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PALESTINE ECONOMIC POLICY
RESEARCH INSTITUTE (MAS)

A Summary of Background Paper
Round Table (7)

The Shekel Surplus: A Persistent Crisis in the Palestinian Economy

September 2026

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Prepared by: Palestine Economic Policy Research Institute (MAS)

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1. Introduction

The persistent accumulation of surplus shekel cash has emerged as one of the most pressing challenges facing the Palestinian banking sector and the Palestinian economy as a whole, constituting a chronic crisis since 2009. The Palestine Monetary Authority (PMA) has warned repeatedly that continued Israeli obstruction of cash repatriation carries serious repercussions for the ability of Palestinian banks to replenish their accounts with Israeli correspondent banks. These constraints impede trade finance and the settlement of payments to Israeli suppliers, thereby raising the prospect of acute shortages in essential goods and services such as fuel, electricity, and water. The banking sector also incurs substantial security and logistical costs associated with holding this surplus (IMF, 2022).

This paper examines the various dimensions of the shekel surplus crisis in three through three main analytical pillars The first identifies the principal sources and channels through which the surplus is generated. The second sets out the costs and burdens arising from its accumulation in the Palestinian banking system. The third reviews measures proposed by the PMA and other stakeholders to address the crisis and advance the transition toward electronic payment. Finally, the paper concludes with practical interventions for managing the crisis and mitigating its effects on the banking sector. The analysis draws on data from the PMA and the Palestinian Central Bureau of Statistics (PCBS), together with local and international commentary on the surplus crisis.

2. The Adequacy of Cash Repatriation Ceilings Relative to Economic Growth

The crisis cannot be understood in isolation from the relationship between the volume of cash entering the Palestinian economy and the ceilings governing how much of that cash may be repatriated to Israel. Successive increases in these ceilings over recent years have not kept pace with the growth of the Palestinian economy, nor with the continued expansion in the use of the shekel as the principal currency for trade, saving, and the settlement of financial transactions.
Since 2009, the Palestinian economy has recorded marked growth in bank deposits, an increase in the number of Palestinians employed in Israel, a rise in exports to the Israeli market, and a broadening financial inclusion. The volumes of cash permitted for repatriation, by contrast, have remained subject to procedural and political considerations bearing no direct relation to economic activity or the level of liquidity in circulation.

Data on shekel flows into and out of the Palestinian economy point to a widening gap between the cash generated by economic activity and the capacity available to return that cash to the Israeli banking system. This gap has directly contributed to the build-up of surplus cash in the Palestinian banking system, with growth in economic and commercial activity consistently outpacing the increases granted in the repatriation ceilings. From 2021 to 2024, the volume of cash requiring repatriation exceeded the volume the ceilings permitted.

The crisis has been further aggravated by Israeli legislation restricting the use of cash, combined with the Bank of Israel’s failure to raise the transfer ceilings. This has weakened Palestinian banks’ capacity to absorb additional shekel deposits. Faced with these constraints, Palestinian banks have in recent years imposed limits on the acceptance of shekel cash deposits, driving the accumulation of shekels into the local market outside the banking system.

3. The Costs and Consequences of Holding the Surplus

The PMA has warned repeatedly of the consequences of shekel accumulation in Palestinian banks[1]. Banks may reach a point at which they can no longer absorb shekel deposits because they cannot repatriate the surplus to Israeli banks. In the absence of alternative arrangements capable of safeguarding the stability of correspondent banking relationships (CBRs), any future suspension of correspondent services would prevent Palestinian banks from replenishing their accounts or settling foreign trade payments in full. The consequences would extend well beyond the inability to pay Israeli suppliers, transforming what is presently a banking problem into a compound macroeconomic crisis affecting the importation of strategic goods and services such as fuel, electricity, and water[2]. Food security and the delivery of basic services would be affected in turn, with the resulting disruption extending across all sectors of economic activity in the Palestinian territories[3].

Surplus shekel cash held in bank vaults generates direct and indirect losses that erode profitability. A portion of bank assets is immobilized and yields no deposit or investment return, while operating and administrative costs, storage and security expenses, and short-term borrowing requirements all rise. The International Monetary Fund estimated that holding the surplus reduced the profits of Palestinian banks by approximately 20%.[4]

4. Recommendations

The measures adopted by the PMA, including the promotion of e-commerce, the development of electronic payment instruments, the integration of the informal sector and of unbanked individuals into the financial system, and the expansion of wage transfers for Palestinians employed in Israel through the banking channel, act on the surplus gradually and cumulatively over the long term. They do not offer an immediate solution.

Because most electronic payment activity is confined to the domestic market, it works mainly to reduce reliance on cash and slow its circulation within the Palestinian economy, without removing that cash from the banking system or reducing the outstanding stock. The effect of these instruments will therefore remain limited unless their coverage is extended to Palestinians living inside Israel and in Jerusalem, who constitute a major source of shekel inflows, and unless it is accompanied by a reorientation of trade toward third countries and by support for productive and export sectors capable of generating hard currency.

Responsibility for addressing the surplus does not rest with the PMA alone. The Palestinian government can pursue a set of interventions to reduce the use of shekel in transactions, which fall into two broad areas:

1. Reducing reliance on the shekel by encouraging payment in alternative currencies.
2. Strengthening supervision, combating smuggling, and curbing illicit financial flows.

A further set of interventions could be pursued jointly by the Palestinian government, the PMA, Palestinian banks, and the private sector in order to reduce dependence on the shekel and thereby

1. https://www.pma.ps/news/pma-sounds-alarm-and-urges-immediate-action-as-ils-cash-accumulation-in-palestinian-banks-reaches-breaking-point
2. “Economic warfare?” In the West Bank, too much cash is breaking the Palestinian economy | The Times of Israel
3. https://www.wafa.ps/news/2026/7/23/150884
4. IMF.(2022). “West Bank and Gaza: Selected Issues,” IMF Staff Country Reports 2022/299, International Monetary Fund.

limit its accumulation. [5]

1. **Diplomatic engagement and international policy responses:** Countering Israeli punitive measures against the Palestinian banking sector requires sustained diplomatic pressure to enforce compliance with existing agreements and to raise the repatriation ceilings. In parallel, regional payment and settlement channels should be developed with the support of international institutions in order to mitigate CBR risk and provide alternatives to the present arrangement. Economic stability further requires expanding trade with Jordan, Egypt, and Türkiye, stimulating exports and meeting domestic demand through financial arrangements that reduce direct dependence on Israel.
2. **Narrowing the channels of shekel cash inflow:** Reducing cash inflows calls for encouraging the uptake of electric vehicles and facilitating investment in renewable energy in order to lower the fuel and electricity import bills. Liquidity can also be strengthened by incentivizing deposits in foreign currency, notably the dollar and the dinar, through preferential interest rates and temporary exemptions from selected reserve requirements.
3. **Easing the operational burden on banks:** A shared national cash-handling center for processing, sorting, and storage would lower transport and protection costs across the sector. Collective negotiation by the PMA with insurers, together with financial support toward security and storage expenses, would further reduce the cost of holding the surplus.
4. **Contingency arrangements for interruptions to electronic balances:** Addressing liquidity imbalances and the build-up of shekel banknotes requires a contingency mechanism for liquidity exchange, backed by international guarantees that would oblige correspondent banks to conduct periodic electronic clearing. Such a mechanism would be complemented by wider use of currency swap agreements and by a central crisis liquidity fund, ensuring continuity of settlement and easing operational pressure.
5. **Investment diversification and digital transformation:** Strengthening the developmental role of the banking sector requires channeling a share of deposits into direct investment and into partnership with the government on strategic, privately led projects, rather than confining bank activity to lending. Investment in financial technology and in e-signature infrastructure should be accelerated in parallel, both to overcome the constraints of geographic fragmentation and to advance a comprehensive digital transition.
6. **System-wide liquidity management:** Palestinian banks, in coordination with the PMA, can develop more efficient mechanisms for managing cash liquidity across the banking system as a whole, allowing surplus liquidity to be redistributed among institutions according to their actual operational needs. Such mechanisms would limit the uneven concentration of surplus cash across banks and reduce the volume of idle cash that individual institutions must hold.

5. https://mas.ps/publications/12967.html