The PA’s fiscal situation remains difficult and the latest conflict in Gaza has placed further pressure on an already tight budget. In the first three quarters of 2014, revenues performed well and were 21 percent higher than in the same period last year. This is mainly owing to strong clearance revenues that were bolstered by increased official imports of fuel into Gaza after the closure of the tunnels with Egypt. Domestic tax revenues started strong in the beginning of the year due to advance payments, but collections slowed in Q2 and Q3 and therefore ended up lower than their prorated budget target for the first nine months of 2014 -- but still 7 percent higher than in the same period in 2013. Aided by lower oil prices, the PA’s efforts to reduce fuel subsidies succeeded as they were reduced by 19 percent in 2014 compared to 2013. Recurrent expenditure was 6 percent higher than the prorated budget target mainly due to overspending on the use of goods and services at the Ministry of Health as a result of the growing cost of health referrals. Net lending, which represents payments to Israel for electricity and water, also significantly exceeded its prorated budget target for the first nine months of the year and was 43 percent higher than in 2013. The wage bill, which is the PA’s largest spending item, grew by 6 percent in the first nine months of 2014 which is slightly above what is anticipated by the budget even though the PA has only paid part of the 2014 ColA. MoF states that this is due to a net increase of 549 in the number of PA employees, as of September, while the budget assumed a zero net hiring policy. The PA reports that this increase is only temporary and it is caused by the fact that new recruitments usually take place in the beginning of the year while most retirements and other departures occur towards the end. The PA’s recurrent deficit, amounting to US$1.04 billion, was 6 percent above its prorated budget target. Foreign aid received in the first three quarters of 2014 was 22 percent less than in the same period in 2013 and was only two thirds the amount assumed by the prorated budget. Additional fiscal pressures have ensued following the recent conflict in Gaza. Figures provided by the MoF indicate that additional spending in Gaza has so far amounted to around NIS30 million. This includes payments to hospitals, fuel supplies, food relief in addition to social assistance. PA expenditure in Gaza is expected to significantly increase once the reconstruction activities start.

The PA has continued to push forward its reform agenda but progress in certain areas such as revenues and arrears accounting has slowed. Implementation of the revenue reform program has significantly slowed and efforts to unify tax departments at the MoF under a single revenue administration virtually stopped. Recent efforts have been mostly focused on training staff in the Audit department and the Large Taxpayers Unit (LTU). Encouragingly, the Identification Unit whose objective is to collect information from third parties and use it to verify the accuracy of personal income tax liabilities is expected to become fully operational by the

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1 Figures reported here on expenditures differ from those reported by MoF because in the MoF’s monthly budget execution tables, repayment of arrears from previous years is recorded as expenditures above the line even though it should be recorded as financing below the line. Between January-September 2014, NIS810 million worth of arrears accumulated in previous years on operational spending in addition to NIS179 on development spending were repaid. In our calculations, these amounts were deducted from expenditures above the line and added to financing, and hence, the difference in figures reported here compared to those reported by the MoF.

2 Information will be collected on bank accounts, vehicle registration, property tax, etc., and will be cross checked against individual tax liabilities.
end of 2014 as key staff members have already been identified and job descriptions drafted. Progress in strengthening the PA’s PFM systems has been uneven. In the area of cash management, the PA has made significant improvement in regards to its cash planning and the MoF has produced an annual cash plan for 2014 that is adjusted on monthly basis. However, the system for recording and reporting arrears remains weak and this represents a major shortcoming that needs to be urgently addressed. Recently, the Cabinet has approved the organization structure of the Higher Council for Public Procurement Policies (HCPPP). The approval marks the achievement of a critical milestone in the construction of the new public procurement system as it would allow HCPPP to launch the hiring of key staff that are necessary for it to assume its envisaged role. The National Standard Bidding documents are in final draft and will be issued by the Council once it becomes operational. The design of the single procurement portal is ongoing, with USAID financing. In the electricity sector, the Cabinet has recently adopted a decision allowing suppliers to cut off electricity supply if a consumer has accumulated unpaid bills, which is expected to enhance collection rates.