The Israeli Economy 2009
The Caesarea Center Conference

December 2008

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Herzliya

The Big Issues

- The broken crystal ball
- A crisis that happens once in 100 years
- From a country oriented economy to a world global economy
- A need for a new architectural structure of the financial markets and Institutions

Identifying Business Cycles Turning Points in the Israeli Economy

The Present Cyclical Position

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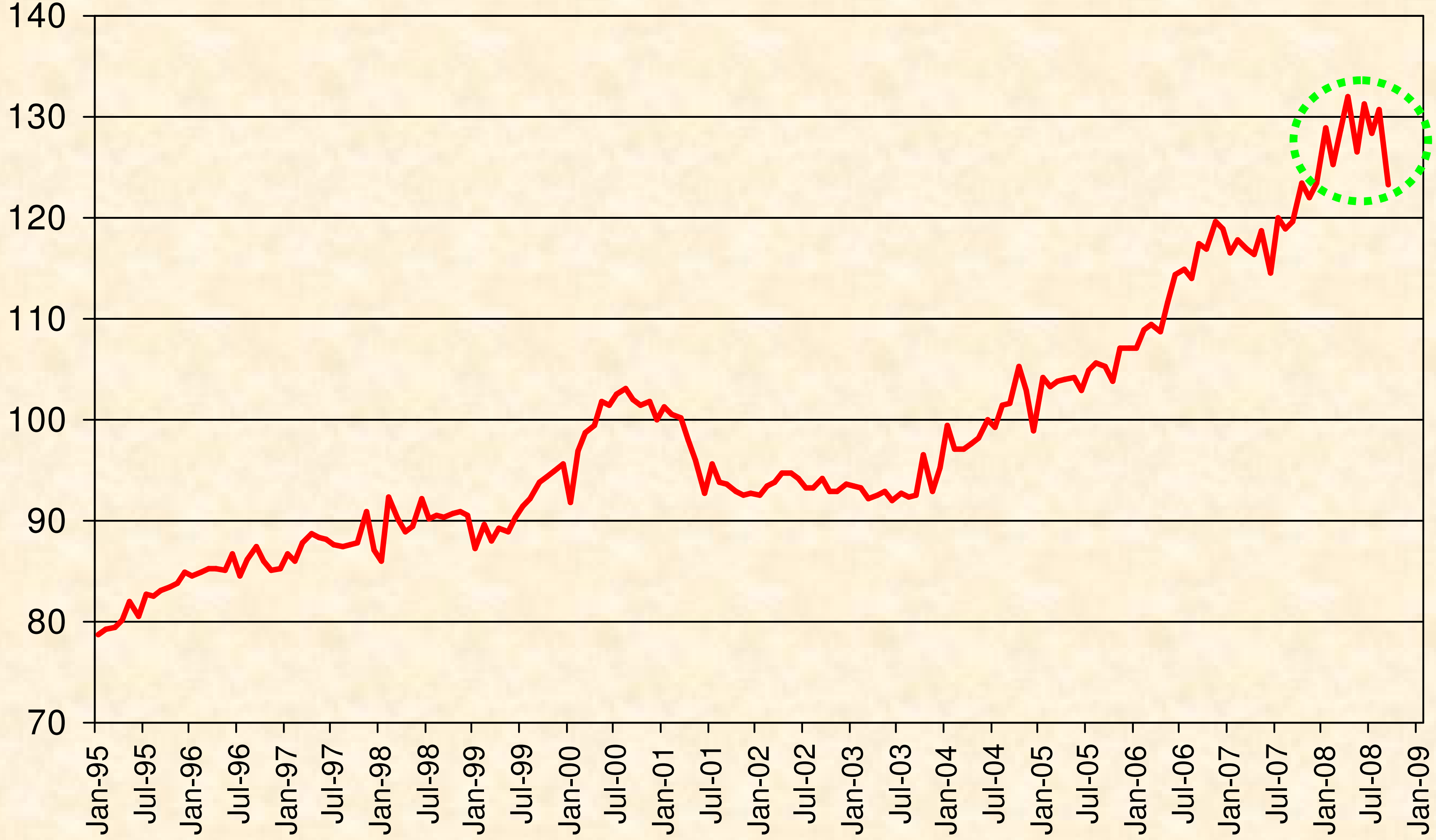
The Melnick State of the Economy Index

Main Indicators

- Industrial Production
- Revenue in Commerce and Services
- Import Index
- Employee Posts in the Business Sector

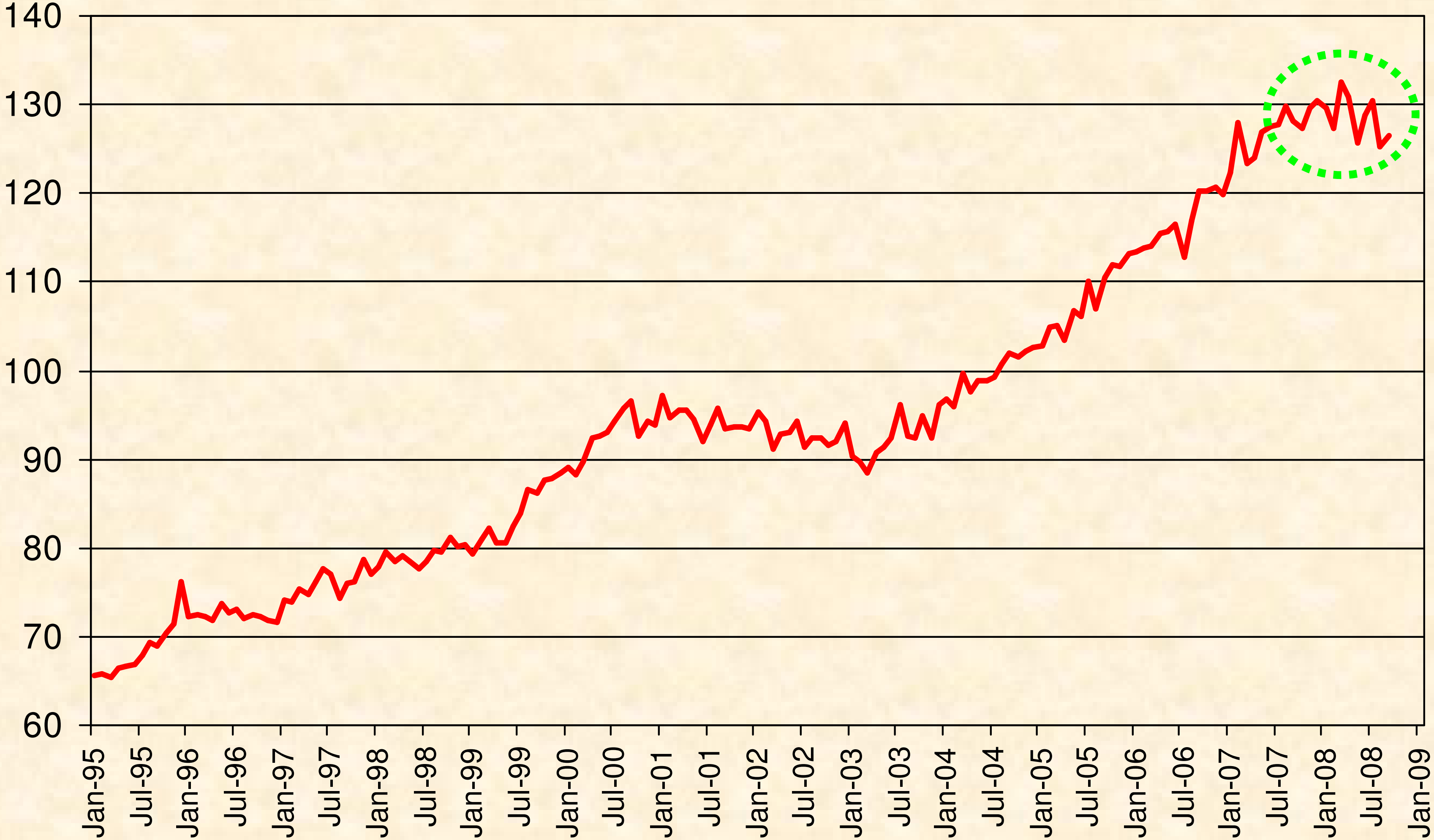
Industrial Production 1995-2008

(2004 = 100)



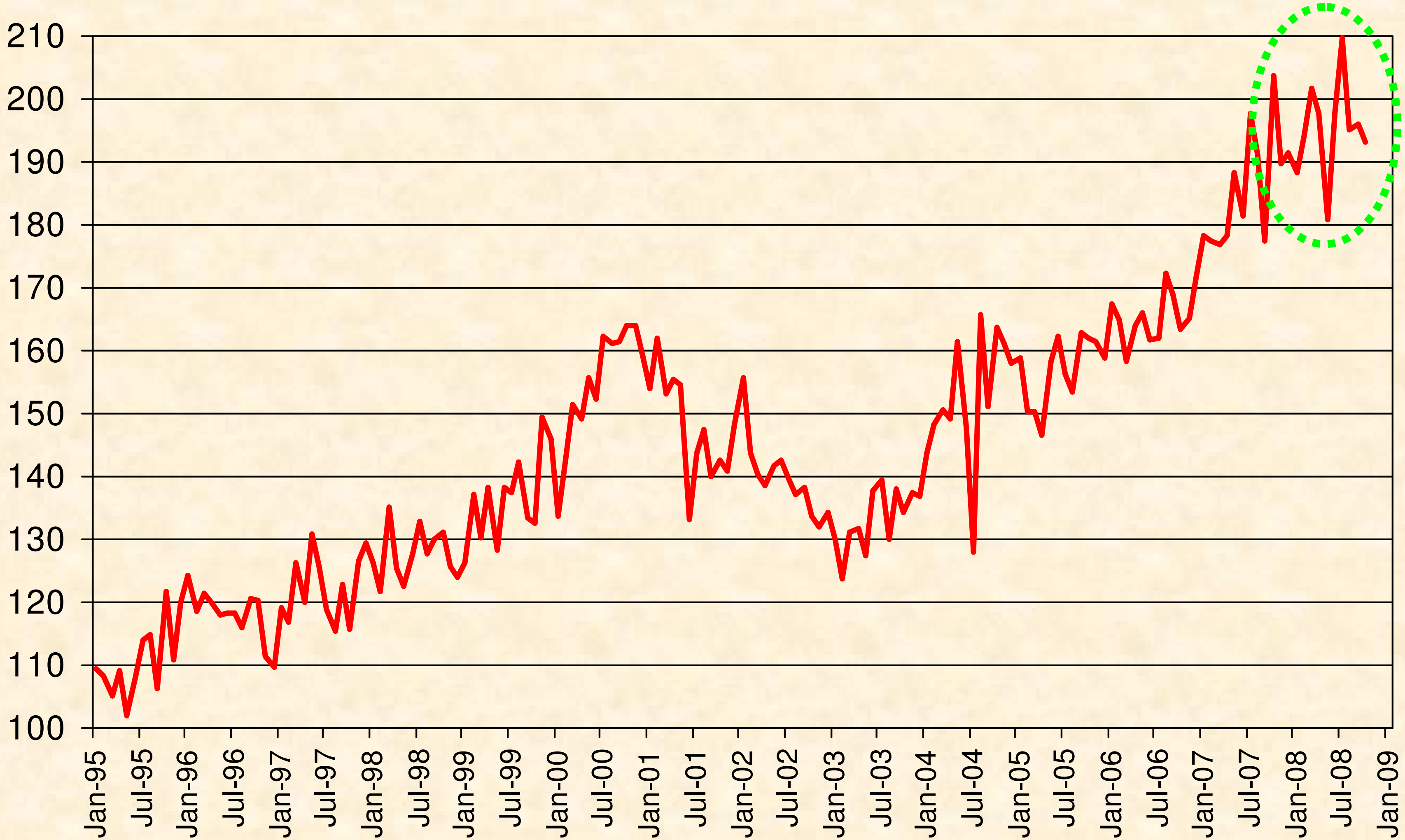
Revenue in Commerce and Services 1995-2008

(2004 = 100)

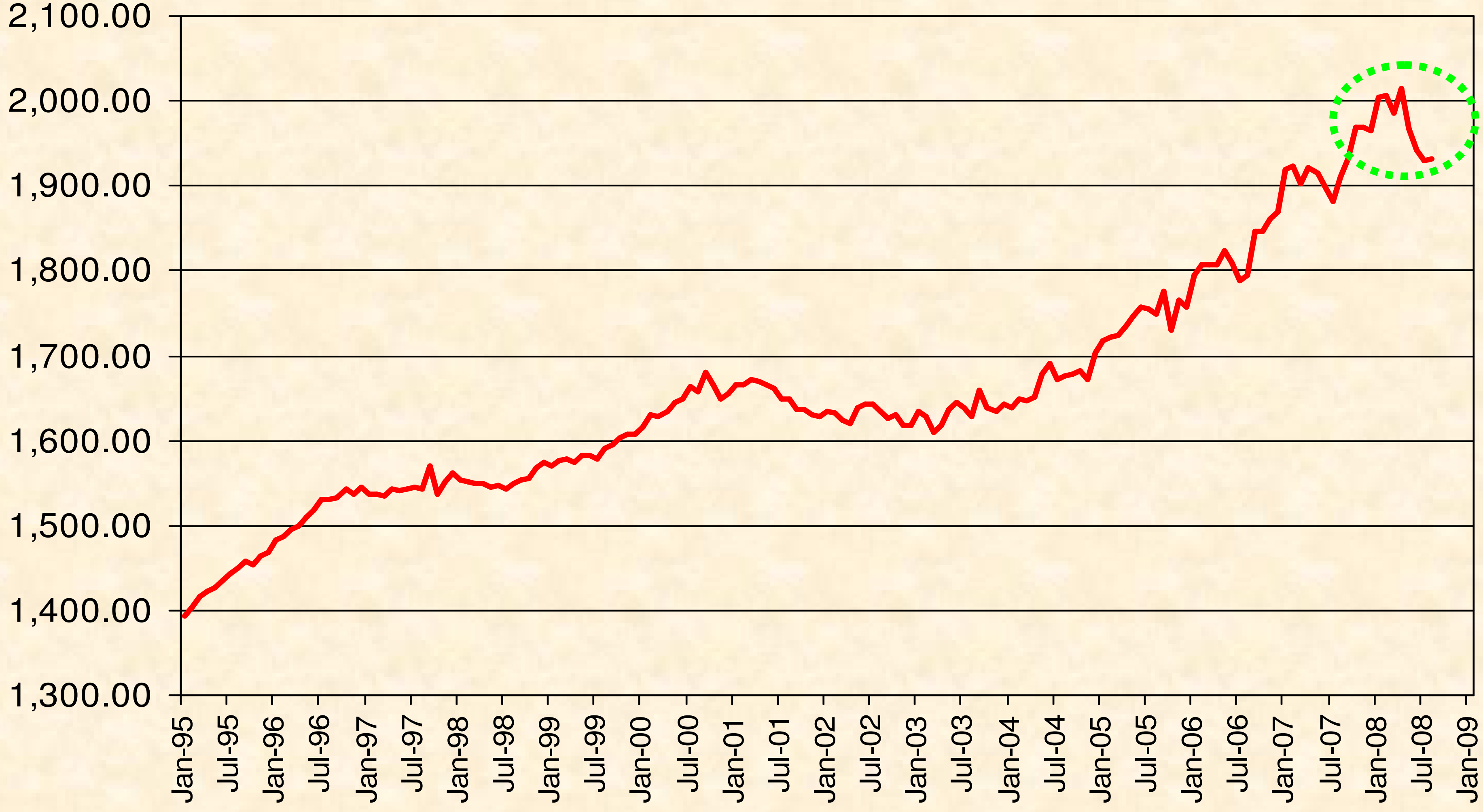


Import Index 1995-2008

(1994 = 100)

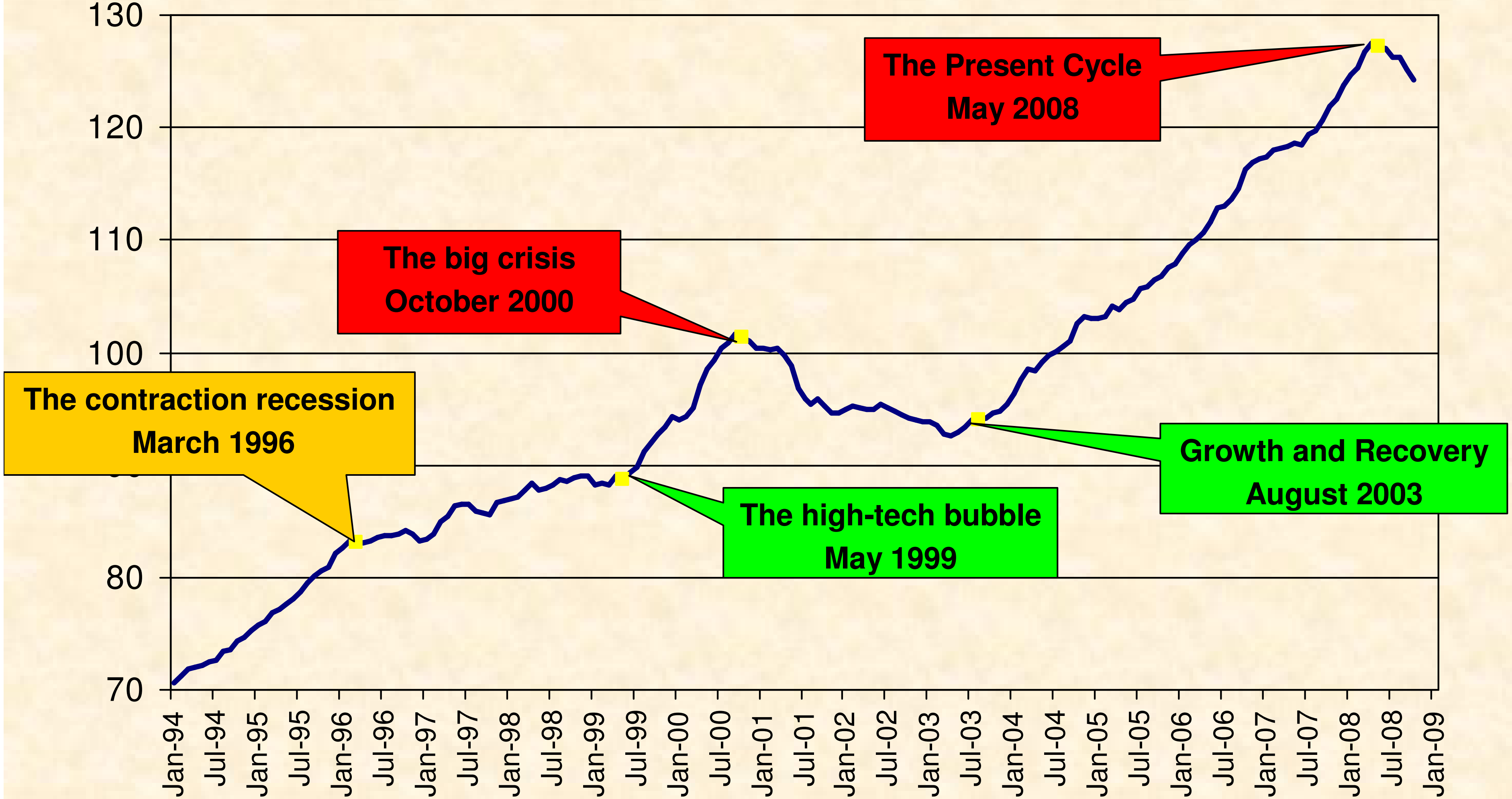


Employee Posts in the Business Sector 1995-2008



The Melnick Index 1994-2008

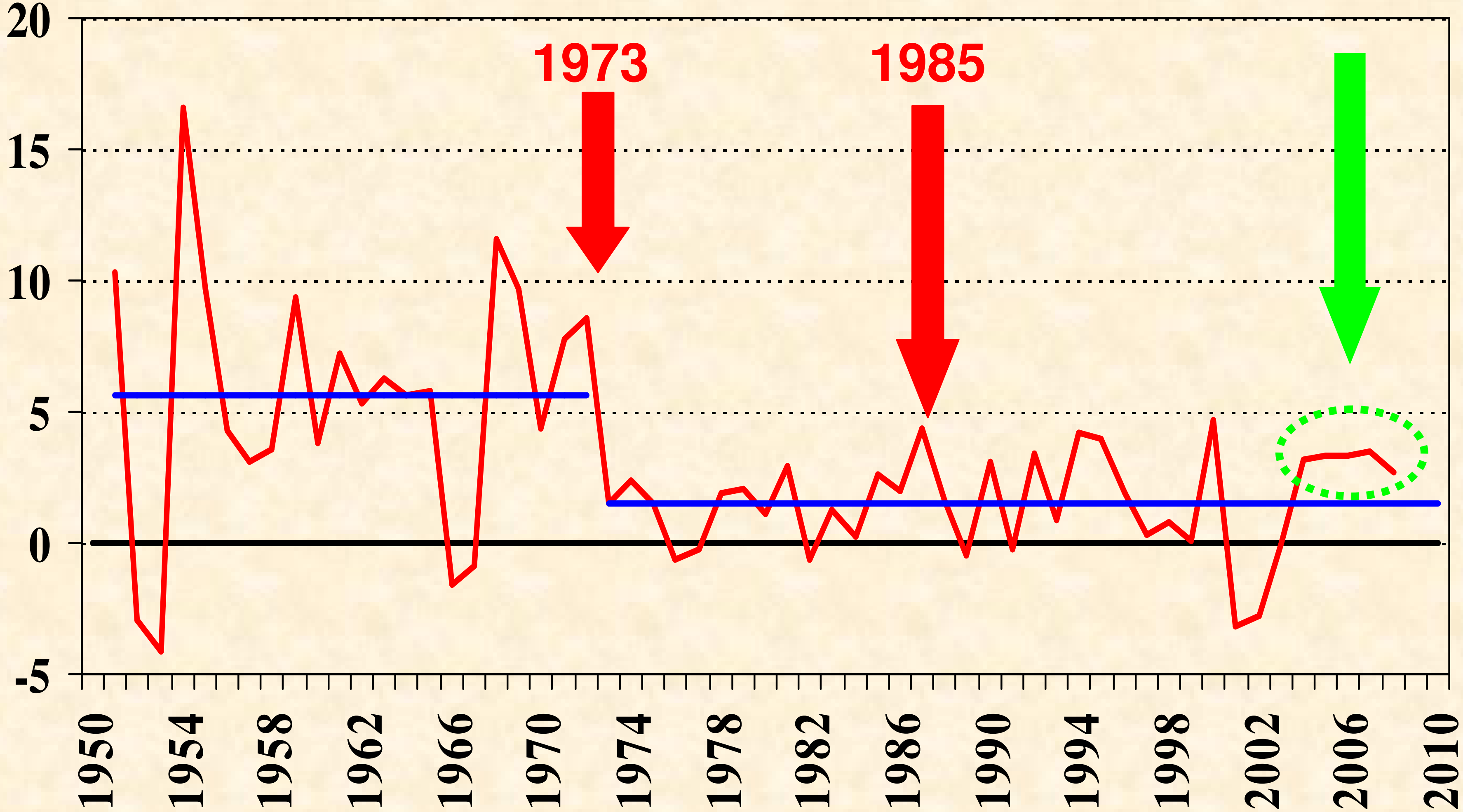
(2004 = 100)



Long Term Fundamentals

GDP per Capita in Israel

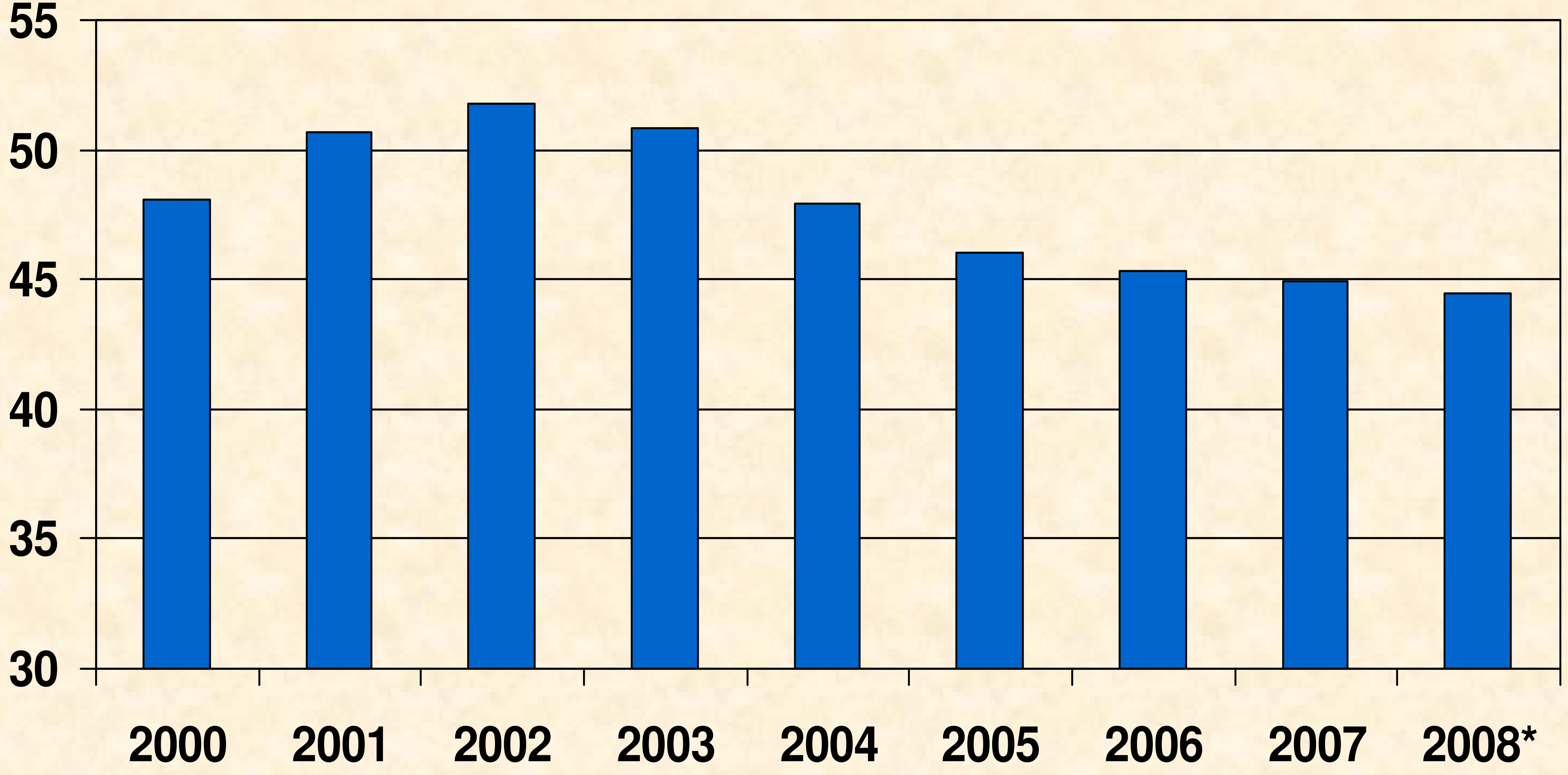
(Rates of Growth, Percent)



Recent Economic Policy

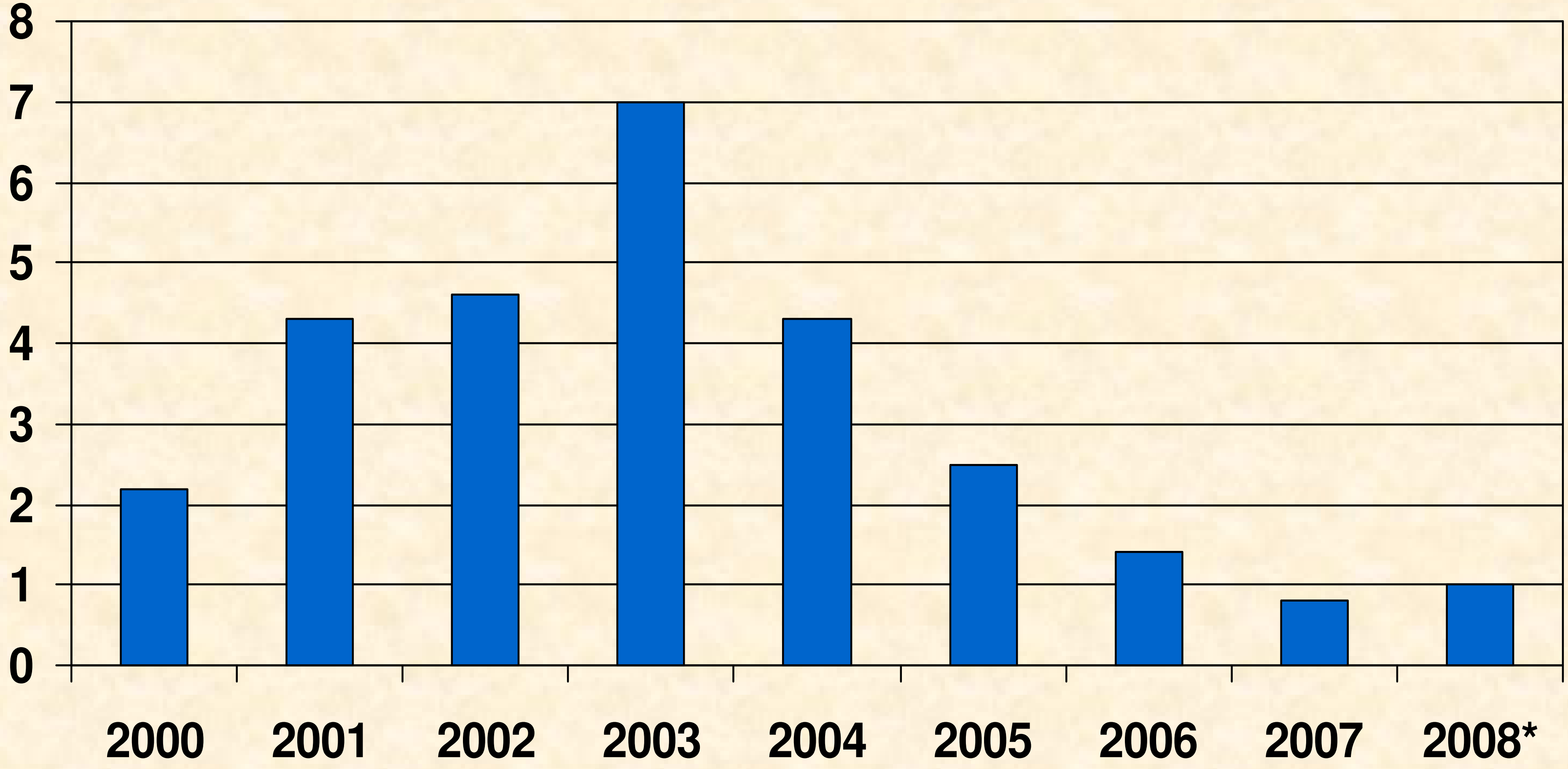
General Government Expenditure 2000-2008

(Percent of GDP)



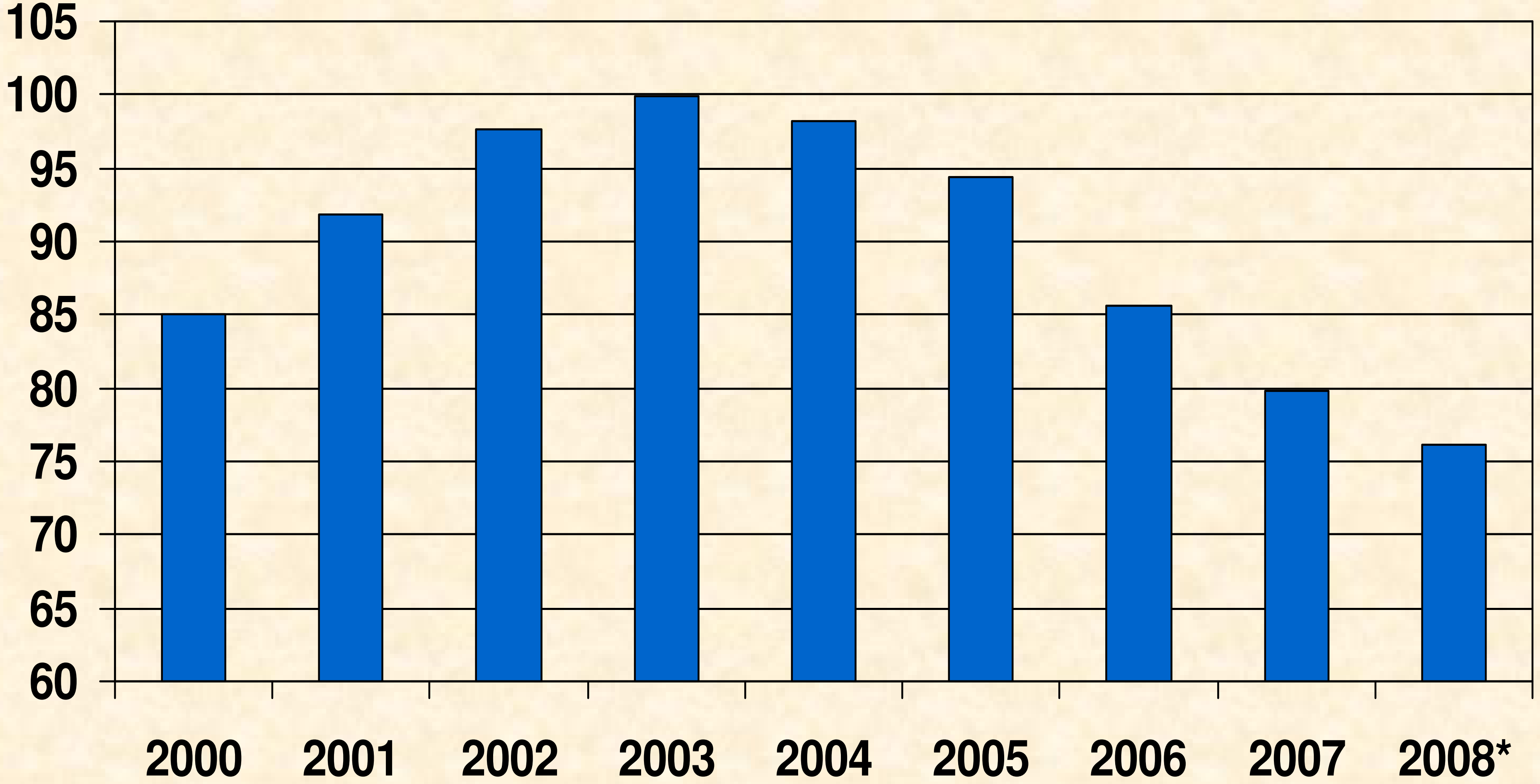
General Government Deficit 2000-2008

(Percent of GDP)



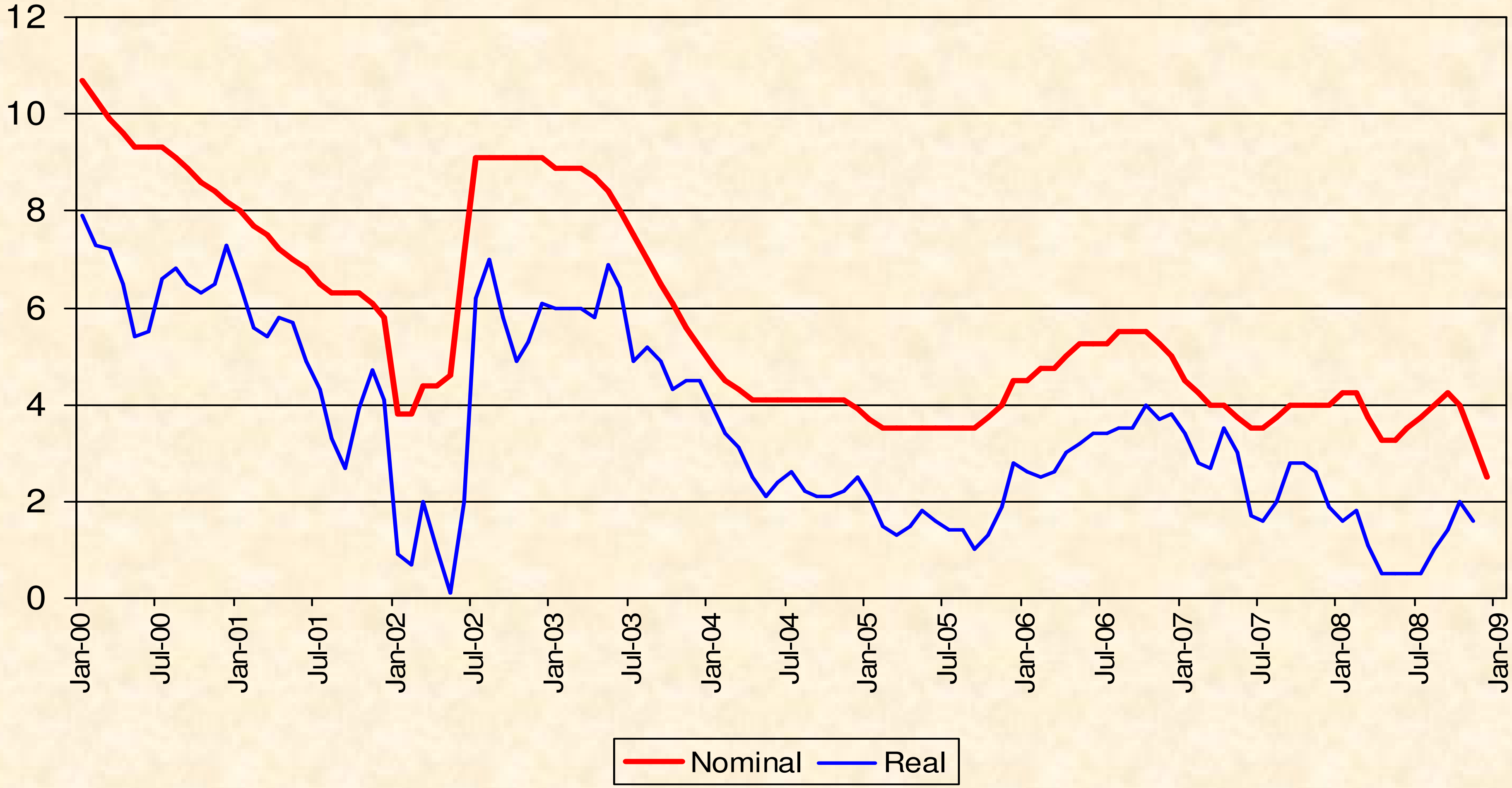
Public Debt 2000-2008

(Percent of GDP, Gross Debt)



Bank of Israel Interest Rate 2000-2008

(Nominal and Real - Percent)



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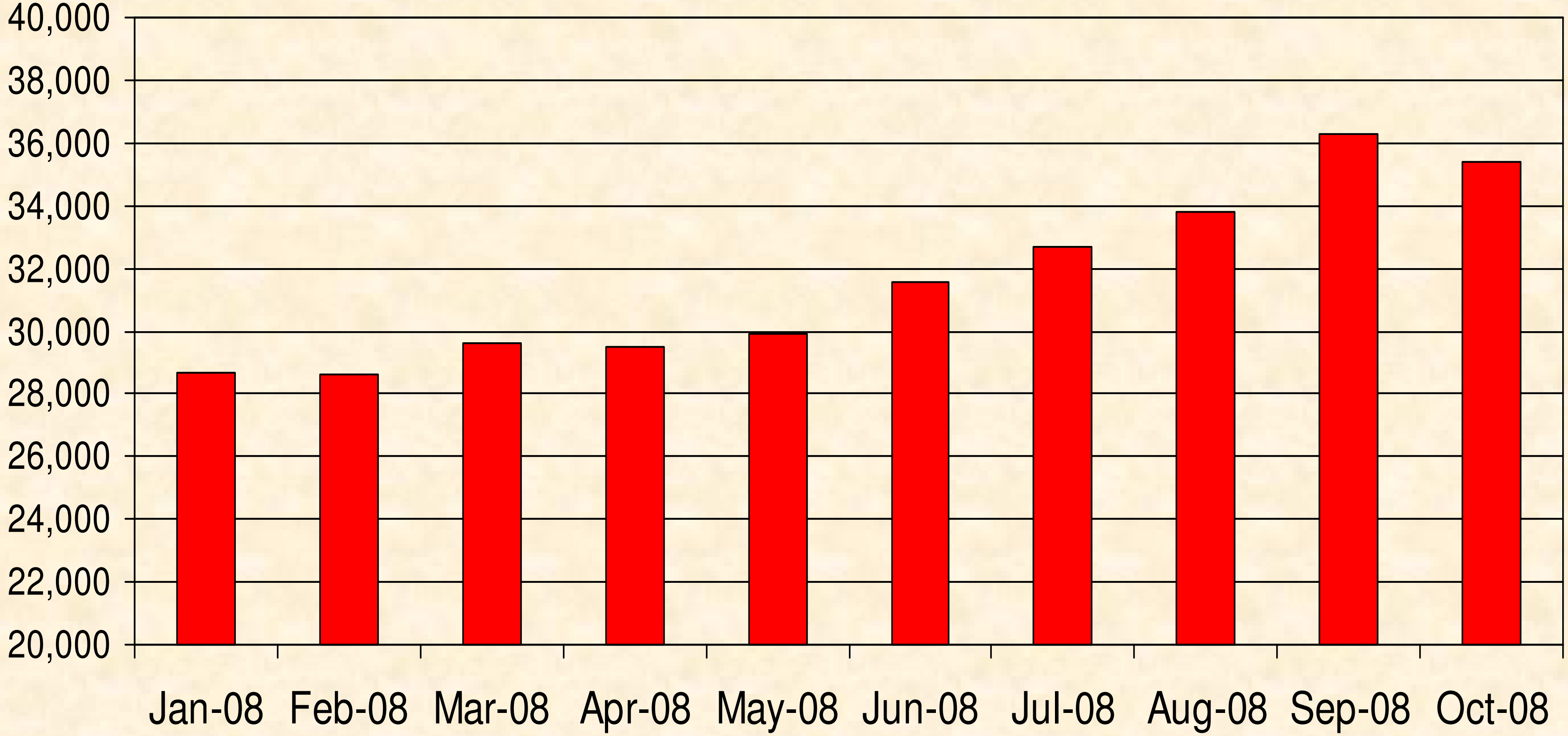
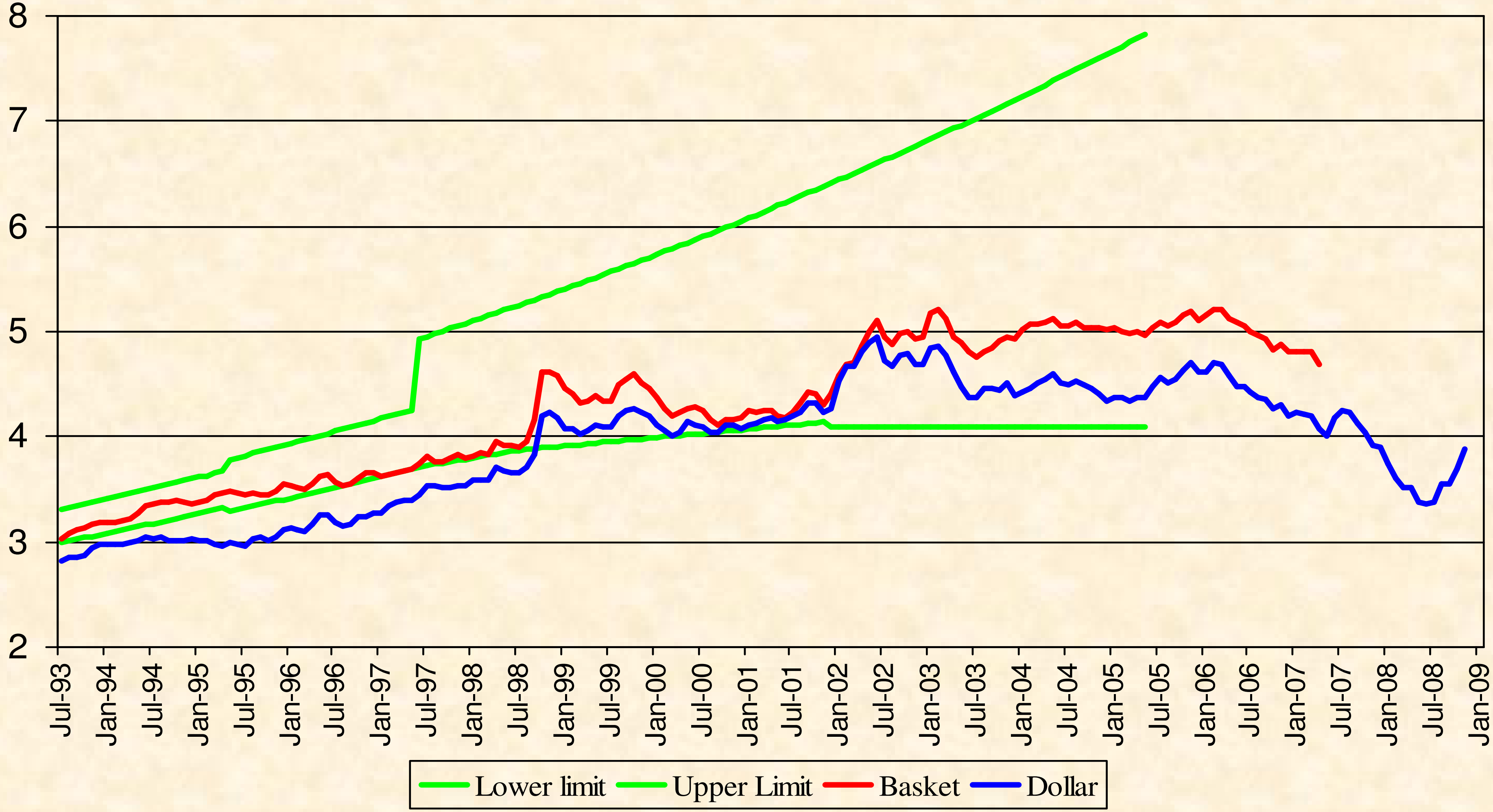
International Reserves 2008

(In US dollars, millions end of the period)



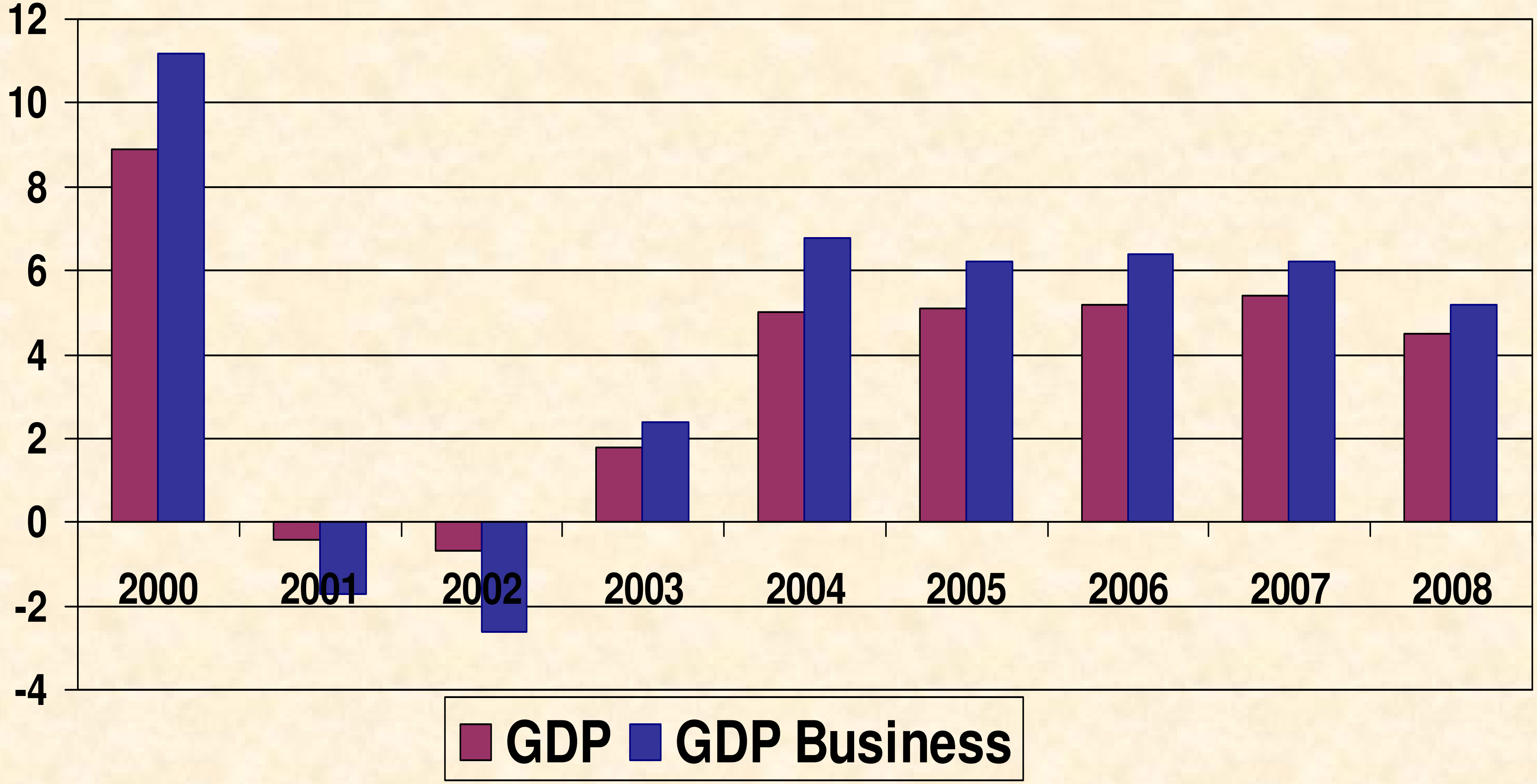
The Dollar and Basket Exchange Rate 1993-2008



Latest Economic Developments

GDP and Business GDP 2000-2008

(Rates of Growth, Percent)



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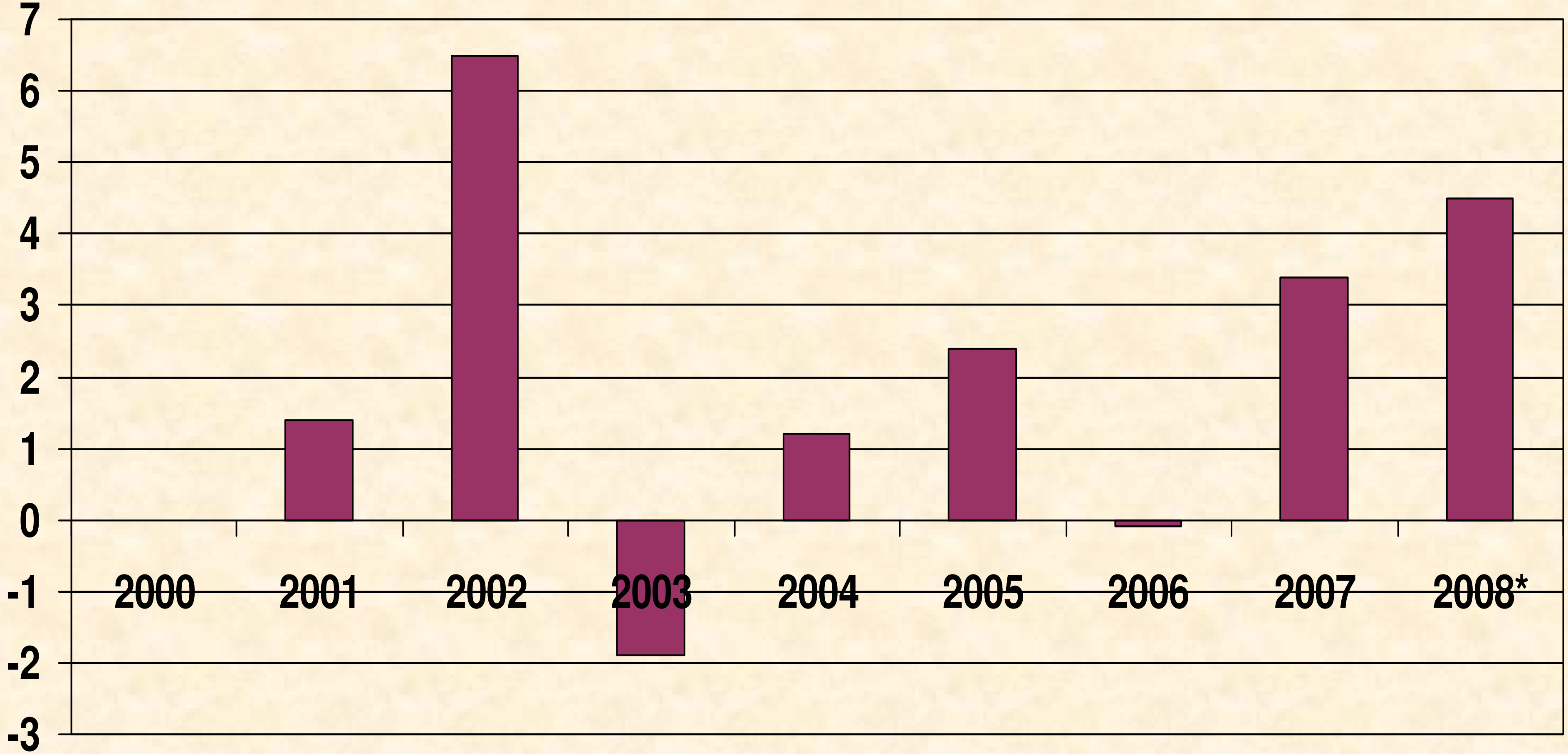
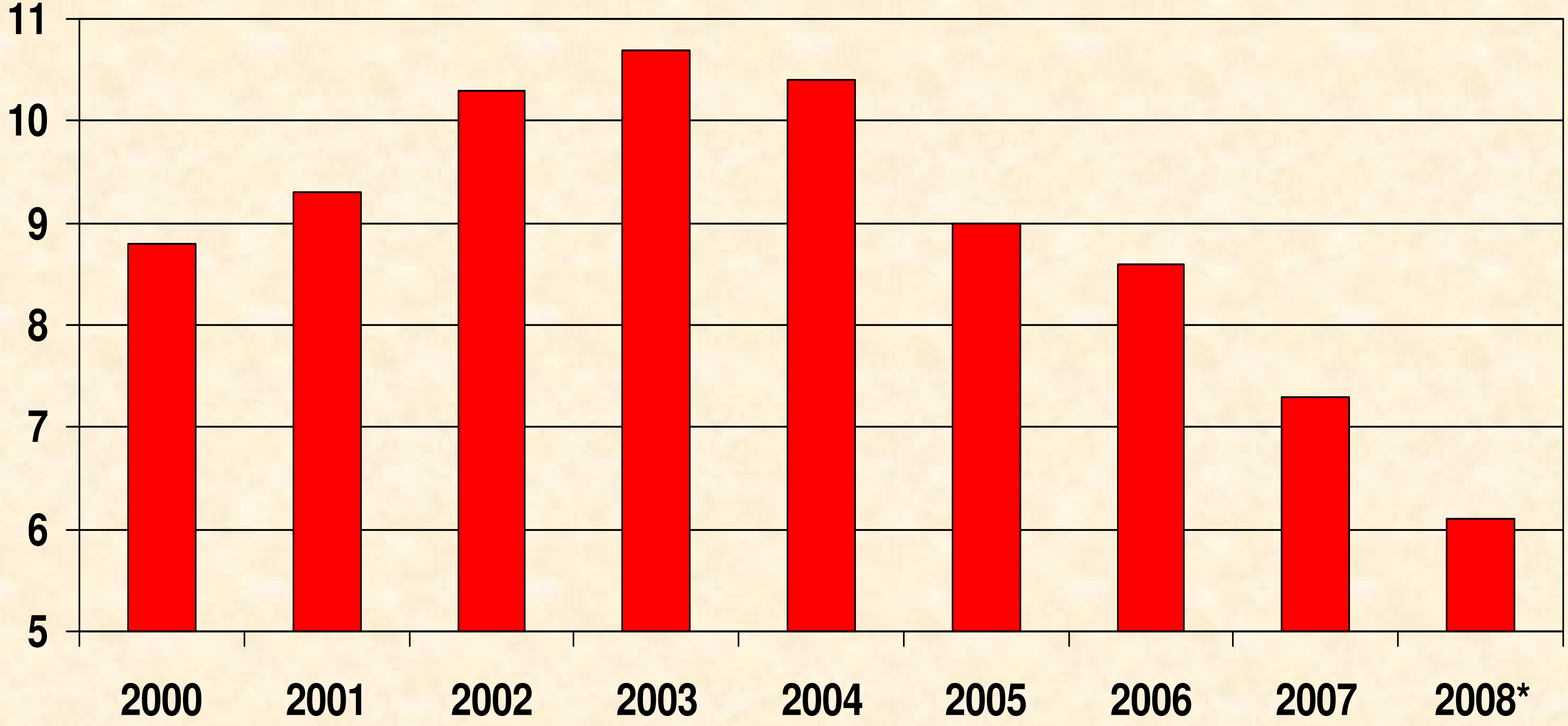
Rate of Inflation 2000-2008

(CPI, Percent)



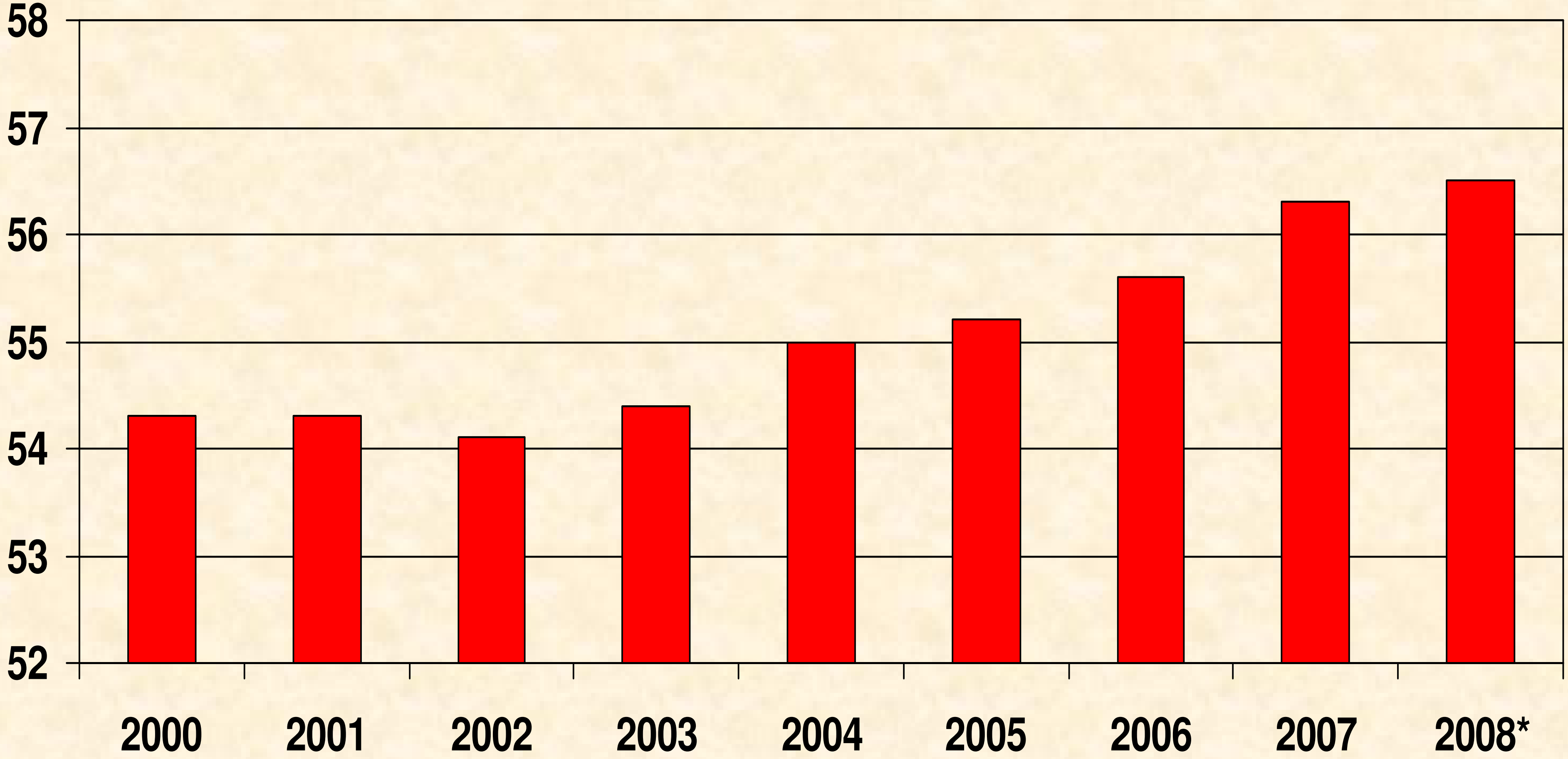
Unemployment 2000-2008

(Percent)



Labor Force Participation 2000-2008

(Percent)



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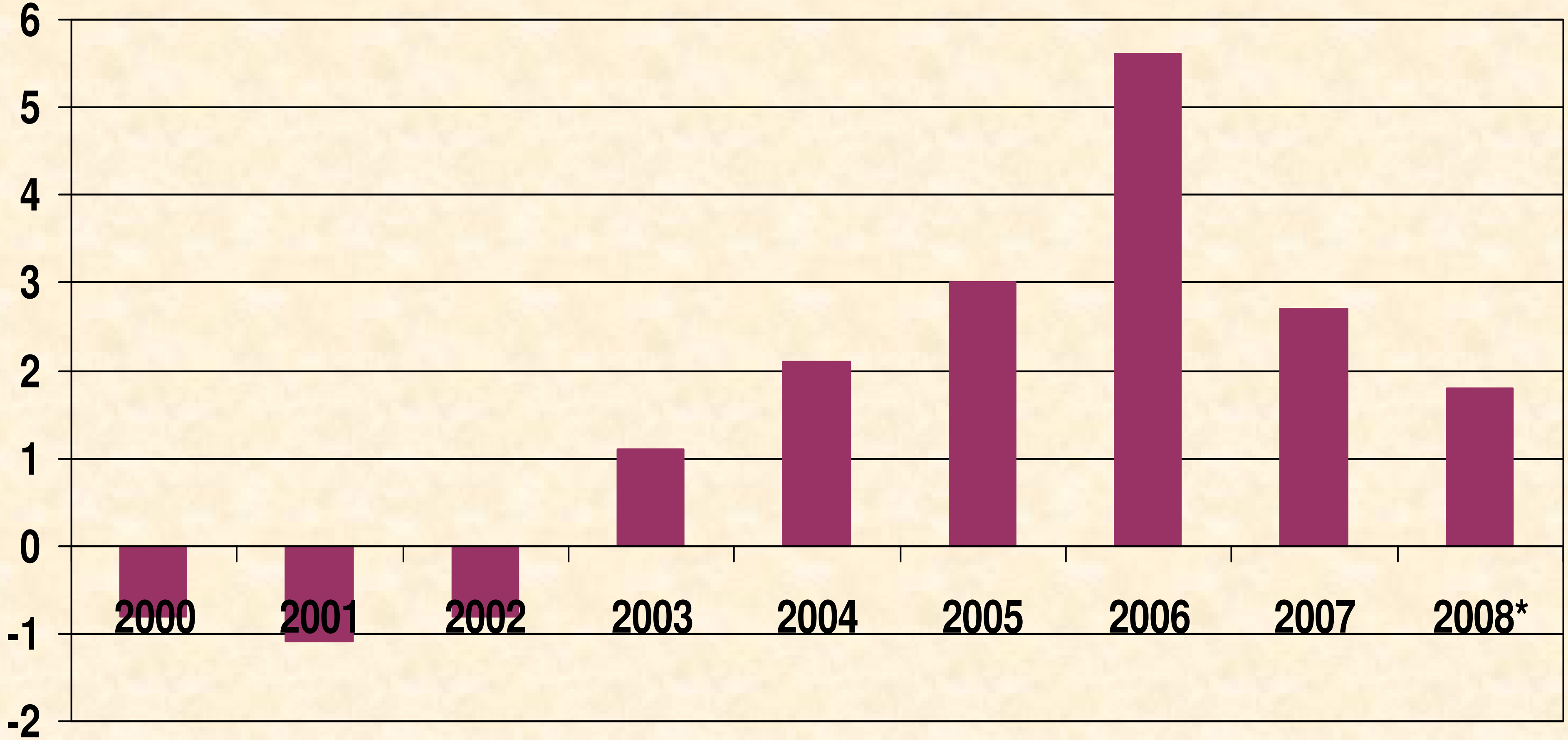
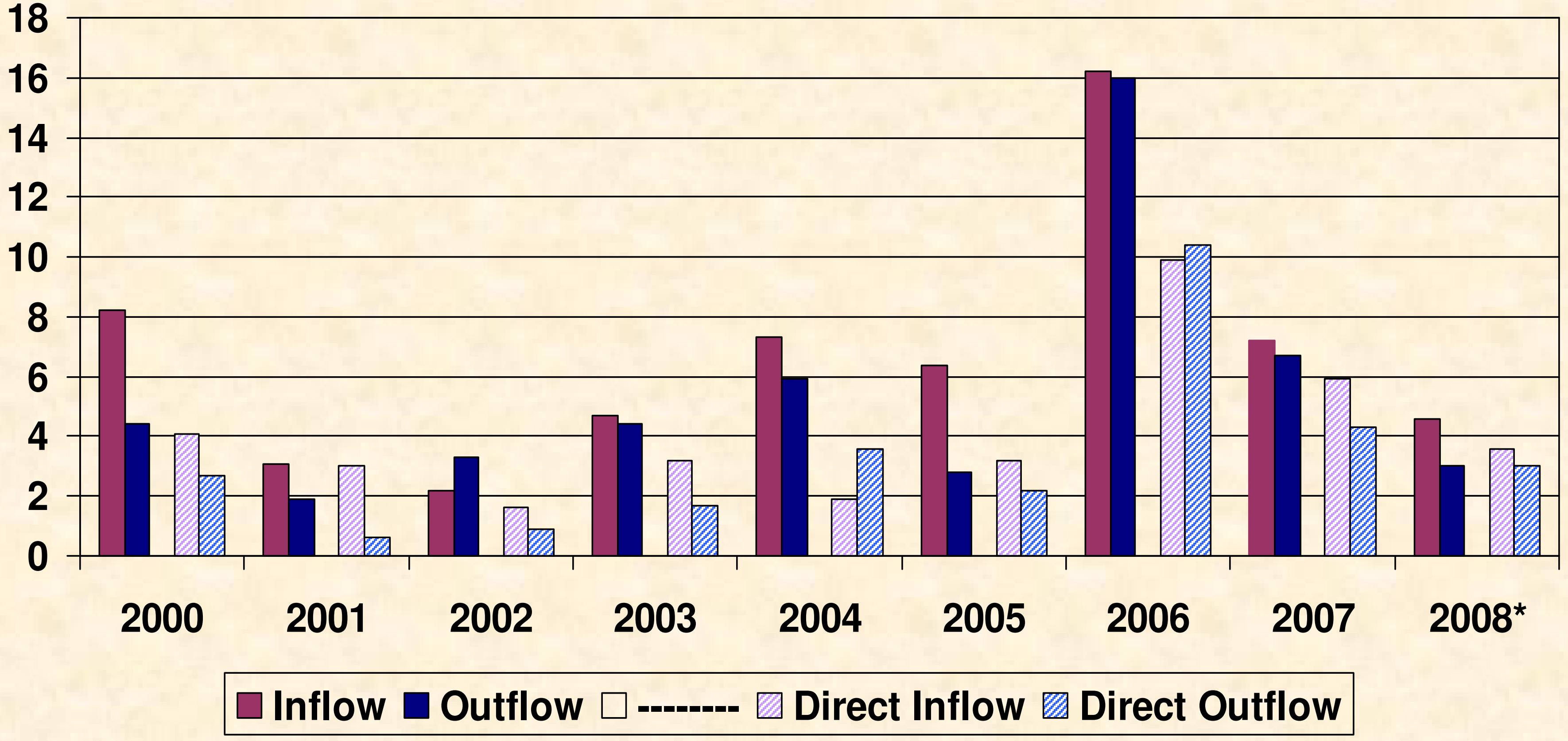
Current Account 2000-2008

(Percent of GDP)



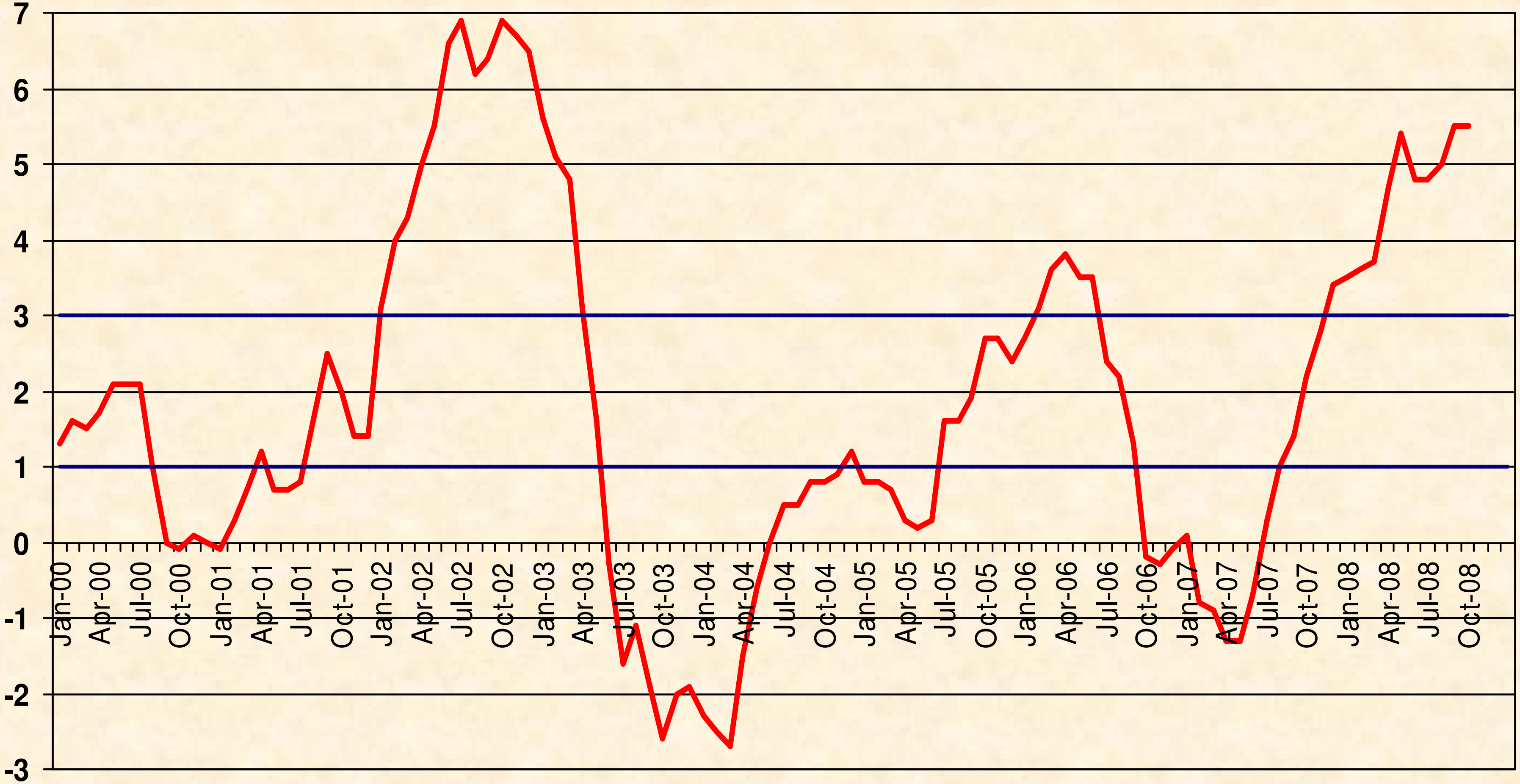
Foreign Investment 2000-2008

(Billion U.S. dollars)



Consumer Price Index 2000-2008

(Percent change in previous 12 months)



The World Economy

Basic Assumptions

Figure 1. Real GDP Growth and Trend
(Percent change)

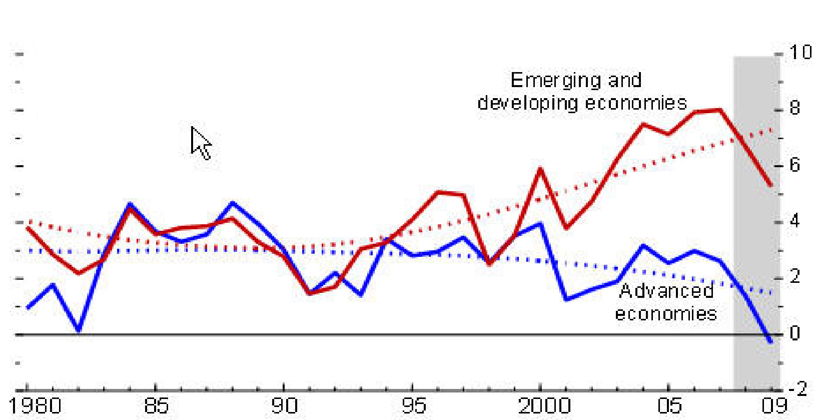
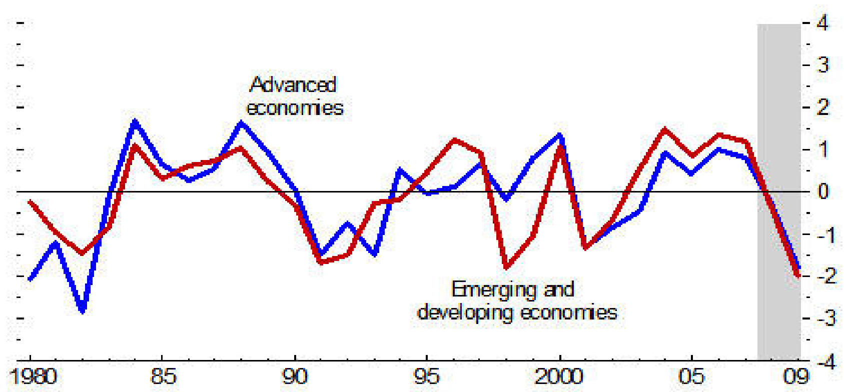
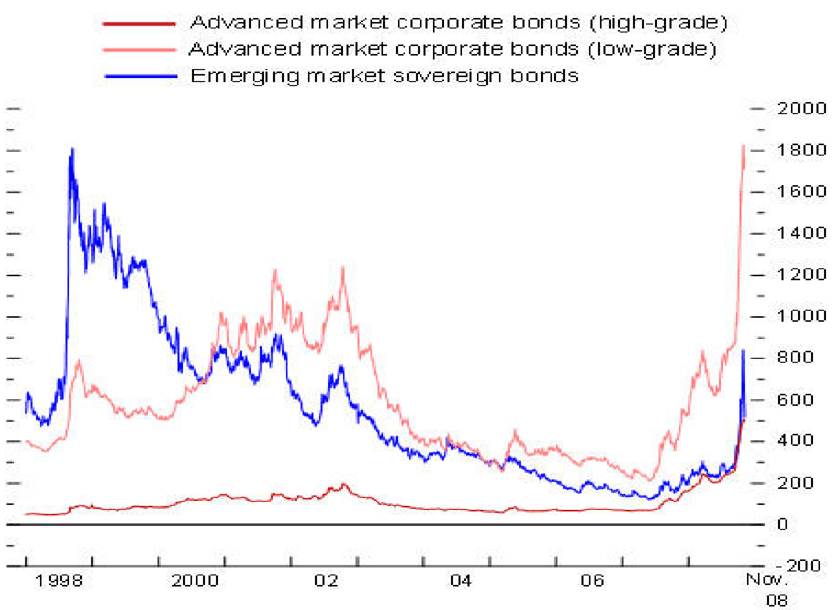


Figure 2. Real GDP Growth—Deviation from Trend



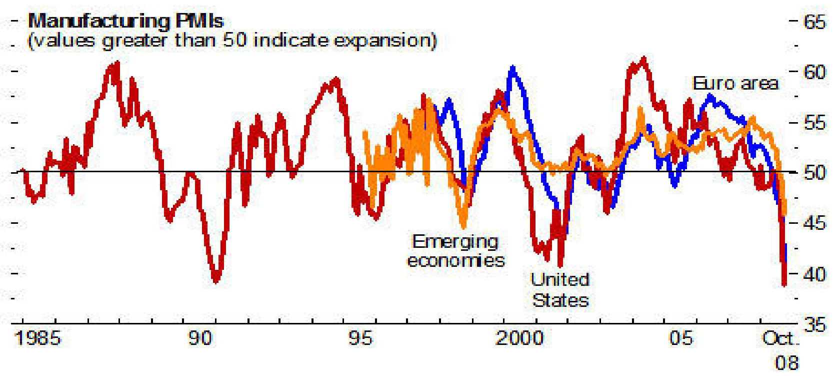
Source: IMF staff estimates.

Figure 3. Advanced and Emerging Markets: Sovereign and Corporate Bond Spreads, 1998–2008 [1]
(In basis points)



Sources: Bloomberg Financial Markets; Datastream; JP Morgan; Moody's KMV; Thomson Reuters; and IMF staff calculations.
[1] The corporate bond spreads are derived as the difference between the asset swap spread and the commensurate London interbank offered rate.

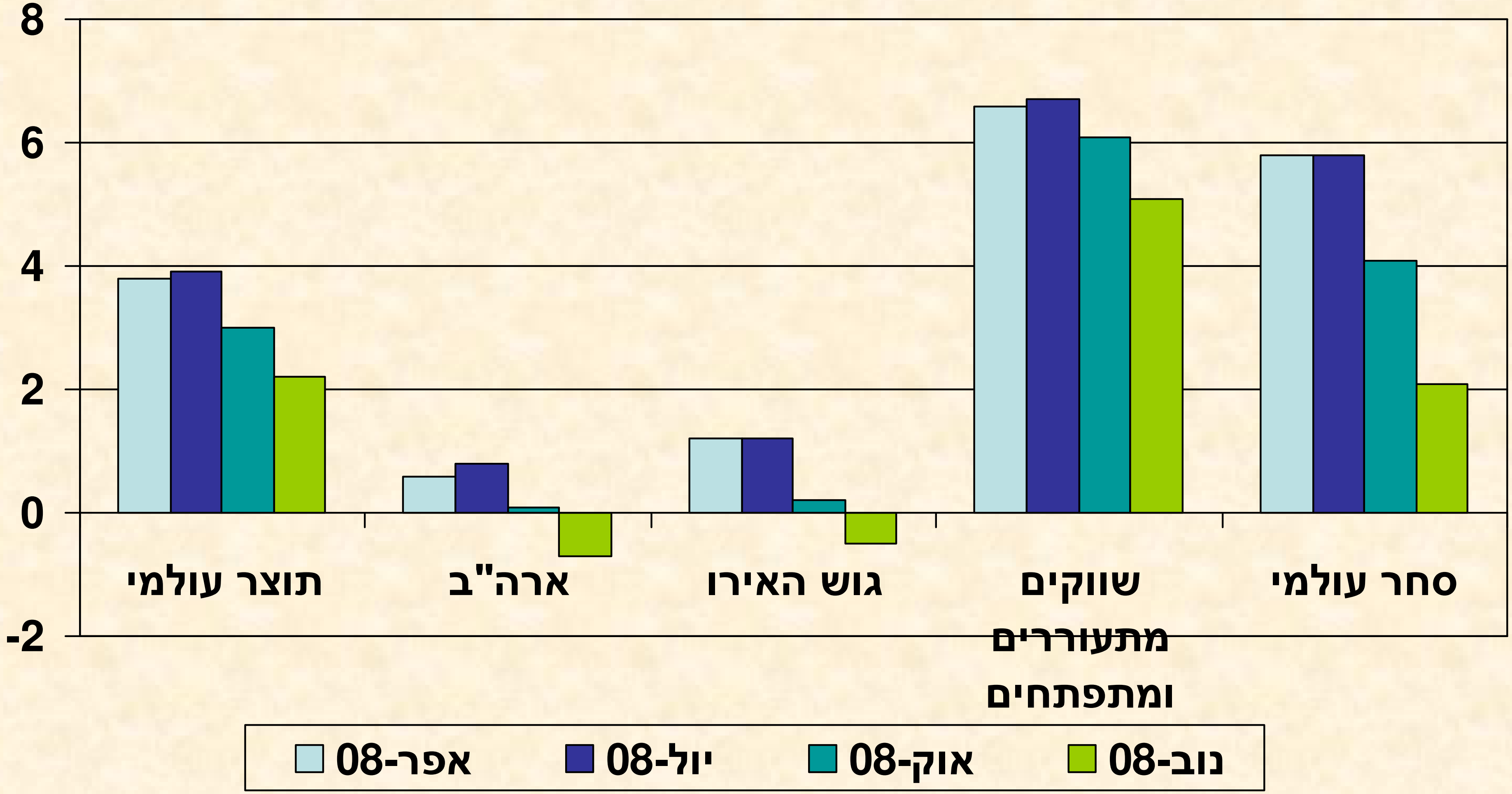
Figure 4. Business Confidence Indicators



Sources: Haver Analytics; and IMF staff estimates.

Source: IMF WEO Update November 2008

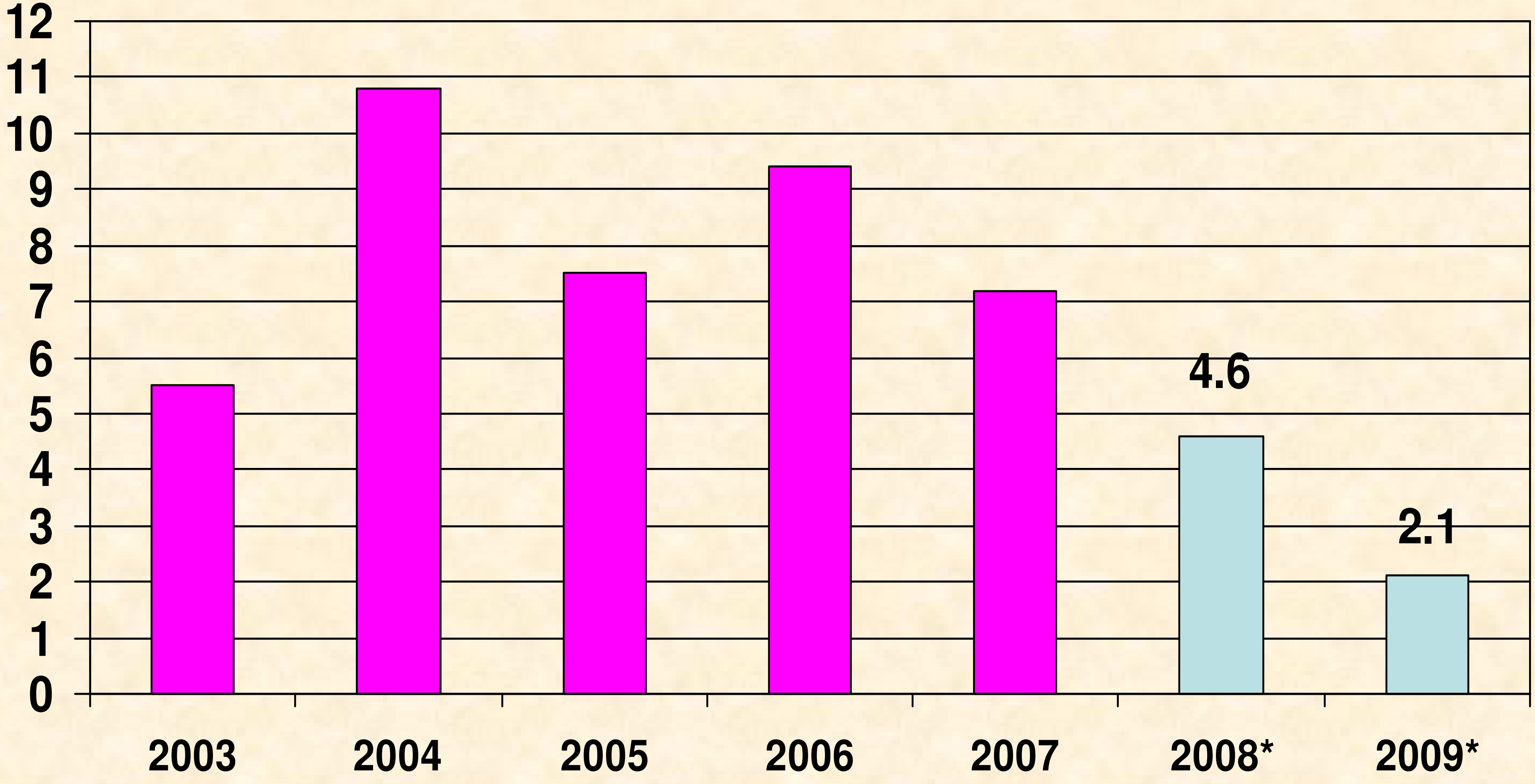
תחזיות ה-IMF לפעילות עולמית ב-2009



מקור: World Economic Outlook

World Trade Volume 2003-2009

(Annual Percent Change, IMF WEO October 2008)



*Forecast

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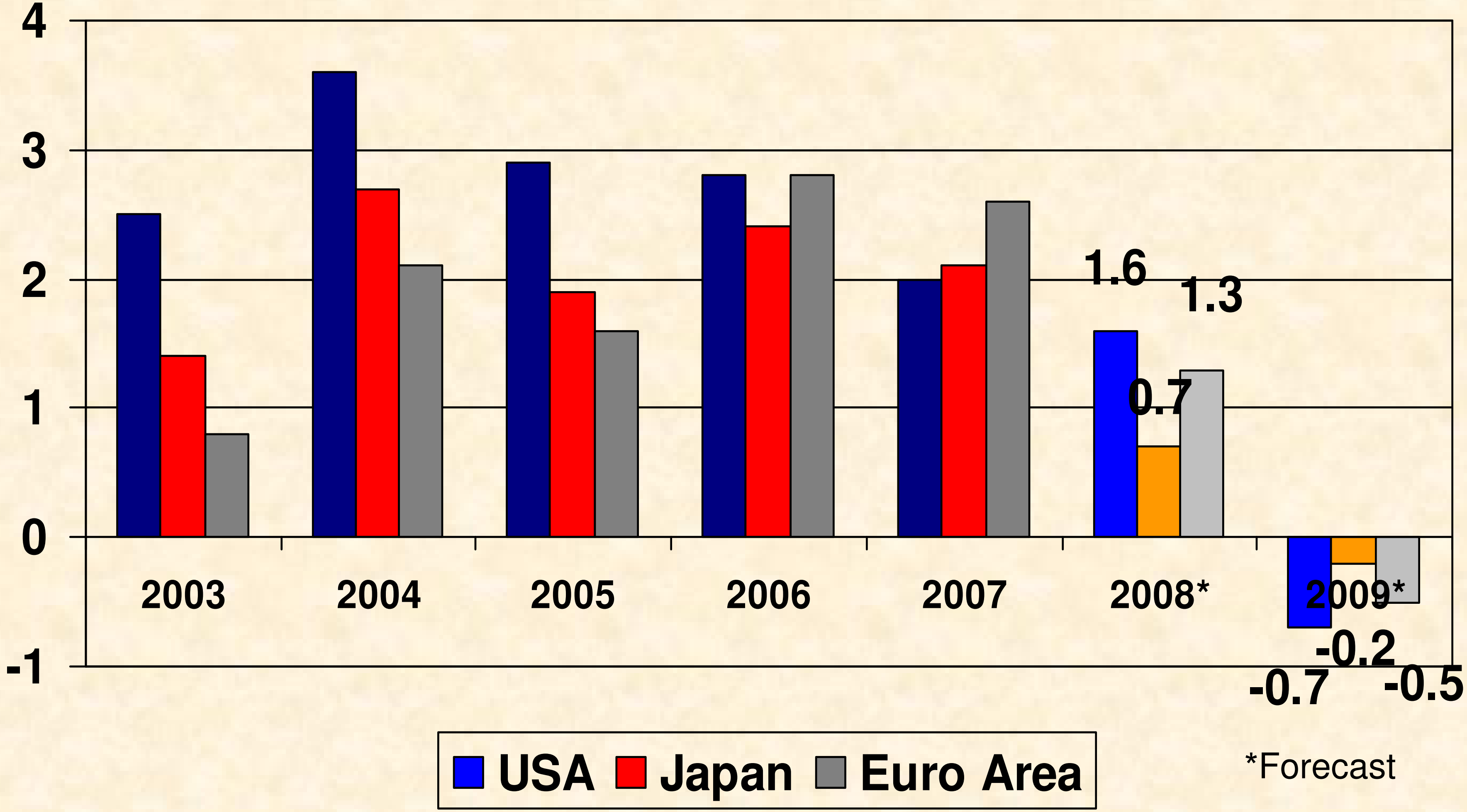
Real GDP Growth 2003-2009

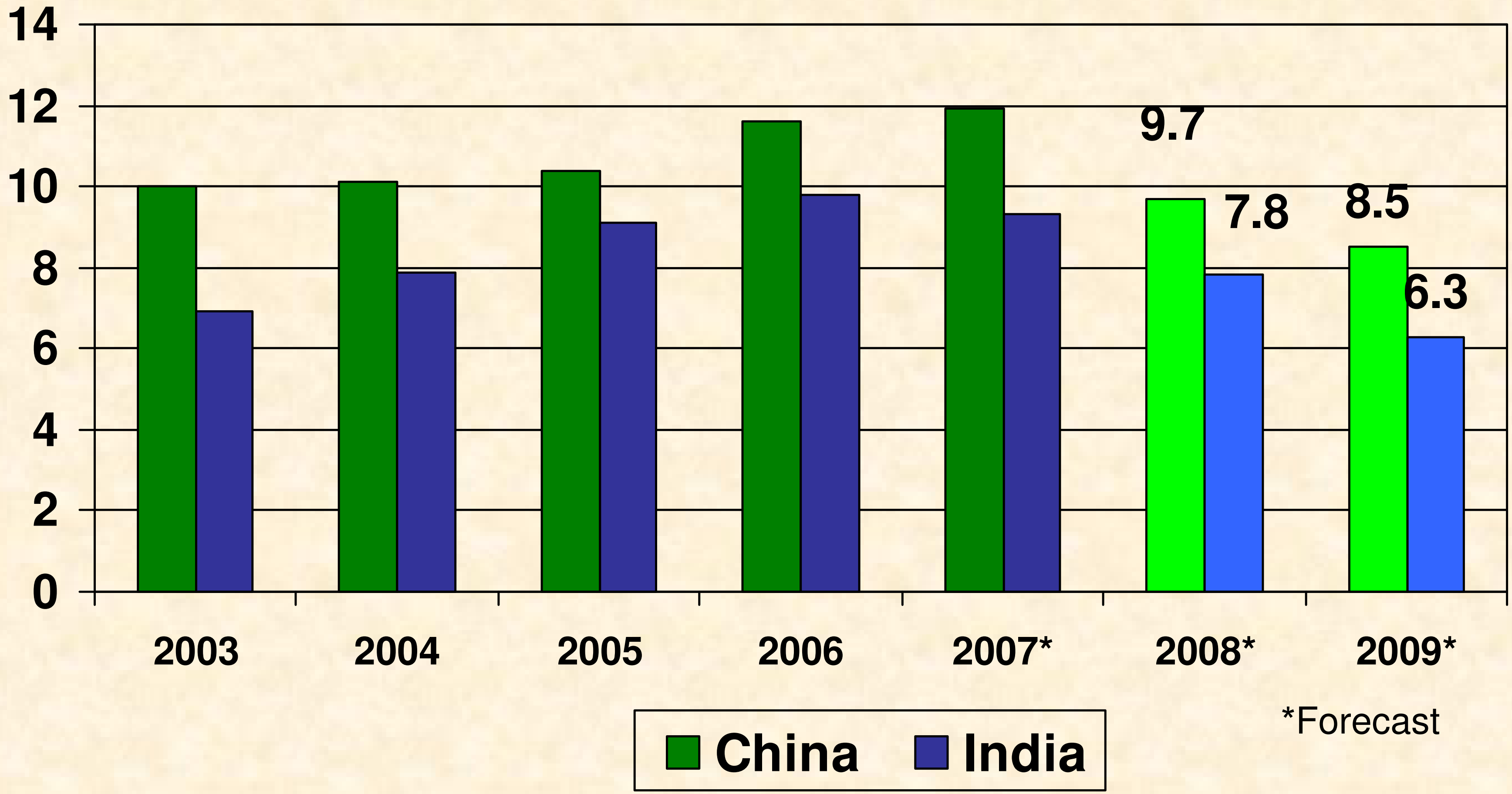
(Annual Percent Change, IMF WEO October 2008)



*Forecast

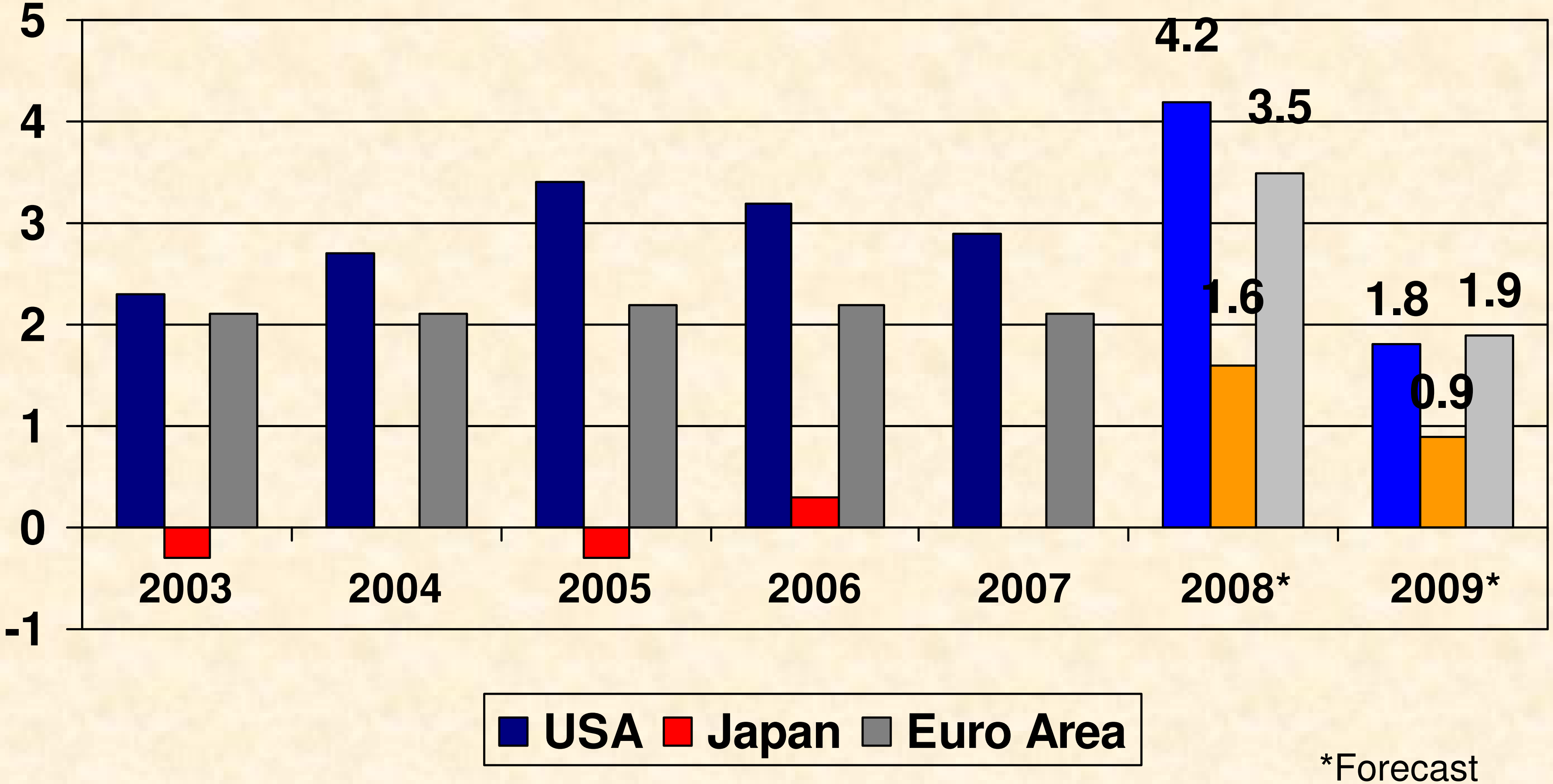
Real GDP Growth 2003-2009

(Annual Percent Change, IMF WEO October 2008)



Inflation 2003-2009

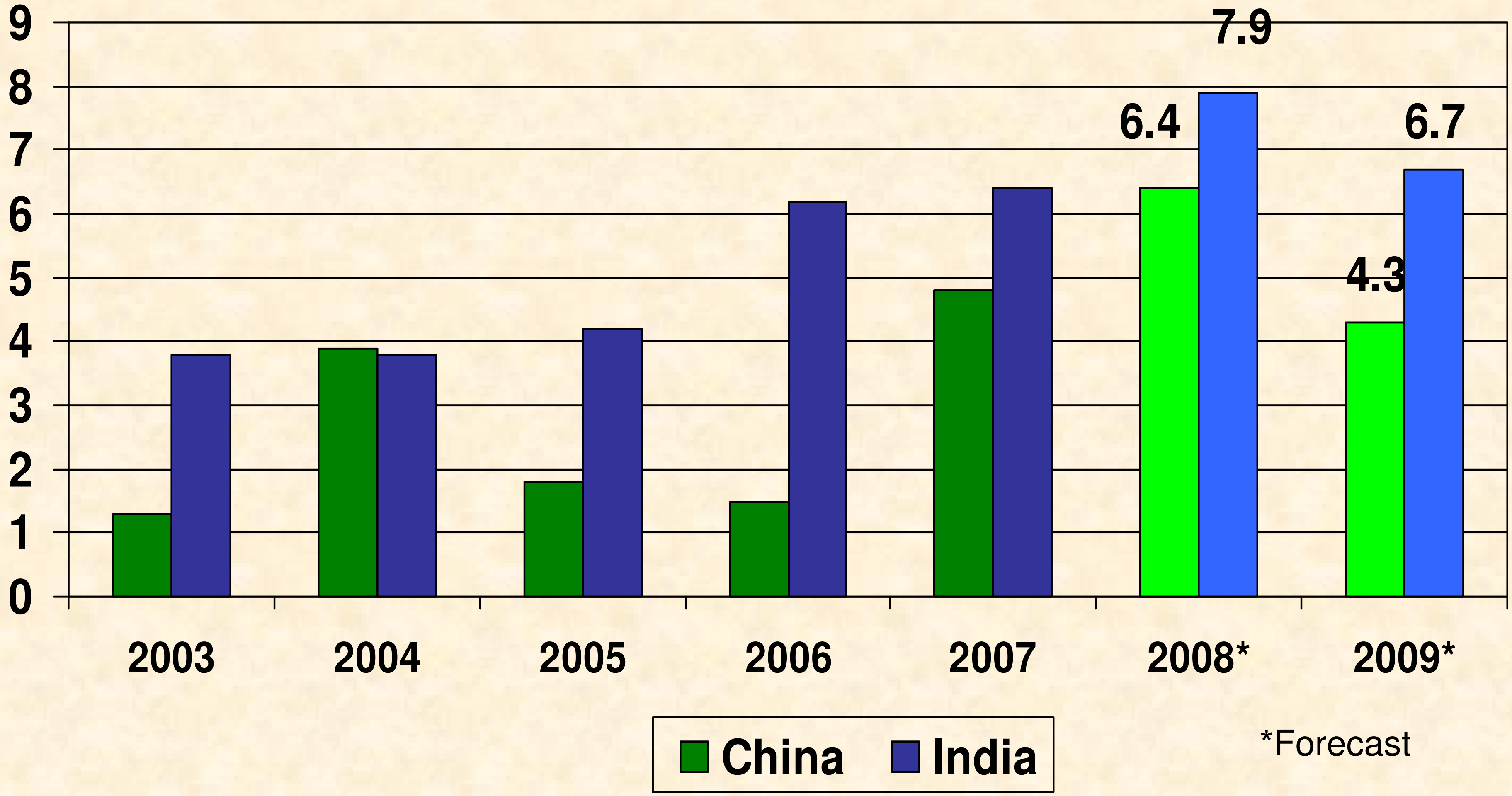
(CPI, Annual Percent Change, IMF WEO October 2008)



*Forecast

Inflation 2003-2009

(CPI, Annual Percent Change, IMF WEO October 2008)



Economic Policy
Fiscal – The 2009 Budget
Monetary

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Budget 2009

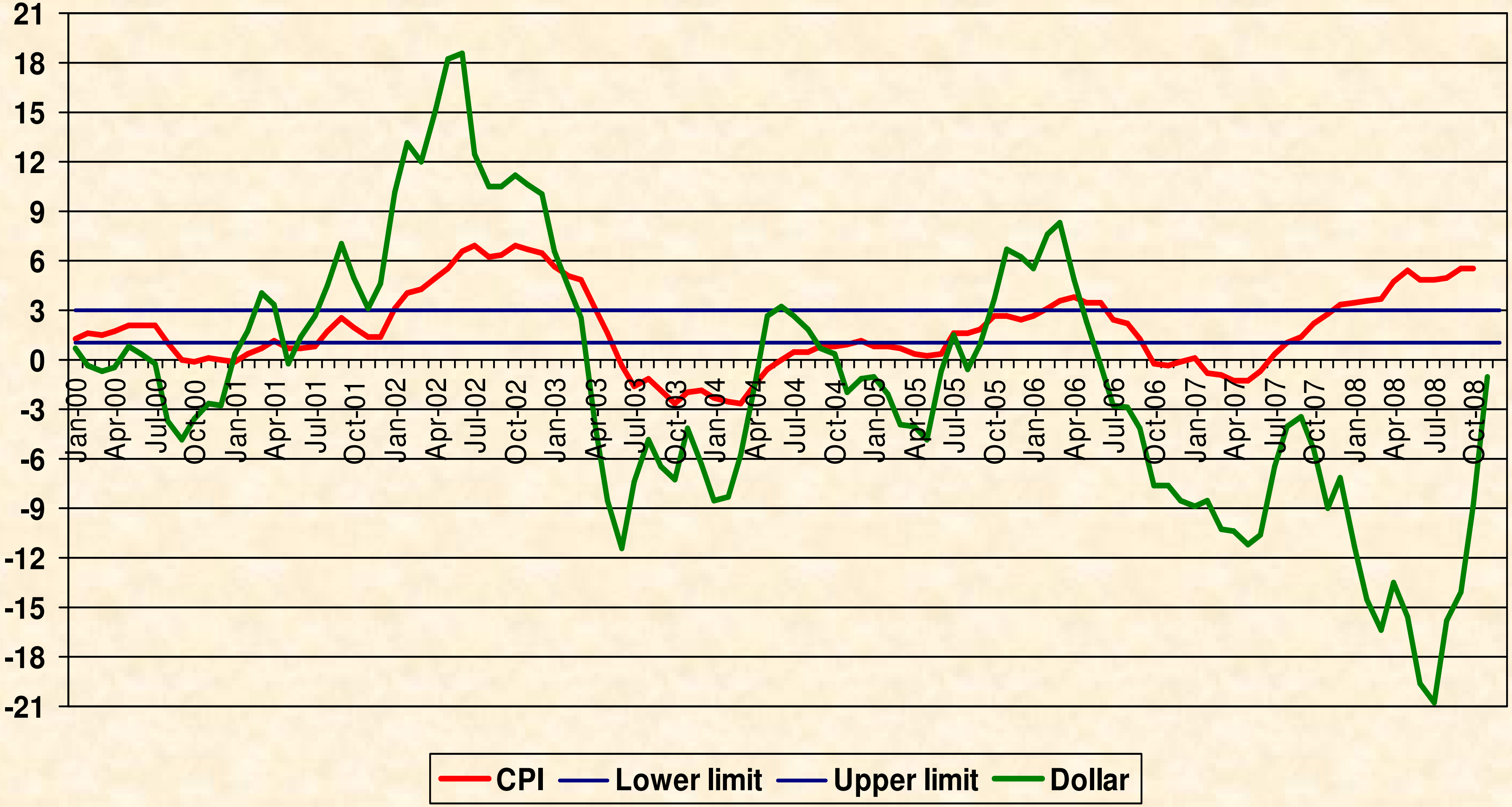
- The budget will not be approved on time – during the first quarter of 2009 expenditure will be 1/12 of 2008s budget
- The next government change the budget an I assume that government consumption and investment will increase by 2 percent in real terms
- Expected deficit 3.0 percent of GDP due to drop in tax collection
- Continuation of tax reduction al planned

Monetary Policy

- ✓ Monetary Policy will continue to be expansionary
- ✓ The Bank of Israel will set the lowest possible interest rate
- ✓ The Bank of Israel will support the financial system and the banking system acting on time as "Lender of Last Resort"
- ✓ The Bank of Israel will continue to support the Shekel

Consumer Price Index and Dollar Exchange Rate 2000-2008

(Percent change in previous 12 months)



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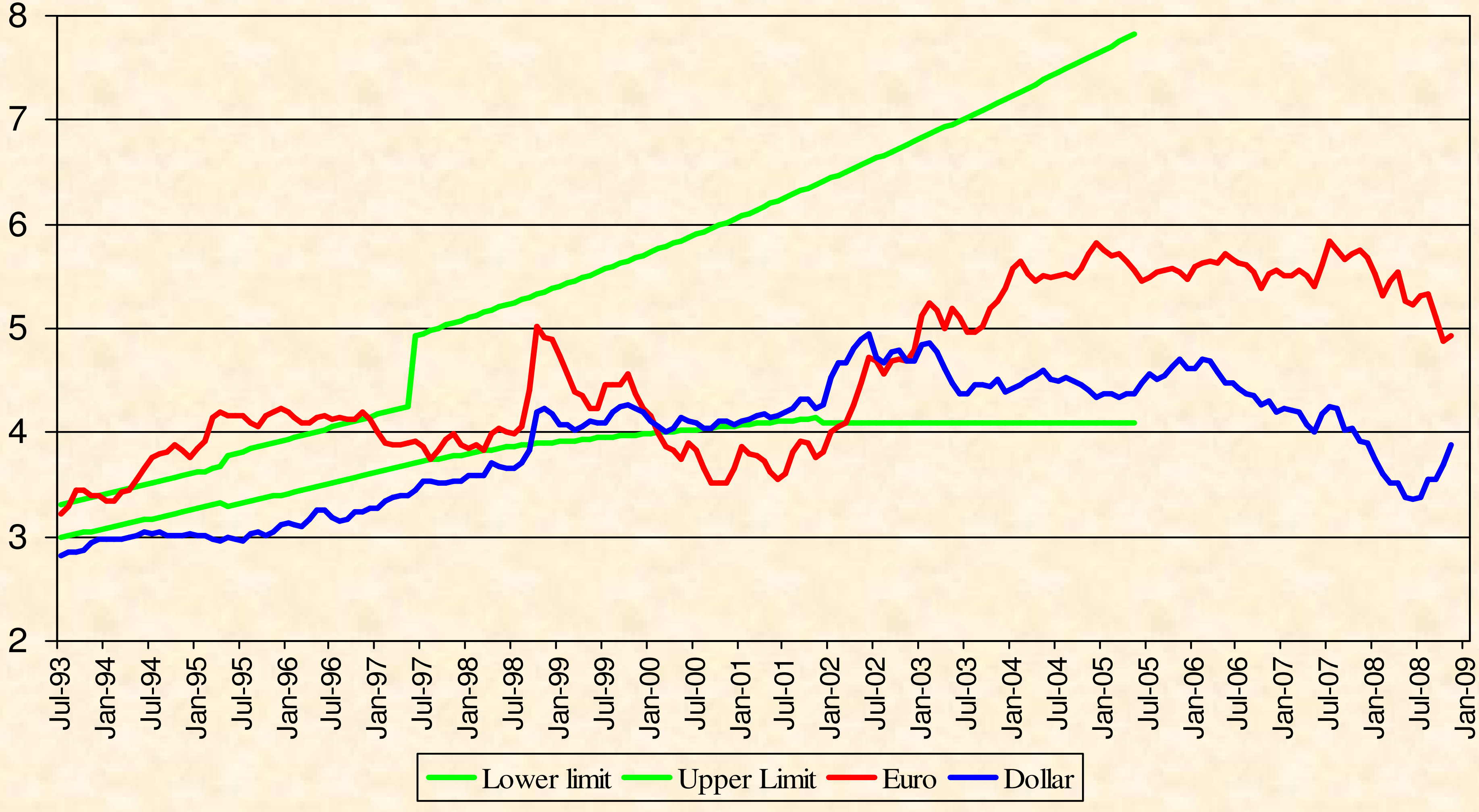
The Dollar and Euro Exchange Rate 1993-2008



Macroeconomic Forecast 2008

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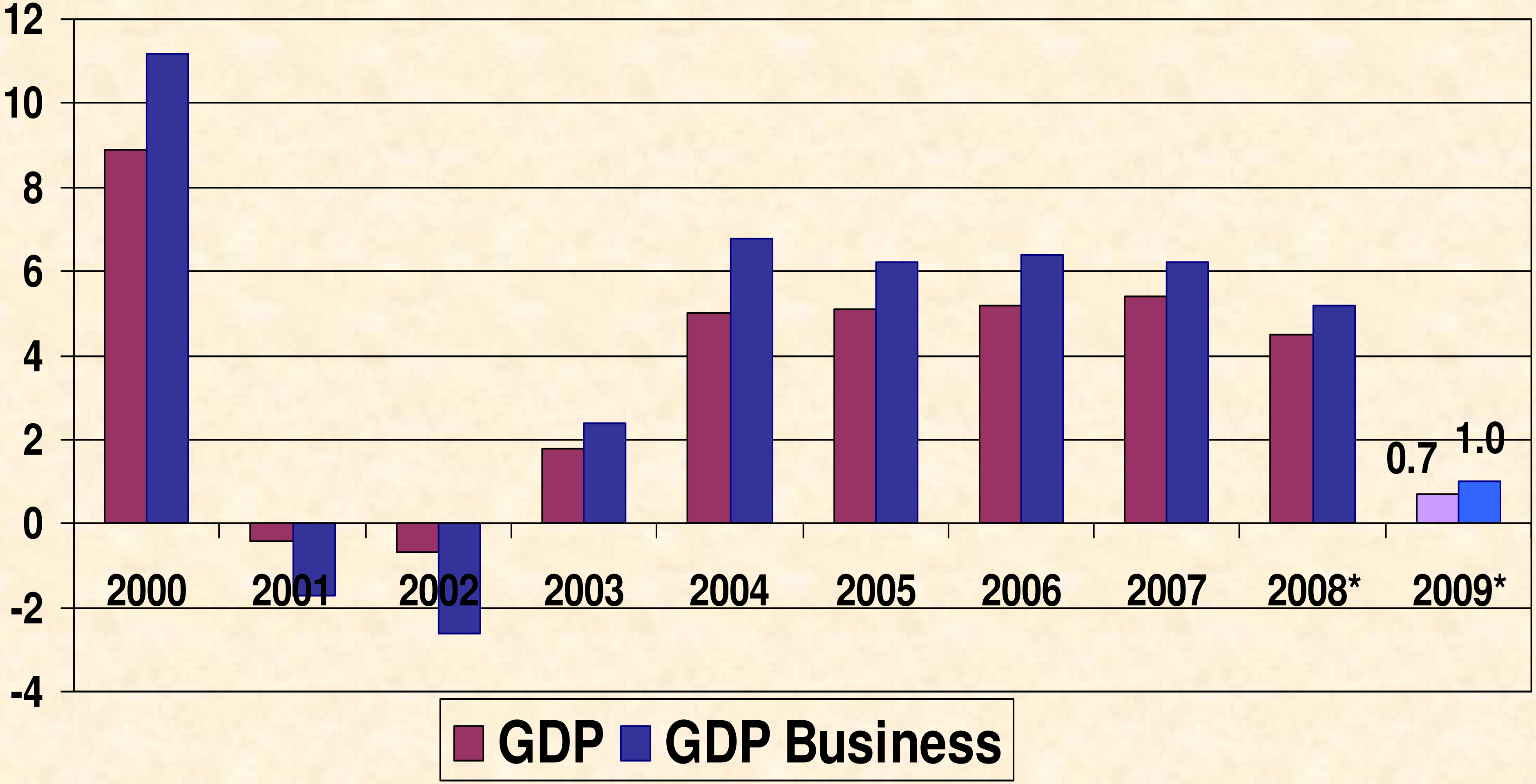
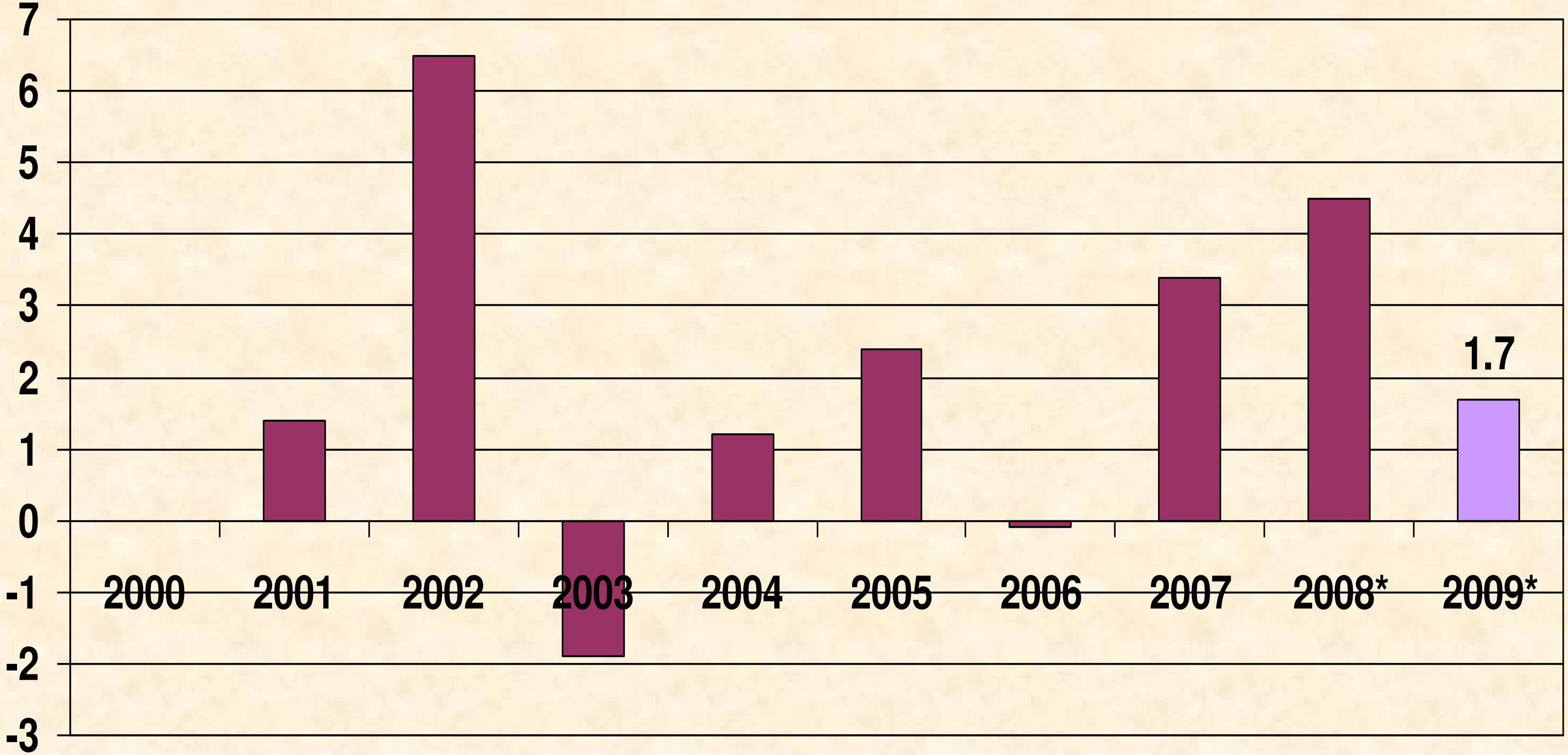
GDP and GDPB Forecast 2009

(Rates of Growth, Percent)



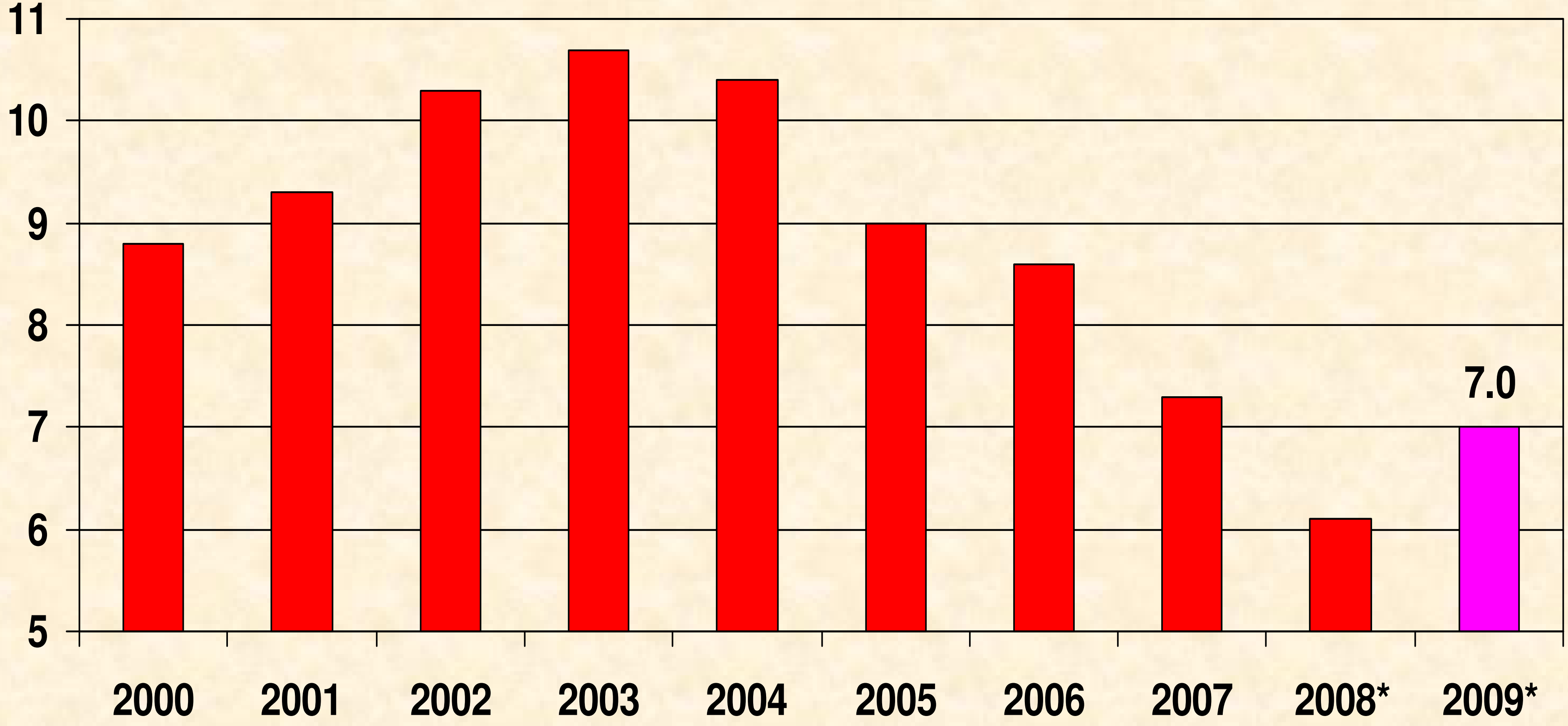
Rate of Inflation Forecast 2009

(CPI, Percent)



Unemployment Forecast 2009

(Percent)



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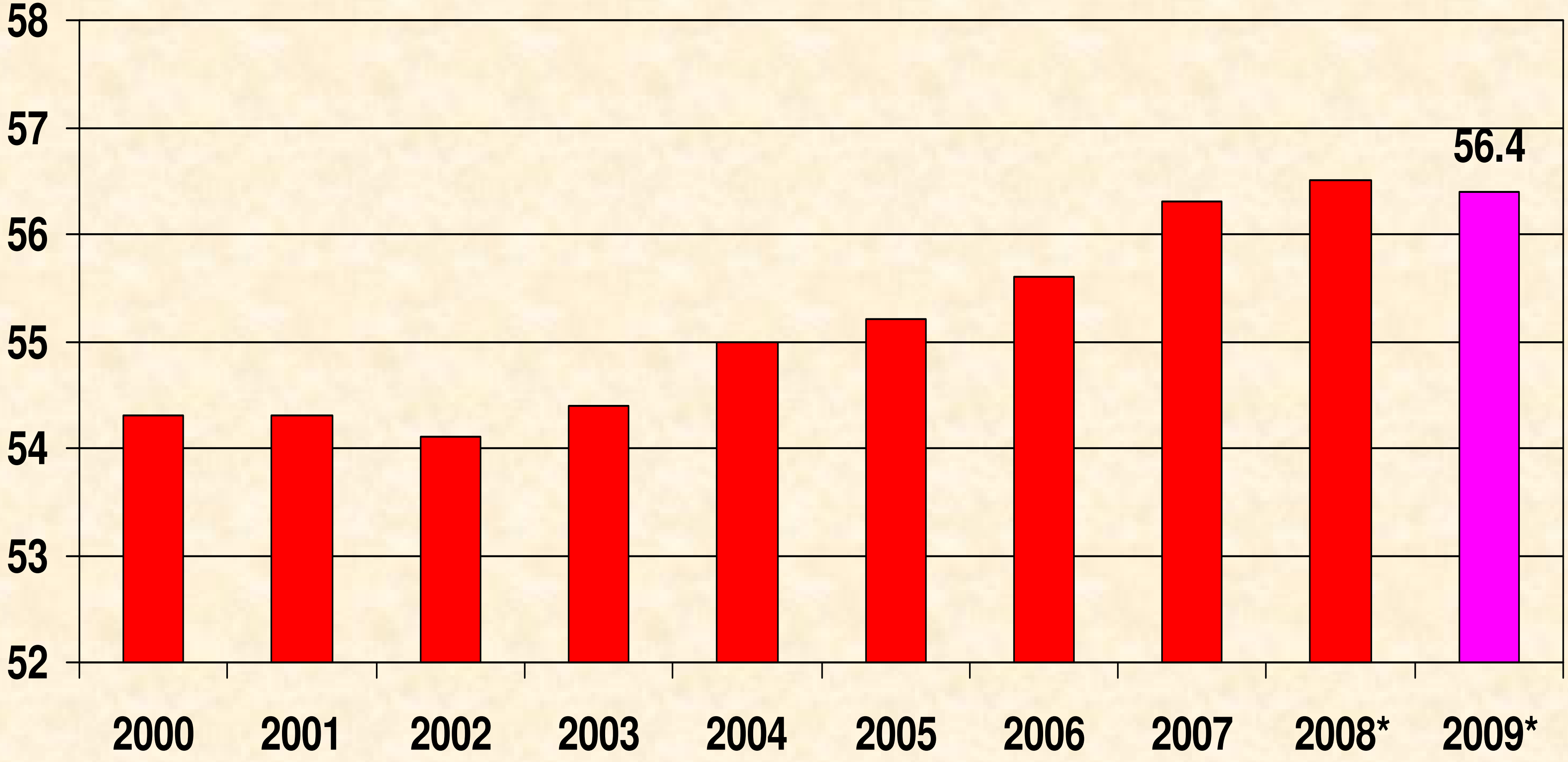
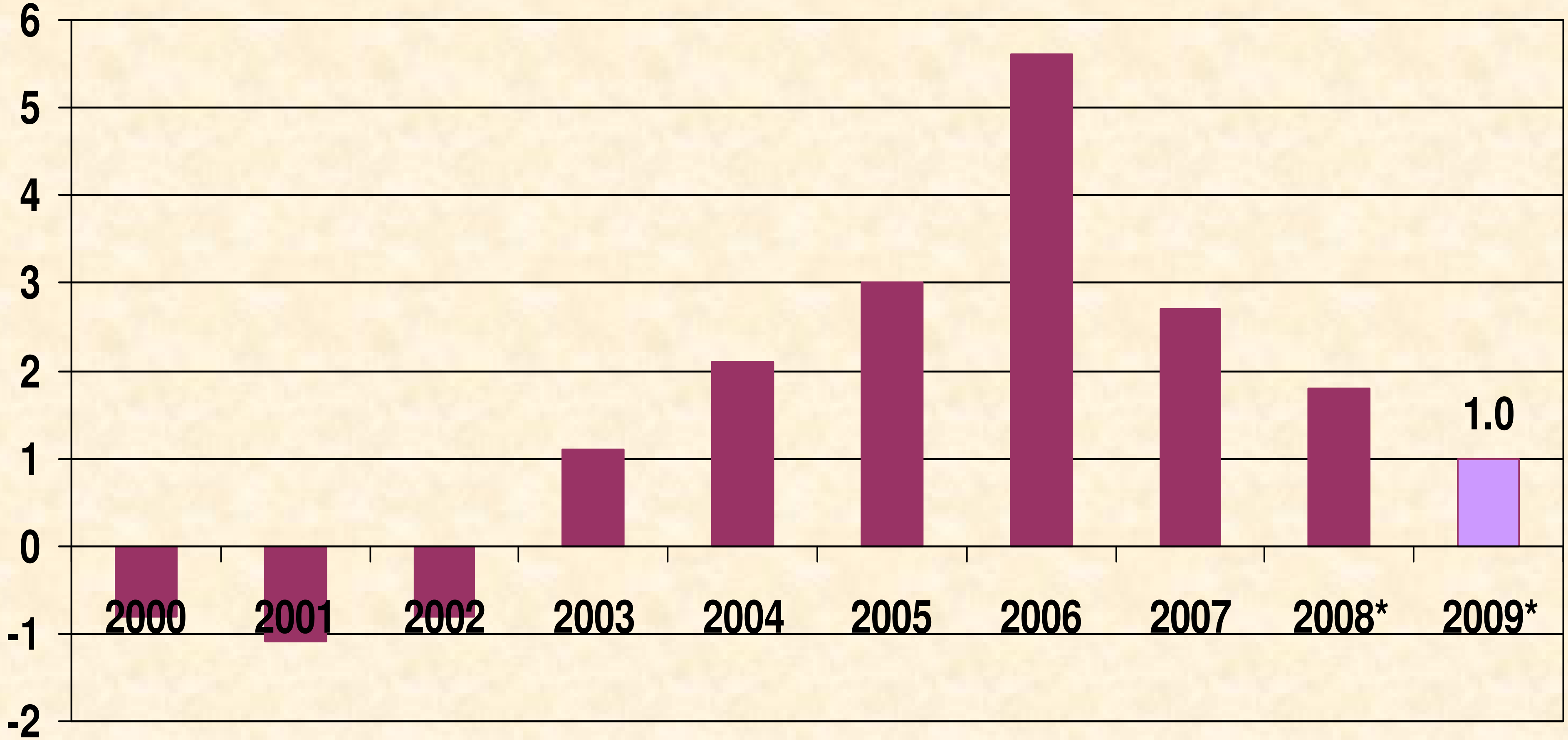
Labor Force Participation Forecast 2009

(Percent)



Current Account Forecast 2009

(Percent of GDP)

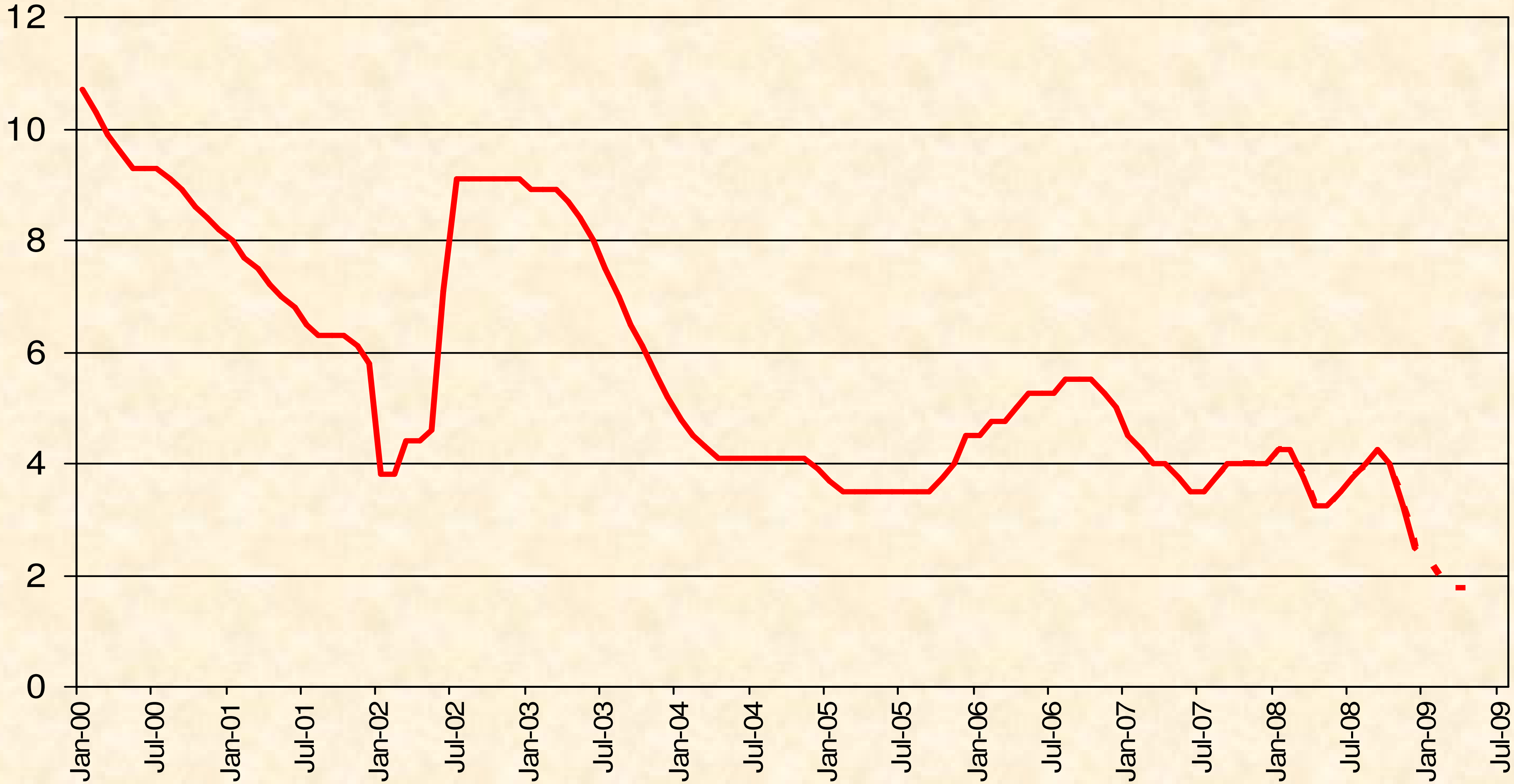


Uses and Resources Forecast 2009

(Rates of Growth, Percent)

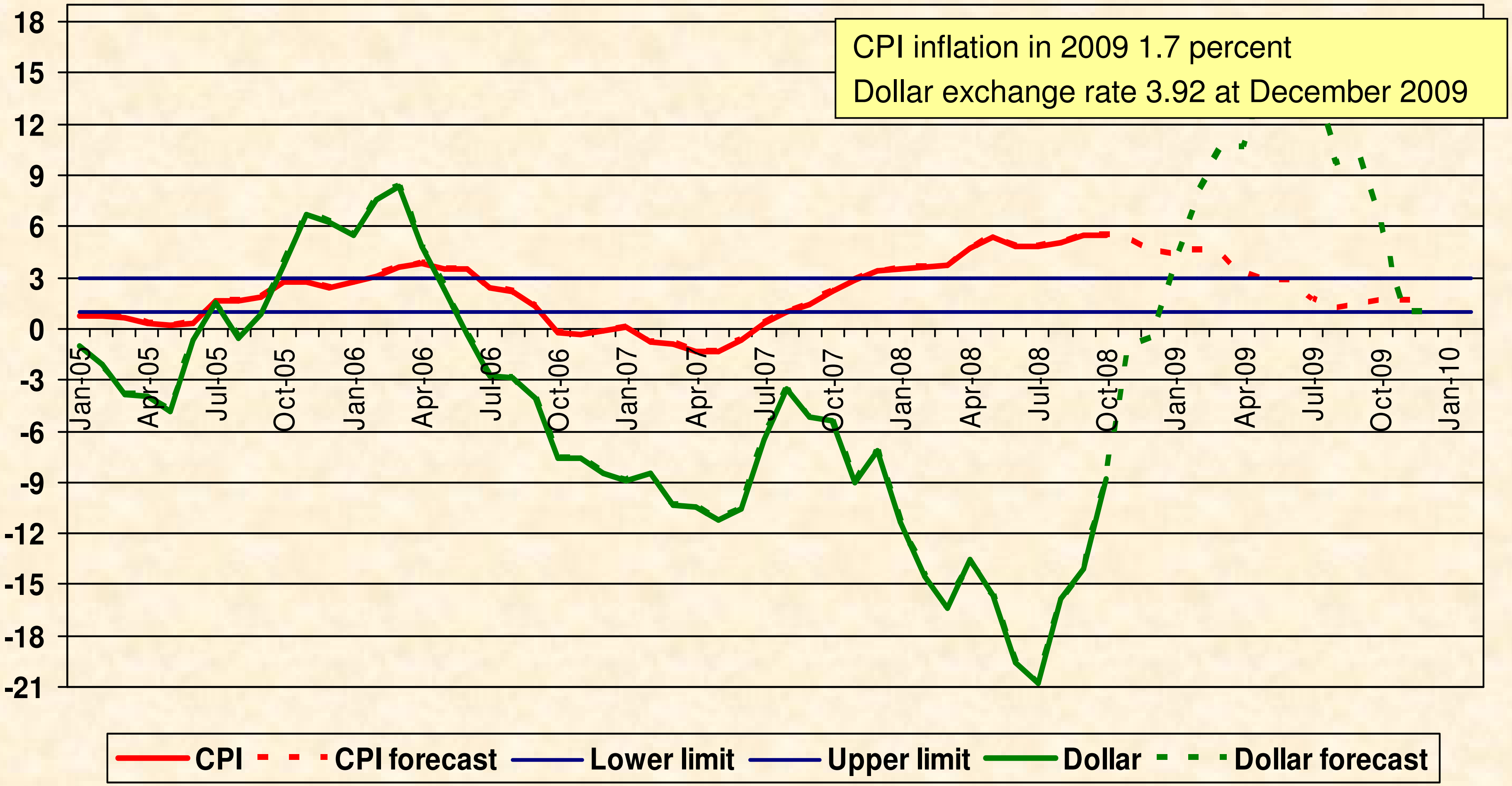
	C.B.S 2008	B.o.I. 2009	**Melnick 2009**
Resources			
GDP	4.5	1.5	**0.7**
Business GDP	5.2	1.8	**1.0**
Imports	4.2	0.7	**2.5**
Uses of Resources			
Private Consumption	4.4	2.5	**2.5**
Government Consumption	2.3	-1.0	**2.0**
Gross Capital Formation	4.5	-0.5	**-5.0**
o.w.: Fixed Capital Formation	5.3	1.5	**-4.0**
Exports	5.8	1.2	**2.0**

Bank of Israel Interest Rate 2000-2009



Consumer Price Index and Dollar Exchange Rate 2009 Forecast

(Percent change in previous 12 months)



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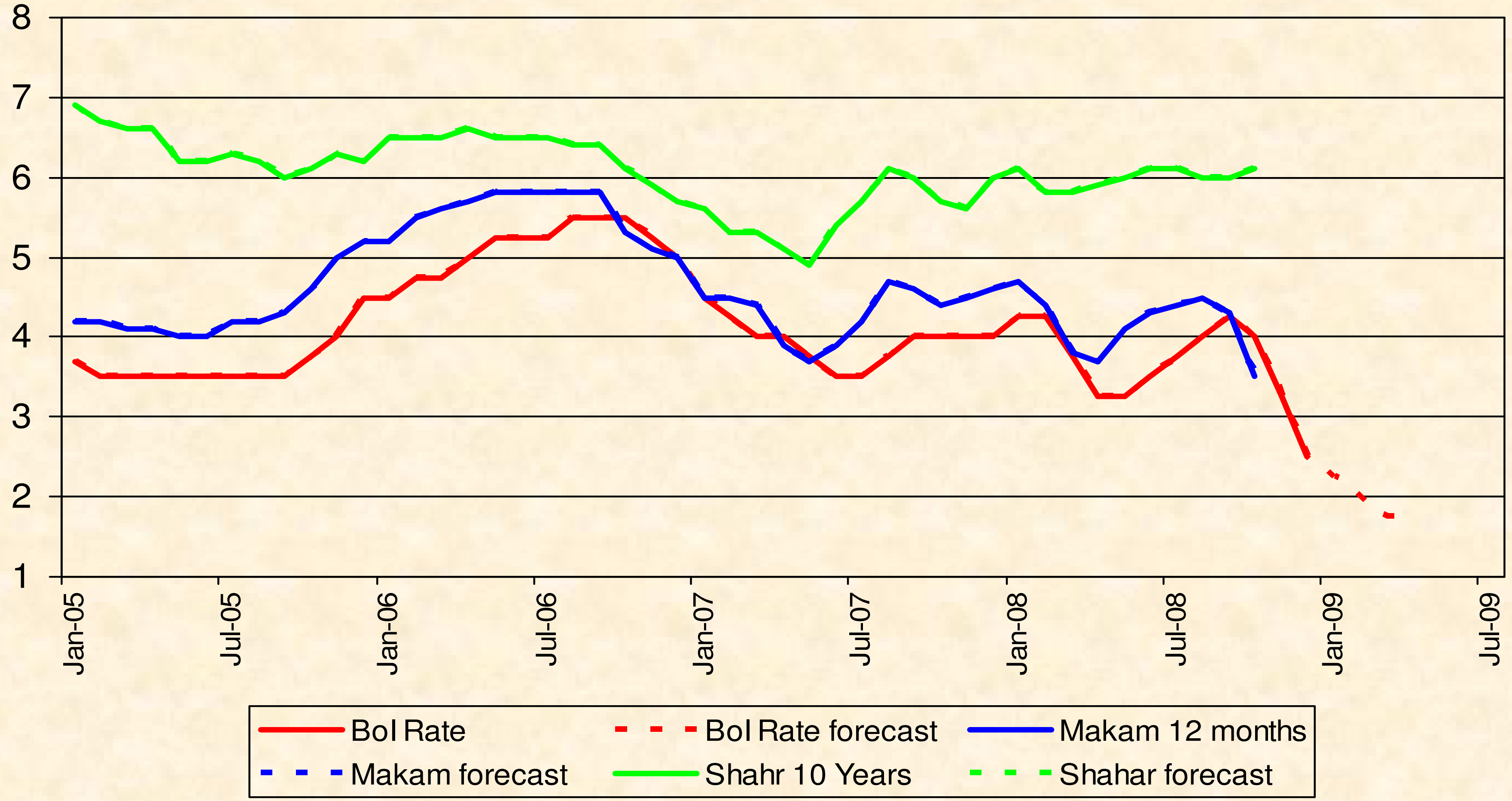
BoI Interest Rate and Yields to Makam and Shahar 2009 Forecast



Real Yield on Indexed Government Bonds 2009 Forecast

(5 and 10 years maturity, percent)