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ANATOMY of STAGNATION

A Status Report on Labor Markets, Firm Dynamics, and Macroeconomic Trends in the West Bank and Gaza

SUMMARY REPORT



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September 2025

THE WORLD BANK
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This document reflects information and developments available as of July 30, 2025.

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Executive Summary

This report, titled *"Anatomy of Stagnation: A Status Report on Labor Market, Firm Dynamics, and Macroeconomic Trends in the West Bank and Gaza"* aims to offer a timely and comprehensive diagnostic of growth and labor patterns in the Palestinian economy. Drawing from a rich blend of data, including satellite-based nightlight imagery, mobile phone usage patterns, firm- and household-level surveys, and traditional macroeconomic indicators, it examines the underlying anatomy of economic stagnation in the Palestinian territories, posing a central question: *why does the Palestinian economy remain persistently fragile, and what can be done to shift its growth trajectory?* While the study explores a range of structural and institutional factors, it also acknowledges the overarching impact of longstanding conflict, the occupation, and movement restrictions, which have shaped and continue to shape the economic landscape in profound ways. Ultimately, the findings point to the significant untapped potential that could be unlocked in a stable and peaceful environment, offering a glimpse of what could be possible should conditions on the ground improve.

Macroeconomic Trends

Macroeconomic indicators reflect the severity of the situation. Real GDP declined in 2024 to levels last seen in 2009, effectively erasing 15 years of growth. GDP per capita is presently lower than it was in 2013. Total factor productivity has shown negative trends for decades, undermining prospects for long-term, sustainable growth.

The Palestinian economy is characterized by weak production and over-reliance on consumption. Growth, where it occurs (the study includes a subnational analysis of how growth has unfolded differently across different regions and cities in the Palestinian territories), is almost exclusively driven by household consumption and public sector employment. Foreign direct investment has virtually disappeared. The export base is narrow and also highly dependent on Israeli markets, limiting diversification. Unemployment exceeds 50 percent, with Gaza experiencing near-universal poverty and dependency on aid. The economic fabric is not only strained, it is actively deteriorating.

The analysis confirms that the West Bank and Gaza face shared challenges but manifest them in drastically divergent ways. In Gaza, the economy is defined by extreme aid dependency, total infrastructure collapse, and a near-total blockade of movement and trade. Net exports are consistently negative, and public service delivery is on the brink of collapse. On the other hand, the West Bank exhibits comparatively better market access, but suffers from chronic underinvestment. Labor exports to Israel provide a degree of relief, but weak private capital formation and limited firm growth continue to suppress economic dynamism. Both territories are ultimately constrained by structural fragility: fragmented geography, movement restrictions, and institutional erosion that inhibit economic activity.

Firm Dynamics

The private sector, particularly micro and small enterprises, is under sustained pressure, with a lack of private sector jobs being a defining characteristic of the Palestinian economic system. Palestinian firms have faced persistent barriers including limited access to finance, high levels of informality, gender inequality, and moderate innovation ecosystems. These challenges are compounded by regulatory fragmentation, overlapping institutional mandates, and market distortions, all of which hinder private sector growth and competitiveness. As a result, the public sector has emerged as a major employer, but—interesting—public sector employment levels are not disproportionately high by regional standards; rather, the main challenge lies in the persistent underdevelopment of the private sector as a source of job creation.

Labor Market Developments

The Palestinian labor market is experiencing a demographic and economic disconnect. Between 2011 and 2024, over one million individuals reached working age. Yet only one in four found employment, resulting in a shortfall of approximately 750,000 jobs. The economy is unable to absorb new entrants, leading to structural unemployment and growing informality.

A central finding is that rising wages outpaced declining labor productivity and undermined long-term sustainability. A growing gap between rising wages and declining labor productivity, highlights structural inefficiencies in the Palestinian economy. Wage growth, partly driven by proximity to the Israeli labor market, risks becoming unsustainable without corresponding productivity gains.

The labor market is marked by significant occupational polarization, with low- and high-skill jobs exceeding global averages and a relative shortage of middle-skill opportunities. High-skill employment remains heavily concentrated in the public sector—mainly education, public administration, and health—while few private industries, such as finance, ICT, and legal services, offer substantial high-skill jobs. Manufacturing lags behind, with limited high-skill roles, underscoring the need to diversify and expand high-skill employment in the private sector.

Gains in educational attainment are not fully translating into relevant labor market skills. While youth and women have made significant gains in education, the labor market has failed to respond. Female labor force participation stands at just 19 percent—less than half the average of comparator economies. This represents not only a social equity issue, but a substantial lost opportunity for growth and productivity.

The Impacts of the Conflict

The economic fallout of the ongoing conflict has been nothing short of catastrophic. In 2024 alone, GDP contracted by 28 percent. Gaza's economy shrank by an unprecedented 82 percent. Inflation surged to 230 percent. Public services collapsed—over half of health facilities are non-functional. The West Bank lost 240,000 jobs. Gaza's unemployment rate reached 80 percent.

The damage to private sector confidence is predicted to be severe and long-lasting. The report finds that a 1% increase in (new) conflict events led to a 0.2–0.3% decline in sales, while a similar (1%) increase in fatalities caused a 0.06–0.12% drop. These effects were consistent across different geographical exposures. Conflict also appears to be correlated to the sharp reduction in investment. A 1% increase in conflict exposure reduced the probability of purchasing fixed assets by 10–18 percentage points, indicating long-term economic scarring due to reduced capital accumulation.

Closing Insights

The findings of the report call for a fundamental rethinking of the policy response. Thirty years

since the definition of the Oslo accords, piecemeal interventions or temporary aid are highly unlikely to resolve the entrenched structural weaknesses of the Palestinian economy. A sustained, modern, comprehensive new approach is required, one that enhances national economic agency, dismantles movement and access barriers, strengthens domestic governance and institutions, and fosters inclusive private sector growth.

The report identifies three mutually reinforcing structural constraints at the core of economic stagnation.

1. **Limited economic tools:** The Palestinian Authority (PA) operates without key instruments of macroeconomic policy. Revenue collection is mediated through Israel, trade policy is externally controlled, and the absence of a sovereign currency severely limits fiscal maneuverability.
2. **Movement and access restrictions:** Over 800 physical barriers (as of late 2024), in the West Bank, including checkpoints, and the Gaza near-total blockade have created a fragmented economic geography. Trade flows are inhibited, labor mobility is suppressed, and productive linkages across regions are broken. These restrictions are a systemic deterrent to private sector investment.
3. **Governance deficits and market distortion:** Institutional weaknesses, low public trust, and the prevalence of informal influence networks (commonly referred to as *wasta*) undermine fair competition. These distortions favor rent-seeking over innovation and create significant entry barriers for new firms and marginalized groups.

At the heart of the Palestinian economic crisis lies a profound lack of autonomy. The economy remains heavily reliant on external sources: labor market access in Israel, foreign aid, and clearance revenues on the fiscal front, just to name the main ones. Complementing the picture, there is no sovereign currency, no control over external trade, and limited policy space for either fiscal or monetary interventions. The constraints manifest in a profound "connectivity deficit": physical, financial, digital, and institutional. These constraints are not temporary, but rather structural and binding.

The risks of inaction are high—but so too is the potential. With a young, educated population, strategic international support, and governance reform, the Palestinian economy could move toward resilience and sustainability. However, this will require more than technical fixes; it demands coordinated, long-term engagement with a focus on addressing root causes, not just symptoms.

الملخص التنفيذي[1]

يهدف هذا التقرير، الذي يحمل عنوان "تشريح الركود: تقرير حالة عن سوق العمل، وديناميكيات الشركات، والاتجاهات الاقتصادية الكلية في الضفة الغربية وقطاع غزة"، إلى تقديم تشخيص شامل وفي الوقت المناسب لأنماط النمو الاقتصادي في الاقتصاد الفلسطيني. ومن خلال الاعتماد على مجموعة واسعة من البيانات—بما في ذلك صور الأقمار الصناعية الليلية، وأنماط استخدام الهواتف المحمولة، وتقييمات القراءة على مستوى الأفراد، والمؤشرات الاقتصادية الكلية التقليدية—يحلل التقرير الأسس الهيكلية لحالة الركود الاقتصادي المستمر. ويطرح في جوهره سؤالاً محورياً: لماذا يظل الاقتصاد الفلسطيني هشاً جزئياً وبشكل مستمر، وما الذي يمكن فعله لتغيير مساره التنموي؟

وعلى الرغم من أن الدراسة استعرضت مجموعة من العوامل المؤسسية، إلا أنها لم تتعقب الجوهر الجوهري للصراع، والاحتلال، وتميزت بالحركة، والتي شكلت ولا تزال تشكل مفاجآت اقتصادية فلسطينية بطرق عميقة. نهاية المطاف، تشير النتائج إلى وجود قدر كبير من عدم الاستخدام ويمكن تفعيلها في حالة وجود بيئة سلمية، مما يقدم لمحة عما يمكن أن يكون ممكنًا إذا ما تحسنت الظروف على أرض الواقع.

محاور الكلية الاقتصادية

المجالات الاقتصادية للكلية الناشئة. وقد انتقلت إلى المستوى المحلي الحقيقي في عام 2024 إلى مستويات لم تشهدها منذ عام 2009، مما أدى بالفعل إلى تحويل ملكية خمسة عشر عامًا من النمو. لقد ساهمت في نصيب الفرد من الناتج المحلي الإجمالي، فهو اليوم أقل مما كان عليه في عام 2013. وهناك اتجاهات في إنتاجية التركيز على إنتاج الكلية، والتي لديها عقود، لتقوية النمو المستدام لفترة طويلة .

تمويل الاقتصاد الفلسطيني بضعف الاستخدام والاعتماد على الاستهلاك. والنمو، عندما يحدث (تشمل الدراسة تحليلًا دون وطني لكيفية تباين السكان بين المناطق والمدن المختلفة في السكان الفلسطينيين)، يكون مدفوعًا في الأغلبية باستهلاك الأسرة وتوظيف القطاع العام. أما الاستثمار الأجنبي المباشر فيختفى تقريبا، والقاعدة التصديرية قوية وتعتمد بدرجة كبيرة على التحديد الإسرائيلي، مما يحدّ من للتنويع الاقتصادي. تعاني من العجز بنسبة 50%، في حين تشهد قطاع غزة فقرًا جزئيًا وتعتمد كليًا على المساعدات. لم يعد النسيج الاقتصادي مجرد هش، بل هو في حالة متدهورة .

وتؤكد التحليلات أن الضفة الغربية وغزة تواجهان تحديات جديدة، ولكن تتجلى بطرق متباينة جذريًا. في غزة، يحكم الاعتماد الاقتصادي على المساعدات، والانهيار الجزئي لبنية الشخصية، والقصور شبه الكامل للتأثر. صادرات غزة الصافية سيئة بشكل سيئ، والخدمات العامة على وشك الانهيار. في المقابل، التمتع بالمساحة الغربية إمكانية الوصول بشكل أفضل إلى التنوع، لكنها تعاني من عيوب مزمنة في الاستثمار. ونتيجة لذلك، تم تصدير الإنتاج إلى إسرائيل ونتيجة لذلك، إلا أن نقص رأس المال الخاص وضعف حجم الأعمال استمر في النشاط الاقتصادي. النهائية، فإن كلاً من إيليتون مقيدان بهشاشة بنية تشمل: جغرافيا مجزأة، وقيودًا على الحركة، وتآكلًا بطريقة ما يعرقل النشاط الاقتصادي .

ديناميكيات الشركات

يتعرض القطاع الخاص، لا سيما المشاريع الصغيرة والمتناهية، للضغوط المستمرة، حيث لا يوجد نقص في فرص العمل في القطاع الخاص سمة ممتازة اقتصادية فلسطينية. تواجه الشركات الفلسطينية حواجز جديدة تشمل محدودية الوصول إلى التمويل، ومستوى عالٍ من العمل غير الرسمي، وعدم وجود أطفال بين الجنسين، وبيئات ابتكار بسيطة. وتعقد هذه المؤتمرات بسبب جزئية، وتداخل السلطات الوطنية، وتشوهات السوق، التي تعيق جميعها من الحليب الخاص وقدرته على المنافسة. ونتيجة لذلك، برز القطاع العام كجهة توظيف رئيسية، لكن من اللافت أن مستويات توظيف القطاع العام ليست مرتفعة بشكل غير متناسب مع بالمعايير جيرانه؛ بل المهمة الأساسية

[1] This translated version is provided for the convenience of readers. The official original version of the Executive Summary is in English. In the event of any discrepancies or questions, the original version shall prevail.

لذلك في نقصان الضغط العصبي الخاص كمصدر الاتصال المباشر لفرص العمل.

عقودات سوق العمل

يشهد سوق العمل الفلسطيني الديمغرافية والاقتصادية المتزايدة. في الفترة ما بين 2011 و2024، بلغ عدد الأشخاص الذين بلغ سنهم أكثر من مليون شخص، ولكن لم يتبق سوى واحد من كل أربعة منهم من العثور على وظيفة، مما لم ينقص سوى 750,000 وظيفة. غير قادر على الحصول على المكونات المكونة من التوقيعات، مما يؤدي إلى بطالة هيكلية ونباتية غير رسمية.

تشير النتائج الرئيسية إلى أن الدخل القومي المتميز في إنتاج العمل، مما يجعل استدامة النمو على المدى الطويل. ويظهر اتساع الشراكة بين المساهمة في إنتاجية العمل المتراجع وجود خلل هيكلي في الاقتصاد الفلسطيني. ويتحمل المصنع، الذي يُعزى جزئيًا إلى قرب تصنيع النبيذ، خطر عدم الاستدامة ما لم تترافق مع اكتساب في النبات.

ويشهد على ذلك أن العمل الاستقطابي متناسب بشكل كافٍ، حيث لا تتجاوز المهارات المنخفضة والمتوسطة الحجم البلدان العالمية، في حين توجد فرص متوسطة من العيوب. ويركز التوظيف بشكل كبير في القطاع العام، وخاصة في مجال التعليم والإدارة العامة، في حين توجد بعض الصناعات الخاصة مثل المالية والتكنولوجيا والمعلومات والخدمات القانونية وفرص عمل عالية محدودة. أما قطاع ميكروفون فيتخلف في هذا الجانب، مع وجود عدد محدود من المهارات العالية، ما يبرز الحاجة إلى تنويع فرص إمكانية العمل بالمهارات في الحليب الخاص.

لم يتم ترجمة المكاسب التعليمية بشكل كامل لمهارات سوق العمل ذات الصلة. فبينما حقق الشباب تقدماً ملحوظاً في التعليم، فشل سوق العمل في هذا الهدف التطور. حيث تمثل نسبة مشاركة المرأة في القوة العاملة 19% فقط، أي أقل من نصف الاقتصادات المتوسطة المماثلة. وهذا لا يمثل سوى مسألة العدالة الاجتماعية، بل يمثل أيضًا فرصة رائعة للنمو الإنتاجي.

تأثير الصراع

وكانت الداعيات الاقتصادية للصراع المستمر الكارثية بكل المعايير. في عام 2024، أنت مشتت قانونيًا رسميًا بنسبة 28%. تقلص الجسم بالكامل ولم يصل إلى 82%. وانتقلت إلى 230%. انهارت الخدمات العامة، حيث أصبحت أكثر من الأبحاث الصحية غير الفعالة. فقدت الأرض الغربية 240,000 وظيفة، بينما وصلت نسبة البطالة في غزة إلى 80 %.

ومن الممكن أن يكون الضرر الذي يلحق ببثقة الحليب شديدًا وطويل الأمد. ويوضح أن الزيادة بنسبة 1% في أحداث الصراع الجديدة تؤدي إلى انخفاض في المبيعات بنسبة 0.2–0.3%، في حين تستوعب ارتفاع متساوي بنسبة 1% في النسب بنسبة 0.06–0.12%. وقد كانت هذه التأثيرات متسقة عبر مختلف المناطق الجغرافية. كما يبدو أن الصراع مرتبط بانخفاض حاد في الاستثمار. فزيادة بنسبة 1% في التعرض للتعريض الضوئي للإشعاع من المحتمل أن تشتري المكونات الثابتة وتتراوح ما بين 10–18 نقطة مئوية، مما يشير إلى ندوب اقتصادية طويلة الأمد ناغمة لضعف رأس المال.

الاستنتاجات النهائية

نتائج التقرير إلى إعادة التفكير في الفلسفة السياسية. بعد مرور ثلاثين عاماً على ما يحدث في أوسلو، فإن اللجنة التطوعية المتعددة أو اللاجئين المطريين لم تظهر أنها تمثل نقاط ضعف الضعفاء المتجذرة في الاقتصاد الفلسطيني. هناك حاجة إلى البدء في إنشاء بداية جديدة وحديثة وشاملة لإنتاج الوكالة الاقتصادية الوطنية، ويفكك الحواجز أمام توحيدها، ويقوي الدمج للمؤسسات المحلية، ويشجع على نمو القطاع الخاص.

يحدد التقارير الثلاثة الإلكترونية البنيوية المترابطة لحالة الركود الاقتصادي الصعب:

1. **الأدوات المحدودة :** هناك أدوات رئيسية للسياسة الاقتصادية للكلية. فجمع يتم الحصول عليه عبر إسرائيل، والسياسة تدار خارجياً، وغياب عملة سيادية يبدأ من القدرة على المناورة المالية .
2. **لتعلم** الجديد **:** يوجد أكثر من 800 طريق مادي (حتى أواخر 2024) في الضفة الغربية، بما في ذلك نقاط التفتيش، بالإضافة إلى الأمين شبه الكامل على غزة، مما خلق تنوعا اقتصاديا مجزأة. تُعيق تدفقات التجارة، وما هي شبكة الإنترنت الخاصة بها، وتُقطع الروابط بين المناطق. وتشمل هذه القيود منهجيًا للاستثمار في القطاع الخاص.
3. **عجز في التورمات وتشوهات السوق :** تضعف نقاط الضعف المحلية، التنوع العام، وانتشار الشبكات النفوذة غير الرسمية (المعروفة باسم «الواسطة») المنافسة. تفضل هذه التشوهات السلوك الريعي على المبدعين، وخلق حواجز دخول كبيرة أمام الشركات الجديدة والفئات المهمة.

جوهر الحرية الاقتصادية الفلسطينية

بداية انطلاقة الاقتصادية الفلسطينية في افتقار الحكومة للسيادة والاستقلالية. لا يزال الاقتصاد يعتمد بشكل كبير على المصادر: وصول العمال إلى سوق العمل الشهير، والمساعدين الخارجيين،

وربح المقاصة الخارجية على المستوى المالي، على سبيل المثال لا الحصر. ومن جهة أخرى، لا توجد عملة سيادية، ولا تمارس التجارة الخارجية، ومساحة محدودة لسياسات المالية أو النقدية. تتجلى هذه القيود في «عجز الاتصال» واسعة النطاق وتشمل الشمول المالي والرقمي المؤسسي. وهذه القيود ليست مؤقتة، بل هي بنيوية وملء.

المخاطر والفرص

تعتبر أصولها منخفضة للغاية، وكذلك الفرص المتاحة إلى حد كبير. مع وجود سكان شباب ومتعلمين، بما فيهم جزئيات الصغيرة في الأغلب، يمكن للاقتصاد الفلسطيني أن يتجه نحو الفاعلية والاستدامة. غير أن ذلك يتطلب أكثر من حلول التقنية؛ بل يلزم مشاركة منسقة وطويلة من الزمن لبنية ليبرانية، وليس مجرد الظاهرة.

Introduction[2]

Policymakers, firms and workers operating in contexts of fragility, conflict, and violence face severe and unique challenges. The West Bank and Gaza are no exception. The Palestinian territories operate under a unique set of economic constraints shaped by protracted conflict, ongoing occupation, institutional fragmentation, and structural dependencies. In this context, the following report offers a new perspective on the economy of the Palestinian territories that examines the dynamic relationships between macroeconomic performance, firms, and workers to more fully understand the causes of persistent stagnation, high unemployment, and declining productivity. By integrating traditional data analytics with innovative methodologies based on nighttime lights (NTLs), mobile telecom usage, and geo-referenced surveys, the report offers a granular view of how fragility and conflict permeate Palestinian economic life, particularly in the wake of the 2023 escalation. The analysis highlights the urgent need for private-sector driven job creation not only as an economic policy objective but as a cornerstone of long-term resilience and stability.

The report traces the evolution of the Palestinian economy, highlighting its unique combination of intense demographic pressures, suppressed private-sector dynamism, and inherent macroeconomic fragility. More than 60 percent of Palestinians are under age 25, and of the approximately 80,000 youth who enter the labor market each year, only about 25 percent find a job. As of end-2024, the unemployment rate was approaching 50 percent due to the conflict, and protracted joblessness risks entrenching poverty, deepening social fragmentation, and exacerbating instability and insecurity. Transforming this demographic surge into an economic dividend requires a comprehensive approach that targets both workforce preparedness and the right type of job creation.

This status report is an advanced economic monitoring exercise that draws on a range of quantitative and qualitative methodologies to deliver an in-depth appraisal of prevailing economic conditions. Its core objective is to equip policymakers and other stakeholders with a robust analysis of the key issues: the report's approach combines an assessment of macroeconomic trends with a firm-level diagnostic and a microeconomic evaluation of labor-market dynamics to identify structural obstacles to job creation, income generation, and productivity growth. The findings provide the basis for a set of high-level strategic recommendations designed to inform a robust policy dialogue.

While the political and security situation imposes binding constraints that extend far beyond the reach of economic policy, policymakers can take meaningful steps to improve labor-market outcomes, business performance, and economic growth. Targeted reforms addressing human-capital development, the business environment, and macro-fiscal policy can play a vital role in sustaining and strengthening the Palestinian economy even amid ongoing conflict. While the West Bank and Gaza face enormous challenges, measures that transform their surging population of young people into a productive and engaged workforce could unlock rapid private-sector-led growth.

[2] A detailed background report is annexed to this summary. It provides the full analysis, methodology, and sources underlying the data and figures presented here.

1

MACROECONOMIC TRENDS: A STALLED GROWTH MODEL

The Palestinian economy has long exhibited signs of structural stagnation. Consumption, mainly supported by remittances and foreign aid,[3] has driven growth, while investment or productivity gains remain very limited. Export performance is weak, due largely to trade constraints and market fragmentation related to the occupation. The manufacturing sector has remained stagnant, agriculture has dwindled to less than 6 percent of total employment,[4] and the service sector dominates the economy. Productivity growth, measured by total factor productivity (TFP), has remained negative for decades, as capital accumulation depends more on aid and reconstruction spending than on private investment. In 2024, real GDP plunged to its 2009 level, reversing over a decade of modest gains. The recent collapse in Gaza's economy, which has contracted by an unprecedented 82 percent since the escalation of the conflict—exceeding the economic toll of the Second Intifada, the 2014 war, and the COVID-19 pandemic—underscores the acute vulnerability of economic activity to political and security shocks. Gaza is home to nearly 40 percent of the population, yet it now contributes less than 4 percent to total Palestinian GDP.

Potential growth has declined over time, indicating that structural constraints are becoming increasingly severe. Following an extended period of stagnation, potential growth entered a pronounced decline in the late 2000s. Chronic violence and instability, combined with structural barriers to trade and workforce mobility, have deterred both domestic and foreign investment in long-term projects. Meanwhile, weak public institutions and a rentier economy have led to the misallocation of resources, undermining productivity and discouraging entrepreneurship.

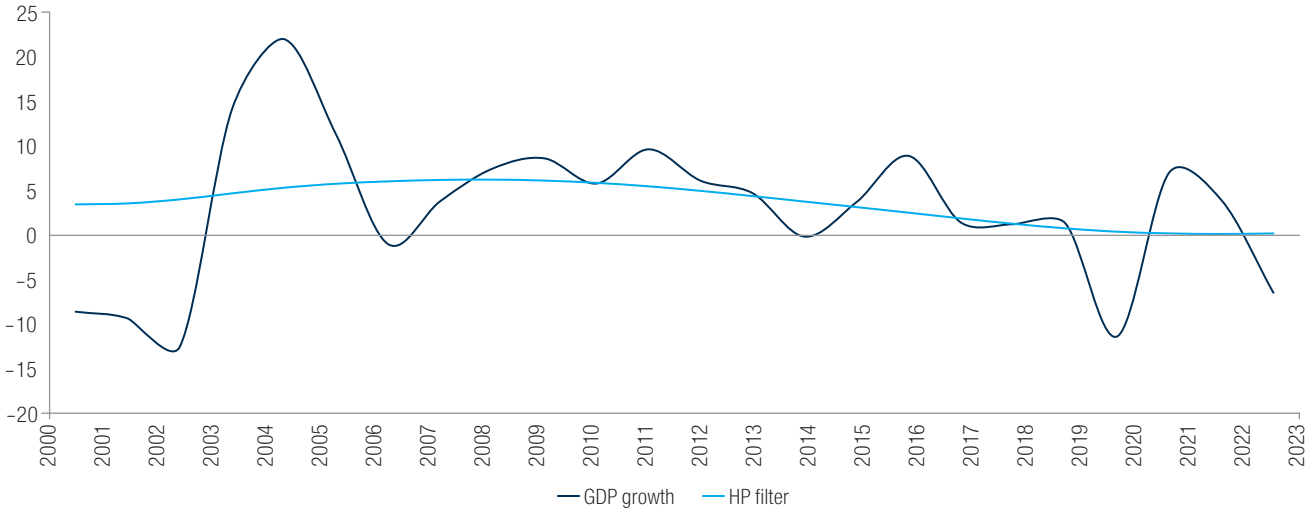
The growth model of the West Bank and Gaza has become increasingly inward-oriented and stagnant. In 2024, nominal GDP per capita stood at roughly US$3,200—just below its 2013 level of US$3,300. Rapid population growth has consistently outpaced real GDP growth, leading to a decline in

[3] Prior to 2023, labor income from Palestinian workers in Israel and the settlements contributed significantly to aggregate demand, especially in the West Bank. A large part of these cross-border workers lost their work permits in Israel following the start of the October 2023 conflict.

[4] This is roughly one-third of both the regional and income-group averages.

Figure 1

Actual and Potential GDP Growth Rates in the West Bank and Gaza Gaza, 1995–2023



Source: World Bank staff based on WDI data and the Hodrik Prescott filter[a]

[a] The Hodrick-Prescott (HP) filter is a statistical technique used to produce a smoothed measure of real GDP. The HP filter is calculated until year 2100 and smoothed at 100. Deviations from the smoothed curve would represent temporary deviations from the country's GDP growth potential.

per capita income, while the unemployment rate rose from 23 percent in 2000 to 26 percent in 2023—before surging past 50 percent due to the conflict. Since October 2023, the poverty rate has more than doubled, reaching nearly 100 percent in Gaza and over 28 percent in the West Bank. As the Palestinian economy's external ties have weakened, internal factors have increasingly driven economic activity. Between 2017 and 2024, exports grew by an anemic 1.6 percent per year, reflecting severe trade restrictions imposed by Israel, elevated transportation costs, and a weak business climate, which resulted in multiple years of net foreign direct investment (FDI) outflows.

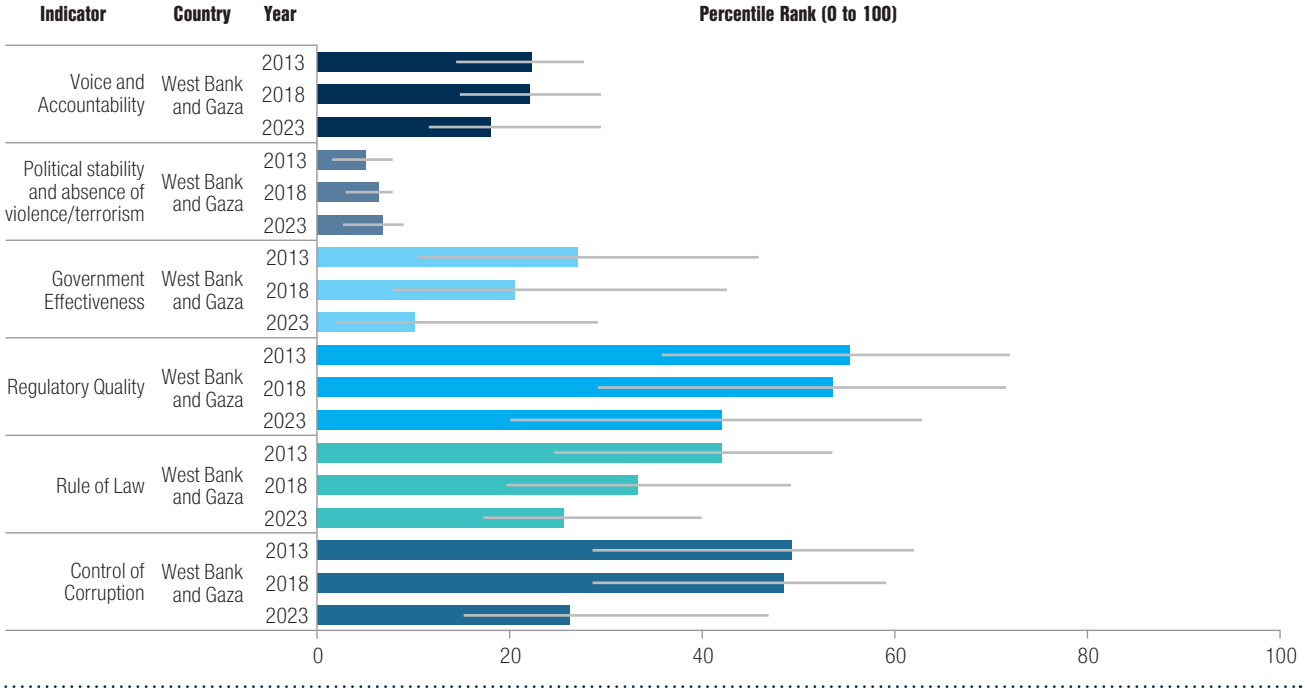
Political factors impose binding constraints on growth. Labor income is tied to employment in Israel, which has been largely suspended since October 2023. Net FDI has turned negative, while trade dynamics and fiscal resources remain sharply limited by arrangements under the Paris Protocol related to, respectively, customs and border management, and to the transfers of clearance revenues. Crucial to understanding the West Bank and Gaza's poor growth performance is the fact that it operates without a traditional central bank. Instead, it relies on a central monetary authority—the Palestine Monetary Authority (PMA)—which lacks many conventional policy tools It is unable to influence the money supply through open-market operations, and it can do little to mitigate the risks posed by the banking system's dependence on corresponding banking relationships. Overall, the resulting economic model of inward-looking, low-investment growth has failed to generate the employment needed to absorb a rapidly expanding labor force.

Recurrent conflict, pervasive insecurity, and successive economic shocks have reversed prior gains, undermining the institutional framework and prevented productivity growth. The international literature[5] highlights the critical role of institutional quality and productivity gains in driving long-term development. However, across a wide range of indicators, the West Bank and Gaza reveal a persistent

[5] See, among others, Acemoglu et al., 2001; IMF WP 2015/174; World Bank LTGMTFP framework.

Figure 2

Selected Governance Indicators, West Bank and Gaza



struggle in most dimensions of governance. Political stability and the absence of violence. Indicators on government effectiveness, regulatory quality, the rule of law, and control of corruption are uniformly low and have worsened substantially in recent years, suggesting a constrained capacity for delivering public services, enforcing regulations, and upholding legal frameworks. Indicators of voice and accountability outperform other dimensions of governance but remain modest in absolute terms and have deteriorated over time. The Control of corruption also remains low, pointing to continued vulnerabilities in the oversight of public institutions.

Structural fiscal imbalances, including politically sensitive constraints on the revenue side[6], prevent fiscal policy from fostering sustained private sector-led growth. The fiscal balances have depended heavily on the remittance of clearance revenues collected by Israel and payable to the Palestinian Authority—the withholding and deductions of which are a subject of protracted contention. Meanwhile, a growing wage bill consumes nearly 50 percent of total public spending, and has over time crowded out development expenditures, which have stagnated at an alarmingly low 1.5 percent of GDP in recent years, far short of what would be needed to close the existing infrastructure gap. Lacking the resources to shift toward a forward-looking fiscal strategy, policymakers are trapped in a cycle of short-term crisis management in which fiscal policy is reduced to a month-to-month balancing act aimed primarily at covering public-sector salaries and transfers. With no clear investment framework or long-term development agenda to support private sector revenues, financial management remains reactive rather than strategic and is unable to support economic transformation.[7]

[6] Related to the transfers of Clearance Revenues. See: Impacts of the Conflict in the Middle East on the Palestinian Economy, World Bank, 2024.

[7] For more details on the status of the fiscal policy in the West Bank and Gaza, please see the recent Public Expenditure Review for the West Bank and Gaza by the World Bank, 2025.

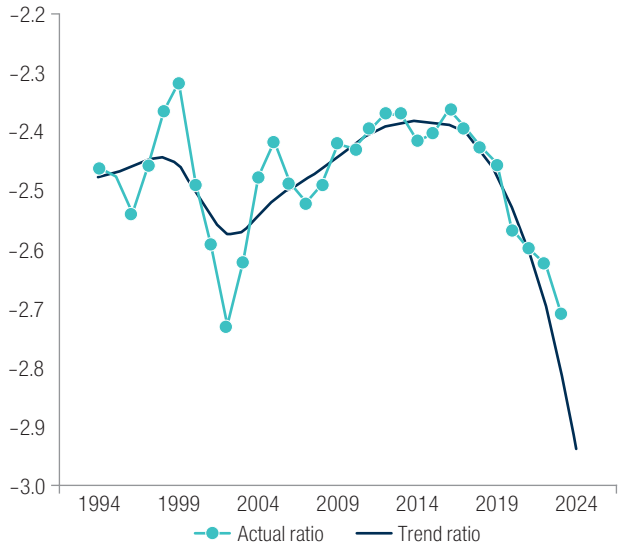
Finally, high and unpredictable nontariff barriers increase the cost and complexity of doing business in the West Bank and Gaza. Israel's control over external trade includes an extensive list of banned "dual-use" imports, which cripples the ability of local producers to expand production and exports.[8] In the West Bank, the continued expansion of Israeli settlements has steadily reduced the land available for Palestinian private-sector use, which coupled with security challenges and a disenfranchised political climate, has heavily deterred private investment and the execution of major projects in the Palestinian territories. Pre-conflict estimates suggest that lifting external restrictions could boost the West Bank's real GDP by as much as 36 percent.[9] Despite these challenges, the Palestinian Authority has introduced several reforms aimed at encouraging private investment, including measures to foster competition and new laws regulating telecommunications providers and the use of e-signatures. However, implementation of these laws lags behind, due in part to a lack of awareness both among private- and public-sector stakeholders.

Over the past 30 years, the income gap between the West Bank and Gaza, and Israel, has steadily widened (Figure 3). The GDP per capita ratio has remained persistently negative, reflecting a continuous economic divergence. From the mid-2000s to the mid-2010s, the Palestinian economy made efforts to narrow this gap, reaching its lowest disparity around 2014–16. Since then, however, the economies have diverged sharply. The negative trend of the past five years has more than reversed earlier gains, and in 2024 the disparity between the Israeli and Palestinian economies reached its widest point in over six decades (Figure 4).

Income convergence with the Israeli economy has stalled in the West Bank and reversed in Gaza, marking a period of severe deindustrialization for the Palestinian economy. As of 2024, Gaza's income levels have fallen to less than 0.5 percent of Israel's. The previous narrowing of the income disparity with Israel was driven entirely by the West Bank, while Gaza has experienced no meaningful convergence for over three decades. By 2024, Gaza's GDP per capita had effectively collapsed in relative terms. Whereas in 1994, Gaza's GDP per capita stood at approximately 15 percent of Israel's, three decades later its share has plunged to less than 0.4 percent. This dramatic decline underscores not only Gaza's growing economic isolation but also its increasing divergence from the West Bank. Far from realizing the expected advantages of closer customs and monetary ties with a more advanced economy, the Palestinian territories have instead faced the opposite outcome. Key benefits typically associated with north-south economic

Figure 3

Natural Logarithmic Ratio of Palestinian to Israeli GDP Per Capita, 1994–2024

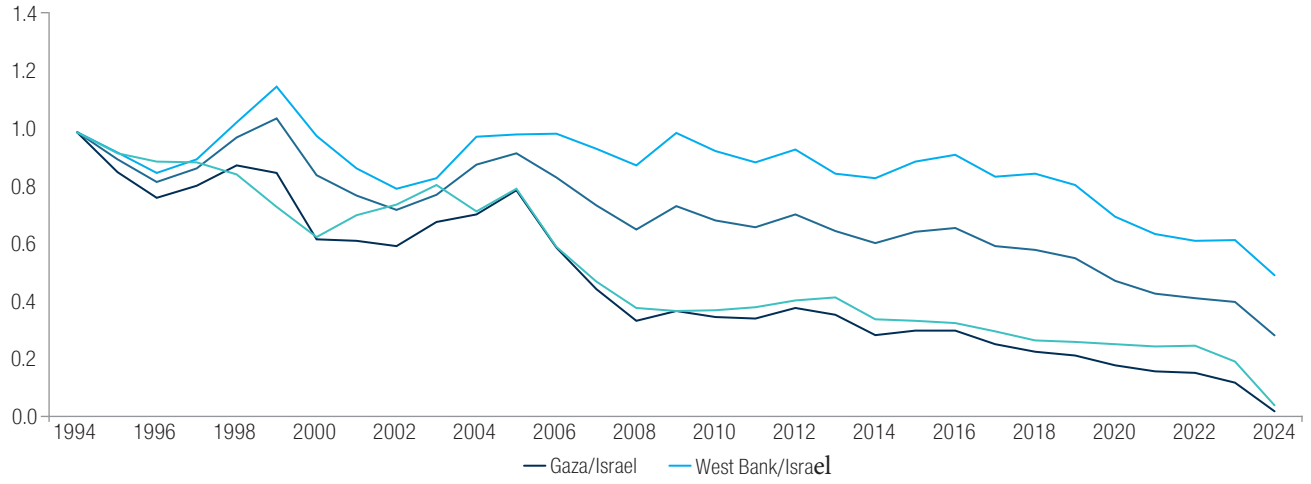


Sources: WDI database (2025), World Population Prospects (2024), World Bank staff estimates.
Note: Trend is derived using the Hodric Prescott Filter with a smoothing parameter of 6. 25 as recommended for annual data.

[8] "Dual-use" goods are items that are deemed by Israeli authorities to have potential military applications in addition to their primary civilian purpose. Previous World Bank analysis has found that revisiting dual-use restrictions could dramatically accelerate economic growth in the West Bank and Gaza. See: World Bank (2019) "Economic Monitoring Report to the Ad Hoc Liaison Committee."
[9] World Bank (2017) "Prospects for Growth and Jobs in the Palestinian Economy." The growth projections in the report are from 2017 to 2025.

Figure 4

Relative Income Gaps between Israel, the West Bank, and Gaza, 1994–2024



Source: World Bank Staff estimates based on PCBS data and World Bank's World Development Indicators.
Note: The figure shows Indexed GDP per capita (US$, current) ratios, with 1994 being the base year.

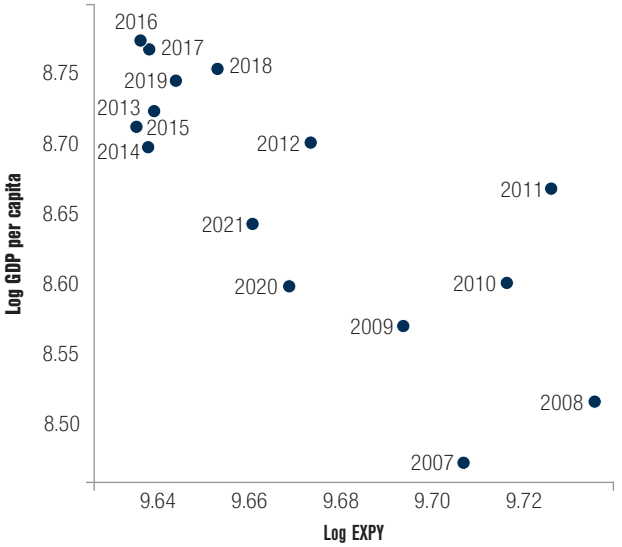
integration—such as increased foreign direct investment—have failed to materialize[10]. In Gaza, in particular, FDI inflows have remained virtually nonexistent, resulting in a prolonged period of deindustrialization, one that has sharply intensified since the near-total blockade imposed by Israel in 2007 (Figure 4).

Progressive deindustrialization is further evidenced by a decline in the Export Sophistication Index (EXPY).[11] A high EXPY value typically signals a more advanced export portfolio, implying a relatively strong and diverse industrial base. Beginning around 2012, however, the West Bank and Gaza have experienced a shift toward less sophisticated exports (Figure 5). This movement down the technology ladder reflects a setback in industrialization, as declining export complexity undercuts long-term competitiveness and stifles opportunities for higher-value manufacturing.

Over time, the economies of the West Bank and Gaza have diverged from each other as well as from Israel. While the West Bank's stronger

Figure 5

EXPY Values, West Bank and Gaza, 2012–2021



Source: World Bank staff estimates based on World Bank Integrated Trade System and the World Bank Development Data Hub Platform. At the time of the analysis, the years available for the West Bank and Gaza go from 2012 to 2021.

[10] World Bank (2006) "West Bank and Gaza Country Economic Memorandum."

[11] Following the methodology introduced by Hausman et al., EXPY is calculated as a weighted average of the product sophistication values of exports, with the weights being each product's share in total exports. Product sophistication is calculated as a weighted average of the per capita GDPs of countries that export that product.

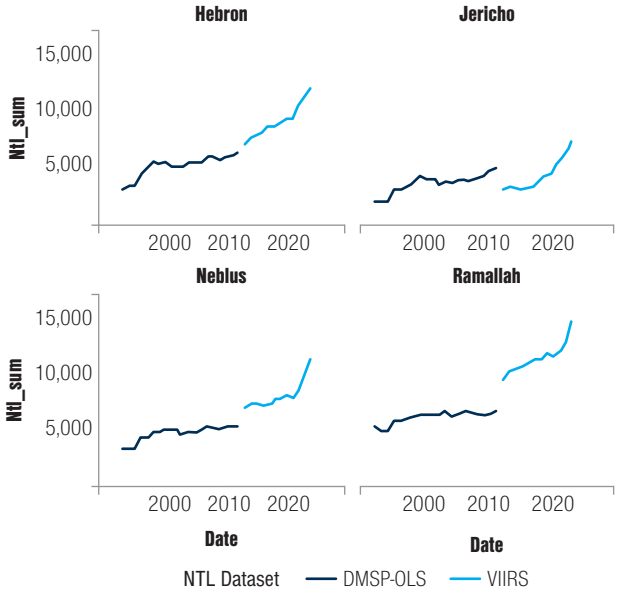
economic performance has enabled it to temporarily reach upper-middle-income status (in 2022–23), Gaza remains essentially a low-income economy. This economic divergence is evident not only in production and income levels, but also in poverty rates, unemployment, and trade activity.

The Palestinian economy is deeply fragmented. Cities like Ramallah, Nablus, and Hebron have evolved in very different ways due to spatial, institutional, and geopolitical conditions (Figure 6). Ramallah has become an aid-fueled administrative center; Nablus has transitioned from a manufacturing hub to a service-heavy economy; and Hebron continues to anchor industrial and commercial activity, particularly through trade links with Türkiye and China. Area C, which accounts for over 60 percent of the West Bank and holds substantial resources, remains economically dormant due to Israeli restrictions on land, water, and infrastructure access. The division of the Palestinian economy into disconnected enclaves raises transaction costs, disrupts the flow of goods, labor, and capital, and prevents the formation of scale economies.

Impacted by recurrent conflict and prolonged isolation, Gaza's economy—between 2006 and 2023[12]—fit the characteristics of a siege economy—marked by high unemployment and informality, limited industrial output, and heavy aid dependency. After the 2006 elections split the governance of Gaza from that of the West Bank, Israel imposed a near-total blockade, and up until the eruption of the current conflict, Gaza functioned under conditions of war economy. Gaza's economic landscape was one where resources were mobilized mainly for survival rather than for long-term growth or development. Gaza's geographic and political isolation—including from the West Bank—was compounded by recurrent outbreaks of violent conflict, which systematically eroded its productive sectors. Important drivers of private sector growth such as agriculture, fishing, and manufacturing contracted dramatically due to Israeli-imposed restrictions on exports, limited access to raw materials, and the degradation and destruction of infrastructure.[13] The blockade stifled investment and innovation, reinforcing cycles of

Figure 6

Subnational Economic Activity in Selected Palestinian Cities, 1995–2024



Note: Economic activity is proxied by NTL data.

poverty and aid dependency. Facing conditions of near autarky, Gaza initially sought to rely on local production and consumption; however, the enclave's constrained production capacity and low capital stock have made self-sufficiency impossible. Instead, an extensive informal "tunnel economy" rapidly expanded in the late 2000s, with subterranean trade networks across the Egyptian border facilitating access to commodities, construction materials, and fuel, creating supply chains outside of formal oversight. The tunnels fueled a black-market economy, with goods often exchanged at inflated prices, and where economic power became highly concentrated in the hands of those who controlled tunnel access. As such, informality and dependence on illicit supply chains deeply distorted market structures, exacerbating broader governance and economic efficiency challenges.

[12] For a detailed analysis of the ongoing conflict's effects on the Palestinian economy refer to Section 4.

[13] World Bank. 2018. *Economic monitoring report to the Ad Hoc Liaison Committee*. Washington, DC: World Bank.

2

FIRMS: CONSTRAINTS, RESILIENCE, AND DECLINING INVESTMENT

The Palestinian economy's consumption-driven growth model limits firms' structural ability to expand, resulting in persistent structural stagnation. A recovery that unlocks sustainable, inclusive growth will require a shift toward private-sector-led job creation and increased productivity, with firms serving as the nexus between labor, innovation, and markets. Firms can generate high-quality employment by investing in assets, organizing work efficiently, and scaling to reach wider markets. Competition is a critical enabler of firm dynamism, innovation, and labor reallocation in support of structural economic transformation. In the West Bank and Gaza, Israeli-imposed restrictions on trade, mobility, and access to land, coupled with repeated conflict cycles, have long stifled economic activity—particularly in Gaza, under blockade since 2007. Internally, burdensome regulations, weak governance, limited access to finance, and poor infrastructure further impede firm entry, growth, and competitiveness. Regulatory gaps around competition exacerbate market inefficiencies.

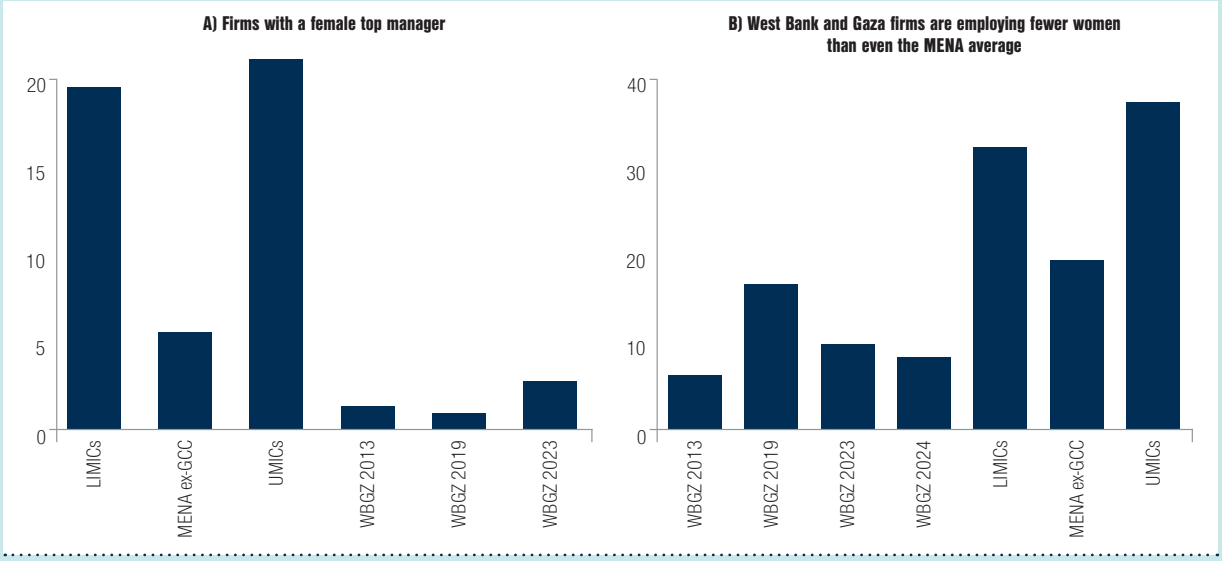
First, the Palestinian private sector is dominated by micro and small enterprises. The average firm size is far smaller than the averages for regional and global comparators, with no clear trend toward scaling up. Most firms focus on retail and other services, and most are sole proprietorships, with few formal corporate structures such as limited liability partnerships or public companies. The rate of new firm formation has also declined sharply over time, underscoring a worsening environment for entrepreneurial activities.

Even prior to the escalation of the conflict, a protracted decline in innovation, R&D spending, and workforce training was undermining private-sector dynamism. Investments in innovation and fixed assets have fallen over the past decade, and in 2024 only 20 percent of firms reported investing in physical capital. Meanwhile, just one in ten firms provide formal training to their employees, well below the regional average, reflecting weak investment in human capital and innovation.

Access to finance remains a major constraint. Most firms depend on internal funds, which limits their capacity to expand or upgrade productivity. Over two-thirds of firms avoid seeking credit, reflecting risk aversion and a weak enabling environment. The conflict has severely disrupted financial systems, with massive infrastructure damage in Gaza and a broad decline in credit availability across the West Bank.

BOX 1: GENDER, GROWTH, AND THE PRIVATE SECTOR IN THE WEST BANK AND GAZA: A TENUOUS BALANCING ACT

Despite systemic barriers, women entrepreneurs in the West Bank and Gaza appear to find adaptive ways to navigate constraints and engage in the economy. Female entrepreneurs face unique challenges related to access to finance, as well as social and cultural norms that end up restricting their mobility, and bureaucratic hurdles. Nevertheless, there is evidence of women in business finding innovative ways to expand their networks, especially by leveraging digital tools and informal support systems. The female participation rate in economic activities in the West Bank and Gaza remains among the lowest globally, constrained by a combination of mobility restrictions and deeply rooted social norms. Within the private sector, women are largely absent from decision-making positions, with their representation in firms' management roles remaining exceedingly rare. While some legislative reforms have aimed to promote gender inclusion, their impact has been limited by weak enforcement mechanisms.



Source: Enterprise Surveys, World Bank.

Technology has proven to be a key enabler for many women-led businesses, expanding market reach and improving customer engagement. A new World Bank Enterprise Surveys (2025) found that over half of women-led businesses use digital technology to some extent, with 37 percent using it extensively. Two-thirds of businesses reported that technology has expanded their market reach, and over half cited improvements in customer engagement. Only 9 percent of respondents reported not using digital technology in their businesses. Despite these benefits, the high costs associated with digital technology, combined with inadequate digital skills and limited access to training, hinder broader adoption among business owners and their employees.

Digital adaptation can enable women-led micro and small businesses in maximizing allocative efficiency and accessing broader markets. In focus-group interviews, a female entrepreneur reported launching a fashion business by leveraging personal networks and social media to advertise and generate orders. The COVID-19 pandemic significantly accelerated her adoption of digital tools, which became critical for maintaining business operations. To source designs, she established a remote collaboration model with fashion students nationwide, offering them a share of proceeds in exchange for original design concepts. Despite her limited experience with digital technology, this new model successfully enabled access to a wide pool of students across the country, ensuring a steady flow of creative input and mutual benefit.

Trade remains highly imbalanced, with low export activity and heavy import dependence driving a persistent trade deficit. Fewer than 20 percent of Palestinian firms export, and trade is overwhelmingly with Israel. Manufacturing firms are the most likely to export, but trade barriers persist across all sectors. Over 50 percent of firms exclusively import, signaling limited integration into global value chains. Between 2022 and 2024, a 1 percent increase in imported input reliance was associated with a 0.8 percentage-point drop in sales growth. However, firms have demonstrated remarkable operational resilience: 77 percent reported no layoffs of full-time permanent staff between 2022 and 2024, though many reduced working hours or informally rescheduled obligations. The bottom quartile of firms experienced a 29 percent drop in employment, while firms in the top quartile expanded employment by 20 percent, suggesting that the conflict has intensified labor reallocation.

Firms consistently cite political instability as the top constraint to doing business, followed by limited access to finance and competition from informal enterprises. Informal competition has intensified since October 2023, undermining formal firms' performance and access to resources. Firms facing intense informal competition report lower employment, sales, and investment levels.

On the upside, the Palestinian economy shows relative strengths in parts of the business environment, particularly around business entry, where regulations are relatively streamlined. For example, the regulatory framework for firm establishment scored 85 out of 100 on the World Bank's B-READY assessment, indicating relatively efficient procedures for domestic and foreign investors and entrepreneurs. However, structural challenges remain in areas such as insolvency, market competition, and taxation. Regulatory gaps and limited digital infrastructure hinder public service provision, while insolvency processes are inefficient and unpredictable, increasing risk and deterring investment. Market competition services scored just 14 out of 100, as transparency and digitalization issues weaken competitive dynamics and institutional effectiveness.

Finally, regulatory barriers continue to constrain market contestability. Price controls and procurement policies that favor domestic content reduce openness and fairness in product markets, but also provide an important buffer for emerging local firms operating in a challenging environment. While the 2022 Companies Law was a major reform milestone, its implementation has been slow and requires stronger coordination among government ministries—particularly to fully digitize the business registry. Entrepreneurs still face high compliance costs due to unclear rules, excessive paperwork, and long approval processes. These obstacles underscore the urgent need for calibrated institutional and regulatory reforms that foster a more competitive, transparent, and resilient private sector, while supporting the capacity-building of domestic firms to compete effectively in a gradually opening market.

3

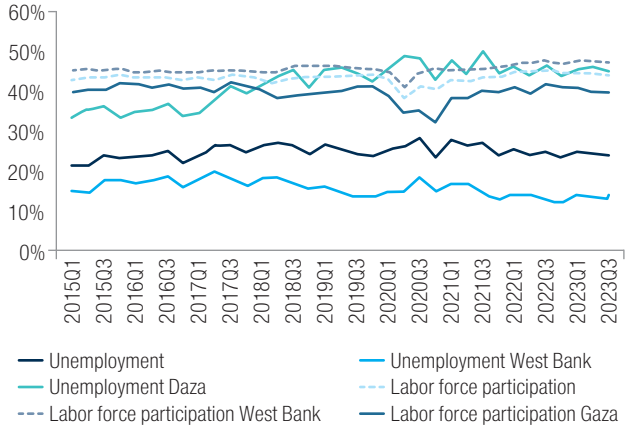
LABOR MARKET: THE CHALLENGE OF A DEMOGRAPHIC SURGE WITHOUT JOBS

Unemployment remains a central challenge in the Palestinian labor market, with the structural unemployment rate estimated at 25 percent prior to the escalation of the conflict. Between 2011 and 2024, the working-age population increased by over one million, yet only one in four new entrants found employment. Alarmingly, more than one-third of the unemployed have remained jobless for over a year, underscoring deep structural weaknesses in the labor market. While the employment-to-growth elasticity of 0.74 (IMF 2023) indicates that job creation is responsive to GDP growth, the economy's average annual growth rate of 2.9 percent has been insufficient to absorb the burgeoning labor force or significantly reduce unemployment.

Labor-market conditions vary dramatically between the West Bank and Gaza (Figure 7). Employment dynamics in the West Bank have modestly improved, with labor-force participation holding steady at 45 percent. By contrast, Gaza faces a severe crisis, with unemployment reaching 80 percent by 2024[14]. While these disparities are driven by the near-total blockade and ongoing conflict, they compound underlying sectoral challenges, including an excessive reliance on public employment and gender-based labor market norms.

Figure 7

Unemployment and LFP, 2015 to 2023 Q2



Source: Labor Force Surveys series, PCBS and World Bank staff calculations.

Over the next decade, approximately 1.4 million young people, representing about one-third of the working-age population, will enter the Palestinian

[14] Source: PCBS.

labor market. This demographic momentum brings both promise and pressure. While the incoming cohort is more educated, with the share of workers holding post-secondary degrees increasing from 15 percent to over 20 percent in the past decade—nearly 30 percent of educated individuals remain unemployed. This points to a growing mismatch between education outcomes and labor market demands. Although each additional year of education is associated with a 6 percent income premium, improved educational attainment alone has not translated into broader gains in high-quality employment.

A defining feature of the West Bank and Gaza labor market has been the central role played by employment in Israel and Israeli settlements, which represent both a buffer and a challenge to domestic labor absorption. In 2023, about 14 percent of Palestinian workers were employed in Israel or the settlements (Figure 8: The influence of employment in Israel and the settlements (Sources: PCBS, World Bank)), including 18 percent of workers in the West Bank (175,000 individuals) and just 1.4 percent of workers (20,000 individuals) in Gaza. Despite ebbs and flows, this reflects an upward trend in the share of total employment accounted for by jobs in Israel and settlements, from 11 percent in 2015. Access to the jobs in Israel and the settlements have been granted through a permits system, which undermines the stability of labor demand for Palestinians.

Palestinian workers have long been drawn to employment in Israel and its settlements, where wages can be 2–3 times higher than those in the West Bank. As of 2023, employment in Israel and the settlements contributed roughly one-third to total labor income in the West Bank and Gaza. The wage premium is especially large for blue-collar workers in agriculture, construction, or specialized trades like plumbing and auto repair. While Palestinian cross-border workers received higher wages than they would in the local labor market, and Israeli employers paid less than they would for domestic labor, the prevalence of cross-border employment is rooted in the deep economic interdependence and asymmetry that define the region. The precarious nature of this arrangement was further exposed in October 2023, when work permits were largely withdrawn, with only a minimal quota of 25,000 to 30,000 permits (from nearly 200,000, originally) subsequently reintroduced in 2024.

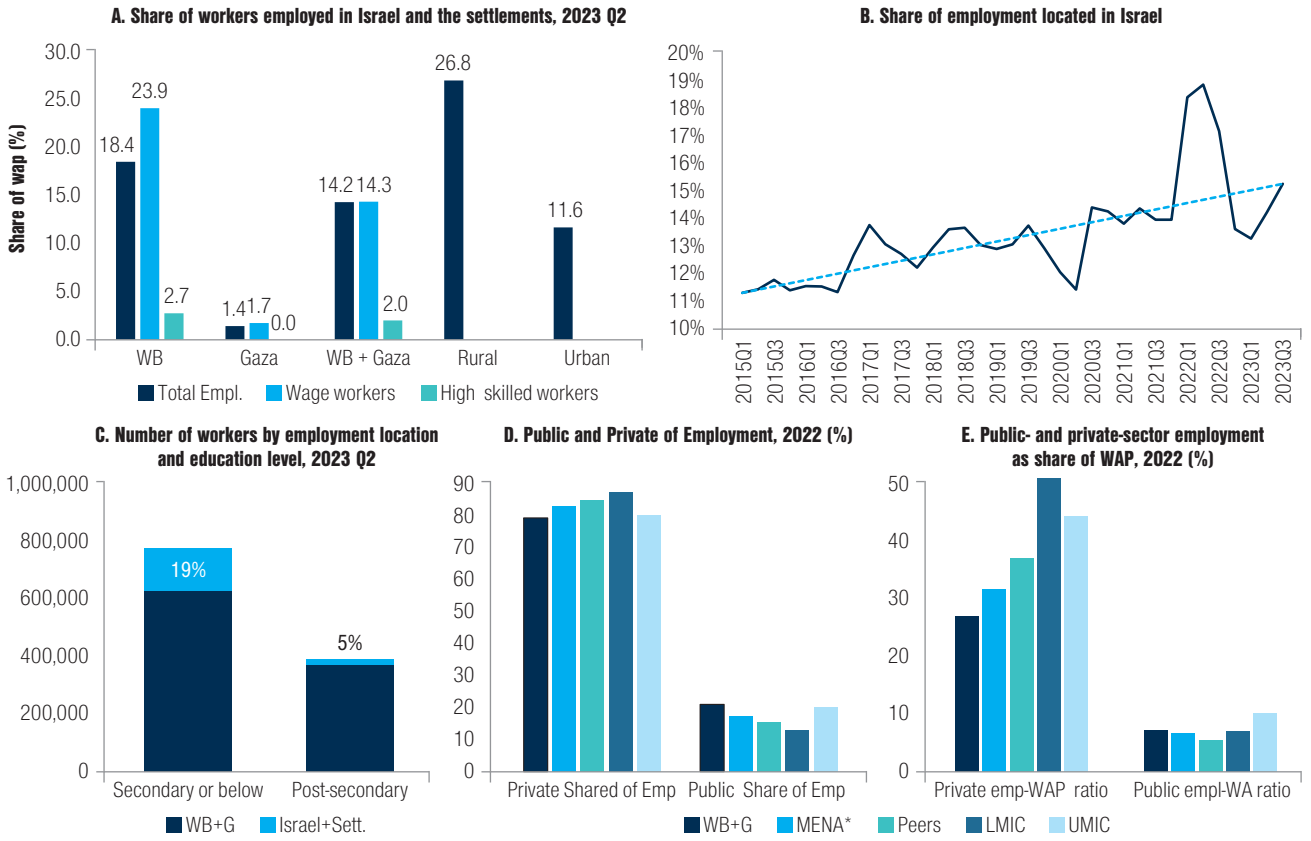
The public sector accounts for 21 percent of total employment, comparable to the level of other upper-middle-income countries when considering the public sector employment-WAP ration (i.e. adjusted for the small size of the Palestinian private sector) (Figure 8). However, private employment remains low at just 26 percent of the working-age population—well below the regional and global averages of 30–50 percent. Informal employment represents approximately half of all jobs, especially in sectors such as trade, hospitality, construction, and manufacturing. Moreover, large-scale public employment tends to obscure the extent of informality in private sector job creation.

Informality is widespread in the West Bank and Gaza. Although the informal sector's share of total employment fell from a historical average of over 50 percent to about 45 percent at the start of the COVID-19 pandemic, it remains far above regional and income-group averages (Figure 9: Informal employment in the West Bank and Gaza (Sources: PCBS, World Bank)). However, the figure is mitigated by the large share of employment absorbed in public sector jobs such as public administration, education, and health—which are formal by nature. In contrast, informal employment constitutes most private-sector job creation, especially outside of agriculture. In sectors like trade, hospitality, construction, and manufacturing, about two-thirds of workers are informally employed. The prevalence of informality is not due to employment in Israel and the settlements, where informality levels are close to those observed in the West Bank and Gaza.

A central finding is that rising wages outpace declining labor productivity and undermined long-term sustainability (Figure 10: Labor productivity and wages (Sources: PCBS, World Bank)). A growing divergence between wages and labor productivity signals deep-seated inefficiencies or structural imbalances in the Palestinian economy. While higher earn-

Figure 8

The Influence of Employment in Israel and the Settlements



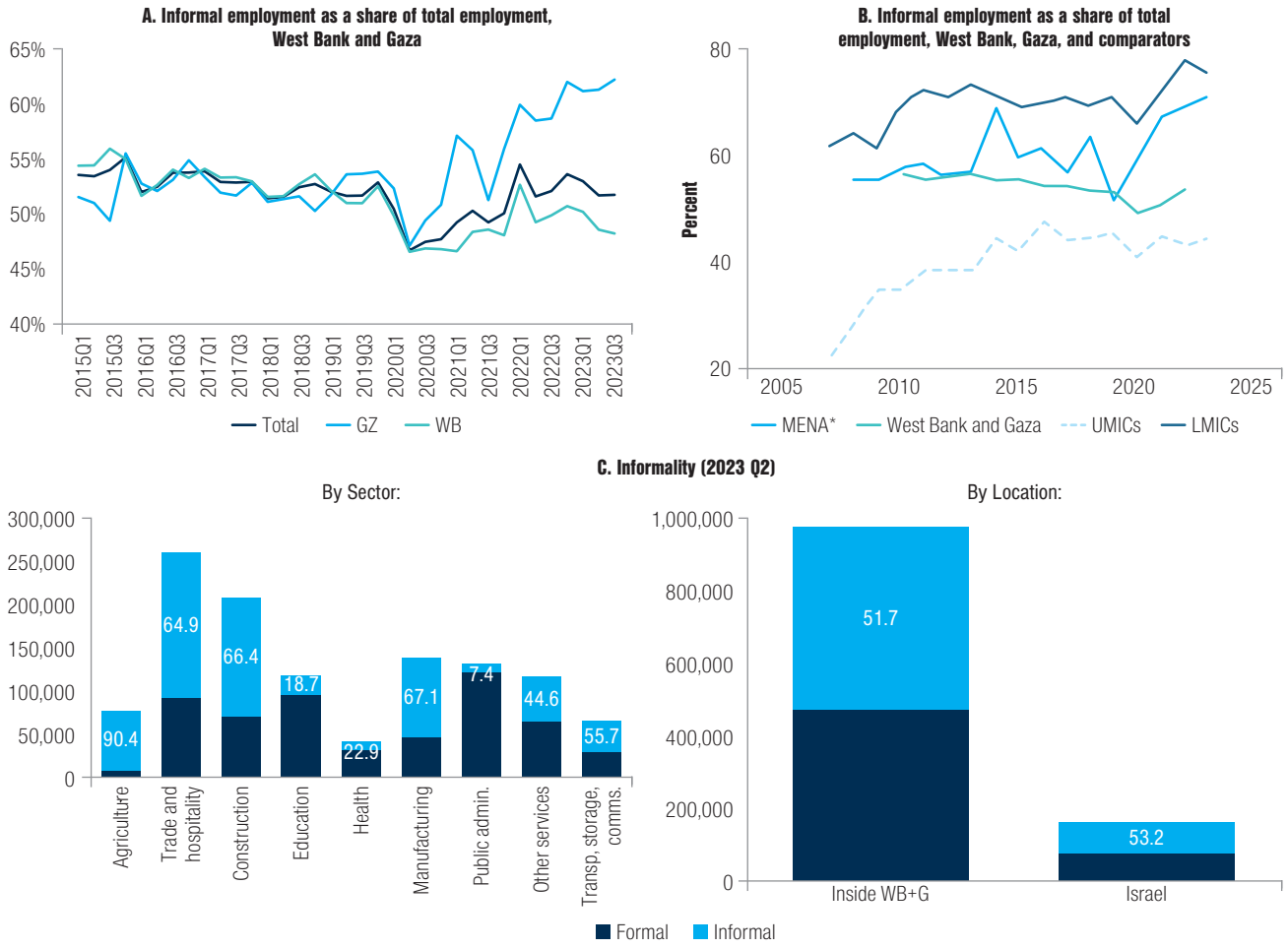
Sources: PCBS, World Bank.

ings are a positive development, they appear to have been driven at least in part by proximity to the more competitive Israeli labor market. This external benchmark may have inflated wage expectations without commensurate productivity gains, creating a misalignment that could further undermine sustainable wage growth in the West Bank and Gaza.[15] However, a meth-

[15] Although unlikely given the high unemployment rates in the West Bank and Gaza, the differences in daily wages in the West Bank and Gaza and in Israel and the settlements could produce high reservation wages for workers in some occupations. Moreover, higher wages in some sectors can reduce profitability and deter investment. LFS data from Q2 of 2023 shows that, on average, wages for jobs in Israel are 150 percent higher than wages for similar jobs in the West Bank and Gaza. Occupations in which

Figure 9

Informal Employment in the West Bank and Gaza



Sources: PCBS, World Bank.

Notes: The country groups shown are based on World Bank classifications, "UMICs" stands for upper middle-income countries, "LMICs" for lower middleincome countries, and "MENA" for the Middle East and North Africa Region. Note that "MENA*" excludes GCC countries, Israel, and Malta. (A) and (C) are author estimates using LFS microdata where the formal sector is defined as either being a wage worker that has pension contributions or an own-account worker who works for a registered business. (B) is based on ILOstat, where informal employment is defined as persons that are either own-account workers and contributing family workers or employees holding informal jobs, whether employed by formal sector enterprises, informal sector enterprises, or as paid domestic workers by households.

odological caveat should be noted: the large presence of employment in Israel and settlements complicates efforts to measure labor productivity[16]. These measurement issues notwithstanding, labor earnings in Israel are higher and have grown faster than earnings in the West Bank and Gaza since 2015 (Figure 10).

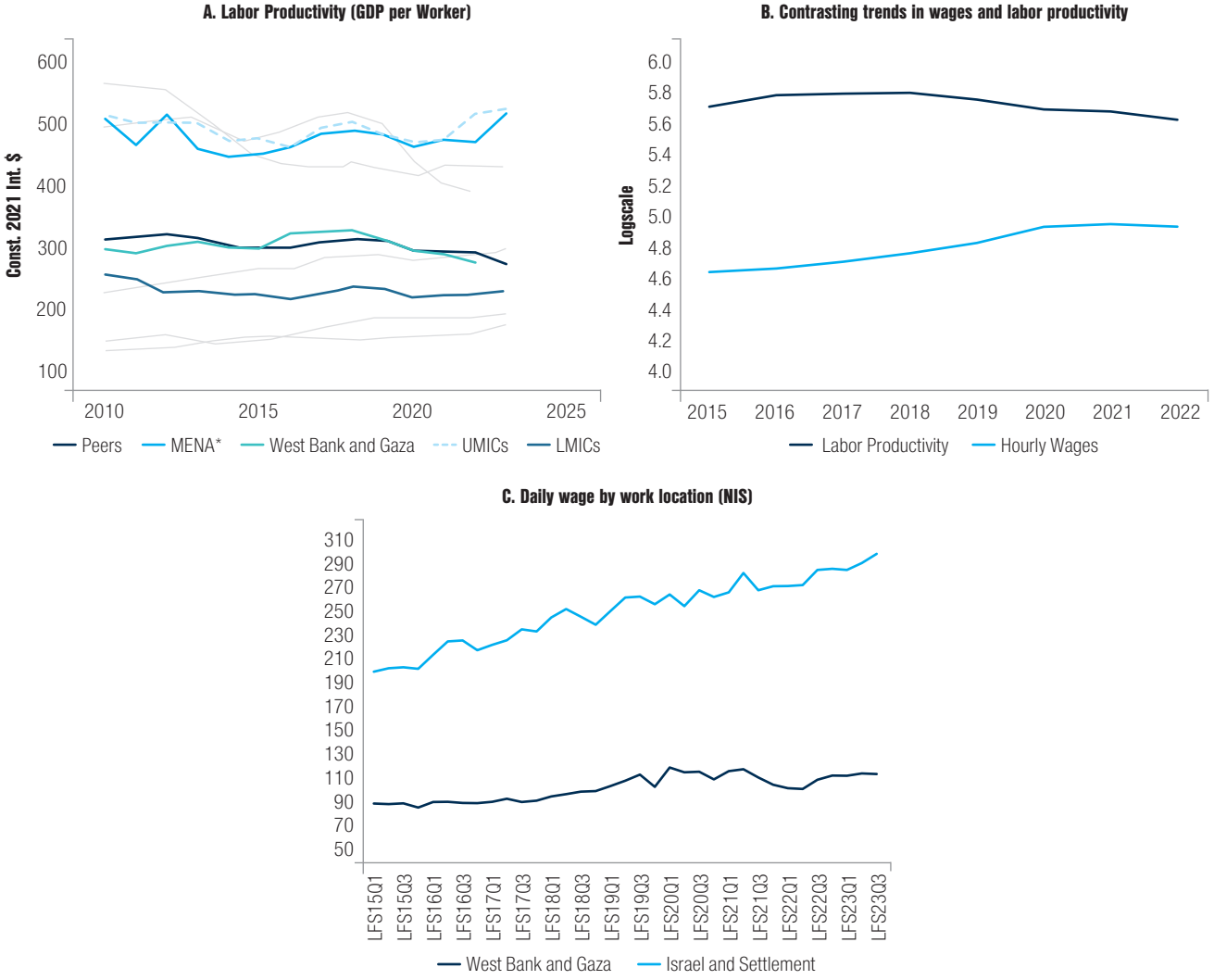
The labor market is also characterized by pronounced occupational polarization. While half of all jobs fall within middle-skill occupations, the shares of low-skilled (18 percent) and high-skilled employment

over one-third of wage workers (who reported daily wages) are employed in Israel and the settlements include agricultural laborers, building trade workers, electricians, construction laborers, and machinists. In these occupations, daily wages for Palestinian workers that work in Israel vis-à-vis West Bank and Gaza were 243,114, 129,139, and 75 percent higher, respectively. However, the relevance of these wage gaps is no longer clear, as work permits are unlikely to be reinstated soon.

[16] Labor productivity is typically calculated as total production divided by total employment. However, prior to the escalation of the conflict, close to 20 percent of West Bank workers were

Figure 10

Labor Productivity and Wages



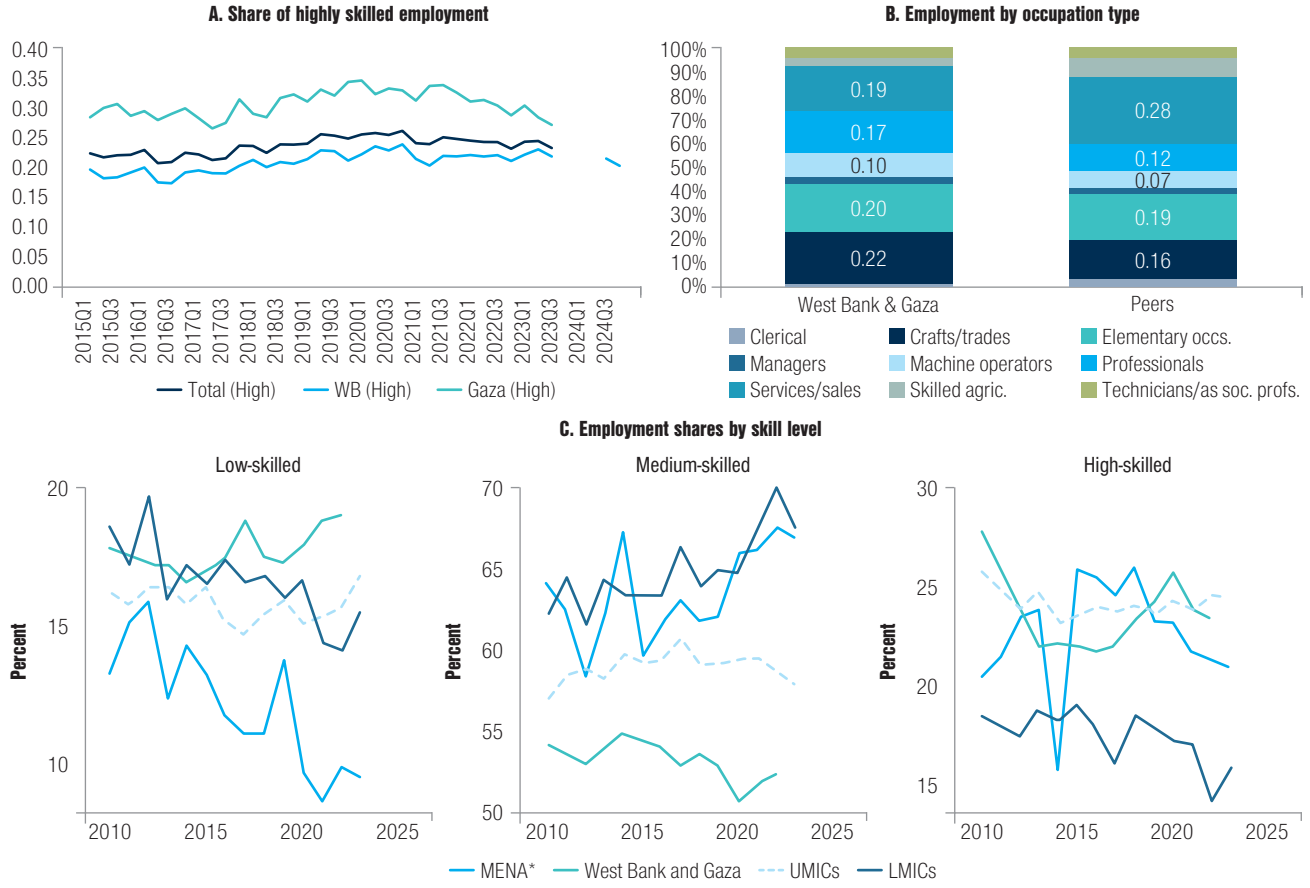
Sources: PCBS, World Bank, World Development Indicators and ILOStat.
Notes: The country groups shown are based on World Bank classifications, "UMICs" stands for upper middle-income countries, "LMICs" for lower middleincome countries, and "MENA" for the Middle East and North Africa region excluding the Gulf Cooperation Council countries, Israel, and Malta. Peers include Jordan, Tunisia, Lebanon, Honduras, Nepal, and Morocco. Light gray lines represent individual peer values. The industrial sector consists of mining, manufacturing, construction, and public utilities. Informal employment includes own-account workers, contributing family workers, and informal workers employed by formal or informal firms or as paid domestic labor by households. Value added per worker and employment shares are based on WDI data.

(25 percent) exceed both upper-middle-income and lower-middle-income country averages. This polarization points to a gap in middle-skill opportunities and highlights the need to foster high-skill employment outside the public sector. Currently, public education (31 percent), public administration (27 percent), and health services (10 percent) account for most high-skill jobs. In contrast, only a few private sector industries—such as legal services, finance, ICT,

employed in Israel. As a result, dividing domestic GDP by total employment (i.e. including workers formally employed abroad) may underestimate the true productivity by as much as 25 percent. Changes over time in the share of workers in Israel can also influence measured productivity trends.

Figure 11

Skilled Employment and Occupations



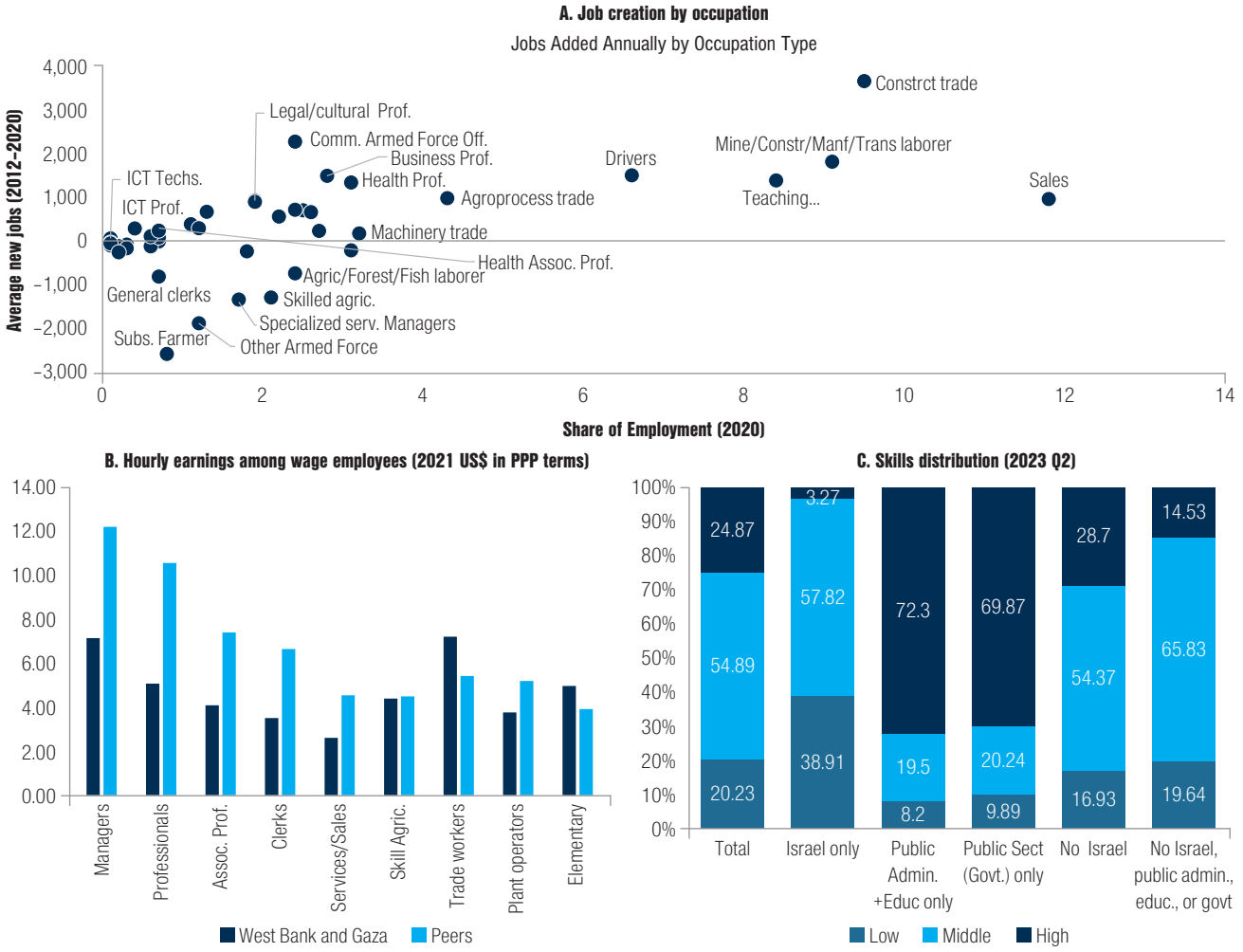
Sources: PCBS, World Bank.

broadcasting, and professional services—surpass 3% high-skilled employment. Manufacturing lags notably, with only 6 percent of food manufacturing jobs classified as high-skill.

Despite these extraordinary challenges, the labor market has unrealized potential due to the relative strength of Palestinian human capital. The 2012–2020 period saw significant job growth in construction trades, driving, teaching, and sales. At the same time, high-skill services—including ICT workers, technicians, and business professionals—are among the fastest-growing job types, with wages in these fields remaining competitive relative to peer markets.

Figure 12

Drivers of Jobs by Skill Level and Earnings



Sources: PCBS, World Bank.

4

THE ESCALATION OF THE CONFLICT: ECONOMIC DEVASTATION AND STRUCTURAL SCARRING

The ongoing multipartite conflict in the Middle East has severely affected the Palestinian economy. Its consequences have manifested at the macroeconomic level, reshaped labor-market dynamics, and deeply disrupted private-sector activity. The magnitude of the current downturn far exceeds previous episodes of regional instability and crisis, with impacts that are both immediate and likely to leave lasting scars.

Macroeconomic Impacts

The Palestinian economy is undergoing the deepest recession in over three decades. In 2024, GDP contracted by 28 percent, a sharper decline than during the Second Intifada, the 2014 Gaza war, or the COVID-19 pandemic. Gaza's economy shrank by 82 percent, and despite being home to nearly 40 percent of the population it contributed just 3.5 percent to Palestinian GDP. The contraction pushed Gaza's per capita GDP below US$200—among the lowest levels in the world. Satellite-based proxies of economic activity (night-time luminosity) confirmed steep declines in economic output since October 2023, particularly around key commercial corridors such as the Allenby Bridge, Al-Muntar, Beit Hanoun/Erez, and Rafah.

Poverty and food insecurity have surged. In 2024, the headcount poverty rate rose from 29 percent to nearly 40 percent. In the West Bank, the loss of cross-border worker jobs in Israel and declining household incomes pushed the poverty rate from 12 percent to 28 percent. In Gaza, nearly all households are living in poverty, and widespread famine is imminent.

Inflation in Gaza surged by over 230 percent in 2024, driven by acute shortages of basic goods. Although prices temporarily eased during a ceasefire in January 2025, they rebounded sharply after March, further straining household purchasing power. Meanwhile, the cost of the recovery continues to mount. Total economic losses in Gaza are estimated at US$49 billion, and reconstruction needs stand at US$53.2 billion—more than three times the size of the current Palestinian GDP.

The fiscal situation has rapidly deteriorated, approaching implosion amid the collapse of public service. By end-2024, the Palestinian Authority's fiscal deficit reached 7.7 percent of GDP (US$1.3 billion) as own-source revenues plunged while Israeli deductions from clearance revenues soared. As a

result, public-sector salaries have been paid at only 60–70 percent. Due to a combination of lack of funds, war damage, and general insecurity, nearly half of Gaza's hospitals and 60 percent of its clinics have ceased functioning, and an estimated 660,000 children have been out of school for over a year.

Though banks remain liquid and adequately capitalized, much of the banking system faces mounting pressures. Severe cash shortages are crippling financial intermediation in Gaza, where 98 percent of banks have shut down. As economic activity continues to stagnate, rising credit losses further threaten the system's stability. In parallel, the accumulation of excess reserves of Israeli shekels in Palestinian vaults—driven by limited deposit circulation and movement restrictions—is placing acute pressure on liquidity management. These vulnerabilities are compounded by growing concerns over the possible severance of correspondent banking relationships, which could further isolate the Palestinian financial system and escalate systemic risks.

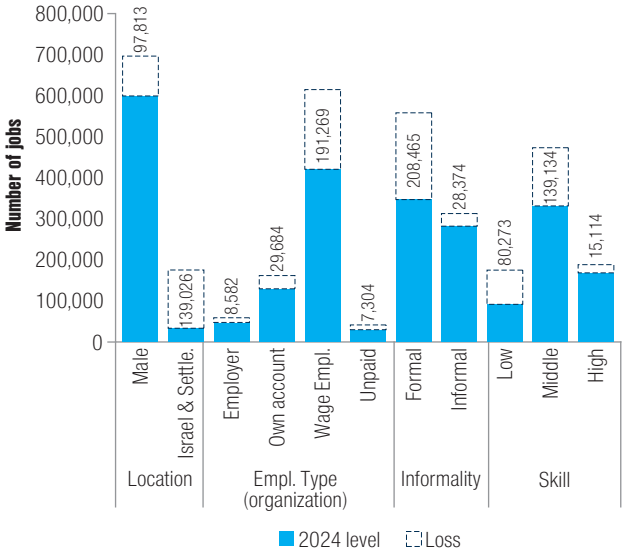
Labor Market Impacts

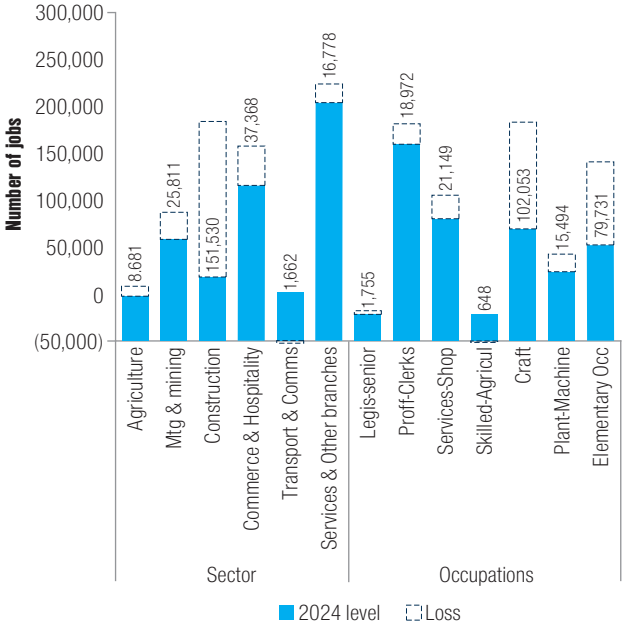
The deterioration of the labor market has been rapid and extensive (Figure 13). In the second half of 2023 alone, the West Bank lost nearly 240,000 jobs—equivalent to 30 percent of all formal employment. Around 60 percent of these were relatively high-wage jobs in Israel, primarily in the construction sector, as work permits were suspended. The loss of these high-wage jobs led to a sharp decline in average earnings and stifled aggregate demand in the West Bank. Unemployment rose from 13 percent before the conflict to a peak of 35 percent and settled at 29 percent by end-2024. In Gaza, unemployment reached an estimated 80 percent.

Though no demographic group is untouched by the crisis, it has not affected all groups equally. The hardest-hit demographic has been lower-educated, rural males. Following the escalation of the conflict, the unemployment rate for workers with elementary education surged from under 10 percent to 40 percent, reversing pre-conflict trends where lower educational attainment was associated with lower unemployment levels. This reversal underscores the disproportionate burden borne by vulnerable segments of the population.

Figure 13

Job Losses between 2023 Q3 and Q4 by Location, Sector, and other Characteristics





Sources: PCBS, World Bank.

Firm-Level Impacts

Despite a highly challenging environment, many businesses in the West Bank have demonstrated considerable resilience. Firms coped with liquidity constraints, implemented temporary shutdowns, and increasingly adopted digital tools to overcome operational constraints. To maintain employment, businesses have avoided layoffs by suspending overtime or reducing hours, while legal disputes have largely been averted through informal payment rescheduling with clients and suppliers.

An econometric analysis combining firm-level survey data with geo-referenced conflict data from 2016 to 2024 confirms the conflict's damaging impact on production and sales. Within each governorate, a 10 percent increase in conflict events or fatalities within a governorate was associated with a 2 percent decline in local economic activity as measured by NTL[17]. This relationship held across multiple model specifications. Applying this elasticity to the 43 percent increase in conflict events observed in the West Bank between October 2023 and October 2024 (excluding Gaza) implies an estimated 7 percent drop in local economic activity. In addition, a 1 percent increase in conflict events caused a 0.2–0.3 percent decline in sales, while a 1 percent increase in fatalities reduced sales by 0.06–0.12 percent. These effects are consistent across varying levels of geographical exposure and, in the West Bank, are primarily driven by disruptions such as road closures that isolate firms from customers and suppliers.

Access to finance has severely deteriorated, and the conflict has sharply curtailed investment. The share of firms applying for credit fell from 21 percent in 2022 to less than 10 percent in 2024. Among firms that did not apply for credit, the share citing discouragement rose from 17 percent to 30 percent, while fewer firms reported not needing credit. However, approval rates among applicants rose to 89 percent in 2024, likely reflecting increased selection bias as only relatively creditworthy firms continued to seek financing. Meanwhile, a 1 percent increase in conflict exposure reduced the likelihood of purchasing fixed assets by 10–18 percentage points. This effect is very substantial, and much larger than the effect on sales. Since investment is central to capital accumulation and intensification, the adverse effects of a conflict can compound meaningfully over time.

[17] NightTime Lights.

5

PALESTINIAN ECONOMIC GOVERNANCE IN HISTORICAL PERSPECTIVE

Economic growth in the West Bank and Gaza has been constrained by multiple factors, including decades of tensions and conflict, dating back at least to the onset of the Israeli occupation in 1967. First, the Israeli government has imposed a multi-layered set of restrictions on trade, investment, and the movement of goods and people. Second, the Palestinian Authority's efforts to create a favorable business environment have been slow, partial, and unevenly implemented. Third, international aid flows have declined over time even as development needs have increased. Fourth, recurrent episodes of violence have been compounded by regional and global exogenous shocks of unprecedented scale, like COVID-19 or the Russian invasion of Ukraine, resulting in volatility of global prices and disruptions of supply chains. As a result of all these factors, GDP growth averaged about 1 percent per year during the decade leading up to the escalation of the conflict.[18]

The West Bank and Gaza have been in a de facto monetary and customs union with Israel at least since 1995. The customs arrangements stemmed from the Paris Protocol on Economic Relations concluded as part of the Oslo II accords, which formalized the Israeli shekel's position as the main currency in circulation in the West Bank and Gaza, given the inability of the Palestinian Authority to issue currency. The Protocol[19] also established that Israel would collect customs duties on goods bound for the West Bank and Gaza and remit them to the PA. While the structure shares features of a customs union, it functions as a quasi-customs union, on account of differing rights, requirements, and economic leverage of the two parties. Asymmetries in policy discretion, customs management, and institutional capacity shape the distribution of benefits. As a result, this type of economic integration has not fostered convergence in per capita GDP, as might otherwise be expected. Instead, Israel's per capita GDP has grown by roughly 50 percent in real terms since 1995,[20] while far more modest gains in the West Bank have been offset by the increasing impoverishment of Gaza.

[18] World Bank, MFMod Database.

[19] The Protocol on Economic Relations, also called the Paris Protocol, is an agreement between Israel and the PLO, signed on 29 April 1994, and incorporated with minor amendments into the Oslo II Accord of September 1995.

[20] World Bank staff calculations based on World Bank WDI figures. The analysis utilized real GDP per capita figures in 1995 and 2022.

The Oslo Accords established the Palestinian Authority along with sharp limits on its control over economic policy; the first structural constraint. The arrangement structurally restricted the Palestinian Authority's discretionary policy margin and placed key levers of economic growth under Israeli control. Unlike other governments, the Palestinian Authority lacks access to traditional monetary and fiscal policy tools required to catalyze economic growth. Additionally, Israel manages import duties and VAT revenues intended for the PA, further tightening its financial constraints.

The second structural constraint is represented by Israel's establishment of the Closures Regime, which introduced movement restrictions within the West Bank and Gaza and with regional and global markets. As a result of movement restrictions, the West Bank has been divided into numerous isolated enclaves, affecting the movement of goods, people, and including limits on the access to land and effective rights over the use of natural resources. The Second Intifada in the 2000s further intensified these restrictions, exacerbating economic fragmentation, particularly in rural communities reliant on access to urban centers for trade, employment, and essential services. Moreover, the Interim Agreement concluded under the Oslo Accords separated the West Bank into three areas, A, B, and C, with the latter composing over 60 percent of the total territory. In the absence of a final status agreement, Israel retains responsibility for providing security in Area C and holds authority over certain civil affairs, including land administration and planning. As a result, the Palestinian Authority cannot utilize Area C's significant land and water resources, preventing it from realizing the area's economic potential.

The Closures Regime has steadily tightened over the past two decades. In addition to the near-total blockade on Gaza, stringent controls on trade flows in the West Bank have significantly raised transaction costs, weakened export competitiveness, and further isolated the Palestinian economy. Since October 2023, movement restrictions in the West Bank have greatly intensified, with over 800 military roadblocks, checkpoints, and gates transforming formerly two-hour trips into journeys of up to twelve hours while also hindering the provision of humanitarian aid.[21] Land restrictions resulting from settlement expansion, security challenges, and a fragile political climate have increasingly deterred private investment. The lack of adequate transportation infrastructure exacerbates these challenges, as provisions allowing for the establishment of Palestinian airports and seaports have never been implemented. Gaza's only airport was destroyed during the Second Intifada and never rebuilt, leaving all trade dependent on a limited number of road crossings and seaports. Economic literature has shown that this system has hindered economic development in the West Bank and Gaza by restricting trade, labor mobility, and foreign investment.[22] The closures regime has played a major role in fragmenting the Palestinian economy into isolated local markets, distorting competition and creating an uneven playing field for businesses. Under this regime, economic survival and growth have become heavily dependent on access to Israeli permits, advantaging some firms while marginalizing others.[23]

The third structural constraint arises from the Palestinian Authority's governance structure , which has shaped the economic landscape in two

[21] Oxfam. "Largest forced displacement in the West Bank since 1967—Oxfam," 25 February 2025. https://www.oxfam.org/en/press-releases/largest-forced-displacement-west-bank-1967-oxfam.

[22] Between 1994 and 1999, GDP losses due to the Closures Regime ranged from 1 percent to 9.7 percent, while the cumulative impact between 2001 and 2005 was even more devastating, with losses amounting to billions of dollars. Cfr. Economic Developments in the West Bank and Gaza since Oslo, Fischer et al., 2001, The Economic Journal. https://www.jstor.org/stable/2667875.

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BOX 2: RESTRICTED ACCESS TO LAND AND BASIC INFRASTRUCTURE HAS HAMPERED ECONOMIC DEVELOPMENT

- **Land and transport**: Area C, comprising 60 percent of the West Bank, remains largely off-limits to Palestinian development. Israeli movement restrictions fragment internal markets and drive up logistics costs, with truck transit fees reaching thousands of dollars.
- **Water**: Severe shortages persist—Palestinian water consumption can be as low as 2 liters per day, compared to 400–700 liters in Israeli settlements. Groundwater is overdrawn, and water infrastructure remains inadequate.
- **Energy**: The West Bank depends on Israeli electricity for over 95 percent of its supply. Gaza's energy supply fell far short of demand even before the latest conflict, with chronic outages restricting industrial activity.
- **Digital infrastructure**: Limited to 3G in the West Bank and 2G in Gaza, Palestinian networks remain far behind global standards. Israeli control over fiber-optic infrastructure and spectrum continues to block independent development.

key ways. First, institutional inefficiencies undermine effective economic policymaking and regulatory enforcement. The absence of a formal legislative review process, limited mechanisms for democratic oversight, and weak enforcement mechanisms have prevented the creation of a robust economic legal framework, for at least the past two decades. Second, pervasive rent-seeking and relationship-based decision-making have undermined accountability and contributed to the concentration of economic opportunities among politically connected actors. As a result, business growth is largely driven by connections to the Palestinian Authority, access to Israeli permits like the Businessman Card, and various informal privileges.

Finally, but importantly, donor-driven reforms have often prioritized amendments to the legal framework over real economic transformation. The Palestinian Authority has passed numerous laws aligned with donor requirements, but enforcement capacity remains weak. While many economic laws were enacted to meet donor benchmarks, they were rarely backed by sufficient enforcement or designed within a coherent national strategy. This has led to a proliferation of regulatory frameworks with limited real-world impact. Meanwhile, aid inflows have plunged from over 20 percent of GDP in the early 2000s to just 2–3 percent in recent years, leaving reform efforts underfunded and largely ineffective. Experience shows that domestic legal changes alone are necessary but insufficient, and meaningful structural transformation will require both active Israeli cooperation and reliable donor support.

Fiscal Rigidities and Sustainability Risks

Public financial management has long been shaped by short-term, cash-based operations aimed at containing immediate fiscal pressures. In recent years, the Palestinian Authority has carried out reform efforts focusing on enhancing revenues, rationalizing spending, improving public sector performance and strengthening overall public financial management. Notably, the PA was successful in reducing the fiscal deficit (before grants) from roughly 21 percent of GDP in 2006 to an estimated 3 percent in 2022. Nevertheless, the fiscal situation has remained structurally difficult all along, especially due to a hefty and unsustainable wage bill, representing roughly half of total public spending. Also, the erratic and unilateral nature of Israel's decisions related to the Clearance Revenues deductions have further strained the

Palestinian finances. Moreover, the 1995 Interim Agreement stipulated that the Israeli civil administration would collect revenues from Israeli businesses operating in Area C and remit them to the Palestinian Authority.[24] While these revenues are regularly collected, they have not been remitted.

Lacking access to conventional fiscal policy instruments, the Palestinian Authority has increasingly relied on arrears to private contractors, public employees, and the pension fund. As of end-2024, these arrears amounted to well over 40 percent of GDP.

A central point to underscore is that fiscal management is almost exclusively reactive, driven by short-term efforts crisis avoidance, and that a lack of strategic decision-making severely undermines service delivery.

[24] See Annex III, Appendix I, Article 8, Paragraph 2(a), 2(b) and Article 18, Paragraph (4) of the Interim Agreement on the West Bank and the Gaza Strip, Washington, D.C., September 28, 1995 (the Interim Agreement) accessed here: https://www.gov.il/en/Departments/General/the-israeli-palestinian-interim-agreement-annex-iii.

6

POLICY CONCLUSIONS AND NEXT STEPS

The experience of the past three decades demonstrates that internal reforms by the Palestinian Authority are necessary, but not sufficient, to overcome the economic challenges facing the West Bank and Gaza. Addressing structural constraints and building a resilient, sustainable economy will require a fundamental reset, one that includes not only deeper reform commitments from the PA but also consistent cooperation by Israel and sustained international engagement. Without this paradigm shift, economic development in the West Bank and Gaza will remain constrained by chronic fragility, institutional weakness, and policy fragmentation.

Amid the ongoing conflict, the West Bank and Gaza face a highly uncertain economic outlook that underscores the need for structural interventions to revitalize the private sector, strengthen institutions, and enable an inclusive economic recovery. As the conflict continues, employment losses, political instability, movement restrictions, and deteriorating confidence are expected to continue distorting private-sector activity, hindering both recovery and long-term planning. While, historically, the economy has occasionally rebounded following major shocks, long-term growth remains structurally weak, and per capita GDP is declining. Consumption continues to drive growth, and the economy is struggling to cope with the loss of labor income earned in Israel and the settlements, with few or no sustainable growth engines available. Fiscal constraints severely constrain the Palestinian Authority's capacity to mount countercyclical interventions or shore up the labor market. Under these conditions, a broad-based employment recovery remains highly unlikely and economic stabilization will depend almost entirely on geopolitical developments, access to external labor markets, and the unpredictable trajectory of international aid.

The conflict will have severe long-term economic consequences, particularly in Gaza. The extensive destruction of infrastructure, including schools and hospitals, will have a lasting impact on human capital, as the disruption of educational attainment and health services availability will realistically affect future earnings and entrench intergenerational poverty. Children will likely suffer the worst effects, as early-life exposure to conflict and deprivation can lead to lower cognitive outcomes and diminished productivity in adulthood.

The analysis presented in this report underscores the social function of firms in the Palestinian

context, as employment not only provides income but also plays a vital role in mitigating instability. Jobs are part of the coping mechanisms that sustain communities in the face of extreme economic and political challenges. Public policy should explicitly recognize the need for job creation both as an economic necessity and as a prerequisite for peace and stability. Empirical research indicates that the Palestinian public already recognizes this dynamic and places a high social value on broad-based job creation.[25]

The latest IMF-World Bank Development Committee paper[26] outlines a three-pillar approach to supporting the creation of more and better jobs. The three pillars are: (i) **building foundational capabilities** by developing human capital and infrastructure to bolster the productivity of firms and workers, (ii) **fostering macroeconomic stability and a competitive business environment** by creating a stable institutional and policy framework that promotes competition, innovation, and sustainable firm expansion, and (iii) **mobilizing private capital** to foster investment. The first pillar focuses on investments in human capital and basic infrastructure, which equip the labor force with relevant skills and enable firms to operate efficiently. The second pillar emphasizes the importance of establishing an enabling macroeconomic and business environment, underpinned by strong institutions, that promotes competition, innovation, and firm growth. The third pillar highlights the need for targeted interventions to support private capital mobilization, address coordination failures, and ease constraints on access to finance.

Building Foundational Capabilities

Improved trade logistics are essential to enable investment and firm growth. Outdated procedures and infrastructure constrain the flow of goods through key crossings such as the Allenby Bridge and Karm Abu Salem. Reforming customs operations, modernizing transport systems, and increasing Palestinian representation at crossings can enhance trade efficiency.

Expanding global market access is vital to leverage comparative advantages. Removing tariffs and lifting movement restrictions could significantly boost Palestinian exports and real incomes. Reducing non-tariff barriers, including the list of dual-use items, would enhance competitiveness and support regional integration.

Digital infrastructure must be scaled up to support small and medium enterprises, especially those led by women and young people. Despite progress, the supply of public digital services remains limited. A tailored "home business license" and expanded digital payments could promote formalization and boost the competitiveness of small and medium enterprises.

Investments in human capital should prioritize the skills demanded by the private sector. Training, apprenticeships, and business incubation are key to expanding employment in information technology and other high-skill sectors. In Gaza, rebuilding education infrastructure and protecting children from long-term setbacks is essential to address learning losses. Reducing dropout rates, improving teaching quality, and enhancing early childhood education can safeguard future productivity.

Brain drain poses a serious challenge. Emigration among skilled professionals reflects limited domestic opportunities amid rising violence and insecurity. Creating research hubs, offering local incentives, and improving institutional stability can help retain talent.

Greater economic cooperation with Israel could offer mutual benefits in labor and trade. Palestinian workers offer skills and cost advantages, while Israeli markets provide stable employment. Banking infra-

[25] Ricaldi and Mousley (2019) found that Palestinians would be willing to pay up to one dollar for every job created by investment projects.

[26] Source: World Bank – IMF Spring Meetings, document available online at: https://www.devcommittee.org/content/dam/sites/devcommittee/doc/documents/2025/Final_DC2025-0002.pdf; April 2025.

structure must be strengthened, including resolving correspondent banking risks and ensuring liquidity.

Fostering Macroeconomic Stability and a Competitive Business Environment

Restoring macroeconomic stability will be crucial to enable a robust recovery. Short-term reforms should target better-targeted subsidies, improved revenue collection, and more effective spending. Fiscal reforms must be gradual and coordinated to avoid social disruption, while addressing structural drivers of deficits.

Fostering a competitive business climate implies advancing regulatory modernization. While structural constraints, such as those related to movement restrictions, will be shaped by geopolitical dynamics beyond the scope of this analysis, it is essential to highlight the importance of advancing business-enabling reforms. Implementing the Companies Law, digitizing the business registry, and closing gaps in insolvency and competition frameworks will also prove essential to create a more supportive business environment. In parallel, removing price controls and improving procurement systems could reduce barriers to entry and foster investment.

Land access remains a critical bottleneck to growth and job creation. While geopolitical in nature, land disputes must be addressed to enable investment. A functional land administration system would support both the business and housing sectors. Efforts to register properties by 2030 could enhance tenure security and unlock new economic activity.

Over the medium term, a new growth compact could be envisaged—one that reflects the aspirations of the Palestinian people and is backed by a unified international coalition. The Paris Protocol and Oslo Accords were never meant to serve as permanent arrangements and have outlived their relevance. Institutional development under these frameworks has remained partial, leaving core functions—such as customs and fiscal management—underdeveloped. A new set of arrangements should be designed around inclusive recovery, private-sector revitalization, and long-term resilience. It should focus on improved access to regional markets and the free movement of goods and people within and between the West Bank and Gaza. Investments in logistics infrastructure and regulatory harmonization will be essential to support this transition.

Continued donor support will be vital to the recovery effort. Deep structural reforms will require sustained external financing to manage risks, mitigate adverse effects on vulnerable households, and crowd-in private investment. Commercial financing remains limited, especially for early-stage recovery projects like debris removal and public infrastructure repair, underscoring the importance of grant-based support.

Mobilizing Private Capital

Revitalizing the private sector will require cross-cutting reforms that effectively address market and policy failures. New credit lines and guarantees will be essential to expand access to finance. A temporary insolvency regime could help viable firms manage stress without resorting to layoffs. Incentivizing investment in efficiency-enhancing technologies can reduce long-term costs and increase competitiveness.

Women must play a central role in the economic recovery. The escalation of the conflict has elevated the economic profile of women, particularly in Gaza. Targeted support—including programs to provide credit access, training, and home-based enterprise licensing—can enhance women's participation in the private sector. Priority reforms should address legal and social barriers to female employment and entrepreneurship and support gender inclusion across all sectors.

The tourism sector offers significant potential for job creation, particularly among young people and women. Recovery efforts should address infrastructure gaps, support small enterprises,

and promote gender- and youth-inclusive policies. A post-conflict plan for the tourism sector must be informed by international best practices for operating in areas affected by violence and instability.

Formalization will be critical to increase productivity and expand fiscal space. However, strategies to formalize firms and workers must recognize the diversity within the informal sector. Offering gradual formalization pathways—especially for vulnerable survivalist firms—can avoid unintended harm and support inclusive growth.

A Window of Opportunity

Though it faces immense challenges, the Palestinian economy possesses important advantages and considerable untapped potential. A young and relatively educated population, a resilient entrepreneurial base, and a growing recognition of the limitations of the status quo provide a foundation for change. This report calls for a new political, institutional, and economic paradigm to replace the outdated framework of the Paris Protocol. This new compact must be underpinned by coordinated international support, predictable financing, and an inclusive, forward-looking development agenda. Ultimately, rebuilding the economy of the West Bank and Gaza requires more than infrastructure and investment; it demands restoring confidence, expanding autonomy, and placing employment at the center of policy. Without a comprehensive paradigm shift, the region will remain locked in a cycle of fragility and stagnation, but given deliberate and coordinated action, a path to job-led recovery and sustainable growth remains within reach.



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