

BEST'S COUNTRY RISK REPORT

Israel CRT-3

August 22, 2018

Region: Middle East & North Africa

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Israel is a CRT-3 country, with a low level of financial system risk and moderate levels of economic and political risk.
- GDP growth in 2017 was 3.3%, and is expected to remain in the 3.0%-3.5% range over the medium term. Regional instability and persistent tensions with Palestine are significant factors in Israel's risk profile.
- The map depicts countries in the region that A.M. Best evaluates for country risk, which range from CRT-3 to CRT-5.



Economic Risk



Political Risk



Financial System Risk

- Country Risk Tier 1 (CRT-1) Very Low Level of Country Risk
- Country Risk Tier 2 (CRT-2) Low Level of Country Risk
- Country Risk Tier 3 (CRT-3) Moderate Level of Country Risk
- Country Risk Tier 4 (CRT-4) High Level of Country Risk
- Country Risk Tier 5 (CRT-5) Very High Level of Country Risk

Regional Summary: Middle East & North Africa

- Higher global interest rates, particularly if interest rates increase faster than expected, raise the potential for greater fiscal vulnerabilities and tighter credit conditions. According to the IMF, debt in the region has increased an average of 10% of GDP each year since 2013, owing to countries financing large fiscal deficits through increased borrowing and draw downs of fiscal buffers.
- Economic growth for the region is estimated to increase in 2018 on strengthening global growth, a moderate rise in oil prices, easing fiscal adjustment, reforms to promote non-oil sector growth, and growing infrastructure investment.
- Fiscal consolidation and revenue generating programs implemented over the last few years continue, albeit at a slower pace. Revenue measures include the introduction of a value-added tax (January 2018) in Saudi Arabia and the United Arab Emirates, with other countries likely to implement similar measures by the end of the year. Improving the efficiency of public spending (via a bill that lowers the government wage bill, for example) on the expenditure side is also a priority.

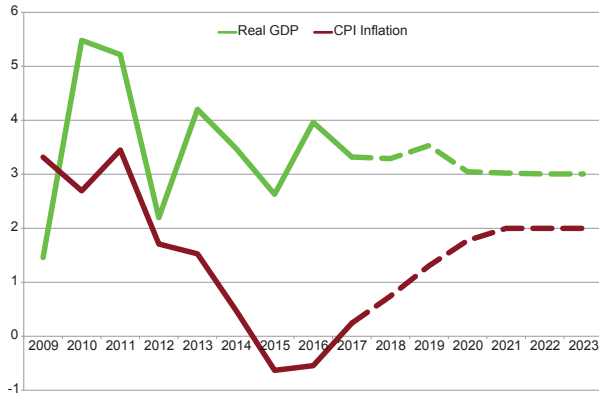
Vital Statistics 2017		
Nominal GDP	USD bn	350.61
Population	mil	8.7
GDP Per Capita	USD	40,258
Real GDP Growth	%	3.3
Inflation Rate	%	0.2
United Nations Estimates		
Literacy Rate	%	97.8
Urbanization	%	92.3
Dependency Ratio	%	64.2
Life Expectancy	Years	82.5
Median Age	Years	29.9
Insurance Statistics		
Insurance Regulator	Capital Markets, Insurance & Savings Department of Ministry of Finance	
Premiums Written (Life)	USD mil	9,368
Premiums Written (Non-Life)	USD mil	8,058
Premiums Growth (2016 - 2017)	%	7.6
Regional Comparison		
		Country Risk Tier
Israel		CRT-3
Cyprus		CRT-3
Egypt		CRT-5
Jordan		CRT-4
Saudi Arabia		CRT-3
Turkey		CRT-4

Source: IMF, UN, Swiss Re, Axco and A.M. Best



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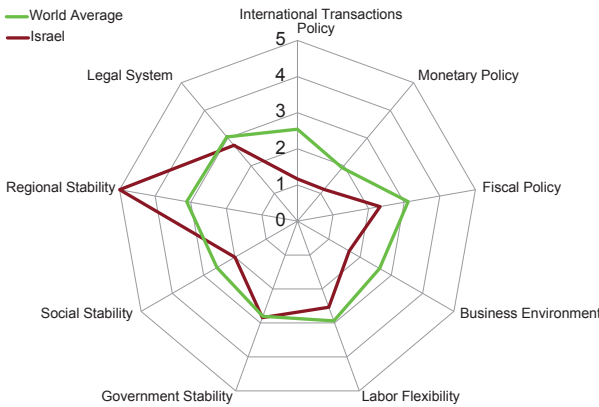
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

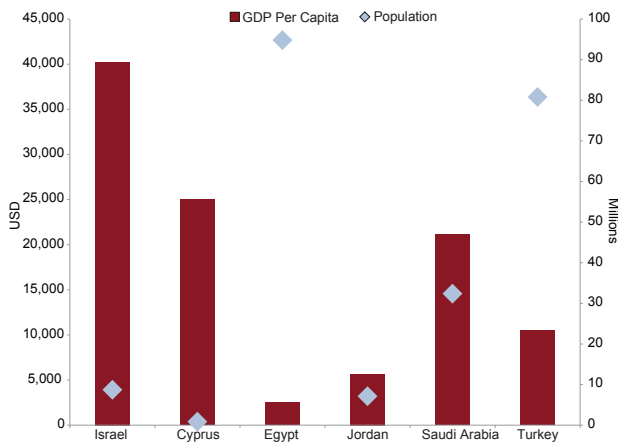
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: Moderate

- Israel has a diverse economy that benefits from a highly skilled and educated work force; it also has a rapidly expanding high-tech sector. The economy is based largely on services and a high value-added manufacturing sector.
- Given the country's lack of natural resources, Israel depends highly on imports for food and energy. This leaves it vulnerable to volatile global commodity prices.
- Higher wages and declining unemployment levels have helped fuel growing consumer demand. Unemployment has declined steadily, to below 4% in early 2018.
- Residential real estate price increases have moderated, but housing affordability remains a challenge. The Finance Minister has made addressing the issue of soaring home prices one of his top priorities.
- Inflation turned positive in 2017, after two years of deflation. It is now positive but still below the Bank of Israel's inflation target of 1%-3% and is expected to remain below target through 2018.

Political Risk: Moderate

- Prime Minister Benjamin Netanyahu is serving his third term, having led the government since 2009. The current president is Reuven Rivlin, who was elected in June 2014.
- Netanyahu is currently under investigation for corruption allegations, which threatens the support from his coalition partners. Police have recommended that Netanyahu be indicted on allegations of negotiating for more favorable media coverage and acceptance of illegal gifts.
- Israel's political system is largely stable, as no party wins enough parliamentary seats to form a majority government, which necessitates the formation of typically weak coalitions.
- Security concerns are a key government priority, clouding an otherwise favorable business climate. The persistent risk of violence is an obstacle to the country's realizing its full potential. These concerns include instability in the West Bank, Hamas, Hezbollah, Iran, and Syria.
- Additional challenges for Israel include low levels of productivity outside the high-tech sector, income inequality, and infrastructure gaps.

Financial System Risk: Low

- The Israeli insurance industry is regulated by the Ministry of Finance's Capital Markets, Insurance, and Savings Department.
- Historically, the Israeli government has been highly involved in the economy, but major reforms have been taking place over the past few years.
- The banking system is highly concentrated, with five locally owned banking groups accounting for 95% of banking sector assets, and the two largest groups accounting for over 60% of assets. Competition needs to be promoted to get new entrants into the system.