

ECONOMIC UPDATE ON THE WEST BANK AND GAZA

INCLUDING THE
IMPACTS OF THE
RECENT CONFLICT
IN THE MIDDLE EAST

May
2026



Economic Update on the West Bank and Gaza

May 2026

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EXECUTIVE SUMMARY

The October 2025 ceasefire halted two years of intense conflict, centered in Gaza, and created an important, though fragile, window for stabilization. The conflict imposed an immense human and economic toll. The latest Rapid Damage and Needs Assessment by the World Bank, United Nations, and European Union estimates total recovery and reconstruction needs in Gaza at approximately US\$71.5 billion, highlighting the unprecedented scale of destruction. The ceasefire has eased some logistical bottlenecks and humanitarian access, but the recovery challenge remains large, complex, and highly contingent on predictable access to materials, financing, and durable institutional arrangements.

Recovery in 2025 was uneven and lacked underlying strength. Both Gaza and the West Bank recorded positive GDP growth in 2025, although the drivers differed markedly. Gaza's real GDP is estimated to have grown by roughly 30 percent year-on-year in 2025, largely reflecting low base effects after the sharp contraction in 2024, rather than a meaningful recovery in underlying economic activity. The West Bank posted modest growth of ~3 percent in 2025, driven by a partial rebound in Palestinian employment in Israel and a temporary consumption boost linked to improved confidence. Industrial and production indicators, however, show that economic activity in both territories remains substantially below pre-October 2023 levels.

The labor market is largely nonfunctional in Gaza and has weakened markedly in the West Bank. Gaza's unemployment surged to 78 percent in 2025,¹ while over 90 percent of working age people do not have a job, and over 60 percent of workers have been displaced multiple times.² In the West Bank, unemployment eased from its conflict peak (35 percent at the end of 2023) to a still significant 27.5 percent by Q4-2025. Cross-border employment to Israel roughly doubled from 24,000 soon after the conflict to over 50,000 by late 2025³—still far short of more than 177,000 pre-October 2023. Overall employment in the West Bank has not returned to pre-conflict levels. Access to the Israeli labor market—effectively the only short-term pressure valve—remains constrained and unlikely to go back to pre-October 2023 levels, while the domestic economy remains structurally unable to generate jobs at scale.

The Palestinian Authority's (PA) preexisting structural fiscal vulnerabilities were further deepened in 2025, as disruptions to revenue flows contributed to an overall fiscal deficit of

¹ Source: Palestinian Central Bureau of Statistics (PCBS) https://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_EconomicForecast2026E.pdf.

² https://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_LFRepGazaQ42024E.pdf.

³ https://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_LFSSYQ42025E.pdf.

7.7 percent of GDP.⁴ While donor financing reached roughly US\$940 million (an above-trend level) and covered close to 90 percent of the 2025 fiscal deficit before grants (US\$1.03 billion), once Israeli deductions from clearance revenues are accounted for, the effective financing gap widened to about US\$1.3 billion. With clearance revenues suspended completely since May 2025 and limited external financing alternatives, the PA has increasingly relied on arrears accumulation and domestic bank borrowing, while already adjusting expenditures where possible, including through partial salary payments. This has generated significant quasi-fiscal pressures and left fiscal management focused on short-term crisis containment.

The Palestinian banking sector remains operational, although risks are on the rise and important liquidity frictions persist. Banking activity showed moderate improvements through 2025, as overall credit expanded 6 percent year-on-year (public sector credit +19 percent; private credit +2 percent) and deposits rose 16 percent. However, structural liquidity mismatches and correspondent-banking (CBR) uncertainty pose significant near-term systemic risks. Palestinian banks in the West Bank have accumulated excess physical shekel due to limits on cash transfers to Israel, while usable digital shekel balances remain constrained. In Gaza, the payments landscape has shifted sharply toward digital: the use of e-wallets has expanded rapidly. These digital channels are helping stabilize transactions though their expansion reflects the depth of the crisis more than organic, commercially driven development in digital financial services.

Rising arrears and increasing interdependence between public finances and the domestic banking sector are emerging as a more significant source of macro-financial risk. By end-2025, the PA's estimated public debt stood at US\$4.8 billion.⁵ Separately, the total exposure of the domestic banking sector to the public sector,—including both direct lending to the PA and indirect lending through public employees—is estimated at roughly US\$5.3 billion (≈42 percent of banking sector credit). While these aggregates are not directly comparable, they illustrate the scale of financial interlinkages between the sovereign and the banking system, and the associated risks.

Reliable electricity is central to economic recovery: while Gaza faces near-total system breakdown, the West Bank has begun to diversify its power supply through solar, though scaling will require time and substantial investment.

Gaza's power system has suffered near-total collapse, with more than 90 percent of electricity assets damaged and physical losses estimated at about US\$560 million. At present, only the Kusuvim feeder (F11, 4MW) remains operational, supplying electricity solely to a desalination plant. Reconstructing the sector will necessitate an estimated US\$2.7–4.7 billion over the next five years. In the West Bank, electricity imports from Israel declined from 97 percent to 88 percent between 2019 and 2025 as solar capacity expanded. However, integrating variable renewables at scale—targeting 1.6 GW of installed solar capacity by 2030—will require around US\$1.5 billion in generation investments and an additional US\$330 million in network and systems upgrades. In parallel, fiscal pressures stemming from reductions in clearance revenues have strained sector cash flows and weakened bill collection rates.

The Palestinian social sectors remain under severe strain, with health, education, and poverty outcomes reflecting the deep impact of the conflict. Meanwhile, the scale-up of humanitarian assistance in Gaza has helped provide critical relief. Gaza's health system continues to operate at a sharply reduced capacity, with roughly half of hospitals and primary health clinics nonfunctional. More than 18,500 patients, including around 4,000 children, require urgent referral for treatment outside Gaza, while unmet early recovery financing needs in the health sector exceed US\$400 million. Education infrastructure has also suffered extensive damage: satellite imagery indicates that virtually all schools have been damaged, with 93 percent requiring full reconstruction. By the end of 2025, around 370 temporary learning spaces were serving approximately 215,000 children—about one-third of Gaza's school-age population—while only 48,000 students had received basic

⁴ This figure is after grants and Israeli deductions.

⁵ Includes direct borrowing from domestic banks and foreign debt.

learning supplies by February 2026. Poverty has risen sharply across the Palestinian territories, now affecting more than half of the population overall, with rates around 18 percent in the West Bank and approaching near-universality in Gaza. Since the ceasefire, humanitarian assistance in Gaza has expanded significantly, helping avert famine, but food security remains fragile. Around 1.6 million people have received food aid and 332,000 digital cash transfers, while social protection systems remain limited.

At a time when the Palestinian economy faces multiple structural and humanitarian pressures, the recent conflict in the Middle East introduces additional regional risks that weigh on recovery prospects. Heightened tensions have pushed up global energy and commodity prices, raising import costs and inflation while further constraining the PA's already very limited fiscal space. In Gaza, the most immediate risks relate to security and access conditions: tighter crossing regimes or disruptions to humanitarian and commercial supply chains could quickly reverse recent improvements in food availability and basic services observed since the ceasefire. In the West Bank, spillovers are more likely to operate through labor market linkages with Israel and potential declines in tourism-related activity, which provides small-scale but still important seasonal employment in areas such as Bethlehem and Jericho. A broader regional escalation could also affect donor resources,

potentially slowing the mobilization of financing for recovery and reconstruction. While limited, these combined pressures could add to existing headwinds and slow the pace of economic stabilization across both Gaza and the West Bank.

The post-ceasefire period presents a narrow, important, but conditional window to shift from emergency relief toward stabilization, recovery and reform. The magnitude of the socioeconomic losses since 2023 has been severe, effectively erasing years of development gains, displacing over a million people, and pushing most of the population in Gaza into poverty. The PA is managing a very severe liquidity crisis through short-term borrowing and expenditure compression, but rising dependence on domestic banks and uncertainty over clearance revenues are intensifying fiscal and financial vulnerabilities. Policy options to mitigate the crisis are narrow and largely contingent on external factors, with meaningful stabilization hinging on the resumption of predictable clearance revenues, sustained donor budget support, and the preservation of financial sector linkages. Achieving gradual stabilization and a transition toward job-creating, private-sector-led growth will require coordinated action across domestic reforms, supportive regional arrangements, and sustained international financing. The concluding section of this report outlines the priorities actions and policy directions needed to support this pathway.

ASSESSMENT

Macro-Fiscal and Labor Market Developments

Economic activity in 2025 expanded in both Gaza and the West Bank, though for markedly different reasons: Gaza's rebound remains largely statistical, while the West Bank posted modest growth driven by a modest rebound of employment in Israel and a temporary boost to domestic consumption.

In the Gaza Strip, measured activity improved in the first and fourth quarters of 2025, largely reflecting the presence of a ceasefire during much of those periods. Real GDP in Gaza is estimated to have increased by around 30 percent year-on-year. This expansion primarily reflects a rebound from an extraordinarily low base, following the collapse of 2024, rather than a broad-based recovery. Productive capacity remains severely impaired, with most sectors largely inactive throughout the year, and activity is concentrated mainly in wholesale and retail trade and a narrow range of public services.

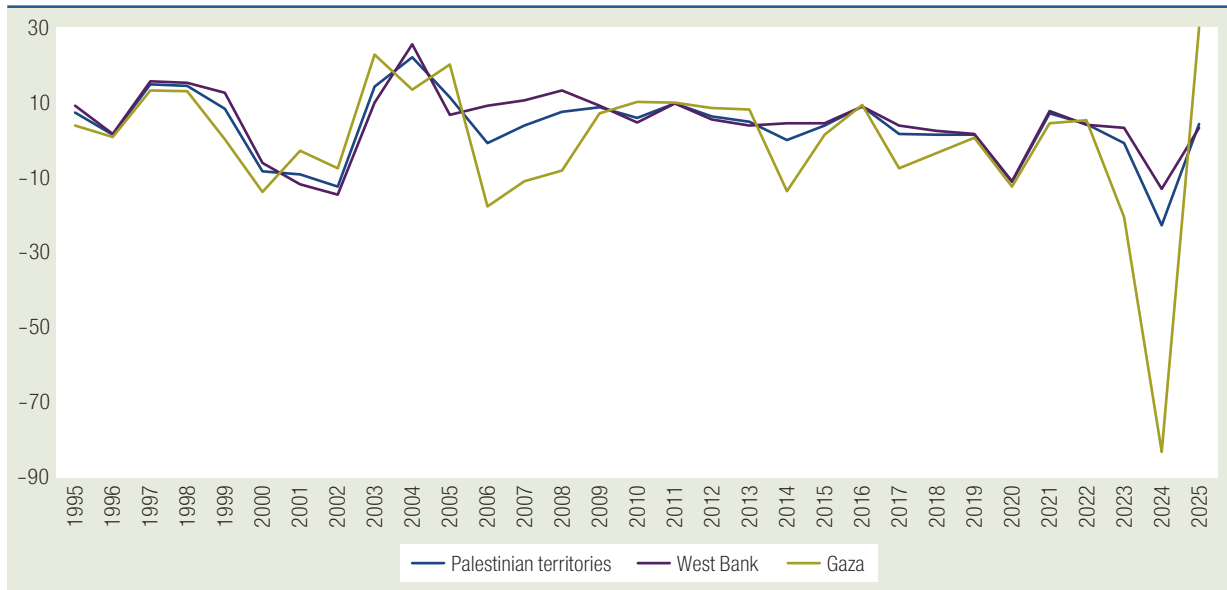
Despite the October 2025 ceasefire, Gaza's economy remains in a state of near collapse, with limited stabilization and recovery underway. Since our last update, a ceasefire entered into force in October 2025, following two years of intense conflict. While kinetic activity has been reported, including violations by both sides, the ceasefire remains broadly in

place. The agreement has brought a modest degree of stabilization. Conditions on the ground have improved, though modestly, thanks to the expanded entry of essential goods and humanitarian supplies. A meaningful economic recovery has yet to materialize, because the shock absorbed by the Gaza Strip has been unprecedented in both scale and depth. This situation is compounded by ongoing restrictions on the entry of essential materials as well as the continued absence of security and order. Preliminary assessments estimate total recovery and reconstruction needs in Gaza at approximately US\$71.5 billion, far exceeding previous rounds of conflict over the last three decades.

In the West Bank, 2025 growth is estimated at around 3 percent, supported mainly by a partial recovery in Palestinian employment in Israel. Workers employed in Israel earn roughly twice the average wage in the West Bank⁶ and account for a substantial share of aggregate demand, amplifying the consumption impact of even modest increases in cross-border employment. Improved consumer confidence following the Gaza ceasefire also contributed

⁶ In Q4-2025, the average daily wage earned by a Palestinian working in Israel was NIS256.9 compared to an average daily wage of NIS135.6 in the West Bank. Data can be accessed here: https://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_LFSSYQ42025E.pdf.

FIGURE 1 • Real GDP Growth (%)

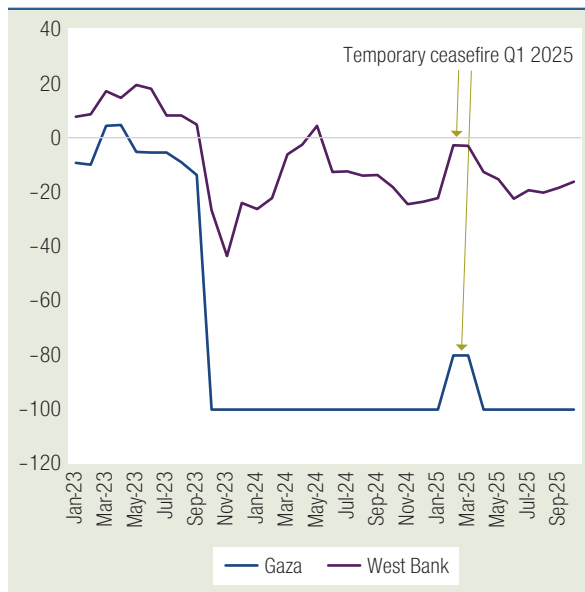


Source: Palestinian Central Bureau of Statistics.

to the rebound, as reflected in the Business Cycle Index⁷ (see Figure 2). The Industrial Production Index⁸ conversely highlights that, despite the uptick, economic activity remains significantly lower than the pre-conflict levels (Figure 3).

Structural and externally imposed constraints continue to weigh heavily on the West

FIGURE 2 • Business Cycle Index



Source: Palestine Monetary Authority.

Bank economy, limiting the durability of the recent uptick in economic activity.

Despite recent improvements, the West Bank economy has yet to recover losses sustained since October 2023. Israeli-imposed measures—including restrictions on Palestinian workers' access to the Israeli labor market, tighter movement controls within and between governorates, and larger deductions followed by a complete suspension of clearance revenues collected by the Government of Israel and due to the PA—continue to constrain growth and strain public finances.

Labor market conditions remain deeply distressed across both Gaza and the West Bank.

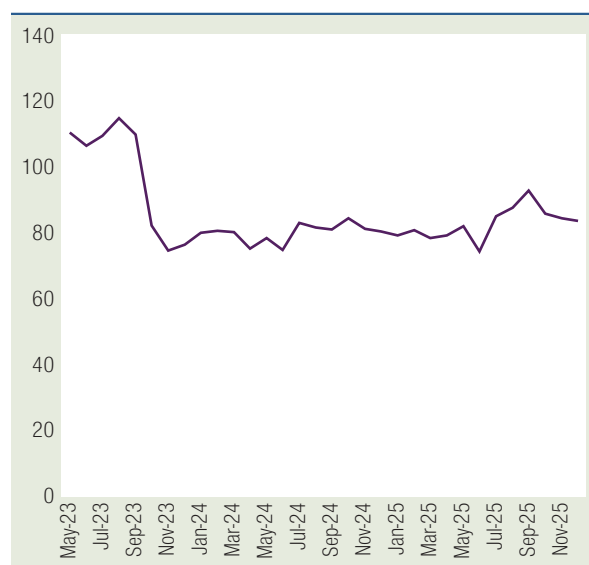
According to the latest official data,⁹ unemployment in Gaza surged to 78 percent in 2025, compared to 22 percent prior to October 2023. The employment-to-

⁷ The BCI is represented as a diffusion index, which means that it gives a central tendency within the group of businesses surveyed. A value of zero indicates unchanged conditions, a positive value indicates improving conditions (up to 100) and a negative value indicates deteriorating conditions (up to -100). Since October 2023, the Gaza index is estimated to be at its lowest.

⁸ The index is based on survey carried out in Ramallah in the West Bank.

⁹ https://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_EconomicForecast2026E.pdf.

FIGURE 3 • Industrial Production Index (2019=100)



Source: Palestinian Central Bureau of Statistics.

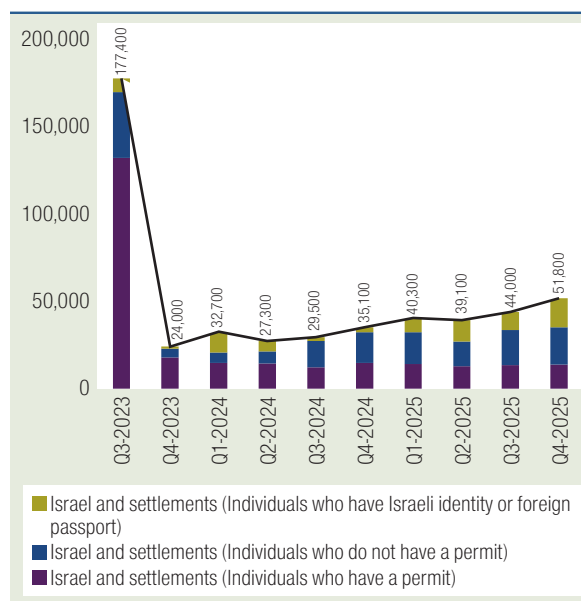
population ratio fell to just 9.3 percent, which confirms the near paralysis of economic activity.¹⁰ More than 80 percent of workers have been and remain unable to access their jobs due to widespread destruction of workplaces, road closures, transportation disruptions, and severe on-site constraints, including electricity shortages and lack of production inputs. Among those who still have jobs, employment is concentrated in the public administration, currently accounting for almost 30 percent of the total, and retail trade, at 33 percent. Labor market distress is compounded by displacement: over 60 percent of workers have been forced into shelters, camps, or informal dwellings, further eroding labor force attachment and productive capacity.

In the West Bank, labor market conditions have somewhat stabilized but remain significantly weaker than prior to the hostilities. As of Q4-2025, the unemployment rate stood at 27.5 percent (27.6 percent for males and 26.9 percent for females¹¹), down from a peak of 35 percent at the onset of the conflict. The improvement reflects incremental recovery in domestic activity and a partial rebound in Palestinian employment in Israel, as previously noted. The number of West Bank workers employed in Israel more than doubled—from approximately 24,000 immediately after the conflict to around 52,000 in Q4-2025. How-

ever, this increase has been driven largely by workers accessing Israel and the settlements without permits, rather than by formal reopening of the Israeli labor market to Palestinians (see Figure 4). Overall employment has yet to recover to pre-October 2023 levels.

Inflation developments over the past two years have been shaped primarily by supply shocks in Gaza and by weak demand conditions in the West Bank, which resulted in very different price trajectories across the two areas. In the Gaza Strip, prices have exhibited extreme volatility over the past two years. Consumer price inflation surged to 238 percent year-on-year in 2024, driven primarily by acute shortages of food and transport services amid widespread destruction and severe supply constraints. Following the initial ceasefire in January 2025 and the associated increase in humanitarian aid and food inflows, the Consumer Price Index (CPI) declined

FIGURE 4 • Number of Palestinian Workers in Israel and the Settlements



Source: Palestinian Central Bureau of Statistics

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

¹⁰ https://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_LFRepGazaQ42024E.pdf.

¹¹ Source: PCBS ; https://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_LFSSYQ42025E.pdf.

for two consecutive months. However, the resumption of hostilities in March 2025 and the reimposition of restrictions on goods entering through commercial crossings triggered renewed shortages, causing prices to spike again. With the most recent ceasefire taking effect in October 2025, inflationary pressures eased. Price data shows that, on average, prices in Gaza increased by 22 percent in 2025 relative to 2024—still elevated, but representing a sharp deceleration from the extraordinary surge recorded the previous year. In early 2026, despite an initial decline in prices in January, heightened restrictions on access to goods and materials to Gaza drove prices up again, by 31.3 percent year-on-year in February and 5 percent in March. In the West Bank, inflation remained relatively stable throughout 2025, edging down by 0.1 percentage points, year-on-year, reflecting subdued demand. In the first months of 2026, inflation in the West Bank averaged 1–2 percent year-on-year, suggesting a tentative recovery in demand from an extremely depressed baseline and pointing to a low and relatively stable inflation environment.

While the PA’s macro-fiscal reporting framework is relatively robust, key balance-sheet uncertainties and contingent liabilities complicate the assessment of the fiscal position and medium-term sustainability. The macro-fiscal assessments of the PA are supported by comparatively strong statistical capacity and regular data production. Nonetheless, there are material elements that remain subject to uncertainty—particularly on the fiscal front—and warrant explicit qualification at the outset. These uncertainties do not primarily reflect generalized data gaps; rather, they arise from a limited number of high-impact balance-sheet items that lack standardized verification mechanisms or bilateral reconciliation, resulting in a set of clearly identified but unresolved “known unknowns.” A central example of this is represented by the clearance revenues.¹² Although the PA publishes indicative estimates, limited or absent data exchange between the parties constrains the establishment of a fully verified accounting framework, limiting independent validation of transfers, withholdings, as well as deductions, which remain disputed. Given the structural importance of clearance revenues to the PA’s total fiscal income, uncertainty over their

stock and flows carries important, direct implications on cash management and debt dynamics. Similar limitations affect the Palestinian Pension Fund. Past withdrawals by the PA to finance recurrent deficits have generated sizable implicit liabilities, yet the absence of a comprehensive actuarial valuation has produced widely divergent estimates of the Fund’s net position, including accrued interest and contingent obligations. This severely weakens the credibility of medium-term fiscal adjustment anchored in pension sustainability. Finally, the prolonged practice of paying only partial public sector wages since 2021, at significantly reduced shares since end-2023, has created a significant contingent liability. As civil servants increasingly rely on bank credit to advance income shortfalls, sovereign exposure has been more heavily intermediated through the domestic banking system. While these loans are not explicitly guaranteed by the government, they give rise to implicit contingent liabilities, further deepening sovereign–bank linkages. These quasi-fiscal risks, while not fully captured on the official balance sheet, are large, and central to assessing fiscal sustainability and financial stability. The absence of precision around these items complicates policy dialogue, weakens fiscal transparency, and materially constrains credible medium-term fiscal planning.

The PA’s fiscal position—already fragile before October 2023—deteriorated sharply as revenue losses intensified, amid a lack of meaningful financing alternatives. Compounding the halt in clearance revenue transfers, domestic revenue collection in the West Bank declined due to economic disruption, further tightening liquidity conditions. In response to these financing constraints, the PA implemented substantial expenditure compression in 2025, including partial payments on wages and social assistance. Partial wage payments, ranging between 50 and 70 percent of the commitment basis, continued throughout the year, with only lower-earning employees being more protected. Social transfers, one of the

¹² “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.

largest expenditure categories, were also reduced as payments under the national cash transfer program and other social assistance schemes were scaled back. These adjustments generated significant spillovers to the broader economy, contributing to weakening household incomes and further depressing aggregate demand. It is important to underscore that fiscal management in the Palestinian context remains largely reactive, driven primarily by short-term crisis-avoidance efforts rather than forward-looking strategic planning.

Despite a temporary surge in donor support relative to its historical trend, the PA's financing gap remained substantial in 2025, at 7.7 percent of GDP (up from 3.7 percent in 2023 prior to the Gaza conflict) and was largely financed through arrears and additional domestic borrowing. The fiscal deficit before grants reached US\$1.03 billion in 2025. Donor support increased relative to recent years' trends, amounting to US\$938 million. This narrowed the deficit after grants to below US\$100 million. However, once Israeli deductions from clearance revenues are accounted for, the effective financing gap widened to approximately US\$1.3 billion. To finance the gap, the PA resorted to arrears accumulation and additional domestic bank borrowing. By end-2025, arrears to the private sector stood at US\$1.82 billion, while arrears to public employees reached US\$2.85 billion. The total public debt by the PA is estimated to be equivalent to US\$4.8 billion¹³ at year-end, of which borrowing from the domestic banking sector accounted for US\$3.3 billion, reflecting a trend of accelerated accumulation.¹⁴ In parallel, as banks continue lending to public employees largely by collateralizing against expected future salary payments, the financial system's indirect exposure to sovereign risk increases. Taken together, direct government borrowing (US\$3.3 billion) and indirect exposure through public employee lending bring total banking sector exposure to the public sector to approximately US\$5.3 billion—equivalent to about 42 percent of total banking sector credit. When combined with arrears owed to the private sector, total public sector-related obligations amount to roughly 40 percent of GDP.

The fiscal outlook is expected to deteriorate further in 2026, as rigid spending pressures and

weakened revenue outcomes crowd out adjustment. By end-March, the PA enacted an emergency budget for 2026. On a commitment basis, the budget projects that revenues will increase by 2.5 percent year-on-year, driven by higher domestic collections and a partial recovery in clearance revenues—broadly consistent with an expected modest improvement in economic activity. Even under these assumptions, revenues are not expected to return to pre-2023 levels. On the expenditure side, recurrent spending is expected to increase by 3.3 percent on a commitment basis. This reflects a 2 percent growth in the wage bill, mainly due to annual promotions, while a zero net hiring policy is expected to be maintained throughout the year, as well as an increase in social assistance by around 30 percent year-on-year, responding to growing needs. Interest payments are also projected to increase by 33 percent, following the PA's additional borrowing from domestic banks in early 2026—further hardening an already rigid fiscal envelope and reducing the scope for discretionary adjustment. Offsetting these pressures, the budget assumes a 22 percent decline in net lending due to ongoing reforms and further reconciliations with local governments and utility companies, a 3 percent decline in the cost of goods and services through expenditure controls, and a 27 percent drop in the fuel subsidy—an assumption that may prove optimistic given recent oil price developments. Taken together, these projections imply a total fiscal deficit exceeding US\$1.2 billion in 2026. With budget support and development financing expected to soften from 2025, the deficit after aid would result in around US\$400 million. After accounting for Israeli deductions from clearance revenues, the deficit would finally widen to US\$1.6 billion—almost a quarter higher than in 2025.¹⁵ If the transfer of

¹³ This includes borrowing from domestic banks and foreign debt.

¹⁴ While public sector exposure continued to increase—particularly relative to credit to the private sector—real growth in the public sector portfolio is lower than the reported figures once exchange rate effects are taken into account, reflecting the depreciation of the U.S. dollar against the shekel during the period.

¹⁵ The year-on-year calculation is based on NIS figures to avoid the impact of the USD/NIS exchange rate.

clearance revenues remains halted, the deficit would balloon up to US\$3.8 billion. In the absence of additional budget support, available financing options for the PA would remain insufficient to meet expenditure commitments, likely implying a continuation of partial salary payments and deeper arrears to the private sector and the public pension fund. This deterioration was reflected in the PA's January 2026 salary disbursement: a flat partial payment of NIS 2,000 to all public sector employees—the lowest nominal payout since the onset of the fiscal crisis and issued with a three-month delay—illustrating the persistent pressure on the PA's fiscal position.

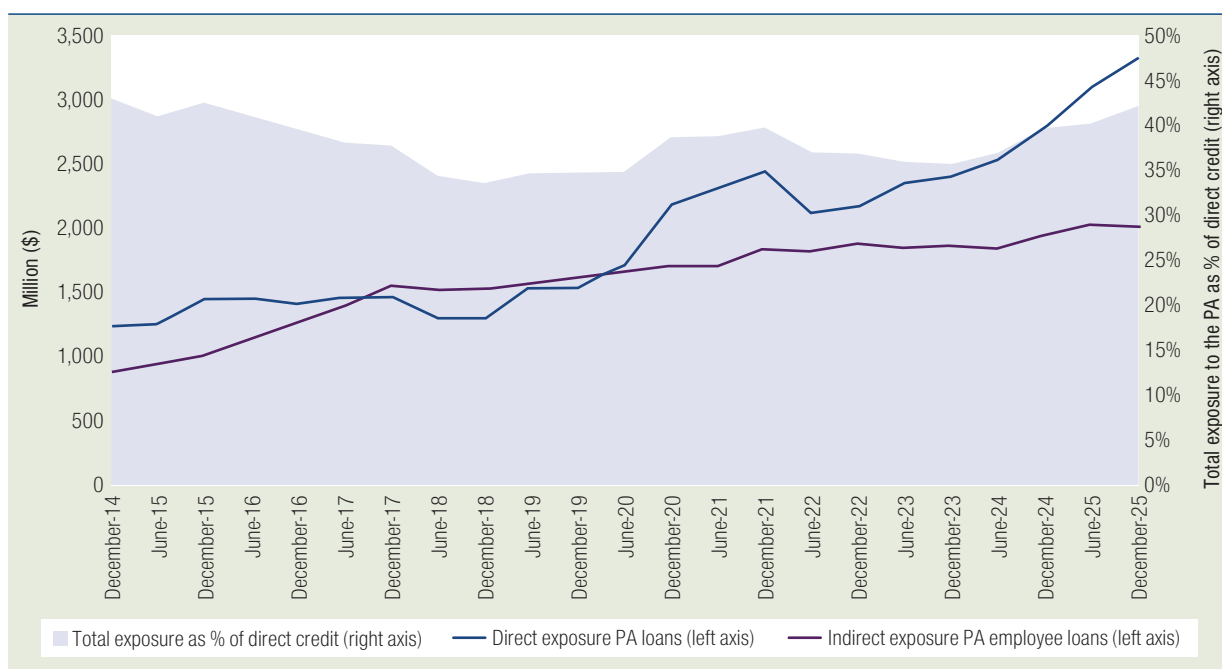
Financial Sector

The scale, concentration, and interconnectedness of these exposures underscore the magnitude of fiscal vulnerabilities in the Palestinian context and materially deepen the transmission channel between fiscal distress and financial sector risk. With sovereign exposure now both significant and rising—both direct and indirect (Figure 5)—, the window to insulate banking system soundness from sovereign risk

is narrowing, reinforcing the importance of monitoring and careful risk management. Preserving financial sector resilience under these conditions is fundamental, and requires the continued application of robust macroprudential safeguards and close supervisory oversight. In this context, maintaining the operational independence and supervisory authority of the Palestine Monetary Authority (PMA) remains critical to managing emerging risks and safeguarding banking system.

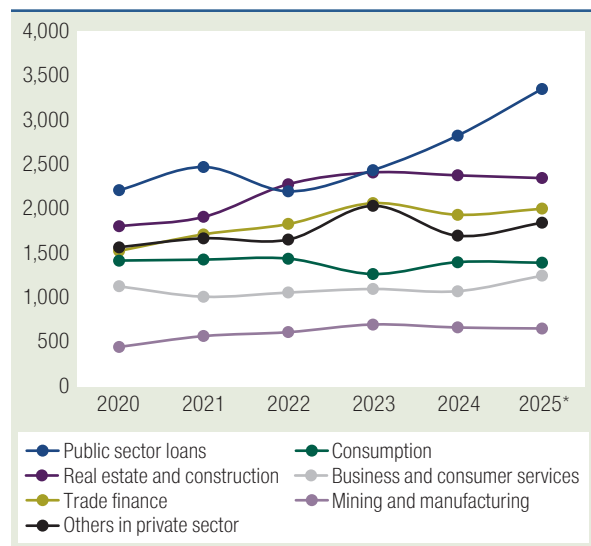
Financial sector indicators for 2025 suggest modest growth in banking activity relative to 2024, albeit with important compositional shifts, as banks maintain a prudent lending posture in response to the heightened risks facing the private sector due to the conflict. Overall credit expanded by 6 percent year-on-year, driven primarily by a 19 percent increase in lending to the public sector, while credit to the private sector grew more modestly, at 2 percent. This pattern reflects the growing predominance of the public sector as the main borrower from domestic banks under current macro-fiscal conditions. On the liability side, customer deposits continued to grow, increasing by 16 percent year-on-year in 2025. This aggregate increase conceals nota-

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



Source: Palestine Monetary Authority (PMA), World Bank staff estimates.

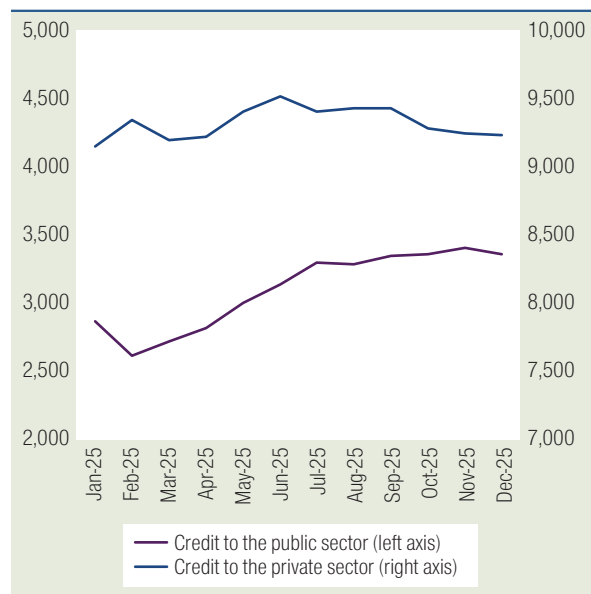
FIGURE 6 • Credit Facilities by Economic Sector



Source: PMA.

ble variation across regions, with deposits rising by 9 percent in the West Bank and by 51 percent in Gaza. The credit-to-deposit ratio declined from 64 percent to 58 percent, pointing to cautious lending posture by banks. While this reflects a preference for liquidity and balance-sheet protection in a highly uncertain environment, it also underscores persistent constraints on credit availability for the private sector, poten-

FIGURE 7A • Credit Facilities (US\$ Million)



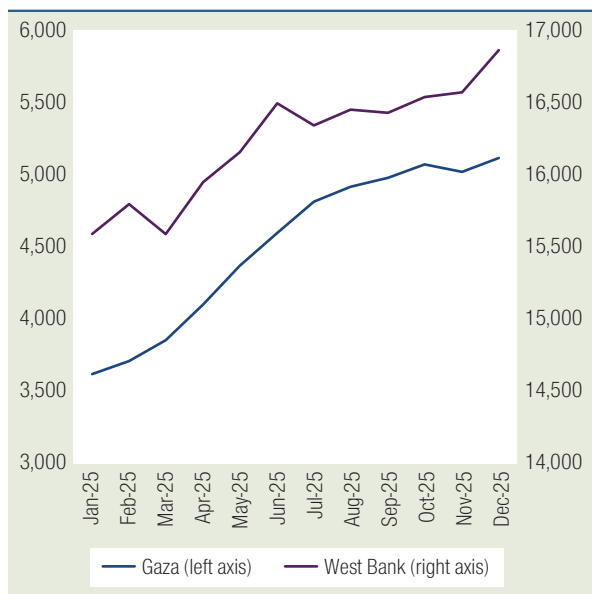
Source: PMA.

tially weighing on investment and economic recovery. Whereas profitability had declined significantly in 2024, reflecting increased provisioning, 2025 indicate a marginal recovery, with Return on Average Assets (ROAA) reaching 0.72 percent by December 2025 (compared to 0.27 percent in 2024).

Despite these improvements, the Palestinian banking system remains under systemic strain on multiple fronts, with the most immediate risks arising from the depletion of digital liquidity, the increased uncertainty surrounding correspondent banking relationships (CBRs).¹⁶ In recent months,

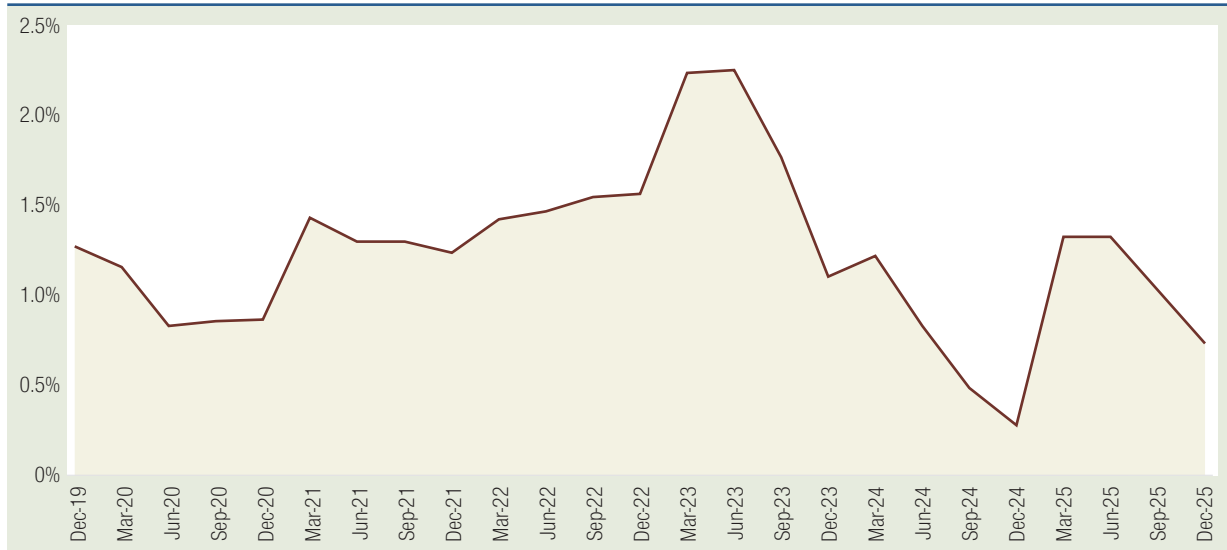
¹⁶ The Palestinian economy relies on the Israeli shekel as its primary currency, making stable financial ties with Israel indispensable for facilitating transactions both with Israel, its main economic partner, and with the wider international community. These transactions are processed through the Bank 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. More recently, indemnity letters by the Ministry of Finance were issued for a significantly shorter

FIGURE 7B • Customer Deposits (US\$ Million)



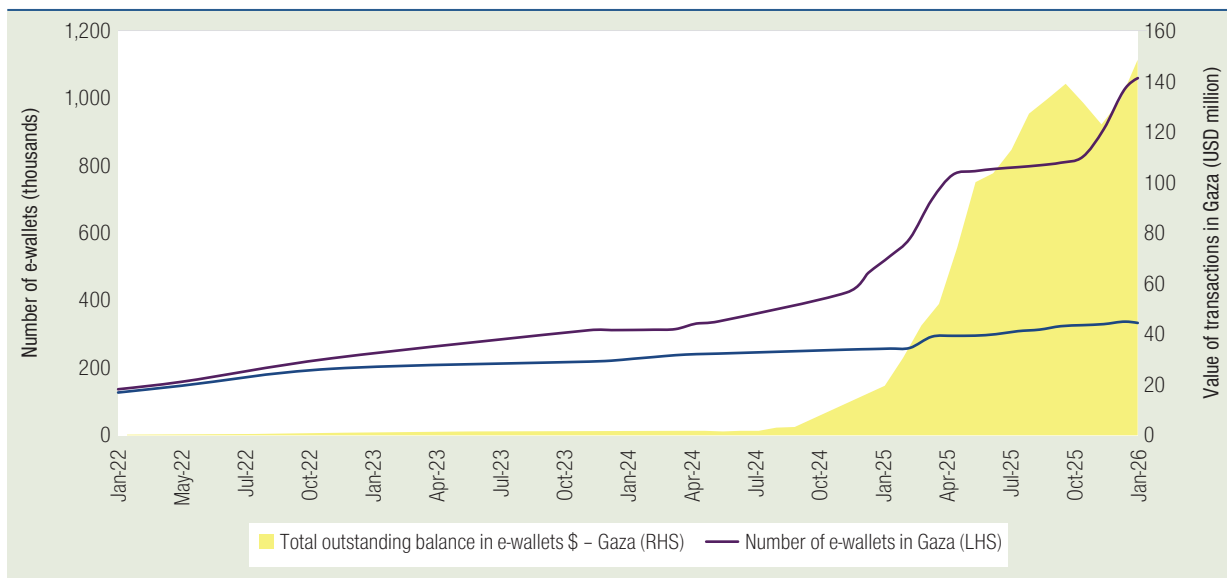
Source: PMA.

FIGURE 8 • Return on Average Assets (%)



Source: PMA.

FIGURE 9 • Usage of e-Wallets in West Bank and Gaza



Source: PMA; World Bank staff estimates.

heightened CBR volatility—driven by repeated short-term renewals of existing arrangements—has compounded preexisting risks to banking stability. Any suspension or material severance of CBRs would likely have immediate destabilizing effects on both the financial and the real sectors. The persistent buildup of large stocks of Israeli shekel banknotes held by Palestinian banks reflects worsening liquidity constraints. Due to the quantitative limits on cash transfers

to Israel, Palestinian banks remain unable to repatriate surplus cash deposits—NIS 16 billion as of December 2025—or to access digital liquidity, which is critical to clear and settle cross-border transactions. These limits were set several years ago and have not been adjusted

duration, often a two-week extension, further increasing uncertainty and unpredictability, with potential spillover effects on CBR arrangements with other foreign banks.

to reflect evolving economic or financial realities, including clearance revenue deductions and reduced liquidity inflows from Israel. As a result, the banking system exhibits a structural imbalance: physical (cash) liquidity remains trapped in the vaults, with significant opportunity costs, while usable digital NIS balances—which is what is truly critical for external payments at scale and trade finance—are severely constrained. This misalignment complicates day to day operations, including cash transport, storage, and security, while also distorting balance sheets and weakening the efficiency of interbank payment systems. Diplomatic and technical efforts to establish alternative liquidity channels or durable mitigating mechanisms have yet to yield concrete outcomes. Absent decisive progress, the risk of systemic disruption is acute and ever-present, weighing on the financial system’s credibility and potentially impairing banks’ ability to intermediate essential trade and commodity flows, including fuel, water, and medical supplies.

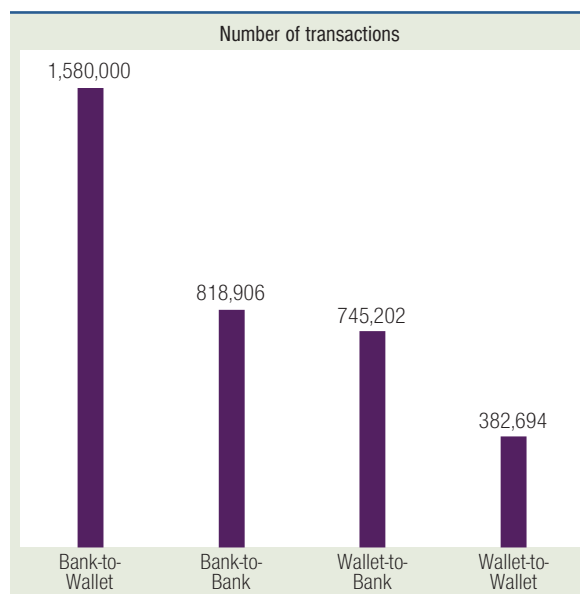
The severe disruption to banking services and the acute shortage of physical currency in Gaza have accelerated the adoption of digital payment instruments, while cash remains the dominant means of exchange in the West Bank. Against this backdrop, the Palestine Monetary Authority’s instant payments system, iBuraq, and locally operated e-wallets have expanded their role in facilitating transactions—though this expansion reflects the depth of the crisis as much as the development of digital financial services.

Digital payment activity has expanded rapidly since the launch of iBuraq, though growth remains highly concentrated in Gaza and reflects the collapse of conventional payment channels rather than a structural shift in financial behavior. Launched across the Palestinian territories in July 2024, iBuraq (the national real-time payment platform operated by the Palestine Monetary Authority) has recorded substantial growth in transaction volumes, particularly in Gaza. In the first half of 2025, the system processed 2.8 million transactions in Gaza with a total value exceeding US\$550 million. By January 2026, monthly volumes had reached 3.5 million transactions valued at approximately US\$442 million, up from 1.18 million trans-

actions worth US\$214.6 million in September 2025. The overall rejection rate, though declining from 10.3 percent in September 2025 to 7.3 percent in January 2026, remains non-negligible. Central to iBuraq’s expansion is its interoperability function, which enables transfers between banks and the five licensed Payment Service Providers (PSPs) operating in the Palestinian territories. As of January 31, 2026, the PSP sector holds approximately 1.4 million outstanding e-wallet accounts with a combined balance of US\$150.8 million, supported by over 20,300 merchants and 4,200 agents. Of these accounts, 1.07 million (76.5 percent) are held in Gaza. This concentration is consistent with the trajectory observed throughout 2025, when e-wallet usage in Gaza nearly tripled in value between January and June, rising from US\$40 million to approximately US\$115 million, with active e-wallets surpassing 790,000. In the West Bank, by contrast, cash continues to dominate day-to-day transactions and uptake of digital instruments remains limited.

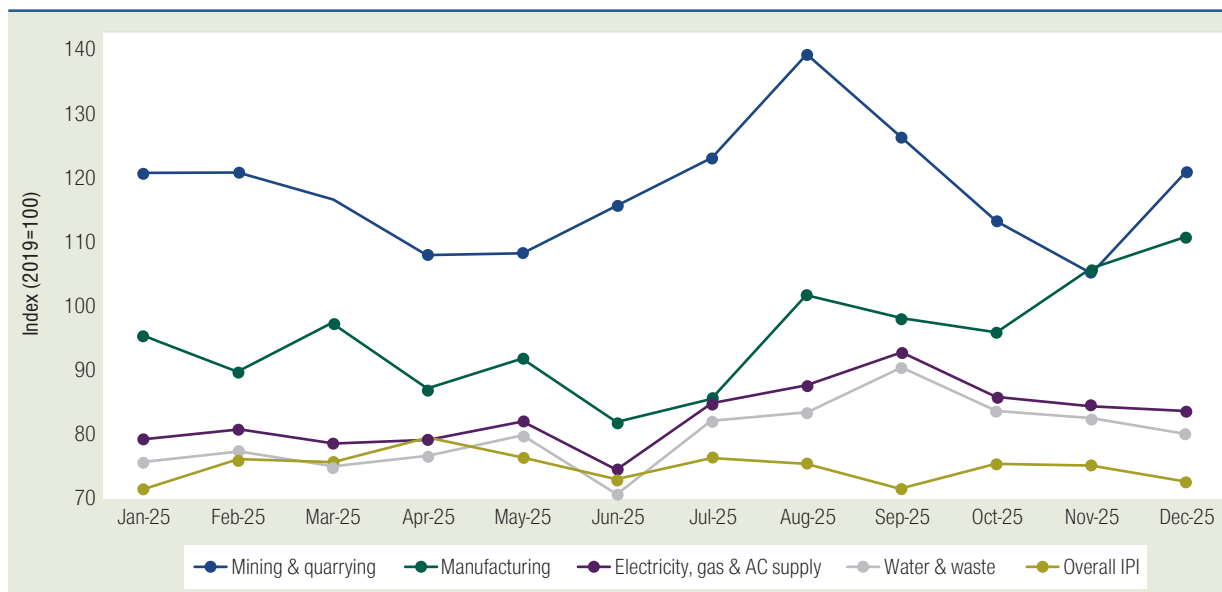
Against this backdrop of liquidity distortions and growing reliance on digital financial channels, the PA introduced a new cash reduction law, aimed at curbing large cash transactions and promoting electronic payments, particularly

FIGURE 10 • iBURAQ Interoperability



Source: PMA.

FIGURE 11 • Industrial Production Index by Major Groups – West Bank and Gaza (2025) Base Year 2019=100



Source: PCBS Monthly Industrial Production Index by Major Groups, January-December 2025.

in the West Bank. The law prohibits cash transactions exceeding 30,000 shekels,¹⁷ mandates non-cash payment methods across all public institutions, and establishes penalties. Its effectiveness will ultimately depend on enforcement capacity and on whether the broader enabling environment—including merchant acceptance infrastructure and public trust in digital systems—can be adequately strengthened.

Business Sector

Industrial activity in the Palestinian territories remains well below pre-conflict levels, amid a structurally weakened production base.¹⁸ The Industrial Production Index (IPI)¹⁹ shows that output in the West Bank and Gaza remained consistently below its 2019 base-year level throughout 2025. Although production conditions improved intermittently—mostly in connection to the ceasefire windows—the data clearly points to constrained productive capacity rather than recovery. The overall index fell to a low of 74.3 in June 2025 before rebounding to 92.7 in September, suggesting a temporary normalization, reflecting improved input availability. However, the subsequent decline to 83.5 by December 2025 shows that the gains were not durable. Sectoral trends reinforce

this picture of fragility. Manufacturing—the primary driver of both contraction and rebound—remained well below its base-year benchmark. In contrast, the energy sector tended to exceed base-year levels and peaked at 139.1 in summer 2025, also due to increasing seasonal demand pressures. Water and waste services weakened mid-year but strengthened toward end-2025.

In Gaza, business conditions illustrate the severity of the production shock and the very limited prospects for short-term private sector recovery. Business activity in Gaza remains effectively paralyzed, with an estimated 92 percent²⁰ of establishments across industry, services, internal trade, tourism, and hospitality either destroyed or partially damaged.

¹⁷ Approximately equivalent to US\$ 9,700 as of mid-March 2026.

¹⁸ PCBS Monthly Industrial Production Indices by Major Groups and Percent Changes for months of January-December 2025: https://www.pcbs.gov.ps/statistics/IndicatorsTables.aspx?lang=en&table_id=4460.

¹⁹ Produced by the Palestinian Central Bureau of Statistics (PCBS), see <https://www.pcbs.gov.ps/default.aspx>. IPI is also discussed earlier in the macroeconomic section; please see Figure 3 and the accompanying text.

²⁰ World Bank estimates as part of the Rapid Damage and Needs Assessment (RDNA).

The scale of physical destruction has severely impaired productive capacity, supply chains, and market functioning, reinforcing the contraction observed in aggregate indicators. The economy appears to be settling into a fragile equilibrium at exceptionally low levels of activity. While episodic improvements in security conditions have allowed limited resumption in select sectors, the operating environment remains highly fragile, with risks still tilted to the downside.

Energy

Gaza's power sector exhibits near-total disruption, following the 2023–2025 conflict. Electricity supply from all ten distribution feeders operated by the Israel Electric Corporation (IEC) was interrupted on October 7, 2023, followed shortly by the shutdown of the Gaza Power Plant (GPP) due to fuel shortages. Current assessments indicate that more than 90 percent of electricity infrastructure assets have been destroyed or rendered inoperable, with estimated physical damage exceeding US\$560 million. Of the pre-conflict feeder lines, only the Kusuvim feeder (F11, 4MW²¹) is operational, supplying electricity solely to the southern Short-Term Low-Volume Desalination Plant. Severe restrictions on the entry of electrical equipment—due to dual-use classifications²²—continue to limit the scope for system stabilization.

Despite extensive physical destruction, technical capacity within the electricity sector remains partially intact but operationally constrained. The Gaza Electricity Distribution Company (GEDCO) continues to operate with approximately 500 staff,²³ undertaking emergency maintenance and supporting humanitarian facilities when materials are available.

The prolonged outage has crippled essential services and led to US\$165 million in losses. Hospitals, Water, Sanitation, and Hygiene (WASH) services, education, and food production are largely non-functional, in the absence of reliable electricity. Prioritized humanitarian agencies²⁴ are relying on overrun diesel generators with limited spare parts available for basic maintenance, with fuel supply provided by UNOPS. Informal solutions are constrained and expensive, including recycled

car batteries for mobile phone charging (US\$0.50/charge) and LED lighting (up to US\$3/day²⁵), and plastic waste converted into industrial fuel with electricity sales at US\$5/kWh. Losses encompass spiking operating expenses, GEDCO workers' lives, foregone revenues, and displacement-induced losses, including commercial activities.

The recovery of the power sector in Gaza will require a sequenced and multi-year reconstruction strategy. Current estimates place total recovery and reconstruction needs over the first five years at US\$2.7–4.7 billion.²⁶ Priorities include restoration of supply through IEC feeder lines, rehabilitation of the GPP and adjacent distribution networks, deployment of diesel generation for critical facilities supported by reliable fuel supply, and expansion of distributed solar PV systems with battery energy storage solutions (BESS). Over the medium term, reconstruction will need to focus on expansion of grid reticulation, modernization of system management through Supervisory Control and Data Acquisition (SCADA), full resumption of electricity imports, including from Egypt, and development of additional centralized generation capacity.

While Gaza's power system has effectively collapsed, electricity supply dynamics in the West Bank have evolved positively but remain fragile.

The contribution of electricity imports from the Israel Electric Corporation (IEC) has been on a declining trend, due to the expansion of domestic renewable generation, although imports remain the main source of supply. Since 2019, the share of IEC imports has fallen from 97 percent to 88 percent in 2025—a reduction of over 9 percentage points—despite an almost 20 percent increase in total electricity purchases.²⁷ Most of this import substitution (around 7 percentage points) reflects growth in

²¹ Existing transfer capacity out of the 12MW of transfer potential.

²² Materials are classified as for both civil and military use.

²³ Out of the initial 876.

²⁴ As identified by the UN.

²⁵ Source: local reporting.

²⁶ The needs range is mainly due to OPEX, varying with fuel availability for the GPP and critical diesel generators, and the cost of power imports from IEC and Egypt.

²⁷ Source: PENRA.

installed solar capacity, while the remaining 2 percentage points stem from increased imports from Jordan.

However, progress toward the target of 1.6 GW of installed solar capacity by 2030 will require significant investments in network rehabilitation, grid expansion, and system management.

As solar generation is variable and decentralized, higher penetration levels increase the need for grid reinforcement, real-time dispatch capability, balancing capacity, and ancillary services to maintain system stability. The integration of variable renewable energy alone is estimated to require over US\$330 million in related investments.²⁸

The aforementioned mounting fiscal pressures are increasingly spilling over into the energy sector, raising risks to energy security. The suspension of clearance revenue transfers, coupled with increased deductions related to IEC invoices, broader liquidity constraints, and uncertainty surrounding CBRs have strained the energy sector's financial position. Also, salary reductions for civil servants and the withdrawal of work permits—affecting a large share

of households—are expected to reduce households' capacity to pay electricity bills, weakening collection rates and further straining distribution companies' liquidity. Since July 2025, most of the energy sector's revenues²⁹ have been transferred directly to the Ministry of Finance and Planning (MOFP) to support the fiscal budget,³⁰ rather than being used to settle invoices with IEC. IEC has been authorized to deduct payments due to the Palestinian Electricity Transmission Company (PETL) from clearance revenues to reduce immediate default risk.³¹ During 2025, some distribution companies suspended payments due to contested invoices or service disruptions, while local government units accumulated

²⁸ National Renewable Energy Plan for Palestine (2025–2030).

²⁹ Some LGUs are still paying IEC directly.

³⁰ Clearance revenues have not been transferred to the PA since May 2025.

³¹ PETL has also opened dedicated bank accounts for connected DISCOs to facilitate cash deposits and improve transaction efficiency.

BOX 1. DE-RISKING RENEWABLE ENERGY INVESTMENT IN THE PALESTINIAN CONTEXT

The World Bank is piloting a framework for Private Capital Mobilization in the Palestinian power sector (Liquidity Support Account and Payment System; LSAPS)

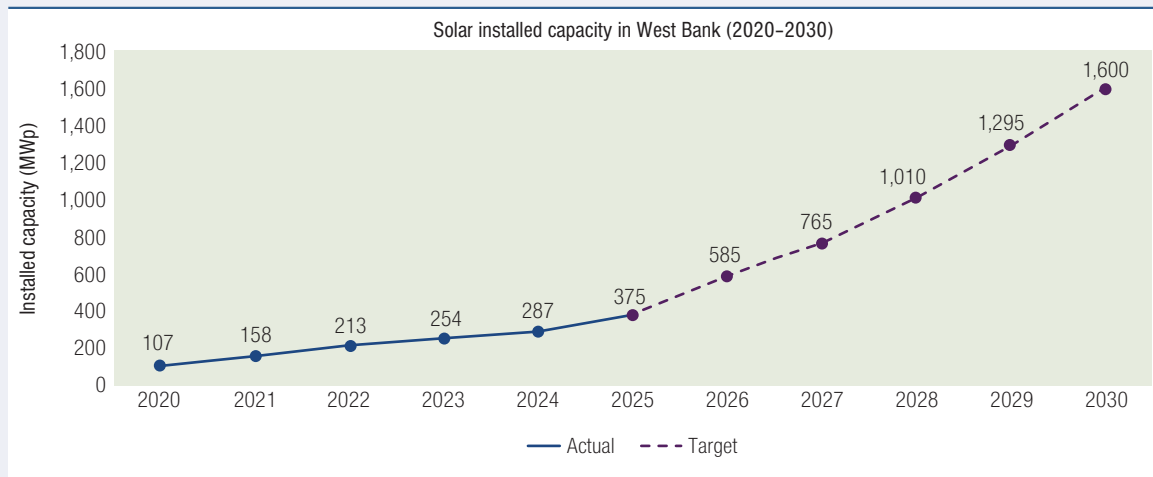
Diversification of electricity supply is a core element of the PA's sector strategy to reduce import dependence, strengthen energy security, and lower electricity-related deduction from clearance revenues. Achieving the target of 1.6GW of solar installed capacity in the West Bank by 2030 will require about US\$1.5 billion investments in generation alone. Mobilizing this scale of capital from domestic and international private investors, while pursuing cost-efficiency, will require a shift from sole-source contracting to competitive procurement—with support from the World Bank.

Unlocking private sector participation requires addressing two key constraints: (i) strengthening the creditworthiness of the Palestinian Electricity Transmission Limited (PETL, the offtaker), (ii) mitigating the unfeasibility of sovereign guarantees due to the West Bank and Gaza's fiscal stance. The Liquidity Support Account and Payment System (LSAPS) replicate the World Bank Partial Risk Guarantee approach, while avoiding broad sovereign guarantees. Instead, it relies on a tiered, collateralized, Letters of Credit (L/C) regime combined with a contingent Termination Support Agreement (TSA)—thereby narrowing fiscal risk while maintaining project bankability and building creditworthiness. The LSAPS also establishes payment discipline for the Palestinian Electricity Transmission Company (PETL) through a transparent revenue 'waterfall' that prioritizes payments to solar Independent Power Producers while preserving operational autonomy over sector revenues. In case of shortfalls, the system prevents day-to-day fiscal calls by issuing L/Cs backed by a donor-funded, cash collateralized deposit account and the interest it generates. In case of early termination, the TSA provides "buy-out" options without affecting the debt ceiling (as the obligation remains a contingent liability), allowing the government to purchase or sell the asset. A Policy Undertaking Letter further protects the LSAPS mechanism from policy and regulator changes over time.

The first transaction in the West Bank was successfully completed for over 20MWp installed capacity of solar PV, and supported by tailored capacity building delivered by the World Bank. The next phases of competitive procurement are expected to witness further participation from international investors. While tailored to the Palestinian context, the scheme builds on international best practices and presents opportunities for scaling up across other technologies, sectors, and countries—including beyond FCV settings.

(continued on next page)

FIGURE 11 • Industrial Production Index by Major Groups - West Bank and Gaza (2025)
Base Year 2019=100



Source: PENRA; National Renewable Energy Plan for Palestine (2025–2030)

arrears related to public obligations, including tariff subsidies and electricity supplied to refugee camps. As a result, electricity bill deductions as a share of net lending increased sharply, peaking in October 2025.³² Although similar peaks have occurred in the past, the current context—characterized by acute fiscal stress and liquidity constraints—raises the risk of a self-reinforcing cycle of non-payment, compounding liabilities, and potential service interruptions by IEC.

Healthcare

After two years of conflict, and notwithstanding a six-month ceasefire, Gaza’s health system continues to operate at severely reduced capacity. Approximately half of hospitals and primary health care clinics are currently nonfunctional,³³ severely limiting service coverage and geographic access. Even where facilities remain structurally intact, service delivery is constrained by shortages of medical supplies, restrictions on the entry of critical goods, depleted fuel stocks, and the shortage of health personnel. As a result, the effective operational capacity of the system is substantially lower than the number of partially functioning facilities would suggest.

In Gaza, public health risks have intensified as infrastructure damage, service disruptions, and access restrictions continue to constrain both preventive and curative care. Damage to water networks, sewage systems, and waste collection services, combined with overcrowded living conditions, have increased exposure to communicable diseases. Acute respiratory infections and acute diarrheal illnesses are presently among the most frequently reported conditions,³⁴ reflecting both environmental health risks and weakened preventive services. At the same time, large segments of essential care remain inaccessible. Treatment for non-communicable diseases is disrupted for more than 700,000 patients, rehabilitative surgery is needed for over 40,000 individuals, and mental health needs have expanded significantly.³⁵ Medical evacuation

³² MOFP.

³³ World Health Organization. Unified Health Dashboard. 2026. <https://app.powerbi.com/view?r=eyJrIjoiODAxNTYzMDYtMjQ3YS00OTMzLTkxMWQxOTU1NWUwMzE5NTMwIiwidCI6ImY2MTBjMGI3LWJkMjQtNGIzOS04MTBiLTKkYzI4MGFmYjU5MCIslmMiOjh9>.

³⁴ World Health Organization. 2025. Public Health Situation Analysis (PHSA) #11: 11 November 2025.

³⁵ Ibid.

pathways remain insufficient relative to demand: more than 18,500 patients, including approximately 4,000 children,³⁶ require urgent treatment unavailable in Gaza.³⁷ Security conditions, access restrictions, and financing shortfalls continue to constrain system stabilization, with unmet funding needs for early recovery and core health services exceeding US\$400 million.³⁸

In the West Bank, the health system remains operational but is increasingly strained by fiscal pressures and mounting arrears. The Palestinian Ministry of Health faces a severe liquidity crisis, with accumulated health-related arrears reaching approximately US\$1.1 billion by end-2025. Roughly 65 percent of these arrears are owed to private and NGO hospitals providing referred services, while 35 percent are owed to pharmaceutical and medical equipment suppliers. This growing stock of unpaid obligations is weakening provider liquidity, disrupting supply chains, and raising risks to continuity of care.

Structurally, the Palestinian health sector, consistent with the wider public finance trends, has become increasingly dependent on the accumulation of arrears as an unsustainable financing mechanism. Between 2022 and 2025, nearly half of annual health expenditures were financed through deferred payments, effectively shifting budget pressures onto providers and suppliers. In the 2025 budget execution, over 70 percent of spending on essential medicines, facility operations, and medical referrals was financed through arrears. In the absence of procurement reform, strengthened referral management, and improved fiscal predictability, alongside adequate external support, the sustainability of health service delivery in the West Bank is also at growing risk.³⁹

Education

Gaza's education system has experienced a near-total interruption of formal schooling over the past two years, with extensive infrastructure damage and sustained school closures generating severe and widespread learning losses. The suspension of schools in Gaza has affected approx-

imately 658,000 school-aged children, and the system remains materially unable to deliver education at scale, at present. Recent assessments indicate that all education facilities have sustained some level of damage,⁴⁰ with satellite imagery suggesting that 97.5 percent of schools have been damaged or destroyed, and 93 percent of schools requiring full reconstruction or major rehabilitation before they can be functional again.⁴¹ Thousands of students and education personnel have sustained life-altering injuries and continue to lack access to essential care and rehabilitation services.⁴²

Following the October 2025 ceasefire, limited learning support has resumed through interim arrangements. By the end of 2025, approximately 370 Temporary Learning Spaces were operational across Gaza, providing a few hours per week of in-person learning and engagement activities to around 215,000 children (about 32 percent of the school-aged population in Gaza).⁴³ The announcement of the ceasefire in October 2025 facilitated the entry of some basic learning material (mostly stationary), with 48,000 children receiving these supplies as of February 2026.⁴⁴ Despite these efforts, access by youth to structured learning remains highly constrained. Provision for ado-

³⁶ Save the Children, 2026. <https://www.savethechildren.net/news/news-quote-urgent-medical-evacuations-through-rafa-predicted-take-over-four-years-trapping>.

³⁷ World Health Organization, 2026. Medical evacuation of patients from Gaza. Oct 2023–23 Feb 2026.

³⁸ United Nations Financial Tracking Service, 2026. <https://fts.unocha.org/plans/1273/summary>.

³⁹ Figures are sourced from the Palestinian Ministry of Finance, 2026.

⁴⁰ World Bank, UN, EU; RDNA April 2026. <https://www.un.org/unispa/document/report-gaza-strip-rapid-damage-20apr26/>.

⁴¹ <https://reliefweb.int/report/occupied-palestinian-territory/verification-damages-schools-based-proximity-damaged-sites-gaza-occupied-palestinian-territory-update-11-nov-2025>.

⁴² <https://reliefweb.int/report/occupied-palestinian-territory/gaza-humanitarian-response-update-20-july-2-august-2025>.

⁴³ <https://www.ochaopt.org/content/gaza-humanitarian-response-situation-report-no-38>.

⁴⁴ <https://www.ochaopt.org/content/gaza-humanitarian-response-situation-report-no-67>.

lescents is especially limited, with very few operational learning spaces or vocational training facilities for youth aged 15 and above, to support skills development and psychosocial recovery.⁴⁵

In the West Bank, education services continue to operate while facing strain from security-related disruptions and fiscal pressures. Chronic movement restrictions make it difficult for students and teachers to attend schools consistently and on time. Between October and December 2025, over 230 education-related security incidents were recorded, affecting 130+ schools and over 17,000 students. Roughly two thirds of these incidents were related to access restrictions that prevented students and staff from reaching schools on time, while the remainder were associated with episodes of violence and other disruptions.⁴⁶ In parallel, fiscal pressures have further reduced the system’s capacity to sustain regular in-person instruction. Due to the severe financial crisis and continued delays in paying teachers fully and on time, public schools have reduced in-person teaching to 3 days per week, down from 4 days in the previous academic year. Since early March 2026, heightened regional tensions linked to current conflict in the Middle East have led schools in the West Bank to temporarily revert to fully remote learning. While schooling has not been suspended at the system-wide scale observed in Gaza, the cumulative impact of security disruptions and fiscal constraints is increasingly undermining the continuity and quality of education delivery in the West Bank.

Poverty and Social Policy

Despite some easing in food prices and availability following the ceasefire, Gaza’s economy continues to be heavily dependent on humanitarian aid, as households experience severe losses in purchasing power.⁴⁷ Displaced families have an acute need for shelter, food, health services, water, and heating amid winter conditions.⁴⁸ Development activities remain limited and focus primarily on restoring basic utilities, social services, and short-term emergency employment. Meaningful progress continues to be constrained by security risks, movement restrictions, and restricted access to materials, although market conditions have improved somewhat since the ceasefire. According to the World Food Programme (WFP), by January 2026 prices for most food items had declined by 38–96 percent compared to pre-ceasefire levels in early October 2025. However, prices remain above pre-crisis levels (September

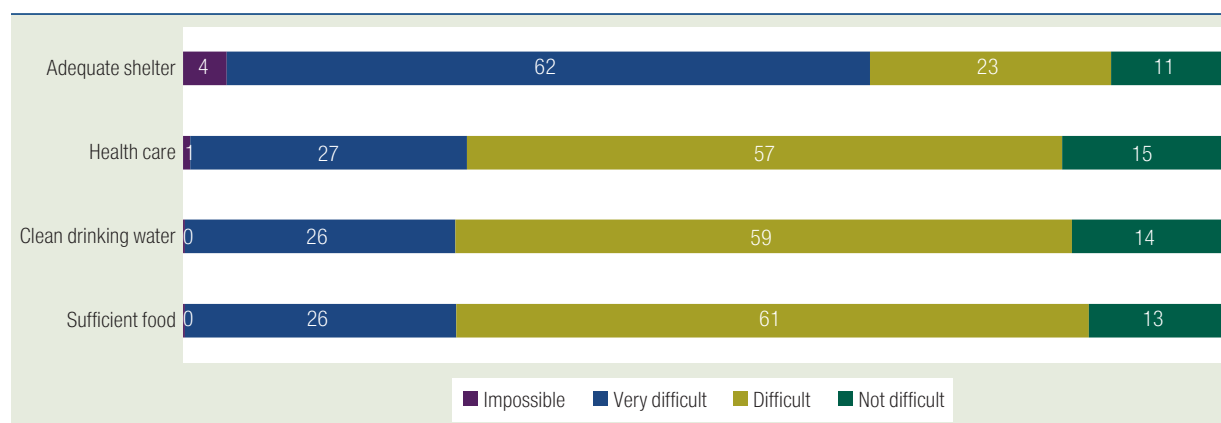
⁴⁵ <https://www.unesco.org/en/articles/japan-and-unesco-launch-project-support-livelihoods-and-economic-recovery-across-palestine>.

⁴⁶ <https://reliefweb.int/report/occupied-palestinian-territory/education-related-incidents-west-bank-4th-quarter-2025-october-december-2025>.

⁴⁷ Four governorates (North Gaza, Gaza, Deir al-Balah, and Khan Younis) classified in Emergency (IPC Phase 4) through April 2026.

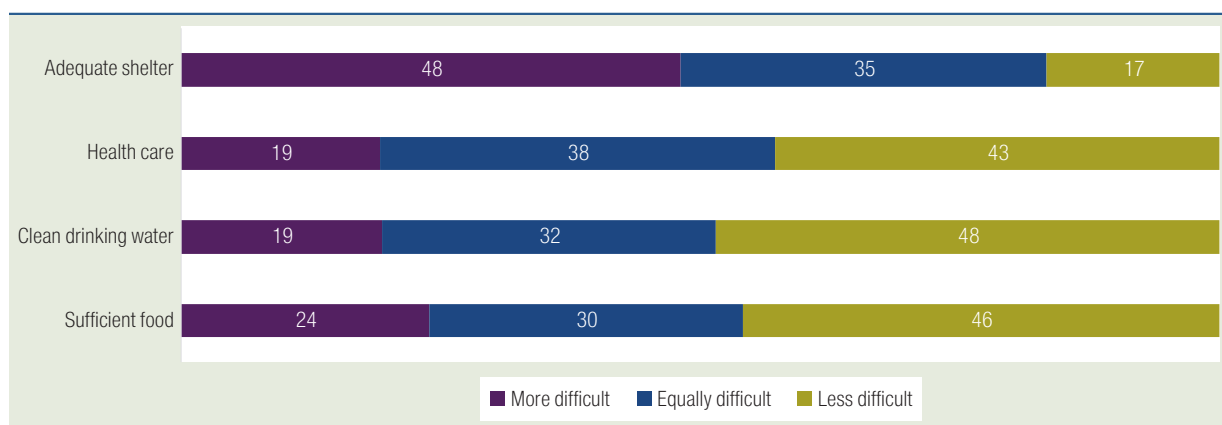
⁴⁸ WFP Palestine Emergency Response, External Situation Report 80, January 27, 2026.

FIGURE 12A • How Difficult is it Currently for Your Family to Access



Source: Gaza Welfare Panel Survey (GWPS), January 2026. GWPS is a multi-round mobile phone survey implemented by the World Bank with the Palestinian Central Bureau of Statistics (PCBS), drawing on a representative subsample of households from the 2023 Palestinian Expenditure and Consumption Survey to track welfare impacts in Gaza over time.

FIGURE 12B • Since the October Ceasefire, Has it Become More Difficult, Less Difficult or Equally Difficult for Your Family to Access...



Source: GWPS, 2026.

2023). While the availability of goods has improved, weak purchasing power remains the primary constraint faced by households.⁴⁹

By early 2026, household perceptions point to modest easing in some areas of need, but not to broad-based recovery. Following the October 2025 ceasefire, many households reported modest improvements in access to essential goods and services, including food, clean water, and health care, suggesting that periods of ceasefire are directly associated with temporary improvements in living conditions. Yet these improvements remain partial and fragile. More than 80 percent of households still report that access to these basic needs is difficult or very difficult (Figure 12). Adequate shelter remains the most persistent constraint: majorities of families in Khan Yunis (74 percent), Rafah (65 percent), and North Gaza (64 percent) report difficulty securing adequate housing. These patterns reflect the scale of housing destruction and the long-term effects of prolonged displacement, which remain central drivers of hardship in Gaza.

Vulnerability to poverty and economic shocks is particularly acute among elderly people, persons with disabilities, and women. Approximately 27 percent of the elderly and 40 percent of persons with disabilities live below the poverty line, limiting their capacity to absorb further economic disruptions. The number of persons with disabilities in the West Bank and Gaza is estimated at around 117,000 (about 2.1 percent of the population),⁵⁰ while the

World Health Organization estimates that an additional 22,500 people in Gaza have sustained life-changing physical injuries during the conflict, likely increasing long-term care and support needs.⁵¹ In addition, the *psychological effects of conflict in Gaza and the West Bank* are severe, with a profound mental health crisis characterized by high rates of post-traumatic stress disorder, chronic anxiety, and depression. Women also face disproportionate economic constraints due to worsening labor market conditions and reduced access to services. Despite the central role of small and micro-enterprises in the economy, women remain underrepresented: only about one quarter of these businesses are owned by women, and many operate in the informal economy, limiting their access to finance, protection, and growth opportunities.

Social protection systems are heavily dependent on humanitarian delivery, while formal safety nets operate at limited scale. In Gaza, assistance is largely provided through international humanitarian operations. In January 2026, the WFP reached the highest number of beneficiaries since the start of

⁴⁹ WFP Palestine Market Monitor – Gaza – January 2026.

⁵⁰ Press release on the occasion of the International Day of Persons with Disabilities. Palestinian Central Bureau of Statistics (PCBS), December 2023.

⁵¹ World Health Organization, Estimating Trauma Rehabilitation Needs in Gaza using Injury Data from Emergency Medical Teams, September 2024.

the October 2023 conflict, supporting over 1.6 million people through a combination of food rations, hot meals, bread distribution, nutrition services, school snacks, and cash assistance.⁵² Over 332,000 people (approximately 80,000 households) received digital cash transfers, with each household receiving NIS 1,250 (about US\$385) through e-wallets.⁵³

The PA's main social safety net currently operates only in the West Bank and at reduced coverage, reaching less than a quarter of people estimated to live in extreme poverty. The National Cash Transfer Program (NCTP) has been suspended in Gaza since October 2023, even though the territory accounted for about 70 percent of the program's pre-conflict caseload. During 2025, five payment rounds were implemented—in January, February, March, June (for the April period), and December—each reaching roughly 31,000 households. The average monthly transfer amounts to about US\$110 per household, with some beneficiaries receiving as little as US\$70.

With World Bank support, efforts are also emerging to promote recovery-oriented employment and livelihoods. Since May 2025, the West Bank and Gaza Social Recovery and Job Creation Project (SRJP) has aimed to address rising unemployment in the West Bank while strengthening the operational capacity of the PA. The program supports 371 Local Government Units (LGUs) through labor-intensive infrastructure works that generate short-term employment while sustaining basic municipal services. In parallel, it provides entrepreneurial training for women and persons with disabilities who are unable to participate in public works, helping them expand existing businesses or establish new income-generating activities where feasible.

⁵² WFP Palestine Emergency Response, External Situation Report 81, February 9, 2026.

⁵³ WFP Palestine Market Monitor – Gaza – January 2026.

BOX. 2. THE IMPACT OF THE CURRENT CONFLICT IN THE MIDDLE EAST ON THE PALESTINIAN ECONOMY

At a time when the Palestinian economy grapples with complex challenges, the new conflict in the Middle East introduces additional exogenous risks that could affect recovery prospects through multiple transmission channels. While the Palestinian economy has limited direct economic exposure to the regional conflict, the escalation is affecting economic conditions through higher uncertainty, rising import and transport costs, and broader disruptions to trade and supply chains. Palestinian authorities already report increases in import costs. Together, these pressures could further widen the PA's already large fiscal and external financing gaps, at a time when financing conditions are exceptionally constrained and humanitarian needs remain acute.

In Gaza, the main transmission channels relate to the cost and logistics of delivering goods and humanitarian assistance. Although humanitarian access reportedly increased in recent weeks, operational constraints on the ground remain significant, contributing to elevated costs for the delivery of food and medical supplies, among others. These pressures weigh on food security, access to healthcare, and the provision of water and sanitation services for a population already facing widespread displacement and economic hardship.

In the West Bank, the main transmission channels operate through weakened confidence, and broader disruptions to trade, private sector activity, and tourism. The uncertainty deriving from the conflict in the Middle East can weigh on private sector activity, investment decisions, and consumer confidence, while also contributing to higher import and production costs. Periods of heightened regional uncertainty may reduce pilgrimage and leisure travel to destinations such as Bethlehem and Jericho, affecting hotels, restaurants, transport services, and small retail businesses that depend on tourism flows. While tourism represents a relatively small share of Palestinian GDP, it remains an important source of employment and seasonal income for thousands of households, particularly for women and youth engaged in hospitality and small-scale commerce. Together, these developments have the potential to further constrain growth and household incomes, as well as to place additional strain on food security for the most vulnerable as well as on the PA's already dire fiscal position through widening fiscal imbalances.

Beyond these core macroeconomic effects, the regional conflict also increases risks related to aid flows and the pace of recovery and reconstruction efforts. As attention shifts toward broader regional dynamics, momentum behind recovery and reconstruction planning could weaken, while the mobilization of financing may face delays. At the same time, the growing number of competing priorities across the Middle East may further stretch already limited donor resources, increasing competition for international assistance.

Taken together, these dynamics suggest that while the Palestinian economy has mostly indirect exposure to the current conflict in the Middle East, the combined effects of supply disruptions, fiscal sector pressures, weaker tourism, and potential aid diversion, could intensify headwinds to recovery challenges and prolong economic and social pressures across both Gaza and the West Bank.

CONCLUSIONS

The economic difficulties experienced by the Palestinian economy in 2025 reflect a set of long-standing structural constraints, further exacerbated by the acute impact of two years of conflict in Gaza, and now also the impact from the recent conflict in the Middle East.

Several policy instruments typically available to governments—such as trade policy, monetary policy, or fiscal autonomy—remain fully or partially constrained in the Palestinian context. As a result, the Palestinian economy remains heavily reliant on external factors—notably access to the Israeli labor market, clearance revenues, the continuation of CBRs, and external financial support. These longstanding vulnerabilities have been amplified by the impact of the last two years of conflict in Gaza, the deterioration of the economy in the West Bank, and higher costs and uncertainty due to the conflict in the Middle East. The October 2025 ceasefire marked an important turning point after two years of devastating conflict. Together with the adoption of United Nations Security Council Resolution 2803 and the establishment of transitional coordination arrangements, including through the Board of Peace, it laid the foundations for a phased process toward stabilization, recovery, and reconstruction.

In the short run, priorities should focus on protecting the most vulnerable, restoring essential service delivery, stabilizing public finances, and rebuilding and safeguarding the economic fabric.

Immediate actions include restoring predictable clearance-revenue transfers by the Government of Israel; ensuring access to essential goods—including food and medicines—for populations most in need; providing reliable donor budget support to safeguard social spending; and scaling targeted reconstruction and livelihood programs that generate rapid employment.

Sustained commitment to institutional reforms by the PA remains central. Strengthening public financial management, pursuing fiscally realistic consolidation—prioritizing revenue mobilization, improved collection, and efficiency gains rather than blunt spending cuts—and advancing transparency, together with business-enabling reforms will be critical to restoring investor confidence and supporting job-creating growth. Concretely, while addressing the sustainability of the public wage bill remains a central policy goal, any fiscal consolidation should be carefully sequenced and accompanied by measures to protect vulnerable households, and by predictable donor support to avoid destabilizing short-term social outcomes. Other priority policy actions encompass domestic revenue and expenditure management, core public services provision and social protection, improving access to finance for SMEs, and expanding support for entrepreneurship, innovation, and women's economic participation.

Progress on economic arrangements—particularly in areas where key policy levers rest

with the Israeli side—will be key to restoring predictability to fiscal flows, mitigating CBR-related risks, and supporting trade and factor mobility.

Progress on economic arrangements between Israeli and Palestinian authorities will be key to restore predictability to fiscal flows, mitigate risks related to correspondent banking relationships (CBRs) and the financial sector, facilitate the movement of goods and labor, and support stronger trade outcomes. Measures that improve customs efficiency at key crossings, rationalize non-tariff barriers, and establish effective channels for Palestinian factor mobility, could provide important short-term support to household incomes and fiscal stability, while domestic productive capacity is rebuilt.

The international community plays a critical role in supporting stabilization and reconstruction. Given the scale of damage and the limited fiscal space available to Palestinian institutions, sustained financial support at scale will be needed to restore essential services, finance early recovery investments, and protect vulnerable households during the reform process. Beyond financing, development partners can provide technical assistance to strengthen public institutions and support sectoral recovery, especially in infrastructure (energy, water), health, education, and key sectors like tourism. Risk-mitigation instruments will also be important to mobilize private investment over time, including blended finance

tools and guarantees that can help attract private capital to priority sectors.

Ultimately, recovery in the Palestinian territories will depend not only on financial resources but also on restoring predictability to the economic system, strengthening institutions, and expanding opportunities for a generation that has grown up in the shadow of intermittent conflict. A large and relatively well-educated youth cohort⁵⁴ is entering the labor market at a time when employment opportunities remain severely constrained. If supported by a more stable economic environment, improved connectivity, and a functioning private sector, this demographic trend could become a powerful engine for productivity, innovation, entrepreneurship, and long-term growth. If the necessary conditions can be put in place, the current post-conflict moment could open a pathway toward economic stabilization and private sector-led recovery, allowing the capabilities of a new generation of workers and entrepreneurs to contribute to a more resilient and prosperous future.

⁵⁴ Approximately 1.4 million new workers are estimated to enter the Palestinian labor market by 2035, based on recent World Bank analysis. For more detail, visit <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099112625015027328> (World Bank. 2025, Anatomy of Stagnation).



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1818 H Street, NW
Washington, DC 20433