The Israeli Economy: Current Trends, Strength and Challenges

IRMC Conference

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GDP Growth Rates

GDP annual % change (2000-2017F)

Forecast

Developing Economies

Israel

Advanced Economies

*Simple average for 21 rich OECD countries and emerging markets according to IMF definition

Source: IMF
GDP per capita annual % change (2000-2015)

*Simple average for 21 rich OECD countries and emerging markets according to IMF definition

Source: IMF
Israel’s Goods and Services Exports and World Trade, 1996-2017F

World Trade

Israeli Exports

*Excl. diamonds and start-ups

Source: Bank of Israel and IMF
Structural Change in the Composition of Growth – Private Consumption is Leading While Exports are in Stagnation

The increase in uses: The total increase and the contribution of uses 2007-2015

Source: BoI Report 2015, CBS
Participation Rate

Employment rate

Unemployment rate

Source: Central Bureau of Statistics Labor Force Survey
Real Wage per Employee Post*
1995-2015

*Seasonally adjusted, 12 months moving average, 2015 prices

Source: Central Bureau of Statistics Data
Bank of Israel Policy
BOI’s Policy Objectives

- Maintain price stability, as the central goal.
- Support economic policy, primarily growth, employment and reducing social gaps.
- Support the stability and orderly activity of the financial system.
Actual Inflation and Inflation Expectations 2006-2016

* Forward inflation expectations 3-5 years

Source: Bol
Factors of a One-Off Nature and Energy Prices Contribute to the Low Inflation

Inflation excluding energy, food, fruit and vegetables, and without regulation

Energy and Commodity Prices Declined

Inflation excluding energy and regulation

Annual inflation

*12-month % change

Source: CBS (Israel) & Bol
Exchange Rates
2012-2016

NIS

Nominal Effective

$/NIS

01/12 03/12 05/12 07/12 09/12 11/12 01/13 03/13 05/13 07/13 09/13 11/13 01/14 03/14 05/14 07/14 09/14 11/14 01/15 03/15 05/15 07/15 09/15 11/15 01/16 03/16 05/16

Source: BoI
Survey of Home Price and Loans for Residential Purposes
2005-2016, Monthly

Source: Bank of Israel, Banking Supervision Department
The Monetary Committee assesses that monetary policy will remain accommodative for a considerable time.

Bond purchases 5 Billion $
Fiscal Policy
Budget Deficit* and Deficit Target
(Percent of GDP, 2000-2016)

*Percent of GDP; excluding credit extended. The data refers to the deficit excluding the Bank of Israel’s profits.

Source: Bol
Public Debt in Israel is Decreasing but Net Interest Payments are Still High in International Comparison.

Source: The Bank of Israel and the OECD.
**Tax Burden**  
2014, Percent of GDP

*Source: OECD Revenue Statistics 2015*

*2013 data*
Public Expenditure
Percent of GDP, 2014

Source: OECD
Civilian Public Expenditure Excluding Interest
Percent of GDP, 2014

- The data is calculated by decreasing the net debt interest payments and defense expenditure from the general government total outlays.

Source: OECD and the Bol
Behind the Engine of Growth
- Strengths
Share of the Population Aged 25-64 with Tertiary-Level Education, 2014

Source: OECD Education at a Glance 2015
Factors in Israel that encourage innovation

- Quality universities that provide the economy with human capital, scientific aptitude, and technological abilities
- Collaboration between the universities and industry
- Government support for commercial R&D
- Developed venture capital industry
• 73 Israeli companies are listed on Nasdaq

• Over 300 international companies established Israeli R&D centers

• More than 4,000 startups: The world’s greatest concentration of high tech companies outside Silicon Valley

• Leading in cyber security: 430 cyber security companies and startups. In 2015, Israel’s share of private investment in the field was nearly 20% (second only to the US).

Source: IMF WEO April 2014, Israel innovation authority, Nasdaq, The National Cyber Bureau
Triadic patent families
Number per million inhabitants, 2013

Source: OECD Factbook 2015-2016
• **World leader in desalination;** With a network of five coastal desalination plants, which together produce 75% of all water supply to households.

• **Leading in Waste-Water Recycling** with a rate of 80%.

• Israel developed and patented the “Drip Irrigation”, that has not only produced huge reduction in agricultural water use, but has also vastly increased yields, and it is used worldwide.

*Source: The Israel water authority, “Natafim”, “Mekorot”.*
Venture Capital Investment as % of GDP, 2014

Source: OECD
Productivity Gap—Israel vs. OECD Average, and Exports’ Share of Output in Israel, by Industry, 2010

Source: Eurostat, OECD, Bol, CBS (Israel)
Long Term Challenges
Output Per Hour Worked
1995-2015, $ PPP, 2015 Constant Prices

Source: The Conference Board Total Economy Database 2015
Productivity Gap—Israel vs. OECD Average, and Exports’ Share of Output in Israel, by Industry, 2010

Source: Eurostat, OECD, BOI, CBS (Israel)
Employment Rate by Population Groups

Women Employment Rate, 25-64

- Jewish Non-Ultraorthodox Women
- OECD Women
- Ultraorthodox Women
- Arab Women

Men Employment Rate, 25-64

- Jewish Non-Ultraorthodox Men
- OECD Men
- Arab Men
- Ultraorthodox Men

Source: Based on Central Bureau of Statistics Data
Economic Income Inequality is Similar to the OECD Average, but the Effect of Policy, Particularly Transfer Payments, is Low in International Comparison.

Gini Index, 2012*, at market income, before taxes and transfers

Strength of the effect of tax policy and transfer payments on the Gini Index, 2012

Gini Index, 2012*, at disposable income, post taxes and transfers

*Israel data for 2014

Source : Based on Central Bureau of Statistics Data and OECD
The Need to Formulate a Focused Strategic Plan:

- Integrate population sectors into the labor market: Active labor market policy
  - Ultra-Orthodox (men)
  - Arab (women)
  - Older workers (around retirement age)

- Increase human capital: Education and professional training

- Remove obstacles to growth and productivity
  - Infrastructure
  - Business environment
  - Competitiveness
  - Promote reforms (ports, electricity, and the natural gas and energy industry)
  - Research and development

- Increasing quality and efficiency of public service systems (health, long-term care, welfare, pension, etc.)

- Diversify trade geographically and by industry
Thank You