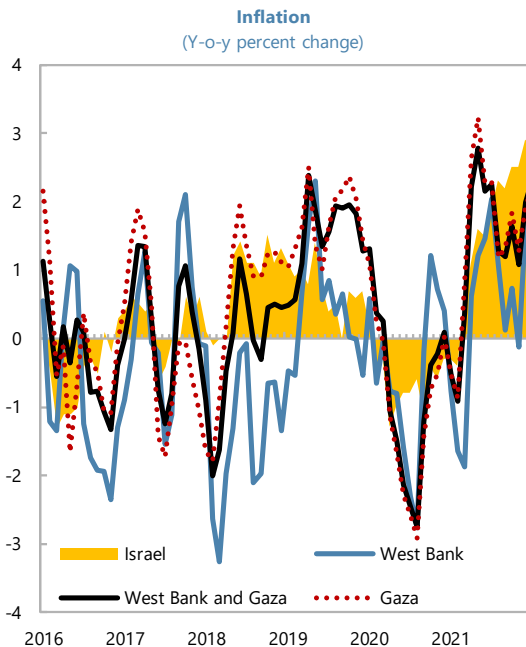
The Palestinian economy rebounded in 2021...

... driven mainly by consumption.



Inflation remained subdued...

... but unemployment stayed stubbornly high, particularly in Gaza.



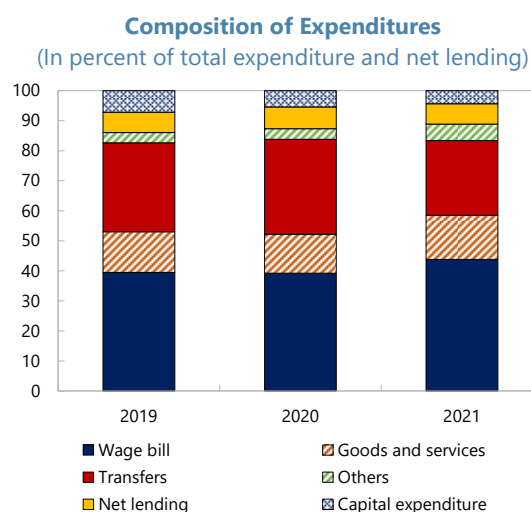
Sources: Palestinian Central Bureau of Statistics; Haver Analytics; and IMF staff estimates.

B. ...But the Political and the Security Situation Remains Fraught...

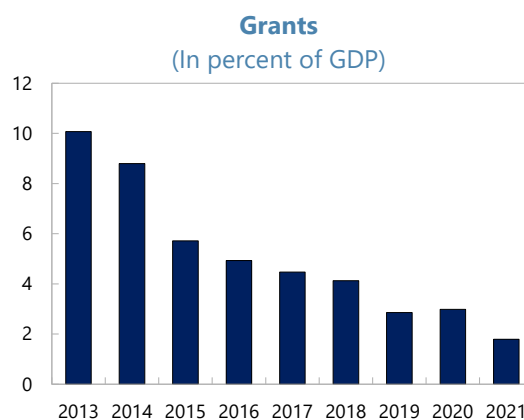
5. The political and security situation is the source of considerable uncertainty. The May 2021 conflict between Israel and Hamas led to significant infrastructure damage in Gaza and reconstruction is only gradually getting underway. Moreover, Gaza remains cut off from the rest of the Palestinian territory. The periodic eruption of tensions in the West Bank—with conflict between Israelis and Palestinians in East Jerusalem and around Israeli settlements, and occasional Palestinian demonstrations against the PA—also contributes to ongoing uncertainty. It is further compounded by the indefinite postponement in Spring 2021 of elections for the Palestinian Legislative Council (the parliament) and president. However, local election took place in most West Bank municipalities in December 2021 and March 2022. Meanwhile, the new Israeli government is taking a cautious approach. It has agreed on some economic confidence building measures, accompanied by ministerial level meetings, but no peace talks are envisaged.

C. ...And the Fiscal Situation is Dire...

6. The Palestinian economy is in a fiscal crisis. The fiscal deficit is estimated to have reached 5.3 percent of GDP in 2021, up from 4.5 percent in pre-COVID 2019, while public debt (including arrears) increased from 34.5 percent of GDP in 2019 to 49.3 percent in 2021 (20.9 percent of GDP excluding arrears, see Figure 2). The main drivers included an estimated increase in spending between 2019 and 2021 to 31 percent of GDP, focused on wages, transfers (which include pension fund contributions) and COVID-related health spending (Box 1 and Annex I). This debt trajectory, if unchecked, is unsustainable. Donor grants are estimated to have declined sharply by 1.2 percent of GDP over the last year alone, to just 1.8 percent of GDP in 2021, exacerbating the steady decline over the last decade.⁵ Revenue performance improved, but did not fully compensate. Domestic tax revenue grew strongly by some 0.9 percent of GDP in 2021, driven mainly by strict border controls related to COVID reducing the scope for smuggling, and further efforts to combat tax and customs evasion. Nontax revenue benefited from improvements in tax administration, which were however largely offset by lower dividend receipts. Clearance revenues (CR) are estimated to have



Sources: MoF; and IMF staff estimates.



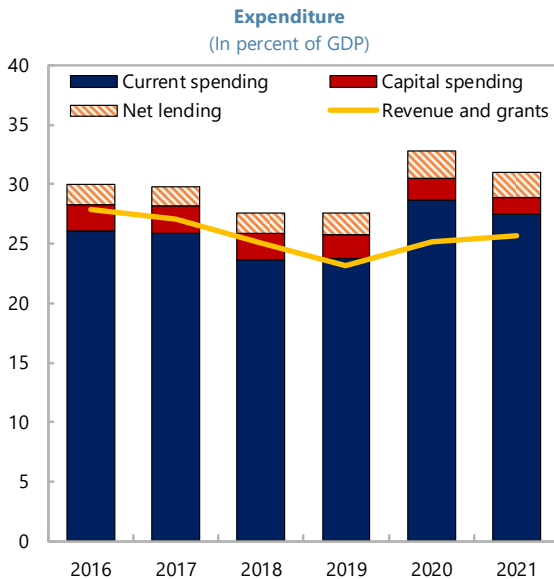
Sources: MoF; and IMF staff estimates.

⁵ The particularly sharp decline in 2021 can in part be explained by a technical delay in the transfer date of donor contributions comprising 0.8 percent of GDP. These grants are now expected to come in during 2022.

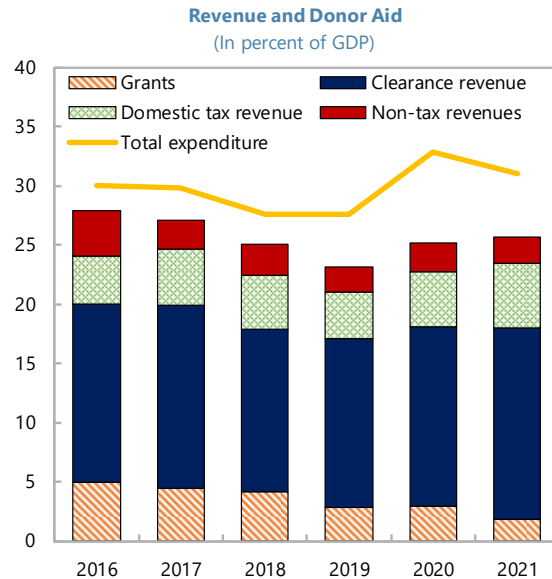
increased by 1.1 percent of GDP on a commitment basis and comprise just over two-thirds of total revenue (excluding grants).

Figure 2. West Bank and Gaza: Fiscal Sector Indicators, 2016–21

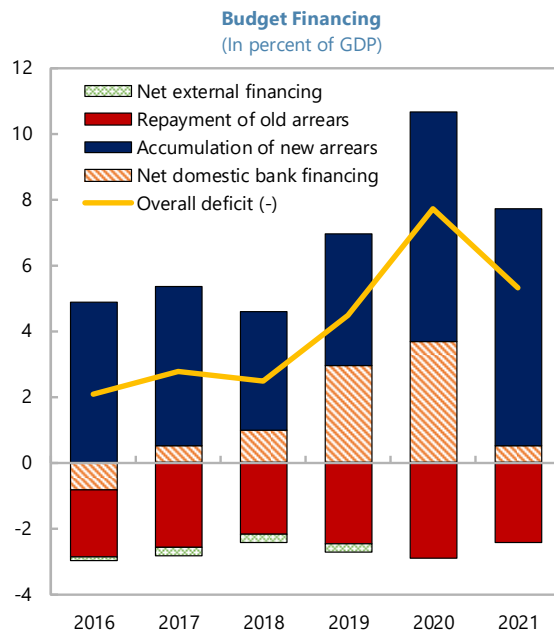
Expenditure has grown rapidly because of the COVID-19 pandemic...



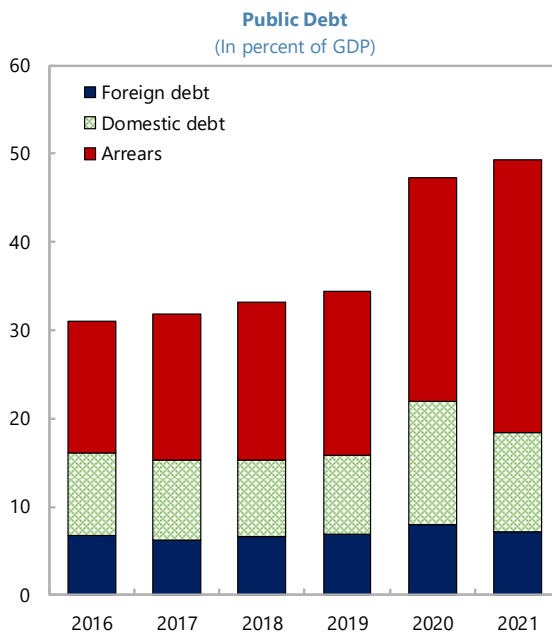
... outpacing gains in revenue collection amidst declining grants.



Deficits are largely financed with domestic arrears...



... and public debt is increasing rapidly.

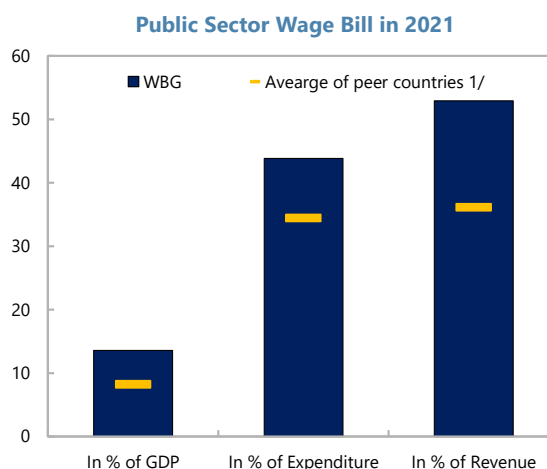


Sources: Ministry of Finance (MoF); and IMF staff estimates.

Box 1. Rising Wage Bill Pressures

The public sector wage bill in West Bank and Gaza is high by regional standards. At end-2020 it stood at 12.9 percent of GDP and it is estimated to have increased to 13.6 percent of GDP in 2021—much higher than the average of its peer countries. The wage bill accounts for 44 percent of total expenditure against 36 percent in peer countries and absorbs 53 percent of revenues (including grants), compared to 36 percent in peers. The 13.2 percent 2021 increase in the wage bill is to a large extent driven by the reinstatement of full salaries for 6,000 Gaza employees of the PA in March 2021. Previously, these employees received 70 percent of their salaries. This measure is estimated to cost \$200 million annually or 1.1 percent of GDP.

Sustaining the high wage bill will be a challenge going forward. A 2016 Public Expenditure Review by the World Bank presented several options for reform. A wage freeze for the bottom 50 percent of PA staff to reduce their pay gap relative to the private sector would save 1.9 percent of GDP after five years. Net zero staff growth in the civil service outside health and education would reduce the wage bill by 0.5 percent of GDP. Reducing the number of higher ranks in the security sector would reduce the wage bill by 3 percent of GDP.



Sources: IMF World Economic Outlook database; and IMF staff estimates.
1/ Peer countries comprise oil importing countries in the Middle East and Central Asia.

7. Lack of financing led the PA to resort to the accumulation of substantial new domestic arrears. Prudential limits on domestic bank lending and lack of access to international capital markets constrained budget financing options. Toward the end of 2021, a liquidity squeeze ensued and the authorities paid only $\frac{3}{4}$ and 80 percent of civil service salaries in November and December 2021 respectively, while exempting the lowest earners from the haircut. Staff estimates the 2021 stock of arrears—mostly to the pension fund, suppliers, contractors, and employees—to have increased to 28.4 percent of GDP from 25.3 percent of GDP in 2020, but there is considerable uncertainty surrounding this estimate, and the published end-2021 stock of arrears stands at 16.9 percent of GDP. While the issuance of promissory notes addresses some of the arrears, there is still a need for an overall strategy for transparently clearing the full stock of arrears.

D. ...While the Banking Sector Remains Stable.

8. The banking sector remained generally stable, even as the initial COVID shock put pressure on profitability. The Palestinian banking sector consists of 13 private banks, supervised by the Palestine Monetary Authority (PMA). It is dominated by two large banks that together have a market share of 46 percent. The PMA responded to the pandemic by obliging banks to accept moratoria on retail and corporate loan repayments and capping fees, initially for 4 to 6 months (depending on the measure) but subsequently extended to end 2021 and suspending its monitoring of bounced checks. The PMA also released banks' countercyclical capital buffer to allow them to boost lending and made funds available for banks to provide SME loans on preferential terms, but the

take-up was less than expected. Amidst the pandemic, banking sector capital and profitability fell in 2020 and recovered in 2021 (Figure 3). By end-2021, banks' capital adequacy stood at 16.1 percent, close to its pre-pandemic level. Return on equity and assets stood at 15.1 and 1.2 percent respectively at end-2021, up from a trough of 8.6 and 0.8 percent respectively in the middle of the pandemic in June 2020. Bank deposits grew by 9.1 percent in 2021, far outpacing private sector credit growth of 5.2 percent, and raising bank liquid assets to 33 percent of total assets. A limit on transfers of shekel cash from the West Bank to Israel continued to hinder liquidity management. As a result, banks were holding excess shekel cash of NIS 5.1 billion (equivalent to 7.9 percent of assets) at end 2021, which presents a drag on profitability.⁶ Nonperforming loans remained steady throughout the year at 4.2 percent of total loans, while banks raised provisions. The Government of Israel (GoI) renewed letters of immunity and indemnity to two Israeli banks that offer correspondent services to Palestinian banks for another year until mid-2022, ensuring shekel correspondent banking relations could continue uninterrupted.

OUTLOOK

A. A Large Part of the Fiscal Problem is Structural...

9. A significant part of the fiscal problem is structural. The PA raises virtually no revenue from Gaza and East Jerusalem, while in 2021 it spent about a third of its budget in these two areas—particularly in Gaza—mainly comprising civil servant salaries and pensions, and net lending.^{7,8} Neither does it raise any significant revenue from Area C in the West Bank. Furthermore, the PA and Israel disagree on the amounts that the Government of Israel should transfer to the PA under the Paris Protocol, the so-called “fiscal leakages” (estimated at about 2 percent of GDP annually). In addition, the PA disagrees with unilateral Israeli deductions from clearance revenue for so-called “prisoner payments” (which amounted to 1.3 percent of GDP in 2021).⁹ Lastly, economic growth is chronically weak, resulting from both external restrictions on access and movement of people and goods and a stalled reform agenda.

⁶ The amount of excess shekel cash varies on a daily basis. The average 2021 holdings amounted to NIS 4.6 billion (7.1 percent of assets).

⁷ According to MoF data, wages and benefits in Gaza accounted for 35 percent of total in 2021, reflecting in part the re-instatement of staff previously pushed into early retirement.

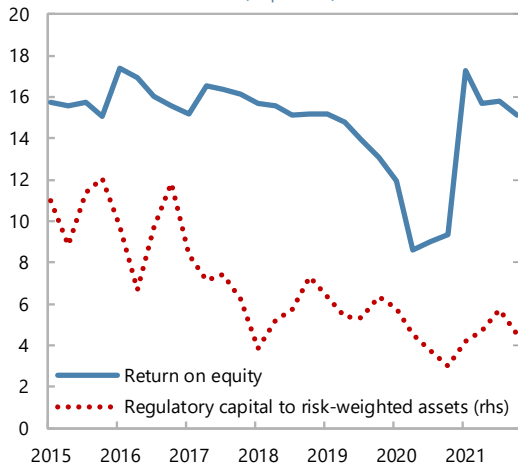
⁸ Net lending refers to the system by which Israel deducts payment for unpaid electricity, water and sewage services provided to Palestinian consumers from the funds it collects on behalf of the PA.

⁹ The Israeli Palestinian Prisoners Law from 2018 mandates withholding CR of an amount equivalent to the GoI's estimate of PA payments to families of Palestinians imprisoned or killed for alleged terrorist offences under Israeli law.

Figure 3. West Bank and Gaza: Financial Sector Developments, 2015–21

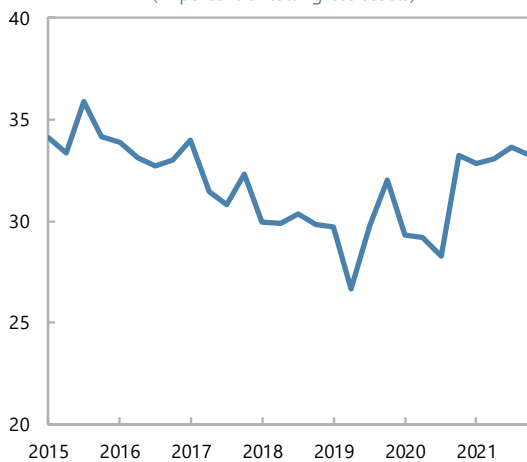
Capital adequacy and profitability recovered in 2021.

Capital Adequacy Ratio and Profitability
(In percent)



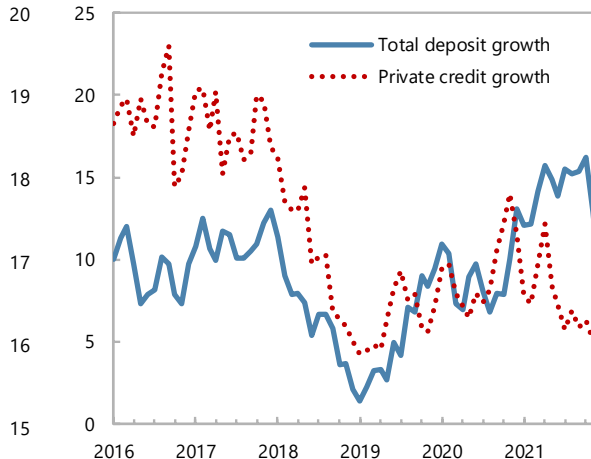
... raising bank liquid assets to total assets.

Liquid Assets
(In percent of total gross assets)



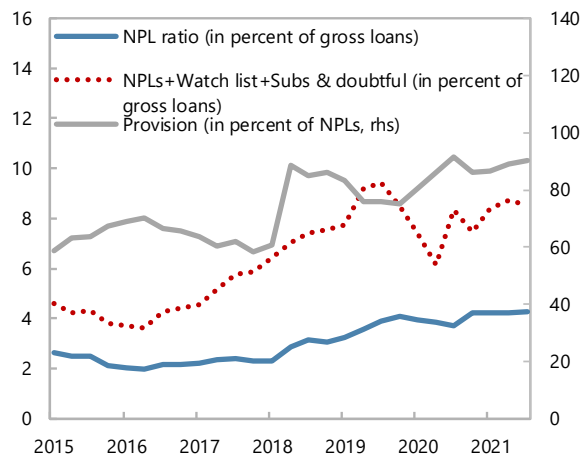
Deposit growth outpaced private credit growth...

Deposit and Credit Growth
(Y-o-y percent change)



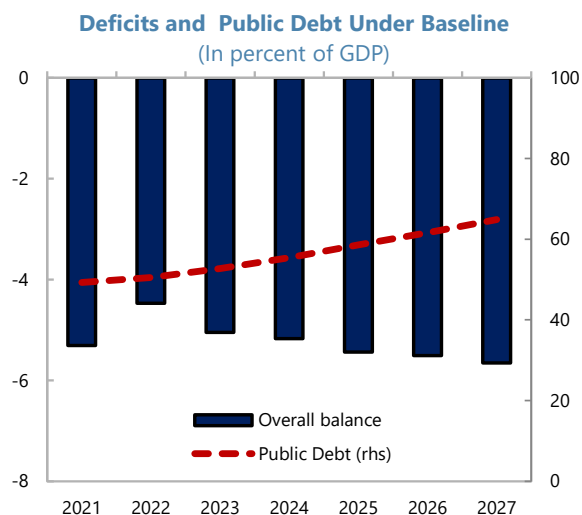
Non-performing loans rose only modestly, while provisioning increased.

Non-Performing Loans and Provisions



Sources: Palestine Monetary Authority (PMA); and IMF staff estimates.

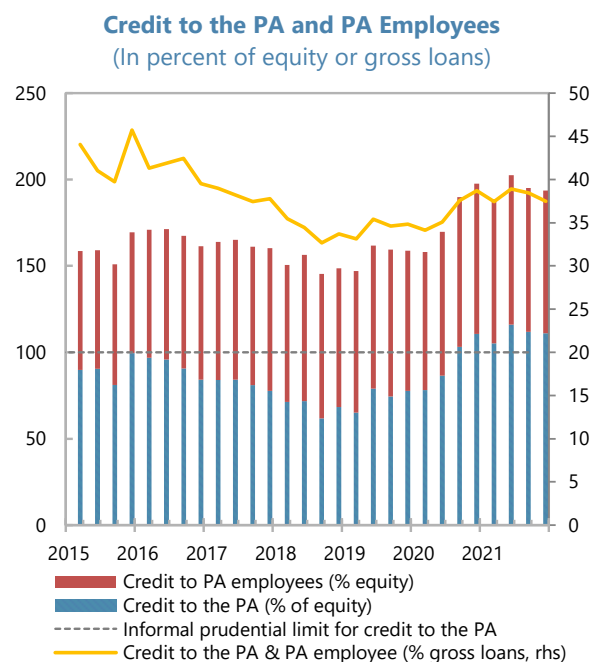
10. On current policies, the fiscal deficit is projected to steadily increase to above 5½ percent of GDP over the medium term. Such deficits imply steadily increasing public debt (including arrears), projected to reach 65 percent of GDP by end 2027. As external and domestic bank financing options remain limited, it is likely that a significant part of these deficits would be financed by running further domestic arrears. Debt sustainability analysis highlights West Bank and Gaza’s vulnerability to shocks, with even temporary shocks (e.g., to clearance revenue) having significant impact on debt sustainability for years to come. The associated high gross financing needs present a key vulnerability to debt sustainability (Annex III).



Source: IMF staff estimates.

B. ...And Risks Abound...

11. The PA’s fiscal crisis adds to risks to the banking sector. Banks direct exposure to the PA comprised 21 percent of total loans (some 11 percent of assets or 111 percent of capital/equity—above the informal 100 percent prudential limit) at end-2 021, while loans to PA employees added an additional 16 percent of loans (8 percent of assets) in indirect exposure and there is further indirect exposure through loans to PA suppliers.¹⁰ The PA’s fiscal trajectory, if unchecked, would increase credit risk on these loans and hence hurt the quality of bank assets, potentially putting financial stability at risk. This adds to banking sector risks stemming from the pandemic’s hit to the private sector. As a consequence of the PMA’s pandemic-induced regulatory forbearance on retail and corporate loans in 2020–21, non-performing loan rates remained low, but may increase in 2022 when the forbearance no longer applies. Still, an NPL coverage ratio of 94 percent provides a significant buffer. The threat of disruption to shekel correspondent banking relations presents another risk to the banking sector, in particular as these currently rely on renewal of letters of immunity and indemnity by the Gol (T18).



Sources: PMA; and IMF staff calculations.

¹⁰ Data on banks’ exposure to PA suppliers is available only for loans with a direct guarantee from the PA.

12. The increasing stock of PA arrears is also bound to present risks to the real economy. Government suppliers that do not get paid are likely to be unable to pay their own suppliers and lenders, leading to cascading arrears and lack of liquidity in the economy, and a possible uptick in NPLs. In addition, some suppliers have provided their claims on government as collateral to banks or sold them outright at less than face value, improving their liquidity but depressing profitability. Another risk is that government contractors may raise prices further to account for the likelihood of payment delays, thus increasing the costs to government for goods and service.

13. Political and socioeconomic conditions, a resurgence of the COVID pandemic and the war in Ukraine present additional risks. Unemployment, poverty, frustration with the lack of progress on the peace process and dissatisfaction with domestic politics may lead to the escalation of civil unrest or another confrontation with Israel. Further food, fuel and building material price increases and volatility going forward due to the Russian invasion of Ukraine add to these risks.¹¹ This would harm trade and investment, as well as consumer spending. A resurgence of the COVID pandemic, associated with mandatory or voluntary restriction of economic activity, could have similar economic effects. Given the fiscal outlook, the PA would have little room to support the economy, while the PMA's ability to provide monetary stimulus is also limited. More generally, the fragile political and social environment may lead to inadequate policy response to the current challenges.

C. ...Resulting in Modest Growth Prospects.

14. Taken together, these factors result in chronically weak economic growth. While the economy grew at a fast pace of an estimated 6 percent last year and is geared for a projected growth of 4 percent this year, this is mainly a cyclical rebound from the unprecedented depth of the 2020 recession. Over the medium term, growth is projected to gradually decrease to its long-term potential rate of 2 percent, reflecting restrictions on the movement of goods and people (including access to Area C), weak labor market outcomes, and low public and private investment. This is below projected population growth, implying decreasing real per capita GDP (Figure 4). Inflation is projected to increase, due to increased commodity prices and inflationary pressures in Israel, but remain contained.

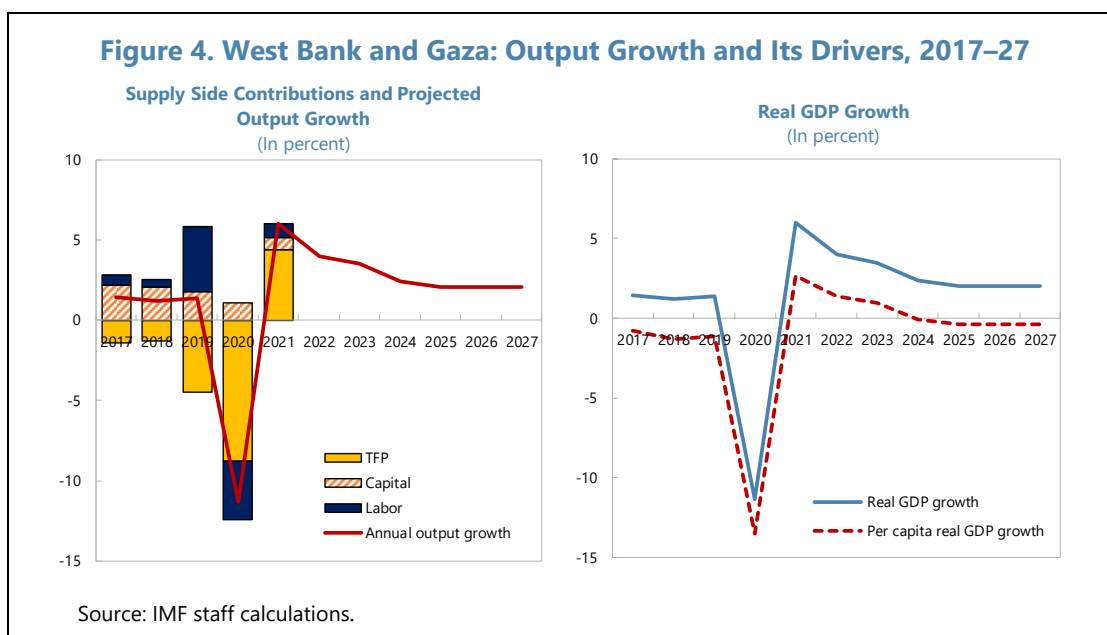
A PATH FORWARD

A. Resolving the Fiscal Crisis Requires a Medium-Term Adjustment Strategy.

15. The PA's fiscal problems are deep and will take time to resolve. The goal should be to first arrest the increase in public debt (which includes arrears) and subsequently bring it down,

¹¹ While direct imports from Ukraine and Russia together are limited to 1.2 percent of imports, total (direct plus estimated indirect through Israel) wheat and flour imports from Ukraine and Russia comprises 59 percent of wheat and flour imports. Fuel imports are almost wholly from Israel, which itself imports about 38 percent of its oil imports from Russia (UN COMTRADE 2018-19).

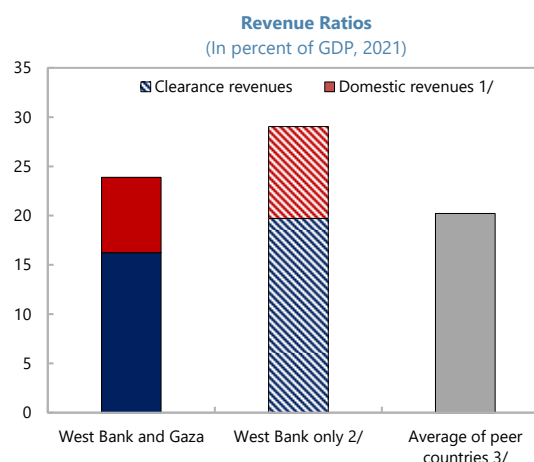
including through the clearance of arrears. Given the size of the fiscal deficit and the multitude of difficult reforms that will need to be pursued, this requires a multi-year horizon.



16. The tradeoffs involved are best analyzed in the context of a comprehensive medium-term macro-fiscal framework (MTFF). Understandably in the context of managing the recent fiscal crisis, the emphasis has been on short term liquidity management. Designing a MTFF allows the focus to shift toward a package of reforms that can improve the PA’s longer term fiscal solvency, helping anchor expectations and boost confidence. It also allows explicit assessment of the tradeoffs involved: for instance, tightening the fiscal stance would take away from growth, while the easing of restrictions on movement of goods and people would have the opposite effect. Lastly, an MTFF can provide insight into the medium-term effects of reform: for example, trimming spending or raising revenue to be able to increase development spending may initially depress growth, but would permanently increase economic growth down the line.

B. PA Policies Are Crucial...

17. The way out of the current fiscal crisis will require wide-ranging Palestinian policy actions. Staff discussed the benefits of adopting a broad-based strategy to contain and rebalance public spending, while boosting growth. As the Palestinian authorities have fewer policy tools compared to peers, systematic reform to the key drivers of non-discretionary spending—i.e., civil service salaries and benefits, transfer payments, the public pension scheme, the health care system, and fuel subsidies—are key. In addition, there is a



Sources: Palestinian Authorities; and IMF staff estimates.

1/ Including all other tax and non-tax revenues.

2/ IMF Staff estimates.

3/ Peer countries comprise oil importing countries in the Middle East and Central Asia.

need to improve the quality of expenditure by shifting more resources to development spending and improving the social safety net. Even as overall revenue collection is better than peers, there may yet be some scope to enhance revenue further through base broadening—e.g., by reducing tax evasion and informality—as well as revisiting tax rates, streamlining exemptions and realizing modest further tax administration gain, some of which could be realized in the near term.

18. The details of the expenditure reforms are particularly crucial. A rigid public employment system with mandatory annual salary increases has made government the employer of choice and historically this has led to fast wage bill growth. Staff supports the authorities' aim to tackle the wage bill as a priority and welcomed their intention to initiate a net hiring freeze and their work with the World Bank on an assessment of policy options to contain the wage bill going forward. A comprehensive reform of the civil service, including grade restructuring, integration of most allowances into base pay, and the gradual reduction of public sector staff in targeted categories, may be needed to ensure a cost-effective, efficient, and professional civil service. The authorities are also working with the World Bank on reforming aspects of health system financing (e.g., health referrals) in an effort to reduce overuse and improve cost recovery. But more comprehensive health reform, including building up public health care capacity, may be required. Similarly, streamlining transfers to the pension fund would require comprehensive pension system reform.¹² The current setup of net lending is not transparent and does not provide accountability to the municipalities responsible for the collection of utility payments. But here too, improving the system will require deep reform of the way utilities are provided and paid for, including in the refugee camps, a reorganization of the fiscal relationship between the PA and municipalities¹³, and Israeli cooperation. In contrast, reducing fuel subsidies (comprising 0.4 percent of GDP in 2021) is more straightforward, but would need to be designed carefully to reduce the impact on the most vulnerable households and ensure the reform does not trigger social unrest. Throughout, the authorities would need to protect the most vulnerable in society through social spending. Still, phasing out general subsidies while increasing the benefit levels and coverage of the existing cash transfer program¹⁴ and expanding the cash for work schemes could potentially yield savings.

19. The policy package should also seek to increase development spending in order to boost the Palestinian economy's long term growth potential. Higher economic growth would raise living standards and improve the fiscal outlook. Public investment in development-oriented projects would serve to boost growth. Going forward, it is therefore important to create fiscal space for such investment. At the same time, it is paramount to ensure the public investment process ensures prioritization of the most productive public investment, and timely and cost-effective implementation of projects.

¹² A [2010 World Bank report](#) recommends parametric reforms, including increasing the retirement age, reducing the accrual rate of pension calculations, reducing the generosity of lump sum payments, and tightening early retirement provisions.

¹³ Key gaps in the relationship include weak administrative and collection capacity in some municipalities and untransparent recording of cross claims.

¹⁴ The cash transfer program currently covers 115,000 households, providing quarterly transfers between NIS 750-1,800 (USD 232-557). Some 80 percent of beneficiaries are extreme poor, and 87 percent of transfer goes to poverty gap reduction, making the program one of the most effective in the world ([World Bank 2020](#)).

20. Enhancements to the public financial management system would support fiscal adjustment. The World Bank's 2018 PEFA found good budget classification, guidance on budget preparation, and cash forecasting and monitoring, but pointed to considerable weaknesses regarding the budget calendar, the setting of expenditure ceilings and the effectiveness of commitment controls. The authorities should consider setting multi-year expenditure ceilings to strengthen commitment control over a medium-term horizon and strengthening fiscal accounting and reporting, given considerable revisions in monthly fiscal reports. They should also undertake a comprehensive stock taking of arrears and adopt a strategy for their gradual clearance, based on clear and transparent criteria. Such a strategy could include both cash payment of arrears and securitization and could benefit from IMF technical assistance. In tandem, the improvements in the budget and execution process discussed above should help prevent the accumulation of new arrears. Lastly, the authorities should improve the timeliness of the audit of financial accounts to strengthen accountability and transparency.

21. Financial sector policies should focus on maintaining PMA regulatory oversight and sharpening it where necessary. Staff suggested the PMA should continue to scrutinize financial sector risks (¶11) closely, leveraging recent IMF TA that helped it strengthen its stress testing capabilities. Where necessary, it should work with banks to come up with plans to strengthen buffers. In tandem, it should bolster its bank resolution and crisis management toolkit in order to stand ready in case problems occur, building on ongoing IMF TA. With respect to macroprudential policies, the PMA should enforce concentration limits, and could consider deploying new tools such as leverage ratios.

22. Uncertainty around correspondent banking relations (CBRs) between Israeli and Palestinian banks, which are crucial to preserve financial and economic stability, should also be addressed. Shekel CBRs rely on renewal of letters of immunity and indemnity issued by the GoI to the two Israeli correspondent banks, who demand such assurances in light of perceived ML/TF risks. The completed ML/TF National Risk Assessment and upcoming MENAFATF AML/CFT evaluation for WBG—which is strongly supported by both Palestinian and Israeli authorities—and subsequent follow up to address any deficiencies could reduce pressure on CBRs. Staff commended the authorities' preparations for the assessment and their request for additional IMF TA on AML/CFT. Strengthening cross-border payments infrastructure more generally and establishing a longer-term mechanism to partially replace existing CBRs could further reduce these risks and alleviate pressure banks operating in the West Bank face in managing their excess liquidity.

23. Structural reform to improve the business environment and the reliability and affordability of water and electricity supply represents another policy priority. Structural reforms to alleviate key constraints on the business environment are within the PA's control and would serve to revitalize the private sector. Faster and easier business registration and licensing, improvements to the insolvency regime, and stronger protection of minority investors are needed. In this regard, staff commended the recent adoption of the companies law and encouraged the PA to quickly finalize the drafting and adoption of legislation including the debt settlement, competition, and consumer protection laws, and pursue improvements to the telecom law to lift obstacles to key sectors of the economy and prevent developing markets' capture by vested interests. This would particularly help spur activity in domestic sectors that are not subject to

movement and access restrictions. Access to a reliable supply of electricity is still one of the top constraints to business, particularly in Gaza, while water shortages are a concern in both the West Bank and Gaza. Power and water sector reform for improved affordability, efficiency, and reliability of supply is therefore paramount. The economy would further benefit from increased vocational training to bridge the skill gap in the labor market.

C. ...But Not Sufficient.

24. Resolving the current fiscal crisis will require collaboration between the PA and the Government of Israel. An immediate priority is faster progress on resolving or at least reducing fiscal leakages. This should include systematic changes going beyond one-off payments and transparent information exchange on amounts withheld. Going beyond that, Palestinian-Israeli cooperation is required to make the electronic VAT (e-VAT) pilot a success and broaden it to all commerce between the Israeli and Palestinian markets; redesign the net lending system by which the Gol withholds funds to cover overdue amounts to commercial Israeli utility providers; address the split of the (increased) Allenby bridge exit fees; set up inspections modalities for customs transfers; and reduce the 3 percent administrative handling fee on imports, given the considerable increase in the volume of bilateral trade since inception. A good starting point on the latter could be exempting fuel imports from excise tax and VAT, rather than charging and subsequently refunding the tax to the PA and subject it to the 3 percent handling fee. Finally, Israel and the PA should cooperate to properly tax economic activity in Area C and relay the proceeds to the PA.

25. Issues relating to movement of goods and people can similarly only be resolved in agreement with Israel. Reducing territorial fragmentation and improving conditions for movement and access to and from the West Bank and Gaza and better access to Area C would support development and unleash the potential for private-sector-led growth. This could permanently and sustainably boost economic growth and provide much needed jobs. Over time, it would allow the economy to diversify from the current government-centric model. In this regard, the door-to-door trade facilitation program that allows shipment of goods without undergoing costly and cumbersome transfer of shipments at border crossings represents a modest example of improved movement of certain goods.

26. An increase in donor grants would also be opportune. Securing additional donor flows would facilitate reform and reduce the adverse impact of sharp fiscal consolidation on the economy. It would allow more financing for development projects and a faster decrease in arrears financing. The comprehensive reform agenda outlined above could serve to reignite donor support.

D. An Illustrative Reform Scenario

27. To demonstrate the benefits of reform, staff designed an illustrative policy package. The scenario focuses on turning around the currently adverse debt dynamics, through proposing a total fiscal turn-around of just over 4 percent of 2022 GDP over the three-year period 2022–24.¹⁵

¹⁵ The proposed fiscal adjustment is slightly more than what would be needed to stabilize debt (Annex III) and hence suffices to ensure a decline in debt.

The scenario assumes resolution of most of the major fiscal leakages issues with Israel within three years. At the same time, it assumes the Palestinian authorities pursue gradual implementation of major expenditure and revenue reforms discussed above that would yield just under 2 percent of GDP on a net basis over three years. The gross adjustment envisaged is almost 4 percent of GDP in order to create space for an additional 2 percent of GDP in development spending by 2024. Such adjustment would place the PA's fiscal "effort" at the third quartile of adjustment pursued under recent IMF programs (Box 2), suggesting the scenario is ambitious but feasible. Donor support is assumed to gradually increase by 1 percent of GDP relative to the baseline, as donors gain confidence from the reforms.

Fiscal Adjustment: Burden Sharing Under the Full Reform Scenario, 2022–24

	Percent of GDP	Percent of Total
Palestinian Authority	3.8	63
Revenue measures	0.6	
Expenditure measures	3.2	
Israel-PA agreement on Fiscal Leakages	1.3	21
Donor support	1.0	16
Memorandum items:		
Higher development spending	-2.0	
Net fiscal adjustment by the PA	1.8	

Source: IMF staff calculations.

28. The policy package includes structural measures that serve to boost growth. First, an improved business environment in both the West Bank and Gaza, featuring easier licensing, improvements to the insolvency regime, and stronger protection of minority investors (i.e., adoption of the measures discussed in ¶23). Second, a steady easing of restrictions on movement of goods and services between West Bank and Gaza and Israel and improved access to in Area C (¶25). These measures are assumed to increase private investment, in part financed through higher capital inflows. Together with the increased public development spending, the policies easing restrictions and improving access to Area C would strengthen established sectors such as manufacturing industries, agriculture, and construction, and unleash the potential of sectors such as Dead Sea tourism, information and communication technologies and potash and bromine mining. The economy's growth rate would gradually increase to 6 percent (Box 3 and Annex IV).¹⁶

¹⁶ Note that this scenario does not include reunification between the West Bank and Gaza. Such developments could further boost growth, but could also increase strain on public finances due to the likely substantial fiscal costs of integration of both territories being larger than the revenue potential from Gaza (see, e.g., [IMF 2018](#)). The scenario also does not assume any tax revenue from Area C.

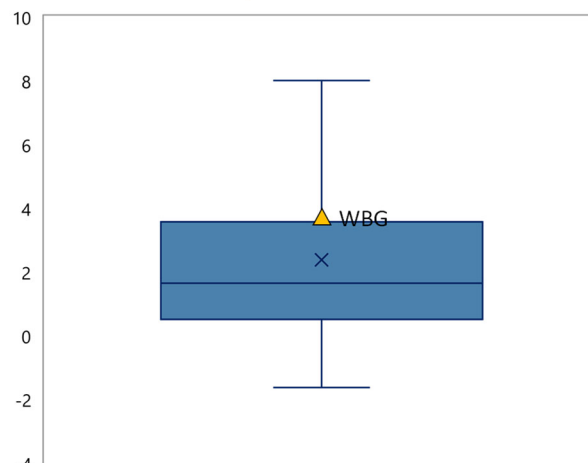
Box 2. Fiscal Adjustment Under IMF Programs

Even though West Bank and Gaza cannot engage in an IMF program, designing a fiscal adjustment scenario should consider the experience in countries with IMF programs, especially in the context of fragility.¹ Over the last five years, the average targeted improvement in the fiscal balance in countries with an IMF-supported program was 2.4 percent of GDP over three years. The PA gross fiscal effort proposed in the reform scenario is 3.8 percent of GDP, placing at the 75th percentile of this distribution. The proposed adjustment therefore seems ambitious yet feasible.

In most IMF programs, the fiscal adjustment was achieved mainly through spending cuts. Spending measures centered on improving efficiency, including reducing subsidy and wage bill spending, to free up resources for growth-enhancing public investment. Revenue measures typically focused on broadening the tax base, reducing distortions, and improving revenue administration.

IMF program experience also suggests that a longer period of engagement and increased donor support are often required to achieve results. A well-paced gradual reform agenda can prevent overstraining implementation capacity and smooth adjustment. Donors play an important role in this regard, especially in programs in low- and middle-income countries. In such programs only a portion of the financing need is the result of fiscal adjustment, with increases in donor grants and other external support smoothing the transition.

Distribution of Programs According to the Magnitude of the Envisaged Change in the Overall Fiscal Balance at Program Onset (T-1 to T+3)
(In percent of GDP)



Source: IMF MONA database.

Note: Based on a sample of 29 IMF programs over the period 2017-21. The box indicates the 25-75 percentile range, while the horizontal line indicates the median and the cross mark indicates the mean. The whiskers indicate the 25th/75th percentile minus/plus 1½ times the 25-75 interquartile range. Outliers are excluded."

¹ [2018 Review of Program Design and Conditionality \(2019\)](#) and [Fiscal Adjustment in IMF-Supported Programs \(2003\)](#).

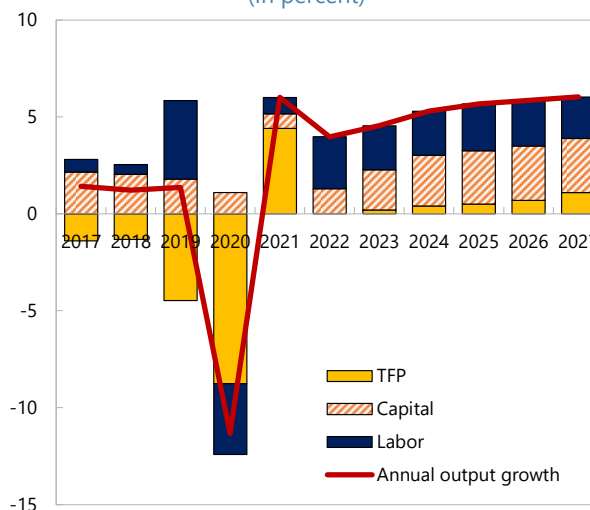
29. Taken together, these policies would allow turning the fiscal corner and making a start on reducing debt (Figure 5). The authorities would be able to slow accumulation of debt (including arrears) during 2022–23 and make a start with reducing debt in 2024. Clearing arrears through cash payments and reducing debt more broadly would create space for new policy priorities beyond 2024. Debt in 2027 would return to below its level in 2020, and continuing reform efforts beyond 2024 or increased donors support would help bring debt down faster, shortening the period until debt comes down to a long-term sustainable level. Similarly, confirmation that the stock of arrears is lower than currently estimated or agreement between the PA and Israel on relaying part of the accumulated stock of past fiscal leakages and the prisoner payment deductions would improve outcomes.

Box 3. Growth Under the Reform Scenario

Growth would reach 6 percent in 2027 under the reform scenario laid out above (127–28). Adoption and implementation of new legislation eases and speeds licensing, improves the insolvency regime, and strengthens protection of minority investors, boosting private investment, including foreign direct investment. In addition, steady easing of restrictions on movement of goods and services between the West Bank and Israel by expanding the lists of A1/A2/B goods¹; curtailing the dual use list²; allowing free movement of agricultural and industrial goods; smoothing customs clearance and inspection; and allowing higher labor mobility between the West Bank and Israel all raise total factor productivity. Improved access to land and water in Area C, elimination of physical, legal, regulatory, and bureaucratic constraints to Palestinian investment in the area, and lower transportation costs, with less checkpoints and use of all roads, raises both capital and total factor productivity. Labor is affected less, as a significant number of Palestinians are expected to start to work in Israel and settlements, where wages are higher than in the Palestinian private sector. These measures are also assumed to increase private investment, in part financed through higher capital inflows. Together with the increased public development spending (127), these policies would gradually increase the economy's growth rate to 6 percent. Growth would reach 3½ percent under a partial reform scenario that includes only PA reforms to improve the business environment, illustrating that the main contribution to increasing growth would come from easing of Israeli restrictions.

The main drivers of growth in 2022–27 would be capital and labor, with modest contributions from total factor productivity (TFP). In recent years, TFP growth weighed on output growth. Under the scenario, employment and capital contribute more than during 2017–20, with capital productivity unleashed as domestic private sector growth and access to financing for investment from abroad improves. TFP growth is assumed to increase compared to recent years, but remain well-below the 2006–14 high-growth period.³

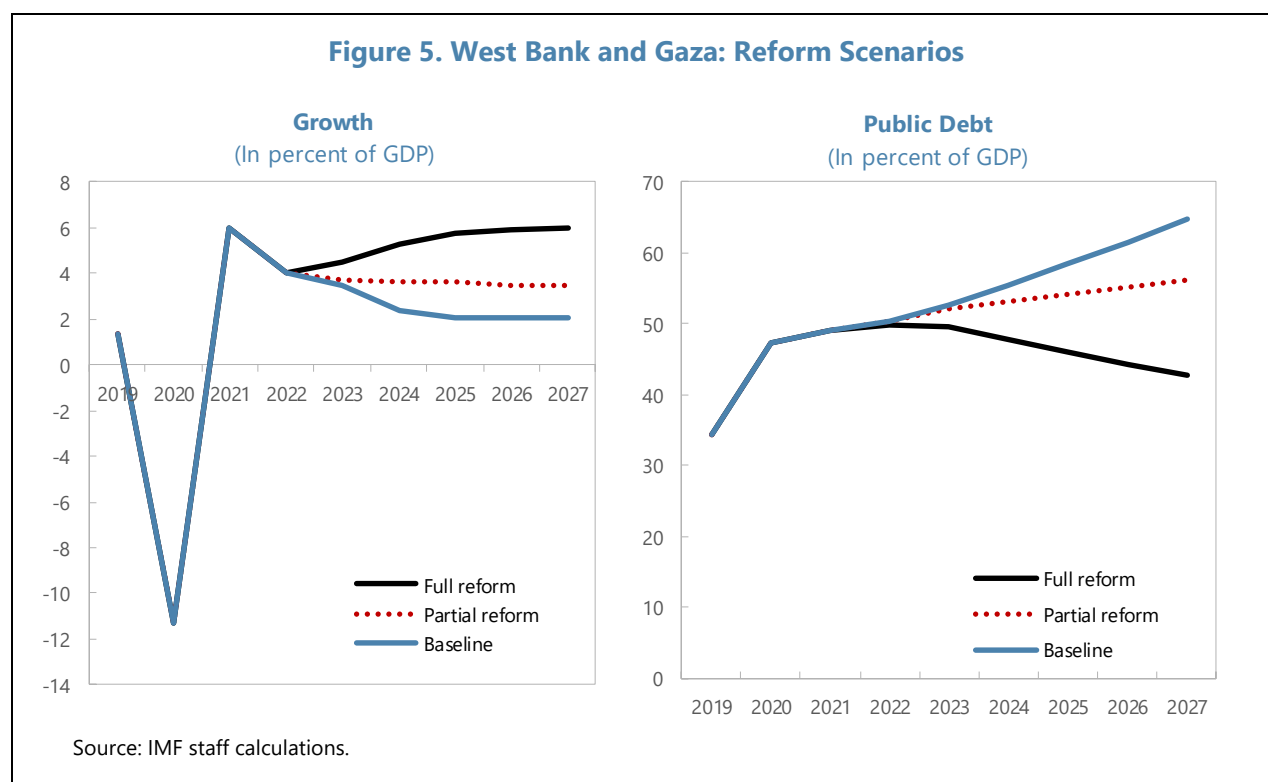
Contributions to Output Growth Under Full Reform Scenario
(In percent)



¹ According to the Paris Protocol, A1/A2 goods are those for which the PA can have an independent import policy (set import tax rates, standards, licensing, and other regulations) for quantities imported that are below a ceiling agreed with the Government of Israel. Israeli import policy applies to A1/A2 goods imported in quantities exceeding the ceilings. Goods on list B are those for which the PA can set import tax rates.

² "Dual use" refers to goods that Israel determines can be used for military purposes in addition to their inherent civilian use and whose import into WBG is therefore restricted.

³ Estimated impact of reforms on labor, capital and total factor productivity growth drew on [a 2017 World Bank study](#) that used computable general equilibrium (CGE) modeling.



30. A partial reform scenario in which the PA pursues reform without support from Israel and donors would not have this intended result. Assuming the same ambitious fiscal and structural effort from the PA, economic growth would converge to 3½ percent per year and debt accumulation would slow but not cease. Debt including arrears would climb to 56 percent of GDP by the end of our projection horizon in 2027 and continue increasing afterwards. Given limited financing options, a large part of the increase would presumably be in the form of arrears, thus further increasing risks to the economy.

E. Authorities' Views

31. The authorities concur with the need to shift attention to medium-term fiscal policy. This would allow them to elaborate on reform priorities, gradually moving the focus away from short-term liquidity management. However, they point out that the assumptions underlying any medium-term scenario are bound to change, given the many risks and uncertainties they face and therefore one would need to treat any scenario flexibly. In addition, political economy constraints, particularly as they pertain to the limited authority the PA has in Gaza, curb the scope to implement reform.

32. The authorities are considering options to reduce spending, but the realization of savings will take time. They see tackling the risks posed by a rising wage bill which absorbs a significant part of the PA's revenues as a priority. They highlighted substantial allotments for wages and benefits in the security sector and to civil servants in Gaza, but underscored that it would be politically difficult to cut these expenditures. They intend to continue to pay less than full salaries to

civil servants, pending deeper wage reform. Regarding health reform, the authorities share staff's view on the need to control costs related to referrals through the adoption of a clear and transparent decision-making mechanism. However, they point to capacity constraints in the public health care system making referrals to Israeli or private Palestinian providers indispensable in the short term. They see investing in the public system as a long-term solution, but currently lack the funds. The authorities are also well-aware of the problems related to local governments' inability to pay Israeli utility suppliers, which leads to the practice of net lending. While reforming the fiscal relationship between the PA and municipalities would be important to improve transparency and accountability, it would take time and require cooperation from Israel. And while efficiency savings can be realized, many local governments would continue to rely on support from the central government, limiting prospects for significant fiscal savings from net lending reform. Lastly, to counter spiking wheat prices due to the war in Ukraine, the authorities announced temporary VAT exemptions on flour and bread, which are expected to have limited budgetary impact.

33. They note that the 2021 revenue performance has been very strong and are looking to boost it further. The authorities point to their tax administration efforts, as reflected in their soon to be adopted revenue strategy, and reduced smuggling related to lockdowns and movement restrictions as the main drivers of the improvement in revenue. To further reduce tax evasion, they are looking to improve the exchange of information between banks and the tax authority. They explained that the e-VAT system, which started in March 2022, will increase efficiency and make tax evasion harder by reducing the scope for under declaring the value of imports, while reducing compliance costs for companies. Taken together with an associated expected positive impact on corporate income tax revenue, and provided remaining hurdles linking the Palestinian and Israeli systems in real time can be resolved soon, the authorities expect an annual gain in revenues of 0.9 percent of GDP from the e-VAT. The authorities are also keen to work with Israel to resolve the other fiscal leakages files, which they consider essential for supporting fiscal sustainability. These include the handling fee Israel charges for customs administration, the Allenby bridge exit fees, excise and VAT on fuel imports, tax revenue from economic activity in Area C, as well as issues relating to customs transfers. They noted that most of these fiscal leakages would be resolved if Israel abided by the provisions of the Paris Protocol.

34. Taken together, over time, implementing these policies would allow for the gradual repayment of arrears. The authorities view arrears clearance as an essential element to ensure debt sustainability. As the fiscal situation allows, they aim to first reduce and then cease their reliance on arrears financing, followed by bringing down the nominal stock of outstanding amounts to suppliers. In this regard they explained that part of the liquidity improvement stemming from reduced civil servant salary payment in late 2021 and early 2022 was used to repay old arrears. The authorities indicate that arrears to the pension fund should be assessed differently, as the associated obligations will only come due far into the future. As such, they see no immediate real economic consequences associated with arrears to the pension fund as long as current pension entitlements continue to be paid. Lastly, the authorities see arrears clearance as important to create fiscal space for future development and social expenditure.

35. The authorities are also pursuing financial sector policies. They see the MENAFATF AML/CFT onsite evaluation planned for August this year as an important step to maintaining shekel CBRs. Separately, they are working with the Bank of Israel to establish publicly-owned correspondent companies that can take over large parts of the CBR functions, but indicated progress is slow. They also point to ongoing IMF assistance helping evaluate options to strengthen domestic and cross-border payments infrastructure more generally. The PMA has maintained the capital surcharge on systemically important domestic banks throughout the pandemic and requires banks to rebuild their countercyclical capital buffers by end 2023. They furthermore plan to use their multi-factor stress testing capabilities to inform their supervisory dialogue with the banks, which also features discussions on credit concentration limits, and are working to review and adapt their banking resolution and crisis management legal and regulatory framework. The authorities also highlighted their progress in promoting financial inclusion and development, in part through encouraging the adoption of e-wallets, and pointed to increased use of e-payments during the pandemic. Planned improvements to the credit and moveable asset registries are also expected to facilitate bank lending to the traditionally unbanked. Lastly, they mentioned that Israeli initiatives to require electronic payment of Palestinian workers who hold permits to work in Israel are expected to help alleviate banks' excess cash problems.

36. Lastly, they point to reforms to improve the business environment as well as the reliability and efficiency of the electricity supply. The recent adoption of the companies law facilitates electronic registration of a business and has removed the requirement for a minimum starting capital, reducing the effort, time and money involved in starting a business. To further improve the business environment, the authorities are in the process of drafting a new competition law, are working on a new law facilitating vocational training, and have established a task force on intellectual property protection. To alleviate bottlenecks to increasing electricity provision, the authorities focus on investment in renewable energy, including through programs that aim to increase the lending capacity of local banks for private sector green energy projects. In addition, together with Israel they are pursuing the construction of a new gas pipeline that would link Gaza to the existing Israeli network, which could provide gas-fired power, significantly reducing Gaza's electricity shortages in the medium term.

STAFF APPRAISAL

37. The Palestinian economy is recovering from the depth of the 2020 recession, but the fiscal outlook is dire. Against the background of repeated political and security shocks and despite a good revenue performance in 2021, the combination of the COVID-19 pandemic, declining donor support, and spending priorities have resulted in high deficits. With limited financing options, the authorities have accumulated large domestic arrears. The fiscal challenges are largely structural in nature. Without a change in policies, the economic outlook is dire with debt on an unsustainable path and per capita GDP projected to decline over the medium term.

38. Moreover, the outlook is subject to significant risks. First and foremost, these relate to the PA's fiscal situation. Under unchanged policies, the PA would need to continue to resort to running arrears, which could lead to lack of private sector liquidity and harm economic growth. In addition, the banking sector has a large direct and indirect exposure to the PA, implying that the PA's fiscal challenges could affect banks. Other risks include a possible disruption to shekel correspondent banking relation and the political, security and socioeconomic situation, which may result in renewed unrest that would directly affect the economy. Lastly, a flare up of the COVID pandemic could lead to lower activity and worsen the PA's finances.

39. Lasting improvements in fiscal and economic prospects depend on transformational reform involving the PA, Israel, and donors. It will be important to develop a medium-term macro-fiscal strategy that allows the government to invest in development and social spending to support the Palestinian people, while being consistent with debt sustainability. The PA needs to implement spending reform centered on the wage bill, health referrals, pension transfers and net lending, further broaden its tax base, and undertake structural reform to improve the business environment. Working together, Israeli and Palestinian authorities would need to resolve fiscal leakages to boost revenue and reduce impediments to the movement of goods and people to unleash the economy's growth potential. Boosting confidence through the implementation of reforms could attract donor funds, helping ease the burden on the population and private sector companies during the transition of the economy to a more sustainable footing. A comprehensive and joint effort would strengthen macroeconomic stability and pave the way for faster economic growth, job creation and poverty alleviation.

40. The PMA should continue to scrutinize financial sector risks closely to contain potential vulnerabilities. This includes carefully monitoring banks' exposure to the PA, loan provisioning, and private sector credit concentration, and sharpening requirements where deemed necessary. Continued efforts to strengthen the AML/CFT regime will remain crucial, both in the runup to and after the MENAFATF onsite evaluation later this year. Strong AML/CFT policies and ongoing work to strengthen cross-border payment infrastructure can alleviate the risks currently surrounding shekel CBRs and help reduce banks' excess liquidity.

Table 1. West Bank and Gaza: Selected Economic Indicators, 2019–27
 (Per capita GDP: \$3,045; 2020 est.)
 (Poverty rate 14 percent in the West Bank and 53 percent in Gaza Strip; 2017 est.) 1/

	2019	2020	Est. 2021	2022	2023	Projections 2024	2025	2026	2027
Output, employment and prices									
				(annual percentage change)					
Real GDP (2015 market prices)	1.4	-11.3	6.0	4.0	3.5	2.4	2.0	2.0	2.0
West Bank	1.6	-11.0	6.9	3.8	3.6	2.5	2.2	2.2	2.2
Gaza	0.4	-12.6	1.8	5.0	3.0	1.9	1.5	1.5	1.5
Unemployment rate (period average)	25.4	25.9	26.4	25.7	25.0	24.5	24.2	24.1	24.0
CPI inflation rate (end-of-period)	1.3	0.1	1.3	2.6	2.3	2.3	2.2	2.3	2.0
CPI inflation rate (period average)	1.6	-0.7	1.2	2.8	2.4	2.3	2.2	2.2	2.0
				(in percent of GDP)					
Gross capital formation	26.8	24.3	26.1	28.8	28.1	27.2	26.5	25.7	25.0
Gross national savings	16.4	12.1	12.6	14.7	14.4	14.4	14.3	14.5	14.6
Saving-investment balance	-10.4	-12.3	-13.6	-14.1	-13.7	-12.8	-12.1	-11.2	-10.5
Public finances 2/				(in percent of GDP)					
Total revenues and grants	23.1	25.1	25.7	26.3	25.5	25.5	25.5	25.5	25.5
Revenues	20.3	22.1	23.9	24.1	24.2	24.2	24.2	24.3	24.4
Grants	2.9	3.0	1.8	2.2	1.3	1.3	1.3	1.2	1.2
Total Expenditure	27.6	32.8	31.0	30.8	30.6	30.7	30.9	31.1	31.2
Current expenditures and net lending	25.6	31.1	29.6	29.4	29.2	29.3	29.5	29.7	29.8
Development expenditures	2.0	1.8	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Overall balance (commitment, before external support)	-7.3	-10.7	-7.1	-6.6	-6.4	-6.5	-6.7	-6.7	-6.8
Overall balance (commitment)	-4.5	-7.7	-5.3	-4.5	-5.0	-5.2	-5.4	-5.5	-5.7
Identified financing	4.2	7.7	5.3	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4
Financing gap / Residual	0.3	0.0	0.0	5.9	6.5	6.6	6.9	6.9	7.1
Public debt	34.5	47.3	49.3	50.5	52.7	55.5	58.6	61.6	64.8
Monetary sector 3/				(annual percentage change)					
Credit to the private sector	5.3	5.6	5.6	8.0	7.5	6.8	6.5	6.0	5.5
Private sector deposits	10.0	13.9	8.3	9.5	8.5	8.0	7.5	7.0	6.5
External sector				(in percent of GDP)					
Current account balance (excluding official transfers)	-13.3	-14.5	-14.7	-15.7	-14.4	-13.5	-12.8	-11.8	-11.1
Current account balance	-10.4	-12.3	-13.6	-14.1	-13.7	-12.8	-12.1	-11.2	-10.5
Exports of goods and services	15.5	15.4	15.5	16.1	16.0	16.0	16.0	15.9	15.8
Import of goods and services	53.5	51.9	53.7	55.8	54.2	53.3	52.6	51.6	50.8
Primary income account, net	17.7	16.0	17.8	18.2	18.2	18.2	18.2	18.3	18.3
Secondary income account, net	9.9	8.3	6.9	7.5	6.4	6.3	6.3	6.2	6.2
Memorandum items:									
Nominal GDP (in millions of U.S. dollars)	17,134	15,532	16,679	17,847	18,925	19,837	20,706	21,613	22,499
Per capita nominal GDP (U.S. dollars)	3,443	3,045	3,191	3,336	3,457	3,543	3,618	3,696	3,767
Al Quds stock market index (annual percentage change)	-0.6	-10.4	-5.8	...	...	...	...	...	...

Sources: Palestinian authorities; World Bank; and IMF staff estimates and projections.

1/ Using the national poverty line.

2/ Commitment basis.

3/ End-of-period; in U.S. dollar terms.

Table 2a. West Bank and Gaza: Central Government Fiscal Operations, 2019–27 1/

	2019	2020	Est.		Projections				
			2021	2022	2023	2024	2025	2026	2027
	(in percent of GDP, unless otherwise indicated)								
Revenue and grants	23.1	25.1	25.7	26.3	25.5	25.5	25.5	25.5	25.5
Tax revenue	17.7	19.1	20.8	21.0	21.1	21.1	21.1	21.3	21.3
Direct taxes	1.2	1.2	1.3	1.3	1.3	1.4	1.5	1.6	1.8
Indirect taxes	3.3	3.5	4.4	4.6	4.6	4.6	4.5	4.4	4.2
VAT on domestic purchases	1.8	2.0	2.1	2.3	2.4	2.4	2.3	2.2	2.1
Excises	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Customs duties	1.1	1.0	1.6	1.6	1.6	1.6	1.6	1.5	1.5
Clearance revenues 1/	14.2	15.1	16.2	16.2	16.2	16.2	16.2	16.3	16.3
Income Tax	0.4	0.1	0.5	0.5	0.5	0.5	0.5	0.5	0.5
VAT on imports	3.5	3.4	3.5	3.6	3.6	3.6	3.6	3.6	3.6
Petroleum Excise	4.3	4.4	4.5	4.5	4.5	4.5	4.5	4.6	4.6
Customs	6.0	7.2	7.8	7.9	7.9	7.9	7.9	7.9	7.9
Other	0.0	0.0	0.0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Tax refunds	1.0	0.7	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Non-tax revenues	2.1	2.4	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Earmarked revenues 2/	0.5	0.6	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Grants	2.9	3.0	1.8	2.2	1.3	1.3	1.3	1.2	1.2
External budgetary support	2.9	2.2	1.0	1.5	0.7	0.6	0.6	0.5	0.5
Total expenditure and net lending	27.6	32.8	31.0	30.8	30.6	30.7	30.9	31.1	31.2
Current spending	23.8	28.7	27.5	27.4	27.2	27.3	27.5	27.7	27.8
Wages and salaries	10.9	12.9	13.6	13.7	13.7	13.8	13.9	14.1	14.2
Goods and services	3.8	4.2	4.5	4.3	4.0	4.0	4.0	4.0	4.0
Interest payments	0.3	0.4	0.7	0.7	0.8	0.8	0.9	0.9	0.9
Domestic	0.3	0.3	0.7	0.7	0.7	0.8	0.8	0.8	0.8
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfers	8.2	10.4	7.7	7.7	7.7	7.7	7.7	7.7	7.7
Social assistance	3.0	3.8	2.4	1.4	1.4	1.4	1.4	1.4	1.4
Transfers to the pension fund	5.4	6.0	5.1	5.1	5.1	5.1	5.1	5.1	5.1
Other transfers	-0.2	0.6	0.3	1.3	1.3	1.3	1.3	1.3	1.3
Other	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Earmarked payments 2/	0.5	0.6	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Development spending	2.0	1.8	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Net lending	1.9	2.4	2.1	2.0	2.0	2.0	2.0	2.0	2.0
Overall balance	-4.5	-7.7	-5.3	-4.5	-5.0	-5.2	-5.4	-5.5	-5.7
Financing	4.2	7.7	5.3	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4
Net domestic financing	4.5	7.7	5.3	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4
Net domestic bank financing	2.9	3.7	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Accumulation of new arrears	4.0	7.0	7.2	0.0	0.0	0.0	0.0	0.0	0.0
Arrears repayment (old)	-2.5	-2.9	-2.4	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9
Net external financing	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Borrowing, net	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual/Financing gap	0.3	0.0	0.0	5.9	6.5	6.6	6.9	6.9	7.1
Memorandum items:									
Overall balance (before external support)	-7.3	-10.7	-7.1	-6.6	-6.4	-6.5	-6.7	-6.7	-6.8
Domestic revenues 3/	5.5	6.4	6.8	7.1	7.1	7.2	7.2	7.2	7.2
Central government debt (incl. arrears)	34.5	47.3	49.3	50.5	52.7	55.5	58.6	61.6	64.8
Foreign debt	6.9	8.0	7.2	6.7	6.3	6.0	5.8	5.5	5.3
Domestic debt	27.6	39.3	42.1	43.8	46.4	49.4	52.8	56.1	59.5
of which : Stock of arrears	18.6	25.3	30.9	...	...	...	...	...	...
of which: Arrears to the pension fund	11.6	14.1	14.4	...	...	...	...	...	...
Nominal GDP (in billions of shekels)	61.1	53.5	57.4	61.4	65.1	68.3	71.3	74.4	77.5

Sources: Ministry of Finance and Planning; and IMF staff projections.

1/ Revenue collected by Israel on behalf of and transferred to the Palestinian Authority.

2/ Earmarked revenues and payments are collections from taxes and revenues due to local government units.

3/ Revenues administered by the Palestinian authorities. Excludes clearance revenues.

Table 2b. West Bank and Gaza: Central Government Fiscal Operations, 2019–27 1/

	2019	2020	Est.	Projections					
			2021	2022	2023	2024	2025	2026	2027
(in millions of U.S. dollars, unless otherwise indicated)									
Revenue and grants	3,964	3,901	4,563	5,176	5,331	5,574	5,793	6,038	6,285
Tax revenue	3,024	2,970	3,701	4,146	4,412	4,621	4,810	5,024	5,237
Direct taxes	210	187	224	253	274	295	337	381	440
Indirect taxes	557	546	774	897	959	1,002	1,013	1,028	1,034
VAT on domestic purchases	304	306	371	460	506	532	528	530	522
Excises	63	86	108	109	116	121	126	131	136
Customs duties	186	150	290	322	332	342	353	361	369
Clearance revenues 1/	2,433	2,350	2,888	3,200	3,394	3,551	3,696	3,859	4,017
Income Tax	63	22	81	90	96	100	104	109	113
VAT on imports	602	534	627	702	745	781	813	849	884
Petroleum Excise	737	687	798	893	947	994	1,035	1,080	1,125
Customs	1,034	1,112	1,388	1,553	1,647	1,728	1,799	1,879	1,956
Other	-4	-4	-6	-38	-41	-53	-56	-58	-60
Tax refunds	175	114	184	204	216	226	235	245	255
Non-tax revenues	358	370	402	446	473	495	515	535	557
Earmarked revenues 2/	92	98	142	157	167	174	181	189	196
Grants	490	464	318	427	279	283	287	290	294
External budgetary support	498	347	186	293	137	135	132	129	127
Total expenditure and net lending	4,731	5,099	5,506	6,058	6,386	6,704	7,030	7,339	7,676
Current spending	4,071	4,453	4,891	5,397	5,684	5,971	6,266	6,546	6,850
Wages and salaries	1,866	2,001	2,413	2,692	2,860	3,014	3,171	3,331	3,506
Goods and services	643	657	807	856	844	883	919	955	994
Interest payments	53	56	125	136	164	174	198	205	211
Domestic	48	50	119	128	156	165	189	196	201
Foreign	5	6	6	8	8	9	9	9	10
Transfers	1,402	1,615	1,371	1,519	1,611	1,685	1,754	1,823	1,898
Social assistance	511	591	420	273	290	303	315	328	341
Transfers to the pension fund	932	936	899	996	1,057	1,105	1,151	1,196	1,245
Other transfers	-42	88	52	250	265	277	288	299	312
Other	16	27	33	36	38	40	42	43	45
Earmarked payments 2/	92	98	142	157	167	174	181	189	196
Development spending	341	277	242	268	284	297	309	321	334
Net lending	319	370	374	394	417	437	455	472	492
Overall balance	-767	-1,199	-943	-881	-1,055	-1,131	-1,237	-1,301	-1,391
Financing	722	1,199	942	-284	-296	-310	-323	-335	-349
Net domestic financing	766	1,199	942	-284	-296	-310	-323	-335	-349
Net domestic bank financing	504	573	88	98	104	108	113	117	122
Accumulation of new arrears	686	1,080	1,285	0	0	0	0	0	0
Arrears repayment (old)	-424	-454	-431	-382	-400	-418	-435	-453	-471
Net external financing	-44	0	0	0	0	0	0	0	0
Borrowing, net	-44	0	0	0	0	0	0	0	0
Residual/Financing gap	45	-1	1	1,166	1,351	1,441	1,559	1,637	1,740
Memorandum items:									
Overall balance (before external support)	-1,257	-1,662	-1,261	-1,309	-1,334	-1,414	-1,523	-1,591	-1,685
Domestic revenues 3/	949	989	1,216	1,392	1,490	1,566	1,629	1,700	1,777
Domestic tax revenues (percent change)	-9	-8	28	11	7	5	4	5	5
Clearance revenues (percent change)	8	-7	15	7	6	5	4	5	4
Total expenditure and net lending (percent change)	5	8	8	10	5	5	5	4	5
Grants (millions of US dollars) 4/	490	464	318	427	279	283	287	290	294
of which : budget support	498	347	186	293	137	135	132	129	127
Central government debt (incl. arrears)	6,057	7,785	9,035	9,958	11,001	12,105	13,295	14,523	15,910
Foreign debt	1,211	1,312	1,313	1,319	1,318	1,315	1,310	1,303	1,303
Domestic debt	4,846	6,473	7,722	8,639	9,683	10,791	11,985	13,220	14,607
of which : Stock of arrears	3,277	4,171	5,206	...	...	...	...	...	...
of which : Arrears to the pension fund	2,046	2,327	2,636	...	...	...	...	...	...
Nominal GDP	17,134	15,532	16,679	17,847	18,925	19,837	20,706	21,613	22,499

Sources: Ministry of Finance and Planning; and IMF staff projections.

1/ Revenue collected by Israel on behalf of and transferred to the Palestinian Authority.

2/ Earmarked revenues and payments are collections from taxes and revenues due to local government units.

3/ Revenues administered by the Palestinian authorities. Excludes clearance revenues.

4/ Excludes off-budget support through the UNRWA.

Table 2c. West Bank and Gaza: Central Government Fiscal Operations, 2019–27 1/

	2019	2020	Est.		Projections				
			2021	2022	2023	2024	2025	2026	2027
(in billions of shekels, unless otherwise indicated)									
Revenue and grants	14.1	13.4	14.7	16.1	16.6	17.4	18.2	19.0	19.8
Tax revenue	10.8	10.2	12.0	12.9	13.8	14.4	15.1	15.8	16.5
Direct taxes	0.7	0.6	0.7	0.8	0.9	0.9	1.1	1.2	1.4
Indirect taxes	2.0	1.9	2.5	2.8	3.0	3.1	3.2	3.2	3.3
VAT on domestic purchases	1.1	1.1	1.2	1.4	1.6	1.7	1.7	1.7	1.6
Excises	0.2	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4
Customs duties	0.7	0.5	0.9	1.0	1.0	1.1	1.1	1.1	1.2
Clearance revenues 1/	8.7	8.1	9.3	10.0	10.6	11.1	11.6	12.1	12.6
Income Tax	0.2	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.4
VAT on imports	2.1	1.8	2.0	2.2	2.3	2.4	2.5	2.7	2.8
Petroleum Excise	2.6	2.4	2.6	2.8	3.0	3.1	3.2	3.4	3.5
Customs	3.7	3.8	4.5	4.8	5.1	5.4	5.6	5.9	6.2
Other	0.0	0.0	0.0	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2
Tax refunds	0.6	0.4	0.6	0.6	0.7	0.7	0.7	0.8	0.8
Non-tax revenues	1.3	1.3	1.3	1.4	1.5	1.5	1.6	1.7	1.8
Earmarked revenues 2/	0.3	0.3	0.5	0.5	0.5	0.5	0.6	0.6	0.6
Grants	1.7	1.6	1.0	1.3	0.9	0.9	0.9	0.9	0.9
External budgetary support	1.8	1.2	0.6	0.9	0.4	0.4	0.4	0.4	0.4
Total expenditure and net lending	16.9	17.6	17.8	18.9	19.9	20.9	22.0	23.1	24.2
Current spending	14.5	15.3	15.8	16.8	17.7	18.7	19.6	20.6	21.6
Wages and salaries	6.7	6.9	7.8	8.4	8.9	9.4	9.9	10.5	11.0
Goods and services	2.3	2.3	2.6	2.7	2.6	2.8	2.9	3.0	3.1
Interest payments	0.2	0.2	0.4	0.4	0.5	0.5	0.6	0.6	0.7
Domestic	0.2	0.2	0.4	0.4	0.5	0.5	0.6	0.6	0.6
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfers	5.0	5.6	4.4	4.7	5.0	5.3	5.5	5.7	6.0
Social assistance	1.8	2.0	1.4	0.9	0.9	0.9	1.0	1.0	1.1
Transfers to the pension fund	3.3	3.2	2.9	3.1	3.3	3.5	3.6	3.8	3.9
Other transfers	-0.1	0.3	0.2	0.8	0.8	0.9	0.9	0.9	1.0
Other	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Earmarked payments 2/	0.3	0.3	0.5	0.5	0.5	0.5	0.6	0.6	0.6
Development spending	1.2	1.0	0.8	0.8	0.9	0.9	1.0	1.0	1.1
Net lending	1.1	1.3	1.2	1.2	1.3	1.4	1.4	1.5	1.5
Overall balance	-2.7	-4.1	-3.0	-2.7	-3.3	-3.5	-3.9	-4.1	-4.4
Financing	2.6	4.1	3.0	-0.9	-0.9	-1.0	-1.0	-1.1	-1.1
Net domestic financing	2.7	4.1	3.0	-0.9	-0.9	-1.0	-1.0	-1.1	-1.1
Net domestic bank financing	1.8	2.0	0.3	0.3	0.3	0.3	0.4	0.4	0.4
Accumulation of new arrears	2.4	3.7	4.2	0.0	0.0	0.0	0.0	0.0	0.0
Arrears repayment (old)	-1.5	-1.6	-1.4	-1.2	-1.2	-1.3	-1.4	-1.4	-1.5
Net external financing	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Borrowing, net	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual/Financing gap	0.2	0.0	0.0	3.6	4.2	4.5	4.9	5.2	5.5
Memorandum items:									
Overall balance (before external support)	-4.5	-5.7	-4.1	-4.1	-4.2	-4.4	-4.8	-5.0	-5.3
Domestic revenues 3/	3.4	3.4	3.9	4.3	4.6	4.9	5.1	5.4	5.6
Domestic tax revenues (percent change)	-8.8	-7.7	27.7	11.3	7.3	5.3	4.4	4.9	4.6
Clearance revenues (percent change)	7.7	-6.7	15.3	7.0	6.0	4.8	4.4	4.9	4.1
Total expenditure and net lending (percent change)	4.7	4.1	1.3	6.2	5.4	5.2	5.2	4.9	4.6
Central government debt (incl. arrears)	21.1	25.3	28.3	31.0	34.3	37.9	41.7	45.8	50.2
Foreign debt	4.2	4.3	4.1	4.1	4.1	4.1	4.1	4.1	4.1
Domestic debt	16.8	21.0	24.2	26.9	30.2	33.8	37.6	41.7	46.1
of which: Stock of arrears	11.4	13.5	17.7	...	...	...	...	...	...
of which: Arrears to the pension fund	7.1	7.6	8.3	...	...	...	...	...	...
Nominal GDP	61.1	53.5	57.4	61.4	65.1	68.3	71.3	74.4	77.5

Sources: Ministry of Finance and Planning; and IMF staff projections.

1/ Revenue collected by Israel on behalf of and transferred to the Palestinian Authority.

2/ Earmarked revenues and payments are collections from taxes and revenues due to local government units.

3/ Revenues administered by the Palestinian authorities. Excludes clearance revenues.

Table 3. West Bank and Gaza: Financial Soundness Indicators, 2017–21
(In percent)

	Dec-17	Dec-18	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Capital adequacy (for all banks)											
Tier I capital to risk-weighted assets	15.5	16.0	15.6	15.5	15.2	15.0	13.9	14.1	14.3	14.6	14.3
Regulatory capital to risk-weighted assets	16.6	16.8	16.6	16.4	16.1	15.9	15.7	16.0	16.2	16.4	16.1
Capital adequacy (for local banks)											
Tier I capital to risk-weighted assets	14.9	15.1	15.6	15.5	15.2	15.0	13.9	14.1	14.3	14.6	14.3
Regulatory capital to risk-weighted assets	16.1	15.9	16.6	16.4	16.1	15.9	15.7	16.0	16.2	16.4	16.1
Asset quality 1/											
Nonperforming loans (percent of total loans)	2.3	3.0	4.1	4.0	3.9	3.7	4.2	4.2	4.2	4.3	4.2
Nonperforming loans net of provisions to capital	5.2	2.2	5.7	4.4	3.1	1.9	3.8	3.7	2.9	2.6	1.5
Coverage ratio (provisions as percent of nonperforming loans)	58.4	86.2	75.0	80.4	86.2	91.7	86.1	86.4	89.0	90.3	94.4
Earnings and profitability											
Return on assets (ROA)	1.5	1.5	1.3	1.1	0.8	0.8	0.8	1.4	1.3	1.3	1.2
Return on equity (ROE) 2/	16.1	15.2	13.1	11.9	8.6	9.0	9.3	17.3	15.7	15.8	15.1
Interest income to gross income	70.9	72.1	72.5	71.6	72.2	73.9	74.4	72.0	71.5	72.3	72.8
Non-interest expenses to gross income	62.0	63.3	63.1	63.5	65.7	64.1	63.7	59.5	59.6	59.5	59.8
Liquidity											
Liquid assets to total assets	32.3	29.8	32.0	29.3	29.2	28.3	33.2	32.8	33.0	33.7	33.2
Liquid assets to total deposits	41.6	38.6	40.9	37.7	37.2	36.9	42.1	41.9	41.9	42.7	42.0
Liquid assets to short-term liabilities	43.0	42.2	45.5	43.0	42.2	41.4	47.5	46.3	46.8	47.4	47.2

Source: Palestine Monetary Authority.

1/ Nonperforming loans includes loans more than 90 day overdue.

2/ Return on equity (ROE) is a ratio of income before extraordinary items and taxes to average Tier 1 capital.

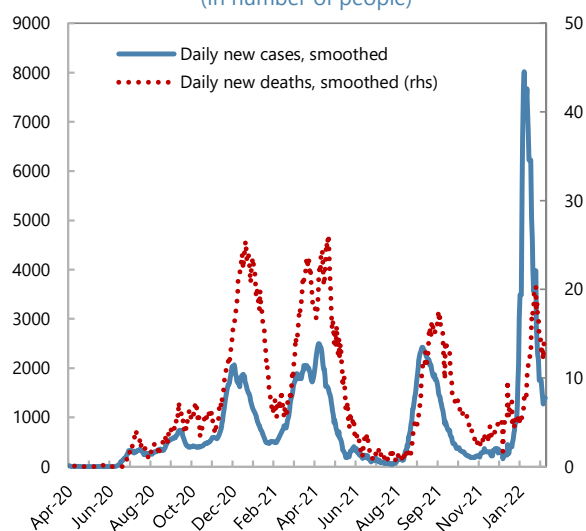
Annex I. COVID-19 Vaccine Rollout^{1,2}

1. West Bank and Gaza benefited from the multilateral COVAX initiative for vaccine procurement as well as other donations. After receiving its first batch of vaccines from the global COVAX initiative, the PA officially kickstarted its vaccine campaign in March 2021, targeting medical workers, the elderly, as well as patients with cancer and kidney diseases. Vaccine doses were split between the West Bank and Gaza based on the National Vaccine Deployment Plan. The PA also received several bilateral vaccine donations from countries including China, the UAE and Jordan, and in Spring 2021 Israel vaccinated over 100,000 Palestinian workers who hold permits to work in Israel. The vaccination rate picked up in August 2021 when millions of vaccines from COVAX and PA additional purchases were delivered. By end-February 2022, some 8.4 million doses had been delivered, averaging 2.4 doses per target population.³ With the rapid increase in the fully vaccinated population, the Omicron-wave peaked in early February after which it quickly dropped off. However, this also coincides with low level of testing, as testing mainly focused on symptomatic or hospitalized cases. The test positivity rate reached over 35 percent in late February while fatality rate in February stood at 0.35 percent.

2. PA measures promoted vaccination, but vaccine allocation resulted in divergent progress between the West Bank and Gaza.

The PA took several measures that helped speed up vaccine administration, including building a vaccine registration portal early on, helping set up 120 vaccination centers in the West Bank and 40 in Gaza, making vaccination compulsory for civil servants in the West Bank (and prohibiting entry of unvaccinated civil servants in public institutions), allowing traveling between the West Bank and Jordan only for immunized people and making vaccines available for children aged 12 years and above. By end-February 2022, around 2 million Palestinians had received at least one shot, representing around 57 percent of the targeted population (1.3 million or 66 percent of target population in the West Bank and 0.7 million or 45 percent of target population in the Gaza strip). Some 1.7 million people (49 percent) have been fully vaccinated (1.2 million or 62 percent of target population in the West Bank, and 0.5 million or 33 percent in Gaza).

West Bank and Gaza: COVID Cases and Deaths
(In number of people)



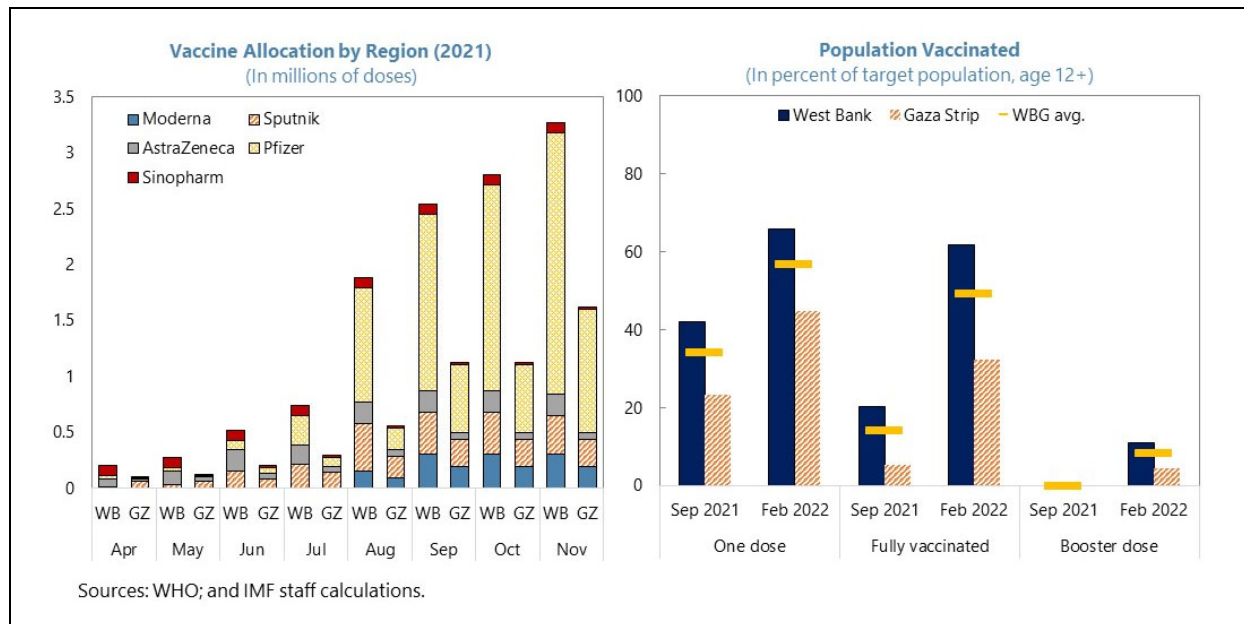
Sources: Our World in Data (OWID).

¹ Prepared by Jiayi Ma and Hania Qassis.

² As of February 28, 2021, based on WHO COVID-19 situation reports; <http://www.emro.who.int/opt/information-resources/COVID-19-situation-reports.html>.

³ The target population comprises individuals 12 years and above.

3. The booster campaign is off to a slow start. In the face of the more contagious Omicron COVID variant, administration of the third “booster” dose to priority groups (elderly, medical staff and chronically sick people) is ongoing. But there is a need to speed up the booster campaign. As of end-February 2022, only 290,000 Palestinians or 8.3 percent of the population had received a booster shot.



Annex II. Risk Assessment Matrix¹

Nature/Sources of Risk	Relative Likelihood	Expected Impact If Realized	Policies to Mitigate Risks
Domestic Risks			
The PA's fiscal trajectory remains unaltered.	High	High Large fiscal deficits persist, financed by a rapidly increasing stock of arrears. Cascading arrears cause all-round liquidity shortages, damaging growth and financial stability. Debt (including arrears) is unsustainable.	Pursue gradual fiscal consolidation, centered on expenditure reform. Take stock of arrears and devise a strategy to clear them. Ensure the banking system remains well capitalized.
Fiscal crisis spilling over to the banking sector	Medium/High	High The PA's fiscal trajectory, if unchecked, could hurt banks' asset quality given the banking sector's high direct and indirect exposure to the PA, potentially undermining financial stability and harming economic growth.	Ensure that the banking system remains well capitalized. Gradually reduce banks' exposure to the PA. Strengthen bank supervision and crisis management capacity.
Reduced financial services by Israeli correspondent banks	High	High Loss of Israeli-Palestinian correspondent bank relations would lead to trade and financial disruption which would encourage a further shift into cash/informality. As a result, WBG's financial system would suffer, harming growth.	Strengthen the AML/CFT framework and build implementation capacity, including with technical assistance. Work with Israeli counterparts to strengthen cross-border payment systems.
Escalating social tensions due to lack of opportunities or prospects for peace	High	High Unemployment, poverty, frustration with the lack of progress on the peace process and dissatisfaction with domestic politics may lead to the escalation of civil unrest or another confrontation with Israel. This would undermine growth and intensify the humanitarian crisis in Gaza.	Sound macroeconomic management and economic reform could help instill confidence and alleviate economic strain at the margin. However, economic policies can do little to mitigate discontent with the political situation and the lack of progress on peace.

¹ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Nature/Sources of Risk	Relative Likelihood	Expected Impact If Realized	Policies to Mitigate Risks
Israel tightens restrictions on movement of good and people further	Medium	High In response to unrest or renewed conflict, Israel may shut the border to people and constrain goods traffic further. Economic growth would be hit hard and quickly. Many Palestinian guest workers would lose their income, lowering transfers into WBG.	The authorities could try to seek additional grants to be able to partially compensate the population for the associated additional hardship.
Donor support remains low or declines further	High	Medium Donor support remains at its current low level or declines further. This would make the implementation of a reform agenda more difficult. Given that donor grants already stand at historic lows, the impact of a further decrease would worsen the baseline only modestly.	Pursue a comprehensive reform agenda that improves the macroeconomic situation. Entice donors to contribute to this turn around through increased grants.
Global Risks			
Outbreak of lethal and highly contagious COVID-19 variants lead to subpar and volatile growth.	High	Medium/High Recurring waves of the pandemic caused by new lethal and highly contagious COVID variants and associated with mandatory or voluntary restriction of economic activity would hurt growth, lead to job losses, adversely impact public finances, and could undermine bank asset quality.	Provide temporary targeted support to those in need by shifting spending away from lower priority areas, provided the fiscal situation allows it. Strengthen banking sector crisis management capacity.
Sharp increases in food and fuel prices, driven by the war in Ukraine	High	Medium The global disruption in commodities markets as a consequence of the war in Ukraine and associated sanctions on Russia cause a spike in international wheat and oil prices, leading to sharp increases in retail prices of gasoline, flour, and bread.	Provide targeted and temporary support, provided the fiscal situation allows it.

Annex III. Debt Sustainability Analysis¹

This debt sustainability analysis (DSA)² suggests that with unchanged policies debt will rise from 34.5 percent of GDP pre-COVID to about 65 percent of GDP by 2027. A debt stock of this magnitude is unsustainable, as West Bank and Gaza has a narrow revenue base, the amount of clearance revenues received is subject to considerable uncertainty due to Israeli deductions, and economic growth is hindered by extensive structural restrictions, including on the mobility of labor, goods and capital. The associated high gross financing needs present a key vulnerability. Moreover, West Bank and Gaza is subject to considerable shocks, mainly related to political developments, which can further worsen debt sustainability.

Structure of Public Debt

- 1. The COVID pandemic and spending policies have led to a sharp increase in the stock of public debt.** At end-2021, gross public debt³ was estimated at 49.3 percent of GDP compared to 34.5 percent of GDP in 2019, before the onset of the pandemic. The increase in debt is the result of a deep 2020 recession, increased COVID-related spending needs (e.g., vaccine purchases, support to vulnerable groups), as well as policy decisions (e.g., reinstatement of full wages for about 6,000 civil servants in Gaza) and political tensions.
- 2. There is considerable uncertainty about the arrears component in the stock of government debt.** Domestic arrears are primarily to suppliers, contractors, the pension fund, and PA employees. Expenditure arrears are defined as the difference between spending on a commitment and cash bases. Pension fund arrears comprise civil servant and security personnel pensions and encompass required government and employee contributions that the government has not transferred to the pension fund. The size of the arrears is uncertain because of conflicting cross claims and data weaknesses. A reconciliation process is underway. The authorities accumulate new arrears on a regular basis reflecting high deficits and lack of financing options.
- 3. Arrears represents the main source of new financing assumed in this DSA.** Additional domestic bank financing is assumed to be limited as banks' exposure to the PA is already above prudential limits (¶11), but existing bank debt is assumed to be rolled over. The government also is unable to issue securities in domestic or international markets. Given the limited financing options, the authorities are assumed to use arrears as the main source of new financing. The DSA assumes no penalties or interest accruing on these arrears. On pension arrears a committee consisting of the MoF and the pension authority is discussing accrued penalties and interest, and the outcome of these discussions cannot currently be quantified. Arrears to suppliers and wage arrears do not currently accrue interest and hence no interest rate can be imputed. A contingent liability shock in

¹ Prepared by Iacovos Ioannou.

² This DSA uses the Market Access Countries DSA template developed by the IMF; it is based on preliminary data at end-2021, and estimated and actual 2021 debt flow data.

³ Debt coverage includes accounts payable and pension liabilities in line with the IMF's *Public Sector Debt Statistics: Guide for Compilers and Users* (2013).

which the debt stock in 2022 is 5 percent of GDP higher than currently projected and subject to penalties, interest, and other arrears-related charges is included in the DSA to account for the added risks related to the size of arrears.

4. The composition of public debt is increasingly skewed toward domestic debt.

- Domestic debt (including arrears) represented 85 percent of total debt at end-2021, with arrears constituting the largest component. Most of the arrears were to the pension fund and represented unfunded liabilities. Formal debt to the banking sector increased modestly in 2021 as banks were constrained from lending large amounts to the government due to prudential limits.

- External debt represented 15 percent of total debt. Some 86 percent of foreign debt is long term. The biggest creditor is the Al Aqsa Fund (39 percent of external debt), followed by the World Bank and the Qatar National Bank (each with about 20 percent). Bilateral creditors (Italy, Spain) account for about 12 percent of external debt.

West Bank and Gaza: Total Debt Liabilities of the PA

(In percent of GDP)

	2019	2020	2021
Gross debt liabilities	34.5	47.3	49.3
Domestic debt	27.6	39.3	42.1
Loans and overdraft	8.9	14.0	13.7
Arrears 1/	18.6	25.3	28.4
External debt	6.9	8.0	7.2

Sources: Ministry of Finance; and IMF staff estimates.

1/ Figures are estimates due to insufficient official data.

Macroeconomic Outlook

5. The macroeconomic outlook has deteriorated and poses challenges for the management of debt of this magnitude. Under unchanged policies, real growth is projected to gradually decrease from 4 percent in 2022 to 2 percent over the medium term, while inflation is expected to slowly decline to 2 percent. The large fiscal deficits in 2020–21, which were in part driven by COVID-related spending, are expected to come down somewhat, but will stay high at 5–6 percent of GDP. Moreover, under unchanged policies, the fiscal deficit is expected to gradually worsen over time. There are considerable fiscal risks associated with the baseline forecast. These include the possibility of political unrest which may endanger growth, higher than currently expected deductions of clearance revenues related to prisoner payments, and a stock of arrears which may be larger than currently estimated by staff.

Debt Sustainability

6. Under the baseline scenario, gross public debt is projected to increase to about 65 percent of GDP by 2027—an increase of more than 15 percentage points of GDP over 6 years. Both the level and the rate of increase of debt would pose significant challenges for the Palestinian economy, in particular because of institutional and policy constraints. Specifically, West Bank and Gaza has a narrow revenue base, a considerable share of the revenues collected on its behalf by

Israel is subject to deductions which are often unpredictable⁴, and economic growth is hindered by restrictions on the movement of goods and people. Lack of financing options, donor dependence, and limited fiscal policy instruments further complicate debt management.

7. West Bank and Gaza is vulnerable to many shocks which could worsen the debt outlook even further. A growth shock, that illustrates the materialization of key risks, would push the level of public debt to 78 percent of GDP by 2027. A combined macro-fiscal shock, that adds a temporary fiscal deterioration to the growth shock, results in a public debt level of more than 85 percent of GDP by 2027. Similarly, a contingent liability shock in which a one-time upfront increase in the stock of debt leads to lower growth and higher funding costs for the government would push debt to about 80 percent of GDP by 2027. A “political unrest” shock, which aims to mimic the shocks that West Bank and Gaza experienced in recent years, suggests that even a temporary but sizable shock can lead to a sharp deterioration in deficits and debt numbers. The authorities would likely be unable to manage such large shocks given limited policy tools and the absence of policy buffers. Hence, the economy would be prone to severe economic downturns with serious political and social consequences.

⁴ In the case of deductions for prisoner payments, the amounts are revisited each year.

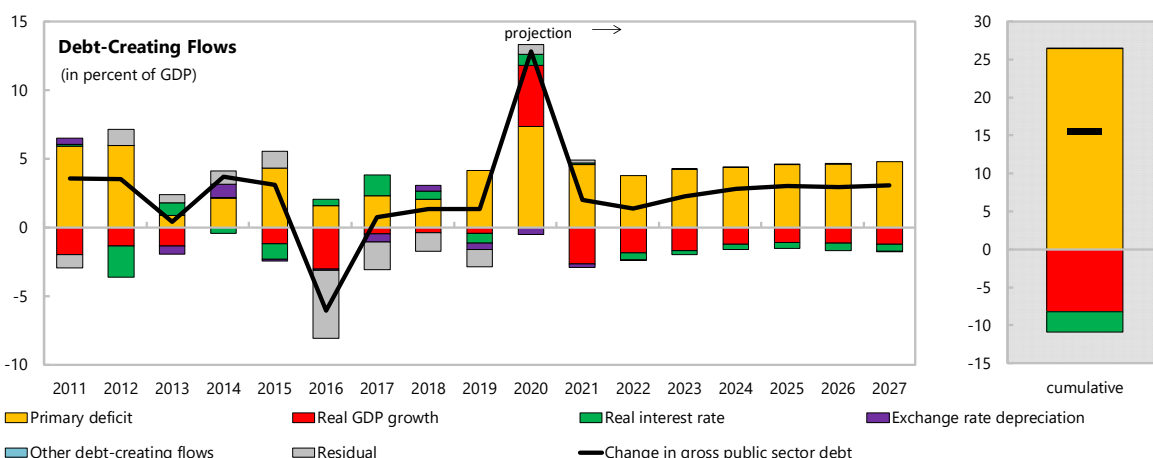
West Bank and Gaza: Public Sector Debt Sustainability Analysis—Baseline Scenario (In percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators ^{1/}

	Actual			Projections						As of December 31, 2021		
	2011-2019 ^{2/}	2020	2021	2022	2023	2024	2025	2026	2027			
Nominal gross public debt	32.0	47.3	49.3	50.7	53.0	55.8	58.8	61.8	64.8	Sovereign Spreads		
										EMBIG (bp) ^{3/}		
Public gross financing needs	9.5	17.5	17.2	17.0	18.4	16.0	20.7	20.9	19.3	5Y CDS (bp)		
Real GDP growth (in percent)	4.1	-11.3	6.0	4.0	3.5	2.4	2.0	2.0	2.0	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	1.9	-1.3	1.3	2.9	2.5	2.4	2.3	2.3	2.0	Moody's	n.a.	n.a.
Nominal GDP growth (in percent)	6.1	-12.5	7.4	7.0	6.0	4.8	4.4	4.4	4.1	S&Ps	n.a.	n.a.
Effective interest rate (in percent) ^{4/}	1.4	0.9	1.6	1.8	1.9	1.7	1.5	1.4	1.2	Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							cumulative, 2022-27	debt-stabilizing primary balance ^{9/}
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027			
Change in gross public sector debt	1.3	12.8	2.0	1.4	2.3	2.8	3.0	3.0	3.1	15.6	-1.5	
Identified debt-creating flows	2.0	12.1	1.8	1.4	2.3	2.8	3.0	2.9	3.1	15.5		
Primary deficit	3.3	7.4	4.6	3.8	4.3	4.4	4.6	4.6	4.8	26.4		
Primary (noninterest) revenue and grants	26.3	25.1	25.7	26.3	25.5	25.5	25.5	25.5	25.5	153.9		
Primary (noninterest) expenditure	29.6	32.5	30.3	30.1	29.8	29.9	30.0	30.2	30.3	180.3		
Automatic debt dynamics ^{5/}	-1.2	4.7	-2.8	-2.4	-2.0	-1.6	-1.5	-1.7	-1.7	-10.9		
Interest rate/growth differential ^{6/}	-1.2	5.3	-2.6	-2.4	-2.0	-1.6	-1.5	-1.7	-1.7	-10.9		
Of which: real interest rate	-0.1	0.8	0.1	-0.5	-0.3	-0.4	-0.4	-0.5	-0.5	-2.7		
Of which: real GDP growth	-1.1	4.5	-2.6	-1.8	-1.7	-1.2	-1.1	-1.2	-1.2	-8.2		
Exchange rate depreciation ^{7/}	0.0	-0.5	-0.3	...	...	...	...	...	...	...
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Please specify (1) (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Please specify (2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual, including asset changes ^{8/}	-0.7	0.7	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0		



Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r))/(1+g+\pi+g\pi)]$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate;

a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

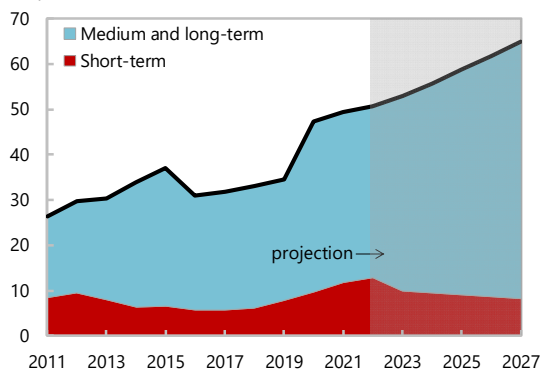
9/ Debt stabilizing primary balance in 2025.

West Bank and Gaza: Public Debt Sustainability Analysis —Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

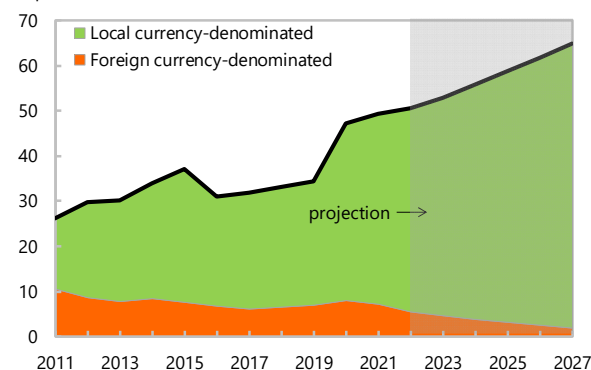
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)



Alternative Scenarios

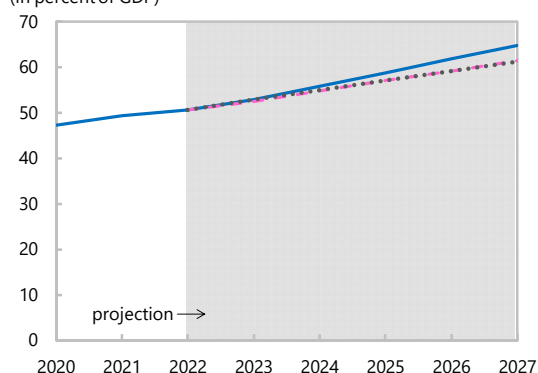
— Baseline

..... Historical

- - - Constant Primary Balance

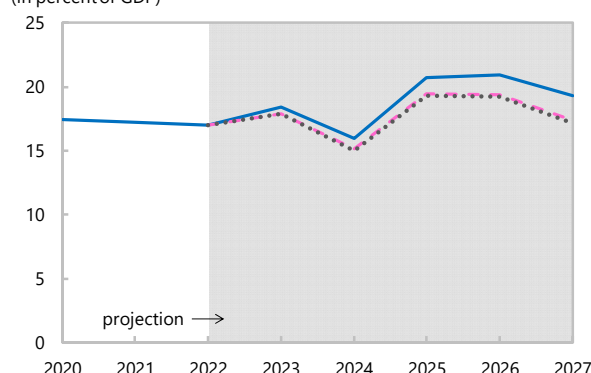
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

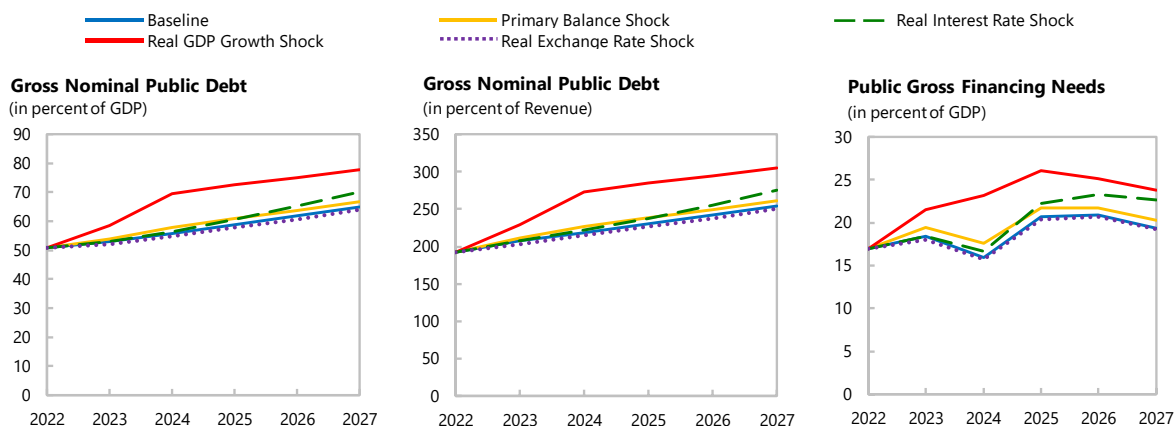
(in percent)

	2022	2023	2024	2025	2026	2027
Baseline Scenario						
Real GDP growth	4.0	3.5	2.4	2.0	2.0	2.0
Inflation	2.9	2.5	2.4	2.3	2.3	2.0
Primary Balance	-3.8	-4.3	-4.4	-4.6	-4.6	-4.8
Effective interest rate	1.8	1.9	1.7	1.5	1.4	1.2
Constant Primary Balance Scenario						
Real GDP growth	4.0	3.5	2.4	2.0	2.0	2.0
Inflation	2.9	2.5	2.4	2.3	2.3	2.0
Primary Balance	-3.8	-3.8	-3.8	-3.8	-3.8	-3.8
Effective interest rate	1.8	1.9	1.7	1.5	1.4	1.3
Historical Scenario						
Real GDP growth	4.0	2.2	2.2	2.2	2.2	2.2
Inflation	2.9	2.5	2.4	2.3	2.3	2.0
Primary Balance	-3.8	-3.5	-3.5	-3.5	-3.5	-3.5
Effective interest rate	1.8	1.9	1.9	1.8	1.7	1.6

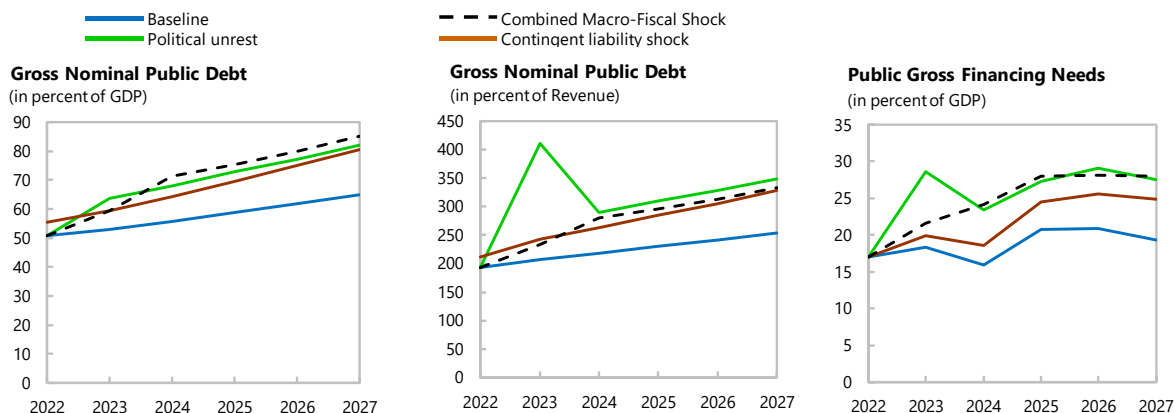
Source: IMF staff.

West Bank and Gaza: Public Debt Sustainability Analysis—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2022	2023	2024	2025	2026	2027		2022	2023	2024	2025	2026	2027
Primary Balance Shock							Real GDP Growth Shock						
Real GDP growth	4.0	3.5	2.4	2.0	2.0	2.0	Real GDP growth	4.0	-2.0	-3.1	2.0	2.0	2.0
Inflation	2.9	2.5	2.4	2.3	2.3	2.0	Inflation	2.9	1.1	1.0	2.3	2.3	2.0
Primary balance	-3.8	-5.3	-5.4	-4.6	-4.6	-4.8	Primary balance	-3.8	-6.4	-8.8	-4.6	-4.6	-4.8
Effective interest rate	1.8	1.9	1.7	1.6	1.4	1.2	Effective interest rate	1.8	1.9	1.8	1.8	1.5	1.3
Real Interest Rate Shock							Real Exchange Rate Shock						
Real GDP growth	4.0	3.5	2.4	2.0	2.0	2.0	Real GDP growth	4.0	3.5	2.4	2.0	2.0	2.0
Inflation	2.9	2.5	2.4	2.3	2.3	2.0	Inflation	2.9	6.5	2.4	2.3	2.3	2.0
Primary balance	-3.8	-4.3	-4.4	-4.6	-4.6	-4.8	Primary balance	-3.8	-4.3	-4.4	-4.6	-4.6	-4.8
Effective interest rate	1.8	1.9	3.1	3.5	4.3	4.5	Effective interest rate	1.8	1.9	1.7	1.5	1.3	1.2
Combined Shock							Contingent liability shock						
Real GDP growth	4.0	-2.0	-3.1	2.0	2.0	2.0	Real GDP growth	4.0	2.5	1.4	1.0	1.0	1.0
Inflation	2.9	1.1	1.0	2.3	2.3	2.0	Inflation	2.9	2.5	2.4	2.3	2.3	2.0
Primary balance	-3.8	-6.4	-8.8	-4.6	-4.6	-4.8	Primary balance	-3.8	-5.3	-5.4	-5.6	-5.6	-5.8
Effective interest rate	1.8	1.9	3.1	3.6	4.3	4.5	Effective interest rate	1.8	2.5	2.8	2.8	3.0	3.0

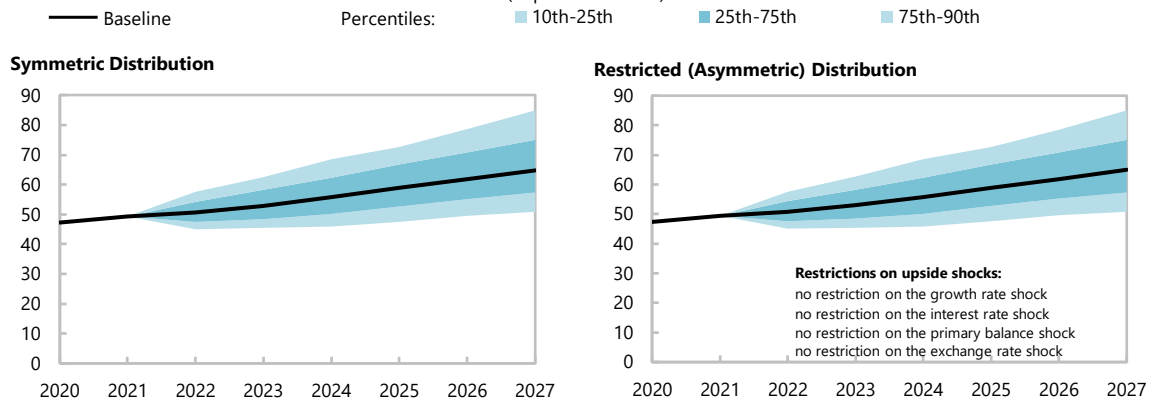
Source: IMF staff.

West Bank and Gaza: Public Debt Sustainability Analysis—Risk Assessment

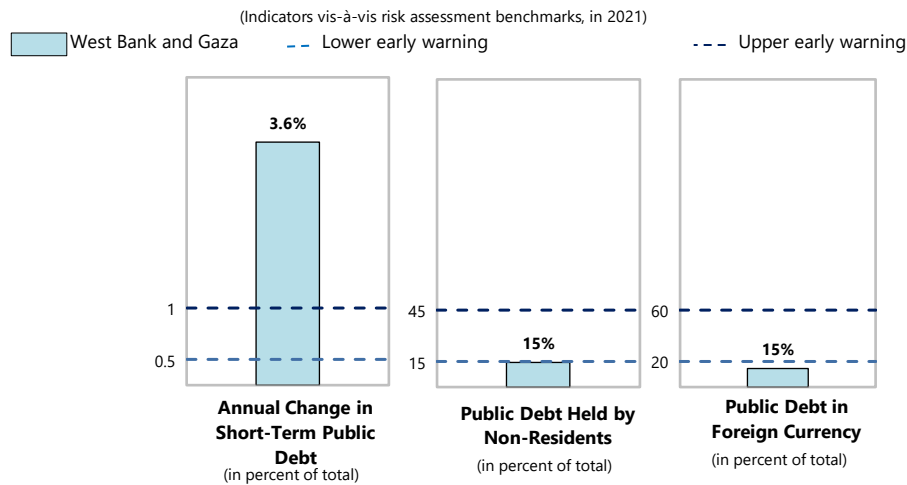
Heat Map

Debt level ^{1/}	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs ^{2/}	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile ^{3/}	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

Evolution of Predictive Densities of Gross Nominal Public Debt (in percent of GDP)



Debt Profile Vulnerabilities



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are: 200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

Annex IV. Growth Under Reform Scenarios¹

1. Staff designed an illustrative policy package and estimated growth under scenarios that include ambitious fiscal and structural reform, easing of restrictions on the movement of goods and people, and increased donor funding. These reforms include:

- Adoption and implementation of new legislation that eases and speeds licensing, improves the insolvency regime, and strengthens protection of minority investors, boosting private investment, including foreign direct investment.
- Steady easing of restrictions on movement of goods and services between West Bank and Gaza and Israel by expanding the lists of A1/A2/B goods² and curtailing the dual use list for both the West Bank and Gaza; and allowing free movement of agricultural and industrial goods.³
- Smoothing customs clearance and inspection.
- Allowing higher labor mobility between West Bank and Gaza and Israel.
- Improved access to land and water in Area C, elimination of physical, legal, regulatory, and bureaucratic constraints to Palestinian investment in the area, and lower transportation costs, with less checkpoints and use of all roads.

2. The supply-side decomposition of these reforms' impact on West Bank and Gaza's growth was estimated using a production function approach. The standard production function comprises labor, capital, and total factor productivity, so that

$$Y_t = A_t K_t^\alpha L_t^{1-\alpha}$$

where Y_t is annual output growth, A_t is total factor productivity, L_t is employment, K_t is the capital stock, and α is the output share of capital, which was set at 0.33. The perpetual inventory method was used to estimate the West Bank and the Gaza capital stocks over time, adjusting the capital stocks by adding investment and subtracting capital depreciation, with an initial assumed capital-output ratio of 3.⁴ The annual depreciation rate was set at 3 percent plus 5 percent additional depreciation during years of conflict. The 3 percent annual depreciation rate is in line with Penn

¹ Prepared by Karen Coulibaly.

² According to the Paris Protocol, A1/A2 goods are those for which the PA can have an independent import policy (set import tax rates, standards, licensing, and other regulations) for quantities imported that are below a ceiling agreed with the Government of Israel. Israeli import policy applies to A1/A2 goods imported in quantities exceeding the ceilings. Goods on list B are those for which the PA can set import tax rates.

³ To place this in perspective, it is important to recall that the WBG enjoyed mostly free and unhindered trade with Israel from the onset of occupation in 1967 until the early 1990s.

⁴ Penn World Tables' estimated ratios in 1994 were 4.1 for West Bank and Gaza, 1.5 for Egypt, 2.9 for Jordan and 5.7 for Lebanon. WBG is not in the IMF Fiscal Affairs Department's Investment and Capital Stock Database, but the assumed ratio was similar to those of WBG peers in the database.

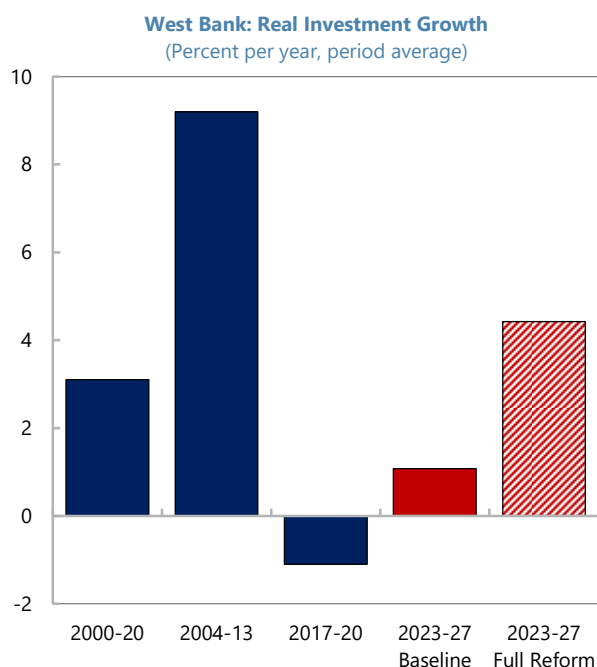
World Tables regional estimates.⁵ The additional depreciation was applied to the both the West Bank and Gaza stocks in 2000–02 (during the second Intifada), but only to the Gaza Strip’s capital stock during the 2008–09, 2012, 2014, and 2021 conflicts.

3. Estimation of the impact of reforms on labor, capital and total factor productivity growth drew on a 2017 World Bank study,⁶ adjusting for differences in underlying assumptions and reforms included in the scenarios.

Levels of employment, investment and TFP were modified sequentially, adding the impact of each policy reform one at a time, starting from the baseline scenario to build a full reform scenario that includes all the envisaged PA fiscal and structural measures as well as benefits from Palestinian-Israeli agreement on key issues and assumed support from the donor community.

4. The main drivers of growth would be capital and labor, with modest contribution from total factor productivity (TFP). Policy changes are assumed to have an impact (and growth under the reform scenarios estimated to deviate from growth under the baseline) from 2023 onward as follows:

- Structural reforms and crowding in from higher development spending would increase private investment, in part financed through higher capital inflows. Together with the increased public development spending, higher private investment would raise the investment to GDP ratio from 24.5 percent in 2017–20 to 32 percent, compared to 23 percent on average over 2023–27 in the baseline scenario. The investment growth is assumed to be concentrated in the West Bank. Even under these reforms, investment growth would remain well-below historical growth numbers in the 2004–13 high-growth period (Text Figure).



Sources: PCBS; and IMF staff estimates.

- Labor would be less affected by the combination of reforms. The impact of higher labor mobility between the West Bank and Israel would offset the impact of the reforms to improve the business environment, as a significant number of Palestinians would start to work in Israel and settlements, where wages are higher than in the Palestinian private sector, and skills mismatches in the Palestinian labor market

⁵ Depreciations rates according to the Penn World Tables were 5.5 percent for Egypt, 3.2 percent for Jordan, 3.5 percent for Lebanon and 3.3 percent for West Bank and Gaza on average over 1994-2020.

⁶ Available at <https://openknowledge.worldbank.org/handle/10986/2195>.

would remain. All in all, labor's contribution to growth is expected to increase by 0.3 percentage points to 2.5 percentage points on average, compared to 2.2 percent points under the baseline).

- TFP growth is assumed to increase to 0.5 percent per year compared to its 20-year average of 0.1 percent. Still, it will remain well-below the 2004–13 high-growth period TFP average of 3.4 percent per year (Text Figure).
- Overall, these reforms would gradually increase the economy's growth rate to 6 percent of GDP.

5. These results are robust to changes in both assumptions and estimation methods. The impact of reforms on the output level in 2027 is similar with two different supply-side estimation approaches. Staff's estimates using data from the World Bank's 2017 computable general equilibrium (CGE) analysis give a real GDP level that is higher by USD 2.8 billion (in 2015 US dollars) in 2027 than in the baseline, compared to between USD 2 billion and USD 3.1 billion in a 2014 World Bank study.⁷ Increasing the rate of depreciation of capital in staff's growth accounting model from the 3 percent regional peer average to 5 percent lowered the projected growth rate over 2023–2027 by just 0.1 percent per year. Staff estimates are also consistent with estimated impact of public investment on domestic private investment and foreign direct investment using structural vector autoregressive models, as, e.g., in Blanchard and Perotti (2002).⁸

6. The analysis was not conducted separately for the West Bank and the Gaza Strip and further policy actions could drive growth even higher. As comparable data on employment broken down by region is not available for earlier years, the analysis was conducted for the entire Palestinian economy, rather than for the West Bank and Gaza separately.⁹ The impact of lifting of the Gaza blockade or reconciliation/reunification were not considered, neither were the effects of increased focus on vocational training to bridge the skill gap in the labor market. Reunification between the West Bank and Gaza could further boost growth but could also increase strain on public finances due to the likely substantial fiscal costs of integration of both territories being larger than the revenue potential from Gaza. The scenarios also do not assume any tax revenue from Area C.

⁷ Available at <https://openknowledge.worldbank.org/handle/10986/18930>. The report gives estimates in 2011 USD between USD 2.2 billion and USD 3.4 billion a year, which are converted to 2015 USD to allow comparison.

⁸ Blanchard, Olivier, and Roberto Perotti, 2002, An Empirical Characterization of the Dynamic Effects of Changes in Government Spending and Taxes on Output, *Quarterly Journal of Economics*, Vol. 117, No. 4 (November), pp. 1329–1368. <http://www.jstor.org/stable/4132480>.

⁹ The Palestinian Central Bureau of Statistics (PCBS) revised their labor market survey methodology and began publishing labor data in line with ILO standards in 2019. Data for 2015–18 following the new standards is available, but PCBS did not collect separate data for discouraged workers before 2014. ILO-compliant labor data (particularly data broken down by region) can thus not be backcasted.

Annex V. IMF Technical Assistance to the Palestinian Authority, 2017–22

The IMF has provided TA to the West Bank and Gaza (WBG) on public financial management (PFM), revenue administration, banking regulation and supervision, stress testing, anti-money laundering and combating the financing of terrorism (AML/CFT), national accounts, and external sector statistics. Technical support was also provided to the Ministry of Finance (MoF)'s macro-fiscal unit in 2018–19. Priorities for capacity building over the medium-term include banking supervision, the development of the national payments system, and AML/CFT. Periodic review and assistance to improve the quality of external sector and national accounts statistics are also needed. LEG, MCM and STA will continue to provide TA on these topics, with support from METAC. FAD is re-assessing current fiscal sector TA needs and priorities but stands ready to deliver TA on key critical areas, including expenditure reform, taxation, macro fiscal planning and cash management.

Mission Date	Mission	Date of TA Report
<p>Fiscal Sector: Significant progress was made in PFM in 2007–16: Legal frameworks were drafted, a Treasury Single Account was adopted, debt management and cash planning units were created, the budget classification and Chart of Accounts were modernized, a computerized financial management information system was developed, accounting and reporting were strengthened, and internal audit departments in ministries as well as an independent external audit agency and a macro-fiscal unit at the MoF were created. A medium-term PFM reform plan was agreed in 2011 and updated for 2014–16. IMF Fiscal TA's key objectives in 2017–19 were to consolidate the progress made, strengthen budget preparation and macro-fiscal forecasting, and boost revenue mobilization by helping modernize tax administration. Technical support was also provided to the MoF's macro-fiscal unit in 2018–19. After a three-year hiatus, FAD TA has resumed in 2022.</p>		
April 3–13, 2017	Budget Preparation and Macro-Fiscal Forecasting	May 2017
April 30–May 11, 2017	Customs Risk Management	May 2017
August 27–31, 2017	Operationalization of the PFM reform strategy	September 2017
September 4–13, 2017	Budget Preparation and Macro-Fiscal Forecasting	October 2017
November 27–December 7, 2017	Budget Preparation and Macro-Fiscal Framework	December 2017
April 8–19, 2018	Supporting the Development of the Macro-Fiscal Unit's Capacity	June 2018
August 12–19, 2018	Supporting the Development of the Macro-Fiscal Unit's Capacity	January 2019
October 28–November 8, 2018	Supporting the Development of the Macro-Fiscal Unit's Capacity	November 2018
February 17–28, 2019	Supporting the Development of the Macro-Fiscal Unit's Capacity	April 2019
March 10–21, 2019	Revenue Administration/Large Taxpayer Office	March 2019

Mission Date	Mission	Date of TA Report
February 18–25, 2022	Training on Improving Tax Compliance in Digital Economy	n.a.
March 14–17, 2022	Virtual Regional Workshop on Public Sector Debt Statistics	n.a.
<p>Monetary and Financial Systems: In 2017–18, TA efforts focused on implementing IFRS9 and preparing for and facilitating the transition to Basel III. MCM TA priorities during 2019–22 were informed and guided by the findings and the recommendations of the Financial Sector Stability Review conducted in 2018 (and the associated technical assistance roadmap). During 2019–22, TA centered on bolstering crisis management arrangements, strengthening banking resolution provision and tools, and improving stress-testing to better reflect specificities of WBG's financial sector and test for multi-factor shocks.</p>		
May 19–22, 2017	Workshop to develop the CFT legal framework of West Bank and Gaza (in Amman, Jordan)	n.a.
September 24–October 3, 2017	Implementation of IFRS9	December 2017
February 25–March 8, 2018	Implementation of IFRS9	March 2018
March 14–23, 2018	Financial Stability/Stress-Testing	March 2018
July 1–5, 2018	Implementation of IFRS9	November 2018
September 23–27, 2018	Basel III	n.a.
October 17–November 1, 2018	Financial Sector Stability Review (FSSR)	May 2019
March 3–7, 2019	CFT framework	n.a.
March 24–28, 2019	Basel III	n.a.
December 3–12, 2019	FSSR Follow-up: Contingency Planning for Crisis Preparedness and Management*	July 2020
January 3–31, 2021	FSSR Follow-Up: Financial Institution Restructuring & Resolution	October 2021
April 26–May 6, 2021	Macro Stress-Testing	n.a.
June 18–September 29, 2021	Macro Stress-Testing	n.a.
May 3–7, 2021	FSSR Follow-Up: Financial Institution Restructuring & Resolution	October 2021
January 9–February 6, 2022	Developing a Crisis Management Plan	n.a.
March 2–17, 2022	Bank Resolution Law Reform	n.a.
March 21–April 29, 2022	National Payment Systems	n.a.
<p>Statistics: TA on statistical issues has focused on implementing and aligning existing statistical compilation and dissemination systems with the latest international statistical standards for national accounts and external sector statistics (ESS) datasets. In general, the transparency and timeliness of the data produced by the Palestinian Central Bureau of Statistics, the MoF, and the PMA are on par with those of countries that</p>		

Mission Date	Mission	Date of TA Report
maintain good data management and dissemination standards, but additional work is needed to improve data consistency in ESS and produce quarterly and annual chain-linked national accounts.		
May 7–11, 2017	National Accounts	n.a.
November 12–16, 2017	Price Indexes	March 2018
December 17–21, 2017	National Accounts	October 2018
March 11–15, 2018	National Accounts	July 2018
June 24–28, 2018	National Accounts	October 2018
July 22–August 2, 2018	External Sector Statistics	October 2018
December 16–20, 2018	Price Statistics	April 2019
February 10–14, 2019	National Accounts	April 2019
December 13–15, 2019	National Accounts	February 2020
June 8–11, 2020	Residential Property Price Indices	August 2020
August 9–13, 2020	Compilation of Input-Output Tables	September 2020
February 21–25, 2021	Re-Chain Linking the National Accounts	April 2021
August 22–September 2, 2021	Institutional Sector Accounts – Sequence of Accounts	November 2021
February 27–March 10, 2022	Institutional Sector Accounts – Sector Accounts	n.a.
n.a. – not applicable.		
* Reports classified as confidential or strictly confidential.		