

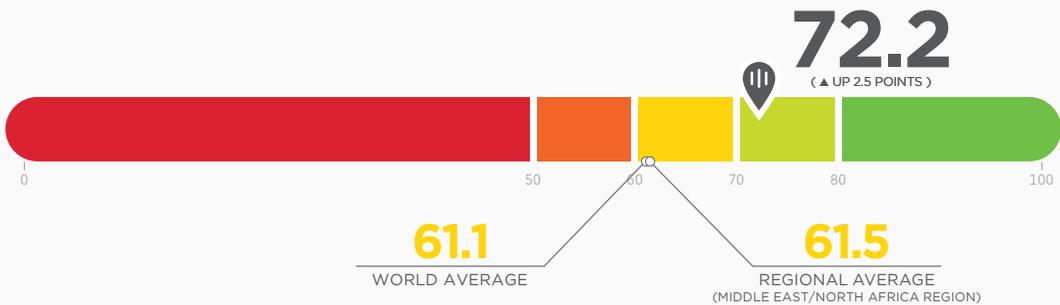
# ISRAEL

Israel's economic freedom score is 72.2, making its economy the 31st freest in the 2018 *Index*. Its overall score has increased by 2.5 points, with significant improvements in **government integrity**, **fiscal health**, and **property rights** easily outpacing a decline in the score for the **trade freedom** indicator. Israel is ranked 3rd among 14 countries in the Middle East and North Africa region, and its overall score is above the regional and world averages.

Strong trade and investment ties outside of the Middle East insulate Israel's technologically advanced free-market economy from regional political instability. The government plans further economic liberalization, but fiscal consolidation has been deferred in favor of populist spending and tax measures demanded by the governing coalition. Competitiveness is enhanced by strong protection of property rights, efficient coordination of regulatory processes, and a sound judicial framework that sustains the rule of law.



## ECONOMIC FREEDOM SCORE

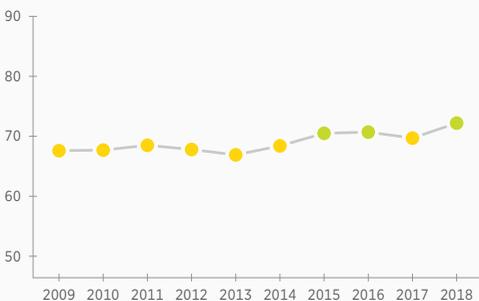


**NOTABLE SUCCESSES:**  
Open Markets, Monetary Stability, and Judicial Effectiveness

**CONCERNS:**  
Government Spending, Tax Burden, and Government Integrity

**OVERALL SCORE CHANGE SINCE 2014:**  
+3.8

## FREEDOM TREND



## QUICK FACTS

**POPULATION:**  
8.5 million

**GDP (PPP):**  
\$300.6 billion  
4.0% growth in 2016  
5-year compound annual growth 3.3%  
\$35,179 per capita

**UNEMPLOYMENT:**  
5.6%

**INFLATION (CPI):**  
-0.5%

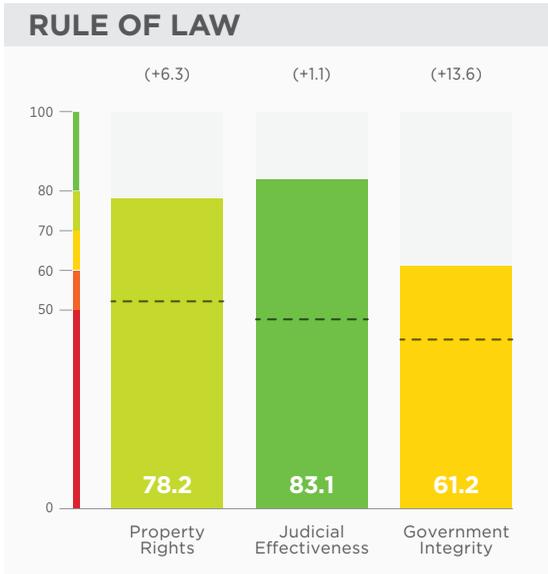
**FDI INFLOW:**  
\$12.3 billion

**PUBLIC DEBT:**  
62.2% of GDP

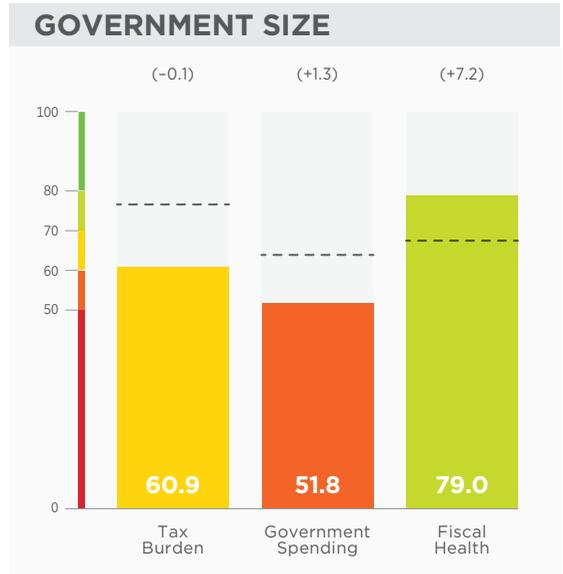
*2016 data unless otherwise noted. Data compiled as of September 2017*

**BACKGROUND:** Although the Arabs rejected a U.N.-proposed partition after World War II, an Israeli state was declared in 1948. Subsequent military defeats of Arab armies have deepened tensions. Israel's vibrant democracy remains unique in the region. Prime Minister Benjamin Netanyahu, reelected in 2015, leads a coalition government of right-leaning and religious parties. Israel has a modern market economy with a thriving high-technology sector that attracts considerable foreign investment. The discovery of large offshore natural gas deposits has improved its energy security and balance-of-payments prospects. Despite the 2006 war against Hezbollah in Lebanon and the 2008-2009, 2012, and 2014 wars against Hamas in Gaza, as well as the constant threat of terrorism, Israel's economy is fundamentally sound and dynamic.

# 12 ECONOMIC FREEDOMS | ISRAEL



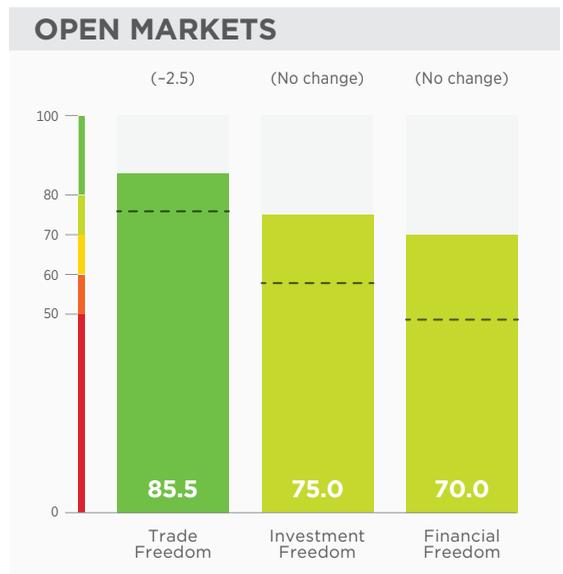
Protection of property and contractual rights is effective, and businesses face a low risk of expropriation. The system for recording secured interests in property is reliable. Israel's judicial system, based on British common law, is independent. Bribery and other forms of corruption are illegal. A strong societal intolerance for graft is reinforced by frequent investigations of high-level corruption.



The top personal income tax rate is 48 percent. The corporate tax rate is 25 percent. Other taxes include value-added and capital gains taxes. The overall tax burden equals 31.4 percent of total domestic income. Over the past three years, government spending has amounted to 40.1 percent of total output (GDP), and budget deficits have averaged 2.9 percent of GDP. Public debt is equivalent to 62.2 percent of GDP.



Government economic policies are generally sound and conducive to running a business. Israel is often supportive of start-up businesses, but restrictive trade policies that favor domestic producers and limit competition are a concern. The highly skilled and well-educated labor force is the economy's biggest asset. Israel uses price controls largely to regulate the price of food, but also for products in markets with monopolies such as cement.



Trade is significant for Israel's economy; the combined value of exports and imports equals 57 percent of GDP. The average applied tariff rate is 2.2 percent. Nontariff barriers impede some trade. In general, government policies do not significantly interfere with foreign investment. Financial institutions offer a wide range of services. Capital markets are evolving as part of Israel's effort to reinvent itself as a regional financial hub.