



MAS

PALESTINE ECONOMIC POLICY
RESEARCH INSTITUTE (MAS)

Palestine Economic Update

February 2026

Key Messages :

- After a very difficult year of acute fiscal strain driven by Israel's suspension and deductions of clearance revenues, 2026 risks an even deeper and potentially existential crisis if the withholding of these transfers continues, as warned by the Minister of Finance.
- Despite a partial reopening of Rafah under the fragile ceasefire, humanitarian access to Gaza remains tightly restricted and insufficient, while a newly formed Palestinian transitional administration has yet to assume effective governance on the ground.
- Correspondent banking remains structurally indispensable yet persistently uncertain, as its continuation hinges on Israeli indemnity renewals beyond Palestinian control. After two bi-weekly extensions in February, the current arrangement expires on 14 March 2026, with no clarity on further renewal.

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1. 2025 Performance Reveals Deepening Fiscal Strain

For the second consecutive year, the PA's public finances have deteriorated markedly, driven primarily by Israel's full suspension of clearance revenue transfers since June 2025, alongside continued deductions. The

suspension of these funds has intensified the liquidity crisis and severely constrained the government's ability to finance essential services.

Table 1: Public Revenues and Expenditures, 2022-2025 (Cash Basis, million ILS)

Item	2022	2023	2024	2025
Total Revenues	15,715.7	15,980.9	11,653.9	11,230.7
Clearance Revenues	10,571.3	10,035.4	6,856.8	6,155.7
Tax Revenues	3,840.2	3,919.5	3,208.1	3,219.1
Non-Tax Revenues	1,537.9	1,591.1	1,270.4	1,525.5
Earmarked Receipts	562.0	477.7	369.6	360.4
Tax Refunds (-)	795.7	42.7	50.9	30.0
Total Expenditures	14,609.4	15,545.3	14,380.4	12,921.4
Wages & Salaries	6,872.6	6,928.7	6,128.5	5,834.6
Non-wage Expenditures	5,458.0	5,916.6	5,795.8	5,095.5
Net Lending	1,224.6	1,342.1	1,481.0	1,274.8
Earmarked Payments	448.3	565.3	347.6	164.8
Development Expenditure	605.9	792.6	627.5	542.7
Balance before grants & financing	1,106.3	435.6	-2,726.5	-1,690.7

Source: Ministry of Finance

1.1 Public Revenues

Total public revenues reached ILS 11.2bn in 2025 (cash basis), down 3.6% from 2024.¹ While the year-on-year decline appears modest, as both years were shaped by wartime conditions, revenues were nearly 30% lower than in 2022 and 2023. The sharp decline reflects falling clearance revenues due to Israeli deductions and withholdings, alongside weakened domestic revenues amid economic contraction and tighter movement restrictions in the West Bank.

Clearance revenues accruing to the PA amounted to ILS 6.2bn in 2025 (cash basis), marking a sharp contraction compared

to 2023 (-38.7%) and 2022 (-41.8%). However, the actual amount transferred by Israel did not exceed ILS 2bn, just 32% of post-net lending revenues and 19% of total dues. The remainder was deducted under net lending arrangements, namely to settle dues owed to Israeli suppliers by Palestinian utility providers (water and electricity). Such deductions rose from ILS 1.7bn in 2022 to ILS 2.4bn in 2024 and ILS 4.2bn in 2025.

In addition to net lending deductions, since 2019, Israel has deducted ILS 39–52m per month linked to payments to families of those killed or imprisoned by Israel. And, following the war on Gaza, Israel imposed an additional monthly deduction of ILS 275m, corresponding to the PA's usual salary,

¹ <https://pmof.ps/internal.php?var=11&tab=01>

pension, and other budgetary allocations to the Gaza Strip. Since June 2025, Israel has suspended the transfer of the remaining clearance revenues.

Withheld amounts and additional deductions beyond net lending arrangements reached nearly ILS 4.1bn in 2025, up from ILS 3.0bn in 2024, ILS 1.9bn in 2023, and ILS 0.6bn in 2022. These figures are net of funds allocated unilaterally by Israel to settle debts of private-sector utility providers, implying that these figures are even larger. If the suspension of clearance revenues continues, additional withholdings in 2026 alone could exceed ILS 7bn, adding to around ILS 11bn in cumulative net withholdings since 2019.

As for domestic revenues, they rose modestly by 5.3% 2025 to ILS 5.1bn (cash basis), driven by a 20.1% increase in non-tax revenues, while tax revenues remained broadly unchanged. However, domestic collections remain below 2022 and 2023 levels (14.1% and 14.8%, respectively), reflecting continued economic contraction.

Budget support from donor aid reached ILS 3.2bn in 2025, up from ILS 3.0bn in 2024, and significantly higher than 2022 and 2023 levels (ILS 1.2bn and ILS 1.3bn, respectively). Nonetheless, it remains insufficient to offset clearance revenue losses.

1.2 Public Expenditures and Fiscal Gap

Actual spending declined to ILS 12.9bn in 2025 (cash basis), compared to ILS 14.4bn in 2024 and ILS 15.5bn in 2023. Wage payments fell 4.8% year-on-year, and by 15.8% and 15.1% relative to 2023 and 2022, but this reflects partial disbursements rather than savings. Salaries were capped at around 60–70% for most of the year, with delays extending into 2026. In mid-February

2026, the government disbursed only 60% of November 2025 salary entitlements, with a minimum payment of ILS 2,000. Non-wage expenditures dropped to ILS 5.1bn, from ILS 5.8bn in 2024 and ILS 5.9bn in 2023.

On a commitment basis, expenditures stood at ILS 18.8bn in 2025, leaving a cash gap of nearly ILS 5.9bn, largely absorbed through arrears accumulation. By the end of 2025, arrears had reached approximately ILS 21bn.

Public debt (excluding arrears) stood at ILS 15.3bn (USD 4.8bn), 71.6% of which is domestic debt. It remained stable relative to 2024 but significantly higher than in 2022 (by ILS 2.7bn) and 2023 (by ILS 1.6bn). The combined rise in arrears and debt underscores a structural fiscal imbalance, with crisis-driven liquidity management replacing sustainable budgetary adjustment.

1.3 A Difficult Year Ahead

On 12 February, Finance Minister Stefan Salameh described the crisis as having existential dimensions, warning that 2026 could be the most difficult fiscal year yet.² He stressed that resolving the crisis requires a political solution that involves the release of withheld clearance revenues, saying: “the solutions of this world have been exhausted”. Later, he warned of the potential “zeroing out” of clearance revenues, citing 475 lawsuits in Israeli courts under “punitive compensation” claims totalling ILS 45bn, in addition to ILS 20bn in other compensations. This effectively implies that Israel could potentially offset the entirety of the withheld amounts.³ On 25 February, Israeli authorities deducted and transferred ILS 258m from withheld PA clearance revenues to Israeli families, pursuant to Israeli court rulings regarding

² [Salameh Holds a Press Conference in Ramallah | Wafa](#)

³ <https://www.bnews.ps/ar/node/27105>

damages and punitive compensation to families of Israelis killed or injured in attacks carried out by Palestinians.⁴

Salameh noted that domestic revenues cover only about 10% of required expenditures.⁵ He indicated plans to restructure borrowing arrangements and renegotiate terms with banks, as debt servicing now absorbs the bulk of domestic revenues, ILS 250–300m per month out of an average ILS 400m in monthly collections. He further stressed the scale of the financing gap, as paying 60% of public sector salaries requires roughly ILS 720m per month, in addition to at least ILS 250m in urgent payments to hospitals and pharmaceutical suppliers, leaving the treasury with a substantial and widening monthly shortfall.

2. Gaza Humanitarian Situation Still Critical

As part of the fragile ceasefire that entered into effect on 10 October 2025, Israel partially reopened the Rafah Crossing on 2 February 2026. The Palestinian side of the crossing had been effectively destroyed and closed since May 2024, with the exception of a brief ceasefire window in early 2025 during which 1,702 patients were evacuated.⁶ Under the current arrangement, daily movement is capped at 50 medical evacuees from Gaza, each accompanied by up to two companions, in addition to 50 Palestinian returnees who had previously fled Gaza during the war.⁷ As of 10 February, the UN and its partners had facilitated the evacuation of 91 patients, along with their companions, via Rafah and received 223 returning Palestinians.⁸ Movement remains slow, tightly controlled, and under strict coordination with Israeli security measures, with daily exits not

reaching 50 individuals despite an estimated 18,500 patients in Gaza requiring urgent medical evacuation.⁹

Rafah remains closed to commercial cargo, and aid shipments arriving from Egypt are routed from the Egyptian side of Rafah to Karem Abu Salem (Kerem Shalom).¹⁰ Since the ongoing ceasefire, humanitarian supplies have entered Gaza primarily through Karem Abu Salem, Al-Karara (Kissufim), and Zikim (Erez West), operating intermittently under Israeli inspection and security approval procedures.¹¹ These crossings had been repeatedly closed over the past two years amid the enforcement of a near-total blockade.

Between 10 October 2025 and 11 February 2026, 15,877 trucks carrying 295,353 pallets, equivalent to 212,710 metric tons of humanitarian supplies, were collected from crossings along Gaza's perimeter under the UN Security Council Resolution 2720 monitoring mechanism.¹² Commodities consisted primarily of food (81.5%), followed by shelter materials (7.2%), WASH supplies (4.6%), nutrition (3.9%), health (1.7%), and other essential items. While this represents a large increase compared to the preceding four months (8,626 trucks and 114,378 pallets), volumes remain insufficient relative to population needs under structural vulnerability. According to the December 2025 IPC assessment, more than 77% of Gaza's population faces Crisis levels of acute food insecurity (IPC Phase 3 or worse).¹³ Operational bottlenecks and access constraints also persist. Between 5 and 10 February, only 59% of the 211 manifested aid trucks scheduled to enter via Karem Abu Salem were successfully offloaded at Gaza's crossings.¹⁴

4 <https://www.i24news.tv/he/news/economic/artc-32f56283>

5 [Ibid](#)

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

7 <https://apnews.com/article/gaza-rafah-crossing-israel>

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

9 <https://gisha.org/en/update-on-rafah-crossing/>

10 <https://www.un.org/unispal/document/ocha-gaza-humanitari>

11 <https://www.ochaopt.org/content/reported-impact-snap-2026>

12 <https://app.un2720.org/tracking/collected>

13 <https://www.wfp.org/news/wfp-scales-operations-gaza-ceas>

14 <https://www.un.org/unispal/document/ocha-gaza-humanitari>

2.1 Palestinian Civil Administration in Gaza

On 15 January, the National Committee for the Administration of Gaza (NCAG) held its inaugural meeting in Cairo, formally launching its work.¹⁵ The NCAG is a transitional Palestinian technocratic body established under UN Security Council Resolution 2803 (2025) and linked to President Trump's 20-point Comprehensive Plan to End the Gaza Conflict.¹⁶ Its mandate is to assume civil administration and internal security responsibilities in Gaza and coordinate early recovery and reconstruction until the PA is able to reassume those functions fully. Its 15 members are all from Gaza.¹⁷

On 16 January, the White House described the NCAG's formation as "a vital step forward in implementing Phase Two" of Trump's Plan and said this aligns with United Nations Security Council Resolution 2803 (2025) that endorsed Trump's Plan and welcomed the establishment of the Board of Peace.¹⁸ The Board has emerged as a controversial U.S.-led international organization launched by President Trump to coordinate peace-building and reconstruction efforts, with ambitions to expand into a global peace-building role.¹⁹ The NCAG reports to the Board through the Office of its High Representative (OHR), veteran diplomat Nicolai Mladenov, and the PA has established a Liaison office with the OHR, headed by the Prime Minister to manage relations with the NCAG and the Board.²⁰

On 19 February, the Board of Peace held its inaugural meeting in Washington. Reports indicate that four Arab Gulf states pledged \$4.2bn toward a Gaza relief package, the UN

announced its Gaza appeal for an additional \$2bn, and five countries committed troops to an International Stabilization Force for Gaza.²¹ President Trump also said the U.S. would pledge \$10bn, without providing clear details on sourcing, allocation, or timelines.

Notably, the Board of Peace leadership does not include Palestinian members, and the State of Palestine was not invited or permitted to attend the inaugural meeting.²² Meanwhile, as of the end of February 2026, the NCAG members had not been able to enter Gaza. It has been unable to operate on the ground or assume de facto governance inside Gaza, due to Israeli restrictions and the uncertain security situation, while the US administration is highly preoccupied with other, more urgent files.²³

3. Update on Correspondent Banking

Correspondent banking relationships (CBRs) are a core pillar of the global financial system, enabling cross-border payments and international trade, particularly in emerging and developing markets.²⁴ They involve a commercial arrangement whereby a correspondent bank provides services, such as international transfers, clearing, liquidity management, and trade finance, to a respondent bank in another country.²⁵ Thus, its importance lies in serving as a primary channel for international payments, particularly by enabling smaller banks in developing economies to access the global financial system, supporting payment stability and financial integration.²⁶

Globally, CBRs have declined amid stricter regulatory requirements and rising compliance costs, reflecting

¹⁵ <https://english.wafa.ps/Pages/Details/166325>

¹⁶ <https://www.ncag.ps/en/>

¹⁷ <https://al-shabaka.org/policy-memos/the-ncag-gazas-techno>

¹⁸ <https://www.whitehouse.gov/briefings-statements/2026/01/>

¹⁹ <https://www.justsecurity.org/130867/board-of-peace-key>

<https://www.whitehouse.gov/articles/2026/01/>

²⁰ <https://english.wafa.ps/Pages/Details/167599>

²¹ <https://apnews.com/article/trump-board-of-peace-first-meetin>

²² <https://www.nbcnews.com/world/gaza/board-of-peace-gaza>

²³ <https://www.haaretz.com/gaza/2026-02-08/ty-article/>

²⁴ [Guidance on Correspondent Banking Services | FATF](#)

²⁵ https://www.congress.gov/crs_external_products/IF/PDF/.pdf

²⁶ [Guidance on Correspondent Banking Services | FATF](#)

broader “de-risking” trends.²⁷ These relationships carry significant exposure to money laundering, terrorist financing, legal liability, and reputational risks.²⁸ The Financial Action Task Force (FATF) underscores the need for a risk-based approach that entails understanding the respondent bank’s business profile and applying enhanced due diligence measures.²⁹ In parallel, U.S. legislation, particularly Section 312 of the USA PATRIOT Act, imposes stringent compliance requirements when dealing with foreign banks.³⁰ Nonetheless, it is important to note that recent technological advances, including digitalization, data analytics, and AI, have improved transaction monitoring and AML controls, while reducing settlement times and enhancing the capacity to track suspicious activities.³¹

In Palestine, correspondent banking is a structural necessity rooted in the 1994 Paris Protocol, which established a “single currency area” and integrated Palestinian monetary and payments arrangements with Israel’s framework, effectively anchoring transactions to the Israeli shekel and Israeli clearing systems. Palestinian banks rely on Bank Hapoalim and Israel Discount Bank as their Israeli correspondents, with annual Israeli indemnity letters enabling these relationships since 2016. As trade between the Palestinian and Israeli sides expanded over the past three decades, reliance on this channel deepened, with transactions between Palestinian and Israeli banks estimated at around ILS 50bn annually.³² However, the renewal of these guarantees

has become increasingly uncertain and has at times been used as a political lever.

Since 2024, Israel’s Ministry of Finance has repeatedly threatened to stop issuing the indemnity, often renewing it at the last moment for a shorter period. By late 2025, Israeli banks signalled potential termination unless guarantees were renewed, issuing 60-day notices that raised fears of disrupted trade settlements, worker remittances, and commercial flows. By mid-December 2025, the Israeli indemnity was extended for two months, until 12 February 2026. This was followed by successive two-week extensions in mid- and late February, effectively normalizing short-term renewals. The shift toward bi-weekly extensions signals deepening uncertainty about the arrangement, compounding economic fragility, placing additional strain on the banking sector, and heightening concerns among international correspondent banks. The current extension expires on 14 March 2026, with no clarity on the duration or conditions of any further renewal.³³

Simultaneously, over ILS 14bn in cash accumulated in Palestinian banks due to difficulties shipping surplus shekels, straining liquidity, and contributing to costly parallel cash markets.³⁴ With clearance revenues withheld during 2025, government liquidity deteriorated, and domestic borrowing increased, heightening sovereign exposure within the banking sector.³⁵ A disruption of correspondent banking would halt commercial payments, fuel informal cash markets, weaken government revenue collection, and restrict banks’ ability to move and exchange cash.

The Palestine Monetary Authority (PMA) has responded by strengthening regulation and

27 https://www.congress.gov/crs_external_products/IF/PDF/.pdf

28 [Money Laundering Risks in Correspondent Banking | Moody's](#) and [Ibid](#)

29 [Guidance on Correspondent Banking Services | FATF](#)

30 <https://bsaaml.ffiec.gov/manual/AssessingComplianceWithB-SARegulatoryRequirements/10>

31 <https://www.bis.org/publ/bisbull87.htm>

[Money Laundering Risks in Correspondent Banking | Moody's](#)

32 [Questions and Answers about the Excess shekel Crisis | PMA](#)

33 <https://www.sadanews.ps/business/280504.html>

34 <https://english.palinfo.com/reports/2025/06/24/341894/>

35 [World Bank Economic Monitoring Report - April 2025](#)

compliance, expanding digital payments and financial inclusion, and pursuing diplomatic efforts to preserve CBRs, while affirming banking sector resilience.³⁶ It has also engaged internationally with central banks and international financial institutions to seek alternative arrangements, so far unsuccessfully.

Overall, the Palestinian case illustrates that correspondent banking is not a neutral technical arrangement but a politically contingent financial infrastructure. As long as the shekel remains the primary currency in circulation, there is no viable short-term alternative to Israeli correspondents. Digitalization and diversification may mitigate risks, but cannot eliminate the structural vulnerability stemming from the absence of monetary sovereignty. Thus, maintaining correspondent banking relations with Israel remains both a cornerstone for economic stability and one of the system's most fragile links. Its dependence on a political framework beyond Palestinian control makes its preservation an ongoing operational imperative rather than a strategic choice.

4. Noor Tubas Solar Power Plant

On 13 January, Palestinian Prime Minister Mohammad Mustafa inaugurated the Farmers' solar power plant (Noor Tubas), the largest solar facility thus far, with a generation capacity of 24 MW.³⁷ This raises Tubas Governorate's total completed renewable capacity to 35 MW, covering around 23% of its electricity consumption. In 2025, Palestine Energy and Natural Resources Authority (PENRA) issued 46 licenses for solar power generation projects with a combined capacity of 91 MW, including 18 licenses in Tubas (around 50 MW).

On 8 February, a presidential decree allocated approximately 149 dunums of state land in Jenin and Tubas for additional solar projects, as part of broader infrastructure and institutional integration efforts.³⁸ These and other related measures fall under the National Strategy for Renewable Energy and Energy Efficiency (2025–2030), which aims to raise the share of clean energy to about 30% of electricity needs (around 1,430 MW, including 1,300 MW from solar) to enhance energy independence, reduce emissions, and stimulate investment.³⁹ As of February 2026, total installed solar capacity in the West Bank and Gaza reached 385.2 MW.⁴⁰ Ramallah Governorate currently has the largest installed capacity (77.6 MW), followed by Hebron (66.2 MW) and Nablus (61.7 MW).

5. Recent MAS Work

5.1 Rapid Capacity Assessment of Municipalities in the Northern West Bank

On 18 February 2026, the Palestine Economic Policy Research Institute (MAS) presented its rapid capacity assessment of municipalities in the northern West Bank (Tulkarm, Jenin, Qalqilya, and Tubas), concluding that extensive infrastructure damage, revenue losses, and continued displacement have severely constrained local governments' ability to deliver basic services.⁴¹ MAS prepared this assessment as part of the Transparency, Evidence and Accountability (TEA3) programme implemented by the United Nations Development Programme (UNDP), and funded by the UK Foreign, Commonwealth & Development Office (FCDO) through the British Consulate General in Jerusalem,

³⁶ <https://thisweekinpalestine.com/the-palestine-monetary-pma/>
³⁷ <https://www.palestinecabinet.gov.ps/portal/news/Details/>

³⁸ <https://www.maannnews.net/news/2155778.html>
³⁹ [National Strategy for Renewable Energy | WAFA](https://www.wafa.gov.ps/Portals/0/Files/2025/12/20251223142214.pdf)
⁴⁰ <https://mapportal.penra.pna.ps/>
⁴¹ <https://mas.ps/news/13664.html>

the Swedish International Development Cooperation Agency (Sida) and the Australian Department of Foreign Affairs and Trade (DFAT).

The assessment identified urgent (0–6 months) priorities such as infrastructure rehabilitation, emergency equipment, financial stabilization, and shelter support, along with medium-term (6–18 months) reforms focused on crisis management, digital transformation, improved revenue collection, strengthened local economic development, and structural governance reforms to ensure fiscal sustainability.

5.2 Socio-economic dynamics of Jerusalem villages amid settlement expansion in the Jerusalem Governorate

In late 2025, MAS, in collaboration with the Arab Center for Research and Policy Studies, published a study examining Israeli settlement expansion in Jerusalem from demographic and geographic perspectives.⁴² The study focuses on the increasing isolation of surrounding Palestinian villages and towns from Jerusalem's city centre, as well as the separation of these communities from the broader Palestinian social and economic space. It concentrates on Israeli settlement activity in the northern and northwestern areas of Jerusalem, analyzing the socio-economic and demographic transformations in Biddu, Beit Iksa, Al-Ram, and Kafr Aqab.

Using qualitative research methods, including 26 semi-structured interviews with residents and experts, the study documents how settlement expansion and the Separation Wall have reshaped livelihoods, producing severe socio-economic and demographic impacts. It concludes that the impacts vary across localities, reflecting

their distinct geopolitical characteristics and the broader colonial objectives underpinning Israeli settlement policies.

6. January Trading Activity

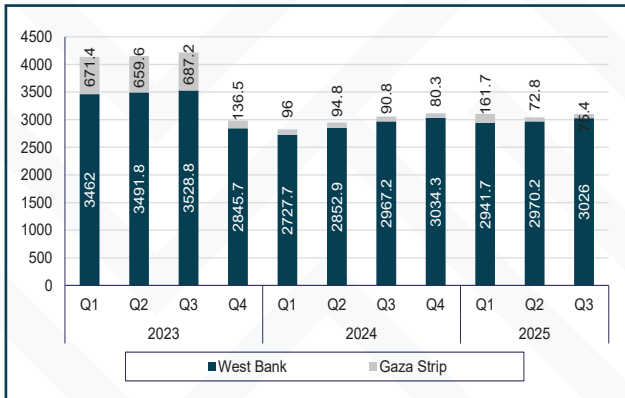
The Al-Quds Index increased by 1.7% in January, closing at 502.49 points on the last trading day.⁴³ A total of 12.5m shares were traded, valued at \$25.9m, marking a 60.2% decline in volume and a 78% drop in value compared to the previous month. Trading activity in December was inflated by PADICO Holding's sale of its stake in Palestine Industrial Investment Company (PIIC), which partly explains the sharp month-on-month decline in January.

⁴² <https://mas.ps/publications/13365.html>

⁴³ <https://www.pex.ps/bulletins>

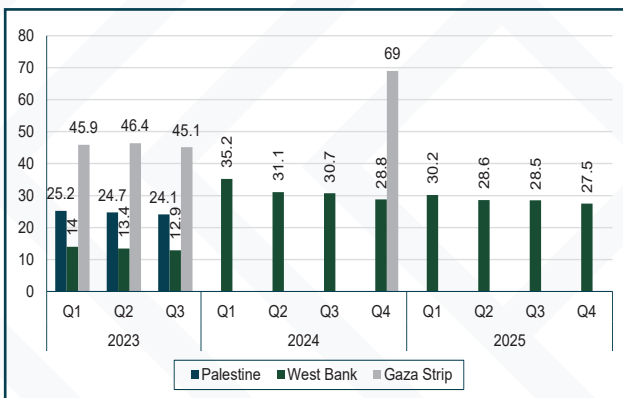
Gross Domestic Product

Quarterly Real GDP (million USD in 2015 prices) in Palestine by Region Q1 2023 - Q3 2025



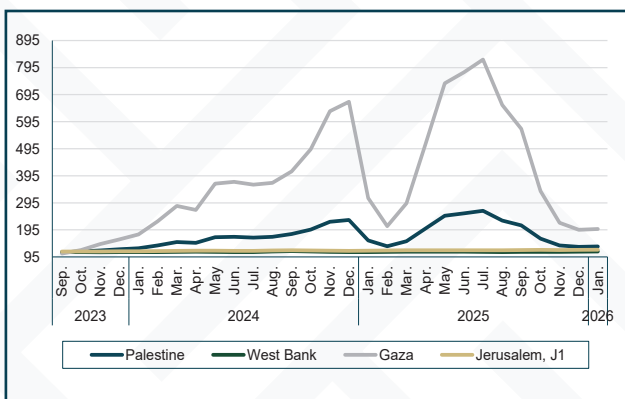
Unemployment

Quarterly Unemployment (%) in Palestine by Region Q1 2023 - Q4 2025



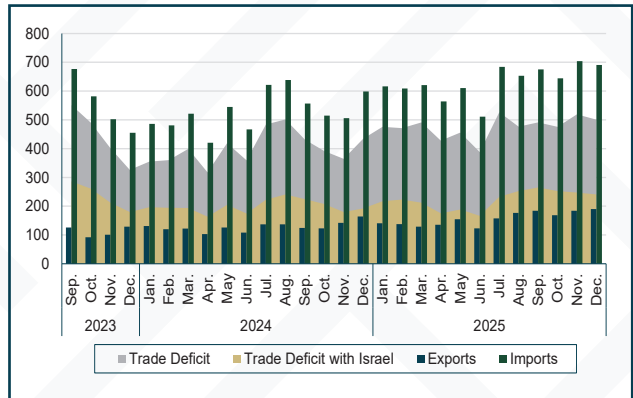
Inflation

Monthly Consumer Price Index (Base year = 2018) in Palestine by Region September 2023 -January 2026



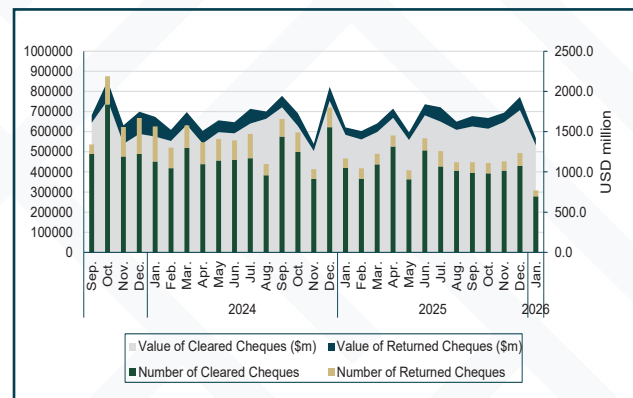
Trade

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



Cheque Activity

Number and Value (USD million) of Cleared and Returned Cheques September 2024–January 2026



Banking

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

