DECEMBER 2009 Policy Brief

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Economic Survey of Israel, 2009

Summary

Effective macroeconomic stabilisation policies along with market-oriented structural reforms have helped support a high average rate of growth. Also, the economy has weathered the recent global downturn well, and the policy responses have been generally appropriate. However:

- The Bank of Israel should cease heavy exchange-rate intervention to avoid damaging its credibility.
- As elsewhere, the authorities need to reflect on financial regulation; one useful change would be to transfer the Ministry of Finance's supervisory roles to a more independent body.

Levels of public debt and expenditure have been brought well within the range of OECD countries' outcomes. But slimmer government also means sharper trade-offs between reducing debt, accommodating legitimate spending demands and cutting taxes. Long-term fiscal sustainability needs to be reinforced:

- Caution in pursuing further corporate and personal income tax cuts, making the temporary increase in the VAT rate permanent, and the elimination of low-priority tax expenditures would all be helpful.
- The budget expenditure rule should be replaced by one anchored in a long-term debt goal, and measures should be implemented to make budgeting processes more transparent.

Secondary and tertiary attainment in the working-age population is impressive as a whole, but weak outcomes in the Arab and Ultra-orthodox communities are contributing to low employment rates and poverty. Also, international test scores indicate a more widespread problem of weak core skills:

- Reforms underway in state primary and secondary education (particularly the New Horizon Programme) are welcome, and a similar package should be negotiated for upper-secondary schools.
- More strenuous efforts are required to level the educational playing field for Arab-Israelis.

This Policy Brief presents the assessment and recommendations of the 2009 OECD Economic Survey of Israel, which was prepared for the purposes of the accession review of Israel. The Economic and Development Review Committee, which is made up of the 30 member countries and the European Commission, reviewed this Survey. The starting point for the Survey was a draft prepared by the Economics Department which was then modified following the Committee's discussions, and issued under the responsibility of the Secretary-General.

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- More vocationally oriented learning needs to be encouraged in the Ultra-orthodox community.
- Another attempt should be made to boost state tertiary-education funding while raising tuition fees and strengthening the student loan system.

The welcome "welfare to work" approach in social policy will help to enhance work incentives, thereby achieving a sustainable reduction in poverty levels. It should be developed further and be accompanied by other measures that more strongly focus labour-market and social policies on low-income households:

- The Light for Employment Programme and the earned-income tax credit (EITC) should be rolled out on a nationwide basis, though in both cases close monitoring must continue.
- The EITC should be raised along with an increase in the level and coverage of Income Support benefit. Savings on the universal child allowance should be considered.
- Labour-market regulation should be more uniformly enforced, particularly the minimum wage. At the same time its value relative to the average wage should be reduced progressively over time.

Despite much progress, there is plenty of scope to improve the business environment:

- OECD indicators suggest firms are overly hampered by regulation, calling for review.
- Support for investment, R&D and SMEs is complex and demands regular and rigorous programme assessment. Agricultural support should be pared back.
- General competition legislation and enforcement is suitable, but network-industry reform is lagging in some sectors, notably in the production and distribution of electricity.
- Strained road and rail infrastructure require continued policy attention. ■

How has the Israeli economy fared in the recent crisis and over the longer term?

Israel's economic development has certain parallels with that of some OECD countries, in particular its earlier move towards market-oriented policies that aided an expansion of high-value adding export sectors. A sea change in macroeconomic policy and a shift towards market-oriented structural reforms was prompted by chronic hyperinflation and unsustainable public-debt levels in the mid-1980s. Anti-inflationary measures were particularly successful, allowing the introduction of inflation targeting in the early 1990s, which brought price increases down to low, single-digit levels by the end of the decade. The early 1990s also saw the emergence of a world-class, export-based high-tech sector specialising in computer hardware and software, medical technologies and pharmaceuticals. Thus, the economy rode high on the dot.com bubble but also slumped following its collapse, with a recession in the early 2000s.

But Israel's unusual history and geopolitical situation mean the economy is atypical in many respects. Significant financial and human resources are absorbed by a large defence force and civilian security services; military aid contributes to a large net balance of inward transfers in the current account; and trade and investment flows are substantial with the wider world, but relatively limited with neighbouring economies. Furthermore, society is complicated, with many policy agendas rooted in ethnicity and religion. And the population has been profoundly shaped by immigration, most notably in recent history by a massive influx from the former Soviet Union in the early 1990s. Immigration flows have subsided since then, but population growth remains well above that in most OECD countries due to high birth rates in the Arab-Israeli and Ultra-orthodox Jewish (Haredi) communities.

In light of the substantial and frequent past shocks to the economy, growth from mid-2003 to mid-2008 was uniquely stable, with almost constant annual real GDP growth at a little over 5%. And, despite past fits and starts and the current downturn, growth has averaged nearly 4% since the mid-1990s, a fast pace compared with most OECD countries. That said, per capita performance has been less impressive, and substantial gaps in living standards with those of top-flight countries remain. GDP per capita on a purchasing-power-parity basis is currently about 80% of the OECD average but, for instance, only 60% of that in the United States. The key challenge here is the need to increase productivity growth over the longer term through both improving the business environment and raising educational outcomes.

The current downturn is the result of one of the few purely external shocks in Israel's recent history. Conservative lending by banks and relatively light exposure to foreign toxic assets saved the authorities from bailouts, takeovers or emergency surgery to financial-market regulation. Nevertheless, credit flows did contract severely, and the market for corporate bonds dried up completely at one point. This damped domestic demand at the same time as external demand was hit by the wider global recession. Real GDP growth was negative in the final quarter of 2008 and the first quarter of 2009 before turning positive again in the spring. For the full year it is expected to be near zero. For 2010 and 2011, according to OECD projections, growth may be about 2¼ and 3¼ per cent, respectively. ■

Were the policy responses to the crisis appropriate?

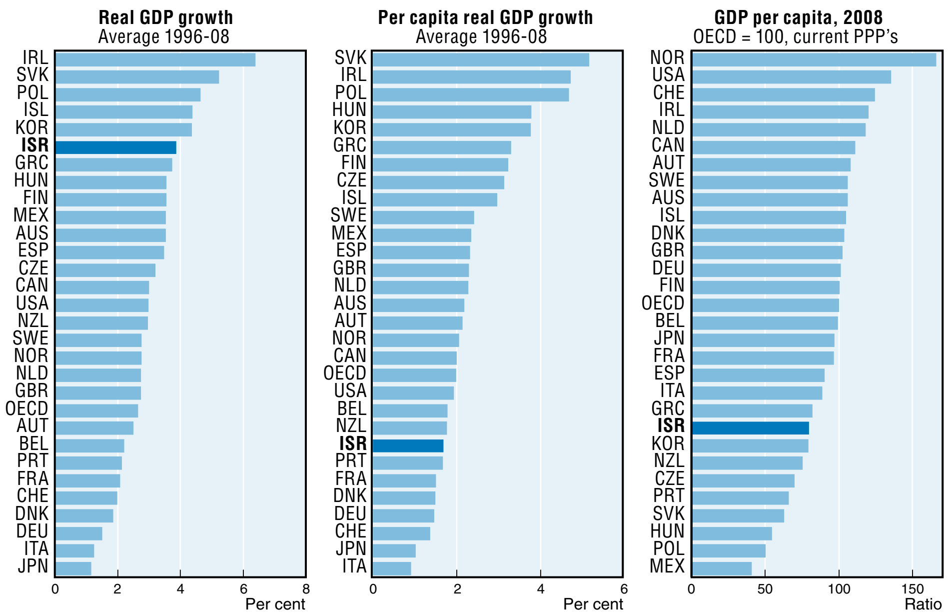
Following the deepening of global financial problems in September 2008, the Bank of Israel cut its policy rate aggressively. As with many OECD central banks, more unconventional steps were also taken to ease liquidity, including quantitative easing through the purchase of government bonds and technical adjustments to the management of liquidity. The Bank has also responded boldly as the downturn has receded. In August 2009 it raised its policy rate from 0.5 to 0.75% (and did so again in November), a still expansionary stance. No OECD central bank had yet raised rates at that stage in the cycle. In recent months, inflation has been ramped up by one-off factors. However, there are no signs of significant *upcoming* inflationary pressure; yield differentials between indexed and non-indexed bonds indicate that expectations of inflation one year ahead are well within the Bank's target band of 1 to 3%. December-to-December inflation on OECD projections is expected to be 4.3% in 2009 and 2% in 2010 and 2011.

In addition, the government took several measures to assist the corporate bond market, and businesses and households more generally. Though individually helpful, these did not constitute a substantial fiscal boost to the economy. In the Israeli context this was sensible. Falling tax revenues have acted as a significant automatic stabiliser and have strained fiscal balances uncomfortably as it is. As elsewhere, the global financial crisis has prompted debate on the regulation and oversight of the financial sector. *Even though the current system has not shown itself to be obviously problematic, one useful change would be for the supervisory duties directly carried out from within the Ministry of Finance to be transferred to a more independent body;* such direct ministerial supervision is unusual.

Until 2008, the Bank had been following an orthodox approach of non-intervention in the foreign exchange market. In March that year it began pre-

Figure 1.

ISRAEL'S LONG-RUN GROWTH COMPARED WITH OECD COUNTRIES[1]



Note: For technical reasons, these figures use Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

1. Luxembourg and Turkey excluded.

Source: Central Bureau of Statistics and *OECD Outlook 86 Database.*

announced, daily foreign-currency purchases of a fixed amount on the grounds that the strong position of the shekel provided an ideal opportunity to build up low foreign-exchange reserves. But intervention continued after reserve targets were met, and the Bank's press releases increasingly referred to concerns about the level of the exchange rate. Regular interventions were stopped in early August 2009, but simultaneously the Bank announced a policy of *discretionary* intervention, and foreign-currency purchases have continued. Markets began to consider that there is a "dirty float" policy on the exchange rate and speculate as to what the Bank's intervention price is. In October the Bank attempted to clarify its position, stating that current conditions are considered exceptional and that the market is expected to return to a situation where intervention is only rarely required.

The build-up of international reserves proved useful, attenuating external vulnerabilities when concerns about the downturn were at their greatest. *However, reserves are now more than adequate, and hence a "clean float" should be readopted as soon as possible.* Although the intervention has not been incompatible with inflation targeting thus far, the risk that it becomes so is greater the longer it is sustained. To wit, the pick-up in economic activity is likely to prompt monetary tightening at some point and in these conditions continued heavy intervention would work against the policy-rate hikes and would thus damage transparency and credibility in policy. Other objections to sustained intervention are the opportunity cost of holding extra reserves and the risk of associated capital losses.

While Israel was among the first countries to adopt inflation targeting, it was never enshrined in law. Recently, the Bank of Israel and the Ministry of Finance reached final agreement on the details of useful new legislation governing the Bank. The draft law not only specifies inflation as the primary target of policy but also alters the conduct of policy. Most notably, policy-rate decisions will no longer be made solely by the governor but by majority vote in a new monetary committee. In addition, a board of directors will be appointed to manage the Bank. The Bank will retain its role of official advisor to the government on economic policy. ■

How should Israel's acute trade-offs in fiscal policy be tackled?

Trade-offs in fiscal policy between vital debt reduction, strong spending pressures and promised tax cuts have been heightened by the recent recession. Despite at times draconian past efforts at fiscal consolidation, the ratio of public debt to GDP has remained too high. The upswing to mid-2008 helped bring the ratio down to 78%. However, revenue losses incurred during the downturn are pushing it back up despite impressive efforts made to contain the deficit in the exceptional 2009-10 two-year budget. Central-government deficits are projected to turn out at around 5.5 and 5% of GDP for 2009 and 2010, respectively, and the debt-to-GDP ratio may reach 82% by the end of 2010. Substantial reduction in the debt ratio will require much lower deficits. Achieving this in 2011 may prove difficult because several temporary tax increases are scheduled to end. *Sustainable reductions in the deficit and debt need to be the central focus of fiscal policy.*

This is especially the case because the longer-term outlook for the public finances is mixed. Fiscal pressures due to population ageing are expected to be relatively mild by OECD benchmarks, due to favourable demographics and fairly light commitments to pensions, health care and long-term care from the public purse. However, defence spending is several percentage points of GDP higher than most OECD countries'. And civilian spending as a share of GDP has already been whittled down to a relatively low level. Thus, much of the low-hanging fruit for cutbacks through efficiency gains or cuts in services and transfers has probably been picked, though there remains some room to cut back on bureaucracy in some areas. Indeed, the analysis of education and welfare policies in this *Survey* illustrates that progress in structural reform will most likely require an initial fiscal investment.

Cuts in the headline rates of corporate tax and the upper rates of personal-income tax are a central theme in the current government's policies, based on a belief that they significantly boost competitiveness and, in some quarters, that they are largely self-financing. However, while such tax cuts have beneficial effects on incentives, some caution is in order. Tax burdens are not the only concern of investors (who are also put off by red tape), nor are headline rates the only determinant of effective tax rates. Rate cuts are generally not self-financing, and positive feedbacks on revenues are anyway neither immediate nor certain. Moreover, as mentioned, creating some budgetary headroom for structural reforms that would enhance competition and achieve social goals would be advantageous. Accordingly, a decision to go ahead with rate cuts in 2010 was surprising under the prevailing macroeconomic circumstances. However, in 2010 the cut will be smaller than originally planned, and the schedule of cuts for subsequent years was pushed out, which is welcome in light of the uncertain fiscal outlook for that year.

Trade-offs in fiscal policy would be eased by making the recent temporary increase in the rate of VAT to 16.5% permanent. Also, the abolition of some VAT exemptions should be revisited, notably those on some tourist services (including those for the town of Eilat) and for fruit and vegetables. This said, the continued imposition of high purchase tax on cars lacks strong justification. The schedule of rates has been recently adjusted to reflect environmental considerations, but the attractive revenue-raising properties of such taxation probably remain the primary motivation. *The environmental returns would be better sought by targeting car use (for instance, through more use of road pricing) rather than ownership. Increased revenues should also be sought by casting a wide net to weed out low-priority tax expenditures.* There is room for some cutback in the context of welfare policy (see below). And tax support for the "advanced training funds" (*Kranot Hishtalmut*), which encourage medium-term saving, makes little sense, especially as, despite the name, the savings can be used for a wide variety of purposes. Finally, international comparison suggests there is room for simplifying tax procedures.

While the current budgeting rule that limits real public spending increases to 1.7% per year has played an important and constructive role in fiscal control, *it should be replaced in the not-too-distant future.* Complexities and discretionary leeway in its application undermine its outward simplicity, and the rule makes little sense for the long term. With annual population growth also at around 1.7% and only marginal decline in prospect, increases in GDP per capita of any substance imply public spending as a share of GDP will be continually eroded. Any new rule should be simple, credible and robust. *The alternative rules currently being discussed that anchor spending increases to an explicit debt-to-GDP goal and accommodate cyclical considerations would certainly be an improvement.* "Top down" fiscal discipline should be augmented by other measures. Particular consideration should be given to: requirements on spending ministries to submit more comprehensive multi-year spending plans; greater transparency in the budget material presented to the Knesset; and, obligatory periodic reporting on the long-term sustainability of public finances.

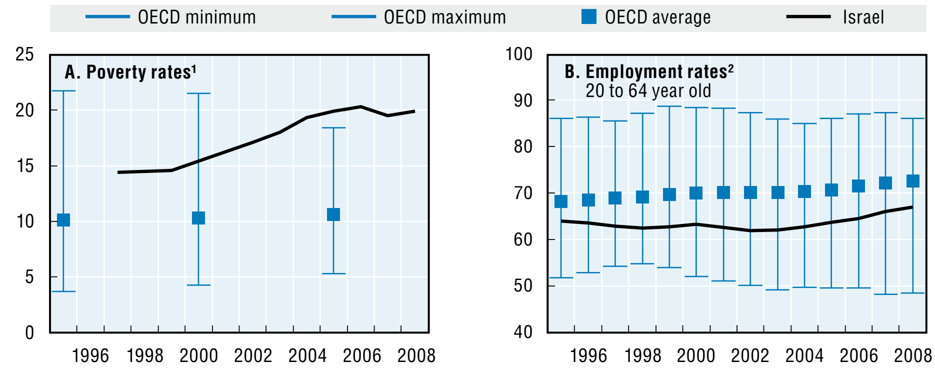
At present the Ministry of Finance not only has strong powers in directing aggregate fiscal policy, but it is also the progenitor of most economic reforms. In principle, a more even balance of expertise and influence across ministries may lend itself to better policymaking. On this basis, and with the budgeting reforms suggested above, line ministries ought to be given more leeway, for instance by cutting the number of budget lines. But caution is required. In the Israeli context the Ministry's powers are arguably a necessary foil to the idiosyncrasies of Israel's democratic system. Minor coalition parties are often relatively powerful because their Knesset seats are necessary to the government retaining office. In light of this, a more devolved structure might be more workable if a fiscal council were introduced, such as those in Austria, Sweden, Canada and the Netherlands, although other bodies already monitor public finances. ■

How can education policies help reduce poverty and increase human capital?

Despite the need for a tough fiscal regime, *Israel's deep socio-economic cleavages must be given due priority*. Just over 20% of households are below the relative poverty line compared with an OECD average of 11%. Poverty is concentrated among the 20% of the population who are Arab-Israelis whose poverty rate is around 50% and the (estimated) 8% who are Ultra-orthodox Jews whose poverty rate is around 60%. Both groups typically live and work in communities that are separate from the mainstream population and that are some distance from the core of economic activity. Both share the same immediate causes of poverty – low employment rates and large families – but the socio-economic backdrop differs enormously. Arab-Israeli poverty is fuelled by poor education feeding through to low-paid jobs for men and by cultural norms limiting learning and

Figure 2.

POVERTY AND EMPLOYMENT RATES IN ISRAEL AND OECD



Note: For technical reasons, these figures use Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

1. The poverty rate used here represents the share of individuals with "equivalised" disposable income less than 50% of the median for the entire population where equivalisation is based on the OECD method of weighting household members according to the square root of household size (see Chapter 4). The values for 1998, 2000 and 2001 are interpolated. The reference years for the OECD poverty rates vary somewhat by country; the data points shown refer to the "mid-1990s", "around 2000" and the "mid-2000s".
2. Luxembourg excluded.

Source: National Institute of Israel; *OECD Social and Welfare Database*; *OECD Labour Force Statistics Database*.

work for women. In addition, the OECD's parallel review of Israel's labour-market and social policies documents econometric evidence comparing wages and employment rates that points to discrimination against Arab-Israelis. In contrast, low material living standards among the highly insular Ultra-orthodox community stem more from choice than circumstance. The community puts a great emphasis on learning for men, but largely of a religious nature. Indeed, the majority of adult men devote their lives to full-time religious study, with substantial implications for living standards. As for women, a large percentage (over 95%) participate in final examinations in secular subjects although often using a different system of coursework and tests from that that used in mainstream education.

Unrealised educational potential and low employment rates represent not only hardship for those immediately concerned, but also untapped resources for the economy as a whole. Issues relating to these communities are core to many of the problems in education and labour-force participation discussed in Chapters 3 and 4 of this *Survey*. Work on solutions cannot wait. Rapid population growth means Arab-Israelis and Ultra-orthodox now account for over 45% of children currently starting primary school.

In some dimensions the education system has coped well, considering Israel's high population growth and socio-economic diversity. Indeed, tertiary attainment in the working-age population is remarkably high. However, there are deep concerns regarding Arab-Israeli and Haredi education streams, which are separate from the rest of the population's. In addition, the OECD's PISA study, along with other international tests, indicates that there is a much more widespread problem of weak skills in mathematics, reading and science among secondary-school students. To the extent that workplace training and tertiary programmes fail to offset this deficiency, skills and tertiary qualifications are, on average, weaker than in most OECD countries, putting at risk further expansion of high value-adding activities.

The "New Horizon" Deal struck between government and unions in primary and lower-secondary education moves in the right direction, particularly its introduction of additional classes for small groups of students. *In light of this, the obstacles that have prevented a similar deal with upper-secondary school teachers should be overcome in the revived negotiations underway.* Reforms outside the New Horizon Deal, many of which are in the process of implementation, are also admirable, in particular, the extension of compulsory education, caps on class sizes and the efforts to shift away from rote learning. However, the measures being taken suggest that further reforms to the system of final examinations (Bagrut) may be required. The new funding formula (the Strauss Index), which factors in the socio-economic characteristics of schools' catchment areas, is also welcome. *Budgetary arrangements should be altered so that the formula, or other similar funding strategies, are used more widely. Alternative pathways in the teaching profession should also be expanded.* A small-scale programme to bring professionals from other sectors, as well as other programmes to attract young teachers to the profession, reflect a promising approach and one which should be exploited further as a means of widening the pool of potential teachers and increasing flexibility in allocating teaching resources.

More strenuous efforts should be made to level the playing field for the Arab-Israeli population. Despite the policy attention that has been paid to this issue, substantial gaps in educational inputs have remained, such as wide differences in average class size. *The various targeted programmes should be evaluated and, if necessary, reformed. In addition, more general reforms in education should put a high priority on reducing inequalities. Equity targets for inputs and outcomes should be adopted.*

For its part the Ultra-orthodox community needs to be encouraged to strengthen vocational skills in education as part of wider efforts for a more self-sufficient, and less poverty-ridden, balance between worship and work. With independence from mainstream state education, boys' schools often do not teach "secular" subjects such as mathematics and science. Girls' schools focus more on vocational skills, but early marriage and family life means education and job potential is often not fully realised. Despite this weak commitment to job-oriented skills, the state provides considerable funding for these schools. *Existing curriculum requirements on grants for teaching services in primary education need to be more stringently enforced. Similar conditions should be applied to secondary schools and other sources of state funding, such as infrastructure grants. Indeed, universal core curricula should be considered, which would apply to all schools whether or not they receive state funding*. In areas where schools choose not to accept the conditions for state funding, the budgetary savings could be used to subsidise optional out-of-school private-sector education and training.

Tertiary-level reform should be brought back on track following the aborted 2008 "Shochat" measures that would have linked increased state funding to a commitment from providers to raise tuition fees and adopt a range of structural changes. *The overhaul had many strengths and should be revived, preferably with deeper changes in some areas. In particular, providers should be allowed greater leeway in setting tuition fees. Similarly, bolder reforms to make staff pay more transparent and flexible ought to be made. As well, disadvantaged groups' access to tertiary education should be monitored and targeted measures adjusted as appropriate*. The Shochat Committee proposed bolstering loans and stipends to counter the increase in tuition fees: *indeed, no student should be denied access to higher education for financial reasons*. More generally, difficulties in implementing change suggest a need to strengthen government control over education policy in the tertiary sector. While the Ministry of Finance already plays a key role, the Ministry of Education does not, and the central body for tertiary education, the Council for Higher Education, has, at least in the past, represented mostly the interests of providers. ■

Are welfare and labour-market policies on the right track?

For some years, a "welfare-to-work" approach similar to that in a number of OECD countries has been underway. *First*, contracted private-sector services are partially replacing the regular public employment service (PES) in job placement and in administration of the "employment test" required for income support. The Light for Employment Programme (familiarly known as the Wisconsin Programme) operates in four areas, and nationwide rollout is planned after further parametric adjustments. This is broadly welcome. *However, the PES's future role must be firmly established prior to rollout and should dovetail appropriately with contracted services. Also, an open mind to further adjustment of the Programme, post rollout, is imperative*. Significant uncertainties regarding the Programme's effectiveness remain. *In particular, the lack of immediate competition between providers may prove to be a serious weakness. Second,* a small earned-income tax credit (EITC) is available in those areas where Light for Employment operates. Plans to expand this are also welcome. *Indeed, the credit should be increased, particularly if combined with other measures* (see below). That said, take-up so far has been limited and should be closely monitored. *Third,* admirable efforts are underway to help parents combine family and work through wider provision of daycare and early-childhood education. These include significant additional resources and requirements on municipalities in Arab-Israeli neighbourhoods to provide free services for three and four year-olds.

However, other measures should be taken to tighten the focus of policy on low-income households. As regards the level of cash benefits, *some increase in income support should be made*. If backed by Light for Employment and a more generous EITC, this could reduce poverty levels without excessively compromising work incentives. *At minimum, universal child allowances should not be increased more than is currently scheduled and preferably savings should be sought, for instance by wider application of the lower rates that currently apply only to children born after May 2003.*

The coverage of income support also needs attention. Large numbers of working-age and pension-age households below the poverty threshold are seemingly not eligible for income support. Excessively stringent conditions on car ownership should be reviewed and a general investigation of the coverage of welfare support conducted. Conversely, relatively rapid growth in the numbers receiving disability benefit is somewhat worrying. Initial processing and reviewing of benefit applications requires attention to curb inflows as a complementary move to the Laron Committee reforms that have made it easier for those already on disability benefit to work.

At the same time, there is room for savings in tax credits that primarily help middle- and upper-income earners. In particular, the introduction of mandatory second-pillar pension savings weakens the case for tax breaks on such savings. Also, standard credits on earnings could be reduced. However, on the grounds of equal treatment, the basic credit should be made the same for men and women, and those for children ought to be made claimable by either fathers or mothers (at present only the latter may do so).

Tighter enforcement of labour regulation is required, particularly as regards the minimum wage. Light application of the rules is notably contributing to employers' preference for non-Israeli workers in low-wage sectors, because these employees are typically more willing to accept below-minimum conditions. This said, the minimum is high in relation to the average market wage compared with OECD countries, risking negative employment effects, and *the ratio should be progressively reduced* over time in parallel with increased enforcement; there are better ways of ensuring workers a minimum standard of living (notably enhancing the EITC). Some sectors of the economy are dominated by non-Israeli workers under temporary work permits (around one quarter of which are cross-border workers; the remainder are from much further afield). *Measures to limit rent-taking in the permit system in these sectors should be taken.* For some years now it has been Israeli government policy to limit the number of permits given to temporary foreign workers so as to support wages at the low end of the earnings distribution. ■

Which dimensions of the business environment can be improved?

The business environment is broadly conducive to economic activity but could be further improved. The establishment of low inflation has been helpful, as have reductions in the overall "size" of government and concomitant cuts in tax rates. However, the longstanding presence of a large public debt may have been crowding out business investment, and the flaws in education and low employment rates are compromising the skill base. Also, the OECD's product-market regulation indicators suggest firms face excessive red tape in setting up and running business operations. The government intends to make the process of licensing new firms faster and less costly. A recent land reform includes provisions giving some lease-holders the option of technically owning land (or apartments). This is welcome but is unlikely to have a significant impact on property markets. However, the same legislation also aims to reform the Israeli Land Authority, which may well cut red tape in some aspects of property development.

Government support to business is wide-ranging, with three principal themes: promoting large-scale greenfield investment, small- and medium-sized enterprises, and research and development. As elsewhere, the economic arguments for intervention rest on hard-to-measure spill-overs and externalities, and there are multiple options for intervention itself. In light of this, and as frequently recommended in reviews of OECD countries, *the authorities should ensure there are good processes for assessing, modifying, innovating, and where necessary, pruning programmes.*

Support for the agriculture sector remains substantial. Costs are held down by favourable water prices and access to cheap labour *via* the permit system for foreign and cross-border workers, though agreements have been reached that are reducing these supports. Revenues are notably supported by high seasonal import tariffs. *The menu of support should be reduced and made less distorting, for instance through reduction in support payments based on input use.*

Competition legislation and its enforcement by the competition authority (the Israeli Anti-Trust Authority) are in good shape. However, some areas of network-industry reform lag developments in many OECD countries. *In particular, the Israeli Electricity Corporation's stranglehold on production and distribution needs to be broken.* More generally, though privatisation has been substantial, strong powers have been retained through "golden shares" in some network companies and other enterprises. Also, there appears room to improve oversight in the telecommunications sector: at present there is no independent regulator. And there is ground to be covered in privatisation and exposure to competition in post, sea port and water services. Rapid increases in population and economic activity have generated problems in transport infrastructure, chiefly road congestion in major urban areas and poor public transport in peripheral areas. This will require continued policy attention. ■

For further information

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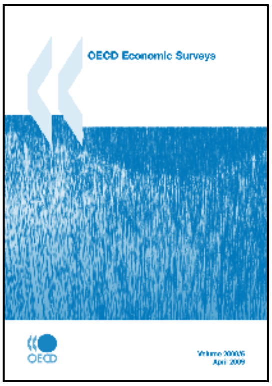

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