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Priorities for Palestine's Economy in the Midst of War

Managing Banking and Money under Occupation

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Managing Banking and Money under Occupation

This is the Third Paper in a series of discussion papers prepared for the International Academic Symposium "Priorities for Palestine's Economy in the Midst of War" scheduled for December 4, 2024. These papers reflect on optional scenarios for the post-war phase, including Palestinian governance strategies, immediate socio-economic challenges and priorities, and the (legal, institutional and political) tools at the disposal of the Palestinian people to actively determine their future. They will also analyze the economic policies and strategies that are needed to support Palestine's struggle for independence, focusing on self-sufficiency, economic resilience and productive capacity, trade expansion and market diversification and sustainable growth. The issues also include concern about how to strengthen the social contract in Palestine, focusing on how governance, economic policies, and social services can be aligned to meet public expectations and foster social cohesion.

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Abstract

This paper examines the severe vulnerabilities of the Palestinian banking sector amidst the ongoing war and escalating Israeli policies of de facto annexation in the West Bank. The widespread destruction in Gaza has devastated banking infrastructure, disrupted payment systems, and severely limited residents' access to funds, intensifying the suffering caused by loss of life, displacement, hyperinflation and starvation. Coupled with Israeli threats to terminate correspondence banking relations, these factors are sending ripples throughout the economy, placing it on the brink of a potential systemic collapse and highlighting the fragility of banking under occupation.

Palestinians are at a critical juncture in a long history marked by dispossession, misery, and inadequate international response. The life and future of Palestinians is at stake. This moment calls for decisive interventions to support Palestinian steadfastness and safeguard economic—and human—rights amidst rising Israeli violence and arbitrary restrictions and policies. While previous and ongoing efforts to support the banking sector must continue, a new approach is urgently needed—one that centres citizens and communities in planning, policymaking, and intervention to ensure they can withstand and emerge from crises.

1. A Rising Tide of Settler Colonialism

Israel's actions and policies over the past fourteen months have ravaged the Palestinian economy and effectively extinguished any remaining prospects for peace and a two-state solution. Today, the future of Palestine—its institutions and its people—appears darker than ever. Nearly all of the Gaza Strip has been reduced to rubble, leaving people with no homes, schools, or community spaces to return to. 87% of Gaza's housing units are either destroyed or damaged (United Nations Office for the Coordination of Humanitarian Affairs [OCHA], 2024a). The level of devastation, unseen since World War II, generated 42 million tonnes of debris by early July 2024—14 times more than the total debris produced by all global conflicts over the past 16 years (United Nations Institute for Training and Research [UNITAR], 2024). Meanwhile, members of the Israeli government are openly advocating for the annexation of the West Bank and dismantling of the Palestinian National Authority (PA), in words and action (Karni et al., 2024). In this past year, Israel has confiscated vast tracts of land on a scale unseen since the PA establishment (Peace Now, 2024). The intensifying aggression is further compounded by Israel's continued disruptions to Palestinian banking and the seizure of public revenues, placing additional pressure on a struggling economy and an embattled Palestinian government (The World Bank, 2024).

Before the current crisis, the situation in Palestine was bleak, marked by escalating political tensions, stagnant economic performance, and intensifying Israeli restrictions (World Bank, 2023a). The Gaza Strip, subjected to blockade for 17 years and struggling to recover from four major aggressions, was under bombardment for five days in May 2023 (International Committee of the Red Cross [ICRC], 2023) and witnessed two weeks of border riots in September 2023 (Middle East Eye, 2023). Meanwhile, in mid-May 2023, the Israeli military had conducted one of its largest operations in the West Bank in nearly 20 years (OCHA, 2023a), and settler violence across the West Bank was growing in frequency and severity (OCHA, 2023b; Amnesty International UK, 2023). Israeli demolitions in the West Bank reached 1,175 structures in 2023, following five years of steady increase (OCHA, 2024a).

Furthermore, Israeli deductions from clearance revenues—a crucial source of PA funding that Israel collects on its behalf—were on the rise, pushing the PA into more profound fiscal crises. As this issue intensified in recent years, the PA has been grappling with a deepening financial strain and unable to fully pay public servants since 2019. This meant that the PA had to rely more on the local banking sector, which has long been dealing with its Israeli-induced challenges, such as the surplus of shekels, issues with correspondence banking and sanctions on banks. Israeli policies over the past year are part of an ongoing effort to entrench control over Palestinian lives and extinguish any prospects for self-determination.

Three decades after the establishment of the PA, the prospects for peace, self-rule and the end of Israeli settler colonialism remain as elusive as ever. The Oslo Accords, which created an illusion of Palestinian sovereignty and granted the PA limited policy space, have enforced Israel's control over the years (Sarto & Klein, 2023). Successive Israeli governments have constrained the PA to a narrow role, mostly limited to the provision of social services and security and administrative coordination. This has been enabled not only by Israel's military dominance but also by its control over Palestinians' lives and lack of international accountability. The PA is trapped by a legacy of unresolved dependency and structural distortions, which are forcing Palestinians into a deepening crisis at a decisive moment.

Amidst the ongoing humanitarian catastrophe in the Gaza Strip and the complex layers of issues facing Palestinians in general, Israeli disruption of banking relations has attracted significant attention from international media and politicians. This paper focuses on this critical issue, given the central role of money and finance in daily life, and its cruciality in ensuring the continued flow of essential goods and resources.

2. Financial Fragility under Occupation

The current war and systematic annexation policies have severely impacted livelihoods, slashing a third of Palestinian GDP per capita by Q2 2024 year-on-year (86% in the Gaza Strip and 24% in the West Bank) (Palestine Central Bureau of Statistics [PCBS], 2024a) and pushing over half of the labour force into unemployment (79.7% in Gaza and 34.9% in the West Bank) (International Labour Organization & PCBS, 2024). While every economic sector in Palestine has been severely affected, the banking sector—a unicorn of sustained growth amid chronic instability—has drawn significant attention. The war has drastically weakened its performance, with combined profits dropping 58.1% in the first half of 2024 compared to the same period in 2023 (Palestine Monetary Authority [PMA], 2024a). By Q2 2024, non-performing loans (NPV) had surged 17% from the previous year, reaching $553.8 million, equivalent to 4.7% of total credit facilities or 6% of private credit facilities (PMA, 2024a). Despite the significant increase, the share of non-performing loans (NPVs) remains relatively low compared to international standards, as banks in Palestine adopt a highly conservative approach, relying heavily on wage garnishments and secure collateral.

Amid escalating violence and economic devastation, contrasting stories have unfolded in the Gaza Strip and the West Bank, aggravating a 17-year-old rift. The war has destroyed all banking facilities and infrastructure in the Gaza Strip. All of Gaza's 56 bank branches and 94 ATMs have been destroyed by ongoing bombardments. Thus, the sector has lost nearly all its fixed assets in Gaza, including safes and their contents, forcing banks to account for these loss provisions on their financial statements. From Q3 2023 to Q2 2024, Palestinian banks have recorded $408 million in loss provisions, around sixfold the loss provisions a year earlier (PMA, 2024a). The PMA does not disaggregate this data by region, but it is clear that the vast majority of this increase originated from the Gaza Strip. Referring to the worst-case scenario, PMA officials noted that all of the Gaza Strip's credit facilities portfolio, valued at approximately one billion dollars, may be counted as a loss (Skynews Arabia, 2024). This is on top of declines in asset value, bank robberies, logistical challenges, and ongoing operational expenses (Srivastava et al., 2024).

The destruction of banking infrastructure in the Gaza Strip has impacted more than just physical assets and banks' performance—it has severed residents' access to their funds and disrupted the payment system altogether. While Israel is blocking aid and commercial trucks from entering Gaza, causing a severe shortage of essential goods, inflation reached a staggering 282.6% year-on-year in September 2024. This issue has been made worse by Israel's refusal to allow any cash into Gaza since the start of the war. Local reports highlighted severe cash shortages and predatory financial practices, where some merchants and money exchangers exploited the situation by charging outrageous fees for withdrawals and currency exchanges. Merchants take worn currencies at a discount as intact currency is scarce. When a few ATMs were still operational in Gaza, newly formed gangs took advantage of the situation by charging fees for waiting in line, providing another example of financial extortion and the severe challenges facing individuals.

In response to the cash crisis in Gaza, the PMA introduced an instant payment and transfer system, iBURAQ, in mid-2024 to enable Gazans' to make payments and transactions electronically (Cash Working Group [CWG], 2024). The PMA has also coordinated with telecommunications providers to support payments and transfers through SMS and USSD systems, enabling basic financial transactions if internet service is disrupted. The PMA and partner institutions' interventions provided an alternative for financial transactions and initially facilitated the distribution of cash transfers; however, evaluating the effectiveness of such an initiative is difficult, given that most Gazans lack consistent access to electricity and telecommunications. It is also unclear whether Gazans are aware of this new system, how to use it or how many have benefited from it. Frequent interruptions in communication, widespread power outages, and limited fuel for essential infrastructure make it nearly impossible to sustain banking services or implement alternative digital payment solutions effectively. In summary, a functioning formal economy, let alone a working banking system, no longer exists in the Gaza Strip.

In the West Bank, Israel has intensified its restrictions following the war, exacerbating existing difficulties and creating new ones. Issues surrounding correspondent banking with Israeli banks have escalated in the West Bank, with the Israeli finance minister leveraging them for political gains. These challenges have deepened long-standing problems, including excess shekels in cash, heightened uncertainty, and elevated operational costs for banks. In turn, banks have passed these burdens onto their customers by restricting shekel deposits—sparking disputes and creating significant liquidity management challenges for businesses. The situation deteriorated further in August and September 2024 due to difficulties importing cash from Jordan, leading to the emergence of currency black markets and increased exchange rate volatility (Palestine Economic Policy Research Institute [MAS], 2024a). This is not a new phenomenon either; delays in currency imports from Jordan—often tied to Israeli security measures—occasionally result in exchange rate disparities between banks and money exchangers. Such disruptions were particularly pronounced during the COVID-19 pandemic.

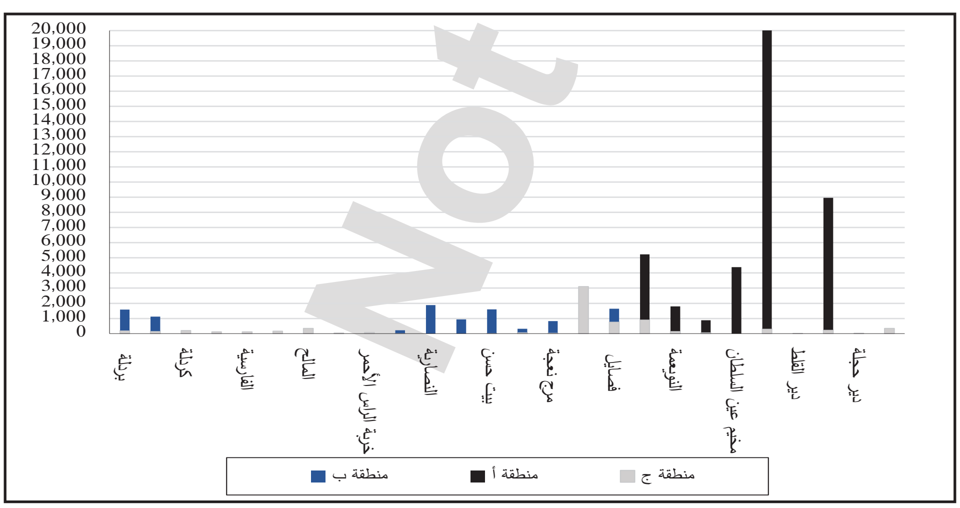
Other pressing challenges with profound effects include escalating movement and access restrictions, settler violence, Israeli raids, and the termination of Palestinian employment in Israel. These factors have devastated the West Bank economy, slashing a quarter of its GDP. The poverty rate has more than doubled, businesses are struggling to maintain operations, unemployment has surged, and household incomes have been depleted (The World Bank, 2024). These developments are placing immense strain on Palestinians in the West Bank, further undermining individuals' and businesses' survival, let alone their ability to service their loans.

The economic fallout in the West Bank is less severe than the devastation in the Gaza Strip. However, its impact on the banking sector is far more profound. With over 328 bank branches and offices, 624 ATMs, and accounting for 84.3% of customer deposits and 92% of credit facilities, the West Bank is the backbone of the Palestinian banking system. The sector has managed to withstand the destruction in Gaza due to its limited exposure there, but any major disruptions in the West Bank could be catastrophic for its stability.

In response to the crisis, banks adopted a very cautious approach, suspending new lending and scaling back costs and investments. Credit facilities to Palestinian businesses and households decreased by 0.7% between September 2023 and September 2024, with their share of total credit facilities shrinking from 82% to 77.3% (PMA, 2024a). However, as the PA ran out of financing options due to mounting Israeli deductions, and with no access to international capital markets, the banking sector increased its exposure to the PA's fiscal crisis, providing a $388 million consolidated loan in December 2023. By September 2024, lending to the PA from banks had risen by 33.3%, or $671.8 million, compared to the same period in 2023. As a result, the PA's share of total credit facilities grew from 17.8% in September 2023 to 22.5% in September 2024 (PMA, 2024b). Meanwhile, banks' deposits abroad increased by 24.4% over the same period, rising from 13.7% of total assets to 15.7%.

Banks financed the increase in credit facilities to the PA and foreign deposits through a surge in customer deposits from the Gaza Strip, which rose by 78.8%, or $1.3 billion, between September 2023 and September 2024. Amid ongoing displacement and bombardment, Gazans turned to banks to safeguard their money (PMA, 2024a). Holding cash in tents or during evacuations is very risky. Additionally, salaries from the West Bank and abroad, along with international financial aid and social assistance, continued to flow into Gaza over the past year. However, they accumulated in bank accounts as citizens faced significant difficulties accessing their funds due to the destruction of banking infrastructure. In contrast, deposits from West Bank residents (households and businesses) remained stagnant over the same period.

Figure 1: Customer Deposits and Credit Facilities (million USD) in Palestine, 2023-2024



Source: PMA

3. Issues of Critical Importance

From a relief and financial perspective, liquidity challenges and severe cash shortages in the Gaza Strip are the most critical issues facing the sector. With all banking infrastructure destroyed and an ongoing Israeli military siege, no new cash has entered Gaza for over a year, and the remaining currency is deteriorating. Early in the war, moving cash within Gaza posed immense logistical and security challenges, and with bank safes now buried under rubble, it has become nearly impossible. Videos and reports online show Gazans attempting to repair torn currency notes as they ran out of options (Middle East Monitor, 2024). In an economy almost entirely reliant on cash, these shortages make basic daily transactions extremely difficult, even if goods are allowed into Gaza. Hyperinflation, people crowded in small areas, and restricted aid entry exacerbate the crisis, creating fertile ground for exploitation through exorbitant fees and a rise in criminal activity.

The destruction of banking infrastructure and ongoing liquidity issues, along with the collapse of formal markets and shortages of essential goods, raise concerns about the viability and effectiveness of cash assistance programs. By June 2024, cash assistance programs in Gaza had provided at least one emergency multipurpose cash payment to over 178,000 households, benefiting more than 1.2 million people (CWG, 2024). Most of this assistance was distributed through the PalPay financial service network (a subsidiary of the Bank of Palestine), using a system of PIN codes sent to recipients' mobile phones, enabling cash withdrawals at PalPay cash-out agents (Shehade, 2024). However, the situation in Gaza has since deteriorated further, with no recent updates on the continued feasibility of electronic cash transfers. Even if essential goods become available, electronic transfers would still face significant challenges, including frequent power outages, unreliable telecommunications, and issues related to digital literacy and accessibility. Facilitating the entry of humanitarian aid trucks into Gaza is the most urgently needed intervention.

While the Gaza Strip is facing severe cash shortages, bank vaults in the West Bank are full of shekels as Israeli correspondent banks refuse cash transfers. Since the establishment of the PA and the re-emergence of the Palestinian banking sector, banks have depended on correspondent banking relationships with Israeli banks to manage cross-country transactions and maintain liquidity. These relationships were formalised under the 1994 Paris Protocol, the agreement on economic relations within the Oslo II Accord, which defines the relationships between the PMA, the Bank of Israel (BoI), and the mechanisms for financial transactions between Israeli and Palestinian banks. The Protocol recognises the Israeli shekel as a legal currency in Palestinian territories, giving the PMA the right to convert shekels into foreign currency through the BoI, subject to specific limits.

These original limits, established in 1994 when the Palestinian economy, banking and population were much smaller at NIS 6 billion, are increasingly outdated. By 2019, the PMA and the BoI had agreed to raise the annual limit NIS 18 billion (MAS, 2024b). However, this increase has not accommodated the large volume of shekel transactions between the two economies. In 2023, over NIS 46 billion entered the Palestinian economy from various sources. As a result, the PMA must continually negotiate for exceptional NIS shipments with the BoI. The challenges related to excess shekel, meaning cash shekel holdings beyond regulatory requirements, have intensified since Israel introduced a law in 2018 to limit cash usage in Israel, with additional restrictions added in 2023 (MAS, 2024b). The West Bank became a dumping ground for shekel notes and coins.

As Israeli banks refuse to process transactions with Palestinian banks, these banks are left with large amounts of shekel cash accumulating in their vaults. The resulting stockpile of funds, which exceeds the banks' storage capacity and the PMA liquidity requirements, leads to increased costs for storage, insurance, and management. While Palestinian banks are holding excess shekels in cash within their vaults, they are unable to transfer them to Israel (or Gaza). Consequently, they are forced to borrow shekels to meet withdrawal demands from their accounts held at Israeli banks (Coulibaly, 2021). When Palestinian traders issue cheques for Israeli merchants, the corresponding amounts are debited from the Palestinian bank's account at an Israeli bank. However, due to restrictions preventing the shipment of shekels to replenish these accounts, Palestinian banks must borrow shekels to cover their balances, incurring additional costs in interest payments. Furthermore, the accumulation of shekels and delays in their transfer deprive the banks of potential interest earnings and increase their exposure to exchange rate fluctuations. Coulibaly (2021) notes that the costs associated with holding excess shekels reduce bank profits by roughly 20%.

The excess shekel impasse is a result of the structure and limitations inherent in Israeli-Palestinian correspondent banking relationships. Following Hamas takeover in 2007, Israel declared Gaza a hostile entity, and Israeli banks began rejecting shekel transactions from Gaza-based banks to avoid any potential risk (Coulibaly, 2022). This challenge grew after Israel tightened its Anti-Money Laundering and Counter-Terrorism Financing (AML/CFT) regulations and applied these standards to transactions with Palestinian banks in the West Bank (The World Bank, 2023a). To maintain essential financial relations, the Israeli government have granted indemnity immunity since 2016 to Israeli banks working with Palestinian banks. This arrangement allowed for continued correspondence banking relations while shielding Israeli banks from legal and financial risks associated with Israeli AML/CFT compliance. It supports the continuation of critical activities, such as the payment of salaries of workers in Israel, imports of essential goods, and the transfer of clearance revenues to the PA.

Following October 7, the far-right Israeli Minister of Finance, Bezalel Smotrich, has repeatedly threatened to cut correspondent banking relations between Israeli banks and banks in Palestine, endangering financial stability and obstructing Palestinian banks' ability to process financial and commercial transactions. In October 2024, as in July 2024 and February 2024, Smotrich signed the indemnity letter at the last moment, but only for one month this time. This has had dire consequences on the Palestinian economy and has further exacerbated the banking sector's challenges: heightened uncertainty, compounded access issues to global financial markets, and increased issues of excess shekels. Palestinian banks faced restrictions in accessing SWAP contracts in international markets because of the uncertainty surrounding the issuance of indemnity letters. This has also fueled panic among merchants and traders as the letters approach their expiration with no announcements regarding their renewal. Threats to terminate indemnity letters expose Palestinian banks to reputational risks among international correspondent banks and could disrupt all financial transactions between Israeli and Palestinian banks.

Another pressing issue is the banking sector's exposure to the PA. Following the war on Gaza and mounting Israeli deductions from clearance revenues, the PA increased its reliance on the local banking sector. The PA's share of total credit facilities reached 22.5% ($2.7 billion) in September 2024, exceeding the regulatory limits (PMA, 2024a). However, while this is concerning, the interdependence between the PA and the banking sector runs much deeper. Beyond direct borrowings by the PA, a significant portion of public servants' loans are backed by PA-paid salaries, further heightening banks' exposure. PA and public servants' loans account for around 40% of total credit facilities (The

World Bank, 2022). The situation has been worsening since 2019, as the PA has been paying partial salaries, pushing employees towards increased borrowing from banks. Additionally, businesses that provide services to the PA on credit, in light of accumulating PA arrears, also indirectly depend on the PA's ability to meet its financial obligations. The PA's accumulated arrears to the private sector reached $1.3 billion in September 2024, representing 27.3% of its 2024 budget. This growing reliance of the PA, its employees, and businesses with financial ties to the PA on the banking sector raises concerns about the sector's viability and the effectiveness of prudential oversight in ensuring stability in such a complex environment. The entanglement of dependencies suggests that if the PA collapses, the banking sector and many businesses could likely collapse alongside it.

4. Unheeded Problems

The PMA has demonstrated significant effort in managing the complexities of the ongoing crisis. In its first response, the PMA mandated that banks establish provisions and additional reserves to mitigate rising credit risks, inducing them to follow conservative accounting practices (MAS, 2024b). The PMA also imposed restrictions on profit distribution for 2023, barring local banks from paying cash dividends while permitting the distribution of stock dividends (MAS, 2024b). Foreign banks were required to seek PMA approval before transferring profits abroad. To bolster confidence in the financial system, the PMA has consistently issued public reassurance statements, asserting that the banking sector remains resilient and capable of withstanding disruptions, including the potential cessation of correspondence banking with Israeli banks (MAS, 2024a). Furthermore, the PMA has consistently assured the public that it is closely monitoring the banking system's health through stress tests and adequate hedge against risks. These tests have confirmed that banks maintain capital adequacy ratios and liquidity levels beyond local regulations and international best practices (PMA, 2024a). Emphasising its commitment to financial stability, the PMA has also issued directives to prevent exploitive practices and manipulation of foreign currency exchange rates.

While the PMA works to maintain stability, reassure the public, and prevent bank runs, critical issues remain unaddressed in Palestinian policy discussions. The PMA's reports focus primarily on technical financial stability metrics and conventional economic theories to assess the banking sector's resilience. However, internationally recognised financial regulations like the Basel Accords are not designed to handle large-scale systemic risks like those facing Palestine. Neither are the macroeconomic forecasting models used by official bodies in Palestine. In addition to the complete destruction of Gaza, which once represented one-third of Palestinian economic activity, Palestinians now face the no less existential threat of a potential collapse of the PA and the annexation of the West Bank.

Such risks go beyond macroprudential oversight and demand proactive, large-scale interventions to safeguard the interests of ordinary Palestinians. The burden of a crisis of this magnitude is not the responsibility of the PMA alone and should involve all relevant PA institutions along with international organisations operating in Palestine, and international financial institutions especially.

Before the Nakba, several banks operated in Palestine, some owned by Palestinian businessmen, such as the Arab Bank (which was later moved to Jordan) and the Arab National Bank Ltd (which was liquidated), while others were controlled by colonial powers, including Barclays Bank, Ottoman Bank, and Anglo-Palestine Bank (now Israeli Bank Leumi). After the Nakba, the newly established State of Israel, even before gaining international recognition, ordered all banks in mandatory Palestine to freeze the accounts of their Arab Palestinian customers (Mitter, 2014). This took place less than three years after a Palestine Newspaper article (Figure 2) on November 8, 1945, highlighted the spectacular growth of the Arab National Bank Limited, noting its profits in 1944 equalled its capital reserve (100,000 Palestinian pounds or 10%). Reviewing incomplete records and archives, Mitter (2014) estimates that between 10,000 and 50,000 bank accounts, totalling around six million British pounds, were frozen in 1948. Adjusting for inflation, this amount would be equivalent to at least £183 million in 2024 prices—using the Bank of England inflation calculator— or £1.3 billion when factoring in Israeli inflation rates. Shortly after, the Israeli Custodian of Absentee Property not only dispossessed Palestinians of their lands and homes but also seized their bank accounts (Mitter, 2014).

As Israel seeks to establish a permanent military presence, if not colonial settlement, in Gaza and Israel and its settlers continue the campaigns for West Bank land grabs, one must ask: what are the risks of history repeating itself? This raises a series of critical questions for which there are no easy or obvious answers. Are Palestinian public and semi-independent institutions equipped to survive the collapse of the PA? What mechanisms exist to protect depositors if the PA collapses? Do Palestinian regulators, policymakers, and planners account for such risks? What will become of people's financial lives and assets if a colonial power assumes control over the state? Will Palestinian banks be allowed to resume operations in Gaza Strip while PA institutions, like the PMA, are denied assuming their role in the newly re-occupied territory?

Perhaps more immediately pressing: what will happen to all the destroyed mortgaged properties in Gaza? Are people still obligated to repay these debts? Will ordinary Palestinians bear the burden of these costs? Recalling history again, land dispossession was happening before the Nakba. Using partial records of legal documents, Mitter (2020) shows how banks, concerned about their survival, filed lawsuits against troubled Palestinian farmers in the 1930s and 1940s and forced them to sell their land against their will. These pressing issues are central to every Palestinian, yet they remain absent from official discussions and extend beyond the interests of international development institutions that operate on the premise of PA continuity. The reality that Palestine is witnessing a new *Nakba* calls for a response by public and private sectors that could yet repulse the mounting pressure if international partners are willing to step in.

Figure 2: A Snip from Palestine Newspaper on 8 November 1945[1]

شؤون البلد

بنك الامة العربية المحدود

زرانا جد مغتبطين في الحديث عن مؤسسة عربية سارت أشواطاً في طريق النجاح واجتازت مراحل في سبيل الفلاح والصلاح حتى بدت بهذا الوضع القوي الوطيد في النهضة الاقتصادية العربية

تلك المؤسسة هي بنك الامة العربية التي اصبح رأسمالها مليون جنيه فلسطيني مقسومة الى خمساية الف سهم قيمة كل سهم جنيهان والتي خطت هذا الشوط البعيد في فترة قصيرة ورفعت رأسمالها من بضعة الاف جنيه قبل الحرب الى مليون جنيه في سنة ١٩٤٥ .

وليس هذا وحده فقط دليل النجاح والكفاءة التي يستمد البنك منها سر نجاحه وانما هنالك خطوات موفقة اخرى تدل على الثقة الغالية التي تتمتع بها هذه المؤسسة، من ذلك طرحها في المدة الاخيرة اسهما جديدة لزيادة رأسمالها والتقرر به عن المليون جنيه الى رقم اكبر ومما يدعو الى الغبطة ان الشعب يقدر رجال هذه المؤسسة في المدن والمراكز العربية في فلسطين وشرق الاردن نشاطهم المتلاحق بدليل الاقبال على الاسهم الجديدة المعروضة اقبال الواثق المطمئن الى الارباح

والحديث عن الارباح في هذه المؤسسة ، يغري بتتبع ارقام ميزانياتها السنوية والميزانيات الاخرى الدورية التي تشير الى انها كانت في سنة ١٩٤٤ اكثر من مائة الف جنيه او ما يعادل رأسماله الاحتياطي في ٣١ كانون الاول سنة ١٩٤٤ .

ويسرنا في مناسبة الحديث عن البنك ان نهنئ عطوفة رئيس مجلس ادارته الامام على هذا النجاح الملموس وعلى الثقة التي تتمتع بها هذه المؤسسة في اوساط الجمهور

Source: ("Arab National Bank Limited", 1945)

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5. Intervention Priorities

The Palestinian banking sector has received much attention over the past two decades, standing as a symbol of private sector resilience under occupation and used as one of the bases to justify private-sector-driven economic and social development. This made financial inclusion and access to finance central themes in policy discussions among the PA and international institutions. It has become rare to encounter any significant economic development project in Palestine that does not include a financial inclusion—or at least a finance/microfinance—component. Over the years, official development assistance has sharply declined, replaced by a surge in development finance initiatives, such as loans and guarantees from traditional donor countries (Abughattas, 2023). However, the outcomes of this shift remain questionable, particularly since it shifts the burden and responsibility onto the oppressed. Finance-infused projects promise a better economic future in an exceptionally complex and challenging situation, where people's autonomy is severely restricted, and property rights are systematically violated by an occupying power.

While the effectiveness of financial inclusion and microfinance policies are debatable in a condition of prolonged occupation and conflict, mainly due to the lack of reliable empirical evidence supporting the claimed social and economic benefits, this is beyond the scope of this paper. Our primary concern is how Israel is controlling and shaping the financial landscape in Palestine. What was once viewed as an achievement—integrating more than half the adult population into the formal financial system—now raises concerns, particularly in the central West Bank, where bank deposits are concentrated.

As financial inclusion expands, so does the exposure of financially included people to the uncertainties and risks posed by arbitrary Israeli policies. For example, the declared intentions of Israeli politicians to dismantle the PA would not only have massive direct consequences for the 140,000 public sector employees reliant on its salaries but also trigger ripple effects throughout the Palestinian socioeconomic fabric. The PA and the financial sector are deeply intertwined through interconnected networks of mutual dependencies, extending beyond direct lending exposure. Against the backdrop of mounting Israeli pressures and increasingly extreme measures, one must ask: What is to prevent Israel from taking steps that are even more drastic, within the financial sector and beyond? For ordinary Palestinians who owned bank accounts, bonds, stocks, pensions, salaries, and safety deposit boxes in 1917 and 1948, financial inclusion turned into 'financial tragedy' (Mitter, 2021). It is imperative to learn from the past.

As the financial sector grapples with growing challenges, the core issue remains its dependence on the Israeli financial system, a manifestation of a broader, chronic problem. This reliance, coupled with the Israeli government's military power and ability to impose its policies on Palestinians, has created a precarious environment for Palestinian financial institutions. These institutions are vulnerable to arbitrary external decisions and acts beyond their control. The only viable solution is to end the occupation and grant Palestinians sovereignty. However, as this hopeful vision fades further away, the most pragmatic interventions focus on addressing current challenges and future risks. These include strengthening the resilience of banking institutions—not just individual banks—to withstand systemic risks and supporting the rights, steadfastness and survival of Palestinian citizens. Below are some potential interventions that align with this vision from a finance/banking perspective.

Centering the focus on the Sovereignty of the Palestinian Financial System: A key step to reducing the banking sector's vulnerabilities lies in promoting economic disintegration policies to reduce dependency on the Israeli shekel. This involves prioritising local and international alternatives to Israeli products and addressing extensive dependencies on essential infrastructural services wherever possible. The recent Palestinian Cabinet decision to favour domestic products in government bids is a positive development. Additionally, the government could promote using other currencies, such as paying public servants' salaries in Jordanian dinars, US dollars, or euros, and mandating the sale of durable goods in these currencies. While full dollarisation is unfeasible due to technical and border-control issues, reducing reliance on the shekel and promoting the use of other currencies in circulation remains achievable. Nonetheless, the potential impact on individuals' and businesses exposure to NIS exchange rate risks should not be undermined. Furthermore, international partners which recognize the State of Palestine can demonstrate greater commitment to preserving the chances for its right to enjoy sovereignty and supporting financial resilience by considering guaranteeing Palestine sovereign borrowing status so that it can withstand the coming financial pressures.

Ensure Cash Availability and Financial Services Access in Gaza: Addressing the severe currency and service shortages in the Gaza Strip is urgent. The entry of cash into Gaza and the restoration of banking services should be prioritised once the situation permits. In the meantime, efforts must ensure universal access to user-friendly digital banking services that can function despite continuous power and telecommunication outages. More information is needed on the effectiveness of digital financial services and PMA initiatives in Gaza, as well as on the usage and impact of multipurpose cash transfers through digital channels. Despite the crucial role that multipurpose cash transfers, or even a Universal Basic Income program, could play in Gaza's relief and recovery (MAS, 2024c)—and the importance of providing Gazans with agency and choice with dignity—the immediate challenges on the ground today demand the unrestricted and unimpeded entry of humanitarian aid, including food, medicine and shelter.

Managing Excess Shekel: In parallel, the PMA should persist in negotiations with the BoI and engage third parties to increase the shekel cash transfer quota and establish regular adjustments under clear guidelines. This would help mitigate the risks and expenses linked to excess cash accumulation. Additionally, the PMA should continue to advance digital payment adoption by enhancing technological infrastructure and providing incentives. Electronic transaction fees still pose challenges for merchants using PoS, especially for large or frequent payments. The PMA's move to remove fees on fuel purchases via card is promising and should be extended to other sectors with high impact and low-adoption of digital payments.

Formalising a Viable Permanent Correspondence Banking Relations Arrangement: In mid-2023, the PMA and BoI discussed establishing a durable model for correspondence banking relations, ending the need for Israeli commercial banks to provide such services to Palestinian banks (Office of the Quartet, 2023). It would also end the need for assurances from the Israeli government through temporary indemnity and immunity letters. These discussions were halted due to the war, albeit they were moving very slowly. Resuming these discussions is crucial to resolving the issues around correspondent banking. A government-owned, commercially operated Israeli correspondent banking company was set up for this transition (Office of the Quartet, 2023), but enabling legislation was never passed, and given the current Israeli government, its enactment seems unlikely. This should be a priority for international actors who have expressed concern about the issues surrounding correspondent banking, urging them to translate these concerns into tangible actions. While the US Secretary of the Treasury, G7 members, and other international actors have voiced concern about disruptions to correspondent banking relationships between Palestinian and Israeli banks, their latest demand in October for a year-long extension was rebuffed by Israel which only agreed to an extension to end-November. Concrete actions are necessary to ensure both the end of the war and put an end to Israeli impunity in creating an impossible financial crisis.

ML/TF National Risk Assessments: The regional Financial Action Task Force (MENAFATF) should expedite the external evaluation of Palestinian Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT) measures. The mutual evaluation, delayed several times—first in 2020 due to the pandemic, again in 2022 because of security concerns, and again in early 2023—has become a requirement for extending indemnification for correspondent banking by Israel. While this step is crucial, further demands or additional obstacles may arise from Smotrich once the evaluation is concluded.

Expediting the Adoption of Digital Financial Services in the West Bank: Improving digital literacy in the West Bank and streamlining the user experience of banking apps and e-wallets could alleviate the issue of excess shekels and ensure continued access to financial resources when physical banking infrastructure is inaccessible. The PMA's recent launch of the Instant Payment System (IBURAQ) for interbank and digital wallet transactions is a key development. The PMA should build on this initiative to enhance digital financial connectivity with regional markets, particularly Jordan.

Supporting the Productive Economy and Local Markets: Building a sustainable and resilient Palestinian economy requires focusing on local production and sustainable development. This includes increasing support and financing for Palestinian industries and local supply chains, particularly those that create jobs and stimulate income generation. The banking sector should expand financing for small and medium-sized enterprises (SMEs) and prioritise local production initiatives at favourable terms, providing essential liquidity to aid long-term recovery. Banks should also join efforts with businesses providing advisory services to maximise the potential of SMEs' success. International donors are encouraged to provide guarantees and credit insurance to encourage local banks to lend to sectors and businesses perceived as high-risk but with high growth and impact potential. This would not only mitigate risks and facilitate bank lending but would also reduce lending costs and safeguard depositors' funds. Initiatives like the PMA's BADER and Estidama II are important, but transparent reporting on their progress and impact will help refine future efforts. The PA could build on these initiatives to set up specialised local investment funds, focusing on sectors such as agriculture, industry, housing, technology and sustainable energy. International development agencies should allocate funds, support and capacity building toward these objectives.

Strengthening the PMA and Banks' Capital Base: The recent investment by the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD) in the Bank of Palestine (BoP) capital base was a significant intervention and should be replicated across other banks. This investment boosts market confidence and provides the bank with necessary advisory and technical support. Furthermore, strengthening the PMA's capital base with backing from international development institutions could enhance its ability to provide contingent support to banks during crises, while additional liquidity buffers could ensure financial stability during potential shocks.

Focusing on Permanence and Sustainability Rather than Profitability: Facing a cascade of challenges, Palestinian banks and private sector institutions must shift focus from short-term profits to long-term sustainability, fostering market stability while supporting citizens' livelihoods and steadfastness. Capable businesses should also ramp up their social responsibility initiatives. Public and private efforts must prioritise joint initiatives that reinforce the collective resilience of the Palestinian people. This could be done through mission-driven policies to maximise social impact and guide banks and financial institutions towards responsible lending practices. Strengthening cooperation across society—businesses, government, and civil organisations—will ensure economic resilience in the face of ongoing political and financial pressures.

Promoting and Recognising Positive Social Impact: Developing an assessment, review, and accreditation framework to evaluate and recognise businesses and banks' commitment to positive social impact and transparency. The initiative is similar to B-Corp certification but would be specifically tailored to address the Palestinian context's unique challenges, opportunities, and priorities.

Enhancing Cooperation between Judicial Bodies and the PMA: The High Judicial Council and the PMA should collaborate to address decisions related to debt management and defaulting credit facilities, focusing on closing regulatory gaps and eliminating policies that allow banks to seize property due to loan defaults. A structured process for debt relief and loan forgiveness should be considered for household properties destroyed during the war on Gaza. Given the severity of the crisis in Gaza, interventions should focus on alleviating household burdens rather than protecting the interests of creditors. So far, the PMA has responded by repeatedly postponing loan payments for Gaza residents, with the most recent extension lasting until the end of 2024. Planning must focus on issues beyond loan postponement.

Diversifying Bank Offerings: The Palestinian banking sector is currently dominated by commercial banks, with limited alternatives that cater to diverse community needs. Efforts to establish a public bank and a post bank—introduced as a response to potential sanctions on Palestinian banks—have yet to make any meaningful impact. Licensing community and specialised banks in Palestine could offer tailored financial services at reduced costs, making banking more accessible and beneficial to local communities. These institutions could support key initiatives at the grassroots level, providing financial resources and technical advice. Interest-free credit unions are common in Palestine, particularly among professional associations, while informal lending from friends and relatives is more prevalent than borrowing from formal financial institutions. These activities hold significant potential but are often overlooked because they operate outside the formal financial system—although credit unions are regulated by the Ministry of Labour, and interest-free student loans are managed by the Ministry of Education. Expanding these models to include a broader spectrum of society could enhance community resilience and create more meaningful financial inclusion. The new banking law under review should establish legal frameworks to formalise and support the establishment of community banks and credit unions.

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