



2018 OECD ECONOMIC SURVEY OF ISRAEL

Towards a more inclusive society

Jerusalem, 11 March 2018

<http://www.oecd.org/eco/surveys/economic-survey-israel.htm>



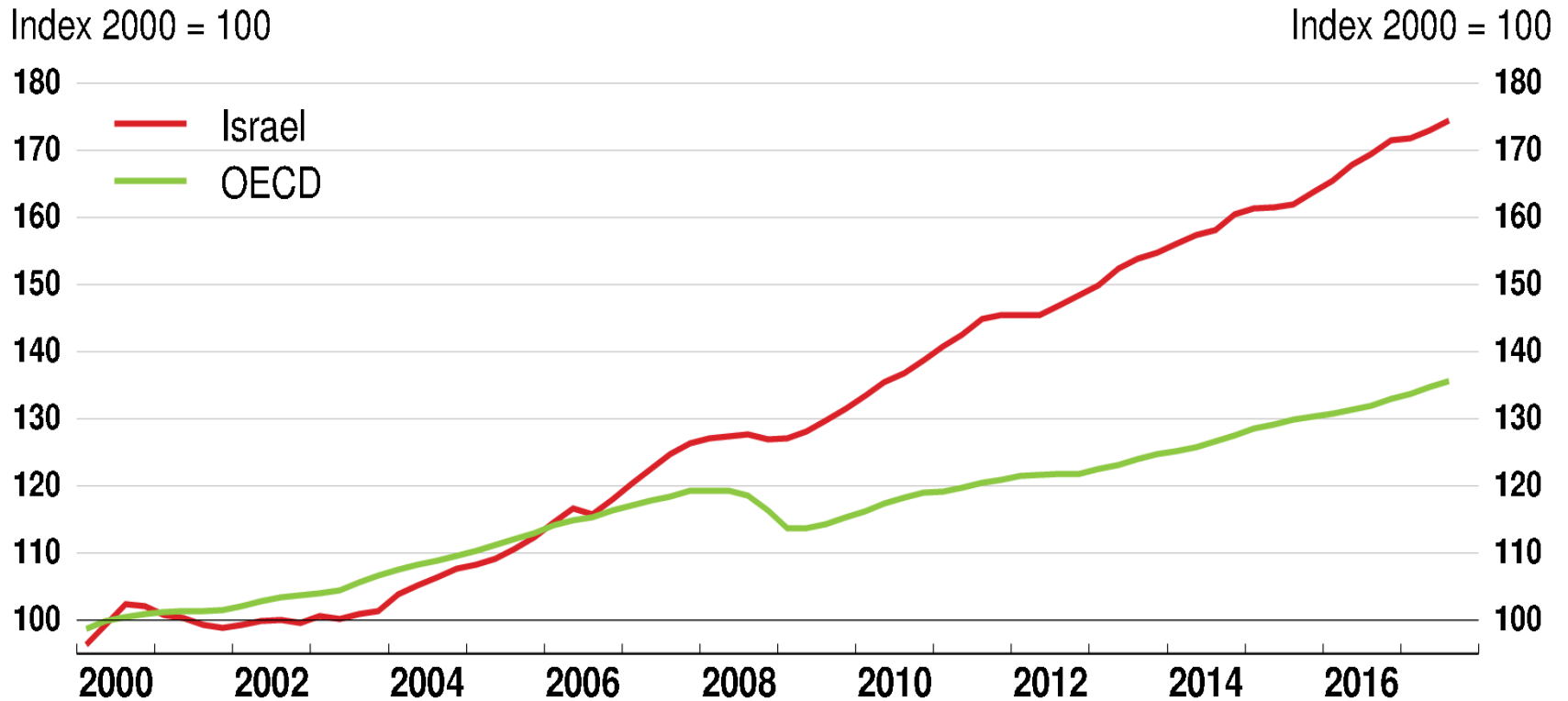
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Growth has been strong

GDP index, volume

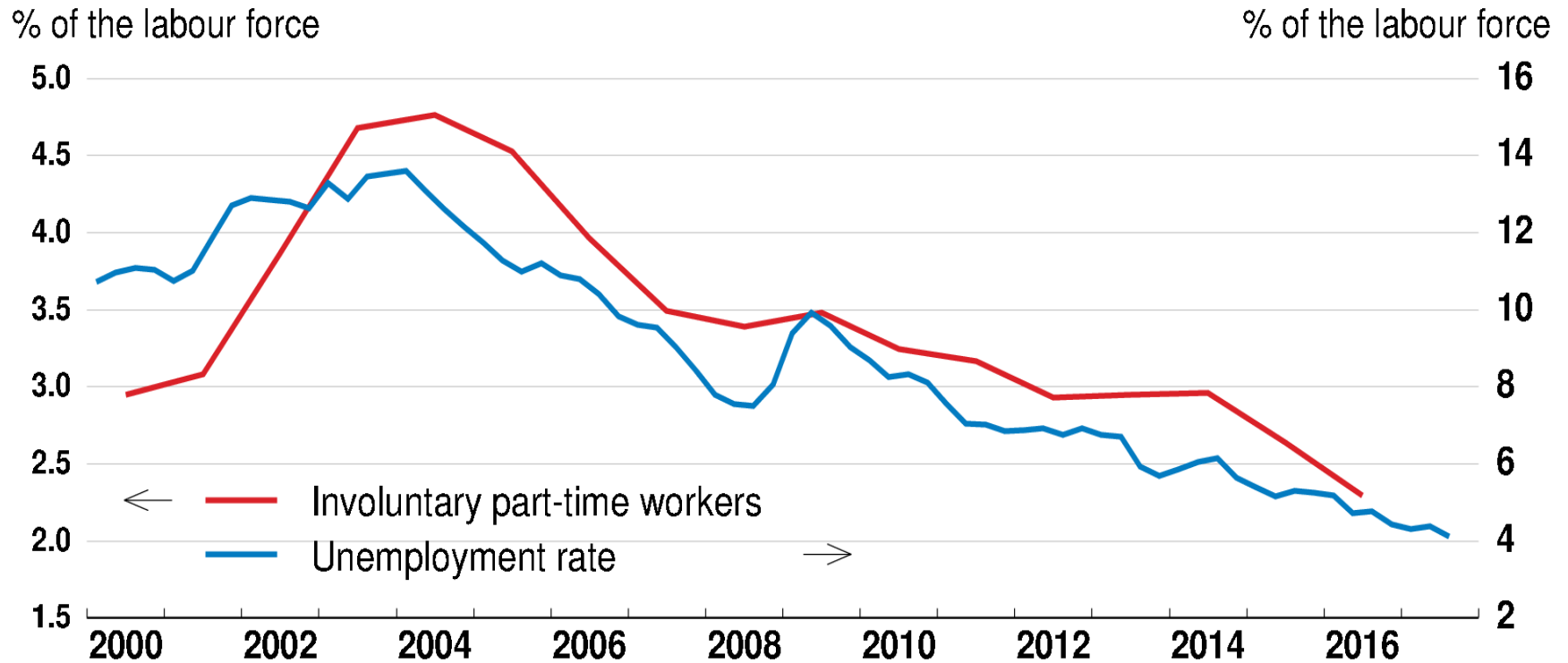


Source: OECD (2017), *Economic Outlook Database*.



Employment is growing

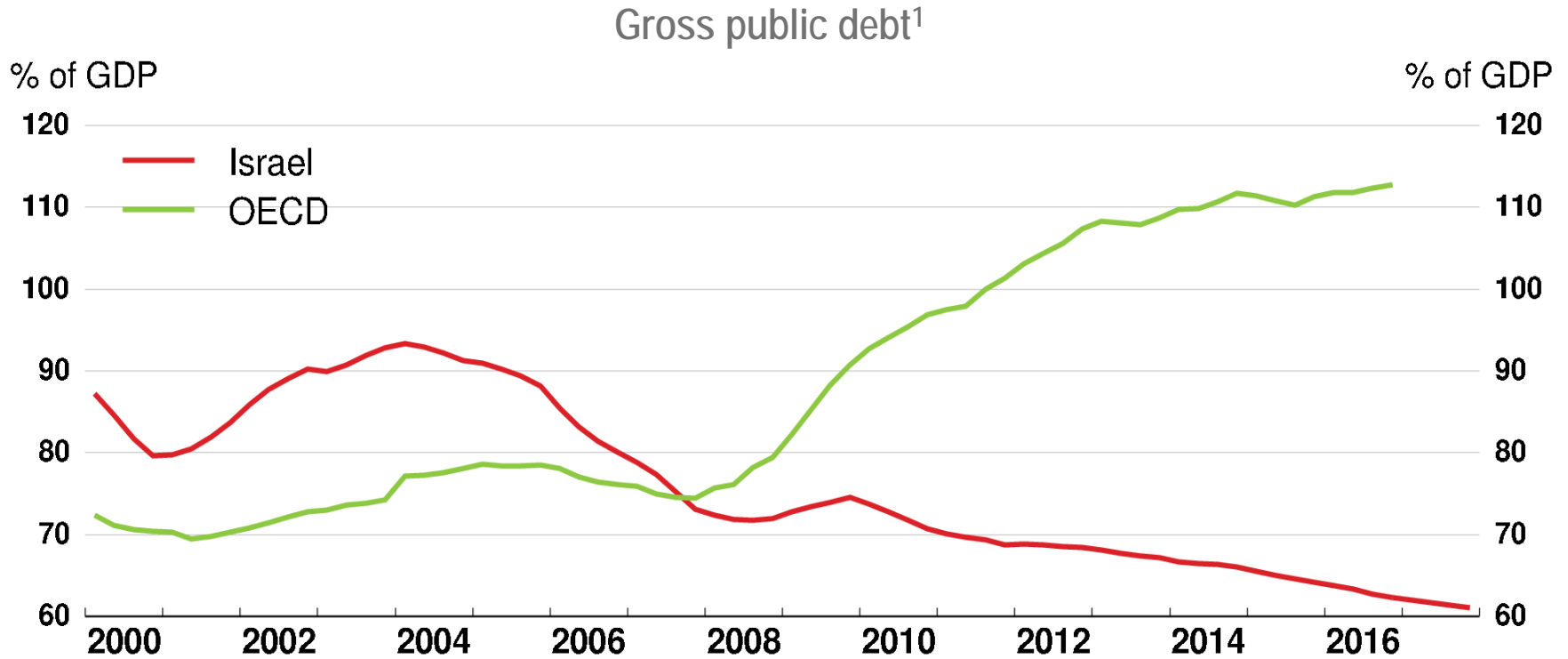
Unemployment has declined, and the labour market is close to or at full employment



Source: OECD (2017), *Economic Outlook and Labour Force Statistics Databases*.



Public debt is declining



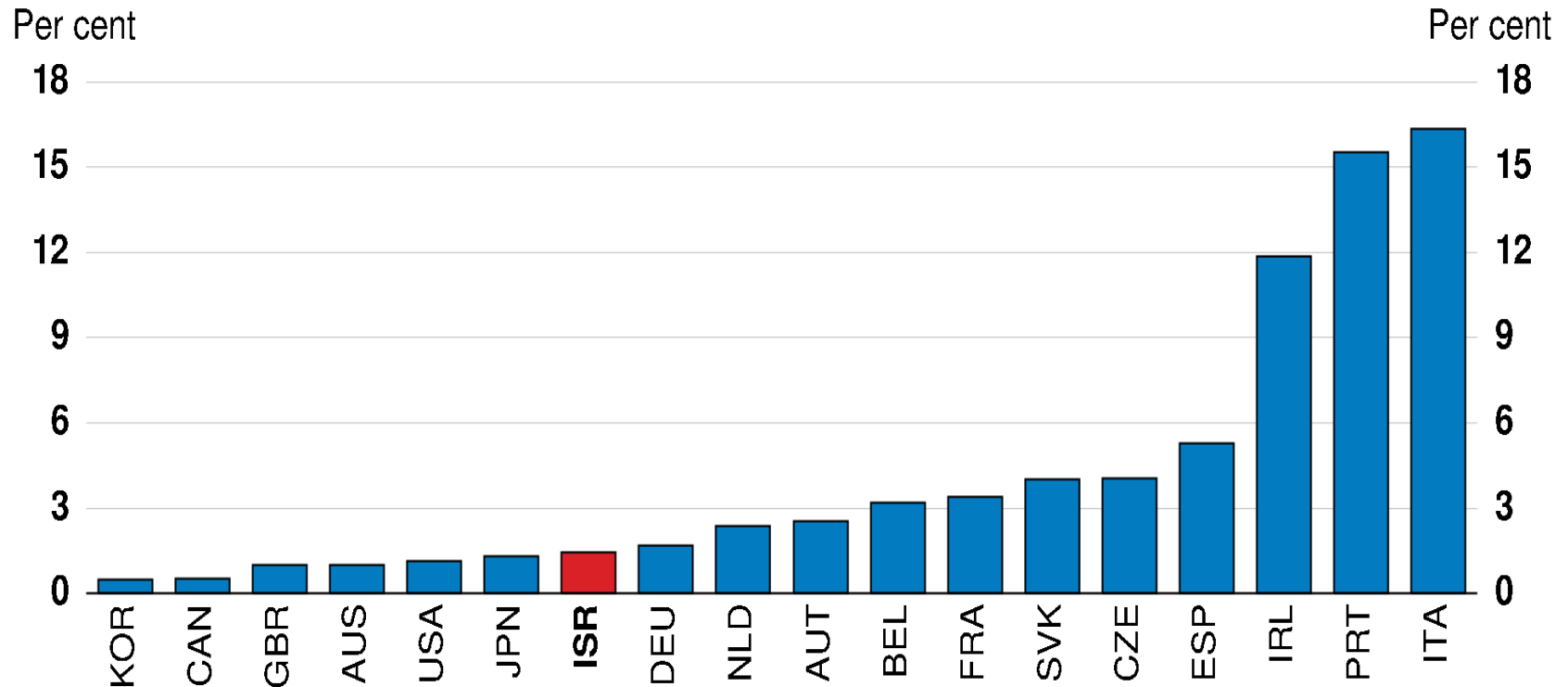
1. Estimate for 2017.

Source: OECD (2017), *Economic Outlook Database*.



The financial sector is sound

Non-Performing Loans (NPLs)
Share of NPLs in total gross loans, Q3 2017 or latest



Source: IMF, Financial Soundness Indicators Database.

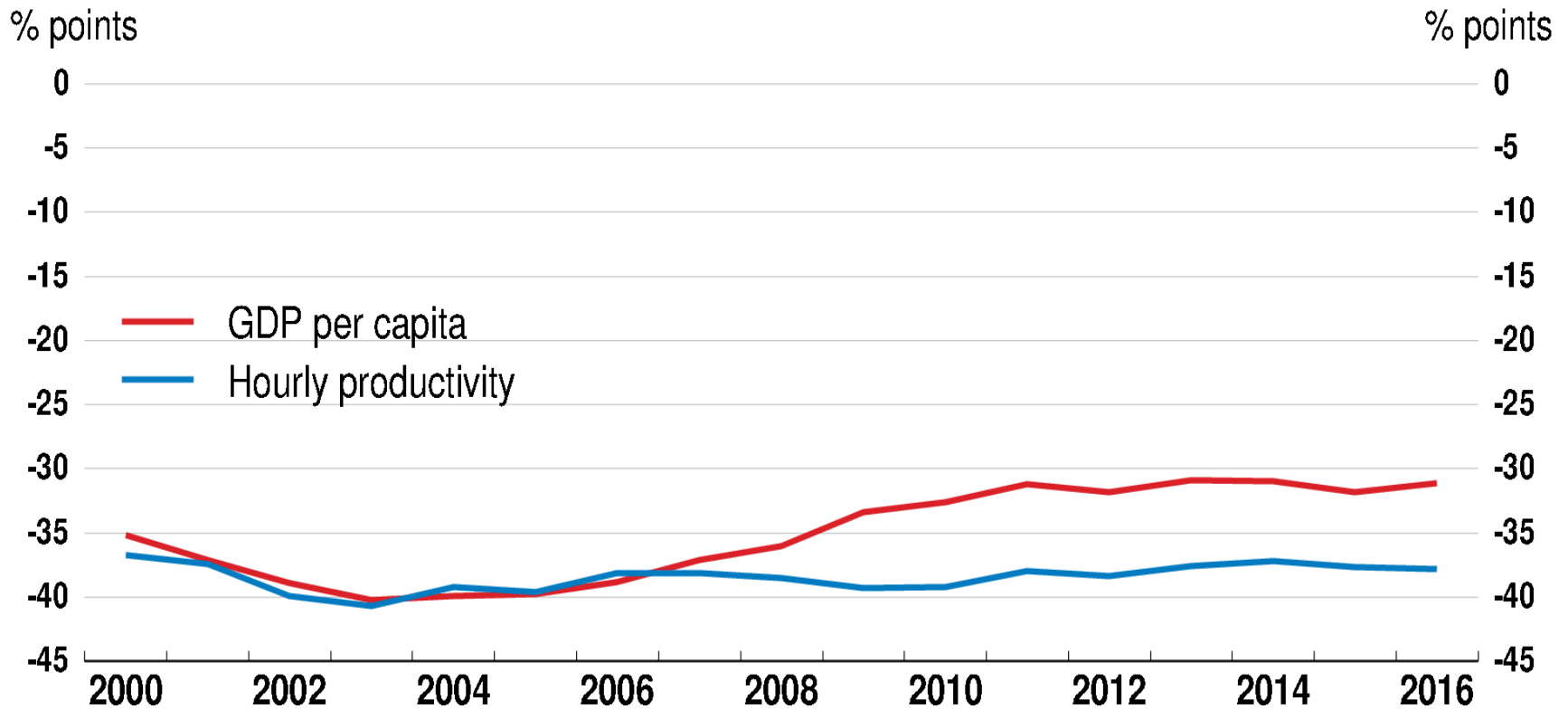


The gaps in efficiency and social cohesion remain substantial



Productivity remains relatively weak

Gap vis-à-vis the upper half of the OECD

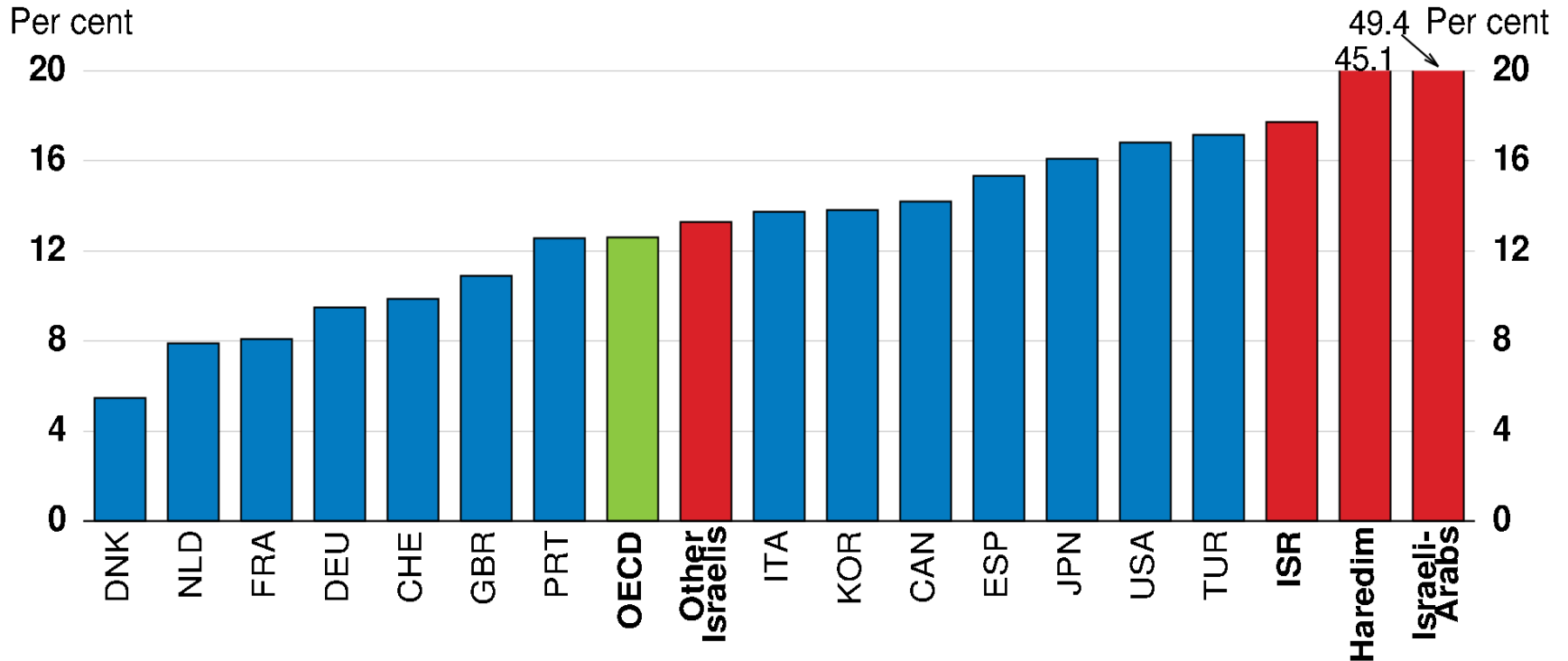


Source: OECD (2018), *Economic Policy Reforms: Going for Growth* (forthcoming).



Poverty is high, particularly among Israeli-Arabs and Haredim

Relative poverty rate
2016 or latest available year



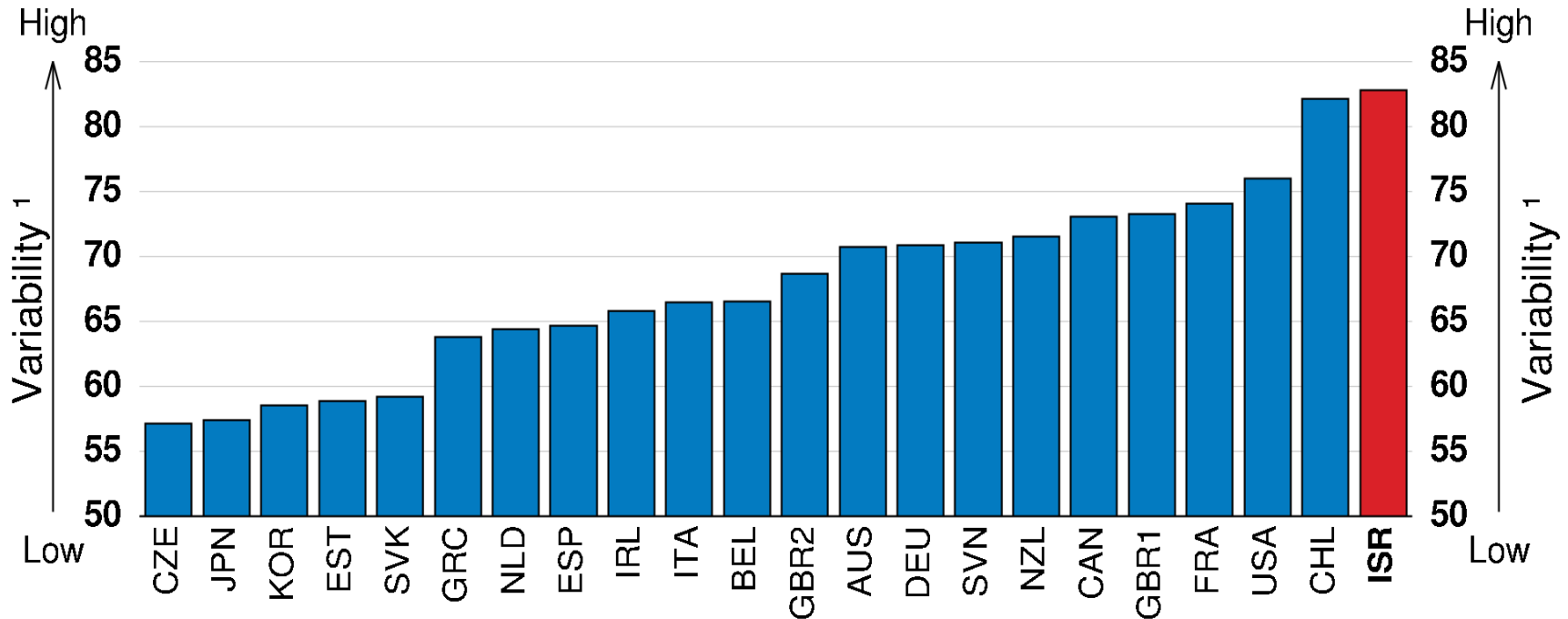
The relative poverty rate measures the share of households whose income is below the threshold of 50% of median disposable income.

Source: OECD (2017), *Income Distribution Database* and National Insurance Institute (2017), *Poverty and Social Gaps Report, 2016*.



There is a wide dispersion of skills among Israeli adults

Variability in skills is very high



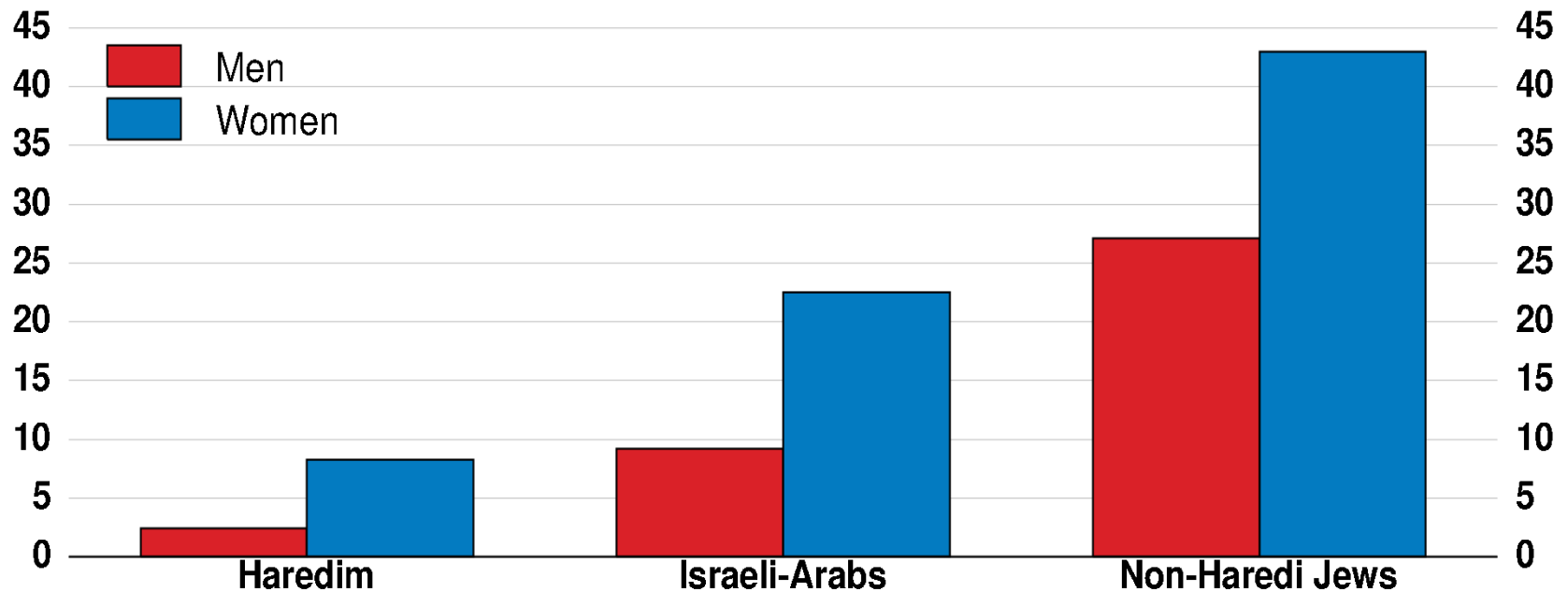
1. The measure of variability used is the interquartile range (difference between the third and first quartiles).

Source: OECD (2016), *Skills Matter: Further Results from the Survey of Adult Skills*.



There are strong differences in education between communities and genders

Share of academic degree holders
Percent of 25-35 year-olds, 2014

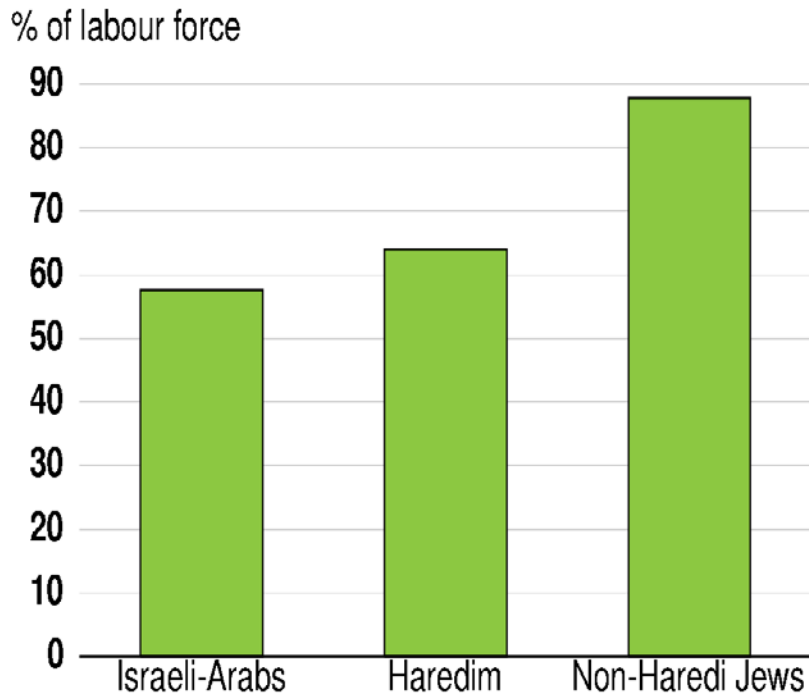


Source: S. Swirski, E. Konor-Attias and R. Zelingher (2015), *Israel: A Social Report 2015*, Adva Center; E. Regev (2016), "The Challenges of Integrating Haredim into Academic Studies", in *State of the Nation Report 2016*, Taub Center for Social Policy Studies.

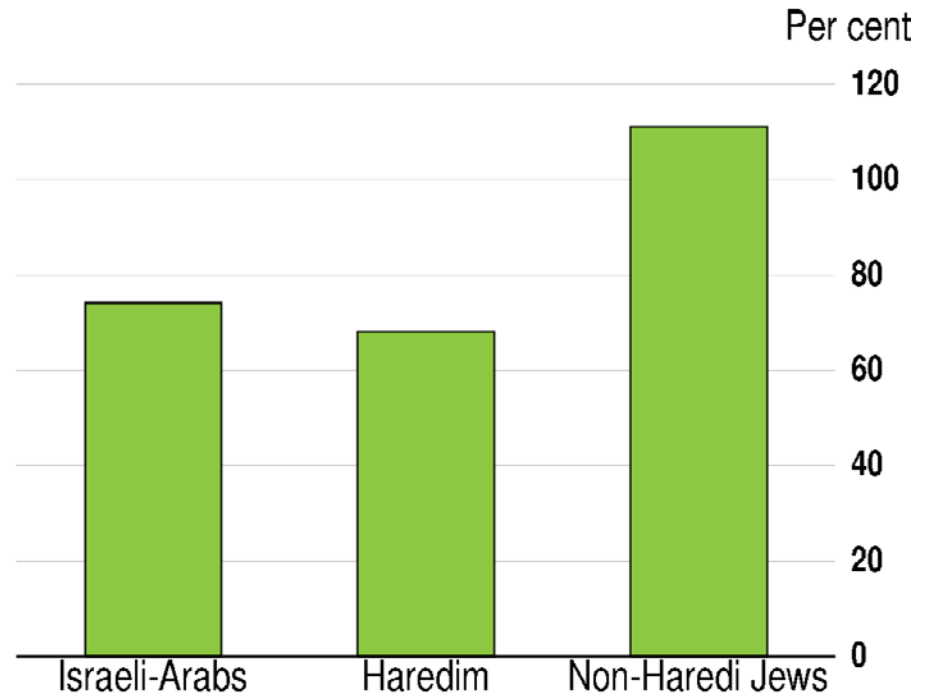


The Israeli-Arabs and Haredim have significantly weaker labour market outcomes

Labour force participation rate (2016)



Median wage as a % of the national median wage (2015)



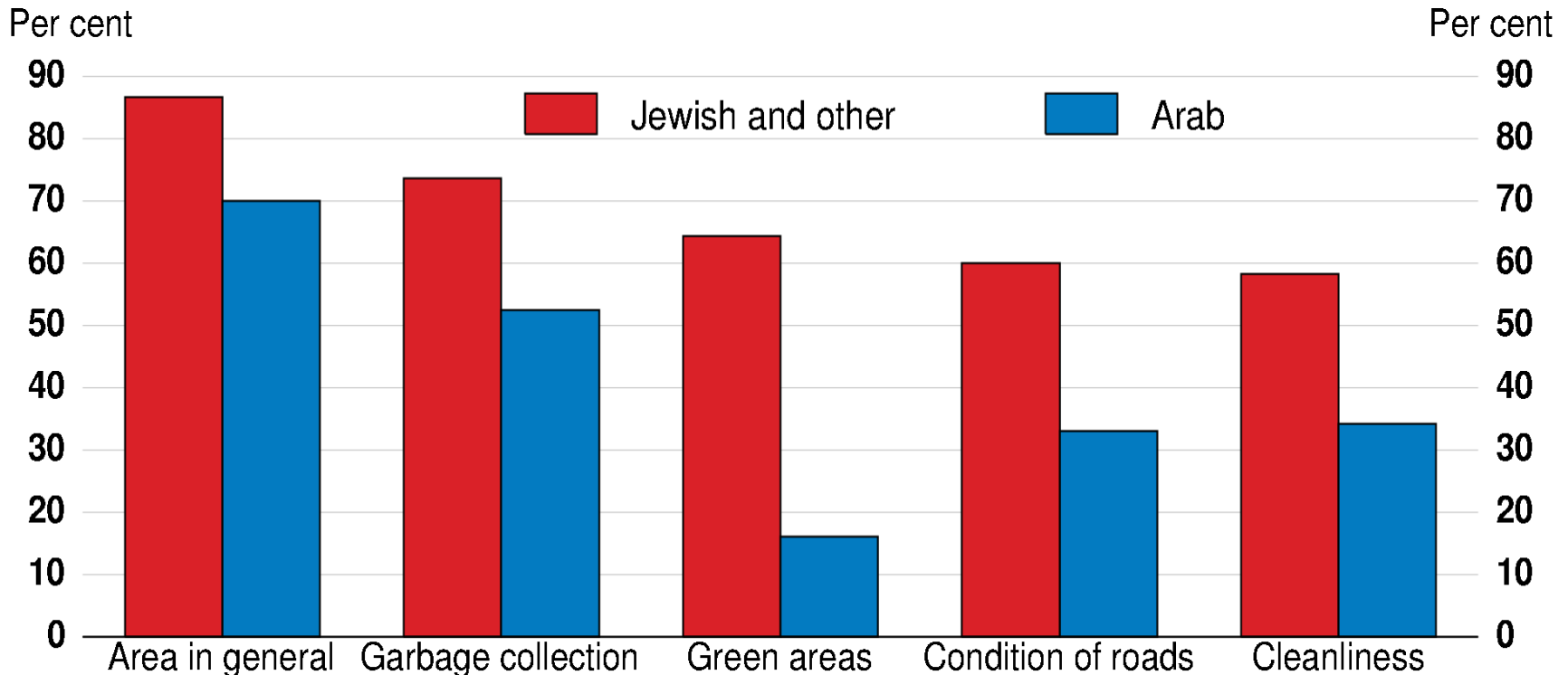
Source: Central Bureau of Statistics and Ministry of Finance.



Disadvantaged areas also suffer from inadequate infrastructure services

Satisfaction with selected infrastructure services by population groups

Share of respondents that were satisfied or very satisfied, 2015

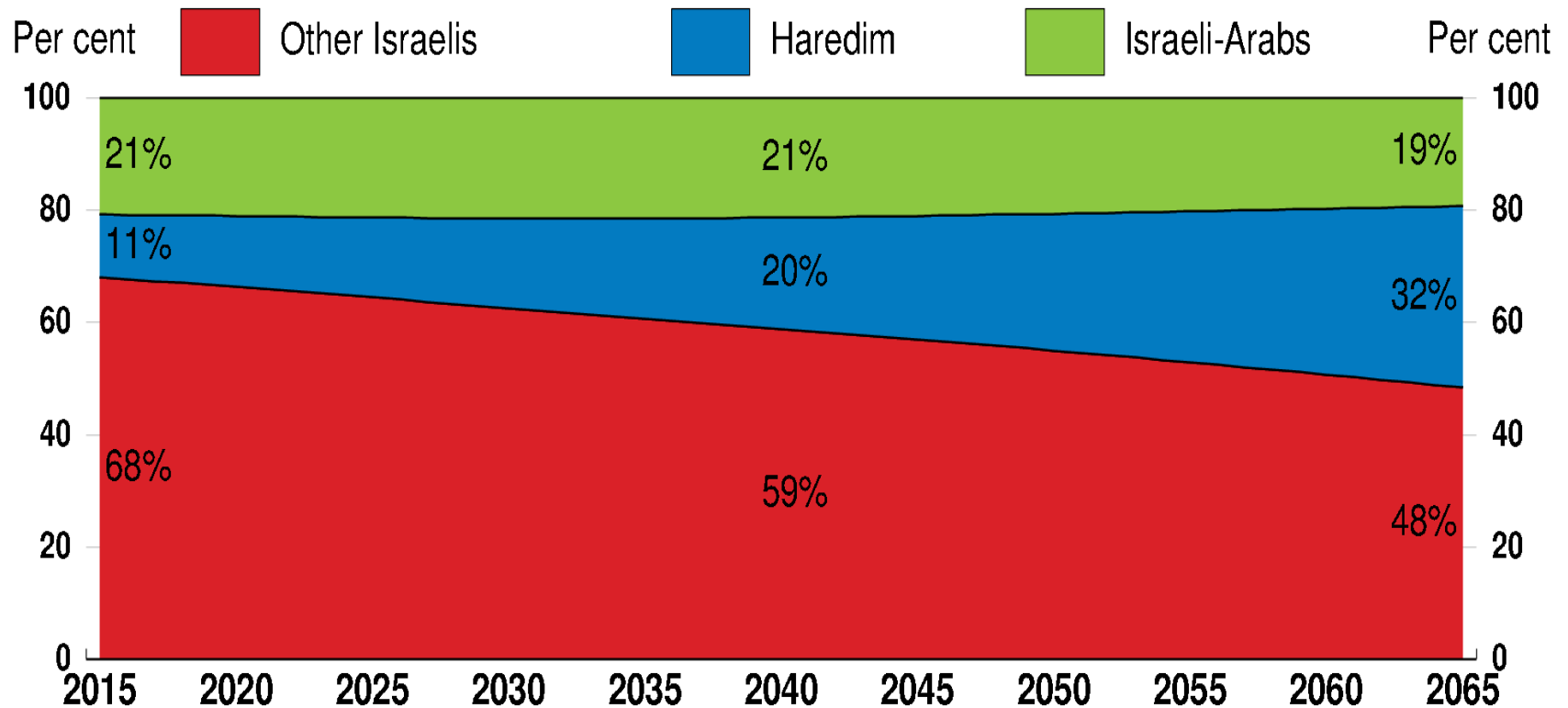


Source: CBS, 2015 Social Survey.



Israeli-Arabs and Haredim will constitute half of the population by 2060

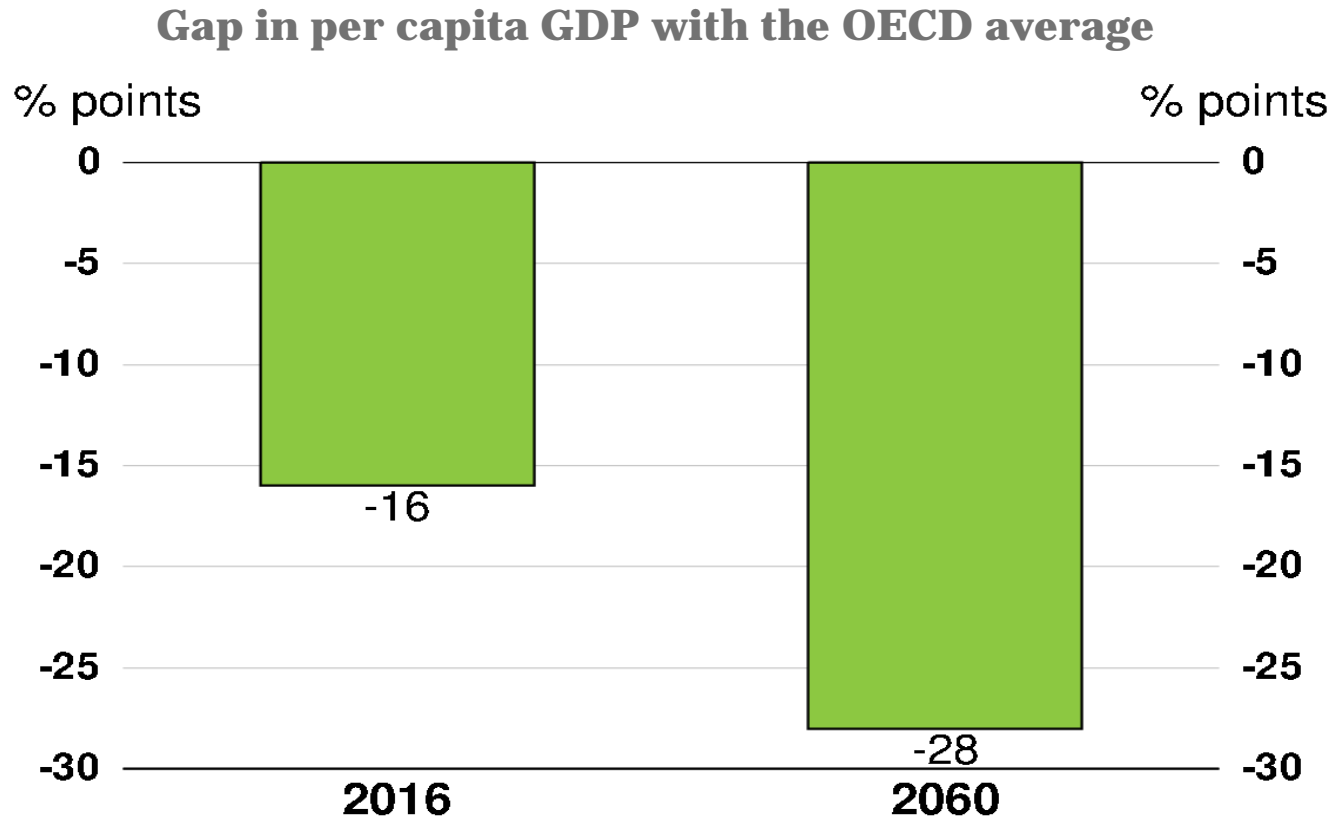
Demographic trends by community group



Source: Central Bureau of Statistics,
http://www.cbs.gov.il/reader/newhodaot/tables_template_eng.html?hodaa=201701138.



Without further social inclusion, relative living standards will fall



Source: OECD calculations.



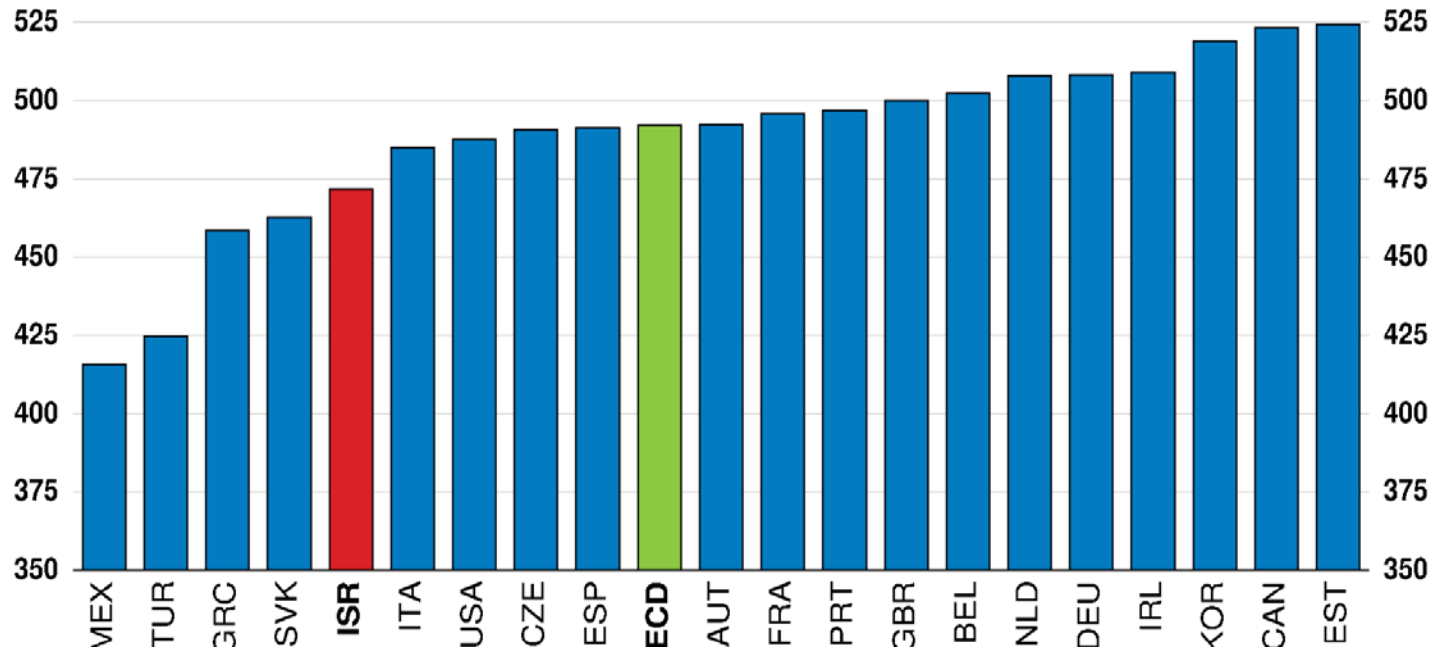
Enhancing human capital and making education more inclusive



Education outcomes can be improved

Average PISA scores are weak

PISA scores in mathematics, science and reading, 2015



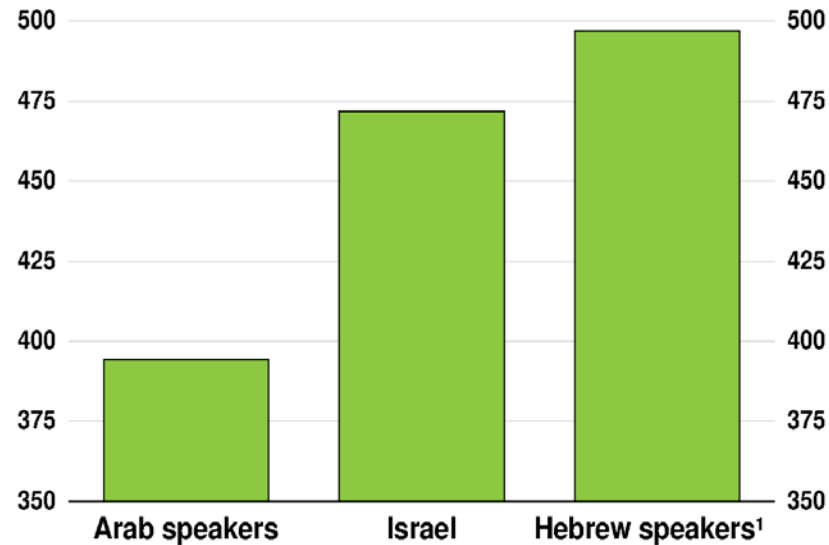
Source: OECD (2016), *PISA 2015 Results: Excellence and Equity in Education*; Ministry of Education.



Performance of Arab speaker students is weak

Arab students have worse PISA outcomes

PISA scores in mathematics, science and reading, 2015

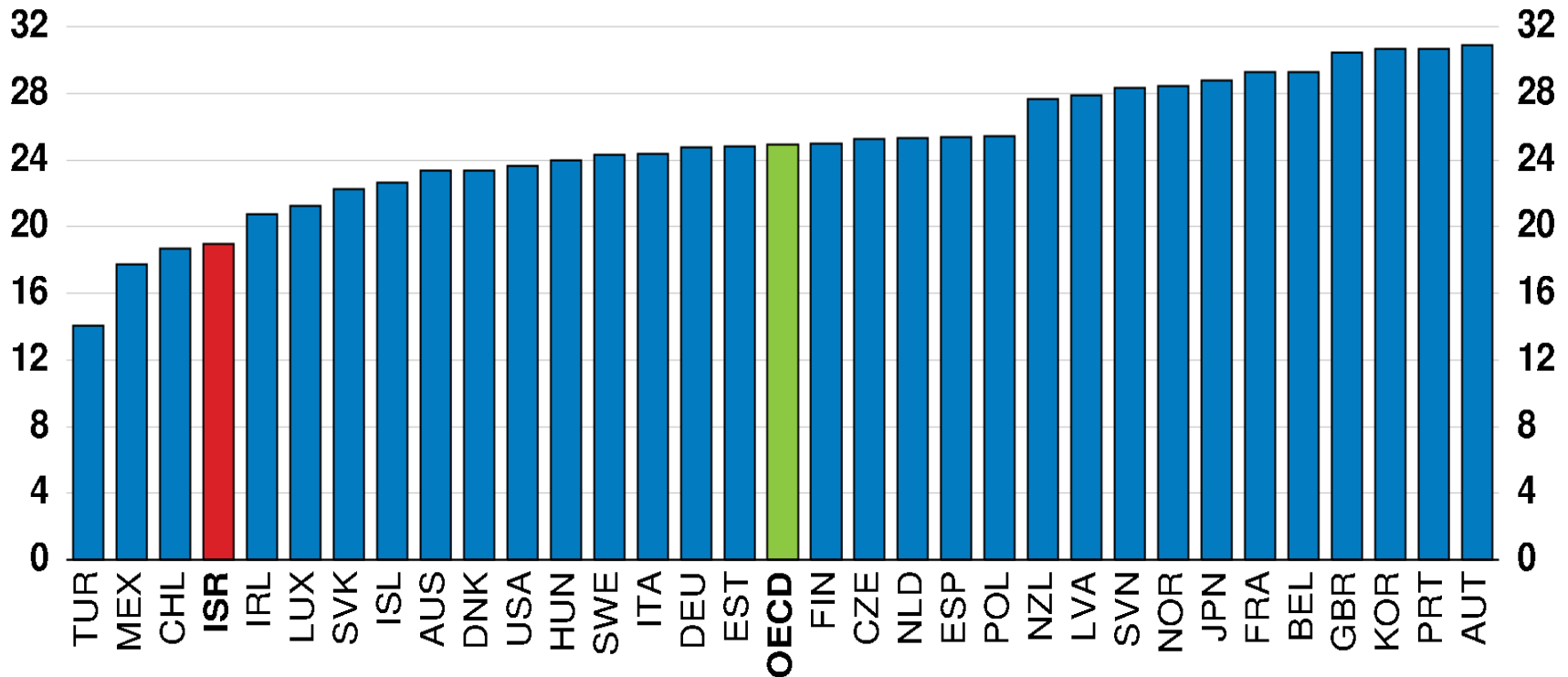


1. Haredi boys did not participate in the PISA test, as they do not study the required material. Results are thus overestimated.
Source: OECD (2016), *PISA 2015 Results: Excellence and Equity in Education*; Ministry of Education.



Education financing remains low, especially for disadvantaged groups

Annual expenditure per student at secondary level
Expenditure relative to per capita GDP, 2014

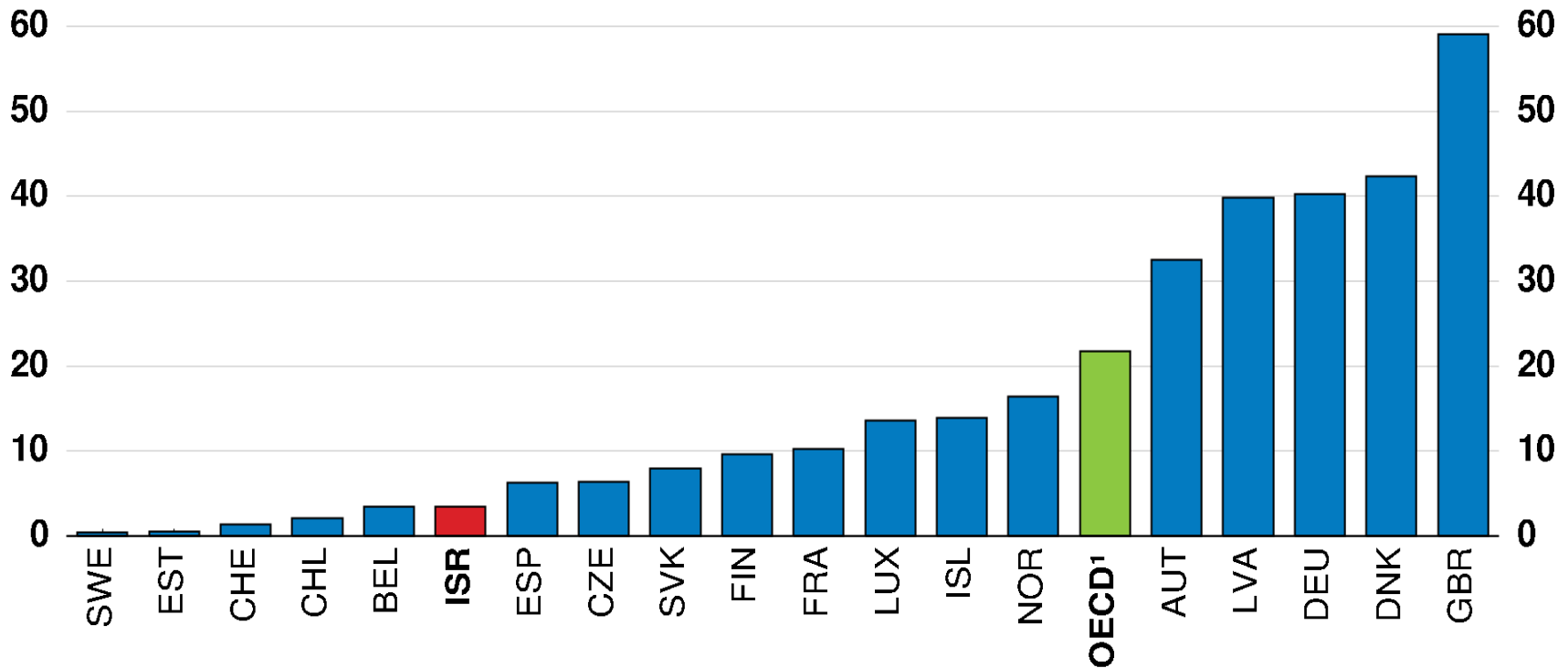


Source: OECD (2017), *Education Finance Indicators Database*.



Participation in work-based vocational training is weak

Students in combined school- and work-based programmes
% of all students in upper secondary education, 2015



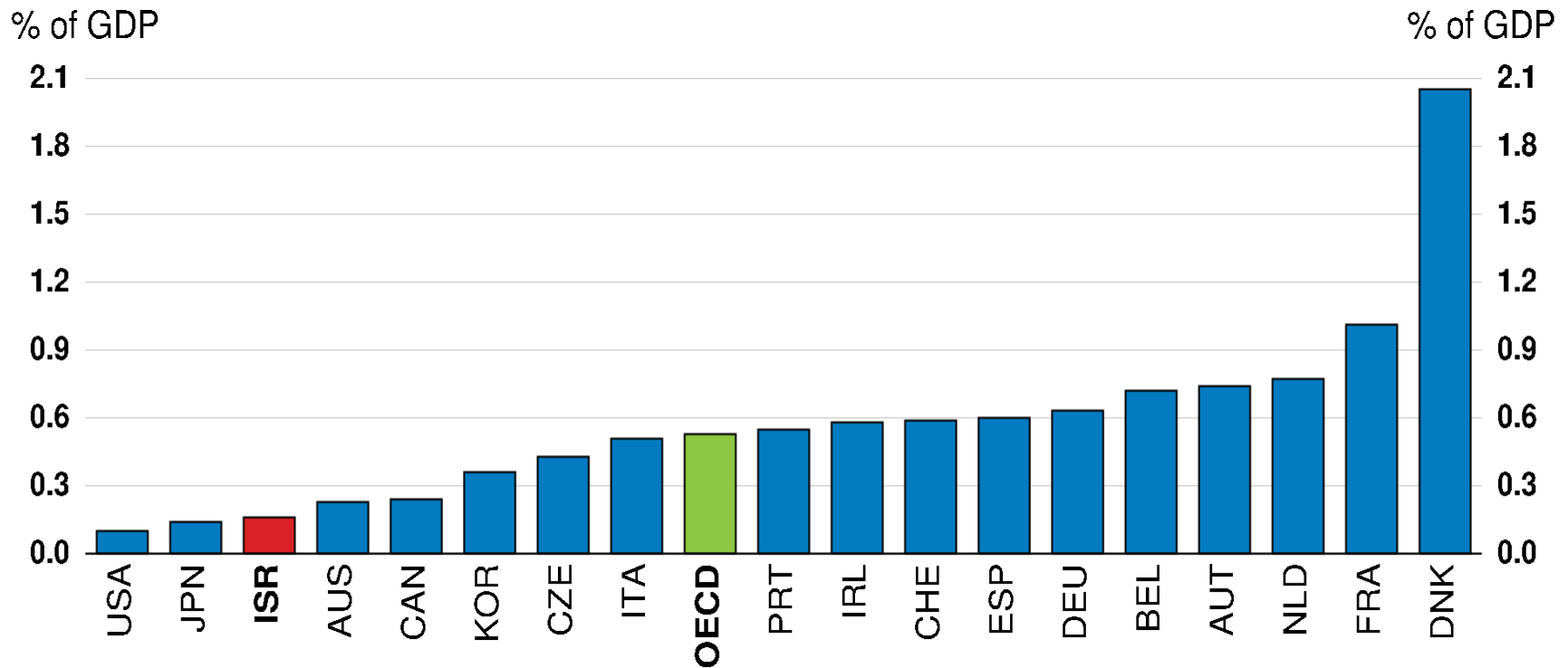
1. Average of countries with available data.

Source: OECD (2017), *Education at a Glance 2017: OECD Indicators*.



The unemployed receive little training

Spending on ALMPs,¹ especially training programmes, is low
2015 or latest year available



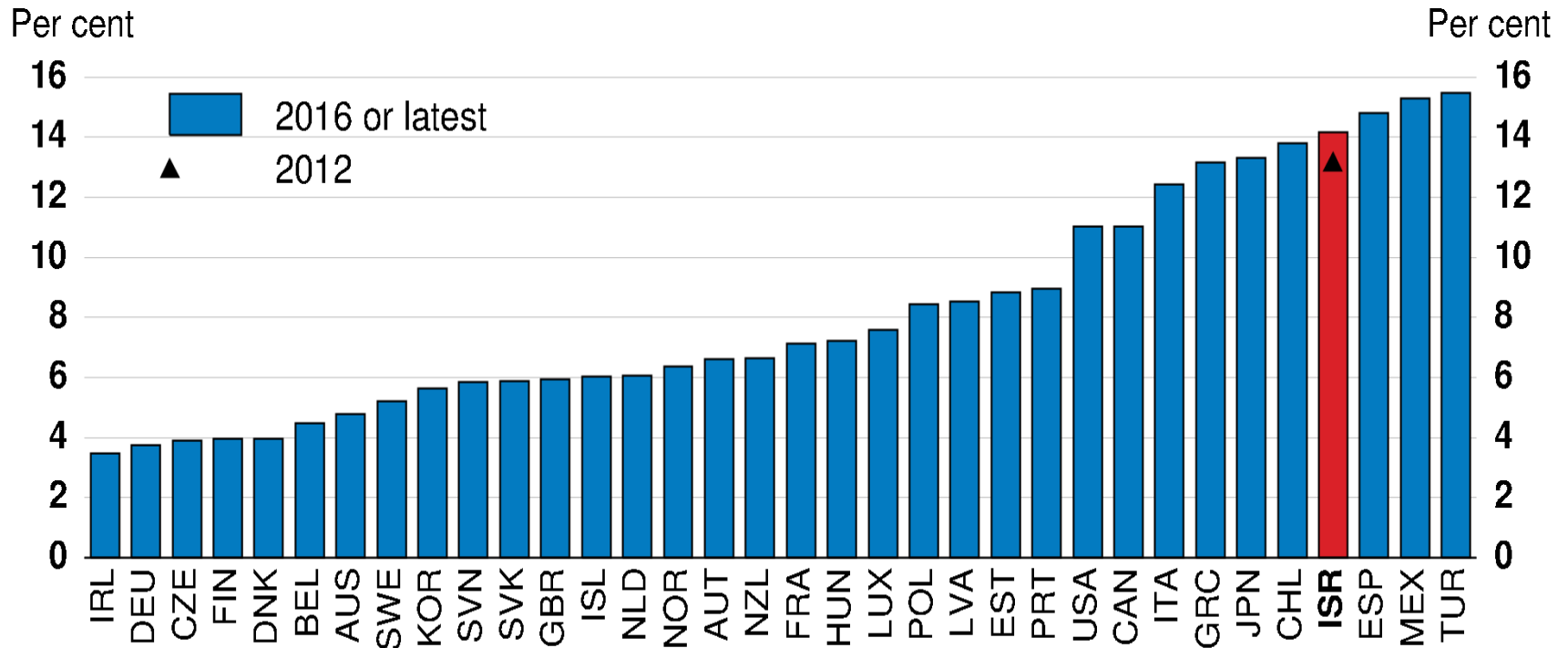
1. Active labour market programmes.

Source: OECD, *Labour Market Programmes Database*.



The share of the working poor is high and rising

Share of the working poor¹



1. Those with income below the poverty line, living in households with a working-age head and at least one worker.

Source: OECD (2017), *Income Distribution Database*.



Key recommendations to enhance human capital and make education more inclusive

- ✓ *Raise salaries for teachers working in disadvantaged schools*
- ✓ *Improve the quality of teaching by expanding mentoring programmes*
- ✓ *Increase education funding, especially at secondary level*
- ✓ *Further expand Hebrew language courses in the Arab stream*
- ✓ *Make funding to the Haredi stream conditional on an increase in core subjects in the curriculum and strengthened monitoring and testing*
- ✓ *Expand work-based learning in vocational programmes*
- ✓ *Raise funding for effective training programmes*
- ✓ *Further expand the role of in-work benefits by providing higher transfers to large families where both parents are in low-paid jobs*

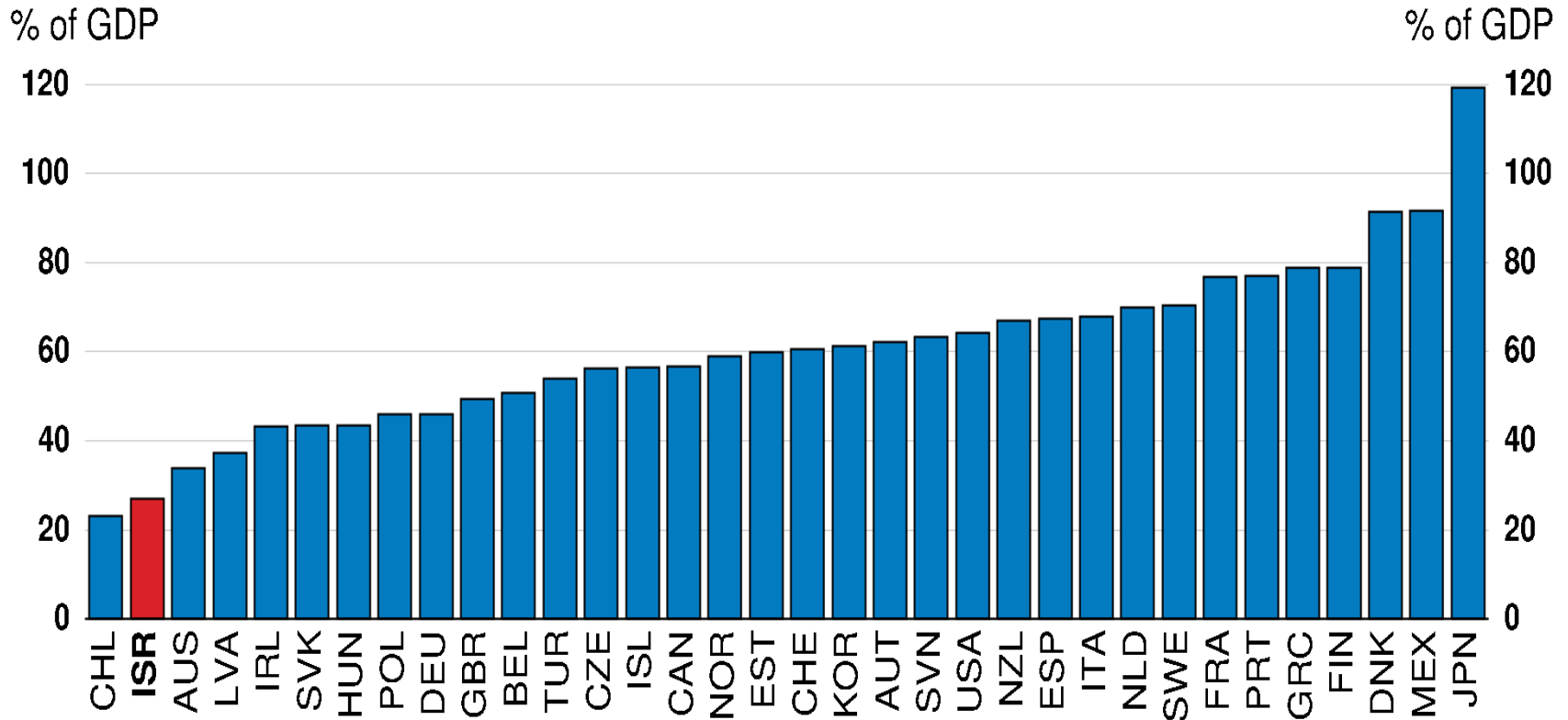


Improving infrastructure and the business environment



Israel has a large deficit of infrastructure

The public capital stock was low in Israel in 2015

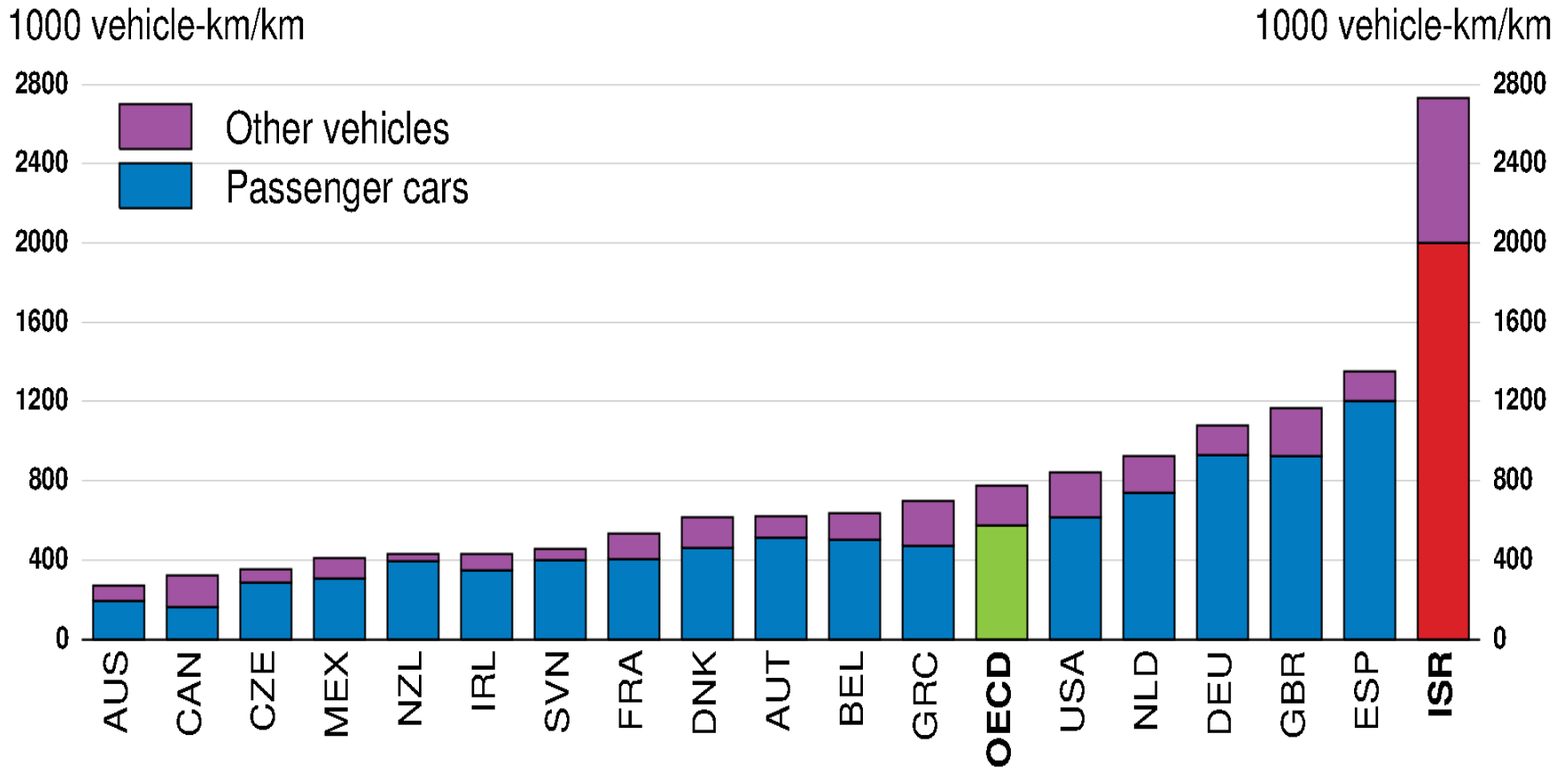


Source: IMF, *Investment and Capital Stock Dataset*, <http://www.imf.org/external/np/fad/publicinvestment/>.



Better public transport infrastructure is urgently needed

Road traffic intensity per network length, 2014 or latest available year



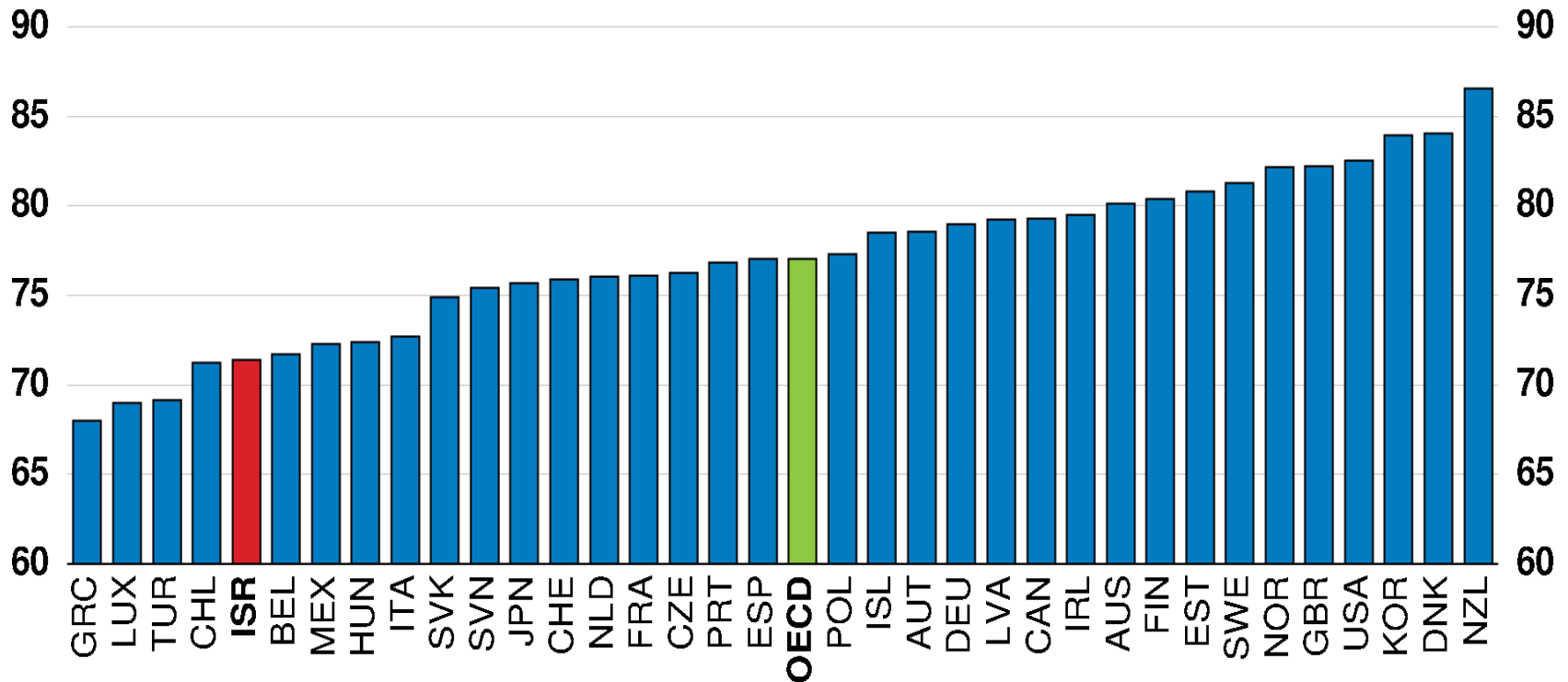
Source: OECD (2015), *Environment at a Glance 2015: OECD Indicators*, Figure 2.11.



Improve the business environment to boost efficiency

The business environment remains less favourable than in other OECD countries

Distance to frontier, from 0 (worst performance) to 100 (best performance), 2018



The 'frontier' represents the best performance observed on each indicators in the Doing Business across all economies.

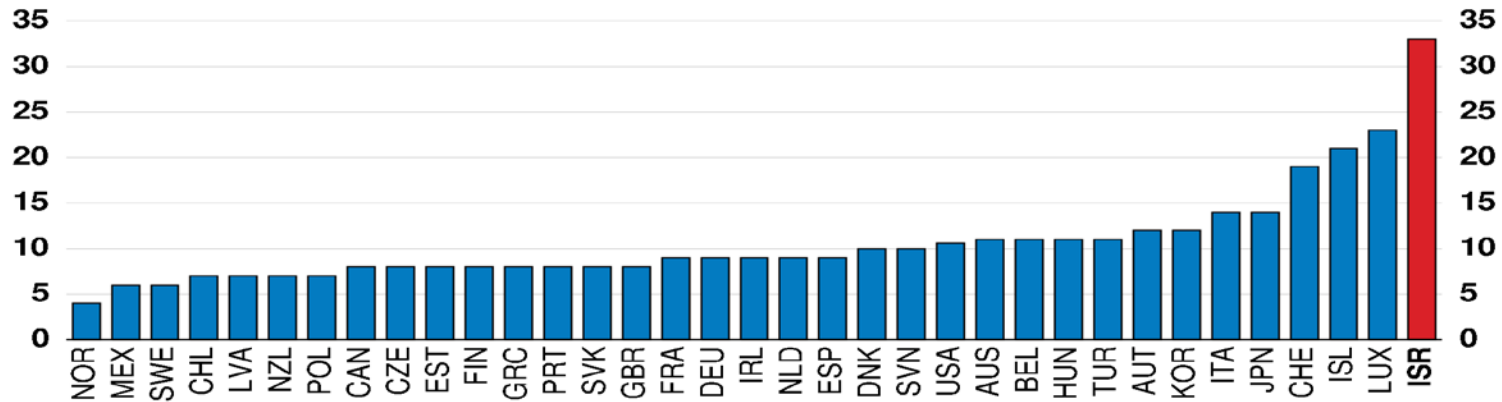
Source: World Bank (2017), *Doing Business 2018: Reforming to Create Jobs*.



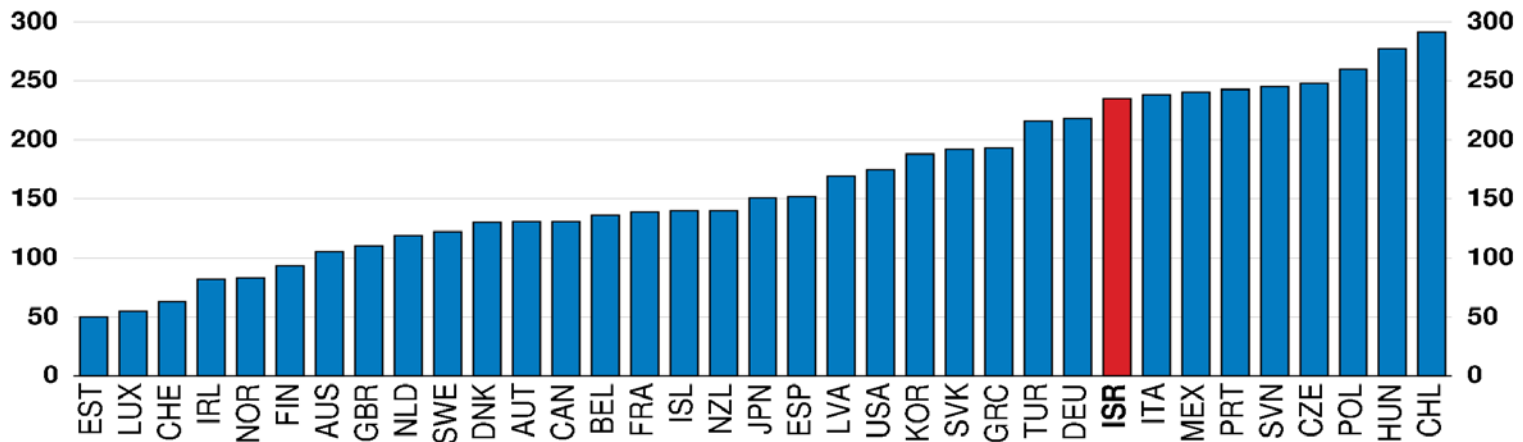
Streamlining bureaucracy is needed

Tax procedures for businesses are onerous

Number of payments required to comply with taxes per year, 2017 data



Time (number of hours) required to comply with taxes per year, 2017 data





Key recommendations to improve infrastructure and product market regulation

- ✓ ***Raise budgetary resources for infrastructure. Use public-private partnership agreements, especially in public transport, following a careful and clear allocation of their risks***
- ✓ ***Ensure that municipalities have adequate resources to finance local infrastructure services needed in new residential areas***
- ✓ ***Better coordinate large and cheaper residential developments in peripheral areas with public transport to where jobs are located***
- ✓ ***Promote road tolls and electricity smart meters to foster user funding of infrastructure***
- ✓ ***Use high-quality regulatory impact assessments based on a whole-of-government approach to cut the regulatory burden***
- ✓ ***Shift car taxes substantially from ownership to vehicle use to reduce pollution***
- ✓ ***Introduce competition in airport management***
- ✓ ***Replace agricultural quotas and tariffs with direct transfers to farmers***

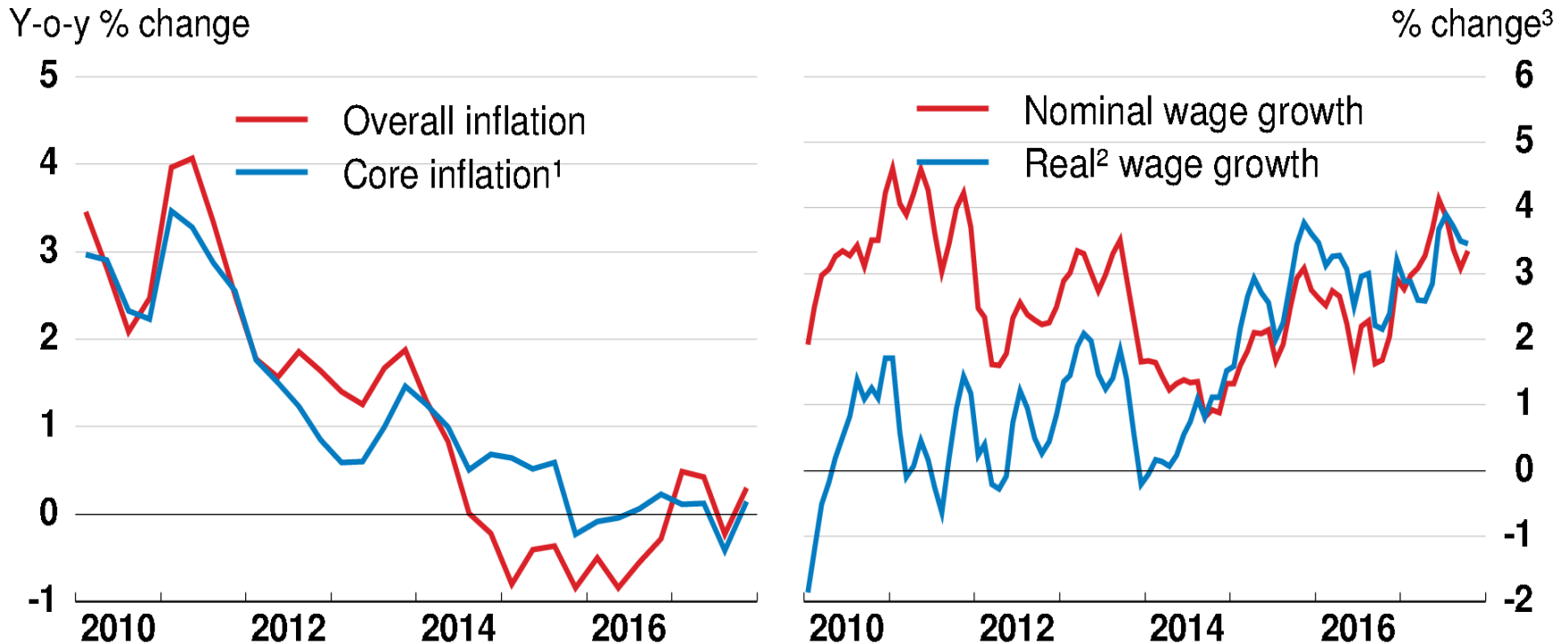


Macroeconomic policies



Despite strong growth, inflation remains below the official target

CPI inflation remains low, but wage growth is picking up



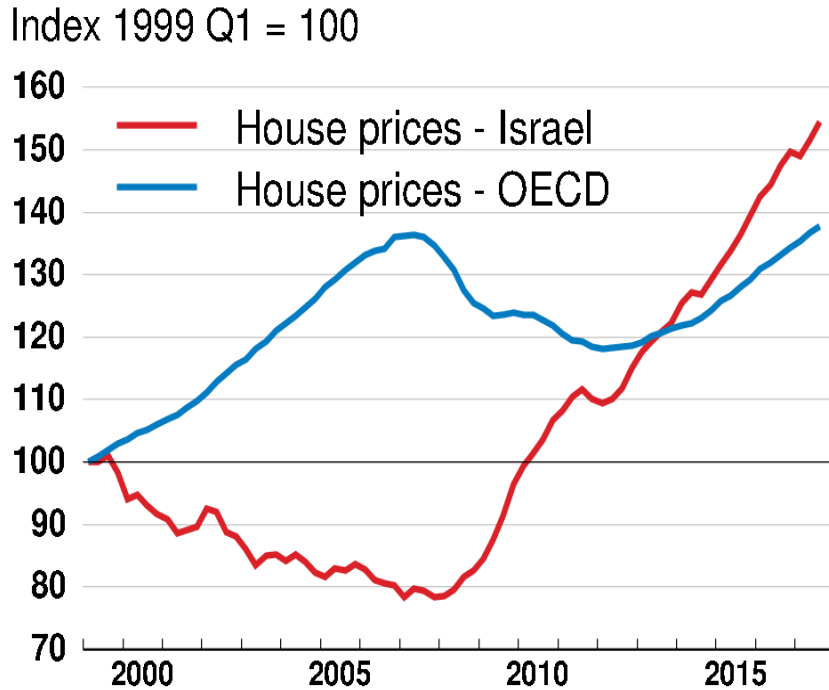
1. CPI excluding energy and food products.
2. Deflated by the consumer price index.
3. Three-month moving average of the year-on-year percentage change.

Source: OECD (2017), *Economic Outlook Database*; Bank of Israel.

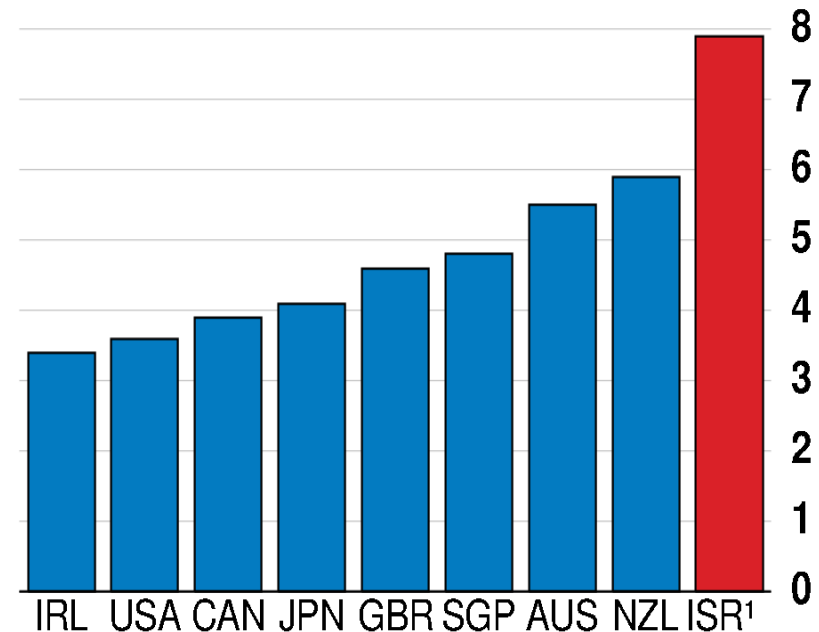


House prices are elevated, and the risks of a correction are still high

Real house/rent prices



Price-to-income ratio, 2016 Q3



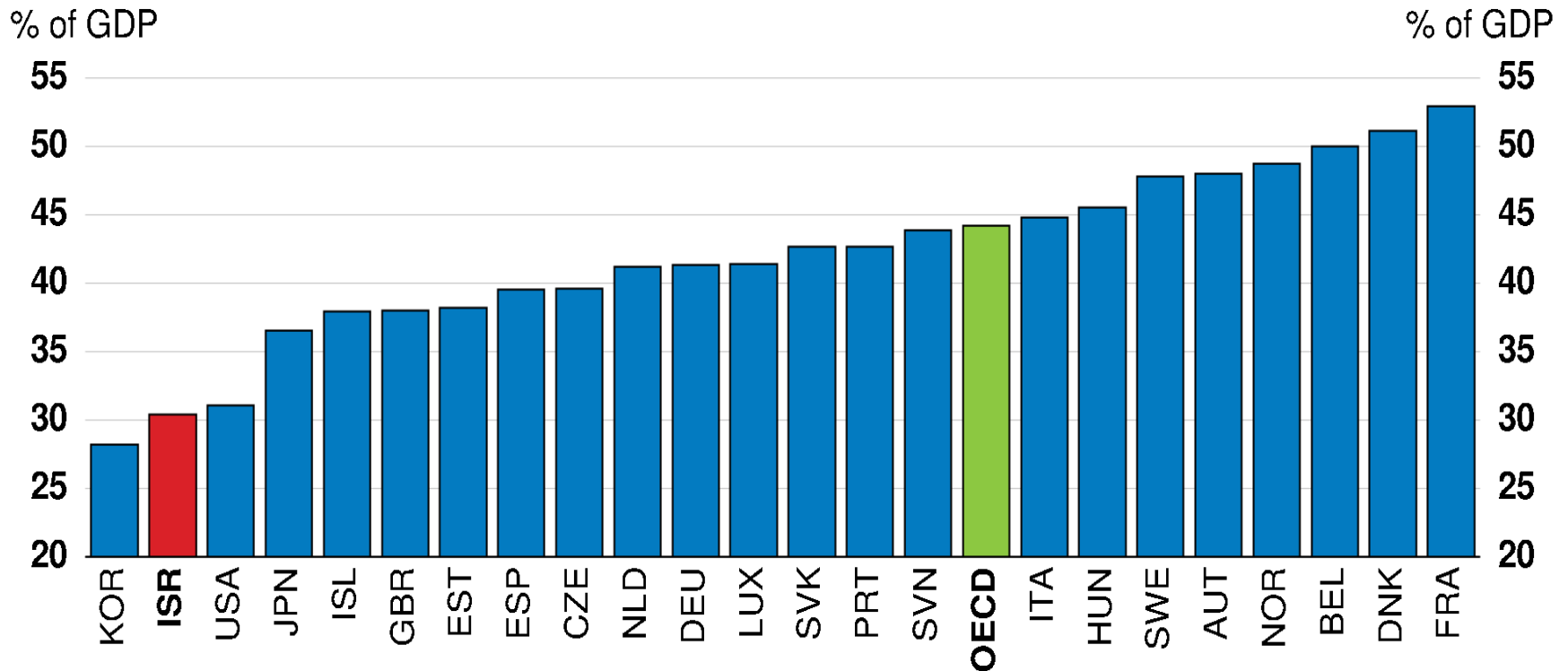
1. Estimate for Israel is based on IMF (2017) and the growth index of the price-to-income ratio in OECD (2017).

Source: OECD (2017), Prices and Purchasing Power Parities - Analytical House Price Indicators database; Demographia (2017), 13th Annual Demographia International Housing Affordability Survey: 2017, Table ES-3; IMF (2017), Israel - IMF Country Report, No. 17/75, March.



Low civilian spending limits the government's capacity to reduce socio-economic disparities

Government civilian spending is low¹
2016 or latest available data



1. Excluding interest payments.

Source: OECD, *National Accounts database*.



Key recommendations on macroeconomic policy

- ✓ ***Maintain a supportive monetary policy, but be prepared to move ahead with gradual increases in official rates when inflation becomes entrenched in its target range***
- ✓ ***Maintain strong macro-prudential policies, and monitor housing-market developments very closely***
- ✓ ***Raise the spending-growth ceiling to make room for higher expenditure on education, infrastructure and poverty reduction, while maintaining the downward trajectory of public indebtedness***
- ✓ ***Remove inefficient tax breaks, and raise environmental taxes***



For more information...

Disclaimers:

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This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

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