

ISRAEL

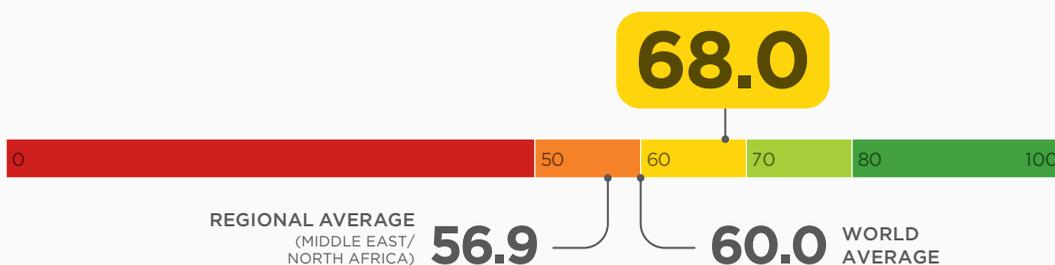
Israel's economic freedom score is 68.0, making its economy the 43rd freest in the 2022 *Index*. Israel is ranked 2nd among 14 countries in the Middle East and North Africa region, and its overall score is above the regional and world averages.

The Israeli economy slowed from 2017 through 2019, turned negative in 2020, and recovered in 2021. A multi-year expansion of economic freedom that peaked in 2020 skidded sharply this year to a low not seen since 2013. With an increase in the **government integrity** score unable to overcome a steep drop in **fiscal health**, Israel has recorded a 1.7-point overall loss of economic freedom since 2017 and has fallen from the "Mostly Free" category to the "Moderately Free" category. Monetary freedom, **trade freedom**, and **investment freedom** reflect strength, but **labor freedom** and **government spending** remain areas for improvement.

IMPACT OF COVID-19: As of December 1, 2021, 8,199 deaths had been attributed to the pandemic in Israel, and the government's response to the crisis ranked 41st among the countries included in this *Index* in terms of its stringency. The economy contracted by 2.4 percent in 2020.

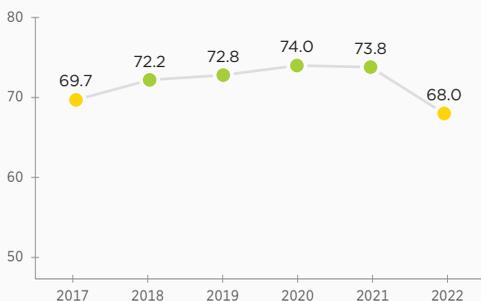


ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 1995): +6.5

RECENT FREEDOM TREND



QUICK FACTS

POPULATION:
9.2 million

GDP (PPP):
\$373.7 billion
-2.4% growth in 2020
5-year compound annual growth 2.4%
\$40,547 per capita

UNEMPLOYMENT:
4.6%

INFLATION (CPI):
-0.6%

FDI INFLOW:
\$24.8 billion

PUBLIC DEBT:
73.0% of GDP

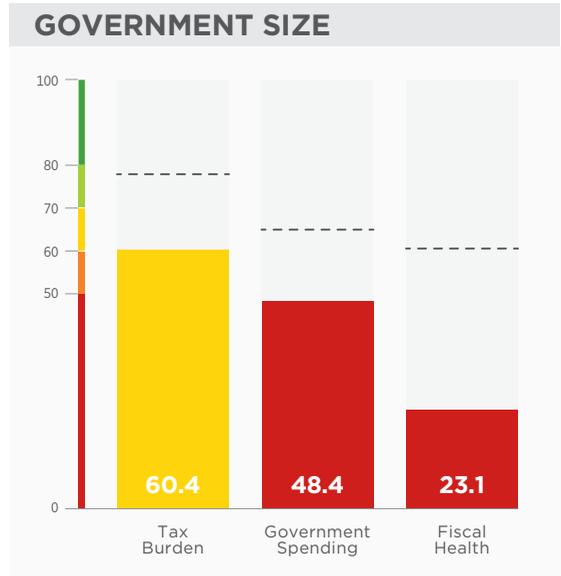
2020 data unless otherwise noted. Data compiled as of September 2021

BACKGROUND: Israel won its war for independence in 1948, and its vibrant democracy remains unique in the region. Naftali Bennett, who replaced Benjamin Netanyahu as prime minister in June 2021, leads a fragile coalition government. Israel's high-technology sector attracts considerable foreign investment, and large offshore deposits of natural gas have improved its energy security and balance-of-payments prospects. Despite a 2006 war against Hezbollah in Lebanon, frequent military campaigns against Hamas in Gaza, and the constant threat of terrorism, Israel's modern market economy is fundamentally sound and dynamic. Israel's 2020 normalization agreements with Bahrain, the United Arab Emirates, Morocco, and Sudan should encourage greater regional trade, investment, tourism, and technological and strategic cooperation.

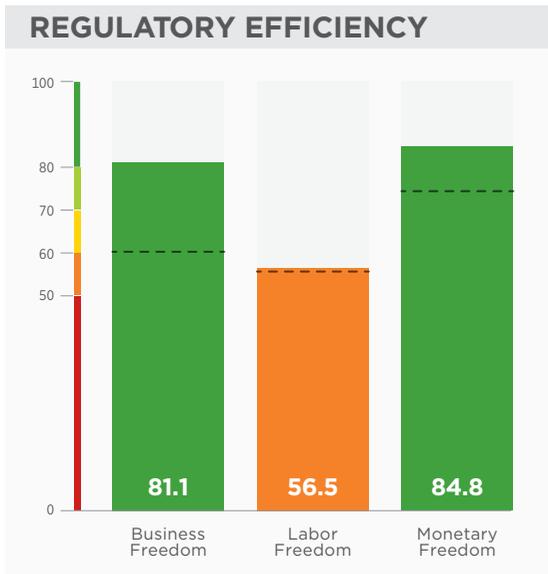
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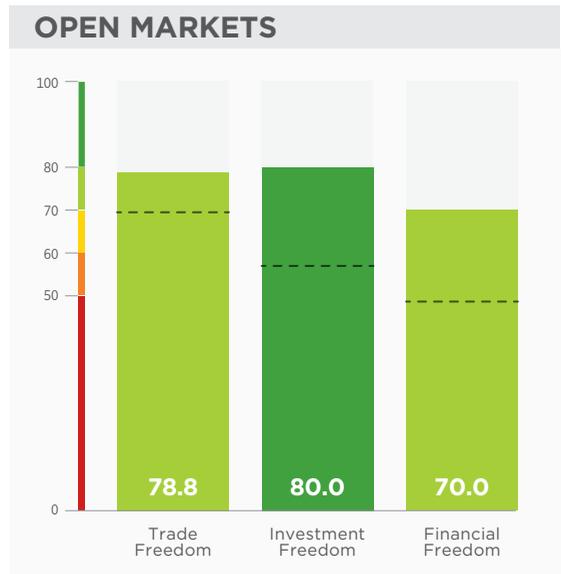
Israel's modern legal system is based on British common law and provides effective means for enforcing property and contractual rights. Property registration and titling procedures are cumbersome. The judiciary is independent but slow. Bribery and other forms of corruption are illegal. A strong societal intolerance of graft undergirds the effectiveness of anticorruption laws and provides a strong foundation for economic freedom.



The top individual income tax rate is 50 percent (including a surtax), and the top corporate tax rate is 23 percent. Other taxes include value-added and capital gains taxes. The overall tax burden equals 30.5 percent of total domestic income. Government spending has amounted to 41.5 percent of total output (GDP) over the past three years, and budget deficits have averaged 6.4 percent of GDP. Public debt is equivalent to 73.0 percent of GDP.



A pro-business policy framework makes it easier to run a robust business in Israel than it is in many other countries. As the public sector has shrunk, labor strikes have become less common. The government offers subsidies to foreign investors, and populist-oriented price controls have been in place for many years for basic foods, medicines, gasoline, and basic banking services.



Israel has 10 preferential trade agreements in force. The trade-weighted average tariff rate is 3.1 percent, and 94 nontariff measures are in effect. A modern and efficient investment regime supports vibrant levels of foreign investment. Financial institutions offer a wide range of services, and credit is readily available on market terms. Capital markets have gradually been liberalized.