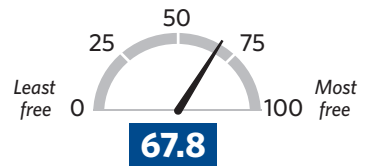


ISRAEL

Economic Freedom Score



World Rank: **48** Regional Rank: **6**

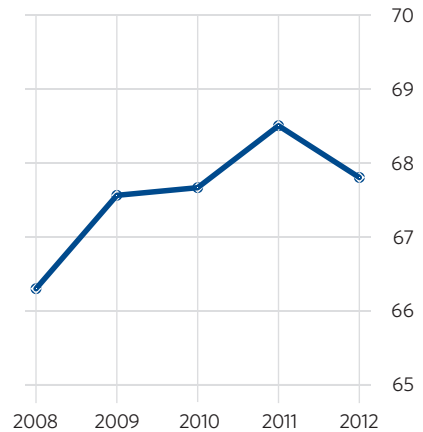
Israel's economic freedom score is 67.8, making its economy the 48th freest in the 2012 *Index*. Its overall score has decreased by 0.7 point, primarily due to declines in trade freedom and the control of government spending. Israel is ranked 6th out of 17 countries in the Middle East/North Africa region.

Israel's economic competitiveness is anchored in strong protection of property rights and relatively low levels of corruption, which have served as cornerstones of long-term economic expansion. There is still room for improvement in public finance management as respect for the principle of limited government has weakened in recent years.

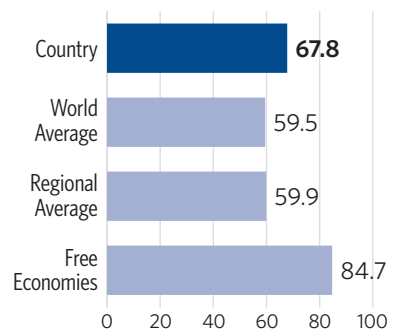
Despite the challenging global economic environment, Israel's economy has been on a path of recovery. With an increasingly diversified productive base and ongoing structural reforms, growth has been close to 4 percent annually over the past five years. Openness to global commerce supports productivity growth, and reforms have enhanced regulatory efficiency. The top corporate income tax rate was reduced to 24 percent in 2011 and is scheduled to fall to 20 percent in 2015 and 18 percent in 2016. The top personal income tax rate will drop to 39 percent in 2016.

BACKGROUND: Israel gained independence in 1948 as a result of the partition of the British Mandate for Palestine, and its vibrant democracy remains unique in the region. Prime Minister Benjamin Netanyahu leads a right-of-center coalition government formed after the February 2009 elections. A series of wars for survival against its Arab neighbors have imposed a high defense burden on Israel's state-dominated economy. Although endowed with few natural resources, Israel has developed agriculture, industry, and a dynamic high-tech sector that attracts considerable foreign investment. Exports of goods and services generate about 40 percent of GDP. Despite the 2006 war against Hezbollah in Lebanon, the December 2008 war against Hamas in Gaza, and the constant threat of war and terrorism, the economy has grown significantly.

Freedom Trend



Country Comparisons



Quick Facts

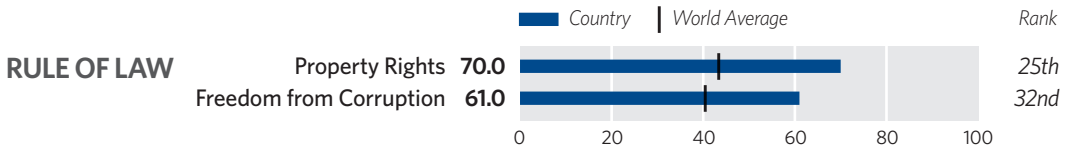
Population: 7.4 million
GDP (PPP): \$219.4 billion
 4.6% growth in 2010
 5-year compound annual growth 4.1%
 \$29,531 per capita
Unemployment: 6.6%
Inflation (CPI): 2.7%
FDI Inflow: \$5.1 billion
Public Debt: 77.4% of GDP

How Do We Measure Economic Freedom?

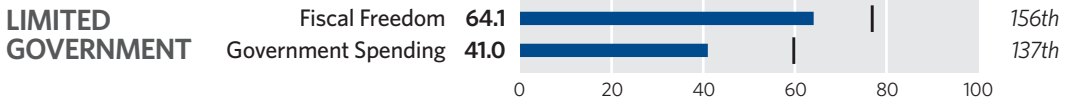
See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2010 data unless otherwise noted.
 Data compiled as of September 2011.

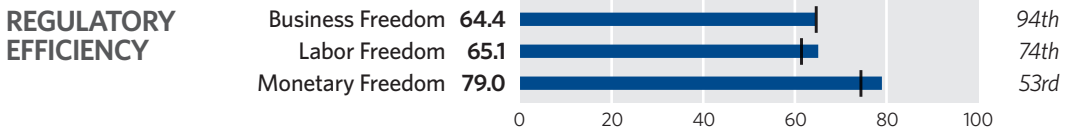
THE TEN ECONOMIC FREEDOMS



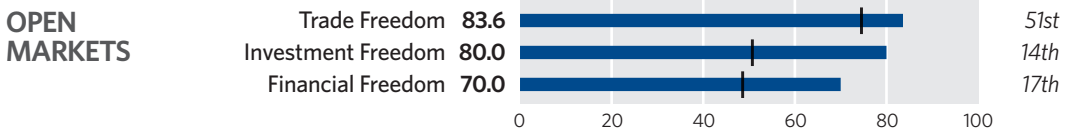
The rule of law is sustained by a modern legal framework based on British common law. Protections for property rights and contracts are enforced effectively. The court system is independent, and commercial laws are applied consistently. Bribery and other forms of corruption are illegal. Relatively effective anti-corruption measures have helped to strengthen the foundations of economic freedom.



The top income tax rate is 45 percent, and the top corporate tax rate has been reduced to 24 percent in 2011. Other taxes include a value-added tax (VAT) and a capital gains tax, with the overall tax burden amounting to 31.4 percent of total domestic income. Government spending is equivalent to 44.3 percent of GDP. The budget balance has been in deficit, with public debt corresponding to over 70 percent of total domestic output.



Israel's overall regulatory framework promotes efficient entrepreneurial activity. The pace of regulatory reform has lagged slightly behind that of other emerging economies. The labor market is in need of more flexibility to accommodate rapid economic transformation. Unionization has declined steadily from about 80 percent of all jobs to below 35 percent. Inflation has been modest, but upward pressures linger.



The trade weighted tariff rate is 3.2 percent, but non-tariff barriers add to the cost of trade. 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 been greatly liberalized as part of Israel's effort to reinvent itself as a financial hub.

Score Changes

| RULE OF LAW | LIMITED GOVERNMENT | REGULATORY EFFICIENCY | OPEN MARKETS |
|-------------------------|---------------------|-----------------------|--------------------|
| Property Rights | Fiscal Freedom | Business Freedom | Trade Freedom |
| 0 | +1.8 | -1.7 | -4.2 |
| Freedom from Corruption | Government Spending | Labor Freedom | Investment Freedom |
| 0 | -3.8 | +0.8 | 0 |
| | | Monetary Freedom | Financial Freedom |
| | | +0.6 | 0 |