



MAS

PALESTINE ECONOMIC POLICY
RESEARCH INSTITUTE - MAS

Palestine Economic Update

January 2025

Key Messages :

- The Palestinian Central Bureau of Statistics (PCBS) and the Palestine Monetary Authority (PMA) have provided preliminary estimates highlighting the war's catastrophic impact on production, consumption, investment, and employment in 2024.
- The economic outlook for 2025 remains uncertain, and projections are fragile. While the ceasefire in Gaza offers a glimmer of hope, recovery hinges on sustaining the agreement and implementing a swift and effective reconstruction plan. However, ongoing Israeli military operations in the West Bank exacerbate devastation and uncertainty, isolating cities and villages and compounding the daily suffering of Palestinians.
- A newly introduced Palestinian VAT law aims to reshape the economic landscape by supporting sustainable development. The law seeks to empower MSMEs, promote tax justice, combat tax evasion, and enhance tax collection efficiency.
- Since the onset of the war on Gaza, the tourism sector has been particularly hard-hit, with occupancy rates plunging by 84%, a 40% decline in value-added, and losses totaling USD326 million.

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1. Economic Performance in 2024 and Forecasts for 2025

On December 31, 2024, the Palestinian Central Bureau of Statistics (PCBS) and the Palestine Monetary Authority (PMA) released their 2024 economic estimates and forecasts for 2025.¹ The figures starkly illustrate the devastating economic impact of the war on Gaza, with the Palestinian GDP plummeting by 28% in 2024. Under siege and bombardment, the Gaza Strip's economy contracted by 82%. The West Bank experienced a 28% decline in GDP, driven by the combined effects of the war, heightened Israeli movement and trade restrictions, the termination of most Palestinian employment in Israel, and Israeli deductions from Palestinian National Authority (PA) trade tax revenue funds. The economic downturn was felt across all sectors, with construction being the hardest hit. In 2024, the construction sector's value-added fell by 46%, including a 38% decline in the West Bank and a complete halt drop in Gaza.

PCBS reported a 24% decline in total consumption for 2024. In the West Bank, consumption decreased by 13%, reflecting retrenching and adaptive behaviors as households grappled with the ongoing crisis. In Gaza, however, consumption plummeted by 80%, as severe Israeli restrictions on aid and trade left many barely able to meet basic needs, and the population teetered on the brink of famine. The severe shortage of basic commodities in Gaza caused prices to skyrocket by 227% in 2024, exacerbating a dire situation.

The sharp decline in consumption, coupled with the blockade on Gaza and movement restrictions in the West Bank, led to significant disruptions in trade. Imports fell by 11%, and exports declined by 13%. Given that the value of imports traditionally

outweighs exports by a factor of three, the Palestinian trade deficit shrank by 5.3%.

Unemployment reached unprecedented levels in 2024, rising to 51% compared to 31% before the war. This spike occurred despite a drop in the labour force participation rate from 44% to 40%, indicating an even larger number of working-age individuals are now not working. In Gaza, unemployment soared to 80%, up from 53% before the war, while the West Bank recorded an unemployment rate of 35%, double the pre-war rate.

1.1 Forecast for 2025

The forecasts by PCBS and PMA under the baseline scenario assumed no significant changes in the political situation. These assumptions included severe restrictions on trade, the near-total cessation of economic activities in Gaza, a continued ban on Palestinian employment in Israel, and a deepening fiscal crisis. Based on these premises, PCBS projected a very limited recovery in 2025 following the substantial contraction in 2024 and persistently high unemployment rates.

However, the recent ceasefire deal invalidates the baseline scenario.² If the ceasefire holds, Gaza and the West Bank could follow a different trajectory. This would depend on the allowance of goods into Gaza and the full and effective mobilization of reconstruction efforts. The situation in the West Bank, by contrast, remains dire. Israel has imposed stringent movement restrictions on most Palestinian cities and towns since the ceasefire, and there has been a sharp rise in settler violence. These developments are expected to have severe ramifications for the West Bank's economy in the immediate future. Yet, if the Gaza ceasefire holds, a halt to Israeli aggression in the West Bank could allow its economy to breathe again.

¹ <https://tinyurl.com/2m6aarun> and <https://tinyurl.com/2p978k5f>

² <https://news.un.org/en/story/2025/01/1159251>

This year, PCBS has not presented an optimistic scenario. Instead, it refers to a 'recovery and reconstruction' scenario. This scenario assumes an end to the Israeli war on Gaza and associated measures in the West Bank. It envisions a gradual return to the political and economic conditions that existed before the Gaza aggression, including the availability of basic living necessities and the restoration of the West Bank's economy to its state before October 7, 2023.

The pessimistic scenario assumes further deterioration in the political situation and an escalation in violence, such as currently underway in the West Bank. Along with a large-scale military operation in Jenin Governorate camps and towns, an Israeli army clampdown has disrupted key commuting routes throughout the West Bank, effectively isolating Palestinian cities

and villages from each other.³ Under such a scenario, Palestinian GDP would contract by 5.5%, and unemployment could rise to 53%.

Needless to say, in such a volatile situation, projections can only claim to indicate possible orders of magnitude and naturally differ according to assumptions, as those prepared by two Palestinian official institutions. While a ceasefire agreement has been reached in Gaza, there is no guarantee it will hold.⁴ Additionally, there is no certainty that reconstruction efforts in Gaza will be swift or effective. The West Bank's situation diverges sharply from the assumptions of the recovery and reconstruction scenario, which could well proceed in the Gaza Strip divorced from the West Bank economy, making a broad Palestinian economic recovery highly uncertain even in the most propitious likely political conditions.

Table 1: PCBS and PMA Economic Forecasts for 2025

Scenario	Baseline		'Optimistic'		'Pessimistic'	
	PCBS	PMA	PCBS	PMA	PCBS	PMA
Real Gross Domestic Product (\$M)	10,653	11,035	12,665	11,835	10,007	10,545
Real GDP (%) Growth	0.6	1.8	19.6	9.2	-5.5	-2.7
Per Capita GDP Growth (%)	-1.7	-0.6	16.9	6.7	-7.6	-4.9
Change in Gross Consumption (%)	6.7	2.9	24.6	10.5	1.2	-8.5
Change in Gross Investment (%)	-	4.9	-	15.3	-	-21.7
Unemployment Rate (%)	49.2	49	43.3	42	53	53
Change in Trade Deficit (%)	-	8.1	-	33	-	-5.5
Change in (%) Exports	-	4.2	-	23.6	-	-15.1
Change in (%) Imports	-	6.7	-	29.6	-	-9

³ <https://www.bbc.co.uk/news/articles/ckg750yzdr8o>

⁴ <https://www.israelnationalnews.com/news/402665>

2. A New VAT Law

On December 31, 2024, the Palestinian President approved the new Value-Added Tax (VAT) Law, proposed by the Palestinian Cabinet.⁵ According to the Prime Minister's Office, the reform aims to establish a unified legal framework for VAT regulation, promote tax justice, and support micro, small, and medium enterprises (MSMEs).⁶ The law introduces new measures to combat tax evasion, aiming to increase public treasury revenues—a critical need as the PA faces dwindling local tax revenues due to the catastrophic economic impacts of the war and escalating Israeli deductions from clearance revenues.⁷

A key feature of the new law is its adoption of a sectoral approach, which replaces the current fixed VAT rate of 16% on all goods and services (except for zero-rated exports, tourism services, and agricultural production). The new framework implements different VAT rates for various economic sectors and activities, starting at 5% and increasing progressively. The specific benchmarks for determining these rates have not yet been disclosed, but the Cabinet's press release emphasized that essential goods and services would benefit from tiered rates, reducing their prices and easing the financial burden on citizens.⁸ Additionally, the law introduces specific provisions for key sectors, including real estate development, property transactions, and e-commerce, while granting exceptions for "critical sectors." The government expects this reform to "transform the economic landscape" by supporting small enterprises, enhancing public satisfaction, and promoting sustainable development.

Palestinian economic experts have not yet conducted an independent review of the law, as its full draft in the Official Gazette has not yet been published.⁹ However, in 2022, MAS held a roundtable discussion on an earlier law draft, highlighting significant concerns.¹⁰ The earlier draft was criticised for its ambiguity, complexity, and outdated provisions, as well as its failure to align with the PA's strategic public revenue goals. The round table called for conducting a comprehensive review through public dialogue with both civil and private sectors. Other key recommendations included reducing the extensive discretionary powers granted to the executive authority and including detailed VAT rates for sectors and products within the law itself rather than leaving them to the discretion of the Minister of Finance. It remains unclear whether the new law incorporates such proposals.

In 2023, VAT accounted for 34.6% of local tax revenues, making it the largest single source of domestic revenue.¹¹ By contrast, income tax—a more progressive form of taxation that provides greater social and economic policy flexibility—accounted for only 27.7% of local tax revenues, as it tends to be captured mainly from those employed in the formal/corporate sector.

Despite its importance, VAT is criticised for being inherently regressive.¹² It disproportionately affects lower-income individuals who spend most of their income on essential goods. Businesses also bear compliance costs and VAT systems are prone to tax evasion and fraud, which can incentivise informality in the economy. Compounding these issues, the PA is bound by the Paris

5 <https://www.wafa.ps/Pages/Details/110955>

6 <https://tinyurl.com/3pcp82fk>

7 <https://www.bnews.ps/ar/node/24348>

8 <https://pmo.gov.ps/portal/news/Details/55745>

9 This is the link for the Official Gazette Bureau: www.ogb.gov.ps

10 https://mas.ps/cached_uploads/download/2022/03/29/

11 <https://www.pmf.ps/internal.php?var=11&tab=01>

12 <https://www.tandfonline.com/doi/full/10.1080/00220388.2017>

Protocol on economic relations, mandating that the Palestinian VAT rate cannot be more than 2% lower than Israel's VAT rate.¹³ This constraint limits the PA's ability to design a more flexible, context-sensitive tax policy tailored to the Palestinian economy.

3. Another Devastated Holiday Season

For the second consecutive year, seasonal Christmas celebrations in Palestine were cancelled, further straining the already fragile and burdened tourism sector. Having barely begun to recover from the severe downturn caused by the COVID-19 pandemic in 2020, the sector now faces plummeting performance indicators.

In the first half of 2024, hotel occupancy in the West Bank dropped by 84.2% compared to the same period in 2023.¹⁴ Hotels relied heavily on internal tourism in Ramallah, Al-Bireh, Nablus, and Jericho, as religious tourism in Bethlehem and Jerusalem remained minimal. Only 17% of hotel residents in 2024 were international visitors, a stark contrast to 2019, when 83% of visitors were from abroad. Moreover, data from the PCBS shows that approximately 464,000 single-day visits were made to tourist sites in the West Bank during the first half of 2024, marking a significant 75.8% decline from the same period in 2023. Of these visits, 90% were made by 1948 Palestinians, with only 10% coming from visitors outside Palestine.

Bethlehem, traditionally a hub of holiday tourism and holding the largest share of hotel stays, has been the hardest hit. The city experienced an 89% decline in hotel stays, leaving only four of its 75 hotels operational.¹⁵ This collapse has led to an 86% reduction in employment, with just 400 hotel workers remaining as of December 2024. Other

tourism-dependent businesses have also suffered, and with half of the local economy tied to outbound tourism, 30% of Bethlehem's residents are now without income.¹⁶ East Jerusalem has similarly faced a severe impact, with a 70% decline in hotel stays.

Figure 1: Number of Hotel Residents in the West Bank by mid-year, 2017-2024



Source: PCBS

According to Elias Arja, director of the Arab Hotel Association, Bethlehem generated approximately USD300,000 in daily income in previous holiday seasons, with around 9,000 visitors staying in its hotels.¹⁷ However, following the war on Gaza, and the resulting near-zero occupancy rates, the losses to Bethlehem's hotel sub-sector alone have reached USD175 million. The sector's heavy reliance on international religious tourism during the holiday season has left it particularly vulnerable. Despite internal tourism from 1948 Palestinians, it has been insufficient to offset the sharp decline in international arrivals, leaving Bethlehem and the broader tourism sector in crisis.

3.1 Macroeconomic Implications

In the first three quarters of 2024, the accommodation and food services sub-sector saw a 40% decline in value-added compared

¹³ <https://tinyurl.com/yc4twjdx>

¹⁴ <https://www.pcbs.gov.ps/postar.aspx?lang=ar&ItemID=5834>

¹⁵ <https://www.wafa.ps/Pages/Details/110186>

¹⁶ <https://tinyurl.com/yc3py66w>

¹⁷ <https://tinyurl.com/3em8wwhx>

to the corresponding period in 2023.¹⁸ Both demand and supply in the tourism sector have been severely impacted, with Arja noting that total losses amounted to USD326 million since the onset of the war on Gaza.¹⁹

This decline has also devastated the workforce. In the West Bank, employment in the tourism sector declined by 39.7% between Q1 2023 and Q1 2024, leaving only 24,000 workers—just 3.8% of the region's total workforce.²⁰ In Gaza, the situation is even worse. Since October 2023, 15,265 tourism workers have lost their jobs due to the destruction of nearly 5,000 service and tourism establishments. Restaurants and beverage services were hit hardest, with 3,450 establishments destroyed and 10,887 employees left unemployed.

4. December Trading

Al-Quds Index rose by 4.9% in December 2024, closing at 475.3 points on the final trading day of the month.²¹ A total of 14.8 million shares valued at USD23 million were traded during the month, reflecting an increase of 63.5% in trading volume and 92.4% in trading value compared to November.

However, on an annual basis, Al-Quds Index recorded a 15.4% decline compared to its closing level at the end of 2023. Throughout 2024, 100.4 million shares worth USD164.2 million were traded on the Palestine Exchange (PEX), representing a 37.2% drop in volume and a 50.4% decrease in value relative to 2023.

The Chairman of the Palestine Stock Exchange, Samir Hulileh, described 2024 as one of the most challenging years for the exchange and the Palestinian economy as a

whole. He highlighted the complete collapse of the economic system in Gaza and a sharp decline in the productive base of the West Bank, exacerbated by a significant rise in unemployment rates.

¹⁸ <https://www.pcbs.gov.ps/statisticsIndicatorsTables>.

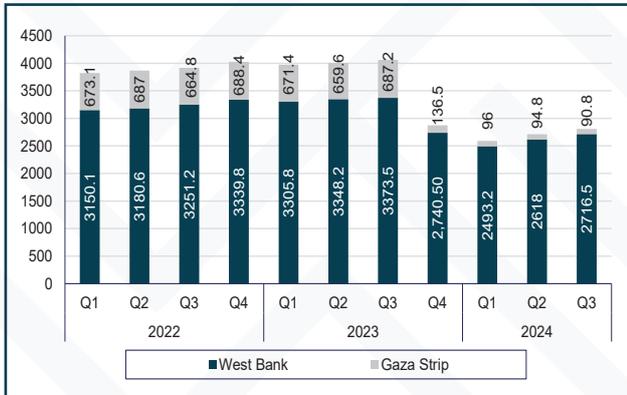
¹⁹ <https://tinyurl.com/4b58kpb9>

²⁰ <https://www.pcbs.gov.ps/postar.aspx?lang=ar&ItemID=5834>

²¹ <https://tinyurl.com/389999t4>

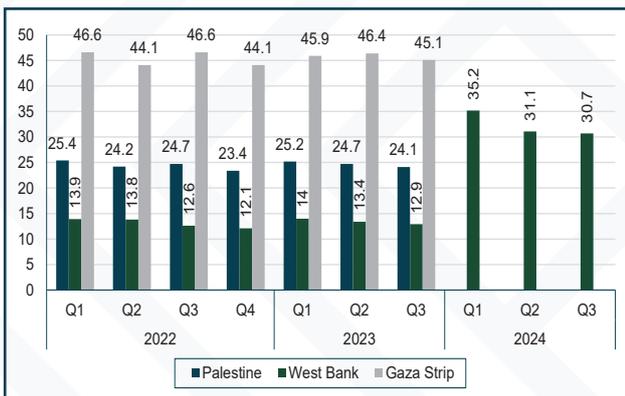
Gross Domestic Product

Quarterly Real GDP (million USD in 2015 prices) in Palestine by Region Q1 2022 - Q3 2024



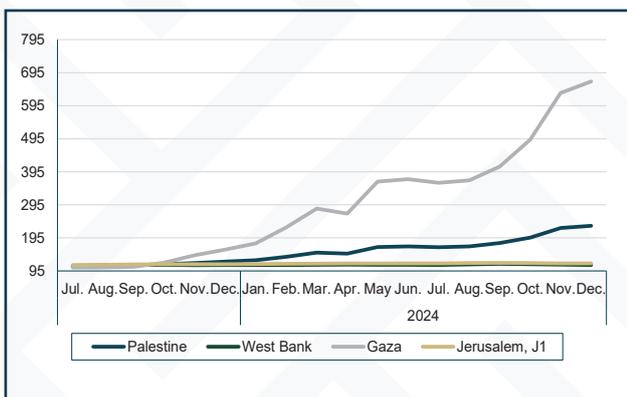
Unemployment

Quarterly Unemployment (%) in Palestine by Region, Q1 2022 - Q3 2024



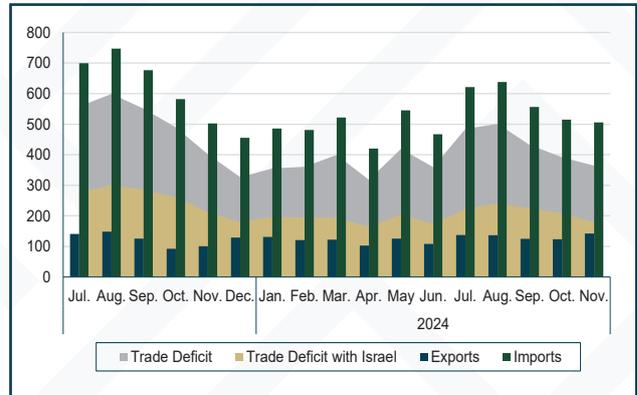
Inflation

Monthly Consumer Price Index (Base year = 2018) in Palestine by Region, July 2023 - December 2024



Trade

Monthly Export, Imports, Trade Deficit and Trade Deficit with Israel (million USD) in Palestine, July 2023 - November 2024



PMA Business Cycle Index

Monthly Palestine Monetary Authority Business Cycle Index, July 2023 - December 2024



Banking

Monthly Customer Deposits and Credit Facilities (million USD) in Palestine, July 2023 - November 2024

