INTERNATIONAL MONETARY FUND

WEST BANK AND GAZA

REPORT TO THE AD HOC LIAISON COMMITTEE[1]

September 8, 2023

KEY ISSUES

The outlook for the Palestinian economy remains dire, with risks tilted to the downside. Amid a deteriorating security, political and social situation, the recovery is losing momentum and per capita income is projected to decline over the medium term. The fiscal crisis remains unresolved, amid limited prospects for much-needed deep expenditure reforms and resolution of the outstanding fiscal files with Israel. The banking sector remains stable and well-monitored, but early signs of asset quality deterioration are emerging.

Achieving higher growth and overcoming the fiscal crisis are intertwined objectives, requiring coordinated efforts from the Palestinian Authority, Israel, and the international donor community. This report elaborates on the transformative fiscal and structural reforms needed to improve the Palestinian living standards over the medium term.

Key Recommendations

- Consolidate the strong fiscal revenue performance and pursue ambitious expenditure reforms in a gradual and socially-balanced way, first focused on the wage bill, health system, and net lending.
- Continue to try to engage the Government of Israel (GoI) to achieve tangible outcomes to alleviate Israeli-imposed movement, access, and investment restrictions and to resolve the outstanding fiscal files, including Area C taxation.
- Adopt reforms to further enhance the business climate, advance the digital transformation of the economy, and carry out critical energy infrastructure projects.
- Further strengthen the risk-based supervisory framework for banks and continue working with the Bank of Israel on new correspondent banking arrangements.

[1] The IMF provides technical services to 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 financial management, banking supervision and regulation, and statistics (Annex III). See www.imf.org/wbg for previous AHLC reports.

Approved By
Subir Lall (MCD) and Fabian Valencia (SPR)

In-person discussions were held during August 8–18, 2023 in Ramallah, Jerusalem, and Tel Aviv. The team comprised Ms. Gerling (head), Messrs. Tieman (head) and Bassanetti, and Ms. Coulibaly (all MCD); and Mr. Laursen, Ms. Qassis, and Mr. Ajamieh (Resident Representative office). Ms. Kadissi provided research assistance and 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, PCBS President Ola Awad, and other members of the Palestinian economic team, as well as Israeli officials and representatives of the Palestinian private sector, donors, and international organizations.

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ANNEXES

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

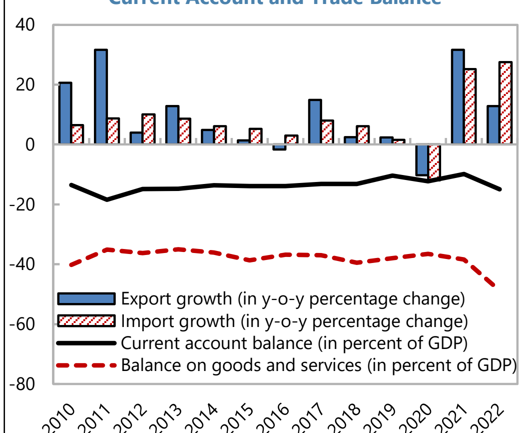
A. Amid an Increasingly Volatile Situation, the Palestinian Economic Recovery is Losing Momentum…

1. **The deteriorating political, security, and social situation renders the Palestinian Authority's (PA) position increasingly vulnerable.** Escalating violence and casualties along with frequent security operations in the West Bank by the Israeli military and confrontations between Israel and Gaza contribute to a progressively more volatile situation. At the same time, the PA grapples with an unsustainable fiscal position and the United Nations agencies providing essential services and social support, including emergency food assistance, are facing funding shortfalls and strikes by key personnel. The delivery of core government services is at risk. Palestinian presidential and parliamentary (Legislative Council) elections remain indefinitely postponed.

2. **Against this backdrop, the growth momentum is abating.** Together with lower growth in Israel, the increasingly difficult environment is weighing on both the supply and demand side of the Palestinian economy. Following the post-pandemic rebound in 2021, real GDP growth nearly halved to 3.9 percent in 2022 and is projected to further decline to 3 percent in 2023, to then converge to its 2 percent potential rate in the baseline over the medium term (Figures 1 and 2). The wide gap that opened up between the economies of the West Bank and Gaza over the last fifteen years is not expected to narrow (Box 1). Weakening activity and lower international commodity prices are contributing to easing inflation, projected at 3.4 percent in 2023 and 2 percent over the medium term.

3. **The current account deficit remains large, reflecting long-standing restrictions on the economic activity.** In 2022, it widened to 15.0 percent of GDP (from 9.8 percent in 2021), as high commodity prices contributed to a 27.5 percent rise in imports. The worsening of the trade balance was only partially compensated by significant net income inflows on the back of a further increase in the number of Palestinian workers in Israel. While projections for 2023 suggest a moderate reduction of the current account deficit, persistent external imbalances can only be overcome if the Israeli-imposed restrictions on the movement of goods, people, and investment are eased, thereby facilitating West Bank and Gaza's economic integration in regional and global markets.[2]

Current Account and Trade Balance

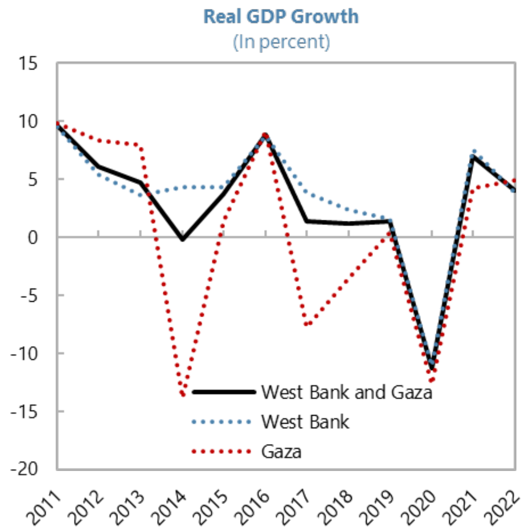


Sources: Palestinian Central Bureau of Statistics (PCBS); Haver Analytics; and IMF staff calculations.

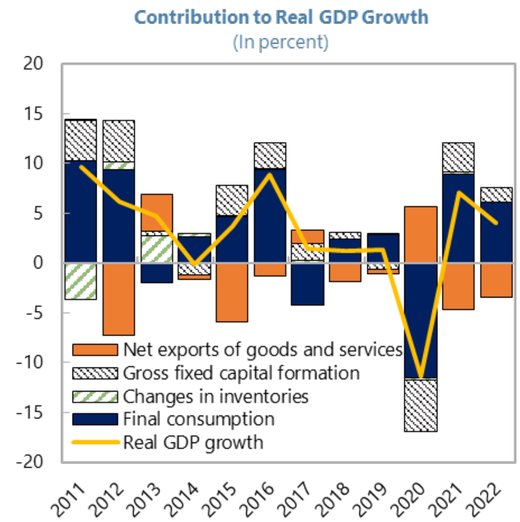
[2] According to the GoI, these restrictions are to protect the security of Israel and Israeli citizens.

Figure 1. West Bank and Gaza: Recent Economic Developments, 2011Q1–2023Q2

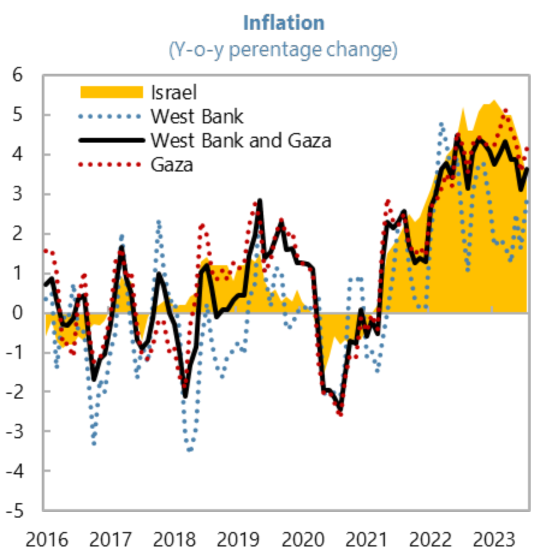
Growth moderated in 2022…



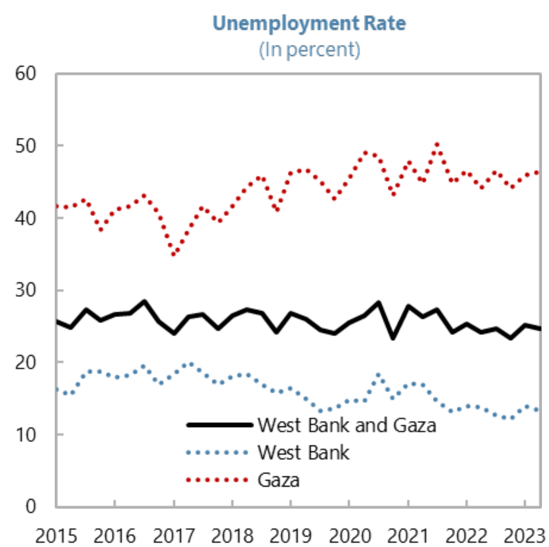
…as the contributions from consumption and investment fell.



Despite the rise in 2022, inflation remained relatively contained…



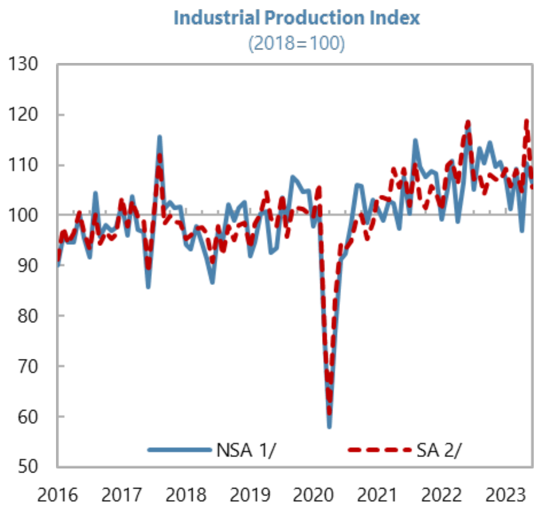
…while high unemployment persisted, particularly in Gaza.



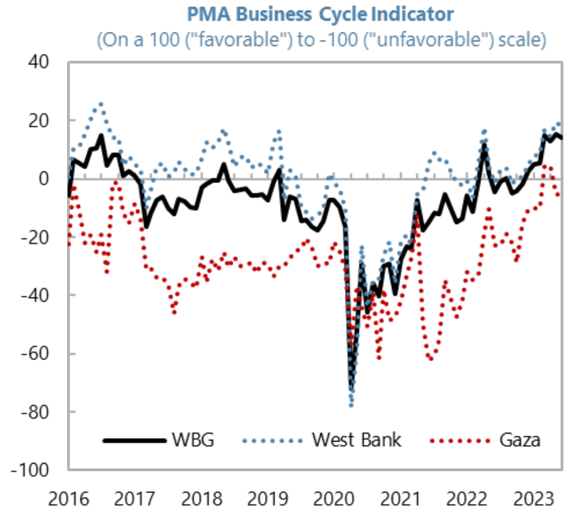
Sources: Palestinian Central Bureau of Statistics (PCBS); Haver Analytics; and IMF staff estimates.

Figure 2. West Bank and Gaza: High Frequency Indicators, 2016Q1–2023Q2

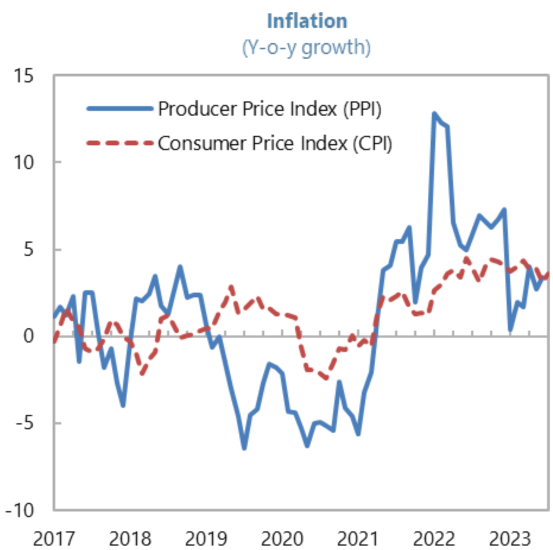
Industrial production has weakened since mid-2022…



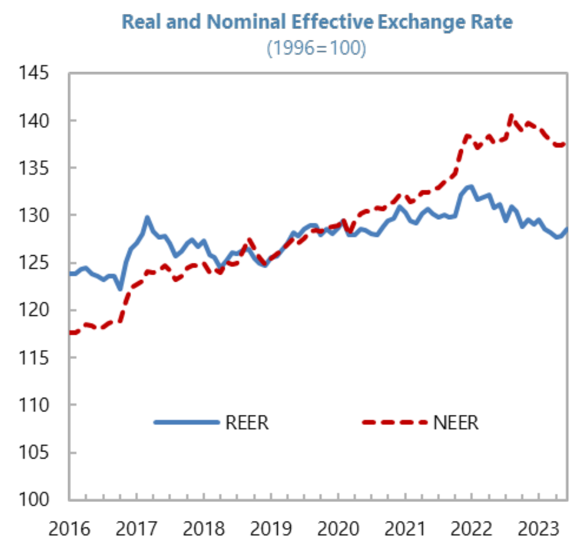
…while business confidence hovered around pre-COVID levels.



Consumer prices are stickier than producer prices…



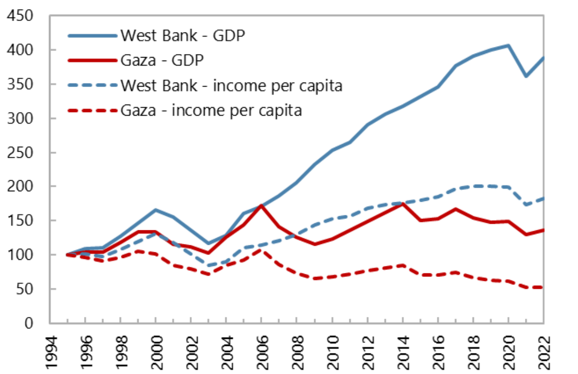
…and the real effective exchange rate has depreciated slightly.



Sources: PCBS; Palestine Monetary Authority (PMA); Haver Analytics; and IMF staff estimates.
1/ Not seasonally adjusted.
2/ Seasonally adjusted.

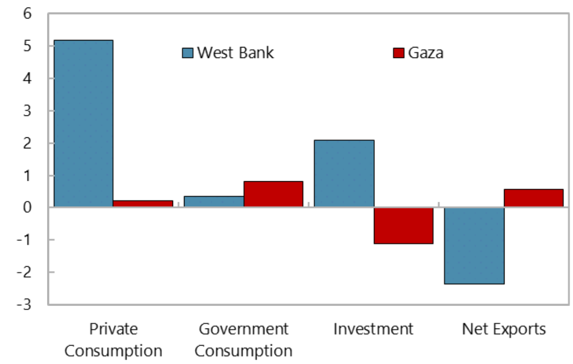
Box 1. Economic Divergence Between the West Bank and Gaza[1]

Real GDP and Per Capita Income
(Index, 1994=100)



Sources: Haver; and IMF staff calculations.

Demand Side: Average Contiribution to GDP Growth
(In percent, 2007-2022)



Sources: Haver; and IMF staff calculations.

Years of isolation and recurrent conflicts have left Gaza's economy far behind the West Bank's. Between 2007–22, the Israeli-imposed blockade,[2] four wars,[3] and deeply rooted domestic political divisions took a heavy toll on the Gazan economy, resulting in the prolonged stagnation of real GDP. Per capita income has fallen by an average of 2½ percent per year and by 2022, it stood at less than a third of that in the West Bank. Around 45 percent of the Gazan labor force is unemployed, and 53 percent of the population lives below the national poverty line, as opposed to 13 and 14 percent, respectively, in the West Bank.[4]

Drivers of growth have also been different between the two areas, with Gaza relying mainly on government consumption and the West Bank on household spending. In Gaza, low levels of investment—almost entirely concentrated in the construction sector—as well as recurrent wars have severely impacted the capital stock. It now barely stands at its level of 15 years ago, with dilapidated infrastructure. This compares with a more than doubling of the capital stock in the West Bank. Lastly, the blockade and the intermittent openings of the crossings with Israel and Egypt have greatly limited Gaza's trade flows compared to the West Bank, including imports to make up for shortages of domestic goods and services resulting from restricted access to productive resources.[5]

Significant easing of the restrictions on the movement of goods, labor, and capital is a necessary condition for higher growth in Gaza. It would also provide positive spillovers for the West Bank. In addition, support from the international donor community remains essential to develop critical infrastructure—including in electricity generation and transmission as well as fresh and waste water—and reduce poverty.

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[1] See the accompanying IMF staff's Selected Issues Paper (SIP) on *West Bank and Gaza: Economic Divergence* for details.

[2] Since 2007, the GoI has imposed a land, sea, and air blockade on the Gaza strip, severely hampering the movement of people and goods. According to the GOI, these restrictions are to protect the security of Israel and Israeli citizens. Further restrictions have also been imposed intermittently by Egypt at the Rafah border crossing.

[3] Wars between Gaza and Israel occurred in 2008–09, 2012, 2014, and 2021.

[4] Poverty numbers based on PCBS's 2017 *Expenditure, Consumption and Poverty Survey*.

[5] Measured as the sum of imports and exports over GDP, the degree of openness of the Gazan economy is 61 percent, compared to 91 percent for the West Bank.

B. …While the Fiscal Crisis Continues…

4. The 2023 budget envisages an increased deficit and continuation of past policies. Under entrenched challenges and tight policy space, spending patterns largely portray the continuation of past policies, rather than expenditure reforms (¶¶s13–20). The wage bill may come out higher-than-budgeted on the back of substantial 2023 wage hikes that more than undo the potential savings generated by the 1-for-2 hiring rule introduced at the start of the year (¶14). No substantial reduction of net lending is envisaged (¶20). Absent significant expenditure reforms, the fiscal space needed to accommodate the budgeted doubling of development expenditure relies on further substantial revenue gains on top of those attained over past years and an increase in donor support. Taken together, the authorities' budget projects the 2023 deficit to almost double to 1.9 percent of GDP in commitment terms (Figure 3).

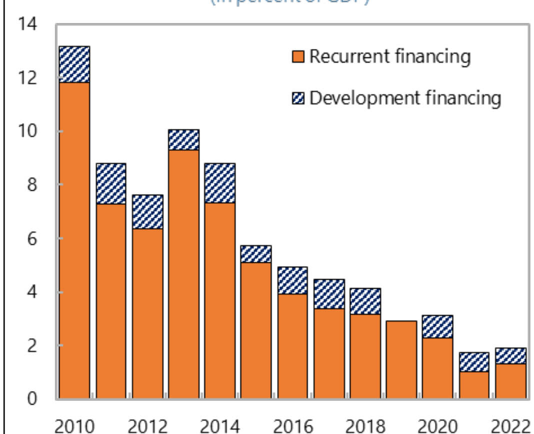
Central Government Fiscal Operations
(In percent of GDP, accrual basis) 1/

	2021	2022	2023 Budget	2023 Proj.
Total revenues and grants, net	25.6	29.3	30.1	29.0
Total revenues	23.9	27.4	27.8	27.1
Domestic tax revenues	5.5	6.2	6.7	6.5
Clearance revenues	15.9	18.1	18.3	17.4
Tax refunds	0.6	0.3	0.5	0.3
Nontax revenues	2.2	2.5	2.5	2.5
Earmarked collections	0.8	0.9	0.9	0.9
Grants	1.8	1.9	2.3	1.9
Total expenditure	30.8	30.3	32.0	30.3
Wages and salaries	13.3	13.1	13.2	13.3
Goods and services	4.5	4.4	4.1	4.2
Interest	0.7	0.8	0.7	0.8
Transfers	7.6	6.3	6.7	6.3
Fuel subsidy	0.4	1.2	0.8	0.9
Minor capital	0.2	0.2	0.4	0.2
Net lending	2.1	2.0	1.9	2.0
Earmarked spending	0.8	0.9	0.9	0.9
Development expenditure	1.3	1.5	3.3	1.6
Overall balance (including grants)	-5.2	-1.0	-1.9	-1.3

Sources: Palestinian authorities; and IMF staff estimates and projections.
1/ Based on staff's projected GDP.

5. Faced with ever increasing liquidity constraints amid limited financing options, the authorities are executing the budget on a month-to-month cash basis. Despite continued strong revenue performance, in 2023H1 the PA has suffered from (i) a doubling of unilateral deductions from clearance revenues by the GoI under the 2018 Israeli Palestinian Prisoners Law;[3] and (ii) the persistently lackluster support from the international community.[4] Against the backdrop of an increasingly binding liquidity squeeze, the PA has maintained the policy introduced in November 2021 of making partial payments of public sector wages and pensions and has been unable to fulfill full payment of vital cash transfers to the most vulnerable. The delivery of essential public services—

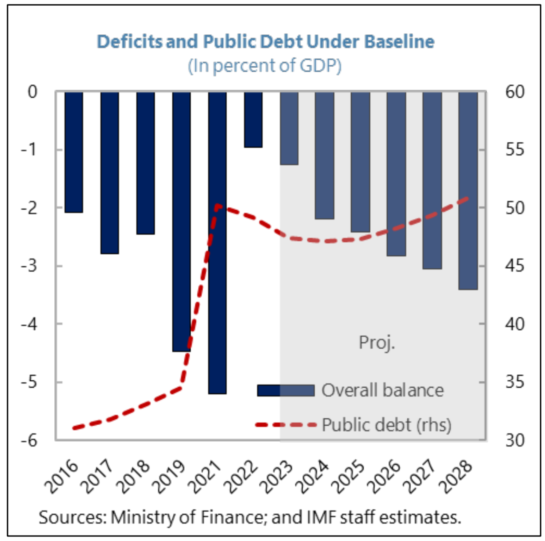
External Financing
(In percent of GDP)



Sources: Ministry of Finance; and IMF staff calculations.

[3] The Israeli Palestinian Prisoners Law from 2018 mandates withholding clearance revenues for 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. Between February and June 2023, the GoI has increased the deductions associated with these so-called prisoner payments from around NIS 50 million to around NIS 100 million a month. The increase followed the PA's pursuit of a case on the legitimacy of the Israeli occupation at the International Court of Justice. The amount withheld since 2019 is estimated at US$786 million (4.4 percent of 2023 GDP).

[4] The IMF staff's *September 2018 Report to the AHLC* includes an analysis of the trends in donor aid over 2007–17.



particularly in the education and health sectors—is also being undermined.[5] Development spending has been only slightly higher than in 2022H1 and it is unlikely to attain the levels envisaged in the budget in the remainder of the year. Should the restrained execution of the budget continue through 2023H2, the fiscal deficit might be contained, but risks are tilted to the downside, including in view of renewed pressures for further salary increases. Budget financing options continue to be limited. The authorities have no access to international capital markets and are limiting bank borrowing to contain banks' already high sovereign exposure. Hence, any shortfall in budgetary financing will translate into a further buildup of domestic arrears, on top of the estimated end-2022 stock of 27.8 percent of GDP.

6. **Without PA adjustment policies and an easing of Israeli-imposed restrictions, public debt remains unsustainable (Annex II).** After the temporary decline in 2022–24 resulting from a strong post-covid recovery, government debt (including arrears) is projected to resume its increasing trend, as primary deficits gradually widen, and growth converges to its 2 percent potential rate. By 2028, public debt is projected at 51 percent of GDP, up from 49 percent in 2022.

C. …The Banking Sector Remains Stable…

7. **The banking sector remains generally stable amid early signs of asset quality deterioration.** At end-June 2023, banks reportedly maintained ample capital (16.4 percent of risk-weighted assets) and 2023Q2 profitability (15 percent return on equity) far exceeded pre-pandemic levels, boosted by higher interest income (Figure 4). Liquidity remained adequate at 40.3 percent of short-term liabilities, even as banks continue to face liquidity management challenges from their excess physical shekel cash holdings due to the limit imposed by the Bank of Israel (BoI) on the transfer of shekel cash from the West Bank to Israel. While an exceptional shipment authorized by the BoI in 2023H1 helped lower banks' shekel holdings to NIS 5.1 billion (6.6 percent of total assets) at end-2023Q2, banks' excess physical shekel holdings had increased to NIS 6 billion by end-July 2023, raising security and insurance risks and costs.[6] The recent Israeli measure requiring Israeli employers to pay Palestinian workers electronically is expected to reduce excess cash pressures somewhat going forward, but has yet to be fully implemented.[7] Non-performing loans (NPLs) remained steady at 4.1 percent of total loans, with an NPL coverage ratio of 96 percent, but the sum of NPLs, watchlist, substandard and doubtful loans continued to increase to 11.1 percent by end-2023Q2.

[5] For instance, teacher strikes led to prolonged school closures earlier in the year and the cash crunch constrains spending on goods and services, including on medical supplies. Also see, e.g., UNSCO's *May 2023 AHLC Report*.

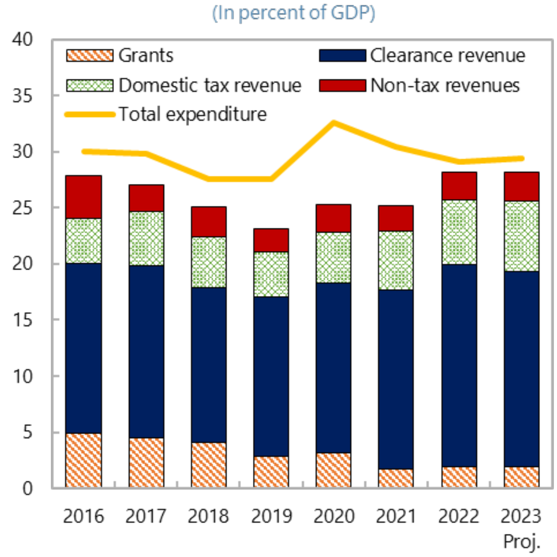
[6] For more details, see the IMF staff's 2022 SIP on *Excess Cash in the Palestinian Banking System*.

[7] Less than half the estimated NIS 1 billion that permitted Palestinian workers earn in Israel each month is currently paid through bank transfers.

Figure 3. West Bank and Gaza: Fiscal Sector Indicators, 2016–23

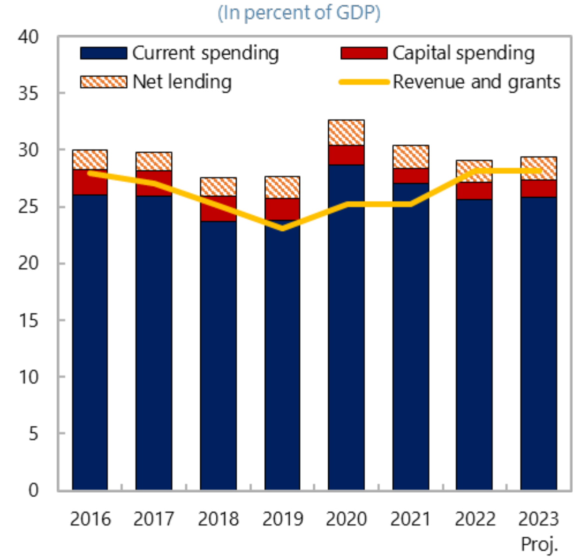
Revenues continue to perform strongly despite declining donors support…

Revenue and Donor Aid
(In percent of GDP)



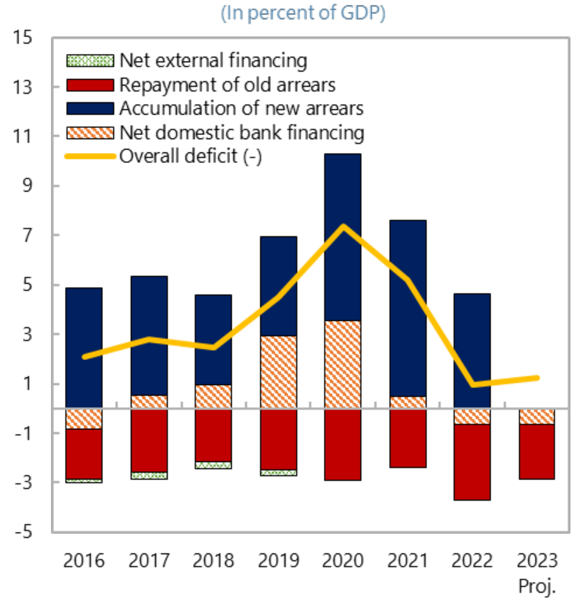
…but absent deep recurrent expenditure reform, capital spending remains constrained …

Expenditure
(In percent of GDP)



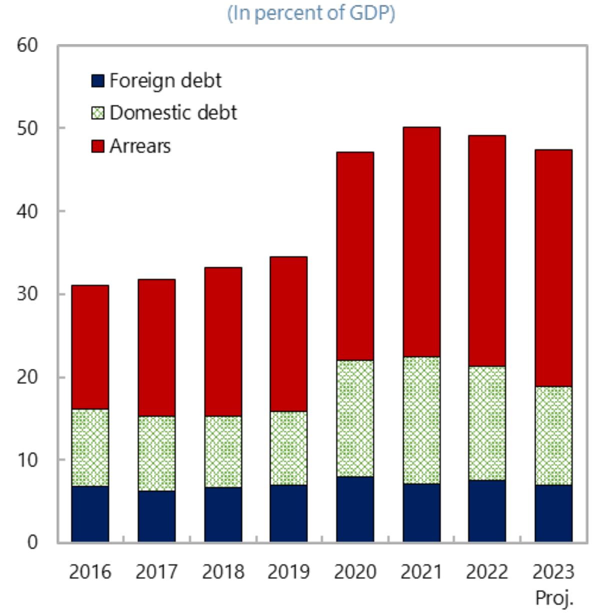
…and the budget deficit is projected to gradually widen…

Budget Financing
(In percent of GDP)



…with public debt resuming an increasing trend over the medium term after a temporary decline.

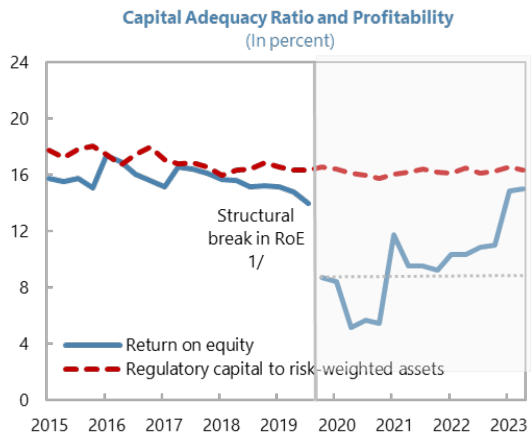
Public Debt
(In percent of GDP)



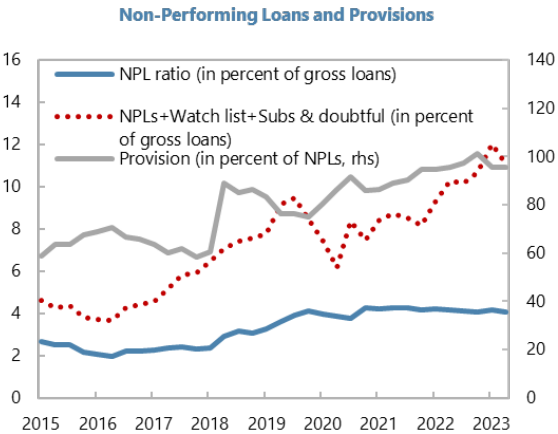
Sources: Ministry of Finance (MoF); and IMF staff estimates.

Figure 4. West Bank and Gaza: Financial Sector Developments, 2015Q1–2023Q2

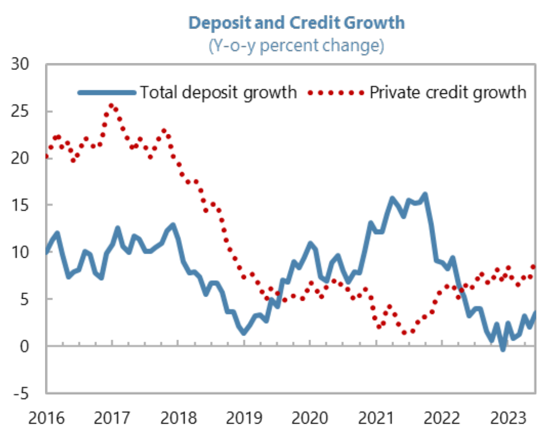
Capital is adequate and profitability is above pre-COVID levels…



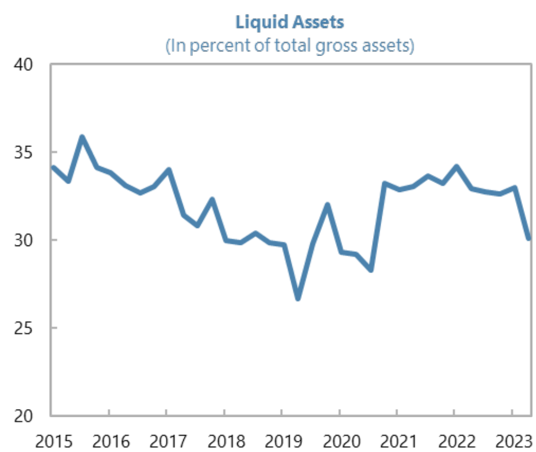
…but early signs of asset quality deterioration are emerging



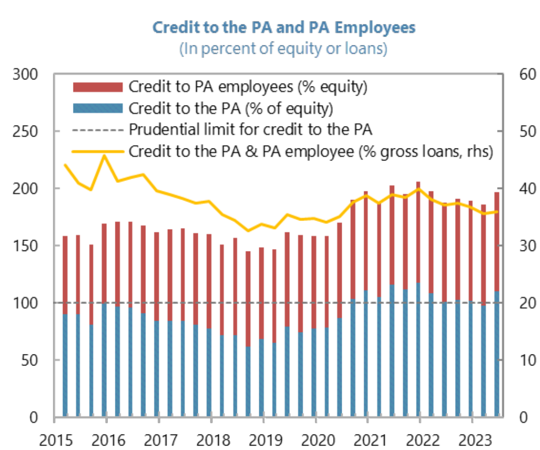
Deposit growth fell below private credit growth…



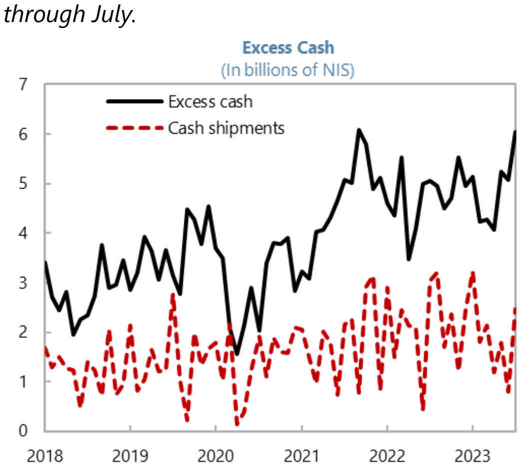
…slightly lowering bank liquid assets to total assets.



Banks' direct and indirect exposure to the PA remains high…



…while excess cash pressures continue to be strong through July.



Sources: PMA; and IMF staff estimates.

1/ Return on equity (ROE) follows the 2019 IMF Financial Soundness Indicators Compilation Guide for 2019Q4 onwards. Figures for earlier years follow the 2006 Guide and are thus not comparable.

D. …And Downside Risks Persist

8. **Security and socioeconomic risks remain high (Annex I).** Following the progressive worsening of the security situation over the last year, tensions with Israel could escalate further, leading to a tightening of Israeli-imposed restrictions on the movement of labor, capital, and goods. Persistently high unemployment and poverty (particularly in Gaza), lack of opportunities, and dissatisfaction with the PA's policies, arrears and deteriorating public service delivery provide for an increasingly fragile socio-political context. Increased tensions could adversely impact economic growth and public finances, as well as the already hesitant reform appetite. Despite a moderate decline in 2022, at 36 percent of total loans, banks' direct and indirect exposure to the PA remains significant.[8] Together with the threat of disruption of correspondent banking relations (CBRs) and further asset quality deterioration, this presents risks to financial stability. International donor support could decline further.

Authorities' Views

9. **The authorities concur with the assessment on the outlook and the main risks.** They emphasize that the month-to-month cash-based execution of the 2023 budget is necessary to prioritize spending amid binding liquidity constraints. They agree that restoring the sustainability of public finances should involve deep expenditure reforms, but argue that fiscal risks will keep looming pending the resolution of the outstanding fiscal files with Israel, the cessation of Israel's unilateral deductions from clearance revenues while restituting the amounts withheld over time, and the removal of the Israeli-imposed restrictions on movement and access. The authorities continue to closely monitor risks in the banking sector. They believe that the current level of watchlist, substandard and doubtful loans remain manageable and emphasize that banks' exposure to PA and PA employee loans is declining.

A NEED FOR TRANSFORMATIVE REFORM

Achieving higher growth and overcoming the fiscal crisis are essential to improve the living standards of the Palestinian people. This requires coordinated effort from the PA, Israel, and the international donor community. Even as the PA cannot fundamentally alter the outlook on its own, it should define a comprehensive package of fiscal and structural reforms. In addition, it will be crucial to ease Israeli-imposed restrictions on movement, access, and investment and find a solution to the outstanding fiscal files. Increased donor grants would allow the PA to pace fiscal consolidation, alleviate the burden on the most vulnerable, and support the development of critical infrastructure to

[8] Banks' direct exposure stood at 20 percent of total loans (some 11 percent of assets or 101 percent of equity—just above the informal 100 percent prudential limit) at end-June 2023. However, loans to PA employees added an additional 16 percent of loans (9 percent of assets) in indirect exposure. Banks have further indirect exposure through loans to PA suppliers, but the related data is available only for loans with a direct guarantee from the PA.

boost private sector-led growth. A fundamental change in prospects ultimately hinges on a political peace settlement.[9]

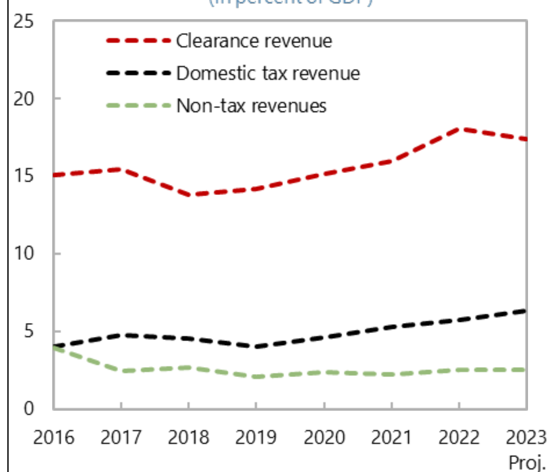
A. Fiscal Reform

Revenue Reform

Tax Revenue

10. The authorities should continue their successful 2022–25 revenue strategy. The continued strong revenue performance in 2023 reflects the comprehensive efforts of the Ministry of Finance (MoF) to expand the tax base and strengthen tax compliance. They include (i) the implementation of an e-VAT system last year, with an estimated yield of about 1 percent of GDP per year, pending further take-up from Israeli traders; (ii) the establishment of new tax offices and increased field visits; and (iii) continued advancements in coordinating and connecting agencies, systems, and databases to foster automatic checks. These efforts should be complemented with a system for the exchange of taxpayers' bank information with the MoF, while safeguarding confidentiality and avoiding misuse, as discussed in IMF staff's *April 2023 Report to the AHLC*. The revenue strategy also envisages: (i) a new VAT law, which is currently awaiting the President's signature; (ii) a new customs law, a draft of which is being finalized; and (iii) amendments to the income tax law, which will be addressed at a later stage.

Revenues
(In percent of GDP)



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

Fiscal leakages

11. Disputes over fiscal leakages with Israel are still awaiting resolution. Overall, fiscal leakages are estimated at around 1½ percent of GDP on an annual basis. Following the halving of the handling fee charged on Palestinian fuel imports (to 1.5 percent) and recent procedural progress with the Israeli legislation mandating the use of the e-VAT system for Israeli traders, further tangible outcomes on the other outstanding fiscal files are warranted. These should include: (i) lowering the handling fees on imports, including doing away with them altogether on fuel, to make them commensurate with actual costs; (ii) transferring to the PA the tax revenue on Israeli economic activity in Area C (outside settlements and military locations) in line with the Paris Protocol (Box 2); (iii) fully sharing the Allenby bridge crossing fees; and (iv) transferring customs authority to the PA.

[9] See IMF staff's *May 2022 Report to the AHLC* for an illustrative reform scenario.

Box 2. Taxation Framework and Responsibilities in Area C

The Israeli-Palestinian Interim Agreement of 1995, also known as the Oslo II Accord, established the framework for taxation of Area C in the West Bank.[1] According to Annex III—the Protocol Concerning Civil Affairs—Israel is responsible for levying and collecting income tax (Appendix 1, Article 8) and VAT (Appendix 1, Article 18) on Israeli individuals and corporations in Area C—outside the settlements and military locations—and remitting the proceeds to the Palestinian side. Taxes should be levied and collected according to the Palestinian tax code and legislation.

Israeli economic activities established in Area C outside the 1995 perimeter of settlements and military locations are significant. They include industrial parks, home to manufacturing and service businesses, quarries (e.g., limestone, gravel, sand), as well as substantial agricultural businesses. Notwithstanding, the PA notes that no tax proceeds on these activities are being remitted from Israel to the PA. Palestinian economic activity in Area C is limited, mainly due to restrictions on movement and access to resources, as well as the inability to obtain permits from Israel to allow Palestinians to develop the land; they are primarily centered on agriculture, with few industrial and commercial activities.

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[1] The Oslo II Accord introduced a temporary division of the West Bank into three areas—A, B, and C—pending a final status agreement. However, the division still remains in place today. In Area A (mainly urban areas), the PA has full responsibility for internal security and public order, as well as civil affairs; in Area B (around 25 percent of the West Bank), the PA has full responsibility for civil affairs, while Israel has over-riding security authority; in Area C (around 60 percent of the West Bank), Israel retains full responsibility for security and public order, as well as civil affairs. Area C is home to about 300,000 Palestinians and over 500,000 Israelis living in settlements (Office of the United Nations High Commissioner for Human Rights).

Authorities' Views

12. The authorities underline the continued success of their 2022-2025 revenue strategy, but point to limitations pending significant advancements on fiscal files with Israel. They stress the success of the e-VAT system, which could provide substantially higher yields if it were also made mandatory for Israeli traders. They underscore that, once adopted, the new customs, VAT, and income tax laws are expected to further expand the tax base and increase revenues. However, they also emphasize that the overall margin for generating further revenues gains on top of those recently achieved are pending on the resolution of the outstanding fiscal files with Israel (including on taxation of economic activity in Area C), while expressing skepticism on progress. Further, they reiterated the need for enhanced transparency and accountability with regards to Israeli clearance revenues deductions for electricity, water (fresh and waste), and health referrals (¶20).

Expenditure Reform

Wage Bill

13. The public sector wage bill is large by international comparison. In 2022, it stood at 43 percent of total spending, above the 90th percentile of the distribution of peer countries.[10] Its

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[10] In the same year, the wage bill stood at 48 percent of total revenues excluding grants, or almost 90 percent of net revenues when including certain transfers that the authorities treat as part of their wage obligations and label as

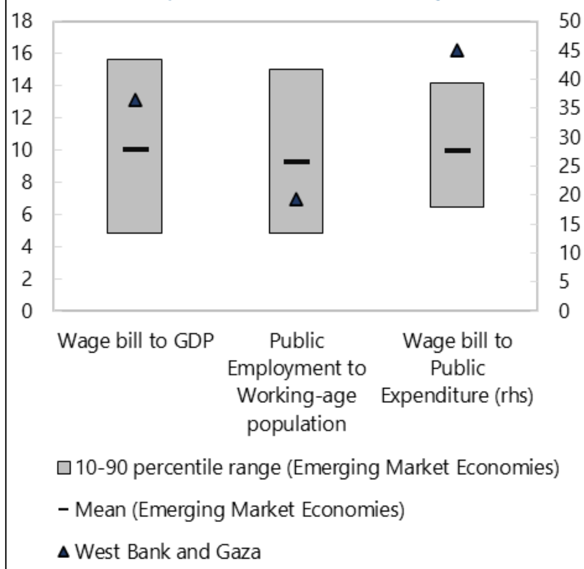
(continued)

significant increase over the last decade has mainly been driven by salary increases sustained by a generous system of allowances, rather than excessive employment.[11]

14. The authorities have made a start with wage bill reform, but progress has been limited and erratic. Following the setup of a high-level committee to develop reform proposals, the PA has recently adopted decisions to: (i) re-deploy personnel across administrations and departments based on annual reviews of HR needs and skill mismatches, with the aim of addressing pockets of over-staffing and avoiding over-hiring; and (ii) hire only 1 new public employee for every 2 that leave public service. However, the implementation of the 1-for-2 hiring rule is facing some resistance citing the need to replace essential personnel, thereby impairing the potential for savings.[12] Furthermore, the significant wage increases negotiated in early 2023 with the teachers', doctors', and engineers' unions will further worsen the PA's already fragile fiscal position and the possibility of new strikes calling for further wage increases would add to the pressure and cause more interruptions in essential public service delivery.

Benchmarking for Wage Bill and Employment

(In percent, 2021 or most recent year)



Sources: IMF Expenditure Assessment Tool (EAT), and IMF staff calculations.

15. Controlling wage dynamics requires more efforts. In order to attenuate immediate fiscal pressures, the authorities should in the short term consider temporarily suspending part of salary and allowance increases—particularly for public employees above a certain grade—as well as promotions. In the medium term, deeper reforms of the salary and allowance structure—including the integration of the latter into base pay—as well as of the criteria and procedures to determine salary increases and promotions are needed to ensure fiscal sustainability. These measures should be part of a broad-based overhaul of the civil service, inspired by a clear vision of the role of government and informed by a functional review to eliminate redundancies and inefficiencies, as detailed in IMF's staff *September 2022 Report to the AHLC*. Should the authorities consider the introduction of a new early retirement scheme, this should not substitute for measures targeting the

"semi-wages". These include monthly social assistance, social contributions, as well as pension payments to civilian and security personnel for which the MoF is directly responsible.

[11] See *Wage Bill and Employment Diagnostic: Key Drivers and Policy Recommendations*, World Bank, 2022.

[12] A 2023 *World Bank Report* estimated potential savings from the 1-for-2 hiring rule of NIS 94 million (0.1 percent GDP).

underlying determinants of excessive wage bill growth and be carefully designed not to undermine productivity and aggravate the unsustainability of the pension system.

Pension System

16. The public pension system is multifaceted and provides generous benefits.[13] While four schemes continue to exist, only one of them still collects contributions. Following a prolonged transition, all active civil servants and security personnel are now covered by the unified scheme II introduced in 2005.[14] However, participants of the three previous legacy schemes still account for the majority of current pensioners. They and their survivors are entitled to benefits for many years to come, which are envisaged to be provided from public resources.[15] All four schemes offer generous old-age pension benefits, including a low mandatory retirement age, favorable early retirement options, and relatively high replacement rates, particularly for security personnel. Substantial survivorship and disability programs, as well as lump-sum payments, are also part of the package. As a result, public pension outlays are sizeable at around 4 percent of GDP, despite current beneficiaries representing only 1.5 percent of the population.

17. The current system is not sustainable. De jure, scheme II includes a pre-funded defined-benefit (DB) component, but since the inception of the scheme, the PA has not been able to pay full contributions to the Palestinian Pension Agency (PPA).[16] This practice has translated into the accumulation of (i) a sizeable stock of arrears to the PPA (estimated at 14 percent of GDP in 2023)[17] and (ii) invested pension fund assets far insufficient to meet future obligations. Even if the PA clears all its arrears and remains current on its future contributions, the system will likely require public support to remain sustainable, due to projected increases in life expectancy.[18]

[13] See the accompanying IMF staff's SIP on *West Bank and Gaza's Public Pension System*: *Features and Reform Options* for details.

[14] The Pension Law (Public Pension Law No 7) of 2005 introduced scheme II to cover all public sector workers (civil servants and security personnel) under the age of 45 by September 1, 2006, as well as those newly hired after that date. Older workers—covered by scheme I (for Gaza civil servants, inherited from Egypt), III (for security personnel), and IV (for the West Bank civil servants, inherited from Jordan)—were exempted and remained in their original schemes. Schemes I, II, and IV have since been closed to new entrants and all their exempted participants have now retired leaving no active contributors. Scheme II is still relatively young, and most contributors have not yet reached the retirement age.

[15] The financial responsibility of the PA for the outlays related to the legacy schemes is part of the transition process set in motion by the introduction of the public pension system in 2006. The legacy schemes were based on a defined-benefit system. For a more detailed description of the legacy schemes, see the World Bank's 2016 *Public Expenditure Review of the Palestinian Authority*.

[16] The scheme also includes a defined contribution (DC) component, which has not been properly implemented.

[17] PA's arrears to the PPA relate to civil servants' contributions, for whom the latter has financial responsibility. The PA retains financial responsibility for the security personnel's pensions.

[18] See the forthcoming World Bank 2023 note *The Palestinian Pension System: A Roadmap for an Unfinished Reform*; also in the forthcoming World Bank 2024 *Public Expenditure Review of the Palestinian Authority*.

18. Still, the PA remains current on its pension obligations.[19] On a monthly basis, the PA typically transfers from the budget to the PPA only the amounts needed to pay the current pension outlays. This means that, de facto, scheme II is operated as a PAYGo system without pre-funded component, introducing a discrepancy with the legal set-up and opaque cross-claims between the PA and PPA.

19. Going forward, measures to restore the viability of the pension system should include:

- ***Aligning the de jure and de facto systems in the direction of a DB contributory PAYGo system (i.e., without pre-funding element).*** This would enhance fiscal transparency, management, and predictability. It would also stop any further accumulation of PA contribution arrears under the current system, while the existing stock of pension arrears would be transformed into equivalent (in net present value terms) future budgetary obligations. These future expenditures increase the importance of putting public finances on a sound footing. A pension reform along these lines should hence be pursued hand-in-hand with ambitious expenditure reforms.
- ***Implementing a parametric pension reform.*** Analyses show that under current parameters, a PAYGo system will require public support due to the gradual increase of the old-age dependency ratio and the associated rise of pension outlays. A well-designed reform package would reduce the impact on public finances, while still ensuring income security for the retirees.[20] The authorities should consider: (i) gradually increasing mandatory and early retirement ages and indexing them to future increases in life expectancy; (ii) reducing early retirement benefits; (iii) revising the accrual rate; and (iv) modestly increasing the contribution rate.

Other Spending

20. Substantial potential to improve spending efficiency also lies in:

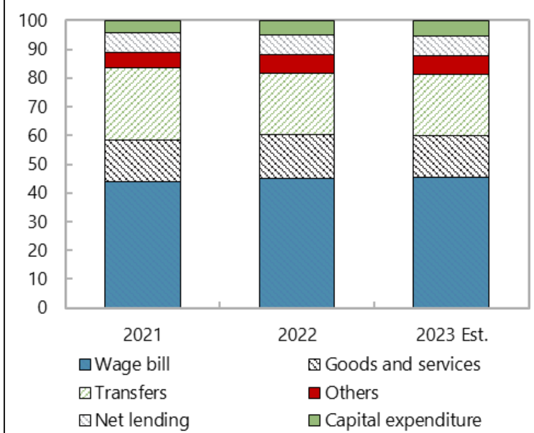
- ***Addressing net lending.*** The annual expense on net lending is projected to remain at almost 2 percent of GDP in 2023, broadly unchanged from previous years.[21] Pending reconciliation of past crossclaims between the PA and Local Government Units (LGUs), the authorities are finalizing a portal that should facilitate monthly reconciliation going forward. While this is an important step to improve transparency—which would also benefit from more detailed information from Israel on bills and deductions—it remains necessary to strengthen accountability and a culture of payment. To this end, reform efforts could consider replacing the

[19] Like public sector wages, public pensions have been paid at 80 percent since November 2021 creating arrears to pensioners.

[20] For simulations on the impact of parametric reforms, see the forthcoming World Bank 2023 note *The Palestinian Pension System: A Roadmap for an Unfinished Reform*; also in the forthcoming World Bank 2024 *Public Expenditure Review of the Palestinian Authority*.

[21] Net lending refers to the system by which Israel deducts payment for unpaid electricity, water and sewage services provided to Palestinian consumers through local government units (LGUs) and Palestinian distribution companies (DisCos) from the clearance revenue it collects on behalf of the PA.

system of intergovernmental offsets with one of fixed transfers, while at the same time increasing LGUs' own resources and administrative capacities to align incentives.[22]



Sources: Ministry of Finance; and IMF staff estimates.

- ***Better targeting subsidies.*** Despite lower fuel prices, at an estimated 0.9 percent of 2023 GDP, untargeted and regressive fuel subsidies remain a significant fiscal cost. In the medium term, the authorities should consider to gradually phase them out and use part of the saved resources for better targeted social spending benefitting the most vulnerable households in both the West Bank and Gaza.
- ***Reforming the health referrals system.*** Some progress has been made in containing the increase in costs associated with the use of medical referrals to Israeli and private Palestinian health providers, including by negotiating standardized prices with most Palestinian hospitals and enhancing the system management, for example through digitalization. However, medical referrals still account for more than ¾ of non-wage health spending and reform efforts to alleviate the capacity constraints of the public health system and improve its fiscal sustainability should continue along the lines suggested by the World Banks' forthcoming *Health Public Expenditure Review*, for example by prioritizing investment in the areas of care driving referrals and extending the practice of negotiating service costs, including with Israeli hospitals. Greater coordination with the Israeli system to enhance timely access to essential health services—including by reducing the frequency of permit delays and denials—and increased transparency in the deductions from clearance revenues due to referrals is also warranted.

Other Fiscal Issues

21. Strengthening public financial management (PFM) would promote policy-based budget preparation and support fiscal reform efforts, including arrears management. With the completion of the 2020-21 audit by the State Audit Bureau earlier this year, the PA has improved the timeliness of the audit of its financial accounts. Once the liquidity constraints that imposed the cash-based execution of the 2023 budget have eased, the authorities should resume the gradual transition toward a medium-term fiscal framework (MTFF) integrated with the budgetary process. Besides allowing for a more realistic policy-based budget preparation and incorporation of medium-term fiscal risks, such a framework would increase the focus on the medium-term impact and tradeoffs of policies and reforms, enhancing credibility and anchoring fiscal expectations. Increasing accountability and transparency critically hinges on undertaking a comprehensive

[22] See the IMF staff's *September 2022 Report to the AHLC* for detailed short- and medium-term policy recommendations to address net lending.

stocktaking of arrears and formulating a credible plan for their gradual repayment. The authorities continue to benefit from IMF capacity development in many of these areas.

Authorities' Views

22. The authorities agree on the need for deep expenditure reform, but emphasize the importance of proceeding with caution in an increasingly fragile context. They view the containment of the wage bill as the highest priority to restore the sustainability of public finances, but acknowledge that the implementation of the 1-for-2 hiring rule is facing resistance (particularly in some essential public service sectors) and that limiting salary increases has proved difficult under rising social pressures. They also acknowledge the problems posed by the way the pension system is currently operated and agree it represents an increasing long-term burden on public finances and concur that parametric reforms would be needed to enhance sustainability. They emphasize that the current tensions in the socio-political environment are not conducive to open discussions on this front. The authorities consider net lending a priority issue and point to recent progress, including the increased collection rate of electricity bills, stricter spending controls, and renewed efforts to increase LGU's revenues for example by leveraging the pilot project allowing five municipalities to collect property taxes. On medical referrals, the authorities emphasize that the liquidity squeeze restrains the ability to ensure an adequate provision of public health services and finance reform measures needed to tackle the problem.

B. Financial Sector Issues

23. The Palestine Monetary Authority (PMA) has made significant progress in bolstering its financial stability toolkit and should continue to further strengthen its risk-based supervisory framework. Macroprudential tools, crisis management arrangements, and payment infrastructure have been strengthened. Regulatory capital requirements (13 percent of risk weighted assets, including a 2.5 percent capital conservation buffer) are well above the Basel III minimum and additional buffers (such as a domestic systemically important bank surcharge) have been introduced. The PMA closely monitors indicators of financial stability. To that end, it has developed composite risk indicators and improved its risk assessment matrices and financial sector heat maps. It implements loan-to-value and loan-to-income caps, sectoral concentration limits, and liquidity coverage and net stable funding ratio requirements to help avoid excessive credit growth and leverage, as well as manage maturity and liquidity risks. The PMA has also introduced multi-factor stress testing with support from the IMF. It should further develop these stress testing methodologies to include more sophisticated macro-financial scenario analysis and satellite modeling of credit growth and NPLs. The enhanced solvency stress tests should be incorporated into risk-based supervision and their results linked to supervisory actions, including Pillar 2 capital add-ons, while on-site loan quality assessments should become more forward looking. Inspections should systematically address not only credit risks, but also the rising operational risks and existing liquidity and market risks. The PMA should also operationalize its emergency liquidity assistance. The Palestine Deposit Insurance Corporation's capacity to backstop depositors and support crisis management should be ensured by amending the banking and insurance corporation laws to better reflect the corporation's role in resolution, raising premiums to strengthen its long-term financial sustainability and automating its payout processes.

24. Progress in the development of a long-term alternative to the current CBR arrangements remains slow, while enhancements of the anti-money laundering and combating the financing of terrorism (AML/CFT) framework continue. The extension to end-March 2024 of the GoI's letters of immunity and indemnity to the two Israeli banks that offer clearing and settlement services to Palestinian banks is a welcome development but remains a temporary solution. Progress on an alternative shekel CBRs mechanism continues to be slow. The GoI has agreed in principle to take over clearing and settlement services with all PMA-licensed Palestinian banks through its new Israeli correspondent company. The company has an operational budget and has begun developing the necessary IT infrastructure, but Israeli legislation needed to establish its mandate, specify the precise nature of its relationship with the BoI and Palestinian banks and secure its unencumbered access to the Israeli automatic clearing house has not yet been adopted by the Knesset. The company has yet to start its due diligence on Palestinian banks pending agreement on what it would entail. The onsite visit by the MENFATF AML/CFT assessment team has repeatedly been delayed and no new dates for the visit have yet been identified. In the meantime, the Palestinian authorities are strengthening their AML/CFT legislation, continue to improve its implementation, and are updating their National Risk Assessment.

Authorities' Views

25. The authorities concurred on the need to further strengthen the risk-based supervisory framework. They pointed to their recent track record of sustained improvement in this area and welcomed additional IMF support on stress testing, onsite risk-based supervision, and the operationalization of the bank resolution framework. The authorities reiterated their disappointment with repeated postponement of the MENAFATF onsite visit. They are eager to have the visit take place as soon as possible and have actively been seeking a new date. Meanwhile, they continue improving their AML/CFT framework and its implementation with support from the IMF and the World Bank. The PMA stands ready to work with the BoI and all other relevant Israeli institutions and entities to finalize and operationalize the new shekel CBR mechanism.

C. Structural Reform

26. Easing Israeli-imposed restrictions on the movement of goods and people and on investment remains critical to boost growth. A discussed in IMF staff's *May 2022 Report to the AHLC*, granting Palestinian businesses access to and allowing them to invest in Area C and easing trade restrictions could boost the Palestinian economy's long-term annual growth potential by as much as 4 percentage points per year, to 6 percent. In this context, the GoI's recently adopted measures facilitating the entry of good containers through the Allenby bridge and the continued expansion of the Door-to-Door (D2D) program are welcome small steps.[23]

[23] The D2D trade facilitation program allows Palestinian businesses to transport shipments from their production sites to recipients in Israel without undergoing the costly and cumbersome back-to-back transfer of shipments at

(continued)

27. PA structural reforms to further improve the business climate and broaden the economy's digital transformation are also important. The 2021 companies law modernized the legal framework for business registration and licensing and strengthened minority investor protection. Implementing regulations and new dedicated digital infrastructure (including an online business registration platform) are needed to maximize benefits and spur domestic private sector activity. Digital economy and commercial law reform (e.g., the adoption of e-commerce and e-signature laws), and better PA inter-agency coordination are also required to boost digital entrepreneurship, digital financial services, and trade logistics. Telecom law amendments strengthened the sector regulator's technical and administrative powers, an understanding with the GoI was reached to allow Palestinian operators to use 4G spectra, and the GoI selected a spectrum management company. However, the GoI approval for fiber optic links to ensure inter-city connectivity and selection of the Israeli operators with whom Palestinian operators will share spectra are still pending. Technical and commercial agreements between Palestinian and the Israeli operators will subsequently need to be reached. The Cabinet-approved competition law has not yet been signed by the President and progress toward adoption of the draft labor law, as well as the process of drafting consumer protection, insolvency and debt settlement laws are at a standstill.

28. Economic growth would also benefit from large infrastructure projects, particularly in the field of electricity generation and transmission. The Palestine Investment Fund is spearheading large-scale investments in renewable and conventional power generation, as well as financing a number of innovative small- and medium-scale projects such as the Nablus and Araba solar power plants. Still, significantly more generation capacity is needed to meet current—let alone future—electricity demand. The construction in Area C of large-scale solar power plants as well as power transmission and distribution infrastructure needed to fill the gap is held back by Israeli restrictions.[24] Progress on the Gas for Gaza project is also contingent on Israeli approval of the final design of the pipeline crossing point into Gaza. Upon completion, the project will allow the Gaza Power Plant to switch from diesel to more efficient and cleaner gas-powered electricity generation, increasing capacity and substantially reducing greenhouse gas emissions (GHGs).

Authorities' Views

29. The authorities agree on the necessity for structural reforms in areas within the PA's purview but underscore the role that the GoI has to play to foster growth. They point to several long-standing pieces of Palestinian legislation that were updated since 2021. Labor and social security legislation are pending consultation with the private sector. The authorities remain committed to advancing efforts to draft consumer protection, insolvency, and debt settlement laws with technical assistance from development partners, and to foster the digitalization of government services. However, they stressed that Israel has an important role to play in boosting growth meaningfully, namely by allowing Palestinians unhindered access to and investment in Area C,

dedicated but congested border crossings. The program, launched in 2018, mostly benefits large enterprises, but Palestinian and Israeli authorities are working to expand services to more small and medium enterprises.

[24] See the World Bank's *May 2023 AHLC report*.

reducing movement and access restrictions (including ending their blockade of Gaza), as well as enhancing cooperation and timely approval for large infrastructure projects.

STAFF APPRAISAL

30. The Palestinian economy remains in a dire state amid a volatile security, political, and social situation, with downside risks persisting. The economic recovery is gradually losing momentum, reflecting the impact of the increasingly fragile environment and Israel's sharp slowdown. Staff foresees a gradual reduction of real per capita income over the medium term amid a continued widening of the already large gap in living standards between the economies of the West Bank and Gaza. Under entrenched challenges and tight policy space, the unresolved fiscal crisis and the liquidity squeeze that have led the PA to execute the 2023 budget on a month-to-month cash basis are ever more undermining the delivery of basic government services, social support, and full payment of wages and salaries. Continued accumulation of arrears, persistently high unemployment and poverty, and growing public discontent further add to vulnerabilities and social tensions. Amid myriad challenges, the drive for much-needed reforms is faltering.

31. Achieving higher economic growth and overcoming the fiscal crisis are interrelated goals, requiring coordinated efforts from the PA, Israel, and the international community. As detailed in recent IMF reports to the AHLC, easing the Israeli-imposed restrictions on movement, access, and investment would provide the largest boost to Palestinian economic growth. Following the halving of the handling fee charged by Israel on Palestinian fuel imports, further tangible outcomes on the resolution of the other outstanding fiscal files, including taxation in Area C, remains critical. The PA should pursue reforms to enhance the business climate, advance the digital transformation of the economy, and step up critical energy infrastructure projects. Higher economic growth would greatly contribute to support public finances, but would not substitute for ambitious expenditure reforms needed to restore fiscal sustainability in a gradual and socially balanced way, while freeing up resources for much-needed development and social spending. Trimming the wage bill is the top priority expenditure reform, while reforming the systems of net lending and health referrals are also needed. Gradually phasing out fuel subsidies should also be considered. Over the medium term, the authorities should ponder pension reform. The international community should consider supporting the PA's reform efforts by increasing grants from currently low levels, to allow a paced consolidation that would alleviate the burden on the most vulnerable. Building on recent progress in strengthening its financial stability toolkit, the PMA should continue working to close the remaining gaps in its risk-based supervisory framework and, together with the Bank of Israel and other relevant Israeli institutions and entities, operationalize new long-term CBR arrangements.

Table 1. West Bank and Gaza: Selected Economic Indicators, 2019–28

Per capita GDP (2022 est.): US$3,569 | Poverty rate (2017 est.): 14 percent in the West Bank; 53 percent in the Gaza Strip 1/

				Est.	Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Output, Employment and Prices				(annual percentage change)						
Real GDP (2015 market prices)	1.4	-11.3	7.0	3.9	3.0	2.7	2.4	2.0	2.0	2.0
West Bank	1.6	-11.0	7.6	3.6	2.8	2.8	2.5	2.1	2.1	2.1
Gaza	0.4	-12.6	4.2	5.6	3.9	2.2	1.9	1.5	1.5	1.5
Unemployment rate (period average)	25.4	25.9	26.4	24.4	...	...	...	...	...	...
CPI inflation rate (end-of-period)	1.3	0.1	1.3	4.1	3.0	2.5	2.3	2.2	2.0	2.0
CPI inflation rate (period average)	1.6	-0.7	1.2	3.7	3.4	2.7	2.5	2.2	2.0	2.0
				(in percent of GDP)						
Gross capital formation	26.8	24.3	25.5	26.7	24.4	23.7	24.7	26.5	26.0	25.8
Gross national savings	16.4	12.1	15.6	11.7	11.4	11.5	12.9	15.3	15.0	15.1
Saving-investment balance	-10.4	-12.3	-9.8	-15.0	-13.0	-12.2	-11.8	-11.3	-11.0	-10.7
Public Finances 2/				(in percent of GDP)						
Total revenues and grants	23.9	25.7	25.6	29.3	29.0	28.4	28.4	28.5	28.5	28.5
Revenues	21.0	22.5	23.9	27.4	27.1	26.6	26.6	26.7	26.8	26.9
Grants	2.9	3.1	1.8	1.9	1.9	1.9	1.8	1.8	1.7	1.6
Total Expenditure	28.3	33.0	30.8	30.3	30.3	30.6	30.8	31.3	31.5	31.9
Current expenditures and net lending	26.3	31.3	29.5	28.8	28.7	29.1	29.3	29.7	30.0	30.3
Development expenditures	2.0	1.8	1.3	1.5	1.6	1.6	1.6	1.6	1.6	1.6
Overall balance (commitment, before external support)	-7.3	-10.5	-7.0	-2.9	-3.2	-4.1	-4.2	-4.6	-4.7	-5.0
Overall balance (commitment)	-4.5	-7.4	-5.2	-1.0	-1.3	-2.2	-2.4	-2.8	-3.1	-3.4
Identified financing	4.2	7.4	5.2	1.0	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8
Financing gap/residual 3/	0.3	0.0	0.0	0.0	4.1	5.0	5.3	5.7	5.9	6.3
Financing gap/discrepancy (in millions of U.S. dollars) 3/	45.1	-0.1	0.6	2	740	932	1004	1110	1202	1324
Total external support	2.9	3.1	1.8	1.9	1.9	1.9	1.8	1.8	1.7	1.6
Public debt 4/	34.5	47.1	50.2	49.1	47.4	47.1	47.3	48.2	49.4	50.9
Monetary Sector 5/				(annual percentage change)						
Credit to the private sector	5.3	5.6	5.6	6.7	6.5	6.8	6.4	5.9	5.4	4.9
Private sector deposits	10.0	13.9	8.3	-0.3	3.5	5.7	6.2	5.9	5.4	5.0
External Sector				(in percent of GDP)						
Current account balance (excluding official transfers)	-13.3	-14.5	-10.8	-16.3	-14.2	-13.3	-12.8	-12.2	-11.8	-11.5
Current account balance	-10.4	-12.3	-9.8	-15.0	-13.0	-12.2	-11.8	-11.3	-11.0	-10.7
Exports of goods and services	15.5	15.4	17.3	18.5	17.1	16.6	16.2	15.9	15.6	15.5
Import of goods and services	53.5	51.9	55.7	67.4	64.4	63.1	62.4	61.8	61.4	61.1
Primary income account, net	17.7	16.0	20.0	20.9	21.5	21.9	22.1	22.5	22.7	23.0
Secondary income account, net	9.9	8.3	8.6	12.9	12.7	12.5	12.3	12.2	12.1	12.0
Private transfers	7.0	6.0	7.5	11.6	11.6	11.4	11.3	11.3	11.2	11.1
Official transfers	2.9	2.3	1.0	1.3	1.2	1.1	1.0	0.9	0.9	0.8
Memorandum Items:										
Nominal GDP (in millions of U.S. dollars)	17,134	15,532	18,109	19,112	20,355	21,469	22,533	23,490	24,439	25,426
Per capita nominal GDP (U.S. dollars)	3,443	3,045	3,464	3,569	3,715	3,831	3,934	4,013	4,088	4,167
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/ In the absence of additional donor support, the projected financing gap will be closed through the accumulation of domestic arrears.

4/ Data beginning in 2021 include the estimated stock of promissory notes.

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

Table 2a. West Bank and Gaza: Central Government Fiscal Operations, 2019–28 1/

(GFS2001, commitment basis, in percent of GDP, unless otherwise indicated)

					Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Revenue and Grants	23.9	25.7	25.6	29.3	29.0	28.4	28.4	28.5	28.5	28.5
Tax revenue	18.4	19.5	20.9	24.0	23.7	23.2	23.2	23.3	23.4	23.5
Direct taxes	1.2	1.2	1.2	1.5	1.6	1.6	1.6	1.6	1.6	1.6
Indirect taxes	3.3	3.5	4.3	4.7	4.9	5.0	5.0	5.0	5.0	5.0
VAT on domestic purchases	1.8	2.0	2.1	2.3	2.5	2.5	2.5	2.5	2.5	2.5
Excises	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Customs duties	1.1	1.0	1.6	1.8	1.9	1.9	1.9	1.9	1.9	1.9
Clearance revenues 1/	14.2	15.1	15.9	18.1	17.4	16.9	16.9	17.0	17.1	17.1
Income Tax	0.4	0.1	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
VAT on imports	3.5	3.4	3.5	4.5	4.5	4.5	4.5	4.6	4.6	4.6
Petroleum Excise	4.3	4.4	4.4	5.4	5.4	5.5	5.5	5.5	5.5	5.5
Customs	6.0	7.2	7.7	8.3	8.3	8.4	8.4	8.4	8.4	8.4
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax refunds	0.3	0.3	0.6	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Non-tax revenues	2.1	2.4	2.2	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Earmarked revenues 2/	0.5	0.6	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Grants	2.9	3.1	1.8	1.9	1.9	1.9	1.8	1.8	1.7	1.6
External budgetary support	2.9	2.3	1.0	1.3	1.3	1.2	1.2	1.1	1.1	1.0
Total Expenditure and Net Lending	28.3	33.0	30.8	30.3	30.3	30.6	30.8	31.3	31.5	31.9
Current spending	24.5	29.1	27.4	26.9	26.7	27.0	27.2	27.7	27.9	28.3
Wages and salaries	10.9	12.9	13.3	13.1	13.3	13.5	13.6	13.8	14.0	14.2
Goods and services	3.8	4.2	4.5	4.4	4.2	4.3	4.3	4.3	4.3	4.3
Interest payments	0.3	0.4	0.7	0.8	0.8	0.9	1.0	1.1	1.2	1.3
Domestic	0.3	0.3	0.7	0.6	0.7	0.7	0.8	0.9	1.0	1.2
Foreign	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Transfers	8.2	10.4	7.6	6.3	6.3	6.4	6.4	6.5	6.5	6.5
Social assistance	3.0	3.8	2.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Transfers to the pension fund	5.4	6.0	5.0	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Other transfers	-0.2	0.6	0.3	0.3	0.3	0.4	0.4	0.5	0.5	0.5
Fuel Subsidy	0.7	0.4	0.4	1.2	0.9	0.9	0.9	0.9	0.9	0.9
Other	0.1	0.2	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	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Development spending	2.0	1.8	1.3	1.5	1.6	1.6	1.6	1.6	1.6	1.6
Net lending	1.9	2.2	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Overall Balance	-4.5	-7.4	-5.2	-1.0	-1.3	-2.2	-2.4	-2.8	-3.1	-3.4
Financing	4.2	7.4	5.2	1.0	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8
Net domestic financing	4.5	7.4	5.2	1.0	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8
Net domestic bank financing	2.9	3.5	0.5	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
Accumulation of new arrears 3/	4.0	6.8	7.1	4.7	0.0	0.0	0.0	0.0	0.0	0.0
Arrears repayment (old)	-2.5	-2.9	-2.4	-3.1	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2
Net external financing	-0.3	0.0	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	0.0
Residual/Financing Gap	0.3	0.0	0.0	0.0	4.1	5.0	5.3	5.7	5.9	6.3
Memorandum Items:										
Overall balance (before external support)	-7.3	-10.5	-7.0	-2.9	-3.2	-4.1	-4.2	-4.6	-4.7	-5.0
Domestic revenues 4/	6.3	6.8	7.1	8.5	8.7	8.8	8.8	8.8	8.8	8.9
Central government debt (incl. arrears)	34.5	47.1	50.2	49.1	47.4	47.1	47.3	48.2	49.4	50.9
Foreign debt	6.9	8.0	7.0	7.5	7.0	6.6	6.3	6.1	5.8	5.6
Domestic debt	27.6	39.1	43.1	41.7	40.4	40.5	41.0	42.2	43.6	45.3
of which : Stock of promissory notes 5/	n.a.	n.a.	2.0	1.0	0.5	0.0	0.0	0.0	0.0	1.2
of which : Stock of arrears	18.6	25.1	27.7	27.8	…	…	…	…	…	…
of which: Arrears to the pension fund	11.6	14.1	14.1	13.0	…	…	…	…	…	…
Nominal GDP (in billions of shekels)	61.1	53.5	58.5	61.7	65.7	69.3	72.8	75.9	78.9	82.1

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/ In the absence of additional donor support, the accumulation of new arrears is likely to equal the projected financing gap.

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

5/ Data beginning in 2021 include the estimated stock of promissory notes.

Table 2b. West Bank and Gaza: Central Government Fiscal Operations, 2019–28 1/
(GFS2001, commitment basis, in millions of U.S. dollars, unless otherwise indicated)

					Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Revenue and Grants	4,087	3,986	4,640	5,392	5,229	5,256	5,415	5,569	5,802	6,038
Tax revenue	3,148	3,032	3,778	4,417	4,267	4,283	4,422	4,561	4,766	4,972
Direct taxes	210	187	224	279	281	292	299	312	333	346
Indirect taxes	557	546	774	864	891	915	946	973	1,011	1,059
VAT on domestic purchases	304	306	371	423	452	462	476	489	510	528
Excises	63	86	108	107	100	102	106	108	113	117
Customs duties	186	150	290	328	334	346	359	370	383	408
Clearance revenues 1/	2,433	2,350	2,888	3,321	3,141	3,122	3,225	3,325	3,473	3,621
Income Tax	63	22	81	58	57	58	60	62	65	67
VAT on imports	602	534	627	832	816	839	866	893	929	967
Petroleum Excise	737	687	798	1,001	983	1,010	1,042	1,075	1,119	1,164
Customs	1,034	1,112	1,388	1,533	1,504	1,547	1,595	1,647	1,713	1,782
Other	0	0	0	0	0	0	0	0	0	0
Tax refunds	52	51	107	46	46	47	48	49	51	54
Non-tax revenues	358	370	402	458	449	460	475	488	507	528
Earmarked revenues 2/	92	98	142	167	164	168	174	178	185	193
Grants	490	486	318	349	349	345	344	343	344	345
External budgetary support	498	354	186	244	235	229	224	220	215	211
Total Expenditure and Net Lending	4,855	5,131	5,583	5,568	5,455	5,662	5,875	6,122	6,423	6,759
Current spending	4,194	4,515	4,968	4,934	4,807	4,998	5,190	5,418	5,691	5,995
Wages and salaries	1,866	2,001	2,413	2,415	2,405	2,491	2,589	2,704	2,846	3,011
Goods and services	643	657	807	811	764	798	823	846	880	915
Interest payments	53	56	125	142	150	164	184	207	237	271
Domestic	48	50	119	117	124	138	158	181	210	244
Foreign	5	6	6	25	26	26	26	26	26	27
Transfers	1,402	1,615	1,371	1,154	1,132	1,179	1,216	1,274	1,326	1,379
Social assistance	511	591	420	403	395	405	418	429	446	464
Transfers to the pension fund	932	936	899	696	683	700	722	741	771	803
Other transfers	-42	88	51	55	54	74	76	104	108	112
Fuel Subsidy	123	63	77	215	155	159	164	168	175	182
Other	16	27	33	30	38	39	40	41	43	44
Earmarked payments 2/	92	98	142	167	164	168	174	178	185	193
Development spending	341	277	242	270	283	290	300	308	320	335
Net lending	319	339	374	365	365	374	386	396	412	429
Overall Balance	-767	-1,145	-943	-177	-227	-406	-460	-553	-622	-721
Financing	722	1,145	942	175	-514	-527	-543	-558	-580	-604
Net domestic financing	766	1,145	942	175	-514	-527	-543	-558	-580	-604
Net domestic bank financing	504	551	88	-116	-114	-117	-120	-124	-129	-134
Accumulation of new arrears 3/	686	1,049	1,285	855	0	0	0	0	0	0
Arrears repayment (old)	-424	-454	-431	-564	-400	-410	-423	-434	-452	-470
Net external financing	-44	0	0	0	0	0	0	0	0	0
Borrowing, net	-44	0	0	0	0	0	0	0	0	0
Residual/Financing Gap	45	0	1	2	740	932	1,004	1,110	1,202	1,324
Memorandum Items:										
Overall balance (before external support)	-1,257	-1,631	-1,261	-526	-575	-751	-804	-895	-965	-1,066
Domestic revenues 4/	1,073	1,052	1,293	1,554	1,575	1,621	1,672	1,723	1,800	1,879
Domestic tax revenues (percent change)	-9	-8	28	19	11	6	5	5	5	5
Clearance revenues (percent change)	8	-7	15	20	3	2	5	5	4	4
Total expenditure and net lending (percent change)	8	6	9	0	-2	4	4	4	5	5
Grants (millions of US dollars) 5/	490	486	318	349	349	345	344	343	344	345
of which : budget support	498	354	186	244	235	229	224	220	215	211
Central government debt (incl. arrears)	6,057	7,751	9,371	8,790	8,393	8,638	8,955	9,384	10,002	10,718
Foreign debt	1,211	1,312	1,313	1,335	1,240	1,217	1,198	1,181	1,181	1,181
Domestic debt	4,846	6,439	8,058	7,456	7,152	7,421	7,758	8,203	8,820	9,537
of which: Stock of promissory notes 6/	n.a.	n.a.	372	181	84	0	0	0	0	0
of which: Stock of arrears	3,277	4,137	5,171	…	…	…	…	…	…	…
of which : Arrears to the pension fund	2,046	2,327	2,636	…	…	…	…	…	…	…
Nominal GDP	17,134	15,532	18,109	19,112	20,355	21,469	22,533	23,490	24,439	25,426

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/ In the absence of additional donor support, the accumulation of new arrears is likely to equal the projected financing gap.

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

5/ Excludes off-budget support through the UNRWA.

6/ Data beginning in 2021 include the estimated stock of promissory notes.

Table 2c. West Bank and Gaza: Central Government Fiscal Operations, 2019–28 1/

(GFS2001, commitment basis, in billions of shekels, unless otherwise indicated)

					Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Revenue and Grants	14.6	13.7	15.0	18.1	19.1	19.7	20.7	21.6	22.5	23.4
Tax revenue	11.2	10.4	12.2	14.8	15.6	16.1	16.9	17.7	18.5	19.3
Direct taxes	0.7	0.6	0.7	0.9	1.0	1.1	1.1	1.2	1.3	1.3
Indirect taxes	2.0	1.9	2.5	2.9	3.3	3.4	3.6	3.8	3.9	4.1
VAT on domestic purchases	1.1	1.1	1.2	1.4	1.6	1.7	1.8	1.9	2.0	2.0
Excises	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.5
Customs duties	0.7	0.5	0.9	1.1	1.2	1.3	1.4	1.4	1.5	1.6
Clearance revenues 1/	8.7	8.1	9.3	11.2	11.5	11.7	12.3	12.9	13.5	14.0
Income Tax	0.2	0.1	0.3	0.2	0.2	0.2	0.2	0.2	0.3	0.3
VAT on imports	2.1	1.8	2.0	2.8	3.0	3.1	3.3	3.5	3.6	3.7
Petroleum Excise	2.6	2.4	2.6	3.4	3.6	3.8	4.0	4.2	4.3	4.5
Customs	3.7	3.8	4.5	5.2	5.5	5.8	6.1	6.4	6.6	6.9
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax refunds	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Non-tax revenues	1.3	1.3	1.3	1.5	1.6	1.7	1.8	1.9	2.0	2.0
Earmarked revenues 2/	0.3	0.3	0.5	0.6	0.6	0.6	0.7	0.7	0.7	0.7
Grants	1.7	1.7	1.0	1.2	1.3	1.3	1.3	1.3	1.3	1.3
External budgetary support	1.8	1.2	0.6	0.8	0.9	0.9	0.9	0.9	0.8	0.8
Total Expenditure and Net Lending	17.3	17.7	18.0	18.7	19.9	21.2	22.4	23.7	24.9	26.2
Current spending	15.0	15.5	16.0	16.6	17.5	18.8	19.8	21.0	22.1	23.2
Wages and salaries	6.7	6.9	7.8	8.1	8.8	9.3	9.9	10.5	11.0	11.7
Goods and services	2.3	2.3	2.6	2.7	2.8	3.0	3.1	3.3	3.4	3.5
Interest payments	0.2	0.2	0.4	0.5	0.5	0.6	0.7	0.8	0.9	1.0
Domestic	0.2	0.2	0.4	0.4	0.5	0.5	0.6	0.7	0.8	0.9
Foreign	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Transfers	5.0	5.6	4.4	3.9	4.1	4.4	4.6	4.9	5.1	5.3
Social assistance	1.8	2.0	1.4	1.4	1.4	1.5	1.6	1.7	1.7	1.8
Transfers to the pension fund	3.3	3.2	2.9	2.3	2.5	2.6	2.8	2.9	3.0	3.1
Other transfers	-0.1	0.3	0.2	0.2	0.2	0.3	0.3	0.4	0.4	0.4
Fuel Subsidy	0.4	0.2	0.2	0.7	0.6	0.6	0.6	0.7	0.7	0.7
Other	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Earmarked payments 2/	0.3	0.3	0.5	0.6	0.6	0.6	0.7	0.7	0.7	0.7
Development spending	1.2	1.0	0.8	0.9	1.0	1.1	1.1	1.2	1.2	1.3
Net lending	1.1	1.2	1.2	1.2	1.3	1.4	1.5	1.5	1.6	1.7
Overall Balance	-2.7	-3.9	-3.0	-0.6	-0.8	-1.5	-1.8	-2.1	-2.4	-2.8
Financing	2.6	3.9	3.0	0.6	-1.9	-2.0	-2.1	-2.2	-2.2	-2.3
Net domestic financing	2.7	3.9	3.0	0.6	-1.9	-2.0	-2.1	-2.2	-2.2	-2.3
Net domestic bank financing	1.8	1.9	0.3	-0.4	-0.4	-0.4	-0.5	-0.5	-0.5	-0.5
Accumulation of new arrears 3/	2.4	3.6	4.2	2.9	0.0	0.0	0.0	0.0	0.0	0.0
Arrears repayment (old)	-1.5	-1.6	-1.4	-1.9	-1.5	-1.5	-1.6	-1.7	-1.8	-1.8
Net external financing	-0.2	0.0	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	0.0
Residual/Financing Gap	0.2	0.0	0.0	0.0	2.7	3.5	3.8	4.3	4.7	5.1
Memorandum Items:										
Overall balance (before external support)	-4.5	-5.6	-4.1	-1.8	-2.1	-2.8	-3.1	-3.5	-3.7	-4.1
Domestic revenues 4/	3.8	3.6	4.2	5.2	5.7	6.1	6.4	6.7	7.0	7.3
Domestic tax revenues (percent change)	-8.8	-7.7	27.7	19.2	11.3	6.0	5.0	4.8	4.6	4.6
Clearance revenues (percent change)	7.7	-6.7	15.3	19.6	2.7	2.3	5.1	4.6	4.5	4.2
Total expenditure and net lending (percent change)	7.5	2.1	2.1	3.7	6.3	6.8	5.6	5.8	4.9	5.2
Central government debt (incl. arrears)	21.1	25.2	29.4	30.3	31.2	32.7	34.4	36.6	39.0	41.8
Foreign debt	4.2	4.3	4.1	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Domestic debt	16.8	20.9	25.2	25.7	26.6	28.1	29.8	32.0	34.4	37.2
of which: Stock of promissory notes 5/	n.a.	n.a.	1.2	0.6	0.3	0.0	0.0	0.0	0.0	1.0
of which: Stock of arrears	11.4	13.4	16.2	17.2	…	…	…	…	…	…
of which : Arrears to the pension fund	7.1	7.6	8.3	8.0	…	…	…	…	…	…
Nominal GDP	61.1	53.5	58.5	61.7	65.7	69.3	72.8	75.9	78.9	82.1

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/ In the absence of additional donor support, the accumulation of new arrears is likely to equal the projected financing gap.

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

5/ Data beginning in 2021 include the estimated stock of promissory notes.

Table 3. West Bank and Gaza: Financial Soundness Indicators, 2017–23

(In percent)

	Dec-17	Dec-18	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
Capital Adequacy																	
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	14.4	14.3	14.7	14.3	14.6	14.8	14.6
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	16.2	16.1	16.5	16.1	16.3	16.5	16.4
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	4.2	4.2	4.1	4.0	4.2	4.1
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	1.4	1.5	1.2	0.7	-0.3	1.2	1.1
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	94.6	95.6	97.3	101.2	95.4	95.7
Loan to deposit ratio	67.0	69.0	67.5	69.5	69.9	70.4	66.6	66.9	65.9	64.6	65.1	65.2	65.4	65.7	65.5	65.9	65.9
Earnings and Profitability 2/																	
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	1.4	1.4	1.5	1.5	2.2	2.2
Return on equity (ROE)	16.1	15.2	8.7	8.4	5.2	5.7	5.4	11.7	9.5	9.5	9.2	10.3	10.3	10.9	11.0	14.8	15.0
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	72.7	71.3	73.6	74.4	75.1	76.6	78.5
Non-interest expenses to gross income	62.0	63.3	63.4	63.5	65.7	64.1	63.7	59.5	59.6	59.5	59.9	59.4	59.1	57.8	57.3	51.4	50.5
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	34.2	33.0	32.7	32.6	33.0	30.1
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	42.9	41.8	42.1	42.0	41.6	36.7
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	48.4	46.3	43.4	44.1	44.0	40.3

Source: Palestine Monetary Authority.

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

2/ ROA and ROE follow the 2019 IMF Financial Soundness Indicators Compilation Guide for 2019Q4 onwards. Figures for earlier years follow the 2006 Guide and are thus not comparable.

Annex I. Risk Assessment Matrix[1]

Nature/ Sources of Risk	Relative Likelihood	Expected Impact If Realized	Policies to Mitigate Risks
Domestic risks			
Further deterioration of the PA's fiscal trajectory	***High***	***High*** Fiscal deficits widen, financed by an increasing stock of arrears. Cascading arrears cause lack of confidence and all-round liquidity shortages, damaging growth and financial stability. Debt (including arrears) remains unsustainable.	Pursue gradual fiscal consolidation, centered on expenditure reform and consolidation of revenue gains. Take stock of arrears and devise a credible 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, West Bank and Gaza's financial system would suffer, harming growth.	Work with Israeli counterparts to adopt a long-term alternative for the current CBRs. 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 and security tensions due to lack of opportunities or prospects for peace	***High***	***High*** Unemployment, poverty, frustration with the lack of progress on the peace process, dissatisfaction with domestic politics and Israeli government policies affecting Palestinians may lead to the escalation of civil unrest or another confrontation with Israel. This would undermine growth and worsen the humanitarian crisis.	Sound macroeconomic management and economic reform could help instill confidence and alleviate economic strain. 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 assessmentof 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***	***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 job, lowering income 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 impact support for poor and vulnerable households and make the implementation of a reform agenda more difficult. Given that donor grants already are at historic lows, a further decrease would worsen the growth outlook 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			
Abrupt global slowdown or recession	***Medium***	***Medium*** This results in lower exports due to weakened external demand, slower growth, and job losses, adversely impacting public finances, and potentially undermining bank asset quality.	Provide temporary targeted support to those in need by shifting spending away from lower priority areas. Strengthen banking sector crisis management capacity.
Intensification of regional conflicts and commodity price volatility	***High***	***Medium*** Further sanctions from Russia's war in Ukraine or other regional conflicts could disrupt trade and financial flows and exacerbate commodity price volatility. This may lead to price and real sector volatility, social unrest, and food and energy crises.	Provide temporary targeted support to those in need by shifting away from lower priority areas, provided the fiscal situation allows it.
Extreme climate events	***Medium***	***High*** Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	Provide temporary targeted support to those in need by shifting away from lower priority areas, provided the fiscal situation allows it. Strengthen disaster preparedness and management capacity.

Annex II. Debt Sustainability Analysis

The large accumulation of arrears indicates that West Bank and Gaza is in debt distress. Moreover, under the baseline, the increasing trajectory of its public debt over the long term is unsustainable—amid a fragile socio-political environment that limits the appetite for reforms, the adverse impact on economic growth of the Israeli-imposed restrictions on the movement of people, goods and capital, and the persistently low level of contributions from the international community. The materialization of shocks associated with uncertainties over the size of the accumulated arrears and the limited central government coverage of official debt statistics could further worsen sustainability. Putting debt on a sustainable trajectory will require coordinated transformative reform by the Palestinian Authority, Israel, and the international community.

A. Introduction

1. **The Sovereign Risk and Debt Sustainability Framework (SRDSF) for market access countries assesses the risk of debt distress in the near (1–2 years)[1] and medium term (5 years)[2] against relevant comparator groups.** The framework is designed to act as an early warning system for debt distress in the context of macroeconomic surveillance.[3] If a country already experiences stress, the framework can determine if the stress can be resolved through a combination of adjustment policies and new financing, typically in the context of a Fund-supported program, or if exceptional measures (e.g., debt restructuring) are needed to achieve medium-term debt sustainability. The SRDSF provides two outputs: a sovereign risk assessment and a debt sustainability assessment. The results of the tools are combined into an overall assessment across different time horizons and complemented by IMF staff judgement. The new framework includes several "realism tools" to detect overly optimistic debt, fiscal and macroeconomic projections.[4]

B. Structure of Government Debt and Recent Developments

2. **In West Bank and Gaza, government debt refers to central government liabilities, largely of a domestic nature (Tables 2 and 3).** Domestic debt stood at 85 percent of total debt at end-2022. Arrears are estimated to be its largest component (67 percent), though uncertainties remain about their exact size pending a dedicated audit. Arrears are largely to the pension fund—in the form of unpaid government and employee contributions—but also to PA suppliers and contractors, as well as public

[1] The near-term analysis assesses risks based on indicators of a country's quality of institutions and stress history, cyclical position, debt burden and buffers, and global conditions. Through a logit model, these variables are transformed into a single risk metric index, with a higher index value representing higher risk of sovereign stress.

[2] The medium-term risk analysis combines the results of two modules that capture solvency and liquidity risks implied by medium-term projections and simulations. The Debt Fanchart module focuses on solvency risks stemming from a country's debt burden. The Gross Financing Needs (GFN) module focuses on a country's ability to meet its gross financing needs over the medium term. Using simple averaging, the Debt Fanchart and GFN module indices are combined into an aggregate Medium-Term Index (MTI) and assessed against thresholds to evaluate risk.

[3] Stress or distress refers to an event where market and/or fiscal pressures related to debt become acute.

[4] The framework also includes tools for the assessment of longer-term risks arising, for instance, from climate change, demographics-related developments, and exhaustion of natural resources.

sector employees who have been paid only partial salaries since November 2021. Other components of the domestic debt include loans and overdrafts from commercial banks to the Palestinian Authority, and promissory notes held by the private sector. External debt represented about 15 percent of total debt at end-2022, with the Al Aqsa Fund and, to a lesser extent, the World Bank and the Qatar National Bank the main creditors. Bilateral creditors (Italy and Spain) account for a smaller share (11.5 percent of external debt).

Total Debt Liabilities of the PA
(In percent of GDP)

	2019	2020	2021	2022
Gross debt liabilities	34.5	47.1	50.2	49.1
Domestic debt	27.6	39.1	43.1	41.7
Loans and overdrafts	8.9	14.0	13.5	12.9
Promissory notes 1/	…	…	2.0	1.0
Arrears 1/	18.6	25.1	27.7	27.8
External debt	6.9	8.0	7.0	7.5

Sources: Ministry of Finance; and IMF staff estimates
1/ Figures are estimates due to insufficient official data.

C. Baseline Scenario Projections

3. **The macroeconomic outlook remains grim under unchanged policies.** The economic recovery is losing momentum and growth is projected to gradually converge to its potential of around 2 percent over the medium term, below the population growth rate. As pressures on international commodity prices abate, inflation forecasts also settle at around 2 over the medium term, broadly in line with Israel's inflation target. Without policy changes, the fiscal crisis is expected to continue, with the fiscal deficit estimated to rise to around 5.5 percent of GDP by the end of the SRDSF projection horizon. Risks to the baseline scenario are tilted to the downside and mainly associated with the possibility of continued escalation of security and political tensions that would impact negatively on growth, further increases of Israeli deductions form clearance revenues, and a stock of arrears that may be larger than currently estimated by staff.

4. **Reflecting constrained budget financing options, new arrears are expected to be accumulated over the medium term to cover financing gaps**. Domestic bank lending is assumed to be limited because banks are already highly exposed to the PA, refraining them from extending significant amounts of new loans, even as the PA remains current on its payments to the domestic banking sector. Further, the PA does not issue government securities in domestic or international markets. As a result of these limitations, as well as of the decreasing trend in budget support from the international community, the authorities have been accumulating domestic arrears on a regular basis to cover financing gaps and are assumed to continue to do so over the medium term.

5. **Without policy changes, gross public debt will continue to increase over the medium term (Table 4)**. The baseline projections provide information on the evolution of debt and gross financing needs before the framework's risk tools are applied. Under unchanged policies, gross public debt is projected to increase to about 64 percent of GDP by 2032. The increase in debt is driven mainly by the primary deficit combined with weak economic growth. Other drivers (e.g., real interest rates and the inflation differential relative to the U.S.) play a modest role.

6. Medium-term debt projections are based on conservative assumptions. The realism tools under the SRDSF aim to scrutinize the drivers of public debt against the benchmark of historical and cross-country performance (Table 5).

- ***Projections vs realizations of public debt drivers (Table 5A).*** This tool compares the cumulative contributions of key debt drivers over the past five years to those of the next five years. In West Bank and Gaza, the projected increase in debt is smaller than in the past, with real GDP growth expected to bring down debt ratios more than in the past.
- ***Optimism of debt projections (Table 5C).*** This tool shows a cross-country distribution of observed changes in debt-to-GDP ratios over a three-year horizon and places West Bank and Gaza's projected change (red diamond) in this distribution.[5] A projected debt-to-GDP reduction larger than the 75th percentile of the sample (orange histograms) is interpreted as signaling overoptimistic projections.[6] Similarly, if the projected change in debt-to-GDP ratio is larger than the historically largest reduction observed in West Bank and Gaza (red triangle), this could also signify overoptimism. Based on the evidence, the tool does not flag any overoptimism concerns regarding West Bank and Gaza's debt forecasts, as the projected three-year debt reduction (red diamond) is modest in both a cross-country and historical comparison.
- ***Optimism of fiscal adjustment (Table 5D).*** This tool compares West Bank and Gaza's projected fiscal adjustment (three-year change in cyclically adjusted primary balance; red diamond) to fiscal adjustments in other countries during 1990–2019 (data from October 2020 WEO). It also shows the maximum historical adjustment in West Bank and Gaza during this period (red triangle). As staff projects a moderate fiscal relaxation for West Bank and Gaza, the tool suggests that there are no overoptimism concerns.
- ***Consistency of fiscal adjustment and growth assumptions (Table 5E).*** This tool examines the impact of the planned fiscal adjustment on growth under different fiscal multipliers (0.5, 1, 1.5). Large discrepancies between the baseline and the growth paths under different multipliers would indicate the need for further scrutiny. For West Bank and Gaza, the figure suggests that the projected baseline growth path is broadly consistent with plausible fiscal multipliers.
- ***Optimism of baseline real GDP growth (Table 5F).*** The tool compares real GDP growth projections to potential growth projections, output gap, and historical average growth. In the case of West Bank and Gaza, projected GDP growth is consistent with the 10-year average and potential growth, and the output gap is close to zero after five years.

D. Near-Term Risk Assessment

7. West Bank and Gaza is already in debt distress. The PA has been accumulating arrears to the pension fund, suppliers, and contractors for some time, and to public sector employees since November 2021.

[5] The sample includes data between 1990 and 2019 taken from the October 2020 WEO.

[6] A negative debt reduction in the horizontal axis means an increase in debt.

E. Medium-Term Risk Assessment

8. Risks arising from the indebtedness evolution over the medium term are significant. The debt fanchart module (Table 6) simulates possible debt-to-GDP trajectories using a debt dynamics equation and randomly drawn shocks to key variables; it then presents the outcome in the form of a debt fanchart (Table 6B). The information contained in the fanchart is summarized by three metrics (Table 6A): 1) the fanchart width (spread between the 95th and 5th percentile); 2) the probability of debt not stabilizing; and 3) the terminal debt level adjusted using an institutional quality index. The three metrics are then combined into a Debt Fanchart Index (DFI) and compared with the distribution of those calculated for relevant peers (non-commodity exporting emerging markets, surveillance only). At 58.4, the fanchart width for West Bank and Gaza is larger than the 75th percentile of the comparators' distribution, underscoring the considerable uncertainty surrounding the baseline, partly due to unstable security and political conditions. Also, the probability of debt not stabilizing is high and above the 75th percentile. Finally, the terminal debt level interacted (multiplied) with an institutional quality index is comprised between the 50th and 75th percentiles and suggests a low debt carrying capacity and limited options to absorb shocks. As a result, the West Bank and Gaza's DFI points to high solvency risks. Taken together, these medium-term risks suggest the need for deeper fiscal reforms than those incorporated in the baseline.

9. While liquidity risks over the medium term are assessed as moderate (Table 6), the model does not reflect potential shocks that may impact negatively.[7] The Gross Financing Needs (GFN) module assesses whether creditor composition and debt structure pose risks. The GFN Financeability index is calculated to measure risk along three dimensions (Table 6A): 1) the average GFN-to-GDP ratio in the baseline; 2) the initial (current) bank exposure to the government (to assess room for banks to act as residual financier amid funding shocks); and 3) the change in bank claims on the government resulting from the stress scenario (to measure potential demand on the banking system if stress materializes). The index is then compared with thresholds levels to indicate high, moderate, or low risks. The GFN module includes a stress scenario under which the country is exposed to macro-fiscal shocks (e.g., reduced growth for two years, higher interest rate, one-off depreciation), and debt holder shocks (e.g., reduced rollover by foreign private creditors and no new financing, shortening of maturities). West Bank and Gaza's GFN Financeability index indicates moderate risks, as most public debt is in domestic currency and nonmarketable, which minimizes exchange rate risk, and in the form of accounts payable (domestic arrears), which gives the authorities flexibility to decide on the repayment schedule. Notwithstanding, the module may underestimate liquidity risks since it does not take account of the frequent episodes of political and social instability and the limited financing options that West Bank and Gaza faces.

10. Additional sources of risk might not be captured by the fanchart and GFN tools. They are associated with uncertainties over the size of accumulated arrears and the limited central government coverage of official debt statistics. Their potential impact is modeled as a contingent liability shock which, if materialized, would lead to a permanent increase in the stock of debt,

[7] Gross financing needs are estimated as the sum of the primary deficit, debt service, realization of contingent liabilities, minus interest revenue.

pushing it to the 75–95th percentile range of possible trajectories (Table 6B). It would also lead to a temporary spike in gross financing needs, which would then remain permanently higher (Table 6C).

F. Debt Sustainability Assessment

11. Without PA adjustment policies and an easing of Israeli-imposed restrictions, public debt is unsustainable. The large stock of arrears indicates debt distress. Moreover, absent adjustment policies, public debt is projected to steadily increase over the long term and the accumulation of arrears is likely to continue. Restoring debt sustainability will require deep reforms by the Palestinian Authority, the easing of the Israeli-imposed restrictions, and larger grants from the international donor community, as documented in IMF staff's *May 2022 Report to the AHLC*.

Table 1. West Bank and Gaza: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	**High**	The overall risk of sovereign stress is high, reflecting a high level of vulnerability in the near- and medium-term.
Near term	n.a.	n.a.	Not applicable
Medium term	**High**	**High**	Medium-term risks are assessed as high because of limited access to finance, Israeli restrictions on the movement of goods, capital, and people and weak institutions. Moreover, a narrow debt coverage and weak subnational governments pose contingent liabilities to the central government. Political and social instability further heighten medium-term risks.
Fanchart	**High**	...	
GFN	**Moderate**	...	
Stress test	...	...	
Long term	...	**High**	Long-term risks are high in the absence of political settlement. The risks arise mainly from lack of access to productive resources, uncertainty surrounding economic reforms, and increasing climate change pressures.
Sustainability assessment	...	Unsustainable	The large and growing stock of arrears indicates debt distress. Moreover, public debt is projected to continue rising over the long term in the absence of adjustment policies.
Debt stabilization in the baseline			No

DSA Summary Assessment

Commentary: Restoring debt sustainability is contingent on the implementation of reforms, the easing of the Israeli-imposed restrictions on movement and access to resources, and larger financial contributions by the international community. Medium-term liquidity risks, as analyzed by the GFN Financeability Module, may be underestimated because of political uncertainty and social tensions, as well as limited access to financing options. Over the longer run, West Bank and Gaza should continue reforms to generate jobs for a growing population and mitigate risks from climate change.

Source: IMF staff.

Table 2. West Bank and Gaza: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					No	
2. Subsectors included in the chosen coverage in (1) above:						

					Subsectors captured in the baseline	Inclusion	Comments
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes	Includes debt to the pension authorit
				2	Extra budgetary funds (EBFs)	No	
				3	Social security funds (SSFs)	No	
				4	State governments	NA	
				5	Local governments	No	
				6	Public nonfinancial corporations	No	
				7	Central bank	No	
				8	Other public financial corporations	No	

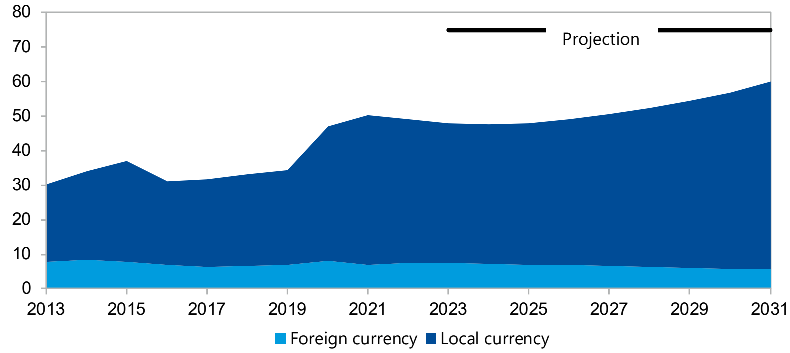
3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

	Basis of recording		Valuation of debt stock		
4. Accounting principles:	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

Source: IMF staff.
1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

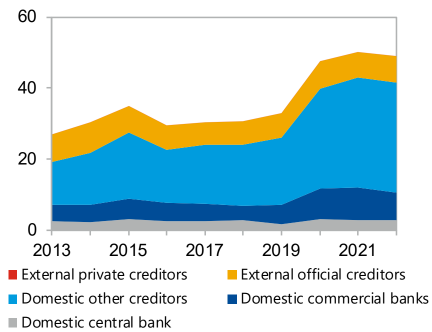
Commentary: Fiscal accounts for the central government include transfers to local government units and the pension fund. Government debt includes promissory notes and estimates of arrears to the private sector, pension fund, public sector employees and retirees.

Table 3. West Bank and Gaza: Public Debt Structure Indicators



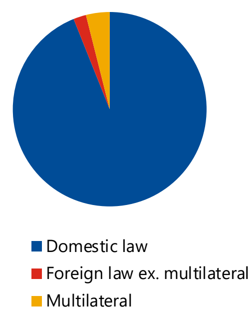
Note: The perimeter shown is central government.

Public Debt by Holder (percent of GDP)



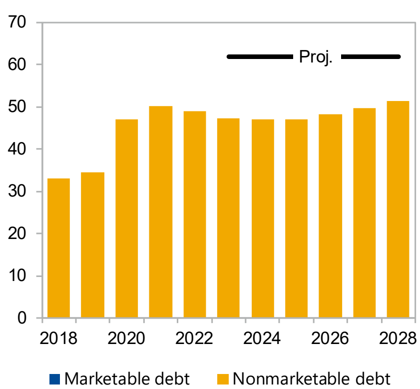
Note: The perimeter shown is central government.

Public Debt by Governing Law, 2022 (percent)



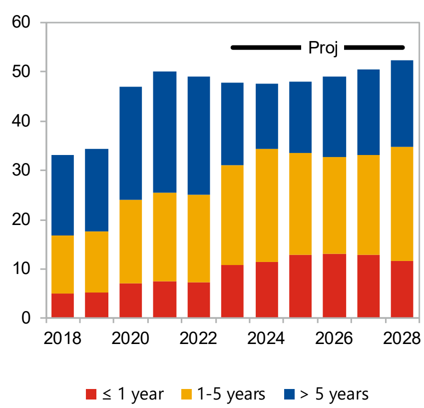
Note: The perimeter shown is central government.

Debt by Instruments (percent of GDP)



Note: The perimeter shown is central government.

Public Debt by Maturity (percent of GDP)



Note: The perimeter shown is central government.

Source: IMF staff.

Commentary: Domestic debt includes central bank advances, bank loans, loans from the Petroleum Authority and other public institutions, promissory notes, and estimates of arrears to the private sector, pension fund, public sector employees and retirees.

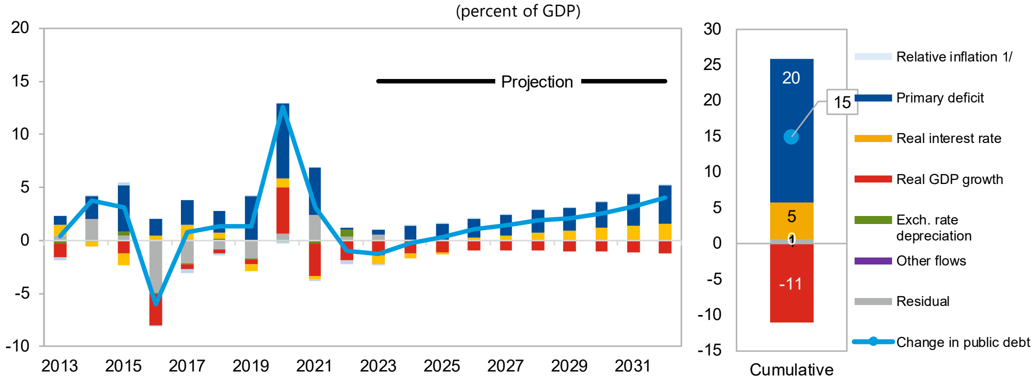
Table 4. West Bank and Gaza: Baseline Scenario

(In percent of GDP unless indicated otherwise)

	Actual	Medium-term projections						Extended projections			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	49.1	47.9	47.6	47.9	49.0	50.4	52.3	54.3	56.9	60.1	64.1
Change in public debt	-1.0	-1.3	-0.2	0.3	1.1	1.4	1.8	2.1	2.6	3.2	4.0
Contribution of identified flows	-1.4	-1.8	-0.3	0.2	1.0	1.4	1.9	2.1	2.6	3.2	4.0
Primary deficit 1/	0.2	0.4	1.3	1.4	1.8	1.9	2.1	2.1	2.5	3.0	3.6
Noninterest revenues	28.2	28.1	27.6	27.6	27.6	27.6	27.6	27.8	27.8	27.8	27.7
Noninterest expenditures	28.4	28.6	28.9	29.0	29.4	29.5	29.8	29.9	30.2	30.7	31.3
Automatic debt dynamics	-1.6	-2.3	-1.6	-1.2	-0.8	-0.5	-0.3	-0.1	0.1	0.2	0.4
Real interest rate and relative inflatioı	-0.3	-0.8	-0.4	-0.1	0.2	0.5	0.7	1.0	1.2	1.4	1.6
Real interest rate	0.0	-0.8	-0.4	-0.2	0.2	0.5	0.7	0.9	1.2	1.4	1.6
Relative inflation 2/	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-1.9	-1.4	-1.3	-1.1	-0.9	-1.0	-1.0	-1.0	-1.1	-1.1	-1.2
Real exchange rate	0.6	...	...	...	...	...	...	...	...	...	...
Other identified flows	0.0	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	0.0
Other transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	0.4	0.6	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	4.6	9.9	12.3	15.0	17.4	17.6	18.2	18.0	20.2	22.2	22.5
of which: debt service	4.4	9.5	11.0	13.5	15.6	15.7	16.0	15.9	17.8	19.3	18.9
Local currency	4.2	9.3	10.8	13.4	15.5	15.6	15.9	15.8	17.7	19.2	18.8
Foreign currency	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Memo:											
Real GDP growth (percent)	3.9	3.0	2.7	2.4	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Inflation (GDP deflator; percent)	1.5	3.4	2.7	2.5	2.2	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth (percent)	5.5	6.5	5.5	5.0	4.2	4.0	4.0	4.0	4.0	4.0	4.0
Effective interest rate (percent)	1.6	1.7	1.8	2.1	2.6	3.0	3.5	3.9	4.2	4.5	4.7

Contribution to Change in Public Debt

(percent of GDP)



Source: IMF staff.

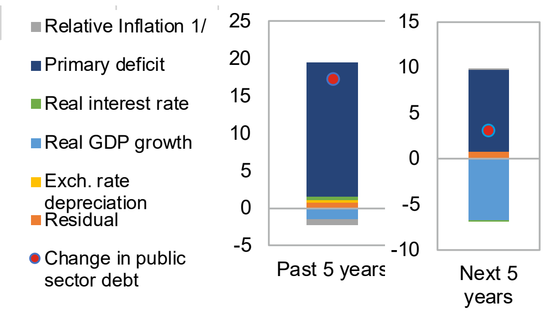
1/ Primary deficit is measured on a commitment basis.

2/ Relative inflation refers to the inflation differential between West Bank and Gaza and the US.

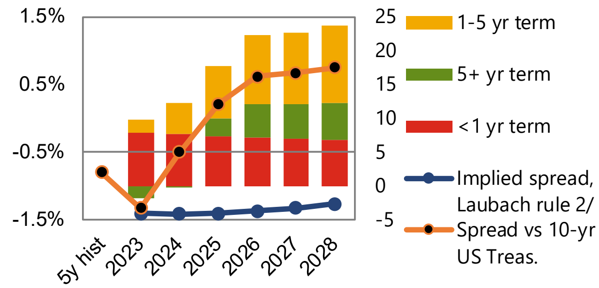
Commentary: Weak economic growth combined with persistent primary deficits drive the steady increase of public debt over the medium and long term.

Table 5. West Bank and Gaza: Realism of Baseline Assumptions

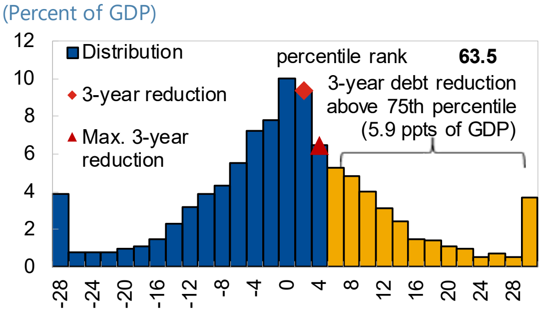
Public Debt Creating Flows
(Percent of GDP)



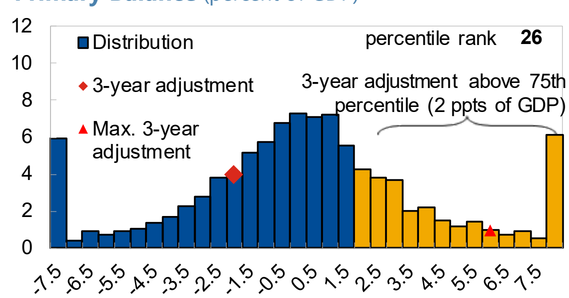
Debt Issuances
(bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



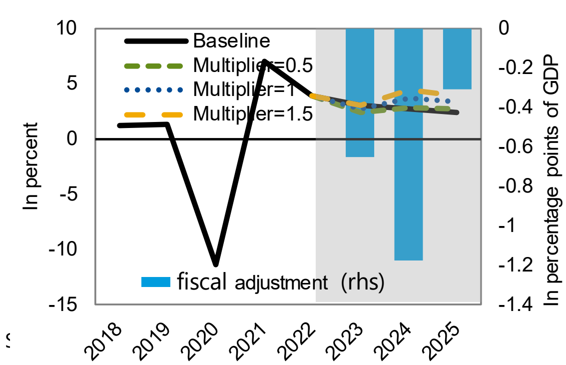
3-Year Debt Reduction
(Percent of GDP)



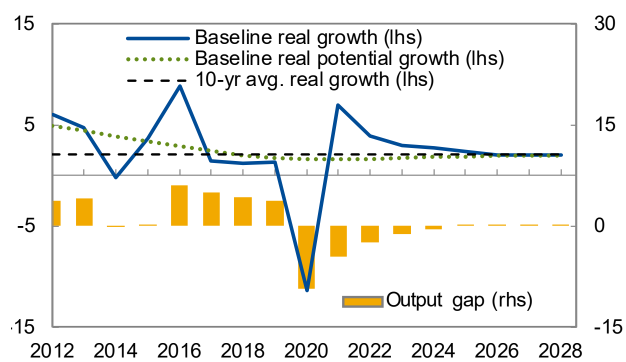
3-Year Adjustment in Cyclically-Adjusted Primary Balance
(percent of GDP)



Fiscal Adjustment and Possible Growth Paths
(lines, real growth using multiplier (LHS); bars, fiscal adustment (RHS))



Real GDP Growth
(in percent)



1/ Relative inflation refers to the inflation differential between West Bank and Gaza and the US.

2/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Commentary: Spreads to US treasury are not very relevant since West Bank and Gaza does not have market access. The three-year debt reduction and projected fiscal adjustment are within norms. Comparators may not be suitable because of West Bank and Gaza's special circumstances.

Table 6. West Bank and Gaza: Medium-Term Risk Analysis

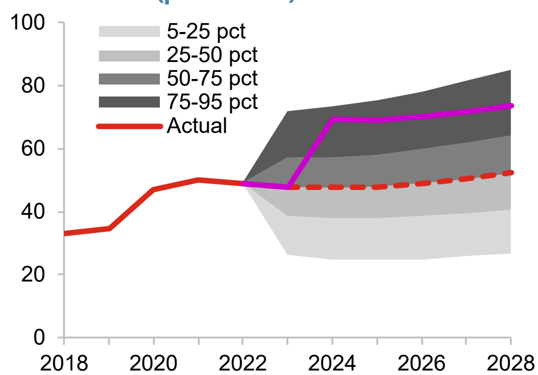
Debt Fanchart and GFN Financeability Indexes

(Percent of GDP unless otherwise indicated)

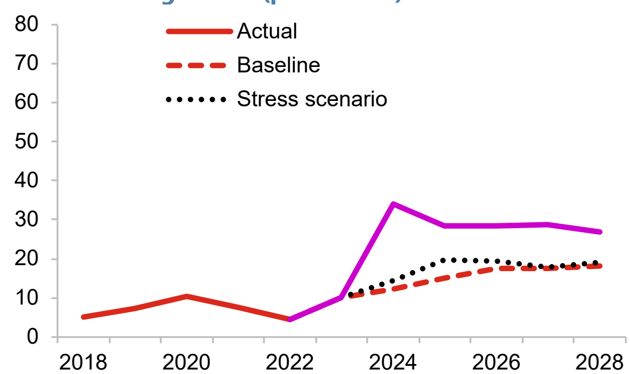
Module	Indicator	Value	Risk index	Risk signal	Emerg. Mrkt., Non-Com. Exp, Surv (0 – 25 – 50 – 75 – 100)
Debt fanchart module	Fanchart width	58.4	0.8	...	
	Probability of debt not stabilizing (pct)	90.0	0.8	...	
	Terminal debt level x institutions index	36.6	0.8	...	
	Debt fanchart index	**...**	**2.4**	**High**	
GFN finance-ability module	Average GFN in baseline	15.1	5.1	...	
	Bank claims on government (pct bank assets)	10.8	3.5	...	
	Chg. in claims on govt. in stress (pct bank assets)	19.2	6.4	...	
	GFN financeability index	**...**	**15.0**	**Moderate**	

Legend: Interquartile range; West Bank and Gaza

Final Fanchart (pct of GDP)



Gross Financing Needs (pct of GDP)

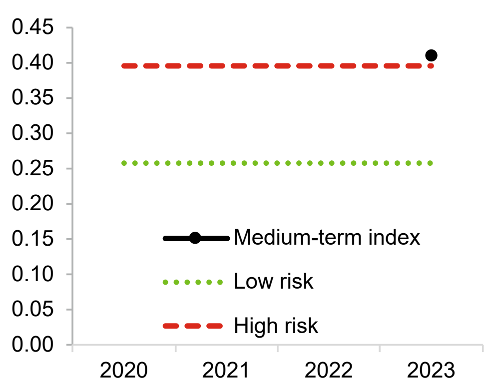


Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-term Index

(index number)



Medium-term Risk Analysis

	Low risk threshold	High risk threhsold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.5
GFN finaceability index	7.6	17.9	0.5	0.3
Medium-term index (MTI)	0.3	0.4	...	0.4, High

Prob. of missed crisis, 2023-2028 (if stress not predicted): 54.5 pct.

Prob. of false alarm, 2023-2028 (if stress predicted): 9.1 pct.

Source: IMF staff.

Commentary: While the Debt Fanchart Module points to a high level of risk, the GFN Financeability Module indicates a moderate level of risk. Nevertheless, gross financing needs may be underestimated because it is unclear if the private sector will accept continued accumulation of arrears. Also, gross financing needs may be underestimated because of contingent liabilities from local governments and the pension fund. Data on amortization are estimates.

Annex III. IMF Technical Assistance to the Palestinian Authority, 2019–23

The IMF has provided technical assistance (TA) to 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's macro-fiscal unit in 2019 and 2022-23. 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. The Fund's legal, monetary and capital markets, and statistics departments (LEG, MCM, and STA) will continue to provide TA on these topics, with support from the Middle East Regional Technical Assistance Center (METAC). FAD, the Fund's fiscal affairs department, 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.

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 Ministry of Finance were created. A medium-term PFM reform plan was agreed in 2011 and updated for 2014–16. IMF Fiscal TA's key objectives in 2019 were to consolidate the progress made, strengthen macro-fiscal forecasting and the macro-fiscal unit, and boost revenue mobilization by helping modernize tax administration. FAD TA resumed in 2022, after a three-year hiatus.

Mission Date	**Mission**	**Date of TA Report**
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
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.
May 10–June 7, 2022	Review of Revenue Administration Reform Strategies	September 2022
June 7–12, 2022	Strengthening Macro Fiscal Planning and Quarterly Reporting	September 2022
November 27–December 9, 2022	Improving Compliance in the Large Taxpayer Department	n.a.
May 30–June 5, 2023	Strengthening Fiscal Strategy	n.a.

Monetary and Financial Systems: MCM TA priorities during 2019–23 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 2019–23, TA centered on bolstering crisis management arrangements, strengthening banking resolution provisions and tools, improving stress-testing to better reflect specificities of WBG's financial sector and test for multi-factor shocks, and modernizing the Palestine Monetary Authority's internal audit function.

Mission Date	**Mission**	**Date of TA Report**
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	July 2021
April 26–May 6, 2021	Macro Stress-Testing	n.a.
June 18–September 29, 2021	Macro Stress-Testing*	December 2021
May 3–7, 2021	FSSR Follow-Up: Financial Institution Restructuring & Resolution	July 2021
January 9–February 6, 2022	Developing a Crisis Management Plan*	May 2022
March 2–17, 2022	Bank Resolution Law Reform*	n.a.
March 21–April 29, 2022	National Payment Systems	August 2022
May 8–11, 2022	AML/CFT*	December 2022
June 26–July 5, 2022	Strengthening On-Site Risk Based Supervision	October 2022
May 10–June 8, 2023	Operationalization of the Bank Resolution Regime	n.a.
June 14–July 11, 2023	Assessment of Internal Audit Function	n.a.
June 18–July 3, 2023	IFRS9 Implementation Review	n.a.
July 9–18, 2023	Cyber Strategy and Supervisory Framework	n.a.
September 12–25, 2023	In-Depth Assessment of Internal Audit Function	n.a.

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 Ministry of Finance, and the Palestine Monetary Authority are on par with those of countries that 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.

Mission Date	**Mission**	**Date of TA Report**
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	April 2022
June 26–July 7, 2022	External Sector Statistics	August 2022
July 24–August 4, 2022	Annual National Accounts	October 2022
October 2–13, 2022	GDP – Administrative Data Sources	December 2022
August 13–24, 2023	GDP – Chain-linking	n.a.

n.a. – not applicable.
* Reports classified as confidential or strictly confidential.