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Financial Literacy, Conflict Dynamics, and Household Economic Resilience:

Evidence from Palestine

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Financial Literacy, Conflict Dynamics, and Household Economic Resilience: Evidence from Palestine

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Abstract

This study investigates the interaction between financial literacy and conflict intensity to determine household financial behavior in Palestine, offering one of the first quantitative estimates of financial resilience in a classical conflict environment. Using individual-level survey and conflict data, we examine formal and informal borrowing, routine saving, and emergency fund accumulation using regression analysis, propensity score matching, and heterogeneity tests across the regions, geography, and gender. Our findings show that higher financial literacy is associated with a higher likelihood of formal borrowing (OR=1.018) and less likely informal borrowing (OR=0.982), is correlated to both routine saving (OR=1.012) and having larger emergency funds (0.008). The intensity of conflicts also has a strong positive impact on precautionary savings (OR=1.177) but has a negative impact (OR=0.759) on informal borrowing. There are critical conditions of boundaries that suggest that financial literacy interventions cannot be universally applicable. In Gaza, where banking facilities have been destroyed by blockade, there is no impact of financial literacy on formal access to credit. Likewise, financial literacy does not forecast formal borrowing in rural locations because of geographic remoteness and among women because of patriarchal frameworks, even though it is effective in improving savings behaviors in such groups. These results indicate that the effectiveness of financial literacy depends on the functionality of the institution, its geographic accessibility, and the lack of structural discrimination. The policy implications also focus on the fact that the significant enhancement of financial resilience of households cannot be achieved without improvements in financial capacity as well as structural changes, institutionalization, and political remedies that focus on the root causes of economic instability. This research develops the knowledge on financial inclusion in conflict-affected environments by showing how individual knowledge can become ineffective due to structural constraints.

Keywords: Financial literacy, Conflict, Financial inclusion, Household financial behavior, financial resilience

1. Introduction

The specificity of financial inclusion in Palestine is a highly challenging and even limited sphere of activity, which is inherently defined by the existing conflict and occupation (Harker, 2021; Morrar et al., 2025). It is within this context that extreme external and internal constraints cause the Palestinian financial environment to be different compared to other developing economies. Israeli domination of borders, commerce, and flow of people and goods, effectively divides the Palestinian territories and places outer restrictions on the Palestinian economy (PMA, 2018). Such restrictions make the global financial systems inaccessible, disrupt supply chains, and cause continuous economic uncertainty (Harker, 2021). The Palestinian Authority not having complete monetary sovereignty exacerbates the macroeconomic management and the stability of the banking sector (World Bank, 2025). Moreover, clearance revenues being withheld and Palestinians in Israel having their work permits canceled, hinders the household incomes and financial stability of the PA, causing the forecasted financing gap of 1.86 billion in 2024 (World Bank, 2024).

These externalities give rise to a high-risk environment and inherently result in a more conservative and risk-averse banking industry, restricting the provision of credit, especially to small and medium-sized businesses (SMEs) and susceptible households (Bayyoud and Sayyad, 2015; Selmi, 2024). They are also exacerbated by high demand-side barriers. There exists a significant gender disparity when it comes to financial inclusion, as the difference in the ownership of bank accounts between men and women in the area reaches 28.2%, which is double that in the MENA region (Morrar et al., 2025). Lack of both financial and digital literacy and underdeveloped and frequently broken digital infrastructure is yet another barrier to adopting formal financial services, such as FinTech services that otherwise would close access gaps (Hurani et al., 2024). This has kept most of the people and smaller businesses in Palestine connected to informal financial systems, which, though available, are not as secure and do not have as many possibilities of economic growth (PMA, 2018).

Such a web of political, economic, and social limitations leads to financial fragmentation, where formal financial services are restricted in access and use, suppressing household resilience and hindering sustainable economic development (MAS, 2025; PMA, 2025). It is important to understand the context when evaluating the possible use of financial literacy (FL) in helping individuals cope with such a highly complicated financial landscape.

The growing complexity of the financial market, as well as a global transition to the personal liability of financial security, has promoted the significance of FL (Lusardi and Messy, 2023; Katnic et al., 2024). There is a large amount of literature that supports the strong and constant relationship between FL and better financial performance in stable economies. Research has found that people who understand their finance-related concepts better are expected to save more in case of their retirement (European Central Bank, 2025), and pay less in terms of borrowing (Stoddard and Urban, 2020). More informed utilization of credit is also linked to financial knowledge (Kurowski and Malinowska-Misiak, 2022), such that more financially literate people are less likely to borrow money at high costs (Lusardi and de Bassa Scheresberg, 2013; Moenjok et al., 2020). Moreover, better financial knowledge seems to make the behavior of saving more effective (Nguyen and Doan, 2020; Peiris, 2021; Gilenko and Chernova, 2021), and financial knowledge seems to enhance emergency preparedness (Klapper and Lusardi, 2020).

The current findings of research regarding FL are contextualized in locations with a rather stable economic and political setting. The dynamics of making financial decisions within conflict-affected areas have not been largely studied. When analyzing the Palestinian situation filled with chronic political instability and frequent violence outbreaks interferes with the economic activity within the region (Di Maio and Sciabolazza, 2023; Morrar et al., 2025). FL and conflict interaction in the Palestinian context is likely to be complicated. On the one hand, there are high uncertainty and risk levels that can promote precautionary savings, as the households will want to have a buffer against future shocks. Conversely, absence of economic opportunities as well as the fear of perpetual violence can render it hard to save and invest towards the future. FL can mediate this relationship and, in this way, allow the households to evaluate risks better, discover opportunities, and make more sensible financial choices. For example, FL people might prefer to access formal financial services, including banks and microfinance institutions that might provide a higher level of security and more products than informal services. They would also tend to be more willing to save precautionarily, even when they are in a state of extreme uncertainty. This aims to fill this gap within the research by investigating the joint effects of FL on the intensity of conflict and the impact of these factors using major financial behaviors, that is, formal and informal borrowing, routine saving, and emergency funds, in the context of Palestinian adults.

Our contribution is twofold. First, the paper modifies the already existing knowledge of the role of FL in influencing economic behavior in stable and developed regions. We challenge the conventional measures of financial well-being, and concentrate on direct measures of economic resilience – namely, specific financial behaviors. For example, households in stable economies may be more focused on long-term retirement savings while households living in chronic conflict and occupation are more prone to the use of precautionary savings and emergency fund maintenance as their main resilience strategies in response to frequent economic and political shocks. Likewise, the option of formal and informal borrowing is not only a question of interest rate but a critical choice of the institutional trust, physical access of physical constraint and the relative stability of the banking system, which are affected by conflict. Our framework, thus, puts the analysis back into perspective to reflect on the way FL impacts these context-specific essential survival behaviors. Secondly, the paper presents one of the initial empirical studies of the dual influence of FL and conflict level on family financial behavior in Palestine. With a distinct dataset, combining individual-level survey data and district-level data on conflict, we step out of a broad-based appreciation of crisis and quantitatively determine the effect of different levels of violence and instability on financial decisions. This will enable us to provide a granular image of economic resiliency that will determine how financial knowledge can prepare individuals to overcome the harsh limitations of conflict. In this way, we can establish important areas of weakness and strength, which can provide specific policy responses to the humanitarian and development agents who aim to enhance the economic stability of families in Palestine and other crisis-prone, conflict-ridden environments.

The remaining part of this study will be arranged as follows. Section 2 conducts a literature review and outlines our research hypotheses. Section 3 explains our data and empirical methodology. Our key conclusion is provided in Section 4 and shows that a higher financial literacy promotes involvement in formal financial institutions and precautionary savings, even in the face of conflict, and that important heterogeneities and boundary effects are also revealed. These findings are discussed in Section 5 in relation to the theoretical literature. Section 6 summarizes our most important contributions associated with policy

recommendations to Palestinian governments, financial institutions, and international development agencies.

2. Literature Review

Financial Literacy is a complex concept that has developed with time (Darwish, 2025). It was initially defined as money management skills and has grown to include a wider range of competencies that are required to make good financial decisions, including awareness, knowledge, skills, attitudes, and behaviors (Asli et al., 2021; Mbona, 2022, and Sulaiman et al., 2023). One fundamental, reliable, and universally used strategy has been the use of objective, test-based, and the Big Three questions developed by Lusardi and Mitchell (2011). Organizations like the Organization for Economic Co-Operation and Development (OECD) and the International Network on Financial Education (INFE) make assessments based on more inclusive measurement models that are multi-dimensional and consider financial behavior and attitudes (Atkinson and Messy, 2012). This stronger methodology was created and implemented on a pilot study in 14 countries, which revealed the overall deficiency of financial knowledge in a large fraction of the surveyed populations and found significant ways of improving financial behavior (Atkinson and Messy, 2012). The major conclusions of the OECD pilot study determined the general deficiency of adults in real-life calculations, including calculating the interest on a compound over time. This broader measurement of FL, in addition to the conventional financial knowledge, also focuses on how the individual is aware of their consumer rights and the financial institutions accessible to them. This contextual knowledge is pivotal in enabling people to experience the financial system with safety and efficiency, to interact with service providers with confidence, and make well-informed decisions that result in financial inclusivity and well-being (Atkinson and Messy, 2011; van der Crujisen et al., 2021).

Household financial behavior reflects economic security against risks (Van Der Vegt et al., 2015). This includes consumer habits, savings, investment, credit, insurance, and charity, all influenced by external factors (Zaiats, 2024; Kizyma et al., 2022). Financial capacity is evaluated by financial behaviors in relation to liquidity, indebtedness, and willingness to have been observed. A household's financial health can be determined by its savings routine and keeping of sufficient liquid assets (McKnight and Rucci, 2020). Liquid assets are necessary to meet daily costs and provide necessary liquidity in case of an emergency (Liu et al., 2024; Bufe et al., 2022). The accumulation of emergency funds or precautionary savings is frequently defined in terms of having enough financial resources to get the amount of income needed to last three or six months (McKnight and Rucci, 2020). Saving behavior is highly context dependent. Borrowing behavior by a household is one of the most important coping strategies in circumstances of financial distress. Access to formal borrowing, which is provided through an established supervised institution (bank, microfinance institution (MFI), credit cooperative) is essential to financial inclusion and is a key way to reduce the vulnerabilities (Pomeroy et al., 2020). In cases where the lack of income is surpassed by unexpected costs, families usually use informal borrowing from relatives/friends as a buffer habit (McKnight and Rucci, 2020; Blanc et al., 2015).). In combination, the study of these borrowing patterns, as well as savings behavior, is specifically applied to explore resilience-enhancing behaviors (Kass-Hanna et al., 2022). Unsustainable debt rates are used to measure financial insecurity (McKnight and Rucci, 2020).

Financial behaviour in conflict and crisis

Financial resilience, understood as the capacity to mobilize internal and external resources and recover from shocks (Salignac et al., 2022; Salignac et al., 2019), is multi-dimensional and shaped by context, institutional access and behavioural factors (Bucher-Koenen et al., 2023; Liu et al., 2024). In extreme instability, household motives shift toward securing liquidity, prioritizing essentials, and protecting assets, and may produce unconventional behaviors such as collective financial patriotism or investment in alternative instruments (Zaiats, 2024). Context matters greatly; the occupation imposed on Palestine and its economy has led to formal financial systems being constrained by external domination, fiscal fragility of the PA, and the impairment of banking infrastructure and access (Berlant, 2011; Allen et al., 2016;; Harker, 2020, 2021; Hinn & Harker, 2024). Within Palestine, households rely heavily on informal networks; friends and relatives are frequently the principal source of financial information, and informal credit remains widespread, especially in Gaza (Harker and Hinn, 2023; Harker et al., 2023; Shabana and Hassouneh, 2021). Additionally, gendered constraints are salient: men typically control household financial decisions, limiting women's opportunities to earn, save formally, and gain decision-making experience, even where basic FL indicators are improving (Harker et al., 2023; Shabana and Hassouneh, 2021).

Women are financially educated, and they implement the same in areas where they have agency (saving, household financial management). However, the same knowledge does not translate into official financial inclusion due to structural and patriarchal factors. 34.7% of women are financially included, as opposed to much higher percentages among men (AFI, 2024; Morrar et al., 2025). The roots of these gaps are diverse: low labor force participation by women (limiting income and collateral), legal and social environment constraints on the economic independence of women, male monopoly of household finances (81% of women live in households whose finances are controlled by men), and banking policies potentially discriminating against women or requiring men to act as guarantors (Harker et al., 2023; UN Women, 2023).

Overall, cross-national evidence links greater FL to higher use of formal financial products that operate as shock buffers (accounts, formal savings, borrowing and housing finance) and associates FL with lower financial fragility (Klapper and Lusardi, 2020; Lusardi et al., 2011; Hasler et al., 2018). This implies that improving FL is a key pathway to strengthen household resilience and to enable more effective interaction with formal financial systems in both stable and conflict-affected environments (Klapper and Lusardi, 2020; Liu et al., 2024; Mundi and Vashisht, 2023).

The research paper will carry this line of inquiry to a conflict-related setting, and postulate that financial literacy has been one of the key determinants of financial resilience. The close relationship between poor debt management and low financial literacy is one of the most repugnant empirical observations in the literature, which increases in the time of crisis. Since financially literate people are in a better position to comprehend the conditions of formal credit products and how a formal credit history is beneficial in the long term (Lusardi and de Bassa Scheresberg, 2013; Moenjak et al., 2020), it is assumed that:

H1a: The greater the financial literacy, the higher the chances are of using formal avenues (banks, microfinance institutions) to obtain a loan as opposed to informal avenues.

Financial literacy helps a person to manage their money more efficiently, save it for the future, and other emergency needs (Nguyen and Doan, 2020; Peiris, 2021). This causes the second hypothesis:

H1b: The more financially literate a person is, the more likely it is that they will practice routine saving.

Risk management and the necessity of a financial buffer to absorb unexpected shocks are also appreciated by a strong knowledge of financial concepts (Klapper and Lusardi, 2020; Liu et al., 2024). So, it is also theorized that:

H1c: The increased levels of financial literacy correlate with the increased desire to have emergency funds.

Financial literacy becomes even more vital to survive in countries where there are a military conflict and a history of socioeconomic instability. Surveys conducted in Ukraine show that in the conditions of martial law and military aggression, the traditional models of financial behavior, which included consumption, savings, investment, and credit, are drastically changed in accordance with the risk of war (Bereslavskaya et al., 2022; Kizyma et al., 2022; Onyshko and Dobryanska, 2023). War results in a high level of uncertainty that will most likely have a massive impact on the financial choices of the household. Conflict may interfere with the operations of formal financial institutions, destroy trust, and raise observed risk to lenders and borrowers. Informal networks (family and friends) can also be a more convenient and reliable source of credit in the case of such an environment (Blumenstock et al., 2024). This is what results in the hypothesis that:

H2a: The more intense the conflict is, the more informal borrowing channels are used opposed to formal ones.

Simultaneously, as the risk of uncertainty becomes higher and the probability of income shock or displacement rises, the household is supposed to save more as precautionary behavior (Li, 2021; Zaiats, 2024). Thus, it is hypothesized that:

H2b: The greater the conflict intensity levels, the greater the chances of precautionary saving and emergency fund accruing.

The essence of the study is the endeavor of analyzing how financial literacy can moderate conflict effect on financial behavior. The hypothesis is that financial literacy is potentially a protective factor, which allows individuals to make more resilient financial decisions even in the most challenging times of severe instability. Although conflict can drive households to informal finance, financially literate ones might have more opportunity to evaluate the relative risks and benefits of formal and informal credit. This gives the hypothesis that:

H3a: The relationship between negative conflict intensity and formal borrowing is weaker in people with a higher level of financial literacy.

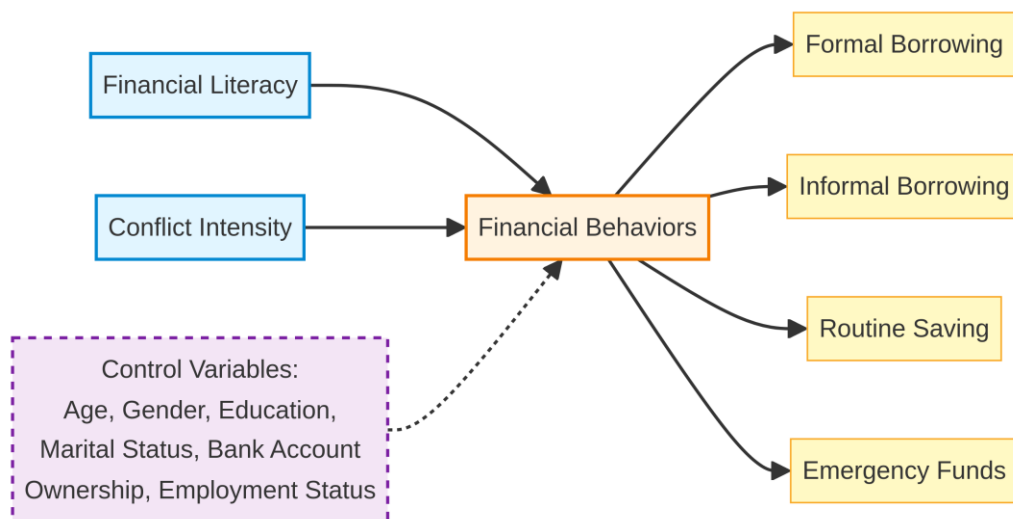
Likewise, although conflict could encourage the entire population to save, financially literate people have more chances of converting the impulse to action. The fact that they are better planners and budgeters might make them more successful at amassing savings even in times of stress (Kass-Hanna et al., 2022). Thus, the last hypothesis is as follows:

H3b: The positive correlation between conflict intensity and precautionary saving (routine saving and emergency funds) is more significant among more financially literate people.

3. Methodology and Data

3.1 Conceptual Framework

The conceptual framework of this study focuses on the relationship between financial literacy, intensity of conflict, and financial behaviors of households in Palestine. The framework hypothesizes that the main independent variables that define important financial behavior are financial literacy and the level of conflict. These would be the formal borrowing (through the banks or microfinance institutions), informal borrowing (through family and friends), routine saving, and the emergency funds accumulation.



3.2. Data Sources and Variable Definition

The study is based on a nationally representative survey conducted in Palestine in 2022 to quantify and evaluate the progress in financial inclusion (FI). The survey was designed by research teams at the Palestine Economic Policy Research Institute (MAS), and data collection completed by the Palestinian Central Bureau of Statistics (PCBS). The results of the survey are commissioned to the advantage of the Palestinian National Financial Inclusion Committee, through the representation of the PMA and the Palestinian Capital Market Authority (PCMA), in the formulation of the strategies and policies of FI. Compared to the World Bank Global Findex which was last published in 2021, the survey is more suited to the Palestinian context. The advantage is also that it has large samples which are representative of the regions, gender, and age groups. The data set may be acquired via the PMA or PCMA. Nonetheless, age-based sampling discrepancies between the MAS-PCBS surveys (18 years old and older) and Findex dataset (15 years old and older) make direct comparison or benchmarking impossible.

The MAS-PCBS surveys cover a broad set of demographic factors (including locality, region, gender, education, and age), as well as socioeconomic ones (including employment status, expenditure, and employment sector). They also present detailed knowledge on the important FI indicators in terms of access, usage, and quality, as well as the in-depth analysis of the causes, barriers, and gaps that deny users access to FI. The surveys cover all formal financial services in Palestine, but also provide an insight into informal financial services, which are especially common in regions of political unrest (Demirgüç -Kunt et al., 2022).

Financial literacy score (FL final) has been obtained based on 14 questions contained in the Financial Inclusion Survey Questionnaire (2022) related to the subsection of financial literacy and knowledge. These questions determined the knowledge of important financial terms, including simple and compound interest, inflation, the risk and the return, diversification of investments, consumer rights, and awareness of financial institutions. One point was given to correct answers and zero to the incorrect or don't know responses. The individual scores were added up to obtain a total of fourteen points that were changed into a percentage to indicate the overall level of financial literacy of the respondent. The standardized score is used to indicate the degree to which people exhibit a level of knowledge and understanding of the fundamental financial concepts and their capacity to make informed financial choices in the Palestinian scenario.

Table 1 below describes the main variables in this study, their definition, and the questions that correspond to the variables in the 2022 Financial Inclusion Survey Questionnaire.

Table 1: Definitions and Classification of Variables Used in the Study

Variable Category	Variable Name	Definition	Questionnaire Section & Question(s)
Independent Variables			
	Financial Literacy	A composite score based on questions assessing understanding of interest rates, inflation, risk diversification, and knowledge of financial institutions.	Financial literacy / knowledge
	Conflict Intensity	District-level data on conflict-related fatalities and injuries.	<i>External data source to be merged with survey data.</i>
Dependent Variables			
	Formal Borrowing	A binary variable equal to 1 if the respondent has a loan from a bank or microfinance institution.	Accessibility to and Ownership of Financial Service
	Informal Borrowing	A binary variable equal to 1 if the respondent has a loan from family, friends, or an informal loan provider.	Accessibility to and Ownership of Financial Service
	Routine Saving	A binary variable equal to 1 if the respondent has saved money in the past 24 months.	Savings Questions
	Emergency Funds	A categorical variable measuring the household's ability to cover living expenses in case of income loss.	Household financial management
Control Variables			

	Age	Respondent's age in years.	General information, Segmentation, demographics of respondents
	Gender	A binary variable for the respondent's gender.	General information, Segmentation, demographics of respondents
	Education	Respondent's highest level of educational attainment.	General information, Segmentation, demographics of respondents
	Marital Status	Respondent's marital status.	General information, Segmentation, demographics of respondents
	Bank Account Ownership	A binary variable equal to 1 if the respondent has a bank account.	Accessibility to and Ownership of Financial Service
	Employment Status	Respondent's current work situation.	General information, Segmentation, demographics of respondents

Table 2 presents the descriptive statistics and shows that Palestinian households have a significant difference in financial activities and socio-economic factors. The level of formal borrowing is minimal – 2.6% of the respondents had a loan with a bank, but 20.3% partake in informal borrowing, indicating high reliance on informal financial systems.

Table 2: Descriptive Statistics of Key Variables

Variable	Type	Obs	Mean	Std. Dev.	Min	Max
Borrowed Money (1 = from Bank)	Dummy	4049	0.026	0.159	0	1
Borrowed Money (1 = from Family)	Dummy	4049	0.203	0.402	0	1
Saved money /past 24 months (1 = yes)	Dummy	4049	0.224	0.417	0	1
Emergency fund *	Continuous	3815	2.28	1.122	1	5
Financial literacy score	Continuous	4049	43.094	21.2	0	90.476
Conflict intensity	Numerical	4049	23.427	33.446	0	122
Gender (1 = female)	Dummy	4049	0.16	0.367	0	1
Reads newspaper and magazine (1 = yes)	Dummy	4049	0.11	0.313	0	1
Own a mobile phone (1 = yes)	Dummy	4049	0.93	0.256	0	1
Employment status (1 = employed)	Dummy	4049	0.287	0.452	0	1
Own bank account (1 = yes)	Dummy	4049	0.594	0.491	0	1
Have control over his/her income (1 = yes)	Dummy	4049	0.782	0.413	0	1
Age	Numerical	4049	44.282	14.408	18	92
Marital status (1 = married)	Dummy	4049	0.802	0.398	0	1
Internet access (1 = yes)	Dummy	4049	0.774	0.419	0	1
Have a car (1 = yes)	Dummy	4049	0.274	0.446	0	1
Education level	Categorical	4049	4.836	1.665	1	9
Investing in various fields reduces risk**	Dummy	4049	0.681	0.466	0	1
Investment with high returns have higher risk**	Dummy	4049	0.768	0.422	0	1
District***	Categorical	4049	-	-	1	75

locality type						
Urban	Dummy	4049	0.572	0.495	0	1
Rural	Dummy	4049	0.202	0.401	0	1
Camps	Dummy	4049	0.226	0.418	0	1

* For how long can you cover living expenses if you lost your source of income? (1 = less than a week, 2 = between one week to less than a month 5 = more than six months). ** those 2 variables are used as outcome variables in the additional results section. ***The dataset covers 16 districts across the West Bank and Gaza.

For the saving behavior, only 22.4% of the individuals indicated that they saved money in the past 24 months. The average score of the emergency fund (2.28 out of 5) shows that the financial stability is low since most households can only spend on a short-term cost in the event of an income loss. The median financial literacy level (43/90) is a moderate but highly diffused level of knowledge. The extent of conflict among the districts is highly differentiated because it faces a level of inequality in the exposure to insecurity. Easy access to low-end technology is the point of concern, 93% of the sample owns a mobile phone, and 77% have access to the internet. However, only 59% of people own a bank account, and 29% are formally employed, highlighting the poor labor market and weak integration into the formal financial system. Locality indicators show that over 57% of the population lives in an urban environment compared to 20% in a rural environment, and 23% in a refugee camp — indicating that people have different living conditions that may affect the results of financial inclusion.

3.3 Analytical Approach

To capture the relationship between financial literacy, conflict exposure, and financial behaviors, we estimate three complementary models. First, we model binary outcomes (borrowing from banks or microfinance institutions, borrowing from family or friends, and saving money) using logistic regression:

$$Pr(Y_{id} = 1) = \beta_0 + \beta_1 FL_{id} + \beta_2 Conflict_d + \mathcal{Q}'X_{id} + \rho_d + u_{id}$$

Y indicates the presence of each behavior for individual i in district d , FL_{id} denotes the financial literacy score. $Conflict_d$ is the count of Palestinian fatalities in district d , and X_{id} comprises demographic and socioeconomic controls including age, gender, education, marital status, bank account ownership and employment status. ρ_d is the vector for district dummies. Second, we apply ordinary least squares (OLS) to the continuous measure of emergency-fund (where E is how long a person can last without employment):

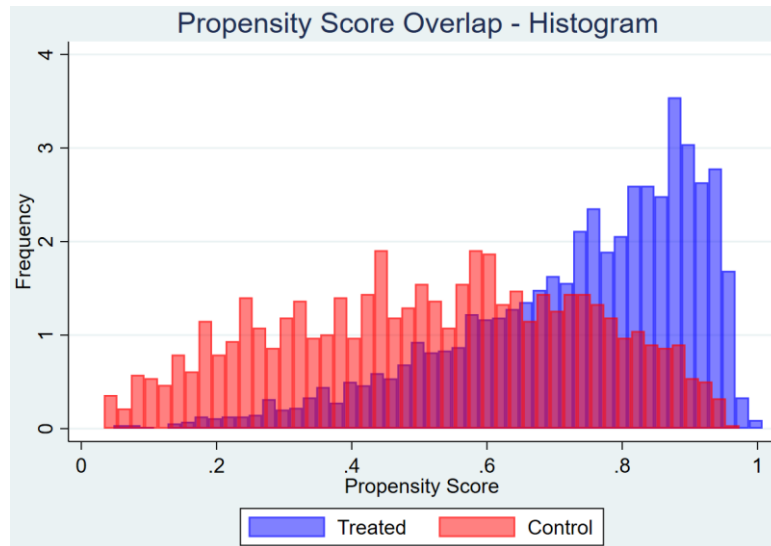
$$(E_{id}) = \beta_0 + \beta_1 FL_{id} + \beta_2 Conflict_d + \mathcal{Q}'X_{id} + \rho_d + u_{id}$$

Third, to address potential selection bias in the effect of literacy on outcomes and to reduce the issue of endogeneity, we employ Propensity Score Matching (PSM) (Rosenbaum and Rubin 1983; Imbens, 2004). We define a binary treatment indicator $T_i=1$ if an individual's literacy score exceeds the sample mean and $T_i=0$ otherwise. Propensity scores $\pi(X_i)=Pr(T_i=1| X_i)$ are estimated via logit regression on the same covariates, and treated and control units are matched on the nearest neighbor without replacement. The average treatment effect $\widehat{ATE} = E[Y_i(1) - Y_i(0)]$ captures the difference in outcomes attributable to higher literacy among otherwise comparable respondents.

The matching process quality is determined by a number of diagnostic tests, suggested by Caliendo and Kopeinig (2008). Standardized bias procedures look at how much covariate imbalance has been reduced following matching both in treatment and control groups. T-tests

of equality of means compare the success of matching to eliminate systematic differences in observable characteristics. Inspection of visuals of propensity score distributions post-matching and pre-matching are sufficient to verify an adequately high level of common support and overlap between treatment and control groups; Figure 1 below shows the overlap of propensity scores between the treated group (higher financial literacy) and control group (lower financial literacy). The high overlap validates the fact that the matching exercise was effective, enhancing the validity of the causal inferences made based on the PSM analysis.

Figure 1: Propensity Score Overlap for Treatment and Control Groups



4. Results

4.1 The Effects of Financial Literacy and Conflict on Household Financial Behaviors using OLS and Logistic Regression Models

Table 3 shows the findings of OLS and logistic regression models to assess how financial literacy and conflict affect four important household financial behaviors: borrowing via a bank/MFI, borrowing via family, saving money and keeping an emergency fund. The logistic regression estimates are in the form of Odds Ratios (OR).

Moreover, incorporating financial literacy is a predictive indicator of savings. One point of improvement on the financial literacy scale increases the probability of saving money by 1.2% (OR=1.012, $p < 0.01$) as well as the size of an emergency fund by 0.8% (0.008, $p < 0.01$). These findings give great empirical evidence to H1b and H1c. The proxy of conflict is also highly and positively related to saving money (OR=1.177, $p < 0.01$) and having a larger emergency fund (0.076, $p < 0.01$). This result is very much in favor of H2b, which shows that households of conflict-affected areas are more likely to save as a safeguard of instability.

According to our findings, a one point increase in financial literacy corresponds to a 1.8% increase in the probability of borrowing at banks or microfinance institutions (OR=1.018, $p < 0.01$). This implies that the more people understand how to use money, the more comfortable they are with formal borrowing strategies – supporting H1a. On the other hand, an increase in

financial literacy correlates with a small change in the probability of borrowing from family (OR=0.994, $p<0.05$) – further confirming H1a. The proxy of conflict demonstrates statistically significant negative correlation with family borrowing (OR=0.759, $p<0.01$), which can be an indication that increased conflict interferes with informal social support systems, thus such borrowing becomes less dependable – this result is contrary to H2a.

Table 3: The Impact of Financial Literacy and Conflict on Household Financial Behaviors

VARIABLES	OR Borrow Bank/MI	OR Borrow Family	OR Saved money	OLS Emergency fund
Financial literacy score	1.018*** (0.006)	0.994** (0.003)	1.012*** (0.002)	0.008*** (0.001)
Conflict proxy	0.942 (0.124)	0.759*** (0.037)	1.177*** (0.063)	0.076*** (0.020)
PSM (ATE)	0.014*** (0.005)	-0.04** (0.019)	0.30*** (0.045)	0.052*** (0.021)
Observations	4,049	4,049	4,049	3,815
Pseudo R2	0.114	0.197	0.129	-
R-squared	-	-	-	0.134
Controls	YES	YES	YES	YES
District Fixed Effects	YES	YES	YES	YES

Notes: Robust standard errors are in parentheses. *** $p<0.01$, ** $p<0.05$, * $p<0.1$

PSM was used to provide the strength of these findings and overcome the possible selection bias. First, financial literacy has a strong effect on decreasing the use of informal borrowing among family members as the ATE shows a decrease in the probability of informal borrowing by 4 percentage-points ($p = 0.033$). This implies that individuals who are more financially literate do not have to rely on family during a time of financial need as much, perhaps because of their superior planning or access to formal financial services. Second, financial literacy elevates the probability of saving by about 5 percentage points ($p = 0.015$). The highest impact is observed in the case of emergency fund preparedness: the positive relationship between financial literacy and emergency fund scale is significant (0.30 points, $p < 0.001$). In general, the findings illustrate that financial literacy is a significant factor that makes financial behavior more stable and self-sufficient and less reliant on informal mechanisms, enhancing the ability to cope with a shock in a household.

As far as the proposed moderating effect (H3a and H3b) is concerned, the analysis of regional and demographic heterogeneity provides subtle trends. H3a expected the negative association between conflict and formal borrowing to be weaker among more financially literate people. Although we do not establish a significant moderating effect of the same in the aggregate sample, the regional analysis reveals that financial literacy continues to positively influence formal borrowing in the West Bank, even during conflict, but this effect is no longer present in the highly extreme Gaza environment. H3b hypothesized that the positive relationship between conflict and precautionary savings would be high among financially literate people. To some extent, this evidence is supported because financial literacy and conflict are independent and positive predictors of savings and emergency funds, meaning that they complement but don't multiply each other.

4.2 Regional Heterogeneity in the Effects of Financial Literacy and Conflict

Table 4 provides a disaggregated analysis of the impact of financial literacy and conflict on household economic behaviors, presenting separate regression results for the West Bank (Panel A) and Gaza (Panel B). This regional breakdown reveals significant heterogeneity, highlighting how the different socio-economic and conflict environments in the two territories shape financial decision-making.

In the West Bank, the results largely mirror the aggregate findings, demonstrating the powerful role of financial literacy in fostering formal financial engagement and resilience. Higher financial literacy significantly increases the odds of borrowing from a bank or microfinance institution (OR=1.016) while simultaneously decreasing the likelihood of borrowing from family (OR=0.990). This indicates that as financial knowledge grows, individuals are better equipped and more inclined to navigate formal credit systems, reducing their reliance on informal social networks. Financial literacy is a strong predictor of precautionary savings. A one-point increase in the literacy score is associated with a 1.1% increase in the odds of saving money, and a 0.9% increase in the size of an emergency fund.

The conflict proxy in the West Bank does not show a statistically significant impact on most financial behaviors, with one important exception: conflict is negatively associated with borrowing from family (OR=0.921). This suggests that even at lower intensities, conflict can disrupt the informal social support systems that households rely on for credit. This dynamic is particularly important in the Palestinian context, where a substantial share of household income is tied to labor in Israel. Prior to the Gaza war that began on October 7, approximately 170,000 Palestinian workers were employed in Israel, representing 22.9% of the total Palestinian workforce at the time (Habas and Quzmar, 2022). Labor income from employment in Israel has historically played a pivotal role in household financial stability, constituting 16% of Palestinian Gross National Income (GNI) in 2022. Thus, shocks that disrupt cross-border labor mobility can directly undermine the financial safety nets families rely on, further intensifying vulnerability during periods of conflict.

Table 4: District-Fixed-Effects Models for *the Impact of Financial Literacy and Conflict on Household Financial Behaviors: West Bank vs. Gaza*

VARIABLES	OR	OR	OR	OLS
	Borrow Bank/MI	Borrow Family	Saved money	Emergency fund
Panel A: West Bank				
Financial literacy score	1.016** (0.007)	0.990*** (0.004)	1.011*** (0.003)	0.009*** (0.001)
Conflict proxy	1.129 (0.136)	0.921** (0.037)	0.983 (0.031)	-0.022 (0.015)
Observations	2,675	2,784	2,784	2,626
Pseudo R2	0.114	0.0555	0.126	
R-squared				0.125
Panel B: Gaza				
Financial literacy score	1.018 (0.013)	0.998 (0.004)	1.010** (0.005)	0.004** (0.002)
Conflict proxy	0.998	1.009**	1.009	-0.004**

	(0.012)	(0.004)	(0.006)	(0.002)
Observations	1,235	1,265	1,235	1,189
Pseudo R2	0.202	0.0949	0.124	
R-squared				0.092
Controls	YES	YES	YES	YES
District Fixed Effects	YES	YES	YES	YES

*Notes: Robust standard errors are in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$*

The results of Gaza are quite a different story, and they are indicative of a condition in which extreme and incessant conflict essentially changes the way people act economically and limits the level of financial literacy. Financial literacy does not significantly influence taking out loans in formal institutions as proven in the West Bank. This is a crucial discovery, which implies that the intense structural obstacles, such as the blockage and the breakdown of the banking system, make financial knowledge useless in terms of how it can enable access to formal credit. Moreover, borrowing from family is also significantly related to the conflict proxy (OR=1.009). Interestingly, this result in Gaza proves the usefulness of H2a when it comes to situations of extreme conflict intensity, when formal institutions have completely failed. The positive correlation is an indicator of a survival game, which is essentially different than that of the West Bank. Formal economic structures have been devastated by extreme and chronic deprivation characterized by pre-war unemployment of 45.1% (Buheji et al., 2025), the poor living in two-thirds of the population, and 80% dependence on foreign aid prior to October 2023 (Elliott, 2023). Several decades of blockade and regular military actions have destroyed productive activity, limited the mobility, and emptied the services of the population, leaving families with few feasible financial means. Families were left practically to themselves as the number of donor aid plummeted and living standards dropped by a quarter of those in 2006. In this reality, where banks are closed, incomes disappear, and the infrastructure is constantly destroyed, informal borrowing becomes one of the major coping mechanisms. The increased conflict in Gaza drives families inward, increasing their reliance on already-stretched family networks to survive – the opposite of what is happening in the West Bank, where conflict is weakening informal support networks instead of reinforcing them.

Although being financially literate is positively related to saving money (OR=1.010) and having an emergency fund ($\beta = -0.004$), conflict has an overwhelming negative impact. The level of conflict is strongly linked to the decrease in the volume of emergency funds ($\beta = -0.004$). This implies that although there might be an urge to save, the harsh economic blows and devastation by conflict are proactive in eroding household savings, and it is impossible to either sustain or save a financial buffer.

The findings in Table 5 demonstrate a big urban-rural gap in the efficacy of financial literacy, regarding access to formal credit, which illuminates the structural and geographical obstacle to financial inclusion in Palestine. In urban dwellers, a higher finite literacy level is strongly linked to the tendency of borrowing money at a bank or MFI (OR=1.017). This indicates that in places where the physical presence of financial institutions and their availability is high, financial knowledge is directly proportional to increased involvement in the formal credit sector. The most important observation is that in the case of rural and camp residents, financial literacy does not have a statistically significant influence on the probability to borrow money from a bank or MFI. This suggests that despite the knowledge needed, such populations cannot have access to formal credit. This aligns with the Palestinian financial inclusion statistics,

indicating that the ownership of bank accounts is much less among the population living in the refugee camps and rural regions than in urban areas (MAS, 2022). The fact that banking services are concentrated in cities and that the camps are a particular environment with certain economic and social particularities poses insurmountable obstacles that can only be overcome by knowledge (Fallah, 2015).

At the same time, financial literacy is related to the decrease in dependence on a family loan (OR=0.994). This shows a definite change from informal to formal credit channels as wealth of urban households rises. Financial literacy and conflict intensity are also effective predictors of the behavior of saving. Irrespective of the geographical distribution, financial literacy has a considerable chance of saving money (OR=1.011) and the amount of emergency funds (OR=0.010).

The proxy of the conflict also affects saving (OR=1.170) and emergency funds (0.089) in a significant positive way. This gives large support to the precautionary savings motive in reaction to instability. Conflict also has an important impact in disrupting informal borrowing networks and decreasing the likelihood of borrowing within the family. This highlights how weak social safety nets are in times of increased instability in all geographical locations.

Table 5: Urban–Rural Heterogeneity in the Effects of Financial Literacy and Conflict on Household Financial Behaviors

VARIABLES	OR Borrow Bank/MI	OR Borrow Family	OR Saved money	OLS Emergncy fund
Urban				
Financial literacy score	1.017** (0.009)	0.994* (0.003)	1.011*** (0.003)	0.010*** (0.001)
Conflict proxy	0.883 (0.146)	0.715*** (0.053)	1.170** (0.081)	0.089*** (0.029)
Observations	2,270	2,318	2,318	2,205
Pseudo R2	0.171	0.226	0.132	
R-squared				0.128
Rural/Camp				
Financial literacy score	1.015 (0.010)	0.994 (0.004)	1.016*** (0.004)	0.004*** (0.002)
Conflict proxy	1.114 (0.308)	0.785*** (0.055)	1.214** (0.113)	0.058** (0.029)
Observations	1,713	1,731	1,731	1,610
Pseudo R2	0.125	0.183	0.182	
R-squared				0.172
Controls	YES	YES	YES	YES
District Fixed Effects	YES	YES	YES	YES

Robust see form in parentheses

*** p<0.01, ** p<0.05, * p<0.1

4.3 Gender-Disaggregated in the Effects of Financial Literacy and Conflict

The findings reveal significant differences in how financial literacy and conflict influence the economic behaviors of men and women in Palestine. While financial literacy is beneficial for both genders, its ability to translate into formal financial inclusion is severely constrained for women, pointing to deep-seated structural and social barriers (see table 6).

The most striking finding is that for women, higher financial literacy has no statistically significant effect on the likelihood of borrowing from a bank or microfinance institution. In contrast, a higher financial literacy score for men significantly increases the odds of borrowing from a bank or MFI (OR=1.018). This indicates that for men, financial knowledge is a direct and effective tool for accessing formal credit markets. This gender-specific finding highlights important boundary conditions for H1a, demonstrating that the relationship between financial literacy and formal borrowing access is contingent on structural and social factors. This aligns with extensive research on Palestine, which identifies a persistent and wide gender gap in financial inclusion, with only 34.7% of women being financially included (AFI, 2024). Factors contributing to this include lower female labor force participation, legal and social norms that limit women's economic autonomy, and a lack of collateral (Morrar & Syed Zwick, 2021; UN Women, 2023; Jemmali and Morrar, 2024; Morrar et al., 2025; Jemmali et al., 2025).

Interestingly, higher financial literacy is strongly associated with a *decrease* in the odds of women borrowing from family (OR=0.977). This may indicate that financially literate women actively seek to reduce their dependency on informal, and often unreliable, social networks, even if they cannot access formal alternatives. **Also**, financial literacy is a significant predictor of savings for women, increasing the odds of having saved money (OR=1.013) and the size of their emergency fund ($\beta=0.006$, $p<0.05$). This demonstrates that women effectively use their financial knowledge to build precautionary savings and enhance household resilience.

Table 6: Gender-Differentiated Effects of Financial Literacy and Conflict on Household Financial Behaviors

VARIABLES	OR Borrow Bank/MI	OR Borrow Family	OR Saved money	OLS Emergency fund
Females				
Financial literacy score	1.021 (0.015)	0.977*** (0.008)	1.013** (0.006)	0.006** (0.003)
Conflict proxy	0.842 (0.211)	0.791 (0.117)	1.045 (0.124)	0.080 (0.050)
Observations	471	622	646	614
Pseudo R2	0.190	0.220	0.119	
R-squared				0.162
Males				
Financial literacy score	1.018*** (0.007)	0.998 (0.003)	1.010*** (0.003)	0.008*** (0.001)
Conflict proxy	0.960	0.764***	1.177***	0.075***

	(0.152)	(0.040)	(0.072)	(0.023)
Observations	3,400	3,400	3,400	3,201
Pseudo R2	0.121	0.205	0.140	
R-squared				0.145
Controls	YES	YES	YES	YES
District Fixed Effects	YES	YES	YES	YES

*Notes: Robust standard errors are in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$*

The conflict proxy is not statistically significant in affecting any of the identified financial behaviors of women. This can imply that the economic activity of women is less exposed to the market volatility, mobility, and the risk exposures that are impacted by conflict to the greatest degree. In Palestine, the female population mainly works in the local labor market, mostly in the government, education, health sector, and other regulated jobs of the private sector (Morrar and Rios-Avila, 2021, Morrar, 2025). A very small number of women are working in the settlements in Israel, especially in the agricultural sector of the Jordan Valley. As a result, the sources of income of women are more reliable and less affected by cross-border economic processes, which means that their financial policy is relatively less vulnerable to shocks associated with a short-term conflict. Conversely, conflict plays a major role in the financial behavior of men. The increase in the intensity of conflict is connected to the fact that the chances of saving money (OR=1.177) and emergency funds (0.075) are higher. This is a big indication of a precautionary saving motive in which men proactively save more so as a hedge against instability due to conflicts.

4.4 The Effect of Financial Literacy on Risk Perception in Investment Decisions

Table 7 provides more results, but it changes the emphasis of the problem from financial behaviors to financial knowledge. Based on a Linear Probability Model (LPM), the table discusses how the financial literacy score of an individual correlates with their understanding of two fundamental concepts: risk diversification and the tradeoff between risks and returns. The results are very important and demonstrate an important aspect of financial capability in Palestine.

Model (1) reveals that a one-point rise in the financial literacy score would presuppose a one point and thirty percent point upsurge in the likelihood of realizing that risk reduction through investment in different areas (=0.013). This implies that financially literate people are much more likely to comprehend the concept of diversification.

The same trend is evident in model (2). A single point rise in the financial literacy score correlates with a one point rise in the likelihood of understanding that high returns in investments are normally accompanied by high risk (0.012). This indicates a strong relationship between financial literacy and the understanding of the basic risk-return trade-off.

Table 7: The Relationship Between Financial Literacy and Risk Assessment in Investment Choices

Variables	(1)	(2)
	reduce the risk of investing if the investment is made in various fields:	An investment that achieves high returns the risk is high
Financial literacy score	0.013*** (0.001)	0.012*** (0.001)
Observations	4,049	4,049
R-squared	0.338	0.346
Controls	YES	YES
District Fixed Effects	YES	YES

Notes: Robust standard errors are in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Such results are especially informative when compared to the findings of the previous table . Although the above analyses revealed that structural barriers (conflict, geography, gender norms) usually hinder people to act on their financial knowledge (e.g., access formal credit), Table 7 has revealed that financial literacy is still most effective in teaching people the theoretical knowledge. This establishes a very important difference between financial capability and financial behavior under conflict environment. The Palestinians might know the rules of good investment, but due to economic and political instability, they have little option applying this knowledge into practice. The Palestinian investment environment is defined by the highest degree of volatility, a strong perception of risks, and the lack of investor confidence which are direct results of the long-standing conflict (Tsoi, 2025; Ijaz, 2025). Financial literacy is also associated with investment decisions, but it is the perceptions of the market risk and the necessity to be diversified that predetermine the decisions significantly (Darwish, 2025). The risky situation in Palestine implies that even the informed investors can be compelled to act in conservative and risk-averse ways, not corresponding to the textbook investment strategies (Barhamzaid et al., 2018).

5. Discussion

This paper offers one of the earliest empirical investigations on the joint effect of financial literacy and level of conflict on household financial behavior with a long-term conflict environment. Through the analysis of the Palestinian context in the perspective of formal versus informal borrowing, routine saving, and emergency fund saving, our results are relevant to three interrelated areas of literature – financial literacy and household economic behavior, financial resilience in crisis, and the political economy of financial inclusion in conflict-prone states. The findings indicate subtle trends that affirm and refute the known theoretical models, as well as indicate vital boundary conditions that arise when structural limits are extreme and individual financial affordability is crossed.

In line with the world literature that financial literacy improves involvement in formal financial systems (Klapper and Lusardi, 2020; Lusardi and Messy, 2023), our findings show that the higher the financial literacy the greater the chances of borrowing in banks and microfinance

institutions and, at the same time, the less the chances of relying on informal sources of borrowing to family and friends. These findings, however, take on an even greater meaning in the Palestinian context where precautionary savings are not only a wise financial policy but a survival mechanism against recurrent economic shocks such as (1) an increase in conflict, (2) fluctuation in income caused by cancellations of permits, and (3) a PA fiscal crisis (World Bank, 2024; Harker, 2021).

Our results also find a negative correlation between the intensity of interpersonal conflict and informal borrowing of money through family and friends. It indicates that conflict not only decreases the access to formal financial services, which is an expected consequence since institutions are disrupted, but also actively lowers the ability and desire of informal networks to support the need in the financial market. In Gaza, the level of conflict has a positive relationship with the informal borrowing. This variation throws light on the non-linear connection between the intensity of conflict and the financial behavior. In the West Bank, where the formal institution is still partially operational despite the limitation, moderate conflict (as opposed to radical conflict) interferes with informal networks but does not entirely negate formal alternatives. In Gaza, where the blockade and recurring military actions have destroyed formal banking infrastructure, leaving 45.1 percent of the population jobless and 80% of them solely dependent on international aid (Buheji et al., 2025; Elliott, 2023), families have no alternative but to resort to family networks as the last line of credit, however poor those networks may have been. Also, the Gaza results reflect the most dramatic example of how the structures limit the individual ability, and the substantive revelation of the human capital constraints in the context of an institutional breakdown of extreme magnitude. These findings add to the works on the wretched financial inclusion (Harker, 2020, 2021) and the financial crisis ordinariness (Berlant, 2011; Harker, 2020) by showing that the connection between the crisis and the coping mechanisms depends not on all but on the extent and lastingness of the institutional failure. When formal systems are weakened but not destroyed, conflict can also work counterintuitive to decrease dependence on both formal and informal channels to establish a state of financial paralysis.

Moreover, our results confirm the hypothesis that financial literacy increases precautionary financial behavior namely routine saving and emergency fund accumulation. These positive relationships between financial literacy and saving money and the size of emergency fund are consistent with the considerable body of literature on stable economies that demonstrated that financial literacy increases long-term planning, budgeting ability, and risk management valuation (Nguyen and Doan, 2020; Peiris, 2021; Gilenko and Chernova, 2021). These results take on an even greater meaning in the Palestinian context where precautionary savings are not only a wise financial policy but a survival mechanism against recurrent economic shocks such as (1) an increase in conflict, (2) fluctuation in income caused by cancellations of permits, and (3) a PA fiscal crisis (World Bank, 2024; Harker, 2021). It also fits into the growing body of literature on the topic of financial resilience during this type of crisis setting (Liu et al., 2024; Salignac et al., 2022), which indicates that financial literacy has both wealth effects (facilitating the accumulation) and risk mitigation effects (incentivizing precaution action) despite the presence of strong external limitations on households. However, severe levels of conflict like in Gaza empty savings more rapidly, than households can fill them (Despard et al., 2020), which creates adverse impact on the amount of emergency fund. This tendency corresponds with the studies on financial resilience in times of extreme stress (Salignac et al., 2022), which reveal that the resilience mechanisms that are efficient in the conditions of moderate stress may fail to take tough and lasting shocks.

Financial literacy is an important facilitator of financial inclusion in even contexts where structural disadvantages are marked. This observation seems to reinforce the idea expressed by Huston (2010) in his conceptualization of financial literacy as understanding (knowledge) and use (application) to show that Palestinian adults with a higher financial literacy level can successfully convert their understanding into a practical interaction with formal financial institutions. This mental aspect of financial literacy is especially distinguished in the Palestinian case, as the investment markets in the country are highly unstable, and the perception of risks is stronger because of the political instability (Tsoi, 2025; Ijaz, 2025). That financially literate people have a better understanding of these principles, even when structural factors do not allow them to effectively apply this knowledge (Harker, 2020; Harker, 2021).

However, in Gaza, the financial knowledge is not beneficial in such an environment since the institutions who would have answered such knowledge are not present or operational in such an environment. The knowledge of a financially literate person in Gaza to be financially empowered by formal credit, to evaluate the conditions of a loan, and the value of credit history is useless, since the banks are closed, loans are non-existent, and the financial system is about to collapse completely (Hinn and Harker, 2024). The economic environment of Gaza has been gradually devastated over 18 years of blockade, recurrent military action, and virtually complete destruction of viable economic activity (Buheji et al., 2025; Elliott, 2023). The banking system is in shambles, credit markets are near non-existent and those financial institutions which are not totally collapsed, encounter catastrophic liquidity pressures and exposure to risk.

The geographical aspect of financial exclusion is especially acute in the context of Palestinian situation when mobility is inhibited by occupation. In the case of rural and refugees camp dwellers, though, there is no notable impact of financial literacy on formal borrowing, which is similar to the Gaza trend but propagated by other mechanisms. This observation is consistent with Palestinian financial inclusion statistics that the number of bank accounts is higher in urban and not rural locations than in refugee camps (MAS, 2022; Fallah, 2015). Also, the division of the West Bank into Area A, B, and C as well as the permit system, the checkpoints, and the separation barrier provide differences in access to financial services not dependent on personal qualities but on the geographical location and the political authority (PMA, 2018). The rural areas, especially Area C (where the Israelis have the full control over it) experience multiplied barriers; they have fewer banks' branches because of the low population density and because it is not profitable to open one; there is the problem of travel that may be difficult or impossible because of the restriction of movement.

Probably, the most theoretically and socially important heterogeneity result is that of gender. In the case of men, financial literacy has a significant positive effect on increasing formal borrowing. In the case of women, however, financial literacy does not have any statistically significant influence on access to formal credit, although women do show positive correlations between financial literacy levels and both formal reduction of informal borrowing and informal savings behavior.

This trend indicates a very important point: women are financially educated and they actually implement the same in areas where they have agency (saving, household financial management), however, the same knowledge does not translate into official financial inclusion as a consequence of structural and patriarchal factors. Financial inclusion is a sector where gender disparities in the Palestinian environment are extremely high and only 34.7% of women are financially included, as opposed to much higher percentages among men (AFI, 2024;

Morrar et al., 2025). The roots of these gaps reflect the low labor force participation by women (limiting income and collateral), legal and social environment constraints on the economic independence of women, male monopoly of household finances (81% of women live in households whose finances are controlled by men), and banking policies potentially discriminating against women or requiring men to act as guarantors (Harker et al., 2023; UN Women, 2023).

These findings also add to the feminist economics stock on financial inclusion by establishing that gender disparities related to financial access are not primarily knowledge based but rather due to structural inhibitors based on patriarchal economic systems (Morrar et al., 2025; UN Women, 2023). Also, this gender disparity can be a sign of the difference of exposure to conflict related economic shocks. Having majority in the number of workers in Israel, men directly suffer as a result of increase in conflict and as a result of mobility restriction, their income is directly volatile. Women, working less often in the formal labor market (in the local public sector, education, health, government), or not in it, have more stable (but lower) sources of income, which are less sensitive to the changes in conflicts (Morrar & Rios-Avila, 2021; Morrar, 2025). Such differences in exposure form the gendered pattern of precaution behavior where men react to conflict by saving more whereas the financial behavior of women is more stable.

6. Results and Policy Recommendations

This paper has explored an intricate interaction between financial literacy and conflict intensity and household financial behavior within Palestine, which is defined by many years of occupation, chronic financial instability, and extreme institutional bottlenecks. Our investigation of the combined effects of these variables on formal and informal borrowing, routine saving, and emergency fund accumulation allows us to add empirical data and theoretical knowledge on the concept of financial resilience in conflict-affected contexts. We find that financial literacy has a large yet limited impact on household financial behavior, and its power is highly limited by structural obstacles that cannot be overcome by the use of financial literacy alone.

There are several important findings from our empirical analysis. The first is that financial literacy will be a major predictor of formal financial systems and precautionary savings behavior engagement even in the presence of chronic conflict. Financially literate people are much more likely to borrow funds via banks and microfinance institutions, less likely to use informal sources, less likely to save money, and accumulate emergency funds. These confirmations are highly supportive of the hypotheses H1a, H1b, and H1c, which show that financial knowledge does work to translate to better financial behaviors in the Palestinian context.

Second, conflict intensity has complex and context-specific effects that are difficult to simplify the analysis of crisis coping mechanisms. However, contrary to our initial hypothesis (H2a), an increase in conflict intensity is correlated with a decrease in informal borrowing from family and friends, both in the aggregate sample and in the West Bank. This implies that conflict interferes with informal social safety nets through the action of depleting social capital, restricting mobility, and risk aversion to strategic lending. The opposite is present in Gaza; high levels of conflict and the total disintegration of the institution compel households to increase their dependence on informal borrowing as the only available source of finance. At

the same time, the degree of conflict has a substantial and significant positive relationship with precautionary saving behavior, which confirms hypothesis H2b, where households living in regions with more violence are characterized by much higher probability of saving money and larger emergency funds.

Third, the linkage between financial literacy and financial behavior is extremely contingent on the structure and institutional aspects, which creates essential boundary conditions that question the universality of financial literacy intervention. Financial literacy does not have a significant impact on access to formal credit in Gaza, 18 years of blockade and frequent military operations have destroyed the banking infrastructure, and the knowledge is not applicable in situations where institutions are not working. In the same way, in the rural regions and refugee camps, where the number of bank branches is limited, and people cannot move freely, financial literacy does not reflect formal borrowing despite its success in the metropolitan regions. Most notably, to women, financial literacy does not make much difference to formal credit access even when one has managed to improve savings behavior, and this demonstrates the dominant influence of patriarchal organizations and discrimination on gender. Such results highlight the importance of the fact that financial literacy interventions, however useful in terms of improving savings behavior and cognitive knowledge, cannot be used as alternatives to structural changes that deal with the underlying issues of financial exclusion.

This research has a number of theoretical contributions. We take the received association between financial literacy and better financial performance in stable economies and apply it to a prolonged conflict context, which proves the perseverance of that association, as well as the boundary of such association, in extreme environments. We suggest a context-specific model of financial literacy effectiveness, including the institutional quality, structural restrictions, and crisis severity as the significant moderators. We add to the rising body of research in the field of financial behavior in conflict-impacted environments by offering quantitative data of the varying level of violence and its influence on household financial behaviors as non-linear relationships and threshold effects. We promote the knowledge on financial resilience by separating cognitive (apprehending financial concepts) and behavioral (participating in the best financial behaviors) impacts of financial literacy, and the circumstances in which this translation does not occur. Lastly, we also add to the field of feminist economics by showing that gender disparities in financial access are not mainly based on the knowledge gap but rather the structural aspect on the basis of patriarchal economic systems.

The results have profound policy implications that can be used to make policy interventions that will help improve household financial resilience in Palestine and other conflict-related environments. Financial literacy programs are useful in improving savings behavior and cognitive knowledge, but they do not have structural barriers to failure, including institutional collapse in Gaza, geographical seclusion in rural regions, and patriarchal exclusion of women. Good policy should not only develop individual financial capacity, but also increase institutional capacity and access, eliminate discriminatory barriers, and solve the underlying causes of economic instability. The precautionary savings motive that is very high in conflict-affected populations is an opportunity that the policy can be applied to enable and secure such precautionary savings instead of assuming that education is a condition that must be met before behavior is motivated. The breakage of informal networks of borrowing when conflict occurs constitutes a significant weakness that must be compensated by other forms of social protection, since the informal networks are not adequate when the whole communities are subjected to shocks at the same point in time.

Finally, the Palestinian example demonstrates the restrictions of personal agency in conditions of extreme structural confinement. Financial literacy enables people to make more effective financial decisions given their limitations, but it can't remove the constraints. Even a significant increase in the financial resilience of households in Palestine needs not only to increase financial capacity but also political measures to counteract the root causes of economic instability, especially the occupation and blockade, institutional changes to increase access to financial services, and social changes to break down discriminatory barriers to financial inclusion. Financial literacy will continue as a useful but inadequate tool of creating household economic resilience in conflict-affected environments until these structural changes are made. The Palestinian crisis is permanent, and therefore households will need to devise financial mechanisms not to deal with short-lived shocks, but to always live in an unstable environment, where financial resiliency is not to recover but to continue surviving in the current state of crisis.

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