

THE ISRAELI ECONOMY 2011

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Provost, Interdisciplinary Center (IDC)

Herzliya

The Rothschild Caesarea Center Conference

January 2011

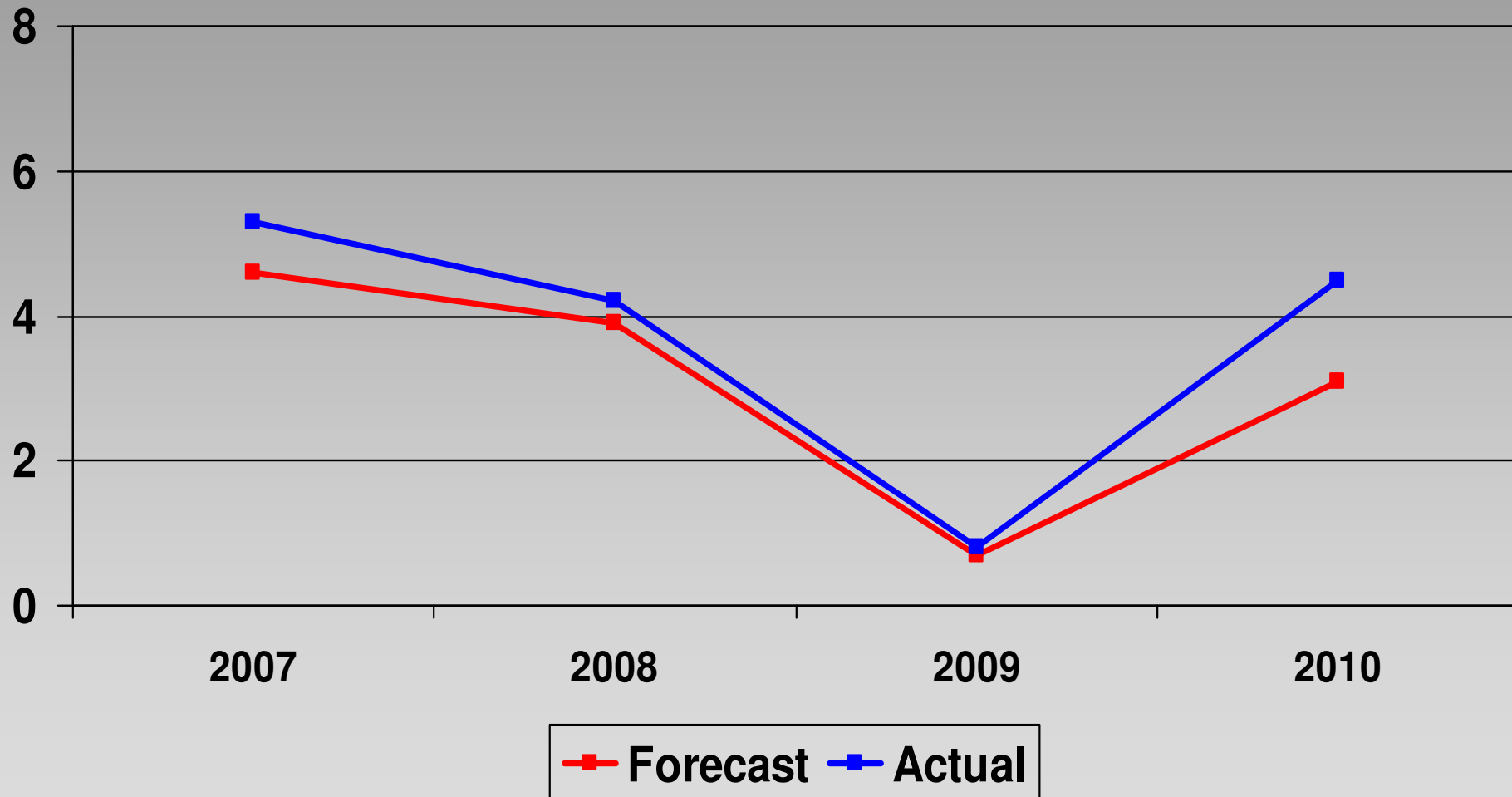
GDP - Forecast and Reality 2007 - 2010

Year*	2007	2008	2009	2010
Forecast	4.6	3.9	0.7	3.1
Reality**	5.3	4.2	0.8	4.5

* The Forecast was given in the month of November of the previous year

** Latest CBS update December 2010

GDP - Forecast and Reality 2007 - 2010



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Identifying Business Cycles in the Israeli Economy

The Present Cyclical Position

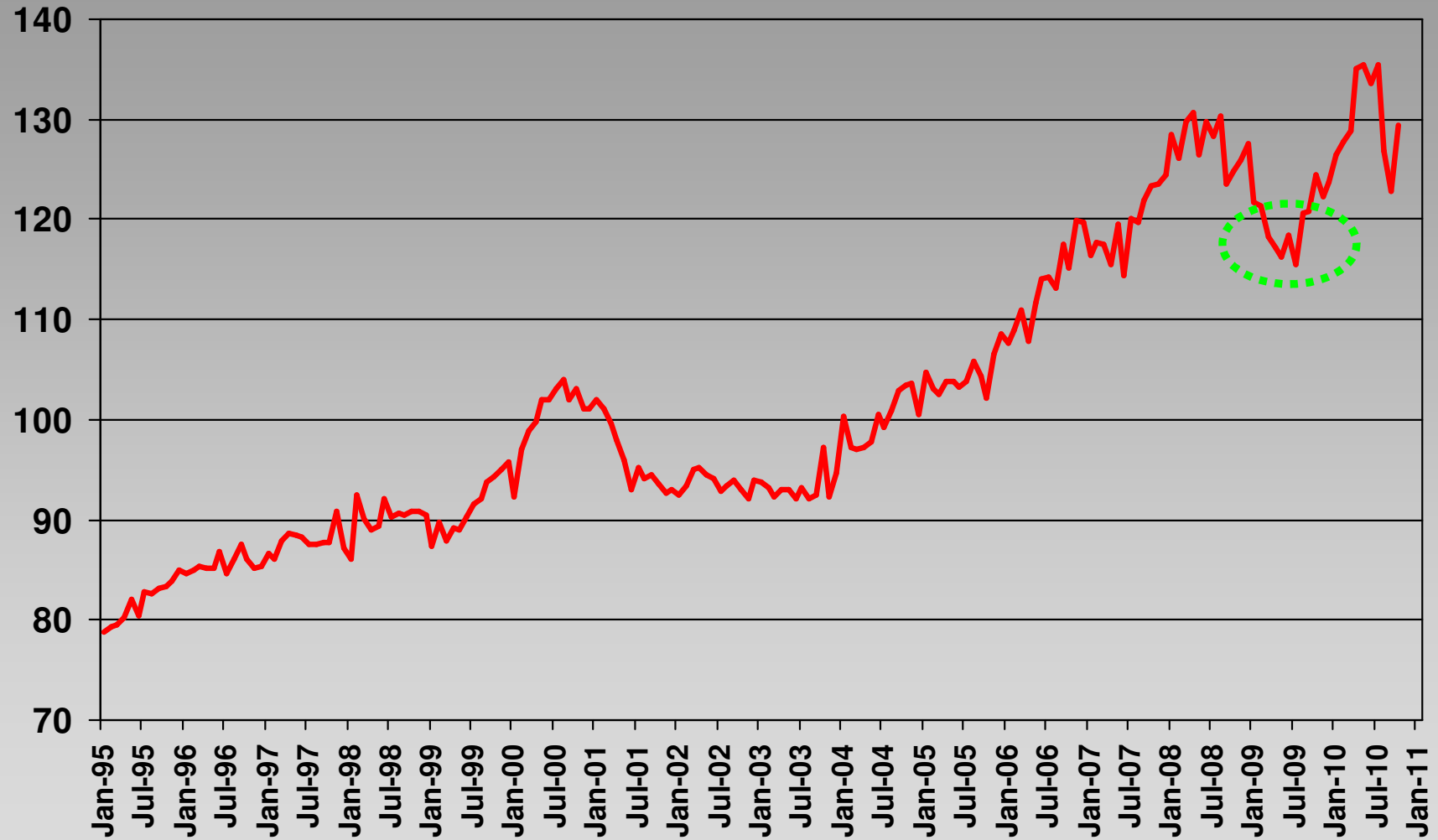
The Melnick State of the Economy Index

Main Indicators

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

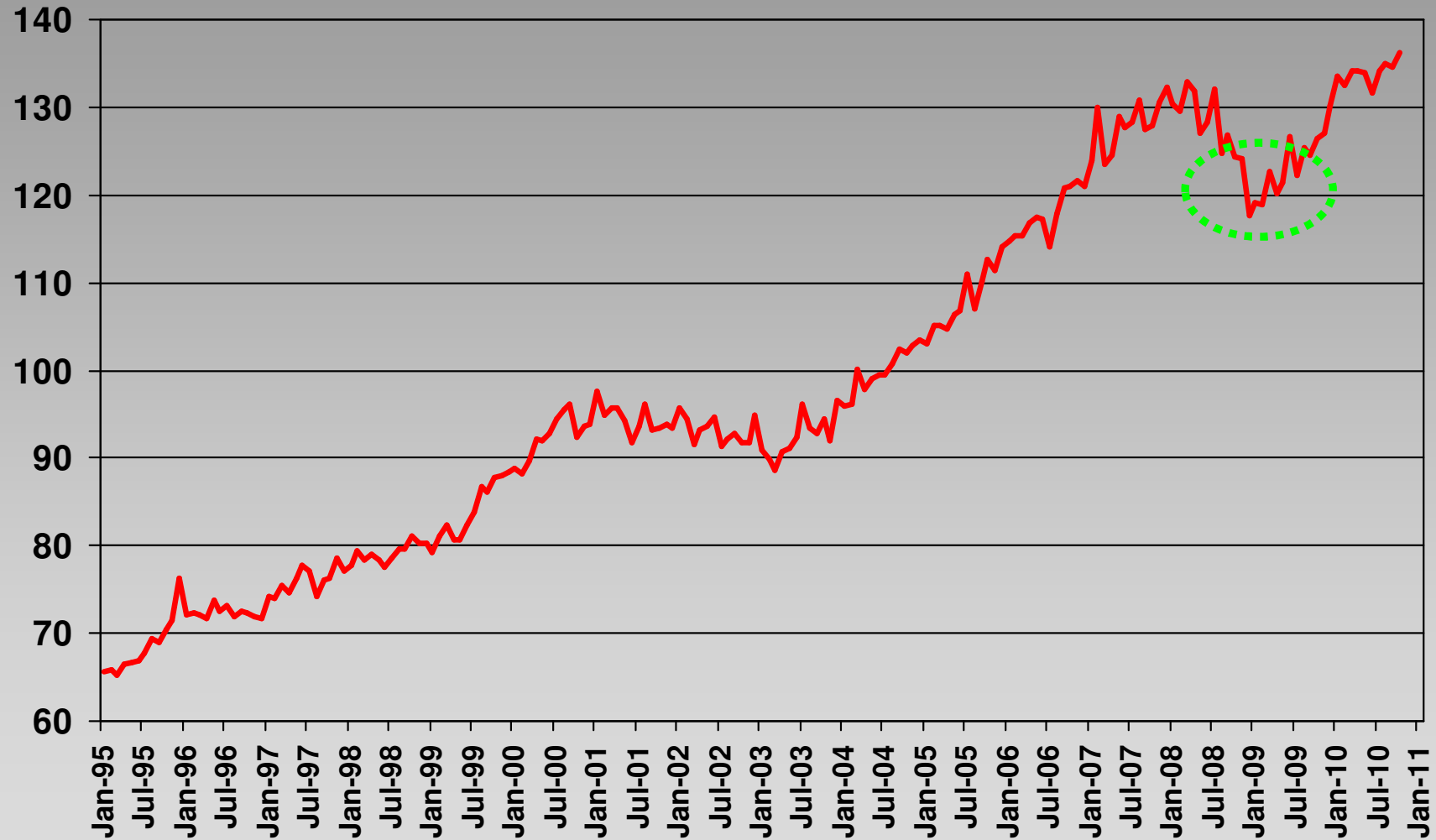
Industrial Production 1995 - 2010

(2004 = 100)



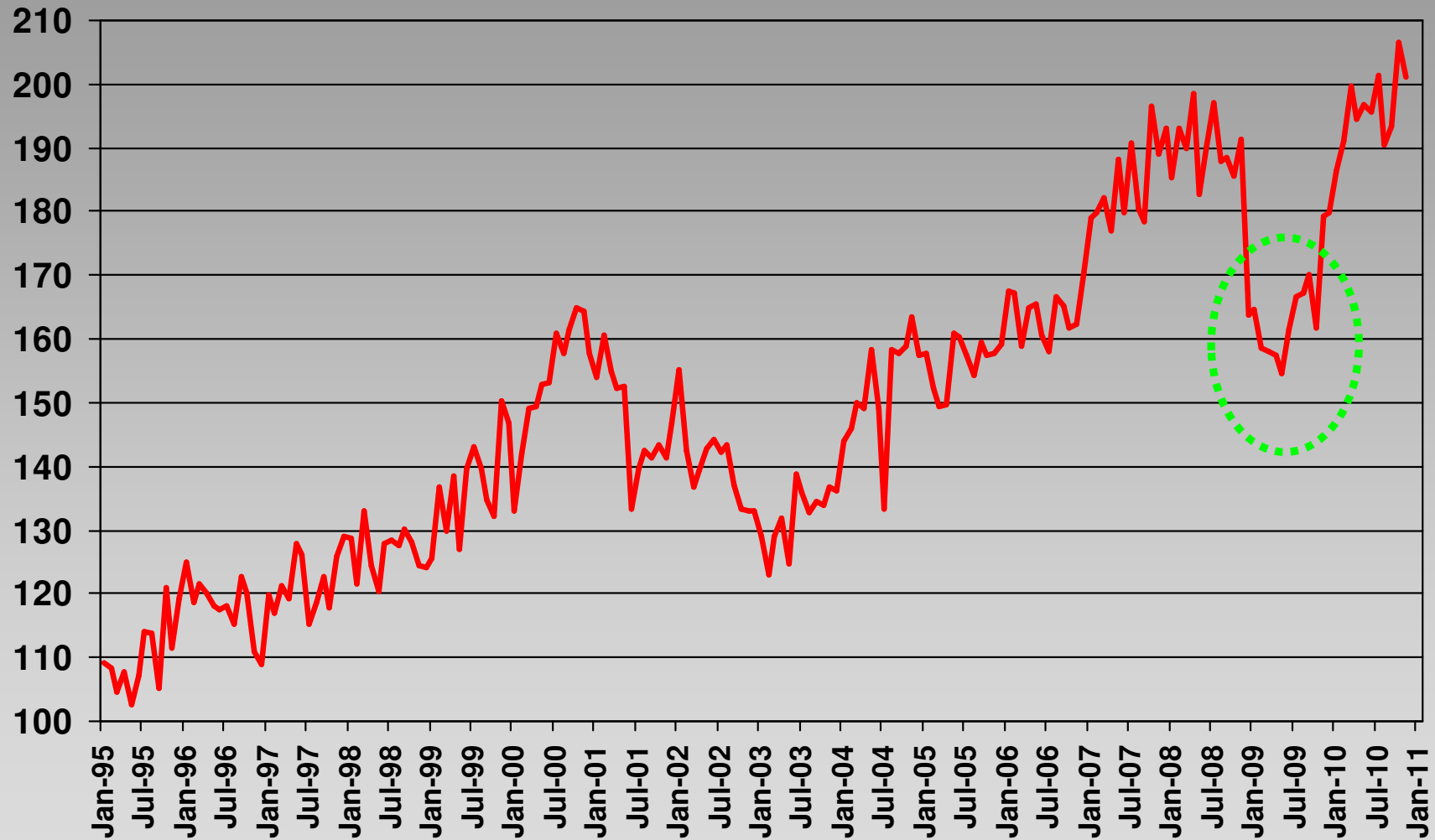
Revenue in Commerce and Services '95 - '10

(2004 = 100)

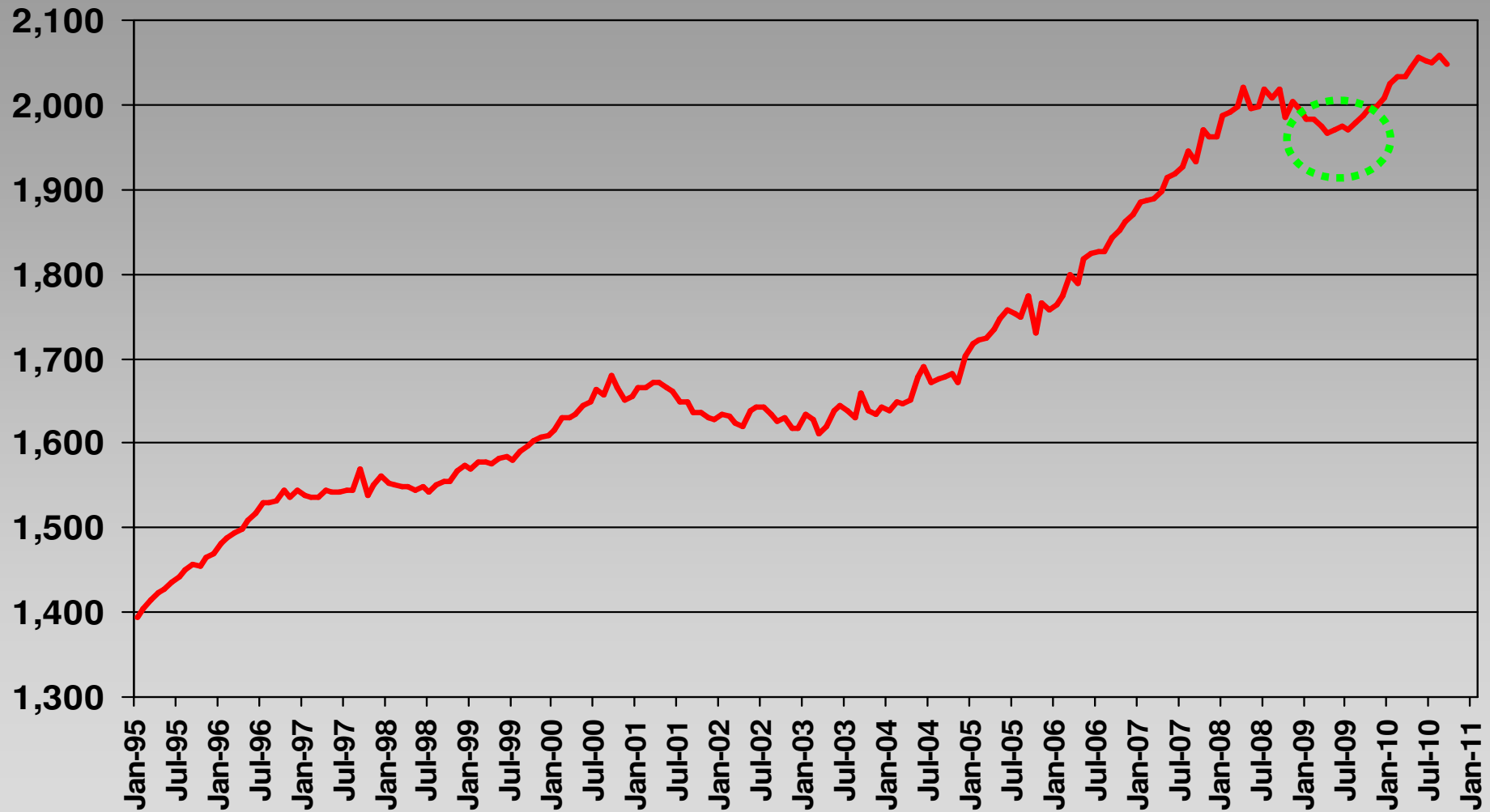


Import Index 1995 - 2010

(1994 = 100)

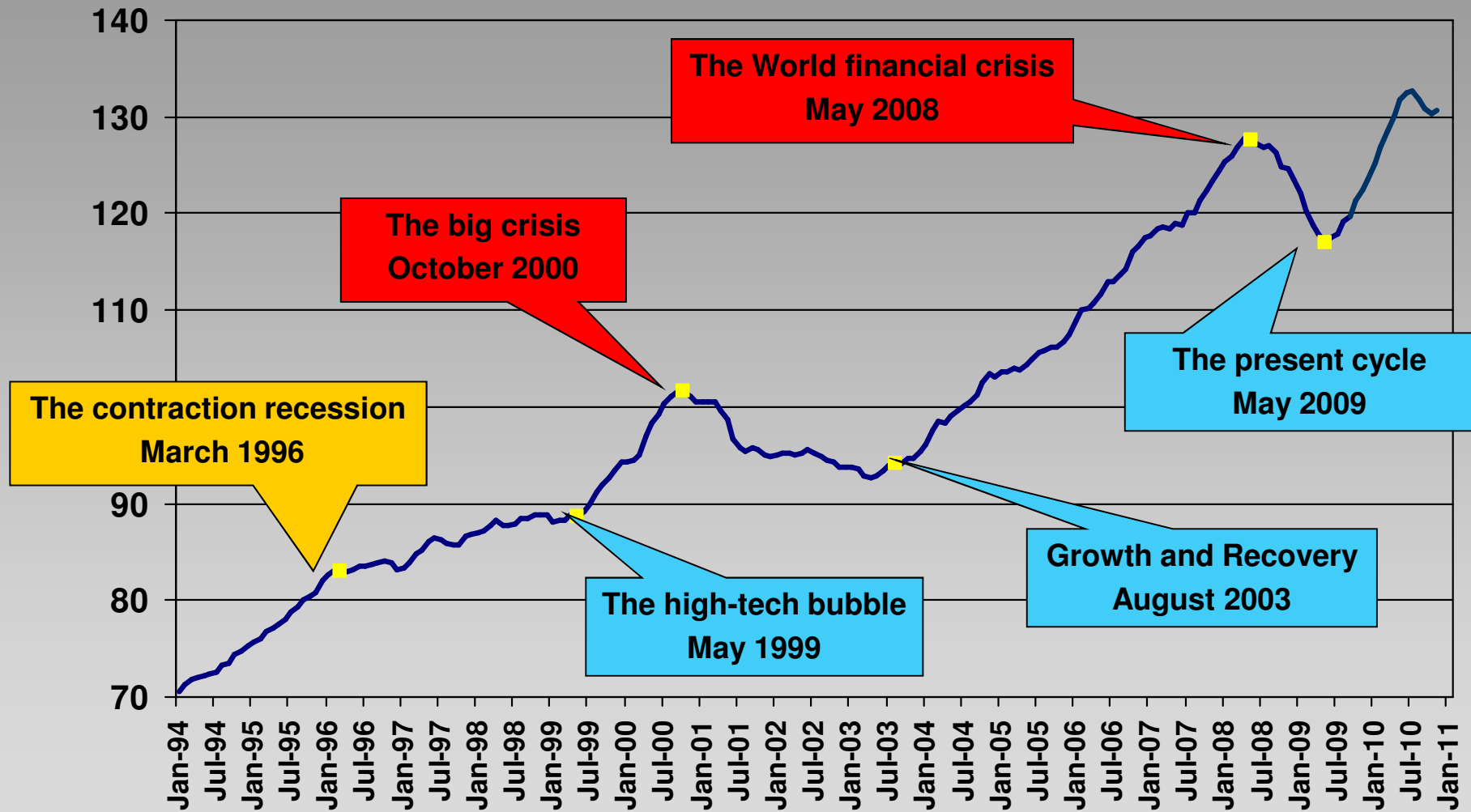


Employee Posts in the Business Sector '95 - '10



The Melnick Index 1994 - 2010

(2004 = 100)

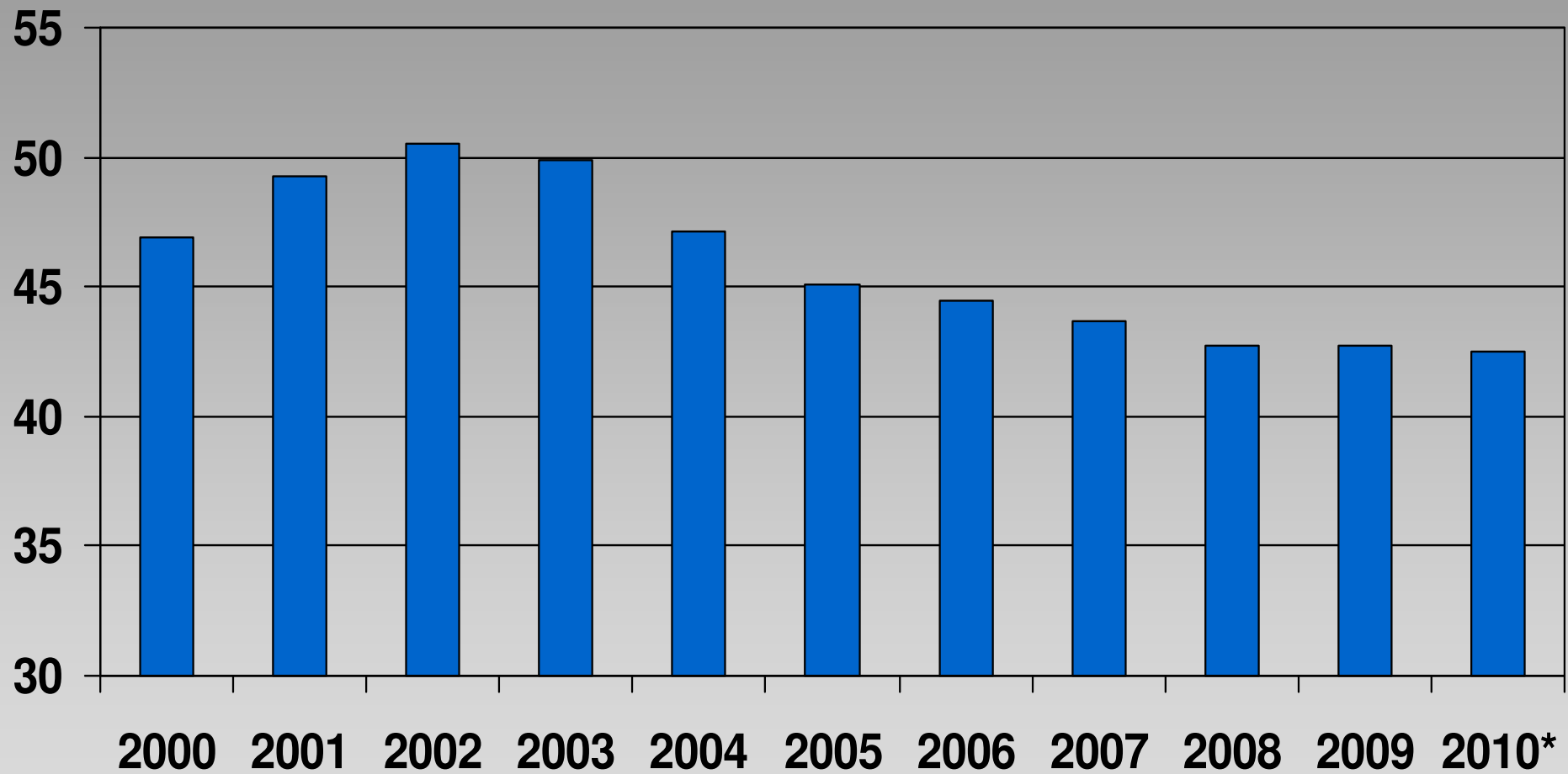


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Recent Economic Policy

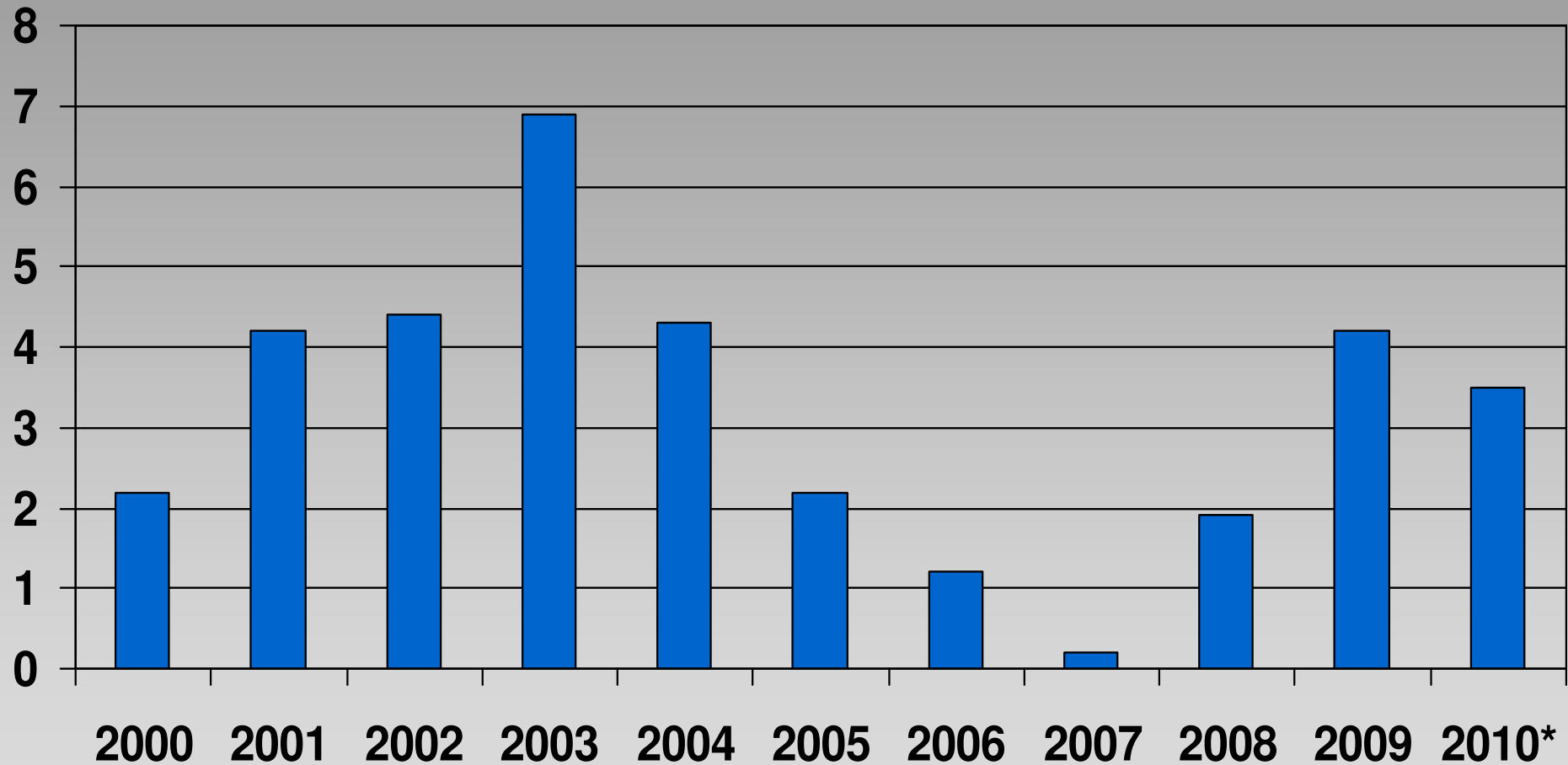
General Government Expenditure 2000 - 2010

(Percent of GDP)



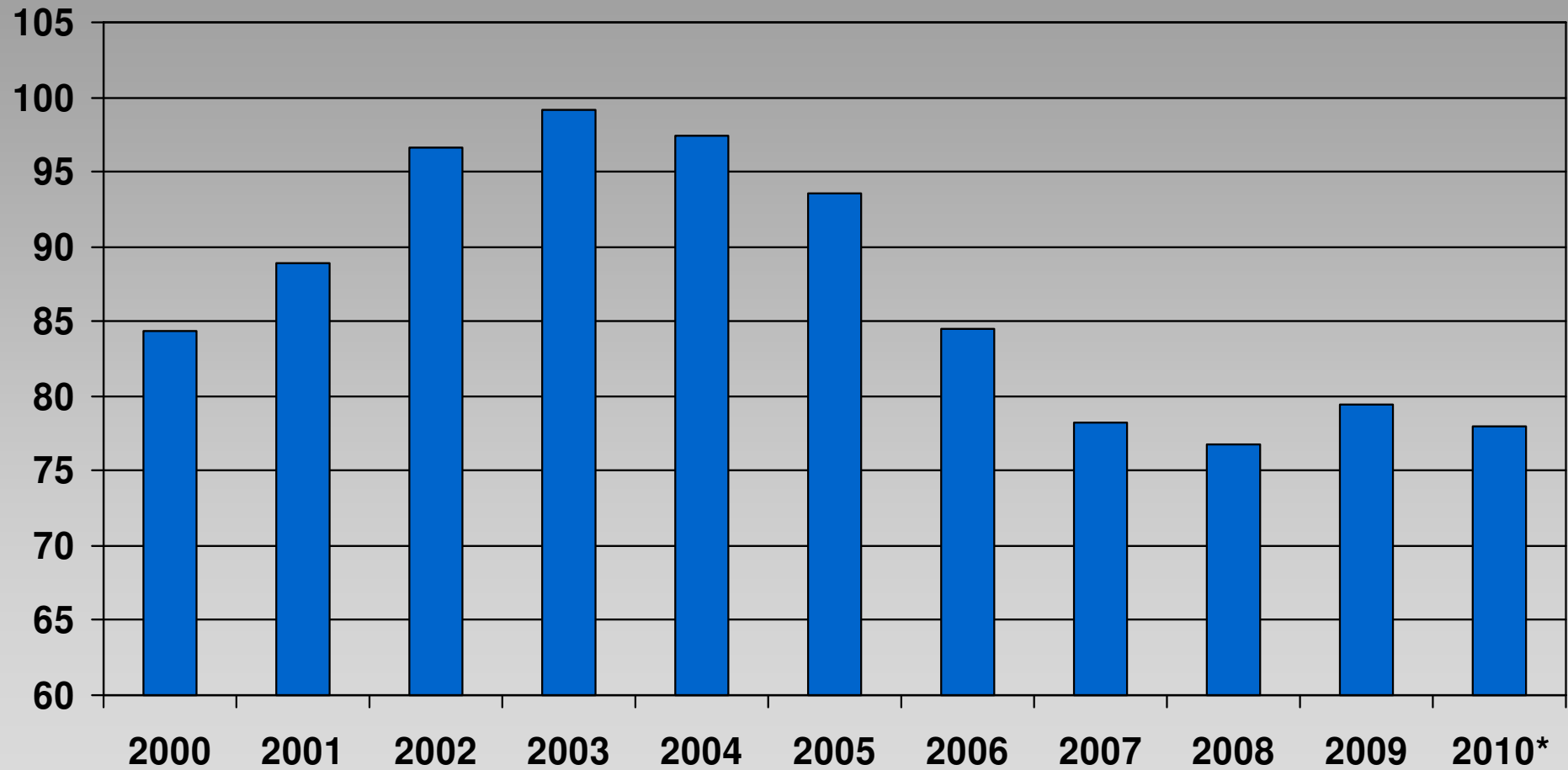
General Government Deficit 2000 - 2010

(Percent of GDP)



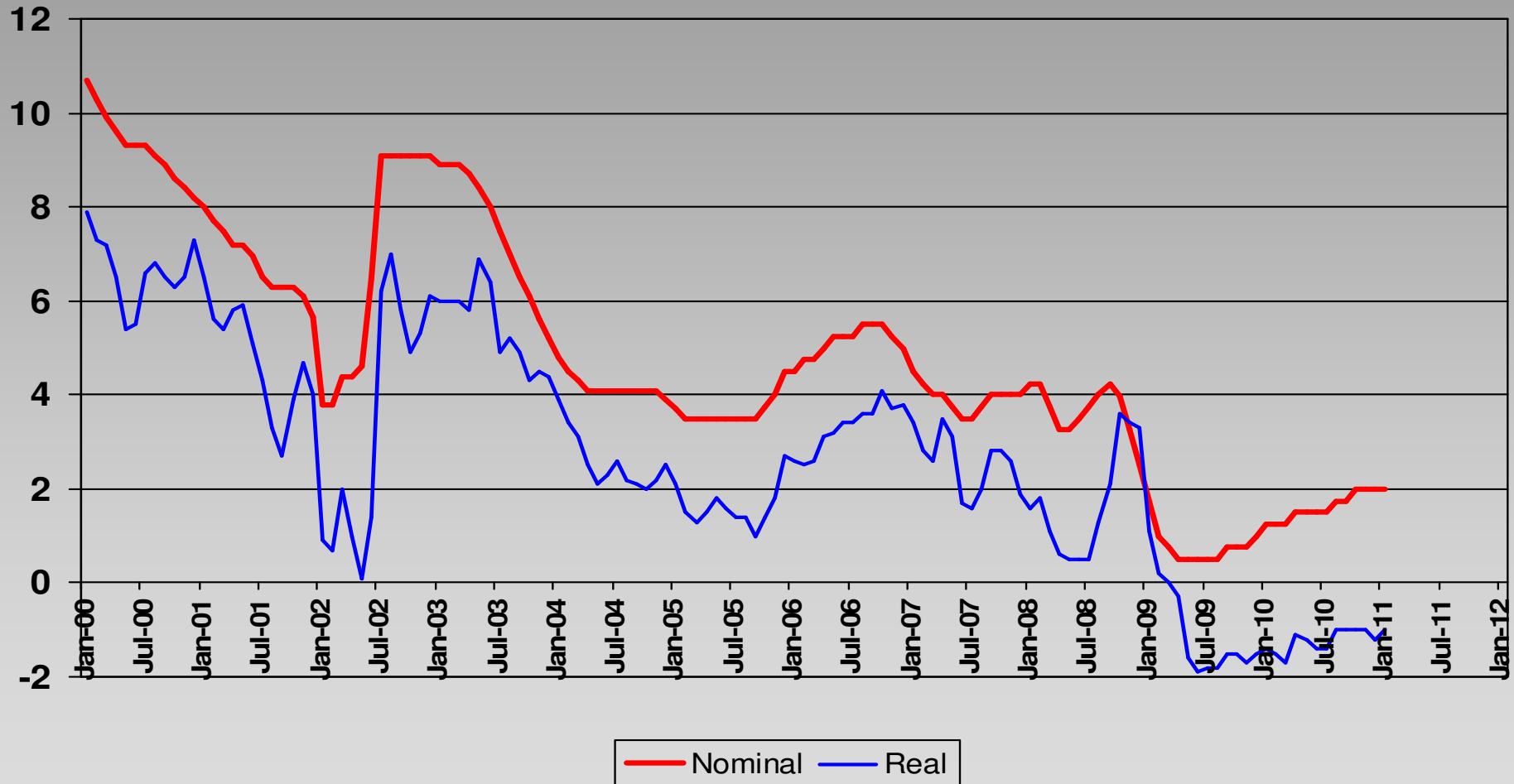
Public Debt 2000 - 2010

(Percent of GDP, Gross Debt)

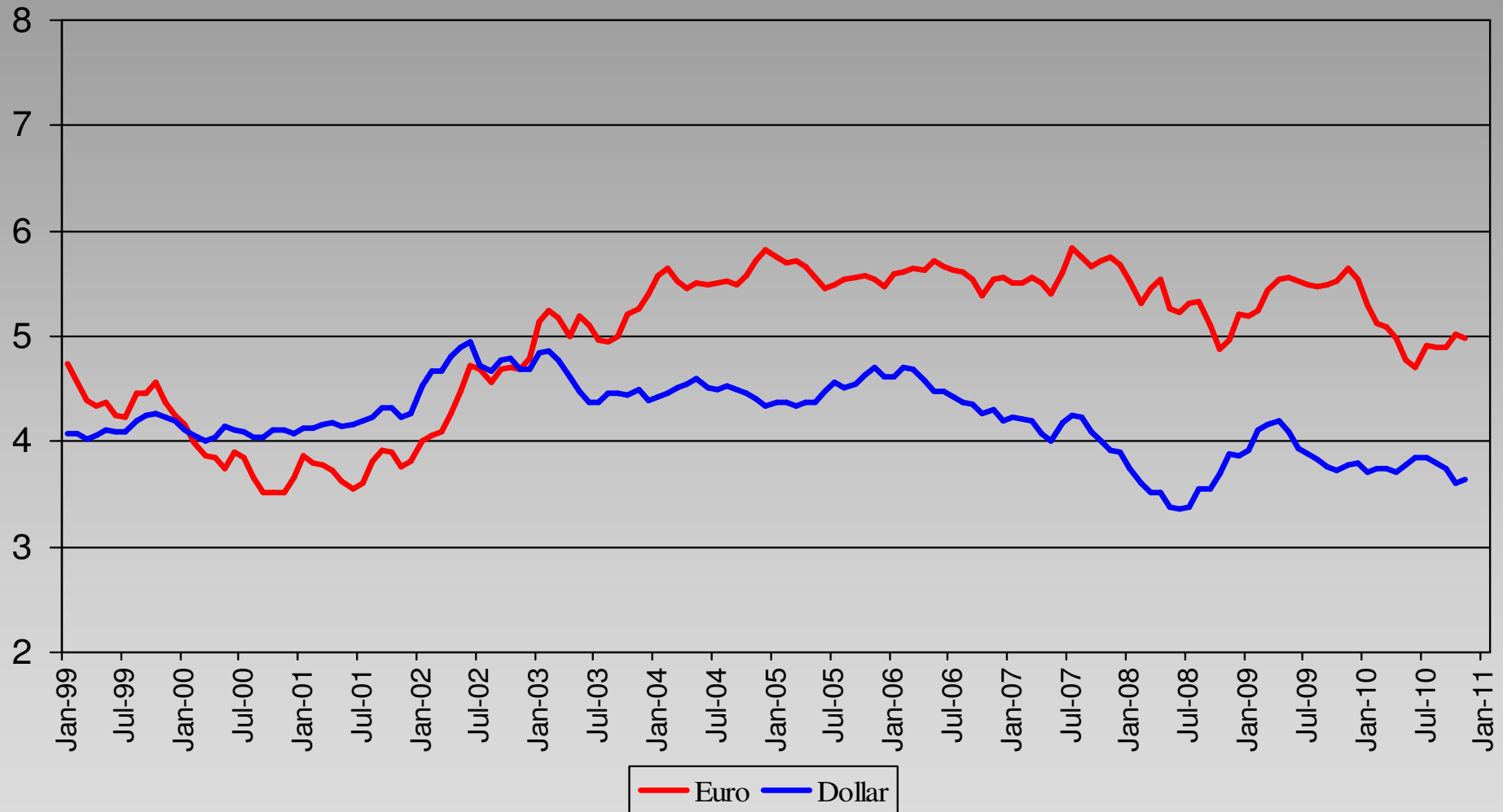


Bank of Israel Interest Rate 2000 - 2010

(Nominal and Real - Percent)

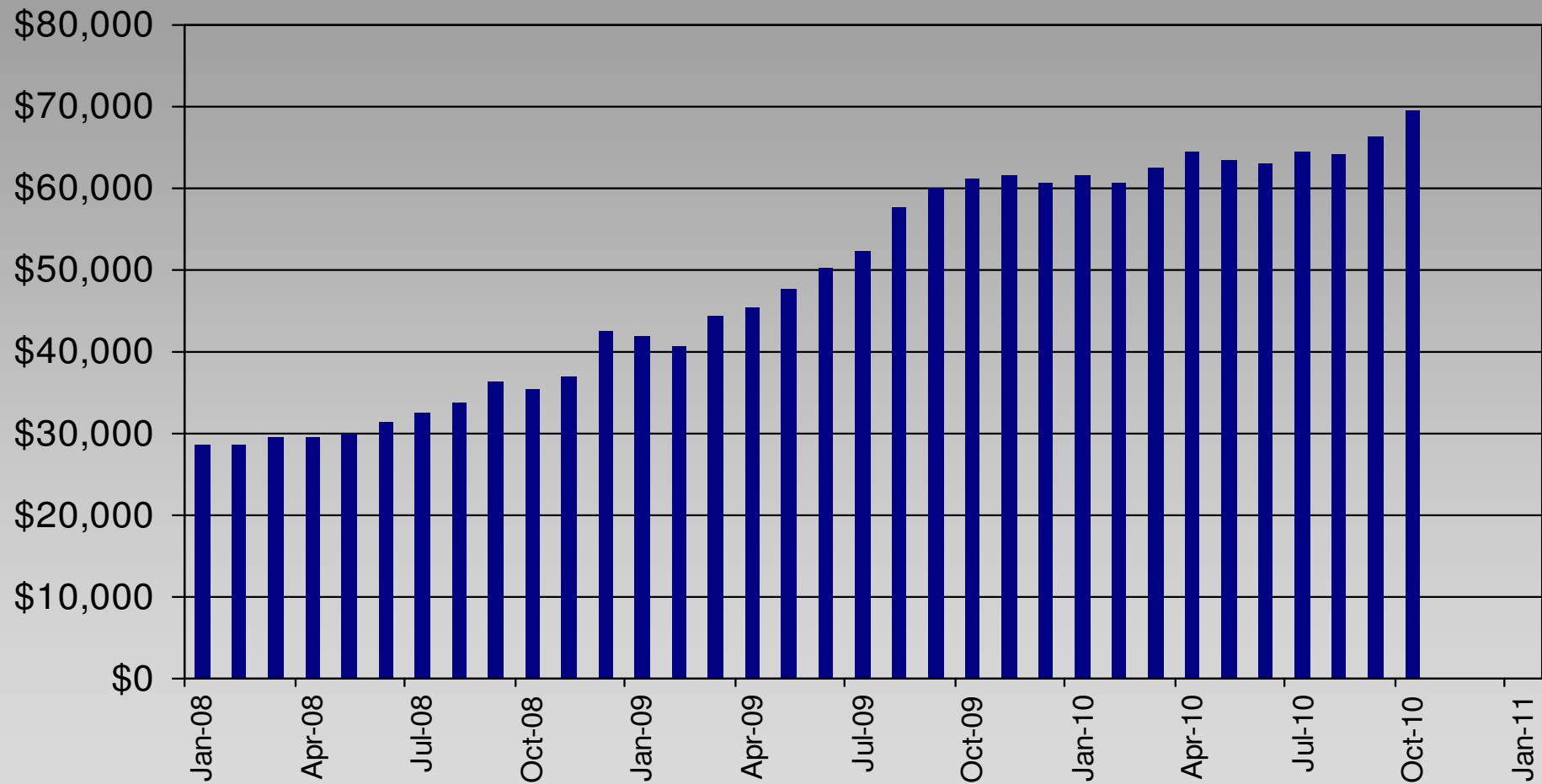


The Dollar and Euro Exchange Rate 1999 - 2010



International Reserves 2010

(In US dollars, millions end of the period)

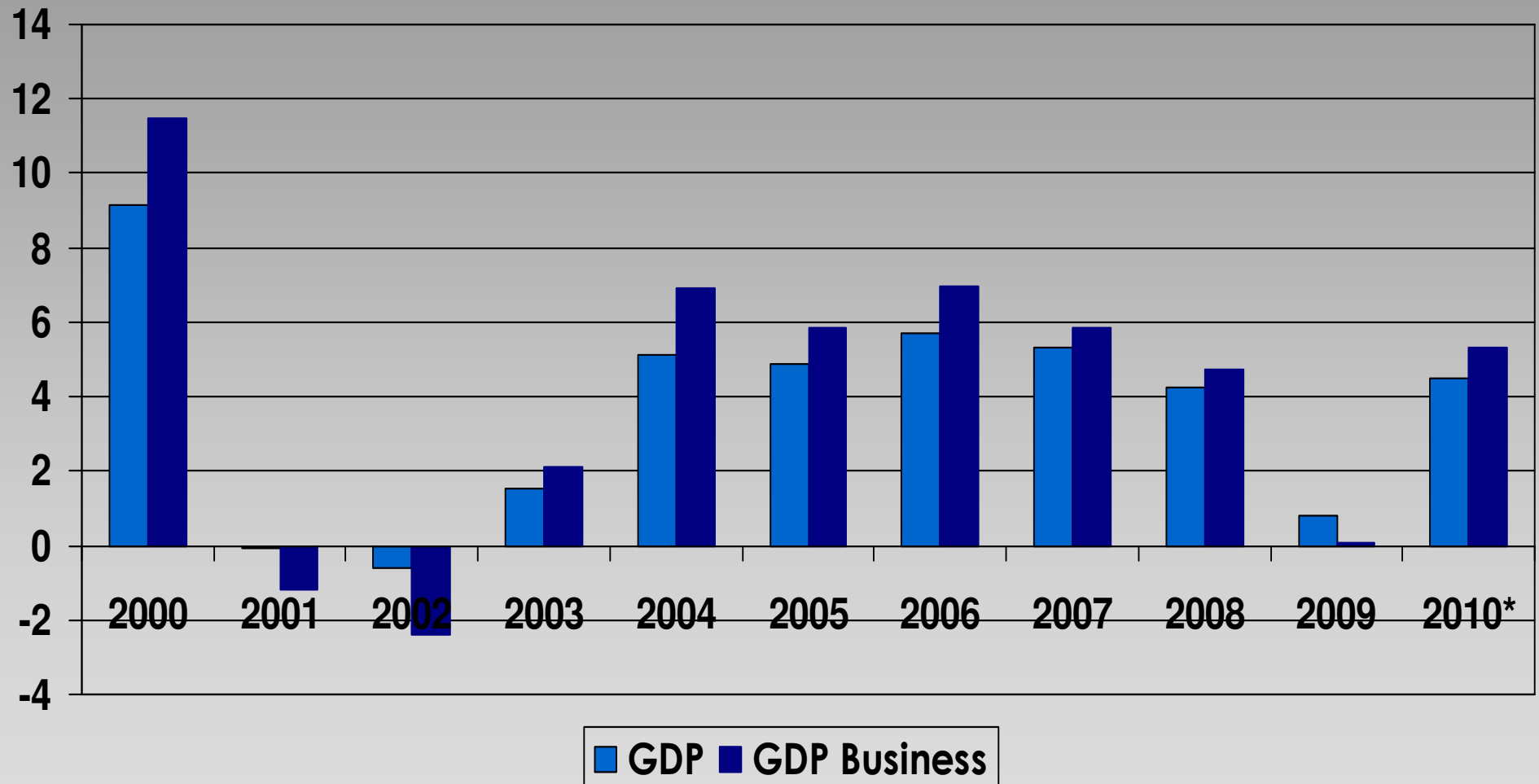


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Latest Economic Developments

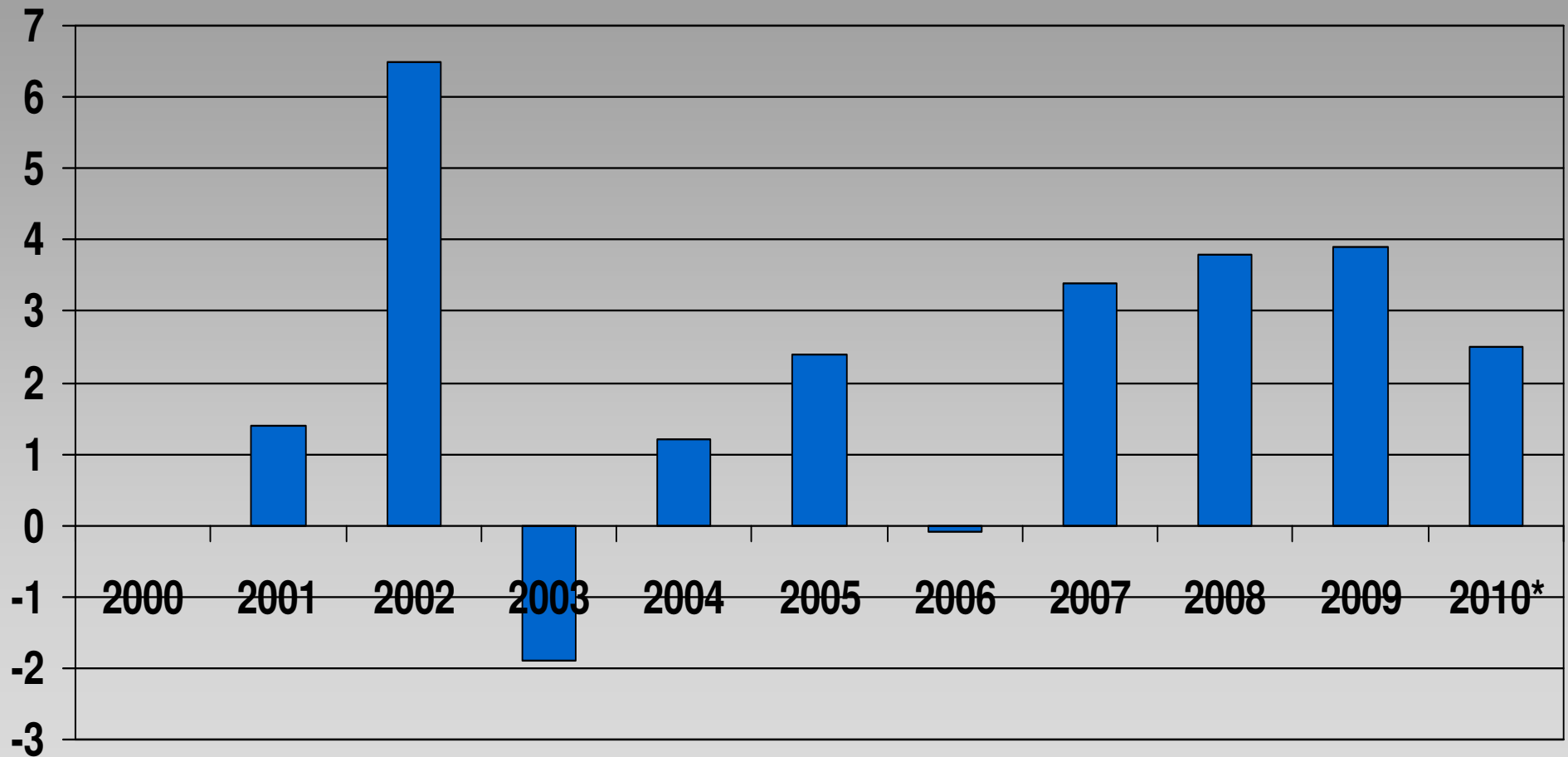
GDP and Business GDP 2000 - 2010

(Rates of Growth, Percent)



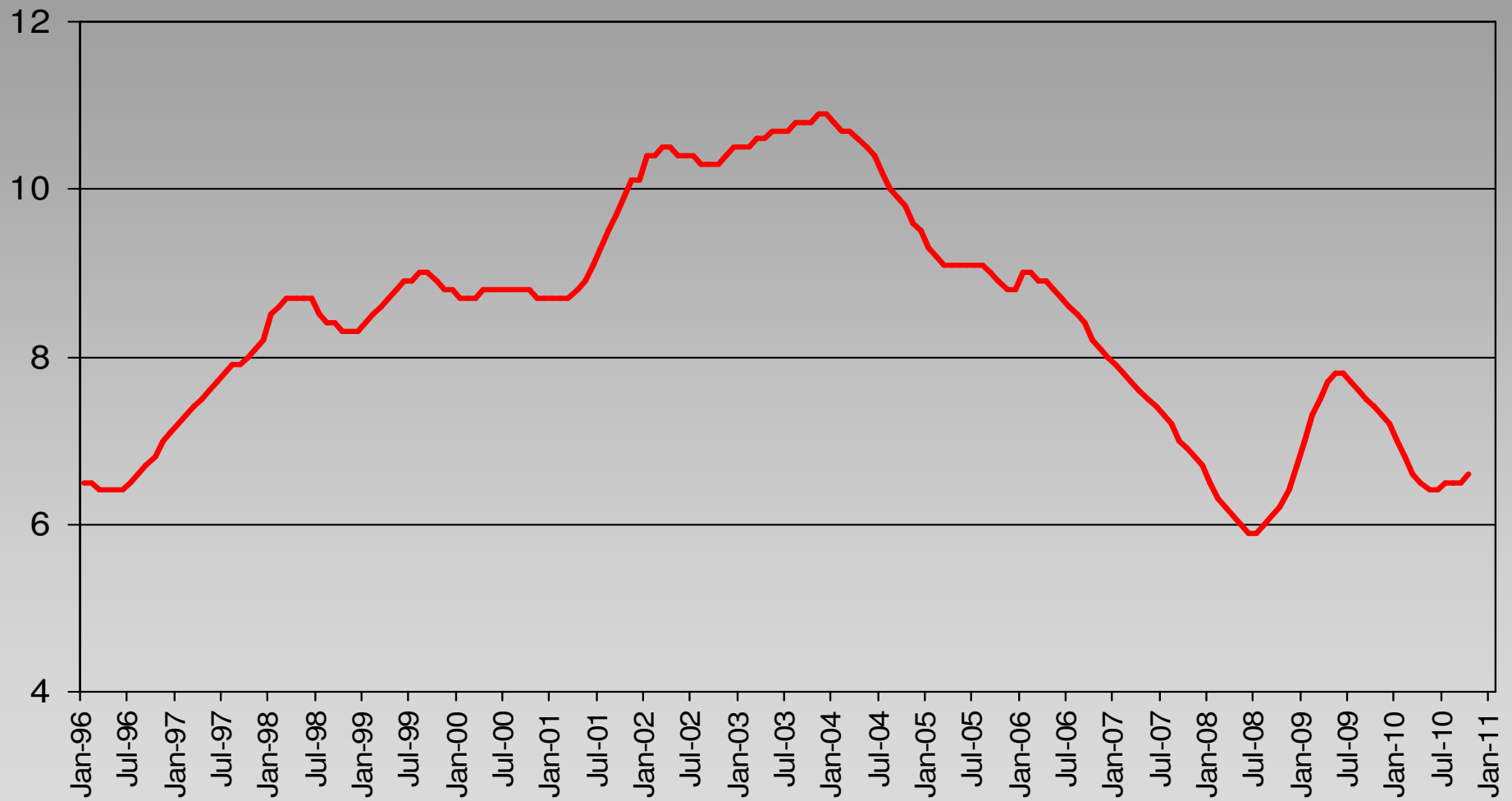
Rate of Inflation 2000 - 2010

(CPI, Percent)



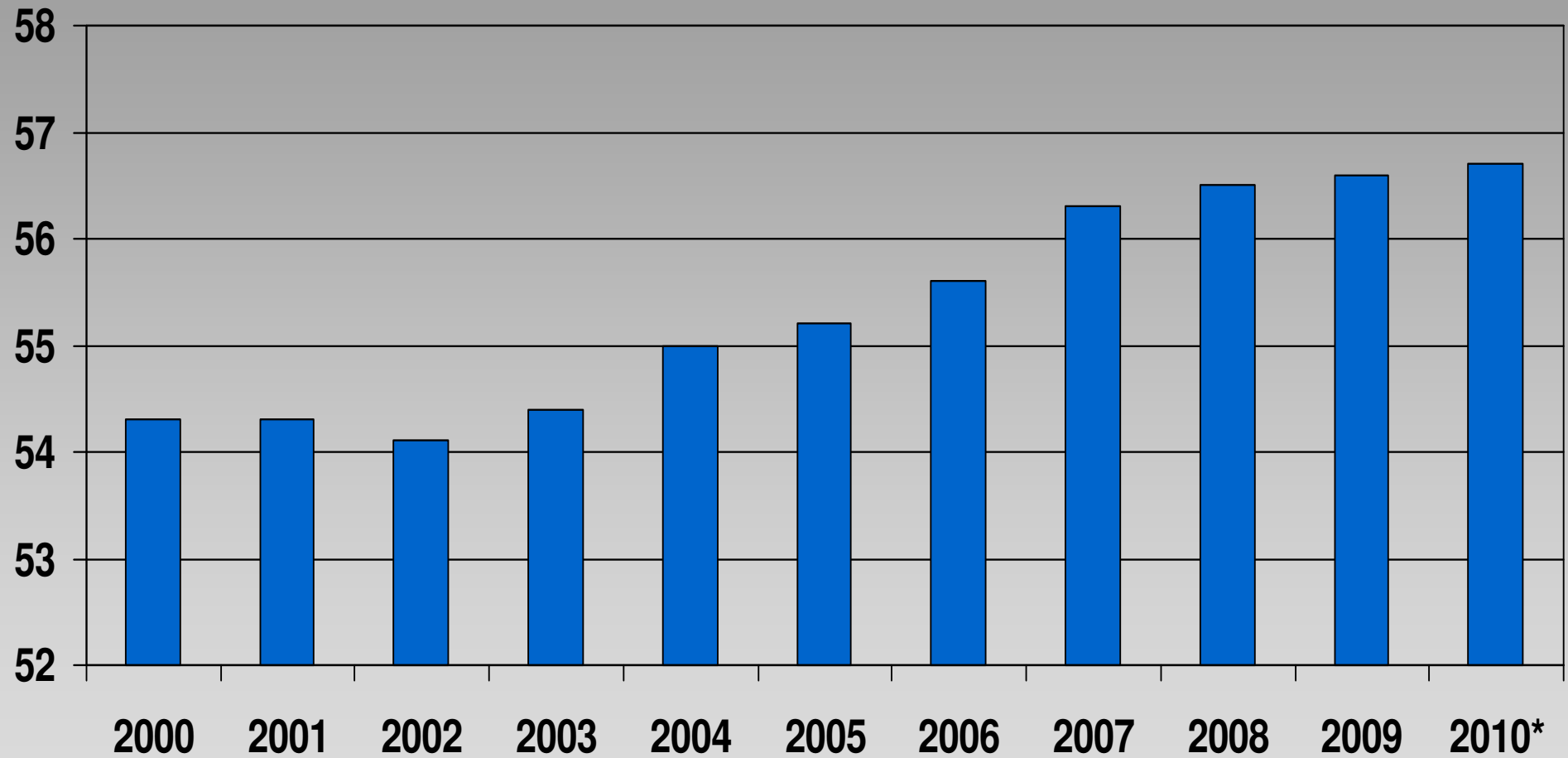
Unemployment Trend 1996 – 2010

(Percent)



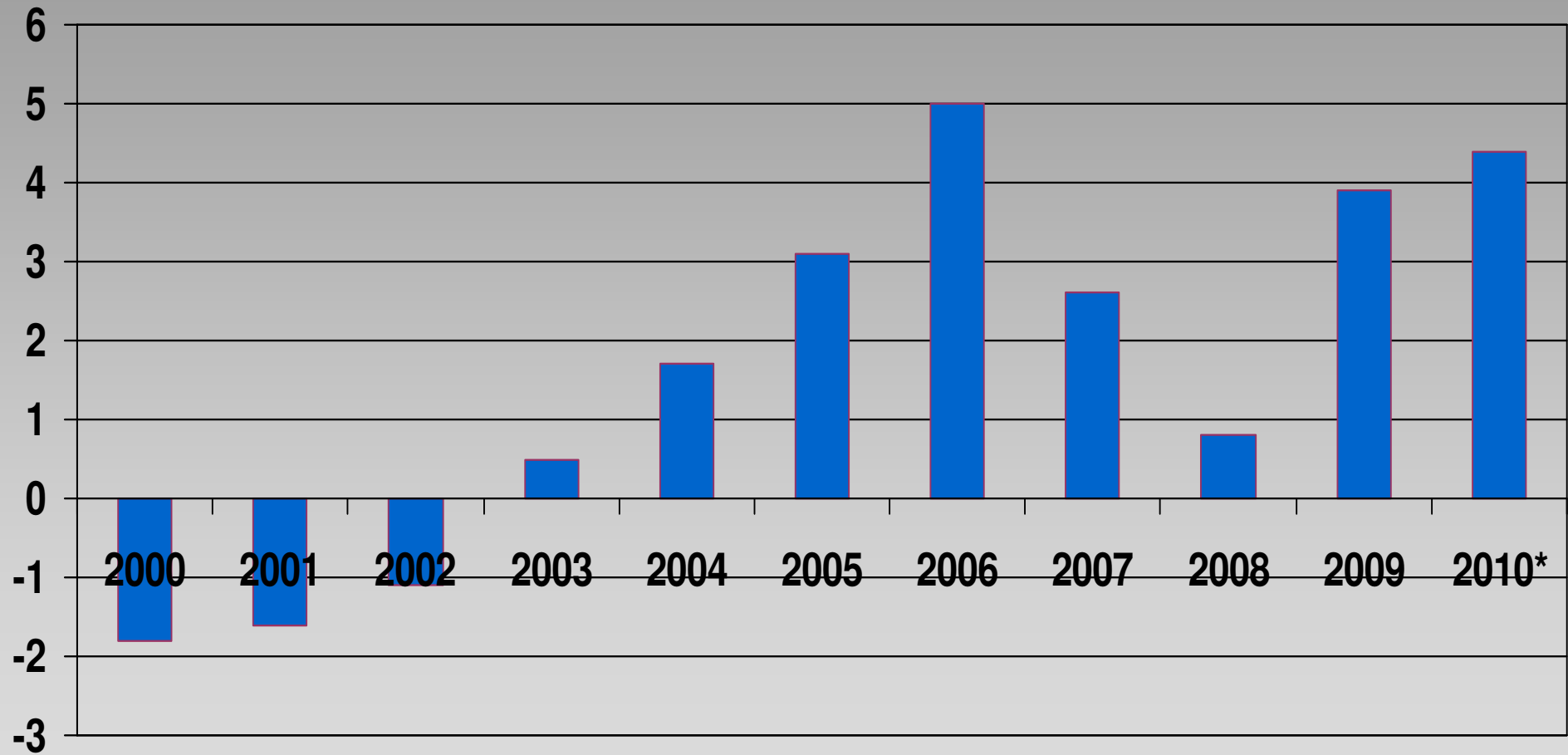
Labor Force Participation 2000 - 2010

(Percent)



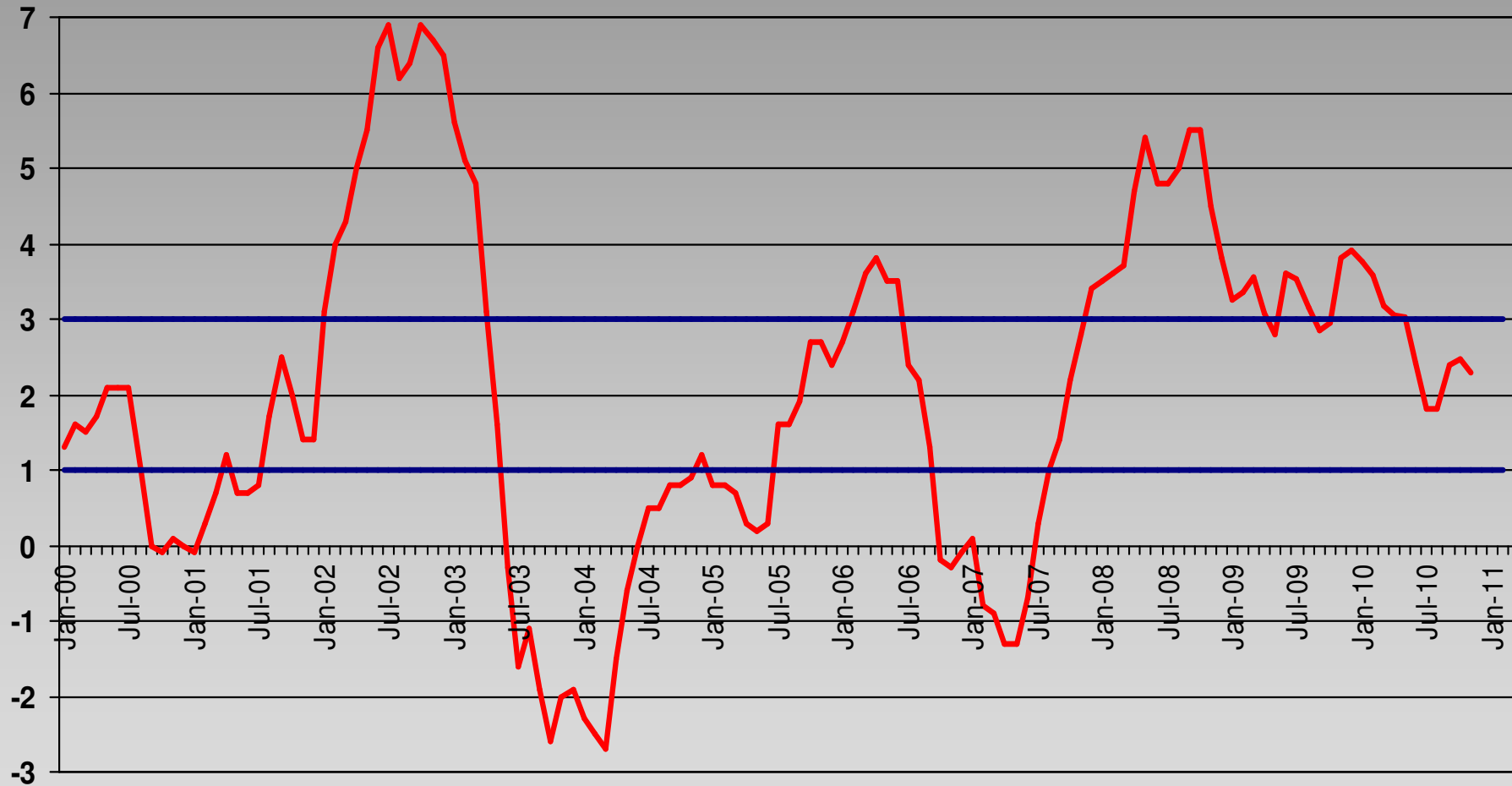
Current Account 2000 – 2010

(Percent of GDP)



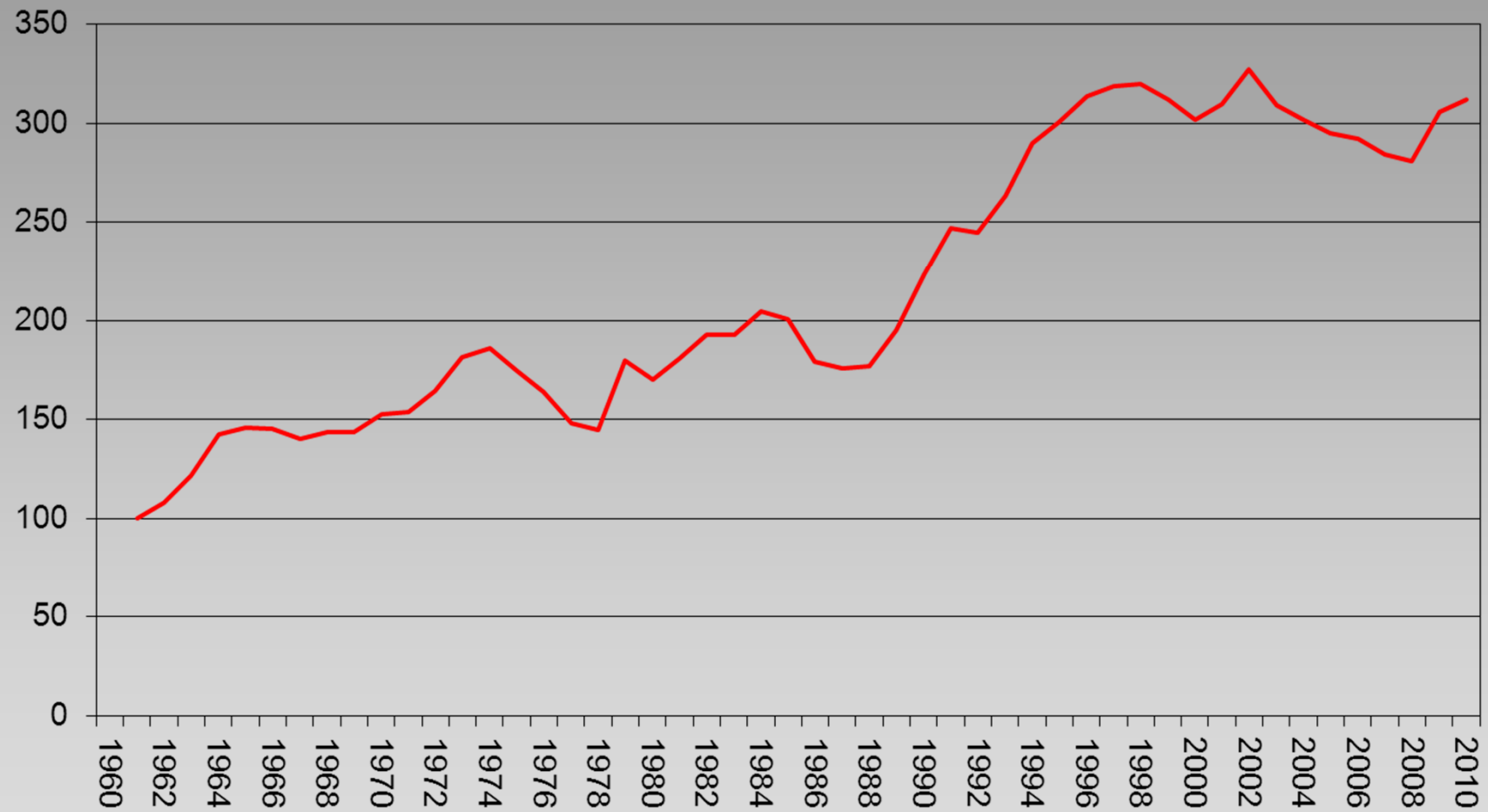
Consumer Price Index 2000 – 2010

(Percent change in previous 12 months)



Relative Price of Housing 1961 - 2010

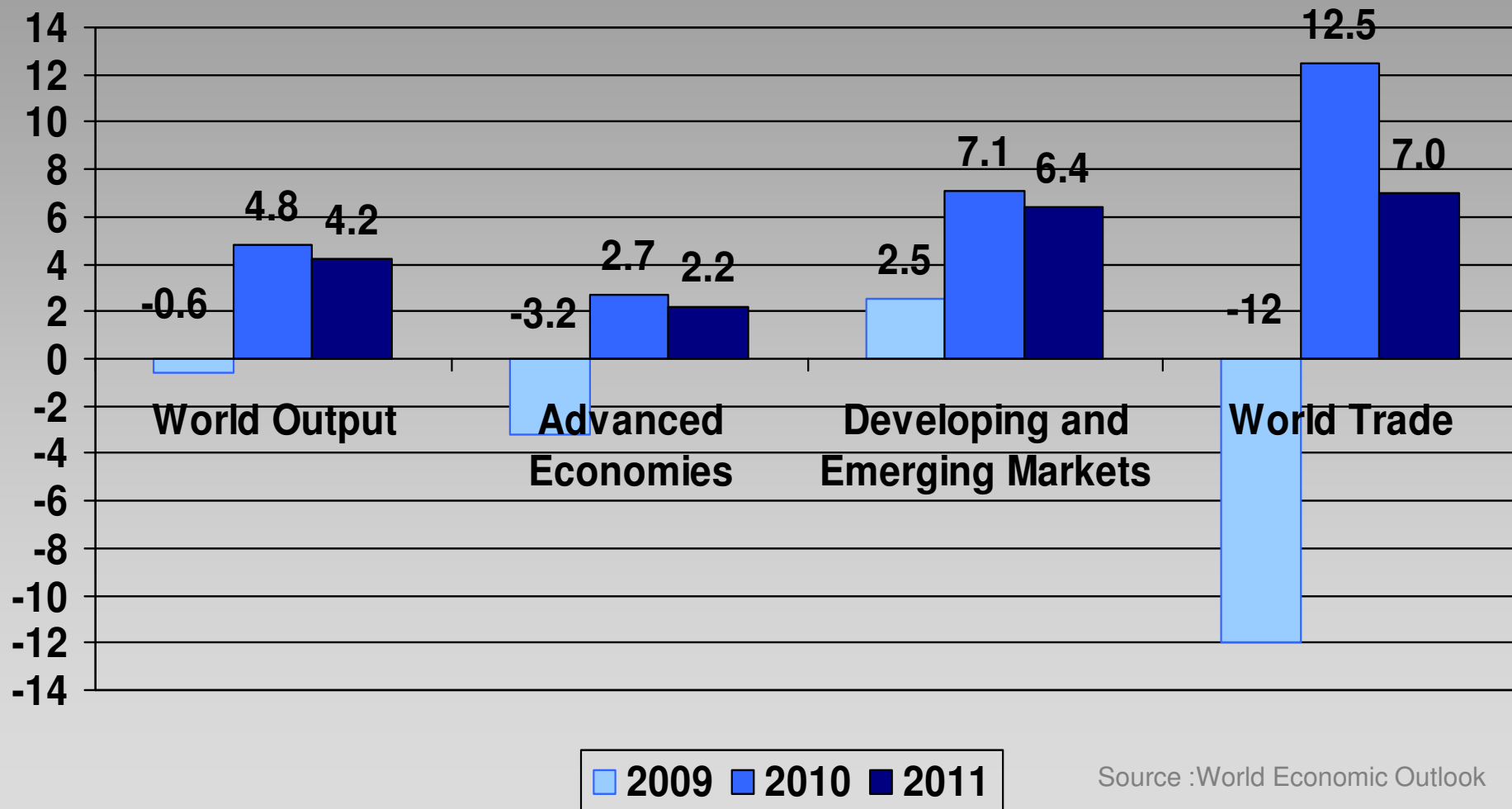
(1961=100)



3

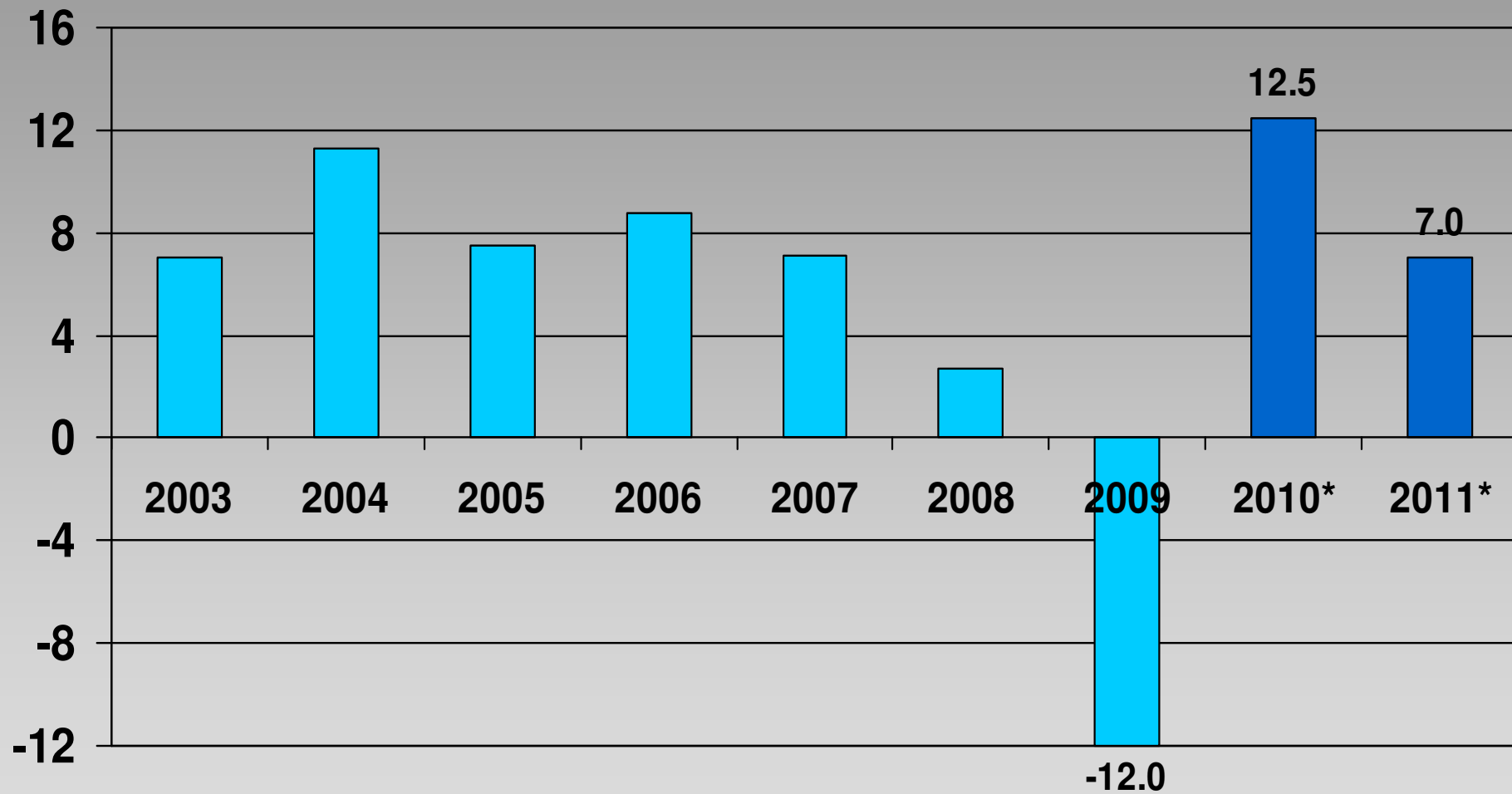
The World Economy Basic Assumptions

Latest IMF GDP and World Trade Forecasts 2009 - 2011 (WEO - October 2010)



World Trade Volume 2003 - 2011

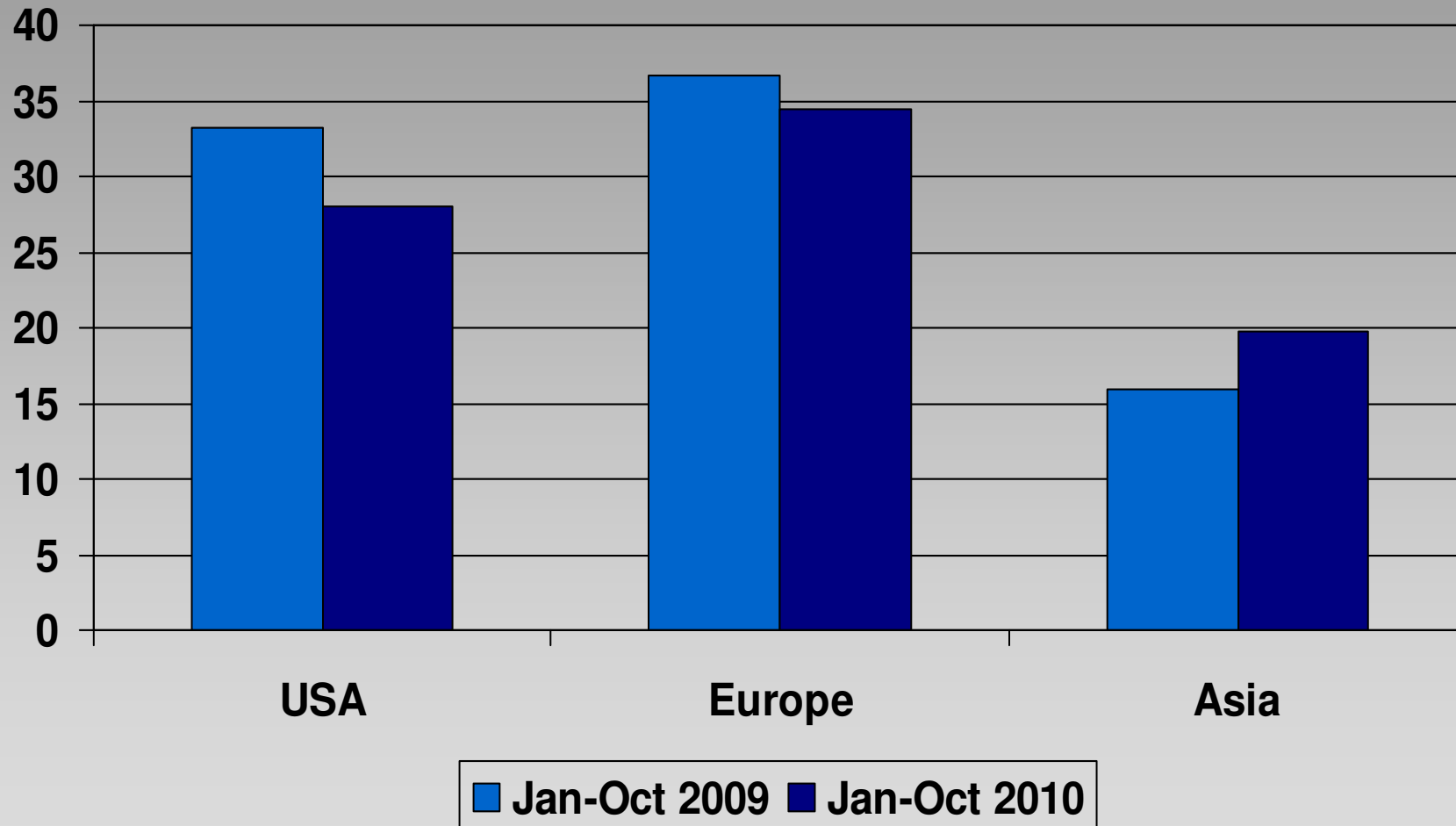
(Annual Percent Change, IMF WEO October 2010)



*Forecast

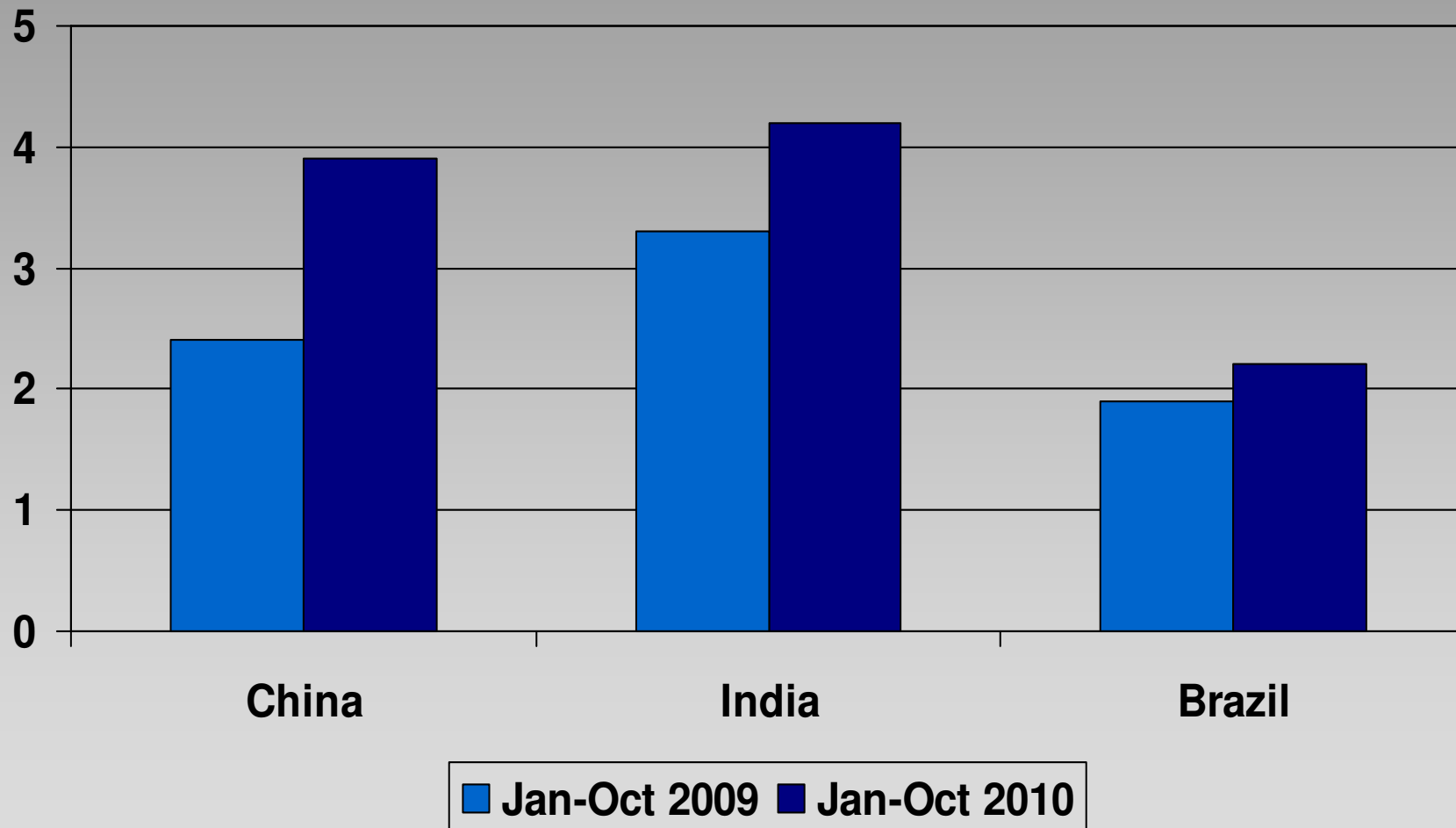
Export Shares

(excl. Diamond, percent)



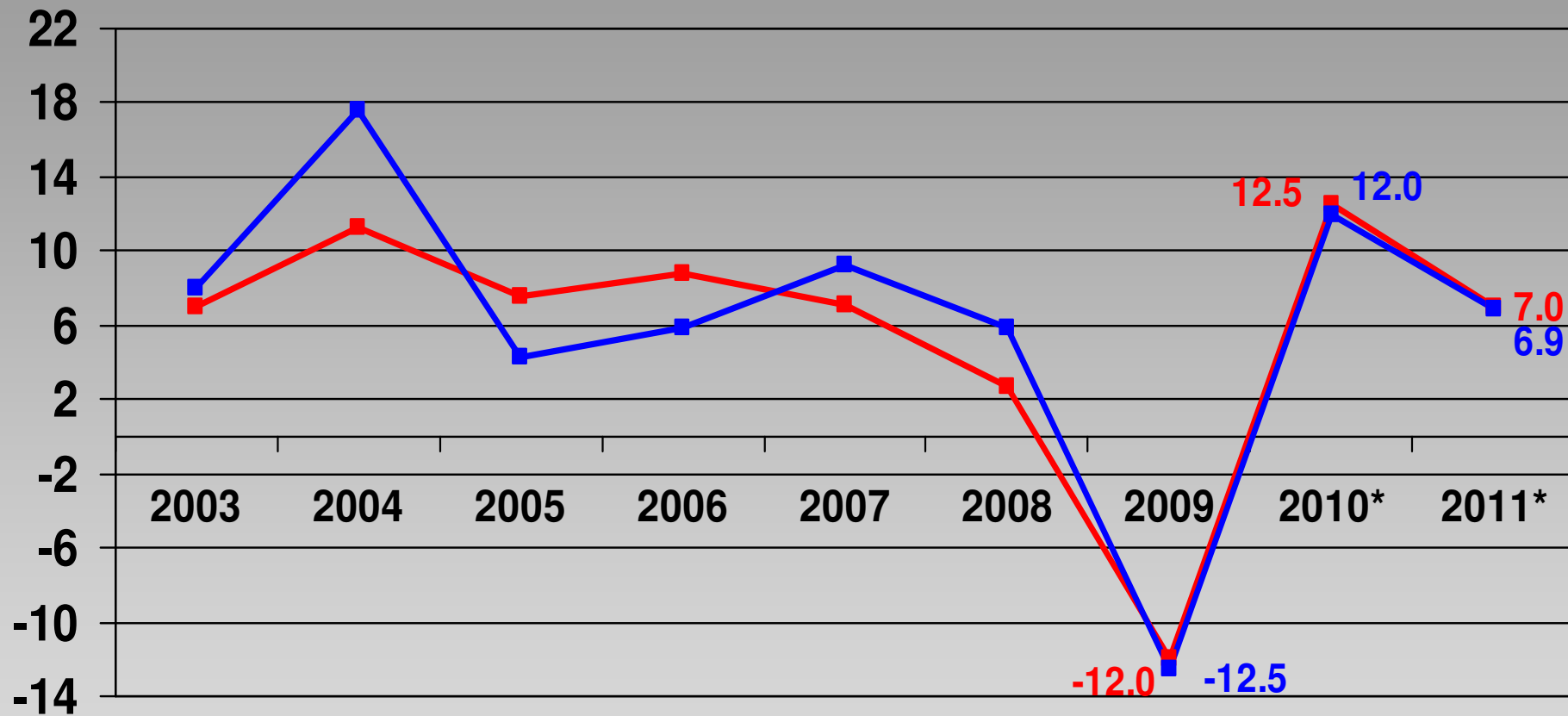
Export Shares – Growing Countries

(excl. Diamond, percent)



World Trade Volume and Exports 2003 - 2011

(Annual Percent Change)

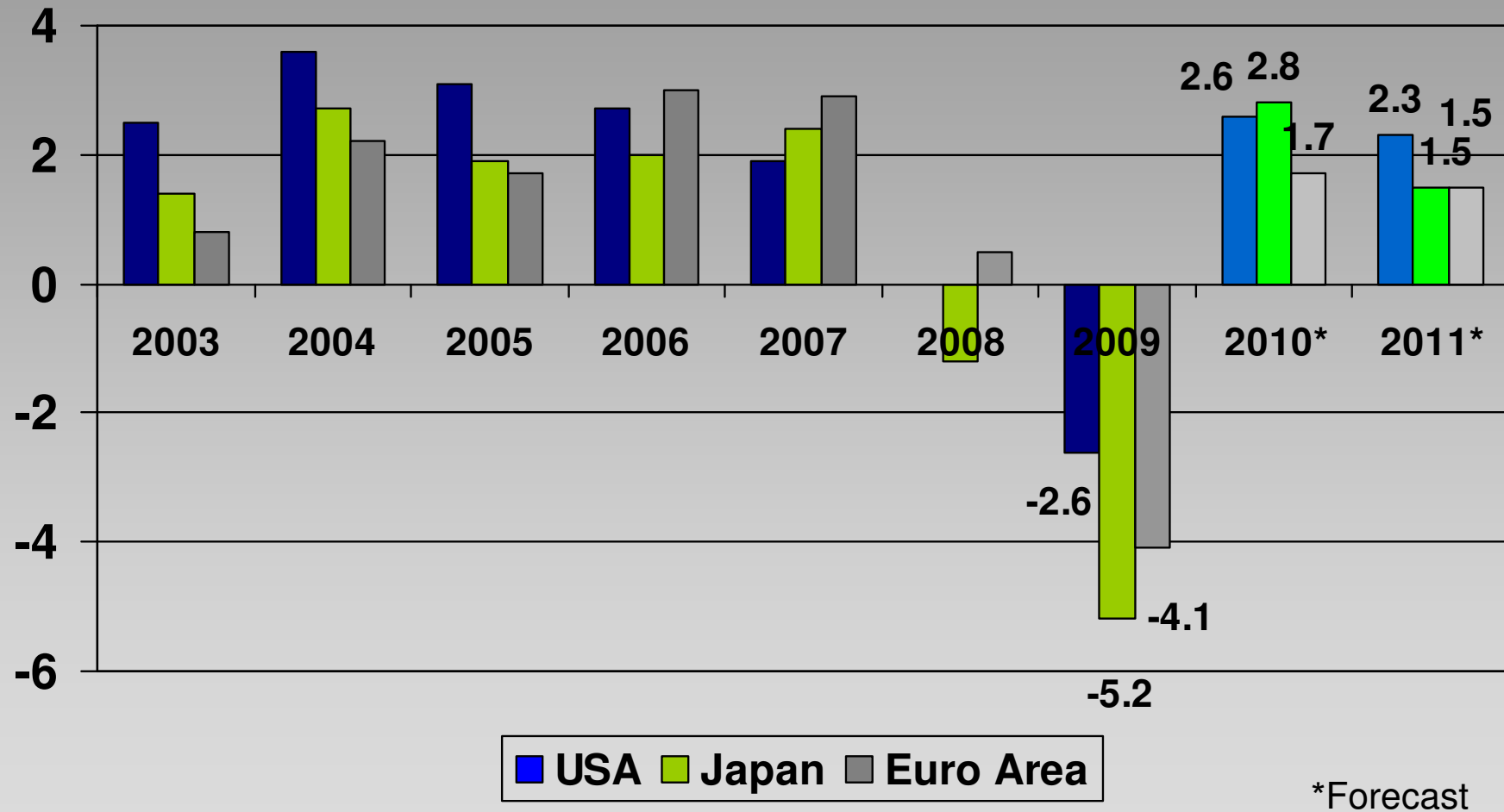


—■ WT - IMF WEO October 2010 —■ Export

*Forecast

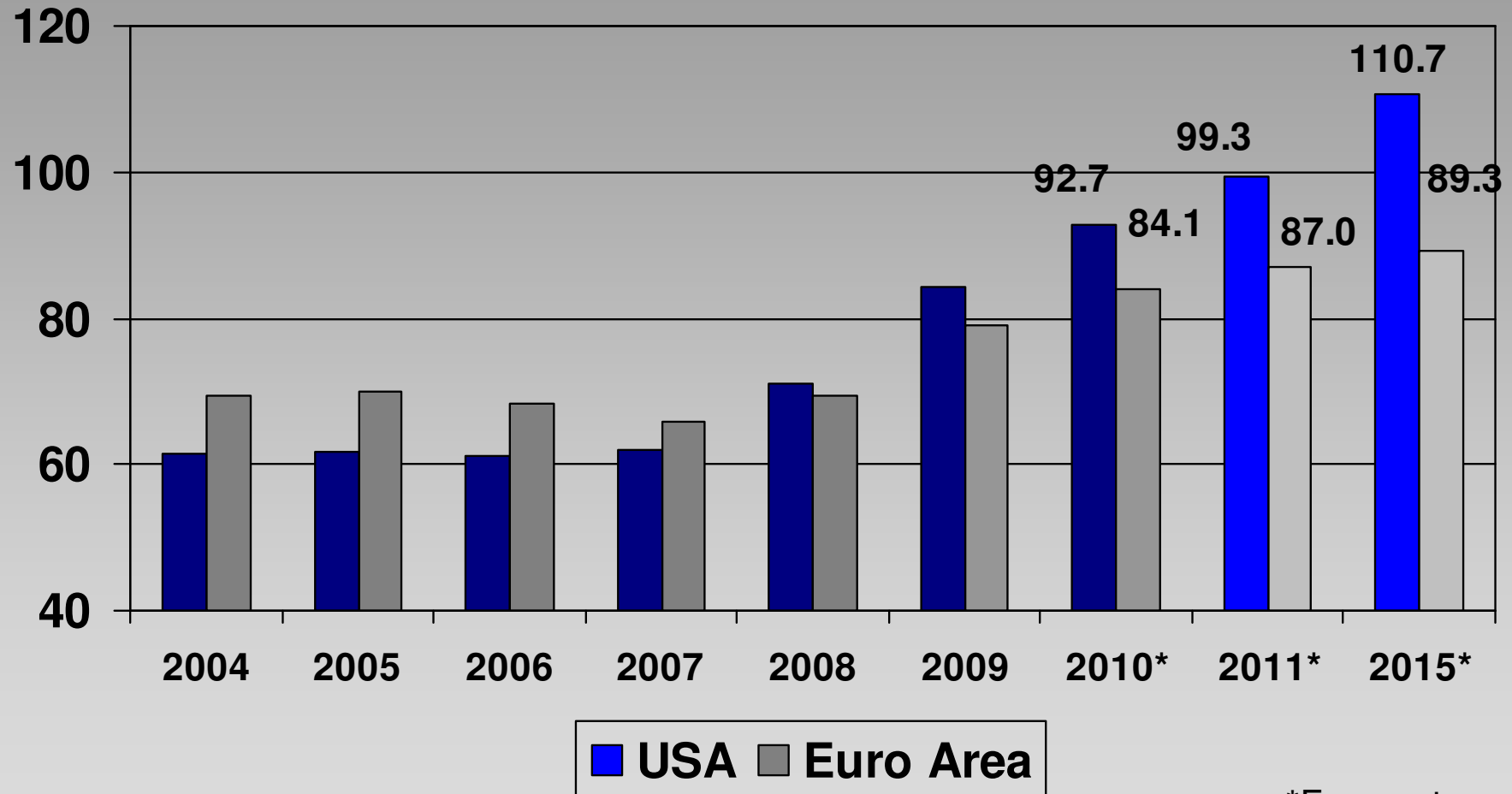
Real GDP Growth 2003 - 2011

(Annual Percent Change, IMF WEO October 2010)



General Government Gross Debt '03 - '11

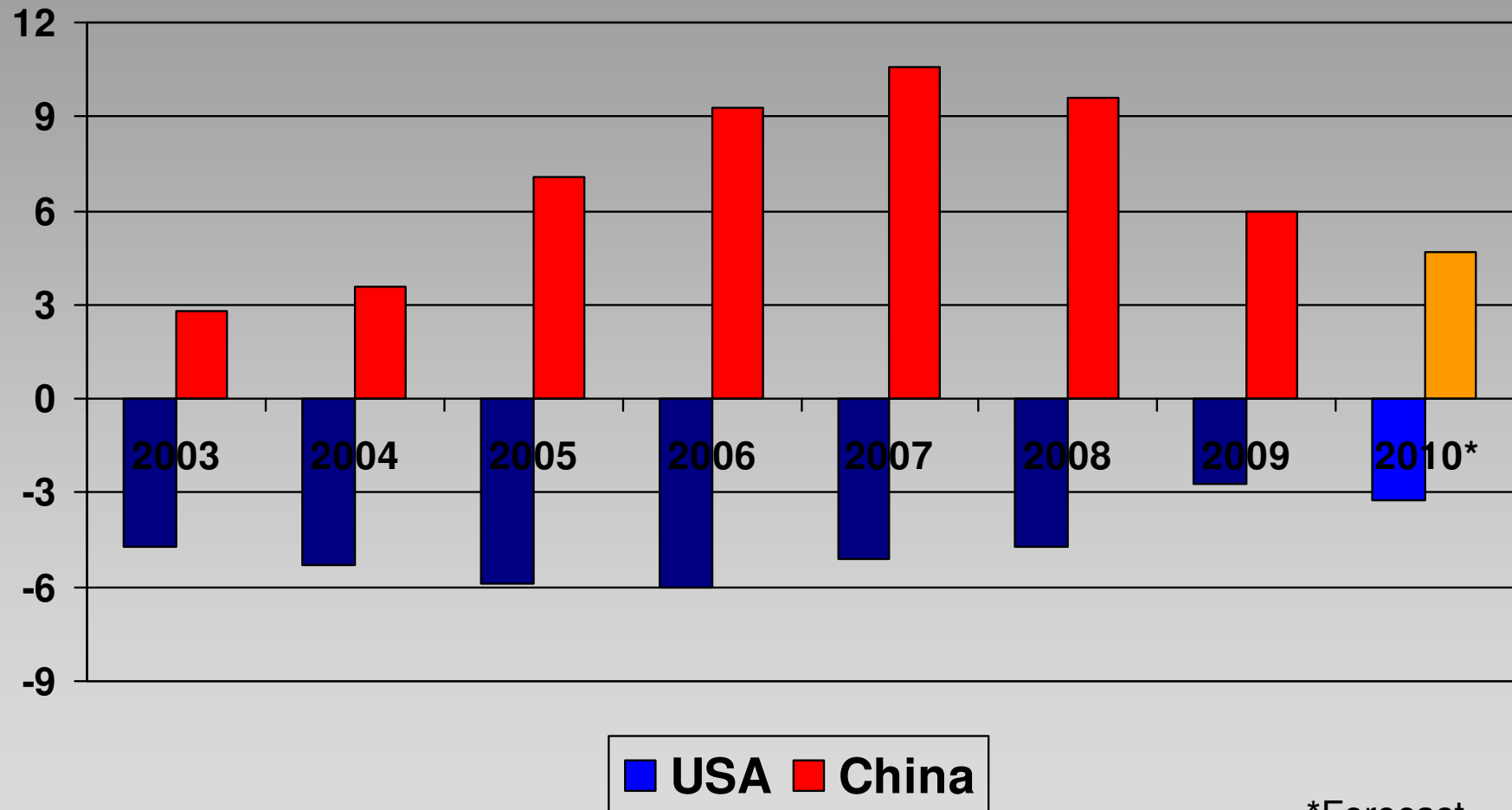
(Percent of GDP, IMF WEO October 2010)



*Forecast

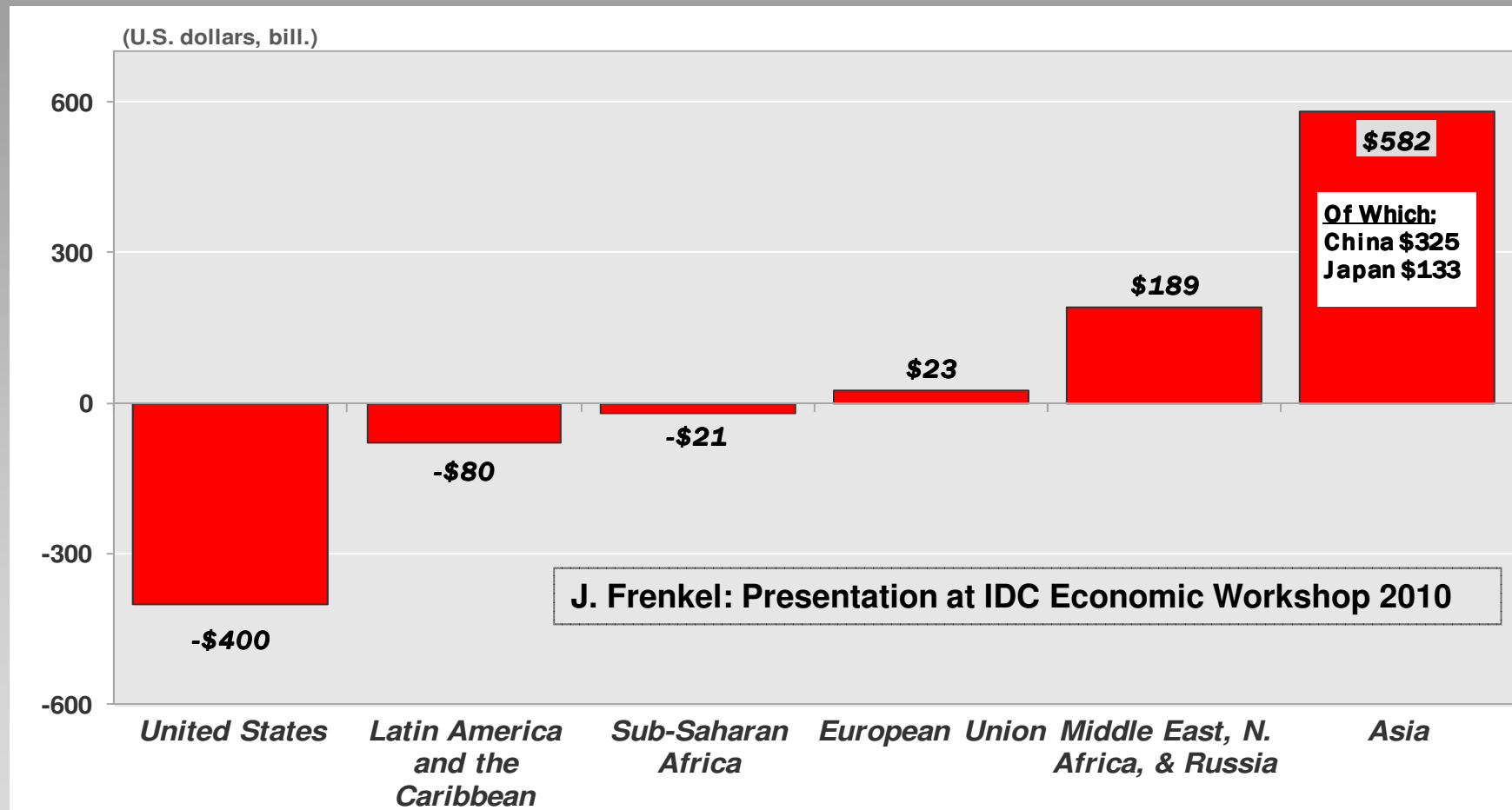
Current Account 2003-2011

(Percent of GDP, IMF WEO October 2010)



*Forecast

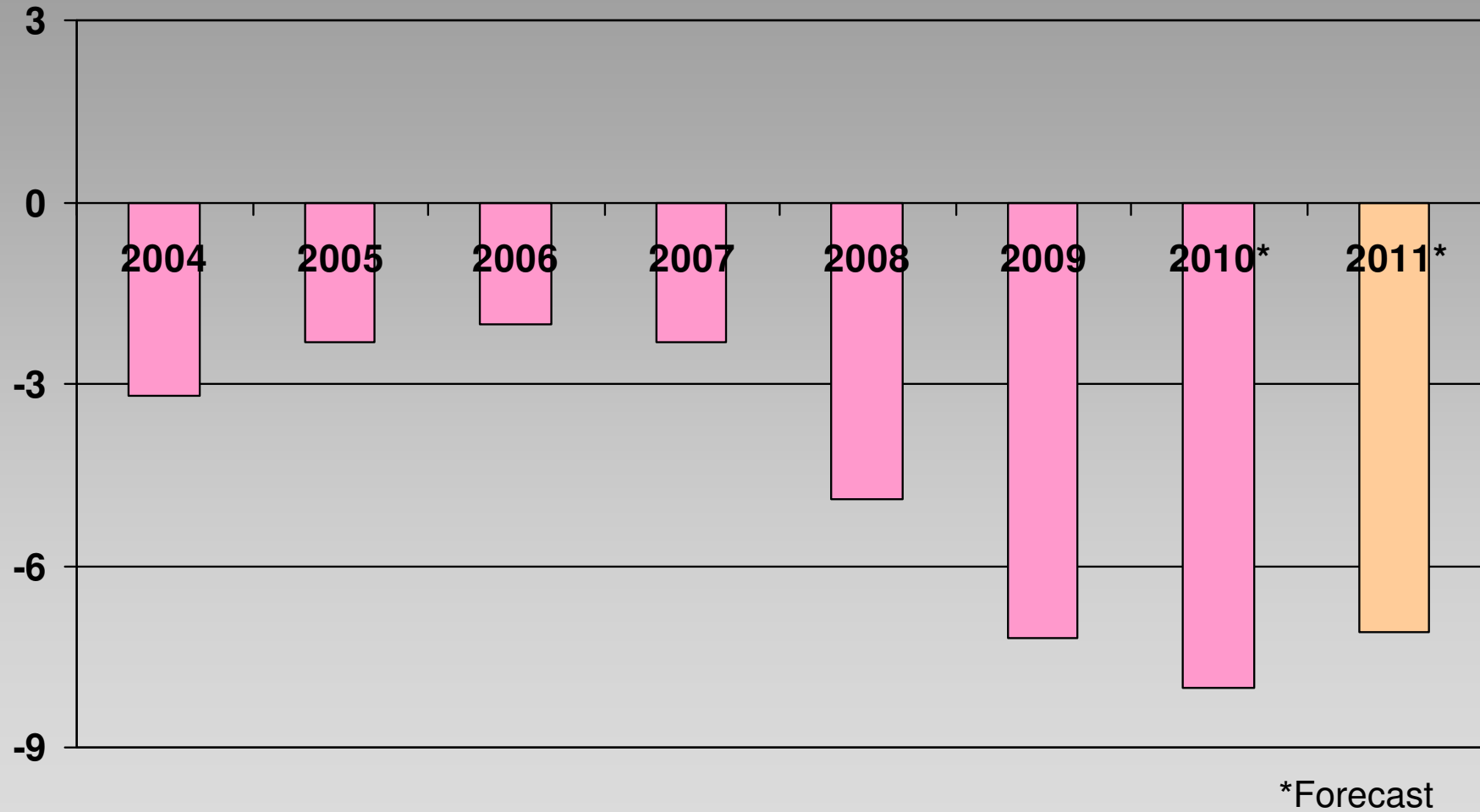
Current Account of Balance of Payments



Source: IMF, last update Oct 01 2010, WEO (2011 Forecast)

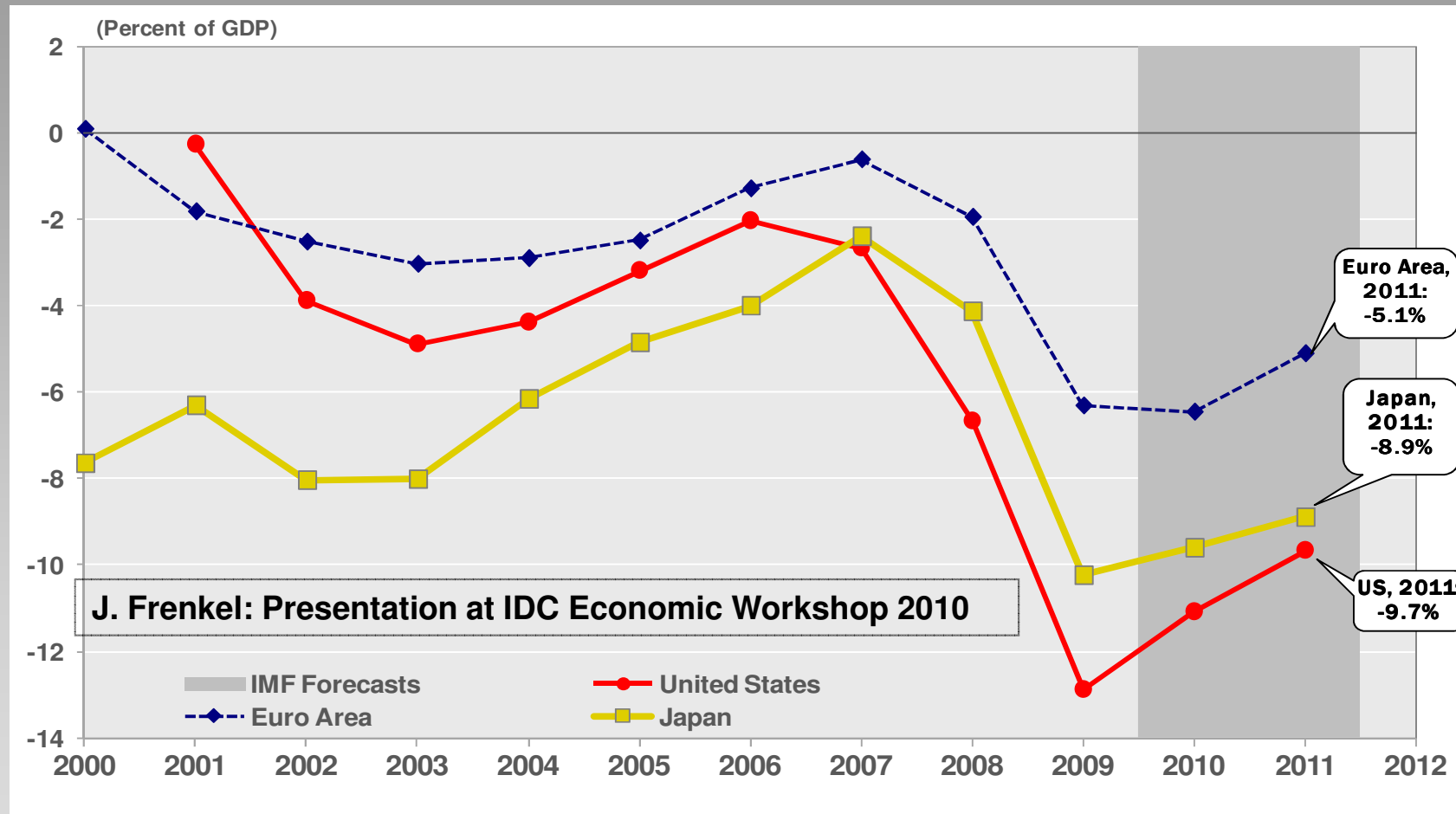
US Fiscal Structural Balance 2003-2011

(Percent of GDP, IMF WEO October 2010)



Fiscal Positions:

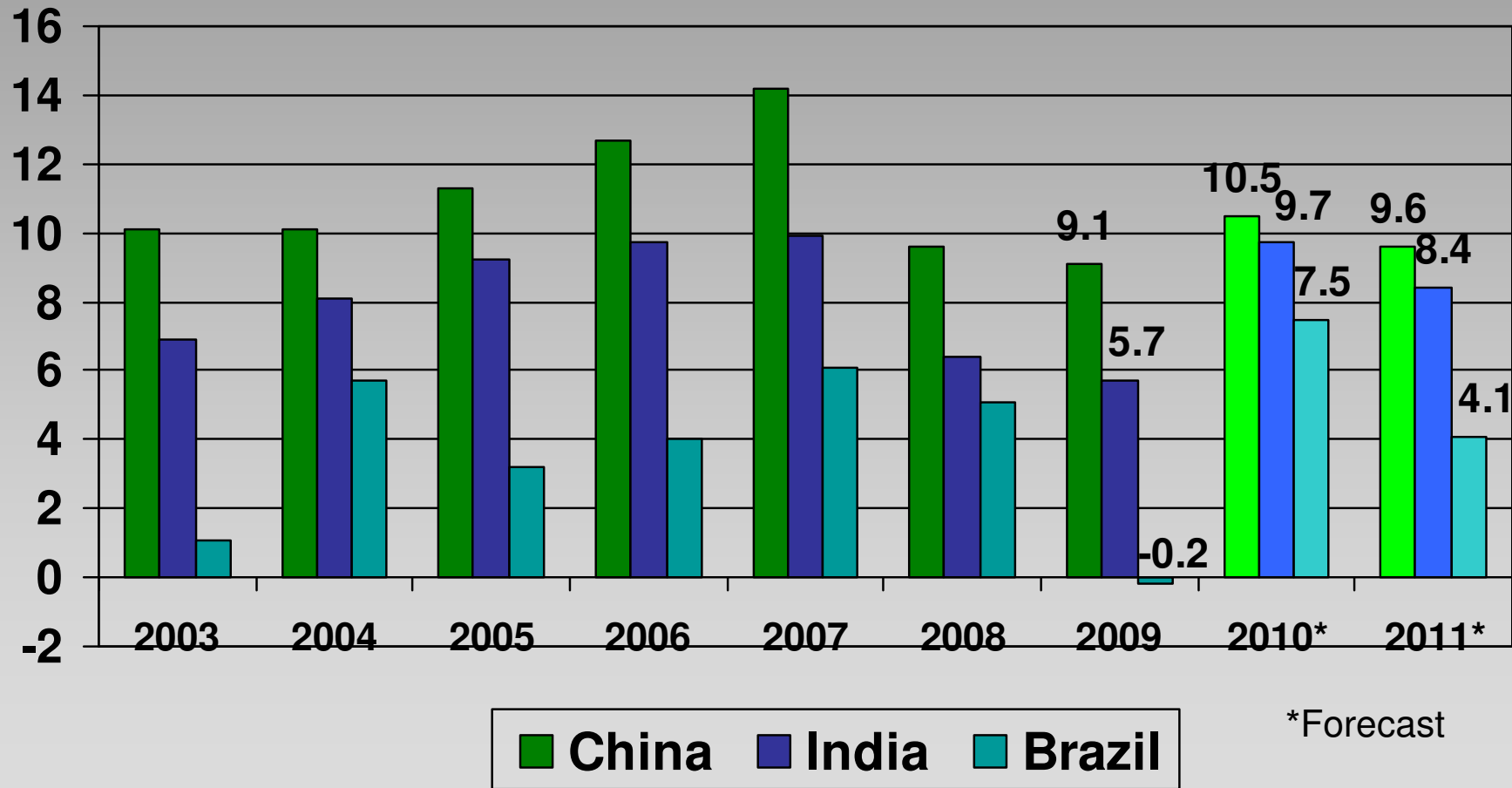
General Government Net Lending/Borrowing



Source: IMF, WEO Database, last update Oct 1 2010, WEO (2009 Estimate, 2010 & 2011 Forecast)

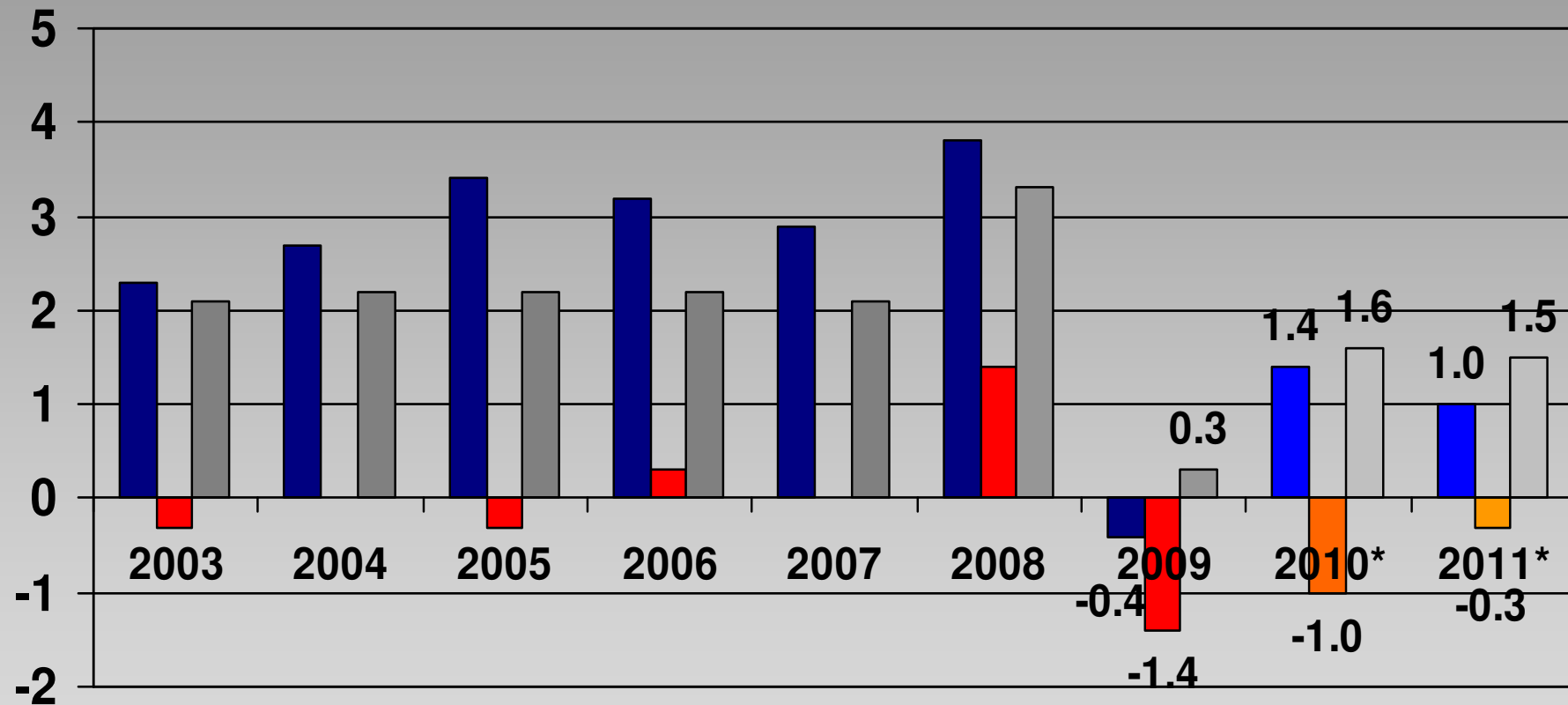
Real GDP Growth 2003-2011

(Annual Percent Change, IMF WEO October 2010)



Inflation 2003-2011

(CPI, Annual Percent Change, IMF WEO October 2010)

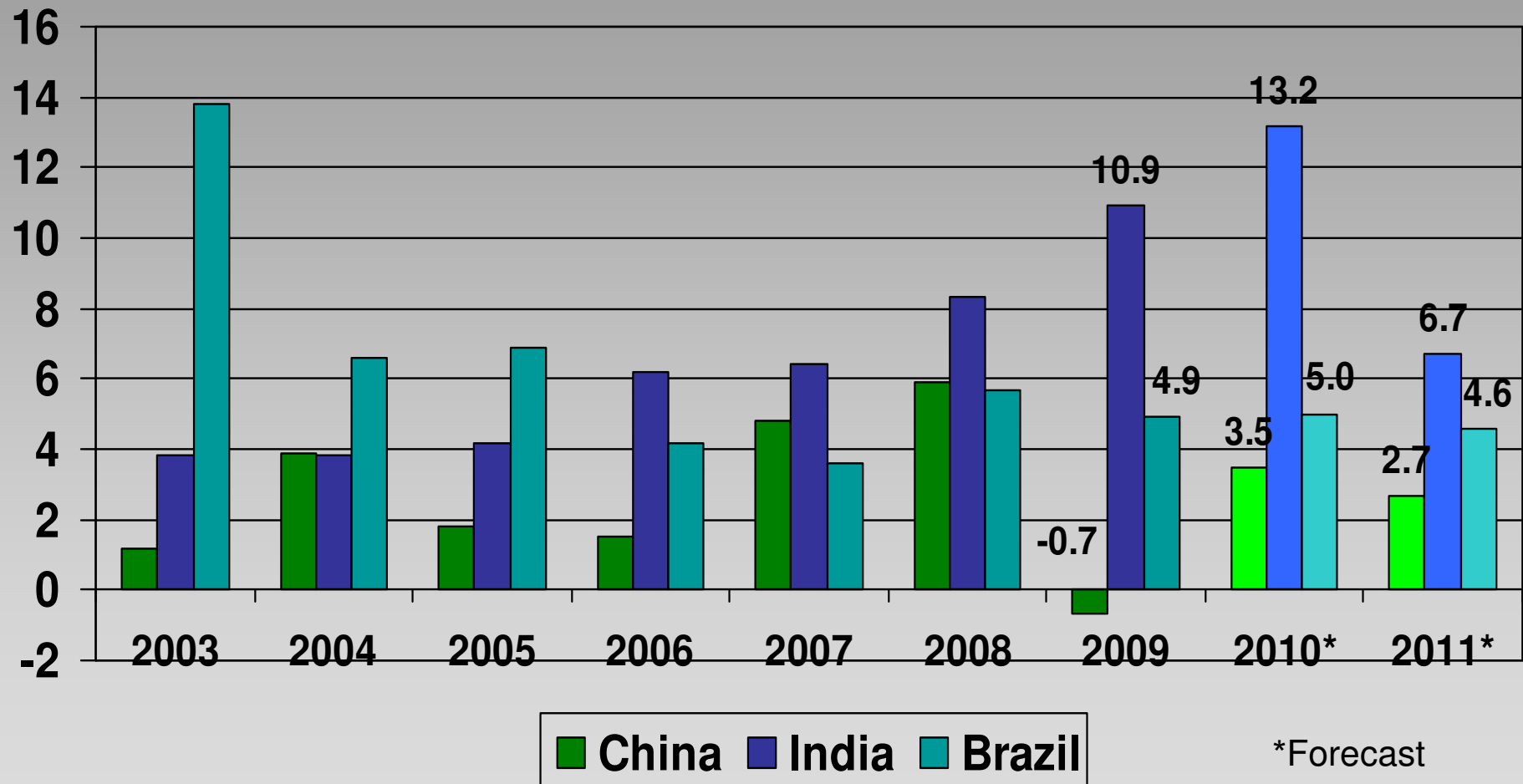


■ USA ■ Japan ■ Euro Area

*Forecast

Inflation 2003-2011

(CPI, Annual Percent Change, IMF WEO October 2010)



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Economic Policy Fiscal and Monetary

Fiscal Policy 2009-2011

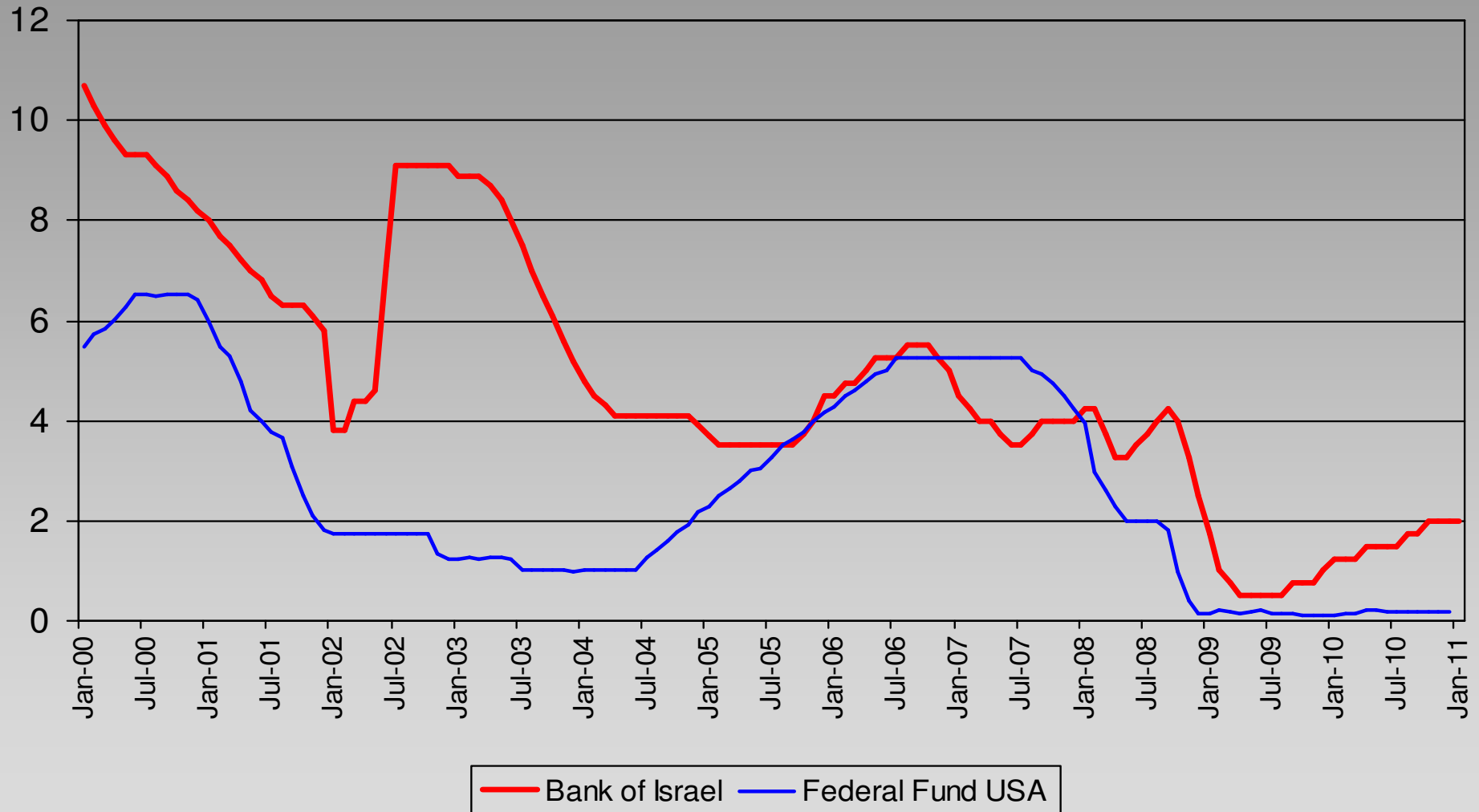
- ✓ The 2011-2012 budget was approved by the Knesset and it will not be changed
- ✓ The automatic stabilizers will continue to provide fiscal impulse and will lead to a balanced budget
- ✓ 3.5 percent expected government deficit in 2011 as percent of GDP due to improvement in tax collection

Monetary Policy 2011

- ✓ Monetary policy will continue to be relatively expansionary but less than in 2010
- ✓ The Bank of Israel will continue raising the rate of interest paralleled with the real economic recovery
- ✓ The dilemma of a strong Sequel and the need to an upward adjustment of the rate of interest will continue to influence interest rate setting
- ✓ The Bank of Israel will continue to support the Shekel

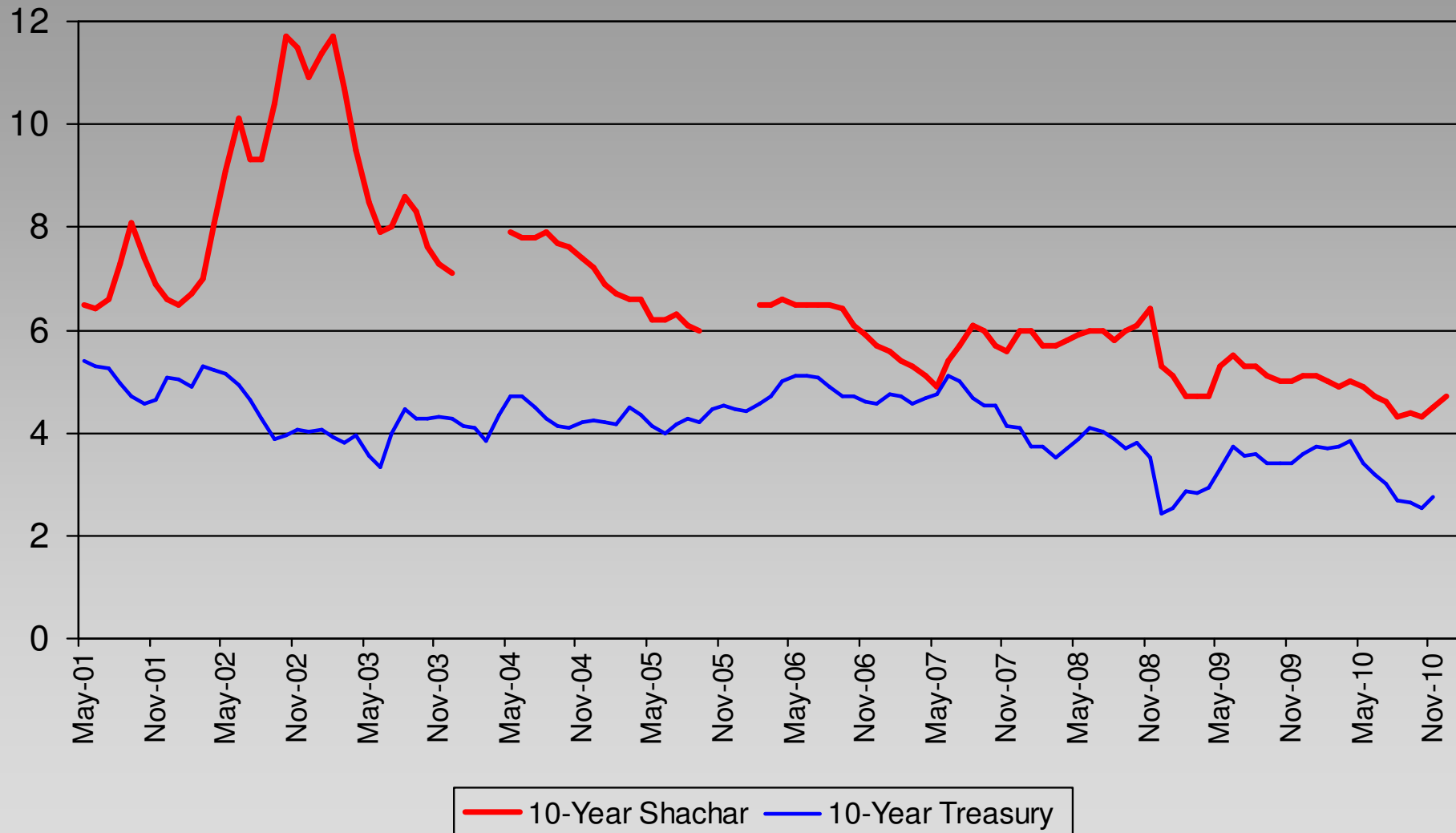
Monetary Interest Rate 2000-2010

(Percent)



10-Year Bonds Yields Israel – US 2001-2010

(Percent)

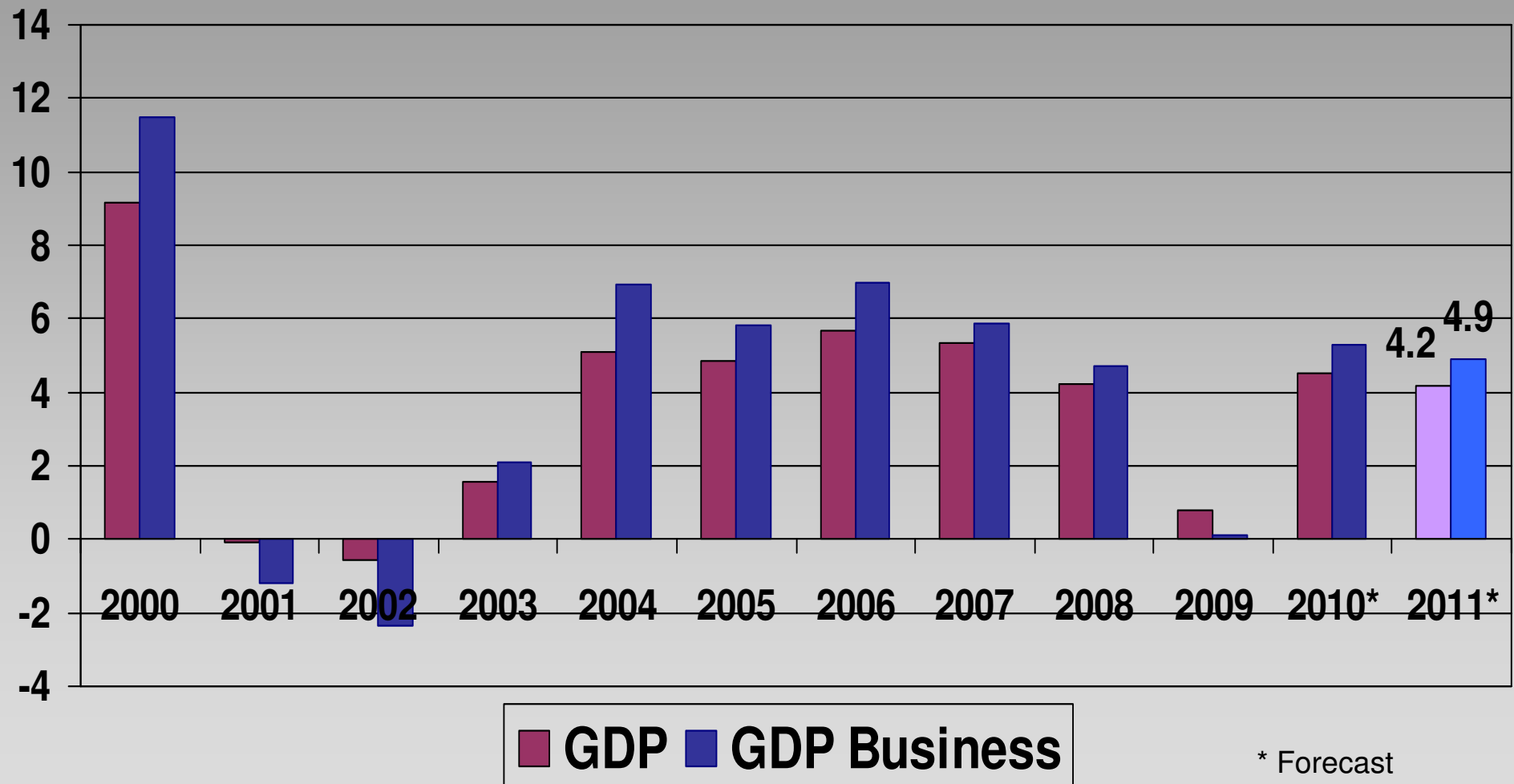


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Macroeconomic Forecast 2011

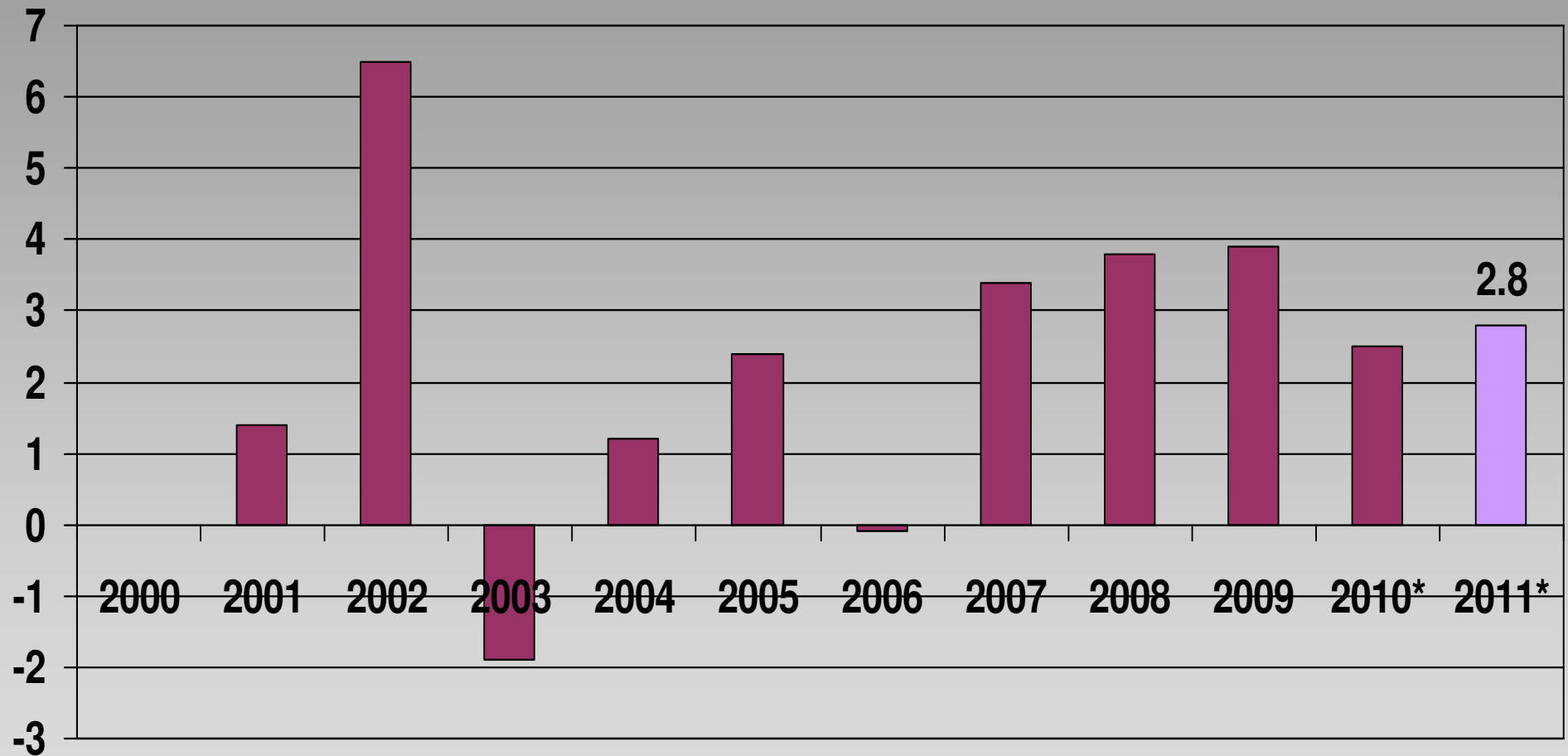
GDP and GDPB Forecast 2011

(Rates of Growth, Percent)



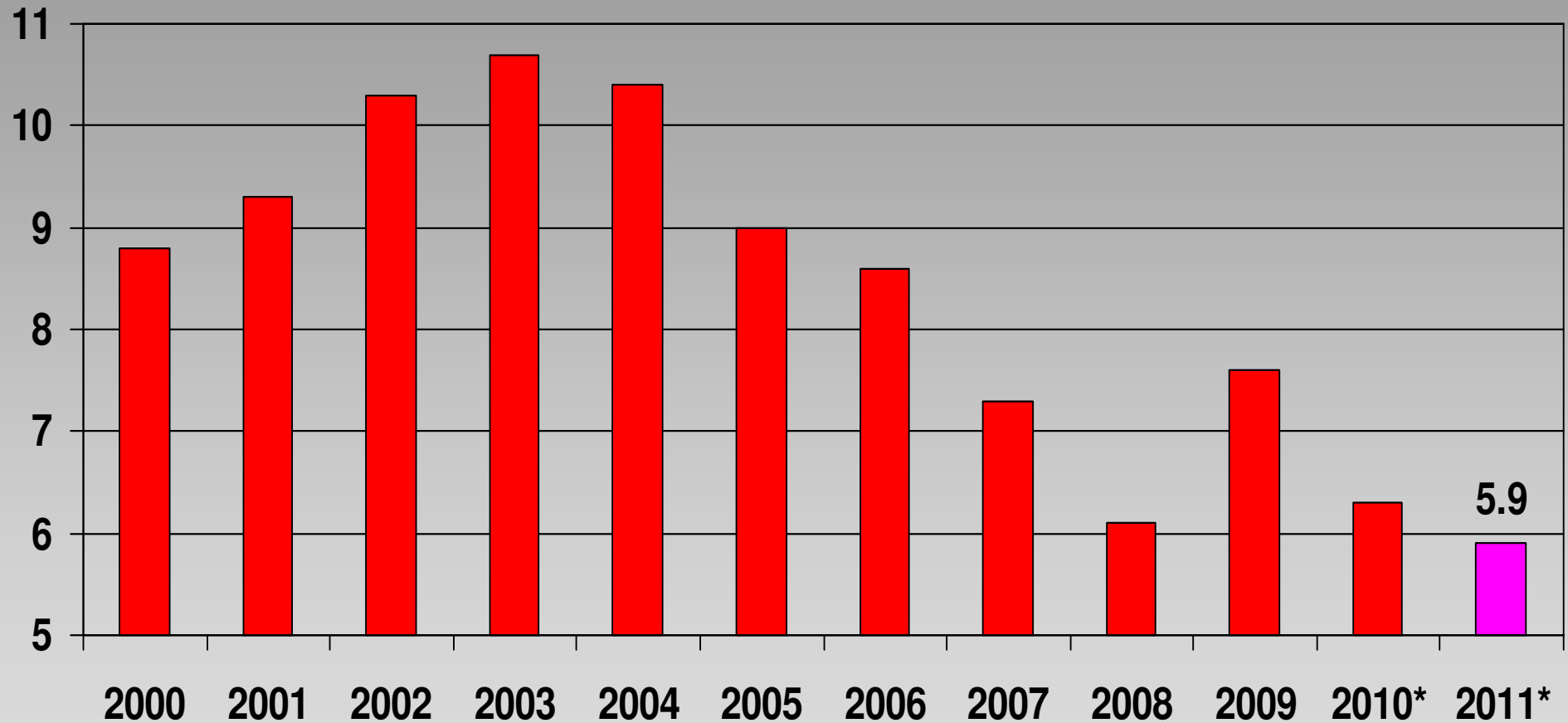
Rate of Inflation Forecast 2011

(CPI, Percent)



Unemployment Forecast 2011

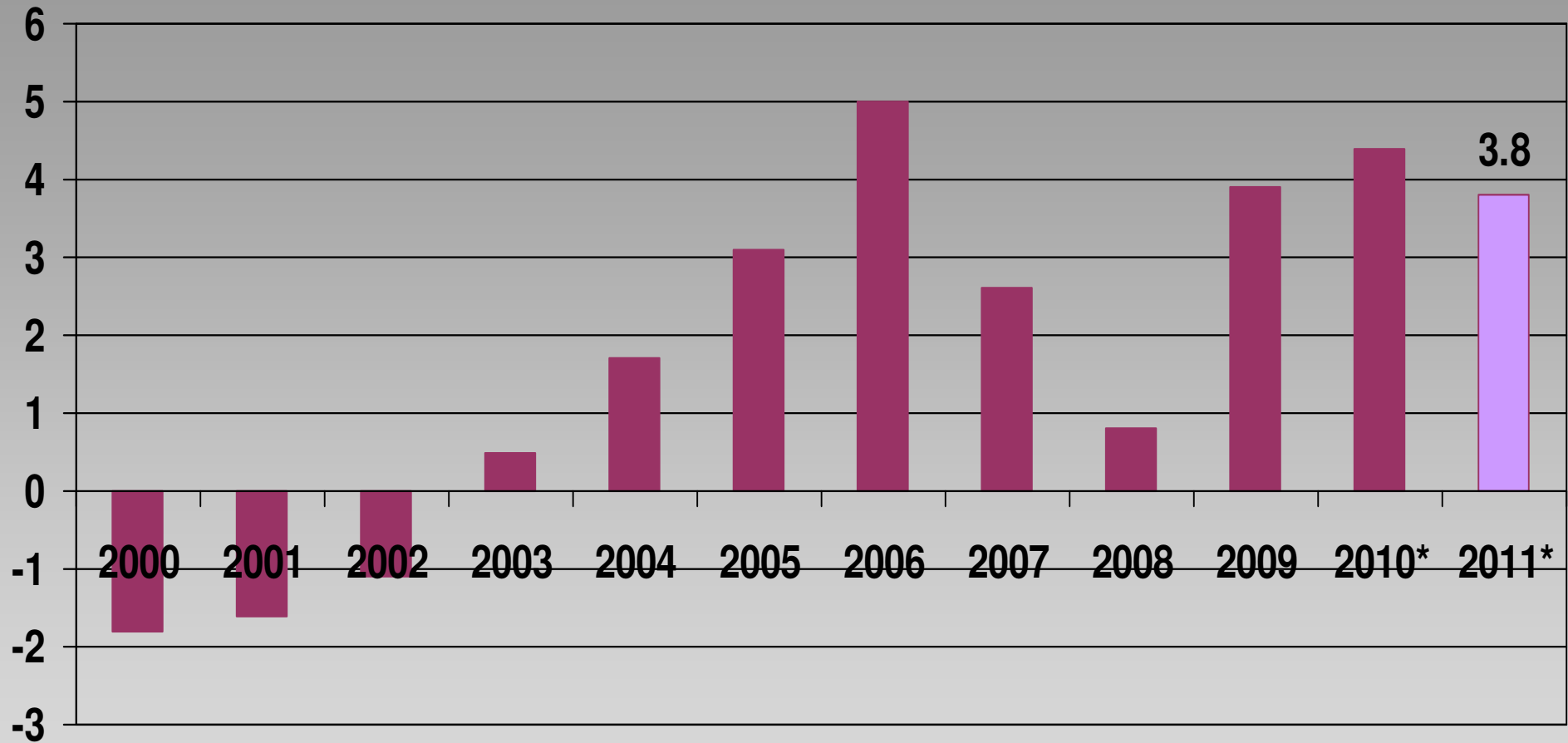
(Percent)



* Forecast

Current Account Forecast 2011

(Percent of GDP)



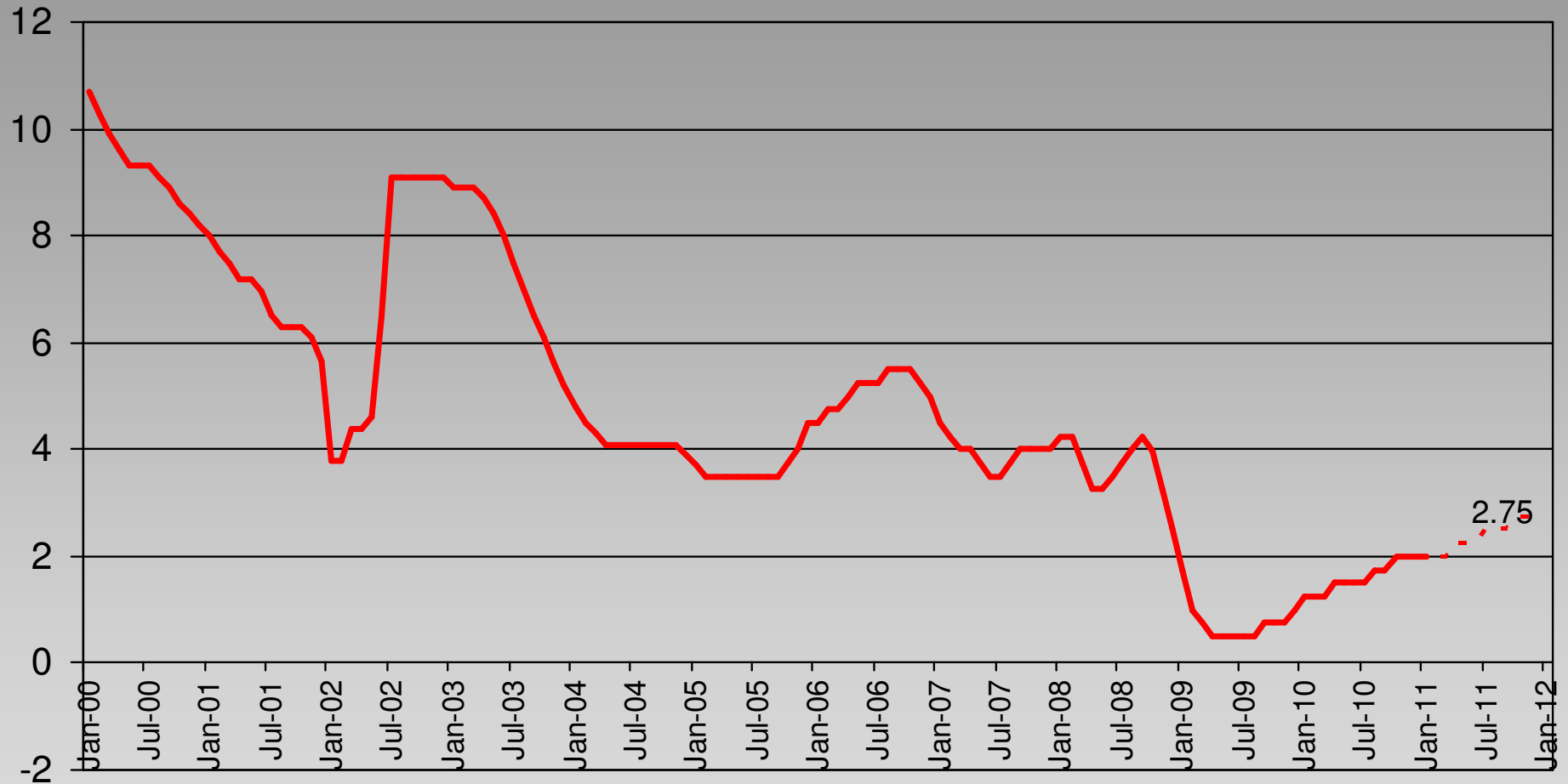
* Forecast

Uses and Resources Forecast 2011

(Rates of Growth, Percent)

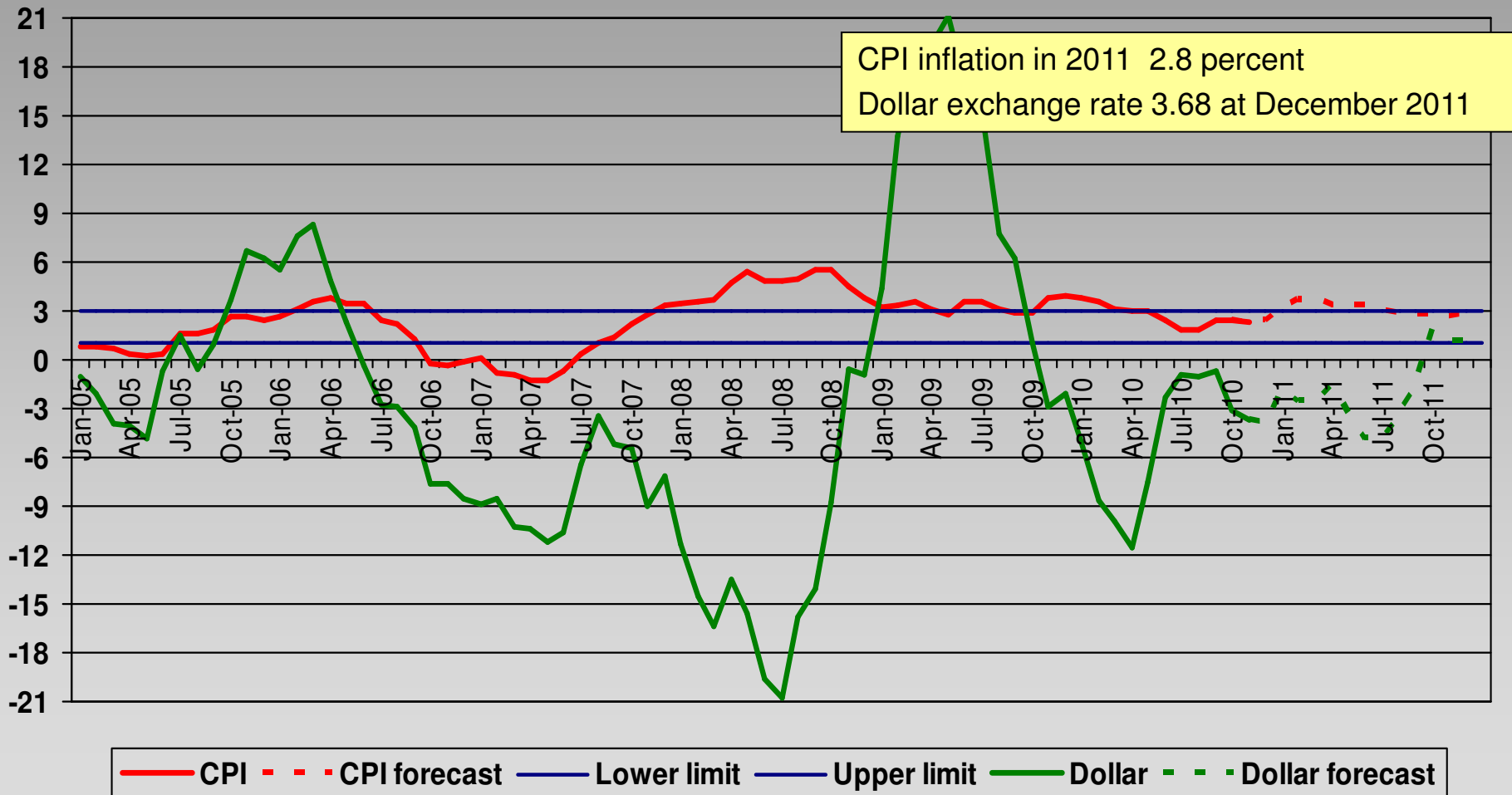
	C.B.S. 2010	OECD 2011	Treasury 2011	B.o.I. 2011	Melnick 2011
Resources					
GDP	4.5	4.0	3.8	3.8	4.2
Business GDP	5.3		4.5		4.9
Civilian Imports	11.4		4.0	9.1	8.2
Uses of Resources					
Private Consumption	4.7	3.9	3.0	3.6	4.9
Government Consumption	3.7		1.7	1.0	2.7
Fixed Capital Formation	9.9	6.2	4.6	5.7	7.0
Exports	10.2		6.1	5.8	6.9

Bank of Israel Interest Rate Forecast 2011

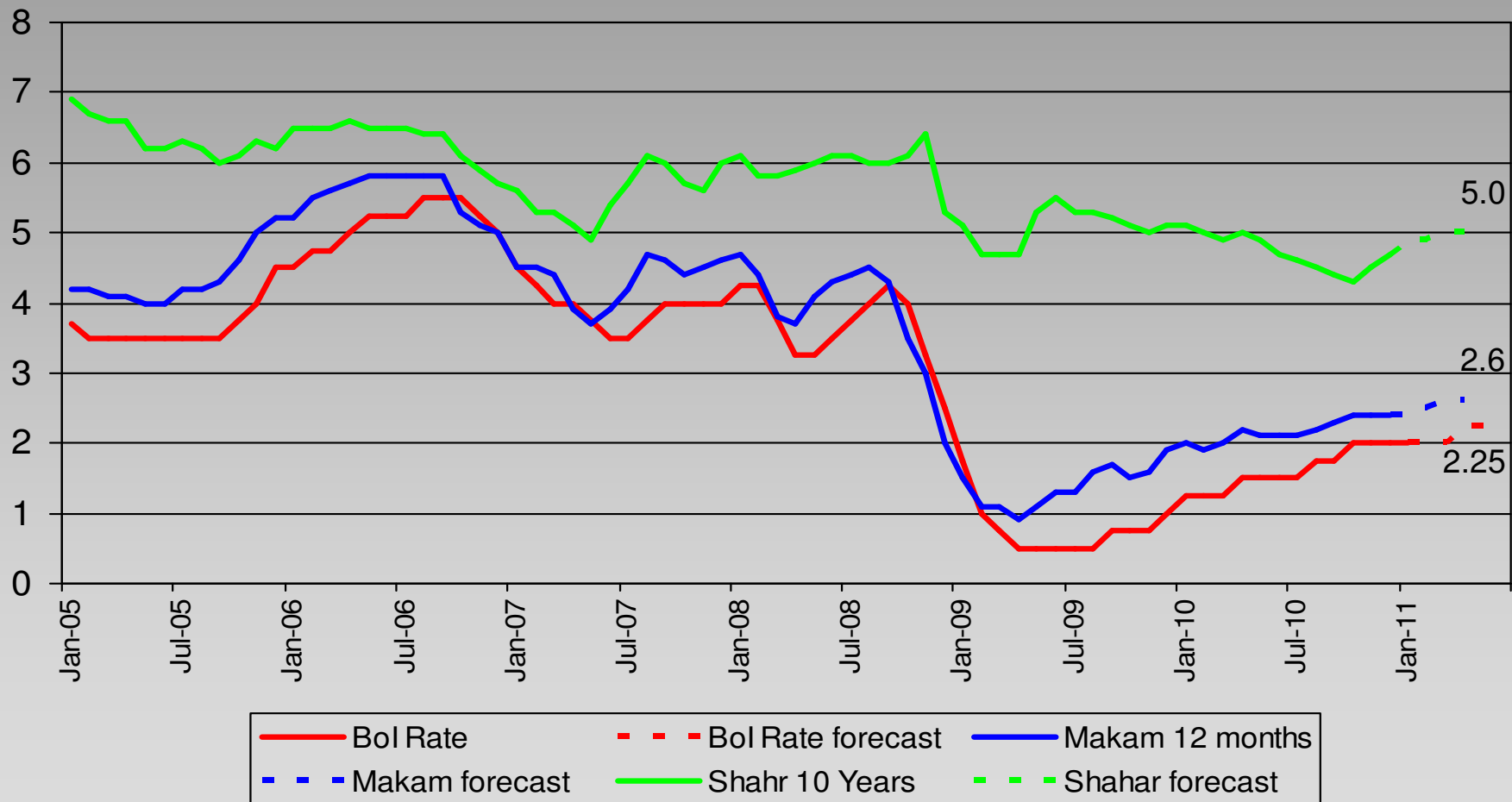


Inflation and Dollar Rate Forecast 2011

(Percent change in previous 12 months)

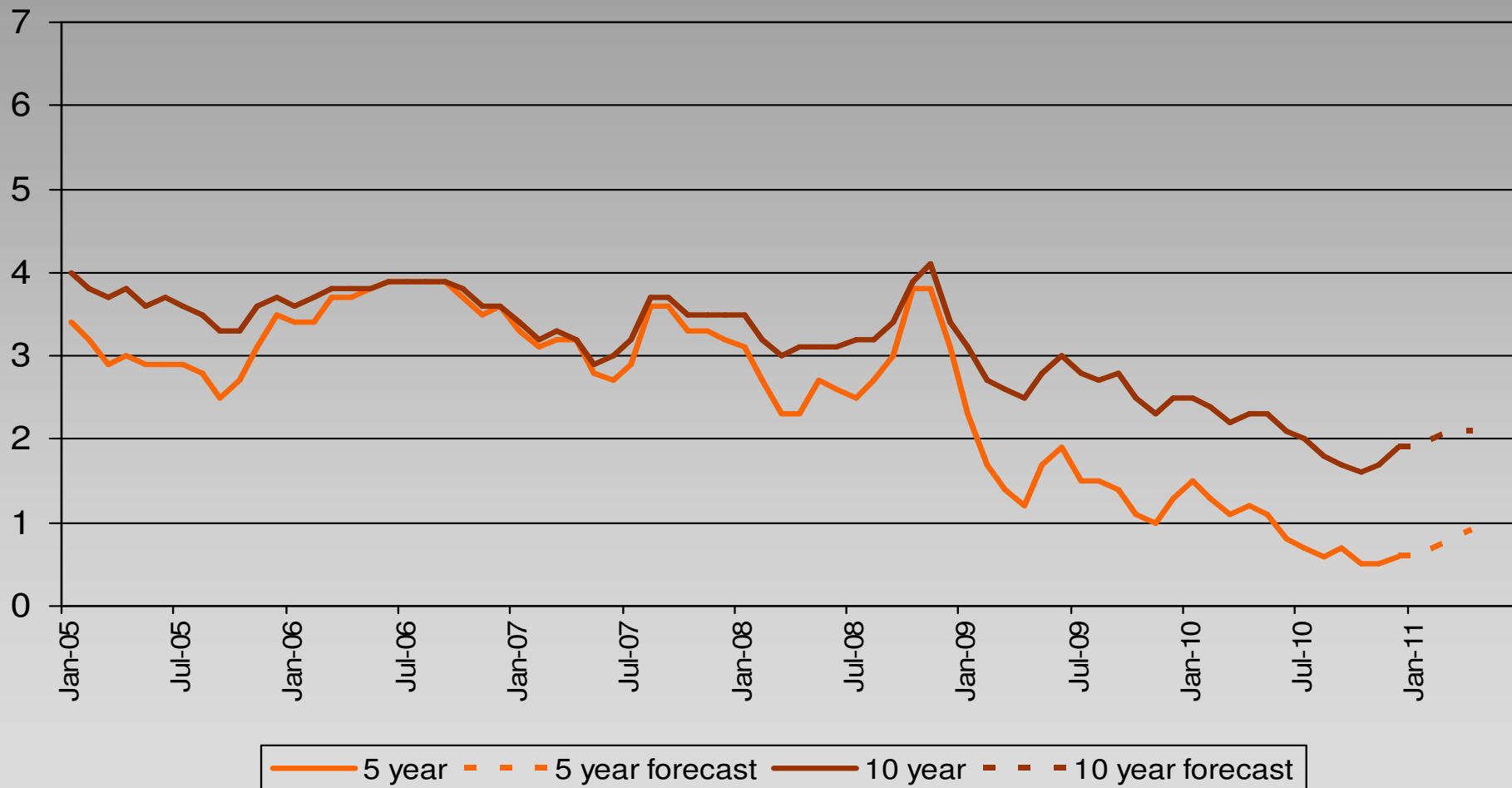


B.o.I Rate and Yields to Makam and Shahar Forecast 2011



Real Yield on Indexed Government Bonds

Forecast 2011 (5 and 10 years maturity, percent)



Stock Market as Leading Indicator '97 - '10

