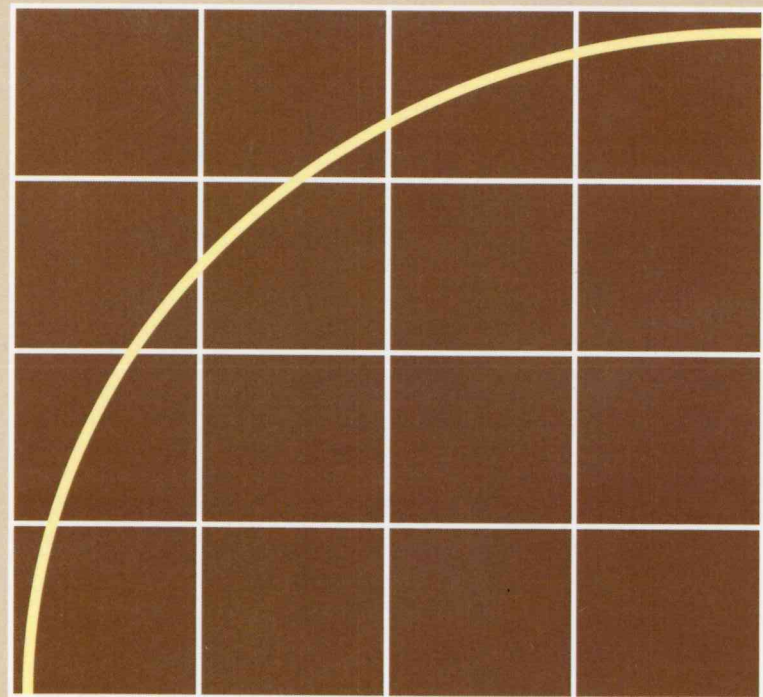


2011

# Economic & Social Monitor



**Palestine Economic Policy Research Institute (MAS)  
Palestinian Central Bureau of Statistics (PCBS)  
Palestine Monetary Authority (PMA)**

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## FOREWORD

This issue of the *Economic and Social Monitor* presents a general statistical review and analysis of the main economic trends in the Palestinian territory during the fourth quarter of 2010. The time-lag between the release date of this publication and the period in review (Q4 2010) is due to the fact that the preparation of quarterly data is a time consuming process – especially in regards to GDP; gathering, processing and analyzing quarterly data takes a minimum of three months. The *Monitor* usually goes to print just before fresh quarterly data becomes available. Therefore, we are planning to adjust the date of publication in order to allow time to incorporate newly released quarterly data into each issue of the *Monitor*.

The current issue of the *Monitor* discusses GDP data from the 4<sup>th</sup> quarter and also the whole 2010 year. This issue provides a comprehensive analysis of the labor market in the Palestinian territory, including the participation ratio, unemployment rate and wages. Furthermore, the issue examines the Palestinian budget during the 4<sup>th</sup> quarter and full year 2010 – including public debt and international aid to the recurrent and development expenditure. It also includes updated information for all of the standard sections of the *Monitor*, including the banking sector, investment indices (company registration, building licenses and cement imports), analysis of prices, purchasing power, and changes in the value of currencies used in the Palestinian territory. Finally, the issue provides a review of foreign trade data for the year 2009 based on the information that was published recently by the PCBS.

Also included in this issue of the *Monitor* are seven independent text boxes, each addressing a topical issue either directly or indirectly related to the policies and economic situation in the Palestinian territory. The topics covered in these boxes include the National Development Plan 2011-2013, the controversy regarding minimum wage policy in the Palestinian territory, the motives for and potential effects of the new amendments to the investment promotion law, the working conditions of Arabs in the Israeli labor market, the quartet agreement regarding Israel's economic blockade on the Palestinian Territory, and a review of a recently published book providing new insight into the causes of the international financial crisis.

We hope that this issue further strengthens the established role of the *Economic and Social Monitor* as a reliable reference to the regular changes occurring in the Palestinian economy. Furthermore, we are optimistic that the information provided in this issue will contribute to heightened awareness and will expand the knowledge base of the Palestinian economy and of economics in general. Moreover, we hope that this issue opens the door for necessary debate on the current restrictions and future possibilities of economic growth in the Palestinian territory.

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## Executive Summary

**Gross Domestic Product:** The Palestinian GDP rose 2.8% during the 4<sup>th</sup> quarter of 2010, an increase consistent with the trend of previous years. The GDP increased by 9.3% during 2010; thus, GDP per capita reached \$1,502 in the Palestinian Territory.

**Labor Market:** Quarterly data showed an increase in employment numbers in both the West Bank and Gaza Strip; employment increased from 709.5 thousand in the 3<sup>rd</sup> quarter to 767.2 thousand in the 4<sup>th</sup> quarter of 2010. Regarding the distribution of workers by area of employment, 63.9% were located in the West Bank, 26% in the Gaza, Strip and 10% in Israel and settlements. The unemployment rate in the Palestinian territory decreased from 26.6% in the 3<sup>rd</sup> quarter to 23.4 in the 4<sup>th</sup> quarter. During the 4<sup>th</sup> quarter, the solicitation of job openings (in newspapers) by employers amounted to 1,738 ads, a figure closely resembling that of the 3<sup>rd</sup> quarter.

**Public Finance:** Total government revenues dropped to \$428 million in the 4<sup>th</sup> quarter of 2010, a decrease of 15.1% from the previous quarter. Total public expenditure increased by 12.2% in the 4<sup>th</sup> quarter, reaching \$861.5 million. The recent increase in public expenditure and decrease in revenue has substantially inflated the budget deficit; the deficit increased from \$169.7 million in 3<sup>rd</sup> quarter to \$358.2 million in the 4<sup>th</sup> quarter of 2010.

**Banking Sector:** Net assets of banks operating in the Palestinian Territory increased by 3.4% during the 4<sup>th</sup> quarter of 2010. During this period, total credit facilities reached \$2.8 billion, an increase of 1.5% from the previous quarter. Additionally, the number of checks presented to bank for clearing increased by 4.8%, as their value rose by 10% during this period.

**Palestine Securities Exchange:** The number of shares traded in the market increased by 29% during the 4<sup>th</sup> quarter, reaching 46.7 million shares. The increase of trade was accompanied by a sharp rise in the value of shares – an increase of 44% from the previous quarter.

Lastly, Al-Quds index closed at 489.60 points at the end of the 4<sup>th</sup> quarter, a decrease of about 2 points from the 3<sup>rd</sup> quarter.

**Company Registration:** The number of companies registered in the West Bank reached 290 during the 4<sup>th</sup> quarter of 2010; an increase of 78% from the previous quarter. Total capital for newly-registered companies in the West Bank amounted to approximately J.D.237 million. Regarding the distribution of listed companies according to sectors, 4<sup>th</sup> quarter data shows that 86% of registered companies were in the services sector. In reference to region, Ramallah and A-Bireh (43.4%), Hebron (13%) and Nablus (12%) held the largest proportion of registered companies.

**Building Licenses and Cement Imports:** The number of building licenses issued in the West Bank increased by 2% from the 4<sup>th</sup> quarter of 2009. Furthermore, the amount of imported cement increased by 15% during the 4<sup>th</sup> quarter of 2010 compared with 3<sup>rd</sup> quarter 2010.

**Hotel Activity:** The total number of guests staying in hotels located in the Palestinian Territory was 170,671 during the 4<sup>th</sup> quarter of 2010, of which 9% were Palestinians and 36% Europeans. The number of guests increased by 24% from the previous quarter and by 20% from the previous year (4<sup>th</sup> Quarter 2009).

**Prices and Purchasing Power:** The Consumer Price Index (CPI) in the Palestinian Territory increased by 1.59% during the 4<sup>th</sup> quarter of 2010. Likewise, the Producer Price Index (PPI) increased by 2.06%. Moreover, the purchasing power of the US Dollar and the Jordanian Dinar decreased by 3.3% during the 4<sup>th</sup> quarter of 2010.

**Legal and legislative environment:** President of the PNA Mahmoud Abbas issued a presidential decree in late 2010 – law no. 9, 2010 – aimed at regulating banking activity in the Palestinian Territory. The new law has effectively amended and improved the old banking law (no. 2, 2002). Also during this period, President Abbas published a presidential

decree establishing the Palestinian Charitable Organization for family's cooperation. During 2010 President Abbas introduced nine laws and approximately 60 decisions and presidential decrees. These changes led to upgrades, allocations, and amnesties for convicted people and the formation of military tribunals.

**Israeli Violations:** The number of Palestinians killed by Israelis reached 26 in the 4<sup>th</sup> quarter of 2010; 6 in the West Bank and 20 in Gaza Strip. Additionally, 215 Palestinians were injured by Israelis during this period. The number of prisoners during the same period reached 679; 670 in the West Bank and 9 in Gaza Strip. The number of temporary Israeli imposed checkpoints in the West Bank reached 2171 during the 4<sup>th</sup> quarter of 2010, up 4.6% from the previous quarter. The crossing points between Gaza and Israel were close 288 times during the 4<sup>th</sup> quarter – only a slight decrease from the previous quarter (300).

**Areas of discussion:** In this issue of the monitor seven different topics will be discussed; each are separated into independent boxes.

**National development plan 2011-2013 “Establishment of the State and building the future”:** This box discusses the 6<sup>th</sup> development plan of the PNA, which was published in April of 2011 and titled ‘The Establishment of the State and Building the Future 2011-2013’. The development plan outlines a roadmap for establishing, building upon and strengthening PNA institutions. The plan focuses on a medium-term financial framework (3 years) that would distribute investment to four main sectors: governance, social and economical development and infra-structure. The box will include details of this plan.

**Trade Unions call for the imposition of a minimum wage policy in the Palestinian territory:** Trade Unions have called for the implementation of labor law items concerning the protection of workers' rights. The Unions have pointing out the importance of adopting a nationwide minimum wage policy. The Unions have lobbied for a minimum wage of not less than 1,800 NIS monthly – in all sectors and regions uniformly. Although the position of the PNA does not significantly diverge from that of the Trade Unions, the Ministry of Labor and the

employers' representatives find that it's not the suitable time for implementing a minimum wage policy. Economists disagree about the possible effects of a minimum wage policy in the Palestinian Territory This box explores these divergent views regarding the possibility of applying this policy.

**The achievements of the quartet representative in reducing economic constraints:** On the 4<sup>th</sup> of February 2011, Tony Blair, the quartet representative, and the Israeli government agreed on a number of procedures to reduce the economic blockade Israel has placed on the West Bank and Gaza Strip. These include: decreasing restrictions on exports from Gaza, decreasing restrictions on imports into Gaza Strip, the improvement of power generation in the West Bank and Gaza Strip and the improvement and development of clearing-house resources. This box includes detailed information about these developments.

**A new law regulating banking activities in the Palestinian territory:** A new law regulating banking activities in the Palestinian territory was introduced recently. The PMA prepared the 1<sup>st</sup> draft of this law that seeks to mend the inconsistencies and fill in the gaps that have become evident in the old banking law (no 2, 2002). This box examines several aspects of change that this modification of law is meant to induce.

**New amendments to the investment promotion law in the Palestinian territory, reasons and expectations:** The Palestinian president published a resolution to modify the investment promotion law number 1, 1998. According to the Palestinian Ministry of National Economy, these modifications were made for the purpose of “stimulating investment in the Palestinian economy and creating better partnership relations with the private sector, besides restructuring the Investment Promotion Board”. This box includes an exploration of the modifications made, including the economic repercussions, reasons behind the modification, and the expected outcomes.

**The global financial crisis - a new look:** This box includes a review of Ragoram Rajan's (2010) book, “Fault Lines: How Hidden Fractures Still Threaten the World Economy”.

The book provides a range of applicable recommendations for preventing a similar crisis in the future. The author contends that governments and their economic policies may lead their nations' into a global financial crisis. Rajan points out two major reasons which contributed to the recent global financial crisis. These include the economic policy in the USA and the trade imbalance in the global market.

**Palestinians in the Israeli Labor Market – Lower wages for higher education:** The Israeli Ministries of industry, trade, and labor, in cooperation with the Israel Bureau of Statistics,

have produced a study revealing the divergent participation rates and wages among Palestinians and Israelis working in Israel. Although the study was conducted in 2008, it was not published until early 2011. This box explores the information gathered by this study and examines the differences found among participation rates, unemployment rates, wages, income, and education.





### Key Economic Indicators in the West Bank\* and the Gaza Strip for the years 2000-2010

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Population by mid year (thousands)</b>											
Occupied Palestinian Territory	3,053.3	3,138.5	3,225.2	3,314.5	3,407.4	3,508.1	3,612.0	3,719.2	3,825.5	3,935.25	4,048.40
West Bank	1,943.7	1,992.6	2,042.3	2,093.4	2,146.4	2,203.7	2,262.7	2,323.5	2,385.2	2,448.4	2,513.3
Gaza Strip	1,109.7	1,145.9	1,182.9	1,221.1	1,261.0	1,304.4	1,349.3	1,395.7	1,440.3	1,486.8	1,535.12
<b>National Accounts (Million Dollars)</b>											
GDP**	4,118.5	3,765.2	3,264.1	3,749.6	4,198.4	4,559.5	4,322.3	4,554.1	4,878.3	5,241.3	5,728.0
GDP per capita (USD)**	1,450.2	1,287.9	1,084.8	1,210.9	1,317.0	1,387.2	1,275.4	1,303.2	1,356.3	1,415.7	1,502.4
Household Expenditure**	3,982.0	3,901.4	3,627.8	4,103.1	4,400.3	4,467.5	4,197.5	4,591.2	4,851.9	5,285.4	-
Public Expenditure	1,100.7	1,022.7	947.9	903.1	1,048.9	833.3	870.4	892.7	995.9	1,105.5	-
Gross Capital Formation**	1,561.1	1,120.0	954.1	1,204.0	1,022.3	1,265.7	1,347.2	1,122.9	1,060.5	1,137.3	-
Net Balance of Goods Trade**	(2,432)	(2,055)	(2,082)	(2,382)	(2,210)	(2,009)	(1,668.6)	(1,970.5)	(2,047.4)	(2,289.4)	-
Commodity Imports**	2,978.5	2,418.6	2,423.8	2,776.8	2,622.1	2,466.5	2,203.8	2,508.3	2,642.4	2,881.2	-
Commodity Exports**	546.6	363.2	341.8	394.4	412.3	457.5	535.2	537.8	595	591.8	-
<b>Prices and Inflation</b>											
Average Exchange Rate of the USD Against the Shekel	4.086	4.208	4.742	4.550	4.478	4.482	4.454	4.110	3.567	3.93	3.73
Average Exchange Rate of the JOD Against the Shekel	5.811	5.928	6.674	6.417	6.307	6.317	6.292	5.812	5.042	5.54	5.27
Inflation Rate (%)***	2.8	1.2	5.7	4.4	3.0	4.1	3.8	1.9	9.9	2.75	3.75
<b>Labor Market</b>											
Number of Employees (thousands)	600	505	477	564	578	603	636	690	667	718	745
Participation Rate (%)	41.5	38.7	38.1	40.3	40.4	40.4	41	41.7	41.2	41.6	41.1
Unemployment (%)	14.1	25.2	31.3	25.6	26.8	23.5	23.7	21.7	26.6	24.5	23.7
<b>Social Conditions</b>											
Poverty Rate (%) ****	-	27.9	-	-	25.9	24.3	24	31.2	-	26.2	25.7
Deep Poverty Rate (%) ****	-	19.5	-	-	14.2	15.3	13.7	18.8	-	13.7	14.1
<b>Public Finance (Million Dollars)</b>											
Net Domestic Revenues *****	939	273	290	747	1,050	1,370	722	1,616	1,780	1,548.4	1,834.7
Current Expenditures and Net Lending	1,199	1,095	994	1,240	1,528	1,994	1,426	2,567	3,273	2,919.6	2,923.4
Development Expenses	469	340	252	395	0	287	281	310	-	46.8	273
Surplus (deficit) Budget before Support	(260)	(822)	(704)	(493)	(478)	(624)	(704)	(951)	(1,493)	(1,412.7)	(1,089)

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total Grants & Assistance	510	849	697	620	353	636	1,019	1,322	1,763	1,402	1,210
Total Surplus (deficit) Budget	(219)	(313)	(259)	(268)	(125)	(275)	34	61	270.2	(144)	(174.2)
Public Debt	795	1,191	1,090	1,236	1,422	1,602	1,494	1,439	1,406	1,732	1,883
<b>Banking Sector (Million Dollars)</b>											
Assets/Liabilities	4,593	4,430	4,278	4,728	5,101	5,604	5,772	7,004	5,645	7,893	8,608
Equity	242	206	187	217	315	552	597	702	857	910	1,097
Clients' Deposits	3,508	3,398	3,432	3,625	3,946	4,190	4,216	5,118	5,847	6,111	6,802
Credit Facilities	1,280	1,186	942	1,061	1,417	1,788	1,843	1,705	1,829	2,109	2,825
Number of Banks	21	21	20	20	20	20	21	21	21	20	18

Source: Palestinian Central Bureau of Statistics, the Palestinian Monetary Authority. For a series data for the period before 2000, please refer to issue 23 of Monitor between hands.

- \* West Bank: means the West Bank except that part of Jerusalem governorate which was annexed forcefully by Israel following its occupation of the West Bank in 1967 (with the exception of the data on unemployment and population).
- \*\* Data in constant prices. Base year for the 2000-2003 is 1997; base year for 2004-2010 is 2004. Data for 2010 is preliminary and subject to revision and amendment and is based on quarterly estimates.
- \*\*\* The inflation rate is based on the comparison of average indices of consumer prices for the comparison year with its average in the previous year. Base year for the period 2000-2006 was 1996 (1996=100), base year for the period 2007-2010 is 2004 (2004=100).
- \*\*\*\* The PCBS defines poverty in relation with the family budget. Deep Poverty: any standard family (5 members: two adults and 3 children) possessing a budget to cover the expenses of food, clothing and housing. Relative poverty: any standard family possessing a budget to cover the expenses of food, clothing, housing, health, education, transportation and other expenses.
- \*\*\*\*\* The total net revenues is the total current revenues after the deduction of tax revenues.
  - Figures in brackets are negative.

## Monetary and Fiscal Institutional Information: Palestine

Monetary Policy	
Introduction	<p>Monetary affairs in the Palestinian Territories are managed by the Palestine Monetary Authority (PMA). The PMA's responsibilities and functions are governed by two documents: the Paris Protocol on Economic Relations between Israel and the PLO, signed in 1994, and the PMA's Law issued by the Palestinian Authority in 1997. A new draft law regulating the works of the PMA and updating the old one has been prepared by the PMA in consultation with international experts. The new law is expected to be issued officially in the coming future.</p> <p>The PMA is a unique institution since Palestine has no national currency and uses three currencies (the New Israeli shekel-NIS, Jordanian dinar and American dollar). The PMA is not a national bank, although it has strong aspiration to become one. The basis for such a shift is secured in the new law of the PMA.</p>
Objective and Targets	<p>Paris Protocol states that the PMA will act as the PA's official economic and financial advisor and sole financial agent. Furthermore, the PMA will license, regulate and supervise the work of banking sector and will establish a clearing house in order to clear money orders between the banks operating in the Territories.</p> <p>The PMA Law adds to the PMA duties the issuing (in due time) of national currency and the preparation/publication of the Balance of Payments for the Palestinian Territories (which is being carried out in cooperation with Palestine Central Bureau of Statistics, PCBS.)</p>
Instruments	<p>The greatest challenge the PMA face is to conduct monetary policy in absence of national currency. This situation leaves very little room for monetary policy. So far one main instrument has been used: the Banks reserve ratio (although Paris Protocol dictates that reserve ratio on various kinds of NIS deposits will not be less than 4% to 8%.) Also, the PMA has been active in regulating the maximum ratio of investment abroad to total deposits in order to encourage domestic lending. This ratio has been reduced recently from 65 to 55%.</p> <p>The other main instrument which the PMA is planning to use is the Inter Bank Certificates of Deposits (CD). These CDs, expected to be launched in 2011, can be used by banks, as well as the PMA, to borrow and lend between themselves.</p> <p>In as far as the regulatory role with regard to the banking system, the PMA has done admirable work in supervising the 19 foreign and local Banks (200 branches) in the Palestinian Territories. The latest achievement in this regard is the establishment of the Credit Bureau. This Bureau consists of three systems; the first is the PMA Credit Registry System which is a comprehensive database with credit and demographic information on individual and company borrowers and their guarantors. The second is the bounced checks system, and the third is the credit scoring system.</p> <p>Also the PMA has issued a new Bank Law which escape most of the shortcomings of previous law and introduces best international practice in banking. The Law was signed by the PNA's President and published in the Official Gazette in 2010.</p>
Governing board appointment and mandate	<p>The PMA governor and his deputy are appointed by the PA President based on nomination from the Council of Ministers. The PMA is managed by a Board with 9 members: the Governor, his deputy, a representative of the Ministry of Finance (MoF) and six independent economists and legal experts (technocrats or academics). The President nominates and appoints 2 members, the Cabinet nominates three members (along with nominating the Governor and his deputy), the MoF nominates its representative, and one member is nominated by the Governor. The tenure for the Governor and his deputy is a renewable 4 years while it is 3 years for the members of the Board.</p>
Government financing by the central bank	<p>The PMA Law makes clear that, upon the request of the Finance Minister, the PMA <i>may</i> provide interest-free loans to the PA's treasury to cover its budget provided that the loan does not exceed 10% of the domestic revenues (as in the estimated budget) and for a period of three month that can be renewed for a maximum of 4 three-month rounds.</p> <p>The President, the Minister of Finance and the Cabinet are called upon to consult</p>

	<p>with the Governor when dealing with matters related to money and credit. Also, when dealing with fiscal matters that have some effects on monetary and credit in the Palestinian Territories. The opinion of the governor regarding monetary and fiscal policy is not obligatory for the president.</p> <p>The PMA can (if it chooses) buy and sell treasury bonds directly or indirectly.</p> <p>So it appears that the PMA enjoys a great deal of independence from the executive authorities, although the PA's President has some influence on appointment of the members of the Board, the external auditor. However, it is difficult to judge the real independence of the PMA on the ground and in actual experience since the instruments at the disposal of this institution are not yet as powerful and significant as in the case of a normal central bank.</p>
Accountability	<p>The PMA's Board is the highest authority in the PMA and has a full mandate to design and supervise the policies. However, the Board is held accountable to the PNA's President, and it has to submit a quarterly detailed report including its work and activities, the banking and monetary environment. In addition to an annual, brief report within 3 months after the end of the fiscal year.</p>
<b>Fiscal Policy</b>	
Medium term – results oriented budgeting	<p>To reduce dependency on international aid. International aid to support the PA's budget amounted to about \$ 1.28 billion in 2010 (\$ 1,147 m for the recurrent budget and 130 m for the development budget) compared with about \$ 2 b in 2008 (\$1,760 m and 250 m respectively). The goal of the government is to reduce the need for international support to the recurrent budget to \$1 billion in 2011, and to become fully self-finance for recurrent expenditures by the end of 2013.</p>
Public debt management	<p>A new Public debt law was introduced in 2005. The law established a committee headed by the Minister of Finance and include the PMA Governor and DG of Palestine Capital Market Authority as members, with a mandate to design strategies for public debt management. Also a department of public debt was established at the MoF to provide technical support with regard to debt and foreign loans. The law imposed a ceiling on public debt should (not exceeding 40% of GDP) and defined the specific expenditure purposes for which government may borrow</p> <p>The PA's total public debt at the end of 2010 amounted to \$ 1,883 m, 55% of which was foreign public debt.</p>
Budget Classification	<p>In full conformity with international best practices.</p>
Efficiency of Fiscal Management	<p>Following the deep and comprehensive reform and re-structuring since 2005, the IMF has highlighted the PA's financial transparency as a model of good governance among the developing countries. Full and up to date data on the financial stance of the PA are posted regularly on the MoF's web site.</p>
Commodity Subsidies	<p>No food or fuel subsidies in the classical meaning of the term.</p> <p>However, the Palestinian Territories receive considerable amount of food aid annually (mainly from the UNRWA and World Food Program WFP). Total food aid amounted to some 224,000 tons of grain equivalents in 2009. The two agencies provided food aid to some 1.9 m persons, i.e. to some 47% of the entire population in the Territories. Also, part of bills of electricity and water purchases from Israel which the Palestinian municipalities fail to pay is paid for from the budget.</p>