

**FINANCIAL CRISIS IN THE oPT: LIQUIDITY & THE EXTENSION OF THE BANKING WAIVER***Ashleigh Subramanian-Montgomery & Poorvika Mehra*

The [collapse of Gaza's humanitarian sector](#), [health sector](#), [continued displacement](#), and a myriad of other crises are well-documented. Compounding these is an underexplored but no less severe crisis: the near total implosion of the Occupied Palestinian Territory's financial system and infrastructure. The war in Gaza, alongside severe financial restrictions, has created a financial crisis in Palestine that has two strands: Gaza is facing an [active liquidity crisis](#), while the Occupied West Bank [teeters on the edge of one](#).

**Expiration of the West Bank Banking Waiver & Subsequent Economic Precarity**

The Occupied West Bank's financial system is deeply constrained by Israeli control. The Palestinian financial system is dependent [on a waiver granted by Israel](#), which [allows Israeli banks to process transactions with their Palestinian counterparts](#). Following threats to cancel the waiver, [UN experts have repeatedly warned](#) that revoking this waiver would [cripple the economy and obstruct fundamental rights](#), including the right to life, health, food, and freedom from torture.

The Occupied West Bank has also been hit by [Israel's refusal to transfer clearance revenues](#). In particular, the Palestinian Authority (PA) faces an escalating fiscal crisis driven primarily by the withholding of clearance revenues. These revenues constitute the PA's primary source of fiscal income and remain its most critical financial constraint. Since May 2025, [Israel has completely suspended clearance revenue transfers](#), with funds being withheld approximated to amount to USD 4.5 billion, or an estimated [70 percent of PA clearance revenues](#).

[Macroeconomic indicators](#) reveal the damage: the [health, education, and housing sectors](#) in the Occupied West Bank have all faced major disruptions and damages. The suspension of [work permits for an estimated 100,000 Palestinians](#) has [deprived the Occupied West Bank of a critical cash inflow](#). Prior to Israel's current assault on Gaza, these wages made up roughly "[one-quarter of the combined gross national income](#) (GNI) of the West Bank and Gaza."

Despite warnings from former U.S. Secretary of the Treasury, [Janet Yellen](#), that cutting Palestinian banks off from Israeli counterparts "would create a humanitarian crisis," and [appeals from the E3 nations](#), Germany, the United Kingdom (UK), and France, to sustain the banking relationship — Israel only [narrowly renewed the aforementioned waiver for another year](#) in November 2024, after considerable political bargaining. In exchange for the waiver, Israel's Finance Minister Bezalel Smotrich "leveraged Israel's extension of the banking deal to ensure that [the US would not allow the Security Council to pass a resolution recognizing a Palestinian state](#)." We are now seeing this playbook be deployed yet again given that, in June 2025, Smotrich threatened to [cancel the waiver](#) in response to sanctions on him and Israel's ultranationalist national security minister, Itamar Ben-Gvir, [imposed by five western states](#). The waiver was then extended for [two weeks](#) in late November 2025, [two months](#) in December 2025, two weeks again in February 2026, only to be up again for renewal at the end of February. In making these threats and continuously reducing the length of extensions, [economists warn](#) "Israel has signalled intent to hold the West Bank's financial system in suspense, creating a cascading effect that depresses investment and business activity."

As negotiations continue over the existence of an economically viable Palestinian state, and as Member States continue work toward meeting their obligations under paragraphs 21, 25 - 27, 29, and 40 of the 2025 [New York Declaration](#), an indefinite extension, or complete removal, of this banking waiver remains a key prerequisite to the long-term financial health and economic stability of the oPt.

### **Macroeconomic Collapse and Fiscal Crisis**

Recent macroeconomic indicators from the [Palestinian Monetary Authority \(PMA\)](#) confirm that the Palestinian economy remains in a state of severe contraction, with structural fragility in the Occupied West Bank and near-total economic collapse in Gaza. Although [real GDP](#) is estimated to have grown modestly by approximately four percent in 2025, this growth was driven almost entirely by limited activity in the Occupied West Bank and does not reflect a meaningful recovery. Overall economic output remains approximately 24 percent below 2023 levels, underscoring the scale of economic destruction and prolonged disruption. Further, data verbally presented by experts at the Palestine Economic Policy Research Institute (MAS) show that, with population growth estimated at 2.4 percent, GDP per capita has declined substantially, particularly in Gaza, where economic activity has nearly ceased.

Further, MAS finds that inflation dynamics reflect extreme market fragmentation and supply constraints. As of the end of 2025, inflation stood at approximately 10.5 percent, masking stark regional divergence: prices in Gaza surged by 21.9 percent, while the West Bank experienced slight deflation of -0.1%. These distortions reflect collapsed supply chains, limited currency circulation, and restricted market access, particularly in Gaza. Labor market indicators further illustrate the depth of the crisis. [Unemployment reached approximately 46.5 percent](#) in 2025, with structural unemployment in the Occupied West Bank estimated at approximately 28%. In Gaza, [unemployment has historically exceeded 70%](#), and recent estimates suggest economic inactivity is even more widespread amid ongoing destruction and displacement.

As noted above, MAS finds that in 2025 alone, clearance revenues meant for the PA amounted to approximately NIS 10.3 billion on an accrual basis but only NIS 6.1 billion on a cash basis, reflecting deductions of approximately NIS 4.2 billion. This has forced the PA to implement partial salary payments, increase domestic borrowing, and accumulate arrears. Government arrears have risen sharply as a result. In 2025, the PA accumulated approximately NIS 336.7 million in new arrears, bringing total net accumulated arrears to approximately NIS 17.2 billion. These arrears extend across public-sector wages, private-sector suppliers, and pension obligations, weakening institutional stability and further suppressing domestic demand.

Public debt has also increased significantly, reaching approximately USD 4.8 billion, including USD 3.4 billion in domestic debt and USD 1.4 billion in external debt. Domestic borrowing has accelerated as the PA attempts to finance basic government functions in the absence of predictable revenue flows. External accounts remain deeply constrained. The current account deficit stood at approximately 21.1 percent of GDP as of December 2024, reflecting structural import dependence and severely limited export capacity. Absent a sustained restoration of clearance revenues, stable banking relations, and external financial support, the PA's fiscal position is widely considered unsustainable. While baseline projections suggest potential [GDP growth of up to 4.5 percent in 2026](#), this growth remains contingent on the restoration of financial flows and institutional stability. Without structural intervention, fiscal collapse remains a credible and imminent risk.

### **Use of E-payment Providers Increasing**

Very recently, a number of electronic payment providers, including digital wallets and cryptocurrency providers have resumed services and are being used more extensively, including in Gaza. These include: [PalPay](#), [Jawwal Pay](#), [Coinbase](#), and [Kraken](#).

## **Policy Recommendations for Member States**

### **1. Stabilize Correspondent Banking and End Structural Financial Uncertainty**

- Urge Israel to create a standing banking waiver enabling correspondent banking relationships between Israeli and Palestinian banks. Short-term extensions create systemic and legal uncertainty, suppress investment, and destabilize the financial sector.
- Support the establishment of stable, long-term correspondent banking arrangements and cross-border payment systems between Israel and Palestine that enable uninterrupted financial flows while maintaining robust anti-money laundering / countering the financing of terrorism (AML/CFT) safeguards.
- Ensure AML/CFT frameworks are applied in a technical, risk-based manner and are not politicized to justify financial restrictions or economic isolation.
- Engage diplomatically, including through the United States, E3 nations, and other partners, to ensure continued and predictable banking relations and financial connectivity.

### **2. Restore Fiscal Sovereignty and Release Clearance Revenues**

- Urge Israel to immediately release all Palestinian clearance revenues and cease practices that delay, divert, or condition these transfers.
- Support the development of a revised clearance revenue transfer framework that ensures timely, automatic transfers under Palestinian authority and control.
- Advance reforms to the [1994 Paris Protocol on Economic Relations](#) to reduce structural dependency and enable Palestinian fiscal sovereignty, including independent taxation and economic governance.
- Ensure Palestinian fiscal and monetary authorities, including the PMA, are able to operate independently and exercise full authority across both Gaza and the Occupied West Bank.

### **3. Restore Liquidity, Banking Functionality, and Monetary Stability**

- Urgently allow the infusion of new physical currency into Gaza and enable Palestinian banks to clear surplus shekels to restore liquidity and normalize financial operations.
- Support the rebuilding of Gaza's banking infrastructure, including bank branches, payment systems, and financial service delivery mechanisms.
- Expand accessible financial infrastructure, including digital payment systems and e-payment platforms, to restore financial access and economic participation.
- Provide emergency liquidity support, financial guarantees, and technical assistance through international financial institutions and donors to stabilize Palestinian financial institutions.

### **4. Enable Trade, Financial Integration, and Private Sector Recovery**

- Support mechanisms that enable uninterrupted trade and financial transactions between Israel and Palestine, as well as between Gaza and the Occupied West Bank.
- Promote Palestinian integration into the international monetary and financial system, including strengthened engagement with the International Monetary Fund (IMF), World Bank, correspondent banks, and multilateral financial institutions.
- Invest in Palestinian private sector recovery, trade facilitation, and economic development to restore productive capacity and long-term economic resilience.
- Remove restrictions on financial transfers, trade, and movement that prevent normal economic functioning.

### **5. Provide Emergency Economic Support and Prevent Societal Collapse**

- Expand direct cash assistance, social protection, and income support programs to restore purchasing power and stabilize households.
- Consider implementing basic income-style cash support mechanisms as emergency stabilization tools to prevent economic collapse and social fragmentation.

- Support community-level economic stabilization efforts, including real-time monitoring and locally informed interventions that strengthen resilience and adaptive recovery.
- Ensure humanitarian and economic interventions address both liquidity availability and structural barriers to financial access.

#### **6. Mobilize International Financial Support and Reconstruction Financing**

- Increase financial support to Palestinian institutions to stabilize governance, maintain essential services, and prevent institutional collapse.
- Utilize donor coordination mechanisms, including the [Palestine Donor Group](#), to mobilize reconstruction financing and long-term economic recovery support.
- Provide financial guarantees, reconstruction funding, and development assistance to rebuild economic infrastructure and restore financial stability.

#### **7. Support Palestinian Economic Self-Determination and Institutional Leadership**

- Ensure all financial recovery and reconstruction mechanisms are led by Palestinian institutions, with international actors providing support rather than control.
- Reform or replace international mechanisms that exclude Palestinian leadership or undermine Palestinian economic autonomy, including the “[Board of Peace](#).”
- Advance implementation of international commitments, including the [New York Declaration](#), to support the establishment of a sovereign and economically viable Palestinian state.

For more information about financial access or the work of the Charity & Security Network, contact us:

Charity & Security Network

700 12th Street NW Suite 700 Washington, DC 20005

(202) 770-1751 | [info@charityandsecurity.org](mailto:info@charityandsecurity.org) | [www.charityandsecurity.org](http://www.charityandsecurity.org)