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PALESTINE ECONOMIC POLICY RESEARCH INSTITUTE (MAS)

Palestine Economic Update

March 2025

Key Messages :

- The World Bank, UN, and EU jointly estimate Gaza's recovery and reconstruction needs at $53.2Bn, with $19.9Bn required in the short term. However, actual costs are likely much higher as Israel's assault on Gaza renews and widens.
- The situation in the West Bank is rapidly deteriorating. Since January, Israel has intensified military operations in the northern West Bank, destroying hundreds of homes and displacing close to 50,000 people, mainly from refugee camps.
- The PA ended 2024 with a net fiscal deficit of ILS 4.8Bn and projects a more profound crisis in 2025, with a deficit of ILS 6.9Bn. Since 2019, Israel has deducted a total of ILS 7Bn in clearance revenues, including ILS 4Bn since the war began. The PA was unable by the end of March to secure even partial public sector salaries for the preceding month.
- The scale of the ongoing humanitarian and economic crisis in Palestine is overshadowing new projects and investments aimed at economic recovery and job creation.

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1. Interim Rapid Damage and Needs Assessment

On 18 February, the World Bank, United Nations, and European Union released their joint Interim Rapid Damage and Needs Assessment (IRDNA) report.[1] The report assesses physical infrastructure damage resulting from one year of Israeli aggression, i.e., covering only the period up to 8 October 2024.[2] It also estimates economic losses and outlines recovery and reconstruction needs across key sectors, with the three sets of calculations being interconnected, but not cumulative.[3]

The findings draw on ground-based and remotely collected data, with estimates triangulated and validated by the three institutions. However, the report excludes damage from the three months preceding the ceasefire and the most recent Israeli attacks on Gaza—meaning actual destruction and losses are likely significantly higher, though much of the physical damage was inflicted in the first year of war.

1.1 Gaza Strip Damages, Losses and Recovery Needs

The IRDNA estimates that the total physical damage in Gaza amounts to $29.8Bn, driven by widespread destruction affecting over 70% of buildings and 92% of housing units.[4] Housing alone accounts for 53% of the damage, followed by commerce and industry (20%), and critical infrastructure—such as health, water, and transport—at over 15%. The scale of physical destruction is staggering, equivalent to 1.8 times Palestine's annual GDP.

1 https://tinyurl.com/mpvrdcad
2 Damage assessment refers to physical asset destruction based on baseline values and pre-conflict costs.
3 Loss assessment captures economic disruptions—lost income, higher operating costs, employment losses, and displacement-related expenses. Needs assessment estimates the financial resources required for short-, medium-, and long-term recovery and reconstruction.
4 https://www.ochaopt.org/content/humanitarian-

Economic and social losses are estimated at $19.1Bn, reflecting reduced productivity, lost revenues, increased operating costs, and displacement-related expenses. These projections span three years but are likely to extend further, as losses persist until the war stops and substantial recovery is achieved. Sectors hit hardest include health (33%), education (16.8%), commerce and industry (11.5%), social protection (7.3%), and agriculture and food systems (6.8%). The report aligns these projections with sector-specific recovery timelines.

Combined, the total estimated impact of the war—damage plus losses—reaches $49Bn, of this around $30 billion is in physical damages. This figure eclipses the initial 2024 estimate of $18.5Bn in damages during four months, highlighting the escalating scale of destruction since and the likely additional 30-50% in damage costs in the additional six months of war.[5] Recovery and reconstruction needs are pegged at $53.2Bn, with at least $19.9Bn required in the short term (within three years). This is because sectors like education, social protection, food systems, and agriculture face disproportionately high recovery needs despite sustaining less physical damage. Some recovery costs, such as rubble and debris removal or social services, are also not included in the damage and loss estimates.

Housing remains the largest recovery burden, estimated at $15.2Bn, nearly 28.6% of the total. It is followed by commerce and industry and health (13% each), social protection and agriculture and food systems (7.9%), and education (7.1%). Transport (5.5%) and WASH (5.1%) also

5 https://tinyurl.com/yc75f5p8

have substantial recovery requirements. Environmental recovery alone requires $1.9Bn or 3.6% of the total, primarily due to removing an estimated 41 to 47M tons of debris contaminated with explosive ordnance (EO).

Table 1: Gaza Strip Sectoral Damages, Losses, and Needs (in USD Millions)

Sector	Damage	Losses	Recovery Needs (3 years)	Total Recovery and Reconstruction Needs*
Productive Sectors: Commerce and industry (including tourism); finance; and agriculture and food systems.	6,749	3,825	2,770	11,142
Social Sectors: housing; health; social protection; culture and cultural heritage; and education.	18,127	11,496	14,197	30,430
Infrastructure Sectors: energy; WASH; ICT; municipal services; and transport.	4,891	2,408	1,977	7,960
Cross-Cutting Sectors: environment; land; employment; social evelopment; and urban planning.	113	1,330	1,054	3,706
Total	**29,880**	**19,059**	**19,998**	**53,238**

* Damages, losses, and needs are interconnected but not cumulative.

1.1.1 Social Sectors

The housing sector has suffered the most, with $15.8Bn in damage and $545M in losses. Nearly the entire population has been displaced and cut off from essential services. Rebuilding the housing sector alone will require $15.2Bn, including reconstructing over 290,000 units.

The health sector sustained $1.3Bn in damage and $6.3Bn in losses—reflecting destroyed infrastructure, disrupted services, loss of medical staff, and rising disease, malnutrition, and mental health burdens. Recovery needs a total of $7Bn.

Education incurred $874M in damage and $3.2Bn in losses due to disrupted learning, temporary schooling costs, and reduced human capital.

In total, $14.2Bn--80% of short-term recovery needs—is directed to social sectors, including housing ($3.7Bn), health ($4.3Bn), social protection ($3.5Bn), and education ($2.6Bn). These funds are estimated for critical services such as temporary shelter, legal aid, job creation, and care for vulnerable groups. The urgency is acute, as over 60% of Gazans now face multidimensional poverty, with the entire population pushed into poverty.[6]

1.1.2 Productive Sectors

Commerce and industry in Gaza were devastated, with 88% of establishments destroyed, causing $5.9Bn in damage and $2.2Bn in losses over five years—mainly from reduced returns and wages. Gaza's GDP collapsed from $2.1Bn in 2023 to $365.2M in 2024, an 83% contraction, shrinking its national economic share to just 3% despite hosting 40% of the Palestinian population.

Agriculture suffered an estimated $1.3Bn in losses, with 68% of cropland destroyed, while the finance sector, though minimally damaged ($14M), faces $325M in losses due to defaults and cash loss.

6 https://tinyurl.com/372zt8up

Recovery needs for commerce, industry, and agriculture total $11.1Bn, with an additional $1.6Bn required for employment recovery following $953M in income losses.

1.1.3 Infrastructure and Cross-Cutting Sectors

Infrastructure sectors—transport, WASH, energy, ICT, and municipal services—sustained $4.9Bn in damages and $2.4Bn in losses. Transport was the hardest hit, with 62% of roads damaged or destroyed (44% of primary roads), causing $2.5Bn in damage and $377M in losses. Rebuilding key transport routes will require $2.9Bn. Rebuilding the primary road network requires an estimated $2.9Bn. The WASH sector incurred $1.5Bn in damage, with $2.7Bn needed for long-term recovery.

Cross-cutting sectors—land, social development, urban planning, employment, and environment—faced $113M in damage and $1.3Bn in losses. Recovery needs include $1.6Bn for employment and $1.9Bn for environmental cleanup. In total, infrastructure sectors will require $7.9Bn for recovery, and cross-cutting sectors an additional $3.7Bn.

1.2 War Impacts on the West Bank

The West Bank has experienced intensifying Israeli military incursions, settler violence, widespread destruction of Palestinian assets, and severe restrictions on movement and trade. According to OCHA, a total of 849 Israeli movement obstacles are placed throughout the West Bank, a third of which are road gates that are frequently closed.[7] These conditions have paralysed daily life, disrupted economic activity, and increased operational costs. The IRDNA's assessment of the West Bank is partial, limited to specific sectors—housing, health, education, WASH, energy, land, commerce and industry, ICT, finance, and employment—and covers the period from 7 October 2023 to 8 October 2024, despite the sharp deterioration since then.

According to the assessment, commerce and industry suffered $1.3Bn in losses due to trade restrictions, market contraction, and 40,000 job losses. Assuming an end to the war, total sector losses are expected to reach $2.6Bn over three years. Overall employment and wage losses across the West Bank have totalled an estimated $3.2Bn, contributing to a rapid rise in poverty—from 12% pre-war to 28% by mid-2024. The West Bank economy is estimated to have contracted by 16% in 2024.

Housing damage is estimated at $16M as of October 2024, but the number is growing amid ongoing military operations in the northern West Bank. For instance, in mid-March, the Israeli army announced its intention to demolish about 95 homes in the Jenin refugee camp and around 85 homes in the Al Ein refugee camp near Nablus.[8] This is on top of over 600 residential units rendered uninhabitable in Jenin and not accounted for in the IRDNA assessment. As of 31 January, Israel had displaced 27,628 Palestinians in the West Bank, mainly in Jenin, Tulkarm, Nur Shams, and El-Far'a refugee camps.[9] The number of displaced people had exceeded 40,000 by mid-February, and was reported by Prime Minister Mohamad Mustafa to have reached 50,000 by late March.[10] Damage to public infrastructure in refugee camps and nearby municipalities—Tulkarm, Jenin, Ramallah, and Al-Bireh—exceeded $25M by October 2024. This includes the destruction of 70 km of low-voltage cables, 30 km of medium-voltage lines, and 8.5 km of feeder lines. All of these figures are currently much worse. The

7 https://www.ochaopt.org/content/humanitarian-

8 https://tinyurl.com/ynmcm3je

9 https://www.ochaopt.org/content/west-bank-monthly

10 https://tinyurl.com/2wtukm6y and https://english.wafa.ps/Pages/

West Bank operations mirror ethnic cleansing tactics used in Gaza, threatening further displacement and infrastructural collapse.

Healthcare infrastructure sustained $14.6M in damage, with only 61% of facilities in affected areas fully operational. Total losses in the sector are estimated at $696.9M, driven by reduced productivity due to injuries and mental health conditions ($261.3M). Fiscal shortfalls and a lack of resources have paralysed the Ministry of Health, resulting in an additional $435.6M in productivity losses. These figures are expected to rise, especially as the delayed treatment of chronic and non-communicable diseases worsens outcomes.

Education has also been severely disrupted due to fiscal and movement constraints. Around 602,000 public school students were forced into partial home-based learning during the 2023–24 academic year. Fiscal constraints and security challenges led to a reduction in in-person instruction, while most educators have been receiving only 50–80% of their salaries for nearly three years—a situation that has deteriorated further since the war began. Future income losses from school closures and remote learning are projected at $338M. In the long run, reduced access to quality education will diminish the skilled labor pool and deepen structural vulnerability.

2. 2024 Fiscal Recap and 2025 Budget

On 13 March, the Palestinian National Authority (PA) published its draft budget for the 2025 fiscal year, projecting a deficit of ILS 6.9Bn—a 43.4% increase compared to 2024.[11] The PA's deepening fiscal crisis is being driven by the ongoing war and continued uncertainty over the transfer of Israel-collected clearance revenues. Since October 2023, the situation has steadily deteriorated, with the deficit rising from 3.9% of the GDP in 2023 to 10.5% in 2024. The 2025 budget projects a further increase of 4 percentage points.

Table 2: Budget for 2024 and 2025, in Million of ILS (accrual basis)

Item	2023 (actual)	2024 (budget)	2024 (actual)	2025 (budget)
1. Net public revenues	17,750	13,952	14,574	15,875
A. Domestic revenues	5,988	4,706	4,848	5,807
B. Clearance revenues	11,918	9,336	9,878	10,234
C. Tax rebates (-)	156	89	152	89.2
2. Public expenditure and net lending	18,342	17,898	18,439	19,384
A. Salaries and wages	8,356	8,469	8,456	8,469
B. Social contributions (government)	819	830	834	823
C. Social transfers	3,029	3,231	3,125	3,648
D. Operating expenses	3,155	2,506	2,775	3,103
E. Net lending	1,342	1,250	1,481	1,200
F. Other expenditures	1,641	1,612	1,769	1,961

11 https://econsultation.moj.pna.ps/consultation-

Item	2023 (actual)	2024 (budget)	2024 (actual)	2025 (budget)
3. Current account deficit before financing	-592	-3,946	-3,865	-3,509
Development expenditure	1,347	1,512	930	1,248
4. Total deficit before aid and grants	-1,939	-5,459	-4,795	-4,757
A. Direct budget support	755	1,965	2,518	1,322
B. Development expenditure support	560	545	482	454
5. Total deficit before Israeli deductions from clearance revenues	-624	-2,948	-1,796	-2,981
Israeli deductions from clearance revenues	1,882	3,860	3,022	3,930
6. Net deficit	-2,506	-6,808	-4,818	-6,911

2.1. Public Spending

Government spending increased by 0.5% in 2024, with a 5.1% rise forecast for 2025. The budget reflects further austerity measures: prioritising expenditures, restructuring institutions, limiting hiring, and cutting operational and capital spending.[12] This comes amid soaring unemployment, continued Israeli attacks on critical infrastructure, and a collapsing economy in urgent need of stimulus.

Despite worsening conditions, the distribution of sectoral spending priorities remains largely unchanged. Security continues to receive the largest allocation (21%), followed by education (19%), social protection (18%), and health (16%). Education spending has been cut by 1.5%, while health and social protection budgets increased marginally (1.7% and 0.4%, respectively). These adjustments are insufficient to address the scale of destruction and rising humanitarian needs—particularly in Gaza.

2.2. Public Revenues

In 2024, public revenues fell by 17.9% compared to 2023, reaching ILS 14.6Bn—around 10% below prewar levels (ILS 16.2Bn in 2022). This figure does not account for Israeli deductions from clearance revenues, meaning the actual cash flow is lower. The 2025 budget projects an 8.9% increase in net revenue to ILS 15.9Bn, driven by growth in domestic (19.8%) and clearance revenues (3.6%), though this outlook remains highly uncertain given ongoing Israeli deductions and a fragile economic environment.

On 16 February, Israeli Finance Minister Bezalel Smotrich announced the freezing of an additional ILS 320M in Palestinian tax revenues, bringing the total withheld since the start of the war in 2023 to ILS 4.2Bn.[13] According to the Palestinian Ministry of Finance, the total amount withheld by Israel since 2019 has reached ILS 7Bn.[14]

The clearance revenue crisis shows no sign of easing. Between 2023 and 2024, clearance revenues fell from ILS 11.9Bn to ILS 9.9Bn, with a modest rise to ILS 10.2Bn projected for 2025. However, deductions are growing rapidly. In 2024, Israel withheld about ILS 3Bn—38% of total clearance revenues.[15] These deductions accounted for 63% of the PA's 2024 net deficit. These figures do not include Israeli deductions for net lending—including electricity, water, sewage, health services, and Israeli court rulings against Palestinians—which totaled an additional ILS 1.87Bn in 2024 and ILS 20.6Bn since 2012.[16]

12 https://palestinecabinet.gov.ps/portal/meeting/

13 https://www.bnews.ps/index.php/ar/node/24671
14 https://wafa.ps/Pages/Details/117420
15 https://www.pmof.ps/documents/accounts/
16 https://wafa.ps/Pages/Details/117420

2.3. Public Deficit

On 4 March, the PA paid 70% of January salaries, with a minimum of ILS 3,500.[17] There is no official update on February salary payments, raising concerns as food prices surge during Ramadan.[18] Salaries have been paid at 70% since 2021 due to the Israeli-withheld clearance revenues, with unpaid amounts accumulating to the equivalent of eight full months' pay for some PA employees.[19] This adds to the PA's accumulated arrears, which had reached a total of ILS 17Bn by the end of January 2025.[20]

The government is seeking bank overdrafts backed by local revenues to cover salaries, but disbursement depends on the release of withheld monthly clearance revenues—which had not been transferred for January at the end of March.[21] Continuous Israeli deductions since 2024 mean wage payments will likely remain at 70%, once delayed clearance revenues are released by Israel.

Budget support from international donors rose from ILS 755M in 2023 to ILS 1.9Bn in 2024, including EU packages (€68M for salaries, pensions, and allowances and a €400M package with €150M earmarked for wages).[22] Despite this, the 2025 budget projects a 47.5% drop in budget support, further straining finances and threatening government operations. Development support is also expected to decline by 5.6% to ILS 454M. This leaves a post-support deficit of ILS 3Bn. Once Israeli deductions are factored in, the total deficit is expected to rise to ILS 6.9Bn—equivalent to 14% of GDP, or some 35% of the projected expenditure budget.

17 https://tinyurl.com/328pe4js
18 https://www.wafa.ps/Pages/Details/114682
19 https://www.bnews.ps/index.php/ar/node/24671
20 https://www.pmof.ps/internal.php?var=11&tab=01
21 https://www.palestineeconomy.ps/ar/Article/22763
22 https://tinyurl.com/25tn86yf; https://reliefweb.int/report/

3. EU4Trade

On 26 February, the Palestine Trade Center (PalTrade) launched the EU4Trade project under the banner "Unleashing Palestine's Export Potential to the EU and International Markets."[23] Funded by the European Union, the €3M, three-year initiative aims to boost the global competitiveness of Palestinian Small and Medium Enterprises (SMEs), with a particular emphasis on EU markets. The project is aimed at supporting sustainable economic growth by enhancing export capacity. Founded in 1998, PalTrade is a nonprofit organisation that serves as Palestine's national export promotion agency and offers export support services to local businesses.

The EU4Trade project has three core outcomes: market intelligence, trade facilitation, and capacity-building.[24] First, PalTrade will establish a Market Intelligence Hub (MIH) online and at its headquarters. The MIH will provide SMEs access to key trade data—covering export procedures, market studies, and company profiles—while also serving as a venue for trade events and product showcases. Second, 30 SMEs will receive direct support to boost export readiness. This includes assistance with product development, certification, standardised lab testing, branding, and digital marketing. Trial shipments will be facilitated via a new distribution hub in Rotterdam in the Netherlands, positioned as a gateway to EU markets. Third, targeted training programs will build SME capacity in digital marketing, quality control, risk management, and effective use of the MIH—especially for first-time exporters.

Despite multiple trade agreements granting duty-free access to EU markets, Palestinian

23 https://paltrade.org/single-news/44/en
24 https://paltrade.org/page/eu4trade/en

exports to the EU remain very limited. This is not only due to the constrained economic and productive capacity of Palestinian businesses but also to severe Israeli-imposed restrictions that undermine trade.[25] In 2022, Palestinian exports to the EU totalled just €25M (1.7% of total exports). Most consisted of vegetal products (€17M, 68%) and animal or vegetable fats and oils (€5M, 20%).[26] By contrast, Palestinian imports from the EU reached €419M (5.6% of total imports), primarily driven by transport equipment (€149M, 33.2%), resulting in a significant trade deficit. That same year, EU imports from Israeli settlements in the occupied West Bank were valued at around €175M.[27] This stark imbalance is fueled by Israel's policy of heavily subsidising settlement infrastructure, agriculture, and business development while simultaneously enforcing sweeping restrictions on Palestinian access to land, resources, and trade routes, coupled with EU states unwillingness to consider trade with Israeli settlements as illegal under international law.[28]

4. Palestinian Youth Employment Program

On 27 February, the second phase of the Palestinian Youth Employment Program, F4J Careerz, was launched for 2025–2027.[29] The program aims to build youth skills and secure long-term employment opportunities. It targets 1,250 predominantly young beneficiaries and aims to help at least 400 secure sustained employment. Phase I, which began in mid-2020, trained over 1,000 participants—55% of them women—with 659 placed in jobs and 546 remaining employed for at least six months.

25 https://openknowledge.worldbank.org/entities/
26 https://policy.trade.ec.europa.eu/eu-trade-
27 https://www.brusselstimes.com/1426949/eu-urged
28 https://www.caabu.org/news/news/new-report-eu
29 https://www.bnews.ps/index.php/ar/node/24721

F4J Careerz operates under the second Palestinian Employment Development Impact Bond (DIB), a results-based financing model. Funding comes from four key investors: Palestine Investment Fund (PIF), European Bank for Reconstruction and Development (EBRD), FMO (Dutch Entrepreneurial Development Bank), and Invest Palestine's diaspora fund, Semilla de Olivo. The World Bank finances outcomes through its Finance for Jobs (F4J) project. Designed by Social Finance UK and implemented by DAI Global on behalf of the Palestinian Ministry of Finance, the DIB links impact-driven investors with high-performing workforce organisations to tackle youth unemployment in the West Bank and Gaza.[30]

According to the latest PCBS statistics, the unemployment rate in the West Bank in Q4 2024 stood at 28.8%, 27.7% among women and 29.1% among men.[31] Historically, unemployment has been higher among women, but the termination of employment for Palestinians in Israel disproportionately impacted men, who make up the vast majority of those affected. The local labour market was unable to absorb this sudden shock, particularly under the ongoing war and escalating Israeli restrictions. This shift does not negate the need to empower women—and other marginalised groups—and facilitate their entry into the workforce. Notably, women's labour force participation rate is just 17.6%, compared to 73.7% for men. In a less volatile environment, more women would likely join the labour force, and their unemployment rate would be much higher if current structural conditions persist.

Unemployment in Palestine is a systemic issue that requires macro-level interventions alongside targeted support for marginalised groups subject to structural discrimination.

30 https://www.f4j.ps/whatwedo/8.html
31 https://www.pcbs.gov.ps/pcbs_2012/PressAr.aspx

Supporting start-ups and entrepreneurs, no matter how promising, does little to address the structural roots of the problem. Priority should be on dismantling Israel's suffocating restrictions and building a resilient locally-driven productive economy capable of ensuring food security and absorbing the growing labour force. This is not to understate the catastrophic situation in Gaza, where the entire population is struggling to survive amid extreme poverty, hunger, and the daily threat of death.

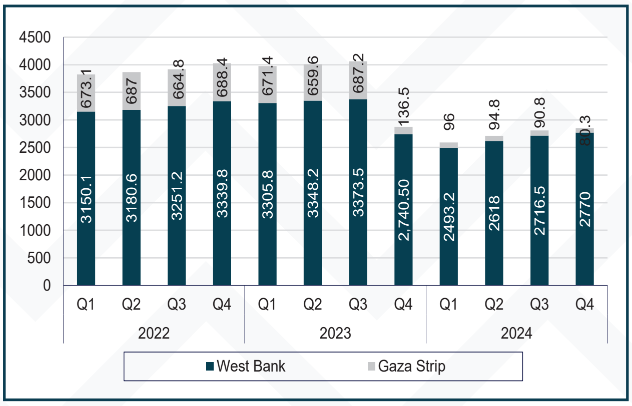
5. February Trading Activity

The Al-Quds Index decreased by 2.4% during February 2025 relative to January 2025 and by about 11% compared to February 2024, closing at 490.6 points on the last day of trading.[32] The number of shares traded during the month amounted to about 13.3M shares worth USD 25.7M, recording decreases of about 81.7% and 69.2% in the number and value of shares traded, respectively, relative to January 2025.

32 https://tinyurl.com/389999t4

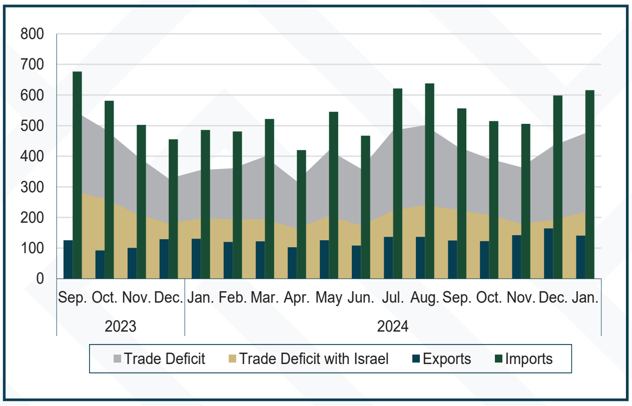
Gross Domestic Product

Quarterly Real GDP (million USD in 2015 prices) in Palestine by Region, Q1 2022 - Q4 2024



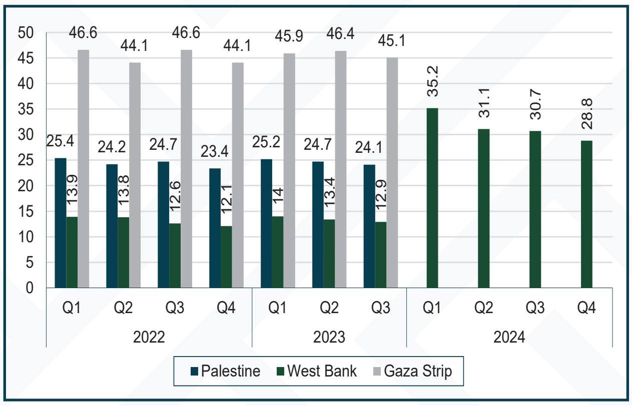
Trade

Monthly Export, Imports, Trade Deficit and Trade Deficit with Israel (million USD) in Palestine, September 2023 - January 2025



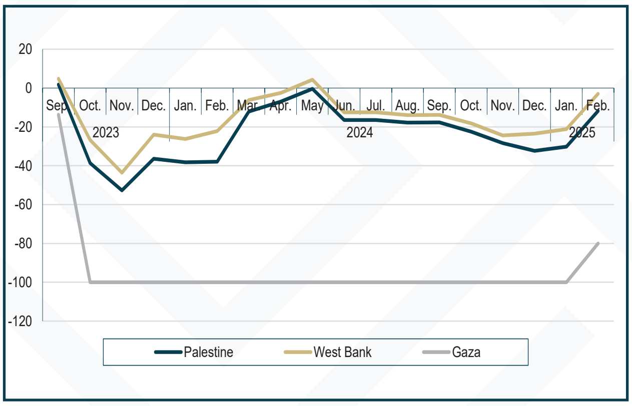
Unemployment

Quarterly Unemployment (%) in Palestine by Region, Q1 2022 - Q4 2024



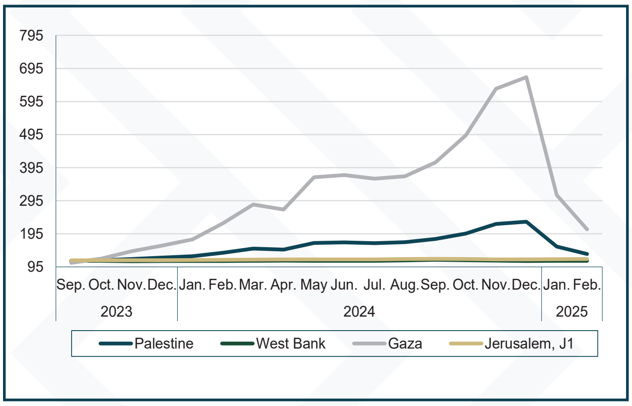
PMA Business Cycle Index

Monthly Palestine Monetary Authority Business Cycle Index, September 2023 - February 2025



Inflation

Monthly Consumer Price Index (Base year = 2018) in Palestine by Region, September 2023 - February 2025



Banking

Monthly Customer Deposits and Credit Facilities (million USD) in Palestine, September 2023 - January 2025