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Law No. 2 of 1997

The Palestinian Monetary Authority

**Chairman of the Executive Committee of the Palestinian Liberation Organization
(PLO)**

President of the Palestinian National Authority

Upon reviewing the Currency Exchange Law No. 26 for the year 1941 which is in force in the Gaza Governorates,

The Banking Law No. 49 for the year 1966 which is in force in the West Bank Governorates,

Decision No. 184 for the year 1994 for the formation the Palestinian Monetary Authority,

Proposal of the Governor of the Monetary Authority,

Draft law submitted by the Council of Ministers, and,

Upon approval of the Legislative Council,

We have promulgated the following law:

Chapter One

Definitions and General Provisions

Article (1)

In the application of the provisions of this law, the following terms and phrases shall have the meanings assigned thereto hereunder unless the context indicates otherwise :

The National Authority : The Palestinian National Authority

Council of Ministers : The Council of Ministers of the National

Authority.

Legislative Council : The Palestinian Legislative Council.

Monetary Authority : Palestinian Monetary Authority.

Board : Board of Directors of the Monetary Authority.

Governor : Governor of the Monetary Authority.

Deputy Governor : Deputy Governor of the Monetary Authority.

Member : Member of the Board of Directors of the
Monetary Authority.

Spouse : Husband or wife.

Bank : Any bank licensed to carry on the banking
operations in Palestine in accordance with the
provisions of the Banking Law.

Specialized Lending

Institution : Any corporate institution or entity established
in Palestine with the main goal of granting
loans for private purposes to be determined by
the Council of Ministers and considered for
the purposes of this law as a specialized
lending institution.

Public Institution : Any authority or entity or any other public
body in Palestine which enjoys a corporate
personality.

Article (3)

The Monetary Authority and its transactions shall be exempt from all government taxes and fees, including the revenue stamp fees.

Article (4)

The headquarters of the Monetary Authority shall be located in the city of Jerusalem and its temporary headquarters shall be in any other place decided by the National Authority. The Monetary Authority may open branches thereto in the Governorates of Palestine, close them down, and appoint agents or correspondents thereto at home and abroad as dictated by the work situation.

Article (5)

Objects, Functions and Powers of the Monetary Authority

The Monetary Authority aims at guaranteeing the soundness of the banking activity, maintaining monetary stability and encouraging the economic growth in Palestine in accordance with the general policy of the National Authority. It may, towards the achievement of these objects, carry out the following in accordance with the provisions of the law:

- 1- Exercise the privilege of issuing the national currency and coins at the appropriate time in accordance with the terms and conditions established by the law pertaining to the issue of currency and to secure the monetary reserves necessary therefore.
- 2- Regulate the banking activities, issue and cancel, control and supervise licenses of banks, and impose penalties thereon.
- 3- Prepare, regulate and publish the balance of payments.
- 4- Provide liquidity for the banks within the limits determined by the law.
- 5- Formulate, regulate and execute the monetary, credit and special policies for dealing with foreign currencies in accordance with the provisions of the Monetary and Credit Law.
- 6- Keep and manage the National Authority's reserves of gold and foreign currencies.
- 7- Provide financial and economic advise to the National Authority and conduct the economic and monetary analysis regularly and publish the results thereof.
- 8- Act as the Financial Agent for the National Authority and the Palestinian Public Institutions in Palestine and abroad.
- 9- Formulate and execute the regulations, decisions and instructions which can ensure the existence of an effective, safe and sound banking system.

- 10- Regulate the volume, type and cost of credit in order to be responsive to the requirements of economic growth and monetary stability in accordance with the provisions of the Monetary and Credit Law.
- 11- Function as a bank for the licensed banks, specialized lending institutions and financial companies as well as supervise same so as to guarantee their sound financial position and protect the rights of depositors.
- 12- Regulate the activity of the money exchange profession, financial companies, development and investment funds as well as issue, control and supervise the licenses pertaining thereto.
- 13- Carry out any other works assigned thereto in accordance with any legislation, law or agreement in a manner not contradictory with the provisions of this law.

Article (6)

Provided that it does not contravene with the provisions of this law, the Monetary Authority may carry out the following:

- 1- Issue, manage and maintain bonds on behalf of the Monetary Authority, purchase from and sell to individuals, banks and other parties in order to realize its monetary policy.
- 2- Make transfers related to its activities.
- 3- Grant licenses to banks or branches thereof and approve the merger, closure or opening of offices or withdraw the licenses thereof.
- 4- Sell movable property or real estate inured to it as a payment of due debts.
- 5- Purchase, lease, sell and maintain buildings and equipment thereof.
- 6- Regulate, control, supervise, protect and manage bank notes and coins in circulation in accordance with the Monetary and Credit Law.
- 7- Impose the appropriate fees for any kind of services provided by it.
- 8- Terminate all operations and activities which were carried out before the promulgation of this law and which contravene with the provisions of this law.

Article (7)

A- The Monetary Authority may not carry out the following:

- 1- Provide financial aid, whether directly or indirectly, a grant, contingent liability, buying of debt instruments or in any other form except within the extent provided for herein.

- 2- Carry out any commercial business or buying of shares of companies or financial institutions.
- 3- Purchase or rent any real estates with the exception of what it deems necessary or appropriate for the running of its work and performing its functions.
- B- Notwithstanding the foregoing provisions, the Monetary Authority may:
 - 1- Have a share in the ownership of any institution or a shareholding interest in an institution that carries out other activities which the Monetary Authority deems necessary for the carrying out of its functions or responsibilities in a sound manner including the international monetary and financial institutions.
 - 2- Invest its financial resources in liquid debentures issued by the parties which enjoy credit capacity and to collect the debts payable to it.
 - 3- Acquire, for the purpose of collecting the debts due to it, the interests and rights referred to in this article, provided that it disposes of these interests and rights with the possible expediency.
 - 4- To establish pension and saving funds and provide advances and loans to its employees in accordance with the provisions of the law.

Chapter Two

Financial Provisions

Article (8)

- A- The authorized capital of the Monetary Authority is fifteen million American Dollars or the equivalent thereto in the currencies in circulation to be paid by the National Authority. The capital may be increased by a decision of the Chairman of the National Authority upon the recommendation of the Board.
- b- The capital shall not be subject to transfer or mortgage and may not be reduced except by a law.

Article (9)

If it becomes evident from the budget for every fiscal year that the assets of the Monetary Authority are less than the total of its capital and liabilities, the deficit shall be covered from the respective reserve balance. In the event of insufficiency of same, the National Authority should pay the difference in cash or issue for its account transferable debentures at the prevailing interest rates in Palestine and transfer same to the Monetary Authority.

Article (10)

The net profits for every fiscal year shall be fixed after paying the

debentures which have been issued according to the foregoing article and after deducting all the liabilities and expenses and particularly:

- 1- The bad and doubtful debts reserve.
- 2- Depreciation of the assets and operating costs for the fiscal year.
- 3- Pension and saving funds.
- 4- Any special reserves for other anticipated expenses or for meeting any shortage in the assets of the Monetary Authority.

Article (11)

- A- The net profits shall be transferred, at the end of every fiscal year, to the capital account until the authorized capital is covered in full.
- B- Upon covering the capital in full, an amount equivalent to 25% of the net profit shall be credited to the general reserve account until the balance in this account becomes twice as much as the capital.

The general reserve may not be used except for the purposes of minimizing the loss sustained by the Monetary Authority.

Article (12)

After deducting all the liabilities and expenses as well as completing the transfers to the general reserves account, the net profit shall accrue to the Treasury of the National Authority.

Article (13)

The distribution of the profits mentioned in the foregoing articles may not be obligatory if the Monetary Authority believes, out of its budget and after approval of the President of the National Authority, that its financial position will be negatively affected as a result thereof .

Chapter Three

Management

Article (14)

- A- The Monetary Authority shall be managed by a nine member Board of Directors under the chairmanship of the Governor and membership of each of the following:
 - 1- Deputy Governor.

- 2- A representatives of the Ministry of Finance.
 - 3- Six senior specialists in banking, financial, economic and legal affairs who are capable to contribute towards the achievement of the objects of the Monetary Authority provided that none of them is working in the banking sector.
- B- All members of the Board of Directors should be from amongst the persons who are known for their integrity and highly qualified in banking, financial and economic affairs.

Article (15)

- A- The Governor and Deputy Governor shall be appointed by a decision issued by the President of the National Authority upon recommendation of the Council of Ministers.
- B- The representative of the Ministry of Finance shall be appointed by a decision issued by the President of the National Authority upon recommendation of the Ministry of Finance.
- C- The remaining members of the Board shall be appointed in the following manner:
- 1- Two members by a decision of the President of the National Authority.
 - 2- Three members upon recommendation of the Council of Ministers and decision of the President of the National Authority.
 - 3- One member upon recommendation of the Governor and decision of the President of the (National) Authority.
- D- The term of membership of the Governor and his Deputy shall be four years and the term of members of the Board shall be three years.
- E- The Governor, Deputy Governor or Member may be appointed again.
- F- If the post of Governor, Deputy Governor or any Member becomes vacant prior to the end of his term, a substitute for him shall be appointed in accordance with the provisions of Article (14) of this law and paragraph (A) of this article to complete the remaining period.

Article (16)

Only a Palestinian citizen can be appointed to the post of Governor, Deputy Governor or Member. He should also make the following oath before the President of the National Authority:

“I swear by the Almighty God to be loyal to my country Palestine and to

devote all my capabilities to perform the duties entrusted to me as Governor/Deputy Governor/Member of the Board of Directors of the Monetary Authority with all honesty, truthfulness and sincerity and to respect the law and the secrecy of all decisions and transactions that comes to my knowledge and pertaining to the activities of the Monetary Authority unless the law provides otherwise.”

Article (17)

- A- The Board of Directors is the highest authority for the issue of decisions in the Monetary Authority and it is commissioned to approve the policies of the Monetary Authority as well as supervise the management of its operations in a manner which would serve the economic policy approved for the National Authority. The Board of Directors shall enjoy full powers to achieve its objects in accordance with the provisions of this law.

- B- The Board shall be responsible before the President of the Palestinian National Authority.

Article (18)

Powers of the Board

The powers of the Board, according to the provisions of this law, include the following:

- 1- Set out the monetary, credit and investment policies of the Monetary Authority and supervise the proper performance of its functions.
- 2- Determine the matters relating to the issue of money or withdrawing it from circulation in accordance with the Monetary and Credit Law.
- 3- Licensing the banks operating in Palestine, withdraw its licenses, impose penalties thereon, approve their merger and opening of branches thereto.
- 4- Licensing the opening of branches for foreign banks and representation offices and withdrawing the licenses of these branches or offices.
- 5- Licensing the specialized lending institutions and financial companies.
- 6- Determine the rate of the statutory reserves which banks should keep with the Monetary Authority and specify the average discount, interest and commissions charged by the Monetary Authority and limits of operations of the market opened by it.
- 7- Approve the regulations and bylaws of the Monetary Authority and endorse the internal policies that govern its management and operations.
- 8- Approve the regulations governing the employees and workers of the Monetary Authority and determine the organizational structure thereto.
- 9- Establish and cancel the branches, offices and agencies of the Monetary Authority.
- 10- Approve the necessary amounts, terms and conditions for the issue and circulation of bank notes.

- 11- Approve and apply the policies relating to dealing in foreign currency and determine a system for discounting the commercial papers.
- 12- Establish the bad and doubtful debt reserves after completing the legal proceedings in this connection.
- 13- Recommend any increases in the capital of the Monetary Authority.
- 14- Lay down the basis of the Monetary Authority's dealing with the banks.
- 15- Approve the annual budget for the Monetary Authority.
- 16- Approve the annual report, closing accounts and profit and loss accounts.
- 17- Approve the appointment of General and Regional Managers and Advisers to the banks.
- 18- Formulate the controls regulating the rules for granting housing loans which are provided by the Monetary Authority to its personnel.
- 19- Appoint advisers in the Monetary Authority's service for specific periods under the conditions approved by the Board.
- 20- Appoint General and Executive Managers in the Monetary Authority upon the recommendation of the Governor.
- 21- Appoint an External Auditor for the Monetary Authority who shall submit his report to the Board with copies of same to the President of the National Authority and Council of Ministers.
- 22- Carry out all other functions within its competence.

Article (19)

- A – The salaries and other financial rights of the Governor, Deputy Governor and remunerations of the members of the Board shall be fixed by a decision from the President of the National Authority.
- C- The salaries, remunerations and allowances of members of the Board or employees of the Monetary Authority may not be paid on the basis of the profits realized by it.

Article (20)

- A- The Board shall convene at the invitation of the Governor or his Deputy. It may also convene upon a written request by at least one third of its members to the Governor or, in his absence, to his Deputy. The invitation to the meeting should specify the date, venue and agenda thereof at least five days prior to the date set for convening the meeting. The meeting, in case of necessity, may be held by a shorter notice.
- B- The Board shall hold an ordinary meeting at least once every month.
- C- The Governor shall preside over the meetings of the Board of Directors and in his absence, his Deputy will preside over the meetings.

Article (21)

- A- The meeting of the Board of Directors shall not be deemed valid unless it is attended by at least two thirds of its members, provided that the Governor or the Deputy Governor are attending.
- B- The Board shall take its decisions by the majority number of the Board members unless provided otherwise. Should there be a tie the Chairman shall have a casting vote.

Article (22)

- A- The deliberations at the Board meetings shall be confidential. However, the Board may, with the approval of all its members, make some of its deliberations public.
- B- In the cases where the approval of all members of the Board is required, the Board decision shall be considered valid even if a directorship on the Board of Directors becomes vacant.

Article (23)

- A- The Governor, Deputy Governor and Member should submit to the Board after his appointment and in every subsequent year following same, regular and full statements on the commercial and financial interests which are related directly or indirectly to him, to his spouse and minor children.
- B- Any member who has an interest in a subject submitted for discussion within the Board should declare his interest and withdraw from the session before the beginning of the discussion. He shall not be allowed in this case to take part in the decision making. Furthermore, he shall not be counted as part of quorum for the purposes of discussion at the Board meetings.

Article (24)

Powers of the Governor

The Governor, by virtue of the provisions of the law, shall be considered the first executive responsible for managing the activities of the Monetary Authority and shall be responsible before the Board for executing the decisions taken by the Board. The Governor shall represent the Monetary Authority in its relations with the National Authority, local and foreign bodies, third parties and before the Courts of Law.

The Governor will, in particular, exercise the following functions:

- 1- Inform the Board of the decisions and measures he has taken on important topics and issues.
- 2- Sign with the Minister of Finance on the bank notes in accordance with the provisions of the Monetary and Credit Law.
- 3- Sign the contracts that impose financial liabilities on the Monetary Authority

- 4- The Governor shall be the paying officer in the Monetary Authority in accordance with the established regulations and instructions or according to the decision of the Board of Directors in this regard.
- 5- To sign the reports, accounting reports, financial statements, correspondence, and important documents severally or jointly with others in the Monetary Authority in accordance with the established regulations and instructions or according to the decision of the Board of Directors in this regard.
- 6- Represent the Monetary Authority before the specialized committees in the Legislative Council entrusted with the discussion of the Monetary Authority affairs or laws relating to its activities unless a decision is made entrusting another thereof.
- 7- Publish any statements or releases relating to the policy and measures of the Monetary Authority.
- 8- The Governor may delegate part of his powers to his Deputy or other personnel of the Monetary Authority with the approval of the Board. However, the Governor shall remain responsible in respect thereof before the Board.

Article (25)

The Governor should submit to the Board a periodic report once every three months and whenever necessary on the Monetary Authority's management, activities, status of the banking system, conditions of the monetary, financial and foreign currency markets as well as all events and circumstances that have affected or are expected to affect the Monetary Authority.

Article (26)

If it is not possible to convene the Board of Directors, a three-man committee consisting of the Governor, Deputy Governor and a third Member to be named by the Board, notwithstanding the provisions of Article (18), may, pursuant to the provisions of the law, in cases of extreme necessity and impossibility of convening a Board meeting, make a decision on a question relating to the competencies of the Board of Directors. In such a case, he should invite the Board to convene within a maximum period of five days from the date of decision-taking in order to notify the Board thereof. The Board may revoke the committee's decision.

Article (27)

- A- The Deputy Governor shall assist the Governor in performing his duties and functions. He shall exercise all the powers and responsibilities of the Governor upon his absence from work for any reason.
- B- The President of the National Authority shall commission one of the members of the committee to perform the duties of the Governor on temporary basis in the event of absence of the Governor and his Deputy until one of them returns to work. This may not extend for more than three months.

Article (28)

- A- The Governor and his Deputy should be full-timers in the Monetary Authority and neither one may, during the exercise of his job, carry out any other work or occupy any other post or job, whether against pay or without pay. Also, neither one of them may work for any banking or financial institution within one year from the date of leaving the Monetary Authority's employment.
- B- None of the Board members or personnel of the Monetary Authority may accept any gifts, assistance or credit for his person or for any other person with whom he has family, trade or financial ties if such acceptance would lead or give the impression that it would lead to lessening his loyalty to his duties.
- C- None of the Monetary Authority's personnel may carry out any other work, whether with or without pay.

Article (29)

- A- When necessary, the Board may utilize the services of the experts it deems fit, fix their remunerations and invite those whose views are sought on a certain topic to its meetings without having a counted vote in the deliberations.
- B- The Governor may, with the approval of the Board, appoint an advisory committee from outside the Monetary Authority's personnel to seek its advice, specify its functions, method of its work and remunerations.

Article (30)

Resignation

The Governor, Deputy Governor or Member may submit his resignation from his post to the President of the National Authority. In such a case, a replacement for him shall be appointed within thirty (30) days and within a maximum period of three months from the date of acceptance of the resignation.

Article (31)

Termination of Service

- A- The services of the Governor, his Deputy or any Member of the Board shall be terminated by virtue of the law in any of the following cases:
 - 1- If he is convicted of a felony or a misdemeanor touching or honor or honesty.
 - 2- If he is declared bankrupt.
 - 3- If he losses his competency or dismissed from exercising his functions by a Court's decision.
- B- The services of the Governor, his Deputy or any Member of the Board may be terminated by a decision from the President of the National Authority in any of the following cases:

- 1- If he absents himself from three consecutive sessions of the Board without an acceptable excuse.
- 2- If he is gravely negligent or inflicts serious damage to the interests of the Monetary Authority.
- 3- If he violates the provisions of this law or any other law related to the banking activity.

Article (32)

Without prejudice to the provisions of paragraph (21) of Article (18), an external auditor shall be appointed by the President of the National Authority upon the recommendation of the Council of Ministers to audit the accounts of the Monetary Authority, approve the annual budget, profit and loss accounts and the other financial lists issued by it. The Auditor shall submit his report to the President of the National Authority and the Council of Ministers. The Monetary Authority should place under the disposal of the auditor whatever records, books and documents he deems necessary and appropriate for carrying out his job.

Article (33)

No member, employee, agent, auditor or correspondent may disclose, declare in any way, use or show any other person any data or information relating to the affairs of the Monetary Authority or its clients which he has acquired by virtue of his ex-officio unless such is necessary for the performance of his duties according to specific official instructions or in implementation of the law or a court judgment.

Chapter Four

Relationship with the National Authority

Article (34)

Notwithstanding the provisions of this law:

- 1- The Monetary Authority may accept deposits from the National Authority and public institutions. As a depository party, it should accept any funds therefrom, open accounts thereto and carry out the banking services and operations related therewith. The Monetary Authority should pay funds within the extent of the deposited amounts vide payment orders. The Monetary Authority may allow the payment of interest on such deposits.
- 2- The Monetary Authority may allow other financial institutions to accept such deposits in accordance with the terms it lays down in this regard.

Article (35)

In accordance with the provisions of the law:

A- The Monetary Authority shall act as a financial agent for the National Authority in the following fields:

- 1- Marketing, managing and transferring the debentures issued by the National Authority and public institutions and act as a registrar for such bonds.
 - 2- Execute the payment transactions relating to the accounts of the National Authority and public institutions which are opened with the Monetary Authority.
 - 3- Any other activities entrusted to it by the National Authority which are consistent with the objects and functions of the Monetary Authority.
- A- The Monetary Authority may, in agreement with the Ministry of Finance, perform all the duties relating to the registration, control and management of external debts of the National Authority and public institutions in accordance with the terms laid down by the National Authority and in a manner consistent with the laws and regulations of the Monetary Authority.

Article (36)

- A- The Monetary Authority may provide the Treasury upon the request of the Minister of Finance a free-interest credit to cover any seasonal deficit resulting from an increase in the expenditures of the National Authority over its revenues provided that the credit provided according to the provisions of this law may not exceed, upon the submission of the credit application, ten per cent of the local revenues estimated in the budget law in force.
- B- This credit shall be for a period of three months renewable for another three months, and so on provided it is repaid within a maximum period of twelve months from the date of its payment.
- C- The particular terms related to this loan shall be set out in an agreement between the Ministry of Finance and the Monetary Authority in accordance with the monetary and credit conditions prevailing at the time it is submitted.

Article (37)

- A- The President of the National Authority and the Council of Ministers shall seek the opinion of the Governor whenever matters related to the monetary or credit policy is discussed or upon negotiation in respect of any loan or a foreign credit granted to the National Authority or to public institutions in order to outline the impact thereof on the monetary stability and position of the balance of payments in Palestine.
- B- The Council of Ministers and the Minister of Finance shall seek the opinion of the Governor whenever matters related to the financial policies which affect the monetary and credit conditions in Palestine are discussed.

Article (38)

The Monetary Authority may purchase or sell the debentures issued by the National Authority at the secondary market, whether directly or indirectly, through re-purchasing agreements.

Article (39)

The Monetary Authority shall submit to the President of the National Authority and the Council of Ministers every three months a detailed report on its work and activities as well as the monetary and banking position in Palestine. The Monetary Authority shall also submit, within three months after the expiry of every fiscal year a brief report on its work during that year, in addition to the general annual budget, profit and loss account and other financial statements certified by the external auditor.

Chapter Five

Relations with Banks

Article (40)

- A- With due observance of the provisions of this law, no banking operations may be carried out except after licensing same by the Monetary Authority. The licensed banks shall be registered in the register provided for this purpose by the Monetary Authority. The licensing decision shall be published in the official gazette.
- B- The Monetary Authority shall lay down the necessary regulations and instructions thereto. These regulations and instructions shall be issued under a decision by the President of the National Authority upon the recommendation of the Board and shall be published in the official gazette.