S&P Global
Ratings

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Research Update:

Israel 'A/A-1' Ratings Affirmed; Outlook Stable

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Overview

- Ongoing conflicts in Iran, Gaza, and Lebanon weigh on Israel’s economy, labor market, and public finances.
- Nevertheless, assuming there is no large-scale military re-escalation, we believe the macroeconomic fallout will be contained.
- We affirmed our 'A/A-1' sovereign ratings on Israel. The outlook is stable.

Rating Action

On May 8, 2026, 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 stable.

Outlook

The stable outlook reflects our view that military de-escalation, underpinned by the ceasefire agreements, will lower immediate security risk for Israel. The outlook reflects our assumption that possible military hostilities will remain episodic and contained, even if tensions between Israel and Iran and its proxies persist and the broader regional security environment remains fragile.

Downside scenario

We could take a negative rating action if Israel’s economic, balance-of-payments, or fiscal performance weakened markedly beyond our forecast, possibly as a result of military escalation.

Upside scenario

We could raise the ratings if Israel’s growth and fiscal outcomes proved much stronger than we currently project. Rating upside could also stem from a significant and lasting reduction in regional geopolitical and security risks.

Rationale

Israel's credit strengths include its wealthy, innovative, 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.

The ratings are constrained by very high geopolitical risks, as well as elevated security-related pressures on the country's public finances.

Institutional and economic profile: The security environment remains fragile

- We expect the U.S.-Iran and Israel-Hamas ceasefire agreements to broadly hold. Occasional skirmishes and temporary breaches of the truce are still possible.
- The path to a lasting peace agreement in these conflicts will remain long, however.
- Military de-escalation will ease supply side constraints and push Israel’s real GDP growth to close to 6% in 2027.

The U.S.-Iran ceasefire has held until now. The initial two-week truce was unilaterally extended by the U.S. administration, following the request of Pakistani mediators to provide the Iranian leadership more time to submit a peace proposal. Direct missile and drone exchanges between Israel and Iran have ceased since the truce took effect. We understand damage to Israel’s critical infrastructure from Iran’s missile strikes in February-March 2026 has been limited.

Despite military de-escalation, we believe the geopolitical risks Israel faces will remain high, not least because of the fragile regional security environment including in neighboring Lebanon. Notwithstanding Israel’s largely successful effort to degrade the military capabilities of its key adversaries--namely Iran and Iran-backed proxies including Hezbollah--tensions remain elevated. Israeli military involvement in Lebanon has widened and the existing ceasefire between Lebanon and Israel appears fragile. Moreover, the extent to which the U.S. and Iran might be willing to extend a ceasefire remains uncertain. There is a risk the U.S., Israel, and Iran could engage in another round of direct military confrontation.

The diverging views of Israel, the U.S., the EU, Türkiye, and the Gulf states on the post-war settings in Gaza will complicate progress toward a lasting peace agreement. The second phase of the Israel-Hamas ceasefire agreement, focused on security arrangements around Gaza, including the disarmament of Hamas and the formation of a temporary international stabilization force, has largely stalled. Progress has been slow since it depends on the outcome of additional negotiations between Israel, Hamas, and international mediators, including on the composition of an international stabilization force and details of transitional governance in Gaza. Previous efforts to reach a solution to the Israeli-Palestinian conflict have had limited success.

The suspension of military activity will boost the Israeli economy from the second half of 2026. Absent military re-escalation, we project the recovery will likely start in the second quarter after our estimate of an almost 10% output contraction in annual terms in the first quarter of 2026 caused by the conflict with Iran. We project Israel’s GDP growth will rebound strongly in the second half of 2026 and reach 5.9% in 2027 as consumer and business confidence strengthens and the mobilization of reserve soldiers declines, easing labor supply constraints.

The fallout from the global energy price shock emanating from the Middle Eastern conflict is limited, given Israel’s sizable domestic gas production. Domestic natural gas accounts for 70% of electricity production (renewables and coal add another 15% each). Even though Israel imports both crude oil (from Azerbaijan and Kazakhstan) and refined petroleum products, the inflationary impact of higher global energy prices has been to some extent mitigated by the exchange rate appreciation on the back of Israel's persistent current account surplus.

Although we project the security risks to ease somewhat, Israel's GDP will likely remain below the pre-war trend. This is due to the lasting effects of the military conflicts. Labor supply constraints will likely persist as more mobilized workers will likely remain in the military compared with before 2023, and Palestinian workers formerly employed in the construction industry (which constitutes 5% of GDP) are only partly replaced by foreign labor.

If broader regional tensions re-escalate, the implications for Israel's economy could be sizable. While it is difficult to quantify, the effects of escalating conflict could include international sanctions, shocks to foreign and domestic investor confidence, capital flight, and financial market and exchange-rate volatility. These would likely come on top of direct physical damage to infrastructure and associated fiscal pressures.

That said, the resilience of Israel's economy to security-related shocks has been remarkable. The structure of the Israeli economy, which centers on high-tech services exports, with a high percentage of employees able to work from home, has cushioned the impact of security disruptions. Heightened security risks have so far had limited impact on residents' behavior, with no evidence of bank deposit instability or conversion to foreign currencies.

The next legislative elections for the Knesset are scheduled to take place by October 2026. Opinion polls are volatile, but they broadly suggest that public support for Prime Minister Netanyahu's Likud Party has recovered compared with the lows in late 2023. However, such support could still be insufficient for the existing coalition--which includes Jewish Orthodox and far-right parties--to form a majority in the Knesset. We assume a degree of policy continuity after the elections in terms of security, but also economic policies. More broadly, Israel's domestic political developments remain difficult to predict and the country has a history of short-lived governments and frequent elections.

Flexibility and performance profile: Defense-related spending will stay high

- We forecast the general government deficit will remain wide this year and moderate only slightly thereafter as the defense bill will remain elevated in the medium term.
- Net general government debt will reach 68% in 2029, but we view its structure as favorable.
- Israel's balance-of-payments position is strong, and effective monetary policy allows the authorities to cushion shocks.

Defense and security-related spending will account for over 7% of GDP in 2026, and remain higher than before 2023 over our forecast horizon. The Bank of Israel (BOI) estimates the total cost of the military operations conducted from October 2023 to April 2026 at some 20% of GDP (this estimate also reflects additional civilian and compensation payments caused by the war). Even though defense spending will likely decline somewhat in the coming years, security-related costs will stay high. The Nagel 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. There are also costs associated with restocking military equipment, the enhancement of military logistical capacity, and stronger surveillance along Israeli borders. In addition, the government has discussed the possibility of a gradual phase-out of a long-standing U.S. military aid support (equivalent to 0.4%-0.5% of GDP annually), a scenario that could lead to additional long-term fiscal pressures.

There is uncertainty over the fiscal settings in 2027, given upcoming parliamentary elections. Budgetary discussions for 2027 might be delayed by security developments but also by potential disagreements between the new coalition members on post-war fiscal policies. Absent a multiyear fiscal adjustment, government debt will remain on an upward path. Given an already low level of civilian spending in Israel, possible future fiscal consolidation measures will likely be revenue-based. At 37% of GDP in 2026, Israel's general government revenue is one of the lowest among advanced industrialized economies.

We forecast a general government deficit of 6.0% of GDP in 2026 and 4.7% of GDP in 2027, and a central government deficit of 5.3% and 4.4% of GDP in 2026 and 2027. This is weaker than our previous expectations due to the pickup in military spending. That said, the fiscal fallout from the Iran war has been mitigated by a relatively strong revenue performance reported in 2025 and the first three months of 2026 and the one-off tax receipt of 0.5% of GDP from the acquisition of a local high-tech startup by a foreign investor. Our projections assume that past revenue-enhancing measures, including selected tax hikes, will not be reversed in the next few years.

Elevated fiscal deficits will push net general government debt to 68% of GDP through 2029. This contrasts with our pre-2023 projection of net debt declining to below 55% of GDP in 2026 and beyond. However, we note Israel's debt structure 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 eight years.

In our view, government funding risks are contained, given the depth of Israel's capital and financial markets. Israel has also 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 exceptionally strong. 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 2.2% of GDP through 2029.

Gross international reserves exceed pre-war levels, reaching $228 billion (32% of GDP) in March 2026. This is a significant buffer, in our view, given that it covers 1.5x 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 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. War-related supply constraints, loose fiscal policies, and energy price increases will likely push headline consumer price inflation up from the 1.8% year on year figure reported in March. That said, stronger post-war labor supply, tighter fiscal policy, and exchange rate appreciation will keep consumer price inflation close to the middle of the BOI's target range of 1.0%-3.0% this year and beyond.

The banking system is profitable, well-capitalized, and domestic deposit-funded. The fallout from the geopolitical escalation on the banking system has been limited. Bank depositor confidence has remained strong and banks' asset quality is high, with nonperforming loans accounting for a low 1% of total loans. Banks' exposure to construction and real estate sectors (representing about 20% of banks' loan books) remains a risk, should real estate prices sharply adjust. A protracted security-related shock could also have knock-on effects for the financial system (see "Banking Industry Country Risk Assessment: Israel," Feb. 26, 2026).

Israel--Selected Indicators

	2020	2021	2022	2023	2024	2025	2026bc	2027bc	2028bc	2029bc
Economic indicators (%)										
Nominal GDP (bil. ILS)	1,414.5	1,581.9	1,764.3	1,882.8	2,006.3	2,111.4	2,220.4	2,398.5	2,532.1	2,673.1
Nominal GDP (bil. $)	410.9	489.7	525.2	513.4	542.3	611.7	706.0	772.5	814.2	859.5
GDP per capita (000s $)	44.6	52.3	55.0	52.2	54.3	60.4	68.7	73.7	76.2	78.8
Real GDP growth	(1.8)	9.3	6.4	2.1	1.0	2.9	3.1	5.9	3.5	3.5
Real GDP per capita growth	(3.5)	7.5	4.4	(1.0)	(0.5)	1.5	1.6	3.8	1.5	1.5
Real investment growth	(2.5)	13.6	11.1	(2.1)	(5.5)	8.3	5.0	10.0	6.1	6.3
Investment/GDP	25.0	26.2	27.7	26.4	23.8	24.3	24.8	25.7	26.2	26.9
Savings/GDP	29.1	29.2	30.4	29.5	26.7	25.8	26.6	27.8	28.5	29.4
Exports/GDP	27.2	28.8	31.4	30.3	28.4	27.5	28.2	27.6	27.6	27.7
Real exports growth	(3.9)	15.2	9.4	(1.1)	(4.7)	5.5	4.0	2.5	2.5	2.5
Unemployment rate	4.4	5.0	3.8	3.4	3.0	3.0	3.3	3.1	3.0	3.0
External indicators (%)										
Current account balance/GDP	4.1	3.1	2.7	3.1	2.9	1.5	1.8	2.1	2.3	2.6
Current account balance/CARs	12.5	8.8	7.3	8.6	8.5	4.3	5.4	6.3	6.9	7.7
CARs/GDP	32.9	35.1	37.4	36.3	34.5	34.1	33.7	32.9	33.2	33.2
Trade balance/GDP	(2.9)	(4.5)	(5.1)	(4.0)	(4.9)	(4.3)	(5.0)	(4.8)	(4.7)	(4.6)
Net FDI/GDP	4.0	1.8	2.3	1.7	0.9	1.9	1.7	2.0	2.0	2.0
Net portfolio equity inflow/GDP	(5.2)	(0.7)	1.3	0.4	(1.9)	(1.7)	(2.0)	(2.0)	(2.0)	(2.0)
Gross external financing needs/CARs plus usable reserves	61.0	59.3	58.3	58.6	56.8	60.5	61.8	62.2	63.1	63.5
Narrow net external debt/CARs	(70.0)	(68.6)	(56.3)	(75.2)	(78.7)	(76.5)	(66.0)	(60.1)	(54.3)	(51.9)
Narrow net external debt/CAPs	(80.0)	(75.2)	(60.7)	(82.3)	(86.0)	(79.9)	(69.8)	(64.1)	(58.3)	(56.2)
Net external liabilities/CARs	(137.7)	(88.4)	(85.7)	(116.7)	(121.9)	(126.0)	(117.1)	(117.4)	(119.0)	(121.9)
Net external liabilities/CAPs	(157.4)	(96.9)	(92.5)	(127.7)	(133.2)	(131.6)	(123.8)	(125.4)	(127.7)	(132.1)
Short-term external debt by remaining maturity/CARs	30.4	27.7	28.9	28.2	27.4	27.2	26.8	25.5	24.8	24.1
Usable reserves/CAPs (months)	12.8	13.3	14.1	13.7	14.4	12.9	12.2	11.7	11.2	10.8
Usable reserves (bil. $)	173.3	213.0	194.2	204.7	214.6	229.5	233.0	234.6	237.5	243.1
Fiscal indicators (general government %)										

Israel--Selected Indicators

Balance/GDP	(11.3)	(5.1)	(1.8)	(7.1)	(9.0)	(6.5)	(6.0)	(4.7)	(4.3)	(4.0)
Change in net debt/GDP	9.3	2.6	0.5	4.6	8.9	4.2	5.7	4.7	4.3	4.0
Primary balance/GDP	(8.6)	(2.6)	0.6	(4.7)	(6.5)	(3.8)	(3.1)	(1.8)	(1.4)	(1.1)
Revenue/GDP	34.6	36.9	37.4	34.5	35.8	38.5	37.5	37.5	37.0	37.0
Expenditures/GDP	45.8	42.1	39.2	41.6	44.8	45.0	43.5	42.2	41.3	41.0
Interest/revenues	7.8	7.0	6.4	6.9	7.0	7.1	7.6	7.7	7.8	7.9
Debt/GDP	71.1	67.8	60.5	61.3	67.6	68.4	70.8	70.3	70.8	71.1
Debt/revenues	205.6	183.6	161.5	177.7	188.6	177.7	188.7	187.3	191.5	192.2
Net debt/GDP	67.6	63.0	57.0	58.1	63.4	64.4	67.0	66.7	67.5	67.9
Liquid assets/GDP	3.5	4.8	3.5	3.3	4.2	4.0	3.8	3.5	3.3	3.2
Monetary indicators (%)										
CPI growth	(0.6)	1.5	4.4	4.2	3.1	3.1	2.2	2.0	2.0	2.0
GDP deflator growth	1.2	2.3	4.9	4.6	5.6	2.3	2.0	2.0	2.0	2.0
Exchange rate, year-end (ILS/$)	3.2	3.1	3.5	3.6	3.7	3.2	3.1	3.1	3.1	3.1
Banks' claims on resident non-gov't sector growth	4.8	14.3	13.3	6.1	7.7	12.5	8.0	12.0	10.0	7.0
Banks' claims on resident non-gov't sector/GDP	73.7	75.3	76.5	76.0	76.8	82.1	84.3	87.4	91.1	92.3
Foreign currency share of claims by banks on residents	4.1	3.9	4.1	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Foreign currency share of residents' bank deposits	18.4	19.6	19.9	20.1	18.8	17.6	17.62	17.62	17.62	17.62
Real effective exchange rate growth	(3.9)	6.5	4.5	(9.0)	1.0	7.4	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. ILS--Israeli new shekel. 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.

Israel--Rating Component Scores

Key rating factors	Score	Explanation
Institutional assessment	4	Generally effective policymaking that promotes 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.

Israel--Rating Component Scores

Key rating factors	Score	Explanation
Economic assessment	1	Based on GDP per capita ($), as per the 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	4	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 Iran.
Final rating		
Foreign currency	A	
Notches of uplift	0	Default risks do not apply differently to foreign- and local-currency debt
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

- Special Update: Time Compounds The Credit Implications Of The War, April 30, 2026

- Sovereign Ratings History, April 21, 2026
- Sovereign Ratings List, April 21, 2026
- Sovereign Risk Indicators, April 13, 2026. Interactive version available at https://www.spglobal.com/ratings/sri/
- S&P Global Ratings Raises WTI and Brent Price Assumptions Amid Uncertainty Following Announced Ceasefire, April 10, 2026
- Sovereign Ratings Score Snapshot, April 9, 2026
- Default, Transition, and Recovery: 2025 Annual Global Sovereign Default And Rating Transition Study, March 4, 2026
- Banking Industry Country Risk Assessment: Israel, Feb. 26, 2026

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"). 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 Rating Component Scores 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").

Ratings List

Ratings List	
Ratings Affirmed	
Israel	
Sovereign Credit Rating	A/Stable/A-1
Transfer & Convertibility Assessment	AA-
Senior Unsecured	A