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- The income gap with leading OECD economies continues to narrow gradually, mainly reflecting a rising employment rate among Ultra-Orthodox and Arab-Israeli population. Productivity convergence with the most advanced countries, however, remains slow.
- The governance of large company groups has been reformed to reduce their market power. Some progress has been achieved in integrating the vulnerable groups into the labour market. School infrastructure and class-sizes in the Arab sector have continued to improve, but progress remains slow.
- Further raising education standards and promoting welfare-to-work measures, focusing on vulnerable groups, would boost the growth potential. More competition and less red tape for businesses would stimulate productivity.
- Better education of Arab-Israeli and Ultra-Orthodox populations combined with more ambitious welfare-to-work programmes would improve earnings capacity and reduce relative poverty from its very high level. Stronger competition in non-tradable sectors, hence lower prices, would be most beneficial to real incomes among the poor.

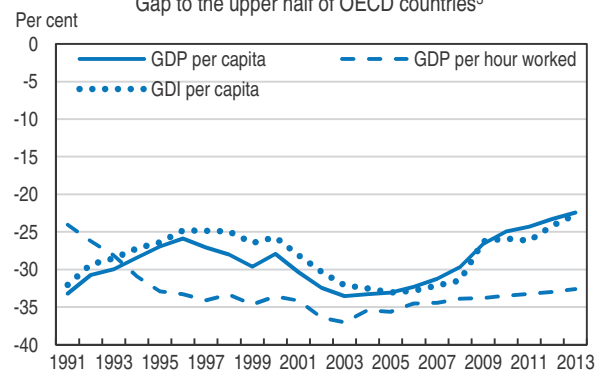
Growth performance indicators

A. Average annual trend growth rates

Per cent


	2003-08	2008-13
Potential GDP per capita	1.4	1.9
Potential labour utilisation	0.7	1.1
of which: Labour force participation rate	0.3	0.5
Employment rate ¹	0.5	0.6
Trend employment coefficient ²	-0.2	0.0
Potential labour productivity	0.7	0.8
of which: Capital deepening	0.1	0.2
Labour efficiency	0.5	0.6
Human capital	0.1	0.0

B. The gap in productivity has narrowed modestly

Gap to the upper half of OECD countries³

1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

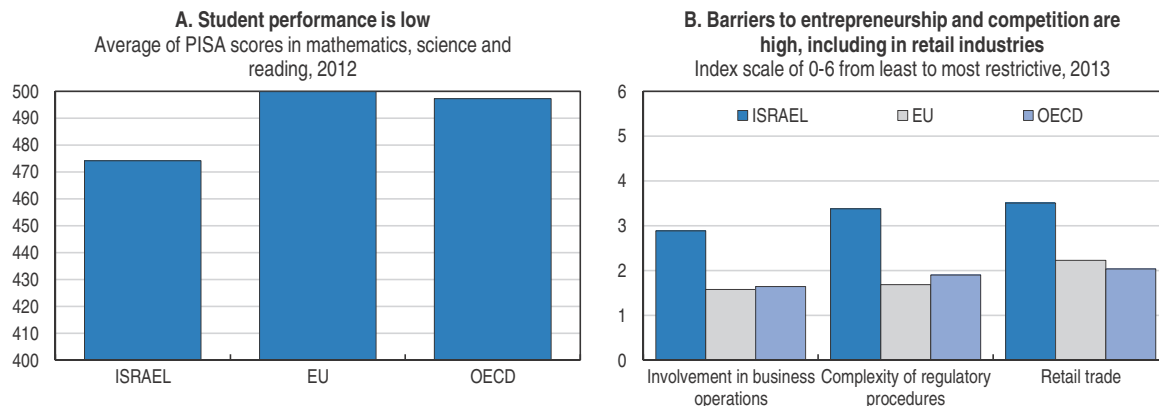
Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

StatLink  <http://dx.doi.org/10.1787/888933177832>


The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

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Policy indicators



Source: Panel A: OECD (2014), PISA 2012 Results: What Students Know and Can Do (Volume I, Revised edition, February 2014): Student Performance in Mathematics, Reading and Science, PISA, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264208780-en>. Panel B: OECD, Product Market Regulation Database, www.oecd.org/economy/pmr.

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Going for Growth 2015 priorities

Priorities supported by indicators

Improve education outcomes and inequalities. Outcomes in state education are weak, especially among Arab students, while core secular subjects are insufficiently taught in Ultra-Orthodox schools.

Actions taken: Investment in education in the Arab sectors has further shrunk the gap in class sizes of primary schools over the 2011-13 period.

Recommendations: Continue to develop Arab-Israeli schooling infrastructure, until average class size reaches a similar level as in the rest of the country. Make state funding for Ultra-Orthodox schools conditional on whether they teach the core curriculum, including mathematics, science and foreign languages.

Cut red tape for businesses. Heavy government regulatory procedures and involvement in business operations are hampering the functioning of product markets and private-sector activity.

Actions taken: A committee has been established in early 2014 to identify the regulatory obstacles for doing business. Co-ordination of local and central government interventions has been improved since end-2013 to expedite housing construction.

Recommendations: Pursue efforts to streamline business licensing and shorten processing times. Lift remaining price controls, especially on staples.

Complete network industry reform. Opening up network industries to stronger market pressures would stimulate efficiency and investment, especially in the electricity sector, where the state-owned incumbent remains the core producer, controls the grid and is the sole distributor.

Actions taken: Recent renewed attempt at reforming the electricity sector by a government-appointed committee failed. Plans for the construction of two new private ports are moving ahead.

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Recommendations: Resolve the deadlock in the electricity sector: boost competition in generation, introduce independent management of the grid, and open distribution to private companies. In telecoms, establish an independent regulator and increase competition in post, rail and water services.

Other key priorities

Expand welfare-to-work programmes and ensure enforcement of labour laws. Low employment rates among Arab women and Ultra-Orthodox men weaken potential growth and material living standards among low-income workers. As a result, about one in five households is below the relative poverty line.

Actions taken: The earned income tax credit (EITC) has been raised in 2013, but its coverage and generosity remains low. Child allowances have become more targeted, but their value has been cut significantly. Labour inspectorate resources have increased to reach a ratio of employee per labour inspectorate close to the OECD average level in 2013.

Recommendations: Re-introduce a job-placement scheme. Increase the EITC to encourage take-up and raise the child allowances. Improve labour law enforcement by targeting inspections at sectors where there are many low-income workers, including Arab, Ultra-Orthodox and foreigners.

***Enhance competition in food industries.*¹** Significant regulatory rigidities in the food industries including import barriers, price controls and distortionary agricultural subsidies lead to weak competition and high prices.

Recommendations: Remove remaining import barriers on food products. Reduce agricultural production-based support such as guaranteed prices and quotas for products like milk, eggs and wheat.

Reform areas no longer considered a priority in *Going for Growth*

Enhance corporate governance. To strengthen competition and reduce the prominent role of business groups on the economy, it was recommended to improve their corporate governance.

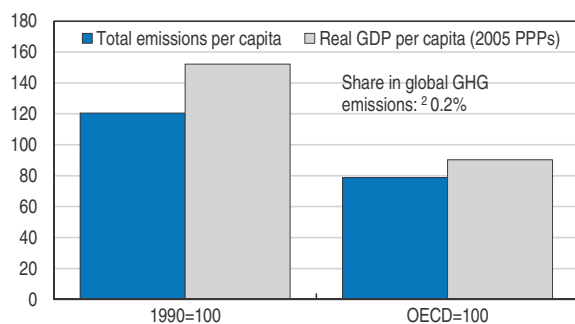
Actions taken: New rules have been adopted in end-2013 preventing company groups from controlling both large financial and non-financial business interests. The use of pyramidal ownership structures (which was the main vehicle for leveraging control and channelling profits) has been limited to a maximum of two layers. Existing companies were given four years to reshape their business.

1. New policy priorities identified in *Going for Growth 2015* (with respect to *Going for Growth 2013*) are preceded and followed by an “*”.*

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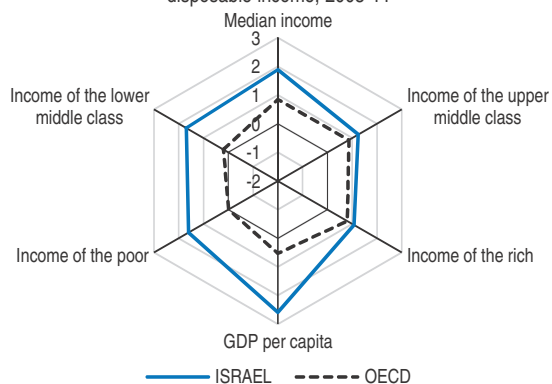
Beyond GDP per capita: Other policy objectives

A. Emissions per capita have risen by less than GDP since 1990
2010¹




B. Growth in GDP per capita has benefited relatively more to households in the lower half of the income distribution³

Average annual growth rate in real household disposable income, 2005-11



1. Total GHG emissions in CO₂ equivalents from the International Energy Agency (IEA) database. This data conform to UNFCCC GHG emission calculations but are not directly comparable to data for Annex I countries due to definitional issues. The OECD average is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and United Nations Framework Convention on Climate Change (UNFCCC) Database. Panel B: OECD, *National Accounts and Income Distribution Databases*.

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