



September 15, 2025

Israeli Forum of Economists for Democracy

Open Letter on the Economic Implications of the Conquest of Gaza

According to Israeli cabinet decisions, Israel intends to conquer Gaza City while evacuating a population of about one million people southward and concentrating them in camps. According to the IDF's assessment, the operation, which will last many months, will involve many Israeli military casualties, endanger the lives of the hostages still alive, and is not expected to defeat Hamas.

These cabinet decisions are disastrous for the residents of Gaza. We warn that Israeli citizens will also be severely harmed. Beyond the combat casualties and the danger to the hostages, the occupation of Gaza is expected to cause grave damage to the state's international standing, its economy, its society, and Israel's resilience over time. This letter delineates the severe economic consequences of occupying Gaza, in addition to the grave moral and humanitarian aspects of the operation.

The expected economic damages include (sources for quantitative estimates are listed in the appendix):

- **Large direct costs**, including cost of reserve duty days, munitions, and military equipment, which will inevitably increase the defense budget by tens of billions of shekels.
- The **occupation of Gaza City will make Israel, under international law, the sovereign in Gaza**. Accordingly, Israel will be saddled with the expenses of military administration, humanitarian aid, and responsibility

for the population, including the supply of food and water; health and education systems; and infrastructure such as electricity, water, sewage, waste, and transportation. Even under conservative estimates, these expenditures are on the order of 60 billion shekels, comparable to the annual budget of the Ministry of Health.

- The **occupation of Gaza City is expected to lead to economic sanctions by European countries**, and to significant damage in trade relations with private actors, seriously harming trade with Europe, Israel's main trading partner. Other Western countries may also join the sanctions.
- There is a **real risk that the occupation of Gaza will accelerate the emigration of high-quality human capital from Israel** and cause a significant decline in output and in the standard of living.
- The **hit to output and the departure of strong sectors** will force the government to raise taxes and/or cut government services in fields such as education, health, and welfare.
- The **combination of soaring expenditures with slowed growth** will bring about a significant and sustained increase in the debt-to-GDP ratio. At the same time, credit rating downgrades and an increase in Israel's risk premium and borrowing costs are expected. This deterioration will hurt investment (already in decline), growth, and output. This process will further increase sovereign risk and interest rates, and the resulting vicious cycle could cause a debt crisis.
- In addition, there is a **long list of collateral long-term damages**: the cost of treating the wounded and those suffering from psychological trauma; the cost of harm to reservists and their families, especially in the younger age group, during years that are critical for acquiring education and professional experience.

Therefore, we strongly warn against the intention to occupy Gaza, which—beyond the terrible loss of human life—would also cause severe harm to Israel's economy and to the standard of living of its residents. The occupation of the Gaza Strip threatens Israel's security and economic resilience and could remove Israel from the group of advanced economies.

Appendix: Sources for Quantitative Estimates

- Estimates of the impact on all major macroeconomic aggregates, including output, employment, productivity, interest rates, and public debt, appear in the work of the Aaron Institute at Reichman University, authored by Eckstein, Bental, Ziv, Menachem-Carmi, Somkin, and Kalisher; published on September 7, 2025, in *TheMarker*:

<https://www.themarker.com/allnews/2025-09-07/ty-article/.premium/00000199-1f4d-d1da-a3df-9f5dd24c0000>

- For the assessments and estimates of Brig. Gen. (res.) Re'em Aminach, former Chief Financial Advisor to the IDF Chief of Staff, regarding the direct costs in Gaza, see:

https://www.calcalist.co.il/local_news/article/rjdxbebdel

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