World Bank Economic Monitoring Report

IMPACTS OF THE CONFLICT IN THE MIDDLE EAST ON THE PALESTINIAN ECONOMY

April 2025

WORLD BANK GROUP

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EXECUTIVE SUMMARY

The ongoing conflict in the Middle East,[1] centered in Gaza, has resulted in one of most severe human tolls in MENA's recent history, with lasting economic consequences. As of March 2025, over 50,000 people have died and 113,000 have been injured.[2] Beyond the loss of life, the erosion of human capital—due to casualties, displacement, disrupted education and lost knowledge accumulation, and labor force participation—is predicted to heavily hinder economic recovery and deepen long-term economic vulnerabilities.

The conflict has plunged the Palestinian economy into its deepest contraction in over a generation, with Gaza experiencing near-total economic paralysis and the West Bank facing a deep recession. In 2024, Gross Domestic Product (GDP) is estimated to have shrunk by 27 percent—the most severe decline in three decades—surpassing the Second Intifada, the 2014 Gaza war, and the COVID-19 recession. The Gaza economy has crumbled, with GDP contracting by 83 percent on annual basis, while the West Bank experienced a 17 percent contraction due to intensified movement restrictions, loss of access to the Israeli labor market, and heightened fiscal instability. Although a ceasefire was briefly in place in early 2025, its non-renewal in March led to the resumption of conflict, which risks further exacerbating economic development and humanitarian challenges.

A recent joint World Bank-EU-UN interim Damage and Needs Assessment estimated recovery and reconstruction needs at US$53.2 billion—more than three times the combined annual GDP of the West Bank and Gaza—with short-term needs (3 years) reaching US$20 billion. The level of damage in key sectors, including housing (US$15.8 billion), commerce and industry (US$5.9 billion), and transport (US$2.5 billion), highlights the widespread devastation.

The Palestinian labor market, already fragile and historically dependent on external factors, was heavily hit by the conflict and the resulting economic contraction. Unemployment in Gaza has soared to 80 percent, while in the West Bank, it has doubled to 29 percent by the end of 2024. The Palestinian workforce has historically been characterized by limited job opportunities within the territories and more favorable employment prospects in the adjacent Israeli labor market. The recession in the Palestinian economy and the loss of permits and access to jobs in Israel for Palestinian commuters have left many households without a stable source of income.

1 This report reflects facts as of early April 2025.

2 World Health Organization (WHO), Health Cluster, visited on March 25, 2025: *https://app.powerbi.com/view?r=eyJrIjoiODAxNTYzMDYtMjQ3YS00OTMzLTkxMWQtOTU1NWEwMzE5NTMwIiwidCI6ImY2MTBjMGI3LWJkMjQtNGIzOS04MTBiLTNkYzI4MGFmYjU5MCIsImMiOjh9*.

Poverty across the Palestinian territories rose from 29 percent in 2023 to nearly 40 percent by late 2024. In Gaza, nearly all households currently live in poverty, relying on aid for food, basic supplies, and fuel. The ceasefire briefly improved conditions between January and March 2025, enabling UN and non-governmental agencies to deliver food and other basic goods to 1.2 million people. When the ceasefire ended and border crossings closed, aid deliveries were halted, deepening food insecurity. In the West Bank, short-term poverty rose from 12 percent pre-conflict to 28 percent by end-2024.

Supply chain disruptions caused by access restrictions to Gaza have severely limited food availability, driving sharp price increases. In 2024, inflation in Gaza surged by over 230 percent due to extreme supply shortages. While prices declined significantly following the ceasefire in January 2025, the failure to extend it and the resumption of conflict in March triggered a major supply shock, causing a new escalation in commodity prices. Food insecurity has reached critical levels, with 1.95 million people facing crisis-level food insecurity (IPC Phase 3 or above), including 345,000 in catastrophic conditions (IPC Phase 5).[3] Inflation in the West Bank remained relatively moderate at 2.5 percent in 2024.

The Palestinian Authority (PA) is in an increasingly fragile fiscal position, facing high risks of systemic failure, as disruptions to public services persist. The 2024 deficit reached 9.5 percent of GDP (or US$1.3 billion), up from 3.8 percent in 2023. The fiscal worsening was driven by the economic contraction, insufficient foreign aid, and increased Israeli deductions from clearance revenues payable to the PA. Since October 2023, Israel's monthly deductions from clearance revenues have surged from a pre-conflict average of NIS 200 million to NIS 500 million, reducing the overall transfer by over 50 percent. With limited financing options, the PA has become increasingly dependent on domestic bank borrowing and arrears to the private sector, public employees, and the pension fund to cover the deficit. Despite an increase in external financing to the PA's budget over the course of 2024, aid levels remain insufficient to meet the scale of existing needs. As a result, the PA continues to pay only partial salaries to civil servants (a policy in place since the end of 2021) with payments further reduced to 60–70 percent of commitments since October 2023. As of late March 2025, heightened volatility in clearance revenue deductions by Israel—combined with a structural lack of alternative financing sources and a rigid spending envelope, have forced fiscal policy into an extremely short-term, month-to-month operational mode. This approach severely limits forecasting capabilities and heightens the risks to fiscal sustainability.

The conflict and ensuing economic crisis have taken a significant toll on public services, especially healthcare, education, and social protection programs. Gaza's health system has nearly collapsed, with 49 percent of hospitals and 60 percent of primary health clinics no longer operational. Shortages of medical supplies and clean water, coupled with worsening malnutrition and disease outbreaks—including polio—are straining the remaining health services. The full suspension of the National Cash Transfer Program since the onset of the conflict has left over 80,000 poor and vulnerable households without access to critical last-resort financial assistance. Gaza's education sector has also suffered extensive damage, with nearly 745,000 students (658,000 school-aged children and 87,000 tertiary education students) out of school for over a year, and all education facilities damaged or destroyed. In the West Bank, education services have been affected by fiscal constraints, with public schools operating only two days per week in 2023/24. The commencement of the 2024/25 academic year was postponed, and as of present, students continue to engage in remote learning at least once per week. Heightened volatility and security concerns have led to school closures and the intermittent suspension of in-person instruction due to escalating violence.

The Palestinian financial sector has proven to be resilient, though mounting pressures are steadily elevating risks. The banking sector experienced robust growth in the post-COVID period,

[3] Source: Integrated Food Security Phase Classification (IPC) *https://www.ipcinfo.org/ipc-country-analysis/details-map/en/c/1157985/?iso3=PSE*, consulted on March 31, 2025.

enabling the buildup of buffers. It currently remains capitalized and liquid, but faces growing credit losses, declining profitability, and severe cash shortages in Gaza, exacerbated by operational disruptions. In addition, the Monetary Authority faces constrained policy space in responding to potential banking sector stress, due to the absence of conventional monetary policy instruments. The PA's increasing reliance on domestic borrowing has heightened macro-financial sector vulnerabilities, with direct public sector debt now exceeding US$2.8 billion, and substantially larger when accounting for indirect exposure. Gaza's banking infrastructure has been destroyed, with 98 percent of branches currently non-operational. The use of digital payments has expanded significantly, with over 530,000 e-wallet users in Gaza and a massive surge in e-wallet outstanding balances—exceeding $40 million as of February 2025—which have been helping mitigate the impact of severe cash shortages.

Despite the extension of correspondent banking relationships (CBRs) between Palestinian and Israeli banks to November 2025, their inherently uncertain nature poses potential risks to economic stability. The Palestinian economy operates primarily on the Israeli Shekel as its de facto currency, making stable financial ties essential for facilitating transactions. The Israeli Government has long issued time-bound "letters of indemnity and immunity" to shield Israeli banks from legal exposure to potential money laundering and terrorism financing (ML/TF) risks. These letters were last extended in November 2024, ensuring coverage until November 2025. However, these arrangements remain fragile and susceptible to short-term disruption. Without a comprehensive vision and reforms to establish sustainable solutions, perceived uncertainty over CBRs could, over time, contribute to financial instability in the Palestinian economy. Importantly, restrictions on cash repatriation to Israel have resulted in unduly large accumulations of Shekels in Palestinian banks, posing significant challenges for liquidity management and increasing security and AML/CFT risks. Easing the restrictions on cash repatriation would have important immediate benefits.

In the face of these challenges, the Palestinian economy faces prolonged uncertainty, with recovery expected to take several years. In Gaza, GDP per capita may not return to pre-crisis levels until 2038, based on World Bank staff estimates (see Box 1), while the West Bank is projected to recover by 2028. Without urgent interventions, a continuation of conflict, rising fiscal pressures, and deteriorating humanitarian conditions risk to further weaken economic prospects, exacerbate poverty, and entrench structural vulnerabilities. The Palestinian economy is not expected to be directly affected by the recent increase in global trade uncertainty. While some exposure may arise through indirect exports via Israel, for goods ultimately destined for the U.S. market, such effects are currently assessed to be minimal. To mitigate economic collapse and alleviate human suffering, decisive action is needed:

- **First and foremost**, and as highlighted in previous economic updates, **ending hostilities is critical** not only to reduce the devastating human toll but also to allow restoration of basic services and lay the groundwork **for socioeconomic recovery**.
- **Economic revitalization**: Policies to facilitate trade, restore mobility, and stimulate private sector activity are critical to job creation.
- **Fiscal stabilization**: Reversing clearance revenue deductions and releasing the stock of previous withholdings will be essential to provide the PA with the resources needed to meet essential budgetary obligations, including salaries, pensions, and social services—and to prevent fiscal collapse.
- **Financial sector resilience**: Strengthening prudential regulation, securing a structured cross-border payment framework and permanent CBRs arrangements, and expanding digital financial services can help support financial stability and inclusion.
- **International aid mobilization**: Increased donor support remains crucial for sustaining growing and still unmet financial needs, ensuring a continuation of essential public services, facilitating recovery, and accompanying critical policy reforms. Achieving a transformation of the Palestinian economy—once the hostilities

have ended—needs a conducive environment, which includes the support and involvement of a broad array of stakeholders and investors, including all development partners—bilateral and multilateral—and the private sector.

- **Structural policy reforms**: It is crucial for Palestinian decision-makers to stay committed to reforms that prioritize efficiency, transparency, good governance, and fiscal sustainability. Since taking office a year ago, the new government has made progress on a reform strategy, though implementation challenges remain. Continued efforts are especially needed to accelerate fiscal consolidation.

ASSESSMENT

Since the onset of the conflict, the scale of human losses[4] **has continued to rise, with severe long-term ramifications for economic recovery**. As of March 2025, the death toll from the conflict has exceeded 50,000 people, with over 113,000 individuals injured.[5] Beyond the immediate loss of life and humanitarian toll, the loss of human capital—through direct casualties, but also through displacement, and disruption to education and labor force participation—will have profound and long-lasting economic consequences. The compounded effect of reduced workforce participation, forgone accumulation of knowledge and skills, as well as capital flight (as many of the wealthier Gazans have been able to leave the Strip and relocate in neighboring countries), is expected to exert a non-negligible drag on economic recovery and deepen structural vulnerabilities.

The conflict pushed the Palestinian economy to its deepest decline in over a generation.[6] In 2024, the Palestinian Gross Domestic Product (GDP) is estimated to have contracted by 27 percent,[7] a sharper decline than during the Second Intifada (2000), the internal political divide (2006), the 2014 Gaza war, the economic fallout from COVID-19. Economic activity in Gaza nearly halted, with GDP shrinking by 83 percent, sustained by minimal public services. In the West Bank, economic repercussions were triggered by intensified movement restrictions, loss of access to the Israeli labor market, and a recent Israeli military operation in the northern region. The resulting loss of income in the private sector was compounded by a contraction in public sector spending and a deepening fiscal crisis, driven by increased Israeli deductions from clearance revenues payable to the PA and lower domestic fiscal outturns amid declining economic activity. As a result, GDP in the West Bank contracted by 17 percent in 2024. Economic hardship persisted into early 2025. Although a ceasefire was reached in mid-January, it failed to be extended beyond April 2025, and as of writing,[8] the conflict centered in Gaza has resumed.

Recovery and reconstruction needs in the short, medium, and long term across the Gaza

4 United Nations, *https://news.un.org/en/story/2024/10/1156181*.

5 World Health Organization (WHO), Health Cluster, Palestinian territories, visited on March 25, 2025: *https://app.powerbi.com/view?r=eyJrIjoiODAxNTYzMDYtMjQ3YS00OTMzLTkxMWQtOTU1NWEwMzE5NTMwIiwidCI6ImY2MTBjMGI3LWJkMjQtNGIzOS04MTBiLTNkYzI4MGFmYjU5MCIsImMiOjh9*.

6 Since 1994.

7 Palestinian Central Bureau of Statistics (PCBS) data.

8 This update reflects developments up until early April 2025.

Strip are estimated at US$53.2 billion, which is equivalent to over 3 times the pre-conflict annual GDP[9] of the West Bank and Gaza together. Of these, the short-term needs in the first three years are estimated to reach around US$20 billion.[10] In Gaza, physical infrastructure damage and economic and social losses caused by the conflict are estimated at around US$29.9 billion and US$19.1 billion, respectively, bringing the total estimated effects of the conflict to US$49 billion. In terms of physical damages, housing was the hardest hit sector at US$15.8 billion (53 percent of total damages), followed by commerce and industry at US$5.9 billion (20 percent), transport at US$2.5 billion (8 percent), and WASH at US$1.53 billion (5 percent). Damages alone are equivalent to 1.9 times the annual pre-conflict real gross domestic product (GDP) of the West Bank and Gaza Strip.

The conflict and the resulting economic contraction have deeply disrupted the already fragile Palestinian labor market, which has historically been highly impacted by external factors. By October 2024, eight out of ten people in Gaza are estimated to be unemployed, with the bulk of employment currently in the informal sector. In the West Bank, the unemployment rate reached 29 percent by the end of 2024—more than double the rate (13 percent) from before the conflict. This increase was driven primarily by the disruption faced by Palestinian workforce, which has historically seen limited job opportunities within the West Bank and more favorable employment prospects in the adjacent Israeli labor market. Given the recession in the Palestinian economy and the loss of permits and access to jobs in Israel for Palestinian workers, most are unable to secure stable incomes. The largest employment losses have occurred in key sectors such as trade, services, construction, and manufacturing.

In 2024, Gaza experienced a surge in prices, with consumer price inflation (CPI) rising by 238 percent year-on-year (y/y), primarily driven by food and transport costs. Following the January 2025 ceasefire, which allowed for greater inflows of aid supplies and food into Gaza, CPI began to decline, registering a drop for two consecutive months. By February 2025, CPI had decreased by 33.3 percent compared to January 2025. As of March 2025, the failure to extend the ceasefire and the resumption of the conflict have precipitated a new supply shock, resulting in an escalation in commodity prices in the Gaza Strip, with flour and vegetable costs surging by a factor of 100.[11] In contrast, CPI inflation in the West Bank remained relatively stable throughout 2024, with a modest increase of 2.5 percent. This stability reflects ongoing trade activity and a subdued level of consumer demand.

The Palestinian Authority's (PA) public finances endured one of its most challenging years in 2024, with extreme fiscal pressure continuing to threaten the stability of the economic system. In 2024, the PA faced a significant deterioration in public finances, compounded by higher Israeli deductions from clearance revenues. Since October 2023, monthly deductions by Israel increased to an average of NIS500 million, up from the previous monthly average of NIS200 million. This reduced clearance revenue transfers by over 50 percent, comparing the pre- and post- conflict periods. The combined effects of the economic contraction, insufficient foreign aid, and reduced clearance revenues—which historically account for roughly two-thirds of the PA's fiscal income—have forced the PA to cut salary payments to an average of 60–70 percent since October 2023. Against this backdrop, the PA's fiscal deficit, after accounting for aid and Israeli deductions, reached US$1.3 billion in 2024—9.5 percent of GDP up from 3.8 percent in 2023. The deficit was managed through increased domestic bank borrowing and arrears to the private sector, public employees, and the pension fund. Looking ahead, based on the 2025 budget forecasts and after accounting for

9 Based on 2024 data.

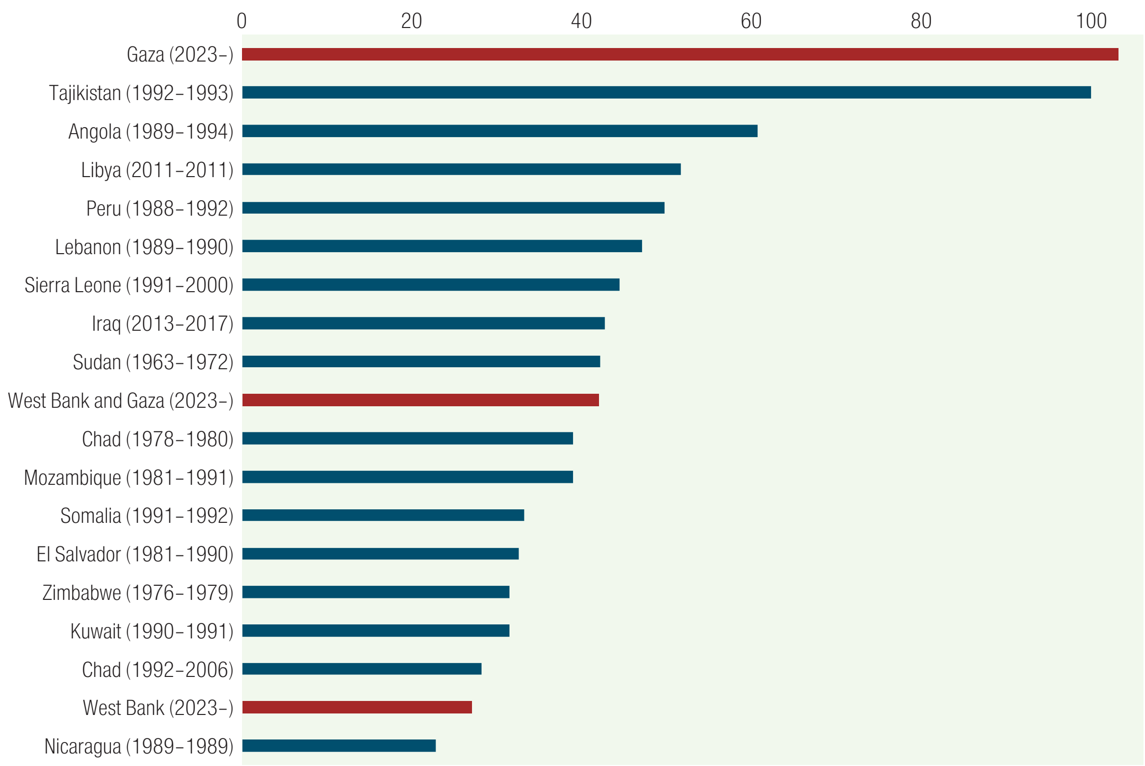
10 Source: World Bank, UN, EU joint Gaza and the West Bank Interim Rapid Damage and Needs Assessment. It is important to note that these needs estimates include, where available, local costs (i.e., location specific logistics), physical contingencies, and conservative inflation factors. These estimates are also adjusted for supply chain constraints, skilled labor availability, and conservative quality standards.

11 Source: United Nations, *https://news.un.org/en/story/2025/03/1160731*.

BOX 1: THE LONG ROAD TOWARDS ECONOMIC RECOVERY FOR THE WEST BANK AND GAZA

The economic collapse experienced by the West Bank and Gaza is estimated to rank among the most severe economic contractions in recent history, with projections indicating that Gaza will require 13 years and the West Bank 3 years to restore real GDP per capita to pre-crisis levels. The Uppsala Conflict Data Program (UCDP) Armed Conflict Dataset[a] was used to assess the scale of the economic decline caused by the conflict, in comparison with other major[b] global conflicts since 1960, while the iRDNA findings were used to estimate the recovery timeline. A Conflict Severity Index (CSI)[c] was applied to quantify the economic shock separately—in Gaza and in the West Bank, given the distinct economic impacts on the two regions—and for the territories as a whole. According to the CSI methodology, the overall conflict in the West Bank and Gaza ranks as the tenth most severe economic crisis globally since 1960. However, Gaza's situation is particularly dire, with its CSI exceeding 100, marking it as the most severe crisis ever recorded based on the UCDP dataset. Projections based on the iRDNA findings suggest it will take until 2038 for real GDP per capita in Gaza to recover to pre-crisis levels, while recovery in the West Bank is expected by 2028.

FIGURE 1 • Severity of Conflicts by CSI Index, 1960-2025



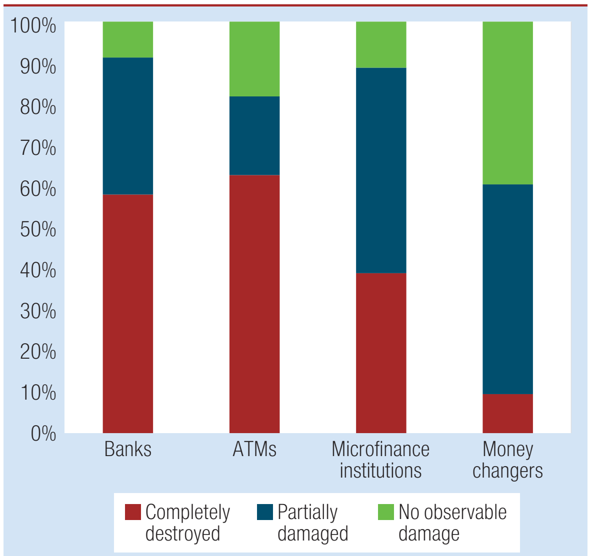
Source: Uppsala Conflict Data Program (UCDP) Battle-Related Deaths Dataset v. 24.1; UCDP/PRIO Armed Conflict Dataset v. 24.1; CEIC database; WDI database; United Nation Department of Economic and Social Affairs Population Division; World Bank estimates.
Note: Conflicts exceeding 100 deaths per million population with a CSI index higher than 20 are included. Countries with permanent post-war economic decline (no rebound to pre-conflict GDP levels) or with no statistically significant GDP decline were excluded. Population projections are based on the PCBS data, with the assumption of zero growth for Gaza starting in 2028.

[a] V. 24.1.
[b] Conflicts exceeding 100 deaths per million population.
[c] The CSI incorporates two key factors: (i) the depth of the economic shock, measured by the peak-to-trough decline in real GDP per capita, and (ii) the duration of the recovery, defined as the number of years it takes to return to pre-crisis GDP per capita levels. The formula for CSI is as follows:

$$CSI = -1 \times (\text{peak-to-trough percentage change}) + \text{number of years from peak to recovery to prior peak.}$$

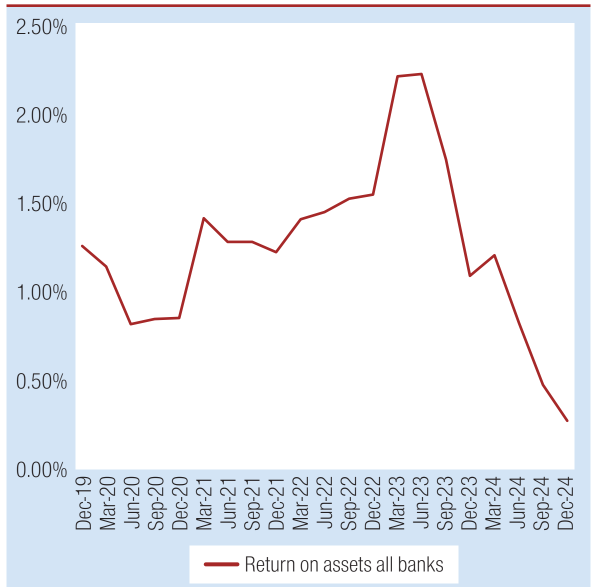
The analysis assumed that the real GDP per capita reached its lowest point in 2024 for both Gaza and the West Bank, inducing an overall peak (2022) to trough (2024) change in real GDP per capita of −86 percent in Gaza and −33 percent in the West Bank. The assessment also assumes that reconstruction efforts begin during 2026. For additional methodological details, please see Reinhart, Carmen M. and Kenneth S. Rogoff (2014), Recovery from Financial Crises: Evidence from 100 Episodes, American Economic Review: Papers & Proceedings 2014, 104(5): 50–55.

FIGURE 2 • Damages to Financial Sector Physical Assets in Gaza



Source: Interim Rapid Damage And Needs Assessment.

FIGURE 3 • Return on Average Assets



Source: Palestine Monetary Authority.

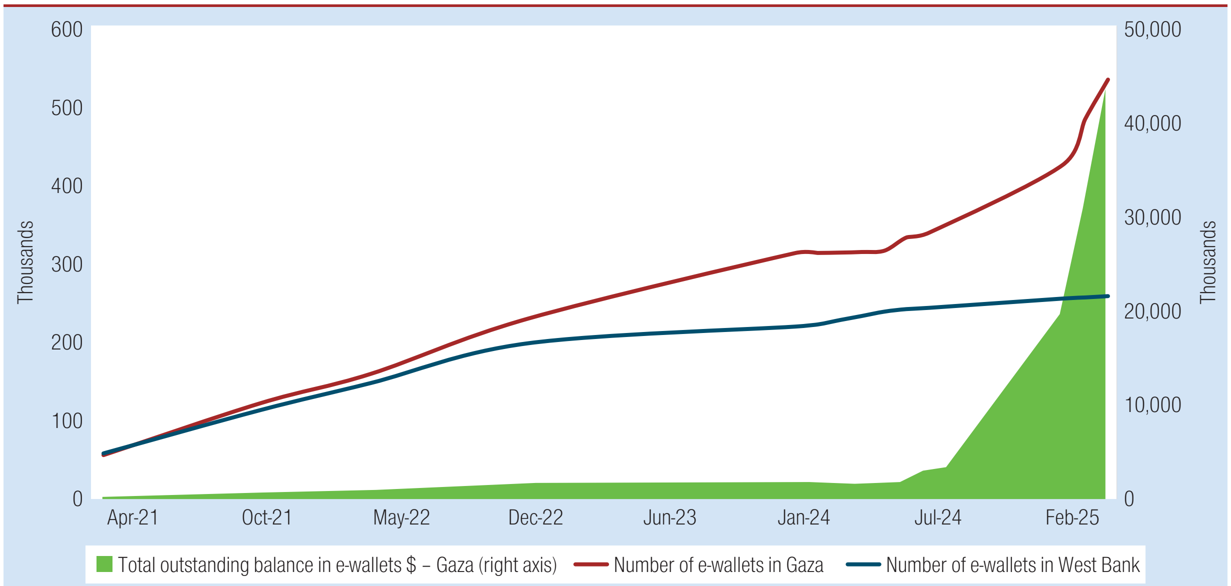
Israeli deductions from clearance revenues, the deficit after aid is projected to widen further and reach US$1.9 billion.[12] Given the extremely limited domestic financing options, covering such a growing deficit will prove highly challenging, and increases the risk of systemic collapse, including a breakdown in public service delivery.

Foreign aid remains a lifeline for the West Bank and Gaza, particularly as humanitarian and development needs continue to rise. Budget support in 2024 increased, mostly from traditional donors. While mobilizing private sector capital and leveraging blended finance will be essential for long-term recovery and reconstruction, aid will realistically remain the dominant source of funding in the initial phases of emergency recovery. During this critical period, when projects yield little to no immediate financial returns and focus primarily on social objectives—such as rubble removal, housing rehabilitation, and essential infrastructure—sustained donor support is especially crucial. In 2024, budget support to the PA doubled from US$360 million in 2023 to US$810 million. This increase was largely driven by additional contributions from traditional donors, including the European Union, the World Bank, and Norway, as well as increase in funding from regional donors. Notwithstanding the increases, the situation is dire with a build-up of arrears and cuts to payments including salaries and critical expenditure.

The financial sector remains resilient, although downside risks are steadily growing. The Palestinian financial sector has long been a pillar of stability amid economic turbulence. However, the scale of the current conflict and its economic fallout present unprecedented challenges. While the Palestinian banking sector maintains capitalization and liquidity, it faces mounting credit losses, declining profitability, and severe cash shortages in Gaza, compounded by operational disruptions. The latest challenges follow a period of post-COVID recovery and growth, which has placed the financial sector in a better position to weather new shocks. Overall, the Palestinian financial system is currently deemed adequate, though a continuation of adverse conditions can gradually erode stability. In addition, the Monetary Authority faces constrained policy space in responding to

[12] According to the PA's 2025 budget enacted at the end of March 2025. The budget assumes full salary payments to public employees. The deficit figure includes aid and accounts for Israeli deductions from Clearance Revenues based on historic trends.

FIGURE 4 • Usage of Ewallets in West Bank and Gaza



Source: Palestine Monetary Authority.

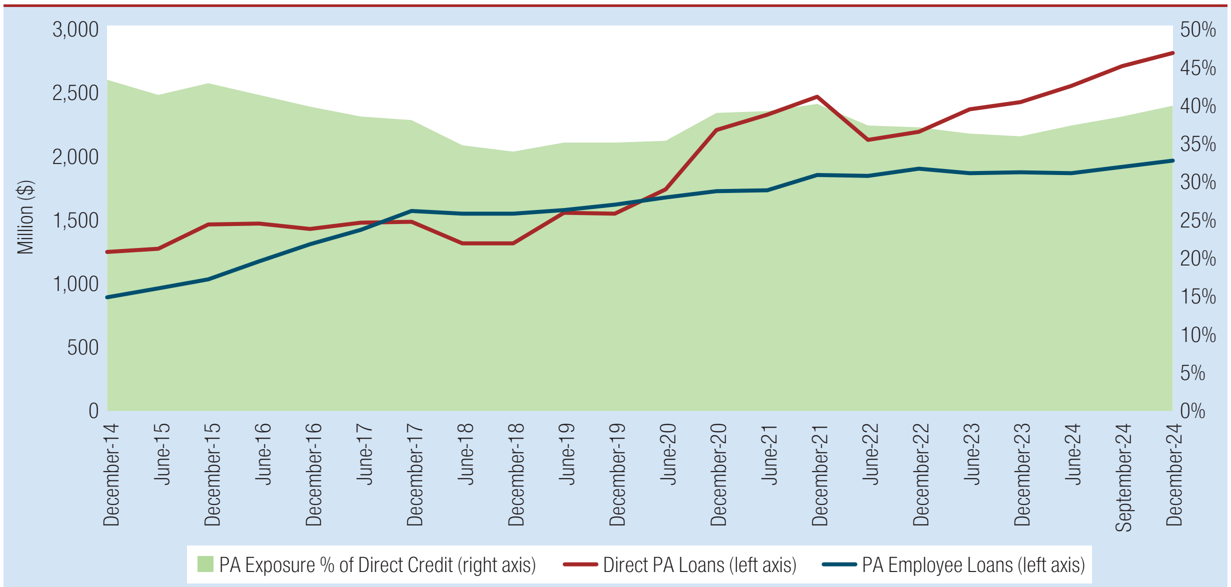
potential banking sector stress, due to the absence of conventional monetary policy instruments.

In 2024, the Palestinian banking sector scaled back its lending to the private sector, while increasing it to the public sector. While managing private sector risks cautiously, the Palestinian banking sector has increased its exposure to public sector lending, signaling a lower level of risk aversion in that segment. Direct lending to the private sector decreased by 4 percent year-on-year, whereas direct lending to the public sector increased by 16 percent, over the same period. As a result, overall lending volumes remained flat in 2024. Meanwhile, customer deposits steadily grew by 7 percent year-on-year, driving a decline in the credit-to-deposit ratio. The profitability of the banking sector deteriorated significantly in 2024, due to higher provisioning and flat overall lending rates. Return on Average Assets (ROAA) dropped from 1.09 percent to 0.27 percent, and Return on Average Equity (ROAE) from 7.6 percent to 2.3 percent, in 2024.

Gaza's financial sector infrastructure has experienced considerable damage, which heavily affected service delivery. While core banking systems have remained operational due to preemptive physical relocation and effective business continuity planning, traditional banking services have been nearly paralyzed. Of the 57 head offices and bank branches, 33 have been completely destroyed, and 19 partially damaged, rendering approximately 98 percent of the banking infrastructure non-operational. In January 2025, the Palestine Monetary Authority (PMA) announced a gradual resumption of banking activities in Gaza through a limited number of functional branches.

Amid these disruptions, the use of digital payments has surged, driven by the severe cash shortage and the growing premium on physical currency transactions in Gaza. Over the past six months, e-wallet usage has expanded exponentially, both in the number of users and the transaction volume. In February 2025, the total outstanding balance in e-wallets has surpassed US$40 million (Figure 4) and the number of e-wallets reached over 530,000 in Gaza, while growth in West Bank has remained steady. This shift has proven critical in cushioning some of the challenges posed by the destruction of banking infrastructure and limited cash availability. The increasing adoption of digital payments is also evident in the rise of *iBuraq*, the PMA's fast payments system, which has processed close to 480,000 transactions in Q4-2024 —more than double the nearly 200,000 transactions

FIGURE 5 • Direct and Indirect Exposure to the Palestinian Authority (US$ Millions)



Source: Palestine Monetary Authority.

handled by the PMA's well-established ACH system during the same period last year. While conditions remain challenging, expanding use cases for *iBuraq*, restoring merchant and agent networks, and reducing barriers to entry will be critical in further driving digital payment adoption.

The overall banking system's exposure to the public sector has continued to rise, reaching its highest level in years and amplifying existing fiscal and financial sector risks outlined above. The PA's increased reliance on domestic borrowing throughout 2024 has further exposed the banking sector's dependance on public sector stability, with direct government debt exceeding US$2.8 billion by December 2024. Indirect exposure has also risen, as Palestinian banks have expanded lending to public employees, with loans partially secured by anticipated future salary repayments. Combined, government (direct) and public employee borrowing (indirect) exposure now amounts to approximately US$4.7 billion—equivalent to 40 percent of total banking sector credit or nearly one-third of annual GDP. This growing concentration of risk heightens the elevated macro-financial sector's vulnerability to fiscal distress.

Despite the temporary extension of correspondent banking relationships (CBRs) between Palestinian and Israeli banking systems, the uncertain nature of these CBR arrangements remains a source of risk and potential disruption. The Palestinian economy remains heavily reliant on the Israeli shekel as its primary de facto currency, making stable financial ties between the West Bank and Gaza and Israel an indispensable requirement for both domestic and international transactions. These transactions are processed through the Bank of Israel and private Israeli banks. To mitigate risks while more permanent solutions are devised, the Israeli Government has long provided time-bound "letters of indemnity and immunity" (hereinafter referred as to indemnity letters) to shield Israeli banks from legal exposure, related to concerns over Anti-Money Laundering / Countering the Financing of Terrorism (AML/CFT) compliance when providing correspondent banking services to the Palestinian banking sector. These indemnity letters are typically renewed for periods of six months to a year by the Israeli Finance Minister. These indemnity letters were extended three times in 2024—in March, June, and October—covering a total of eight months. In November 2024, the Israeli government extended the arrangement for a full year, ensuring coverage until the end of November 2025 contingent upon specific conditions. Importantly, restrictions on cash repatriation to Israel have resulted in unduly large accumulations of Shekels in Palestin-

BOX 2: MICROFINANCE ACTIVITIES IN GAZA AND THE WEST BANK

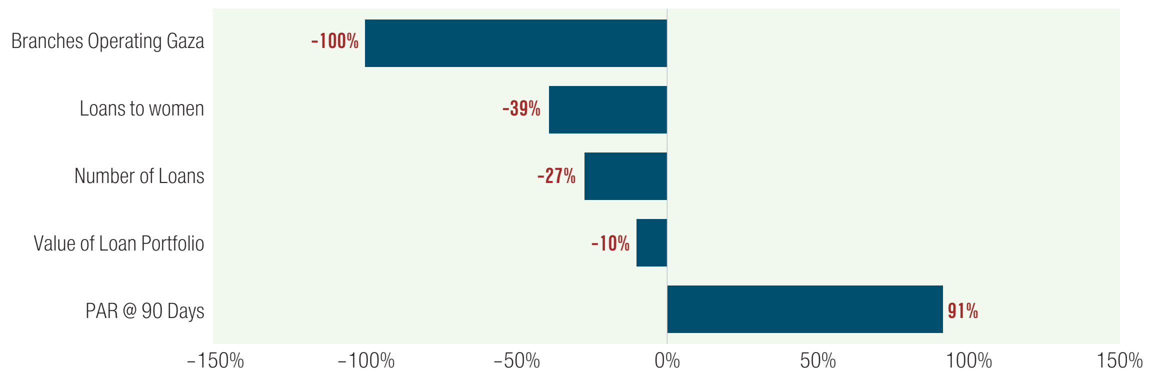
Before the conflict (data from September 30, 2023) seven out of the nine licensed Microfinance Institutions (MFIs) in West Bank and Gaza were cumulatively operating 19 branches in Gaza, serving over 21,000 clients with an average loan size of $2,500. The total loan portfolio in Gaza at the time was $54.3 million, and the portfolio-at-risk (PAR) measured at 90 days past due was 5.7 percent—slightly below the PAR for MFIs in West Bank. Women in Gaza constituted 25 percent of the total clients of MFIs and were especially active in microenterprise activities.

One year later, as of September 30, 2024, all MFIs branches operating in Gaza were closed, with all new loans and collections fully halted. Early into the conflict, PMA had issued a moratorium on loan repayment in Gaza, effectively suspending PAR levels at their pre-conflict rate of 5.7 percent. However, had the moratorium of collections not been in place, estimates by MFIs show that PAR at 90 days would have surged to approximately 90 percent by the end of September 2024, as shown in Figure 6.

Women have been disproportionally affected by the conflict, with declining access to microfinance. As of September 2024, women constituted 21 percent of clients in Gaza, holding 3,250 loans. Beyond the significant deterioration in loan portfolios of MFIs operating in Gaza, many of them also incurred financial losses due to fixed assets damage and destruction, and ongoing personnel expenses despite staff being unable to conduct normal operations.

Since MFIs in the West Bank and Gaza are unable to accept deposits, they rely instead on client loan repayments and borrowing from local or foreign lenders to issue new loans. Against this backdrop, a key concern is the duration of the conflict and its potential impact on the West Bank, where MFIs have greater exposure. If the conflict persists and the West Bank economy worsens, some MFIs with higher operating costs may face significant challenges and will need to make substantial adjustments to remain viable. Careful monitoring will be required to determine when and where these adjustments should be made.

FIGURE 6 • Changes in Key Microfinance Activities (September 2023 to September 2024)



Source: World Bank Survey of MFIs, October 2024.

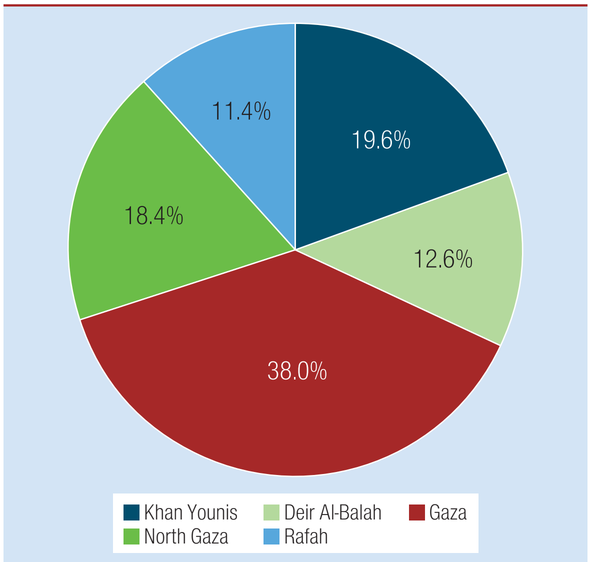
ian banks, posing significant challenges for liquidity management and increasing security, AML and CFT risks. Easing the restrictions on cash repatriation would have important immediate benefits.

Gaza's and the West Bank's private sector continues to be hit hard by the ongoing conflict and its economic spillovers, causing widespread job losses. Although a brief period of recovery was observed during the ceasefire from January to early March 2025—with nearly 25,000 truckloads[13] of humanitarian aid (including food, flour, tents, and fuel) entering the Gaza Strip—significant challenges remain in maintaining supply chains and business operations. So far, the conflict has inflicted an estimated US$5.9 billion of physical damage on the private sector. Approximately 66 percent of commercial establishments were destroyed at an estimated cost of US$5.2 billion, while another 22 percent suffered partial damage, incurring repair costs of roughly US$690 million.[14] Out of an estimated 116,000 formal workers in Gaza's commerce, industry, services, and

13 FPCCIA: Gaza Movement of Goods Weekly Report, 18–24 February 2025.

14 World Bank, EU, and UN: Gaza and West Bank Interim Rapid Damage and Needs Assessment, February 2025.

FIGURE 7 • Gaza Private Sector Damages per Governorate



Source: World Bank, UN, EU joint iRDNA. February 2025.

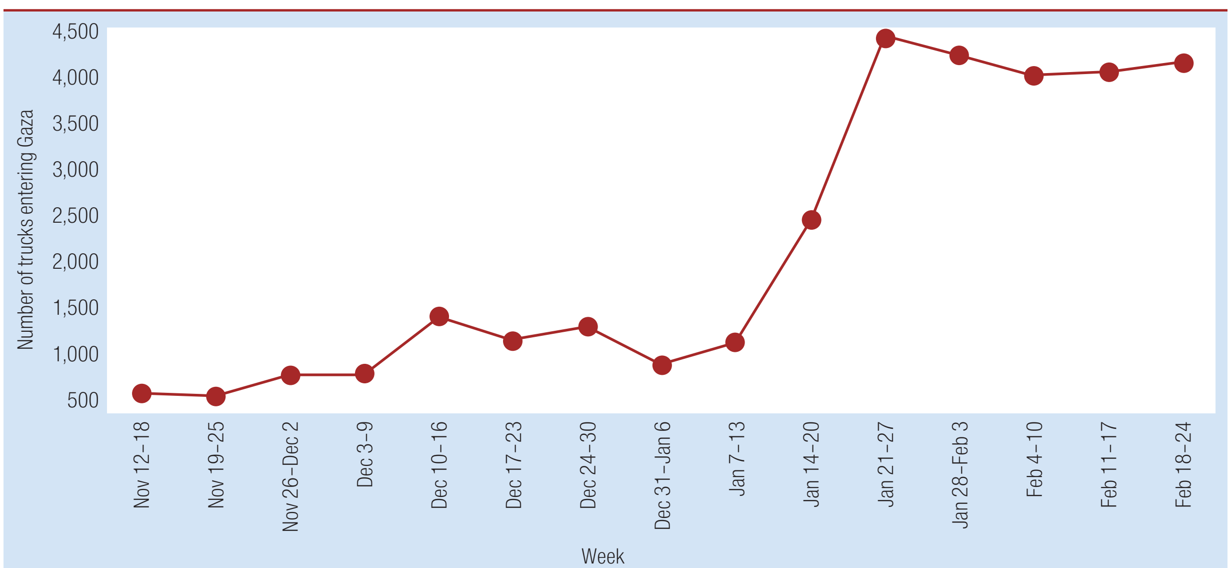
tourism sectors, nearly 90 percent have lost their jobs due to the ongoing conflict. In the West Bank, while the job losses remain significant, the impact is less severe, with around 20 percent of the estimated 195,000 workers in these same sectors affected by increased restrictions.[15] As of end-2024, the total losses for the private sector in the West Bank since the onset of the conflict are estimated at US$1.3 billion, primarily due to trade restrictions and limited market access. The introduction of new Israeli checkpoints and road barriers in the West Bank since the start of 2025 has placed additional strain on private sector activity.

New data shows that women entrepreneurs in the West Bank and Gaza have been heavily affected by the conflict and its economic repercussions, triggering a significant decline in business performance. A recent survey conducted by the World Bank in February 2025,[16] highlights the challenges faced by this segment of the private sector. While 67 percent of women-led businesses reported growth during the summer of 2023 (prior to the conflict), the landscape changed markedly by January 2025, with only 19 percent continuing to grow and 58 percent reporting a decline in operations. Conflict-related disruptions, such as the loss of key markets, layoffs, fixed asset damage, and shrinking cash flows, have significantly hindered business continuity. Since the start of the conflict, 62 percent of

15 World Bank, EU, UN: iRDNA February 2025.

16 The survey, conducted in collaboration with the Palestinian Businesswomen Forum (BWF), was based on around 500 women-led businesses and achieved a 30% response rate.

FIGURE 8 • Number of Trucks Entering Gaza from November 2024 to February 2025



Source: Federation of Palestinian Chambers of Commerce, Industry, and Agriculture (FPCCIA).

women-led businesses have reported reducing their workforce, while 18 percent adopted underemployment strategies to minimize job losses.

On the energy front, approximately 80 percent of power generation and distribution assets in Gaza have been destroyed or rendered inoperable, with an estimated sectoral damage of around US$0.5 billion.[17] The Gaza Power Plant (GPP) ceased operations in October 2023 due to fuel shortages and damage to nearby equipment, while the 120 MW electricity supply from the Israel Electric Company (IEC) was cut off, leading to a near-total blackout in the Gaza Strip. This loss of power has crippled essential services, disrupted healthcare facilities, collapsed water and sanitation systems, and severely hampered food production.

In the face of extreme challenges for the sector to operate, recent efforts highlight the critical role that coordinated action can play in restoring basic energy services. In November 2024, the Gaza Electricity Distribution Company (GEDCO) successfully repaired the IEC's Kusuvim feeder line in southern Gaza. In coordination with IEC and the Government of Israel, 4 MW of its 12 MW capacity was restored, supplying power to the Short-Term Low-Volume Desalination (STLV) plant. Further progress was made by the end of January 2025, when the GPP underwent a successful 20 MW test run using one simple cycle turbine. While this test did not include load-bearing operations, it demonstrated that the plant could begin generating power once fuel supplies are secured and surrounding infrastructure is rehabilitated. Moving forward, close coordination among the Palestinian Energy and Natural Resources Authority (PENRA), the Gaza Power Generating Company (GPGC), GEDCO, IEC, and other stakeholders will be essential to accelerating energy recovery and restoring essential services in Gaza.

An updated poverty assessment shows a dramatic increase in poverty across the Palestinian territories, with poverty rates rising from 29 percent in 2023 to nearly 40 percent by the end of 2024.[18] **Meanwhile, multidimensional vulnerability in Gaza remains at critical levels, compounded by widespread malnutrition and the lack of basic goods.** Nearly the entire population of Gaza currently lives in poverty, a crisis with long-term consequences for both well-being and mental health. Most Gazan households rely heavily on humanitarian aid for food and depend on firewood or gas for fuel. The eight-week ceasefire from January to March 2025 temporarily improved humanitarian access, allowing UN agencies to deliver over 77,000 metric tons of food, reaching 1.2 million people with nutrition supplements and other life-saving assistance. Aid also included approximately 680 metric tons of animal feed for 3,500 livestock holders, helping sustain local food production. However, critical agricultural supplies such as seed kits, fertilizers, and greenhouse materials remain largely unavailable, hindering efforts to address food shortages. The situation deteriorated again in March 2025 when the ceasefire ended and all border crossings were closed, halting both commercial and humanitarian deliveries. This disruption threatens to further strain Gaza's already fragile living conditions, deepen food insecurity and entrench poverty.[19] Approximately 1.95 million people in Gaza are facing crisis-level food insecurity (IPC Phase 3 or above), with 345,000 people experiencing catastrophic food insecurity (IPC Phase 5) and 876,000 people in emergency conditions (IPC Phase 4).[20] In the West Bank, households have also experienced substantial welfare losses across both consumption metrics and broader multidimensional indicators, with the short-term poverty rate rising from approximately 12 percent before the conflict to about 28 percent by the end of 2024.

While income per capita in the West Bank and Gaza have long diverged, reflecting the distinct restrictions and challenges facing each territory, the recent conflict magnifies these disparities. By the end of 2024, Gaza's real income per capita had plummeted below US$200—one of the lowest recorded globally and merely 5 percent of the

17 Data based on the inter Rapid Damage and Needs Assessment (iRDNA) released in February 2025; World Bank, UN, EU.

18 Measured at the $6.85 international poverty line.

19 WFP Palestine Emergency Response, External Situation Report 49, March 2, 2025.

20 OCHA (2025), Reported impact snapshot | Gaza Strip, 18 March 2025.

West Bank's. World Bank data indicate an 11 percent drop in Gross National Income (GNI) per capita in 2023, pushing the Palestinian economy from upper-middle-income status before the conflict to lower-middle-income status.

Amid the economic and fiscal crisis, the Palestinian Cash Transfer Program (CTP) has faced severe financing constraints,[21] **leading to inconsistent payments and the exclusion of Gaza's beneficiaries since the outbreak of the conflict, despite worsening poverty levels**. The Palestinian CTP has faced persistent financing challenges, resulting in intermittent and delayed payments through the years. In 2023, before the conflict, beneficiaries in both the West Bank and Gaza received only one payment in April. Since the outbreak of the conflict, however, the program has been restricted to operating solely in the West Bank, where only about 30 percent of its intended beneficiaries reside. This has left over 70 percent of eligible recipients—located in Gaza—without assistance, despite poverty levels having massively deteriorated. In the West Bank, payments have resumed sporadically. In August 2024, 27,500 households received six months' worth of benefits in a single disbursement. In November 2024, approximately 31,000 households received an additional one-month payment. Two more payment rounds were conducted in January and February 2025, each reaching around 31,000 households. On average, beneficiary households receive approximately US$110 per month. Important efforts have been devoted to expanding the use of e-wallets in Gaza, also—but not limited to the purpose of CTP. The efforts are spearheaded by the PMA with the technical assistance of the World Bank and the International Monetary Fund.

Over a year into the conflict, Gaza's health system has been largely dismantled, severely hindering access to essential medical care for the population. As of March 2025, 49 percent of hospitals and 60 percent of primary health clinics are non-operational.[22] The healthcare system in Gaza is grappling with critical challenges, including widespread outbreaks of communicable diseases, such as polio, prompting extensive vaccination campaigns. Key priorities include the provision of rehabilitative surgery for over 25,000 individuals, the delivery of mental health services to the entire population, and the management of non-communicable diseases affecting more than 650,000 people.[23] Since October 2023, US$117 million worth of health supplies has been delivered to Gaza, reaching an estimated 400,000 individuals. However, ongoing constraints related to security, access, and funding continue to impede the comprehensive rehabilitation of healthcare services, with estimated financing gaps for critical service delivery exceeding US$570 million.[24] The recent Interim Rapid Damage and Needs Assessment (IRDNA) estimated that Gaza's healthcare sector has incurred direct physical damages totaling US$1.3 billion, while economic losses amount to US$6.3 billion, with total recovery needs estimated at US$7.05 billion.[25]

In the West Bank, healthcare services have also been severely impacted, on account of rising violence, internal displacement, and fiscal strain. The deteriorating macro-fiscal environment in the West Bank has resulted in a growing dependence on arrears to finance health expenditures. Between 2022 and 2024, approximately half of annual health spending was funded through arrears. In 2024, this trend continued, with 75 percent of essential medicines and facility operations funding, and 78 percent of medical referrals to private and non-governmental organiza-

[21] This analysis refers to the situation prior to the announcement by Palestinian authorities on discontinuing financial support to families of prisoners held in Israeli jails . A decree issued by President Abbas in February 2025 also stipulates that the "cash assistance program, its database, and its financial, local, and international allocations will be transferred from the Ministry of Social Development to the Palestinian National Foundation for Economic Empowerment. Going forward, it is said cash assistance will be provided only on the base of economic criteria.

[22] World Health Organization, 2025. Public Health Situation Analysis (PHSA) #8: 28 February 2025.

[23] Ibid.

[24] United Nations Financial Tracking Service, 2025. *https://fts.unocha.org/plans/1273/summary*.

[25] World Bank, European Union, United Nations, 2025. Rapid Damage and Needs Assessment. *https://thedocs.worldbank.org/en/doc/133c3304e29086819c1119fe8e85366b-0280012025/original/Gaza-RDNA-final-med.pdf*.

tions (NGOs) financed through arrears. As of the end of 2024, the Palestinian Ministry of Health (PMOH) faces approximately US$770 million in arrears, of which two thirds are owed to private and NGO hospitals providing referral services, and one third to medicines and medical suppliers. These arrears present significant risks to the continuity of care and undermine fiscal sustainability, exacerbating the health sector's challenges in the long term.[26]

On the education front, nearly 745,000 students (658,000 school-aged children and more than 87,000 tertiary education students) have been out of formal schooling for over a year in Gaza, since the onset of the conflict. All educational facilities are estimated to be either damaged or destroyed.[27] The conflict has resulted in a significant number of students and youth sustaining injuries, many of which are expected to require long-term rehabilitation, further increasing the risk of lasting disabilities. According to the recent IRDNA, damages to the education sector are estimated at approximately US$870 million, with economic losses totaling US$3.2 billion and recovery needs over the next five years projected at US$3.8 billion.[28] In response, international partners, non-governmental organizations and local communities have provided informal learning opportunities through Temporary Learning Spaces (TLS), reaching about 25 percent of school-aged children in Gaza by the end of 2024,[29] offering limited recreational activities and basic instruction. The Palestinian Ministry of Education and Higher Education has also offered virtual schooling and some in-person instruction. However, the continuation of the conflict presents a serious threat to these efforts, as several TLS have been impacted by evacuation orders, or forced to close due to funding shortages.

In the West Bank, the education system is also grappling with escalating difficulties, especially in the Northern Governorates. Delays and cuts to the salaries of public civil servants, including school personnel, have caused significant disruptions to education services. Throughout the 2023/24 academic year, in-person schooling for over 600,000 public school students was limited to 2 days per week. The commencement of the 2024/25 academic year was postponed, and as of present, students continue to engage in remote learning at least once per week. Increased volatility in the region has led to localized disruptions, with security incidents and mobility restrictions hindering safe access to schools, Technical and Vocational Education and Training (TVET) facilities, and higher education institutions. Recently, nearly 100 schools in the Jenin, Tubas, and Tulkarem governorates had to close or temporarily suspend in-person instruction due to escalating violence.[30]

As emphasized in previous Economic Updates, urgent action is needed to mitigate the severe recession, rising poverty, and deepening humanitarian crisis in the West Bank and Gaza.

- **Ending hostilities remains vital** not only to reduce the devastating human toll but also to allow restoration of basic services and lay the groundwork for socioeconomic recovery
- **Reviving growth:** Restoring production requires policies that facilitate trade and mobility to strengthen private sector activity in both the West Bank and Gaza and generate employment at scale.
- **Fiscal Stability:** Addressing fiscal challenges demands the reversal of unilateral deductions from Clearance Revenues and a release of the stock of previous withholdings, to provide the PA with the resources needed to meet essential budgetary obligations, including salaries, pensions, and social services.

26 Data sourced by World Bank staff at the Palestinian Ministry of Finance, 2024.

27 World Bank, European Union, United Nations, 2025. Rapid Damage and Needs Assessment. *https://thedocs.worldbank.org/en/doc/133c3304e29086819c1119fe8e85366b-0280012025/original/Gaza-RDNA-final-med.pdf*.

28 World Bank, European Union, United Nations, 2025. Rapid Damage and Needs Assessment. *https://thedocs.worldbank.org/en/doc/133c3304e29086819c1119fe8e85366b-0280012025/original/Gaza-RDNA-final-med.pdf*.

29 Education Cluster (2025). Gaza Strip: Temporary Learning Spaces – Cumulative results in 2024.

30 Education Cluster 2025. Rapid Assessment and Educational Interventions in Conflict-Affected Regions of the Northern West Bank.

- **Financial Sector Resilience:**
  - **Regulatory Stability:** Maintaining financial sector stability necessitates strong prudential regulations and robust supervision, with a clear focus on the fiscal-financial nexus. Ensuring the Palestinian Monetary Authority's (PMA) independence as the banking sector's regulator is critical to safeguarding financial stability.
  - **Cross-Border Payment Framework and Excess Cash:** A long-term arrangement on Correspondent Banking Relationships and on a cross-border payment mechanism will be crucial to address systemic challenges, including the chronic issue of shekel cash repatriation. Persistent cash accumulation in Palestinian banks underscores the need for sustainable liquidity management solutions.
  - **Microfinance for Recovery:** Drawing from post-conflict recovery models in countries like Myanmar and Rwanda, the well-established Palestinian microfinance institution (MFI) network can play a pivotal role in revitalizing microenterprises, particularly those owned by women. International assistance may be required to absorb conflict-related losses and inject liquidity, enabling MFIs to support reconstruction effectively.
  - **Expanding Digital Financial Services:** Scaling up e-payments and e-money can enhance financial inclusion, reduce reliance on cash—which is largely unavailable in Gaza—and improve the efficiency, speed, and transparency of transactions, including remittances and small business support.
- **Mobilizing International Support:** The international community needs to significantly increase aid funding, to sustain essential public services and lay the groundwork for recovery and reconstruction. While the 2024 rise in budget support to the PA is a positive step, financial needs remain vast and largely unmet. A stronger, well-coordinated international response is required to bridge these funding gaps and support long-term stability. Achieving a transformation of the Palestinian economy—once the hostilities have stopped—needs a conducive environment that includes the support and involvement of a broad array of stakeholders and investors, including all development partners—bilateral and multilateral—and the private sector.
- **Structural Reform Efforts:** Finally, it is essential for Palestinian decision-makers to maintain a strong commitment to advancing a reform agenda that prioritizes efficiency, effectiveness, and transparency, to strengthen governance, implement financial sector reforms, and move in the direction of fiscal sustainability. Since taking office a year ago, the new government has demonstrated clear willingness to develop a comprehensive reform strategy, achieving progress in some areas while facing delays and challenges in others. Notably, the passage of a new VAT Law in January 2025 marks a positive step toward enhancing domestic revenue mobilization. The 2025 budget capped growth of the public sector payroll at 1.25 percent and adopted a zero net hiring policy, signaling efforts on wage bill management. In the financial sector, the Government recently completed its second National Risk Assessment, which strengthens financial integrity, and enacted an e-transactions law in October 2024, enhancing the legal framework for the digital economy. Sustained efforts will be needed to accelerate the implementation of other planned reforms, particularly in the areas of fiscal stabilization.

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