West Bank and Gaza

Banks covered by the survey account for 98 per cent of all banking assets in the West Bank and Gaza, all of which are domestic (Chart 1). The West Bank and Gaza, along with Mongolia and Uzbekistan, are the only economies in the survey where no foreign banks participated. Half of all banks surveyed across the EBRD regions say they expect their branch networks to expand over the next five years, while, on average, just under 40 per cent of banks in the West Bank and Gaza expect their branch networks to increase. A third of the banks surveyed in the West Bank and Gaza expect their networks to shrink, on a par with the average in the Southern and Eastern Mediterranean (SEMED) region and Türkiye, but less than the average in the EBRD regions as a whole.

All banks in the West Bank and Gaza say they have social policies and targets in place, however, only half have environmental and climate change polices and targets (Chart 2).[1] While the proportion of banks with social and climate change-related policies in the West Bank and Gaza is similar to the average of SEMED and Türkiye, on environmental policies, it lags the average shares in the EBRD regions and SEMED and Türkiye by 17 and 30 percentage points, respectively. Relatedly, when lending to small and medium-sized enterprises (SMEs), only 40 per cent of banks in the West Bank and Gaza undertake environmental impact assessments before loan approval. This is around half the share reported, on average, in SEMED and Türkiye and the EBRD regions. Similarly, none of the banks in the West Bank and Gaza say they undertake any climate change impact assessments, in sharp contrast to the average shares – at 43 per cent and 35 per cent, respectively – in SEMED and Türkiye and the EBRD regions (Chart 3).

Over 80 per cent of banks in the West Bank and Gaza offer loans to improve the energy-efficiency of commercial real estate, residential housing, and SMEs and/or corporate clients (Chart 4). In terms of SMEs and/or corporate clients, this lags the share of banks in SEMED and Türkiye by 10 percentage points, but is much higher than the averages in both SEMED and Türkiye and the EBRD regions in the other two areas.

Chart 1 Branch presence of surveyed banks

Chart 2 ESG policies and targets

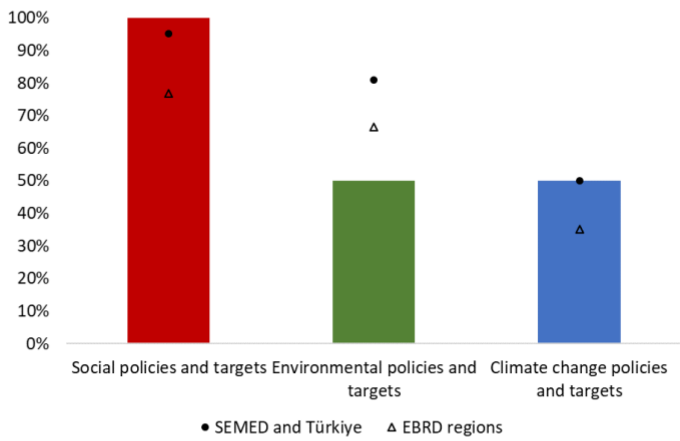


Chart 3 Impact assessment of SMEs before loan approval

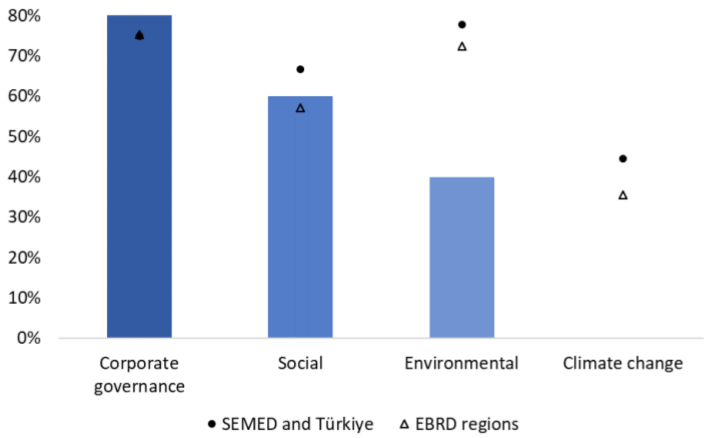
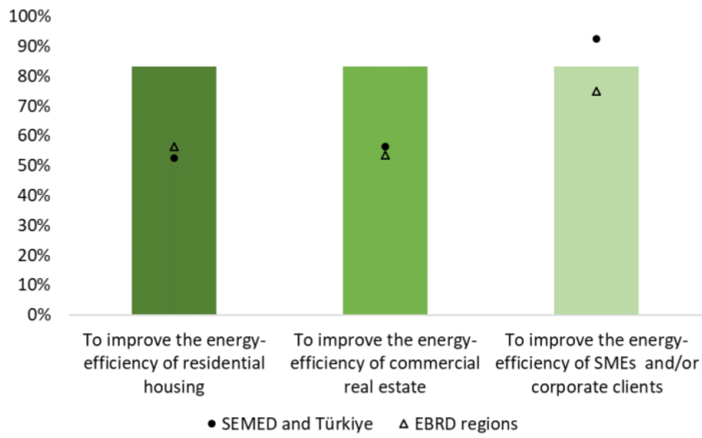


Chart 4 Prevalence of loans to improve clients' energy-efficiency



[1] Bars in Charts 2, 3, 4 and 8 refer to the percentage share of banks in the West Bank and Gaza.

All banks in the West Bank and Gaza view fintech as an opportunity for trading and sales, a much higher proportion than the average in SEMED and Türkiye or the EBRD regions (Chart 5). Similarly, 80 per cent of banks view fintech as an opportunity for SME lending, corporate lending and trade finance. A third of banks in the West Bank and Gaza also perceive fintech as a threat to leasing, while fewer than 10 per cent of banks in SEMED and Türkiye and the EBRD regions view it as a threat.

The share of banks reporting the commercial use of digital technologies in banking lags the average share in SEMED and Türkiye and the EBRD regions (Chart 6). A third of banks in the West Bank and Gaza have launched products and services that use biometric authentication for customer identification, the same as the average in SEMED and Türkiye. However, while more than 40 per cent of banks in SEMED and Türkiye say they use digital wallet solutions, algorithms to improve credit decision-making and cloud computing in their products and services, fewer than 20 per cent (and, in some cases, none) of the surveyed banks in West Bank and Gaza have reached that stage of commercial use.

Reflecting this slower pace of digital adoption, only 20 per cent of surveyed banks in the West Bank and Gaza accept online applications for loans to SMEs, half the average in SEMED and Türkiye. Similarly, none of the surveyed banks view internet banks or non-bank online lenders as strong competition in SME or retail lending. However, 83 per cent and a 100 per cent, respectively, of banks in the West Bank and Gaza view non-bank finance companies as strong competitors in retail and SME lending. Perhaps unsurprisingly, banks in the West Bank and Gaza also report the highest number of hierarchical layers in making lending decisions to SMEs. On average, they report 3.2 layers of approval, compared with 2.7 and 2.2, respectively, in SEMED and Türkiye and the EBRD regions (Chart 7).

More than 80 per cent of banks in the West Bank and Gaza report concerns about information technology (IT) security and regulatory uncertainty in the fintech space. However, a third of banks say they would like to invest more in fintech, but are too financially constrained to do so.

Half of surveyed banks report a lack of creditworthy customers as the main constraint on providing loans to innovative research and development-intensive industries such as IT, chemicals and pharmaceuticals (Chart 8). In addition, banks also consider insufficient demand for credit and a lack of government programmes for guaranteed loans to be among the main constraints on lending to these sectors. Notably, the former and the latter constraints appear more relevant in West Bank and Gaza than in SEMED and Türkiye or the EBRD regions more broadly.

Chart 5 How fintech will affect banks' business lines

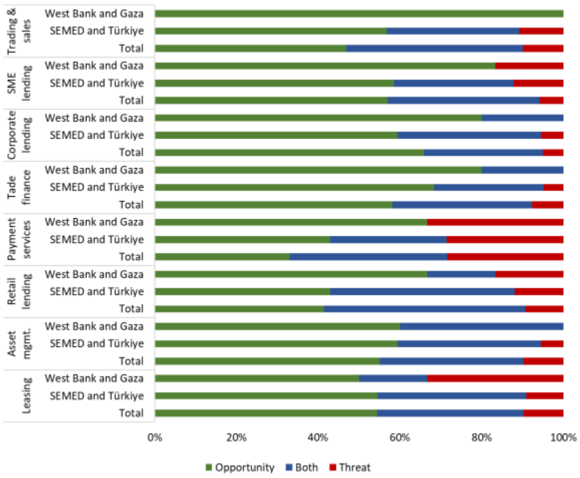
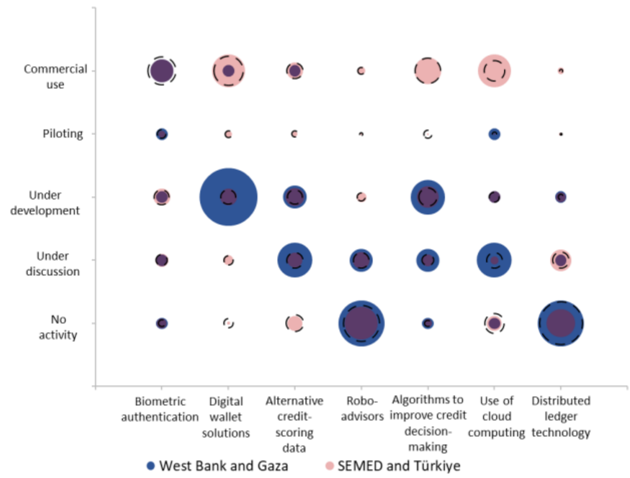


Chart 6 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 7 Typical number of decision layers, SME lending

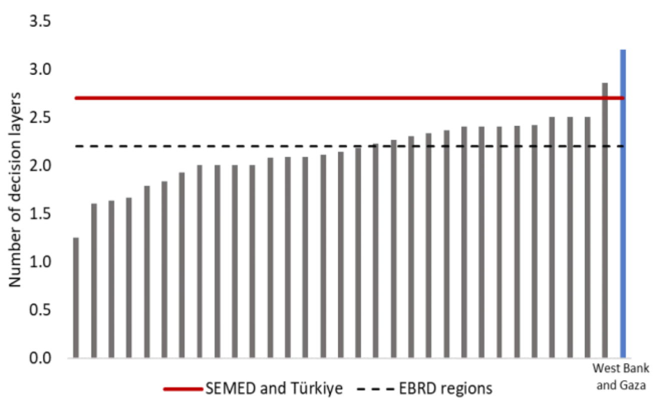


Chart 8 Constraints on lending to innovative industries