

**Address by His Excellency Minister Shukry Bishara at the
Ad-Hoc Liaison Committee (AHLC)**

New York
September 18th, 2017

The Honourable *Federica Mogherini*,

The Honourable *Børge Brende*,

Excellencies,

Ladies and Gentlemen,

I had the honor of attending my first AHLC meeting back in Sept 2013.

It was then a period of hopeful expectations.

President Obama had just mandated the former Secretary of State, John Kerry, to embark on a new peace initiative between us and the Israelis, aimed at achieving an agreement within nine months of intensive talks.

Barely three months into my job, I stated in my address to this forum --- that in the context of the ongoing negotiations --- the main agenda of my ministry would be two-fold:

- First, to accelerate institutional and systemic reforms, especially in the public finance domain, so that we would be well positioned to leverage the potential dividends of a peace deal.
- And secondly, it was to put in place sufficient financial buffers to help us survive the inevitable shocks that would arise --- if a breakthrough in the peace talks proved to be out of reach.

It is a disheartening fact, that like all other efforts at peacemaking, these talks collapsed on Israel's rock of intransigence. And it is the consequences of the failure to advance peace that we've had to contend with:

- In June 2014, we suffered from a 52 day full-blown war on Gaza, which has left in its wake devastation and suffering of catastrophic proportions.
- In late 2015 - we lived through a popular movement, randomly driven in most cases by kids - who share one thing and only one thing in common --- they have known nothing else in their lives except the oppressive conditions of living under military occupation - -- and they have reached the depths of despair.

- More recently, this last July - we went through a 14 day upheaval at the site of Al-Aqsa Mosque and across East Jerusalem - which contained all the hallmarks of turning into yet another calamity.

This is just a glimpse of the environment in which we have been bound to conduct public finance affairs.

Notwithstanding such challenges, our actions during the past four years have been governed by four main imperatives:

First and foremost on our mind has been the need to eliminate the budget deficit --- for long, a source of existential threat to our economy.

Four years ago, our aggregate revenues barely covered 50% of our operating expenditures.

The public-sector wage bill alone consumed about 85% of all revenues. Our budget deficit before aid stood at 18% of GDP and after aid stood stubbornly at almost 10% of GDP.

Today, four years later, our revenues have successfully been doubled and now cover 87% of our expenditures, and the public-sector wage bill has been shrunk down to about 53% of revenues.

After taking into account foreign aid receipts, our recurrent deficit stands now at a mere 1% of GDP. And after the allocation of development expenditures from our own resources - representing 3% of GDP, the projected full year deficit for 2017 will be 4% --- within range of optimal standards.

The **second** strategic imperative has been the obligation to bolster the pivotal role of the Palestinian private sector. Four years ago, the performance of this sector was handicapped by an array of impediments.

In 2013 among other things, the stock of unpaid arrears in favor of this sector was a massive amount of \$760 million – approximately 7% of GDP; with an aging profile of 3 years on average.

We have decided to put an end to the accumulation of such arrears, and have reduced them down to approximately \$120 million, with the objective of eliminating this flawed method of indirect deficit financing - once and for all - by next year.

Simultaneously, we've introduced a number of programs specifically designed to inject steady liquidity in favour of the sector.

Moreover, in the absence of monetary tools, we have acted in 2015 to reduce income tax from 20% down to 15% - to promote the resilience of the private sector.

We are determined to continue overhauling our tax regime and have signaled to the market the possibility of a further tax cut in early 2018, provided we can maintain the pace of enhanced tax compliance and revenue mobilization.

Thirdly, as a matter of policy guidelines, we have kept domestic and external borrowing at a modest level of below 20% of GDP. We have adopted this policy rule to minimize future debt service obligations --- which we can ill afford --- and to avoid competing with the private sector for the limited liquidity resources of our banking sector.

Fourthly, we have pursued reforms across all cost centers, processes and policy frameworks. Significantly, we have acted to ensure the solvency of the public pension fund - by introducing to the budget law in 2015 the mandatory transfers by the treasury of the monthly pension obligations.

Had we not imposed this policy rule, the public pension fund would have been on the verge of collapse by the beginning of this year.

My friends, we have managed this sort of performance when all the odds were against us; but more pertinently, when aid had been - in parallel - cut down from its historical yearly average of \$850 million, to currently no more than \$420 million.

Therefore, today it is worth taking a moment to consider the following points:

- Had aid been kept at its historical levels, we would by now have been able to completely eliminate our budget deficit, and to allocate increasingly larger amounts towards the much needed government development and investment interventions.

- In this regard, we had reasonably expected that a disciplined approach to public finance would have been reinforced by the maintenance, if not by the increase in aid - instead of it being met by just the opposite.
- We must remember that in the first place, aid has been a pillar for underwriting the peace process. It was offered to help us establish the institutions and frameworks that are an essential condition for our independence.

Paradoxically, we now have to shoulder all the costs associated with the running of a full-fledged state, while deriving none of the benefits that come with actual independence.

In this meeting, you may hear from our Israeli counterparts about a number of measures - of mostly transactional nature - that have been authorized by the government of Israel and military command. Clearly, such transactions are appreciated, but they fall short from the kind of comprehensive measures that are critically needed.

For we must not lose sight of the fact that it is simply impossible for our economy to transition beyond survival mode:

- If we cannot develop and invest freely in area "C" - which represents 64% of our territory.
- If we cannot build modern transportation systems between our cities; nor construct housing projects in area "C".
- If we cannot expand our agriculture sector or extract our natural resources also in area "C".
- If most of our citizens cannot even set foot in Palestinian east Jerusalem - a city blessed with one of the greatest tourism and hospitality potentials in the world.
- And if we are unable to exercise effective governance in Gaza for lack of territorial continuity and freedom of movement between the West Bank and the rest of the 40% of our people who live there.

These are the kind of daunting obstacles that must be removed if the Palestinian economy is to stand the slightest chance of achieving any degree of sustainability.

I will finish here, by saying that never before has the Palestinian-Israeli conflict been poised at a more critical juncture.

Perhaps the days and weeks to come will reveal whether the renewed efforts at peace making by President Trump's administration shall yield positive results.

In the meantime, we have our work cut out for us. For it is our responsibility to do all that is in our power to preserve what you – the donor community - and us, have already built together.

For our part, we shall do so, with every last ounce of stamina.

And for those who believe in the two-state solution, we must be able to count on your commitment to stay the course with us, in the hope that somehow, sometime, an end to the Palestinian-Israeli conflict shall become a reality.

In ending, allow me to say to His Excellency, Mr. Brende – the chair of this meeting – that words are not adequate enough to convey our appreciation for the dedication and hard work he and his team have taken upon themselves to promote the cause of peace, and to make these AHLC meetings a productive and valuable forum.

- END