

Sovereign ratings and economic outlook

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Global Context | **Shift In U.S. Trade Policy Will Slow World Growth**

- We currently assume 25% U.S. import tariff on autos, steel, aluminium, pharmaceuticals, and semiconductors, as well as 10% across-the-board tariff.
- We project a slowdown in U.S. and China's growth, but do not foresee a U.S. recession at this juncture.
- Lower commodity prices (via slower global growth) and weaker USD may be disinflationary for many economies.

Growth (GDP, yoy as %, May 1st baseline)*

| | 2024 | 2025f | 2026f | 2027f | 2028f |
|----------------|------|-------|-------|-------|-------|
| United States | 2.8 | 1.5 | 1.7 | 2.1 | 1.9 |
| China | 5 | 3.5 | 3 | 4.3 | 4.5 |
| United Kingdom | 1.1 | 0.9 | 1.4 | 1.6 | 1.4 |
| Eurozone | 0.8 | 0.8 | 1.2 | 1.4 | 1.5 |
| Germany | -0.2 | 0.1 | 1.2 | 1.6 | 1.6 |
| France | 1.1 | 0.7 | 1 | 1.2 | 1.1 |
| Italy | 0.5 | 0.5 | 0.8 | 0.9 | 0.9 |

Note: Forecasts as of May 1st, which assume 25% U.S. import tariff on autos, steel, aluminium, pharmaceuticals, and semiconductors, as well as 10% across-the-board tariff, it also includes an assumption of fully escalated tariffs between the U.S and China.

Inflation (CPI, yoy as %, May 1st baseline)

| | 2024 | 2025f | 2026f | 2027f | 2028f |
|----------------|------|-------|-------|-------|-------|
| United States | 3 | 3 | 3.6 | 2.6 | 2.5 |
| China | 0.2 | -0.3 | -0.2 | 0.8 | 2 |
| United Kingdom | 2.5 | 3 | 2.4 | 2.1 | 2 |
| Eurozone | 2.4 | 2 | 1.9 | 2 | 2 |

Working Assumptions (May 1st baseline)

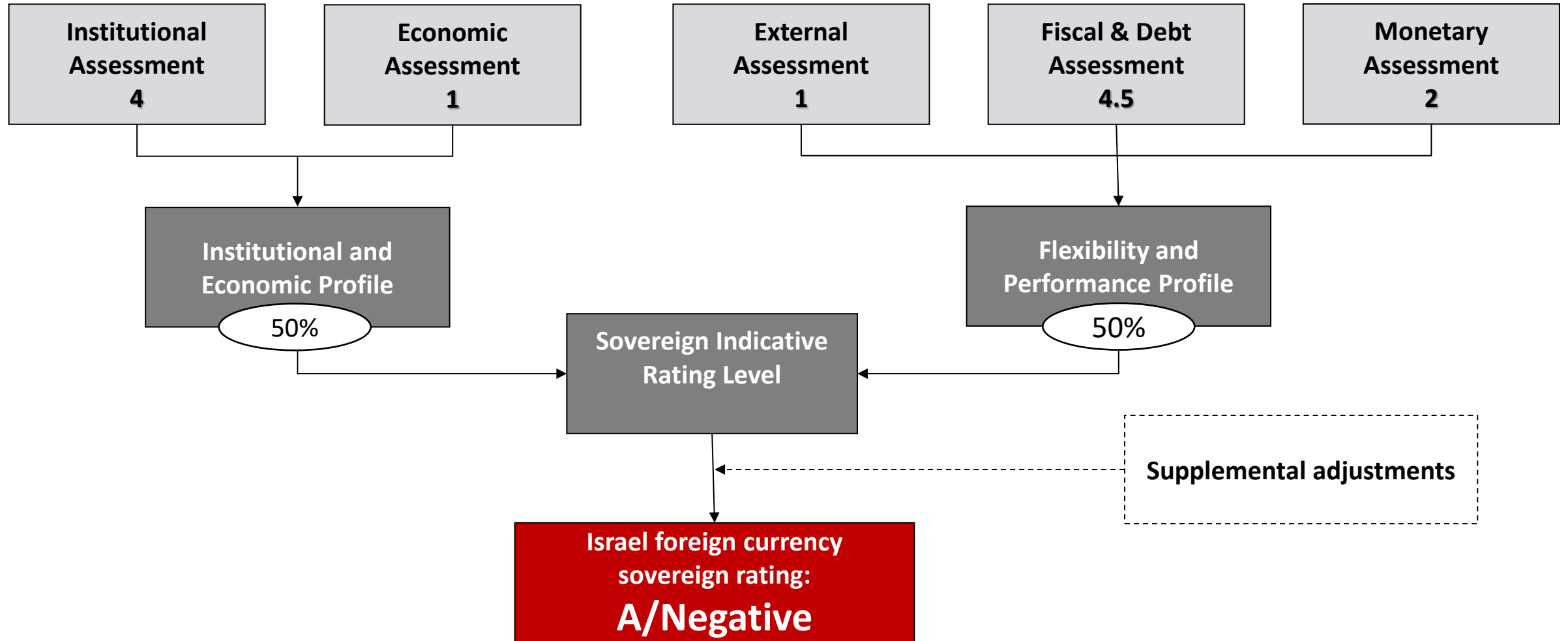
| | 2024 | 2025f | 2026f | 2027f | 2028f |
|----------------|------|-------|-------|-------|-------|
| FED (EoP) | 4.4 | 3.9 | 2.9 | 3.2 | 3.2 |
| ECB (DFR, EoP) | 3 | 2 | 2 | 2.5 | 2.5 |
| USD/EUR (EoP) | 0.94 | 0.91 | 0.88 | 0.85 | 0.83 |
| US-T 10Y (AoP) | 4.2 | 4.3 | 3.6 | 3.7 | 3.7 |

Israel's recent sovereign rating history and market derived signal score



Our sovereign rating methodology and its application to **Israel**

- Each of the key rating factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest)



Israel's sovereign credit rating: **the strengths**



Innovative and
resilient economy



Strong external position,
recurrent current
account surpluses

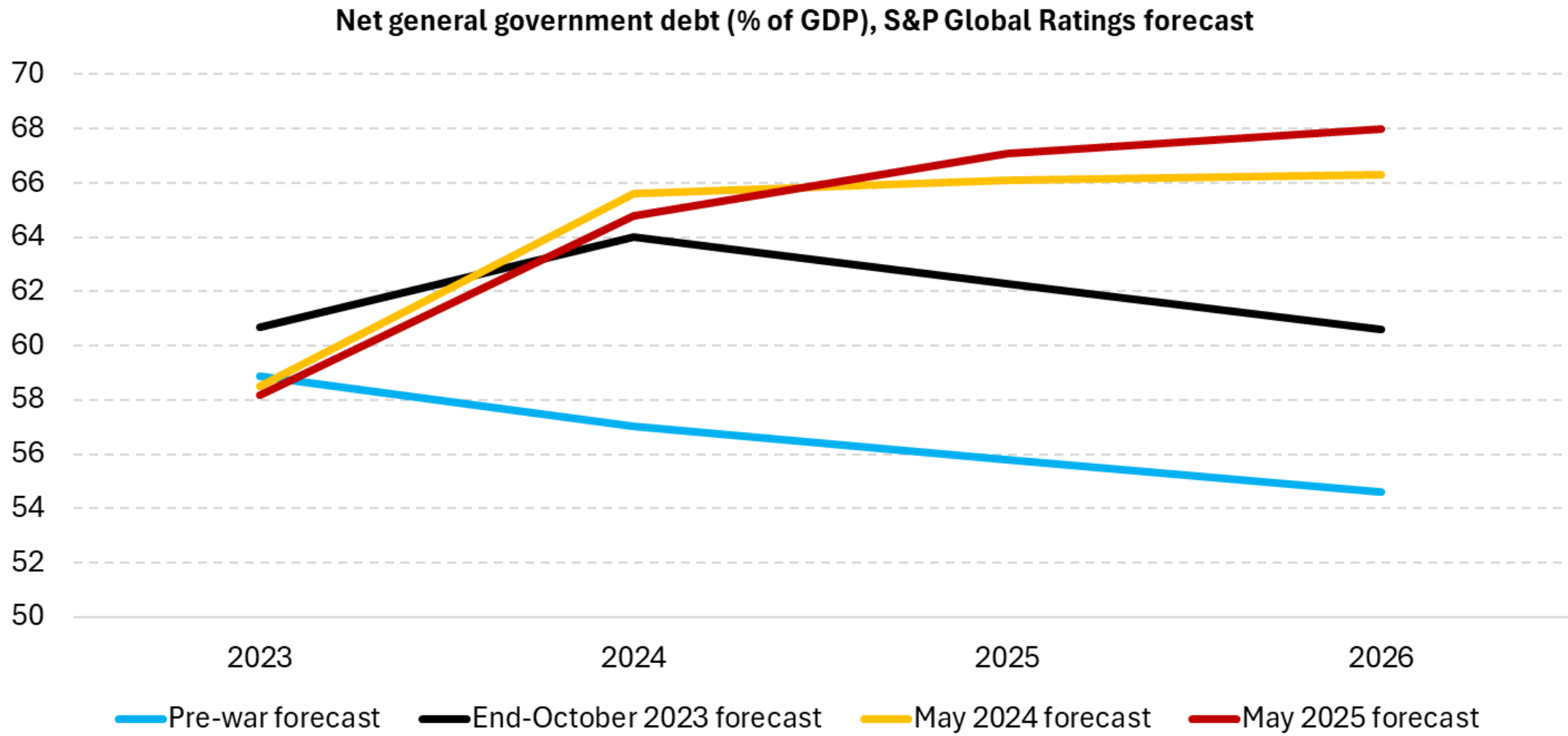


Flexible and
effective
monetary policy

Institutional and event risks are key constraints for the ratings of Israel



Israel's fiscal position has weakened over the last 2 years

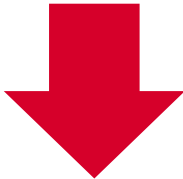


Israel Rating Outlook

A/Negative/A-1

Outlook

The negative outlook reflects the risk that the conflict between Israel, Hamas, and other proxies of Iran could substantially weaken Israel's economy, public finances, and balance-of-payments position, particularly if the conflict escalates.



Upside Triggers

1

Reduced likelihood of military escalation and a reduction in broader security risks.

Downside Triggers

1

Military conflicts hampering the country's economic growth, fiscal position, and balance of payments more than we currently anticipate.

2

Persistence of ongoing conflicts; prospects of a direct war between Israel and Iran increasing.

Summary of our current **economic forecast for Israel**

| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|-------------------------------------|------|------|------|------|------|------|------|
| | | | | | | | |
| GDP per capita (000s \$) | 55 | 52.6 | 54.4 | 57.1 | 59.1 | 61.9 | 65.2 |
| Real GDP growth (%) | 6.3 | 1.8 | 0.9 | 3.3 | 3.9 | 3.7 | 3.5 |
| Current account balance/GDP (%) | 3.3 | 3.7 | 3.2 | 3.1 | 3.1 | 3.3 | 3.1 |
| General Government Balance/GDP (%) | -1.9 | -6.9 | -9.4 | -6 | -5 | -5 | -4.2 |
| Net general government debt/GDP (%) | 57 | 58.2 | 64.8 | 67.1 | 68 | 69 | 69.2 |
| CPI growth (%) | 4.4 | 4.2 | 3.1 | 2.8 | 2.1 | 2 | 2 |
| Exchange rate, year-end (LC/\$) | 3.5 | 3.6 | 3.7 | 3.7 | 3.7 | 3.7 | 3.6 |

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