

# Economic analysis of israel some statistics economics essay



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The strength of the Israeli economy was formally recognized when Israel became a member of OEDC Organization for Economic Co-operation and Development in May 2010.

FTAs with the EU and NAFTA:

Israel is the only country who has free trade agreements with both the European Union and NAFTA (United States, Canada and Mexico).

Gross Domestic Product (GDP):

Israel's Gross Domestic Product was worth 242. 93 billion US dollars in 2011, as per the report published by the World Bank. The GDP value of Israel is equivalent around 0. 39% of the world economy.

GDP Growth Rate:

The Gross Domestic Product (GDP) in Israel expanded 0.70% in the third quarter of 2012 with respect to the previous quarter. The average GDP growth rate is 1% from 1980 to 2012.

GDP Annual Growth Rate:

Israel's Gross Domestic Product (GDP) expanded 3.12% in the third quarter of 2012 over the same quarter of the previous year. Taking the average from 1996 to 2012, Israel GDP Annual Growth Rate is 3.88%.

GDP per capita:

The GDP per capita of Israel was 22859.68 US dollars in 2011, as per a report published by the World Bank. The GDP per Capita in Israel is 185% of the world's average GDP per capita. Taking the average from 1960 until 2011, Israel GDP per capita is 14315.57 USD.

GDP Deflator:

According to a report of Israeli Central Bureau of Statistics, GDP Deflator of Israel increased to 116.21 Index Points in May of 2012 over the 113.53 Index Points in February of 2012.

Gross National Product:

Israel Gross National Product (GNP) increased to 224168.90 ILS Million in May of 2012 over the 220941.10 ILS Million in February of 2012, according to a report of Central Bureau of Statistics, Israel.

Consumer Price Index (CPI):

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The Consumer Price Index (CPI) of Israel increased to 106. 20 Index Points in August of 2012 from 105. 10 Index Points in July of 2012. Taking an average from 1951 to 2012, Israel Consumer Price Index (CPI) is 29. 97 Index Points.

### Inflation Rate

The inflation rate of Israel, recorded in october 2012, was 1. 80%.

## **EXTERNAL TRADE**

### Israel Imports:

Israel has poor natural recourses, so that it imports the petroleum, coal, food, uncut diamonds, other production inputs, and military equipment. The main imports come from European Union, United States and China. Israel's import was 6987. 6 USD Million in October 2012.

### Israel Exports:

Israel's major exports are machinery and equipment, software, agricultural products, cut diamonds, chemicals, textiles and apparel. Main export partners are European Union, United States, Hong Kong, India and Turkey. Israel's export was 4434. 40 USD Million in October 2012. Israel's exports, around half, manufactured goods involve advanced technology systems but Israel's traditional mid-tech and low-tech industries are remaining strong.

The Total Exports in the first eight months of 2010 was \$38. 9 billion compared with \$29. 6 billion in the corresponding period of 2009. The imports of \$38. 4 billion in the first eight months of 2010 compared with

imports of \$29.9 billion in the corresponding period of 2009, we can say, Israel has a small positive balance of trade.

Israel withstands the recession:

The first reason was a strong regulatory system and a moderate banking tradition kept its banks away from recession. The second reason was the elasticity of labor market in coping with the new reality. The third reason was Israelis cut the durable goods expenditures, but largely kept the nondurable goods spending even with pre-recession levels, cutting into personal savings to "smooth out" the drop in income.

A long term Potential:

Israeli economy was built from scratch, survived numerous crises and severe economic deprivation, and has finally known as a successful, free market economy whose citizens enjoy a high standard of living.

<http://www.heritage.org/index/images/country-comparison/2012/israel.jpg>

## THE MONETARY & FISCAL POLICY

Monetary policy is concerned with the manipulation of the supply of money in the economy.

It affects the economy mainly through its impact on interest rate. It can control the flow of money by applying its various tools like bank rate, open market policy etc.

Israel's monetary policy framework is broadly sound & robust. In order to reduce the inflation rate to the low single digit, Israel has framed the monetary policy accordingly.

The bank of Israel has been intervening heavily in the foreign exchange market. As a result in 2003, the inflation rate was 1-3% which is similar to most developed economies.

Israel uses quarterly reports to communicate to the market and the public about the state of the economy through quarterly information report. By March 2009, the foreign exchange reserve increased to USD 40.6 billion which had reached a very high level compare to any open economies. In August 2009, the bank of Israel has announced its new policy of discretionary intervention.

Fiscal policy is concerned with the spending and tax initiative of the government. It is considered one of the most direct tool to stimulate or dampen the economy. An increase in government spending stimulates the demand of goods and services, while a decrease results in decrease in the demand of goods and services.

In the same manner decrease in tax, it increases the consumption of goods and services and increase in tax rate decrease the consumption of goods and services.

Israel has achieved a target bring down the inflation to healthy single digit level, one of the reasons is to reduce the government spending and put more emphasis on market based economy.

The economic boom between 2004 and 2008 resulted in rapid growth of the country and as a result it was possible to reduce in tax revenue and public spending. The budget included permanent increases in taxes on gasoline (by 12.5% to NIS 2.696 per liter) and tobacco.

A new schedule of purchase taxes on cars has also been introduced that increases the rates on many types of vehicles. There were temporary increases in the VAT rate (from 15.5 to 16.5%), in charges on water consumption (labeled as a “drought charge”) and in the ceiling on contributions to national insurance.

All of these are due to terminate at the end of 2010. To its credit, the 2009-10 budget managed to keep (more or less) to the legislated spending rule and the brightening economic outlook suggests the deficits will be less than those estimated in the budget.

[http://4.bp.blogspot.com/\\_K9BlgIRUb5I/TTQ9nFbIGMI/AAAAAAAAACM/mm-f7uxzOMw/s320/sequel.jpg](http://4.bp.blogspot.com/_K9BlgIRUb5I/TTQ9nFbIGMI/AAAAAAAAACM/mm-f7uxzOMw/s320/sequel.jpg)

## INVESTMENT CLIMATE IN ISRAEL

Israel is parliamentary democracy and enjoys a diversified economy. Services, basically financial and business, build up the primary part of the Israeli economy.

Israel in the recent years has seen tremendous developments and manufacturing activities in the field electronics, communications and other technology-driven industries.

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However Low technology oriented industries like chemicals, plastics and food are also important and traditionally made important contributions to sustain the economy.

As such, Israel derives its competency from Research & Development (R&D) in which holds significant comparative advantage over the other countries, stemming from superior education and encouraging policies set up by the Israeli government.

Israel's weakness lies in its inadequacy of natural resources. It becomes necessary to import raw materials and many other goods and services. The country therefore, depends on its exports to pay for such goods and services.

Israel's major imports include investment goods like heavy machinery and vehicles, raw materials and fuel. Israel's major exports are electronics, software, diamonds and chemicals.

The Electronic & telecommunication sector in Israel is soon emerging as the most important sector of the economy with government fueling many important R&D activities in the country.

## **ISRAEL – INTERNATIONAL TRADE COMMITMENTS**

Foreign Trade forms the mainstay of the Israeli economy. Israel has been steadily following the policy of liberalization slowly opening up its economy to global trade.



Governments in Israel have shown considerable resolve to promote foreign trade and have shown commitments to free trade. Israel has established strong trade relationships with many countries of the globe, setting up an extensive network of trade agreements especially with countries of North America, Europe and Asia.

Free Trade Agreements account to almost 80 % of Israel's foreign trade. Israel's premier economic trade relations are with U. S. and Europe, with U. S. constituting most of the imports to Israel.

Israel became a full member of Organization for Economic co-operation and Development (OECD) in 2010.

## **BANKING AND FINANCING IN ISRAEL**

The banking sector in Israel holds a dominant position in the country's financial system and plays a pivotal role in the overall economy.

The banking sector in Israel has gone through an array of reforms with the privatization of banking in the country.

Commercial banks in Israel offer an array of retail and corporate banking facilities ranging from brokerages in capital market, both local and foreign, leasing, underwriting, investment banking, mutual fund and other such asset management facilities.

The Central Bank of Israel is responsible for the given activities:

Defining and implementing the monetary policy

Imposing controls on the local banks

Maintaining the supply of notes and coins in the market

Managing the foreign exchange reserves of the country

Representing the country of global financial forums.

Israel's major financial institutions are headquartered in Tel Aviv which is the country's commercial capital similar to Mumbai in India.

## **FOREIGN INVESTMENTS IN ISRAEL**

The government of Israel over the years has been steadily following the policy of liberalization slowly opening up the economy for global investments. The Government has shown tremendous resolve in encouraging Foreign Direct Investments in the country by setting encouraging policy framework and providing an array of benefits and incentives to foreign investors to boost Industry & commerce in the country.

According to Israeli law, prior government approval is not necessary except for investments regulated sectors like banks. Israel follows restrictive policies only for investments in strategic sectors.

The major avenues for investment in Israel are Electronics & Telecommunication, biotechnology and medical instrumentation. Israel has seen major investments in the technology sector with global giants like Microsoft, Cisco, Intel, Siemens, Motorola, HP etc. setting up state of the art R&D facilities in Israel.

## **TAX INCENTIVES IN ISRAEL**

The government of Israel has shown its commitment to encouraging the growth of FDI by a series of regulatory changes as given:

The government has reduced both tariff and non-tariff barriers

It has reformed the tax framework by reducing labor tax, income tax and corporate tax.

It has offered investment grants, tax benefits and exemptions to boost foreign investment through the “ Law for Encouragement of Capital Investments”

The government grants conditional R&D grants of up to 50% of approved programs under the “ Law for Encouragement of Capital Investments”.

The corporate taxes has decreases from 25 5 in 2010 to 24 % in 2012 to foster the industrial growth and foreign investment in the country.

The office of the Chief Scientist (OCS) provides expert assistance to the industry for promoting R&D activities in the country.

## **EXCHANGE CONTROLS**

In Israel transactions in all types of foreign currency is permitted except for those restricted under law or due to some specific reasons. So, as such there is no foreign currency restriction in Israel.

## **WHY COMPANIES SHOULD INVEST IN ISRAEL**

Various reasons as to why companies should invest in Israel are:

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A talented workforce

Thriving technology sector

High acumen of scientific research

Infrastructure and supportive government policies.

Because of these various reasons favorable to industry giants like Microsoft, Cisco, IBM, Intel, etc have already established R&D centers in Israel.

Entrepreneurial Spirit

Israel has emerged as a very important center for start-up enterprises. The country's strong technology orientation clubbed with entrepreneurial spirit to innovate and strong R&D credentials have elevated Israel as the next entrepreneurial hub of the world. Of the many Israeli entrepreneurial undertakings to become global success stories are Checkpoint and Teva Pharmaceuticals.

Track Record

Israel's impeccable track record has in particular attracted the attention of the global investment community. Israeli government had shown tremendous resolve in formulating policies so as to make the investment climate in the country encouraging and attractive. FDI grew from 4600 million in 1993 to 415 million in 2007. The total venture capital investments in Israel have grown in excess of \$11 billion. Israel resolve has been

rewarded by the International credit rating agencies which have consistently sustained its credit rating and affirmed their confidence in Israel's economy.

### Always Innovating

Israel's R&D investment per GDP is the highest in the world.

Entrepreneurship and innovation deeply rooted in the country. Israel has constantly shown a great resolve and commitment in supporting and nurturing entrepreneurship and innovation. Israel's many high tech incubators have been constantly supporting young companies with 200 active projects and over 735 small projects in the past years.

### Top Academic Education

The root to high graded entrepreneurship and innovation in Israel lies in the strong education background that the country possesses. Israel has the world's most educated workforces. Israel holds enjoys the world's highest ratio of qualified engineers in the workforce. It also enjoys the world's highest ratios in terms of University degrees and academic publications per capita. Israel's premier education institutions have constantly featured among the world's best education institution making it one of the preferred destinations by students pursuing quality higher education.

### Solving Problems and Creating Opportunities

Israel features in the list of the countries dedicating the highest percentages of their economic activities to fund R&D activities. Israel's best innovations have resulted by convergence of excellent problem solving skills with

exceptional creativity. Exceptional R&D activities supported by a highly  
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trained pool of researchers and engineers have resulted in Israel developing some cutting edge technologies especially in the field of defense.

Israel's competencies: Israel has shown great developments in technology, R&D and innovations in general. Israel particularly excels in the fields as given:

Nanotechnology

Software

Biotechnology

Agro technology

Nanotechnology

Safety & Security

Diamond cutting

Semiconductors

Electronic & Telecommunications