

---

# **The Outlook for Israel's Economy in Light of Current Global Developments**

**Dr. Leonardo Leiderman**

**Professor of Economics, Tel-Aviv University**

**and**

**Chief Economic Advisor, Bank Hapoalim**

**To be presented in Zurich, January 24, 2013**

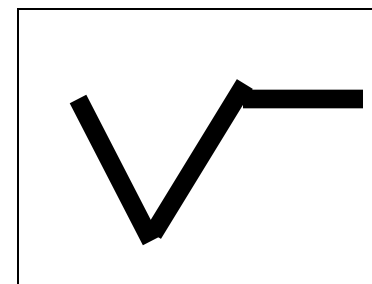
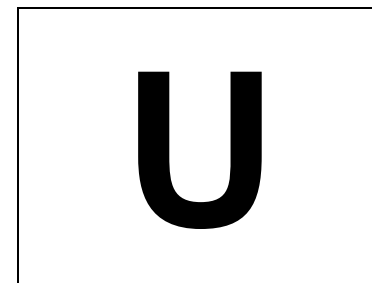
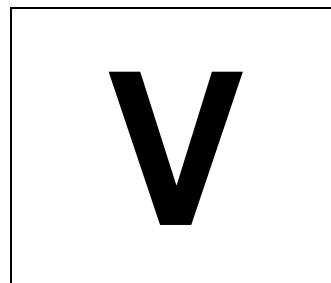
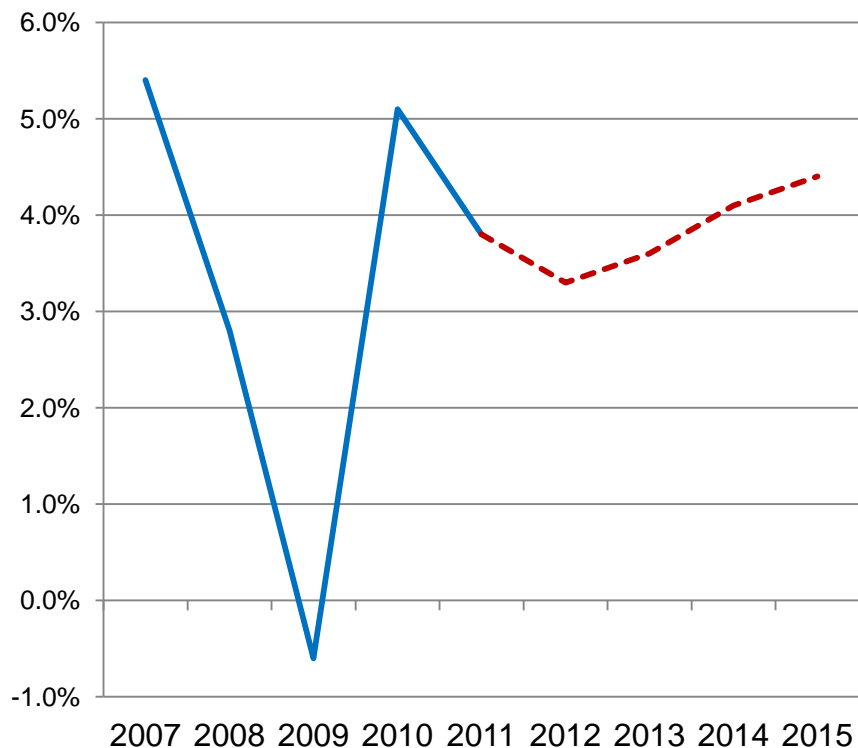
# Israel's politics two days after elections...

---



# Is the worst over for global growth?

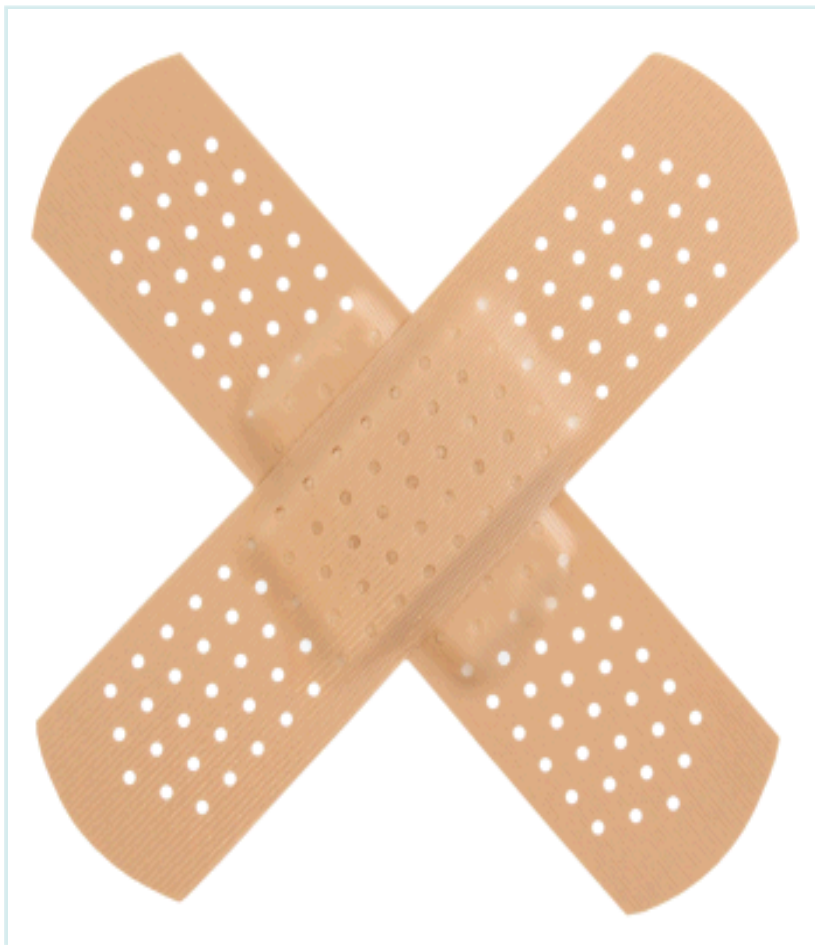
## Global growth IMF forecasts



Source: IMF

# Central banks are doing whatever is needed to avoid a return to global financial crisis

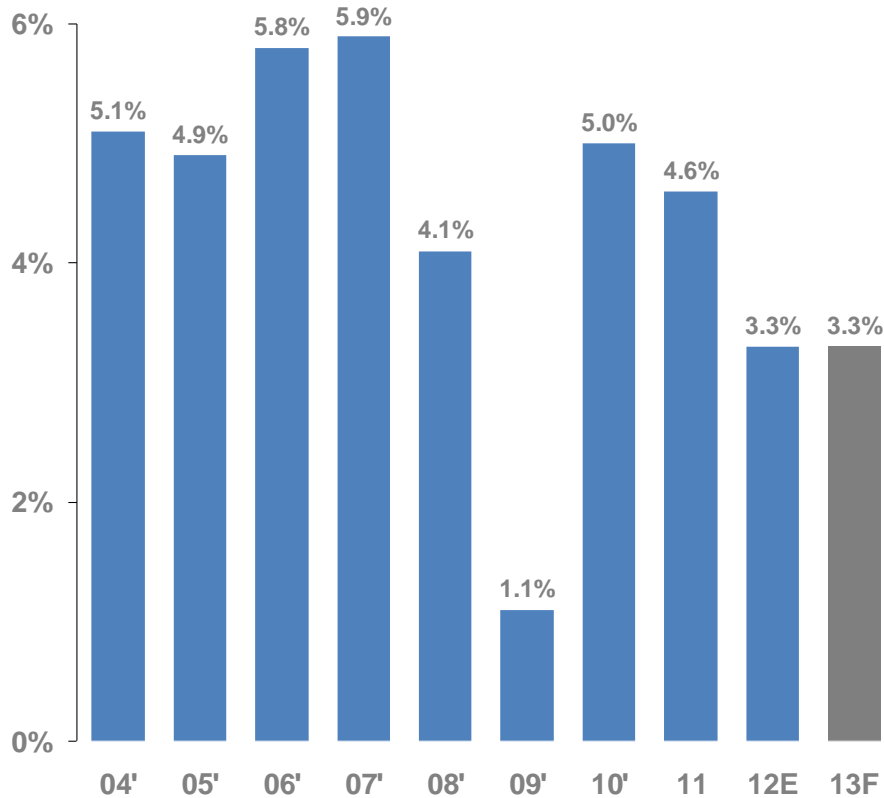
---



# Israel's economy: growth has moderated, but it's still higher than in most advanced economies

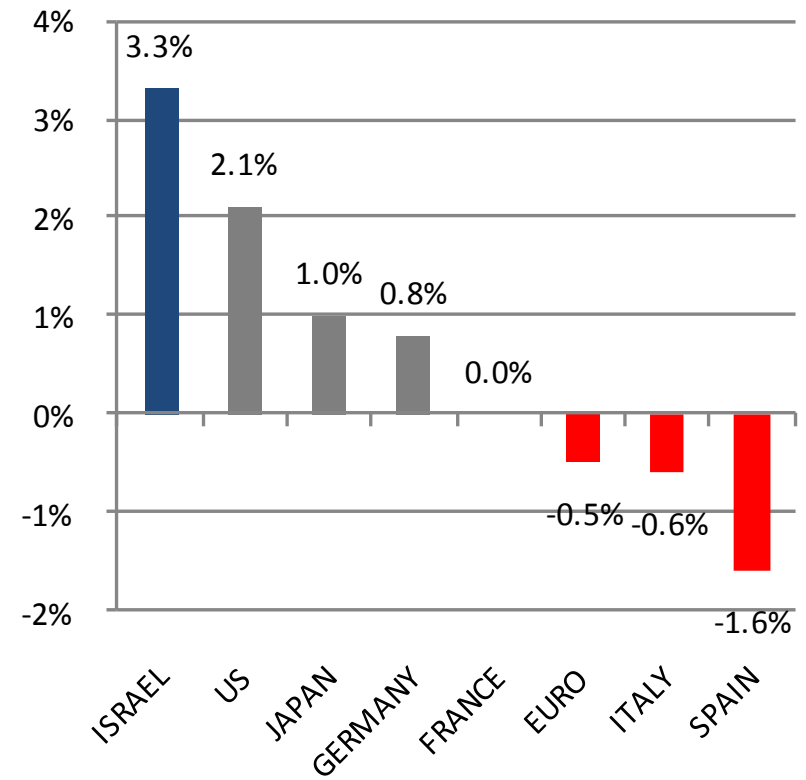
## Israel – GDP Growth

Annual rate of change



## Israel's growth remains higher than most advanced economies

2013F GDP growth



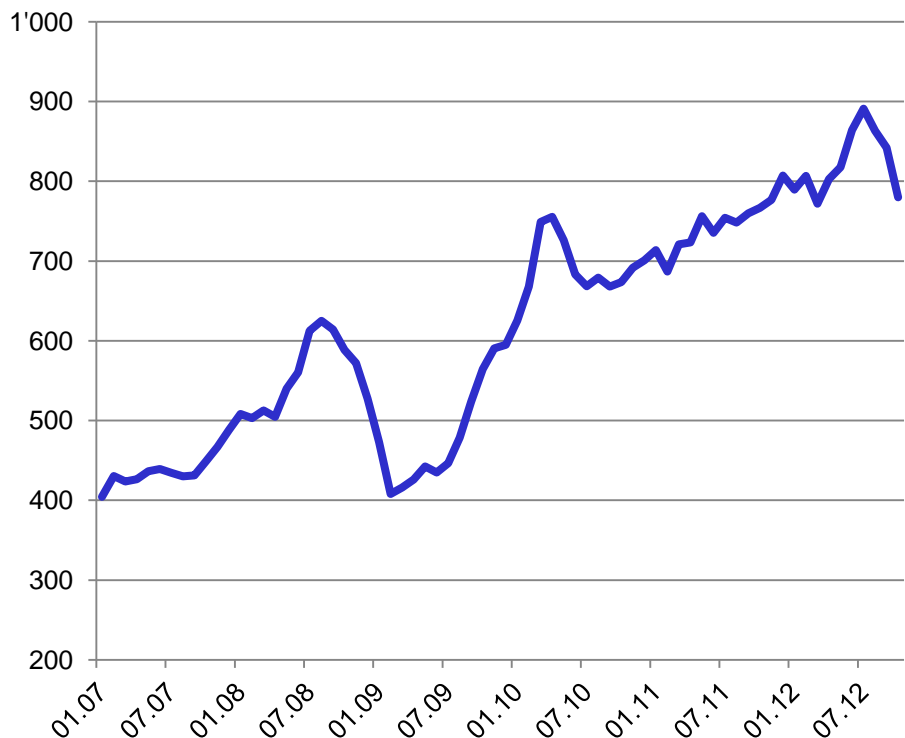
Sources: CBS, IMF, Bank Hapoalim forecast

# Israel's exports are well diversified

## Industrial exports – excluding diamonds

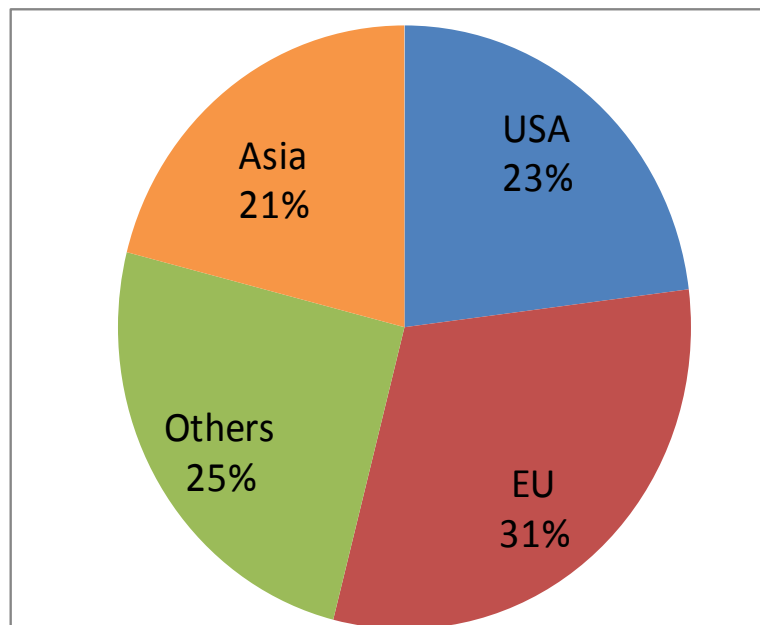
### Exports to Asia are growing

millions \$, 3-month moving average



### Geographical composition

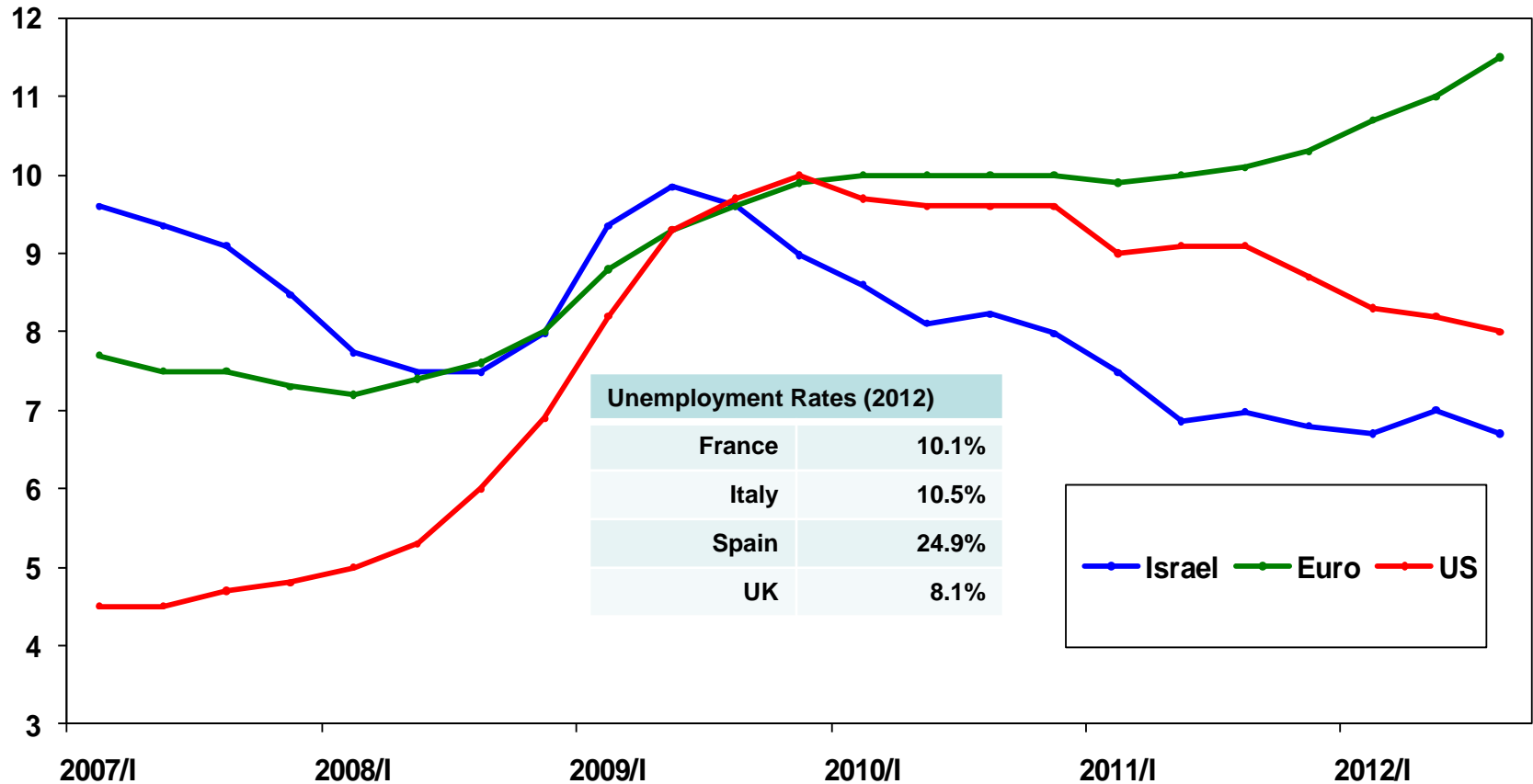
January 12-Oct. 12, excluding diamonds



Sources: CBS

# Sound labor market

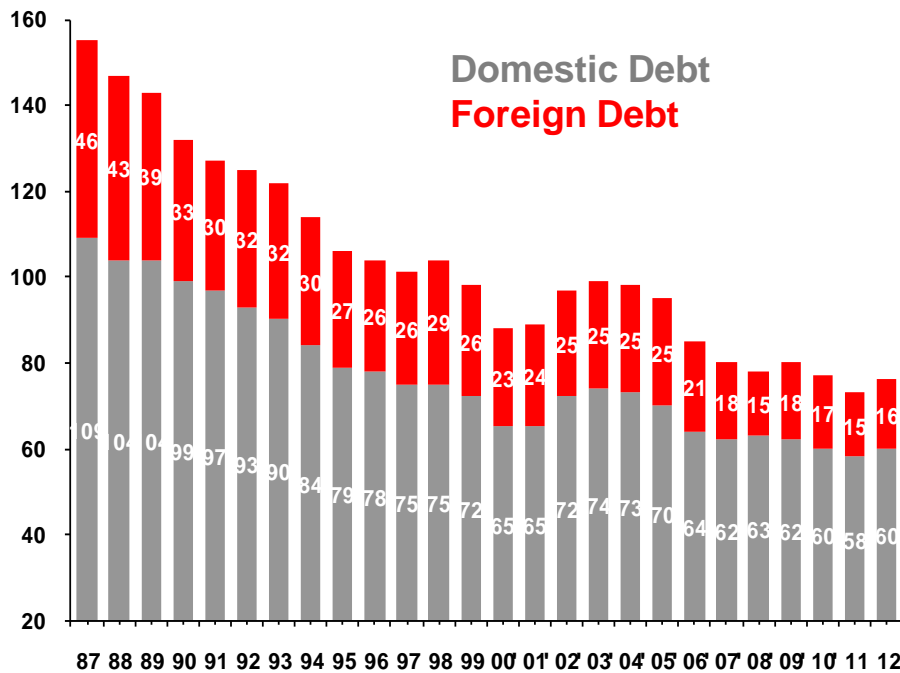
Unemployment rates, quarterly figures 2007-3Q12 (in %)



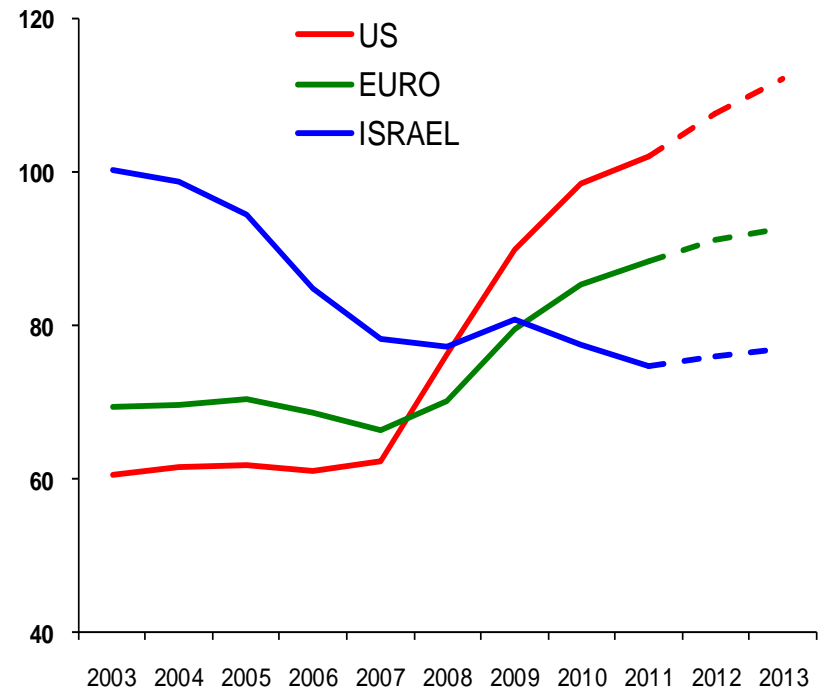
Sources: Bloomberg, Bank Hapoalim

# Public sector debt: a positive fundamental

## A decreasing path of public debt % of GDP



## Public debt comparison % of GDP



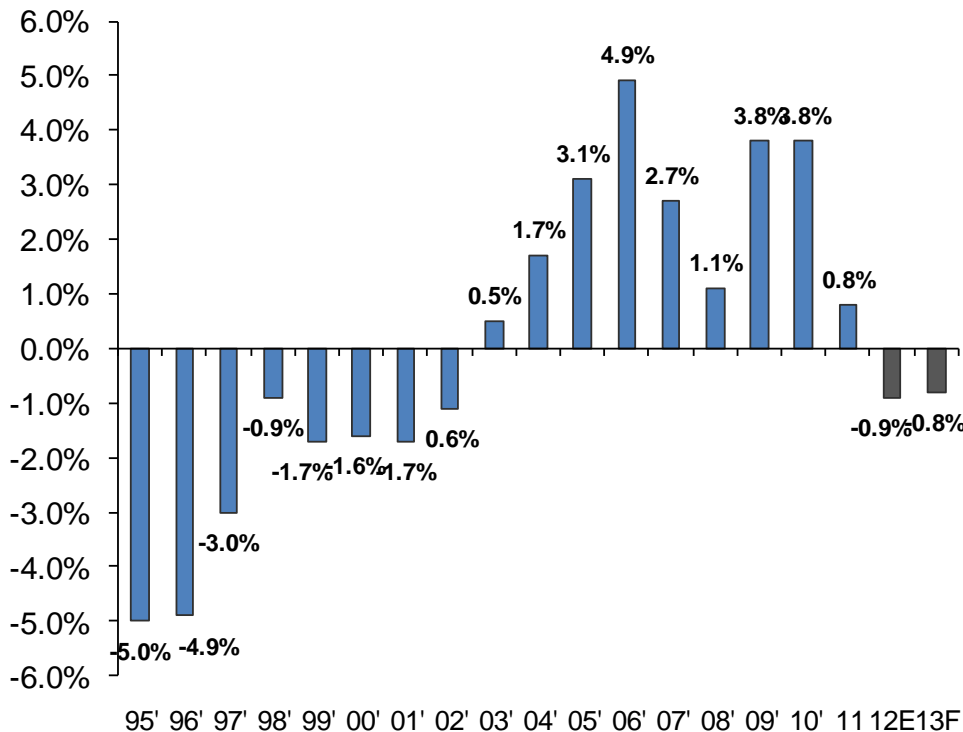
Source: IMF & Bank Hapoalim forecast



# Favorable external position

## Current account balance

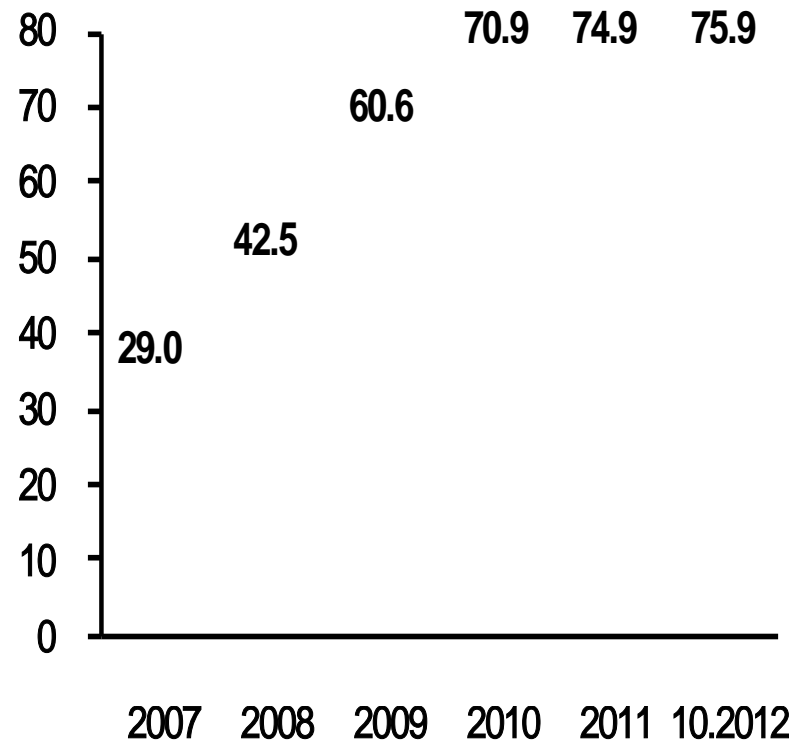
in millions of USD and as a % of GDP



Source: CBS

## Large FX reserves at the Bank of Israel

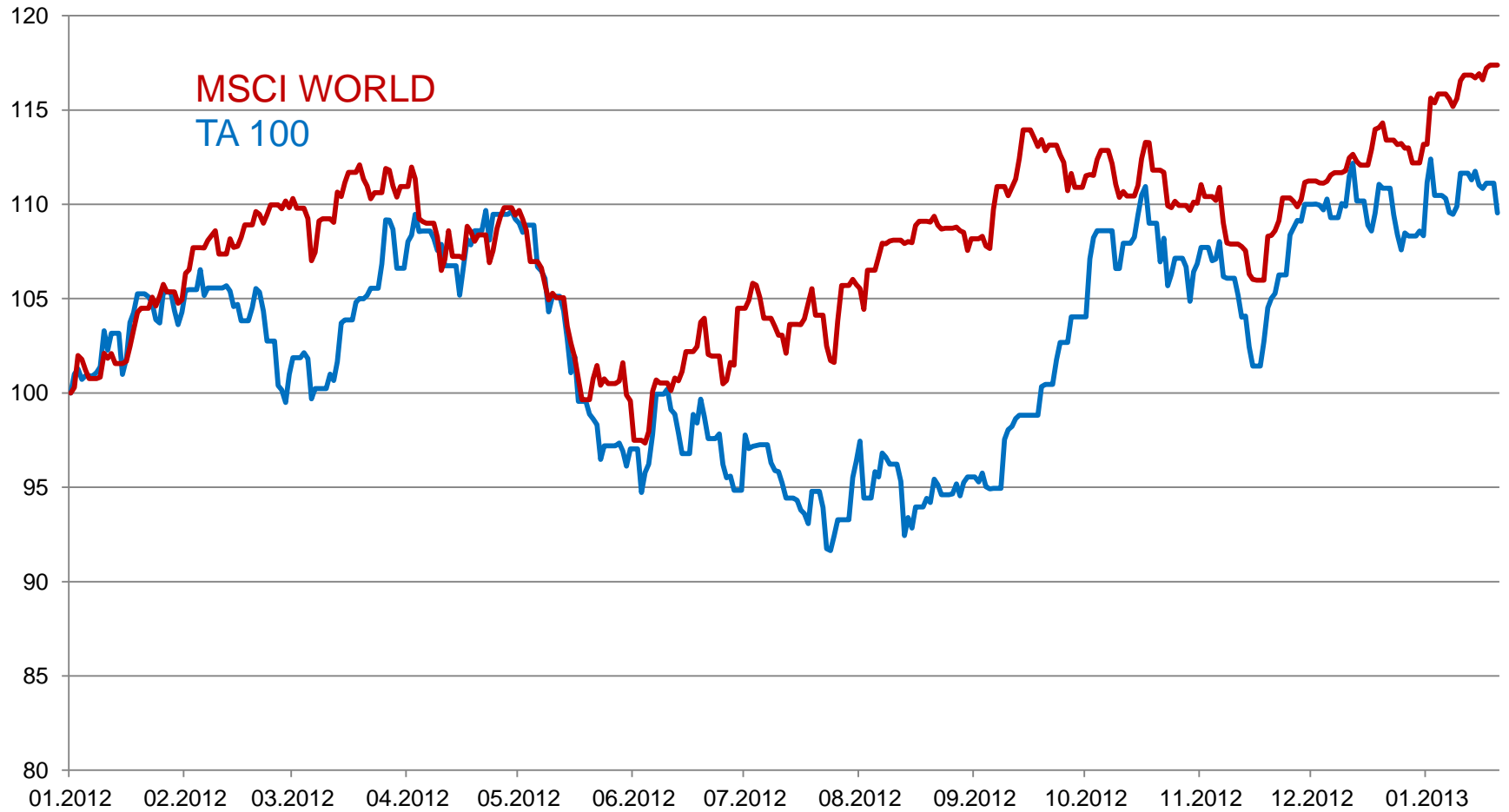
USD billion



Source: BOI

# Israel's stock market prices are again highly correlated with world equity markets

Dollar terms, 01/2012=100

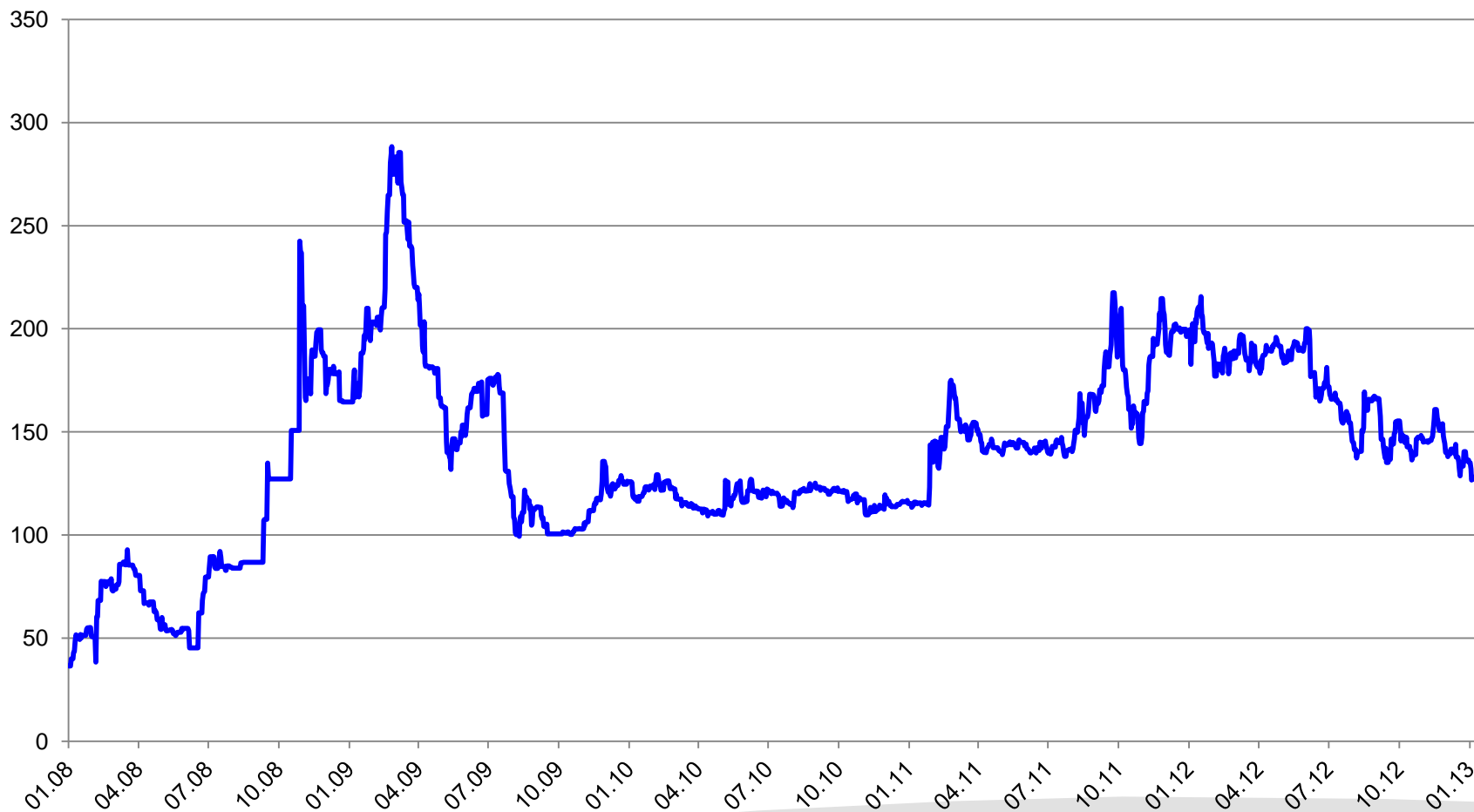


Source: Bloomberg

# Israel's country risk premium is quite low

## CDS on 5 year Israel government bonds (issued in USD)

---



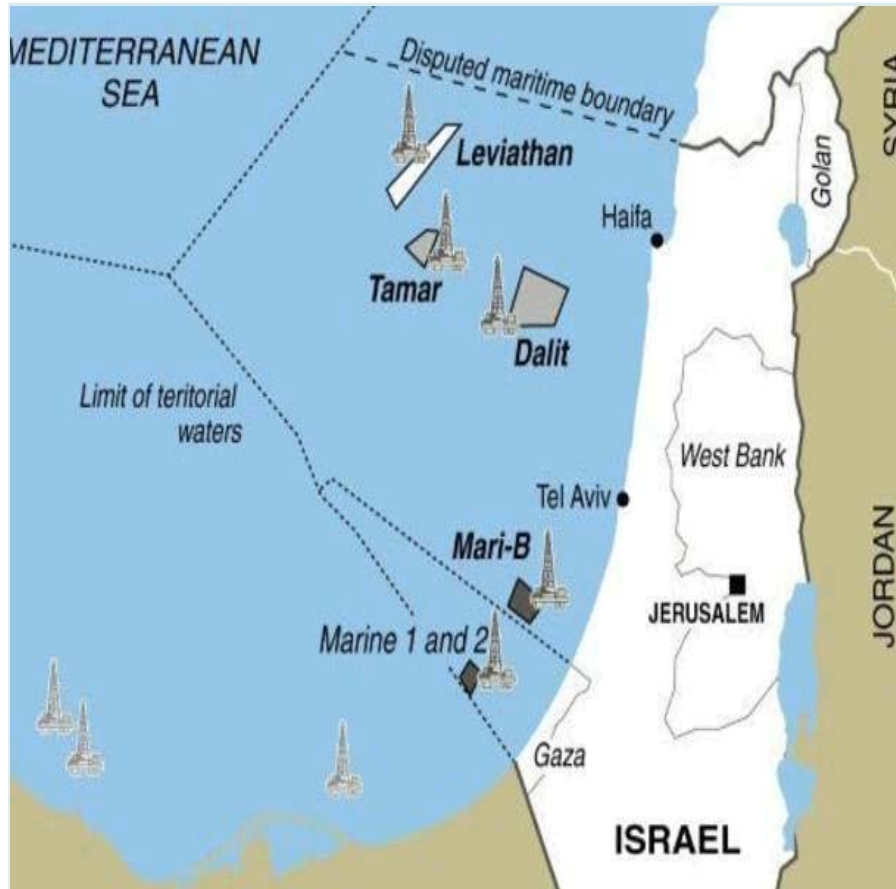
Sources: Bloomberg

---

# Special Topics

- Natural gas production
- Labor force participation
- Middle class protest
- Housing prices
- High tech
- Overall satisfaction from life in Israel

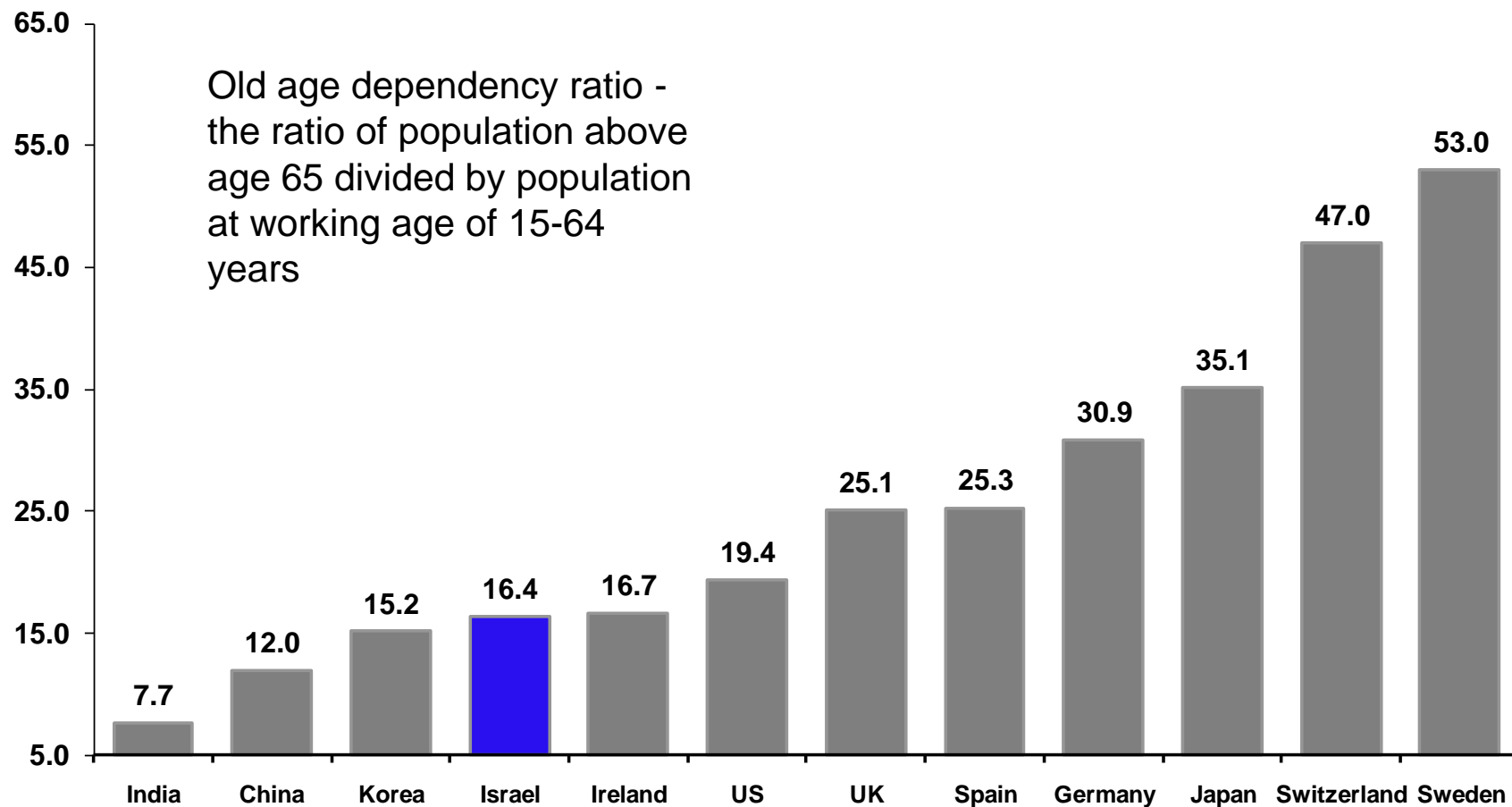
# The impact of natural gas production



- New natural gas resources have been discovered on the Israeli coast with amounts estimated at 760 BCM (27 TCF), The estimated value of the deposits is \$130 bn.
- These amounts could meet Israel's NG needs for decades to come and the surplus could be exported.
- We expect some 2.5 bn dollar saving in imports, which amounts to 20% saving of energy imports.
- This should boost growth by some 1%, and bring the C/A back to surplus.

# Israel has a relatively young population

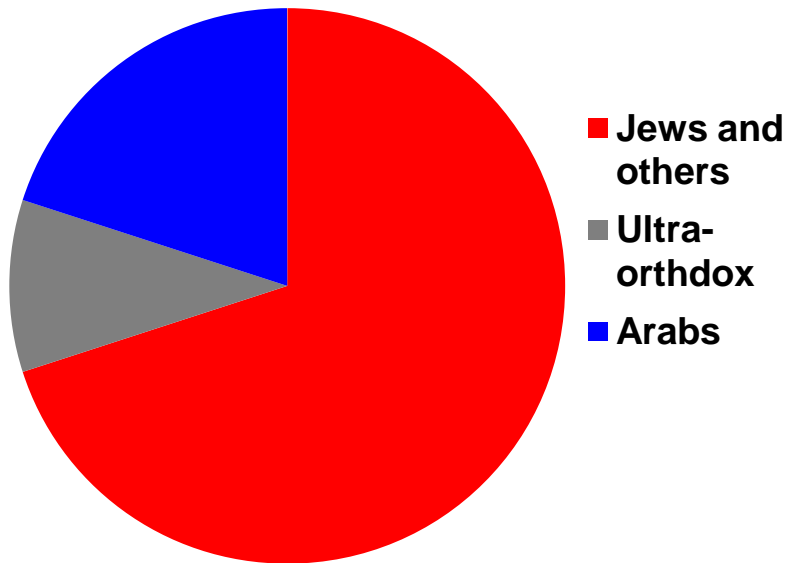
## Old age dependency ratio



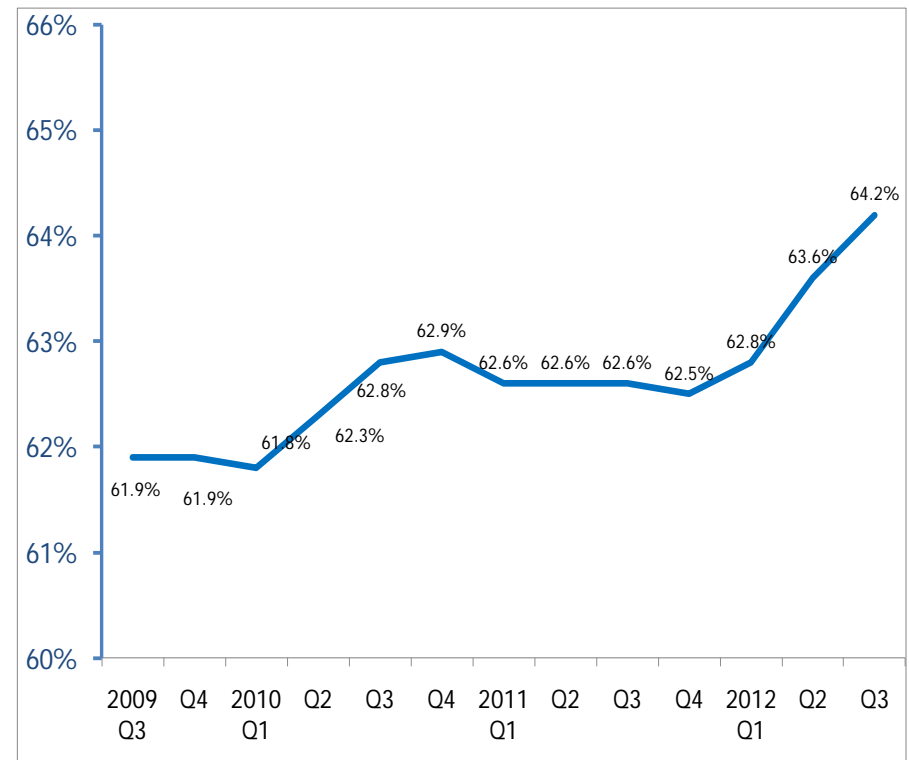
Source: Human Development Report 2009

# Increasing labor force participation

## Distribution of population by groups, 2009



## Participation in the labor force



# Middle class protest on social issues

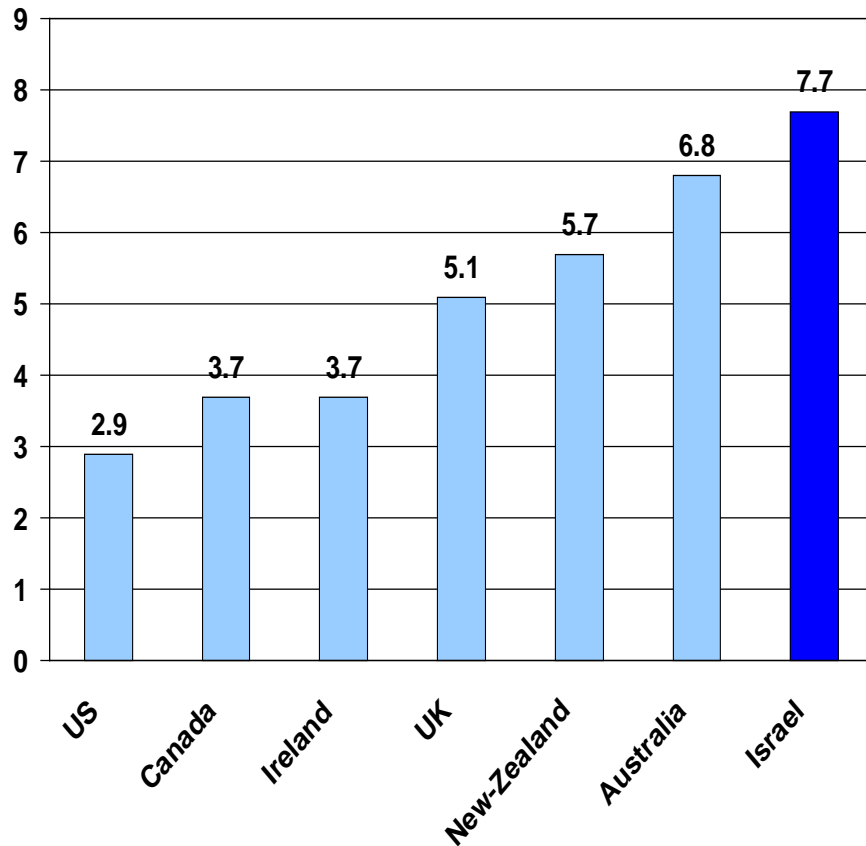


- The protest was mainly around the cost of living and particularly the high level of housing prices.
- The Trachtenberg committee recommendations were focused on 2 issues: free education from the age of 3 and a change in tax policy.
- The committee did recommended about issues like “public housing” and “competitiveness”, but practically these parts of the report, were more like a long run vision rather than operational.
- The recommendations regarding education and taxes were mostly implemented.
- The change in the atmosphere and administrative actions made by the government, led to price reduction in some sectors, most notable, in the cellular industry.
- Housing prices continued to rise moderately since then.



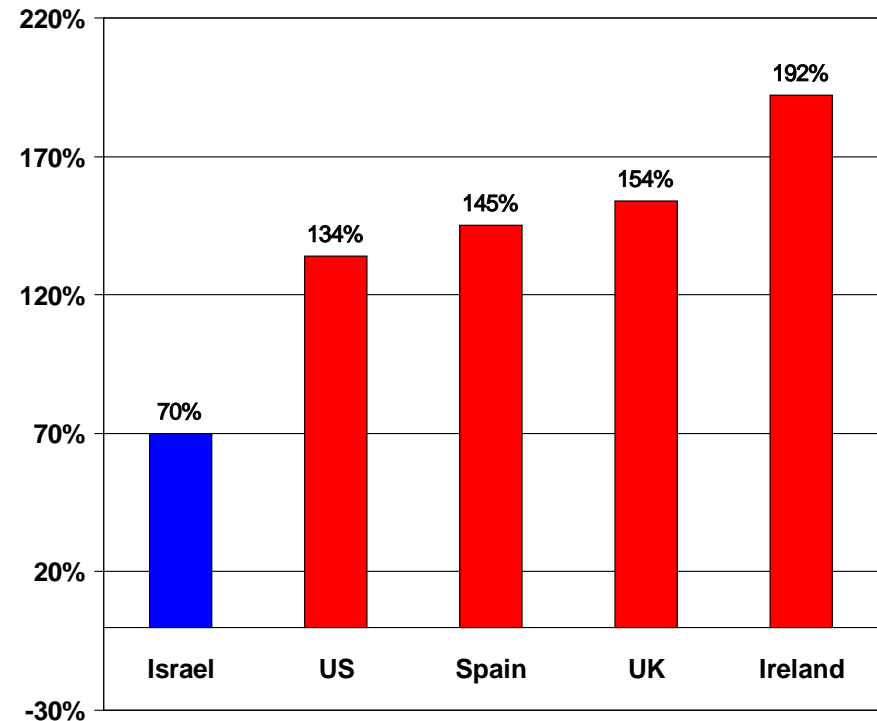
# Attempting to lower housing prices: a major challenge for the new government

## Years of work needed to purchase a housing unit













## Rise in housing prices from trough to peak

Spain - Ireland (97-05), US (till 2006), Israel (07-12)



Source: Economist, CBS, Taub Center

# Israel's high tech remains a key growth engine

Quality of Scientific Research Institutions			
Rank	Country/Economy	Value	Mean: 3.7
1	Israel	6.3	
2	Switzerland	6.3	
3	United Kingdom	6.1	
4	Sweden	6.0	
5	Belgium	5.9	
6	Qatar	5.8	
7	United States	5.8	
8	Netherlands	5.7	
9	Canada	5.6	
10	Germany	5.6	

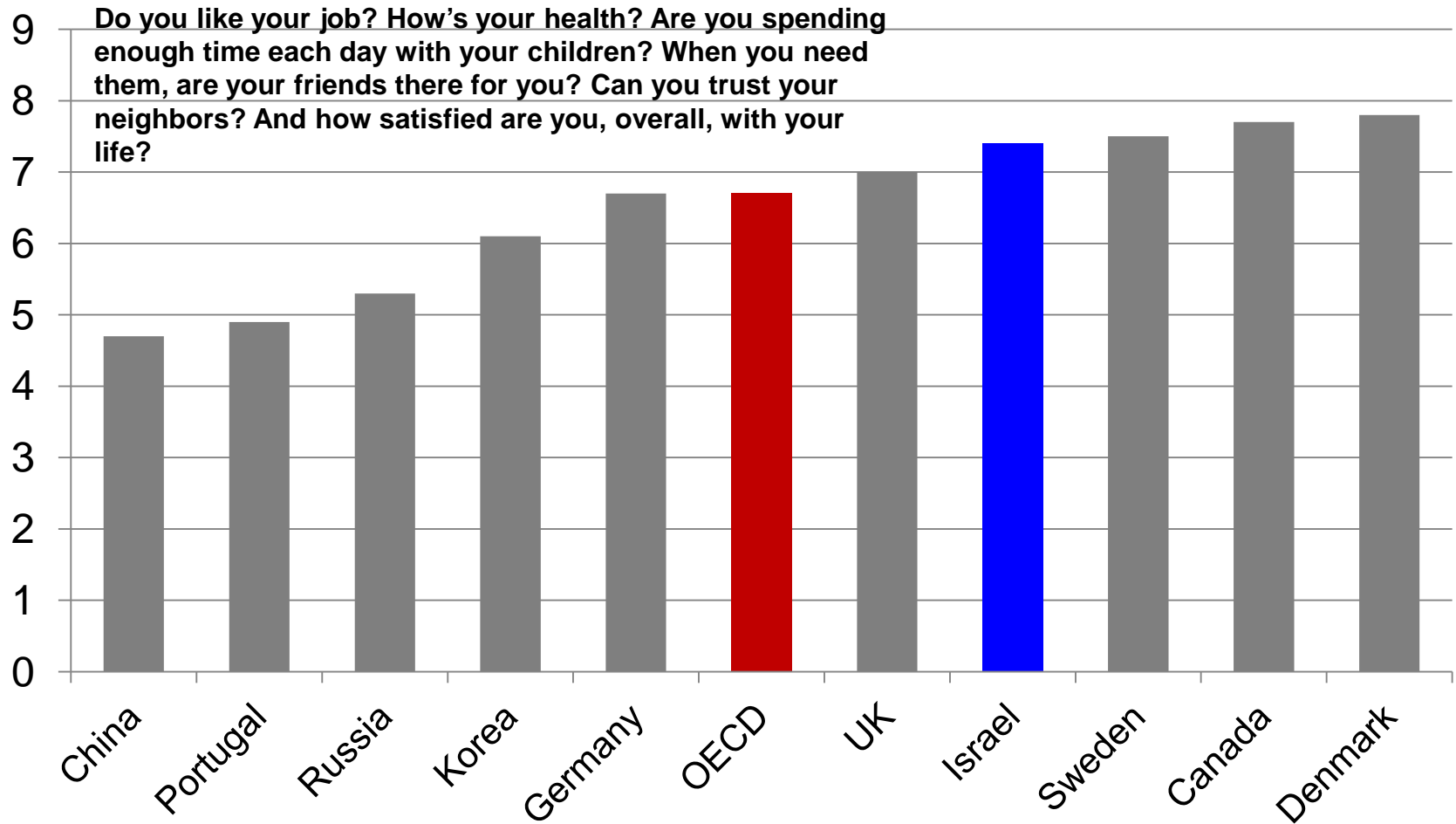
**Brainsway:  
Deep-TMS**



Source: World Economic Forum, Global Competitiveness Index, 2011-2012

# People in Israel are quite happy and satisfied with their lives

Indices for 2010, measured on a scale from 0 to 10



Source: OECD, How's life, Measuring well-being

---

**Thank You!**

# Appendix: Basic Facts about Israel's Economy

- ❑ Israel's economy grew in Q3 at an annual rate of 2.8%, which implies over 3 in 2012. According to our expectations, growth may decelerate in the near future.
- ❑ The labor market is still sound: Unemployment was quite stable and wages increased.
- ❑ Current fiscal trends imply a budget deficit of 4.2% of GDP for this year, mainly due to lower tax receipts.
- ❑ Housing prices rose and the central bank issued new directives on the mortgage market.
- ❑ BOI rate decreased to 1.75% in January. We expect no further change in the coming 12 months.

	2011	2012E	2013F
Gross domestic product	4.6%	3.3%	3.3%
Per capita GDP	2.7%	1.5%	1.5%
Business sector GDP	5.1%	3.2%	3.7%
Unemployment (annual average)	7.0%	7.1%	7.3%
Budget deficit (% of GDP)	3.3%	4.2%	4.0%
Inflation (end of period)	2.2%	1.3%	2.0%
Bank of Israel interest rate (end of period)	2.75%	2.0%	1.75%