

Economic Monitoring Note for West Bank and Gaza

I. Overview

During 2008 per capita GDP continued to fall in West Bank and Gaza (WB&G). Overall real GDP is estimated to have increased by about 2%, with all of the growth coming from the West Bank while the Gaza economy continued to decline under that the weight of the ongoing Israeli blockade and the recent ground invasion. The Government of Israel (GOI) maintained its system of economic restrictions in the West Bank and only marginally loosened internal movement restrictions, while continuing to build settlements and establish restrictive commercial crossings between the West Bank and Israel. GDP in WB&G was only maintained by enormous inflows of foreign assistance. Budget support alone was nearly \$1.8 billion, nearly 80% above the 2007 figure. Despite the fall in per capita GDP, the development assistance was so great that disposable income in the West Bank may have actually increased. But despite the Palestinian Authority's success in implementing its Palestinian Reform and Development Plan (PRDP), the productive base of the economy has not recovered and the Palestinian economy, especially the Gaza economy, is becoming ever more aid dependent.

II. Closures and Economic Restrictions

The level of violence has fallen to very low levels in the West Bank, however, the GOI has responded by only marginally loosening its closure regime while continuing its tight economic restrictions and expanding settlements. The PA has been able to extend its security control through large parts of Area A and violence in the West Bank has fallen to the lowest levels in years. However, for most of 2008 the GOI maintained its strict closure regime and in fact tightened it. UN OCHA reported that as of September 2008 there were 630 identified obstacles blocking internal Palestinian movement, up from 611 in April and 580 in February 2008. In the last part of the year, the GOI began to take measures to improve movement and access between areas inside the West Bank. A small number of barriers were removed and several checkpoints began to operate on a "normally open" basis. In addition, during

the holiday periods, checkpoint hours were extended and many permits were issued for West Bank residents to enter into Israeli controlled areas. In addition, the GOI is allowing a small amount of Israeli citizens to enter Jenin and other towns by foot to shop. It is estimated that on some days 200-300 people enter Jenin compared to nearly 10,000 a day before the second *Intifada* and the resulting closures. Though these moves are welcome they have had little significant impact on private sector activity.

Israel has completed six commercial crossing points in the Separation Barrier. Once these are fully operational, all traffic between Israel and the West Bank will be forced to move through them. Shipments to or from Palestinian areas will be transferred on a back-to-back basis with all goods scanned. The GOI has stated that once the Separation Barrier is complete and all of the crossing points operational, then they will be able to reduce the internal barriers. However, the crossings are almost fully operational but as noted above, the internal movement restrictions have not been relaxed in a meaningful way. Thus, the crossings serve as yet another barrier to Palestinian trade.

The construction of the Separation Barrier continues unabated and the GOI persists in actively initiating and promoting the construction of settlements. Since most of the internal movement restrictions can be directly related to the security of settlers, the increase in settlement activity leads directly to additional restrictions on the Palestinian community and economy. According to figures published by the Israeli Central Bureau of statistics, settlement population grew by about 4.7% in 2008 compared to a 1.7% growth rate for the population inside the green line. Peace Now, an Israeli NGO that tracks settlement activity, estimates that in 2008 1,518 new structures were erected in settlements compared to only 860 in 2007.¹ Nearly 39% of the new buildings were east of the Separation Barrier,

¹ GOI does not provide information on settlement activity so the World Bank is forced to use data from Israeli NGOs who exert tremendous efforts to estimate settlement activity.

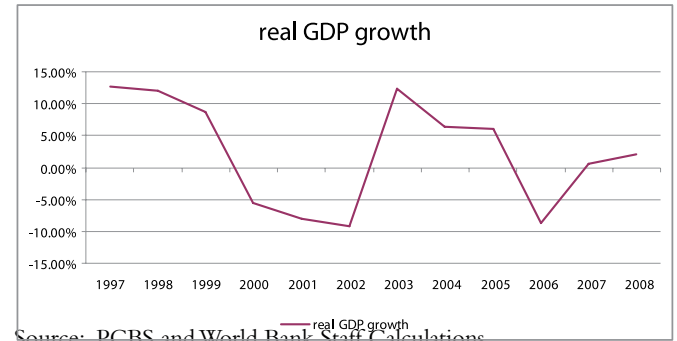
deep inside the West Bank. In addition to the increase in actual buildings, in 2008 there was an eight fold increase in the number of tenders issued for new construction in settlements. Most recently, in February 2009, the GOI announced the approval for building 1,400 new housing units in one settlement and the development of 130 hectares of land in another one. Also in February, a report on a secret database on settlement activity compiled by the Israeli Ministry of Defense was leaked to the Israeli press. The report details how much of the settlement construction was illegal even under Israeli law because it was done without permits or on privately held Palestinian land.

Israel maintains its tight economic restrictions on the Palestinian economy that discourage or prevent private investment. In addition to the movement and access restrictions, the GOI retains control over access to land, water, ability to travel and residency for the Palestinian population. In Gaza, fishermen are restricted to 3-6 nautical miles off the coast leading to over fishing and dwindling catches. The buffer zone along the border with Israel takes up more than 30% of Gaza's arable land and much of it is off limits or extremely dangerous for Palestinian farmers. In the past year, there have been no softening of these restrictions and in some cases they have gotten worse.

III. Economic Developments

By 2007, real per capita GDP had fallen nearly 28% from its peak in 1999. Both the Palestinian Central Bureau of Statistics (PCBS) and IMF estimates indicate that growth in WBG was flat in 2007 and about 2% in 2008. With an average annual population growth of around 2.7% this is not enough to affect a significant recovery of GDP growth. The Gaza Strip economy, already devastated from years of Israeli blockade, was further ravaged by the recent ground invasion. Consequently, what little growth has occurred, has taken place in the West Bank. In other post conflict societies, such as the Balkans, the recovery phase was marked by sustained double digit growth rates as the economy revived from the depths of conflict. Given the low base that the WB&G economy has sunk to, a similar response should be expected here. Thus, the low rates actually experienced indicate the continuing restrictions faced by the Palestinian economy.

Figure 1: Economic Growth 1999-2008*



In 2009 the optimistic scenario is for WB&G GDP to grow by 5% as called for in the PRDP; this would begin a recovery of per capita GDP. All of the growth is assumed to again come from the West Bank, while Gaza continues to stagnate. Given the low base that the West Bank is starting from, 7 or 8 % growth rate is not unimaginable and is actually rather conservative. However, reaching even the 5% growth rate requires that the current fighting in Gaza quickly subside before it spreads to the West Bank or destroys investor confidence there. In addition, the PA, donors and GOI must continue their actions that have produced the slight rebound in the West Bank's growth rate in 2008. If these conditions are not met, growth will be flat or once again turn negative.

The Palestinian economy has been sustained by enormous infusions of foreign aid and the recent growth in the West Bank is the direct result of a large increase in such flows combined with increased security. In 2008, budget support alone (including development expenditures) increased by nearly 80% from the 2007 level and at close to \$1.8 billion, was equivalent to about 30% of GDP. The PA has used the donor largesse to pay salaries and clear arrears to public sector employees and the private sector that had accumulated during 2006 and 2007. The 2009 budget assumes that donors will maintain their high level of budget support and calls for over \$1.6 billion in aid for 2009. Any failure to achieve this will force the PA to either cut back on development spending or once again accumulate arrears, which will have a direct negative impact on the Palestinian economy. The recent fighting in Gaza has added another challenge to the PA. Reconstruction costs have not yet been reliably estimated, but as this report was being written, the PA is preparing a budget supplement that will reportedly call for total of \$1.624 billion, including \$300 million in additional budget support.

Unexpectedly high inflation and fluctuations in the exchange rate have shocked the Palestinian economy. The Consumer Price Index increased by 7% from December 2007 through December 2008. The increase in Gaza was 10.29 % compared to only 4.45 % in the rest of the West Bank. The CPI spiked in the first half of the year due to rapidly rising food and fuel costs as well as the massive inflow of liquidity as the PA resumed paying salaries and arrears. In the last part of the year, steeply falling fuel prices and the end of PA arrears payments helped drive down prices, which resulted in an average increase in the CPI of 9.8% for the year. This was well above the expected rate of 3-4 % when the PRDP budget was drafted. In addition, there were large fluctuations in the Dollar-Shekel exchange. The Shekel gained nearly 30% against the US Dollar before falling in the last half of the year. On average the Shekel exchange rate appreciated nearly 15 % in 2008. Since most donor aid comes in dollars and many people and businesses plan and save in dollars, these fluctuations have had a significant impact on the Palestinian economy.

Investment has shown few signs of recovery during the past year. It is difficult to precisely know the size of public investment since almost all of it is project finance from external sources that are often not reported to the Ministry of Finance. The 2008 budget called for over US\$500 million in development expenditures, but current estimates are that it only reached about US\$250 million. The PCBS does not publish figures on private investment; however, monetary statistics suggest it is low. Claims on the private sector fell by over 6 % to approximately US\$1.37 billion in the first half of the year. At the same time, private sector deposits rose from US\$4.1 billion to US\$5.1 billion leading to net claims on the private sector to decline by over US\$1 billion. In addition, net repayment of bank debt by the PA was \$38 million. This large withdrawal of liquidity from the economy offset much of the external aid and indicates that in the current environment, few investors are willing to take risks and borrow from the banking system.

Consistent with the lack of borrowing, industrial output continues to decline. 2008 figures are not yet available but according to PCBS estimates in 2007, manufacturing output was approximately 1.8 % lower than in 2006 and nearly 23 % off from 1999 (Table 1). Agricultural output has been slowly recovering since its low of 2002 but it remains about 28 % below its peak in 1999. The lack of investment is also evidenced by the fact that the construction sector has seen little growth in the last four years and is less than 20% of its size in 1999. Recently, a few large housing construction projects have been announced in the West Bank, including a new planned community north of Ramallah, which will require over US\$500 million in private investment. If

these projects actually come to fruition they would be a large boost to the construction sector and the Palestinian economy as a whole. Though the WB&G financial system is relatively disconnected from the international system, the recent international financial crisis may affect the housing finance projects.

Table 1: Real GDP in Remaining WBG by Economic Activity at Constant Prices (PCBS Estimates)

	1999	2002	2005*	2006*	2007**
Agriculture and fishing	470.7	296.6	312.6	334	340.8
Mining, manufacturing, electr. and water	655.5	580	564.8	531.1	527.3
Mining and quarrying	35.7	33	18.3	18	21.3
Manufacturing	566.4	476.3	476.5	444	436.0
Electricity and water supply	53.4	70.7	70.0	69.1	70.0
Construction	616.9	67.5	119.4	104	103.8
Wholesale and retail trade	537.8	350	373.9	382.7	411.6
Transport, Storage and Communications	231.0	349.6	461.5	466	478.5
Financial intermediation	169.1	149.9	187.4	186.7	192.5
Other services	990.8	899.1	1,100.2	940.2	906.1
Real estate, renting and business services	444.3	392.7	446.8	447.8	343.2
Community, social and personal services	28.3	33.2	43.2	43.6	43.9
Hotels and restaurants	128.0	60.7	68.1	67.0	67.8
Education	262.4	287.7	342.5	255.3	314.8
Health and social work	127.8	124.8	199.6	126.5	136.4
Public administration and defense	497.7	578.1	796.1	552.7	570.0
Households with employed persons	8.7	8.2	8.5	8.7	8.6
Less: FISIM	-129.5	-109.6	-139.6	-138.3	-139.8
Plus: Customs duties	208.6	75.8	274.2	284.9	284.0
Plus: VAT on imports, net	254.4	338.2	443.6	454.3	450.0
Gross Domestic Product	4,511.7	3556.4	4502.7	4107.0	4,133.4

Source: PCBS revised estimates

Base year 1997

*Second Revision

**First Revision

The recent ground invasion destroyed a significant amount of the remaining capital stock and has resulted in the closure of many enterprises that had been able to continue operating. Though much of the damage was sustained by already closed businesses, their destruction ensures that they will not be able to quickly recover once conditions improve. A preliminary assessment by the

Private Sector Coordinating Council estimates that the recent fighting resulted in \$140 million in damage to Gaza businesses. Agriculture also suffered tremendous damage. PA estimates indicate that 17% of the total cultivated area was completely destroyed and that the overall damage to the sector was \$180 million.

Table 2: Industrial Decline in Gaza

	June 2005 Pre-disengagement	Week 1, July 2007	Nov. 2007	Dec. 2007	March 2008	June 2008	Dec. 2008*
Industrial Working Establishments	3,900	780	250	195	130	90	200
Industrial Employees	35,000	4,200	2000	1,750	1300	860	1900
Exports from Gaza (truckloads)	748	0	0	0	0	0	0

Source: Palestine Trade Center (PalTrade) interviews with local business associations

* These figures were gathered before the ground invasion on December 27, 2008.

Unemployment in the West Bank rose from 17.7 % at the end of 2007 to 20.7 % in the third quarter of 2008, while PCBS reports that unemployment in Gaza increased from 29.7 % to nearly 41.9 %.² These figures do not give an accurate picture of the full impact of the economic crisis, because they do not take into account underemployed workers such as the large number who have turned to unpaid family labor or seasonal agriculture. The figures also do not include the many discouraged workers who have left the labor force.³ Labor force participation rates are low and dropping. In the West Bank it fell from 44 % at the end of 2007 to 43.4 % in the third quarter of 2008 and in Gaza it held steady at about 38 %. Adding discouraged workers would increase the unemployment rate to 26.4 % in the West Bank and 46.1 % in Gaza.⁴

2 Fourth quarter figures are not yet available. The ground invasion has certainly put many more people out of work. However, this section gives a good picture of the structural damage done to Gaza by the months of closure.

3 Unemployment figures also do not include the large number of “workers absent from their usual work”. In the PCBS calculations, these workers are assumed to be temporarily away from jobs due to illness, work stoppage, natural disaster or for other reasons but still receiving normal pay. UNRWA estimates that nearly 45,000 Gazans have become “absentee” workers since the first half of 2007.

4 PCBC Labor Force Survey Q1 2008

Macroeconomic and Fiscal Assessment for the West Bank and Gaza¹

By the International Monetary Fund



I. Introduction

The economic and political situation in 2008 and early 2009 has been far bleaker than hoped for in the Palestinian Reform and Development Plan (PRDP). In the West Bank, Israeli restrictions on movement and access were tightened compared to 2007 based on security concerns, and settlements have expanded. Gaza's economic and humanitarian situation has deteriorated markedly due to the war and its increased isolation. The restrictions on cash entry into Gaza have reduced depositor confidence in Gaza banks, and further reduced people's ability to cover their basic needs. The surge in inflation, while subsiding later in 2008, further eroded household incomes and raised production costs. The adverse growth impact of these factors has to some extent been tempered by improved security conditions in West Bank cities, as well as higher-than-expected donor budgetary assistance.

Despite the difficult conditions on the ground, the Palestinian Authority (PA) has continued with institution-building and prudent fiscal policies and reforms. A strict government employment policy was followed, wage rates have been virtually frozen, and measures have been implemented to improve utility bills payment. Since the advent of Prime Minister Fayyad's government, the Palestinian Authority has made impressive strides in strengthening the Public Financial Management System, which is helping prioritize and raise the quality of public expenditure.

There is a pressing need to secure adequate external assistance to finance the budget deficit for 2009. A lower budget deficit, combined with the front-loading of arrears repayment in 2008, will result in a substantial reduction in external recurrent financing requirements, as reflected in the 2009 budget, to \$1.2 billion compared to \$1.8 billion in 2008. This will make it easier for donors to accommodate the increase in public investment, which is projected at \$0.5 billion in 2009, as well as expenditures to address the damage caused by the Gaza war. The latter spending, expected to be presented in a supplementary budget in due course, is preliminarily projected at \$300 million in emergency spending for Gaza in 2009, and \$1.3 billion for both 2009 and 2010 to address Gaza's war-related reconstruction.

II. Fiscal Developments

The Palestinian Authority (PA) continued with fiscal consolidation in 2008. The recurrent fiscal deficit on a commitment basis is estimated to have declined to 19 percent of GDP in 2008 from 24 percent of GDP in 2007, reflecting largely expenditure restraint on the wage bill and reduced utility subsidies. The deficit has been lower than envisaged in the 2008 budget on a commitment basis, but somewhat higher on a cash basis due to the front-loading of arrears repayment.

The Public Finance Management System has been strengthened further. A General Accounting Department (GAD) was established at the Ministry of Finance (MoF), and a new Computerized Accounting System (CAS) has been developed to link the MoF to line ministries, with better integration of the recurrent and development budgets. The MoF's action plan for 2009 includes (i) ensuring that all line ministries are linked to the CAS, (ii) setting up a cash and debt management unit in the GAD with a view to further prioritizing spending and minimizing arrears accumulation, and (iii) presenting the 2010 budget with a revised economic classification in line with international standards.

The 2009 budget foresees continued reduction in the recurrent deficit and a shift in the composition of expenditure away from wages and subsidies, and toward nonwage and capital spending. As the budget was completed before the outbreak of the war in Gaza, a separate "supplementary budget" will take into account Gaza's war-related reconstruction and rehabilitation needs. The key features of the 2009 budget include wage restraint and phasing out of utility subsidies, and a significant increase in the share of development projects in total spending. As a result it is expected that there will be a substantial reduction in external financing requirements for the recurrent budget in 2009 by about \$610 million (excluding Gaza-related supplementary budget spending).

¹ For details of the analysis and assessment, see the IMF staff report entitled "Macroeconomic and Fiscal Framework for the West Bank and Gaza—Third Review of Progress", prepared by a team composed of Oussama Kanaan (Chief of Mission), Rina Bhattacharya and Roman Zytok. All IMF staff reports related to the West Bank and Gaza are published in English and Arabic on the IMF website (www.imf.org/wbg)

III. Banking Sector Developments

While domestic banks have not been significantly affected by the global financial crisis, the growth of deposits and private credit remains constrained by the subdued economic activity. Private deposits contracted by about 6 percent in real terms in the year to September 2008. Reflecting banks' conservative lending practices and limited investment demand, most deposits continue to be placed abroad, with private sector credit (as a share of private sector deposits) falling to 25 percent by September 2008 (compared with 39 percent at end-2006 and 30 percent at end-2007). Risks to the balance sheets of some banks persist, due in particular to Gaza's isolation and the deterioration of security conditions there.

The imposition over the past year by the Government of Israel of tight restrictions on the entry of cash into Gaza is having a serious adverse impact on Gaza's economy. As a result of these restrictions cash available to banks has been well below what is needed to accommodate local customer cash demand, including for Palestinian Authority (PA) employee salaries and humanitarian assistance. The resulting cash shortages have had serious repercussions in several respects: (i) the additional cash constraint on households' liquidity has further reduced their capacity to cover basic needs, in addition to the indirect repercussions on other households as a result of the shortage of cash for programs targeting Gaza's most vulnerable groups which are administered by the World Bank, European Union, and UNRWA; (ii) the steady fall in bank cash reserves has induced the hoarding of cash and negatively affected the public's confidence in its ability to draw cash from banks, thereby undermining the viability of the banks; and (iii) the cash restrictions have also resulted in the diversion of scarce resources from banks toward unregulated informal channels. This has reduced the relevance and effectiveness of the Palestinian Monetary Authority's prudential framework and its regulations against money-laundering and terrorist activities. Thus removal of cash restrictions will be essential to prevent a further deterioration of living standards, safeguard banks' viability, and prevent continued diversion of resources toward unregulated activities.

Gaza's prospects are also adversely affected by the severance by Israeli banks of correspondent and clearance relationships with Gaza banks. On January 1, 2009 two Israeli commercial banks (Bank Hapoalim and Discount Bank) cut off all correspondent and clearance services with banks operating in the West Bank and Gaza for NIS-denominated transactions, and there is now a risk of severance of relations with West Bank banks as well. These actions would severely disrupt the operation of the Palestinian banking system

and would significantly reduce banks' profitability. They would also divert resources away from the banking system toward unregulated informal channels. The cost of bank transactions would rise markedly as these would need to be to be denominated in currencies other than the shekel and be cleared through offshore banks. This would expand the use of cash and informal international transfers (including through the "Hawala system"), which are much more difficult to monitor than bank transactions. Hence it is crucial that an arrangement be reached between the Palestinian and Israeli sides that would ensure unhindered access by Palestinian banks to Israeli banks' correspondent services.

The Palestine Monetary Authority (PMA) has continued institutional reforms. These reforms, which have been supported by IMF technical assistance, aim at transforming the PMA's organization and operations with the medium-term objective of becoming a full-fledged central bank. The PMA has made considerable progress during 2008 in internal reform and capacity building, including in strengthening the supervisory framework and governance. A macroprudential division was created, and progress was made in establishing an early warning system. A new credit registry is allowing banks to better evaluate risks, reduce collateral requirements, and improve credit flow. The financial legal framework has also been strengthened. An Anti Money Laundering Law has been in force since 2007, and a new Banking Law and a new Central Bank Law are expected to be enacted in 2009.

IV. Medium-Term Macroeconomic Outlook

A medium-term macroeconomic baseline scenario was developed that is predicated on all parties (PA, the Government of Israel, and donors) pro-actively pushing the peace process forward and supporting growth-enhancing reforms and institution-building. In particular, it assumes that: (i) there is an easing of the blockade on Gaza and of restrictions on movement and access in the West Bank, which would lead to a recovery of exports and private investment, enable an acceleration of the public investment program, and allow Gaza's reconstruction and rehabilitation; (ii) the PA would continue its prudent fiscal policy based on a tight expenditure stance; and (iii) donors would provide adequate and timely financial assistance to cover both the narrowing recurrent budget deficit and expanded public investment and reconstruction needs.

Under the baseline scenario with the above assumptions and policy expectations, real GDP growth would increase from about 2 percent in 2008 to 5 percent in 2009, 6½ percent in 2010, and 7½ percent in 2011 (see table below). Although trade with Israel could be

affected by the global slowdown (other things being equal), WB&G growth prospects would be much more strongly influenced by the easing of restrictions. The rise in donor-funded and private sector investments should offset the impact of fiscal consolidation as well as lay the foundations for sustainable growth in the long run. The share of public consumption in GDP would decline, making room for a high rate of public investment while at the same time reducing reliance on external financing. Reflecting the relaxation of border restrictions, expansion of exports from repressed levels, and strong demand for raw materials and capital, real export and import growth would average 9–10 percent per year during 2009–11.

While the projected recovery may appear impressive, it would still leave living standards below pre-closures levels in 2000. Real GDP is estimated to have declined by a cumulative 13 percent since the imposition of Israeli restrictions on movement and access in 2000 up to 2008 (or a cumulative 34 percent in real per capita terms), suggesting an income level for the Palestinian economy well below its potential. Even with the assumed relaxation of Israeli restrictions starting in 2009, real income per capita in 2011 would still be about 27 percent below its level in 2000. The rate of unemployment would remain high at 23 percent in 2011, compared to 11 percent in 2000.

The above projections are subject to the risk that the peace process will remain stalled, with persistence of Gaza’s blockade and Israeli restrictions in the West Bank. Given that risk, a “pessimistic” scenario was developed on the premise that Gaza’s blockade and Israeli restrictions would remain unchanged, inhibiting trade and private investment. Continued restrictions on imports of capital goods and raw materials and passage of project personnel would also reduce the pace of implementation of the donor-financed public investment program and Gaza’s reconstruction. This would have an adverse impact on longer-term growth, in addition to its immediate impact on private sector activity (see table and figure below). Under this scenario real GDP per capita would likely remain on a declining trend, possibly contracting by an average of 1.2 percent per year during 2009–11. Unemployment would rise from 24 percent in 2008 to over 30 percent by 2011.

V. Concluding Remarks

Close cooperation among all three parties (the PA, GoI, and donors) is essential to contain significant risks to the macroeconomic and fiscal outlook for 2009 and beyond:

- Slow progress in the peace process combined with continued restrictions on movement and access would further delay private sector recovery and impede public

investment and reconstruction. This would limit income growth and employment opportunities, and would make it more difficult for the PA to continue with fiscal retrenchment. In particular, it would become more difficult to restrain real wages, raise collection rates for utilities, and reduce social spending. Furthermore, continuation of Gaza’s blockade, by worsening its humanitarian crisis, would raise emergency spending and divert resources from growth-enhancing areas.

- Additional donor assistance needs to be secured immediately to cover external recurrent financing needs for 2009. If adequate funds cannot be secured, the PA would need to cut its cash expenditures and likely accumulate arrears, including on wages. Close coordination among donors, and between donors and the PA, will be essential to ensure adequate and timely disbursements for the recurrent budget.
- The drive to raise donor support for Gaza’s reconstruction should not divert attention from the pressing need to finance the recurrent budget. It has already been difficult for the PA, since December 2008, to raise enough donor funds to cover the wage bill and basic recurrent spending. About half of the PA’s recurrent spending has in recent years been deployed in Gaza, including through the wage bill and social assistance. Payment of these obligations, most of which are paid directly into the bank accounts of the designated beneficiaries, constitutes the most effective social safety net now in place in Gaza.
- The shortage of cash has made it even more difficult for people in Gaza to cover their basic needs. Failure to fully finance the recurrent budget, and to ensure that this financing is translated into cash received by employees and beneficiaries, poses a risk that an even larger proportion of Gaza’s population will fall below the poverty line.

West Bank and Gaza - Comparison with Pessimistic Scenario

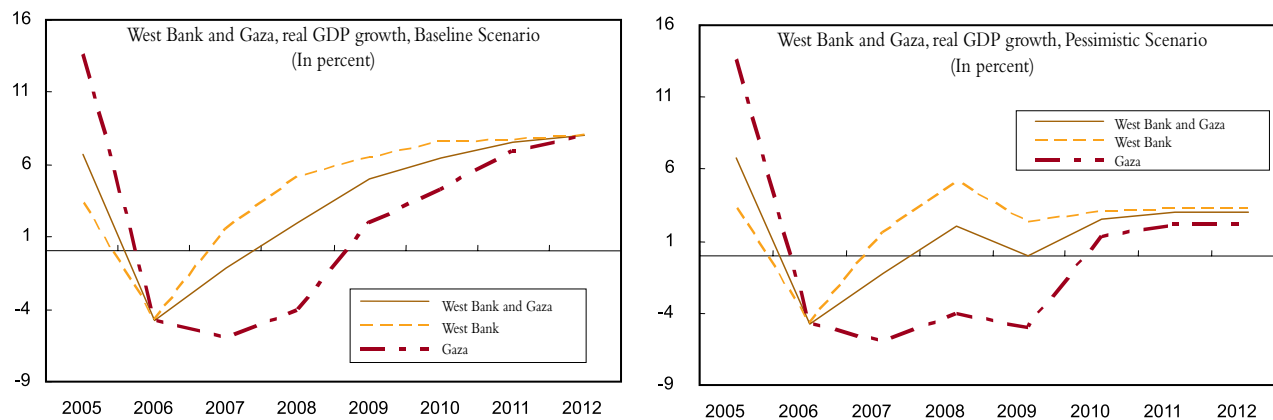
	2008	2009	2010	2011	2009	2010	2011
	Est.	Baseline Scenario			Pessimistic Scenario		
Output and Investment							
Real GDP (percentage change)	2.0	5.0	6.5	7.5	0.0	2.5	3.0
Real GDP per capita (percentage change)	-1.2	1.8	3.3	4.3	-3.1	-0.6	-0.1
Gross capital formation (in percent of GDP)	19.1	32.8	24.8	25.6	20.8	22.2	23.5
o/w: public investment (in percent of GDP)	4.2	17.8	9.8	10.3	6.1	7.6	9.0
		(In percent of GDP)					
Public finances 1/							
Revenues 2/	24.2	25.8	26.1	26.3	24.5	24.5	24.8
Recurrent expenditures and net lending	43.6	44.0	39.4	36.3	45.9	43.0	41.2
Recurrent balance (before external support) 2/	-19.4	-18.2	-13.3	-10.0	-21.4	-18.4	-16.4
Recurrent balance, cash basis (before external support) 2/	-25.1	-18.2	-13.3	-10.0	18.7	14.3	11.2
Expenditure arrears accumulation	-6.0	0.0	0.0	0.0	2.7	4.1	5.2
Capital expenditures	3.9	17.5	9.5	10.0	5.7	7.2	8.7
(In millions of U.S. dollars)	251	1,103	663	763	350	470	590
External recurrent budgetary support (in billions of U.S. dollars)	1.8	1.2	0.9	0.8	1.2	0.9	0.8
Total external support, including for capital expenditures	29.6	35.7	22.8	20.0	24.5	21.6	20.0
(In billions of U.S. dollars)	1.9	2.3	1.6	1.5	1.5	1.4	1.4
		(In percent of GDP)					
External sector							
Exports of goods and nonfactor services	13.1	13.2	13.7	14.0	12.7	12.3	12.0
Import of goods and nonfactor services	71.6	86.3	76.0	75.8	77.9	77.5	75.5
Current account balance (excluding official transfers)	-27.2	-39.7	-29.3	-28.0	-28.3	-27.1	-26.4
Current account balance (including official transfers)	2.4	-4.0	-6.5	-8.0	-3.8	-5.5	-6.5
Memorandum items:							
Unemployment rate (average in percent of labor force)	23.9	23.6	23.3	22.7	25.3	27.6	30.6

Sources: Palestinian authorities and IMF staff estimates.1/

Commitment basis.2/ For 2008, revenues exclude the special dividend from the Palestinian Investment Fund (PIF) of \$197 million. Pessimistic Scenario West Bank and Gaza - Comparison with Pessimistic Scenario Baseline Scenario (In percent of GDP) (In percent of GDP)

West Bank and Gaza: Path of real GDP growth, 2005-2012

Persistence of the blockade and restrictions on movement and access will markedly slow economic growth, especially in Gaza.



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