

Revenues from operating charges increased by 8.4 percent. The labor input continued to decline, pursuant to a trend that began in 2000 for reasons that evidently include mergers in the industry, wider use of electronic banking, and a slight decrease in the number of branches. Labor cost increased, probably as a reflection of the upturn in banks' earnings.

Developments in the banking industry had different effects on the business sector. Credit started to expand again and mobilization of non-banking sources of finance grew vigorously (during the first nine months of the year). By implication, the supply of banking credit was apparently diverted mainly to small companies, which depend on the banks because they have no access to alternative sources. The Bank of Israel Companies Survey reinforces this estimation by noting that the restriction on sources of finance for the development of activities eased in 2004 for all companies—small, medium, and large (Figure 1.34).

Table 1.39
Development in Banking Activity, Main Indicators, 1997–2004

	(annual rate of change, percent)							
	1997	1998	1999	2000	2001	2002	2003	2004
Credit to public ^a	4.5	10.4	12.1	13.4	12.7	5.6	-3.6	3.9
Labor input	0.6	-0.4	-1.8	0.6	0.4	-1.6	-4.0	-0.7
Labor costs	6.0	1.6	4.3	9.0	0.3	0.6	-0.6	3.6
Value added (adjusted)	5.5	15.5	0.5	14.5	-7.8	-13.2	23.0	13.0
Stock-market turnover	25.1	31.1	34.2	32.6	-8.3	36.8	11.0	44.8
Number of debits	1.2	2.2	2.1	0.7	3.5	6.6	-4.6	-1.9
Mortgages	-5.1	-12.1	8.3	-4.7	0.5	-0.7	-20.1	18.3
Number of branches	-3.7	0.5	1.6	-2.3	-1.8	-2.3	-2.7	-1.2
ATMs	7.9	2.6	2.4	0.1	2.4	-1.6	0.2	0.8
Requests for information via internet						46.8	76.7	24.2
Banking transactions via internet						49.2		
Index of banking activity ^b	3.5	6.4	8.6	7.6	6.9	7.2	-4.4	4.3
Labor productivity	2.9	6.8	10.6	7.0	6.5	9.0	-0.4	5.0
Multi-factor productivity	2.8	6.1	9.0	7.8	6.7	9.1	-1.3	4.9

^a Total commercial banking system based on annual average according to real end-month data.

^b Weighted average of credit to public, number of debits, labor input, total new loans, and securities turnover.

SOURCE: Table 1.A.44.

6. Information communication technology⁷⁸

The information communication technology (ICT) industry is a conglomerate of production and service industries for the electronic absorption, presentation, and transmission of information. It incorporates manufacturing industries—communication equipment; supervisory, measurement, and control apparatus; and electronic components—and service industries: communications and computer and

The ICT industry incorporates manufacturing industries and service industries.

⁷⁸ Reference to the ICT aggregate in this section does not replace reference to the components of ICT in the principal industries as customarily defined (services, manufacturing, communications).

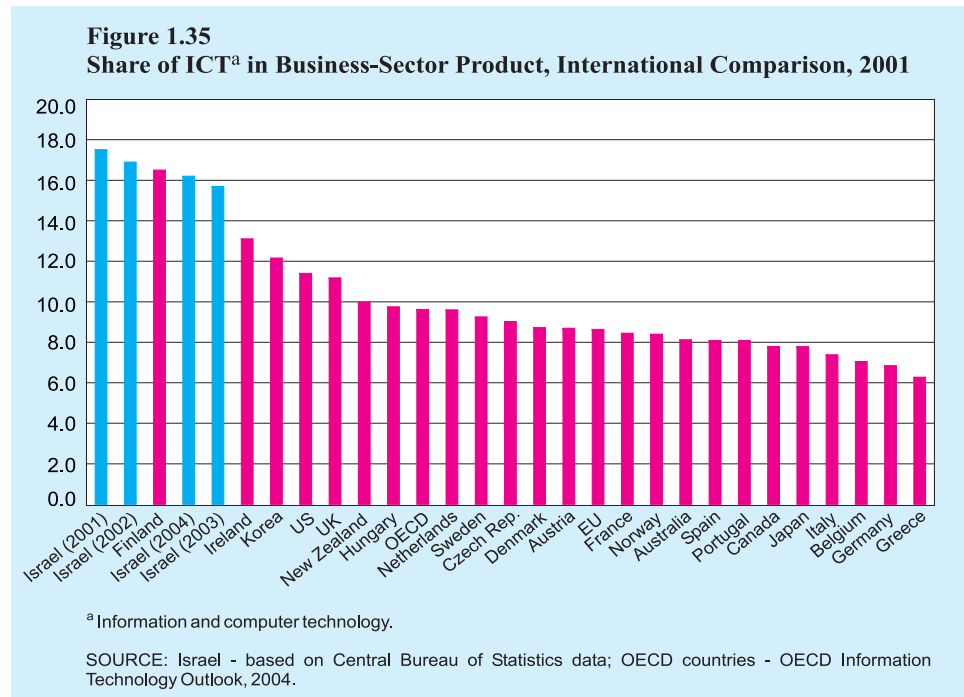
R&D services, including start-ups. ICT production, mainly by high-tech industries, is typified by international competition. Since ICT services are distinguished by a mobile labor force and international investment, the industry plays an important role in the globalization process. Expenditure on ICT as a share of GDP reflects the massive investment in ICT products and services by principal industries such as financial institutions and telephone companies. This expenditure is an important component of Israel's integration into the global economy and it accelerates the growth of productivity. The global ICT industry grew in 2004, after slowing in 2001 and 2002 and showing no change in 2003.

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Israel's ICT product increased by 9 percent in 2004 after recovering in 2003. All subindustries—computer and R&D services, and manufacturing—took part in the growth. Exports increased by 20.4 percent (Table 1.40). Investments in ICT companies via venture-capital funds rose briskly over 2003 and turned upward steadily during the year. Industry employment improved after a decline in 2002 and 2003. Nominal wage increased by 1.8 percent after sizable decreases in 2001–03 due to an oversupply of labor in the industry. The upturn in wage also traces to stronger demand for labor, occasioned by the upturn in global demand for ICT products, and the increase in labor productivity.

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ICT product in Israel is very large by international standards: 16.2 percent of business-sector product in 2004 (Table 1.41) as against less than 9 percent on average in the European Union countries and 11.4 percent in the United States in 2001 (Figure 1.35).⁷⁹ Since the small size of Israel's economy limits domestic expenditure for ICT,



⁷⁹ OECD Science, Technology and Industry Scoreboard 2004.

Table 1.40
The ICT Industry, Product, Employment and Exports, 1999–2004

	Computer & R&D services				Communication	Manufacturing
	Total	Total	Total excl. start-ups	Start-ups	services	
1) Change in product (current 1995 prices, percent)						
1999	8.5	21.6	20.2	27	0	8
2000	33.4	51.1	5.5	216	-1	47
2001	-13.7	-13.1	-3.0	-25	7	-24
2002	-7.0	-9.8	8.5	-39	-2	-8
2003	4.2	-4.9	4.1	-30	19	-0
2004	9.0	12.8	9.5	27	6	10
2004 product (NIS million, current prices)	50755	18969	14838	4132	14212	17573
2) Employment (annual rate of change, percent)						
			Including start-ups			
1999	11.3		19.6		17.4	2
2000	26.0		40.7		26.0	11
2001	6.2		7.2		19.4	-0
2002	-4.0		-6.6		6.1	-6
2003	-2.1		-4.4		2.9	-2
2004	8.1		5.1		19.6	5
2004 Employment ('000s)	164.6		71.3		38.5	54.8
3) Exports (annual rate of change, percent)						
			Including start-ups			
1999	13.8		11.9		-10.5	17.0
2000	58.5		82.1		-9.4	57.7
2001	-15.3		-20.2		-27.8	-13.2
2002	-12.2		8.6		-16.9	-17.9
2003	7.0		15.4		-3.2	4.3
2004	20.4		14.3		15.5	23.1
			(\$ million, current prices)			
2004 Exports	13414		5145		140	8129

SOURCE: Based on Central Bureau of Statistics data.

the share of exports in industry product is immense, at 56 percent in 2004.⁸⁰ The proportion of exports in product increased in 2004 after declines in 2001–2003—almost certainly due to the improvement in the global economy, which boosted demand for and prices of ICT products.

Israel's ICT production is more service-oriented than the OECD average. Other countries that have large ICT industries relative to GDP are biased toward manufacturing. Since Israel's ICT production is strongly oriented toward new-product development by means of R&D services and start-up companies, its share of start-ups

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⁸⁰ About 71 percent of ICT product is for export. This does not include communication services, which, although included in ICT, account for a negligible share of exports.

Table 1.41
The ICT Industry, Main Indicators, 1999–2004

	Total	Computer & R&D services			Communication	
		Total	Total excl. start-ups	Start-ups	services	Manufacturing
Share in ICT products (current prices)						
1999	100	35	28	8	26	39
2000	100	42	23	19	19	39
2001	100	42	26	16	22	32
2002	100	37	27	10	23	36
2003	100	35	29	7	29	35
2004	100	37	29	8	28	35
Share in business-sector products						
1999	15.0	5.3	4.1	1.1	3.9	5.9
2000	18.7	7.8	4.3	3.5	3.6	7.3
2001	17.5	7.4	4.5	2.9	3.9	5.6
2002	17.0	6.3	4.6	1.7	3.9	6.1
2003	15.7	5.6	4.5	1.1	4.6	5.5
2004	16.2	6.1	4.7	1.3	4.5	5.6
Contribution to rise in business-sector product (1995 prices, percent)						
1999	1.3	0.7	0.5	0.2	0.0	0.6
2000	4.8	1.8	0.2	1.7	-0.0	3.0
2001	-2.7	-0.7	-0.1	-0.6	0.3	-2.3
2002	-1.2	-0.5	0.3	-0.7	-0.1	-0.6
2003	0.7	-0.2	0.1	-0.3	0.9	-0.0
2004	1.4	0.5	0.3	0.2	0.3	0.6
Change in product prices (percent)						
1999	11.9	19.7	19.7	19.7	2.0	9.4
2000	5.4	10.6	10.6	10.6	4.8	-5.1
2001	6.9	7.8	7.8	7.8	0.1	-0.5
2002	3.6	-6.6	-6.6	-6.6	2.4	17.4
2003	-8.2	-4.0	-4.0	-4.0	2.8	-5.6
2004	0.9	3.0	3.0	3.0	-1.1	-1.0

SOURCE: Based on Central Bureau of Statistics data.

in industry product and GDP surpasses the global average by far. Israel is among the world's leaders in R&D, for reasons including well-schooled human resources and high output per worker.

ICT production in Israel seems to have outpaced the global rate of increase in 2004. This reflects the special composition of Israel's ICT industries, which leans toward extensive new-product development, usually by start-up companies. Global demand for new ICT products recovered during the past year, partly explaining the 27 percent increase in production by Israeli start-ups in 2004 after a 68 percent decrease from 2001 to 2003. Net of start-ups, production increased by 8.1 percent. The focus on start-ups, however, substantiated the risk of specializing: after benefiting from the rising ICT tide in 1999, 2000, and to some extent 2004, Israel was exposed to particularly extensive damage when the global high-tech bubble burst.

The ICT industry (including start-ups) relies on raising capital from nonbank sources. In 2004, ICT firms raised \$ 1.46 billion from venture-capital, 46 percent more than in 2003,⁸¹ and the amount of capital raised per transaction continued to trend up, as it had since the second quarter of 2003, although the sum was much smaller than the 2000 level (Table 1.42). Israel's ICT industry also outperformed its American counterpart in terms of the strength of the recovery in capital raising; thus, capital raising in Israel stood at 9.8 percent of the U.S. level in 2004 as against 9.6 percent in 2003.⁸² In 2004, the software industry accounted for a larger share of capital raised. For a more detailed analysis of the ICT subindustries, see the sections on Manufacturing, Commerce, the Services, and Communications.

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Table 1.42
Issues by High-Tech Companies, 1997-2004^a

	1997	1998	1999	2000	2001	2002	2003	2004
	(\$ million)							
Israeli and foreign venture-capital funds	430	600	1012	3092	1985	1134	1011	1460
Stock-exchange issues by companies backed by venture-capital funds	292	160	1176	1713	83	0	0	...

^a For 1997-2000, including issues involving at least one Israeli venture-capital fund; for 2001-2003 also including issues without the participation of an Israeli venture-capital fund.

SOURCE: IVC Research Center.

Government assistance for start-ups

In Israel, as in other countries, the government subventions the establishment of seed companies. Since the private sector tended in 2001 and 2002 to invest in more proven technologies, the pace and size of its investments in seed companies plummeted during those years (from 10 percent of total venture-capital fund investment in 2000 to 2 percent in 2002). Therefore, the government saw fit to provide incentives for investment in such firms, which engage mainly in R&D and play an important role in encouraging growth. For this purpose, a "seed fund" was established in late 2002 as part of the assistance mechanism of the Chief Scientist of the Ministry of Industry, Trade, and Employment. The purpose of the fund is to provide investors with an incentive by sharing risk at the initial investment stage in return for shares, up to a sum not exceeding NIS 5 million per investment. The model resembles that of private

Government subventioning of seed companies has decreased.

⁸¹ Including biotechnology.

⁸² National Venture Capital Association (NVCA), 2004.

investment in start-ups, but the government fund gives the investor the option of buying the shares owned by the Fund.

After private investment in seed companies recovered in 2003 and continued to improve in 2004, the number of applications to the Seed Fund decreased and investments by the fund declined commensurably. The Fund was budgeted at NIS 25 million in 2004, most earmarked for commitments made in 2003 and the remainder invested in three companies during the budget year. The Fund has not yet been budgeted for 2005.