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Between Clearance Revenues and International Aid: The Survival Mechanism of the Palestinian Authority

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Since the outbreak of the "Swords of Iron" war, the Palestinian Authority (PA) has faced a severe fiscal and institutional crisis that has led to numerous assessments regarding its imminent collapse. Yet, as of July 2026, it continues to function and provide basic services. The PA's survival, despite the dramatic blow to its clearance revenues and the suspension of Palestinian employment in Israel, has been enabled by a significant increase in foreign aid and alternative funding mechanisms. These developments demonstrate that the PA is perceived as an actor of international strategic importance—an entity considered "too strategic to fall" in the eyes of European Union member states and international organizations.

Since the outbreak of the "Swords of Iron" war in 2023, the economic collapse of the Palestinian Authority has become one of the most frequently discussed scenarios in Israeli political and security discourse. Israel's withholding of clearance revenues, the loss of tens of thousands of jobs in Israel, the sharp decline in economic activity in the West Bank, and the PA’s steadily mounting debt have led many to assess that its collapse is only a matter of time. Indeed, throughout 2024 and 2025, predictions that the PA was on the verge of financial and institutional collapse were repeatedly voiced.

Yet, as of this writing in July 2026, and despite a severe fiscal crisis, the Palestinian Authority continues to function. It pays salaries (albeit partially), operates its civil and security apparatuses, and continues to provide basic services to the population. The central question is no longer whether the PA's situation is dire, but rather how it has managed to survive despite the blow to its principal sources of revenue.

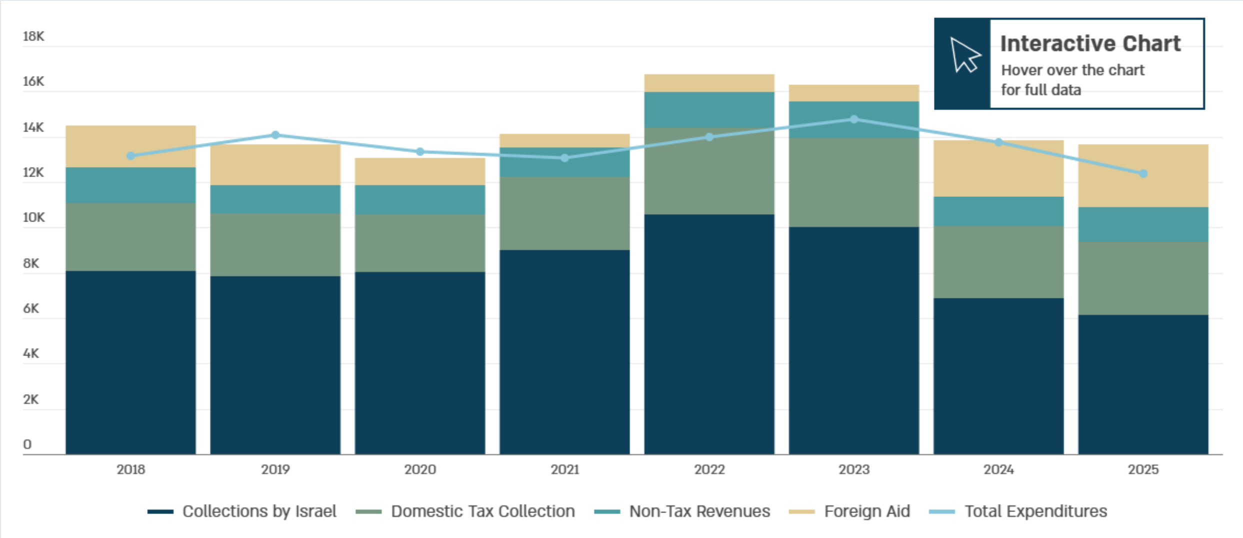
An examination of the Palestinian Ministry of Finance reports reveals two key developments underpinning this survival: on one hand, a dramatic decline in the volume of clearance revenues transferred to the PA by Israel; and on the other hand, a sharp increase in foreign aid and alternative funding mechanisms that have enabled the PA to continue operating. The data even points to a broader conclusion: while the Palestinian Authority remains fiscally unstable, it enjoys a strategic status that, to a large extent, makes it an entity "too strategic to fall," particularly in the eyes of European Union member states.

Overview of the Palestinian Authority's Budget

Figure 1 shows the development of the Palestinian Authority's revenues and expenditures between the years 2018–2025 on a cash basis. The graph indicates that, without external assistance, the PA would have operated under a structural deficit for most of this period. As early as 2018, its expenditures exceeded its total self-generated revenues, and this gap persisted in subsequent years.

The deficit widened considerably, however, after the outbreak of the "Swords of Iron" war. While in the years preceding the war, total revenues (excluding foreign aid) remained steady at approximately 12–15 billion NIS per year, 2024 saw a significant drop in actual revenues, primarily due to the reduction in clearance revenues. The gap widened even further in 2025, as expenditures remained relatively high while domestic revenues and clearance funds failed to cover them. Consequently, without foreign aid, the PA's budget deficit reached nearly 20 percent in 2024 and 14 percent in 2025.

Figure 1: The Palestinian Authority Budget on a Cash Basis (in millions of NIS)



However, the figure also points to another, equally important trend: the sharp increase in foreign aid. While it amounted to approximately 1–1.5 billion NIS annually between 2020 and 2023, foreign aid surged to 3 billion NIS and more in 2024 and 2025. Without this growth, the PA's cash deficit would have been considerably deeper. In fact, the rise in foreign aid offset a significant portion of the damage to revenues transferred by Israel. In this sense, the graph illustrates the two principal forces that have shaped the PA’s fiscal position since the outbreak of the war: a sharp decline in clearance revenues on one hand, and a dramatic rise in foreign aid on the other.

At this point, it is important to emphasize that this article analyzes the PA’s budget on a cash basis rather than a commitment basis. This reporting method focuses on funds actually received or disbursed during the year, and therefore provides a more accurate reflection of the PA's cash flow position and its capacity to finance its day-to-day operations.

This distinction is particularly important in the Palestinian case. If the budget were examined on a commitment basis, the picture would be somewhat different: expenditures would be higher because they would include salaries that were not paid in full, commitments to pension funds, and debts to suppliers and banks; however, revenues would also be higher, as they would include the full amount of clearance revenues collected on behalf of the PA, even if a significant portion of them was not actually transferred to its coffers. Therefore, this analysis focuses on the budget on a cash basis, as this best reflects the central question addressed in this article: How has the PA managed to continue functioning despite its severe cash shortage?

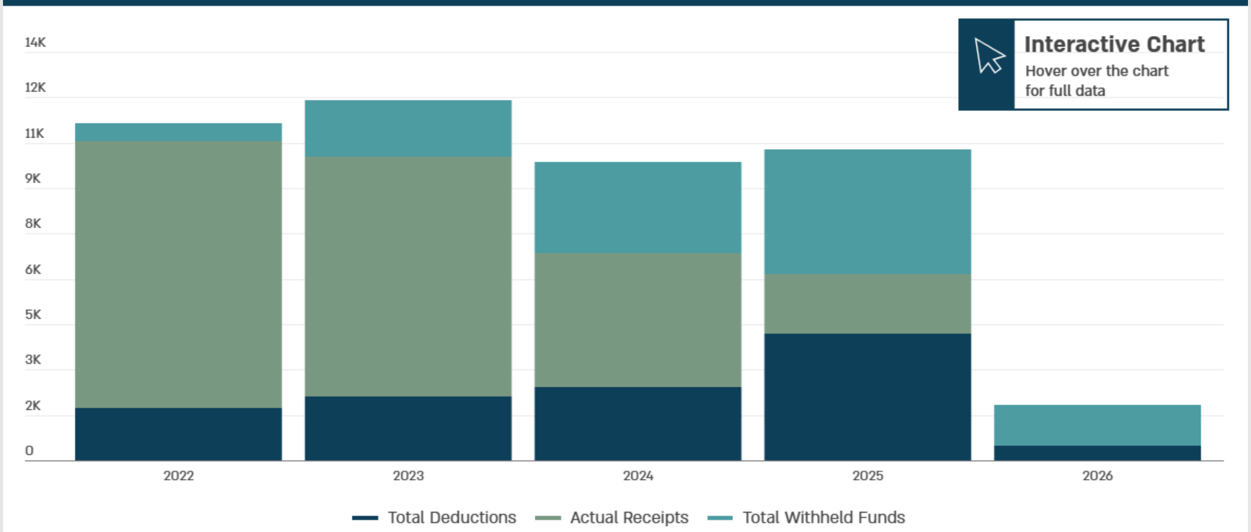
Clearance Revenues: The Main Source of Income That Became the Epicenter of the Crisis

For years, clearance revenues have constituted the Palestinian Authority's most important source of income. These consist of taxes and customs duties collected by Israel on the PA's behalf on imports, fuel, cigarettes, and other goods, and transferred to the PA in accordance with the Paris Protocol, signed in April 1994.

Figure 2 shows the development of these payments on a cash basis between 2022–2025 (the PA's financial reports began providing this data in 2022). The graph illustrates that, while the total amount collected by Israel on behalf of the PA has remained relatively high, a growing share of these funds has not reached the PA's coffers. The gap between accrued revenues and actual cash received has become one of the defining features of the current fiscal crisis.

The data shows that until 2023, clearance revenue receipts amounted to approximately NIS 11–12 billion annually. In 2022, Israel deducted approximately NIS 1.7 billion from these funds to cover electricity, water, and other expenses incurred by the PA, transferring the remaining receipts (approximately NIS 8.8 billion) to the PA. In 2023, the Israeli government began withholding a significant portion of the funds to offset payments made by the PA to the families of Palestinian prisoners, as well as funds transferred by the PA to the Gaza Strip. After these deductions and payments for various expenses, the PA received approximately NIS 7.9 billion.

Figure 2: Development of Clearance Revenues Over Time



Source: Data processing for the Palestinian Authority's financial statements

However, the situation has changed dramatically since the outbreak of the war. In 2024, actual receipts dropped to just about NIS 4.4 billion, and in 2025, they plummeted to approximately NIS 2 billion. At the same time, the volume of funds withheld by Israel rose sharply, reaching more than NIS 4 billion in 2025. In other words, in 2025, Israel withheld more funds than it transferred to the PA. Moreover, the PA ceased receiving clearance revenues as of June 2025, a policy that has now been in place for a year.

For the Palestinian Authority, this represents a structural shift. Its key and most stable source of revenue has become unpredictable and subject to political and security considerations in Israel. In principle, such a severe loss of revenue should have plunged the PA into an acute cash flow crisis and potentially led to fiscal collapse. Yet, during these years, foreign aid increased significantly, offsetting a substantial portion of the decline in revenues.

Foreign Aid Returns—On a Significant Scale

The principal factor explaining why the Authority has not collapsed is the sharp increase in foreign aid. For more than a decade, international support for the PA had been in gradual decline. Foreign aid dropped from approximately NIS 2.4 billion in 2018 to just about NIS 1 billion in 2021. Yet, since the outbreak of the war, this trend has reversed. As shown in Figure 3, foreign aid surged to roughly NIS 3 billion in 2024, and to approximately NIS 3.2 billion in 2025.

Figure 3: Foreign Aid to the Palestinian Authority by Funding Source (in millions of NIS)

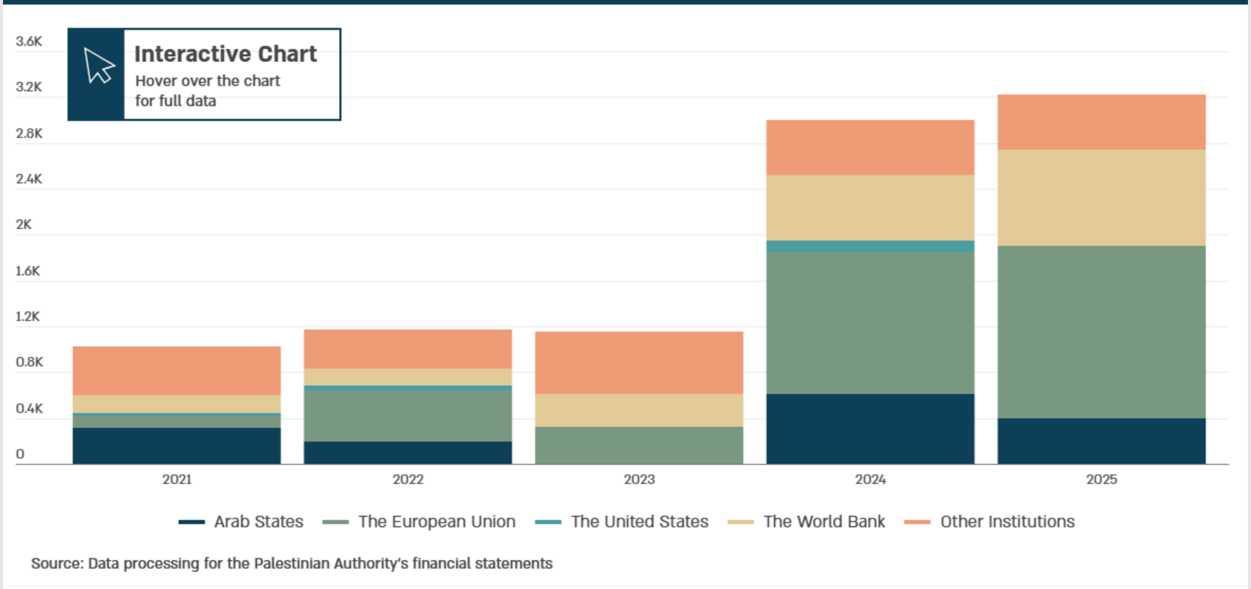


Figure 3 reveals a particularly striking phenomenon: contrary to the widespread perception that Arab states (especially the Gulf states) are the PA’s primary source of financial support, those who prevented its fiscal collapse in recent years were in fact the European Union and the World Bank. While Arab aid has remained limited and volatile, European support surged from approximately NIS 327 million in 2023 to more than NIS 1.5 billion in 2025. Concurrently, World Bank support grew from about NIS 283 million to approximately NIS 838 million over the same period. The sharp increase in aid from these entities is no coincidence. It reflects the view among European states and the broader international community that the PA is an indispensable partner for any future diplomatic settlement, and that its collapse could destabilize the West Bank and undermine broader regional interests.

Therefore, the figure demonstrates that the PA's fiscal survival now depends heavily on the willingness of international actors to provide it with resources in times of crisis. This can be seen as reflecting the perception that the Palestinian Authority has become, to a large extent, an entity that is "too strategic to fall," because the potential consequences of its collapse are perceived by the international community as far more problematic.

Shifting the Crisis onto Others

Foreign aid alone is not sufficient to explain the Palestinian Authority's survival. Over the years, the PA has developed a relatively efficient mechanism of "shifting the crisis," enabling it to continue operating even when it lacks sufficient cash to cover its expenditures in full. Rather than sharply cutting back on its activities or suspending the provision of services, it defers payments and rolls the burden of the crisis onto other actors in the economy. In practice, this means that the budgetary shortfall is financed by employees receiving only part of their salaries, suppliers and contractors waiting for payment, pension funds not receiving the full contributions owed to them, and Palestinian banks continuing to extend credit to the government.

Data from the Palestinian Ministry of Finance clearly illustrates the scale of this phenomenon. In both 2024 and 2025, the PA paid public sector employees only about 70 percent of the salaries owed to them, with the unpaid balance recorded as future debt. In effect, the budget deficit is converted into accumulating debt owed to employees, suppliers, and financial institutions rather than immediate spending cuts. Since the outbreak of the war, this mechanism has increased the PA's liabilities to public sector employees and banks by more than NIS 6 billion annually.

From an economic perspective, this is a survival mechanism rather than a solution. As these debts accumulate, the future burden on the PA budget grows, while its ability to provide public services at an adequate level gradually erodes. In the short term, however, this mechanism enables the PA to continue functioning even when its revenues are insufficient to finance day-to-day operations. In this sense, alongside foreign aid, "shifting the crisis" has become one of the central pillars of the Palestinian Authority's fiscal survival.

Conclusion and Implications

The financial reports indicate that, despite the severe reduction in clearance revenues, the Palestinian Authority is not currently facing imminent collapse. It has managed to adapt to the new reality through a combination of spending cuts, deferred payments, mounting debt, and mobilizing substantial foreign aid. To a large extent, its survival relies on the willingness of the European Union, the World Bank, and other international donors to continue supporting it in times of acute crisis.

The PA's continued functioning, however, may create the misleading impression that the crisis is confined to the budgetary sphere. In practice, data from the Palestinian Central Bureau of Statistics (PCBS) and estimates by the World Bank paint a far more troubling picture. Since the outbreak of the war, Palestinian GDP has contracted significantly, unemployment rates have soared, private investment has dropped, and activity in the commerce, construction, and services sectors has been severely damaged. Furthermore, the loss of access to the Israeli labor market has dramatically reduced household incomes. In other words, while the PA has managed to survive institutionally, the Palestinian economy as a whole has suffered a severe blow.

For Israel, the implications are complex. The Authority's survival does not guarantee stability. The continued erosion of living standards, rising unemployment, weakening of public services, and mounting debt could fuel instability in the West Bank even if the government apparatus itself continues to function. As the economic crisis deepens, so too does the risk of destabilizing civil and security conditions in the West Bank, undermining the operational capacity of the PA's apparatuses, and increasing the costs that Israel will be required to bear, either directly or indirectly. In this sense, a prolonged fiscal crisis in the PA is not solely a Palestinian problem; over time, it could also generate economic, diplomatic, and security costs for Israel.

Therefore, the central question is not whether the PA will collapse tomorrow morning. Rather, it is whether a political and fiscal system that depends on increasing foreign aid, mounting debt, and revenues subject to Israeli political discretion can remain sustainable over the long term. The Palestinian Authority may have survived the current crisis, but its resilience is not unlimited. Unless fundamental changes are made to its sources of revenue, its fiscal relationship with Israel, and the structure of the Palestinian economy, the very survival mechanisms that have enabled it to weather the past several years could themselves become the source of the next crisis.

Editors of the series: Anat Kurz, Rinat Harash, Eldad Shavit and Keri Rosenbluh