

PALESTINIAN TERRITORIES

The Palestinian economy experienced an unprecedented contraction after the 2023–25 Gaza conflict. Despite the ceasefire, Gaza still suffers from catastrophic infrastructure destruction, access restrictions, and loss of life. Spillover effects in the West Bank included job losses, service disruptions, and an intensified fiscal crisis. The outlook depends on security stability—locally and regionally—Gaza’s reconstruction, and how Israeli restrictions in the West Bank evolve.

Key conditions and challenges

Even before the 2023–25 conflict, the Palestinian economy was stifled by prolonged occupation, movement restrictions (the Government of Israel states that these measures exist to safeguard its security and that of its citizens), and territorial fragmentation. These constraints were compounded by governance deficits and inconsistent policy reform by the Palestinian Authority (PA). Over two decades, the economy faced deindustrialization and aid-dependency, lacking growth drivers beyond transient consumption rebounds. Driven by rapid demographic growth, the labor market couldn’t absorb enough new entrants, leaving it reliant on employment opportunities in the Israeli labor market.

The Gaza conflict worsened structural fragilities. Gaza’s physical damage, estimated at over US\$35 billion, and identified reconstruction needs at over US\$70 billion, exceed previous conflicts and reversed decades of development, inducing near-universal poverty. In the West Bank, Israeli measures to limit labor access and increase deductions from clearance revenues (tax revenues payable

Population ¹ million	Poverty ² millions living on less than \$8.30/day
5.4	1.5
Life expectancy at birth ³ years	School enrollment ⁴ primary (% gross)
65.2	91.4
GDP ⁵ current US\$, billion	GDP per capita ⁶ current US\$
16.9	3115.0

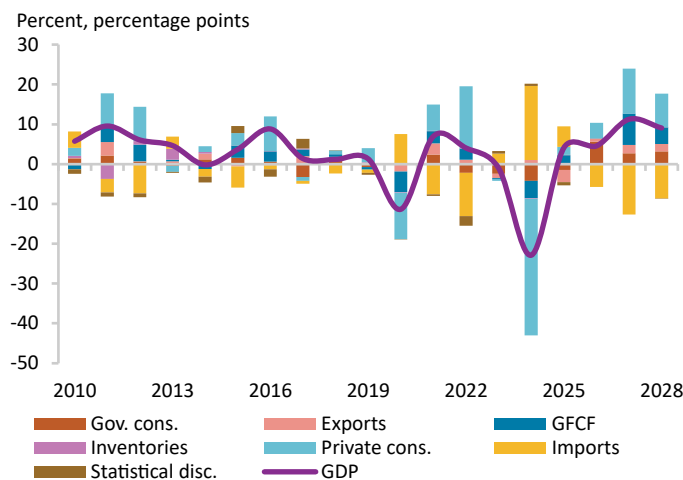
Sources: WDI, MFM, and official data. 1/ 2025. 2/ 2023 (2021 PPPs). 3/ 2023. 4/ 2023. 5/ 2025. 6/ 2025.

to the PA that are collected by Israel)—progressing to a complete suspension of transfers altogether—have severely curtailed primary income streams. This has constrained private sector liquidity and intensified disparities in living standards. The Palestinian territories have regressed to lower-middle-income status, with Gaza’s real per capita income dropping to US\$200 by late 2025, a level associated with the poorest low-income countries, and a full 95 percent below the West Bank’s. Additional shocks from the new conflict in the Middle East will add headwinds to an already severely constrained economy.

Recent developments

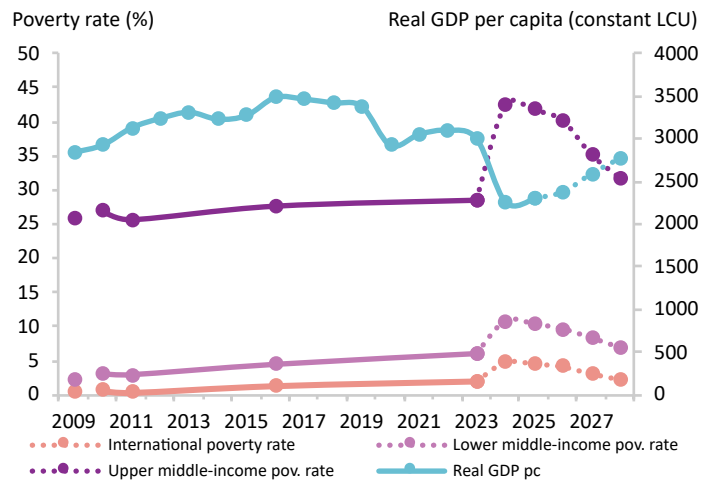
Following a sharp decline in 2024, the West Bank economy grew by 3.2 percent in 2025, driven by marginal recovery in private consumption as Palestinian workers’ access to the Israeli labor market was restored to a modest degree. In Gaza, real GDP rose by an estimated 30 percent in 2025. This reflects a statistical ‘low base effect’ following the historic 83 percent contraction in 2024, rather than a meaningful recovery. While embryonic normalization is developing under the

FIGURE 1 / Real GDP growth and contributions to real GDP growth



Sources: Palestinian Central Bureau of Statistics and World Bank.

FIGURE 2 / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: See footnotes in table on the next page.

ceasefire, persistent kinetic activity, volatility and destruction have left most productive sectors largely paralyzed, with only minimal activity observed in trade and a narrow set of public services.

Gaza's consumer price index briefly dropped in early 2025 as aid supplies increased during the first truce, only to spike when fighting resumed. Despite a new decline after the October 2025 ceasefire, overall prices increased by 22 percent for the year. Conversely, inflation in the West Bank remained flat, edging down by 0.1 percent in 2025 reflecting subdued aggregate demand.

The PA faced one of its most dire fiscal crises in 2025, after Israel completely suspended clearance revenue transfers in May. With declining domestic revenues and insufficient external aid, the PA further cut public salary payments to 50–60 percent in late 2025. To manage the deficit, the PA expanded domestic bank borrowing beyond prudential limits and continued accumulating arrears to public employees, the private sector, and the pension fund—further straining the domestic financial system.

In Gaza, unemployment reached an unprecedented rate of 78 percent in 2025, a nearly fourfold increase from already significant pre-conflict levels. In the West Bank, unemployment moderated to 28 percent in 2025 from its 35 percent peak at the conflict's onset, supported by incremental labor access of Palestinians to Israel and marginal ensuing gains in consumer spending power.

Proportionally, poverty surged to 41.8 percent in 2025 (at the international poverty line of US\$8.30/day, PPP). While slightly improved from 2024, this represents a sustained poverty plateau far above the 2023 levels of 28.6 percent. Since 2024, poverty in Gaza has become pervasive, affecting nearly the entire population as a direct consequence of the conflict.

Outlook

The Palestinian economy is projected to grow by 4.5 percent in 2026, contingent on continued ceasefire in Gaza and stability in the West Bank. Fixed asset losses will restrict activity in Gaza, while recovery in the West Bank will depend on labor mobility within the territories and access to the Israeli labor market. Poverty should remain high, above 40 percent through 2026. Assuming that Gaza's reconstruction starts in 2027 and Israeli-dependent fiscal measures in the West Bank are reversed, recovery could accelerate and poverty gradually decrease to 31.8 percent by 2028. However, a return of GDP to pre-conflict levels remains a long-term challenge, especially given Gaza's extremely large recovery needs.

On the fiscal front, despite uncertainty, the baseline assumes the normalization of clearance revenue transfers by 2027, alongside a gradual uptick in domestic tax collection given fiscal consolidation efforts by the PA. These factors should slightly improve the deficit trajectory over the medium term, though risks remain clearly weighted to the downside, including higher fiscal costs related to the conflict in the Middle East.

The medium-term outlook remains contingent on the sustainability of the ceasefire, large-scale aid flows to Gaza, a cohesive post-conflict governance framework, and the resumption of regular clearance revenue transfers. The outlook is clouded by significant headwinds, amid shifting regional and global geopolitical dynamics. The conflict in the Middle East poses risks including increased energy prices and uncertainty in financial markets; however, the more consequential impact for the Palestinian economy may stem from disruptions to foreign assistance flows and reconstruction planning, as regional and international priorities may shift.

Recent history and projections

	2023	2024	2025e	2026f	2027f	2028f
Real GDP growth, at constant market prices	-1.0	-22.9	4.1	4.5	11.3	9.1
Private consumption	-0.5	-34.4	2.3	4.6	13.5	10.0
Government consumption	-11.7	-22.9	-8.2	34.8	13.0	15.2
Gross fixed capital investment	-0.8	-17.1	8.3	3.3	24.8	13.4
Exports, goods and services	-6.0	5.8	-12.4	4.0	10.3	9.0
Imports, goods and services	-4.2	-30.5	-9.4	14.0	22.4	15.0
Real GDP growth, at constant factor prices	-3.2	-21.8	5.1	4.5	11.3	9.1
Agriculture	-27.7	-14.2	7.4	3.0	11.0	10.0
Industry	172.6	-19.1	8.9	3.5	13.1	9.5
Services	-49.8	-27.1	-1.6	6.5	8.1	8.2
Employment rate (% of working-age population, 15 years+)	30.4	19.6	29.2	32.4	33.4	33.4
Inflation (consumer price index)	5.9	98.2	10.5	-7.0	2.0	3.0
Current account balance (% of GDP)	-12.5	-18.1	-17.6	-15.5	-13.9	-13.7
Net foreign direct investment inflow (% of GDP)	1.5	0.9	-0.6	1.5	1.3	1.2
Fiscal balance (% of GDP)	-3.7	-8.1	-7.7	-8.7	-4.7	-4.4
Revenues (% of GDP)	25.1	24.6	24.8	29.1	31.8	31.8
Debt (% of GDP)	56.5	69.8	76.3	84.9	82.3	75.6
Primary balance (% of GDP)	-3.1	-7.3	-6.7	-7.6	-3.7	-3.4
International poverty rate (\$3.00 in 2021 PPP)^{1,2}	2.1	4.8	4.6	4.2	3.2	2.3
Lower middle-income poverty rate (\$4.20 in 2021 PPP)^{1,2}	6.1	10.8	10.4	9.7	8.4	6.9
Upper middle-income poverty rate (\$8.30 in 2021 PPP)^{1,2}	28.6	42.6	41.8	40.3	35.3	31.8
CO2 emissions growth (mtCO2e)	-2.0	-2.0	-2.0	-2.1	-1.7	-1.7

Source: World Bank, Fiscal Policy & Growth Department. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

1/ Calculations based on 2023-PECS. Actual data: 2023. Nowcast: 2024-2025. Forecasts are from 2026 to 2028.

2/ Projection using neutral distribution (2023) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.