

Israel: Economic Features

Population: 7.1 million

GDP (2006): US \$140.5 billion

GDP per capita (2006): US \$19,900

Unemployment rate (2006): 8.4%

GDP growth (2006): 5.1%

Exports of goods & services (2006): US \$62.6 billion

Imports of goods & services (2006): US \$61.7 billion

Inflation (2006): -0.1%

Foreign Direct Investment (2006): US \$14.2 billion

For many years, following the establishment of the State, Israel's most important industries were agriculture, light industry and labor-intensive production. A small country with limited natural resources, Israel has capitalized on its highly skilled, educated and innovative workforce. The results reveal a knowledge-based, technologically advanced market economy with first-class high-tech capabilities in the telecommunications, IT, electronics, and life sciences industries.

Israel today is made up of a population of some 7 million people with a GDP of \$140.5 billion (2006). An export-driven country led by high-tech, cut diamonds and agricultural products, Israel serves as a trade bridge to three continents. It maintains close trade relationships with the United States, which is advanced by its Free Trade Agreement. Likewise, Israel has a Free Trade Area Agreement with the European Union, EFTA, many Eastern European countries as well as with Canada and Mexico – both NAFTA countries.

Israel invests strongly in research and development. The percentage of high-tech production in the overall GDP is the highest in the world. 90% of venture capital investments are channeled to start-up companies, with the largest number of startup companies in the world in proportion to its population. These startups contribute to about 35% of the growth in the ICT and software fields in Israel – the main contributors to the high-tech industry. Venture capital investment, which finances approximately 50% of Israel's high-tech industry, is the highest in the world in ratio to its GDP.

Political and economic circumstances over the recent years compelled many companies to increase efficiency by reducing the work force and lowering wages. This resulted in a rise in economic-wide competitiveness. 2004 was a turning point for the Israeli economy,

showing an emergence from recession with a GDP rise of around 4.2%. This was due to the recovery of global markets, implementation of important economic policy steps, and a stabilization of the security situation. 2004 also marked the expansion of the business sector with a decline in government expenditure. This attracted foreign investment and led to a reduction in the size of the public sector.

Estimates by analysts (Bank of Israel) show the GDP growing in 2007 by around 5.1%. This is headed by an increase in consumer spending, low interest rates, reduction in unemployment, rise in tourists and an increase in demand of export of goods and services. Exports, the strongest generator of growth, have improved in the last few years with an increase of 4.9% in 2006.

Israel's economy has become a magnet for foreign investors. Its investor-friendly business environment continues to attract not only foreign venture capital, but also multinational companies. Investment has only been slightly affected by the appreciation of the exchange rate, increased interest rates in the U.S. and a rise in global oil prices. However, international companies are continuously expanding their presence by establishing offices and subsidiaries in Israel, making good use of the country's skilled workforce, highly developed infrastructure and R&D capabilities.

Source: Israel's Central Bureau of Statistics, Ministry of Finance and Bank of Israel