PALESTINE ECONOMIC POLICY
RESEARCH INSTITUTE (MAS)

Palestine Economic Update

June 2025

Key Messages :

- The Northern West Bank economy is collapsing due to Israeli military raids and settler attacks, with over half of surveyed businesses shutting down at some point in Q1 2025 and 18.7% of reporting direct physical damage. Revenues, employment, and production have plummeted.
- Israel's banking restrictions are trapping Palestinians in a cash crisis, leaving them unable to deposit shekels or meet financial obligations.
- Health reform and hospital projects are advancing, but remain underfunded and overshadowed by the decimation of Gaza's health system.
- As new lending and financial support programs continue to roll out, funding remains modest and insufficient to meet the scale of the economic and humanitarian crisis.

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1. Economic Fallout of Israeli Military Campaign in Northern West Bank

Since early 2025, northern West Bank governorates have seen a sharp escalation in ongoing Israeli military operations, including the displacement of over 40,000 Palestinians from Jenin, Tulkarm, and Nur Shams refugee camps.[1] Israeli forces are repeatedly closing 898 military checkpoints and gates across the West Bank, 37% of which are in Jenin, Nablus, Tulkarm, and Tubas, paralyzing movement and disrupting economic activity.[2] These measures have severely impacted local commerce, cutting off inter-governorate trade, depressing revenues, reducing employment, and weakening productive capacity.

To assess the economic fallout, the Palestinian Ministry of National Economy (MoNE) surveyed 523 businesses in the northern West Bank: 203 in Nablus, 148 in Jenin, 146 in Tulkarm, and 26 in Tubas.[3] The survey paints a picture of rapid deterioration in economic conditions. All summary figures compare Q1 2025 with Q1 2023:

- Total employment in surveyed economic establishments fell by 16.2%. Tubas and Jenin saw the steepest drops at 38.5% and 34%, while Tulkarm declined by 20.8% and Nablus by 5%.
- Monthly workdays dropped 16.5%, especially in Tulkarm (–30.6%) and Jenin (–24.9%). Daily working hours also declined by 13.8% on average, with Tulkarm hardest hit (–30.2%).
- 92% of surveyed establishments reported revenue losses, with a 58% decline in average. Jenin and Tulkarm were worst affected (96.6% each), while 86.2% of Nablus and 84.6 of Tubas businesses reported declines.
- 87.4% of surveyed establishments reported a drop in productive capacity, with an average drop of 58.4%. Jenin and Tulkarm were the most affected, with 97.3% and 96.6% of businesses reporting declines.

Nearly all respondents (99.3%) identified Israeli military raids as the primary driver of economic disruption in Q1 2025, with consistent responses across all governorates. Decreased consumer demand, largely stemming from the raids, Israeli policies, and the ongoing war in Gaza, ranked second, cited by 93.3% of surveyed establishments. Other major challenges included rising merchandise costs (90.2%) and movement restrictions/difficulties distributing goods between governorates (85.9%).

The inability of Palestinian citizens of Israel to access markets was also significant (77.8%), though its impact varied by location. It was especially critical in Tulkarm (90.4%) and Jenin (85.8%), where cross-border commerce had played a significant role prior to the war, compared to Nablus (66.5%) and Tubas (50%). Shortages in goods and raw materials were cited as another issue by 73.6% of respondents, with the problem being more acute in Jenin (85.8%), Tulkarm (82.9%), and Tubas (76.9%), and less severe in Nablus (57.6%). Other reported obstacles included the inability to reach workplaces (46.1%) and settler violence (27.7%).

As a result of these pressures, 52.6% of surveyed businesses experienced full or partial shutdowns during Q1 2025. The highest rates were in Jenin (83.1%) and Tulkarm, compared to Tubas (23.1%) and Nablus (12.3%). Additionally, 18.7% of

1 The northern West Bank is in the crosshairs of a new Israeli
2 The occupation strangles the West Bank with hundreds
3 Performance of economic establishments in the northern West

establishments reported direct physical damage from Israeli military or settler attacks, with the most affected in Tulkarm (33.6%) and Jenin (24.3%).

These impacts have been intensifying systematically since January 2025 as part of Israel's declared war goals.[4] They expose structural weaknesses that threaten the economy's resilience, not only through immediate losses since the Israeli war on Gaza and assaults on the West Bank, but also by undermining future investment and business adaptability. Institutional efforts have been constrained, central Government interventions have been limited and resource-constrained, and the lack of a sufficient and meaningful response is deepening the crisis for businesses and besieged and isolated communities.

2. Excess ILS Cash in Palestinian Banks Strikes Again

On 29 May, the Palestinian Monetary Authority (PMA) announced that the accumulation of Israeli shekels (ILS) in Palestinian banks had reached unsustainable levels, jeopardizing the banking system's capacity to finance trade with Israel.[5] With vaults physically saturated with ILS notes and coins, and the Bank of Israel refusing to receive cash shipments above a stipulated level, Palestinian banks are unable to process further deposits. This chronic issue, known as the "excess shekel" dilemma, has recurred for the past decade, intensifying in recent years due to Israeli political brinkmanship and the Bank of Israel's refusal to renegotiate transfer ceilings under the current Government policy towards the PA.[6] The PMA has repeatedly stressed that the current ceilings, set at ILS 18bn annually in four quarterly instalments, no longer reflect the size or nature of the Palestinian economy. PMA officials have stated that the transfer ceiling must be raised to ILS 30bn in order to resolve the excess shekel crisis.[7]

The shekel remains the dominant currency in circulation. According to PMA data, around ILS 50bn in banking transactions (cheques and wire transfers) are settled annually in shekels.[8] This does not account for the cash circulating outside the banking system, particularly in high-volume or high-value sectors such as fuel, gold, tobacco, and real estate, industries that continue to operate mostly in cash within a largely cash-based economy. When banks can't transfer the ILS surplus cash, they can't replenish their correspondent accounts with Israeli banks, accounts that are essential for processing cross-border trade with Israel. This trade accounted for roughly 58% of Palestinian imports and 86% of exports in 2024. During such impasses, Palestinian banks are forced to borrow to meet their obligations, despite holding massive idle reserves in ILS. A 2022 IMF report estimated that the surplus shekel issue reduces Palestinian bank profits by approximately 20%, primarily due to costs associated with storage, insurance, and security.[9]

Palestinian banks currently hold ILS 13bn in physical shekel cash, but the next approved shipment to the Bank of Israel, scheduled for July, will only allow for ILS 4.5bn to be transferred.[10] This would leave ILS 8.5bn still stuck in vaults. According to PMA Instruction No. 4 of 2013 on bank liquidity, banks are required to hold 3% of their deposits in each currency as cash, with at least 6% of total deposits across all currencies in cash.[11] In

4 Following the start of the last ceasefire in Gaza, the Israeli government expanded its war objectives to include an intensified military campaign in West Bank cities and increased pressure on the PA, which has been ongoing since January 2025. For more details, see recent reports by Amnesty International, Doctors Without Borders and OCHA.

5 Crisis of Shekel Accumulation in Palestinian Banks - PMA

6 See Palestine Economic Update, August 2024 for details.

7 https://www.palestineeconomy.ps/ar/Article/23521

8 Questions and Answers about the Excess Shekel Crisis - PMA

9 See this IMF report for a detailed breakdown of the associated costs.

10 https://www.palestineeconomy.ps/ar/Article/23521

11 https://www.pma.ps/Portals/0/Users/002/02/2/Legislation/

May 2025, banks in the West Bank held approximately ILS 24.2bn in shekel deposits, requiring only around ILS 700m in ILS cash. Even when accounting for total deposits across all currencies in both the West Bank and Gaza, roughly equivalent to ILS 71.3bn, the 6% cash liquidity requirement (beyond the 3% per-currency rule) amounts to about ILS 3bn. Even after the July transfer, Palestinian banks will still be holding at least ILS 5.5bn in excess shekel cash, assuming their entire additional liquidity buffer is in ILS, which is unrealistic. This remains far above regulatory requirements and has serious implications for banks' profitability and risk exposure.

2.1 Drivers of the Latest ILS Crisis

While remittances from Palestinian labourers in Israel once accounted for the bulk of ILS inflows, Israel's termination of work permits since October 2023 has reduced that channel's impact. A new mix of factors, driven by political uncertainty, is driving the surge in cash ILS deposits. Israeli Finance Minister Bezalel Smotrich's 11 June announcement that he intends to propose to the Government to annul the indemnity waver that protects correspondent banking ties came in the wake of international sanctions against him and Minister of National Security Itamar Ben-Gvir for inciting violence against Palestinians, and indications that some major European states might recognize the State of Palestine. [12]

While Smotrich's threat lacks immediate legal effect, as Israel's security cabinet must ratify it, its political impact has already rippled across the Palestinian economy and uncertainty gripped the market. Several banks began rejecting ILS deposits. Citizens scrambled to offload shekels, converting them into hard currencies at inflated rates.[13] Palestinian merchants rushed to deposit ILS holdings into bank accounts out of fear of a financial cutoff and raised prices to account for the higher costs of completing transactions caused by converting their ILS to dollars or dinars.

Another major contributor is consumer spending by Palestinians from inside the Green Line, who often purchase in the West Bank using cash. Following Israeli laws restricting cash transactions and calls by Israeli ministers to withdraw the ILS 200 note (later dismissed by the Bank of Israel), the West Bank became a dumping ground for ILS.[14] Fearing demonetization, many people exchanged their ILS for dollars, dinars, or gold, fueling black market activity and driving up informal exchange rates.

Palestinians working in Israeli settlements without permits is another factor contributing to the issue of excess ILS. Most are paid off the books, either because they lack proper work permits or because their employers underreport wages to avoid legal obligations such as severance pay. These undocumented cash payments contribute to the surplus but are not factored into official ILS shipment quotas.

2.2 PMA Response

In response to the crisis, the PMA encouraged the increased use of electronic payments and, on 22 June, instructed banks to accept deposits of up to ILS 5,000 from individual clients without restrictions, while arranging separate protocols for larger sums.[15] Over two weeks, it had held consultations with business leaders, financial institutions, and government officials, and later announced that it is exploring options for an alternative currency and replacing the ILS as the primary currency.[16] On 23 June, the Ministry of National Economy and

12 The Times of Israel and https://www.arabnews.com/
13 Shekels from a Mean of Exchange to a Tool of Economic Strangulation - Al-Jazeera
14 Bank of Israel rejects Sa'ar's request to cancel NIS 200 bill as
15 The Monetary Authority Issues New Instructions - PMA
16 The PMA is Holding a Series of Meetings with Government

PMA announced the intention to establish a "crisis cell" to address the situation.[17] But these PMA mitigation efforts have yet to quell market distortions or increase public trust in the ability of the PA to sustain its operations amidst other Israeli financial sanctions and collective punishment.

The PMA has consistently called for urgent international intervention to pressure Israel to meet its obligations, protect the otherwise sound and internationally certified Palestinian banking sector, and allow the resumption of ILS transfers.[18] On 24 June, MAS issued a policy brief arising from recent research echoing these demands and aligning with the PMA's broader reform agenda.[19]

3. Reforming Health Amid Destruction

On 28 May, Prime Minister Mohammad Mustafa launched the Palestinian Health System Reform Project, a $20m, five-year initiative funded by the World Bank to advance efforts to localize healthcare provision and improve the efficiency and sustainability of the health system.[20] While previous World Bank support largely focused on procuring medical equipment and improving health infrastructure, the new project pivots toward policy reform and performance-based financing aimed at reducing dependence on costly and unsustainable external referrals.[21] The project comprises four main components:

1. **Improving Population, Service, and Financial Coverage ($7m):** Lay the groundwork for Universal Health Coverage by supporting the adoption of an updated benefits package and accelerating pricing and procurement reforms for essential medicines. These include improved referral and counter-referral systems, as well as expanded preventive care under family health programs.
2. **Strengthening Purchasing of Services ($7m):** Reforming how the Ministry of Health procures referral services through developing new contracting frameworks with private and NGO hospitals and building capacity within the Service Purchasing Unit to enforce standards and ensure value for money.
3. **Improving Process Quality at Public Facilities ($5m):** Enhance clinical quality through expanded training for priority medical cadres (e.g., family medicine, cardiovascular care), and scale up digital health infrastructure.
4. **Project Management and Implementation ($1m)**

All components are financed through results-based mechanisms, tied to the achievement of pre-defined performance benchmarks. An additional Contingency Emergency Response Component (CERC) is also included, which allows for rapid reallocation of uncommitted funds in response to future crises.

Successive Palestinian governments have struggled to curb their reliance on external health referrals, which cost around $250m annually, with $500m in arrears owed to private and NGO hospitals. However, the current Palestinian Government has made this an urgent reform priority. Due to insufficient capacity in public facilities and frequent drug shortages, more than 100,000 patients are referred each year to hospitals in East Jerusalem, the West Bank, Gaza, and Israel.[22]

Referrals to Israeli hospitals, which account for just 5% of total cases, make up 25% of the total referral costs. These costs are unilaterally deducted by Israel from Palestinian tax revenues, with no

17 https://www.bnews.ps/index.php/ar/node/25380
18 Crisis of Shekel Accumulation in Palestinian Banks - PMA
19 https://mas.ps/en/publications/12675.html
20 https://english.wafa.ps/Pages/Details/157877
21 Palestinian Health System Reform Project - Project Information
22 Ibid.

transparency on pricing, leaving the Palestinian National Authority (PA) unable to negotiate or audit the charges. While Israeli hospitals collect full payment through these unilateral deductions, local providers are left waiting, receiving partial and delayed payments from the PA, widening the arrears and destabilizing local hospitals and pharmaceutical companies.[23]

While this new project focuses on improved purchasing mechanisms, referral management, and preventive care are needed, and overdue, its potential fiscal impact is minimal compared to the scale of Israeli deductions from Palestinian revenues. Without addressing this structural expropriation, no fiscal reform can be truly sustainable. It is also important to acknowledge that, given the ongoing humanitarian crisis in Gaza and the destruction of its health system, such financial considerations have become secondary.

Only 17 of Gaza's 36 hospitals remain partially functional, operating under extreme shortages of supplies, staff, and shrinking safe zones.[24] Out of 162 primary health care centers, only 5 are fully operational, with another 57 partially functioning. Over 94% of all hospitals in Gaza have been damaged or destroyed by Israeli military attacks.[25] In the West Bank, access to healthcare is increasingly restricted as mounting Israeli movement barriers and closures obstruct patients and health workers.[26]

4. Revival of Khaled Al-Hassan Hospital

On 21 May, the Palestinian government and the Islamic Development Bank signed a $26.6m interest-free loan agreement to initiate the preliminary phase of the long-delayed Khaled Al-Hassan Cancer Hospital in Ramallah.[27] This funding is complemented by an $8.6m grant from the Arab Fund for Economic and Social Development and $15m from the Al-Aqsa Fund. The funds will cover initial construction, finishing works, medical equipment procurement, and training of human resources.

First announced in early 2016, the Khaled Al-Hassan Hospital was launched with a national donation campaign that raised around $9m, with additional pledges of $9m and a $2m commitment from the Islamic Development Bank.[28] The original plan envisioned a 15-story facility spanning 100,000 sqm, with 208 beds and a total construction cost of $140m, excluding the cost of medical equipment.[29] It could have potentially reduced the dependence on costly external cancer referrals by up to 80%. In 2023, the West Bank had 3,590 registered cancer cases, a figure that continues to rise.[30]

However, due to persistent financial constraints, the original project never materialized. In 2018, a public-private partnership model was introduced, involving the Palestine Investment Fund (PIF) and private sector actors.[31] By the early 2020s, the project was downsized to approximately 60,000 sqm, with a reduced capacity of 139 beds and an estimated cost of $120m, including equipment. Despite these adjustments, progress remained minimal: between 2016–2022, $2.4m was spent on designs, $2.9m on excavation (initiated in 2018), and just over $29,000 in operational costs. The Ministry of Health reported insufficient funding in 2022, with around $6m in remaining funds.[32]

23 https://www.wafa.ps/pages/details/111278
24 Reported Impact Snapshot - OCHA
25 Health System at Breaking Point - WHO
26 Attacks on Health Care in the West Bank - WHO
27 https://www.palestinecabinet.gov.ps/portal/meeting/
28 A project on paper..where did the millions for 'Khaled Al-Hassan'
29 Khaled Al-Hassan Cancer Hospital - PECDAR
30 https://site.moh.ps/index/ArticleView/ArticleId/7235/
31 https://www.bnews.ps/ar/node/25170
32 https://www.wafa.ps/pages/details/39695
https://www.bnews.ps/ar/node/25170

The renewed announcement for Khaled Al-Hassan Hospital came just one week after President Mahmoud Abbas inaugurated the Al-Istishari Cancer Center, a private facility affiliated with Al-Istishari Hospital in Al-Rayhan, in which PIF holds an ownership stake.[33] This center, already under construction, will initially accommodate 170 beds and provide comprehensive oncology services, including radiation therapy; chemotherapy, biological, and hormonal treatments, and bone marrow transplants. It will also have a floor for research, lectures, and medical education.

5. New Lending and Financial Support Programs

On May 2, 2025, the Palestine Monetary Authority (PMA) launched an interest-free lending program for small and micro enterprises, as well as professionals and artisans.[34] Each project is eligible for up to $10,000, with a total funding cap of $10m. Repayment terms extend up to four years, including a grace period of up to 12 months, with no interest or service fees. The program is intended to support these productive sectors in meeting operational costs amid a deepening economic collapse, driven by political instability and intensified Israeli restrictions targeting all aspects of Palestinian economic life.[35]

The PMA has launched similar initiatives in the past, including "Start Now", in partnership with the Palestinian Employment Fund, to support small and micro enterprises (up to $10,000 per project),[36] and "Badir" (Initiate), aimed at workers from the West Bank unable to access jobs inside the Green Line (offering loans of up to $16,000).[37] No public data is available on the final number of beneficiaries or the effectiveness of these programs. While such efforts are important, the scale of funding remains modest relative to the scale and severity of ongoing crises, underscoring the need for broader, coordinated action to address the economic fallout of war and escalating Israeli measures.

5.1 Jerusalem Grants Program – Inma'

On May 25, the Palestine Investment Fund (PIF) signed an agreement with Tasdeer[38] to launch a new phase of the Jerusalem Grants Program (Inma'), targeting small and medium enterprises (SMEs) in Jerusalem.[39] The financing grants aim to support business continuity, improve operations, increase revenues, reduce costs, and expand market access.

This phase builds on earlier rounds that supported 120 projects with €5.2m in direct grants, generating over 650 'sustainable' jobs. It complements other PIF initiatives implemented through its social investment arm, Palestine for Development Foundation, such as the Jerusalem Green Energy Grants, Economic Empowerment Program, Gaza SME Finance Program, and Corporate Social Responsibility Support.[40]

The program has operated in two main phases since 2014. The first (2014–2017) phase, co-funded by the PIF and the European Union, supported 21 projects in Jerusalem and its surrounding areas, sustaining 110 jobs.[41] Grants covered up to 80% of project costs, with recipients covering the rest. The second phase (2018–2021) provided €2.3m in joint funding, benefiting 41 projects, 67% led by youth under 40 and 31% newly established. About 70% were

33 https://www.wafa.ps/Pages/Details/121213
34 The PMA Launches a Zero-Cost Lending Program - PMA
35 Small and Micro Enterprise Financing Program - PMA
36 PMA and PEF launch a financing program - PMA
37 The Prime Minister and the Governor of the PMA

38 A private sector development programme funded by the British Consulate General in Jerusalem and implemented by a consortium led by Cowater International.
39 https://www.pif.ps/items/view/33565
40 https://www.psdf.ps/ar/programs/projects
41 https://www.bnews.ps/ar/node/9813

micro and small businesses (1–4 workers), contributing to 150 new jobs and preserving 200 more. No updated data is available on the current status of these businesses or jobs amid the ongoing crisis.

5.2 Rural Finance Project

On May 29, the Agricultural Finance Working Group[42] held its second meeting, during which an agreement was signed to launch the Rural Financial Inclusion in Palestine Project (RUFIPP) between the International Fund for Agricultural Development (IFAD) and the Palestinian government, with joint funding from the European Union and Spain.[43] RUFIPP aims to enhance community resilience to economic and environmental shocks and improve the livelihoods of poor and marginalized groups by expanding financial literacy and access to affordable, appropriate financial products.[44] The project has three main components:

1. Rural financial education and awareness
2. Provision of inclusive, eco-friendly financial products and services
3. Capacity building for rural finance institutions

Proposed in September 2024 and set to run until 2029, RUFIPP has a total budget of $28.6m—$12.9m (45.3%) from the EU, Spain, and the World Bank-managed West Bank Trust Fund; $4.8m (16.8%) from local contributions; and a funding gap of $10.9m (38%).[45] The project targets small-scale farmers and rural enterprises in the West Bank, aiming to reach 24,000 households, with future expansion to Gaza.

42 The Agricultural Finance Working Group is a component of the EU-Palestine Investment Platform, which aims to improve the investment climate in Palestine's agricultural sector.
43 https://www.moa.pna.ps/news/774
44 https://ifad-cofinancing.org/project/rural-finance-inclusion-
45 Ibid

At the same meeting, the Palestinian Ministry of Agriculture announced the "Seeds of Change" initiative to tackle the overlapping crises of occupation, climate change, and economic collapse.[46] The five-pillar plan focuses on boosting local food production of strategic goods (fodder, crops, dairy, red meat), expanding sustainable irrigation, restoring the agricultural environment, delivering emergency support to farmers affected by climate shock and settler attacks, and rehabilitating Gaza's devastated agricultural sector.

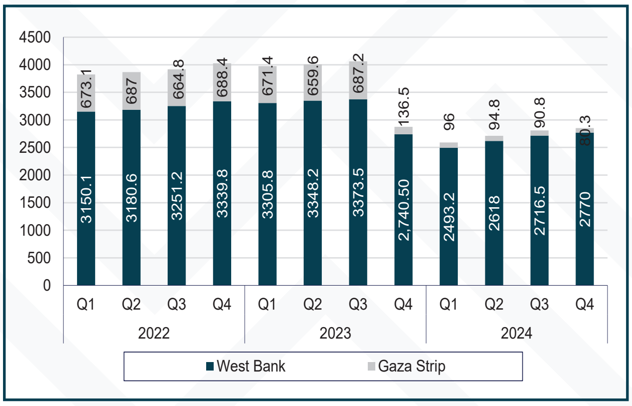
6. May Trading Activity

Al-Quds Index rose by 11.2% in May 2025, closing at 542 points on the final trading day.[47] About 13.1m shares were traded, with a total value of $21.6m, up 24.1% in volume and 38.1% in value compared to April. This was driven by strong performance in several index-heavy companies, including Palestine Development and Investment Company (PADICO), Ooredoo Palestine (OOREDOO), Arkaan Real Estate Company (ARKAAN) and Jerusalem Cigarette Company (JCC). PADICO and Arab Palestinian Investment Company (APIC) recorded the highest trading volumes for the month.

46 https://www.wafa.ps/Pages/Details/122352
47 PEX Statistical Reports

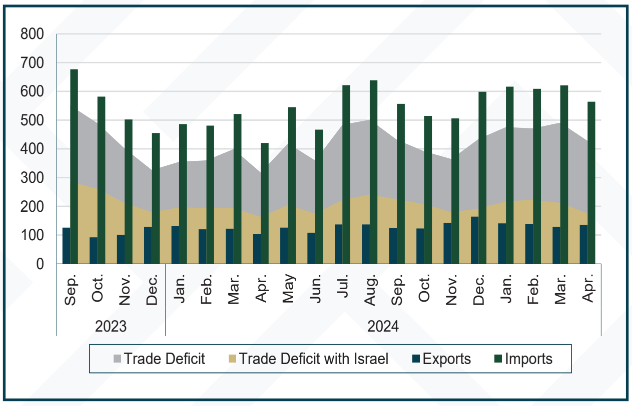
Gross Domestic Product

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



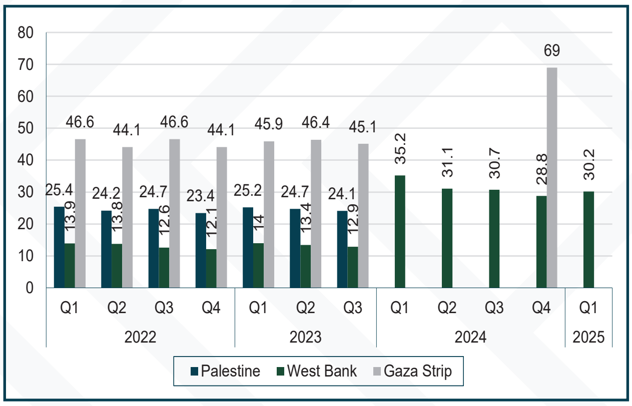
Trade

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



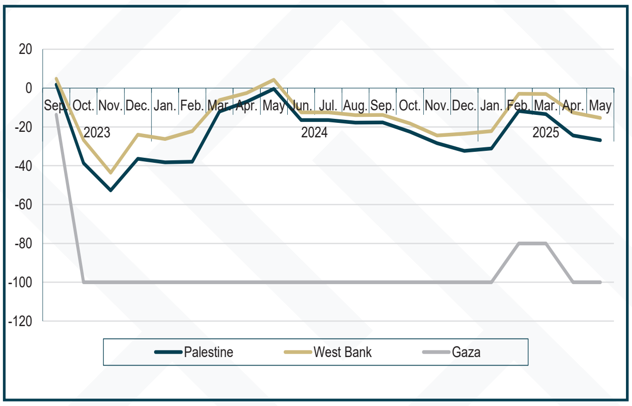
Unemployment

Quarterly Unemployment (%) in Palestine by Region Q1 2022 - Q1 2025



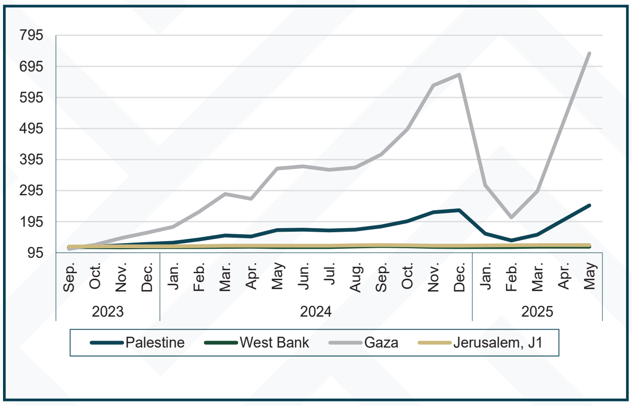
PMA Business Cycle Index

Monthly Palestine Monetary Authority Business Cycle Index September 2023 - May 2025



Inflation

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



Banking

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