

War With Hamas Is Tormenting Businesses Key to Israel's Economy

- Army call-ups, slow demand, high rates hit smaller business
 - Small, medium-sized firms account for 62% of value added
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By Antony Sguazzin and Galit Altstein

(Bloomberg) -- Two months since Hamas attacked, Israel's abrupt shift to a war economy has left entrepreneurs such as Shlomi Tuskia struggling to stay afloat.

"There's effectively no business," said the 56-year-old corporate events provider, whose company, Elateva, in the central city of Rishon LeTsiyon, is on life support awaiting a turn in the commercial tide.

Tuskia and thousands of small corporate owners like him are reeling from a drastic adjustment to conflict conditions that include the call-up of about 300,000 people, or 8% of the workforce, to serve in the military.

Construction and other laborers from the Palestinian West Bank are prohibited from entering the country. A collapse in discretionary spending has hit leisure businesses hard. Mass evacuations from war-affected areas in the north and south of Israel have heaped further disruption.



Israeli reservists are transported to a military base near Tel Aviv on Oct. 7.

The human toll of the Oct. 7 surprise attack began with 1,200 people killed and 240 abducted by Hamas, which is designated a terrorist organization by the US and European Union. Since then, the group's health ministry in Gaza claims deaths there have totaled more than 15,500 as Israel responds with a military onslaught.

For Tuskia, the economic fallout was immediate. He had spent months preparing for what is normally one of the busiest times of year – the period following the Jewish holidays of Rosh Hashanah, Yom Kippur and Sukkot.

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Shlomi Tuskia

Overnight, bookings were canceled, deposits had to be returned, and money spent preparing for the season was lost. He was forced to let go his sole employee, and told contractors to brace for a collapse in work lasting months.

With a wife, three children and a son-in-law to support, he asked banks for a loan “to keep the business afloat and for the expenses that are needed to live,” he said.

But with interest rates at a 17-year-high and the need for a costly business plan too, he instead borrowed 250,000 shekels (\$62,000) more cheaply from Ogen, an organization that was established in 1990 as the Israel Free Loan Association to aid small companies, nonprofits and individuals.

“On Oct. 8 we had a management meeting understanding that Ogen will face a huge wave of demand,” said Sagi Balasha, its chief executive officer. “We understood that in two weeks, people will start talking about economics and the crisis of small businesses.”

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Ogen normally lends about \$70 million a year, but received applications worth \$58.2 million in the month through Nov. 21 alone. It expects demand for \$364.8 million in loans over the next six months, though that’s “a drop in the

bucket," Balasha said.

That's all the more worrying in a country where small and medium-sized enterprises account for 62.3% of the total value added, higher than the average of the OECD club of rich nations.



Ogen CEO Sagi Balasha.

This year 57,000 Israeli businesses will close, compared with 42,000 in 2022, with many hurt by increased rates, inflation and months of political turmoil over a proposed judicial overhaul, according to a survey by Coface BDI for The Marker, a daily business newspaper. The economy usually adds 4,500 annually, but this year the total will drop by 20,000, it said.

Against that backdrop, the country's five biggest banks have increased credit-loss provisions for small businesses almost eightfold from last year. Bank Hapoalim BM, the largest by revenue, said in its results that areas ranging from tourism to real estate face "a further decrease in demand and difficulty in promoting projects."

The government, already under strain from a war costing an estimated \$270 million a day, has responded by budgeting 18 billion shekels for business continuity grants in October and November, which 80,000 companies applied for.

It also offered to stand in as a guarantor for loans in some cases, and on Sunday, Finance Minister Bezael Smotrich extended compensation through December.

State Failure

There are some signs of a recovery. Only a fifth of businesses said they're still not operating six weeks into the war,

down from a third two weeks after the conflict started, according to a survey by Israel's Central Bureau of Statistics.

But there is a long way to go to get the economy back up and running. Companies, and organizations like Ogen and the 1,800-member Manufacturers Association of Israel, are critical of the government. Balasha says it "is failing to professionally respond to the war needs" of business.

Last week, Israel's government passed a revised 2023 budget that retains discretionary spending for religious schools and other priorities sought by coalition partners.

"We are in the biggest war Israel has seen in the last 50 years," Balasha said. "We need not just for them to put their hand in their pocket, but to come up with super-creative, out-of-the box tools to move the market – even if those tools were unacceptable before the war."

--With assistance from Gwen Ackerman.

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