Research Update:

# Israel Ratings Affirmed At 'A/A-1'; Outlook Remains Negative

**May 9, 2025**

## Overview

- Israel's resumed military operations in Gaza and the ongoing military activities in neighbouring Lebanon and Syria keep security risks for Israel high.
- Despite Israel's healthy macroeconomic fundamentals, including its highly adaptable and diversified economy, a protracted or more intense military conflict could dent its economic, fiscal, and balance-of-payments performance.
- We affirmed our 'A/A-1' sovereign ratings on Israel. The outlook remains negative.

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## Rating Action

On May 9, 2025, S&P Global Ratings affirmed its 'A/A-1' long- and short-term foreign and local currency sovereign credit ratings on Israel. The outlook is negative.

## Outlook

The negative outlook reflects the risk that the conflict between Israel, Hamas, and other proxies of Iran could substantially weaken Israel's economy, public finances, and balance-of-payments position, particularly if the conflict escalates.

### Downside scenario

We could lower our ratings on Israel in the next 24 months if the military conflicts hamper the country's economic growth, fiscal position, and balance of payments more than we currently anticipate. This could be the case, for example, if the ongoing conflict persists, raising the risks of retaliatory attacks against Israel, or if the prospect of a direct war between Israel and Iran increases.

### Upside scenario

We could revise the outlook to stable if we observed a reduced likelihood of military escalation and broader security risks reduced.

## Rationale

Israel's credit strengths include its wealthy and diversified economy, its sizable net external asset position, and the benefits that accrue from flexible monetary settings and a relatively deep pool of domestic savings.

However, the ratings are constrained by the exceptionally high geopolitical and security risks, as well as elevated security-related pressures on Israel's public finances.

### Institutional and economic profile: Evolving global security and trade settings cloud the outlook

- The resolution of the Israel-Hamas conflict appears to be remote, potentially weighing on Israel's long-term growth and public finances.
- The path of the conflict will be shaped, to a large degree, by the position of the U.S administration, which is difficult to predict.
- U.S. trade tariffs will impinge on Israel's economy both directly and indirectly, yet we forecast GDP growth to recover to 3.3% in 2025 following a mere 0.9% growth last year.

The geopolitical and security risks Israel faces remain very high. Despite Israel's largely successful effort to degrade the military capabilities of its key adversaries--namely Iran and Iran-backed Hamas and Hezbollah--a lasting resolution of geopolitical tensions appears remote. The scale of the resumed military activities in Gaza has intensified. In tandem with Israel's active military involvement in bordering Lebanon and Syria, as well the recent exchange of strikes with the Yemen-based Houthis, this suggests the security environment for Israel will likely remain challenging, in our view.

The diverging views of the key global players--including the U.S., Europe, and the Gulf states--on the post-conflict settings in Gaza could suggest that Israel's involvement in Gaza and associated security risks will likely persist. The ceasefire agreement between Israel and Hamas collapsed in March amid an impasse in the hostage negotiations.

Moreover, the evolving position of the U.S. administration on the Israel-Hamas conflict as well as on broader relations with the region, including relations with Iran, adds uncertainty to the regional security outlook. A wider Middle East conflict, involving Iran or other players opposed to Israel, is not our baseline scenario. That said, even if the U.S. administration appears to initiate direct talks with Iran on curbing its nuclear program, there is a risk of direct or indirect military conflict between the U.S. and Iran, involving Israel. If this risk materializes, the implications for Israel's small economy, public finances, and financial system could extend beyond the projections underpinning our 'A' long-term sovereign credit ratings on Israel. While it is difficult to quantify, the effects of the escalating conflict could include shocks to foreign and domestic investor confidence, capital flight, and financial market and exchange-rate volatility. These will likely come on top of direct physical damage to infrastructure and associated fiscal pressures.

Beyond the ongoing conflicts, Israel's domestic political developments also remain difficult to predict. Israel has a history of short-lived governments and frequent elections. The last general election at the end of 2022 was the country's fifth in four years. Current opinion polls suggest that public support for Prime Minister Netanyahu's Likud Party have recovered from the lows of late 2023. However, the current level of support would still be insufficient for the existing coalition--which includes Jewish Orthodox and far-right parties--to form a majority in the Knesset. The next regular parliamentary elections should take place by October 2026.

We forecast Israel's GDP growth to recover to 3.3% this year on stronger investment and consumption, in part supported by loose fiscal policies. Our projection factors in the possible effects of the higher tariffs imposed on Israeli goods by its key trading partner, the U.S., which account for 27% of the country's total merchandise exports. Given that two-thirds of Israel's exports to U.S. are services--primary in the information and communication technology sector, which are not subject to import tariffs--the direct hit to the Israeli economy will likely be moderate. That said, Israel will not be immune to weaker business confidence as well as the volatility of the U.S. financial markets--the key source of funding for its technology sector, nor to the weaker global growth. Higher U.S. import tariffs underpin our weaker GDP growth forecasts for the U.S., eurozone, and the world economy compared to our projections in early 2025 (see "Seismic Shift In U.S. Trade Policy Will Slow World Growth", published May 1, 2025, on RatingsDirect).

Even if global and bilateral trade tensions soften and the security situation moderates, Israel's medium-term GDP growth rates will likely remain below the pre-war trend, due to the lasting effects of the war. Labor supply constraints will likely persist as more workers are mobilized in the military compared to before the war, and Palestinian workers formerly employed in the construction industry (which constitutes 5% of GDP) are only partly replaced by foreign labor. In addition, given the security-related uncertainty, a risk premium might remain higher and investor confidence lower than before the war.

The structure of the Israeli economy, which is centered on high-tech services exports, with a high percentage of employees able to work from home, should somewhat cushion the impact of security disruptions. Also supportive is that the heightened security environment has had limited, if any, impact on residents' behavior, with no evidence of bank deposit instability or conversion to foreign exchange.

## Flexibility and performance profile: Higher defense spending will keep fiscal deficits wide

- We forecast that the general government deficit will remain wide at 5% of GDP, on average, in the medium term.
- Net general government debt will reach 69% of GDP by 2028, but we view its structure as favorable; debt is primarily issued at long tenors, and mainly held domestically and denominated in local currency.
- Israel's balance-of-payments position remains strong, and effective monetary policy allows the authorities to cushion shocks.

We expect the ongoing conflict will result in an enduring increase in defense-related expenditure. Coupled with a weaker medium-term growth outlook compared to pre-war, we forecast a general government deficit of 6% of GDP for 2025 and 5% of GDP in 2026. The central government budget for 2025 targets the deficit of 4.9% of GDP reflecting primarily revenue adjustment measures, including selected tax-rate hikes and the freezing of the income tax thresholds, with the goal of stopping the rise in government debt as a percentage of GDP. Our 2025 fiscal projections reflect the relatively strong revenue performance reported in the first quarter of 2025 and one-off tax receipts in 2026 from the announced acquisitions of the local high-tech startups by foreign investors. We also consider elevated defense and security costs. The Nagel Commission, a special government commission charged with making a recommendation on Israel's security strategy and budget, estimates additional defense-related spending needs of some 0.5% of GDP annually in the long term.

We forecast Israel's government debt, net of liquid government assets, will increase to almost 70% of GDP in 2028 from 58% of GDP in 2023. This contrasts with our pre-war projection of net debt declining to below 55% of GDP in 2026 and beyond. However, we note Israel's structure of debt remains favorable. Over 80% of government debt is held domestically and denominated in local currency. Short-term debt constitutes just 8% of total debt and the average time to maturity is nine years.

In our view, government funding risks are contained, given the depth of Israel's capital and financial markets. Additionally, Israel has demonstrated continued access to international capital markets, including during episodes of geopolitical escalation and elevated security risks. In the event of funding disruptions, the Israeli government also has recourse to the remaining portion of a long-standing U.S. debt guarantee program.

We expect Israel's external profile will remain a key ratings strength. The country has been running a current account surplus for decades, primarily supported by the fast expansion of high-value-added information and communication-technology services exports. The total external services surplus has averaged 7% of GDP in the past few years. As a result, Israel has shifted into a substantial net external asset position of about 40% of GDP--one of the highest among non-commodity-exporting sovereigns--and reduced its gross external financing needs. We project the exports of high-value-added technology services will continue uninterrupted, and Israel's current account surpluses will average 3% of GDP through 2028.

Following a dip in October 2023, when the Bank of Israel (BOI) intervened into the foreign exchange market to stem the shekel exchange rate amid the confidence shock, the country's gross international reserves have exceeded pre-war levels, reaching $219 billion (40% of GDP) at end-March 2025. This is a significant buffer, in our view, given that it covers 1.7x the gross external debt of the whole economy (including the public sector, banks, and the nonbank corporate sector) and affords Israel policy room to maneuver. We consider Israel's monetary policy flexibility to be a credit strength. The BOI has a record of operational independence and uses a range of market-based monetary instruments. Monetary policy also benefits from Israel's deep local-currency financial and capital markets. Headline consumer price growth has been slightly above the BOI's target range of 1.0%-3.0% since mid-2024 on war-related supply constraints and loose fiscal policies. Upside risks to inflation emanating from higher inflation in key trading partners, domestic supply constraints, and the volatility of the shekel exchange rate have prompted the BOI to keep its policy rate at 4.5% since early 2024.

The Israeli banking system remains resilient, well-capitalized, and profitable. Over the past 12 months, banks' asset-quality deterioration has been contained, with nonperforming loans accounting for a low 1% of total loans. Still, possible security-related shocks could have knock-on effects for the financial system (see "Banking Industry Country Risk Assessment: Israel," published Jan. 27, 2025).

## Key Statistics

Table 1

### Israel--Selected Indicators

| Mil. ILS | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Economic indicators (%)** | | | | | | | | | | |
| Nominal GDP (bil. LC) | 1,428 | 1,414 | 1,582 | 1,764 | 1,878 | 1,999 | 2,125 | 2,261 | 2,399 | 2,542 |
| Nominal GDP (bil. $) | 401 | 411 | 490 | 525 | 512 | 540 | 579 | 611 | 653 | 701 |
| GDP per capita (000s $) | 44.3 | 44.6 | 52.3 | 55.0 | 52.6 | 54.4 | 57.1 | 59.1 | 61.9 | 65.2 |
| Real GDP growth | 3.7 | (2.0) | 9.4 | 6.3 | 1.8 | 0.9 | 3.3 | 3.9 | 3.7 | 3.5 |
| Real GDP per capita growth | 1.7 | (3.8) | 7.6 | 4.3 | (0.2) | (1.1) | 1.3 | 1.9 | 1.7 | 1.5 |
| Real investment growth | 3.9 | (3.4) | 13.8 | 10.6 | (1.8) | (6.1) | 3.0 | 6.0 | 7.0 | 6.0 |
| Investment/GDP | 23.9 | 24.7 | 25.9 | 27.3 | 26.1 | 23.5 | 23.4 | 23.8 | 24.4 | 25.0 |
| Savings/GDP | 27.3 | 28.8 | 29.2 | 30.6 | 29.8 | 26.7 | 26.5 | 26.8 | 27.7 | 28.1 |
| Exports/GDP | 29.0 | 27.2 | 28.8 | 31.4 | 30.4 | 28.4 | 28.4 | 28.8 | 28.7 | 28.7 |
| Real exports growth | 3.1 | (3.8) | 15.2 | 9.4 | (1.1) | (5.6) | 2.0 | 4.5 | 2.5 | 2.5 |
| Unemployment rate | 3.8 | 4.4 | 5.0 | 3.8 | 3.5 | 3.5 | 3.0 | 3.0 | 3.0 | 3.0 |
| **External indicators (%)** | | | | | | | | | | |
| Current account balance/GDP | 3.4 | 4.1 | 3.3 | 3.3 | 3.7 | 3.2 | 3.1 | 3.1 | 3.3 | 3.1 |
| Current account balance/CARs | 9.5 | 12.5 | 9.4 | 8.7 | 10.0 | 9.0 | 8.7 | 8.7 | 9.4 | 8.9 |
| CARs/GDP | 35.9 | 32.9 | 35.4 | 37.9 | 37.0 | 35.1 | 35.5 | 35.6 | 35.0 | 34.8 |
| Trade balance/GDP | (3.8) | (2.9) | (4.5) | (5.1) | (4.0) | (4.9) | (4.9) | (5.0) | (5.2) | (5.4) |
| Net FDI/GDP | 2.2 | 4.0 | 1.8 | 2.3 | 1.6 | 1.2 | 1.5 | 2.0 | 2.0 | 2.0 |
| Net portfolio equity inflow/GDP | (1.5) | (5.2) | (0.7) | 1.3 | 0.4 | (2.0) | (2) | (2) | (2) | (2) |
| Gross external financing needs/CARs plus usable reserves | 65.0 | 61.0 | 59.1 | 57.9 | 58.1 | 56.7 | 58.2 | 58.1 | 57.6 | 57.9 |
| Narrow net external debt/CARs | (51.5) | (70.0) | (68.0) | (55.2) | (73.9) | (77.1) | (73.0) | (71.8) | (71.2) | (69.5) |
| Narrow net external debt/CAPs | (56.9) | (80.0) | (75.0) | (60.5) | (82.1) | (84.8) | (79.9) | (78.6) | (78.5) | (76.3) |
| Net external liabilities/CARs | (110.2) | (137.7) | (91.3) | (81.1) | (113.7) | (117.8) | (118.7) | (122.3) | (127.2) | (129.5) |
| Net external liabilities/CAPs | (121.8) | (157.4) | (100.7) | (88.9) | (126.4) | (129.5) | (129.9) | (134.0) | (140.4) | (142.1) |

Table 1

## Israel--Selected Indicators (cont.)

| Mil. ILS | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|
| Short-term external debt by remaining maturity/CARs | 26.5 | 30.4 | 27.5 | 28.5 | 27.8 | 27.0 | 27.6 | 25.7 | 24.5 | 23.0 |
| Usable reserves/CAPs (months) | 10.6 | 12.8 | 13.2 | 14.1 | 13.7 | 14.3 | 13.7 | 13.3 | 13.2 | 12.8 |
| Usable reserves (mil. $) | 126,014 | 173,297 | 212,992 | 194,218 | 204,694 | 214,570 | 220,355 | 228,299 | 236,784 | 245,900 |
| **Fiscal indicators (general government; %)** | | | | | | | | | | |
| Balance/GDP | (4.6) | (11.4) | (5.3) | (1.9) | (6.9) | (9.4) | (6.0) | (5.0) | (5) | (4.2) |
| Change in net debt/GDP | 3.0 | 9.3 | 2.6 | 0.5 | 4.7 | 10.1 | 6.1 | 5.0 | 4.9 | 4.1 |
| Primary balance/GDP | (1.9) | (8.7) | (2.7) | 0.5 | (4.5) | (6.8) | (3.1) | (2.0) | (1.9) | (1.1) |
| Revenue/GDP | 35.2 | 34.6 | 36.9 | 37.4 | 34.6 | 35.7 | 35.0 | 35.0 | 35.0 | 35.0 |
| Expenditures/GDP | 39.8 | 45.9 | 42.2 | 39.3 | 41.5 | 45.1 | 41.0 | 40.0 | 40.0 | 39.2 |
| Interest/revenues | 7.6 | 7.8 | 7.0 | 6.4 | 6.9 | 7.3 | 8.4 | 8.6 | 8.8 | 8.9 |
| Debt/GDP | 59.1 | 71.1 | 67.8 | 60.5 | 61.5 | 67.8 | 70.0 | 70.8 | 71.6 | 71.6 |
| Debt/revenues | 167.7 | 205.6 | 183.8 | 161.5 | 177.5 | 189.9 | 199.9 | 202.2 | 204.5 | 204.5 |
| Net debt/GDP | 57.7 | 67.6 | 63.0 | 57.0 | 58.2 | 64.8 | 67.1 | 68.0 | 69.0 | 69.2 |
| Liquid assets/GDP | 1.4 | 3.5 | 4.8 | 3.5 | 3.3 | 3.1 | 2.9 | 2.7 | 2.6 | 2.4 |
| **Monetary indicators (%)** | | | | | | | | | | |
| CPI growth | 0.8 | (0.6) | 1.5 | 4.4 | 4.2 | 3.1 | 2.8 | 2.1 | 2.0 | 2.0 |
| GDP deflator growth | 1.9 | 1.1 | 2.3 | 4.9 | 4.5 | 5.5 | 2.9 | 2.4 | 2.3 | 2.4 |
| Exchange rate, year-end (LC/$) | 3.46 | 3.22 | 3.11 | 3.52 | 3.63 | 3.65 | 3.70 | 3.70 | 3.65 | 3.60 |
| Banks' claims on resident non-gov't sector growth | 4.9 | 4.8 | 14.3 | 13.2 | 6.1 | 7.6 | 7.0 | 7.0 | 5.0 | 5.0 |
| Banks' claims on resident non-gov't sector/GDP | 69.6 | 73.7 | 75.3 | 76.4 | 76.2 | 77.0 | 77.6 | 78.0 | 77.2 | 76.5 |
| Foreign currency share of claims by banks on residents | 3.7 | 4.1 | 3.9 | 4.1 | N/A | N/A | N/A | N/A | N/A | N/A |
| Foreign currency share of residents' bank deposits | 19.1 | 18.3 | 19.6 | 19.5 | N/A | N/A | N/A | N/A | N/A | N/A |

Table 1

## Israel--Selected Indicators (cont.)

| Mil. ILS | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|
| Real effective exchange rate growth | 1.2 | (3.5) | 6.7 | 4.5 | (8.4) | 0.9 | N/A | N/A | N/A | N/A |

Sources: The Bank of Israel, Israel Central Bureau of Statistics, International Monetary Fund (Economic Indicators), Israel Central Bureau of Statistics, The Bank of Israel (External Indicators), Bank of Israel and Ministry of Finance of the Government of Israel (Fiscal Indicators), and the Bank of Israel, International Monetary Fund (Monetary Indicators).
Adjustments: None
Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. N/A--Not applicable. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

# Ratings Score Snapshot

Table 2

## Israel--Ratings score snapshot

| Key rating factors | Score | Explanation |
|---|---|---|
| Institutional assessment | 4 | Generally effective policymaking that promotes sustainable public finance and balanced economic growth. Given that relations between Israeli-Jews, Israeli-Arabs, and Palestinians could be strained, we consider that Israel's civil society is subject to ethnic tensions. |
| Economic assessment | 1 | Based on GDP per capita ($), as per the Selected Indicators in Selected Indicators Table. |
| External assessment | 1 | Based on narrow net external debt (% of current account payments) and gross external financing needs (% of current account receipts plus usable reserves), as per the Selected Indicators Table. |
| Fiscal assessment: flexibility and performance | 5 | Based on the change in net general government debt (% of GDP), as per the Selected Indicators Table. |
| Fiscal assessment: debt burden | 4 | Based on net general government debt (% of GDP) and general government interest expenditure (% of general government revenue) as per the Selected Indicators Table. |
| Monetary assessment | 2 | Managed-float exchange-rate regime. The central bank has a track record of operational independence. It uses market-based monetary instruments and has the ability to act as a lender of last resort. Consumer price index, as per the Selected Indicators Table; the local currency financial and capital markets are deep. |
| Indicative rating | aa- | |
| Notches of supplemental adjustments and flexibility | (2) | Exceptionally material geopolitical risk stemming from confrontation with Hamas, Hezbollah and risks of more direct conflict with Iran. |
| Final rating | | |
| Foreign currency | A | |
| Notches of uplift | 0 | Default risks do not apply differently to foreign-and local-currency debt. |

Table 2

**Israel--Ratings score snapshot (cont.)**

| Key rating factors | Score | Explanation |
| --- | --- | --- |
| Local currency | A | |

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

## Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

## Related Research

- Seismic Shift In U.S. Trade Policy Will Slow World Growth, May 1, 2025
- Sovereigns Are Likely To Weather The Direct Impact Of Trade Tensions While Secondary Effects Loom, April 24, 2025
- Sovereign Ratings List, April 28, 2025
- Sovereign Ratings History, April 28, 2025
- Sovereign Risk Indicators, April 10, 2025, An interactive version is available at http://spratings.com/sri
- Sovereign Ratings Score Snapshot, April 7, 2025
- 2024 Annual Global Sovereign Default And Rating Transition Study, March 24, 2025
- Banking Industry Country Risk Assessment: Israel, Jan. 27, 2025
- Israel-Hamas Ceasefire Deal Could Face Implementation Risks, Jan. 21, 2025

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

## Ratings List

| Ratings Affirmed | |
|---|---|
| **Israel** | |
| Sovereign Credit Rating | A/Negative/A-1 |
| Transfer & Convertibility Assessment | AA- |
| Senior Unsecured | A |