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- The convergence in per capita income with leading OECD countries has stalled somewhat in the last few years. This reflects a decline in potential growth due to weaker productivity gains, and the rising share of dependents relative to the working-age population, as the ageing process has begun to affect the country.
- Income inequality and poverty have been broadly stable since 2008, like the OECD average, but their level remains substantially higher than in most other Member countries. Poverty has in particular high prevalence and depth.
- The authorities have taken measures to boost product market competition by further opening agricultural and food sectors to imports and facilitating the entry of new competitors in the banking and postal sectors. Eligibility conditions for earned income tax credits have been broadened and family allowances have been raised to improve the integration of disadvantaged groups to employment and reduce poverty. Education funding for the underprivileged has also benefited from additional fiscal resource.
- Stronger competition in the sheltered sector is key to raising income and social cohesion. Additional reforms are needed in the food and agricultural industries to lower non-tariff barriers to imports. Productivity gains would also be stimulated by more efficient electricity sector and lower regulatory burden on businesses. More effective education systems and active labour market policies would help to better integrate under-privileged groups into the labour market and increase inclusive growth.
- More developed urban transports would reduce the time wasted in traffic congestion as well as lower local pollution and greenhouse gas emissions. It would also make it easier to live in lower-price housing areas and promote labour market participation for those living in remote areas

Going for Growth 2017 priorities

Improve education outcomes and inequalities. The quality of education is inadequate especially for Haredim and Israeli Arabs who are likely to hold insecure and low-paid jobs because of their low skills.

Actions taken: Additional fiscal resources helped to further reduce class sizes in Arab school in 2015. However, linking public funding for Haredi schools to the number of hours of mathematics and English in the curriculum faced implementation obstacles due to hostility of community leaders.

Recommendations: Further raise education funding per students especially for disadvantaged groups, which is substantially lower than the OECD average. Back-up these budget increases with structural reforms, ensuring that basic skills in core secular subject are taught in Haredi schools. Develop vocational education and training more fully for young adults.

Cut red tape for businesses. The business environment is hampered by excessive regulatory burdens, with high barriers to entrepreneurship and long and cumbersome business licensing.

Actions taken: In end 2015, the government adopted a plan to reduce the administrative and compliance costs linked to the existing regulatory burden of regulations by 25% by 2019.

1. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

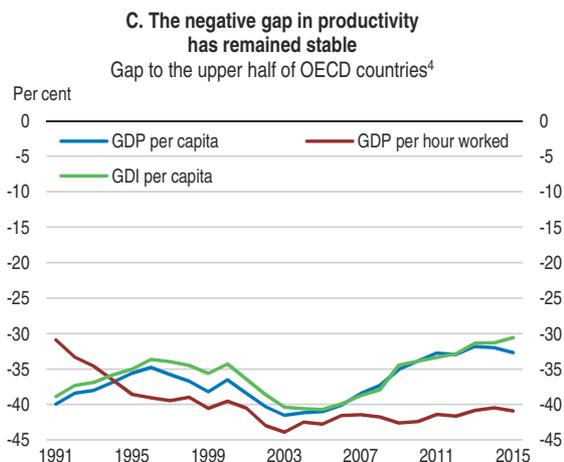
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Growth performance and inequality indicators

A. Growth		
Average annual growth rates (%)	2003-09	2009-15
GDP per capita	2.3	1.9
Labour utilisation	0.8	1.3
of which: Labour force participation rate	0.3	0.6
Employment rate ¹	0.7	0.8
Employment coefficient ²	-0.1	0.0
Labour productivity	1.0	0.8
of which: Capital deepening	-0.7	-0.4
Total factor productivity	1.8	1.2
Dependency ratio	0.5	-0.3

B. Inequality		
	Level	Annual variation (percentage points)
	2014	2008-14
Gini coefficient ³	36.5 (31.7)*	0 (0)*
Share of national disposable income held by the poorest 20%	5.7 (7.7)*	0 (0)*

* OECD average



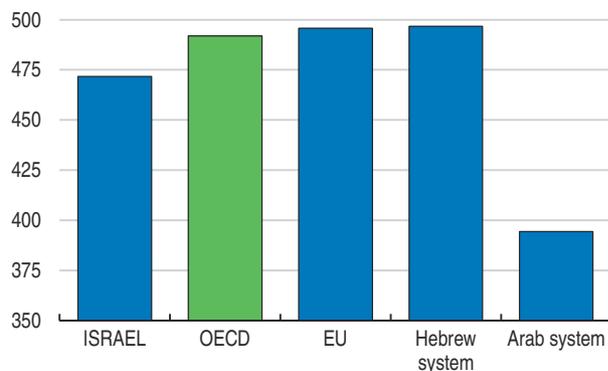
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice-versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. The Gini index measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.
4. Percentage gap with respect to the weighted average using population weights of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2010 PPPs).

Source: Panel A: OECD, Economic Outlook No. 100 Database; Panel B: OECD, Income Distribution Database; Panel C: OECD, National Accounts and Productivity Databases.

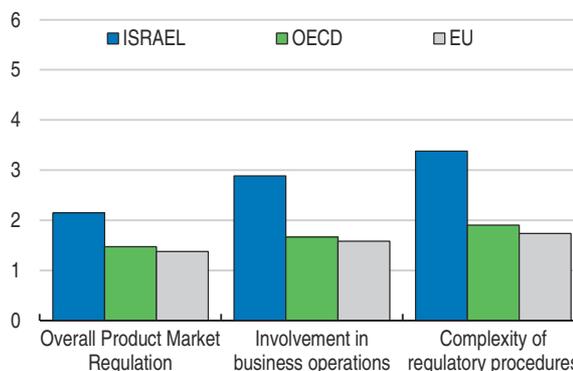
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Policy indicators

A. Student performance is low for some groups
Average of PISA scores in mathematics, science and reading, 2015



B. Regulatory barriers to entrepreneurship are high
Index scale of 0-6 from least to most restrictive, 2013



Source: Panel A: OECD, PISA Database; Panel B: OECD, Product Market Regulation Database.

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Since 2016, all new laws likely to affect competition are submitted to a regulatory impact assessment (RIA).

Recommendations: Shorten processing time of licensing procedures in particular for environmental authorisations. Implement the projected cut in the regulatory burden by relying on high-quality regulatory impact assessment. To this end, ensure that a well-trained team in the domain of RIA closely assists and checks the quality of the work within departments until they become familiar with the new procedures.

Strengthen product market competition. There are substantial barriers to competition with monopolies in several sectors, including in retail banking, the entire food chain and the network industries, especially electricity.

Actions taken: Since early 2016, regulatory changes are being made to ease the entry of new competitors in retail banking, including non-banking credit institutions. Import barriers in the food sectors were reduced. Private firms can access new segments of the postal market.

Recommendations: Replace agricultural quotas, guaranteed prices and customs tariffs with direct payments to farmers. Further cut non-tariff barriers on staples by adopting EU import procedures on food products. Follow through on plans to allow the entry of new competitors in retail banking. Boost competition in power generation and create a separate infrastructure operator in the electricity sector.

Strengthen active labour market policies and promote labour market participation. The public employment service has limited tools to promote the reintegration of jobseekers in the labour market. Caseloads are very high, and vocational training opportunities are only available to a small number of jobseekers.

Actions taken: Eligibility to the earned income tax credit scheme has been enlarged in 2015. The authorities have launched pilot projects, such as Employment Circles aimed at assisting income support beneficiaries to integrate into the labour market, which have shown promising results in 2015.

Recommendations: Expand active labour market policies and earned income tax credits. Further improve labour law enforcement in sectors with many low-paid workers, including Arab-Israelis, Haredim and foreigners.

***Upgrade transport infrastructure.*²** Under-development of urban public transports contributes to local pollution, CO₂ emissions, and high urban congestion costs, estimated at 1.5% of GDP every year.

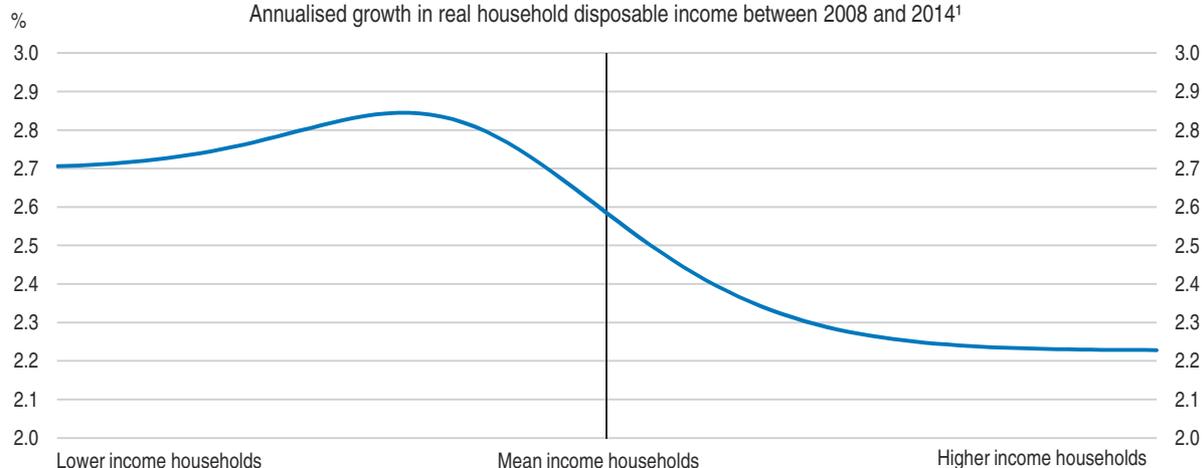
Recommendations: Enhance urban transport infrastructure to reduce congestion and waste of time and to improve environmental outcomes and labour mobility.

2. New policy priorities identified in Going for Growth 2017 (with respect to Going for Growth 2015) are preceded and followed by an “*”.

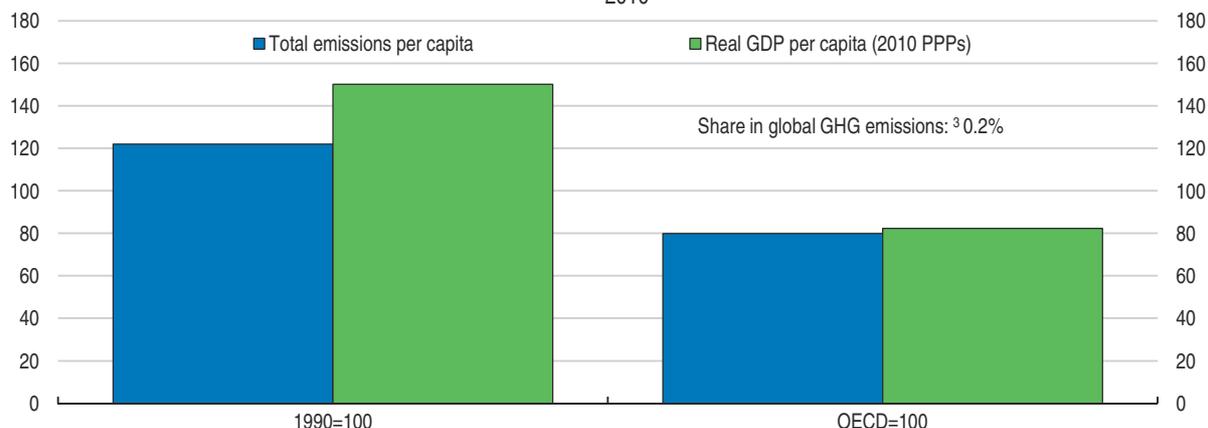
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Beyond GDP per capita: Other policy objectives

A. Income increased for all households, notably for those in the lower part of the distribution

Annualised growth in real household disposable income between 2008 and 2014¹

B. Emissions per capita have risen by less than GDP since 1990

2010²

1. The data show average annual growth rates in disposable income (i.e. income after tax and transfers) across the distribution and refer to the period between 2008 and 2014. Disposable incomes cover the full population. Income data are expressed in constant prices (OECD base year 2010).
2. Total GHG emissions in CO₂ equivalents from the International Energy Agency (IEA) database. This data conform to UNFCCC GHG emission calculations but are not directly comparable to data for Annex I countries due to definitional issues. The OECD average is calculated according to the same definition.
3. Share in world GHG emissions is calculated using International Energy Agency (IEA) 2010 data.

Source: Panel A: OECD, *Income Distribution Database*; Panel B: OECD, *National Accounts and Energy (IEA) Databases*, *United Nations Framework Convention on Climate Change (UNFCCC) Database*.

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