How Israel has brought the Palestinian Authority to the brink of financial collapse

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Bezalel Smotrich has played a key role in bringing the Palestinian Authority to its knees. Abir Sultan / EPA

Israel’s ultranationalist finance minister, Bezalel Smotrich, announced in May that he would be withholding tax revenues earmarked for Palestine. The decision was made in response to Spain, Ireland and Norway’s recognition of a Palestinian state.

He has also made deductions to these revenues, and has threatened to cut off Palestinian banks from their Israeli counterparts. This is a move that would halt all foreign financial transactions and the import of many essential goods into the Palestinian territories.

These developments come at a time when the Palestinian Authority, the government body that exercises partial control over the occupied West Bank, is already grappling with a severe financial crisis.
According to a report published in late May by the World Bank, the financial situation of the Palestinian Authority had “dramatically worsened” in the three preceding months, raising the prospect of an “imminent fiscal collapse.”

The Palestinian economy is already battling unemployment and poverty. Nearly half a million jobs have been lost in the West Bank and Gaza over the past nine months. And on July 10, a group of independent human rights experts mandated by the UN said that famine is spreading throughout the Gaza Strip. The financial collapse of the Palestinian Authority will only make matters worse.

Israel has a long-established financial hold over the Palestinian Authority. Under peace accords reached in the 1990s, Israel’s finance ministry collects tax on behalf of the Palestinians and makes monthly transfers to the Palestinian Authority. But Israel ceased making the transfers shortly after the start of the war, withholding funds that amount to between 60% and 70% of the total Palestinian public budget.

It’s not just people in the West Bank that are being affected. The Palestinian Authority was ousted from the Gaza Strip by Hamas in 2007. But many public sector workers in the territory kept their jobs and continued to be paid with transferred tax revenues. Israel has withheld payments earmarked for those employees in the Gaza Strip too on the grounds that they could fall into the hands of Hamas.

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Then, on May 10, and more recently in June, Smotrich announced that he would be deducting US$35 million and US$46 million respectively from Palestinian Authority’s tax revenue. The World Bank report claimed that the May deduction alone had raised “the stakes and the risk for a potential systemic collapse”.
The Palestinian Authority is now facing a rapidly widening gap between incoming revenue and the amount needed for essential public expenditures. This financing gap has reached US$682 million and, according to the World Bank report, is projected to double over the coming months to US$1.2 billion.

In May, the Palestinian Authority was only able to pay public sector workers between 50% and 70% of their salaries. And it is also unable to pay its dues to domestic banks, increasing its reliance on foreign assistance to pay its debts.

Financial blackmail

On June 28, hopes that the Palestinian Authority could stave off collapse were given a lift. Smotrich announced that he would finally sign off on the unfreezing of the past three months of tax revenue and extend a waiver that allows cooperation between Israeli and Palestinian banks.

But this would come in exchange for retroactively approving five outposts in the West Bank that had already been built. Outposts – or Israeli settlements – such as this are regarded as illegal under international law by the vast majority of the international community.

The government’s new move has drawn criticism from Palestinians, as well as the US and the UK. On June 30, a spokesperson for the UK Foreign, Commonwealth and Development Office said: “The UK strongly opposes the announcement that five outposts are to be legalised in the West Bank as well as further punitive measures against the Palestinian Authority”.

But within the next few days, Israel also made public that it had approved the seizure of more than 12 sq km of Palestinian land in the occupied West Bank – its largest land grab since 1993. The move follows a series of similar land seizures across the past two years. In 2023, for example, Israel established a record 26 settlements in the West Bank, forcing 21 Palestinian communities from their homes.
Alongside greater financial control, which has brought the Palestinian Authority to its knees, these land grabs should be seen as part of Israel’s broader goal to control more of the West Bank and prevent the development of a Palestinian state.

This intention has been reflected clearly in comments made by Smotrich. Following the most recent land grab announcement, he was quoted saying: “Thank God, we are building and developing the settlements and thwarting the danger of a Palestinian state.”

The Palestinian economy may be set for a brief reprieve. But the financially embattled Palestinian Authority is by no means out of the woods. The World Bank urged swift action to prevent its financial collapse. What happens now is largely down to Israel.