

ISRAEL<sup>1</sup>

- The income gap *vis-à-vis* leading OECD economies has narrowed in recent years, with growth in the employment rate and productivity both playing substantial roles.
- Progress has been achieved in reducing income and corporate taxes and adjusting the tax composition. Progress in reforming mainstream education is reasonable, but not so as regards the Ultra-orthodox sector. Developments in welfare policies have been mixed. Good intentions predominate in reforms on other fronts, but progress has often been sluggish.
- Further reduction in the income gap requires continued education reform and welfare-to-work measures to raise earnings capacity and labour force participation, particularly among Arab-Israeli women and ultra-orthodox men. Cutting red tape for businesses, addressing corporate governance in large corporations and applying further pressure for more vigorous competition will also help.
- Raising the quality of education, particularly for minorities, in combination with welfare reforms can potentially ease Israel's high rate of poverty and deep socio-economic divides while promoting long-term growth.

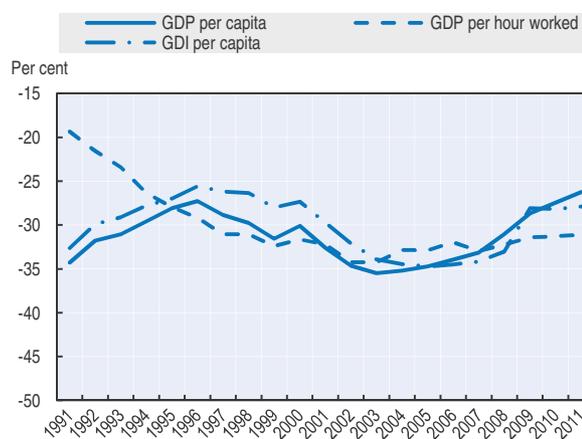
## Growth performance indicators

## A. Average annual trend growth rates

Per cent

	2001-06	2006-11
Potential GDP per capita	1.2	1.5
Potential labour utilisation	0.6	0.6
<i>of which:</i>		
Labour force participation rate	0.4	0.2
Employment rate <sup>1</sup>	0.2	0.4
Potential labour productivity	0.6	0.9
<i>of which:</i>		
Capital intensity	0.2	0.6
Labour efficiency	0.2	0.3
Human capital	0.1	0.0

## B. Sizeable gaps in GDP per capita and productivity remain

Gap to the upper half of OECD countries<sup>2</sup>

1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

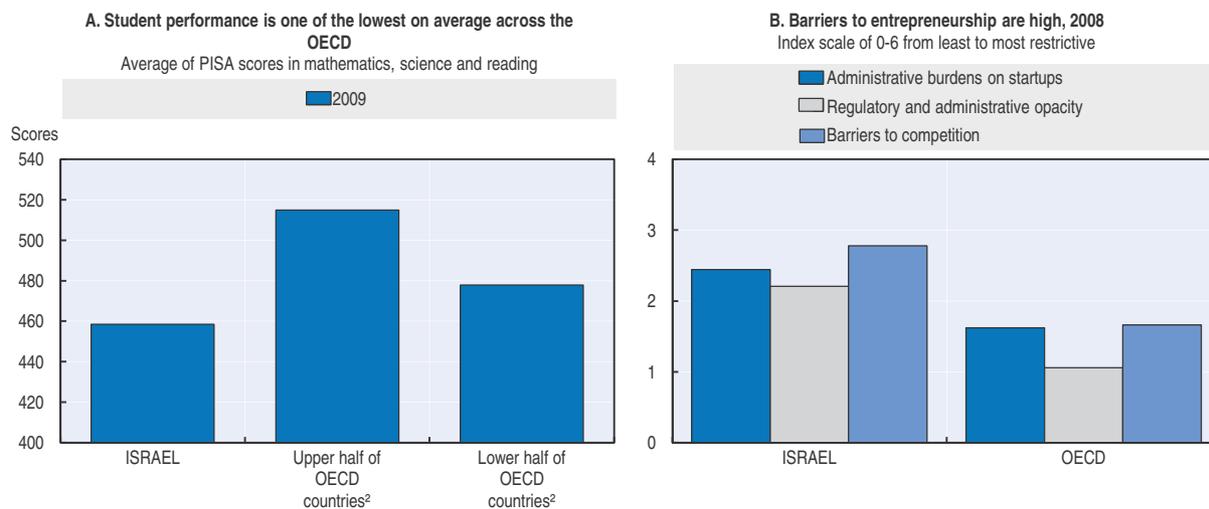
Source: OECD, National Accounts and OECD Economic Outlook 92 Databases.

StatLink  <http://dx.doi.org/10.1787/888932776979>

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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## Policy indicators



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2. Upper and lower half of OECD countries in terms of PISA scores in mathematics, science and reading.

Source: OECD, PISA 2009 and Product Market Regulation Databases.

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## Identifying Going for Growth 2013 priorities

### Priorities supported by indicators

**Improve education outcomes.** Weak core skills are diminishing potential productivity and employment growth.

**Actions taken:** Reforms to primary and secondary education, including increases in working hours, reductions in class size and raising the school-leaving age, are underway.

**Recommendations:** Continue reform efforts in state-run education, notably for Arab pupils. For the independent Ultra-orthodox schools, expand and properly enforce curriculum requirements for state funding. Introduce tuition fees in tertiary education backed up by income-contingent repayment loans.

**Cut red tape for businesses.** Cumbersome red tape, for instance in planning regulation, is hampering business sector activity.

**Actions taken:** Streamlining and decentralising planning regulation continues, but at a slow pace. Measures to expedite housing construction to help cool the housing market continue. A one-stop shop system for small and medium-sized enterprises is being developed.

**Recommendations:** Follow through on plans to liberalise building regulations, and continue efforts to streamline the number of business licences and processing times.

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**Complete network industry reforms.** Moving towards a market-based approach in network industries regulation would help boost investment and productivity.

**Actions taken:** In telecommunications, a series of regulatory measures has intensified competition; for example, in June 2011 telecom companies were banned from charging exit fees.

**Recommendations:** Resolve the reform deadlock in the electricity sector, establish an independent telecommunications regulator, and increase competition in post, rail and water services.

### Other key priorities

**Encourage employment among low-income households.** Growth potential is hampered by weak labour-force attachment in some segments of the population, notably Ultra-orthodox men and Arab-Israeli women.

**Actions taken:** As of 2011 the earned-income tax credit (EITC) has applied nationwide, and the value of the credit for mothers and single parents has been substantially increased.

**Recommendations:** Pursue welfare-to-work programmes more vigorously. Increase the coverage and value of the EITC, combine stronger enforcement of labour regulation with lowering the value of the minimum wage relative to median earnings, and re-introduce a job-placement scheme.

**\*Enhance competition and corporate governance\*<sup>1</sup>** Some dimensions of corporate governance in Israel's large and complex company groups pose a general risk of market collusion and inefficient capital allocation, and high prices for some retail goods indicate weak competition.

**Recommendations:** Implement the recommendations of the 2011 Concentration Committee, in particular the proposals to limit linkages between financial and non-financial entities and to strengthen the rights of minority shareholders in pyramidal business structures. Continue to investigate retail supply chains with a view to taking concrete steps to enhance competition.

### Previous Going for Growth recommendation no longer considered a priority

**Shift the burden of taxation away from direct taxes.** To encourage both domestic and inward investment, it was recommended to pursue feasible avenues for raising indirect taxes and to contemplate further income tax cuts.

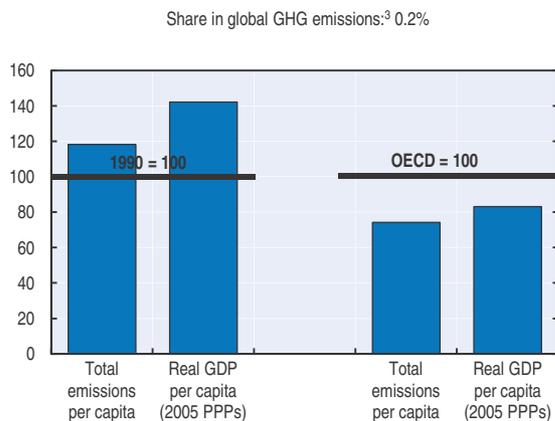
**Actions taken:** Some corporate and income tax reductions have taken place in 2011 but plans for further cuts have been put on hold, and both direct and indirect taxes are being raised to tackle fiscal problems. However, on balance, the tax mix has become satisfactory from a growth perspective which is why tax reform is no longer considered a priority.

1. New policy priorities identified in *Going for Growth 2013* (with respect to *Going for Growth 2011*) are preceded and followed by an “\*”.

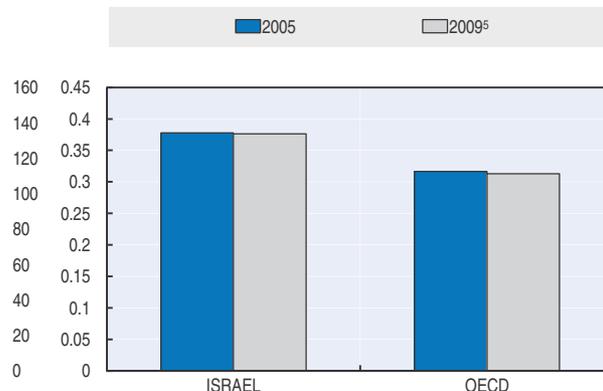
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## Other dimensions of well-being: Performance indicators

A. Emissions per capita have risen by less than GDP since 1990  
Average of years 2005, 2008 and 2010<sup>2</sup>



B. Income inequality<sup>4</sup> remains well above OECD average  
Gini coefficient



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.
2. Total GHG emissions in CO<sub>2</sub> equivalents from the International Energy Agency (IEA) Database. These 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 IEA data and is an average of years 2005, 2008 and 2010.
4. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
5. Data refer to 2010 for Israel.

Source: United Nations Framework Convention on Climate Change (UNFCCC) Database; OECD, Energy (IEA) Database and OECD Income Distribution Database, provisional data ([www.oecd.org/social/inequality.htm](http://www.oecd.org/social/inequality.htm)).

StatLink  <http://dx.doi.org/10.1787/888932777017>