

Country Insight Snapshot

Israel

December 2019





OVERVIEW

OVERALL COUNTRY RISK RATING: DB3b

Slight risk: Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

A

Rating Outlook: Deteriorating

CORE OUTLOOK

- + The population is continuously boosted by diaspora Jews relocating to the country: approximately 1.2m people have moved to Israel since 1989.
- + The discovery and exploitation of large natural gas reserves off Israel's coast will reduce the dependence on foreign energy and, in turn, boost the current account.
- Labour productivity is around 20% lower than the OECD average, partly caused by problems around educational attainment, infrastructure and bureaucracy.
- The possibility of further armed conflict with Palestine will continue to mar the risk outlook into the medium term at least.

KEY DEVELOPMENT

Dun & Bradstreet downgrades Israel's country risk rating by one quartile as a result of multiple political factors.

CREDIT ENVIRONMENT OUTLOOK

G

Trend: Stable

Key Development has had a neutral impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

G

Trend: Stable

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Stable

Key Development has had a neutral impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

A

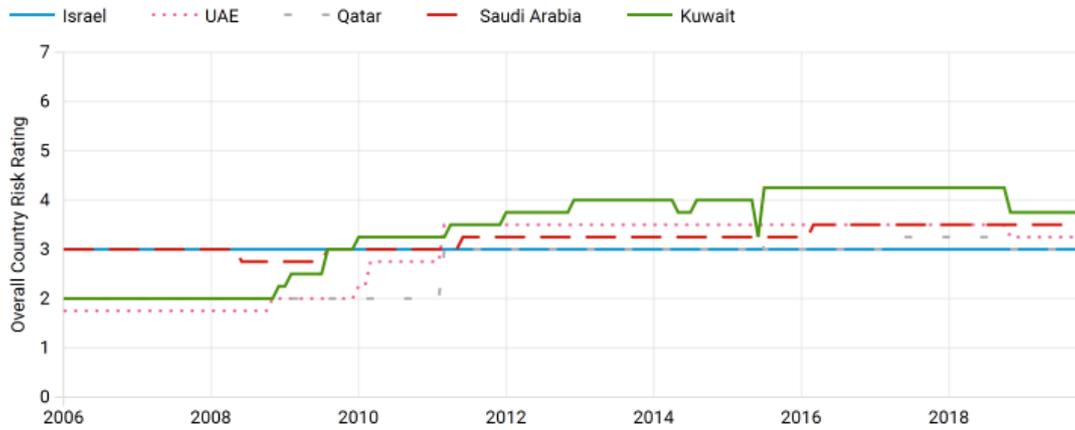
Trend: Deteriorating

Key Development has had a negative impact on the outlook.



KEY INDICATORS

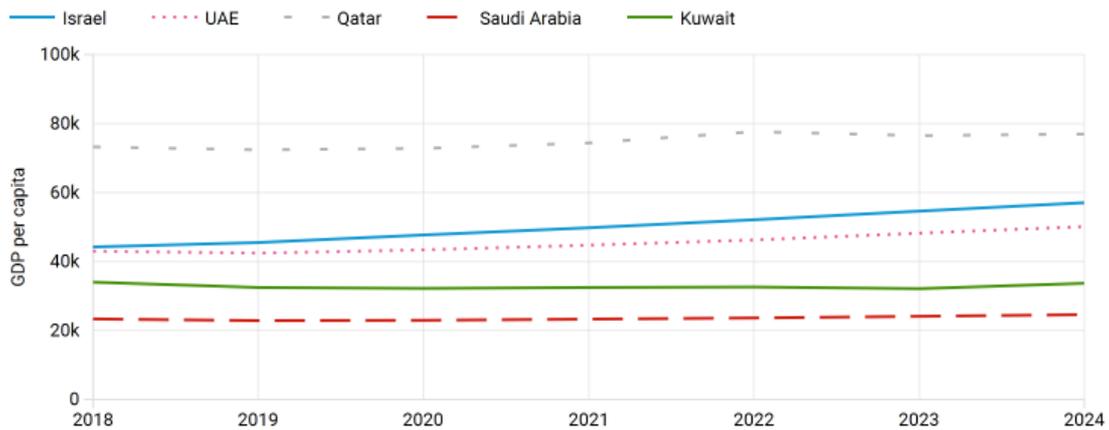
Rating History and Comparison



Source: Dun & Bradstreet

Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source: Haver Analytics/Dun & Bradstreet



Economic Indicators

| Indicator | 2017 | 2018 | 2019f | 2020f | 2021f | 2022f | 2023f | 2024f |
|--------------------------|------|------|-------|-------|-------|-------|-------|-------|
| C/A balance % GDP | 2.4 | 2.6 | 3.0 | 2.6 | 2.6 | 2.5 | 2.4 | 2.4 |
| Govt balance, % GDP | -1.9 | -3.8 | -3.5 | -2.7 | -2.5 | -2.3 | -2.0 | -1.7 |
| Inflation, annual avge % | 0.3 | 0.8 | 0.9 | 1.5 | 1.8 | 2.2 | 2.5 | 2.3 |
| Real GDP Growth, % | 3.6 | 3.4 | 3.1 | 2.9 | 2.7 | 2.5 | 2.3 | 2.1 |
| Unemployment, % | 4.2 | 4.0 | 3.9 | 4.0 | 4.1 | 4.3 | 4.4 | 4.5 |

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

Israel's stock of FX reserves stood at USD121.4bn in October, up from USD119.5bn in September. Ample reserves and a strong currency are contributing factors in our decision to maintain OA as our recommended terms. Nevertheless, we advise customers to adopt increased caution when making business decisions and when dealing with exporters in Israel, on account of the difficult security situation. Meanwhile, Israel has signed an agreement with the Eurasian Economic Union (EEU) that should eventually see the creation of a free-trade agreement (FTA). If and when an FTA is signed off, estimates suggest that the value of trade that Israel currently has with each of the EEU members could increase by between 6% and 8% p.a. More recently, Russian President Vladimir Putin indicated in October 2019 that Russia is interested in creating a free-trade area with Israel and Egypt.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: OA

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: OA

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 30-60 days

Normal period of credit associated with transactions with companies in the stated country.

Local Delays: 0-1 month

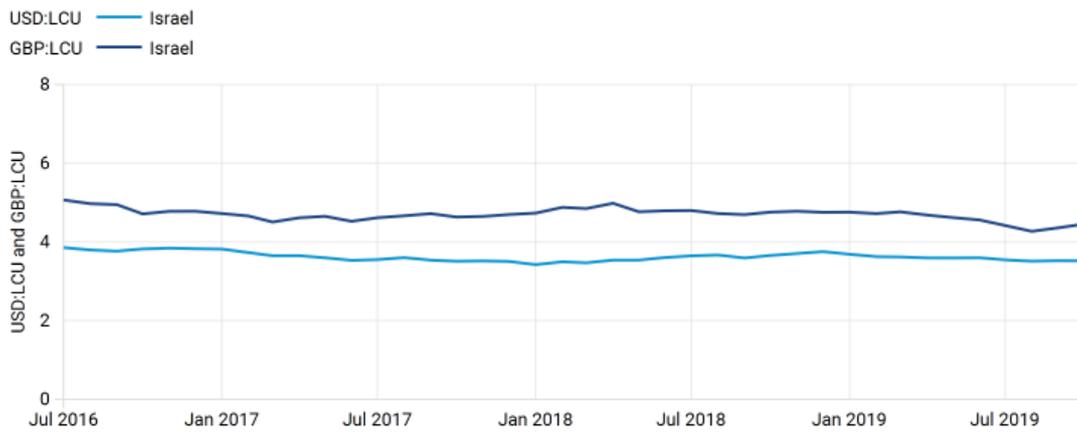
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-1 month

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.



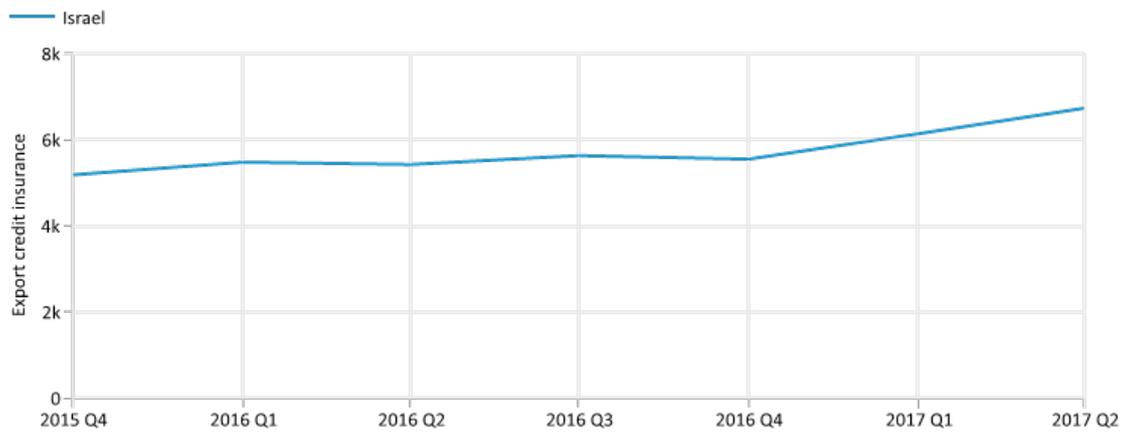
Exchange Rate



Source: International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Israeli new shekel

Credit Conditions



Source: Export Credit Agencies

Insured export credit exposures, USDm; increase going into 2017 is partly due to methodology changes.



RISKS AND OPPORTUNITIES

Political/Insecurity Risk

Country risk rating downgraded

Dun & Bradstreet has downgraded Israel's country risk rating this month from DB3a to DB3b, with a deteriorating outlook. This is based on various factors, including the following. Firstly, the ongoing failure to form a government following the September general election. After the incumbent prime minister, Benjamin Netanyahu, could not put together a coalition, President Reuven Rivlin turned to Benny Gantz, the head of Blue and White, the biggest party at the election. However, the deadline for a new administration passed in late November, thereby significantly increasing the chances of a third general election in a year having to be held, possibly in March 2020.

The second factor is the recent escalation of Israeli military operations against targets located in Syria. These targets have been either Syrian government forces or groups allied with Iran. The most recent incident took place in late November when Israel launched dozens of missiles into Syrian territory. Thirdly, an increase in violence in mid-November between Israeli forces and Palestinians focused on Gaza after the killing in a targeted Israeli attack of a leader of Islamic Jihad. Meanwhile, Netanyahu's reputation will be tainted by an announcement in late November by the attorney-general that he is to be indicted in one case of bribery and three cases of fraud and breach of trust.

Short-Term Economic Outlook

Growth rebound in Q3

Although Israel's risk rating has been downgraded, the domestic economy remains broadly healthy. Provisional data shows that real GDP expanded by a seasonally-adjusted 3.3% y/y in Q3 2019 after a 3.0% y/y increase in Q2. Anecdotal evidence had already pointed to a pick-up in growth in the third quarter. For example, a large fall in the manufacturing purchasing managers' index in August to 44.3 from 52.2 in July was followed by a rebound to 50.3 in September. Meanwhile, inflation stood at just 0.4% y/y in October, only marginally up from 0.3% y/y in September and still comfortably below a recent high of 1.5% y/y in May. The central bank kept its benchmark rate on hold at 0.25% in early October, although the pressure for a cut remains elevated as a result of low inflation.

Business Regulatory Environment

Doing Business ranking is reasonable

Israel recorded a reasonable performance in the World Bank's *Doing Business 2020* report. Out of the 190 countries surveyed by the World Bank, Israel was ranked at 35th, up fourteen places from 2019. Four positive commercial reforms were carried out during the year, including allowing the joint registration of corporate tax and value-added tax and eliminating the requirement to have a certificate of origin when trading across borders.

However, the ranking spread of the ten sub-pillars examined by the World Bank was somewhat marked. The strongest ranking was in paying taxes, at a high 13th, while the weakest sub-category was 85th, in enforcing contracts. Meanwhile, in the *Global Competitiveness Report 2019*, compiled by the World Economic Forum, Israel was ranked in a strong 20th place out of 141 countries surveyed, sandwiching it between New Zealand and Austria.



COUNTRY PROFILE AND STATISTICS

Overview

Israel lies at the eastern end of the Mediterranean, bordering Egypt, Jordan, Lebanon and Syria. Created in 1948, it has peace treaties with Egypt and Jordan but is still technically at war with Lebanon and Syria, while the legal status of the Occupied Territories, which it administers along with the Palestinian Authority, remains unresolved. The democratic system is based on proportional representation, which gives disproportionate power to small parties. The political system is dominated by the main ethnic Ashkenazi (of European origin) and Sephardi (of oriental origin) Jewish communities; however, other groups, such as Russian Jews and Arab Israelis (a mix of Muslims, Druze and Christians) have their own political parties. The economy is the most advanced in the region, with a significant concentration of high-tech businesses. Since 2003, the economy has undergone radical liberalisation from a socialist base.

Key Facts

| Key Fact | Detail |
|----------------------------|-----------------------------------|
| Head of government | Prime Minister Benjamin NETANYAHU |
| Capital | Tel Aviv/Jerusalem |
| Timezone | GMT +02-00 |
| Official languages | Hebrew and Arabic |
| Population (millions) | 8.4 |
| GDP (USD billions) | 370.6 |
| GDP per capita (USD) | 44,214 |
| Life expectancy (years) | 82.4 |
| Literacy (% of adult pop.) | 97.8 |
| Surface area (sq km) | 20,770 |

Source: Various sources/Dun & Bradstreet

Historical Data

| Metric | 2015 | 2016 | 2017 | 2018 | 2019f |
|------------------------------------|--------|--------|--------|--------|--------|
| Real GDP growth (%) | 2.3 | 4.0 | 3.6 | 3.4 | 3.1 |
| Nominal GDP in USDbn | 300 | 319 | 353 | 371 | 388 |
| Nominal GDP in local currency (bn) | 1,165 | 1,225 | 1,272 | 1,331 | 1,384 |
| GDP per Capita in USD | 37,578 | 39,333 | 42,850 | 44,214 | 45,500 |
| Population (year-end, m) | 8.0 | 8.1 | 8.2 | 8.4 | 8.5 |
| Exchange rate (yr avge, USD-LCU) | 3.9 | 3.8 | 3.6 | 3.6 | 3.6 |
| Current Account in USDbn | 15.5 | 11.3 | 8.3 | 9.5 | 11.5 |
| Current Account (% of GDP) | 5.2 | 3.6 | 2.4 | 2.6 | 3.0 |
| FX reserves (year-end, USDbn) | 90.6 | 95.4 | 113.0 | 115.3 | 121.0 |
| Import Cover (months) | 12.9 | 12.8 | 13.9 | 12.9 | 13.0 |
| Inflation (annual avge, %) | -0.6 | -0.6 | 0.3 | 0.8 | 0.9 |
| Govt Balance (% GDP) | -1.6 | -1.9 | -1.9 | -3.8 | -3.5 |

Source: Haver Analytics/Dun & Bradstreet



Forecasts

| Metric | 2020f | 2021f | 2022f | 2023f | 2024f |
|------------------------------------|--------|--------|--------|--------|--------|
| Real GDP growth (%) | 2.9 | 2.7 | 2.5 | 2.3 | 2.1 |
| Nominal GDP in USDbn | 413 | 438 | 465 | 495 | 524 |
| Nominal GDP in local currency (bn) | 1,445 | 1,510 | 1,581 | 1,657 | 1,729 |
| GDP per Capita in USD | 47,690 | 49,786 | 52,103 | 54,610 | 57,046 |
| Population (year-end, m) | 8.7 | 8.8 | 8.9 | 9.1 | 9.2 |
| Exchange rate (yr avge, USD-LCU) | 3.5 | 3.5 | 3.4 | 3.4 | 3.3 |
| Current Account in USDbn | 10.8 | 11.2 | 11.8 | 12.1 | 12.4 |
| Current Account (% of GDP) | 2.6 | 2.6 | 2.5 | 2.4 | 2.4 |
| FX reserves (year-end, USDbn) | 125.0 | 128.0 | 131.0 | 134.0 | 137.0 |
| Import Cover (months) | 12.6 | 12.5 | 12.4 | 12.6 | 12.6 |
| Inflation (annual avge, %) | 1.5 | 1.8 | 2.2 | 2.5 | 2.3 |
| Govt Balance (% GDP) | -2.7 | -2.5 | -2.3 | -2.0 | -1.7 |

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

| Indicator | Israel | UAE | Qatar | S. Arabia | Kuwait |
|---------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Income per Capita (USD) | 45,500 | 42,420 | 72,377 | 22,860 | 32,468 |
| Country Population (m) | 8.5 | 9.8 | 2.7 | 34.3 | 4.2 |
| Internet users (% of population) | 79.8 | 90.6 | 94.3 | 73.8 | 78.4 |
| Real GDP Growth (% p.a., 2020 - 2029) | 2.5 - 4.5 | 3.5 - 5.5 | 4.0 - 6.5 | 3.0 - 4.5 | 3.0 - 5.5 |

Source: Various sources/Dun & Bradstreet



LINKS

User Guide

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