

**Palestinian National Authority  
Ministry of Finance**

**Fiscal Developments & Macroeconomic Performance:  
Fourth Quarter and Fiscal year 2011**

**Macro-Fiscal Unit  
07/02/2012**

## Section 1: Macroeconomic performance in WBG 2011:

**Real GDP** in the WBG grew by 10.5% in the first three quarters of 2011 compared to the same period of 2010, due to the rapid economic growth in Gaza (tables 1A&B and charts 1-2). In the West Bank the real growth rate dropped from a growth rate of 7.5% in the first three quarters of 2010 to 5.8% in the first three quarters of 2011. In contrast, in Gaza real GDP in the first nine months of 2011 increased by 26% compared to the same period in 2010 due to the increase in construction activities (construction activities contributed to about half of the real GDP growth in Gaza) and services.<sup>1</sup> This unusually high growth of construction was caused by UN projects and some private construction, with working supplies smuggled from Egypt.

**Table 1A. WBG Real GDP\*, 1st Three Quarters 2008-2011, (USD million)**

	Q1-Q3 2008	Q1-Q3 2009	Q1-Q3 2010	Q1-Q3 2011
<b>Gaza</b>	890	862	1007	1265
<b>West Bank</b>	2772	3018	3244	3432
<b>West Bank &amp; Gaza</b>	3662	3880	4251	4697

\*Base year 2004.

**Table 1B. Real growth rates, 1st Three Quarters 2009-2011, (Percentage)**

	Q1-Q3 2009	Q1-Q3 2010	Q1-Q3 2011
<b>Gaza growth rate</b>	(3.2)	16.9	25.6
<b>West Bank growth rate</b>	8.9	7.5	5.8
<b>West Bank &amp; Gaza growth rate</b>	5.9	9.6	10.5

\*Negative growth rate is from the impact of the Israeli war on Gaza in Dec. 2008- Jan 2009.

The Palestinian Central Bureau of Statistics published for the first time in 2011 the nominal GDP numbers on quarterly basis. The nominal GDP for first three quarters of 2011 was \$ 6556 million projecting this number for the full year will yield \$ 8742 million.

**The Consumer Price Index** for 2011 shows an increase of 3.54% in the West Bank and an increase of 0.57% in Gaza compared to 2010. Overall prices in the WBG increased in 2011 by 2.88% compared to 2010.<sup>2</sup>

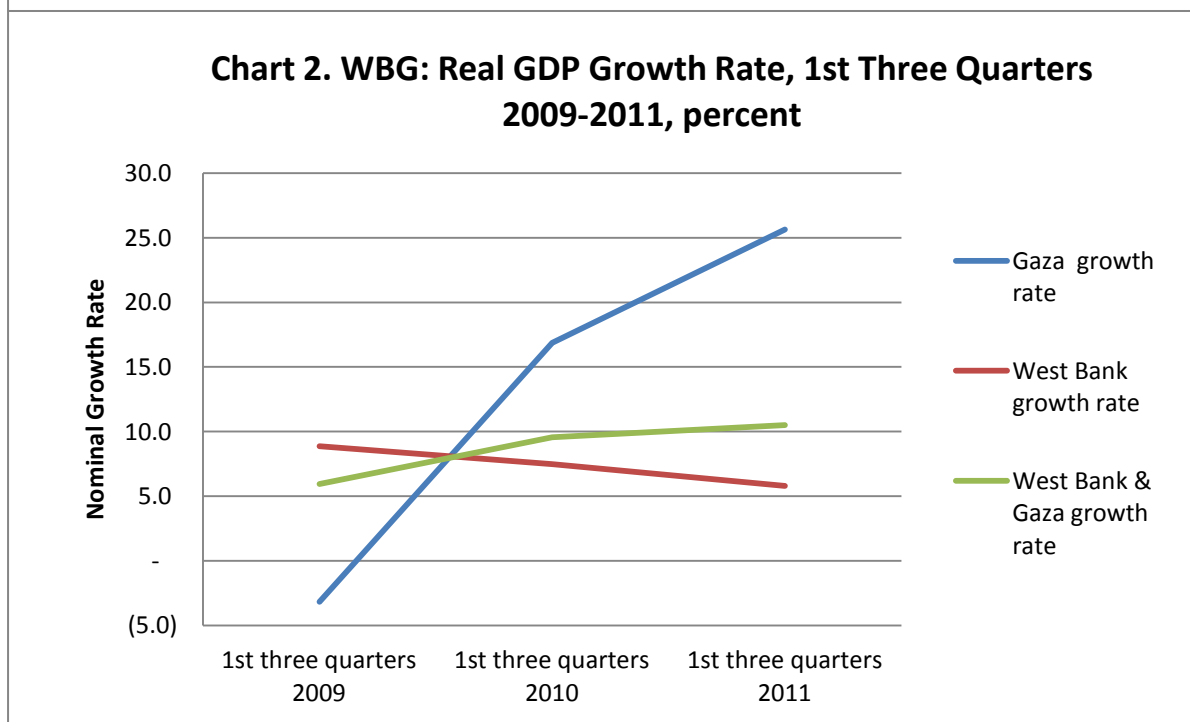
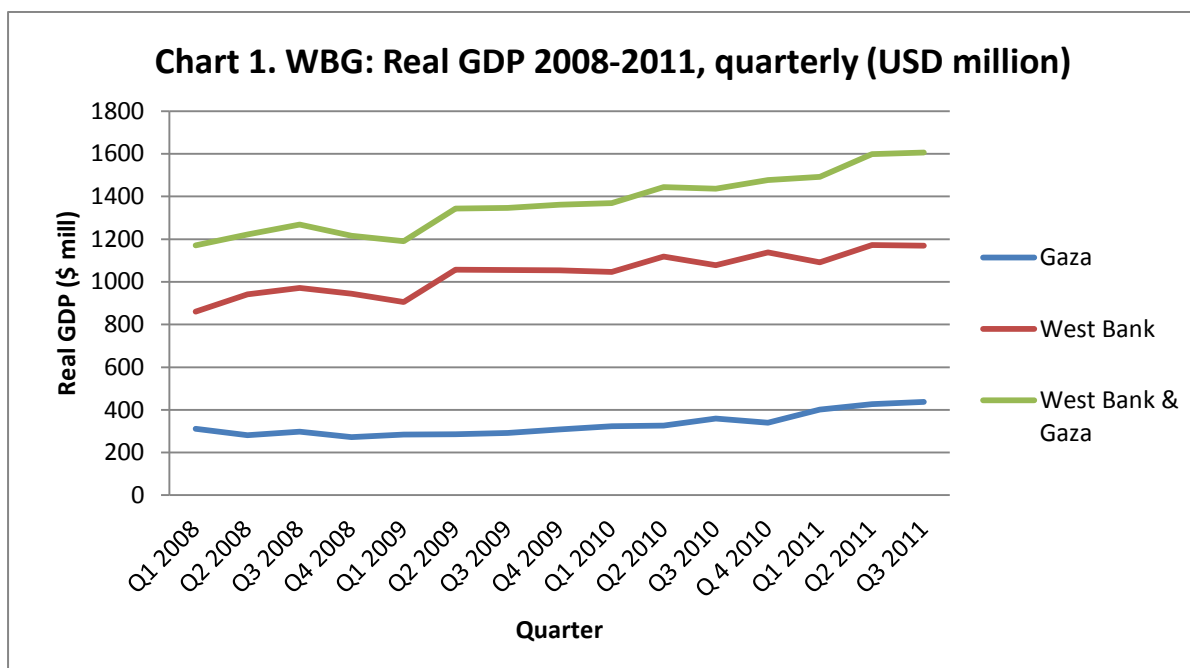
<sup>1</sup> Source Palestinian Central Bureau of Statistics, (PCBS)

<sup>2</sup> Source Palestinian Central Bureau of Statistics, (PCBS), WBG inflation does not include East Jerusalem.

**Unemployment** in the West Bank increased from 21% by the end of June to 23.9% by the end of September 2011, while in Gaza it increased from 30% by the end of June to 32.85% by the end of September. Overall unemployment in WBG was 26.8%.

**Table 2. Labor Force Component by the end Sep 2011**

Region	Total		Unemployment		Employment
	Number	Percentage	Number	Percentage	Number
<b>West Bank &amp; Gaza</b>	1,146,200	26.8	307,200	73.2	839,000
<b>West Bank</b>	772,900	23.9	184,900	76.1	588,000
<b>Gaza</b>	373,300	32.8	122,300	67.2	251,000

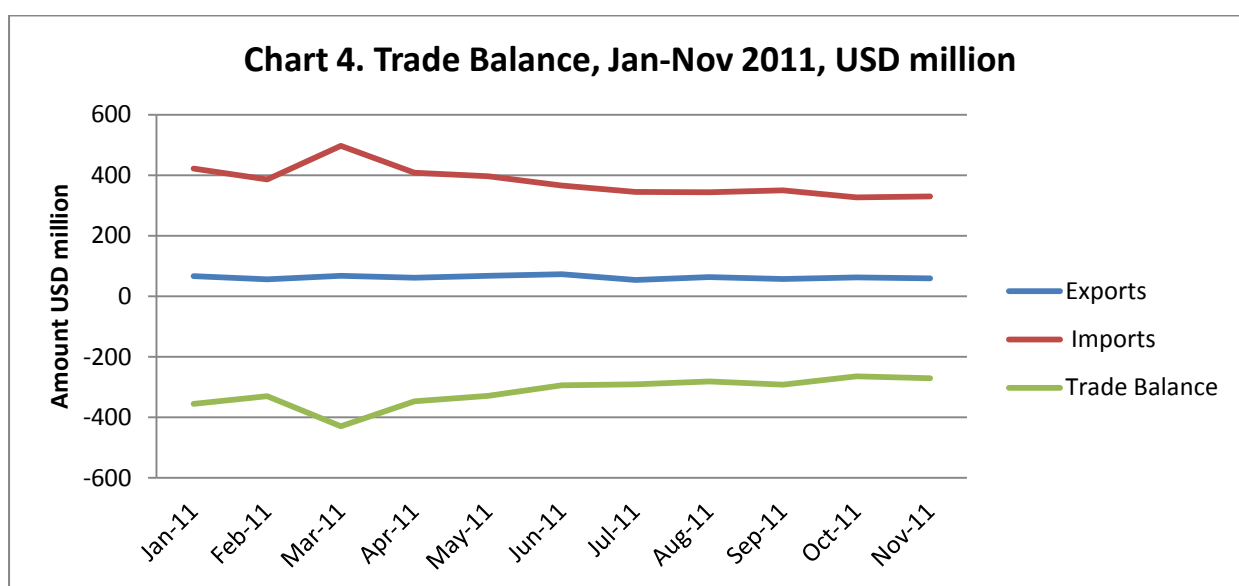


**External Trade:** The exports for the period (Jan-Nov) 2011 amounted to USD 692 million with a monthly average of USD 63 million, ranging between USD 73 million and USD 54 million. Exports to Israel represent almost 93% of total exports. On the other hand, imports in the same period amounted to USD 4.2 billion with a monthly average of USD 379 million, ranging between USD 497 million and USD 328 million. Trade deficit reached its peak of USD 429 million in March for a total of USD 3.48 billion in the period (Jan-Nov) 2011.

[Are December trade numbers available for Table 3 and Chart 4?]

**Table 3. External Trade Jan-Nov 2011, USD million.**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Total
<b>Exp</b>	66.8	56.6	68.3	61.6	67.7	72.9	53.9	63.4	57.8	63	59.8	691.8
<b>Imp</b>	421.7	386.2	497.4	408.1	396.4	366.5	344.7	344.3	350	327.5	330	4172.8
<b>Trade Bal</b>	-354.9	-329.6	-429.1	-346.5	-328.7	-293.6	-290.8	-280.9	-292.2	-264.5	-270.2	-3481



## Section 2: Fiscal Operations 2011

### A. Budget execution highlights:

- The total budget deficit for 2011 is 8.7% above the budget target, mainly due to the shortfall of revenues, external budget support and development financing.
- Total net revenues are below the budget target by NIS 630 million due to the shortfall in every item of its components.
- Investment profits of NIS 160 million were received from Palestinian Investment Fund (PIF) in 2011.
- There were delays in cash transfer of clearance revenues during May, and November 2011 which disrupted timely salary payments and forced the PA to resort to temporary financing measures.
- The wage bill in 2011 was largely on track with the budget target except for NIS 56 million overage. This is due to payment of some allowances in the first quarter retroactively for 2010.
- Nonwage expenditures in 2011 were also on track with the budget target. Operational expenditures and minor capital were below their budget by NIS 70.9 million and NIS 32.1 million respectively, transfers in on the other hand was above the budget target by NIS 77.1 million
- Net Lending was below the budget target of NIS 592 million by 15.4% or NIS 91.1 million.
- Total net accumulation of arrears during 2011 reached NIS 1.94 billion including development expenditures arrears of NIS 270 million and tax refund arrears of NIS 368 million. Payment arrears to the private sector have accumulated to NIS 930 million. Arrears to the private sector undermine PNA credibility and budget execution control.
- Budget support disbursement was only 81.4% of the amount budgeted to finance the recurrent budget deficit target of 2011 while the development projects financing was only 32.7% of the budget target. The total financing gap for 2011 amounted to NIS 2.38 billion.
- Treasury increased its domestic debt by NIS 1.2 billion during 2011, raising the domestic debt stock level to NIS 4.15 billion at the end of 2011.

Table 4. Consolidated Fiscal Operation Analysis of Q4 2011 and the FY 2011 on Commitment Basis

	Q4 2011	Change from Q3 2011	Change from Q4 2010	FY 2011	Change from FY 2010	2011 Approved Budget	share of approved 2011 Budget
Budget Classification	NIS mill.	%	%	NIS mill	%	NIS mill.	%
<b>Gross Revenues</b>	1962.5	-0.3	8.3	7737.1	4.5	8340	92.8
<b>Total Net Revenue</b>	1854.0	-0.9	8.4	7320.7	2.8	7951	92.1
<b>Domestic Tax</b>	458.1	26.2	20.6	1726.8	1.5	1894.	91.2
Income Tax	90.6	-9.0	89.2	474.4	-9.0	-----	-----
Value Added Tax	227.2	70.9	43.3	677.3	6.3	-----	-----
Customs	63.2	10.1	-10.5	250.7	28.0	-----	-----
Excises on tobacco	74.6	4.4	-25.9	310.8	-6.3	-----	-----
Excises on beverage	1.1	36.1	59.3	3.4	7.7	-----	-----
Property Tax	1.4	45.9	4.3	10.2	-12.0	-----	-----
<b>Nontax</b>	196.5	-24.9	-8.6	915.2	-9.3	1110	82.4
Civil Registration Fees	12.6	-32.9	18.7	68.0	-3.3	-----	-----
Health Insurance	39.2	-2.8	4.6	162.3	2.1	-----	-----
Transportation	20.9	6.4	-64.3	91.2	-31.3	-----	-----
Licenses	61.9	35.3	162.9	207.8	4.4	-----	-----
Other charges and fees	82.6	31.4	-2.7	246.5	-17.3	-----	-----
Investment Profits	0.0	-100.0	NA	160.0	6.7	-----	-----
<b>Clearance Revenue</b>	1307.9	-2.6	7.4	5095.2	8.5	5335	95.5
Customs	469.8	0.2	9.7	1803.4	11.3	-----	-----
Value Added Tax	416.7	-1.4	18.8	1620.1	14.4	-----	-----
Petroleum Excises	419.9	-0.5	-3.1	1635.5	0.2	-----	-----
Purchase Tax	0.0	NA	-100.0	0.0	-100.0	-----	-----
Income Tax	2.0	-92.1	34.0	29.5	1789.1	-----	-----
Other	-0.5	-113.4	-133.5	6.8	-44.1	-----	-----
<b>Tax refunds (-)</b>	108.5	11.1	7.2	416.4	46.2	388	107.3
<b>Total Expenditure and Net Lending</b>	3112.7	7.2	7.0	11897.0	3.7	11960	99.5
<b>Wage Expenditure</b>	1593.4	-1.5	6.4	6381.0	6.0	6325	100.9
<b>Nonwage Expenditure</b>	1341.0	13.2	6.8	5015.2	9.6	5043	99.4
Operational Expenditure	427.8	13.9	-26.8	1792.1	-2.7	1864	96.1
Transfers	897.8	12.8	45.7	3165.1	20.4	3089	102.5
Minor Capital	15.4	20.3	-72.1	57.9	-45.9	90	64.1
<b>Net Lending</b>	178.4	76.3	13.6	500.9	-43.1	592	84.6
<b>Current Balance</b>	-1258.7	21.9	4.9	-4576.3	5.1	-4009	114.2
<b>Development Expenditure</b>	343.2	31.9	-0.7	1324.9	18.9	1850	71.6
<b>Balance</b>	-1602.0	23.9	3.7	-5901.2	7.9	-5429.7	108.7
<b>Financing</b>	1602.0	23.9	3.7	5901.2	7.9	5429.7	108.7
Budget Support	494.9	-62.3	-69.1	2915.2	-31.9	3579	81.4
Development Financing	80.2	-76.9	-55.9	605.0	24.2	1850	32.7
Net Domestic Bank Financing	493.7	-159.2	-485.5	333.6	7.0	0.0	NA
Expenditure arrears net accumulation	445.6	1.4	554.8	1570.5	262.6	-----	-----
Net Clearance (1)	2.6	-67.5	-114.2	-235.3	-486.5	-----	-----
Tax Refunds (Arrears)	108.5	11.1	-177.3	367.9	-4093.7	-----	-----
Nontax Refund (2)	-43.1	70.2	NA	-130.3	-----	-----	-----
Residual	24.7	-	-	4.1	-----	-----	-----

1. Withheld (+) or transferred from past collections (-).

2. Nontaxrefund is repayment to Jawwal and Zain telecommunication companies the advanced money the PNA had from them in 2009.

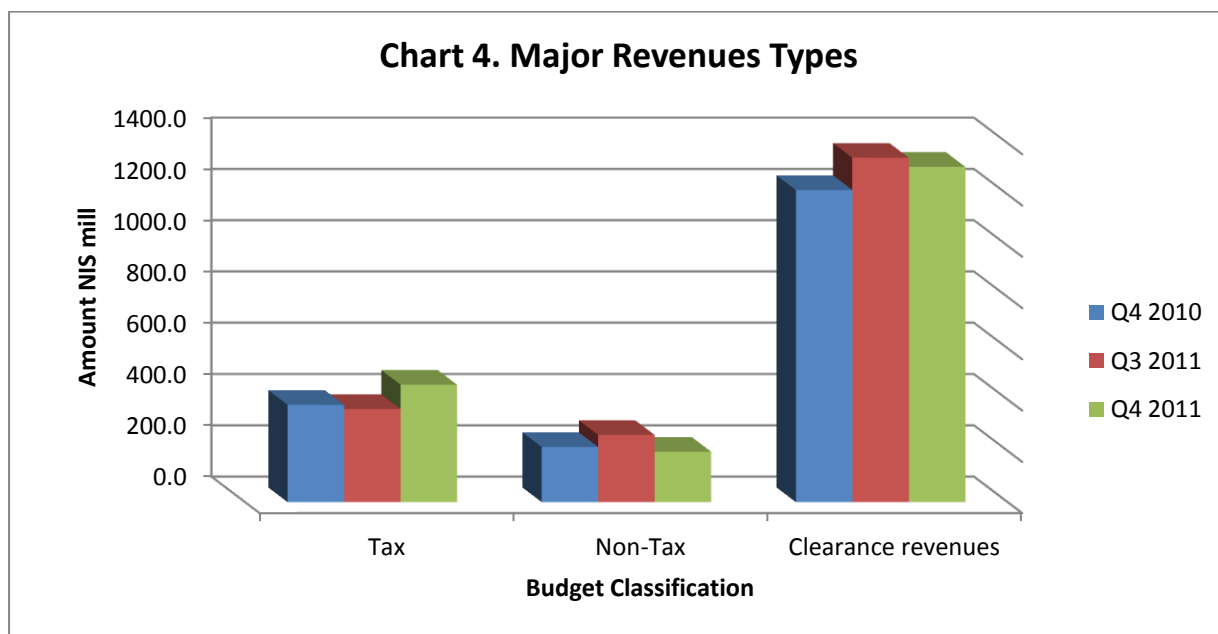
## B. Revenue

**Gross PNA revenues** amounted to NIS 7.74 billion growing by 4.5% in 2011 compared to the 2010. **Total net revenue** amounted to NIS 7.32 billion in 2011 increased by 2.8% compared to 2010. Total net revenues mobilized by the Palestinian Authority during Q4 2011, of NIS 1.85 billion decreased by 0.9% compared to Q3 2011, but showed an increase of 8.4% over Q4 2010 (table 4). Total net revenues obtained in 2011 by the PNA, are below the budget target by 7.9% due to the shortfall of tax revenues, clearance revenues and the non-tax revenues by 8.8%, 4.5% and 17.6% respectively below the budget target.

Budget Classification	Q1 2011	Q2 2011	Q3 2011	Q4 2011	FY 2011
<b>Gross Revenues</b>	1863.9	1942.6	1968.1	1962.5	<b>7737.1</b>
<b>Total Net Revenue</b>	1769.5	1826.8	1870.4	1854.0	<b>7320.7</b>
<b>Domestic Tax</b>	486.6	418.8	363.2	458.1	<b>1726.8</b>
Income Tax	187.2	97.0	99.6	90.6	<b>474.4</b>
Value Added Tax	132.1	185.0	133.0	227.2	<b>677.3</b>
Customs	77.8	52.2	57.4	63.2	<b>250.7</b>
Excises on tobacco	82.1	82.7	71.4	74.6	<b>310.8</b>
Excises on beverage	0.8	0.6	0.8	1.1	<b>3.4</b>
Property Tax	6.5	1.4	0.9	1.4	<b>10.2</b>
<b>Nontax</b>	189.6	267.2	261.8	196.5	<b>915.2</b>
Civil Registration Fees	15.1	21.5	18.8	12.6	<b>68</b>
Health Insurance	43.2	39.6	40.3	39.2	<b>162.3</b>
Transportation	29.6	21.1	19.6	20.9	<b>91.2</b>
Licenses	51.0	49.1	45.7	61.9	<b>187.2</b>
Other charges and fees	50.7	50.4	62.8	82.6	<b>225.9</b>
Investment Profits	0.0	85.5	74.5	0.0	<b>160</b>
<b>Clearance Revenue</b>	1187.7	1256.5	1343.2	1307.9	<b>5095.2</b>
Customs	417.5	447.0	469.0	469.8	<b>1803.4</b>
Value Added Tax	374.8	405.8	422.8	416.7	<b>1620.1</b>
Petroleum Excises	396.0	397.5	422.0	419.9	<b>1635.5</b>
Purchase Tax	0.0	0.0	0.0	0.0	<b>0</b>
Income Tax	2.0	0.0	25.5	2.0	<b>29.5</b>
Other	-2.7	6.1	3.9	-0.5	<b>6.8</b>

In the first quarter of 2011 the gross revenues collection was the lowest among the four quarters even though domestic tax collection was the highest in this quarter due to the discounts offered in the first quarter to the tax payers. In February, 2011 Israel released by court order NIS 255 million which was withheld from previous clearance revenue transfers, .

Clearance revenues the third quarter of 2011 were the highest among all quarters, driving gross revenues to be the highest in the third quarter. In the fourth quarter 2011 payments of tax arrears from commercial banks were made.



The strong **domestic tax revenue** collection in 2010 did not continue in 2011 due to the non compliance and thus reduced payment of taxes from large tax payers as a result of government payment arrears to private sector (Chart 4, and table 4) as well as the slowdown of the economic activities in 2011. Domestic tax collection during Q4 2011 which amounted to NIS 458 million, increased over the levels obtained in Q3 2011 and Q4 2010 by 26.2% and 20.6% respectively. This increase is due to payment of tax arrears from the Arab bank in October. Domestic tax revenues were below the budget target by NIS 167.2 million or 8.8%.

In 2011, income taxes amounted to NIS 187.2 million in Q1 2011 and fell to about NIS 100 million in Q2 and Q3 2011 and again to NIS 90 million in Q4 2011. There are incentives for early income tax payments, therefore more income tax payments are made during the first quarter of the year. The income tax revenue decreased in 2011 by 9% relative to 2010 is a result of NIS 48.5 million one-off payments in Q1 2010. Domestic VAT increased by 6.3% in 2011 compared to 2010. It decreased from NIS 185 million in Q2 to NIS 133 million in Q3 to increase again in Q4 to NIS 227 million. Excises on tobacco increased from NIS 71 million in Q3 2011 to NIS 75 million in Q4 2011 (Fiscal table 5).

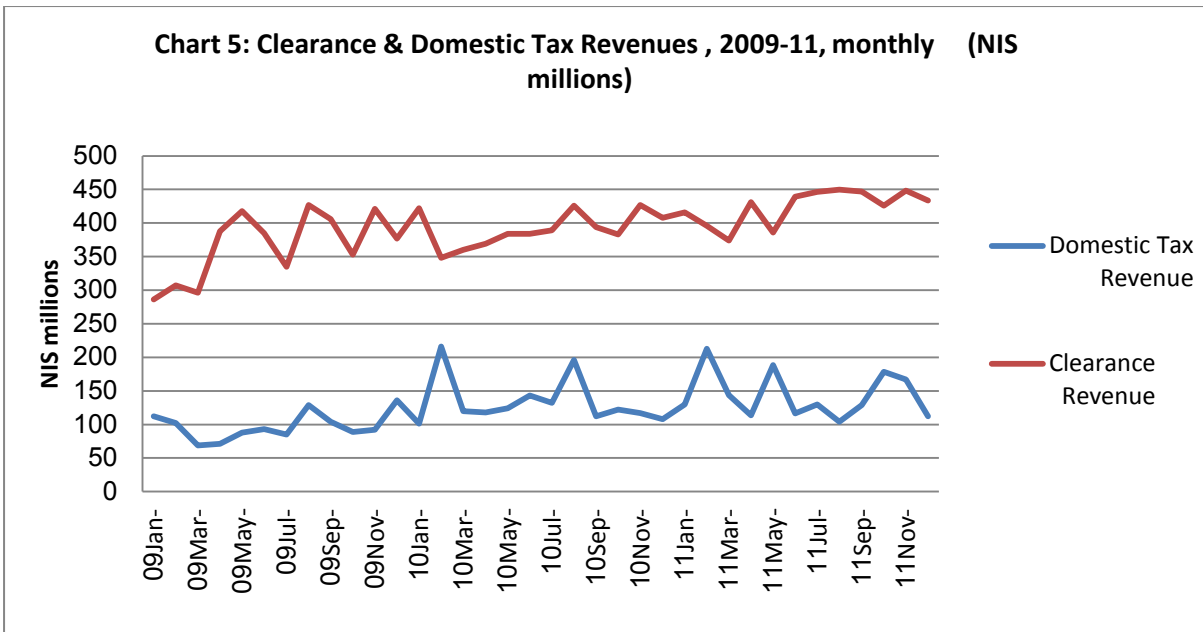


**Table 5. Revenue items as share of Gross Revenues and Nominal GDP, 2011.**

Budget Classification	FY 2011	Percentage of Gross Revenues	Percentage of Nominal GDP <sup>3</sup>
	NIS mill	%	%
<b>Gross Revenues</b>	7737.1	100.0	24.7
<b>Total Net Revenue</b>	7320.7	94.6	23.4
<b>Domestic Tax</b>	1726.8	22.3	5.5
Income Tax	474.4	6.1	1.5
Value Added Tax	677.3	8.8	2.2
Customs	250.7	3.2	0.8
Excises on tobacco	310.8	4.0	1.0
Excises on beverage	3.4	0.0	0.0
Property Tax	10.2	0.1	0.0
<b>Nontax</b>	915.2	11.8	2.9
Civil Registration Fees	68	0.9	0.2
Health Insurance	162.3	2.1	0.5
Transportation	91.2	1.2	0.3
Licenses	207.8	2.7	0.7
Other charges and fees	246.5	3.2	0.8
Investment Profits	160	2.1	0.5
<b>Clearance Revenue</b>	5095.2	65.9	16.3
Customs	1803.4	23.3	5.8
Value Added Tax	1620.1	20.9	5.2
Petroleum Excises	1635.5	21.1	5.2
Purchase Tax	0	0.0	0.0
Income Tax	29.5	0.4	0.1
Other	6.8	0.1	0.0

**Nontax revenue** of NIS 196.5 million during Q4 2011 decreased over Q3 11 and Q4 10 by 24.9% and 9.3% respectively. Investment profits of NIS 74.5 million were received from Palestinian Investment Fund (PIF) in September, raising the investment profits received from PIF in 2011 to NIS 160 million. The PA is considering a plan to review the license fees and domestic charges for raising more revenues. Overall, nontax receipts were below the budget target 17.6% or NIS 194.8 million which overestimated license fees and investment profits.

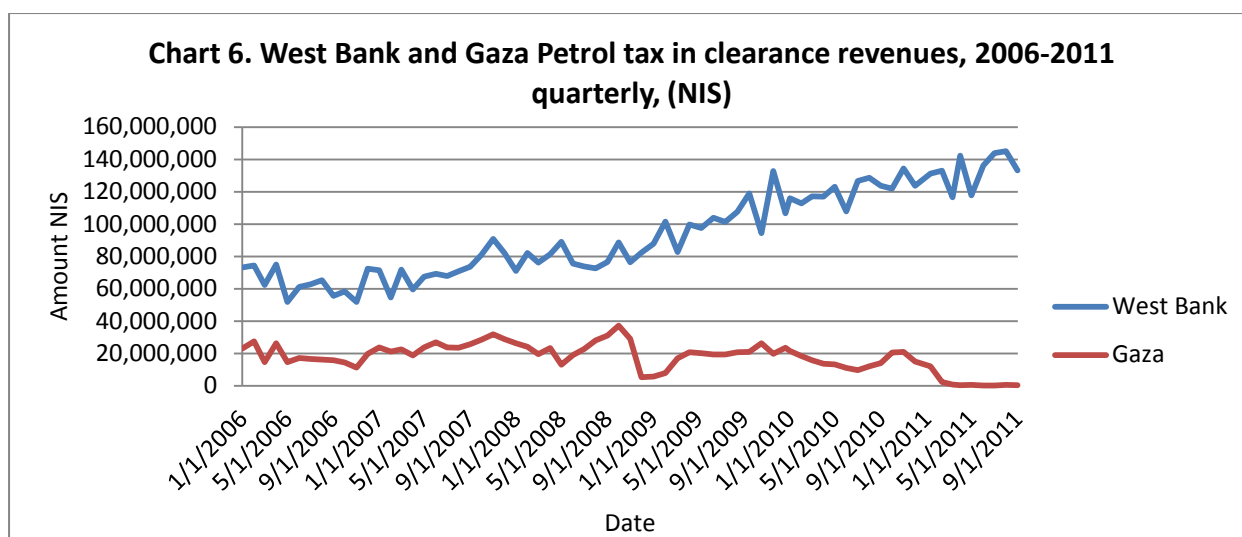
<sup>3</sup> The Nominal GDP number for 2011 is a preliminary projection from three quarters numbers and changed into NIS using NIS 3.58= 1\$ as the exchange rate. NIS 31295 million is the used nominal GDP for 2011



**Clearance revenues**, which account for two thirds of total PNA revenues, amounted to NIS 1.31 billion in Q4 2011, decreased by 2.6% over Q3 2011 but showed an increase of 7.4% compared to Q4 2010. Clearance revenues for 2011 amounted to NIS 5.01 billion increased by 8.5% compared to 2010. The increase in the two main categories in clearance revenues, VAT and customs, in 2011 compared to 2010, was 14.4% and 11.3% respectively. Even though this increase is more than the nominal growth rate in the economy in 2011, the clearance revenues for 2011 fell behind the budget target by 4.5% or NIS 240 million. Petroleum excise remained the same in 2011 compared to 2010. This is partly due to the reduction of petroleum excise tax rate (BLOW) by Israel in February. Moreover, Gaza electricity generating company switched to fuel smuggled from Egypt instead of Israeli fuel which caused a quarterly losses of NIS 25 million.

The petrol tax appears to be holding up in 2011 despite the rate reduction of the BLOW and the decrease in the supplies to Gaza. This is the result of the substantial increase in the quantities of petrol supplied to the West Bank.

The chart below (Chart 6) shows that the gap between the revenues collected from Gaza and West Bank is getting wider due to the decrease in petroleum excise received from Gaza (for the reasons mentioned above). The share of Gaza in the clearance revenues dropped from an average of 5% in 2010 to a 3% in 2011.



**Tax refunds** in 2011 on a commitment basis amounted to NIS 416 million exceeding its budget target by NIS 28 million. However, on a cash basis, only NIS 49 million was disbursed by the decision of MoF to prioritize spending and payments on wages and recurrent expenditures due to the large shortfall in external budget support. During Q4 2011 NIS 108 million were committed, which was an increase over Q3 2011 and Q4 2010 by 11% and 7% respectively.

### C. Expenditures and Net Lending

Overall, total expenditures and net lending in 2011 were below the 2011 budget target by NIS 63 million. During Q4 2011 total expenditures and net lending amounted to NIS 3.11 billion, (on a commitment basis) increased by 7.2% and by 7% from the expenditure level in Q3 2011 and Q4 2010 respectively.

**Table 6 Sector's Recurrent expenditures' budget execution Jan- Dec 2011, NIS million**

Sectors	Recurrent Total Expenditures	2011 Sector Budget	% of Sector Budget
Central Administration	723.5	788.7	91.7
Security and Public Order	3,396.0	3,341.8	101.6
Financial Affairs	1,438.1	1,255.0	114.6
Foreign Affairs	199.0	249.5	79.8
Economic Development	230.0	263.3	87.3
Social Services	4,760.3	5,170.5	92.1
Cultural and Information Services	170.6	103.2	165.3
Transport and Communication Services	86.4	85.6	101.0
<b>Total</b>	<b>11,004.0</b>	<b>11,257.7</b>	<b>97.7</b>

The recurrent expenditures execution over which the PA has control over is kept mostly within budget targets. The most significant deviation in the execution is in the Cultural and

Information Services sector which is due to the payment of arrears and commitments of 2010 as well as underestimating the sector's recurrent budget.

**Table 7. Expenditures items as share of total expenditures and net lending and Nominal GDP, 2011. NIS million**

Budget Classification	FY 2011 outturn	Percentage of Total expenditures and net lending	Percentage of Nominal GDP <sup>4</sup>
<b>Total Expenditure and Net Lending</b>	11897	100	38.0
<b>Wage Expenditure</b>	6381	53.6	20.4
<b>Nonwage Expenditure</b>	5015.2	42.2	16.0
<b>Operational Expenditure</b>	1792.1	15.1	5.7
<b>Transfers</b>	3165.1	26.6	10.1
<b>Minor Capital</b>	57.9	0.5	0.2
<b>Net Lending</b>	500.9	4.2	1.6
<b>Current Balance</b>	-4576.3	38.5	14.6
<b>Development Expenditure</b>	1324.9	11.1	4.2
<b>Balance</b>	-5901.2	49.6	18.9
<b>Financing</b>	5901.2	49.6	18.9
<b>Budget Support</b>	2915.2	24.5	9.3
<b>Development Financing</b>	605	5.1	1.9

During 2011 some modification in the fiscal reports regarding total expenditures and net lending occurred and can be summarized by the following points:

1. A misclassification error in the retiree allowances had recorded a portion of transfers as wages (about NIS 18.5 million/month). The wage expenditure and transfers were adjusted starting in October.
2. Adjustments between wages and net lending: the adjustments are due to the error in recording the salaries of civil servants in Gaza after deductions for payment of electricity services, i.e. net lending (which were not recorded). As a result, on average, monthly adjustments of NIS 12.6 million increase in wages and an equal decrease in net lending were made.
3. Transfers in cash and commitment were adjusted in January 2012 due to cash payments to Pension Fund for payables of Pension Law 2005 (about NIS 44.6 million/month) that was not recorded during the year.

<sup>4</sup> The Nominal GDP number for 2011 is a preliminary projection from three quarters numbers and changed into NIS using NIS 3.58= 1\$ as the exchange rate. NIS 31295 million is the used nominal GDP for 2011

**Wage expenditure** of NIS 1.59 billion in Q4 2011 (table 4) decreased by 1.5% compared to Q3 2011 wage bill. The wage bill will only be 0.9% higher than budget target of 2011, this is due to payment of some allowances in the first quarter retroactively for 2010. The increase in the wage bill during 2011 over the same period of 2010 would be 6% which is within the budgeted increase in the wage bill<sup>5</sup>.

**Table 8. Budget Execution Jan- Dec 2011, Wages and Salaries by Sector, NIS million.**

Sectors	Wages and Salaries	2011 Sector Budget	% of Sector Budget
Central Administration	358.8	361.3	99.3
Security and Public Order	2,834.3	2,671.3	106.1
Financial Affairs	218.4	231.1	94.5
Foreign Affairs	112.5	129.4	86.9
Economic Development	182.7	190.2	96.1
Social Services	2,469.5	2,561.5	96.4
Cultural and Information Services	115.3	68.8	167.6
Transport and Communication Services	66.1	65.1	101.6
<b>Total</b>	<b>6,357.6</b>	<b>6,278.7</b>	<b>101.3</b>

**Nonwage expenditures** of NIS 1.34 billion in Q4 2011 were higher than in Q3 2011 in every category, in comparison with Q4 2010 it also increased by 6.8% because of the increase in transfer expenditure by 46% (fiscal tables 1 and 2). For the year as a whole nonwage expenditures increased by 9.6% over the spending level of 2010 but they were within the budget appropriation of 2011 amounted to NIS 5.04 billion. Because of liquidity shortages, due to much lower external budget support received than was committed by the donors, about NIS 926 million in payment arrears were incurred in 2011 (Fiscal table 4).

**Operational expenditures** of NIS 428 million during Q4 2011 (table 4) increased over Q3 2011 by 14% but decreased over the spending level of Q4 2010 by 27%. Starting with the withdrawal of car privileges for the PNA directors, the PNA has adopted policy measures to continue decreasing operational expenditure in 2011. For the year as a whole operational expenditures were NIS 1.79 billion lower than 2010 by 2.7% and below the budget appropriation of 2011 by NIS 70.9 million.

<sup>5</sup> The 3.5% cost of living allowance and 1.25% which is the annual increase, agreed upon with the civil service union, which became effective on January 1st 2011 and was disbursed in the February payroll and the 1% increase in employment and promotions.

**Table 9. Budget Execution Jan- Dec 2011, Operational Expenditures by Sector, NIS million**

Sectors	Operational Expenditure	2011 Sector Budget	% of Sector Budget
Central Administration	247.2	296.1	83.5
Security and Public Order	254.5	299.9	84.9
Financial Affairs	175.8	217.4	80.8
Foreign Affairs	71.8	83.2	86.3
Economic Development	27.3	43.9	62.2
Social Services	744.9	831.9	89.5
Cultural and Information Services	41.2	25.4	161.8
Transport and Communication Services	12.3	14.5	84.9
<b>Total</b>	<b>1,574.9</b>	<b>1,812.4</b>	<b>86.9</b>

Table 9 above shows that the social sector, especially ministries of education and health, has the highest share in the operational expenditure budget and mainly because both ministries are spending within their budget, total operational expenditures were kept within budget targets.

**Transfers** of NIS 898 million in Q4 2011 were higher than in Q3 2011 and Q4 2010 by 13% and 46% respectively. For the year as a whole transfers were above the budget target NIS 77 million because of underestimating of cash payments to Pension Fund for retirees under the Pension Law 2005. On the other hand, the support to universities and local governorates was substantially below their budget appropriations for 2011. In Table 10 below, the Financial Affairs exceeds the budget because of underestimating of the pension payments to retirees. Economic Development and Transport and Communication Services transfers were underestimated in 2011 budget.

**Table 10. Budget Execution Jan- Dec 2011, Transfer Expenditures by Sector, NIS million**

Sectors	Transfer Expenditure	2011 Sector Budget	% of Sector Budget
Central Administration	115.2	125.3	92.0
Security and Public Order	297.3	349.8	85.0
Financial Affairs	1,041.4	799.6	130.2
Foreign Affairs	12.6	32.4	39.0
Economic Development	18.9	17.1	110.6
Social Services	1,533.2	1,748.0	87.7
Cultural and Information Services	11.3	7.6	148.9
Transport and Communication Services	7.4	5.5	135.7
<b>Total</b>	<b>3,037.5</b>	<b>3,085.3</b>	<b>98.5</b>

**Minor capital expenditures** amounted to NIS 15.4 million, increased over Q3 2011 by 20% and decreased by 72% compared to Q4 2010. The budget execution was only 64% of its

budget target for the full year. This is mainly due to the decision of MoF to prioritize its spending on wages and other recurrent expenditures.

**Net lending** amounted to NIS 178 million in Q4 2011 (fiscal tables 1 and 2), marking a significant increase (76%) over the levels reached in Q3 2011 and over Q4 2010 by 13.6%. This is due to the Israeli decision to deduct NIS 20 million more than the usual deductions of electricity. The budget appropriation for net lending has been sharply reduced in 2011 to NIS 592 million from NIS 950 million in 2010, in the context of a policy aimed at eliminating net lending in the medium term altogether. The PNA effort of declining of net lending during 2011 was successful in bringing the net lending even below the budget target by NIS 91 million.

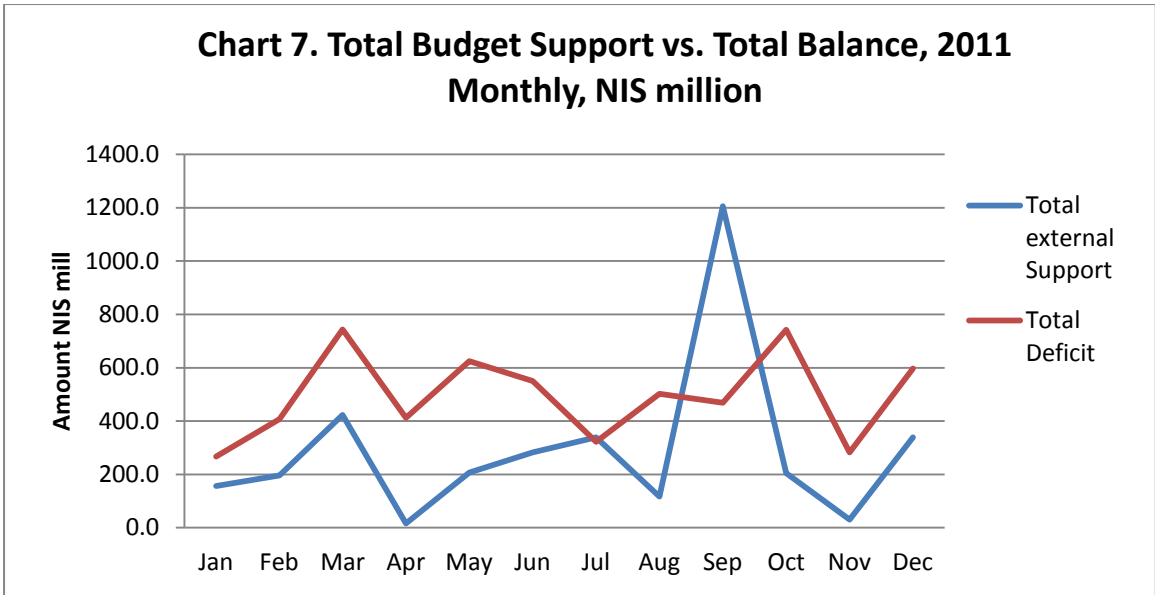
**Development expenditures** channelled through the PNA Treasury amounted to NIS 343 million during Q4 2011 (fiscal tables 1 and 2). This is higher than the levels attained in Q3 2011 by 32% but remained almost the same compared to Q4 2010. The development expenditures in 2011 amounted to NIS 1.33 billion on a commitment basis, however on cash basis only NIS 1.05 billion was disbursed, due to the large shortfall in external financing for development projects.<sup>6</sup> The PA financed NIS 577 million of development expenditures which contributed in the recurrent budget arrears.

#### **D. Balance and Financing**

**Balance:** Due to the shortfall of revenues in 2011 the recurrent budget deficit exceeded the budget target by 14.2% or NIS 567 million which is higher than the deficit of 2010 by 5.1%. Nevertheless, the total balance for 2011 amounted to NIS 5.9 billion exceeded the budget target of NIS 5.43 billion. The recurrent fiscal balance in Q4 2011 amounted to a deficit of NIS 1.26 billion on a commitment basis (fiscal table 1). The recurrent deficit increased relative to Q3 2011 by 21.9% due to the increase of total expenditures and net lending and the decrease of revenues. Total Balance including the development expenditures in Q4 2011 amounted to NIS 1.6 billion on commitment basis, a significant increase of 24% compared to Q3 2011.

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<sup>6</sup> Details of development expenditures are now published quarterly along with the fiscal tables with the numbers 9A-9D.

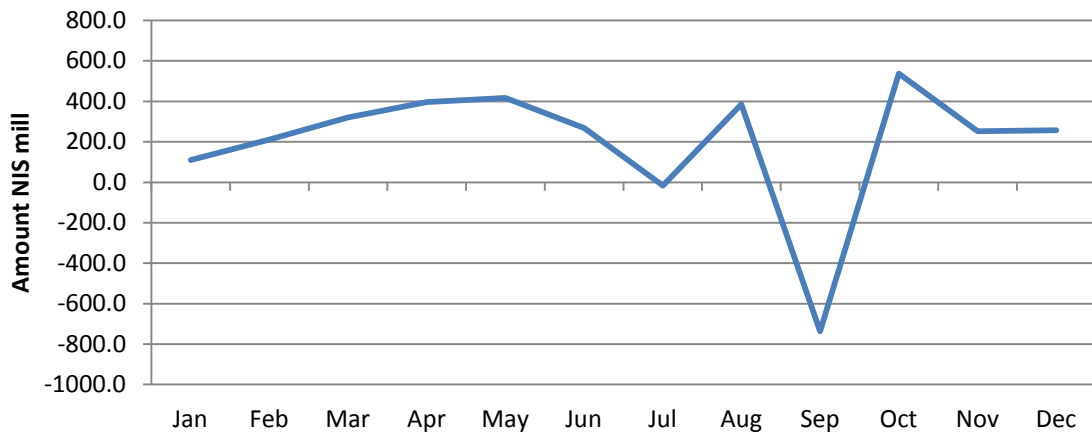


**Financing:** In 2011 the total external budget support amounted to NIS 2.92 billion which includes the first civil and pensioners PEGASE disbursement for 2012 of NIS 234 million. The bulk of the support came from the regional donors (NIS 1.03 billion), followed by PEGASE (NIS 1.03 million), the World Bank Trust Fund (NIS 600 million) and the US Government (NIS 185 million). However, the external budget support was substantially short of the total financing requirement of 2011 (see chart 9). Development financing channelled through the Treasury amounted to NIS 605 million or only 33% of the budget target. Development expenditures financed by the PA Treasury as shown in fiscal table 9D amounted to NIS 577 million which makes up the shortfall in external financing for development expenditure. This expenditure by the PA increases the recurrent financing gap by the same amount. The financing gap for 2011 amounted to NIS 2.38 billion. The Treasury increased its domestic debt by NIS 1.2 billion during 2011<sup>7</sup>, raising the domestic debt stock level to NIS 4.15 billion at the end of 2011 (fiscal table 8a (NIS)) , as well as raising the foreign indebtedness by NIS 533 million. This constraint on liquidity from running down domestic debt stock resulted in 2011 in accumulation of NIS 1.94 billion payment arrears. The external budget support in Q4 2011 amounted to NIS 495 million decreased dramatically over Q3 2011 (fiscal table 7). (see Arrears).

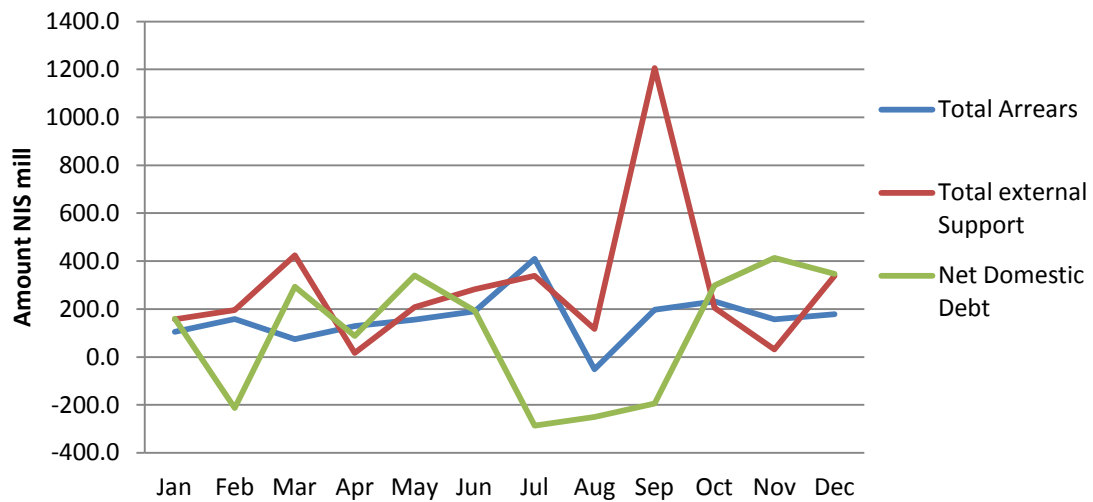
<sup>7</sup> The difference between net domestic bank financing in fiscal table 1 and the domestic debt repayment is the change in deposits.



**Chart 8. Financing Gap, FY 2011 monthly, NIS mill**



**Chart 9. Financing sources, 2011 monthly, NIS million**



It should be mentioned that the average exchange rate for the year at US \$ 1 = NIS 3.58 as opposed to US \$ 1 = NIS 3.7 as the budget forecast of. The Depreciation of the US dollar was 4% from 2010 to 2011.

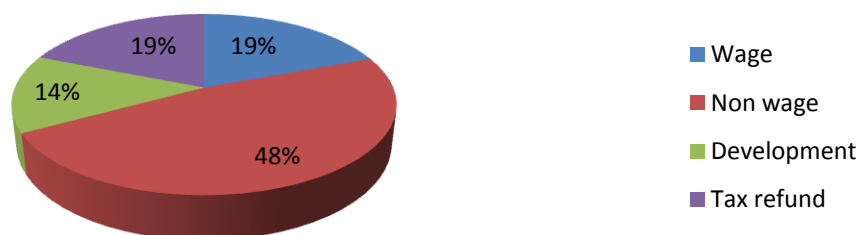
## E. Arrears

Total net accumulation of arrears during the FY 2011 reached NIS 1.94 billion including development expenditures arrears of NIS 270 million and tax refund arrears of NIS 368 million. Payment arrears to the private sector have accumulated to NIS 930 million.

Budget Classifications	NIS mill	Components	NIS mill
Wage	374.0	<b>Pensions Arrears</b>	
		Employee contribution	374.0
Nonwage	925.9	Social security, Government share	572.5
Development Expenditures	270.4	Private sector (1)	929.6
Tax refund	367.9	Other transfers	62.1
<b>Total</b>	<b>1938.2</b>		<b>1938.2</b>

(1) Payments to suppliers (operational budget and development budget), tax refunds.

**Chart 10. Net accumulation of arrears, FY 2011, Budget classification**



**Chart 11. Net accumulation of arrears Spending components, FY 2011, Components**

