

**Israel-Hamas war**

## Western officials warn of 'catastrophe' if Israel cuts off Palestinian banks

Threat to block waiver would lead to 'serious crisis and bring Palestinian economy in West Bank to a halt'



If the waiver is not renewed, Israeli companies that have business ties with the Palestinian Authority would be unable to deposit Palestinian cheques or receive payments from Palestinian banks © Bloomberg

**Raya Jalabi** in Beirut, **James Shotter** in Jerusalem and **Lucy Fisher** in London 5 HOURS AGO

Western officials have warned of “economic catastrophe” in the occupied West Bank if Israel does not renew a vital waiver that Israeli banks need to maintain relationships with their Palestinian counterparts.

The waiver, set to expire on July 1, allows payments for vital services and salaries tied to the Palestinian Authority, and facilitates the import of essentials such as food, water and electricity into the occupied [Palestinian territories](#).

Without it, Israeli banks will cease to do business with Palestinian financial institutions and the Palestinian economy will in effect shut down over time, said three western officials.

A US official said: “The point that we’re making . . . is that you shouldn’t be threatening people’s access to food, electricity and water at a moment like this, especially in the West Bank.”

Not renewing the waiver “will be to the detriment not only of Palestinian interests but also to Israel’s and the region’s security and stability”, the person added.

Washington is leading efforts to get the waiver renewed, said two western officials, soliciting allies to exert pressure on Prime Minister Benjamin Netanyahu’s

government. The UK is also concerned about the issue, said British officials.

The matter is expected to be discussed at the upcoming G7 finance ministers meeting this week in Italy, the officials said.

While the Palestinian economy trades with other economies in multiple currencies — and currencies such as Jordan's dinar are widely used in the [West Bank](#) — the economy formally runs on Israel's shekel, and Palestinian financial institutions must go through the Bank of Israel and Israeli banks to access it.

Nearly \$8bn in trade between Israel and the West Bank passes through those channels each year, according to US government data. This includes \$2.3bn of payments for food, \$540mn for electricity and \$145mn for water and sewage services.

Losing the waiver would severely hamper the PA's ability to operate and would cripple economic activity in the occupied West Bank, which Palestinians seek as the heart of a future state but which has been under Israeli military occupation since 1967.

The waiver's expiration would substantially affect import-export operations, while Palestinian tax funds, which are collected in Israel, would probably be frozen, the officials said.

Israeli companies that have business ties with the PA, which exercises limited autonomy in parts of the West Bank, would be unable to deposit Palestinian cheques or receive payments from Palestinian banks. Palestinian workers in Israel could no longer be paid by electronic bank transfer.

"If the waiver is not renewed . . . it will lead to a serious crisis that would bring the Palestinian economic activity in the West Bank to a halt," one of the western officials said.





Israeli finance minister Bezael Smotrich has threatened to paralyse the Palestinian Authority's economy © Amir Cohen/Reuters

Before Hamas's deadly assault on Israel on October 7 and the ensuing war in Gaza, the waiver was renewed annually. That arrangement dates back to 2016, when US Treasury officials began providing an annual letter to Israel with assurances that Israeli banks would not be targeted with allegations of terrorist financing over their dealings with Palestinian entities.

Following the US's provision of its annual letter, Israel then typically issues the waiver signed by its finance minister to two Israeli banks, Israel Discount Bank and Bank Hapoalim, which maintain ties to Palestinian financial institutions and provide them with access to the broader banking system.

This year, however, ultranationalist Israeli finance minister Bezael Smotrich issued a three-month extension of the previous year's waiver — which had been set to expire on April 1 — rather than a fresh year-long document, and has indicated he may not renew it again, the western officials said.

A US official said: "There was no indication prior to October 7 or even leading up to April 1 that there were any legitimate issues that would call into question the government of Israel's ability to renew the waiver."

They labelled the delay "blatantly a political move, rather than one based in promoting security".

In March, Smotrich threatened to paralyse the PA's economy after Washington [imposed sanctions on four West Bank settlers](#) accused of violence against Palestinians.

In April, he said he would "unilaterally and immediately stop the transfer of funds to the Palestinian Authority, and order the cancellation of the indemnity [waiver]" to Israeli banks, if the PA were to win recognition as a state by the UN Security Council, or if the International Criminal Court were to issue arrest warrants against Israeli leaders or soldiers.

The ICC's prosecutor has this week [requested warrants](#) against Netanyahu and defence minister Yoav Gallant, along with three Hamas leaders.

An Israeli official said the country had issued only a limited extension of the waiver because an audit of the Palestinian banking system had not been completed, and because the PA had not produced a national risk assessment on terrorism financing and money laundering, nor done enough to reduce cash usage and improve information-sharing.

“Unfortunately, until these essential steps are fulfilled, meaningful action to significantly mitigate the risks of terrorist financing and money laundering in the Palestinian Authority, cannot be achieved,” the official said, adding that Israel was “deeply concerned” about such risks.

Palestinian officials said the audit was under way, but had not been completed because an international team due to conduct it had twice postponed its visit over security concerns. “We have nothing to hide,” said a Palestinian official.

Work on e-payments had started, the official added, but limited internet access in the West Bank and Gaza made digitisation more complicated.

Netanyahu's cabinet is divided over the issue, reflecting broader divisions between those who want to bolster the PA and religious nationalists such as Smotrich, who regard the PA as an impediment to their ambitions to fully annex the West Bank.

The waiver's renewal is “a purely political game, but they're trying to dress it up in the veneer of concerns about terrorist financial flows and promoting money flows to Hamas”, a western official said.

Palestinian banks have safeguards to ensure money is not flowing to terrorist groups, the US official said, while not renewing the waiver would push more Palestinian economic activity to informal channels, creating more risk.

US Treasury secretary Janet Yellen has written to Israeli officials to express concern, while Washington has offered to work with Palestinian financial institutions to help ease the Jewish state's concerns. The waiver's renewal has been delayed on previous occasions over Israeli banks' nervousness about doing business with Palestinian lenders, said two current and one former western official.

Palestinian lenders in the West Bank are regulated by the Palestine Monetary Authority. Western officials who have worked with the PMA and Palestinian and Israeli banks said claims that Palestinian institutions were involved in terrorist

financing were dubious.

“The way that Hamas gets its money is not through Palestinian banks and frankly, the Palestinian banks are no friends of Hamas at all,” said Daniel Glaser, a former US Treasury assistant secretary for terrorist financing.

“They’re very well regulated by the PMA, and they have very strong anti-money laundering and countering terrorist financing controls in place,” he added.

“In fact, Palestinian banks were very much resistant to attempts by Hamas to exert its influence — I’m not saying [the sector] is perfect, but it has been run very well,” he said.

*Additional reporting by Andrew England in London*

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