

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

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EXECUTIVE SUMMARY

Beyond the significant human toll, at least a decade and a half of modest economic progress in the Palestinian territories has been reversed. By the end of 2024, real GDP had fallen back to 2009 levels, reversing 15 years of gains. Nominal GDP per capita stood at roughly \$2,600—below the 2011 level of \$2,900. The modest growth recorded between 2010 and 2019 was undone over the last five years by the combined impacts of the pandemic and repeated rounds of conflict, especially the current one centered in Gaza. Episodes of economic growth remain driven by consumption rather than the productive sectors, and are heavily influenced by recurring cycles of tension and violence, and volatile aid flows.

As of early 2025, economic activity in Gaza was effectively at a standstill. After an 83 percent year on year contraction in 2024, Gaza's GDP fell an additional 12 percent in Q1-2025. Wholesale and retail trade saw some modest gains during the ceasefire (January-March 2025), yet ongoing hostilities and the near-total blockade have sharply reduced production, bringing Gaza's GDP share of the Palestinian GDP down from 17 percent pre-conflict to below 3 percent at present.

By contrast, the West Bank economy rebounded by 10 percent year-on-year in real GDP during the first months of 2025, albeit largely due to low base effects following the historic contraction in 2024. Private consumption stood out as the

principal engine of growth, supported in this instance by gains in wages earned by Palestinians employed in Israel, whose number has somewhat increased in recent months. Despite this uptick, economic activity in Q1-2025 remains 1 percent below Q4-2024 levels and 17 percent below its pre-conflict level, in real terms.

Far-reaching labor market disruptions reverberated across the Palestinian territories. Employment among Palestinians working in Israel fell by 86 percent within a single quarter after October 2023, dropping from 177,000 to 24,000. By Q2-2025, this figure rose to about 40,000 workers, with undocumented employment accounting for a large portion of the rebound. Overall, unemployment surged to 69 percent in Gaza and 29 percent in the West Bank, with men of lower educational attainment in rural areas most severely affected.

Persistent fiscal strains have drastically eroded the Palestinian Authority's (PA) revenue base, placing extreme constraints on the financing of basic services. Since the onset of the conflict, Israeli deductions from clearance revenues¹ increased, reducing the PA's primary revenue source and resulting in

¹ "Clearance revenues" are mostly VAT and import duties that, according to the Paris Protocol, should be collected by the Government of Israel and transferred to the PA on a monthly basis, after the deduction of a 3 percent administrative fee.

salary payments equivalent to only roughly 70 percent of full wages. Since the suspension of clearance revenue transfers in May, salary payments were further reduced and the PA has increasingly relied on domestic borrowing, exceeding the Palestine Monetary Authority prudential ceilings, and placing pressure on the financing of health, education, and social protection services. If sustained, these dynamics have the potential to precipitate fiscal collapse, with attendant risks to institutional continuity and broader socioeconomic stability.

Despite the stability of some financial sector indicators, the Palestinian banking system is facing an increasingly critical situation and uncertainty with regards to short-term stability. As of June 2025, liquidity and capital buffers remain technically adequate, but mounting pressures are rapidly eroding some of the systems critical functions, with potentially destabilizing consequences. The financial system is facing accelerated deterioration on multiple fronts, with the most immediate threats coming from the depletion of digital NIS in correspondent bank accounts. The accumulation of excess shekel cash reflects a liquidity trap, as banks are unable to utilize deposits effectively due to restrictions on cash repatriation and correspondent banking arrangements with Israel. This disconnect between the accumulation of excess cash and the depletion of correspondent accounts distorts financial intermediation and undermines the sector's ability to support trade and access to basic goods and utilities. Despite surface-level resilience, these pressures pose immediate threats to financial stability. Diplomatic and technical efforts to secure alternative liquidity arrangements have so far yielded no sustainable solution. As such, the risk of systemic collapse is no longer theoretical: Palestinian banks may soon be unable to support basic trade and commodity flows—including fuel, water, and medicine—pushing economic activity further into informal channels. The urgency of developing a sustainable cross-border payments framework cannot be overstated, as current stopgap measures continue to offer only temporary relief with successively shorter time frames.

The West Bank's private sector has shown adaptive capacity but continues to face structural constraints in generating sufficient employment for a rapidly expanding workforce. By Decem-

ber 2024, over 97 percent of businesses in the West Bank remained operational, often managing staffing through underemployment rather than layoffs. Sales nonetheless declined for roughly two-thirds of firms, and the share of businesses seeking credit fell from 21 percent in 2022 to below 10 percent in 2024. Despite a sharp decline in overall applications, loan approval rates remained high, which is indicative of positive selection biases. In Gaza, commercial crossing closures and supply constraints in Q2-2025 further curtailed what was already minimal private sector activity, with staple goods prices rising markedly and trade nearly collapsing.

The conflict has resulted in the near-total destruction of Gaza's energy sector, physical infrastructure and social services. Approximately 80 percent of electricity generation and distribution capacity has been destroyed, leaving many households reliant on improvised car battery Direct Current (DC) networks and high cost diesel generators. Over 90 percent of telecommunications infrastructure is nonfunctional, with limited service maintained through costly mobile Cells on Wheels (COWs) and generators, with recent fuel shortages raising concerns.

Gaza's food consumption and nutrition indicators are at their worst levels since the onset of the conflict, and as of end-August, the UN reported² that more than half a million people in Gaza face famine. Agricultural production has been severely reduced, with 95 percent of cropland and 80 percent of greenhouses damaged or inaccessible, due to conflict and movement restrictions. Combined with severe constraints on food and goods entry, these conditions have critically undermined food availability. According to the UN, Gaza is already experiencing famine conditions in parts of the territory, with over 640,000 people³ already experiencing catastrophic hunger (IPC Phase 5) and over 1.1 million individuals—more than half of the population—experiencing emergency hunger and large food consumption gaps

² WHO, <https://www.who.int/news/item/22-08-2025-famine-confirmed-for-first-time-in-gaza>, August 22, 2025.

³ IPC, <https://www.ipcinfo.org/ipcinfo-website/countries-in-focus-archive/issue-134/en/>, consulted on September 1st, 2025.

(IPC phase 4). In this context, the risk of food insecurity expanding remains high.

Healthcare and education systems in Gaza are paralyzed, while service capacity in the West Bank has also come under increased strain with devastating immediate impacts as well as long term consequences at both individual and societal levels. Half of Gaza's hospitals and 60 percent of its primary clinics are nonfunctional, leading to outbreaks of polio and other communicable diseases amid water infrastructure destruction. All educational facilities have been damaged or destroyed, and over 80 percent of Gaza's 658,000 school-aged children did not have consistent access to Temporary Learning Spaces in recent months. Malnutrition among children under five has surged, with potential lifelong consequences for their health and cognitive development that threaten their future ability to learn.^{4,5} In the West Bank, education services faced close to 900 incidents of closures and delays in the first six months of 2025, deepening learning losses. The start of the new school year was postponed due to fiscal constraints, and healthcare arrears in the West Bank reached over US \$770 million by the close of 2024, contributing to fiscal stress and raising the risk of future service disruptions. In addition to the severe impact this has for the affected population, these developments are irreversible and will negatively impact future potential economic growth.

Social protection programs have been curtailed, and poverty is on the rise. Since the onset of the conflict, the National Cash Transfer Program had reached only West Bank beneficiaries, providing monthly support to 31,000 households until April 2025, when it was fully suspended. Food and cash assistance remain essential but severely constrained: in June 2025, the World Food Programme supplied food to approximately 5,500 households in Gaza and assisted 210,000 people in the West Bank through vouchers and cash transfers. In this context, poverty across the Palestinian territories rose rapidly, to nearly 40 percent by early 2025, up from 29 percent in 2023, with virtually all Gaza households living in poverty.

The Palestinian Authority operates within an exceptionally narrow policy space, underscoring

the significant role of the international community, the Government of Israel, and regional partners in shaping economic outcomes. The Palestinian Authority's capacity to independently and meaningfully influence economic outcomes at present is severely constrained. The absence of control over core policy instruments, such as monetary and fiscal levers, access to land, and authority over trade and customs, means that the conventional tools available to governments to stimulate growth, conduct fiscal adjustments, pursue diversification, or enhance openness are largely inaccessible. In this context, mitigating the economic freefall, stabilizing the financial sector and providing basic services in the short term will require coordinated and decisive action by the international community, particularly regional partners. The Government of Israel can potentially play the most significant, immediate role in helping alleviate the fiscal crisis. To mitigate the economic freefall and alleviate human suffering, decisive action is needed:

- As highlighted in previous economic updates, **ending hostilities is critical** not only to reduce the devastating human toll but also to create the minimum conditions **for socioeconomic recovery.**
- **Fiscal stabilization:** To prevent disorderly fiscal adjustment, it will be vital to resolve the clearance revenues dispute as soon as possible, along with increasing budget support, and advancing fiscal consolidation by the PA, particularly on the sustainability of the wage bill. These measures are essential to equip the Palestinian Authority with resources to meet essential obligations—salaries, pensions, and social services.
- **Private sector dynamism and job creation:** Policies to facilitate trade, restore mobility, and stimulate private sector activity are critical to

⁴ Harvard University, https://developingchild.harvard.edu/wp-content/uploads/2024/10/Timing_Quality_Early_Experiences-1.pdf.

⁵ US National Library of Medicine, Early and Long-term Consequences of Nutritional Stunting: From Childhood to Adulthood, 2021; <https://pubmed.ncbi.nlm.nih.gov/articles/PMC7975963/>.

reactivating job creation and reversing labor market deterioration. To sustain job creation, a strong focus on SMEs is essential, supported by blended finance, improved enterprise services, startup assistance, and expanded regulatory space for women entrepreneurs. Capacity-building in digital skills, including e-commerce, digital marketing, and productivity technologies, can enable firms to expand market reach, enhance competitiveness, and build resilience. The well-established Palestinian microfinance institution network (MFI) can play a pivotal role in revitalizing micro-enterprises, particularly those owned by women.

- **Financial sector resilience:** Strengthening prudential regulation, securing a structured cross-border payment framework and permanent CBRs arrangements, and expanding dig-

ital financial services can help support financial stability and inclusion.

- **International aid mobilization:** Increased donor support remains essential to meet growing and still unmet financial needs, sustain vital public services, facilitate recovery, and support critical policy reforms. Transforming the Palestinian economy after the hostilities end will require a conducive environment—one that engages a broad array of stakeholders and investors, including bilateral and multilateral development partners 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. Continued efforts are especially needed to accelerate public spending efficiency.

ASSESSMENT

Macro-Fiscal and Labor Market Developments

In early 2025, the West Bank economy registered a year-on-year rebound, driven primarily by low base effects following the historic contraction in 2024. Recent data⁶ indicate that real Gross Domestic Product (GDP) in the West Bank grew by 10 percent in Q1-2025 (year-on-year). However, the observed rebound does not signal a durable growth trend, but primarily reflects a low base effect, as economic activity was severely depressed through 2024, due to the ongoing conflict. The wholesale and retail trade sector was the largest contributor to GDP growth in Q1-2025, due to an uptick in private consumption (Table 1). This was largely driven by an increase in the number of Palestinian workers employed in Israel (see further), whose wages—approximately double the West Bank average⁷—constitute a significant source of household income and aggregate demand. Additionally, the two-month ceasefire brokered in Gaza at the beginning of 2025 bolstered consumer sentiment also in the West Bank, further stimulating consumption.⁸ Anecdotal reports also suggest a rise in cross-border shopping by Arab-Israeli citizens,⁹ providing a supplementary boost to local commerce and services. Notwithstanding the year-over-year improvement observed in Q1-2025, the West Bank economy contracted by 1 percent relative

to Q4-2024 and remains approximately 17 percent below its pre-conflict level, in real terms.

The Gaza economy remains in a state of severe collapse. Since the onset of the conflict, activity in the Strip has undergone a near-total shutdown, plunging the territory into economic depression. Following an estimated contraction of 83 percent in 2024, Gaza's GDP declined by an additional 12 percent year-on-year in Q1-2025, underscoring the persistence of acute economic distress. Virtually all productive sectors remained stalled in Q1-2025, with only limited activity observed in wholesale and retail trade, driven by a temporary uptick in consumption during the two-month ceasefire. The scale and duration of the disruption have drastically curtailed Gaza's contribution to the Palestinian economy: its share of total GDP has fallen from approximately 17 percent prior to the conflict to less than 3 percent at present, despite the fact that Gaza is home to nearly 40 percent of the Palestinian population.

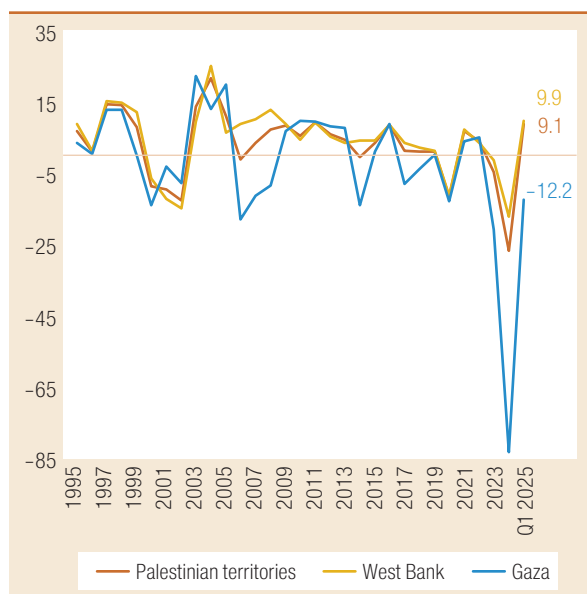
⁶ Source: Palestinian Central Bureau of Statistics (PCBS).

⁷ In Q2-2025, the average daily wage earned by a Palestinian working in Israel was NIS243.4 compared to an average daily wage of NIS134.8 in the West Bank. Data can be accessed here: https://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_LFSSYQ22025E.pdf.

⁸ The ceasefire was held from January 19, 2025, to March 18, 2025.

⁹ Often also referred to as "Palestinians of 1948".

FIGURE 1 • Real GDP Growth (%)



Gaza is also undergoing a sharp demographic contraction as a result of the ongoing conflict. Mid-2025 estimates by the Palestinian Central Bureau of Statistics (PCBS) indicate that the population stands at approximately 2.11 million—

roughly 10 percent¹⁰ below pre-conflict projections of 2.34 million. This drop reflects a confluence of factors, including elevated mortality rates, a substantial number of missing persons, and a significant decline in birth rates. In addition to the aggregate population shortfall, the demographic structure of Gaza is undergoing notable shifts: conflict-related fatalities among children and youth are expected to distort the population pyramid, particularly at its lower age cohorts. If current trends persist, the deaths among individuals in their reproductive years may lead to visible reductions in fertility rates, with downstream implications for labor force participation, human capital accumulation, and Gaza's medium-term prospects for economic recovery.¹¹

Although the epicenter of the conflict that started in October 2023 is Gaza, its ripple effects have severely disrupted unemployment also in the West Bank. Within a single quarter following the onset of the conflict (Q3 to Q4–2023), nearly

¹⁰ https://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_WPD2025E.pdf.

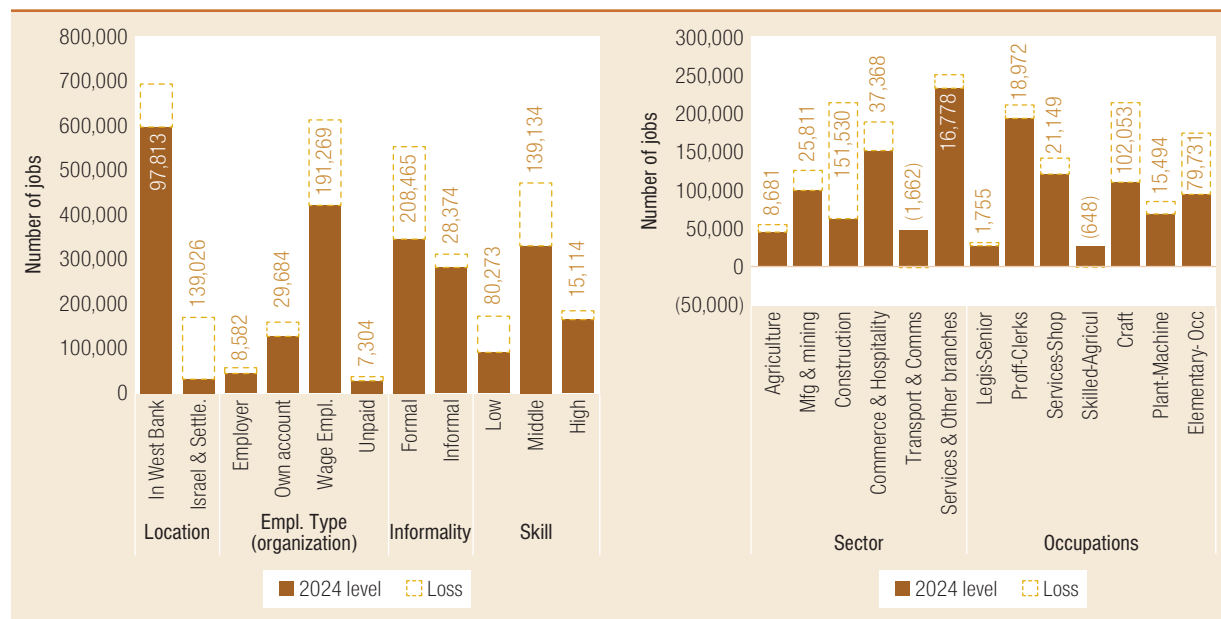
¹¹ Source: Palestinian Central Bureau of Statistics (PCBS).

TABLE 1 • Contribution to Real GDP Growth, Q1-2025

Sector	West Bank	Gaza
Agriculture, Forestry and Fishing	1.4	0.0
Mining, Manufacturing, Electricity and Water	0.9	0.0
Manufacturing	1.0	0.0
Construction	-0.2	0.0
Wholesale and Retail Trade	3.0	5.2
Transportation and Storage	-0.1	0.1
Financial and Insurance Activities	0.3	1.6
Information and Communication	0.2	0.1
Services	1.4	-9.9
Public administration and defense	0.6	-9.3
Households with Employed Persons	0.0	0.0
Customs duties	0.8	0.0
VAT on imports, net	1.6	0.0
Real GDP growth %	9.9	-12.2

Source: PCBS.

FIGURE 2 • Job Losses between 2023 Q3 and Q4



Notes: Source in LFS surveys. The total height of each bar (stacked 2024 level and losses) represents the 2023 Q3 level

30 percent of total employment in the West Bank was lost (Figure 2). The magnitude and speed of this contraction are unprecedented in recent economic history, highlighting the inherent asymmetry and fragility of the West Bank's reliance on economic ties with the Israeli economy. By the end of 2024, unemployment reached 69 percent in Gaza, up from 22 percent prior to October 2023, with women facing higher rates (73.2 percent).¹² In the West Bank, the latest available data is for Q2-2025, and it shows that the unemployment rate reached 28.6 percent; a modest decline from its peak of 35 percent at the onset of the conflict, attributable to modest improvements in the local economy noted above.

Palestinian labor in Israel has only partially rebounded, with a shift toward informal jobs. More in detail, prior to the conflict roughly 177,000 Palestinians were employed in Israel. After the outbreak of conflict, the Government of Israel revoked most of these work permits, reducing them to about 24,000 (an 86 percent drop between Q3 and Q4-2023). Since then, numbers have partially rebounded: by Q2-2025 about 40,000 Palestinian cross-border workers were employed in Israel.¹³ A review by the Israeli Ministry of Finance¹⁴ confirms this trend, especially in the construction sector, where Palestinian employ-

ment rose fivefold; from 4,000 in Q1-2024 to 21,000 in Q1-2025. This rebound however appears to be driven largely by undocumented labor: while permit-holder counts have remained roughly stable, the number of undocumented workers rose from about 6,000 to over 14,000 (Figure 3). The rise in informal employment also carries fiscal implications, as it disrupts regulated revenue transfers: with a growing number of workers lacking formal contracts, the wage deductions required under the Paris Protocol¹⁵ are not withheld,

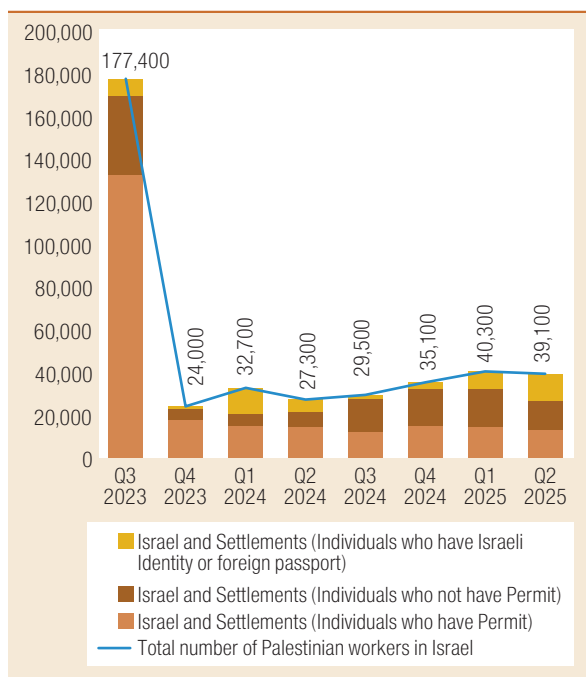
¹² Source: PCBS, Labor Force Survey (2025)—the first official release since the conflict began, covering Gaza through Q4-2024.

¹³ Source: PCBS.

¹⁴ Source: Israeli Ministry of Finance's Chief Economist office, 2025, https://www.gov.il/BlobFolder/reports/reviiew-26062025-main/he/reviews-and-publishes_review-26062025.pdf.

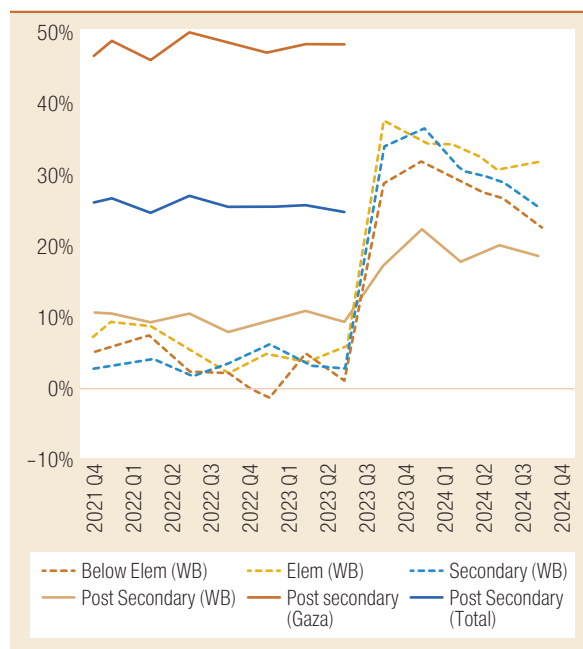
¹⁵ The Protocol on Economic Relations, also called the Paris Protocol, refers to an agreement between the Government of Israel and the Palestine Liberation Organization, signed on 29 April 1994, and incorporated with some amendments into the Oslo II Accord of September 1995. The Protocol established the broad framework for economic relations between Israel and the Palestinian Authority, creating a de facto customs union administered by Israel, and it granted Israel authority

FIGURE 3 • Number of Palestinian Workers in Israel, Q3 2023-Q2 2025



Source: PCBS. – Note: Q4 2023 data is only available in aggregate; category estimates were inferred using Q3 distribution shares.

FIGURE 4 • Unemployment Trends by Education Level, Q4-2021-Q4-2024



Notes: Data for Gaza stops at Q3 2023, due to the conflict.

and consequently not remitted to the Palestinian Authority, resulting in a missed revenue stream for the Palestinian treasury.

The labor market contraction disproportionately impacted men with lower levels of education in rural areas of the West Bank. Educational attainment emerged as a key differentiator in labor market outcomes. Although Palestinian workers with post-secondary education degrees consistently faced the highest unemployment rates—compared to other education levels, also before the conflict—the increase in unemployment for this group was more modest comparatively, as it moved up from 15 to 25 percent (Figure 4). Workers with elementary education instead experienced a much steeper rise in unemployment, from less than 10 to 40 percent, by the end of 2024—reversing a longstanding (pre-conflict) trend where lower education levels were associated with lower unemployment rates. Further analysis by individual characteristics shows that the most adversely affected groups were those more closely linked or dependent on employment in Israel: lower-educated, males, residing in rural areas of the West Bank (Figure 5).

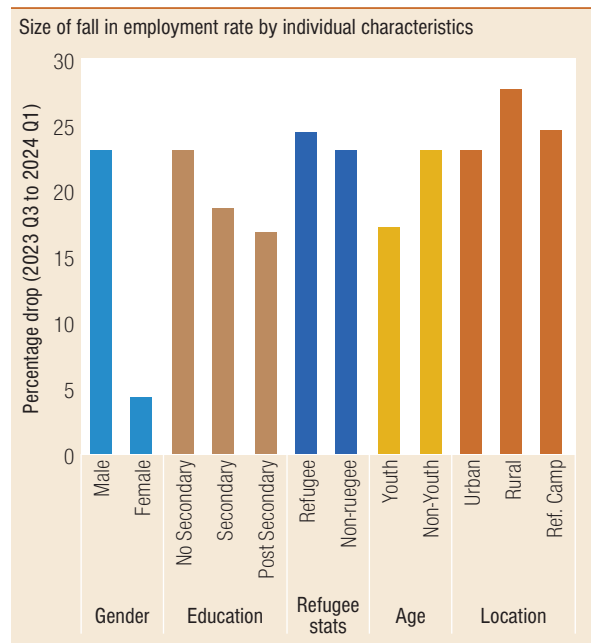
These findings are reinforced by an emerging shift in the composition of both foreign and Palestinian labor within the Israeli labor market.

In the construction sector—which historically has attracted high number of cross-border workers from the West Bank—the number of foreign workers in Israel has nearly tripled in one year, going from 26,000 in Q1-2024 to 62,000 in Q1-2025. Concurrently, employment of Arab-Israeli citizens has also expanded, rising from 92,000 prior to the conflict to a record 116,000 by Q1-2025.

Despite a young and relatively well-educated workforce, reliance on cross-border employment can hold back labor market and broader economic performance. The West Bank and Gaza’s demographic momentum brings both promise and pressure. The fertility rate in the West Bank and Gaza

over external borders, trade, and taxation, while providing for the transfer of certain revenues to the Palestinian Authority. Full document available online at <https://web.archive.org/web/20121126160945/http://www.nad-plo.org/userfiles/file/Document/ParisPro.pdf>.

FIGURE 5 • Decline in Employment Rates by Worker Characteristics, Sept 2023-Mar 2024 (%)



Notes: Based on 20203 Q3 and 2024 Q1 LFS data. These are conditional estimates based on OLS regression of employment on the characteristics listed. Estimates shown are the interaction terms between employment and 'post-war' dummy variable.

in 2022 stood at 3.4, significantly above the Middle East and North Africa (MENA) regional average of 2.6.¹⁶ In the next decade, 1.4 million new labor-force entrants between the ages of 15 and 24 could create opportunities for transformation by harnessing new human capital, as these 1.4 million entrants will account for one-third of all working-age adults.¹⁷ However, this shift also presents serious challenges, as it risks compounding existing unemployment pressures if domestic job creation is unable to keep pace.

The sharp decline in Palestinian employment in Israel has indeed had a profound impact on the West Bank's aggregate demand. Given that the average daily wage for these workers is double that of West Bank-based employment, the loss of income has been particularly damaging for the domestic economy. In 2022—prior to the conflict—Palestinian labor compensation from Israel totaled US\$4.3 billion.¹⁸ By 2024, this figure had fallen to US\$532 million—around 12 percent of the pre-conflict level—, placing a heavy burden on the broader Palestinian economy.

Turning to inflation, prices in Gaza continued to rise since the end of the ceasefire in March 2025, driven by a massive supply shock and severe restrictions on the entry of goods. In contrast, inflation in the West Bank has remained stable, reflecting subdued demand. Consumer price inflation (CPI) in Gaza increased by 238 percent year-on-year in 2024, driven primarily by increases in food and transport costs. After the ceasefire started in January 2025, and the increase in the amounts of aid supplies and food allowed into Gaza, the CPI registered a decline for two consecutive months. With the end of the ceasefire in March 2025, hostilities resumed, and tight restrictions were reimposed on the movement of goods through the commercial crossings. As a result, prices in Gaza skyrocketed again. July 2025 data shows that prices increased on average by 128 percent, compared to their level in July 2024. In the West Bank inflation remained relatively stable in the first months of 2025, as a reflection of subdued demand, and reached 0.2 percent in July, year-on-year.

The fiscal position of the PA has continued to deteriorate, driven by economic volatility and an increase in Israeli deductions from clearance revenues. These monthly deductions rose to over NIS450 million in 2025 (equivalent to roughly US\$128 million), roughly doubling the pre-conflict average, which resulted in a more than 50 percent decline in the PA's primary source of income. Combined with the decline in revenues due to the economic contraction and insufficient external aid, this revenue shortfall forced the PA to reduce salary payments to an average of 70 percent since October 2023. In recent months, the Government of Israel has halted clearance revenue transfers entirely, with no disbursements received by the PA for May, June, July and August 2025, as of writing.¹⁹ The May salary payment was made at a rate of 60 percent, protecting those that make NIS3000

¹⁶ Source: World Bank WDI.

¹⁷ World Bank analysis on growth and jobs in the Palestinian territories, forthcoming 2025.

¹⁸ https://www.pcbs.gov.ps/statisticsIndicatorsTables.aspx?lang=en&table_id=4234.

¹⁹ As of August 31st, 2025.

(approximately US\$850) per month and below and the June payment was made at a rate of 50 percent, protecting those that make NIS2000 (approximately US\$570) per month and below. This is a departure from previous practice, where 70 percent of the salary was paid, protecting those earning up to NIS3,500 (approximately US\$1000). The latest payments were financed through additional domestic borrowing, pushing public debt beyond the prudential limits set by the Palestine Monetary Authority (PMA).

Absent a timely resolution to the clearance revenue dispute, the PA faces rapidly mounting challenges in sustaining vital public services, with potential implications for institutional and social stability. The continued suspension of or extended delays in transferring even residual clearance revenues pose serious risks to the delivery of essential public services and overall stability in the West Bank. PA officials have signaled that without a swift resumption of transfers, the government will be unable to sustain core functions in health, education, and social protection. The start of the 2025/26 school year was postponed due to fiscal constraints, and acute shortages of medicine and medical supplies threaten to overwhelm the health sector. In a recent statement, the Palestinian Cabinet²⁰ noted that the PA's constrained fiscal capacity—including its limited ability to meet obligations to public employees—is likely to undermine institutional performance and service delivery in the future. In the absence of urgent corrective measures to resume the transfers, the PA may be compelled to temporarily suspend operations in select government departments.

In response to these mounting pressures, the PA has recently announced a series of mitigating measures. Outlined by the Palestinian Prime Minister on July 22, 2025, the package reflects a coordinated effort to safeguard essential services, support public employees, and preserve institutional continuity, which can be summarized in five actions. First, the PA aims to actively engage with the international community and regional partners to facilitate the resumption of clearance revenue transfers. Second, it has called on utility and telecommunications providers to adopt relief measures that can help ease financial burdens on public employees. Third, it intends to maintain service delivery while reducing opera-

tional costs, by rolling out remote work arrangements broadly across the public sector, with safeguards to ensure uninterrupted access for citizens. In parallel—fourth—targeted austerity measures will be implemented to rationalize public expenditure, including efforts to reduce reliance on external medical referrals. Finally, the PA plans to work closely with the PMA and domestic banks to develop financial sector strategies that support Palestinian households and businesses in navigating the current challenges.

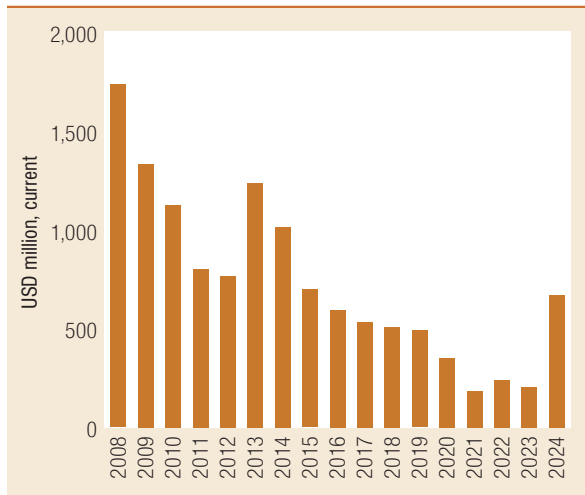
In this context, foreign aid remains an indispensable lifeline for the West Bank and Gaza, particularly as humanitarian and development needs continue to increase. External aid will realistically remain the dominant source of funding in the near term, as the stock of withheld clearance revenues by Israel remains unreleased, and private sector capital mobilization and blended finance are likely to play a more prominent role in the long-term recovery and reconstruction phase. Thus, 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 will be crucial. In 2024, budget support to the Palestinian Authority rose to US\$680 million, up from US\$200 million in 2023, after fifteen years of continuous decline (Figure 6). The recent increase was largely driven by additional contributions from traditional donors, including the European Union, the World Bank, and Norway, as well as increased funding from regional donors from the MENA region.

Financial Sector

The Palestinian banking system's exposure to the public sector has reached its highest level in years, further amplifying existing vulnerabilities. Accelerated domestic borrowing by the PA continued into the first half of 2025, driving banking sector exposure to the public sector to US\$3.1 billion as of June 2025. Beyond direct government debt, increased

²⁰ Released by the Government Communication Center after an emergency Cabinet session held on July 17, 2025.

FIGURE 6 • Budget Support to the Palestinian Authority



Source: PCBS and World Bank staff.

lending to public employees—secured against anticipated future salary payments—has further expanded the sector’s indirect exposure. Combined, government and public employee credit now represent approximately US\$5.1 billion, or 40 percent of total banking sector lending. To safeguard financial sector resilience, it is crucial to maintain robust macro-prudential regulations and a vigilant supervisory framework, particularly as fiscal pressures and financial sector stability become

increasingly intertwined. Preserving the independence of the PMA as the primary regulator and supervisor of banks in the West Bank and Gaza remains critical for effectively navigating these ongoing challenges.

Financial sector reporting for H1-2025 points to an incremental uptick in banking activities and profitability, when compared to 2024.

Direct lending to the private sector increased by 4 percent (year-on-year), while direct lending to the public sector increased by 22 percent during the same reporting period, resulting in an overall increase in direct credit by 8 percent (year-on-year). This trend reflects the public sector’s role as the primary client for domestic banks in the current environment. At the same time, a heavier concentration of credit exposure to the public sector amid fiscal distress heightens risks by increasing dependence on government fiscal health. Customer deposits maintained an upward trajectory (19 percent year-on-year) resulting in a decline in credit-to-deposit ratio by from 67 percent to 60 percent by June 2025 (year-on-year), signifying a risk-averse posture among banks, with attendant difficulties for private sector to access credit. Whereas profitability had declined significantly in 2024, reflecting increased provisioning and flat lending rates, Q1 and Q2-2025 indicate a gradual recovery, with Return on Average Assets (ROAA) reaching

FIGURE 7 • Direct and Indirect Exposure to the Palestinian Authority (US\$ Millions)

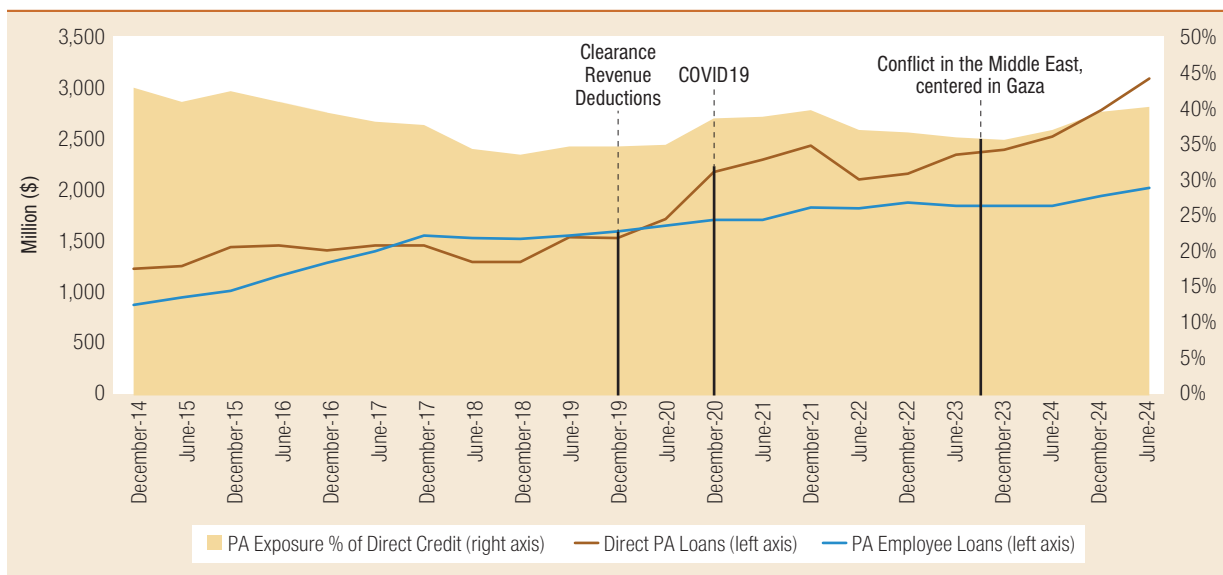
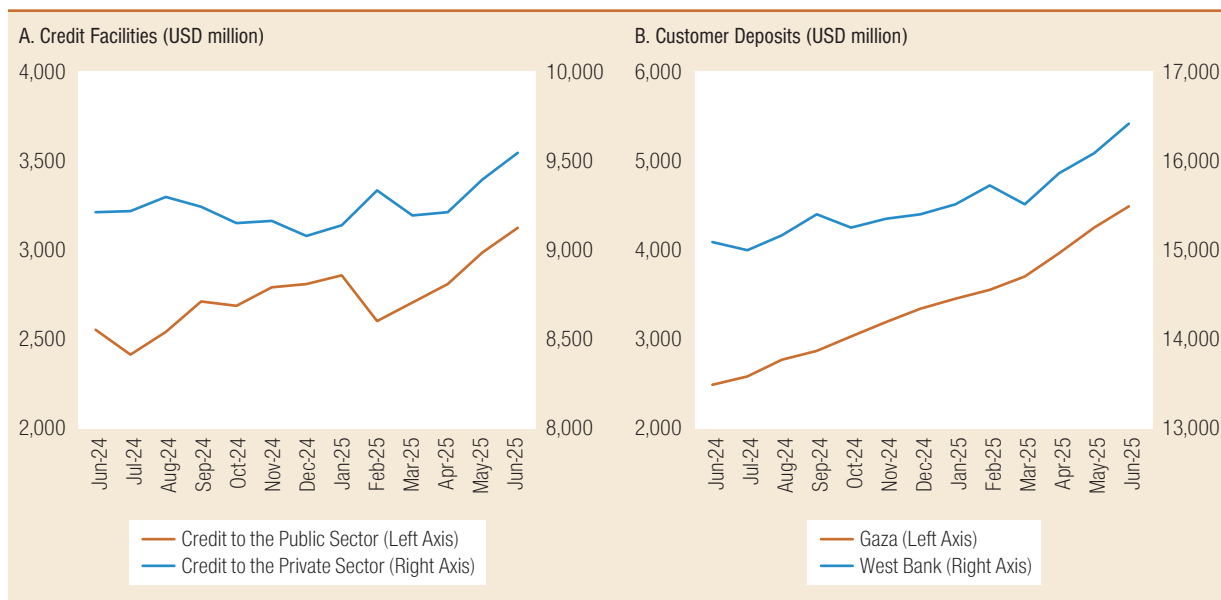


FIGURE 8 • Credit Facilities and Customer Deposits, West Bank and Gaza



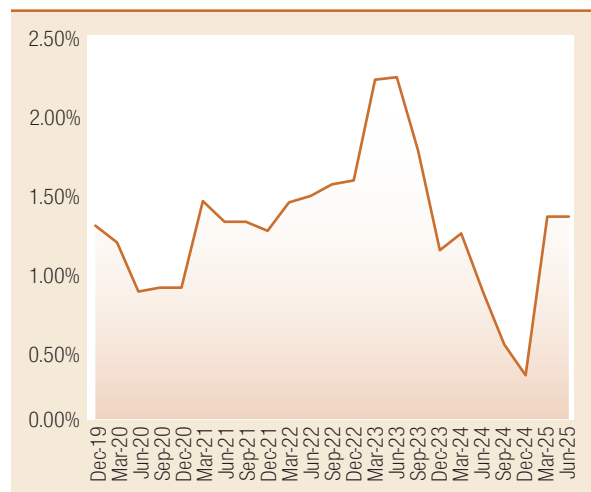
1.3 percent by June 2025 (compared to 0.65 percent last year).

However, despite the appearance of resilience, the Palestinian banking system is facing accelerated deterioration on multiple fronts, with the most immediate threats coming from the depletion of digital NIS in correspondent bank accounts and the risk of CBR severance²¹, threatening to trigger systemic collapse. The continued buildup of physical shekel cash in the Palestinian banking system reflects a liquidity trap, as banks are unable to repatriate or utilize deposits effectively, due to limits on cash transfers to Israel and the looming risk of disrupted correspondent banking arrangements. This has resulted in a paradoxical imbalance, where banks hold large volumes of excess physical cash while experiencing shortages in digital ILS balances. This imbalance not only complicates the daily management of banking operations such as cash transportation, storage, and security—but also distorts banks’ balance sheets, undermining the efficiency of interbank settlements and payment systems. Despite surface-level indicators of resilience, including rising deposits and modest improvements in profitability, these underlying pressures pose immediate and severe threats to financial stability. Diplomatic and technical efforts to secure alternative solutions or liquidity channels have

so far yielded no tangible progress. As such, the risk of systemic collapse is no longer theoretical: Palestinian banks may soon be unable to support basic trade and commodity flows—including fuel, water, and medicine—pushing economic activity further into informal channels. The urgency of developing a sustainable cross-border payments framework cannot be over-

²¹ The Palestinian economy relies on the Israeli shekel as its primary currency, making stable financial ties with Israel indispensable for facilitating transactions both with Israel, its main economic partner, and with the wider international community. These transactions are processed through the Bank of Israel and private Israeli banks. To mitigate risks, the Israeli Government has long provided time-bound “letters of indemnity and immunity” to shield Israeli banks from potential legal exposure within Israel, including risks tied to perceived or actual issues of money laundering and terrorism financing. In the past, these indemnity letters have been renewed for periods going between six months to a year, by the Israeli Finance Minister. The letters of indemnity were renewed three times in 2024 (March, June, and October), covering a total of eight months. In November 2024, the arrangement was extended for one year by the Israeli Security Cabinet, through November 30th 2025. Recent announcements about the possible termination of these letters have further increased uncertainty and unpredictability, with potential spillover effects on CBR arrangements with other foreign banks.

FIGURE 9 • Return on Average Assets



Source: PMA and World Bank staff.

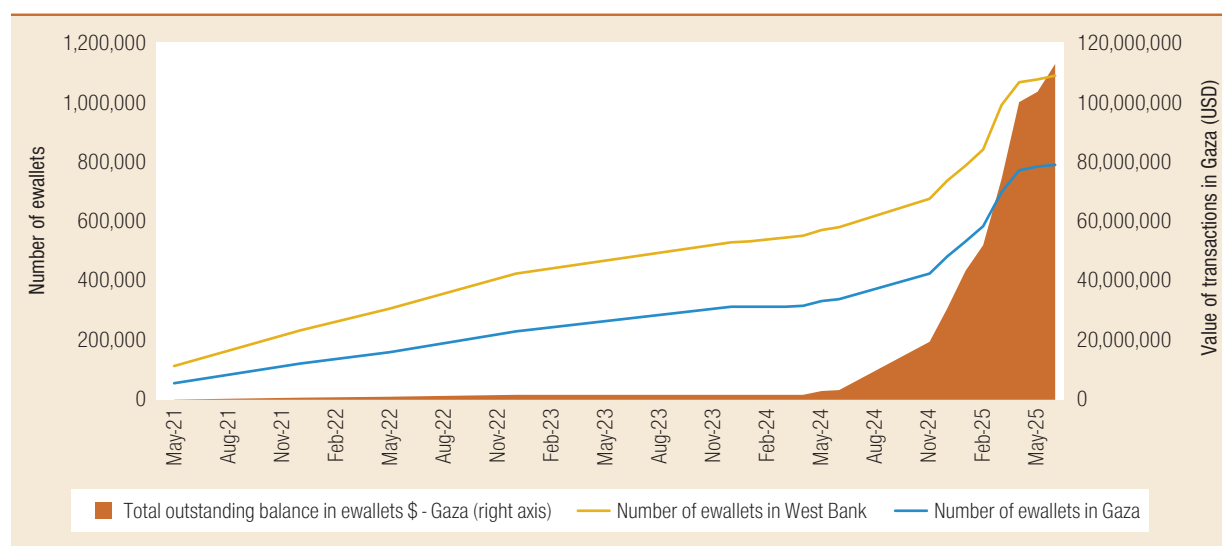
stated, as current stopgap measures continue to offer only temporary relief.

Amid the cash shortage and disruption to traditional banking services in Gaza, digital finance has emerged as an essential mechanism to access basic services and humanitarian assistance. Digitalizing government payments is a key priority, especially for social protection and humanitarian aid. With banking infrastructure severely damaged and physical currency in limited circulation, digital

public infrastructure—such as the PMA’s instant payments system, *iBuraq*—and digital financial services, including locally operated e-wallets, have increasingly substituted for conventional cash-based transactions. Beyond facilitating retail payments, peer-to-peer transfers, and secure value storage, digital platforms have played a central role in enabling humanitarian organizations to deliver assistance to affected populations. In partnership with development actors, the PA has been scaling up digital tools to improve transparency and delivery. These efforts lay the foundation for more timely and resilient social protection systems. During the first half of 2025, e-wallet usage in Gaza nearly tripled in value, rising from US\$40 million in January to approximately US\$115 million by June. The number of active e-wallets in Gaza surpassed 790,000. In parallel, the PA is advancing an e-transactions law to establish the legal basis for a digital economy, enabling remote access to services for individuals and firms. The rapid uptake of digital payments is also reflected in *iBuraq* transactions in Gaza, which processed 2.8 million transactions between January and June 2025, with a total transaction value exceeding US \$550 million.

Despite this rapid expansion, recent data also signals emerging constraints to Fintech. Growth in new e-wallet accounts and total outstanding balances in Gaza slowed in May and June 2025.

FIGURE 10 • Usage of e-Wallets in West Bank and Gaza



Source: PMA and World Bank staff.

This deceleration may be linked to the limited availability and affordability of essential commodities, as restrictions intensified. Additionally, Payment Service Providers on the ground have begun implementing enhanced Know Your Customer (KYC) procedures in line with updated compliance directives, which may have contributed to the moderation in e-wallets usage—especially among vulnerable groups facing documentation barriers or digital access constraints.

Business Sector

Despite the extraordinary challenges posed by the conflict, many businesses in the West Bank have shown a degree of resilience and adaptability.²² In response to the crisis, companies have proactively adjusted their operations, employing strategies such as managing liquidity shortfalls, implementing temporary reductions or shutdowns, and utilizing digital tools to promote domestic products. Interviews with local enterprises²³ indicate that, while these measures have helped sustain operations, businesses have prioritized strategies that aim to preserve employment whenever possible—opting for under-employment or suspension of overtime pay instead of layoffs. In light of the strain on customer creditworthiness, many companies also stated their preference for informal payment rescheduling arrangements over legal proceedings.

Notwithstanding a sharp decline in economic activity, namely in sales, most firms in the West Bank remain operational, whereas private-sector activity in Gaza has largely come to a standstill. As of December 2024, more than a year into the conflict and amid a historic recession, over 97 percent

²² This section draws on new Enterprise Survey data from December 2024, which was funded and produced by the World Bank in collaboration with PCBS. It provides an overview of key variable showing the impact of the recent, ongoing conflict on business specifically. In most cases, the data collection is limited to West Bank only, as it was not possible to obtain Gaza-specific data, besides for some key informant interviews.

²³ Source: World Bank staff interviews and focus groups with Palestinian business sector representatives, conducted between January and March 2025.

of businesses in the West Bank reported being open (Figures 11–12). Notably, roughly two-thirds of West Bank businesses experienced a decline in sales. While most enterprises serve local and national markets, a significant share has managed to maintain ties with international partners, underscoring the sector’s

FIGURE 11 • Is this Establishment Currently Open, Temporarily Closed, or Permanently Closed? (West Bank only)

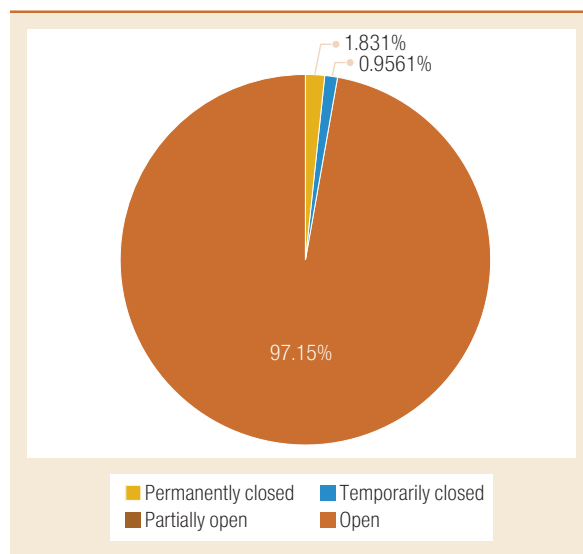
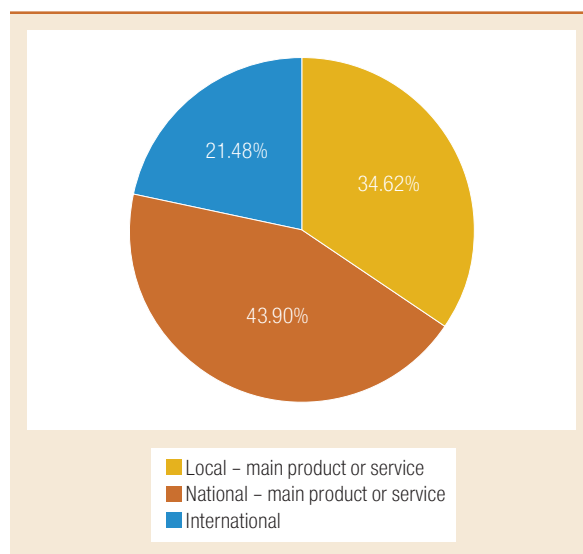


FIGURE 12 • Since October 2023, what Has Been the Main Market for this Firm’s Goods or Services? (West Bank Only)



enduring connectivity. During the temporary ceasefire in Gaza in early 2025, the partial reopening of trade channels—particularly through regional partners such as Jordan, Turkey, and Egypt—enabled an inflow of goods, and a marginal resurgence in the Gaza Strip’s private sector. Despite this short-lived improvement, overall private sector activity and trade levels remain far below pre-2023 benchmarks.

While most firms in the West Bank have remained operational, employment trends tell a more nuanced story. A comparison of employment growth between 2020–2022 and 2022–2024 reveals widening disparities across firms in the West Bank. The median firm reported no change in employment, but those in the bottom quartile saw a 29 percent decline between 2022 and 2024—compared to no change during the earlier 2-year period. In addition, firms in the top quartile expanded employment by 20 percent, up from 17 percent previously. These shifts suggest that the conflict has accelerated labor reallocation, with stronger firms continuing to expand while weaker ones bear the brunt of the impact.

Access to finance has become increasingly constrained. The share of businesses applying for credit dropped sharply, from 21 percent in 2022 to less than 10 percent in 2024. Among those not applying, discouragement has visibly grown, with 30 percent of the businesses citing it as the reason in 2024, up from 17 percent in 2022. Meanwhile, the share of firms reporting no need for credit fell from 83 percent to 70 percent, suggesting that more firms may have wanted financing but opted out due to perceived barriers. Interestingly, firms that did apply continued to enjoy relatively high approval rates. In 2022, 89 percent of applicants received full (78 percent) or partial (11 percent) financing. Approval rates appear even higher in 2024; however, the sharp drop in applications suggests a degree of positive selection bias, as only a small and likely more creditworthy subset of firms chose to apply.

Between February and July 2025, Gaza’s private sector faced renewed disruption due to prolonged commercial crossing closures, severe supply shortages, and intensifying conflict. The near-total halt of imports that followed a brief ceasefire in January–March, caused critical shortages of

essential goods and raw materials, forcing many businesses—especially bakeries and food suppliers²⁴—to shut down. Market fragmentation, blocked transport routes, and widespread displacement further constrained commercial activity, raising operational risks and reducing storage capacity. Prices for remaining goods skyrocketed, with staples like potatoes reaching over 20 times the pre-conflict price and cooking gas selling at 42 times higher on the black market²⁵, severely limiting consumer purchasing power. Local agricultural production provided only minimal relief, unable to offset the broader supply shock. The combination of hyperinflation, cash scarcity, repeated displacements²⁶, and fragmented markets led to a near-shutdown of normal trade functions, severely impairing the private sector’s ability to operate and meet basic consumer demand.

Preliminary trade data from early 2025 reveal initial signs of diversification, with a growing share of imports sourced outside Israel. Monthly data from the Palestinian Central Bureau of Statistics (PCBS) indicate that imports from Israel increased by approximately 10 percent year-on-year in March 2025, while imports of comparable goods from other international sources surged by over 30 percent (Table 2). This trend culminated in a 34.1 percent year-on-year increase in total Palestinian imports in April 2025, predominantly driven by a 64.6 percent rise in goods sourced outside Israel. Also in this case, the growth largely reflects a low base effect following the sharp trade contractions of 2024. Intermediate goods posted moderate gains, as imports of plastics, textiles, chemicals, and other raw materials to the West Bank rose²⁷, supplying essential inputs for domestic industries. These trends also reflect the resilience of trade channels and the private sector’s capacity to adapt under crisis conditions.

²⁴ WFP Update, 25 April 2025: <https://www.wfp.org/news/wfp-runs-out-food-stocks-gaza-border-crossings-remain-closed>.

²⁵ Federation of Palestinian Chambers of Commerce, Industry, and Agriculture (FPCCIA): Weekly Report 35 from 25–31 March 2025.

²⁶ OCHA Gaza Humanitarian Response Update, 30 March–12 April 2025.

²⁷ PCBS Trade Press Release, February–May 2025.

TABLE 2 • Palestinian Imports by Geographic Origin: Year-on-Year Growth Rates, January-May 2025 (Preliminary Data)

Month (2025)	Total Imports (USD m)	YoY Growth vs. 2024	Imports from Israel – YoY	Imports from Other Countries – YoY
Jan	616.1	+27%	+14% (56% share)	+48%
Feb	609.3	+27%	+18%	+41%
Mar	620.6	+19%	+10% (53% share)	+32%
Apr	563.8	+34%	+15%	+65%
May	610.8	+12%	+3% (54% share)	+25%

Source: PCBS.

Energy and Infrastructure

Gaza’s energy system remains largely inoperative, leaving recovery contingent on large-scale international support.

The latest interim Rapid Damage and Needs Assessment estimated that Gaza’s energy sector will require US\$1.46 billion²⁸ for recovery and reconstruction. Even before the conflict, the sector was severely underperforming, meeting less than 35 percent of electricity demand. Since October 2023, it has sustained catastrophic losses, with around 80 percent of generation and distribution assets currently destroyed or inoperable. The shutdown of Gaza’s sole power plant and the halt of electricity imports from Israel have left most of the territory in a near-total black-out, crippling public services, water systems, and food production. The Gaza Electricity Distribution Company (GEDCO) has experienced near-total operational halt, with no functioning grid, scheduled power rotations, or centralized restoration planning throughout most of the Strip. Minimal progress came in November 2024, when GEDCO and PENRA, in coordination with the Israel Electricity Company and the Government of Israel, reenergized the *Kusuvim* feeder line, supplying 4 MW of its 12 MW capacity to the southern Short-Term Low Volume desalination plant. The line was disconnected in March 2025 and restored again in late July 2025, and it remains operational as of this report²⁹.

Amid the breakdown of Gaza’s power infrastructure, households have resorted to improvised energy solutions to meet basic electricity needs, reversing years of progress toward more sustainable sources³⁰. In the absence of a functioning grid, many rely on repurposed car batteries to power small Direct Current (DC) networks for phone charging

and LED lighting. Diesel generators, once a common backup, have become scarce due to extreme fuel shortages and prohibitive black-market prices. Rooftop solar installations, which had expanded significantly prior to 2023, have largely ceased functioning. Damage from bombardments, lack of maintenance, and the unavailability of spare parts have rendered most of those systems inoperable. Some households manage to extract limited use from surviving components, but the broader solar infrastructure has effectively collapsed. Satellite imagery and NGOs reports confirm that hundreds of rooftop arrays have been dismantled or destroyed.

Gaza’s informal energy market faces extreme scarcity and prohibitively high costs.

Diesel, when available, is sold at highly inflated black-market rates, with some generators operating at up to 40 NIS (roughly US\$11.5) per kilowatt-hour³¹. Even basic energy services come at a steep price: charging a mobile phone via car battery systems can cost up to US\$0.50 per charge, while running a single 3–5 watt LED bulb may cost between US\$1.5 and US\$3 per day³². Small 12V fridge units, powered by batteries or

²⁸ Source: Gaza and West Bank interim Rapid Damage and Needs Assessment, February 2025. World Bank, UN, and European Union.

²⁹ As of end-August 2025.

³⁰ This paragraph draws on qualitative interviews conducted by World Bank staff with PENRA officials and other sector stakeholders.

³¹ The cost of running a generator per kilowatt-hour (kWh) can vary significantly depending on several factors, but typically is in a range from \$0.30 to \$0.70 per kWh.

³² Indicative figures based on qualitative interviews conducted by World Bank staff with PENRA officials and sectoral stakeholders.

solar panels, can cost up to US\$1 a day, when accounting for battery depreciation. Demand for second-hand batteries, inverter circuits, and small solar panels is intense, with prices far exceeding pre-conflict levels.

Sharp disparities persist in Gaza between household-level energy access and that of critical community services. Most households rely on black-market car batteries and improvised LED lighting, as described above, with solar power increasingly regarded as a luxury. By contrast, select essential services—such as hospitals, clinics, and places of worship—have retained partial functionality through solar installations or small generator–solar hybrid systems supplied by local NGOs, though access remains far from sufficient.

Widespread infrastructure damage has left Gaza’s telecommunications sector struggling to sustain even basic connectivity. As of late 2024, an estimated 85 percent of telecom infrastructure in Gaza had been destroyed,³³ sharply constraining access to mobile and internet services. Privately owned operators PALTEL and Ooredoo continue to maintain services where possible, relying on surviving infrastructure and deploying Cells on Wheels (COWs) to expand network capacity, particularly in areas with high population displacement. Prolonged electricity outages in Gaza have forced both companies to depend on costly diesel generators to power residual networks, and fuel scarcity has further driven up costs. The import of spare parts and COWs has become more difficult since the end of the January 2025 truce. In August 2025, Starlink launched services in Israel,³⁴ though access in the West Bank and Gaza remains restricted in line with Israeli directives pointing to security concerns. Starlink is regarded as a potential stopgap for high-speed connectivity in Gaza, where physical network damage is extensive. Meanwhile, in the West Bank, the newly established Telecom Regulatory Authority (TRA)—operational since June 2025—aims to strengthen service oversight, encourage competitive pricing, create jobs, and promote innovation in high-quality data services.

Agribusiness and Food Security

Escalating tensions and access restrictions in the West Bank have significantly disrupted agri-

cultural livelihoods, particularly for herding and smallholder communities. Recent displacement events, damage to perennial crops, and restrictions on access to farmland and pasture have reduced local food production in the West Bank and increased reliance on imported livestock products.³⁵ These developments have compounded income losses for rural households, especially amid limited off-farm employment opportunities. Preliminary estimates suggest that recent disruptions may affect up to 10–15 percent of agricultural output. The destruction of key productive assets—such as olive groves and livestock—carries both immediate and long-term consequences, with recovery often taking years, with risks of locking rural households into lower-income trajectories.

Constraints on agricultural production in the West Bank contribute to reduced dietary diversity and rising food insecurity, especially among rural households. The displacement of herding communities, destruction of olive groves and vegetable plots, irrigation infrastructure and animal shelters and loss of access to grazing land have sharply curtailed access to home-produced foods, particularly fresh meat, dairy, and nutrient-rich crops. As a result, households in the West Bank are increasingly reliant on purchased staples and imported goods. These challenges are compounded by declining incomes from both farming and off-farm employment, including the suspension of Israeli work permits and delays in public sector salary payments. The erosion of productive assets and shrinking cash flows have weakened household purchasing power, depressed local demand, and undermined small-scale rural enterprises. Without targeted nutritional support, these trends risk deepening micronutrient deficiencies—especially among vulnerable groups—and may trigger a self-reinforcing cycle of poor health, reduced labor capacity, and persistent poverty.

³³ iRDNA, World Bank, United Nations, and European Union, February 2025.

³⁴ Source: Twitter, Starlink. <https://x.com/Starlink/status/1953522501473968270>.

³⁵ UN Office for the Coordination of Humanitarian Affairs (OCHA), Humanitarian Situation Update #303 – West Bank, 9 July 2025.

Gaza's agrifood sector has experienced near-total destruction. As of August 2025, less than 1.5 percent of cropland remained under cultivation, with over 90 percent damaged and nearly 78 percent inaccessible due to conflict and movement restrictions. Greenhouse losses exceeded 90 percent, and more than 90 percent of agricultural wells were non-functional, severely limiting irrigation. These impacts have also sharply reduced the availability of high-value produce in Gaza and eliminated a key source of income for farming and fishing households, contributing to an agricultural unemployment rate exceeding 90 percent. With local food production nearly halted, household food security now depends almost entirely on humanitarian aid and intermittent commercial imports.³⁶

Dietary diversity in Gaza has all but disappeared, with most households surviving on one meal per day, dominated by low-nutrient staples. WFP monitoring shows that by July 2025, dairy products, meat, poultry, eggs, and fruit had virtually disappeared from diets in Gaza, while vegetable consumption dropped from six days per week pre-conflict to just half a day per week.³⁷

Household access to food markets is extremely limited, with severe geographic disparities in market functioning. By late July 2025, between 66 and 82 percent of households in different governorates reported being unable to access markets, mainly due to insecurity, movement restrictions, or lack of available goods.³⁸ In North Gaza, more than 95 percent of shops indicated they had run out of stock, and half reported having no functioning suppliers.³⁹ This breakdown in supply chains limits access to essential goods even for households with some purchasing power, as market dysfunction—not only affordability—becomes a major barrier to food security.

In this context, Gaza's food consumption and nutrition indicators are at their worst levels since the onset of the conflict, and as of end-August, the UN reported⁴⁰ that more than half a million people in Gaza face famine. Alarming, over 80 percent of Gazan households reported poor food intake, and over 95 percent experienced going to bed hungry on multiple occasions during summer 2025.⁴¹ According to the UN, Gaza is already experiencing famine conditions in parts of the territory,

with over 640,000 people⁴² already experiencing catastrophic hunger (IPC Phase 5) and over 1.1 million individuals—more than half of the population—experiencing emergency hunger and large food consumption gaps (IPC phase 4). In this context, the risk of food insecurity expanding remains high. Access to humanitarian aid remains critically constrained, with fewer than 15 percent of essential nutrition services currently operational.⁴³

Children under age five, and pregnant or breastfeeding women are among the most severely affected. In Gaza City, between April and mid-July over 20,000 children were treated for acute malnutrition. Malnutrition among children has surged rapidly, with an estimated 132,000 children under age five projected to suffer from acute malnutrition through June 2026.⁴⁴ Affected during a critical period of brain development, these children face potentially irreversible consequences, including increased vulnerability to infections and disease, poor growth, cognitive impairment, and behavioral challenges that threaten their future ability to learn.^{45,46} Therapeutic feed-

³⁶ FAO & UNOSAT, Gaza's agricultural infrastructure continues to deteriorate at alarming rate, 26 May 2025.

³⁷ WFP, Market Monitor – Gaza, July 2025.

³⁸ WFP, Market Monitor, Gaza, July 2025.

³⁹ Ibid.

⁴⁰ WHO, <https://www.who.int/news/item/22-08-2025-famine-confirmed-for-first-time-in-gaza>, August 22, 2025.

⁴¹ UN, Gaza Strip: Humanitarians warn of worsening famine conditions, attacks... (<https://news.un.org/en/story/2025/07/1165548>).

⁴² IPC, <https://www.ipcinfo.org/ipcinfo-website/countries-in-focus-archive/issue-134/en/>, consulted on September 1st, 2025.

⁴³ Gaza Strip: Humanitarians warn of worsening famine conditions, attacks... (<https://news.un.org/en/story/2025/07/1165548>).

⁴⁴ https://www.ipcinfo.org/fileadmin/user_upload/ipcinfo/docs/IPC_Gaza_Strip_Acute_Food_Insecurity_Malnutrition_July_Sept2025_Special_Snapshot.pdf.

⁴⁵ Harvard University, https://developingchild.harvard.edu/wp-content/uploads/2024/10/Timing_Quality_Early_Experiences-1.pdf.

⁴⁶ US National Library of Medicine, Early and Long-term Consequences of Nutritional Stunting: From Childhood to Adulthood, 2021; <https://pubmed.ncbi.nlm.nih.gov/articles/PMC7975963/>.

ing centers operate beyond capacity and face critical shortages of supplies. The rapid deterioration in recent months underscores the urgent need to scale up nutrition aid and restore humanitarian access.⁴⁷

In conflict-affected settings such as Gaza, malnutrition and child mortality impose a profound and far-reaching economic toll, creating long-term, largely irreversible constraints on economic recovery, even in the presence of external assistance. Globally, economic literature shows that inadequate nutrition contributes to nearly 45 percent⁴⁸ of under-five deaths,⁴⁹ largely by increasing vulnerability to infectious diseases⁵⁰ such as diarrhea, pneumonia, and malaria. Even brief episodes of food insecurity can trigger acute malnutrition and hinder children's cognitive development and attention, with life-time consequences for educational outcomes,⁵¹ human capital formation, and future productivity. These effects extend well beyond the individual, creating a self-reinforcing cycle in which malnourished children grow into adults with constrained economic opportunities, limited access to health services and education, and diminished capacity to provide for the next generation,⁵² perpetuating poverty and undermining long-term economic stability.⁵³

Healthcare

Nearly two years into the conflict, Gaza's health system has been critically impaired. Approximately 50 percent of hospitals and 60 percent of primary health clinics are currently nonfunctional.⁵⁴ Service delivery has been further constrained by outbreaks of communicable diseases—including polio—linked to damaged water infrastructure, including pipeline closures and the destruction of sewage transport capacity. Diarrheal diseases now account for approximately one third of reported illnesses. Key health services remain largely unavailable, including non-communicable disease care for an estimated 650,000 patients, rehabilitative surgery for nearly 30,000 individuals, and mental health support for a substantial share of the population.⁵⁵ Security conditions, restricted access, and financing shortfalls continue to limit the restoration of essential services,

with unmet funding needs for early recovery and core health delivery exceeding US\$500 million.⁵⁶

In the West Bank, health service delivery is under mounting pressure due to rising tensions and deepening fiscal constraints. The Palestinian Ministry of Health (PMOH) faces a severe liquidity crisis, with health-related arrears exceeding US\$770 million by end-2024. Of these, 65 percent are owed to private and NGO hospitals providing referral services, and 35 percent to suppliers of medicines and medical equipment—posing significant risks to both continuity of care and fiscal sustainability. The deteriorating macro-fiscal environment has led to an increasing reliance on arrears to finance health spending, with nearly half of annual health expenditures between 2022 and 2024 funded through deferred payments. This trend was particularly pronounced in the 2024 budget execution, where 75 percent of essential medicines and facility operations, and 78 percent of medical referrals, were financed through arrears. Without urgent reforms to procurement and referral mechanisms—and in the context of low aid flows—the viability of healthcare

⁴⁷ Malnutrition rates reach alarming levels in Gaza, WHO warns (<https://www.who.int/news/item/27-07-2025-mal-nutrition-rates-reach-alarming-levels-in-gaza-who-warns>).

⁴⁸ Source: WHO, <https://www.who.int/news-room/fact-sheets/detail/malnutrition>.

⁴⁹ Cfr. US National Library of Medicine: Morales F, Montserrat-de la Paz S, Leon MJ, Rivero-Pino F. Effects of Malnutrition on the Immune System and Infection and the Role of Nutritional Strategies Regarding Improvements in Children's Health Status: A Literature Review. *Nutrients*. 2023 Dec 19;16(1):1. doi: 10.3390/nu16010001. PMID: 38201831; PMCID: PMC10780435.

⁵⁰ 'Damage across generations': The long-term effects of starvation in Gaza (<https://www.sbs.com.au/news/article/the-long-term-effects-of-starvation-in-gaza/kw6ki9xf2>).

⁵¹ World Bank, 2021; 2023; 2025.

⁵² The Malnutrition Crisis in Gaza Will Outlive the War, Experts Warn (<https://www.msn.com/en-us/news/world/the-malnutrition-crisis-in-gaza-will-outlive-the-war/ar-AA1JB2IZ>).

⁵³ World Bank, 2021.

⁵⁴ World Health Organization, 2025. Public Health Situation Analysis (PHSA) #9: 19 May 2025.

⁵⁵ Ibid.

⁵⁶ United Nations Financial Tracking Service, 2025. <https://fts.unocha.org/plans/1273/summary>.

service delivery remains at serious risk also in the West Bank.⁵⁷

Education

Gaza's education system has suffered extensive destruction. Damage assessments indicate that all education facilities in Gaza have been damaged or destroyed, with most facilities requiring full reconstruction or major rehabilitation.⁵⁸ Thousands of students and education personnel have sustained life-altering injuries and lack access to essential care and psychosocial support.⁵⁹ As of July 2025, more than 80 percent of Gaza's 658,000 school-aged children lacked access to limited in-person instruction through Temporary Learning Spaces (TLS), and only roughly 130,000 students completed at least three months of in-person learning.

The West Bank has also seen a sharp escalation in education-related disruptions. Between January and June 2025, close to 900 documented cases of interference with education services were recorded—more than seven times the number during the same period in 2022.⁶⁰ Over 85 percent of incidents involved prolonged delays at checkpoints and movement restrictions that prevented students and school staff from reaching the facilities on time. Additional disruptions stemmed from violent clashes, school demolitions, and broader instability in surrounding areas. Throughout the academic year that terminated in June 2025, in-person instruction in public schools remained limited to 4 days a week due to fiscal constraints. Inability to pay teacher salaries also delayed the start of the new school year in September 2025, affecting more than 600,000 public school students and 31,000 teachers.

Social Protection and Poverty

The operations of the National Cash Transfer Program (NCTP), a key social protection mechanism for vulnerable Palestinian households, were limited to the West Bank since the onset of the conflict and were halted completely in April 2025. Implemented by the PA's Ministry of Social

Development, the program has reached less than one quarter of those estimated to live in extreme poverty. Between January and April 2025, four payment rounds were completed in the West Bank (January, February, March, and April 2025), each reaching approximately 31,000 households. The average monthly transfer was US\$110 per household, with some receiving as little as US\$70. Given the worsening fiscal pressures on the PA, all NCTP payments have been halted since April 2025. The NCTP had already been suspended in Gaza at the onset of the conflict, which accounted for 70 percent of the pre-conflict caseload.

Food and cash assistance remain vital lifelines, though severely limited in scale. In June 2025, the World Food Programme (WFP) resumed limited food distributions in Gaza, reaching close to 5,500 households (or approximately 25,000 people) for the first time since the border crossings were reopened in May.⁶¹ In the West Bank, WFP has provided food vouchers, in-kind support, and cash assistance to nearly 210,000 individuals. It also launched the second round of Emergency Multi-Purpose Cash Assistance (EMPCA) for 990 households in the northern West Bank, introducing e-wallets for the first time in the area.

Against this background, the latest available figures on poverty for the Palestinian territories describe a rapid surge, from 29 percent in 2023 to nearly 40 percent by early 2025. In Gaza, nearly all households currently live in poverty, relying on aid for food and firewood or gas for fuel. The ceasefire briefly improved conditions between January and

⁵⁷ Figures are sourced from the Palestinian Ministry of Finance, 2024.

⁵⁸ <https://reliefweb.int/report/occupied-palestinian-territory/verification-damages-schools-based-proximity-damaged-sites-gaza-occupied-palestinian-territory-update-10-july-2025>.

⁵⁹ <https://reliefweb.int/report/occupied-palestinian-territory/gaza-humanitarian-response-update-20-july-2-august-2025>.

⁶⁰ UN, https://reliefweb.int/attachments/08a71b39-1627-45f6-9013-7accaef7bcc/Education%20Related%20Incident%20in%20WB%20_Academic%20Year%202024-2025.pdf.

⁶¹ WFP Palestine Emergency Response, External Situation Report 59, June 30, 2025.

March 2025, enabling UN agencies to deliver food and other basic goods to 1.2 million people, but the trend reversed when the ceasefire ended. In the West Bank, short-term poverty rose from 12 percent pre-conflict to 28 percent by end-2024.

Reform Agenda, Next Steps and Actions

With few remaining tools at its disposal to effect immediate change, the PA has nonetheless, intensified its fiscal and governance reform agenda, with a focus on public financial management. As noted above, the PA has sought assistance to ensure Clearance Revenues transfers resume, sought relief from public utility companies to support public service provision by civil servants, instituted work from home modalities wherever possible and sought the curtail all non-critical public spending. However, these measures will have only modest success in tackling the crisis on their own—action will be needed from international community and the Government of Israel (see below). In the meantime, the PA continues to look at reforms directly under its control. Between late 2024 and early 2025, notable legislative and regulatory progress included the finalization of new tax laws—most prominently the adoption of a Value Added Tax (VAT) Law, and the drafting of updated property and income tax legislation. Digitalization has surged to one of the central pillars of the reform agenda: modernizing tax collection and compliance systems, fully digitizing civil service payroll, and initiating similar integration for the security sector. Renewed efforts to rationalize public spending encompass the enforcement of a net-zero hiring policy, a systematic review of contract costs, the definition of a lifecycle management system for development projects, and a comprehensive functional review of the Ministry of Finance.

A comprehensive anti-corruption reform agenda has gained momentum. In September 2024, the PA renewed its commitment to tackling corruption with the launch of a new National Cross-Sectoral Strategy to Strengthen Governance and Combat Corruption 2024–2030. Developed with support from civil society and international partners, including the World Bank, the Strategy was formally adopted

in October 2024 and is now being implemented by the Palestinian Anti-Corruption Commission (PACC). The Strategy is grounded in a stocktaking exercise that assessed efforts since 2017. Key findings of that assessment include limited institutional capacity, a weak legal and policy framework, and slow uptake of governance and integrity standards. The new Strategy sets out six priorities for the next five years: 1) Strengthening anti-corruption laws; 2) Improving law enforcement response to corruption; 3) Building integrity in public institutions; 4) Increasing citizen participation; 5) Expanding international cooperation; and 6) Improving institutional readiness. A corresponding Action Plan outlines specific policy measures, assigns responsibilities to government agencies, and includes indicators to monitor progress.

As highlighted in earlier Economic Updates, the severity of the crisis demands decisive measures, to counter the unprecedented 2024 recession, reverse the surge in poverty, and tackle the mounting humanitarian emergency across Gaza and the West Bank.

- **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.
- **Fiscal Stability:** Tackling fiscal challenges requires reversing unilateral deductions from Clearance Revenues and releasing previously withheld funds, ensuring the PA has the resources to meet essential budget obligations such as salaries, pensions, and social services.
- **Reviving growth:** Restoring production will hinge on policies that ease trade and mobility, enabling private sector activity in both the West Bank and Gaza.⁶² Easing restrictions on Palestinian workers' access to the Israel appears to be the most immediate lever for a rapid rebound. However, over time, sustained

⁶² The PA has limited tools to cushion the recent income losses from former cross-border workers now excluded from the Israeli labor market, while constraints on the Palestinian private sector further limit its ability to create jobs and absorb newly displaced labor.

reliance on large-scale employment in Israel may constrain domestic labor supply and increase vulnerability to external policy shifts.⁶³ A long-term strategy should thus prioritize expanding domestic productive capacity and employment, to retain labor and reduce volatility.

- **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 PMA independence as the banking sector's regulator is critical to safeguarding financial stability.
- **Cross-Border Payment Framework and Excess Cash:** Long-standing vulnerabilities such as CBRs and the build-up of surplus ILS, have been recently worsened by heightened political tensions. Establishing a stable cross-border payment framework will be critical, and should also tackle the persistent barriers to shekel cash repatriation, which have driven excessive cash accumulation. Without an immediate, effective and sustainable mechanism for cross-border cash returns, the risks are systemic and high, with potential spillovers to trade and to access basic utilities such as fuel, water, and electricity.
- **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 micro-enterprises, 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:** In order to keep essential public services running and lay the foundations for recovery and reconstruction, the international community should mobilize a substantial increase in aid. The rise in budget support to the PA in 2024 was a welcome sign of commitment, yet the scale of need dwarfs current contributions. Only a stronger, coordinated global response can close the funding gaps and anchor long-term stability. Once hostilities cease, transforming the Palestinian economy will require an environment that aptly attracts investment and drives reform—powered by the support of bilateral and multilateral partners, the private sector, and other key stakeholders.
- **Structural Reform Efforts:** The renewed commitment to a reform agenda prioritizing efficiency, effectiveness, and transparency—alongside stronger governance, financial sector reforms, and progress toward fiscal sustainability—is a positive development, particularly in light of the severe constraints the PA is operating under. To build on this momentum, sustained effort will be essential to accelerate the implementation of planned reforms, particularly those aimed at fiscal stabilization.

⁶³ Laursen, Thomas Blatt; Nasser Eddin, Nur. *Prospects for growth and jobs in the Palestinian economy: a general equilibrium analysis (English)*. Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/952571511351839375>.



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