Research Update:

Israel Long-Term Ratings Lowered To 'A+' From 'AA-' On Heightened Geopolitical Risk; Outlook Negative

April 18, 2024

Overview

- In our view, the recent increase in confrontation with Iran heightens already elevated geopolitical risks for Israel. We expect a wider regional conflict will be avoided, but the Israel-Hamas war and the confrontation with Hezbollah appear set to continue throughout 2024--versus our previous assumption of military activity not lasting more than six months.
- We forecast that Israel's general government deficit will widen to 8% of GDP in 2024, mostly as a result of increased defense spending. Higher deficits will also persist over the medium term, and we expect net general government debt to peak at 66% of GDP in 2026.
- A wider regional conflict, which is not our baseline scenario, could have a further material negative impact on Israel's security situation and, consequently, its economic, fiscal, and balance-of-payments parameters.
- We lowered our sovereign credit ratings on Israel to 'A+/A-1' from 'AA-/A-1+'. The outlook on the long-term ratings is negative.

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Rating Action

On April 18, 2024, S&P Global Ratings lowered its long-term foreign and local currency sovereign credit ratings on Israel to 'A+' from 'AA-' and the short-term ratings to 'A-1' from 'A-1+'. The outlook on the long-term ratings is negative. We also revised the transfer and convertibility assessment to 'AA' from 'AA+'.

As sovereign ratings (as defined in EU CRA Regulation 1060/2009 "EU CRA Regulation"), the ratings on Israel are subject to certain publication restrictions set out in article 8a of the EU CRA Regulation, including publication in accordance with a pre-established calendar (see "Calendar Of 2024 EMEA Sovereign, Regional, And Local Government Rating Publication Dates," published Dec. 20, 2023). Under the EU CRA Regulation, deviations from the announced calendar are allowed only in limited circumstances and must be accompanied by a detailed explanation of the reasons for the deviation. In this case, the reason for the deviation is the significant increase of geopolitical and security risks around Israel. The next scheduled ratings review for Israel is on May 10, 2024.