

State of Palestine

Ministry of Finance

**Fiscal Developments & Macroeconomic Performance:
Second Quarter and Mid-year Report 2013**

Macro Fiscal Unit

Aug 14, 2013

Section 1: Palestinian Territory Macroeconomic Performance in 2013:

GDP: According to preliminary estimates published by PCBS¹, real GDP in Palestine has increased by 2.7% during the first quarter of 2013 compared to the 1st quarter of 2012, while it showed a decrease of 5.1% compared to the 4th quarter of 2012.

Real GDP in West Bank amounted to USD 1180 million in Q1 2013, a slowdown of 0.6% over Q1 2012 and 9.4% over Q4 2012. GDP in Gaza reached USD 464 million in Q1 2013, growing by 12.2% over Q1 2012, and by 8% over Q4 2012 (Table 1A).

The nominal growth in Gaza was mainly attributed to the growth in the construction sector but construction has come to a virtual standstill during the third quarter of 2013 because of tunnel demolition by the Egyptian authorities. Therefore growth in Gaza is likely to decline during the second half of the year and remain volatile until a more stable political arrangement is attained.

	Real GDP value in Q1 2013	% Change in Q1 2013 from Q1 2012	% Change in Q1 2013 from Q4 2012
Palestinian Territory*	1644.8	2.7%	-5.1%
West Bank	1180.4	-0.6%	-9.4%
Gaza	464.4	12.2%	7.9%
*Base year 2004.			

The overall Consumer Price Index in Palestine for June 2013 reached 138.01 with 2004 as its base year. CPI in June 2013 showed an increase of 0.36% compared to May 2013 and by 2.7% compared to June 2012.²

The change in Consumer Price Index (CPI) for June 2013 is traced back to changes in prices of major expenditure groups, significantly Fuel for Housing (+3.97%), Fuel for transportation (+2.33%), electricity (+3.51%), education (+3.81%) and Cigar and Tobacco products (+1.78). on the other hand, some expenditure groups showed a decline; Fresh Vegetables (-4.67%) and Potatoes and other Tubers (-3.21%).

The total population in Palestine at mid-2013 was about 4.42 million, a growth of 3% over 2012. The population was 2.72 million in the West Bank, and 1.7 million in Gaza.

¹PCBS, Press Report, Preliminary Estimates of Quarterly National Accounts (First Quarter 2013) Main Results

² PCBS, "Palestinian Consumer Price Index in the Palestinian Territory", May 5, 2013.

The Unemployment rate in Palestine reached 23.9% during the first quarter of 2013. The Unemployment rate in West Bank reached 20.3% during Q1 2013 compared to 18.3% during Q4 2012, and 20.1% during Q1 2012. In Gaza, unemployment reached 31% during Q1 2013, compared to 32.2% during Q4 2012 and 31.5% during Q1 2012.

Region	Labor Force Total number	Unemployment	
		%	Number
Palestinian Territory	1,134,000	23.9%	271,000
West Bank	750,000	20.3%	152,000
Gaza	384,000	31.0%	119,000

External Trade: Exports for the period Jan-April 2013 showed a growth of 11% compared to the same period of 2012. Exports amounted to USD 270 million with a monthly average of USD 67.5 million in Jan-Apr 2013 compared to USD 243.2 million for the same period 2012. Exports to Israel represented almost 88% of total exports for that period.

On the other hand, imports during Jan-Apr 2013 amounted to USD 1.47 billion with a monthly average of USD 367.45 million, compared to USD 1.39 billion for the same period 2012, a growth of 6%. Imports from Israel represented almost 66% of total imports for that period. The trade deficit reached USD 328.5 million in April 2013 for a total trade deficit for Jan-Apr 2013 of USD 1.12 billion. When compared to the same period of 2012, the total trade deficit increased by 4.9%.

	Jan	Feb	Mar	Apr	Jan-Apr
Exports	62.3	68.9	64.6	74.2	270
Imports	363.6	364.3	339.2	402.7	1469.8
Balance	-301.3	-295.4	-274.6	-328.5	-1199.8

Section 2: Fiscal Operations for 1st half 2013

A. Budget execution highlights:

- **The Total Budget Deficit** for the first half of 2013 amounted to NIS 2.98 billion, an increase of 6% over the same period of 2012. The total balance exceeded its budget target by NIS 388 billion (15%). **The recurrent budget deficit** for the 1st half 2013 amounted to NIS 2.52 billion, exceeding the half year budget target by NIS 577 million. This increase can be attributed to a shortfall in revenues and an increase in total expenditures, and net lending over the half year approved budget by NIS 367.1 million and NIS 43.4 million, respectively.
- **Gross revenues** for the 1st half 2013 amounted to NIS 4.46 billion, and were below the half year budget target by NIS 367 million due to shortfalls in nontax revenues and clearance revenues by NIS 32 million and NIS 375 million, respectively. **Total net revenues** reached NIS 4.07 billion during the first half of the year, falling short of the half year budget by NIS 534 million (12%). The larger shortfall in net revenue than in gross revenue was due to the lowering of diesel fuel prices, beginning of April and resulting in larger unbudgeted tax refunds.
- **The wage bill** in the 1st half of 2013 amounted to NIS 3.44 billion and was 1.2% below the half-year budget.
- **Nonwage expenditures** in the 1st half of 2013 amounted to NIS 2.83 billion and were running below budgetary appropriations mainly due to a decrease in transfers, minor capital, and interest payments below their 1st half budget forecast by NIS 107 million.
- **Net lending** amounted to NIS 320.5 million in the 1st half of 2013, and was substantially above the budget target by NIS 170.5 million, reaching 107% of the annual budget target. This was mostly due to a slower pace of shifting the responsibility of electricity bill collection from municipalities to NEDCO, which the budget assumed would occur at a faster pace.
- **Budget support** disbursement was 56% of its full year budget target while the **development projects financing** was only 13% of the budget target.
- **The Domestic debt stock** declined to NIS 4.77 billion in June 2013, from NIS 5.14 billion in December 2012, as the Treasury managed to decrease **domestic debt** by NIS 368 million during the 1st half of 2013.
- **Total net accumulation of arrears** during the 1st half of 2013 reached NIS 1.39 billion, including development expenditures arrears of NIS 139 million and tax refund arrears of NIS 393.3 million. Arrears to the private sector, including the tax refunds arrears, amounted to NIS 804 million.

Table 4. Consolidated Fiscal Operation Analysis of Q2 and 1st half 2013 (Commitment Basis)

	Q2 2013	Q2 2013 over Q1 2013	Q2 2013 over Q2 2012	1st Half 2013	1st half 2013 over 1st half 2012	Budget 2013	1 st Half 2013 Budget target	Deviation from half year Budget	Actual as % of Full year Budget
	NIS mill	%	%	NIS mill	%	NIS mill	NIS mill	NIS mill	%
Total Gross Revenues	2078.1	-13%	3%	4464.2	7%	9663	4831	-367.1	46%
Total Net Revenue	1864.2	-15%	-3%	4069.5	3%	9207	4603	-534.0	44%
Domestic Tax Revenues	470.7	-30%	23%	1146.7	19%	2214	1107	39.9	52%
Income Tax	121.1	-60%	-1%	427.0	3%	760	380	46.9	56%
Value Added Tax	202.1	1%	27%	401.9	26%	734	367	34.9	55%
Customs	39.0	-20%	39%	87.6	-1%	250	125	-37.3	35%
Excises on tobacco	106.7	-6%	48%	219.8	70%	450	225	-5.1	49%
Excises on beverage	1.1	-15%	38%	2.4	44%	9	5	-2.1	27%
Property Tax	0.8	-90%	-31%	8.1	-3%	11	6	2.6	74%
Nontax Revenues	185.8	-42%	-15%	507.3	13%	1078	539	-31.7	47%
Civil Registration Fees	9.1	22%	-38%	16.5	-44%				
Health Insurance	44.7	-1%	2%	89.9	1%				
Transportation	24.3	5%	2%	47.4	-3%				
Licenses	24.8	-71%	-48%	110.4	9%				
Other charges and fees	82.9	-15%	-5%	180.3	1%				
Investment Profits	0	-100%		62.8		160	80	-17.2	39%
Clearance Revenue	1421.5	2%	1%	2810.2	2%	6371.1	3186	-375.3	44%
Customs	492.4	7%	4%	951.8	1%	2270	1135	-183.4	42%
Value Added Tax	458.0	-6%	-6%	946.5	1%	2140	1070	-123.5	44%
Petroleum Excises	470.3	9%	5%	901.8	4%	1934	967	-65.1	47%
Purchase Tax	-3.6	-165%	99%	1.9	-31%	17	9	-6.6	11%
Income Tax	4.4	20%	41%	8.1	46%	10	5	3.3	84%
Other									
Tax refunds (-)	213.8	18%	120%	394.8	97%	456	228	166.9	87%
Fuel	200.1	53%		331.0					
Other	13.8	-72%		63.8					
Total Expenditure and Net Lending	3349.9	3%	-1%	6589.5	4%	13092.1	6546	43.4	50%
Wage Expenditure	1728.1	1%	0%	3436.0	2%	6956	3478	-42.3	49%
Social contributions	158.4	-2%	3%	319.9	7%	608	304	15.8	53%
Use of goods and services	464.5	-6%	-6%	959.4	4%	1906	953	6.4	50%
Transfers	744.5	2%	-9%	1476.0	7%	3055	1528	-51.5	48%
Minor capital	6.8	178%	19%	9.3	-11%	77	38	-29.1	12%
Interest	27.2	-34%	-33%	68.4	-29%	190	95	-26.5	36%
Domestic	24.0	-38%	-33%	62.9	-26%	169	85	-21.7	37%
External	3.2	41%	-34%	5.5	-49%	21	10	-4.8	27%
Net Lending	220.4	120%	76%	320.5	18%	300	150	170.5	107%
Current Balance	-1485.7	44%	2%	-2520.0	5%	-3885.1	-1943	-577.4	65%
Development Expenditure	277.3	53%	35%	458.4	14%	1295	648	-189.1	35%
Balance	-1763.0	45%	6%	-2978.3	6%	-5180.1	-2590	-388.3	57%
Financing	1763.0	45%	6%	2978.4	6%	5180	2590	388.4	57%
External Budget Support	448.0	-75%	-42%	2262.2	50%	4070	2035	227.2	56%
Development Financing	72.0	0%	-43%	143.9	-20%	1110	555	-411.1	13%
Net Domestic Bank Financing	582.1	-149%	60%	-601.7	-479%				
Expenditure Arrears (Net Accumulation)	621.3	65%	61%	997.6	24%				
Clearance Revenue Adjustment	-111.9			-37.8	-161%				
Tax Refunds (Arrears)	212.7			393.3	116%				
Residual	-285.0			-254.5					

B. Revenues

Gross revenues in Q2 2013 amounted to NIS 2.08 billion, declining by 13% over 1st 2013, while increasing by 3% over Q2 2012. **Total net revenue** was NIS 1.86 billion during the 2nd quarter of 2013, declining by 15% and 3% over the 1st quarter of 2013 and 2nd quarter of 2012, respectively. Total net revenues obtained in the 1st half 2013 are below the half year budget target by NIS 534 million, due to the shortfall of non-tax revenues and clearance revenues by NIS 32 million and NIS 375 million respectively.

Gross revenues amounted to NIS 4.46 billion in the first half of 2013, increasing by 7% over the first half of 2012, while reaching 46% of the annual budget target. Total net revenues amounted to NIS 4.07 billion in the first half of 2013, an increase by 3% over the first half of 2012, to reach 44% of its annual budget target. The shortfall in total gross revenues is attributed to the underperformance in clearance and non-tax revenues from their half-year budget, which was mainly due to the slowdown in economic growth in the West Bank, which generates most of PA revenues, coupled with an optimistic budget projection of clearance revenues.

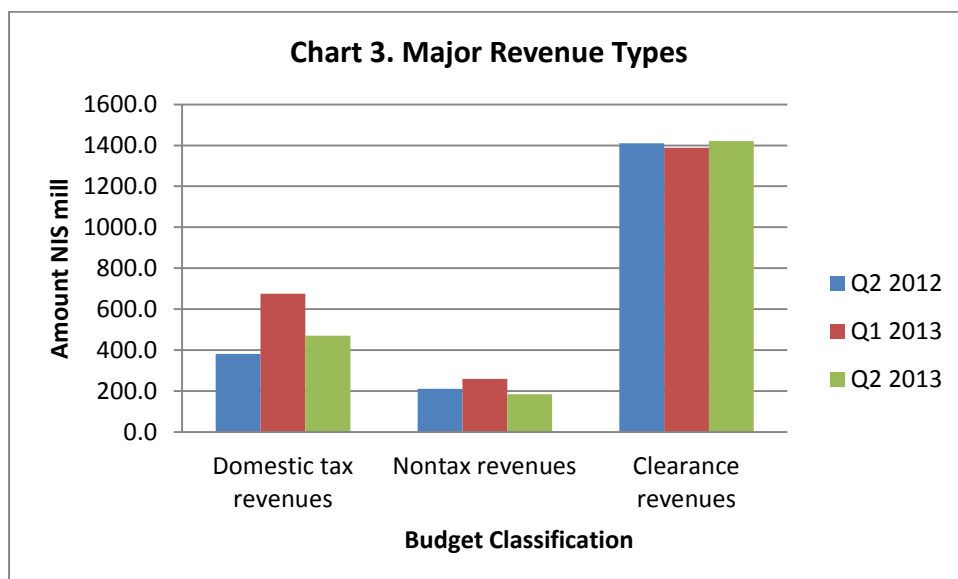
Domestic tax revenues amounted to NIS 1.15 billion during the first half of 2013, an increase of 19% over the same period of 2012, exceeding the budget target by NIS 40 million (3.6%). In the 2nd quarter of 2013 domestic tax revenues amounted to NIS 470.7 million, a decrease of 30% over domestic tax revenues collected in the 1st quarter of 2013, and an increase of 23% over the 2nd quarter of 2012. The decline in Q2 2013 over Q1 is attributed to high income tax payments during Q1 2013, due to incentives for easy payments. **Income tax** amounted to NIS 427 million during the first half of the year, and was NIS 47 million above the budget target (12.4%). **Excise on tobacco** performed well in 2013, collecting NIS 220 million in domestic revenues during the first half of 2013, which is a significant 70% jump over the same period last year. In Q2 2013, excises of tobacco reached NIS 107 million, a decline of 6% over Q1 2013, and a 48% increase over Q2 2012. The increase in revenue collection from excises on tobacco is attributed to several tobacco excise increases which occurred during the latter part of 2012 and the first half of 2013. Another contributor to the good performance of domestic revenues during the first half of 2013 relative to the same period of 2012 is the domestic VAT collection. Domestic VAT amounted to NIS 402 during the first half of 2013, a 26% increase over the same period of last year. Domestic VAT

collections were NIS 35 million above the budget target (9.5%), due to several payments from companies, in the form of advances or payment of old dues to the treasury. These payments include payments made in March by the Jerusalem Electricity Distribution Company (JEDCO) of an amount of NIS 13 million, and of the Palestinian Telecommunications Group paying an amount of NIS 18 million. In April, three payments were made, consisting of the Arab Bank paying an amount of NIS 11.5 million, Jawwal paying NIS 10 million, and the Palestinian Telecommunications Group also paying NIS 10 million. In May, two advance payments were made by Jawwal, each payment consisting of NIS 10 million (for a total of NIS 20 million).

Nontax revenues amounted to NIS 186 million during the 2nd quarter of 2013, a decrease of 42% and 15% over the 1st quarter of 2013 and the 2nd quarter of 2012, respectively. The decline in Q2 2013 relative to Q1 2013 is because no dividends/investment profits were received from PIF in the 2nd quarter of 2013, while in Q1 2013 NIS 62.8 million were received. Overall, nontax revenues amounted to NIS 507 million during the first half of 2013, and were below the half-year budget target by NIS 32 million (5.9%). The 2013 budget assumed NIS 160 million in investment profits from PIF, an amount which may not be obtained, since only NIS 62.8 million were received from the PIF in the first half of 2013, and the likelihood of receiving additional dividend payments during the second half of 2013 is limited.

Clearance revenues, which account for two thirds of PA revenues, amounted to NIS 1.42 billion in the 2nd quarter of 2013, an increase of 2% and 1% over Q1 2013 and Q2 2012 respectively. Clearance revenues for the 1st half 2013 amounted to NIS 2.81 billion, and increased by 2% over the 1st half 2012. This is an unusually low increase in clearance revenue considering that it has fallen below the rise in nominal GDP of about 6% during Q1 of 2013. It may be an indication of a sharper decline in growth during Q2 2013 than recorded in the first quarter. When compared to the budget, clearance revenues reached 44% of the full year budget target, with a shortfall of NIS 375 million (12%). However, clearance revenues are usually higher during the second half of the year (by 8% in 2011 and 4% in 2012); therefore a better performance is expected in clearance revenues during the next six months. There were optimistic expectations in the 2013 budget that there would be an implementation of the Fayyad-Steinitz understanding of July 2012, which would have

enhanced clearance revenue collection. Unfortunately, there have been delays in the implementation of this understanding by the Israeli authorities. Thus, the shortfall in clearance revenues is partly due to the lack of progress in the implementation of the Fayyad-Steinitz understanding, which, if implemented, would have enhanced cooperation with the Israeli authorities on customs/ VAT data sharing and limiting revenue leakages.



Tax refunds reached NIS 395 million during the 1st half 2013, exceeding the half-year budget target by NIS 167 million (73.3%). Tax refunds for Q2 2013 amounted to NIS 214 million on a commitment basis, increasing by 18% and 120% over Q1 2013 and Q2 2012, respectively. Tax refunds reached 87% of its full year budget target, due to the government’s efforts to reduce the transportation cost burden stemming from high fuel prices to the Palestinian public. Diesel fuel prices were reduced during the first half of the year, resulting in large increases in tax refunds from about NIS 40 million per month during the first quarter of 2013, to NIS 70 million per month in May and June 2013.

C. Total Expenditures

Total expenditures and net lending in the first half of 2013 amounted to NIS 6.59 billion, which is above the budget target by NIS 43 million, as net lending exceeded significantly its budget target. During Q2 2013, total expenditures and net lending amounted to NIS 3.35 billion, an increase of 3% from the expenditure level in Q1 2013, and a decrease of 1% from the expenditure level in Q2 2012.

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

Sectors	Recurrent Total Expenditures	2013 Sector Budget	% of Sector Budget
Central Administration	404,952	871,669	46%
Security and Public Order	2,027,430	3,932,917	52%
Financial Affairs	577,917	1,522,728	38%
Foreign Affairs	123,315	251,137	49%
Economic Development	111,100	313,586	35%
Social Services	2,502,674	5,570,295	45%
Cultural and Information Services	89,218	234,477	38%
Transport and Communication Services	59,439	95,310	62%
Total	5,896,045	12,792,119	46%

The recurrent expenditures execution over which the PNA has control was slightly below budget targets with total recurrent expenditures reaching 48% of the budget target in the first half of 2013.

In an 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 fell by NIS 42 million of the budget target reaching NIS 3.44 billion in the first half of 2013, an increase of 2% over the first half of 2012. Wage expenditure in Q2 2013 amounted to NIS 1.73 billion, an increase over the wage bill in Q1 2013 by 1% and remaining at the same level attained during Q2 2012. When projected for the full year 2013, the wage bill is expected to remain within its budget target of NIS 6.96 billion. There has been an effective freeze on net employment into the PNA and there was also a limit of 2% in the

wage bill increase, a major retrenchment measure towards lowering the recurrent fiscal deficit.

Table 4. Budget Execution Jan-Jun 2013, Wages and Salaries by Sector, NIS thousand.

Sectors	Wages and Salaries	2013 Sector Budget	% of Sector Budget
Central Administration	188,718	379,061	50%
Security and Public Order	1,525,788	3,171,500	48%
Financial Affairs	111,370	234,434	48%
Foreign Affairs	70,867	138,618	51%
Economic Development	89,586	187,946	48%
Social Services	1,356,318	2,654,519	51%
Cultural and Information Services	59,927	120,250	50%
Transport and Communication Services	33,399	70,164	48%
Total	3,435,974	6,956,492	49%

Social contributions of NIS 320 million in the first half 2013 exceeded the budget target by NIS 16 million, reaching 53% of its budget target. In comparison with the first half of 2012, social contributions increased by 7%. In Q2 2013, the social contributions amounted to NIS 158 million, a decrease over Q1 2013 by 2%, and an increase over Q2 2012 by 3%. Social contributions were above budget in the social services administration, specifically in the Ministry of Education. This is due to the rehiring of teachers who were suspended by court order due to security reasons. The number of these employees is around 700.

Table 5. Budget Execution Jan-Jun 2013, Social contribution by Sector, NIS thousand.

Sectors	Social Contribution	2013 Sector Budget	% of Sector Budget
Central Administration	14,434	30,446	47%
Security and Public Order	145,119	303,811	48%
Financial Affairs	10,444	17,618	59%
Foreign Affairs	1,401	2,839	49%
Economic Development	8,589	17,708	49%
Social Services	131,078	217,772	60%
Cultural and Information Services	5,579	11,129	50%
Transport and Communication Services	3,212	6,871	47%
Total	319,856	608,194	53%

Use of goods and services of NIS 960 million in the first half of 2013 was above the spending level of the first half of 2012 by 4%, and was on track with the 2013 budget target. In Q2 2013, the use of goods and services amounted to NIS 465 million, a decline over Q1 2013 and Q2 2012 by 6% for both quarters. Use of goods and services were significantly high for Transport and Communication Services, mainly due to the payment of arrears accumulated from previous years to the Ministry of Communications and Information Technology for an amount of NIS 15.5 million. Social Services reached only 28% of the full year budget, mainly due to the shortage of cash. The Ministry of Health is severely affected by the liquidity crisis the PA is facing.

Table 6. Budget Execution Jan-Jun 2013, Use of Goods & Services by Sector, NIS thousand.

Sectors	Use of Goods& Services	2013 Sector Budget	% of Sector Budget
Central Administration	131,477	307,213	43%
Security and Public Order	163,358	323,125	51%
Financial Affairs	25,354	65,060	39%
Foreign Affairs	42,227	90,980	46%
Economic Development	12,312	48,932	25%
Social Services	265,567	963,072	28%
Cultural and Information Services	22,889	91,528	25%
Transport and Communication Services	22,586	16,025	141%
Total	685,768	1,905,935	36%

Transfers of NIS 1.48 billion in the first half of 2013 were higher than the first half of 2012 by 7%. In Q2 2013, transfers amounted to NIS 745 million, an increase over Q1 2013 by 2%, and a decrease over Q2 2012 by 9%. When projected for the full year, transfers are likely to reach the full year budget target of NIS 3.05 billion.

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 7. Budget Execution Jan-Jun 2013, Transfers by Sector, NIS thousand.

Sectors	Transfer Expenditure	2013 Sector Budget	% of Sector Budget
Central Administration	70,007	149,000	47%
Security and Public Order	192,722	120,000	161%
Financial Affairs	343,403*	1,008,900	34%
Foreign Affairs	7,368	13,600	54%
Economic Development	-	53,500	-
Social Services	748,087	1,709,733	44%
Cultural and Information Services	-	300	-
Transport and Communication Services	-	-	-
Total	1,361,587³	3,055,033	45%

Minor capital expenditures in Q2 2013 amounted to NIS 6.8 million, reaching NIS 9.3 million for the first half of 2013, which is a decline by 11% compared to the first half of 2012. This amount reached only 12% of its 2013 budget target at the end of the first half of the year. This is mainly due to the lack of liquidity the PA is facing.

Interest (both domestic and external) in Q2 2013 amounted to NIS 27 million, a decline over Q1 2013 and Q2 2012 by 34% and 33%, respectively. Interest during Q2 2013 reached 36% of the budget target falling short by NIS 26 million. For the first half of 2013, interest payments amounted to NIS 68 million, a 29% decline over interest payments during the first half of 2012. Q2 2013 shows a decline of interest payments on commitment basis, because June's journal entries are still in process, and have not been posted yet. These entries are estimated to be NIS 11 million (USD 3 million). In addition, some overdrafts from May and June are also still in process and are not visible in June's fiscal tables, which are estimated to be around NIS 13 million. Thus, the decline in interest payments in Q2 2013 over Q1 is attributed to commitments that are still in process in the system.

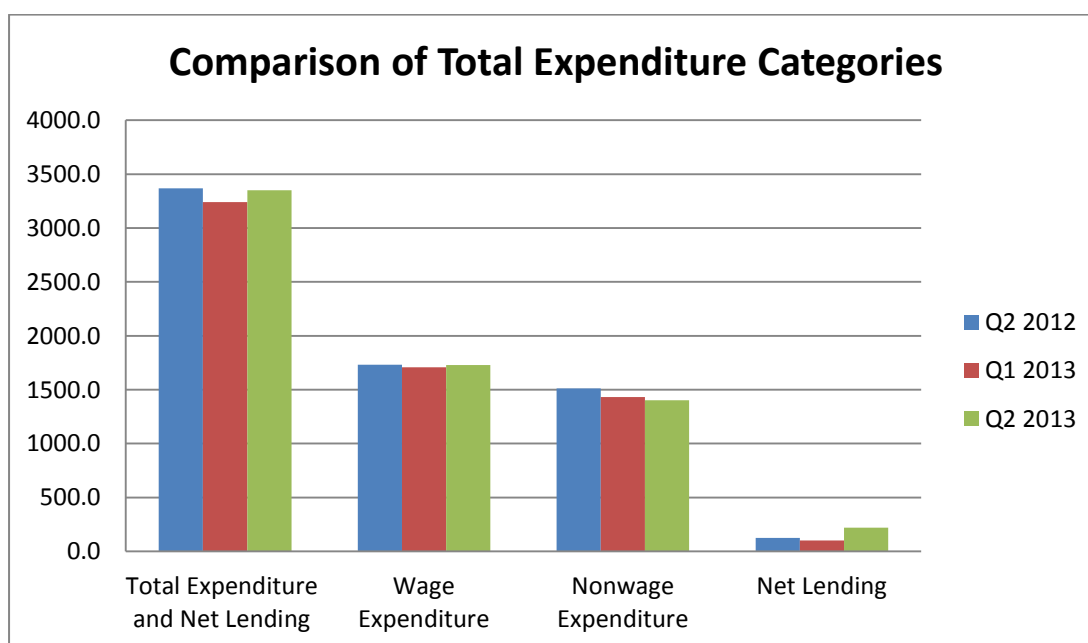
Net lending amounted to NIS 320 million in the first half of 2013, an increase of 18% over the first half 2012. Net Lending in Q2 2013 amounted to NIS 220 million, an increase over Q1 2013 and Q2 2012 by 120% and 76%, respectively.

Net lending was above the half-year budget target by NIS 171 million. The 2013 budget assumed that progress to reduce net lending would be made by increasing the number of customers for the Northern Electricity Distribution Company (NEDCO), installing additional

³ There has been a misallocation of NIS 120 million that were supposed to be in Financial Affairs component, specifically in the "Retirees Pension Allowances." MoF staff are currently working on fixing this issue, and the correction will be visible in July's fiscal data.

prepaid meters and limiting deductions at source by the Israeli authorities. The impact of these policies assumed in the budget did not materialize at the expected pace.

Development expenditures, on a commitment basis, channeled through the PA Treasury amounted to NIS 458 million during the first half of 2013, an increase over the first half of 2012 by 14%. Development expenditures amounted to NIS 277 million during Q2 2013, which is higher than the levels disbursed in Q1 2013 and Q2 2012 by 53% and 35%, respectively. Development expenditures during the first half of 2013 were below the budget target by NIS 189 million. This is mainly due to large shortfalls in external financing for development projects by NIS 411 million. Development external financing was only 13% of the budget target.



D. Balance and Financing

Balance: In the first half of 2013, the recurrent budget deficit amounted to NIS 2.52 billion, a 5% increase over the first half of 2012. This may be lower than the growth in nominal GDP for the same periods. The recurrent deficit exceeded the half-year budget target by NIS 577 million. In Q2 2013, the recurrent balance amounted to NIS 1.49 billion, which is higher than the budget deficit of Q1 2013 and Q2 2012 by 44% and 2%, respectively. The recurrent deficit in Q2 2013 exceeded the budget target due to the fuel. Tax refunds and the underperformance of net revenues over the budget target by NIS 534 million.

Total deficit during the first half of the year amounted to NIS 2.98 billion, an increase by 6% over the first half of 2012. In Q2 2013, the total balance amounted to NIS 1.76 billion, an

increase over Q1 2013 and Q2 2012 by 45% and 6%, respectively. Total deficit in Q2 2013 exceeded its budget target by NIS 388 million (15%).

Financing: During the first half of 2013, external budget support amounted to NIS 2.26 billion (USD 614 million), a 50% increase over the same period of 2012. External budget support reached 56% of the full year budget target, while it exceeded its half-year budget target by NIS 227 million (11.2%). This is mainly due to large contributions made by the Saudi Arabia and USA during the first half of 2013. In Q2 2013, the total budget support amounted to NIS 488 million, a decrease by 75% and 42% when compared to Q1 2013 and Q2 2012, respectively. Budget support during the second half of 2013 is expected to reach USD 635 million, this level will be attained if USD 150 million and USD 100 million are received from the US and Saudi Arabia, respectively. Development financing amounted to NIS 144 million (USD 39 million) during the first half of 2013, which is 20% lower than the amount disbursed during the same period last year. In Q2 2013, development financing amounted to NIS 72 million, attaining the same level of Q1 2013 (Q1 2013 also amounted to NIS 72 million), and declining by 43% when compared to Q2 2012. Development financing was below the budget target by NIS 411 million (74.1%), and the amount received during the first half of 2013 was only 13% of the annual budget for development financing.

E. Arrears

Total net accumulation of arrears during the first half of 2013 amounted to NIS 1.39 billion including development expenditures arrears of NIS 139 million and tax refund arrears of NIS 393 million. Payment arrears to the private sector⁴ have accumulated to NIS 472.9 million. There was about NIS 260 million in wage arrears payments in two tranches in February and March to cover December 2012 half salary arrears. The accumulated monthly arrears of NIS 50-55 million is the employee share not transferred to the pension fund. However, in June 2013 there was an extra NIS 29 million of wage arrears, on top of the employee share arrears, which needs further analysis.

Budget Classifications	NIS mill
Wages and salaries	80.9
Social contributions	319.9
Use of goods and services	252.5
Transfers	186.3
Minor capital	3.7
Interest	15.4
Development Expenditure	138.9
Tax refund *	393.3
Total	1390.9

⁴Payment arrears to private sector include use of goods and services, minor capital, development, interest, and the "other" component of Tax Refunds

Net accumulation of arrears (Jan-June 2013)

