

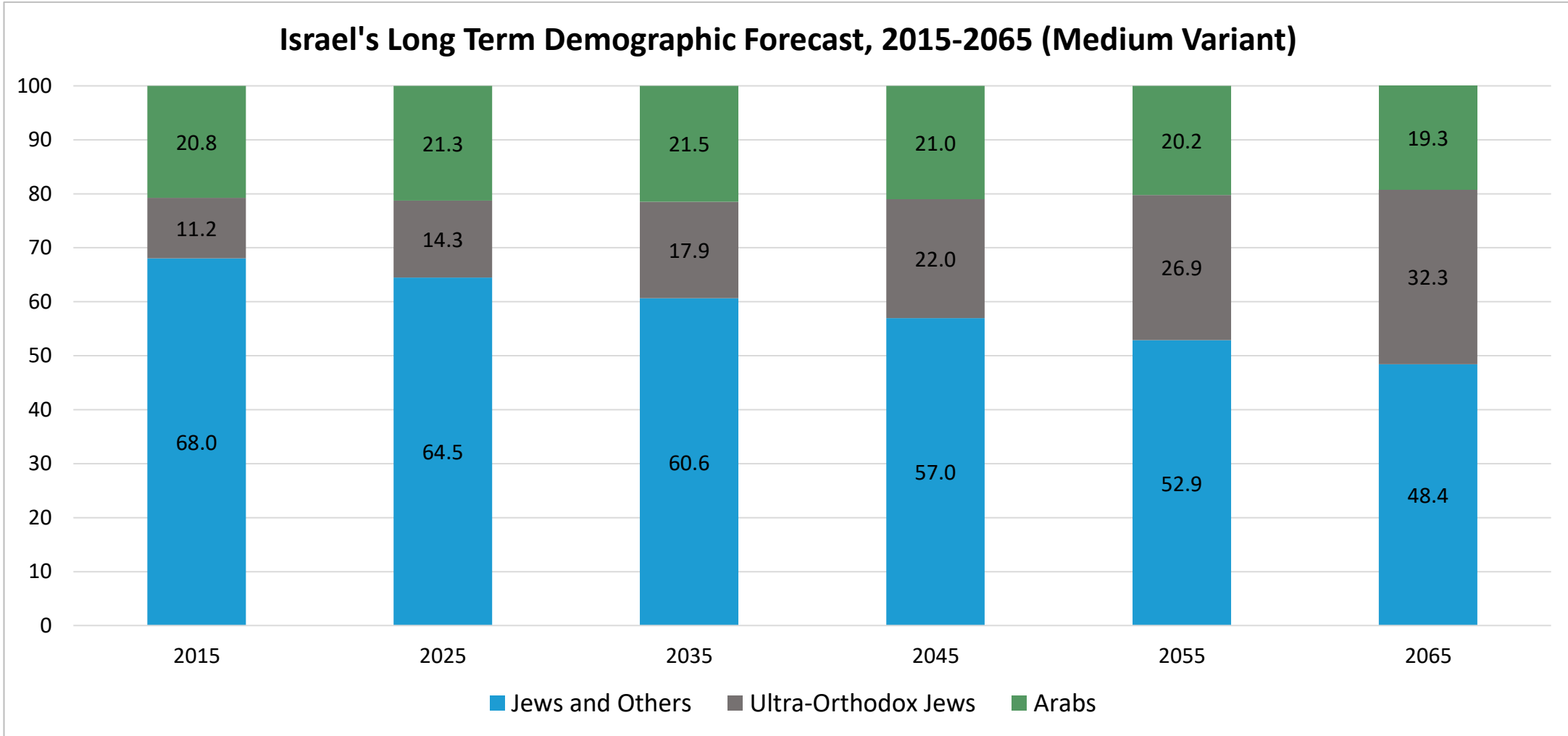


Demographic Trends in Israel: Economic Implications

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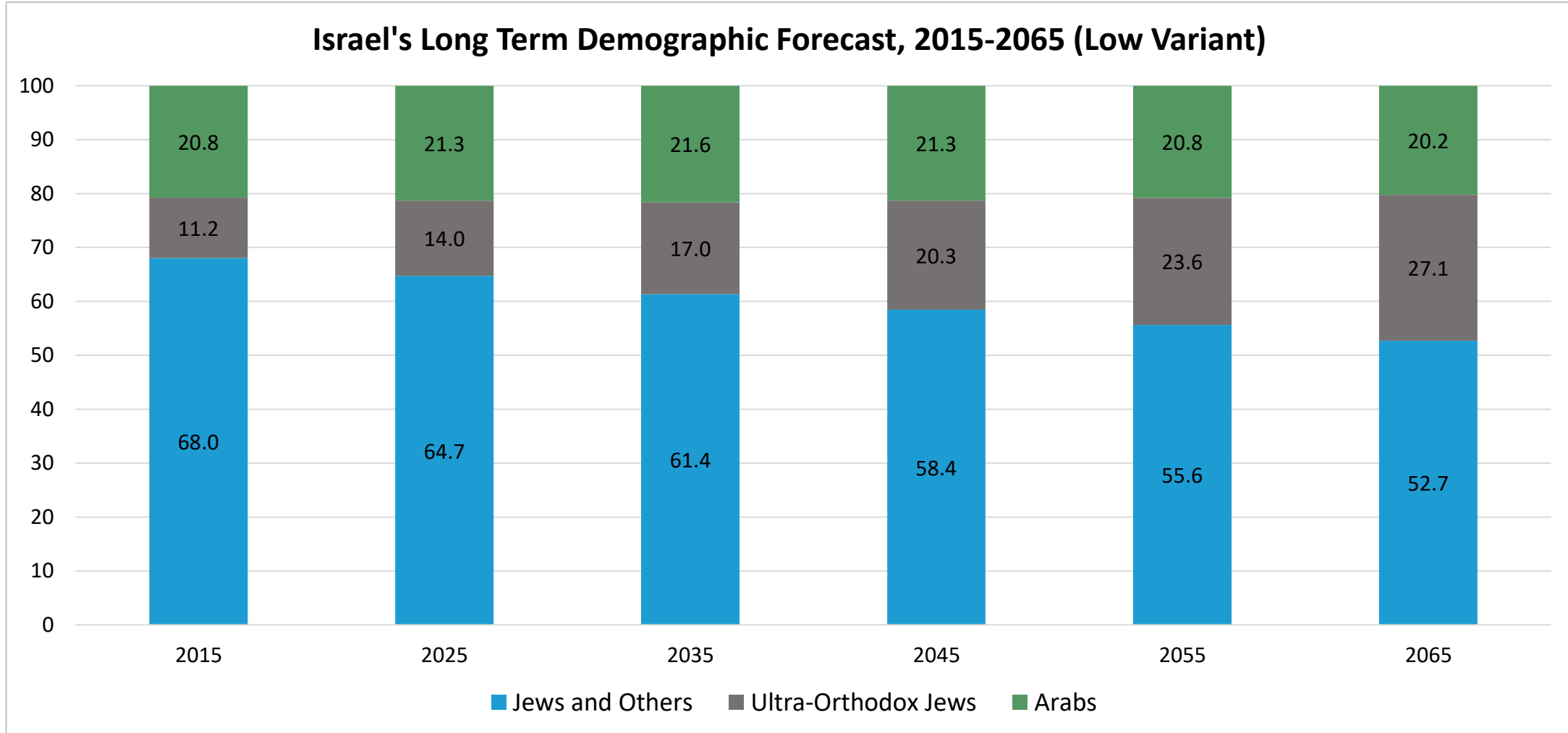
In 2065 the share of Arabs and Ultra-orthodox Jews is expected to reach 52%



Source: CBS



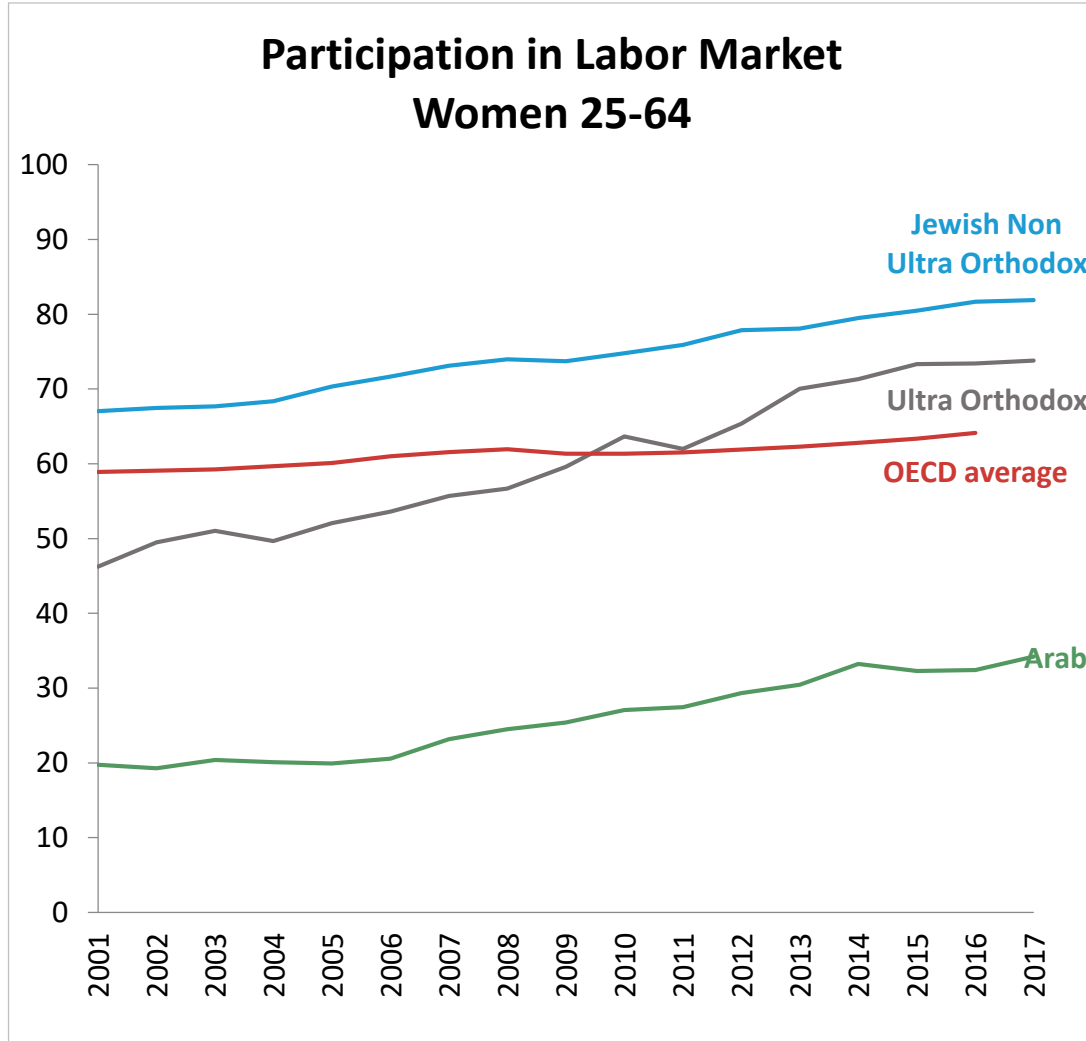
In a low population growth scenario the expected share of Arabs and Ultra-orthodox Jews will reach 47%



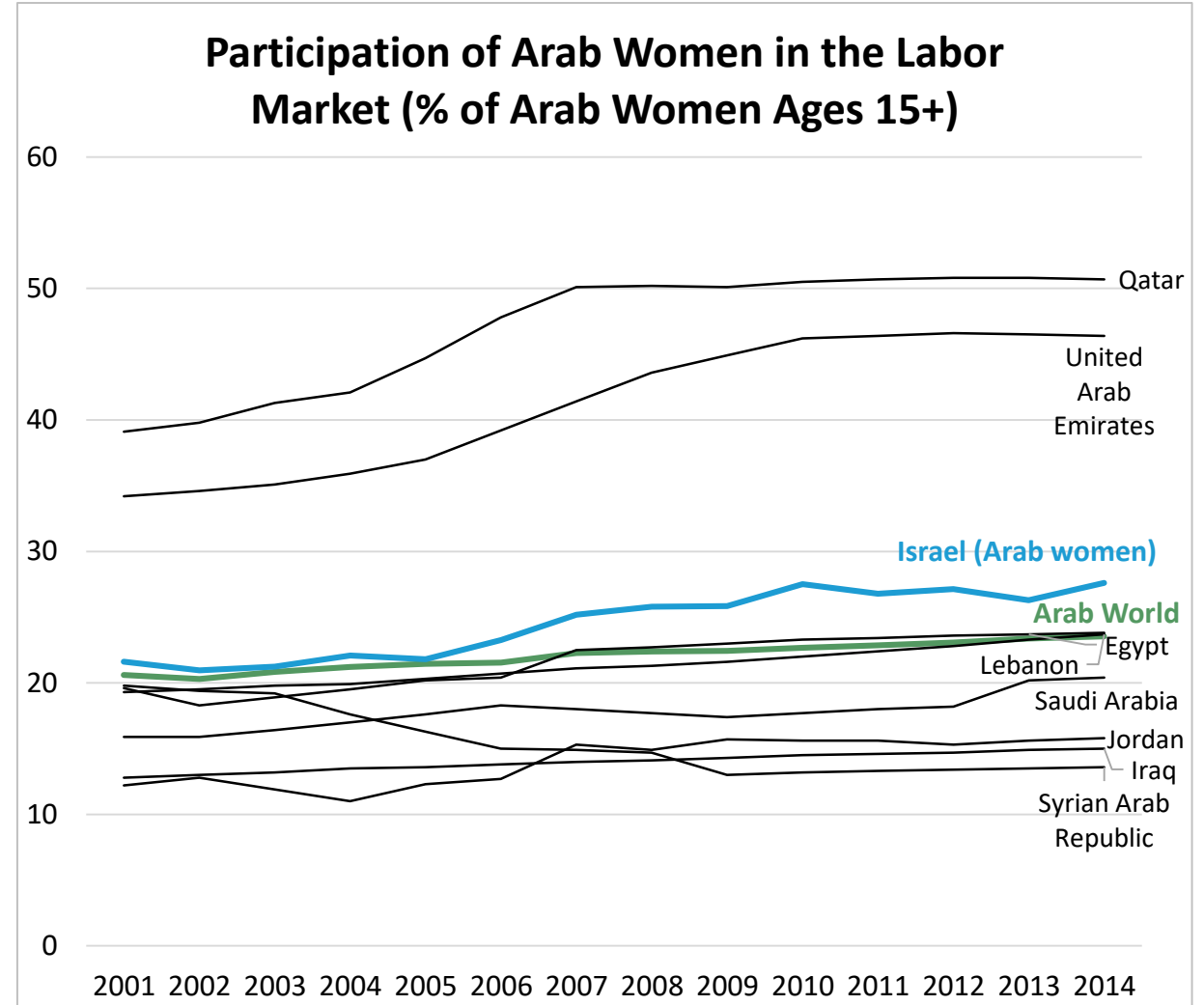
Source: CBS



Low participation of Arab women, related to cultural reasons (“Traditional Family”)

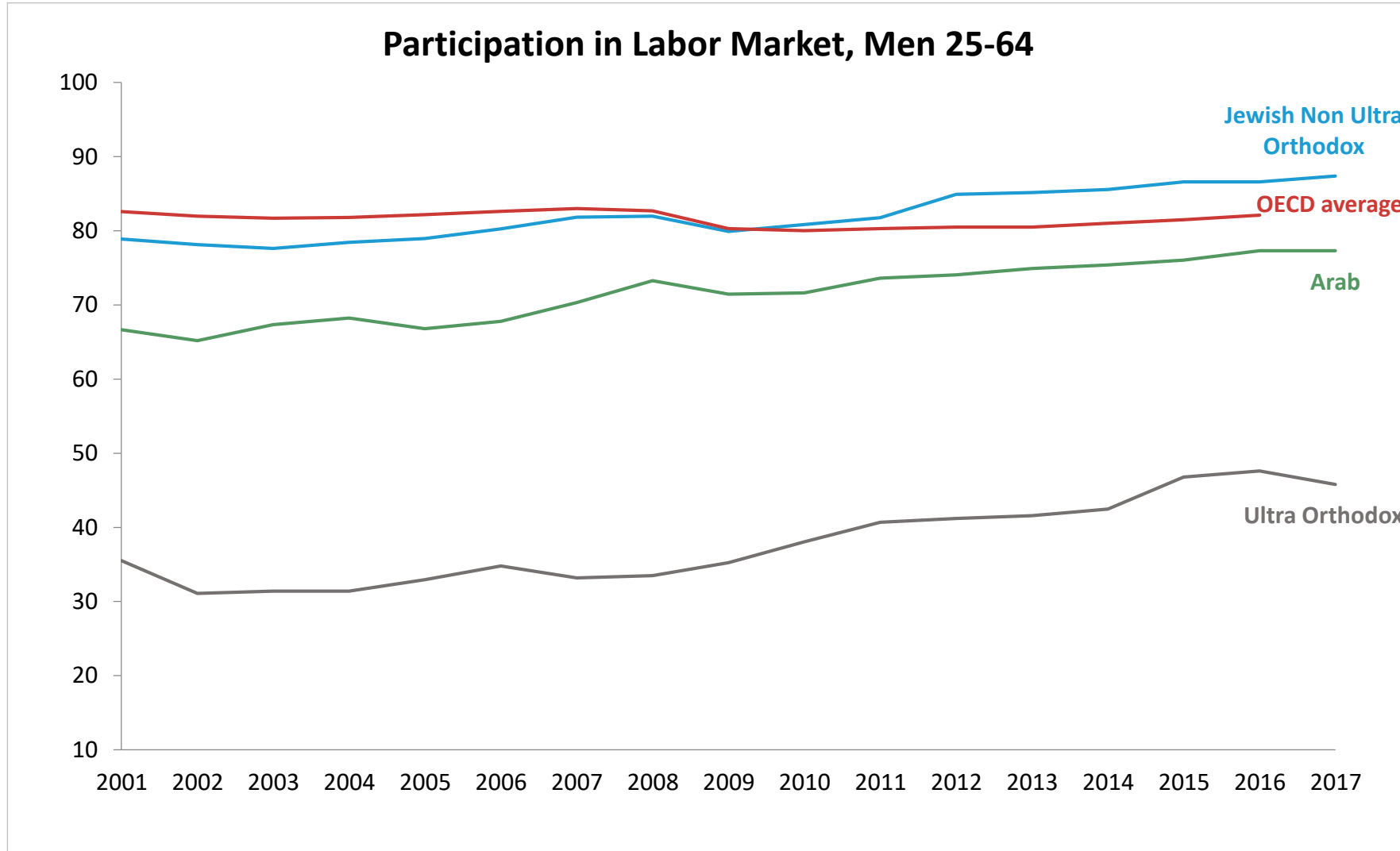


Source: CBS & OECD





Low participation of Ultra-Orthodox men, due to full dedication to Bible Studies

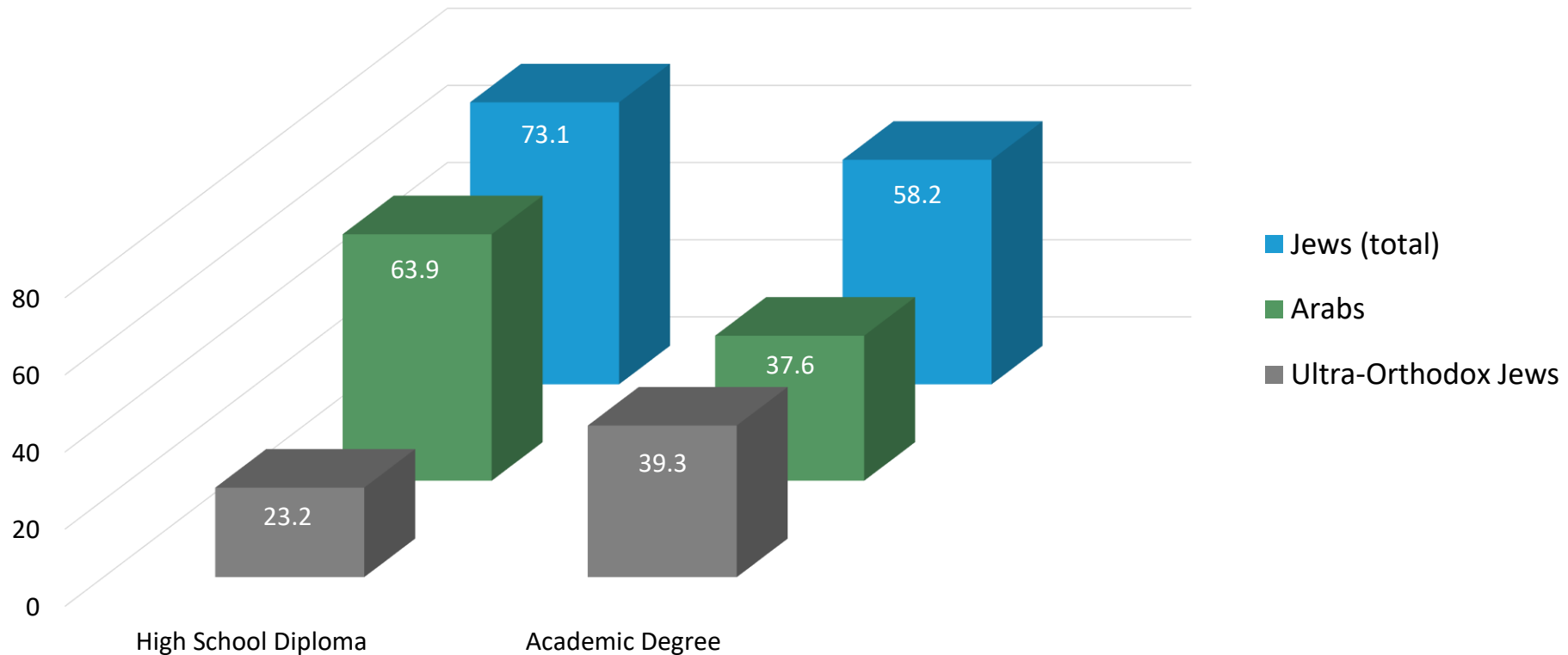


Source: CBS & OECD



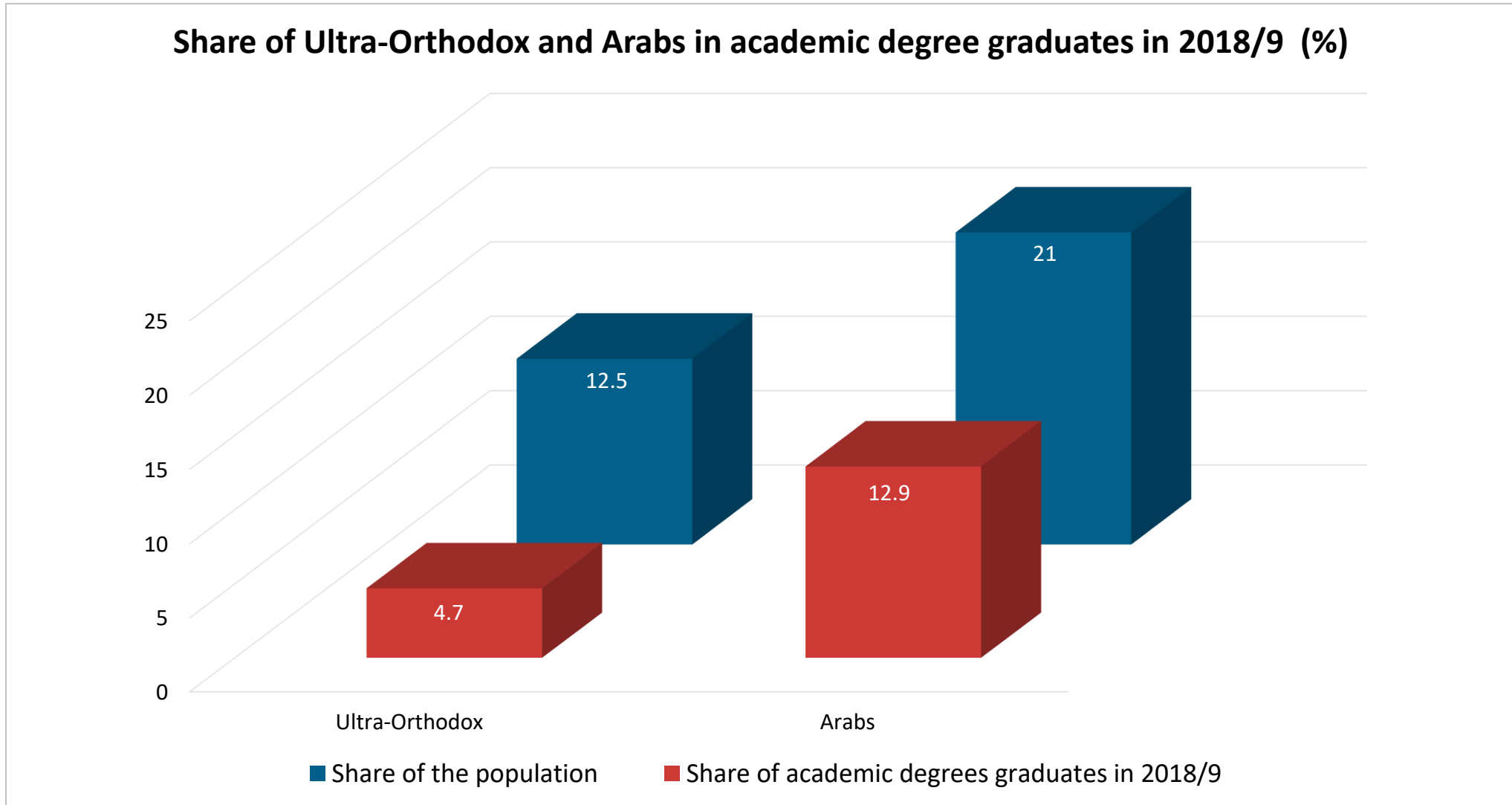
Higher Education among Arabs and ultra-Orthodox is scarce...

Rate of High-School Diploma Entitlement and Academic Degree Holders, 2018/9



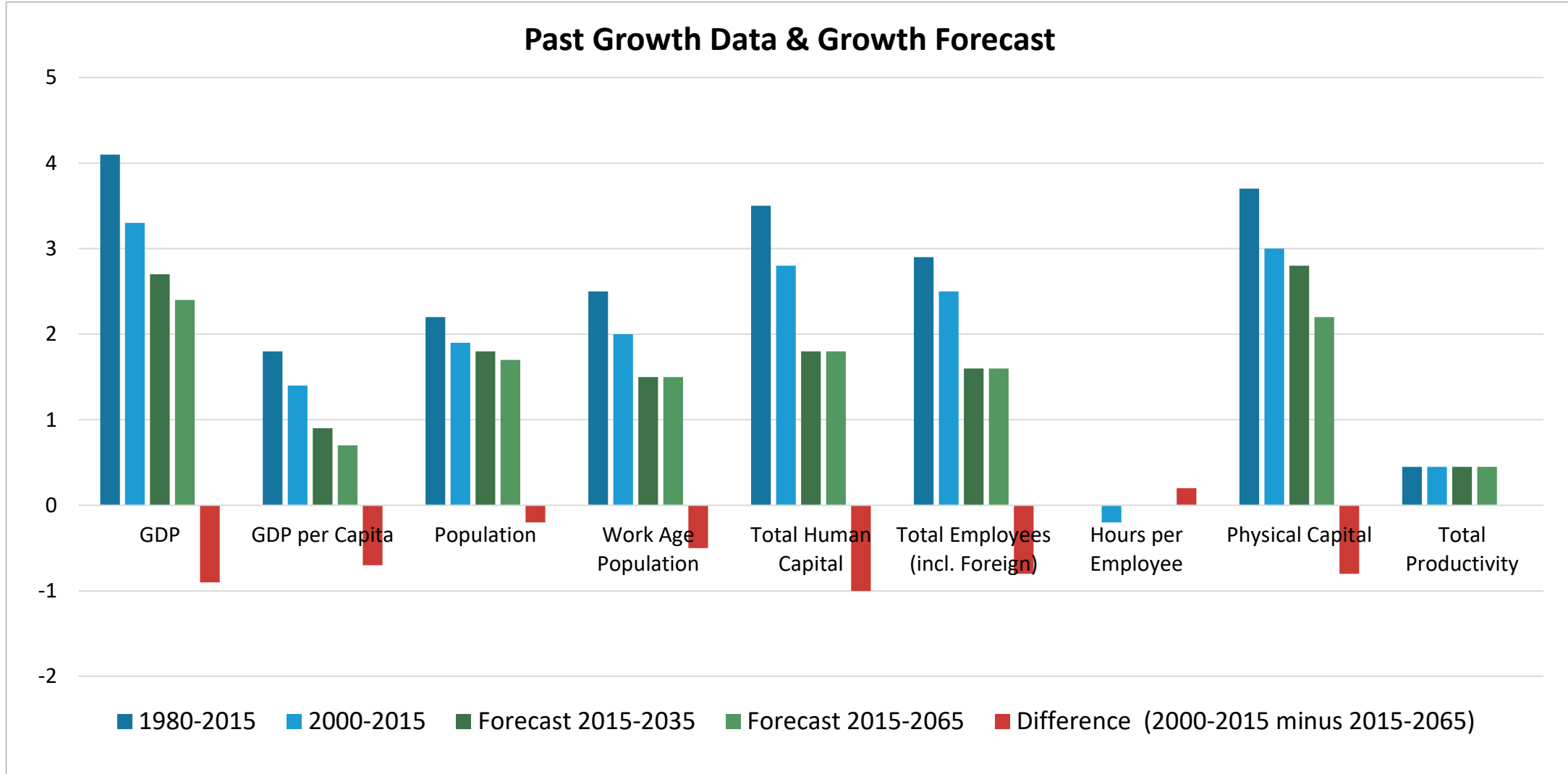
Source: High School Diploma Data – Ministry of Education, rate of high school seniors entitled to a Bagrut in 2018/9 (תשע"ט) ; Academic Degree Data – CBS, rate of population over 30 with higher education.

...and the improved trend is not changing the situation quickly





Looking ahead the most challenging factor is improving Human Capital



Source: CBS Data processed according to the BOI Growth model.

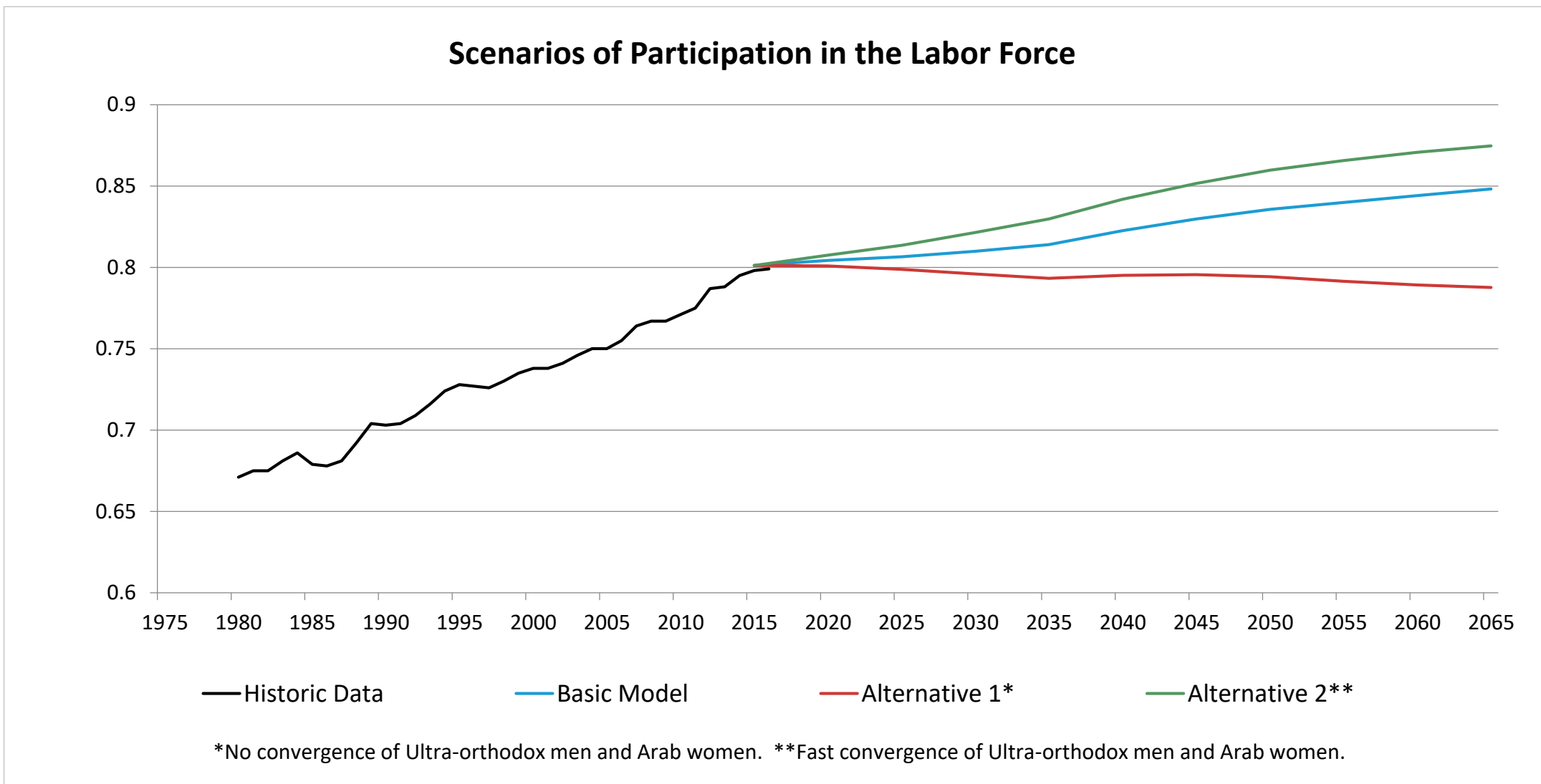


Impact on the economy: Different scenarios

- 1. Inactive Policy Scenario** – no convergence of Arab women and ultra-orthodox men to the population's average participation rates.
- 2. Base scenario** – steps targeted on increasing participation rates of these groups achieving average growth rate of the last 20 years.
- 3. “Reform” Scenario** – I) Changes in Arab and Ultra-Orthodox education system; II) a substantial improvement in active labor market policy; III) Providing fundamental skills, life-long professional training and the use of training courses; all these steps will lead to a fast convergence of participation rates toward the population's average.



With fast convergence of ultra-orthodox men and Arab women, general participation in labor force can achieve 87%



Source: CBS Data processed according to the BOI Growth model.



Policy changes in institutions, education, and infrastructure will crucially influence economic growth

Economic growth may also be stimulated using recommended policy steps in other fields as well, along with employment policy improvements:

- 1. Institutions** – Raising efficiency in registering property and paying taxes and similar bureaucratic procedures through determining quantity and quality goals of the public sector's work, adopting advanced technologies and simplifying laws and regulations; Emphasizing contracts enforcement.
- 2. Education** – Raising public spending per-student to the OECD average level and reducing the inequality between different population groups; Forming an education policy for young children, specifically ages 0-3, to affect the ability to acquire fundamental capabilities; Improving the accessibility of day-care for children of weak socio-economic background and improving its quality using training and raised salaries of the staff; Improving general quality of teachers in the education system, and increasing management independence of schools with high achievements; encouraging English and Mathematics studies among Ultra-Orthodox.

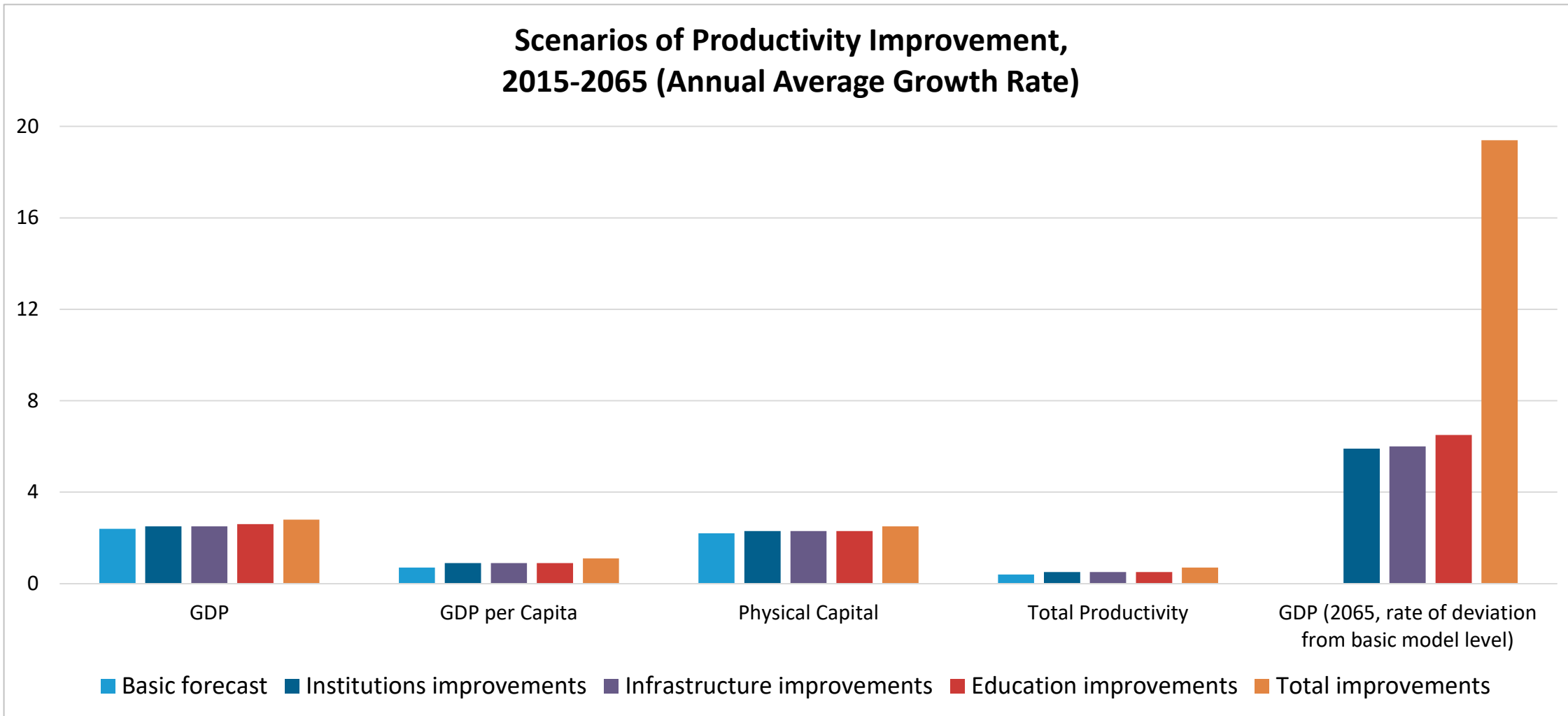


Policy changes in institutions, education, and infrastructure will crucially influence economic growth (cont.)

- 3. Infrastructure** – Israel needs to over-invest in this field in order to close existing gaps from other OECD countries. This include: Investing in the development of public transportation, specifically in metropolises; Promoting high-speed internet connections and creating incentives for private companies to invest in communication infrastructure; In energy, focusing on electricity and the use of renewable energy; Investing in the gas infrastructure; Building a second international airport.



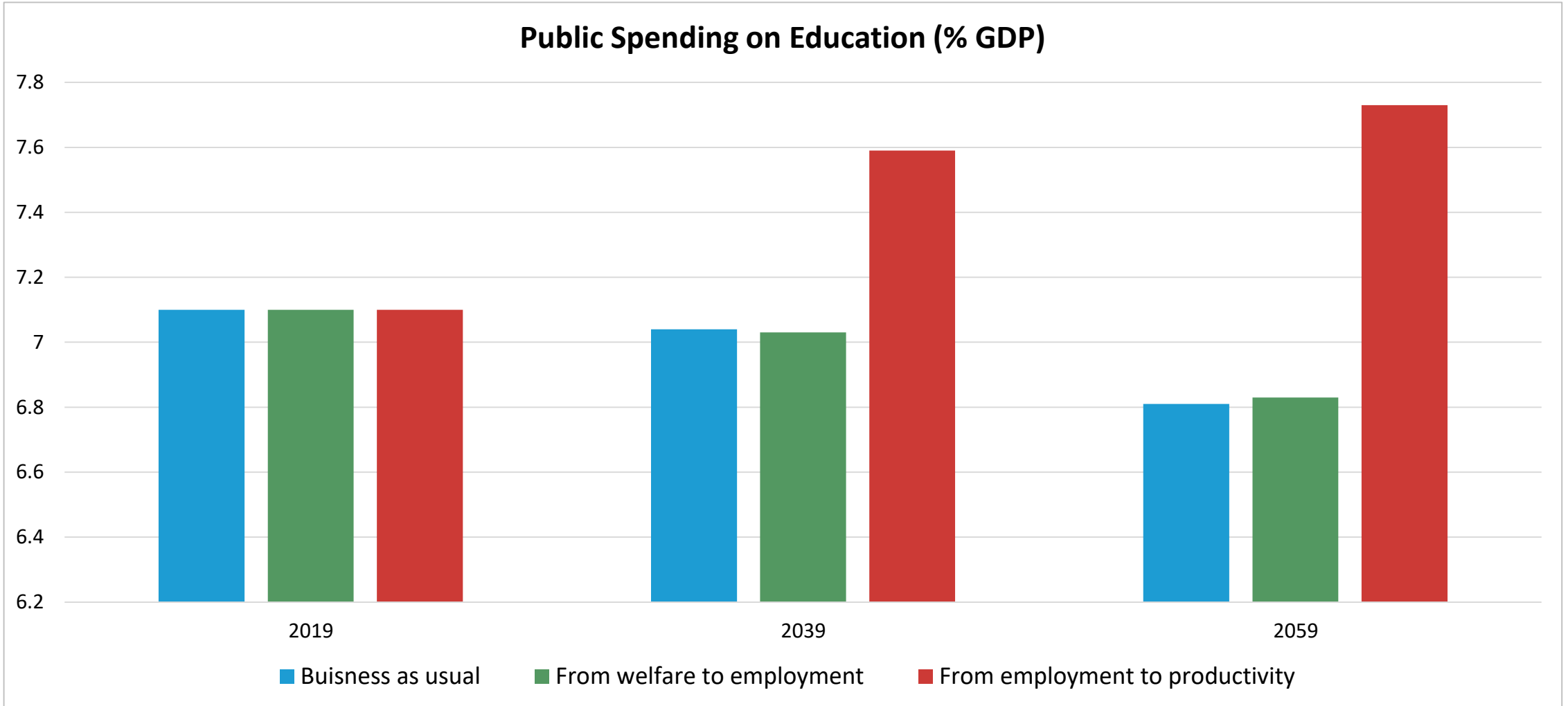
Implementation of all policy recommendations is expected to raise GDP in 2065 by 19.4%, relatively to the basic forecast



Source: CBS Data processed according to the BOI Growth model.



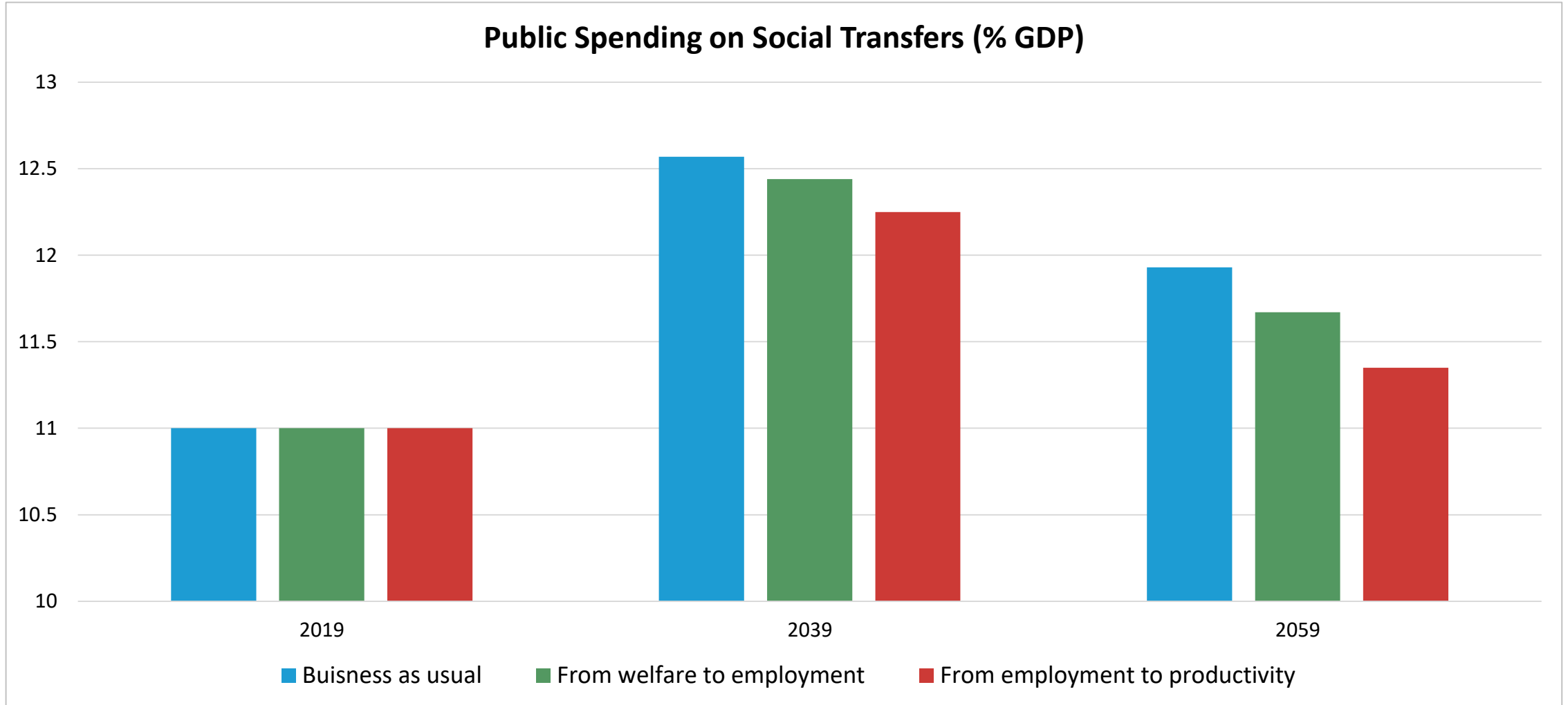
Implementation of policy recommendation requires increasing public spending on education



Source: CBS Data processed according to the methodology used in “From Employment to Productivity” Report of the Israel’s Institute for Democracy. The simulation assumes that in the last decade there was no substantial increase in the education budget related to the specific policy proposals. It is worth mentioning that there was a pilot in science studies that included Arab schools (see Zussman and Maagan, *Bank of Israel Discussion Paper*, 2019.10)



Implementation of policy recommendation is expected to decrease public spending on social transfers



Source: CBS Data processed according to the methodology used in “From Employment to Productivity” report of the Israel’s Institute for Democracy. The simulation assumes that there was no substantial increase in the education budget related to the specific policy proposals. It is worth mentioning that there was a pilot in science studies that included Arab schools (see Zussman and Maagan, *Bank of Israel Discussion Paper*, 2019.10).



Employment rates & employment goals, ages 25-64 (%)

	2018	2020 Goals	2030 Goals (Ages 25-66)
Total	77.5	76.5	-
Men	81.5	-	-
Women	73.6	-	-
Arab Men	76.3	78	83
Arab Women	38.2	41	53
Ultra-Orthodox Men	50.2	63	70
Ultra-Orthodox Women	76.1	63	81

Source: CBS & The “2030 Committee for Promoting Employment” report to the Minister of Labor, Welfare and Social Services (August 2020).