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PALESTINE ECONOMIC POLICY
RESEARCH INSTITUTE (MAS)

Policy Brief

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Strengthening Financial Resilience in Palestine

The Palestine Economic Policy Research Institute (MAS) regularly publishes applied and scientific studies, in addition to brief research papers, as part of an annual series of roundtable sessions on important economic topics of interest to the public and decision-makers. The policy briefs outline the key recommendations of selected scholastic activities, in order to disseminate this information and maximize the benefits derived from this series of sessions.

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Strengthening Financial Resilience in Palestine

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1. Background

Palestine's financial sector is under mounting pressure, most recently exacerbated by the Israeli Finance Minister's threat to terminate correspondent banking arrangements between Israeli and Palestinian banks, contrary to Israeli commitments made in 2024 to the Group of 7 and the US Treasury in particular. While this decision has yet to be tabled for Israeli Government approval, the looming threat sent shockwaves through the Palestinian economy, prompting banks to limit their acceptance of Israeli shekel deposits in light of the excess cash buildup and anticipation of future disruptions. As a result, individuals and families face growing uncertainty and bear the consequences of such arbitrary decisions.

Palestinian banking institutions, like the population they serve, remain highly vulnerable to political shocks, coercive Israeli measures, and deep structural constraints. Palestinian financial inclusion remains a work in progress. While the ultimate solution lies in ending occupation and securing Palestinian sovereignty, immediate interventions can help to strengthen institutional resilience, reduce dependency, and prepare the foundations for long-term monetary autonomy. This requires bold policy shifts, international support, and a renewed commitment to building a people- and community-centred, inclusive financial system.

In December 2024, the Palestine Economic Policy Research Institute (MAS) convened an International Academic Symposium on Priorities for Palestine's Economy in the Midst of War. One of the papers presented, Managing Banking and Money under Occupation (Hinn and Harker, 2024), offered a range of policy recommendations aimed at strengthening the resilience of the banking system to better serve the interests of the Palestinian population. This policy brief draws on that paper's insights as well as subsequent feedback from Symposium discussant Professor Heiner Flassbeck to help strategize the Palestinian responses to the increasing risks posed by Israeli punitive financial measures. The full paper and comments are accessible [here](#).

2. Strategic Objectives

1. Reduce dependency on the Israeli shekel, through promoting use of alternative currencies.
2. Stabilise banking operations and digitalise financial services.
3. Strengthen local production and economic recovery.
4. Build inclusive, community-rooted financial institutions.
5. Support monetary resilience and future sovereignty through international protection.

3. Key Policy Recommendations

1. Currency Diversification and De-Shekelisation
 - Gradually reduce reliance on the shekel by promoting the use of alternative currencies already in circulation (USD, JOD, EUR).
 - Begin paying public sector salaries in alternative currencies and mandate the pricing of durable

goods accordingly. Gradually expand this approach to other sectors, while recognising and accounting for the limitations and challenges of importing foreign currency, particularly in small denominations.

- Note exchange rate exposure risks for individuals, businesses and the Palestinian government. Introduce targeted financial literacy and hedging mechanisms. Reducing economic dependence on Israel is a key factor.

2. Stabilise Correspondent Banking Relations

- Harness international pressure to resume halted negotiations with the Bank of Israel to establish a permanent correspondent banking framework and increase limits on transferring NIS to the Bank of Israel in exchange for hard currencies, as mandated by signed agreements.
- Push international actors to prioritise enabling legislation for an independent Israeli correspondent banking entity or alternative international guarantor.

3. Support Digital Financial Services

- Expand infrastructure and incentives for e-wallets and point-of-sale (PoS) systems, especially in underserved sectors, rural areas and marginalized communities.
- Build on and expand existing PMA initiatives, such as IBURAQ and E-SADAD, to strengthen local financial connectivity, and also develop similar systems for cross-border integration with Jordan and other regional markets.

4. Enhance Productive Lending

- Encourage banks to prioritise financing for SMEs and productive sectors (agriculture, industry, local supply chains).
- Expand PMA initiatives like BADER, Estidama II, and Start Now, with increased funding and donor-backed credit guarantees.

5. Reinforce Banks' Institutional Capital and Stability

- Replicate IFC and EBRD capital injections in the Bank of Palestine (BoP) across other banks to strengthen market confidence and build further liquidity buffers.
- Strengthen the PMA's capital base and crisis-response tools through support from international financial institutions.

6. Formalise Community-Based Financial Models

- Legally recognise and support credit unions, interest-free lending models, and community banking institutions through a Banking Law reform.
- License post banks, public banks, and financial institutions specialised in lending to the productive sectors to expand reach and reduce borrowing costs.

7. Promote Fair Lending and Debt Relief

- Coordinate with judicial bodies to halt property seizures due to loan defaults.
- Remove fees and address the impact on credit scores and the cheque rating system for defaults resulting from banks' refusal to accept shekel deposits.
- Develop structured debt relief frameworks for war-affected households, especially in Gaza, focusing on social protection over creditor security.
- Introduce a universal loan repayment holiday programme, allowing borrowers to defer payments for up to six months, divided into two or three periods, without incurring additional interest or fees.

8. International Guarantees and Monetary Autonomy

- Seek international guarantees for basic banking sector functionality and sovereign borrowing capacity from multilateral financial institutions.
- Begin long-term planning for a separate Palestinian currency zone backed by a large economic guarantor (e.g., EU or Gulf states), in tandem with demanding recognition of Palestinian as a separate customs territory in the WTO.
- Aim for a stable real exchange rate through structured depreciation mechanisms aligned with inflation differentials to prevent speculation.