



# *The Israeli Economy*

*Macroeconomic trends, strengths and challenges*

*Jerusalem Post 3/6/24*

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*Governor, Bank of Israel*

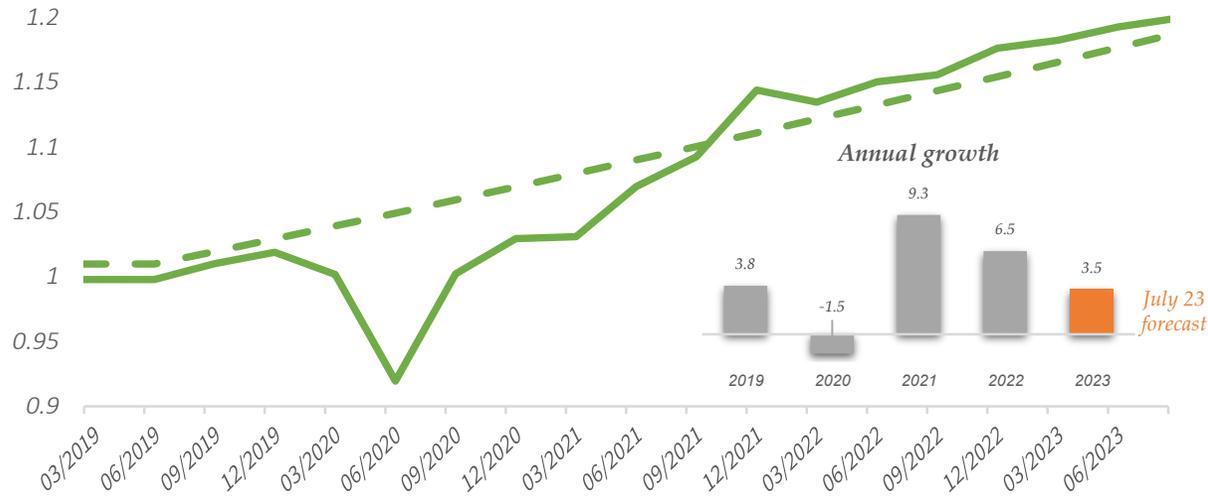




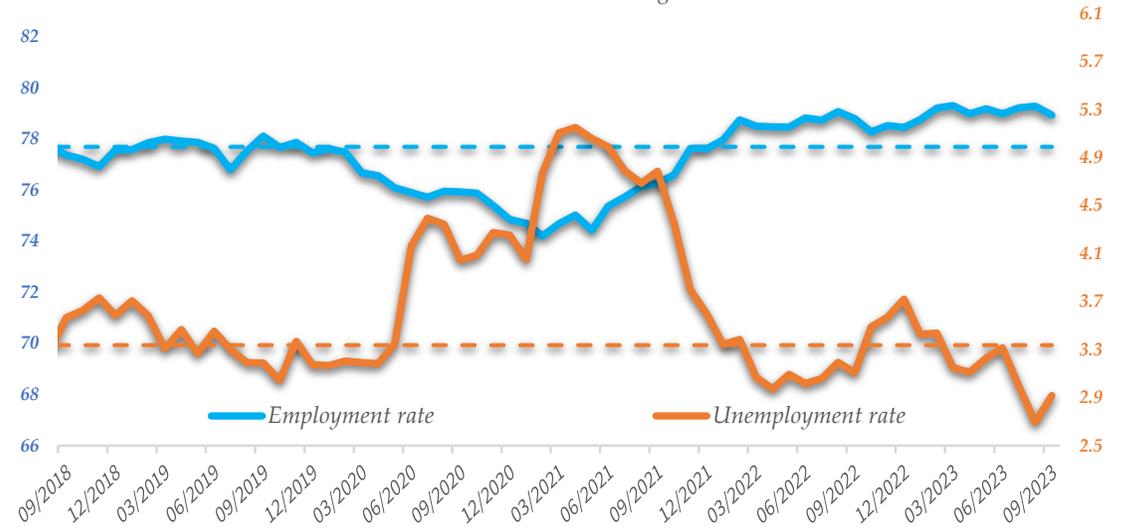
# Before the war - On a path to soft landing:

## GDP above its trend; tight labor market; debt falling, and inflation moderating

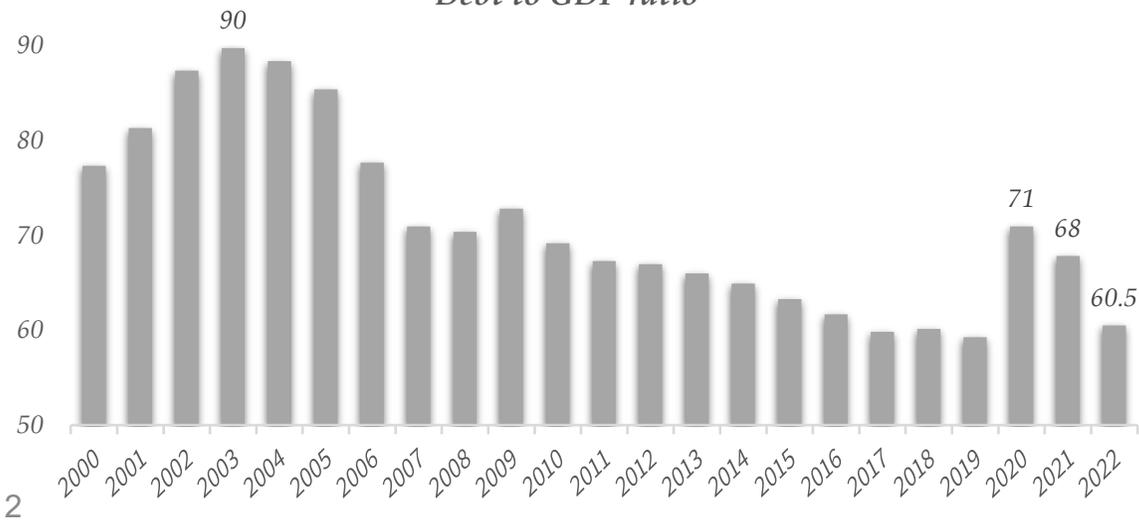
**GDP in relation to its trend**  
quarterly, fixed prices, index: Jan 2019=1



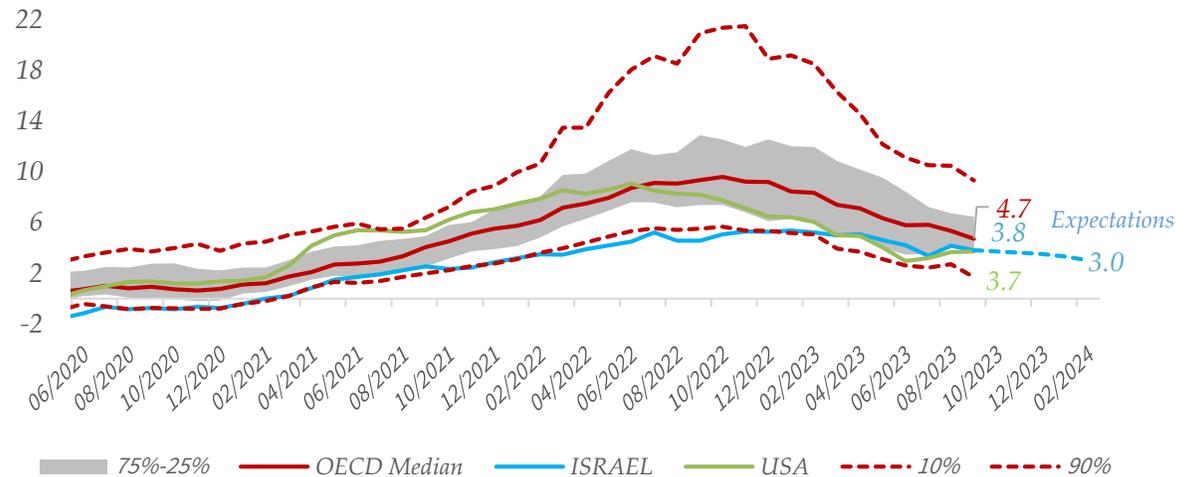
**Employment rate and unemployment**  
Dashed line: 2019 Average



**Debt to GDP ratio**

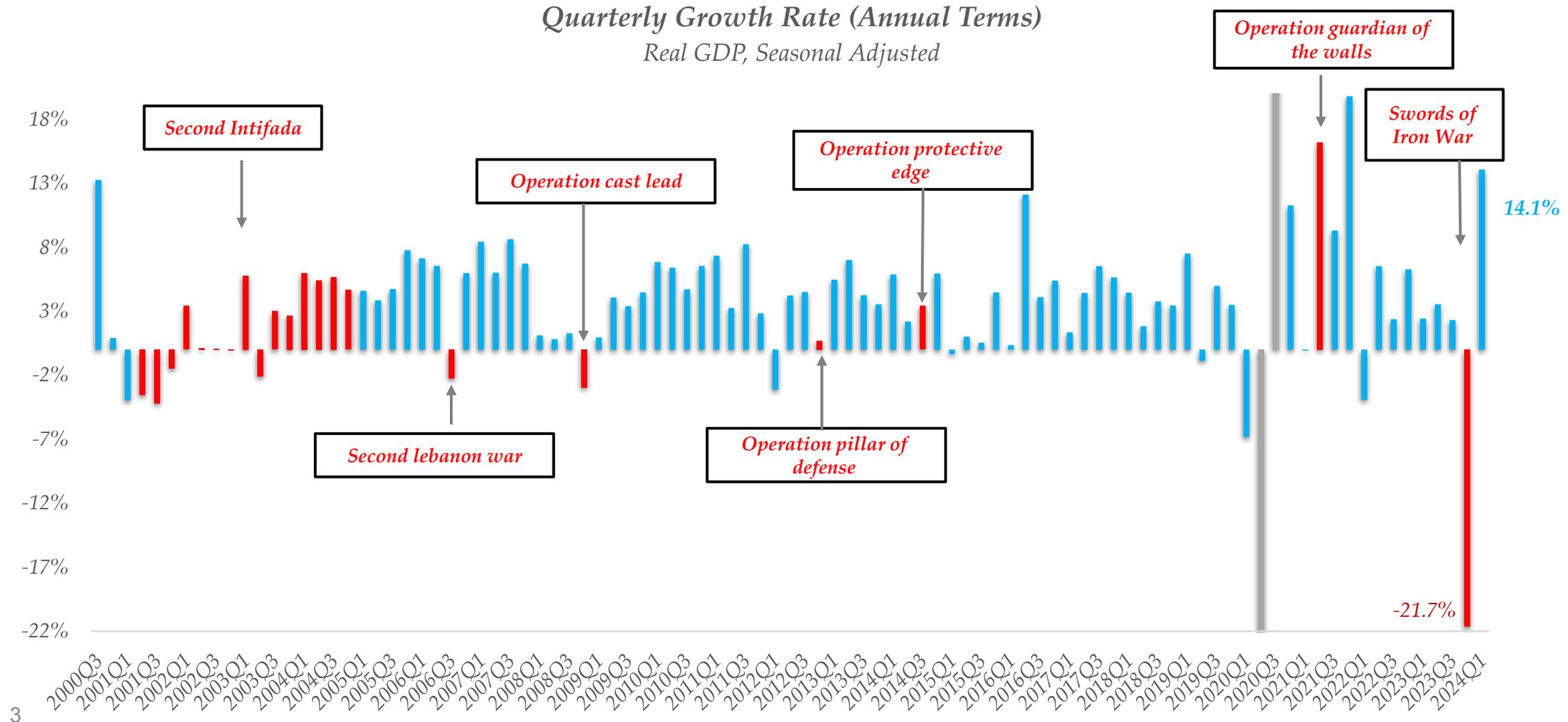


**Inflation in Israel and OECD**



# The war led to a contraction in GDP in 2023-Q4

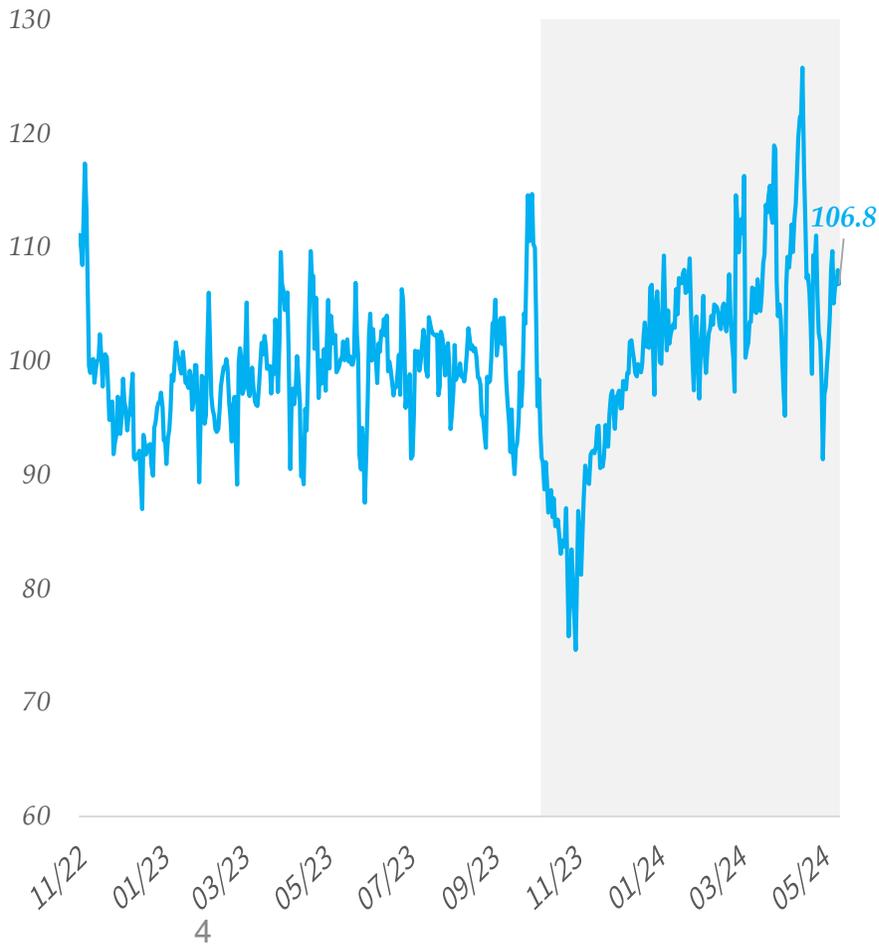
## In the past, the Israeli economy recovered quickly after geopolitical conflicts



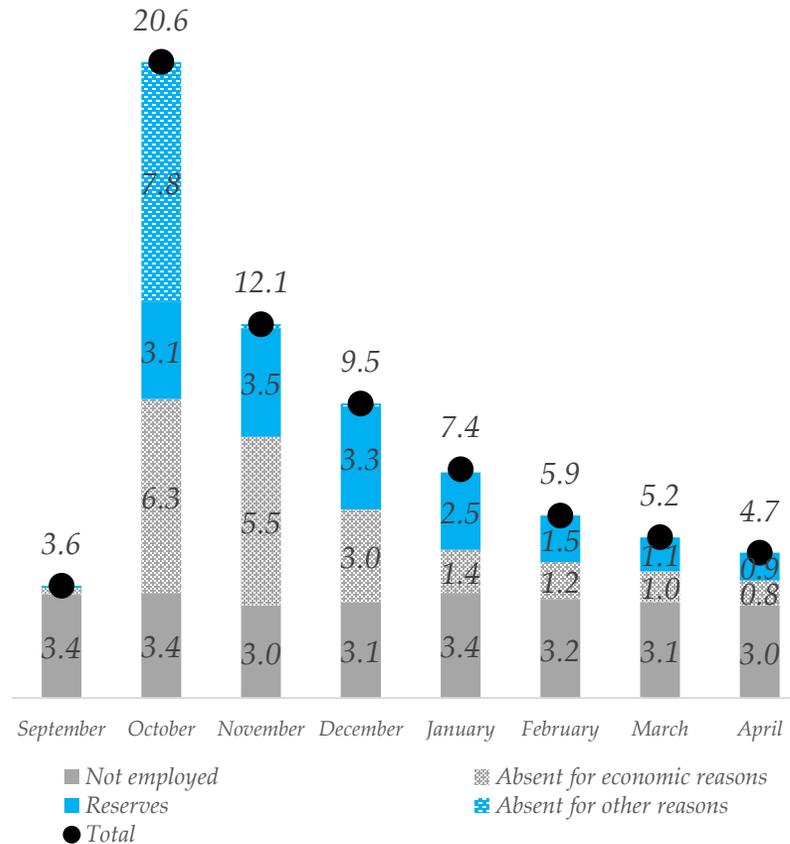


# The impact of the war - contraction of GDP led - by consumption and unemployment increase.

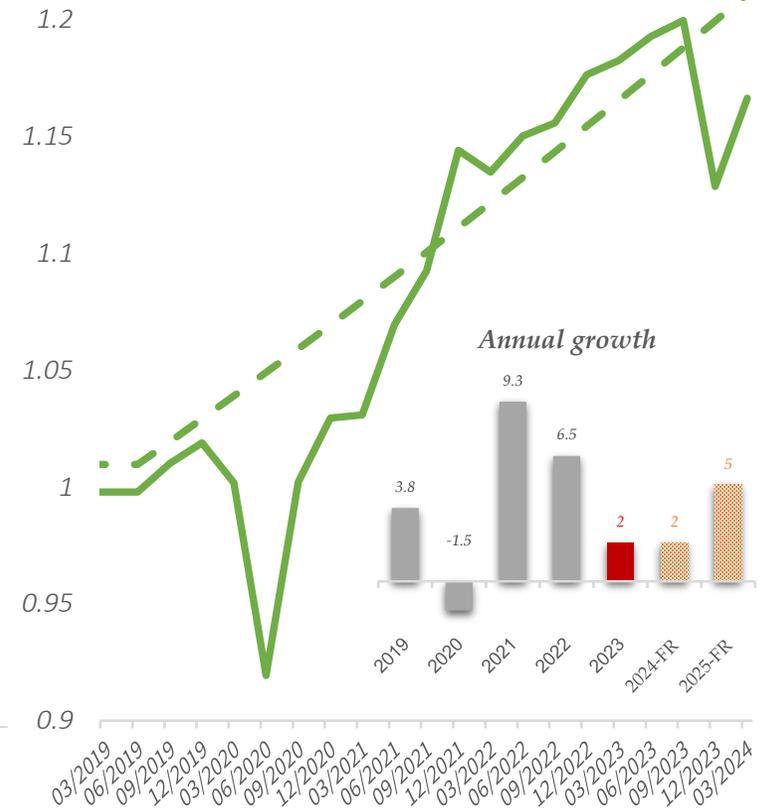
Total credit cards expenditure index  
Seasonally adjusted, 2023Q3=100



Unemployment rate



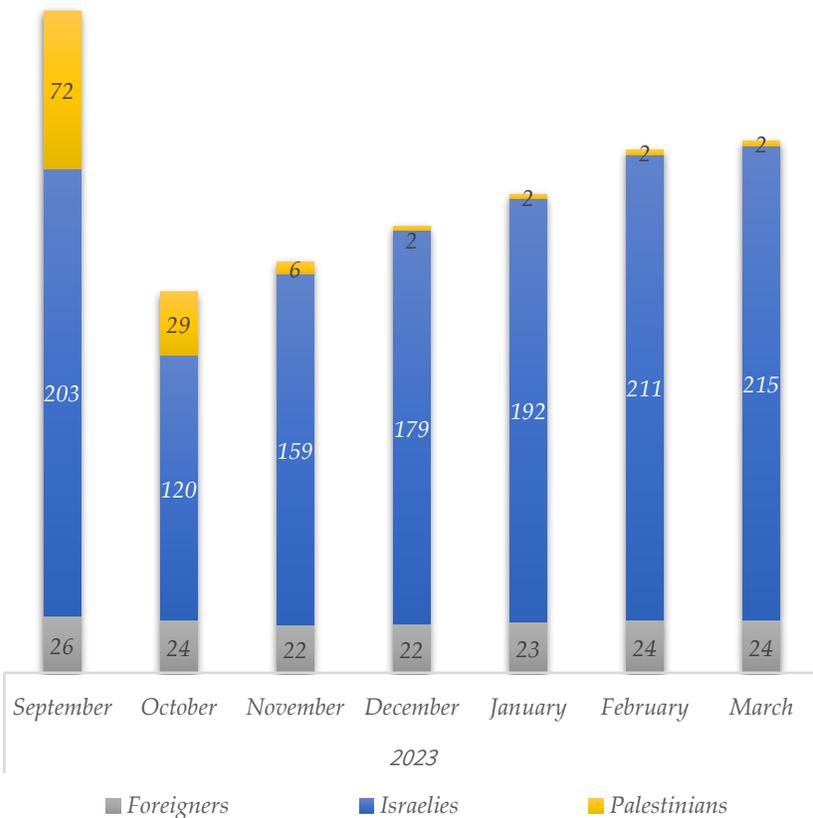
GDP relative to its trend  
quarterly, fixed prices, index: Jan 2019=1



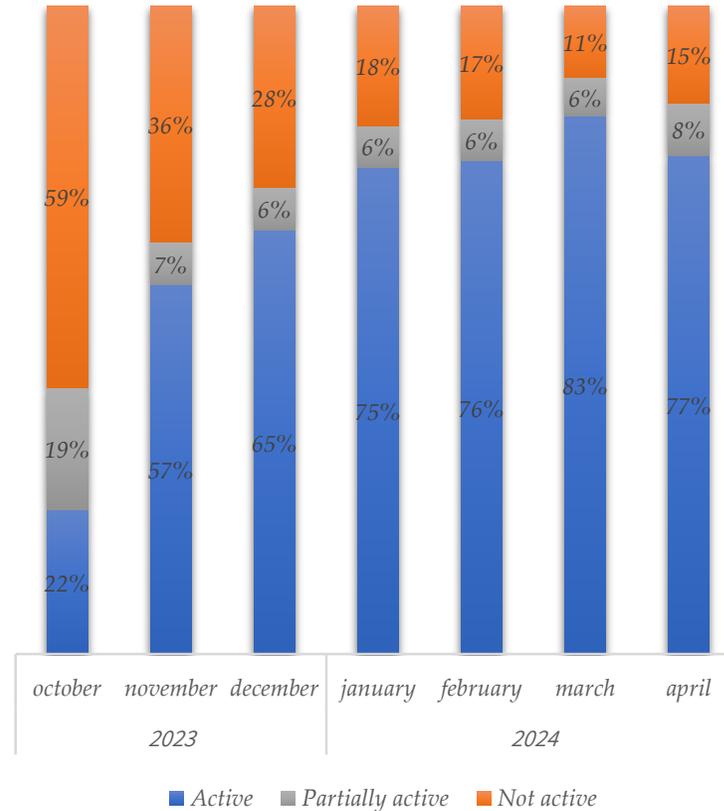
Sources: BOI and IL CBS

# After a moderation in housing prices, the war caused damage to the construction industry, which was reflected in price increases

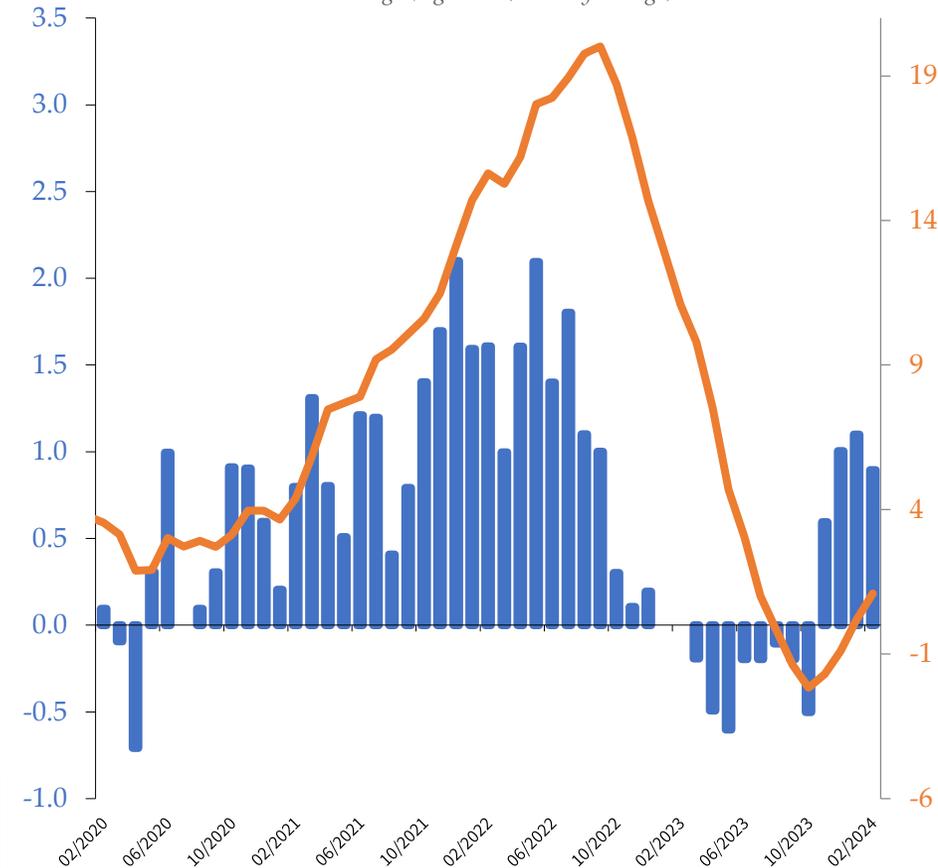
**Construction industry estimated change in total employment**



**Construction sites according to the status of activity In relation to residential units**

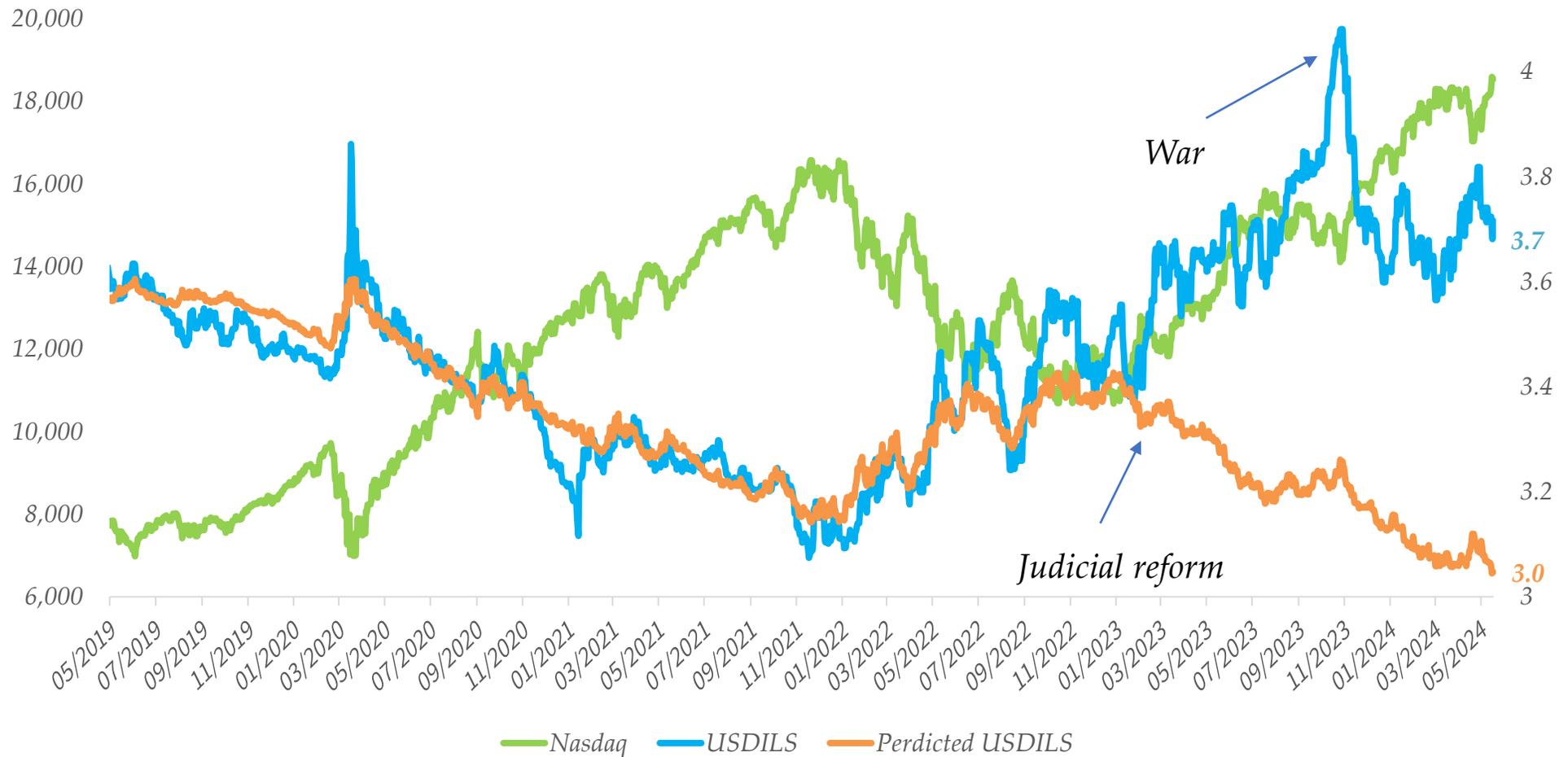


**Housing Prices**  
Blue (left axis): Monthly change, Orange (right axis): Yearly change



*There is an "excess depreciation" relative to the long-term trend that characterized the ILS exchange rate*

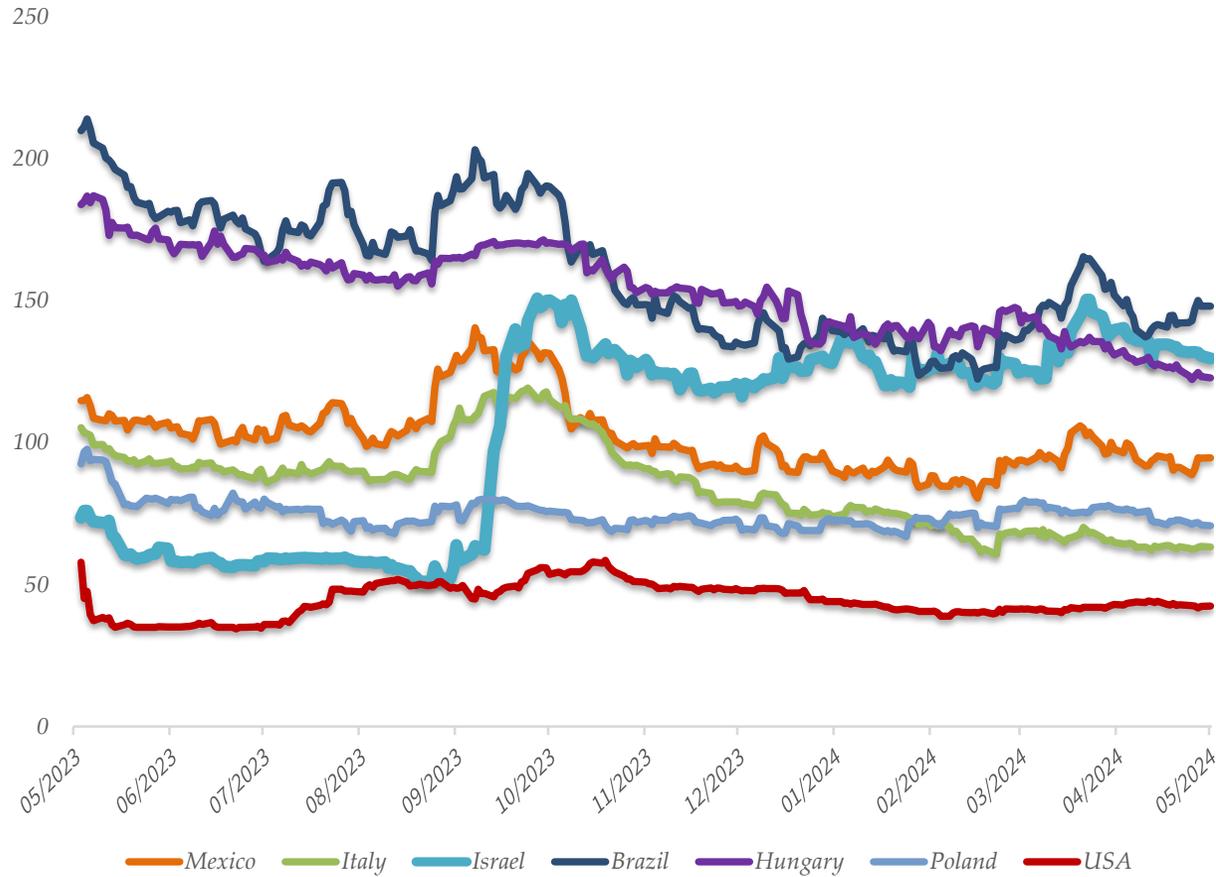
*The Nasdaq index, the exchange rate, and the predicted exchange rate from a regression of the exchange rate on Nasdaq*



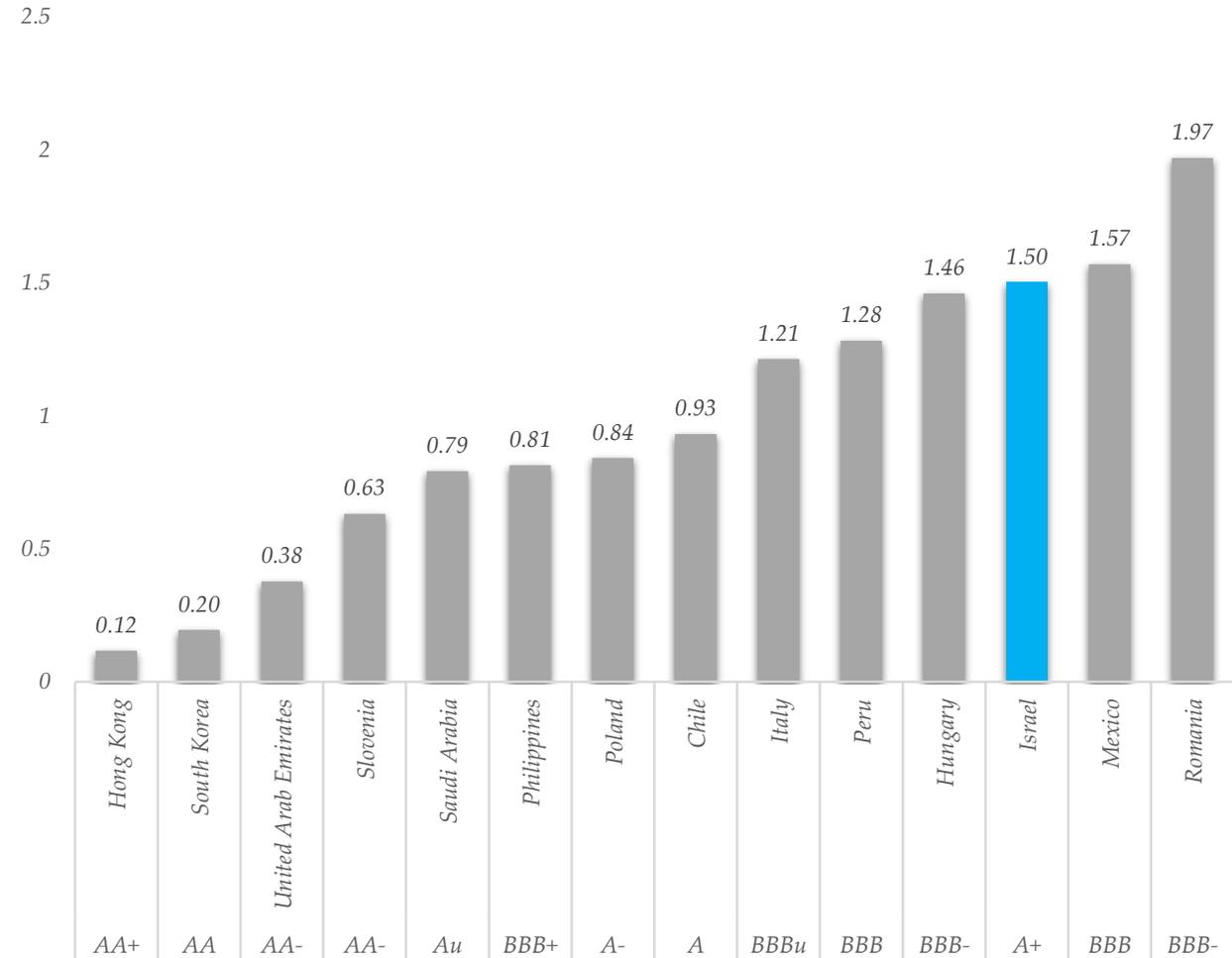
$$\log(ILS\_USD_t) = \beta^0 + \beta^1 * \log(NDX_t) + \varepsilon$$

# The war has led to an increase in Israel's risk premium

## CDS 5Y



## Spread between Israel 10-Year dollar bond and Treasury Bond



## Steps taken by the BOI during “Swords of iron” war

### Monetary policy and financial stability

- ✓ FX market: Up to \$30 billion FX sales
- ✓ Up to \$15 billion SWAP transactions
- ✓ Government & Corporate bond repos
- ✓ Low-interest loans to banks conditional on providing credit to SME'S.
- ✓ Reduced interest rate by 0.25 PP

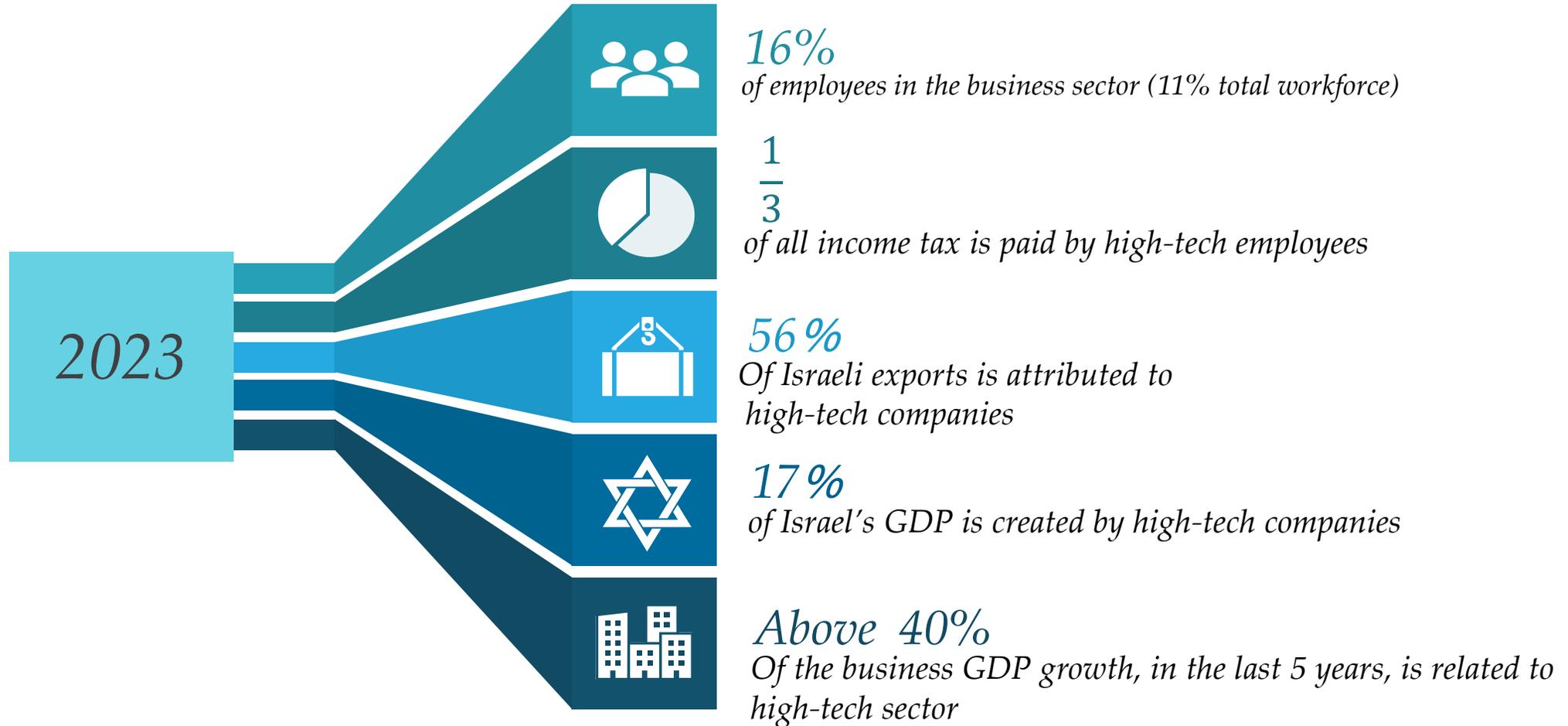
### Banking, credit and Payments

- ✓ Deferring loans free of interest and fees .
- ✓ Enhancing remote banking services
- ✓ Mitigating abuse of credit cards and accounts.
- ✓ Easing of financial restrictions
- ✓ Issued guidance to adopt a conservative policy regarding dividend distribution and credit loss allowance.

### Economic advice to government

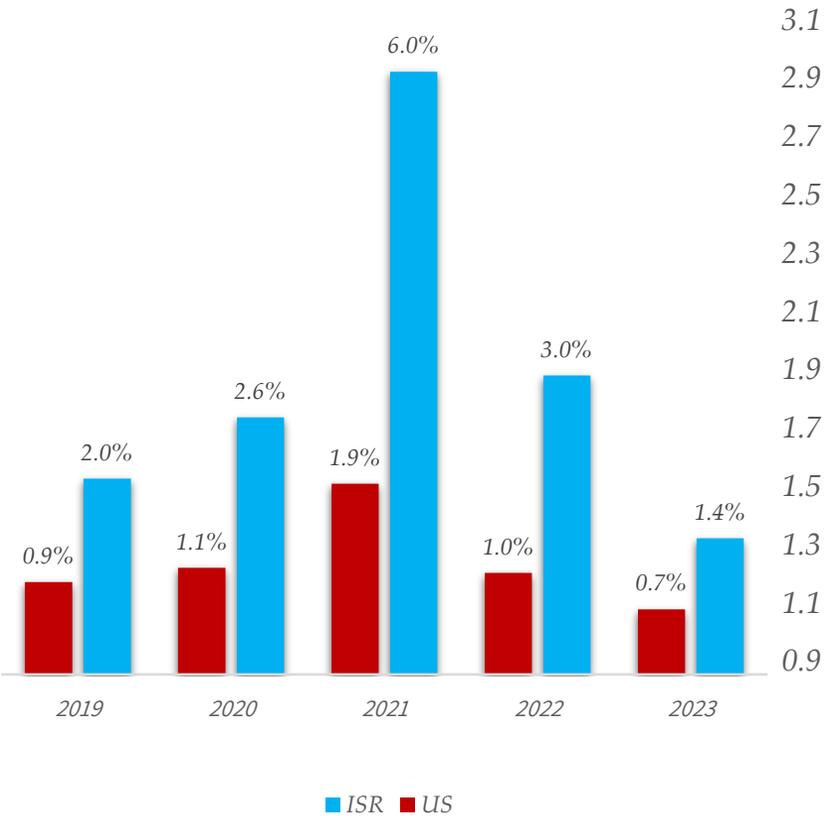
- ✓ Publication of an macro-economic forecast for the Israeli economy.
- ✓ Micro-level economic analysis of economic activity & industries
- ✓ Ongoing work vis-à-vis relevant government entities
- ✓ An advisory role for fiscal plans and framework

# *The High-Tech sector has a considerable significance to the Israeli economy*



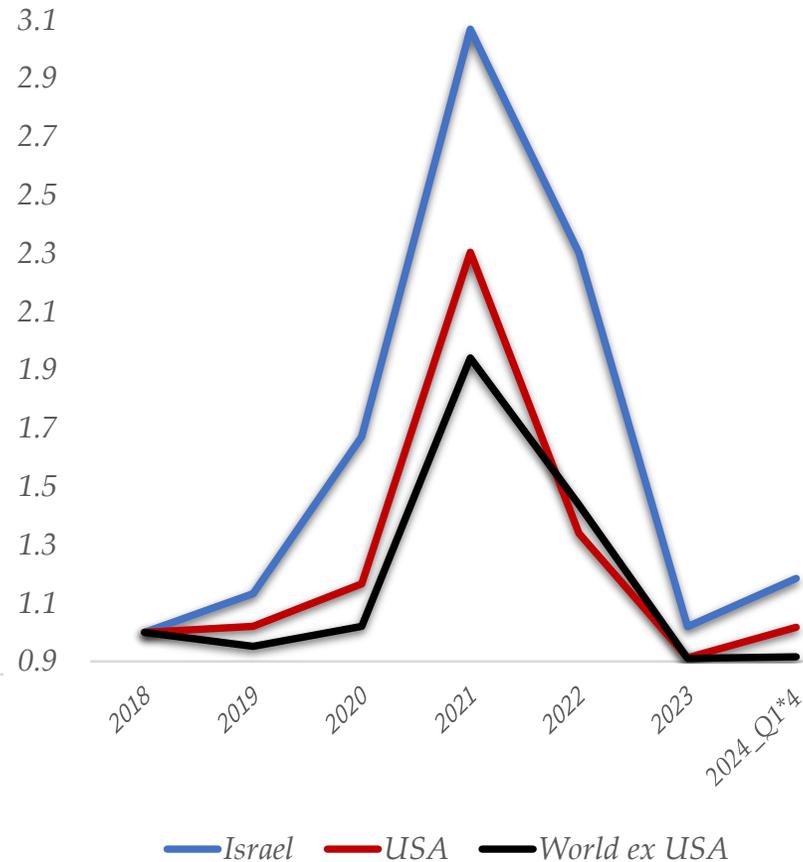
# Capital raisings in Israel, the US and the world

### Capital raised as GDP %



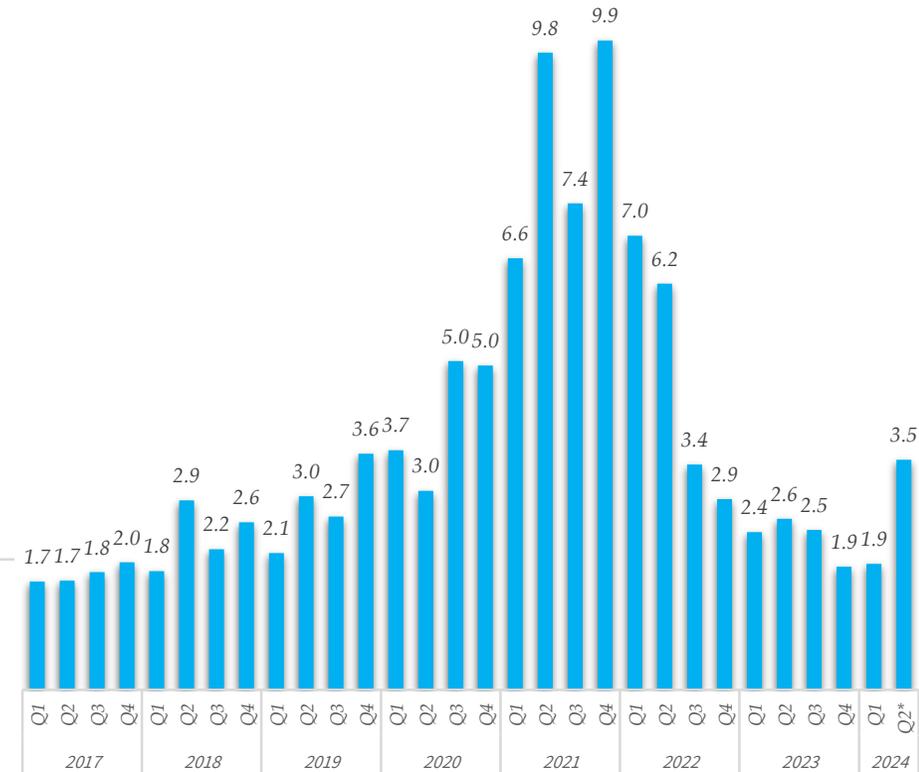
### Scope of capital raising

Index, 2018 = 1, Pitchbook



### Capital Raising of high-tech companies

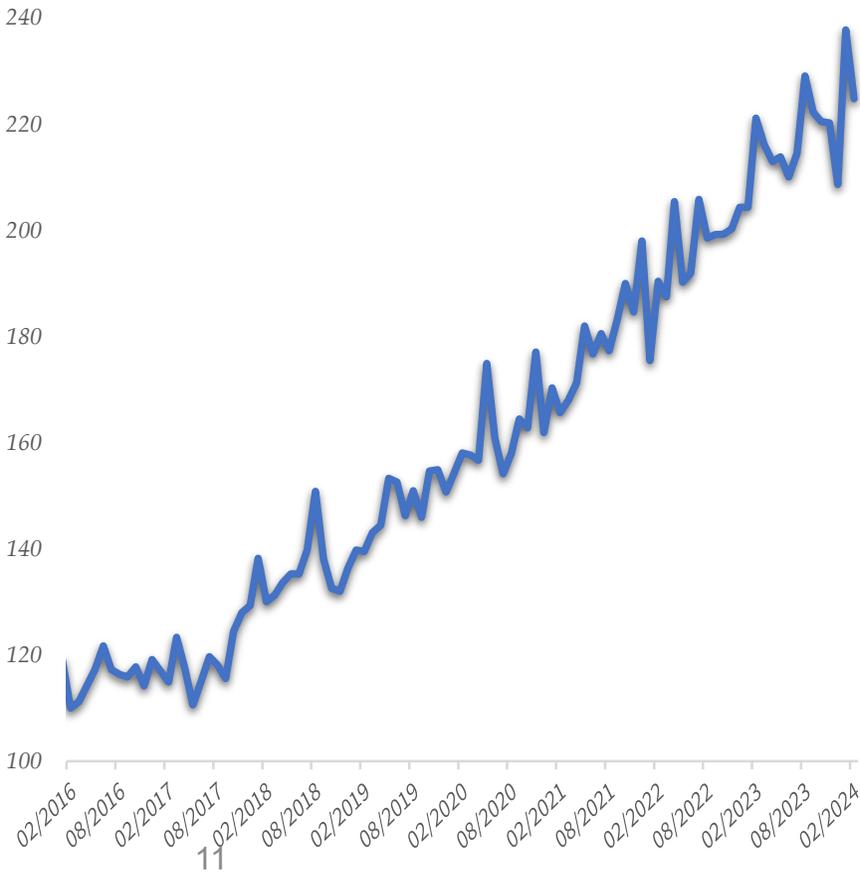
Monthly, Billion dollars



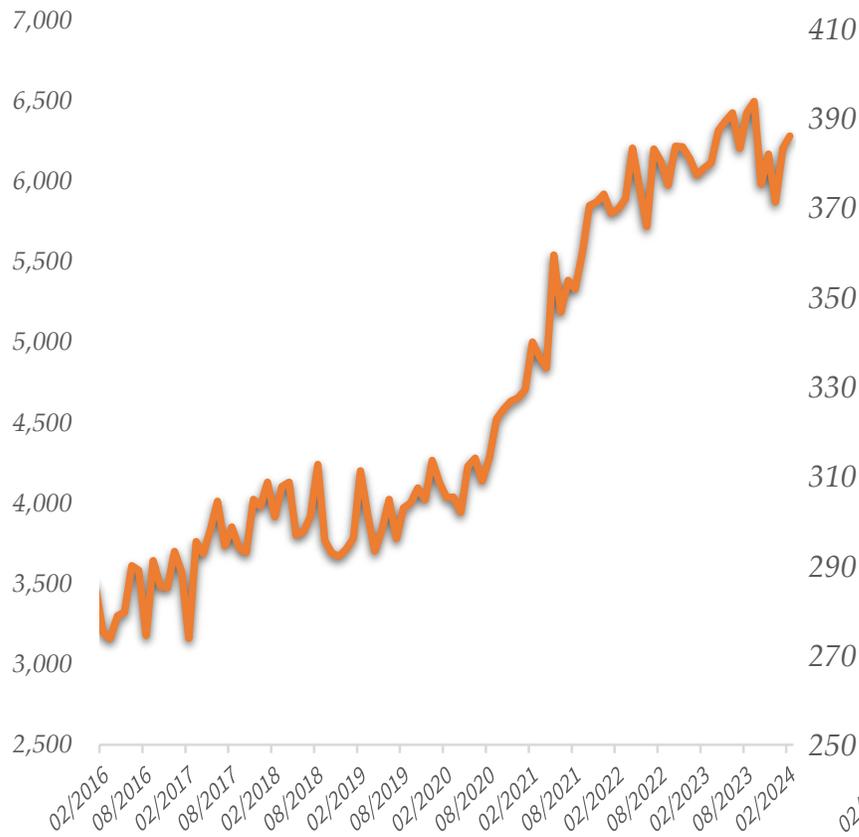


# Economic Activity - revenue indices soar to peak levels after initial war-related decline; Exports maintain high volumes despite slight decrease

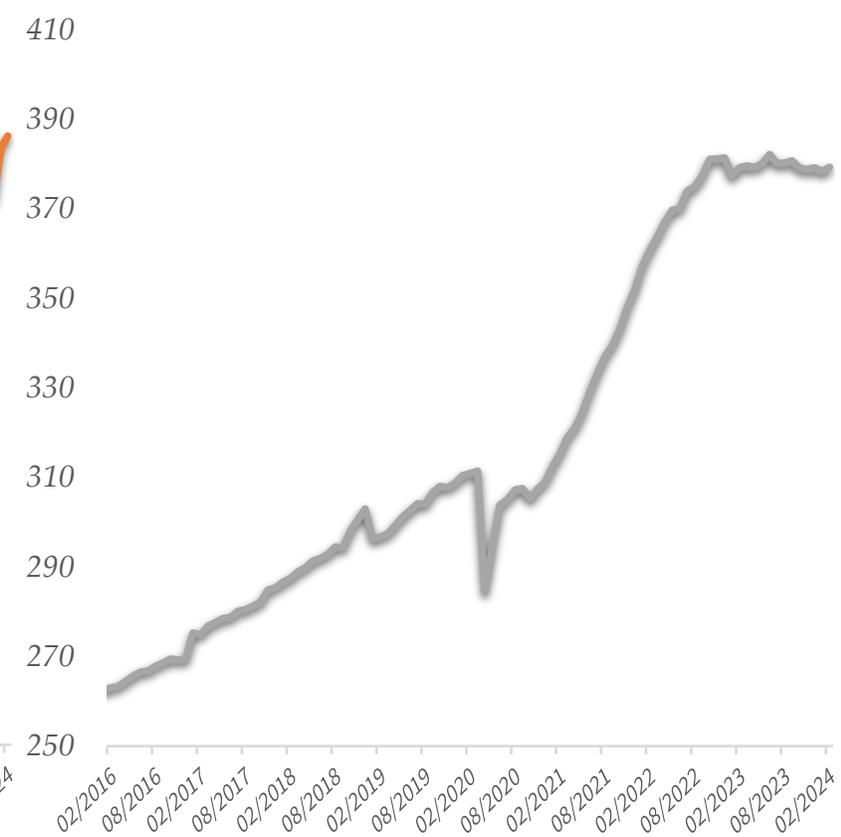
*Revenue Index of High-Tech*  
Seasonally adjusted, 2012 = 100



*High-tech sector exports*  
Millions of dollars, seasonally adjusted



*Employed in the high-tech sector*  
Thousands, seasonally adjusted

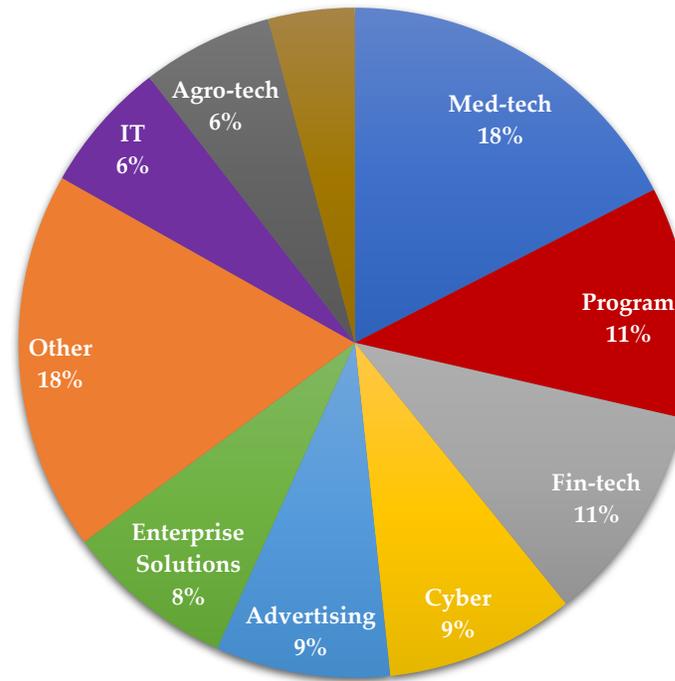


Source: BOI's analysis for IL CBS

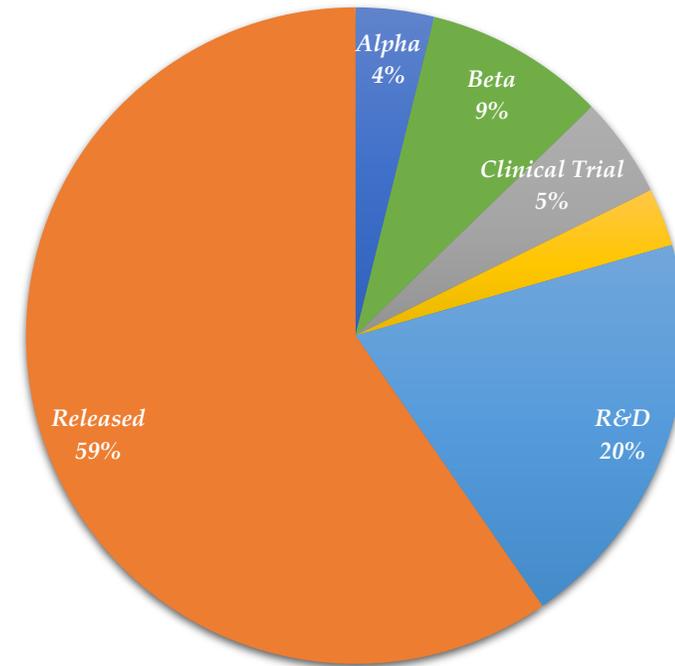
# Are High-tech companies today similar to those that closed during the dot-com bubble? *Decentralization and activity*

- **DOT-COM companies**
  - Centralization in individual sub-sectors (Telecommunication).
  - Business immaturity (Dream companies).
  
- **Today:**
  - A more “decentralized” High-tech
  - A large majority of the companies are in the production stage

*Companies Distribution by Sub-Sectors*

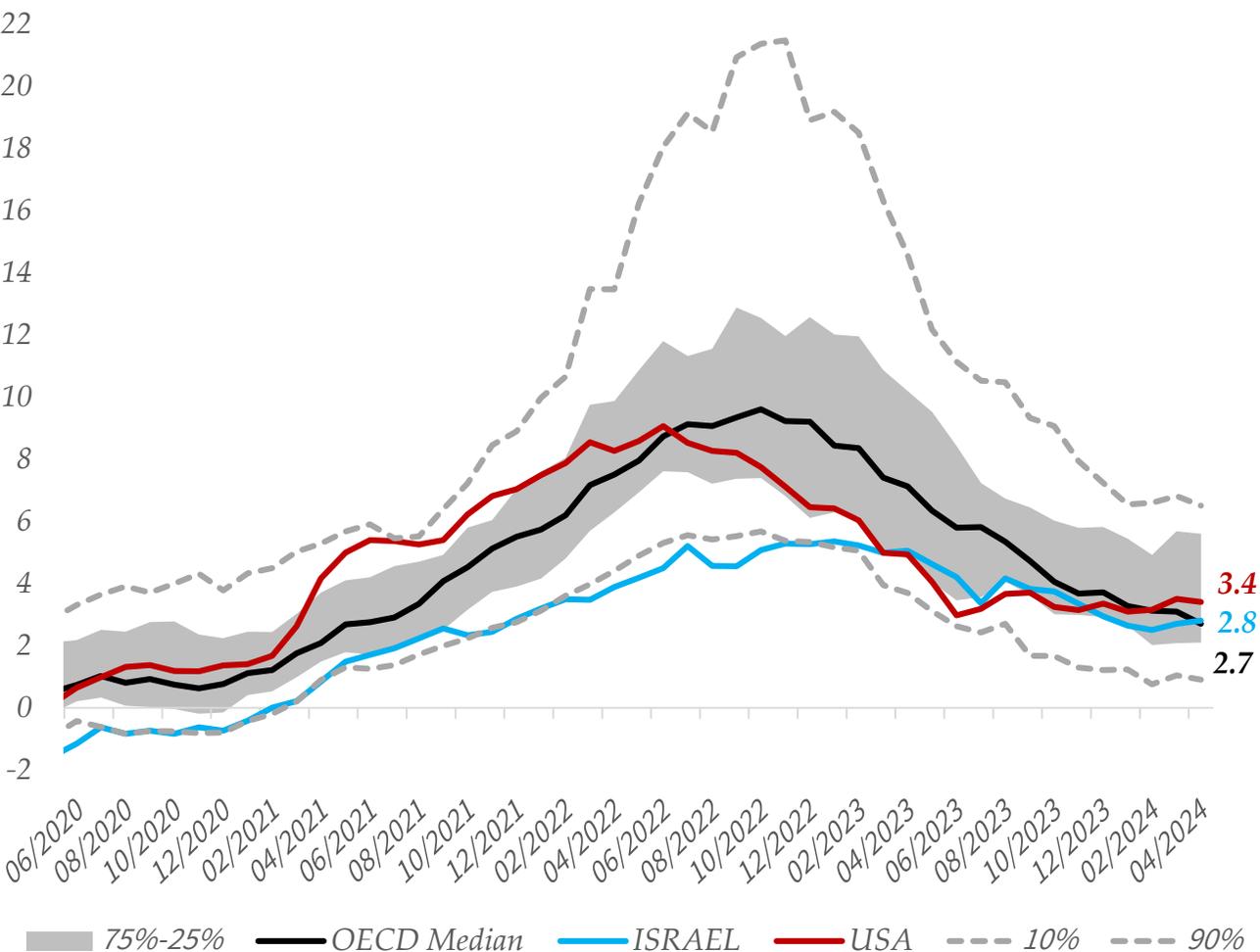


*Companies Distribution by product stage*

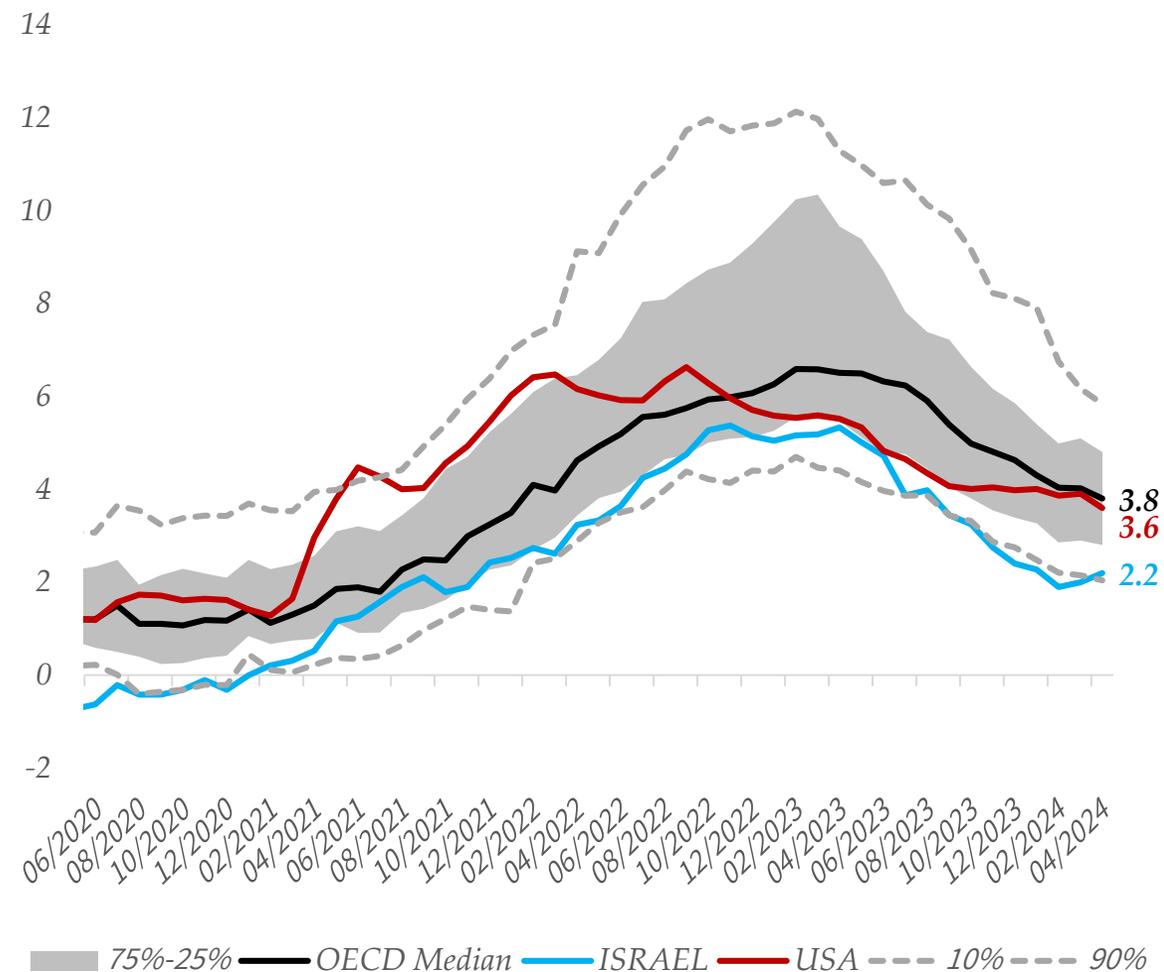


# Inflation in Israel is lower than the median of the OECD

## Inflation in Israel and OECD

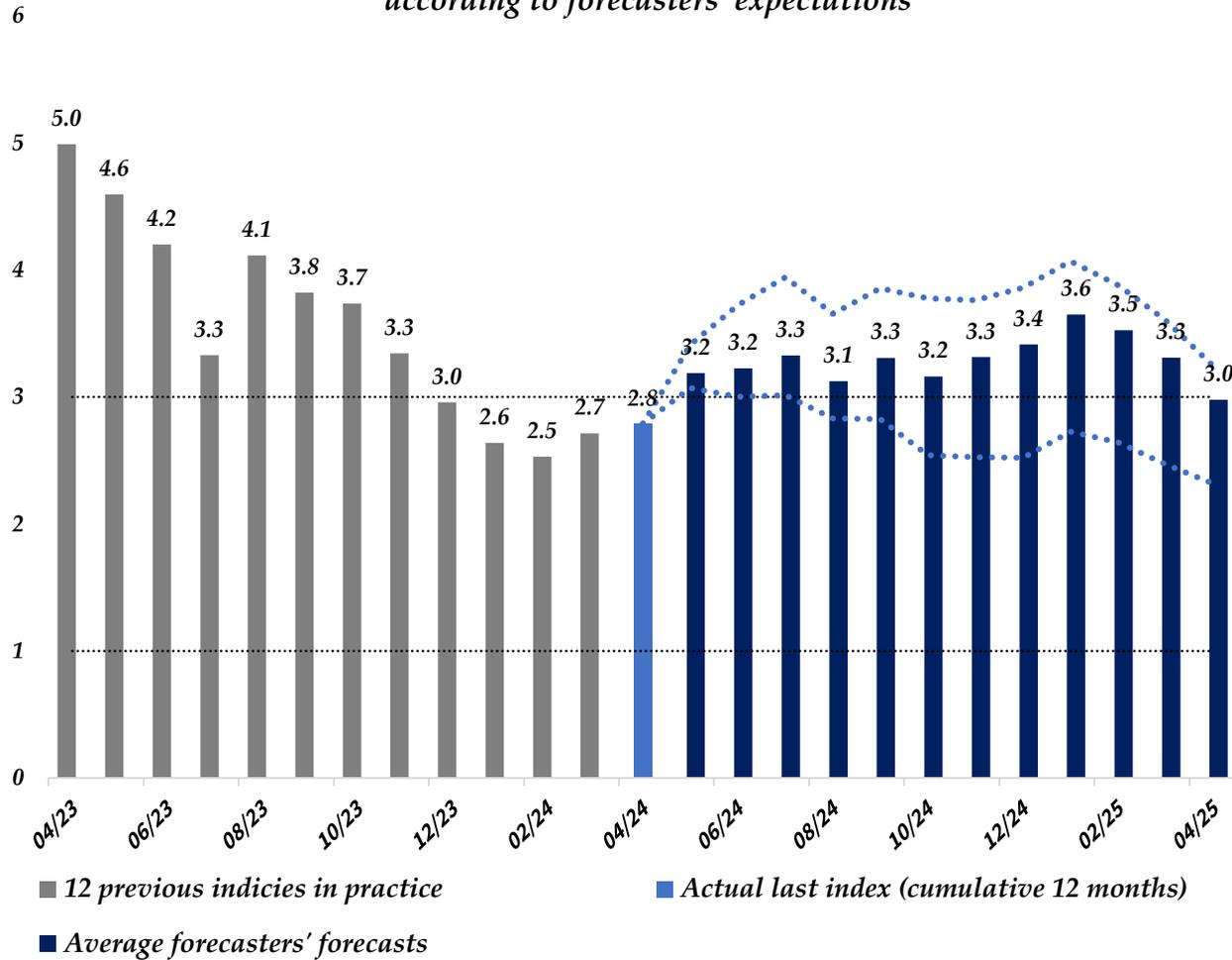


## Inflation less food less energy

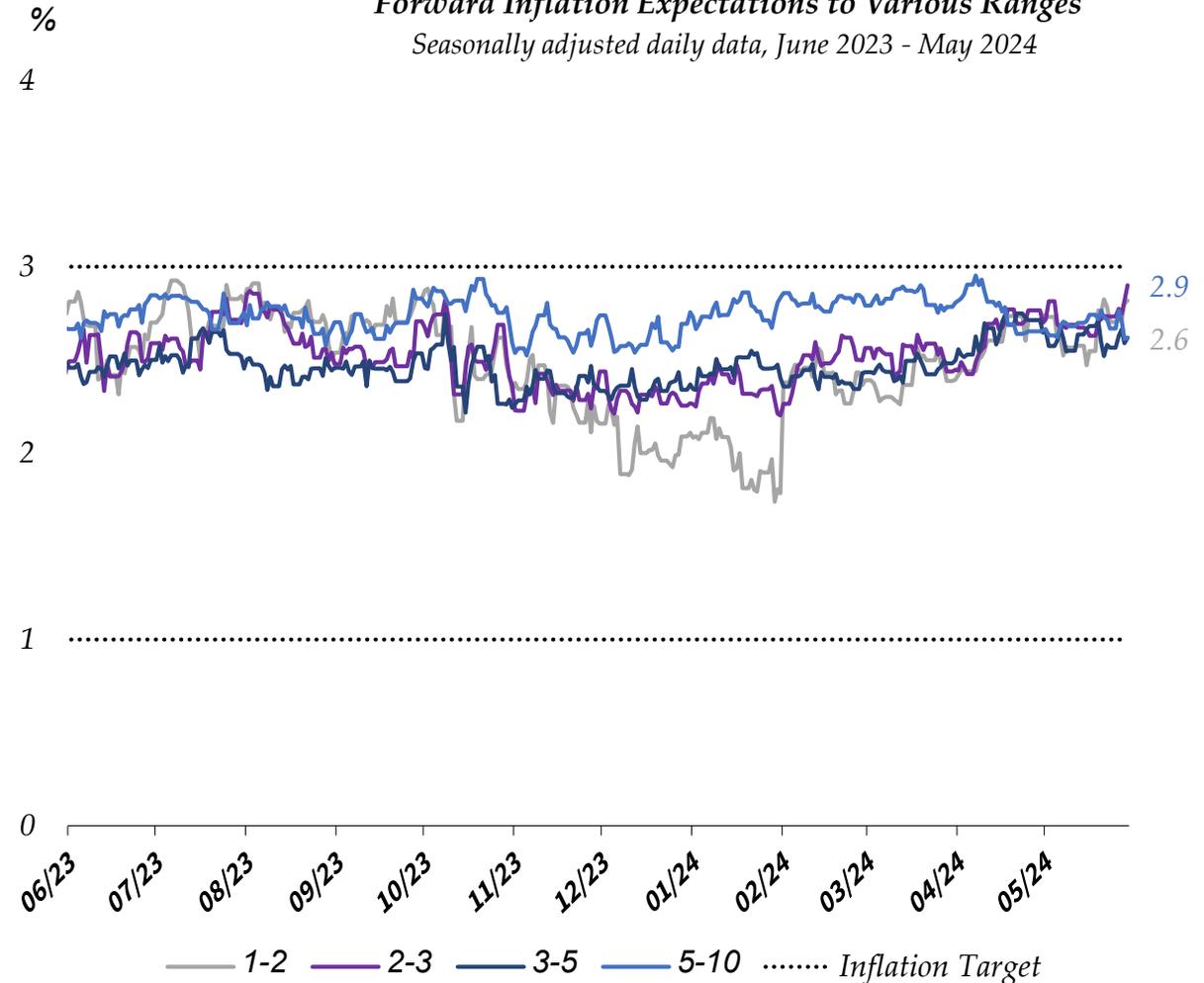


# Inflation in Israel expected to exceed 3% target in coming months; Forward expectations are in the target range

*Inflation in 12 months - actual indices and its expected development according to forecasters' expectations*



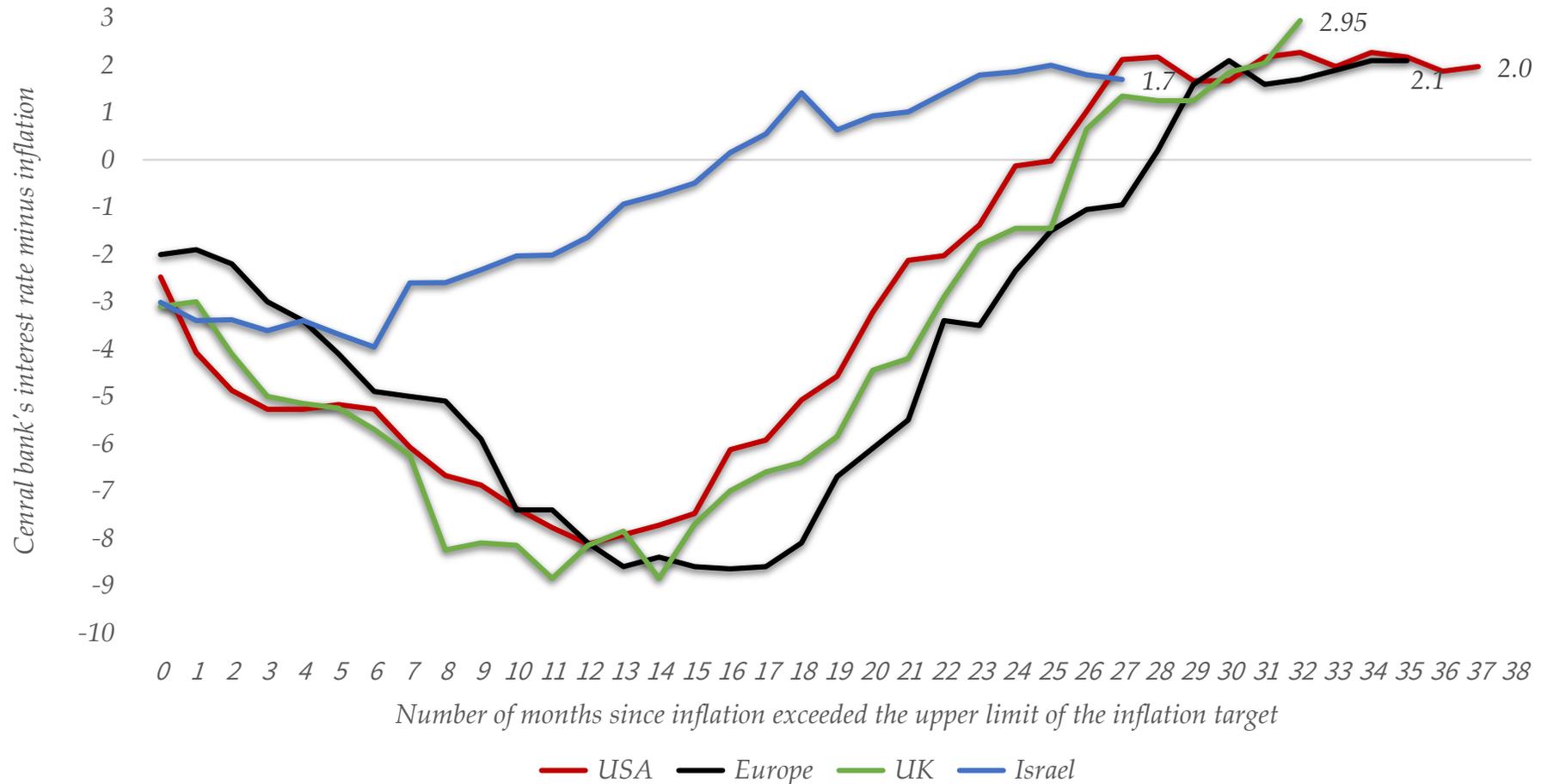
*Forward Inflation Expectations to Various Ranges*  
Seasonally adjusted daily data, June 2023 - May 2024



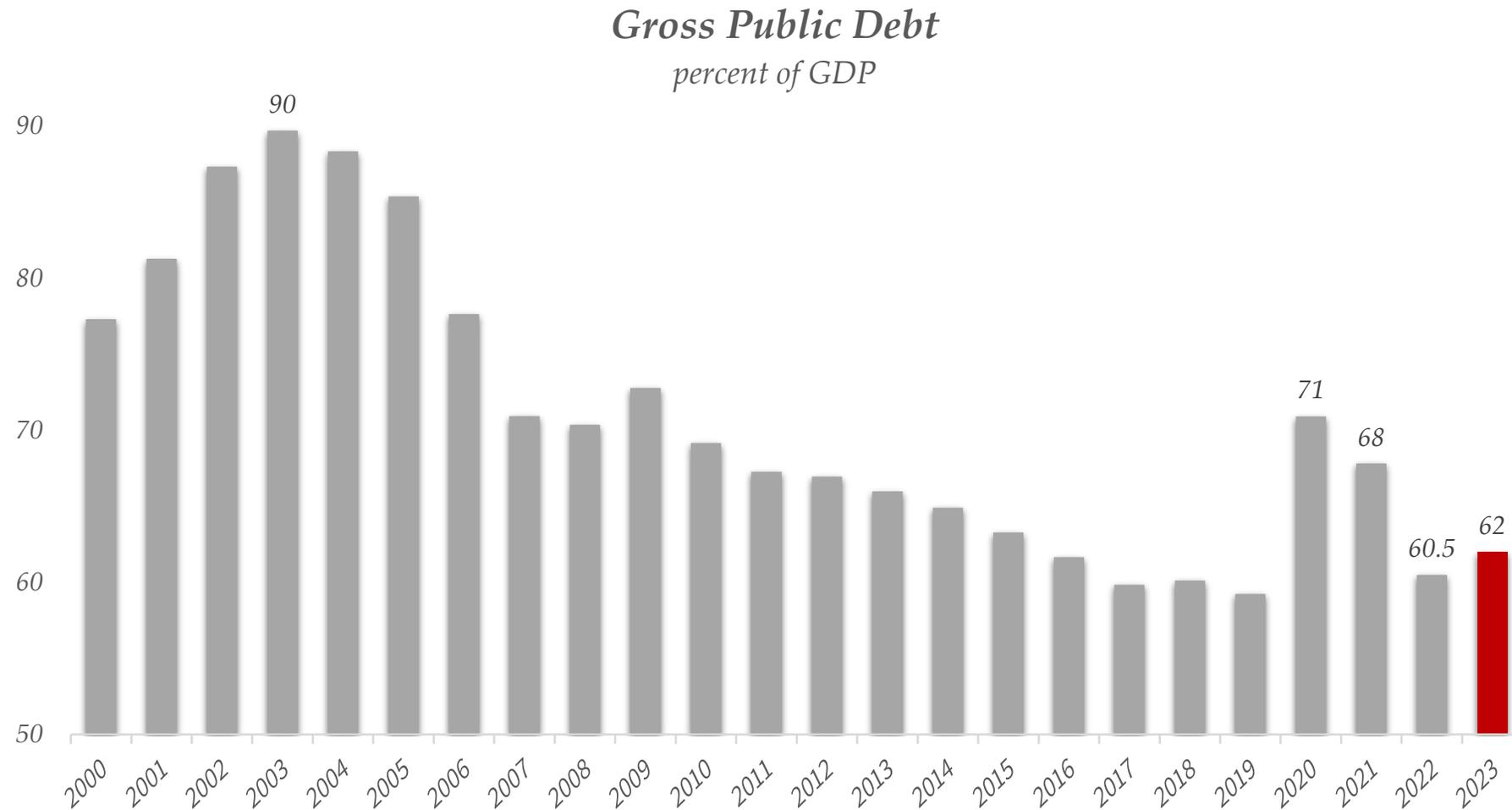
\* For instance, 3-5 year expectations are the expected yearly inflation from the end of the 3rd year

# Variation in the speed and extent of the monetary policy response

The central bank's interest rate minus inflation, in proportion to the deviation of inflation from its target

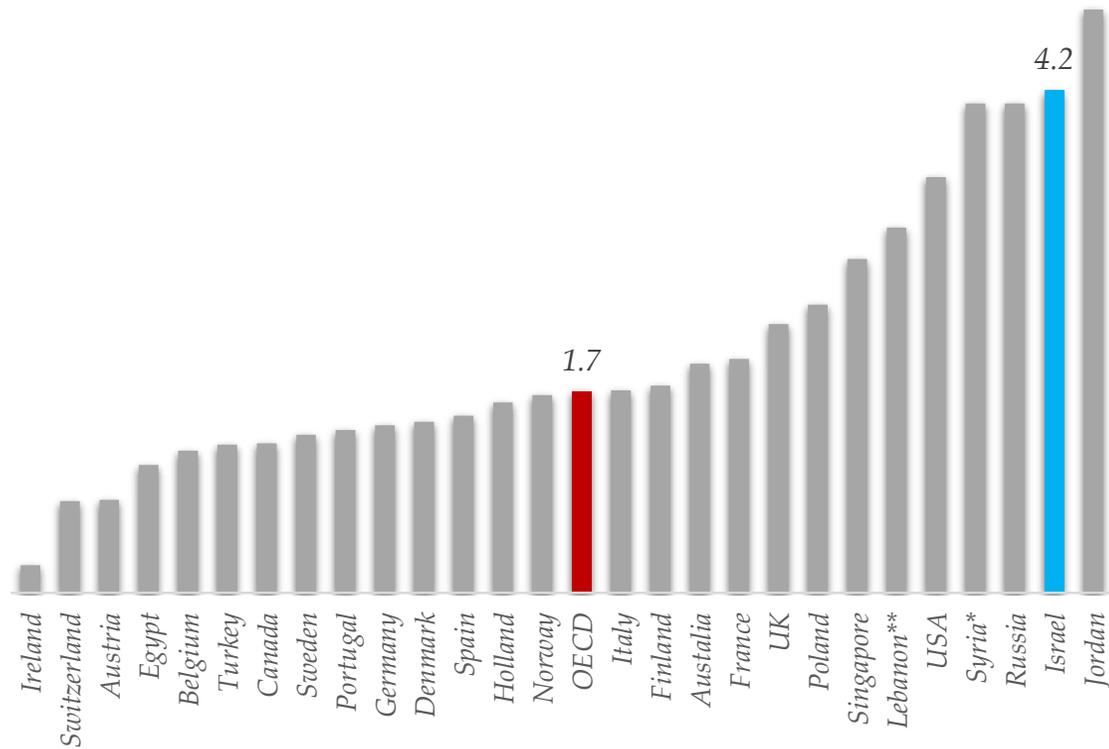


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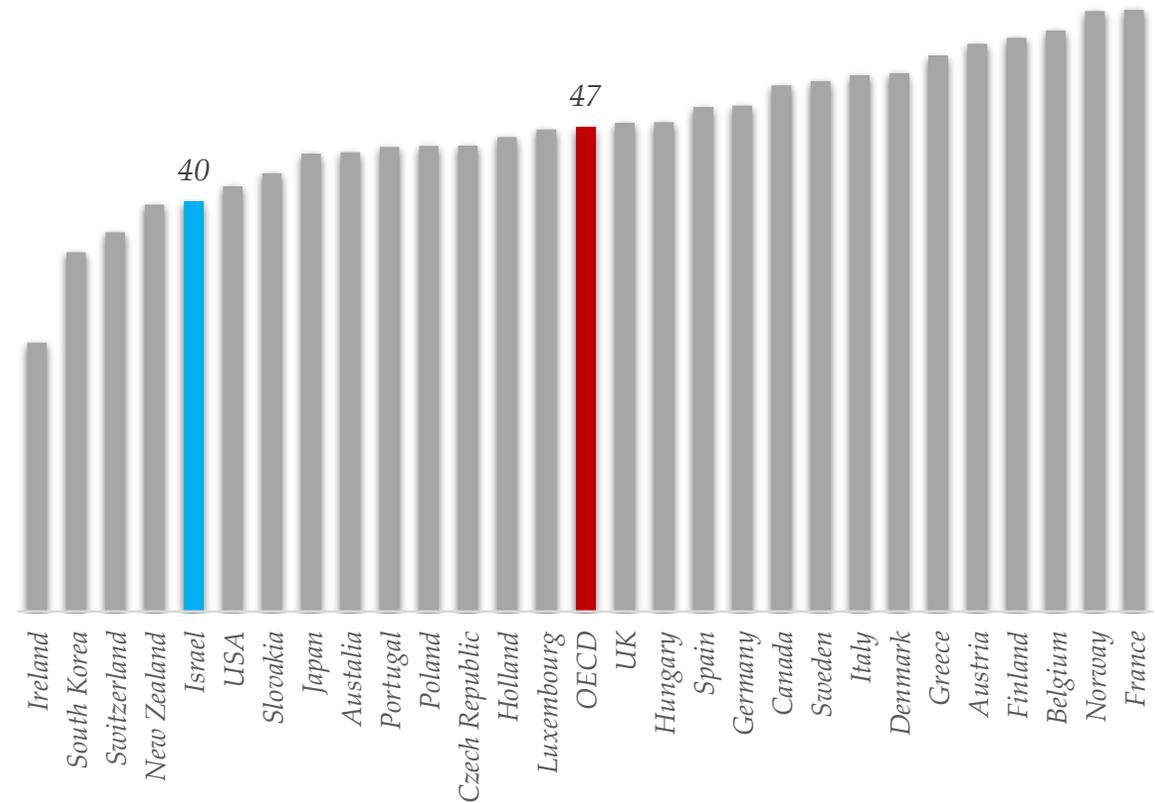


# Security expenditure in Israel is high, civilian expenditure is relatively low

*Defense expenditure*  
2022, percent of GDP



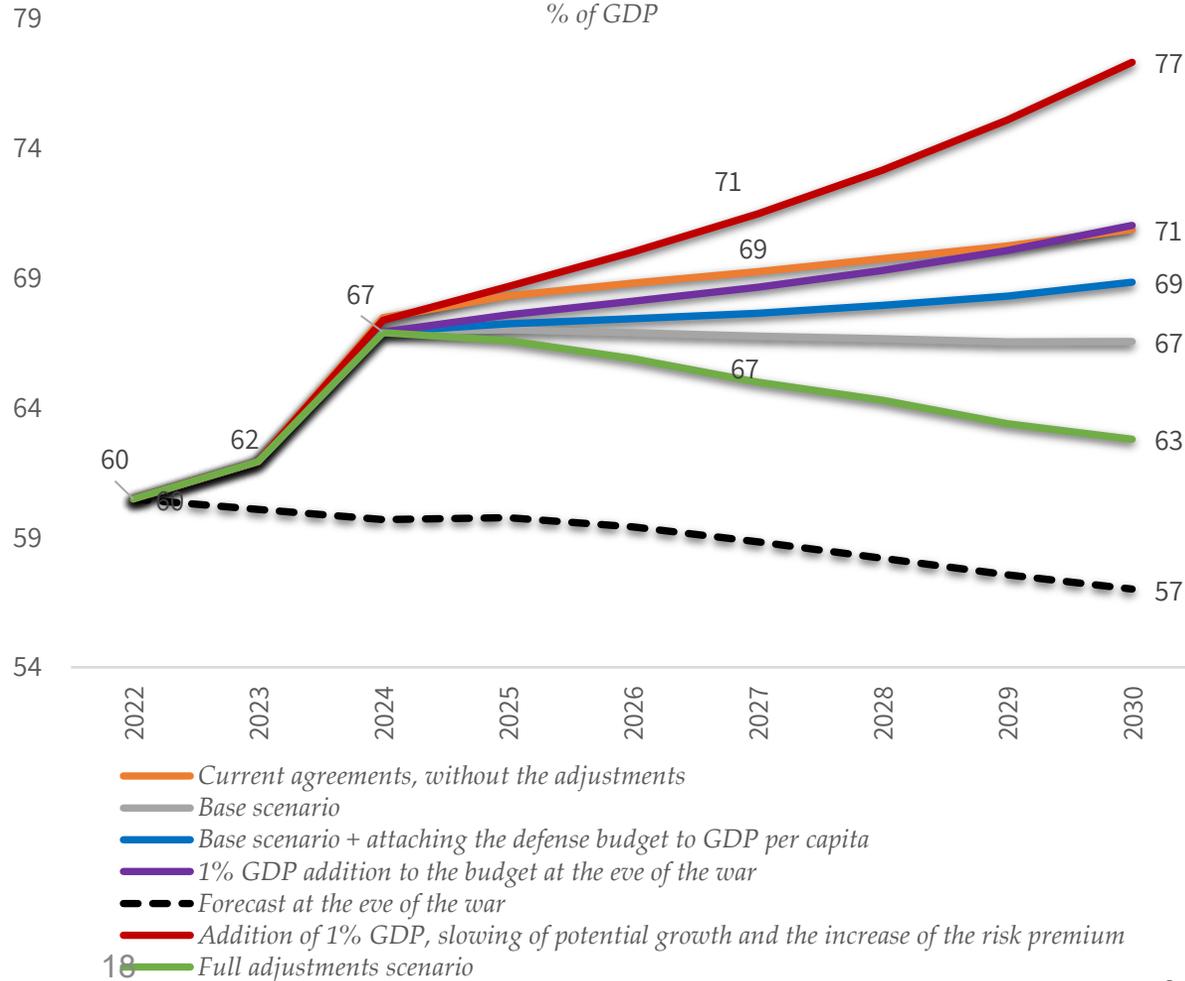
*Civilian public expenditure excluding interest*  
2020, percent of GDP





# A large increase in the defense budget, without adjustments, could cause the debt-to-GDP ratio to spiral

**Public debt**  
% of GDP

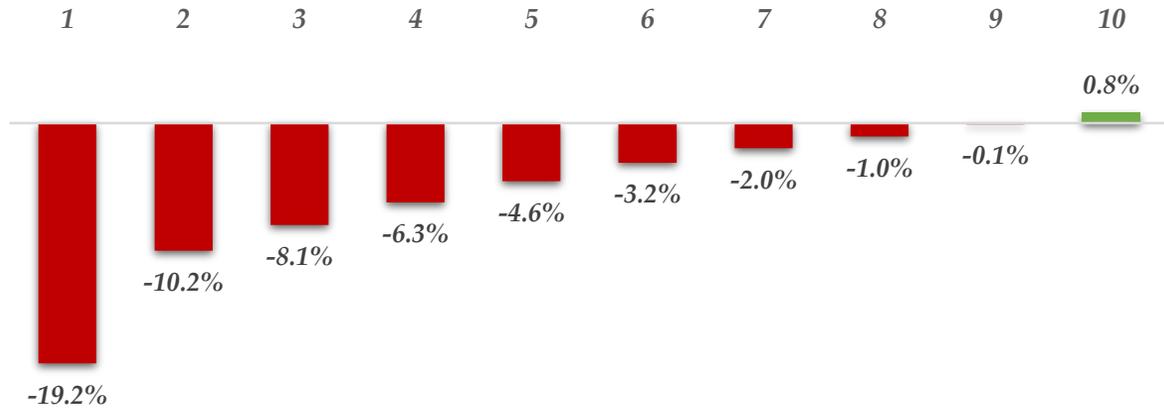


Estimate for the costs of the war

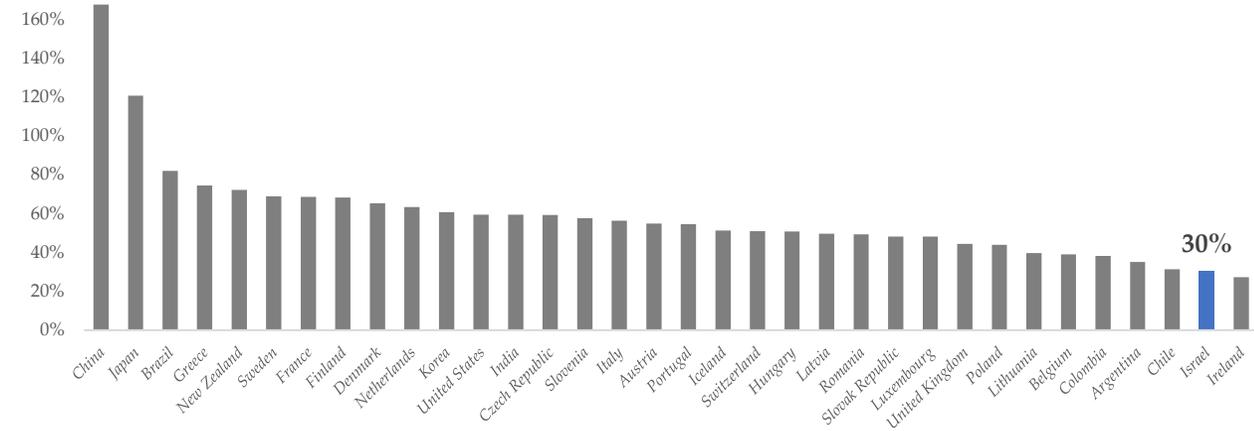
	Total 2023-2025	
	Billions of NIS	As a % of 2023 GDP
Defense expenditures	118	6.3%
Military buildup 2024-2025	30	1.6%
Compensation on direct and indirect damages	23	1.2%
Other civilian expenditures	38	2.0%
Interest payments	9	0.5%
<b>Total additional expenditures</b>	<b>218</b>	<b>11.6%</b>
Loss of taxes	35	1.9%
<b>Total effect of the war</b>	<b>253</b>	<b>13.5%</b>

# Low human capital, social gaps, low investment and physical capital

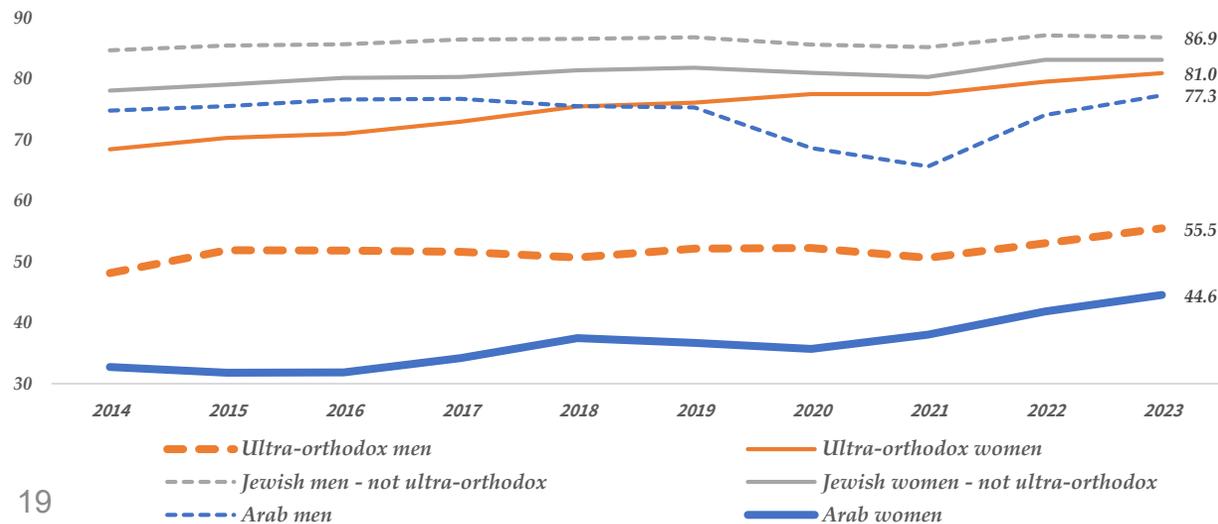
Skills gap between Israel and OECD countries, by decile



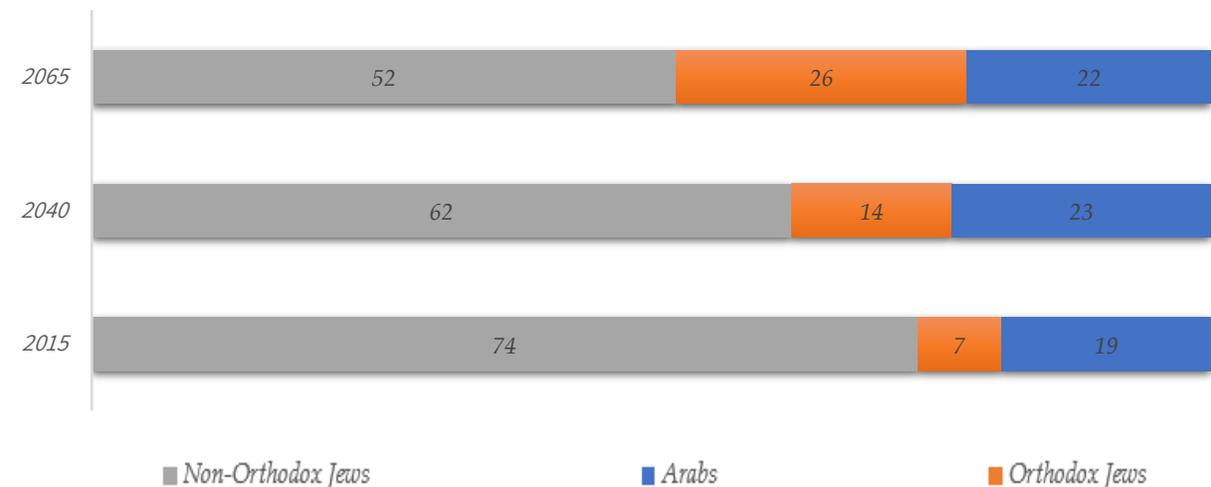
General government capital stock, % GDP 2019



Employment rate by sector and gender



Share of various population groups in the prime working ages Data for 2015 and forecast for 2040 and 2065



# Strategic-Economic Plan for Government

## Six issues for macroeconomic strategy in Israel



Human capital



Transportation infrastructure



The housing market



Energy and climate



Digital infrastructure



Cost of living

*Thank you*