The Post–October 7 Status of the West Bank Economy

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There is a consensus between the Israeli security establishment and the Palestinian leadership that the worse the West Bank economy is, the greater the risk of violence. Despite that consensus, Israel has taken a series of steps since October 7, 2023, that greatly harm the Palestinian economy and deliver no tangible security benefit. These include:

- Completely withholding the transfer of tax revenues that fund two-thirds of the Palestinian Authority's (PA) budget for over a year;
- Preventing Palestinian banks from converting cash in their vaults into usable electronic balances;
- Rescinding permits from 171,000 West Bank Palestinians who had been working in Israel;
- Regularly threatening to cut off Palestinian banks from the global banking system.

Israel has also drastically increased restrictions on movement within the West Bank since October 7, with nearly 1,000 movement obstacles now disrupting the movement of goods, preventing workers from traveling to other cities for work, and discouraging Palestinian citizens of Israel from shopping in the Palestinian territory.

The West Bank economy today is at least 23 percent smaller than it was in 2023 – with real GDP down to its 2009 level. Unemployment has shot up to 29.5 percent. The scale of this collapse is comparable to that of the US economy during the Great Depression, when GDP contracted by 29 percent, and unemployment peaked at 25 percent.

American policymakers seeking to stabilize the Middle East and prevent a further conflagration in the West Bank should focus on reversing Israeli actions that undermine the Palestinian economy and have no security benefit. This issue brief breaks down the steps Israel has taken, assesses their impact, and recommends short- and long-term policies to reverse the downward trajectory of the West Bank economy.

Immediate Priorities

1. **Restore the full transfer of clearance revenues to the Palestinian Authority.**

The context: As part of an agreement negotiated during the Oslo Process in 1994, Israel is supposed to collect all customs duties and value-added tax (VAT) on behalf of the Palestinian Authority, and automatically transfer them. Even though these revenues are, by definition, Palestinian, this arrangement gives Israel immense leverage as they amount to two-thirds of the PA's entire budget.

The challenge: Israel's withholding of these revenues has proceeded in three stages. First, in 2019, it began to withhold 50 million shekels ($16 million) per month – a relatively small amount equivalent to the sums the PA paid to Palestinians held in Israeli prisons and to families of those killed in violent attacks against Israel. In October 2023, Israel began to withhold an additional 30 percent of these revenues, an amount equivalent to the PA's budget allocation for Gaza. Since May 2025, Finance Minister Bezalel Smotrich has entirely withheld the transfer of clearance revenues – a move he said was in response to a wave of international recognitions of a Palestinian state.

The impact: The Palestinian Authority today is on the verge of insolvency. Throughout 2025, it was able to pay public employees only 50 to 70 percent of their salaries. Its January 2026 salary payments were made three months late. And it owes an estimated $15 billion – three times its entire annual revenue in a normal year – to Palestinian banks, suppliers, contractors, employees, and the PA's pension fund.

Avi Bluth, the head of IDF Central Command – which oversees the West Bank – recently warned Prime Minister Benjamin Netanyahu that continued withholding of these funds could cause a flare-up in the West Bank.

Policy recommendation: The US should make clear to Israel that the stability of the West Bank and the PA's capacity to build strong institutions for a Palestinian state are policy priorities – as both are prerequisites for the regional peace initiatives sought by Democrats and Republicans alike. If Israel continues to withhold the PA's tax revenues, the US should suspend its free trade agreement with Israel for as long as the withholding continues.

2. **Allow Palestinian banks to convert their excess shekels into usable electronic balances.**

The context: The majority of financial transactions in the West Bank take place in Israeli shekels – often in cash. Palestinian workers and businesses deposit those banknotes in Palestinian banks, which credit their accounts electronically. But Palestinian banks themselves cannot carry out that conversion on their own. For that, they have to send truckloads of cash to Israeli banks in exchange for electronic balances.

The challenge: Israel caps these transfers at 18 billion shekels ($5.8 billion) annually, even though Palestinian banks receive roughly 30 billion shekels ($9.8 billion) in cash each year. This creates a severe liquidity shortage, with some 17 billion shekels ($5.5 billion) in cash currently sitting untouched in Palestinian bank vaults. Less liquidity means less money for economic activity, loans, and investments – all of which compounds the decline in GDP and rise in unemployment.

Israel's finance minister has offered no security rationale for his refusal to raise the limit on cash repatriation – instead stating that he will "use all of the tools" at his disposal to prevent the creation of a Palestinian state, including "economic strangulation."

Policy recommendation: The US should press Israel to immediately raise the annual cash repatriation ceiling and establish an automatic mechanism for clearing excess shekels through Israeli banks. If Israel refuses, the United States should suspend Israel's eligibility for US-backed sovereign loan guarantees until the restriction is lifted. The US should not help Israel secure cheaper access to international capital while it actively undermines the Palestinians' access to capital.

3. **Secure long-term banking waivers to ensure Palestinian banks remain connected to the global banking system.**

The context: Because the Palestinian economy primarily operates in Israeli shekels, Palestinian banks' access to the global financial network runs through two Israeli banks – Israel Discount Bank and Bank Hapoalim. To limit those banks' exposure to anti-money laundering and counter-terrorism laws, the Israeli government issues waivers that assure them they will not be exposed to criminal liability or financial loss as a result of transactions they carry out with their Palestinian counterparts. The Israeli banks have made clear that without these waivers, they would be forced to terminate their relations with Palestinian banks – cutting the Palestinians off from the global financial system.

The challenge: Since October 7, 2023, Finance Minister Bezalel Smotrich has repeatedly threatened not to renew these banking waivers. While international pressure has prevented him from following through, he has shifted Israel's policy from predictable, long-term renewals to extensions lasting as little as two weeks or two months.

Although Israel recently extended the waiver until the end of the year, the uncertainty created by Smotrich's threats has reportedly prompted the Israeli banks to seek to end their relationships with Palestinian banks. In July 2026, Israel Discount Bank informed its Palestinian counterparts that it intends to terminate correspondent banking services on September 1, and Bank Hapoalim is planning to do the same on October 1. Both banks cited the legal and financial risks created by the absence of a long-term waiver.

If the two banks follow through, Palestinian banks would be cut off from the Israeli and international financial systems, bringing the already struggling Palestinian economy to a standstill.

Policy recommendation: American policymakers must push for the Israeli government to immediately provide the certainty necessary for Discount Bank and Bank Hapoalim to continue their relationships with Palestinian banks by issuing banking waivers that last 12 months – or even longer. Greater certainty would not only prevent the Palestinian economy's collapse, but also give it a needed boost. Investors, businesses, banks, and households are far more likely to spend, invest, borrow, and lend money when they know that their accounts and payments will remain viable for the foreseeable future.

4. **Reinstate work permits for the 171,000 West Bank Palestinians who worked in Israel before the October 7 attacks.**

The context: Prior to October 2023, Palestinian workers employed in Israel constituted the single largest source of income in the West Bank, earning a total of $4.8 billion per year – amounting to 20–25 percent of annual Palestinian GDP.

The challenge: After the October 7 attacks, Israel revoked nearly all of these workers' permits, abruptly ending the primary source of employment in the West Bank. While the Israeli government has cited security concerns to justify this step, the country's security agencies, including the IDF and Shin Bet, have urged the country's political leadership to reverse the decision – arguing that security concerns are already addressed by the Shin Bet's screening of permit recipients, and that economic desperation is a far greater security threat.

Policy recommendation: The US should demand that Israel reverse this step. If it refuses, the US should suspend Israelis' access to the Visa Waiver Program. If Israel prohibits Palestinians from entering Israel in order to degrade the Palestinian economy, Israelis should not enjoy an enhanced ability to enter the United States.

5. **Reduce Israeli movement restrictions within the West Bank.**

The context: Hundreds of Israeli military checkpoints, road gates, and other obstacles already regulated Palestinian movement in the West Bank before the October 7 attacks. While the Israeli military viewed these as necessary to monitor and crack down on armed resistance, they greatly increase travel times for Palestinians, raising the cost of moving both workers and goods between population centers.

The challenge: Since October 7, Israel has dramatically increased the number of movement obstacles to 925 – and increasingly turned to installing electronic steel gates on roads leading to Palestinian villages that it opens and shuts at will. At times, it has entirely blocked access to towns and villages.

The impact of these restrictions ranges from employers being hesitant to hire people from villages due to unreliable job attendance to significantly higher trucking prices. Another major impact is that many Palestinian citizens of Israel who used to shop in West Bank towns – a major source of cash for the Palestinian economy – have stopped coming due to the new checkpoints. In Nablus, once a hotspot for such shopping, the number of visitors is less than a third of its pre-October 7 level.

Policy recommendation: Israeli security concerns make it difficult to wholly eliminate movement restrictions, but the US should make clear to Israel that it must dramatically decrease movement restrictions and eliminate them wherever they do not deliver a clear security benefit. If Israel is unwilling to take steps to allow Palestinians to move more freely in the West Bank, the US should suspend Israeli participation in the US Visa Waiver Program.

Long-Term Policy Recommendations

Beyond the immediate need to ease the constraints imposed by Israel's right-wing government after the October 7 attacks, the United States should lead an effort to transform the West Bank economy from structural dependency on Israel to complete independence.

The Palestinian Authority today lacks the policy tools that independent governments rely on to stimulate economic growth, attract foreign investment, and diversify their economies. It does not issue its own currency, control the borders through which its imports pass, or independently collect the customs revenues on which it depends. In most of the West Bank, it even lacks authority over planning and construction decisions. These arrangements leave Palestinian economic activity entirely vulnerable to unilateral Israeli decisions.

As American policymakers begin to recognize that the stability of the West Bank and Gaza – and their eventual statehood – are prerequisites for the regional peace initiatives they seek, working with the Palestinians and the Israelis to increase the Palestinian Authority's control over the West Bank's economy – and eventually Gaza's, too – would be a great place to start. Possible initiatives include:

Allowing the PA to directly tax shipments into the West Bank. The Palestinians should ultimately be able to collect customs duties and import taxes directly on goods destined for Palestinian markets. Israeli security inspections could continue where necessary, but the revenue collection itself should not be entirely in the hands of another government. No government can function when an adversarial actor wholly controls a key lever of its economy.

Transferring planning authority to the PA in Area C. Area C covers approximately 60 percent of the West Bank and remains under full Israeli civil and security control. Palestinian construction there is constrained by an extraordinarily restrictive planning system. Since 2022, Israel has granted just 58 building permits in that area – which includes the vast majority of uninhabited land in the West Bank.

So long as Palestinian institutions are denied meaningful authority over development in the majority of the West Bank's territory, genuine economic independence will remain impossible. The United States should support a phased transfer of planning authority in Area C to the PA. Israel and the PA can work together to address legitimate environmental and security concerns, but Palestinian economic development cannot remain dependent on an approval system under which obtaining permission to construct homes, factories, roads, or utilities is virtually impossible.

Supporting the process of creating a Palestinian currency. A national currency issued by a Palestinian central bank would eventually reduce Palestinian dependence on the Israeli shekel. This transition would greatly reduce Palestinian banks' dependence on Israeli banks and give Palestinian institutions more power to manage liquidity. But issuing a viable currency would require a vastly different economic, political, and institutional reality in the West Bank and Gaza – including unified political and banking institutions and substantial foreign-exchange reserves that the Palestinians do not currently have.

Still, the United States should work alongside international monetary institutions and the Palestinian Authority to create a long-term plan to establish the necessary conditions for a viable Palestinian currency. Washington should also make clear that it expects Israel's cooperation on the steps necessary to create those conditions.