The Israeli Economy: Current Trends, Strength and Challenges

Jerusalem Press Club

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GDP per capita Growth Rates

GDP per capita annual % change (2000-2016)

*Advanced economies: Simple average for 21 rich OECD countries
**Developing economies: IMF “emerging markets” definition

Source: IMF
Israel’s Exports and the World Trade

Goods and Services exports in Israel & OECD and the world trade, 2015-2016
Index, Q1-2007=100

Source: CBS, OECD, IMF
Geographical composition of Israel’s Exports

Geographical composition of Israel’s Exports of goods excluding diamonds, 2015

- Europe: 29%
- USA: 24%
- Asia: 25%
- Other: 23%

Geographical composition of Israel’s Exports of Business services, 2014

- Europe: 34%
- USA: 31%
- Asia: 6%
- Other: 29%

Sources: CBS
Labor Market
Quarterly, 1995-2016, 25-64

Participation Rate
Employment rate
Unemployment rate

Source: Central Bureau of Statistics Labor Force Survey
Unemployment Rate, 25-64, 2015

Source: OECD and BoI
Real Wage per Employee Post*
1995-2016

*Seasonally adjusted, 12 months moving average, 2015 prices

Source: Central Bureau of Statistics Data
The Financial System Structure

Distribution of Credit for Non-Financial Private Sector, by Lender

2000
- Banks: 75%
- Credit card companies: 13%
- Foreign residents: 9%
- Government: 1%

2016
- Banks: 63%
- Institutional Investors: 13%
- Foreign residents: 13%
- Households & others: 8%
- Government: 1%

*Without credit to the government

Source: BoI
The Financial System Structure

Distribution of the Public’s Assets Portfolio

2000

- 25% Banks
- 36% Current Account
- 1% Institutional Investors
- 38% Other

2016

- 21% Banks
- 48% Current Account
- 7% Institutional Investors
- 24% Other

*Other includes mostly cash, stocks and bonds held directly by the public

Source: BOI
The Financial Reforms on the Agenda

- Separation of credit card companies from banks
- **Reducing entry barriers** for new banks and other credit providers
- Establishing a Credit Registry and credit bureaus
- Increasing competition in the Payment Services
- Setting up the Financial Stability Committee will help coordinate among regulators, monitor risks and address them early
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 & Forecast, 2006-2018

Expectations Forward*

Inflation 12 month

* Forward inflation expectations 3-5 years

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

Source: BoI, Banking Supervision Department
Bank of Israel Policy Tools
2007-2016

Interest Rate (%)

0.1

“The Monetary Committee assesses that monetary policy will remain accommodative for a considerable time”

Bond Purchases 18 Billion NIS

Intervention

Building reserves

Natural Gas Purchase program + Intervention

Macropudential Measures

Additional provision for high LTV loans

Higher capital requirements for high LTV

Variable Interest Rate limit

LTV limit

Higher capital requirements for high LTV

PTI limit and capital requirement

Higher capital requirements

Source: Bol
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: Bol and the OECD.
Tax Burden
2015, Percent of GDP

% of GDP

Source: OECD Revenue Statistics 2015
Public Expenditure
Percent of GDP, 2016

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<tr>
<th>Country</th>
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Source: OECD
Civilian Public Expenditure Excluding Interest
Percent of GDP, 2015

- 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
The Strengths Behind Israel’s Economy
Share of the Population Aged 25-64 with Tertiary-Level Education, 2015

Source: OECD Education at a Glance 2015
Israel is Leading in International Innovation Rankings

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

Israel’s Relative Advantages - Technology

- 73 Israeli companies are listed on Nasdaq
- Over 300 international companies established Israeli R&D centers
- More than 5,000 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: Israel Innovation Authority, Nasdaq, The National Cyber Bureau
Triadic Patent Families
Number per million inhabitants, 2013

Source: OECD
Israel’s Relative Advantages – Water Innovation

• **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 86%.

• 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: Israeli Water Authority, “Natafim”, “Mekorot”.
Share of Total ICT Gross Value Added out of GDP, 2013

Source: CBS & Eurostat
Venture Capital Investment as % of GDP, 2014

Source: OECD
Flurry of High Tech Entrepreneurship: Taste for Risk
Number of New Start-Ups by Year 1999-2014

Israeli Startup Companies: Number of Companies Established by Year and Success Index 1999-2014

Average: 640 new startups per year!

Source: IVC
Yet, There Are 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)
The Productivity Gap is the Result of Various Factors: Regulation, Human Capital & Trade Facilitation & Capital Stock

Capital per employee in the business sector
2014, 2011 prices, $PPP

Problems-solving in technology-rich environment scale, PIAAC survey
Aged 15+, 2015

OECD Trade Facilitation Indicators
2014

Doing Business 2017
Distance to Frontier (0-100)

Source: BoI, RAMA, Doing Business
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
High Poverty rate and Income Inequality

Gini Index, 2014, at disposable income, post taxes and transfers
Israel 2015

Poverty rate, 2014
Israel 2015

Source: OECD
To Sum Up

The Israeli Economy has a great potential, but while part of the economy utilizes its strengths and resources, inclusive growth of the economy as a whole requires a comprehensive and persistent policy.

The main pillars of such policy should address economic inequality, inefficient regulation and the need to increase both investment and human capital.
Thank You