



The Israeli Economy Strong & Stable,

But does not leverage its full potential

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The Israeli Economy - A Snapshot

Regional Military & Economic Power

- Israel is a member of the OECD organization, with 8.9 million residents, similar to Switzerland and Sweden.
- Israeli GDP is \$369 billion, with GDP per capita of \$41,579, above the average of OECD countries, and with 4% unemployment.
- Israeli is a top-tier global high-tech power.
- Israel has very low national debt, net assets abroad in excess of \$224 billion, and foreign currency reserves of over \$118 billion.
- Average inflation rate over the past 18 years has been 1.6%.
- Israel is currently rated **AA-**, while Italy has a rating of BBB and Spain a rating of A-.

The Key Measures for the Israeli Economy - 2018

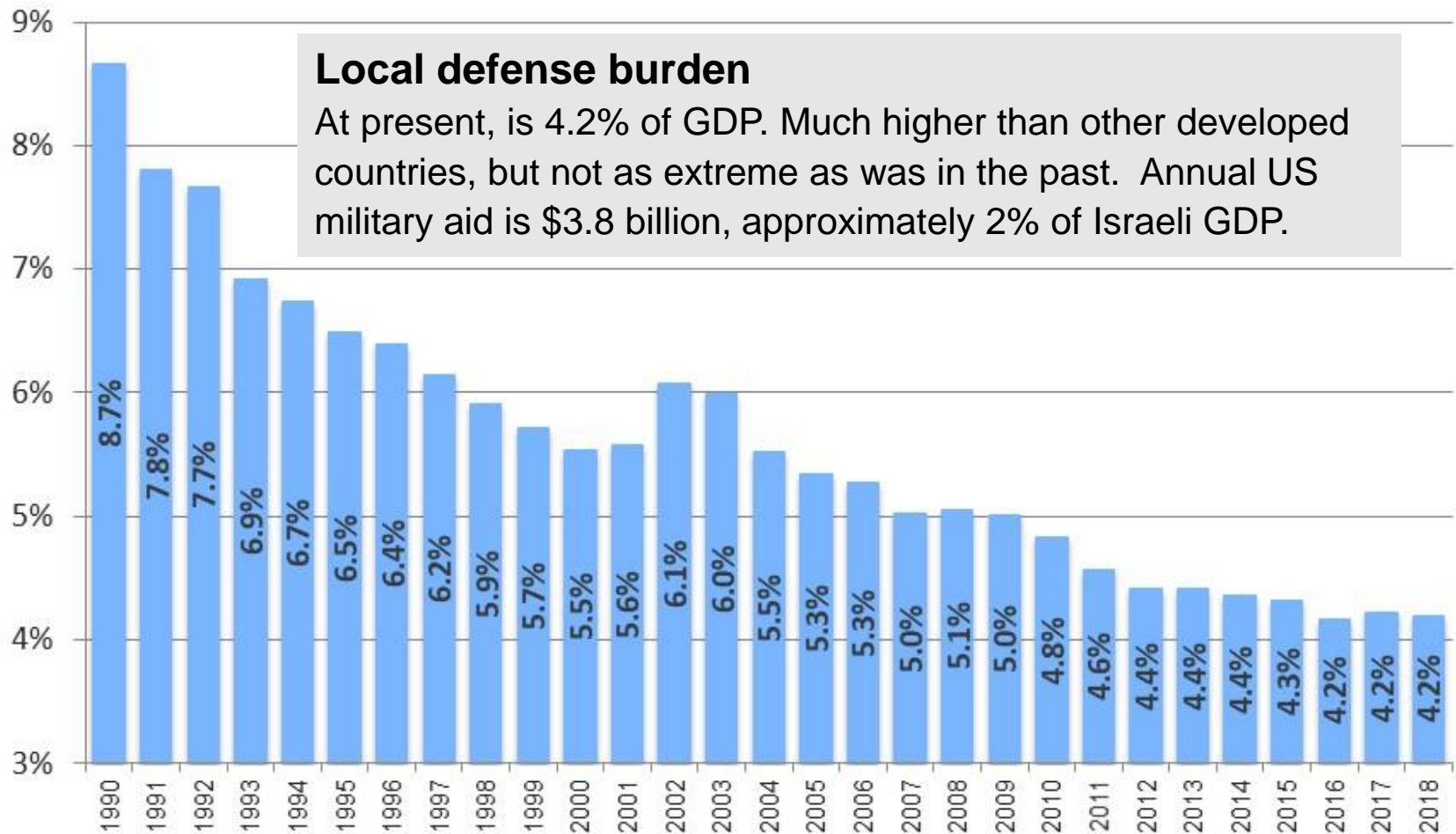
	Israel	OECD	Israeli Ranking
1. GDP per capita (\$)	41,579	40,435	19
2. GDP Growth	3.3%	2.3%	6
3. Budgetary deficit (% GDP)	2.9%	2.5%	19
4. Government debt (% GDP)	60.2%	88.8%	15
5. Inflation during the year	0.8%	2.0%	4
6. Unemployment rate	4.0%	6.0%	8
7. Defense burden (% GDP)	4.2%	2.2%	34
8. Surplus in balance of payments (% GDP)	3.0%	0.3%	16
9. Inequality of income (2017 Gini index)	35.1%	34.8%	29
10. R&D expenses (% GDP, 2017)	4.5%	2.3%	1
11. % with academic education, aged 25-64	35%	29%	4
12. Life expectancy at birth	82.5	80.6	5

Significance of Measures

- According to the 12 measures above, Israel should have an **AA** rating, like France. However, due to the security situation, it was taken down one notches.
- The net (less the American grant) defense expenditure in Israel relative to GDP, is 4.5%, similar to the US.
- The defense burden in Israel 20 years ago, was above 10% of GDP. We expect it to reduce to 3% by 2030 only due to GDP growth.
- Three points characterize Israel:
 - *The highest R&D rate in the world.*
 - *Ranks 4 of academic education in the world, aged 25-64*
 - *Ranks 5 globally in terms of life expectancy*

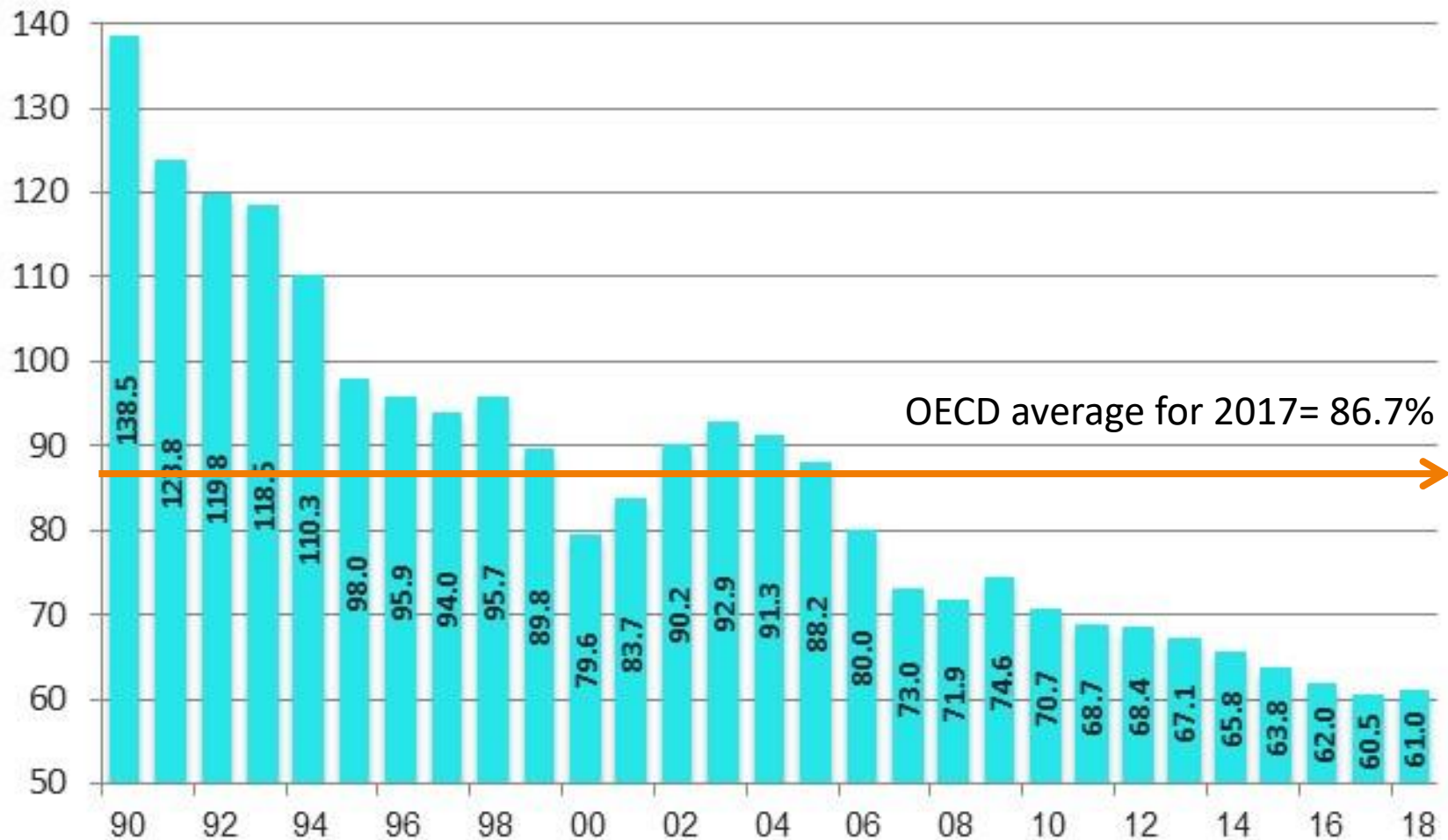
Defense Expenditure - % of GDP

Relatively high, but a Regional Superpower



National Debt, % of GDP

Below the average rate of the OECD



Production per Capita

Is not growing fast enough

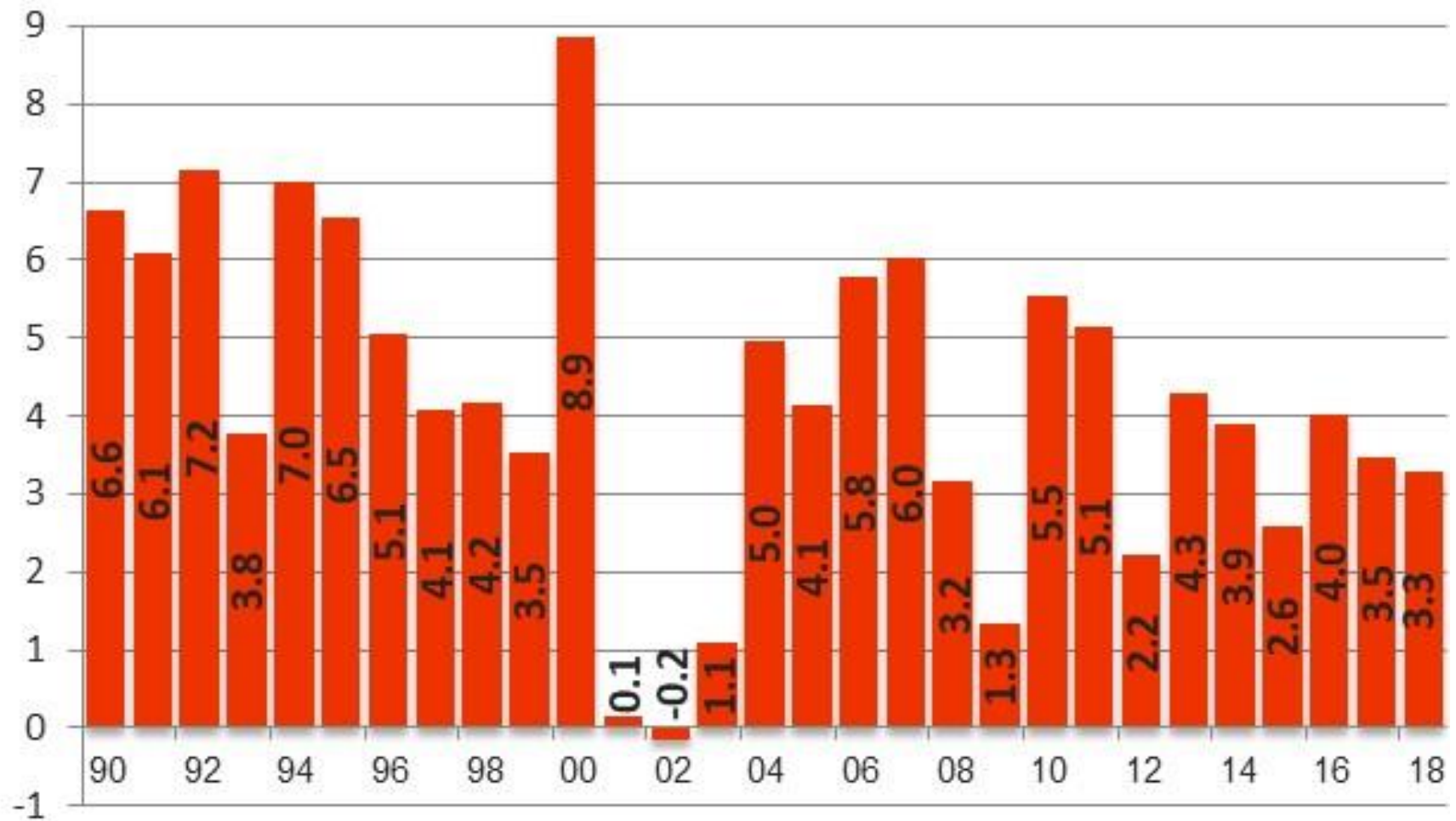
- The average growth rate over the past five years was 3.4%, one of the fastest growth in the OECD countries.
- But with a population growth rate of 2%, it implies, only 1.5% growth rate, per capita.
- This growth rate per capita, is similar to the US, and will not narrow the gap between them (the US, GDP per capital is approximately 60% higher than the Israeli one).
- An average growth rate of 4.6% annual will close the gap relative to the US within 30 years. With higher **Capital labor ratio**, it is possible to achieve.

The Israeli Economy - The Catch 22

- The shekel is too strong compared to the dollar and euro.
- Therefore profitability for production is low both for the domestic market and exports.
- The result: motivation for investment in segments of the economy is seriously declining.
- Without investments, a large surplus is created in the balance of payments.
- The surplus in the balance of payments leads the shekel to grow stronger.
- A strong shekel tends to reduce prices and leads to very low inflation.
- Imports of consumer products tend to increase, intensifying harm to investments.
- In the long term, without sufficient investment, production will decline and the surplus in the balance of payment will disappear.

Growth Rate, % Annual Change

Despite the accelerated growth in 2016, we see a slowdown in 2018, 2019



Monetary Forecast - Israel

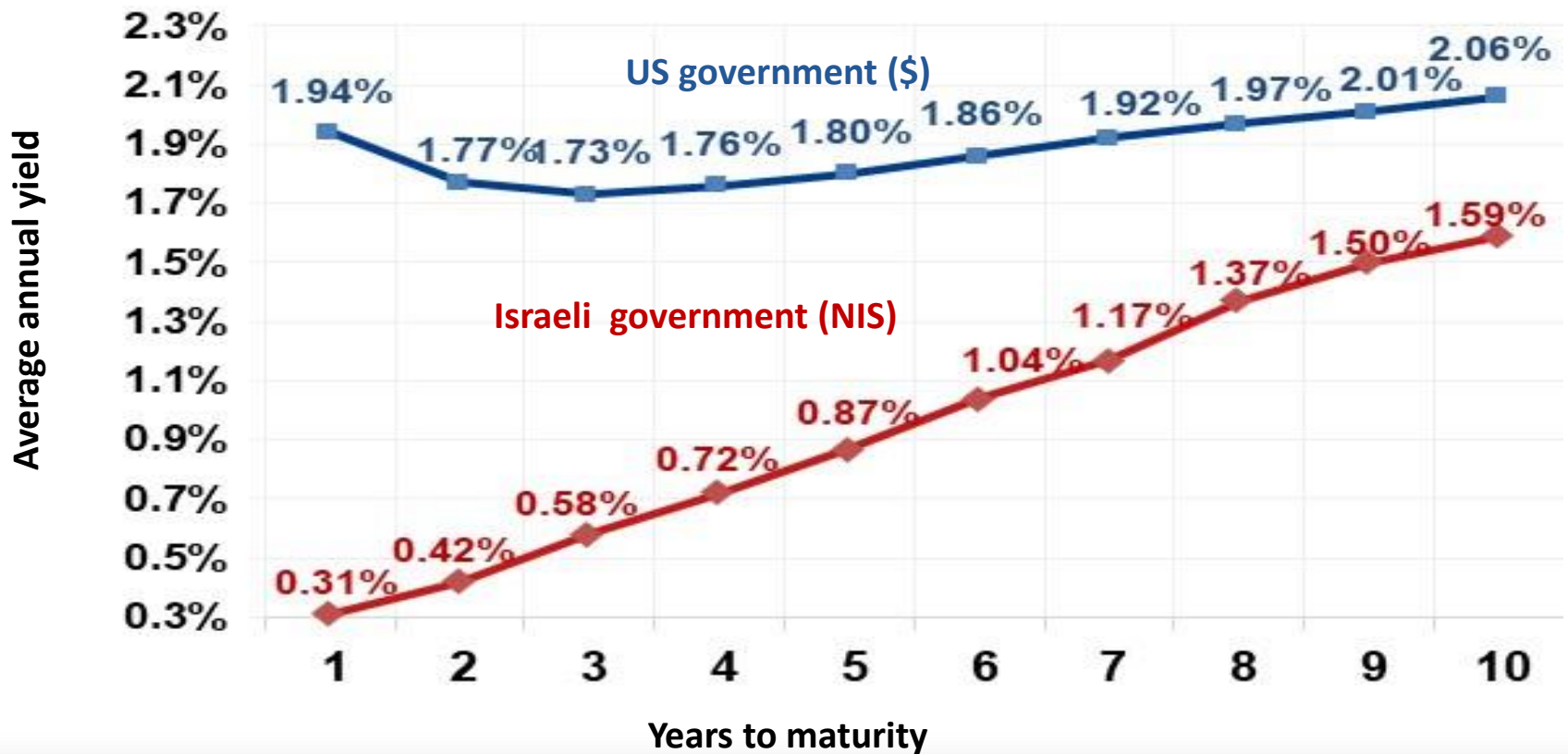
Year End

	2017	2018	2019
Monetary interest rate	0.1%	0.25%	1.0%
10-year government bonds	1.7%	2.3%	2.5%
Inflation during the year	0.4%	0.8%	2.0%
NIS-USD exchange rate	3.47	3.75	3.75
NIS-euro exchange rate	4.15	4.29	4.20

Government Bond Yield Curve

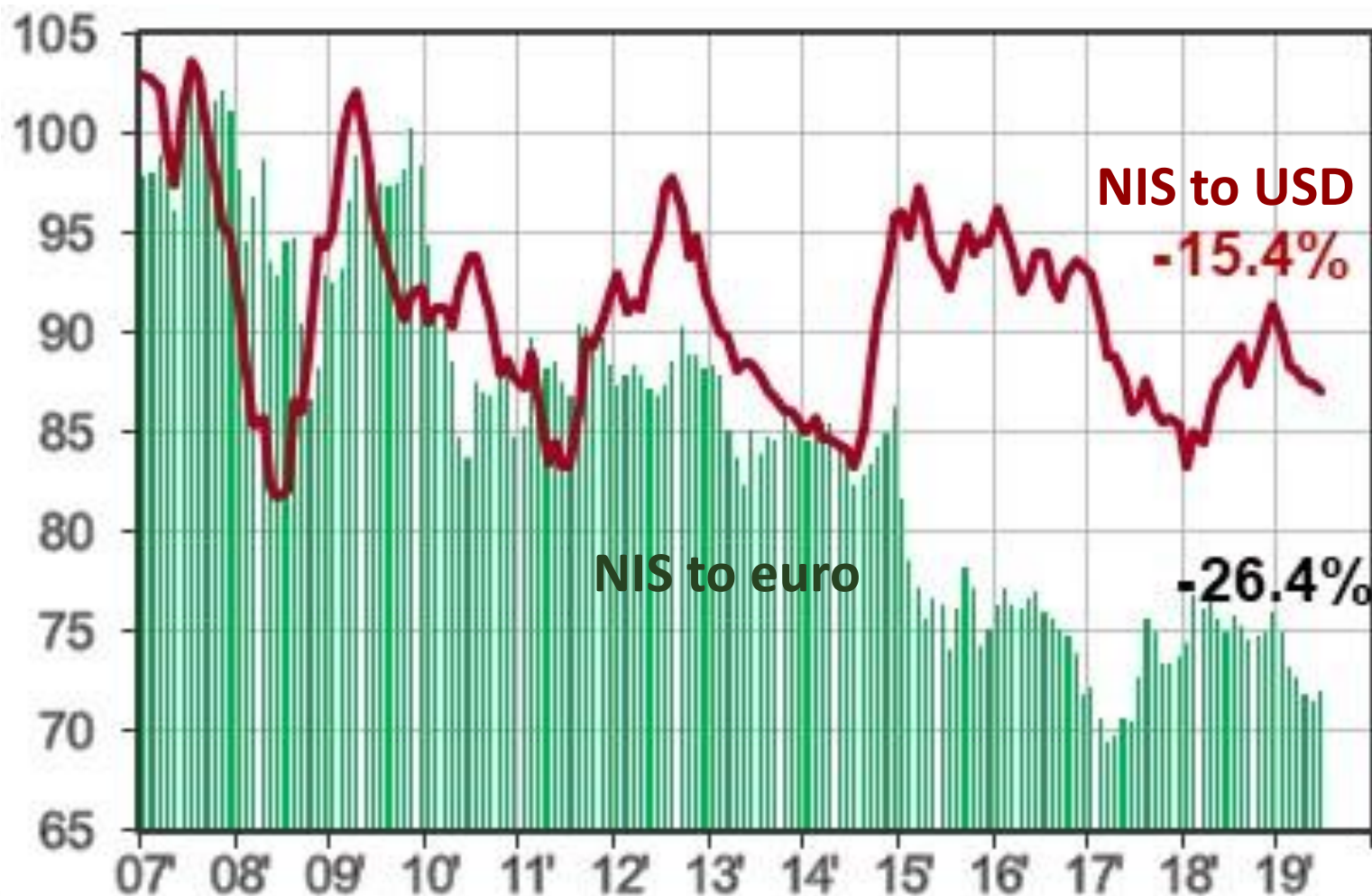
(as of Jun 23, 2019)

An illogical situation in Israel, with a "negative risk premium" compared to US government bonds. The result is attributable to the fear of appreciation of the shekel, and therefore purchasing US bonds is considered risky. The public has still not internalized the trend towards devaluation of the shekel.



Exchange rates: NIS to Euro and US Dollar

(Base 2007 = 100), as of Jun 20, 2019



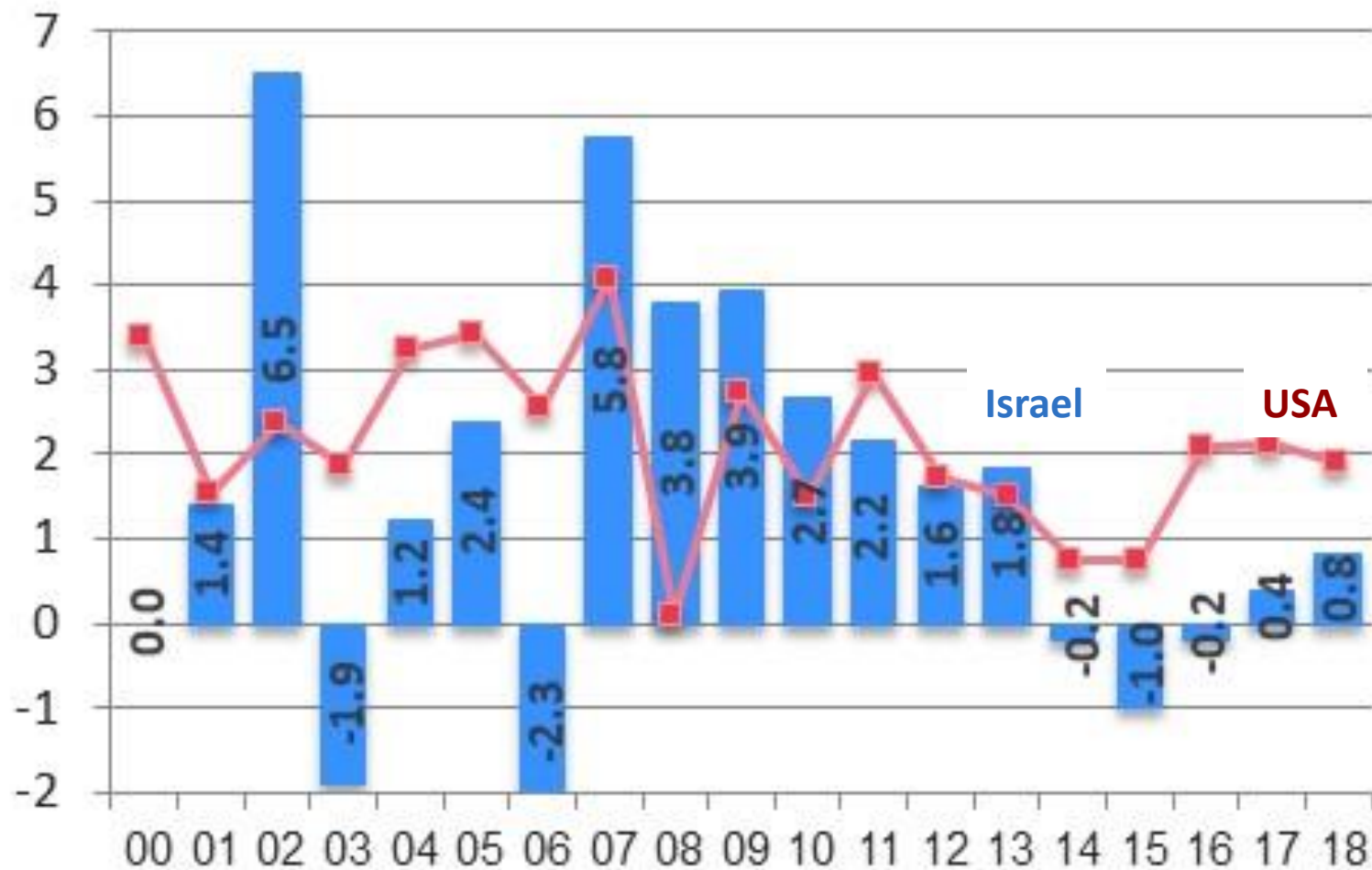
Economic Models Forecast

Real growth rates, %

	2017	2018	2019
GDP	3.5	3.3	2.7
Business sector GDP	3.6	3.4	2.7
Export	5.1	4.7	3.5
Import	5.1	6.3	4.5
Investment in fixed assets	3.0	3.3	3.0
Of which: in sectors of the economy	3.6	8.8	5.3
Residential	1.9	-8.2	-2.7
Private consumption	3.4	3.9	3.5
Public consumption	3.4	3.7	3.0
Real wages	3.1	2.8	3.0
Current account (\$ billions)	10.1	11.0	9.0
Government deficit (% GDP)	1.9	2.9	4.0
Unemployment (% of workforce)	4.2	4.0	4.3

Inflation in Israel - Lower than in the US!

Average inflation rate in 2000-2018 In Israel - 1.5%, in the US - 2.1%



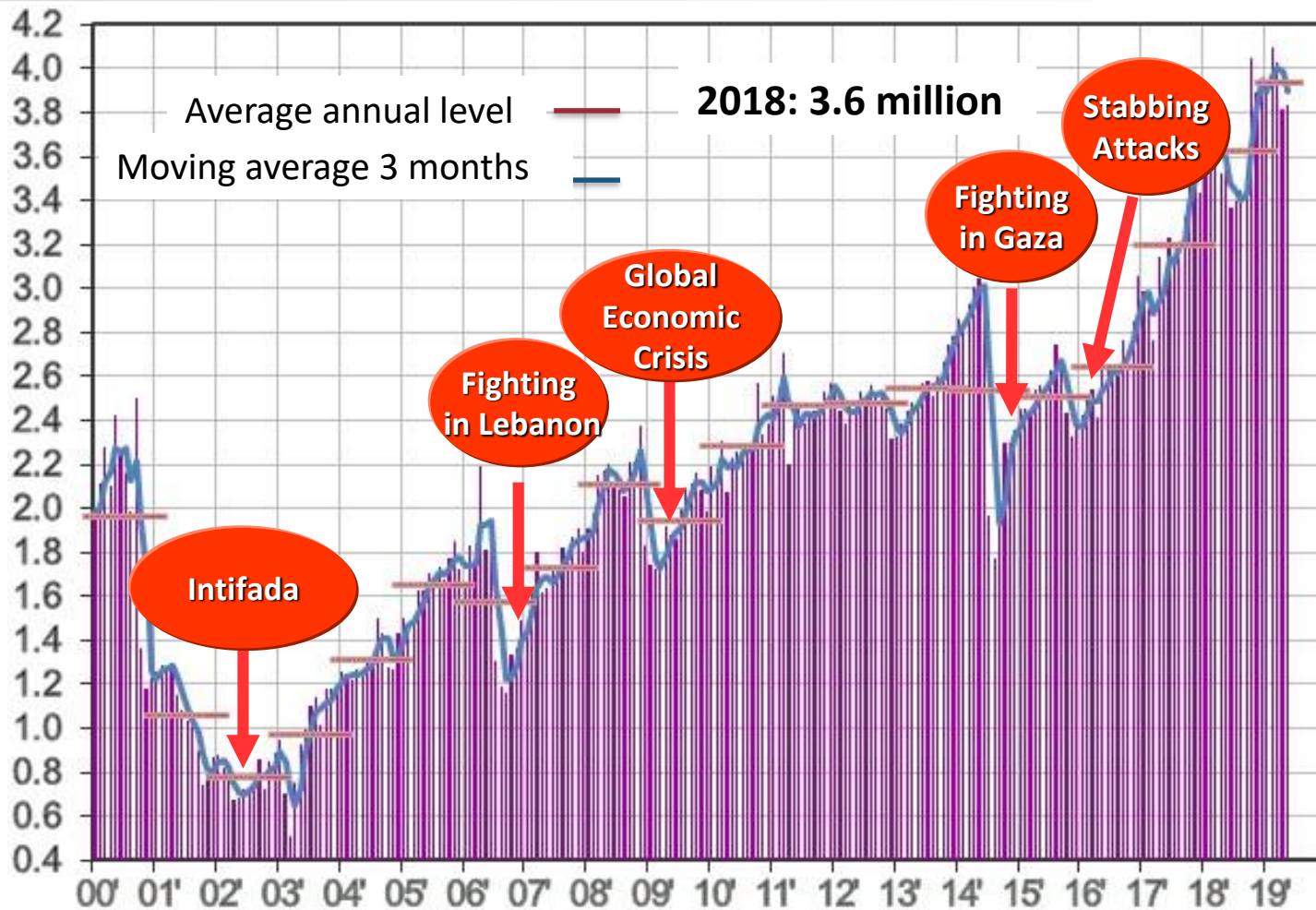
Total Export in Real Terms

in NIS billions in 2015, seasonally adjusted, in annual terms



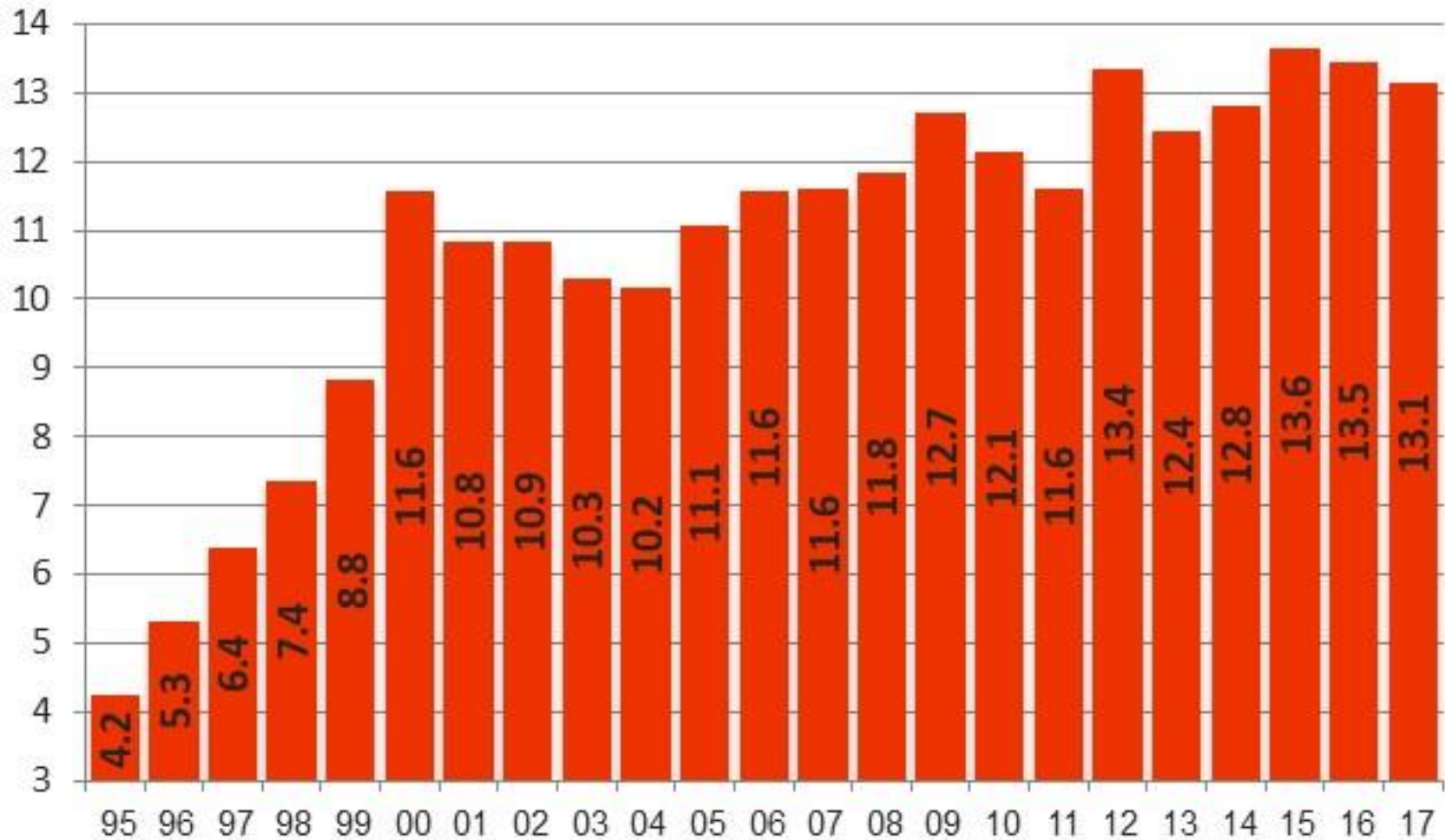
Incoming Tourism by Air

Millions, Yearly data, seasonally adjusted

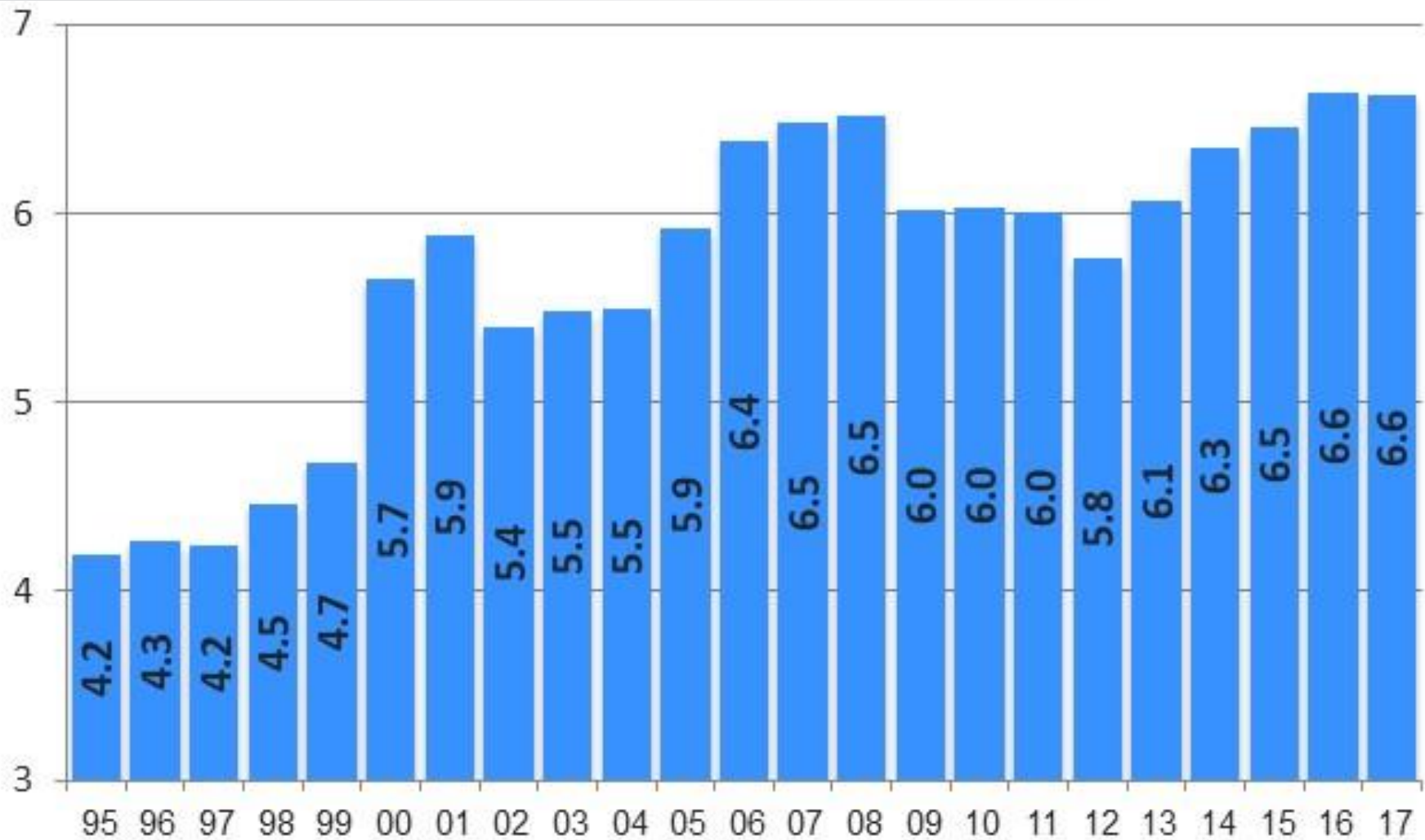


From 2000 to 2018 average growth rate of 3.5% in tourism

The Hi Tech % of the GDP

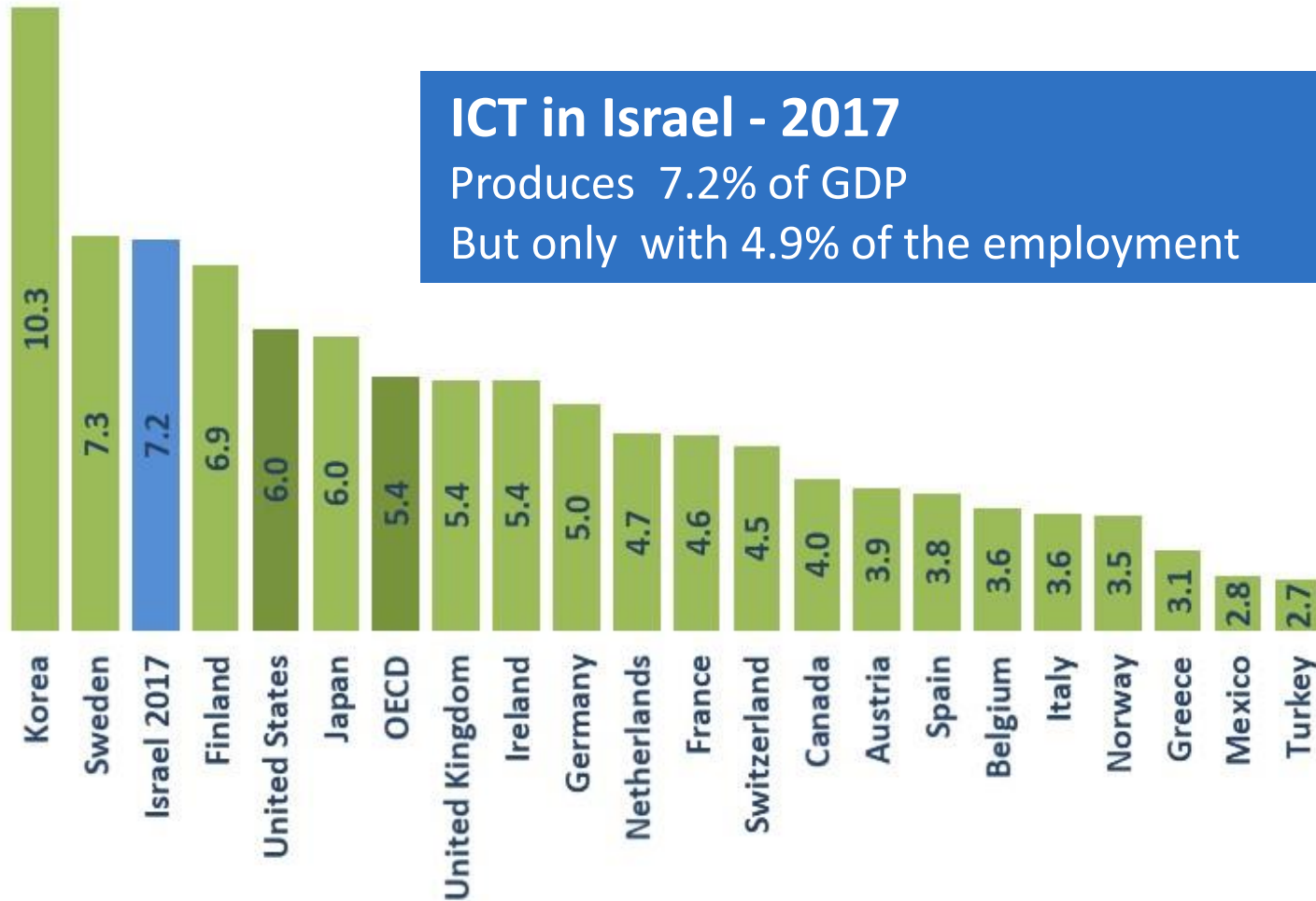


The Hi Tech % of the Employee



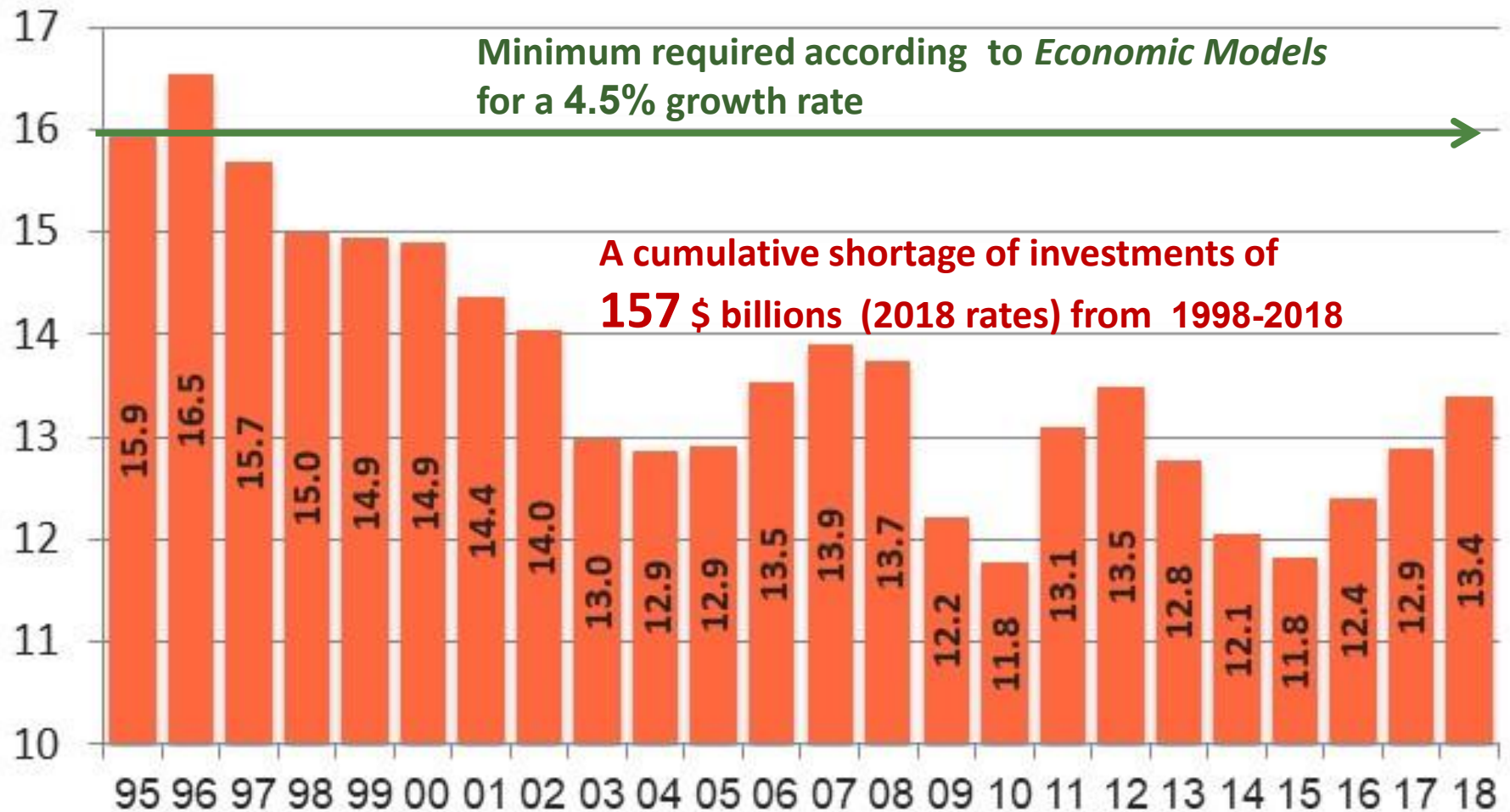
Information & Communications Technology - ICT

As % of GDP, (Israel 2017, the world 2015)



Investment Share of GDP

Fix Investment Less housing, private cars and transportation infrastructure



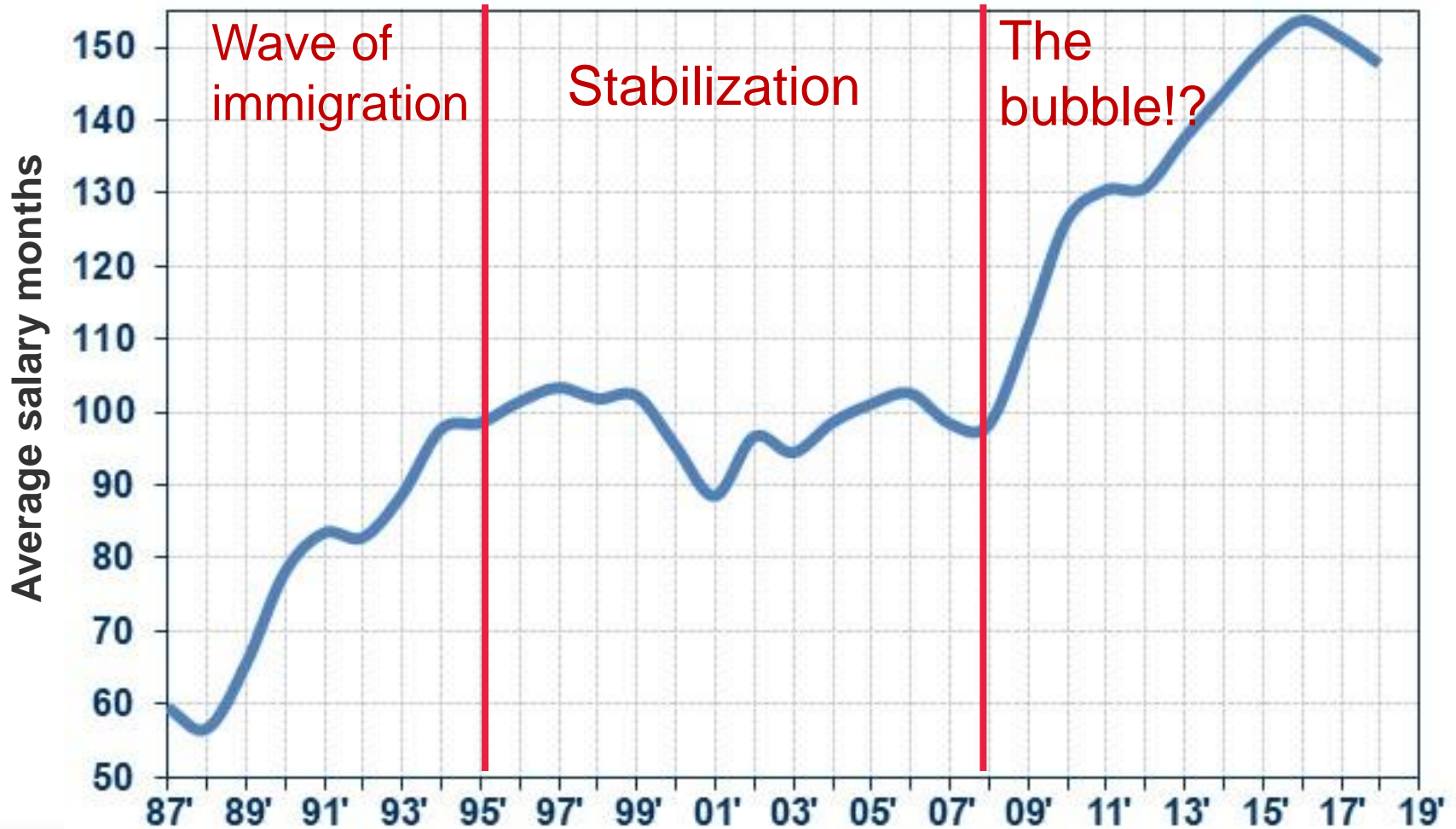
No Investments, No Productivity .

- Labor productivity in Israel - output per work hour - about 24% lower than the average output per work hour in OECD countries.
- Since 1990, average productivity has increased by 0.4% annually, which average wages in real terms has increased by 0.7% annually - 0.3% more than the employee's contribution.
- The increase in real wages beyond the increase in productivity can't exist in the long run.
- Higher productivity requires higher investment in the business sector. But with the on going wage rate and exchange rate, profitability is too low to stimulate investment.
- The Economic Solution – Significant devaluation of the Shekel

Apartment price in Number of Average Salary Months

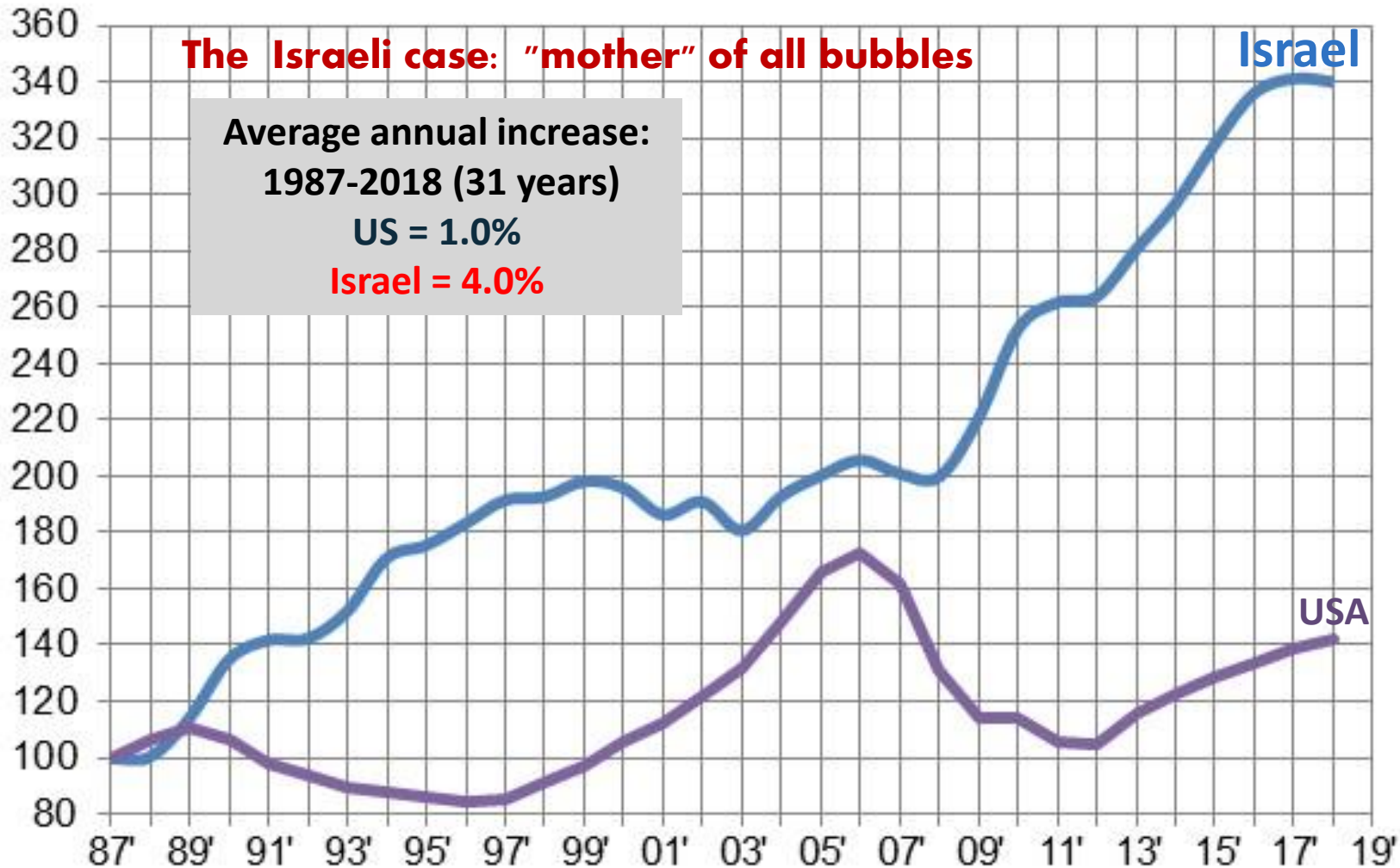
Price of Average Apartment in NIS divided by Average Annual Salary

Currently 146 average salary months! Unfathomable by any international standard



Apartment Price in Israel and of Houses in the US

Index 1987 = 100, Adjusted for inflation



Houses price in the US

Index 1997 = 100. Adjusted for inflation

