

Statement by Mr. Kanthan Shankar, World Bank Group

Meeting of the Ad Hoc Liaison Committee

May 10th, 2022

We thank Honorable Foreign Minister of Norway, Ms Anniken Huitfeldt, and Honorable Josep Borrell, High Representative of the Union for Foreign Affairs and Security Policy, for the invitation to the meeting of the Ad Hoc Liaison Committee.

We are gathering today with positive momentum in the Palestinian reform agenda, and constructive steps in the economic dialogue between the Palestinian Authority and the Government of Israel. Unfortunately, the circumstances for the Palestinian people on the ground remain difficult. In addition, today the global economy is being hit by a series of crises which are negatively impacting world economic prospects, including the prospects of the Palestinian economy.

In 2021, the Palestinian economy experienced strong growth of 7.1 percent, as measures to confront the pandemic remained significantly eased. Growth was mainly driven by a robust growth rate of nearly 8 percent in the West Bank while Gaza's economic recovery was slowed by the May 2021 conflict, reducing the growth rate to only 3 and a half percent. These developments had a positive impact on poverty rates which slightly decreased to 27 percent in 2021, or about 1.5 million people, while the unemployment rate increased, remaining high, at 24 percent as of Q4 2021. The widening gap in economic performance between the West Bank and the Gaza Strip are demonstrated by the unemployment rates—13 percent and 45 percent, respectively—reflecting the divergent development patterns. Positive developments regarding the Palestinian Authority increase of fiscal revenues—even

in the context of aid levels that reached a historic low in 2021, US\$317 million— enabled the fiscal deficit in 2021 to reduce to US\$940 million, or 5.4 percent of GDP.

Despite these efforts, the size of the deficit is expected to remain large in 2022. Since additional domestic financing is no longer possible, and aid has been on a declining trend, proceeding with priority reforms is crucial. In this regard, we welcome H.E. Minister Bishara’s comprehensive reform package. These reforms, if implemented, would go in the direction of fiscal sustainability.

These proposed reforms, while necessary and urgent, will still be insufficient to allow the economy to reach its potential. Growth in the Palestinian territories is projected to slow to 3.7 percent in 2022, returning to the growth performance of the pre-pandemic years. Further policy actions that will advance growth include alleviating the restrictions on movement and access in the West Bank and Gaza – which continue to be the main impediments to growth and private sector development.

To complement the Palestinian efforts, stronger cooperation between the Palestinian Authority and the Government of Israel is needed on a number of topics, including measures to provide a significant boost to the PA’s fiscal revenues. For example, the important progress achieved with the implementation of the e-VAT systems could be expanded to enhance revenues. As well, if the parties can renegotiate to reduce the Israeli handling fee on Palestinian import taxes, which currently stands at 3 percent as given in the Paris Protocol, it would be another consequential boost to Palestinian fiscal revenues.

Finally, to smooth the transition towards fiscal sustainability, donors' budget support is pivotal. As a share of GDP, aid to the budget fell from 27 percent in 2008 to 1.8 percent in 2021. In today's context, aid is unlikely to reach the previous amounts, but the current levels will not complement the ambition of the PA's reform agenda. Support from new partners, in addition to support from traditional donors, is critical for closing the financing gap.

Given the complexity of some of the announced reforms, a medium-term commitment from all of the stakeholders is absolutely needed. Still, we are left feeling confident – with the implementation of this strong package of reforms, good outcomes from Palestinian-Israeli dialogue, and a greater level of support from the international community. With these factors in mind, we are confident that the Palestinian economy can sustain its recovery and experience higher rates of growth – meaning better outcomes for the Palestinian people.