

Between a Rock and a Hard Place – Recent Economic Developments in the Palestinian Economy

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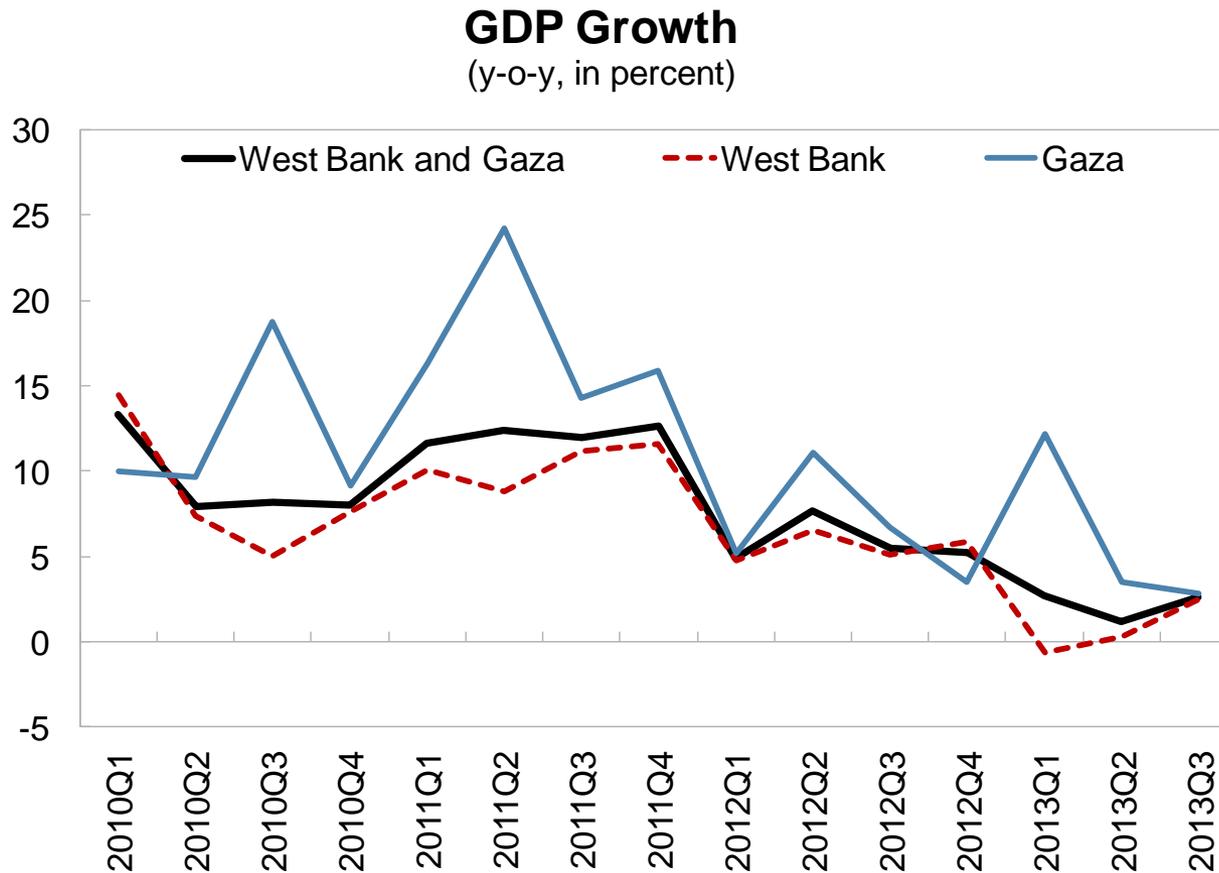


Outline

- Recent economic developments
 - Growth
 - Labor market
 - Public finances
 - Private sector
- Outlook for 2014
- Medium term challenges

Recent economic developments

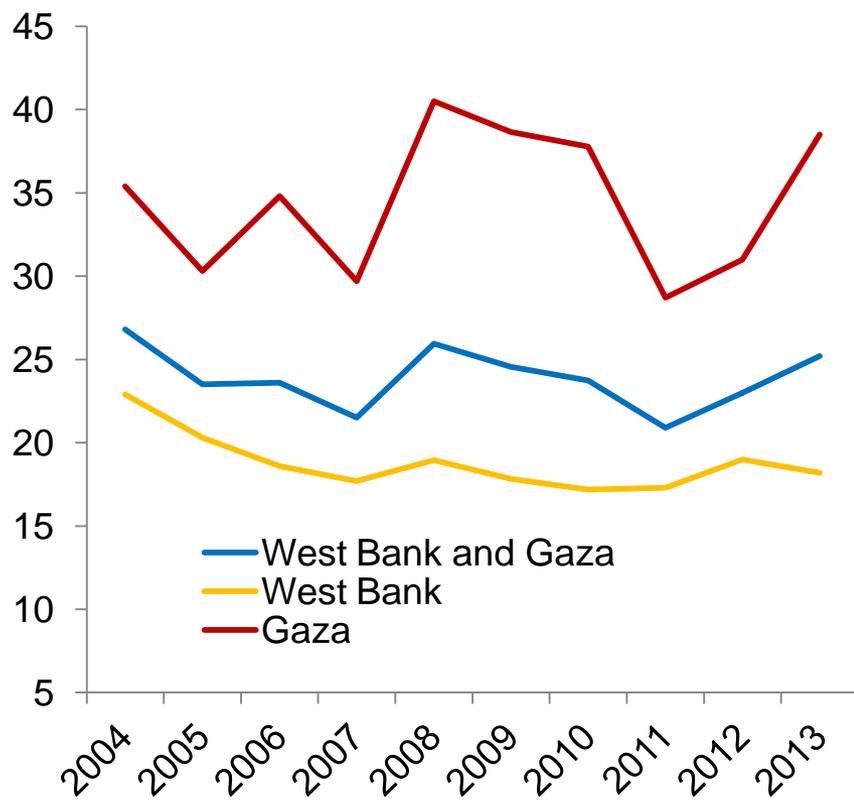
Real GDP growth is weakening



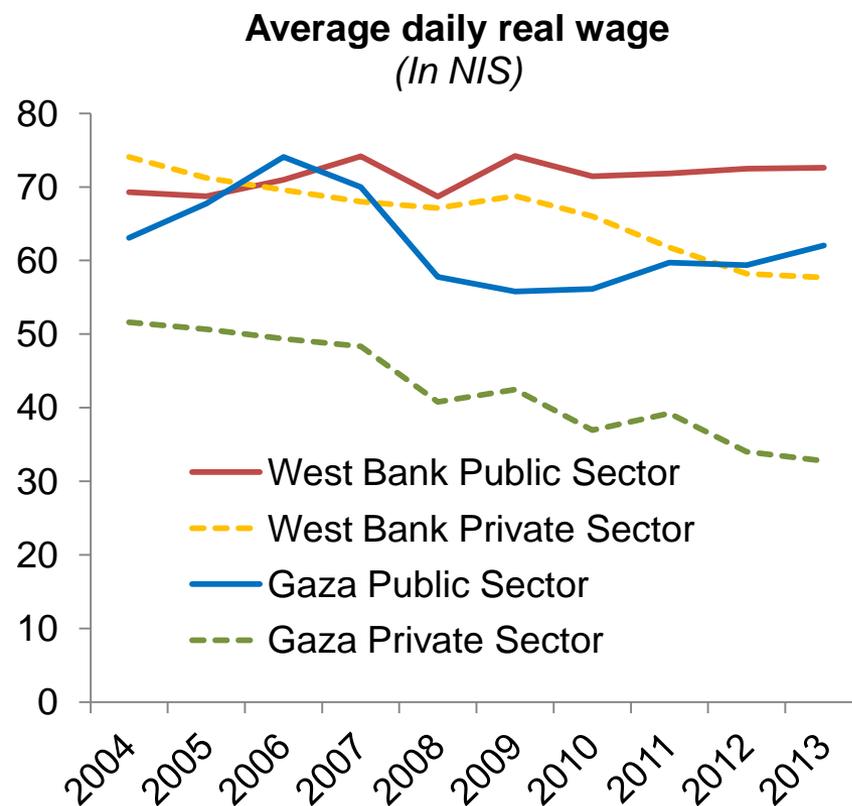
Source: Palestinian Central Bureau of Statistics.

Labor Market

Unemployment remains high...



...and real wages are under pressure.

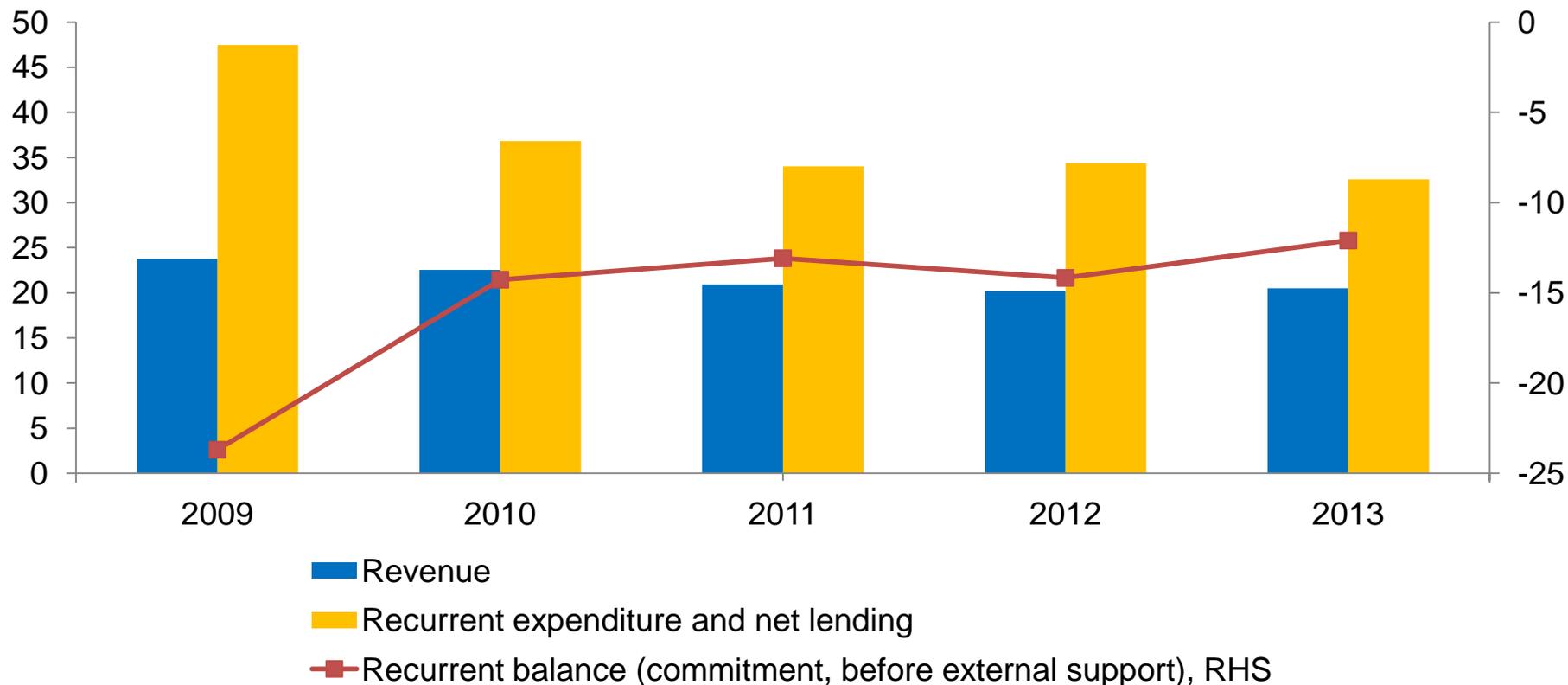


Source: Palestine Central Bureau of Statistics and IMF staff calculations.



Fiscal consolidation is progressing very slowly

Recurrent Balance, Expenditure and Revenue; 2009 - 2013
(In percent of GDP)

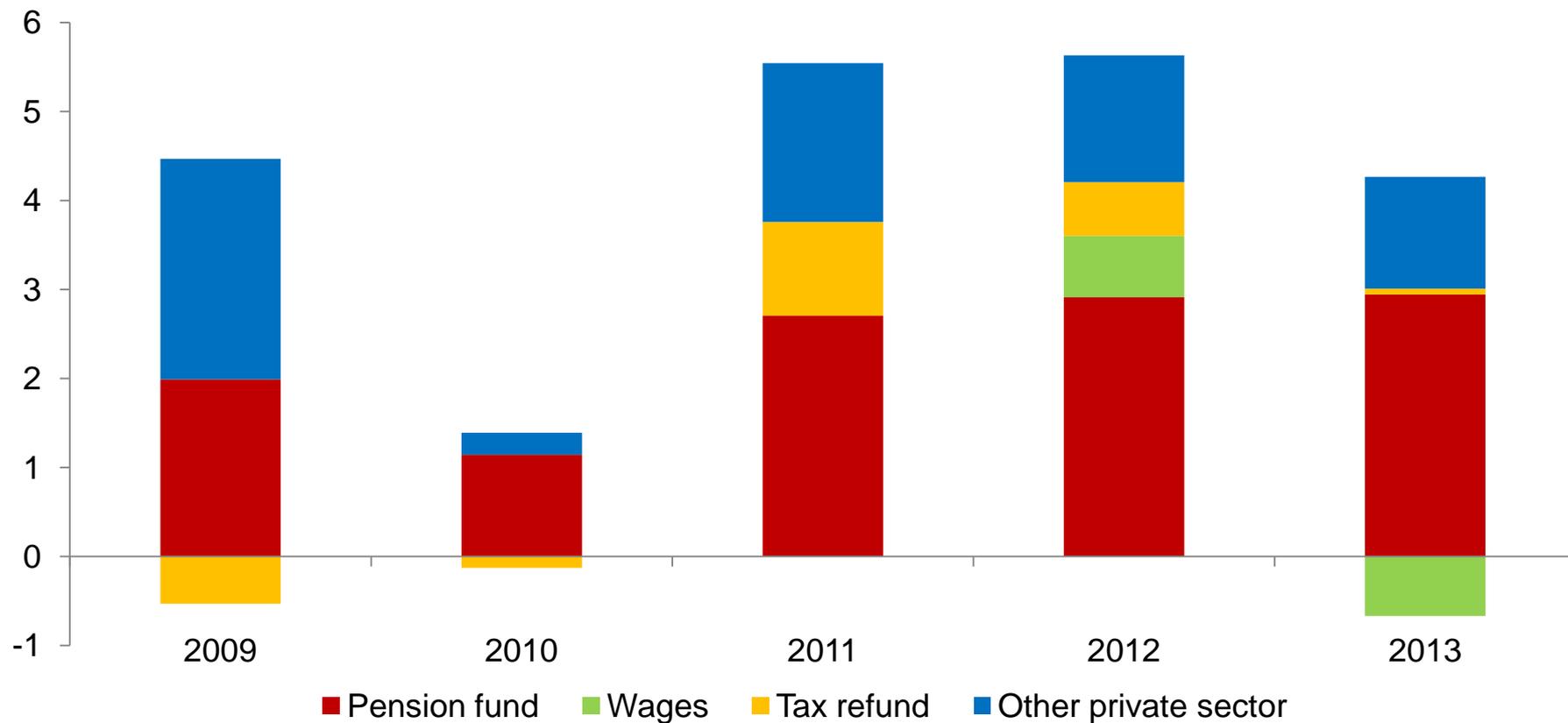


Sources: Palestine Ministry of Finance; and IMF staff calculations.



...but fiscal strains are evident

Composition of Net Arrears Accumulation
(In percent of GDP)

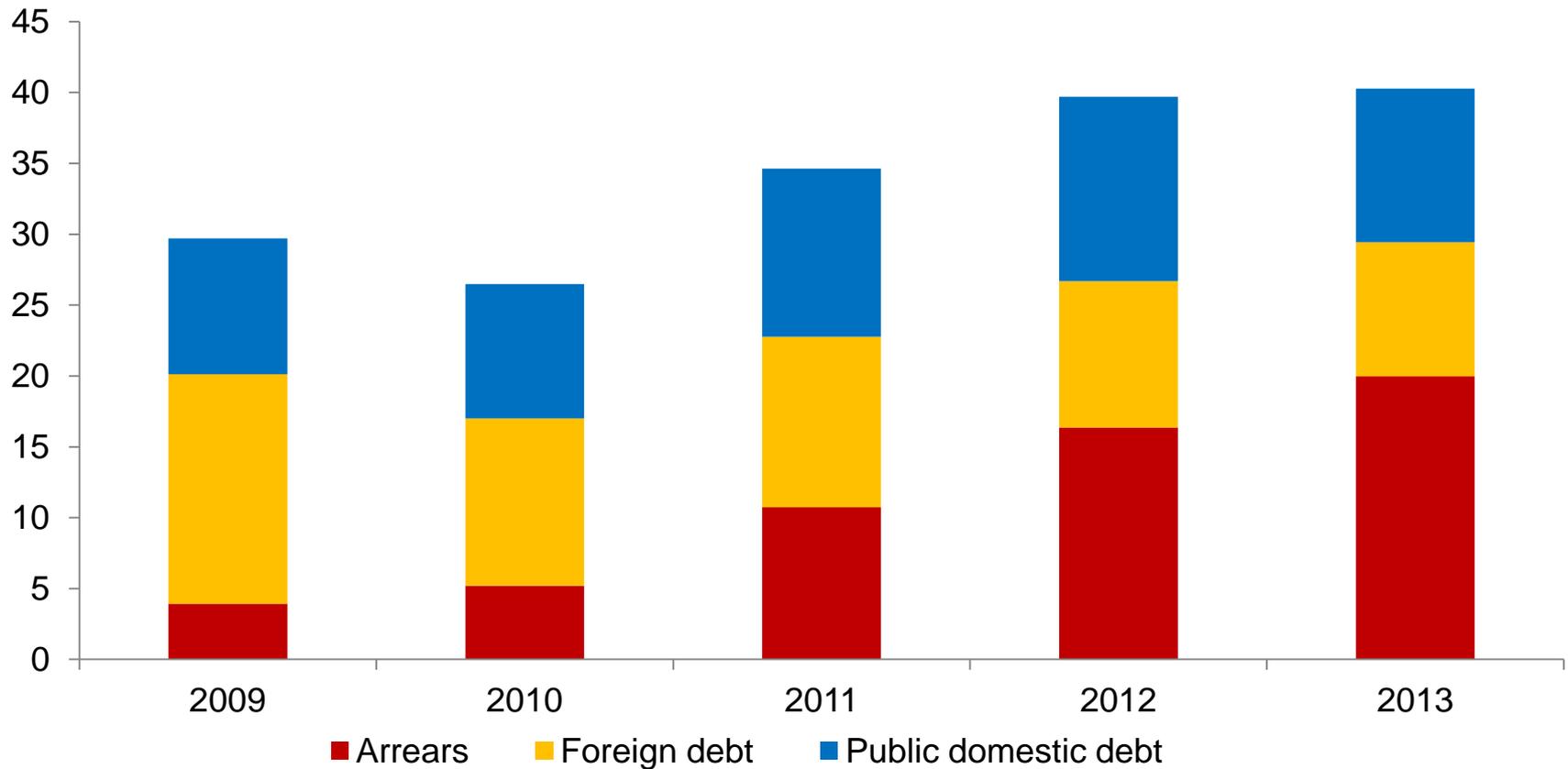


Sources: Palestine Ministry of Finance; and IMF staff calculations.



...and public debt remains high

Public Debt
(In percent of GDP)

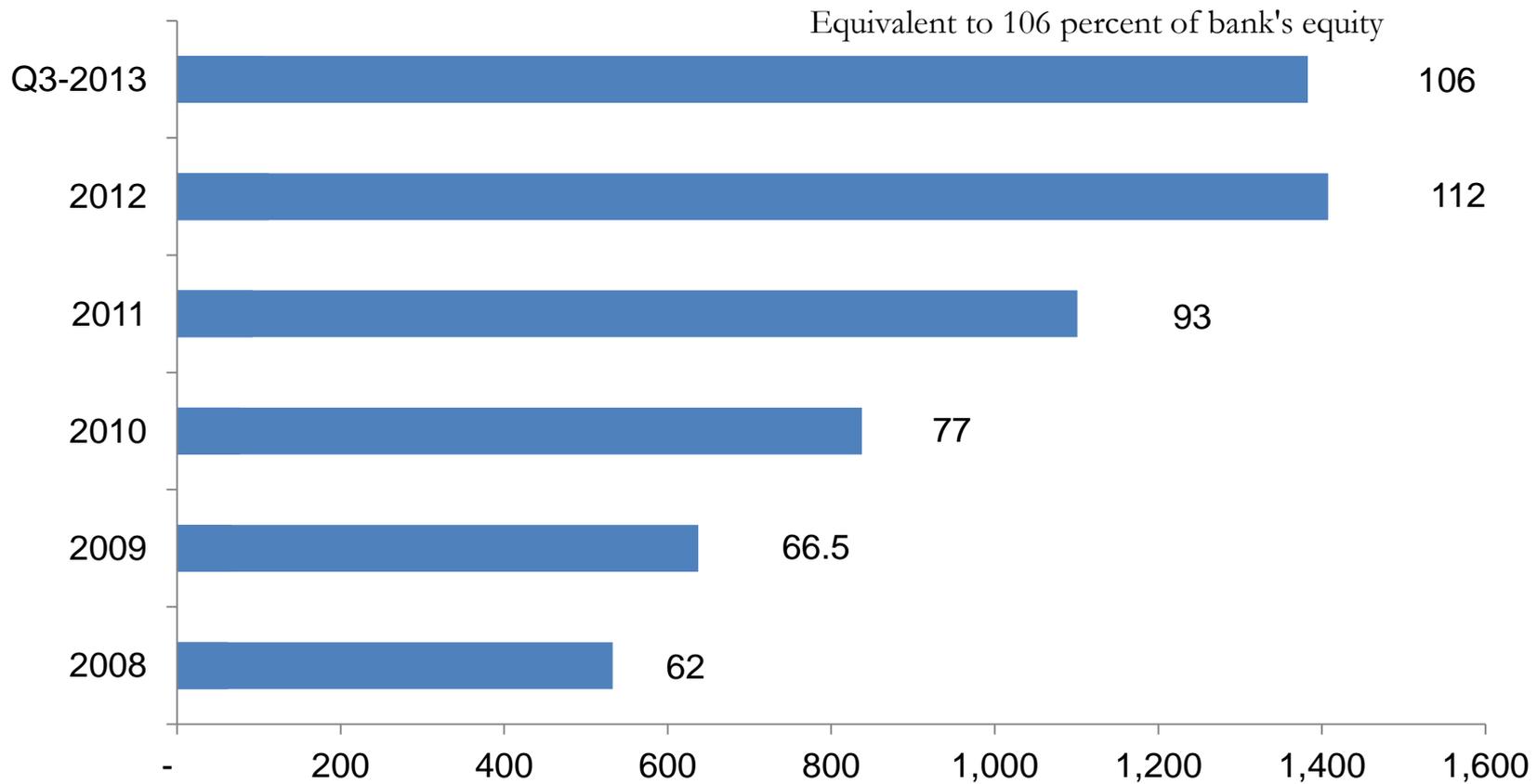


Sources: Palestine Ministry of Finance; and IMF staff calculations.



Banking sector is heavily exposed to PA

The Palestinian Authority's Debt to Banks (In millions of US dollars)

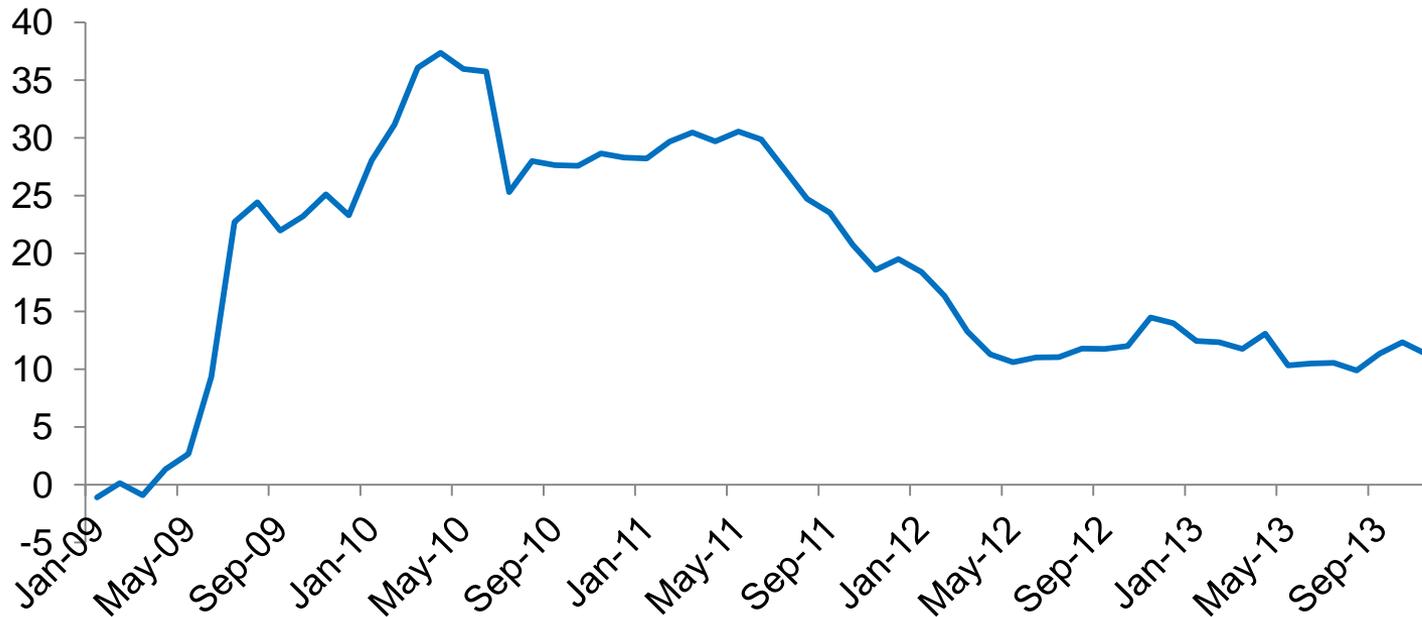


Source: Palestine Monetary Authority



Private sector is struggling

Annual Private Sector Credit Growth
(In percent, end of period)



Source: Palestine Monetary Authority and Ministry of Finance.

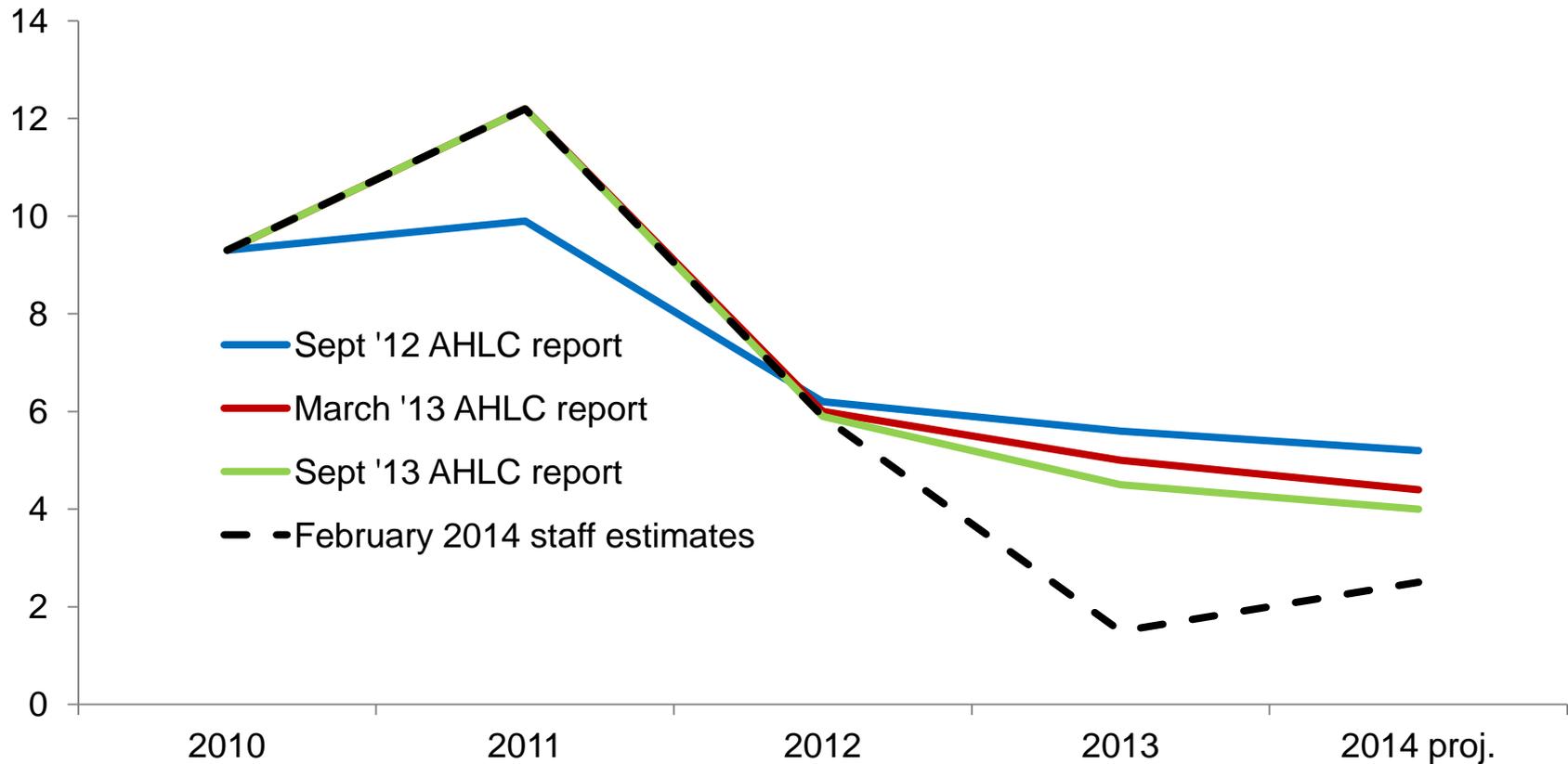


Outlook for 2014



Growth forecasts revised downward

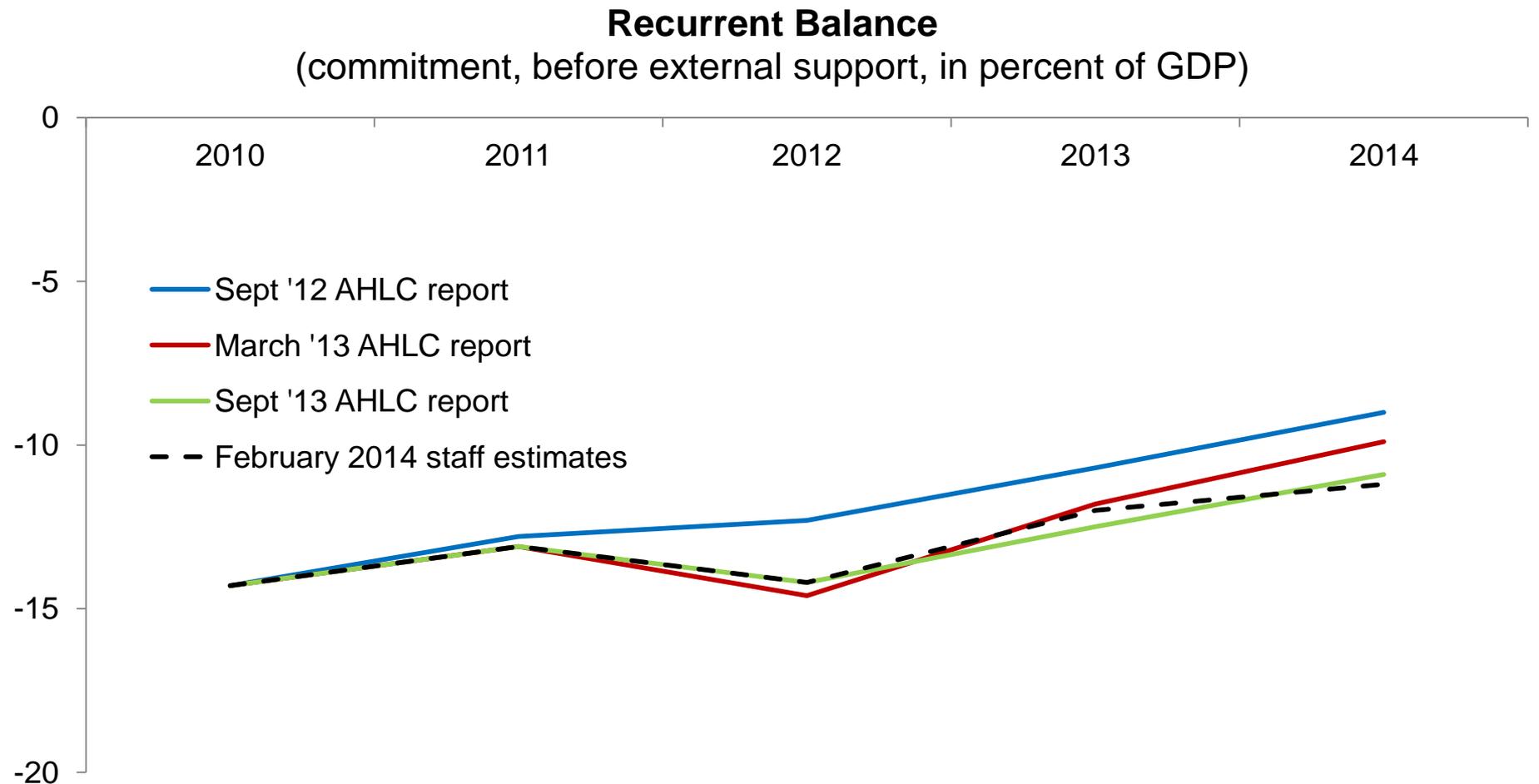
Real GDP Growth
(In percent)



Sources: Palestinian Central Bureau of Statistics and IMF staff estimates and projections.



Fiscal consolidation is slowing



Sources: Ministry of Finance and IMF staff calculations and projections.



Public finances remain under pressure

- Financing gap of about \$330 million (3 percent of GDP) in 2014
- Fiscal risks:
 - wage bill
 - aid shortfalls
 - revenue underperformance
 - net lending

Measures are needed to close the financing gap and reduce risks in the 2014 budget

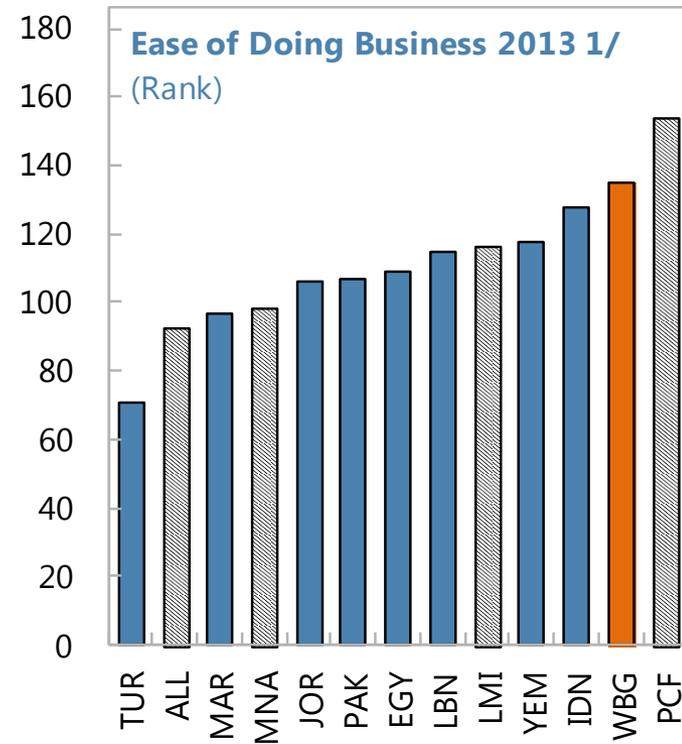
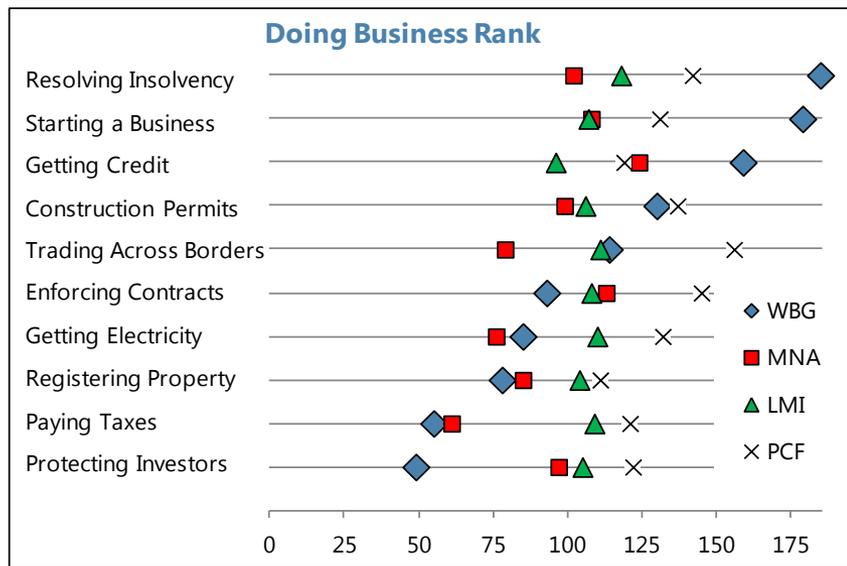
Options include:

- Limit increase in wage bill to 2 percent, rather than 5 percent
- Rationalization of allowances
- Accelerated reduction of fuel subsidies
- Increasing revenue through better enforcement
- Reduction of tax exemptions and preferences
- Strengthening electricity debt collection effort

Medium term challenges



Doing business is hard in WBG

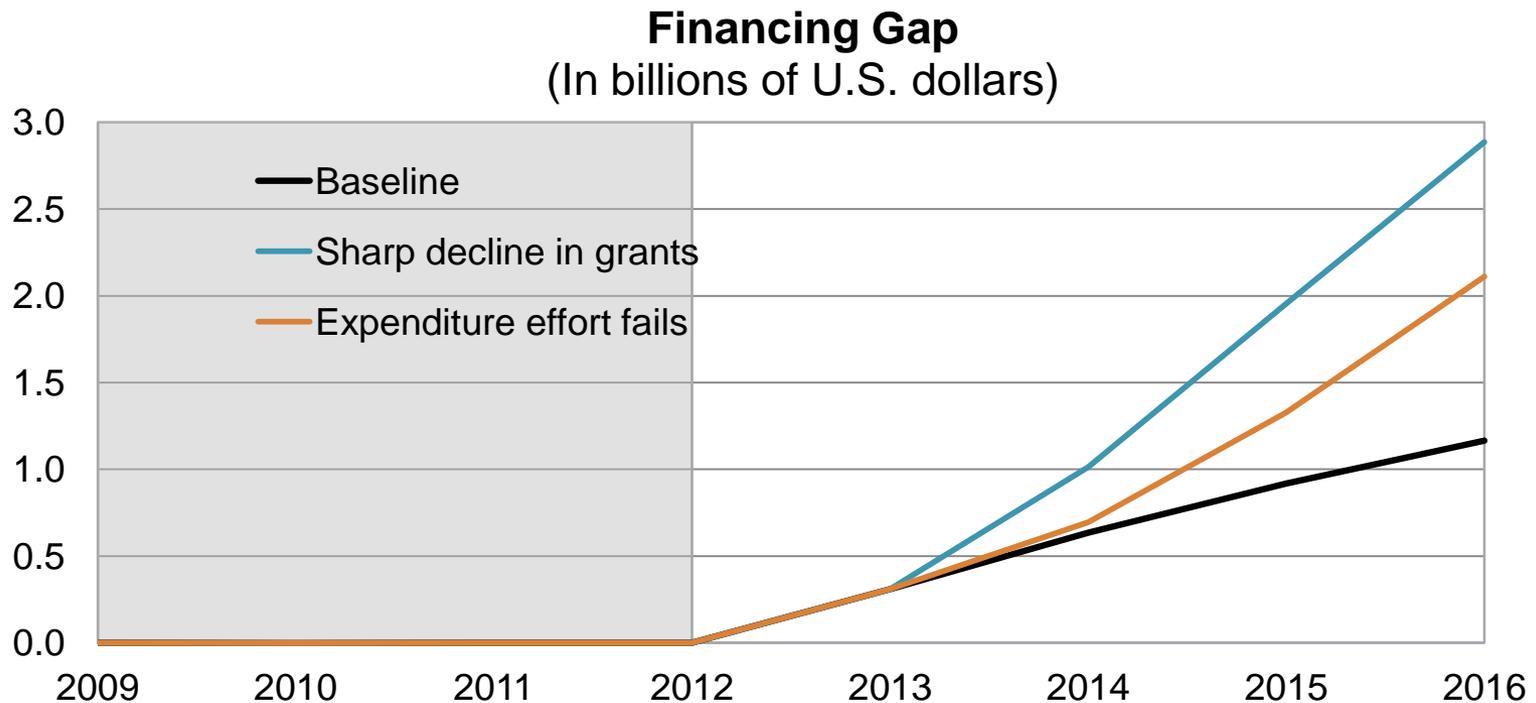


1/ Doing Business, 2013

Source: World Bank, Doing business report, 2013.



Fiscal sustainability is needed...



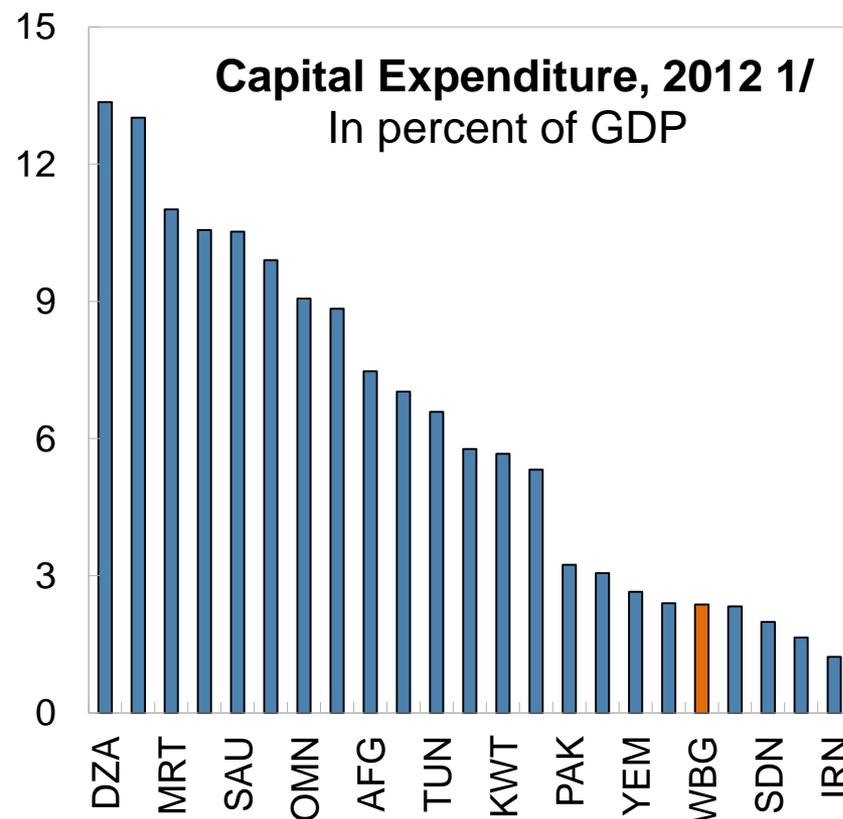
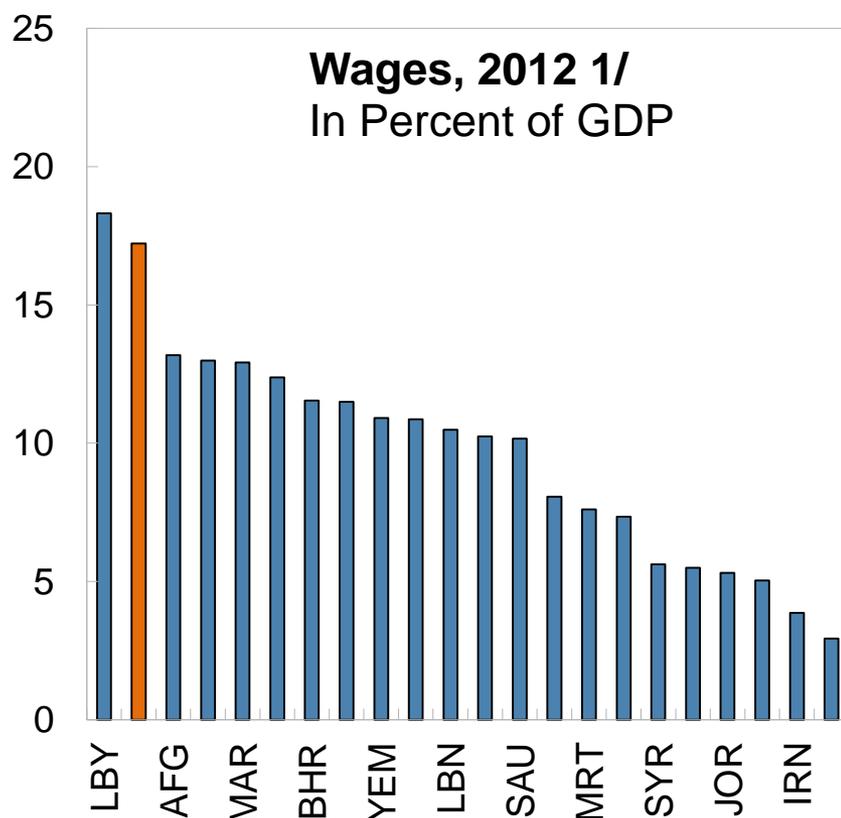
Sources: Ministry of Finance ; and IMF staff projections.



...and requires difficult measures.

- Pension reform
- Civil service reform
- Shift from public consumption to investment

Considerable scope to improve quality of spending



1/ Or latest available. General government data, except AFG, ALG, SAU and WBG, for which central government data were used.

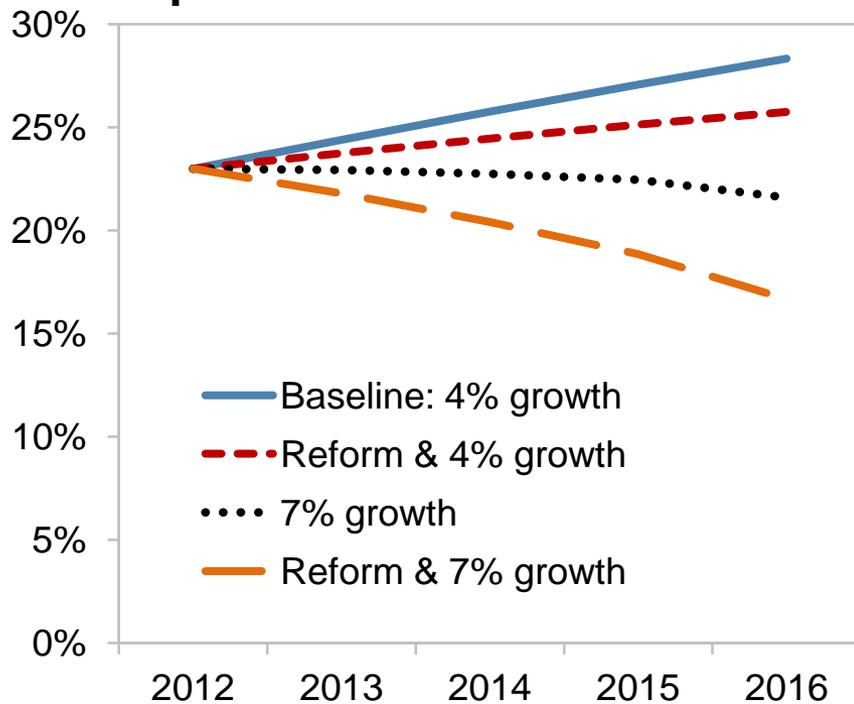
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Sources: Ministry of Finance; and IMF staff calculations.

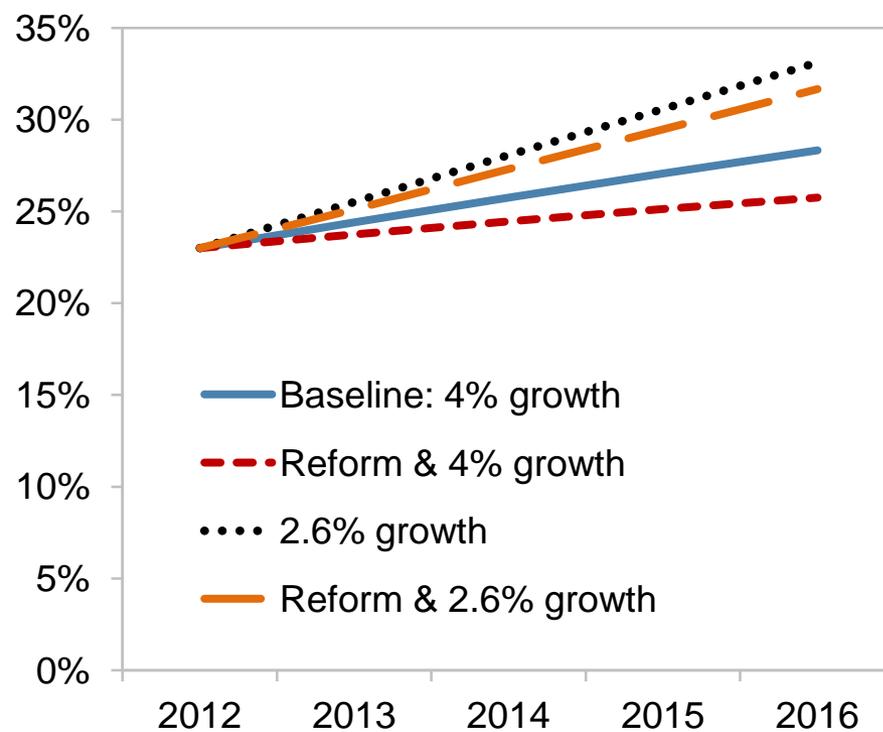


Jobs require growth

West Bank and Gaza: Baseline and Optimistic Scenario



West Bank and Gaza: Baseline and Pessimistic Scenario



Sources: IMF staff calculations



Thank you!

To view IMF reports and notes on WBG, visit:

www.imf.org/wbg

