



MAS

PALESTINE ECONOMIC POLICY  
RESEARCH INSTITUTE (MAS)

# Palestine Economic Update

March 2026

## Key Messages :

- The 2026 draft emergency budget projects ILS 15.7bn in revenues and ILS 17.6bn in expenditures, but continued clearance revenue withholding is expected to push the effective deficit to around ILS 11.9bn (about 70% of expenditures and 19% of GDP), prompting strict austerity, spending cuts, and increased reliance on arrears.
- A new decree-law, set to take effect within six months, caps cash transactions at ILS 30,000 to promote digital payments amid banking sector pressures, while parallel external proposals for a Gaza digital currency raise concerns about institutional fragmentation and financial control, undermining the role of the PMA.
- A new cycle of municipal development funding allocates €40m in performance-based financing to 138 municipalities to enhance service delivery and local government responsiveness.
- Amid a deepening economic collapse in the West Bank, agriculture has become a critical buffer for livelihoods but faces escalating pressures.

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## 1. 2026 Emergency Budget<sup>1</sup>

On 17 February, the Council of Ministers approved the draft 2026 budget and referred it to President Mahmoud Abbas for ratification.<sup>2</sup> The draft projects total revenues at ILS 15.7bn, including clearance revenues for 2026 if released by Israel. This represents a 2.5% increase compared to 2025 (actual, commitment basis), but a 1.3% decline relative to the 2025 budget. Revenues are composed of ILS 5.16bn (32.9%) in domestic revenues, up 1% from 2025 actuals but down 11.2% from the 2025 budget, and ILS 10.63bn (67.8%) in clearance revenues, reflecting a 3.2% increase compared to 2025 accrued amounts and 3.9% relative to 2025 budget.

Total expenditures are projected at ILS 17.6bn, down from ILS 18bn in 2025 and 5.8% lower than the 2025 budget.<sup>3</sup> Under these assumptions, the deficit after grants and before Israeli deductions is estimated at ILS 1.2bn, compared to ILS 3bn in the 2025 budget.

However, these figures remain largely notional given the high likelihood of continued Israeli withholding of clearance revenues. In practice, most clearance revenues, aside from deductions under net lending, are unlikely to materialise as usable fiscal resources under the current Israeli political configuration. Accordingly, the effective deficit after grants, deductions, and withholding is projected at around ILS 11.9bn, equivalent to approximately 67.6% of total expenditure or 18.9% of GDP, compared to ILS 6.3bn (10.8% of GDP) in 2025.

This scale of deficit represents an unprecedented fiscal strain with potentially existential implications for public finances, implying an intensified and unsustainable reliance on the accumulation of arrears as a primary financing mechanism. In response, and amid expectations of continued clearance revenue withholding and limited external support, the Ministry of Finance (MoF) is adopting a strict austerity approach, prioritising available liquidity toward the provision of essential services, particularly health, education, security, and social protection, while continuing partial salary payments to public employees in line with available cash flows.

The draft budget does not include new development projects for 2026, while ongoing priority projects will be completed at an estimated cost of ILS 427m. It also adopts a zero-hiring policy, effectively freezing new public sector recruitment, alongside sharp reductions in non-essential expenditures. At the same time, government support for key services, including water, electricity, fuel, and health insurance, is maintained at ILS 1.3bn, with a stated intention to review targeting mechanisms to better reach vulnerable groups. Emergency allocations have been significantly increased from around ILS 40m to ILS 516m amid intensifying on-the-ground pressures, while social protection spending is expected to reach ILS 1.2bn across public institutions, supported by donor funding.

On the revenue side, MoF intends to intensify efforts to strengthen domestic revenue mobilisation and enhance tax equity by combating smuggling and tax evasion, without imposing additional burdens on low-income households, alongside continued public financial management reforms.

<sup>1</sup> Note: President Abbas signed the Emergency Budget Decree for 2026 while releasing this issue of the Update.

<sup>2</sup> [Council of Ministers Approves the 2026 Draft Emergency Budget | WAFA](#)

<sup>3</sup> These figures are preliminary as they may include commitments that have not yet been recorded in the 2025 data.

## 2. Law on Reducing Cash Usage

On 17 February 2026, a new Decree-Law No. (4) of 2026 on reducing cash usage was issued following several months of public consultations.<sup>4</sup> The law is a regulatory measure aimed at reducing the reliance on cash transactions and promoting the use of banking and electronic payment methods, as one of the few tools at the Palestine Monetary Authority's (PMA) disposal to counter Israeli measures that have led to the excess shekel dilemma over the years.<sup>5</sup> The new regulation introduces a ceiling of ILS 30,000 per cash transaction, up from ILS 20,000 in the draft version, above which payments must be conducted through non-cash instruments. The law will enter into force six months after its publication and is a bold move amidst a fraught and uncertain economic environment.

The law mandates all public institutions to process payments exclusively through non-cash means. It also requires businesses engaged in commercial or service transactions to maintain records clearly indicating the payment method used. Violations are subject to fines ranging from 5% to 15% of the transaction value, which may be imposed on either or both parties. Penalties are increased for repeated violations, transaction splitting, or underreporting of declared amounts.

This measure comes at a critical time for the Palestinian banking sector, which continues to face mounting structural pressures, most notably the accumulation of excess Israeli shekels due to restrictions on their repatriation to the Israeli banking system and the persistent uncertainty surrounding correspondent banking relationships. For the third consecutive time, indemnity letters

<sup>4</sup> <https://mjr.ogb.gov.ps/Decrees/Details/34182/>

<sup>5</sup> See the November 2025 and January 2026 issues for more detailed coverage: <https://mas.ps/publications/yearly-eco>

enabling these relationships have only been extended for a short period of two weeks, most recently until 26 March 2026, further exacerbating systemic risks.<sup>6</sup>

While the law may help reduce cash circulation, even full implementation is unlikely to resolve the excess shekel crisis, which remains tied to Israeli constraints. Moreover, some critics have raised concerns that restricting cash transactions could impose additional burdens on sectors that rely heavily on cash-based operations, particularly in contexts where access to digital payment infrastructure remains uneven across regions and economic activities, amidst an accelerating de-formalization of a war-torn economy.

### 2.1 Digital Currency Proposals for Gaza

Recent reporting by the Financial Times indicates that proposals are being explored by financial interests associated with the Trump-led Board of Peace (BoP) to introduce a digital currency or stablecoin for Gaza as part of the efforts to restructure its economy.<sup>7</sup> Discussions appear to remain at a preliminary stage, with significant technical, institutional, and legal uncertainties unresolved. The initiative has reportedly been linked to an Israeli tech entrepreneur and former reservist, with governance and regulatory oversight envisioned to involve bodies such as the National Committee for the Administration of Gaza (NCAG). The proposed involvement of NCAG appears intended to confer a degree of institutional legitimacy, however, the committee has not been able to assume de facto governance in Gaza, largely due to Israeli-imposed restrictions, while it declared upon its inception that it was committed to working within the existing Palestinian legal framework.<sup>8</sup>

<sup>6</sup> <https://www.sadanews.ps/business/284219.html>

<sup>7</sup> <https://www.ft.com/content/>

<sup>8</sup> See the February issue of the Update for more detail on NCAG: <https://mas.ps/publications/13676.html>

While the proposal is framed as a pragmatic response to Gaza's acute liquidity crisis, particularly the severe shortage of physical cash following Israel's restrictions on its entry over the past two years, its underlying assumptions and implications remain contentious. The proposal would entail bypassing and undermining the role of the PMA, which has been actively working, under extremely constrained conditions and with notable success, to expand digital payment infrastructure and maintain service delivery despite the collapse of banking operations in Gaza.<sup>9</sup> Introducing an externally designed digital currency framework would fragment monetary governance and weaken already fragile Palestinian institutional authority.

The proposal also risks entrenching the economic and institutional separation between Gaza and the West Bank by creating a parallel monetary system, rather than addressing the structural constraints facing both.<sup>10</sup> Furthermore, the primary constraints to digital financial inclusion are not the absence of a digital currency, but rather Israeli restrictions on cash entry, displacement, and the near-total destruction of infrastructure. About 81% of all structures in Gaza have been destroyed or damaged,<sup>11</sup> including banking infrastructure, electricity, and telecommunications networks, with only limited and partial restoration following the ceasefire.<sup>12</sup>

The proposal also raises concerns about financial control and surveillance. Moving transactions into a centrally administered digital system, particularly one shaped outside Palestinian institutional frameworks, creates the potential for unprecedented levels of monitoring, conditionality, and restriction,

raising concerns about financial autonomy, data governance, and privacy. Critics argue that such proposals risk further transforming the monetary system into an instrument of colonial security control rather than a tool for recovery and development.<sup>13</sup> A more feasible and locally driven approach would prioritise restoring basic financial intermediation, rebuilding banking and payment infrastructure, and enabling the PMA to expand context-appropriate digital solutions, not to mention Israel permitting the replenishment of Gaza's degraded stock of NIS.

### 3. Municipal Development Program

On 11 February 2026, the Palestinian government launched the second cycle of the fourth phase of the Municipal Development Program (MDP4), with approximately €40m in financing benefiting 138 municipalities.<sup>14</sup> This cycle is supported by the World Bank, the European Union, and several European partners, and is implemented in coordination with the Ministries of Local Government and Finance. It focuses on improving public service delivery and strengthening local government responsiveness to growing citizens' needs.

Since its launch in 2009 by the Municipal Development and Lending Fund (MDLF), MDP has served as a central reform and development instrument in the local government sector.<sup>15</sup> It is built on a performance-based financing model that links infrastructure investments to municipal performance, assessed through indicators covering financial sustainability, institutional capacity, and transparency and societal accountability. Across its first three phase, MDP1 (€59m), MDP2 (€122m) and MDP3

9 [PMA and Gaza Chamber of Commerce hold a workshop on the reality of banking services in Gaza | PMA](#)

10 <https://www.newarab.com/news/board-peace-mulling-stable>

11 <https://www.ochaopt.org/content/reportedgaza-strip>

12 <https://www.reuters.com/world/middle-east/>

13 [Digital Architecture of Control and Displacement | Euro-Med Human Rights Monitor.](#)

14 [Launch of the fourth phase - second cycle of the Municipal Development Program | PMO](#)

15 [Municipal Development Program Phase Four | PDLE](#)

(€184m), the program has evolved in line with national development priorities, progressing from improving basic administrative practices and transparency, to enhancing service quality and governance, and to strengthening municipal capacity for more sustainable service delivery in the West Bank and Gaza.

Program interventions were structured around four main components. Infrastructure investment constituted the largest share (about €230m, 44%), covering roads, electricity, water, public facilities, and waste management, with over 2,100 projects implemented. Capacity building (€26m) supported municipal planning, financial management, and digital transformation, including training for 159 municipalities. Additional components included support for innovative initiatives, such as renewable energy, local economic development, and public-private partnerships, and an emergency component (€78m) addressing crisis response, including COVID-19 and support for Gaza.

In line with current development plans, MDP4 (€126m, expected) focuses on strengthening the institutional and financial capacity of municipalities in the West Bank and Gaza to deliver inclusive, sustainable, and transparent services for all citizens. It places particular emphasis on improving service responsiveness, especially for vulnerable groups, while supporting climate adaptation, enhancing local revenue generation, and promoting citizen engagement.

Funding allocation under MDP4 follows a performance-based model, with 60% is distributed based on municipal performance, 30% according to needs-based criteria (including infrastructure gaps, poverty levels, and population density), and 10% based on

population size. This allocation is guided by a structured set of 19 indicators developed in line with international best practices.<sup>16</sup>

The MDLF, established in 2005, serves as the government's and donors' primary and preferred financing vehicle for local government development.<sup>17</sup> Over the past two decades, it has mobilised investments exceeding \$1bn, reaching more than 75% of the population and financing over 20% of municipal development budgets. This underscores its critical role in advancing development outcomes, strengthening local governance, and enhancing community resilience.<sup>18</sup>

#### 4. PA Rejects Israeli Claims on Contaminated Agricultural Products

Amid a deepening economic collapse, driven by withheld clearance revenues, declining external sources of income, and tighter restrictions on the movement of people and goods,<sup>19</sup> the agricultural sector in the West Bank has emerged as a critical livelihood buffer, particularly for workers who lost employment in Israel following the war on Gaza. However, the sector faces mounting pressures, including settler violence, restrictions on water and fertilisers, and recent claims targeting the safety of Palestinian produce. Already before the war, the sector suffered from numerous structural constraints and occupation-related market distortions.

On 23 February, claims raised in the Israeli Knesset alleged that vegetables imported from the West Bank contain high levels of pesticide residues, with reported contamination rates of 66% for chili peppers,

<sup>16</sup> [Municipal Development Program Phase Three | PDLF](#)

<sup>17</sup> <https://www.mdif.org.ps/Document/MDPII.pdf>

<sup>18</sup> <https://www.bnews.ps/index.php/ar/node/27096>

<sup>19</sup> <https://unctad.org/system/files/official-document/tdb72>

50% for cucumbers, and 49% for tomatoes.<sup>20</sup> It was further claimed that 13% of samples contained more than five types of pesticides and 14% included toxic organophosphates.

The Palestinian Ministry of Agriculture rejected these allegations, describing them as unsubstantiated and politically motivated, and stressed that agricultural production is subject to strict regulatory oversight aligned with international standards.<sup>21</sup> It also noted the adoption of the 2025 Agricultural Pesticides Guide as the national reference for safe use and emphasised that pesticides are imported through official channels, often subject to Israeli approval, and are regularly inspected to control circulation and prevent the use of unauthorised substances. The Ministry affirmed that exported products comply with the same safety requirements applied domestically.

The Palestinian Standards Institution similarly dismissed the claims, highlighting improvements in food safety systems, including the certification of around 300 farmers under the Good Agricultural Practices System (Pal-GAP), which is aligned with GLOBALG.A.P.,<sup>22</sup> and nearly 100 under safe agriculture schemes, alongside regular laboratory testing to ensure compliance with residue limits comparable to European standards.<sup>23</sup>

These allegations come at a time when the agricultural sector in the West Bank is facing unprecedented challenges. Attacks by Israeli forces and settlers on farmers continue, ranging from land confiscation and crop destruction to uprooting trees, damaging irrigation networks, and stealing equipment.<sup>24</sup> In the single week between 28 February and 5 March 2026, direct losses from such

incidents were estimated at approximately \$614,000, the majority occurring in Nablus governorate.<sup>25</sup> This is alongside increasing pressure on rural and Bedouin communities, leading to forced displacement.<sup>26</sup>

This is compounded by the near-total destruction of the agricultural sector in Gaza, where estimates indicate that around 86% of agricultural land has been damaged, over 70% of greenhouses destroyed, and more than 80% of agricultural wells and irrigation systems rendered inoperative.<sup>27</sup> Much of the livestock has been killed, while the fisheries sector has been effectively paralysed due to the destruction of boats, equipment, and port infrastructure.

## 5. Recent MAS Work

### **Developing business models for the economic empowerment of women and youth across different economic sectors in Palestine**

This study examines the participation of women and youth across key economic sectors in Palestine and explores ways to enhance their employment opportunities within the private sector. It focuses on sectors such as ICT, food processing, and handicrafts, assessing both opportunities and constraints to participation and leadership. The study also identifies business models that have been effective in integrating women and youth into the economy and reviews policy measures needed to operationalise Article 172 of the 2021 Companies Law to strengthen women's representation in corporate leadership.

The findings highlight that improving access to markets and income-generating activities, particularly through entrepreneurship, is

<sup>20</sup> <https://main.knesset.gov.il/en/news/pressreleases/pages>

<sup>21</sup> <https://english.wafa.ps/Pages/Details/167683>

<sup>22</sup> <https://www.psi.pna.ps/en/palGap>

<sup>23</sup> <https://www.raya.ps/news/1212527.html>

<sup>24</sup> <https://palestine.oic-oci.org/2026/03/17/>

<sup>25</sup> <https://www.moa.pna.ps/ar/news/alahat-alasboaayn>

<sup>26</sup> <https://palestine.un.org/en/309094>

<sup>27</sup> <https://qisha.org/en/>

central to advancing economic inclusion. Key factors shaping outcomes include the regulatory framework, access to finance and financial inclusion, skills and experience, institutional partnerships, and prevailing social norms. At the same time, the study identifies structural constraints, notably gaps in the tax system, which lack targeted incentives for startups and micro and small enterprises, as well as high levels of informality that limit access to finance, skills development, and support programs, particularly for women and youth-led businesses.

## 6. February Trading Activity

The Al-Quds Index decreased by 3.6% in February, closing at 607.1 points on the last trading day.<sup>28</sup> A total of 4.6m shares were traded, valued at \$7m, marking a 63.1% decline in volume and a 72.8% drop in value compared to the previous month.

On 29 January, Siniora Food Industries Company, listed on the Amman Stock Exchange and a subsidiary of the Arab Palestinian Investment Company (APIC), listed on the Palestine Exchange, inaugurated its new manufacturing facility in Saudi Arabia.<sup>29</sup> The first phase of the project involved an investment of \$40m, supported by the Saudi Industrial Development Fund. The plant has an annual production capacity of up to 10,000 tons of chilled and frozen food products.

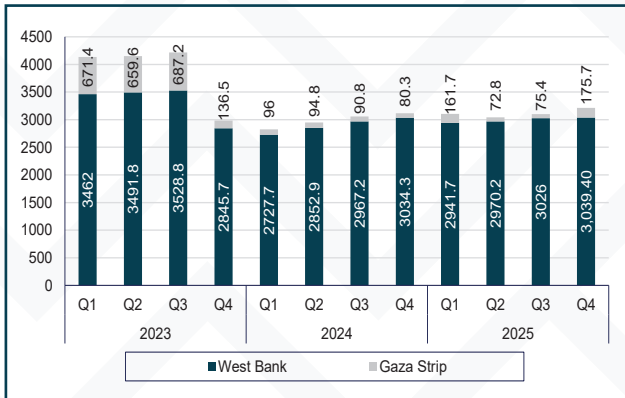
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<sup>28</sup> <https://www.pex.ps/bulletins>

<sup>29</sup> <https://www.okaz.com.sa/economy/na/2233328>

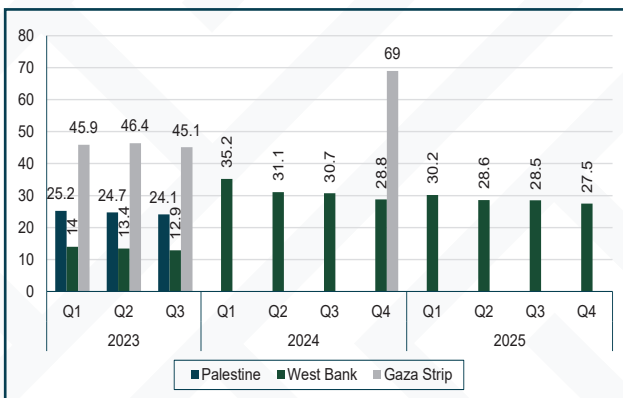
### Gross Domestic Product

**Quarterly Real GDP (million USD in 2015 prices) in Palestine by Region Q1 2023 - Q4 2025**



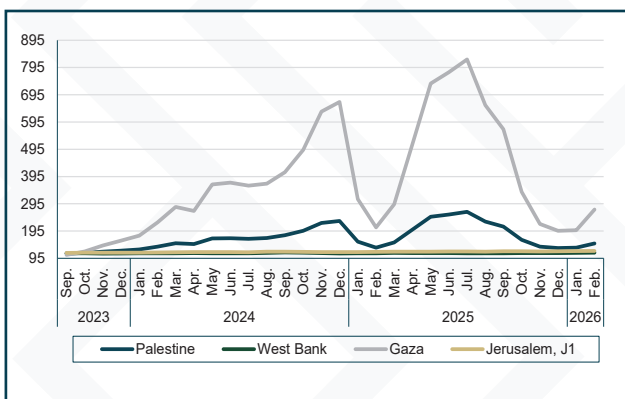
### Unemployment

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



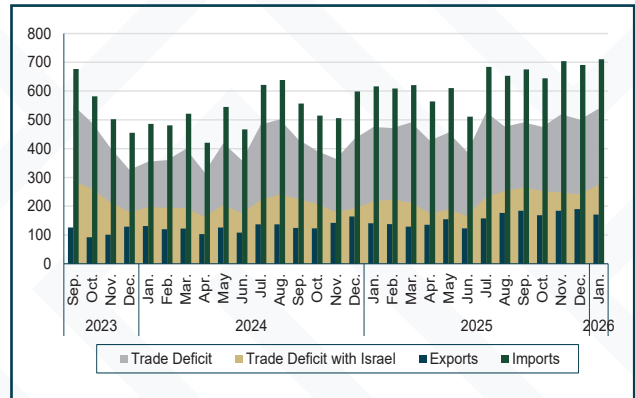
### Inflation

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



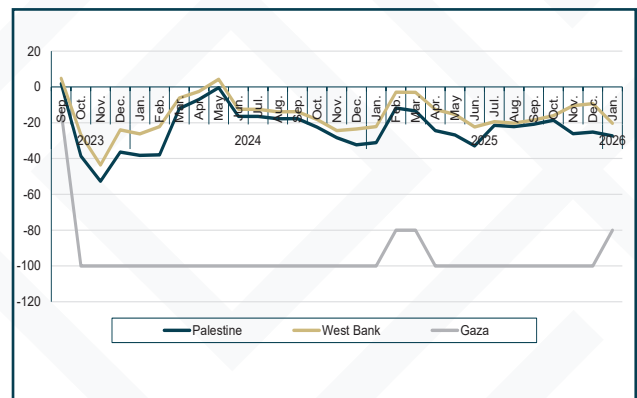
### Trade

**Monthly Export, Imports, Trade Deficit and Trade Deficit with Israel (million USD) in Palestine, September 2023 - January 2026**



### PMA Business Cycle Index

**Monthly Palestine Monetary Authority Business Cycle Index September 2023 - January 2026**



### Banking

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

