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To: Members of the Executive Board

From: The Secretary

Subject: West Bank and Gaza Strip - Recent Economic Developments and
Prospects and Progress in Institution Building - Background
Paper Issued in Connection with the 1995 Article IV Consultation
with Israel 1/

This paper provides further background information to the staff report on the 1995 Article IV consultation discussions with Israel, which was circulated as SM/95/186 on August 1, 1995. A supplement giving details and implications of the Interim Agreement will be issued once information is available.

Mr. Maciejewski (ext. 37134) or Mr. McDermott (ext. 36895) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

WEST BANK AND GAZA STRIP

Recent Economic Developments and Prospects
and Progress in Institution Building--Background
Paper Issued in Connection with the 1995 Article IV
Consultation with Israel 1/

Prepared by a staff team consisting of Mr. Maciejewski (Head),
Mr. Zavadjil, Ms. Hansen, and Mr. McDermott (all of MED), Ms. Alonso-Gamo
and Ms. Calika (both PDR), and Mr. Schuknecht (FAD), and with the
assistance of Messrs. Khadr and Philippe (both World Bank)

(In consultation with other departments)

Approved by the Middle Eastern Department

August 28, 1995

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I. Overview

1. In keeping with the nonmember status of the West Bank and Gaza Strip (WBGs), IMF involvement in the WBGs has been limited to the provision of technical assistance to the Palestinian Authority (PA). Initially, the emphasis was on establishing economic and financial institutions. Given the critical importance of fiscal policy, the primary focus has been on tax administration and expenditure management. Technical assistance has also been provided in other areas, such as the establishment of the Palestinian Monetary Authority (PMA) and an effective system of bank supervision; the development of reliable macroeconomic statistics to provide the basis for future policy decisions; and the training of Palestinian officials. Close cooperation between the staffs of the Fund and the World Bank continues, consistent with the two institutions' areas of expertise.
2. The scope of Fund technical assistance has been gradually widening to include macroeconomic policy analysis and formulation. At the request of the PA and donors, the Fund staff have been assisting the PA in monitoring and reporting on fiscal developments and institution building and, more recently, in developing a medium-term macroeconomic framework. In view of the WBGs' large investment and employment needs and its limited domestic market, the focus will be on an outward-oriented, private sector-led strategy.
3. The PA's most pressing policy challenge is reaching a sustainable fiscal position. The immediate objective should be to cover recurrent expenditure by PA revenue as soon as possible, with the limited amount of available external assistance being used to finance productive investment. This will require establishing an effective expenditure management system, as well as continued efforts to expand the tax base. The prospective extension of the PA's authority in the West Bank offers an opportunity to mobilize sufficient revenue to cover recurrent expenditure beginning in 1997, provided the PA adheres to a very cautious expenditure policy, especially as regards recruitment.
4. Looking ahead, further attention needs to be given to establishing the preconditions for attracting nondebt creating capital inflows, promoting private investment, and creating jobs. In addition to establishing a transparent legal and regulatory framework, the WBGs need to establish trade arrangements that will provide reliable access to imports and export markets. Even with sound policies to foster private investment, unemployment is likely to remain a serious problem for some time to come. In this regard, a strong investment performance will also depend critically on the development of stable political and security arrangements.

II. Introduction

This paper reviews current institutional arrangements in the WBGS (Section II), the structural features of the economy (Section III), and recent macroeconomic developments and prospects (Section IV). The paper also discusses the technical assistance which the Fund staff has been providing in response to requests from the PA and the donor community in the areas of fiscal policy and administration, banking, statistics, and training (Section V). The paper concludes with a review of Fund-Bank collaboration (Section VI) and donors' financial assistance (Section VII).

1. Institutional arrangements

In September 1993, the Palestinian Liberation Organization (PLO) and the Government of Israel signed the "Declaration of Principles on Interim Self-Governing Arrangements" (DOP), the blueprint for future steps in the peace process. The DOP envisioned an initial transfer of authority over the Gaza Strip and Jericho Area, to be followed by the transfer of authority in the West Bank. In keeping with this declaration, the two parties concluded on April 29, 1994 the "Agreement on the Gaza Strip and Jericho Area" (hereafter, Gaza/Jericho agreement) and an accompanying "Protocol on Economic Relations" (hereafter, the Economic Protocol), which defines the economic relations between the two sides. Since its establishment in May 1994, the PA assumed the agreed self-governing responsibilities in the Gaza Strip and Jericho Area, as provided for in the Gaza/Jericho agreement.

Effective December 1, 1994, the PA also assumed authority over five "spheres of activity" in the West Bank (health, education, ^{1/} social welfare, tourism, direct taxation, and value-added tax (VAT) on domestic production), as specified in the "Agreement on Preparatory Transfer of Powers and Responsibilities" (hereafter, "Early Empowerment" agreement), which the two parties signed on August 29, 1994. All remaining spheres of activity in the West Bank, including such matters as customs, post and telecommunications, agriculture, and industry, as well as all the revenues and expenditures associated with these spheres, remain under the full control of the Israeli Civil Administration (ICA). More recently, there have been further negotiations on the extension of PA authority in the West Bank; on August 11, Israel and the PA initialled a Joint Statement covering a number of key political issues (redeployment of Israeli security forces, Palestinian covenant, and prisoners); transfer of tax revenues to the PA; and setting up a joint committee to deal with economic issues, water issues, and political coordination. Principles set out in the Joint Statement will

^{1/} Authority over the education sector was actually transferred on August 29, 1994 to correspond to the beginning of the school year; however, Israel continued to pay teachers' salaries until December 1, 1994.

be elaborated on in the Interim Agreement being negotiated between the PA and Israeli government. The staff intends to provide a supplement giving details and implications of the Interim Agreement once it has been made public.

2. Economic relations with Israel

The basic features of the economic relations between the PA and Israel, as envisioned in the Economic Protocol and applied to Gaza/Jerico and the various "spheres" over which the PA has authority in the West Bank, are as follows:

- A trade system under which most of the trade between Israel and the areas under the PA's authority is intended to be free from restrictions, and Israeli import policies and practices will continue to apply to most trade with the outside world. Exceptions to these principles include:

- (i) provision for the PA to set its own import and customs policies and procedures for certain goods, with a view to allowing the PA to develop independent trade ties with third countries--especially Egypt, Jordan, and other Arab countries--and to import goods needed for its development program; and (ii) quantitative restrictions on each side's exports to the other side of six agricultural products; 1/ these restrictions are to be phased out by 1998 according to an agreed schedule.

- Agreement that each side will attempt to maintain normal labor movements with the other, but that each side will nevertheless retain the right to determine the extent and conditions of labor movements into its own area of jurisdiction.

- Agreement that each side will administer its own direct taxation policies (including income taxes on individuals and corporations, property taxes, and municipal taxes and fees) in its own areas of authority. For indirect taxation, each side will be free to administer policies in its own areas of authority, with the main proviso that the VAT rate in the areas under the PA's authority must be within a range of 15-16 percent (versus 17 percent in Israel).

- Agreement that customs duties, other taxes on international trade, and VAT on Israeli-Palestinian transactions will accrue to one side or the other according to the "destination principle" and that these revenues will be cleared between the two sides accordingly. Receipts from income tax and

1/ These are: Poultry, eggs, potatoes, cucumbers, tomatoes, and melons.

health fees paid by Palestinians working in Israel and the Israeli settlements, 1/ as well as excise taxes paid in Israel on petroleum products sold in the areas under PA authority, would also be transferred to the PA.

- The establishment of a Palestinian Monetary Authority (PMA) to serve, among other functions, as the PA's official economic and financial advisor, the sole financial agent for the PA and public sector entities, the manager of the public sector's foreign exchange and gold reserves, and the agency responsible for licensing and supervising banks and foreign exchange dealers.

- Agreement that the New Israeli Sheqel (NIS) will be one of the currencies circulating in the areas of the PA's authority and that the NIS would be accepted, along with other circulating currencies, as means of payment for any transaction. It was also agreed that the Israeli authorities and the PLO would continue to discuss "the possibility of introducing a mutually agreed Palestinian currency or temporary alternative currency arrangements for the PA." The PMA will have the right to exchange excess NIS holdings due to balance of payments flows into foreign currency based on estimates of all Israeli "imports" of goods and services from the areas under PA authority, less all Israeli "exports" of goods and services to the areas, which were paid for in NIS.

- Extensive understandings on veterinary and plant protection, the transport of livestock and animal products, insurance, and other matters.

While progress has been made in implementing some of these provisions, others have not yet been put into effect. In particular, security measures at WBGS borders have restricted imports and exports. Moreover, the PA has not yet obtained control of import and customs policies on trade with third countries that passes through Israel.

3. Fund staff involvement

In line with the above cited developments, and in response to requests from the PA and the donor community, the Fund staff, in collaboration with World Bank staff, has expanded its technical assistance work since 1993 from the initial emphasis on establishing an effective fiscal revenue and expenditure system to a number of other tasks; these include monitoring fiscal developments and prospects, assistance with the preparation of the PA's budget for April-December 1995, and the initiation of discussions on the 1996 budget within the context of a medium-term macroeconomic framework.

1/ For income tax, Israel is to transfer 75 percent of the income taxes collected from Palestinians from the Gaza Strip and Jericho Area employed in Israel and 100 percent for those employed in the Israeli settlements.

III. Structural Features of the Economy

The economy of the WBGS has a number of structural features which have affected economic performance to date. First, the WBGS economy has thus far been highly dependent on developments in Israel: in the period 1990-92, Israel accounted, on average, for about 87 percent of the total commodity imports of the WBGS and 83 percent of its total commodity exports; and wage payments received by Palestinians working in Israel averaged about 27 percent of GNP. 1/

Second, the domestic economy is characterized by a small agricultural and manufacturing base. As a result, the WBGS is highly dependent on imports of goods, which averaged 60 percent of GNP during 1988-92, and its exports of goods are low: only 12 percent of GNP over the same period. An additional consequence of the narrow production base is that GDP continues to be significantly affected by the two-year cycle in the West Bank's production of olives and olive-based processing industries. 2/

Third, due to the high level of net factor income from outside the WBGS--primarily workers' remittances, in earlier years from oil exporting countries in the region and more recently primarily from Israel--and the narrow production base, GNP has normally exceeded GDP by a substantial amount: during 1988-92, GNP averaged over 135 percent of GDP. Similarly, when net transfers are taken into account, total national disposable income averaged 143 percent of GDP over the same period. Moreover, with the high level of imports noted above, expenditure has in some years exceeded national income. Drawdowns of household savings have been necessary in recent years to maintain such high levels of expenditure, notably private sector consumption.

Fourth, regulatory, institutional, political, and security features in the WBGS have been a major constraint on economic growth. These include in particular: (i) the lack of a developed banking system and of the financial intermediation which banks normally provide; (ii) tenuous property rights;

1/ Until the late 1980s, the WBGS had more diversified sources of foreign exchange earnings, including in particular substantial remittances from Palestinians working in the oil exporting countries in the region; these tended to provide some counter-cyclical support during downturns in the Israeli economy. However, with the decline in Palestinian employment in these countries following the end of the oil boom and the August 1990 regional crisis, the WBGS's dependence on developments in Israel--especially those affecting Palestinian employment--has increased substantially.

2/ Except for 1988, the first year of the Intifada, GDP growth has been marked by a regular pattern of a year of expansion followed by a year of stagnation or contraction throughout the period since 1972; this pattern mirrors the olive cycle. In more recent years, peak levels have tended to be lower than in the 1970s and 1980s, due in part to the aging of the stock of trees.

(iii) a combination of licensing, taxation, and trade procedures and practices, which has increased the cost of private sector operations, created barriers to entry, distorted the allocation of resources, and discouraged the modernization of technology; and (iv) uncertainty over political developments and associated security measures.

Fifth, the quality of public services and physical infrastructure is considerably inferior to the levels achieved in neighboring countries which are at lower income per capita levels. 1/

Sixth, the declining availability of water resources and land due to restrictions on water access, increased salinity of the soil, and the loss of land to settlements, has constrained domestic production. 2/

Seventh, while the economies of the West Bank and of the Gaza Strip share many common features, there are also a number of striking differences between the two. 3/ Levels of development are noticeably different, and economic and social problems tend to be more acute in the Gaza Strip than in the West Bank.

1/ According to World Bank data, average urban water supply on a per capita basis in the WBGS is about half the level in Jordan and about one-quarter the level in Egypt, and water supplies are frequently contaminated. Per capita electricity consumption is also low--about 80 percent of the level in Egypt and 45 percent of that in Jordan--due to supply constraints and network deficiencies. Power outages are frequent and many villages have no electricity or only part-time supply from diesel generators. Solid waste collection and disposal is reportedly grossly inadequate, and poor waste water management has contributed to the contamination of groundwater, particularly in the Gaza Strip. Roads in the Palestinian areas are in a very deteriorated state, raising transportation costs, especially for perishable agricultural produce.

2/ Renewable water resources in the WBGS amount to about 750 million cubic meters annually, but annual use by Palestinians has been capped at the pre-1973 level of about 200 million cubic meters. In some areas, notably in the Gaza Strip, increasing salinity in wells caused by excessive extraction has virtually halted agricultural production. Access of Palestinian sheep and goat farmers to grazing lands has been restricted by the establishment of military areas and nature reserves. In addition, security measures restrict the area in which Gaza fishermen can operate, limiting fish production to a fraction of the pre-1967 levels.

3/ In 1992, GNP per capita in the Gaza Strip (about US\$1,150) was less than half that of the West Bank (about US\$2,500); likewise, in 1992 investment per capita in the Gaza strip (US\$315) was less than 60 percent of that in the West Bank (US\$560). In addition, the physical infrastructure in the Gaza Strip is in a considerably greater state of disrepair than in the West Bank, and a significantly larger percentage of the Gaza Strip's work force has been employed in Israel (37 percent on average during 1990-92) than in the West Bank (31 percent on average during the same period).

Among the more positive features characterizing these economies is the fact that the WBGS has no external public debt, and so far, its domestic debt is limited. Thus, with appropriate macroeconomic and external debt management, the WBGS should not have to contend with an excessive debt burden and, hence, has a greater potential for economic growth. In addition, the workforce is relatively skilled; there is a strong entrepreneurial tradition in the WBGS, and Palestinians are among the most highly educated of any Arab group. ^{1/} With a more stable political and security situation, the potential exists for sizable private capital inflows from the Palestinian community outside the WBGS. Thus, the policy challenge for the PA is to strengthen the growth performance of the WBGS, while limiting its external debt burden to sustainable levels. To this end, it will be essential for the PA to formulate and implement a macroeconomic policy stance and structural reforms that encourage increases in both domestic savings and fixed capital formation.

^{1/} According to the World Bank, much of the higher education has been received from European and North American institutions. However, primary and secondary education available in the WBGS in recent years has generally been of poor quality, reflecting a lack of investment, the patchwork of outdated curricula in use, and the frequent strikes, closures, and curfews during the Intifada.

IV. Macroeconomic Developments and Prospects and Policy Issues

1. Developments in 1993-94

a. Overview

The analysis of economic developments in the WBCS is based on incomplete macroeconomic data from Palestinian and Israeli sources and tentative staff estimates derived on the basis of extensive discussions with the PA and the Israeli authorities. Available data are particularly weak for the years since the beginning of the Intifada in late 1987, when data collection became less comprehensive and reliable. Official monetary data through 1994 are not available, although some monetary data collected by a private research institute at the request of the PMA are available for end-December 1994 to end-March 1995. Both fiscal and balance of payments data are very limited in coverage. Accordingly, the macroeconomic analysis included in this section is tentative.

As detailed in Appendix II, Fund staff--based on inputs obtained from various official sources and in consultation with the World Bank staff-- has derived tentative national accounts estimates for 1993 and 1994 using a wide range of available sources of information, including both Palestinian and Israeli official sources and discussions with the Palestinian business and banking community.

Tentative staff estimates suggest that real GDP 1/ in the WBCS increased by 7.3 percent in 1994--owing in large part to the cyclical expansion in the olive crop--compared with a small decline of 1.3 percent in 1993 (Table 1). However, real GNP declined by 10.1 percent in 1993, and rose by only 2.7 percent in 1994, due to the intermittent border closures and the resulting decline in Palestinian employment in Israel of 33,000 in 1993 and a further 30,000 in 1994. Consequently, with a population growth rate of 4-5 percent per annum, the WBCS's real GNP per capita declined by a cumulative 14.5 percent in real terms over 1993-94; GNP per capita was estimated at US\$1,800 in 1994. Although there was some domestic job creation in the WBCS, notably in the private residential construction and government sectors, these jobs were largely insufficient to compensate for the lost employment in Israel and paid significantly lower wages. Against this backdrop, there were substantial drawdowns in household savings in an attempt to limit the deterioration in per capita consumption; nevertheless, consumption as a share of GDP declined, as did domestic private sector investment.

1/ At 1986 NIS prices.

Table 1. West Bank and Gaza Strip: Selected Social and Demographic Indicators, 1991-95

	1991	1992	Prel. Staff Estimates		Staff Proj. 1995
			1993	1994	
Population (in thousands)	1,682.2	1,767.5	1,833.3	1,906.6	1,982.9
Percentage change	5.2	5.1	3.7	4.0	4.0
Labor force (in thousands) 1/	355.1	379.1	384.7	400.1	416.1
Percentage change	1.4	6.8	1.5	4.0	4.0
Labor force (in thousands) 2/	312.1	333.4	339.0	352.6	366.7
Percentage change	1.4	6.8	1.7	4.0	4.0
Employed persons (in thousands)	287.4	319.3	315.0	339.0	319.0
Percentage change	-3.1	11.1	-1.3	7.6	-5.9
In Israel (in thousands)	98.0	116.0	83.0	53.0	25.0
Percentage change	-9.3	18.4	-28.4	-36.1	-52.8
In WBGS (in thousands)	189.4	203.3	232.0	286.0 3/	294.0 3/
Percentage change	0.5	7.3	14.1	23.3	2.8
Unemployment rate (in percent) 4/	19.1	15.8	18.1	15.3	23.3
Nominal GDP per capita (millions of US\$)	1,285	1,543	1,395	1,537	1,679
Percentage change	-8.5	20.1	-9.6	10.2	9.2
Real GDP (NIS 1986 in thousands)	2,710.0	3,337.0	3,293.6	3,534.1	3,657.7
Percentage change	-4.1	23.1	-1.3	7.3	3.5
Nominal GDP at market prices (millions of US\$)	2,161.0	2,685.5	2,557.2	2,930.5	3,329.0
Percentage change	-3.8	26.2	-6.3	14.6	13.6
Real GDP per capita (US\$ 1986 prices)	706.9	767.8	634.8	613.8	610.6
Percentage change	-19.4	8.6	-17.3	-3.3	-0.5
Real GNP (1986 NIS in thousands)	3,597.9	4,452.8	4,004.6	4,112.9	3,911.9
Percentage change	-5.2	23.8	-10.1	2.7	-4.9
Real GNP per capita (NIS)	2,138.8	2,519.3	2,184.4	2,157.2	1,972.8
Percentage change	-9.8	17.8	-13.3	-1.2	-8.5
Real consumption per capita (NIS)	2,062.9	2,210.4	2,054.7	2,127.2	2,174.7
Percentage change	3.5	7.2	-7.0	3.5	2.2
Cost of living index	178.0	199.3	221.2	252.1	276.8
Percentage change	12.3	12.0	11.0	14.0	9.8

Sources: Israeli Department of Statistics; Department of Statistics of the Palestinian Authority's Ministry of Planning and International Cooperation; and staff estimates and projections.

1/ PA source. Assuming that the growth rate of the labor force equals the growth rate of the population during 1994-95.

2/ Israeli source. Assuming that the growth rate of the labor force equals the growth rate of the population during 1994-95.

3/ Assuming an elasticity of labor demand to real GDP growth of 0.75.

4/ Calculated using the labor force data from the PA.

b. Output, employment, and price developments

Real GDP declined by 1.3 percent in 1993, as the 25.9 percent real growth in private domestic construction was largely offset by a 18.6 percent contraction of agricultural output, mainly due to a poor olive crop in the West Bank (Appendix Table 15). In 1994, the resumption of moderate real GDP growth was the result of two factors: (i) continued strong activity in the private residential construction sector, which increased by 11.2 percent; and (ii) a 20.7 percent expansion in overall agricultural output, reflecting a moderately good olive crop in the West Bank and other good harvests in both the West Bank and the Gaza Strip. Other sectors appear to have stagnated.

Due to the intermittent, and at times prolonged, closures of the border with Israel and increased competition for jobs in Israel by immigrants from the Former Soviet Union and other Eastern European countries, the actual number of Palestinians working in Israel declined by 28.4 percent in 1993 and a further 36.1 percent in 1994 to 53,000 by end-1994. ^{1/} This decline was partly offset by an increase in domestic employment in the WBGS, which expanded by 29,000 (14.1 percent) in 1993 and 54,000 (23.3 percent) in 1994. Most of the job creation in the WBGS was in the residential construction sector. The government sector in the Gaza Strip was also a major source of domestic job creation in the second half of 1994, although a relatively high proportion of the newly created jobs, notably in the police, went to Palestinians returning from abroad. Nevertheless, with an estimated annual growth rate of the labor force of 4 percent, there was a rapid increase in unemployment. Based on a labor force of 385,000 in 1993 and 400,000 in 1994 for the WBGS as a whole, the unemployment rate remained above 15 percent during 1991-94. Unemployment rates are estimated to be substantially higher in the Gaza Strip, which is more adversely affected by border closures than the West Bank.

Inflation in the WBGS was estimated at 11 percent in 1993, the same rate as in Israel. During 1994, the average rate of inflation in the WBGS accelerated to 14 percent (9 percent excluding construction), exceeding the 12 percent inflation rate recorded in Israel. Reflecting the pick up in inflation during the last few months of 1994, the December 1994 on December 1993 rate was over 18 percent (compared with 14.5 percent in Israel), reflecting higher inflation in the nontradable sector in the WBGS, especially land and housing.

c. Expenditures

Total consumption as a share of GDP declined slightly from 117.9 percent of GDP in 1992 to 115.6 percent of GDP in 1994. Within this decline, private consumption was reduced from 107.5 percent of GDP in 1992 to 105.4 percent of GDP in 1994, while government consumption remained

^{1/} This compares with 83,000 at end-1993 and 116,000 at end-1992.

around 10.5 percent of GDP (Table 2 and Appendix I, Tables 7, 8, and 9). In the event, with declining income, households drew down their savings to avoid a sharper decline in consumption, and as a result, gross national savings declined to 0.8 percent of GDP in 1994 from 15.5 percent of GDP in 1992. Moreover, transfers and remittances declined, and, as a result, there was a marked decrease in imports of goods and nonfactor services (GNFS). Exports of GNFS also fell, reflecting the unsettled political situation and the intermittent closures of the border with Israel. Mirroring the decline in available foreign financing, the foreign resource gap (measured as the difference between exports and imports of GNFS) narrowed from 47.7 percent of GDP in 1992 to 37.4 percent of GDP in 1994. Fixed investment is estimated to have declined from 27.9 percent of GDP in 1992 to 20.9 percent of GDP in 1994. Private investment accounted for all of the decline, while public investment averaged 4 percent of GDP during 1993-94.

d. Fiscal developments in 1994 1/

Prior to the PA assuming authority in the Gaza Strip and Jericho Area, the two main entities involved in public sector functions in the WBGS were the Israeli Civil Administration (ICA) and the United Nations Relief and Works Agency (UNRWA). The ICA had the largest fiscal impact in the WBGS, with civil expenditure averaging about 12-13 percent of GDP per annum during 1987-92, which was financed out of tax and nontax revenue collected from Palestinians in the WBGS. In addition, UNRWA has been, and continues to be, a major provider of health, education, and other social services in the WBGS, with expenditure representing about 6 percent of GDP in 1991-93 and declining to about 3-4 percent of GDP in 1994-95. 2/

Since the PA took over responsibility in Gaza/Jericho in May 1994, the main sources of PA revenue for Gaza/Jericho have been: income tax, VAT, a large number of fees (nontax revenue), and transfers of revenue "clearances"

1/ The 1994 fiscal data for revenue, expenditure, and financing were derived on the basis of the following inputs: (i) 5 months (January-May 1994) of actual ICA data on revenue and recurrent expenditure for the Gaza Strip; (ii) 5 months (January-May 1994) of data on capital expenditure for the Gaza Strip as provided by the World Bank in January 1995; (iii) 10 months (January-October 1994) of actual ICA data on budget revenue, recurrent and development expenditure for the West Bank; (iv) staff extrapolation of fiscal recurrent and capital expenditure in the West Bank for November and December 1994; (v) fiscal revenue and recurrent and capital expenditure undertaken by the PA Ministry of Finance in Gaza/Jericho during May 18-December 31, 1994 and in the West Bank in December 1994; and (vi) transfers of revenue "clearances" by Israel to the PA during May-December 1994, as reported by the VAT and Customs Department of the Israeli Ministry of Finance and the PA Ministry of Finance.

2/ About 40 percent of the residents of the West Bank and 60 percent of the residents of the Gaza Strip have refugee status and are therefore entitled to benefits from UNRWA.

Table 2. West Bank and Gaza Strip: Selected Economic and Financial Indicators, 1991-95

	1991	1992	Prel. Staff Estimates		Staff Proj.
			1993	1994	1995
<i>Annual percentage changes, constant NIS 1986 prices)</i>					
Real GDP at market prices	-4.1	23.1	-1.3	7.3	3.5
GDP deflator	13.4	8.9	11.0	14.0	9.8
<i>(As percent of GDP, at NIS market prices)</i>					
Consumption	125.4	117.9	118.1	115.6	118.7
Private	114.5	107.5	107.5	105.4	104.9
Public	10.9	10.4	10.7 1/	10.1 1/	13.9 1/
Investment	30.4	27.9	25.9	20.9	16.0
Private	27.4	25.0	20.7	18.0	12.0
Public	3.1	2.9	5.2	2.9	4.0
Change in stocks	-1.9	1.9	-1.5	0.9	--
Net exports of GNFS	-54.0	-47.7	-42.5	-37.4	-34.7
Gross domestic savings	-25.4	-17.9	-18.1	-15.6	-18.7
Private	-26.9	-20.7	-19.0	-14.5	-14.4
Public	1.5	2.8	0.9	-1.0	-4.3
Gross national savings	7.4	15.5	3.4	0.8	-11.8
Gross foreign savings	21.2	14.3	21.0	21.0	27.8
Gross fixed investment	28.6	29.8	24.4	21.8	16.0
Total fiscal revenues and grants	11.1	12.2	11.6	13.6	14.1
Of which: PA 2/	--	--	--	6.3	13.3
Domestic revenue	11.1	12.2	11.6	9.1	9.6
Of which: PA 2/	--	--	--	1.8	8.8
Foreign grants	--	--	--	4.5	4.5
Total expenditure and net lending	11.1	11.6	14.5	13.1	17.9
Of which: PA 2/	--	--	--	5.7	17.4
Current expenditure	9.6	9.4	10.7	10.1	13.9
Capital expenditure	1.5	2.2	3.8	2.9	4.0
Of which: PA 2/	--	--	--	2.9	4.0
Overall deficit, excluding grants	--	0.6	-2.9	-0.4	-8.3
Of which: PA 2/	--	--	--	-0.4	-8.5
Overall deficit, including grants	--	--	--	0.5	-3.8
Of which: PA 2/	--	--	--	0.5	-4.0
Recurrent deficit excluding grants	1.5	2.8	0.9	-1.0	-4.3
Of which: PA 2/	--	--	--	-1.0	-4.5
External current account deficit	--	--	--	-0.3	-4.3
(Excluding unrequited public transfers)	-8.4	-8.3	-11.0	-13.7	-18.5
Trade balance deficit	-41.3	-34.7	-35.3	-32.8	-30.3
Exports, f.o.b.	11.4	11.1	9.2	5.6	6.9
Imports, c.i.f.	52.7	45.9	44.5	38.4	37.3
Workers' remittances (receipts)	34.1	34.6	22.9	12.3	7.8 3/
Public unrequited transfers	8.4	8.3	11.0	13.4	14.1
Private unrequited transfers 4/	12.9	6.0	9.9	7.2	9.3
Public loans	--	--	--	--	1.6
Private capital inflows 5/	--	--	--	--	3.3
Foreign reserves (in months of imports)	--	--	--	--	0.2
Outstanding external debt	--	--	--	--	1.6
<i>(Annual percentage changes, in U.S. dollars)</i>					
Exports of goods	6.5	21.5	-21.1	-30.3	40.4
Imports of goods	35.1	8.2	-7.6	-1.1	10.2
Remittances (net)	-7.9	26.8	-38.5	-13.0	-51.6
Nonfactor services (payments)	-1.5	25.4	-53.0	11.8	12.9
Memorandum items:					
GDP (in millions of US\$)	2,161.0	2,685.5	2,557.2	2,930.5	3,329.0
ICOR	3.2	5.5
Expenditures by UNRWA	6.7	6.1	6.6	3.8	3.4

Sources: Israeli Central Bureau of Statistics; Department of Statistics of the Palestinian Authority's Ministry of Planning and International Cooperation; and staff estimates and projections.

1/ Central government.

2/ The Palestinian Authority (PA) was established in May 1994; it assumed authority in the Gaza Strip and Jericho Area on May 18, 1994 and in five spheres of activity in the West Bank (excluding the Jericho Area) on December 1, 1994.

3/ Based on the number of work permits for Palestinians in Israel.

4/ Includes grants from the donor countries, UNRWA operations, and transfers from Israel during 1991-94.

5/ Such private capital inflows were unrecorded in the past. They are assumed to be recorded beginning in 1995.

from Israel on account of customs duties, VAT, petroleum excises, and income tax and health fees paid by Palestinians working in Israel. Since December 1, 1994, PA revenues have also included income tax, VAT, and health fees and insurance premia collected in the West Bank. Following the recent passage of Israeli legislation allowing the transfer of revenue "clearances" related to the West Bank, the PA also receives "clearances" of VAT on goods purchased in Israel and on direct imports, as well as health fees paid by Palestinians living in the West Bank and working in Israel. Income tax paid by Palestinians working in Israel also accrues to the PA, but has not yet been transferred, pending the passage of additional legislation by the Israeli Knesset.

Fiscal revenue performance weakened in 1993-94, with total revenue of the ICA and the PA declining from 12.2 percent of GDP in 1992 to 9.1 percent of GDP in 1994, reflecting the disruptions in tax administration associated with the transfer of fiscal authority in Gaza/Jericho (Tables 3 and 4). However, with the implementation of institution-building steps, especially in the fourth quarter of 1994, the PA's revenue performance began to improve in late 1994. During 1994, total recurrent expenditure, which consisted largely of wages and salaries for the rapidly expanding public sector workforce (including the police) and of start-up expenditures for the newly established PA, declined to 10.1 percent of GDP, from 10.7 in 1993; capital expenditure also declined from 3.8 percent of GDP in 1993 to 2.9 percent in 1994. Most of the deficit on account of the PA's current operations was financed through external grants under the Holst and Police Funds. ^{1/}

e. External developments

Over the last few years there has been a continuous, sharp compression in both commodity exports and imports. Registered exports as a share of GDP were cut almost in half, falling from 11.1 percent of GDP in 1992 to 5.6 percent of GDP in 1994, while imports declined from 45.9 percent of GDP in 1992 to 38.4 percent of GDP in 1994, as compared to 52.7 percent of GDP in 1991. ^{2/} Reflecting these developments, the trade balance narrowed as a share of GDP from 34.7 percent in 1992 (US\$933 million) to 32.8 percent of GDP in 1994 (US\$962 million) (Tables 2 and 5).

Workers' remittances (net) are estimated to have declined from US\$898 million in 1992 to US\$552 million in 1993, and further to US\$480 million in 1994, reflecting mostly the declines in the number of Palestinian workers in Israel.

^{1/} The Johan Jorgen Holst Peace Trust Fund was established in early 1994 as a vehicle for bilateral donors to provide external financing to the PA for recurrent expenditure; it is administered by the World Bank. The Police Fund was established in late 1994 as a mechanism for disbursing external financing for monthly police salaries; it is administered by UNRWA.

^{2/} However, this decline could be over-estimated in that statistics collection procedures may have deteriorated.

Table 3. West Bank and Gaza Strip: Central Government Operations, 1991-95

	1991	1992	Prel. Staff Estimates		Staff Proj.
			1993	1994	1995
(In percent of GDP)					
Total revenue and grants	11.1	12.2	11.6	13.6	14.1
Revenue	11.1	12.2	11.6	9.1	9.6
Of which: domestic revenue of PA 1/				1.8	8.8
Foreign grants	--	--	--	4.5	4.5
Total expenditure	11.1	11.6	14.5	13.1	17.9
Recurrent expenditure	9.6	9.4	10.7	10.1	13.9
Capital expenditure	1.5	2.2	3.8	2.9	4.0
Current balance, excluding grants and interest	1.5	2.8	0.9	-1.0	-4.3
Of which: PA 1/				-1.0	-4.5
Current balance, excluding grants	1.5	2.8	0.9	-1.0	-4.3
Of which: PA 1/				-1.0	-4.5
Current balance, including grants	1.5	2.8	0.9	3.5	0.2
Of which: PA 1/				3.5	--
Primary balance, excluding grants	--	0.6	-2.9	-4.0	-8.3
Of which: PA 1/				-4.0	-8.5
Overall balance, including grants	--	0.6	-2.9	0.5	-3.8
Of which: PA 1/				0.5	-4.0
(Annual percentage changes) 2/					
Revenue	19.7	47.6	3.8	-3.3	18.9
Total expenditure and net lending	...	40.3	37.1	10.4	55.3
Recurrent expenditure	...	31.6	24.7	16.2	55.5
Capital expenditure	53.1	94.7	89.7	-6.8	56.8
Memorandum items:					
Expenditure by UNRWA	6.7	6.1	6.6	3.8	3.4
(As a percent of GDP)					
Elasticity of revenues to GDP (buoyancy)	2.27	1.40	0.40	-0.15	1.39

Sources: Israeli authorities; Department of Statistics of the Palestinian Authority's Ministry of Finance; and staff estimates and projections.

1/ See footnote two to Table 2.

2/ Changes in NIS-denominated levels.

Table 4. West Bank and Gaza Strip: Central Government Operations, 1991-95

	1991	1992	Prel. Staff Estimates		Staff Proj. 1995
			1993	1994	
<u>(In millions of U.S. dollars)</u>					
Total revenue and grants	239.6	327.8	295.7	399.8	468.7
Domestic revenue	239.6	327.8	295.7	267.9	318.4
PA 1/				51.5	293.9
ICA 2/				216.4	24.5
Foreign grants	--	--	--	131.9	150.3
Total expenditure	239.6	311.5	371.0	383.9	596.0
Current expenditure	206.7	252.1	273.1	297.3	462.0
PA 1/				81.7	444.0
ICA 2/				215.6	18.0
Capital expenditure	32.9	59.4	97.9	85.5	134.0 3/
Recurrent balance, excluding grants and interest	32.9	75.6	22.6	-29.4	-142.6
Recurrent balance, excluding grants	32.9	75.6	22.6	-29.4	-143.6
Of which: PA 1/				-30.3	-150.3
Recurrent balance, including grants	32.9	75.6	22.6	102.5	6.7
Primary balance, excluding grants	--	16.3	-75.3	-116.0	-276.6
Primary balance, including grants	--	16.3	-75.3	15.9	-126.2
Balance, excluding grants (commitment)	--	16.3	-75.3	-116.0	-277.6
Overall balance, excluding grants	--	16.3	-75.3	15.9	-127.3
Of which: PA				15.1	-133.9
Memorandum item:					
Total expenditures by UNRWA	145.0	163.0	169.0	110.7	113.5

Sources: Israeli authorities; Palestinian Authority's Ministry of Finance; and staff estimates and projections.

1/ Palestinian Authority. See also footnote two to Table 2.

2/ Israeli Civil Administration.

3/ Excluding US\$10 million for capital of the PMA.

Table 5. West Bank and Gaza Strip: Balance of Payments, 1991-95

	1991	1992	Prel. Staff Estimates		Staff Proj. 1995
			1993	1994	
(In millions of U.S. dollars)					
Current account	--	--	--	-8.7	-143.5
Current account, excluding grants	-181.0	-224.0	-282.0	-402.3	-614.3
Goods and services	-459.0	-384.0	-536.0	-614.6	-924.9
Exports of goods and services	1,040.0	1,295.0	831.0	743.5	592.3
Imports of goods and services	1,499.0	1,679.0	1,367.0	1,358.1	1,517.2
Trade balance	-893.0	-933.0	-902.0	-961.5	-1009.9
Exports, f.o.b.	246.0	299.0	236.0	164.5	230.9
Of which: Israel	190.0	249.0	178.0	130.0	...
Imports, c.i.f.	1,139.0	1,232.0	1,138.0	1,126.0	1,240.9
Public sector	--	--	88.1	113.4	259.8
Private sector	1,139.0	1,232.0	1,049.9	1,012.6	810.0
Of which: Israel	982.0	1106.0	990.0	1015.0	...
Services (net)	434.0	549.0	366.0	346.9	85.0
Remittances (net)	708.0	898.0	552.0	480.0	232.4
Receipts	737.0	930.0	586.0	494.0	261.4
Payments	29.0	32.0	34.0	14.0	29.0
Investment income (net)	--	--	--	--	-1.1
Receipts	--	--	--	--	--
Payments	--	--	--	--	1.1
Nonfactor services (net)	-274.0	-349.0	-186.0	-133.1	-146.3
Receipts	57.0	66.0	9.0	85.0	100.0
Payments	331.0	415.0	195.0	218.1	246.3
Unrequited transfers	459.0	384.0	536.0	605.9	781.3
Public	181.0	2224.0	282.0	393.6	470.8
UNRWA	145.0	163.0	169.0	110.7	113.5
Israel	36.0	61.0	113.0	43.0	-12.2
EAP grants	--	--	--	239.9	369.5
Private	278.0	160.0	254.0	212.3	310.6
NGOs	6.0	11.0	14.0	14.7	16.6
Other	272.0	149.0	240.0	197.6	273.3
Capital account	--	--	--	8.8	164.2
Public sector	--	--	--	--	54.0
Loans	--	--	--	--	54.0
Amortization	--	--	--	--	--
Private sector (net)	--	--	--	8.8	110.2
Errors and omissions	--	--	--	--	--
Overall balance	--	--	--	--	--
Memorandum items:					
GDP in U.S. dollars	2,161.0	2,685.5	2,557.2	2,930.5	3,329.0
External outstanding debt	--	--	--	--	54.0
As percent of GDP	--	--	--	--	1.6

Sources: Israeli Central Bureau of Statistics; Department of Statistics of the Palestinian Authority; Ministry of Planning and International Cooperation; and staff estimates and projections.

Public transfers ^{1/} increased from 11.0 percent of GDP in 1993 to 13.4 percent of GDP in 1994. Nevertheless, despite the efforts of donors to disburse aid quickly in the context of the EAP, external aid disbursements have fallen substantially short of initial expectations. Thus, out of total pledges of US\$815 million for 1994 made at the Consultative Group meetings in December 1993 and September 1994, only US\$240 million was disbursed last year, including only US\$85 million for investment purposes. This substantial shortfall in the disbursements for project financing in 1994 may be attributed both to limited implementation capacity and to disruptions in the imports of needed construction materials due to the border closures. Private unrequited transfers are estimated to have declined from 9.9 percent of GDP in 1993 to 7.2 percent of GDP in 1994.

2. Banking and finance

a. Background ^{2/}

Until recently, the financial system in the WBGS primarily consisted of: (i) an undeveloped banking system; and (ii) a relatively efficient system of moneychangers, which in many respects developed into a parallel financial sector. All Arab and foreign-owned banks operating in the WBGS (38 branches in total) were closed in 1967. Thereafter, Israeli bank branches operated in the area under the supervision of the Bank of Israel, but these branches virtually ceased operations, except in Israeli settlements, following the beginning of the Intifada in late 1987.

In the meantime, the Bank of Palestine reopened in the Gaza Strip in 1981 under the supervision of the Bank of Israel, and the Jordan-based Cairo-Amman Bank reopened in the West Bank in 1986 under the joint supervision of the Bank of Israel and the Central Bank of Jordan (CBJ). However, given the very limited number of banks operating in the WBGS and the associated lack of competition, the banking services provided were generally high in cost and low in quality. In addition, since little or no interest was paid on assets, most savings were kept outside the banking system. Lending practices were very conservative, and in the case of the Cairo-Amman Bank, most assets were kept outside the WBGS; as a result, the financial intermediation provided by these banks was quite limited. Moreover, a number of customary commercial banking services, such as the opening of letters of credit, could not be performed by these two banks.

In this environment, the role of moneychangers expanded after 1967 to include a number of important financial services, including foreign exchange, inward and outward transfers, and check cashing on external

^{1/} These included grants for UNRWA operations, transfers from Israel, and beginning in 1994, external financing under the World Bank Emergency Assistance Program (EAP).

^{2/} Additional information is included in Section I ("The Economy of the West Bank and Gaza Strip") SM/94/112 (5/6/94), pp. 24-28.

accounts. In addition, some of the larger moneychangers have on occasion accepted deposits and made some short-term loans. Nevertheless, money-changers have played a limited role in the mobilization of domestic savings and the extension of medium- and long-term credit. Although the moneychangers are tolerated, there is no formal supervision of their activities.

More recently, the banking system in WBGs has been expanding rapidly. By the end of 1993, there were only two banks, with a total of 13 branches, operating in the WBGs. As of end-May 1995, there were 10 banks, with a total of 41 branches. The total volume of deposits more than doubled in WBGs during 1994, rising from approximately US\$211 million at end-1993 to US\$589 million at end-1994. The total volume of credit outstanding grew at an even more rapid pace during 1994, rising from US\$42 million at end-1993 to US\$163 million at end-1994. These developments continued during the first quarter of 1995, with total deposits and total credit outstanding rising to US\$828 million and US\$288 million, respectively, as of end-March 1995 (Table 6 and Appendix I, Tables 10 and 11). 1/

Since 1967, both the Jordanian dinar (JD) and the new Israeli sheqel (NIS), as well as the U.S. dollar and other foreign currencies, have been in circulation in the WBGs. The NIS has been predominantly used for relatively small current transactions and payments to the Israeli authorities, while the JD and the U.S. dollar are preferred as a store of value. In particular, data on the currency composition of deposits during the period end-December 1994 through end-March 1995 suggest a marked trend toward dollarization, especially in the Gaza Strip. 2/ In addition, land prices, business contracts, and other large expenditure items are reportedly being quoted more frequently in U.S. dollars, especially in the Gaza Strip. The Jordan dinar, however, continues to be the main store of value in the West Bank.

b. Immediate issues

At present, the most pressing issue facing the PMA is the establishment of an effective system for bank licensing and supervision in the Gaza Strip and Jericho Area. In principle, the licensing and supervision of both local

1/ Based on data collected by the Palestine Economic Policy Research Institute (MAS) at the request of the PMA. This is the first time that monetary data have been available from Palestinian sources. Definitions and the methodology for computations may differ significantly from those of the IMF's Statistics Department. IMF technical assistance in the area of monetary statistics is planned for late 1995-early 1996.

2/ Data on the currency composition of bank deposits as of end-March 1995, indicate shares of JD, NIS, and U.S. dollar accounts in total deposits of 11 percent, 35 percent, and 54 percent, respectively, for the Gaza Strip and Jericho Area, and 78 percent, 18 percent, and 5 percent, respectively, for the West Bank (excluding the Jericho area).

Table 6. West Bank and Gaza Strip: Consolidated Balance Sheet of Banks Operating in both the West Bank (excluding the Jericho Area) and the Gaza Strip and Jericho Area, December 1994-March 1995

(In millions of U. S. dollars)

	December 1994	March 1995
Liabilities	670.6	955.4
Customers' deposits 1/	588.8	828.0
Of which:		
Current	(372.1)	(488.4)
Time	(147.1)	(243.2)
Deposits from banks and head offices	29.5	46.9
Capital	14.6	18.5
Others	37.7	62.0
Assets	670.6	955.4
Cash	33.4	37.8
Deposits with banks and head offices	384.4	479.4
Loans	162.6	287.8
Of which: Overdraft facilities 2/	(132.7)	(248.4)
Securities	35.0	73.5
Fixed assets	12.8	18.4
Others	42.4	58.5

Source: Palestinian Monetary Authority (PMA)--Survey Commissioned by the PMA to the Palestine Economic Policy Research Institute (MAS), entitled "Palestinian Banking Sector Statistical Review," June 1995.

1/ Includes PA deposits.

2/ Includes domestic bank overdraft extended to the PA.

banks and foreign branches in the Gaza Strip and Jericho Area now fall under the jurisdiction of the PMA. To carry out these functions, the Governor of the PMA has been appointed Inspector and Comptroller of Banks and Currencies and, with the assistance of MAE, international experts are being recruited to form the nucleus of the new bank licensing and supervision department within the PMA. However, the staff and procedures for bank licensing and supervision are not yet in place. A freeze has been placed on the establishment of new banks in the Gaza Strip and Jericho Area until the PMA is in a position to formally vet and approve their applications. For the time being, however, a few domestic banks that have already been established are operating without formal supervision.

As regards the West Bank (excluding the Jericho Area), licensing and supervision are carried out by the Bank of Israel. Foreign banks wishing to set up operations in the West Bank (excluding the Jericho Area) can do so with the approval of the Bank of Israel and their home banking authority, and their operations are supervised by both institutions. Branches of Jordanian banks in the West Bank (excluding the Jericho Area) need licenses from both the Bank of Israel and the CBJ; such licensing is governed by the Jordanian-Israeli Memorandum of Understanding signed in late 1993.

As regards monetary policy and currency arrangements, initial elements are still being put into place, in light of the relevant provisions in the Economic Protocol (see above) and bilateral understanding/agreement between Israel and Jordan and the PA and Jordan. According to the transitional provisions of the Economic Protocol, specific arrangements apply to NIS holdings and liquidity provisions in the WBGs. Thus, although the PMA is authorized to determine the liquidity requirements on all deposits in banks operating in the WBGs, the Economic Protocol also stipulates that the liquidity requirements of NIS deposits (or deposits linked to the NIS) will be no less than 4-8 percent according to the type of deposit, and changes over 1 percent in liquidity requirements on NIS deposits (or deposits linked to the NIS) in Israel will call for corresponding changes in the WBGs. ^{1/} As foreseen under the General Agreement on Cooperation in Monetary and Banking Affairs signed between the PA and Jordan on January 26, 1995, a joint committee is expected to work out specific understandings on reserve liquidity requirements on JD deposits. The PA-Jordan agreement also confirms the status of the JD as legal tender in the WBGs, along with the NIS, the U.S. dollar and other currencies, and precludes any unilateral action by either party that could destabilize monetary conditions. However, specific modalities regarding this latter point remain to be worked out.

No position has as yet been taken by the PA on the existing currency arrangements. There seems to be some consensus within the PA, for the time being, on the need to concentrate first on establishing a sound financial

^{1/} Specific implementation modalities are currently being discussed between the PMA and the Central Bank of Israel.

system with well-regulated banking and foreign exchange operations, and promoting macroeconomic stability so that a currency, when introduced, would be stable and credible.

3. Outlook for 1995

a. Macroeconomic outlook

The initial tentative macroeconomic projections for 1995 developed by the Fund staff in collaboration with the PA were based on a number of crucial assumptions: (i) that the PA's authority in the West Bank would continue to be limited to the five spheres of "Early Empowerment" throughout 1995; (ii) that the actual number of Palestinians working in Israel would average at least 25,000 in 1995 (compared with 53,000 in 1994); (iii) that external financing would total US\$432 million, including US\$228 million for the PA's recurrent budget and US\$204 million for the central government capital expenditure program (including US\$10 million for the paid-in capital of the PMA); and (iv) inflation would register 10 percent. On this basis, real GDP growth was initially targeted at 5 percent in 1995, while real GNP was projected to decline by 2.8 percent, reflecting the reduction in net factor income due to lower numbers of Palestinians working in Israel.

However, in view of the greater than expected disruption in the movement of labor and goods, including imports for public and private investment 1/ that occurred during the first half of 1995--notably as a result of prolonged border closures--the growth forecast has been revised downward. Reflecting the expected decline in net workers' remittances (inward remittances are mostly by Palestinians working in Israel) from US\$480 million in 1994 to about US\$230 million in 1995, GNP is now projected to decline by 4.9 percent in real terms in 1995. Domestic economic activity is expected to be constrained by: (i) the reduced employment of Palestinians in Israel, as noted above; (ii) the associated adverse multiplicative impact throughout the economy; and (iii) the decline in the olive crop and associated oil processing production in the West Bank. However, the decrease in workers' remittances is projected to be largely offset by private capital inflows to finance construction activity, as well as a further drawdown of savings held abroad. Accordingly, with the expansion of services provided by the PA, continued sustained private residential construction, and some recovery in agricultural production (excluding the olive sector), real GDP growth is now targeted at 3.5 percent. Even if achieved, 2/ however, it would not prevent a

1/ As a result, the pace of implementation of the public sector investment program has been substantially slower than initially envisaged.

2/ Achievement is predicated, inter alia, on no new prolonged border closures with Israel and the full implementation of the revised public sector investment program. Within this program, the PA capital outlay has now been scaled down to US\$134 million; only some US\$30-40 million appeared to have been spent on capital outlays during the first half of the year.

further, albeit moderate, decline in private real per capita consumption; and the unemployment rate would rise from 15 percent in 1994 to 23 percent in 1995 as a result of the sharply reduced employment in Israel.

Public consumption and investment are expected to rise to 13.8 percent and 4.0 percent of GDP in 1995, from 10.1 percent and 2.9 percent of GDP in 1994, respectively. By contrast, private investment is expected to decline to 12.0 percent of GDP in 1995, compared with 18.0 percent the preceding year, reflecting a moderation of construction activity from the exceptionally high levels of 1993-94 and a larger measure of domestic and foreign private investor caution.

Recovering from their dramatic declines in 1993 and 1994, exports (mainly agricultural produce) are projected to rebound by 40.4 percent in 1995--albeit from a very small base--while imports are projected to rise by 10.2 percent, in keeping with the targeted increase in GDP. Inflation in 1995 is projected at about 10 percent, reflecting both the projected inflation rate in Israel and modestly higher inflation projected in the nontradable sector in the WBGS, especially land values and housing.

As highlighted at the Ad Hoc Liaison Committee (AHLC) meetings of major donors in March and April 1995, the achievement of the growth rate in 1995 continues to be subject to substantial downside risks. A particular concern is the rate of project implementation, which if significantly lower than currently projected, could depress further the level of economic activity and, hence, the fiscal revenue base. Other downside risks relate to the number of Palestinians working in Israel, uncertainties concerning the free movement of goods--including construction materials, into and out of the WBGS--and the level of private sector confidence and its implications for private investment. All of these factors affect the level of domestic economic activity and domestic revenues.

b. 1995 budget

(1) Original budget

The original PA budget for 1995 was formulated in two main stages: (i) revenue and expenditure targets for the first quarter of 1995 were agreed between the PA and AHLC donors as part of the "Understanding on Revenues, Expenditure and Donor Funding for October 1994-March 1995," signed in Brussels on November 30, 1994 (see Appendix III); and (ii) on the basis of first quarter budgetary performance and the assumptions outlined below, a more comprehensive budget for April-December 1995 was developed with the

assistance of Fund and Bank staff (see Appendix IV). 1/ This budget was endorsed by donors and attached to the Tripartite Action Plan signed by the PA, the Israeli authorities, and donors on April 27, 1995.

The original budget for April-December 1995 is based on a policy stance of continued improvement in tax administration and expenditure management and tight restraint over current expenditure, with some modest provision for improving essential social services. Specifically, in presenting this budget for donor support, the PA undertook to: (i) implement FAD's recommendations on tax administration and expenditure management in a timely manner (see Attachments I and II to Appendix IV); (ii) maintain current tax policies; (iii) freeze recruitment in both the civil service (except for a few required senior positions) and the police; (iv) grant no general salary increases during the April-December period; and (v) adhere to a spending policy geared to maintaining the proper functioning of the PA, while gradually improving the existing low levels in vital services, especially health and education.

Based on the initial macroeconomic assumptions described in the April 1995 budget, and assuming continued improvement in the tax collection effort and prompt transfers of tax revenue clearances by Israel, the PA's total fiscal revenue was initially projected at US\$216 million for 1995 as a whole, including US\$115 million in domestic revenue collections and US\$101 million in revenue clearances with Israel. On the basis of these revenue projections and the limited amount of external resources assumed to be available to finance recurrent expenditure, total expenditure was targeted at US\$648 million, including a ceiling of US\$444 million for wage and nonwage recurrent expenditure for 1995 as a whole. The recurrent expenditure projection included US\$284 million for the wages and salaries for civilians and the police, based on a total civilian employment of 30,000 and a police force of 18,000, as of April 1, 1995. 2/ Other current expenditures (such as materials, supplies, maintenance, utilities, energy, and social assistance) were projected at US\$160 million, which the PA considered as the minimum level necessary to enable ministries to strengthen their administrative capacity and improve vital services. Given the assumed rate of inflation for the WBGS, this level of nonwage current outlays implied small increases in real terms in social, health, and education outlays. As noted earlier, capital outlays (excluding US\$10 million for the PMA capital) by the PA's ministries and other central government agencies

1/ A draft April-December 1995 budget was first presented to donors at the Ad Hoc Liaison Committee (AHLIC) meeting in Washington on April 3, 1995. Following some revision to take account of the first quarter developments, the budget was submitted to the AHLIC meeting in Paris on April 24-27, 1995, where donors pledged additional support for recurrent outlays.

2/ Compared with a police force of some 15,000 as of end-December 1994.

were initially projected at US\$194 million, divided equally between the Gaza Strip and the West Bank. All capital outlays were assumed to be fully foreign-financed on the basis of the pledges made at the December 1993 CG meeting.

(2) Revised budget outlook for 1995

Based on stronger than expected revenue performance during the first half of 1995, particularly VAT revenue "clearances" from Israel under the successful unified invoice system, the total revenue projection for 1995 has now been revised upward to US\$295 million, about US\$78 million above the initial target; this revised projection includes US\$122 million in domestic revenue and US\$173 million in revenue "clearances" from Israel. The recurrent expenditure projection remains unchanged at US\$444 million: actual recurrent expenditure for the first half of 1995 was broadly in line with the initial projections, and the PA has reiterated its commitment to contain total recurrent outlays within its original ceiling of US\$444 million. On this basis and barring any new extended border closures, the PA recurrent budget deficit for 1995 as a whole could decline to US\$150 million, and if so could be fully financed from external sources--assuming that pledges made to date actually materialize. 1/ Regarding capital expenditure, as noted earlier, the slower than expected pace of donor disbursements has also led to a downward revision in the capital budget from US\$204 million to US\$144 million (including US\$10 million for the PMA capital) for 1995 as a whole.

(3) Immediate implementation issues

In order to ensure that the revised budget revenue and deficit targets for 1995 are achieved, the PA will need to continue to adhere strictly to the tight expenditure restraint underpinning the original budget for April-December 1995 (see above), especially given the high degree of uncertainty concerning economic developments and their impact on the revenue base during the remainder of the year, the slow pace at which new pledges are being realized, and undesirability of further recourse to domestic bank overdrafts. In this connection, it is crucial that, in addition to continuing to strengthen tax administration, the PA take immediate action to introduce an effective expenditure management system. In particular, the appointment of the key senior officials in the Ministry of Finance, the consolidation of all income and expenditure under the direct control of the Ministry of Finance, and the implementation of basic fiscal management regulations are urgently needed. Not only would decisive action in these

1/ Assuming that the US\$92 million of external financing pledged but undischursed as of January 1, 1995 and the US\$65 million pledged since the last AHLC meeting are fully disbursed, and that the economic and policy assumptions underlying the budget projections continue to hold. The economic assumptions, in particular, might not hold in the event of new prolonged border closures.

areas help ensure that the PA's scarce resources are used effectively, it would also enhance the PA's ability to adjust fiscal operations in an orderly way and facilitate continued access to external financing on appropriate terms.

c. Public sector investment program

(1) The program

The PA, with World Bank assistance, has prepared a draft public investment program which envisions capital expenditure of about US\$1.3 billion over approximately the next three years. The program aims at upgrading public infrastructure, enhancing the human resource base and relieving social hardship, and paving the way for sustained private sector-led growth over the medium term. In keeping with these goals, the main components of the program are: (i) investments in physical infrastructure (US\$780 million or 59 percent of the program); (ii) investment in facilities and equipment in the social sectors (US\$384 million or about 29 percent of the program); (iii) public investment designed to spur private sector activity (US\$133 million or 10 percent of the program); and (iv) a modest provision for the acquisition of fixed capital assets for central institutions of the PA (US\$25 million or 2 percent of the program).

Consistent with the overall public investment program, the World Bank has initiated two basic/social infrastructure rehabilitation projects, the Emergency Rehabilitation Project (ERP) and the Education and Health Rehabilitation Project (EHRP). These projects are intended to spearhead the reconstruction of infrastructure in the WBCS. The World Bank's Executive Board approved the ERP on May 2, 1994 with the Palestinian Economic Council for Reconstruction and Development (PECDAR) as the borrower and prime implementing agency. The project was originally designed for completion by mid-1997; however, following the December 1994 restructuring, the project is now intended to be substantially complete by mid-1996. Despite the difficult implementation climate, the project is making satisfactory progress and is achieving a visible impact, particularly in Gaza. In addition to US\$30 million from the Trust Fund for Gaza (TFG), the ERP has attracted US\$98 million in cofinancing. Of the US\$98 million pledged, however, only US\$58 million has been confirmed so far, though discussions with cofinanciers continue. ^{1/} ERP disbursements to date total US\$22 million, including US\$9 million from the TFG. While disbursements exceeded projections at the time of the World Bank's Board approval, they have since lagged behind the revised timetable that was established in December 1994 in

^{1/} At this point, 112 rehabilitation subprojects worth almost US\$60 million are underway, in the roads, urban water and sewerage and education sectors. Another US\$20 million of subprojects will shortly go to bid under Danish parallel cofinancing arrangements. In addition, some 60 subprojects worth US\$43 million are at various stages of bidding, but contract award will have to await the firm commitment of additional cofinancing.

conjunction with donor and Palestinian efforts to accelerate the pace of development in the WBS. These delays are due in part to inexperience in PECJAR and in the local contracting sector; but latterly more to the impact of closure on the supply of construction materials. With the recent easing of the border situation, disbursements have begun to pick up.

The EHRP focusses on the rehabilitation of primary schools and basic health facilities, as well as on supporting the development of the Ministries of Education and Health (which will implement the project with support from PECJAR). The US\$20 million project is an integral part of a broader US\$127 million education and health program, for which the World Bank is seeking donor cofinancing to complement the contribution from the TFG. To date, indications of some US\$50 million in cofinancing have been received.

(2) Immediate implementation issues

There is a pressing need to accelerate quick-disbursing financing and to make rapid progress on labor-intensive development projects and basic public infrastructure programs. Immediate action in this area is crucial to reverse the declining trends in income and private consumption, protect the domestic tax base, and achieve longer term development goals. The Local Aid Coordination Committee (LACC), which was set up following the November 1994 AHLC meeting in Brussels, is intended to provide the needed institutional framework for accelerating donor disbursements; nevertheless, progress has been slow.

It is clear that the design by the PA of a well-defined public sector investment program, agreed among donors, would increase the effectiveness of the LACC mechanism. The PA's draft public sector investment program, described above, is an important step toward this goal. A second step is to identify a pipeline of attractive and viable projects, with the assistance of the PA, for presentation to donors of the next CG meetings. At the same time, concerted action by all parties is needed to accelerate the implementation of quick-disbursing, employment-generating projects: by donors, in increasing the employment content of investment projects they finance; by the PA, in enhancing local project-implementation capacity; and by Israel, in ensuring that the materials needed for these projects can be imported into the area without delay.

4. Medium-term macroeconomic prospects and policy issues

a. Medium-term outlook

There are a number of special factors affecting the prospects for growth and employment in the WBS. As suggested by macroeconomic developments to date, these include: (i) the number of Palestinian workers in Israel, which has an immediate impact on income and indirect effects on consumption, saving and economic activity in the WBS and on the tax base of the PA; (ii) the pace of investment, especially the rate of implementation

of the public investment program, which has an immediate impact on employment and income and longer-term effects on basic infrastructure, production, and private investment; (iii) the extent to which restrictions on the passage of merchandise into and out of the WBGS are lifted, which has an immediate effect on exporters' income, the pace at which development projects can be implemented, and investor confidence; (iv) PA policies (e.g., fiscal policy, regulation of the banking system, and the legal and regulatory framework); and (v) the degree of certainty about political and security arrangements in the WBGS, the latter two of which have an immediate influence on investor confidence and longer-term effects on domestic savings and investment.

Based on Fund staff work to date on illustrative medium-term macroeconomic scenarios for the WBGS, 1/ and some initial sensitivity analysis regarding changes in some of the factors mentioned above, a number of tentative conclusions emerge:

First, the prospects for a marked improvement in employment, the fiscal balance, private sector investment and real per capita consumption are limited. In particular, a continuation of the current situation under "Early Empowerment" in the West Bank--especially if there were further delays in the public sector investment program--would make it unlikely that the PA would be able to cover recurrent expenditure out of fiscal revenue, as donors are seeking. In these circumstances, the PA would need donor financing for recurrent expenditure for at least the next several years. Second, even with an optimistic assumption on real growth (assuming no new extended border closures), real per capita consumption would continue to decline over the medium term and unemployment would rise considerably, due to the high rates of population and labor force growth in the WBGS.

By contrast, improvements in employment, the fiscal balance, private sector investment, and real per capita consumption would be more likely to materialize with an early increase in the number of Palestinians working in Israel and an early move to "Full Empowerment" 2/ in the West Bank, which assuming appropriate policies by the PA, could have significant positive effects on the fiscal balance and investor confidence. In particular, a move to "Full Empowerment" at the beginning of 1996 would enable the PA to achieve a small recurrent budget surplus by 1997, and allow for significant improvements in employment. Moreover, with "Full Empowerment" in the West

1/ This work has been undertaken in response to the request by the donor community under the Tripartite Action Plan, which calls on the Fund staff to assist the PA in its preparation of the 1996 budget in a medium-term macroeconomic context.

2/ The remaining spheres of activity in the West Bank which would be transferred to the PA under "Full Empowerment" are expected to entail substantially more revenues than expenditures.

Bank and some 50,000 workers in Israel from 1996 onward, real GDP growth would be higher, real per capita consumption would show some recovery beginning in 1997, and the unemployment rate would decline steadily over 1996-98.

b. Policy issues

As suggested by recent developments and the initial illustrative medium-term macroeconomic scenarios, a strategy for development and adjustment is needed to guide future policymaking by the PA and donor assistance to the WBS. The WBS's large investment and employment needs, coupled with its limited domestic market, budgetary resources, and institutional capacity, among other factors, point to the need for a strategy which is outward-looking, led by the private sector, and able to promote sizable nondebt creating private capital inflows for investment in productive, labor-intensive activities. Under current arrangements, fiscal policy is the PA's main macroeconomic policy instrument, and, therefore, will have to be the cornerstone of any such strategy. Moreover, the PA's ability to mobilize donor support and attract private capital inflows will depend to a large extent on the credibility of its fiscal policy stance. Nevertheless, it will also be important to establish a sound banking and financial system at an early stage.

Among the fiscal policy issues that will need to be addressed within this framework are: (i) the appropriateness of current tax policy over the medium term; (ii) current public sector employment levels, the appropriateness of wage policy, and future recruitment policies, especially as PA authority is extended in the West Bank; (iii) the appropriate level of nonwage recurrent expenditure; (iv) implementation of a coherent and cost-effective social security and pension systems; (v) with World Bank technical assistance, the appropriateness of the medium-term public sector investment program; and (vi) the fiscal impact of trade policy initiatives, especially trade tax exemptions and measures to promote trade with neighboring countries.

Various external sector issues will also need to be examined in a medium-term context, including in particular: (i) the nature of future trade arrangements; (ii) the absorptive capacity of the WBS; (iii) the optimal composition of external assistance (e.g., commodity assistance to generate local counterpart resources versus project financing); (iv) the scope for integrating the WBS into regional projects (water, road, electricity, and communications networks, etc.); and (v) the need for nondebt-creating foreign capital inflows and ways to promote them.

Creating an environment conducive to private savings and investment will also require the establishment of a sound domestic banking and financial system, as noted above. Fund staff technical assistance will help the PA to determine the proper credit policy and clearing arrangements, as well as how best to ensure the adequate coordination of banking supervision

among the Bank of Israel, the CBJ, and the PMA. At the same time, appropriate sectoral policies and an appropriate legal and regulatory system will also have to be put in place, with World Bank assistance.

V. Fund Staff Technical Assistance

At the request of the PA, Fund staff, in collaboration with the staff of the World Bank, has been providing extensive technical assistance to the PA in a number of areas. In particular, since November 1993, FAD has been advising the Ministry of Finance on tax administration and public expenditure management. In late 1994, Fund staff with World Bank participation began assisting the PA with the preparation of monthly reports to donors on fiscal revenue and expenditure developments and institution building in the fiscal area, and subsequently with budget formulation within the context of a medium-term macroeconomic framework. Since October 1994, MAE, in collaboration with LEG and cooperating central banks, ^{1/} has provided assistance concerning the establishment of the PMA, banking licensing and supervision, the clearing and payments system, foreign exchange management, and the drafting of appropriate banking legislation. At the same time, the Statistics Department (STA) and the IMF Institute (INS) have also contributed in their areas of expertise. A detailed list of technical assistance programs provided by the Fund is shown in Appendix VI.

1. Fiscal institution building

a. FAD technical assistance

FAD has fielded eight missions since October 1993, assigned short-term resident advisors in the areas of budget preparation and a tax administration, and made arrangements for the assignment of long-term resident advisors for central treasury operations, expenditure management, and internal audit, once appropriate Palestinian counterparts are in place.

In the absence of a Palestinian fiscal administration, Fund technical assistance focused initially on establishing an effective system of tax administration and expenditure management. In particular, FAD recommended establishing a comprehensive fiscal system, in which all expenditures and revenues, including external aid funds, are appropriately and transparently accounted for through a centralized treasury. In view of the precarious budgetary position expected to emerge in 1995 and beyond, the PA was also urged to maintain the existing revenue system, minimize increases in expenditure and operate on the basis of a consolidated budget, with the objective of financing current expenditure out of domestic revenue, including revenue "clearances" from Israel.

^{1/} These have included: the Bank of England, Bank of Finland, Bank of France, Bank of Norway, the Bundesbank, and the Central Bank of Jordan.

Considerable progress has been achieved in establishing an effective revenue system, as reflected in strengthening fiscal revenue performance since the beginning of 1995. The transfer of authority over direct taxation and VAT on domestic production in the West Bank on December 1, 1994 took place smoothly; it benefitted from the fact that the West Bank's link to the computerized tax administration system was maintained without interruption. In cooperation with the Israeli authorities, and with the assistance of a long-term tax administration expert, the PA implemented a unified invoice system on the basis of which VAT revenues--the major source of PA revenue--are cleared with Israel. The effectiveness of this system has been enhanced through the introduction of automated reporting for large traders. The PA has also developed and implemented an effective strategy for encouraging taxpayers to settle past income tax arrears and begun a taxpayer education program. The training of PA tax officials is now nearly complete, and the Gaza Strip is expected to be reconnected to the Israeli computerized tax administration system shortly. For the future, the prospective extension of autonomy in the West Bank is expected to lead to a further strengthening of tax administration by permitting more effective tax enforcement and the launching of a more comprehensive taxpayer education campaign.

Progress in establishing an effective expenditure management system has been considerably slower. A major factor has been the fact that the three key positions of Director General of the Budget, Treasury, and Internal Audit in the Ministry of Finance have remained unfilled, which has in turn delayed the assignment of long-term resident advisors. In the meantime, work on the basic laws and regulations for budget preparation, execution, and auditing has proceeded with FAD assistance, but the basic laws and regulations are not yet in place. The PA has decided on a general strategy for a Government Financial Management Information System, and international bids on this system have been solicited. However, in the absence of a comprehensive expenditure management system, spending ministries have at times paid for their own expenditures out of their own revenues without reference to the Ministry of Finance, incurred domestic payment arrears, and drawn upon their own overdraft facilities. Although these practices have now been stopped, much remains to be done to strengthen fiscal expenditure management; a short-term budget and treasury advisor from FAD has been assigned to the Ministry of Finance to assist in this task. In particular, the three key Director General positions need to be filled so that institution building in the areas of budget, treasury, and audit can get firmly underway. Immediate action is also needed to consolidate all expenditures and revenues, including revenue "clearances" with Israel, under the direct control of the Ministry of Finance, streamline the payment process, and strengthen audits and controls.

b. Fiscal monitoring and budget formulation

Building on the technical assistance work of FAD, and in response to donors' requests, Fund staff has also assisted the PA in reporting to the AHLIC on revenue and expenditure developments and progress in institution building in the fiscal area. In particular, since December 1994, Fund staff

has assisted the PA Finance Ministry with: (i) the preparation of the monthly fiscal reports pursuant to the November 1994 "Understanding on Revenues, Expenditures and Donor Funding," for the period October 1994-March 1995; 1/ and (ii) the formulation of its budget for April-December 1995, toward which donors pledged additional support for recurrent outlays at the AHLC meeting in Paris on April 27, 1995. Since then, Fund staff has begun assisting the PA in its preparation of quarterly fiscal reports to donors on fiscal performance and institution building, pursuant to the "Tripartite Action Plan" (TAP) agreed at the April meeting. 2/

As indicated earlier, Fund staff is working with the PA to develop a medium-term macroeconomic framework through which the PA will be able to assess the appropriateness of its policies, the merits of policy alternatives, and possible policy responses to external shocks. This framework will also help illustrate which policies on the part of each of the three parties could result in a sustainable budgetary position over the medium term, a precondition which a number of donors have set for their continuing to finance recurrent expenditure in the short term. Discussions on the PA's 1996 budget within the context of the medium-term macroeconomic framework were initiated in July and will continue in September-October 1995.

2. Institution building in the banking and monetary areas--
MAE/LEG technical assistance

In view of the limitations of the present banking and financial structure and of the substantial investment requirements of the WBSG economy, there is a strong need to develop a sound, efficient, and credible banking system that can mobilize domestic savings and channel them into productive investment, as well as intermediate external financial resources.

1/ Under this "Understanding," the PA and donors agreed on a set of monthly revenue and recurrent expenditure targets for the period October 1, 1994-March 31, 1995 and related external financing for recurrent outlays.

2/ The "Tripartite Action Plan on Revenues, Expenditures and Donor Financing for the Palestinian Authority," which was signed by the PA, Israel and Norway, on behalf of AHLC donors, outlines the respective responsibilities of the three parties. Among other undertakings, these include: (i) the PA's commitment to observe its 1995 budget, improve fiscal administration, make best efforts so that external financing for recurrent expenditure will not be required beyond 1995, and start to prepare its 1996 budget in a medium-term macroeconomic context by July 1995; (ii) Israel's commitment to cooperate with the PA in establishing the fiscal system in the WBSG, make best efforts to ease the movement of goods into and out of the WBSG, consistent with Israeli security concerns, and maintain maximum Palestinian economic activity whenever security measures are applied; and (iii) donors' commitment to strive to provide the external financing for recurrent expenditure outlined in the PA budget.

In response to these needs, MAE in collaboration with LEG, began providing technical assistance to the PA in October 1994. The primary focus of this assistance has been on: (i) organization and management issues associated with the establishment of the PMA; (ii) bank licensing and supervision; (iii) the clearing and payments system; (iv) foreign exchange management; and (v) the drafting of appropriate banking legislation and related issues.

Concerning organizational and management issues, the PMA is still at an early stage of setting up operations. The Governor of the PMA was appointed in January 1995 and is still in the process of hiring key staff. In consultation with MAE, it has been decided that the PMA should be capitalized at US\$25 million, of which US\$10 million should be subscribed and paid in 1995. However, due to the PA's budgetary constraints, this amount will need to be financed externally. Meanwhile, LEG has assisted with the preparation of a draft law for the PMA, which provides an adequate degree of independence for the PMA, defines its basic purposes and goals, and gives it the legal capacity to undertake the functions attributed to it in the Economic Protocol. LEG has also helped prepare a draft banking law, which defines the banking activities to be regulated by the PMA. In the current circumstances, this legislation will only apply to the Gaza Strip and Jericho Area; however, the draft laws have been formulated in such a way as to facilitate their adoption in the rest of the West Bank at a later date.

3. Technical assistance in macroeconomic statistics and training

In addition to the technical assistance being provided by FAD, MAE, MED and PDR, STA and INS have also been providing advice and training in their respective areas of expertise. In particular, STA has been working with the Palestinian Bureau of Statistics, as well as international donors, to help devise a work plan for collecting and presenting economic and financial statistics. In addition, late in 1995 STA will assist the PA Ministry of Finance in the area of government finance statistics, and the PMA in the area of banking and monetary statistics; technical assistance in the area of balance of payments statistics is expected to be provided in 1996. The INS has offered training courses to Palestinian officials, both at headquarters and in the field.

VI. Fund-Bank Collaboration

To ensure the consistency of their approach, and taking account of the two institutions' respective areas of expertise, IMF and World Bank staff are coordinating their work on the WBSG closely. In particular, Fund and Bank staff have worked together on helping the PA to formulate its budget for April-December 1995. Toward this end, Bank staff have participated in several Fund missions, providing input on the public investment program, while the Fund staff focused on the recurrent budget and the macroeconomic framework.

Fund staff has also worked closely with the Bank in its capacity as the Secretariat of the AHLC. In this context, Fund staff has been assisting the PA in its preparation of reports to the AHLC on fiscal developments and institution building--on a monthly basis pursuant to the November 1994 "Understanding" and on a quarterly basis pursuant to the April 1995 TAP. The first such quarterly report by the PA to the AHLC under the TAP was distributed to the donors in late July. In their capacity as AHLC Secretariat, Bank staff has also prepared and circulated a first quarterly report on progress made by the three parties concerned (the PA, the Israeli authorities, and the donors) in implementing their various other commitments under the TAP.

Fund staff has benefited from close contact with the Bank's Resident Mission to the WBGs, especially in the absence of a Fund resident representative. At the same time, a Fund representative generally attends the meetings of the Local Aid Coordination Committee (LACC), of which the Bank is a co-chair, and the Joint Liaison Committee (JLC), the donor-recipient coordinating mechanism of which the Bank is a member, in order to help keep participants informed of recent developments.

Fund staff is expected to continue to provide follow-up technical assistance in:

(1) the fiscal area: (i) institution building--expenditure management system; recruitment of directors general; assignment of IMF FAD experts; 1/ organization of the Ministry of Finance, including the integration of fiscal administration in the West Bank and the Gaza Strip; computerization; and training of senior Ministry of Finance officials; (ii) policy formulation: tax legislation and tax policy; expenditure priorities and policies (social safety nets, social security and pension funds); investment incentives (industrial estates); and tax harmonization (with Israel and Jordan); external tariff and trade policy, including customs administration;

(2) the banking and monetary areas: PMA senior staffing; implementation of PMA and commercial banking laws; licensing and banking supervision; assignment of Fund MAE experts; operationalization of the PMA, including establishment of well defined functional departments, and computerization; streamlining monetary coordination with Israel and Jordan; eventual assumption of banking and financial responsibilities in the West Bank; and currency arrangements;

(3) macroeconomic statistics: government finance and monetary statistics, national account data, price statistics, and balance of payments

1/ In addition to the existing tax administration advisor, five other experts in budgeting, Treasury, computerization, and training are scheduled for later 1995 and early 1996 (all to be financed by the EU under arrangements with FAD).

data and related institution building, including assignment of experts; and (4) training in macroeconomics.

Fund staff will also be looking to the Bank for expertise on individual sectors and on the further elaboration of the public investment program, and will jointly help the PA in formulating an appropriate medium-term macroeconomic framework and developing a medium-term economic development strategy. Together, the two institutions plan to assist the PA in preparing a paper on medium-term adjustment and development strategy along the lines of a Policy Framework Paper (PFP).

Further details on World Bank activities are provided in Appendix VII.

VII. Donors' Financial Assistance

According to data collected and computed by the World Bank for the AHLC, donors have pledged a total of US\$1,393 million in assistance to the West Bank and Gaza Strip since the signing of the Declaration of Principles in September 1993. These funds are above and beyond any funds that donors have traditionally allocated to WBGs through NGOs, the UN system, or other channels. Of these pledges, US\$1,194 million (86 percent of the total) is committed to particular investment, technical assistance, or recurrent cost support activities; of these commitments, donors had disbursed US\$542 million (45 percent of the total) to implementing agencies as of June 1995, as follows: US\$206 million (38 percent) for investment projects; US\$59 million (11 percent) for technical assistance activities; and US\$277 million (51 percent) for start-up and recurrent expenditures. However, based on a closer inspection of disbursements by UN agencies (including employment generation projects) and World Bank activities (the Holst Fund, the Technical Assistance Trust Fund, and the Emergency Rehabilitation Project), actual disbursements on the ground appear to have been significantly lower-- at an estimated US\$440 million. 1/

Total 1995 commitments as of end-June 1995 amounted to US\$421 million, i.e., 73 percent of 1995 pledges, and were broken down as follows: US\$217 million (51 percent) for investment projects, US\$25 million (6 percent) for technical assistance activities; and US\$180 million (43 percent) for support to start-up and recurrent expenditures. These figures show declining shares for investment and technical assistance activities and a marked increase in the proportion of donor assistance for recurrent cost support in 1995. As of June 1995, donors' 1995 disbursements totaled US\$154 million, a figure that included disbursements against 1994 as well as 1995 commitments. Of this total, US\$27 million (18 percent) was

1/ Disbursements by implementing agencies have been slower than donor disbursements to implementing agencies for a variety of reasons, including limited implementation capacity on the ground.

disbursed for investment projects; US\$4 million (3 percent) for technical assistance activities; and US\$123 million (80 percent) for support to start-up and recurrent expenditures, in response to the PA's budgetary needs.

West Bank and Gaza Strip--Methodology for Macroeconomic Data Estimates

1. Overview

This appendix documents the methodology and data sources underpinning the staff's estimates of the national accounts of the WBGs for 1993 and 1994 (Appendix Tables 12 to 15). ^{1/} In order to improve the coverage of the initial staff estimates a wide range of sources were used to derive the final estimates: the Israeli Central Bureau of Statistics (ICBS), the Israeli Ministry of Defense, and the Palestinian Authority (PA) and related institutions (in particular, the newly established Palestinian Bureau of Statistics (PBS), the Palestinian Economic Council for Development and Reconstruction (PECDAR), the Ministry of Finance, the Ministry of Planning and International Cooperation, and the Ministry of Economy, Industry, and Trade); and international organizations such as the United Nations, the Ad Hoc Liaison Committee's (AHLIC) Secretariat, the World Bank, and NGOs; and qualitative information obtained in the context of several meetings with representatives of the business and banking community in the Gaza Strip as well as in the West Bank. Available data and the derived national accounts estimates for 1993 and 1994 are summarized in the attached tables.

The approach was to start with the production side of the economy--for which more data are available--to establish a suitable base for the national accounts. Estimates of GDP generated in this manner from the production side of the economy were used to infer developments in other aspects of the economy. Evidence provided by other primary sources of information was utilized to corroborate or cross-check the initial estimates. While the 1993 estimates rely primarily on national income accounts prepared by the Israeli authorities, for 1994 a variety of indicators from different sources is used. Following the derivation of GDP estimates along these lines, the expenditure accounts were established by distributing GDP among the various expenditure categories, taking into account historical ratios, which were in turn adjusted on the basis of more updated, albeit partial, information provided by Palestinian and other sources; accordingly, public consumption and investment estimates were made consistent with the 1993-94 budget estimates, and merchandise imports and exports consistent with the balance of payments estimates.

^{1/} The availability and quality of macroeconomic data related to the WBGs have sharply deteriorated since the beginning of the Intifada in late 1987, when data collection became increasingly less comprehensive and less reliable. Furthermore, since early 1994, the Israeli Central Bureau of Statistics (ICBS)--which generally reported data on national accounts, and some information on external sector and fiscal accounts--stopped data collection in the Gaza Strip and Jericho Area by mid-1994.

2. Estimates for 1993

a. Production

National accounts for the WBGS are available up to the year 1993, but they are incomplete. 1/ For the West Bank, the only expenditure item published was general government consumption expenditure. However, published statistics on West Bank GDP by origin covered the agricultural, industrial, and government sectors, which together constitute roughly 60 percent of total GDP. 2/ For those components of GDP other than those cited above (henceforth denoted by "other") no information was provided. "Other" GDP covers transportation, services (including ownership of dwellings), plus a balancing item between GDP by expenditure and GDP by origin. It was assumed that the "other" sector expanded at the same rate as the rest of the domestic economy resulting in a decline of 3.5 percent in the real GDP of the West Bank. 3/ For the Gaza Strip, the national accounts of GDP by expenditure and GDP by origin, published by the ICBS, were adopted since they have no missing entries.

b. Expenditure

Information on the components of GDP by expenditure is available for both the Gaza Strip and the West Bank. 4/ However, for the West Bank, only the total expenditure on GDP and the expenditures on public consumption and investment are published. For both the West Bank and the Gaza Strip, information on the net exports of goods and nonfactor services was obtained from the balance of payments (see below for the underlying assumptions on the balance of payments estimates). That left private consumption and private investment of the West Bank to be determined. It was assumed that private consumption to GDP declined only slightly for the WBGS as a whole, reflecting the desire of households to preserve consumption per capita levels, in line with historical experience. Private consumption was 107.5 percent of GDP in 1992 and assumed to be 107.5 percent of GDP in 1993. This would imply a substantial domestic dissaving (18.1 percent of GDP). As a result, private fixed investment in the WBGS is estimated to have declined by about 4 percent of GDP, mirroring a decline in imports. Some crowding out effect was registered as well, with public investment rising to an

1/ Statistical Abstract of Israel 1994, No. 45, Central Bureau of Statistics.

2/ In addition, estimates on construction were obtained during staff discussions with officials of the ICBS.

3/ No official estimates are available for the "other" sector. However, it is known that in 1993 real GDP, excluding "other," declined by 7 percent, while the reported overall real GDP increased by 9 percent. This would require an increase in "other" GDP of nearly 38 percent.

4/ Statistical Abstract of Israel 1994, No. 45, Central Bureau of Statistics.

unusually high level (due to the investment program of the Israeli Civil Administration) and private investment falling.

c. Balance of payments

Estimates on exports, imports, remittances, and transfers from Israel were utilized in the construction of the balance of payments estimates. 1/ There was no record of any interest income receipts or payments and it was assumed that these are zero. Some information on official transfers was available, but there was no clearly identifiable information on foreign direct investment. 2/ An estimate of other private inflows was used to encompass the estimates of foreign direct investment and errors and omissions.

3. Estimates for 1994

a. Production

There are no published national accounts for either the West Bank or the Gaza Strip for 1994. Partial information on employment and hours worked and noninterest government current expenditure in the Gaza Strip and the West Bank is available; some information on dwellings began and completed in the Gaza Strip and agricultural production is also available. 3/

Incomplete data for 1994 requires certain simplifying assumptions for the calculation of value added for each sector. Estimates of the growth in value added generated by government services in both the West Bank and the Gaza Strip were derived by deflating noninterest current expenditures with the estimated increase in the cost of living index in 1994.

1/ Estimates on exports, imports, remittances, and transfers from Israel were provided by the ICBS, while other elements of the current account were derived from historical trends and/or elasticities to GDP. For 1993, the elasticities of exports and imports to GDP appear to be low even using the GDP estimate from combined sources. The higher GDP estimate provided by the ICBS would imply remarkably low elasticities.

2/ The estimates of official transfers are based on data from NGOs, UNRWA, the World Bank, and bilateral donors.

3/ The ICBS provided preliminary estimates for 1994 of employed persons and working hours of employed persons, broken down by work in Israel and by work in the WBGS. This information was available only for the first quarter of 1994 for the Gaza Strip, and for all four quarters for the West Bank. Data on work permits and border crossing provided by the PA and the Israeli Ministry of Defense, were used to estimate employment in Israel of workers from Gaza. Data on output by sector provided by the PA were used to estimate domestic employment in the Gaza Strip.

Regarding the expansion of agricultural GDP in the Gaza Strip, an estimate made by the World Bank 1/ was adopted (Appendix Table 16). The data suggest an eight percent change in gross agricultural output from 1993 to 1994 (at 1986 prices). Multiplying this growth rate by the ratio of gross output to value added for 1993 2/ yields a percentage change in the value added generated in the agricultural sector of 9.4 percent.

Estimates of the growth of activity in construction are based on the area of buildings begun and completed. Ideally, the contribution of the construction sector to GDP could be based on some notion of the total area constructed during the period under consideration, taking into account the value of this area. However, available data on the Gaza Strip's construction sector for 1994 are limited to information on "buildings completed" and "buildings begun" during the year. Appendix Table 17 presents available data on the total area of buildings "begun" and "completed" during recent years. These estimates implied that there was a substantial drop in productivity in the construction sector in the Gaza Strip (taking into account the rise in employment shown in data provided by the PA). The percentage change in total area constructed, based on buildings completed, from 1993 to 1994 is calculated as 9.5 percent.

Finally, estimates on GDP growth in the small industrial and "other" sectors were estimated on the basis of growth in employment, assuming no change in productivity. On the basis of the employment data, the change in industrial output was derived by calculating the change in total hours worked in the sector. The change in total hours worked in the industrial sector can be calculated using data on the number of workers employed in the sector and the assumptions that: (i) total output per worker remains constant; and (ii) weekly hours worked per employed person in the sector declined by the economy wide average of one percent from 1993 to 1994 (Appendix Table 18). The change in hours worked in the sector suggests a decline in output in the industrial sector of 16.4 percent. The same approach was used to derive output in the "other" sector. The implied increase in output in the "other" sector was 1.1 percent (Appendix Table 19).

GDP estimates for the West Bank in 1994 are even more uncertain as the only available macroeconomic data (except for government current expenditure) was employment. The growth estimates of 23.9 percent in the agricultural sector is based on increases in hours worked under the assumption of constant productivity (Appendix Tables 20 and 21). The growth estimate of 12.0 in the construction sector is also based on increases in hours worked but under the assumption that productivity declines in line with those observed in the previous year. The assumed decline in productivity is reasonable given that the growth in output in this sector

1/ Based on information provided by the Ministry of Planning and International Cooperation.

2/ At 1986 prices.

was accompanied by a sharp increase in employment, implying decreasing returns to labor, while capital grows slower in the short term. This growth estimate in construction is consistent with the level of total imports (even after an upward revision to compensate for underreporting), since all construction materials are imported. As mentioned above, estimates of the growth generated by government services in the Gaza Strip were derived by deflating noninterest current expenditures with the estimated increase in the cost of living index in 1994. Growth in the industrial and "other" sectors is derived by assuming that productivity moves in line with the rest of the domestic economy, excluding agriculture, which declined by 14 percent.

On the basis of the above calculations, real GDP in the WBGS was estimated to have increased by 7.3 percent in 1994, as a result of a 11.2 percent growth in the construction sector (mostly residential) and a 20.7 percent expansion in overall agricultural output. 1/ From observations in the field and discussions with business representatives it appears that other productive sectors have experienced slowdowns in output growth in 1994.

b. Expenditure

Estimates of expenditures on GDP were made using the same method as for 1993. 2/ However, since public consumption expanded due to the rapidly increasing civil and police recruitment by the PA, it was assumed that private consumption declined to 105.4 percent of GDP, in order to keep total real consumption per capita approximately constant. Investment declined sharply in 1994, although nearly half of this decline could be attributed to public investment falling from an unusually high level in 1993.

c. Balance of payments

Information on exports, imports, remittances, and transfers from Israel is available, and was used in the construction of the balance of payments estimates, while other elements of the current account were derived from

1/ A preliminary and partial assessment by the ICBS estimated that real GDP in the West Bank might have grown by 17 percent in 1994; 4 percent of this growth was assumed to come from the expansion of olive production, while the remaining growth of 13 percent was based on the assumption of 20 percent growth in construction and 15 percent growth in other activity. Neither category has been reported in the production section of the national accounts of the West Bank. The last time construction activity in the West Bank was recorded in the national accounts was 1987.

2/ The PA Ministry of Finance provided data on public consumption and public investment. The export and import data were obtained from the balance of payments.

historical trends and/or elasticities to GDP. 1/ For 1994, there was still no record of any interest income receipts or payments, and it was assumed that these were zero. Some information on official transfers was available, including, information on all official disbursements in the context of the Emergency Assistance Program (EAP) (including disbursements for investment spending, technical assistance, transitional projects, and budget support to the PA via the Holst and other funds). 2/ There was some information regarding foreign direct investment but again an estimate of other private inflows was used to encompass the estimates of foreign direct investment and errors and omissions. It was assumed that there were no changes in net foreign assets since there are no official reserves, and any change in the economy would thus be captured by errors and omissions.

1/ Data on exports and imports for the Gaza Strip was provided by the PA. Data on exports for the West Bank was provided by the ICBS. Imports for the West Bank were derived using elasticities to GDP, which in turn were updated by information provided by the PA. Remittances and transfers from Israel were provided by the ICBS.

2/ The estimates of official transfers are based on data from NGOs, UNRWA, the World Bank, and bilateral donors. The information on official disbursements was provided by the AHLC Secretariat and the World Bank.

West Bank and Gaza Strip--Implementation of the November 1994
"Understanding on Revenues, Expenditures, and Donor Funding for
the Palestinian Authority" Agreed with the Donor Community

MED Fund staff assisted the Palestinian Authority (PA) in monitoring fiscal revenue and recurrent expenditure developments in relation to the corresponding monthly projections agreed between the donors and the PA for the period October 1994 to March 1995. Actual developments largely mirrored those in institution-building over the six-month period. Palestinian revenue collection increased substantially, reflecting improved tax administration and the extension of partial authority over taxation in the West Bank under "Early Empowerment." ^{1/} Accordingly, from December 1994, when "Early Empowerment" took effect, to March 1995, monthly domestic revenue collections increased from US\$9.0 million to US\$12.3 million, ^{2/} despite the adverse effect of prolonged border closures on the Palestinian tax base during much of the first quarter of this year.

Over the six-month period, Israeli revenue clearances amounted to about US\$47.4 million on a cumulative basis. Except for a very small amount of health fees, these clearances were on account of the Gaza Strip and Jericho Area, since legislation authorizing the transfer of tax revenue clearances on account of the West Bank had not been passed by the Israeli legislature. A large and increasing part of the revenue clearances transferred during the period--about US\$25.6 million--was in the form of value-added tax (VAT) collections; this favorable outcome was attributable to the introduction of the unified invoice system and the automated reporting procedures for large traders in early 1995.

With regard to recurrent expenditure, outlays declined over the course of the first quarter of 1995, from US\$39.3 in January to US\$32.3 million in March; however, the emergence of domestic payment arrears of at least US\$10.4 million by end-March 1995 suggested somewhat less favorable developments. At the same time, over December 1994-March 1995, there was a large increase in the number of PA employees, with civilian employment in the West Bank and Gaza Strip rising from 25,500 in December to 29,500 by end-March, and the police force in the Gaza Strip and Jericho Area growing from 14,000 to 18,000 over the same period.

^{1/} "Agreement on Preparatory Transfer of Powers and Responsibilities," August 29, 1994.

^{2/} In view of the fact that "Early Empowerment" took effect on December 1, 1994, consistent comparisons of fiscal data can only be made from December 1994 to March 1995.

Foreign financing over the October 1994-March 1995 period totaled US\$82.5 million, of which US\$59.5 million came from the Holst Fund and US\$23.0 million from the Police Fund. In addition, there was domestic financing in the form of a commercial bank overdraft 1/ which as of end-March 1995, amounted to about US\$29 million.

1/ Including the US\$18.5 million transferred to the Bank of Palestine in the Gaza Strip and credited to bank accounts outside the direct control of the PA Ministry of Finance. These deposits were held as reserves to cover the outstanding overdraft of the PA Ministry of Finance to domestic commercial banks.

West Bank and Gaza Strip--Palestinian Authority's Original
Budget for April-December 1995 1/

The quarterly budget for April-December 1995 of the Palestinian Authority (PA) was developed in the context of a budget projection for 1995 as a whole and taking into account a preliminary estimate of the fiscal outcome during the first quarter of 1995. This budget was predicated on continuation of the current stage of "Early Empowerment" in the West Bank throughout 1995. Consistent with the approach adopted in preparing the PA's budget for April-December 1995, the nine-month and quarterly external financing requirements did not include additional external financing needs that might arise as a result of an extension of the current situation of "Early Empowerment" to additional spheres in the West Bank that might eventually be agreed between Israel and the PA.

1. Overall fiscal policy stance

The budget for April-December 1995 aimed at fiscal discipline through strengthening tax administration and expenditure management and exercising tight restraint on current expenditure, while ensuring provision of essential social services. Capital spending was targeted at a level commensurate with existing domestic administrative capacity and already pledged external financing. To achieve the targeted budget revenue, expenditure and recurrent deficit (capital outlays are assumed to be fully foreign-financed), the PA intends to continue to implement on a timely basis all of the recommendations on tax administration and on fiscal expenditure management of the IMF's Fiscal Affairs Department, as specified in Appendices IV and V. In particular, the PA remains determined to:

(i) strengthen its efforts to protect and expand its tax base;
(ii) implement a functioning budget and treasury system; (iii) maintain current tax policies so as to avoid additional uncertainty for taxpayers and investors; (iv) freeze recruitment in both the civil service (except for a few senior key positions) in the West Bank and in the Gaza Strip and the police in the Gaza Strip and Jericho Area during April-December 1995; (v) grant no general salary increase during April-December 1995; and (vi) adhere to a spending policy geared to maintaining the proper functioning of the PA administration and ensuring that the currently low levels in most vital services, including in particular education and health, are gradually improved.

2. Macroeconomic environment

The budget was also predicated on there being no further significant deterioration in economic activity in the WBGs in 1995 and, in particular, an average number of Palestinian workers in Israel of 25,000 in 1995 as a whole. As highlighted in Appendix Table 22, this is a very crucial

1/ As endorsed during the AHLC meeting in Paris on April 27, 1995.

assumption: a lower number of Palestinian workers in Israel would entail an immediate revenue loss equivalent to almost one month of civilian wages and salaries, with a potentially higher revenue loss over time, as the effects of lower workers' remittances "work through" the domestic economy and further erode the tax base.

Real economic growth and inflation in the WBS were initially projected at 5 percent and 10 percent, respectively, in 1995 as a whole, with the main source of growth expected to be in the construction sector. The targeted inflation rate in the WBS reflected prospective price developments in Israel and higher inflation levels in the nontradable sector (land values and housing) in the WBS.

3. Initial revenue and expenditure targets for 1995 as a whole

a. Revenue

Total revenue, including clearances with Israel, was projected at US\$216 million in 1995 as a whole (Appendix Tables 23 and 24), with domestic tax revenue projected at US\$85 million (accounting for about 40 percent of the total), revenue clearances with Israel at US\$99 million (accounting for about 45 percent of the total), and domestic nontax revenue at US\$32 million (about 15 percent of the total).

Receipts from income tax were expected to average about US\$2 million (NIS 6-7 million) on a monthly basis, although the further improvements in tax collection could be initially offset by the impact of the major reduction in tax rates effective February 1, 1995.

Domestic VAT collection was projected to increase by 15 percent--averaging US\$5 million (NIS 15 million) a month during 1995, with revenue (including receipts from tax arrears) increasing by 5 percent during the first quarter of 1995 and by 10 percent thereafter, reflecting the expected lagged unfolding of the full impact of the tax administration measures implemented to date and those outlined in Appendix IV.

VAT clearances with Israel were projected to increase from a monthly average of about US\$2 million (NIS 6 million) during the first quarter of 1995 ^{1/} to a monthly average of US\$4.5 million (NIS 14 million) in the fourth quarter of 1995. This projection was based on the assumption that the current legal impediments to transferring VAT revenue clearances to the West Bank would be resolved during the second quarter of 1995. The projection was also predicated on: (i) a considerable increase in the coverage of imports from Israel, which was expected to result from the implementation of the unified invoice system introduced in January 1995 and

^{1/} This monthly average was based on total transfers during the period, excluding NIS 22 million on account of revenue accrued in 1994.

the automated monthly reporting system for large traders introduced in February 1995; (ii) the full and timely implementation of the VAT clearing system with Israel; and (iii) a strengthening of the PA's control of inbound and outbound shipments.

As regards customs clearances, revenue transferred on account of the Gaza Strip was projected to increase slowly from the average monthly level of US\$1.3 million (NIS 4 million) reached in late 1994, to a monthly average of US\$1.7 million (NIS 5 million) by late 1995, on the assumption of regular, transparent, and timely transfer of clearances by Israel to the PA, as well as of a significant increase in compliance by large traders and taxpayers as a result of the steps outlined above.

Monthly revenue clearances on account of petroleum excises were projected to increase slowly from their end-1994 level of US\$2 million (NIS 6 million) to US\$2.2 million (NIS 6.6 million) by late 1995, on the assumption of minimal evasion and fraud, stable consumption, and prices rising at about 10 percent (the assumed inflation rate). It was also assumed that all accrued revenue on account of petroleum excises would be effectively transferred directly to the PA's Ministry of Finance.

Income tax receipts and health fee clearances combined were projected at US\$5.5 million (NIS 16.6 million) in 1995 as a whole, based on 25,000 Palestinian workers in Israel on average for 1995 (as indicated above).

As regards nontax revenue ^{1/}, no major improvements in collection were expected, since many governmental fees are set in nominal terms. Accordingly, a marginal increase in revenue collection to a monthly average of US\$2.7 million (NIS 8 million) was projected, with domestic health fees accounting for about half this amount.

b. Expenditure

(1) Current outlays

Total recurrent expenditure was projected at US\$444 million for 1995 as a whole, with wages and salaries for civilians and police currently projected at US\$290 million and other recurrent expenditures at US\$154 million.

The projection of total current expenditure was based on: (i) the existing authority of the PA over the five spheres of education, health, social welfare, domestic taxation and tourism in the West Bank, and in the Gaza Strip and Jericho Area over all recurrent expenditures and the police force; (ii) consistent with the PA's expenditure restraint stance, a total of 17,500 civilian employees in the five spheres of the West Bank and 12,500

^{1/} At present, nontax revenue is mostly collected in the Gaza Strip; health fees only are collected in the West Bank under "Early Empowerment."

in the Gaza Strip, and a police force in the Gaza Strip and Jericho Area of 18,000 as of end-March 1995. Except for a few senior key positions in the civil service (e.g., Directors General of the Budget and Treasury Offices), no additional recruitment of either civilians or police was envisaged over the remainder of 1995; and (iii) average monthly salaries of US\$530 (NIS 1,600) and of US\$475 (NIS 1,430) for civilian employees and the police force, respectively; these average monthly salaries include the full effects of the wage increase and other amendments decided by the PA in January 1995. ^{1/} On this basis, from April onward the total monthly civilian wage bill was estimated at US\$16 million and the total monthly wage bill for the police at US\$8 million.

Other recurrent expenditures (such as materials, supplies, maintenance, utilities, energy, and social assistance) were projected to increase to a total of US\$154 million--a level the PA considers a minimum to ensure that ministries continue to strengthen their administrative capacity and can effectively improve vital services. This projection was based on ratios of other current outlays to the civilian wage bill and to the police wage bill of 50 percent and 35 percent, respectively; these ratios were based on actual developments in essential nonwage expenditures during December 1994-February 1995, and took into account lower start-up costs. Given the assumed rate of inflation for the WBS, such a level of nonwage current outlays translated into small increases in real terms in social, health and education outlays.

(2) Capital expenditure

Capital expenditure by the ministries is projected by the PA at US\$194 million, divided equally between the Gaza Strip and the West Bank, but excluding an additional amount of US\$10 million for the subscribed and paid-in capital requirement of the PMA. All capital outlays (except for the capital for the PMA) were assumed to be fully foreign-financed, on the basis of the pledges made at the December 1993 Consultative Group (CG) meeting and the subsequent CG meeting in September 1994. The PA intends to give priority to job-creating and labor-intensive development projects and programs to rehabilitate and improve basic infrastructure.

c. Recurrent budget deficit and financing

As of January 1, 1995, undisbursed external financing commitments under the Holst Fund (salaries and other start-up costs) and the Police Fund were estimated at US\$80 million, consisting of US\$36 million from the 1995 pledges that were reallocated at the November 1994 AHLC meeting in Brussels

^{1/} Including in particular an across-the-board wage increase of about 15 percent, adjustments to the pay scale, introduction of specific allowances and premiums, and a 12.5 percent contribution of the PA for social security and pension purposes in the Gaza Strip.

and of US\$44 million from 1994 pledges. In addition, the European Union had indicated that it would provide US\$12-13 million, which are part of the 1995 pledges but not channelled through the Holst Fund, to help finance salaries of teachers (in general education). On this basis, it was estimated that a total external financing of US\$92 million (excluding transitional projects and transfers to NGOs) was in principle available as of January 1, 1995 for financing current outlays 1/ during January-March 1995.

Accordingly, given the targeted revenue and expenditure for 1995 as a whole (see above), the estimated fiscal outlook for the first quarter of 1995, and taking into account the committed and undisbursed foreign financing available under the Holst and Police Funds and from the European Union as of January 1, 1995, a remaining unfinanced gap of US\$146 million (including US\$10 million for the capital of the PMA) on account of recurrent expenditure during April-December 1995 was projected for 1995.

4. Quarterly budget projections for April-December 1995 and monitoring

Quarterly revenue and current expenditure projections and external financing requirements for current outlays had been derived for April-December 1995, on the basis of the revenue and current outlays targeted for 1995 as a whole and the preliminary estimate of the current fiscal deficit during the first quarter of 1995 (Appendix Table 25). The PA indicated its intention both to adhere to the tight expenditure restraint stance embodied in the April-December 1995 budget and to closely monitor the implementation of its quarterly current budget for April-December 1995 and the tax administration and fiscal expenditure management measures specified in Appendices IV and V. To this end, the PA committed itself to prepare quarterly reports for the AHLC, with the assistance of the IMF staff.

1/ Pursuant to the "November 1994 Understanding on Revenues, Expenditures and Donor Funding for the Palestinian Authority, October 1, 1994-March 31, 1995," commitments for the Holst Fund were expected to total US\$110 million, of which about US\$51 million had been disbursed by end-December 1994, leaving a balance of US\$58 million as of January 1, 1995 after taking into account administrative costs and fees. As of mid-April, 1995, however, disbursements of US\$36 million, which were expected to be made during January-March 1995, had not yet been received by the World Bank. Commitments for the Police Fund were expected to total US\$60-63 million, of which US\$38 million had been disbursed through UNRWA by end-December 1994, leaving a balance of US\$22-25 million as of January 1, 1995.

The PA also affirmed its intention to strengthen further its budget preparation and execution process. In particular, to facilitate the budget arbitration process, 1/ the Ministry of Finance undertook to send a budget circular for the preparation of the 1996 budget to all PA ministries, the Office of the President, the Palestinian Economic Council for Development and Reconstruction and other central government agencies, taking into account relevant macroeconomic parameters. Such an annual budget circular, together with a proper legal framework for budget preparation and execution (Organic Budget Law), has been drafted, with technical assistance from the IMF, and is about to be implemented. The PA also confirmed its determination to pursue its efforts in institution-building in bank licensing and supervision, payments and clearing systems and foreign assets management by the PMA, and in other key areas, such as the preparation and finalization of a regulatory framework conducive to domestic and foreign private sector investment in the WBGs, and indicated its readiness to also report quarterly to the AHLC on progress achieved in these areas.

1/ Through such a process, which started to be put into place for the preparation of the April-December 1995 budget, the Ministry of Finance, inter alia: (i) collects expenditure requests from individual spending ministries, the Office of the President, PECJAR, and other central government agencies; (ii) compares total requests to available resources; (iii) attempts to reduce total expenditure to levels in keeping with the likely level of available resources; and in so doing (iv) arbitrates among the competing demands of the respective ministries and other central government agencies.

West Bank and Gaza Strip: Tax Administration Actions
to the Palestinian Authority

<u>Recommended Measures</u>	<u>Targeted Action Date</u>
<u>Tax Department Level</u>	
A. <u>Training and retraining</u>	
1. Train more staff from the Gaza Strip, prepare tax administration course by IMF FAD experts	By end-June 1995
B. <u>Protect the existing tax base</u>	
1. Continue regularizing the delinquent taxpayer situation in both the West Bank and the Gaza Strip; strengthen enforcement in West Bank	April 1995 onward
2. Establish units for delinquent taxpayers in district offices	By end-June 1995
3. Continue the identification of large taxpayers' files and review assessment of identified taxpayers	By end-June 1995
4. Cross-check information between VAT and income tax (existing files and permanent cross-checking)	April 1995 onward
5. Analyze information concerning importers, which is provided by Israeli authorities	April 1995 onward
C. <u>Information and registration to broaden the tax base</u>	
1. Intensify the campaign of taxpayers' registration	By end-June 1995
2. Launch the campaign (voluntary campaign, field campaign)	April-Sep. 1995
3. Control and exploit the results of the registration campaign	July 1995 onward
4. Implement basic revenue management system (computerization, monthly reports)	By end-June 1995

<u>Recommended Measures</u>	<u>Targeted Action Date</u>
<u>Revenue Administration</u>	
A. <u>Organization, personnel, means</u>	
1. Organize the Ministry of Finance and appoint senior officials	By end-June 1995
a. Appoint office directors in Minister's office	
b. Appoint Directors General for Revenue and Income Tax	
2. Strengthen guidance and supervision of tax offices; develop formal work rules and instructions	By end-June 1995
3. Complete recruitment of selected staff	By end-June 1995
4. Continue to improve means (e.g., cars, office equipment)	April 1995 1995
B. <u>Coordination and negotiation with Israeli authorities</u>	
1. Approach Israeli counterparts to negotiate more training for staff in the Gaza Strip	By end-June 1995
2. Finalize negotiations concerning computers; and reconnect tax administration to Shaan in the Gaza Strip	By end-June 1995
3. Finalize negotiations on common control system with Israeli tax authorities (information on importers, regular transfer of clearances)	By end-June 1995
4. Negotiate with Israeli counterparts of information on company registration and the transportation sector	By end-June 1995
C. <u>Tax arrears and tax credits</u>	
1. Continue and complete review of tax arrears	By end-Sep. 1995

<u>Recommended Measures</u>	<u>Targeted Action Date</u>
2. Settle outstanding VAT credits	By end-June 1995 Targeted
3. Reconcile income tax liabilities and pre-payments in the West Bank from time before "Early Empowerment"	By end-June 1995
4. Design an appeals system	By end-Sep. 1995
5. Design and implement an issue-oriented audit strategy	July 1995 onward

West Bank and Gaza Strip: Fiscal Expenditure Management
Actions to be Implemented during April-December 1995

<u>Recommended Measures</u>	<u>Targeted Action Date</u>
A. <u>Personnel and training</u>	
1. Adopt transitional organizational structure for the Ministry of Finance proposed by IMF FAD in October 1994	By end-June 1995
<ul style="list-style-type: none"> - Central Treasury Office and its divisions - Central Budget Office and its divisions 	
2. Appoint top officials	By end-June 1995
a. Central Budget Office	April 1995
b. Treasury	April 1995
c. Audit Office	April 1995
d. Recruit division chiefs and 3-4 mid-level officials per division	April-June 1995
3. Organize training of senior officers with IMF assistance	By end-June 1995
4. Recruit selected additional staff for Gaza and Jericho offices, if needed	April 1995 onward
B. <u>Budget preparation</u>	
1. Set credit limits for spending agencies through arbitration process for April-December 1995 budget	By end-April 1995
2. Initiate preparations for budget for 1996 (with IMF FAD Advisor)	April 1995 onward
<ul style="list-style-type: none"> - budget circular - budget estimates - single budget document 	
3. Review and finalize Organic Budget Law (with IMF FAD Advisor)	By end-June 1995

<u>Recommended Measures</u>	<u>Targeted Action Date</u>
4. Establish committee to review financial regulation; review and finalize regulations (with IMF FAD Advisor)	By end-June 1995
C. <u>Budget execution and expenditure management</u>	
1. Computerized accounting system	By end-Dec. 1995
2. Review and finalize basic regulations for budget execution	By end-June 1995
3. Standardize accounting procedures for revenue, expenditure, and asset registration	By end-June 1995
4. Centralize expenditure and payment process in the Ministry of Finance	By end-June 1995
5. Ministries and other central government agencies to prepare monthly reports on expenditure	By end-April 1995
D. <u>Expenditure control and audit</u>	
1. Place financial comptrollers in spending ministries	By end-June 1995
2. Establish within the Ministry of Finance a central unit for financial comptrollers	By end-June 1995
3. Review the General Audit Authority draft law with IMF and World Bank assistance	By end-June 1995
E. <u>Fund management</u>	
1. Discontinue using separate accounts	By end-June 1995
2. Create consolidated account	By end-June 1995
3. Monitor bank balances of spending ministries and other central government agencies closely	April 1995 onward
4. Close separate accounts of spending agencies once advances have been spent	By end-Sep. 1995

<u>Recommended Measures</u>	<u>Targeted Action Date</u>
5. Consolidate the existing accounts on the basis of a single currency	By end-Dec. 1995
F. <u>Computerization</u>	
1. Recruit systems analysts and establish task force within the Ministry of Finance to interact with Government Computer Center	By end-June 1995
2. Decide on strategy and implement Government Financial Management and Information System (GFMIS)	April-Dec. 1995
G. <u>Implementation of GFMIS</u>	
1. Recruit technical staff to cooperate with consulting firm in charge of GFMIS	April-Dec. 1995
2. Form committee for selecting consulting firm	By end-June 1995
3. Request short-term technical assistance from IMF for:	By end-May 1995
- Construction of a chart of accounts - Treasury issues	
4. Request IMF long-term advisors for:	By mid-April 1995
- Budget - Treasury	

West Bank and Gaza Strip: IMF Technical Assistance
to the Palestinian Authority

1. Middle Eastern Department, with FAD and PDR Assistance

- | | | |
|----|---|--|
| a. | Participation in the European I Department mission for the 1994 Article IV Consultation with Israel | Feb.-March 1994 |
| b. | Participation in MAE Mission (see below) | November 1995 |
| c. | Staff visits to assist the Palestinian Authority (PA) with monthly fiscal reporting to the Ad Hoc Liaison Committee (AHLC) and the formulation of the PA's budget for April-December 1995 | Nov./Dec. 1994
Jan./Feb./March/
April 1995 |
| d. | Staff visit to participate in the Joint Liaison Committee meetings. | May, June 1995 |
| e. | Staff visits to assist the PA with quarterly fiscal reporting to AHLC, and its formulation of the 1996 budget within the context of a medium-term macroeconomic framework | July, Oct. 1995
January 1996 |

2. Fiscal Affairs Department

- | | | |
|----|--|----------------|
| a. | Multitopic initial and assessment mission | October 1993 |
| b. | Tax administration and policy mission | January 1994 |
| c. | Public expenditure management mission | January 1994 |
| d. | Tax and expenditure management follow-up mission | May 1994 |
| e. | Fiscal review mission (Gaza/Jericho) | September 1994 |
| f. | Fiscal review mission (WBGs) | January 1995 |
| g. | Expenditure management mission | March 1995 |
| h. | Customs and tariff mission | July 1995 |
| i. | Tax administration training seminar | FY 1996 |
| j. | Tax policy mission | September 1995 |

k.	Social security mission	FY 1996
l.	Follow-up customs and tariff mission	FY 1996 II
m.	Social safety net mission	FY 1996 II
n.	Assignment of short-term resident experts	
	- Tax administration advisor	Feb./March 1995
	- Expenditure management	March, April, May/November 1995
o.	Assignment of long-term resident experts	
	- Tax Administration Advisor	July 1995- Ongoing
	- Budget advisor	Pending
	- Treasury Advisor	appointment
	- Tax administration training advisor	of Palestinian
	- Audit Advisor	counterparts
	- Computer advisor(s)	Forthcoming
3.	<u>Monetary and Exchange Affairs Department</u>	
	<u>Type of Assistance</u>	<u>Date</u>
	Initial Multitopic mission	Nov. 1994
	Multitopic Mission	Jan. 1995
	Seven short-term visits by Bank Supervision Advisor	Mar.-Aug. 1995
	Multitopic mission	July/Aug. 1995
	Expert visit on accounting and audit	Aug. 1995
	One-year expert on foreign asset management	Aug. 1995- Aug. 1996
	One-year expert on central bank operations	Sep. 1995- Sep. 1996
	One-year expert on information technology	Sep. 1995- Sep. 1996
	Short-term visit by payments system advisor	Sep. 1995

- | | |
|--|-----------|
| Short-term visit on accounting and audit | Oct. 1995 |
| Multitopic mission | Dec. 1995 |
| Short-term visit on accounting and audit | Jan. 1996 |
| Short-term visit on accounting and audit | Mar. 1996 |
4. Statistics Department
- | | |
|---|--------------------------|
| a. Statistical assessment mission | December 1993 |
| b. Multitopic mission | May 1994 |
| c. Government finance statistics mission | Late 1995 |
| d. Monetary statistics mission | Late 1995/
early 1996 |
| e. Balance of payments statistics mission | June 1996 |
5. IMF Institute
- | | |
|--|---------------|
| a. Training assessment mission | August 1994 |
| b. Macroeconomic analysis and financial
programming course for PA officials | December 1994 |
| c. Joint orientation seminar (with
World Bank's EDI) for senior officials | May-June 1995 |
| d. Macroeconomic policy and financial
programming course for PA officials | January 1996 |
| e. Participation of PA officials in
regular Institute courses | Ongoing |

West Bank and Gaza Strip: World Bank's Involvement

Overview

1. The World Bank has been deeply involved in the Palestinian track of the peace process since 1992, when the Co-sponsors of the Peace Process asked the Bank to develop an economic strategy for the West Bank and Gaza Strip (WBGs). The resulting six-volume report, "Developing the Occupied Territories: An Investment in Peace," was published to coincide with the signing of the Declaration of Principles (DOP), and was used to underpin the original donor conference of October 1993 at which over US\$2 billion was pledged to the Palestinians.
2. Current Bank's assistance program is wide-ranging: apart from playing a major role in aid coordination, the Bank's strategy stresses four themes-- support for immediate start-up and recurrent costs; rehabilitation of basic and social infrastructure; promoting the emergence of the private sector; and fostering the development of Palestinian institutions.
3. In late 1994, the Bank reorganized its WBGs operation by devolving authority over the assistance program to the Resident Representative in the field. Within the Bank, such an arrangement was unique to the WBGs.

Aid Coordination

4. The Bank has been helping the PA and the donors to: (i) channel assistance into areas of priority; (ii) monitor aid flows; and (iii) identify and solve implementation problems.
5. The Bank chairs the CG meetings for the WBGs. Responding to initial donor demand for an expenditure planning framework, the Bank, assisted by Palestinian counterpart teams, prepared the "Emergency Assistance Program for the Occupied Territories" (the EAP) and tabled it at the first CG meeting in December 1993. The Bank has subsequently assisted the PA in revising and updating the EAP. A document entitled "Outlook for Public Investment and Associated Funding Needs" (July 25, 1995) also serves as the PA's Public Investment Program Framework Paper. The Bank also convened a meeting of lending and risk guarantee agencies on April 26, 1995, to explore ways in which such funds, hitherto largely untapped, can be mobilized for Palestinian development. Another aspect of the Bank's role as CG Chair is to report to the donor community on economic developments and provide the PA with advice on policy priorities. In addition to the six-volume report, the Bank circulated in August 1994 an economic report entitled "The West Bank and Gaza, the Next Two Years and Beyond."
6. The Bank also acts as Secretariat of the Ad-Hoc Liaison Committee (AHLIC). In that capacity, it has responsibility for tracking donor pledges, commitments and disbursements to the Palestinians; and has, with PECJAR, produced regular editions of the "Matrix of Donors' Assistance to the West

Bank and Gaza". The Secretariat also provides frequent briefings and advice to the AHLC membership.

7. Since the formation of the Local Aid Coordination Committee (LACC) in late 1994, the Bank has acted as Co-chair of the Committee and provides Secretariat services both to the main committee and to several of the LACC's Sector Working Groups.

Support for Palestinian Start-Up and Recurrent Costs

8. The Bank administers the Johan Jorgen Holst Peace Fund (the Holst Fund), created in January 1994 as a multilateral window of support for start-up and recurrent costs. Holst Fund proceeds are disbursed to PEC DAR and to the Ministry of Finance. From an original principal of US\$20 million, as of July 31, 1995 the Holst Fund had received pledges totaling US\$180 million from seventeen donors, of which US\$137 million had been disbursed to the Palestinian Authority. Despite occasional shortages of funds caused by late disbursement of pledges by donors to the Fund, and notwithstanding the need for tighter adherence by the PA to certain trust fund stipulations, the Holst Fund has made a major contribution to the development of the WBS. It has ensured the regular payment of Central Administration salaries and key operating costs at a time when no other means of doing so existed; and has helped introduce concepts of accountability and budget management into the operations of the PA. The Holst Fund has also provided one of the main sources of finance for the employment-creating Gaza Clean-Up Program. The Fund was replenished following the formal AHLC meeting on April 27-28, 1995, and at present is expected to continue to be the main start-up/recurrent cost financing channel through 1996.

9. Bank staff also assisted the PA in putting together budget estimates for 1994 and, earlier this year, in the collection of the initial budget submissions by individual PA ministries and other central government agencies, which were used as initial inputs to the formulation of the April-December 1995 Budget of the PA, with IMF staff assistance.

Rehabilitation of Physical and Social Infrastructure

10. In October 1993, the Executive Board of the Bank established a Trust Fund for the Gaza Strip (TFG), into which US\$50 million were transferred from Bank surplus, to be provided to the Palestinians on IDA terms.

11. The Emergency Rehabilitation Project (ERP) became effective on September 9, 1994, with the Palestinian Economic Council for Reconstruction and Development (PEC DAR) as the borrower and prime implementing agency. In addition to US\$30 million from the TFG, the ERP attracted US\$98 million in cofinancing (from the Saudi Fund, the Arab Fund, the Kuwait Fund and the governments of Denmark and Switzerland). Of the US\$98 million pledged, however, only US\$58 million has been confirmed so far though discussions with cofinanciers continue. At this point, 113 rehabilitation subprojects

worth almost US\$60 million are underway, in the roads, water & sewerage and education sectors. Another US\$20 million of subprojects will shortly go to bid under Danish parallel cofinancing arrangements, while some funds need to be held in reserve against contract contingencies. In addition to this, some 60 subprojects worth US\$51 million are at various stages of bidding, but contract award must now await the commitment of additional funds, as the preparation of subprojects has outrun the availability of finance. Another US\$40 million of subprojects, moreover, should be ready for implementation before the end of the year. ERP disbursements to date total US\$22 million, including US\$9 million from the TFG. Disbursements exceed projections at the time of Board approval, but have lagged behind the revised timetable established in December 1994 in response to donor and Palestinian efforts to accelerate the pace of development in WBG. These lags are due in part to inexperience in PECJAR and in the local contracting sector; but latterly more to the impact of closure on the supply of construction materials. Now that the border situation is easing, disbursements have recently begun to pick up. ERP was originally designed for completion by mid-1997, but following the December 1994 restructuring the project should be substantially completed by mid-1996. Despite the difficult implementation climate, the project is making satisfactory progress and is achieving a visible impact, particularly in the confines of Gaza.

12. The Education and Health Rehabilitation Project (EHRP) was approved by the Bank's Board on June 15, 1995. The US\$150 million project would support the refurbishment and equipment of schools and health facilities, improve quality standards, and help develop the Ministries of Education and Health, which are to implement the project. The Trust Fund for Gaza will contribute US\$20 million to the project; the balance will be sought from cofinanciers.

Supporting the Private Sector

13. By late 1994 it had become clear that the unsettled political climate and confused regulatory, legal and administrative situation were acting to dampen the expected private sector response to Palestinian autonomy. The PA and the Bank recently finalized a strategy to kick-start private sector involvement under the difficult conditions that currently prevail in the WBGS. The strategy proposes an agenda of priority actions, which include the creation of a political risk insurance facility, urgent reform of the legal and regulatory regime, the provision of training and support services for small businesses and investments in key capital infrastructure projects.

New Lending

14. On August 1, the Bank's Board agreed to recommend to the Bank's Governors a replenishment of US\$90 million of the Bank's Trust Fund, now extended in scope to cover investments in the West Bank, as well as the Gaza Strip. The additional funds will be committed to new projects in 1996 and 1997, and used to catalyse donor cofinancing. The Bank anticipates financing approximately five new projects from the replenishments. Identification and preparation work is already under way in housing, water

and waste water, municipal infrastructure and development, power generation and distribution, and industrial estates development. In addition, the Bank is working on the design of a new international donor trust fund to support NGO programs in the WBGS.

Developing Palestinian Institutions

15. Many of the key institutional development requirements of the Palestinians were identified in the Technical Assistance Program (TAP) prepared by the Bank and the Palestinian counterpart teams for the December 1993 CG meeting. The TAP is underpinned by the Technical Assistance Trust Fund (TATF), a facility created in October 1993. The TATF has received US\$25 million in pledges from thirteen donors, and is administered by the Bank with PEC DAR as grant recipient. To date, over fifty activities valued at US\$28 million have been agreed in principle with the Palestinian authorities; 20 contracts valued at US\$7.8 million have been signed; and US\$2.3 million have been disbursed. A wide variety of important activities have been launched or are under preparation; these include master planning and institutional studies in the power and telecommunications sectors; numerous project design and preparation activities in power, water, roads and school rehabilitation; the design of an integrated financial management system for the Central Administration, and of an accounting system for local governments; studies and seminars designed to fashion a cost-efficient public administration; management and procurement support to PEC DAR; and specific measures to improve the legal and regulatory framework governing the private sector. After a slow start, the TATF is proving to be a valuable instrument. One issue that needs urgent resolution if TATF implementation is to be further accelerated is agreement by PEC DAR on a formula for developing responsibility to the agencies executing the various activities.

Table 7. West Bank and Gaza Strip: National Income Accounts (at Current Prices), 1991-95

	1991	1992	Prel. Staff Estimates		Staff Proj. 1995
			1993	1994	
(In millions of NIS)					
National GDP at market prices	4,925.1	6,604.0	7,237.0	8,850.0	10,057.4
Resource gap	-2,659.7	-3,152.6	-3,079.1	-3,305.7	-3,493.0
Imports of GNFS (NA)	3,350.3	4,050.1	3,772.5	4,059.2	4,492.8
Exports of GNFS (NA)	690.6	897.6	693.4	753.5	999.8
Gross domestic expenditure	7,584.8	9,756.6	10,316.1	12,155.7	13,550.4
Consumption	6,176.4	7,786.3	8,550.4	10,226.2	11,938.3
Private	5,638.5	7,099.8	7,771.5	9,328.3	10,545.7
Government	537.9	686.6	772.9	897.9	1,392.6
Gross fixed investment	1,499.6	1,844.8	1,874.4	1,849.8	1,612.1
Private	1,349.2	1,653.0	1,497.4	1,591.5	1,207.3
Government	150.4	191.8	377.0	258.2	404.8
Change in stocks	-91.2	125.4	-108.7	79.7	--
Gross domestic savings	-1,251.2	-1,182.3	-1,313.4	-1,376.2	1,880.9
Government	75.0	186.0	63.9	-88.9	-434.0
Private	-1,362.2	-1,368.3	-1,377.6	-1,287.3	-1,446.9
Gross national savings	362.4	1,025.9	248.8	73.4	-1,182.0
Gross foreign savings	1,046.1	944.3	1,516.9	1,856.1	2,794.2
Foreign transfers and grants	1,046.1	944.3	1,516.9	1,829.7	2,360.6
Foreign public and private capital	--	--	--	26.4	433.6
Gross savings	1,408.5	1,970.2	1,765.7	1,929.5	1,612.1
Gross investment	1,408.5	1,970.2	1,765.7	1,929.5	1,612.1
(As percent of GDP)					
Resource gap	-54.0	-47.7	-42.5	-37.4	-34.7
Imports of GNFS (NA)	68.0	61.3	52.1	45.9	44.7
Exports of GNFS (NA)	14.0	13.6	9.6	8.5	9.9
Gross domestic expenditure	154.0	147.7	142.5	137.4	134.7
Consumption	125.4	117.9	118.1	115.6	118.7
Private	114.5	107.5	107.5	105.4	104.9
Government	10.9	10.4	10.7	10.1	13.8
Gross fixed investment	30.4	27.9	25.9	20.9	16.0
Private	27.4	25.0	20.7	18.0	12.0
Government	3.1	2.9	5.2	2.9	4.0
Change in stocks	-1.9	1.9	-1.5	0.9	--
Gross domestic savings	-25.4	-17.9	-18.1	-15.6	-18.7
Government	1.5	2.8	0.9	-1.0	-4.3
Private	-26.9	-20.7	-19.0	-14.5	-14.4
Gross national savings	7.4	15.5	3.4	0.8	-11.8
Gross foreign savings	21.2	14.3	21.0	21.0	27.8
Foreign transfers and grants	21.2	14.3	21.0	20.7	23.5
Foreign public and private capital	--	--	--	0.3	4.3
Gross savings	28.6	29.8	24.4	21.8	16.0
Gross investment	28.6	29.8	24.4	21.8	16.0

Table 7 (concluded). West Bank and Gaza Strip: National Income Accounts (at Current Prices), 1991-95

	1991	1992	Prel. Staff Estimates		Proj. 1995
			1993	1994	
	(Annual percentage changes)				
Nominal GDP at market prices (NIS)	8.7	34.1	9.6	22.3	13.6
Resource gap	46.9	18.5	-2.3	7.4	5.7
Imports of GNFS (NA)	40.9	20.9	-6.9	7.6	10.7
Exports of GNFS (NA)	21.9	30.0	-22.7	8.7	32.7
Gross domestic expenditure	19.6	28.6	5.7	17.8	11.5
Consumption	22.2	26.1	9.8	19.6	16.7
Private	23.5	25.9	9.5	19.9	13.1
Government	10.2	27.6	12.6	16.2	55.1
Gross fixed investment	25.6	23.0	1.6	-1.3	-12.8
Private	22.6	22.5	-9.4	6.3	-24.1
Government	62.2	27.5	96.5	-31.5	56.8

Sources: Israeli Central Bureau of Statistics; Department of Statistics of the Palestinian Authority's Ministry of Planning and International Cooperation; and staff estimates and projections.

Table 8. West Bank and Gaza Strip: National Income Accounts (at Current Prices) 1991-95

	1991	1992	Prel. Staff Estimates		Staff Proj.
			1993	1994	1995
(In millions of U.S. dollars)					
Nominal GDP at market prices	2,161.0	2,685.0	2,557.2	2,930.5	3,329.0
Resource gap	-1,167.0	-1,282.0	-1,088.0	-1,094.6	-1,156.2
Imports of GNFS	1,470.0	1,647.0	1,333.0	1,344.1	1,487.1
Exports of GNFS	303.0	365.0	245.0	249.5	330.9
Gross domestic expenditure	3,328.0	3,967.5	3,645.2	4,025.1	4,485.2
Consumption	2,710.0	3,166.3	3,021.3	3,386.2	3,951.6
Private	2,474.0	2,887.1	2,748.2	3,088.8	3,490.6
Government	236.0	279.2	273.1	297.3	461.0
Gross fixed investment	658.0	750.2	662.3	612.5	533.6
Private	592.0	672.2	529.1	527.0	399.6
Government	66.0	78.0	133.2	85.5	134.0
Change in stocks	-40.0	51.0	-38.4	26.4	--
Gross domestic savings	-549.0	-480.8	-464.1	-455.7	-622.6
Of which: government savings	32.9	75.6	22.6	-29.4	-143.6
Of which: private savings	-581.9	-556.4	-486.7	-426.3	-478.9
Gross national savings	159.0	417.2	87.9	24.3	-391.3
Gross savings	459.0	384.0	536.0	605.9	781.3
Resource gap	-54.0	-47.7	-42.5	-37.4	-34.7
Imports of GNFS	68.0	61.3	52.1	45.9	44.7
Exports of GNFS	14.0	13.6	9.6	8.5	9.9
Gross domestic expenditure	154.0	147.7	142.5	137.4	134.7
Consumption	125.4	117.9	118.1	115.6	118.7
Private	114.5	107.5	107.5	105.4	104.9
Government	10.9	10.4	10.7	10.1	13.8
Gross fixed investment	30.4	27.9	25.9	20.9	16.0
Private	27.4	25.0	20.7	18.0	12.0
Government	3.1	2.9	5.2	2.9	4.0
Change in stocks	-1.9	1.9	-1.5	0.9	--
Gross domestic savings	-25.4	-17.9	-15.6	-15.6	-18.7
Of which: government savings	1.5	2.8	-1.0	-1.0	-4.3
private savings	-26.9	-20.7	-14.5	-14.5	-14.4
Gross national savings	7.4	15.5	0.8	0.8	-11.8
Gross savings	21.2	14.3	20.7	20.7	23.5
(Annual percentage changes)					
Nominal GDP at market prices (US\$)	-3.8	24.3	-4.8	14.6	13.6
Resource gap	30.0	9.9	-15.1	0.6	5.6
Imports of GNFS (NA)	24.7	12.0	-19.1	0.8	10.6
Exports of GNFS (NA)	7.8	20.5	-32.9	1.8	32.6
Gross domestic expenditure	5.8	19.2	-8.1	10.4	11.4
Consumption	8.1	16.8	-4.6	12.1	16.7
Private	9.2	16.7	-4.8	12.4	13.0
Government	-2.5	18.3	-2.2	8.9	55.0
Gross fixed investment	11.1	14.0	-11.7	-7.5	-12.9
Private	8.4	13.5	-21.3	-0.4	-24.2
Government	43.5	18.2	70.8	-35.8	56.7

Sources: Israeli Central Bureau of Statistics; Department of Statistics of the Palestinian Authority's Ministry of Planning and International Cooperation; and staff estimates and projections.

Table 9. West Bank and Gaza Strip: National Income Accounts (at Constant Prices), 1991-95

	1991	1992	Prel. Staff Estimates		Staff Proj.
			1993	1994	1995
<u>(In millions of 1986 NIS)</u>					
Real GDP	2,710.0	3,337.0	3,293.6	3,534.1	3,657.7
Resource gap	-1,449.7	-1,570.1	-1,320.2	-1,299.3	-1,336.3
Imports of GNFS (NA)	1,828.0	2,018.0	1,617.5	1,595.4	1,718.8
Exports of GNFS (NA)	378.3	447.9	297.3	296.1	382.5
Gross domestic expenditure	4,159.7	4,907.1	4,613.8	4,833.3	4,994.0
Consumption	3,470.2	3,906.9	3,865.1	4,055.8	4,312.2
Private	3,175.0	3,549.7	3,515.8	3,699.7	3,809.2
Government	295.2	357.2	349.4	356.1	503.0
Gross fixed capital formation	689.5	1,000.2	846.9	777.5	681.9
<u>(As percent of GDP)</u>					
Resource gap	-53.5	-47.1	-40.1	-36.8	-36.5
Imports of GNFS (NA)	67.5	60.5	49.1	45.1	47.0
Exports of GNFS (NA)	14.0	13.4	9.0	8.4	10.5
Gross domestic expenditure	153.5	147.1	140.1	136.8	136.5
Consumption	128.1	117.1	117.4	114.8	177.9
Private	117.2	106.4	106.7	104.7	104.1
Government	10.9	10.7	10.6	10.1	13.8
Gross fixed capital formation	25.4	30.0	25.7	22.0	18.6
<u>(Deflators 1986=100)</u>					
Gross domestic product	181.7	197.9	219.7	250.4	275.0
Percentage change	13.4	8.9	11.0	14.0	9.8
Exports of goods (NIS)	182.5	200.4	229.5	251.6	259.6
Percentage change	9.8	9.8	14.5	9.6	3.2
Imports of goods (NIS)	183.3	200.7	233.2	254.4	261.4
Percentage change	11.9	9.5	16.2	9.1	2.7
Consumption (CPI)	178.0	199.3	221.2	252.1	276.8
Percentage change	12.3	12.0	11.0	14.0	9.8
Investment	204.3	197.0	235.5	249.2	237.4
Percentage change	18.8	-3.6	19.5	5.8	-4.7
<u>(Annual percentage changes)</u>					
Real GDP	-4.1	23.1	-1.3	7.3	3.5
Resource gap	30.6	8.3	-15.9	-1.6	2.9
Imports of GNFS (NA)	26.0	10.4	-19.8	-1.4	7.7
Exports of GNFS (NA)	11.0	18.4	-33.6	-0.4	29.2

Table 9 (concluded). West Bank and Gaza Strip: National Income Accounts
(at Constant Prices), 1991-95

	1991	1992	Prel. Staff Estimates		Staff Proj.
			1993	1994	1995
	<u>(Annual percentage changes)</u>				
Gross domestic expenditure	5.6	18.0	-6.0	4.8	3.3
Consumption	8.8	12.6	-1.1	4.9	6.3
Private	10.0	11.8	-1.0	5.2	3.0
Government	-2.7	21.0	-2.2	1.9	41.3
Gross fixed capital formation	-7.8	45.1	-15.3	-8.2	-12.3
Private consumption per capital	4.9	6.7	-4.7	1.2	-1.0
Memorandum item:					
Private consumption per capita index	115.0	122.7	113.6	118.4	117.3

Sources: Israeli Central Bureau of Statistics; Department of Statistics of the Palestinian Authority's Ministry of Planning and International Cooperation; and staff estimates and projections.

Table 10. West Bank and Gaza Strip: Consolidated Balance Sheet
of Banks Operating in the Gaza Strip and Jericho Area,
December 1994-March 1995

(In millions of U. S. dollars)

	December 1994	March 1995
Liabilities	266.4	452.1
Customers' deposits ^{1/}	251.8	419.0
Of which:		
Current	(184.2)	(293.9)
Time	(62.1)	(110.6)
Deposits from banks and head offices	2.1	13.9
Capital	3.7	7.3
Others	8.7	11.9
Assets	266.4	452.1
Cash	15.8	21.0
Deposits with banks and head offices	142.8	222.6
Loans	98.1	195.0
Of which: Overdraft facilities ^{2/}	(88.8)	(182.1)
Securities	0.1	--
Fixed assets	5.4	8.0
Others	4.2	5.5

Source: Palestinian Monetary Authority (PMA)--Survey Commissioned by the PMA to the Palestine Economic Policy Research Institute (MAS), entitled "Palestinian Banking Sector Statistical Review," June 1995.

^{1/} Includes PA deposits.

^{2/} Includes domestic bank overdraft extended to the PA.

Table 11. West Bank and Gaza Strip: Consolidated Balance Sheet of Banks
Operating in the West Bank (Excluding the Jericho Area),
December 1994-March 1995

(In millions of U. S. dollars)

	December 1994	March 1995
Liabilities	404.2	503.3
Customers' deposits ^{1/}	337.0	409.0
Of which:		
Current	(187.9)	(194.5)
Time	(85.0)	(132.6)
Deposits from banks and head offices	27.3	33.0
Capital	10.9	11.2
Others	29.0	50.1
Assets	404.2	503.3
Cash	17.6	16.8
Deposits with banks and head offices	241.6	256.8
Loans	64.5	92.8
Of which: Overdraft facilities ^{2/}	(43.9)	(66.3)
Securities	34.9	73.5
Fixed assets	7.4	10.4
Others	38.2	53.0

Source: Palestinian Monetary Authority (PMA)--Survey Commissioned by the PMA to the Palestine Economic Policy Research Institute (MAS), entitled "Palestinian Banking Sector Statistical Review," June 1995.

^{1/} Includes PA deposits.

^{2/} Includes domestic bank overdraft extended to the PA.

Table 12. West Bank and Gaza Strip: National Accounts, 1992-94

(In millions of NIS; at current prices)

	1992	1993	1994	Annual Percentage Change	
				93/92	94/93
Consumption	7,786	8,551	10,226	9.8	19.6
Private	7,099	7,778	9,328	9.6	19.9
Public	687	773	898	16.2	16.2
Investment	1,970	1,766	1,929	9.3	9.3
Private	1,778	1,389	1,671	-21.9	20.3
Fixed capital	1,653	1,497	1,592	-9.4	6.3
Inventory change	125	-109	80		
Public	192	377	258	96.6	-31.6
Exports of GNFS	898	693	754	-22.7	8.7
Imports GNFS	4,050	3,773	4,059	-6.8	7.6
Resource gap	-3,152	-3,080	-3,306	-2.3	7.3
Gross domestic product	6,604	7,237	8,850	9.6	22.3
Net factor income	2,208	1,562	1,450	-29.3	-7.2
Gross national product	8,812	8,799	10,300	-0.1	17.1

Source: Staff estimates.

Table 13. West Bank and Gaza Strip: National Accounts, 1992-94

(In millions of U.S. dollars)

	1992	1993	1994	Annual Percentage Change	
				1993/92	1994/93
Consumption	3,166.2	3,021.3	3,386.2	-4.6	12.1
Private	2,887.0	2,748.2	3,088.8	-4.8	12.4
Public	279.2	273.1	297.4	-2.2	8.9
Investment	801.2	623.9	638.8	-22.1	2.4
Private	723.2	490.7	553.4	-32.1	12.8
Fixed capital	672.2	529.1	527.0	-21.3	-0.4
Inventory change	51.0	-38.4	26.4		
Public	78.0	133.2	85.5	70.8	-35.9
Exports of GNFS	365.0	245.0	249.5	-32.9	1.8
Imports of GNFS	1,646.9	1,333.2	1,344.0	-19.1	0.8
Resource gap	-1,281.9	-1,088.2	-1,094.5	-15.1	0.6
Gross domestic product	2,685.5	2,557.1	2,930.5	-4.8	14.6
Net factor income	898.0	552.0	480.0	-38.5	-13.0
Gross national product	3,583.5	3,109.1	3,410.5	-13.2	9.7

Source: Staff estimates.

Table 14. West Bank and Gaza Strip: National Accounts, 1992-94

(In percent of GDP)

	1992	1993	1994
Consumption	117.9	118.2	115.6
Private	107.5	107.5	105.4
Public	10.4	10.7	10.2
Investment	29.8	24.4	21.8
Private	26.9	19.2	18.9
Fixed capital	25.0	20.7	18.0
Inventory change	1.9	-1.5	0.9
Public	2.9	5.2	2.9
Exports of GNFS	13.6	9.6	8.5
Imports of GNFS	61.3	52.1	45.9
Resource gap	-47.7	-42.6	-37.4
Gross domestic product	100.0	100.0	100.0
Net factor income	33.4	21.6	16.4
Gross national product	133.4	121.6	116.4

Source: Staff estimates.

Table 15. West Bank and Gaza Strip: GDP, by Sector, 1992-94

(In millions of NIS, 1986 constant prices)

				Annual Percentage Change	
	1992	1993	1994	1993/92	1994/93
West Bank and Gaza Strip					
GDP	3,337	3,294	3,535	-1.3	7.3
Construction	432	544	605	25.9	11.2
Agriculture	1,186	965	1,164	-18.6	20.7
Industry	247	279	270	13.0	-3.1
Government	352	393	400	11.6	1.9
Other sectors	1,120	1,113	1,095	-0.6	-1.6
Average population ('000s)	1,768	1,856	1,930	5.0	4.0
Employment ('000s)	320	315	333	-1.6	5.7
In West Bank and Gaza Strip	204	232	266	13.7	14.7
In Israel	116	83	67	-28.4	-19.3
Worked hours	12,912	12,738	14,365	-1.3	12.8
In West Bank and Gaza Strip	8,363	9,706	11,980	16.1	23.4
In Israel	4,549	3,032	2,385	-33.3	-21.3
West Bank					
GDP	2,540	2,423	2,610	-4.6	7.7
Construction	278	362	405	30.2	12.0
Agriculture	962	750	929	-23.6	23.9
Industry	170	191	197	12.4	3.0
Government	218	237	216	8.7	-8.8
Other sectors	892	883	863	-1.0	-2.3
Employment ('000s)	205	201	219	-2.0	9.0
In West Bank	132	148	172	12.1	16.2
In Israel	73	53	47	-27.4	-11.3
Worked hours	8,680	8,414	9,284	-3.1	10.3
In West Bank	5,716	6,384	7,560	11.7	18.4
In Israel	2,964	2,030	1,724	-31.5	-15.1
Gaza Strip					
GDP	797	871	925	9.3	6.2
Construction	154	182	199	18.2	9.5
Agriculture	204	215	235	5.4	9.4
Industry	77	88	74	14.3	-16.4
Government	134	156	184	16.4	18.1
Other sectors	228	230	233	0.9	1.1
Employment ('000s)	115	114	114	-0.9	--
In Gaza Strip	72	84	94	16.7	11.9
In Israel	43	30	20	-30.2	-33.3
Worked hours	4,232	4,324	5,081	2.2	17.5
In Gaza Strip	2,647	3,322	4,420	25.5	33.0
In Israel	1,585	1,002	661	-36.8	-34.0

Source: Staff estimates.

Table 16. West Bank and Gaza Strip: Agricultural Production -- Estimating Value of Agricultural Production (in 1986 Real Terms), 1986-94

(In thousands of NIS and metric tons)

	1986 1/			1991 2/			1992 3/			Percent Change 1992/91	1993 3/			Percent Change 1993/92	1994 3/			Percent Change 1994/93
	Value	Quantity	Unit Value	Quantity	Value at 1986	Quantity	Value at 1986	Quantity	Value at 1986		Quantity	Value at 1986	Quantity	Value at 1986	Quantity	Value at 1986	Quantity	
Gross value (in 1986 prices)	12,940	32.0	404	8	3,275	12.8	5,176			58.0	9.3	3,761		-27.3	1.0	404.0		-89.2
Crops:	45,447	105.7	430	173	74,426	201.6	86,680			16.5	236.8	101,815		17.5	253.9	109,167.0		7.2
Field crops 4/	146	0.5	292	10	3,037	9.9	2,891			-4.8	7.3	2,132		-26.3	7.8	2,278.0		6.8
Vegetables and potatoes	41,813	146.9	285	135	38,340	119.4	33,986			-11.4	109.9	31,281		-8.0	101.2	28,805.0		-7.9
Melons and pumpkins	20,365	17.1	1,191	20	23,700	19.9	23,700			...	20.4	24,295		2.5	23.6	28,106.0		15.7
Citrus	1,044
Other fruits (including olives)																		
Miscellaneous																		
Livestock and products:	21,548	7.3	2,952	17	49,000	18.3	54,018			10.2	16.0	47,228		-12.6	18.0	53,132.0		12.5
Meat	7,716	8.4	919	10	8,726	10.4	9,553			9.5	12.2	11,207		17.3	17.0	15,616.0		39.3
Milk (millions of liters) 5/	1,428	0.3	4,760	2	8,568	1.0	470			-44.4	2.0	9,520		100.0	1.8	8,568.0		-10.0
Fish	10,768	61.0	177	112	19,771	145.0	25,596			29.5	120.0	21,183		-17.2	150.0	26,479.0		25.0
Eggs (million)	1,584
Miscellaneous																		
Total value -- Gross output (GO)	2E+05				228,843		246,359			7.7		252,422		2.5		272,555.0		8.0
Calculating value added (VA)																		
Value added (millions of 1986 NIS) 6/					176		204			15.9		215		5.4	
GO/VA coefficient					1.3		1.2					1.2						
Percent change in value added 7/										10.0				3.0				9.4
Inferred value added 8/										193.5				210.1				235.1

Sources: Israeli Central Statistical Office, World Bank, and various Palestinian sources.

1/ 1986 data from CBS 1988 Statistical Abstract of Israel.

2/ 1991 data from CBS 1994 Statistical Abstract of Israel.

3/ 1992, 1993, 1994 data from the Department of Statistics of the Palestinian Authority's Ministry of Planning and International Cooperation, Statistical Abstract of Gaza Strip, February 1995.

4/ 1986 data on field crops for West Bank not the Gaza Strip (to derive unit value).

5/ Milk units not indicated; assumed to be in million liters (following convention for Israeli data in same Statistical Abstract).

6/ Data from CBS 1994 Statistical Abstract of Israel.

7/ Percent change in value added inferred by multiplying percent change in gross output by coefficient of gross output/value added for the previous year. This approach assumes that input values held constant (so that percent change in input values = 0).

8/ Value added in millions of 1986 NIS inferred by multiplying percent change in value added 7/ by previous year's value added 6/.

Table 17. The Gaza Strip: Area of Buildings Begun and Completed, 1992-94

(In thousands of square meters)

	1992	1993	1994
Buildings begun	369.0	382.0	518.5
Buildings completed	298.2	382.8	419.3

Sources: Department of Statistics of the Ministry of Planning and International Cooperation, Palestinian Authority, and World Bank.

Table 18. The Gaza Strip: Change in Hours Worked in the Industrial Sector, 1992–93

	1992	1993	Annual Percentage Change (1993/92)
Number of workers (thousands)	11.1	9.4	–15.3
Hours worked per worker per week	41.5	41.1 ^{1/}	–1.0
Number of hours worked	462.0	386.1	–16.4

Sources: Department of Statistics of the Ministry of Planning and International Cooperation, Palestinian Authority; World Bank; and the Israeli Central Bureau of Statistics.

^{1/} Change in hours worked per worker of minus 1 percent was calculated for the economy as a whole; and this ratio was then used to infer the change in the industrial sector.

Table 19. The Gaza Strip: Change in Hours Worked in the "Other" Sectors, 1992-93

	1992	1993	Annual Percentage Change (1993/92)
Number of workers (thousands)	30.1	30.7	2.0
Hours worked per worker per week	39.1	38.7 ^{1/}	-1.0
Number of hours worked	1,176.0	1,189.3	1.1

Sources: Department of Statistics of the Ministry of Planning and International Cooperation, Palestinian Authority; World Bank; and the Israeli Central Bureau of Statistics.

^{1/} Change in hours worked per worker of minus 1 percent was calculated for the economy as a whole; and this ratio was then used to infer the change in the "other" sectors.

Table 20. West Bank and Gaza Strip: Total Hours Worked, By Sector, 1992-94

(In thousands)

	1992	1993	1994	Annual Percentage Change	
				1993/92	1994/93
West Bank and Gaza Strip	12,912	12,738	14,365	-1.3	12.8
GDP	8,363	9,706	11,980	16.1	23.4
Construction	895	1,400	2,071	56.4	47.9
Agriculture	2,180	2,172	2,665	-0.4	22.7
Industry	1,353	1,544	1,770	14.1	14.6
Government	1,176	1,334	1,896	13.4	42.1
Commerce	1,547	1,845	1,957	19.3	6.1
Other	1,212	1,411	1,621	16.4	14.8
Work in Israel	4,549	3,032	2,385	-33.3	-21.3
West Bank	8,680	8,414	9,284	-3.1	10.3
GDP	5,716	6,384	7,560	11.7	18.4
Construction	569	893	1,194	56.9	33.7
Agriculture	1,643	1,525	1,889	-7.2	23.9
Industry	1,004	1,082	1,294	7.8	19.6
Government	781	804	820	2.9	2.0
Commerce	927	1,144	1,284	23.4	12.2
Other	792	936	1,079	18.2	15.3
Work in Israel	2,964	2,030	1,724	-31.5	-15.1
Gaza Strip	4,232	4,324	5,081	2.2	17.5
GDP	2,647	3,322	4,420	25.5	33.0
Construction	326	507	877	55.5	73.0
Agriculture	537	647	776	20.5	20.0
Industry	349	462	476	32.4	3.0
Government	395	530	1,076	34.2	103.0
Commerce	620	701	673	13.1	-4.0
Other	420	475	542	13.1	14.0
Work in Israel	1,585	1,002	661	-36.8	-34.0

Source: Staff estimates.

Table 21. West Bank and Gaza Strip: Average Output Per Hour Worked, by Sector, 1992-94

(In thousands of NIS; 1986 constant prices)

				Annual Percentage Change	
	1992	1993	1994	1993/92	1994/93
West Bank and Gaza Strip					
GDP	7.7	6.5	5.7	-14.9	-13.0
Construction	9.3	7.5	5.6	-19.5	-24.9
Agriculture	10.5	8.5	8.4	-18.3	-1.7
Industry	3.5	3.5	2.9	-1.0	-15.5
Government	5.8	5.7	4.1	-1.6	-28.3
Commerce and other sectors	7.8	6.6	5.9	-15.8	--
West Bank					
GDP	8.5	7.3	6.6	-14.6	-9.0
Construction	9.4	7.8	6.5	-17.0	-16.2
Agriculture	11.5	9.5	9.5	-17.7	--
Industry	3.3	3.4	2.9	4.3	-13.9
Government	5.4	5.7	5.1	5.6	-10.6
Commerce and other sectors	10.0	8.2	7.0	-18.2	-14.0
Gaza Strip					
GDP	5.8	5.0	4.0	-12.9	-20.2
Construction	9.1	6.9	4.4	-24.0	-36.7
Agriculture	7.3	6.4	5.8	-12.5	-8.8
Industry	4.2	3.7	3.0	-13.7	-18.8
Government	6.5	5.7	3.3	-13.2	-41.8
Commerce and other sectors	4.2	3.8	3.7	-10.8	-2.1

Source: Staff estimates.

Table 22. West Bank and Gaza Strip: The Effects of Palestinian Employment in Israel on Remittances, Indirect Income Generated by Remittances, Base of Taxable Activities, and Projected Budget Revenue of the Palestinian Authority for 1995

(In millions of U.S. dollars)

Number of Workers in Israel	Amount of Remittances (1)	Indirect Income Generated by Remittances <u>1/</u> (2)	Base of Taxable Activities (3) = (1) + (2)	Projected Budget Revenue on Taxable Activities <u>2/</u> (4)
15000	126	126	252	18
25000	210	210	420	30
35000	294	294	588	42

Source: Staff estimates. April 23, 1995.

1/ Based on an assumed propensity to consume 0.5 and a resulting multiplier of 2.

2/ Assuming an effective marginal tax rate of 7 percent.

Table 23. West Bank and Gaza Strip: Summary Table of the Original 1995 Budget of the Palestinian Authority (PA), and External Financing Needs

(In millions of U.S. dollars)

	Q1 1995	Q2 1995	Q3 1995	Q4 1995	Total PA 1995
Total revenue	63.1	47.3	50.7	54.9	216
Domestic revenue	30.4	27	28	29.1	114.5
Tax revenue	22.4	19.9	20.8	21.6	84.7
Nontax revenue	8	7.1	7.3	7.5	29.9
Revenue clearances	32.7 ^{1/}	20.4	22.6	25.7	101.4
Current expenditure	107.5	118.8	109.1	108.3	443.7
Civilian wages	43.3	49.2	47.7	47.7	187.9
Police wages	23.7	24.3	24.3	24.3	96.6
Other recurrent	40.4	45.2	37.1	36.3	159.2
Capital expenditure	34.9	61.5	51.5	55.9	203.7
Of which: capital for PMA	--	10	--	--	10
Current balance	-44.5	-71.4	-58.4	-53.4	-227.8
Overall balance	-79.3	-132.9	-109.9	-109.3	-431.4
Foreign finance	85.2	93.1	51.5	55.9	285.7
Current expenditure ^{1/}	50.3	41.7	--	--	92
Capital expenditure	34.9	51.5	51.5	55.9	193.7
Of which: capital for PMA	--	--	--	--	--
Domestic financing	2.2	-2.2	--	--	--
Financing gap (current expenditure)					
Including capital for PMA	-8.1	42	58.4	53.4	145.8
Excluding capital for PMA	-8.1	32	58.4	53.4	135.8
Memorandum items:					
Transitional projects ^{2/}	13	13	14	14	54
NIS/US\$ exchange rate	3.012	3.012	3.012	3.012	3.012

Source: Palestinian Authority. April 23, 1995.

^{1/} From the European Union, Holst Fund, and Police Fund.

^{2/} Unspent 1994 commitments carried over to 1995.

Table 24: West Bank and Gaza Strip: Budgetary Revenue of the Palestinian Authority 1995

(In thousands of NIS)

	Q1	Q2	Q3	Q4	Total
Total revenue	189,944	142,587	152,675	165,293	650,500
Domestic tax revenue	67,449	59,900	62,500	65,151	255,000
Income tax	25,097	18,000	18,000	18,000	79,097
VAT	38,078	40,000	42,500	45,000	165,578
Customs and excises	3,725	1,300	1,400	1,551	7,976
Property tax	494	500	500	500	1,994
Production tax/excises	--	--	--	--	--
Other	55	100	100	100	355
Revenue clearances	98,446	61,354	68,200	77,500	305,500
Customs duties	13,104	11,000	12,000	13,000	49,104
VAT	61,426	28,454	33,000	40,000	162,880
Petroleum excises	19,806	18,000	19,000	20,000	76,806
Income tax	--	1,300	1,400	1,500	4,200
Health fees	2,703	2,600	2,800	3,000	11,103
Other	1,407	--	--	--	1,407
Nontax revenue	24,050	21,333	21,975	22,642	90,000
Stamps fees	149	100	100	100	449
Justice fees	903	600	600	600	2,703
Fines	376	240	250	259	1,125
Land registration	1,589	500	1,000	1,500	4,589
Transportation fees	5,801	5,800	5,900	6,000	23,501
Post office	98	60	60	60	278
Government property	184	130	130	130	574
Telephone fees	42	--	--	--	42
Other fees	102	168	200	200	670
Population registration	1,250	1,350	1,350	1,350	5,300
Health insurance	7,531	7,000	7,000	7,000	28,531
Health fees	5,311	5,000	5,000	5,000	20,311
Education fees	--	--	--	--	--
Land survey fees	97	75	75	80	327
Court fees	347	200	200	200	947
Training fees	3	--	--	--	3
Trade and industry fees	1	--	--	--	1
Water fees	106	60	60	63	289
Fishing fees	--	--	--	--	--
Tourism	161	50	50	100	361
Military court fees	--	--	--	--	--
Pension	--	--	--	--	--
Vehicle tax	--	--	--	--	--
Interior	--	--	--	--	--

Source: Palestinian Authority. April 23, 1995.

Table 25. West Bank and Gaza Strip: Expenditure and Financing, 1995

(In thousands of NIS)

	Q1 1995	Q2 1995	Q3 1995	Q4 1995	Total PA 1995
Total expenditure	428,849	542,890	483,667	494,526	1,949,932
Current expenditure	323,849	357,773	328,667	326,226	1,336,515
Wages and salaries	202,025	221,530	216,777	216,777	857,109
Civilians	130,532	148,338	143,585	143,585	566,040
Police	71,494	73,192	73,192	73,192	291,069
Other	121,823	136,243	111,891	109,450	479,406
Other current	81,719	107,203	99,851	97,410	386,182
Counterpart/petroleum excises	19,806	--	--	--	19,806
Transfers	14,001	12,040	12,040	12,040	50,121
Capital expenditure	105,000	185,117	155,000	168,300	613,417
Ministries	30,000	60,000	60,000	73,300	223,300
PECDAR	60,000	80,000	80,000	80,000	300,000
Other	15,000	15,000	15,000	15,000	60,000
Capital for PMA	--	30,117	--	--	30,117
Arrears	6,298	17,000	--	--	23,298
Current balance	-133,904	-215,185	-175,992	-160,933	-686,015
Overall balance	-238,904	-400,302	-330,992	-329,233	-1,299,432
Of which: PMA	--	-30,117	--	--	-30,117
Total financing	263,293	273,811	155,000	168,300	860,404
Foreign financing	256,624	280,480	155,000	168,300	860,404
Hoist Fund/EU 1/	114,185	87,770	--	--	201,955
Police Fund	37,439	37,710	--	--	75,149
Capital expenditure (grants)	105,000	155,000	155,000	168,300	583,300
Capital expenditure (loans)	--	--	--	--	--
Amortization	--	--	--	--	--
Domestic financing	6,669	--	--	-6,669	--
Commercial banks	6,669	--	--	-6,669	--
Transfers within WBGS	--	--	--	--	--
Remaining gap					
Including capital PMA	-24,388	126,491	175,992	160,933	439,028
Excluding capital PMA	-24,388	96,374	175,992	160,933	408,911
Memorandum items:					
Transitional projects	39,156	39,156	42,168	42,168	162,648
Gaza clean-up	27,108	27,108	30,120	30,120	114,456
Rehabilitation	9,036	9,036	9,036	9,036	36,144
Start-up administration	3,012	3,012	3,012	3,012	12,048
Transitional project financing	39,156	39,156	42,168	42,168	162,648

Source: Palestinian Authority. April 23, 1995.

1/ European Union.

