

RATING ACTION COMMENTARY

Fitch Affirms Israel at 'A'; Outlook Negative

Fri 27 Mar, 2026 - 7:13 AM ET

Fitch Ratings - Hong Kong - 27 Mar 2026: Fitch Ratings has affirmed Israel's Long-Term Foreign-Currency (LTFC) Issuer Default Rating (IDR) at 'A' with a Negative Outlook. A full list of rating actions is at the end of this rating action commentary.

The Negative Outlook reflects a projected continued rise in public debt that is already well above the 'A' median, as well as war-related tail risks that could weaken Israel's growth prospects and fiscal trajectory. It also reflects a fractious domestic political environment that may hinder fiscal consolidation.

The affirmation of the IDR balances a diversified, resilient and high value-added economy and strong external finances against a high public debt/GDP ratio, still high security risks, and a record of unstable governments that has hindered policymaking.

KEY RATING DRIVERS

Stronger Regional Position: Israel's recent and ongoing military operations have somewhat diminished geopolitical risks to the ratings and demonstrated a highly effective defensive capability. The duration and scope of the war is uncertain, but our baseline assumes the current war will likely greatly diminish Iran's threat to Israel.

Involvement in Lebanon to Intensify: The risk Israel scales up the conflict against Hezbollah is high, in our view, potentially taking control of large parts of southern Lebanon, until it estimates Hezbollah is effectively disarmed. Our baseline assumes the impact on economic activity and public finances will be more limited than during the operations in Gaza in 2024, and that the ceasefire in Gaza will broadly hold.

High Military Expenditure: We forecast military expenditure including imports will remain high in 2026, at 7.5% of GDP (2022: 4.1%). A broadening of the conflict, including large-scale military operations in Lebanon that would involve a high level of reservist mobilisation, represents the main risk to our fiscal projections. We expect

Israel will scale down military expenditure after the end of the wars in Iran and Lebanon, while remaining above pre-war levels. Israel's cash fiscal buffers, of at least 3.9% of GDP at end-November 2025, could absorb additional short-term expenditure pressures.

Large Fiscal Deficits: We project Israel's central government cash budget deficit to widen to 5.7% of GDP in 2026, from 4.7% in 2025 and against a revised target of 5.1%, on larger military spending than the government's forecasts. Lower military spending in 2027 and still robust revenue collection will contribute to the central government cash deficit narrowing to 4.5% in our projection. General government expenditure, at 45% of GDP in 2027, will remain well above its pre-war level (41% on average in 2021-2023), reflecting the long-term impact of the war on civil and military spending. This will contribute to a still large accrual general government deficit of 6.3% of GDP in 2027 ('A' median: 3.4%).

Medium-Term Debt Rising Modestly: We forecast general government debt will rise to 71.4% of GDP in 2026, driven by a large primary deficit of 4.1% ('A' median: 1.5%). Absent post-election fiscal consolidation measures, it will increase modestly in 2027 (72.5%, well above the 'A' median of 56%) and 2028 and continue to increase gradually thereafter. Higher than expected military spending is still the main risk to our debt projections. The debt structure is a strength, with an average maturity of 8.3 years at end-2025, against a 'A' median of 7.3 years. However, public debt servicing costs, projected at 9.4% of general government revenues in 2027, are higher than peers.

Resilient Growth: We project Israel's real GDP growth will accelerate to 3.5% in 2027, from 2.9% in 2025. The economy has a record of strong resilience following war-related shocks, and we anticipate an easing of supply-side constraints will support this moderate recovery. The wars since October 2023 are likely to have a prolonged impact on Israel's potential growth, which is also hampered by long-standing structural challenges.

Low Inflation: Inflation has dropped to 1.8% year on year in January 2026. We forecast it will remain close to the mid-point of the Bank of Israel's 1%-3% target through 2027. The impact of oil price shocks on Israel's inflation is limited, due to its reliance on domestically produced gas, and to a lesser extent, on coal, for power generation.

Fractious Domestic Politics: We believe it is likely Haredi parties vote in favour of the 2026 budget in the context of the ongoing war in Iran and despite the failure of the

ruling coalition to pass a legislation exempting ultra-orthodox students from military service. This would enable the passing of the budget before the 31 March deadline, alleviating immediate political risks. The next elections are due in October 2026, but the current coalition could fall earlier. Israel has a record of coalitions rarely lasting a full term.

External Metrics Remain Strong: Israel's balance sheet remains stronger than peers, with a net creditor position of 62% at end-2025, compared with a 'A' median of 6%. End-2025 foreign-exchange reserves are high, at 14 months of current external payments, well above the 'A' median of 2 months. We forecast current account surpluses of around 1.5% of GDP in 2026-2027, lower than the 2014-2023 average of 3.2%, on high military imports and lower tourism receipts.

ESG - Governance: Israel has an ESG Relevance Score (RS) of '5' for Political Stability and Rights and '5[+]' for the Rule of Law, Institutional and Regulatory Quality and Control of Corruption. These scores reflect the high weight that the World Bank Governance Indicators (WBGi) have in our proprietary Sovereign Rating Model. Israel has a high WBGi ranking at the 64th percentile, reflecting its long record of peaceful political transitions, strong institutional capacity, effective rule of law, a low level of corruption but unstable governments and a hostile external and security environment.

ESG - International Relations and Trade: Israel has an ESG Relevance Score of '5' for International Relations and Trade due to hostility from some neighbouring countries and the inability to trade with many countries in the region, which has a negative impact on the credit profile, is relevant to the rating and a rating driver.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

-**Structural:** An escalation of the conflicts that would have a material and prolonged impact on the economy and public finances

- **Public Finances:** A sustained rise in debt/GDP over the medium term, for instance, due to failure to implement fiscal consolidation measures or due to weak real GDP growth

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- **Public Finances and Structural:** Confidence that debt/GDP will stabilise over the

medium-term, for example as a result of fiscal consolidation measures or de-escalation of conflicts could lead us to revise the Outlook to Stable

- **Structural:** A durable reduction in security, political and governance risks that would alleviate medium-term risks to the economy and public finances

SOVEREIGN RATING MODEL (SRM) AND QUALITATIVE OVERLAY (QO)

Fitch's proprietary SRM assigns Israel a score equivalent to a rating of 'A' on the LTFC IDR scale.

Fitch's sovereign rating committee adjusted the output from the SRM to arrive at the final LTFC IDR by applying its QO, relative to SRM data and output, as follows:

- Structural: -1 notch, to reflect the hostile external environment, currently highlighted by the war with Iran and Hezbollah. It also captures a fractious domestic politics.

- External Finances: +1 notch, to reflect that Israel's strong net external creditor position relative to its peers is not captured in the SRM.

Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables based on three-year centred averages, including one year of forecasts, to produce a score equivalent to a LTFC IDR. Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

DEBT INSTRUMENTS: KEY RATING DRIVERS

Senior Unsecured Debt Equalised: The senior unsecured long-term debt ratings are equalised with the applicable Long-Term IDR, as Fitch assumes recoveries will be 'average' when the sovereign's Long-Term IDR is 'BB-' and above. No Recovery Ratings are assigned at this rating level.

COUNTRY CEILING

The Country Ceiling for Israel is 'AA-', 2 notches above the LT FC IDR. This reflects strong constraints and incentives, relative to the IDR, against capital or exchange controls being imposed that would prevent or significantly impede the private sector from converting local currency into foreign currency and transferring the proceeds to non-resident creditors to service debt payments.

Fitch's Country Ceiling Model produced a starting point uplift of +2 notches above the IDR. Fitch's rating committee did not apply a qualitative adjustment to the model result.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

CLIMATE VULNERABILITY SIGNALS

The results of our Climate.VS screener did not indicate an elevated risk for Israel.

ESG CONSIDERATIONS

Israel has an ESG Relevance Score of '5' for Political Stability and Rights as WBGI have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and a key rating driver with a high weight. As Israel has a percentile rank below 50 for the respective Governance Indicator, this has a negative impact on the credit profile.

Israel has an ESG Relevance Score of '5[+]' for Rule of Law, Institutional & Regulatory Quality and Control of Corruption as WBGI have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and are a key rating driver with a high weight. As Israel has a percentile rank above 50 for the respective Governance Indicators, this has a positive impact on the credit profile.

Israel has an ESG Relevance Score of '4[+]' for Human Rights and Political Freedoms as the Voice and Accountability pillar of the WBGI is relevant to the rating and a rating driver. As Israel has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Israel has an ESG Relevance Score of '4[+]' for Creditor Rights as willingness to service and repay debt is relevant to the rating and is a rating driver for Israel, as for all sovereigns. As Israel has a record of 20+ years without a restructuring of public debt and captured in our SRM variable, this has a positive impact on the credit profile.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores,

visit www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡				PRIOR ⚡
Israel	LT IDR	A Rating Outlook Negative			A Rating Outlook Negative
	Affirmed				
	ST IDR	F1+	Affirmed		F1+
	LC LT IDR	A Rating Outlook Negative			A Rating Outlook Negative
	Affirmed				
	LC ST IDR	F1+	Affirmed		F1+
	Country Ceiling		AA-	Affirmed	AA-
senior unsecured	LT	A	Affirmed		A
Senior Unsecured-Local currency	LT	A	Affirmed		A

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Thomas Garreau

Director

Primary Rating Analyst

+852 2263 9917

thomas.garreau@fitchratings.com

Fitch (Hong Kong) Limited

19/F Man Yee Building 60-68 Des Voeux Road Central Hong Kong

Paul Gamble

Senior Director

Secondary Rating Analyst

+44 20 3530 1623

paul.gamble@fitchratings.com

Federico Barriga Salazar

Senior Director

Committee Chairperson

+49 69 768076 145

federico.barrigasalazar@fitchratings.com

MEDIA CONTACTS

Peter Fitzpatrick

London

+44 20 3530 1103

peter.fitzpatrick@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

[Country Ceiling Criteria \(pub. 24 Jul 2023\)](#)

[Sovereign Rating Criteria \(pub. 15 Sep 2025\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Country Ceiling Model, v2.0.3 ([1](#))

Debt Dynamics Model, v1.3.3 ([1](#))

Macro-Prudential Indicator Model, v1.5.0 ([1](#))

Sovereign Climate Risk Model, v1.0.0 ([1](#))

Sovereign Rating Model, v3.14.4 ([1](#))

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

ENDORSEMENT STATUS

Israel

EU Endorsed, UK Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast

information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see [Best- and Worst-Case Measures](#) under the Rating

Performance page on Fitch's website.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is

registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the “NRSRO”). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the “non-NRSROs”) and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Copyright © 2026 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

[READ LESS](#)

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

Fitch's solicitation status policy can be found at www.fitchratings.com/ethics.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.