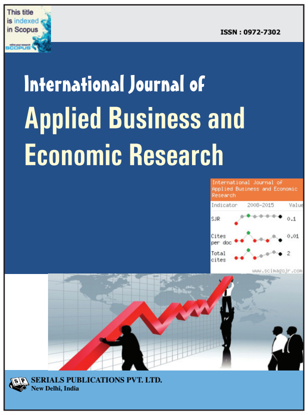

International Journal of Applied Business and Economic Research

ISSN : 0972-7302

available at http: www.serialsjournals.com

Volume 15 • Number 22 (Part 2) • 2017

Type of Currency in use at a Country which Does not Have its Own National Currency: The Case of Palestine

Rashed Mohamad Saleh Salameh[1]

[1]*Middle East University, Head of Accounting and Financial Sciences Department, P.O. Box 57, Alia Housing, Postal Code - 11731, Amman, Jordan. Email: rsalameh@meu.edu.jo*

ABSTRACT

The Arab-Israeli conflict is deeply rooted between the Arab and Jews and the peace treaty, signed in 1993, between the parties did not achieve peace in the Middle East region. In accordance to the peace treaty, Israel withdrawn from parts of the occupied Palestinian territories (PT's) known as the West Bank and Gaza strip (WB & GS), and a new organizational body, named the Palestinian National Authority (PNA) has been created in 1994 to manage these territories. The Oslo peace agreement debarred PNA from issuing its own national currency without Israel approval. Since then the PNA failed to issue its own national currency, therefore it has been left to the Palestinian people, and institutions operating in Palestine to use the currency deemed appropriate to their needs.

The aims of the study are to investigate and determine the type of currency, or currencies, in use at the PT's. To achieve our goals, the objectives analytical approaches' will be use to survey and analyze financial and economic indicators published by official Palestinian sources, international reliable sources will also be considered.

The study reveals that, there are three major currencies in use at the PT's: the United States dollar (USD); the new Israeli shekel (NIS) and the Jordanian Dinar (JD), however, these currencies are differing in significance and uses. The NIS is the major currency in use in trading activities, while the USD used as a deposit and credit facilities currency, the JD became the third currency in use at various activities, all other international currencies are of ignorance use at the PT's. In addition, the USD and the NIS are use by PNA publications related to various economic and financial reports and indicators about the Palestinian economy.

Keywords: Arab-Israeli Conflict, Palestine National Authority, West Bank, Gaza Strip, Currencies, Palestinian Pound, Israeli Shekel, Digital Currency.

1. INTRODUCTION

Prior to the First World War Palestine territories (PT's), simply known as Palestine, was part of the Ottoman Empire, during that time the ottoman currency (Lira) used at the territories[1]. In July 1922, the council of the League of Nations drafted the mandate of Palestine, which came into effect on 29 September 1923 until 1948, with the United Kingdom as the administering mandatory[2][3]. The objective of the mandate was to administer parts of the defunct Ottoman Empire, which controlled the region since the sixteenth century. The British 'created a low against dealing in the Ottoman note'[4],' and the Mandate authorities introduced the Palestinian pound in 1927, pegged to the British bound, to be a major currency used at the region of Palestine[5][6], side by side, with the British pound.

During the British, mandate a military conflict a rise between the Palestinians and the Jews due to the Jews illegal immigrations to Palestine. The United Nations adopted in 1947 a partition plan for Mandatory Palestine, recommending the creation of two independent states on the PT's, an Arab and Jews states[7]. The Arab refused the resolution, while the Jews accepted it. Since then a bloody Arab-Jews conflict arise in the Middle East.

As the British mandatory of Palestine dissolved in May 1948, Palestine divided into three new political entities. First a large portion of Palestine territories occupied by the Jews, and they declared on 14 May 1948 the born of their own independent Jewish state named Israel over the occupied land. Second, the Hashemite Kingdom of Jordan (Jordan) a newborn state replaced Transjordan[8] and declared its independence in 25 May1946. The third part of the PT's named Gaza Strip (GS) became under the occupation of the Egyptian government.

In its efforts to expand its territories, Jordan took over another part of Palestine and officially annexed it to its territories in 1950 and considered it as part of the Jordanian land and granted its inhabitants the Jordanian nationality, that territories is known, at present, as the West Bank (WB), in reference to the west bank of Jordan river.

During the first four years of its creation, Israel used the Palestinian pound as the state national currency. In August 1952 the Palestinian pound was replace by the new Israeli national currency the Lira, which has been replace in January 1, 1986 with a new Israeli currency formerly known new Israeli shekel (NIS)[9]. Jordan, in turn, announced in 1949 the replacement of the Palestinian pound by its own national currency, the Jordanian Dinar (JD) which was introduced at par with the Palestinian pound, but the Palestinian pound continue to be a legal tender until 1950[10]. Egypt in turn occupied Gaza Strip (GS), and introduced the Egyptian pound to replace the Palestinian pound in 1951 at that territory.

As thus, by1952 the Palestinian people lost their land, which became under the occupation of three different states (Israel, Jordan and Egypt), and the Palestinian pound disappeared from trade settlement and vanished from the region economy. In other words, the Palestinian people left with neither a land nor a national currency.

Because of Israel victory during the Arab-Israeli six-day war in 5 June 1967, Israel occupied the WB & GS and other Arab territories that means, all PT's became under Israel occupations. The two territories of WB & GS have no geographical boarders with one another, and being separate by Israel, they recognized, at present, by the international community to constitute the state of Palestine[11].

Few days after the end of the war, Israel closed doors of the banks operated at the newly occupied territories; put into halt all currencies in use; introduced its national currency to be the currency in use there, and encouraged its national banks to replace the closed banks. Henceforth, Israel national currency, the shekel spread rapidly at the WB and GS, and became a major dominant currency in use all over the fully occupied Palestine[12].

The continuous Palestinians revolt against Israel occupation negatively affected the Israeli banks operating at WB & GS, and these banks decided to withdrawn from the occupied PT's. To allow for minimal financial services at the PTs; in 1981, Israel allowed the Bank of Palestine to reopen in GS, and in1986 allowed a Jordanian bank (Cairo-Amman bank) to reopen one of his branches at Nablus city in WB.

2. THE PROBLEM OF THE STUDY

Several attempts has been made, by the international community, to solve the Arab-Israeli conflict, which is always causing a highly volatile political and economic unrest at the Middle East region and caused three major wars between the Arabs and the Jews (1948, 1967, and 1973). After a long lasting negotiation between the Jordanians and the Palestinians on one side and the Israeli on the other side, the Oslo peace treaty has been singe in 1993 between the parties, and one year later a new Palestinian government body was established named Palestine National Authority (PNA)[13][14]. According to the peace treaty, Israel will withdraw from GS and the land majority of WB territories, and handed them over to PNA jurisdiction.

Paris protocol agreement, signed in 1994 between the Palestinian and Israelis, determines the various economical aspects between the PNA and Israel[15]. The Palestinian economy is inexorably link with Israel economy in virtually every respect such as:

- Prevent the Palestine Monetary Authority from issuing a Palestinian national currency without Israel clearance.
- The Israeli shekel will be use as the circulating currency, and legally served as means of payment for all purposes at the PTs. In turn, Israel will provide the PNA with the needed currencies to the Palestinian economy.
- All Palestinian institutions; banks and local authorities will also accept the Israeli shekel in their transactions.
- PT imports from and exports to third countries are subject to Israel supervision, and import tax to be collected by Israel, which will channel it to the PNA.
- Israel has full control over the external borders of PT.

However, article 4 of the protocol allows the Palestinian authority to adopt additional currencies.

To provide financial services to residence, the PNA encouraged the Palestinians to establish their own national banks and invited foreign banks to operate at the freed PT's of WB & GS. Fifteen banks are operating in Palestine at the end of 2016, with 309 branches and offices, of which seven Palestinian national banks, followed by another seven Jordanian banks and one Egyptian bank. In addition, six specialized lending institutions also emerged at Palestinian territories[16].

To prove its sovereignty and control over the Palestinian banking sector at WB & GS territories, the PNA established in 1997 the Palestine Monetary Fund (PMF) to act as Palestine central bank and granted similar authorities as of any other central bank, except currency issuing.

Over more than two decades, the Palestinians and Israelis failed to reach a long lasting peace agreement to their political conflict, and the PNA failed to issue a Palestinian national currency[17][18][19][20]. Therefore, the Palestinian people, the Palestinian national banks and foreign banks operating in Palestine, left to use the currency deemed appropriate to their needs.

The aims of the study are to determine the major currency(s) in use at different economic and financial activities at the PT's of WB & GS, and examine their avenue uses.

The problem of the study could be summarizing by the following three questions:

1. What is the type of currency in use that dominates trade settlements at PT's?
2. What is the type of currency in use that dominates savings and deposits at PT's?
3. What is the type of currency in use that dominates lending's and borrowings at PT's?

3. HYPOTHESIS

The study will examine the following three null hypotheses:

HO_1: There is no major currency in use dominate trade settlements at the PT's.

HO_2: There is no major currency in use dominate savings and deposits accounts at the PT's.

HO_3: There is no major currency in use dominates lending's and borrowings at the PT's.

4. METHODOLOGY

To achieve the aims of the study, we will use the objectives analytical approaches' to analyze financial and economic indicators published by official Palestinian sources such as the publications of the PMF, Palestinian statistical bureau, and other official sources. Available publications from local and international reliable sources will be considers. Economic studies; reports and articles published by various reliable sources will also be examined and analyzed. In addition, financial statements and annual reports for banks operating in Palestine will be examine and analyzed, when appropriate deemed.

The majority of banks operating at Palestine start their operations shortly after the signing of the peace treaty between the Palestinians and Israeli in October 1993, therefore the study will ignore the first decade followed the peace treaty and considered it as a preparatory period for the banking sector operations. Henceforth subject to the availability of data, the study will focus on the second decade of the peace treaty 2004-2013. We believe that ten years period provide enough time spans to examine the people behavior toward the currency they deemed it is appropriate for their needs. However, subject to our analysis, certain matters beyond the study period will be mention when deemed necessary.

5. LIMITATIONS

The study has several limitations:

1. The absences of local currency enforce the PNA and PMF to publish all Palestinian economic performance indicators at either the United States Dollar (USD) or the Israeli shekel (NIS), the study will use these indicators as published by official sources, regardless of the changes at the exchange rate.
2. In spite of the peace treaty between the Arab and Israel peace has not been achieved and the Arab Israeli unsettled conflict continues to cause major political and economic unrest in the Middle East region. Therefore, the study will examine neither the political nor the economic aspects of the Arab-Israeli conflict; rather the study concern is at the currency in used per say at both the WB & GS.
3. After a bloody war occurred during 2007 between two Palestinians militant fractions, Fatah a loyal militant to the PNA, and Hamas a religious Muslim militant group opposed to PNA, the PNA lost control over GS in favor of Hamas. At present, WB managed by PNA, an authority recognized by the International community as a representative of the Palestinian people, while Hamas manage GS, an authority not recognized by the international community.

   It is beyond the scope of the study to investigate neither the economic nor the political reasons causing the conflict between the PNA and Hamas authority in GS. The study will ignore the newly emerged political situation in Gaza strip and focus its concern on the currency in use at these territories.
4. The study is not concerned with neither the day-to-day banking operations, nor daily trade settlements, rather our concerns will be concentrated to determine the type of currency in use overall in trade and financial settlements by the Palestinians through the banking system.
5. The researcher is not aware of any previous study about this subject, therefore quotations from previous studies are very rare.

6. THE ANALYSES: PALESTINIAN MAIN ECONOMIC CHARACTERISTICS

The following main financial and economic indicators dominated the Palestinian territories business environment, and there is no doubt that these indicators will affect the business environment and the currency in use at Palestine territories:

6.1. Political Risks

(a) The Palestinian national authority intended to develop a modern Palestinian banking sector, similar to any other banking sector exist at the well developed nations, based on the well-known banking practices of profitability ; safety and liquidity of clients deposits and the existence of guarantees to banks loans.

Unfortunately after the elapsed of more than two decades, the peace treaty, did not achieve peace between the Palestinians and the Israelis, and the PT's continue to be considered as a highly volatile business environment.

Banks also find out that they are operating at a politically unstable and high-risk business environment. Therefore, banks number operating in Palestine declined from 21; 17 and 15 banks during the years 2008; 2013 and 2016 respectively [21], though branches number jumped from 237 branch in 2013 to 309 branches in 2016.

(b) Although, the PT's of WB & GS are geographically separated, at present, as mentioned above, they are managed by two different Palestinian entities. The conflict between PNA and Hamas might cause another military conflict between the parties, or escalate violence in the region that might cause another war with Israel.

(c) Oslo Accord II, divided the WB into three administrative areas: areas A and B, and C with two different jurisdiction; Israel withdrew from areas A and B, handed them over to the PNA, area C excluded from the Palestinian use and remained under the Israel jurisdiction and full security control claiming its crucial for its security. Indeed, area C contains most of the west bank natural resources[22].

(d) Israeli army have military freedom at the WB territory, were it can impose a military siege, on any Palestinian city or village for an unlimited period, and arrest any Palestinian at any time, if Israel considered that person as a threat to its security. In contrast, PNA forces are not allowed to a rest any Israeli whether inside Israel or at the WB. As far as, Gaza is concerned Israel withdrew its troops and settlers from GS in 2005 and considers that territory as 'hostile territory' [23], the freed land became under the PNA jurisdiction and control.

For these reasons, and others, the highly volatile political unrest continues between the Palestinian and Israel.

6.2. The Economy Infrastructure

The poor infrastructure of all economic sectors; poor existence of the private sector projects; the none existence of the joint venture projects between the PNA government and the private sector; are some of the main features of the Palestinian economy, at both WB & GS.

6.3. Labor Force

Table A.1 at the appendices indicates the main features of Palestinian labor force during several selected years, chosen randomly. It shows that the private sector employed about 48% of the total labor force in Palestine, the Palestinian government authority considered as another employment avenue, with an average employment rate of 11%. Israeli settlements at the west bank employed another 12% of the Palestinian workers, mainly as constructions workers and laborers. Wages paid by Israel is much higher than either the Palestinian private sector or the PNA, Israel has been able to offer a wage premium to the Palestinian workers as a result of the distortion of the labor market created by hiring the Palestinian worker to work by the day in Israel[24][25][26]. Israeli contractors paid the Palestinian workers their wages at Israel national currency shekel, and the PNA pay its employee salaries at Israeli shekel.

International organizations operating at the PT's, such as United Nation Refugee World Agency (UNRWA); foreign nonprofit organizations (NGOs) and higher education institutions are paying their staff salaries in either United States dollar or the Jordanian dinar.

6.4. Grants and Foreign Aids to PNA

Donations is a significant revenue source to the PNA, therefore if the donated countries stopped or even reduced their financial contributions to the PNA, the Palestinian government will have difficulties in the economy development process, and PNA might have difficulties in paying its employees' salaries. Indeed, in several occasions, donation to PNA has been use as a political pressure tool by the donated countries[27]. Grants and foreign aids to the PNA often paid in United States dollar. Table A.2 at the appendices indicate grants and foreign aids to the PNA during three, randomly, selected years of the study period.

6.5. Traffic and Passengers Control

The WB has a land passenger gate as well as a cargo gate with Jordan, but all travelers; imports, and exports through those gates are subject to Israel inspections. Gaza strip on the other hand has a passenger gate with Egypt, but goods imports and exports should pass through gates with Israel. Therefore, Palestinian producers are restricted to selling and exporting to companies that can cross Israeli checkpoints and borders[28]. Therefore, the PNA has neither airports nor marine ports under its full control or authorities that can be use for cargo imports and exports to PT's.

Israel have the right to inspect all imported goods to the PT's and Palestinian importers have to pay import duties directly to Israeli authorities at Israel national currency (NIS), in turn, Israel should channel the received amount in shekel to the PNA in accordance to the peace treaty. Therefore, Import goods duties is another revenue source to the PNA. In several cases, Israel intentionally delayed these payments and used them as a political tool to influence the PNA decisions[29].

6.6. Land Ownership

At PT's, this is a very complicated issue, because the majority of the Palestinian people are living at Diaspora[30] and a significant portion of the land ownerships shared between the Palestinian people living in Palestine and Palestinians living outside Palestine. In accordance with the Israeli martial law, Palestinians living at Diaspora are not allow to come back and live at Palestine, this situation present a major obstacle in front of the Palestinian people as well as companies to take loans or financial credits from banks.

7. HYPOTHESES TESTING

7.1. Testing the First Hypotheses

HO_1: There is no major currency in use dominate trade settlements at the Palestinian territories'.

The proxy we will use to investigate the type of currencies in use in trading at the PT's is to examine the banks checks clearing of all currencies at the Palestine monetary fund system during the period of the study, as indicated in Table 1 below.

As indicated in the table, there are two major currencies used in trade activities; the Israeli shekel with an average of 69 percent of banks clearing of all currencies circulating in Palestine, followed by the United States dollar with 23 percent, the Jordanian dinar and the euro are having a minimal role in trading activities.

Table 1
Banks Clearing of the all Currencies Circulating in Palestine
(2004 – 2013)*

	USD	*JD*	*NIS*	*Euro $*	*Total*
Grand Total (in million USD)	18010	5497	54153	1003	78252
Percentage (%)	23	7	69	1	100

USD = United State Dollar JD = Jordanian Dinar
NIS = Israeli Shekel Euro $ = European Dollar
*Calculated by the researcher, based on the Palestine Monetary Fund annual reports, and the publications of Palestine Central Bureau of Statistics.

Indeed this is an unexpected results, it been expected that the Jordanian dinar will be a major currency in use in trading activities at the PT's due to three main reasons. First, before the Israeli occupation of the WB in 1967 that land was manage and supervise by Jordan, and considered as part of the Jordanian territories, and the Jordanian currency was the only major currency dominate trading during that period. Second, WB passengers and cargo passages to the outside world is through the Jordanian river gates, which are controlled and managed by the Jordanian government, and the third reason is due to the demographic distribution of the Palestinians living at the WB and hundreds of thousands of their relatives living in Jordan.

Several reasons prevail at the Palestinian economy that caused the Israeli national currency (shekel) to be the dominance currency in trade activities in the PT's:

1. The PMA, as well as, most of the Palestinian private sector firms are paying their employees' salaries at shekel.
2. Israel private sector employing Palestinian workers is also paying their salaries in shekel.
3. Goods import duties to the PT's paid by the Palestinian importers to Israeli authorities in shekel, and Israel channel them back to the PNA at shekel too. Israeli banks are the principal beneficiaries of these financial activities, because serving as correspondence banks for fund transfer is a role that the Palestinian banks not allowed performing[31].
4. Trade increases between Palestine and Israel, where most of the consumable goods used at both the WB & GS are coming from Israel and trade financial settlements completed in shekel: 70 percent of Palestinian imports and 85 percent of exports are to and from Israel[32]. Trade settlements facilitated in accordance to a mutual agreement between Israeli-Palestinian correspondents banking relations, these banking arrangements between the PNA and Israel considers as another factor causing the shekel dominance in trade settlements.

Based on the previous discussion we reject the first null hypotheses (**HO_1**), accept the alternative hypotheses, and conclude that the Israeli shekel is the major currency dominates trading at PT's of WB & GS, followed by the USD, while the Jordanian dinar, have a minimal role. The use of the euro and other major international currencies in trade at Palestine is of ignorance.

7.2. Testing the Second Hypotheses

HO_2: There is no major currency in use dominate savings and deposits accounts at the Palestinian territories'.

To examine, whether or not, the Palestinians prefer to keep their savings and deposits at banks using one major currency, we will analyses their money deposits at banks, by region and type of currency. Table 2 below indicates the geographical distribution of the Palestinian deposits by region and currency.

Table 2
Customers Deposits by Region and Currency (%)*
(2004 – 2013)

	West Bank	*Gaza Strip*	*Total (%)*
USD	44.3	60.8	46.7
JD	27.0	19.3	25.6
NIS	23.8	14.7	22.6
Others	4.9	5.2	5.1
Average Total Deposit: (Millions USD)	5029	890	
% of Total Deposits	85	15	

*Calculated by the researcher, based on the Palestine Monetary Fund annual reports, and the publications of Palestine Central Bureau of Statistics.

From table 2, we can notice the following observations:

1. The USD is the major currency used in deposits, followed by the Jordanian dinar and the Israeli shekel respectively. On average basis, during the whole period of the study, deposits in USD presented 46.7 percent of total deposits, the JD 25.6 percent and NIS 22.6 percent, while all other currencies counted for an average of 5.1 percent of total deposits.
2. The majority of the deposits at the Palestinian banking sector are belongs to the Palestinian inhabitants living at the WB, with an average of 85% of average total deposits stand at 5919 millions USD, while Gaza inhabitant's average deposits stands at fifteen percent.
3. Farther analysis indicated an interesting observation, that is during the first three years of the period of the study (2004-2006), that is prior to the war between Fatah and Hamas in 2007, the average deposits of Gaza inhabitants was 24.7; 26.4 and 21.8 percent of total deposits respectively, then it declined to 10.3% in 2013[33]. Savings and deposits of Gaza inhabitants and firms operated in Gaza declined sharply during the period of the study, from 1108 million USD in 2005, to 778 million USD in 2011[34], though the USD was the major depositing currency.

These observations can be explain as follows:

1. The highly volatile political tension between Israel and Hamas result during 2005 in the suspension of the Gaza workers from work in Israel[35], which in turn, has a direct negative effect on Gaza people income and savings.
2. After the loss of Gaza Province, the PNA stopped regular salary payments to Gaza employees and at times, partial salaries or no payment at all[36][37].
3. The siege imposed on GS land and sea by Israel, has direct negative effect on the business environment and people income.

As thus, we can conclude that, Hamas took over of GS did not enhance economic development of the province, rather the inhabitants of Gaza strip became poorer in comparison to their Palestinians fellows living at the WB under the PNA.

Based on the previous analysis we reject the second null hypotheses **(HO $_2$),** and concluded that the USD is the major currency in use as a deposit currency at both the WB & GS, with an average of 46.7 percent of total deposits. JD is the second dominant currency used in deposits, stands at 25.6 percent, and NIS became third at 22.6 percent, other currencies counted for 5.1 percent of total deposits. Nevertheless, the significant uses of the three major currencies, differs between the two territories.

7.3. Testing the Third Hypotheses

HO$_3$: There is no major currency in use dominate banks' lending and borrowing at the Palestinian territories'.

To investigate the proxy of the third null hypothesis we will examine the type of the credit facilities provided by banks to both the private and public sectors during the period of the study. Table 3 below indicated the geographical distribution of net credit facilities provided by banking sector classified by region and sector.

Table 3
Geographical Distribution of Credit Facilities*
(2004 – 2013)

Grand Total of Facilities (millions USD)	25741
Total Facilities by region (millions USD)	
West Bank	22178
Gaza Strip	3563
% of Facilities:	
West Bank	86.2
Gaza Strip	13.8
Public Sector Total Facilities (millions USD):	7805
% of Facilities	30.3
Private Sector Facilities:	17936
% of Facilities	69.7

*Calculated by the researcher, based on the Palestine Monetary Fund annual reports and the publications of Palestine Central Bureau of Statistics.

Avery important observation could be witnessed from Table 3, that is; of the total credit facilities stand at an equivalent of 25741 million dollar provided to both the private and government sectors during the period of the study, the WB governorates quota reached 86.3 percent of these facilities, while GS governorates quota did not exceeds 13.7 percent. This due the continuous highly volatile political unrest in GS compared to the relatively stable conditions at the WB. The private sector quota of the credit facilities reached 69.7% percent, while the public debt quota stands at 30.3 percent.

In terms of the type of currency used in credit facilities, Table 4, indicates the geographical distribution of the net credit facilities by region and type of currency.

Table 4
Geographical Distribution 0f Net Credit Facilities by Region and currency*
(2004 -2013)

	West Bank Governorates (Average %)	*Gaza Strip Governorates (Average %)*	*Total Facilities by Currency (Average %)*
USD	61.0	66.2	61.8
JD	10.5	14.5	11
NIS	28.4	19.3	27.2
Others	0.01	0.002	0.007

*Calculated by the researcher, based on the Palestine monetary Fund Annual Reports, and the publications of Palestine Central Bureau Statistics.

The data analyses shows that the USD is the major dominant currency used in credit facilities at both the WB & GS, with an average of 61.8 percent of total credit facilities, though the percentage in GS is slightly higher than the WB, 66.2% and 61% respectively. The Israeli shekel (NIS) is the second dominant currency used in credit facilities; though the west bank governorates are using the NIS at a wider scale than Gaza governorates, 28.4% and 19.3% respectively. The JD ranked as the third currency used in facilities at an average of 11 percent, other currencies are of minimal use.

Due to the close relationship between the Palestinians living at both the west bank and Jordan, it is been expected that the Jordanian dinar will be used at a wider scale at the WB than GS. Nevertheless, the analysis indicated the opposite, that is, in GS the Jordanian dinar used as a lending currency at a wider scale than the west bank, that could be due to highly political tension between Hamas and Israel.

Based on the previous analysis, we reject the third null hypotheses (**HO_3**) and accept the alternative hypothesis, and stated that the USD is the major currency used in credit facilities at both WB & GS, followed by the Israeli shekel and the Jordanian dinar respectively; other currencies are of ignorance use.

8. CONCLUSIONS

Prior to the First World War, Palestine territories, simply known as Palestine, was part of the defunct Ottoman Empire. The council of the League of Nations mandate of Palestine came into effect on 29 September 1923 until 1948, with the United Kingdom as the administering mandatory. The Mandate authorities introduced the Palestinian pound in 1927, pegged to the British bound. The new currency, as well as, the British pound were the two major currencies in use at the territory.

As the British mandatory of Palestine dissolved in May 1948, a variety of other names and descriptors has been use to the territory of Palestine, which was divided into three new political entities: Israel, Jordan and Egypt, and by 1952 the Palestinian pound disappeared from trade settlement and vanished from the region economy. In other words, the Palestinian people left with neither a land nor a national currency.

Since the creation of Israel in 1948, bloody Arab-Jews conflict arises in the Middle East, and several attempts made to solve that conflict. In 1993, Oslo peace treaty signed between the Parties, but peace did not achieve in the Middle East region. In accordance to the peace treaty, Israel withdrawn from Palestine territories known as WB & GS, and a new organizational body named PNA created, in 1994, to manage these territories.

The Oslo peace agreement debarred PNA from issuing its own national currency without Israel approval. Since then the PNA failed to issue its own national currency. This study is an attempt to investigate the type of currency in use at the Palestinian territories.

The study reveals that there are three major currencies of significance use at PT's of both the WB & GS: the American dollar; the Israeli shekel and the Jordanian dinar, however, these currencies are differing in significance and use. First, the Israeli shekel is the major currency in use dominates trade activities at the PT's of both the WB & GS, with an average of 69 percent of banks clearing of all currencies circulating in Palestine, followed by the United States dollar at 23 percent, and the Jordanian dinar at 7 percent. The use of the euro and other major international currencies in trade activities in Palestine are of ignorance.

Second, the USD is the major currency in use as a deposit currency at both the WB & GS, with an average of 46.7 percent of total deposits. JD is the second dominant currency used in deposits, stands at 25.6 percent and third is NIS currency at 22.6 percent, other currencies counted for 5.1 percent of total deposits. Nevertheless, the significant uses of the three major currencies, differs between the two territories.

Third, the USD is the major dominant currency used in credit facilities at both the WB & GS, with an average of 61.8 percent of total credit facilities, though credit facilities percentage at USD in GS is slightly higher than the WB. The Israeli shekel became second at 27.2 percent, and the third is the Jordanian dinar at 11 percent, other currencies are of ignorance use in credit facilities.

9. RECOMMENDATIONS

Oslo Accord II divided the WB into three administrative areas: Areas A and B, and C with two different jurisdictions; Israel withdrew from areas of A and B, handed them over to the PNA. Area C remained under the Israel jurisdiction and security control, claiming it is crucial for its security, this implies that the seeds for a future military conflict still exist in the region.

Furthermore, the Oslo protocol agreement, prevent the PNA for issuing its national currency and depend on Israeli shekel, and Palestinians are influence by Israel behavior and control. However, the protocol allows the Palestinian authority to adopt additional currencies, unfortunately the PNA failed to issue a Palestinian currency. To issue a sound national currency, several conditions have to prevail at the country, of which are: solid and efficient economy, politically stable environment, and the support of the international community or the support of a super power country, at present these conditions do not exist the PT's. However achieving one of the following approaches will help the PNA to issue its national currency and reduce the dependence on the Israeli shekel.

The First Approach: Full Independent State

Several steps needed toward the creation of Palestinian state:

1. The first step should be the reconciliation of differences between PNA and Hamas, that will lead to a Palestinian unity; otherwise, the Palestinians will lose the international community respect, and that will affect the overall Palestinian cause.

2. The PNA, with the support of their fellow Arab, pressure the international community to honor their commitment to the Palestinian people to establish their own independent state, with full control on its borders and passages gates.
3. The PNA should put international pressure Israel withdraw its forces from all PT's of WB & GS.

The Second Approach: Digital Currency

Several Palestinian officials recently announced that the PNA is investigating the possibility of using the newly spreading digital currency, bit coin to be used as a substitute to the Israeli shekel in the PT's. The head of Palestine Monetary Authority (PMA) told Reuter news agency that the PMA is studying the possibility of having a Palestinian digital pound within the next five years[38]. Indeed, it worth investigating this possibility, but in reality, it seems to me, that it is too far from reality and cannot be achieve during the coming 5 or even ten years, mainly because the bit coin digital currency is not deeply rooted at the international economy and its future is questionable.

The Third Approach: Using International Currency

PNA should consider using the U.S. dollar, or any other major stable international currency, as the circulation currency at the PT's instead of the shekel. That means the PNA release itself from the Oslo agreement and be ready to face the political and economical consequences. After all, Israel is not committed to the Oslo accord; it did not withdraw its military forces from the PT's.

The Fourth Approach: Currency Union between the Two States; Israel and Palestine

Another alternative approach to minimize the use of shekel at the PT's, can be discuss with Israel, that is the possibility of establishing a currency union between the two countries; Palestine and Israel. The American dollar can be as the currency of the union. That requires from Israel to give up its national currency, which can be done, as suggested by Plocker[39][40], by having Israel Central Bank uses its reserves to purchase all shekels in circulation.

However, the author believe that Israel is not keen toward peace with the Palestinians per say, rather its real interest is to achieve a comprehensive peace with the Arab countries. As thus, achieving peace under the present prevailing volatile conditions in the Middle East, and unstable political conditions between the PNA and Israel, none of the above-mentioned approaches is applicable for implementation at present, and the Palestinians will continue to have no national currency in the near future. The previously mentioned three currencies (USD; JD and NIS) will continue to be the dominant currencies in use at the Palestinian territories. Nevertheless, the U.S dollar, as a major international currency, will continue to be a dominant currency in use at saving and deposit accounts, whether a Palestinian state created or not.

References

Wikipedia, the free encyclopedia. (16 June 2016). Palestinian Currency.

League of Nations (1922). Mandate for Palestine; Together with a note by the Secretary-General Relating to its Application to the Territory known as Trans-Jordan. Under the Provision of Article 25. British Command Paper 1785. December.

The Avalon Project (2008). The Palestine Mandate. Yale Law School. Lillian Goldman Law Library.

Al-alem, Laith N. (2014). An Evaluation of Issuing Palestinian Currency. A master degree thesis submitted to the Institute of Graduate Studies and Research at the Eastern Mediterranean University. North Cyprus. January, P.13.

Berlin, Howard M. (2001). The Coins and Banknotes of Palestine under the British Mandate, 1927-1947. (Jefferson : McFarlane) p. 26.

Valdivieso, Rosa (2001). The West Bank and Gaza Economic Performance, Prospects and Policies: achieving Prosperity and Confronting Demographic Challenges. International Monetary Fund. P.122.

United Nations – General Assembly. (29 November 1947). Resolution 181 (II): Future Government of Palestine. Retrieved, 21 March 2017.

The Palestine pound also declared as a legal tender in Transjordan emirate that was technically a part of the British Mandate, though having an autonomous administration.

Wikipedia, the free encyclopedia. (12 January 2018). Israeli New Shekel.

Wikipedia, the free encyclopedia. (1 November 2010). Jordanian Dinar.

United Nations recognized the title: "State of Palestine". (17 December 2015). 193 United Nations member states have recognized the state of Palestine.

Hunter, Robert F. (1991). The Palestinian Uprising: A War by Other Means. The University of California Press. P. 194.

Oslo I Accord. (13 September 1993). Declaration of Principles on interim Self-Government. Signed in Washington D.C.

Oslo II Accord.(28 September 1995). Israeli-Palestinian Interim Agreement on the West Bank and Gaza Strip. Signed in Taba, Egypt.

Israel Ministry of Foreign Affairs. (28 September 1995). Main Points of the Israeli-Palestinian Interim Agreement on the West Bank and Gaza Strip. Signed, 29 September 1994.

Palestine Monetary Authority. (September 2017). ' Annual Report 2016'. Research and Monetary Policy Department. p. iii.

Al-Abed, George. (2009), 'Palestinian Monetary Authority Intend to Stop Using Shekel'. The Palestinian Monetary Authority Governor. Announcement made, May 4.

Jordanian Stock Experts.(2 August 2009). 'Palestinian Monetary Authority Hope to Issue Its Own National Currency in 2011'.

Nofal, Aziza. (23 April 2017). 'Palestinian Pound to Start Circulating in West Bank Schools'. Al-Monitor : Palestine Pulse.

Elder, Shlomi (7 February 2018). 'Will the Palestinian Authority Dump the Shekel'? Al-Monitor: Israel Pulse.

Palestine Monetary Authority. Annual Report s for the period 2013-2016. Research and Monetary policy department.

World Bank. (2 October 2013). 'West Bank and Gaza – Area C and the Future of the Palestinian Economy'. PP.xi, 4.

HAARETZ news.(8 November 2010).Bank of Hapoalim to Sever ties with Palestinian Banks in Gaza.

Palestine Central Bureau of Statistics. Main Economic Indicators. Time Series Data; and the Monthly Statistical Bulletin. Several various issues.

Kubursi, Atif and Fadle Naqib (2008). 'The Palestinian Economy under Occupation'. The Economic of Peace and Security Journal. Vol. 3, No. 2.

Laoved, Kave (2012). 'Employment of the Palestinians in Israel and Settlements: Restrictive Policies and Abuse of Rights'. Western Union. August.

Lasensky, Scott and Robert Grace (10 August 2006). 'Dollars and Diplomacy: Foreign Aid and the Palestinian Question'. United States Institute for Peace. Washington, DC.

Laoved, Kave. 'Economic Exploitatio'. Who Profit From the Occupation Research Center.

Aljazeera Media Network (28 February 2007). 'Palestine Monetary Authority is warning from a Financial Crisis at Palestine'. http://www.Aljazeera.net.

http://www.globalexchange.org/palestine/diaspora.

The Coalition of Women for Peace (October 2010). Financing the Israeli Occupation: the Direct Involvement of Israeli banks in Illegal Israeli Settlement Activity and Control over the Palestinian Banking Market. Who Profits from the Occupation Research Center.

Priscilla Toffano (August 26, 2016). Annex V, The Unique Nature and Importance of Israeli-Palestinian Correspondent Banking Relations. International Monetary Fund, West Bank and Gaza: Report to the Ad Hoc liaison Committee. pp. 40-45.

Palestine Monetary Authority. Annual Reports. Research and Monetary policy department. Several Issues: Customers Deposits by Region and Currency Tables.

Palestine Monetary Authority. Monthly Statistical Bulletin; Accumulative Data. Several Issues.

Palestine Monetary Authority (September 2013). Annual Report 2012. Research and Monetary policy department. P53.

Arafat, Mohammad (6 April 2017). 'Salary cuts, A New Suffering Added to Gaza'.The New Arab News.

Melhem, Ahmed (8 October 2014). 'Gaza Civil Servant's Salaries Remain Unpaid'. Al-Monitor.

Jones, Marc (12 May 2017). Palestinian Officials Hope to Launch E-Currency in 5 Years. Reuter's news agency.

Plocker, Sever (4 November 2010). 'Dollars for Peace: The Monetary Foundations of the Two-State solution. Brookings Institution. Original study published by Asaban Centre Policy Luncheon. 2003.

Remnick, David (November 17, 2014). 'The One State Reality'. The New Yorker. Retrieved, August 3, 2015.

Appendices

Table A.1
Palestine Labor Market Indicators

	2004	*2007*	*2013*	*2016*
Population (Thousand)	3,638	4,016	4,421	4,816
West Bank	2,372	2,517	2,719	2,935
Gaza Strip	1,390	1,499	1,702	1,881
Labor Force (Thousand)				
Palestine	790	849	1155	1341
West Bank	544	576	759	845
Gaza Strip	246	273	396	496
Unemployment Rate				
Palestine	26.8	21.6	23.4	26.9
West Bank	18.6	17.7	18.6	18.2
Gaza Strip	34.8	29.7	32.6	41.7

	2004	2007	2013	2016
Total Workers (Thousand)				
Palestine	578	666	885*	980*
Workers in Public Sector	130	155	103	106
Workers in Private Sector	398	448	416	468
Workers in Israel	50	63	99	117
Average Daily Wages in (NIS)				
Palestine	66.8	81.9	97.2	109.3
West Bank	72.6	78.6	89.0	98.1
Gaza Strip	59.1	65.4	63.1	61.7
Israel and Settlements	126.7	131.2	175.6	218.1

Source: Palestine Monetary Authority. Labor Market Indicators tables, Annual Reports, Several Issues and Palestine Central Bureau of Statistics, Main Economic Indicators, Time series data. And the Monthly Statistical Bulletin

*Figures did not added up due to the fact that the Gaza worker excluded from the calculation, the PNA is not paying their salaries after 2007.

Table A.2
Grants and Foreign Aid (Cash Basis)
(USD Millions)

	2004(1)	2007(1)	2013(2)
Total external revenue	353	1322	1358
For Balance Sheet Support	353	1012	1251
For Project Development	0.00	310	107

Sources: (1) Annual report 2010, Table 2-6, p. 82.
(2) Annual report 2013, Table 2-1, p. 126.