

West Bank Economics Are Key to Stabilizing the Palestinian Authority—or Forcing Its Collapse

by [Neomi Neumann \(/experts/neomi-neumann\)](/experts/neomi-neumann)

May 31, 2024

ABOUT THE AUTHORS



[Neomi Neumann \(/experts/neomi-neumann\)](/experts/neomi-neumann)

Neomi Neumann is a visiting fellow at The Washington Institute, focusing on Palestinian affairs. She formerly served as head of the research unit at the Israel Security Agency, or Shin Bet, and with the Ministry of Foreign Affairs. Neumann recently began her doctoral studies at Tel Aviv University.



Brief Analysis

If implemented in full, Israel's latest tax, banking, and victim-compensation measures could bring the West Bank's two decades of relative stability crashing down—along with any plans to have the PA play a postwar role in Gaza.

On May 22, Israeli finance minister Bezalel Smotrich announced that he intends to withhold tax revenue from the Palestinian Authority until further notice. Referencing two recent international developments—Ireland, Norway, and Spain's unilateral recognition of a Palestinian state, and the announcement that the International Court of Justice would seek arrest warrants for Israeli officials—the far-right minister argued, “The Palestinians are operating against Israel with political terrorism and are promoting unilateral steps vis-a-vis the world, and therefore we should not continue transferring money to them...If this causes the collapse of the PA, let it collapse...I will not artificially revive the PA so that it can work against me.”

Smotrich also announced his intention to take an additional step with broad implications: by the end of June, he will no longer extend the indemnity given to Israeli correspondent banks that transfer money to banks in the West Bank. This indemnity is necessary because the banks fear they will be sanctioned for transferring money for terrorist activity. The practical effects of this threat are that Israeli banks would no longer carry out transactions in Palestinian bank accounts (including transferring tax revenue transfers), and Israeli companies that do business with the PA would not be able to deposit checks to pay the salaries of Palestinian workers in Israel or make electronic bank transfers.

Two additional Israeli laws scheduled to come into effect on June 1 will also affect the PA's financial situation: the Law for Compensation of Victims of Terrorism and the Law to Compensate Victims of Hostilities. Both will entitle victims of terrorist acts to claim compensation from the PA, to be taken from all PA funds over which Israel has

control, including tax revenues. Naturally, this legislation could lead to lawsuits against the PA amounting to hundreds of millions of dollars, potentially causing its economic collapse.

Taken together, implementation of these measures would gradually impair the PA government's ability to function, greatly hindering or even shattering its ability to pay salaries to employees (including security personnel) and provide services to civilians. In other words, it would mean the collapse of the PA—even if not de facto, certainly de jure—and further deterioration of the West Bank's economy.

The combination of PA dysfunction and a difficult economic situation could lead to anarchy, violence, and terrorism against PA authorities and Israelis alike. It is also reasonable to assume that the PA security forces, which in any case are not highly motivated to cooperate with Israel or eradicate terrorism, would become less motivated to do so, and that the “resistance”—in particular Hamas, which seeks to undermine stability in the West Bank—would benefit.

Two Decades of Relative Stability Under Threat

When the second intifada ended and PA president Mahmoud Abbas came to power in 2005, the West Bank began a long period of relative stability that has lasted for nearly two decades, apart from a few crises. Today, however, it faces its most serious threat.

The territory's stability is based on three main pillars:

1. A relatively effective Palestinian government that cooperates with Israel, certainly on security issues.
2. A Palestinian public that is preoccupied with daily living and for the most part does not engage in violence.
3. The limited strength of terrorist elements, especially Hamas.

In this arrangement, Israel provides the PA and West Bank residents with an economic safety net, and in return receives security coordination and relative calm from the general public. Even today, months into the Gaza war, most West Bankers have remained fairly passive and ignored Hamas's calls to open another front against Israel.

Yet the war has caused another major problem in the West Bank—it has worsened the territory's economic situation. Immediately after the conflict erupted, 170,000 West Bank workers were barred from continuing their jobs in Israel, and the lost wages have dealt a serious blow to the Palestinian economy.

At the same time, Israel reduced the PA's monthly tax revenues, which averaged about \$175 million from import taxes, excise taxes, value-added taxes, and direct taxes. These taxes had become the PA's main source of revenue in recent years. Under the Oslo Accords, Israel collects tax revenues for the PA and then transfers them to Ramallah after deducting for Israeli services to the Palestinians, such as electricity, water, and sewage. Yet Smotrich decided to begin deducting the Gaza portion of the tax revenues as well.

Currently, the PA's external debt stands at \$5.4 billion—to banks, for pension payments, and to service providers. Its monthly deficit is about \$110-125 million, compared to around \$50 million in normal times. Per capita GDP in the fourth quarter of 2023 was \$910, down 20 percent from the same quarter last year, while unemployment in the West Bank has now reached 30 percent.

The PA has been paying only partial salaries (50-70 percent) to its 145,000 employees, including security personnel responsible for preventing terrorism. This has had a negative impact on their functioning, and many are not coming to work regularly.

In February, the World Bank announced that because of the Gaza war's impact on employment and consumption in the West Bank, the PA is liable to enter a “budget spiral.” More recent World Bank statements have spoken of the possibility that the PA will suffer an economic collapse.

What Does Smotrich Really Want?

In September 2017, Smotrich published a plan (<https://hashiloach.org.il/israels-decisive-plan/>) to end the Israeli-Palestinian conflict. Called the “decisive plan,” it would involve erasing the Green Line, annexing all territories to Israel, and flooding the West Bank with Israeli settlers. Put another way, Smotrich laid out a detailed “one-state solution,” with that state being Israel.

As for the fate of the Palestinians, Smotrich wrote, “Anyone who wants to give up the realization of his national aspirations and is able to do so will be able to stay here and live as an individual in the Jewish state...Such a resident will not be considered an Israeli citizen, but will live under a model that will enable ‘self-management of community life.’...As the process progresses and is internalized, these Palestinians will be able to integrate as citizens of the state of Israel.” In contrast, a Palestinian “who is unwilling or unable to put aside his national aspirations” will receive “Israeli assistance to emigrate to one of the many Arab countries, or to any other destination in the world.”

Notably, in addition to serving as finance minister, Smotrich also holds an important post in the Defense Ministry, where he is responsible for the Civil Administration and West Bank settlements. This gives him substantial authority in the West Bank, particularly in promoting settlements and increasing Israeli control over the lives of Palestinians. Recently, for example, he announced that he would establish a new settlement in the West Bank for each country that recognizes Palestine as a state.

Moreover, although Smotrich is the dominant figure in initiating settlement changes, economic restrictions, and other measures affecting the West Bank, other members of the government share his vision of widening Jewish sovereignty to one degree or another (e.g., see the Netanyahu government’s inaugural policy guidelines (<https://www.timesofisrael.com/judicial-reform-boosting-jewish-identity-the-new-coalitions-policy-guidelines/>) published in late December 2022). And like him, many of them do not perceive the PA’s potential collapse as problematic—on the contrary, they see it as another step toward realizing their political, religious, and national vision.

Conclusion

The PA economy has always been subject to basic structural weaknesses and deep dependence on Israel. Still, the parties have managed to maintain relative security and economic stability in the West Bank for two decades. Yet the current indicators—Palestinian workers barred from returning to Israel during the war; the growing deduction of PA tax revenues; the threat of two new economic laws that could drain the PA’s coffers—all point toward a potential PA collapse and West Bank economic crisis in the coming months.

The West Bank was already experiencing (<https://www.washingtoninstitute.org/policy-analysis/danger-violent-escalation-west-bank>) a heightened level of violence before October 7, and the Gaza war showed how far such violence can go, and how suddenly. Israel does not want to manage another security crisis while trying to complete the Gaza campaign and deter escalation in the north and south.

Yet Smotrich has made clear that a PA collapse is part of his plan, and there are no voices in the Israeli government to push back against this view. If carried out in full, this policy will only disrupt efforts by the United States and its Arab partners to reform the PA, at a time when tensions with Washington are already high.

Lastly, if Israel wants to maintain its Jewish and democratic character in the long term and avoid moving toward “one state for two peoples,” it must do everything in its power to preserve separation between Israelis and Palestinians. The existence of a functioning Palestinian Authority is an essential condition for this goal, as are efforts to provide a reasonable living, security, and stability for residents of the West Bank.

Neomi Neumann is a visiting fellow at The Washington Institute and former head of the research unit at the Israel

RECOMMENDED



BRIEF ANALYSIS

[Pursuing a Stable Peace in Yemen that Preserves U.S. Interests](#)

May 31, 2024

◆
Nadwa Al-Dawsari,
Steven Fagin

[\(/policy-analysis/pursuing-stable-peace-yemen-preserves-us-interests\)](#)



BRIEF ANALYSIS

[Beyond the Ballot Box: U.S. Priorities in North Africa's 2024 Elections](#)

May 30, 2024

◆
Sabina Henneberg,
Amine Ghoulidi

[\(/policy-analysis/beyond-ballot-box-us-priorities-north-africas-2024-elections\)](#)



BRIEF ANALYSIS

[Kataib Hezbollah's Raba Allah Undertakes Unclaimed Attacks on U.S. Brands](#)

May 30, 2024

◆
Michael Knights,
Ameer al-Kaabi,
Hamdi Malik

(/policy-analysis/kataib-hezbollahs-raba-allah-undertakes-unclaimed-attacks-us-brands)

TOPICS

Democracy & Reform (/policy-analysis/democracy-reform)

Energy & Economics (/policy-analysis/energy-economics)

Peace Process (/policy-analysis/peace-process)

REGIONS & COUNTRIES

Israel (/policy-analysis/israel)

Palestinians (/policy-analysis/palestinians)