Economic Ramifications of the Disengagement Plan

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Introduction

On June 6, 2004, the Israeli government approved the plan for disengagement from Gaza and northern Samaria, which announced, "The State of Israel has come to the conclusion that there is currently no reliable Palestinian partner with which it can make progress in a two-sided peace process. Accordingly, it has developed a plan of revised disengagement . . . [to break out of] the stalemate dictated by the current situation."[1] A primary goal of the plan is to "lead to a better security, political, economic, and demographic situation," in part by reducing "friction" between Jewish and Arab populations through the dismantling of settlements.[2] The plan represents a diplomatic measure by the government supplementary to the ongoing military action to stop Palestinian violence. Furthermore, it aims to create a situation in which the Palestinian Authority (PA) is forced either to take action to institute an orderly regime in the Gaza Strip, or yield to another governing power.

The Israeli government has presented the disengagement plan as a political measure that reflects the lack of an alternative, rooted in the assessment that "there is no peace partner" on the Palestinian side. This plan is not designed for the economic sphere, and its objectives do not extend to this dimension of Israeli government policy. Nonetheless, disengagement is a political plan with economic consequences for the Gazan and Israeli economies. This essay will examine those consequences.

Palestinian Economics and Terms of Disengagement

From September 2000 until the end of 2002, the overall Palestinian economic situation deteriorated. The negative trend was reflected in key indices, such as per capita GDP, per capita income, the number of jobs, unemployment, and the incidence of poverty among the population. This negative trend reached a peak in 2002 (figure 1).[3] In 2003, a change occurred in various general Palestinian economic indices, perhaps indicating a turning point in the negative economic trends.[4] The improvement in the Palestinian GDP in 2003 is attributable to a fall in the level of violence, which resulted at least in part from the successful thwarting of attempted Palestinian violence within Israel. According to figures from the Palestinian Central Bureau of Statistics, the trend towards a moderate improvement continued in 2004 in Judea and Samaria, but contrasted with a sharp deterioration in the Gaza Strip. The unemployment rate in the first half of 2004 dropped to 28.6 percent in Judea, Samaria, and the Gaza Strip as a whole, but unemployment was 23.6 percent in Judea and Samaria, and 39 percent in the Gaza Strip.

Israel's intensive military operations in the Gaza Strip in 2004, in response to the attacks on Jewish communities both inside and outside the Gaza Strip, disturbed the daily routine and economic activity in the region. The internal struggle that continued within the Gaza Strip between local organizations and factions also caused a slowdown in economic activity. Absence of order and security and administrative uncertainty detract from economic activity.[5] But it is the link between the level of military activity and the economic situation

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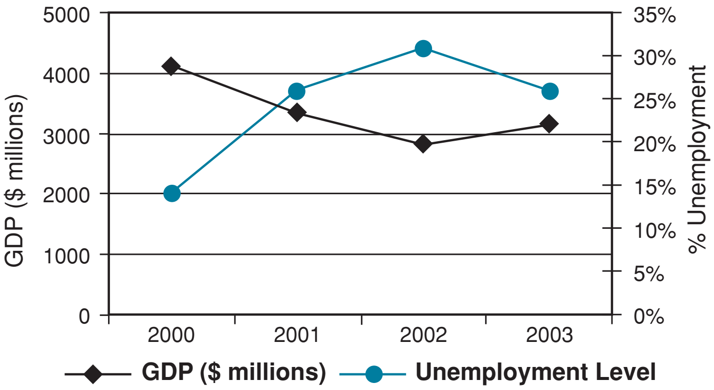
Note: This article was written before the death of Arafat, and does not include an analysis of its effect on the disengagement plan.

Figure 1: The Level of Violence in the Conflict in 2000-2003



Note: The use of this data is aimed at representing the emerging trends, irrespective of the methods used to collect it and the definitions employed for that purpose.
Source: Israeli fatalities: General Security Services; Palestinian fatalities: B'Tselem (The Israel Information Center for Human Rights in the Occupied Territories).

that is the key to evaluating the possible economic consequences of the disengagement plan. An increase in the level of violence affects output and demand on the part of economic units.[6]

An analysis of the number of fatalities (figure 2)[7] in context of economic development statistics for the Gaza Strip (figure 1) demonstrates this trend between 2000 and 2003, indicating that Israeli military activity aimed at preventing terrorism and deterring the terrorist organizations caused damage to local economic activity. Conversely, a reduction in the level of violence accompanies signs of recovery.

Regarding disengagement, several important economic aspects are embodied in the Israeli government plan:

1. Israel retains control over the land and sea borders, and the airspace of the evacuated territory. It retains the right to take preventive action within this territory for defense purposes.

2. Economic arrangements between Israel and the Palestinians already in place on the following issues will remain in effect, including:

a. the entry of workers to Israel according to the current number (36,000 in 2003, including 29,000 from Judea and Samaria and 7,000 from the Gaza Strip)

b. the movement of goods between the Gaza Strip, Judea and Samaria, Israel, and other countries

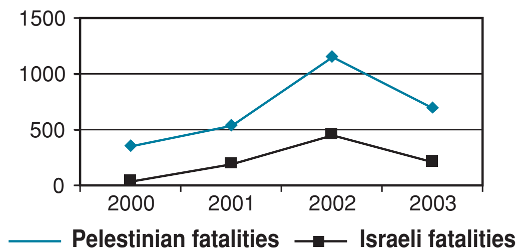
c. the monetary regime

d. tax arrangements and the customs area (collection will continue to take place in Israel, with the money being transferred to the Palestinian Authority)

e. existing arrangements regarding infrastructure (electricity and water supplies, communications, gas, and fuel for the Palestinians).

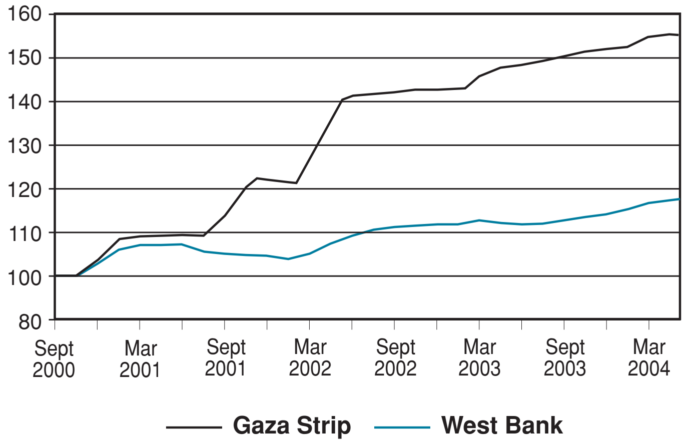
In addition, the plan's long term goal is to reduce gradually the number of Palestinians working in Israel, until they are excluded from the Israeli labor market.[8] It is doubtful, however, if this goal can be realized in the foreseeable future, unless violence in the Gaza Strip continues. The Israeli response to Palestinian violence has combined a suspension of commercial ties and counter-offensives. Yet under conditions of relative quiet, the demand in Israel for cheap, professional, and readily available labor will be as immediate as ever. Therefore, until other sources of employment for the Palestinians in

Figure 2: Palestinian GDP and the Palestinian Unemployment Rate in 2000-2003



Source: The World Bank.

Figure 3: Transportation Costs Index (September 2000 = 100)



Source: World Bank Report – West Bank and Gaza Update, August 2004.

the Gaza Strip are found, Palestinians will continue to attempt to find work in Israel, and relentless pressure on the Israeli government to open the border to allow workers entry into Israel can be expected.

Possible Economic Offshoots of Disengagement

The disengagement plan is designed to achieve security and political disengagement, and stresses preservation of the current situation in economic activity. It is not designed to develop and improve the Gazan economy, or restore the level of activity to what it was before the conflicted escalated in 2000. Nor is it designed to change directly the nature of current economic relations between the Gazan and Israeli economies, although the strength of the ties between the two is what will determine the future development of the Gazan economy. Hence the importance of four economic ramifications of the disengagement plan, in addition to the arrangements mentioned explicitly in the plan: (1) lower transaction costs; (2) transferring assets to the Palestinians; (3) freedom of commercial traffic to Egypt; and (4) changes in foreign aid to the Gaza Strip.

Lower Transaction Costs

The escalation of the conflict with the Palestinians since October 2000 has increased production and market transaction costs. In particular the increase in military and criminal activity in the region generated a rise in transaction costs. Reducing friction between the Israel Defense Forces (IDF) and Palestinian residents following the exit of IDF forces from the Gaza Strip, and the creation of free internal movement within the Gaza Strip, will increase stability and cut local production costs.

World Bank figures show a rise in transportation and cargo shipping prices in 2000-04, a key element in the cost of doing business (figure 3).

Transportation prices rose 57 percent in Judea and Samaria and 20 percent in the Gaza Strip after September 2000, increases that resulted from Israeli and internal Palestinian military activity. Disengagement is likely to lower these costs to the level prevailing before the intifada, particularly in the Gaza Strip. Similarly, the escalating violence led to less internal economic activity, due to curtailed freedom of movement, closures, curfews, land confiscations, inaccessibility to and/or destruction of agricultural areas, local disputes, and uncertainty, all of which contributed to a rise in the cost of labor, raw materials, and the final product. Experts from the Palestinian Federation of Industries estimate the rise in the cost of doing business caused by the disruptions of free movement at 6-8 percent. Removing the disruptions should improve the manufacturing process by this percentage and reduce the annual damage to GDP in the region by $70 million.[9] Implementation of the disengagement plan is thus expected to reduce, or even eliminate, the increase in costs, which in turn will provide an incentive to expand economic activity.

Transferring Assets to the Palestinians

Relinquishing Israeli economic assets from the Gaza Strip, as intended by the disengagement plan, has economic potential for the Gazan economy. Jewish settlements utilize 15 percent of the arable land in the Gaza Strip. Furthermore, much agricultural land has been confiscated or expropriated for the defense of traffic arteries used by the Jewish settlements. Transferring the land and infrastructure built by Israel in the region to the Palestinians is likely to boost local production in the Gaza Strip by 3-5 percent, amounting annually to $30-50 million, according to World Bank estimates.[10] Releasing territories used as buffer areas and rescinding restrictions on cultivation of land around traffic arteries will increase the economic value of disengagement beyond the World Bank's estimates.

In 2002, 17 percent of the total number of employed Gaza Strip Palestinians worked in agriculture, and the agricultural sector accounted for 6.3 percent of the Palestinian GDP.[11] The addition of territories is likely to increase the number of Palestinians working in agriculture, and thereby reduce the level of unemployment in Gaza by approximately 8 percent.[12] The contribution to GDP and employment, however, depends on the ability to export at least some produce from the new agricultural area, since internal demand in the Gaza Strip will likely be insufficient to absorb the entire yield. The disengagement plan does not address the possibility of increasing exports from Gaza to Israel or by way of Israel. It is reasonable to expect this to occur, however, unless Israeli withdrawal is followed by an outbreak of terrorism. Another change is that most proceeds from crop production will be utilized within the Gaza Strip, not in Israel, where the proceeds of Jewish residents in the area are now utilized. This should increase purchasing power in the region. Together with a moderation of Palestinian feelings of exploitation, this boost in purchasing power will have an expansive effect, although its results cannot be predicted.

An earlier version of the disengagement plan raised the possibility that the Erez industrial zone could remain after disengagement, although under a new framework.[13] The Erez industrial zone was once a model of Israeli-Palestinian cooperation, in which Palestinian workers remained in the territories and directly exported their output, not their labor. According to reports by the World Bank, approximately 4,900 Palestinians were employed in the zone in 2002-03, supporting about 3 percent of the population of the Gaza Strip. Palestinians owned half of the businesses there. Since the industrial zone became a target for terrorist operations, however, it was decided to close it and compensate the Israeli business owners. Closing down the zone permanently, combined with the disengagement plan, is liable to hamper the Palestinian-owned businesses by depriving them of the direct access to Israeli markets that they formerly enjoyed. It will harm the chances of reviving the zone in the future, and lower the possibility (mentioned in section 7 of the plan) of establishing a joint Palestinian-Egyptian-Israeli industrial zone on a common border of the Gaza Strip, Egypt, and Israel. It can be assumed that a long time will pass before such an idea becomes a reality.

Commercial Traffic to Egypt

Freedom of movement for commercial traffic to Egypt from the Gaza Strip is an important development likely to result from Israel's withdrawal from the Gaza Strip. It would replace the current commercial route, which passes through Israel. The Israeli economy, in terms of demand and physical and financial infrastructure, now constitutes the outside world for the Gazan economy. The Israeli labor market is a natural market for the Gazan work force, and Israel serves as a natural market for the agricultural and light industrial output from the Gaza Strip. It is also the outlet to international markets: Israel's air and sea ports are currently the only route for business activity with the outside world. Even now, the Israeli economy is the source of most of the inputs that the Gaza Strip needs for consumption and investment.[14] Opening a direct and easy route to the Egyptian economy (and to Europe, through Egyptian seaports) is likely to facilitate the formation of an alternative to the Israeli market for the Gazan economy.[15]

At the same time, neither the Egyptian nor the Jordanian economy can immediately replace the mutually complementary relationship between the Israeli and Gazan economies. The Egyptian and Jordanian economies, which are labor intensive and lack capital, essentially resemble the Palestinian economy, and therefore compete with it more than they complement it. Only after a long process of discovery and cultivation of the relative advantages of the Gazan economy vis-à-vis the Arab economies can the Gazan economy develop substantial exports to the Arab world. It is doubtful whether exporting labor, common from Gaza to Israel, can take place between the Gaza Strip and other neighboring countries. Development of relative advantages is more likely in exports to Europe, but this option will also require a restructuring of the foundations of the Palestinian economy in order to cope with competition from exports to Europe from the Far East.

If the disengagement plan aggravates restrictions on the passage of workers and goods from the Gaza Strip to Israel, and if complete separation between the areas is created as a result of Israeli security considerations, alternative economic ties resting to a large extent on the Egyptian and Jordanian economies will become necessary, under conditions inferior to those that formerly prevailed in the Israeli economy.

Changes in Foreign Aid

The other change likely to emerge following disengagement lies in the designation of foreign aid to the PA in general, and to the Gaza Strip in particular. Since 2000, total international aid to the PA has grown: both actual payments and pledges have increased. Over the past four years, however, two adjustments altered the character of foreign aid from an economic standpoint (table 1). First, the proportion of the aid devoted to investment in development has declined, with more aid increasingly channeled to humanitarian purposes – from 14 percent in 2000 to 80 percent in 2002 – to provide residents with a minimal subsistence. Such aid makes no direct economic contribution to long term development. If financial transfers by Islamic organizations aimed at assisting military activity are added to the official figures, the proportion of financial transfers directed to purposes other than economic growth increases. Second, the percentage of financial commitments met through actual payments dropped.[16]

Table 1: Changes in the Amount of Foreign Aid to the PA (in US $ millions)

	1999	2000	2001	2002
General aid (development)	692	852	473	261
Emergency aid and budgetary aid	0	121	755	1266
Total commitments	692	973	1228	1527
Total payments	482	549	929	1026

Source: World Bank report – "Twenty-Seven Months – Intifada, Closures, and the Palestinian Economic Crisis," May 2003.

The World Bank believes that a considerable proportion of foreign aid currently channeled to welfare because of the economic distress in the Gaza Strip will be redirected to investment in infrastructure and profit-making investment following a successful disengagement. Such a change, should it take place, could contribute to GDP growth and a real increase in per capita income.

It is difficult to determine in advance the response of the Islamic organizations transferring money for the support of terrorism once the disengagement, designed to reduce the reasons for terrorism, occurs. It cannot be ruled out that the internal struggle for control of the Gaza Strip will result in continued use of money from the organizations for welfare purposes and for financing the operations of the organizations themselves rather than overall economic development.

Potential for Improvement

The improvement in the Palestinian economy that began in 2003, especially in the Gaza Strip, compared with the negative trend following the outbreak of violence in 2000 (as well as the reversal of 2004 in Gaza), suggests that if the disengagement plan leads to a significant decline in the level of violence, a further marginal improvement in the Gazan economy is likely. It should not be expected that this improvement will immediately return the economy to its 1999 level. Such a recovery is possible only in conditions similar to those prevailing at that time, and these conditions must be stable and non-random, for example, work permits in Israel for a large number of Palestinian workers from Gaza, and large scale international investments in export-oriented industrial infrastructure. Nevertheless, the disengagement plan has the potential to set in motion a process of improvement in the Gazan economy.

Israeli disengagement, however, does not guarantee realization of the marginal economic potential, and realization largely depends on the response by the Palestinians and their institutions. Indeed, there are a number of serious obstacles to realizing the economic potential of the disengagement plan, but significantly, they involve security and politics more than economics.

■ **Israel's withdrawal does not guarantee a stable regime** that will allow economic mechanisms to operate. Should the violence directed against the Israeli presence transform into a violent internal struggle for control of the Gaza Strip, it will leave the Palestinian economy in crisis conditions and prevent deriving the economic benefits of disengagement.

■ **Failure to observe the military arrangement** of disengagement is a serious risk. If Israeli communities bordering the Gaza Strip are shelled or attacked with high-trajectory fire, Israel will attempt to reduce the damage to its communities by sending the IDF into Gaza. In this case, the Palestinians will have gained settlement land, but under these conditions the economic contribution to Gazan production will be doubtful, due to an inability to market their produce.

■ **Refusal on the part of donor countries** and international investment groups to allocate resources for investment in the Gaza area may result. Possible reasons for such refusal include concern about non-peaceful relations with Israel, internal violence caused by a power struggle, and lack of confidence in the ability of those in power to guarantee that the money is channeled and used according to the donors' wishes. Furthermore, it cannot be ruled out that donor countries will attempt to pressure the parties by preventing the flow of money for investment purposes, in order to bring about discussion of a broader arrangement than unilateral disengagement.

■ **Concern on Israel's part** about opening the Gazan borders to the passage of goods and labor might be compounded by a **refusal by Egypt** to help create a long term alternative to the Gaza Strip's economic connection with Israel.

Disengagement and the Israeli Economy

On the domestic front, the disengagement plan is designed to set in motion two main processes with immediate economic significance: payment of compensation to evicted Jewish residents, and redeployment of the IDF outside the borders of the Gaza Strip.

Compensation to Jewish Residents of the Gaza Strip

The compensation plan for those evicted from the Gaza Strip includes three elements: (1) compensation for loss of property and termination of residence in the area, (2) compensation for loss of livelihood and employment, and (3) incentives for moving to areas of high national priority.

Planned spending on compensation is $200,000-500,000 per family.[17] Those evicted are entitled to demand a valuation by an assessor. The average compensation per family will likely near the upper limit of $500,000 now under discussion. It therefore appears that the overall sum to compensate for the dismantling of Jewish communities from the Gaza Strip will be NIS 5-7 billion. That is a considerable sum – over 1 percent of the Israeli GDP.

The civilian cost will be paid through the state budget, with the possible exception of money provided to those evicted in the form of long-term credit through bank loans and government guarantees. The increase in the budget deficit is difficult to estimate at this stage on the basis of official figures.[18] Nevertheless, it appears that the Ministry of Finance will either distribute the expense over more than one fiscal year, or has already included it in existing budget items that contain various reserves. Furthermore, it cannot be ruled out that the basic plan will be executed as some type of agreement between Israel and the Palestinians, in which case it is possible that either US aid will be obtained, despite denials that this will occur, or that some other international aid will be found.[19]

In view of the above, it appears that the government's macroeconomic plan will not be affected. Spending on compensation for those evicted from the Gaza Strip will not require significant changes in the budget. The way in which the compensation money is utilized, however, is likely to have economic significance. Channeling the compensation money to the domestic market as an addition to existing local demand will not alter basic processes in the Israeli economy. Yet if spending is concentrated in one region (the Galilee, Jerusalem, or the Negev), or on one field of activity (residential construction or financial investment), it is reasonable to assume that significant change will occur in that specific region or field. Use of the compensation funds for leverage regarding a given region or economic sector is likely to have broader economic significance.[20]

IDF Redeployment

Deploying the IDF on a line outside the Gaza Strip, which includes the withdrawal of the police and other services, is liable to cost NIS 1-2 billion. How much of this amount will be budgeted by the Ministry of Finance, and under which fiscal years? How much will replace the regular budget, and how much will be in the form of a budget supplement for the Ministry of Defense? These questions are under negotiation between the Ministries of Finance and Defense, and answers are apparently still unavailable. Solutions, however, will almost certainly be part of the debate over the state budget for 2005. Discussion of the allocation for a change in deployment is expected to focus on two issues. One is whether the redeployment of the IDF can be expected to save money, and if so, how much. The other is which defense spending that has already been allocated can be diverted to pay for redeployment, without affecting other needed activity. Discussion of the IDF redeployment budget may also be separated from the discussion of the budget for the next fiscal year, and the solutions to be presented by the two ministries will not alter the overall budget deficit.

Conclusion

If the disengagement plan substantially reduces violence in the Gaza Strip, it is likely to bring an immediate marginal economic improvement, but this clearly depends on the validity of the plan's working assumptions. In any case, the plan is not designed to restore the Gazan economy to its pre-intifada status. Even if the disengagement plan does not bring about an absolute and immediate recovery, however, it has the potential to create a process of improvement in the Gazan economic situation.

Implementing the disengagement plan with determination and adherence to its basic outline, regardless of political opinions about the removal of Jewish settlements, will give the impression of a government that is in control of the Israeli economy, knows what it wants, and acts decisively to achieve its objectives. Markets are inclined to respond positively to decisive action on the part of the government, and to persistence in action to carry out intentions. If the disengagement plan is successful in lowering the level of violence against Israelis, and if the government acts with determination to complete its plan according to its main guidelines, then economic units will operate in a more stable business environment.

The economic consequences of the plan for the Israeli economy are solely the result of changes in the political environment. If, however, the political environment changes according to the parameters included in the plan, the plan will have only a marginal macroeconomic impact, given the other processes taking place in the Israeli economy.

Notes

1. From the disengagement plan of May 28, 2004, approved by the government on June 6, 2004, http://www.pmo.gov.il/nr/exeres/C5E1ACE3-9834-414E-9512-8E5F509E9A4D.htm.
2. The plan approved on June 6, 2004 stipulates that the government must specifically approve the evacuation of each group of settlements before the evacuation occurs, but it is clear that without the dismantling of settlements, the plan has no significance. Similarly, it appears that the prime minister's aim in promoting the plan is to remove Jewish residents from the Gaza Strip and northern Samaria, hand the territory over to the Palestinians, and station the IDF around the Gaza Strip as an external shield.
3. Palestinian GDP in 2002 was only 62.8 percent of its 1999 level ($2831 million, compared with $4179 million, a 40 percent drop). The unemployment rate rose two and a half times (31 percent, compared with 12 percent in 1999 in the territories as a whole; in the Gaza Strip, the unemployment rate rose from 17 percent to 38 percent). The percentage of those under the poverty line grew from 20 percent to 51 percent, and from 32 percent to 68 percent in the Gaza Strip.
4. GDP grew by 6.1 percent, from $2831 million to $3144 million. The unemployment rate fell from 31 percent in

2002 to 26 percent in 2003, and from 38 percent to 29 percent in the Gaza Strip. The poverty rate declined from 51 percent in 2002 to 47 percent in 2003, and from 68 percent to 64 percent in the Gaza Strip.

5. The conclusion is reinforced by the lists of Palestinian fatalities in 2004, the vast majority of whom were residents of the Gaza Strip. See figures from the Palestinian Human Rights Monitoring Group, www.phrmg.org.
6. Several studies in Israel and around the world demonstrate a link between the level of violence and the level of economic activity in the short term. See, for example, Imri Tov, ed., *Defense and Israel's National Economy: Exploring Issues in Security Production*, Memorandum no. 62 (Tel Aviv: Jaffee Center for Strategic Studies at Tel Aviv University, 2002), pp. 69-71; Imri Tov, "Economy in a Prolonged Conflict: Israel 2000-2003," *Strategic Assessment* 6, no. 1 (2003): 20-25; Daniel Tsiddon and Zvi Eckstein, "Macroeconomic Consequences of Terror: Theory and the Case of Israel," Sapir Center discussion paper, no. 3, 2004; Alberto Abadie and Javier Gardeazabal, "The Economic Costs of Conflict: A Case Control Study for the Basque Country," *American Economic Review* 93, no. 1 (2003): 113-32; Estaban Rossi-Hansberg, "Cities Under Stress," *Journal of Monetary Economies* 51, no. 5 (2004): 903-37.
7. The level of violence is represented through the number of Palestinian fatalities from Israeli military action taken in response to terrorist attacks in Israel. The logic linking the two sets of data is Israel's response to terrorist attacks wuthin Israel. A terrorist attack in Israel stimulated a violent response.
8. Section 10 of the disengagement plan reads, "In the longer term, and in line with Israel's interest in encouraging greater Palestinian economic independence, the State of Israel expects to reduce the number of Palestinian workers entering Israel, to the point that it ceases completely. The State of Israel supports the development of sources of employment in the Gaza Strip and in Palestinian areas of the West Bank, by international elements."
9. "Palestinians Fear Disengagement will Worsen Poverty," *Globes Online*, April 8, 2004, http://www.globes.co.il/serveen/globes/docView_Archive.asp?did=787269.
10. "Disengagement, the Palestinian Economy, and the Settlements," World Bank, June 2004. In our opinion, the World Bank has underestimated the effect.
11. World Bank figures (www.worldbank.org) and the Palestinian Central Bureau of Statistics (www.pcbs.org).
12. Assuming that the same number of Palestinians are employed in the areas of the evacuated Gaza settlements in the same proportion as in the Palestinian economy of 2002, an addition of 5 percent to GDP means an 8 percent reduction in unemployment in the Gaza Strip. The formula used for the calculation is the rate of workers in agriculture, divided by the contribution of agriculture to GDP, times 5 percent, times the employment rate in the Gaza Strip.
13. The disengagement plan, approved on June 6, 2004, section 7, states "The area of the Erez industrial zone will be transferred to the responsibility of an agreed Palestinian or international party." A previous version of the disengagement plan, of April 15, 2004, stated, "Israel will consider the continued operation of the zone on the current basis, on two conditions: (i) the existence of appropriate security arrangements (ii) the express recognition of the international community that the continued operation of the zone on the current basis shall not be considered continued Israel[i] control of the area," http://www.pmo.gov.il/nr/exeres/939E3D2E-1621-4AA9-A6DF-174AE7441DA2.htm.
14. In 1998, imports from Israel accounted for 75 percent of Palestinian imports, and exports to Israel accounted for 96 percent of Palestinian exports. See Claus Astrup and Sebastian Dessus, "Trade Options for the Palestinian Economy: Some Orders of Magnitude," The World Bank, Office of the Chief Economist, Middle East and North Africa Region Working Paper, series no. 21, March 2001.
15. See also Gil Feiler, "Economic Aspects of the Israeli-Palestinian Conflict," BESA at Bar-Ilan University, July 2004.
16. In the absence of other information, we have assumed that actual payments are distributed in the same proportions as commitments.
17. "Compensation Law: Voluntary Evacuees will Receive Advance Payments this Week," *Ynet*, September 13, 2004.
18. The Minister of Finance's assumption, published in the press, that the deficit caused by spending for the disengagement plan will increase the planned budget deficit by 0.4 percent of GDP contains no information requiring a change in the Israeli government's macroeconomic plan.
19. External financing passing through the state budget will increase the formal budget deficit, but funding through institutions not appearing in the budget, such as the Jewish Agency, will not have that effect. The practical economic significance is the same, regardless of the attempts to bypass the restriction on the budget.
20. In the draft Compensation Law, the government intends to encourage the evicted residents, 1300-1700 families totaling 7500 people, to move to national priority region in the Negev or the Galilee. Residents moving to these defined areas will receive a NIS 90,000 loan, which will become a grant after five years of residence. See draft Compensation Law, Section 3.2.6, *Haaretz*, September 14, 2004.