

# **The Israeli Economy: Is the “Start Up” Engine Working?**

**European Forum for Innovation  
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**Prof. Zvi Eckstein**

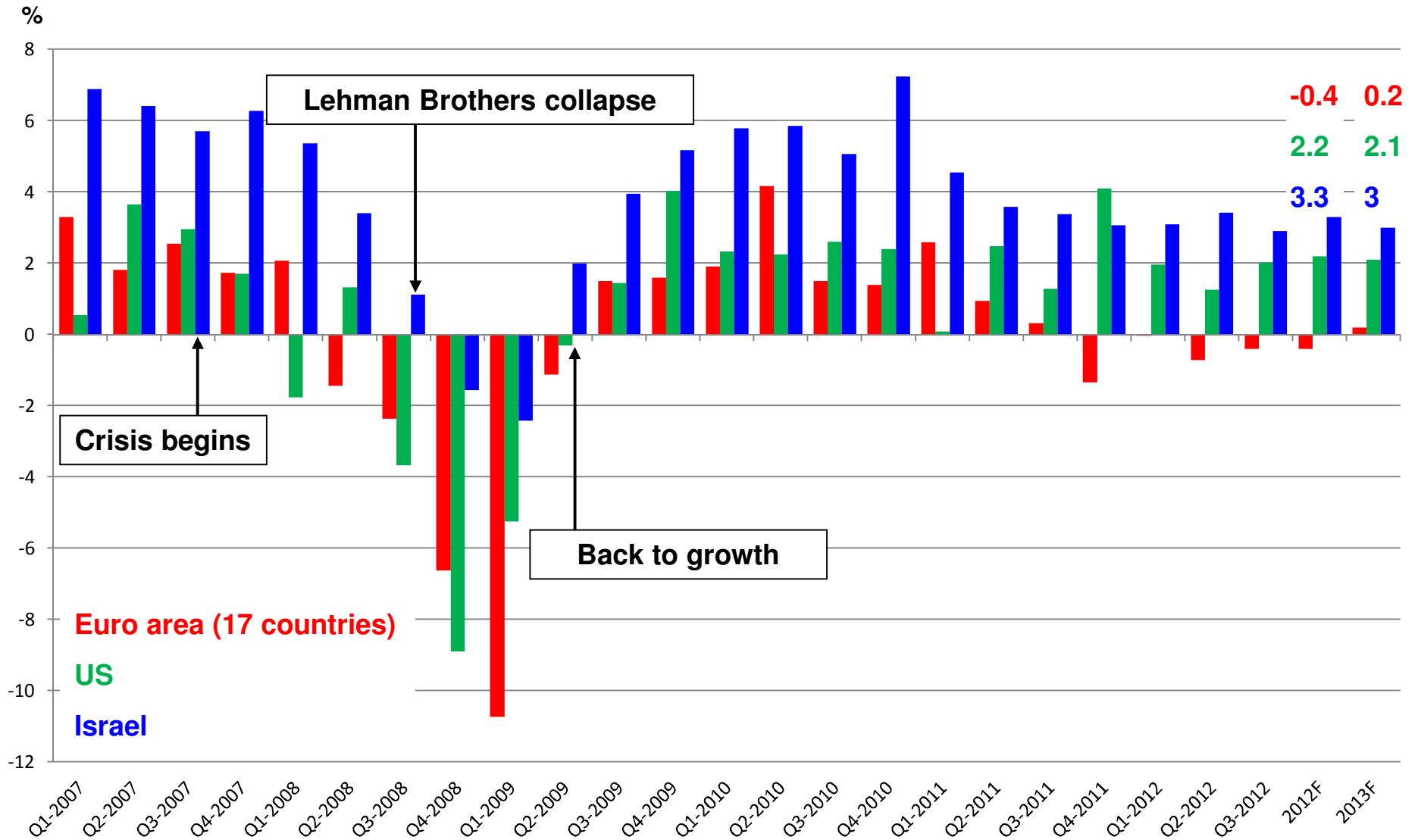
**IDC, Herzliya and Tel Aviv University**

# Topics

- The Macro Picture
- Innovation in Israel -  
Present and Prospects

# The Macro Picture

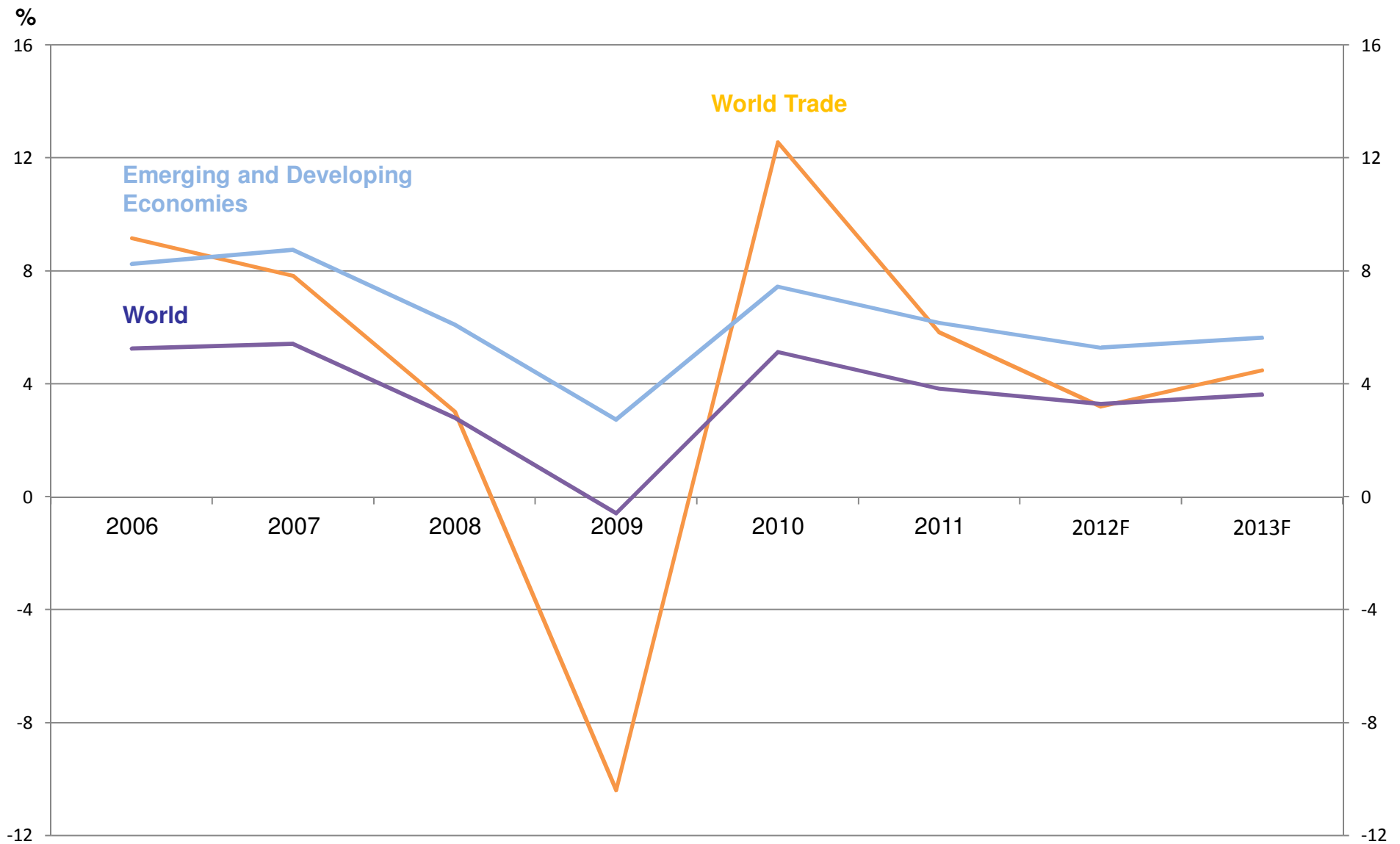
# Growth Rates - Israel, US and Europe



Quarterly rates in annual terms.

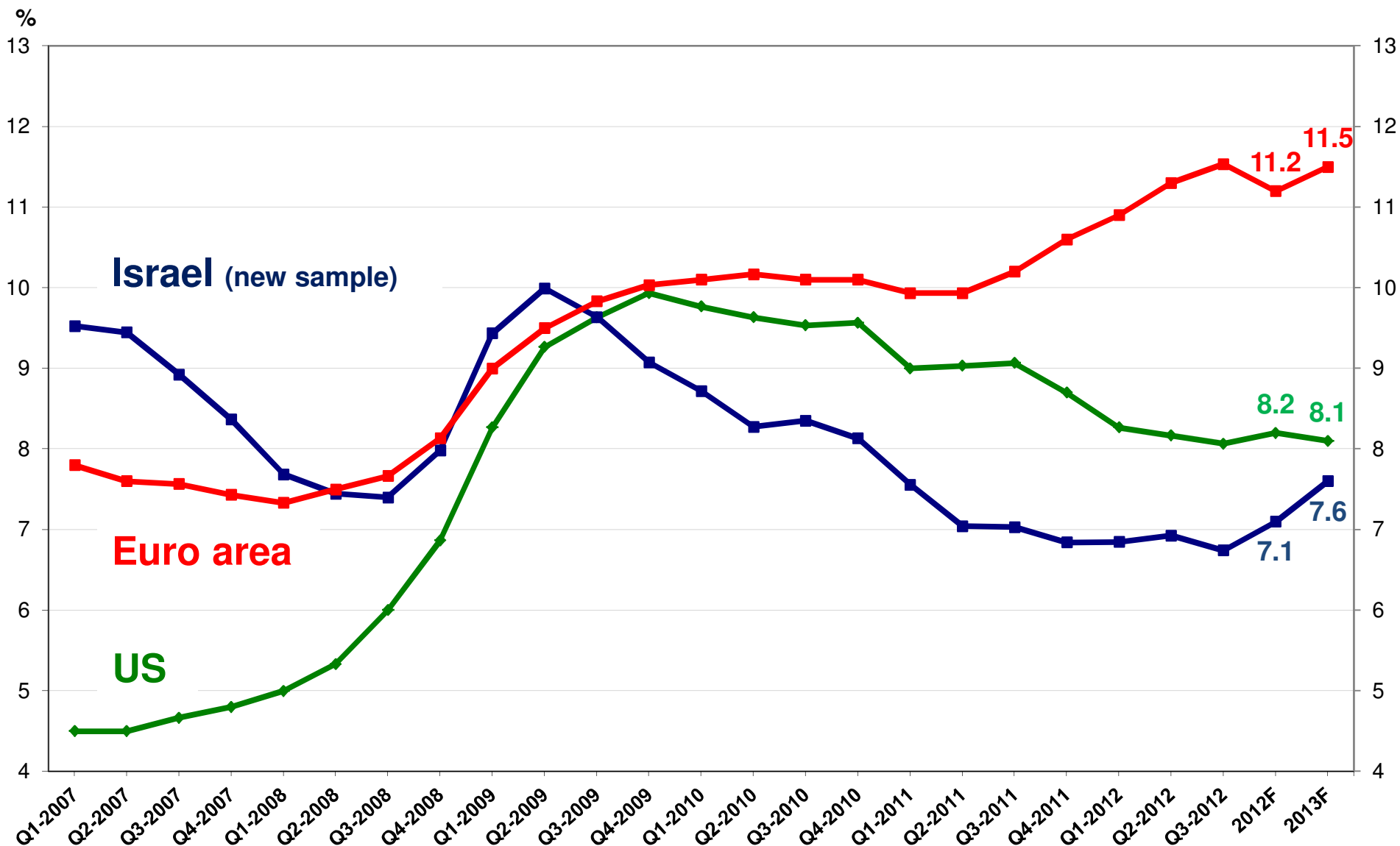
Source: OECD, forecasts by IMF (October 2012) and BOI (September 2012).

# Annual Growth Rates



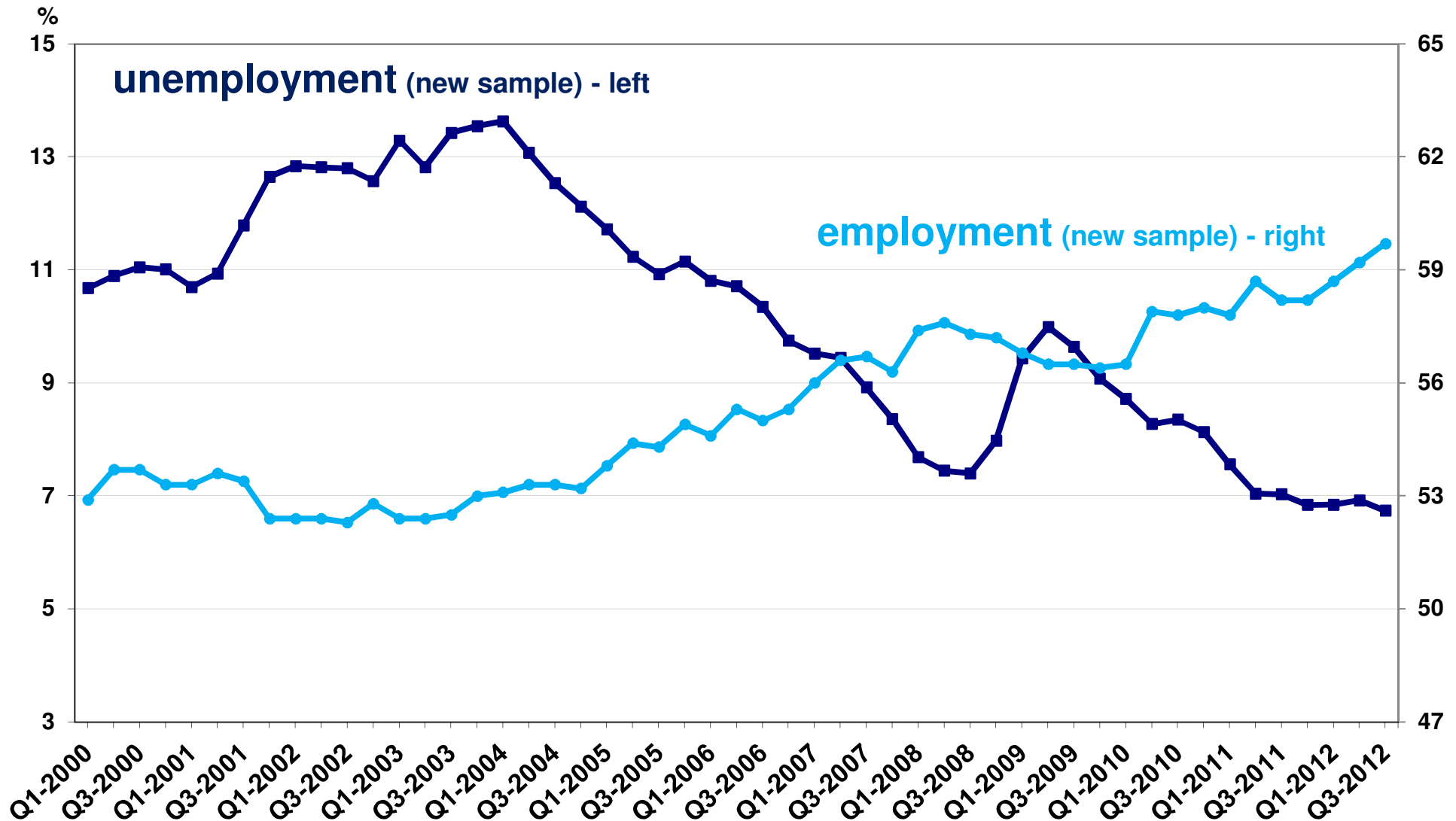
Source: IMF (October 2012).

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

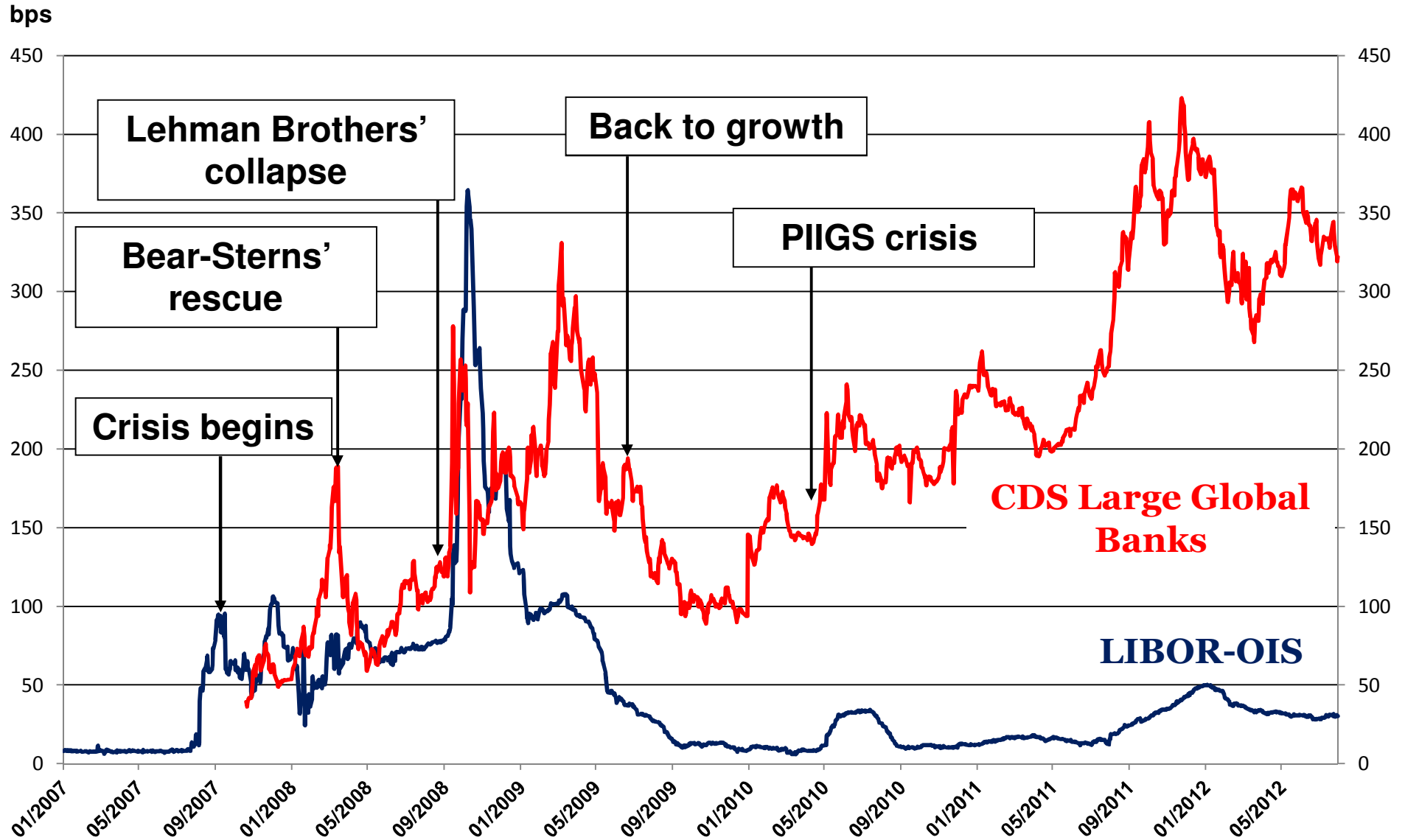


Source: OECD and BOI, forecasts by IMF (October 2012) and BOI (September 2012).

# Unemployment back to normal! Would employment keep rising?



# Europe - The financial crisis is still here





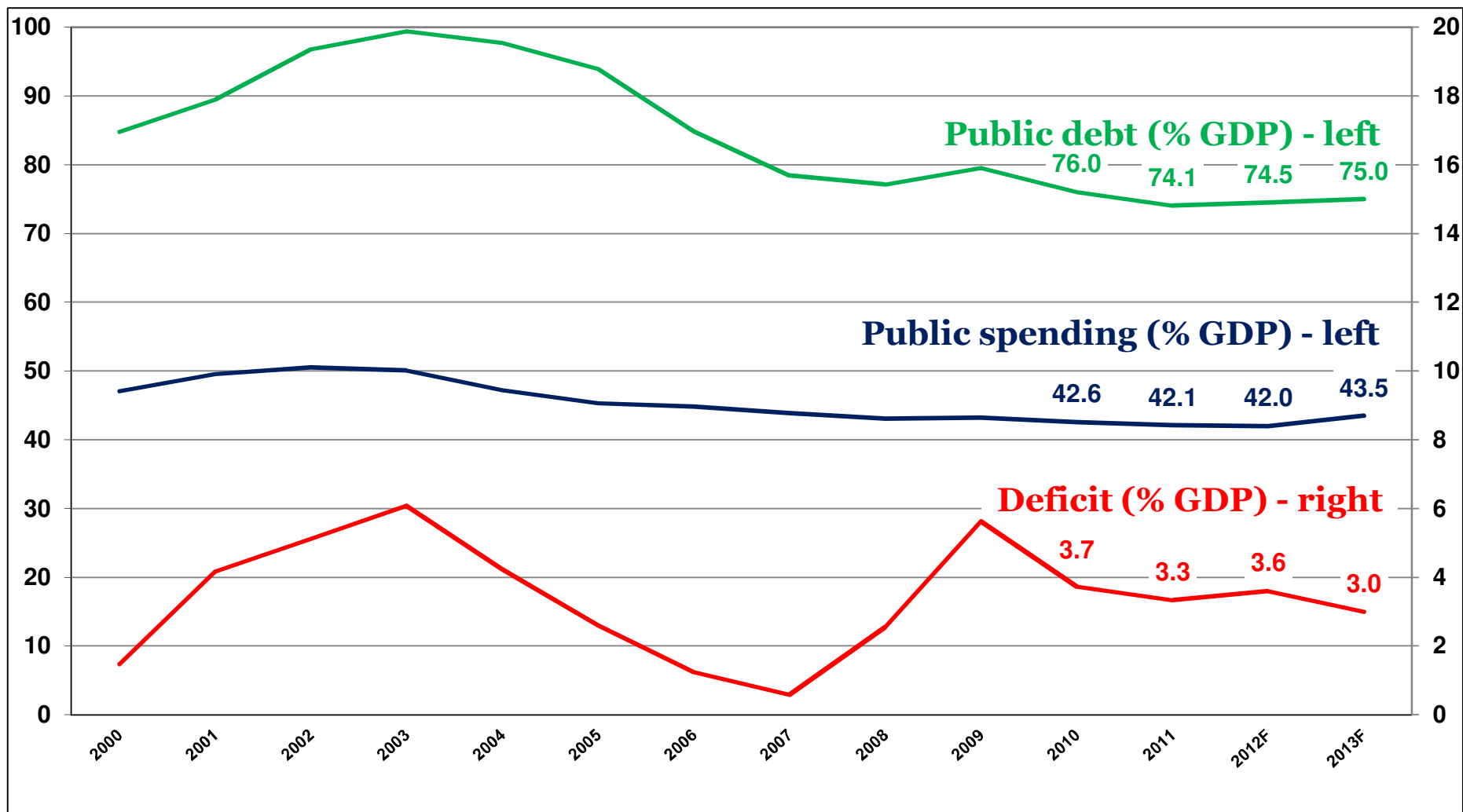
# Israel's Economic Strength

- Financial markets: No debt bubble
- Fiscal Policy: Decreasing debt to GDP
- Balance of Payments: No deficit (surplus)
- Monetary policy: price stability holds

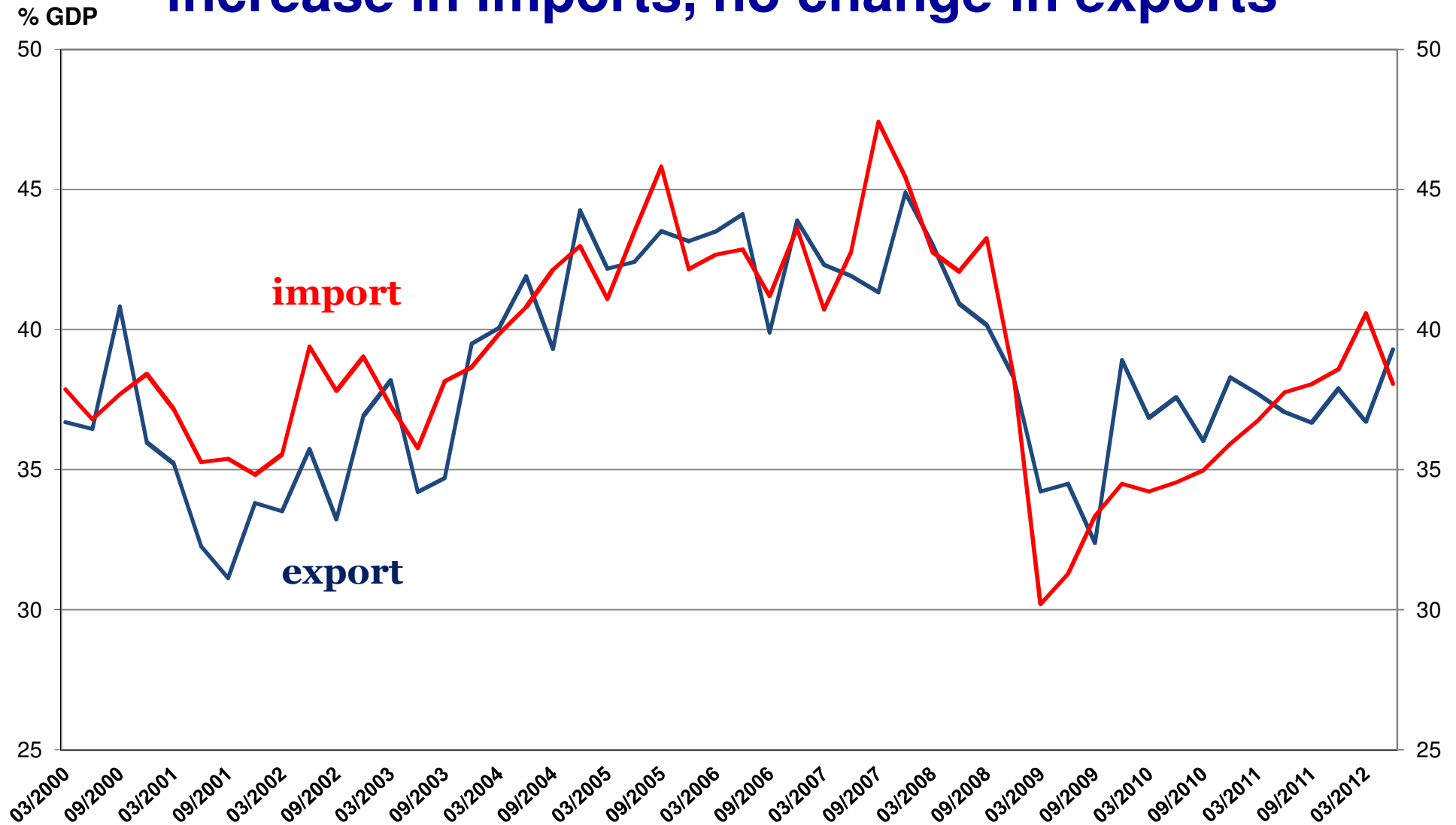
# Financial Markets are functioning well

- Private and public debt are reasonable, with no exceptional growth - except for corporate debt
- Banking capital ratio at world average (14.4%; core tier 1 at 8.3%): 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 – yet...

# Fiscal policy: Conservative and credible (?)



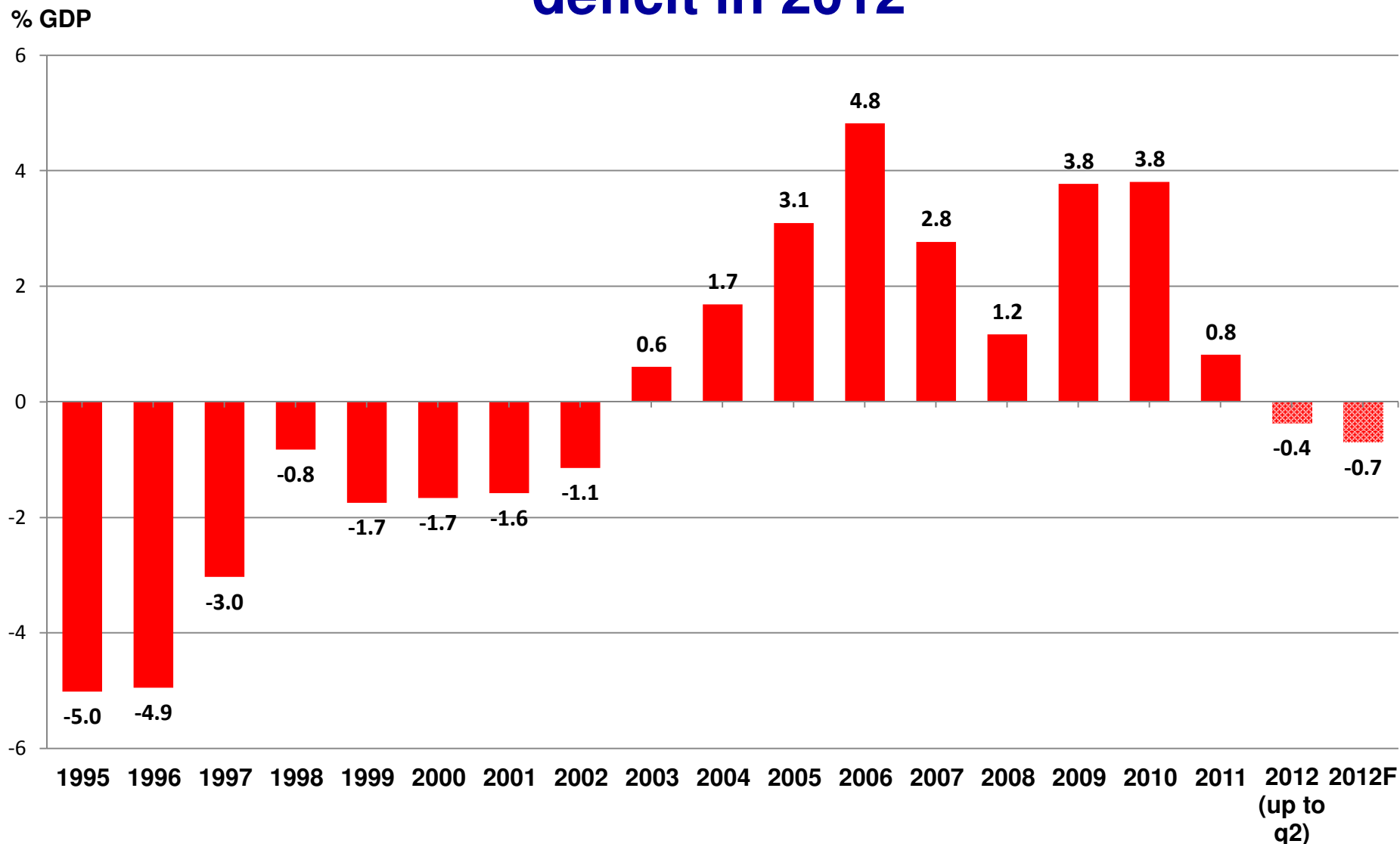
# Balance of payments: From surplus to small deficit; increase in imports, no change in exports



Total goods and services, calculated from current prices series.

Source: CBS.

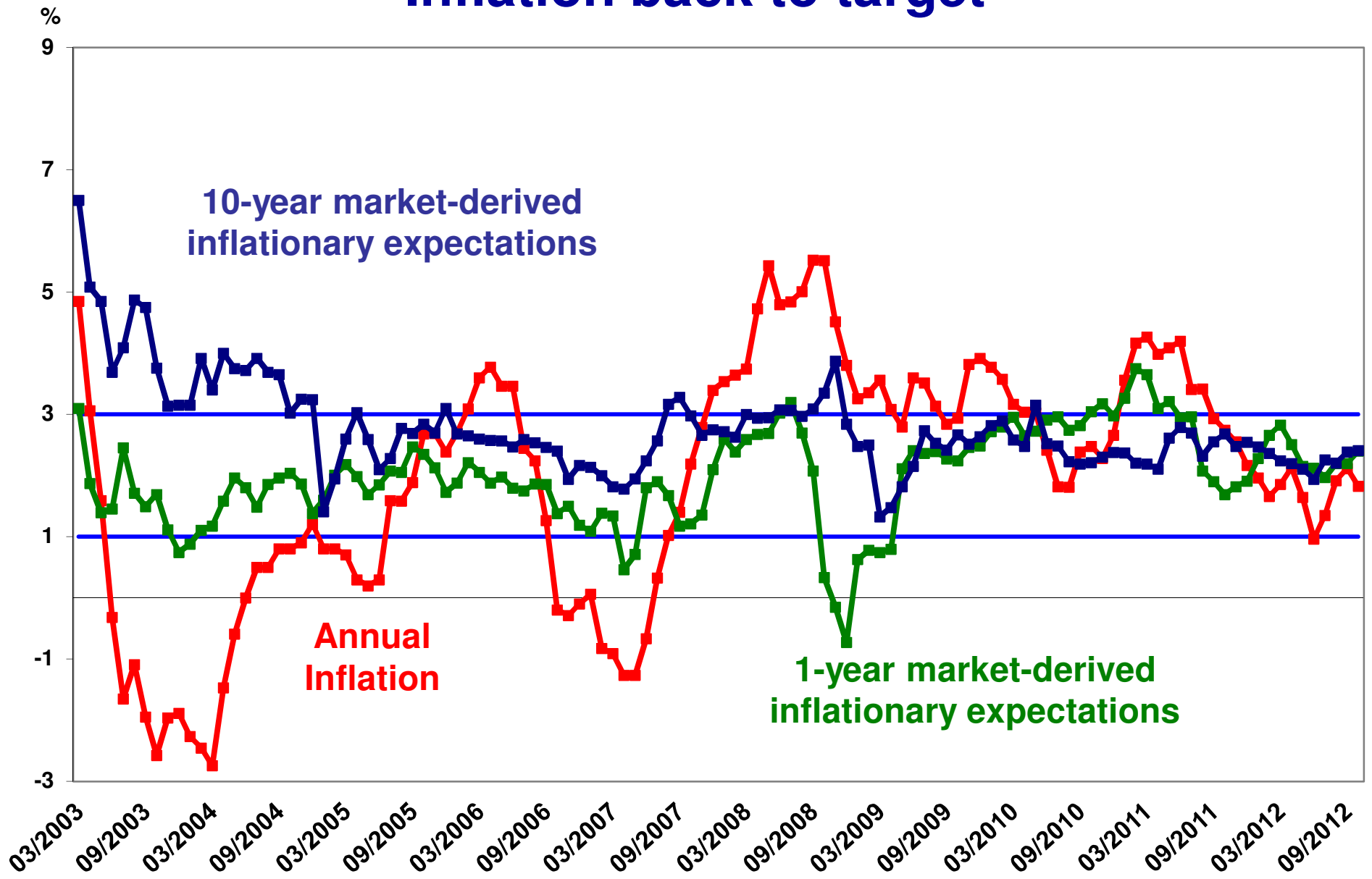
# Current account: after 9 years of surplus, expected deficit in 2012



# Monetary Policy Goals

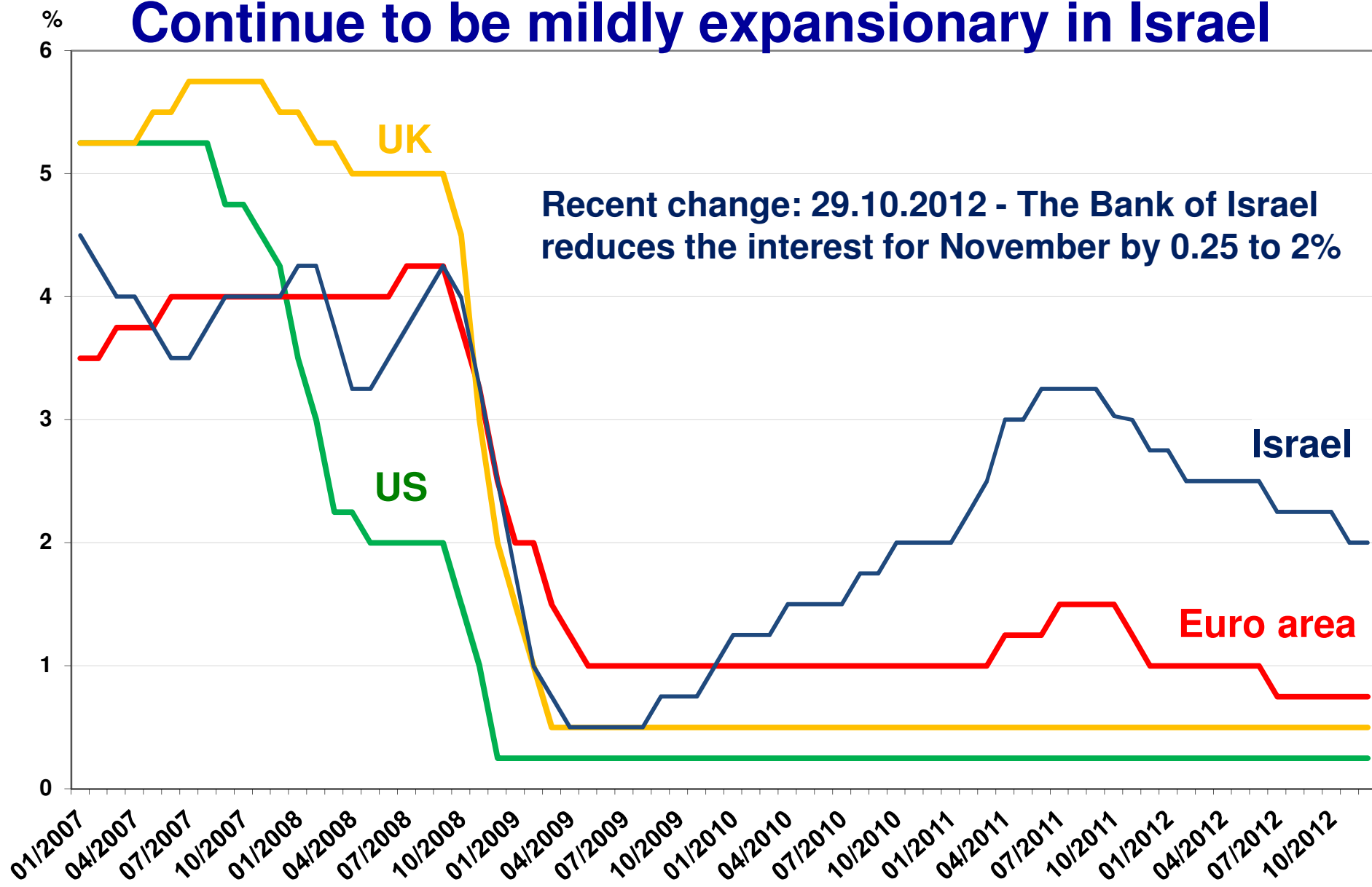
- **Main goal:** Price stability, inflation target 1-3%
- **Secondary goal:** Support employment and growth (subject to price stability)
- Tools: Interest rate and FX market interventions
- **Additional goal:** Support financial stability
- Tools: Financial markets interventions and “macro-prudential” actions

# Inflation back to target



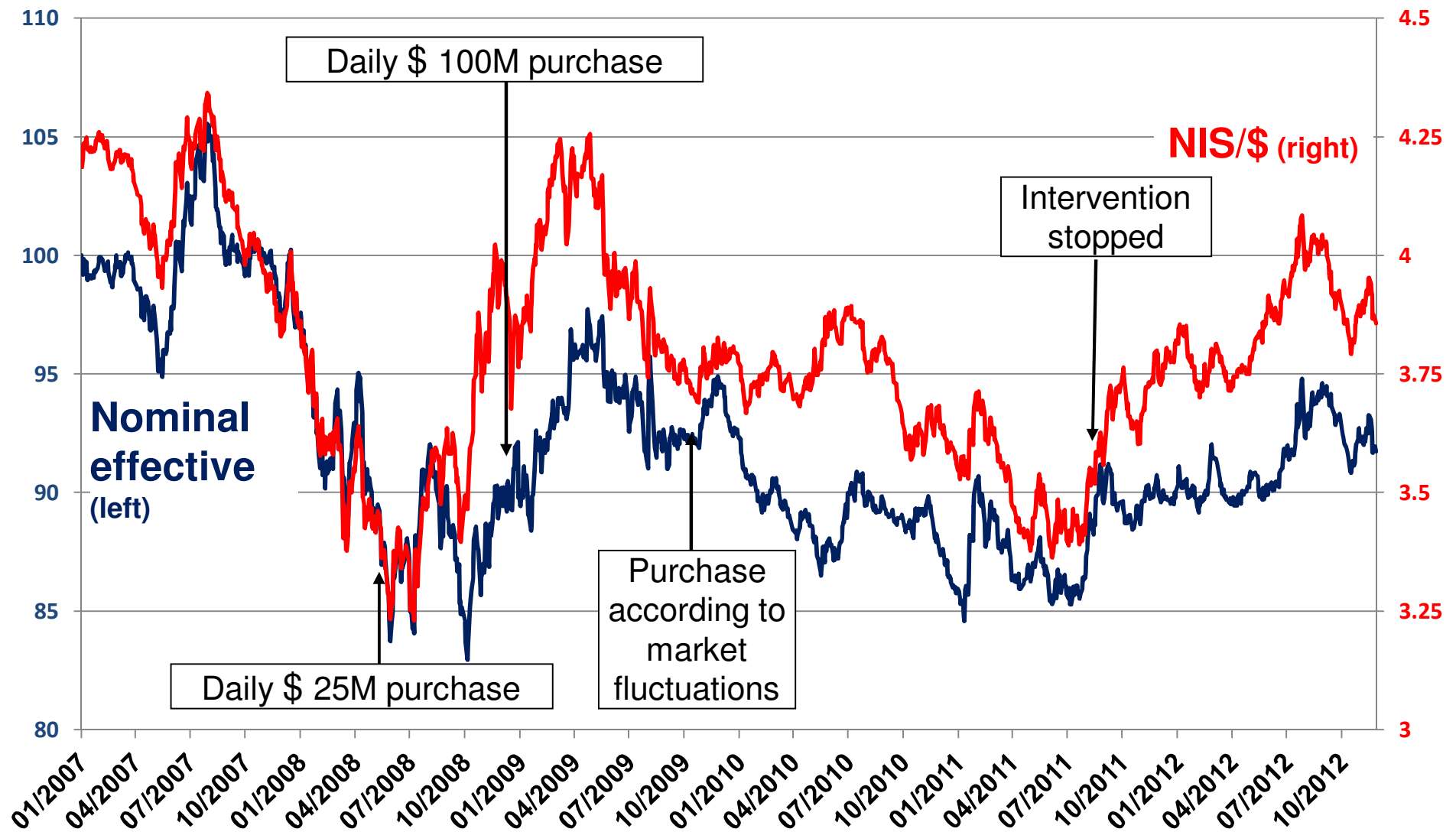
Source: CBS and BOI.

# Interest rate policy: Expansionary in the west (2015); Continue to be mildly expansionary in Israel



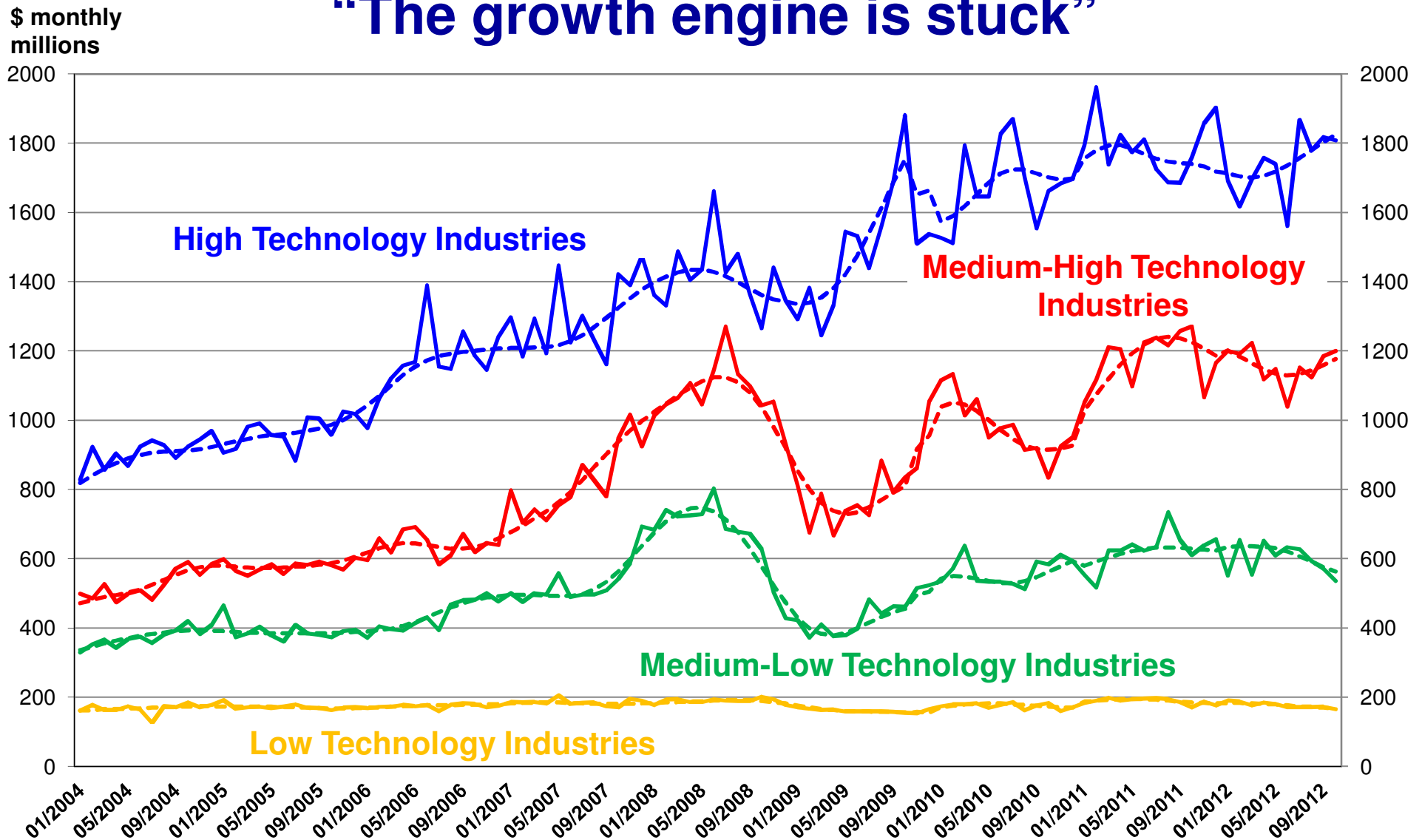


# Unorthodox FX policy: Intervention during unusual trends affecting market; Accumulating balances; In the long-term - avoiding intervention

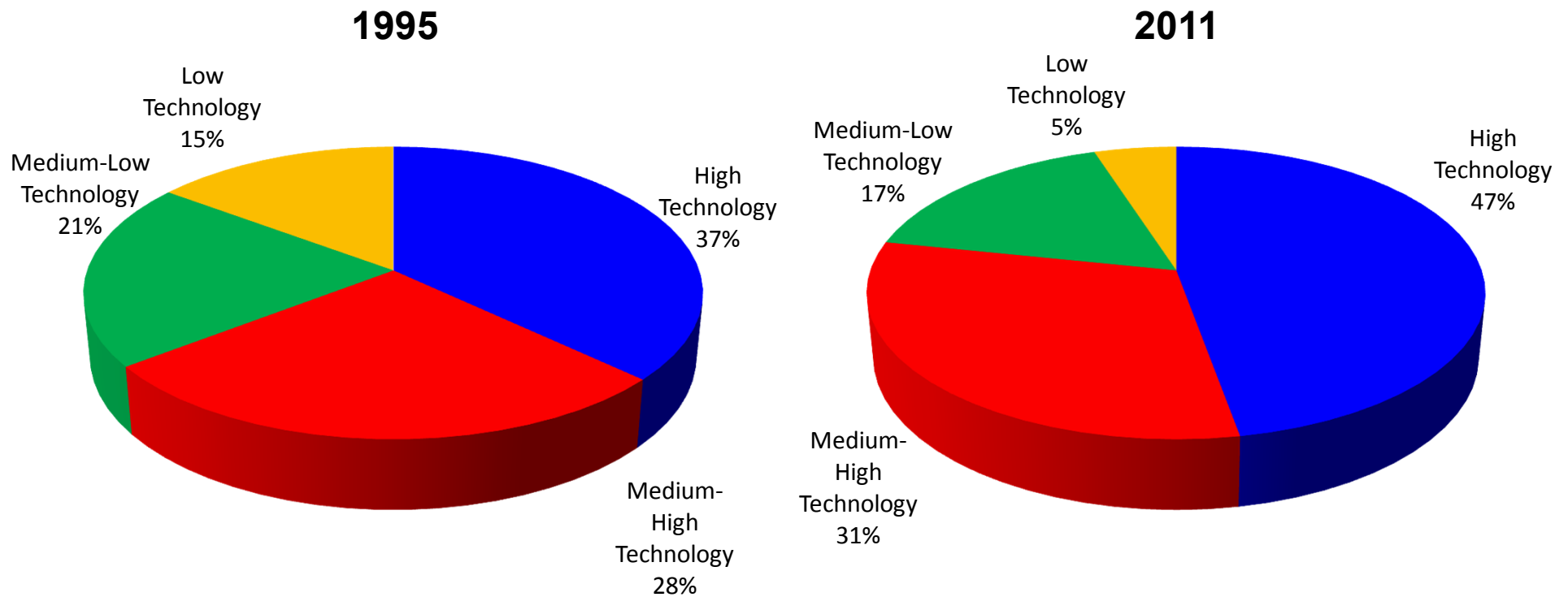


# **Innovation in Israel – Present and Prospects**

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



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

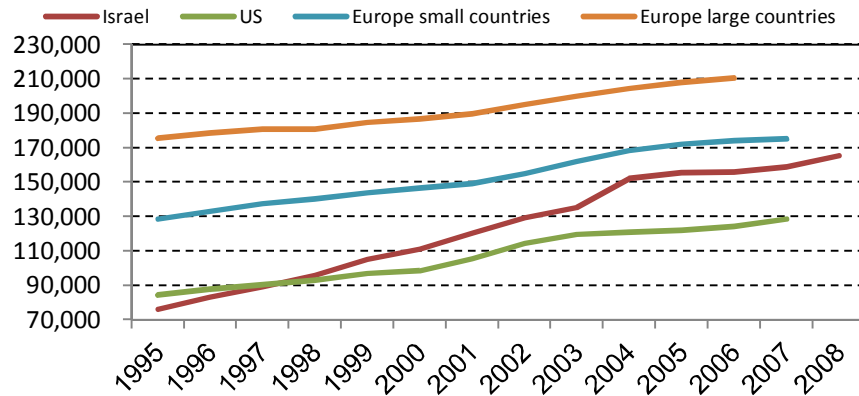


# Israeli vs. US industry - output, capital and R&D (ratio between Israel and US, %)

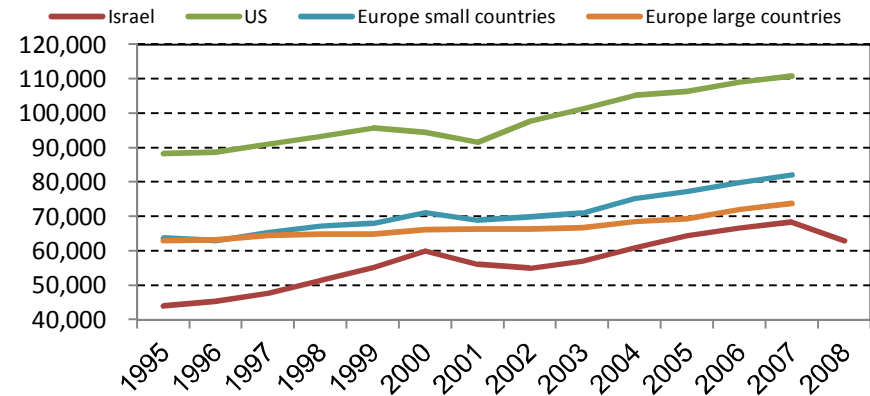
	Output per worker		Capital per worker		R&D expenses as % from branch output	
	1995-2000	2003-2007	1995-2000	2003-2007	1995-2000	2003-2007
by technology intensity:						
Low Technology Industries	45	43	74	86	71	35
Medium-Low Technology Industries	55	57	135	161	62	139 ?
Medium-High Technology Industries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

# All industries

capital per worker (\$, 2005 PPP)

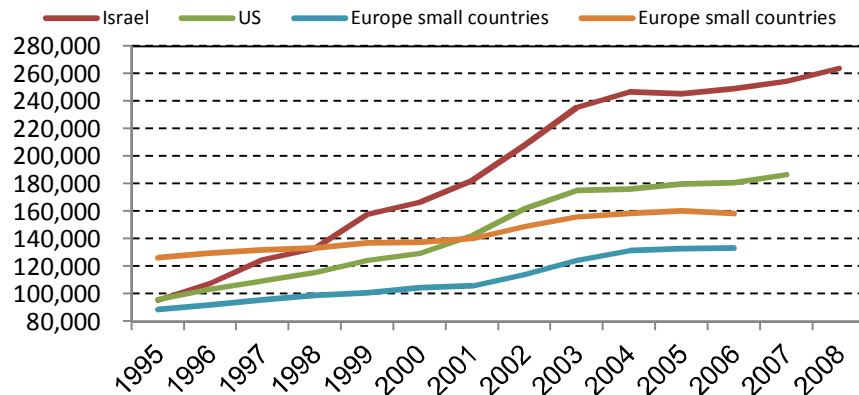


output per worker (\$, 2005 PPP)

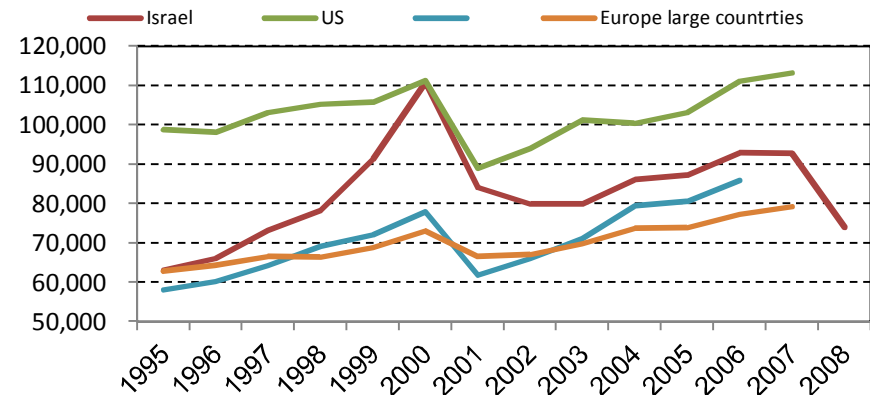


# High Technology Industries

capital per worker (\$, 2005 PPP)

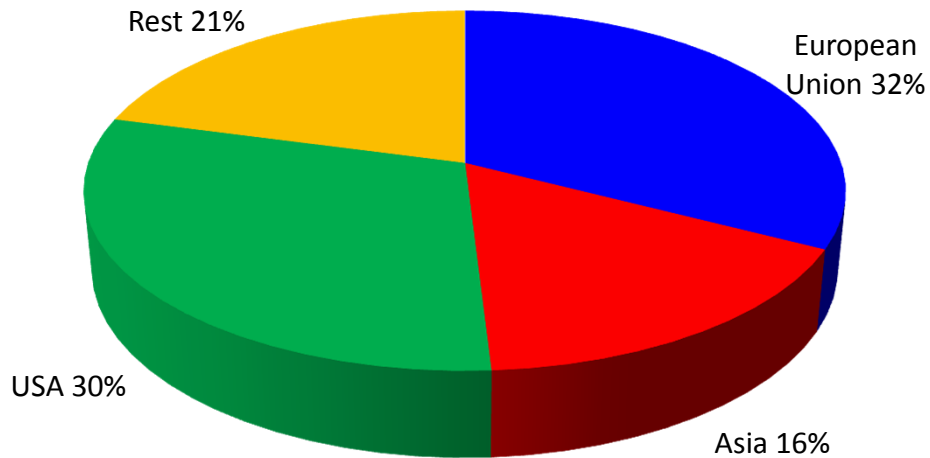


output per worker (\$, 2005 PPP)

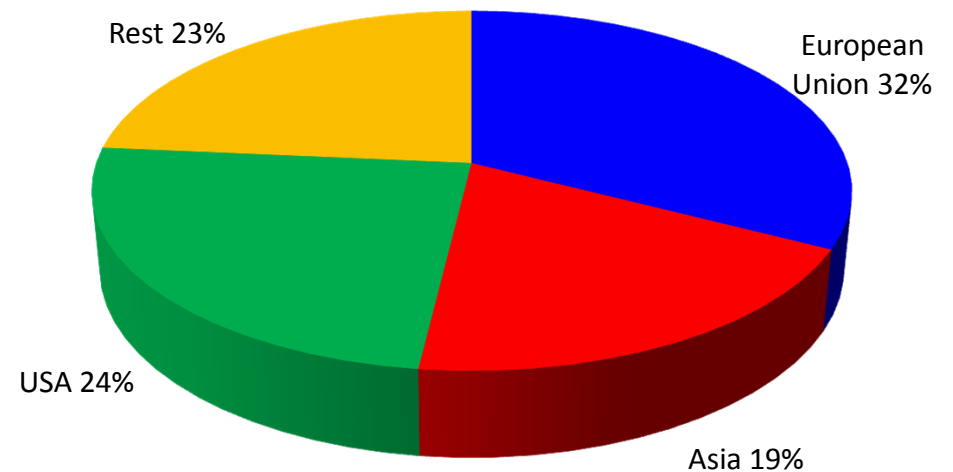


# Transition to Asia: Export by countries (excluding diamonds)

2000

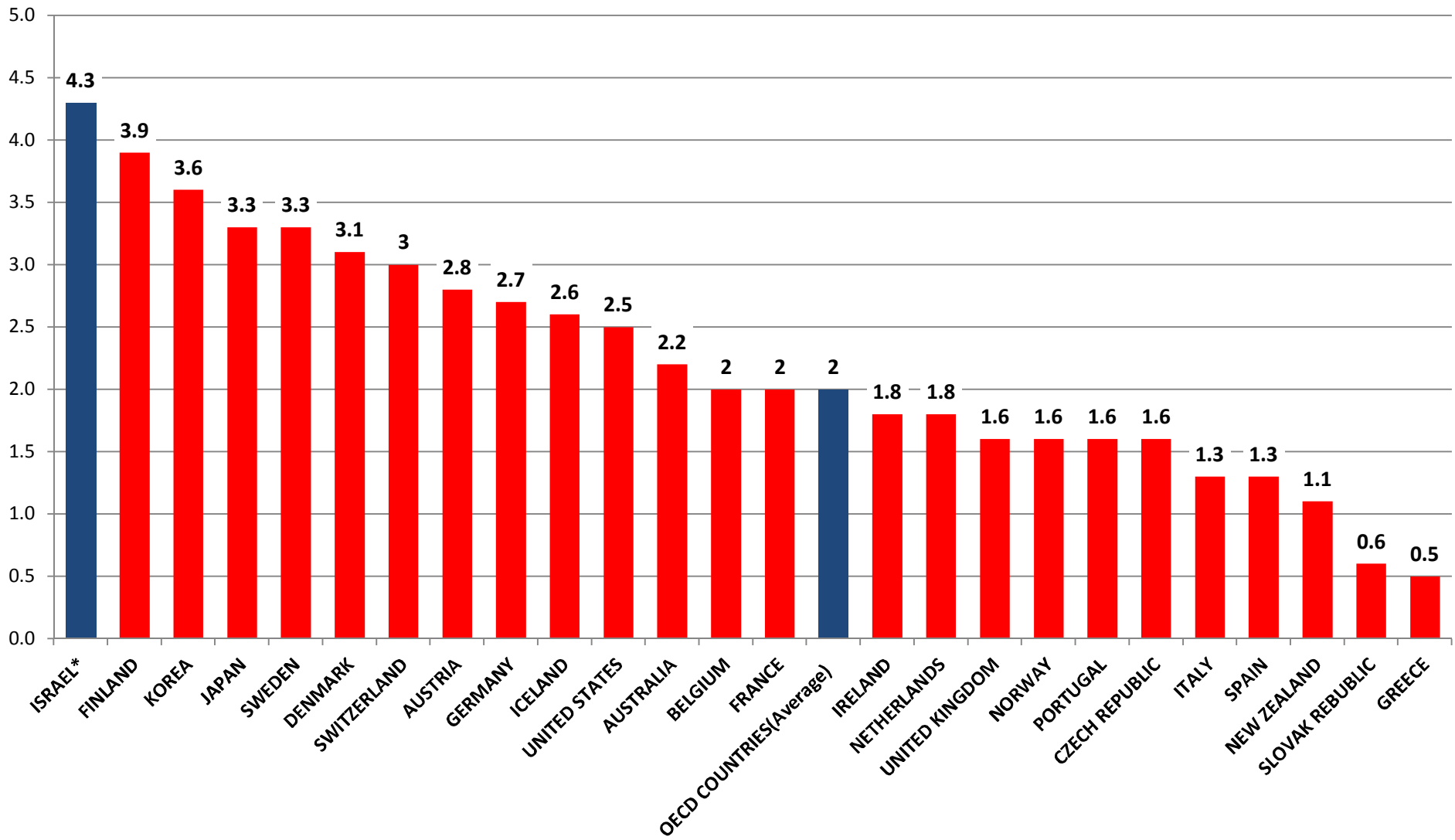


2011



# National expenditure on civilian R&D (2010)

% GDP



\* Data for Israel is provisional.

Source: CBS.

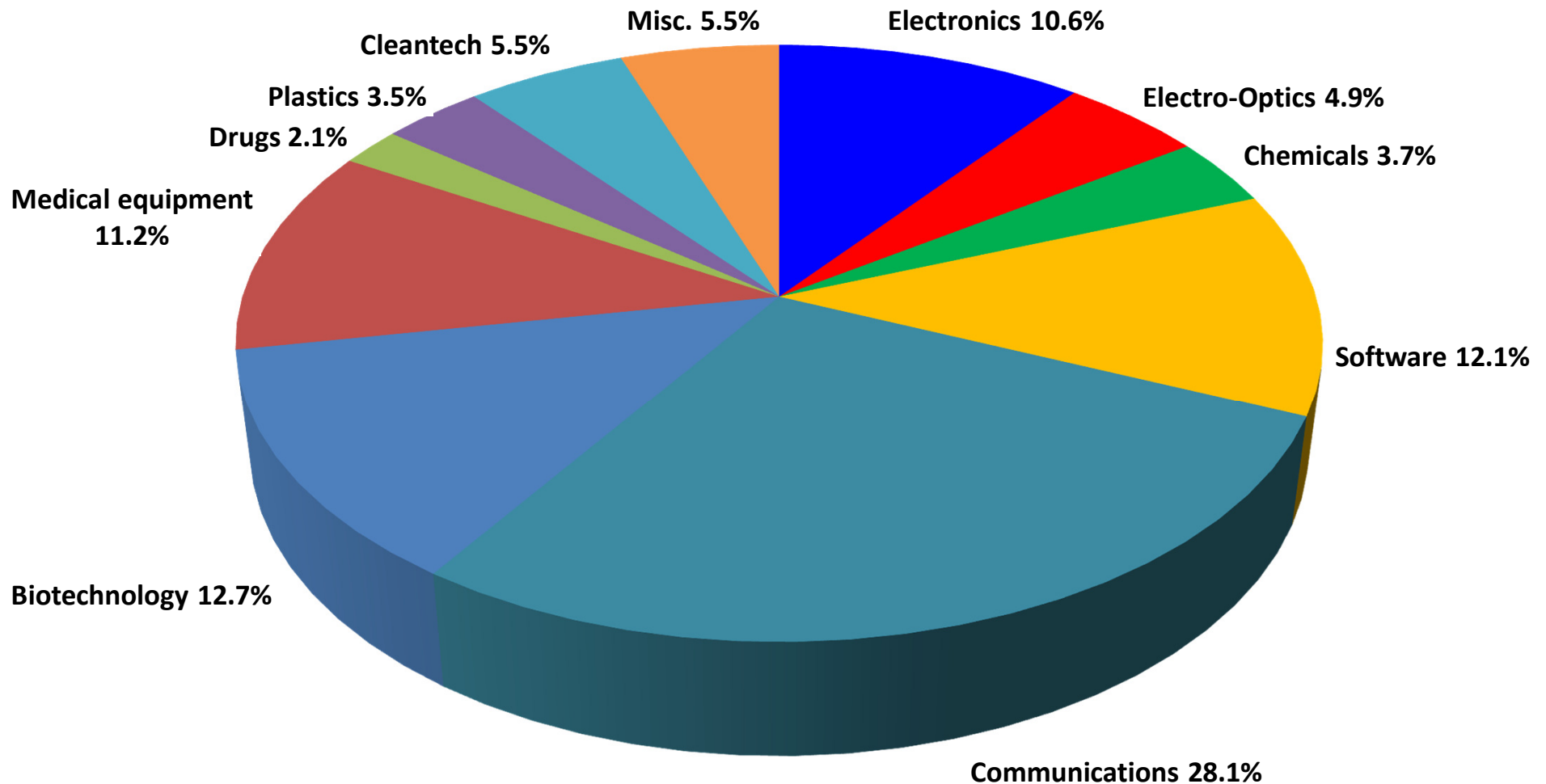


# Patents

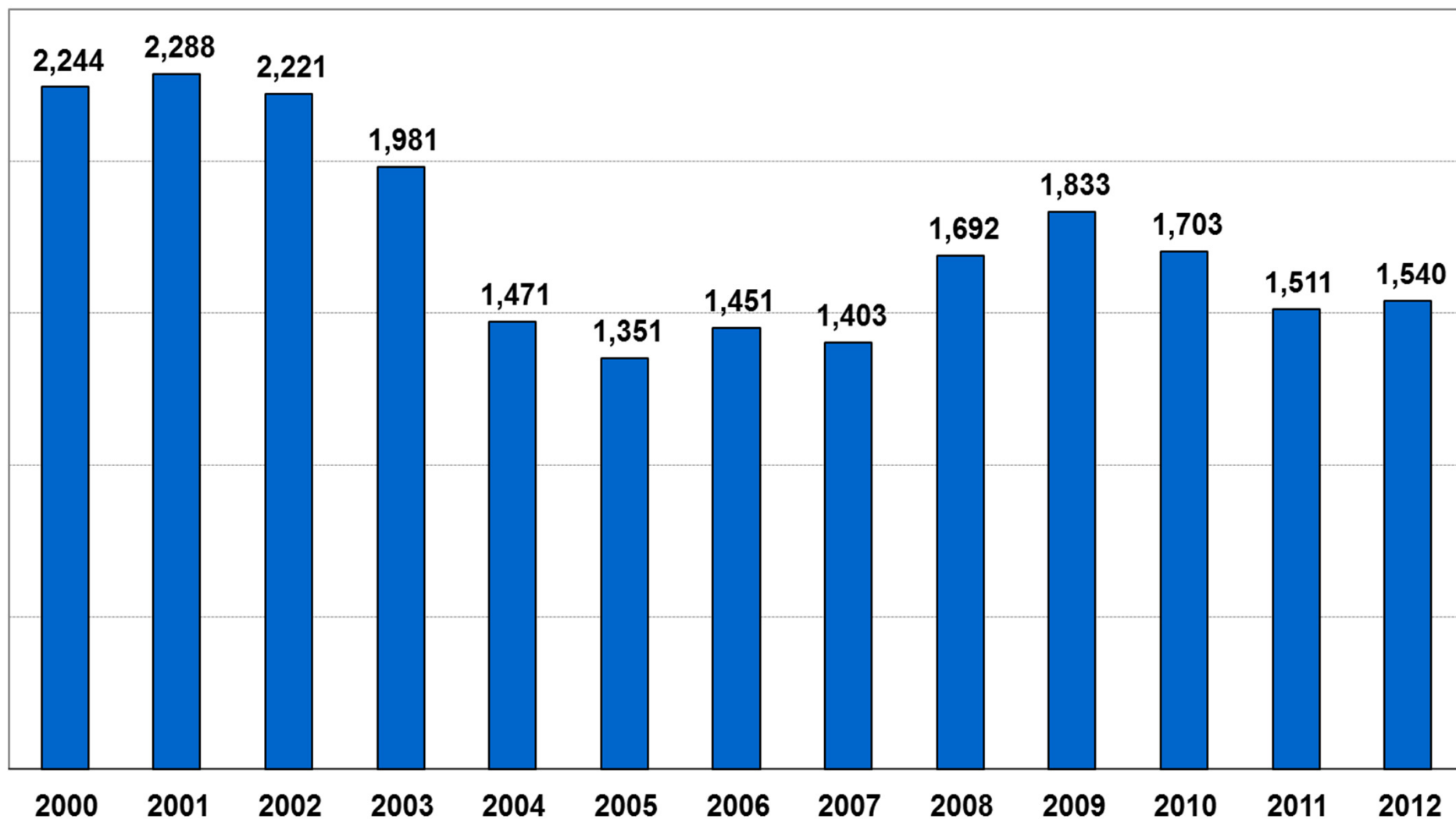


- Israel ranked #4 in number of patents per capita (2010)
- Israel ranked #2 in Biopharma patents per capita

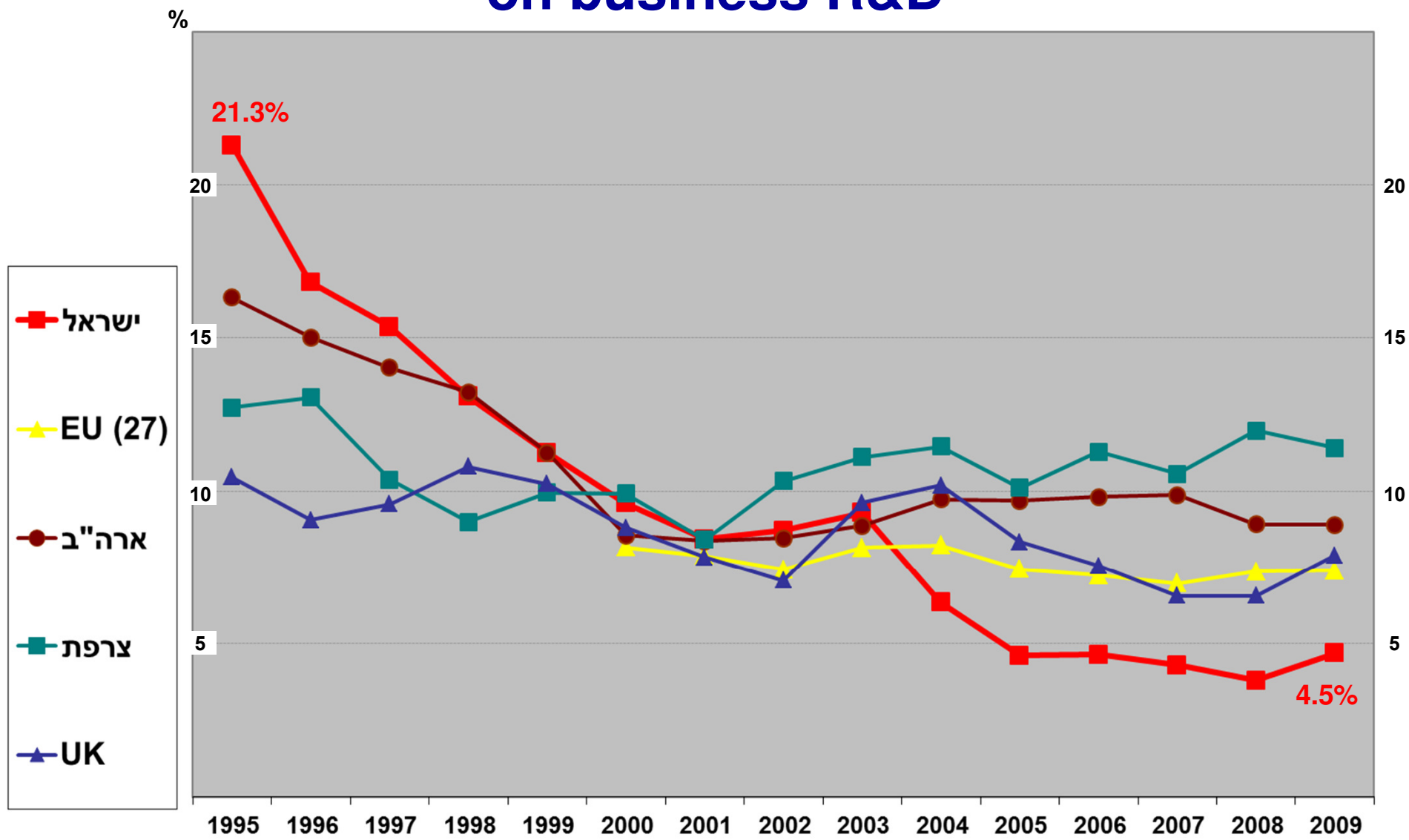
# Office of the chief scientist grants by technological sector (2011)



## Office of the chief scientist support for R&D (NIS millions, 2012 prices)



# Ratio of government funding out of total expenditure on business R&D



# Summary

- The Israeli economy has been stable and growing well due to:
  - Stable macro fundamentals
  - Improving world trade and trade incentives
  - Innovative and growing high tech sector
- The recent developments show slower growth in Hi Tech and the economy
- How could policy enhance growth? Provide incentives for innovations

***Thank You!***