

State of Palestine

Ministry of Finance

**Fiscal Developments & Macroeconomic Performance:
First Quarter 2013**

Macro-Fiscal Unit

First Draft

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Section 1: Macroeconomic performance in WBG 2012:

GDP: According to preliminary estimates published by PCBS¹ (Tables 1A and 1B), Palestinian Territory² real GDP grew by 5.9% in 2012 compared to 12.2% in 2011. Palestinian Territory GDP for the 4th quarter 2012 of USD 1,733 million at constant prices increased by 1.5% over Q3 2012 and increased by 5.3% over Q4 2011.

In the West Bank, real GDP grew by 5.6% in 2012 compared to 10.4% in 2011. Real West Bank GDP for the 4th quarter of 2012 was USD 1303 million, an increase of 5.9% over Q4 2011, and an increase of 3.7% over Q3 2012. The origin of the growth in West Bank is the expansion of the Services sector by 12.6% in 2012, while Public Administration, Security and Construction sectors retrenched as a consequence of the financial crisis faced by the PA.

In Gaza, real GDP in 2012 increased by 6.6% compared to 2011. GDP for the 4th quarter 2012 at constant prices was USD 430.4 million, a decline of 4.7% over Q3 2012, and an increase of 3.5% over Q4 2011. The construction activity increased by 16.4% during 2012 over 2011 reflecting the relaxation of the import restrictions and increasing imports of construction material from Egypt through the tunnels. Transportation and Storage sector also grew by 37.5% while Services grew by 7.2%. On the other hand, the Agriculture, Forestry and Fishing output declined by 37.3%.

Table 1A. WBG Real GDP*, 2008-2012, USD million

	2008	2009	2010	2011	2012
Gaza	1162	1,260	1409	1657	1767
West Bank	3717	3,980	4315	4765	5031
Palestinian Territory	4879	5,240	5724	6422	6798

*Base year 2004

Table 1B. Real growth rates, 2009-2012, (percent)

	2009	2010	2011	2012
Gaza	8.4%	11.9%	17.6%	6.6%
West Bank	7.1%	8.4%	10.4%	5.6%
Palestinian Territory	7.4%	9.3%	12.2%	5.9%

Economic activity in the Palestinian territory has slowed down significantly in 2012 (Table 1B) as the growth rate decreased by half from double digit growth in 2011 (12.2%) to 5.9% in 2012. This downward trend can be witnessed in both West Bank and Gaza.

The shortfall in donor aid in 2012 and the Israeli withholding of Palestinian clearance revenue, especially following the granting to Palestine of Non-member Observer State status at the United Nations in November 2012, have exacerbated the financial crisis faced by the PNA. Israel delayed transferring clearance revenues in Q4 2012 and deducted unilaterally the full amount of November's clearance revenue of NIS 467 million mainly to settle outstanding electricity arrears to Israel Electricity Corporation (IEC) and Jerusalem District Electricity Corporation (JEDCO).

¹PCBS "The Preliminary Estimates of Quarterly National Accounts, Fourth Quarter, 2012". March 31, 2013.

²Palestinian Territory*: exclude those parts of Jerusalem which were annexed by Israel in 1967.

The resulting uncertainty caused a reduction in the spending behaviour of consumers. These factors combined with the persistence of Israeli restrictions imposed on private sector economic activity contributed to the slowdown in economic growth.

GDP per Capita: According to PCBS, Palestinian Territory* GDP per capita during Q4 2012 was USD 423.5, an increase of 2.1% over Q4 2011, and an increase of 0.7% when compared to Q3 2012. In the West Bank, GDP per capita in Q4 2012 was USD 536.8 an increase of 3.1% over Q4 2011, and an increase of 3.0% when compared to Q3 2012. While for Gaza GDP per capita was USD 258.4 during Q4 2012, a decrease of 0.1% over Q4 2011, and a decline of 5.6% when compared to Q3 2012.

The population of the Palestinian Territory at the end of 2012 was about 4.4 million, 2.7 million in the West Bank and 1.7 million in Gaza. Refugees constitute about 44.2% of the population of the Palestinian Territory: 41.4 % in the West Bank and 58.6 % in the Gaza Strip. The average household size in the Palestinian Territory is 5.6 persons in 2012, (5.3 persons in the West Bank and 6.1 persons in Gaza Strip) compared with 6.4 in 1997.³

The overall Consumer Price Index (CPI) for Palestinian territory during March 2013 decreased by 0.50% compared with February 2013. The CPI during March 2013 increased by 1.0% compared with March 2012 (2.21% in the West Bank, 0.86% in Jerusalem, while it decreased by 0.33% in Gaza Strip)⁴.

The unemployment rate⁵ during Q4 2012 reached 22.9% in the Palestinian Territory compared to 24.3% during Q3 2012 and 21.0% during Q4 2011. Unemployment in WB reached 18.3% during Q4 2012 compared to 20.4% during Q3 2012 and 16.6% during Q4 2011. In Gaza, unemployment reached 32.2% during Q4 2012 compared to 31.9% during Q3 2012 and 30.3% during Q4 2011.

The highest unemployment rate in the 4th quarter 2012 was 39.5% among youth aged 20-24 years. The unemployment rate among females with 13 years of schooling or more was 42.7%.

The highest unemployment rates in the West Bank governorates were experienced in Tulkarm and Hebron registering 24.3% in each case. In Gaza Strip, the highest unemployment rate was 36.4% in North Gaza governorate.

The services sector was the biggest employer sector with 32.6% in the West Bank and 54.3% in Gaza Strip. The public sector employed 22.8% of those in employment: 40.1% in Gaza Strip and 15.7% in the West Bank. The average daily wage for wage earners in the West Bank was NIS 88.0 compared with NIS 63.1 in Gaza Strip.

³PCBS, "The Palestinians at the end of the year, 2012" December 31, 2012.

⁴PCBS, "The Consumer Price Index during March, 03/2013" April 15, 2013.

⁵PCBS, "The Labor Force Survey Results Fourth Quarter (October- December, 2012) Round (Q4/2012)", February 21, 2013.

Section 2: Fiscal Operations Q1-2013

A. Budget execution highlights:

- **Total budget deficit** for the first quarter of 2013 amounted to around NIS 1.22 billion (around USD 330 million) which is below the quarterly budget target⁶ by NIS 80 million (6%). The recurrent budget deficit amounted to NIS 1.03 billion (USD 280.5 million) which is above the budget target by NIS 63 million (6.5%).
- **Gross Revenues** in Q1 2013 amounted to around NIS 2.39 billion, which is highly on track with the budget target. While **Total net revenues** in Q1 2013 were slightly below the quarterly budget target by NIS 97 million (4%) due to the shortfall in clearance revenues by NIS 204 million (13%) and the increase in tax refunds over the budget target by NIS 67 million. On the other hand, domestic tax revenues and nontax revenues were above the budget target by NIS 123 million and NIS 52 million respectively.
- **Total Expenditures and Net Lending** in Q1 2013 amounted to around NIS 3.24 billion, which is below the budget target by NIS 34 million (1%) due to the decrease in wage, transfers, minor capital and interest payment below their quarterly budget target.
- **The wage bill** in Q1 2013 amounted to around NIS 1.7 billion and was below the quarterly budget target by NIS 31 million. Disbursements of the annual wage increase specified by the Civil Service Law were delayed in Q1 2013 as the 2013 budget was in the process of being approved.
- **Nonwage expenditures**⁷ in Q1 2013 amounted to NIS 1.43 billion which is below the budget target by NIS 27 million (2%). Social contributions and use of goods & services were above their budget target by NIS 9 million and NIS 19 million respectively. Transfers, minor capital and interest were below their budget by NIS 32 million, NIS 17 million and NIS 6 million respectively.
- **Net Lending** in Q1 2013 amounted to NIS 100 million, which is above the budget target by NIS 25 million reaching 33% of the annual budget target.
- **Budget support** disbursement in Q1 2013 reached 45% of the amount budgeted to finance the annual recurrent budget deficit while the **development projects financing** of NIS 72 million was only 6.5% of the budget target.
- **Domestic debt stock** level fell to NIS 4.26 billion (USD 1.17 billion) as the Treasury managed to decrease its **domestic debt** by NIS 886 million (USD 218 million) during Q1 2013.
- **Total net accumulation of arrears** during Q1 2013 reached NIS 557 million including development expenditures arrears of NIS 56 million and tax refund arrears of NIS 181 million. Arrears to the private sector including the tax refunds arrears came to NIS 393 million.
- **2013 Budget** was approved on 30th of March 2013.

⁶ Quarterly budget target is 25% of the approved annual budget.

⁷In 2013, changes were incorporated into fiscal operations tables; total expenditure category components are detailed differently in accordance with updated budget classification. For further details check www.pmf.ps

Table 2. Consolidated Fiscal Operation Analysis of Q1 2013 (Commitment Basis)

	Q1 2013	Q1 2013 Change from Q4 2012	Q1 2013 Change from Q1 2012	2013 Budget	Q1 2013 as share of 2013 Budget	Prorated 2013 Budget (25%)	Deviation of prorated from 2013 Budget
Budget Classification	NIS mill.	%	%	NIS mill.	%	NIS mill.	NIS mill.
Total Gross Revenues	2386.1	16%	11%	9,662	25%	2415.6	-29.5
Total Net Revenues	2205.2	15%	8%	9,207	24%	2301.7	-96.5
Gross Domestic Revenue	997.4	54%	23%	3,292	30%	823.0	174.5
Domestic Tax Revenues	676.0	45%	17%	2,214	31%	553.5	122.5
Income Tax	305.9	168%	4%	760	40%	190.0	115.9
Value Added Tax	199.7	0%	26%	734	27%	183.5	16.2
Customs	48.6	37%	-20%	250	19%	62.5	-13.8
Excises on Beverages	1.3	-7%	52%	9	14%	2.3	-1.0
Excises on Tobacco	113.1	0%	97%	450	25%	112.5	0.6
Property Tax	7.4	632%	2%	11	67%	2.8	4.6
Clearance Revenue	1388.7	-2%	3%	6,371	22%	1592.6	-203.9
Customs	459.4	-10%	-1%	2270	20%	567.6	-108.2
Value Added Tax	488.6	4%	9%	2140	23%	535.0	-46.5
Purchase Tax	5.5	-29%	20%	17	33%	4.1	1.3
Petroleum Excise	431.6	2%	3%	1934	22%	483.5	-51.9
Income Tax	3.7	14%	53%	10	38%	2.4	1.3
Other	0.0			0		0.0	0.0
Tax Refunds (-)	180.9	18%	75%	456	40%	113.9	67.0
Fuel	130.9						
Other (2)	50.0						
Nontax Revenues	321.5	74%	40%	1,078	30%	269.5	52.0
Domestic Fees and Charges	258.7	41%	13%	918	28%	229.5	29.2
Civil Registration Fees	7.4	26%	-49%				
Health Insurance	45.2	14%	0%				
Transportation	23.1	19%	-9%				
Licenses	85.6	110%	60%				
Others	97.4	25%	7%				
Investments Profits	62.8	6349%		160	39%	40.0	22.8
Total Expenditure	3239.5	-15%	8%	13,092	25%	3273.0	-33.5
Wages and salaries	1707.9	2%	4%	6,956	25%	1739.1	-31.2
Social contributions	161.4	6%	11%	608	27%	152.0	9.4
Use of goods and services	495.0	-23%	15%	1,906	26%	476.5	18.5
Transfers	731.4	-5%	29%	3,055	24%	763.8	-32.3
Minor capital	2.5	-71%	-47%	77	3%	19.2	-16.7
Interest	41.2	97%	-26%	190	22%	47.5	-6.2
Domestic	38.9	121%	-21%	169	23%	42.3	-3.4
External	2.3	-30%	-61%	21	11%	5.1	-2.8
Net lending	100.1	-82%	-32%	300	33%	75.0	25.1
Current Balance	-1034.3	-46%	9%	-3,885	27%	-971.3	-63.0
Development Expenditures	181.1	-37%	-8%	1,295	14%	323.8	-142.7
Balance	-1215.4	-45%	6%	-5,180	23%	-1295.1	79.7
Financing	1215.4	-45%	6%	5,180	23%	1295.0	-79.6
External Budgetary Support	1814.1	141%	145%	4,070	45%	1017.5	796.6
Development Financing	71.9	-66%	34%	1,110	6%	277.5	-205.6
Net Domestic Bank Financing	-1183.9	-230%	476%				
Expenditure Arrears (Net Accumulation)	376.4	-47%	-9%				
Clearance Revenue Adjustment	74.1	-134%	9162%				
Tax Refunds (Arrears)	180.6	105%	75%				
Residual	30.5						

B. Revenue

Gross PNA revenues in Q1 2013 amounted to around NIS 2.39 billion growing by 16% and 11% over Q4 2012 and Q1 2012 respectively. **Total net revenue** amounted to NIS 2.2 billion in Q1 2013 increasing by 15% and 8% compared to Q4 2012 and Q1 2012 respectively. Gross PNA revenues in Q1 2013 were highly on track with the budget target⁸, while total net revenues were below the quarterly budget target by NIS 96.5 million (4%) due to the shortfall of clearance revenues by NIS 204 million (12.8%), and the increase in tax refunds above the budget target by NIS 67 million (59%). Domestic tax revenues and non tax revenues were above the budget target by NIS 123 million (22%) and NIS 52 million (19%) respectively making up for the shortfall in revenues.

While 2013 budget projected a nominal GDP growth of 7.5% in the West Bank in 2013, which is the source of most of PNA's revenues (4.7% real growth and 2.8% price increases), **Gross revenue performance** during the first quarter of 2013 exceeded the economic growth projected in the 2013 budget (11% annual increase). This reflects the impact of reforms in the Tax administration in enhancing revenue collection.

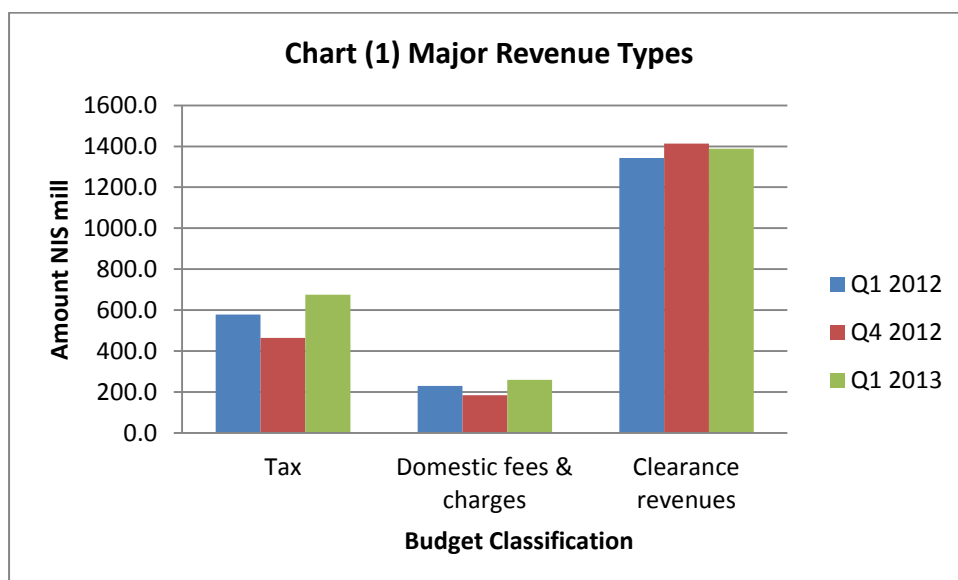


Chart (1) illustrates that the three major revenue types (Domestic Tax, Domestic fees & charges and Clearance revenues) have grown on an annual basis (Q1 2013 over Q1 2012) of 17%, 13% and 3% respectively. These growth figures reflect the impact of reform made by the Ministry of Finance in the tax administration aimed to increase local revenues and decrease dependence on donors' budget support.

Administrative reforms in revenue collection in 2013 include:

- Restructuring of tax administration through functional integration of tax revenues, to ensure efficiency and effectiveness.

⁸ The budget target is 25% of the approved 2013 annual budget.

- Revaluation of imported goods according to the International prices that were incorporated into ASYCUDA.
- Encouraging tax compliance culture.
- Establishment of a new Revenue Management System (RMS) to replace current revenue systems. The RMS is a three year project.

Domestic tax revenue of NIS 676 million during Q1 2013 increased by 17% over domestic tax revenue collected in Q1 2012 and 45% over Q4 2012. The increase in domestic tax in Q1 2013 over Q1 2012 can be mainly attributed to the increase in domestic VAT collection efforts and the integration of income tax and VAT in the (LTU) on Feb 10th 2013, as well as the increase in the excises on tobacco and beverage.

The PA continues its substantial revenue collection efforts and institutional reforms aimed to raise domestic tax revenue through unifying the customs and VAT departments and undergoing improvements in the Large Taxpayer Unit (LTU) staffing and management, as well as the establishment of the Palestinian Revenue Council in the second half of 2012.

A breakdown of major domestic tax categories reveals the following rates of increase in Q1 2013 over Q1 2012: Income tax: 4%, Value added tax: 26%, Excises on Beverage: 52%, Excises on tobacco: 97%, property tax: 2%.

In Q1 2013, income taxes amounted to NIS 306 million, substantially higher than Q4 2012 by 168% and an increase of 4 % over Q1 2012. Property tax in Q1 2013 was NIS 7.4 million, an increase of 632% and 2% over Q4 2012 and Q1 2012 respectively. Much more income tax and property tax payments are made during the first quarter of the year as there are strong incentives for early payments.

Efforts at raising income tax revenues focus on broadening the tax base, enforcing collection of arrears, and systematically reviewing tax liabilities by the 100 largest corporations. In addition, several banks transferred income advances during Q1 2013.

The effect of the new tax bracket of 20% for individual and corporate income exceeding NIS 125,000 annually, introduced on January 1st 2012, will continue in 2013, as well as income tax payments by 15 companies who suspended their income tax exemptions under the investment promotion law for two years (2012-2013) with another contribution of around NIS 50 million in 2013.

Income tax during the first quarter of 2013 reached 40% of the annual budget target, while property tax reached 67% of the budget target.

Domestic VAT amounted to NIS 200 million an increase of 26% compared to Q1 2012. The increase in domestic VAT collection is attributed to improvements in the LTU following the integration of income tax and VAT on Feb 10th 2013 and greater controls by custom officers, as well as payments from banks and advances from Jawwal and the Palestinian Telecommunication Company. VAT in Q1 2013 reached 27% of the annual budget target.

Excises on tobacco increased in Q1 2013 by 97% over Q1 2012 as a result of successive increases in the Bandaroll excise on tobacco, which originated from Israel, in January and July 2012 and lately on

Jan 1st 2013, as well as to increasing the effectiveness of collection in the Tobacco excise department. Excises on tobacco during Q1 2013 were highly on track with budget target.

Excises on Beverage in Q1 2013 amounted to NIS 1.3 million, an increase of 52% over Q1 2012.

Domestic customs in Q1 2013 amounted to NIS 48.6 million reaching 19% of the annual budget target. Domestic customs in Q1 2013 were below budget target due to the decrease in the quantity of imported cars in 2013.

Domestic fees and charges of NIS 259 million during Q1 2013 increased over Q4 2012 and Q1 2012 by 41% and 13% respectively. This increase was partly due to expanding the entities that collect fees such as the Palestinian Civil Defense, and better enforcement of fees collection particularly through the General Directorate of Property tax . The increase in domestic fees and charges can be witnessed in fees collected by the Ministry of Economy, Land registration, Tourist fees, Telecommunication fees and Licenses. Overall, Domestic fees and charges were above the quarterly budget target by NIS 29 million. **Investment profits** received from PIF in Q1 2013 amounted to NIS 62.8, exceeding the budget target by NIS 22.8 million.

Clearance revenues, which account for two thirds of total PA revenues, amounted to NIS 1.39 billion in Q1 2013, a decrease of 2% over Q4 2012 and an increase of 3% over Q1 2012. However, the clearance revenues for Q1 2013 are still below the quarterly budget target by NIS 204 million (13%).

The increases in VAT, purchase tax and petroleum excises in Q1 2013 compared to Q1 2012, were 9%, 20% and 3% respectively. The increase in VAT is attributed to the increase of the VAT rate in September 2012, as well as to increases in tobacco excises. VAT in Q1 2013 reached 23% of the budget target.

Tax refunds in Q1 2013 amounted to 181 NIS million on a commitment basis. However, on a cash basis, only NIS 0.4 million was disbursed. As a result, tax refund arrears in Q1 2013 accumulated to NIS 180.6 million. Tax refunds in Q1 2013 increased by 18% and 75% over Q4 2012 and Q1 2012 respectively. Tax refunds on a commitment basis were above the quarterly budget target by NIS 67 million. More than two thirds of tax refunds in Q1 2013 were for Fuel, as the Palestinian Cabinet decided to subsidize Diesel fuel and gas in September 2012 following public demonstrations against price increases especially the hike in fuel prices.

C. Total Expenditures

Total expenditures in Q1 2013 were below the budget target by NIS 34 million (1%) due to the decrease in wage, transfers, minor capital and interest payment below their quarterly budget target. **Total Expenditures** during Q1 2013 amounted to NIS around 3.24 billion, on a commitment basis, a decrease of 15% over the expenditure level in Q4 2012 and an increase of 8% over the expenditure level in Q1 2012.

Table 3. Sector Recurrent expenditures budget execution, Jan-Mar 2013, NIS thousand.

Sectors	Recurrent Total Expenditures	2013 Sector Budget	% of Sector Budget
Central Administration	198,017	871,669	23%
Security and Public Order	952,609	3,932,917	24%
Financial Affairs	387,430	1,522,728	25%
Foreign Affairs	68,185	251,137	27%
Economic Development	56,017	313,586	18%
Social Services	1,212,059	5,570,295	22%
Cultural and Information Services	44,596	234,477	19%
Transport and Communication Services	38,268.63	95,310	40%
Total	2,957,185	12,792,119	23%

The recurrent expenditures execution over which the PA has control over is kept within budget targets with total recurrent expenditures reaching 25% of the budget target in Q1 2013. Total recurrent expenditures in 2013 budget are aimed to remain at about their level in 2012 (0.25% decrease over 2012) at about 13.09 billion as part of restrained spending policies.

In our attempt to protect the social services provided to the population, particularly education and health, and to improve the quality of expenditure, recurrent allocations for ministries of Education, Health, and Social Affairs have been increased in the 2013 budget by 2 % over 2012. This reflects the government's priorities to achieve greater income equality and social justice.

Wage expenditure of NIS 1.71 billion in Q1 2013 fell by NIS 31 million of the budget target. Disbursements of the annual wage increase specified by the Civil Service Law were delayed in Q1 2013 as the 2013 budget was in the process of being approved. Wage expenditure increased by 4% over the wage bill in Q1 12. 2013 budget restricted new appointments; the total number of civil servants and security personnel shall not be more than the figures of 2012.

Table 6. Budget Execution Jan-Mar 2013, Wages and Salaries by Sector, NIS thousand.

Sectors	Wages and Salaries	2013 Sector Budget	% of Sector Budget
Central Administration	95,196	379,061	25%
Security and Public Order	770,610	3,171,500	24%
Financial Affairs	55,390	234,434	24%
Foreign Affairs	37,663	138,618	27%
Economic Development	44,566	187,946	24%

Social Services	657,908	2,654,519	25%
Cultural and Information Services	29,946	120,250	25%
Transport and Communication Services	16,629	70,164	24%
Total	1,707,909	6,956,492	25%

Social contribution of NIS 161 million in Q1 2013 was above the quarterly budget target by NIS 9 million. When compared to Q4 2012 and Q1 2012 social contribution increased by 6% and 11% respectively.

Table 7. Budget Execution Jan-Mar 2013, Social contribution by Sector, NIS thousand.

Sectors	Social Contribution	2013 Sector Budget	% of Sector Budget
Central Administration	7,178	30,446	24%
Security and Public Order	73,005	303,811	24%
Financial Affairs	5,680	17,618	32%
Foreign Affairs	683	2,839	24%
Economic Development	4,332	17,708	24%
Social Services	66,212	217,772	30%
Cultural and Information Services	2,755	11,129	25%
Transport and Communication Services	1,577	6,871	23%
Total	161,422	608,194	27%

Use of goods and services amounted to NIS 495 million during Q1 2013, an increase over Q1 2012 by 15% and a decrease of 23% over Q4 2012. Use of goods and services during Q1 2013 was above the budget target by 4% (NIS 19 million). The difference in the amount of Use of goods and services in Table 4 (on commitment basis) and Table (8) consists of all in-process transactions in the system.

Table 8. Budget Execution Jan-Mar 2013, Use of Goods & Services by Sector, NIS thousand.

Sectors	Use of Goods& Services	2013 Sector Budget	% of Sector Budget
Central Administration	63,895	307,213	21%
Security and Public Order	93,848	323,125	29%
Financial Affairs	11,370	65,060	17%
Foreign Affairs	25,394	90,980	28%
Economic Development	6,523	48,932	13%
Social Services	117,399	963,072	12%
Cultural and Information Services	11,826	91,528	13%
Transport and Communication Services	19,821	16,025	124%
Total	350,076	1,905,935	18%

Transfers of NIS 731 million in Q1 2013 were lower than in Q4 2012 by 5% and higher than Q1 2012 by 29% reaching 24% of its annual budget target. Social contributions item, which is the PA's share towards employee pensions, is now separated from transfers expenditure.

The difference in the amount of transfers in Table 4 (on commitment basis) and Table (9) consists of all in-process transactions in the system.

Table 9. Budget Execution Jan-Mar 2013, Transfers by Sector, NIS thousand.

Sectors	Transfer Expenditure	2013 Sector Budget	% of Sector Budget
Central Administration	31,599	149,000	21%
Security and Public Order	15,093	120,000	13%
Financial Affairs	262,181	1,008,900	26%
Foreign Affairs	4,446	13,600	33%
Economic Development	-	53,500	0%
Social Services	369,482	1,709,733	22%
Cultural and Information Services	-	300	0%
Transport and Communication Services	-	-	
Total	682,801	3,055,033	22%

Minor capital expenditures amounted to NIS 2.5 million, decreased by 71% and 47% compared to Q4 2012 and Q1 2012 respectively. This amount reached to only 3% of its 2013 budget target at the end of the first quarter.

Interest (both domestic and external) in Q1 2013 amounted to NIS 41.2 million, an increase of 97% over Q4 2012 and a decrease of 26% over Q1 2012. Interest during Q1 2013 reached 22% of the budget target falling short by NIS 6.2 million.

Net lending amounted to NIS 100 million in Q1 2013, a decrease of 82% and 32% over Q4 2012 and Q1 2012 respectively. Net lending was above the quarterly budget target of NIS 75 million by NIS 25 million or by 33%.

It should be recalled that the budget appropriation for net lending in 2013 has been reduced from NIS 400 million in 2012 budget appropriation to NIS 300 million in 2013, in the context of a policy aimed at eliminating net lending altogether.

Development expenditures on a commitment basis channelled through the PA Treasury amounted to NIS 181 million during Q1 2013. This is lower than the levels attained in Q4 2012 and Q1 2012 by 37% and 8% respectively. However on cash basis NIS 125 million was disbursed, due to the large shortfall in external financing for development projects by NIS 206 million.

Development expenditures in Q1 2013 were below budget target by NIS 143 million.

D. Balance and Financing

Balance: In Q1 2013 the recurrent budget deficit was NIS 1.03 billion (USD 280 million) exceeding the quarterly budget target by NIS 63 million. The recurrent budget deficit in Q1 2013 is lower than the budget deficit of Q4 2012 by 46% and 9% higher than the budget deficit in Q1 2012.

The recurrent deficit in Q1 2013 exceeded the budget target due to the underperformance of Net Revenues over the budget target by NIS 96.5 million, while total expenditures were below budget target by NIS 33.5 million.

Total deficit in Q1 2013 amounted to NIS 1.22 billion (USD 330 million), a decrease over Q4 2012 by 45% and an increase over Q1 2012 by 6%. Total deficit in Q1 2013 exceeded budget target by NIS 80 million (6%).

Financing: In Q1 2013 the total external budget support amounted to NIS 1814.1 million, an increase over Q4 2012 and Q1 2012 by 141% and 145% respectively. Saudi Arabia and USA contributed NIS 441.7 million and NIS 732.6 million (USD 120 million, USD 200 million) respectively.

External Budget support in Q1 2013 reached 45% of the annual budget target.

Development financing amounted to NIS 72 million which is below the budget target by NIS 206 million (74%). Development financing received during Q1 2013 was 6% of the annual budget.

E. Arrears

Total net accumulation of arrears during the Q1 2013 amounted to NIS 556.9 million including development expenditures arrears of NIS 56.2 million and tax refund arrears of NIS 180.6 million. Payment arrears to the private sector⁹ have accumulated to NIS 393 million.

Budget Classifications	NIS mill
Wages and salaries	-115.3
Social contributions	161.4
Use of goods and services	144.9
Transfers	118.1
Minor capital	0.3
Interest	10.7
Development Expenditure	56.2
Tax refund	180.6
Total	556.9

⁹ Payment arrears to private sector include use of goods and services, minor capital, development, tax refunds and interest