



Saving the Palestinian Economy

Will Disempower Hamas
and Offer Security to Israel

An economic road map for the Palestinian
Authority's transition from dangerous collapse
to stability within regional arrangements

Yitzhak Gal

January 2026

 **The joint Peace
and Security Unit**
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The Political-Security Unit of the Mitvim Institute and Berl Katznelson Foundation develops and promotes the Israeli Initiative, a political paradigm to achieve the dual goals of sustainable Israeli security and resolution of the Israeli-Palestinian conflict. The vision is based on curbing Israel's annexation policy, fostering a regional approach to the conflict, and bolstering a moderate Palestinian partner as a paramount Israeli security interest. The Unit works in conjunction with elected officials and professionals in Israel and the international community and advances its proposals through public advocacy.

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An economic road map for the Palestinian Authority's transition from dangerous collapse to stability within regional arrangements

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Executive Summary

The Palestinian economy is in collapse. Hamas is regaining control over the limited existing resources and assets in the Gaza Strip, after the war destroyed Gaza's economic system. In the West Bank, the Palestinian Authority (PA) is struggling to survive amid deliberate Israeli government policy that is exploiting the former's dependence and advancing unilateral coercive measures to cripple the Palestinian economy and the PA itself.

This policy reflects a dangerous escalation of the Israeli approach that viewed Hamas as an asset and the PA as a burden, an approach whose beginnings predated October 7, 2023. The collapse of the PA and the Palestinian economy are openly touted by Israeli ministers as elements of a strategy designed to advance annexation and prevent the establishment of a Palestinian state, even at the cost of a stronger Hamas and critical damage to Israeli security.

This paper proposes a new policy and includes pragmatic recommendations for action that will mend Israeli-Palestinian economic relations while supporting progress on a phased process toward two states and stable, long-term security. The proposed strategy is based on reform and socioeconomic stabilization of the PA within regional collaborative arrangements.

The paper illustrates the strong link between Palestinian economic growth and the security relations between Israel and the Palestinians. On this foundation, the paper proposes a three-stage road map whose goal is gradual building of a strong Palestinian economy; which will function as an independent system, while maintaining close cooperation with Israel and other countries in the region. That will contribute both to Palestinian and Israeli stability and prosperity..

A necessary condition for implementation of this road map is a political will in Israel to change its approach toward the Palestinians and to make strides in a process directed at socioeconomic and political stabilization. Therefore, the plan can only be implemented under an Israeli government

that is willing to adopt a policy that is entirely different from the current government's policy.

Nevertheless, even under the current government, there are several critical steps that can be performed almost immediately. These steps are proposed in the first stage of the road map, concurrently with Stage 2 of President Trumps' 20- point peace plan. These steps will be part of US-led measures to implement UN Security Council Resolution 2803 with respect to Gaza.

The concrete measures proposed for the first stage are: Resolution of the PA's protracted fiscal crisis in order to allow full and timely wage payments and orderly delivery of public services; gradual re-entry of Palestinian workers into Israel for employment while implementing agreed changes to improve security arrangements; suspension of measures that impair the Palestinian banking system and application of new arrangements that will stabilize this critical system; as well as measures that would leverage the rebuilding of Gaza to jump-start the Palestinian economy, with emphasis on trade and logistics. The execution of these steps will be contingent on a comprehensive, effective reform of the PA, cessation of payments to prisoners and "martyrs" (shaheeds), and tight security coordination that ensures demilitarization in Gaza and the marginalization of Hamas.

In the second stage, additional set of measures that can be promoted under the umbrella of the Oslo Accords and the Paris Protocol. These measures will include: convening of the joint Israeli-Palestinian economic committee and the additional joint subcommittees defined in the Paris Protocol and accompanying agreements, for development of agreed future plans; phased promotion of economic links between Gaza and the West Bank, contingent on accepted security arrangements; establishment of special-economic-status industrial zones and free trade areas; signing of preferential trade arrangements with the UAE and Saudi Arabia, the EU, and the US; promotion of Palestinian and Israeli integration into regional economic projects, primarily the reconstruction of Gaza and the India-Middle East-Europe Economic Corridor (IMEC).

The third stage will focus on a new Israeli-Palestinian economic agreement, under US-international-regional aegis. The new economic agreement will be negotiated as part of an agreed path to the future establishment of a demilitarized Palestinian state, and as an integral element of a regional settlement. This economic agreement will replace the Paris Protocol and its accompanying set of agreements as well as the multiple unilateral arrangements that have evolved over the past 30 years. This stage, which is proposed to take place over a longer term (3-4 years), will include issues such as a permanent trade regime, the currency of the PA, and other significant changes in the structure of the Palestinian economy.

Implementation of the proposed plan will drive the Palestinian economy forward, strengthen the moderate actors in the Palestinian arena, and support the socioeconomic stability that is a necessary condition for a stable settlement and long-term security.

The proposed plan also offers a set of additional significant benefits for Israel:

- The plan will lead to a strong and stable PA that maintains effective rule in the West Bank, that constitutes an effective alternative to Hamas in the Gaza Strip, is committed to peace with Israel, and is a partner in effective anti-terror measures. Implementation of the plan will dilute the power of Hamas and other extremist groups in Gaza and the West Bank.
- The gradual nature of the process, which is directed toward a clear political horizon and its progress based on the achievement of clear milestones, will build confidence and trust and create a system with long-lasting stability.
- Economic collaborations with regional partners will position Israel as an important actor in the geo-strategic and economic system of the Middle East. These joint projects will also become significant elements of Gaza's rebuilding, as well as the PA reform and stabilization process.
- Israel's integration as an important actor in comprehensive regional initiatives, such as IMEC, is expected to be an important growth engine for Israel's economy for decades to come.

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Introduction: The Organizing Concept

Economic life in the PA operates under a complicated, intricate system of economic and administrative agreements with Israel (the 1994 Protocol on Economic Relations, known as the Paris Protocol, and the appendixes signed thereafter) alongside tens of thousands of rules and military orders issued by Israel over the past three decades. This complex system evolved partly in response to Israel's legitimate security needs or as local decisions of military commanders. Another part of this system reflects a deliberate policy to undermine the PA or is an expression of indifference to Palestinian economic needs.

The cumulative result is extreme dependence on Israel and on Israeli instructions that are frequently modified and encase the Palestinian economy in a complicated web of restrictions and barriers. This web blocks the development of the Palestinian economy, undermines its stability and the stability of the PA, and consequently also affects Israel's security.

The ceasefire in Gaza and UN Security Council Resolution 2803 (November 2025), which adopted the Trump Plan, create an opportunity to repair this key aspect of Israeli-Palestinian relations. The correction is critical for a reform of the PA, and without it, sustainable progress toward social, economic, and political stabilization of the Palestinian system is not achievable. It is possible to repair these relations. Important parts of the process can be executed almost immediately..

This policy paper offers guidelines to repair the Israeli-Palestinian economic relationships under a new paradigm: socioeconomic reform and stabilization of the PA within a collaborative regional framework. A phased plan is proposed below on the basis of these guidelines. Implementation of the plan will drive the Palestinian economy forward and support socioeconomic stability, creating the necessary conditions for political and security stability.

1. Unilateral Decisions and Extreme Palestinian Dependence on Israel

The economic arrangements between Israel and the Palestinians, and the economic regime under which the Palestinian economy has been operating since 1994, were defined in the Paris Protocol signed in Paris in April 1994 and a series of supplementary appendixes and agreements listed in Appendix A.¹ These arrangements reflect the continued integration between the Palestinian and Israeli economies, which was the situation in the pre-Oslo period of direct Israeli rule. For example, it was agreed that Palestinian foreign trade would continue to be administered under a customs union with Israel, that is, PA territories would continue to be under the Israeli customs umbrella; trade with Israel would effectively be "domestic" trade; and Palestinian imports and exports vis a vis the rest of the world would continue, in principle, to be subject to Israel's customs and foreign trade arrangements. The agreements retained a monetary union with Israel, and the Israeli shekel was defined as the Palestinian currency as well. Palestinian workers' access to the Israeli labor market would be retained as well as most other economic arrangements that were in place in the pre-Oslo period of direct Israeli rule.

The Paris Protocol also included certain provisions that were designed to partially correct several of the prominent aspects of the Palestinian economy's dependence on Israel, but most of these provisions were not implemented. Moreover, after the Second Intifada, a comprehensive and complex system of security measures and restrictions was put in place. That has seriously disrupted the fabric of economic life, leading to a sharp rise in the costs of shipping, marketing, and other elements of business operations, constraining the ability to maintain continuous, stable economic and business activities. In addition, the Palestinians suffer

¹ *Gaza-Jericho Agreement*, Annex IV - Economic Protocol, 29 April 1994; Israel, Ministry of Foreign Affairs, <http://www.mfa.gov.il/MFA/Peace+Process/Guide+to+the+Peace+Process/Gaza-Jericho+Agreement+Annex+IV+-+Economic+Protoco.htm>

restrictions on use of water, soil and other natural resources in the West Bank, which impose additional hardships on the economy.

The main infrastructure services, such as electricity and water, are controlled by Israel. Development of roads, communication, and other infrastructure requires Israeli permits, and this is also the case with respect to industrial and agricultural development in Area C, and also to a large extent in Area B (areas that are under Palestinian civilian control and Israeli security control). In effect, almost all physical development outside major Palestinian cities requires Israeli permits. The permit issue process is cumbersome and protracted, and in most cases, Israel delays the process, refrains from granting permits, or blocks Palestinian development plans.

Israel also controls most economic policy instruments. The trade regime (the customs union) places Palestinian foreign trade under Israel's customs system and trade agreements, which, in many cases, conflict with the needs of the small, underdeveloped Palestinian economy. The monetary union with Israel and the use of the shekel as the Palestinian currency are important to the stability of the Palestinian economy but they limit the PA's ability to use monetary policy tools (e.g., interest rates, exchange rate policies). The arrangement that has Israel collecting VAT and indirect taxes on behalf of the PA preserves Israeli control over the majority of Palestinian treasury revenues, gives Israel a powerful pressure lever over the PA, and restricts the PA's ability to apply fiscal policy measures.²

In summary, the formal economic arrangements determined in the Paris Protocol, and even more so the practical arrangements that have taken roots since 1994, leave Israel with almost complete control over the Palestinian economy.

² Yitzhak Gal, "The Economic Viability of a Palestinian State: Insights and Analysis from a Long-Term Perspective," in Ephraim Lavie and Yitzhak Gal (editors), *"Palestine - A State in the Making?"* (Tami Steinmetz Center and Dayan Center, Tel Aviv University, 2012), 81, 84-86.

2. An Economic Snapshot: Basic Trends and the State of the Economy in Early 2026

In view of its extreme dependence on Israel, the Palestinian economy has always been strongly affected by the intensity of the conflict and the PA's political relations with Israel. Along with the high volatility in the PA's major economic indicators, the cumulative effect of the web of restrictions described above is a growth rate that is estimated to be less than one half of growth potential. This outcome has devastating significance for employment, standard of living, and socioeconomic stability. Additionally, a large gap between the economic development in the West Bank and in Gaza has emerged over the years of Hamas' control of Gaza (since 2007).

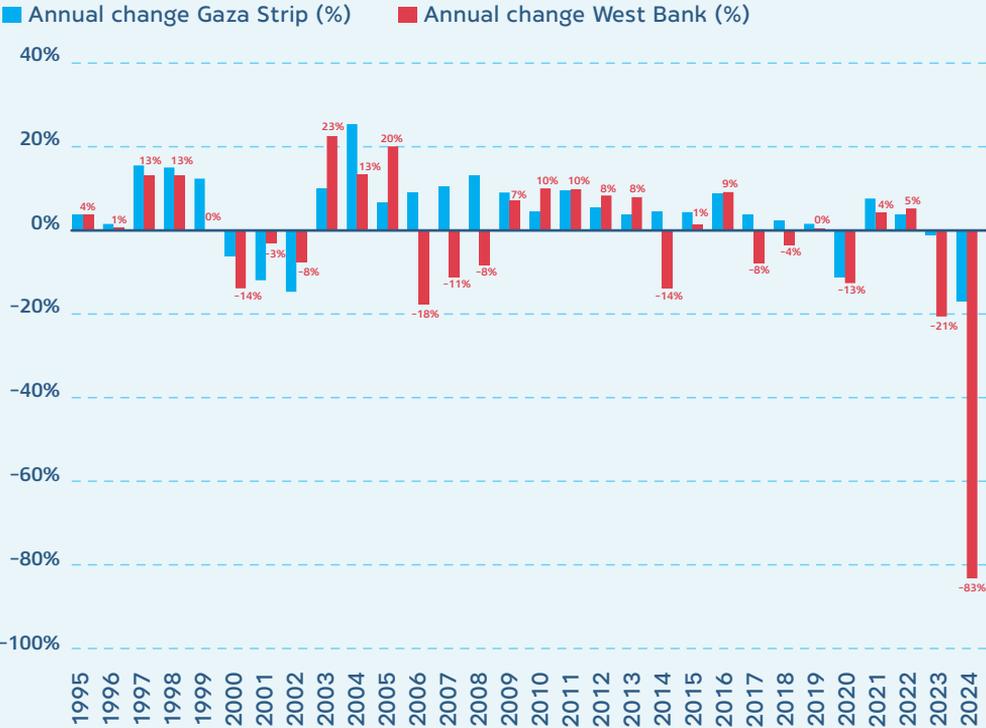
The extreme dependence on Israel poses a perpetual risk factor and causes cumulative harm to the Palestinian economy. This risk materialized with serious consequences during the Second Intifada, and even more strongly since October 2023, during the Iron Swords War. A brief analysis of the adverse impact on the key aspects of the Palestinian economy in 2024-2025, as a result of this war, follows.

GDP and Employment

Figure 1.1 illustrates the sharp drop in GDP (which measures the volume of economic activity) in 2000-2002 (the Second Intifada period), the decline in economic activity in Gaza following Hamas' ascent to power and recurrent Israeli military operations in the Gaza Strip, and the obvious sharp drop after October 2023. During periods of relative stability, however, the Palestinian economy shows strong economic growth. Especially marked is the continuous economic growth in the West Bank in the 15-year period following the Second Intifada (2003-2017), reflecting to a large extent Salam Fayyad's term as the Palestinian Prime Minister and Minister of Finance between 2007 and 2013.

Figure 1.1 The West Bank and the Gaza Strip – Annual GDP Increase (Decrease), 1995–2024

(percentage change, GDP in constant prices)

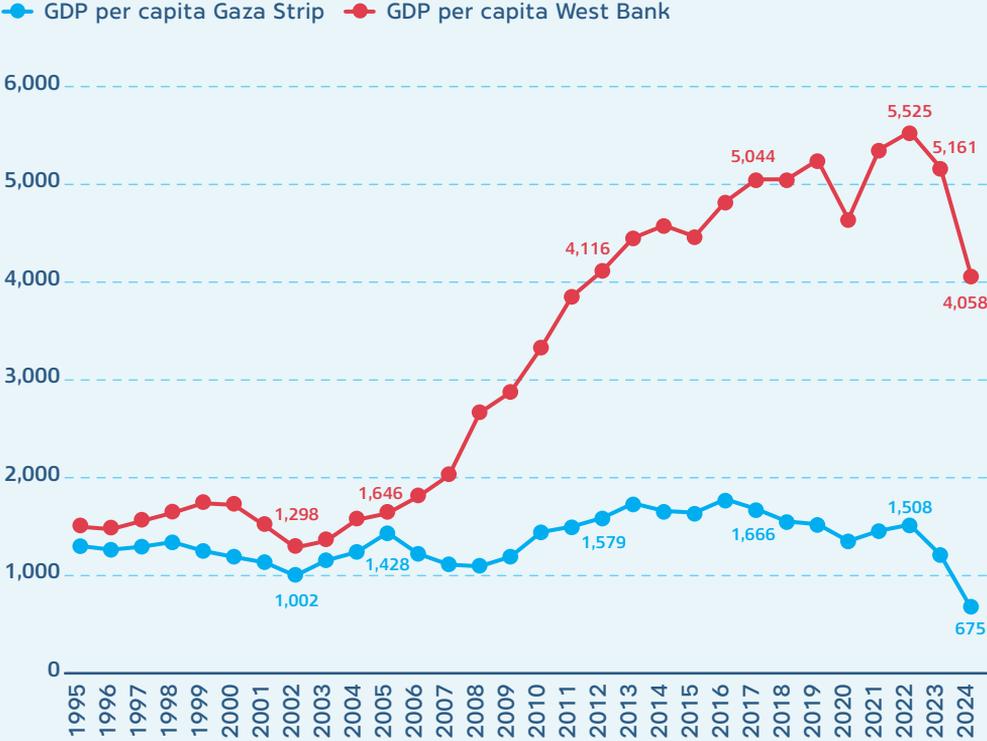


Note: Data for 2023 include the effects of Q4 (October–December). The decline in 2020 was influenced by the Covid-19 pandemic.

Source: PCBS, National Accounts Statistics

Continuous growth in the West Bank led to a leap in GDP per capita. As Figure 1.2 illustrates, in 2017 GDP in the West Bank quadrupled from USD 1,300 in 2002 to USD 5,000. In contrast, in the Gaza Strip in the same period, the cumulative effect of the volatility in GDP development was an increase of a mere 50 percent in GDP per capita, reaching the very low figure of slightly more than USD 1,500. In 2022, GDP per capita in the West Bank was more than three times higher than in the Gaza Strip, although in 2002 the difference was only 30 percent. The Iron Swords War effectively eliminated economic life in the Gaza Strip, and concurrently, triggered a sharp decline in GDP per capita in the West Bank, which dropped to USD 4,000 in 2024, erasing more than a decade of GDP per capita growth.

Figure 1.2 The West Bank and the Gaza Strip – GDP Per Capita, 1995–2024 (USD in current prices)

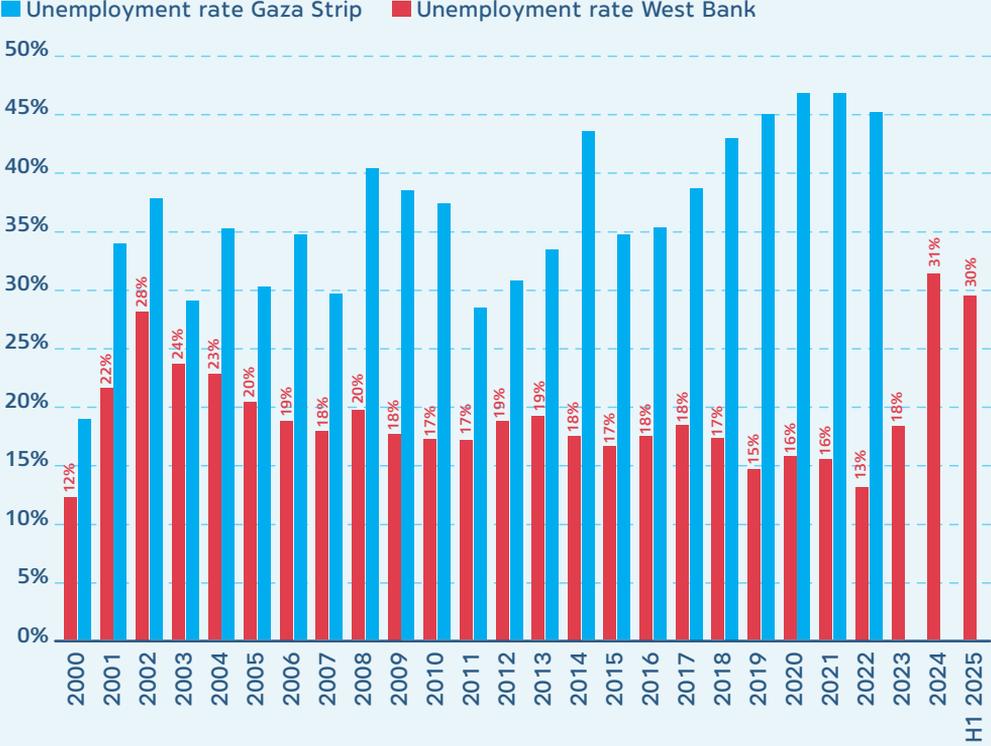


Source: PCBS, National Accounts Statistics

Note: Data for 2023 include the effects of Q4 (October-December). The decline in 2020 was influenced by the Covid-19 pandemic.

These trends were also reflected in employment statistics. As Figure 2 shows, in the years leading up to October 2023, unemployment in the West Bank stabilized around 15 percent. In the Gaza Strip unemployment was almost three times higher. As a result of the overwhelming blow to economic activity since October 2023, and the even stronger concurrent blow to Palestinian employment in Israel (described below), unemployment in the West Bank soared, reaching 30 percent in 2024 and the first half of 2025, like the unemployment rate during the Second Intifada.

Figure 2. The West Bank and Gaza Strip – Unemployment, 1995–2025 (% of labor force)



Source: PCBS, Labor Market Statistics

Notes: Data for 2023 include the effects of Q4 (October-December). No employment data is available for the Gaza Strip since October 2023.

Palestinian Workers in Israel and Palestinian Trade with the Arab Society in Israel³

In the decade leading up to October 7, 2023, Palestinian employment in Israel and trade with the Arab community in Israel were most important components of the Palestinian economy, and both were significantly impacted by the Iron Swords War. Israel is the PA's almost single trading partner: In the years preceding October 2023, the Israeli economy absorbed 97 percent of all Palestinian exports and was the source of 75 percent of all Palestinian imports. Furthermore, almost the entire remaining 25 percent of Palestinian imports, which were not sourced from Israel, arrived through Israel's air and sea ports. Consequently, the PA is completely dependent on Israel for its imports, as it is for its exports.

Since trade between the PA and Israel takes place under a customs union (that is, it is considered domestic rather than foreign trade), it is only partially documented. According to various examinations and estimates, "recorded trade" accounts for only one third of all the actual trade between Israel and the PA. The remaining two thirds are divided between unrecorded legitimate official trade, which is part of the official Palestinian economy, and unofficial trade, which is part of the PA's unofficial economy ("black economy"). The total volume of trade (recorded, unrecorded, and unofficial) shows steady growth in recent years up to October 2023, with a cumulative increase of one third between 2018 and 2022).

A large share of the unrecorded and the unofficial trade is with the Arab community in Israel, through a broad range of channels. The Iron Swords War has had a particularly harmful impact on this trade, which declined by almost 50 percent in 2024. The main reason for this decline were restrictions on movement, especially restrictions on Arab Israeli citizens' entry into the West Bank, and restrictions on internal movement in the West Bank itself.

³ Based on a detailed analysis presented in Yitzhak Gal, "The Effects of the War on the Palestinian Economy: Israeli-Palestinian Trade and Palestinian Employment in Israel" (Moshe Dayan Center, Tel Aviv University, March 2025).

Alongside the unrecorded and unofficial trade, Palestinian employment in Israel also became a most important economic factor in the past decade. The number of Palestinians employed in Israel doubled between 2010 and 2023 (up to October), but their income increased at a much higher rate, also because average wages rose sharply in this period.⁴ Total income from employment in Israel, reflected in the PA's balance of payments, increased sixfold in this period, from USD 700 million in 2011 to USD 4.3 billion in 2022.⁵

In recent years up to the Iron Swords War, Palestinian employees' income in Israel almost completely covered the PA's deficit of its trade with Israel in goods and services. In 2022, employees' income reduced the deficit from USD 5 billion to approximately USD 1 billion, and in 2023, up to October, employees' income covered the deficit completely, enabling a high volume of imports, both for economic activity and for households' standard of living.

The average monthly income of a Palestinian employee in Israel was almost double that of a Palestinian employee in the West Bank, and five times greater than employees' income in the Gaza Strip.⁶ Consequently, although Israel was the source of 20 percent of total employment of West Bank residents (170,000 jobs in Israel, of a total number of jobs in Q3/2023), employment in Israel accounted for over 30 percent of the income from work of Palestinian households in the West Bank.

4 The average monthly income of Palestinians employed in Israel almost doubled between 2010 and 2023, from slightly less than NIS 3,300 per month in Q3/2010 to NIS 6,050 per month in Q3/2023. This figure is calculated on the basis of the average daily wages multiplied by the average amount of work days per month. Source: *Balance of Payments Statistics* (PCBS), *Labor Statistics Quarter 2 2023, Table 28* and *PCBS Labor Force Survey Quarter 3 2010, Table 33*.

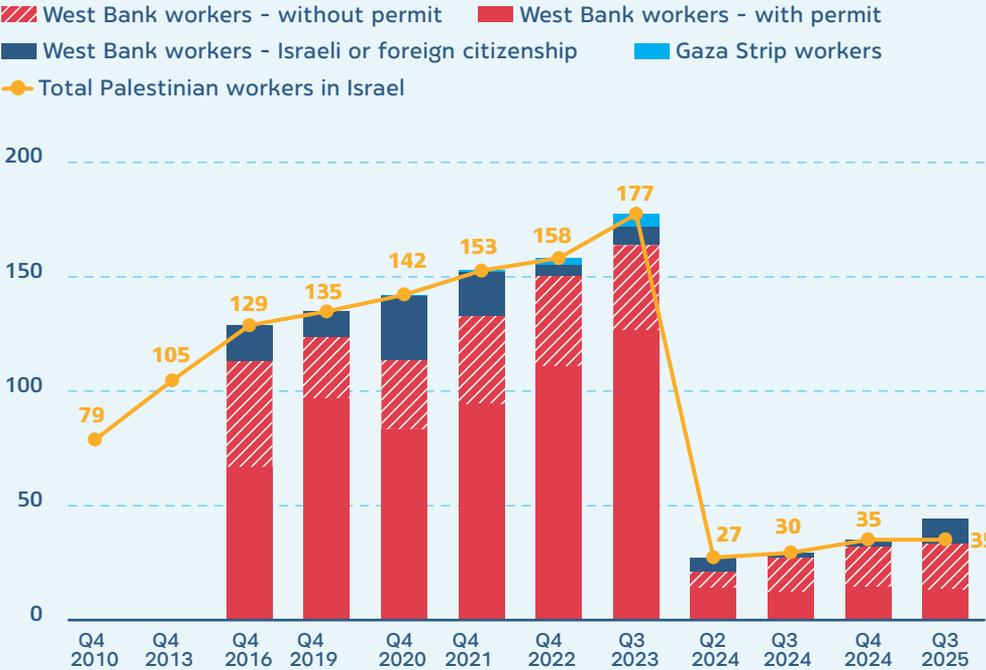
5 PCBS, *Balance of Payments Statistics, Quarterly Time Series*.

6 Average monthly income in Q3/2023: Palestinian employed in Israel - NIS 6,050, Palestinian employed in the West Bank - NIS 3,328, Palestinian employed in the Gaza Strip - NIS 1,144. Calculated based on average daily wages multiplied by the average amount of workdays per month. Source: PCBS, *Labor Force Survey, Quarter 3, 2023, Table 28*.

The Iron Swords War has dramatically affected the employment of Palestinians in Israel. The number of West Bank Palestinians working in Israel (with or without a permit) dropped from approximately 170,000 in Q3/2023 to approximately 30,000 on average in 2024. Income of workers in Israel declined from approximately USD 4.3 billion in 2022 to approximately USD 400 million in 2024 (see Figures 3.1 and 3.2).

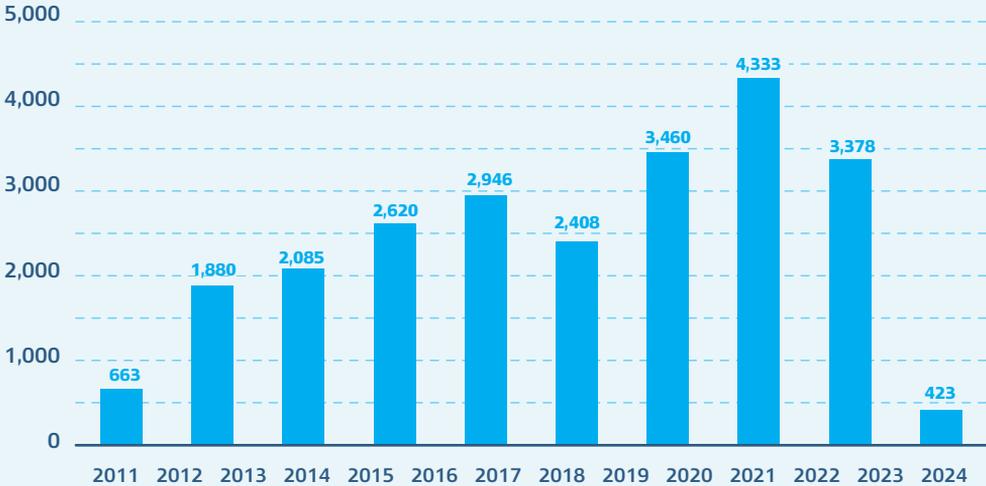
When the income of the workers in Israel is added to PA trade with Israel, it is estimated that about one-half of the income of households in the West Bank stemmed from trade from Israel and employment in Israel. In combination, these elements were cut by two thirds in 2024.

Figure 3.1 Palestinians Workers in Israel and in the Israeli Settlements in the West Bank (in thousands)



Source: PCBS, Quarterly Labor Force Survey, Table 17, 21, 27 (different years)

**Figure 3.2 Income of Palestinian Workers in Israel 1995–2025
(in USD millions, current prices)**



Source: PCBS, Balance of Payments Statistics

Note: Data for 2023 include the effects of Q4 (October-December).

The PA Budget

The Israeli government’s measures against the PA since October 2023 significantly impacted the PA’s fiscal (budgetary) stability and impeded the PA’s functioning. The PA’s budgetary deficit increased threefold in 2024 despite the sharp rise in foreign aid. In 2025, the situation became much worse.

The unique severity of the fiscal crisis in 2024-2025 was reflected in the acceleration of steps that brought the PA closer to insolvency, and as a result, had a grave effect on its functioning and service delivery to the population.

According to the Paris Protocol, Israel collects all the taxes, custom duties, and levies on Palestinian imports under what is known as a “clearance arrangement.” Clearance revenues accounted for approximately 70 percent of the total revenues in the PA’s budget. The Israeli government deducts various amounts from the clearance revenues that it collects for

the PA, based on agreed payment arrangements for services that the PA purchases from Israel (e.g., electricity, water, medical services).

In recent years, the Israeli government began to make new, unilateral deductions from the clearance revenues as punitive measures against the PA's payments to families of Palestinian "martyrs" and prisoners in Israel. During the October 2023 war, the Israeli government significantly increased the amount of these "punitive" deductions and withheld additional amounts. In addition, the Israeli government is currently working on legislation that will allow it to seize these punitive deductions, which the PA defines as "withheld clearance revenues." Total withheld clearance revenues increased from a monthly average of less than NIS 100 million in January-September 2023 to approximately NIS 250 per month in 2024 (See Figure 4.1).

See Appendix C for a detailed review of the deductions system and the evolution of the "punitive deductions."

The combined result of these deductions and the decline in "gross" PA revenues (before deduction of withheld clearance revenue), was a decline of approximately one third in net revenues: From a monthly average of close to NIS 1.5 billion in January-September 2023 to a monthly average of less than NIS 1 billion in 2024.⁷

In 2025, Israeli's "punitive" deductions swelled, and in Q3/2025 reached a monthly average of close to NIS 700 million. Total net PA revenues dropped to a monthly average of NIS 600 million, a mere 40 percent of the average in January-September 2023 (Figure 4.1). As a result, the monthly deficit in the PA's budget soared from less than NIS 100 million in 2022 and January-September 2023 (and NIS 400 million in 2024) to NIS 800 million in Q3/2025.

⁷ Revenue data before and after withheld clearance revenues in Figure 1.2 do not show the agreed-upon deductions in the PA's budget accounting. These deductions are presented under the expenditures items in the budget (which is the correct way of presentation, because these are effectively expenses. The deduction of these amounts from the clearance revenues is part of the collection mechanism that was agreed upon by the PA and Israel).

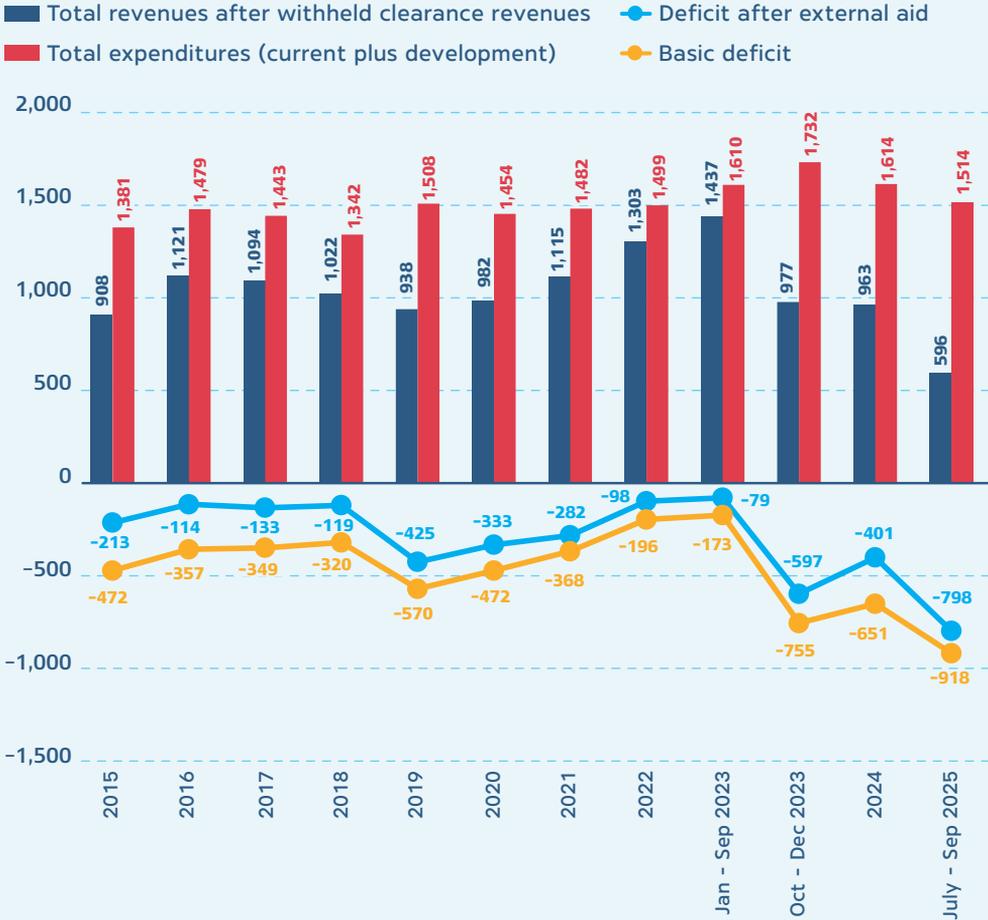
The PA is financing this large deficit in three ways, all of which have a severe cumulative destabilizing effect on the PA's functioning and stability:

- 1. Deferral of payments to suppliers and service providers.** Already in 2024, the huge magnitude of arrears (the stock of deferred payments) made it difficult for suppliers to continue providing critical services to the PA (e.g., medications for the health system). In 2025, the situation worsened further.
- 2. Loans from local banks.** The large volume of debt and the growing risk of PA insolvency made the PA a risky borrower that threatens the stability of the Palestinian banking system.
- 3. Partial payment of salaries to PA employees.** The cumulative volume of unpaid salaries doubled in 2024, and as of October 2025 it is estimated to be as high as 12 unpaid monthly salaries.

These developments have created severe economic and societal problems, such as: employees come to work irregularly, the PA is challenged to maintain essential services to the population, various services have been reduced, and the education system in the West Bank has partially moved to a distant learning model.⁸

⁸ World Bank, "Impacts of the Conflict in the Middle East on the Palestinian Economy" (December 2024), p. 3; "An Unprecedented Education Crisis in the West Bank - Occupied Palestinian territory", *ReliefWeb*; السلطة تدفع ٧٠٪ من رواتب موظفيها عن شهر ديسمبر.

Figure 4.1 Budgetary Deficit of the Palestinian Authority (monthly average in NIS millions)⁹

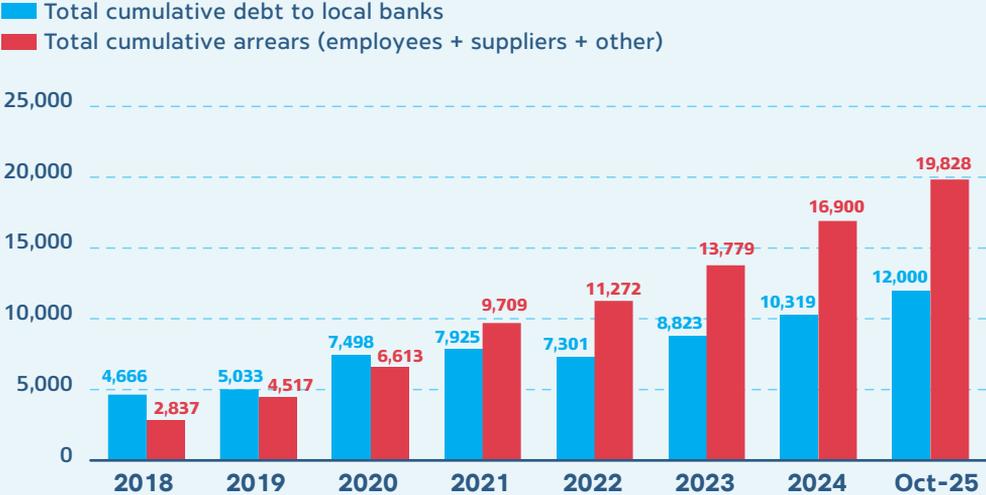


Source: Palestinian Authority (PA), Ministry of Finance (MOF), Fiscal Operations, Monthly Reports for December of 2015 - 2024 and September 2023, Table 1

⁹ The PA's budget data, like other budget data, are presented in the reports of the PA Ministry of Finance in two ways: (a) on commitment basis - revenues and expenditures based on the PA's commitments to others, and the commitments of others to the PA (e.g., salary expenses based on the pay slips issued to employees = wages due to employees); (b) on a cash basis - receipts and payments credited or charged to the PA's bank accounts. In the previous example, if the PA effectively paid its employees only 70 percent of their wages (which was the case in recent years), the cash basis record will be only these 70 percent and the remaining 30 percent are recorded as the PA's debt to its employees (the PA does in fact pay these debts when it can, in a partial manner and after a significant delay). An analysis of the budget over time, which is presented here, is made on a commitment basis, in contrast to an analysis of the short-term state of the PA's "cash flow" situation, which is performed on cash basis.

Figure 4.2 Development of Cumulative Debt to Local Banks and Payments Arrears to Suppliers and PA Employees

(NIS millions, end of period)



Sources: Monetary Authority database (original data in USD); PA, Ministry of Finance, monthly reports for December of the relevant years

Stability of the Banking System

In its effort to undermine the stability of the PA, the government of Israeli is deliberately targeting the banking system. The most dangerous of these steps is the continued threat by Minister of Finance Smotrich not to renew the Letter of Indemnity that is issued by the Israeli Ministry of Finance to the Israeli banks that work with the Palestinian banks. This Letter of Indemnity provide these banks protection against potential legal claims related to these operations. In the absence of this protection, Israeli banks are unable to provide correspondence services to the Palestinian banks, which would disconnect the latter from the international banking system (and from the Israeli banking system). A concurrent move, which is less critical yet still severely hampers the Palestinian banks' operations, is Israel's refusal to update the arrangements to accept the surplus cash in Israeli Shekels accumulating in Palestinian banks.

The cumulative effect of the Israeli government's actions in the areas reviewed above critically undermines the functioning of the Palestinian economy in the West Bank, and gravely threaten the stability of the PA. Together with a lack of support for an alternative to Hamas in Gaza, increasing settler violence, expanding steps toward annexation, these actions create a chaotic reality in both the West Bank and Gaza that constitutes a serious security threat to Israel. The way to address this threat is to adopt a new paradigm, as suggested below.

3. Guidelines for A New Paradigm to Repair the Economic Relations Between Israel and the PA

We propose to repair the economic relations between Israel and the Palestinians according to the following guidelines:

- 1. Gradual replacement of existing arrangements that detrimentally affect the Palestinian economy with a new accepted system that aligns with UNSC Resolution 2803 regarding the end of the war in Gaza, and advances as follows:** (a) progress in the reconstruction of Gaza including the replacement of Hamas rule with a new governmental system linked to the PA under regional-international aegis; (b) implementation of agreed-upon solutions to Israel's security needs as an integral part of the emerging system of new agreements; and (c) the new economic set of agreements will be integrated as a critical component of the reform of the PA and Palestinian state-building, while developing cooperation between Israeli and Palestinian economies and the economies of the region.
- 2. The new contractual system with Israel will be developed under a new paradigm for the Palestinian economy,** based on two critical economic anchors: close ties with Israel with significantly reduced economic dependence on Israel, and development of close economic relations with the Arab world, especially with the Gulf countries.
- 3. Gradual establishment of a new contractual system with Israel will advance concurrently with phased progress toward a stable Palestinian statehood that is committed to peace with Israel,** based on milestones to be determined by agreement. This move will be the practical translation of Section 20 of President Trump's 20-point plan, which was also approved by UNSC Resolution 2803. This section determines that the US "will establish an Israeli-Palestinian dialogue to agree on a

political horizon for peaceful and prosperous co-existence.”¹⁰

- 4. Leverage regional and international participation in the administration and rehabilitation of Gaza to build new regional relationships with the PA and with Israel, which will integrate Israel in regional-international initiatives to rebuild Gaza as a functioning and growing economic entity. This will make the Palestinians and Israel parties to major regional collaborative projects, while strengthening agreed-upon security arrangements and advancing toward Palestinian statehood.**

Repairing the relationship according to these guidelines will advance socioeconomic and political stabilization of the PA and new stable relationships with Israel.

10 UN Security Council Resolution 2803 (2025), ANNEX 1 - President Donald J. Trump’s Comprehensive Plan to End the Gaza Conflict, Point # 20.

4. A Phased Economic Program to Mend the Economic Relations

Based on the guidelines described above, this paper proposes a three-stage **road map** to repair the economic relations between Israel and the Palestinians. The proposed steps refer to arrangements related to the West Bank and the Gaza Strip, and to the PA as a governmental entity. A necessary condition of this program is Israeli political willingness to repair its relationship with the Palestinians and make progress toward PA socioeconomic and political stabilization. However, there are several very important steps that can be performed almost immediately, even in the current situation, where no such political will exists.

The program comprises three stages:

- 1. Stage 1:** Immediate steps with a significant impact - An important share of these steps can even be executed in the current political situation, concurrently with Phase 2 of the 20-point Trump plan and the establishment of a Palestinian technocratic administration and an international-regional mechanism to assist the administration and reconstruction of the Gaza Strip. According to the proposed road map, these immediate steps will be part of a series of US-led understandings, to be achieved, to implement UNSC Resolution 2803 regarding Gaza.
- 2. Stage 2:** to be potentially implemented within six months of an Israeli decision to move forward. This stage includes a wide range of important steps that can be executed under the Oslo Accords and the Paris Protocol, using measures and instruments stipulated in these agreements.
- 3. Stage 3:** to be potentially implemented in the long run (3-4 years) as part of a process that leads to a Palestinian statehood. This stage relates to formulation of a new Israeli-Palestinian economic agreement under US-regional-international aegis. This economic agreement will be part of a comprehensive Israeli - Palestinian peace agreement. It will replace the Paris Protocol and all its accompanying agreements, as well

as the complex web of unilateral arrangements that evolved over the past three decades.

Stage 1: Immediate steps that have a significant effect on the Palestinian economy

Several steps proposed for execution in Stage 1 can already be implemented in the current situation, under US leadership. These steps will help promote three main efforts: (a) resolution of the deepening PA's fiscal crisis and returning the PA to a path of stable functioning, including regular salary payments and full delivery of public services. This step, together with an agreed-upon program of reforms, is also necessary to enable the PA to play a role in the new governmental system in Gaza and in its reconstruction; (b) a gradual return to the situation on October 6, 2023 with respect to work permits for Palestinian employees' entry into Israel, while implementing agreed-upon changes in related security arrangements, and removal of barriers to Palestinian trade with Israel and the Arab world; (c) promotion of arrangements that are essential for progress in the reconstruction of Gaza and rapid return of economic life in this area.

Following are the details of the main steps proposed for this stage:

A. Fiscal stabilization steps:

- 1.** In the immediate term, to establish a trust account to be administered by an accepted international actor (e.g., the World Bank; "the Trustee") to which Israel will transfer part of the total amount of over NIS 10 billion in clearance revenues that Israel has withheld over recent years.¹¹ Of this amount, the Trustee will transfer an agreed-upon amount to the PA on a monthly basis. Israel will be permitted to withhold an agreed-upon amount of the monthly revenues that it collects for the PA. The monthly withheld amount will not remain in Israeli hands. Instead, it will be deposited in the trust account. The regular transfer to the amount after deduction

¹¹ A similar arrangement was in place for several months in late 2024 under the aegis of the Norwegian government until it was suspended by the Israeli government.

of the aforementioned withheld amount, together with the local taxes that the PA collects and foreign aid that it receives, will be sufficient to allow the PA to return to a path of stable functioning.

2. Concurrently, the PA and Israel will start negotiations (under US aegis) to discuss (a) Israeli claims regarding its right to deduct certain sums from the clearance revenues it collects on behalf of the PA, and to determine agreed rules for such deductions ; (b) PA claims and calculations regarding the total amount of clearance revenues withheld by Israel, (c) to agree upon the balances that Israel is required to transfer to the PA as well as the transfer arrangements; and (d) to agree on a US-monitored implementation mechanism that will gradually replace the trust account mechanism, while maintaining a stable level of revenues for the PA.
3. Once the mechanism mentioned above is in place, and the acute fiscal crisis of the PA is taken care of, Israel and the PA will start negotiations (under US and regional aegis) on a fundamental change, whereas Israel will no longer collect the clearance revenues for the PA. Under this new arrangement, the PA will gradually take control on collection of the different categories of clearance revenues. Once this process is completed, , the PA will no longer be fiscally dependent on Israel.

Progress in the steps mentioned above will be **contingent upon reaching agreed arrangements regarding payments to families of prisoners and "martyrs" and upon progress in the reforms according to PA commitments to international aid organizations and actors.** These reforms, together with the reinstatement of economic life in Gaza, will further bolster the PA's fiscal stability by constraining expenditures and generating significant revenues from taxes on imports and on economic activity in Gaza.

It should be stressed that the PA has already commenced implementation of a reform program in this regard. A presidential order issued in early 2025, as per a program that was coordinated with the EU, put a place a new mechanism in relation to these payments. the law that served as the basis for the payment of allowances to Palestinian prisoners incarcerated

in Israel and to families of "martyrs", was revoked. . According to this new presidential order, aid to families of prisoners and "martyrs" is now part of the PA's system of support to needy families based on socioeconomic criteria (for additional information see the Reform Plan, Appendix D).

B. Suspension of Israeli measures that adversely affect the Palestinian banking system:

- 1.** Negotiate a new US-Israeli-Palestinian arrangement that will replace the present arrangement of a temporary Letter of Indemnity issued by the Israeli Ministry of Finance to Israeli banks that provide correspondence services to Palestinian banks. This new arrangement will remove the permanent risk of cutting the Palestinian banks from the Israeli and international banking systems.;
- 2.** Negotiate new, agreed arrangement on handling the surplus cash accumulating in Palestinian banks. That, concurrently with discussion of joint measures to reduce the use of cash in the Palestinian system in general, and work jointly on fundamental solutions to this problem.

C. Gradual increase in employment of Palestinians from the West Bank in Israel: Gradual return to an employment level of around 150,000 employees in Israel, including in Israeli settlements and industrial zones in the West Bank (close to the pre-October 2023 level). That, under new, improved security arrangements..

D. Measures related to trade. Access and movement arrangements: (1) a phased transition from frequently changing unilateral Israeli arrangements regarding the movement of people and goods between the West Bank and Israel, to an official system based on coordination and security considerations; (2) a similar approach to the King Hussain border crossing (the Allenby crossing, on the Jordanian border), which constitutes the PA's major trading route with the Arab world; (3) additional steps to support and incentivize Israeli-Palestinian trade, including tourism, especially between Palestinian citizens of Israel and the West Bank. Given the enormous importance of this issue to the Palestinian economy, it is proposed to agree (with US support) on whatever actions , that can be implemented immediately, under present political conditions.

E. Leverage the reconstruction of Gaza to jump-start the Palestinian economy in general:

- 1.** The re-building of Gaza can serve as a powerful lever to jump-start the Palestinian economy in general, and promote its integration into the regional economic system and major regional projects. Re-building also creates significant opportunities for the Israeli economy. To make the most of these opportunities, re-building plans should be developed in a manner that encourages economic and business cooperation with West Bank and Israeli companies.
- 2.** This approach should be first applied to trade and logistics. The volume of imports required for the reconstruction of Gaza and reinstatement of economic life there is extremely large. According to a detailed study by the author and Palestinian partners, reconstruction will require a logistical system that facilitates the entry of over 5,500 trucks daily on average - ten times the average daily number of trucks that entered Gaza on the eve of October 7, 2023. The major share of these imports will come to Gaza from the east, through Jordan; from and through the West Bank; and from and through Israel. Given its enormous significance and economic potential, this issue should also be led by the US and coordinated with regional parties.

Stage 2: Steps to be Taken Under the Oslo Accords and the Paris Protocol

The steps described below are proposed as part of a new policy for the Palestinian arena. Its implementation requires political willingness to move forward toward socioeconomic and political stabilization of the PA, grounded in an understanding that building a new relationship with the PA and stabilization of the Palestinian economy strategic interests of Israel.

The Oslo Accords and the Paris Protocol, their appendixes and the coordination mechanisms they contain, allow significant discretion and flexibility regarding the current set of agreements.

The proposed plan for this stage is based on this freedom of action, and its execution is possible without modifying the current framework of agreements.

A. Convene the Joint Israeli-Palestinian Economic Committee and the joint subcommittees that were defined in the Paris Protocol and its related agreements (see Appendix A on the joint committees defined in the agreements). Add regional and international representatives the discussions of these committees, and put their operation under US-leadership. The joint committees will serve as a platform for discussions and deliberations on the various steps described in the proposed plan. The joint committees will make the necessary arrangements and develop agreed-upon mechanisms to further their advancement.

The joint committees will identify and map the barriers and obstacles that have the most harmful effect on the Palestinian economy in each sector (agriculture, transportation, electricity and energy, water, communications, and other areas of economic life). The range of barriers is enormous. The subcommittees will agree upon priorities, develop plans to address these barriers, and ensure that the plans are executed on the ground. Within the mapping process, the subcommittees will review the previous agreements from 1994-1999 (see Appendix A) and operate them after making the necessary adjustments (as allowed by the agreements).

B. Promote economic links between Gaza and the West Bank combined with agreed-upon security arrangements. Other than Israel, the West Bank is Gaza's closest potential market, and links to Gaza are also extremely important for the West Bank economy. As institutional, financial, and business links already exist and work well, what is needed are transportation links, and relaxation of restrictions on access and movement. The joint transportation committee and the joint committee on the safe passage (see Appendix B) can serve as forums that examine detailed plans to establish such links.

- C. Establish special-economic-status industrial zones and free trade areas.** These zones will become hubs of economic development and employment in Gaza and in the West Bank. The Palestinians can use successful experience gained in the UAE and in Jordan in this field, including incorporation of leading Emirati companies in construction and management the new Palestinian industrial zones. To illustrate, an economic analysis regarding a special-economic-status major industrial zone in the northern Gaza Strip indicates the enormous importance of such projects. This specific project was expected to generate 200,000 new jobs (within and in the vicinity of the industrial zone) and annual GDP growth of over 15% in the Gaza Strip in its first five years of operation.¹²
- D.** Preferential trade agreements with the UAE, Saudi Arabia, EU, and US, implementing an approach like the trilateral Israel-Jordan-US QIZ arrangements, with the necessary adjustments.
- E.** Israeli-Palestinian coordination regarding major regional economic initiatives that are expected to significantly affect Palestinian and Israeli economic development. These initiatives include:
- 1.** Re-building of the Gaza Strip, which should be regarded as a regional mega-project. One of the main features of a viable re-building plan is the integration of Gaza in the regional economic system, in transportation, energy, and other sectors. Israeli-Palestinian coordination with respect to these plans will leverage the initiatives to benefit the interests of both parties.
 - 2.** IMEC. This global initiative is expected to be game-changer for Israel and the Palestinians. . Both need to coordinate their preparations if they wish to extract the maximum gains from the opportunities that this initiative offers.¹³

12 Yitzhak Gal and Bader Rock, "North Gaza Industrial Zone - Concept Note" (Tony Blair Institute for Global Change, December 2016).

13 Gedaliah Afterman, "IMEC 2.0: A New Regional Vision After the Gaza War" (Mitvim, December 2025).

3. Regional water and energy collaborations, based on the Jordanian-Emirati-Israeli "Blue-Green Deal" model of solar energy generation in Jordan with Emirati investment and management, and desalination by Israel in the Mediterranean Sea ()..
- F. Prepare coordinated plans with international and regional actors to promote infrastructure projects (See Appendix C). Some of these projects can be executed within 3-5 years, while others have a 10-year horizon.¹⁴ These projects, in fields that include transportation, energy, water, and industrial zones, will be key for positioning the Palestinian economy on a path to development and long-term stability, while reducing its dependence on Israel and integrating the future Palestinian state in the regional economic system. These projects must go hand in hand with the plans for re-building Gaza and must be coordinated with Israel and with the major regional transportation, energy, and water projects.

Stage Three: A New Economic Agreement Under US-International-Regional Aegis

It is recommended to wait with significant changes to the Palestinian economy, such as changing its trade regime (from the current customs union to what probably will evolve to a free trade agreement with Israel) or disconnecting the Palestinian economy from the Israeli shekel. Steps such as these, if implemented with haste, can have unexpected effects that will adversely affect the fragile Palestinian economy and disrupt its recovery and reinforcement. It is therefore recommended to carefully examine and plan the process and the timing of such a new economic agreement..

Still, such a ne economic agreement is required as part of a in the longer term political agreement that leads to the establishment of a strong, stable, independent Palestinian state that lives in peace alongside Israel.

¹⁴ The detailed information in Appendix 2 is based on a detailed study conducted by the author with a team of experts for the Durch Foreign Ministry. Lead Authors: Dr. Yair Hirschfeld and Yitzhak Gal, "Rebuilding Gaza as part of a Palestinian Economic Leap Plan and a Wider Regional Stabilization Process" (April 2024), 13-18.

That new economic agreement will include issues such as the permanent trade regime, the currency that will be used in Palestine, permanent arrangements regarding movement of workers between Israel and the Palestinian state, permanent arrangements involving transportation, water, energy, and other infrastructure, tourism, etc.

Conclusion: Promoting Security and Other Benefits for Israel

Repairing the economic relationship between Israel and the Palestinians in line with the recommendations presented in this paper will be part of the process to achieve socioeconomic stabilization of the Palestinian Authority and stable political relationship between it and Israel.

The overall impact of these steps, in combination with security and political stability, is expected to place the West Bank on a path to accelerated economic growth of around 10 percent annually for a decade, while significantly reducing its economic dependence on Israel.¹⁵

Economic growth in the Gaza Strip is expected to be much higher. It is expected to return to its pre-October 2023 GDP and employment levels in just a few years and reach the West Bank's GDP per capita within 10-15 years.

In previous periods of strong and continuous economic growth - the period following the Second Intifada, and specifically during the administrations of Salam Fayyad's term as Prime Minister and Minister of Finance (between 2007 and 2013), the PA also made strides in building state institutions.¹⁶ In

15 This estimate is based on a series of studies that examined the growth potential of the Palestinian economy under conditions of stable security and reduced barriers. Also see: Yitzhak Gal, "The Economic Potential of Israeli-Palestinian Lateral Ties After Three Lost Years: The Case of Agriculture" (Tami Steinmetz Center, Tel Aviv University, 2020); Rand Corporation, *The Costs of the Israeli-Palestinian Conflict* (2015); Nashashibi, Gal & Rock, "Palestinian - Israeli Economic Relations: Trade and Economic Regime" (2015); NIR and PIBF, *Future Economic Relations Between the Palestinian and Israeli Economies* (2007); Paltrade and the Peres Center for Peace, *The Untapped Potential: Palestinian -Israeli Economic Relations* (2006); Yitzhak Gal, *The Economic Potential of Israeli-Palestinian Relations: The Case of Agriculture* (2020) [Hebrew]; Yitzhak Gal, Palestinian-Israeli Cross-Border Economic Relations (unpublished work, 2016); UNCTAD, "Economic Costs of the Israeli Occupation for the Palestinian People" (August 2025), p.14-21.

16 Ephraim Lavie, "Building the Palestinian State from the Bottom Up - An assessment of the Achievements and Challenges of the Development Plans", in *Palestine - A State in the Making?* Ephraim Lavie and Yitzhak Gal (editors) (Tami Steinmetz Center and Moshe Dayan Center, Tel Aviv University, 2012), p.17-45.

the future too, strengthening and stabilization of the Palestinian economy will allow the orderly building of state institutions as well as completion of necessary reforms. This process will prepare the PA for a Palestinian statehood that is committed to peace with Israel.

The benefits for Israel are significant and clear:

- ▶ A socially, economically, and politically strong and stable Palestinian Authority that maintains effective rule in the West Bank and the Gaza Strip, is committed to peace with Israel, and is a partner in addressing the threats of terror, will constitute a pillar of Israel's national security. This process will remove the security threat of Hamas rule in Gaza and will also significantly weaken Hamas's power (and the power of other extreme organizations) in the West Bank.
- ▶ The phased nature of the process, with a credible political horizon and progress based on the achievement of well-defined milestones and targets, will build trust and create a long-term stable system.
- ▶ The stability that the proposed process will generate, and the deep economic collaborations built by the parties, will contribute to regional stability and position Israel as an important player in the regional geo-strategic and economic system.
- ▶ Israel's integration in the regional economic system and its participation in major regional initiatives such as IMEC, is expected to be a most important growth engine for the Israeli economy for decades to come.

Appendix A: The Economic and Civilian Appendices to the Oslo Accords and Other Major Agreements Signed Between 1994 and 1999

This appendix lists the civil and economic agreements signed between 1994 and 1999 (Table A-1) and the main provisions of the Oslo Accords related to civilian matters (Appendix 3 of the Oslo II Accord, 1995, Table A-2).

Table A-1: The Economic and Civil Appendix to the Oslo Accords and Other Major Agreements Signed Between 1994 and 1999

Agreement / Protocol	Year	Appendix/ Document	Topic	Main issues	Joint responsible entity
Gaza-Jericho Agreement (Cairo)	1994	Appendix IV - Paris Protocol	Economic relations	Custom duties, taxation, employment, currency, trade	Joint Economic Committee
Interim Agreement (Oslo II)	1995	Appendix I	Security and territory	A/B/C division and redeployment	Joint Security Committee
Oslo Accord (Oslo II)	1995	Appendix III	Civilian matters	Comprehensive framework for civilian infrastructure	Joint Civilian Committees
Hebron Protocol	1997	Agreement and appendixes	Hebron	Division of H1/H2, security coordination, TIPH	Hebron/TIPH Coordination Committee
Wye River Memorandum	1998	MOU	Deployment and security	Implementation steps and territorial transfers	Joint Security Implementation Committee
Safe Passage Protocol	1999	Safe passage	Transportation and movement	Passage between the West Bank and Gaza	Joint Safe Passage Committee

Table A-2: Details of Civilian Matters – Appendix III of Oslo II, 1995

Agreement / Protocol	Year	Appendix/ Document	Topic	Article	Main issues	Joint Responsible Entity
Oslo II	1995	Appendix III	Water and sewage	40	Water, resource development rights, sewage treatment	Joint Water Committee (JWC)
Oslo II	1995	Appendix III	Transportation and roads	27-30	Roads, vehicle registration, signage, public transportation	Joint Transportation Committee
Oslo II	1995	Appendix III	Electricity and energy	34-36	Electricity, networks, regulatory coordination	Joint Transportation Committee
Oslo II	1995	Appendix III	Communications and mail	36-38	Telecommunications, frequencies, mail, regulation	Joint Telecommunications Committee
Oslo II	1995	Appendix III	Planning and construction	31-33	Regional planning, building permits, outline plans	Joint Planning Committee
Oslo II	1995	Appendix III	Environment	37	Waste, cross-border pollution, environmental protection	Joint Environmental Committee
Oslo II	1995	Appendix III	Agricultural	32	Agricultural development, animal and vegetable health	Joint Agricultural Committee
Oslo II	1995	Appendix III	Public health	17	Health system, epidemiology, collaborations	Joint Health Committee

Appendix B. Proposed Infrastructure Projects

This appendix presents a non-exhaustive list of potential infrastructure projects that can be advanced. Several of these projects are mega-projects comprising dozens of separate sub-projects. Detailed planning has already been done for many of the listed projects and therefore they can be promoted quickly and referred to feasibility studies, and even to execution in some cases.

Feasibility studies should review the projects from an economic perspective rather than as aid-financed projects, as most of them would be advanced as PPP (Public-Private partnership) projects. These studies will relate technical, economic, and political feasibility of the projects, how they should be promoted; suggesting appropriate partners; the correct order of execution; and especially how to ensure the projects' sustainability.

Projects in the Gaza Strip

Transportation

- ▶ Gaza Port: a large international port to be constructed on an artificial island opposite the northern coast of the Gaza Strip
- ▶ Railroads: a domestic north-south railroad line crossing the length of the Gaza Strip, a railroad line that connects the Gaza Strip to the West Bank, and connection to the Israeli railroad system
- ▶ A large inland port in the northern Gaza Strip, adjacent to the Erez crossing, including connections to additional crossings in the northern and north-eastern section of the Gaza Strip

Energy

- ▶ Development of the Gaza Marine gas field and its connection to power stations in Gaza and other gas-driven stations in the West Bank, through the Israeli national natural gas pipeline system
- ▶ Construction of clusters of solar fields on the Gazan-Israeli borders (in the Security Buffer Zone)

- ▶ Installation of solar panels on the roofs of the new buildings to be constructed in Gaza

Water and Wastewater Treatment

- ▶ Construction of a cluster of large desalination plants on the artificial infrastructure island to be constructed opposite Gaza's northern coast (see below)
- ▶ A network of wastewater treatment plants in all the new urban and rural settlements to be constructed in the Gaza Strip. Treated water will be the primary source of irrigation in the agricultural sector, similarly to the situation in Israel.

A large Infrastructure Island Opposite the Northern Coast of the Gaza Strip

In addition to the international port and the cluster of desalination plants, the island will also house additional installations that require large, unpopulated area, including:

- ▶ a large, gas-powered power station
- ▶ solid waste treatment and recycling plants
- ▶ heavy industries (e.g., refinery and/or cement factory)

Large special-economic-status industrial zones

- ▶ A large special-economic-status industrial zone in northern Gaza, adjacent to the Infrastructure Island and the Gaza port on the one hand, and to the inland port near Erez on the other hand
- ▶ Additional large special-economic-status industrial zones in central and southern Gaza Strip

Projects in the West Bank

Transportation and border crossings

- ▶ Large inland port near the King Hussein Crossing (Allenby Crossing)
- ▶ Development of an additional border crossing between the West Bank and Jordan (the Damia Crossing)
- ▶ Capacity expansion of the crossings between the West Bank and Israel to enable a fivefold anticipated increase in traffic of goods

Water, Wastewater Treatment, and Environment

- ▶ A network of wastewater treatment plants to cover all cities and villages of the West Bank. Treated water will be used as the primary source of irrigation in agriculture, similarly to the situation in Israel
- ▶ Construction of a new, independent water transportation system in the West Bank, which will connect to various water sources in the West Bank - from Israel, Jordan, and the desalination plants in the Gaza Strip
- ▶ Construction of cross-border system for treatment and reuse of solid waste.

Energy

- ▶ Development of an independent electricity transmission network with a capacity that allows large-scale importation of electricity from Jordan and transmission of electricity from the gas-driven power stations in the Gaza Strip, through the Israeli grid
- ▶ Inclusion of the West Bank and Gaza in the Israel-Jordan-UAE "blue-green" electricity - desalinated water exchange project
- ▶ Construction and regulation of micro-grids based on rooftop panels on all the new construction, and incentivizing installation of solar panels on existing buildings as well

Large special-economic-status industrial zone zones in the West Bank as well Adjacent to the King Hussein Crossing and the main border crossings between Israel and the West Bank. The establishment of joint Israeli-Palestinian-Jordanian zones should also be examined.

Development of agriculture in the Jordan Valley

Appendix C: Unilateral Deductions by Israel from Tax Revenues Collected by Israel on Behalf of the PA

The Israeli government has for years deducted various sums from the tax revenues that it collects for the Palestinian Authority (e.g., customs, import tax, excise tax on fuel, VAT) based on what is called :the Clearance Revenue” arrangement, as defined in the Paris Protocol. These amounts have been deducted with the consent of the PA, and constitute an agreed-upon form of remuneration for services that the PA purchases from Israel (e.g. electricity, water, medical services). A list of ”agreed-upon deductions” in recent years is presented in Table C-1.¹⁷

Table C-1. Agreed-Upon Deductions of Payments to Israeli Suppliers from the Clearance Revenues (Recorded as Expenditures)

	2002	Jan-Sep 2023	Oct-Dec 2023	2023	2024
Electricity	882	716	336	1,052	1,303
Water	375	286	107	393	374
Sewage treatment services	114	85	23	108	134
Hospitals	189	178	76	254	180
Debt arrangements and additional deductions	169	233	76	309	431
Total agreed-upon deductions	1,729	1,498	618	2,116	2,422

Source: PA, MOF, Fiscal Operations, Monthly Reports, Table 4B.

¹⁷ These deductions appear under budget expenditures in the PA’s budget accounts and not as a deduction from revenues. This is the proper treatment because these amounts are indeed expenditures and their deduction from the clearance revenues is the method of collection that was agreed upon by Israel and the PA.

In the second half of the previous decade, the Israeli government began to make unilateral deductions from the clearance revenues as a "punitive" measure. These deductions increased to a significant amount after the Knesset passed the Palestinian Prisoners Law (2018), which requires the government to deduct and withhold from the monthly clearance revenues collected on behalf of the PA an amount that Israel estimates is equal to the PA's payments to Palestinian prisoners in Israeli prisons, released Palestinian prisoners, and families of Palestinians who were killed in acts of terror according to the definition of Israeli law. The deductions made based on the Palestinian Prisoners Law grew to a significant amount in 2021 and stabilized thereafter at approximately NIS 50 million per month (Figure C-1).

After the outbreak of the Iron Swords War, the Israeli government significantly expanded these punitive deductions. The first step, soon after the outbreak of the war, was an additional deduction of NIS 275 million per month in respect of "PA expenses in Gaza." This amount was based on Israel's estimate of the PA expenditures for civilian operations in Gaza in the pre-war period.

These expenditures mainly comprise wages of PA employees who operated the education, healthcare, and other public service systems in the Gaza Strip (e.g., teachers, physicians, nurses); PA retirees in Gaza; welfare payments to eligible recipients (including prisoners in Israel and families of "martyrs"); payments for the purchase of drugs, medical services acquired in Israel for Gaza Strip residents; payments to Israel for utilities (e.g., electricity, water) delivered to the Gaza Strip; etc.

The justification made for these new deductions is that these amounts represent the PA's support for the Hamas government in the Gaza Strip. Although PA payments for Gaza diminished dramatically after the outbreak of the war (and in effect remained mostly salary and pension payments for PA employees in Gaza), the amount of the deductions remained unchanged.

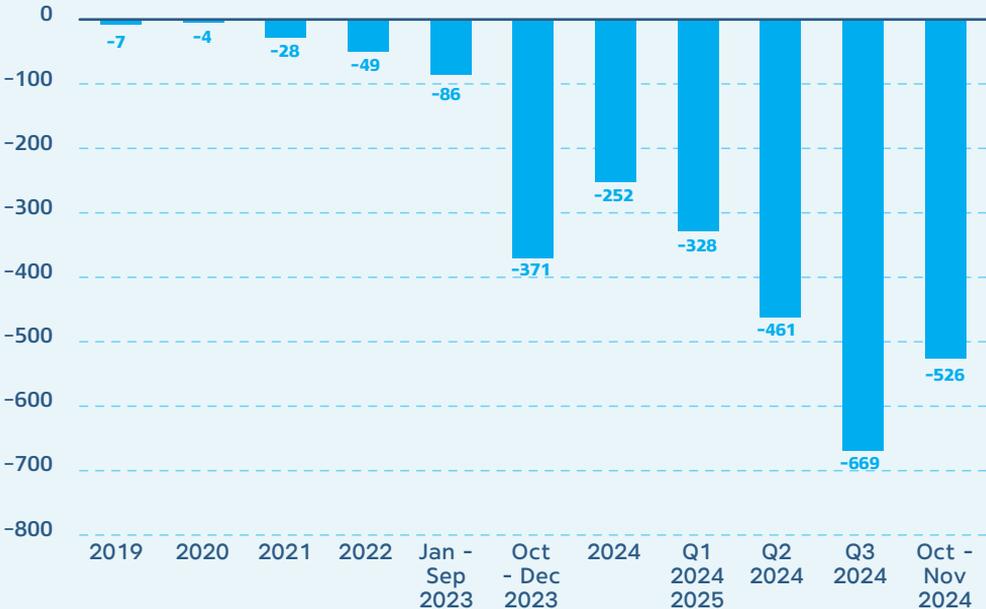
The next major expansion of deductions began in mid-2025, with no justification or explanation given. In certain months, Israel deducted the

entire amount of the clearance revenues that it collected, and in other months, lower amounts were deducted, beyond the two main deduction categories (PA payments to prisoners and families of "martyrs" and payments for Gaza). These "punitive deductions" are not accepted by the PA, which defines them as "withheld clearance revenues."

Concurrently, over the past two years, the Knesset Foreign and Security Committee has been discussing new legislation that would lead to the full or partial confiscation of withheld PA funds, with the aim of preventing any future arrangement to return the withheld clearance revenues to the PA.

Ultimately, including several additional minor deductions and certain "refunds" made by Israel under international pressure, net withheld clearance revenues increased from approximately NIS 50 million per month in 2022, and less than NIS 100 million in January-September, 2023, to approximately NIS 250 million per month in 2024, NIS 328 million per month in the first quarter of 2025, more than NIS 450 million per month in the second quarter of 2025, and ranged from NIS 400 million to more than NIS 800 million per month in the third and fourth quarters of 2025 (Figure C-1).

Figure C-1 Clearance Revenues Deducted and Withheld by Israel, monthly average (in NIS millions, on commitment basis)



Notes

1. In January 2025, part of the sums withheld in 2024 was refunded to the PA, but these refunds were used to pay PA’s debts to the Israeli Electric Company and to Israeli fuel companies (Dor and Paz). The data on the table excludes this one-off payment.
2. PA budget data (like other budget data) are presented in the reports of the PA Ministry of Finance in two ways: (a) on a commitment basis - revenues and expenditures based on the PA’s commitments to others, and the commitments of others to the PA (e.g., salary expenses based on the pay slips issued to employees = wages due to employees); (b) on a cash basis - receipts and payments credited or charged to the PA’s bank accounts. In the previous example, if the PA effectively paid its employees only 70% of their wages (which was the case in recent years), the cash basis record will be only these 70% and the remaining 30% are recorded as a PA’s debt to its employees (the PA does in fact pay these debts when it can, in a partial manner and after a significant delay). The analysis presented here is made on a commitment basis (cash basis data is usually used for analysis of the short-term state of the PA’s “treasury,” which is not what we do here).

Appendix D: Reform of the PA's Payment Mechanism to Prisoners and Families of "Martyrs" (Presidential Order No. 4 of the Palestinian Authority, February 2025)

Over the years, the Palestinian Authority operated a designated mechanism to grant financial aid to Palestinian prisoners incarcerated in Israeli prisons and to the families of "martyrs" and wounded. This mechanism was grounded in specific legislation, mainly on Law No. 14 -Law of Prisoners and Law No. 19 - Law of Martyrs and Injured Families dated 2004.

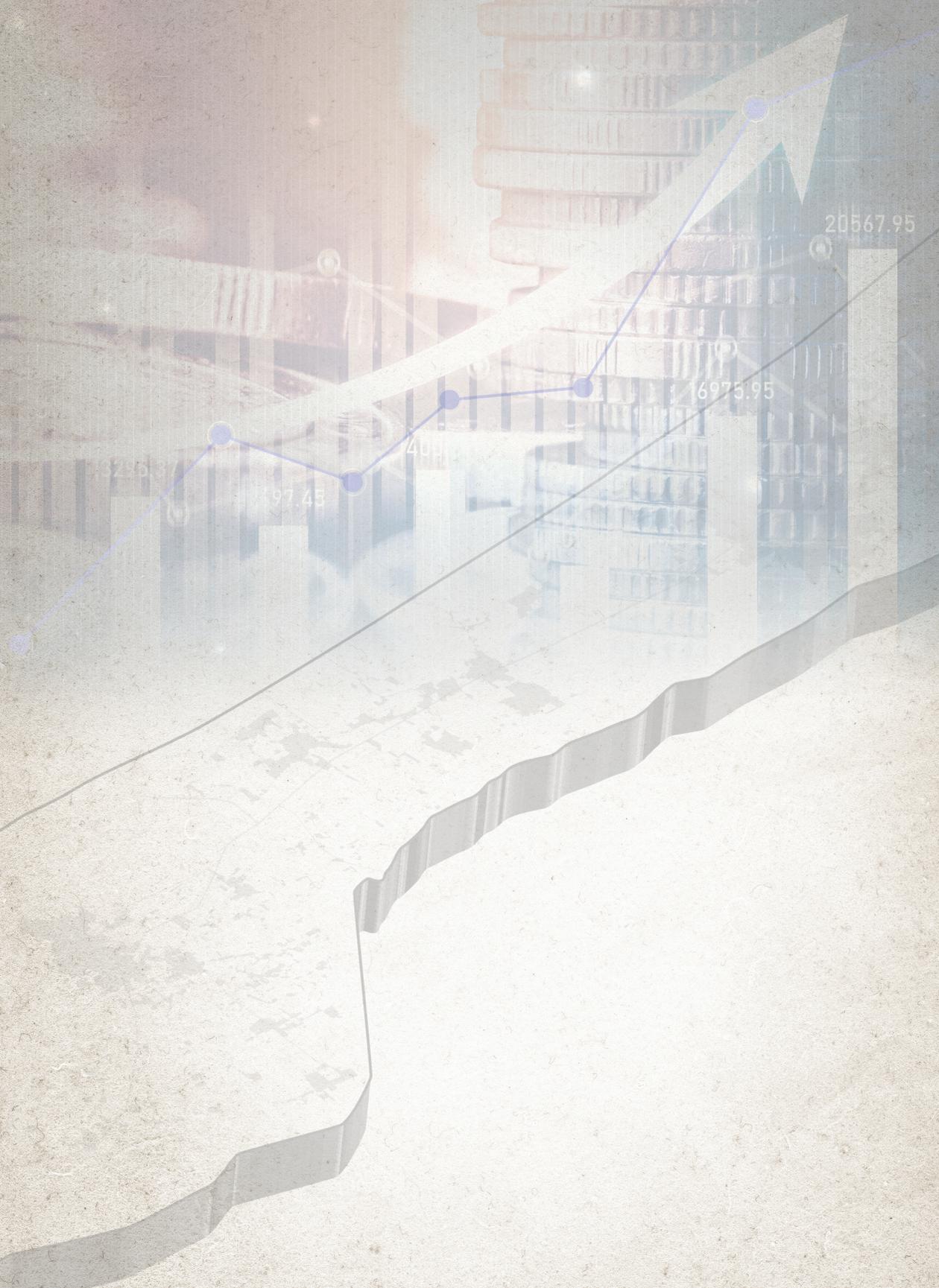
This method granted prisoners and the families of "martyrs" and wounded automatic entitlement to relatively high benefits; The payment amount was a function of the length of the imprisonment, the circumstances of the death or injury, and the status of the "martyr" or wounded individual, and not a function of their financial or social situation. The system operated as part yet with partial separation from the PA's general welfare system.

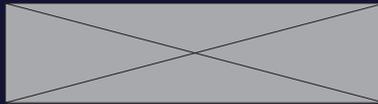
This system was subject to severe Israeli and international criticism and the PA was required to correct the mechanism as part of its reform program. That, as this system allegedly incentivized terror and failed to meet the required standards of transparency and equality vis a vis other individuals who are in need of financial aid from the PA's welfare system.

This mechanism was amended in early 2025, in response to these pressures, by Presidential Order No. 4 of February 2025 (Decree-Law No. 4 of 2025), which completely revoked the two aforementioned laws and determined that financial aid from the PA will be granted according to a uniform welfare model based exclusively on socioeconomic criteria. According to the new Order, individuals eligible for aid according to the previous laws were requested to submit applications for aid only based on the new Order. These applications should be reviewed according to income, needs, and social status, irrespective of the security circumstances of the individual's death, injury, or incarceration.

The new Order also created an institutional change. The management of the databases, payments, and aid was transferred to the Palestinian National Economic Empowerment Institution. This agency was established as part of the PA's reform program, and it functions as the main arm of all welfare-related reforms. The Order also defined documentation, transparency, and reporting requirements, as well as external and international auditing of foreign aid management.

The EU is monitoring the execution of the new Order as part of its control over progress on all the reforms to which the PA committed as a condition for financial aid from the EU and other entities that donate funds to the PA.





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