

West Bank and Gaza Strip

Statement by Stanley Fischer, First Deputy Managing Director of the I.M.F.

at

the Ministerial Meeting of the Ad Hoc Liaison Committee

September 28, 1995

Mr. Chairman and Distinguished Ministers,

It is a great pleasure for me to participate on behalf of the International Monetary Fund in this meeting, which follows a vital stage in the peace process. Today's signature ceremony marks a critical step, not only for the Israeli and Palestinian peoples, but also for the ongoing regional peace process.

The Palestinian people, and all the peoples of the region, have a right to expect the benefits of peace, among them the benefits of economic development and growth. And for the peace to succeed, it has to deliver growing prosperity.

The IMF has been, and will continue to be, closely involved in fostering the economic conditions necessary for development and growth. We seek to help the Palestinian Authority continue its work of establishing an environment that is conducive to financial stability, sustainable economic growth, increased employment, and improved living standards -- an environment in which the domestic private sector will flourish, and in which the external financial resources that the international community provides for development projects can be put to their most efficient use.

To further this process, the Fund, working closely with the World Bank, has been furnishing technical assistance to the Palestinian Authority to help it establish well-functioning economic and financial institutions. We would like to take this opportunity to express our deep appreciation to the Palestinian Authority, the Israeli authorities, the Norwegian Chair and members of the AHLC, and our colleagues at the World Bank, for the active cooperation they have extended to us in this work.

Not surprisingly, much of the Fund's technical assistance to the Palestinian Authority has been in the fiscal area. The Fund has been giving advice to the Ministry of Finance on the design and implementation of its budget for 1995 and in strengthening the fiscal system. In this context, under the Tripartite Agreement signed by Israel, the Palestinian Authority, and Norway as the Chair of the AHLC in April 1995, the IMF has assisted the Palestinian Authority in frequent reporting to donors on fiscal developments and on progress in fiscal institution-building. Technical assistance has also been provided in other areas, such as the establishment of the Palestinian Monetary Authority and an effective system of bank supervision; the development of reliable macroeconomic statistics to provide a sound basis for policy decisions; and the training of Palestinian officials in a number of economic disciplines.

It is with considerable satisfaction that we can report that the implementation of the 1995 budget has thus far been significantly more favorable than the original budget projections, owing to the much improved revenue effort and the containment of spending. For this result, the credit

goes to the Palestinian authorities, and in particular the Minister of Finance. In view of this progress, and the deepening relationship between the Fund and the Palestinian Authority, I am pleased to announce to you today that the Fund Management has decided to open a resident representative office in Gaza. This will further strengthen our interaction with the Palestinian Authority. The representative, whose responsibilities will cover both Gaza and the West Bank, should start his work in a matter of weeks.

There is however cause for serious concern over the slow pace of implementation of the development program. Capital expenditure for 1995, which had already been reduced in the original Budget presented to the donor community last April, is now projected to be still lower than budgeted. Clearly, a major effort by both the Palestinian Authority and the donor community is needed to accelerate the pace of reconstruction and development, to generate early improvements in employment and living standards for the Palestinian people. Some development projects are bound to take a long time to implement and bear fruit -- but as the old story goes, if a tree will only bear fruit in a hundred years, it is more urgent to plant it now.

On the fiscal front, the Palestinian Authority's most pressing policy challenge is that of reaching a sustainable fiscal position. The immediate objective should be to cover recurrent expenditure by revenues as soon as possible, with external assistance being used mainly to finance productive investment. The extension of the Palestinian Authority's autonomy in the

West Bank offers additional opportunity to mobilize revenue, but -- and this is a point that must be emphasized -- achieving a broadly balanced recurrent budget will also require greater efforts to establish an effective expenditure management system and continued actions to expand the tax base.

We have been actively assisting the Ministry of Finance in the work on the formulation of a fiscal budget for 1996 that is set in the context of a medium-term macroeconomic framework. Preliminary projections are encouraging, particularly as they show that under certain conditions about empowerment, the current budget could be in balance by 1997.

Looking beyond fiscal policy, further attention needs to be given to establishing the preconditions for attracting foreign, nondebt-creating, investment inflows, promoting private investment, and creating jobs. In addition to introducing a transparent legal and regulatory framework, the Palestinian Authority will need to establish trade arrangements that provide reliable physical and economic access to imports and to export markets. Even with sound policies to foster private investment, unemployment is likely to remain a serious problem for some time. In this regard, a strong investment performance will also depend critically on the development of stable political and security arrangements, and timely availability of external assistance.

To achieve these goals, the Palestinian Authority will need to develop further its capacity to implement economic policies in a broader macroeconomic context. What is needed at this time is to ensure not only

fiscal balance, but also that the key structural policies (development projects, institution building, tax reform, trade, monetary policy instruments, bank supervision) are incorporated in a consistent and comprehensive macroeconomic framework covering the medium term.

The Fund, of course, stands ready to provide additional technical assistance as needed in its areas of expertise to carry forward this historic economic and political transformation.





