



The Israeli Economy

Macroeconomic trends, strengths and challenges

Jerusalem Post 3/6/24

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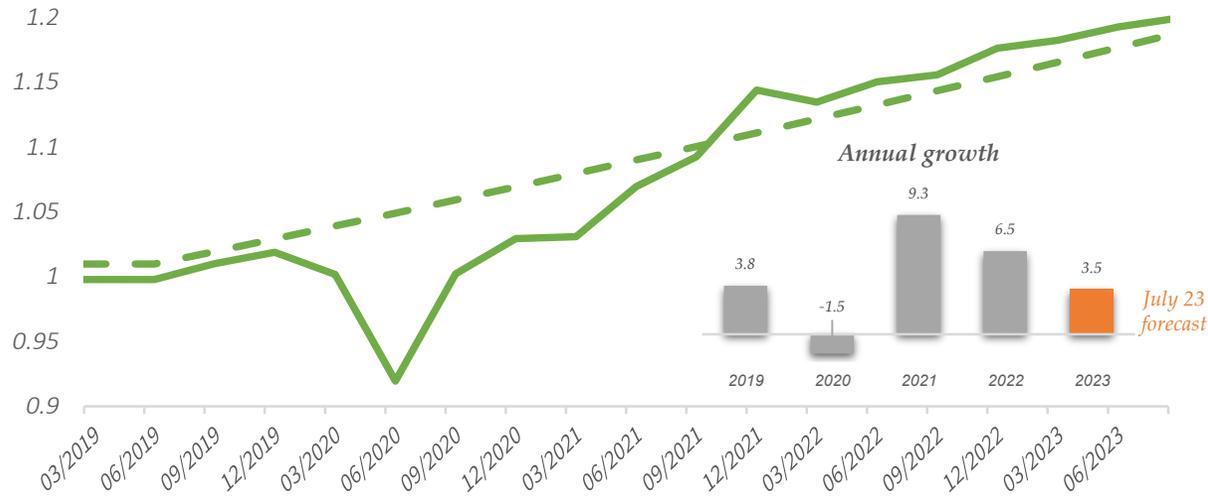




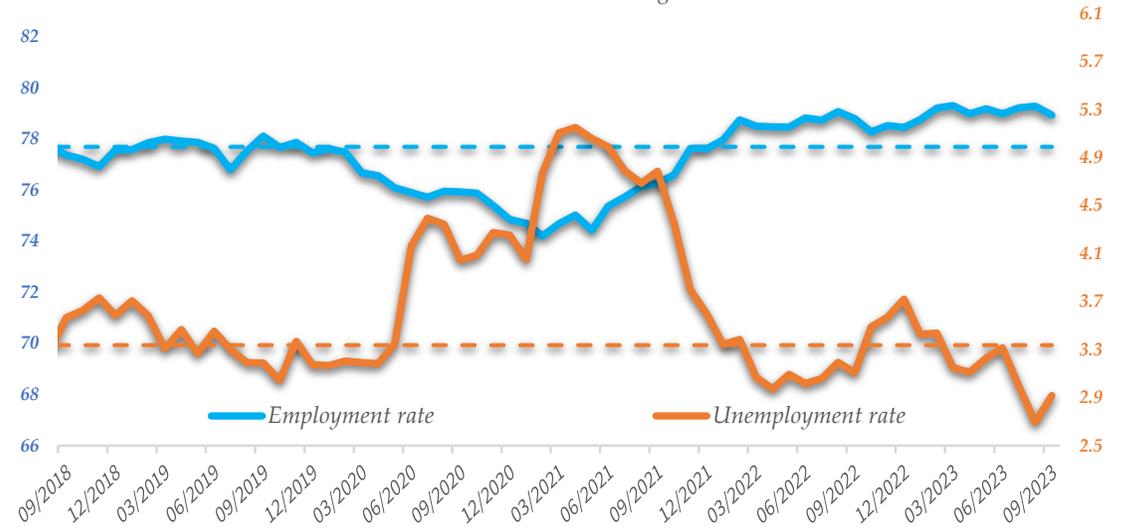
Before the war - On a path to soft landing:

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

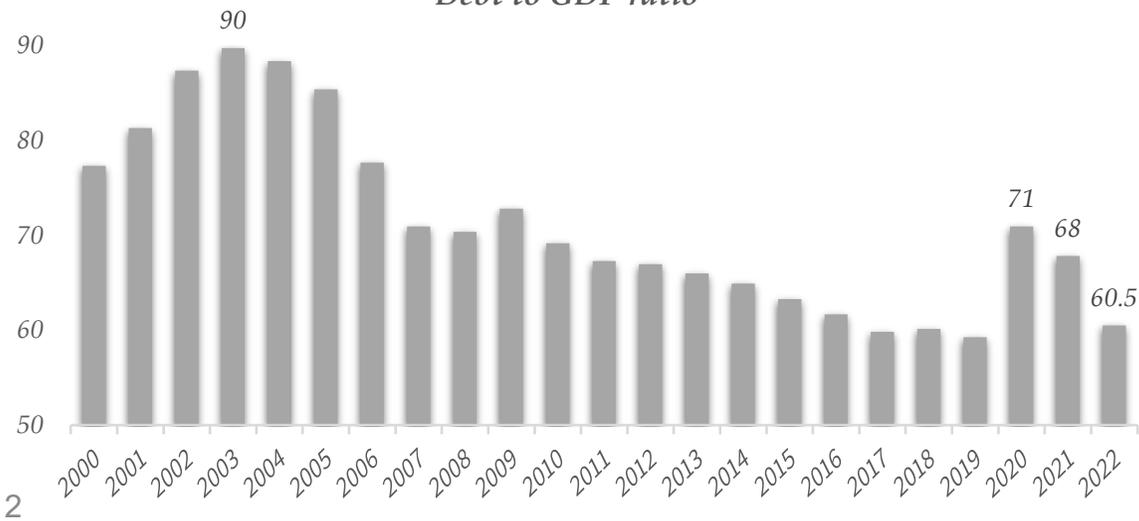
GDP in relation to its trend
quarterly, fixed prices, index: Jan 2019=1



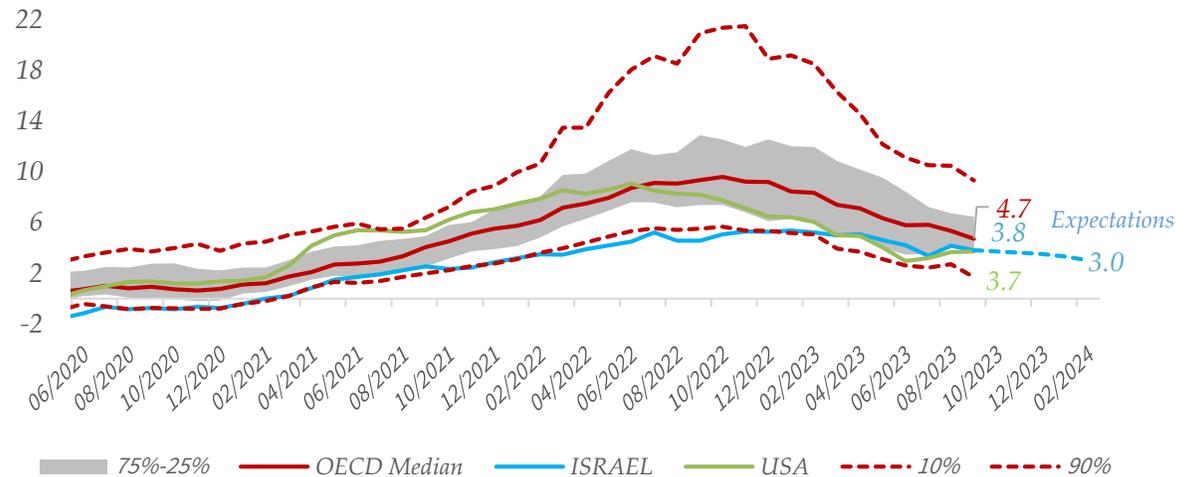
Employment rate and unemployment
Dashed line: 2019 Average



Debt to GDP ratio

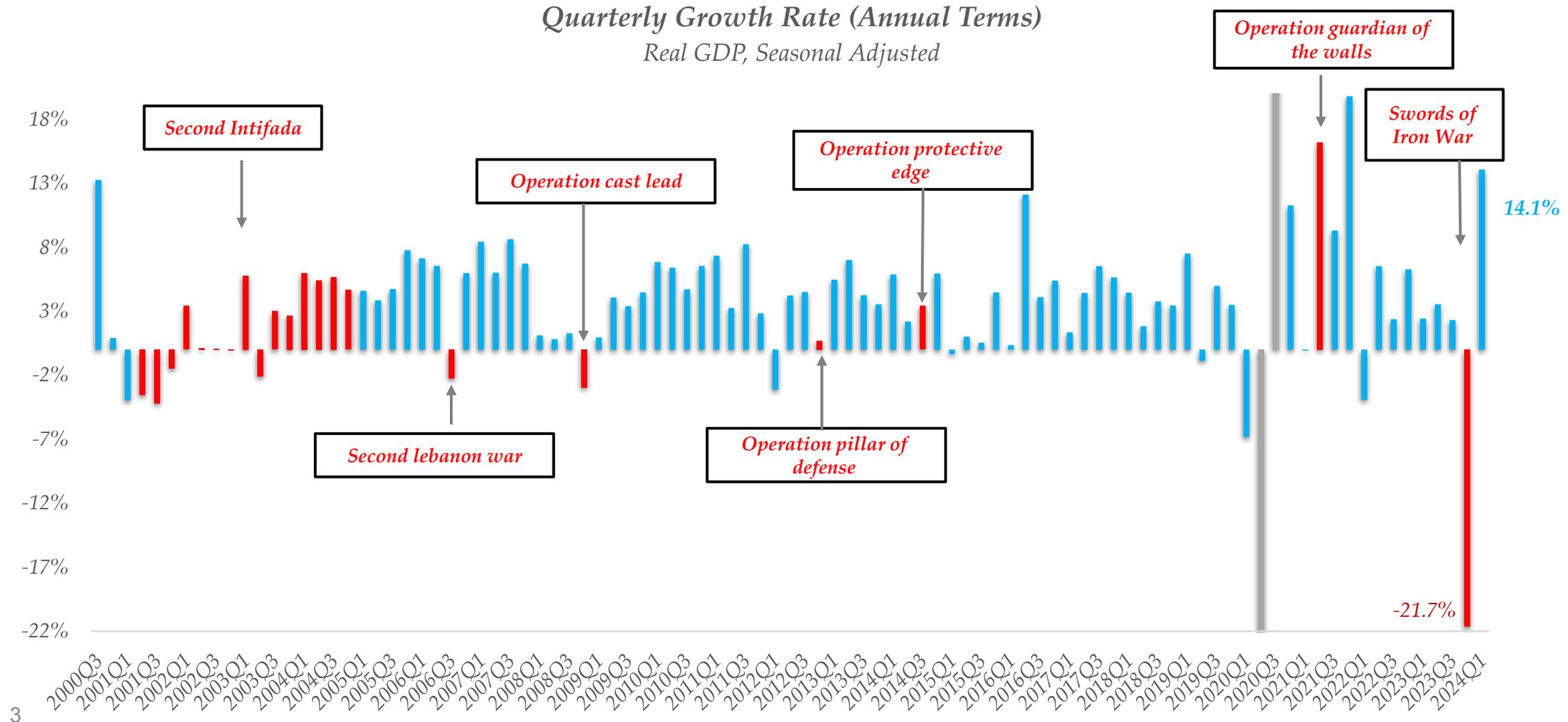


Inflation in Israel and OECD



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

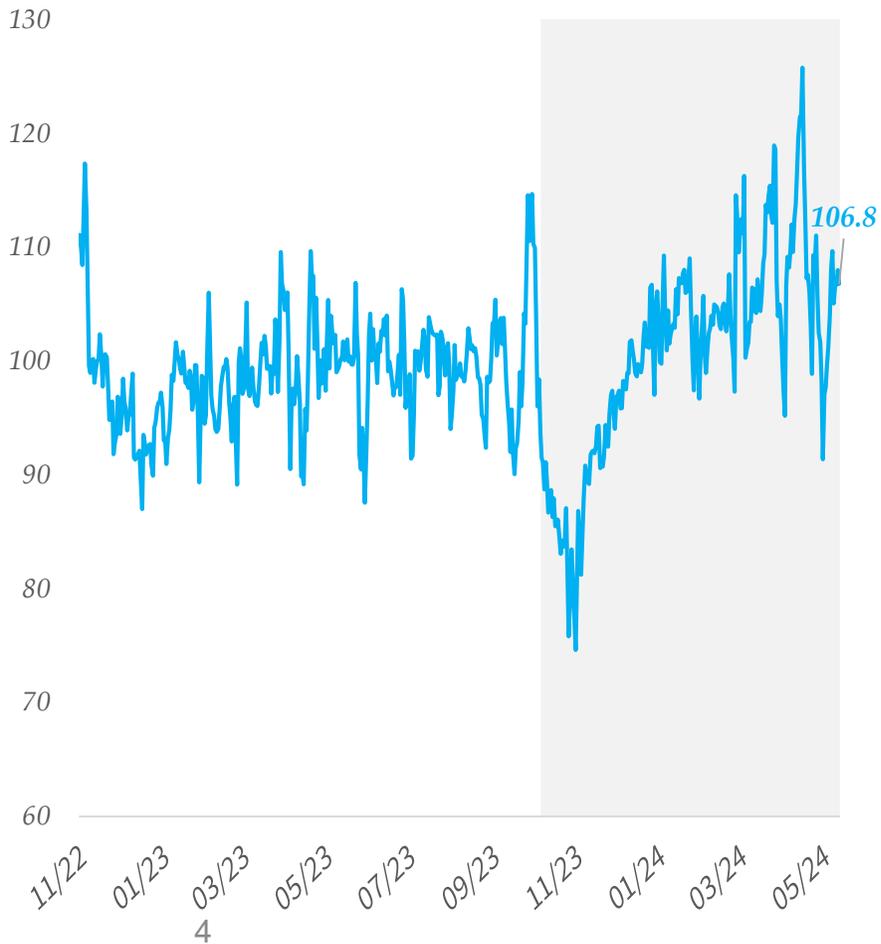
In the past, the Israeli economy recovered quickly after geopolitical conflicts



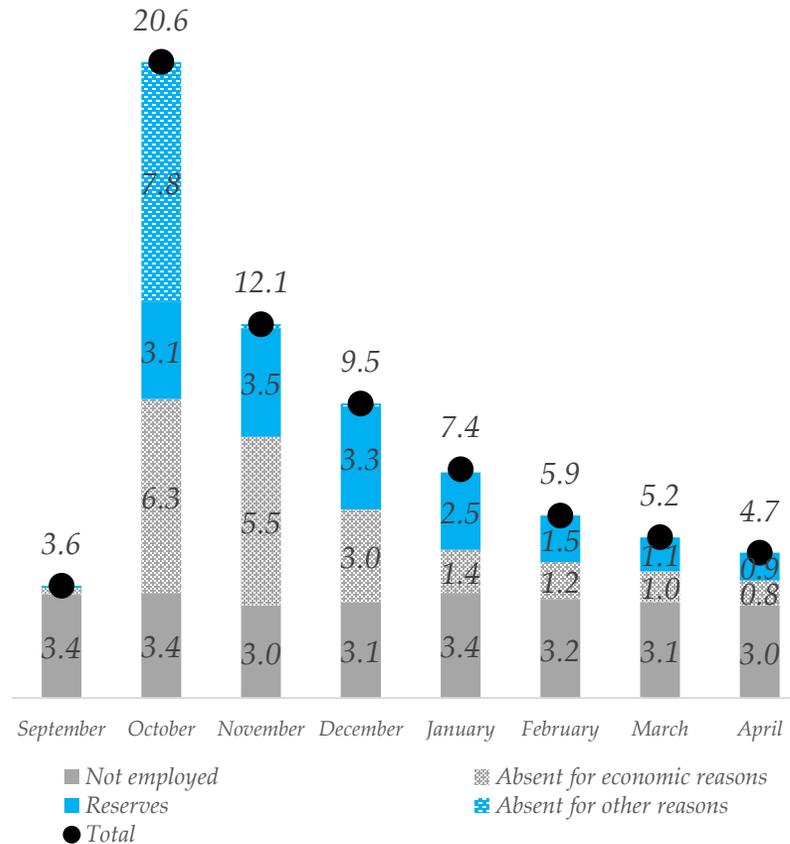


The impact of the war - contraction of GDP led - by consumption and unemployment increase.

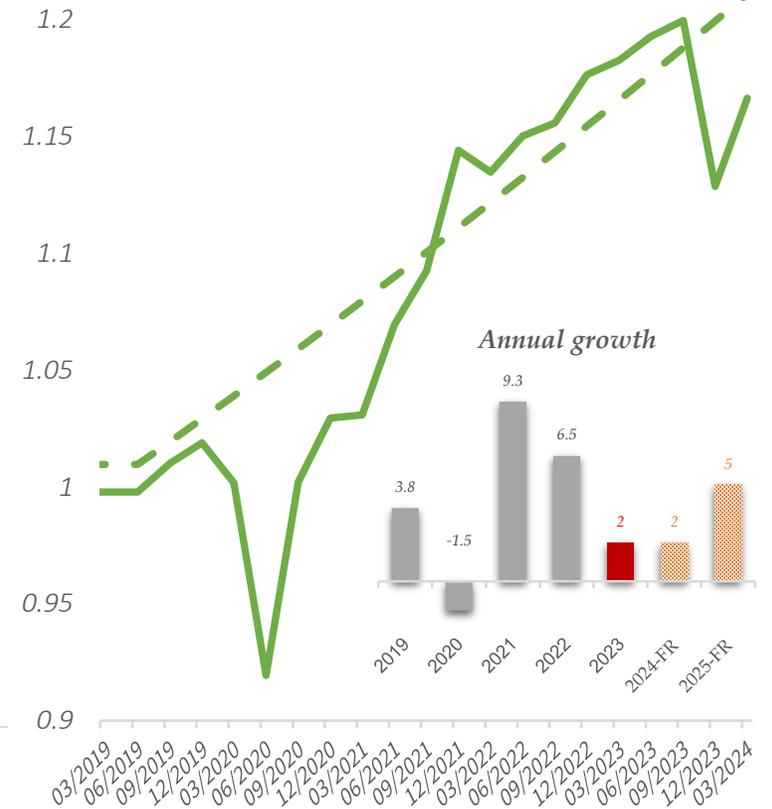
Total credit cards expenditure index
Seasonally adjusted, 2023Q3=100



Unemployment rate



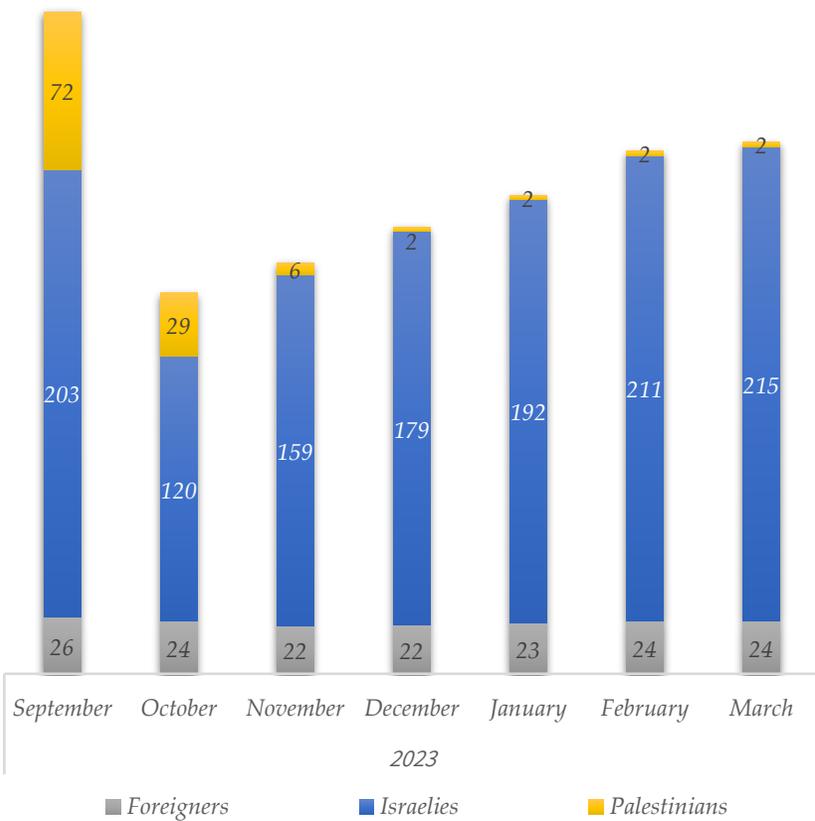
GDP relative to its trend
quarterly, fixed prices, index: Jan 2019=1



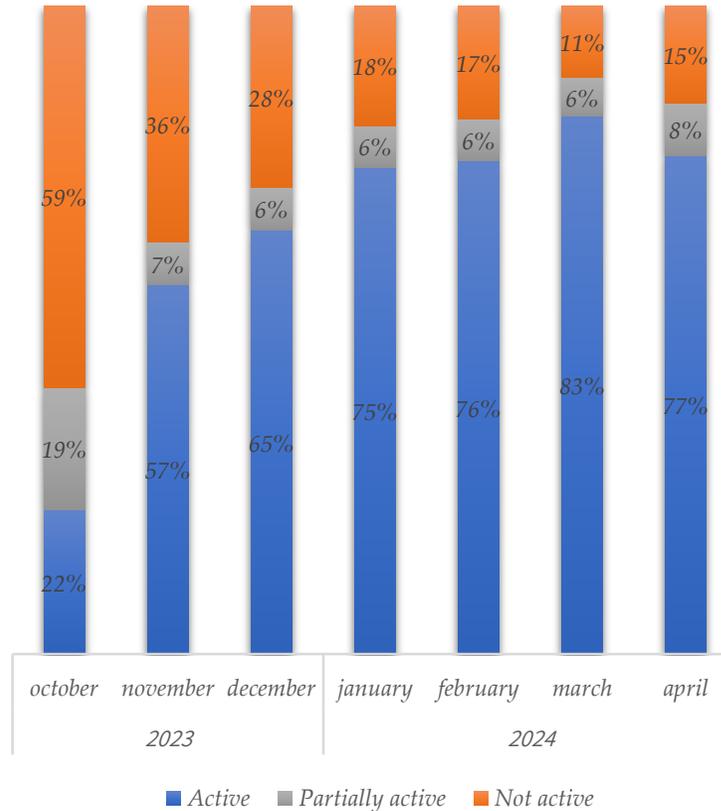
Sources: BOI and IL CBS

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

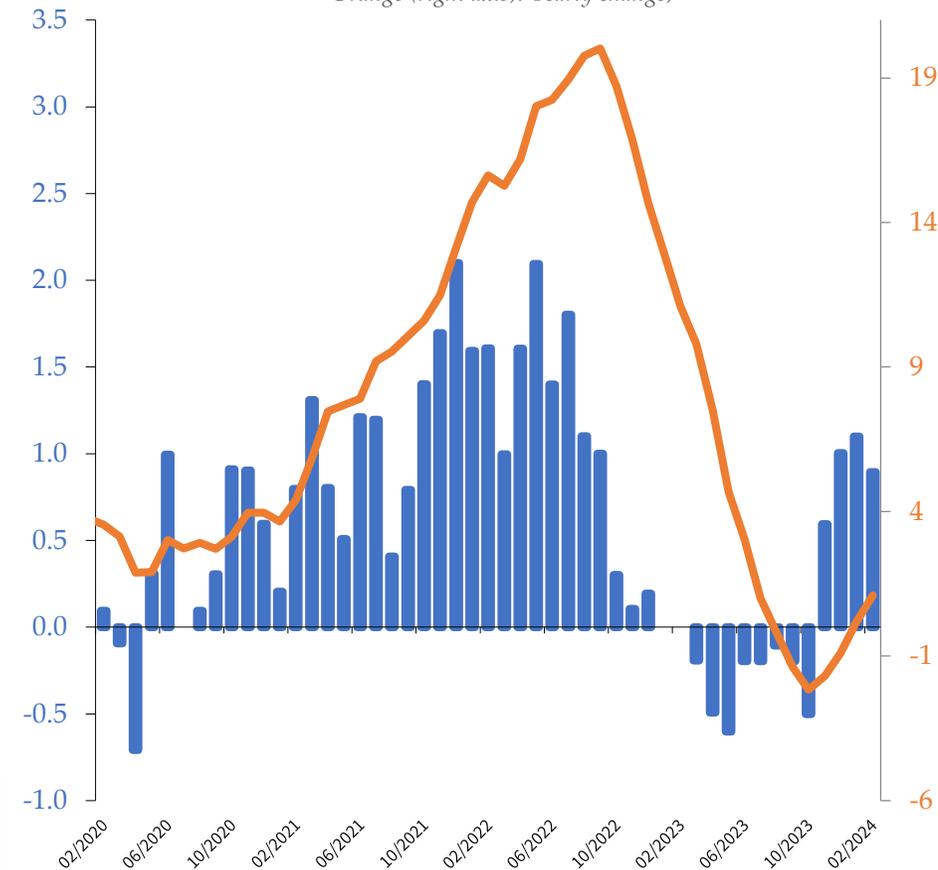
Construction industry estimated change in total employment



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

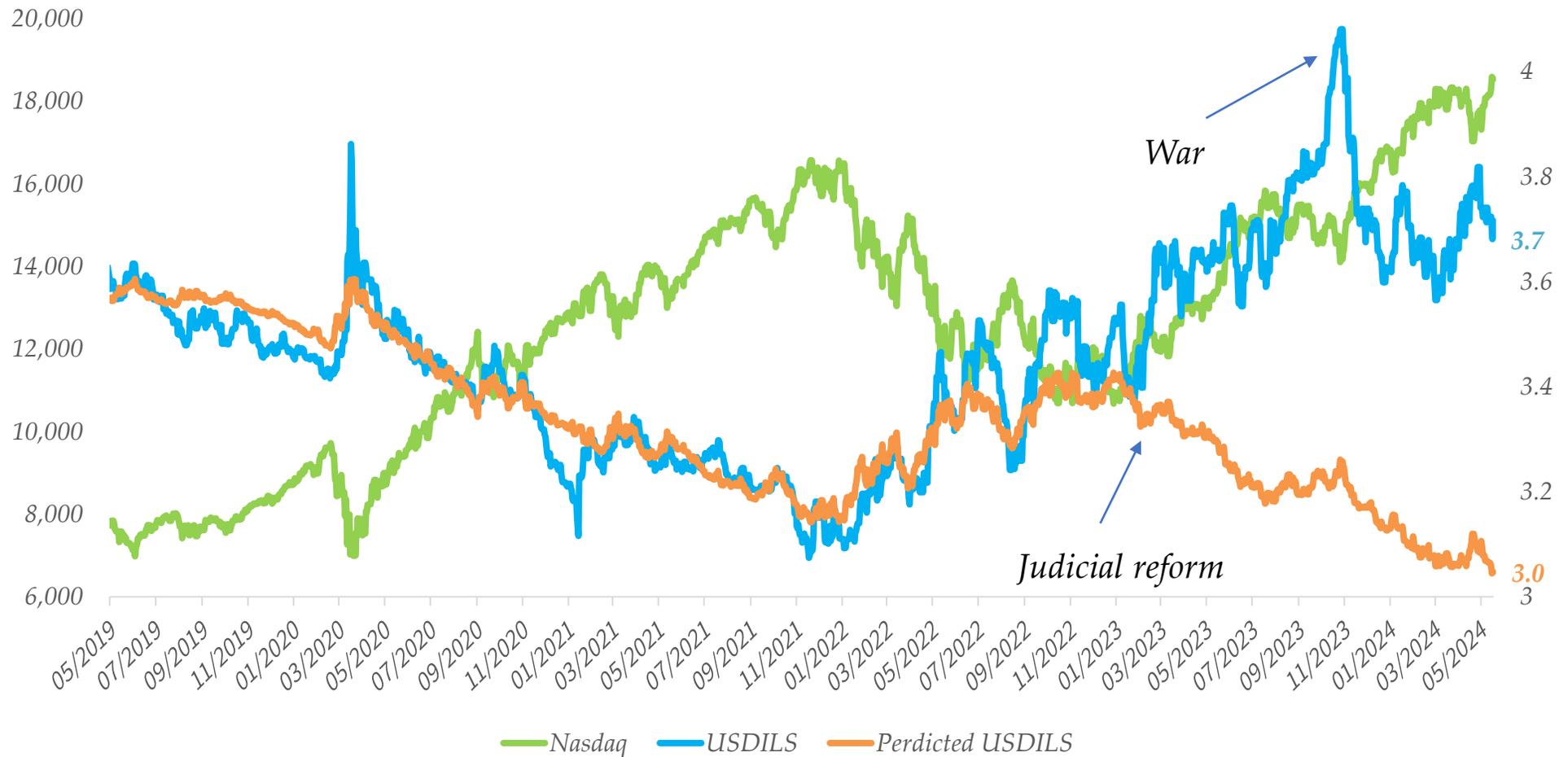


Housing Prices
Blue (left axis): Monthly change, Orange (right axis): Yearly change



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

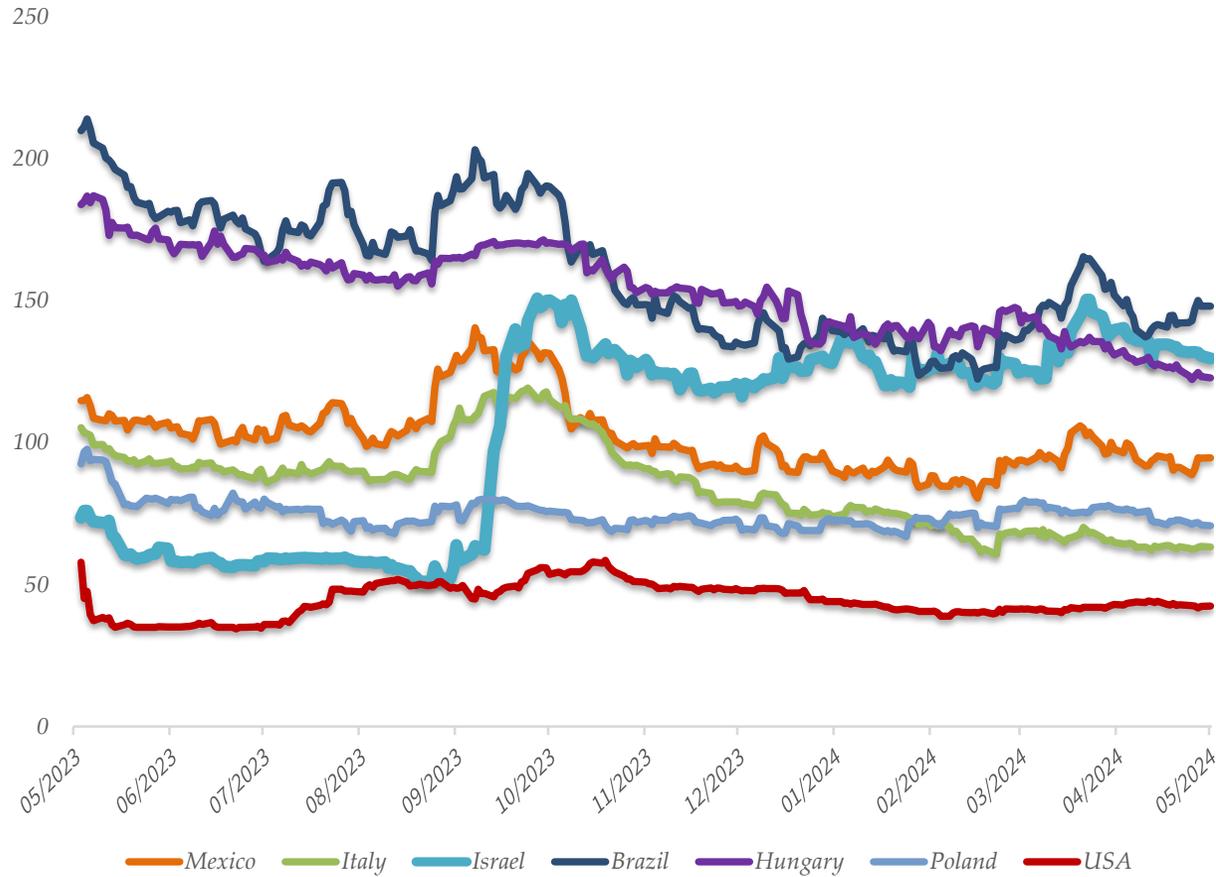
The Nasdaq index, the exchange rate, and the predicted exchange rate from a regression of the exchange rate on Nasdaq



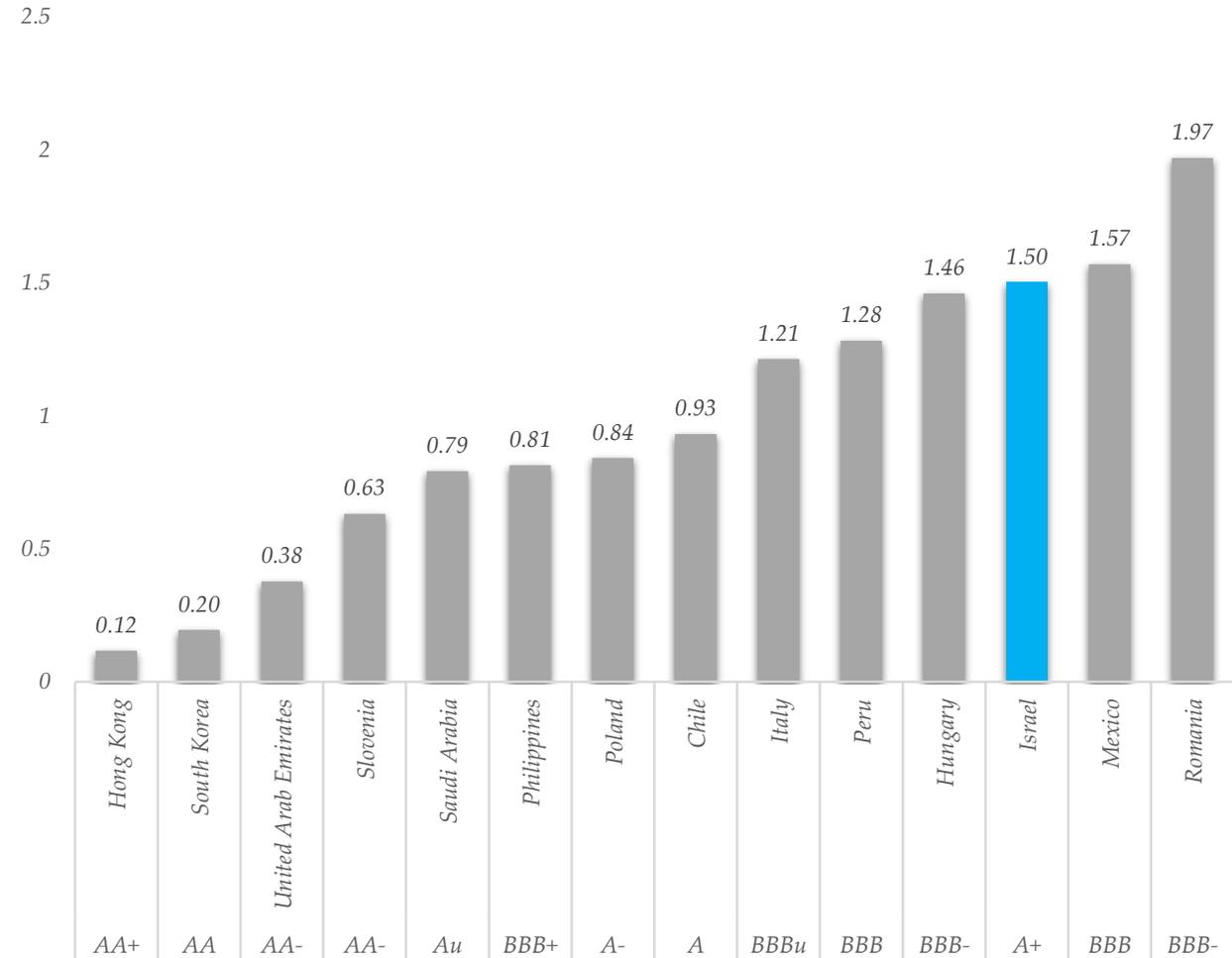
$$\log(ILS_USD_t) = \beta^0 + \beta^1 * \log(NDX_t) + \varepsilon$$

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

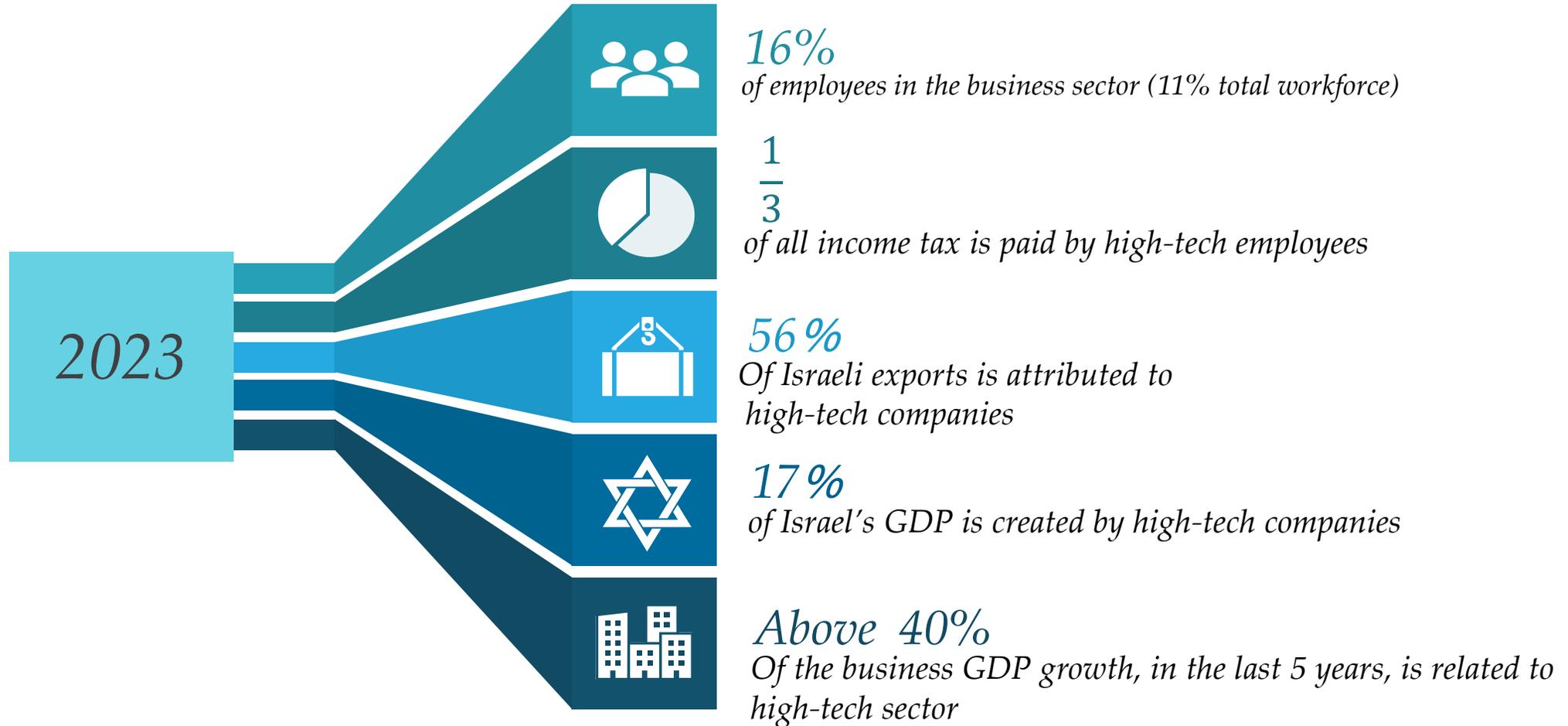
Banking, credit and Payments

- ✓ 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

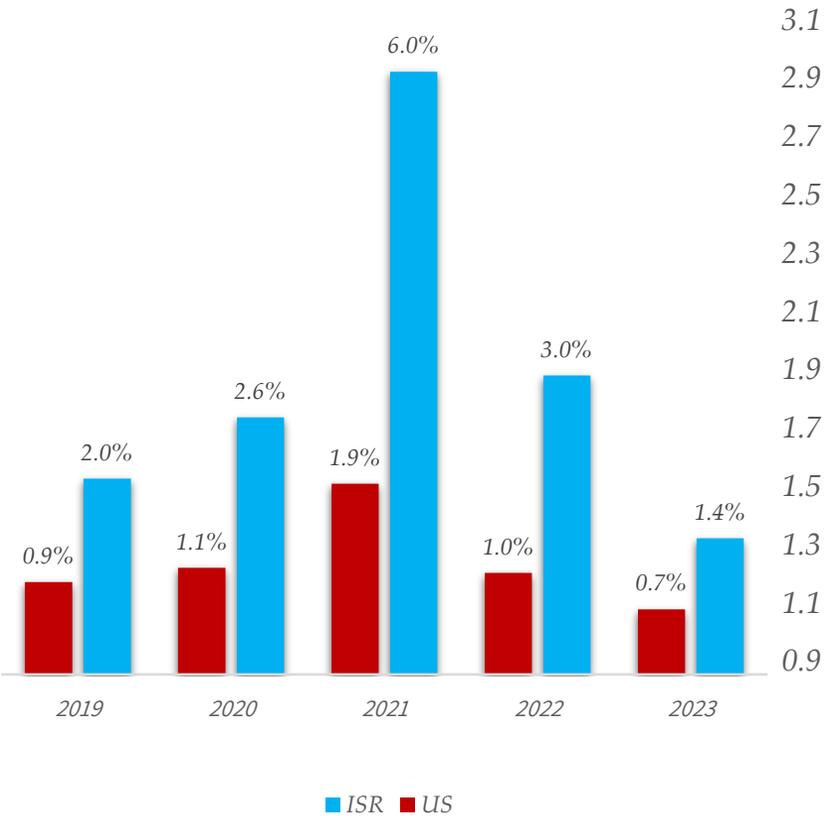
- ✓ Publication of an macro-economic forecast for the Israeli economy.
- ✓ Micro-level economic analysis of economic activity & industries
- ✓ Ongoing work vis-à-vis relevant government entities
- ✓ An advisory role for fiscal plans and framework

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



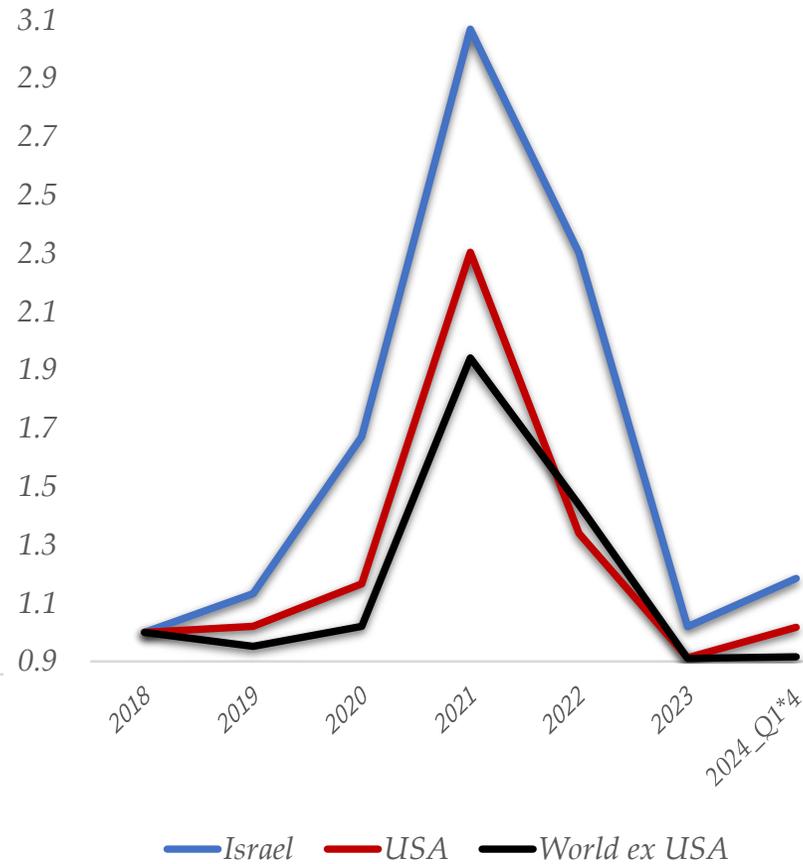
Capital raisings in Israel, the US and the world

Capital raised as GDP %



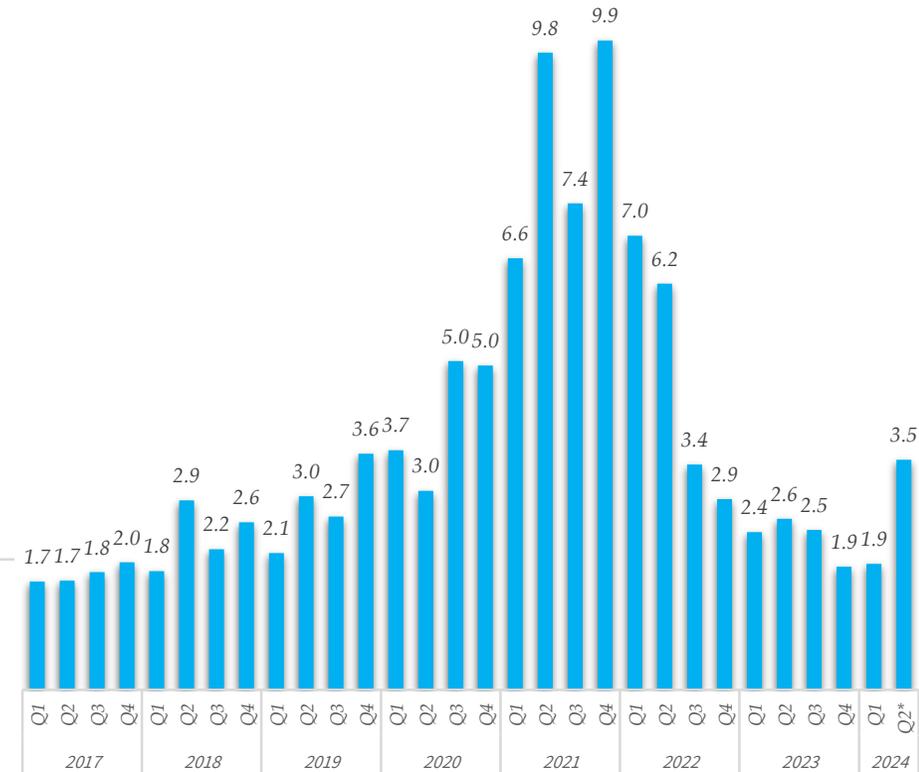
Scope of capital raising

Index, 2018 = 1, Pitchbook



Capital Raising of high-tech companies

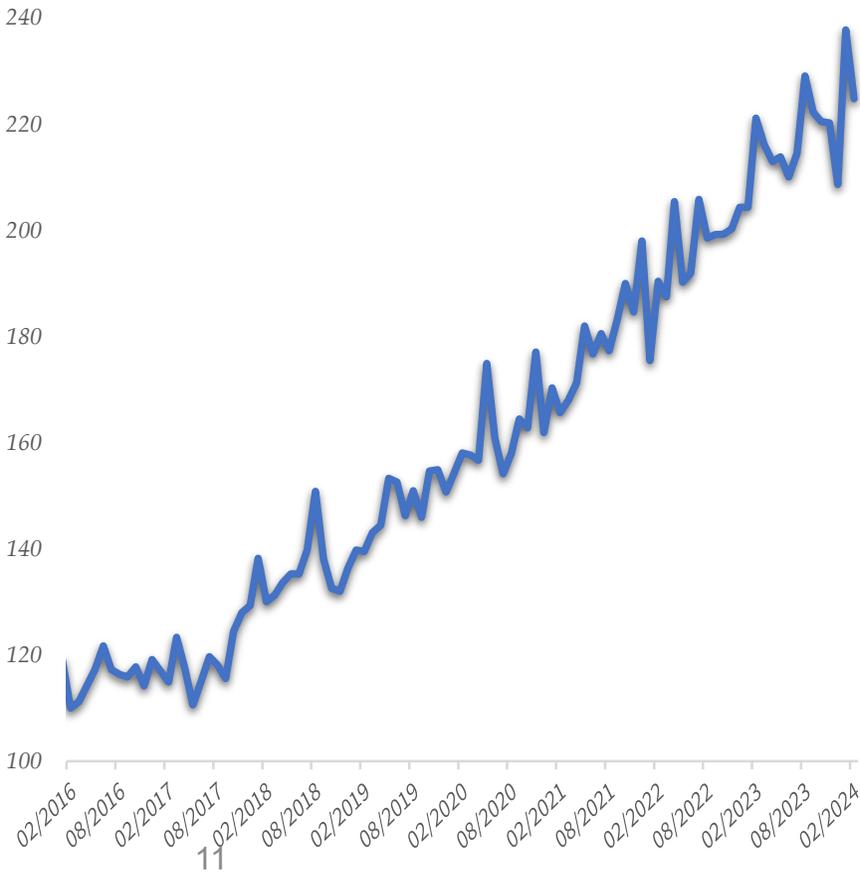
Monthly, Billion dollars



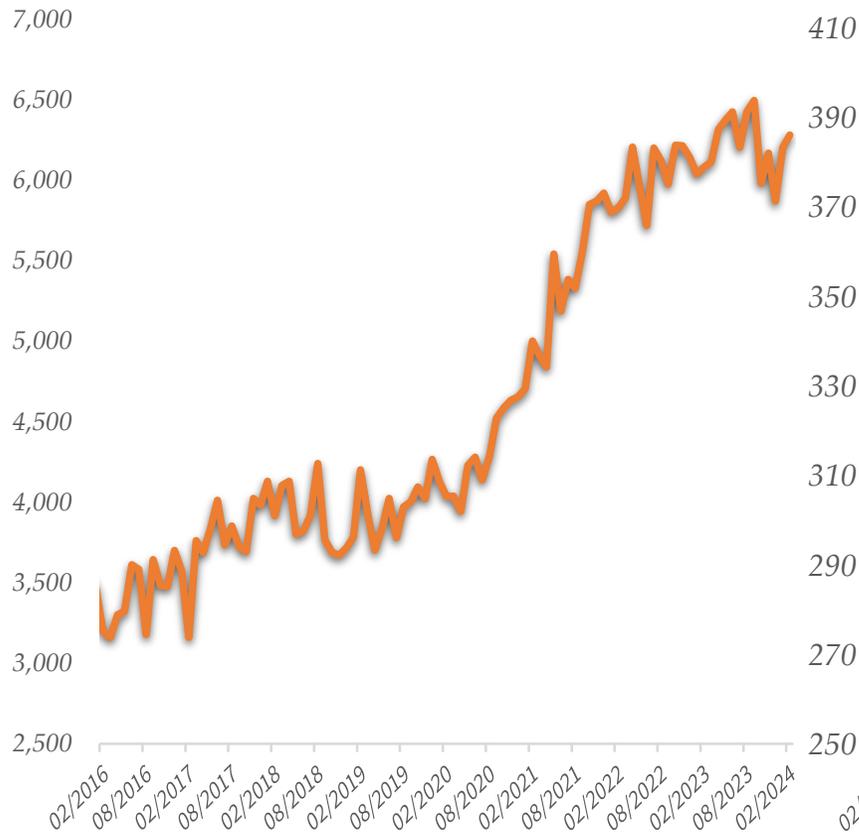


Economic Activity - revenue indices soar to peak levels after initial war-related decline; Exports maintain high volumes despite slight decrease

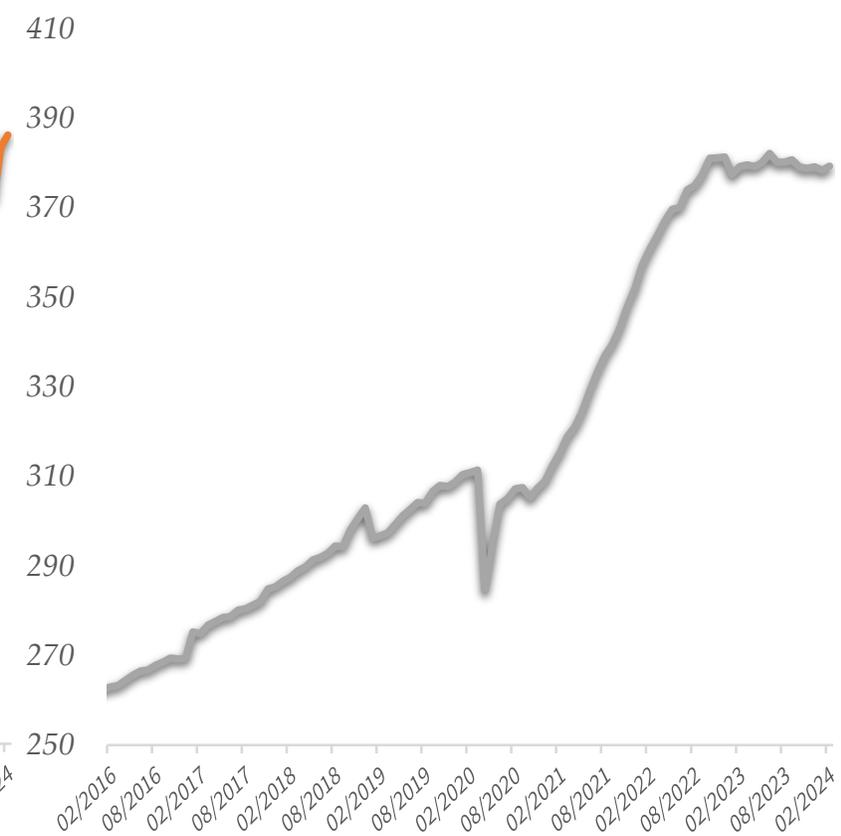
Revenue Index of High-Tech
Seasonally adjusted, 2012 = 100



High-tech sector exports
Millions of dollars, seasonally adjusted



Employed in the high-tech sector
Thousands, seasonally adjusted



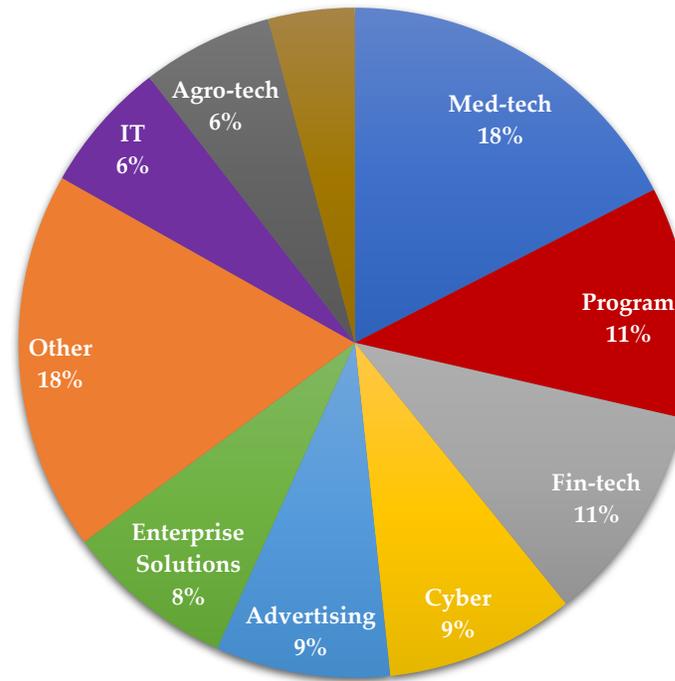
Source: BOI's analysis for IL CBS

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

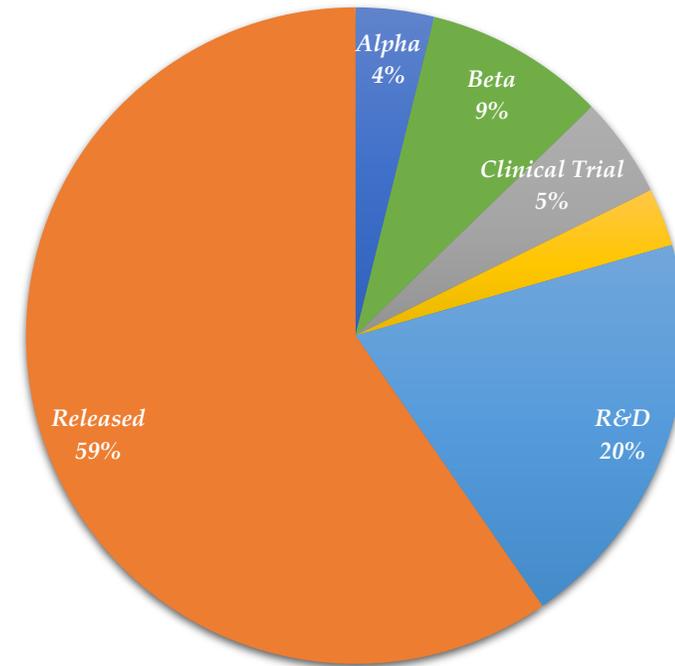
- **DOT-COM companies**
 - Centralization in individual sub-sectors (Telecommunication).
 - Business immaturity (Dream companies).

- **Today:**
 - A more “decentralized” High-tech
 - A large majority of the companies are in the production stage

Companies Distribution by Sub-Sectors

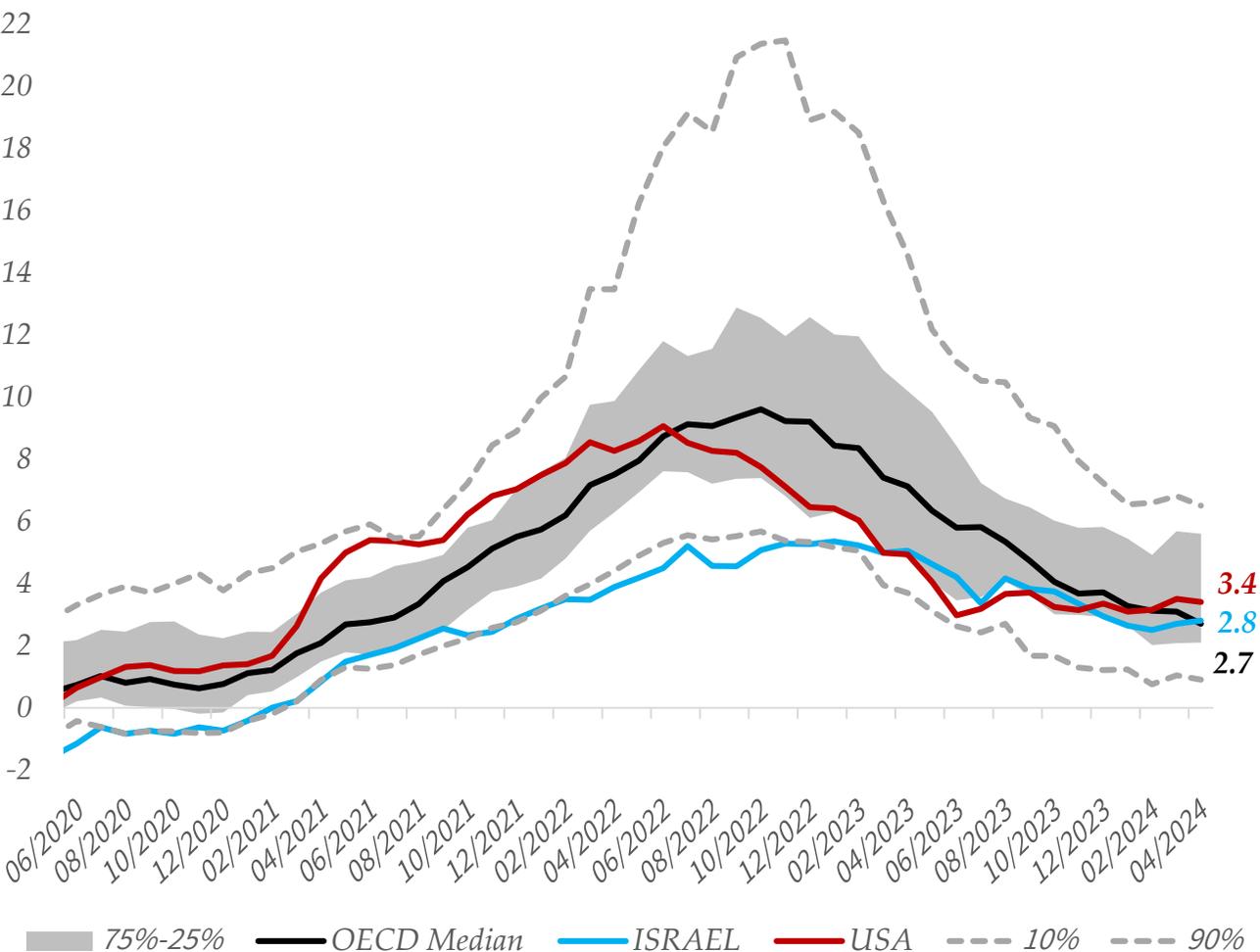


Companies Distribution by product stage

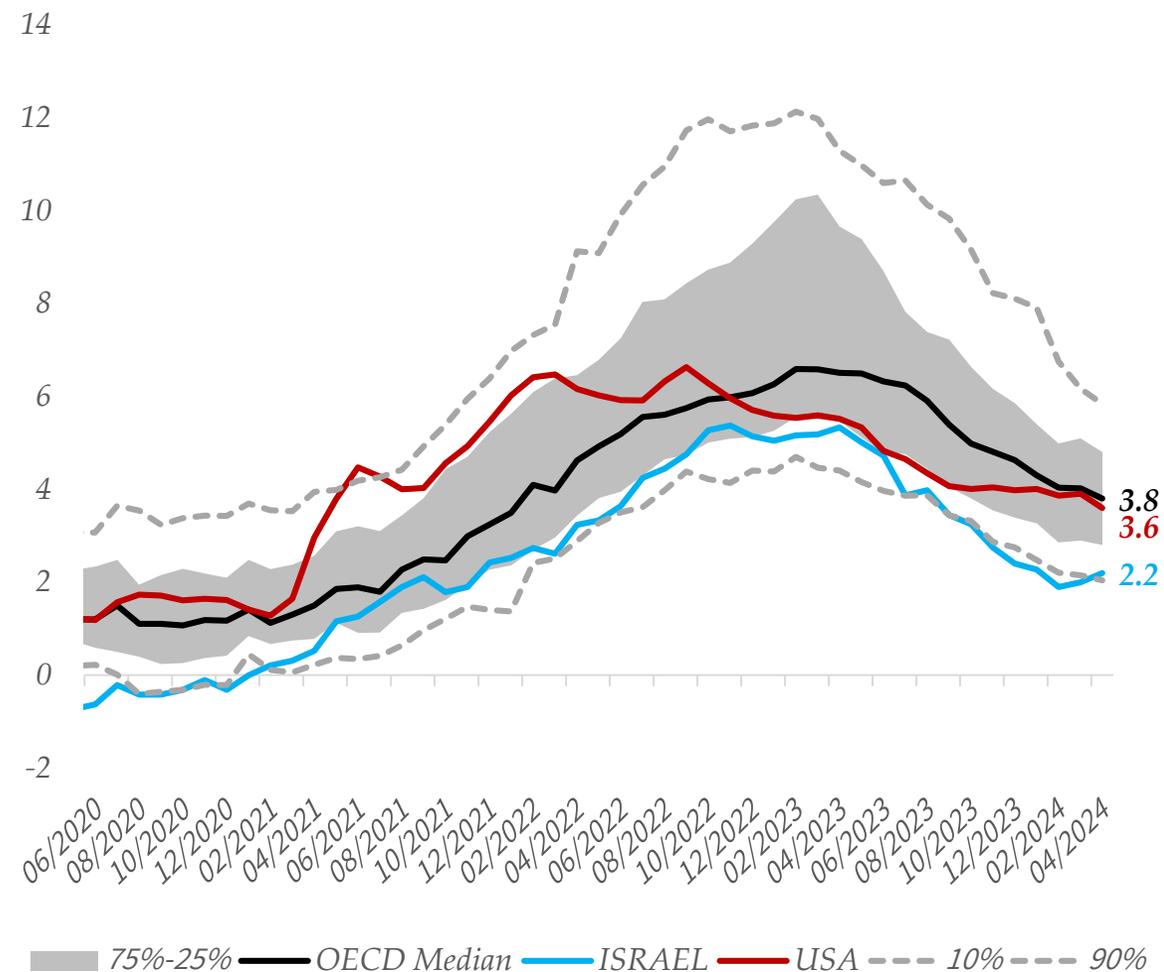


Inflation in Israel is lower than the median of the OECD

Inflation in Israel and OECD

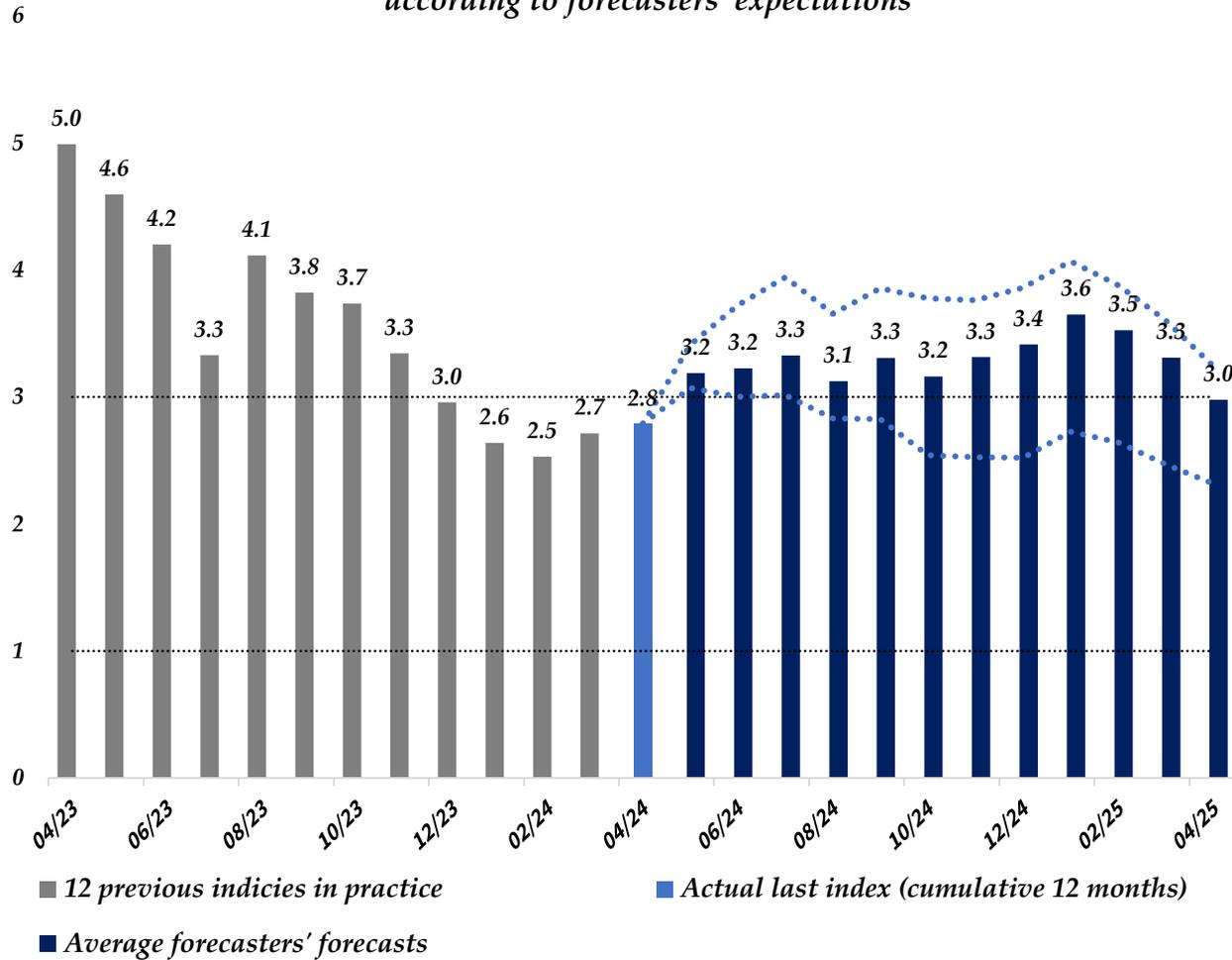


Inflation less food less energy

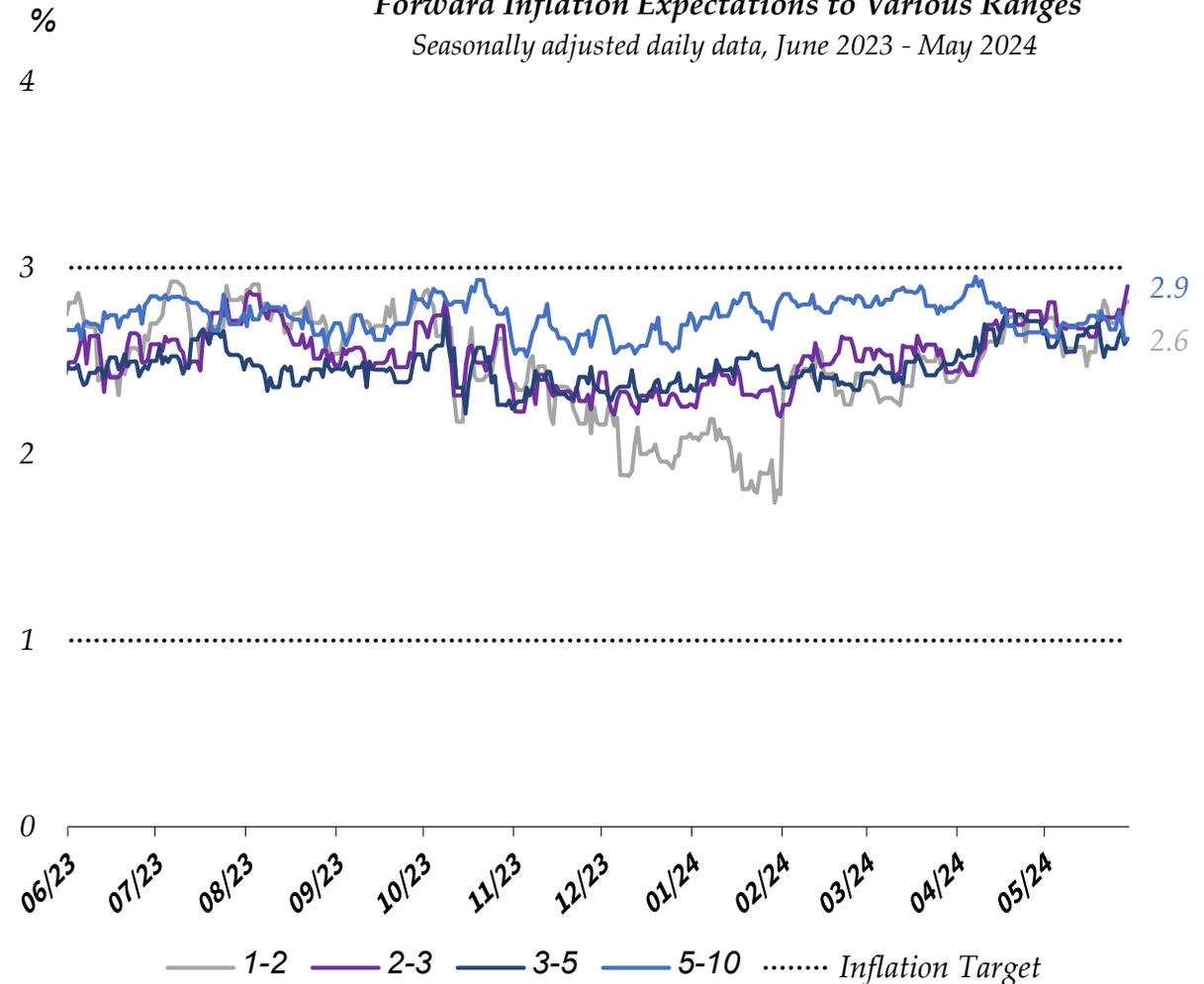


Inflation in Israel expected to exceed 3% target in coming months; Forward expectations are in the target range

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



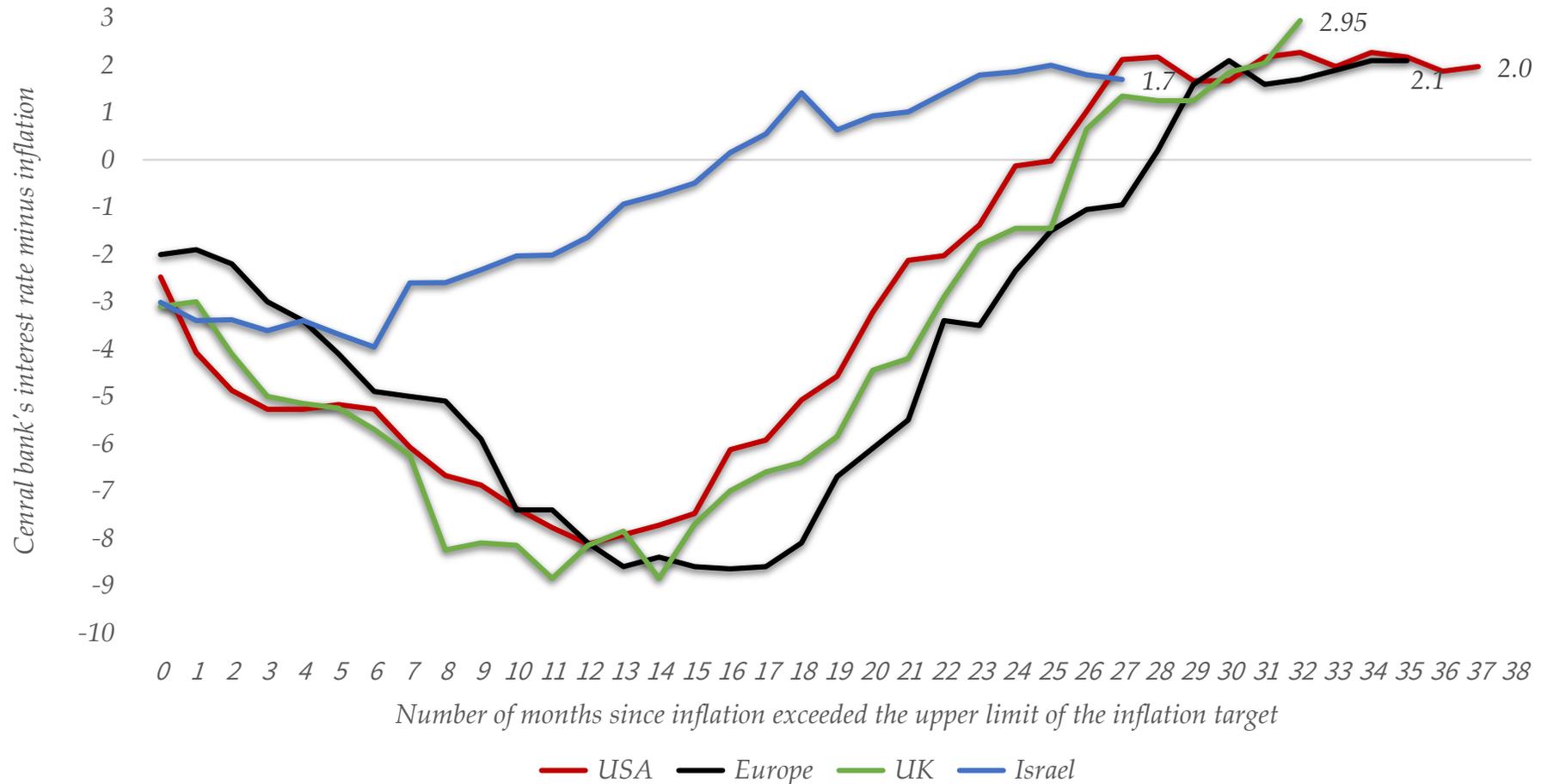
Forward Inflation Expectations to Various Ranges
Seasonally adjusted daily data, June 2023 - May 2024



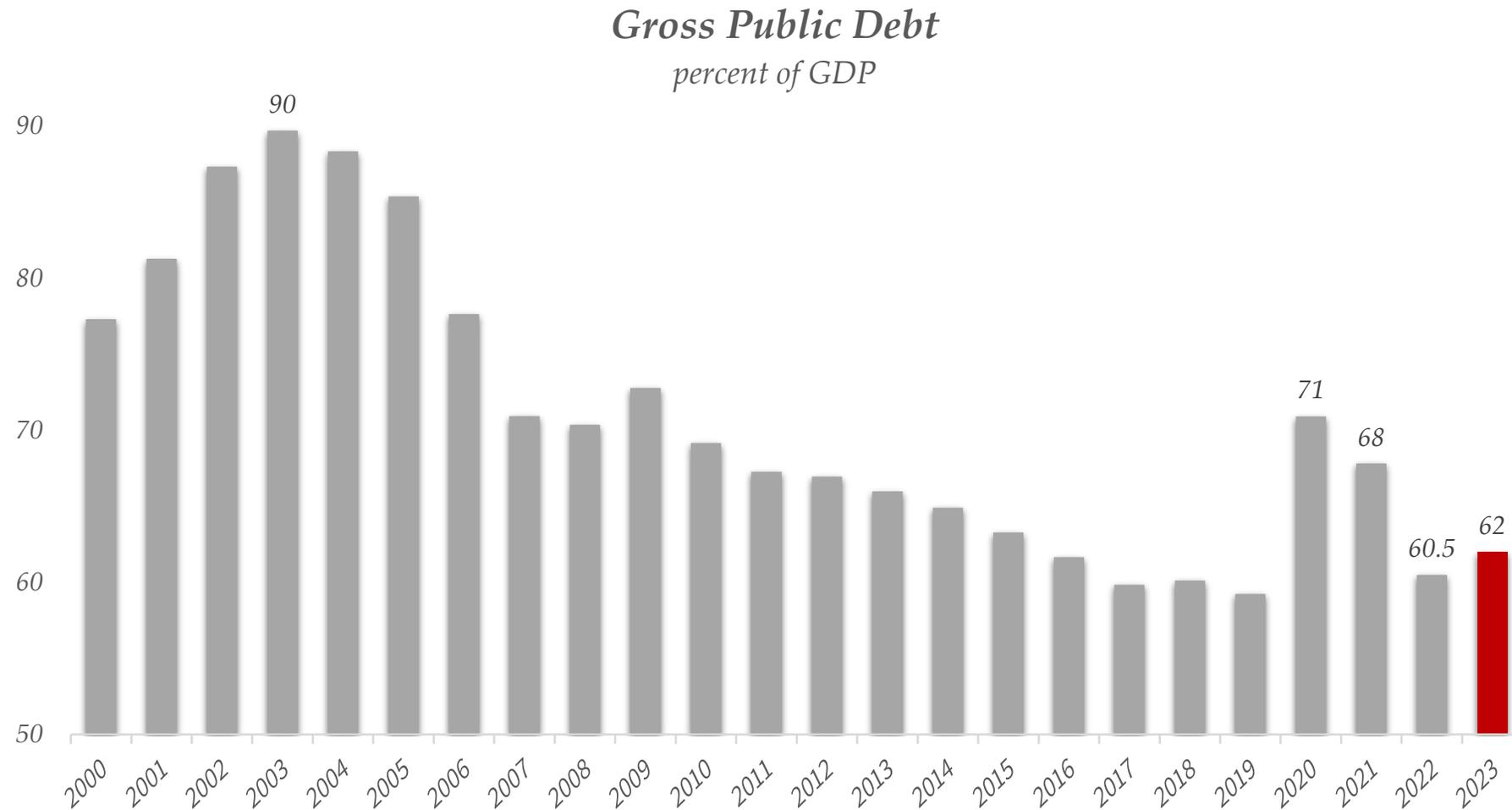
* For instance, 3-5 year expectations are the expected yearly inflation from the end of the 3rd year

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

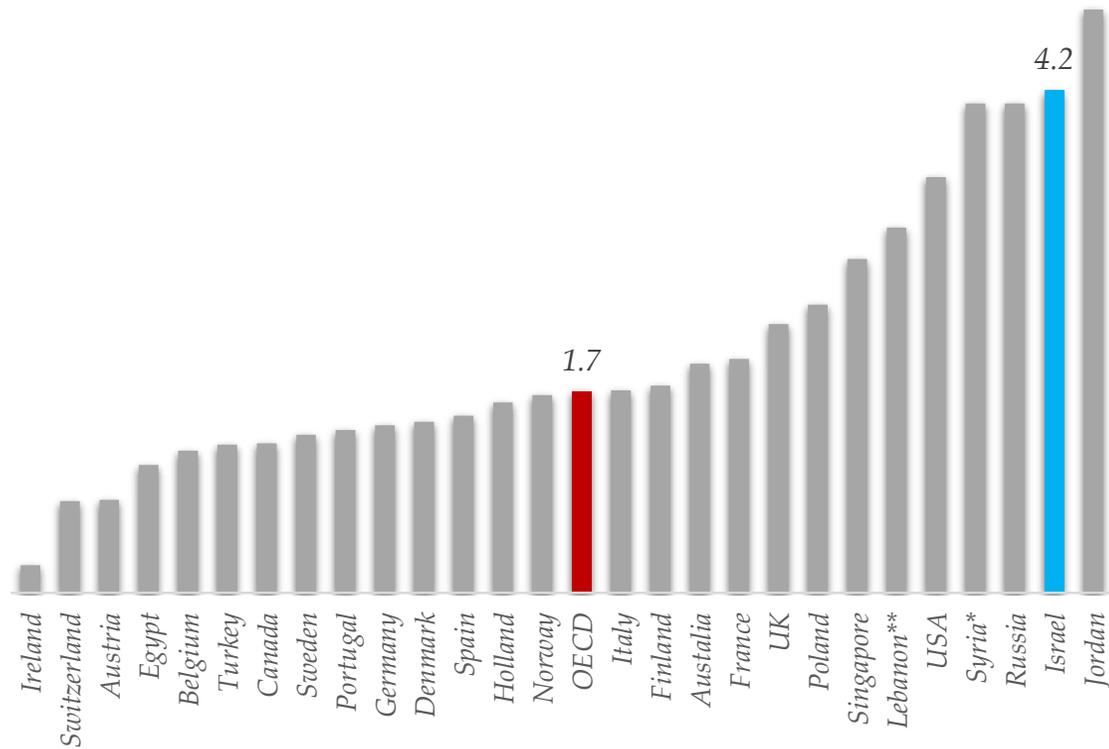


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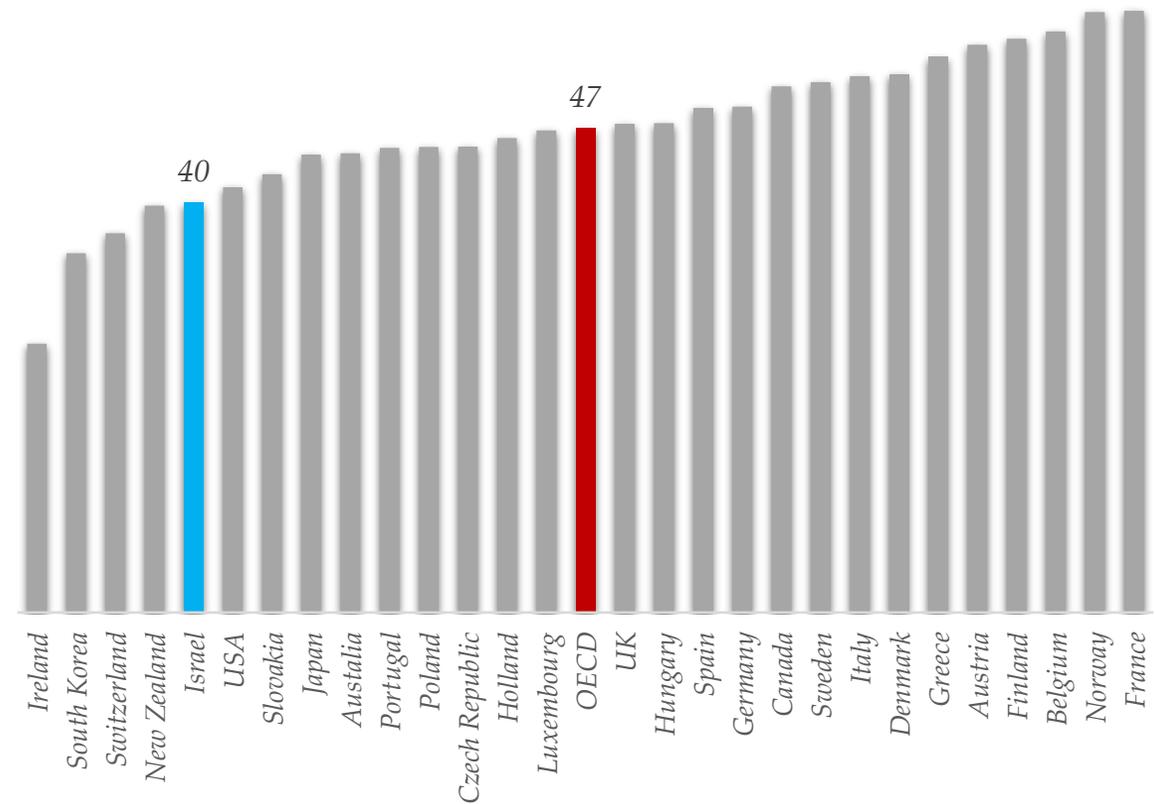


Security expenditure in Israel is high, civilian expenditure is relatively low

Defense expenditure
2022, percent of GDP

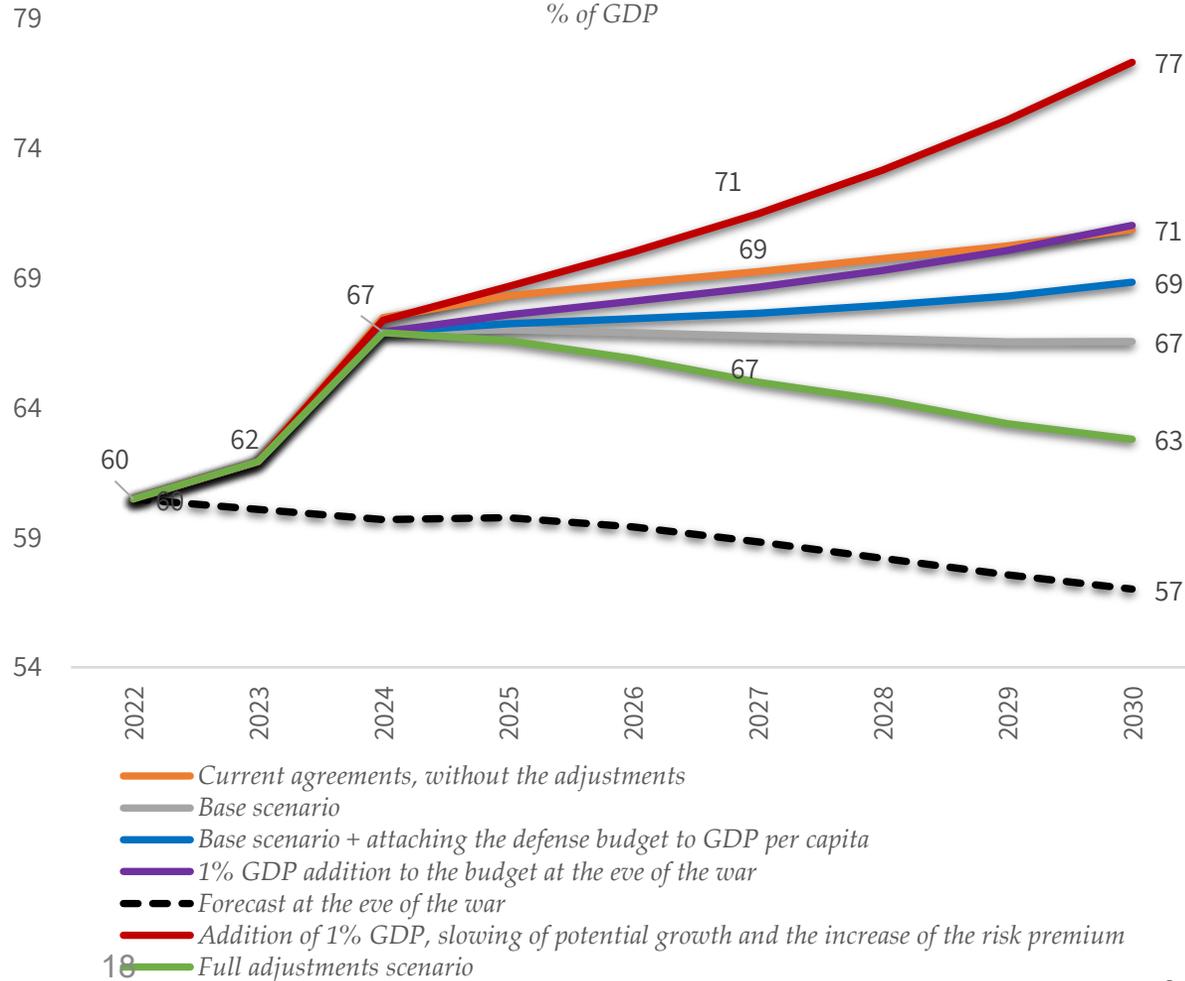


Civilian public expenditure excluding interest
2020, percent of GDP



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

Public debt
% of GDP

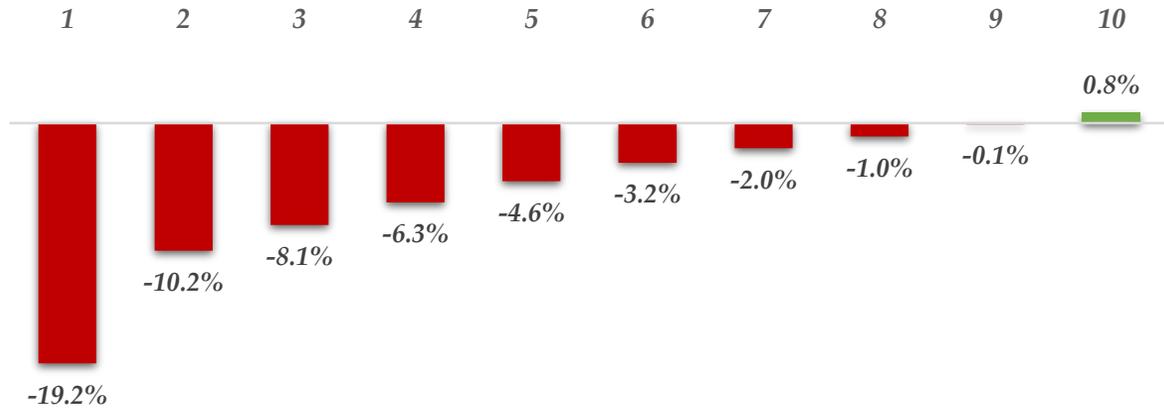


Estimate for the costs of the war

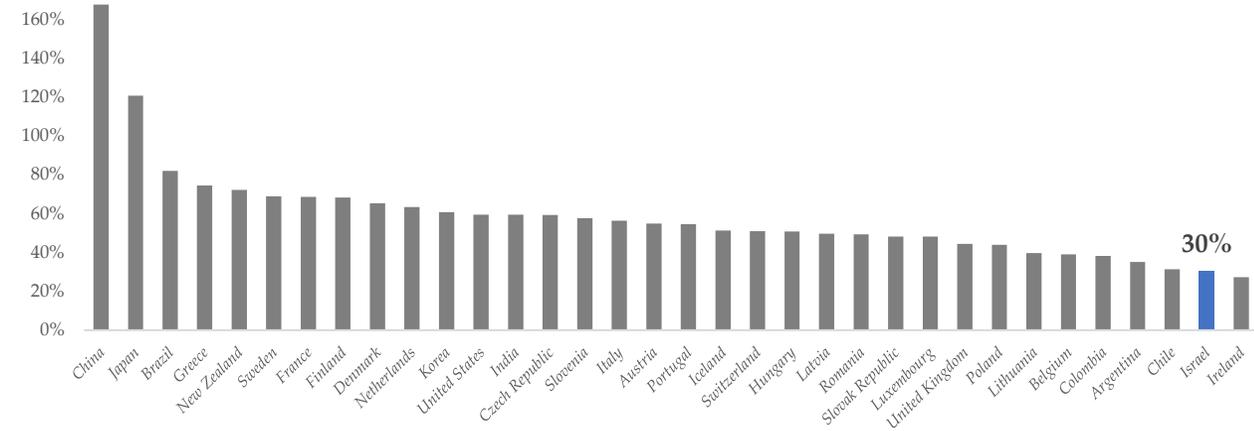
	Total 2023-2025	
	Billions of NIS	As a % of 2023 GDP
Defense expenditures	118	6.3%
Military buildup 2024-2025	30	1.6%
Compensation on direct and indirect damages	23	1.2%
Other civilian expenditures	38	2.0%
Interest payments	9	0.5%
Total additional expenditures	218	11.6%
Loss of taxes	35	1.9%
Total effect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

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

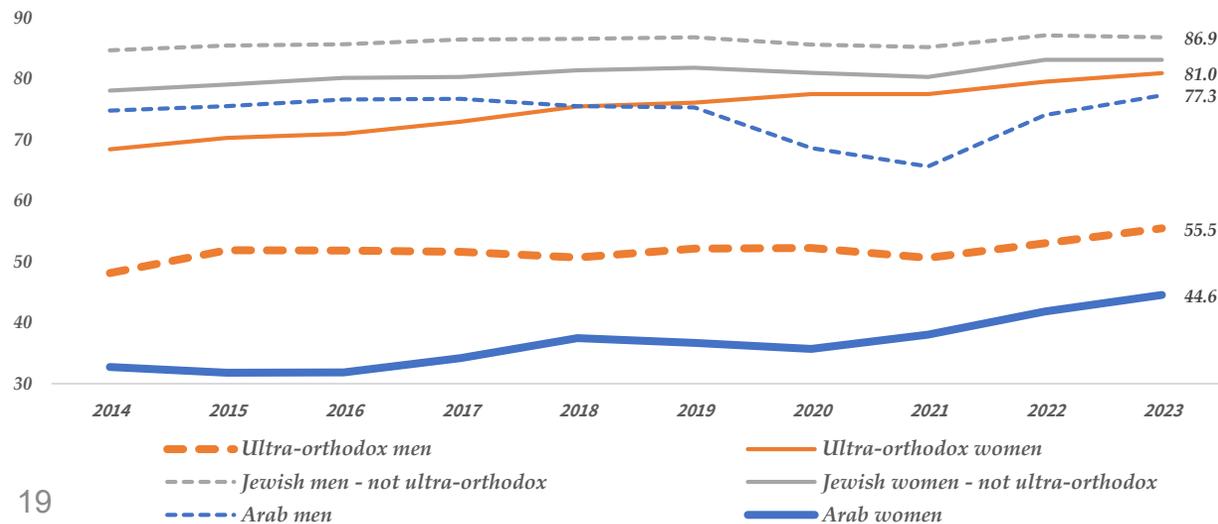
Skills gap between Israel and OECD countries, by decile



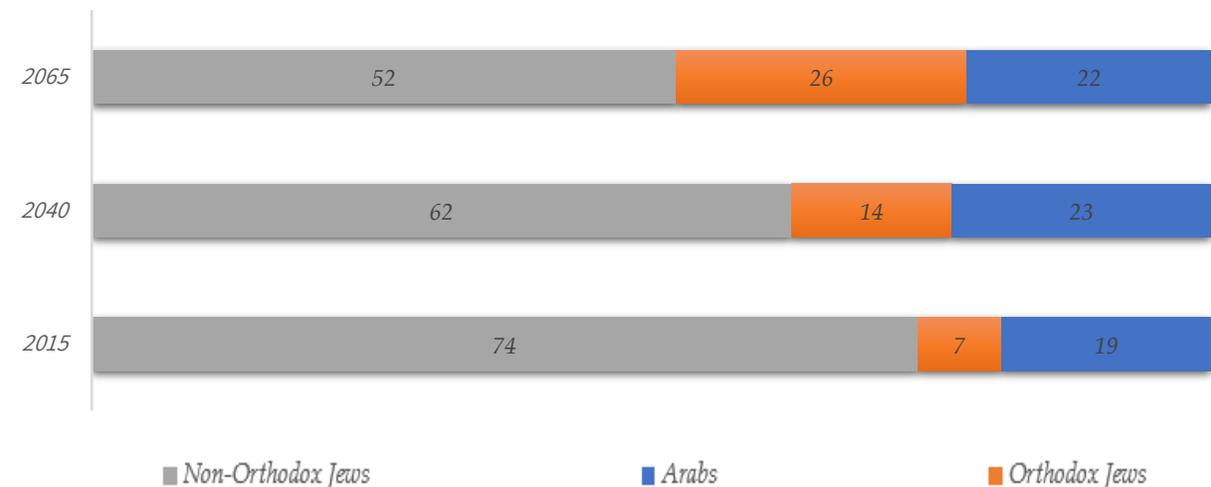
General government capital stock, % GDP 2019



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