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سلطة النقد الفلسطينية
PALESTINE MONETARY AUTHORITY



هيئة سوق رأس المال
Capital Market Authority



المركز الفلسطيني
Palestinian Central
Bureau of Statistics



MAS
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Economic Monitor

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Foreword

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The Year 2024: New Chapters in the Ongoing Tragedy

The year 2024 brought nothing but further disasters to the political, economic, and social landscape in the occupied Palestinian territory. The human, economic, and material devastation inflicted on the beleaguered Gaza Strip has surpassed all limits. In the West Bank, tightened restrictions and the expansion of settlements stifle economic activity and deepen structural imbalances. Meanwhile, the marginalized economy of occupied East Jerusalem continues to suffer from systemic repression, exclusion, and denial of rights, with increasing dependence on the Israeli economy.

This is the eightieth issue of the Economic Monitor, which has been published for over thirty years, but was prepared in the midst of sustained Israeli aggression on Palestine. It was not an easy task, as with other recent Quarterly Monitor issues, in terms of applying standard measures of economic performance to a scenario that cannot be analyzed using conventional tools. How can we measure and analyze an economy that has been exposed, in the words of the experts, to new concepts appropriate for understanding the meaning of genocide at various levels? Human genocide, domicile, spatioicide, sociocide, and scholasticide... and now we face the threat of economic annihilation. Despite this, the Monitor continues to focus on what is most important in recent economic performance, and to serve as an authoritative witness to modern Palestinian economic history, the purpose that it has served across the thirty years since MAS was established.

The first section monitors economic developments for the year 2024 and Q4 2024 specifically, indicating a sharp and unprecedented decline in economic growth, accompanied by rising rates of unemployment and inflation. This confirms the previously mentioned widening gaps between the West Bank and the Gaza Strip, as well as imbalances in various economic and social indicators. It is undeniable that the concentration of investment in the services and housing sectors has led to a decline in the contribution of the productive sectors to GDP. On the other hand, in light of painful humanitarian and economic realities, it appears that the Palestinian "national economy", facing fragmentation, has no choice but to seek methods to adapt to this reality and try to emerge with minimal losses.

The second section presents in-focus investigations of some significant economic developments locally and regionally over the year, as outlined in the five boxes: the channels through which changes in the dollar's exchange rate affect the Palestinian economy; the buildup of excess ILS in Palestinian banks; Israel's regional trade and exchange with the UAE; A Review of the National Development and Advancement Program in Palestine (2025-2026); and reconstruction costs in the Gaza Strip (according to a joint report by the World Bank, the United Nations and the European Union).

While preparing this 2024 issue of the Economic Monitor, MAS and its family were saddened by the loss of two of its former leaders, Dr. Fadel al-Naqeeb, a prominent Palestinian economist who served as Monitor Editor for many years, and Dr. Sameer Abdallah, Director-General until 2013. Their extensive contributions to MAS over the decades, including their dedication to policy-focused, qualitative economic research such as the Economic Monitor, addressed Palestinian economic affairs from a unique, developmental perspective.

Finally, MAS extends its appreciation to the three institutional partners who supported and helped prepare the Quarterly Economic Monitor, the research team for their scholarly contributions and their close monitoring of the Palestinian economy and prominent developments, and to the Monitor Editor, Dr. Numan Kanafani.

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Raja Khalidi
Director General



Part One

Annual Economic Performance

1. Gross Domestic Product (GDP)

- The ongoing Israeli war and widespread destruction in Gaza, coupled with tightened Israeli restrictions in the West Bank, had profound negative impacts on the Palestinian economy. In 2024, the economy contracted by 26.6% compared to the previous year, reaching USD 10,959.6mn at constant prices; a 17.0% contraction in the West Bank and a severe 83.2% contraction in the Gaza Strip. The overall economic contraction in 2024 was driven by sharp declines in both demand and production.
- At the production (value added) level, the Palestinian economy experienced a decline in value added across all major sectors in 2024. The largest decline was seen in construction activities (45.4%), followed by administration and defense (30.2%). The manufacturing, transportation, storage, and services sectors also experienced similar declines, as shown in Figure 1. In contrast, the information and communications technology sector (ICT) and household services recorded relatively smaller declines during the same period, as illustrated in Figure 1.
- At the expenditure level, as illustrated in Table 1, private consumption fell markedly by 32.5% in 2024 compared to previous year, largely due to a dramatic 84% drop in compensations of Palestinian workers in Israel. Public expenditure also dropped by 25.0% as Israel continued to seize portions of clearance revenues. Investment and exports declined by 30.0% and 11.1%, respectively during the same period. The fall in private and public consumption resulted in a 31.1% decrease in imports. The data indicate

Figure 1: Change in value added in activities making up GDP in 2024 compared to 2023 (%)

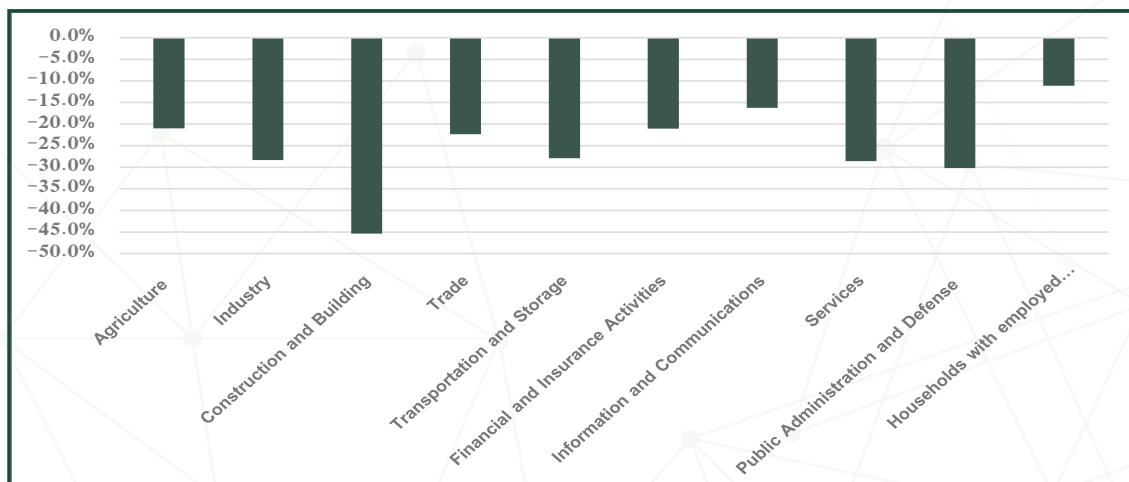


Figure 2: Real GDP growth rates (annual growth compared to the previous year)

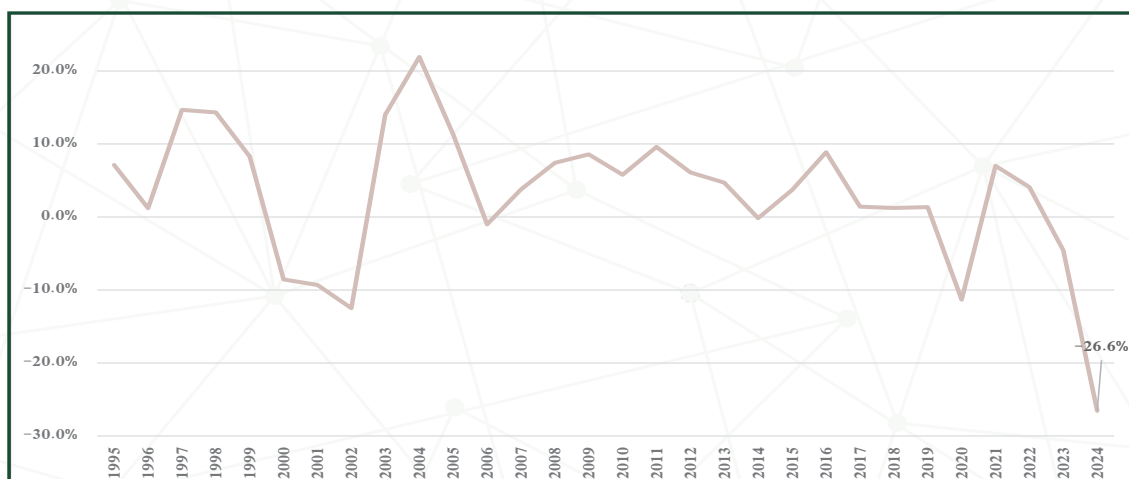
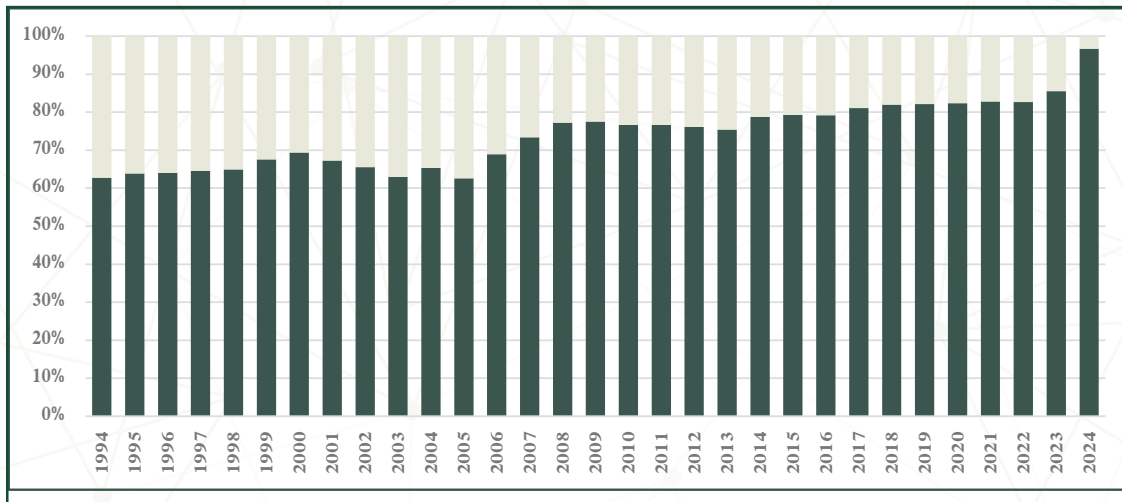


Figure 3: Gaza Strip's contribution to Palestinian GDP (2000-2024) (percentage)



that, in 2024, the Palestinian economy consumed and invested 38% more resources than it produced domestically (60% if exports are included) compared to 47% in the previous year. The sharp decline in this percentage is attributed to a drop in consumption and imports rather than increased domestic production.

- Figure 2 illustrates that the contraction in 2024 was the most severe contraction the Palestinian economy has witnessed in three decades. The figure also highlights the sharp volatility in annual economic growth rates, largely due to external and volatile factors affecting economic performance in Palestine (such as clearance transfers, aid, and remittances of Palestinian workers in Israel). Both clearance transfers and workers' remittances experienced a sharp decline in 2024 compared to 2023.
- Figure 3, on the other hand, illustrates the decline in Gaza Strip's contribution to Palestinian GDP over the past three decades, which has widened the income gap between the West Bank and the Gaza Strip. Gaza's contribution decreased from around 37.6% in 1994 to just 3.3% by the end of 2024. This decline is attributed to the drop and fluctuations in the Gaza Strip's economic growth rate, particularly following the tightening of the Israeli blockade since 2006. As a result, Gaza's real GDP per capita dropped by 93% between 1994 and 2024. The widening gap between the contribution of the West Bank and that of the Gaza Strip to the overall economy was reflected in an increasing disparity in their per capita income. By the end of 2024, Gaza's per capita GDP accounted for only 4.6% of the West Bank's per capita GDP, whereas the gap was quite narrow nearly three decades ago (see Figure 4).

Table 1: Change in GDP spending and contribution of demand components to growth (2023-2024) (percentage)

Change in final consumption expenditure	Growth (%)	Contribution to Growth
Change in private consumption	(32.5)	(32.3)
(+) change in government consumption	(25.0)	(5.1)
(+) change in investment	(30.0)	(8.2)
(+) change in exports	(11.1)	(2.0)
(-) change in imports	(31.1)	(19.8)
(+) Change in net errors and omissions	(82.4)	1.2
Gross Domestic Product (GDP)	(26.6)	(26.6)

* Note: The numbers and percentages in parentheses are negative values.

Figure 4: Percentage of Gaza's per capita GDP to West Bank's per capita GDP (2000-2024)

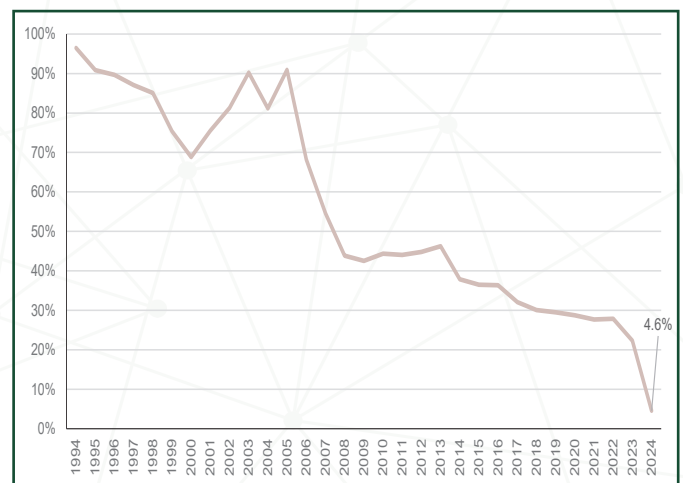
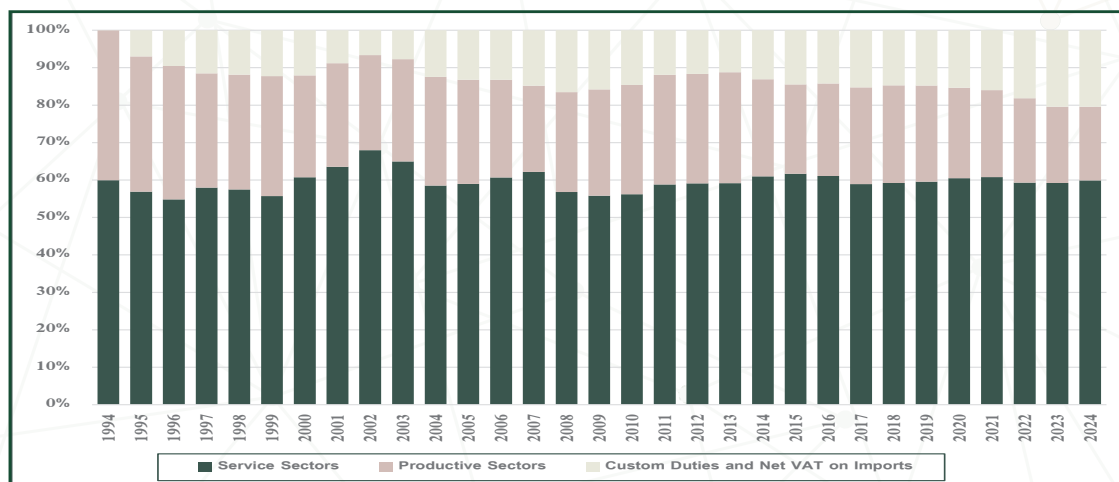


Table 2: Disposable National Income by Quarter (Constant Prices, USD million)

Variable	2023		2024				
	Q4	Total	Q1	Q2	Q3	Q4	Total
Gross Domestic Product	2,877.0	14,922.7	2,589.2	2,712.8	2,807.3	2,850.3	10,959.6
- Net income from abroad	101.3	2,705.4	127.2	170.7	228.3	241.5	767.7
- Net workers compensation	86.0	2,491.5	96.1	120.1	130.6	150.5	497.3
- Net income from property	15.3	213.9	31.1	50.6	97.7	91.0	270.4
Gross National Income	2,978.3	17,628.1	2,716.4	2,883.5	3,035.6	3,091.8	11,727.3
Net current transfers from abroad	185.5	1,574.6	229.2	240.5	342.3	386.8	1,198.8
Gross National Disposable Income	3,163.8	19,202.7	2,945.6	3,124.0	3,377.9	3,478.6	12,926.1

- Investment accounted for 26.0% of GDP in 2024. This percentage has ranged around 24-28% in most recent years, significantly lower than the average rate in middle-income countries (34%), but higher than low-income countries (21%).¹ Most investments are directed to non-tradable sectors, partly due to widespread uncertainty about the future and the various restrictions imposed on movement and foreign trade by the occupation. The concentration of investment in the service and housing sectors leads to low investment efficiency and productivity.
- Figure 5 shows that the services sector has always had the largest contribution to the Palestinian economy, reaching about 60% of GDP in 2024. In contrast, the contribution of productive sectors has declined markedly over the past three decades, continuing to shrink in favor of services, customs duties, and net VAT on imports, driven by increased import activity over the same period. Notably, the contribution of industry and agriculture in Palestinian
- GDP declined from 22.2% and 12.1%, respectively, in 1994 to 11.1% and 6.0% by the end of 2024.
- The gap between what the economy consumes and exports on one hand, and what it produces domestically, means that GDP does not fully represent the actual resources available for consumption and investment; GDP measures domestically generated income only, excluding remittances and grants from abroad. Table 2 illustrates the shrinking gap between gross national disposable income (GNDI) and GDP due to deteriorating economic performance, declining compensations of workers in Israel, and lower foreign transfers. In 2024, disposable income in Palestine was 17.9% higher than GDP, compared to 28.7% in 2023. Moreover, the income of Palestinian workers in Israel and its colonies accounted for only 3.3% of total disposable income in 2024, down from 14.4% in 2023.

Figure 5: Value Added in Palestine by Economic Sector (2000-2024)
(Constant prices, percentage)

¹ <https://data.worldbank.org/indicator/NE.GDI.TOTL.ZS>

2. Labor Market

- **Labor Force Participation Rate:** In 2024, the participation rate in the West Bank was 46.1%, with 73.4% for males and 17.7% for females.
- **Number of Workers:** Between 2023 and 2024, the total number of workers in the West Bank decreased by 16% (equivalent to 134 thousand workers), reaching 681 thousand. The number of workers in the local market declined by 5.1%, with the sharpest drops seen in the construction sector, followed by services, trade/ hospitality, and industrial activities.
- **Palestinian Workers in Israel and its colonies:** The number of West Bank workers in Israel and its colonies plunged from 123 thousand in 2023 to about 31 thousand in 2024, reflecting a 74.8% decrease (48.3% of them were employed in colonies). This drop reduced the proportion of these workers in the West Bank's total labor force from 15.1% in 2023 to 4.6% in 2024.
- **Unemployment:** The unemployment rate in the West Bank reached 31% in 2024, a 13 percentage points drop from 2023. The unemployment rate among males was 31.7%, while it was 30.1% among females.
- **Wages:** In 2024, the real average daily wage in the West Bank (base year 2018) reached NIS 122, compared to NIS 121 in 2023. By sector, the average wage was NIS 166 in transport, storage, and communications sector, and NIS 79 in agriculture.
- **Minimum Wage:** In 2024, 16% (about 40 thousand workers) of wage workers in the West Bank's private sector earned below the minimum wage, compared to 15% (44 thousand workers) in 2023. Their average monthly wage was NIS 1,424, which is 25% below the official minimum wage of NIS 1,880, compared to NIS 1,381 in 2023.

Table 1: Unemployment rate among labor force participants in the West Bank (%)

Item	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024
West Bank	12.9	32.0	35.2	31.1	30.7	28.8
- males	10.2	33.9	35.6	31.4	31	29.1
-females	24.9	24.6	33.5	29.8	29.7	27.7

Figure 1: Number of Workers in the West Bank (2023-2024) (thousand workers)

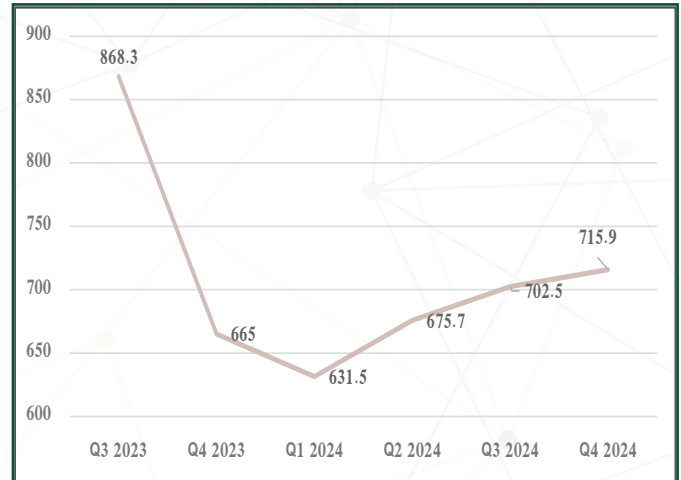


Figure 2: Percentage of Palestinian workers in Israel and its colonies to the total number of workers in the West Bank (%)

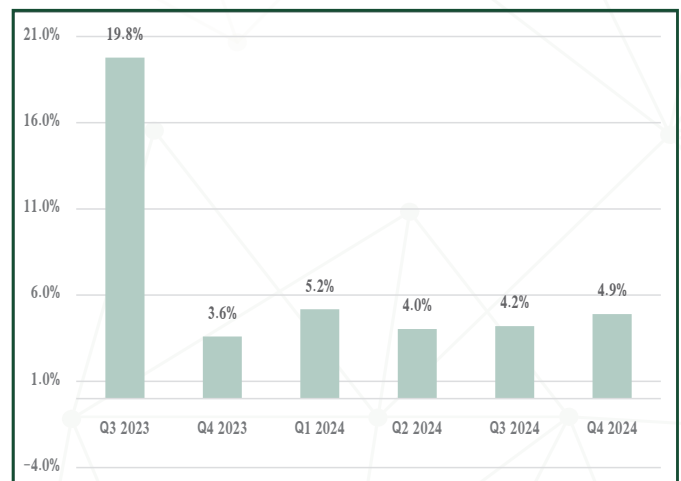
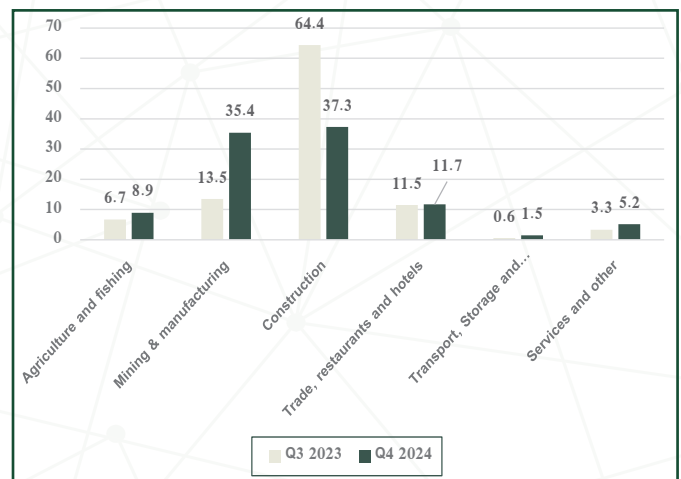


Figure 3: Percentage distribution of West Bank's workers in Israel by economic activity(%)



3. Public Finance¹

- **Public Revenues:** Clearance revenues decreased by 31.7% in 2024 compared to the previous year, reaching approximately NIS 6.9 billion. Domestic tax revenues also declined by 19%, totaling around NIS 4.8 billion. As a result, total public revenues (clearance plus domestic) fell by 27% in 2024 compared to 2023, amounting to about NIS 11.7 billion.
- **Public Expenditures:** In 2024, actual public expenditures declined by 7.5% compared to

¹ Source of data: MOF, Monthly Financial Reports 2024: Financial Operations- Expenditures, Revenues, and Sources of Funding (Dec., 2024). These are preliminary figures and are subject to revision and amendment.

2023, reaching around NIS 14.4 billion. This decline was driven by a 11.5% drop in the wage and salary bill, amounting to about NIS 6.1 billion, and a 2% decrease in non-wage expenditures, totaling around NIS 5.8 billion.

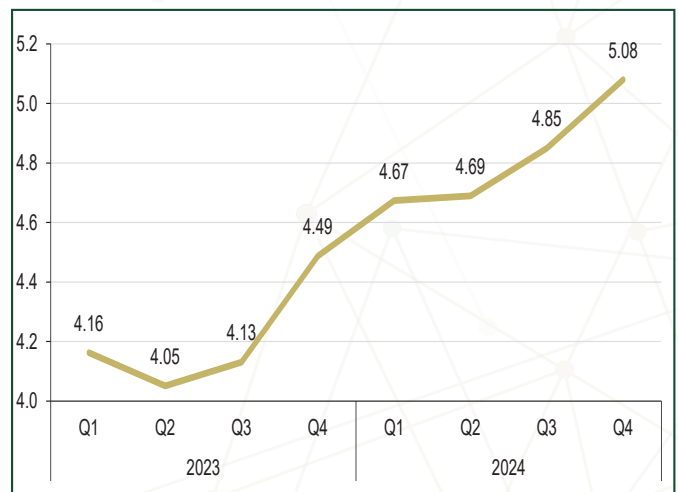
- **Fiscal Deficit:** The total fiscal deficit before foreign aid and grants (on commitment basis) amounted to approximately NIS 4.8 billion in 2024. Foreign grants and aid reduced this deficit to about NIS 1.8 billion.

4. Banking Sector²

- **Total Assets:** By the end of 2024, total assets of licensed banks in Palestine reached approximately USD 24.5 billion, reflecting a 7.4% rise compared to 2023. This growth was largely attributed to a rise in the balances of local banks held abroad, an expansion in the credit extended to the government, and an increase in cash reserves in the treasury. Data shows that the assets of local banks (which include 7 banks with a total of 254 branches and offices) rose by approximately 10.0% to USD 15.2 billion. Meanwhile, the assets of foreign banks (comprising 6 banks with 130 branches and offices), increased at a slower rate of 3.5%, reaching USD 9.3 billion during the same period.
- **Credit Facilities:** The credit facilities portfolio granted by banks remained stable at the end of 2024, unchanged from the previous year at USD 11.9 billion (Table 1). On one hand, credit facilities granted to the public sector increased by 16.0% compared to 2023, reaching approximately USD 2.8 billion. They constituted 23.6% of total credit facilities, compared to 20.3% in the corresponding period. On the other hand, credit facilities granted to the private sector declined by 4.4% year-on-year, reaching USD 9.1 billion, representing 76.4% of total facilities, compared to 79.7% in the corresponding period. Data indicates a decline in credit facilities granted to various economic sectors, except

² These are preliminary figures and are subject to amendment

Figure 1: Non-performing Loans Rate (%)



for consumer lending, which increased by 12%, bringing total financing to USD 1.4 billion.

- **Customer Deposits:** Customer deposits at banks continued to grow during the last quarter of the year, rising by 6.8% compared to the corresponding quarter, reaching USD 18.8 billion. This growth in deposits was primarily supported by a significant increase in deposits in the Gaza Strip by approximately 65%, bringing total deposits at bank branches in the Gaza Strip to nearly USD 3.3 billion.³ In the West Bank, customer deposits

³ In previous issues of the Monitor, we highlighted three reasons for the increase in deposits in the Gaza Strip, as follows: 1) The war has pushed citizens to deposit their money in banks, considering it the safest place in light of the occupation's violations. 2) Money transfers from abroad to Gaza residents 3) Employees' inability to withdraw their salaries from

Table 1: Sectoral Distribution of Credit Facilities (USD million)

Item	2023			2024			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Government sector	2,378.6	2,040.8	2,431.1	2,317.2	2,558.1	2,720.1	2,819.4
Real Estate and Construction	2,366.3	2,360.1	2,406.2	2,388.5	2,370.5	2,401.1	2,329.6
Mining and Industry	668.4	683.8	696.2	687.7	671.2	652.4	657.5
Trade	1,961.1	1,996.6	2,060.4	2,031.7	1,940.3	1,968.8	1,897.0
Services	1,136.6	1,075.7	1,095.3	1,109.5	1,089.7	1,105.1	1,080.0
Vehicle Financing	451.2	491.9	519.2	499.2	477.8	472.0	411.7
Consumer financing	1,357.0	1,302.3	1,263.6	1,284.1	1,307.5	1,367.2	1,412.8
Other in the private sector	1,369.1	1,438.4	1,510.9	1,410.2	1,401.4	1,318.5	1,339.2
Total	11,688.3	11,389.5	11,982.9	11,728.1	11,816.5	12,005.2	11,947.1

* The "Other in the private sector" item includes facilities granted for land development, agriculture and livestock, tourism, hotels, and restaurants, transportation and logistics sector, in addition to financing equity investments and other uncategorized facilities.

Table 2: Distribution of Public Deposits

Item		2023			2024			
		Q2	Q3	Q4	Q1	Q2	Q3	Q4
Depositor	Private sector	630.1	554.1	560.4	615.8	736.1	743.3	604.3
	Government sector	16,958.9	16,220.2	16,261.5	17,073.2	18,040.5	17,555.1	17,004.3
Region	West Bank	15,549.0	15,160.7	15,207.4	15,443.6	15,420.9	15,414.3	15,103.9
	Gaza Strip	2,040.0	1,613.6	1,614.5	2,245.4	3,355.7	2,884.1	2,504.70
Type of Deposit	Current Deposits	6,992.9	6,428.3	6,486.0	7,005.0	7,638.7	7,567.4	7,067.0
	Saving Deposits	5901.5	5,753.1	5,763.6	5,963.5	6,262.6	6,025.0	5,868.7
	Time Deposits	4694.6	4,592.9	4,572.3	4,720.5	4,790.7	4,706.0	4,673.2
Currency	USD	6,103.4	5,483.1	5,757.1	6,357.8	7,049.9	6,802.7	6,348.9
	NIS	8,052.9	7,875.6	7,473.9	7,879.4	8,171.7	8,094.2	7,856.4
	JD	3,029.2	3,065.6	3,220.4	3,061.0	3,055.1	3,014.9	3,007.7
	Other Currencies	403.4	350.0	370.5	390.8	499.9	386.6	395.9
Total Customer Deposits		17,589.0	16,774.3	16,821.9	17,689.0	18,776.6	18,298.4	17,608.9

at banks dropped slightly by 0.8% compared to their value a year earlier, reaching USD 15.4 billion, constituting 82% of customer deposits, compared to 88% in the corresponding quarter (Table 2). Corporate deposits declined by 0.9%, and individual deposits declined by roughly 2.6%.

Conversely, public sector deposits increased by banks, given the damage to bank branches and ATMs.

18% during the same period. Geographically, data indicates a decline in the value of customer deposits in most West Bank governorates. In Tulkarm, they declined by 5.4% year-on-year to USD 742.5 million, reducing their share of total deposits from 5.1% in 2023 to 4.8% in 2024. In Bethlehem, they declined by 4.8% to USD

Table 3: The Weighted Average Interest Rates on Deposits and Loans (%)

Item Deposits		NIS		USD		JOD	
		Loans	Deposits	Loans	Deposits	Loans	Deposits
2023	Q2	2.23	7.05	2.26	6.30	2.08	6.06
	Q3	2.40	6.96	2.49	6.16	2.20	6.13
	Q4	2.87	7.17	2.68	6.30	2.26	6.40
2024	Q1	2.78	6.81	2.93	6.14	2.57	5.92
	Q2	2.77	6.64	2.90	6.27	2.75	5.98
	Q3	2.75	6.65	2.86	5.97	2.67	5.99
	Q4	2.86	6.62	2.89	6.01	2.69	6.37

1.2 billion, while in Hebron, customer deposits shrank by 1.8% to around USD 1.6 billion. Other governorates, such as Nablus and Jenin, also experienced smaller declines.

- **Non-performing loans:** By the end of 2024, the value of non-performing loans at banks operating in Palestine increased by 12.7%, reaching USD 606.4 million. They represent approximately 5.08% of the total value of loans, compared to approximately 4.86% and 4.49% in the previous and corresponding quarters, respectively. The value of non-performing loans increased across most economic sectors, particularly trade and car finance.
- **Bank Profits:** Banks achieved net income after taxes of USD 51.9 million at the end of 2024, compared to approximately USD 169.4 million in the corresponding period of the previous year, a decline of roughly 69.4%. Banking sector expenses increased by approximately 14% year-on-year, primarily due to higher provisions and additional financial margins that banks set aside to hedge against expected growing credit risks. In the same context, banking sector revenues amounted to around USD 862.6 million during the same period, 83% of which constituted bank interest income.

- **Interest Rates:** The weighted average interest rate on time deposits increased during Q4 2024 compared to the corresponding quarter for deposits in both the USD dollar and Jordanian dinar currencies. The return on time deposits in US dollars increased by approximately 21 basis points year-on-year, reaching 2.89%.

The return on time deposits in Jordanian dinars also increased by 43 basis points, reaching 2.69%, while the return on time deposits in Jordanian dinars decreased slightly during the same period, reaching 2.86%. Conversely, the cost of lending decreased slightly during Q4 2024 compared to the corresponding quarter. Therefore, the weighted average interest rate on loans in shekels decreased by approximately 55 basis points, reaching 6.62%, and on loans in US dollars by 29 basis points, reaching 6.01% at the end of Q4. It remained stable at 6.37% for loans in Jordanian dinars.

5. Non-Banking Financial Sector

- Securities:** Trading indicators on the Palestine Exchange witnessed a significant decline in 2024 as a consequence of the devastating repercussions of the genocide war waged by the Israeli occupation. The war negatively impacted the investment climate and economic activities. At the end of 2024, Al-Quds Index closed at 498.3 points, reflecting a decline of 15.3% compared to 2023. Meanwhile, the value and volume of traded shares plummeted by 50.4% and 37.2%, respectively, during 2024 compared to 2023. Additionally, the market capitalization of shares listed on the Exchange market declined by 11.8% during the same comparison period. Despite the decline in market capitalization by the end of 2024, its contribution to GDP actually increased compared to 2023, reaching approximately 29.8%. The increase is attributed to the sharp decline in GDP during 2024 compared to 2023 (Table 1).

Figure 1 shows the market capitalization of shares listed on PEX by the end of 2024, by type of trader. Companies account for the largest share (46.7%) of total market capitalization, followed by individuals (24.2%)

- Financial Leasing:** During 2024, the total value of financial leasing contracts reached USD 92.72 million, executed through 1,730 contracts, showing a significant decline in the value and volume of contracts by 24.5% and 29%, respectively, compared with 2023. During 2023, the financial leasing portfolio reached USD 122.2 million through

Figure 1: Market Capitalization of Shares listed on PEX, 2024

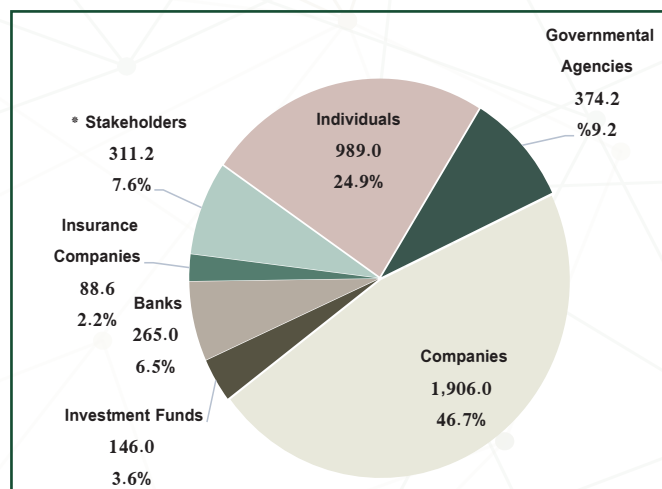


Figure 2: Nature of Leased Assets according to contract value by the end of 2024

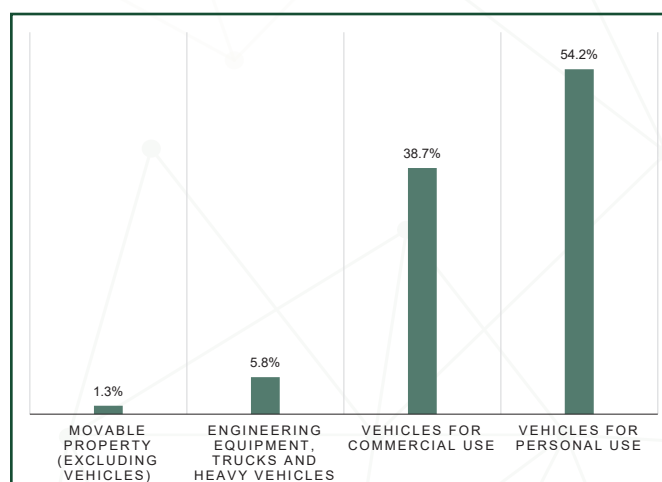


Table 1: The Main Indicators of Trading Activity on Palestine Exchange

Item	Q4 2023	Q3 2024	Q4 2024	2023	2024
Number of traded shares (mn shares)	44.7	27.3	33.3	159.8	100.4
Value of traded shares (USD mn)	67.9	45.6	49.0	330.9	164.2
Market capitalization of shares (USD mn)	4,625.1	3,970.4	4,080.1	4,625.1	4,080.1
Number of transactions	6,028	4,822	5,076	27,185.0	18,248.0
Number of trading sessions	61	63	65	244.0	244.0
Market capitalization as a percentage of GDP (current prices)	25.9%	29.0%	29.8%	25.9%	29.8%

* GDP at current prices of 2023 and 2024 was used because the market capitalization of traded shares is at current prices.

2,431 contracts. Figure 2 shows that vehicles for personal and commercial use continue to account for the largest share (93%) of the financial leasing portfolio in Palestine during 2024. By geographic region, most financial leasing activity is concentrated in Ramallah and Nablus governorates, representing 43.4% and 17.1%, respectively (Figure 3).

- Insurance Sector:** The value of the Palestinian insurance sector's portfolio decreased by 3% in 2024 compared to 2023, reaching USD 383.6 million, executed through 12 insurance companies licensed by the Palestine Capital Market Authority (PCMA). The year 2024 also witnessed a decline in total insurance contract revenues, total insurance contract expenses, and total insurance contract investments by 6%, 2%, and 5%, respectively, compared to their levels in the previous year. Meanwhile, the insurance penetration rate increased from 2.3% in 2023 to approximately 2.8% at the end of 2024. This increase is due to the sharp decline in the Palestinian GDP in 2024.

Data shows a significant concentration in favor of vehicle insurance, which accounted for approximately 69.5% of the total, followed by health and workers' insurance at 10% and 7.2%, respectively. Figure 5 shows the market share of each insurance company operating in the Palestinian market and licensed by PCMA.

Table 2: The Main Financial Indicators of the Insurance Sector in Palestine (USD million)

Item	Q4 2023	Q3 2024	Q4 2024	2023	2024
Total insurance premiums written	395.2	292.4	383.6	395.2	383.6
Total insurance contract revenues	388.2	284.0	363.7	388.2	363.7
Total insurance contract expenses	342.2	270.7	336.4	342.2	336.4
Total investments by insurance companies	309.0	286.4	294.4	309.0	294.4
Insurance penetration ratio (%)				2.3%	2.8%
Insurance density (USD)				71.22	69.86

* Total insurance contract revenues, total insurance contract expenses, and total insurance company investments, as of the end of Q3 2024, do not include data for American Life Insurance Company - Alico. The Q4 2024 data does not include American Life Insurance Company - Alico and Al-Baraka Islamic Insurance Company.

Figure 3: Geographical Distribution of Registered Financial Leasing Contracts by Number of Contracts by the end of 2024

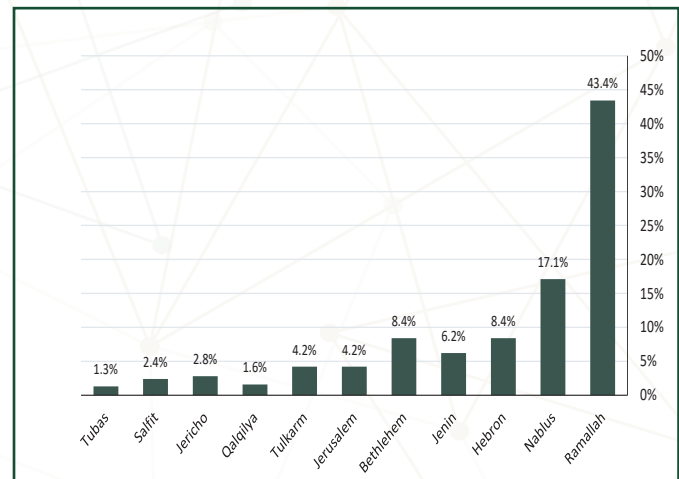


Figure 4: Distribution of Insurance Contract Revenues by Insurance Products as of the End of Q4 2024

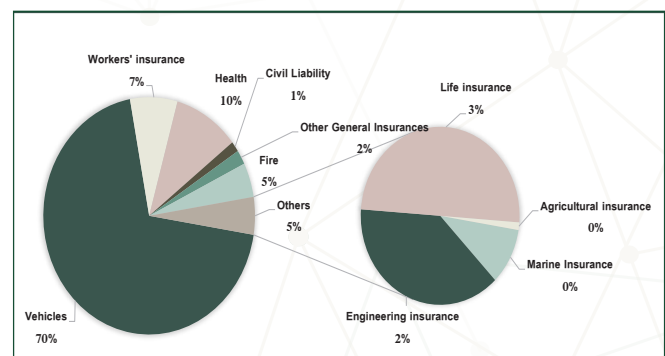
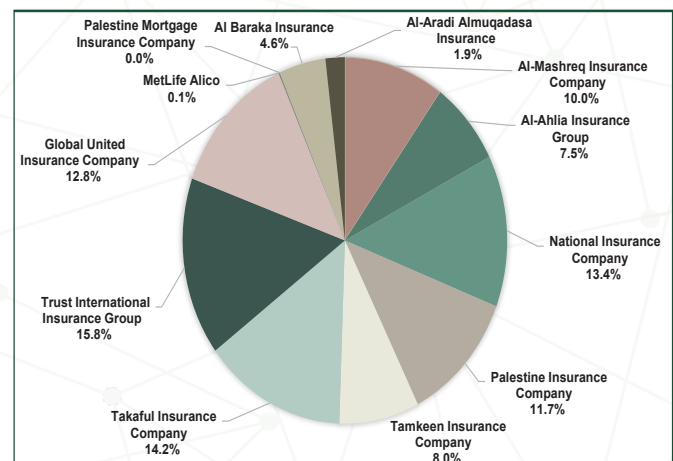


Figure 5: Distribution of Insurance Portfolio by Insurance Company as of the End of Q4 2024



6. Prices and Inflation

The level of price development in Palestine is affected by three factors: changes in import prices (particularly imports from Israel), shifts in local demand in the Palestinian economy, and changes in the shekel exchange rate against the dollar.

- **Annual Inflation Rate:** The inflation rate in the Palestinian territories saw a sharp rise in 2024 (53.7%) compared to 2023. The ongoing Israeli war on the Gaza Strip during 2024 had the most significant impact on the increase in local goods prices, especially in the Gaza Strip, where prices surged by 237.98%. In 2024, amid closures, invasions, and the fragmentation and disconnection of major cities of the West Bank, the inflation rate increased by 2.48% (Table 3).
- **Purchasing Power of the Shekel:** The 2.48% increase in the inflation rate in the West Bank during 2024 compared to 2023 has led to a

Figure 1: Developments in the Consumer Price Index and Quarterly Inflation Rates (Annual Basis) % (Base Year 2018)

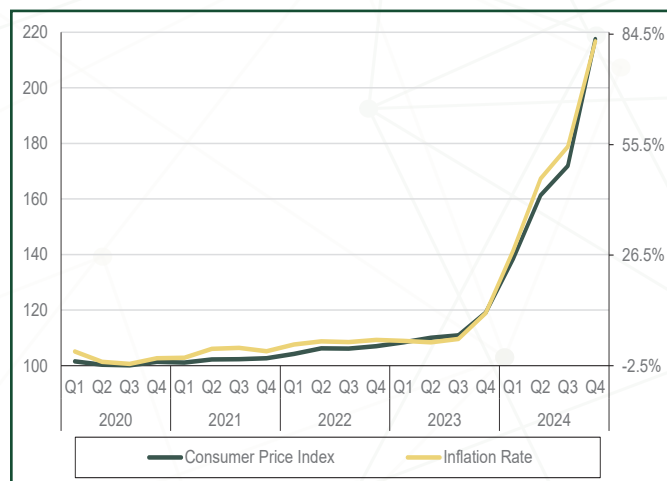


Table 1: Inflation Rate in Q4 2024 by Main Spending Groups and Region (Annual Basis, %)

Main Spending Group	West Bank	Gaza Strip	Palestine
Food and Non-Alcoholic Beverages	0.4	350.0	104.3
Alcoholic Beverages and Tobacco	6.3	3203.6	796.9
Fabrics, Clothing, and Footwear	2.3	69.3	17.7
Housing and Related Expenses	0.5	103.1	32.3
Furnishings, Household Equipment, and Routine Household Maintenance	(0.2)	47.4	9.1
Health	1.3	89.2	23.1
Transportation	2.4	65.2	15.9
Information and Communications	(1.3)	(0.6)	(1.1)
Recreational and Cultural Goods and Services	4.3	0.7	3.8
Education Services	0.2	0.0	0.6
Restaurants and Accommodation Services	(0.7)	0.0	(0.9)
Insurance and Financial Services	(0.1)	(0.8)	(0.3)
Personal Care Social Protection and Miscellaneous Goods and Services	0.6	25.7	5.8
Inflation Rate	1.1	324.8	82.6

* Data do not include that part of the Jerusalem governorate, which Israel annexed following the West Bank occupation in 1967.

*The numbers in parentheses are negative.

similar decline in the shekel's purchasing power. Table 3 shows the decrease in the shekel's purchasing power in the Palestinian territories over the past four years. This results in increased financial burdens for Palestinian families and their inability to afford basic goods and services. These burdens are greater for marginalized groups and the poorest families, especially because the price hikes have affected essential commodities. The annual consumer price data from PCBS indicates that the continuous rise in prices over recent years has caused income erosion. From 2008 to 2024, the erosion rate reached approximately 124%, and from 2004 to 2024, it reached 146%.⁴

- **Purchasing power of the dollar and the dinar:** The slight increase in the dollar exchange rate against the shekel by 0.54% over the two years led to a decline in the purchasing power of those receiving salaries in dollars and spending them in shekels in the West Bank by 1.94 $\text{=}(2.48 - 0.54)$. This is also roughly equivalent to the change in the dinar's purchasing power. Given the disparity in inflation between the

Table 2: Evolution of Purchasing Power of Different Currencies in Q4 2024 (Annual Basis, %)

Currency	Change in Purchasing Power		
	West Bank*	Gaza Strip	Palestine
NIS	(1.1)	(324.8)	(82.6)
USD	(4.0)	(327.7)	(85.5)
JD	(4.2)	(327.9)	(85.7)

Source: The numbers are calculated based on data from the PMA and the PCBS.

* Data do not include that part of the Jerusalem governorate, which Israel annexed following the West Bank occupation in 1967.

*The numbers in parentheses are negative.

Table 3: Percentages of Increase in the Cost of Living Index over the Last Four Years by Region (%)

Year	Palestine	West Bank	Gaza Strip
2021	1.24	1.41	0.27
2022	3.74	3.74	3.16
2023	5.87	4.77	10.53
2024	53.67	2.48	237.98
2021-2024	70.87	12.95	286.44

Table 4: Changes of Average Consumer Prices in the Gaza Strip for Some Essential Commodities in 2024 Compared to 2023 (NIS)

Commodity	Average price during the year 2023	Average price during the year 2024
Dry onions / 1 kg	3	30
Dry garlic / 1 kg	9	64
Potatoes / 1 kg	3	22
Sugar / 1 kg	4	26
Greenhouse tomatoes / 1 kg	3	29
Green chili peppers / 1 kg	7	68
Green sweet peppers / 1 kg	5	26
Greenhouse cucumbers / 1 kg	3	16
Eggs / 2 kg	19	103
Lemons / 1 kg	3	18
Bananas / 1 kg	4	17
Apples / 1 kg	5	28
Veal / 1 kg	46	193
Chicken / 1 kg	17	47
White flour / 25 kg	80	100
Sunflower oil / 3 liters	27	56
lentils / 1 kg	6	10
Bread / 3 kg	8	14
Gasoline 95 / 1 liter	13.18	151.28
Diesel / 1 liter	11.47	54.10
Gas cylinder / 12 kg	111	379
Manchester cigarettes / 20 cigarettes	15	1376

Table 5: Changes of Average Consumer Prices in the West Bank* for Some Basic Commodities in 2024 compared to 2023 (NIS)

Commodity	Average price during the year 2023	Average price during the year 2024
Potatoes/1 kg	4	5
Sugar/10 kg	39	42
Lamb/1 kg	84	86
Veal/1 kg	53	59
Apples/1 kg	8	9
Strawberries/1 kg	15	25
Greenhouse Tomatoes/1 kg	5	6
95 octane Gasoline/1 liter	6.67	7.12
Marlboro Cigarettes/20 Cigarettes	27	29
Winston Cigarettes/20 Cigarettes	24	26

* Data do not include that part of the Jerusalem governorate, which Israel annexed following the West Bank occupation in 1967.

*The numbers in parentheses are negative.

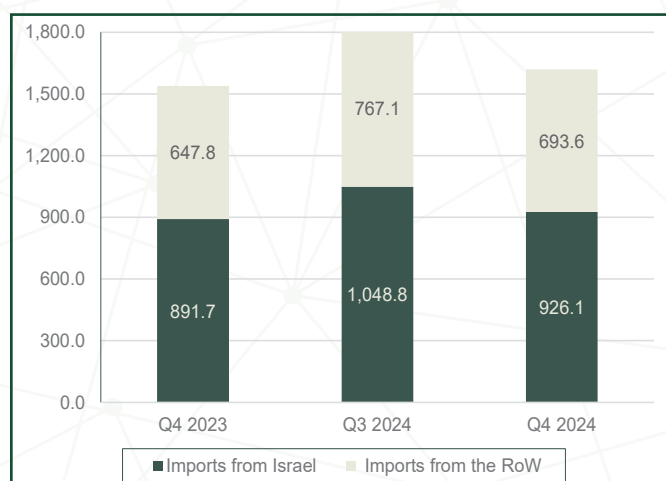
- West Bank and the Gaza Strip, the decline in the purchasing power of those receiving salaries in dollars and dinars in Gaza decreased by 237.44%.
- Chronic Gap Between Local and Global Prices of Basic Imports:** The PMA's inflation report highlights a persistent issue in the Palestinian economy, where the prices of basic imported goods remain higher compared to global prices. The report attributes this mainly to several factors, including taxes imposed on imports (due to the Palestinian territories being bound by a customs envelope with Israel) and the high costs of storage and transportation. It also notes that

the supply shortages of basic commodities in the Gaza Strip, caused by the Israeli war on the Strip, have contributed to rising local prices across the Palestinian territories. The gap between local and global prices illustrates this increase. For example, the average price of flour in the Palestinian territories is about 7.3 times higher than its global price. Similarly, the average price of sugar is around 15 times higher, and rice is about 3 times higher. It's important to note that commodity prices differ between the West Bank and the Gaza Strip, as shown in Tables 4 and 5.

7. Imports and Exports

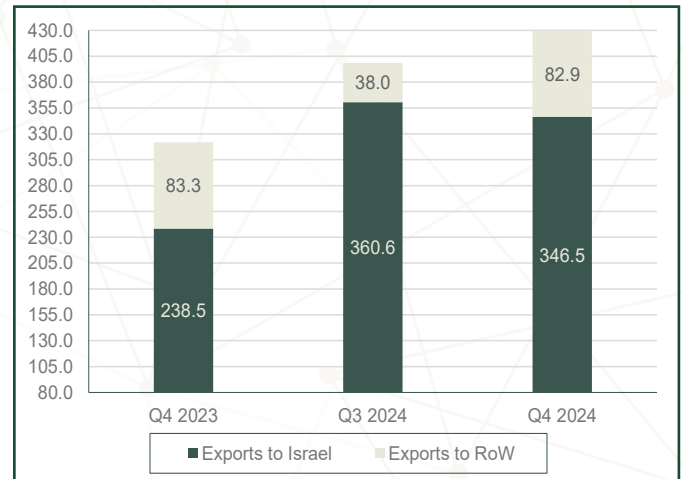
- Merchandise Imports:** In 2024, the value of registered merchandise imports reached approximately USD 6,356.3 million, with 58.6% of imports coming from Israel. This represents a 17.9% drop compared to 2023. Import activity in the Palestinian territories during 2024 was negatively impacted by a decline in private consumer spending. This decline was largely due to a significant reduction in income sources, particularly the compensations of Palestinian workers working in Israel. Additionally, the government's inability to pay full salaries to public sector employees, stemming from the ongoing withholding of clearance funds, further contributed to this decline.

Figure 1: Registered Merchandise Imports (USD million)



- Merchandise Exports:** The value of registered merchandise exports decreased to approximately USD 1,538.4 million in 2023 (86.3% to Israel), representing a 1.5% decrease compared to the previous year. Accordingly, the value of exports constituted 24.2% of the value of imports for the year, a 4 percentage points higher than its level in the previous year (2023).
- Merchandise Trade balance:** The deficit in the goods trade balance in 2024 amounted to approximately USD 4,817.9 million (49.7% deficit with Israel), equivalent to 35.1% of GDP. The deficit improved slightly during the year due to the surplus in the services trade balance with Israel.

Figure 2: Registered Merchandise Exports (USD million)



Part Two

Q4/ 2024 Economic Performance

1. Gross Domestic Product (GDP)

- As the quarterly data show, GDP improved during Q4 2024 compared to the exceptionally record lows of the previous and corresponding quarters. GDP saw a growth rate of 1.5% in Q4 2024 compared with the previous quarter, while compared to Q4 2023, it declined slightly by 0.9%, reaching USD 2,850.3mn at constant prices.
- At the regional level, the widespread destruction in the Gaza Strip led to a sharp decline in GDP of 41.2% in Q4 2024 compared to the corresponding quarter. In the West Bank, GDP grew by 1.1% in Q4 2023 compared to the corresponding quarter. The significant contraction in Gaza's GDP reduced its contribution to Palestine's GDP to approximately 3%. This distribution was reflected in the per capita GDP, which reached \$915.1 in the West Bank (\$924.6 in the corresponding quarter) compared to only \$35.5 in the Gaza Strip (\$61.2 in the corresponding quarter).
- GDP can be analyzed from two perspectives: the total value of output/production (the value added) across the various economic sectors, and total expenditure on goods and services. At the output/production (value added) level, several economic activities declined in Q4 2024 compared to the corresponding quarter of 2023. Most notably, the construction sector fell by 14.5%, followed by the services sectors (11.0%), the financial and insurance activities (5.3%), and the information and communication sector (3.2%). However, some sectors witnessed an increase in value added during the same period, most notably the agriculture sector, which grew by 15.6%, and the industrial and trade sectors by 3.6% and 3.7%, respectively.
- At the expenditure level, private consumption declined significantly by 11.0% in Q4 2024 compared to the corresponding quarter, primarily due to the decline in compensations of Palestinian workers in Israel compared to their levels before the war.¹ This decline in private consumption contributed to a notable 9.6% drop in imports. Investment also fell by 7.4% during the same comparison period. In contrast, both exports and public expenditure increased by 13.6% and 17.9%, respectively, compared to the corresponding quarter of the previous year.

¹ The majority of Palestinian workers in Israel was not allowed to work in the Israeli economy following the Israeli Cabinet decision in October 2023 to ban their entry into Israel.

2. Labor Market

Though Q4 2024 experienced a slight improvement in some labor market indicators in the West Bank compared to the previous quarters, this does not mean that the West Bank labor market has recovered from the negative repercussions of the war. The overall conditions of the labor market continue to be adversely affected by the Israeli strangulation of the West Bank governorates, restrictions on movement, and the prevention of Palestinian workers from reaching their workplaces in Israel. The following is a review of the most prominent labor characteristics in the West Bank only, given that the employment situation in the Gaza Strip has completely collapsed.

Below is an overview of the main characteristics

of the labor market in the West Bank only, as the employment situation in the Gaza Strip has collapsed entirely:¹

- Labor Force Participation Rate:** is the rate of the labor force to the working-age population. The higher the rate, the lower the burden of support on each working person. The participation rate is generally low in Palestine and Arab countries due to the low participation of women in the labor market. During Q4 2024, the labor force participation rate in Palestine was about 46.1%,

¹ In previous issues of the Monitor, we have mentioned that PCBS tracks the characteristics of the labor market in the West Bank only, excluding the Gaza Strip. This is because the war and widespread destruction in the Strip have had significant negative impacts on employment and livelihoods there. Consequently, the concepts and terminology used to measure labor force characteristics are no longer realistic and do not apply to the Gaza Strip.

with 73.7% for males and 17.6% for females.

- **Number of Workers:** The total number of workers in the West Bank increased by 7.7% between Q4 2023 and the corresponding quarter, reaching 715,900. However, this remains 17.6% lower than the total number of workers in the West Bank before the war (Figure 1). West Bank workers are distributed as follows: 74.2% in the private sector, 17.9% in the public sector, 4.9% in Israel and its colonies, and 3.0% in the civil sector.
- **Workers in Israel and its colonies:** The number of West Bank workers in Israel and its colonies increased from 24 thousand in Q4 2023 to around 35.1 thousand in Q4 2024 (43.8% of whom worked in colonies). Around 41.6% of these workers had permits, 50.7% worked without permits, and 7.7% held blue ID cards. Despite the increase in the number of workers in Israel and its colonies, their percentage to the total West Bank workforce remains significantly lower than it was before the war (Figure 2). In the same context, Figure 3 shows a significant change in the sectoral distribution of Palestinian labor in Israel and its colonies in Q4 2024 compared to the situation on the eve of the war, particularly the decline in the proportion of workers in the construction sector and their increase in the industrial sector.
- **Unemployment:** In Q4 2024, the unemployment rate in the West Bank reached 28.8%, decreasing by 1.9 percentage points from the previous quarter and 3.2 points from the corresponding quarter. However, it remains 15.9 percentage points higher than it was in Q3 2023 (just before the war; see Table 1). Among the youth (age group 19–29 years) with at least an intermediate diploma, the unemployment rate reached 36.1%, with 33.8% for males and 44.4% for females.
- **Wages:** In the West Bank, the average daily wage for workers reached NIS 134.1 in Q4 2024. This average varied by sector, with wages ranging from NIS 193.6 in the transport, storage, and communications sector to NIS 90.1 in the agriculture sector. Overall, the average wage in the West Bank was 56.3% of that of the Palestinian workers in Israel and its colonies, where wages ranged from NIS 312.5 in construction to NIS 117.7 in agriculture.
- **Minimum Wage:** The official monthly minimum wage in Palestine is NIS 1,880. However, in the West Bank, the percentage of wage workers in the private sector who received less than the minimum wage reached approximately 16.3% (44 thousand workers) in Q4 2024, compared to 15% in the corresponding quarter (40 thousand workers). The average monthly wage was NIS 1,432 in Q4 2024, compared to NIS 1,387 in the corresponding quarter.

3. Public Finance¹

- **Public Revenues:** In Q4 2024, clearance revenues declined by 13.2% compared to the corresponding quarter of the previous year, amounting to approximately NIS 1.7 billion. This amount constitutes around 58.6% of total public revenues during the quarter. This decline is ascribed to the continued withholdings and illegal deductions from clearance revenues, which are the main source of cash flow to the public treasury, placing unprecedented financial pressure on the Palestinian government (Table 1). In contrast, domestic tax revenues increased by 23.4% compared to the corresponding quarter of the previous year, reaching around NIS 1.2 billion. Additionally, foreign grants and aid rose significantly in Q4 2024, reaching about NIS 1,301.9 million, compared to NIS 474.3 million in the same quarter of the previous year (see Figure 1). Overall, net public revenues and grants collected during Q4 2024 amounted to approximately NIS 4.2 billion, compared to NIS 3.4 billion in the corresponding quarter of the previous year, constituting around 77.4% of the government's accrued public spending for the quarter (commitment basis).
- **Public Expenditures:** Actual public spending increased by 11.4% in Q4 2024 compared to the corresponding quarter of the previous year, reaching approximately NIS 4.5 billion. In this context, the wage and salary bill (on a cash basis)

¹ Source of data: MOF, Monthly Financial Reports 2024: Financial Operations- Expenditures, Revenues, and Sources of Funding (Dec., 2024). These are preliminary figures and are subject to revision and amendment.

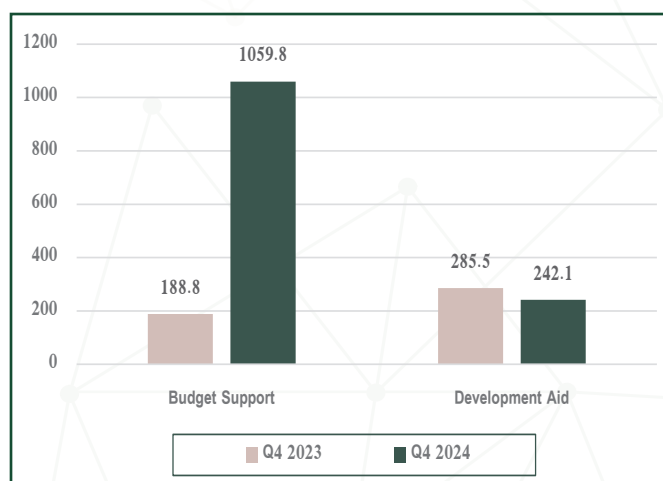
**Table 1: Revenues and Expenditures in Q4 2023
and Q4 2024 (Cash Basis -NIS million)**

	2023		2024	
	Q4	Overall Total	Q4	Overall Total
Total Revenues	2,946.7	15,980.9	2,914.8	11,653.9
Clearance Revenues	1,970.9	10,035.4	1,710.2	6,856.8
Tax Revenues	605.6	3,919.5	842.5	3,208.1
Non-Tax Revenues	294.9	1,591.1	270.7	1,270.4
Dedicated Receipts	79	477.7	95.6	369.6
Tax Refunds (-)	3.7	42.7	4.2	50.9
Total Expenditures	4,058.3	15,545.3	4,520.4	14,380.4
Wages and Salaries	1,687.3	6,928.7	1,811.2	6,128.5
Non-Wage Expenditures	1,564.8	5,916.6	2,043.9	5,795.8
Net Loaning	358.5	1,342.1	345.5	1,481.0
Provisional Payments	144.2	565.3	52.5	347.6
Development Expenditure	303.5	792.6	267.3	627.5
Balance Before Grants and Aid	-1,111.6	435.6	-1,605.6	-2,726.5

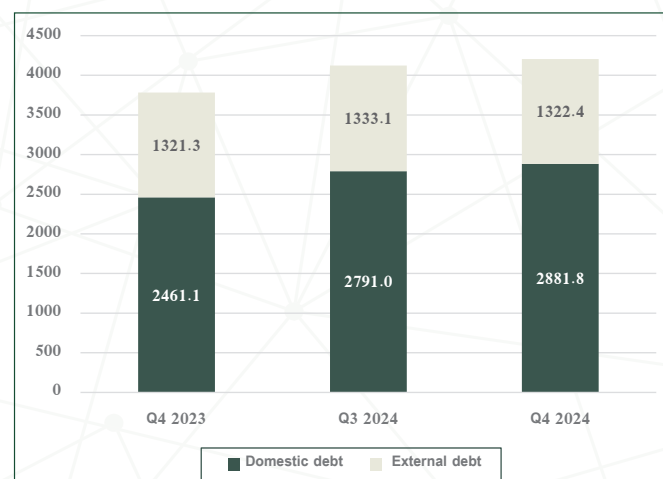
rose by 7.3%, reaching about NIS 1.8 billion. Non-wage expenditures increased by 30.6% during the same comparison period, totaling around NIS 2 billion. Net lending amounted to around NIS 345.5 million in Q4 2024, compared to NIS 358.5 million in the corresponding quarter of the previous year. Meanwhile, actual development expenditures totaled NIS 267.3 million, down from NIS 303.5 million in the comparable quarter. Actual public expenditures represented about 83% of total accrued expenditures, which amounted to approximately NIS 5.4 billion in this quarter.

- **Fiscal Balance (Surplus/Deficit):** Developments on both the revenue and the expenditure sides during Q4 2024 led to a surplus in the total balance (before grants and aid- commitment basis) of about NIS 1.6 billion. Foreign aid and grants reduced this deficit to around NIS 0.3 billion.
- **Public Debt:** By the end of Q4 2024, total public debt (denominated in USD) increased by 1.9% and 11.2% compared to the previous and corresponding quarters, respectively, reaching approximately USD 4.2 billion (equivalent to NIS 15,366 million). Domestic debt constituted about 68.5% of the total, while external debt accounted for 31.5% (Figure 2).

**Figure 1: External Grants and Aid
in Q4 2023 and Q3 2024 (NIS million)**



**Figure 2: Public Debt Distributed between
External and Domestic (USD million)**



4. Prices and Inflation

The level of price development in Palestine is affected by three factors: changes in import prices (particularly imports from Israel), shifts in local demand in the Palestinian economy, and changes in the shekel exchange rate against the dollar.

- Inflation Rate:** The upward trend in prices in the Palestinian territories continued for the fourth straight quarter (Figure 1). From Q4 2024 to the same quarter in 2023 (on an annual basis), the inflation rate reached about 82.6%, up from the previous quarter's inflation rate of 55.0% (annual basis). It varied by region, averaging 1.1% in the West Bank and 324.8% in the Gaza Strip. This surge, especially in Gaza, was driven by the ongoing Israeli war on the Strip, the limited flow of essential goods (medicine and food), and the destruction of infrastructure and agricultural land.
- Rising import prices:** The value of the dollar against the shekel (average dollar-shekel exchange rate), prices of global essential goods (food and energy), and inflation among trading partners (especially Israel) are the most significant determinants of import prices in the Palestinian territories. The PMA's inflation report indicates that the rising inflation rates among trading partners between the two corresponding quarters, especially Israel (a 3.4% increase), was the most significant factor behind the increase in dollar-denominated import prices, by 4.1% in Q4 2024 compared to the corresponding quarter. This increase occurred despite a decline in the dollar exchange rate against the shekel (2.9%) and a decline in the prices of basic food commodities (a drop of 9.6% in energy prices and 5.1% in food prices) during the same comparison period. The report also indicates that the decline in basic food commodities in global markets during Q4 2024 had a positive impact on the West Bank. However, in the Gaza Strip, prices witnessed an upward trend, counter to global changes, due to the blockade and war.
- Table 1 shows that inflation in the West Bank during Q4 2024 resulted from rising prices for most commodity groups in the consumption basket (excluding furniture, communications, restaurant, café, and hotel services, and insurance and financial services). The highest increase was recorded in the prices of alcoholic beverages and tobacco (6.3%), and recreational and cultural goods and services (4.3%). In the Gaza Strip, inflation resulted from rising prices for most commodity groups in the consumption basket (excluding communications, insurance and financial services). The highest increase was recorded in the prices of alcoholic beverages and tobacco (3,203.6%), food and soft drinks (350.0%), and housing and its requirements (103.1%).
- Developments in Purchasing Power:** The 1.1% increase in the consumer price index (inflation) in the West Bank between Q4 2024 and the corresponding quarter 2023 led to a similar decline in the purchasing power of the shekel. With the 2.9% decline in the dollar exchange rate against the shekel between the two corresponding quarters, the purchasing power of those in the West Bank who receive their salaries in dollars and are paid in shekels decreased by 4% = (1.1 + 2.9). This is also roughly equivalent to the change in the purchasing power of the Jordanian dinar, given that the dinar's exchange rate is pegged to that of the dollar. In the Gaza Strip, the decline in the purchasing power of those who receive their salaries in dollars and dinars and are paid in shekels amounted to 327.7% (Table 2).

5. Imports and Exports

- **Merchandise Exports and Imports:** “Registered” merchandise imports in Q4 2024 increased by 5.2% compared to the corresponding quarter of 2023, reaching USD 1,619.7 million (Figure 1). On the other hand, registered merchandise exports increased by 33.4% in Q4 2024 compared to the corresponding quarter 2023, reaching USD 429.4 million (Figure 2). Accordingly, the ratio of exports to imports increased by 5.6 percentage points compared to the corresponding quarter, reaching around 26.5%. Approximately 57.2% of imports in Q4 came from Israel, while 80.7% of Palestinian exports went to it.
- **Merchandise Trade Balance:** The difference between exports and imports represents the deficit in the merchandise trade balance, which amounted to USD 1,190.3 million in Q4 2024 (48.7% deficit with Israel). This is equivalent to 32.3% of GDP. The surplus in services with Israel typically contributes slightly to the Palestinian trade balance.

Part Three Special Focus

1. Surplus of New Israeli Shekel (NIS) in the Palestinian Banking System

The surplus of New Israeli Shekels (NIS, or shekels) in the Palestinian banking sector poses a serious threat to the sector's stability and remains one of its most pressing challenges. This issue has persisted since 2009. The Palestine Monetary Authority (PMA) has issued repeated warnings—most recently in August 2024—regarding the consequences of Israel's continued obstruction of the transfer of excess shekels from Palestinian banks operating in the West Bank. The PMA has stressed that this obstruction limits Palestinian banks' ability to finance trade and make payments for goods and services to Israeli companies and suppliers, due to their inability to conduct transactions through correspondent banks in Israel.

A comprehensive report issued by the International Monetary Fund (IMF) in 2022 highlighted this topic. This Special Focus outlines this report's key findings, with a focus on the sources and costs of the surplus, as well as its main policy recommendations.¹

Definition and Historical Background

The IMF report adopts the PMA's definition of the shekel surplus: *"The shekel surplus refers to the cash held at Palestinian bank vaults that exceeds 6% of the total value of their short-term shekel deposits."*² The Paris Protocol on Economic Relations specifies that any excess in shekel liquidity must be repatriated to the Bank of Israel, as it is the sole issuer of this currency. Prior to 2009, Palestinian banks in both the West Bank and the Gaza Strip routinely transferred their accumulated shekel surplus to accounts held at correspondent Israeli banks. These transfers were made in accordance with a pre-agreed quota, generally proceeding without significant obstacles. The funds were then used to finance these banks' commercial operations. This arrangement changed dramatically following Israel's 2007 designation of the Gaza Strip as

a "hostile entity." As a result, in 2009, Israeli banks cut off their banking relationships with financial institutions operating in Gaza. Since then, banks in the Strip have been unable to transfer surplus shekels from their branches.

In the West Bank, the transfer quota for surplus shekels was capped at approximately NIS 6 billion in 2009. Although the quota has since been raised significantly—to around NIS 18 billion today—this increase has not been sufficient to fully address the underlying issue. That same year, correspondent Israeli banks suspended cash-clearing services for Palestinian banks in the West Bank, citing risks related to money laundering and terrorism financing.³ Since then, the transfer of surplus shekels has become a persistent and serious challenge for the Palestinian banking sector.

According to a World Bank report, the period from 2013 to 2021 witnessed a steady and significant rise in the volume of accumulated shekel surplus within the Palestinian banking system. To alleviate this pressure, occasional temporary measures were implemented—under external pressure—allowing exceptional transfers that exceeded the monthly quota. Coordinated by the PMA and the Bank of Israel, these exceptional cases occurred in Q4 2021 and Q1 2022, for example.⁴

Despite these interventions—both the expanded quota and the exceptional approvals—Palestinian banks continue to struggle with the excessive buildup of shekel liquidity. Figure 1 illustrates the widening gap between the actual volumes of shekels transferred and the total surplus held by banks in Palestine. As of mid-2022, Palestinian banks were holding a cash surplus of roughly NIS 5 billion, equivalent to 7.2% of the total assets of the banking sector. The highest recorded surplus occurred in 2021, reaching nearly NIS 6 billion.

1 IMF (2022). "West Bank and Gaza: Selected Issues". IMF Staff, Country Reports. www.imf.org/en/Publications/CR/

2 Banks are required to maintain 6% of total deposits for each currency, consisting of 3% in physical cash at each bank branch and 3% of total deposits, in order to meet customers' daily withdrawal needs. In addition, banks must meet the liquidity reserve requirements set by the PMA, which amount to approximately 9% of deposits across all currencies.

3 Bank Discount is the correspondent bank working with banks operating in the West Bank. It continued to provide banking services to these banks until the end of 2017.

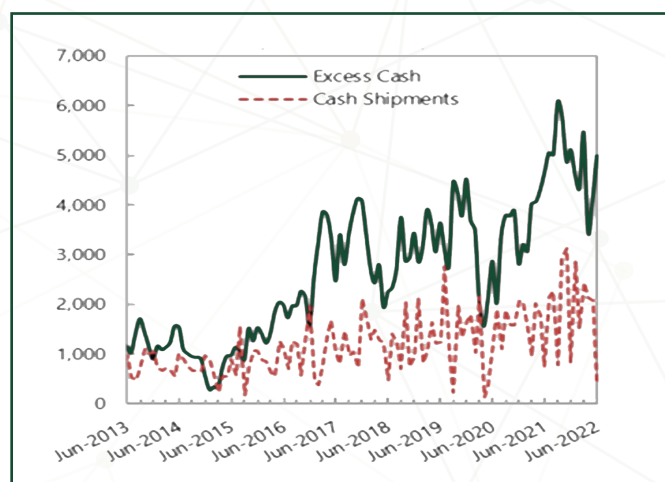
4 The report notes that in Q4 2021, NIS 2.4 billion were shipped in excess of the quarterly limit/quota, as well as NIS 2.3 billion in Q1 2022. The same amount was transferred again in Q3 2022.

Costs of Holding the Shekel Surplus

The IMF report outlines the following costs incurred by Palestinian banks for holding excess shekel liquidity:

- Operational and liquidity management challenges: Palestinian banks face difficulties in efficiently managing their operations and liquidity, due to uncertainty over their ability to transfer shekel surpluses. This uncertainty also deprives banks of opportunities to expand their portfolios and market share, leading to the loss of clients from cash-intensive economic sectors (such as gas stations, retail outlets and restaurants), which typically deposit large amounts of cash.
- Opportunity costs cover forfeited interest from income that banks could have earned had they been able to deposit their shekel surplus in interest-bearing accounts at Israeli banks.
- Shekel borrowing costs: a fall in the liquidity levels of accounts held by Palestinian banks at Israeli correspondent banks forces them to borrow shekel from the PMA to settle their commercial transactions with correspondent banks. In some cases, Palestinian banks must exchange Jordanian dinars or U.S. dollars for shekels, in order to settle trade transactions between their clients and Israeli merchants, despite the fact that their vaults in Palestine are stocked with large amounts of (idle) shekel.⁵
- Palestinian banks incur high costs with regard to security and insurance for the accumulated cash. The report indicates that security and insurance costs reached approximately USD 12 million in 2021. Moreover, when the cash vault capacity at bank branches reached its maximum, and banks are forced to build new fortified vaults. Banks also incur additional losses due to increased transportation costs involved in searching for vault space at other branches that have the physical space to store the surplus.
- The cost of inspecting the shekel cash recovered from Palestinian banks. This inspection was previously automatic, however, in 2009, the Bank of Israel imposed the requirement to designate an accredited testing center to perform this as

Figure 1: Shekel Surplus and Rolled-Over Cash during 2013–2022 (NIS million)



a pre-condition for making deposits at Israel's central bank. This private center charged an inspection fee borne by Palestinian banks of NIS 1,200 for each inspected NIS 1 million. This fee later increased to NIS 1,500.

- Finally, losses are incurred due to the time spent on negotiations between the PMA and the Bank of Israel concerning arrangements related to the transfer of shekels—whether routine or exceptional transfers. Top of Form

The IMF's report estimated that total costs incurred by Palestinian banks concerning the issue of the shekel surplus resulted in a 20% reduction in their profits. It is worth noting that the repercussions of this crisis are not limited to the banking sector solely, but extend to the entire national economy. The shortfall in deposits made by Palestinian banks at correspondent Israeli banks renders them unable to finance import operations on behalf Palestinian traders importing from Israeli traders, resulting in the disruption of supply chains. This was further reinforced in 2022 when Israel imposed a cap on cash payments of NIS 6,000 per transaction, further limiting the ability of Palestinian importers to use cash to settle payments with Israeli traders.

Shekel Flow and Replenishment

Israel asserts that the shekel surplus at Palestinian banks originates from illicit activities such as smuggling and money laundering, and therefore considers the sources of these funds to be

⁵ As a result of the difficulties caused by this issue, some Palestinian banks stopped accepting shekel deposits from the public. However, these banks reversed this decision following a warning by the PMA.

illegitimate. However, the IMF's report challenges this claim, identifying four primary, legitimate sources behind the inflow and accumulation of shekels in the Palestinian banking system:

- Income of Palestinian workers in Israel and the settlements. The report estimates that approximately 154,450 Palestinian workers from the West Bank were employed in Israel and the settlements in 2021, earning a combined income of NIS 17.4 billion. It is assumed that 95% of these wages were paid in cash—equivalent to around NIS 16.5 billion. Moreover, the report suggests the actual number of workers could be significantly higher, potentially reaching 215,000. If accurate, this would mean that the true volume of cash inflows is considerably larger than officially reported.
- Shekel inflows from informal trade. Informal cross-border trade was identified as another key source of shekel inflows. The IMF estimated the net volume of such trade (inflows minus outflows) to be approximately NIS 1.35 billion in 2021.
- Purchases by Palestinian citizens of Israel and East Jerusalem residents. The report highlights the role of consumption by Palestinians living within Israel (the "1948 areas") and East Jerusalem. Shekel flows occur through various transactions, including the purchase of Jordanian dinars before traveling to Jordan, fuel purchases, tuition fees and spending on goods and services such as food, clothing, hotels and restaurants in the West Bank. In 2020, unofficial estimates placed total shekel inflows from these activities at NIS 3.72 billion. Additionally, Palestinians from the 1948 areas spent an estimated NIS 1.01 billion on gold and real estate—especially in Jericho—during the same year.
- Rising financial inclusion. Financial inclusion has also contributed to the shekel surplus. Between 2020 and 2021, the number of shekel-denominated bank accounts increased by 78,000, while deposits in shekels grew by NIS 1 billion.

Based on its detailed assessment of these sources and the flow of funds returning to the Israeli financial system, the IMF concludes that, *"the volume of repatriated shekels is not proportionate to the inflow of shekels."* Table 1 below provides a breakdown of the shekel surplus, comparing estimates made by

the IMF and figures based on the PMA's definition.

Table 1: Estimated shekel surplus in the Palestinian banking system (NIS billion)

Size of shekel surplus	2020	2021
IMF estimate	2.1	3.3
Estimate based on PMA's definition	3.0	4.6

Recommendations

The IMF's report presents a set of proposals and recommendations that could partially address the issue of the shekel surplus:

- Allow Palestinian banks to deposit their excess shekel reserves with the PMA, instead of holding them in their branch vaults.
- Dollarization could theoretically be a solution to the cash buildup; however, in practice, it would not be feasible due to the volume of trade and other official financial flows between the Palestinian territories and Israel.
- Paying Palestinian workers employed in Israel electronically could help reduce the accumulation of shekel.
- Improving cross-border payment infrastructure and services could help alleviate the issue of high shekel liquidity in the Palestinian banking system.
- Implementing periodic and separate adjustments to the permitted amount of shekel transfers, based on clear metrics reflecting the sources of shekel cash flow and the volume from each source.

It is evident that these recommendations fall short of offering satisfactory solutions to the cash surplus problem. At best, they are temporary, as they do not address the core issue and fail to prevent its recurring nature. The core problem lies in the longstanding behavior of Israeli authorities, who traditionally use their economic control tools for political coercion—something the IMF does not acknowledge, let alone provide an effective remedy for.

2. Review of National Development Plans and Programs in Palestine in the Wake of War

Introduction

Strategic national planning plays a crucial role in effectively directing resources toward achieving national objectives and enhancing economic and social development. Since the establishment of the Palestinian Authority (PA), planning has played a significant role in building governmental structures and improving essential services. However, comprehensive and organized strategic efforts did not take shape until after 2007. Governmental strategic planning in Palestine has evolved significantly over various stages, starting from the establishment of governmental structures following the Oslo Agreement (1994-2000) that focused on building ministries and sovereign institutions, as well as developing annual, three-year and five-year investment programs, despite limited expertise and weak implementation and monitoring mechanisms. Development efforts were heavily impacted during the Second Intifada (2000-2006), where emphasis shifted to emergency relief and reconstruction, with long-term planning a secondary consideration. Thereon, between 2007 and 2014, planning experienced a major shift with the launch of comprehensive development plans such as the *Reform and Development Plan 2008-2010* and the *National Development Plan 2011-2013*. These aimed to build state institutions, achieve social justice and ensure economic stability, while developing specific sectoral strategies. However, these plans faced challenges such as over-reliance on international aid and Israeli restrictions that limited their ability to achieve their goals.

National Policy Agenda 2017-2022 and National Development Plan 2021-2023

With the adoption of the National Policy Agenda 2017-2022, the Palestinian government adopted a more organized and systematic approach to planning which focused on the needs of citizens through improving public services and enhancing transparency and integrity. This effort was followed by the National Development Plan 2021-2023, which focused on building a resilient economy through policies aimed at disengagement from the

occupation and cluster-based development. The plans also included the further development of the agricultural and industrial sectors, while achieving rural development to support the production base. In addition, specific strategies were developed to address challenges in particular areas such as Jerusalem and the Gaza Strip, as well as frameworks to respond to climate crises and renewable energy. Despite a noticeable improvement in the institutionalization of planning, there remained a significant reliance on international aid, hindering the achievement of economic independence, while weakening the effectiveness of plans in the face of ongoing challenges.

Emergency Plans for 2024

At the outbreak of war on October 7, 2023, the previous government, headed by Dr. Mohammad Shtayyeh, was on the verge of finalizing an extension to the *National Policy Agenda* and strategic plans for various ministries for 2024-2029. However, none of these were adopted. Instead, the Cabinet decided, at that time, to direct government to prepare emergency plans for 2024. The ongoing war in the Gaza Strip has had a significant economic and social impact on both Gaza and the West Bank. In light of challenging economic and social realities, there are major questions concerning the ability of national strategic plans developed under pre-October 7 scenarios and political contexts (especially those for 2024-2029) to respond effectively to the current situation. "Development" now seems out of reach in an economic and political environment marked by scarcity and the need to resist the occupation.

The National Development and Reform Program: Phase One (2025–2026)

In late March 2024, Dr. Mohammad Mustafa was officially tasked with forming the nineteenth government following the resignation of Mohammad Shtayyeh's administration on February 26, 2024. Created under exceptional circumstances, this new government tackled the significant challenges

resulting from the war in the Gaza Strip, which left widespread destruction of infrastructure and severely disrupted the Palestinian economy. Furthermore, the government inherited a deep financial crisis, exacerbated by Israel's monthly withholding of clearance revenues, a sharp decline in income due to the disruption of key productive sectors, and the mounting accumulation of debt.

Continuing the approach of previous administrations to develop public policy agendas and programs, Dr. Mohammad Mustafa's government, which took office in April 2024, initiated consultations with a wide range of stakeholders—including civil-society organizations and the private sector—to shape the first phase of the National Development and Reform Program 2025–2026. The aim of this program is to establish a strategic framework that identifies critical national priorities and urgent intervention areas, focusing on issues that require immediate and decisive action.

The first phase of this Program is designed to address the long-standing economic imbalances caused by the occupation, while setting the stage for comprehensive development across social, economic and environmental dimensions. It also seeks to strengthen the foundations of an independent Palestinian state. The program aims to accelerate recovery in both Gaza and the West Bank from the devastating effects of the war, diversify economic activities, increase the contribution of key sectors to the national GDP, and create sustainable job opportunities for youth.

In addition, the program places a strong emphasis on promoting social inclusion, tackling the challenges of climate change, ensuring the financial sustainability of public institutions, and improving the quality of essential services. It also prioritizes securing sustainable supplies of energy, food, and water. The program is based upon two key pillars: *Strategic Development Initiatives*, designed to create meaningful, real-world impact, and *Institutional Development Foundations*, working to strengthen the government's capacity to efficiently and effectively meet the needs of its citizens.

- **Strategic Development Initiatives:** Focus on achieving comprehensive transformation in vital sectors to support sustainable development and enhance national resilience. These

initiatives include enhancing energy security and transitioning to renewable energy sources to reduce reliance on fossil fuels, as well as localizing healthcare services to improve quality and reduce external referrals. They also aim to develop a digital payment system to support the digital economy, while strengthening the social protection system to address poverty and promote justice and inclusivity. Additionally, the Plan seeks to support the sustainability of local authorities in improving public services and increasing reliance on renewable energy; to enhance sustainable agriculture in order to achieve food security; and to build resilience in rural communities, with a focus on developing education and aligning it with labor market needs.

- **Institutional Development Foundations:** Work on improving government performance while creating an enabling environment for sustainable development. These pillars include rationalizing public spending and improving revenues to achieve fiscal sustainability, while enhancing governance and the rule of law through transparency and combating corruption. They also aim to improve the investment and business environment through the digitization of services and the development of legal frameworks to attract investments, in addition to improving the quality of basic services in the water, energy, healthcare, education and communications' sectors, ensuring that citizens' needs are met efficiently and effectively.

Comparison between the National Development Plan 2021-2023 and the National Development and Reform Program 2025-2026

The Palestinian National Development Plan: Resilient Resistance, Decoupling, and Clustered Development towards Independence (2021-2023) was adopted by the previous government under the leadership of Dr. Mohammad Shtayyeh. Meanwhile, the current government has adopted the National Development and Reform Program (2025-2026). A comparison of these two plans indicates that both focus on achieving common strategic goals. This covers supporting vital sectors such as healthcare, education, energy and agriculture; providing

social protection for the most vulnerable and affected by the financial crisis; and enhancing governance and financial sustainability through legal and regulatory reforms; as well as improving the business environment.

- **Comprehensive Development Vision amid Challenges that Hinder Achievement**

The National Development Plan (2021-2023) featured bold slogans and ambitious, forward-thinking goals, such as “Decoupling from the Occupation” and “Clustered Development.” However, these goals did not fully account for the complexities of the occupation and the political dynamics within Palestine and the broader region. While the Plan’s objectives outlined a comprehensive developmental vision, its implementation faced significant obstacles. Economic decoupling, for instance, relies heavily on reducing dependence on Israel—an endeavor that demands substantial political will, as well as strong Arab and international support, both politically and economically, along with long-term strategies to overcome entrenched structural and political constraints. None of these conditions are available. Furthermore, achieving clustered development requires an environment that supports the integration of the Palestinian territories—a challenge complicated by the occupation’s movement restrictions and infrastructural limitations. To compound matters, the plan’s execution was also hindered by internal challenges such as political fragmentation, bureaucracy, and a heavy reliance on international aid, making it vulnerable to external influences.

- **A Practical Approach with Greater Awareness of On-the-Ground Challenges**

The National Development and Reform Program 2025-2026 adopts a more realistic and flexible approach compared to its predecessor. It demonstrates a clear understanding of the complex political and economic landscape by prioritizing the improvement of essential services such as energy, healthcare, and education. The Program also aims to strengthen the digital economy, support local authorities and enhance the agricultural sector. In addition, it emphasizes phase-specific objectives that directly address

the current economic and social challenges arising from the ongoing war in the Gaza Strip, while taking into consideration the constraints of limited financial resources. As a result, the Program places a significant focus on rationalizing expenditures and implementing structural reforms to ensure financial sustainability. These efforts include a comprehensive review of the functions of ministries and public institutions to improve efficiency and control government spending, through measures such as spending caps and more accurate accounting systems. The Program also devotes considerable attention to boosting local revenues by improving tax management, expanding the tax base, updating VAT and income tax laws, and restructuring public debt to ensure its long-term sustainability. In addition, it features financial policies designed to reduce deficits. A key focus of the program is strengthening the capacities of local authorities, recognizing them as essential to achieving sustainable development and improving the quality of life for citizens. Overall, the Program reflects a more practical and grounded approach, with a clear focus on achievable interventions within available resources. This gives it a higher likelihood of successful implementation compared to previous plans, often characterized by overly ambitious and unrealistic goals.

- **Current Challenges**

Despite these positive indicators, the Program may face several challenges that could hinder the achievement of key sustainability objectives. For example, initiatives to transition to renewable energy and develop the digital economy require substantial investment, as well as significant international pressure to address the anticipated restrictions imposed by the occupation. A major obstacle is that most of the land with the greatest economic potential for solar energy projects lies in Area C, which is under Israeli security control. Investment in this area requires approval from the occupying authorities, which is often not granted. Furthermore, the digital infrastructure faces considerable barriers, including unfair competition from Israeli telecommunications’ companies, and restrictions on the import of equipment necessary for operating 4G and 5G networks. To ensure the success of the Program, careful planning and effective implementation

mechanisms are essential to ensure the equitable distribution of resources and to address prevailing political and economic challenges.

- **Lack of Inclusivity**

While it is true that this national Program contains provisions to address the economic and social impact of the war, it is clear that it only covers the West Bank. The Program does not include interventions to address the devastating impact of the war on the Gaza Strip, such as direct plans and initiatives for rebuilding the destroyed infrastructure or for strengthening the resilience of Gaza's residents in the face of the catastrophic consequences of the war. These issues are being addressed within a separate framework for relief and early recovery, which the Palestinian government is trying to adhere to following the signing of the ceasefire agreement at the beginning of 2025.

- **Funding Issue**

Amid the significant economic and financial challenges confronting the government, the absence of a clear

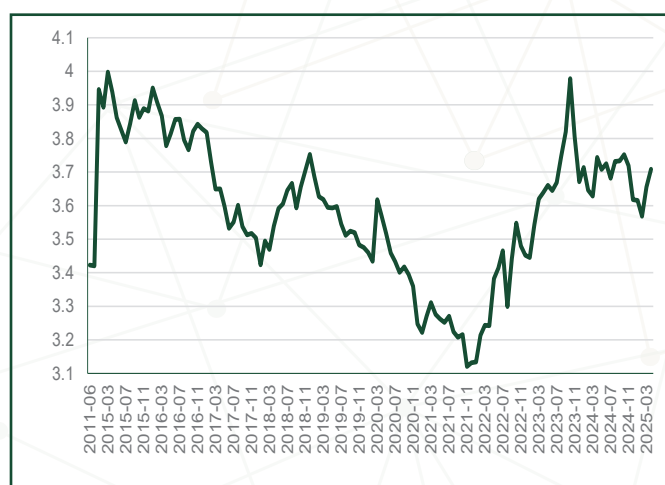
political horizon, and the escalating economic war waged by the occupation against Palestinians in the West Bank, poses serious doubts persist regarding the feasibility of securing the necessary funding to achieve the Program's objectives. The proposed funding sources include leveraging the local private sector by fostering a more favorable investment environment. However, the Palestinian private sector is currently facing unprecedented challenges due to the ongoing conflict, leading to substantial financial losses and forcing many businesses to suspend operations, either temporarily or permanently. Moreover, the heavy dependence on international partners for essential funding raises concerns about the long-term sustainability of this support, given diverse international interests, funding fluctuations and politicized aid, as witnessed in previous years. For instance, U.S. funding was suspended during the Trump administration, and the European Union halted its support for several years, conditioning future assistance on changes to specific elements of the Palestinian school curriculum, as well as other political stipulations.

3. Impact Channels on the Palestinian Economy of Fluctuations in the U.S. Dollar Exchange Rate

Fluctuations in the shekel's exchange rate against the U.S. dollar have drawn significant attention within the local economic landscape, due to their direct and indirect effects on the Palestinian economy. This topic has been extensively covered in several previous editions.¹ In this edition, we revisit the issue of exchange rate fluctuations between the U.S. dollar and the shekel, taking into account recent developments and the adverse consequences of the ongoing war on the Palestinian economy.

Figure 1 depicts trends in the U.S. dollar exchange rate against the shekel over the past decade, offering a clear view of the shekel's value fluctuations and instability in Israel's monetary policy.² The figure highlights notable shifts in the U.S. dollar's exchange rate, which reached its lowest point (highest value for the shekel) in December 2021, at NIS 3.12 per USD 1.00. Conversely, the U.S. dollar reached its highest

Figure 1: U.S. Dollar Exchange Rate vs. the Shekel (January 2015-April 2025)



Source: Bank of Israel Database (2025).

level (lowest value for the shekel), approaching NIS 4.00, on two separate occasions: the first in March 2015, and the second at the onset of the Israeli war on the Gaza Strip in October 2023.

¹ See the textbox entitled "Implications of the Rising Dollar Exchange Rate on the Palestinian Economy" in QEM Issue No. 40.

² See the textbox analyzing the Bank of Israel's monetary policy in QEM Issue No. 31.

These sharp fluctuations in the exchange rate (Figure 1)—and the uncertainty they create—affect the performance of key economic indicators in the Palestinian territories. Their impact spans from influencing the purchasing power of individuals paid in U.S. dollars to affecting public finances, import prices, and the competitiveness of Palestinian goods in international markets.

Impact on Income and Spending

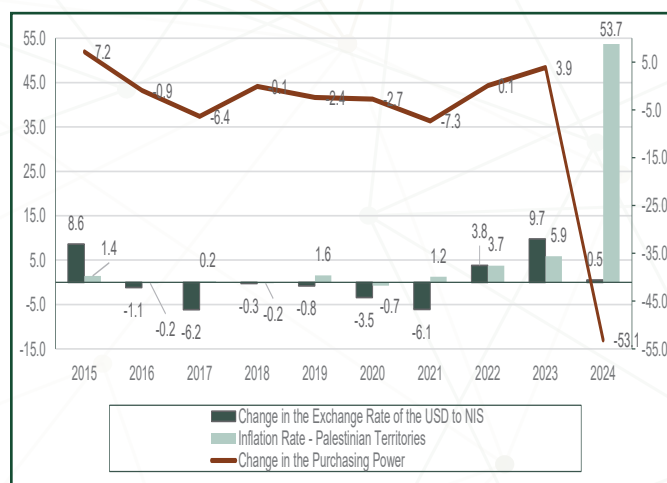
An improvement in the exchange rate of the U.S. dollar against the shekel leads to higher income for individuals who receive their salaries in U.S. dollars. When the exchange rate increase surpasses the rate of inflation, it results in a real increase in the purchasing power of these individuals. Figure 2 illustrates that, from 2015 to 2024, the rise in the U.S. dollar's exchange rate against the shekel outpaced inflation in the Palestinian territories, reflecting an enhancement in the purchasing power of those paid in U.S. dollars. The stronger dollar positively impacts the real income of individuals paid in U.S. dollars but who spend primarily in shekels. However, if their expenditures are also in U.S. dollars (as is often the case with loans or rent), the effect is neutral, as their income and spending are aligned in the same currency.

Between 2015 and 2024, the purchasing power of U.S. dollar recipients generally improved each year, with the exception of 2024. The dip in purchasing power in 2024 can be attributed to a sharp inflation spike of 54% compared to the previous year. This inflationary surge was largely driven by the war in Gaza, which disrupted the flow of essential goods. As highlighted in the “Prices” section of the latest QEM report, it is crucial to note the significant disparity in purchasing power changes between the West Bank and Gaza Strip. These differences stem from the widely divergent inflation rates in the two regions, particularly following the onset of the war.

Impact on Import Prices

An increase in the exchange rate of the U.S. dollar against the shekel drives up the domestic prices of imported goods priced in dollars—whether these goods are imported through Israel or directly from abroad. As a result, a stronger U.S. dollar plays a significant

Figure 2: Change in the Purchasing Power of Individuals Paid in U.S. Dollars, Change in Inflation Rate, and Change in the Dollar Exchange Rate Against the Shekel, 2015-2024 (%)



Source: The figures were calculated based on data from the PMA and the Palestinian Central Bureau of Statistics (PCBS).

role in driving local inflation. It can be concluded that inflation driven by the dollar's exchange rate rise has a lesser impact on the purchasing power of individuals who earn their income in dollars but spend in shekels, compared to those who are paid in shekels.

Impact on the Public Budget

Fluctuations in the U.S. dollar exchange rate against the shekel also affect the public budget. A significant portion of Palestinian government foreign aid is denominated in dollars, while most government spending (including salaries and operational expenses) is in shekels. When the dollar weakens against the shekel, the value of foreign aid in dollars decreases when converted to shekels. This means the government may face increased challenges in meeting local financial obligations, particularly in the current period marked by a sharp decline in clearance revenues, as highlighted in the “Public Finance” section of the latest QEM report. Furthermore, changes in the dollar exchange rate influence the value of external public debt and the cost of servicing that debt (i.e., interest payments) when measured in shekels. A stronger dollar increases the value of the Palestinian government's external debt in shekel terms, which represented about 31.5% of the total public debt in 2024, or approximately USD 1.3 billion. This effect also applies to the interest on that debt. Conversely, a weaker dollar would reduce the cost of debt service in shekels.

Competitiveness of Palestinian Goods in Overseas Markets

Israel remains the largest destination for Palestinian exports, accounting for 86% of total Palestinian exports in 2024. Theoretically, changes in the dollar-shekel exchange rate are unlikely to significantly impact the competitiveness of Palestinian goods in the Israeli market. However, a depreciation of the shekel against the U.S. dollar is expected to improve the competitiveness of Palestinian goods in international markets, particularly in countries that peg their currencies to the dollar, such as Jordan. This would make Palestinian exports more attractive while raising the cost of imported goods priced in dollars, thereby improving the trade balance. On the flip side, a stronger shekel would have the opposite effect, reducing the competitiveness of Palestinian exports in global markets and exacerbating the trade deficit.

4. Reconstruction Costs in the Latest International Report

In February 2025, the World Bank (WB) issued a report to assess the damages, losses, and needs of the Gaza Strip and the West Bank.¹ This report is the outcome of the joint efforts made by the World Bank Group (WBG), the United Nations (UN), and the European Union (EU). It complements the *Gaza Strip Interim Damage Assessment Report*, issued by the team in March 2024. In addition to assessing the damages and losses to the different sectors, the new report is aimed at offering a roadmap for the reconstruction needs.

Methodology and Analysis

The report begins with a presentation on the methodology used and the sources of the data collected. Data was collected from several sources, including field collection, remote data collection by the Palestinian Authority, humanitarian and United Nations organizations, as well as from a set of technical sources. Such technical sources included satellite images, data extracted from mobile phones and social media, and night mode technology. The

report covers three aspects, namely: damages, socioeconomic losses, and the recovery and reconstruction needs in 18 sectors, and estimates the monetary value of every aspect. It also covers the losses inflicted upon some sectors in the West Bank and upon all sectors in the Gaza Strip. It estimates the socioeconomic losses by calculating over 200 variables. As for the timeframe, the report only takes stock of the material damages inflicted in the first year of the aggression. This means that it does not cover the losses in the three months before the ceasefire agreement went into effect and after that. The anticipated losses were estimated over three years following the aggression (particularly because the effects of the aggression will likely continue to be felt until significant recovery is achieved). As for the needs, they were estimated in two periods. They were estimated over three years following the aggression and five or more years. The anticipated costs of the reconstruction and recovery process, including the cost of materials and equipment as well as the cost of labor and land, were taken into consideration. The impact of inflation was also taken into consideration.

Damages, Losses, and Recovery Needs in the Gaza Strip

The report estimates that the total damages and losses inflicted on the Gaza Strip during a year of aggression at approximately 49 billion US Dollars (USD), including USD 30 billion in material damages (See Table 1). This estimate is about three times higher than the value of the damages and losses contained in the previous report (issued in January 2024, noting that the previous estimate stood at USD 18.5 billion.)

The social sectors suffered the largest proportion of material damages, which amounted to USD 18.1 billion. These damages were mostly caused by the partial damage and destruction of the housing sector, affecting approximately 92% of housing units.² The same is true for the losses in the other social sectors, such as health and education, which amounted to USD 6.3 and 3.2 billion, respectively.

¹ World Bank, European Union, United Nations. (March 2024). *Gaza Strip – Interim Damage Assessment – Summary Note*. Washington D.C.: World Bank Publications.

² <https://www.ochaopt.org/content/humanitarian-situation-update->

Table 1: An Estimate of the Value of the Damages and Losses Inflicted on the Gaza Strip in the First Year of the Aggression (in USD million)

Sector		Damages	Losses
Productive sectors	Trade & Industry	5,900	2,200
	Agriculture	835	1,300
	Finance	14	325
	Total	6,749	3,825
Social Sectors	Housing	15,800	545
	Social Protection	33	1,390
	Health	1,300	6,300
	Education	874	3,206
	Cultural Heritage	120	55
	Total	18,127	11,496
Infrastructure Sectors	Transportation	2,500	377
	Water & Sanitation	1500	64
	Energy	494	243
	Information & Communication Technology (ICT)	164	736
	Municipal Services	233	988
	Total	4,891	2,408
Overlapping Sectors	Lands	11	115
	Social Development		
	Urban Planning		
	Employment	10	1,050
	Environment	92	165
	Total	113	1330
Grand Total		29,880	19,059

Note: The calculations of the Ministry of Public Works and Housing (MoPHW) are based on the data of the report jointly issued by the WB, the EU, and the UN.

The damages and losses caused to the productive sectors due to the destruction of the economic infrastructure, particularly of the private sector, amounted to USD 6.7 billion and USD 3.8 billion, respectively. This has resulted in a decline in productivity, and, therefore, the sum of USD 7 billion is required for recovery and reconstruction.

The productive sectors are followed by the infrastructure sector, which sustained damages and losses estimated at USD 4.9 billion and USD 2.4 billion.

Table 2, below, presents an estimate of the reconstruction needs in the Gaza Strip as per the report jointly issued by the WB, the EU, and the UN. It shows that the material needs of the social sectors (amounting to USD 30.4 billion) also exceed the needs of the remaining sectors in the short and medium term. This is because huge funds are required for the reconstruction and recovery of the housing and health sectors. The social protection sector is ranked third, coming after the housing and health sectors, in terms of the amount of funds required in the short term to address the high rates of poverty and food insecurity.

The Gaza Recovery, Reconstruction & Development Plan (GRRDP)

Table 2 also presents the expected costs outlined in the State of Palestine's Gaza Relief and Early Recovery Plan. This plan is based on the assessment of the tripartite report. The GRRDP envisages that USD 3.5 billion is required for early recovery in the first six months.¹ In line with estimates outlined in the tripartite report, it is the social protection, health, and housing sectors that are the most needy in terms of funding. The GRRDP also estimates that infrastructure rehabilitation would require approximately USD 8 billion over five years for the rehabilitation of the roads and transportation networks, as well as for the restoration of water and sanitation networks. It also estimates that the environment sector would require USD 1.9 billion, including USD 1 billion for rubble removal.

Although the GRRDP relies on the tripartite report jointly issued by the WB, the EU, and the UN, it serves as a political roadmap to guide Gaza reconstruction, in contrast to the US plan for Gaza reconstruction. It includes detailed explanations on the main goals, aspects, and steps of recovery and reconstruction in every main sector, including governance and spatial planning. It focuses primarily on the material needs for reconstruction so that it would serve as a document to be submitted to the donors' conference and for the collection of funds. In contrast to the tripartite report, the GRRDP stresses the party to be in charge of reconstruction and the need for donors to adhere to the National Ownership principle for reconstruction. It envisages setting up an Emergency Operations Room, which would comprise

¹ Gaza Relief and Early Recovery Plan – Month 0-6. (2025). United Nations – General Assembly, accessed by: <https://docs.un.org/>

Table 2: The Estimated Relief and Reconstruction Needs in the Gaza Strip (in USD million)

Sector		Needs (as per the Tripartite Report)		Needs as per the GRRDP (0-6 Months)
		3 Years	5 Years	
Productive Sectors	Trade & Industry	1,060	6,900	(126 industries)
	Agriculture	1,700	4,200	173
	Financing	10	42	
	Total	2,770	11,142	
Social Sectors	Housing	3,700	15,200	450
	Social Protection	3,500	4,180	860
	Health	4,300	7,058	562
	Education	2,649	3,800	115
	Cultural Heritage	48	192	20
	Total	14,197	30,430	
Infrastructure Sectors	Transportation	724	2,900	106
	Water & Sanitation	664	2,700	553
	Energy	365	1,460	220
	ICT	114	460	30
	Municipal Services	110	440	72
	Total	1,977	7,960	
Overlapping Sectors	Lands	12	32	1
	Social Development	171	171	
	Urban Planning	3	3	
	Employment	388	1,600	239
	Environment	480	1,900	134
	Total	1054	3706	
		19,998	53,238	

* Note: The calculations outlined in the MoPHW's plan are based on the data of the report jointly issued by the WB, the EU, and the UN.

representatives of 20 government bodies, the United Nations Development Program (UNDP), and the Office for the Coordination of Humanitarian Affairs (OCHA), setting out in detail the tasks allocated to the implementing agencies and the fundraisers.²

Damages, Losses, and Material Needs in the West Bank

The tripartite report adopts a methodology for the assessment of the damages and costs in the West Bank that differs from the methodology applied in the Gaza Strip. The partial analysis of the report focuses on the most affected areas in the West Bank, such as Nablus, Jenin, and Hebron, in general, in

addition to the refugee camps in the northern West Bank, in particular. The assessment is limited to certain aspects, such as housing, health, education, and the water and sanitation networks.

The tripartite report estimates that the damages to the housing sector in the West Bank until October 2024 amounted to USD 16 million. It also estimates that the damages to public infrastructures amounted to USD 25 million due to the destruction of the electricity supply and the electricity feeder lines in the refugee camps and the surrounding municipalities in Ramallah, Tulkarm, and Jenin. The health sector has suffered damages and losses amounting to USD 14.6 million and USD 696.9 million, respectively, as a result of the decline in productivity due to physical injuries and mental disorders. The report estimates the losses

² To learn more about the sectoral division in the GRRDP, click this link: <https://docs.un.org/en/A/ES-10/1022>.

arising from the decline in employment and incomes at approximately USD 3.2 billion, with daily wages declining by approximately 48.2 million New Israeli Shekel (NIS). It is worth noting that the report does not offer an overall estimate of the financial needs of all the sectors in the West Bank, as was the case in the Gaza Strip, but simply presents the needs of some sectors. It shows that the social protection sector requires USD 17 million, the employment sector USD 440 million, and the ICT sector USD 248 million.

The Prerequisites for Recovery and Reconstruction

As per the tripartite report, the recovery and reconstruction in the Gaza Strip are based on several pillars, namely, the emergence of a Palestinian leadership that would reunite the West Bank and the Gaza Strip in a single territorial unit, effective planning and coordination in resource mobilization, and the inclusion of social groups of various needs, (such as children, women, displaced people, and the elderly). The aim is to consolidate and entrench the principles of transparency and accountability in a manner that guarantees social cohesion. The report stresses several logistic factors which are deemed indispensable for the recovery of the sectors, first and foremost of which is addressing the issue of land ownership. Such logistic factors also encompass ensuing security, facilitating the movement of persons, goods, and equipment necessary for reconstruction, and restoring basic services. The report also stresses the importance of meeting the transparency requirements and governance arrangements to ensure the success of the reconstruction process.

The Tripartite Report as a Methodology of Work

As mentioned before, the tripartite report does not cover the destruction and the additional costs incurred as a result of the incessant Israeli aggression in the last three

months before the ceasefire agreement went into effect and in the post-ceasefire period. Therefore, some of the figures on the losses contained in the report have become irrelevant. For example, the report indicates that only 140 housing units were destroyed (mostly partially) in the Jenin refugee camp. In contrast, the military operation launched by the occupation in the Jenin refugee camp and the surrounding area since the beginning of 2025 has fully destroyed 600 housing units and partially damaged approximately 3,000 others.¹ However, it points out that in the periods following the reporting period, the material damages did not qualitatively differ from the previous damages, which could give rise to a significant qualitative difference in the outcomes. Being based on a precise scientific methodology with a slight margin of error, the report could be relied upon as a knowledge-based roadmap for planning reconstruction and recovery. Moreover, it could be viewed as incomplete and partial, but not as an exhaustive information file on reconstruction. It could also be viewed as one that offers a methodology characterized by adequate flexibility, making it possible to plan for reconstruction regardless of how long the interim period lasts or of the other practical considerations.

1 «عدوان الاحتلال على مدينة جنين ومخيمها يدخل يومه الـ83»، وكالة الأنباء والمعلومات الفلسطينية (وفا)، بتاريخ 13 نيسان 2025، على: [/https://www.wafa.ps/Pages](https://www.wafa.ps/Pages)

5. Israel's Regional Trade with the United Arab Emirates

The Israeli Economy in 2025/2026

In its periodic reports on the Israeli economy, the Organization for Economic Co-operation and Development (OECD), a club and research center for mostly rich states, has published a lengthy study on the reality and prospects of the Israeli economy.⁵ The study anticipates that the Israeli economy will return to the path of growth in the current year and the upcoming year, rebounding at a rate of 3.4% and 5.5%, respectively. These two anticipated rates are higher than the rates previously set by the OECD. The study affirms that the fulfillment of these optimistic forecasts hinges on political stability at the domestic and regional levels, given its importance to help attract necessary investments and ensure the growth of domestic private consumption. It is worth noting that forecasts of the Bank of Israel (the Central Bank) for the growth rate in 2025 are close to the forecasts of the OECD. However, the Bank of Israel forecasts that economic growth in the upcoming year would be lower than that forecast by the OECD, not exceeding 4%.⁶ On the other hand, the International Monetary Fund (IMF) has amended its forecasts for the growth of the Israeli economy following the renewed war in the Gaza Strip in March 2025. It forecasts that the Israeli economy would grow at a rate that would not exceed 3.2% in 2025 and 3.6% in 2026. It is worth noting that every loss in economic growth worth 0.5 percent is equivalent to a loss of NIS 10 billion. Given the renewed aggression on the Gaza Strip and the rising budget deficit, it is now forecast that the public debt would account for 71% of the gross domestic product (GDP) instead of 69%. This means that the public debt would rise by NIS 40 billion in 2025.

The OECD report reaffirms the structural challenges to the Israeli economy, first and foremost of which are the declining contribution of religious Jews and Arab females to the labor market, the declining level of their education, and the lack of skilled professionals among them. It also affirms not only the problem arising from the declining private consumption expenditure, but also the ensuing rise in prices and cost-of-living compared to all other Member States of the OECD (38 Member States). Among the multiple

factors behind the rising prices and cost-of-living, the report takes account of Israel's limited trade relations with neighboring countries and limited regional trade despite the "Abraham" Accords it has reached with some Arab countries.

Israel's Regional Trade with the United Arab Emirates

The OECD report applies the Gravity Model to test the validity of the notion that Israel's regional trade is less than what it is supposed to be. Gravity models are intended to predict bilateral trade flows between two states in light of the level (size) of trade among a large number of states of similar characteristics. Similar characteristics in the first gravity models are limited to the GDP and the geographical distance between the two states. (This accounts for why 'gravity models' are called so. This is because mass and distance constitute the basis of Newton's law of universal gravitation.) Modern models take into consideration a large number of similar characteristics, including geographical, economic, and cultural factors, as well as trade agreements, to assess the level forecast by the gravity model for international trade between two states (the level at which the international trade between two states should be). When comparing the findings of the gravity model with the figures of the actual trade flows, it could be gleaned whether the actual figures are higher or lower than what is predicted or what such figures should be. There is a consensus among economists that the current gravity models of international trade yield findings that are mostly correct and satisfactory recommendations.⁷ (See the definition of and the explanation on the advantages and disadvantages of the gravity models in Issue 46 of the Economic Monitor.)

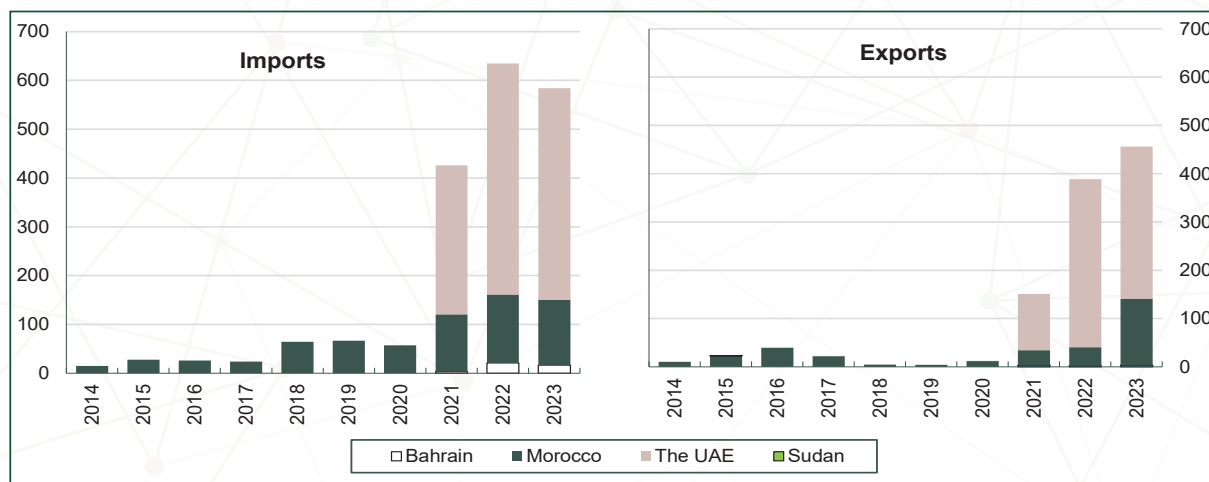
The model applied to evaluate the size of trade flows between Israel and the countries of various geographical regions is based on figures from 193 importers and exporters during the period 1969-2020. Chart 1 below shows the analysis outcomes. Every column represents the ratio of actual trade flows to trade

5 OECD (2025). OECD Economic Surveys: Israel 2025, OECD Publishing, Paris. <https://doi.org/10.1787/d6dd02bc-en>.

6 <https://www.boi.org.il/83922?culture=en>

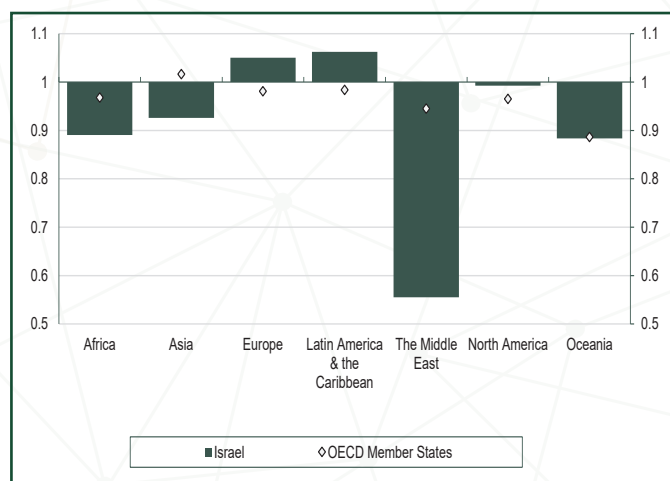
7 It is worth noting that the gravity models tackling bilateral trade flows between Israel and Palestine have all confirmed that Israel's actual exports to Palestine are twice higher than what they should be, whereas Palestine's exports to Israel must be several times higher than what they are in reality.

Chart 2: The Development of the Trade in Goods between Israel and the States Signatory to the “Abraham” Accords (in USD million)



flows predicted by the model. If the ratio is equal to 1 (i.e., on the horizontal axis), this means that the size of actual trade flows matches the size of predicted trade flows (or the size that trade flows must be following the figures underlying the model). If the ratio is higher than 1, this means that the actual trade flows are higher than predicted, and vice versa is true if the ratio is less than 1. It is apparent from the chart that Israel's trade flows with the majority of geographic regions in the world are close to the model predictions (close to what they must be). It is also apparent from the chart that they are close to the model's predictions on the geographic distribution of trade flows of the OECD Member States. The only exception is related to Israel's trade with the Middle East countries. The outcomes indicate that Israel's actual trade flows with them are substantially lower than predicted by the model.

Chart 1: The Ratio of Israel's Actual Trade Flows to its Predicted Trade Flows with States of Different Geographic Regions



The “Abraham” Accords

The decline in Israel's regional trade and its role in causing the local consumption prices to rise are among the reasons behind the frantic quest to increase the number of states signatory to the “Abraham” Accords. The number of states that have signed these trade arrangements with Israel is four. (These states are Sudan, Morocco, Bahrain, and the UAE.) Chart 2 below displays the development of the trade in goods between these states and Israel. It illustrates the growth of importing and exporting since the accords were signed in 2020.

Israel's trade with the signatory states of the “Abraham” Accords, particularly the UAE, has seen remarkable growth since 2020. The UAE has signed many trade, economic, and tourist cooperation agreements with Israel, most importantly the free trade agreement (FTA), which has eliminated tariffs on almost all goods traded between the UAE and Israel and came into effect in 2023. However, despite all these facilities, Israel's exports of goods to the UAE in 2024 (worth USD 503 million) are still less than 1% of Israel's total exports of goods in that year (worth USD 61.7 billion). It should be noted in this regard that these figures are limited to trade in goods and neither include trade in services (including computer software, Internet, and artificial intelligence (AI) services), nor investments, which are of special importance under the agreements of cooperation between the two parties.

Table 1: The Trade in Goods between Israel and the UAE (in USD million, 2023)

Israel's Exports to the UAE			The UAE's Exports to Israel		
Commodity	Value	Percentage (%)	Commodity	Value	Percentage (%)
Diamond	458.0	69.0	Diamond	283.0	30.1
Chlorine	23.3	3.5	Gold	205.0	21.8
Audio equipment	18.7	2.8	Audio equipment	61.2	6.5
Measuring equipment	13.2	2.0	Steel pipes	52.4	5.6
Engineering materials	12.1	1.8	Perfumes	51.2	5.4
Potash fertilizer	8.2	1.2	Propylene	42.1	4.5
Others	130.5	19.7	Ethylene	26.0	2.8
Total	664.0	100%	Refined petroleum	21.3	2.3
			Others	197.8	21.0
			Total	940	100%

Source: <https://oec.world/en/profile/bilateral-country/are/partner/isr?selector538id=HS4>

Trade with the UAE

Table 1 shows the structure of the trade in goods between Israel and the UAE in 2023, which marks the last year for which data on the components of trade in goods between them was available. It could be deduced from the table that the trade balance in goods in that year (which marked the same year during which the FTA between them went into effect) was in favor of the UAE,

with an export surplus worth USD 276 million. Strikingly, diamond and gold accounted for high proportions of trade between the two parties. 69% of Israel's exports to the UAE and 52% of the UAE's exports to Israel shall be deducted from such proportions. It is well known that these goods are neither produced in any of the two countries. They are reimported and reexported goods.