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Opinion

The High Price Israel Will Pay for Collapsing the Palestinian Economy

The erosion of Palestinian livelihoods is weakening the Palestinian Authority and threatening the West Bank's ability to withstand another crisis - with consequences for Israel, too



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In the second quarter of 2026, about 53,000 Palestinians from the West Bank worked in Israel and in the settlements, compared to around 172,000 before October 2023. The average daily wage for these workers was 263.4 shekels ($83), almost double the average wage in the West Bank of 134.3 shekels. Loss of income on such a scale affects the standard of living, the store that sells to the family on credit, the factory that supplies the stores and the Palestinian Authority, which is supposed to guarantee the provision of basic services.

There are some signs of a partial economic recovery in the West Bank: Between the first and second quarters of the year, the number of people employed in the local market rose to around 680,000, from about 653,000, and the unemployment rate fell to 27.9 percent, from 29.5 percent. However, even after the improvement, about 284,000 people remained unemployed, and the unemployment rate was more than double that of the third quarter of 2023. The recovery in local employment did not compensate for the loss of income from work in Israel and in the settlements as well as the damage to productivity.

The quality of employment explains part of the gap: When young people invest years in training only to struggle to find work in their field, hospitals, schools and businesses are unable to integrate the skills that the economy needs. In an October 2025 survey by the research network Arab Barometer, 24 percent of respondents in the West Bank said they had considered emigrating, with 71 percent citing economic reasons.

At the same time, the Palestinian Authority's ability to pay its employees and suppliers is weakening. According to the World Bank, in 2025 the authority paid between 50 percent and 70 percent of the wages owed to its employees. The accumulated debt of the Palestinian Health Ministry reached approximately $1.1 billion. About 65 percent of that is owed to private hospitals and hospitals of nongovernmental organizations that treated patients referred to them, with the remainder owed to suppliers of medicines and medical equipment.

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In June, the ministry reported that stocks of 180 from among 520 essential medicines had run out, and that more than 11,000 scheduled operations had been postponed since the beginning of the year. The cost of the delay in transferring the clearance funds that Israel collects on behalf of the Palestinian Authority is thus passed from the PA's budget to the supplier and to the patient.

The effects on businesses are daunting. In 2025, credit to the private sector in the Palestinian banking system rose by only 2 percent, while credit to the public sector rose by 19 percent. The usual trade with Gaza was severed almost completely after October 7, 2023, with manufacturers in the West Bank losing access to a market that was important to some of them.

The volume of the lost sales has not been quantified. Within the West Bank, in December 2025, the UN Office for the Coordination of Humanitarian Affairs documented 925 obstacles that permanently or intermittently restrict the movement of 3.4 million Palestinians across the West Bank, including in East

Jerusalem; at least 459 of them blocked or hindered access between Palestinian communities and main roads. To a business that seeks to retain its customers and employees, a long or unpredictable trip means higher costs and difficulty committing to a delivery date. To a Palestinian family whose income has decreased, it means paying more to get to work or school or for medical care.



Settler violence also affects income. Between September 1 and November 2, 377 attacks related to the annual olive harvest were documented, setting a record. Farmers reported crop and equipment thefts as well as hindered access to fields, even after prior coordination. In areas that are dependent on the olive crop, the loss of a harvest is liable to place a strain on the affected households for months.

The income erosion can also be seen in food consumption in the West Bank. In September, the UN World Food Programme estimated that about 900,000 West Bank residents face food insecurity; 76 percent of households included in the agency's analysis reported a significant decline in income and one third could not afford a nutritious diet. At the same time, the organization announced it would cut in half the number of people in the West Bank to which it provides food assistance - from 400,000 to 200,000, due to lack of funding.

When families cut back on meals or sell assets to pay for daily needs, they also diminish their ability to cope with the next crisis. The reduction of instruction hours in public schools in the West Bank, which, according to reports, are operating around three days a week for the fourth consecutive year, threatens to extend the damage beyond the current budget crisis.



From Israel's perspective, the practical question is who provides services when the Palestinian Authority struggles to pay teachers, medical personnel and suppliers. The more the PA's performance is impaired, the greater the likelihood that Israel will have to invest more resources in civil coordination, emergency response and security activities.

The labor restrictions may also affect sectors of Israel's economy that had relied on Palestinian workers. The report does not quantify this cost, but it enables us to see the scale of the shift in employment. For this reason, any review of the permit policy should also take into account the needs of Israeli employers and the cumulative effect of lost wages on stability in the West Bank.

The figures do not prove that poverty breeds violence. In the Arab Barometer survey from October, 56 percent of respondents in the West Bank supported a two-state solution - 7 percentage points more than in 2023, even though 92 percent described the economic situation as bad or very bad. However, in the August survey, only 17 percent of respondents said they felt safe and 65 percent viewed the Palestinian Authority as a burden.

The combination of weak institutions, loss of livelihood and threats to personal safety diminishes the ability of communities and local government to cope with another crisis. If Israel seeks to maintain stability over time, it must examine the cumulative effect of its decisions on employment, the transfer of clearance revenue, freedom of movement and protection against settler violence. The success of such a policy will also be measured by the ability of a worker to reach their job, a farmer to harvest their olives and a hospital to provide medicine on time.

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