

The Story of the Israeli Shekel Zone

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Abstract

Israel and the Palestinian Authority (PA) maintain close economic and financial ties. These are the result of geographic proximity, history, culture, and political agreements. Economic ties include trade activity, employment relations, and consumer activity.

Because of the importance of economic relations with Israel, the Israeli shekel is one of the main currencies used by businesses and consumers in the Palestinian economy in daily trading as a means of payment and as a store of value.

Therefore, changes in the monetary system in Israel directly affect economic activity between Israel and the PA and indirectly the economic activity of the PA itself, as well as the stability of the Palestinian banking system.

The study will discuss various monetary methods and theories such as monetary independence, currency substitution and monetary union as the background for discussion of the research question. As well as the activities and arrangements between Israel and the PA.

The research questions will deal with the implications of changes in the Israeli monetary system on the PA, including the effects of monetary policy, changes in regulation and structure of the financial system, and the use of currency and other means of payment. This study may contribute as background material to the formulation of recommendations for economic policymakers in Israel and the PA and towards political processes that may occur in the future.