

Gaza Exhausted Israel's Economy

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The Gaza War has had multiple effects on both parties involved in the conflict. Despite its inequality, injustice and violation of international law and human values, this war has left catastrophic effects on the Palestinians, surpassing the highest estimates of human casualties.

It has also negatively impacted Israel across political, security, social and economic domains.

Politically and from security perspective, the war has led to a deterioration of Israel's relations with most international entities, resulting in negative perceptions of Israel as a repressive force that disregards humanitarian law and perpetrates genocide against the Palestinian people.

Widespread criticism has been directed at Israel for destroying vital facilities such as hospitals, schools, residences, and places of worship, not to mention the significant human losses among women, children, and civilians.

These criticisms have led to international isolation for Israel, affecting its trade and diplomatic relations with the world and undermining its normalisation efforts with neighbouring countries.

Internally, the war has intensified internal tensions in Israel, noticeably impacting its political and security stability.

Socially, the war has left significant marks on Israeli society, turning it into a troubled and insecure community suffering from serious internal divisions. More than 500,000 citizens have been forced to leave Israel since the beginning of the operations, and over 400,000 have been displaced from their residences to perceived safer areas, creating a demographic

shift that poses a danger to their society. The remaining Israelis live in constant threat of Palestinians attacks and rockets, affecting their psychological well-being, daily lives, and overall quality of life. Israeli society has witnessed collapses due to the psychological and health impacts on its members. Furthermore, the number of suicide cases has increased dramatically.

Economically, it seems that the economic prosperity Israel enjoyed in recent years, supported by technology exports, gas exports and rising living standards, has ended due to the effects of this war. The Israeli economy has been further destabilised.

The consequences of October 7 will stay in the coming years on the state's financial performance, given the financial costs of the military operation, defence expenses, reconstruction, compensations for the affected, and daily economic losses. Israeli economic losses exceeded \$3 billion monthly, according to Israeli data, in addition to the absence of more than 1.3 million people from their work during that period. The Israeli economy has also been negatively impacted by a decrease in economic activity, declining investments and significant negative effects on various sectors such as tourism, trade, investment, banks and the stock market directly due to military operations and the lack of security and safety, which are considered larger than any capital in economic terms.

Regarding the military costs of the war, its total cost so far has reached more than \$40 billion as a direct cost, covering the funding of the armed forces, purchase of weapons and military equipment, soldier training, logistic support and settling the costs of over 28,000 of mercenary forces, who are costing the treasury approximately 13,000 euros per month per individual, which will exert pressure on the state's general budget. This will lead to a significant financial deficit in the budget due to this massive military expenditure.

The government will be forced to finance this deficit either through costly borrowing or by imposing new taxes on society, which will impact the economy's performance and growth rates in general. Recently, there has been significant pressure on the local currency (the Shekel), which has lost about 6 per cent of its value, reaching its lowest level in 8 years. The central bank had to intervene by injecting about \$45 billion from its financial reserves to support the local currency and prevent its collapse. The foreign currency reserves of Israel were about \$198.5 billion at the end of September 2023.

Additionally, the Israeli ministry of energy suspended the production of gas from the Tamar and Leviathan fields in the Mediterranean since the beginning of the operation.

This poses a significant obstacle to the state's financial resources. Consequently, the insurance cost of Israeli sovereign debts has increased due to concerns about non-repayment, signaling negative expectations for future economic prospects.

The impact of the war on the overall economic activity was evident and tangible.

Israeli markets are currently experiencing a significant decline in their activities, creating new economic patterns and contributing to the destruction of some working sectors and job losses. Companies have been greatly affected, supply chains and trade disrupted, and investments have declined by over 63 per cent. Many economic and strategic projects have been postponed, leading to an expected economic growth decline of 1.8 per cent, compared to 5.6 per cent last year, according to Israeli Statistical Bureau data. Consumption patterns of Israelis have been affected due to new conditions, with shortages of certain supplies such

as vegetables and fruits, previously supplied by agricultural areas in the Gaza Strip, exceeding 75 per cent. There is also a severe shortage of other daily products, forcing the government to import them from other sources at high costs to address the deficit.

The tourism sector in Israel, being one of the most sensitive sectors, has been greatly affected during the war. General tourism in the region and specifically in Israel has declined significantly due to security tensions and travel warnings. Central bank figures suggest that tourism was expected to contribute about \$6.5 billion to the GDP by the end of the year, but until the end of the third quarter, only \$3.1 billion was achieved.

Transportation and aviation sectors have suffered severely due to travel restrictions and a decrease in demand for air travel to Israel.

The Israeli aviation sector has seen a contraction or cancellation of flights, leading to Ben Gurion Airport's operational decline. Many international airlines have canceled their flights until March 30, 2024.

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