



STATE OF ISRAEL



OFFICE OF THE STATE COMPTROLLER
AND OMBUDSMAN OF ISRAEL

THE OCTOBER 7TH TERROR ATTACK AND THE IRON SWORDS WAR

STATE COMPTROLLER REPORT

Swords of Iron War - Financial and Budgetary Aspects

November
2025

Special
Report

Foreword

The Swords of Iron War has resulted in enduring economic repercussions, with the financing of war-related expenditures and their subsequent consequences adversely affecting Israel's fiscal stability and significantly augmenting both state and public debt in a manner that is poised to impact current and future generations. According to data from the Accountant General Division at the Ministry of Finance, total expenses associated with the conflict, from its inception until the conclusion of 2024, reached approximately NIS 142 billion, which includes approximately NIS 95 billion in direct military expenditures and approximately NIS 18.5 billion from the Compensation Fund. The Bank of Israel's forecast, as of September 2024, estimates that war expenses for the period of 2023-2025 will reach approximately NIS 250 billion. The implementation of the defense budget for the Swords of Iron War in the years 2023-2024 stood at approximately NIS 95 billion. In 2024, approximately NIS 37 billion was paid out for reserve service benefits, (approximately 22% of the defense expenditures for that year).

The report hereby presented comprises a compilation of reports pertaining to the economic dimensions within the context of the Swords of Iron War. The following is an overview of the reports:

- **The Socio-Economic Cabinet during the Swords of Iron War and the Preceding Period**

The Israeli government is required to confront fundamental and enduring challenges in the realms of society and economy, encompassing a multifaceted geopolitical landscape, distinctive demographic characteristics, and economic disparities. In response to

these challenges, the Socio-Economic Cabinet functions as the extended arm of the government, tasked with addressing, elaborating on, and making determinations regarding socio-economic issues. Shortly after the onset of the Swords of Iron War, the government considerably augmented the powers of the Socio-Economic Cabinet, assigning it the responsibility of managing all civilian aspects pertinent to the conduct of the war. In this capacity, the government established the Cabinet as the principal governmental forum for decision-making and for delineating responses to the needs of the home front during the complex and unprecedented period subsequent to October 7, 2023.

The report findings indicate a significant decline in the Cabinet's activity over a protracted period prior to the war, evidenced by a 90% reduction in the number of decisions made; an increase in the percentage of decisions adopted without deliberation (from 8% in the 30th government to 100% in the 35th government and 50% in the 36th government); partial ministerial attendance at discussions; and the Cabinet's reticence in addressing and making determinations on vital strategic issues within its purview, such as labor productivity in Israel, preparation for an aging population, Israel's credit rating, the matter of the cost of living, and economic preparedness for emergencies. Since the outbreak of the war, the Cabinet has exhibited low levels of activity, ceasing to convene entirely by mid-December 2023, thereby failing to fulfill the obligations assigned to it by the government.

The Cabinet's ineptitude in executing its responsibilities since the outbreak of the war is evident, among other indicators, from its failure to provide a systemic response

to the localities along the northern front line and their inhabitants, who, due to the ongoing security threat, are facing an economic and social crisis, along with personal crises for many residents, a situation necessitating comprehensive governmental intervention, encompassing both immediate effective responses and optimal rehabilitation strategies in the medium and long term. In the absence of a coordinated response from the Cabinet, the handling of the northern region has been relegated to various government agencies. The government's resolution to implement a comprehensive plan intended to address the extensive needs of northern localities was rendered only at the end of May 2024, more than six months after the outbreak of the war. As of May 2025, over a year and a half since the onset of the war, no multi-year plan for the rehabilitation of the north has been formulated and budgeted.

The Minister of Finance, who was designated to lead the Cabinet, set its agenda, and moderate its discussions aimed at decision-making, failed to exercise these authorities, resulting in the Cabinet's failure to fulfill the functions assigned by the government at the onset of the war. Given the suspension of Cabinet meetings in December 2023 and its inaction during the many months since the outbreak of the war, the Prime Minister should have addressed the issue to ensure that civilian affairs during the war were managed in a comprehensive manner; however, such measures were not undertaken.

More than a year subsequent to the outbreak of the war, governmental attention regarding various civilian dimensions associated with the war is imperative. The Chairman of the Cabinet – namely, the Prime Minister or his designee, the Minister of Finance, should actively exercise the powers vested in the Cabinet to ensure its operation as a principal governmental forum, whose operation is predicated on continuous government strategic work, in order to acquire current, timely information, conduct situation assessments, and make decisions in response to all evolving needs.

Furthermore, to ensure the optimal and effective functioning of the Socio-Economic Cabinet during both routine and emergency scenarios, it is incumbent upon the Prime Minister and the Minister of Finance to take measures that substantively contribute to the Cabinet's focus on core social and economic issues. To establish a professional infrastructure for the operations of the government, the Cabinet, and other ministerial committees within the socio-economic domain, it is recommended that the Prime Minister delegate the responsibility for the strategic work required for developing this infrastructure to a governmental body, that would be charged with consolidating the efforts of the government and its committees regarding these issues from a comprehensive and holistic perspective. This approach is analogous to the principles underpinning the establishment of the National Security Council (the NSC) and its respective functions concerning governmental operations and the activities of ministerial committees focused on foreign affairs and defense. Such an infrastructure would facilitate the realization of the Socio-Economic Cabinet's mission as the government's primary forum for thorough and comprehensive engagement in this field.

- Economic Preparedness for a Wartime Event and Management of the Swords of Iron War Budgets in 2023–2024**

This report is organized into three sections:

Section One – Economic Preparedness for an Emergency Preceding the Swords of Iron War

Section Two – Preparation of the "War Budgets" for 2023–2024 at the Ministry of Finance

Section Three – Implementation of the "War Budget" at the Commencement of the Swords of Iron War

State preparation for emergency situations, including the development of economic contingency plans tailored

to various emergency scenarios, particularly that of an extended war, would have assisted in coping with the scale of expenses associated with the war, especially during the initial months.

The audit revealed that the formulation process for the supplementary budget for the years 2023 and 2024 encountered significant delays, despite the need for its expedient development in response to wartime requirements. This delay was attributed, in part, to disagreements between the professional echelons and the Minister of Finance and his team regarding the appropriate mechanism for formulating the war budget, the requisite allocations, and the sources and scope of funding for civilian wartime expenditures within the framework of the supplementary budget for 2023, which subsequently affected the timeline for developing the supplementary budget for 2024. It was also found that no substantial restrictive measures were enacted within the supplementary budgets for 2023 and 2024. Considering the prolonged nature of the war and the scope of the necessary military and civilian expenditures to finance it, the government was compelled in 2024 to exceed the legal budget spending cap by tens of billions of NIS and to breach the forecasted budget deficit rate several times to cover war-related expenses. These actions, which included significant increases in taxation imposed on the populace, exert a negative influence on the markets and are manifested in the elevated interest payments that have been and will continue to be incurred in subsequent years, detracting from resources that could be allocated for the benefit of the nation's citizens and households. In light of the substantial rise in defense and civilian expenditures attributable to the war, the implications of the credit rating downgrade on interest payments, the magnitude of government debt, and the escalation of the debt-to-GDP ratio, there is considerable concern regarding potential damage to the country's fiscal resilience.

It was found that the Ministry of Finance lacked a dedicated budgetary mechanism for promptly addressing

unexpected and unplanned budgetary requirements in the event of a significant emergency. Furthermore, the Ministry did not allocate a specific reserve item within the state budget for emergencies that could be immediately accessed during an emergency without necessitating a budget update. Notably, within the framework of the approval of the 2025 Budget Law, a legal mechanism was established for the first time to address emergencies. Additionally, a discrepancy was highlighted regarding the reserves in the state budget, as presented to the Minister of Finance at the onset of the war: the Accountant General Division reported reserves of NIS 30 billion in the state budget, while the Budget Department asserted that these reserves were unavailable, resulting in an effective reserve of zero.

An international review indicates that various advanced nations, including the United States, the United Kingdom, and Australia, have established legislative frameworks pertaining to emergency situations, encompassing their economic preparedness and the mechanisms necessary for the immediate execution of a budget during emergencies. Moreover, a 2019 OECD study reveals that a substantial majority of OECD countries (31 countries) allocate budgetary sources for emergencies and future expenditures. Specifically, 23 countries maintain contingency reserves in various configurations, with the overarching aim of financing activities required to address unanticipated events.

In light of the ongoing hostilities and the expansion of military conflict in the North and elsewhere, as well as the notable deterioration of indicators pertaining to the Israeli economy since the onset of the war, including a series of credit rating downgrades, a rise in the debt-to-GDP ratio (from approximately 61.4% in 2023 to approximately 69% in 2024), an increase in the government's budget deficit by approximately 2.7 percentage points (from approximately 4.1% of GDP in 2023 to approximately 6.8% of GDP in 2024), and a reduction in the growth forecast by all professional bodies, the Minister of Finance should undertake a periodic review

involving all pertinent professional entities, both within and outside the Ministry of Finance, to determine the necessary measures to enhance the country's economic resilience. This should include the implementation of growth-promoting strategies for improving the fiscal condition of the state and reinforce its commitment to debt repayment. Furthermore, it is advisable for the Ministry of Finance, in collaboration with the Ministry of Justice, to explore the feasibility of establishing an "emergency reserve" item within the state budget to facilitate immediate fiscal responses in the event of an emergency. Additionally, the Ministry of Finance should assess the actual utilization of the dedicated reserve budget mechanism set forth in the Budget Law of 2025 to inform future state budget formulations.

Moreover, the Ministry of Finance, under the direction of the Minister of Finance, along with the Bank of Israel, the National Economic Council, and all other entities responsible for economic governance in the State of Israel, should take actions to rectify the deficiencies and implement the recommendations presented in this report. This will enable the state to achieve economic preparedness for emergencies and deliver a prompt and effective economic response to its citizens.

The State of Israel is experienced in security events and both short- and long-term conflicts. War constitutes one of the principal risks faced by the nation, alongside earthquakes, pandemics and others. Consequently, the State of Israel is required to prepare for emergency situations, crises, and disasters that potentially jeopardize lives and impose significant damage to lifestyles, national infrastructures, defense capabilities, and overall national resilience. In relation to economic preparedness for emergencies, such readiness is likely to maintain economic stability, aid in the capacity to withstand fiscal and monetary challenges, enable the nation to cope with economic crises and emergencies, and ensure continued access to essential services and resources during emergencies and other such events.

The preparation of the report required significant effort on the part of the employees of the Office of the State Comptroller, who worked hard to prepare it with the highest standards of professionalism, thoroughness, integrity, and meticulousness, fulfilling their public responsibilities with a profound sense of true dedication. They have my gratitude.

We continue to pray and express our hopes for the triumph of the IDF and the security agencies, for the return of all hostages, for the recovery of the wounded, and for peaceful and quiet days.



Matanyahu Englman

Jerusalem,
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