



**MACROECONOMIC AND FISCAL FRAMEWORK
FOR THE WEST BANK AND GAZA
FIRST REVIEW OF PROGRESS¹**

STAFF REPORT FOR THE MEETING OF THE AD-HOC LIAISON COMMITTEE

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¹ This report was prepared by a team composed of Oussama Kanaan, Henry Ma, Karen Ongley, Joël Toujas-Bernaté, and Roman Zyttek. It is the first quarterly review of progress in implementing the macroeconomic and fiscal framework set out in the Palestinian Reform and Development Plan (PRDP), which was assessed by IMF staff in “Medium-Term Macroeconomic and Fiscal Framework for the West Bank and Gaza.” The latter was issued on December 5, 2007 and published on the IMF’s website (www.imf.org/wbg).

EXECUTIVE SUMMARY

The Palestinian Authority (PA) is implementing prudent fiscal policies and reforms, in the context of an ambitious budget for 2008. A strict government employment policy has been followed and utility subsidies are being reduced. The Public Financial Management System (PFMS) has also been strengthened, which will help control nonwage spending. The 2008 budget builds on this progress, and targets a reduction of the recurrent deficit from 27 percent of GDP in 2007 to 22 percent of GDP in 2008, in particular through: (i) a freeze on wage rates and on new employment (except for health and education); (ii) enforcement of measures to increase utility payments by households and municipalities; and (iii) improvement in cash management and spending commitment controls to help prioritize and raise the quality of spending, and minimize arrears accumulation. The staff considers that the reforms undertaken so far, and the 2008 budget, represent a significant stride toward fiscal sustainability.

Donor assistance pledged for the recurrent budget falls short of the Palestinian Reform and Development Plan (PRDP)'s needs. The total amount pledged at the December 2007 Paris donors' conference for 2008–10, at \$7.7 billion, is significantly above the PRDP's requirements. However, pledges allocated for the recurrent budget are below those needed to finance the projected deficits. For 2008, the amounts disbursed or confirmed are adequate to cover recurrent financing needs for the first half of the year. However, without additional assistance, a shortfall of NIS 1.4 billion (\$0.4 billion) is projected in the second half of 2008. Adequate and timely disbursements from donors, and close coordination with the PA, are essential to prevent liquidity problems and expenditure arrears.

Israel has tightened restrictions on movement and access based on security concerns, and settlements in the West Bank have expanded, with attendant risks to economic growth and reforms. Social and political pressures against austerity measures have recently increased, conveyed through protests and strikes by trade unions. These pressures could grow if household incomes and employment opportunities remain constrained, posing significant risks to fiscal adjustment.

Good cooperation among the three parties—the PA, the Government of Israel (GoI), and donors—is essential to reduce the risks outlined above. The PA has undertaken bold reforms despite the difficult political and security environment. These reforms have encouraged donors to fully cover the PA's external financing requirements for the first half of 2008, including through the creation of the World Bank's PRDP Trust Fund (PRDP-TF). The GoI's recent announcement that a number of obstacles in the West Bank will be removed soon is encouraging, and could hopefully be followed by a broader relaxation of restrictions on movement and access in 2008.

I. RECENT ECONOMIC DEVELOPMENTS

1. **While the Palestinian economy has fared better since the reengagement of the international community in mid-2007, it remains constrained by Israeli restrictions on movement and access** which Israel has imposed due to security concerns. Real GDP in the West Bank and Gaza (WBG) is estimated to have contracted by about 5 percent in 2006, with a further contraction in the first half of 2007. The end of financial sanctions and improved private sector confidence following the advent of Prime Minister Fayyad's government have led to some rebound in growth since June 2007. However, the recovery was confined to the West Bank, as Gaza's borders were virtually sealed following the civil strife there. Reflecting the impact of the tightening of Israeli restrictions in the West Bank and Gaza,² real GDP growth is estimated to be about zero in 2007 (as projected in the PRDP).

2. **Unemployment and poverty remain high, especially in Gaza.** Unemployment in 2007 averaged 30 percent in Gaza and 18 percent in the West Bank. According to the United Nations Development Programme, as of mid-2007, about 70 percent of households in Gaza and 56 percent in the West Bank live below the poverty line. The humanitarian situation in Gaza continues to be very difficult as primary crossings allow only imports of basic commodities and are virtually sealed for exports. Gaza's situation worsened following the curtailment of fuel supplies from Israel in early-2008, which curbed production in most sectors and disrupted the water and sewerage systems.

3. **Inflation has risen recently, reaching 11 percent in the year to March 2008** from 4 percent in September 2007. While inflation also picked up somewhat in Israel, despite the appreciation of the New Israeli Shekel (NIS), the rise was much more pronounced both in Gaza (16 percent) and the West Bank (9 percent), likely reflecting the impact of the restrictions and different consumption baskets.³ Increases in the prices of food and housing were particularly large, with higher world prices of wheat and petroleum products. The higher inflation in Gaza reflects the sharper tightening of Gaza's border restrictions.

4. **While bank deposits continued to grow, credit contracted.** Deposits increased by 11 percent in NIS terms (or 4 percent in real terms) in the year to December 2007, raising the deposits-to-GDP ratio to about 90 percent. The growth in deposits reflects continued deepening in bank intermediation and remittances from the Palestinian diaspora. However, total credit declined by 21 percent in real terms in the WBG, with the decline more pronounced in Gaza (47 percent) than

² In addition to Gaza's isolation since mid-June 2007, the UN Office for the Coordination of Humanitarian Affairs (OCHA) reports that restrictions on movement and access in the West Bank have increased since the November 2007 Annapolis conference. As of February 2008, there were 580 identified obstacles in the West Bank compared to a monthly average of 552 during 2007. For updates, see www.ochaopt.org.

³ The divergence in recent months between inflation in the West Bank and in Israel warrants further investigation. In addition to the impact of the tightening of restrictions, it could partly reflect the recent surge in food prices, combined with the larger share of food in the WBG's Consumer Price Index than in Israel.

in the West Bank (12 percent), reflecting Gaza's more depressed investment conditions.⁴ After increasing in 2006, the share of nonperforming loans in total bank loans was stable at about 14 percent. Some risks to banks' balance sheets persist, due in particular to Gaza's isolation and its likely adverse impact on asset quality.

5. **The Palestine Monetary Authority (PMA) has stepped up institutional reforms.** It has been coordinating closely with the Bank of Israel (BoI) to ensure continued smooth financial relations between Israel and the WBG following the decision by two Israeli banks to eventually stop acting as clearing institutions (in NIS) for Palestinian banks in Gaza. However, the PMA and BoI have not yet found a suitable alternative. With substantial technical support from the IMF and World Bank, the PMA has made considerable progress on internal reform and capacity building (see Box 1), including the creation of a modern credit registry. The new national payments system law is being drafted, and the new PMA law and banking law are close to finalization.

Box 1. Reforms by the Palestine Monetary Authority

In April 2005, the Palestine Monetary Authority (PMA) formulated an ambitious plan to transform its organization and operations. The aim has been to support a move to best practice international standards, with the medium-term objective of becoming a full-fledged central bank. Since 2005, despite unfavorable political and economic conditions, the PMA has made substantial progress. The transformation has been broad-based, covering the PMA's core functions—monetary and financial stability—as well as its administrative support functions. Reforms have focused on four main areas:

- The PMA has improved its *organizational structure*, notably by: separating core and support functions; efforts to improve recruitment, training and retention of quality staff; and improved governance, with more transparency and accountability.
- The *supervisory framework* has been strengthened, including through the creation of a macroprudential division at the PMA, and steps are being taken to establish an early-warning system. The new credit registry became fully operational in March 2008.
- On *other operational issues*, the central bank accounting system, as well as the PMA's research and forecasting functions, have been enhanced. The PMA is also setting up an electronic payment system for all banks.
- The PMA has taken steps to establish a sound *financial sector legal framework*. An Anti Money Laundering (AML) law was adopted in the second half of 2007, and a national payments system law is being drafted. The central bank law and banking law are expected to be finalized shortly.

⁴ Apart from the impact of weak investment, the contraction in credit reflected these factors: (i) the PA made net repayments to banks of about 2½ percent of GDP during 2007; and (ii) loans extended to public sector employees were unwound as the PA settled wage arrears and resumed regular wage payments in mid-2007. Credit to the private sector in the WBG contracted by about 19 percent in real terms in 2007.

II. FISCAL DEVELOPMENTS IN 2007

6. **The PA's liquidity improved significantly from June 2007, with the lifting of financial sanctions, the resumption of transfers of clearance revenues, and the initiation of adjustment measures by Prime Minister Fayyad's government.** There were positive developments for both revenues and expenditures:

- Cash budgetary revenues rose as the stock of clearance revenues collected during February 2006-June 2007 was fully transferred during the second half of 2007. However, this was partly offset by the noncollection of domestic revenues from Gaza since July 2007 (about 20 percent of total domestic revenue).
- On the expenditure side, the wage bill contracted by about 12 percent in NIS terms in the second half of 2007 due to the retrenchment of about 20,000 employees in July, mainly from the security forces.⁵ However, nonwage expenditures increased markedly during the same period, and net lending continued to rise, reflecting higher fuel costs and noncollection of utility bills.⁶
- The improved liquidity allowed the repayment of NIS 1.5 billion of wage arrears in the second half of 2007. While nonwage expenditure arrears continued to accumulate in 2007, these were limited to less than NIS 0.3 billion, compared with about NIS 1.6 billion in 2006. Expenditure control was facilitated by the reestablishment of the Central Treasury Account (CTA) at the Ministry of Finance (MoF) and the restoration of pre-2006 cash controls, as part of the ongoing strengthening of the PFMS.⁷

7. **Despite these generally positive developments, the 2007 recurrent fiscal deficit reached an unsustainable 27 percent of GDP.** It was financed through exceptional means, including large donor support of about \$1 billion and the transfer of clearance revenues withheld in 2006. As recognized in the PRDP, progress toward restoring fiscal sustainability will require continued restraint on government employment and wage rates and measures to contain net lending and further tighten controls on nonwage spending.

III. MACROECONOMIC AND FISCAL OUTLOOK

8. **The macroeconomic framework for 2008–10 is premised on all parties—the PA, donors, and the GoI—working together to foster sustainable growth in the WBG.** Progress made since the Paris donors' conference in December 2007 is as follows:

⁵ About 10,000 security personnel removed from the payroll in July 2007 have been receiving monthly social allowances since then.

⁶ The increase in nonwage expenditures during the second half of 2007 was mainly due to larger transfers of social aid, operating expenses in security and health, and additional emergency expenditures out of the financial reserve.

⁷ The rise in external budgetary financing from NIS 3.3 billion in 2006 to NIS 4.1 billion in 2007 also helped stem nonwage arrears accumulation.

- The PA's fiscal consolidation efforts, and the 2008 budget policies and fiscal deficit target, are broadly in line with the PRDP.
- The total amount of external financial assistance pledged at the Paris donors' conference is significantly above the PRDP's total financing requirements for the 2008–10 period. However, pledges for recurrent budget support in 2008 are well below those required to finance the deficit projected for the year.
- The PRDP envisages a gradual relaxation during 2008 of Israeli restrictions on movement and access, to enable a recovery of trade and private investment, and acceleration in the public investment program. However, as of end-March 2008, restrictions have been tightened.

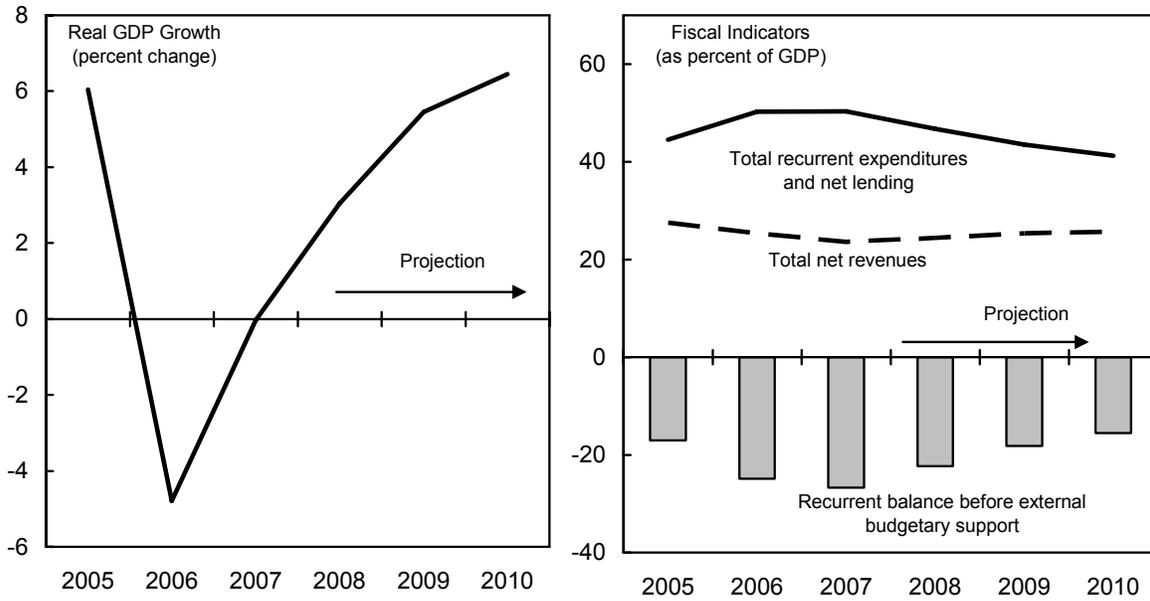
9. **The current macroeconomic framework maintains the assumption that Israeli restrictions will be relaxed in the remainder of 2008, as envisaged in the PRDP.** With donor pledges and PA actions broadly in line with expectations, the macroeconomic outlook is thus in line with previous projections. Under the baseline scenario, real GDP growth is projected to increase from zero in 2007 to 3 percent in 2008, slightly lower than in the PRDP (3½ percent), mainly reflecting less favorable economic conditions in Israel and globally. Inflation would decline, in line with the envisaged relaxation of restrictions. Real GDP growth would then rise to 5½ percent in 2009 and 6½ percent in 2010 (Table 1 and Figure 1), with the increase in donor-funded and private sector investment gradually offsetting the impact of fiscal consolidation.

10. **The projected recovery is subject to downside risk, and would not be sufficient to significantly raise living standards and lower unemployment.** With population and the labor force both growing by about 4 percent per year, real income per capita would rise by only about 1½ percent per year over 2008–10, while unemployment would remain high, at about 22 percent. This outlook is of course worse than it would have been had the PA had control over Gaza, given that its isolation has led to shortages of essential commodities, rising humanitarian assistance needs, higher inflation, lower private sector growth, as well as reduced budgetary revenue due to non-collection of domestic taxes. The baseline scenario's results are sensitive to the extent of relaxation of Israeli restrictions, as conveyed in the following alternative scenarios:

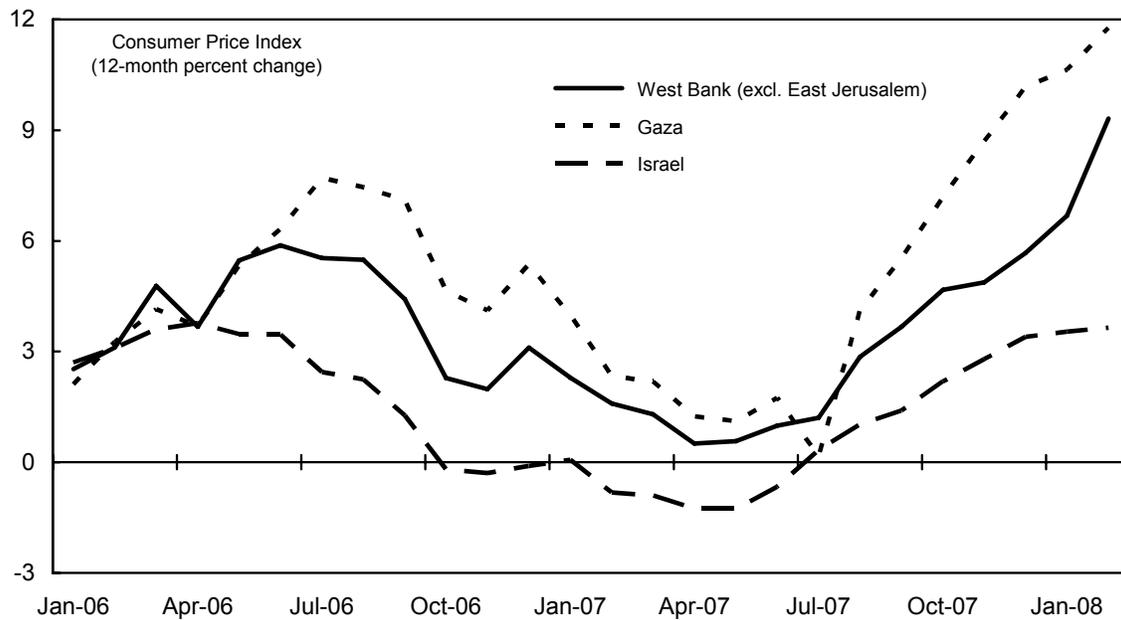
- Under a pessimistic scenario, Israeli restrictions would remain at the same level as in the first quarter of 2008. This would inhibit trade and private investment, and impede the public investment program. Lower growth and rising unemployment would exert further pressures for higher social and emergency spending. Given that there is little room for more cuts in other spending commitments, the recurrent deficit would widen beyond the amounts pledged at the Paris conference, leading to increased arrears on wages and to private suppliers. Under this scenario, real GDP per capita would decline by about 2 percent per year in 2008–10 and unemployment would rise to about 30 percent. The risk of such a scenario materializing, at least for 2008, is increasing as the year unfolds with no progress yet made on relaxing restrictions.

Figure 1. West Bank and Gaza: Macroeconomic and Fiscal Developments

A substantial recovery and fiscal adjustment are envisaged over the medium term, facilitated by a relaxation of restrictions on movement and access.



Inflation in the West Bank and Gaza is influenced by developments in Israel, but pressures remain significantly higher in Gaza.



Sources: Ministry of Finance, Palestinian Central Bureau of Statistics, and IMF staff estimates.

- In a more optimistic scenario, progress in the peace process and improvement in the security situation would enable a substantial easing of Israeli restrictions to the levels of the early 1990s, resulting in a marked rise in trade and investment. Real GDP per capita would increase by about 5½ percent per year during 2008–10 and unemployment would fall to 14 percent. In this scenario, public employment and social transfers could be more easily reduced, and utility subsidies would be phased out earlier, thus allowing for faster fiscal adjustment.

11. **The 2008 budget, adopted by the cabinet on March 31, 2008, and subsequently signed by the President, envisages a reduction in the deficit to 22 percent of GDP (lower than in the PRDP), which would be a significant stride toward fiscal sustainability** (Tables 2a–2b). The fiscal adjustment is predicated mainly on a fall in recurrent expenditures by 3½ percentage points of GDP, with a modest rise in revenues:

- The wage rate and new public employment will continue to be frozen, except for net new hires of up to 3,000, mainly in the health and education personnel.⁸ As a result, the wage bill would increase by only 1 percent (in NIS terms) from 2007.⁹
- Nonwage expenditures are projected to increase by 17 percent (in NIS terms) from 2007. The budget allows in particular for a large rise in social aid and operating expenses of security. These expenditures are higher than in the fiscal framework of the PRDP by NIS 275 million or 9 percent (Tables 3a–3b), reflecting mainly: (i) higher transfers to municipalities (by NIS 80 million) as an interim step to facilitate higher payment of utility bills; and (ii) a temporary program to pay social allowances to 10,000 security employees who were laid off in mid-2007.
- The rise in nonwage expenditures is, however, more than offset by the significant decline in net lending by about NIS 750 million, or 34 percent, from 2007. The budgeted amount for net lending is lower than in the PRDP fiscal framework by about NIS 500 million. This ambitious target is predicated on a stricter enforcement of payment of electricity and water bills in both the West Bank and Gaza, including through the introduction of a “payments certificate” that will be needed to engage in official transactions with, or receive payments from, the PA (Box 2).

⁸ The 2008 budget allows for about 4,900 new gross recruitment of civilian employees, offset by 1,900 retirees, leaving a net increase of 3,000 mainly for education and health. In addition, the status of some employees who were removed from the payroll in recent months is still under review. These employees could be added back to the payroll following the review. Overall, PA employment, estimated at about 144,000 employees in December 2007, would remain below 153,000 throughout 2008, as envisaged in the PRDP.

⁹ The projections for 2008 presented in the December 2007 assessment of the PRDP used an accounting exchange rate of NIS 4.15 per US dollar. The latest projections and the PA’s 2008 budget use an accounting exchange rate of NIS 3.60 per US dollar.

Box 2. Measures to Reduce Net Lending

Net lending refers to the PA's financial support to municipalities and other public entities, mainly to cover utility expenses. While these outlays are notionally payable by these entities, the bulk of the financial support is unlikely to be recovered, and in effect represents subsidies to utility consumers and municipalities. Net lending arises from: (i) direct cash outlays by the PA to regional electricity generating companies and the Palestinian Petroleum Agency; and (ii) unplanned assumption by the PA of municipal liabilities to the Gaza electricity company, the Israeli Electricity Company (IEC), and water suppliers.

Net lending has absorbed an increasing share of the PA's resources. It rose from NIS 1.5 billion (7.4 percent of GDP) in 2006 to NIS 2.2 billion (10.6 percent of GDP) in 2007, as utility collection rates declined, and some municipalities used households' utility payments to pay for other municipal services.

In late-2007, the PA took two key actions to reduce net lending:

- To improve collection from utility consumers, a new Cabinet resolution stipulates that any official transaction requests to PA ministries and agencies must include a *certificate of no-debt* for electricity and water payments. This gives the PA broad powers to enforce payment discipline (e.g., to refuse to issue licenses and tax refunds to individuals or companies unable to certify that they or their employees do not owe utility debts). Electricity and water dues are also being withheld from wages of delinquent PA employees.
- The PA has been monitoring municipalities' bank accounts to ensure that utility payments collected from consumers are passed on to suppliers. As a transitional step, the 2008 budget includes transfers to municipalities to encourage them to fully remit dues to suppliers.

Initial results have been encouraging. There are indications that collection rates rose in the first quarter of 2008, in both the West Bank and Gaza; comprehensive data are not yet available to precisely quantify the increases. It is also too early to assess their sustainability, especially given that, in March 2008, the High Judicial Council temporarily suspended the implementation of the Cabinet resolution pending a detailed review. Nevertheless, the authorities plan to ensure high collection rates from the largest debtors through direct follow-up with them, independently of the system of certificates, and have appealed the Council's decision. Municipalities have also been covering a larger share of their bills to IEC. Rising fuel costs and increased electricity rates by the IEC have partly offset the budgetary impact of these gains. Overall, a steady reduction in net lending is projected, from 11 percent of GDP in 2007 to 5 percent of GDP by 2010.

- Repayment of wage and private sector arrears is projected at NIS 780 million (\$217 million), higher than in the PRDP by NIS 270 million. The budget also envisages repayments of debt to commercial banks by about NIS 180 million (\$50 million).

- The revenue-to-GDP ratio is projected to rise by about 1 percentage point from 2007. Clearance revenues collected by Israel are expected to be transferred on a timely basis.¹⁰ The impact of the rise in private incomes, as well as improved compliance and tax administration, is tempered by the noncollection of tax revenues from Gaza.¹¹
- The recurrent budget deficit is lower than in the PRDP on a commitment basis (due to lower net lending), but slightly higher on a cash basis (due to larger arrears repayment).
- The budgeted repayment of arrears and bank debts result in a slightly higher external financing requirement, up by NIS 240 million, to NIS 5.9 billion. Reflecting the recent appreciation of the NIS against the US dollar, this amount is now equivalent to \$1.6 billion, compared with \$1.4 billion in the PRDP's fiscal framework.

12. **To fully finance the recurrent budget for 2008, additional donor financing will be needed beyond that pledged at the 2007 Paris conference** (Box 3). The amount disbursed or confirmed so far is adequate to cover the financing needs for the first half of 2008. However, without additional pledges and disbursements, there will be a significant financing shortfall of NIS 1.4 billion (about \$0.4 billion or 6.4 percent of GDP) in the second half of the year.

13. **Preliminary data for early 2008 indicate that fiscal developments are broadly in line with the budget objectives.** Total revenues and expenditures are on the same trend as in the second half of 2007. Although comprehensive data are not yet available, there are indications that the "payments certificate" system has contributed to higher payment of electricity bills by households and municipalities both in the West Bank and in Gaza. Disbursed budget support amounted to NIS 1.9 billion during the first quarter, or about half of the Paris conference pledges for the year as a whole (and somewhat above the average quarterly external support projected in the budget). This frontloading of budget support allowed a significant frontloading of arrears repayments, in particular arrears on PA employees' wages.¹²

14. **Key steps have been taken to strengthen the PFMS,** which will help prioritize and raise the quality of spending (Box 4). These include: (i) the creation of the General Accountant Department, which will have sole responsibility for budget execution; (ii) a new computerized system, which will improve tracking and monthly reporting of expenditure; and (iii) further enhancement of the CTA, which will help tighten controls on nonwage spending.

¹⁰ Cooperation between the PA's MoF and the Israeli MoF has so far been very good. This has facilitated the payment, in early-2008, of late interest on clearance revenues withheld in 2006–07.

¹¹ The MoF is also working on streamlining income tax deductions and exemptions, through amendments to the Income Tax Law (expected to be ratified later in 2008), which are aimed at improving tax compliance, given the slump in private sector activity and the high WBG tax rates (compared to countries with similar per capita GDP).

¹² Preliminary fiscal reports for the first quarter of 2008 indicate that total repayment of arrears reached \$207 million during this period, which is almost the entire budget envelope for arrears repayments for the whole year.

Box 3: Donors' Financial Support to the Palestinian Authority

Donors have actively supported the PRDP. The PRDP projects external financing needs for 2008–10 of \$5.6 billion, including \$3.9 billion for the recurrent deficit, and \$1.6 billion for development expenditures. At the donors' conference in Paris in December, donors pledged \$7.7 billion for 2008–10.

While total donor pledges exceeded PDRP financing needs, the amount allocated for recurrent budgetary support is insufficient. Total pledges included amounts for uses outside the PRDP (e.g., humanitarian assistance), and there was a mismatch relative to the composition of PRDP needs. In particular, pledges for development expenditures far exceeded the needs, while recurrent budgetary

financing fell well short of needs. Meeting these needs requires additional *budget* support, possibly by shifting some donor pledges (from development or “unallocated”) assistance toward budget support.

| | Needs | | Pledges (Dec. 2007) |
|--|---------------------|----------------------|------------------------|
| | PRDP (Dec. 2007) | Proj. (Mar. 2008) | |
| Total Financing | 5.6 | 6.2 | 7.7 |
| <i>of which:</i> | | | |
| Recurrent budget support | 3.9 | 4.3 | 1.7 |
| Development expenditures, TA, training | 1.6 | 1.9 | 3.1 |
| Humanitarian 1/ | n.a. | n.a. | 1.3 |
| Unallocated 1/ | n.a. | n.a. | 1.7 |

1/ Items not covered by the PRDP.

The significant depreciation of the U.S. dollar against the NIS in recent months has added to the financing gap for the 2008 budget. The 2008 budget—approved by the PA cabinet in March—has a recurrent financing need of about **NIS 5.9 billion** (about NIS 200 million higher than in the PDRP) including for the repayment of arrears. Taking into account the depreciation of the U.S. dollar, this is equivalent to \$1.6 billion.

While disbursements of budget support in 2008 are being frontloaded, additional pledges will be required. Pledges for recurrent budgetary support, including amounts already disbursed as of mid-April, are estimated at **NIS 4.4 billion** (about \$1.2 billion), including NIS 2.5 billion from European countries and the European Commission, NIS 0.9 billion from Arab League donors, and NIS 0.5 billion from the United States. **This leaves a shortfall of NIS 1.4 billion** (about \$0.4 billion). About

NIS 1.9 billion (\$0.5 billion) was disbursed during the first quarter. NIS 1.8 billion (\$0.5 billion) is projected to be disbursed during the second quarter, and another NIS 0.8 billion (\$0.2 billion) during the second half of 2008.

| | Required (average) | Disbursed/identified 1/ | Gap |
|----------------|--------------------|-------------------------|------|
| Q1 (actual) | 1.5 | 1.9 | -0.4 |
| Q2 (projected) | 1.5 | 1.8 | -0.3 |
| Q3 (projected) | 1.5 | 0.7 | 0.8 |
| Q4 (projected) | 1.5 | 0.1 | 1.3 |
| Total | 5.9 | 4.4 | 1.4 |

1/ Valued at average exchange rates for 2008Q1.

Box 4: Reforming the Public Financial Management System (PFMS)

Progress since mid-2007 in reforming the PFMS has been steady. Cash controls and the Central Treasury Account (CTA) have been reestablished, the budget process has been rebuilt through adoption of the 2007 emergency budget and preparation of the 2008 budget, and regular fiscal reporting has resumed. In January 2008, a new computerized accounting system was launched. The new system has already improved reporting, with fiscal data for 2007 and early-2008 published on the MoF website.

An action plan setting out further reforms for 2008–10 was developed with the help of a technical assistance mission from the IMF. The plan includes the following key objectives:

- **Moving toward the CTA’s full functionality**, by: (i) closing the nonzero-balance accounts and revenue transit bank accounts of line ministries and agencies; and (ii) placing all subaccounts under the MoF’s control, and integrating donor bank accounts within the CTA.
- **Strengthening commitment controls, cash management and planning, and budget execution through the newly formed General Accountant Department (GAD).** The GAD will prepare monthly cash forecasts, which will guide line ministries’ spending envelopes. Line ministries will report monthly their commitment and cash spending plans to the GAD to ensure consistency with these envelopes. Hence, the risks of accumulating new arrears will be minimized. Ministries’ cash balances with banks will be cleared daily, promoting more efficient overall cash management.
- **Integrating the investment budget into the overall PA budget, under a medium-term expenditure framework (MTEF).** This will help ensure: (i) the channeling of all project-related disbursements through CTA subaccounts; (ii) the consolidation of donor-provided information on future investment into a comprehensive and regularly updated database; and (iii) the monitoring of the implementation of all projects, in close coordination with the Ministry of Planning (MoP), and the preparation of periodic reports on the status of projects financed from the PA’s own resources. An MTEF approach was partly employed for the preparation of the PRDP and the 2008 development budget. Responsibility for the development budget is recommended for transfer from the MoP to the MoF in early-2009.

IV. ASSESSMENT

15. **Staff considers that public finance reforms undertaken by the PA, and the recently adopted 2008 budget, are broadly in line with the PRDP.** The PA has maintained strict controls on government employment and wages and taken measures to enforce utility payments. The PFMS has been strengthened, which will help tighten control on nonwage expenditures. The austerity measures are being implemented in an increasingly difficult political and economic environment. In particular, the overall situation on the ground has not improved as expected, the PRDP’s anticipated private sector recovery is lagging, and rising inflation is reducing real incomes further.

16. In order to ensure that fiscal adjustment is sustained beyond 2008, structural reforms set out in the PRDP will need to be stepped up:

- It will become increasingly difficult to lower the wage bill as a share of GDP by relying only on restraining new employment and wage rates. A comprehensive civil service reform, combining adjustments of salary scales and restructuring, will be important to achieve the medium-term objectives for the wage bill. Public sector efficiency would be enhanced through reform of the security force to make it more cost-effective. However, it is difficult to envisage these reforms without a solid recovery of private sector growth enabled by relaxation of restrictions on movement and access.
- The impact of fiscal austerity on the poor needs to be eased by streamlining and better targeting social transfers, with World Bank advice, using reliable household data.
- Measures to improve the collection of utility bills should be complemented by a broader reform of the electricity sector and a review of municipal finances.
- Arrears repayment should be slowed down in line with expected budgetary resources. Larger-than-budgeted repayment of arrears would lead to significant liquidity difficulties later in 2008 if not offset by other spending cuts.¹³

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

- The persistence of Israeli restrictions and lack of progress in the peace process could inhibit economic activity, reducing private employment and household income growth. This would make it more difficult for the PA to reduce spending and raise collection rates for utilities. A relaxation of restrictions would also ease inflationary pressures and help maintain the freeze on public sector wages.
- The PA's reforms will become more difficult to implement without broader political support on the Palestinian side. Some initial austerity measures have been challenged (notably through recurrent protests and strikes by trade unions), and the government has been under pressure to relax the wage bill policy. The agreement reached in

¹³ The larger repayment in arrears would result from implementation of the agreement reached in mid-April 2008 between the government and trade unions for ending the strikes. The agreement stipulates, *inter alia*, that all wage arrears should be repaid within six months, transportation allowances will increase by 50 percent, and a committee examining the issue of increases in the cost of living should make recommendations within five months. As of mid-April, outstanding wage arrears to PA employees amounted to about NIS 800 million (about \$220 million). Unless offset by other spending cuts in 2008, the repayment of these arrears would raise 2008 budget financing needs by around that amount (given that the budget envelope for the repayment of arrear has been mostly spent during January-March 2008). There would be no wage arrears left for repayment in 2009-2010, and financing needs in those two years would be reduced accordingly.

mid-April 2008 between the government and trade unions for ending the strikes, while adding to 2008 spending, should stem these pressures.

- Close coordination among donors, and between donors and the PA, will be essential to ensure adequate and timely disbursements for the recurrent budget, starting with additional assistance to cover the gap in 2008. The recent implementation of the World Bank's PRDP-TF and the European Union's PEGASE¹⁴ mechanism should help in this regard.
- Uncertainties regarding the situation in Gaza could result in unanticipated emergency and humanitarian spending. This would raise the PA's recurrent deficit and require additional donor financing. Facilitation by the GoI of movement of goods and people across Gaza's borders would reduce this risk and raise its growth potential, including by speeding the implementation of the PRDP's investment program. The PA has proposed that its security forces take control of Gaza's crossings when they reopen.

18. **The IMF has intensified its work in the WBG, with a focus on the macroeconomic, fiscal, and financial areas.** Fund staff is producing quarterly reports on the implementation of the PRDP's fiscal plan and public finance reforms. World Bank staff is producing separate reports focusing on progress in structural reforms. Donors' disbursement decisions, including from the PRDP-TF and PEGASE, take into account overall reform progress, as conveyed in the Fund and Bank quarterly reports. Technical assistance from the Fund has also been stepped up, including in the areas of public expenditure management, PMA reforms, and macroeconomic statistics.

¹⁴ PEGASE, or "Mécánisme Palestino-Européen de Gestion et d'Aide Socio-Economique" (Palestinian-European Socio-Economic Management and Assistance Mechanism), supersedes the European Commission's Temporary International Mechanism (TIM), which expired in February 2008. The PEGASE allows European Union donors to channel funds either through the CTA, or directly to final recipients as was the case under the TIM.

Table 1. West Bank and Gaza: Selected Economic Indicators, 2005–10

(Population: 4 million; 2007 (est.))
 (Per capita GDP: US\$1,258; 2007 (est.))
 (Poverty rate: 58 percent, 2006)

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|--|----------------------------|-------|-------|------------|-------|-------|
| | | | Est. | Projection | | |
| Output and prices | | | | | | |
| | (Annual percentage change) | | | | | |
| Real GDP (1997 market prices) | 6.0 | -4.8 | 0.0 | 3.0 | 5.5 | 6.5 |
| CPI inflation rate (end of period) | 2.3 | 3.3 | 6.9 | 3.5 | 3.0 | 2.5 |
| CPI inflation rate (period average) | 3.5 | 3.8 | 2.7 | 4.0 | 3.0 | 2.5 |
| Investment and saving | | | | | | |
| | (In percent of GDP) | | | | | |
| Gross capital formation, of which: | 24.1 | 21.1 | 22.2 | 25.3 | 27.4 | 29.4 |
| Public | 7.4 | 6.4 | 6.6 | 9.0 | 10.7 | 12.2 |
| Private | 16.7 | 14.7 | 15.6 | 16.4 | 16.7 | 17.1 |
| Gross national savings, of which: | 4.0 | 11.2 | 14.6 | 21.0 | 17.4 | 17.2 |
| Public 1/ | -2.8 | -2.3 | -0.6 | 12.6 | 12.2 | 13.6 |
| Private | 6.8 | 13.5 | 15.2 | 8.4 | 5.2 | 3.7 |
| Saving-investment balance | -20.1 | -9.9 | -7.6 | -4.3 | -10.0 | -12.1 |
| Public finances 2/ | | | | | | |
| | (In percent of GDP) | | | | | |
| Revenues | 27.5 | 25.4 | 23.6 | 24.4 | 25.4 | 25.7 |
| Recurrent expenditures and net lending | 44.5 | 50.2 | 50.3 | 46.7 | 43.5 | 41.2 |
| Wage expenditures | 22.4 | 26.3 | 25.4 | 24.3 | 23.0 | 21.6 |
| Nonwage expenditures (including minor development) | 14.5 | 16.5 | 14.4 | 15.8 | 14.7 | 14.4 |
| Net lending | 7.7 | 7.4 | 10.6 | 6.6 | 5.8 | 5.2 |
| Recurrent balance (before external budgetary support) | -17.0 | -24.9 | -26.7 | -22.3 | -18.2 | -15.5 |
| Externally financed development expenditures | 6.4 | 6.2 | 6.1 | 8.1 | 9.7 | 10.8 |
| (in millions of US dollars) | 286.9 | 281 | 309 | 492 | 634 | 769 |
| Overall balance (before external budgetary support) | -23.4 | -31.1 | -32.8 | -30.4 | -27.8 | -26.3 |
| External support for recurrent budget 3/ | 7.8 | 16.3 | 20.0 | 26.8 | 20.7 | 18.3 |
| (in millions of US dollars) 3/ | 348.8 | 741 | 1,010 | 1,634 | 1,361 | 1,301 |
| Monetary sector 4/ | | | | | | |
| | (Annual percentage change) | | | | | |
| Credit to the private sector | 27.1 | 7.6 | -5.7 | 18.2 | 11.6 | 13.2 |
| Private sector deposits | 2.6 | 6.2 | 21.9 | 19.7 | 10.9 | 10.4 |
| External sector | | | | | | |
| | (In percent of GDP) | | | | | |
| Exports of goods and nonfactor services | 13.1 | 11.8 | 13.2 | 13.5 | 13.6 | 13.6 |
| Import of goods and nonfactor services | 80.3 | 78.5 | 79.4 | 80.9 | 79.1 | 77.7 |
| Net factor income | 12.0 | 11.8 | 11.4 | 9.8 | 9.0 | 8.8 |
| Net current transfers | 35.0 | 45.0 | 47.2 | 53.3 | 46.5 | 43.2 |
| Official transfers | 14.2 | 22.5 | 26.1 | 34.9 | 30.4 | 29.1 |
| Current account balance (excluding official transfers) | -34.3 | -32.5 | -33.8 | -39.2 | -40.4 | -41.2 |
| Current account balance (including official transfers) | -20.1 | -9.9 | -7.6 | -4.3 | -10.0 | -12.1 |
| Memorandum items: | | | | | | |
| Nominal GDP (millions of US dollars) | 4,478 | 4,533 | 5,045 | 6,088 | 6,569 | 7,120 |
| Per capita nominal GDP (US dollars) | 1,190 | 1,166 | 1,256 | 1,468 | 1,536 | 1,615 |
| Unemployment rate (average in percent of labor force) | 23.5 | 23.6 | 21.5 | 22.0 | 21.8 | 21.5 |
| New Israeli Shekel per US\$ (period average) | 4.49 | 4.46 | 4.11 | ... | ... | ... |
| Al Quds stock market index (annual percentage change) | 306.6 | -46.4 | -12.8 | ... | ... | ... |

Sources: Palestinian authorities, World Bank, and IMF staff estimates.

1/ The large increase in gross public savings during 2008-10 is due largely to the substantial inflow of donor financing for the recurrent budget and development expenditures.

2/ Commitment basis.

3/ External financing in 2006 includes only documented amounts.

4/ End of period; in US dollar terms.

Table 2a. West Bank and Gaza: Central Government Fiscal Operations, 2006-10

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|--|--|---------------|---------------|---------------|---------------|
| | | Estimate | Projection | | |
| | (In millions of US dollars, unless otherwise stated) | | | | |
| Total net revenues | 1,149 | 1,194 | 1,486 | 1,665 | 1,832 |
| Gross domestic revenues | 396 | 323 | 419 | 469 | 516 |
| Tax revenues | 239 | 202 | 253 | 283 | 312 |
| Nontax revenues | 157 | 122 | 166 | 186 | 205 |
| Clearance revenues (accrued) | 770 | 896 | 1,067 | 1,196 | 1,316 |
| Clearance revenues (cash) | 297 | 1,318 | 1,067 | 1,196 | 1,316 |
| Clearance revenues (net arrears accumulation) | 473 | -422 | 0 | 0 | 0 |
| Tax refunds | 17 | 25 | 0 | 0 | 0 |
| Total recurrent expenditures and net lending (commitment basis) | 2,277 | 2,544 | 2,846 | 2,858 | 2,935 |
| Wage expenditures (commitment) | 1,193 | 1,283 | 1,481 | 1,511 | 1,541 |
| Wage expenditures (cash) | 660 | 1,369 | ... | ... | ... |
| Wage expenditures (net arrears accumulation) 1/ | 533 | -86 | ... | ... | ... |
| Nonwage expenditures (commitment) 2/ | 747 | 725 | 964 | 969 | 1,022 |
| Nonwage expenditures (cash) | 393 | 663 | ... | ... | ... |
| Nonwage expenditures (net arrears accumulation) 1/ | 354 | 62 | ... | ... | ... |
| Net lending 3/ | 337 | 535 | 400 | 379 | 373 |
| Recurrent balance (commitment basis, before external budgetary support) | -1,128 | -1,350 | -1,360 | -1,193 | -1,103 |
| add: expenditure arrears (net accumulation) 1/ | 887 | -23 | -217 | -165 | -194 |
| subtract: net clearance withheld (+) or transferred from past collections (-) | 473 | -422 | 0 | 0 | 0 |
| Recurrent balance (cash basis, before external budgetary support) | -714 | -951 | -1,577 | -1,357 | -1,297 |
| add: required external budgetary support 4/ | 741 | 1,012 | 1,634 | 1,361 | 1,301 |
| Recurrent balance (commitment basis, after external budgetary support) | -387 | -338 | 274 | 169 | 198 |
| Recurrent balance (cash basis, after external budgetary support) | 27 | 61 | 57 | 4 | 4 |
| Development expenditures (Public Investment Program) | 281 | 310 | 492 | 634 | 769 |
| Overall balance (cash basis, including development expenditures) | -255 | -249 | -435 | -630 | -765 |
| Total other financing | 255 | 249 | 435 | 630 | 765 |
| Advances and other payments by Palestine Investment Fund | 146 | 78 | 0 | 0 | 0 |
| Net domestic bank financing | -172 | -132 | -50 | 0 | 0 |
| External financing for development expenditures | 281 | 310 | 492 | 634 | 769 |
| Net external debt | 0 | 0 | -7 | -4 | -4 |
| Residual | -1 | -6 | 0 | 0 | 0 |
| <i>Memorandum items:</i> | (In percent of GDP; unless otherwise stated) | | | | |
| Revenues | 25.4 | 23.6 | 24.4 | 25.4 | 25.7 |
| Recurrent expenditures and net lending | 50.2 | 50.3 | 46.7 | 43.5 | 41.2 |
| Wage expenditures | 26.3 | 25.4 | 24.3 | 23.0 | 21.6 |
| Nonwage expenditures | 16.5 | 14.4 | 15.8 | 14.7 | 14.4 |
| Net lending | 7.4 | 10.6 | 6.6 | 5.8 | 5.2 |
| Recurrent balance (commitment basis) before external budgetary support | -24.9 | -26.7 | -22.3 | -18.2 | -15.5 |
| External budgetary support (recurrent) | 16.3 | 20.0 | 26.8 | 20.7 | 18.3 |
| Overall balance | -5.6 | -4.9 | -7.1 | -9.6 | -10.7 |
| Total external budgetary support (recurrent & development, millions of US dollars) | 1,022 | 1,322 | 2,126 | 1,995 | 2,070 |
| Nominal GDP (millions of US dollars) | 4,533 | 5,054 | 6,088 | 6,569 | 7,120 |

Sources: Ministry of Finance, and IMF staff estimates.

1/ The exact distribution of arrears repayments between wage and nonwage in 2008-10 will be determined during budget implementation.

2/ Including minor outlays for domestically financed development expenditures.

3/ Including transfers related to the marketing of petroleum products.

4/ External financing in 2006 includes only documented amounts.

Table 2b. West Bank and Gaza: Central Government Fiscal Operations, 2006-10

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---------------|---------------|---------------|---------------|
| | | Estimate | | Projection | |
| | (In millions of shekels, unless otherwise stated) | | | | |
| Total net revenues | 5,121 | 4,894 | 5,349 | 5,996 | 6,595 |
| Gross domestic revenues | 1,766 | 1,326 | 1,507 | 1,689 | 1,858 |
| Tax revenues | 1,066 | 827 | 910 | 1,020 | 1,122 |
| Nontax revenues | 701 | 499 | 597 | 670 | 736 |
| Clearance revenues (accrued) | 3,432 | 3,673 | 3,842 | 4,306 | 4,737 |
| Clearance revenues (cash) | 1,324 | 5,403 | 3,842 | 4,306 | 4,737 |
| Clearance revenues (net arrears accumulation) | 2,108 | -1,730 | 0 | 0 | 0 |
| Tax refunds | 78 | 105 | 0 | 0 | 0 |
| Total recurrent expenditures and net lending (commitment basis) | 10,147 | 10,430 | 10,244 | 10,289 | 10,567 |
| Wage expenditures (commitment) | 5,316 | 5,262 | 5,333 | 5,439 | 5,546 |
| Wage expenditures (cash) | 2,940 | 5,614 | ... | ... | ... |
| Wage expenditures (net arrears accumulation) 1/ | 2,376 | -352 | ... | ... | ... |
| Nonwage expenditures (commitment) 2/ | 3,329 | 2,974 | 3,471 | 3,487 | 3,679 |
| Nonwage expenditures (cash) | 1,753 | 2,718 | ... | ... | ... |
| Nonwage expenditures (net arrears accumulation) 1/ | 1,576 | 256 | ... | ... | ... |
| Net lending 3/ | 1,501 | 2,193 | 1,440 | 1,363 | 1,342 |
| Recurrent balance (commitment basis, before external budgetary support) | -5,026 | -5,535 | -4,895 | -4,294 | -3,972 |
| add: expenditure arrears (net accumulation) 1/ | 3,953 | -96 | -781 | -593 | -697 |
| subtract: net clearance withheld (+) or transferred from past collections (-) | 2,108 | -1,730 | 0 | 0 | 0 |
| Recurrent balance (cash basis, before external budgetary support) | -3,181 | -3,901 | -5,676 | -4,887 | -4,669 |
| add: required external budgetary support 4/ | 3,300 | 4,149 | 5,881 | 4,901 | 4,684 |
| Recurrent balance (commitment basis, after external budgetary support) | -1,726 | -1,386 | 986 | 607 | 711 |
| Recurrent balance (cash basis, after external budgetary support) | 119 | 248 | 205 | 14 | 14 |
| Development expenditures (Public Investment Program) | 1,254 | 1,270 | 1,771 | 2,283 | 2,768 |
| Overall balance (cash basis, including development expenditures) | -1,136 | -1,022 | -1,566 | -2,268 | -2,754 |
| Total other financing | 1,136 | 1,022 | 1,566 | 2,268 | 2,754 |
| Advances and other payments by Palestine Investment Fund | 651 | 320 | 0 | 0 | 0 |
| Net domestic bank financing | -766 | -542 | -180 | 0 | 0 |
| External financing for development expenditures | 1,254 | 1,270 | 1,771 | 2,283 | 2,768 |
| Net external debt | 0 | 0 | -25 | -14 | -14 |
| Residual | -4 | -26 | 0 | 0 | 0 |
| <i>Memorandum items:</i> | (In percent of GDP; unless otherwise stated) | | | | |
| Revenues | 25.4 | 23.6 | 24.4 | 25.4 | 25.7 |
| Recurrent expenditures and net lending | 50.2 | 50.3 | 46.7 | 43.5 | 41.2 |
| Wage expenditures | 26.3 | 25.4 | 24.3 | 23.0 | 21.6 |
| Nonwage expenditures | 16.5 | 14.4 | 15.8 | 14.7 | 14.4 |
| Net lending | 7.4 | 10.6 | 6.6 | 5.8 | 5.2 |
| Recurrent balance (commitment basis) before external budgetary support | -24.9 | -26.7 | -22.3 | -18.2 | -15.5 |
| External budgetary support (recurrent) | 16.3 | 20.0 | 26.8 | 20.7 | 18.3 |
| Overall balance | -5.6 | -4.9 | -7.1 | -9.6 | -10.7 |
| Total external budgetary support (recurrent & development, millions of shekels) | 4,554 | 5,419 | 7,652 | 7,184 | 7,452 |
| Nominal GDP (millions of shekels) | 20,199 | 20,722 | 21,918 | 23,650 | 25,632 |

Sources: Ministry of Finance, and IMF staff estimates.

1/ The exact distribution of arrears repayments between wage and nonwage in 2008-10 will be determined during budget implementation.

2/ Including minor outlays for domestically financed development expenditures.

3/ Including transfers related to the marketing of petroleum products.

4/ External financing in 2006 includes only documented amounts.

Table 3a. West Bank and Gaza: Central Government Fiscal Operations, 2007-08, Comparison with PRDP

| | 2007 | | 2008 | |
|---|--|---------------|--------------------|---------------|
| | PRDP Projection | Estimate | PRDP Projection | Budget |
| (In millions of US dollars, unless otherwise stated) | | | | |
| Total net revenues | 1,186 | 1,194 | 1,289 | 1,486 |
| Gross domestic revenues | 368 | 323 | 363 | 419 |
| Tax revenues | 235 | 202 | 219 | 253 |
| Nontax revenues | 133 | 122 | 144 | 166 |
| Clearance revenues (accrued) | 850 | 896 | 926 | 1,067 |
| Clearance revenues (cash) | 1,280 | 1,318 | 926 | 1,067 |
| Clearance revenues (net arrears accumulation) | -430 | -422 | 0 | 0 |
| Tax refunds | 33 | 25 | 0 | 0 |
| Total recurrent expenditures and net lending (commitment basis) | 2,553 | 2,544 | 2,521 | 2,846 |
| Wage expenditures (commitment) | 1,295 | 1,283 | 1,285 | 1,481 |
| Wage expenditures (cash) | 1,295 | 1,369 | ... | ... |
| Wage expenditures (net arrears accumulation) 1/ | 0 | -86 | ... | ... |
| Nonwage expenditures (commitment) 2/ | 747 | 725 | 770 | 964 |
| Nonwage expenditures (cash) | 717 | 663 | ... | ... |
| Nonwage expenditures (net arrears accumulation) 1/ | 30 | 62 | ... | ... |
| Net lending 3/ | 512 | 535 | 466 | 400 |
| Recurrent balance (commitment basis, before external budgetary support) | -1,367 | -1,350 | -1,232 | -1,360 |
| add: expenditure arrears (net accumulation) 1/ | 30 | -23 | -125 | -217 |
| subtract: net clearance withheld (+) or transferred from past collections (-) | -430 | -422 | 0 | 0 |
| Recurrent balance (cash basis, before external budgetary support) | -907 | -951 | -1,357 | -1,577 |
| add: required external budgetary support 4/ | 907 | 1,012 | 1,361 | 1,634 |
| of which: external budgetary support yet to be secured | ... | ... | 290 | 399 |
| Recurrent balance (commitment basis, after external budgetary support) | -460 | -338 | 129 | 274 |
| Recurrent balance (cash basis, after external budgetary support) | 0 | 61 | 4 | 57 |
| Development expenditures (Public Investment Program) | 306 | 310 | 427 | 492 |
| Overall balance (cash basis, including development expenditures) | -306 | -249 | -423 | -435 |
| Total other financing | 306 | 249 | 423 | 435 |
| Advances and other payments by Palestine Investment Fund | 70 | 78 | 0 | 0 |
| Net domestic bank financing | -70 | -132 | 0 | -50 |
| External financing for development expenditures | 306 | 310 | 427 | 492 |
| Net external debt | 0 | 0 | -4 | -7 |
| Residual | 0 | -6 | 0 | 0 |
| <i>Memorandum items:</i> | (In percent of GDP; unless otherwise stated) | | | |
| Revenues | 24.6 | 23.6 | 24.9 | 24.4 |
| Recurrent expenditures and net lending | 53.0 | 50.3 | 48.7 | 46.7 |
| Wage expenditures | 26.9 | 25.4 | 24.8 | 24.3 |
| Nonwage expenditures | 15.5 | 14.4 | 14.9 | 15.8 |
| Net lending | 10.6 | 10.6 | 9.0 | 6.6 |
| Recurrent balance (commitment basis) before external budgetary support | -28.4 | -26.7 | -23.8 | -22.3 |
| External budgetary support (recurrent) | 18.8 | 20.0 | 26.3 | 26.8 |
| Overall balance | -6.3 | -4.9 | -8.2 | -7.1 |
| Total external budget support (recurrent & development, millions of US dollars) | 1,213 | 1,322 | 1,788 | 2,126 |
| Nominal GDP (millions of US dollars) | 4,820 | 5,054 | 5,172 | 6,088 |
| Accounting exchange rate (NIS per US dollar) | 4.15 | 4.10 | 4.15 | 3.60 |

Sources: Ministry of Finance, and IMF staff estimates.

1/ The exact distribution of arrears repayments between wage and nonwage in 2008-10 will be determined during budget implementation.

2/ Including minor outlays for domestically financed development expenditures.

3/ Including transfers related to the marketing of petroleum products.

4/ External financing in 2006 includes only documented amounts.

Table 3b. West Bank and Gaza: Central Government Fiscal Operations, 2007-08, Comparison with PRDP

| | 2007 | | 2008 | |
|---|--|---------------|--------------------|---------------|
| | PRDP Projection | Estimate | PRDP Projection | Budget |
| (In millions of shekels, unless otherwise stated) | | | | |
| Total net revenues | 4,922 | 4,894 | 5,349 | 5,349 |
| Gross domestic revenues | 1,529 | 1,326 | 1,507 | 1,507 |
| Tax revenues | 977 | 827 | 910 | 910 |
| Nontax revenues | 552 | 499 | 597 | 597 |
| Clearance revenues (accrued) | 3,528 | 3,673 | 3,842 | 3,842 |
| Clearance revenues (cash) | 5,313 | 5,403 | 3,842 | 3,842 |
| Clearance revenues (net arrears accumulation) | -1,785 | -1,730 | 0 | 0 |
| Tax refunds | 135 | 105 | 0 | 0 |
| Total recurrent expenditures and net lending (commitment basis) | 10,597 | 10,430 | 10,462 | 10,244 |
| Wage expenditures (commitment) | 5,374 | 5,262 | 5,333 | 5,333 |
| Wage expenditures (cash) | 5,374 | 5,614 | ... | ... |
| Wage expenditures (net arrears accumulation) 1/ | 0 | -352 | ... | ... |
| Nonwage expenditures (commitment) 2/ | 3,100 | 2,974 | 3,196 | 3,471 |
| Nonwage expenditures (cash) | 2,976 | 2,718 | ... | ... |
| Nonwage expenditures (net arrears accumulation) 1/ | 125 | 256 | ... | ... |
| Net lending 3/ | 2,123 | 2,193 | 1,934 | 1,440 |
| Recurrent balance (commitment basis, before external budgetary support) | -5,675 | -5,535 | -5,113 | -4,895 |
| add: expenditure arrears (net accumulation) 1/ | 125 | -96 | -519 | -781 |
| subtract: net clearance withheld (+) or transferred from past collections (-) | -1,785 | -1,730 | 0 | 0 |
| Recurrent balance (cash basis, before external budgetary support) | -3,765 | -3,901 | -5,632 | -5,676 |
| add: required external budgetary support 4/ | 3,764 | 4,149 | 5,648 | 5,881 |
| of which: external budgetary support yet to be secured | ... | ... | 1,205 | 1,438 |
| Recurrent balance (commitment basis, after external budgetary support) | -1,911 | -1,386 | 535 | 986 |
| Recurrent balance (cash basis, after external budgetary support) | -1 | 248 | 16 | 205 |
| Development expenditures (Public Investment Program) | 1,270 | 1,270 | 1,772 | 1,771 |
| Overall balance (cash basis, including development expenditures) | -1,271 | -1,022 | -1,756 | -1,566 |
| Total other financing | 1,271 | 1,022 | 1,756 | 1,566 |
| Advances and other payments by Palestine Investment Fund | 291 | 320 | 0 | 0 |
| Net domestic bank financing | -289 | -542 | 0 | -180 |
| External financing for development expenditures | 1,270 | 1,270 | 1,772 | 1,771 |
| Net external debt | 0 | 0 | -16 | -25 |
| Residual | 0 | -26 | 0 | 0 |
| <i>Memorandum items:</i> | (In percent of GDP; unless otherwise stated) | | | |
| Revenues | 24.6 | 23.6 | 24.9 | 24.4 |
| Recurrent expenditures and net lending | 53.0 | 50.3 | 48.7 | 46.7 |
| Wage expenditures | 26.9 | 25.4 | 24.8 | 24.3 |
| Nonwage expenditures | 15.5 | 14.4 | 14.9 | 15.8 |
| Net lending | 10.6 | 10.6 | 9.0 | 6.6 |
| Recurrent balance (commitment basis) before external budgetary support | -28.4 | -26.7 | -23.8 | -22.3 |
| External budgetary support (recurrent) | 18.8 | 20.0 | 26.3 | 26.8 |
| Overall balance | -6.4 | -4.9 | -8.2 | -7.1 |
| Total external budgetary support (recurrent & development, millions of shekels) | 5,034 | 5,419 | 7,420 | 7,652 |
| Nominal GDP (millions of shekels) | 20,005 | 20,722 | 21,465 | 21,918 |
| Accounting exchange rate (NIS per US dollar) | 4.15 | 4.10 | 4.15 | 3.60 |

Sources: Ministry of Finance, and IMF staff estimates.

1/ The exact distribution of arrears repayments between wage and nonwage in 2008-10 will be determined during budget implementation.

2/ Including minor outlays for domestically financed development expenditures.

3/ Including transfers related to the marketing of petroleum products.

4/ External financing in 2006 includes only documented amounts.