

PFRD¹ REVIEW
July - September 2025

Fiscal Performance

1. The Palestinian Authority (PA) has been facing a deep fiscal crisis in recent months given the absence of clearance revenues. Clearance revenues, the PA's main source of income, continued to undergo significant deductions by Israel in 2025. These monthly deductions more than doubled since October 2023 putatively to offset PA's spending in Gaza. Since May 2025, the transfer of clearance revenues has been completely halted. As of the drafting date of this report,² clearance revenues for the months of May to October 2025 are yet to be transferred to the PA, leaving it struggling to make ends meet. On a *commitment* basis, clearance revenues earned actually increased by 6 percent in the first nine months of 2025, year on year (y/y), due to an increase in imports from a low base³ On the domestic side, tax collections dropped by 6 percent in the first nine months of 2025, as almost all major tax categories witnessed a decline given the economic volatility in the West Bank. In contrast, non-tax revenue increased by 23 percent due to the yearly license fee paid by the telecommunications companies in June 2025 and higher investment profits from the Palestine Investment Fund (PIF) compared to the first nine months of 2024.

2. The heightened fiscal stress forced the PA to cut critical spending in recent months, mainly social assistance benefits. Transfers in the first nine months of 2025 were 12 percent less than in the same period in 2024 as the PA reduced payments through its national cash transfer program and other social assistance this year given the limited resources. The increase in the wage bill was limited to 0.5 percent on a commitment basis reflecting the step increase⁴ and annual promotions. On a cash basis, the PA was only able to pay 50-70 percent of the monthly wages in 2025, protecting lowest earners. The fiscal pressures, reflected in partial salary payments and deep cuts in critical spending, reverberate beyond the public sector. They not only constrain the provision of essential services but also weaken household income, ultimately feeding back into the collapse of aggregate demand and amplifying the downturn. Other expenditure categories including the use of goods and services and interest payments witnessed an increase so far in 2025, by 10 and 3 percent respectively, mainly to address needs in the health sector and due to a rise in bank borrowing to finance spending. Overall, recurrent spending was reduced by 3 percent in the first nine months of 2025, y/y.

3. The PA has struggled to finance the fiscal deficit in 2025. The total deficit (before grants) amounted to US\$605 million in the first nine months of 2025 while donor financing reached US\$453 million (US\$360 million allocated for budget support and US\$93 million for development financing). Despite a strong decline in contributions from Arab donors in the first nine months of 2025, y/y, overall donor financing was very close to its 2024 level due to an increase in international contributions, mainly

¹ The PURSE TF was restructured in early 2025 to become the Palestinian Fund for Reconstruction and Development to help channel potential future aid for the reconstruction of Gaza, at the request of the PA.

² December 11, 2025.

³ As reported by the Palestinian Central Bureau of Statistics, imports increased by 17 percent in the first nine months of 2025 compared to the same period in 2024. However, they remain much lower than their levels prior to October 2023.

⁴ The step increase is an annual increase amounting to 1.25 percent that is mandated by the Palestinian civil service law and granted to all employees.

the European Union followed by the World Bank (see Table 1). Donor financing was not enough to cover the needs, and the PA's deficit after grants and after accounting for clearance revenue deductions reached US\$883 million in the first nine months of 2025. With no viable alternatives, the PA resorted to the continued accumulation of arrears and to domestic bank borrowing. By September 2025, arrears to the private sector stood at US\$1.65 billion, while arrears to public employees amounted to US\$2.5 billion. The PA's debt⁵ amounted to US\$4.79 billion as of September 2025.

Table 1: External financing to the PA's budget, million USD

	2024 H1	2025 H1
Total External Financing	460	453
1. Budget Support	395	360
A. Arab Donors	126	29
<i>Of which</i>		
Algeria	106	0
Iraq	20	0
Saudi Arabia	0	29
B. International Donors	269	331
<i>Of which</i>		
Norway	9	19
France	9	9
PEGASE	177	220
World Bank	74	83
2. Development Financing	65	93
<i>Of which</i>		
Co - Financing for Projects of MOEd	2	7
Grants for Line Ministries	15	35
Others	48	51

Source: PA Ministry of Finance

Policy Dialogue

4. The World Bank's last Development Policy Grant (DPG) 13, approved by the Board of Directors on March 17, 2023, closed at the end of 2024. DPG 13 achieved important results related to improving revenue mobilization, modernizing the Anti-Money Laundering and Combating Financing of Terrorism legal framework, and digital transformation.

⁵ This includes borrowing from domestic banks and foreign debt.