**Conclusions**

Our study confirms that Israel and the West bank and Gaza strip (WBG) maintain close economic ties. These are the result of geographic proximity, history, culture, geopolitical conflicts, and economic agreements. Over the years, the degree of economic integration between the economies has varied, a process reflected in trade, labor, monetary and banking, infrastructures and resources, movement of population and wealth and standard of living.

Due to the importance of economic ties with Israel, the New Israeli Shekel (NIS) is one of the main currencies used by businesses and consumers in the Palestinian economy in day-to-day trading. We find that monetary relations between Israel and the WBG are significant for both sides and especially for the Palestinian economy. It was found that economic integration affects the use of the NIS within the Palestinian economy, and not only on activity between the regions. The reflection of it can be found in figures of the Palestinian banking system [the share of shekel deposits out of total deposits is (36%), the share of credit in shekels out of total credit (40%), and checks in shekels presented for clearing (80%) in 2019]. Our assessment of the amount of NIS cash in circulation in the WBG out of total NIS in circulation is on average 20% over the years 2010-2019, and is estimated at NIS 18 billion in 2019. The significance of our results should be problematic for policy makers. For Israel - the existing political commitment following from the Paris protocol - requires policy makers, (with an emphasis on the Bank of Israel), to continue to respect and manage the existing banking relations and other monetary and financial issues, despite its many risks and political complexity. In the long run, and in an age where governments seek to reduce the use of cash to reduce the black economy and tax evasion, and where central banks are considering issuing central bank digital currency (CBDC) as a potential substitute for physical cash, it will require them to monitor the volume of cash activity in the WBG and to take into account the effects of those policies on the Palestinian economy. According to Sands, Campbell, Keatinge and Weisman (2017), there is a compelling case for setting thresholds on the use of cash for big purchases at a similar level in a common currency area, such as the Eurozone, but a much weaker case across countries with different currencies, as there is evidence that the imposition of cash thresholds in specific Eurozone countries has driven money laundering transactions into neighboring countries. This has implications for possible policy in the Israel – WBG case. Because in the WBG there are no limits on the use of cash, there is a risk of transferring funds of illegitimate origin from Israel to the WBG and from there they will return in legitimate transactions to the Israeli economy.

The growing dependence on the use of the NIS in recent years requires both the Palestinian Authority and the Palestinian Monetary Authority to rethink possible directions of action given that the goal of pursuing an independent monetary policy and issuing a Palestinian currency still exist. This includes the ability to operate contingency programs in times of crisis and, on the other hand, to make financial technological innovations that will be developed in Israel -- related to currency and other payment methods -- accessible for the Palestinian economy. Termination of the ability to carry out banking activity in NIS between Israel and the WBG may be destructive to economic integration, and will probably bring a serious economic crisis in the WBG.

With regards to economic integration as a whole, according to our findings, we find that in a long term perspective (1968-2019), in the two decades after the 1967 war, as a result of Israel’s policy toward the West bank and the Gaza Strip, there was an increase in the level of integration (1987 was the peak year(. After the “First Intifada” in the late 1980s, however the level of integration began to decline in the face of periodic closures and restrictions on the movement of people and the beginning of the terrorist events that accompanied this period and finally ended in the Second Intifada in the early 2000s. After the end of the Second Intifada, a certain recovery was observed, that reflected an increase in the level of integration. In recent years, however a decrease in the level of integration has been observed, as a result of lack of progress in the political process, and steps and policies taken by the Palestinian Authority to reduce its economic dependence on Israel. The situation in the Gaza Strip resulting from Hamas' rise to power in 2006 -- which created, de facto, two separate economies in the WBG -- requires to monitor each area separately, *as the view that WBG is a contiguous area economically may be misleading*. To give a sense of the research potential inherent in the index, we ran a Granger causality test that established that the level of economic integration Granger causes terrorism. This could support the argument that terrorism is a response to political conditions and frustrations that have little to do with economics and poor market opportunities. Another Granger causality test furthermore established that unemployment rate in the WBG Granger causes the level of economic integration. This finding could be linked to the course of Israeli policy toward the territories in that, when there is a fear of a significant lowering of the standard of living in the areas of the Palestinian Authority, Israel allows for more economic activity between it and the WBG.  In our opinion our index, as presented in this study, or in other form, should be regularly monitored by policy makers and may assist in further research.

Finally, our findings are relevant in the context of the discussion of the idea of a one state scenario or the idea of a two-state scenario. According to our findings, the degree of dependence of the Palestinian economy on the Israeli economy, which is reflected in the level of economic integration between the Israeli and Palestinian economies, is very high and unilateral. We can argue that the more the Palestinian economy will be independent and strong, the greater the chance of a scenario of two states side by side, while the more the Palestinian economy depends unilaterally on the Israeli economy, the greater the chance of a one state scenario. Thus-- and to the extent that no significant geopolitical change occurs--a discussion of the various economic scenarios must take into account our quantitative results regarding the phenomenon of the *involuntary economic integration* characterizing the economic relationship between Israel and the WBG.