

Israel-Hamas war

'I'm not sure we've got a safety net': Israeli businesses buckle as war hits economy

Demand has plummeted and companies have shut as consumers and workers are either drafted or shielding

Guy Chazan in Jerusalem 2 HOURS AGO

Loyal customers of Israel's Atlas Hotels recently received an unusual email — a desperate plea for donations to save the company from collapse.

Atlas has opened its 16 boutique hotels to 1,000 evacuees displaced after Hamas's deadly rampage through southern Israel on October 7. When the government failed to defray the cost, it started a whipround.

“We asked suppliers, contacts abroad, our employees and the Atlas A-list — our best customers — for help,” operations manager Lior Lipman said. The message was stark, he added: “If we can't fund ourselves, the business will collapse.”

Israel's war against Hamas has sent shockwaves through its \$488bn economy, disrupting thousands of businesses, straining public finances and plunging whole sectors into crisis.

Prime minister Benjamin Netanyahu has pledged to create an “economy under arms”, promising vast transfers of cash to endangered companies and regions on a scale last seen during the Covid-19 pandemic.

“My guidance is clear: we are opening the taps, pumping money to everyone who needs it,” he said on Thursday. “Over the past decade we built a very strong economy and whatever economic price this war exacts on us, we will pay it without hesitation.”





An Israeli soldier stands guard on a street near the Lebanon border. Some 8% of Israel's workforce has been called up to serve as reservists © Fadel Senna/AFP/Getty Images

He was speaking as finance minister Bezael Smotrich unveiled handouts to army reservists and measures to compensate businesses for war losses.

Some business leaders welcomed the aid package, but many said it did not go far enough. Critics said the eligibility criteria were too strict, while others said the measures offered no help to big companies.

“The government is abandoning its people,” Ron Tomer, head of the Manufacturers’ Association of Israel, said. Many were not being fully compensated for lost earnings, he added: “They’re going to get a nasty shock in their next pay packets.”

Lipman said Atlas Hotels was still waiting for government aid. ‘I would expect the country to support me when I’m trying to help people,’ he added. “[But] I’m not sure we’re going to have a safety net.”

Israel has been in a state of shock since Hamas’s violent incursion, which officials say left more than 1,400 dead. It retaliated with a ground invasion of Gaza and a relentless bombardment that the enclave’s health ministry says has killed some 9,770 Palestinians.

Some 350,000 Israeli army reservists were called up — 8 per cent of the workforce — as the country mobilised for war.

Meanwhile, 126,000 civilians from the north and south of Israel have been relocated in an effort to shield them from Hamas missiles and mortar attacks by Hizbollah, the Lebanese militant movement backed by Iran.

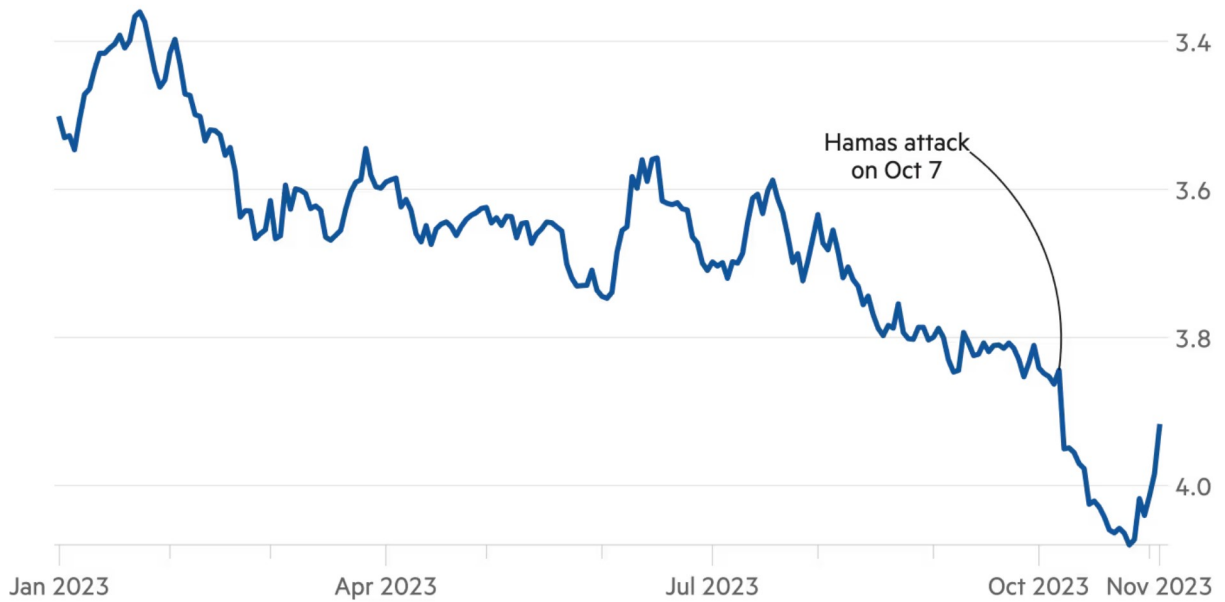
Polls show overwhelming public support for the war. But its scale is taking Israel into uncharted territory. The most comparable event is the Gaza war of 2014, the previous time Israeli forces invaded the impoverished strip, but that lasted for 49 days and involved far fewer reservists.

“This time there’s much more uncertainty,” Michel Strawczynski, an economics professor at Hebrew University in Jerusalem, said. The “more difficult objectives” this time — eliminating Hamas and ending the militant group’s rule in Gaza — “mean the war will probably be longer”.

There are some signs of a recovery after the initial shock of the Hamas attack: the shekel is holding up, following interventions by the Bank of Israel, and consumer demand has begun to revive, albeit slowly. On Monday, Israel's central bank said it would provide the banking system with up to Shk10bn (\$2.6bn) to help small businesses affected by the war to access low-interest loans. The programme would run until the end of January, the bank said.

The shekel has started to recover in the aftermath of the attack

Israeli shekels per \$



Source: LSEG

© FT

But the conflict continues to have a chilling effect on business activity, particularly construction.

“A lot of building sites have been closed down by municipalities,” Tomer said. “They don’t want to have Palestinian workers there. They say people are upset at the sight of Arab workers holding heavy tools.”

Discretionary spending has also been badly hit. “People are not only worried about missiles — they’re also in a terrible mood, grieving for friends and relatives,” Victor Bahar, chief economist at Bank Hapoalim, said. “That is suppressing consumer demand.”

Evidence is already mounting of the war’s destructive impact on economic activity. A survey of Israeli businesses by the Central Bureau of Statistics found that one in three had closed or were operating at 20 per cent capacity or less since it began, while more than half had reported revenue losses of 50 per cent or more.

The results were even worse for the south, the region closest to Gaza, where two-thirds of businesses had either shut or reduced operations to a minimum.

Meanwhile, the labour ministry says that 764,000 Israelis — 18 per cent of the workforce — are not working after being called up for reserve duty, evacuated from their towns or forced by school closures to look after children at home.

The measures unveiled by Netanyahu and Smotrich last week are more generous than an earlier package that drew criticism from business groups. Under the new provisions, the government will support companies whose monthly revenues have fallen by more than 25 per cent because of the war, by covering up to 22 per cent of their fixed costs and 75 per cent of their wage bill, among other steps.

But experts are concerned that this may not be enough should Israel's economic

prospects continue to darken. “It’s better now, but it’s still hard to know if this is the end of the story,” Strawczynski said.

Others argue that the support package should be accompanied by a rethink of government spending priorities. Netanyahu’s coalition partners from ultra-Orthodox and settler parties are continuing to direct vast sums to projects that critics say have no place in a war economy, such as a scheme to encouraging religious observance among students.

Last week a group of 300 leading Israeli economists called on Netanyahu and Smotrich to “come to your senses”.

“The grave blow that Israel was dealt requires a fundamental change in national priorities and a massive rechanneling of funds to deal with war damage, aid to victims and the rehabilitation of the economy,” they said in an open letter.

Netanyahu said on Thursday that the support package was “just the start. We will beat the enemy in the military war and we will win the economic war, too.”

But Eugene Kandel, chair of Start-Up Nation Policy Institute, a think-tank, and one of the signatories of the economists' letter, said the government “has still not shown it has understood the gravity of the situation”.

“You need to have a laser-like focus on the war and rebuilding people’s trust in the state and its leadership and investing in Israel’s resilience,” he said. “Every ministry and its budget should potentially be on the cutting block.”

Stay informed with the latest news, analysis and opinion featured on the [Israel-Hamas war section](#)

[Copyright](#) The Financial Times Limited 2023. All rights reserved.
