

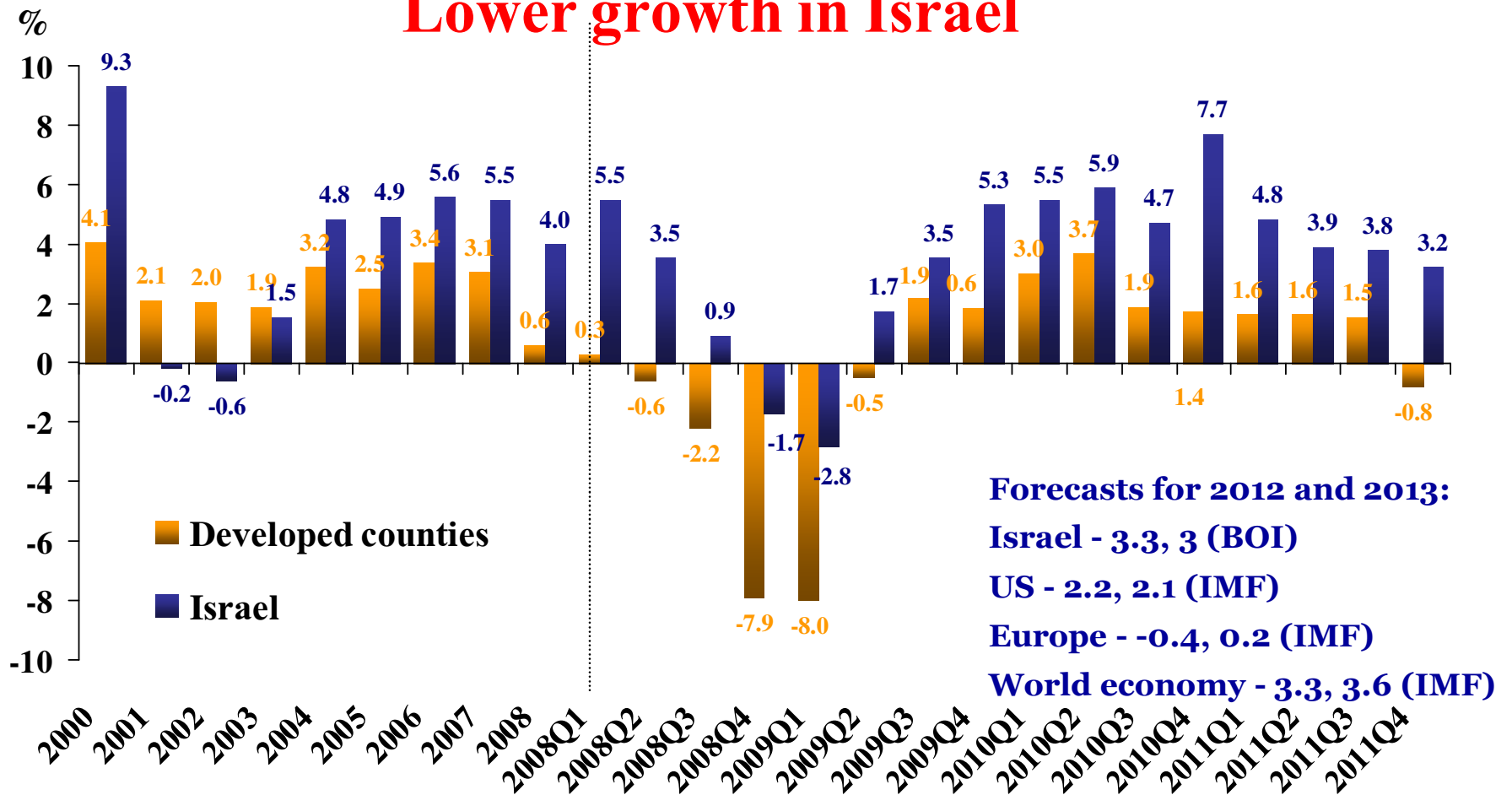
The Israeli Economy

Prof. Zvi Eckstein

IDC, Herzliya and Tel Aviv University

GDP growth: Slow return to growth in developed countries; Medium-high growth in evolving countries;

Lower growth in Israel

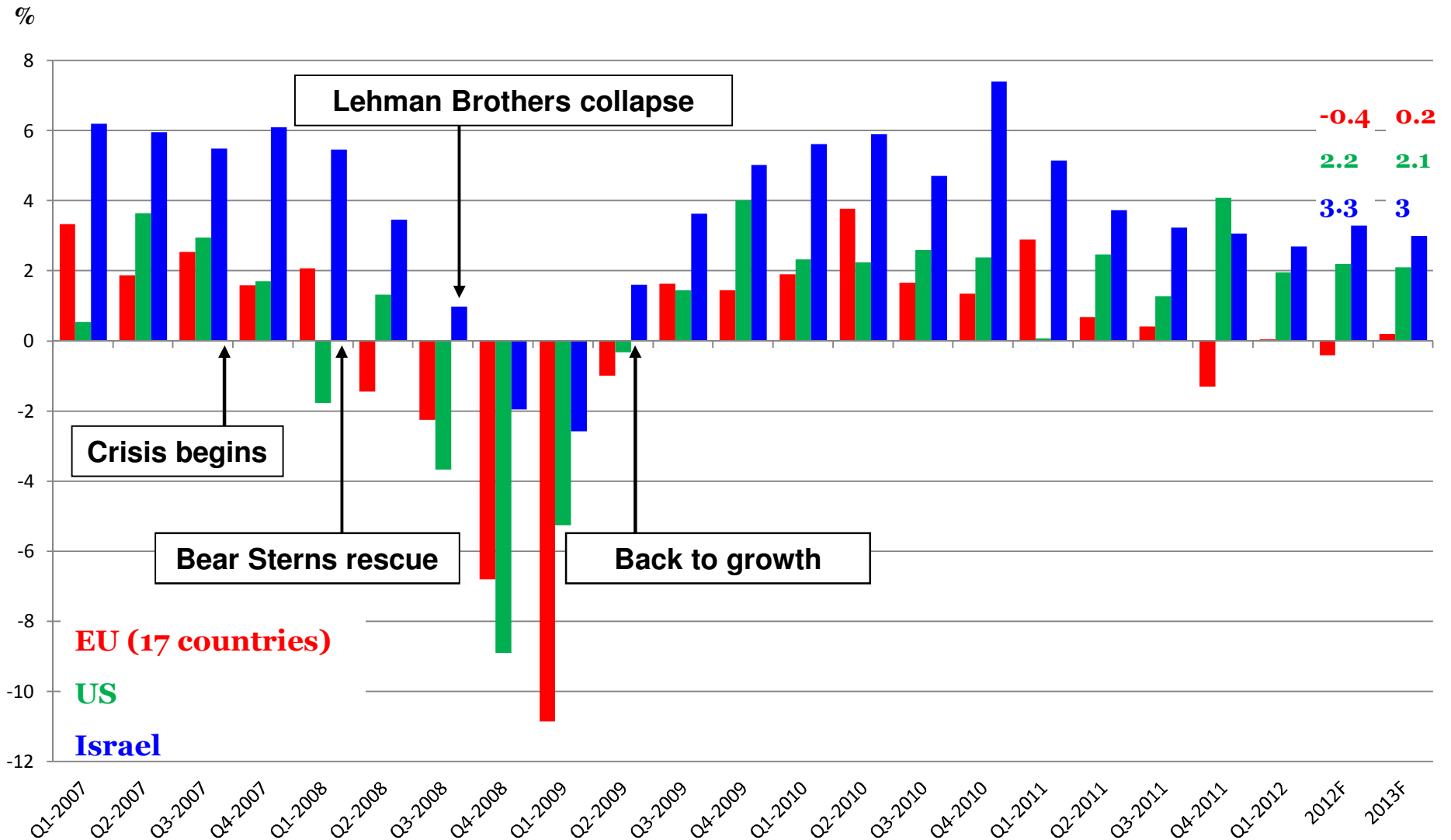


Quarterly data are seasonally adjusted. Percent change relative to previous quarter, in annual terms.

Simple average of growth rates in richest OECD countries, excluding Luxemburg and Iceland.

Source: OECD and BOI calculations.

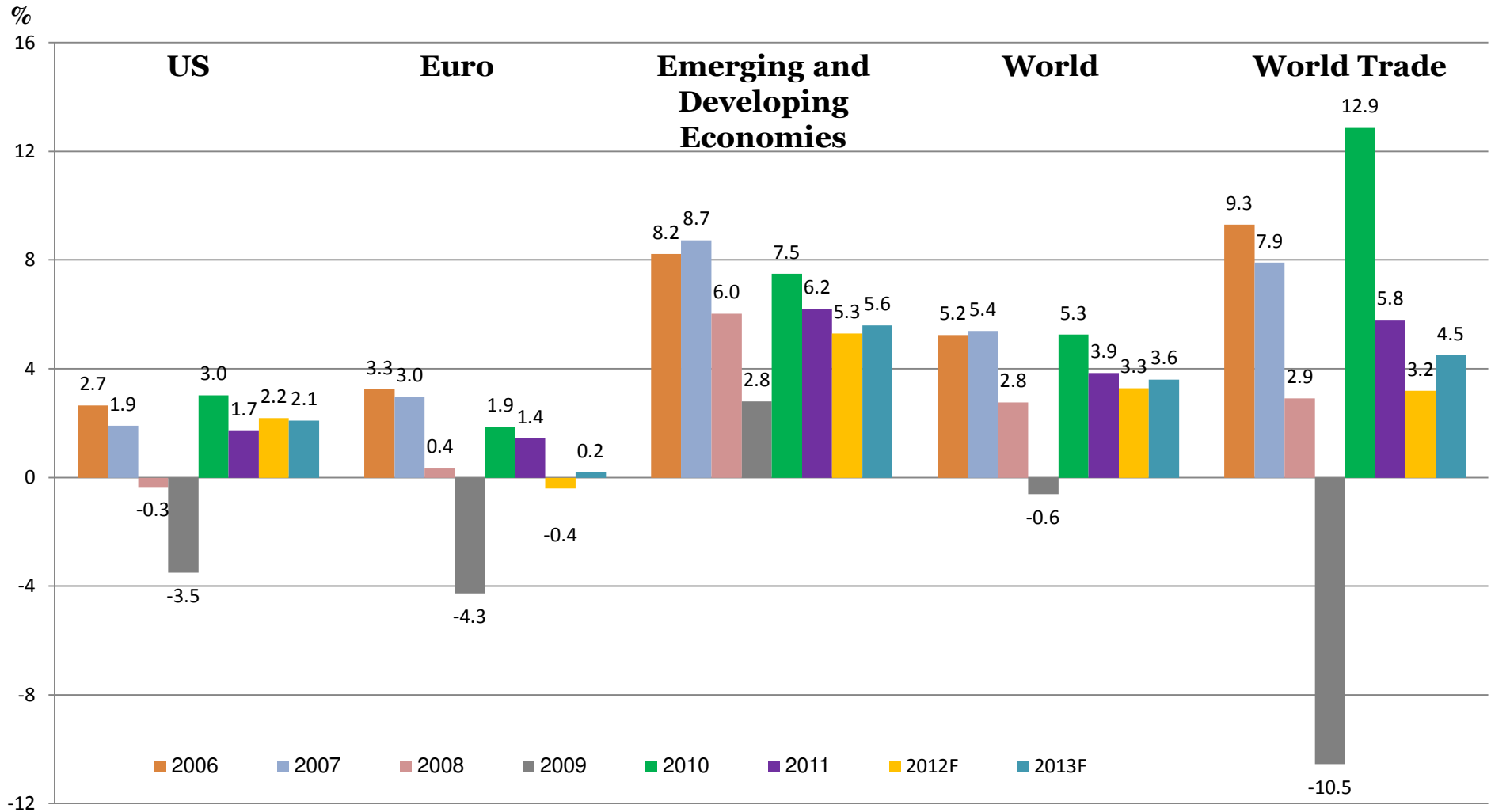
Growth Rates - Israel, US and Europe



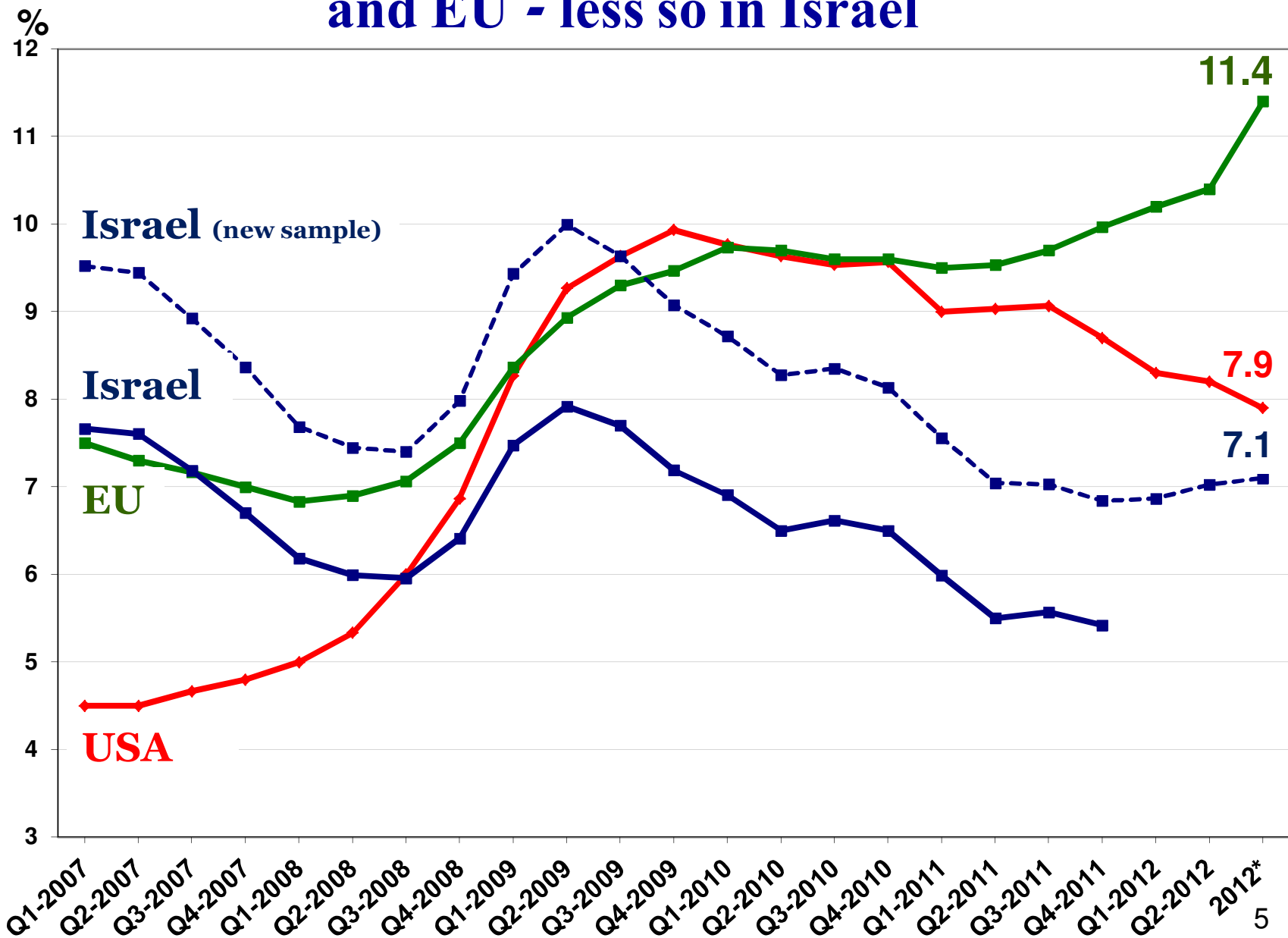
Quarterly rates in annual terms.

Source: OECD, forecasts by IMF and BOI.

IMF Growth Data and Forecast

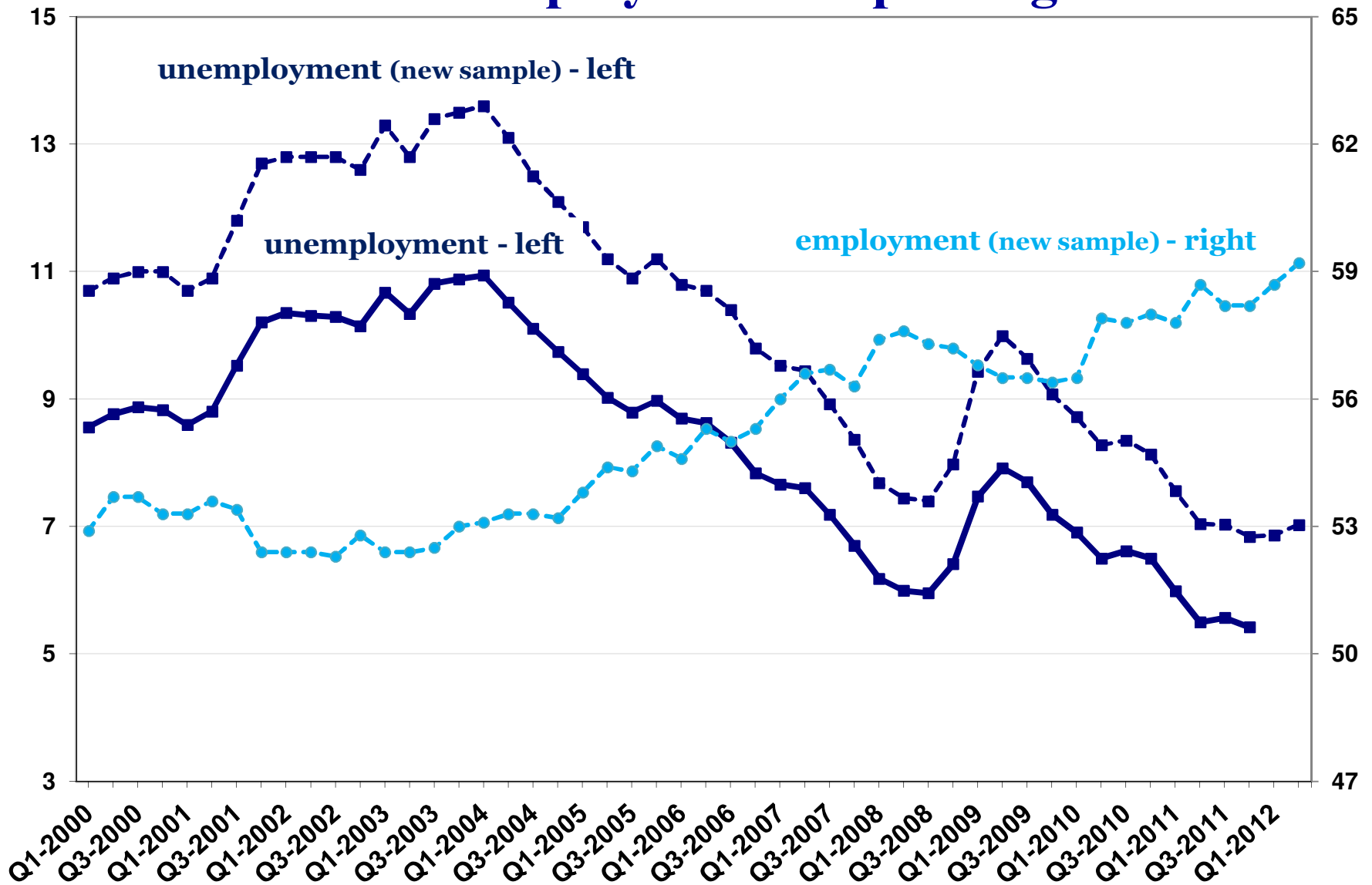


Unemployment signals that the real crisis remains in US and EU - less so in Israel



Source: OECD and BOI.

Unemployment: back to normal! Would employment keep rising?



Source: OECD and BOI.

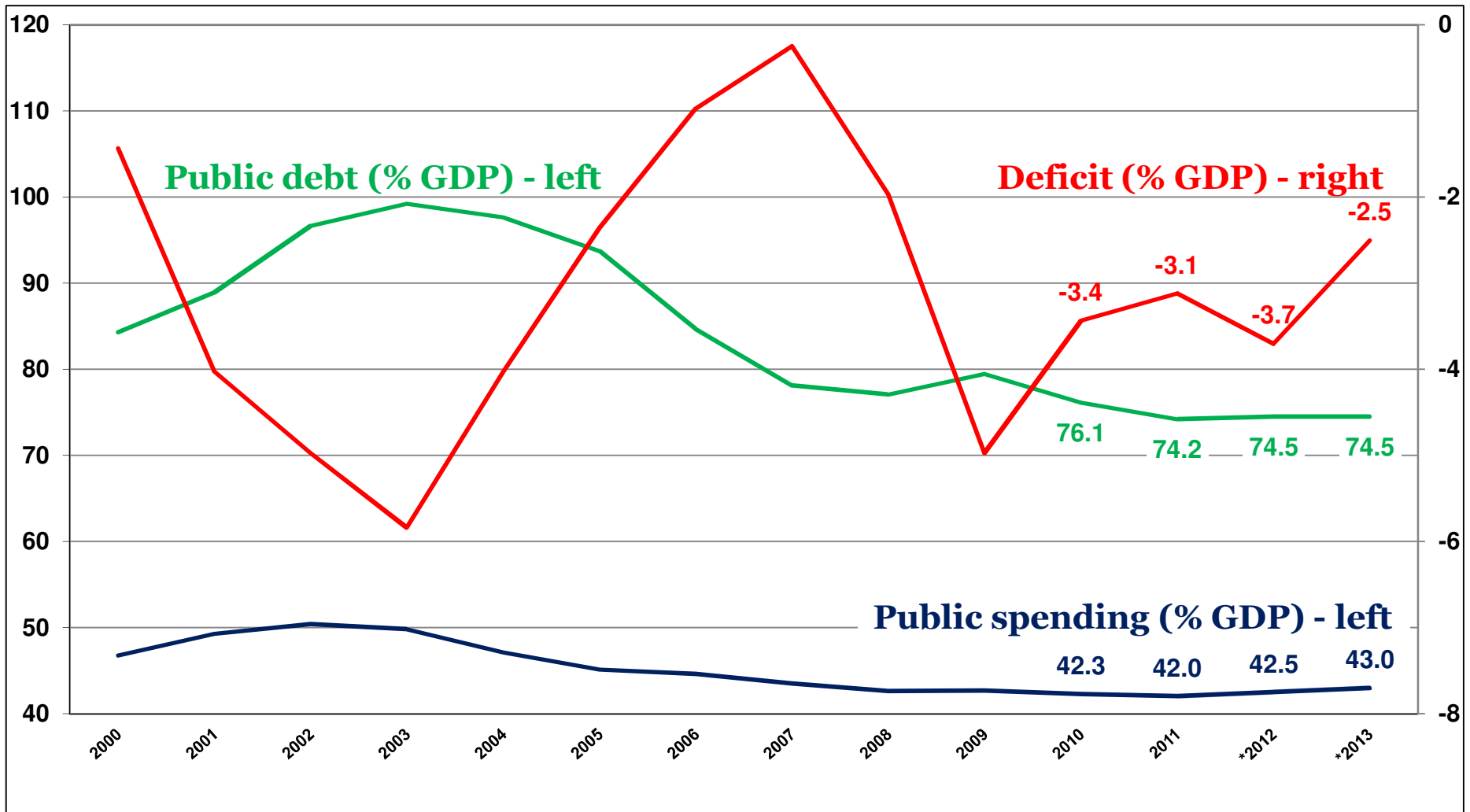
Israel's Economic Strength

- Financial markets: No debt bubble
- Fiscal Policy: Decreasing size
- Balance of Payments surplus
- Monetary policy: price stability

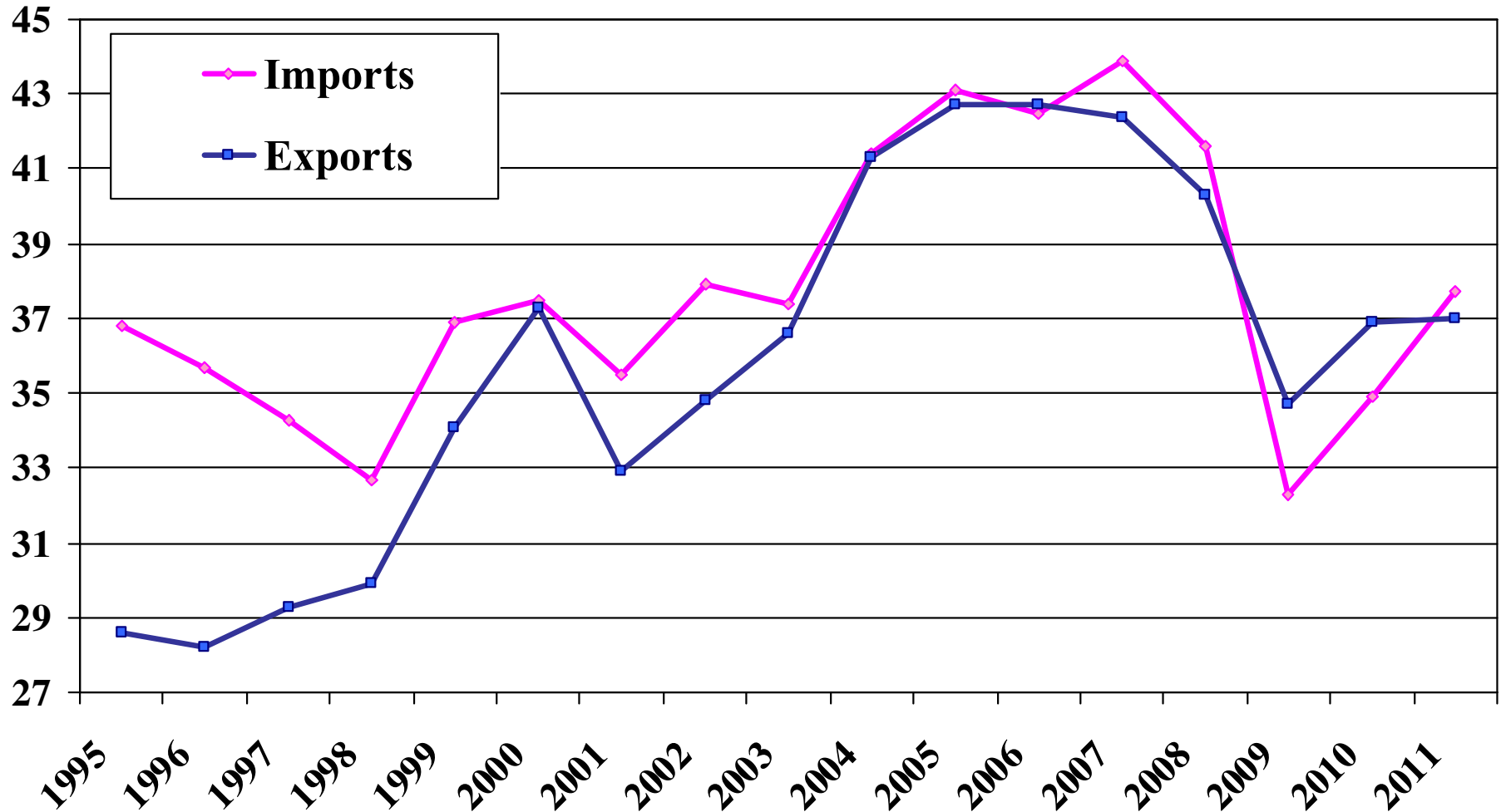
Financial Markets are functioning well

- Private and public debt are reasonable, with no exceptional growth - except for corporate debt
- Banking capital level at world average (13.8%): Banks are stable
- Savings rate relatively high (18%)
- No exposure to advanced financial instruments (MBS, CDO, CDS); small inter-banking market; No Real Estate bubble

Fiscal policy: Conservative and credible (?)



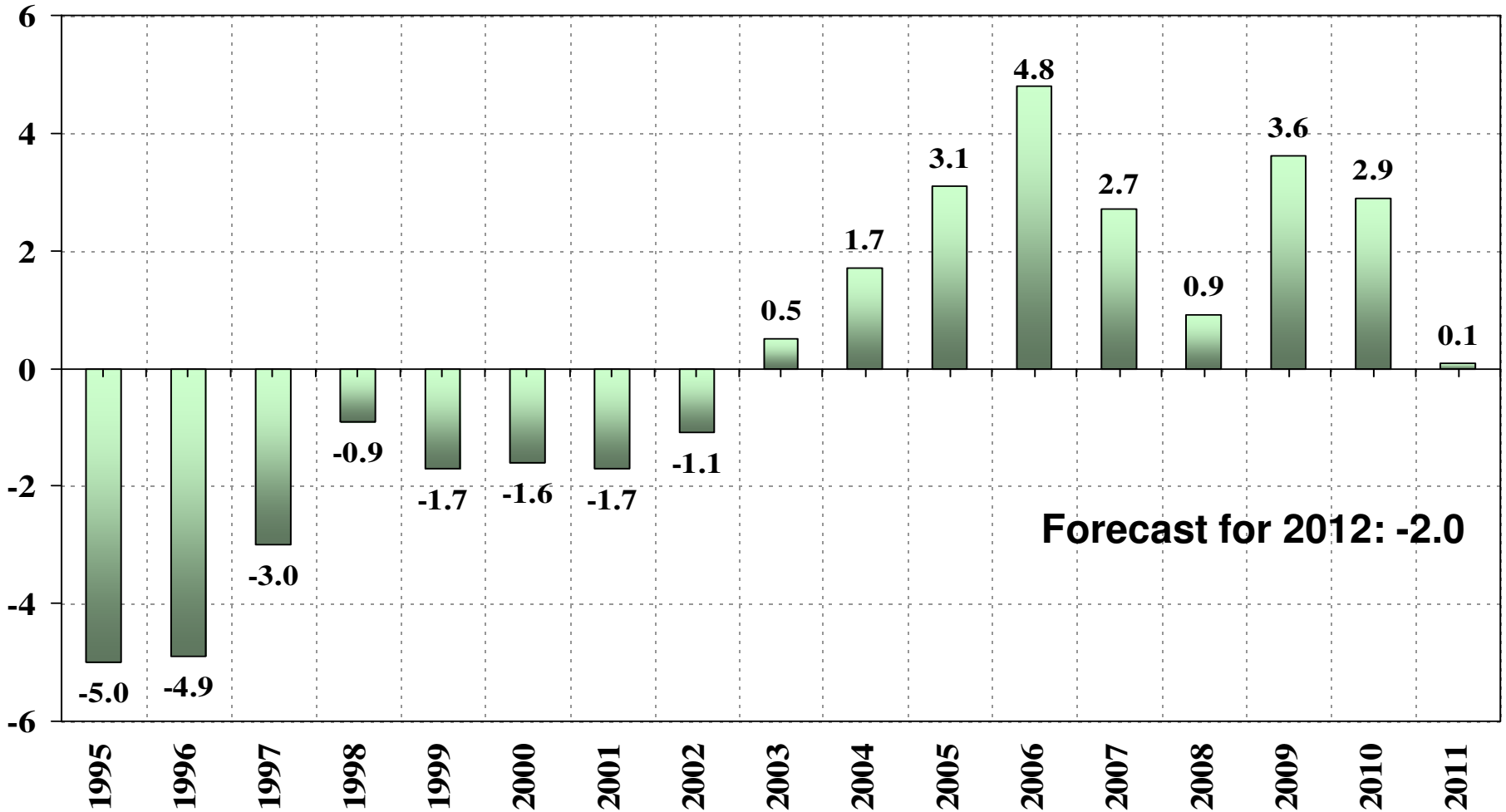
Balance of payments: From deficit to surplus (2004); Now-increase in imports, no change in exports



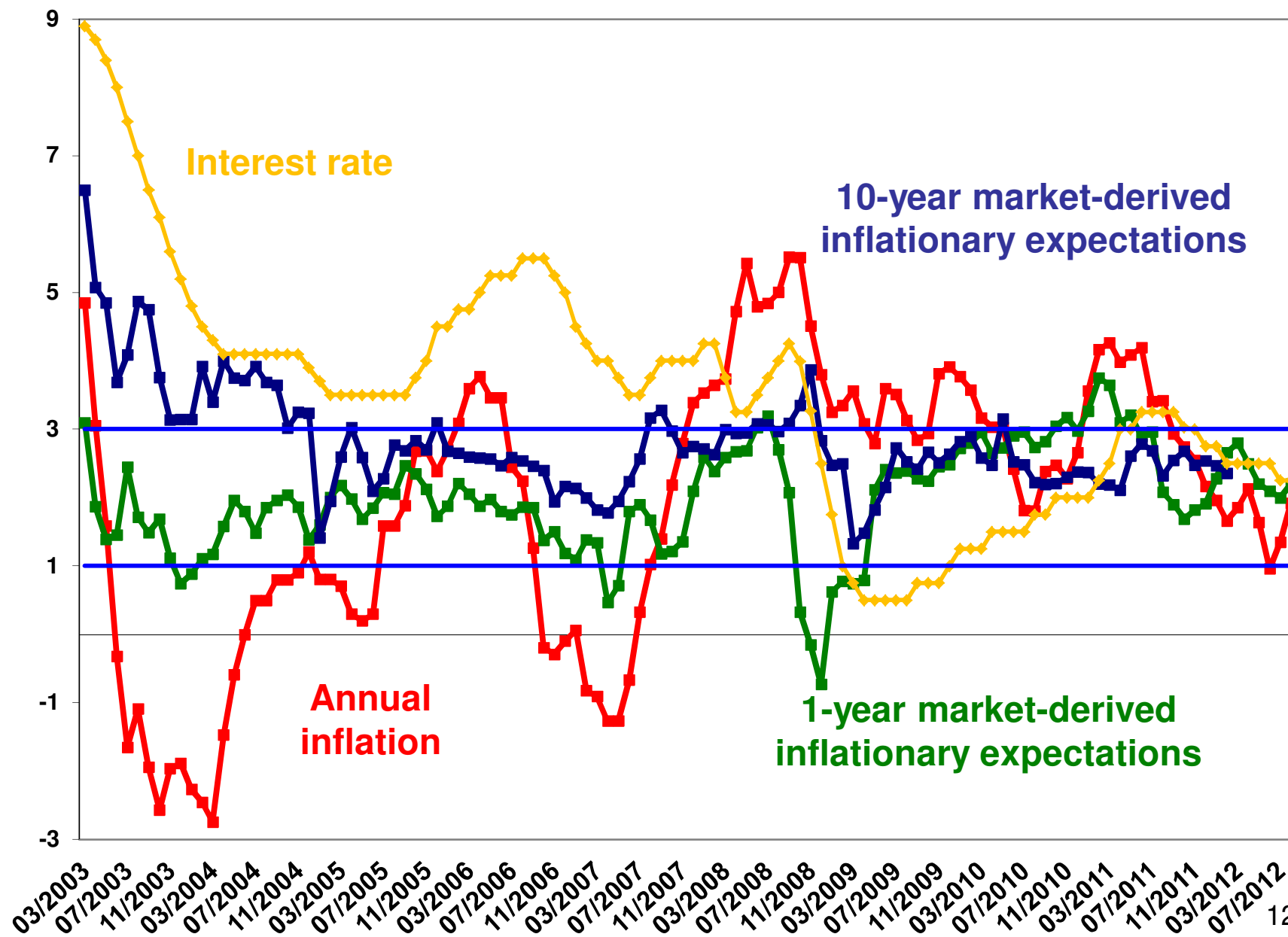
Total goods and services. Calculated from current prices.

Source: CBS and BOI calculations.

Current account: From Deficit to surplus; after 7 years of surplus, expected deficit in 2012

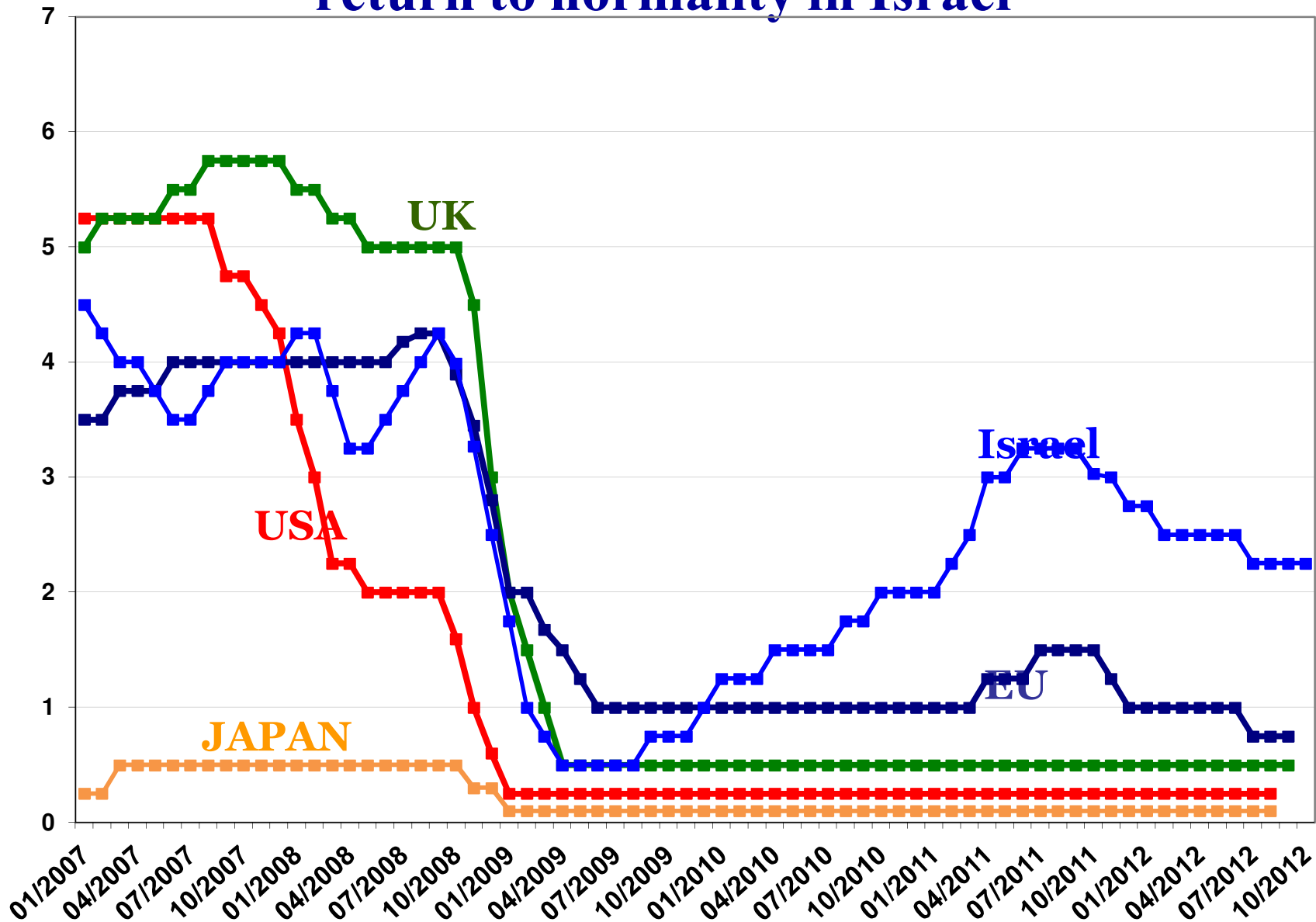


Israel: Monetary policy, Inflation and Expected Inflation

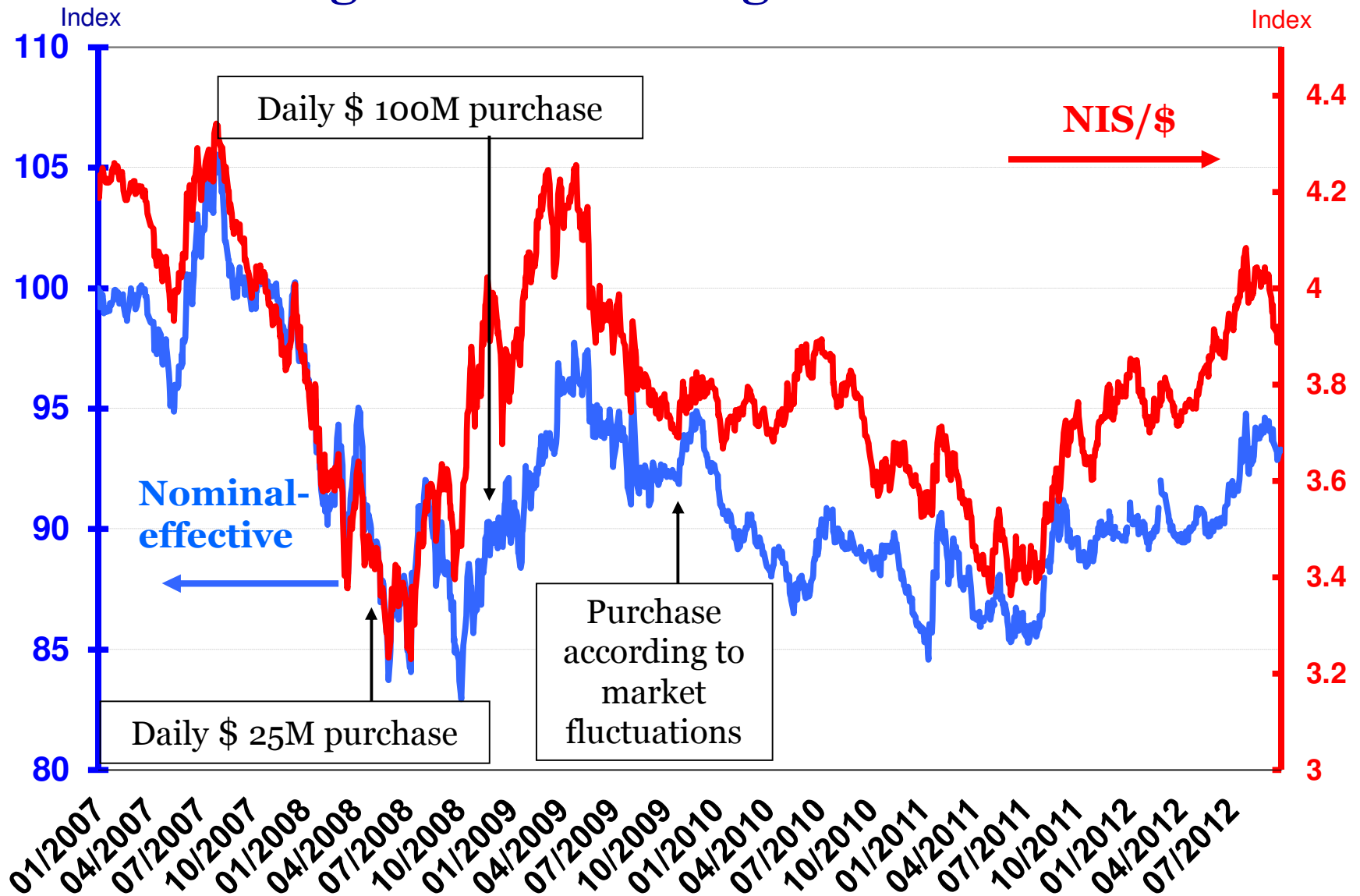


Source: BOI.

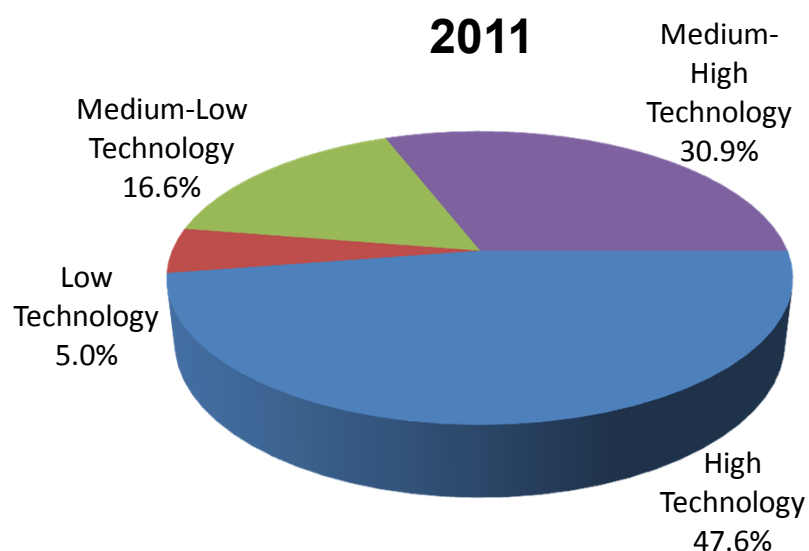
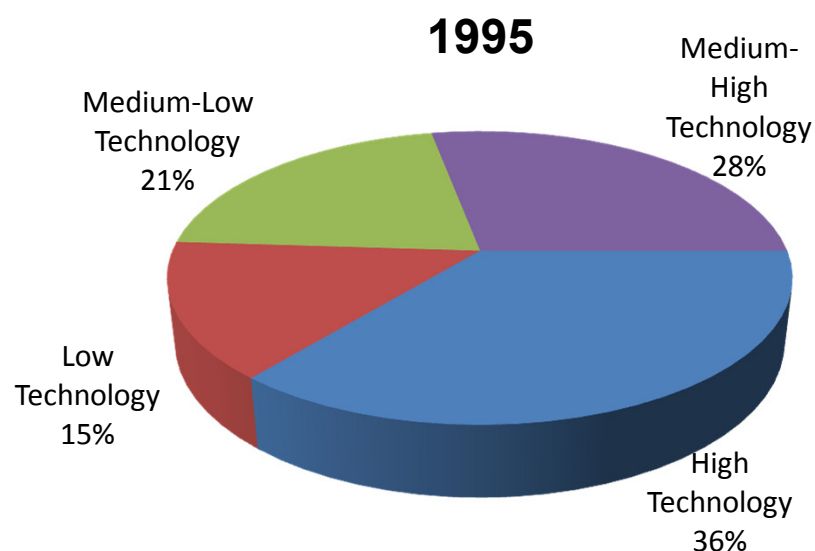
Interest rate policy: Expansionary in the west; Slow return to normality in Israel



Unorthodox FX policy: Intervention during unusual trends affecting market; Accumulating balanced; In the long-term - avoiding intervention



Transition to High-Tech exports: Industry product by technology intensity



High Technology Industries: office and accounting machinery and computers, electronic components, aircrafts, electronic communication equipment, equipment for control and supervision, pharmaceutical products.

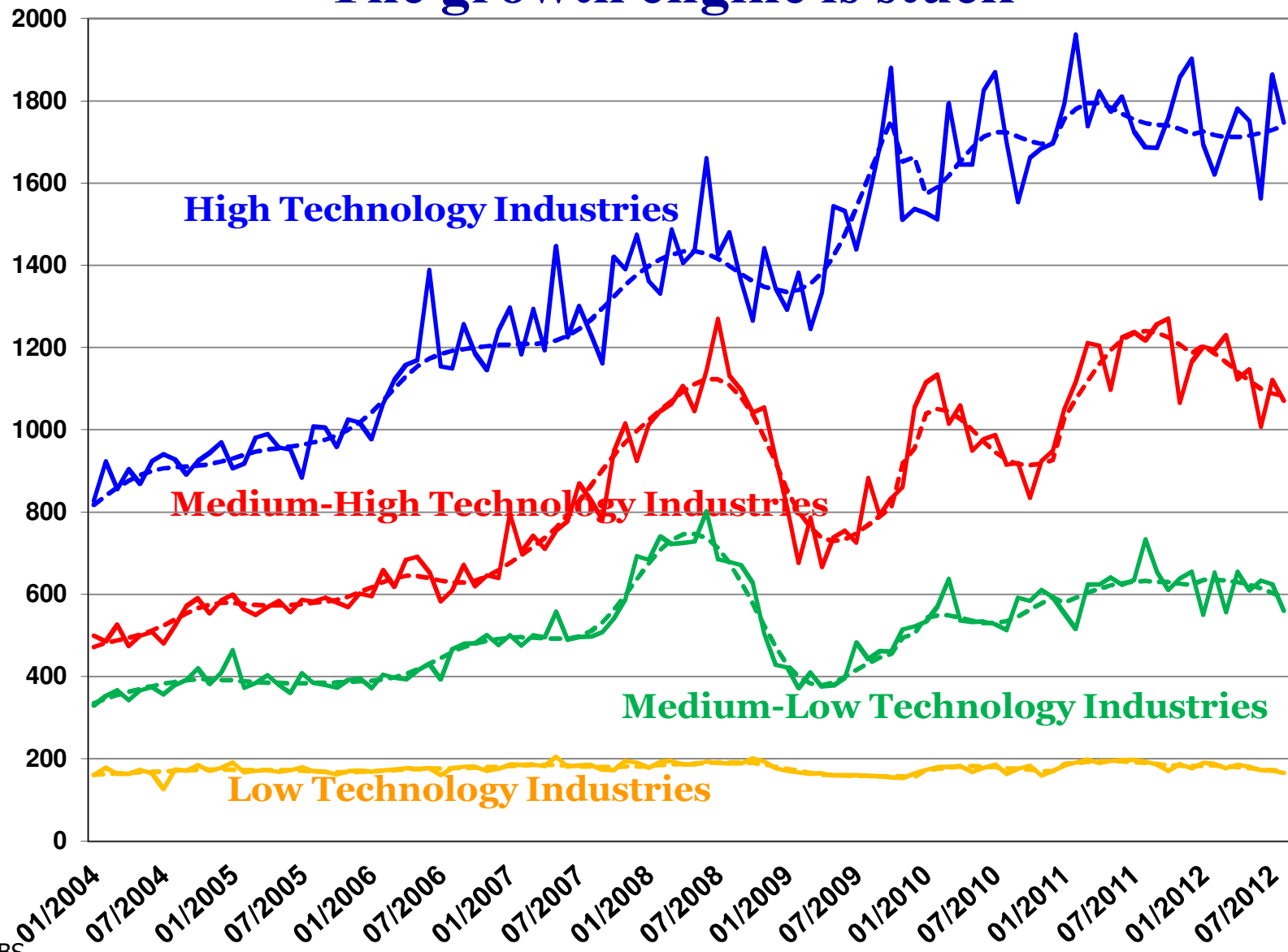
Medium-High Technology Industries: chemicals and refined petroleum, machinery and equipment, electric motors, transport equipment.

Medium-Low Technology Industries: mining and quarrying, plastic and rubber, non-metallic mineral, basic metal and metal products, ships and boats, jewellery, goldsmiths' and silversmiths', manufacturing n.e.c.

Low Technology Industries: food products, beverages and tobacco, textiles, wearing apparel and leather, paper, printing, wood and wood products.

Source: CBS.

Exports by technology intensity (\$ monthly millions): “The growth engine is stuck”



Source: CBS.

Other Challenges

- Employment and poverty
- Education and human capital
- Peace and the economy

Thank you!