

Strengths and Challenges of the Israeli Economy

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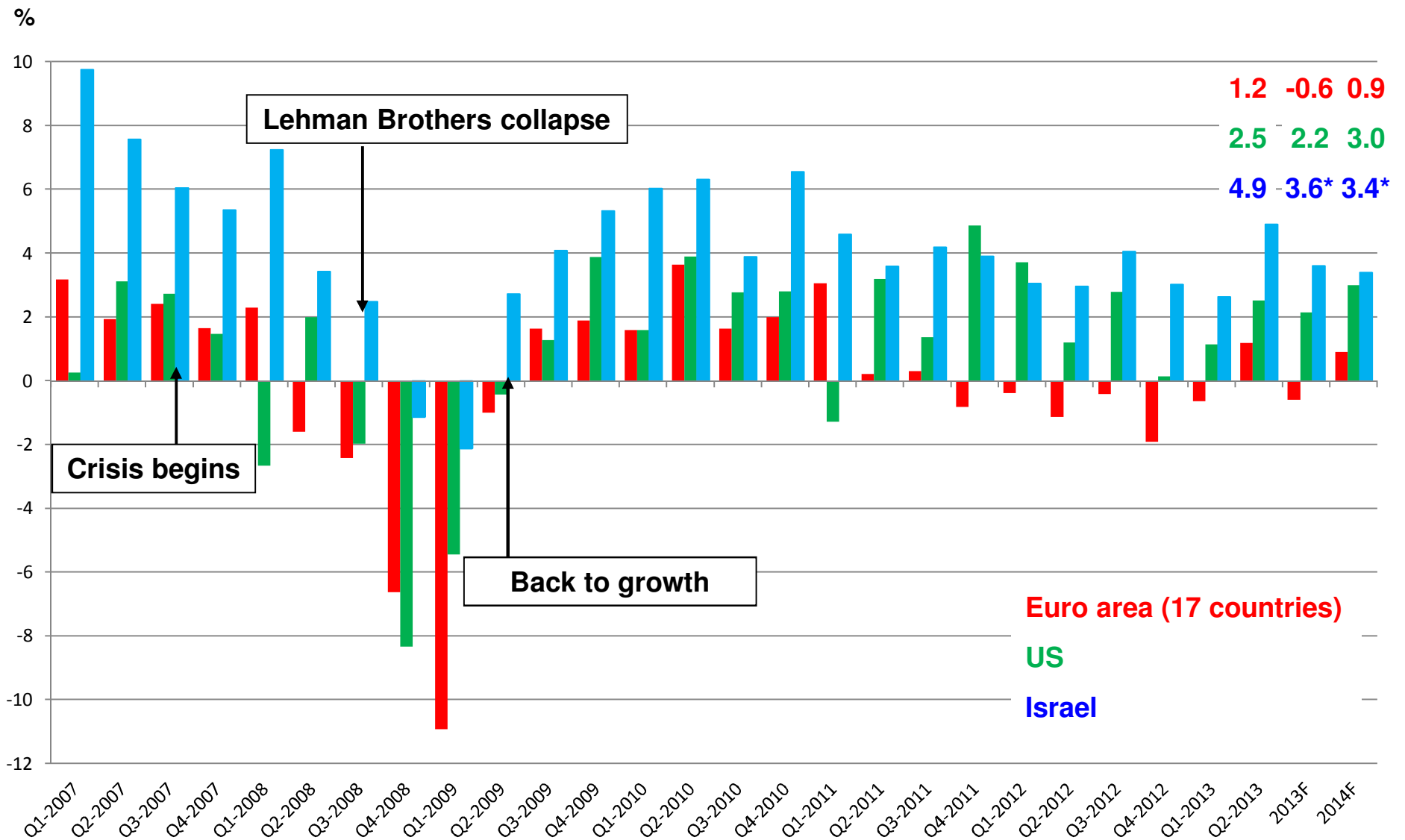
Philadelphia Israel Chamber of Commerce

Topics

- The Macro Picture
- Monetary Policy
- Comments on Industry and Export

The Macro Picture

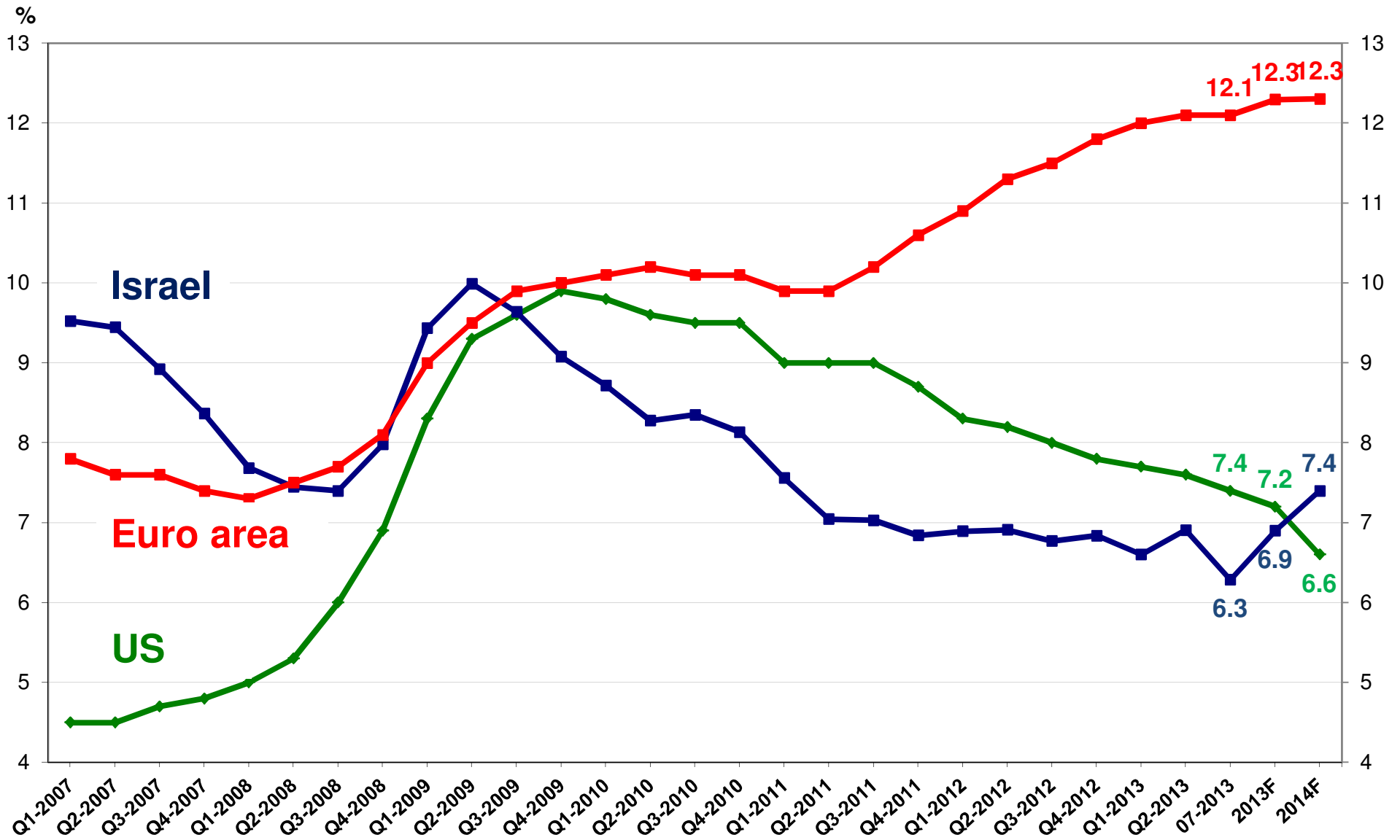
Growth rates - Israel, US and Europe



Quarterly rates in annual terms. * excluding "TAMAR" gas, growth is 2.6 in 2013 and 2.7 in 2014.

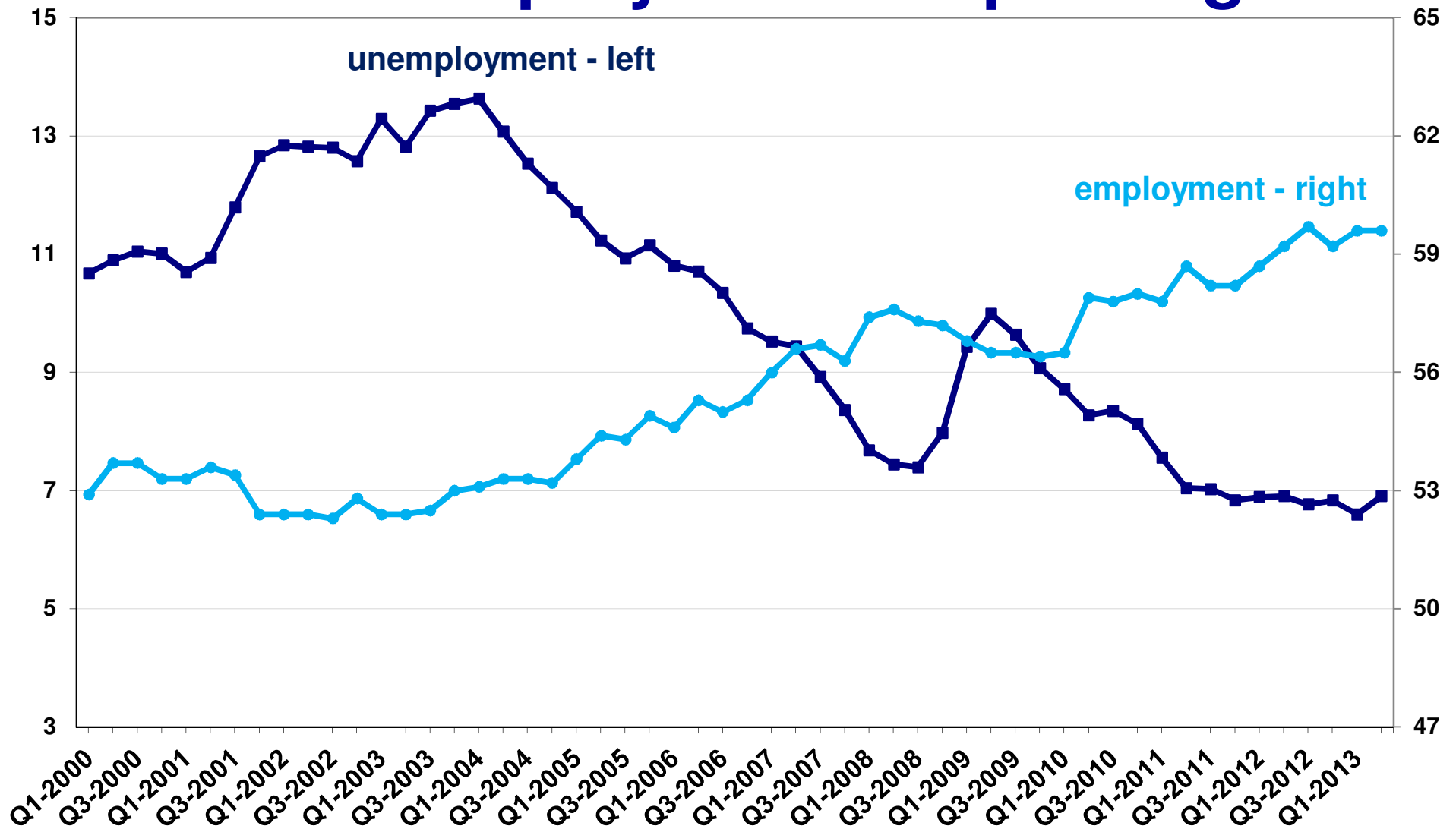
Source: CBS and OECD data, forecasts by BOI (September 2013), Federal Reserve (September 2013) and IMF (July 2013).

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



Source: OECD and BOI data, forecasts by BOI (September 2013), Federal Reserve (September 2013) and IMF (April 2013).

Is unemployment back to normal? Would employment keep rising?



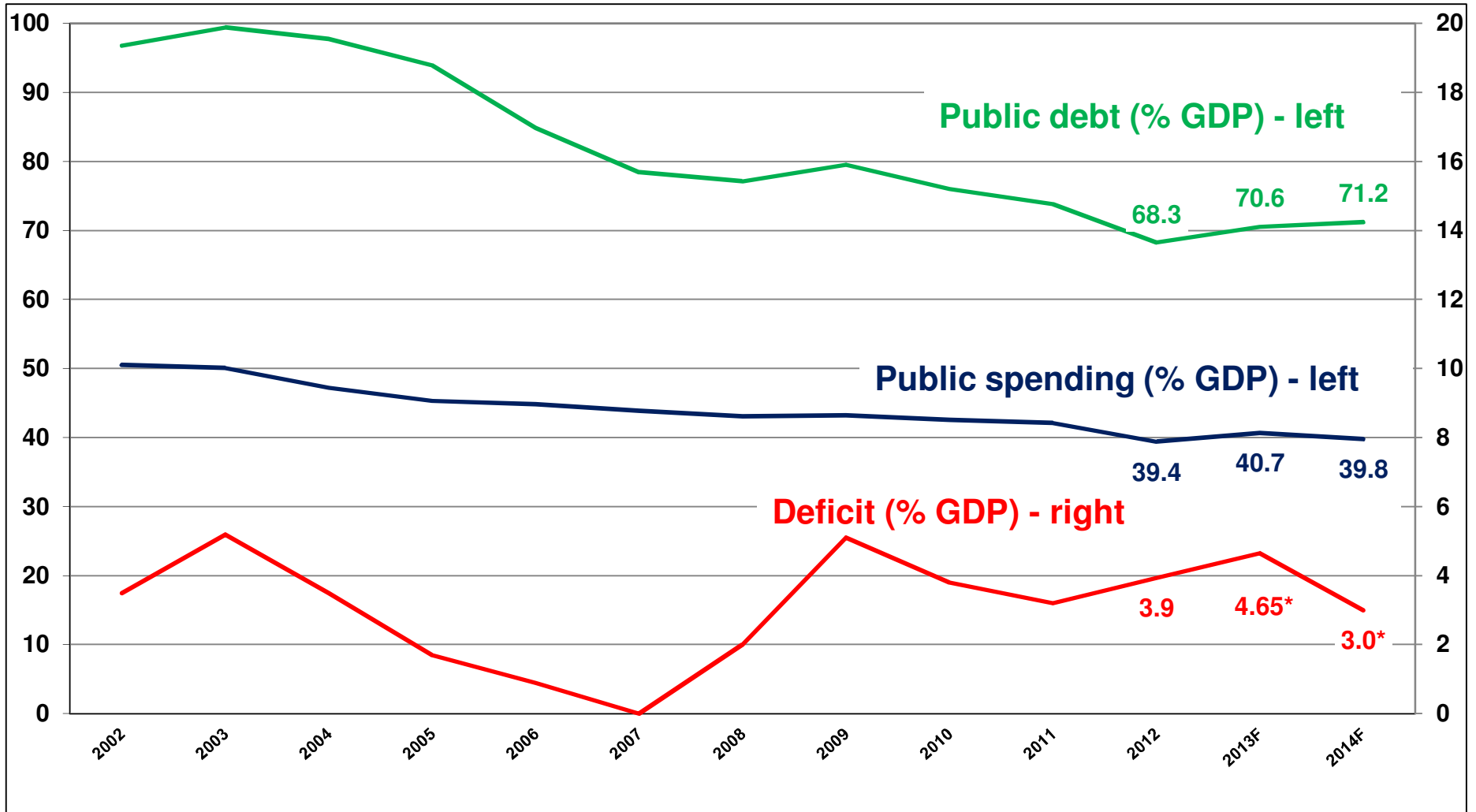
Israel's Economic Strength

- Financial markets
- Fiscal policy - Government budget
- Balance of payments
- Monetary policy and price stability

Financial Markets are functioning well, but...

- Private and public debt are reasonable, with no exceptional growth - except for corporate debt
- Banking capital level at world average (14.9%; core tier 1 8.7%): Banks are stable - but continuous decrease in ratio of credit to business sector product
- Savings rate relatively high (18.3%)
- No exposure to advanced financial instruments (MBS, CDO, CDS); small inter-banking market; No real estate bubble
- Capital requirements from banks, non-bank credit restrictions and lack of securitization - create limits on business credit

Fiscal policy: Conservative and *credible*(?) (2015?)



Data for 2012 and forecasts are according to the new GDP definitions. Deficit for 2013 and 2014 is the target.

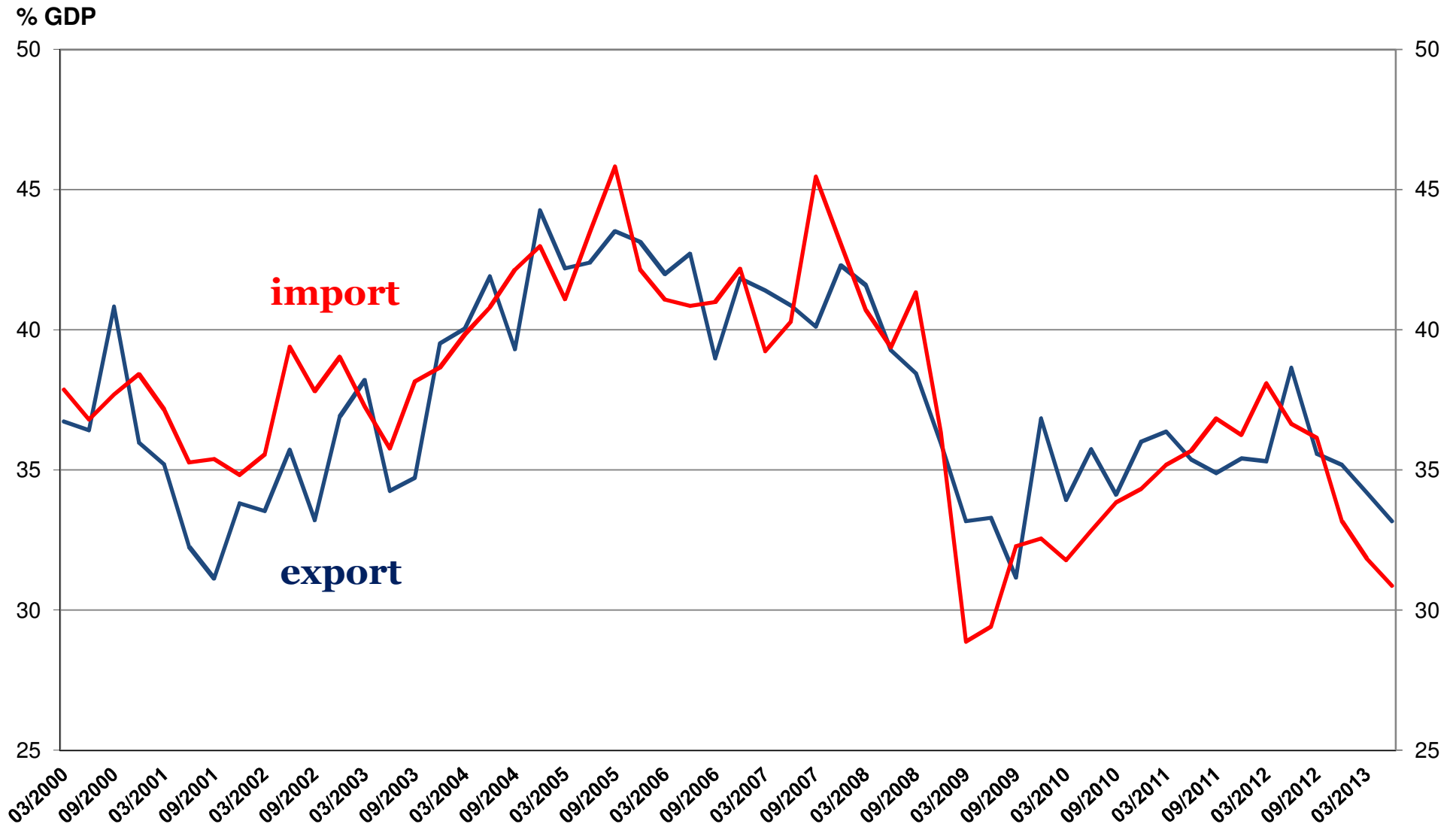
2012 according to the old GDP definitions: Debt 73, spending 42.1, deficit 4.2.

Source: BOI and CBS.

2013-2014 Budget

- Failure in managing 2012/13 budget due to increase in expenses beyond the target and decline in tax revenues (deficit target - 2%)
- 2013 budget increased by 7% in real terms compared to 2012, deficit target is - 4.65%.
- 2014 budget will rise by around 1.1% compared to 2013, deficit target is 3%. Few adjustments needed
- 2015 - need to adapt expenses and examine tax rates to stay within the budget rules.

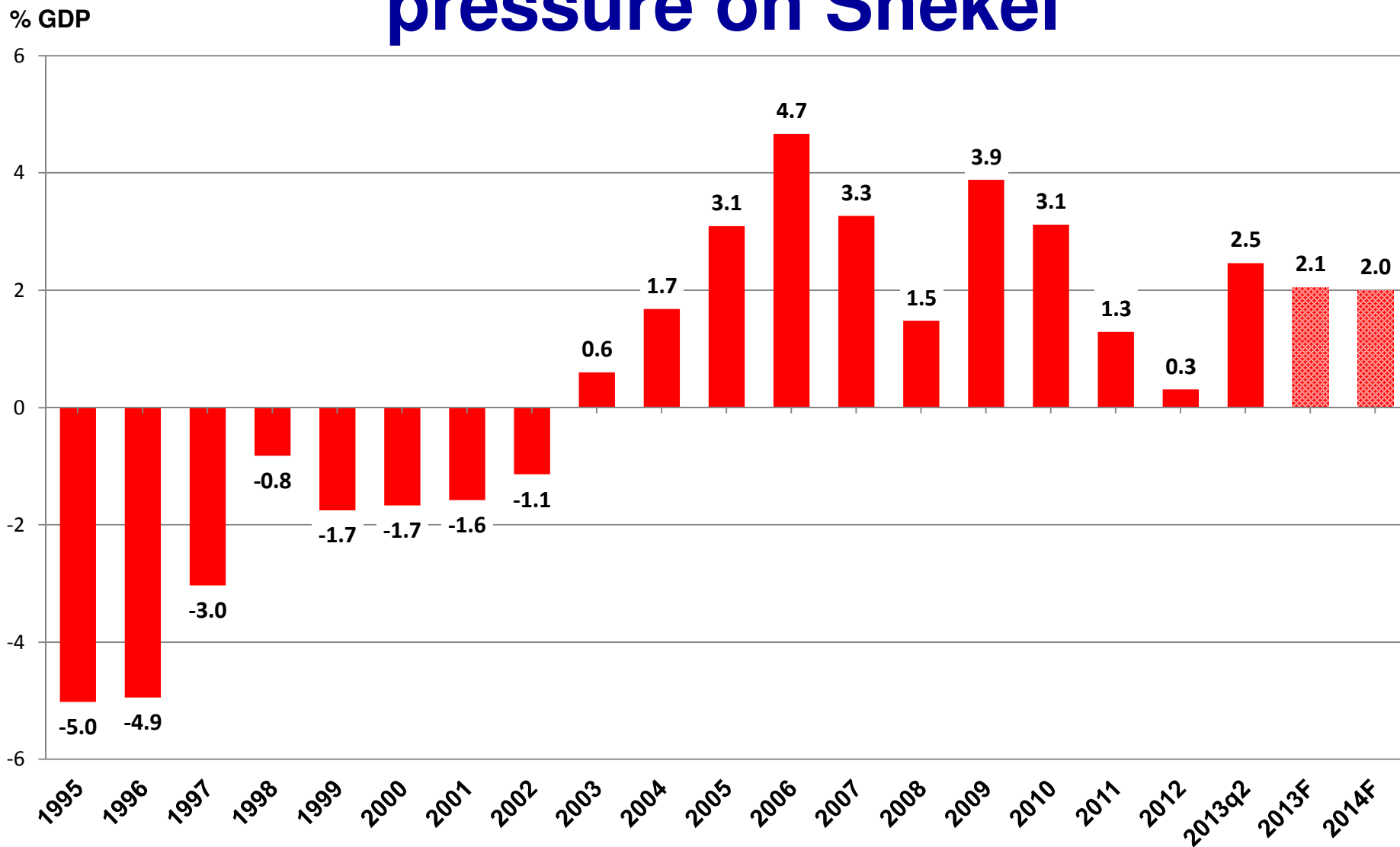
Balance of payments: Back to surplus



Total goods and services, calculated from current prices series.

Source: CBS.

Current account: Growing surplus, pressure on Shekel



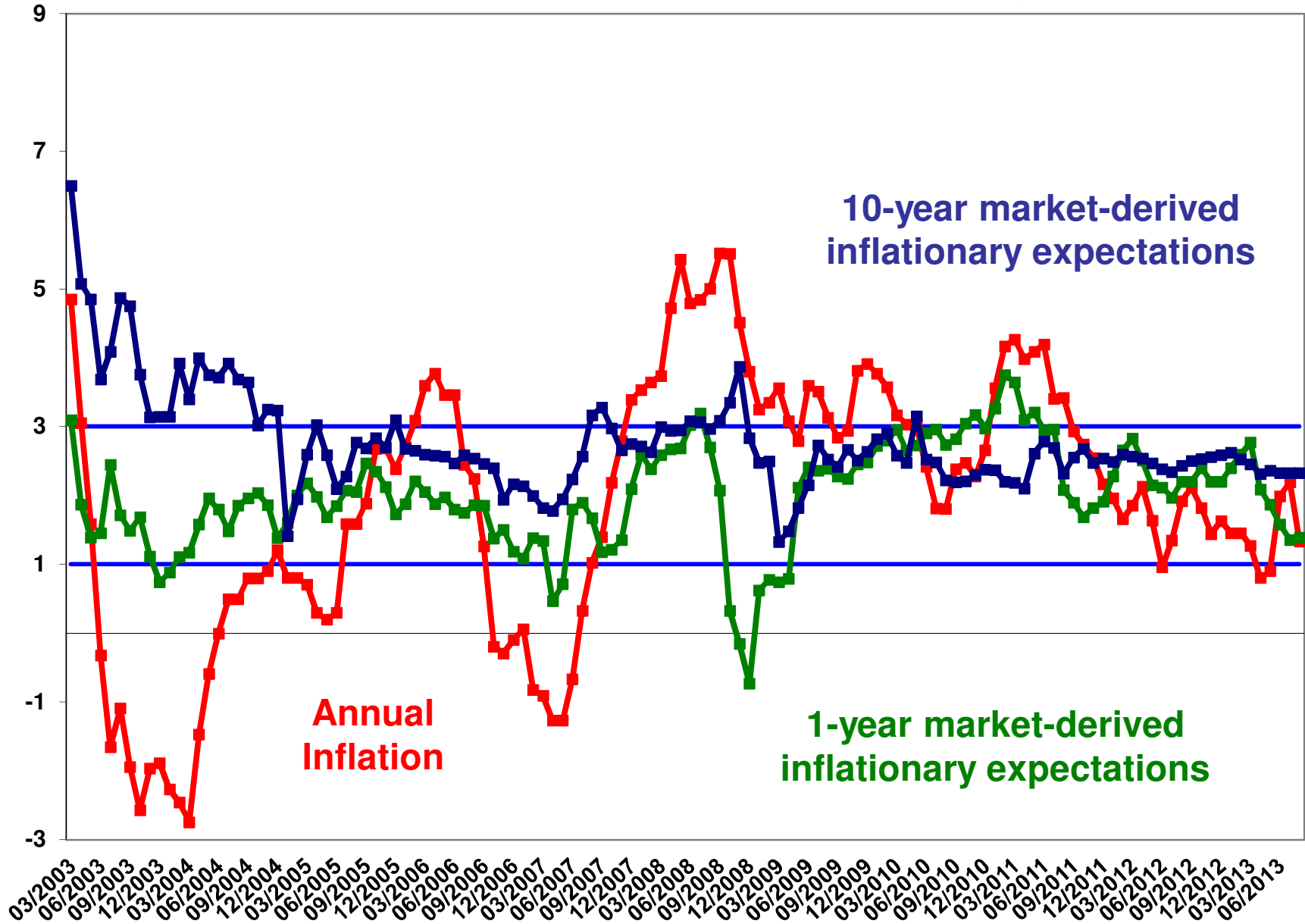
Source: CBS, estimated forecast calculated from BOI (September 2013).

Monetary Policy

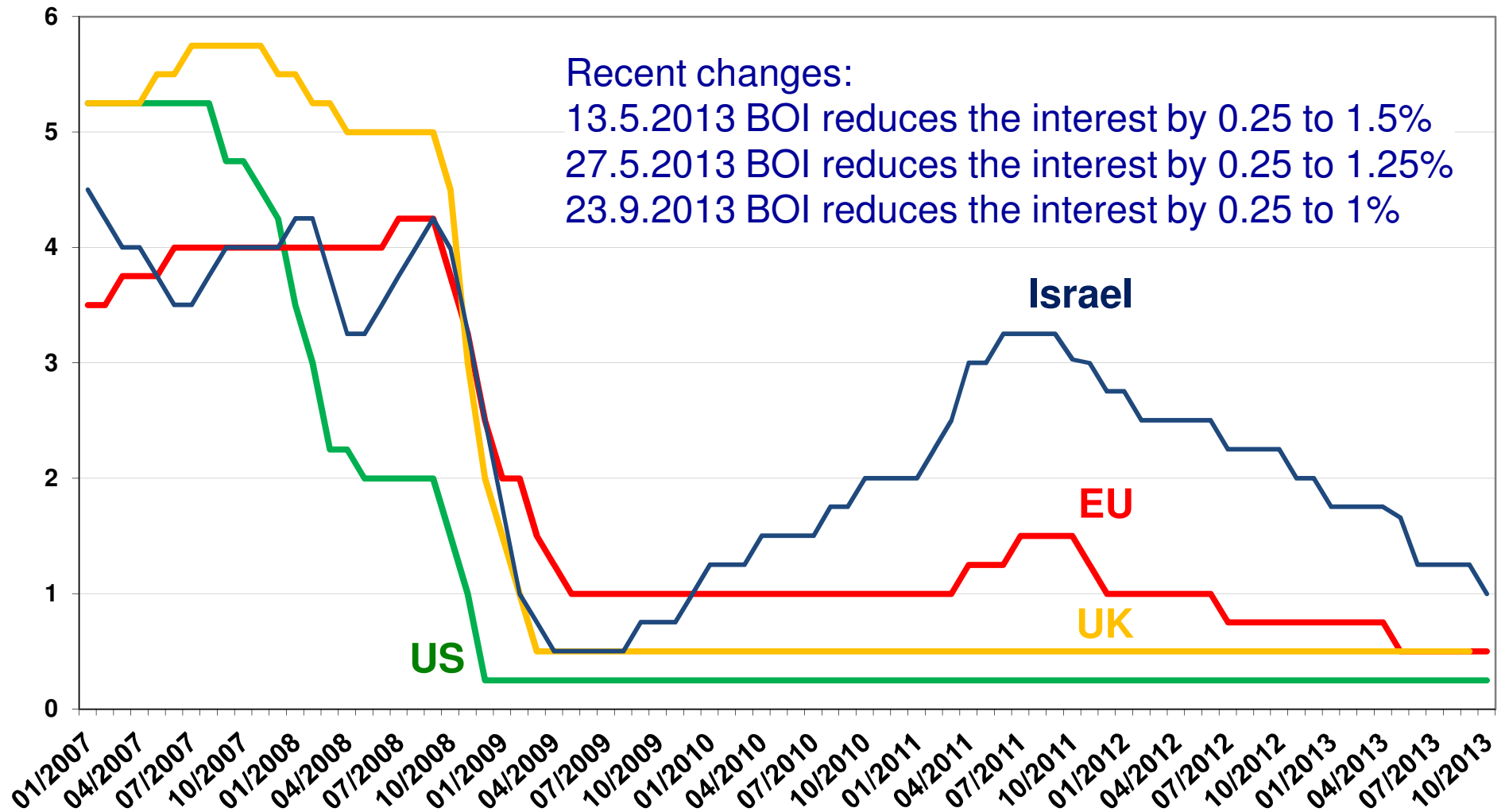
Monetary Policy Goals

- **Main goal:** Price stability, inflation target 1-3%
- **Secondary goal:** Support employment and growth (subject to price stability)
- Tools: Interest rate and FX market interventions
- **Additional goal:** Support financial stability
- Tools: Financial markets interventions and “macro-prudential” actions (e.g. restrictions on the expansion of the real estate market and restrictions on purchasing bonds and foreign currency derivatives)

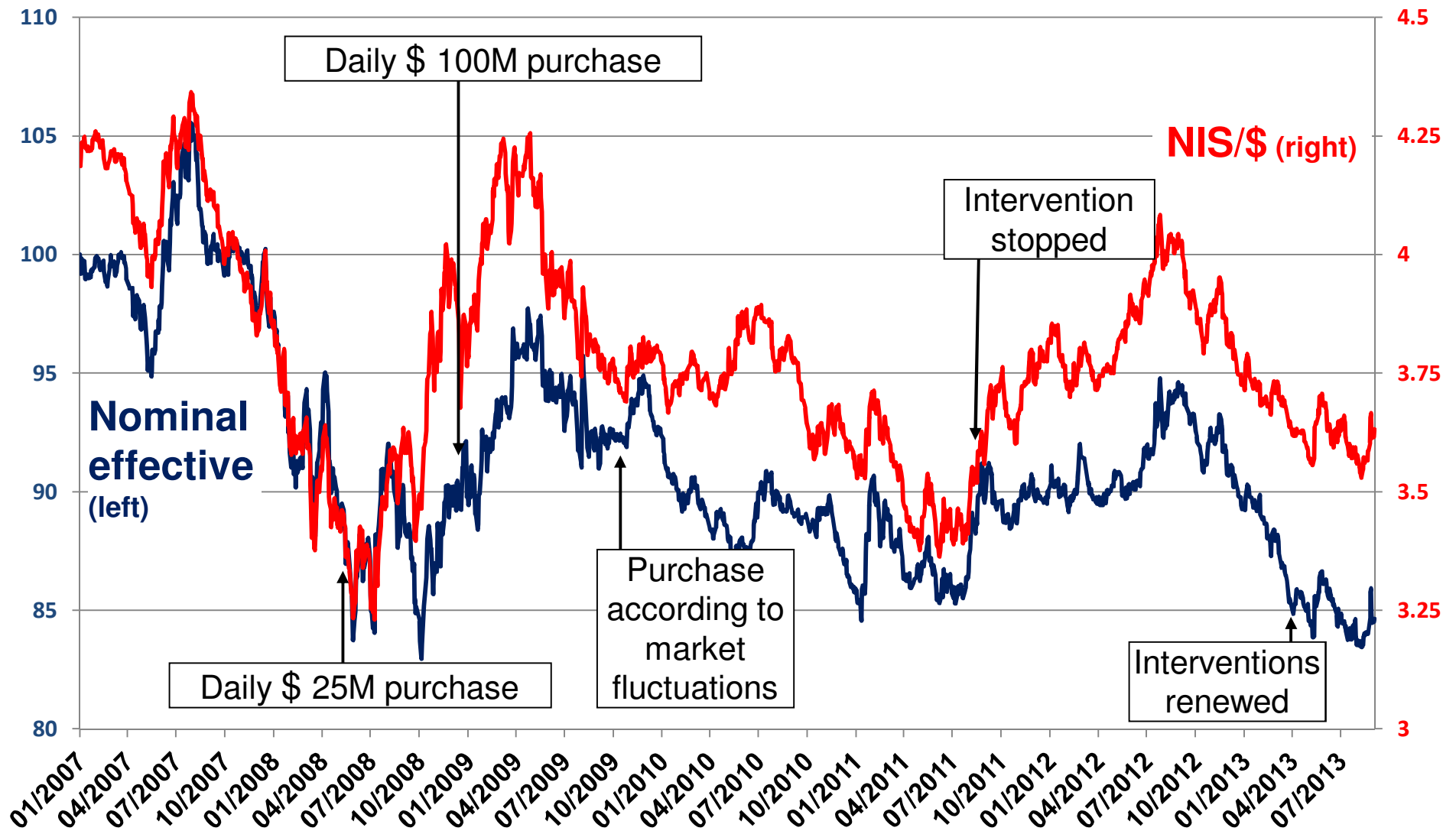
Inflation below mid-target



Interest rate policy: Expansionary in the west - how long? Slightly expansionary in Israel - how long?



Shekel too strong? Intervention during unusual trends affecting market; Accumulating balances; In the long-term - avoiding intervention



Comments on Industry and Export

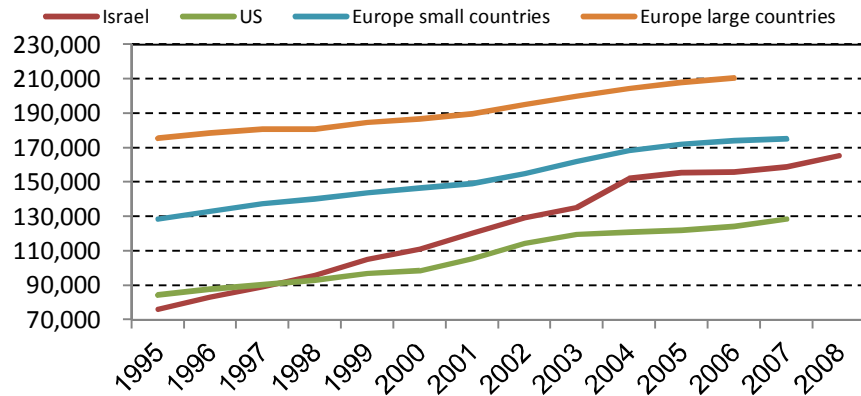
Israeli vs. US industry - output, capital and R&D

(ratio between Israel and US, %)

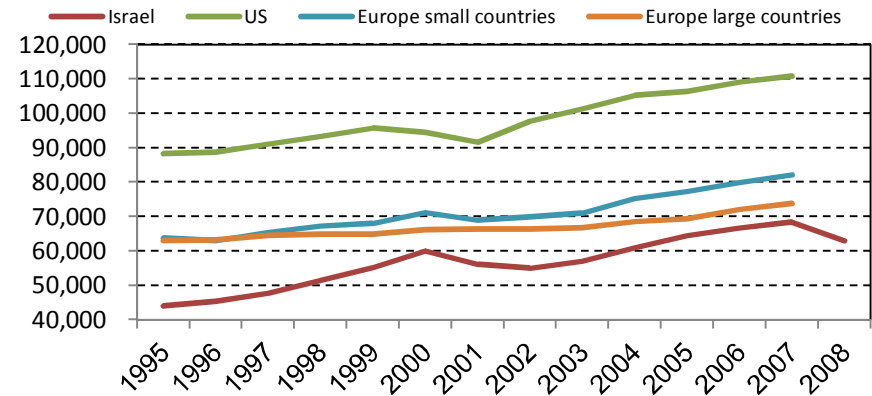
	Output per worker		Capital per worker		R&D expenses as % from branch output	
	1995-2000	2003-2007	1995-2000	2003-2007	1995-2000	2003-2007
by technology intensity:						
Low Technology Industries	45	43	74	86	71	35
Medium-Low Technology Industries	55	57	135	161	62	139 ?
Medium-High Technology Industries	60	74	114	119	38	59
High Technology Industries	78	83	116	137	85	105

All industries

capital per worker (\$, 2005 PPP)

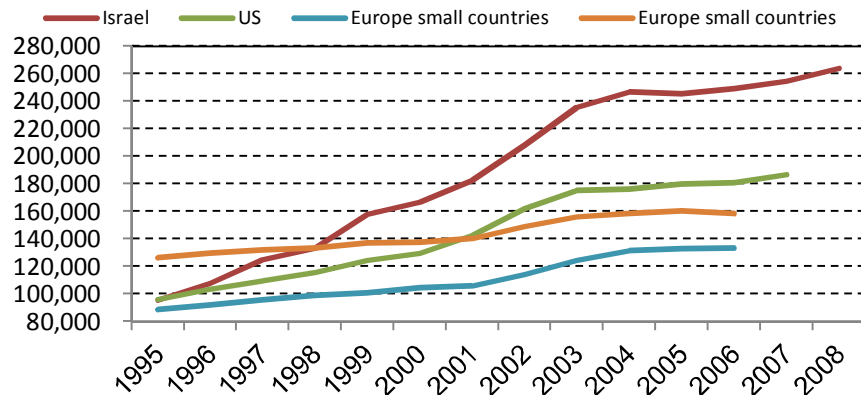


output per worker (\$, 2005 PPP)

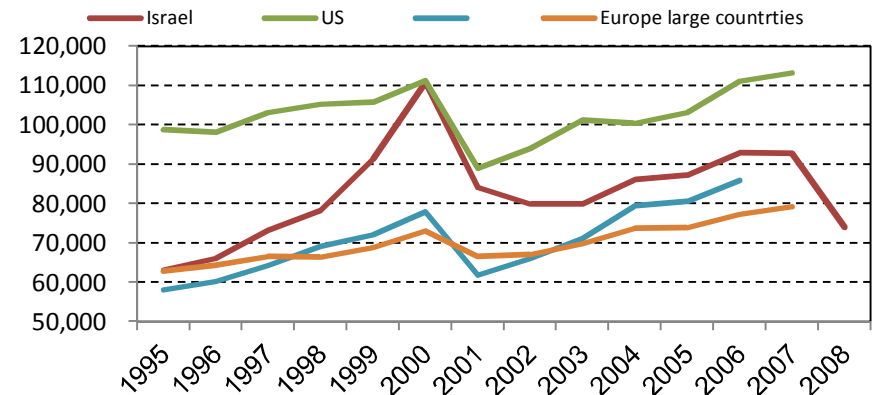


High Technology Industries

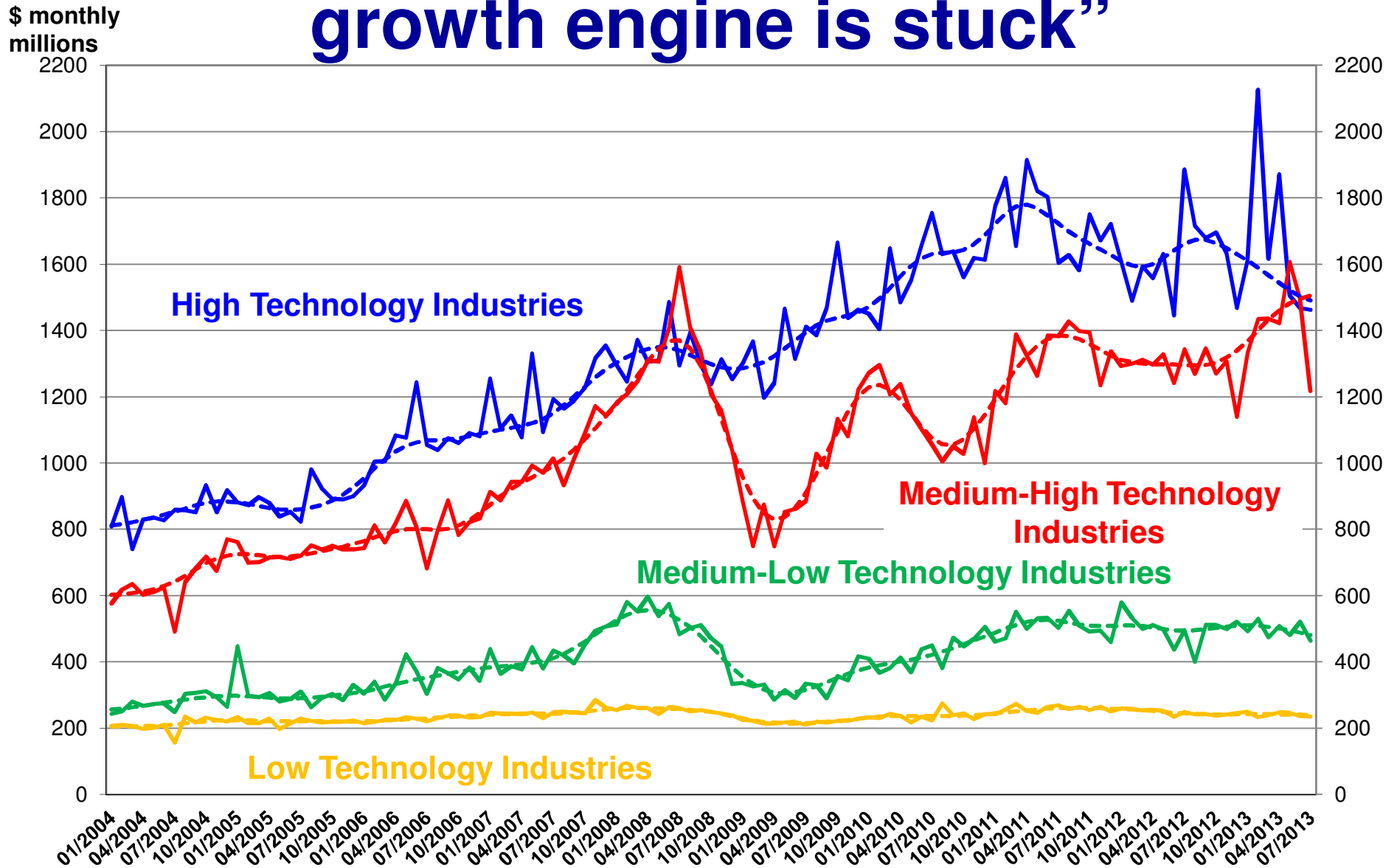
capital per worker (\$, 2005 PPP)



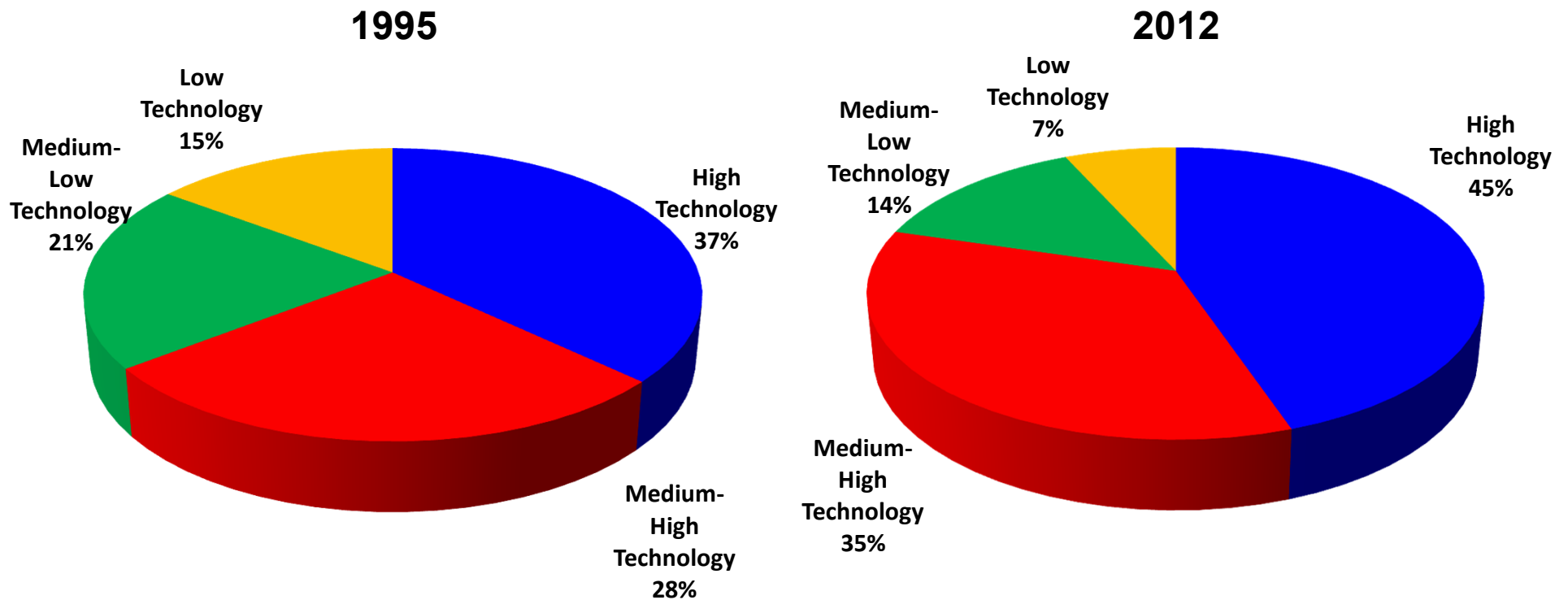
output per worker (\$, 2005 PPP)



Exports by technology intensity: “The growth engine is stuck”

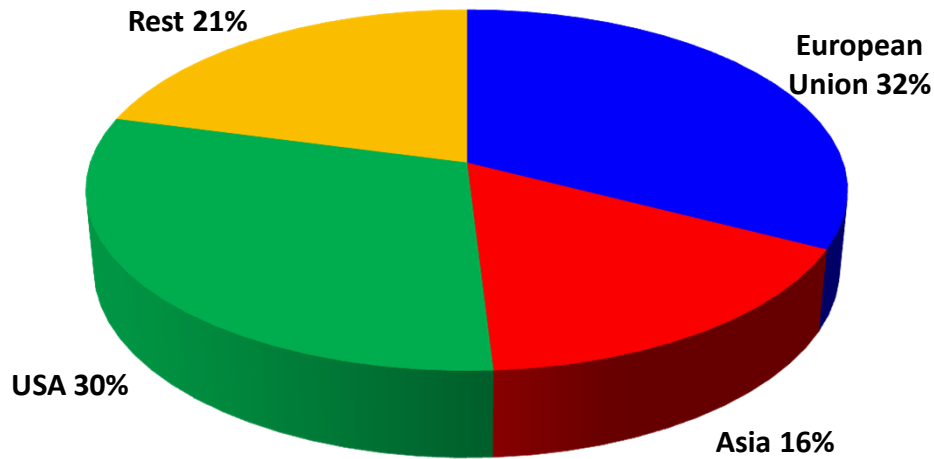


Export by technology intensity: Transition to High-Tech exports

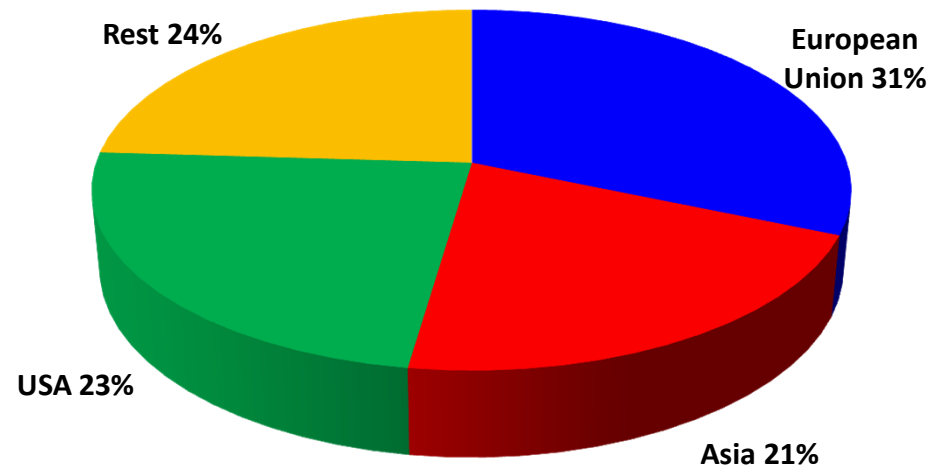


Export destinations (ex. Diamonds): Transition to Asia

2000



2012



Challenges

- Employment, poverty and inequality
 - Invest in productive human capital
 - Encourage employment
- Education and human capital - employment skills
- Peace and the economy

Thank You!