

ISRAEL

GDP per capita has moved towards the upper half of the OECD distribution since the mid-2000s but a major gap remains, reflecting a shortfall in productivity. Notable attention has been paid recently to transport infrastructure and concentration in the financial sector. However, further structural reforms are needed in the following areas.

Priorities supported by indicators

Improve education outcomes

Outcomes in state education are weak, and especially so among Arab students. In the independent Ultra-orthodox schools religious study takes precedence over core learning.

Actions taken: A reform in lower-secondary education (New Horizon), which increases teachers' pay while introducing more small-group teaching was extended to all schools in the 2009/10 school year. Other ongoing reforms include extension of compulsory education, reduction of class sizes, changes to final examinations and modifications to school-funding formulae.

Recommendations: Introduce a New Horizon type reform in upper-secondary schools. Strengthen targeted support for Arab Israeli students. Expand and properly enforce curriculum requirements for state funding for Ultra-orthodox schools. In tertiary education, pursue tuition-fee and other reforms along the lines outlined by the Shochat Committee.

Cut red tape for businesses

The administrative process for setting up and running a business is burdensome, limiting firm entry and productivity.

Actions taken: The authorities have partially liberalised land ownership and reformed land administration (the Land Reform Bill, 2009). First steps towards a one-stop-shop system for small and medium enterprises were taken in 2010.

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

Complete network industry reform

Substantial unfinished business remains in some network sectors, notably the electricity sector, hampering competition and productivity.

Actions taken: In port services, initial public offerings for the two operating companies and changes to service fee regulations were made in 2010. In telecoms, a schedule of cuts in the mobile phone connectivity fee has begun. In electricity generation, a payment guarantee to encourage private providers has been introduced.

Recommendations: Resolve the reform deadlock in the electricity sector, continue reforms in telecoms (notably establish an independent telecommunications regulator), and make further progress in introducing competition in post, rail and water services.

Other key priorities

Restructure taxation away from direct taxes

The top rates of personal income tax are relatively high, and the corporate rate remains above the norm for comparable economies.

Actions taken: The schedule of income tax cuts was tempered in 2009. In 2010, a temporary hike in VAT was extended and there are proposals for increases in other indirect taxes.

Recommendations: Pursue feasible avenues for raising indirect taxes, and remain open to further tempering of income-tax cuts.

Encourage labour supply among low-income households

Employment rates and skill levels among certain groups are low, notably in the rapidly growing Arab and Ultra-orthodox communities, and contribute to high rates of relative poverty. The lack of progress in overcoming these socio-economic problems is related to failure to fully develop welfare-to-work programmes, a relatively high minimum wage and weaknesses in labour regulation.

Actions taken: Policies took a backwards step in 2010 with the abandonment of a promising private-sector job-placement scheme (the Wisconsin Programme), which had been operating in several areas of the country since 2005.

Recommendations: Re-introduce a placement scheme, increase the coverage and value of the earned-income tax credit, and combine better enforcement of labour regulation with reduction in the value of the minimum wage relative to average earnings.

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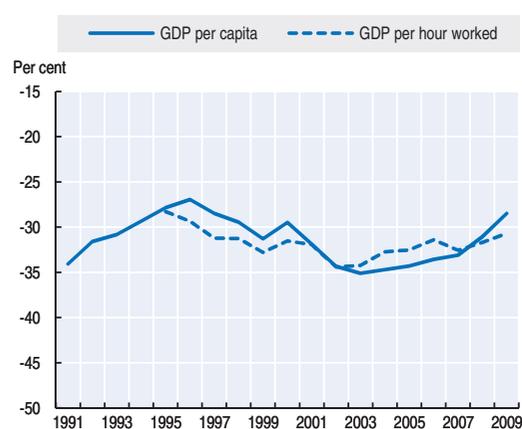
Structural indicators

Average annual trend growth rates, per cent

	1999-2009	1999-2004	2004-09
GDP per capita	1.6	1.3	1.8
Labour utilisation	0.1	-0.1	0.4
of which: Employment rate	0.5	0.3	0.7
Average hours	-0.3	-0.4	-0.3
Labour productivity	1.4	1.4	1.4
of which: Capital intensity
Multifactor productivity

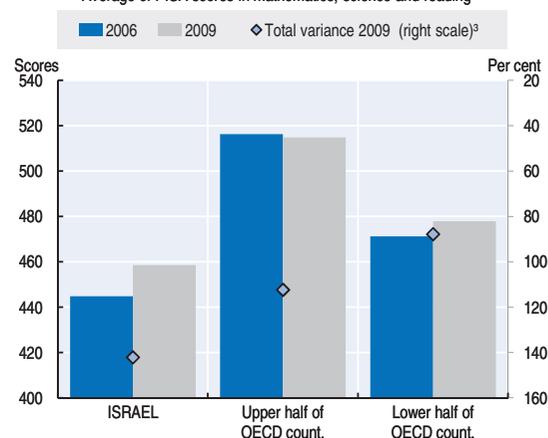
Source: Estimates based on OECD (2010), OECD Economic Outlook No. 88: Statistics and Projections Database.

A. Sizeable gaps in GDP per capita and productivity remain
Gap to the upper half of OECD countries²

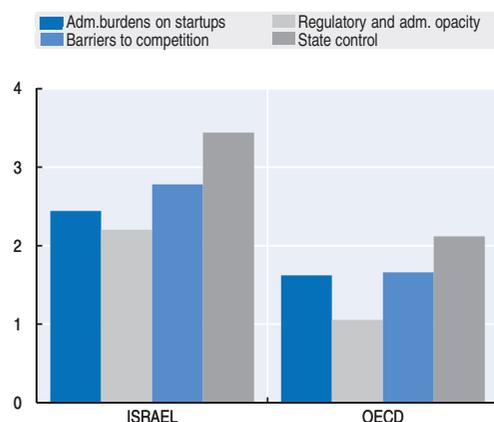


B. Student performance is variable and one of the lowest in the OECD countries

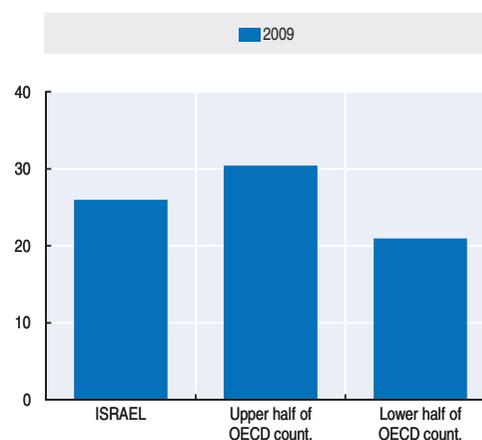
Average of PISA scores in mathematics, science and reading



C. Barriers to entrepreneurship are high, 2008
Index scale of 0-6 from least to most restrictive



D. The corporate income tax rate is comparatively high⁴



- 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.
- Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs).
- The variance components, in reading performance only, were estimated for all students in participating countries with data on socio-economic background and study programmes. The variance is calculated, as a percentage of the average OECD variance, from the square of the standard deviation for the students used in the analysis.
- Combined central and sub-central (statutory) corporate income tax rate.

Source: Chart A: OECD, National Accounts and OECD Economic Outlook No. 88 Databases; Chart B: OECD, PISA 2009 Database; Chart C: OECD, Product Market Regulation Database; Chart D: World Bank, World Development Indicators.

StatLink  <http://dx.doi.org/10.1787/888932373989>