TAUB CENTER
for Social Policy Studies in Israel

Is the Israeli Economy Recovering?

Benjamin Bental and Labib Shami

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Is the Israeli Economy Recovering?

Benjamin Bental and Labib Shami

Introduction

Last year's annual Taub Center report examined the impact of the first year of the war that erupted following the horrific October 7 massacre (Bental & Shami, 2024). Most of the assessments included in that review — and the implicit hope expressed in it — were based on scenarios in which the war would end quickly. At the time of writing, it appears that the intensified fighting in the Gaza Strip has indeed come to an end. The survey below points, in general, to a relatively stable economy in the face of the fighting in Gaza and against Iran. The stabilization of the security situation and the possibility of reaching regional arrangements create a positive atmosphere and raise hopes that the economy will return to a growth trajectory similar to that which prevailed before the war.

As in previous years, this review addresses ongoing events and their effects, but also the fundamental structural problems of the economy, which remain unchanged — chief among them, low labor productivity and high price levels. These two weaknesses are connected. In particular, addressing the problem of labor productivity would help narrow the gap between the cost of living in Israel and that of the countries we aspire to resemble. Policies that raise labor productivity require large-scale infrastructure investment (especially in public transportation) and improvements in human capital, particularly in the Arab and Haredi sectors. Implementing such policies demands sustained governmental attention, which was lacking even before the war and is all the more lacking now.

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GDP and its components

The impact of the war on the growth of GDP and its components — private consumption, public consumption, investment, and exports net of imports — is clearly evident in Figure 1. The figure shows the change in each component in every quarter relative to its counterpart in the previous year (in seasonally adjusted, constant prices), beginning with the last quarter of 2023, when the war broke out.[1]

As the data for the last quarter of 2023 (compared to the last quarter of 2022) indicate, the war's impact on GDP was very large — an almost 5% decline — which meant that overall economic growth in 2023 amounted to only 2%.[2] The decline stemmed from a severe hit to investment, driven in large part by the paralysis of the construction sector (following the halt in employment of Palestinians from the West Bank and the reluctance of Arab Israelis to work in predominantly Jewish environments). Private consumption also fell significantly. Both developments are consistent with the decline in imports, although the export surplus increased slightly as exports fell at a more modest rate. Even the sharp rise in public expenditure, driven by the doubling of defense spending, did not offset the declines in private consumption and investment.

The first three quarters of 2024 are compared to the parallel quarters of 2023, before the outbreak of the war. All of them point to a moderation in the war's effect across all components. Private consumption even showed a small increase in the second and third quarters of 2024 relative to those quarters in the previous year, reflecting a very modest correction of the immediate war effect. In these quarters, GDP grew at a negative rate of about 1.5% compared to 2023.

Beginning in the fourth quarter of 2024, the comparison is made relative to an economy already in wartime conditions. Accordingly, this quarter shows a sharp increase in GDP of nearly 6%. The increase reflects a *rebound* effect in private consumption and investment, manifested also in a notable rise in imports, which offsets part of the GDP increase. Thus, the reduction in the export surplus tempered the impact of private consumption and investment on

1 Technical issues arising from adjustments to price indices create certain discrepancies between the annual sum of the seasonally adjusted quarterly data and the annual totals published by the CBS.

2 In July 2023, the Bank of Israel forecasted growth of 3% for 2023 and 2024. See the Bank of Israel website, Research Department Staff Forecast, July 2023.

GDP growth. Notably, public consumption remained at the high level it reached at the outbreak of the war. Overall, Israel's economy grew by only 1% in 2024 — a figure that implies negative per capita GDP growth of about 0.3%.

The data for 2025 indicate a moderate pace of growth. In the first three quarters of the year, GDP grew by 2.8% compared to the same period a year earlier. The third quarter of 2025 was affected by the 12 days of the war with Iran, which heavily disrupted economic activity (see labor market data later in this chapter). Naturally, this conflict is also reflected in increased public consumption, but somewhat surprisingly, private consumption also displays significant growth. The result is a remarkable GDP growth of 3.3% relative to the third quarter of 2024. Despite the seemingly good performance of that quarter, the Bank of Israel has yet to release its forecast for 2025, but expects a strong rebound of 4.7% in 2026.[3] The Ministry of Finance has downgraded its growth forecast from 3.3% to 2.8%, while its forecast for 2026 of 5.2% is higher than that of the Bank of Israel.[4] The IMF also forecasts 2.5% growth for this year, but just 3.9% for next year.[5]

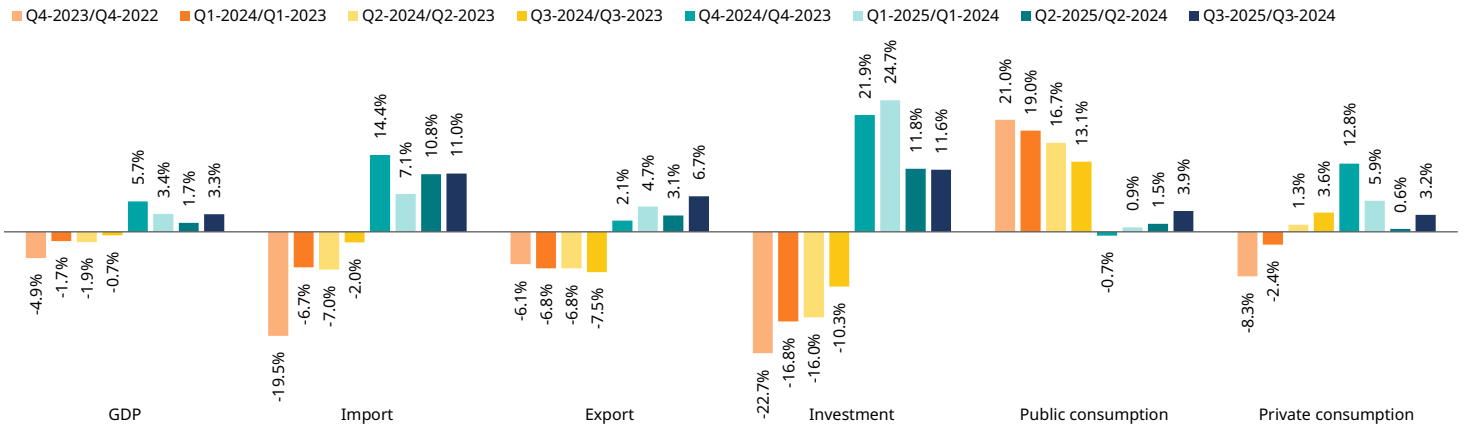
3 See the Bank of Israel website, The Monetary Committee decides on November 24, 2025 to lower the interest rate to 4.25 percent.

4 See the document Revised Macroeconomic Forecast of the Chief Economist Division, Ministry of Finance from November 4, 2025.

5 See IMF website.

Figure 1. GDP growth and its components

Seasonally adjusted, constant prices



Source: Benjamin Bental and Labib Shami, Taub Center | Data: CBS

The implications of the growth data are illustrated in Figure 2. This figure tracks the actual developments in GDP per capita and private consumption per capita (in constant prices) and compares them to their hypothetical paths, based on 2019 baseline values extrapolated forward according to the average growth rate of GDP per capita and private consumption per capita between 1995 and 2019.[6] The figure shows a remarkable recovery of GDP per capita following the COVID-19 crisis, to the point of rising above the trend line. The growth data reported in Figure 1 are clearly reflected in Figure 2, in the sharp break in the level of GDP per capita caused by the war in the last quarter of 2023, when GDP per capita fell back to its level at the beginning of 2021. Since then, the recovery has been relatively slow, and by the third quarter of 2025 GDP per capita had returned to its end-2021 level — 3.5% below the trend.

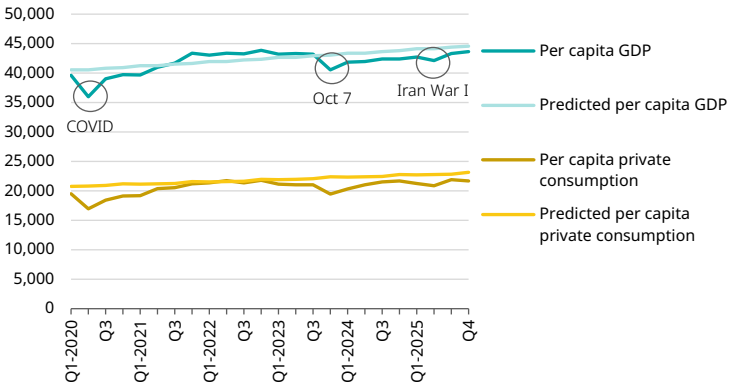
The recovery of private consumption per capita was slower, but it returned to its trend line in 2022. The decline in this variable began in 2023, even before the outbreak of the war, and therefore the break that occurred in the last quarter of 2023 is somewhat less severe than that of GDP per capita.[7] Since then, the recovery in per capita consumption has been fairly moderate. By the end of 2025, this variable stands at a level 7% below its trend and is at the level of the second quarter of 2022.

6 Similar to other industrialized countries, despite deviations from the trend line caused by business cycles, growth rates remain stable over time. The choice to focus on per capita growth rates is particularly important in Israel because it neutralizes changes arising, for example, from waves of immigration or demographic shifts. See, for example, US data on GDP per capita and private consumption per capita on the Federal Reserve website, Real gross domestic product per capita and Real personal consumption expenditures per capita.

7 The decline is explained by a series of developments in the first months of 2023. The Bank of Israel rapidly raised the interest rate (to a peak of 4.75%) in order to reduce inflation (which reached 5.4%). Inflation eroded real wages. In addition, there was a rapid depreciation of the shekel, associated with rising uncertainty following the struggle over changes to the judicial system.

Figure 2. Per capita GDP and per capita private consumption: data and trends

NIS, quarterly, 2020 prices



Source: Benjamin Bental and Labib Shami, Taub Center | Data: CBS

The government and national debt

Figure 3 reflects the impact of the war on government expenditures. The figure plots actual expenditures (in current prices), but also net of the increase in the consumer price index. Civilian expenditures are also adjusted for population growth, on the assumption that they are directed primarily toward *final individual consumption expenditure* (such as education and health), in contrast to defense expenditures, which reflect *final collective consumption expenditure*.[8]

Defense expenditures naturally mirror the sequence of wartime events. Before the war, monthly spending stood at roughly NIS 6–NIS 7 billion (Figure 3).[9] Expenditures rose sharply with the outbreak of the war, reaching NIS 16 billion in December 2023. The 2023 state budget was increased by NIS 23 billion.

8 The terminology follows the CBS definitions, which in turn follow OECD definitions: government individual consumption and collective consumption, respectively.

9 Prior to the war, the defense budget was about NIS 80 billion, and the budget for the Ministry of National Security was NIS 22 billion.

After a period of more moderate military activity and a decline in defense spending during the summer months of 2024, expenditures rose again due to the war with Hezbollah, reaching NIS 21 billion in December 2024. The 2024 state budget was increased, in three stages, by about NIS 107 billion (nearly 21%) relative to the original budget.[10] The next peak, NIS 19 billion in April 2025, is associated with Operation Rising Lion (*Am Kelavi*) against Iran. The 2025 defense budget approved by the Knesset in March 2025 stood at NIS 136 billion (Knesset, 2024). Following the war with Iran, the defense budget was increased one more time by NIS 31 billion.[11]

Compared with defense expenditures, civilian expenditures — especially once adjusted for population growth — have remained relatively stable despite the heightened need to support affected populations (particularly evacuees from communities near Gaza and the northern border and victims of the Iranian missile attacks).[12] The policy implied by the data is consistent with the expenditure rule, under which the permissible increase in government spending is calculated according to the average population growth rate over the three years preceding the submission of the budget bill, plus an increment that declines as the debt-to-GDP ratio rises.[13]

10 See the Ministry of Finance website, Budget Implementation Reports for 2024.

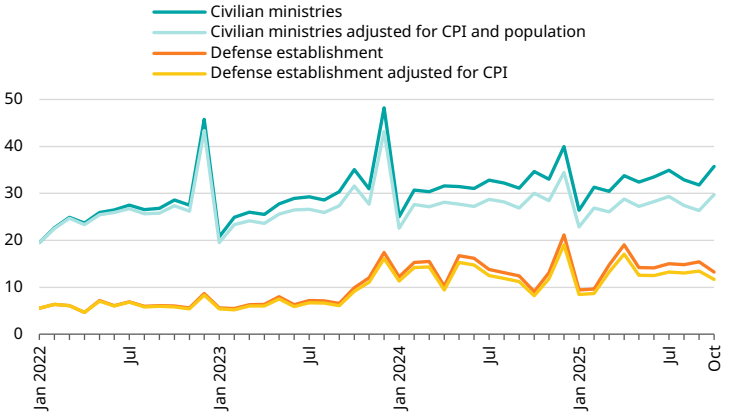
11 Operation Gideon's Chariots II to take over Gaza was not budgeted at all.

12 Beyond the increased needs created by the war, the rise in December 2023 also reflects a seasonal pattern, likely stemming from government ministries' desire to utilize unspent budget allocations before the end of the fiscal year.

13 The precise formula is $g = n + \left(\frac{0.5}{b}\right)$ where g is the rate of growth in government expenditures (percent), n is the average growth of the population over the previous three years (percent), and b is the debt to GDP ratio. For more on this see the Knesset website.

Figure 3. Government expenditures

NIS billions



Source: Benjamin Bental and Labib Shami, Taub Center | Data: Ministry of Finance, Accountant General Department

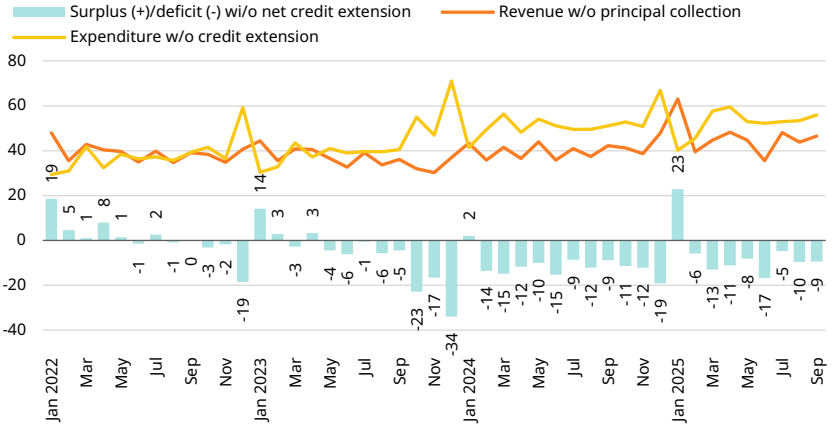
Figure 4 shows the fiscal position of the Israeli government. The year 2022 ended with a budget surplus of about 0.6% of GDP, despite the sharp increase in government spending in December. The first three quarters of 2023 ended with a negligible deficit of 0.3% of GDP. With the outbreak of the war, not only did government expenditures soar — tax revenues also fell. The result was an annual deficit of 4.1% of GDP. In the war year of 2024, the deficit rose to 6.8% of GDP. Thanks to the large budget surplus recorded in January 2025, the government accumulated a deficit of 3.7% of GDP in the first three quarters of the year.[14] The initial surplus stemmed from a series of tax measures, including the taxation of trapped profits introduced in the 2025 tax year. The Bank of Israel forecasts a deficit of 5.1% for 2025 and 4.3% for 2026.[15]

14 The International Monetary Fund relies on accounting principles that differ from those used by the Ministry of Finance. For example, the Ministry's calculations do not include the expenditures of the Property Tax and Compensation Fund, whereas the IMF apparently counts them as government expenditure. Accordingly, the IMF estimates the deficit in 2024 at 8.3% of GDP. Its forecasts for 2025 and 2026 are 6.4% and 5.5%, respectively.

15 See the Bank of Israel Research Department Staff Forecast, September 2025, which was published prior to the ceasefire agreement on the Gaza front.

Figure 4. Expenditures, revenues, and debt

NIS billions

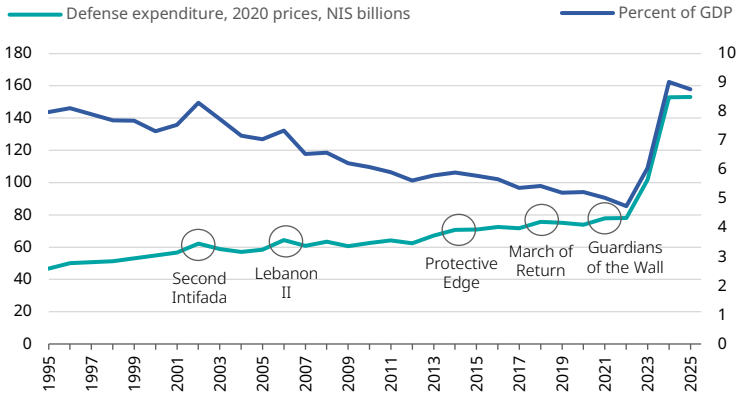


Source: Benjamin Bental and Labib Shami, Taub Center | Data: Ministry of Finance, Accountant General Department

Figure 5 focuses on defense expenditures, both in their level (in 2020 prices) and as a share of GDP. After reaching 8% of GDP in 2002 due to the Second Intifada, the share of defense expenditures declined steadily to about 5% of GDP on the eve of the war in Gaza. However, the level of expenditure (in real terms) rose throughout the entire period, at an average annual rate of 1.7% (compared with GDP, which grew at an average rate of about 3.7%). In 2007, the Brodet Committee was appointed; it recommended one-time increases to the military budget, followed by annual increases of only 1.3%. The Locker Committee report from June 2015 recommended that "in the years 2016–2020, the base budget should stand at NIS 59 billion, 'all inclusive,' and be indexed to the consumer price index" (Locker Committee, 2015). In other words, in real terms the military budget was supposed to remain constant — a recommendation that was not implemented. Due to the war, defense expenditures soared to about 9% of GDP and even higher. To assess Israel's needs over the foreseeable future, the Nagel Committee was appointed. Its recommendations, published at the end of December 2024, propose adding approximately NIS 15 billion (in 2024 prices) to the military budget each year starting in 2026 and for a further

decade (Nagel Committee, 2024, p. 54). Under a very conservative assumption of an average GDP growth rate of 2.5%, this addition declines from about 0.75% of GDP to about 0.6% by the end of the decade.

Figure 5. Defense spending



Source: Benjamin Bental and Labib Shami, Taub Center | Data: CBS

As noted, the dramatic increase in defense spending has generated deficits that immediately affect Israel's public debt. The ratio of a country's debt to its GDP is used by international bodies, such as credit rating agencies, when assessing country risk. In particular, the larger this ratio, the more resources must be allocated to debt service, placing pressure on the state budget and, in extreme cases, leading to default. Figure 6 reflects Israeli governments' awareness of this fact. Thanks to responsible fiscal policy (low deficits) and rapid GDP growth, the debt-to-GDP ratio declined steadily over time (left axis). The COVID-19 crisis temporarily pushed the ratio upward, but it returned to its pre-crisis level as soon as the pandemic ended. The war again raised the debt-to-GDP ratio to the level seen at the end of the COVID-19 crisis, but unlike the post-pandemic period, there is now a real risk of a further and persistent rise in the debt ratio.

This risk stems from two sources: large government deficits driven by high defense spending and slow GDP growth, alongside rising interest rates.[16] At this stage, the Bank of Israel expects the debt-to-GDP ratio to stabilize this year at 70% and next year at 71%, assuming regional stability is maintained.

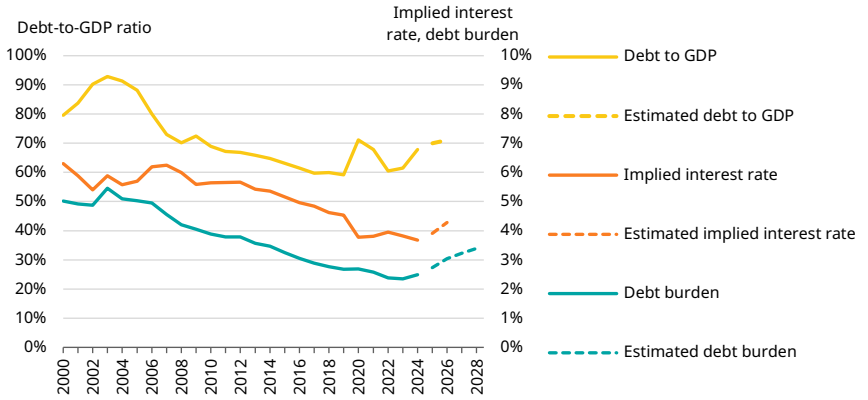
Figure 6 also plots the debt burden, defined as the ratio of interest payments to GDP (right axis). Unsurprisingly, there is a close relationship between the debt-to-GDP ratio and the debt burden. The expected increase of about 1 percentage point in the debt burden due to the war amounts to roughly NIS 20 billion in 2025 terms.[17] Figure 6 also estimates the implied average interest rate, derived from the debt-to-GDP ratio and from the debt burden (also on the right axis).[18] As shown, the average interest rate declined steadily from the end of the first decade of the century until the eve of the war — that is, the debt burden fell faster than the debt-to-GDP ratio. This pattern intensified during the COVID-19 crisis (when the debt ratio rose but the debt burden did not change markedly), but the trend reversed with the outbreak of the war, a development reflected in the estimated implied interest rate.

16 With a substantial simplification, the dynamics of the debt-to-GDP ratio can be expressed as follows: $b_t = d_t + (r - g)b_{t-1}$ where b_t stands for the debt to GDP ratio at time period t, d_t stands for the primary deficit (excluding interest payments) in period t, r is the interest (real) on the debt and g is the GDP growth rate (real). This implies that a high primary deficit, combined with an interest rate that exceeds the rate of GDP growth, drives the debt-to-GDP ratio upward.

17 The assessment of the debt burden for 2025–2028 is based on the Accountant General's estimate of interest payments (Knesset, 2024, p. 151), an annual inflation rate of 2.5%, and GDP growth of 2.5% per year.

18 The implied average interest rate is obtained by dividing the debt burden by the debt-to-GDP ratio. This result should be distinguished from the marginal interest rate relevant for new borrowing and for refinancing existing debt (Bental & Shami, 2024).

Figure 6. Debt burden, ratio of debt to GDP and the implied interest rate



Source: Benjamin Bental and Labib Shami, Taub Center | Data: Bank of Israel; CBS; Ministry of Finance, Accountant General Department

SPOTLIGHT

The Digital Shekel

Technological innovation and consumer preferences are shaping the future of payment systems. Central banks around the world have begun examining the issuance of central bank digital currencies (CBDCs), which serve as a digital version of the national currency. Instead of printing cash, the central bank issues electronic money that complements physical cash and forms part of the state's sovereign money, with a fixed 1:1 conversion rate to the national currency — ensuring stability and security. A digital currency would not replace cash but would expand the range of secure payment options in the economy.[19] The motivations for issuing a CBDC vary across countries, but typically include the decline in cash usage,[20] promotion of competition in the payments market, cost reduction (especially for cross-border transfers), and enhanced financial inclusion. Additional motivations include programmable payment capabilities, improved transaction monitoring, and strengthening of the national payment infrastructure (Di Iorio et al., 2024). As of July 2025, 137 central

19 See the Federal Reserve website, Central Bank Digital Currency (CBDC), and on the digwatch website, Digital euro will not replace cash, says ECB.

20 Cash serves as an anchor for monetary stability and as the public's direct access to central bank money. A rapid decline in its use could harm marginalized populations, reduce privacy, and impair the ability to conduct basic transactions. A central bank digital currency could therefore provide a sovereign and accessible alternative in a digital age. For further discussion, see Bank of Israel, 2023, p. 12.

banks worldwide are studying CBDC issuance, and three countries have already launched one.[21] In Europe, the digital euro project is advancing, and China is conducting a large-scale pilot of a digital yuan. In the United States, by contrast, President Trump has prohibited the development of a retail CBDC.[22] Israel has not yet decided whether to issue a digital currency, but the Bank of Israel is preparing an action plan that would allow a future launch of a digital shekel (SHAKED).

A distinction must be made between CBDCs and private cryptocurrencies: a CBDC is issued and managed by the central bank, whereas cryptocurrencies such as Bitcoin are not backed by any sovereign authority. They operate in a decentralized manner and their value (in state currency terms) is highly volatile, making them unsuitable as the foundation for a stable financial system.

CBDCs come in two forms: wholesale currency, intended for financial institutions, and retail currency, intended for consumers and businesses. Retail CBDC can be based on a cash-like model (tokens), enabling relatively anonymous transactions through digital signatures, or on an account-based model, which requires user identification. The latter is better suited for monitoring illicit activity while maintaining some degree of privacy (BIS, 2021).

The Bank of Israel has been examining the possibility of a digital shekel since 2017 (Bank of Israel, 2018, 2022, 2023, 2024). In 2025, it published an initial design document for the digital shekel system, reviewing legal and macroeconomic considerations and addressing issues such as holding limits and interest (Bank of Israel, 2025). According to the document, the Bank of Israel would be the sole issuer and regulator of the digital shekel. The currency would support immediate and final payments of any amount,

21 See the Atlantic Council website, Central Bank Digital Currency Tracker.

22 Presidential Order 1418 from January 23, 2025.

and would be accessible to the entire public and to businesses, including those who struggle to adopt other payment methods. The system would use advanced technologies to prevent financial crime, money laundering, and terrorism financing, contributing to efforts against the shadow economy. The Bank of Israel's final recommendations are expected in 2026.

The user journey for the digital shekel would begin with opening an account and a digital wallet, a process that generates a unique system identifier and issues a user alias to facilitate transactions. This process would be conducted through a payment service provider, which would handle identity verification. Usage would not be limited to smartphones; it would also be possible through smart cards, basic mobile phones, point-of-sale terminals, and cloud-based interfaces, ensuring accessibility for those without advanced technology. Wallets could be funded via bank transfers or by depositing cash at ATMs or service counters. The digital shekel would function as a universal means of payment, similar to cash, but with the advantages of a digital system: basic uses for the public would be free of charge, and merchant fees would be significantly lower than for current digital payment methods. The system would also support offline payments, allowing continued operation in emergencies or areas with no network connectivity. Privacy is a central design element: protection levels would be higher than in existing digital payment systems but lower than with cash. Limited anonymous payments would be permitted, and the Bank of Israel would not have access to users' balances or transaction data.

In its basic form, every digital currency payment would be immediate and final. However, the digital shekel could also support more advanced uses developed by the private sector, such as conditional payments ("delivery versus payment"), micro- or split payments, and the management of sub-wallets. It would also allow interoperability with other payment systems, enabling

payments to parties without a digital-shekel wallet and thereby expanding usability and adoption. The Bank of Israel is examining the possibility of paying interest on digital-shekel balances to improve monetary transmission and promote competition in the deposit market. Decisions regarding whether and how to apply interest would be made in light of economic conditions and associated risks.

Alongside its advantages, issuing a central bank digital currency also entails significant risks. The main concern is that shifting deposits from banks to a digital wallet could reduce banks' lending capacity, potentially destabilizing credit markets. There are also cyber and operational risks requiring advanced infrastructure, as well as a need for strict regulation in areas such as privacy, consumer protection, and anti-money-laundering compliance. In Israel, limits on balances and loading amounts are being considered to mitigate liquidity and credit risks. Simulations indicate that such limitations can be set without harming usability, though the Bank emphasizes the need to prepare for constraints that may affect privacy, reputation, and financial stability.

The introduction of a CBDC echoes Milton Friedman's proposal for monetary reform. Friedman argued for a fundamental distinction between institutions that handle payments and those engaged in credit intermediation. In his view, demand deposits should be subject to a 100% reserve requirement, so that every dollar deposited would be fully backed by base money and not used to create new credit. This measure was intended to ensure systemic stability and clearly separate money creation from capital allocation. Meanwhile, other financial institutions — such as investment banks, funds, and credit companies — would operate solely as financial intermediaries, providing loans and investments (Friedman, 1960). The question arises whether, in today's economic environment, we are moving — knowingly or not — in this direction.

The labor market

The processes reflected in Figure 1 are mirrored in developments in the labor market shown in Figure 7. The figure presents data on the share of the unemployed, those absent from work for economic reasons, and those who have stopped working. The first measure refers to workers who are not employed but are actively looking for work. The second refers to individuals who are formally attached to a workplace but are not actually working because their employer does not require their labor temporarily, or for their own reasons. Both of these rates are calculated out of the labor force — that is, respondents to the Labor Force Survey who report being employed or actively seeking employment (among those aged 15 and older, the employment rate is about 60%). The share of those who have stopped working reflects individuals who have not worked for two years and is calculated out of the entire population aged 15 and older.

Figure 7, which tracks the monthly data since early 2022, is characterized by striking stability in the unemployment rate, which fluctuates at around 3%. The share of those temporarily absent from work also hovers around 0.5% or less, with noticeable spikes during periods of exceptional security events. In the fall of 2024, this share rose somewhat due to the war in the north. Operation Rising Lion, which took place in June 2025, pushed this rate to the level recorded in October 2023, when the war first broke out; but with the event ending quickly, the share of those temporarily absent soon returned to its pre-operation level. As for the share of those who are discouraged workers, although it is not high, it does fluctuate. Since this category reflects people who stopped working at least two years before the survey, it is difficult to link the fluctuations to current events. Accordingly, the relatively high rates at the beginning of 2022 (about 1% — some 70,000 men and women) refer to those who stopped working at the onset of the COVID-19 crisis and did not return to the labor market. The increase recorded at the end of 2023 can likewise be attributed to another wave of COVID two years earlier. Still, the slow decline of this wave calls for explanation.

Employees are absent from work not only for "economic reasons." Figure 8 presents the full range of circumstances under which employees are absent from work in addition to economic reasons: illness or vacation, reserve duty, or other reasons. The figure shows the number of employees in each category

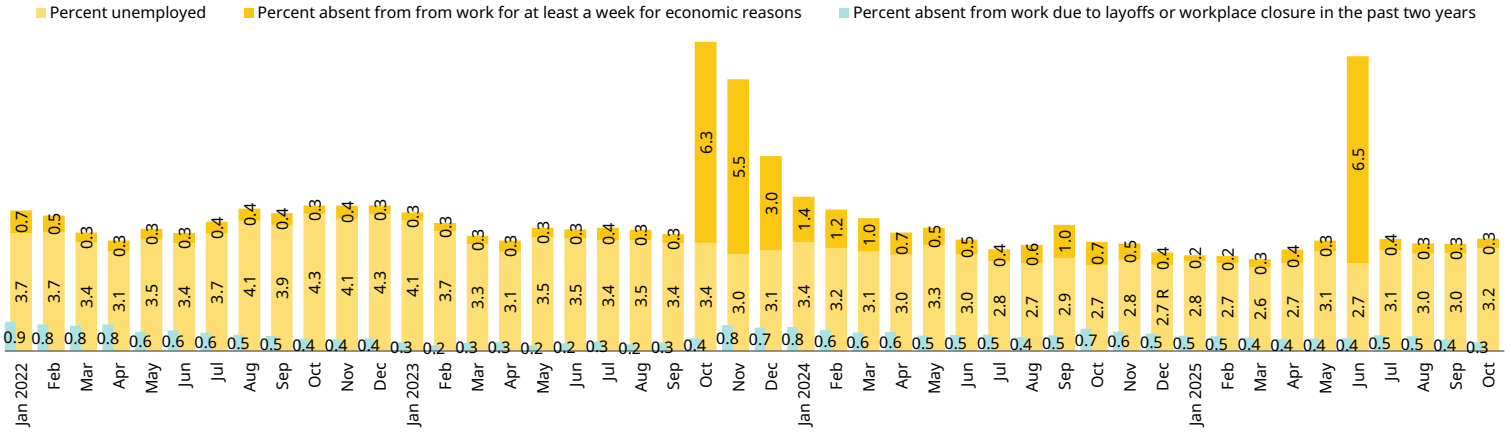
(in thousands).[23] Needless to say, the labor productivity of absent employees is generally negligible, which affects national output. Periods in which absence rates are exceptionally high will therefore lead to a decline in GDP. This is what happened in the last quarter of 2023, when not only was the number of men and women serving in reserve duty very high, but so, too, was the number of employees (especially women) absent for other reasons. These were primarily spouses who had to function as single parents when the education system was shut down due to attacks on central Israel. The category of absence for "other reasons" essentially disappeared until Operation Rising Lion in June 2025, when it reappears, though at a much lower level. As we already saw in Figure 7, absence for economic reasons was high during the first months of the war and again in June 2025. The volatility in reserve call-ups reflects the intensity of military activity.[24] In addition to the massive mobilization at the start of the war, large-scale call-ups took place in September and October 2024 due to the fighting in the north, in April 2025 as fighting in Gaza intensified, and in June 2025 during Operation Rising Lion. Finally, absence due to vacation is seasonal and parallels the Jewish holidays.

23 To convert these figures into rates out of the labor force, note that Israel's labor force numbers approximately 4.5 million workers.

24 It should be noted that the Labor Force Surveys report absences only among employed respondents. Accordingly, the number of reservists does not include those who are not employed, such as students who are not in the labor force.

Figure 7. Rates of inactivity in the labor market

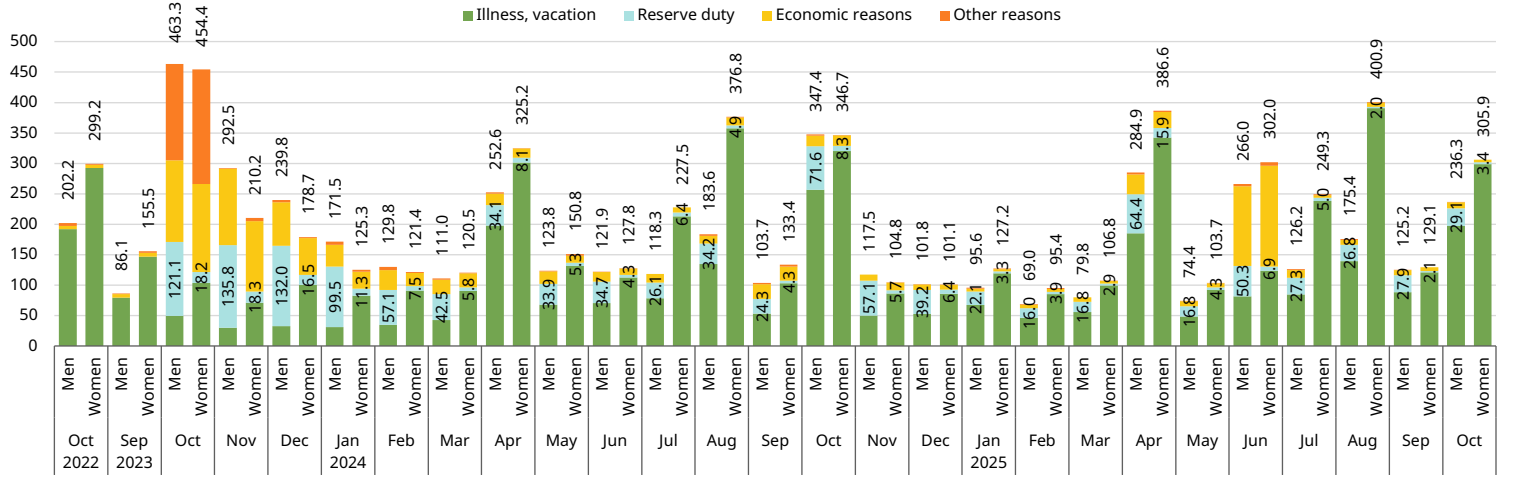
Percent



Source: Benjamin Bental and Labib Shami, Taub Center | Data: CBS

Figure 8. Temporary absences from work

Thousands



Source: Benjamin Bental and Labib Shami, Taub Center | Data: CBS

Labor productivity

The discussion above examined the Israeli economy in comparison with itself. We now turn to assessing Israel's economy relative to other countries in terms of labor productivity, typically measured as output per worker or output per hour worked. The comparison is to a group of five small European economies (reference countries) that are similar to Israel in population size and the extent to which their economies rely on human capital: Austria, Denmark, Finland, the Netherlands, and Sweden.[25]

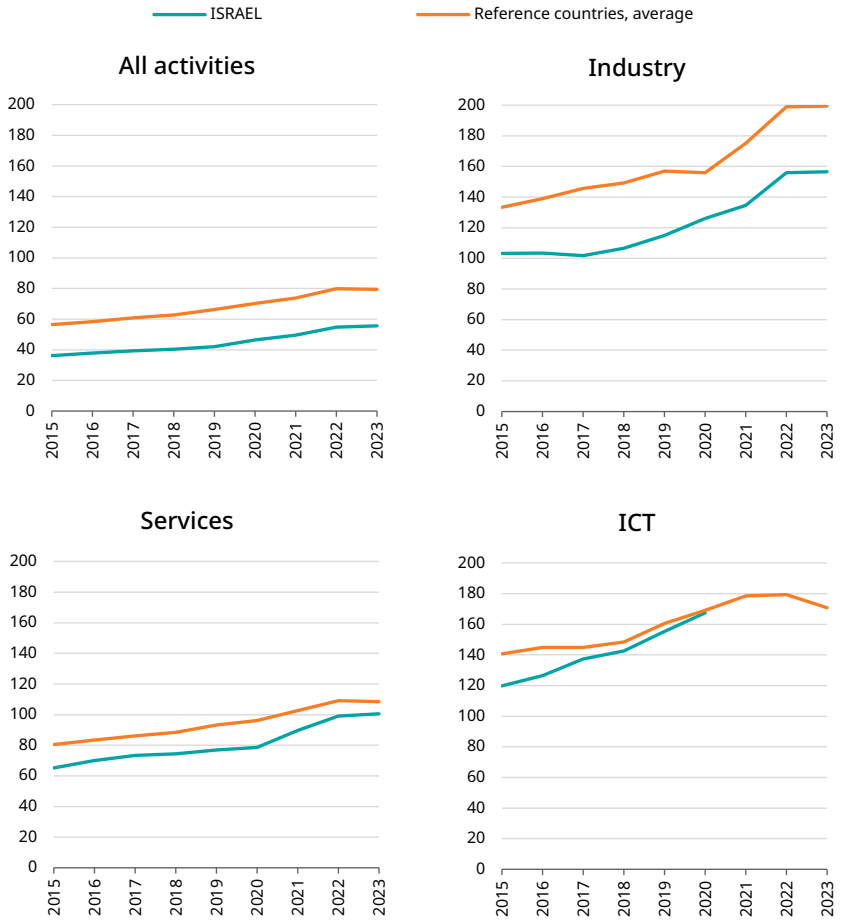
Figure 9 presents value added per worker in the whole economy (in PPP-adjusted dollars — purchasing power parity; likewise in the following figures), in industry (excluding construction), in services, and in ICT industries.[26] The figure shows substantial but narrowing gaps between Israel and the average of the reference countries between 2015 and 2023. The gap in value added per worker across all industries, which stood at 20% in 2015, narrowed to 12% in 2023. In industry, the gap remained stable at about 12%. In services, the gap shrank from 19% to 7%. For ICT, data for Israel are missing after 2020, but in that year the gap — which had been 15% — closed completely. The figure also highlights the large productivity differences between industry and ICT on the one hand, and services on the other, a pattern common to both Israel and the reference countries.

25 In similar comparisons, the Bank of Israel also includes Belgium in this group, but it is omitted here because its economic structure is different — the financial sector there is unusually large.

26 ICT industries are defined by the OECD as industries 26 (manufacture of computers, electronic equipment, and optical instruments), 61 (telecommunications), 62 (computer programming, consultancy, and related services), and 63 (information services). It should be noted that this definition does not overlap with the definition of high-tech, as described below.

Figure 9. Value added per worker in Israel and reference countries

USD thousands, current PPP

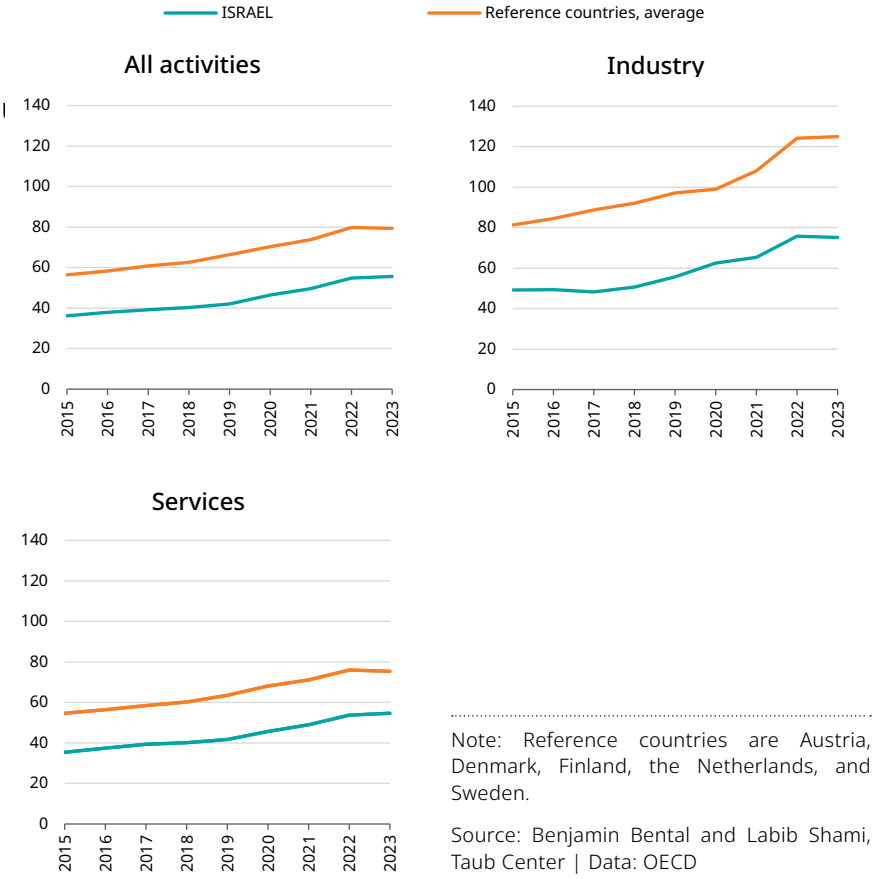


Note: Reference countries are Austria, Denmark, Finland, the Netherlands, and Sweden.

Source: Benjamin Bental and Labib Shami, Taub Center | Data: OECD

Figure 10 presents another measure of labor productivity — the value added per hour worked.[27] On this measure, the gaps are even larger. In the economy as a whole, the gap stood at 36% in 2015 and narrowed only to 30% in 2023. In the industrial sector, the gap remained at 4%, and in the services sector, the gap — which was also 36% — narrowed by 8 percentage points.

Figure 10. Value added per work hour in Israel and reference countries



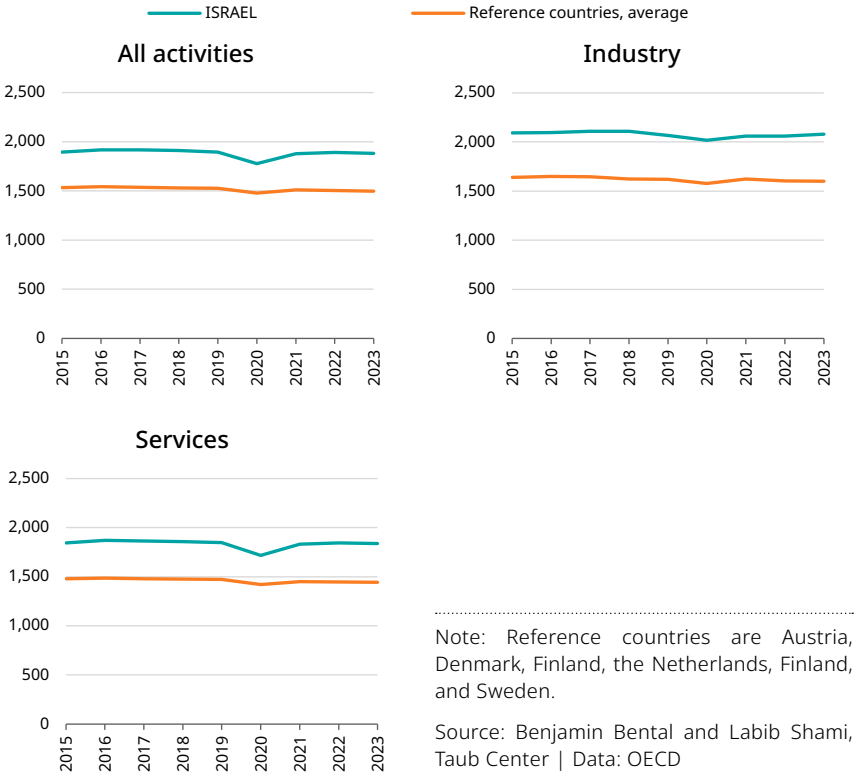
Note: Reference countries are Austria, Denmark, Finland, the Netherlands, and Sweden.

Source: Benjamin Bental and Labib Shami, Taub Center | Data: OECD

27 The OECD does not report this data for the ICT sector.

The difference between productivity measures per worker and those per hour worked naturally reflects the average number of hours employees work across sectors. Figure 11 presents these differences and shows that, in Israel, employees in all sectors work more hours than their counterparts in the reference countries: the economy-wide gap is about 25% and has remained nearly constant over the years. In industry and services, the gap reached 30% and 27%, respectively, in 2023 — an increase of 3 percentage points compared to 2015. These gaps imply that had employees in Israel worked the same number of hours as their peers in the reference countries, the productivity gap per worker would have been roughly 30 percentage points larger.

Figure 11. Yearly work hours for employed persons in Israel and reference countries



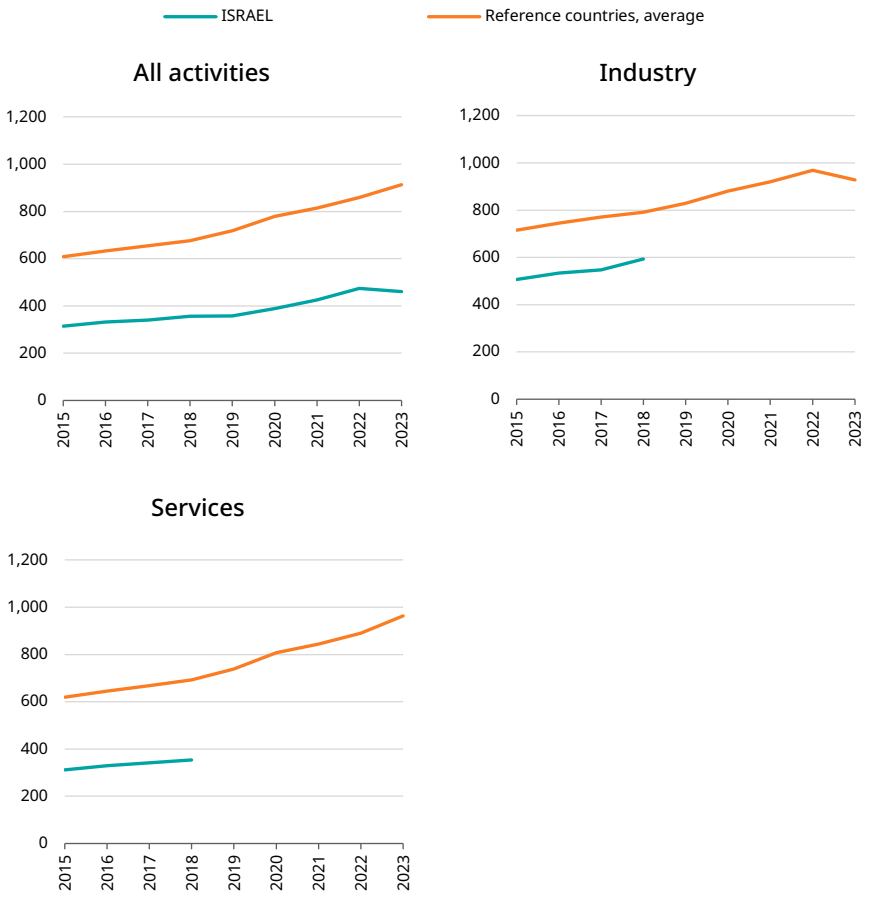
Note: Reference countries are Austria, Denmark, Finland, the Netherlands, Finland, and Sweden.

Source: Benjamin Bental and Labib Shami, Taub Center | Data: OECD

There are several reasons why labor productivity in Israel is significantly lower than in the reference countries (Bank of Israel, 2019). One of them is the level of private capital relative to the number of employees, which in Israel is much lower than in the reference countries, as shown in Figure 12. Capital per employee in the economy as a whole and in the services sector is about half the level observed in the reference countries. In industry, this measure stands at roughly 75% of the reference countries' level. In the literature, it is common to assume an elasticity of one-third of output with respect to capital — in other words, a 10% increase in capital is associated with a roughly 3% increase in output. Accordingly, a 50% capital gap is consistent with an output gap of about 15%. Aligning Israel's capital per worker with that of the reference countries would close the gap in output per employee and about half of the gap in output per hour worked.

Figure 12. Capital per employee in Israel and reference countries

USD, current PPP



Note: Reference countries are Austria, Denmark, Finland, and the Netherlands. Sweden is not included due to missing data. Data for Israel are also unavailable after 2018.

Source: Benjamin Bental and Labib Shami, Taub Center | Data: OECD

The high-tech sector

The high-tech sector[28] is highly atypical within the Israeli economy. It employs about 10% of the labor force (ages 15 and over) and accounts for roughly 60% of exports. According to the Israel Innovation Authority, the sector is responsible for about 20% of GDP and 40% of economic growth since 2018 (Israel Innovation Authority, 2024a). The sector's high labor productivity is also reflected in high wages, and consequently in high income tax and corporate tax payments. The Israel Innovation Authority estimated that in 2020, roughly one-quarter of state revenues came from taxing the high-tech sector, and more than one-third of income tax receipts came from its employees (Israel Innovation Authority, 2024b).

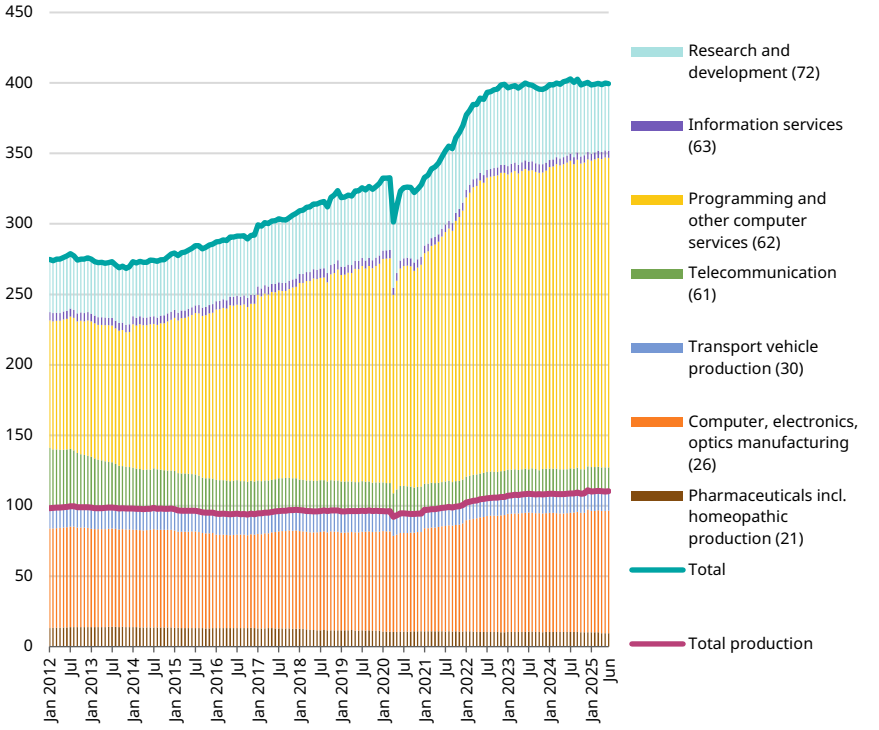
Employment and wages in high-tech

Figure 13 points to rapid employment growth in the high-tech industries beginning in the mid-2010s, driven mainly by the computer programming and consulting sector.[29] This growth accelerated after the economy emerged from the COVID-19 crisis, following the dramatic rise in high-tech investment, and came to a halt at the end of 2022 as investment levels returned to their pre-pandemic pace. In late 2023, even before the war broke out, there was a temporary decline of roughly 5,000 jobs (out of 400,000) in high-tech employment. More recently, a very small decrease of about 1,000 jobs has emerged, stemming entirely from reduced employment in the pharmaceutical industry.

28 According to the CBS definition, high-tech industries include sector 21 (manufacture of pharmaceuticals, including homeopathic medicines), sector 26 (manufacture of computers, electronic equipment, and optical instruments), and sector 303 (manufacture of aircraft, spacecraft, and related equipment). High-tech services include sector 61 (telecommunications), sector 62 (computer programming, consultancy, and related services), sector 631 (data processing, hosting, and related services; internet portals), sector 720 (research and development centers), and sector 721 (research and development in engineering and the natural sciences). There is some disagreement regarding whether sector 61 should be included in this list. For details, see CBS, Definitions, Classifications and Explanations.

29 These data are based on the National Insurance Institute, which defines the high-tech industries as follows: Industry — 21 (pharmaceutical manufacturing), 26 (computer manufacturing), 30 (transport equipment manufacturing). Services — 61 (communications), 62 (programming), 63 (information), 72 (research and development).

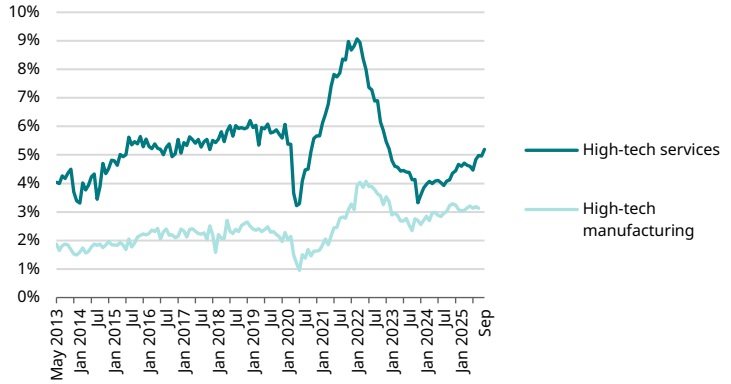
Figure 13. Employment in the high-tech sector
Thousands



Source: Benjamin Bental and Labib Shami, Taub Center | Data: CBS

Another indication of employment conditions in the high-tech sector can be seen in the job vacancy rate, shown in Figure 14. The sharp rise in vacancy rates — especially in high-tech services — occurred in parallel with the increase in employment that followed the end of the COVID-19 crisis. In October 2023, there was a temporary decline in the vacancy rate in high-tech services, but since then it has risen steadily. The simultaneous stagnation in the number of employed persons suggests that labor shortages are concentrated in specific fields.

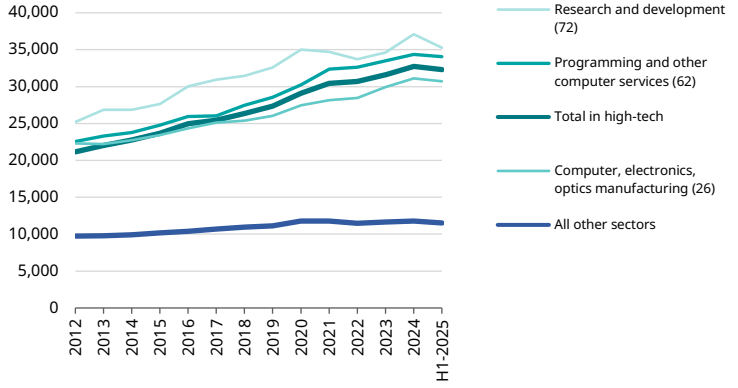
Figure 14. Share of unfilled positions in high-tech



Source: Benjamin Bental and Labib Shami, Taub Center | Data: CBS

Figure 15 presents real wages (in 2024 prices) in the main high-tech industries and in the rest of the economy. The figure points to the emergence of a gap between the wages of workers in high-tech manufacturing, represented by the computer and optical equipment manufacturing industry, and those of workers in high-tech services, represented by programmers. The average wage of the latter group is even approaching that of research and development workers. Although the growth in real wages across the economy has slowed and there has been a slight decline in the wages of R&D workers, the wage gap between high-tech workers and all other workers continues to widen: this gap stood at 117% in 2012 and reached 180% in 2025. This reflects the large differences in labor productivity.

Figure 15. Real wage in high-tech and the other economic sectors
NIS per month, 2025 prices

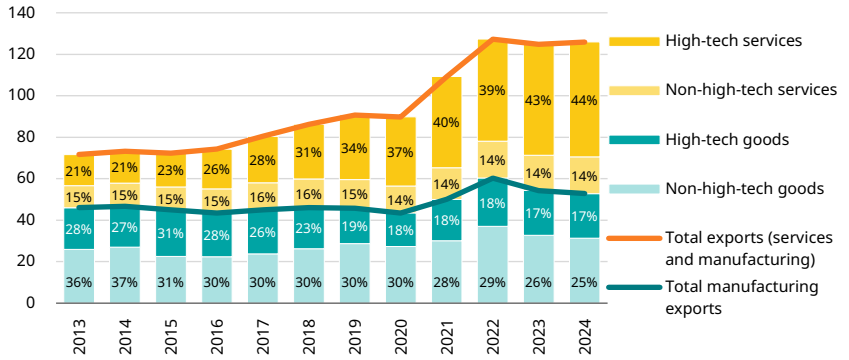


Source: Benjamin Bental and Labib Shami, Taub Center | Data: CBS

High-tech's contribution to exports

Figure 16 points to the evolution of the high-tech sector's contribution to Israeli exports. In particular, the figure shows the dramatic change in the export of high-tech services. In absolute terms (in dollars), overall industrial exports and exports of the high-tech manufacturing industry have remained approximately constant. The level of exports of services in non–high-tech industries has also remained fairly stable. The component that surged is high-tech services exports: from USD 15 billion in 2013 to USD 55 billion in 2024 — and, as a share of total exports, from 21% to 44%. This represents a very large contribution to Israel's current account and to the country's standing in global markets.

Figure 16. Exports by technological intensity
USD billions



Source: Benjamin Bental and Labib Shami, Taub Center | Data: CBS

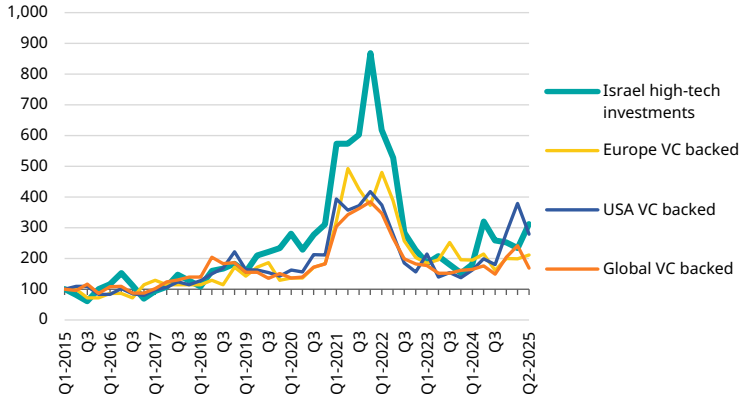
Investment in high-tech

Figure 17 describes the development of high-tech investment in Israel, the United States, Europe, and worldwide, relative to the first quarter of 2015. The sharp increase in investment during the COVID-19 period stands out prominently across the globe, driven mainly by the near-zero interest rates that prevailed at the time. In Israel, the surge was twice as steep as elsewhere: quarterly investment jumped from roughly USD 2 billion to USD 5 billion — and even USD 8 billion in the fourth quarter of 2021. These investments fueled the sharp rise in labor demand seen in Figures 13 and 14, as well as the increase in wages shown in Figure 15. As global interest rates rose, high-tech investment fell quickly and returned to its pre-COVID level. Nevertheless, 2024 and the first two quarters of 2025 indicate continued global investor interest in the Israeli high-tech sector, despite the war.

Israel's status as a high-tech powerhouse is evident in its share of global high-tech investment, which far exceeds its relative economic size. Israeli high-tech investment amounts to about 5% of US high-tech investment, even though Israel's GDP is only around 2% of US GDP. Israel's share of high-tech investment in Europe is roughly 20%, whereas its GDP is about 3.5% of that of EU member

states.[30] Relative to the world as a whole, Israel accounts for about 2% of global high-tech investment while its GDP represents roughly 0.3% of global GDP.

Figure 17. High-tech investment index for Israel, the US, Europe, and worldwide
Q1-2015 = 100



Source: Benjamin Bental and Labib Shami, Taub Center | Data: Dealroom; Ernst and Young; IVC, 2025

Investment in artificial intelligence

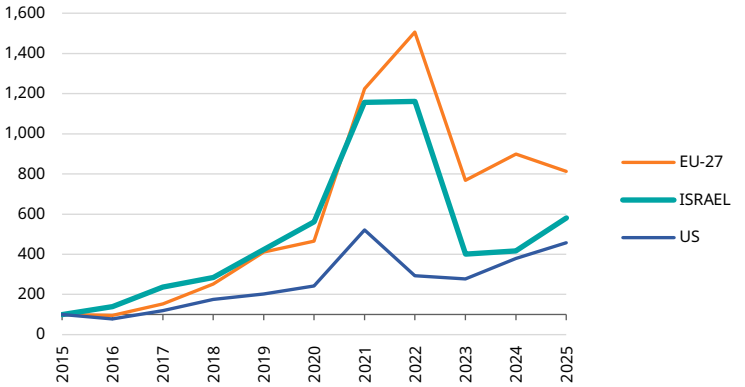
The role of artificial intelligence within the high-tech industry is steadily growing. Figure 18 shows the rise in AI investment in Israel, the United States, and the European Union. The sharp increase in such investment during the COVID-19 period — especially in Israel and Europe — has since moderated, but its growth rate remains higher than the growth in overall high-tech investment shown in Figure 17.

The rapid expansion of AI investment has led to a situation in which, as of 2025, AI accounts for roughly 30% of all high-tech investment in Israel. This share is higher than that of AI investment within EU member states but about half the

30 The high-tech investment data refer to all European countries. The GDP data refer only to EU member states.

share found in the US. In dollar terms, AI investment in Israel amounts to about one-quarter of the corresponding investment in Europe and roughly 2% of AI investment in the US.

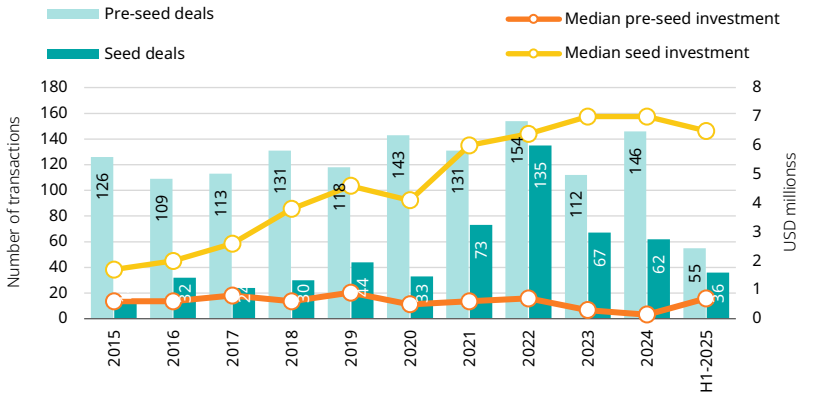
Figure 18. AI investment index for Israel, the US, and Europe
2015 = 100



Source: Benjamin Bental and Labib Shami, Taub Center | Data: OECD

Most high-tech investment is directed toward established companies with proven products. However, early-stage investment in companies just starting out signals long-term investor confidence in the Israeli high-tech sector. Figure 19 presents investments in companies at the idea stage — the pre-seed stage — and at the seed stage, when the idea is developed into a product with commercial value. The data show an upward trend in both the number of investments and the median investment amount at the seed stage until 2022. Since then, these indicators have stabilized. At the pre-seed stage, the picture is less clear. In 2024, the number of deals increased relative to the previous year, and it appears that 2025 will return to the levels observed in 2023. Pre-seed is a very early stage in the development of a concept or product, and at this stage it is difficult to discern changes in the data or to identify risks to the future development of mature companies in Israel.

Figure 19. Transactions and investment in pre-seed and seed stages



Source: Benjamin Bental and Labib Shami, Taub Center | Data: IVC

Price levels

Prices in Israel are high — every Israeli who travels abroad feels this. This impression blends two distinct issues: relative prices and exchange rates. When discussing relative prices, the question is typically internal to the country. For example, a restaurant meal is expensive compared to preparing a similar meal at home. By contrast, in international comparisons the exchange rate comes into play. When the domestic currency is strong, one unit of it buys a large amount of foreign currency. As a result, the price paid abroad for a given product — for example, a McDonald's hamburger — appears low. The opposite occurs when the domestic currency is weak: the conversion yields a relatively small amount of foreign currency, and the (identical) product abroad appears expensive. Since average household consumption baskets differ markedly across countries, international comparisons are difficult. Even so, international bodies such as the OECD compare the prices of product groups within overall household consumption across countries, taking into account local prices and the relevant exchange rate. On this basis, they compute the exchange rate that would prevail if prices were equalized. This rate is called the purchasing power parity (PPP) exchange rate and serves as the basis for comparing the cost of living. The extent to which the hypothetical PPP exchange rate is above

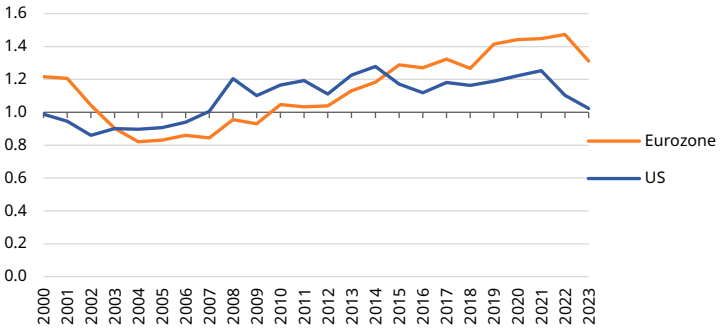
or below the market exchange rate reflects how expensive or inexpensive that component of the consumption basket (and the basket as a whole) is in a given country relative to the comparison country.[31]

Figure 20 presents the gap between the market exchange rate and the PPP exchange rate for the basket of goods that households actually purchase (HFCE — household final consumption expenditure). The figure shows that Israel has not always been an expensive country. For most of the first decade of the century, living costs in Israel were low relative to both the United States and Europe (index below 1). These were the years in which the shekel was weak. Since then, the price level in Israel rose steadily exceeding that in the Eurozone countries by over 40%. Israel is also expensive relative to the US, by roughly 20%. These gaps reflect changes in the euro–dollar exchange rate.[32] Only in recent years has there been some reversal — by 2023 (the most recent year for which data are available), Israel was about 30% more expensive than Eurozone countries, but relative to the United States the gap essentially closed. The figure illustrates how strongly the choice of comparison base (the United States or the Eurozone average) affects the result.

31 The Economist bases its comparison on the price of a Big Mac sandwich in different countries to determine whether, at the market exchange rate, the sandwich is expensive or cheap relative to the United States. The magazine also calculates the exchange rate that would equalize prices. According to this calculation, in July 2025 the market exchange rate of the shekel exactly equalized hamburger prices in Israel and the United States. See The Economist, Big Mac Index.

32 For example, between February 2018 and April 2020 the euro lost about 12% of its value relative to the dollar, and between January 2021 and October 2022 the euro lost 20% of its value relative to the dollar.

Figure 20. The ratio between the price level in Israel and the price level in the US and the Eurozone



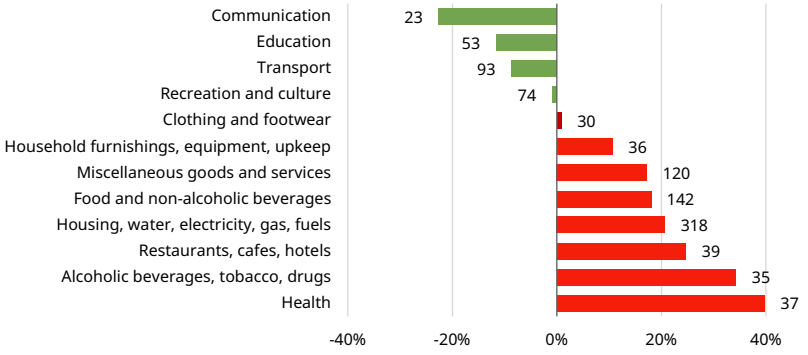
Source: Benjamin Bental and Labib Shami, Taub Center | Data: OECD

Figure 21 presents the cost of living in Israel compared with the five reference countries — Austria, Denmark, Finland, the Netherlands, and Sweden — in 2023. The figure is based on OECD calculations that rely on the prices of goods and services that are as comparable as possible across countries. The items are grouped into the main components of household consumption in order to enable cross-country comparisons of their prices. The figure describes the price gaps for these components between Israel and the average in the comparison countries (that is, the gaps between the purchasing power parity [PPP] exchange rate for each product group and the market exchange rate). The figure also shows the expenditure weight of each product group within the Israeli consumption basket (out of 1,000), as of 2023.[33] As such, the figure also makes it possible to examine relative prices within Israel. For example, the largest expenditure item for Israeli households is housing, with a weight of close to one-third. According to the market exchange rates prevailing in 2023, in this category Israel was about 20% more expensive than the average in the reference countries. A perhaps somewhat surprising finding is the category in which the cost of living is highest — healthcare, where Israel is

33 Due to the OECD's harmonization of product groups for the purpose of calculating purchasing power parities, their relative weights in the consumption basket differ slightly from those used by Israel's CBS for calculating the consumer price index.

40% more expensive than the comparison countries. The gap appears to stem from low competition in health-related products (for example, toothpaste), as well as from the relatively high wages of healthcare system workers.[34] Prices of clothing and footwear, recreation, and culture in Israel are similar to those in the reference countries, although these categories have a small weight in total consumption. Israeli households benefited from communication services that were about 20% cheaper than in the reference countries. Overall, the prices of the household consumption basket in Israel were about 13% higher than the average in the reference countries.[35]

Figure 21. Cost of living for main expenditure categories, Israel compared to reference countries, 2023



Notes: The numbers at the end of the bars represent the relative weight of the category in the Israeli consumer basket (out of 1,000). Reference countries are Austria, Denmark, Finland, the Netherlands, and Sweden.

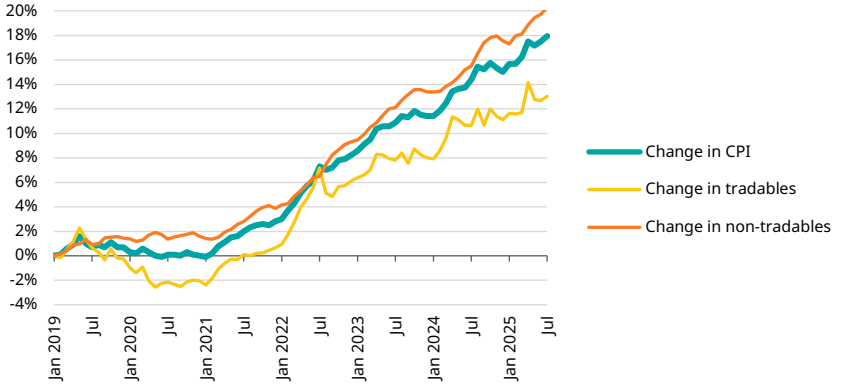
Source: Benjamin Bental and Labib Shami, Taub Center | Data: OECD

34 The OECD's comparison of health-related prices includes the cost of hospital services. See OECD, 2024, pp. 267–268.

35 According to data from July 2025, Israel is about 16% more expensive than the average in the reference countries.

The fact that Israel is a high-cost country is, as noted, tied to the idea that the market exchange rate is effectively too low. By the same token, the ongoing appreciation of the shekel — which makes Israel more expensive relative to other countries — is precisely what lowers the price of imported goods and thereby helps moderate the rate of price increases.[36] This is reflected in Figure 22, which shows the evolution of the consumer price index broken down into the prices of tradable goods (about one-third of the basket) and non-tradables (two-thirds of the basket). Since early 2019, the moderating effect of tradables is clearly evident. While non-tradable prices have risen by about 20% over this period, tradable prices have risen by only about 13%, helping keep overall CPI growth to just 18%.

Figure 22. Change in the consumer price index relative to January 2019: Tradable and non-tradable goods



Source: Benjamin Bental and Labib Shami, Taub Center | Data: Bank of Israel

36 For more on this, see Gronau, 2023.

SPOTLIGHT

The Cost of Living in Israel: A Comparative Analysis

Economic theory predicts that, in purchasing-power-parity terms, wealthier countries will also be more expensive (the Balassa–Samuelson effect).[37] In brief, this follows from the fact that labor productivity in richer countries — particularly in the tradable-goods sector — is higher than in poorer countries. Accordingly, wages in the tradables sector are higher, which in turn implies that wages in the non-tradables sector must also be higher.[38] Because labor productivity in the non-tradables sector tends to be lower, the relative prices of non-tradable goods rise.[39] The ultimate result is a higher overall price level in wealthier countries than in poorer ones, beyond what PPP alone would predict.

37 The effect is named after Béla Balassa and Paul Samuelson, two scholars who published their articles on the topic in the same year (Balassa, 1964; Samuelson, 1964).

38 The phenomenon is also related to what is known as the Baumol effect, according to which wages in certain sectors (especially services) rise independently of productivity growth. Baumol and Bowen illustrated this with the performing arts: "The output per man-hour of a violinist playing a Schubert quartet in a standard concert hall is relatively fixed, and it is rather hard to reduce the number of actors needed to produce Henry IV, Part II" (Baumol & Bowen, 1965, p. 499).

39 See Figure 3.2 in the special report of the Bank of Israel Research Department (2019), which shows a clear relationship between labor productivity across sectors in Israel (relative to OECD countries) and the export potential of those sectors.

Figure 23 presents regression results for Israel derived from a panel of all OECD countries (excluding Luxembourg and Ireland) for the years 2000–2024.[40] In all regressions, the dependent variable is a measure of Israel's relative cost of living (relative to the geometric mean of all OECD countries), defined as the ratio between the exchange rate that equalizes the price of the consumption basket and the (average) market exchange rate. The blue line in the figure traces the evolution of this variable since 2000. Prices in Israel were higher than those in OECD countries at the start of the century, but converged to them by the mid-2000s. Since then, a process of rising relative prices began, peaking at the start of the current decade and then gradually moderating.[41] In addition to the data themselves, the figure displays three analytical models aimed at identifying the factors driving Israel's relative cost of living.[42] The first (the red curve) isolates — following the spirit of the Balassa–Samuelson model — the effect of GDP per capita (linear and squared) in each country. This variable moves slowly and without volatility over time; it indeed produces an upward-sloping (and relatively moderate) curve, but one that fails to track the movements seen in the data. The second model (the green curve) adds a short-term explanatory variable representing the influence of tradable-goods prices on the price of the consumption basket (as in

40 Luxembourg is a city-state whose economy relies almost entirely on the financial sector. Ireland's national accounts are highly problematic due to the massive presence of multinational corporations in the country, stemming from Ireland's unique status as an EU member alongside special bilateral arrangements with the United States.

41 Israel's data in Figure 21 differ slightly from those in Figure 19 because the cost-of-living index is normalized to the geometric mean of OECD countries in order to neutralize fluctuations in the euro–dollar exchange rate. Nevertheless, the overall trends remain unchanged.

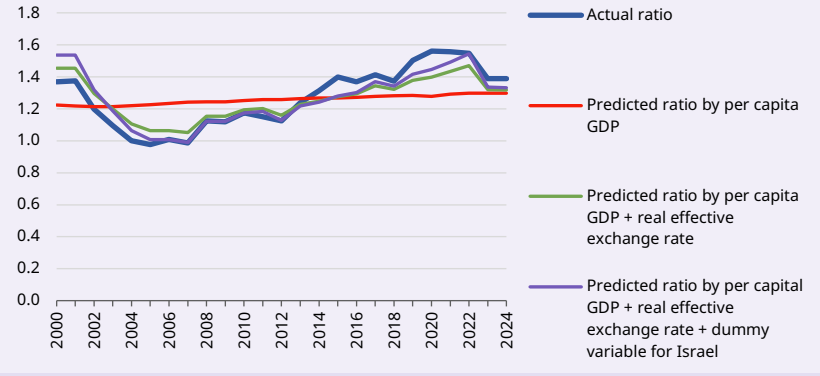
42 For details on the regression, see the Appendix to this chapter.

Figure 22).[43] This predicted curve follows the data fairly closely. This suggests that fluctuations in Israel's relative cost of living are driven to a very large extent by exchange-rate movements rather than by underlying structural factors. This conclusion is reinforced by the third model (the purple curve), which allows the regression to capture the particular influence of the real effective exchange rate on Israel's relative cost of living. The result indicates that Israel's cost of living is even more sensitive than that of other countries to fluctuations in the real exchange rate. In the full sample, the pass-through from the real effective exchange rate to the relative cost-of-living index is about 0.9 — that is, a 1% increase in the real effective exchange rate raises the relative cost of living by 0.9%. In Israel, the pass-through is even higher, with the effect being on the order of 1.2%.

Beyond these variables, the regressions include a country fixed effect that captures country-specific factors (such as productivity, competition policy, and taxation) not explicitly included in the model. For Israel, this fixed effect indicates a baseline price-level gap of roughly 29% relative to the OECD average — a fact reflected in the upward shift of the prediction based solely on GDP-per capita variables.

43 More precisely, the regression includes the real effective exchange rate (REER), a country-level index that weights a country's nominal exchange rates relative to all of its trading partners — using trade volumes as weights — and adjusts for the ratio of domestic prices to prices in each partner country, relative to a base year.

Figure 23. The ratio between the cost of living in Israel and the OECD average



Source: Benjamin Bental and Labib Shami, Taub Center | Data: OECD

Conclusion

Israel's economy has been at genuine risk. The high costs of the war have increased the government deficit, the debt-to-GDP ratio, and the burden of interest payments. The prolonged fighting has harmed productivity, investment, private consumption, and economic growth. The relaxed security situation and the possibility of regional political arrangements offer hope that the economy will return to a path of rapid growth. Achieving this will require growth-enhancing policies more than ever — especially investment in physical infrastructure and improvements in human capital. The concern is that high defense expenditures will crowd out not only civilian spending for citizens' welfare but also these essential investments, creating a vicious cycle: insufficient growth exacerbates resource constraints, undermines needed public investment, and further reduces the rate of GDP growth. Such a process could even jeopardize Israel's ability to finance its required defense spending. Policy makers must be acutely aware of these risks and the dilemmas they pose.

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Appendix

The full econometric model is:

$$r_{c,t} = \alpha \cdot y_{c,t} + \beta \cdot \left(y_{c,t}\right)^2 + \gamma \cdot REER_{c,t} + \delta \cdot Israel + \varepsilon_c + u_{c,t}$$

where $r_{c,t}$ is the ratio between the relative cost of living in country c at time t and the geometric mean of the relative cost of living across all countries in the sample at time t; $y_{c,t}$ is the gap between GDP per capita in country c at time t and the median of this variable across the sample countries in the sample at time t; and $REER_{c,t}$ is the gap between the log of the real effective exchange rate index in country c at time t and the mean of this variable across the countries.[44] ε_c is the country fixed effect for country c, and $u_{c,t}$ is the random error term. The model was estimated in three versions: GDP-per capita variables only; these variables plus the real effective exchange rate; and an additional version allowing Israel to have a separate coefficient on the exchange-rate variable. In addition, a version was estimated in which the dependent variable and the GDP-per capita variables were log-transformed, and another version in which they were entered in levels. In the first case, the coefficients represent elasticities; in the other cases, the GDP-per capita coefficients represent marginal effects, and the coefficient on the exchange-rate variable represents semi-elasticities.

Appendix Table 1 below summarizes the estimation results. Appendix Tables 1A and 1B show that the coefficients on the GDP-per capita variables are not statistically significant. Nonetheless, the model fits the data well, as indicated by the very high R^2. This implies that cross-country variation is *explained* by the country fixed effects. However, the GDP-per capita variables do not account for within-country variation: relative to the modest changes in GDP per capita, the volatility of the PPP index is simply too large. This picture changes once the REER variables are added — their coefficients are highly significant. Figure 21 highlights these patterns for Israel.[45]

44 The difference in centering the GDP variables and the relative real effective exchange-rate index reflects the nature of the variables. The former is an absolute variable, and centering it around the median prevents disproportionate influence of extreme values; the latter, as noted, is measured as a ratio. Centering the logarithms around the mean of the logs is equivalent to normalizing by the world geometric mean, analogous to the normalization of the dependent variable.

45 An alternative specification based on Mundlak (1978) makes it possible to identify the effect of GDP per capita on the relative cost of living (though not other latent country-specific factors). This model, not reported here, indicates an elasticity of 0.18 of the relative cost of living with respect to GDP per capita.

Appendix Table 1A. Regression results: Logarithmic specifications

Variable	GDP, exchange rate, and Israel effect	GDP and exchange rate	GDP alone
Per capita GDP	0.031930	0.013320	0.012663
p-value	0.153356	0.258116	0.274578
Per capita GDP squared	-0.010460	-0.006250	-0.006350
p-value	0.278320	0.090694	0.088639
REER		0.905989	0.893205
p-value		0	0
Israel (dummy variable)			0.325160
p-value			0
R^2 overall	0.895818	0.966641	0.966995
R^2 within	0.047914	0.047914	0.695494

Appendix Table 1B. Regression results: Linear specifications

Variable	GDP, exchange rate, and Israel effect	GDP and exchange rate	GDP alone
Per capita GDP	0.023969	0.001095	-0.000150
p-value	0.300862	0.940058	0.991686
Per capita GDP squared	-0.008930	-0.002640	-0.002830
p-value	0.306566	0.516260	0.495729
REER		0.953459	0.929287
p-value		0	0
Israel (dummy variable)			0.096409
p-value			0
R^2 overall	0.886896	0.957243	0.958475
R^2 within	0.028491	0.655562	0.645347

Note: The regressions were run with the assistance of Chat GPT5.

Source: Benjamin Bental and Labib Shami, Taub Center | Data: IMF