

State of Palestine

Ministry of Finance

**Fiscal Developments & Performance:
First Quarter 2014**

Macro-Fiscal Unit

First Draft

07/04/2014

Fiscal Operations Q1-2014

Budget execution highlights:

- **Total budget deficit** for the first quarter of 2014 amounted to around NIS 1.02 billion, a 12% decrease over the parallel quarter of 2013. The total deficit is below the quarterly budget target¹ by NIS 450 million (30.7%). The recurrent budget deficit amounted to NIS 728 million, a 28% decline over the first quarter of 2013, and is below the budget target by NIS 421 million (37%).
- **Gross Revenues** in Q1 2014 amounted to NIS 2.9 billion, exceeding its budget target by 18%. ²**Total net revenues** in Q1 2014 were also above the quarterly budget target by NIS 364 million (16%) due to the over performance of domestic tax revenues and clearance revenues by NIS 245 million and NIS 180 million, respectively. Domestic tax revenue amounted to NIS 827 during the 1st quarter of 2014, a 24% increase over the parallel period last year, while clearance revenue amounted to NIS 1.82 billion, a 31% increase over Q1 2013.
- **Total Expenditures and Net Lending** in Q1 2014 amounted to NIS 3.42 billion, which is below the budget target by NIS 59 million (2%) due to the most components of expenditures (Wage bill, transfers, minor capital, interest payment) not reaching their quarterly budget targets.
- **The wage bill** in Q1 2014 amounted to around NIS 1.76 billion and was below the quarterly budget target by NIS 56 million (3%).
- **Use of goods & services** amounted to NIS 597 million during Q1 2014, and were above the budget target by NIS 113 million (23.3%). **Social contributions, transfers, minor capital, and interest** were all below their budget targets by NIS 2 million, NIS 152 million, NIS 13 million, and NIS 23 million, respectively.
- **Net Lending** amounted to NIS 223 million during the first quarter of 2014, an increase of 93% over the parallel period of 2013, and reaching 37% of its budget target.
- **Budget support** disbursement in Q1 2014 amounted to NIS 631.5 million, reaching only 13% of the amount budgeted while **development projects financing** of NIS 123.3 million was 54% higher than the amount disbursed in the first quarter of 2013, reaching 11.4% of the 2014 budget target.
- **Domestic debt stock** level fell to NIS 4.27 billion as the Treasury managed to decrease its **domestic debt** by NIS 140.5 million during Q1 2014.
- **Total net accumulation of arrears** during Q1 2014 reached NIS 580 million including development expenditures arrears of NIS 71 million and tax refund arrears of NIS 100 million. Arrears to the private sector including the “other” component of tax refunds arrears amounted to NIS 225 million.

¹ Quarterly budget target is 25% of the approved annual budget.

² Gross Revenues is the summation of Gross Domestic Revenues and Clearance Revenues.

	Q1 14	Q1 13	Q1 2014/Q1 2013	Difference between quarters	2014 Budget	3/12 share of budget	Achieved % of budget	Deviation from budget	Deviation from budget
	NIS million	NIS million	%	Nis million	NIS million	NIS million	%	NIS million	%
Gross Revenues	2905.4	2381.9	22%	523.48	9871	2468	29.4%	438	17.7%
Total Net Revenues	2692.2	2210.0	22%	482.12	9311	2328	28.9%	364	15.7%
Gross Domestic Revenue	1088.8	993.2	10%	95.63	3326	832	32.7%	257	30.9%
Domestic Tax Revenues	827.2	666.5	24%	160.73	2329	582	35.5%	245	42.1%
Income Tax	358.4	312.7	15%	45.75	742	186	48%	173	93.2%
Value Added Tax	324.0	183.5	77%	140.56	912	228	36%	96	42.1%
Customs	64.0	48.6	32%	15.37	225	56	28.4%	8	13.7%
Excises on Beverages	0.5	1.3	-63%	-0.79	13	3	3.6%	-3	-85.4%
Excises on Tobacco	73.3	113.1	-35%	-39.77	422	106	17.4%	-32	-30.5%
Property Tax	7.0	7.4	-5%	-0.39	15	4	47%	3	86.2%
Clearance Revenue	1816.6	1388.7	31%	427.85	6545	1636	27.8%	180	11.0%
Customs	565.9	459.4	23%	106.54	2247	562	25.2%	4	0.7%
Value Added Tax	579.6	488.6	19%	91.06	2120	530	27.3%	50	9.4%
Purchase Tax	-1.1	5.5	-120%	-6.55	23	6	-4.7%	-7	-118.7%
Petroleum Excise	634.4	431.6	47%	202.80	2145	536	30%	98	18.3%
Income Tax	37.7	3.7	919%	34.00	10	3	377%	35	1408.0%
Tax Refunds (-)	213.2	171.8	24%	41.36	560	140	38%	73	52.3%
Fuel	183.2	130.9	40%	52.33	480	120	38%	63	52.7%
Other (2)	30.0	40.9	-27%	-10.98	80	20	37%	10	49.8%
Nontax Revenues	261.6	326.7	-20%	-65.10	997	249	26%	12	4.9%
Domestic Fees and Charges	225.6	263.9	-15%	-38.32	897	224	25%	1	0.6%
Stamps Tax	0.0	0.0		0.00		0		0	
Civil Registration Fees	8.6	7.4	16%	1.16		0		9	
Health Fees	11.8	8.9	33%	2.91		0		12	
Health Insurance	48.6	45.2	8%	3.44		0		49	
Transportation	36.0	23.1	56%	12.88		0		36	
Agriculture Services	0.9	0.6	48%	0.29		0		1	
Local Government	0.8	2.4	-67%	-1.64		0		1	
Ministry of Economy	3.7	1.6	129%	2.06		0		4	
Shari'a Courts Fees	1.8	23.7	-92%	-21.94		0		2	
Land Registration	24.6	0.2	15323%	24.47		0		25	
Ministry of Housing	0.0	0.7	-99%	-0.69		0		0	
Tourist Fees	0.8	0.8	4%	0.03		0		1	
Telecommunication Fees	7.7	7.0	11%	0.73		0		8	
Ministry of Education	4.2	3.2	32%	1.02		0		4	
High Court of Justice Fees	10.4	8.8	19%	1.65		0		10	
Foreign Affairs	0.3	0.2	42%	0.10		0		0	
Licenses	44.5	86.1	-48%	-41.63		0		44	
Others	20.8	43.9	-53%	-23.18		0		21	
Training fees	0.0	0.0	106%	0.00		0		0	
Investments Profits (3)	36.0	62.8	-43%	-26.78	100	25	36%	11	44.0%
Total Expenditure	3420.0	3224.2	6%	195.77	13916.0	3479	25%	-59	-2%
Wages and salaries	1759.9	1707.9	3%	51.99	7265.2	1816	24%	-56	-3%
Social contributions	162.0	161.4	0%	0.62	655.3	164	25%	-2	-1%
Use of goods and services	597.3	386.7	54%	210.59	1937	484	31%	113	23.3%
Transfers	638.7	758.1	-16%	-119.41	3162	791	20%	-152	-19.2%
Minor capital	6.4	3.3	95%	3.12	76	19	8%	-13	-66.3%
Interest	32.4	90.9	-64%	-58.53	220	55	15%	-23	-41.1%
Domestic	29.4	88.6	-67%	-59.15	205	51	14.4%	-22	-42.6%
External	3.0	2.4	26%	0.61	15	4	19.8%	-1	-20.7%
Net lending	223.3	115.9	93%	107.40	600	150	37.2%	73	48.9%
Current Balance	-727.8	-1014.2	-28%	286.35	-4605	-1151	15.8%	423	-36.8%
Development Expenditures	288.0	141.1	104%	146.86	1260	315	22.9%	-27	-8.6%
Balance	-1015.8	-1155.3	-12%	139.48	-5865	-1466	17.3%	450	-30.7%
Financing	1015.8	1155.3	-12%	-139.48	5865	1466	17.3%	-450	-30.7%
External Budgetary Support	631.5	1814.5	-65%	-1183.05	4785	1196	13%	-565	-47.2%
Development Financing	123.3	80.1	54%	43.12	1080	270	11.4%	-147	-54.3%
Net Domestic Bank Financing	-368.9	-613.6	-40%	244.76					
Expenditure Arrears (Net Accumulation)	460.0	185.2	148%						
Clearance Revenue Adjustment	-9.4	74.1							
Tax Refunds (Arrears)	100.2	-293.5							
Residual	60.4	56.7							

Revenues

The 2014 budget was based on the baseline scenario of the medium term macro-fiscal framework (MTFF). With a real growth of 2% and inflation rate of 1.7%, the 2014 budget assumes status-quo; with no breakthrough in the peace talks, and no change in Israeli restrictions on the Palestinian economy. Yet, despite all these challenges, MoF managed to achieve moderate increase in revenues due to the reform efforts conducted based on the revenue strategy, such as:

1. Widening the tax base
2. The LTU- the unification of all taxpayers files into a single file
3. Revision of tax holidays and the investment promotion law
4. Improving trade and financial relations with the Israeli side through Joint Economic Committees/Sub-committees to resolve outstanding issues and enhance clearance revenue collection.

Gross PNA revenues in Q1 2014 amounted to around NIS 2.9 billion growing by 22% over Q1 2013, while exceeding the budget target for gross revenues by NIS 438 million (18%). **Total net revenue** amounted to NIS 2.7 billion in Q1 2014, increasing by 22% over the parallel quarter of 2013. Total net revenues were above the quarterly budget target by NIS 364 million (16%) due to domestic tax revenue and clearance revenue exceeding their budget targets by NIS 245 million and NIS 180 million, respectively. It should be noted that the PA's revenue strategy paved the way for reforms

Domestic tax revenue amounted to NIS 827 million during Q1 2014, showing an increase of 24% over domestic tax revenue collected in Q1 2013. The increase in domestic tax revenue could be attributed to increases in income tax, domestic VAT, and customs. **Income tax** amounted to NIS 358 million during Q1 2014, increasing by 15% over the parallel quarter of 2013 and reaching 48% of the full year budget. This increase was achieved due to the implementation of reforms based on MoF's revenue strategy, and is also due to some advance payments, such as that of Bank of Palestine, which amounted to NIS 42 million \$12 million. **Domestic VAT** amounted to NIS 324 million during the first quarter of 2014, showing a significant increase of 77% over the parallel quarter of 2013, and reaching 36% of the 2014 budget for domestic VAT. Domestic VAT collections were NIS 96 million above the quarterly budget target (42%), due to several payments from companies in the form of advances. The

PA offered a 8% discount as an incentive for taxpayers, thus, some financial institutions paid. Bank of Palestine made a payment of NIS 42 million, Jawwal made a payment of an amount of NIS 51 million, Arab Bank made a payment of NIS 43 million, the Housing Bank paid NIS 9 million, and the Cairo Amman Bank made a payment of NIS 7.5 million.

Domestic customs, which is purchase tax and customs levied on cars that are reevaluated and collected by the PA, performed well during Q1 2014 and amounted to NIS 64 million, a 32% increase over the same period last year. **Excises on tobacco** amounted to NIS 73 million during Q1 2014, a decrease of 35% over the Q1 2013. This decline is mainly due to substitution from commercial cigarettes to hand-rolled (roll ups) cigarettes, which are planted in Northern West Bank areas and sold under the counter. This substitution is mainly due to the successive increases in the excises on tobacco, specifically on the “Victory” domestic brand, which is “subsidized” by the PA. Also, the smuggling of commercial cigarettes into the Palestinian market leads to a significant loss of revenue.

Nontax revenues amounted to NIS 262 million during Q1 2014, a decline of 20% when compared to Q1 2013. This decline is due to investment profits, as only NIS 36 million were received during the first quarter of 2014, while NIS 63 million were received in the parallel period last year.

Clearance revenues, which account for two thirds of total PA revenues, amounted to NIS 1.82 billion, a significant increase of 31% over the first quarter of 2013. This increase in clearance revenues could be attributed to the increases in customs, VAT, and the petroleum excise. **Customs** amounted to NIS 566 million, a 23% increase over the first quarter of 2013. **Value Added Tax** amounted to NIS 580 million, an increase by 19% over the parallel quarter of 2013. The increases in customs and VAT are due to the field campaigns conducted by the PA’s custom officials, which even reached some areas in Area C, and is also attributed to a higher VAT on BLU (petroleum excise). **Petroleum excise** amounted to NIS 634 million during Q1 2014, an increase of 47% over Q1 2013. This increase is mainly due to the PA receiving a much bigger portion of petroleum excise from Gaza. In addition, the first quarter of 2014 witnessed an increase in consumption of petroleum and its products in both the West Bank and Gaza.

Tax refunds in Q1 2014 amounted to 213 NIS million, a 24% increase over the first quarter of 2013. This increase is mainly due to the higher fuel subsidy in the first quarter of 2014 (on average, NIS 61 million per month) relative to the lower subsidy implemented in the first quarter of 2013 (NIS 43.6 million per month on average). It should be noted that the PA’s policy, incorporated into the 2014 budget, is to reduce the fuel subsidy progressively until reaching a reasonable level. The **fuel**

component, which makes up 86% of tax refunds, amounted to NIS 183 million during Q1 2014, showing an increase of 40% over the parallel quarter due to the reasons mentioned above. The “other” component, which is the refunds on VAT and custom revenues, amounted to NIS 30 million during Q1 2014, a decrease by 27% relative to the parallel quarter of last year.

Total Expenditures

Total expenditures and net lending in Q1 2014 amounted to NIS 3.42 billion, a 6% increase over the parallel period of 2013. Total expenditures and net lending were slightly below the budget target by NIS 59 million (2%), reaching 25% of the annual budget.

Wage and salaries amounted to NIS 1.76 billion, an increase over Q1 2013 by 3%, with a shortfall of NIS 56 million from the budget target (3%). MoF will continue its policy of zero net hiring for 2014 except for the court decision of re-enrolling teachers that were discharged for their political background. The PA will also implement partially the union’s agreements; as a result, the wage bill is expected to increase by 4.9% (including COLA and annual increase), when compared with the year 2013.

Social contribution amounted to NIS 162 million during Q1 2014, reaching the same level as Q1 2013. Social contribution was on track with the budget target.

Use of goods and services amounted to NIS 597 million during Q1 2014, an increase of 54% over the parallel period of 2013. Use of goods and services expense was above the budget target by NIS 113 million (23%). This increase is mainly due to payments of arrears.

Transfers amounted to NIS 639 million during the first quarter of 2014, declining by 16% when compared to the first quarter of 2013. Transfers reached 20% of the annual budget, and were NIS 152 million below its budget target (19.2%).

Minor capital expenditures amounted to NIS 6.4 million during Q1 2014. Minor capital spending was only 8% of the annual budget for minor capital.

Interest (both domestic and external) in Q1 2014 amounted to NIS 32 million, a decline by 64% over the parallel quarter of 2013. Interest expense reached only 15% of its budget.

Net lending amounted to NIS 223 million in Q1 2014, showing a significant increase of 93% when compared to the first quarter of 2013, reaching 37% of its annual budget. The PA is taking measures to decrease the net lending such as the decision of the Palestinian Cabinet that obliges electricity providers in WB&G to pay their bills in a timely manner to the Israel Electricity Company, as otherwise they will be heavily penalized. This decision will lead to a significant decline in net lending. In addition, the PA has recently established the Palestinian Electricity Transmission company (PETL) which will be in charge of establishing a modern transmission infrastructure and improving the existing network in order to reduce the volume of technical losses. PETL will also manage purchase agreements with electricity suppliers in an aim to reduce import prices.

Development expenditures channelled through the PA Treasury amounted to NIS 288 million during Q1 2014, showing an increase of 104% over the first quarter of 2013. Development spending reached 23% of its annual budget, falling short by NIS 27 million from its budget target. This increase in development spending was made possible by the increase in development financing witnessed in the first quarter of 2014.

Balance and Financing

Balance: In Q1 2014 the **recurrent budget deficit** amounted to NIS 730 million, declining by 28% over the recurrent deficit of Q1 2013. This decline was achieved as revenues exceeded their budget targets, while total expenditure remained within budget target. **Total deficit** during Q1 2014 amounted to NIS 1.02 billion, a decrease over Q1 2013 by 12%.

Financing:

During Q1 2014, **total external budget support** amounted to NIS 631.5 million, declining significantly by 65% over the levels of budget support attained during the first quarter of 2013. External Budget support in Q1 2013 reached only 13% of the annual budget target.

Development financing, on the other hand, amounted to NIS 123 million during the first quarter of 2014, an increase of 54% over the first quarter of 2013. Despite this significant increase, development financing was only 11.4% of its annual budget.

Arrears

Total net accumulation of arrears during Q1 2014 reached NIS 580 million including development expenditures arrears of NIS 71 million and tax refund arrears of NIS 100 million. Arrears to the **private sector** including the “other” component of tax refunds arrears amounted to NIS 245 million.

Jan-Mar 2014 net accumulation of arrears	
Budget Classifications	NIS mill
Wages and salaries	144.3
Social contributions	162
Use of goods and services	120.7
Transfers	-45.9
Minor capital	0.8
Interest	26.4
Development Expenditure	71.3
Tax refund	100.1
Total	579.8