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PRDP-TF: Quarterly Review
January – March 2014

The PA managed to enhance revenue generation and contain its expenditures in Q1 2014. Domestic tax revenues performed well in Q1 2014 growing by 24 percent when compared to the same period last year (although mainly due to advance payments not reflecting a significant widening or deepening of the tax base). Clearance revenue performance was impressive with an increase of 31 percent compared to Q1 2013. On the other hand, tax refunds were 52 percent above expectations due to higher than anticipated spending on fuel subsidies. The PA managed to keep its largest spending items including wages and transfers below expectations, and total expenditure was therefore 2 percent below its prorated budget target. Due to higher than expected revenues and lower than anticipated expenditures, the PA's total deficit, amounting to US$289 million, was 31 percent below its prorated budget target and 12 percent lower than in Q1 2013. Foreign aid received in Q1 2014 was 60 percent less than in Q1 2013 and was almost half the amount assumed by the budget.

The PA has also advanced its reform agenda. It has already approved a new Revenue Strategy and Action Plan that puts emphasis on tax policy and enforcement measures. The investment promotion law was recently revised as holidays previously provided under it were found to be too generous and ineffective in achieving the intended objectives. The income tax law was also amended to introduce a 10 percent tax on distributed dividends. The PA is continuing to implement measures aimed at controlling hiring and wage growth including a zero net hiring policy for 2014. The procurement law was recently signed by the president and the implementing regulation was also approved by the Cabinet. This is a key reform that will enhance the transparency and efficiency of the overall public financial management system. With the help of donors, the PA has recently implemented some important reforms to improve the business environment, including the enactment of the Leasing Law. This is considered an important milestone for the improvement of access to finance as this law is expected to encourage new forms of business financing (i.e. leasing companies) in the Palestinian territories. Significant reforms are also being implemented in the electricity sector. For instance, the Palestinian Cabinet has recently passed a decision that obliges electricity providers in West Bank and Gaza to pay their bills in a timely manner to the Israel Electricity Company, as otherwise they will be heavily penalized.

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