Israel’s economic freedom score is 74.0, making its economy the 26th freest in the 2020 Index. Its overall score has increased by 1.2 points, with a notable gain in the score for government integrity. Israel is ranked 2nd among 14 countries in the Middle East and North Africa region, and its overall score is well above the regional and world averages.

The Israeli economy has risen higher in the mostly free category for the third year in a row. That performance has been mirrored by healthy GDP growth.

Since the inception of the Index in 1995, government spending has been the indicator that has consistently hindered greater economic freedom in Israel. It remains to be seen whether a new government can muster the political will to address the problem by implementing spending cuts and other fiscal restraints. Other pro-business policies, including monetary stability, free trade, and open capital markets, enjoy widespread support and should ensure the continuation of steady economic progress.

**Background:** Israel won its war for independence in 1948 after Arab states rejected a U.N.-proposed partition of Great Britain’s Palestinian Mandate. Subsequent military defeats of Arab armies have deepened tensions. Israel’s vibrant democracy remains unique in the region. Prime Minister Benjamin Netanyahu was unable to form a new government after elections in April and September 2019 ended in stalemates. Israel’s thriving high-technology sector attracts considerable foreign investment, and 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, frequent military campaigns against Hamas in Gaza, and the constant threat of terrorism, Israel’s modern market economy remains fundamentally sound and dynamic.
Property rights are recognized and protected, and contracts are enforced, although the process for registering or obtaining land rights is cumbersome. Israel’s modern judicial system is independent and based on British common law. Bribery and other forms of corruption are illegal. A strong societal intolerance for graft has strengthened the foundations of economic freedom.

The top personal income tax rate is 48 percent, and the corporate tax rate has been cut to 23 percent. Other taxes include value-added and capital gains taxes. The overall tax burden equals 32.7 percent of total domestic income. Government spending has amounted to 39.4 percent of the country’s output (GDP) over the past three years, and budget deficits have averaged 1.5 percent of GDP. Public debt is equivalent to 59.6 percent of GDP.

Israel incubates numerous science and technology start-ups and has a highly educated workforce. The government has made registration of property easier, and regulations pertaining to working hours per week, overtime hours, and maternity leave have been changed. The government offers subsidies to foreign investors, and price controls for basic foods, medicines, gasoline, and basic banking services have been in place for many years.

The total value of exports and imports of goods and services equals 56.8 percent of GDP. The average applied tariff rate is 1.9 percent, and 88 nontariff measures are in force. The investment regime is modern and efficient, supporting 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.