OECD releases positive but contentious forecast for employment

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A new OECD report predicts that Israel’s unemployment rate will drop to 6.5% by the fourth quarter of 2014, down from 6.9% today. This is contrary to projections by Israel’s own central bank, which expects growth to diminish and unemployment to increase next year, largely as a result of the government’s planned spending cutbacks.

The Bank of Israel projected that unemployment will average 7.2% next year, and that subtracting any contributions from the offshore natural gas finds, GDP growth will be 2.5%, down from the projected 2.8% figure for this year. The OECD figures were released as part of a report containing projections for all 34 member nations.

“It seems like the OECD figures aren’t up to date,” said Interdisciplinary Center Herzliya Prof. Zvi Eckstein, a former central bank deputy governor. “The Bank of Israel is expecting an increase in unemployment in 2014, as growth slows. We’re not on a track that would cut unemployment.”

Israel is not going through a recession – defined as two quarters of negative growth -- but the pace of growth is slow, and under these conditions unemployment is likely to increase, not decrease, added Eckstein. Growth is likely to be slow both because the government is being forced to push through deep cutbacks due to the deficit, and because Israel is influenced by the economic crisis in Europe.

“One-third of Israel’s exports are to Europe, and Israel has no internal growth engines,” said Eckstein.

The OECD report is less optimistic in its projections for other countries, namely those in Europe. It predicts that the unemployment rate will increase in 19 out of 34 member states. Nearly all 19 are in Europe. The OECD also found that Israel is relatively good when it comes to protecting permanent workers from being fired. However, these findings apparently relate mostly to unionized workers.