

Israel

Political

Israeli politics continues to be overshadowed by security concerns relating to the Arab-Israeli conflict.

Although the security situation in Israel has notably improved over the course of 2005, it continues to remain challenging.

Israeli Prime Minister Ariel Sharon remains committed to the pursuit of the unilateral disengagement plan – withdrawal from all settlements in the Gaza Strip and four inside the West Bank – despite the opposition of hard-line members of his Likud party and Jewish settlers in Gaza. That said, there is unlikely to be much progress in tackling any of the “final status” issues with the Palestinian Authority.

Israel’s welcoming attitude to foreign investment is accompanied by a favourable legal and regulatory framework. (August 2005)

Economic

Israel’s outlook is supported by positive political and economic developments. GDP growth accelerated in 2004 due to private consumption and investment. Economic recovery is underway, according to the IMF. The government is hoping for 3.5-4% in 2005-07 helped by the reduction in interest rates, exports, private consumption and investment. Bitter discussions took place over the size of an acceptable budgetary deficit, which was finally approved in March 2005. Compensations to evacuated settlers and the decision on pension contributions will challenge the 3-3.5% of GDP target for the 2005-07 fiscal deficits. Reducing the fiscal deficit is critical since the public debt is larger (106%) than GDP. Israel is expected to register an external current account surplus US\$0.3bn in 2005. Bonds have been covering external financing needs in the past and probably the 2006-07 current account deficits. There has been also the support of the US\$9bn US loan guarantees. The external debt amounts to US\$73bn, equivalent to 60% of GDP in 2005. Short-term debt of US\$25bn is worryingly large, consisting of mainly of nonresidents’ deposits. Foreign exchange reserves are equivalent to 6 months of import cover. The outlook remains encouraging. (May 2005)