

The Herzliya Conference The Economic Dimension 2009

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The Big Issues

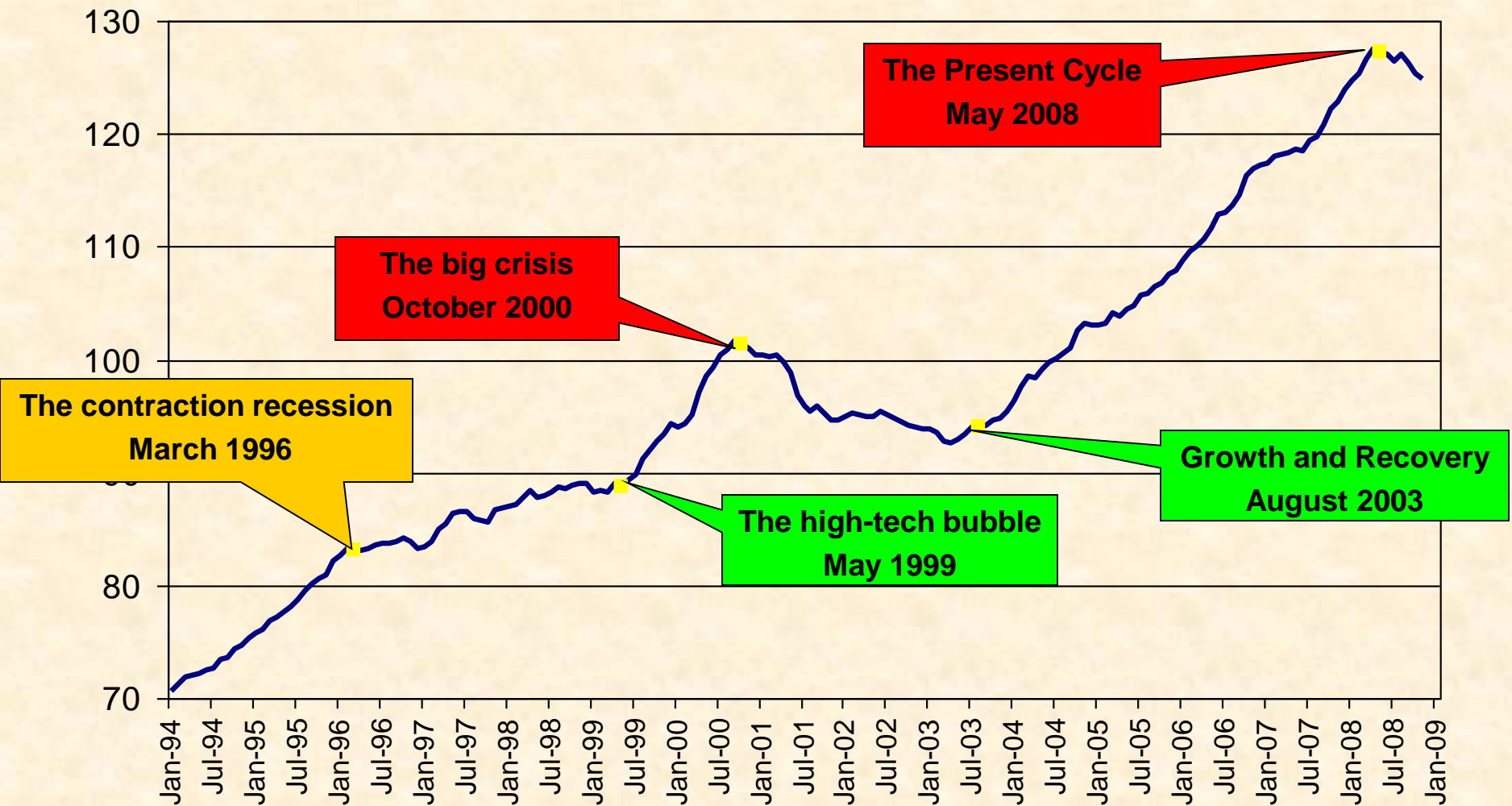
- The broken crystal ball
- A crisis that happens once in 100 years
- From a country oriented economy to a world global economy
- A need for a new architectural structure of the financial markets and Institutions

Identifying Business Cycles Turning Points in the Israeli Economy

The Present Cyclical Position

The Melnick Index 1994-2008

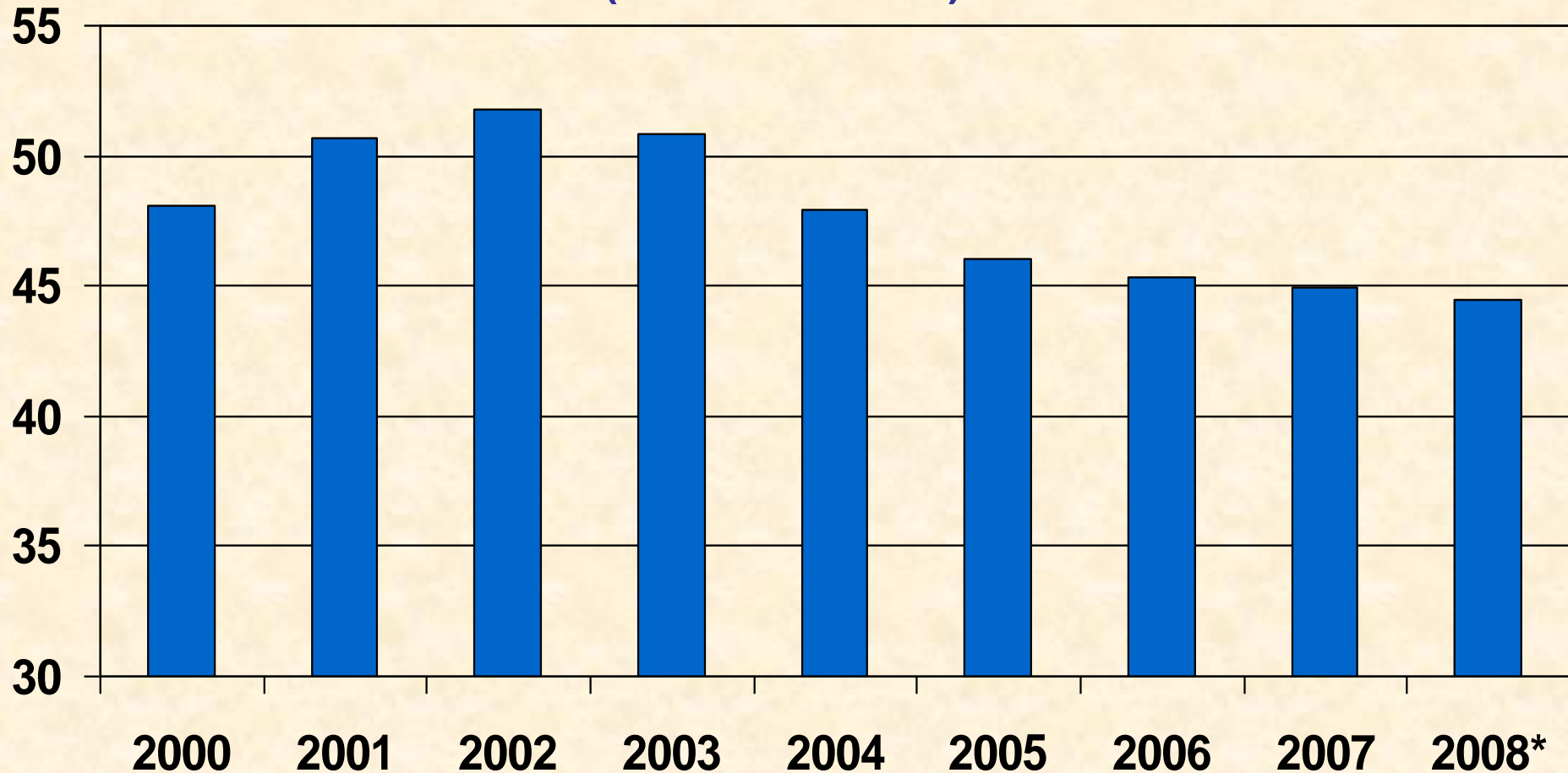
(2004 = 100)



The Source of Economic Resilience

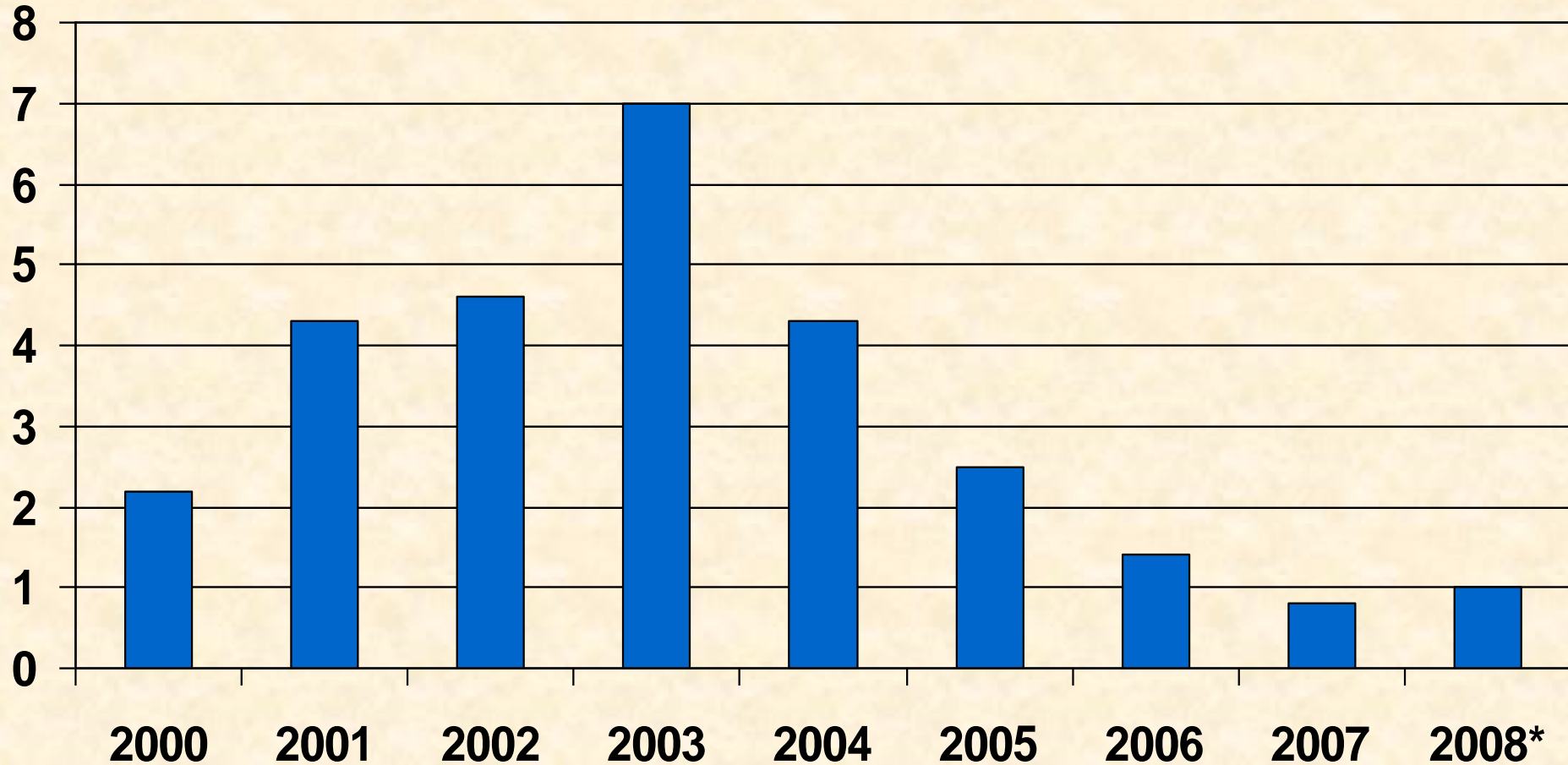
General Government Expenditure 2000-2008

(Percent of GDP)



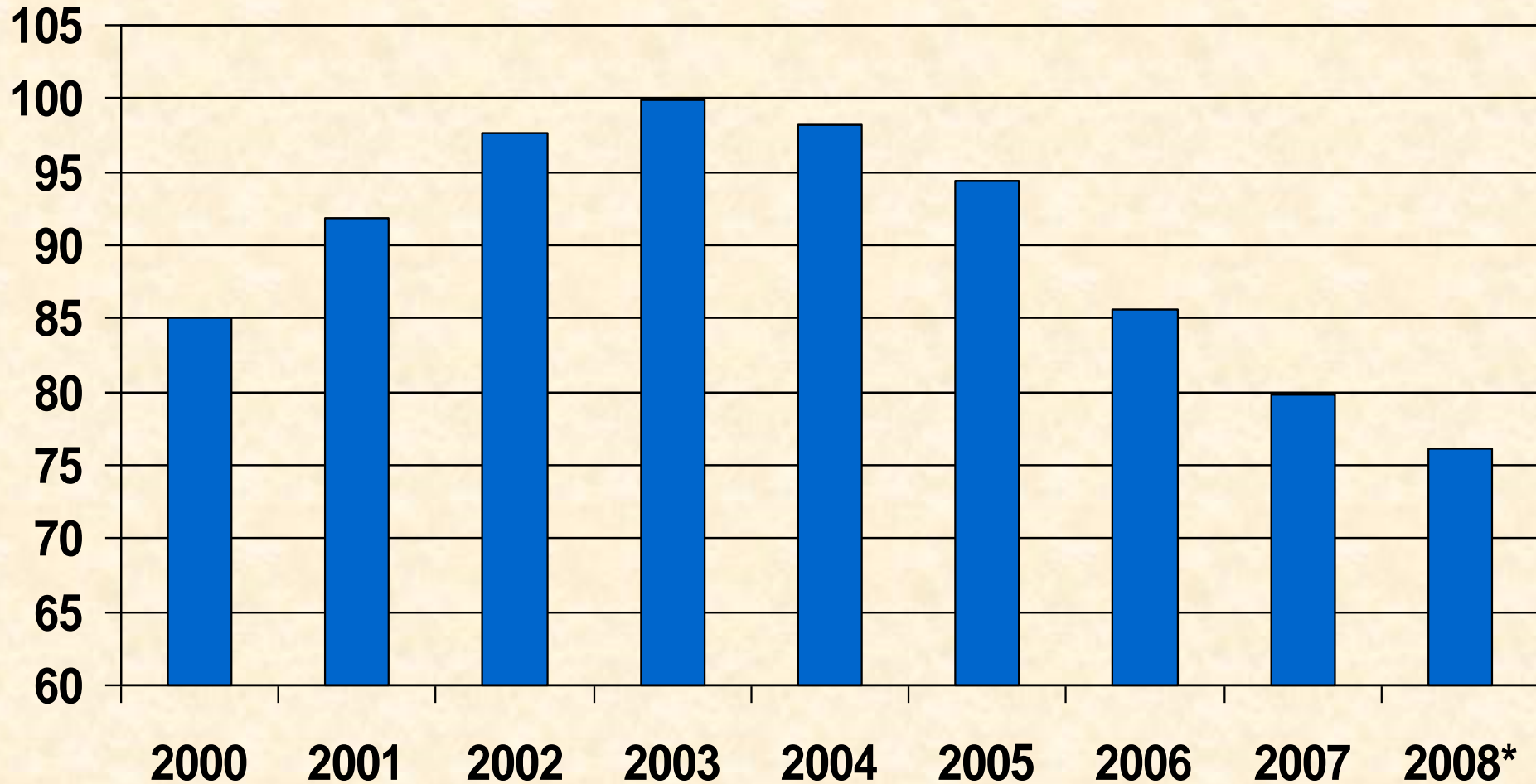
General Government Deficit 2000-2008

(Percent of GDP)

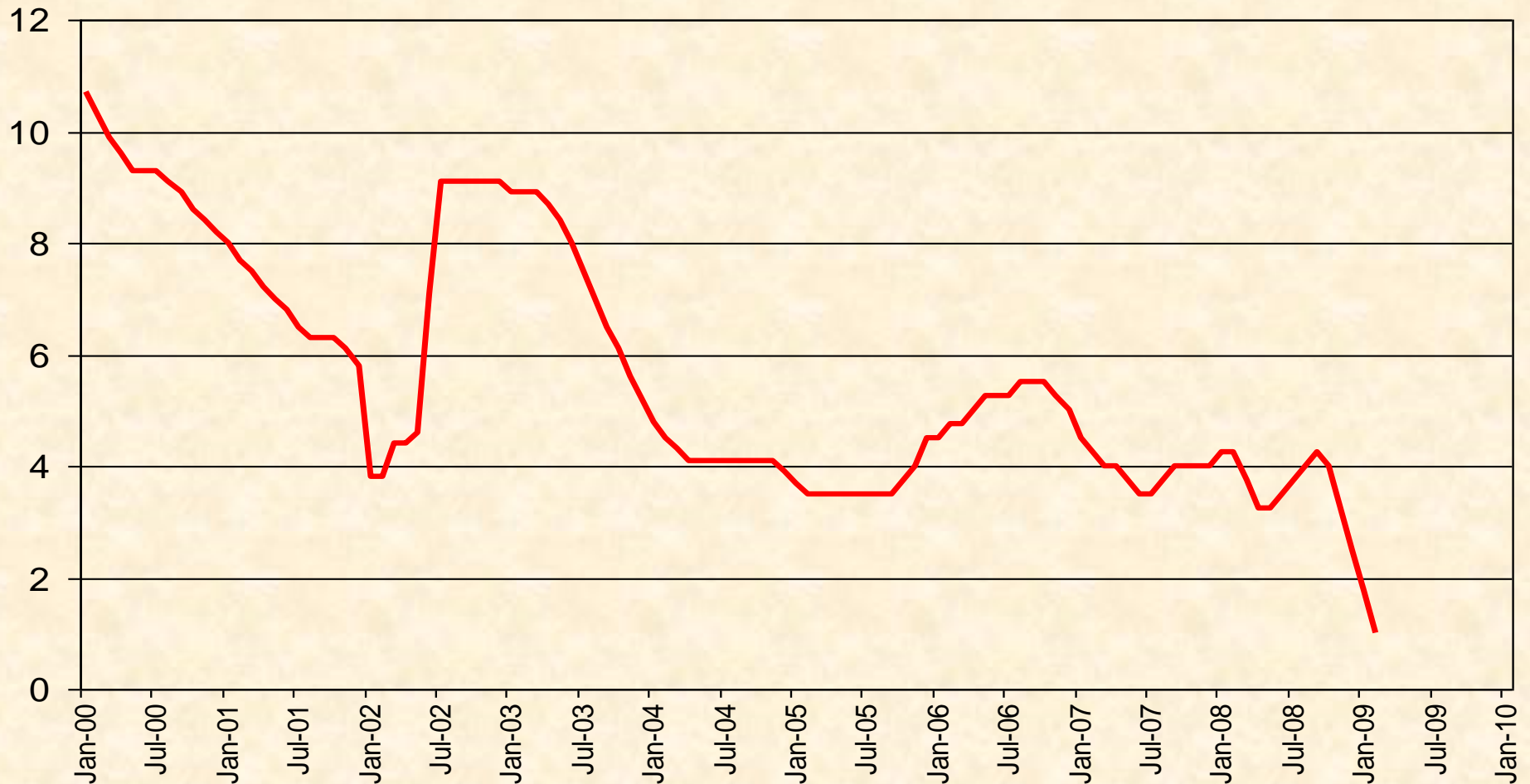


Public Debt 2000-2008

(Percent of GDP, Gross Debt)

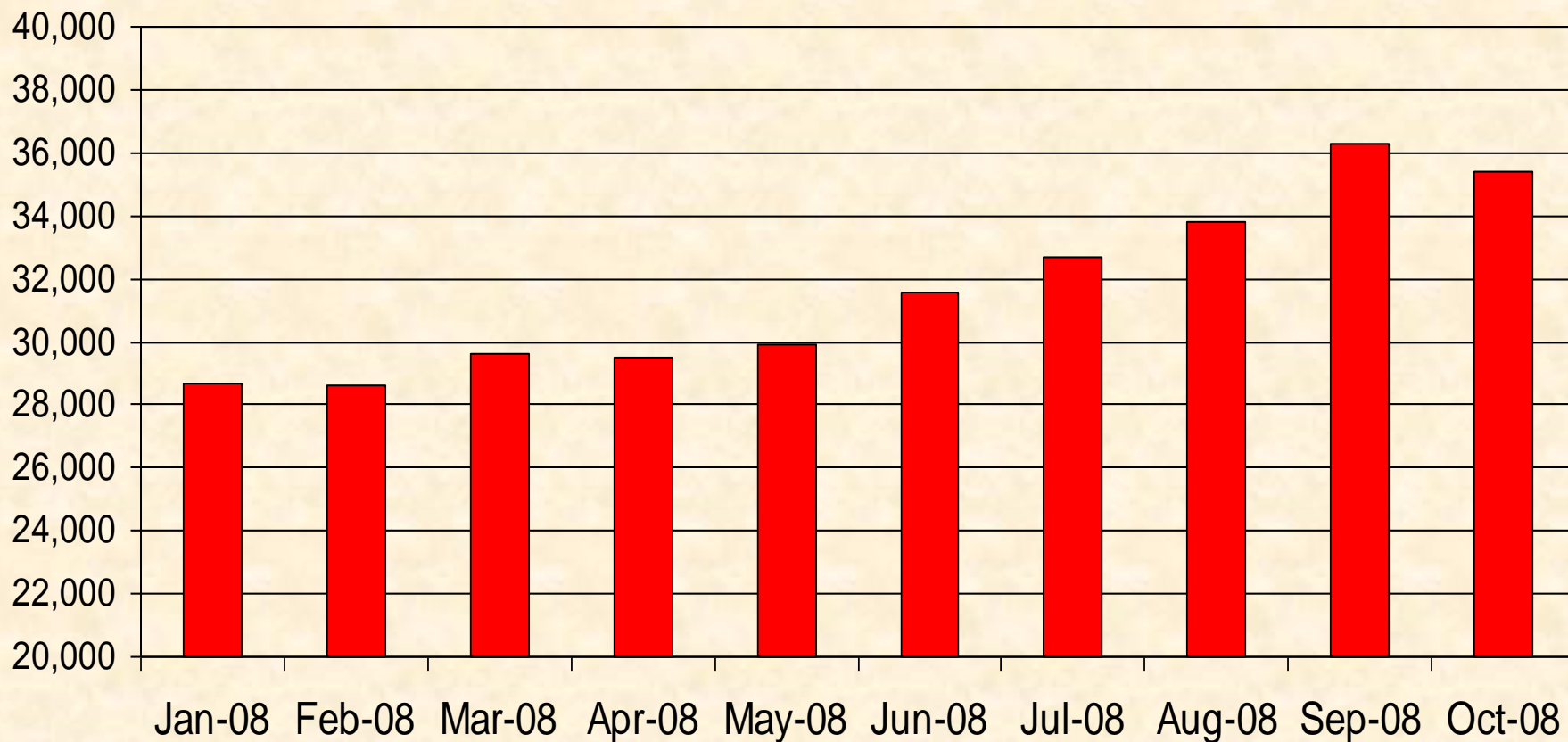


Bank of Israel Interest Rate 2000-2009



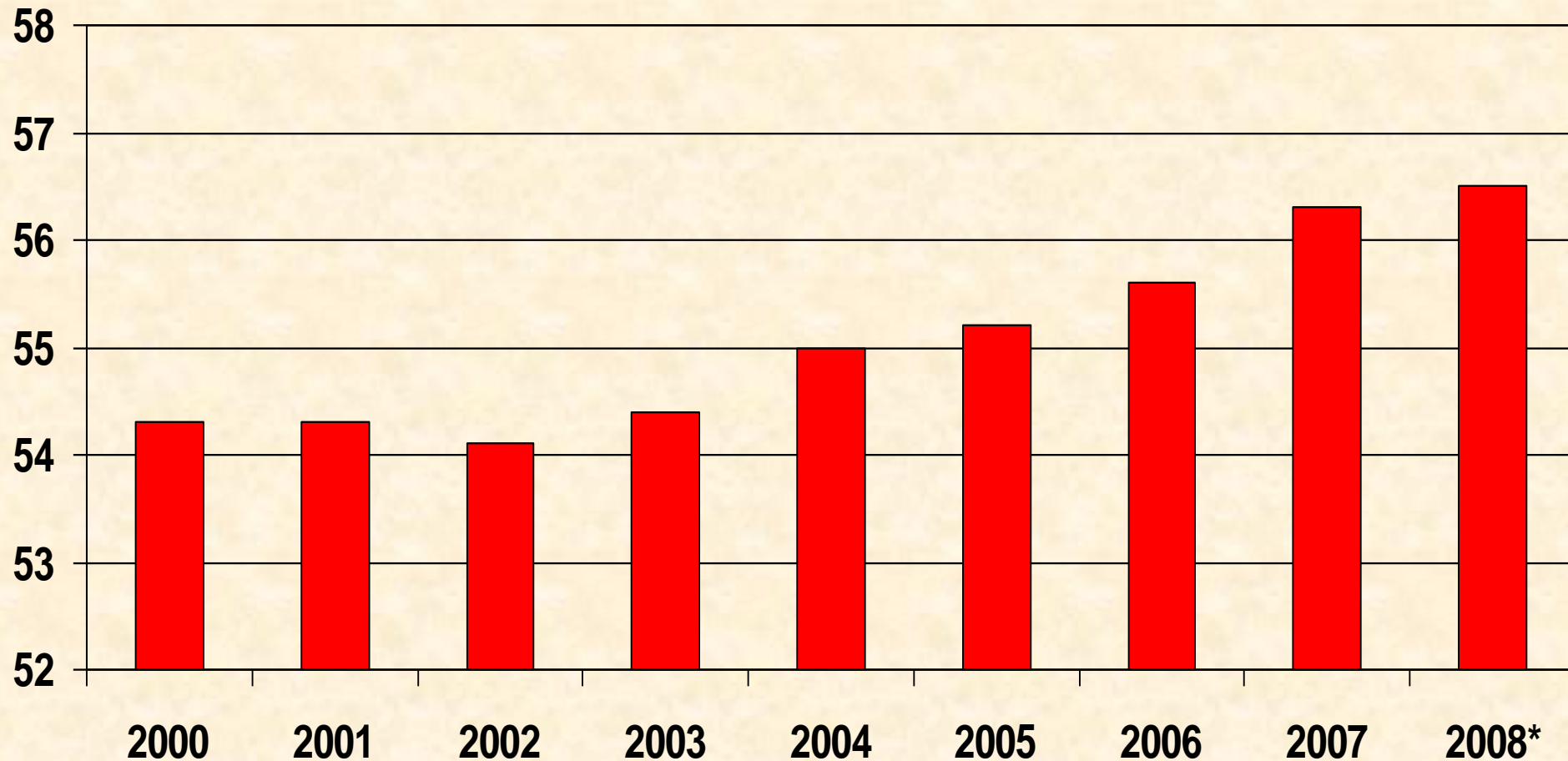
International Reserves 2008

(In US dollars, millions end of the period)



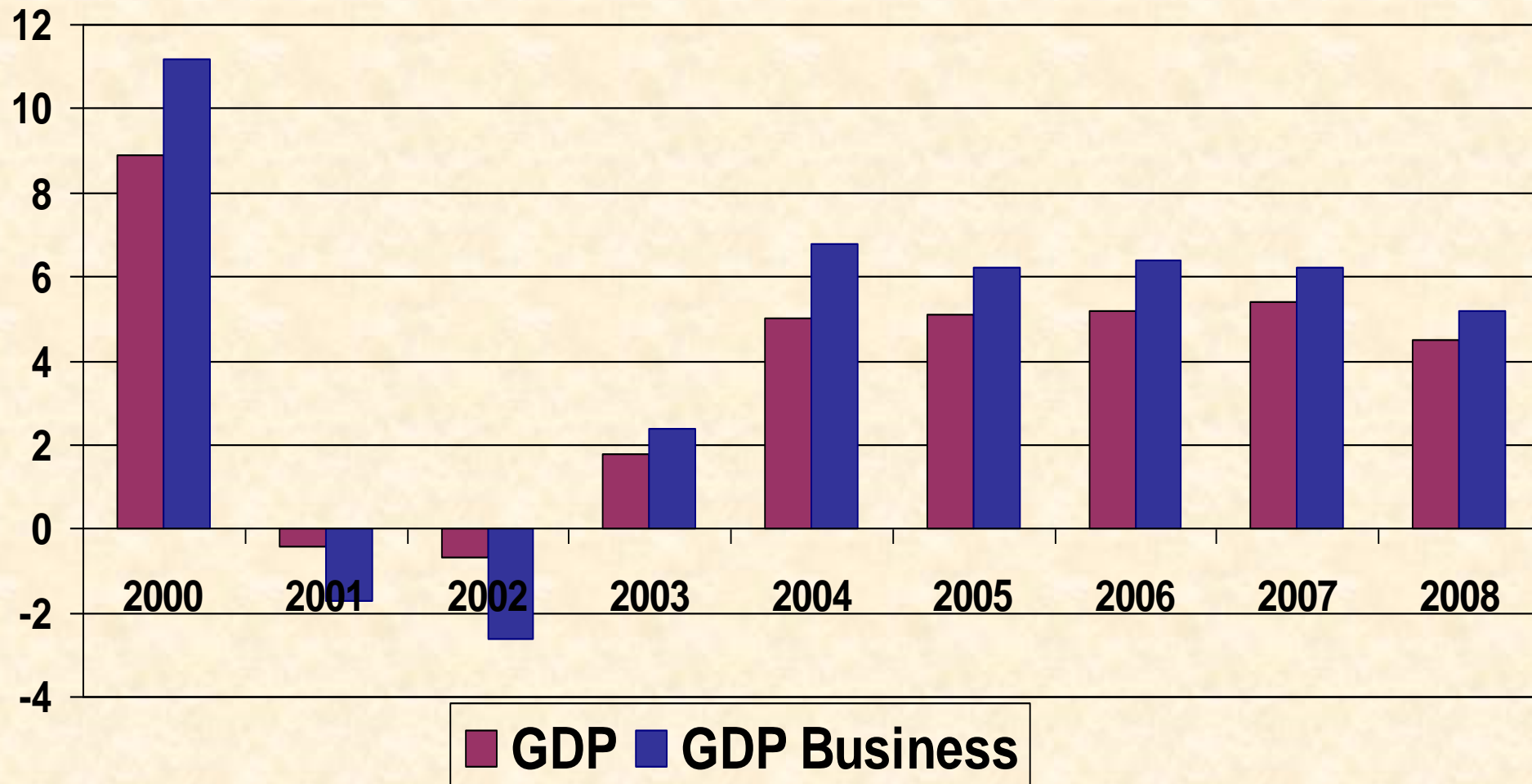
Labor Force Participation 2000-2008

(Percent)



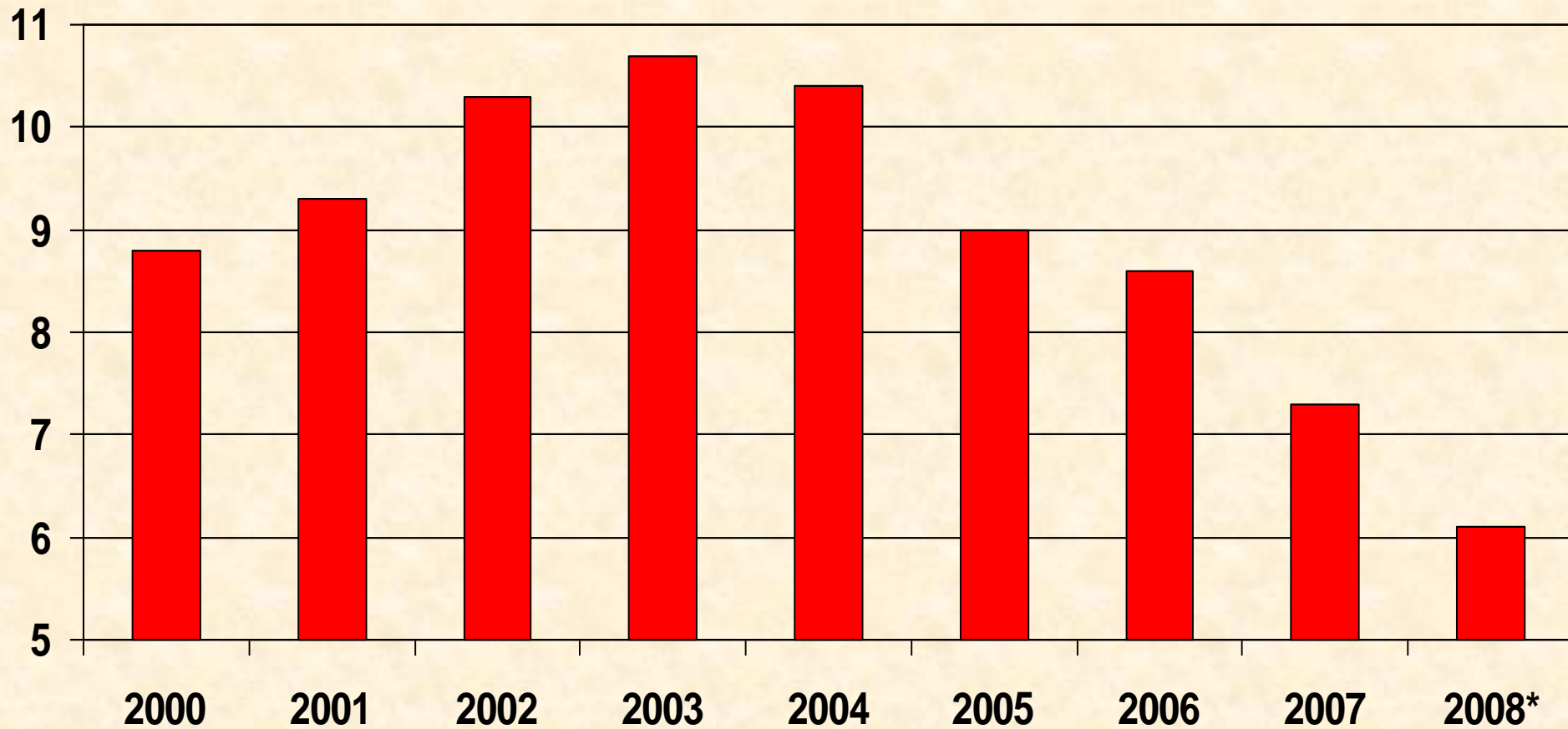
GDP and Business GDP 2000-2008

(Rates of Growth, Percent)



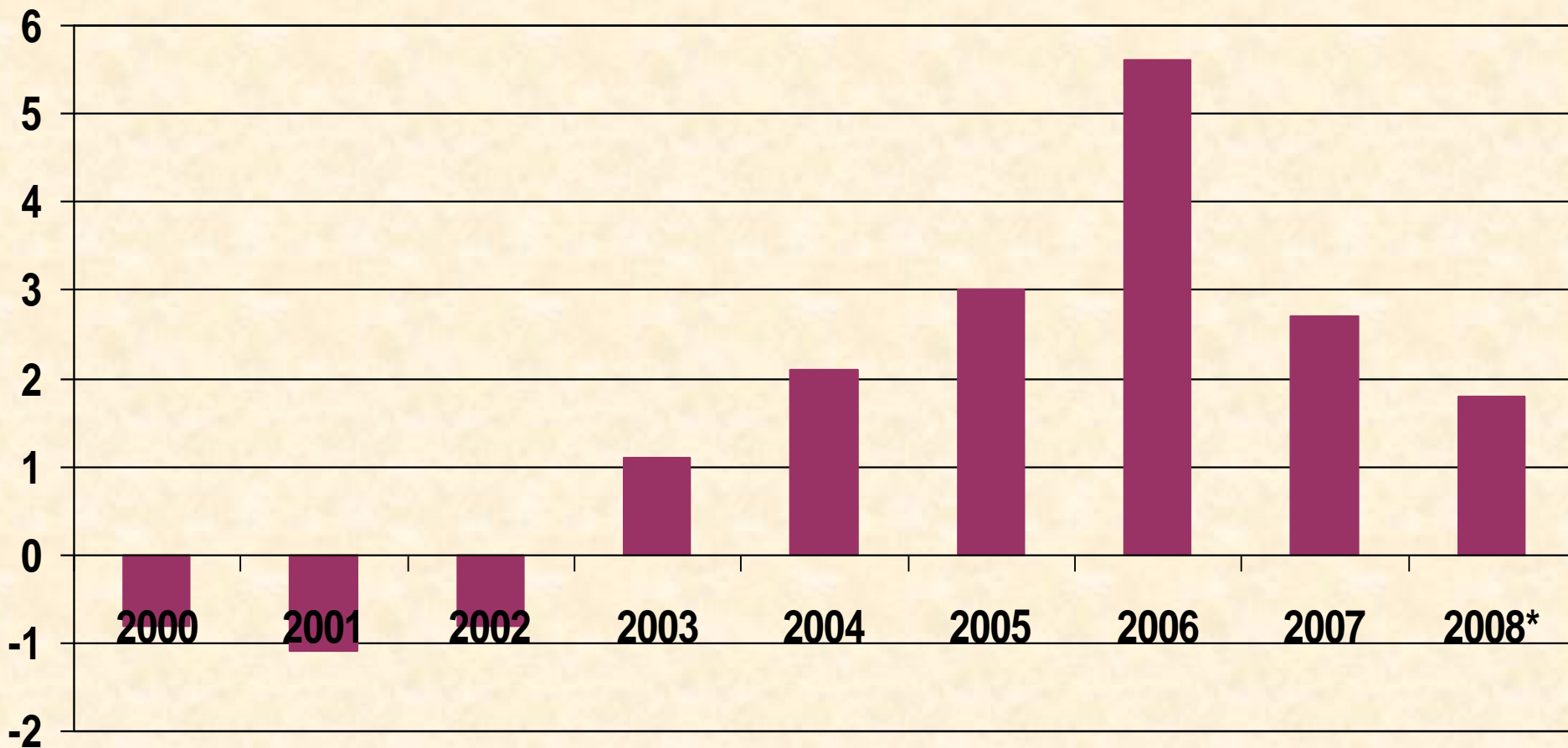
Unemployment 2000-2008

(Percent)



Current Account 2000-2008

(Percent of GDP)



Recommendations for Fiscal Policy

- ✓ The first priority of the new government is to approve the 2010 budget. For 2009, the government should make minor necessary adjustments to the 2008 budget.
- ✓ Given the present uncertainties the government should not cut taxes and/or increase expenditure.
- ✓ The government should allow the rise in the deficit, due to the reduction in tax collection. The fiscal deficit is expected to rise to 5% of GDP.
- ✓ It is crucial that the 2010 budget signals a long term, credible, deficit reduction path – and a return to a trend of reduction in public debt.

Recommendations for Fiscal Policy

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- ✓ Up to 3% of the budget deficit, relative to GDP, should be financed by internal borrowing the rest should be financed abroad using the US loan guaranties if necessary.
- ✓ The government should give priorities to:
 - Research and Development
 - Labor retraining and education
 - Unemployment compensations
- ✓ The government should initiate large infrastructure projects – in collaboration with the private sector

Recommendations for Monetary Policy

- ✓ Monetary policy should continue to be expansionary
- ✓ The Bank of Israel should set the lowest possible interest rate
- ✓ The Bank of Israel should support the financial system and the banking system acting as “Lender of Last Resort”
- ✓ The Bank of Israel should continue to support the Shekel
- ✓ The Bank of Israel should take measures to restore proper functioning of the credit system