



MAS

PALESTINE ECONOMIC POLICY  
RESEARCH INSTITUTE (MAS)

# Palestine Economic Update

## June 2026

### Key Messages :

- The Palestinian National Authority (PA) launched the pilot phase of the Yabus application to facilitate public sector employees' coping with severe cash shortages and accumulated salary arrears, while the fiscal crisis continues to undermine the provision of basic public services, most visibly in the strained West Bank health sector.
- Reports that Israel Discount Bank may sever correspondent banking ties with Palestinian banks have heightened risks to the Palestinian financial system, threatening the continuity of basic financial operations.
- Several donor and government-backed development projects were launched across the West Bank to support wastewater reuse, renewable energy, MSMEs, infrastructure rehabilitation and health services, with a shared focus on improving basic services and strengthening local resilience.

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## 1. PA Grapples with Entrenched Fiscal Crisis

In early June, the Ministry of Finance and Planning (MoF) disbursed 50% of public sector employees' salaries for February, with a minimum payment of NIS 2,000.<sup>1</sup> Continued partial payments reflect the PA's deepening fiscal crisis, as Israel has continued to withhold the entirety of Palestinian clearance revenue transfers since June 2025, severely undermining the PA's ability to maintain basic public services. These trade-related tax revenues, collected by Israel on behalf of the PA under the 1994 Paris Protocol in return for a 3% administrative fee, account for around two-thirds of public revenues, leaving government expenditures dependent on accumulated arrears and new borrowing.

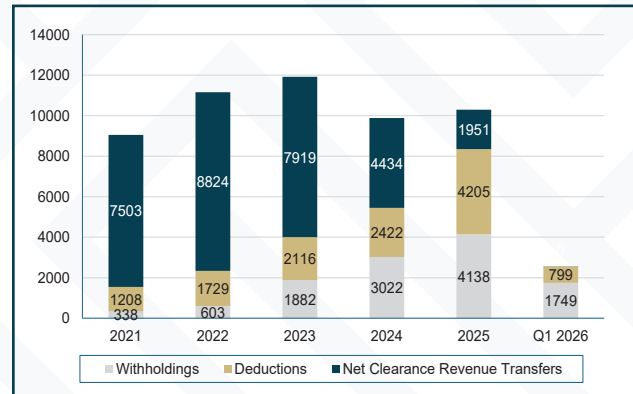
Between January 2021 and March 2026, net revenues withheld by Israel reached NIS 11.7bn, while unilateral Israeli deductions under net lending<sup>2</sup> amounted to a further NIS 12.5bn.<sup>3</sup> Together, deductions and withholdings represented 44% of the PA's net clearance revenues during the period, depriving it of critical resources amid the economic fallout from over two years of war on Gaza, and escalating violence and restrictions in the West Bank. The crisis has increasingly shifted the burden onto public employees, businesses, households, suppliers, and local institutions through delayed salaries, accumulated arrears, and rising debt. By March 2026, accumulated arrears had reached NIS 21.6bn, while public debt stood at NIS 15.1bn, 71.6% of which was owed domestically, mainly to local banks. Combined, arrears and public debt were equivalent to around \$12.4bn, or 72% of Palestinian GDP in 2025.

1 <https://www.wafa.ps/news/2026/5/21/147639>

2 Net lending refers mainly to deductions from PA clearance revenues to cover unpaid bills owed by Palestinian municipalities and utility companies to Israeli service providers, especially for electricity, water and wastewater.

3 <https://pmof.ps/internal.php?route=financial-reports/monthly>

**Figure 1: Net Clearance Revenue Transfers, Withholdings and Deductions, 2021 - Q1 2026**



Source: MAS calculations based on MoF data

### 1.1 Yabus Application

Against this backdrop, in late May, the MoF announced the pilot launch of *Yabus*, a government-developed financial application intended to provide partial relief to public sector employees who have accumulated unpaid salary arrears over the past five years.<sup>4</sup> The unconventional measure comes as the PA faces severe cash shortages, with salary arrears to public sector employees exceeding \$3bn. According to Minister of Finance and Planning Estephan Salameh, the application will allow employees to use part of their arrears as a virtual balance to pay selected basic service bills, including electricity, water, telecommunications, and internet, through a clearing mechanism between the government and service providers.<sup>5</sup>

In the pilot phase, around 3,000 employees are expected to receive an initial balance of NIS 500, with specific caps set for each service to limit the impact on government revenues and maintain balance with service providers. Bills do not need to be registered in the employee's name, allowing employees to

4 <https://www.wafa.ps/news/2026/5/21/147639>

5 <https://www.alquds.com/ar/posts/244266>

cover utility costs for relatives and extended family members. Salameh indicated that the application would be assessed during the pilot phase before being expanded to all public sector employees, with plans to gradually broaden the range of covered services. He also framed *Yabus* as more than a crisis-management tool, describing it as a first step toward an integrated digital government wallet that could reduce cash use, ease pressure from the shekel surplus crisis, support employees directly and facilitate local economic activity.

## 1.2 Fiscal Crisis Deepens Health Sector Strain

Over the past two months, the Ministry of Health (MoH) has repeatedly warned that the PA's fiscal crisis and severe liquidity shortages are pushing the Palestinian health sector in the West Bank toward a critical breaking point.<sup>6</sup> Accumulated arrears and irregular payments to suppliers have contributed to acute shortages of medicines and medical consumables across public, private and NGO health facilities. According to MoH, 180 of 520 essential medicine items are out of stock, while 50 of 97 cancer drug items are unavailable.<sup>7</sup> The shortages also include life-saving medicines, dialysis drugs, dialysis filters, surgical sutures, and cardiac catheterisation materials, threatening the treatment of more than 4,000 cancer patients and thousands of kidney dialysis patients.

The shortages, combined with reduced working hours and repeated strikes, have severely disrupted service delivery. MoH reported that more than 11,000 scheduled surgeries have been postponed or cancelled due to shortages of supplies and strike action, while tens of thousands of chronically ill and outpatient patients have been deprived of access to primary healthcare and specialist clinics in government hospitals.<sup>8</sup> The crisis

has also spread to private and NGO hospitals, which face mounting unpaid claims.

The Pharmaceutical Suppliers Union reported that outstanding payments owed by the MoH to pharmaceutical and medical supply companies exceeded NIS 1.3bn, while companies had received only one limited payment since the beginning of 2026, amounting to NIS 16m.<sup>9</sup> It warned that unpaid dues have exceeded suppliers' financial and operational capacity, limiting their ability to supply the Ministry and prompting some companies to avoid new tender contracts. Separately, debts owed by the government to private and NGO hospitals exceeded NIS 2.5bn, raising the risk that some providers could reduce services or stop receiving government referrals.<sup>10</sup>

In response, MoH appealed to donors to provide urgent support, including \$50m for life-saving medicines sufficient for one year, a further \$50m for critically needed medicines, and emergency assistance for medical supplies, health workers' salaries, pharmaceutical companies and service providers.<sup>11</sup> The worsening shortages in the West Bank come on top of the continuing health and humanitarian catastrophe in Gaza, where MoH and other health facilities continue to face severe shortages of medicines, medical supplies, fuel and life-saving equipment amid widespread destruction of hospitals and health centres and the continued depletion of medical staff.

## 2. Israeli Bank Move Raises Risks to Correspondent Banking Relations

Recent reports indicate that Israel Discount Bank, one of the two Israeli banks maintaining correspondent banking relations with Palestinian banks, notified Palestinian counterparts in early June of its intention to terminate these relations within 90 days.<sup>12</sup> If

<sup>6</sup> <https://site.moh.ps/index/ArticleView/ArticleId/7722/ar>

<sup>7</sup> [Wafa: Ministry of Health - The lives of thousands of patients are at risk](https://www.wafa.gov.ps/News/Ministry-of-Health-The-lives-of-thousands-of-patients-are-at-risk)

<sup>8</sup> Ibid

<sup>9</sup> <https://www.raya.ps/news/1218081.html>

<sup>10</sup> <https://www.wattan.net/ar/news/488877.html>

<sup>11</sup> <https://site.moh.ps/index/ArticleView/ArticleId/7722/Lan/ar>

<sup>12</sup> <https://www.sadanews.ps/en/business/309456.html>

implemented, the move would place further pressure on an already fragile financial system in the West Bank.

The reported move comes amid recurrent uncertainty over the Israeli government indemnity waivers that allow Israel Discount Bank and Bank Hapoalim to process transactions with Palestinian banks while limiting their legal and regulatory exposure.<sup>13</sup> Reports indicate that Israel extended waivers for the correspondent banking arrangement for only another two weeks, most recently until 28 June 2026.<sup>14</sup>

These waivers have become increasingly subject to internal Israeli political maneuvering, with short-term extensions issued for the past two years creating recurrent uncertainty for Palestinian banks, businesses and public institutions.<sup>15</sup> Without stable and extended waivers, Israeli banks have warned that they may sever or suspend correspondent banking relations with their Palestinian counterparts.<sup>16</sup>

Correspondent banking is critical for the Palestinian economy because of its structural dependence on the Israeli shekel and close integration with the Israeli economy under the Paris Protocol. In Q1 2026, 93.3% of Palestinian exports went to Israel, while 61.8% of imports came from Israel.<sup>17</sup> Israeli-Palestinian banking channels are central to trade payments, workers' transfers, utility payments, clearance revenue transfers and the repatriation of surplus shekel cash from Palestinian banks to Israeli banks. According to the PMA, the average annual volume of banking operations between the Palestinian and Israeli sides, mainly checks and transfers, is around NIS 50bn, close to the nominal value of Palestinian GDP.<sup>18</sup>

Termination of correspondent banking relations would severely affect shekel-based transactions and could impede payments for essential imports and services, including fuel, electricity, water, medicines and other basic goods. It would also increase reliance on informal payment channels, raising challenges for transparency, compliance and confidence in the banking system. The challenges come on top of the existing shekel cash surplus crisis, with accumulated shekel cash in Palestinian banks reportedly exceeding NIS 16bn.<sup>19</sup> Shekel cash shipments from Palestinian banks amounted to around NIS 23bn in 2024, against an estimated annual need of NIS 25–30bn, while ceilings by Israeli banks on receiving surplus shekel cash continued to create liquidity pressures and operational risks for Palestinian banks.<sup>20</sup>

The PMA has sought to contain these risks through a versatile set of measures, including international engagement, efforts to preserve correspondent banking ties, measures to reduce cash use and a wider push toward digital payments.<sup>21</sup> In late May, PMA Governor Yahya Shunnar participated in G7-related ministerial meetings in Paris, where he reaffirmed Palestine's commitment to international standards on financial transparency, supervision and financial crime compliance.<sup>22</sup> During bilateral meetings with international officials, Shunnar warned that Israeli measures targeting the Palestinian financial sector represent a major threat to financial stability and the wider economy.<sup>23</sup> He stressed that these pressures are disrupting banking operations, weakening private-sector activity, and threatening the continuity of basic services, while calling for international action to help protect the

[Bloomberg: Israeli Bank to Sever West Bank Ties](#)

13 See the February 2026 issue for further details:

<https://mas.ps/publications/13676.html>

14 <https://www.sadanews.ps/en/business/310511.html>

15 <https://theminers.ps/post/2834/>

16 [Crisisgroup: Countering Israel's Grip on the West Bank Economy](#)

17 <https://www.pCBS.gov.ps/en/statistics/>

18 <https://www.pma.ps/news/--ml6jcx4v>

19 <https://www.sadanews.ps/en/business/308355.html>

20 [PMA: Financial Stability Report 2024](#)

21 See the November 2025 issue for further details:

<https://mas.ps/en/publications/13428.html>

22 <https://www.pma.ps/news/--mpdohkid>

23 <https://www.pma.ps/news/--mpfndfhq>

<https://www.pma.ps/news/--mpfbgaf7>

stability and functioning of the Palestinian financial system and to avoid recurrent liquidity, payment, and trade-settlement shocks.

### 2.1 Private sector warns of worsening shekel cash crisis<sup>24</sup>

On 22 June, the Federation of Palestinian Chambers of Commerce, Industry and Agriculture organised a conference to raise alarm over the growing pressure facing the Palestinian private sector, with particular focus on the worsening shekel cash crisis. The Federation warned that the inability of businesses and citizens to deposit shekel cash freely in Palestinian banks has become a major source of economic strain, adding to the already severe financial and commercial pressures facing the Palestinian economy. It argued that restrictions on shekel deposits are contributing to liquidity shortages, weakening credit flows, and placing an additional burden on firms and households.

The Federation stressed that the issue requires urgent action. It held Israel responsible for the crisis, arguing that the shekel is an Israeli-issued currency and that Israel must accept excess shekel cash from the Palestinian banking system. While acknowledging the PMA's role in maintaining regulatory discipline, compliance and financial stability, the Federation emphasised that the PA, the PMA and the international community must work to find solutions rather than leaving the burden to citizens and the private sector. The Federation also cautioned against advancing the cash-reduction law before resolving the shekel accumulation problem, warning that such steps could further tighten liquidity and deepen pressure on the private sector.

## 3. Development Projects

Several development projects were launched across the West Bank in the past month, covering wastewater treatment and reuse, renewable energy, MSME support, infrastructure rehabilitation and health services.

### 3.1 TAJDID Project

On 5 May, the MoF, the Palestinian Water Authority, the European Union (EU), French Development Agency (AFD), KfW (the German Credit Institute for Reconstruction) and the Jenin West Water Utility signed two agreements to launch the TAJDID Project (Treatment of Wastewater and Agricultural Reuse in Jenin West for Development, Investment and Decentralization).<sup>25</sup> The project, part of the Team Europe Initiative for Wastewater Management in Palestine, is jointly financed by the EU, France through AFD, and Germany through KfW, with a total budget of around EUR 31.7m. The signed agreements include an EUR 11.2m financing agreement between KfW, the MoF and the Jenin West Water Utility, and a EUR 5.5m EU contribution agreement with AFD.

TAJDID will support an integrated wastewater management system in Jenin West, including more than 100 kilometres of wastewater collection networks, a treatment plant with an initial capacity of around 3,700 cubic metres per day, and infrastructure for the safe reuse of treated wastewater in agriculture. In its first phase, the project is expected to directly benefit around 36,000 residents in five towns in Jenin Governorate. It also includes an emergency-response component to support rapid repairs and maintain essential water and wastewater services amid repeated damage to civilian infrastructure in the Jenin area.

<sup>24</sup> <https://www.facebook.com/reel/3496159423886666>

<sup>25</sup> [EEAS: EU, France, Germany and Palestine Launch TAJDID Project](#)

### 3.2 Shamsi Palestine

On 6 May, the PMA, in partnership with the steering committee of the Shamsi Palestine programme, launched a \$25m financing facility for solar energy projects by local authorities.<sup>26</sup> The steering committee is chaired by the Palestinian Energy and Natural Resources Authority (PENRA) and includes Ministerial representatives and UNDP. The programme aims to support the transition to renewable energy, reduce electricity costs, and strengthen the sustainability of public services at the local level. It combines loans and grants, with the PMA contributing \$20m through its Estidama Fund and Norway, Finland, and Austria contributing a further \$5m, while UNDP serves as the technical and development partner. Projects will be implemented through local banks under concessional terms, including repayment periods of up to seven years. The programme complements the PMA's wider Estidama Fund, which aims to support the resilience of vital sectors, inject liquidity into the Palestinian market and help establishments affected by the war recover and sustain operations.<sup>27</sup>

### 3.3 Jerusalem Grant Facility – Enmaa

On 1 June, the Palestine Investment Fund (PIF) and the EU signed an agreement to launch a new four-year phase of the Jerusalem Grant Facility – Enmaa<sup>28</sup>, with joint funding of EUR 4.5m.<sup>29</sup> The programme aims to strengthen economic resilience and improve living standards in the Jerusalem Governorate by supporting MSMEs, civil society organisations and community-based institutions. It targets 130–136 projects and organisations through grants accompanied by financial, legal, administrative, digital and operational advisory support.<sup>30</sup> The

programme will focus on sectors including tourism, services, light industry, hospitality, technology, entrepreneurship and community-based initiatives, with emphasis on environmentally friendly projects, cultural heritage, digital transformation and resource efficiency. The programme is also expected to create 250–350 new jobs and maintain 350–400 existing jobs, with priority given to youth, women, people with disabilities and economically marginalised groups.

The new phase builds on previous phases of the PIF's Jerusalem support programme, which, according to PIF, provided more than EUR 5.2m in direct grants to over 120 SMEs and civil society organisations in Jerusalem and helped create or maintain more than 1,000 jobs.<sup>31</sup> Implementation will be overseen by Palestine for Development, PIF's social investment subsidiary, with Station J serving as the local implementation partner.

### 3.4 Al-Aqsa Fund Grants

On 10 June, four grant agreements worth around \$10m were signed under the patronage of Prime Minister Mohammad Mustafa, with funding provided by the Al-Aqsa Fund,<sup>32</sup> through the Arab Bank for Economic Development in Africa and the Islamic Development Bank.<sup>33</sup> The grants will support infrastructure, road, health and restoration projects implemented through the Ministry of Local Government, the Ministry of Public Works and Housing, the Palestinian Red Crescent Society and UNDP, with the aim of improving basic services and strengthening community resilience.

The largest agreement, worth \$4.94m, will support road and water interventions in 25 local authorities, including the rehabilitation and paving of internal roads in 21 localities and the implementation or operation of water

26 <https://www.pma.ps/news/-25--motys4xr>

27 <https://www.pma.ps/other-financial-tools>

28 <https://www.psd.ps/ar/program/1746599917>

29 <https://alhadath.ps/ar/Article/207597/>

30 <https://www.bnews.ps/ar/node/27797>

31 Ibid

32 <https://alaqsafund.isdb.org/en>

33 [WAFA: Grants to Support Infrastructure, Health and Restoration Projects](#)

infrastructure in four of these localities. A second agreement, worth \$2.52m, will finance three main road projects in Ramallah and Al-Bireh and Tulkarm governorates, improving connectivity between several towns and providing safer alternative routes in case of emergency road closures. A third \$1m agreement will support the restoration of residential buildings and public institutions in the Old City of Jerusalem to be managed by UNDP, while a fourth \$1m agreement with the Palestinian Red Crescent Society will fund the implantation and upgrading of around 75 electronic cochlear implants for hearing-impaired children from different West Bank governorates.

#### 4. Recent MAS Study on Government Vehicle Fleet Management

On 25 May, MAS, in partnership with the Palestinian Institute for Public Finance and Taxes, held a workshop to discuss the findings of a study titled “The Palestinian Government Vehicle Fleet Management System: Comparative Scenarios to Improve Effectiveness, Efficiency and Governance.”<sup>34</sup> The study assesses the current system for managing the government vehicle fleet, identifies key gaps, and evaluates policy options aimed at reducing the fiscal burden, improving operational efficiency, and strengthening transparency and governance.

The study examines seven scenarios covering different ownership models, financing mechanisms, technologies and replacement timelines, including maintaining the status quo, purchasing or leasing conventional vehicles, shifting to hybrid or electric vehicles, and adopting a phased replacement approach. It shows that the main policy choice is not limited to vehicle type or ownership model, but also depends on lifecycle management, replacement timing, and cost structure. Discussants noted that

the government fleet suffers from ageing vehicles, cases of misuse and significant variation in maintenance costs across ministries. They stressed the need for a clear replacement policy, stronger oversight and enforcement measures, while also considering whether internal maintenance centres could improve efficiency and reduce reliance on external providers.

#### 5. June Trading Activity

The Al-Quds Index rose by 3.9% in June, closing at 655 points, while the Al-Quds Total Return Index increased by the same rate to 1,498 points.<sup>35</sup> Trading activity, however, declined from the high levels recorded in May, with 14.5m shares traded at a total value of \$28.2m, down 49.4% in volume and 46.8% in value.<sup>36</sup>

#### 5.1 Listed Companies' Performance in Q1 2026

During Q1 2026, PEX-listed companies achieved total net profits of \$85.1m, a 7.8% increase compared with Q1 2025.<sup>37</sup> Disclosures show that 33 out of 47 listed companies reported combined net profits of \$88.2m, up 7% year-on-year, while 11 companies reported combined losses of \$3.1m, down 10.5% from Q1 2025. One company failed to disclose within the legal period, while two remained suspended from trading. By sector, banks recorded the highest net profits at \$25.4m, despite a 13.2% decline compared with Q1 2025, followed by investment companies at \$24m, up 7.9%, and services companies at \$19.9m, up 34.4% (Table 1). The industrial sector recorded the strongest profit growth, rising 51.2% to \$14.3m, while the insurance sector posted the sharpest decline, with profits falling 54.5% to \$1.4m.

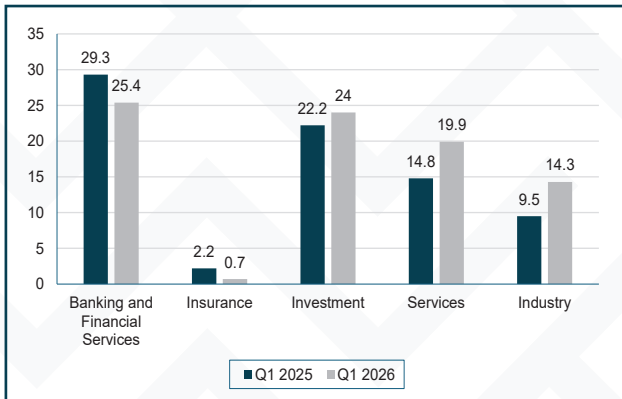
<sup>35</sup> <https://www.pex.ps/reporting-center/indices>

<sup>36</sup> <https://www.pex.ps/bulletins>

<sup>37</sup> Data provided by the Palestine Exchange (PEX)

<sup>34</sup> <https://mas.ps/news/13878.html>

**Figure 2: Net Profits of PEX-Listed Companies by Sector, Q1 2025 and Q1 2026, USD million**



Source: PEX

At the macro level, the strengthening of the shekel in Q1 2026 may have supported the dollar and Jordanian dinar value of some shekel-denominated revenues, while lowering the shekel cost of some imported inputs, contributing to improved profitability. The Gaza ceasefire agreement also helped improve sentiment, although listed companies continued to operate under difficult economic and political conditions that limited the scale of gains. Regional geopolitical uncertainty and disruptions to energy and trade costs remained important pressures, but the overall results point to resilience among leading listed companies despite very difficult economic and political conditions.

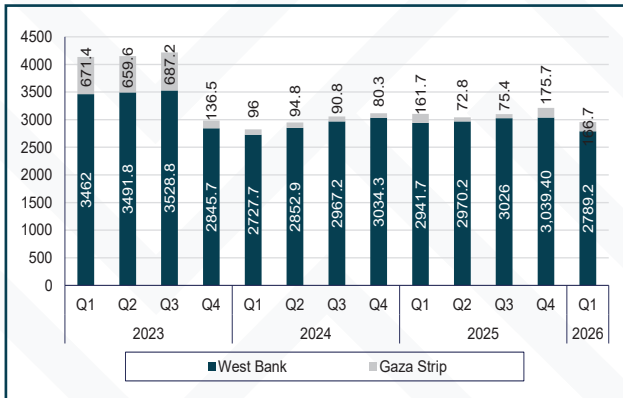
At the sectoral level, banks remained the largest contributor to overall profits, supported by strong deposit bases, higher operating revenues and conservative liquidity positions, although earnings continued to be constrained by impairment provisions and risk costs. The investment sector also made a strong contribution, driven by gains among large holding and investment companies and stronger results from key subsidiaries, associates and asset holdings, though its performance remained relatively concentrated. In services, telecommunication

companies remained among the most stable contributors to earnings, reflecting the defensive nature of demand for communications and digital services. Industrial companies also recorded strong profit growth, likely supported by demand for essential goods, pharmaceuticals, and basic industrial products, alongside some ability to protect margins.

In terms of market performance, the Al-Quds Index stood at 606.6 points in Q1 2026, down 2.1% from Q4 2025, but still well above its level of 496.0 points in Q1 2025. Market capitalisation reached around \$4.9bn, 1.5% below the previous quarter but 18.8% higher year-on-year. This annual increase suggests that investors continued to price in the resilience of some leading listed companies, even as the broader economic and political environment remained highly challenging. Trading activity, however, weakened compared with both the previous and corresponding quarters. The value of traded shares fell to around \$42.2m, down 71.0% from Q4 2025 and 67.5% from Q1 2025. The number of traded shares declined to 22.8m, down 47.8% and 77.4%, respectively. The turnover ratio by value fell to 0.87%, compared with 2.93% in Q4 2025 and 3.17% in Q1 2025, pointing to weak liquidity relative to market size and limited short-term trading activity.

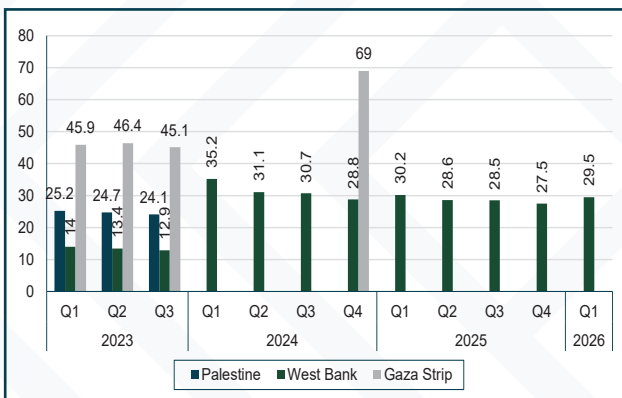
### Gross Domestic Product

Quarterly Real GDP (million USD in 2015 prices) in Palestine by Region  
Q1 2023 - Q1 2026



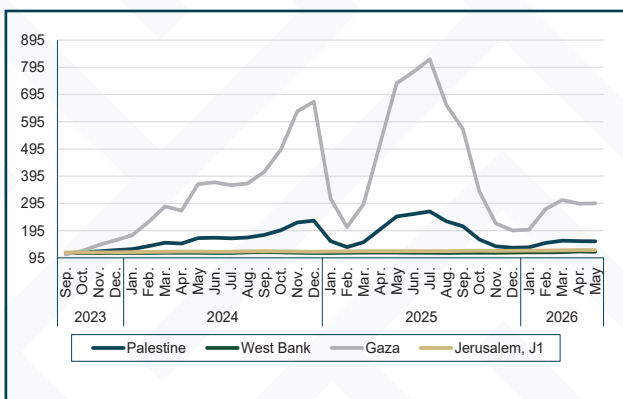
### Unemployment

Quarterly Unemployment (%) in Palestine by Region  
Q1 2023 - Q1 2026



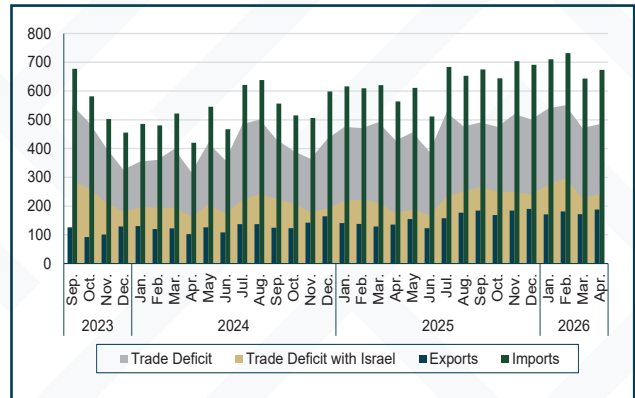
### Inflation

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



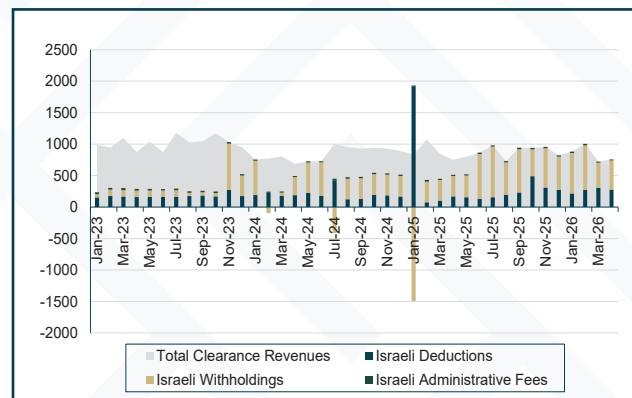
### Trade

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



### Clearance Revenue Flows

Monthly Total Clearance Revenues, Israeli Deductions, Withholdings and Administrative Fees (million ILS) January 2023–April 2026



### Banking

Monthly Customer Deposits and Credit Facilities (million USD) in Palestine  
September 2023 - May 2026

