2018 OECD ECONOMIC SURVEY OF ISRAEL

Towards a more inclusive society

Jerusalem, 11 March 2018

Growth has been strong

GDP index, volume

Index 2000 = 100

Source: OECD (2017), Economic Outlook Database.
Employment is growing

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

Public debt is declining

Gross public debt\(^1\)

% of GDP

\begin{itemize}
\item Israel
\item OECD
\end{itemize}

\begin{itemize}
\item 1. Estimate for 2017.
\end{itemize}

\textit{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

Poverty is high, particularly among Israeli-Arabs and Haredim

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

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).

There are strong differences in education between communities and genders

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

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

Labour force participation rate (2016)

<table>
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<tr>
<th>% of labour force</th>
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<tr>
<td>Israeli-Arabs</td>
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<td>Haredim</td>
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<td>Non-Haredi Jews</td>
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Median wage as a % of the national median wage (2015)

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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,
Without further social inclusion, relative living standards will fall.

Gap in per capita GDP with the OECD average

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.

The unemployed receive little training

Spending on ALMPs,¹ especially training programmes, is low

2015 or latest year available

% of GDP

1. Active labour market programmes.

Source: OECD, Labour Market Programmes Database.
The share of the working poor is high and rising

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

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

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

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.

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

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

Government civilian spending is low\(^1\)
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…

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