MAS
PALESTINE ECONOMIC POLICY
RESEARCH INSTITUTE (MAS)

Palestine Economic Update

July 2026

Key Messages :

- New Israeli legislation will transform withholding of Palestinian clearance revenues into broader and more permanent mechanisms for appropriation.
- Despite the establishment of several funding mechanisms for Gaza's recovery and reconstruction, the financing landscape remains fragmented, most commitments are still undisbursed, and available funding is insufficient to meet early-recovery and humanitarian needs.
- The excess-shekel crisis is increasingly disrupting banking, trade, fuel supplies and daily economic activity, while the threatened termination of correspondent-banking relationships risks turning it into a broader systemic crisis affecting nearly every aspect of economic life.
- PEX dividends rebounded strongly in 2026, reflecting resilience among leading listed companies, although the extent of the recovery remained constrained by the severity of the economic and political conditions.

This publication is published with the support of

Palestine Stock Exchange

بورصة فلسطين
Palestine Exchange

1. Israel Knesset Expands Mechanisms for Deducting Clearance Revenues

On 8 June 2026, the Israeli Knesset approved a legal amendment expanding the mechanisms through which Palestinian clearance revenues can be permanently deducted rather than being withheld.[1] The law requires Israel's Finance Minister to prepare an annual assessment of specific benefits and compensation Israel pays to Israelis in connection with attacks carried out by Palestinians whom Israel believes to be receiving payments from the Palestinian Authority (PA), either directly or through family members.[2] The Israeli government (GoI) would then determine an additional annual deduction from clearance revenues over and above the amounts it already withholds.[3] The deductions will be used first to satisfy compensation orders issued by Israeli courts, with the remaining balance transferred to the Israeli Treasury. While previous arrangements largely froze amounts equivalent to payments made by the PA or allowed claimants to enforce Israeli court judgments against frozen funds, the new amendment creates a recurring mechanism for the Israeli government to appropriate PA revenues.

On 8 July 2026, a second related amendment passed its first Knesset reading, requiring the Israeli Defence Minister to report annually on all funds the PA transfers to the Gaza Strip, and mandating an annual freeze equal to the total amount transferred in the previous year.[4] If enacted into law under the next Knesset, the frozen funds would be reserved for compensation awarded under Israeli law for attacks originating in Gaza.[5]

1 https://english.wafa.ps/Pages/Details/171418
2 https://knessetshkufa.org/item/bill/2220111
3 https://main.knesset.gov.il/en/news/pressreleases/pages/.aspx
4 https://main.knesset.gov.il/en/news/pressreleases/pages/.aspx
5 Haaretz: Israel Advances Bill to Seize PA Funds Sent to Gaza

While Israel has already withheld funds equivalent to PA spending in Gaza since 2023, amounting to ILS 275m per month, the proposed amendment would place this practice on a permanent statutory footing and potentially widen its application.[6]

Under the Paris Protocol, the economic agreement governing Palestinian–Israeli relations under the Oslo framework, Israel collects VAT, customs duties and other taxes on Palestinian imports and is required to transfer the proceeds to the PA each month, after deducting a 3% administrative fee. These clearance revenues account for around two-thirds of public revenues, making them the PA's principal fiscal lifeline.

Although Israel had previously suspended clearance transfers on several occasions and had long made unilateral deductions from these revenues, systematic deductions linked to PA payments to prisoners and their families were institutionalised through Israeli legislation enacted in 2018 and implemented since 2019.[7] Under the law, Israel freezes each month one-twelfth of the amount it determines that the PA paid during the previous year to prisoners, released prisoners and their families. Related monthly deductions ranged from ILS 39.3m to ILS 102.6m between 2023 and 2026, reaching ILS 40.7m in May 2026.[8] The PA formally abolished its sentence-linked payment system in February 2025 and transferred assistance to a needs-based social-welfare mechanism through the Palestinian National Institution for Economic Empowerment (Tamkeen).[9] Notwithstanding

6 https://main.knesset.gov.il/news/pressreleases/pages/.aspx
7 https://content.govdelivery.com/accounts/USLOC/bulletins
8 https://pmof.ps/internal.php?route=financial-reports/monthly
9 https://www.wafa.ps/Pages/Details/113788

an international audit of Tamkeen that confirmed the new system was operational, Israel dismissed the reform as insufficient and continued making the deductions.[10]

Since May 2025, Israel has fully suspended the transfer of any clearance revenues to the PA. By May 2026, net withheld revenues exceeded ILS 13bn, excluding amounts already deducted separately and unilaterally by Israel to settle PA debts to Israeli service providers, medical referrals and other claims, including Israeli court rulings.[11] Around ILS 2.7bn was withheld between January and May 2026 alone. The suspension has deprived the PA of its most vital revenue source, forcing it to accumulate further salary and supplier arrears, pay partial wages and curtail essential public services.

The growing number of civil claims filed against the PA in Israeli courts adds further pressure.[12] By February 2026, Finance Minister Estephan Salameh reported that there were hundreds of lawsuits filed against the PA in Israeli courts, involving claims and compensations totalling around ILS 65bn.[13] These amounts represent claims rather than final court awards, but their potential enforcement against frozen clearance revenues could substantially reduce, or even eliminate, the possibility of recovering the withheld funds.

In May, media reports indicated that the United States had suggested that Israel redirect part of the PA clearance revenues it was withholding towards the Board of Peace (BoP) and Gaza's reconstruction.[14] Although this was not submitted as a formal request, it was rejected by both the Israeli and Palestinian governments.[15]

These threats come as the PA is carrying around ILS 20.5bn in accumulated arrears to public employees, private suppliers and other domestic institutions, alongside public debt of approximately ILS 14.2bn, most of it owed to Palestinian banks.[16] With a short-term debt burden of such scale (more than two-thirds of the Palestinian GDP of $17.2bn), the permanent loss or appropriation of withheld clearance revenues would destabilise the banking system, deepen private-sector liquidity pressures and severely undermine the PA's capacity to maintain health, education, social protection and other essential institutions.[17]

2. Recovery and Reconstruction Funding

On 13 July, the European Commission launched the Team Gaza Initiative during the second meeting of the Palestine Donor Group in Brussels.[18] The meeting brought together representatives of 65 delegations, alongside Prime Minister Mohammad Mustafa, BoP High Representative Nikolay Mladenov, and National Committee for the Administration of Gaza (NCAG) Chairman Ali Shaath.

Team Gaza is a coordination platform that brings together EUR 883.6m of financial contributions secured or pledged to date from governments, European institutions and international organisations for early-recovery activities. Initial priorities include water and sanitation, debris and solid-waste management, health, energy, agriculture and food systems.

10 Times of Israel: Israel Dismisses PA Pay-to-Slay Reform as Fraudulent Exercise and Times of Israel: US Claims PA Prisoner Payments Reform a Con Dismissing Audit That Suggests Otherwise
11 Research team calculations based on the MoF data: https://pmof.ps/internal.php?route=financial-reports/monthly
12 Haaretz: Israel Passes Law Allowing Terror Victims to Sue Palestinian Authority for Compensation
13 https://english.wafa.ps/Pages/Details/167309
14 Reuters: US May Ask Israel Put Palestinian Tax Money Toward Trumps Gaza Plan Sources Say
15 Times of Israel: Smotrich Rejects US Request to Transfer Withheld Palestinian Tax Revenue to Board of Peace https://www.palestineeconomy.ps/ar/Article/24699/
16 https://pmof.ps/documents/accounts/monthly/2026/May.2026.Ar.pdf
17 Arab Center in DC: Running on Empty the Deepening Fiscal Crisis of the PA.
18 https://ec.europa.eu/commission/presscorner/detail/el/ip_26_1567

On 13 July, France, Germany, Italy, the Netherlands, Norway, Sweden, Switzerland and the United Kingdom announced their intention to contribute a combined $57.8m to be channelled through the UN Horizon Fund as part of the wider Team Gaza Initiative.[19] On 21 July, Australia announced a further $10m contribution to the fund.[20] Launched in April 2026 by the UN Secretary-General and UNDP, designated as the UN Palestine Recovery Trust Fund, the Horizon Fund is a pooled financing mechanism intended to bridge the gap between emergency humanitarian assistance and large-scale reconstruction, with a primary focus on Gaza.[21]

Alongside the Team Gaza Initiative, donors at the Palestine Donor Group in Brussels signed EUR 41.7m in new contribution agreements in additional financial support channelled through the EU's PEGASE mechanism, which helps finance the PA's recurrent expenditure. The new contributions supplement the EUR 310m already committed by the European Commission through PEGASE for 2026–2027, which forms part of the EU's broader EUR 1.6bn programme for Palestinian recovery and resilience for 2025–2027.[22]

2.1 Board of Peace and GRAD

At the BoP inaugural meeting in February 2026, participating governments announced pledges totalling around $17bn, including $10bn from the United States.[23] However, the Financial Times reported in late May that these commitments had largely failed to translate into financing available for activities in Gaza.[24] No donor funds had been deposited in the World Bank-administered Gaza Reconstruction and Development Fund (GRAD) established for the benefit of the BoP,[25] and no US funding had been deployed for reconstruction.[26] Limited contributions from BoP member states were instead transferred directly to a separate BoP account at JPMorgan to fund the office of the High Representative for Gaza and salaries for NCAG commissioners and staff. Further uncertainty emerged in July, when BoP shifted its immediate focus from territory-wide recovery to launching a limited pilot humanitarian and governance zone near Rafah in south-east Gaza.[27] In late July, the NCAG stated that it was ready to assume authority over the Gaza Strip, but only after Israeli forces withdrew. It was also reportedly not expected to enter the Strip during the initial pilot phase.[28]

Although the establishment of multiple financing mechanisms has created additional channels for coordinating early recovery and mobilising reconstruction funding, the overall funding landscape remains fragmented, and most announced commitments have yet to generate resources on a scale commensurate with Gaza's needs. Even if the BoP's entire $17bn pledge were disbursed and directed to recovery and reconstruction, it would cover less than one-quarter of the estimated $71.4bn required over the coming decade.[29]

2.2 Humanitarian Funding Gap

While the contributions announced through the various mechanisms supporting Gaza's

19 UN: Joint Statement on the launch of the United Nations Horizon Fund for the Occupied Palestinian Territories
20 https://staging.donortracker.org/policy_updates
21 UN: Horizon Fund: Building a bridge to recovery and reconstruction (April 2026)
22 European Commission: Multiannual Programme for Palestinian Recovery and Resilience Worth up to €1.6 billion
23 https://www.reuters.com/world/middle-east/2026-02-19/
24 https://www.ft.com/content
25 A financial mechanism administered by the World Bank to manage international donor contributions under the discretion of the Board of Peace for rebuilding the Gaza Strip. The World Bank acts as a limited trustee. https://documents.worldbank.org/en/publication/reports
26 NPR: Funds for Trump's Board of Peace aren't in World Bank account. So where are they?
27 https://www.ft.com/content
28 Haaretz: Palestinian Technocratic Committee Says It Is Ready to Govern Gaza After UN Approval, IDF Withdrawal
29 https://palestine.un.org/en/

early recovery remain modest relative to an estimated $26.3bn in short-term recovery and reconstruction needs during the first 18 months, the most immediate financing pressure concerns the humanitarian response. The UN's 2026 Flash Appeal seeks $4.06bn to provide urgent, life-saving assistance to around three million people across Gaza and the West Bank, including East Jerusalem.[30] By late July, however, only $1.51bn (37.2%) had been secured, leaving a funding gap of approximately $2.55bn.[31] Approximately 92% of the appeal's requirements relate to Gaza.[32]

Funding shortages are already impinging on assistance. The World Food Programme reported in July that it required $426m to sustain its Gaza and West Bank operations through the end of 2026.[33] In July, cash assistance for around 75,000 people had been reduced by 25%, while food rations for approximately 220,000 households had been halved.[34] WFP expects further reductions unless additional financing is secured.

The funding shortfall comes as Gaza's deep humanitarian crisis continues. Ongoing Israeli military operations, repeated displacement, persistent access restrictions and shortages of essential supplies continue to impede humanitarian operations and early-recovery activities.[35] These constraints are compounding severely limited access to food, safe water, adequate shelter and health care, while heightening disease and protection risks in overcrowded and poorly equipped displacement sites, amid this year's extreme summer heat and widespread rodent and insect infestations.

By late July, shelter and non-food-item stocks had been critically depleted, with fewer than 1,000 tents available inside the Strip for distribution and other essential household items sufficient to support only around 7,000 households.[36] Physical recovery also remains extremely limited. By late July, around 630,000 tonnes of debris had been removed from roads and essential-service locations, equivalent to about 1% of the estimated 61-68m tonnes generated by the Israeli systematic destruction of homes, public buildings, roads and utilities.[37]

3. Excess Shekel Cash Crisis Spillover

The excess-shekel crisis, which has become a recurrent burden on the economy, is spreading beyond the Palestinian banking system, disrupting commercial activity and contributing to recent fuel-supply shortages across the West Bank.[38] Palestinian banks reportedly held around ILS 17bn–18bn in physical shekel banknotes by the end of June 2026, before the latest quarterly transfer began in early July.[39] The problem is not an overall excess of money in the market, but a mismatch between unusable physical cash stored in bank vaults and declining electronic shekel balances held with Israeli correspondent banks unwilling to absorb more.[40] Without sufficient electronic balances, Palestinian banks cannot settle cross-border payments or finance imports of fuel and other essential goods.

The crisis reflects the Palestinian economy's structural dependence on the shekel under the monetary arrangements established

30 https://www.ochaopt.org/content/flash-appeal-occupied-palestinian-territory-2026
31 https://fts.unocha.org/plans/1510/summary
32 https://www.ochaopt.org/content/
33 https://www.wfp.org/emergencies/palestine-emergency
34 https://www.reuters.com/world/2026-07-24/
35 https://www.ochaopt.org/content/report-23-july-2026
36 Ibid
37 https://www.ochaopt.org/content/report-23-july-2026 https://response.reliefweb.int/palestine/gaza/reports
38 Washington Post: In the Israeli-occupied West Bank, too much cash is breaking the economy
39 https://www.wafa.ps/news/2026/7/23/150884 https://theminers.ps/post/2850/17
40 https://www.worldbank.org/ext/en/country/westbankandgaza

by the Paris Protocol. The Bank of Israel allows Palestinian banks to return up to ILS 4.5bn per quarter, or ILS 18bn annually, while estimates indicate that current levels of economic activity require around ILS 25bn–30bn to be transferred each year.[41] The difference between the authorised quota and the volume of cash entering the banking system has allowed banknotes to accumulate over several years. Before the war, the Bank of Israel approved occasional exceptional shipments over the imposed ceiling, but these have become more difficult to secure as responsibility shifted to the Israeli government after October 2023.[42] While the Bank of Israel permitted the PMA to transfer ILS 23bn in surplus shekel banknotes in 2024, the amount was capped at ILS 18bn in 2025, a 21.7% decline as part of GoI's overall policy towards the Palestinian economy.[43] The lower ceiling contributed to an 80.1% year-on-year increase in the stock of physical shekel cash held by Palestinian banks in the West Bank as new cash continued to enter the banking system.

The accumulated cash ties up a growing share of banks' assets while increasing storage and operating costs, short-term borrowing requirements and foregone income that could otherwise have been earned through deposits or investment. An IMF assessment published in 2022 estimated that excess shekel holdings had reduced Palestinian banks' profits by around 20%.[44] The current impact is likely to be considerably greater, given the subsequent accumulation of cash and the worsening shortage of electronic shekel liquidity.

As vault capacity and electronic liquidity have come under increasing pressure, banks have restricted shekel cash deposits, shifting much of the adjustment burden onto cash-intensive businesses and households.[45] Some firms have reportedly been forced to convert physical shekels into dollars or dinars for deposit, before converting the funds back electronically into shekels to cover cheques or make supplier payments. This generates additional costs and disrupts normal business operations. Fuel stations are particularly exposed because they receive most customer payments in cash but must settle fuel purchases through the banking system. The wider commercial impact prompted coordinated private-sector protests at the end of June.[46]

The situation is further threatened by the renewed threat of termination of correspondent-banking services. Israel Discount Bank has indicated that it will end services to Palestinian banks on 1 September 2026, while Bank Hapoalim has announced it would follow on 1 October.[47] Together, the two banks process around ILS 51bn in Palestinian transactions annually.[48] Unless an alternative arrangement is secured, the loss of these relationships could prevent Palestinian banks from settling trade payments altogether, turning the excess-cash problem into a broader systemic shock affecting imports, food security, essential services and daily economic activity.[49] The most recent fuel shortage crisis throughout the West Bank, stemming partially from the cash crunch, has crippled private and public transport and provided a worried public with a sign of the sort of economic collapse and social tensions that would ensue from continued violation of established Palestinian-Israeli banking relations.

41 https://www.sadanews.ps/en/business/308355.html https://www.bnews.ps/ar/node/28033
42 https://english.wafa.ps/Pages/Details/172079
43 PMA: Monetary and Banking Developments, Q4 2025
44 https://www.elibrary.imf.org/downloadpdf/journals/en.xml
45 Washington Post: In the Israeli-occupied West Bank, too much cash is breaking the economy
46 https://bnews.ps/ar/node/27938
47 Reuters: Concerns of Palestinian economic crisis grow as Israeli banks prepare to cut ties
48 https://www.ft.com/content/
49 https://www.wafa.ps/news/2026/7/23/150884

4. Recent MAS Work: Socio-Economic Priorities for Recovery and Reconstruction in the Gaza Strip

On 15 July 2026, the Palestine Economic Policy Research Institute (MAS) held a workshop to present and discuss three policy papers addressing access to essential social services, critical infrastructure and food security in the Gaza Strip.[50]

The first paper addressed access to education and health services and the effects of their collapse on vulnerable groups. It recommended developing education-in-emergencies programmes, establishing temporary schools and providing psychosocial support to students and teachers. In health, it called for field hospitals, stronger primary healthcare services and reliable access to essential medicines and medical supplies.

The second paper focused on housing and shelter, electricity and water. It highlighted the priorities of developing emergency housing and reconstruction programs, expanding renewable-energy use and urgently repairing water and wastewater networks while improving water-resource management. It also called for cooperation among the Palestinian government, international community, private sector and local communities to support an effective and sustainable humanitarian response and strengthen Gaza's capacity for recovery.

The third paper addressed food security through its four dimensions: food availability, physical and economic access, nutritional utilization and stability over time. It concluded that food insecurity in Gaza had become a structural crisis linked to restrictions on the entry of food and disruption of supply chains. It proposed a roadmap that consists of three stages: urgent humanitarian action to prevent worsening famine, rehabilitation of agriculture and food value chains, and the development of a more resilient and sustainable food system. The paper also called for removing restrictions on food and productive inputs and reintegrating Gaza's economy with Palestinian and regional markets.

Expert panelists stressed that reconstruction must begin with stopping the ongoing bombardment and destruction, ending the humanitarian catastrophe, restoring essential services and rebuilding Gaza's institutional capacity. They called for a coordinated and unified approach linking relief, development and employment creation, while highlighting severe destruction of educational infrastructure, continued food insecurity, restrictions on aid and the challenges of rehabilitating damaged and contaminated agricultural land.

5. July Trading Activity

Al-Quds Index declined by 1% in July 2026 compared with June, closing at 648.3 points on the last trading day of the month.[51] Trading activity also weakened, with 8.5m shares traded with a total value of $12.6m, representing a month-on-month decline of 41% in trading volume and 55.3% in trading value.

In Q2 2026, Al-Quds Index closed at 655 points, up 8% from Q1 2026 and 11.6% from Q2 2025.[52] Market capitalisation rose to $5.1bn, increasing by 4.4% and 8.9%, respectively. Trading value increased by 120% quarter-on-quarter to $92.8m and was 82% higher than in Q2 2025, while trading volume reached 56.4m shares, up 147% and 79%, respectively. The volume-based turnover ratio increased from 1.3% in Q2 2025 and 0.9% in Q1 2026 to 2.4% in

50 https://mas.ps/news/14324.html

51 https://www.pex.ps/reporting-center/indices

52 https://www.pex.ps/reporting-center/bulletins

Q2 2026, and the value-based turnover ratio from 1.1% and 0.9% to 1.83%, respectively, indicating improved market liquidity.

This strong improvement in performance came despite the severe economic and fiscal pressures facing the Palestinian economy, suggesting relative resilience in listed-company valuations. Political and economic uncertainty, however, continue to constrain investor confidence and the depth of improvement. Trading also remained highly concentrated, as the investment sector accounted for around 77.4% of total volume and 82.9% of traded value, indicating that the improvement was driven by activity in a small number of companies.

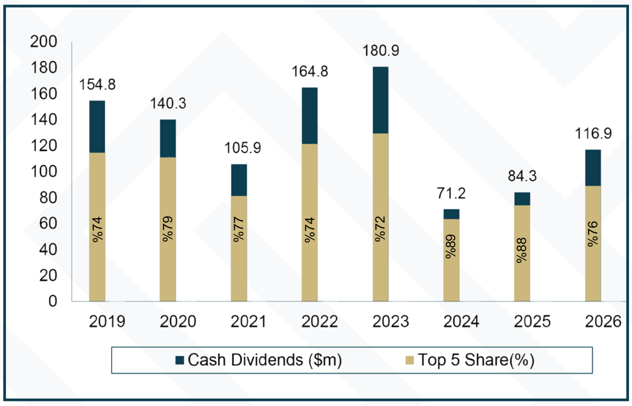
5.1 Dividend Recovery

In 2026, 23 of the 47 companies listed on PEX distributed cash or/and stock dividends with a combined value of $159.6m, up 56.9% from 2025.[53] Approved cash dividends increased by 38.8% to $116.9m, while stock dividends rose from $17.4m to $42.7m.

The number of cash-paying companies increased from 17 in 2025 to 20 in 2026. Six companies that paid no cash dividends in 2025 resumed distributions in 2026, including two large-cap firms, and no continuing payer reduced its absolute payment. Nine companies distributed stock dividends in 2026, up from seven in 2025. The median cash dividend rate increased from 8% to 11% of paid-in capital, although the capital-weighted rate declined from 17.1% to 12.1%. This divergence reflects the return of large-cap companies whose dividend rates were lower than those of other firms, widening the capital base over which dividends were paid. Furthermore, distributions remained highly concentrated as Palestine Telecommunications (PALTEL) accounted for 47.6% of total cash dividends, while the largest five payers contributed 76.2%.

53 Data obtained from the Palestine Exchange

Figure 1: Value, Breadth and Concentration of Cash Dividends by PEX-Listed Companies, 2019–2026



Source: PEX

Despite the strong recovery, cash dividends remained 35.4% below their 2023 level and 22.8% below their 2019 level. The 2019 clearance-revenue crisis and the 2020 COVID-19 pandemic shock weakened distributions in 2020 and 2021, followed by a rebound in 2022 and 2023 (see Figure 1). Nonetheless, the war on Gaza, which started in late 2023, produced a 60.6% decline in cash dividends in 2024. The number of cash dividend payers dropped from 33 to 18 between 2023 and 2024 as major banks and investment companies suspended or sharply reduced payments.

Cash dividends subsequently rose by 18.3% in 2025 and 38.8% in 2026, broadly reflecting the recovery in listed-company earnings. This improvement, however, was stronger than the 4.3% recovery in the wider economy. Palestinian GDP remains well below its 2023 level, while households and small businesses continue to face weak demand, income losses and severe fiscal and political pressures. Nevertheless, leading companies are partly shielded by their presence in relatively defensive sectors, diversified income streams and stronger balance sheets. The rebound therefore indicates resilience among leading listed firms rather than a broad-based economic recovery.

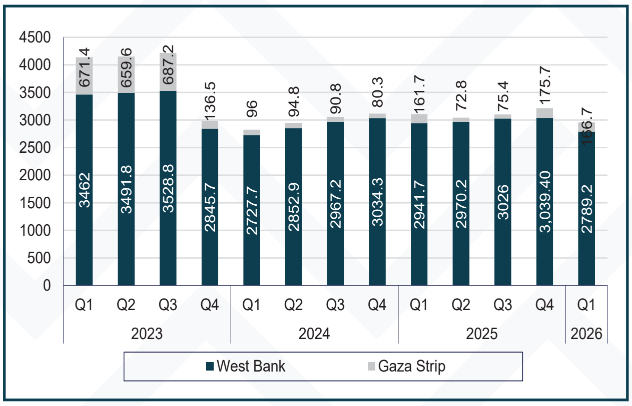
In terms of payout persistence, of the 36 companies that paid cash dividends at least once between 2019 and 2026, only seven did so in every year. These were mainly in telecommunications, pharmaceuticals, food production and insurance. Five companies paid dividends in seven of the eight years.

Based on listed companies' aggregate 2025 net profits of $296m, 2026 cash dividends imply a market-wide payout ratio of about 39.5%, down from 82.5% in 2025. Although this aggregate measure does not capture company-level payout behaviour, it suggests greater earnings retention, particularly among banks seeking to absorb credit risk, public-sector arrears and wider uncertainty. By contrast, mature, cash-generating companies largely maintained distributions, demonstrating payout resilience.

Overall, the 2026 dividend recovery reflects stronger profitability and renewed investor confidence among leading PEX-listed companies. Its sustainability, however, remains tied to political and economic developments.

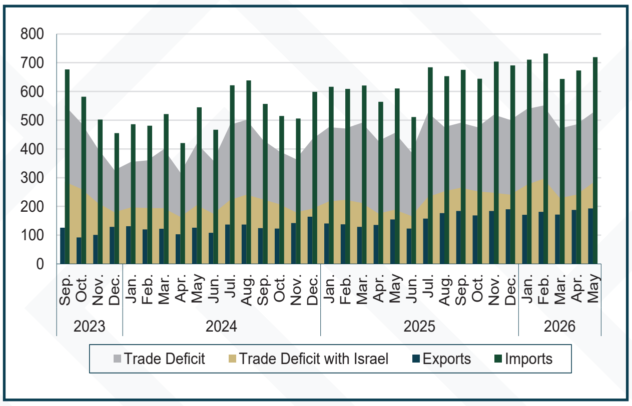
Gross Domestic Product

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



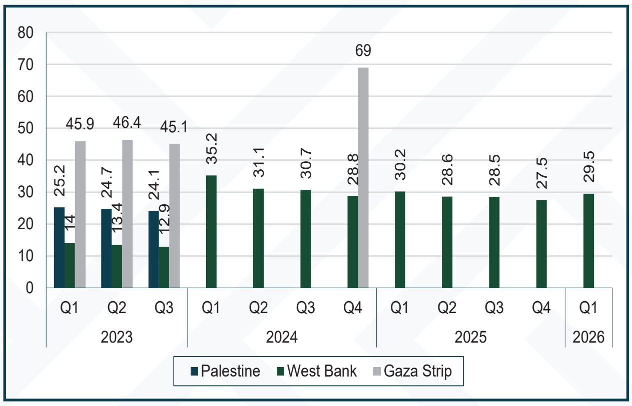
Trade

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



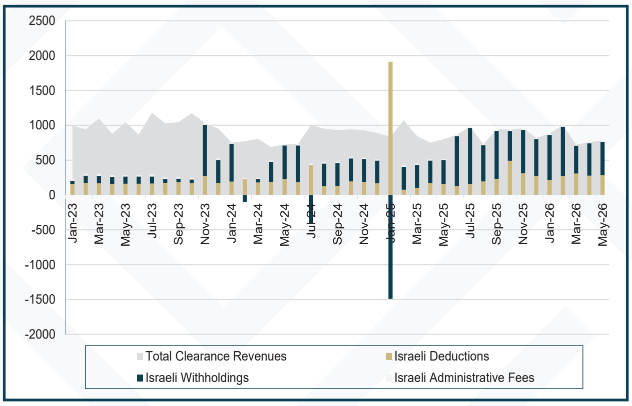
Unemployment

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



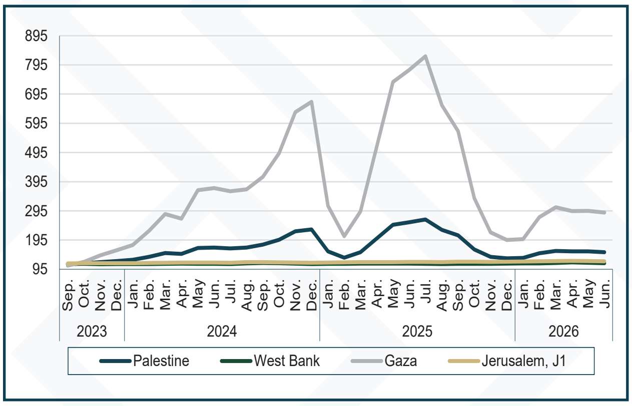
Clearance Revenue Flows

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



Inflation

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



Banking

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