

Challenges to the Israeli Economy

Herzliya Conference 2019

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Herzliya

אַל תִּסְתַּכֵּל בַּקִּנְיָן, אֶלָּא בַּמָּה שֶׁיְּשׁ בּוֹ

Literal translation

Do not look at the pitcher but what is inside
or

What it actually means

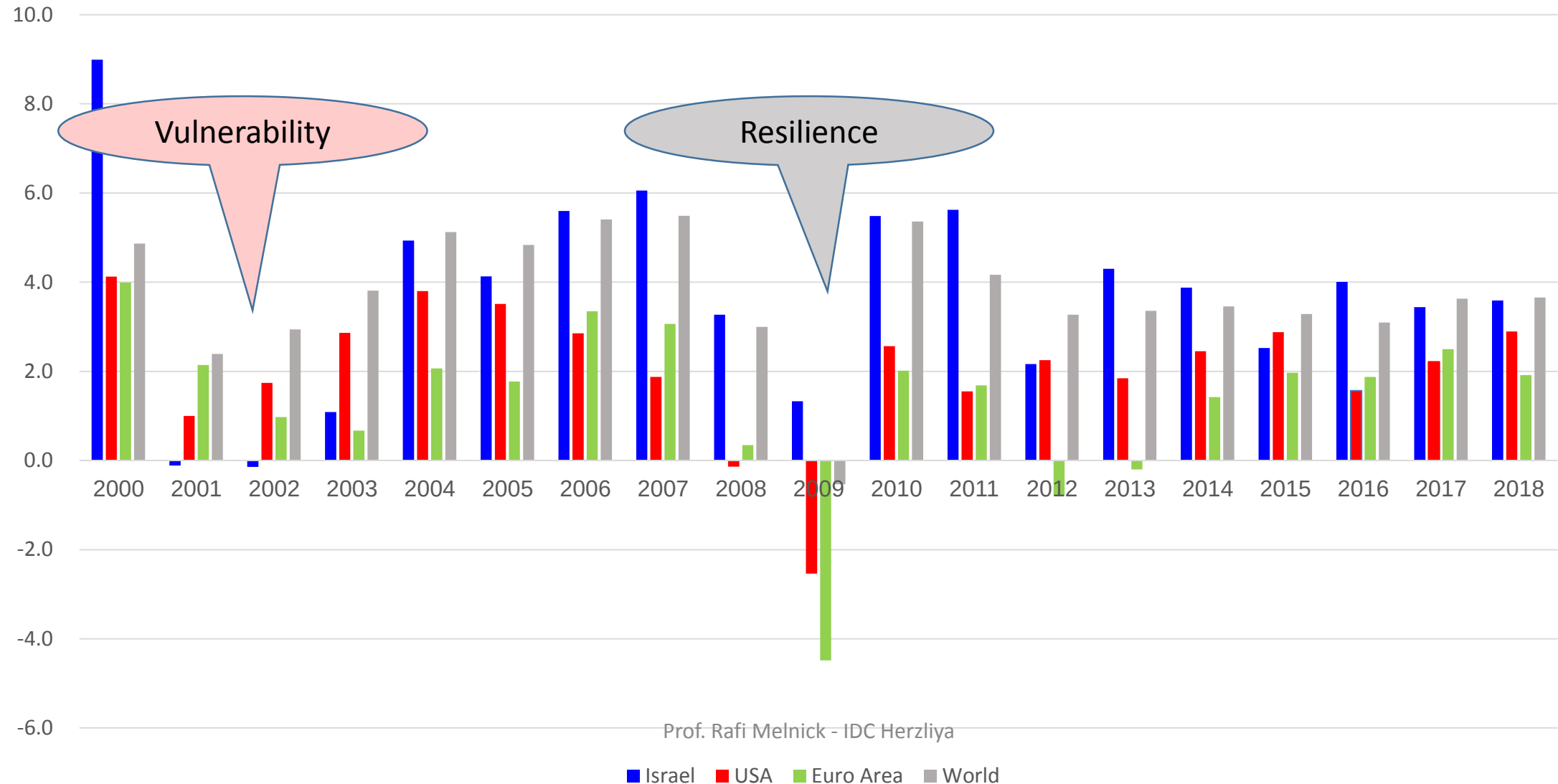
Don't judge a book by its cover

Main Economic Indicators 2018

GDP Growth	3.3%
GDP per capita	N.I.S 149.5 – US \$ 41.4 Thousands
Inflation	0.8%
Unemployment	4.0%
Employment	77.5%
Current Account	US \$ 11 Billion
Exports	US \$ 103.8 Billion
Imports	US \$ 102.2 Billion
General Government Deficit	3.8% of GDP
General Government Debt	61.0% of GDP
Poverty (after taxes and transfers)	18.4% (Families-2017)
Inequality after taxes and transfers)	0.353 Gini (Families-2017)

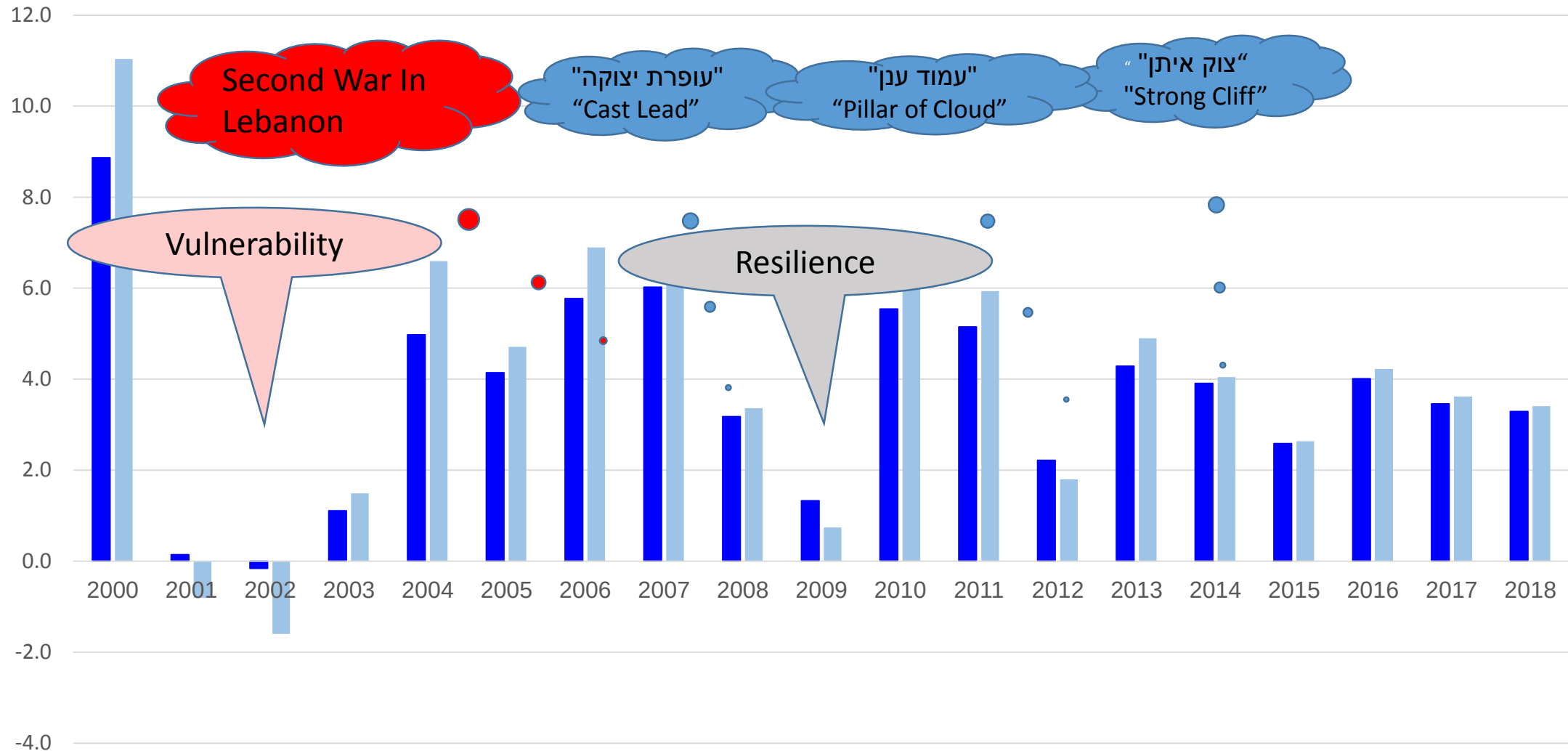
GDP Israel, USA, Euro Area and World 2000 – 2018

(Rates of Growth, Percent)



GDP and GDPB 2000 – 2018

(percent change)



The Source of Economic Resilience

At the World Financial Crisis 2007

- ✓ A Growing Economy
- ✓ Credible Fiscal Policy Rule
- ✓ Balance Budget
- ✓ Declining Debt/GDP Ratio
- ✓ Ammunition for Monetary Policy
- ✓ Low Inflation
- ✓ Flexible Inflation Targeting Policy
- ✓ Surplus in the Current Account
- ✓ Stable Financial Sector

At the Next Crisis

- | | |
|---|---|
| ❖ | X |
| ❖ | X |
| ❖ | X |
| ❖ | X |
| ❖ | X |
| ✓ | Y |
| ✓ | Y |
| ✓ | Y |
| ✓ | Y |

Challenges (inside the pitcher)

- Productivity and Growth
- Fiscal Policy – Deficit and Debt
- Infrastructure Investment
- The Cost of Living – Housing Prices
- Poverty and Inequality

Productivity and Growth

Basic Output Growth Analysis

GDP Growth

= Productivity Growth

+ Labor Input Growth

- Most GDP Growth in recent years is due to Labor input growth with disappointing productivity growth

Labor Input Growth

= Population Growth

+ Participation Growth

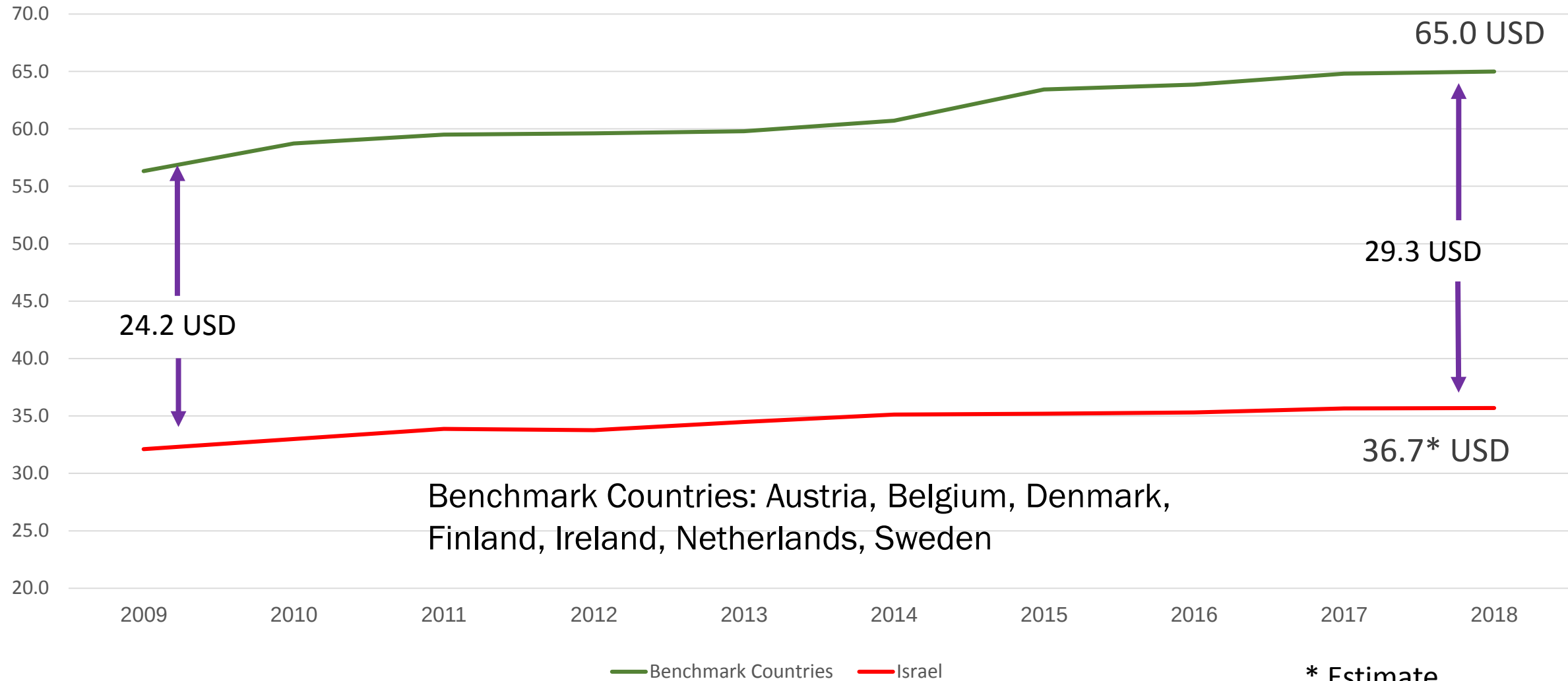
- Labor input growth accelerated in recent years due to the rise in the rate of participation. The rate of participation is not expecting further growth.

CONCLUSION

- Without improvement in the rate of productivity the rate of growth will be just over the population growth !!!

Productivity Challenge – GDP per Hour Worked

2009-2018 (USD at constant 2010 ppp)



The Sources of the Productivity Gap* in 2015

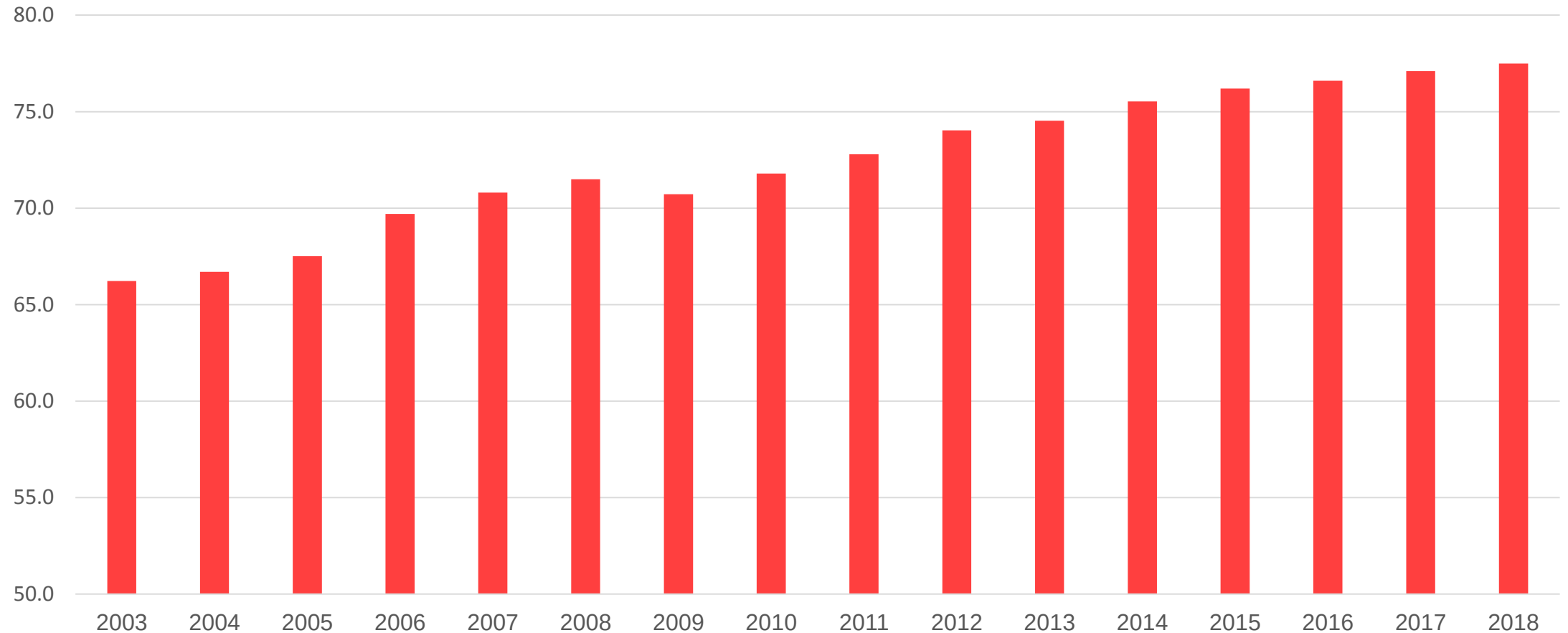
Productivity Gap (1)+(2)+(3)+(4)+(5)	Public Capital Infrastructure (1)	Public Capital ICT** (2)	Private Capital (3)	Human Capital (4)	Total Factor Productivity (5)
\$26	\$8	\$1	\$8	\$5	\$4
100%	30%	3%	31%	20%	16%

*Calculations of the Aaron Institute for Economic Policy Research

** ICT - Information and Communications Technology

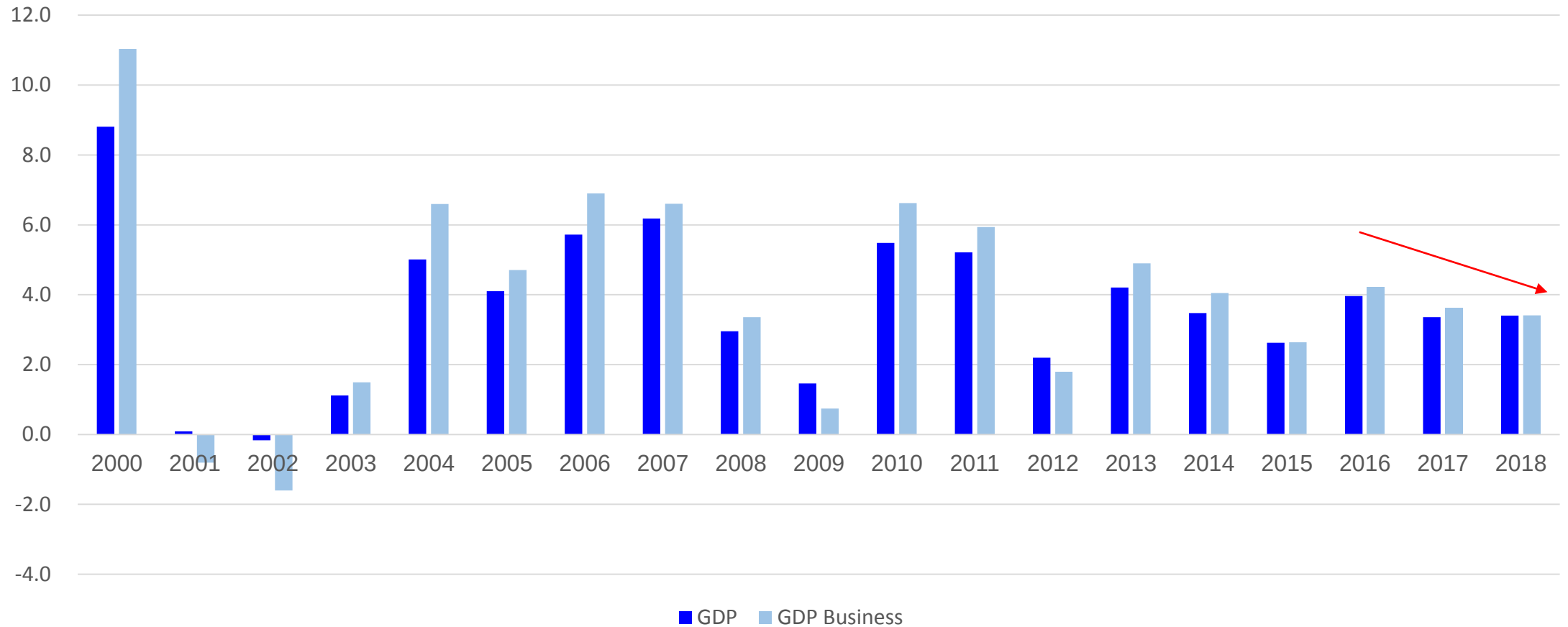
Employment Rate 2003 – 2018

(percent, ages 25-64)



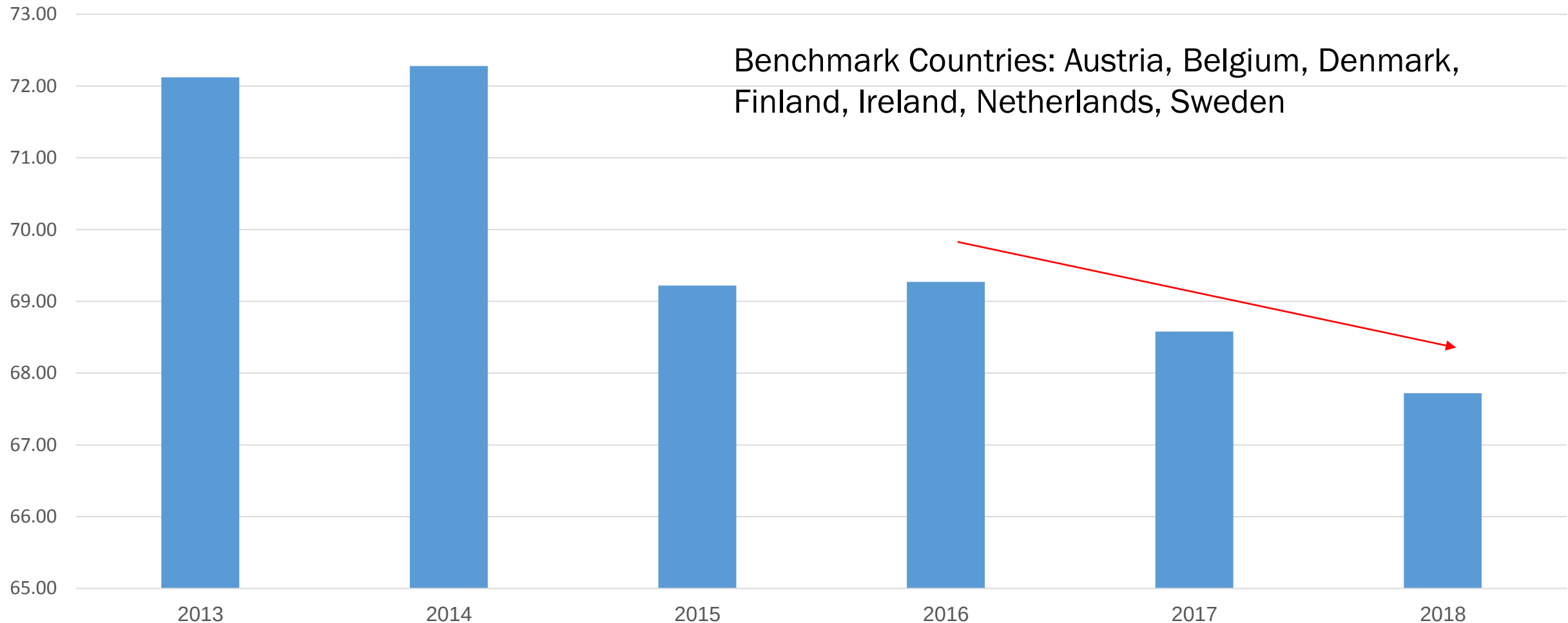
GDP and GDPB 2000 – 2018

(percent change)



GDP Ratio Israel/Benchmark Countries 2013 – 2018

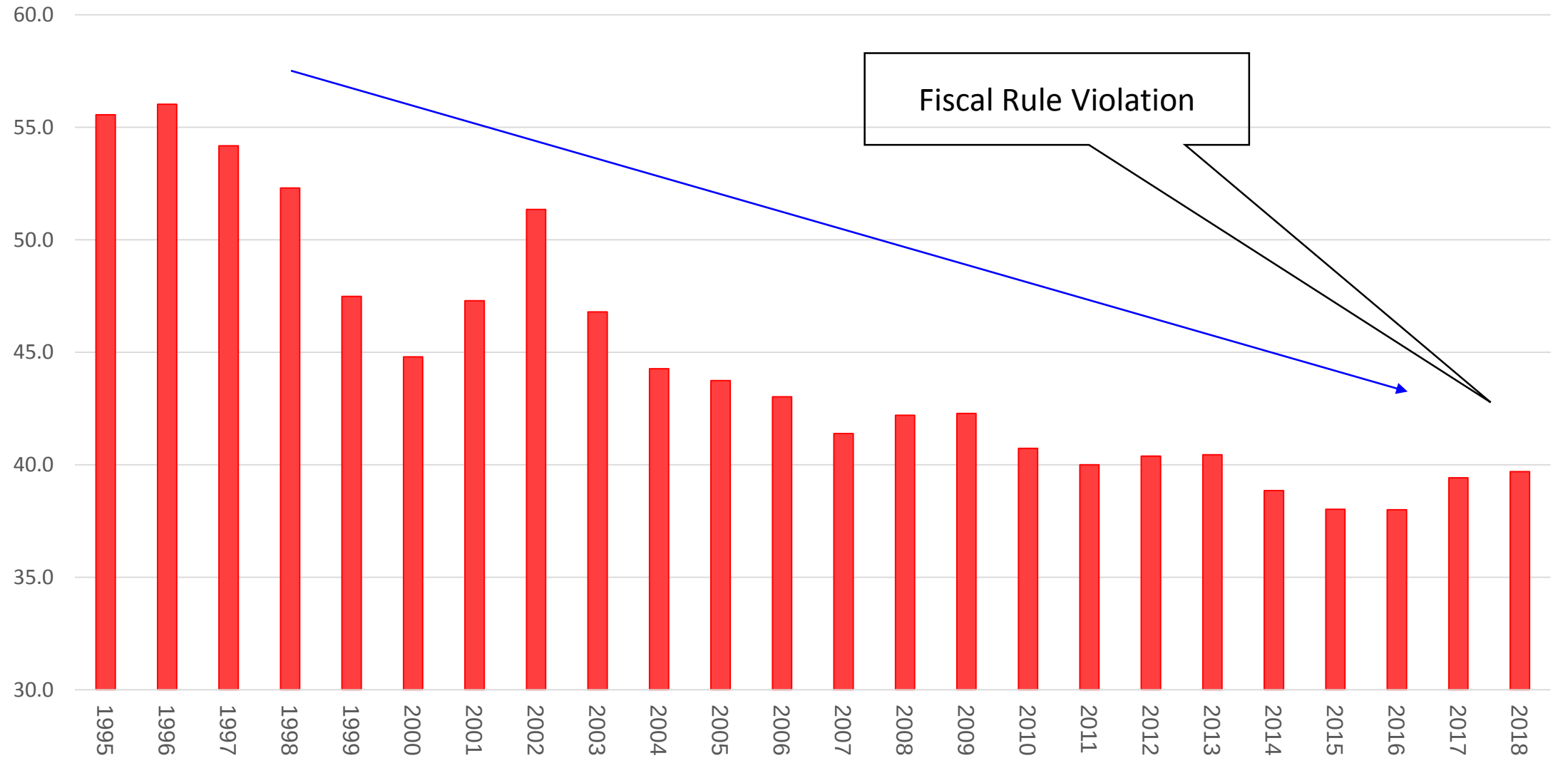
(Per capita GDP, ppp, percent)



Fiscal Policy – Deficit and Debt

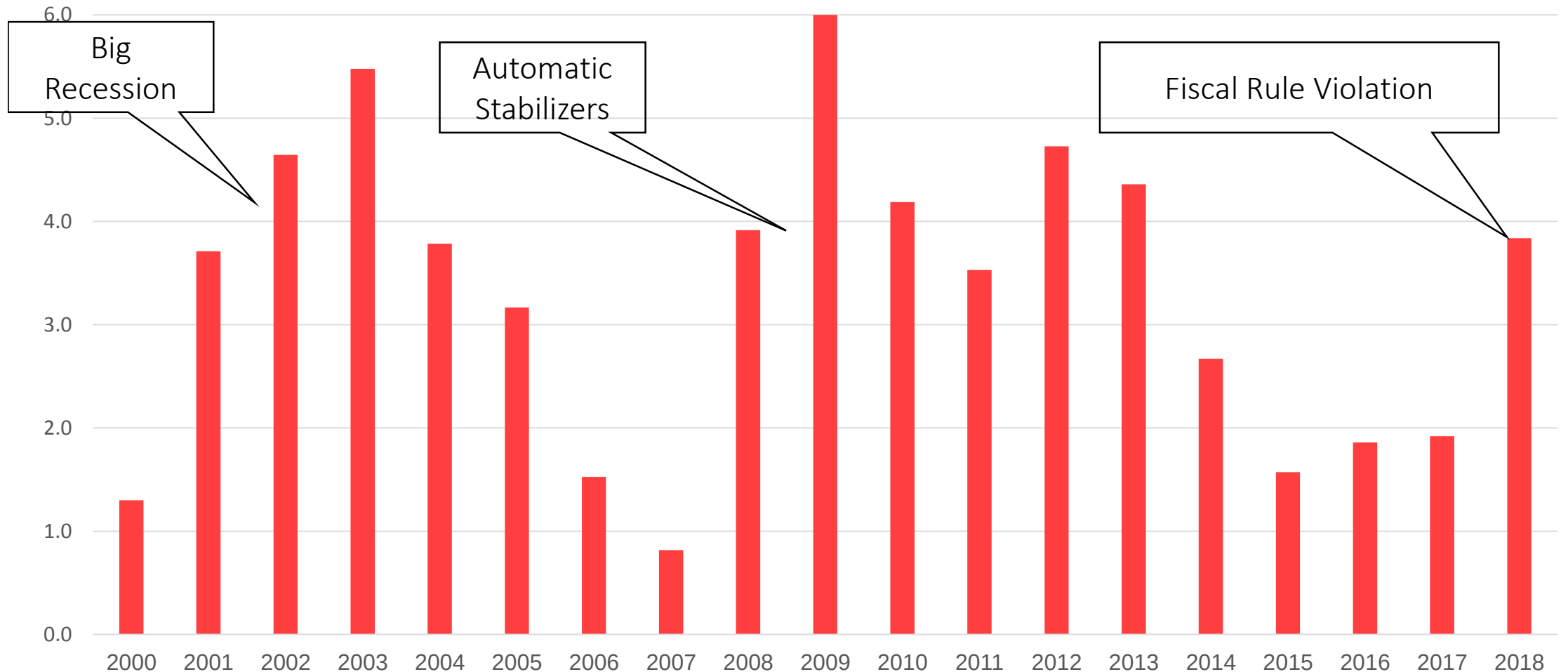
General Government Expenditure 1995 – 2018

(percent of GDP)



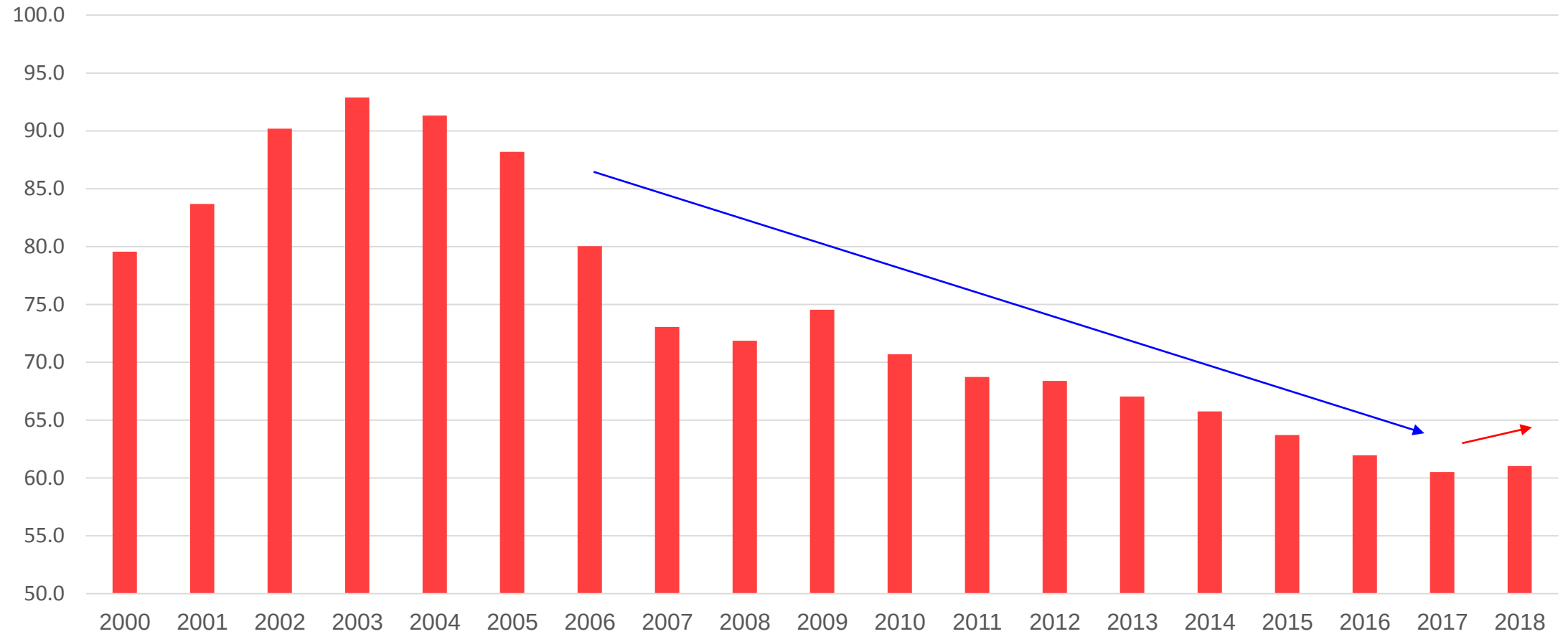
General Government Deficit 2000 – 2018

(percent of GDP)



General Government Debt 2000 – 2018

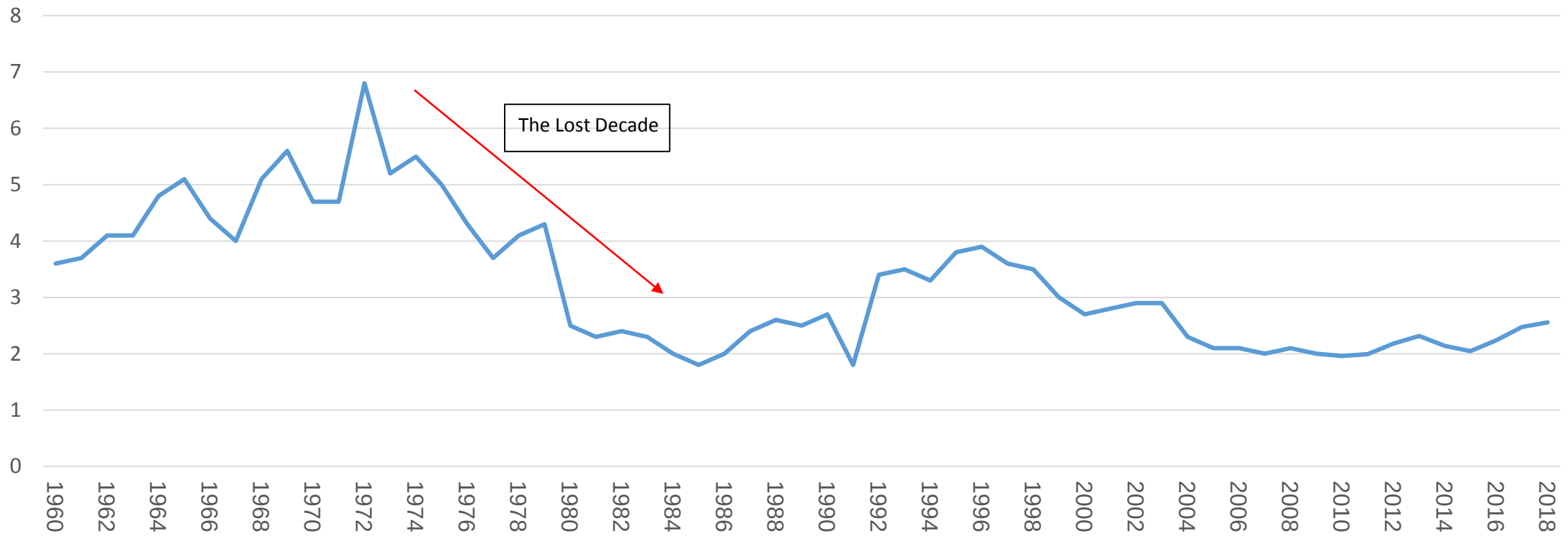
(percent of GDP)



Infrastructure Investment

General Government Investment 1960-2018

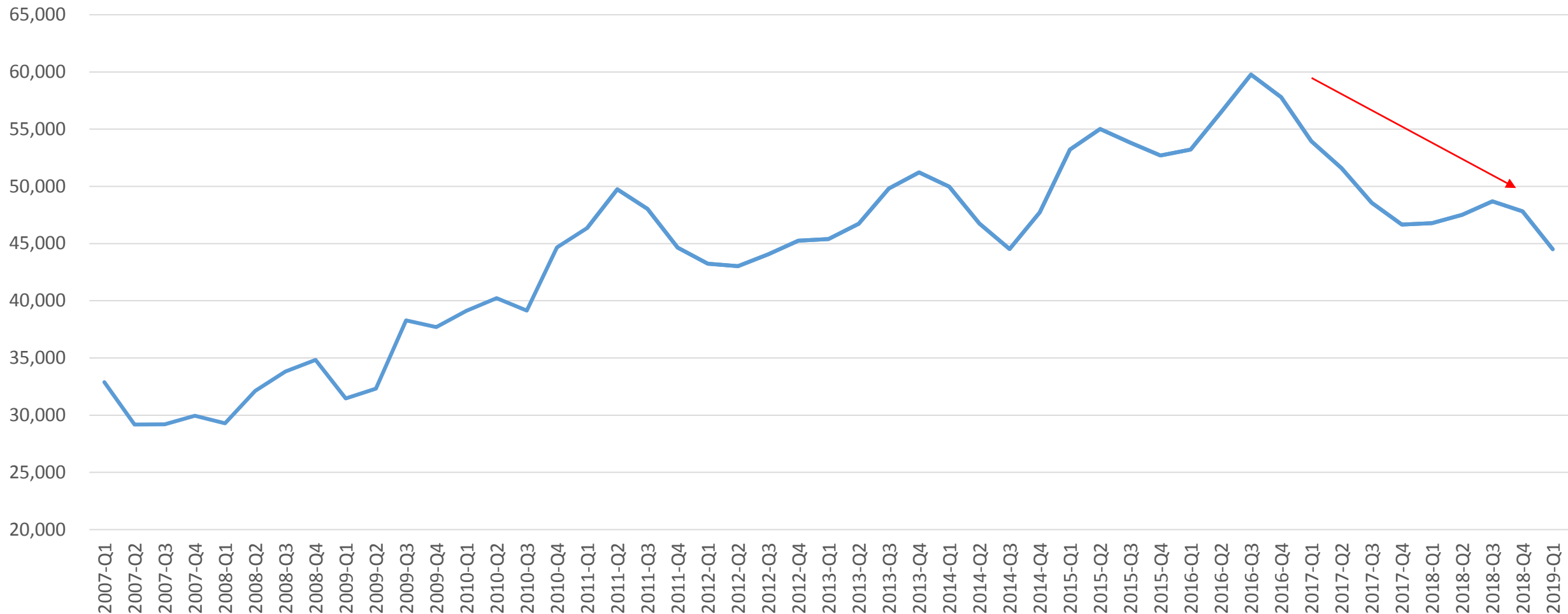
(percent of GDP)



Cost of Living – Housing Prices

Hosing Starts 2007:Q1 – 2019:Q1

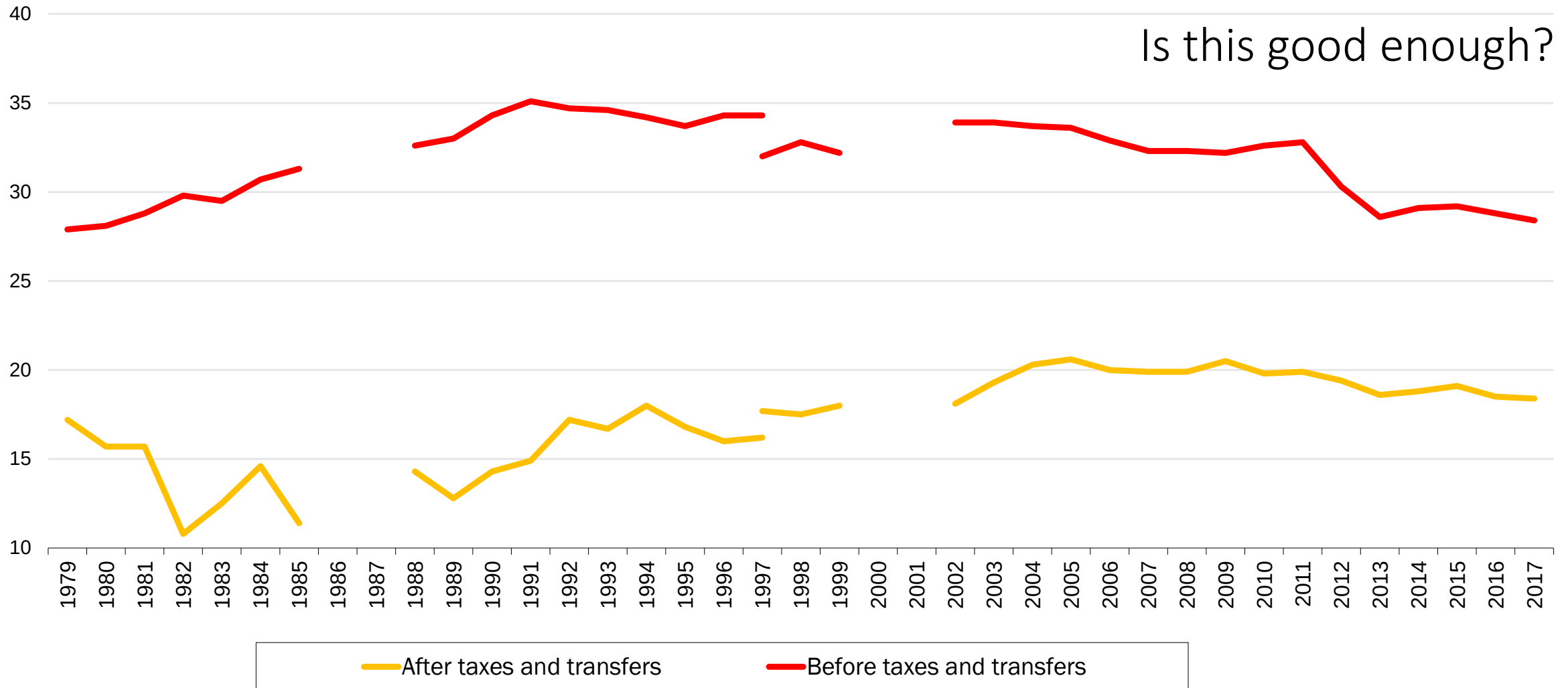
(Seasonally adjusted at annual rates)



Poverty and Inequality

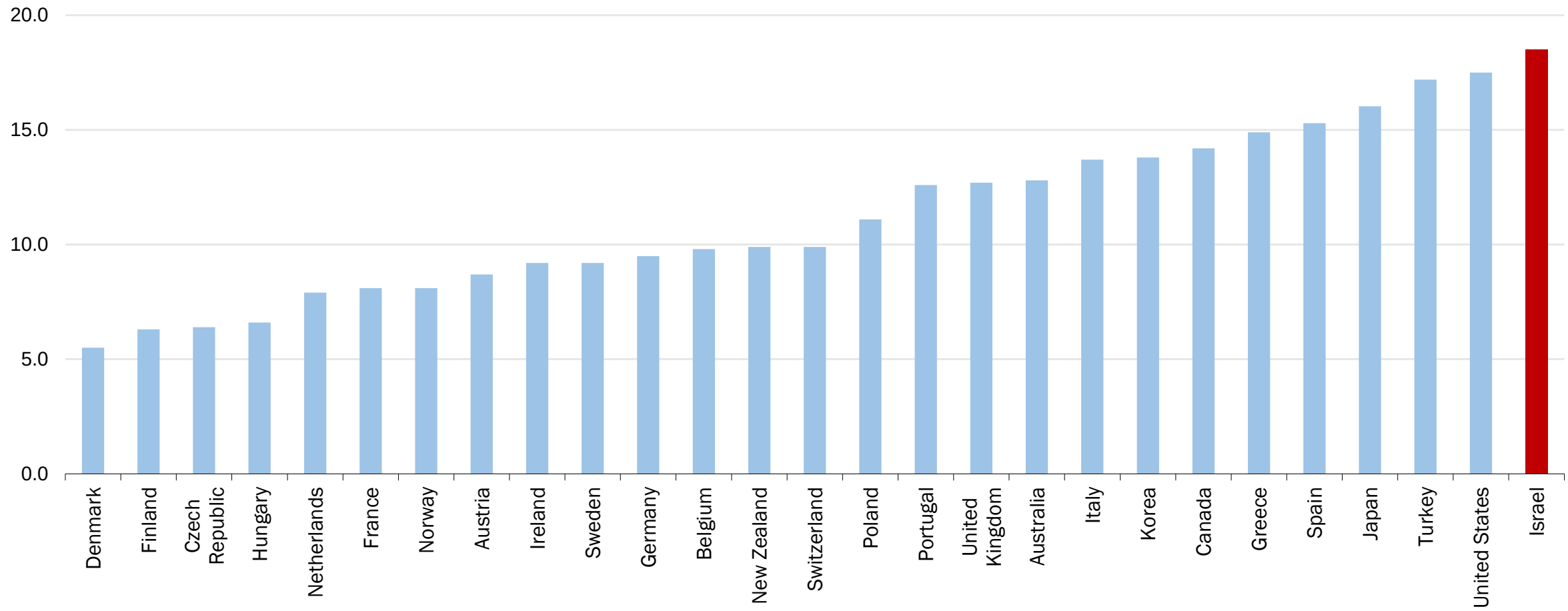
Poverty Incidence in Israel 1979 – 2017

(Families, percent)



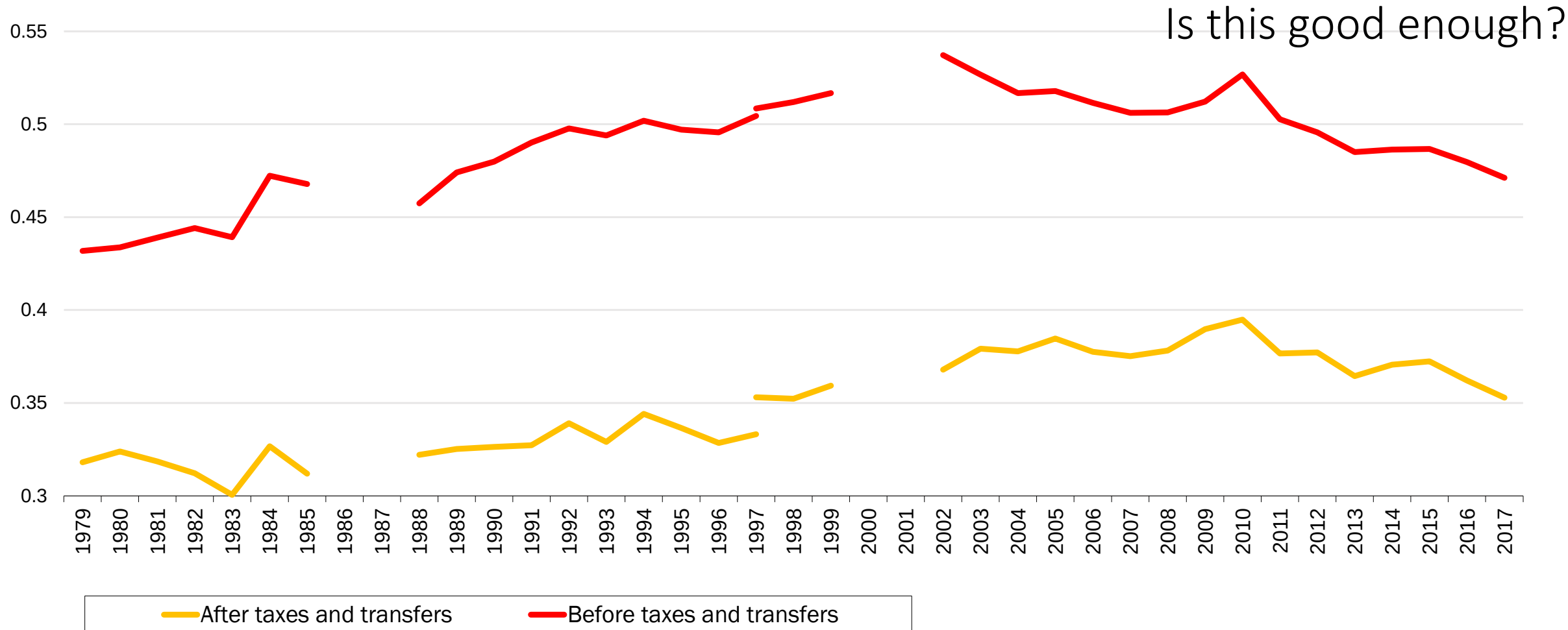
Poverty Incidence OECD Countries

(Latest available data, Families, percent)



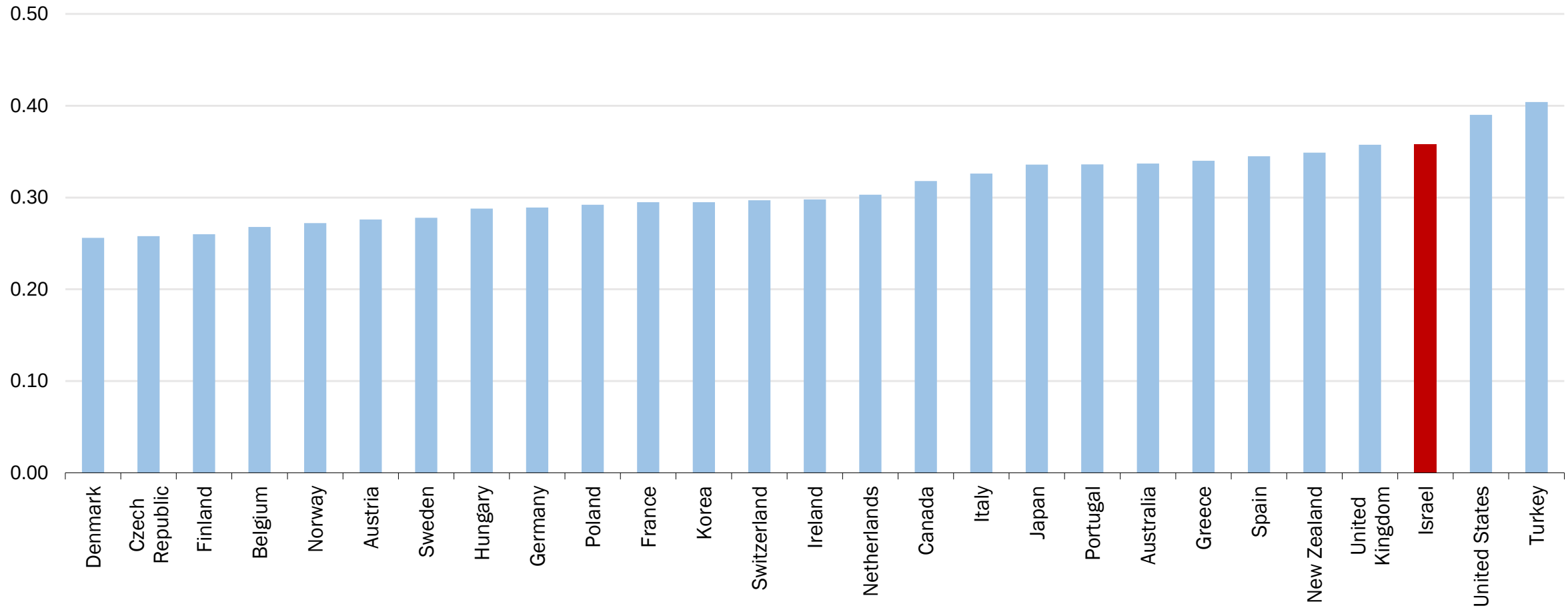
Inequality in Israel 1979-2017

(Gini Coefficient)



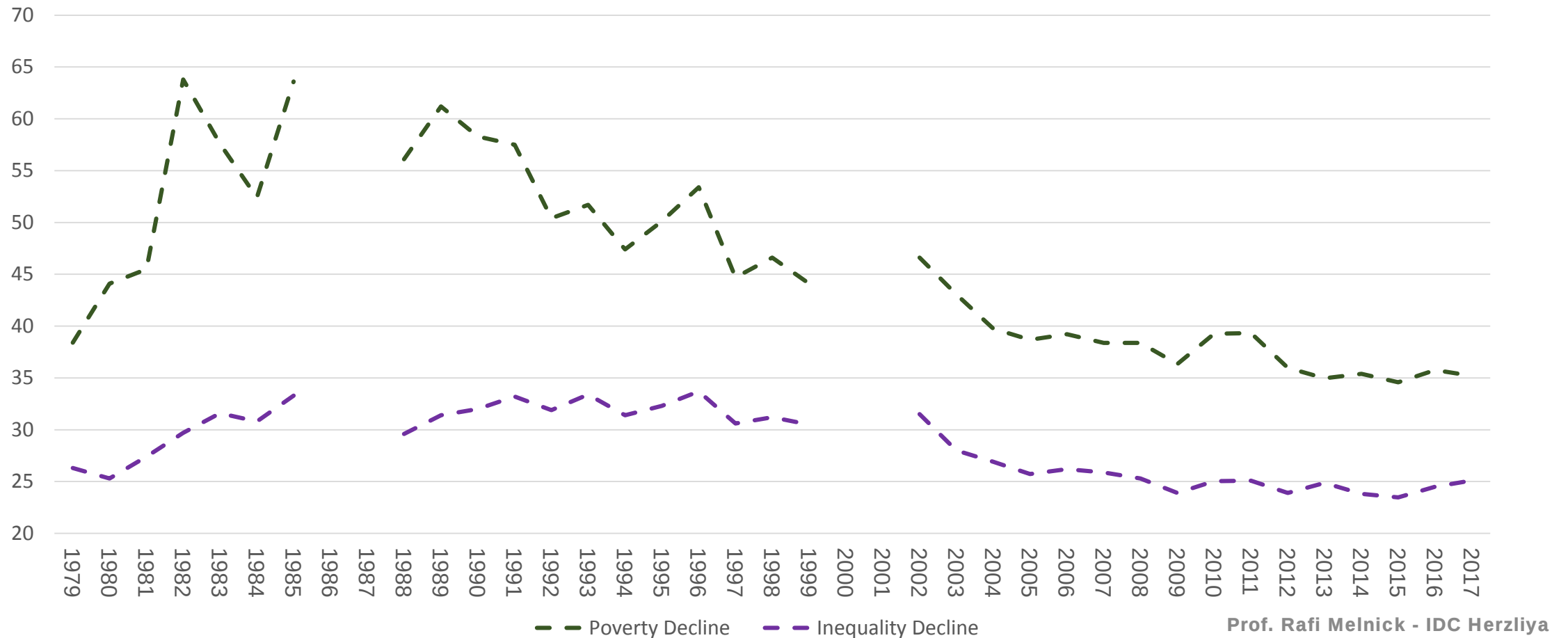
Inequality Incidence OECD Countries

(Latest available data, Gini Coefficient)



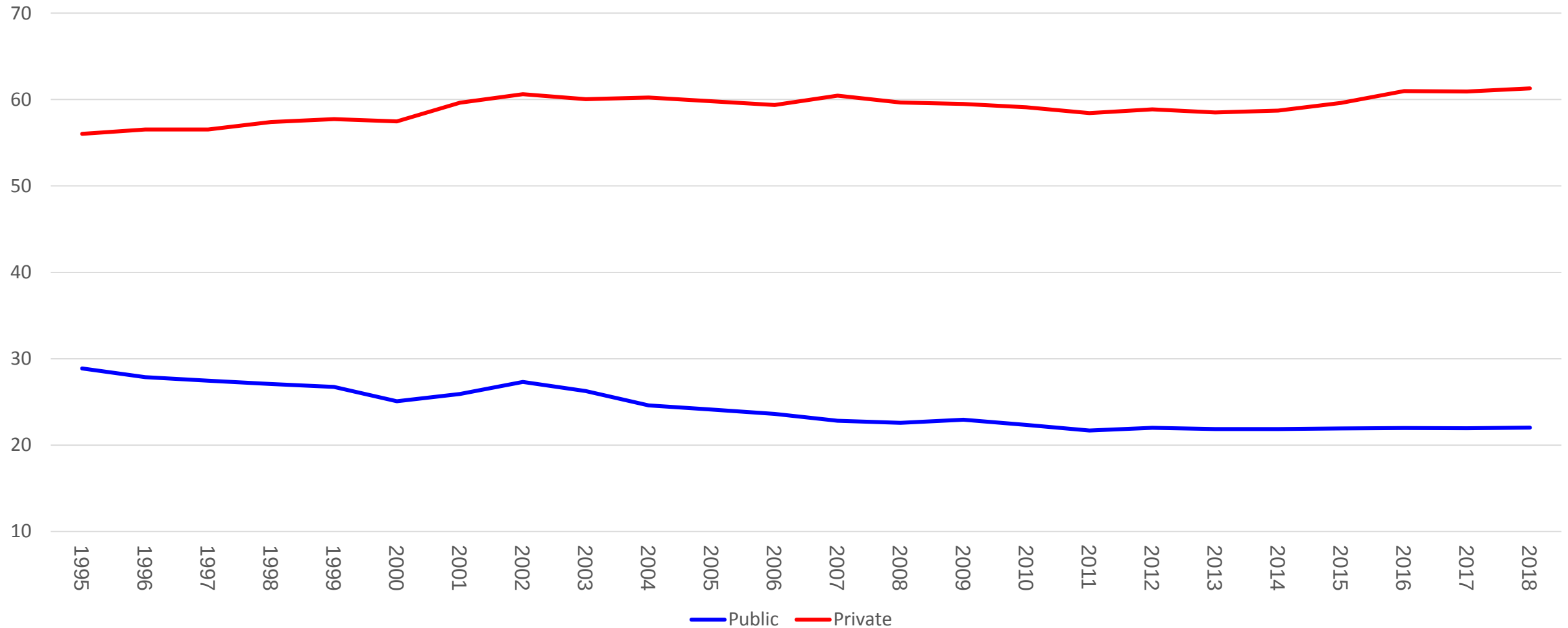
Efficiency of Welfare Policy 1979 – 2017

Percent of decline in poverty and inequality due to taxes and transfers



The Social Challenge - Public and Private Consumption

1995-2018 (At constant 2015 prices, percent of GDP)



Summary

- Productivity and Growth: Without improvement in the rate of productivity growth the per/capita income will remain stagnant
- Fiscal Policy – Deficit and Debt: There is an urgent need to change the fiscal rule and to regain control on the expenditure and the deficit
- Infrastructure and Private Sector Investment: Without a major increase in infrastructure investment (specially in transportation) and an increase in private sector investment the gaps vis-à-vis the western countries will remain
- The Cost of Living – Housing Prices: without additional supply of houses, prices will increase
- Poverty and Inequality: The trickle-down approach to poverty and inequality reduction is not sufficient to achieve significant improvements