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OECD ECONOMIC SURVEY OF ISRAEL

Ensuring economic recovery and raising living standards

Boris Cournède

Tel Aviv Reichman University

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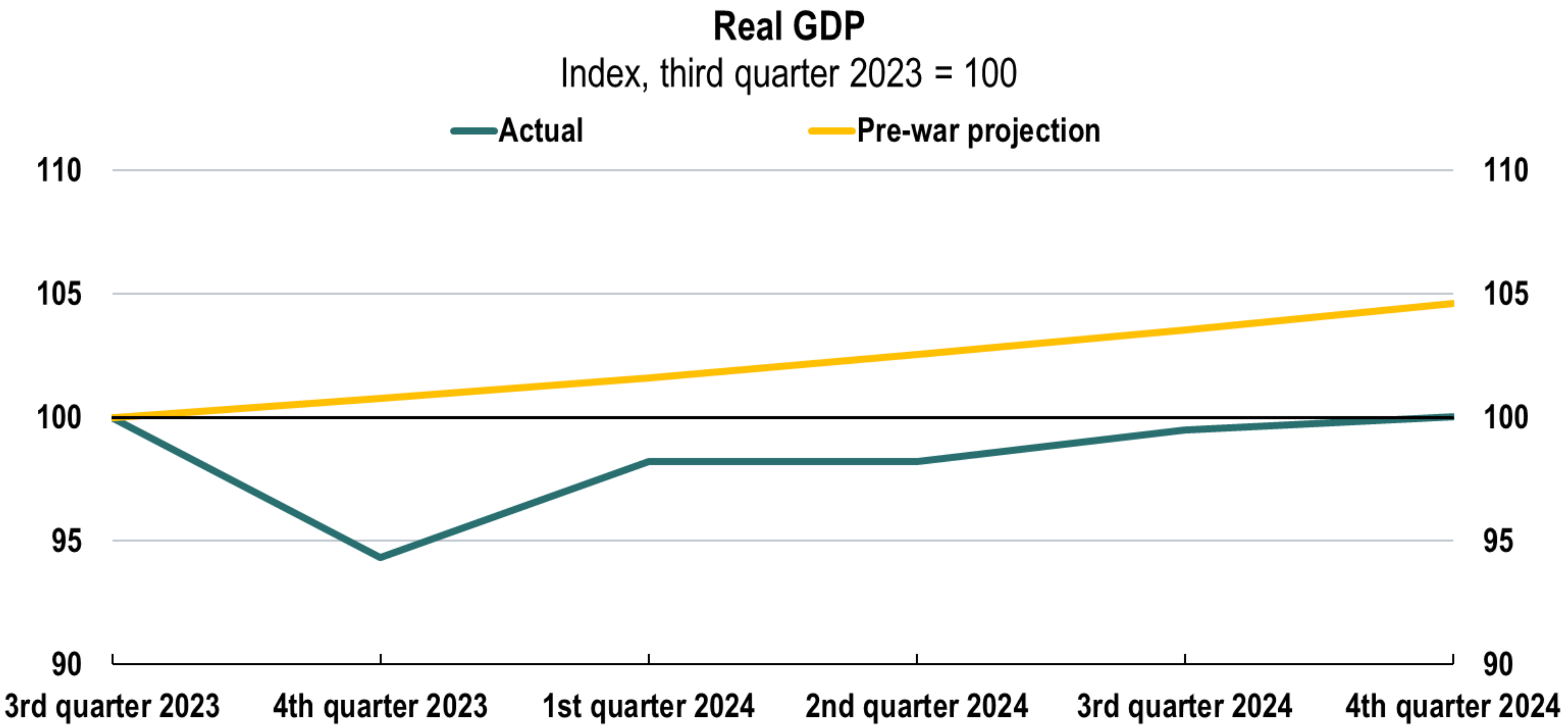
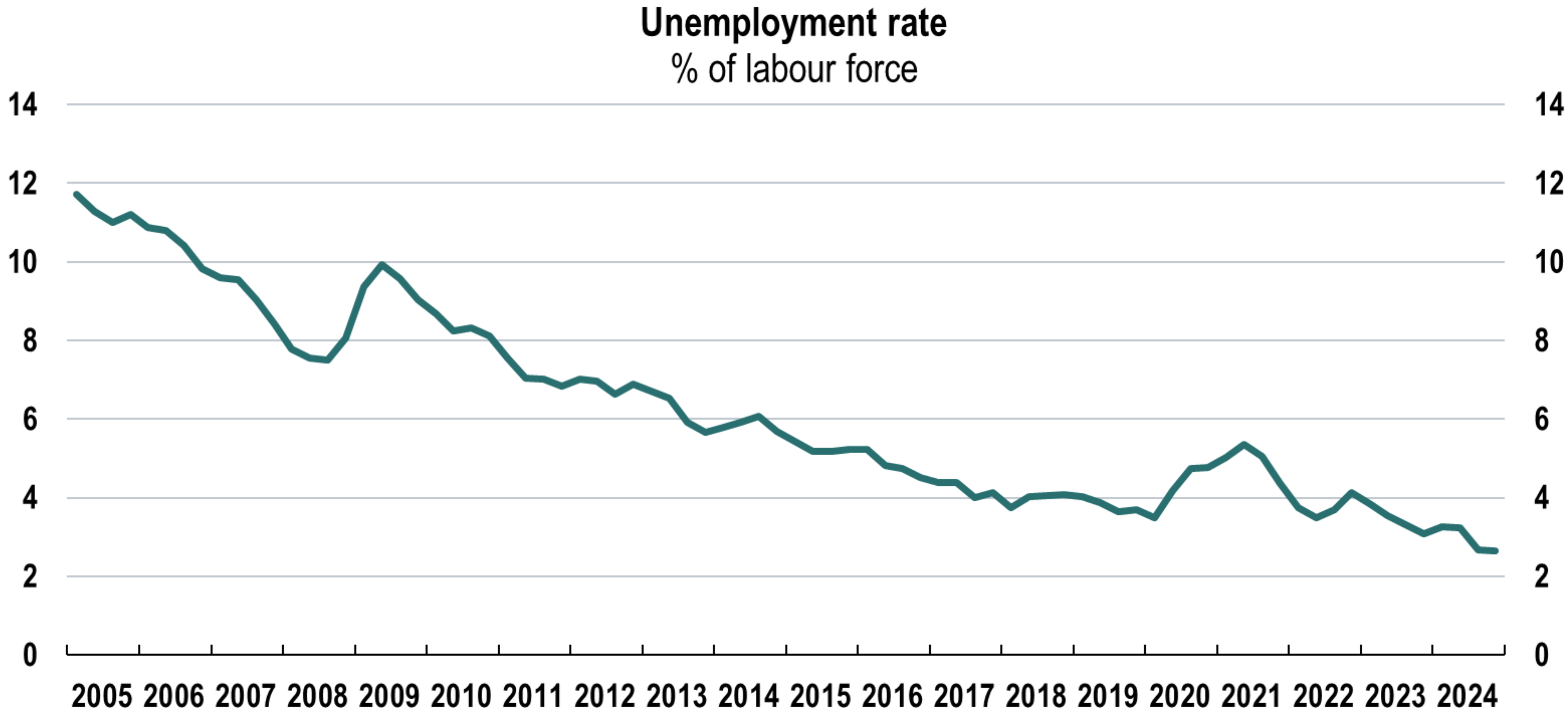
The economy has been recovering



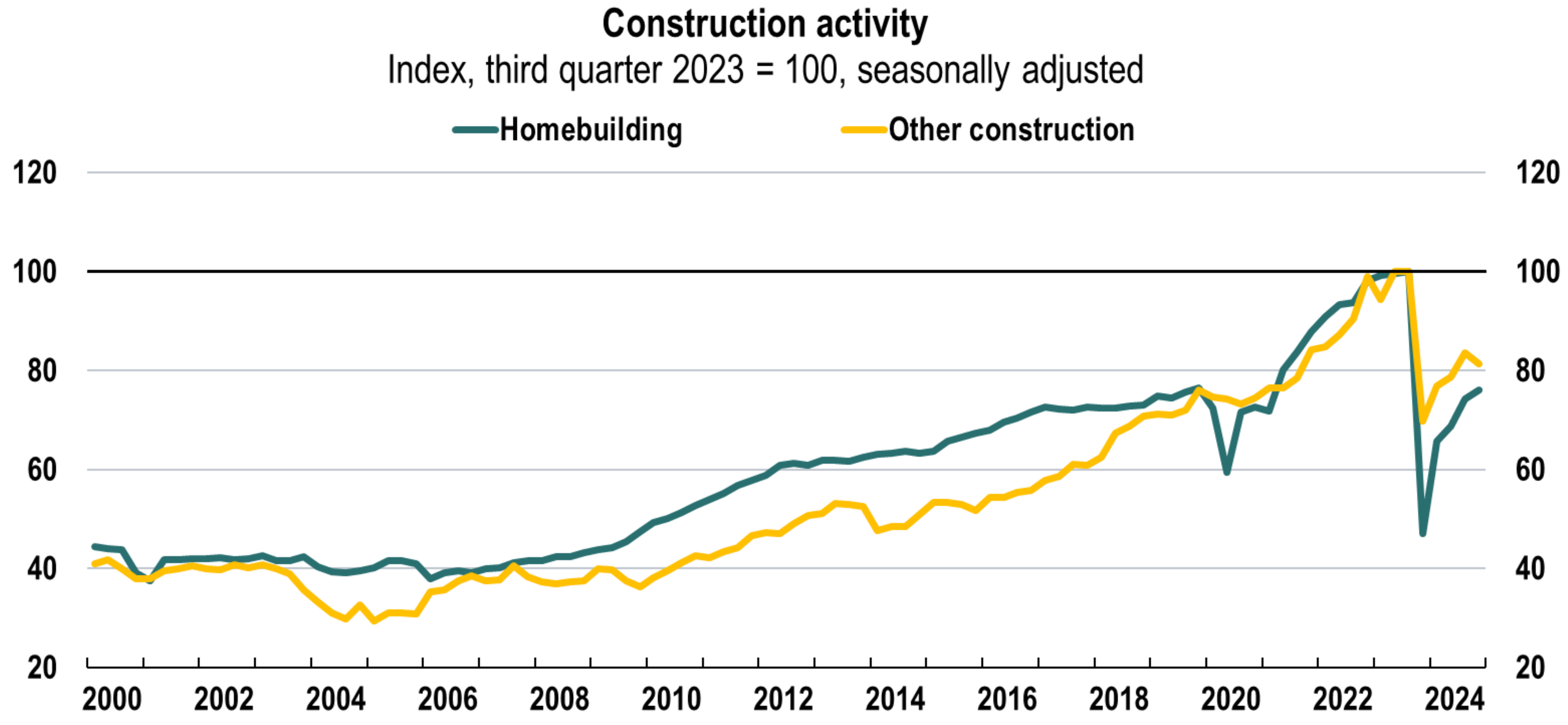
Source: OECD Economic Outlook: Statistics and Projections database.

Unemployment keeps declining



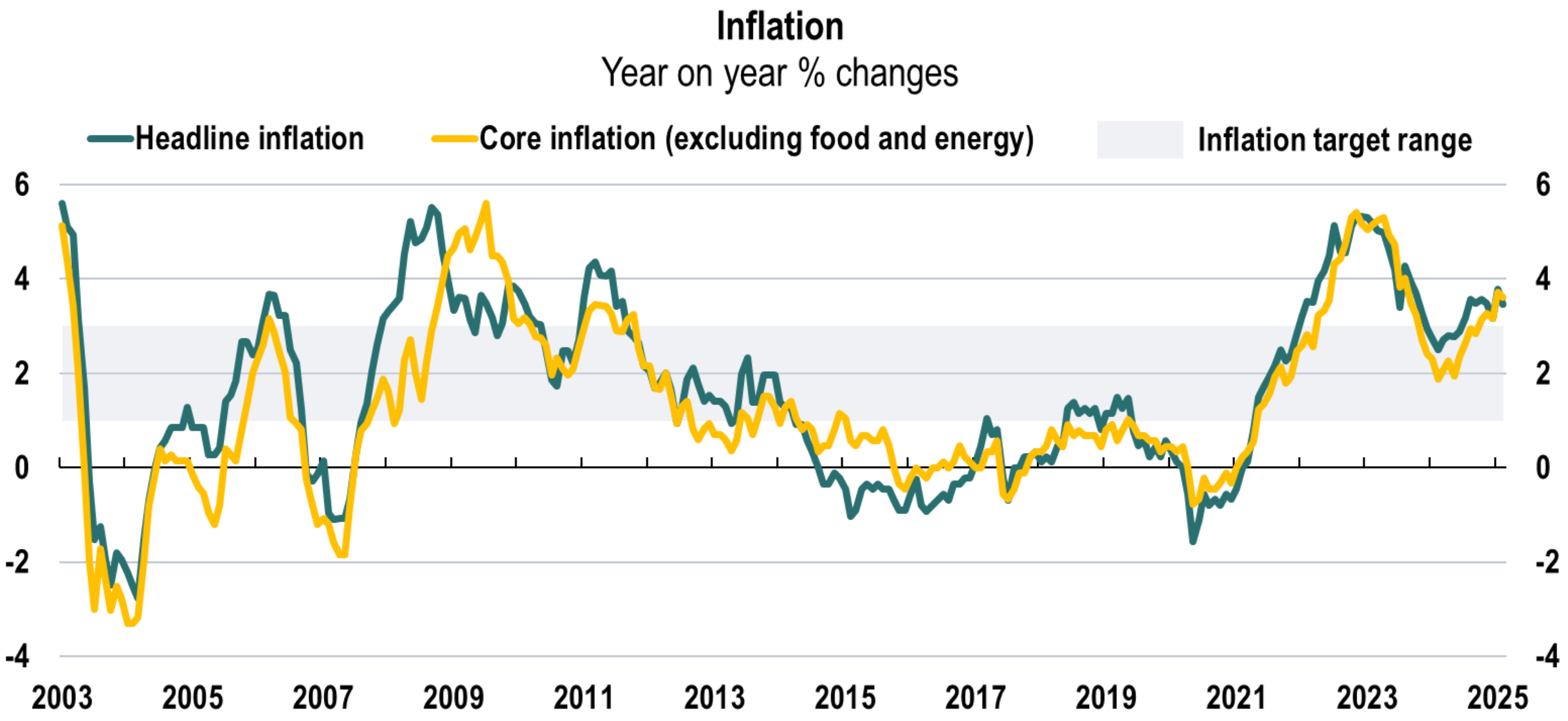
Note: Labour force refers to people aged 15 and over.
Source: OECD Economic Outlook: Statistics and Projections database.

Labour shortages constrain construction



Note: Data refer to gross fixed capital formation in construction of dwellings and other buildings and structures, in volume terms.
Source: OECD National Accounts database; and OECD calculations.

Inflationary pressures remain widespread



Source: OECD Price Statistics database.

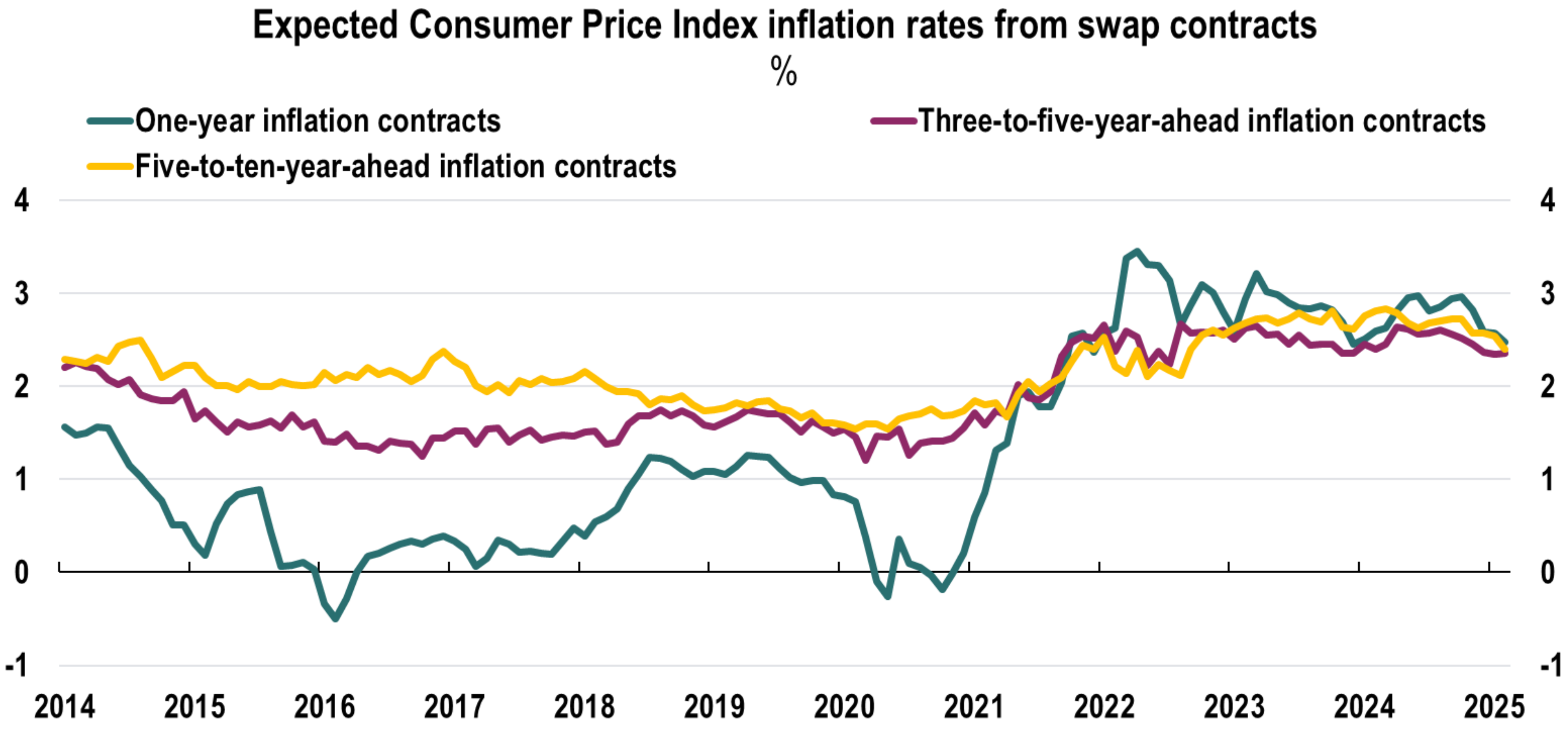
Growth will pick up in 2025

	2024	2025	2026
Real GDP growth, %	1.0	3.4	5.5
Headline inflation, %	3.1	3.7	2.9
Fiscal balance, % GDP	-8.3	-4.7	-3.8

Source: OECD Economic Outlook database

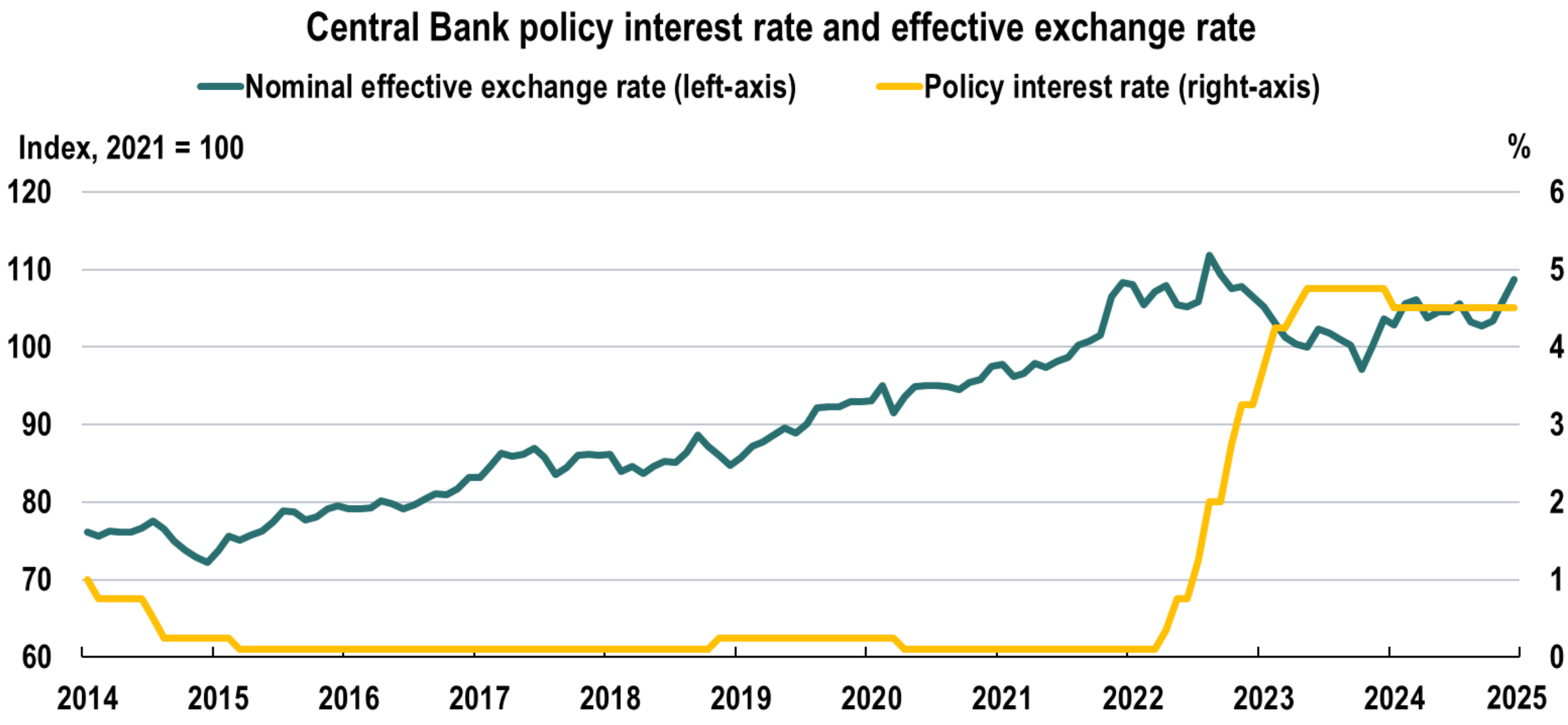
Keeping inflation low and ensuring fiscal sustainability

Inflation expectations have remained anchored though at high levels



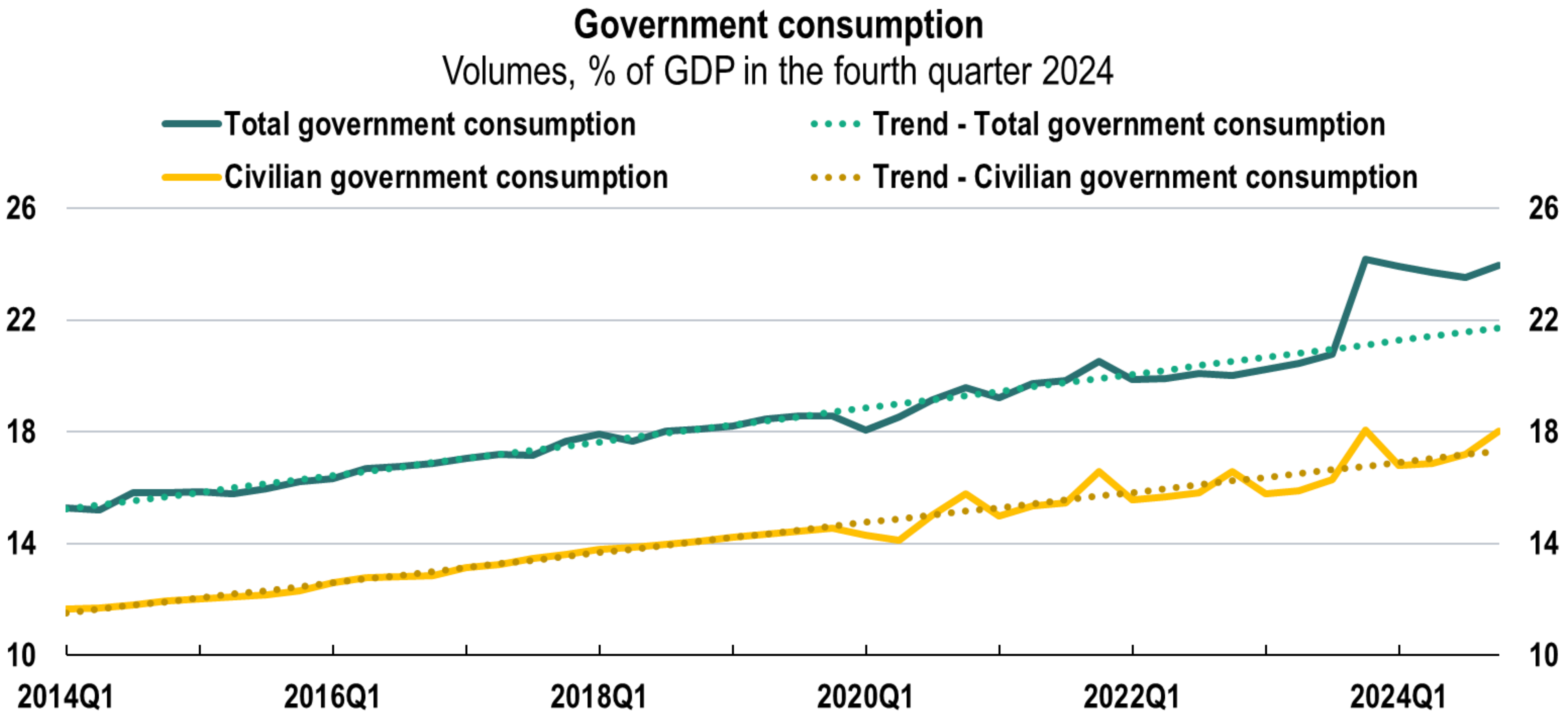
Source: Bank of Israel.

Monetary policy should remain tight



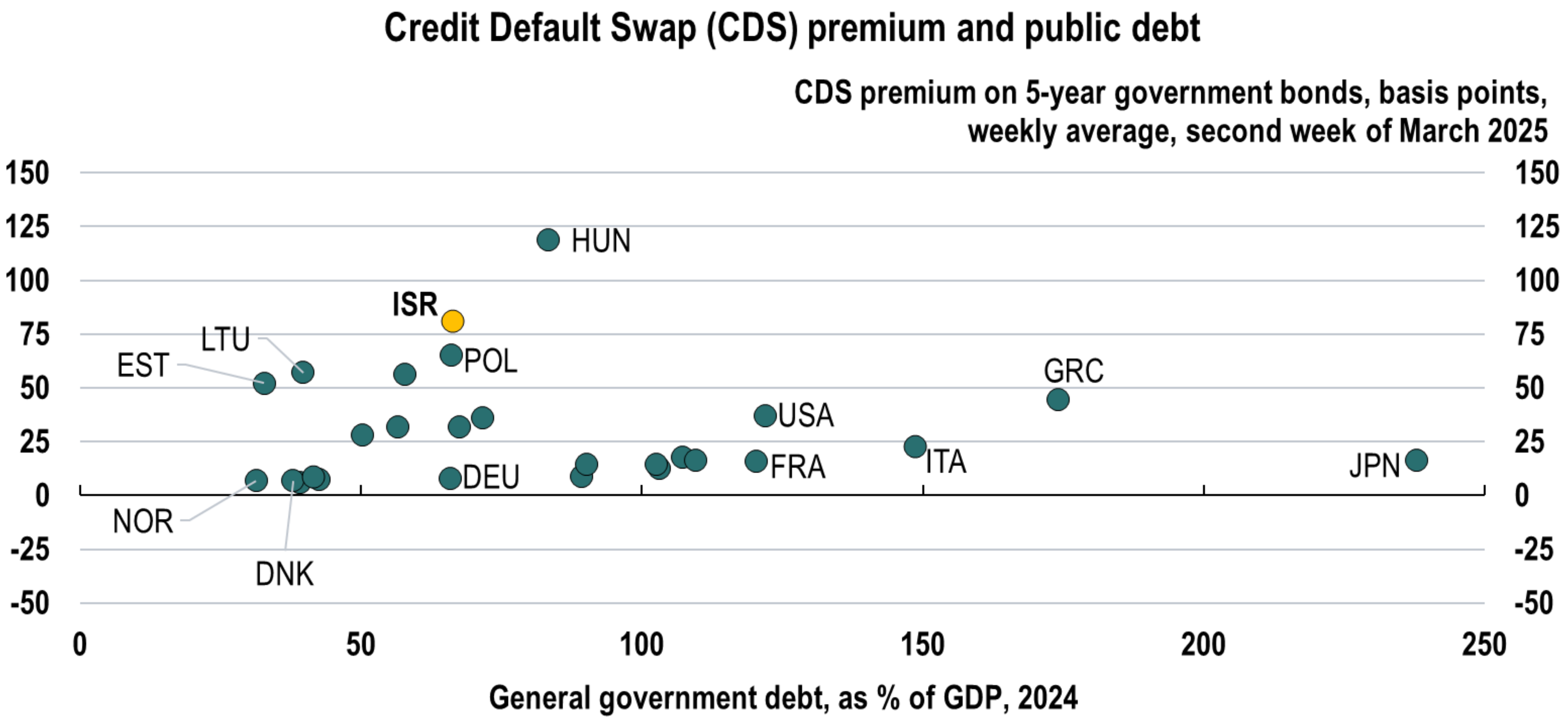
Note: A rising nominal effective exchange rate increase corresponds to the shekel appreciating against the currencies of commercial partners weighed by their share in Israel's foreign trade.
Source: OECD Economic Outlook: Statistics and Projections database.

War-related expenditures have put pressure on public finances



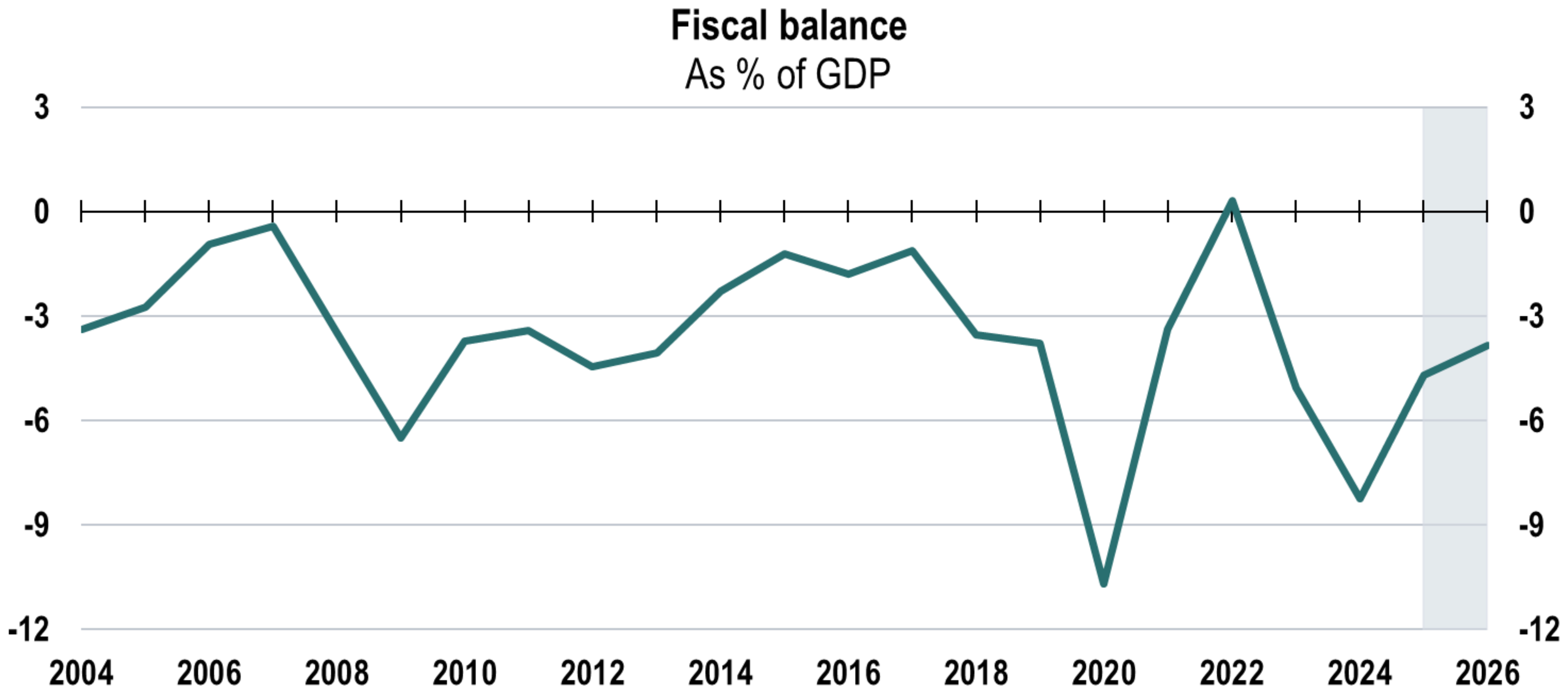
Note: Civilian government consumption excludes military expenditure.
Source: Israel Central Bureau of Statistics (CBS).

The sovereign premium is high given the debt level



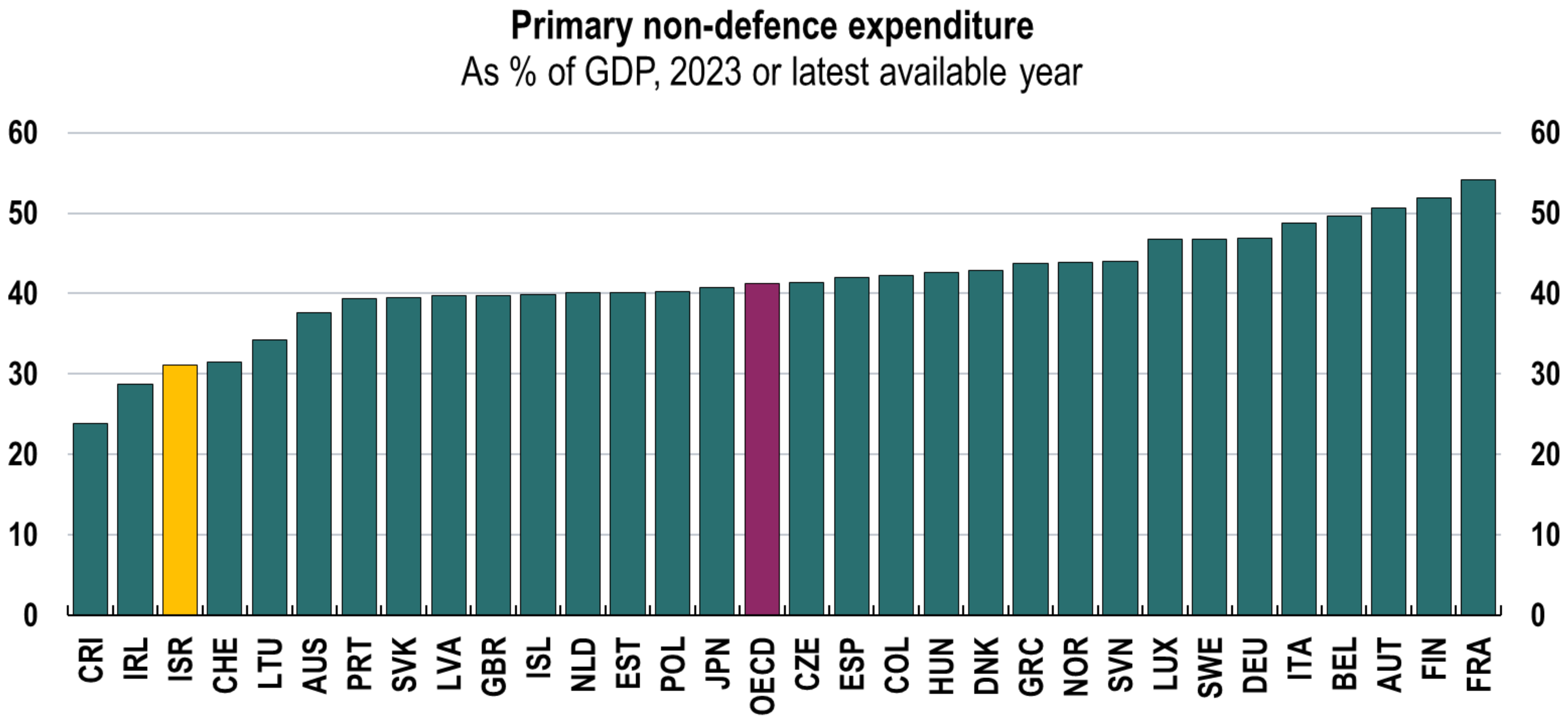
Note: The Credit Default Swap (CDS) premium is the price of insuring a bond against default.
Source: OECD Economic Outlook: Statistics and Projections database; LSEG; and OECD calculations.

Deficit reduction should rely on growth-compatible revenue sources and expenditure reviews



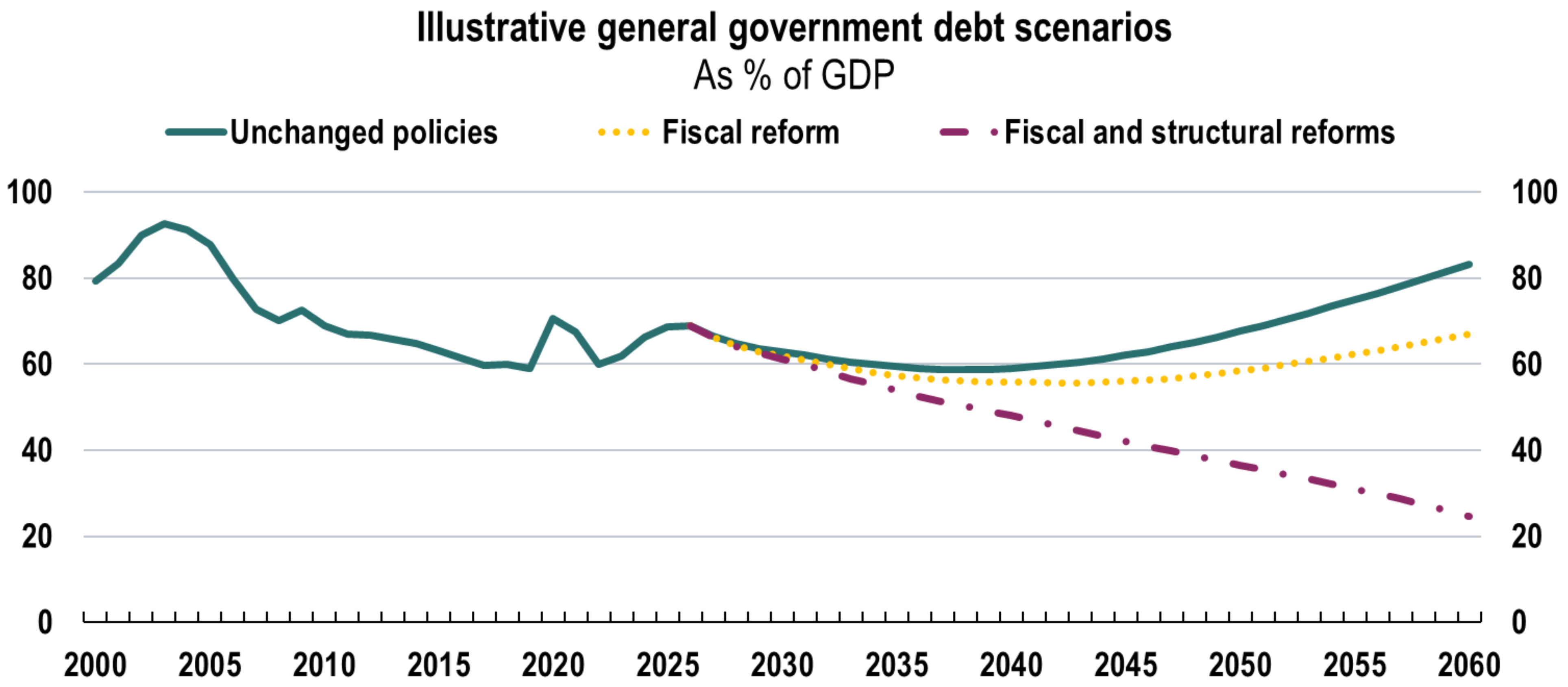
Source: OECD Economic Outlook: Statistics and Projections database; and Israel Central Bureau of Statistics (CBS).

Government civilian spending is comparatively low



Note: For IRL as % of GNI.
Source: OECD National Accounts database; and OECD calculations.

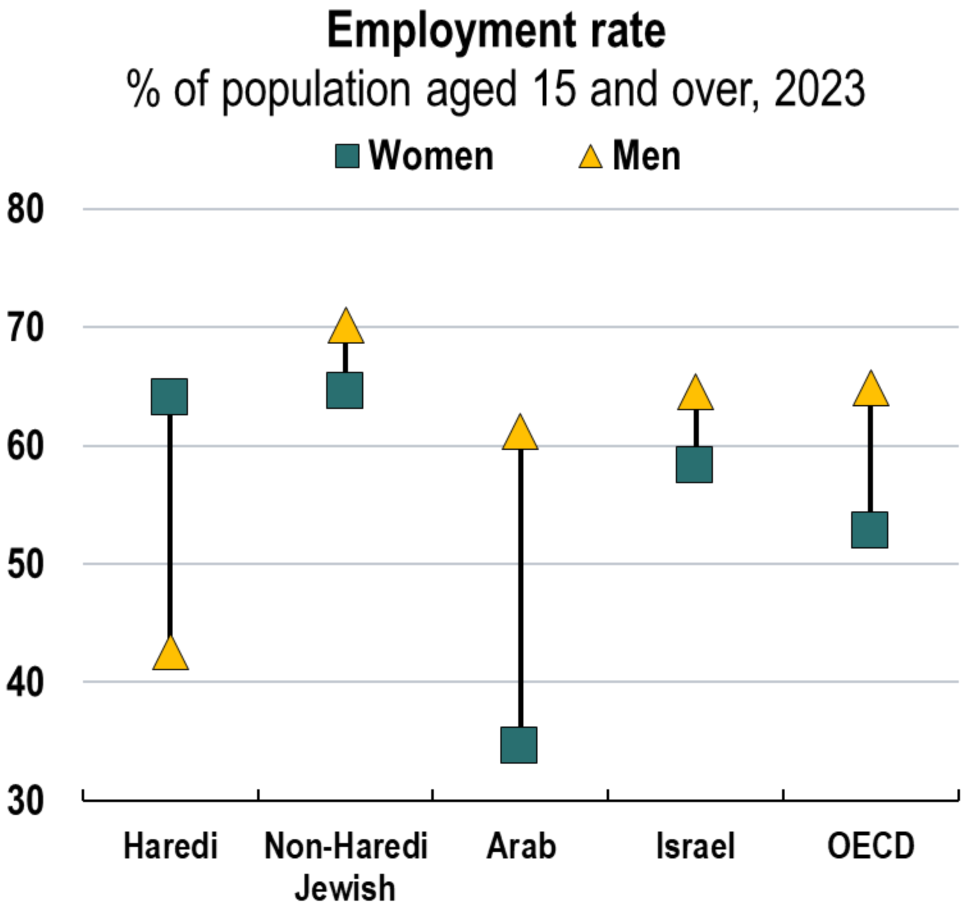
Fiscal and structural reform can ensure medium-term fiscal sustainability

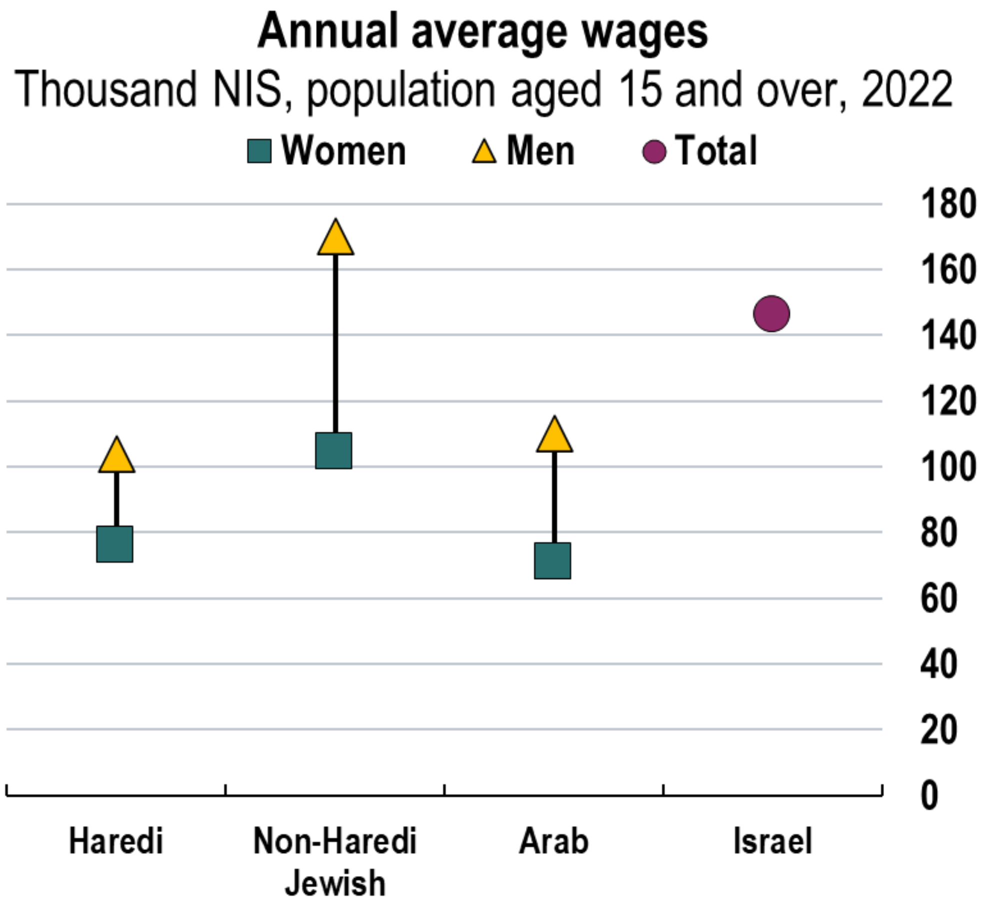


Notes: The "Unchanged policies" scenario follows the OECD Economic Outlook 116 database until 2026. Subsequently, following permanent tax and spending changes and the assumption of rehabilitation expenditure of 0.5% of GDP for five years, the primary balance in the "Unchanged policies" scenario evolves on account of trend changes in health and pension outlays as well as employment. The "Fiscal reform" scenario incorporates higher public investment (+0.7% of GDP to bring the public-sector capital stock to the OECD average by 2040) and revenue increases listed in Table 1.6 of the Economic Survey. The "fiscal and structural reform" scenario includes increases in trend employment and GDP from the structural reforms described in Box 1.3 of the Economic Survey and higher public investment.

Source: OECD Long-Term Economic Model; and OECD calculations.

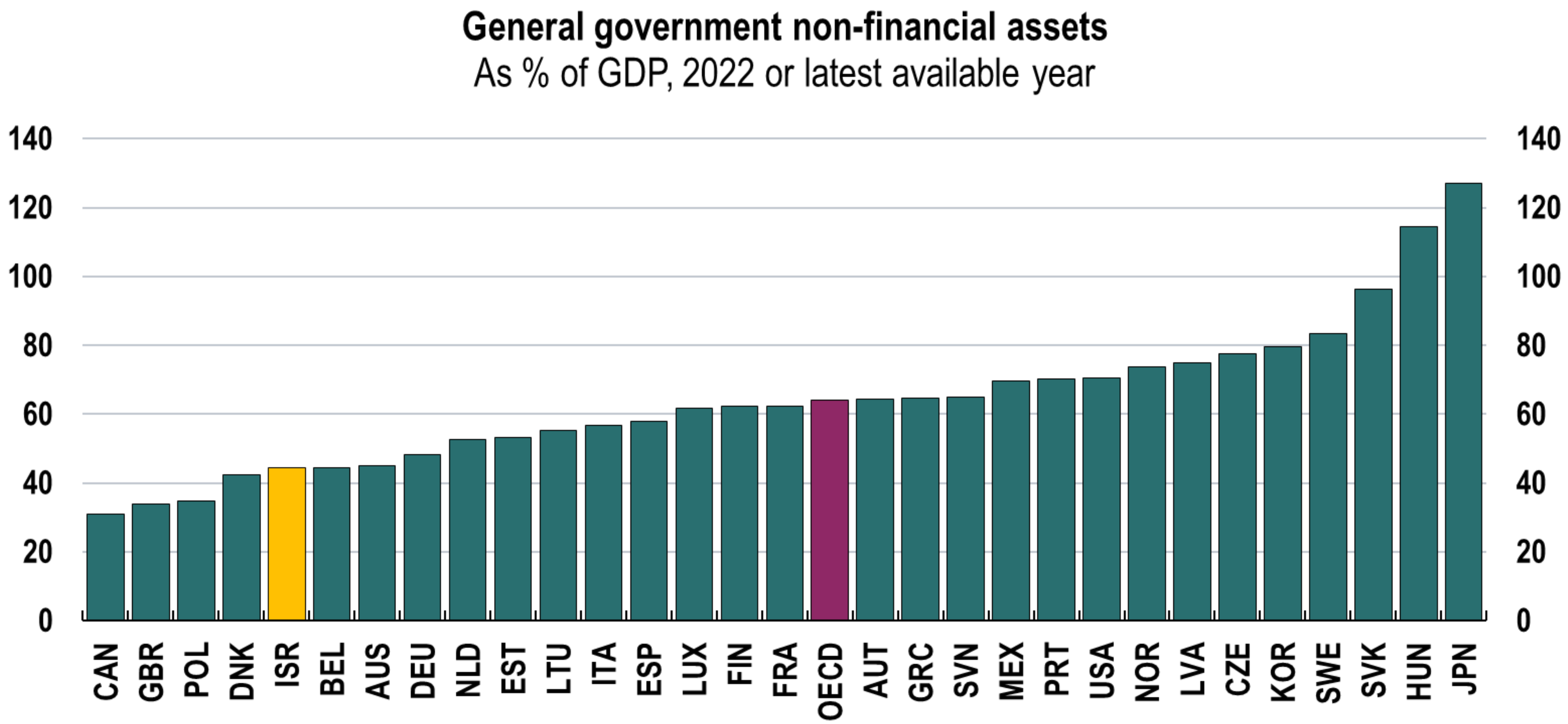
Reducing disincentives to work and improving education across groups can strongly boost growth





Source: OECD Labour Statistics database; Israel Central Bureau of Statistics (CBS); and OECD calculations.

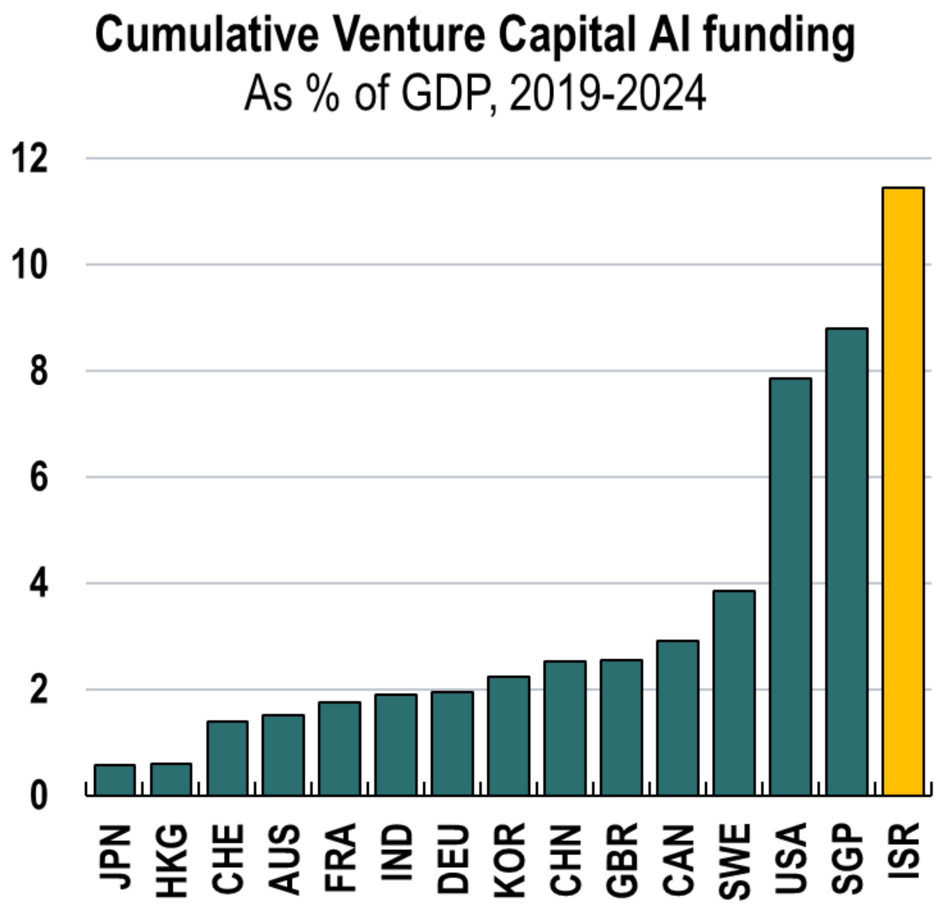
Strengthening public infrastructure would enhance future growth

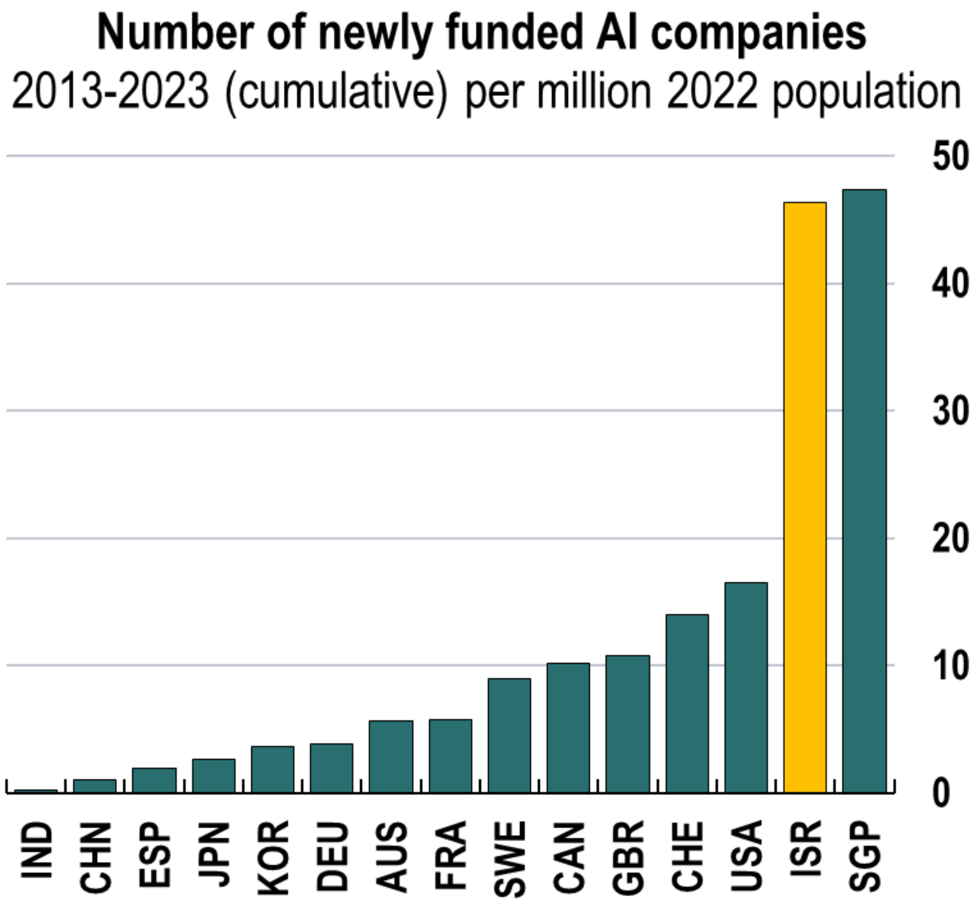


Source: OECD National Accounts database; and OECD calculations.

Reaping the benefits of AI

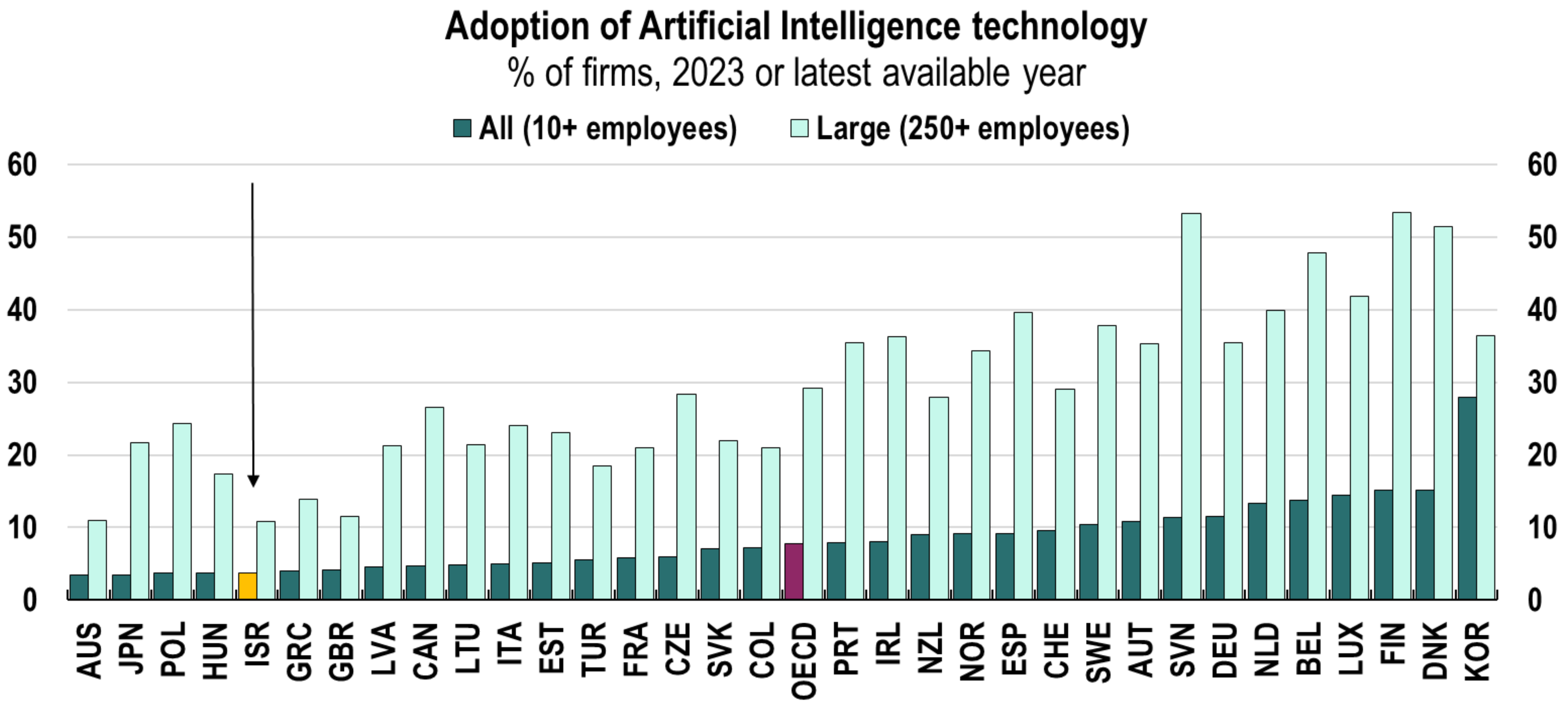
The AI sector is very dynamic including through a flexible approach to regulation





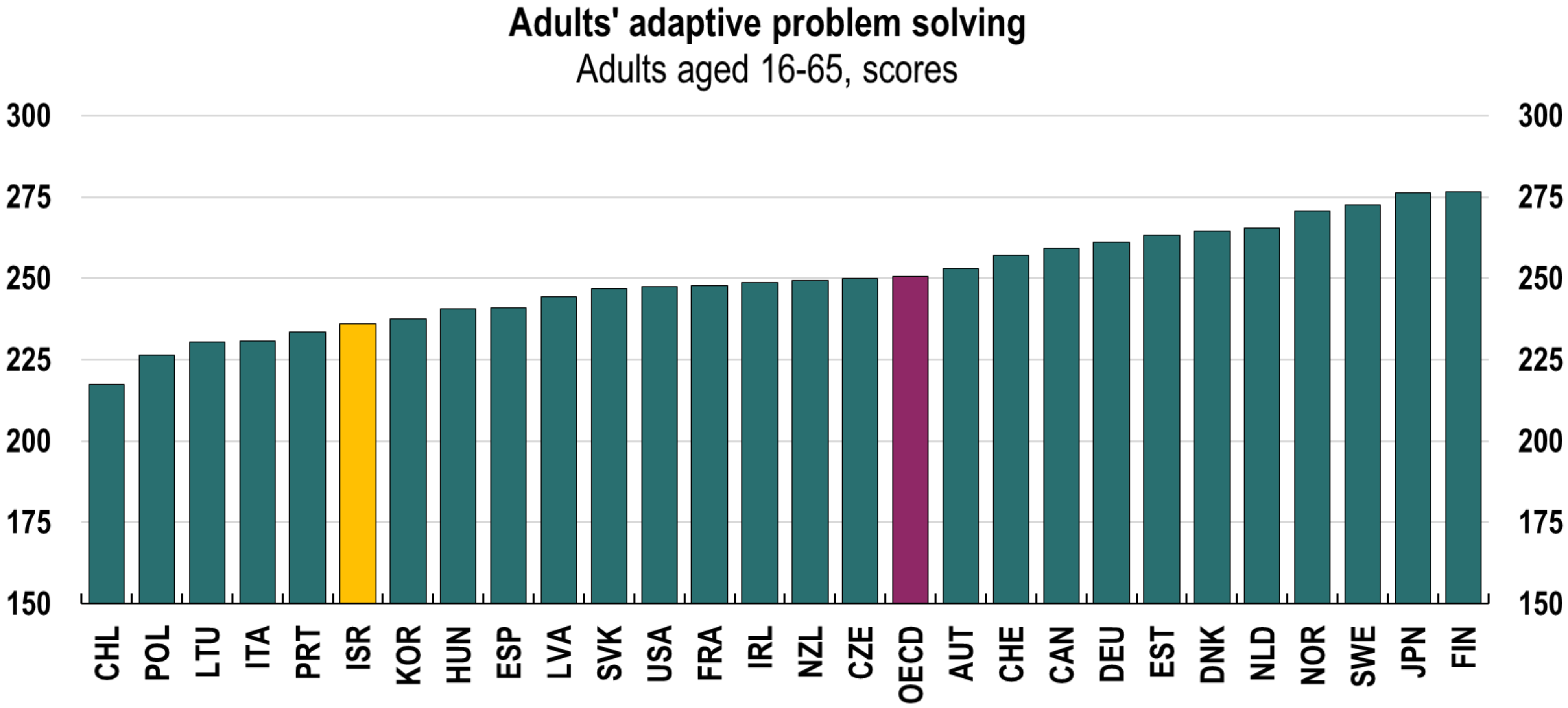
Note: Investment data refers to companies, both listed and unlisted.
Source: OECD AI Policy Observatory; and Stanford AI Index Report 2024.

AI diffusion, which remains limited, would benefit from further promoting trustworthy data sharing



Source: OECD (2024), OECD Digital Economy Outlook 2024 (Volume 1): Embracing the Technology Frontier, OECD Publishing, Paris.

Investing in skills is central to enabling AI deployment across the economy

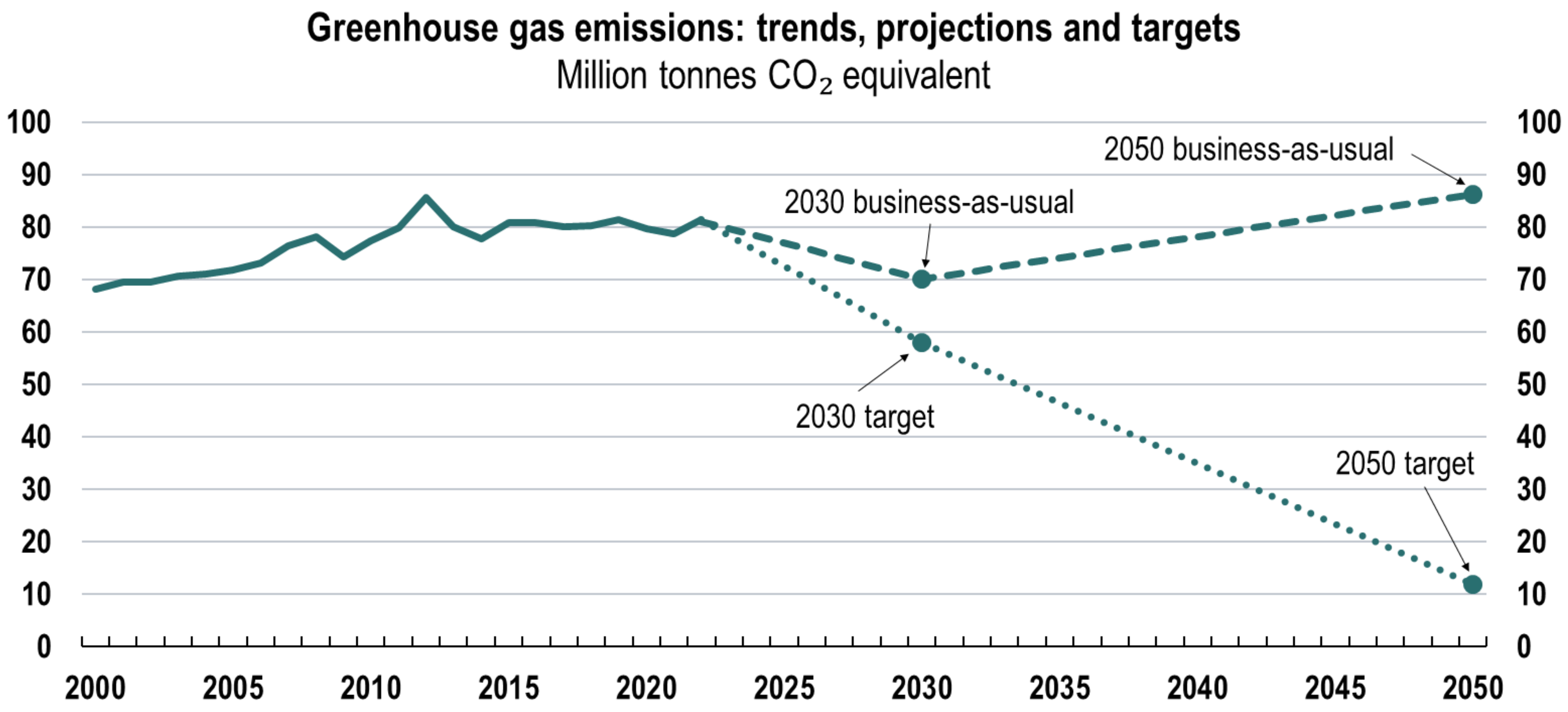


Notes: Adaptive Problem Solving (APS) refers to the ability of adults to adapt to new circumstances and learn throughout life has likely become more important in complex modern societies, which are evolving at an accelerating pace. This motivated the inclusion of this new domain in the 2023 Survey of Adult Skills, replacing the assessment of problem solving in technology-rich environments administered in the first cycle of the survey. Data are based on OECD Survey of Adult skills (2023).
Source: OECD (2024), Do Adults Have the Skills They Need to Thrive in a Changing World?: Survey of Adult Skills 2023, OECD Skills Studies, OECD Publishing, Paris.

Addressing the high cost of living is a priority

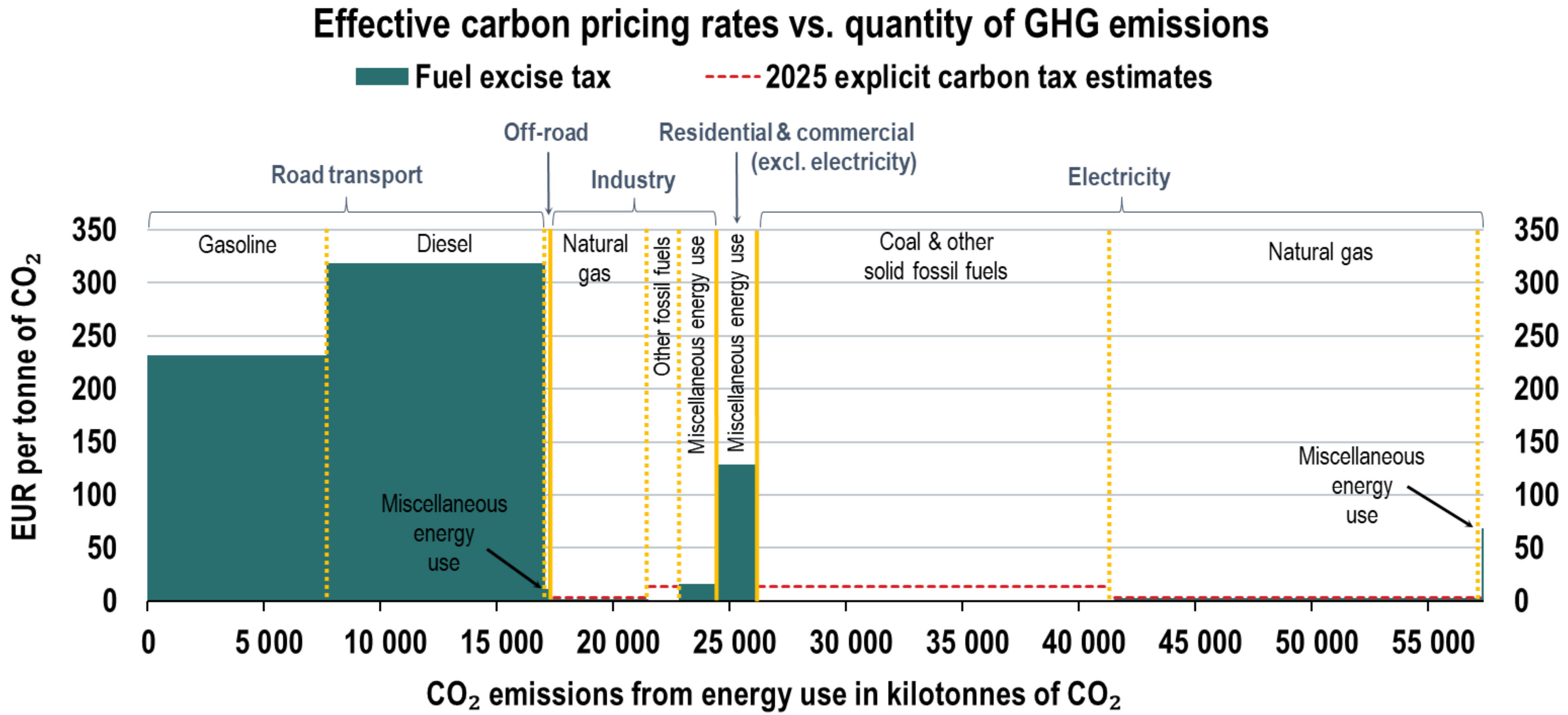
Strengthening climate mitigation and adaptation

Additional measures are needed to meet climate targets



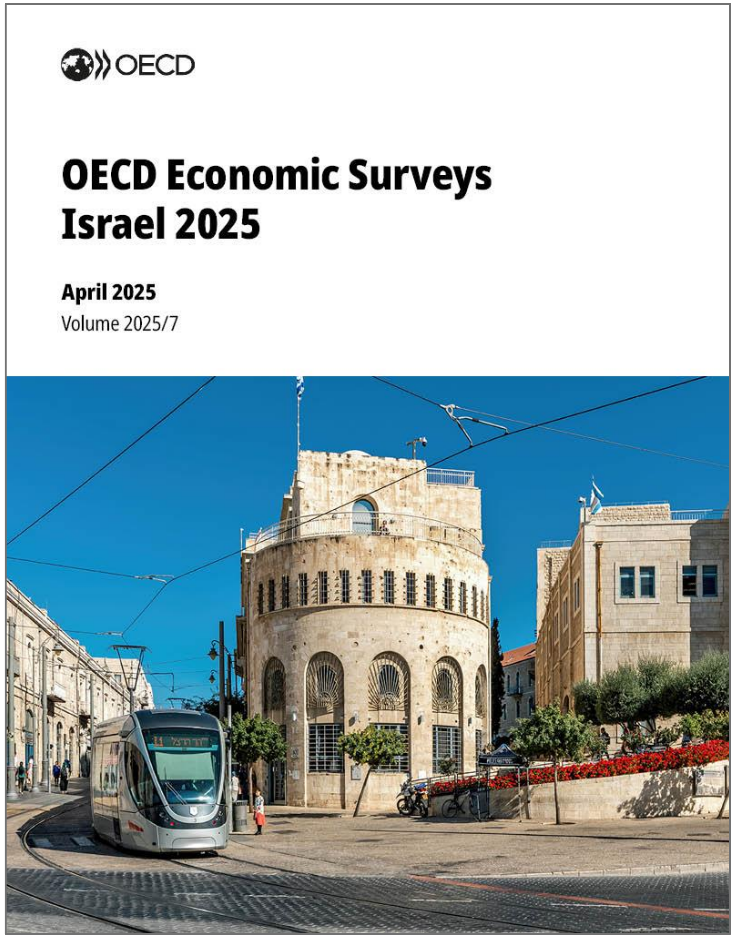
Note: Greenhouse gas emissions excluding land use, land-use change and forestry (LULUCF). Dashed lines refer to emissions projections according to business-as-usual (BAU) scenario. Dotted lines refer to trajectories towards 2030 and 2050 GHG reduction targets with abatement measures according to Government Decision 171/2021.
Source: OECD (2023) OECD Environmental Performance Reviews: Israel 2023

Raising carbon-dioxide prices would lower emissions



Source: OECD (2024), Pricing Greenhouse Gas Emissions 2024: Gearing Up to Bring Emissions Down, OECD Series on Carbon Pricing and Energy Taxation, OECD Publishing, Paris, https://doi.org/10.1787/b44c74e6-en.

For more information



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