Why is life so expensive in Israel?

Category: Israel
written by oecdecoscope | April 2, 2025



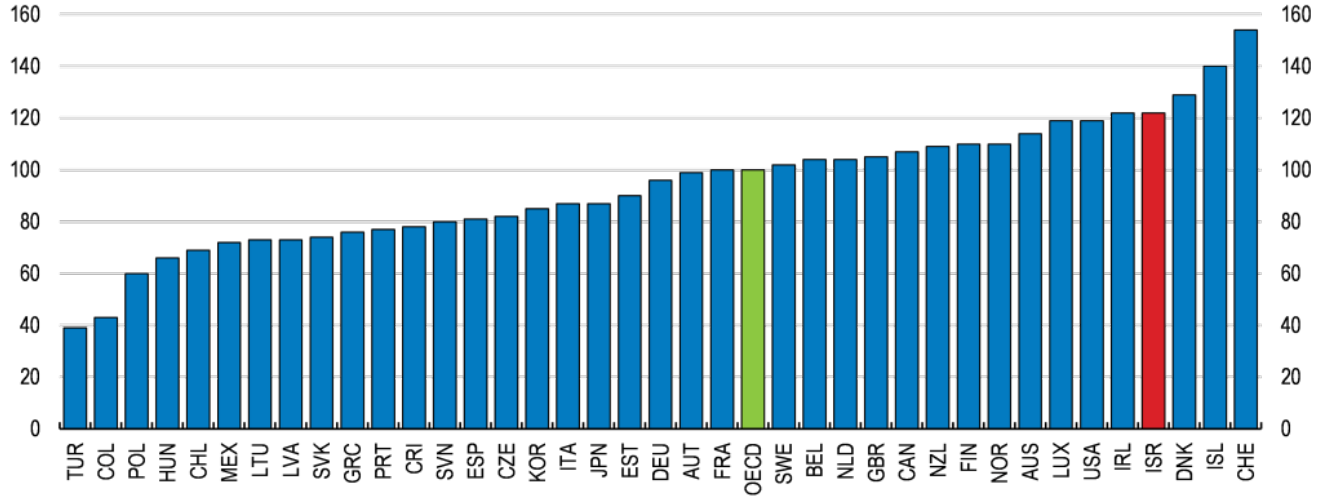
By Erik Frohm

When the price of pasta sparks a protest, you know the cost of living is hitting home. In 2022, some Israelis took to social media – and the streets – to protest the rising cost of everyday essentials. This comparatively small protest wasn't the first. For more than a decade, consumer protests have become a recurring feature in Israel, with citizens demanding action to make basic goods and housing more affordable.

Already in 2011, several social movements arose against the high cost of living. Frustrated by soaring housing prices and the high cost of staple foods, Israelis organised through social media and in person to make their voices heard, notably in the so-called tent protest and the cottage cheese boycott. The movements captured national attention, forcing companies and policymakers to respond. In 2014, the "Milky protest" reignited public frustration when a viral post compared the price of a chocolate pudding to its much cheaper counterpart in Germany.

Figure 1. Israel has one of the highest price levels in the OECD

Comparative price levels, index OECD = 100, 2023



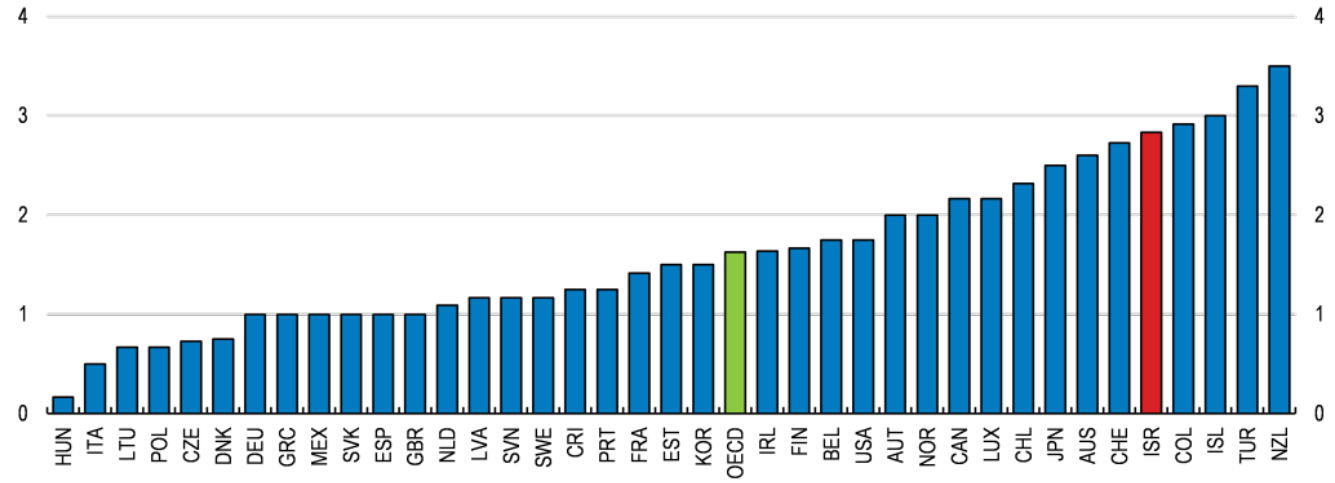
Note: Comparative Price Levels (CPLs) are defined as the ratios of PPPs for private final consumption expenditure to USD exchange rates. They provide measures of differences in price levels among countries.
Source: OECD Annual Purchasing Power Parities and exchange rates database; and OECD calculations.

So, why is life in Israel so expensive? Several structural factors drive up prices. Geographic challenges play a major role. Israel's distance from key trading partners and tense relations with some neighbouring countries limit trade opportunities and reduce integration in supply chains. Trade barriers, driven by difficult border procedures, complex regulatory standards and tariffs on agricultural products have also raised the price of imports. Limited competition and strict product market regulations keep prices high by slowing productivity growth and preventing the cost savings from reaching consumers. In the housing sector, administrative red tape and planning obstacles restrict supply, making homes unaffordable for many families. Meanwhile, a world-leading high-tech sector coexists with low-productivity industries where most Israelis work. This split implies large wage disparities with reduced purchasing power for workers outside high tech.

Figure 2. The administrative burden can be lowered

Product Market Regulation indicator scores, communication and

simplification of administrative and regulatory burden, from 0 to 6 (most restrictive), 2023



Notes: The Product Market Regulation (PMR) indicator is a composite index that encompasses a set of indicators that measure the degree to which policies promote or inhibit competition in areas of the product market where competition is viable.
Sources: OECD 2023-2024 Product Market Regulation database.

Addressing these challenges requires bold and sustained reforms. The 2025 OECD Economic Survey of Israel outlines key policy measures to increase competition and ease the cost of living. They include removing barriers to entry, improving administrative procedures, continuing to lower trade barriers and streamlining permitting processes.

Specifically, to strengthen competition, Israel could establish a one-stop shop for starting a business, alongside adopting a silence is consent principle for issuing permits and licenses, as well as reducing bureaucratic hurdles and fostering a more competitive business environment. Lowering entry barriers in services sectors and simplifying import licensing would also help cut costs and improve efficiency. Less state involvement in the economy, including the removal of price and quantity controls for foodstuff, can help alleviate recurring shortages and allow market prices to influence consumer behaviour.

Ongoing import reforms will make it easier and cheaper to bring goods into the country. Expanding and deepening trade agreements will further diversify import sources and open new export opportunities. Lowering tariffs on agricultural imports – such as vegetables, fruit, and dairy – will boost competition, drive innovation, and make food more affordable.

The housing market continues to face challenges. Restrictive planning regulations and slow urban development have driven up home prices, making it increasingly difficult for many Israelis to find affordable housing. Easing these constraints by accelerating urban renewal projects, and investing in better transport infrastructure – including public transit to urban centres – would expand supply and help lower costs.

Raising productivity and lowering costs on essentials like food and housing can ease the economic burden on households, create a more competitive business environment and drive economic growth.

Reference:

OECD (2025), *OECD Economic Surveys: Israel 2025*, OECD Publishing, Paris, https://doi.org/10.1787/d6dd02bc-en.

More information:

Israel economic snapshot: https://www.oecd.org/en/topics/sub-issues/economic-surveys/israel-economic-snapshot.html.

Addressing labour market

challenges for sustainable and inclusive growth in Israel

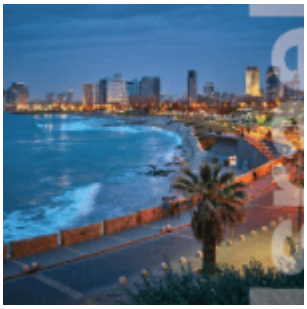
Category: Israel
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To improve labour market outcomes, Israel needs reforms in three broad areas: improving skills, fostering labour market participation, and increasing job mobility.

Ensuring a strong, inclusive and sustainable recovery from the COVID-19 crisis in Israel

Category: COVID-19,Israel
written by oecdecoscope | April 2, 2025

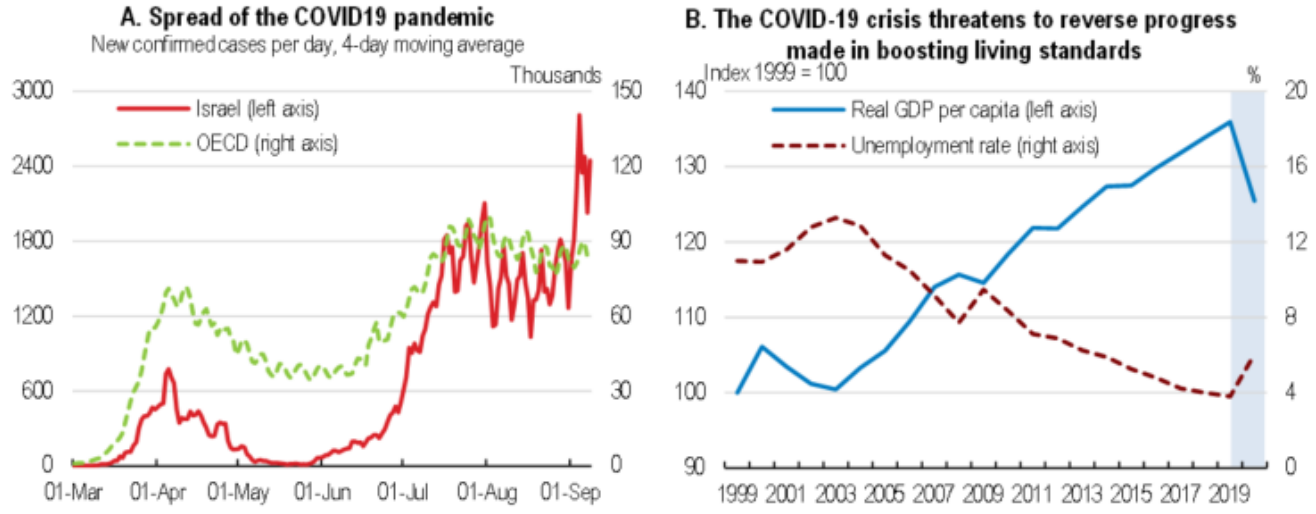


by Gabriel Machlica and Oliver Röhn, Economics Department

The coronavirus pandemic has interrupted Israel’s progress in boosting standards of living. Before the pandemic, Israel enjoyed strong employment growth and living standards had risen close to the OECD average. To contain the spread of the pandemic, the government reacted swiftly and introduced stringent confinement measures in March and April. The government and financial authorities deployed emergency measures quickly to support households’ and firms’ incomes and liquidity. After the economy had largely reopened, a second outbreak has given way to a renewed lockdown in September (Figure 1, Panel A).

As in other countries, high uncertainty and the containment measures necessary to limit the spread of the virus have led to a sharp drop in economic activity. The economy is projected to decline by around 6% this year (Figure 1, Panel B). At the height of the crisis, over a million employees were temporarily laid off. Many have returned to work as the economy reopened. However, the unemployment rate, broadly defined to include workers on unpaid leave and workers who have left the labour force due to the pandemic, remains high at 11%. Moreover, the crisis threatens to aggravate Israel’s long-standing challenges of high poverty and wide productivity disparities between its vibrant high-tech sector and lagging sheltered sectors.

Figure 1. The pandemic is threatening to reverse some of the achievements made over the last decade



Note: The GDP and unemployment figures for 2020 are forecasts. Unemployment is narrowly defined according to the Labour Force Survey.
Source: OECD calculations based on Ourworldindata; and OECD Economic Outlook: Statistics and Projections database.

The new OECD Economic Survey of Israel (2020) identifies measures that can help Israel navigate this crisis. In the short term, the government and financial authorities should continue to provide fiscal, monetary and financial market support to buttress the recovery, boost confidence and avoid widespread bankruptcies. The government has expanded the eligibility to unemployment benefits to workers on unpaid leave and extended benefits until next year. This should be complemented by stepping up active labour market policies, such as retraining and job search support, to help workers transition to new jobs with better prospects.

The Survey identifies priorities to put Israel on a stronger, sustained and inclusive recovery. Introducing ambitious reforms can improve the standard of living of the average Israeli citizen by some 15% by 2050 and help to reduce the gap in living standards vis-à-vis the upper half of the OECD countries (Figure 2). These measures and reform areas include:

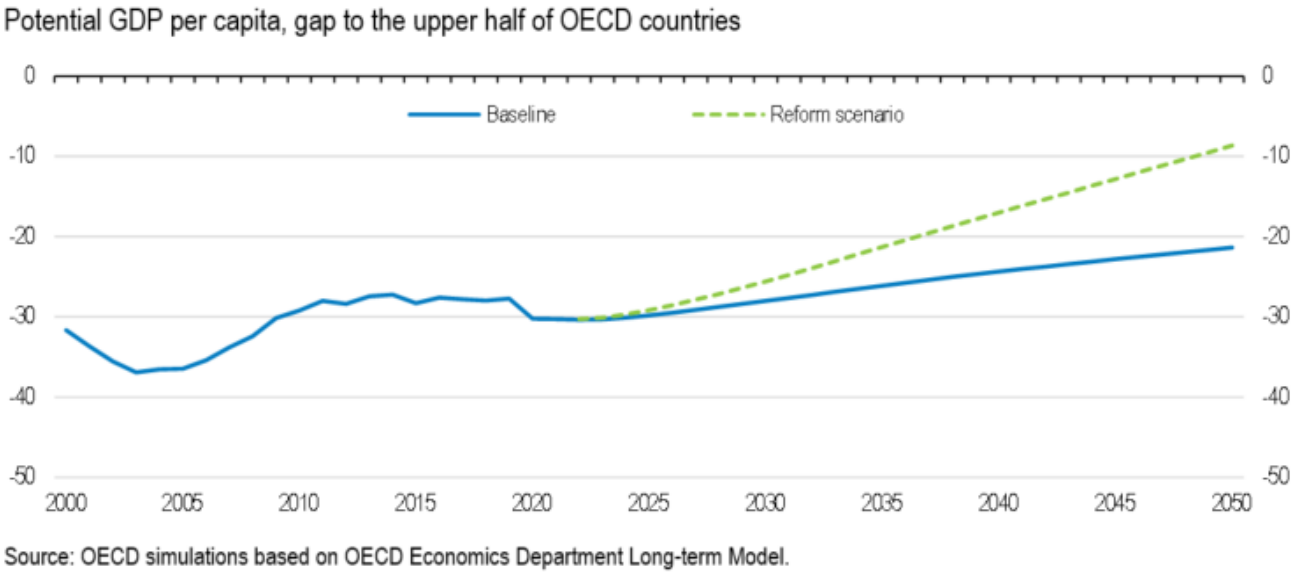
- **Upgrading infrastructure.** Israel's core infrastructure stock is almost a third smaller than in other OECD countries. The availability and quality of public transport is also limited. Boosting public

infrastructure investment can lift productivity and connect people to job opportunities.

- **Improving educational outcomes.** The gaps in students' outcomes between Arab-Israeli students and the rest of the population are significant, amounting to 4 years of schooling on average. Reducing gaps will require improving pre-school education, recruiting high-quality teachers, especially in the poor municipalities, and reducing disparities in students' outcomes between different school streams.
- **Strengthening the fiscal framework for local governments.** Poorer municipalities lack resources to finance adequate public services for their residents. This calls for supporting poorer municipalities through higher compensation from wealthier municipalities. Merging municipalities and promoting regional clusters can improve efficiency.
- **Supporting the poor.** Employment among groups with traditionally low labour market attachment has significantly improved. However, the income received from work was not enough to make a substantial dent in poverty, which remains comparatively high. Further expanding Israel's earned income tax credit would support the poor while maintaining strong incentives to work.
- **Simplifying the tax system and reducing economic distortions.** The tax mix is reasonably growth- and employment-friendly with a relatively low tax burden on labour. Nevertheless, ample room exists to simplify the tax system by abolishing inefficient tax expenditures and broadening tax bases, which would support revenues. The business and property tax system should be reviewed to reduce distortions.
- **Improving environmental outcomes and reducing health risks.** Poor air quality remains a concern for the well-being of Israelis. Introducing congestion charges would reduce traffic flows and air pollution, and can provide

additional resources to boost the public transport infrastructure. Pricing fossil fuels according to their carbon content and other pollutants, while protecting the most vulnerable, would further lower carbon emissions, and make renewable energy generation more competitive.

Figure 2. Convergence in standards of living to the OECD level



Source: OECD simulations based on OECD Economics Department Long-term Model.

References:

OECD (2020), OECD Economic Surveys: Israel 2020, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_surveys-isr-2018-en.

The key to breaking cycle of poverty in Israel lies in education

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written by oecdecoscope | April 2, 2025

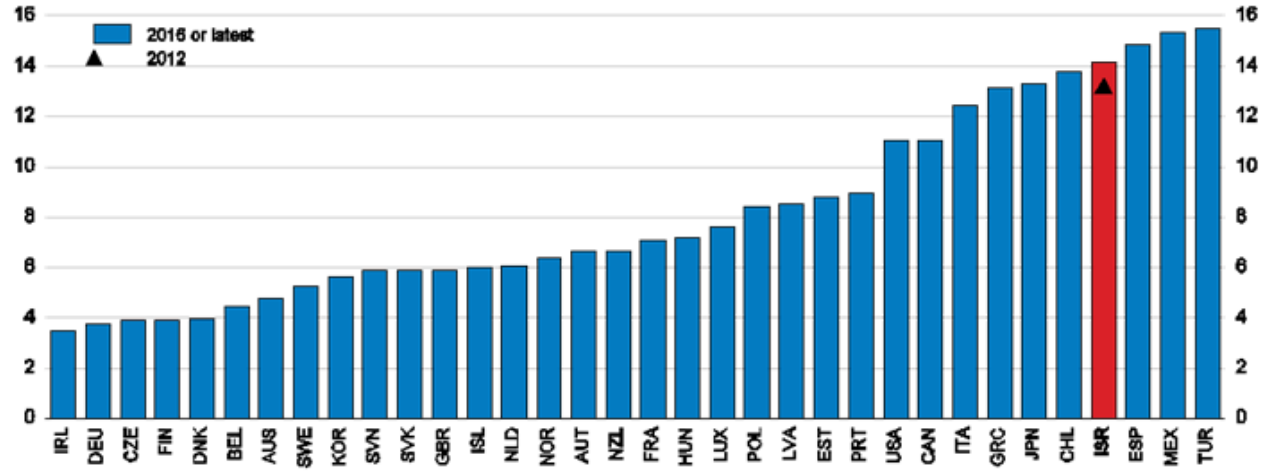
By Gabriel Machlica and Claude Giorno, Israel Desk, Economics Department

Inequality and relative poverty in Israel remain high, particularly among Arab-Israelis and Haredim (Ultra-Orthodox). Israel's social policy follows a "welfare-to-work" approach to tackle poverty in order to avoid measures that may harm work incentives among the Haredi, who value the time dedicated to religious studies, and the Arabs, who have cultural barriers to female employment. The government's strategy of encouraging employment among previously non-working families has met with substantial success. The Israeli labour market has improved markedly, and more and more Haredim and Israeli-Arabs have been able to find jobs. Moreover, the average real income of poor households has risen by almost 3% annually in the last six years, while the average annual real income of wealthier households has increased by only 2.2%.

However, inequalities remain internationally high, and the current strategy without complementary steps has its limits. Many disadvantaged workers have been able to find jobs, but their families remain poor, since in most cases these jobs are low-paid. Indeed, the share of the working poor has risen in recent years and is comparatively high (**Figure 1**).

Figure 1. The share of working poor is high

A. Share of workers in poverty[1]

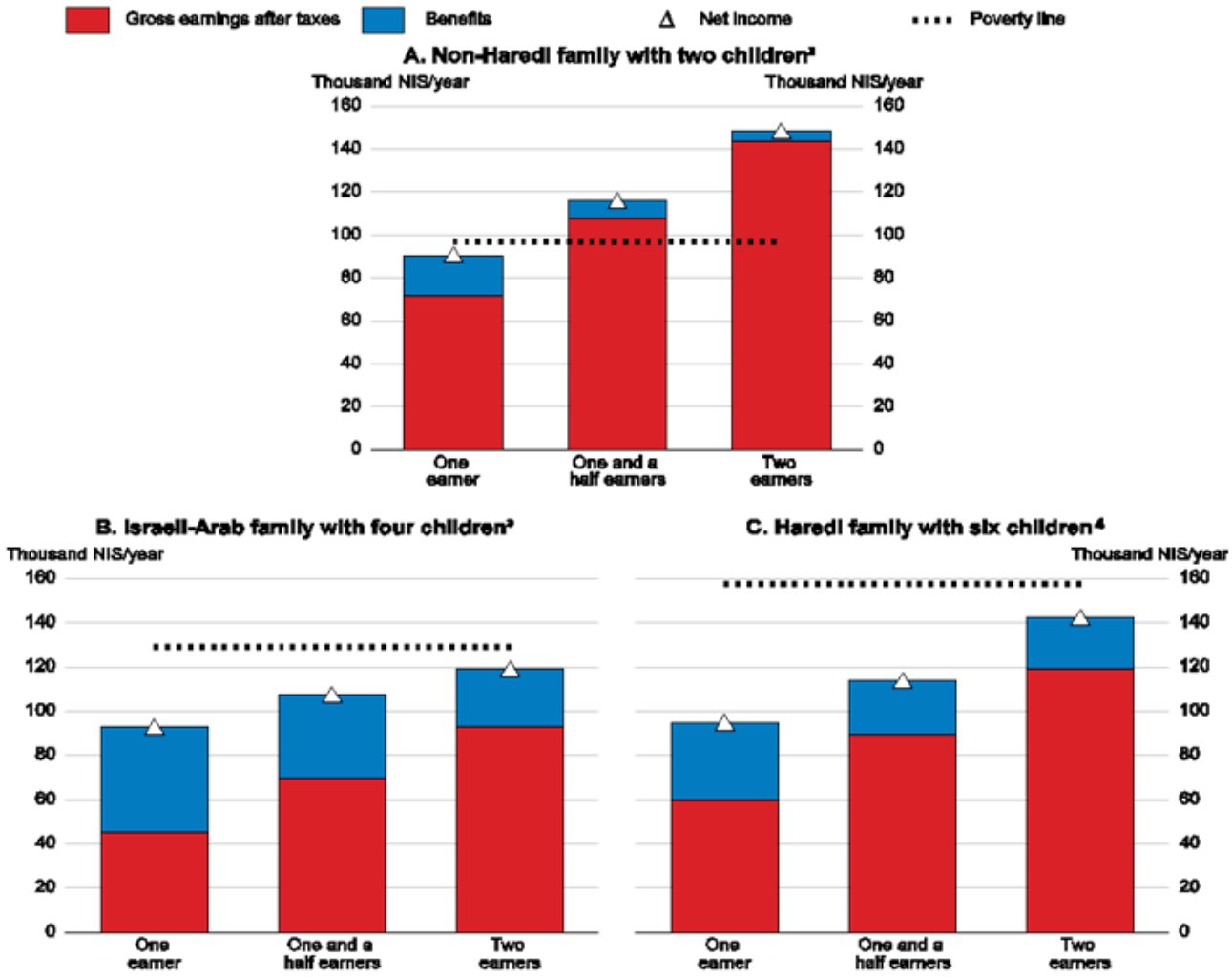


1. Those with income below the poverty line, living in households with a working-age head and at least one worker.
Source: OECD (2017), *Income Distribution database*; National Insurance Institute

This is particularly true for the Haredim and Israeli-Arabs, who earn on average only 70% and almost 90% of the median hourly wage, respectively, mostly due to the differences in skills and typically have families with only one breadwinner. Given the current tax-transfer system and large number of children in these households, especially in the Haredi community, even two full-time working spouses would not be enough to escape from poverty (**Figure 2**).

Figure 2. Higher employment of Haredim and Israeli-Arabs may not be enough to lift them out of poverty

Estimates of family income according to the numbers of earners and the community group[1]



1. One earner corresponds to a family with one earner, one and a half earner corresponds to two-earner family where one works full-time and the second half-time, and two earners corresponds to two-earner family where both work full-time.
2. Workers are assumed to earn 110% of the average wage.
3. Workers are assumed to earn 70% of the average wage.
4. Workers are assumed to earn 90% of the average wage.

Source: OECD calculations using the OECD Tax-Benefit Model. See OECD (2018), OECD Economic Surveys: Israel 2018, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_surveys-isr-2018-en for more details.

Therefore the current government strategy should be accompanied by additional measures. Extensive poverty in Israeli society is to a significant extent due to the wide dispersion of skills. The government should improve the education outcomes of the disadvantaged groups to boost their future productivity and wages. As the *2018 OECD Survey on Israel* argues, the education system needs to become more inclusive by giving all children opportunities for good-quality education to improve their skills. The government should also focus on programmes for adults who have already

left initial education without proper skills. In addition, it should further expand in-work benefits to boost take-home pay of the average eligible worker.

References:

OECD (2018), OECD Economic Surveys: Israel 2018, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_surveys-isr-2018-en.

United we stand divided we fall: the need for greater inclusiveness in Israel

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written by oecdecoscope | April 2, 2025
By Claude Giorno and Gabriel Machlica, Israel Desk, Economics Department

The Israeli economy is strong. The country is enjoying its 15th consecutive year of growth, with GDP increasing on average by 4.0% annually since 2003, i.e. faster than nearly any other OECD country. Unemployment is at historically low level, and the average standard of living is improving steadily. Rapid population growth, the rise in people with jobs, strong economic fundamentals, good economic policy settings and a dynamic high-tech sector are underpinning these impressive outcomes, which are expected to continue in the short term,

according to the *2018 OECD Survey on Israel*.

Today's excellent outlook offers Israel a unique opportunity to prepare for the challenges of the future which require stronger social cohesion. Israeli society is indeed marked by large inequalities. Almost 18% of the population live in relative poverty (i.e. with a disposable income below 50% of the median), higher than the OECD average (12.5%) and any other advanced economy. This reflects large disparities between different communities. Around half of Israeli-Arabs and Haredim are poor and live separately from the rest of the population. They have different school systems, live mostly in different cities and do not serve in the army. This leads to poor education results followed by worse labour market outcomes, notably in terms of earnings (Table 1). Haredi men have a cultural preference to engage in full-time religious studies, rather than participate in the labour market, and avoid core subjects in their school careers. Furthermore, Haredi women can work only part-time because of their large families. The majority of Israeli-Arab women also do not participate in the labour market due to cultural preferences. The result is that most Haredi and Arab families have only one breadwinner, resulting in significant problems of poverty, notably among children.

Table 1. Disparities in Israeli society

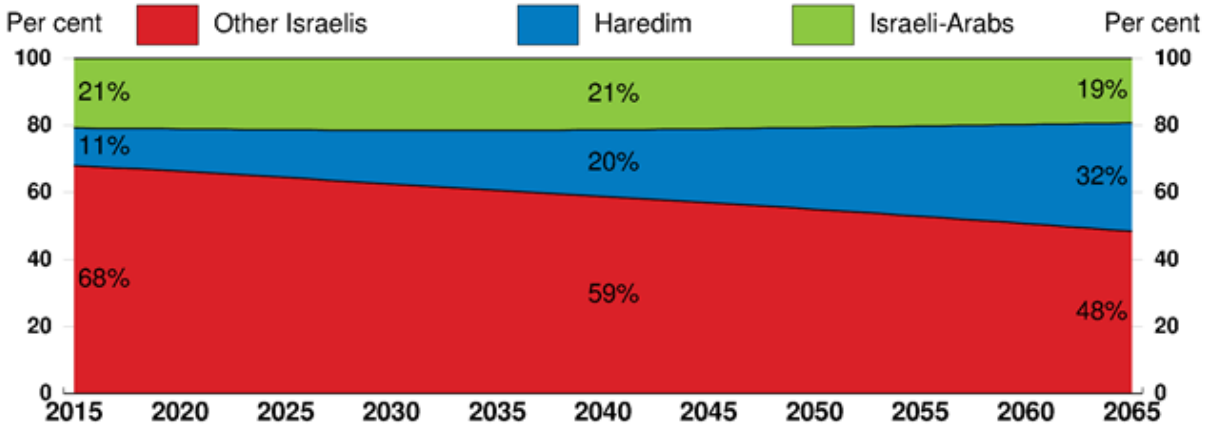
	Israeli-Arabs	Haredim	Others
Share of the population - 2016 (%)	21	11	68
Fertility rate - 2016	3.1	6.7	2.5
Number of children per household	4	6.5	2
Median hourly wage as a % of the national median hourly wage - 2015	70	87	109
Median wage as a % of the national median wage - 2015	74	68	111
Participation rate - 2016 (%)	58	66	81
PISA mean mathematics scores - 2015	391	-	495
Relative poverty rates – 2015 (%)	53.3	48.7	13.5

Source: National Insurance Institute (2016), *Poverty and Social Gaps Report, 2015*; OECD, *PISA database*; Central Bureau of Statistics.

Given the high fertility of Haredi women, the share of that community in the total population is predicted to triple in the next 45 to 50 years, with the total share of Israeli-Arabs

and Haredim rising from one-third to one-half over this period (**Figure 1**). This will have a substantial impact on Israeli economic performance, given the poor labour market outcomes and low productivity of these disadvantaged groups.

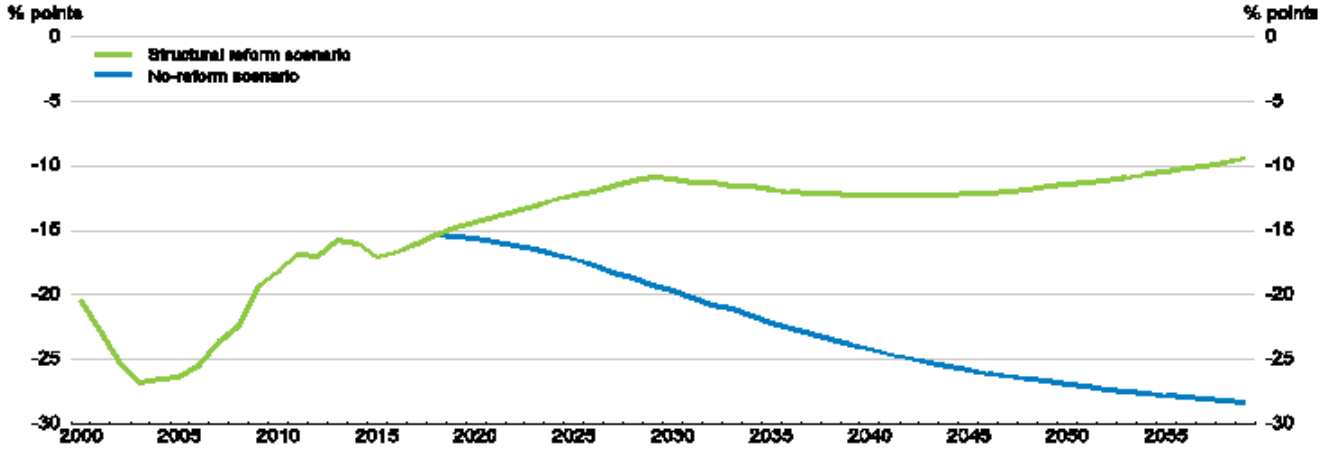
Figure 1. Demographic trend by community group



Source: Central Bureau of Statistics, *http://www.cbs.gov.il/reader/newhodaot/tables_template_eng.html?hodaa=201701138*

In the absence of further progress in social cohesion and any further convergence of productivity and labour market outcomes of Haredim and Israeli-Arabs with the rest of the population, average Israeli incomes would fall to nearly 30% below the OECD average, almost double the current gap according to OECD estimates (**Figure 2**). However, if ambitious structural reforms are launched to further improve the Haredi and Israeli-Arabs' (youth in particular) integration into society through better education and training, improved work incentives and more business-friendly environment, the gap in Israeli living standards with the OECD average could shrink below 10%.

Figure 2. The gap in GDP per capita with the OECD average could shrink further with ambitious reforms[1]



1. The no-reform scenario extrapolates OECD short term projections using Geva (2015) and assuming no convergence of Haredim and Israeli-Arabs productivity and labour market outcomes with the rest of the population. By contrast, the structural reform scenario assumes gains from reforms in product market and education with enhanced incentives to join the labour market. In this scenario, the productivity of Haredim and Israeli-Arabs compared to non-Haredi Jews is assumed to increase from 60% currently to 80% and their employment rate to be close to the level of non-Haredi Jews in 2059.

Source: OECD (2017), *Economic Outlook 102 database*; A. Geva (2015), *Demographic Changes and their Implications for Fiscal Aggregates in the Years of 2015-2059*. For more details see OECD (2018), OECD Economic Surveys: Israel 2018, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_surveys-isr-2018-en.

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Geva A. (2015), *Demographic Changes and their Implications for Fiscal Aggregates in the Years of 2015-2059*, http://www.mof.gov.il/ChiefEcon/EconomyAndResearch/ArticlesSet/Article_20150518.pdf