

The Israeli Economy 2010

The Caesarea Center Conference

November 2009

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Provost, Interdisciplinary Center (IDC)
Herzliya

The Big Issues

- The broken crystal ball
- Can we trust IMF predictions?
- Can the developing economies replace the role of the advanced economies?
- Will the dollar continue to weaken?

Identifying Business Cycles Turning Points in the Israeli Economy

The Present Cyclical Position

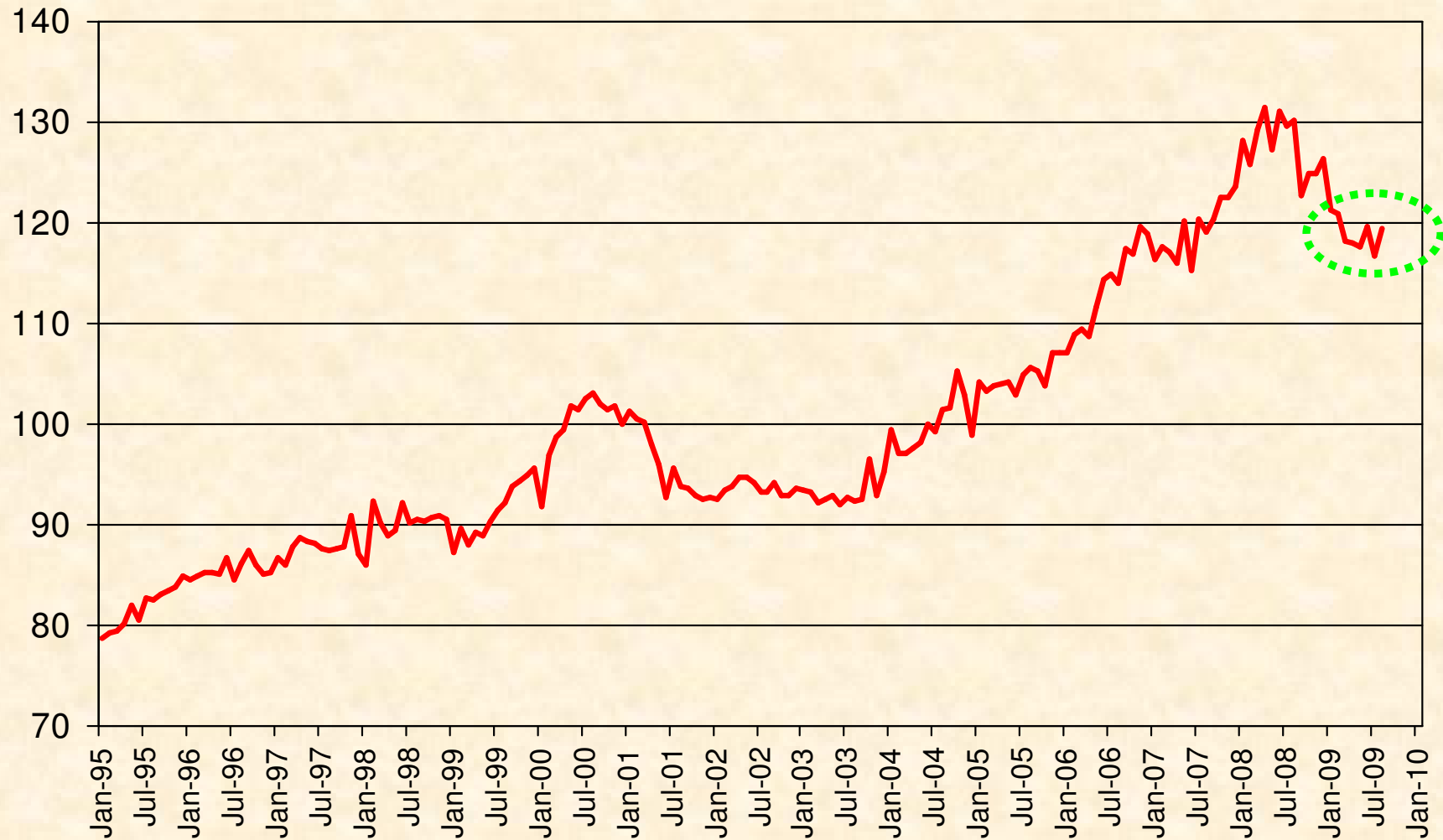
The Melnick State of the Economy Index

Main Indicators

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

Industrial Production 1995-2009

(2004 = 100)

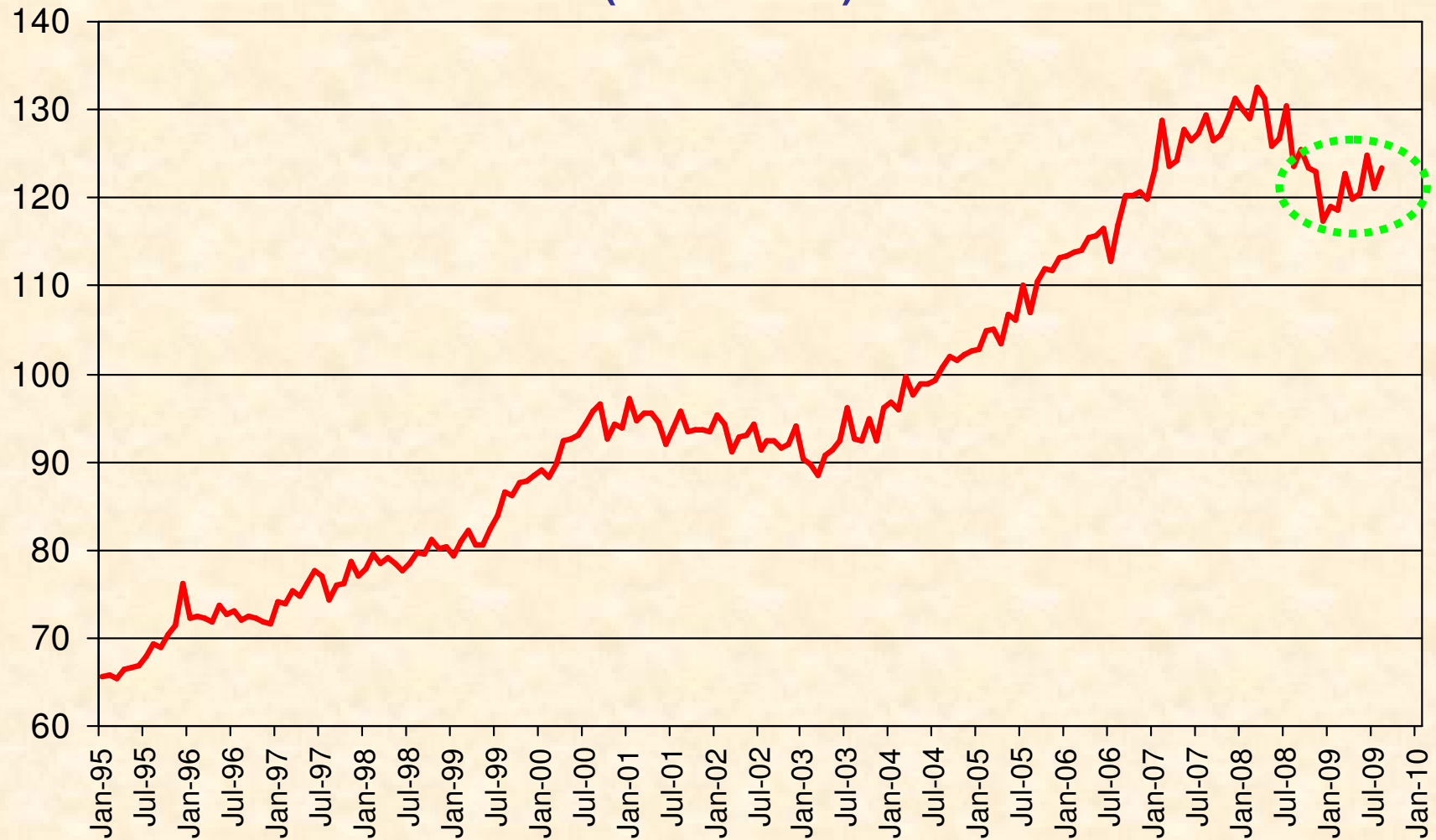


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Revenue in Commerce and Services 1995-2009

(2004 = 100)

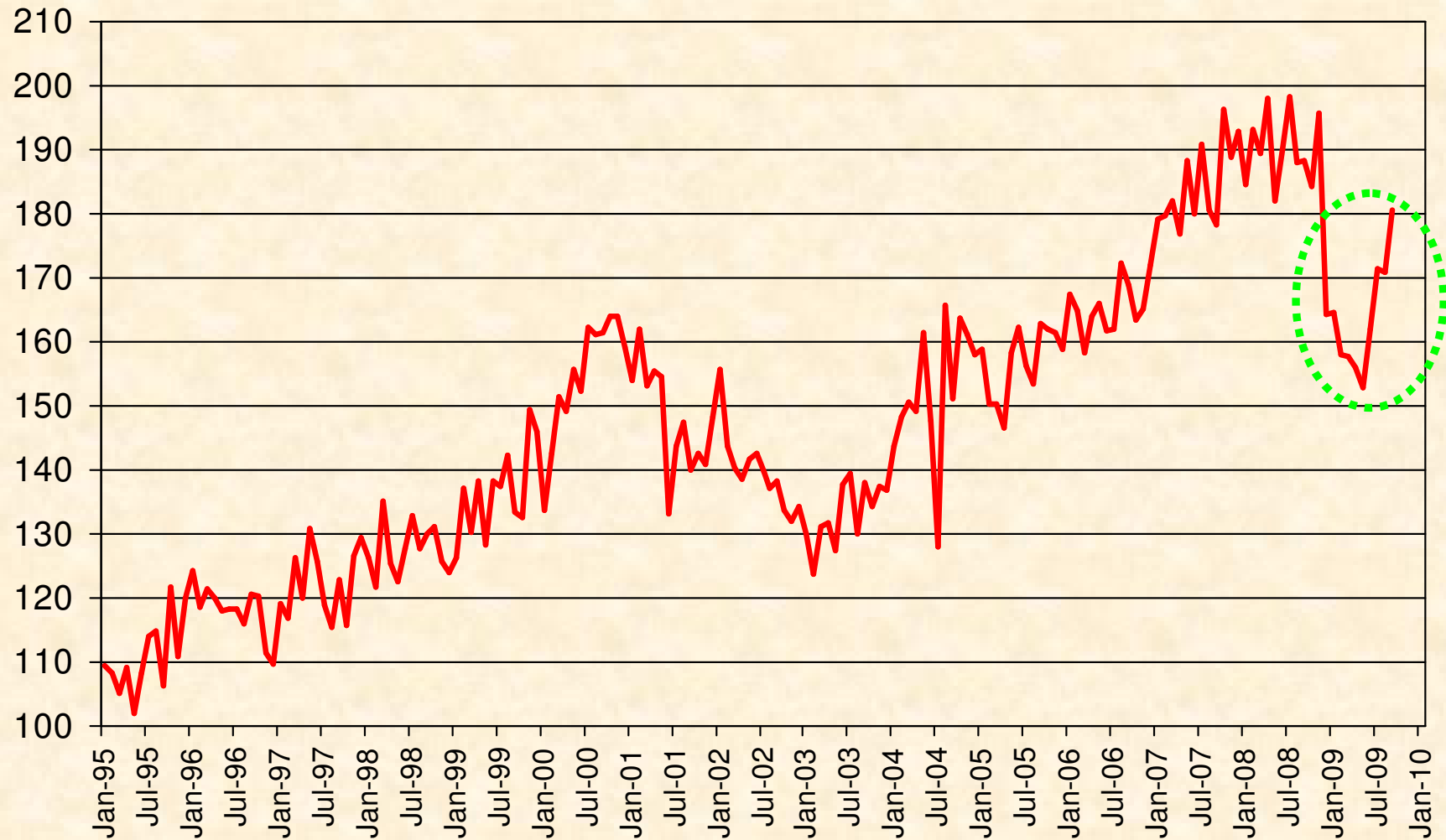


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Import Index 1995-2009

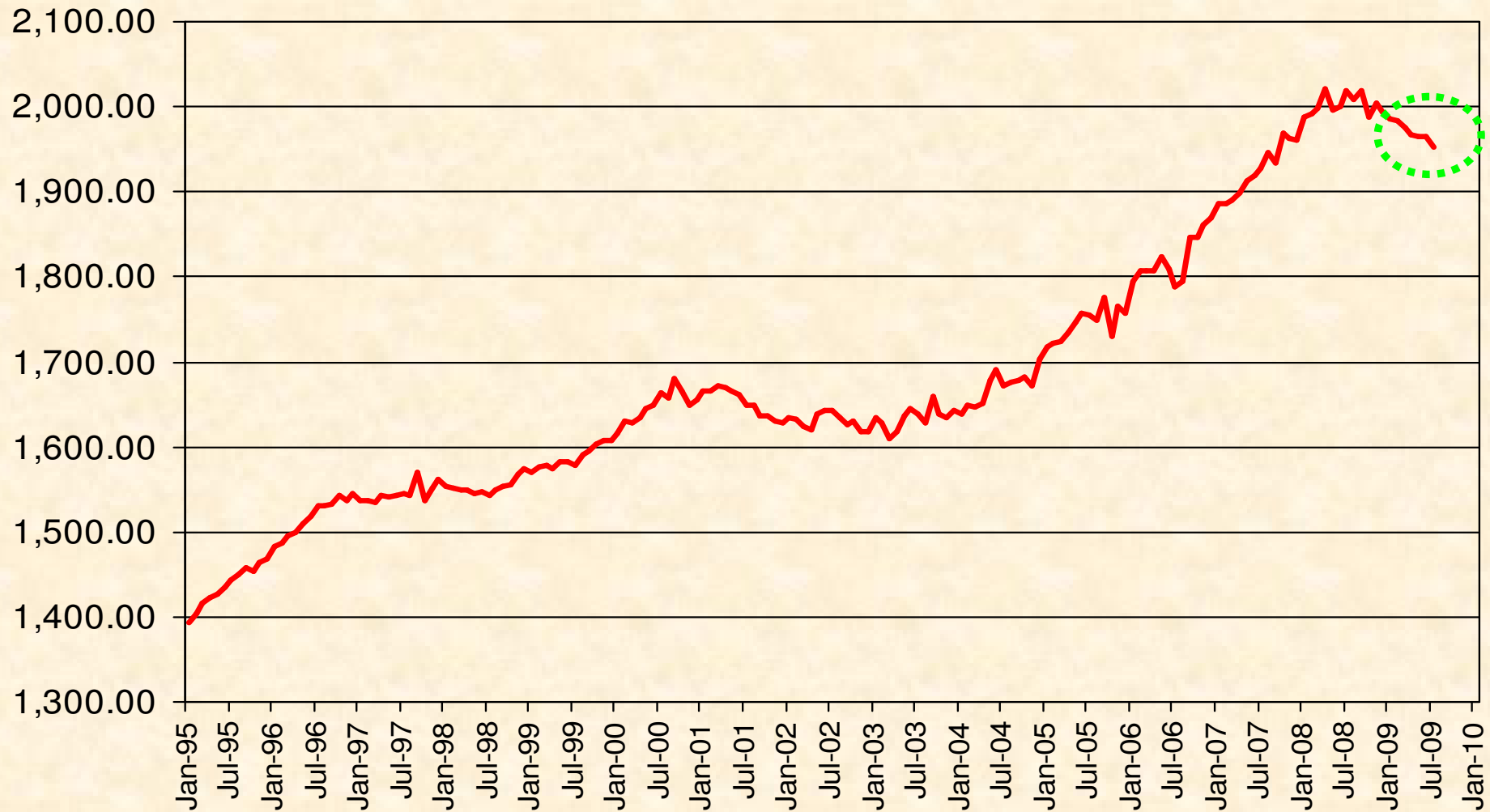
(1994 = 100)



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Employee Posts in the Business Sector 1995-2009

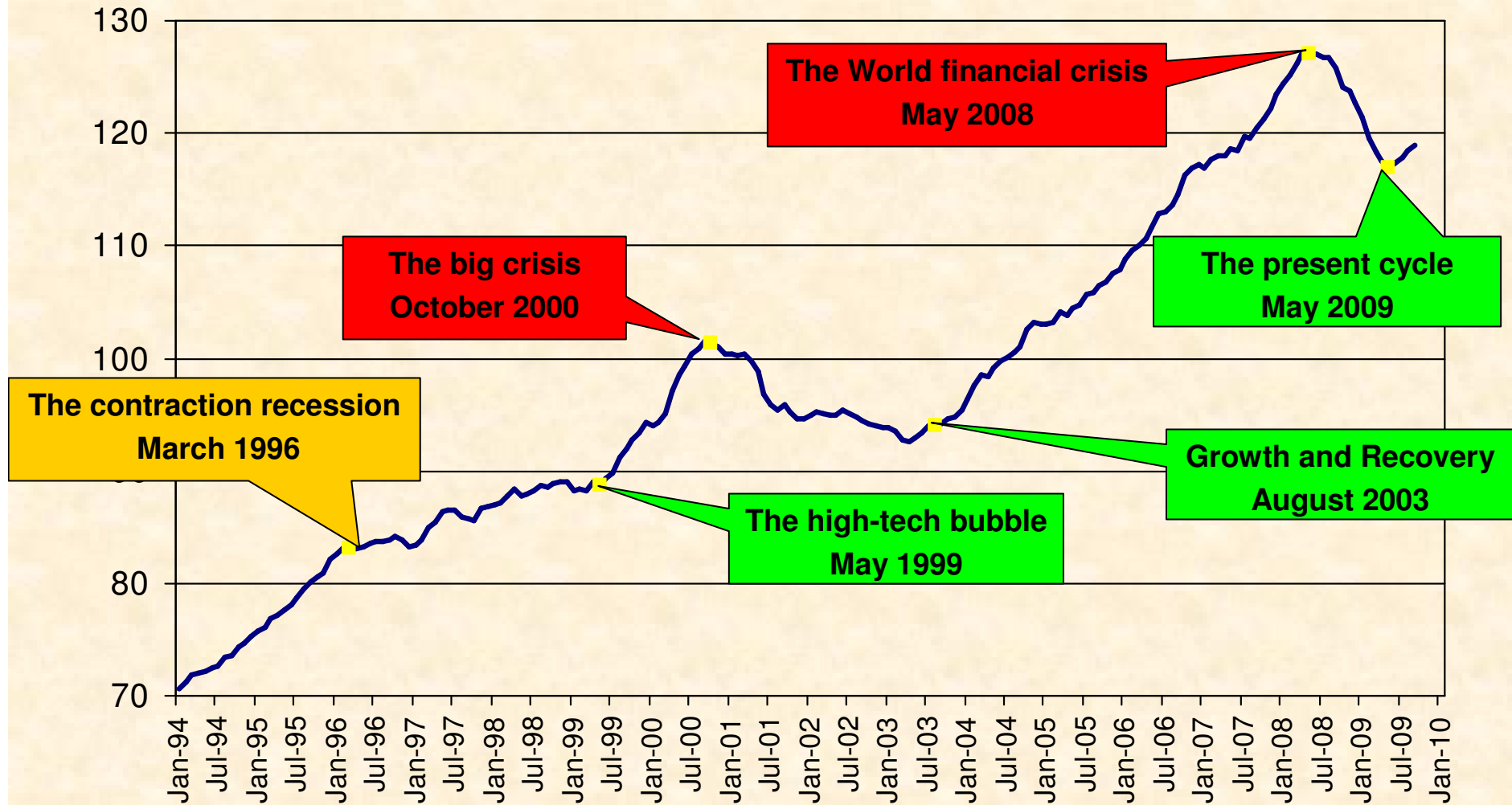


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The Melnick Index 1994-2009

(2004 = 100)



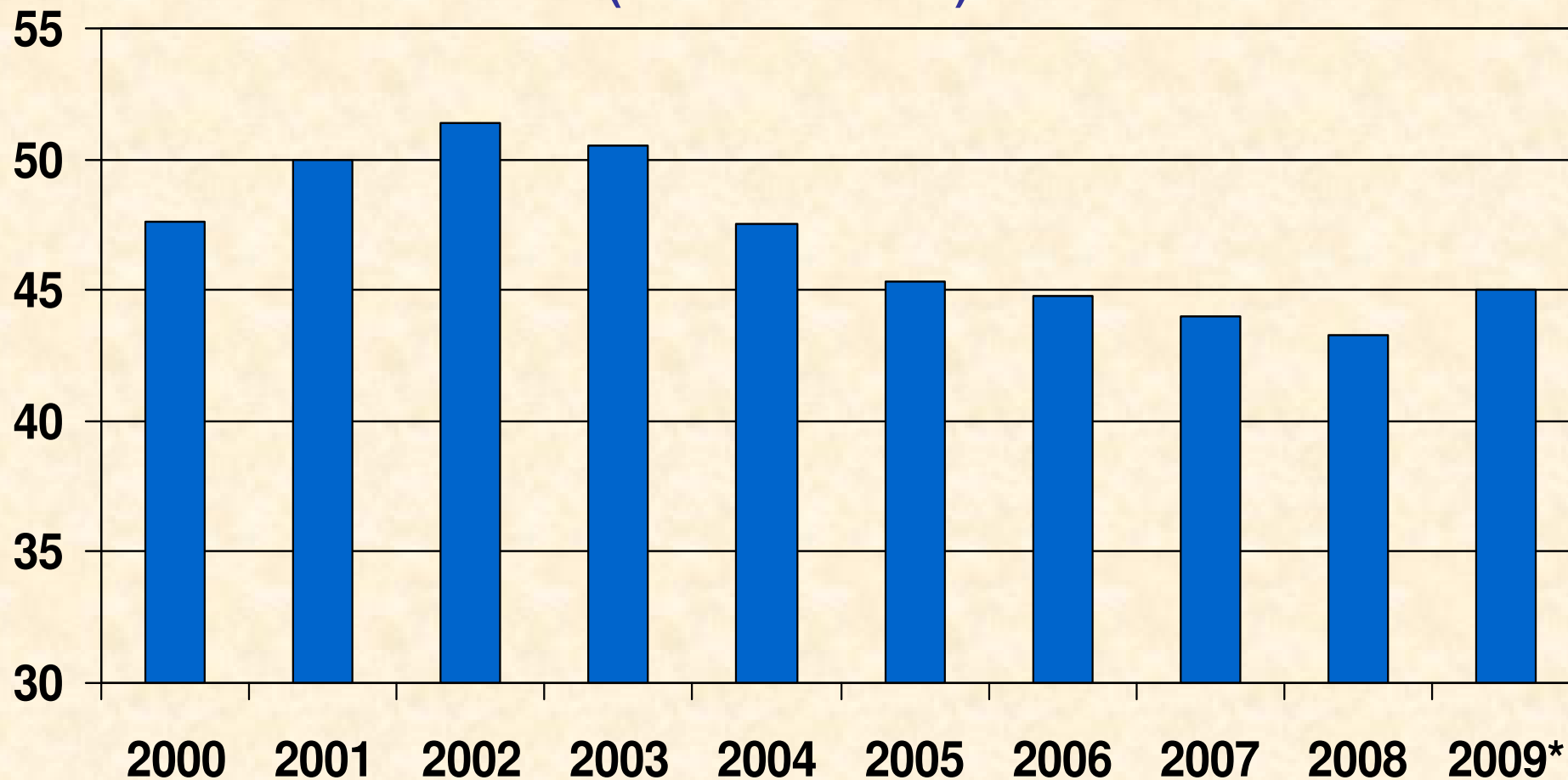
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Recent Economic Policy

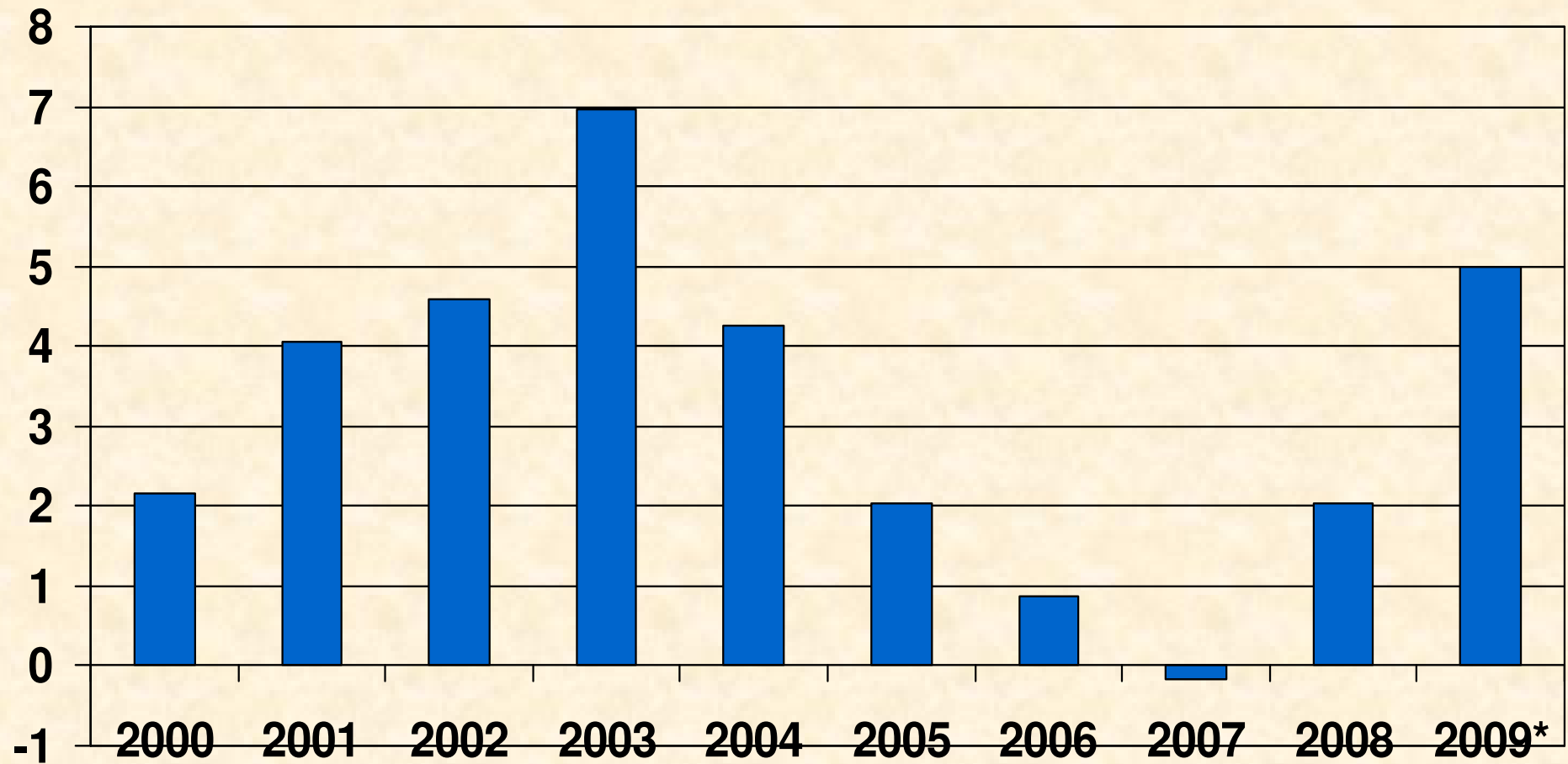
General Government Expenditure 2000-2009

(Percent of GDP)



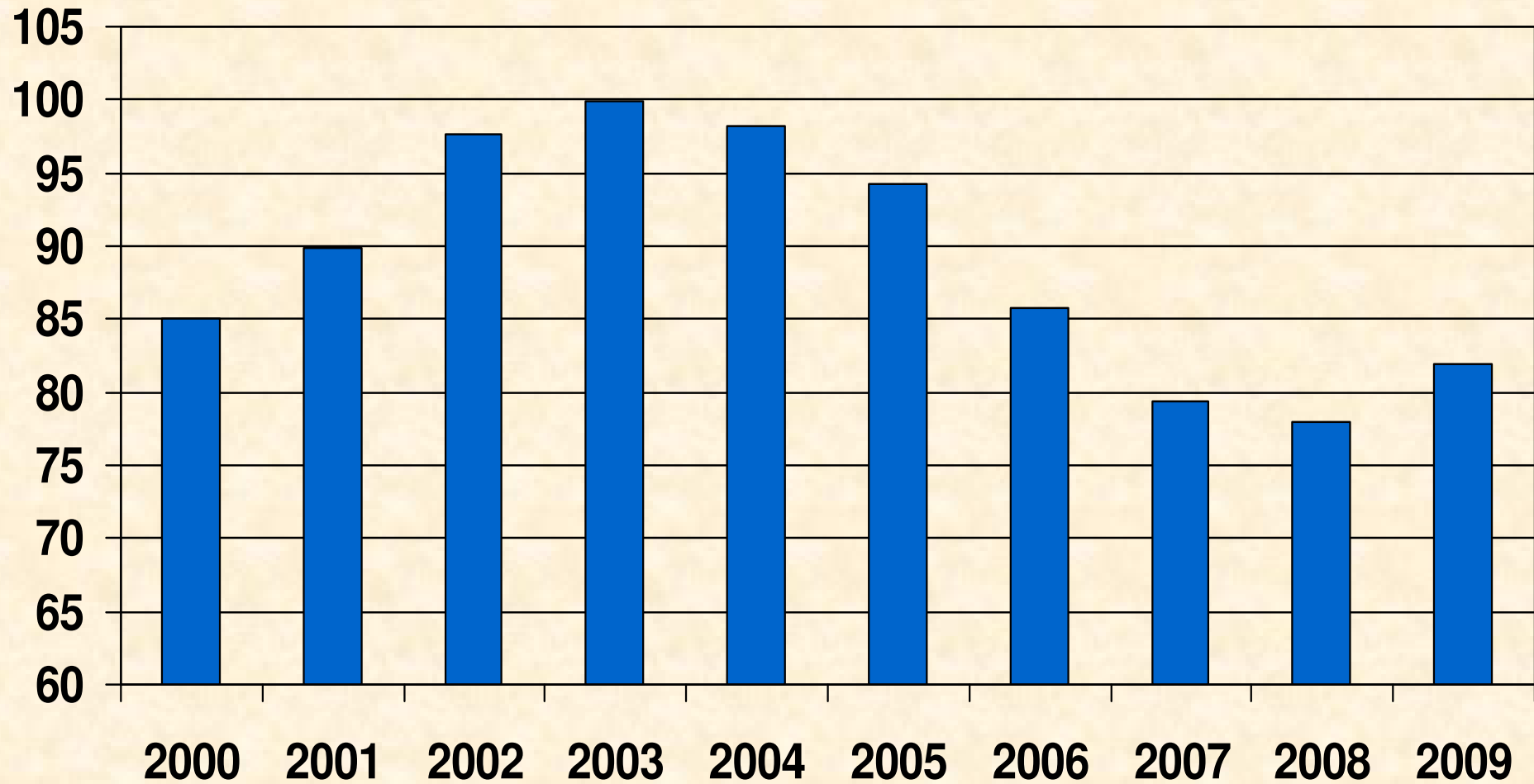
General Government Deficit 2000-2009

(Percent of GDP)



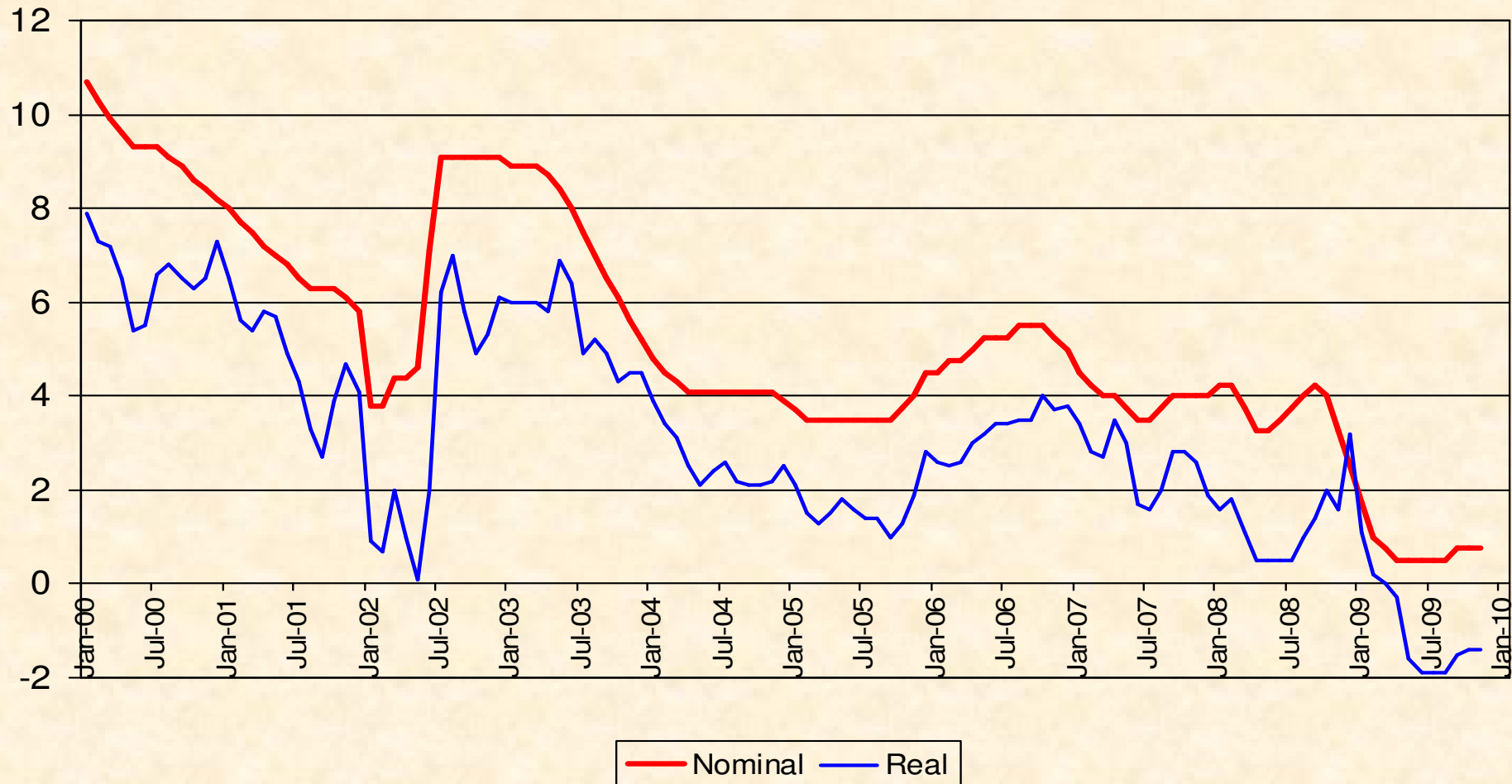
Public Debt 2000-2009

(Percent of GDP, Gross Debt)

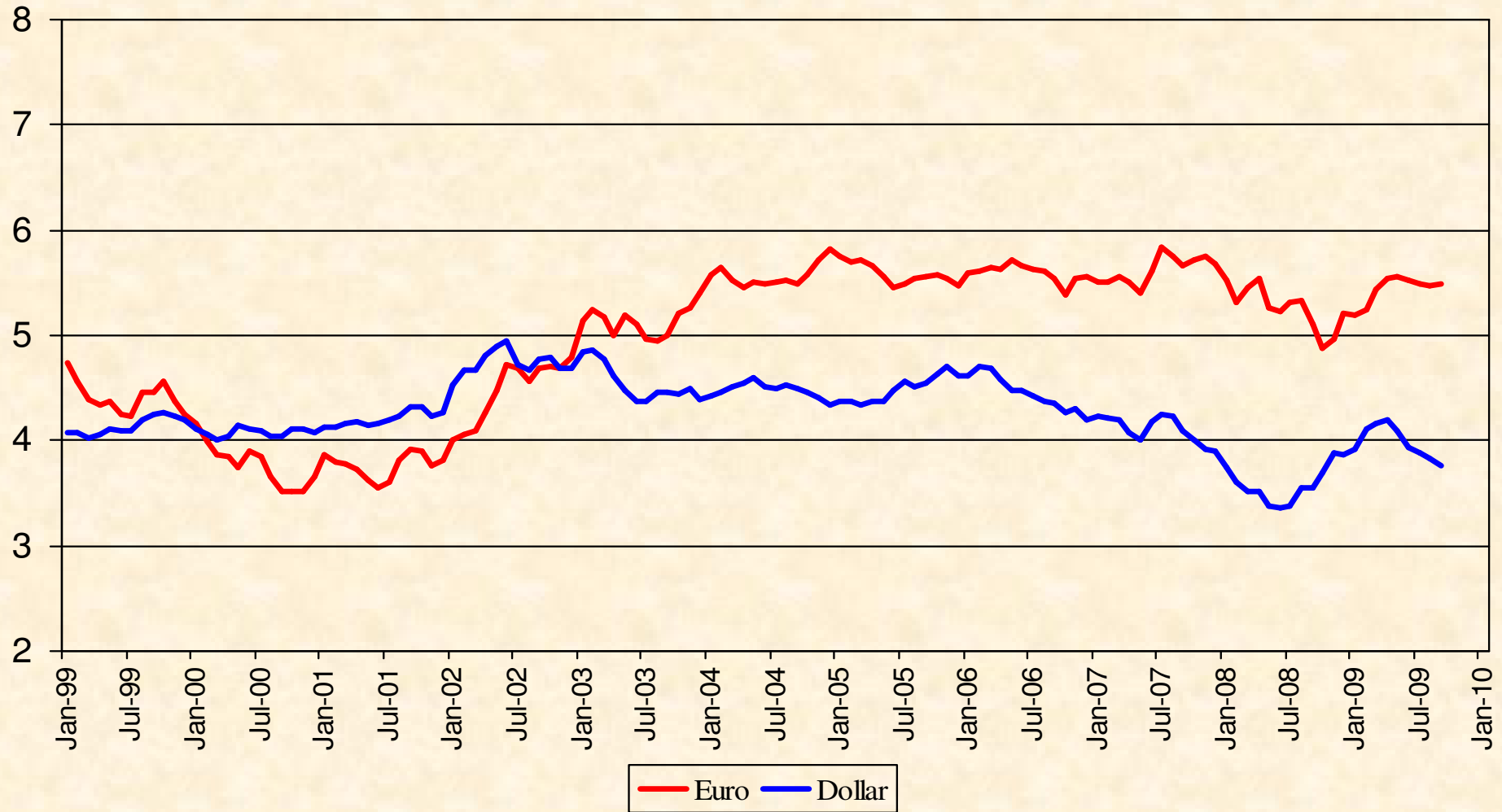


Bank of Israel Interest Rate 2000-2009

(Nominal and Real - Percent)



The Dollar and Euro Exchange Rate 1999-2009

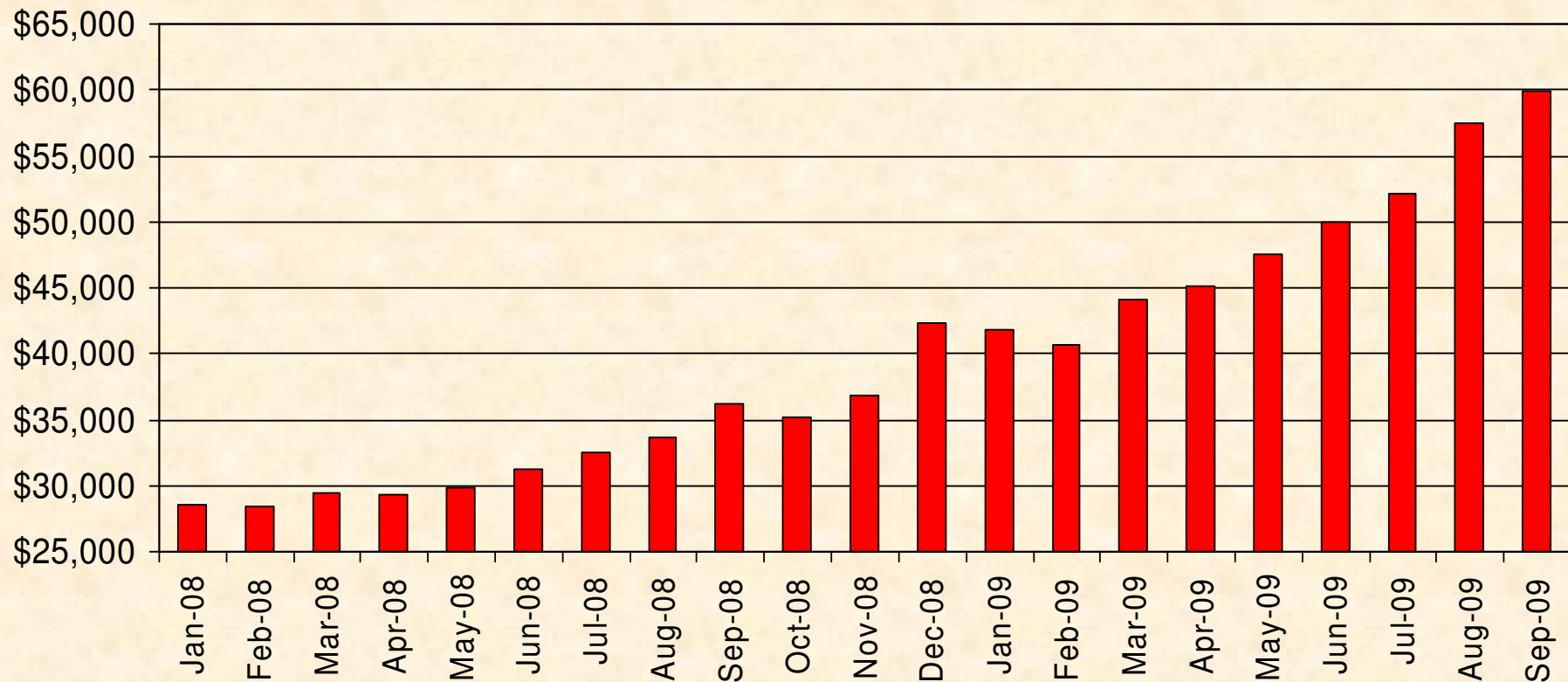


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International Reserves 2009

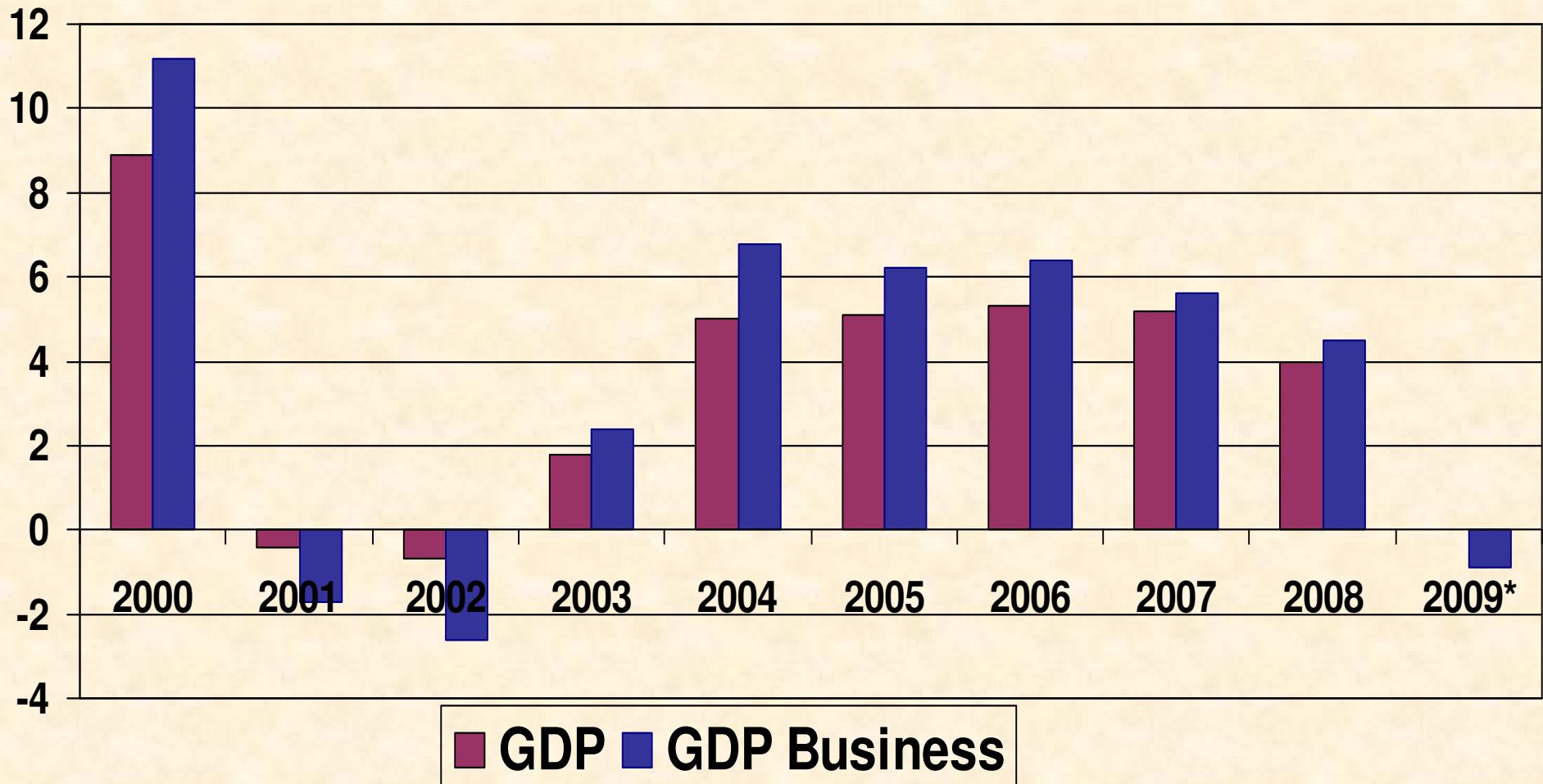
(In US dollars, millions end of the period)



Latest Economic Developments

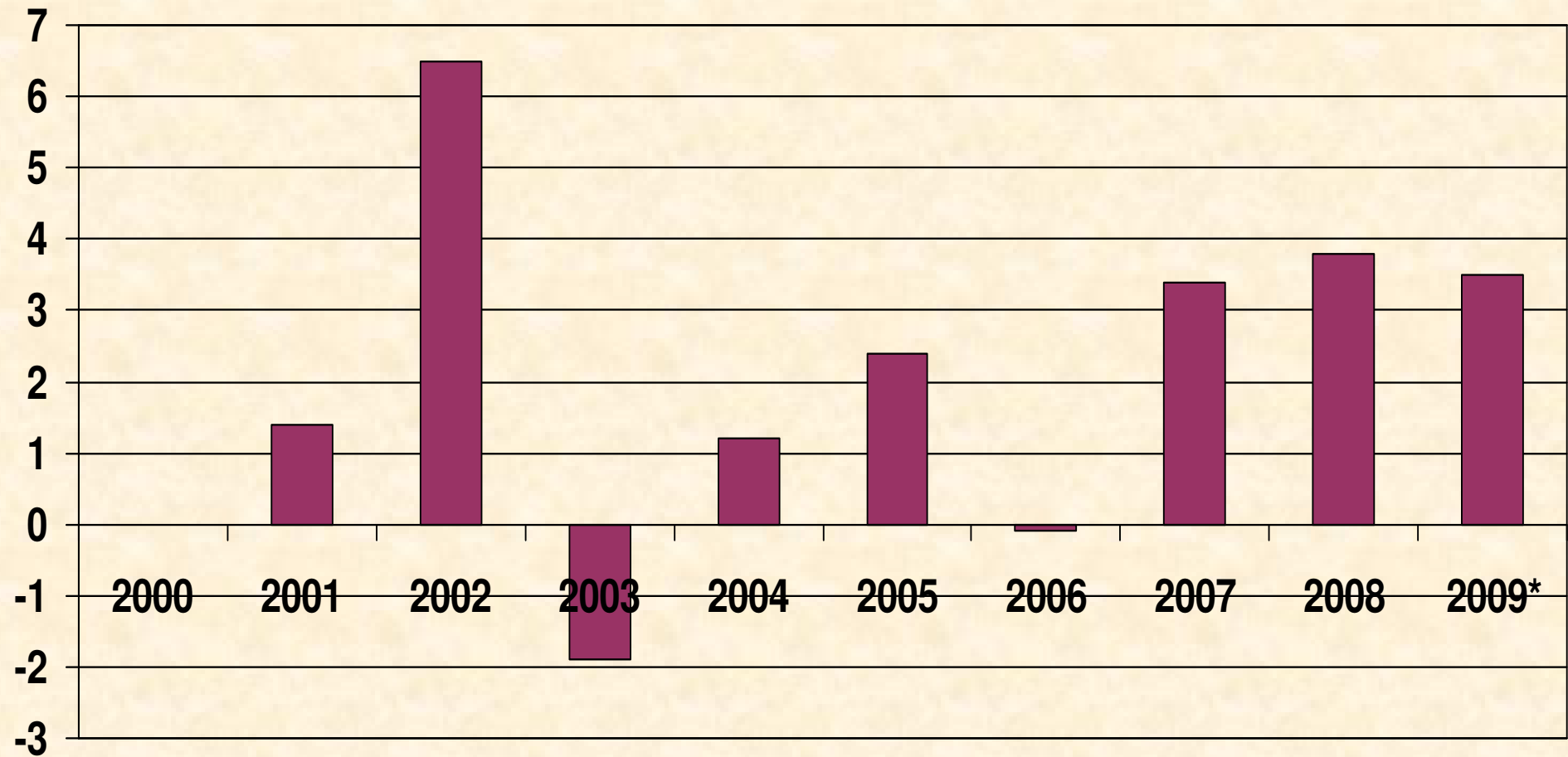
GDP and Business GDP 2000-2009

(Rates of Growth, Percent)



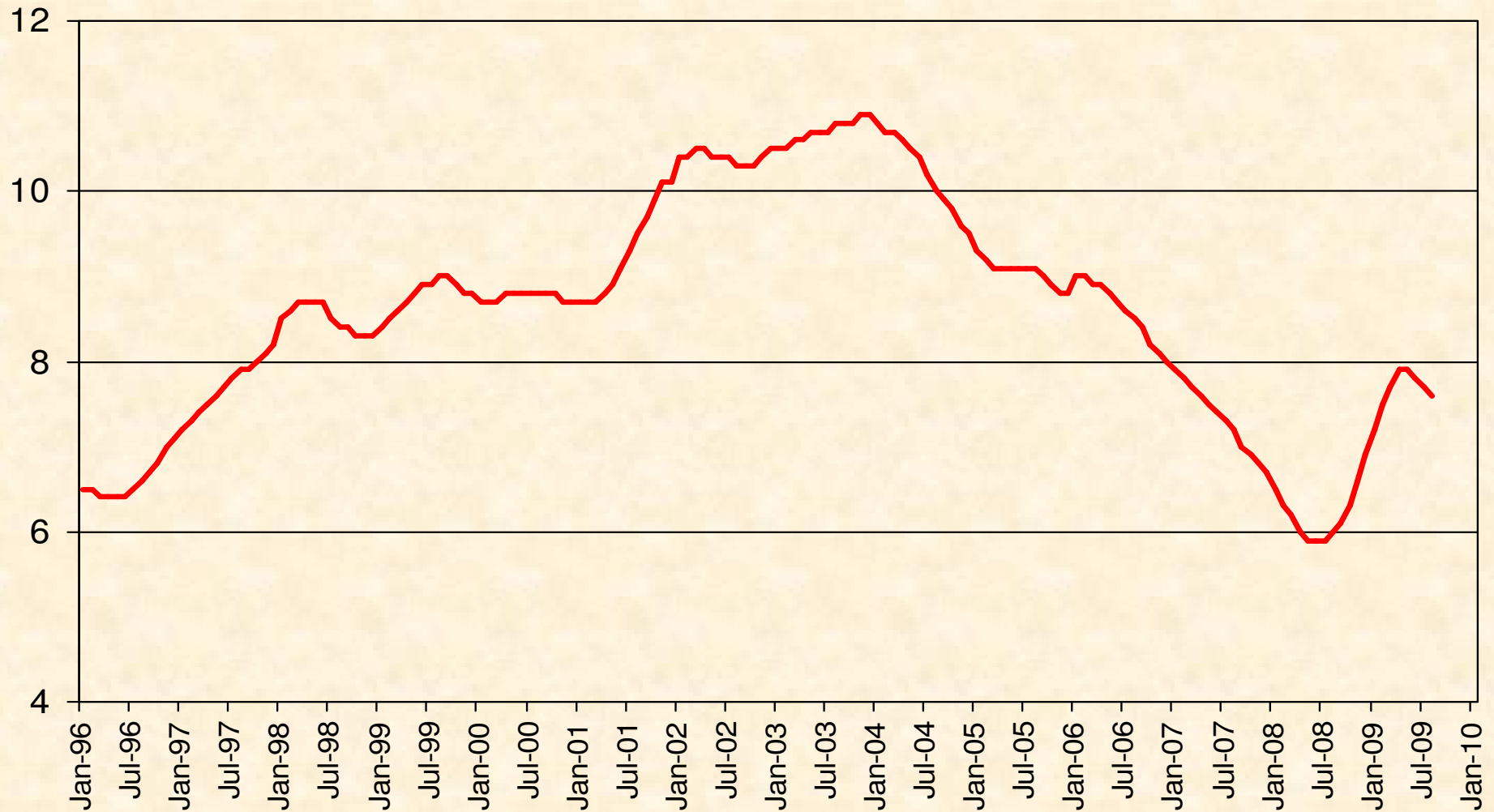
Rate of Inflation 2000-2009

(CPI, Percent)



Unemployment Trend 1996-2009

(Percent)

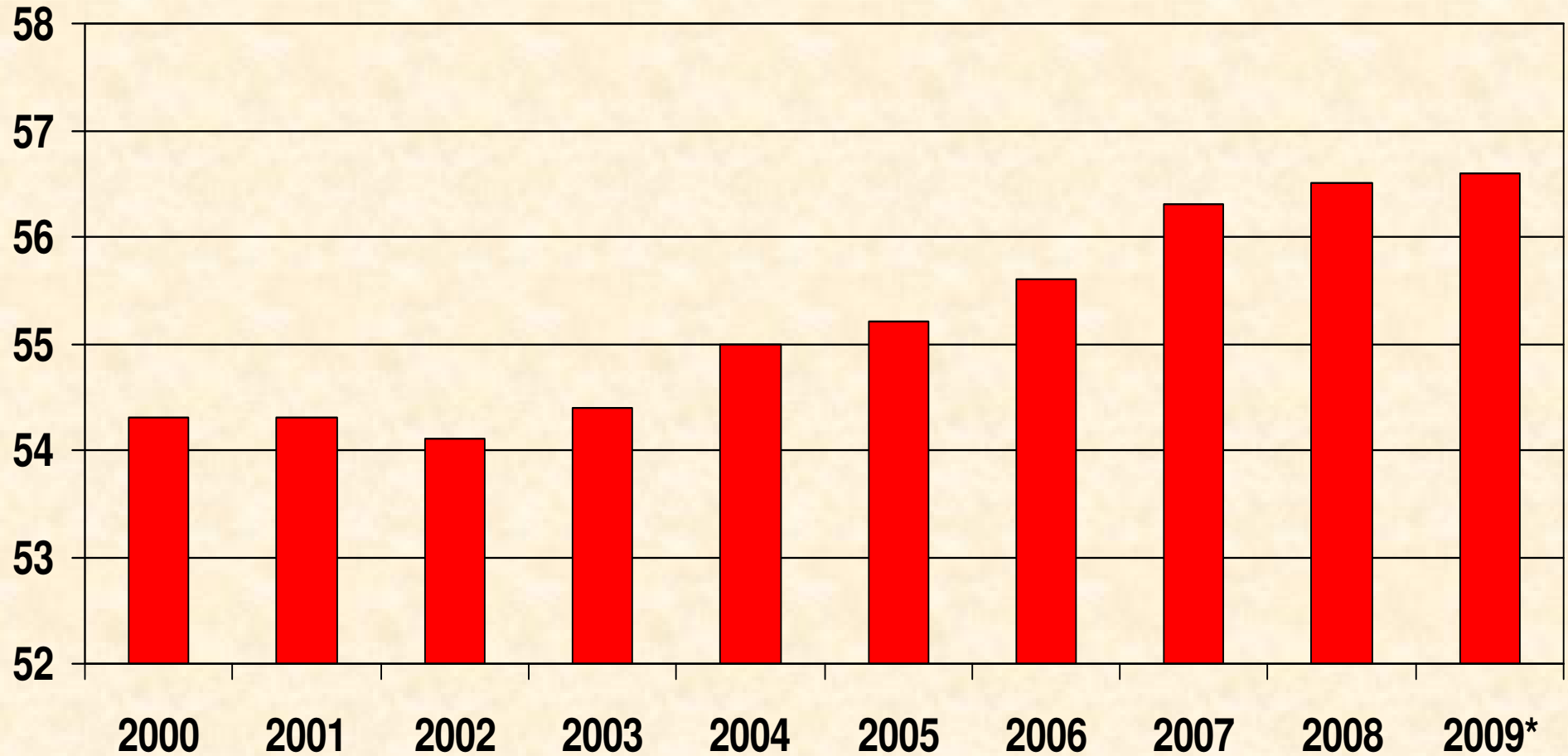


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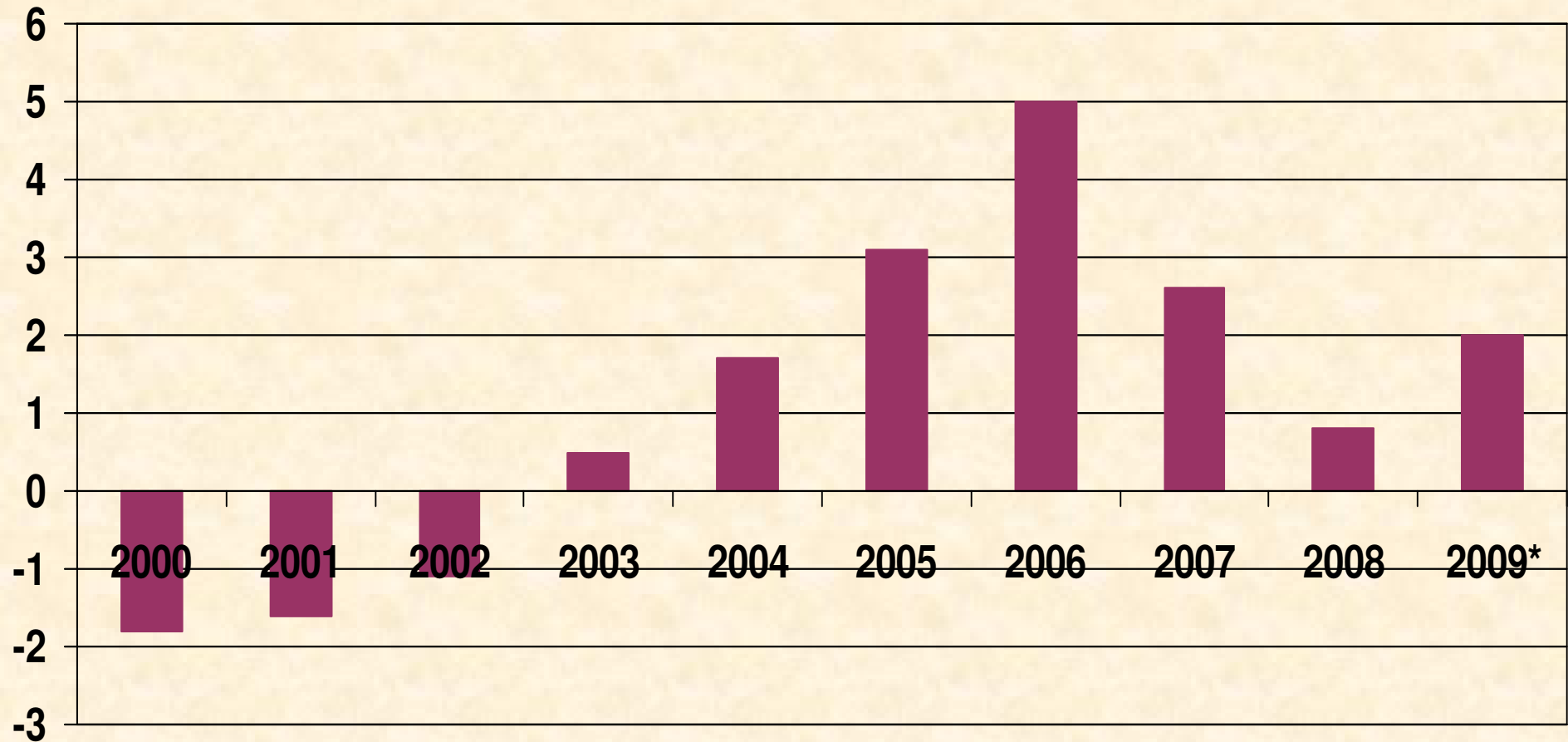
Labor Force Participation 2000-2009

(Percent)



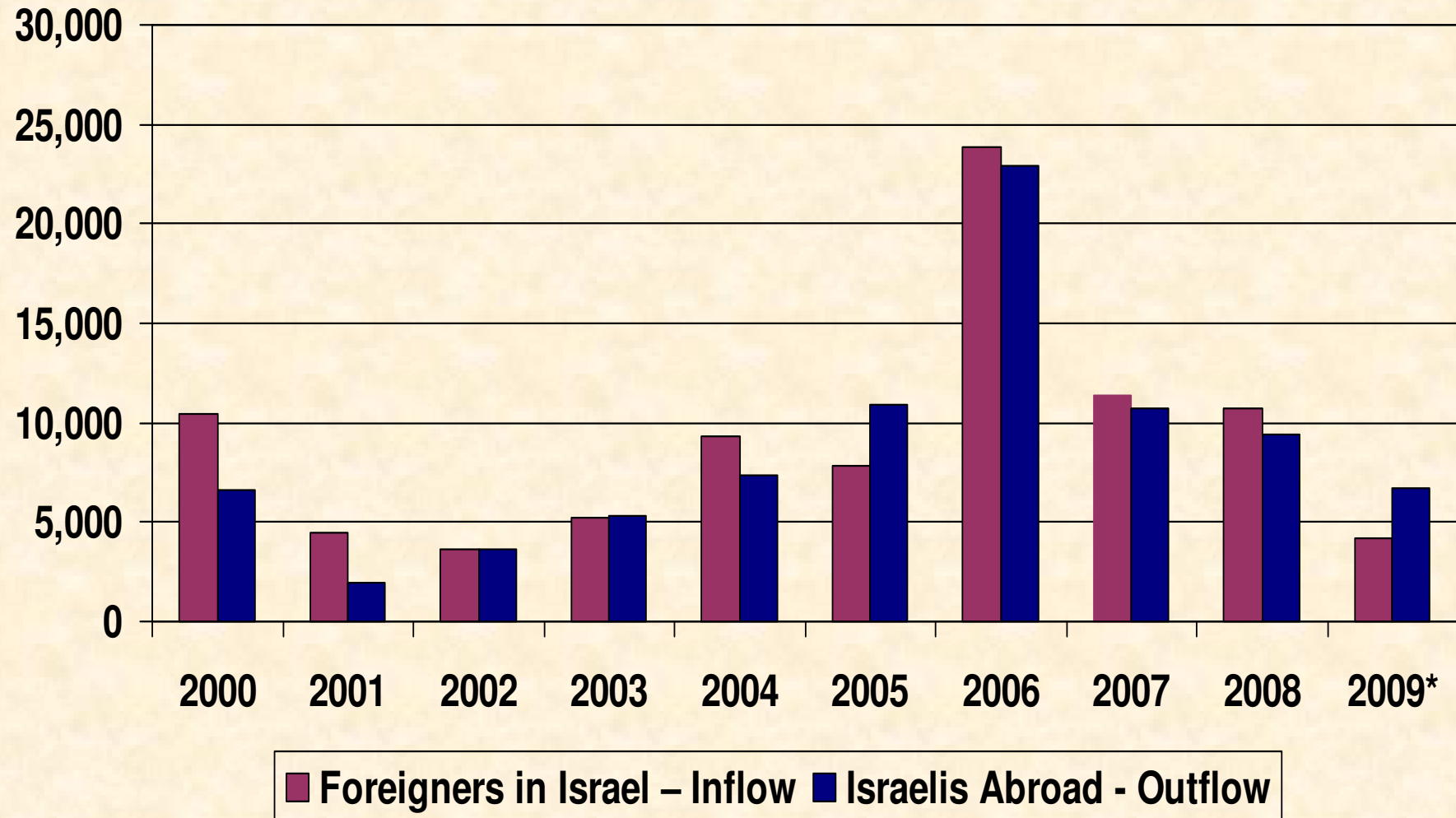
Current Account 2000-2009

(Percent of GDP)



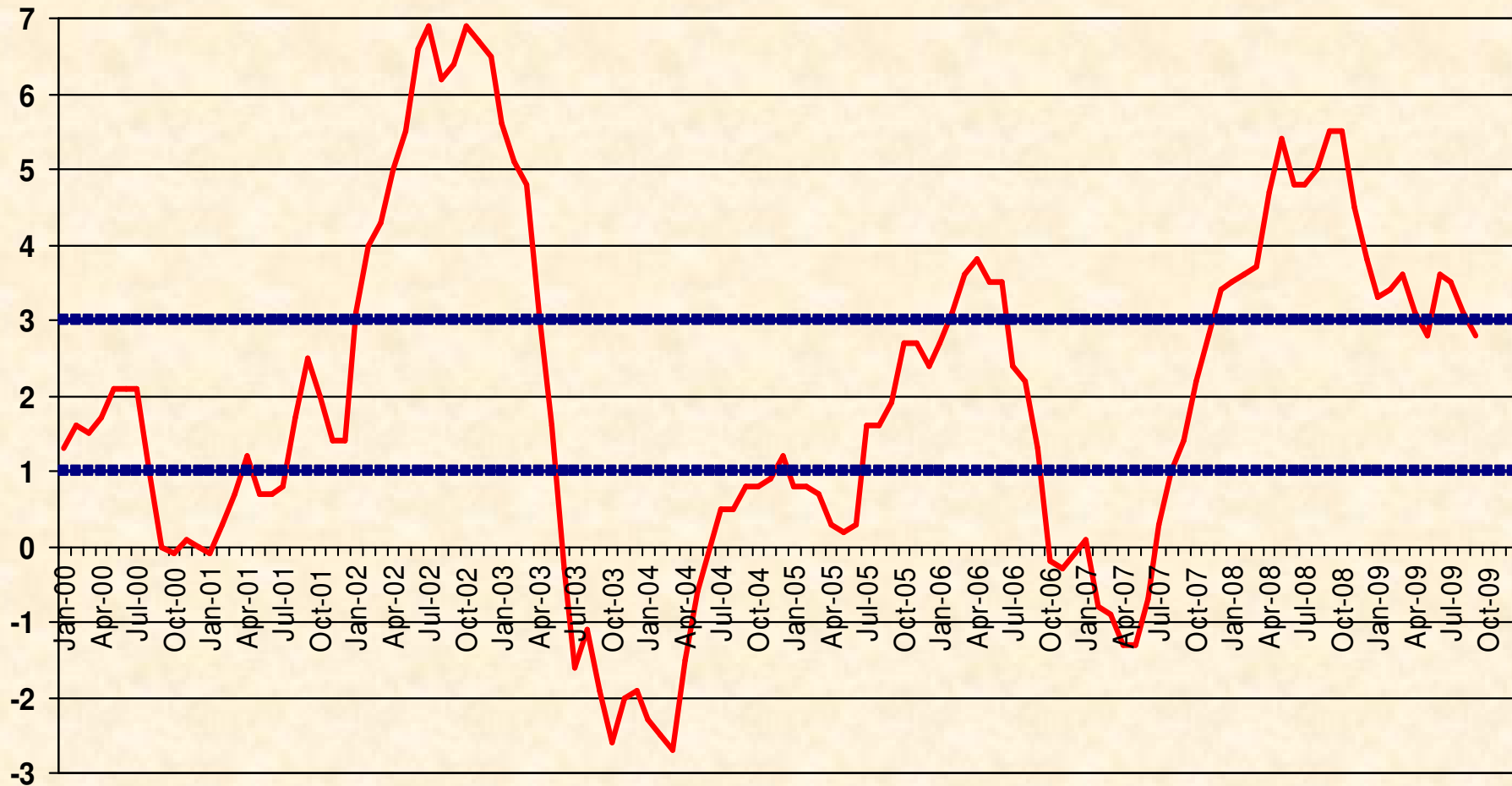
Capital Flows 2000-2009

(Direct Investment plus Securities Investment, Million U.S. dollars)



Consumer Price Index 2000-2009

(Percent change in previous 12 months)

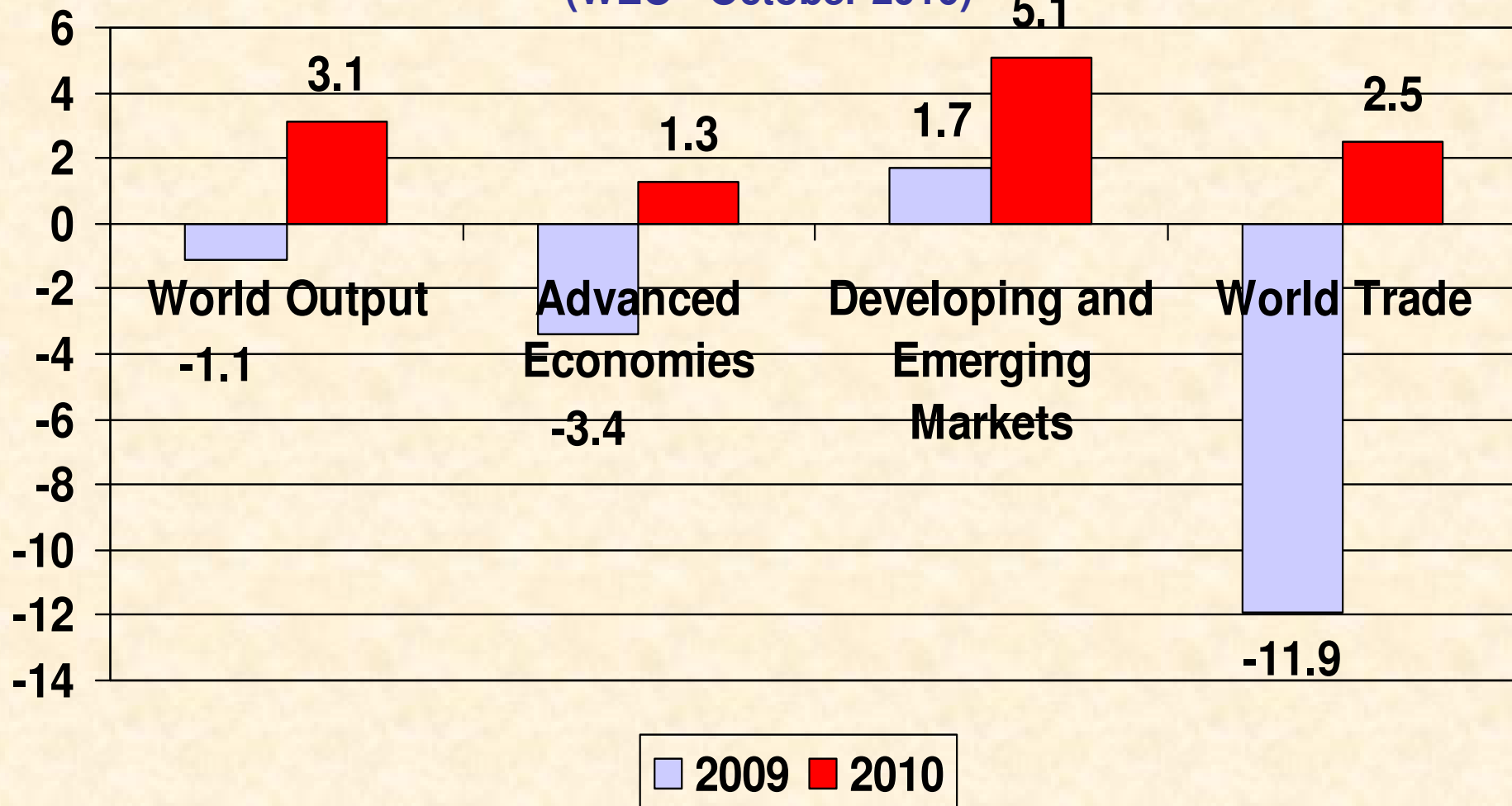


The World Economy

Basic Assumptions

Latest IMF GDP and World Trade Forecasts for 2009 and 2010

(WEO - October 2010)



IMF Forecasts for 2009

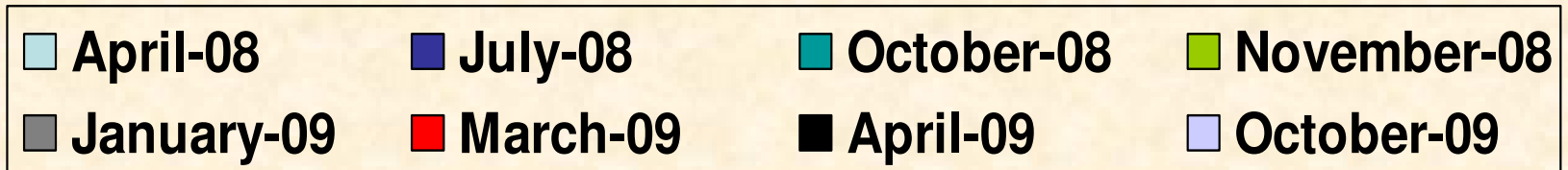
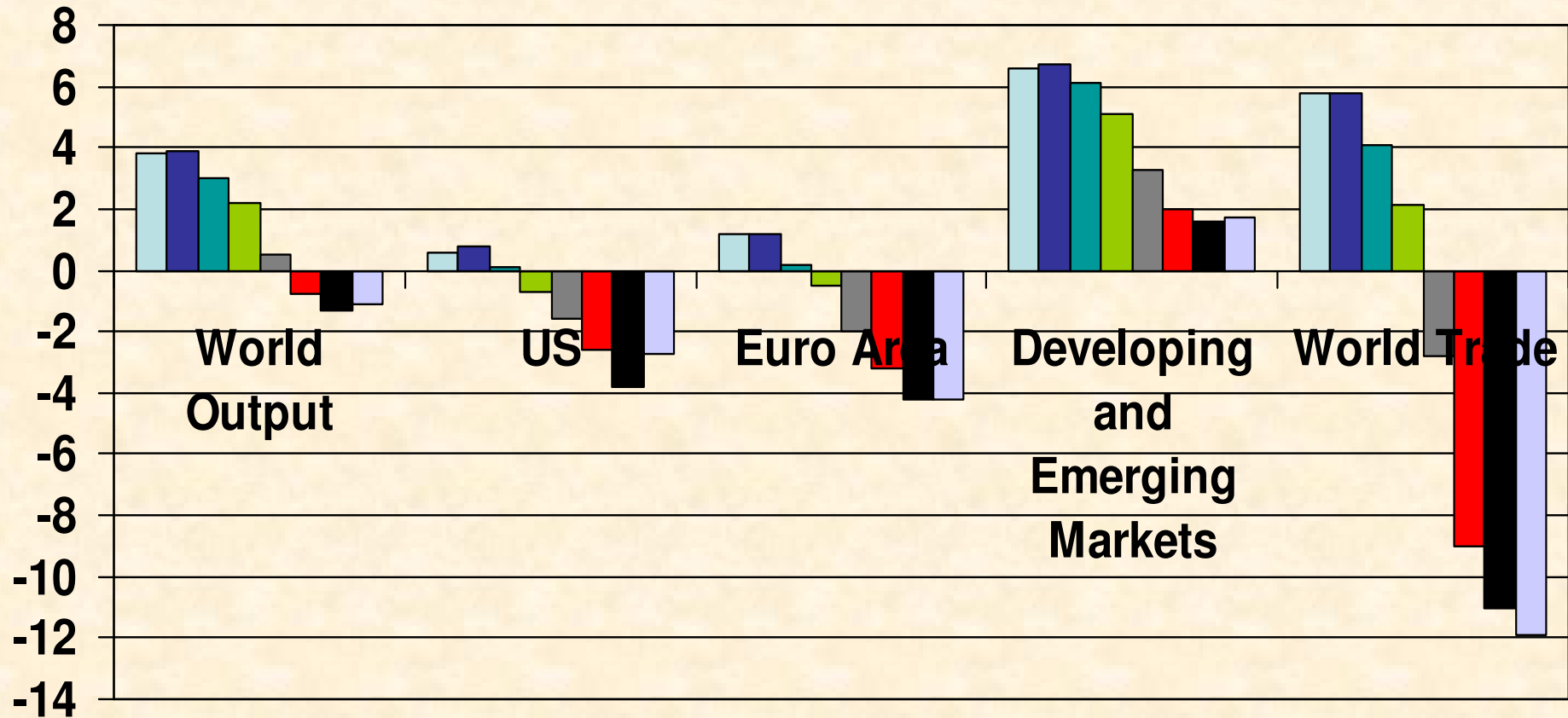
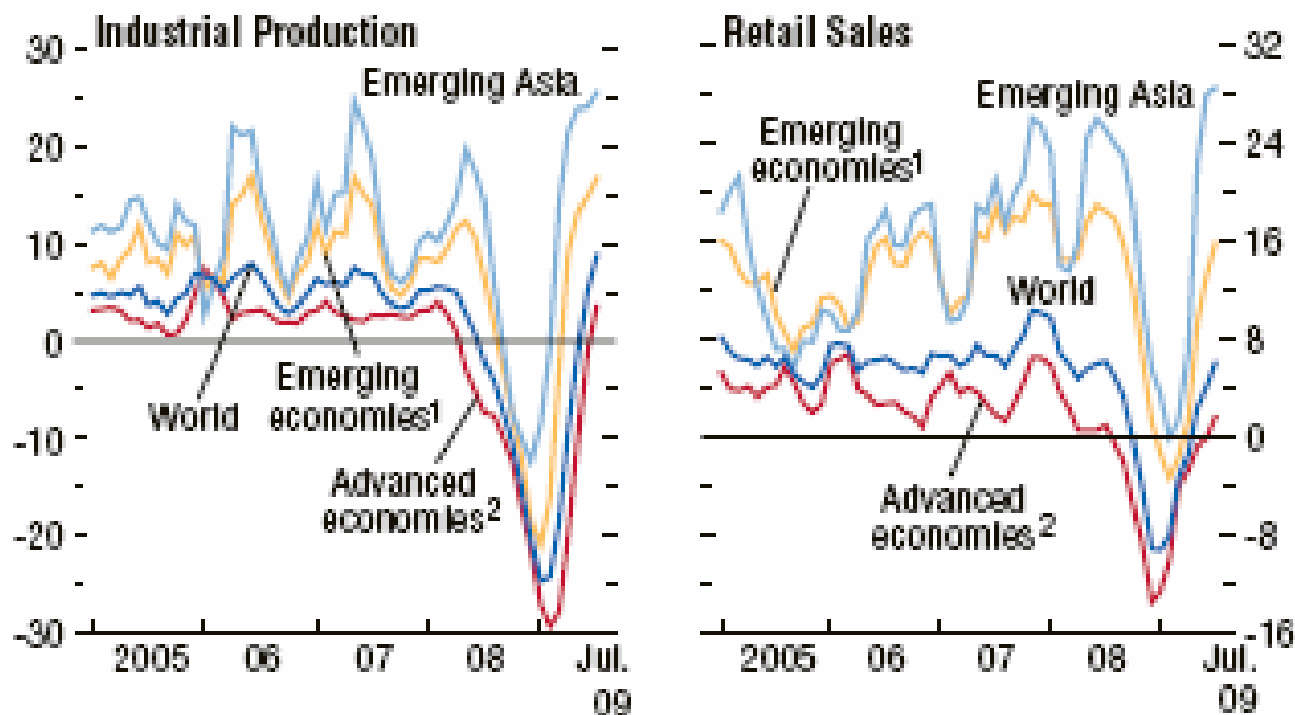


Figure 1.1. Current and Forward-Looking Indicators

(Annualized percent change of three-month moving average over previous three-month moving average unless otherwise noted)

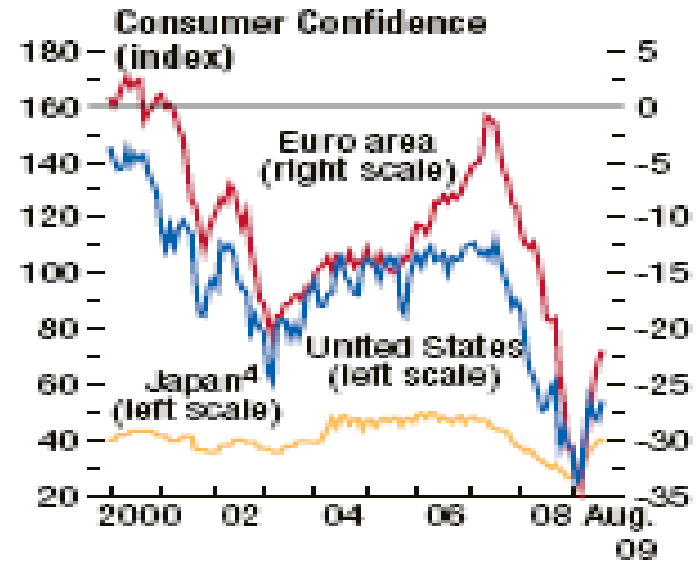
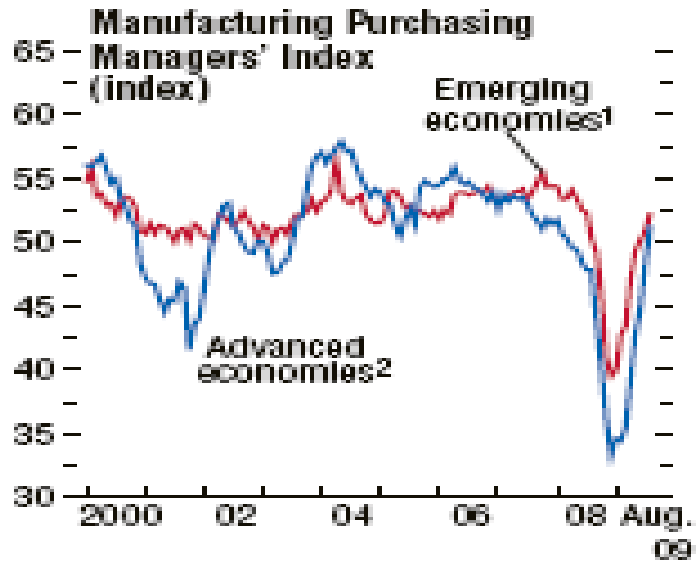
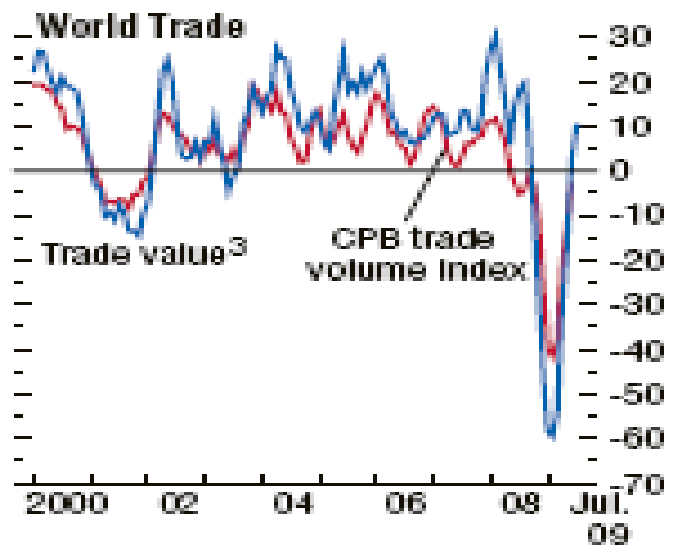
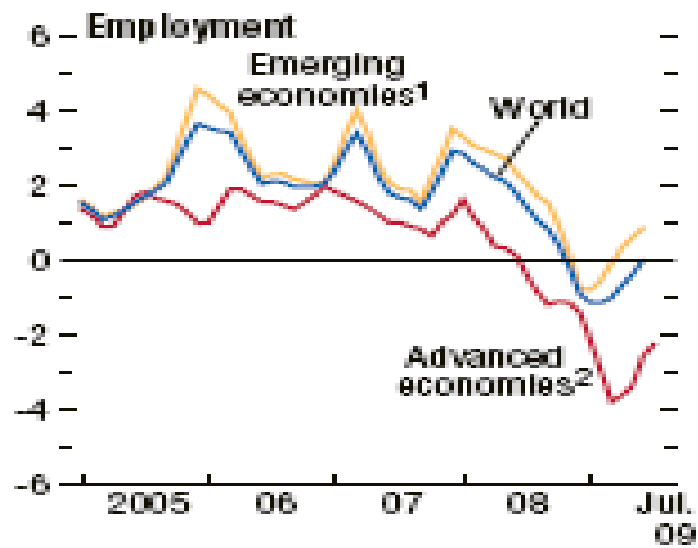
Strong public policies have fostered a rebound of industrial production, world trade, and retail sales, following steep falls at the turn of the year. The rebound in activity is led by Asia.



Source: IMF WEO Update November 2009

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Source: IMF WEO Update November 2009

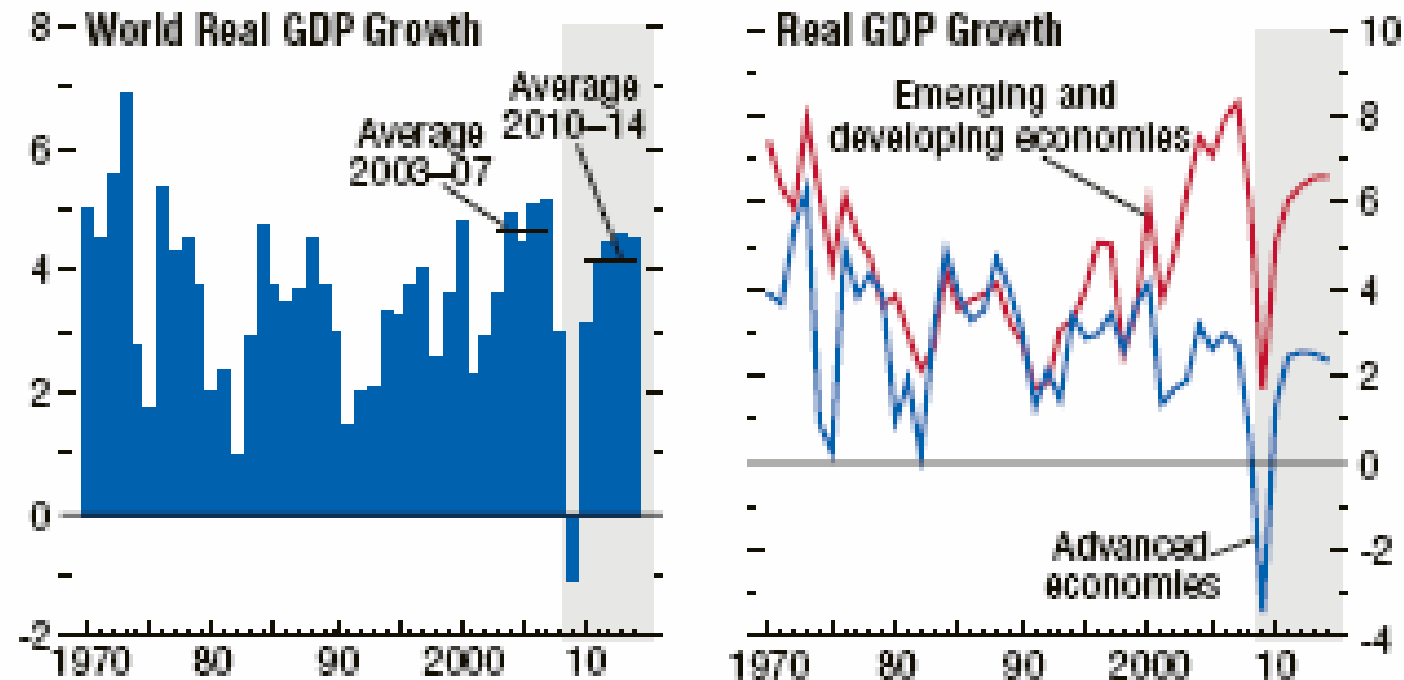
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Figure 1.2. Global Indicators¹

(Annual percent change unless otherwise noted)

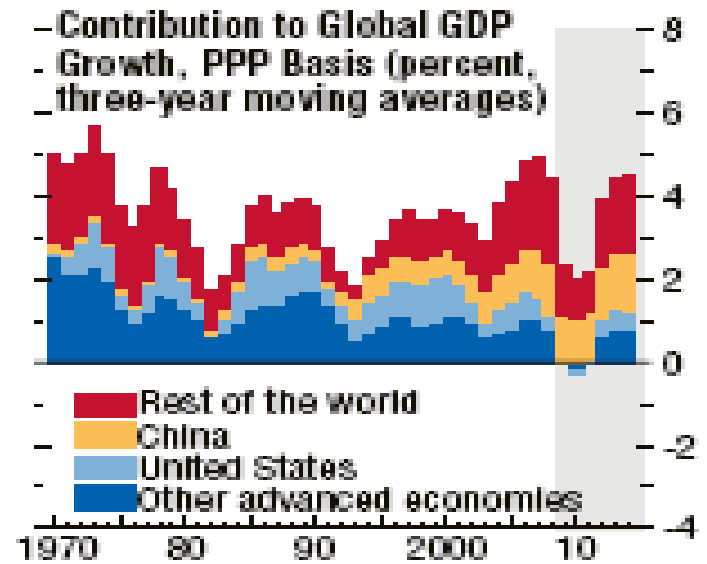
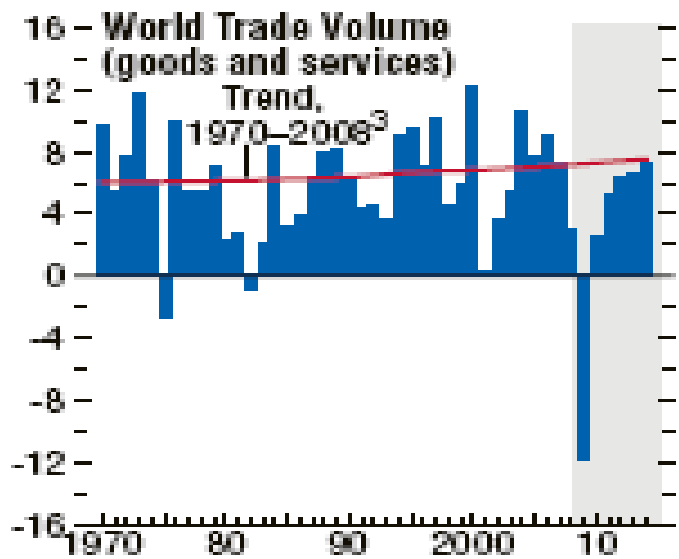
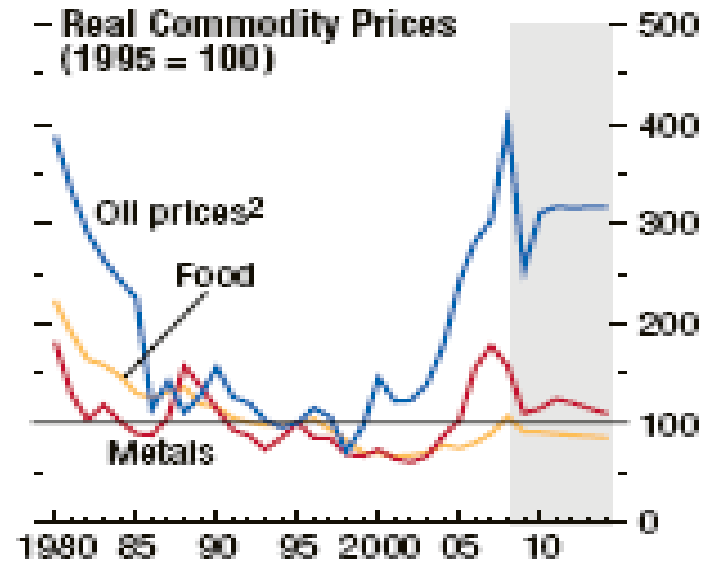
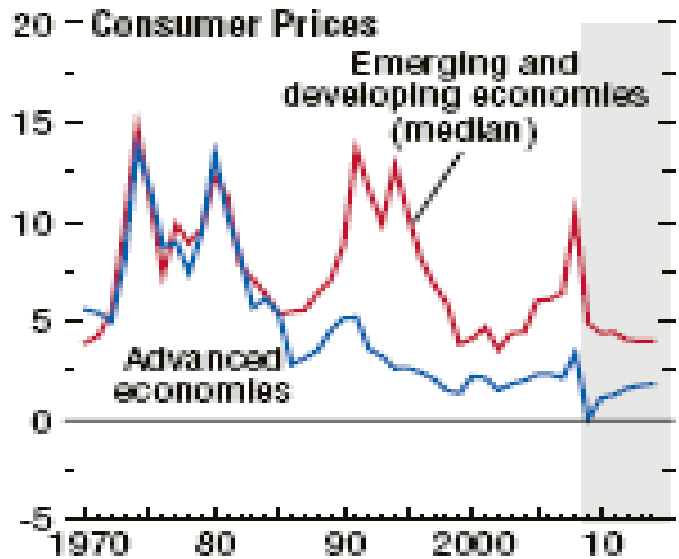
The financial crisis triggered the largest contraction in activity since World War II. The recovery is projected to be modest by past standards.



Source: IMF WEO Update November 2009

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Source: IMF WEO Update November 2009

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World Trade Volume 2003-2010

(Annual Percent Change, IMF WEO October 2009)



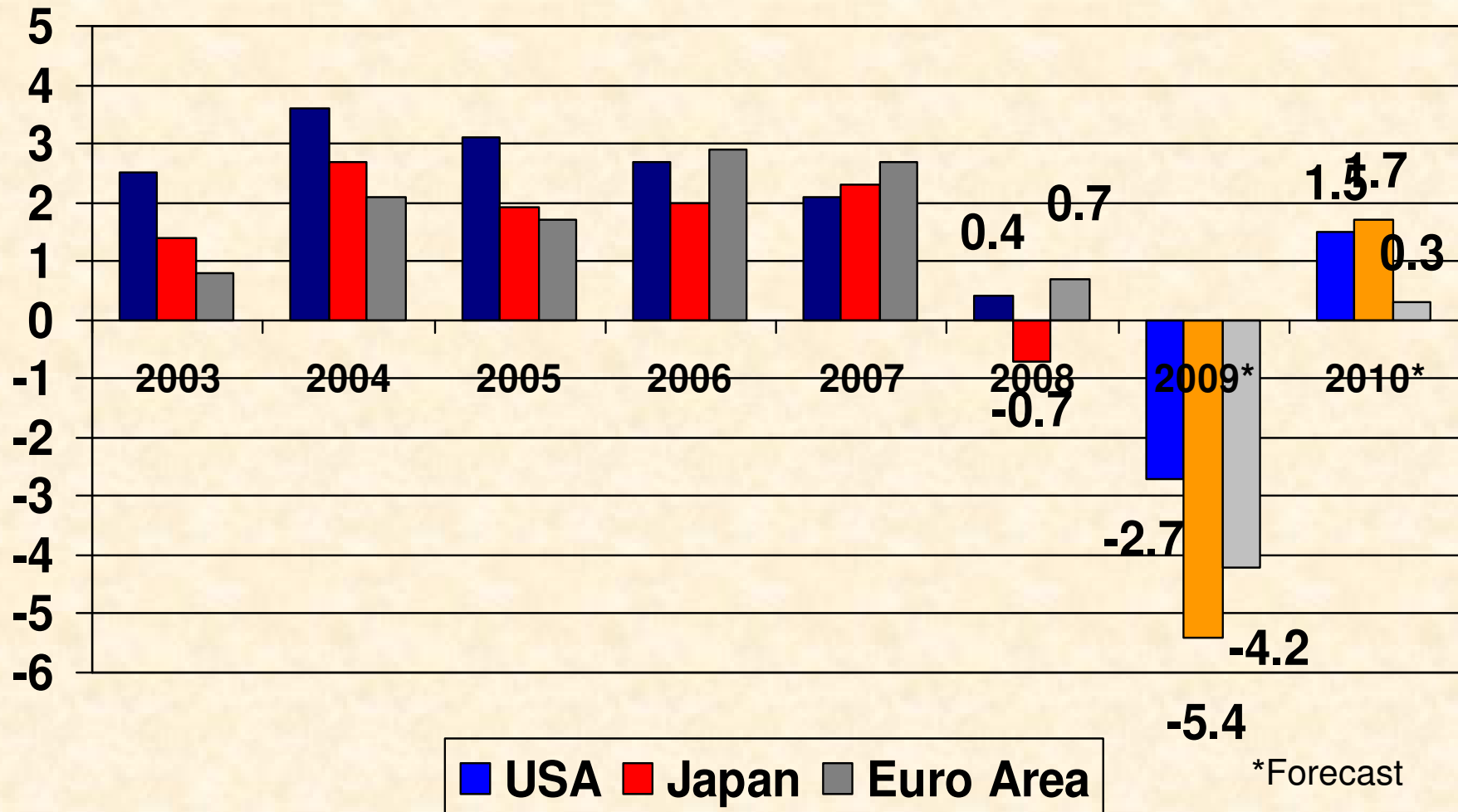
*Forecast

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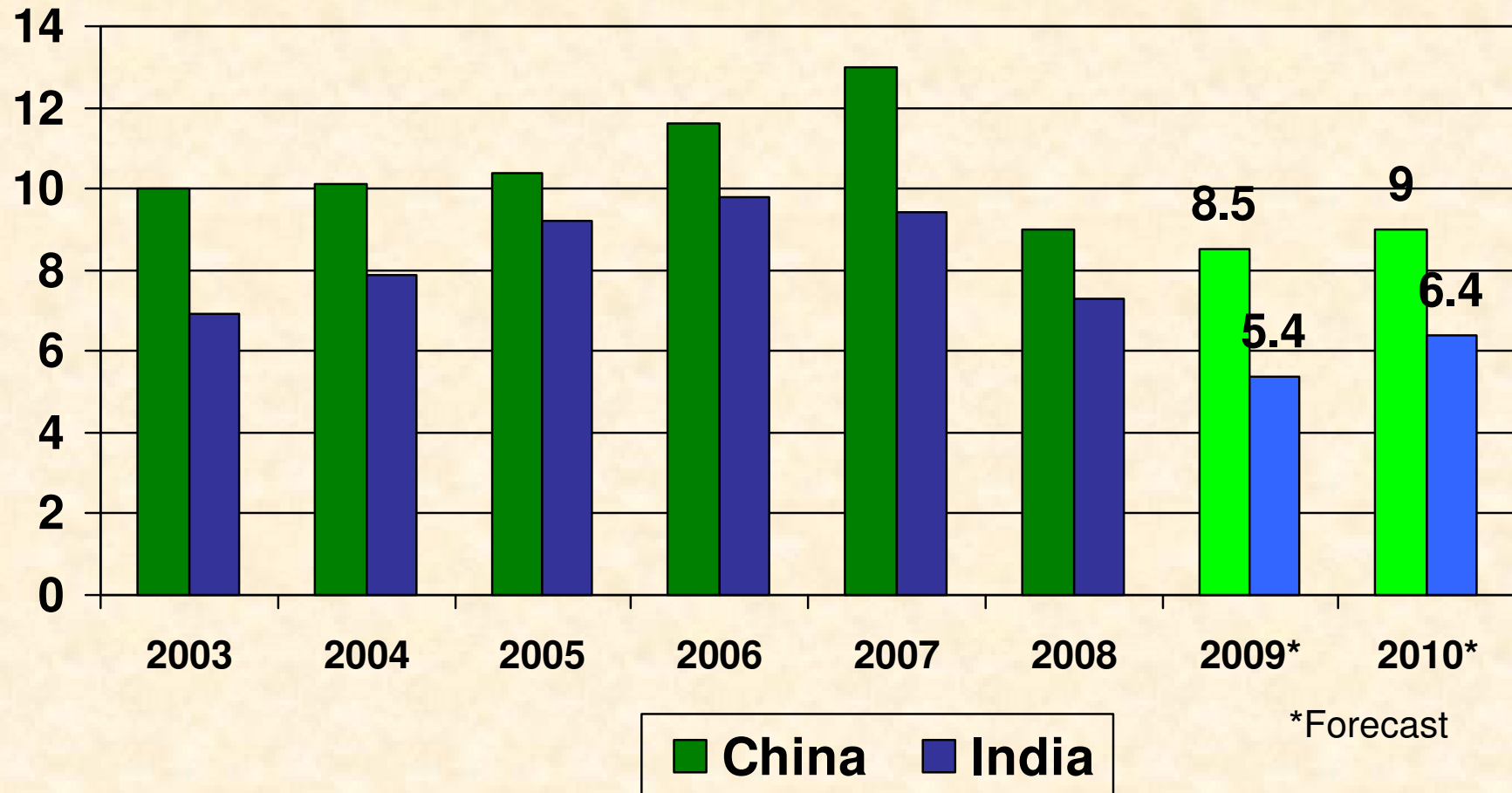
Real GDP Growth 2003-2010

(Annual Percent Change, IMF WEO October 2009)



Real GDP Growth 2003-2010

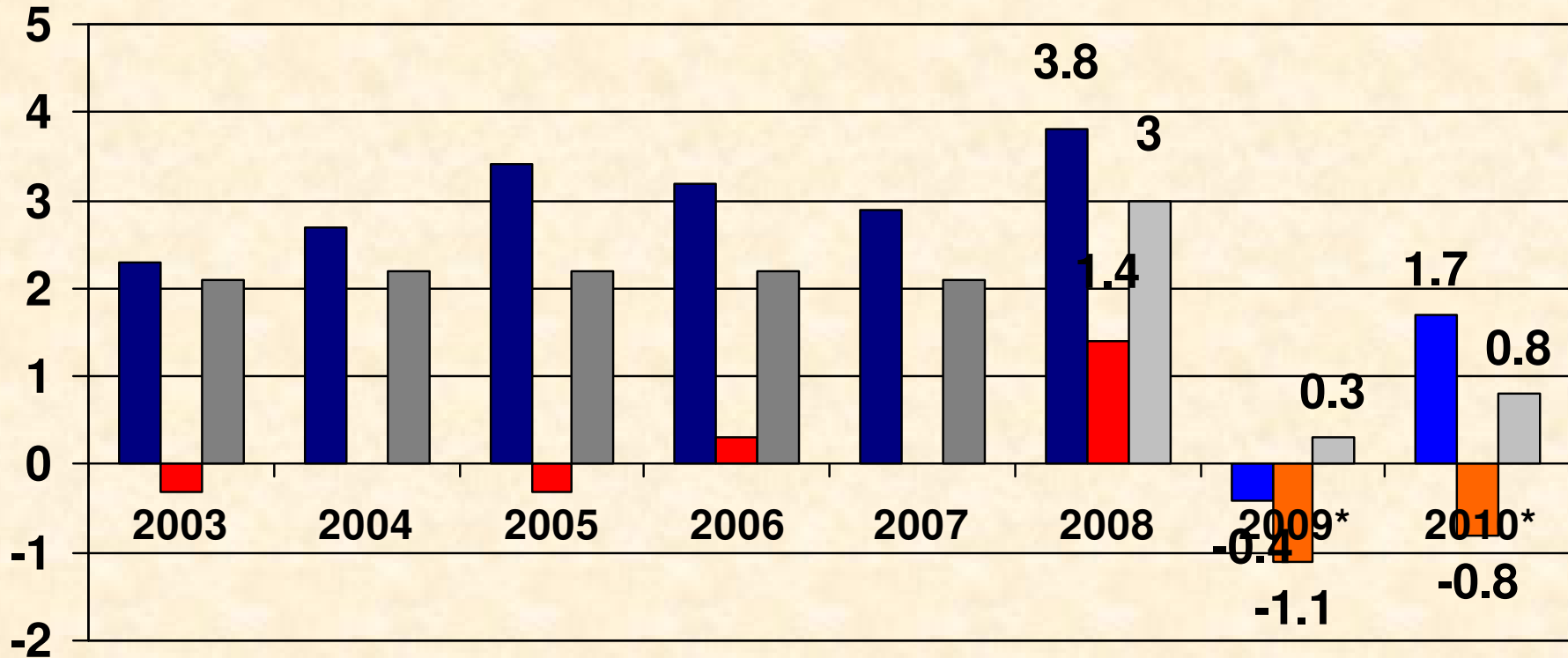
(Annual Percent Change, IMF WEO October 2009)



*Forecast

Inflation 2003-2010

(CPI, Annual Percent Change, IMF WEO October 2009)

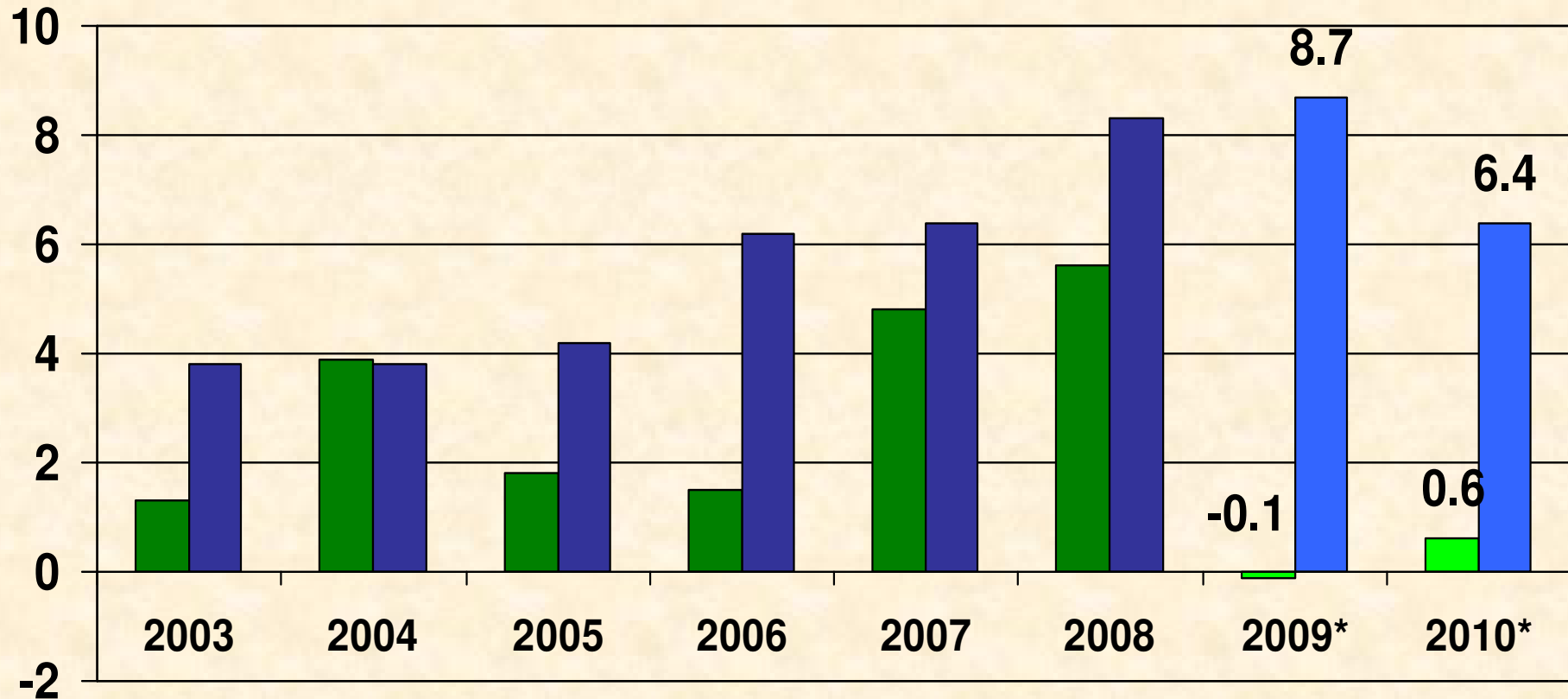


■ USA ■ Japan ■ Euro Area

*Forecast

Inflation 2003-2010

(CPI, Annual Percent Change, IMF WEO October 2009)



■ China ■ India

*Forecast

Economic Policy
Fiscal – The 2009-10 Budget
Monetary

Fiscal Policy 2009-2010

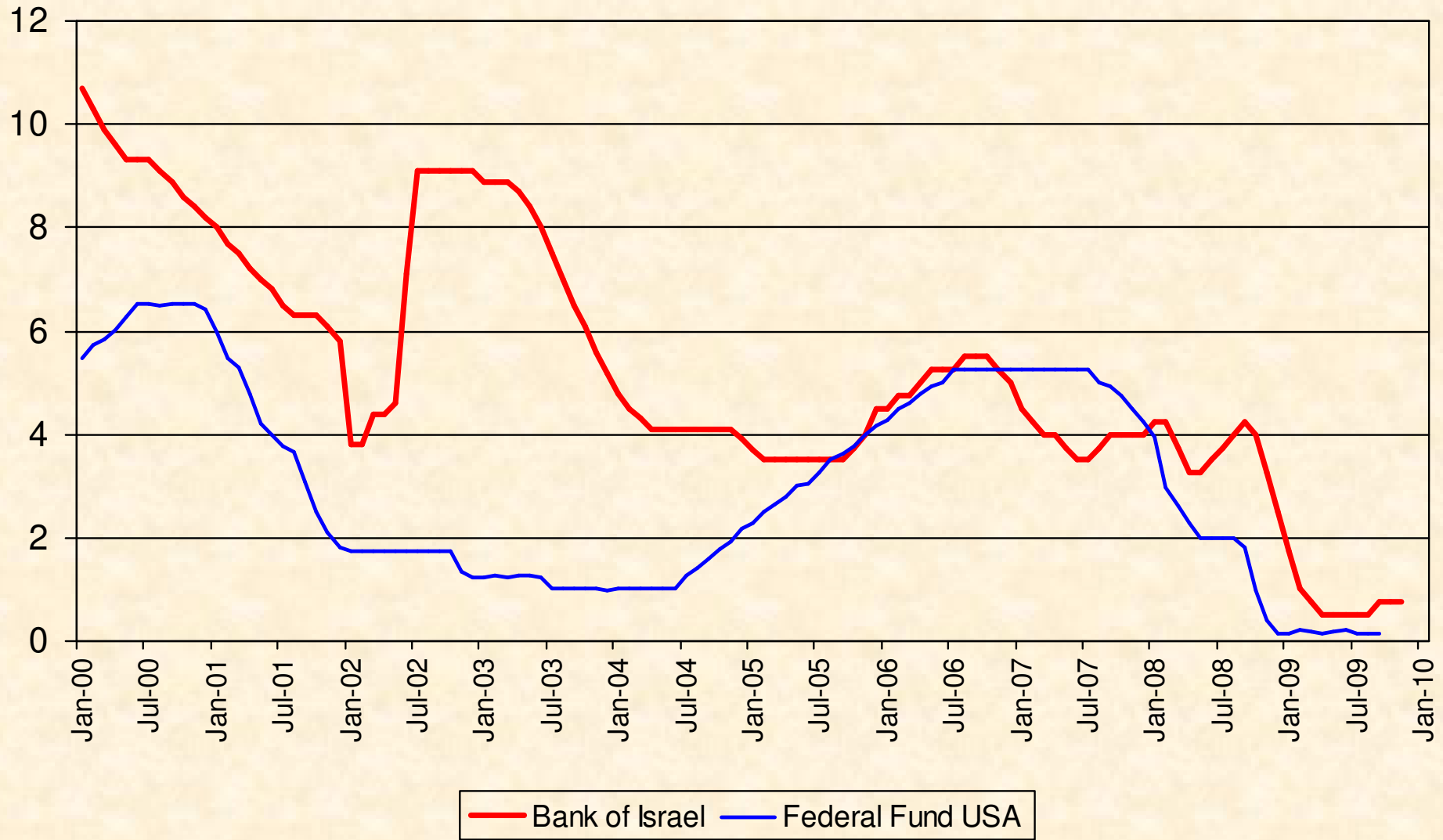
- The 2009-2010 budget will not be further adjusted
- The automatic stabilizers will continue to provide fiscal impulse
- 4.0 percent expected government deficit in 2010 as percent of GDP due to improvement in tax collection

Monetary Policy 2010

- ✓ Monetary policy will continue to be relatively expansionary but less than in 2009
- ✓ 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 2000-2009

(Percent)



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Macroeconomic Forecast 2010

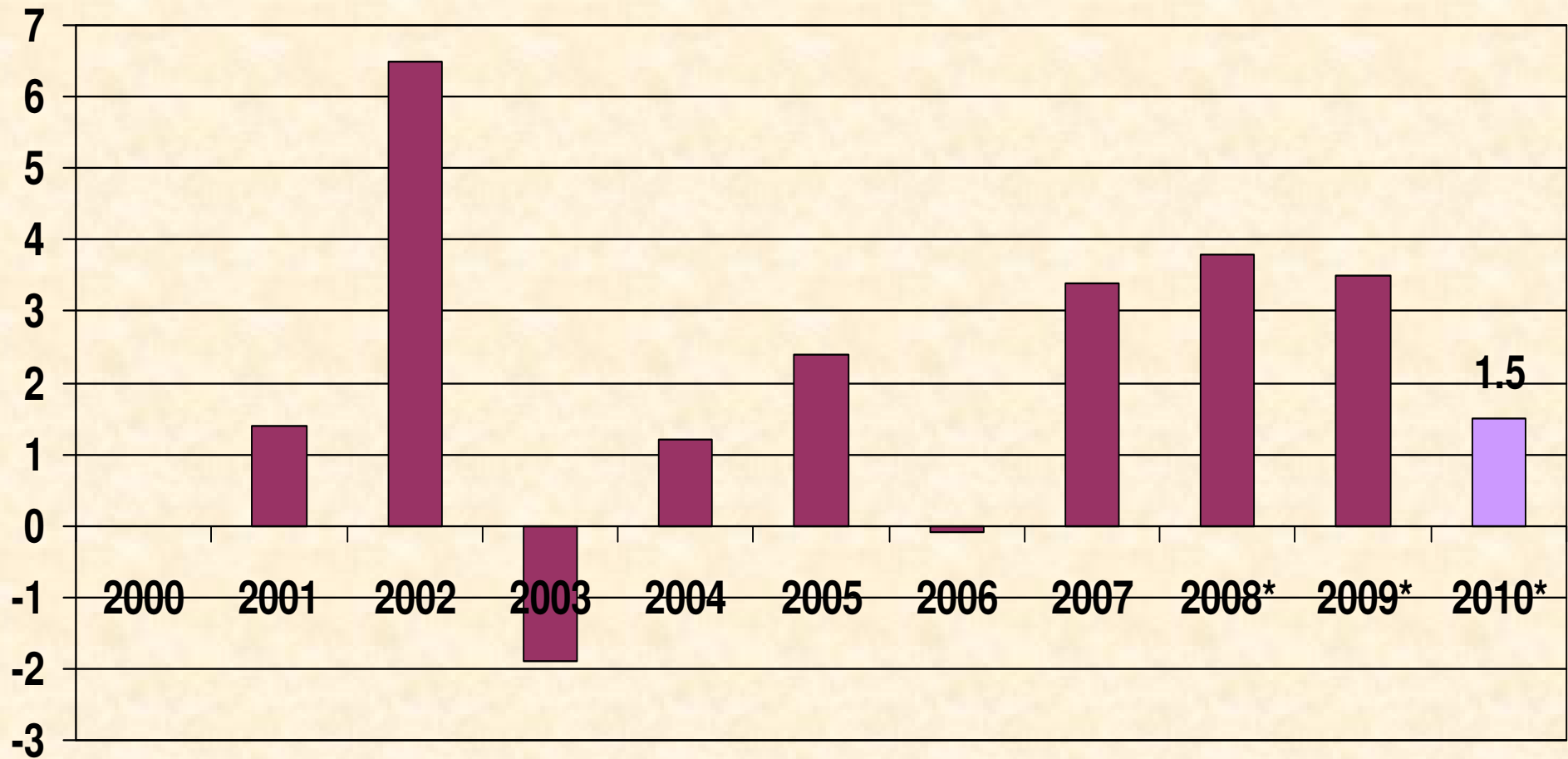
GDP and GDPB Forecast 2010

(Rates of Growth, Percent)



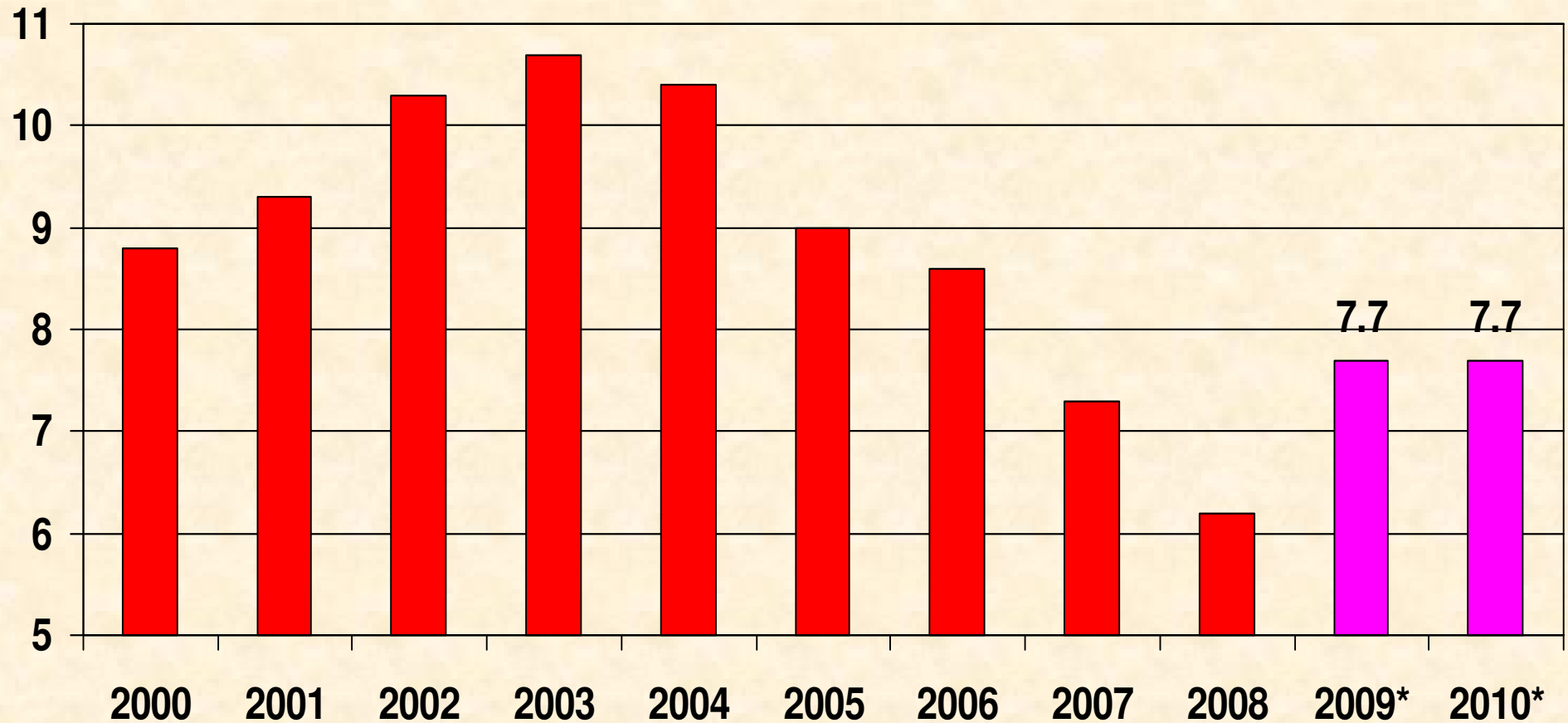
Rate of Inflation Forecast 2010

(CPI, Percent)



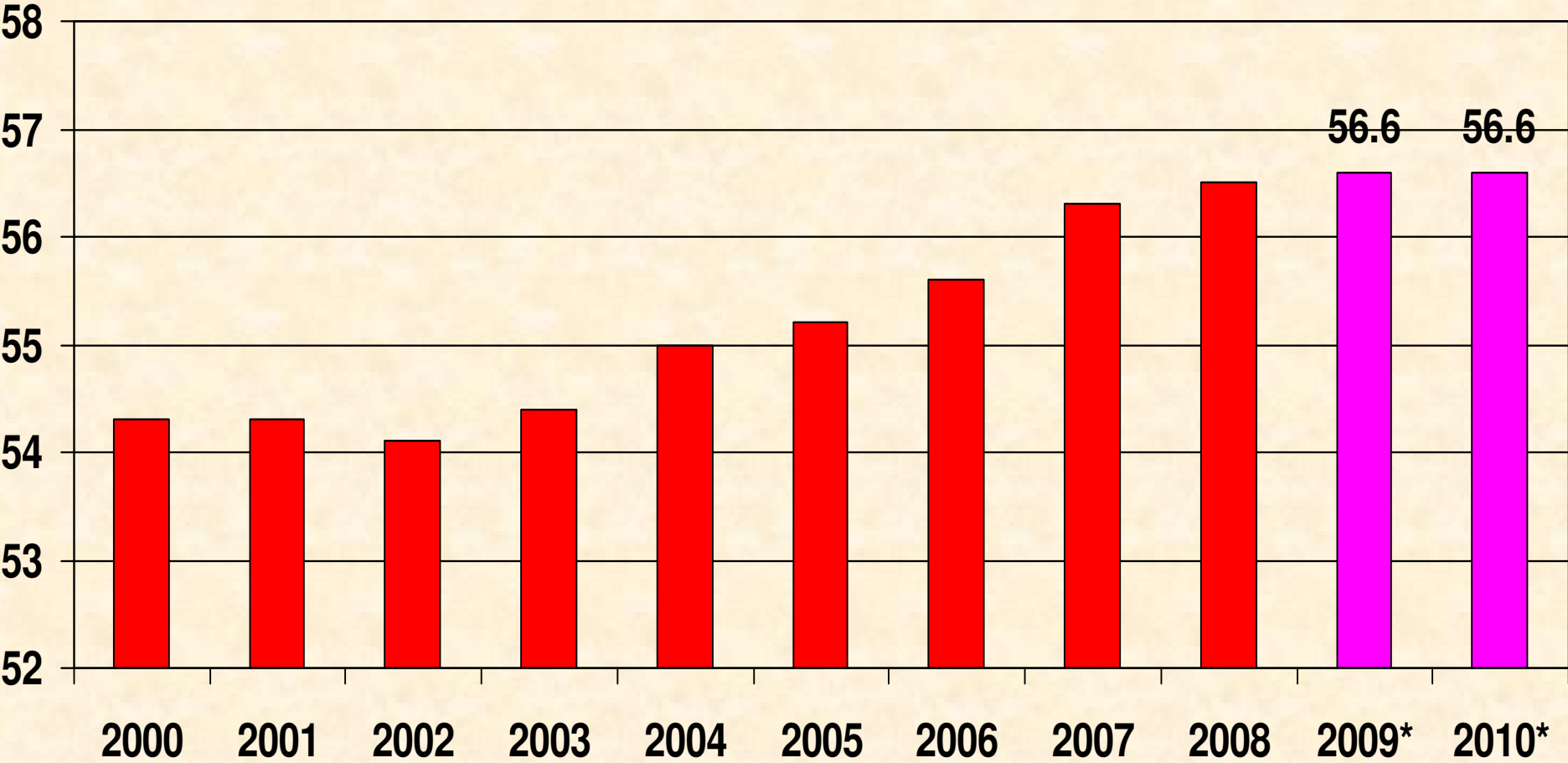
Unemployment Forecast 2010

(Percent)



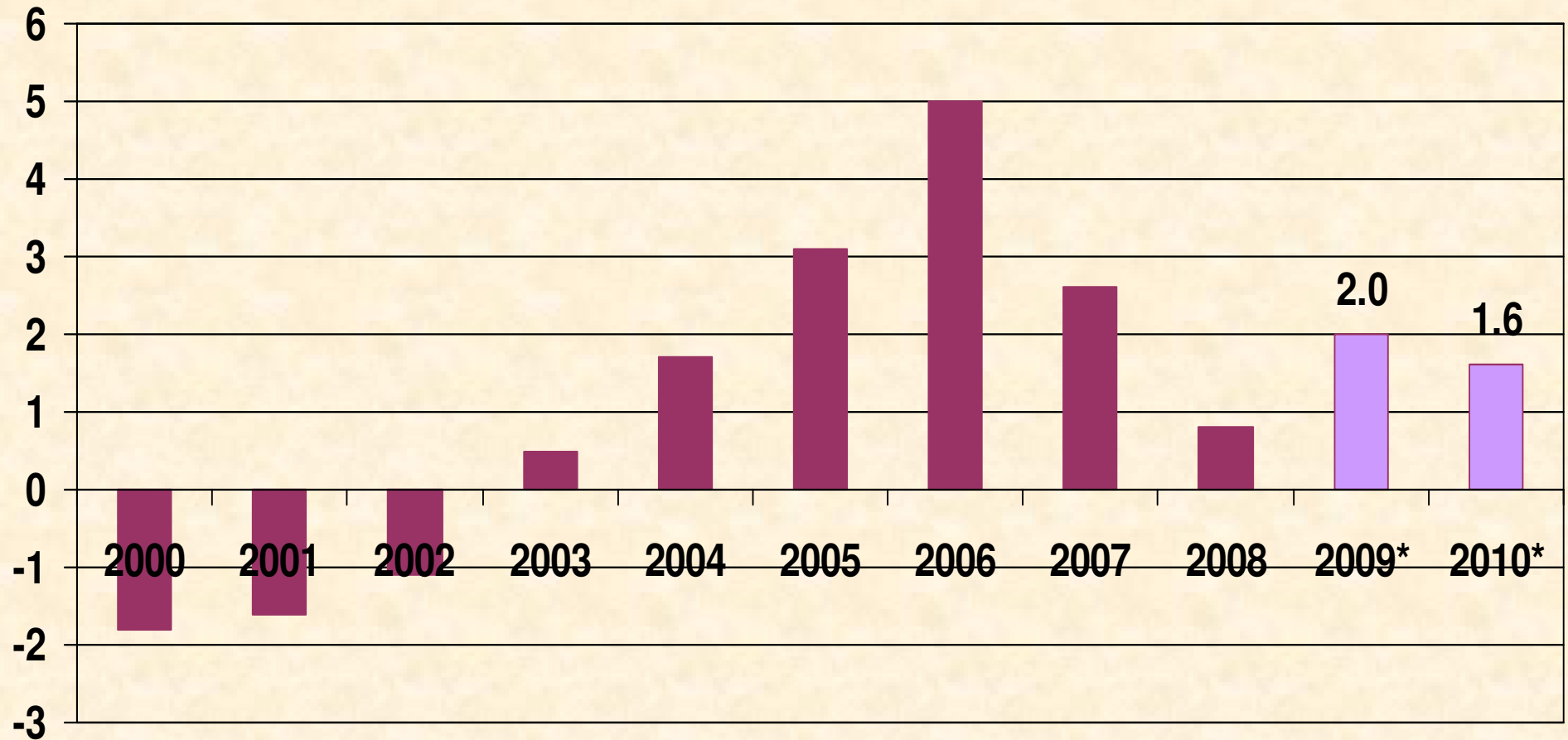
Labor Force Participation Forecast 2010

(Percent)



Current Account Forecast 2010

(Percent of GDP)



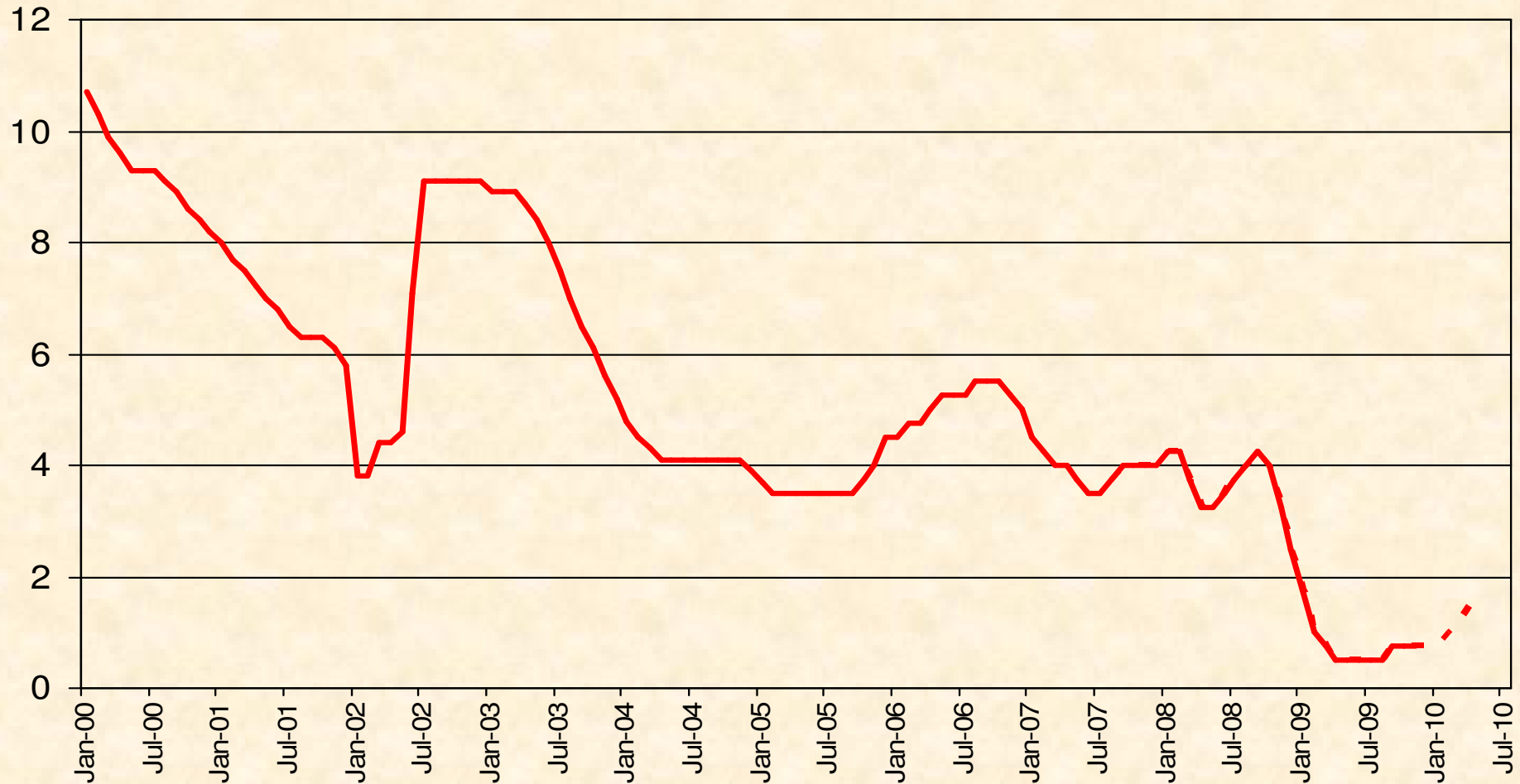
Uses and Resources Forecast 2010

(Rates of Growth, Percent)

	C.B.S 2009	B.o.I. 2010	Melnick 2010
Resources			
GDP	0.0	2.5	3.1
Business GDP	-0.9	2.8	3.6
Civilian Imports	-10.4	6.9*	2.6*
Uses of Resources			
Private Consumption	0.6	3.5	3.5
Government Consumption	2.7		3.1
Fixed Capital Formation	-5.9	1.4	0.7
Exports	-13.2	6.3*	3.3*

*without diamonds

Bank of Israel Interest Rate 2000-2010

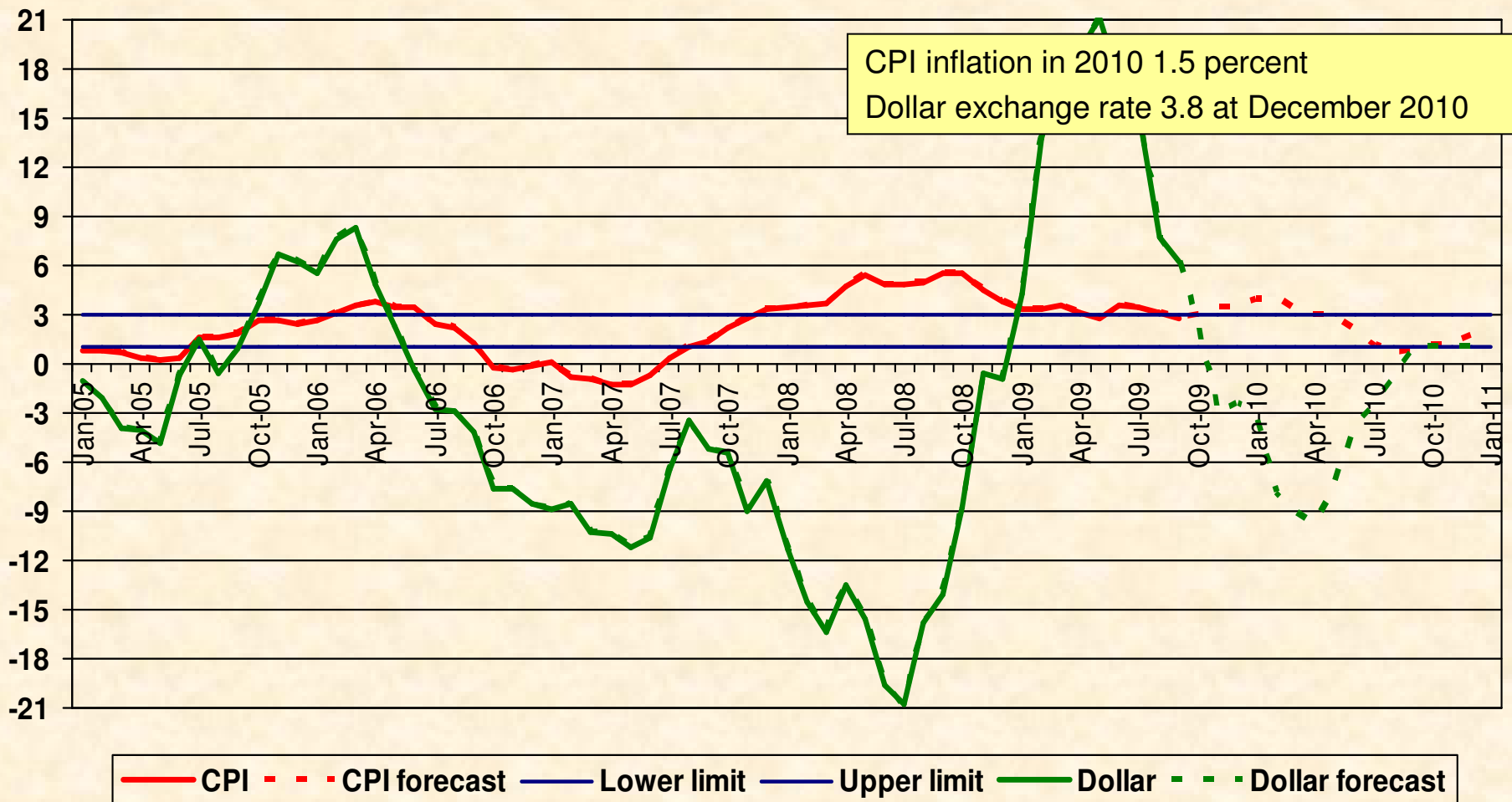


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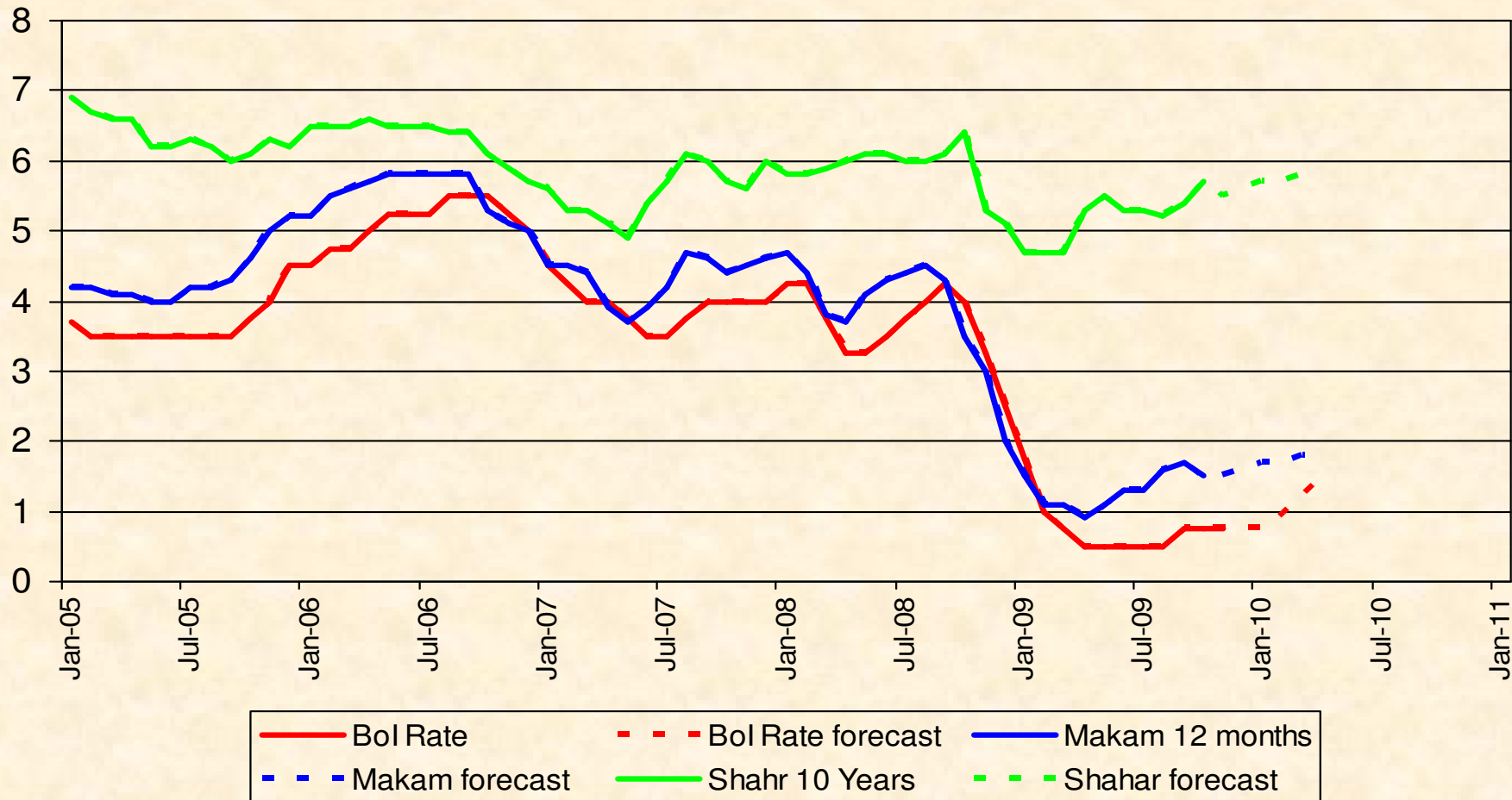
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Consumer Price Index and Dollar Exchange Rate 2010 Forecast

(Percent change in previous 12 months)

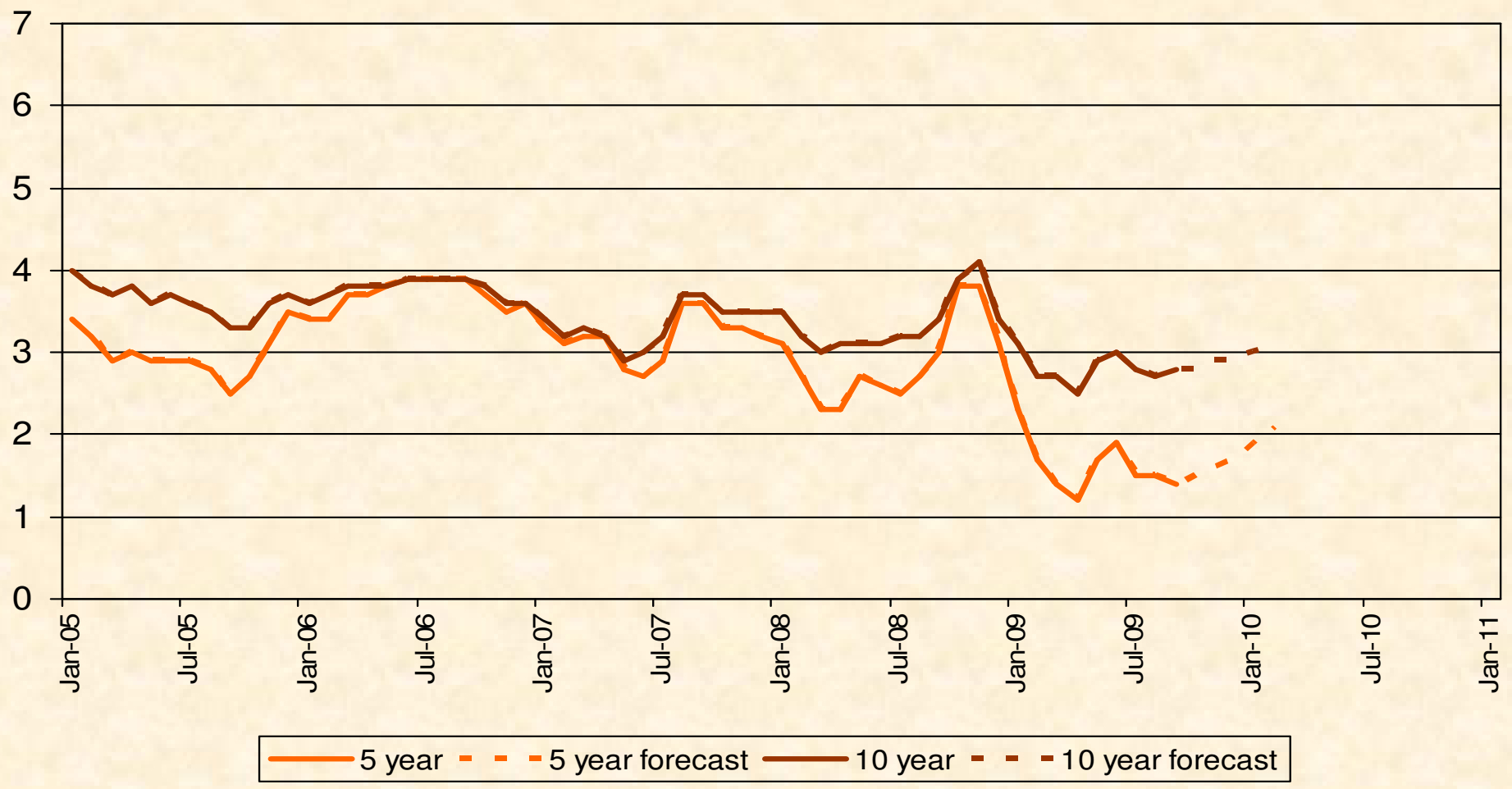


Bol Interest Rate and Yields to Makam and Shahr 2010 Forecast



Real Yield on Indexed Government Bonds 2010 Forecast

(5 and 10 years maturity, percent)



Stock Market as Leading Indicator 1997 - 2009

