MOODY'S
RATINGS

Rating Action: Moody's Ratings changes Israel's outlook to stable from negative, affirms Baa1 ratings

30 Jan 2026

New York, January 30, 2026 -- Moody's Ratings (Moody's) has today changed the outlook on the Government of Israel to stable from negative. Concurrently, we have affirmed Israel's Baa1 long-term local and foreign-currency issuer ratings. We have also affirmed the Baa1 local and foreign-currency senior unsecured ratings, while the foreign-currency senior unsecured shelf ratings and foreign-currency senior unsecured MTN program rating have been affirmed at (P)Baa1.

The decision to change the outlook to stable reflects our assessment that Israel's exposure to geopolitical risk has materially eased from very high levels, thereby reducing the risk of a further weakening of Israel's sovereign credit profile. While Israel's geopolitical and security environments remain fragile, the signs of resilience of the economy to the conflicts of the past two years and the evidence of a large but also controlled impact on government finances indicate that the credit risks are now balanced at Baa1.

The affirmation of the Baa1 ratings reflects both our assessment of the negative rating impact of the past conflicts over the medium term as well as the credit strengths of Israel that support resilience. Looking forward, geopolitical risks remain high and a constraint on the rating. This translates into a long-lasting negative impact on the government's finances and the economy. While we now expect government debt to stabilize around 68% of GDP, prior to October 7, 2023, we projected debt to decline towards 50% of GDP. Meanwhile, Israel's credit strengths and resilience are evidenced by the relative robustness of GDP growth, and ongoing investment in the tech sector. The Baa1 rating also reflects the government's strong market access, underpinned by a deep investor base that will continue to play an important role in mitigating fiscal risks by limiting the cost of borrowing.

Israel's local-currency and foreign-currency country ceilings remain at Aa3. The four-notch gap between the local-currency ceiling and the sovereign rating reflects our assessment of elevated geopolitical risks, balanced against the limited government footprint in the diversified Israeli economy and external stability. The foreign-currency ceiling is aligned with the local-currency ceiling, and reflects very low transfer and convertibility risks, given the very open capital account, the central bank's very large foreign currency buffers, as well as our assessment of good policy effectiveness.

RATINGS RATIONALE

RATIONALE FOR THE STABLE OUTLOOK

The decision to change the outlook to stable from negative principally reflects our assessment that Israel's exposure to geopolitical risk has diminished from a very high level. This notably follows the end of the military conflict with Iran in June 2025 as well as the conclusion of fragile ceasefires with Hamas in Gaza and Hezbollah in Lebanon in 2025 and 2024, respectively.

We expect Israel's geopolitical and security environments to remain fragile, with tensions occasionally flaring up, possibly resulting in ceasefires breaking and even military conflicts re-emerging. Nevertheless, the Israeli economy and public finances have over the past two years demonstrated their resilience to a short but intense conflict with Iran. We also believe that the risk of a resumption of a large and prolonged ground operation in Gaza has receded. Taken together, this entails that geopolitical conditions have improved to the point where the risk of a further significant weakening of Israel's sovereign credit profile has been materially reduced.

The strength and resilience of the Israeli economy is demonstrated by our expectation of a strong post-war rebound of 5.0% GDP growth in 2026 followed by growth of around 3.0 to 3.5% in 2027 and beyond, a robust level compared to other advanced economies. We also expect fiscal deficits to continue to come down from the exceptional highs recorded in 2024 and 2025 with the debt-to-GDP ratio stabilizing at around 68% in 2026 and beyond. That said, risks to the fiscal outlook remain as the adoption of the 2026 budget is still pending and the upcoming parliamentary elections, which must be held by the end of October this year at the latest, make the details of future consolidation efforts more uncertain.

RATIONALE FOR THE AFFIRMATION OF THE Baa1 RATINGS

The affirmation of the Baa1 ratings reflects both our assessment of the negative rating impact of the past conflicts over the medium term,the still fragile environment and the credit strengths of Israel that support resilience. Looking forward, geopolitical risks remain high and a constraint on the rating.

Israel's fiscal position has also durably weakened as a result of the conflicts that followed in the wake of October 7, 2023. Compared with our forecasts before that date, we now expect the government debt-to-GDP ratio to be around 18 percentage points higher in the medium term.

At the same time, Israel's credit strengths and resilience are evidenced by the relative robustness of GDP growth and continued strong growth and investment in the country's advanced technology sector, which has continued despite the heightened geopolitical tensions in recent years, as mentioned above.

The affirmation of the Baa1 ratings also reflects Israel's very strong market access, which leads us to expect that debt will remain relatively affordable and that the government will have no problems meeting its funding needs despite the lingering geopolitical risks.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) CONSIDERATIONS

Israel's ESG Credit Impact Score (CIS-4) indicates the rating is lower than it would have been if ESG risk exposures did not exist. This mainly reflects elevated social risks as health and safety risks remain higher than before the conflict that erupted on October 7, 2023. Israel's moderate exposure to environmental risks reflects primarily physical climate risks and more specifically water stress risk. Governance considerations reflect a balance of risks at the institutional level which does not materially impact the sovereign credit profile.

GDP per capita (PPP basis, US$): 54,126 (2024) (also known as Per Capita Income)

Real GDP growth (% change): 1% (2024) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 3.2% (2024)

Gen. Gov. Financial Balance/GDP: -8.1% (2024) (also known as Fiscal Balance)

Current Account Balance/GDP: 2.9% (2024) (also known as External Balance)

External debt/GDP: 27.2% (2024)

Economic resiliency: a2

Default history: No default events (on bonds or loans) have been recorded since 1983.

On 27 January 2026, a rating committee was called to discuss the rating of the Israel, Government of. Other views raised included: The issuer's economic fundamentals, including its economic strength, have not materially changed. The issuer's institutions and governance strength, have not materially changed. The issuer's fiscal or financial strength, including its debt profile, has not materially changed. The issuer has become less susceptible to event risks.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

WHAT COULD CHANGE THE RATINGS UP

Upward pressure on the rating could result from durably diminished geopolitical risks, resulting from increasing clarity on the sustainability of ceasefires and lasting political solutions to the multiple causes of tension. In addition, fiscal consolidation efforts which produce a more rapid and significant repair of the government's finances than we currently expect could add to positive rating pressures.

WHAT COULD CHANGE THE RATINGS DOWN

Downward pressure on the rating would likely build if geopolitical tensions increased again in a way that pointed to a lasting significant negative impact on the economy or the government's finances. A weakening of Israel's economic and fiscal prospects for reasons not directly related to geopolitical risk could also drive negative pressure on the rating. Downward pressure on the rating could also build as a result of a weakening of Israel's institutions, in particular if the judiciary proved to be weaker than what we have assessed so far, potentially as a result of institutional reforms.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Sovereigns published in November 2022 and available at https://ratings.moodys.com/rmc-documents/395819. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

The net effect of any adjustments applied to rating factor scores or scorecard outputs under the primary methodology(ies), if any, was not material to the ratings addressed in this announcement.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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