

The financial liquidity crisis and its impact on the economic situation in the Gaza Strip

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ABSTRACT

The purpose of the research is to shed light on how the financial crises that the Palestinian Authority has been exposed to, especially the liquidity crisis in the Gaza Strip, on the economic situation of citizens. The research relied on the descriptive approach in describing the financial crises that the Palestinian Authority has been exposed to and studying the impact of the current liquidity crisis on the livelihood of citizens in the Gaza Strip. Among the most important results it reached: The liquidity crisis in the Gaza Strip due to the war has contributed to the deterioration of the standard of living of citizens and has weakened the local economy and raised prices. Internal displacement and the lack of liquidity have also led to an increase in daily dependence on humanitarian aid, which has decreased significantly.

1. Introduction

Since the start of the Israeli war on the Gaza Strip on October 7, 2023, the Israeli occupation has sought to destroy all aspects of life, and statements have been issued from the highest political levels stripping the residents of the Gaza Strip of their humanitarian status, and in the context of its attempt to exterminate the population or force them to leave the Strip, it has resorted to using various policies and procedures to undermine the ability of the population to survive. This has led to widespread harm to civilians as part of the genocide it is practicing in the Gaza Strip, and continues to create inhumane and oppressive living conditions by deliberately targeting sectors and resources that are indispensable to the lives of the population, such as targeting food and water sources, and destroying the health, environmental, educational and economic sectors. In addition to the above, the occupation authorities have worked to undermine the ability of banks to provide financial services to the residents of the Gaza Strip, which represents one of the tools of genocide, as they have prevented the arrival of the cash liquidity needed for the banks to operate in various currencies, especially the main currency in circulation in Palestine, which is the Israeli shekel. Thus, the occupation authorities have caused a severe and persistent cash liquidity crisis in the Gaza Strip. Which directly affected the population, increased the challenges they face on a daily basis, and prevented them from withdrawing their money from banks, whether it was employees' salaries and wages, savings and deposit funds, or receiving foreign transfers from relatives and friends, in addition to destroying most banks and ATMs.

2. Objectives

2.1. Identify the financial crises faced by the Palestinian Authority since 1994, with a focus on the cash liquidity crisis due to the Israeli war 2023 on the Gaza Strip.

2.2. *Explain the impact of these crises on the economic situation in the Gaza Strip.*

2.3. *Provide recommendations that would enable the Palestinian Authority to confront financial challenges and mitigate the severity of the existing liquidity crisis in the Gaza Strip with the aim of improving the economic situation.*

3. Importance

Highlighting the financial crises that are facing the Palestinian Authority, especially the current liquidity crisis in the Gaza Strip and studying its impact on the Palestinian economic situation in the Gaza Strip.

4. Research problem

The Palestinian Authority suffers from recurring financial crises that have greatly affected the economic situation in the Gaza Strip, especially after the 2019 crisis and the outbreak of the recent Israeli war. The research problem is summarized in studying these crises and determining their impact on the lives of citizens in the Gaza Strip.

5. Hypothesis

The research assumes that there is a close relationship between the recurring financial crises of the Palestinian Authority and the deterioration of the economic situation in the Gaza Strip, and that the financial liquidity crisis resulting from the Israeli blockade and the Israeli war has negatively affected the standard of living in Gaza and exacerbated the deterioration of the economic situation in the Gaza Strip.

6. Methodology

The researcher relied in this research on the descriptive approach, in describing the financial crises that the Palestinian Authority was exposed to and studying the impact of the current financial liquidity crisis on the livelihood of citizens in the Gaza Strip, by relying on official reports and statistics issued by the Palestinian Central Bureau of Statistics and the Palestinian Monetary Authority and previous studies and published academic articles.

7. Overview of the Gaza Strip economy

The Palestinian economy is exposed to many crises and setbacks, the largest share of which is in the Gaza Strip. Since Israel imposed a comprehensive and systematic siege on the Gaza Strip in 2007, i.e. 18 years ago, the Gaza Strip has become non-existent in all aspects of life, due to the isolation of the entire Strip from the outside world, which had a negative and direct impact on most of its economic and social indicators, especially in light of the implementation of these measures and their effects on living, humanitarian and economic conditions. Looking at the most important economic and social indicators, we find that the value of the real GDP in the Gaza Strip for the year 2023 at constant prices for the year 2015 decreased by 22.5% compared to the year 2022 (PMA, 2024), so that the value of the real GDP in Palestine for the year 2023 at constant prices for the year 2015 became 14,923 million US dollars, recording a decrease of 5% compared to the previous year (PCBS, 2024). This decrease is due to the decline in the fourth quarter of 2023 in all economic indicators as a result of the Israeli aggression on the Gaza Strip, which affected all indicators of the Palestinian economy, including the labor market, public finances, price levels, and trade exchange, and the cessation of the transfer of clearance funds and the government's inability to pay full salaries to public employees, which contributed to the decline in citizens' purchasing power and the decline in economic activities (PMA, 2024). The researcher indicates that the Israeli aggressions has caused most economic activities to go out of service, as the GDP in Gaza declined in the last quarter of the year 2023 by about 81.3% compared to the same period of the previous year. (PMA, 2024)

The previous developments led to a significant decline in the per capita GDP in the Gaza Strip during 2023 of about 24.3% to reach approximately \$947.6 during the same period. (PMA, 2024)

The consumer price index in the Strip recorded a sharp increase of 10.53% due to the Israeli aggression during the last quarter of 2023, which had a significant impact on the prices of consumer goods (PCBS, 2024).

Private consumption also declined sharply throughout 2023 by 17.6%, and government consumption by almost the same percentage of 17% and investment by an estimated percentage of about 32.2%, while exports declined by about 7.9% and imports by 8.6%. (PMA, 2024).

The researcher states that this decline in the components of the trade balance is due to the war on the Gaza Strip, the obstacles and restrictions imposed on freedom of movement and travel, and the destruction of infrastructure, in addition to the weak competitiveness of Palestinian products in foreign markets.

The number of workers in the Gaza Strip witnessed a decline of 12.9% to reach 250 thousand workers (PMA, 2024). The unemployment rate in the Gaza Strip reached 45.8%, with 40.0% for males and 66.7% for females. (PCBS, 2024). The researcher mentions here that this is due to the Israeli aggression on the Strip, the human losses, and the loss of many workers' jobs.

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Public revenues decreased during the year 2023 by 3% compared to the previous year, due to the decrease in clearance revenues, which constitute the safety valve for the general budget, and the continuous and repeated illegal Israeli deductions and seizures, as well as the withholding of Gaza Strip allocations, which led to a difficult and complex financial crisis for the Palestinian government and greatly affected the fulfillment of its obligations. (PMA, 2024).

Actual public expenditures increased by 6.4% during 2023 compared to the previous year, and actual public spending achieved 79% of the public spending due during 2023. We note here that the government was unable to pay all its obligations on their due dates, which caused new arrears to accumulate for the benefit of public employees and the private sector (PMA, 2024).

The government's public debt witnessed an increase of 6.8% at the end of 2023 compared to the previous year, reaching \$3.8 billion, equivalent to 21.7% of the gross domestic product. It is at record levels compared to previous periods, due to the continued crises of clearance revenues, Israeli deductions and deductions, and the volume of grants and foreign aid remaining at very low levels. The government's public debt was distributed between local debt at about 65.1% and external debt at about 34.9% (PMA, 2024).

The researcher stresses that the Gaza Strip is a center for economic and humanitarian crises and suffers from many of the problems, which have been exacerbated by the Israeli wars and the ongoing siege until now., which makes it face many major challenges that require intervention in order to rebuild and improve the economic situation.

8. Liquidity crisis in the Gaza Strip:

Since the establishment of the Palestinian Authority in 1994, financial crises have been one of the most prominent challenges it has faced. It has been exposed to numerous financial crises due to its heavy reliance on clearance revenues, grants, and international aid, which are considered uncertain sources, as Israel directly controls them as a result of the Paris Economic Agreement (ESCWA, 2023), in addition to the weakness of the Authority's general financial management, as expenditures have increased at high rates since its establishment without decisions resulting from a sound planning process. The internal division has also led to the absence of legislative oversight of the budget and its expenditures and the use of the financial blockade as a means of pressuring the political leadership to make political concessions (Qart, 2024).

The causes of these crises vary between the economic policies imposed by Israel, internal and external political pressures, and changes in international financial support. The most prominent financial crises witnessed by the Palestinian Authority since 1994 until now are:

1 .The Second Intifada:(2003-2000)

The Palestinian economy was subjected to severe disturbances during the Second Intifada, which led to the cessation of salaries at times.

2 . Hamas's victory in the parliamentary elections:(2006)

After Hamas won the parliamentary elections, Israel imposed an economic blockade on the Palestinian Authority, which negatively affected its ability to pay salaries.

3 .The financial crisis from 2009 to 2011:

During this period, employee salaries were reduced by almost half due to the decline in revenues and the worsening financial crises (MAS, 2011).

4 .Support provided to the Palestinian Authority by donor countries stopped in 2017:

In 2017, the Palestinian Authority witnessed a sharp decline in external financial support, as annual support decreased from \$1.2 billion in 2008 to no more than 20% compared to 2022 (Al-Araby Al-Jadeed, 2022)

5 .The Israeli occupation authorities withheld part of the Palestinian Authority's clearance funds in 2019:

In February 2019, the Palestinian Authority refused to receive the clearance funds after the Israeli Knesset approved deducting a portion of them equivalent to what the Authority pays as salaries to prisoners and families of martyrs, leading to a stifling financial crisis (Qart, 2024).

6 .During the year 2021, the Palestinian Authority faced one of the most severe financial crises it has faced since its establishment more than a quarter of a century ago, with the budget recording a financial deficit exceeding one billion dollars. During the same year, the Palestinian Authority was subjected to what resembled a "financial siege" from donor countries, as it recorded the lowest level of foreign aid received by the Palestinian Authority since the cessation of political negotiations with the occupying state in early 2014 (-, 2021).

Currently, a severe cash liquidity crisis has emerged in the Gaza Strip since the beginning of the war on October 7, 2023. The Palestinian Monetary Authority has confirmed in many of its press releases the existence of an unprecedented cash liquidity crisis. In its press release issued on March 24, 2024, it indicated the destruction of a number of bank branches and headquarters as a result of the ongoing bombing throughout the Gaza Strip, as well as the inability of the remaining branches to open their doors for withdrawal and deposit operations due to the ongoing bombing, power outages, and the deterioration of the security situation, which led to an unprecedented crisis in the availability of cash liquidity in the hands of citizens and in the markets. The crisis worsened with most of the ATMs going out of service as they were completely or partially destroyed or damaged, and some of them were even stolen, as attacks on bank branches and ATMs in the Gaza Strip by outlaws increased the suffering of citizens due to the cash liquidity crisis (PMA1, 2024).

The occupation caused the cash liquidity crisis as a result of its refusal to bring cash into the Strip, despite the great attempts and pressures by the Palestinian Monetary Authority and the United Nations. This was accompanied by the occupation's bombing and destruction of many banks and ATMs, as we mentioned, which led to a general disruption and paralysis in the banking system in the Gaza Strip. Consequently, the traditional monetary cycle was disrupted, and the public and merchants stored cash (Odeh, 2024).

According to reports issued by UNRWA and its "Cash Working Group", it indicated that as of March 2024, access to cash has become an increasing problem due to increased pressures on local financial institutions due to the large number of people in small areas, irregular trends in cash deposits by businesses and merchants in banks, and logistical, safety, and security challenges in transporting cash to and from banks and ATMs. International humanitarian actors have been exploring solutions to mitigate the current liquidity challenges by attempting to obtain Israeli approval to import and operate armored vehicles to safely collect, transport, and distribute physical cash, as well as spare parts and fuel for ATMs, and to enhance cash movement, but approval is still pending (UNRWA, 2024).

The researcher confirms, as (Odeh, 2024) mentioned, that the Monetary Authority did not hesitate to try to alleviate this crisis, as it launched early on May 8, 2024, the system of instant payments and transfers between banks and payment services companies (IBURAQ), specifically for the Gaza Strip, in order to help citizens pay their obligations and carry out their financial transactions electronically, in light of the outage of most bank branches and ATMs in the Strip and the severe shortage of cash. It is worth noting that the implementation of instant transfers is free for both parties to the relationship, so that the sender and the beneficiary do not bear any cost. The new system settles and implements internal payments and transfers between banks and payment services companies immediately around the clock, and in shekels in the first phase, so that the amounts are deposited into the beneficiary's account immediately. According to what the Monetary Authority announced, transfers and payments can also be carried out without the need for the Internet using cellular network services

9. The impact of the financial crisis on the economic situation in the Gaza Strip

The Gaza Strip employees have suffered from many financial crises, as we mentioned earlier, the last of which was the most influential, complex and interconnected in 2019, due to the absence of clearance funds based on a political decision, the decline in the Authority's revenues from local taxes as a result of repeated closures, as well as the

contraction of the economic situation, which prompted the Palestinian citizen to focus on living expenses only, in addition to the decline in international support for the Palestinian Authority with the US administration announcing the cessation of its financial support for the Palestinian Authority and its institutions operating in Palestine, and the inability to prioritize Palestinian spending, and thus the difficulty of building a development system capable of confronting the extortion of the occupation through clearance funds, as well as the absence of a trade union body representing workers in the public sector. The financial crisis of the Palestinian Authority for its employees has deepened since October 2023, as a result of the aggression and genocidal war of the Zionist occupation against the Palestinian people in the Gaza Strip, as the occupation government decided to deduct the amount allocated to the Gaza Strip within the Authority's budget from the clearing funds controlled by the occupying state. The Palestinian Authority refused to receive the clearing funds minus Gaza's share and entered a serious financial crisis that did not enable it to pay more than three installments of its employees' salaries over 5 months, at rates not exceeding 60% in the best of cases, to be added to the accumulation of the salary crisis for government employees, which has been extending since 2019 (Qart, 2024).

The crises that the Palestinian Authority has been exposed to have had many repercussions that have greatly affected all economic, social, and humanitarian levels, as the purchasing power of the Palestinian citizen has weakened, and the production wheel has declined, which is considered almost destructive, thus affecting the ability to fulfill the financial obligations of producers and importers, as well as a decline in the performance of the private sector and the accompanying increase in unemployment rates. The economic recession in the sector, in addition to the disintegration of Gazan families and many family problems, and the decline in purchasing power rates, will reduce imports and thus reduce a large amount of tax revenues, and finally the loss of jobs and financial security for the Palestinian citizen. At the same time, the problem of liquidity is one of the most important problems in the Gaza Strip after more than a year of war, which led to a major economic paralysis due to people's daily need for money for their needs and due to the difficulty of storing food and goods due to repeated displacement and the lack of electricity, which makes people in daily need to buy food and goods, and daily consumption is double that of normal days, in addition to merchants exploiting people's need and raising the prices of goods, especially after aid has decreased significantly, and thousands of families depend on this free aid (MAS, 2024).

The researcher confirms what was published by the United Nations Office for the Coordination of Humanitarian Affairs in the Palestinian Territories, "OCHA", that the cash liquidity crisis in Gaza has led to a significant decline in consumers' purchasing power, has endangered people's ability to obtain basic goods, has limited the ability of companies to buy goods and pay salaries, and has increased dependence on humanitarian aid (OCHA, 2024).

In other words, in an economy that relies almost entirely on cash, the lack of cash will lead to a financial inability to meet needs (Center for Conflict and Humanitarian Studies, 2024) as this financial crisis makes basic daily transactions extremely difficult, even if goods are allowed into Gaza. The hyperinflation that the economy is suffering from, the crowding of people due to displacement in small areas, and the restriction of the entry of aid into the Gaza Strip exacerbate the crisis, creating fertile ground for exploitation through exorbitant fees and increased criminal activity (Hinn and Harker, 2024).

Based on the above, we are facing a severe and ongoing cash liquidity crisis due to the ongoing Israeli aggression and the destruction of most banks and ATMs and the prevention of the entry and transfer of money, thus piling up old, worn-out currency, which is normal in light of the lack of liquidity and the failure to bring in any new currency since the beginning of the war, which means that we are facing a real economic disaster that is worsening every day and depriving citizens of meeting their most basic needs (Al Mezan Center for Human Rights, 2024).

The researcher emphasizes here that the destruction of the indispensable sources of life for the population, including the deprivation of access to their salaries and wages, will undermine their ability to live and provide the necessary basics, and will deprive the population of their economic and social rights, and that the continued criminal behavior of the Israeli occupation forces in the context of the war of genocide constitutes a serious violation of international treaties and agreements.

10. Results

10.1. *The continued reliance of the Palestinian Authority on clearance funds and international aid as a primary source of income exposes it to recurring crises and limits its ability to pay salaries on a regular basis, which negatively affected citizens' purchasing power.*

10.2. *Financial crises, especially the 2019 crisis, led to a decline in economic activity and an increase in poverty and unemployment rates due to delayed salaries and deductions from them, which pushed many families into debt and exacerbated financial burdens.*

11.

- 11.1. *The cash liquidity crisis in the Gaza Strip due to the war contributed to the deterioration of citizens' living standards and worked to weaken the local economy and raise prices.*
- 11.2. *The cash liquidity crisis led to a decrease in citizens' purchasing power in the Gaza Strip, as spending rates on basic needs such as food, education, and health care declined.*
- 11.3. *Internal displacement and the lack of financial liquidity increased daily dependence on humanitarian aid, which decreased significantly.*
- 11.4. *The deterioration of citizens' economic conditions due to the lack of financial stability, the inability to meet basic needs, and the decline in household income.*
- 11.5. *With the lack of liquidity, markets witnessed an increase in the prices of basic commodities due to the lack of supply and the exploitation of traders of the deteriorating economic situation.*
- 11.6. *The rise in prices has weakened families' ability to secure daily needs, exacerbating the humanitarian situation.*

12. Recommendations

- 12.1. *Develop an independent financial system that reduces dependence on clearance funds and international aid.*
- 12.2. *Implement international support programs to rebuild the Gaza Strip, while ensuring that funds reach projects directly.*
- 12.3. *Improve communication with the international community to demonstrate the seriousness of the Authority in managing financial resources.*
- 12.4. *Accelerate the Palestinian reconciliation process to end the internal division that affects the efficiency of crisis management.*
- 12.5. *Strengthen political unity to negotiate better with donors and the international community.*
- 12.6. *Develop productive sectors such as agriculture and industry to reduce dependence on aid.*
- 12.7. *Encourage local initiatives that contribute to reducing unemployment rates and improving the standard of living.*
- 12.8. *Establish mechanisms to transfer funds through local and international support funds that work to pump liquidity regularly into local markets.*
- 12.9. *Facilitate the entry of foreign currency into the Gaza Strip through legal channels and international aid.*
- 12.10. *Increase support for affected families:*
- 12.11. *Provide direct financial assistance to the most affected families to ensure their ability to meet their daily needs.*
- 12.12. *Activate government oversight of markets to prevent traders from exploiting the crisis and ensure the availability of basic commodities at reasonable prices.*
- 12.13. *Use electronic payment technologies to reduce the need for cash in daily transactions.*

13. Conclusion

The authors declare no conflict of interest.

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