

## ISSUER COMMENT

25 July 2023



### Contacts

Kathrin Muehlbronner  
Senior Vice President  
kathrin.muehlbronner@moodys.com  
+44.20.7772.1383

Lenaic Couderc  
Associate Analyst  
lenaic.couderc@moodys.com  
+44.20.7772.1799

Dietmar Hornung  
Associate Managing Director  
dietmar.hornung@moodys.com  
+49.69.70730.790

Marie Diron  
MD-Global Sovereign Risk  
marie.diron@moodys.com  
+44.20.7772.1968

### CLIENT SERVICES

Americas 1-212-553-1653

Asia Pacific 852-3551-3077

Japan 81-3-5408-4100

EMEA 44-20-7772-5454

## Israel, Government of

### Passage of first stage of judicial overhaul points to continued political and social tensions

On 24 July, [Israel's](#) (A1 stable) parliament passed a bill that will prevent the Supreme Court from using the standard of "reasonableness" to strike down decisions by the government and government ministers. The government believes the standard has allowed the Supreme Court to use powers it was never formally granted, but opponents of the bill consider it a first step towards a broad undermining of checks and balances, which are an integral part of a robust democracy. There is a significant risk that political and social tensions over the issue will continue, with negative consequences for Israel's economy and security situation.

The government first presented its plans to overhaul the judiciary, including the measure now voted through, in January, but halted its push following significant protests. Attempts to reach a compromise with the opposition have failed, and the next piece of legislation will reportedly focus on giving the government control over the judicial selection committee, which decides on the appointment of judges.

We [changed the outlook](#) on Israel's A1 rating to stable from positive in April to reflect our view that Israel's governance has deteriorated, as illustrated by the proposal to overhaul the judiciary. More specifically, we believe the wide-ranging nature of the government's proposals could materially weaken the judiciary's independence and disrupt effective checks and balances between the various branches of government, which are important aspects of strong institutions. Israel has no written constitution and its institutional set-up relies to an important extent on judicial oversight and review. In addition, the executive and legislative institutions have become less predictable and more willing to create significant risks to economic and social stability.

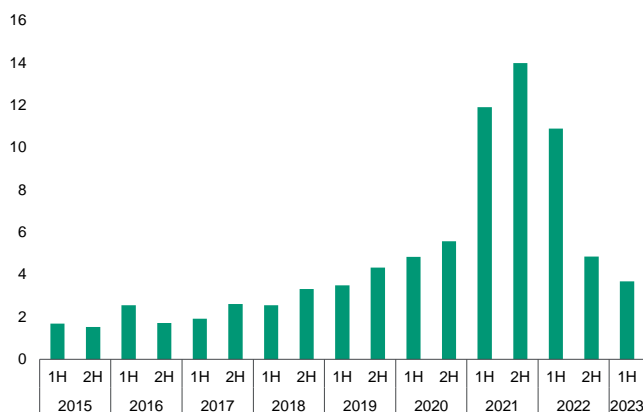
The bill's approval comes amid widespread protests by civil society groups that have been ongoing since January and which we expect will continue. Petitions against the bill have been lodged with the Supreme Court, raising the risk of a constitutional crisis between the executive and judiciary. A large number of military reservists, including elite pilots, threatened to stop reporting for training if the bill was passed, a move army leaders fear could put Israel's security at risk at a time of renewed violence with the Palestinians.

Although domestic and geopolitical tensions have traditionally not had a major or lasting impact on Israel's economy, a serious escalation of tensions with the Palestinians could endanger improved relations with the signatories of the Abraham Accords, which normalised relations between Israel, the [United Arab Emirates](#) (Aa2 stable), [Bahrain](#) (B2 stable), [Morocco](#) (Ba1 stable) and South Sudan, and make improving relations with regional powers such as [Saudi Arabia](#) (A1 positive) more difficult.

Some of our earlier concerns regarding the proposed reforms' impact on Israel's economy are also starting to emerge. Venture capital investments in Israeli high-tech firms have declined materially, with the sector raising \$3.7 billion in the first six months of the year, the lowest figure since 2019 (see Exhibit 1). While the slowdown reflects global trends in the sector triggered by tighter financing conditions and a degree of normalisation after the pandemic, there are also signs that Israel is decoupling from global trends.

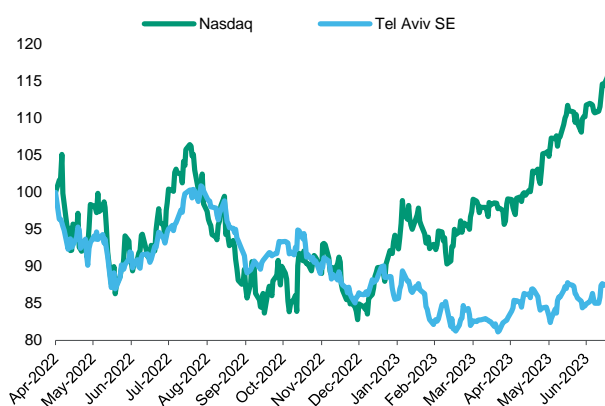
According to analysis by the Israel Innovation Authority, more than 80% of new Israeli start-ups have chosen to register overseas rather than in Israel since the start of this year, compared with just 20% in 2022, a development that is likely to reflect the significant uncertainty created by the judicial overhaul plan. The Israeli stock exchange and the NASDAQ have also diverged, suggesting that country-specific considerations may be holding back Israeli tech stocks (see Exhibit 2).

Exhibit 1  
**Investments into Israeli high-tech sector are slowing...**  
 Venture capital investment (\$ billion)



Sources: IVC-LeumiTech and Moody's Investors Service

Exhibit 2  
**... with the stock market also decoupling from global trends**  
 Stock index (May-2022 = 100)



Sources: NASDAQ, TASE and Moody's Investors Service

This is particularly concerning given that the country's high-tech sector has become the key engine of economic growth, accounting for half of total exports and generating around 15% of GDP in 2022. According to the Bank of Israel, a protracted period of domestic political uncertainty could reduce GDP by 0.8%-2.8% per year over a three-year period due to a higher risk premium and weaker exports, investment and private consumption. We currently forecast real GDP growth of 3% both this year and next, but our projection does not incorporate a negative effect from a prolonged period of social and political tensions.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moodys.com> for the most updated credit rating action information and rating history.

© 2023 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved. CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the credit rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody.com](http://www.moody.com) under the heading "Investor Relations — Corporate Governance — Charter Documents - Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

## CLIENT SERVICES

|              |                 |
|--------------|-----------------|
| Americas     | 1-212-553-1653  |
| Asia Pacific | 852-3551-3077   |
| Japan        | 81-3-5408-4100  |
| EMEA         | 44-20-7772-5454 |