



Executive Summary

The Reality of public debt and arrears

August 2019

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As a general rule, the government budget suffers from deficits if annual expenditures exceed annual revenues. Where expenditure is mainly comprised of operating expenses including salaries and wages for public employees, as well as development or what called capital expenditures such as infrastructure projects and economic development. While revenues are mainly composed of taxes, customs and local fees, as well as donations and foreign grants, whether direct support to the public budget or through development projects. The government usually borrows to offset this budget deficit. Where borrowing can be either internally through local banks and other local institutions, or external borrowing through borrowing from governments or international institutions.

In total, local taxes collected by the Palestinian government account for about 25% of total revenues. The proportion of grants, whether supported by governments or international institutions, is about 25% of revenues. The remaining 50% comes from clearance revenues that collected by the Israeli government to meet Palestinian import taxes through Israeli ports. The Palestinian government revenue structure varies from time to time as according to clearance transfers amount, external grants and the government's ability to collect local taxes. The operating expenditures constitute most of the expenditures of the Palestinian budget by about 85%, while the remaining 15% is a development or capital expenditure. Overall, the deficit in the 2018 budget amounted to about one billion dollars, where expenditures amounted to about 6 billion dollars, while revenues amounted to about 5 billion dollars. In the light of these circumstances, the public debt is the considerable variable of the Palestinian government to finance the expenses of the existing deficit.

In fact, the issue of public debt is an important topic because it affects the standard of living and services necessary for present and future generations and social justice as well. The accumulation of public debt and arrears that due to the private sector and wages of public employees, especially in the economic conditions suffered by the Palestinian National Authority. One of the reasons for these bad economic conditions result from the United States stopping its annual support to the Palestinian government by about 400 million dollars. The Israeli occupation also did not transfer the clearing money to the Palestinian Authority, which caused real economic problem and a

financial crisis that threatens the stability and the performance of the Palestinian Authority in the foreseeable future.

This study examines the public debt and private sector arrears. The study relies on the analytical descriptive approach in extrapolating the Palestinian public budget data, public debt and arrears by relying on data issued by the Ministry of Finance, the Palestinian Monetary Authority and the Palestinian Central Bureau of Statistics. Data on private sector arrears were also collected through interviews and field visits to related institutions. The methodology of the study also includes a review of literature, laws and regulations related to public debt.

In general, the results show that the Palestinian public budget suffers from a financial situation that is fragile and unsustainable. It suffers from a deficit in the current balance, especially since 75% of its revenues are subject to political conditions. The results indicate that the reasons for the rise in Palestinian public debt are the growth of expenditures and the institutional expansion of the Palestinian Authority, and the absence of proper expanding for development without regard to the economic conditions and the volume of resources controlled by the Palestinian Authority. Lower domestic taxes, and the inability of the Palestinian Authority to impose other taxes. More importantly, the Israeli occupation and its controlling on local resources, borders and the control of clearance transfers are essential reasons for the increase in public debt.

The study recommends that, as far as possible, the current expenditures should be controlled and rationalized within a schedule of priorities, especially wages, salaries, appointments and promotions. As well as the need to gradually change the percentage of operating expenditures relative to the development expenditures and directing expenditures to projects that bring investments to increase production, exports and employment in the agricultural and industrial production sectors, and thus increase the revenues of local government collection.

the study recommends that private sector institutions agree with the Palestinian Authority to provide the government with the health and education requirements within a timeframe for payment in a fair and transparent manner. The study also stresses the need for the Ministry of Finance to provide greater transparency and accountability in the management of public debt by civil society organizations. There is also a need to consider increasing domestic revenues either by expanding the capacity of the local economy or by improving tax collection by expanding the horizontal tax base and by reducing the phenomena of tax evasion.