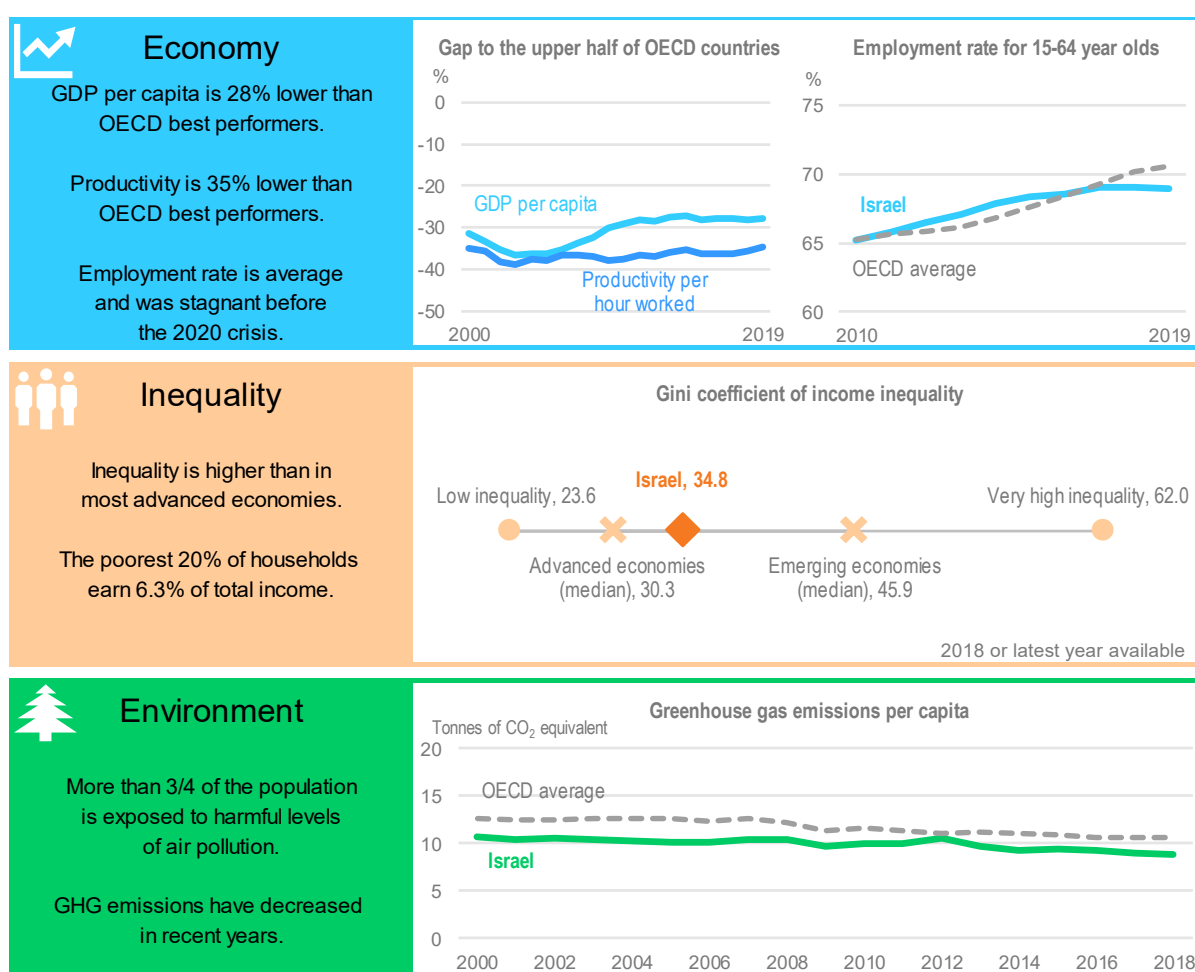


Israel

To build a resilient and strong recovery, policy should focus on upskilling and education. The pandemic threatens to aggravate Israel's long-standing challenges of high poverty, especially among the Ultra-Orthodox and Arab Israelis, and wide productivity disparity between its vibrant high-tech sector and more traditional and sheltered sectors, which employ most of the workforce and account for most of the productivity shortfall vis-à-vis the best performing OECD countries. High-tech sectors have been less affected and better able to cope with the crisis, partly due to higher ability to telework.

Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income 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.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

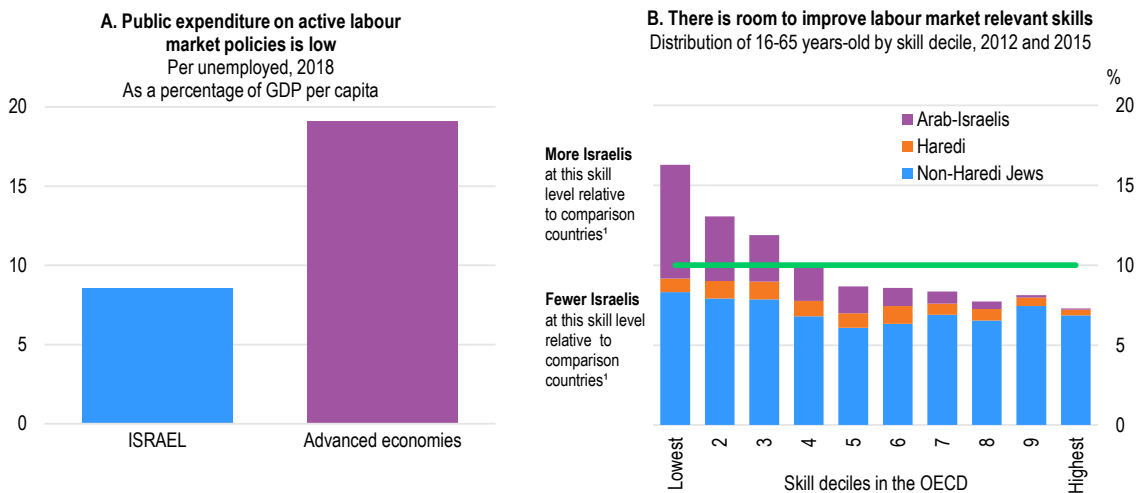
StatLink  <https://stat.link/itwbj0>

Upskilling and education key to building a resilient and strong recovery

The COVID-19 crisis is likely to accelerate a restructuring of the economy, from sectors facing extended weak demand to expanding sectors, forcing laid-off workers to find new jobs – possibly in different sectors and requiring different skills. To facilitate optimal workforce reallocation **active labour market policies should be strengthened**. Spending on these policies remains low compared to other OECD countries (Panel A). Stepping up retraining and job-search support is needed to help the unemployed transition to new jobs – in particular for vulnerable groups and in order to contain the scarring effects of COVID-19. In addition, strengthening existing in-work benefits would support the households most in need, reduce poverty and strengthen work incentives for low-skilled workers.

The adult skills are relatively weak and vary widely – contributing to severe labour market duality (Panel B). **Improving the quality and equity of education and training** is fundamental to boosting productivity and enhancing opportunities in the labour market. Reducing differences between educational streams as much as possible is key to raise quality and further integrate the Ultra-Orthodox (Haredis) and Arab-Israelis into the labour market. This will strengthen long-term growth, improve fiscal sustainability and enhance social cohesion. Work-based vocational training targeted at adults, who have left the educational system without labour market relevant skills, especially Ultra-Orthodox men, should also be strengthened further. Additional funding to build new pre-school and childcare capacity and improve its quality, particularly in lagging regions, can help reduce wide socioeconomic gaps.

Vulnerabilities and areas for reform



Source: Panel A: OECD, Public expenditure and participant stocks on LMP and Economic Outlook Databases; Panel B: OECD Survey of Adult Skills (PIAAC) Database (2012 and 2015).

StatLink  <https://stat.link/gjny8o>

Israel's **transportation infrastructure** lags significantly behind most other OECD countries, and as a result, road congestion is one of the worst in the OECD. Congestion charges should be introduced to reduce congestion, improve air quality and public health, and finance public transport. The government should also establish metropolitan transit authorities to improve coordination between the central government and local authorities.

The success of education and public infrastructure reforms will depend on their implementation and funding at the local level. **Reducing differences between municipalities by changing the local fiscal**

framework is needed to strengthen inclusive growth. Stronger equalisation through higher compensation from wealthier municipalities should be considered as well as changes to the design of the property tax system. The government could also merge municipalities and promote regional clusters to improve efficiency.

Lowering barriers that protect markets and promoting best-practice regulation will foster investment and innovation, and spur the adoption of digital technologies. Reducing remaining restrictions on foreign suppliers of goods and services can boost competition, in particular in the services and food sector. Further enhancing trade facilitation measures will benefit especially smaller firms, as costs related to border procedures are particularly onerous for them. Tariffs and regulations remain particularly distorting in the agricultural sector and should be lowered. Following up on the electricity market reform of 2018 by avoiding any discrimination in electricity grid access through effective regulation and developing further a wholesale electricity market and high-resolution electricity pricing can boost renewable energy supply.

Israel: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Labour market: Resources for public employment services and active labour market policies, especially training, should be increased	
No actions taken.	<input type="checkbox"/> Expand the use and strengthen the assessment of training programmes, focusing on low-skilled workers, especially from disadvantaged groups who are less likely to receive training. <input type="checkbox"/> Consider expanding the earned income tax credit further.
Education and skills: Improve the quality and equity of education and training	
<input checked="" type="checkbox"/> Education funding has significantly increased, including for new day care centres, financial aid for tech-related studies, and starting salaries of teachers. <input checked="" type="checkbox"/> As part of the COVID-19 response, additional funding for distant learning was made available.	<input type="checkbox"/> Further strengthen participation in high-quality pre-school education, and expand day care centres, particularly in poor and disadvantaged localities. <input type="checkbox"/> Further increase Hebrew courses in the Arab schools and strengthen the core subjects (“LIBA”) in the curriculum of Ultra-Orthodox schools. Promote teacher exchanges between school streams. <input type="checkbox"/> Expand post-secondary work-based vocational training targeted at groups with weak attachment to the labour market.
Infrastructure: For a well-functioning public transport infrastructure, better coordination and pricing are needed	
<input checked="" type="checkbox"/> As part of the COVID-19 response, several infrastructure projects were accelerated in 2020 such as the further electrification of the rail-line between Jerusalem and Tel-Aviv as well as construction on the Tel Aviv light rail. <input checked="" type="checkbox"/> New major road and tunnel toll projects and 4 light rail train projects were launched in 2019.	<input type="checkbox"/> Establish metropolitan transport authorities to promote integrated transport networks and pricing systems and ensure stable financial support for public transport. <input type="checkbox"/> Introduce congestion charges, accompanied by significant improvements in the quality of public transport services.

2019-2020 Reforms	Recommendations
Local government: Reform financing of local municipalities and introduce incentives for cooperation	
*New priority *	<input type="checkbox"/> Strengthen fiscal equalisation within municipalities mainly through higher compensation from wealthier municipalities. <input type="checkbox"/> Decrease the number of local authorities by merging municipalities. Enhance cooperation and coordination across regions by promoting regional clusters and shared industrial zones. <input type="checkbox"/> Reduce the difference between non-residential and residential property tax rates.
Competition and regulation: Lower barriers that protect markets and promote best-practice regulation	
<input checked="" type="checkbox"/> Cuts of tariffs and purchase taxes on a range of imported products continued in 2019/20 including on entertainment electronics, textiles and household appliances.	<input type="checkbox"/> Further cut tariffs and non-tariff barriers, and streamline trade regulations. Extend the use of EU health rules with ex-post verification to “sensitive” products such as dairy, eggs and meat. <input type="checkbox"/> Continue to replace agricultural quotas, price guarantees and customs tariffs by direct payments to farmers. Improve transparency and efficiency of the implementation of the religious dietary code of kashrut. <input type="checkbox"/> Further develop the wholesale electricity market as planned, with high-resolution electricity pricing across time and space, competitive determination of market prices and effective regulation to prevent discrimination against new entrants.

Recent progress on structural reforms

Progress on structural reforms has been limited due to prolonged political uncertainty in 2019 and the focus on dealing with the consequences of the COVID-19 crisis in 2020. Some progress was made in opening the economy to foreign competition, and spending on education has increased markedly over recent years.