

Palestinian National Authority
Ministry of Finance

Press Release
March 16th, 2005

Dr Salam Fayyad, The PNA Minister of Finance, presented this morning the 2005 Budget proposal to Palestinian Legislative Council (PLC). The budget proposal was approved by the PNA Cabinet at its March 15th session.

In his speech to the PLC, Dr. Fayyad reported on the economic situation and fiscal developments in Palestine and highlighted the following:

Economic and fiscal situation in 2004:

- Economic activity in Palestine continued to suffer in 2004 as a result of Israeli incursions, curfews, closures, and the construction of the separation wall. Real GDP growth in 2004 is estimated to have remained weak at around 3.0 percent and per capita GDP to have declined by about 1.5 percent. Palestinians living below the poverty line (measured at \$2 per day) continued to be around 50 percent of the population, and the percentage of those in deep poverty at about 16 percent.
- External budget support in 2004 is estimated to be around \$350 million approximately half the requested budget amount for the year.
- PNA Revenue in 2004 amounted to about \$948 Million, an increase of around 27 percent over 2003 revenues. This substantial increase in revenue performance at a time of great economic and political difficulties was primarily the result of MOF administrative reforms resulting in the expansion of the tax base.

- Transfers to the treasury from profits accrued from investments through the Palestine Investment Fund, amounted to \$60 million compared to \$35 million in 2003.
- PNA wage bill expenditure in 2004 amounted to \$875 million, an increase of 17 percent over the same period in 2003, primarily as a result of the implementation of the civil service law. Nevertheless, the cap on hiring in civil service was observed, and there was significant improvement in controlling hiring in the security sector.
- Total non- wage expenditures for 2004 increased by approximately 30 percent in 2004 as a result of spending on social programs including unemployment support.
- Net lending in 2004 declined to \$145 million from \$175 million in 2003 as a result of a modest improvement in collection capacity of municipal water and electricity bills as well as expansion of electrical transmission lines in some areas.

The 2005 Budget proposal

- Revenue in 2005 is estimated at \$1,058, including domestic revenue of \$396 million and clearance revenue of \$662 million.
- Expenditure in 2005 is estimated at \$1,962, of which \$938 million for the wage bill and \$868 million for non wage expenditures which include, inter alia, \$625 million of transfers to partially cover civil service and security retirement expenditures.
- External financing is estimated at \$1,171 million, which includes \$268 million for development outlays and \$663 million for current expenditure. In addition, to \$240 million will fund a quick disbursing social safety net program.

- Dr Fayyad expressed the PNA's deep appreciation for the continued financial support by our friends in the donor community.

Social safety net program:

- Dr Fayyad reiterated the government's long-standing economic stance of free market orientation policies in which the private sector is the key engine of growth. He emphasized that the public sector can not absorb, nor is it desirable for to absorb, the 40,000 youth who annually enter the job market. The challenge of absorbing the new entrants to the market will have to be met by the private sector within a political climate conducive to private sector investment and a legal framework that guarantees equal opportunity and the rule of law. For this economic framework to succeed in creating jobs and in ensuring social justice, the government will have to be able to help the more vulnerable segments of our society: the unemployed, the sick, the disabled, and the elderly who can not meet the very basic needs for survival.
- Dr. Fayyad underscored the importance of setting up, as a matter of utmost priority, a support system for the unemployed and the needy segments of the population and indicated that a number of our friends in the international community have recently been approached for help with funding this system.
- Dr. Fayyad indicated that the proposed social safety net fund will provide urgently needed cash subsistence assistance to about 200,000 very needy families at a cost of about \$20 million per month. Dr. Fayyad indicated that such assistance, which is over and above existing commitments, will be extended directly to recipients by the Ministry of Finance, and will form the basis of a more permanent social safety net system whose design will be based on fiscal prudence and sustainability.

Financial Reforms:

- Dr Fayyad highlighted the great strides achieved in the area of financial reforms on the road towards achieving a modern, transparent, and accountable financial system in Palestine. Dr Fayyad reviewed these reforms which included the establishment of a single treasury account which consolidated all PNA revenues, enhanced transparency through full disclosure including publishing monthly financial reports on the internet, significant improvements in the management of revenues leading to noteworthy revenue enhancements, compliance with the budget law, expanding and improving monitoring and auditing on financial operations, implementing a national procurement law to include all governmental procurements in both civil and security institutions, introducing direct bank deposit to all security personnel salaries, consolidating all government commercial and investment activities through the Palestine investment fund, and finally the publication of audited financial statements and accounts certified by international auditing firm.
- Dr Fayyad assured the legislators that the Ministry of Finance will continue to build on these achievements. He said that a highly detailed manual of financial operations and directives will be issued, and that an international accounting firm will be selected to help with auditing PNA financial operations.

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