

The Israeli Economy: Current Trends, Strength and Challenges

Tel Aviv University

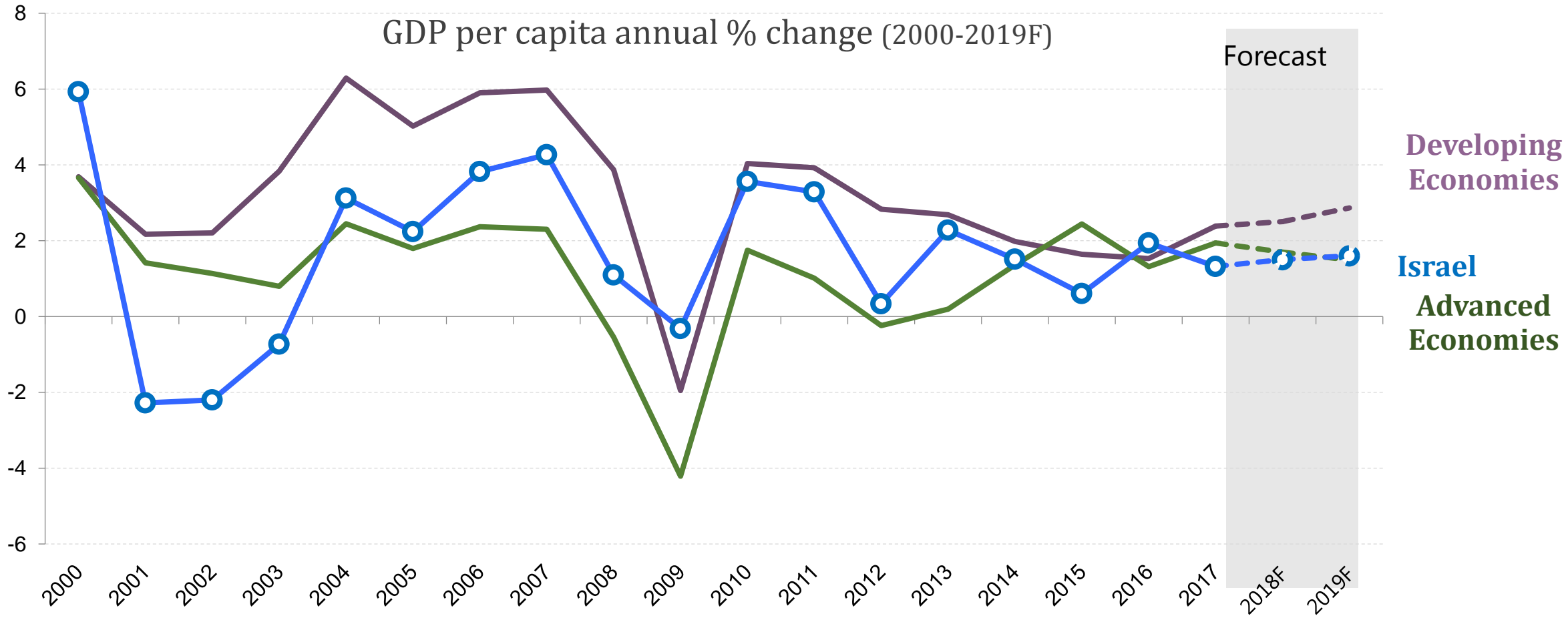


Dr. Karnit Flug, Governor of the Bank of Israel

4.5.2018



GDP per capita Growth Rates



*Simple average for 21 rich OECD countries and emerging markets according to IMF definition

Source: IMF & CBS

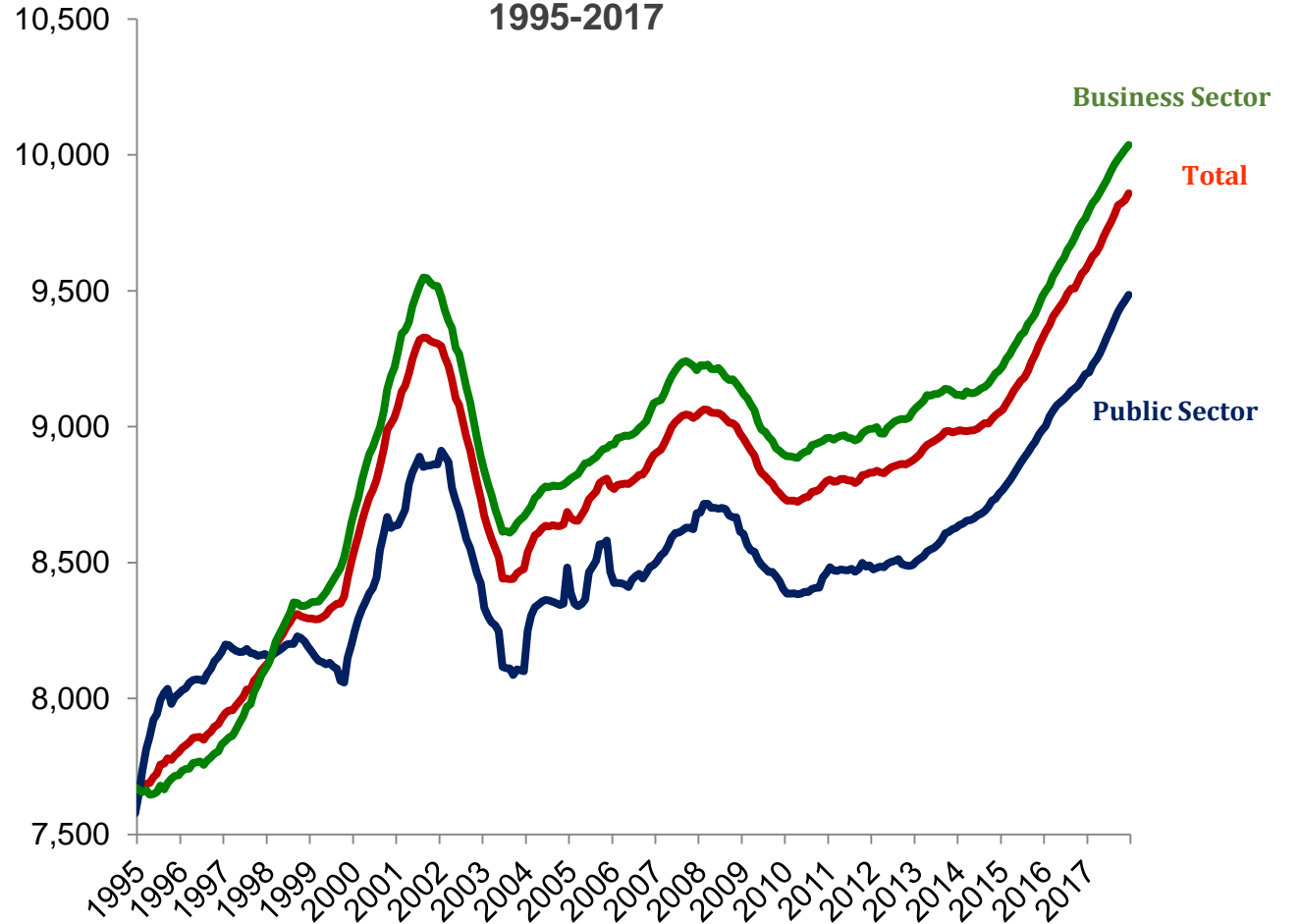


Labor Market is Tight

Labor Market, Quarterly, 1995-2017, 25-64



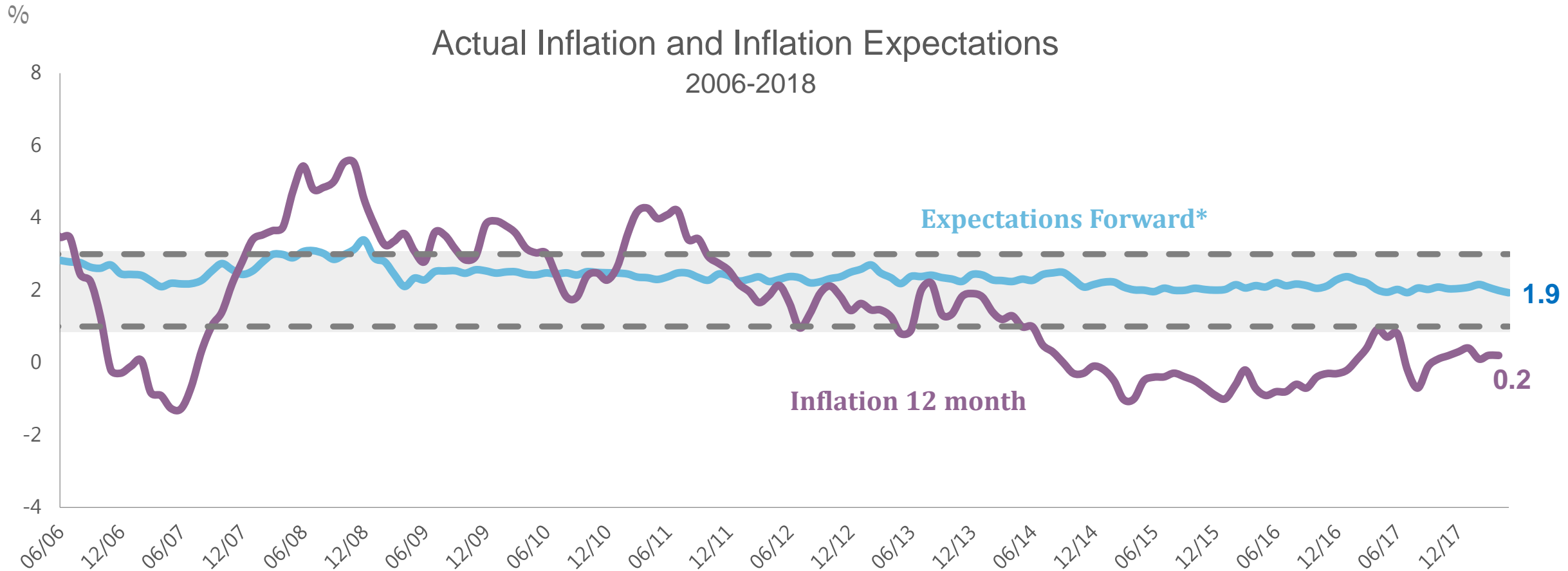
Real Wage per Employee Post* 1995-2017



Source: BoI, IMF, CBS



Inflation is Rising but Below Target; Long Term Inflation Expectation are Anchored Within Target Range

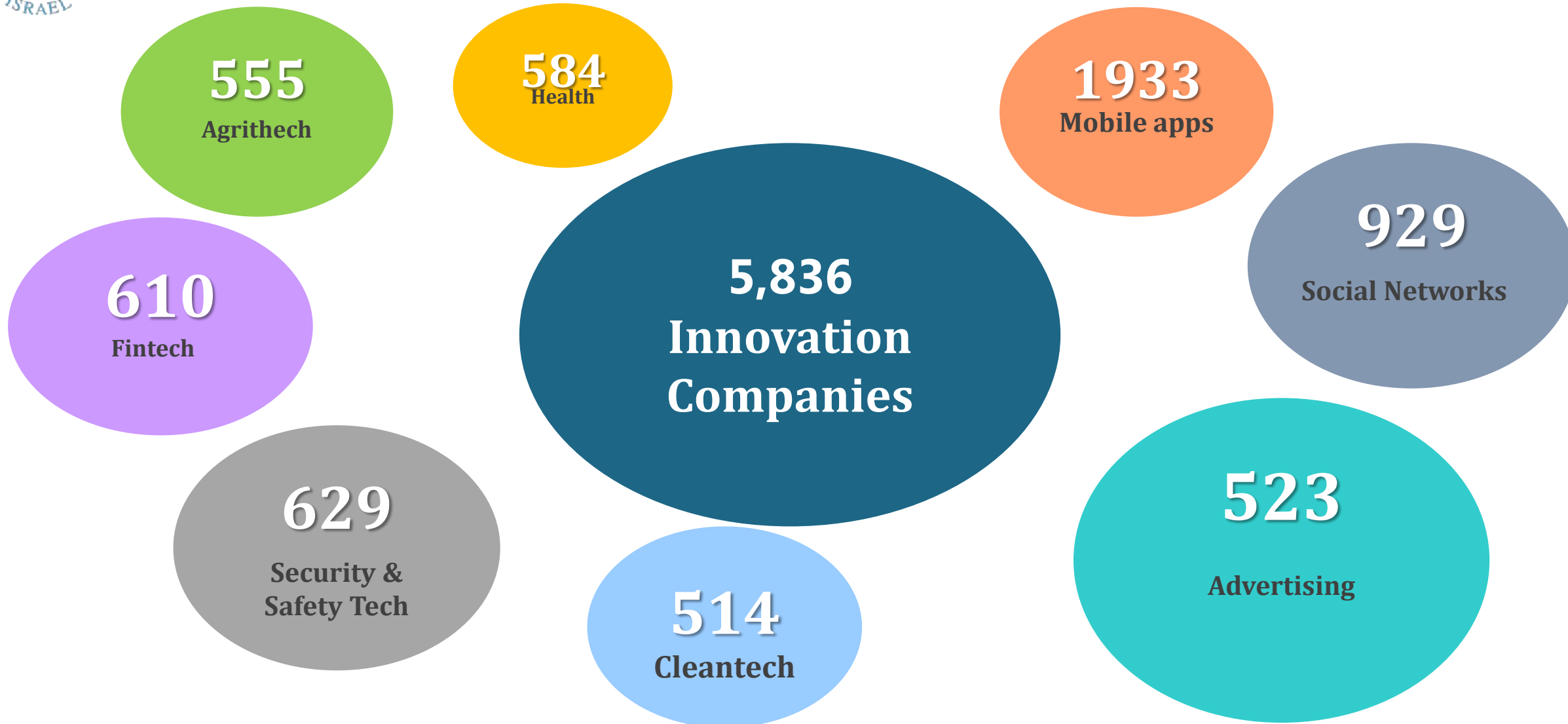


* Forward inflation expectations 5-10 years

The Strengths of Israel's Innovation Ecosystem



Israel is a World Leader in Innovation



* 2018 data



Israel is Leading in International Innovation Rankings

Index	Bloomberg	WORLD ECONOMIC FORUM
Ranking		

Factors in Israel that encourage innovation

- ✓ Quality universities that provide the economy with **human capital**, scientific aptitude, and technological abilities
- ✓ **Collaboration** between the **universities and industry**
- ✓ Government support for commercial R&D
- ✓ Developed **venture capital** industry



“Necessity is the mother of invention” – example

- **World leader in desalination**; With a network of five coastal desalination plants, which together produce **75%** of all water supply to households.
- Leading in **Waste-Water Recycling** with a rate of **80%**.
- Israel developed and patented the “**Drip Irrigation**”, that has not only produced huge reduction in agricultural water use, but has also vastly increased yields, and it is used worldwide.

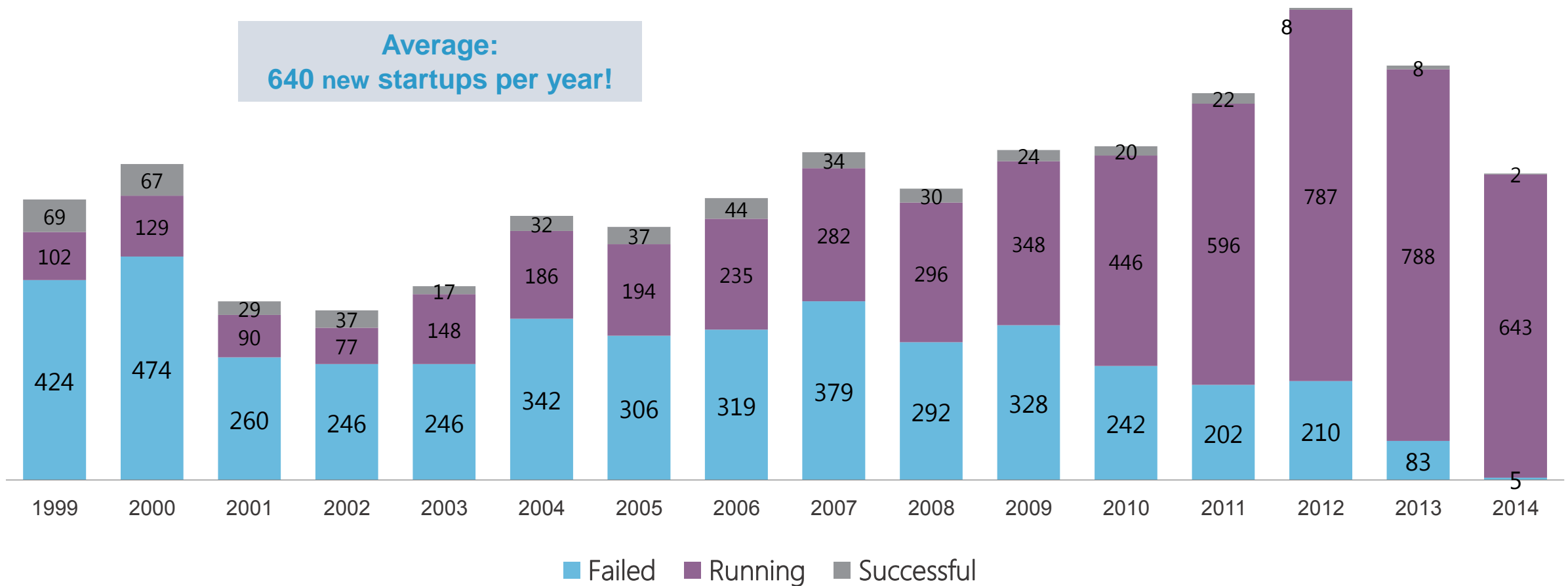




Flurry of High Tech Entrepreneurship: Taste for Risk

Number of New Start-Ups by Year 1999-2014

Israeli Startup Companies: Number of Companies by Year Established, by Success Index
1999-2014



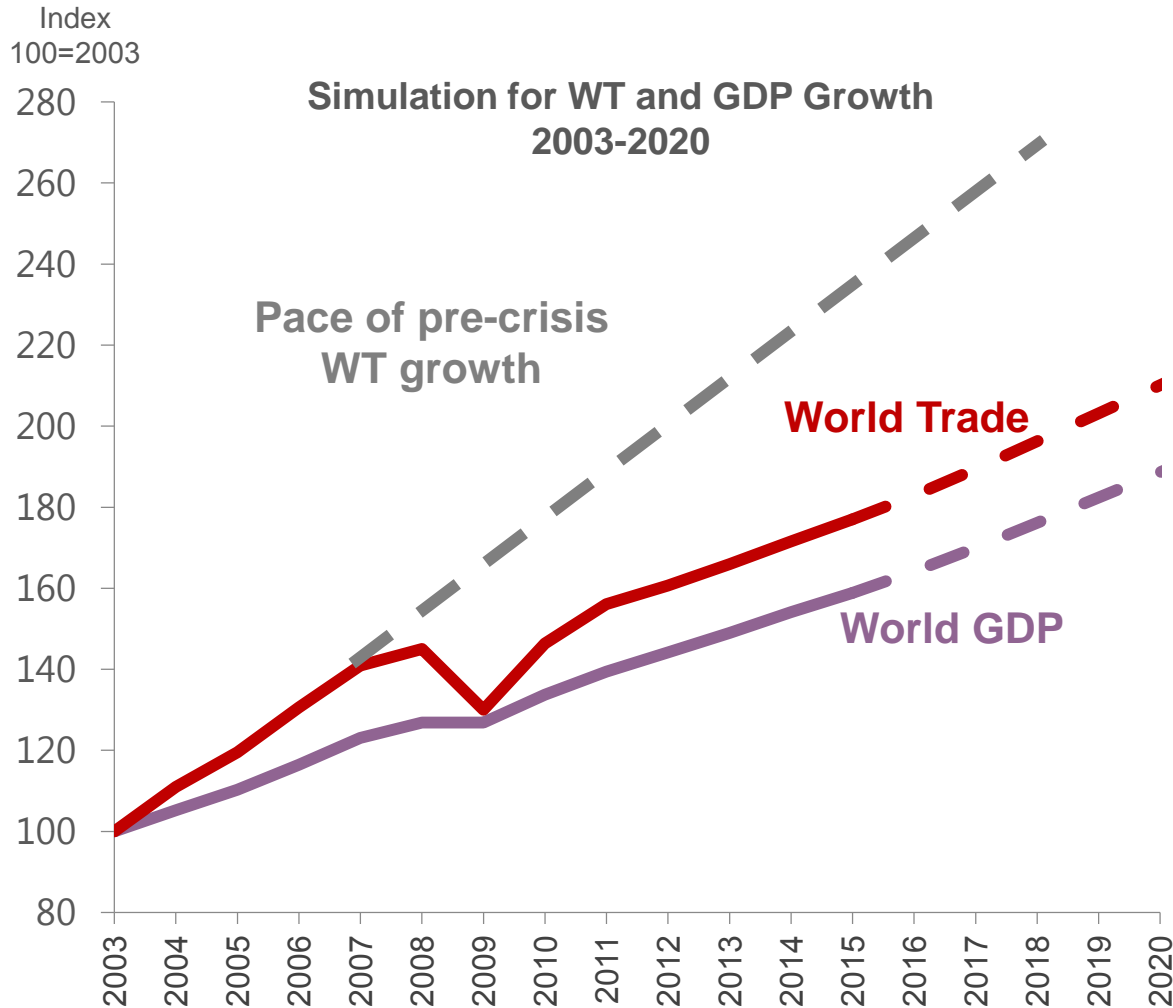
Source: IVC

**Yet, There are
Challenges**

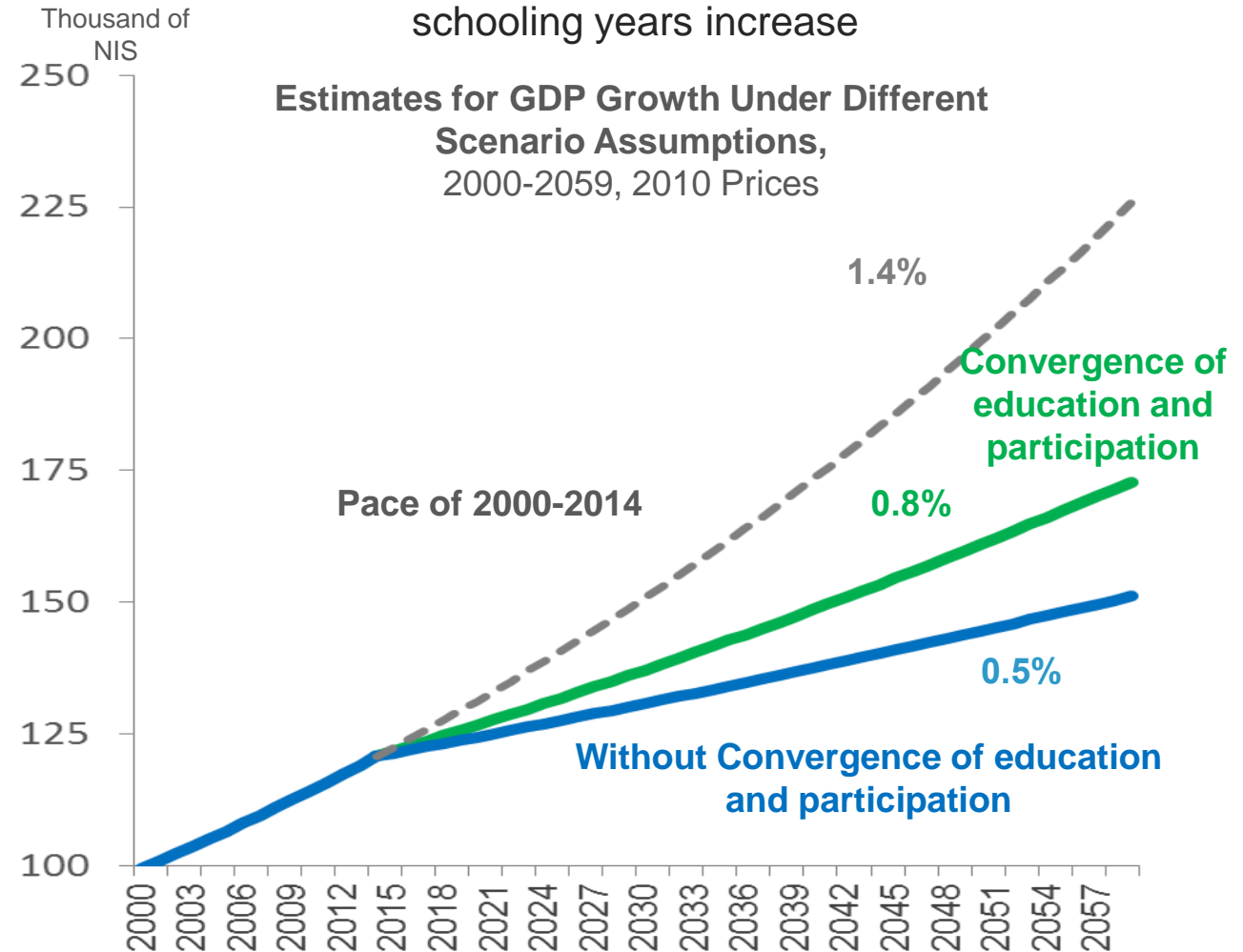


There Are Developments Which Moderate the Future Potential Growth

Global Trends



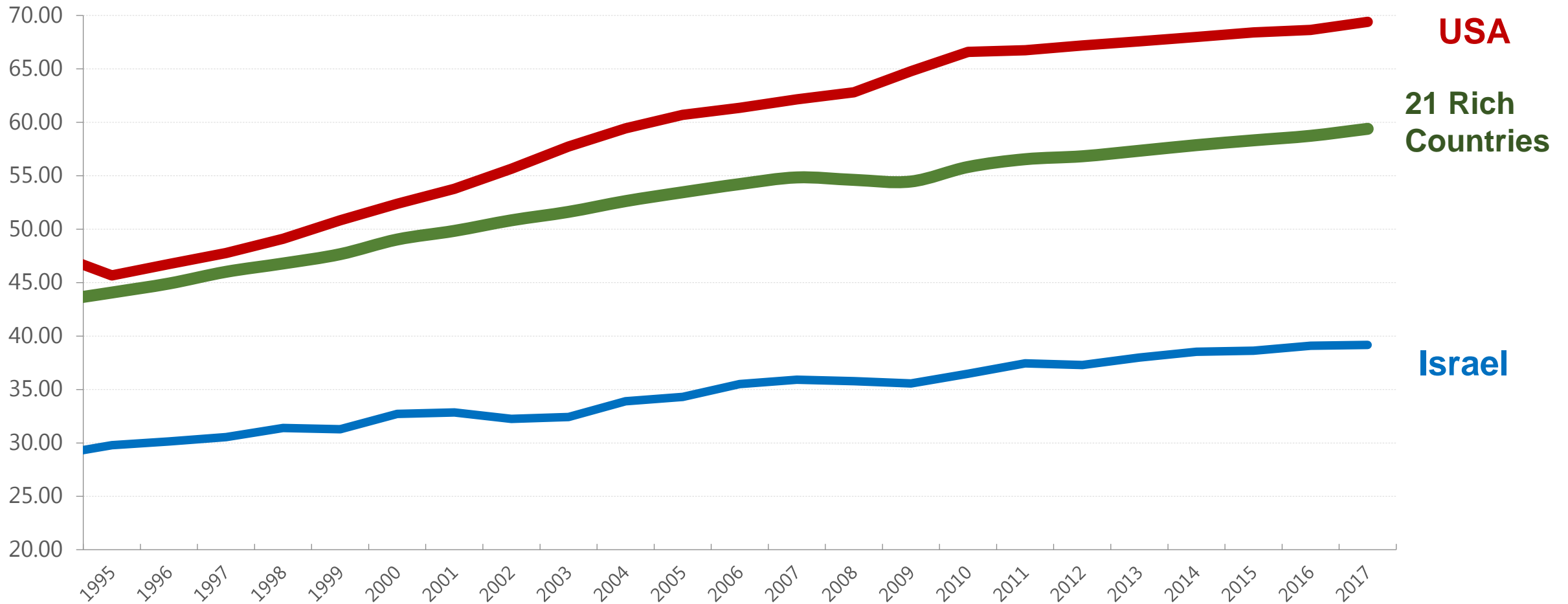
Demographical Trends and exhaustion of the schooling years increase





Israel is not closing the productivity gap

Output Per Hour Worked
1995-2017, \$ PPP, 2016 Constant Prices

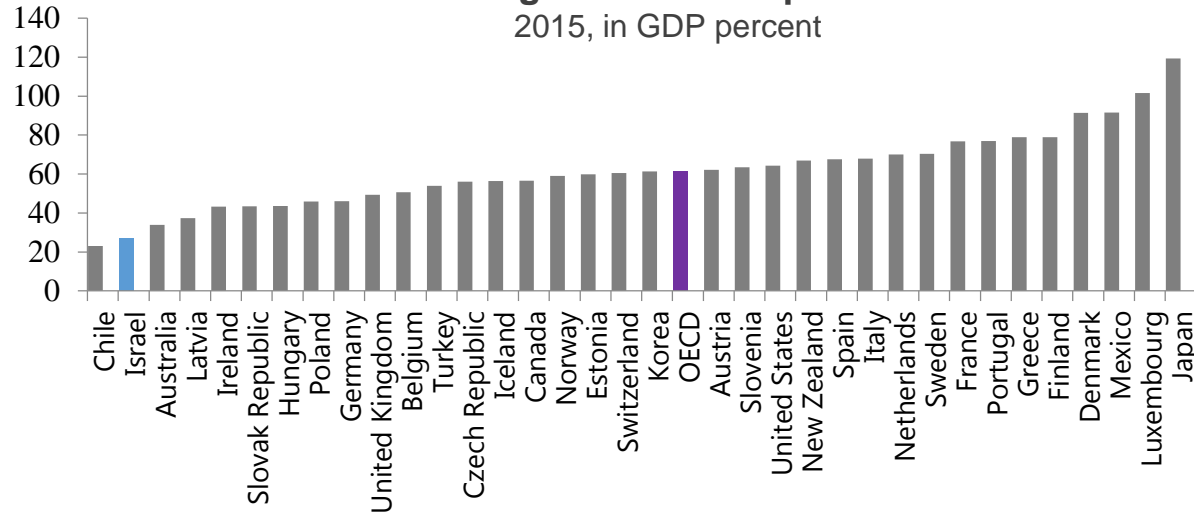


Source : The Conference Board Total Economy Database 2017

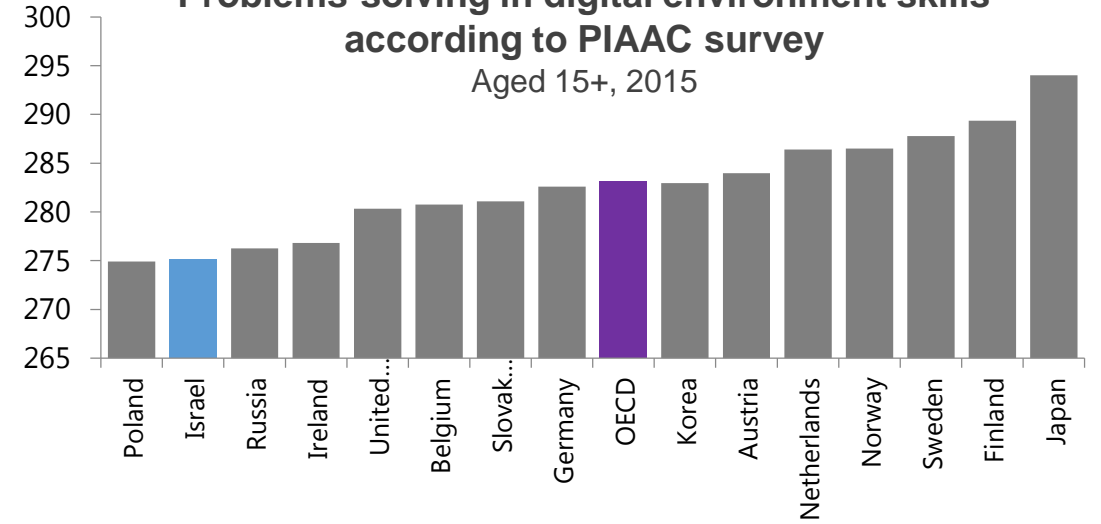


Several factors behind the productivity gap

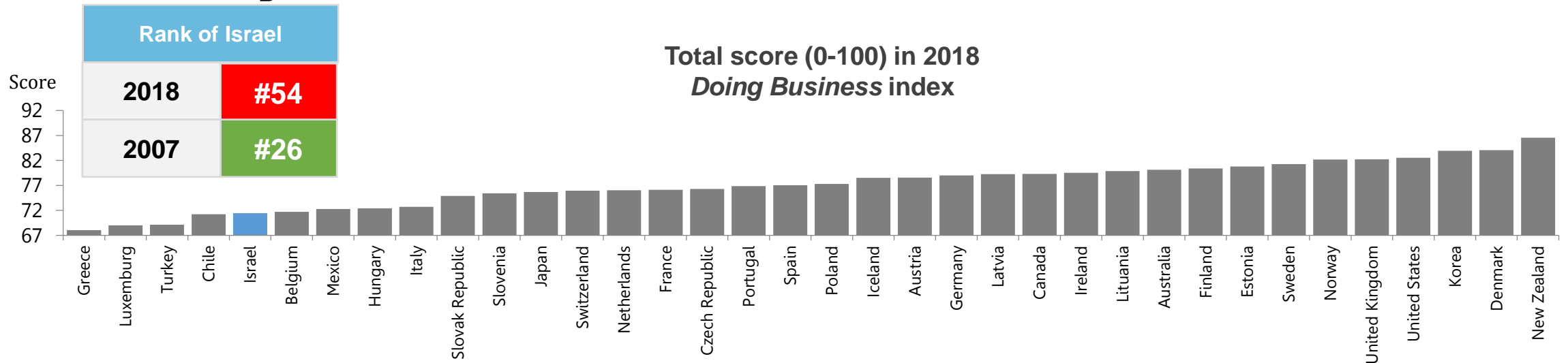
General government capital stock
2015, in GDP percent



Problems-solving in digital environment skills
according to PIAAC survey
Aged 15+, 2015



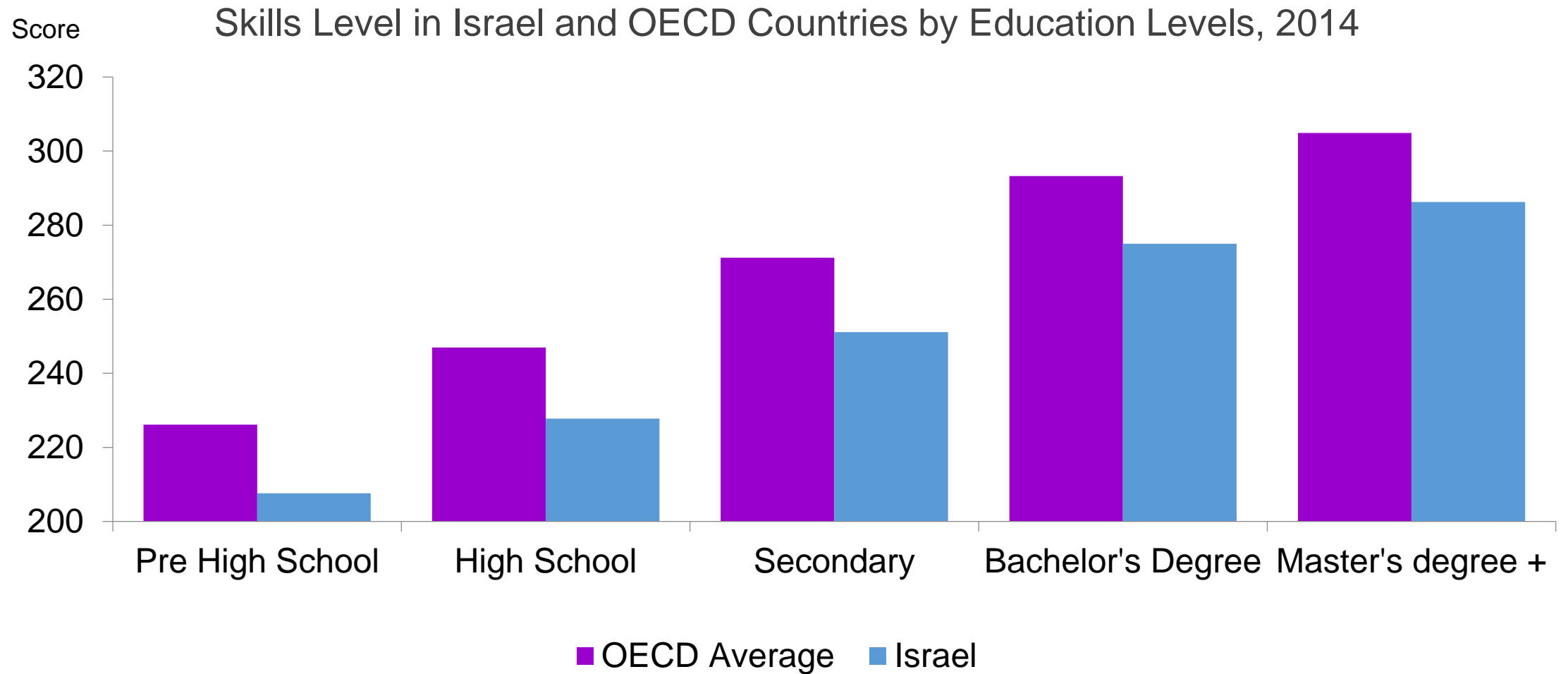
Total score (0-100) in 2018
Doing Business index



Source: BoI ,Doing Business, OECD. IMF

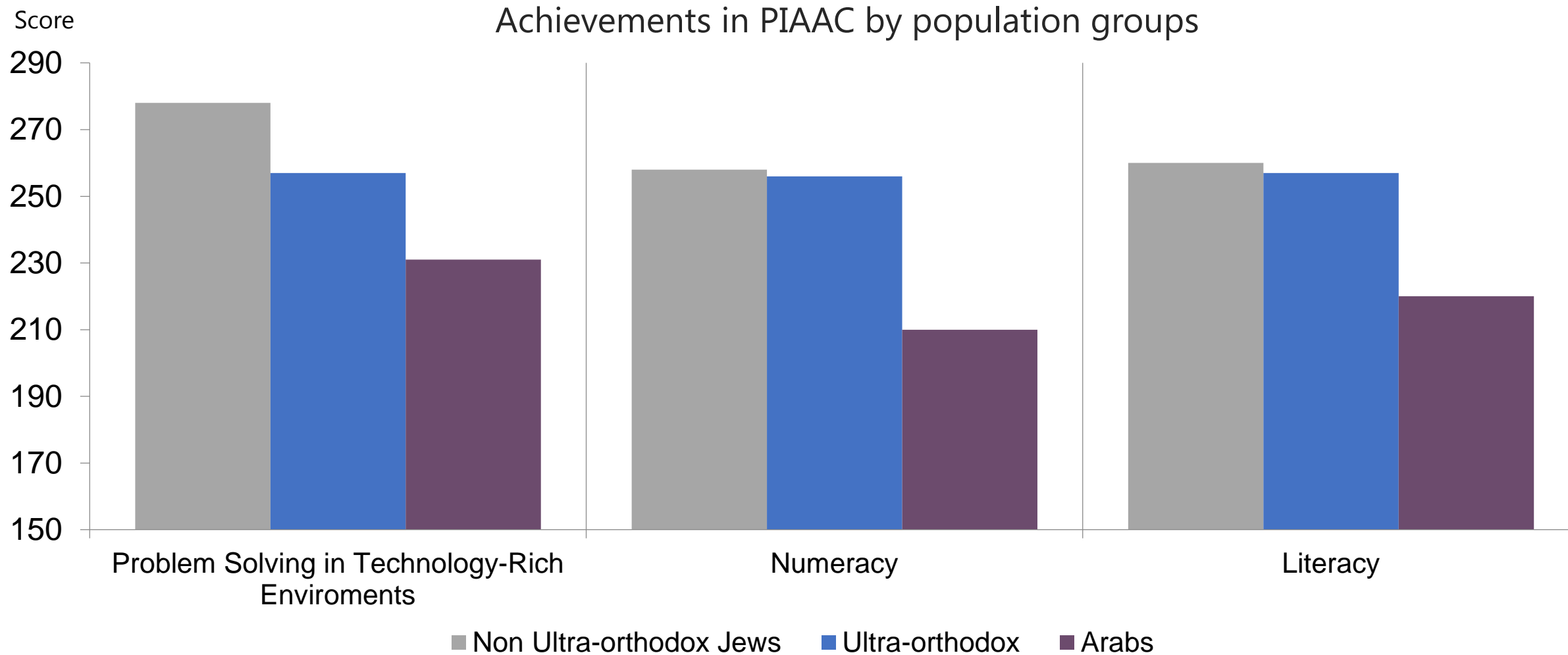


Labor market related skills at any level of education are inferior to those in the OECD





Large gaps in basic skills between population groups

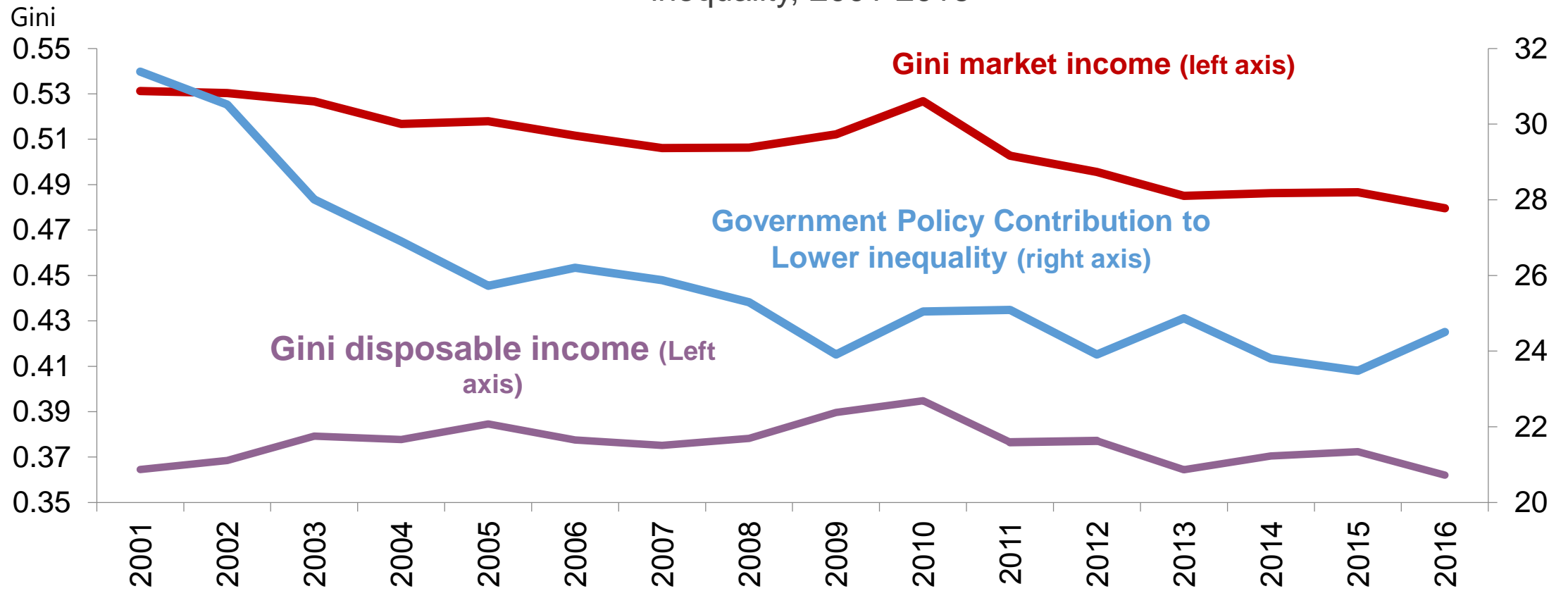


Source: OECD



Following a rise Inequality in the early 2000's, there has been a decline over the last few years

Gini Index, at disposable and market income, and contribution of taxes and transfers to lower inequality, 2001-2016

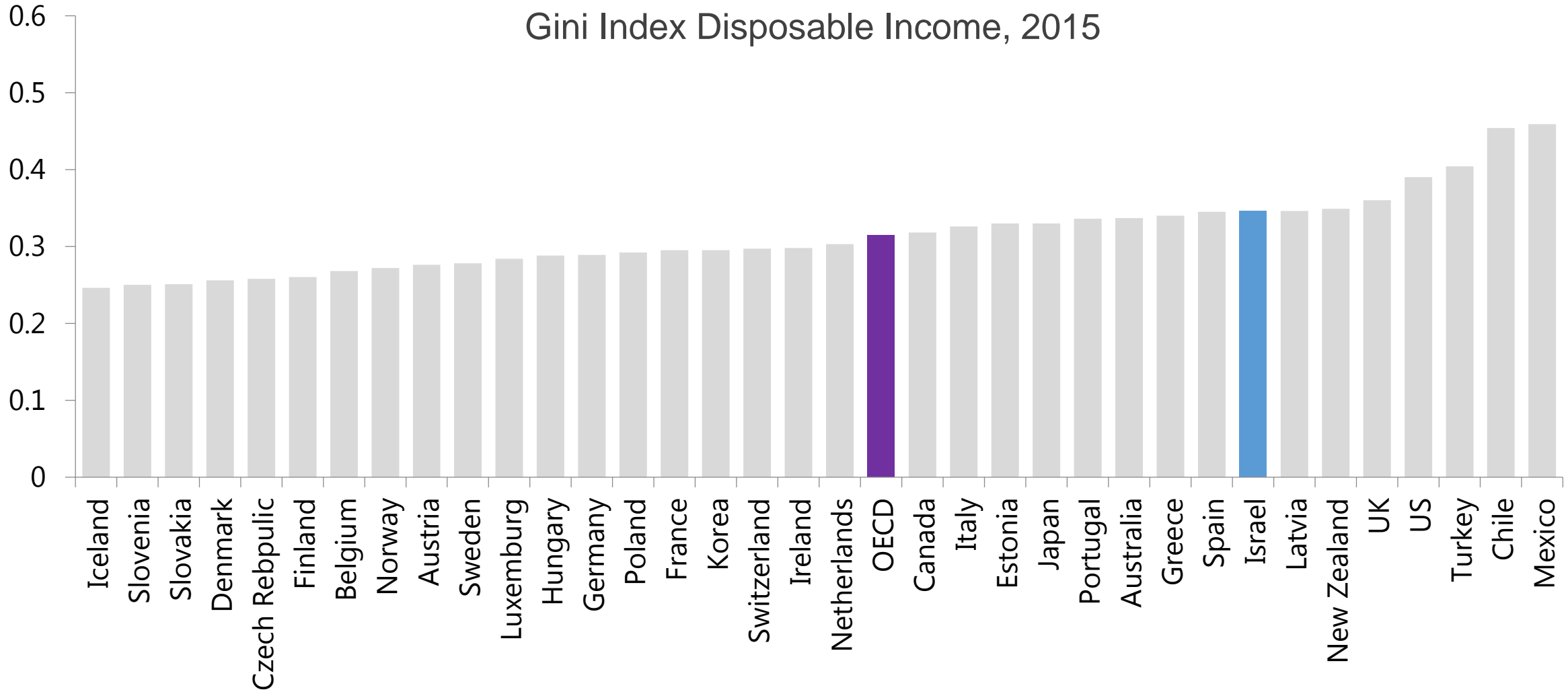


Source: Bank of Israel



Yet, inequality is high by advanced economies standards

Gini Index Disposable Income, 2015

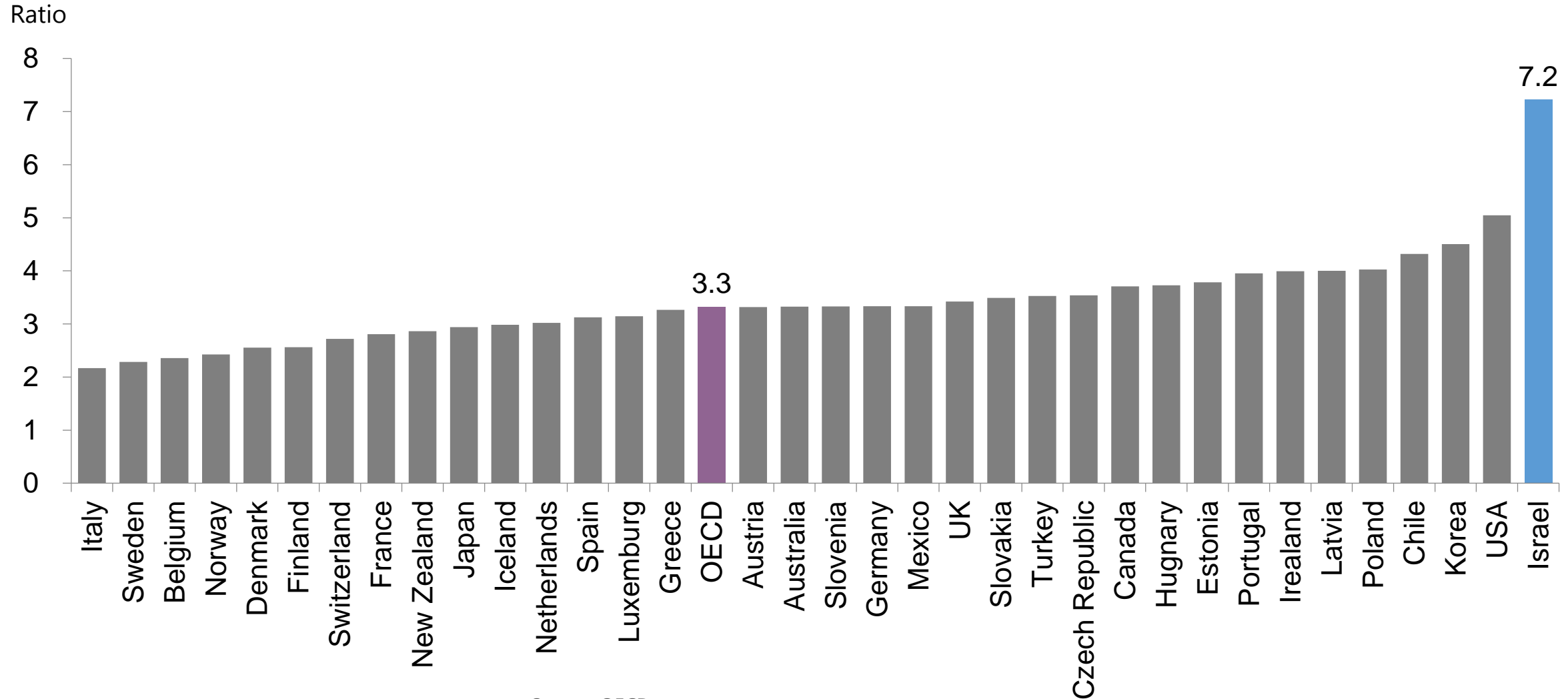


* 2015 data or latest available

Thank
You



The ratio of 10th decile wage to 1st decile, 2014



Source: OECD