**The events of 2023–2024**

Israel’s achievements in the 75 years since its independence have made it an extraordinary success story, even in the face of its complex security situation and the challenges inherent in building a new state and society. Israel has become a flourishing democracy whose accomplishments are the fruit of its entrepreneurial, free, and open society, a progressive and educated country, and a “start-up nation” boasting an impressive array of economic achievements.

Nevertheless, 2023 was a watershed for Israel. Two major events exposed it to significant risks – and significant opportunities. As 2023 opened, Israel found itself facing a serious political, social, and economic crisis. By the end of the year, it was fighting a war.

At the start of the year, in a move that has been dubbed the “regime coup” in Israel, the sixth Netanyahu government proposed a series of draft laws intended to make changes in Israel’s judicial system. If adopted, these laws would have inflicted serious damage to the country’s liberal-democratic regime by upsetting the balance of the separation of powers and harming Israel’s independent judiciary. The impressive growth and development of Israel’s economy are rooted, among other things, in the country’s robust state institutions and independent, professional, and organized legislature and judiciary. The proposed legislation sparked concerns that the rules of the economic game would be weakened and damaged. Opponents claimed that corruption would soar and foreign investors would fear for the future of their assets, in particular in Israel’s high-tech industry. To protest these moves, huge numbers of people poured into the streets, most of them advocates of liberalism, democracy, and minority rights. The mass demonstrations and protests deepened the rift that has emerged over the past few years between Israel’s liberal and conservative, religious, and authoritarian “tribes.”

The impression that Israel had become weak likely had an influence on the timing of the heinous and murderous attack perpetrated by Hamas on October 7, 2023 – a plan that the Palestinian militant group had been developing for years. Caught by surprise, Israel incurred heavy losses – some 800 civilians and 340 soldiers were killed in one day, and about 260 more civilians were taken hostage to Gaza. The attack was a severe blow and humiliation for Israel, which responded with extreme force by unleashing a large-scale war on Gaza. The war continued into 2024, with soaring civilian and military costs of some $50 billion. The conflict also spread to other parts of the region, with involvement by Hezbollah in Lebanon and the Houthis in Yemen. Tensions with Iran have skyrocketed. The war has seriously undermined Israel’s international political status and image, which could potentially harm foreign investment. The end of the war will see defense spending hikes, even as early as 2025, reflecting the new challenges Israel faces in the region. As of June 2024, it remains to be seen exactly how much Israel’s defense budget will rise. But there will certainly be an impact on growth and living standards.

The war in Gaza and the “regime coup” have both served to focus public attention on another controversy – the unequal burden of military service caused by ongoing draft exemptions for Israel’s ultra-Orthodox population. This comes amid increasing ultra-Orthodox autonomy in directing resources toward that community’s education institutions and yeshivas, reflecting its growing demographic and political strength. Meanwhile, increasing polarization between Israel’s liberal and conservative publics has created a deepening rift in Israeli society, in spite of the broad mobilization of the population to provide financial and voluntary aid as part of a collective war effort. Israel’s religious-messianic factions have also raised their heads, reflected in the expansion of West Bank settlements and violent confrontations with Palestinians there. Against this background, Israel’s Arab population has refrained from being dragged into terrorist activity and has proven that they are law-abiding citizens.

The Israeli economy was in sound shape at the start of the war. If the right policies are adopted, it ought to be able to recover quickly, despite the high cost – a staggering $50 billion – of the war. Israeli society has demonstrated high levels of solidarity during the war and in the face of security threats. This has been reflected in its unprecedented levels of volunteerism and financial assistance to groups in need. Israel has one of the most vibrant, robust, and creative civil societies in the world. These qualities have always been an important component of its national security. Furthermore, Israeli entrepreneurship is rooted in a culture of resilience, and the economy has the know-how to continue to function even in the most difficult and complicated times.

The war in Gaza during 2023–2024 has harmed growth and investments and has adversely affected the public debt. As a result, Israel’s credit rating has been further downgraded since having been downgraded during the “regime coup” protests. In 2023, Israel’s GDP rose by 2 percent, while private per capita consumption fell by around 3 percent. Israel’s budget deficit amounted to around 4 percent and public debt reached some 63 percent of GDP. At the close of 2023, foreign exchange reserves stood at $205 billion or about 41 percent of GDP. Estimates for 2024 suggest that GDP will rise by about 1.5–2 percent, while the budget deficit will soar to 7.5 percent. Public debt is also estimated to rise, to around 70 percent of GDP. During this difficult period, Israel’s business sector has demonstrated, as it has in the past, an impressive flexibility and ability to recover. Israeli businesses have continued to function even during the war, and the country has continued to export despite a severe shortage of human resources, with many tens of thousands of Israelis having had to leave their businesses and workplaces to serve in the military reserves. Israeli high-tech in particular has demonstrated an astonishing degree of resilience.

The war has made it all the more pressing to find solutions to issues that have been neglected for years. This requires the development of a new sociopolitical system. The failure that was the outbreak of the war, the management of the war, and its prolongation, have all engendered broad opposition to the government. The political crises and the war may yet produce new rules of the game in terms of the separation of powers and an independent judiciary and professional governance. They may perhaps also prompt a shift in the regional geopolitical situation. In the absence of a far-reaching political solution to the conflict, including Palestinian recognition of Israel’s right to exist as a Jewish state, Israel will have no choice but to continue as a mobilized society with an increase in defense spending, as it has done for many years.