Developments and Trends In Israeli Exports

First half of 2018 | summary report

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Executive Summary

Trends in global trade and exports

In 2017 global trade, which stagnated in the last few years, recorded a significant improvement. Overall in 2017, global trade leaped from a growth rate of 2.2% to an impressive 5.1%

This trend is expected to persist going forward, but at more moderate rates compared to 2017, amid concerns over the expanding protectionist US trade policy and aggravating trade wars, the International monetary Fund (IMF) revised its growth forecasts slightly, and in its Global Economic Outlook estimates that global trade will increase by 4.8% in 2018 and by 4.5% in 2019.

According to the IEI's Economic Unit’s estimates, based on balance-of-payments calculations, during the first half of 2018, Israeli exports of goods and services grew by 8.5% in dollar terms compared with the corresponding period in 2017 and totalled USD 54.6 billion.

Exports of goods rose by 6% in dollar terms to USD 31 billion - mainly owing to the growth in exports of the industrial sector exports, mainly electronic components. Consistent with the trend of the last few years, exports of services, which is a significant driver of Israeli exports and of the Israeli economy overall, continued to grow at an accelerated rate. During the first half of 2018 services exports increased by 12% to a record $23.5 billion, primarily due to the continued accelerated growth in exports of high-tech services and in exports of tourism services.

Exports of goods

In the first half of 2018, exports of goods excluding diamonds rose by 7.5% to USD 27.4 billion. Industrial exports, which accounts for 85% of total goods exports, increased by 8% to USD 26.6 billion. Overall diamond exports (crude and refined) fell by 4% to USD 3.8 billion (13% of total goods exports) and agricultural exports amounted to USD 725 million – down 5% from its level in the first half of 2017.

Industrial exports

In the first half of 2018, industrial exports grew in dollar terms. Unlike the trend in 2017, this increase is not attributable to the growth in the exports of dominant sectors (pharmaceuticals, electronic components, chemicals and aircraft), which remained at roughly the same level as in the corresponding period in 2017. In fact, the increase in industrial exports in the first half is attributed to the impressive growth in the exports of other sectors – which grew by an aggregate rate of 9% in dollar terms as compared to the first half of 2017.

Dominant sectors were highly volatile and overall recorded a mixed trend. Exports of pharmaceuticals in the first half of 2018 fell by a sharp 21% from the corresponding period in 2017, exports of electronic components rose sharply by 55%, aircraft exports fell sharply by 44% and in line with the increase in energy prices, there was a continued growth in revenue from exports of chemicals and oil distillates, which grew by an impressive 15% compared to the first half of 2-17.
In the first half of 2018, total exports of these dominant sectors, which are highly concentrated and volatile, did not change from the same period of 2017, and amounted to USD 11.2 billion, accounting for 48% of total industrial exports.

Exports of other sectors (industrial exports excluding dominant industries) remained on a clear positive trend with a sweeping growth in all the major export industries. This trend, which started in the first quarter of 2016 (following a decline throughout 2015), continued in 2018. In 2017 the pace of growth moderated, with a decline recorded in the second and third growth; however, since then there is a consistent upward trend. Aggregate exports in these sectors – which accounts for 52% of total industrial exports – grew by 9% in the first half of 2018, to a total of USD 12.2 billion.

Exports by trading regions

An analysis of export trends by geographic regions points to an increase in exports to most of the trading regions. In the first half of 2018, exports to the European Union remained high at USD 8.1 billion, accounting for 33% of total exports. Exports to the US fell by 11%. Total exports in the first half of 2018 amounted to USD 5.3 billion – 22% of total goods exports. Exports to Asia grew sharply by 31% from the corresponding period of 2017 and totalled USD 5.6 billion. As a result, Asia’s weight in Israeli exports grew substantially and at mid-2018 accounts for 23% of total exports – higher than the relative weight of the US.

The changes and volatility in major export industries present a clear picture of Israeli exports to leading destinations. For example, the pharmaceuticals industry had a negative effect on exports to the US and to European countries. The sharp increase in exports of electronic components had a positive impact on exports to different destinations in Asia, while chemicals had a positive impact on exports to Turkey, since chemicals are a major component of exports to this country.

1 However, it is noted that these are exports of goods only (excluding diamonds). If we include exports of services in the calculation, the US’ weight in total Israeli exports increases significantly.
The recovery in exports to the **US**, which was recorded throughout the periods 2014-2016, was curbed in 2017. This downward trend continued and even intensified during the first half of 2018 – during which exports to the US fell by 11%. However, bear in mind that exports of pharmaceuticals – which recorded a sharp double-digit decline – had a crucial impact. The lion’s share of major export industries recorded an increase compared to the corresponding period of 2017.

In the first half of 2018, **China** is the second biggest global destination for Israeli exports. During the reported period, the growth in exports of electronic components was unusually high, and was the main contributory factor to the 80% rise in exports to China compared to the first half of 2017, which amounted to USD 2.8 billion – in comparison, exports to China in the whole of 2017 totalled USD 3.2 billion. Other major export industries increased as well – exports to China excluding electronic components rose by 25% - in line with the trend recorded in 2017.

Exports to **the UK**, the biggest destination for Israeli exports in Europe and the third in the world (after the US and China) fell in the first half of 2018 by 12% year-over-year and totaled USD 1.9 billion. In line with the clear trend in exports to the UK over the last few years, the fluctuations recorded in 2018 can also be attributed to pharmaceutical exports.

Exports to **Turkey** remained on a course of recovery after several years of decline – in the first half of 2018 exports grew by 57% to USD 1 billion, mainly owing to chemicals and oil distillates. Exports to **India** also recovered, rising 19% year-over-year to USD 550 million. In 2017, exports to **Japan** grew by 11% to USD 780 million – a six-year high in exports to the country. In the first half of 2018, the upward trend accelerated with a sharp 66% growth in exports.

**In other leading destinations:** substantial growth was recorded in exports to Germany (+13%), **Italy** (+34%), South Korea (+24%) and Brazil (+17%). On the other hand, exports fell to **France** (-25%) and to **Russia** (-25%).

**Exports of services**

Israel’s balance-of-payments in 2017 point to continued growth in **exports of services** – the growth engine of Israeli exports in the last few years. During these years the service sector grew by a relatively fast pace and amid the continued stagnation in goods exports, was the chief driver of export growth, or at the very least curbed the overall decline in exports.
The accelerated growth in services exports during these years was the main contributor to Israel’s positive trade balance and, coupled with the sharp decline in the imports of energy materials (since the start of production from Israel’s gas reserves) – was a major component in Israel’s current-account surplus.

In 2017, services exports grew by 13% to USD 44.7 billion, and in the first half of 2018 rose by a further 12% year-over-year. The increase in exports was mainly attributed to the accelerated increase in high-tech exports (in line with the trend of the past few years) and to the growth in tourism services.

The growth in services exports was largely thanks to the exports of high-tech services in line with the overall trend of the past few years. Total sales of the high-tech services sector in the first half of 2018 grew by 15% and amounted to USD 13 billion. During this period, the high-tech industry accounted for 56% of revenues from exports of the entire services industry – compared to 55% in 2017 and 47% in 2014.

This trend also reflects the growing contribution and significance of software and computer services, as Israel’s leading export sector.

In the first half of 2018 the accelerated growth in the exports of this sector continued with a 22% increase to a record USD 8.3 billion – after rising by 15% in 2017 to a total of USD 15 billion.

Exports of tourism services recorded an impressive 11% growth as did exports of transportation services, which grew by 15% after years of a downward trend.

Exports forecast for 2018

In 2017 there was a substantial recovery in global trade, following a continued stagnation over the last few years. During the year, the growth rate in global trade leaped from 2.2% only to 5.1%.

This trend is expected to continue in the next few years, albeit at moderate rates in comparison to 2017. Amid growing concerns over the expansion of the protectionist trade policy and the aggravating trade war, the growth forecasts published in July have been revised downward. For example, the IMF estimates that global trade will grow at a rate of 4.8% in 2018 and by 4.5% in 2019.
Global trade growth | growth forecasts revised downward
IMF, trade in goods and services, April 2018 compared to July 2018

At this stage we do not expect negative effects of the recent developments in global trade on Israeli exports. The continued rapid growth in the services sector in general and in high-tech services in particular, coupled with some recovery in the goods sector and stability in the dollar's exchange rate – will promote growth in Israeli exports in 2018.

Taking the exports of goods and services into account, we expect that total exports from Israel in 2018 will grow by 6% in dollar terms – and amount to USD 110 billion.
Developments and trends in Israeli exports

- Summary for the first half 2018-

Trends in Global Trade and Exports

2017 saw a significant recovery in the growth of global trade. At year-end 2017 and in contrast to the stagnation recorded over the past few years, global trade grew by 4.2%. This is especially impressive given the fact that one year earlier, at the end of 2016, the growth in global trade was 2.2% only – the lowest since the global credit crunch.

Naturally, Israeli exports are highly affected by the global environment. The trend of recovery in global trade is expected to continue in 2018 with additional growth in global demand for goods and services – this positive trend, together with the continued appreciation in the US dollar, will provide tailwind to Israeli exports. According to the IMF’s recently published World Economic Outlook\(^2\), global trade in goods and services is expected to grow by 4.8% in 2018 and by 4.5% in 2019. The global trade forecasts have been slightly downward revised from the previous outlook in April, amid concerns by the IMF’s economists about the repercussions of the trade war.

We expect that Israeli growth will grow by a slightly higher rate than global trade – 6% overall in 2018 – on the back of the recovery in industrial exports and the continued accelerated growth in services (a more elaborate review of the economic unit’s forecast is brought at the end of this report). The changes and fluctuations in the dollar’s rate, which is the main functional currency in export transactions, have great impact on the growth in Israeli exports – the positive effect of the dollar’s appreciation vis-à-vis the NIS in 2018 will continue to support export growth.

Exports of Goods and Services

According to the economic unit’s estimates, which are based on balance-of-payment calculations\(^3\), indicate that in the first half of 2018 Israeli exports of goods and services increased by 8.5% in dollar terms compared to the corresponding period in 2017 to a total of USD 54.6 billion\(^4\).

\(^2\) World Economic Outlook Update, July 2018
\(^3\) Including foreign trade data, an analysis of the services exports data and adjustments of foreign trade data to the balance of payment.
\(^4\) Including foreign trade data adjustments and exports to the Palestinian Authority; Foreign trade adjustments include continuing projects, goods that had not yet left Israeli ports and sales made directly by subcontractors working for Israeli companies, and in this analysis also include exports to the Palestinian Authority.
According to an analysis of export components, in the first half of 2018 exports of goods rose by 6% in dollar terms to a total of USD 31.1 billion, mainly owing to the growth in industrial exports and affected by exports of electronic components\(^5\). In line with the trend of the last few years, the accelerated growth in exports of services continued, and it remains the main driver of growth in Israeli exports and in the overall economy. In the first half of 2018, services exports rose by a further 12% to a record $23.5 billion. The growth in exports is attributable to the accelerated increase in the exports of high-tech services as well as exports of tourism services.

**Exports of goods and services: 2010-2017**

Original data, billions of dollars; annual rate of change (year-over-year)

**Export of Services - the main growth engine in recent years**

Data analysis: Economic Unit, IEICI

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\(^5\) With regard to export of electronic components, it is noted that according to the nature of production in this industry, sometimes the value of exports included in the calculation of foreign trade data differs from the value of export revenues that are included in the balance-of-payments current account. Accordingly, in 2018 components exports based on foreign trade data could be significantly higher than the value of exports in the balance of payments.
Exports of Goods

Industry, diamonds and agriculture

Consistent with the upward trend in the global arena and following a slight recovery in 2017, in the first half of 2018, exports of goods rose by 6% compared to the corresponding period in 2017, totaling USD 31.1 billion⁶. Exports of goods excluding diamonds rose 7.5% to USD 27.4 billion.

Industrial exports, which accounts for 85% of total goods exports, increased by 8% during the reported period and totaled USD 26.6 billion. Exports of diamonds (crude and refined diamonds) declined by 4% to USD 3.8 billion (13% of total goods exports).

In 2017 agricultural exports totaled USD 1.2 billion, pointing to a slight recovery compared to the negative trend of the last few years (up 3.5% from 2016 and 2% from 2015). As we pointed out in our report on export trends in 2017, despite the growth in agricultural exports, it remained well below its levels in 2010-2014 and it is too soon to point out a favorable trend in this sector. Data for the first half of 2018 support our analysis: during this period agricultural exports totaled USD 725 million – down 5% from its level in the corresponding period of 2017.

Agricultural Exports | first two quarters of 2014-2017

Agriculture, forestry and fishing (CBS), original data, billions of dollars

Data analysis: Economic Unit, IEICI

⁶ Exports of goods based on the balance-of-payments (including adjustments of foreign trade data and exports to the Palestinian Authority).
Industrial exports

The first half of 2018 recorded a growth in industrial exports in dollar terms. In contrast to the trend in 2017, this increase is not attributed to the growth in exports of major industries, which changed only slightly from their level in the first half of 2017.

The increase in industrial exports during the reported period was due to the impressive growth in the exports of other sectors – which grew by an aggregate 9% year-over-year.

Exports of dominant sectors recorded a mixed trend and were highly volatile. Exports of pharmaceutical, which grew by 9% in 2017 (to a record USD 7.5 billion), fell by a sharp 21% in the first half of 2018 compared to the same period in 2017 (from USD 3.6 billion to USD 2.9 billion).

Exports of electronic components, which dropped by 19% in 2017 (mainly due to the upgrade of production lines in Intel's plants), rose sharply by 55% y-o-y to USD 2.7 billion.

Exports of aircraft, a highly concentrated and dominant industry, which is subject to great volatility from one period to the next due to the nature of the transactions and contracts signed in this industry, fell in the first half of 2018 by 44% to USD 1 billion, after rising 18% in 2017 to a record level of USD 3.2 billion.

In line with the upward trend in energy prices, the growth in revenues from exports of chemicals and oil distillates continued (as our earlier forecasts predicted). Total exports of chemicals and oil distillates which rose by 13% in 2017 (totaling USD 8.6 billion) recorded an impressive increase of 15% in the first half of 2018, to a total of USD 4.5 billion.

Global oil prices which at the start of 2016 fell to a 12-year low (USD 30.7 per barrel – average price in January) recorded an impressive recovery in 2016 and 2017 to a price of USD 64.4 per barrel in December 2016. In the first half of 2018, the rise in oil prices continued until it peaked in May – USD 77 per barrel, a 3.5-year record. Overall, the average price of an oil barrel in the first half of 2018 was USD 70.7 – 37% higher than its average price in the first half of 2017 and 78% above its average price in the first half of 2016.

The increase in energy prices is reflected in higher revenues from exports of chemicals and oil distillates – alongside the growth in refining margins and the increase in demand for petroleum products.

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7 The analysis of trends in industrial exports which is presented in this chapter, as well as the analysis of export trends by trade regions and major export markets in the following chapters – are based on foreign trade data and do not include adjustments to the balance of payments and exports to the Palestinian Authority.

8 The dominant export industries are highly concentrated – a small number of companies that export in large quantities and include pharmaceuticals, aircraft and electronic components.

9 With regard to export of electronic components, it is noted that according to the nature of production in this industry, sometimes the value of exports included in the calculation of foreign trade data differs from the value of export revenues that are included in the balance-of-payments current account. Accordingly, in 2018 components exports based on foreign trade data could be significantly higher than the value of exports in the balance of payments.
The "Ural-Bloomberg" refining margin remained high at USD 5.7 on average in the first half of 2018. Due to record energy consumption, demand for oil and fuel distillates, mainly gasoline, fuel oil and diesel oil rose sharply. The dollar's appreciation vis-à-vis the NIS also supported the growth in the sector's revenues and profitability\(^\text{10}\).

### Oil barrel price versus chemical exports | 2014-2018

![Graph showing oil barrel price versus chemical exports from 2014 to 2018](image)

Data analysis: Economic Unit, IEICI  
Data source: EIA (Energy Information Administration)

Total exports of these dominant sectors, which are highly concentrated and volatile, remained virtually unchanged y-o-y and in the first half of 2018 amounted to USD 11.2 billion – 48% of total industrial exports.

\(^{10}\) According to the financial statements of Oil Refineries Ltd – second quarter of 2018.
Industrial exports | By major industries and other exports
Original data - quarterly; rates of change year-over-year Q1.2015 – Q2.2018

In 2016, the dominant sectors pulled industrial exports downward, but in 2017 the trend reversed. In the first half of 2018, these sectors once again impact the growth in industrial exports, which increased owing to the rise in exports of other sectors.

Data analysis: Economic Unit, IEICI

Exports of other industries (industrial exports excluding dominant sectors) saw a clear positive trend in the first half of 2018, with a sweeping growth in all the significant sectors. This trend, which began in the first quarter of 2016 (following a continuous decline in 2015) continued throughout 2017. In 2017 the growth rate moderated and even declined in the second and third quarters – however, since then we have seen a consistent improvement.

Aggregate exports in these sectors – which account for 52% of total industrial exports – grew by 9% in the first half of 2018 to a total of USD 12.2 billion.
**Exports of other Industries**

Exports of other industrial sectors (industrial exports excluding dominant sectors) overall recorded a steady improvement almost across the board, as follows:

Exports of **electronic, computer, optical and medical equipment** – the core index of high-tech exports, composed of the majority of industrial high-tech corporations – rose 9% from the first half of 2017 and totaled USD 4.5 billion; exports of **machinery and equipment** - which, among others, includes agro-technology machinery, alternative and clean energy, irrigation, food, printing and robotics – rose by 8% to USD 3 billion; exports of **rubber and plastic products** increased by 8% to USD 1.2 billion; exports of **oil distillates** soared 100% to USD 600 million; exports of **food and beverages** grew by 11% to USD 585 million; exports of **metals and metal products** increased by 19% to USD 370 million; and exports of **wood and paper products** rose 5% to USD 265 million.

In contrast to the overall favorable trend, exports of **electric equipment** (which, among others, includes electric and electronic equipment and system) fell 9% to USD 515 million, exports of **jewelry** fell 31% to USD 245 million while exports of **textile and apparel** remained unchanged at USD 425 million.

**Industrial exports | First half of 2018 vs. first half of 2017**

Original data; in billions of USD

Data analysis: Economic Unit, IEICI
Exports of Goods | by Geographic Regions

Exports in the first half of 2018 by regions | Goods excl. diamonds

An analysis of trends by geographic regions points to a sharp increase in Israeli exports of goods to Asia, following a double-digit decline in 2017. Exports to the EU countries, which saw an impressive growth in 2017, remained virtually unchanged in the first half of 2018 year-over-year. Exports to the US recorded a double-digit decline, further to the downturn trend in 2017. Bear in mind that the development of exports by geographic regions is highly correlated to exports by industries. For example, the negative trend posted in the first half of 2018 in pharmaceutical exports had a significant impact on exports to high-demand regions, particularly the European Union and the US - major destinations for these exports. Likewise, the sharp growth in exports of electronic components is the main contributory factor to the steep growth in Israeli exports to Asia compared to the first half of 2017.

Exports to main geographic regions | 2002-2017; h1.2017-18
Exports in billions of USD, excluding diamonds

Data analysis: Economic Unit, IEICI
The European Union

The positive trend in exports to EU countries, which began in the fourth quarter of 2016, continued throughout 2017 – overall in 2017 exports rose by 20% year-over-year. During the first half of 2018, exports to the EU remained high and totaled USD 8.1 billion, 33% of total exports.

Note that the changes in the Euro-dollar exchange rate have a partial impact on exports to the EU, which are denominated in the US dollars. Despite the recent depreciation in the Euro vis-à-vis the USD (in Q2 the Euro's average rate fell by 3%), in the first half of 2018, on average, the Euro rose by 12% versus the US dollar. The dollar-denominated exports to EU countries rose by 2%, but a weighted average of both exports and currencies offsets this increase, resulting in a slight 2% decline. This decline is insignificant, particularly given the record highs of Israeli exports to the EU in 2017.

An industry-based analysis shows that the sharp decline in exports of pharmaceuticals, which account for one quarter of total goods exported to the EU, had a significant impact on these exports. Aircraft exports were another negative contributory factor. These unfavorable effects were offset by the sharp increase in exports of chemicals, telecom, medical equipment and agricultural produce.

An analysis by countries indicates that exports to Britain, Israel’s main export market in Europe and its second biggest market in the world, had a direct and significant impact. Exports to the UK fell by 12% due to the volatility in pharmaceutical exports. Exports to France also declined (25%), after rising steeply in 2017. On the other hand, exports increased to other significant destinations: the Netherlands (+5%), Germany (+13%), Italy (+34%), Spain (+8%) and Cyprus (+103%).

US

Following several years of a gradual and steady increase in exports to the US, in 2017 exports to the US fell slightly by 2% y-o-y. This downturn trend continued and even aggravated in the first half of 2018 – as exports to the country dropped by 11%

11 Bear in mind that the US dollar is the dominant currency in export transactions; according to CBS data, 86% of total transactions in goods (excl. diamonds) are carried out in USD. Only 11% of total export transactions are in Euro, while exports to the EU account for 33% of total exports.
12 As stated, this is a dominant and highly concentrated industry, which is subject to great volatility from one period to the next due to the nature of the transactions and contracts signed with respect to aircraft.
13 Pharmaceuticals are a dominant component in exports to the UK, having a marked impact on total exports – additional information is provided in the chapter "Israel’s major export destinations".
14 The usual increase in 2017 is mostly attributed to a sharp growth in aircraft exports, following the completion of a transaction.
15 In 2014-2016 exports to the US grew after several years of continued decline – additional information is brought in this report below.
This downturn is mainly contributable to the **sharp and continued decrease in pharmaceutical exports** – while the majority of industrial export increased from the corresponding period of 2017.

**Exports to the US in the first half of 2018 amounted to USD 5.3 billion – 22% of Israeli goods exports, below the weight of exports to the US in the first half of 2017 – 25%, and below the weight of Israeli exports to Asia. Note, however, that these are exports of goods only (excluding diamonds). If we count in services, however, the weight of the United States in Israeli exports increases considerably**.\(^\text{16}\)

**Asia**

The negative trend in exports to Asia in the last two years reversed in the first half of 2018. Total exports to the continent grew steeply by 13% y-o-y and amounted to USD 5.6 billion.

As a result, Asia’s weight in Israeli exports grew considerably and at mid-2018 accounts for 23% of total exports. Asia’s share in exports in 2018 is the highest recorded since 2015 – when this share reached an all-time-high (24%) and in line with general trend, also exceeded the US' share in exports.

The main reason for the sharp increase in exports to Asia in 2018 is mainly attributable to the considerable growth in exports of electronic components (for the reasons specified above), a highly dominant industry which accounts for one quarter of total goods exported to the continent. These exports were also positively affected by other related electronic industries (industrial control equipment and machinery).

Consistent with the overall positive trend, exports to **China** grew by 75% from the same period in 2017 and was naturally affected by a **steep and unusual growth** in exports of electronic components (in line with the general negative trend). Excluding the unusual impact of electronic components on exports to China, other industrial exports increased nevertheless - a **trend evident across the majority of industries exporting to China**. Bottom line, in view of the continued decline in exports to Asia, **China's weight increased in the first six months of 2018 and at mid-2018 accounts for half(!) of total goods exported to Asia** (49.4% compared to 37.5% in 2017, 32.1% in 2016 and 16.3% only in 2008)\(^\text{17}\).

Exports to **India**, which fell by 13% in 2017, recorded a handsome 19% growth in the first half of 2018 compared to corresponding period in 2017. So did exports to Japan, which grew 9% in 2017 and soared 66% in the reported period.

\(^\text{16}\) Without adding its critical share in the amount of capital raised in Israel, which is estimated at billions of USD annually (46% in 2017).

\(^\text{17}\) With the addition of exports to Hong Kong, exports to China rose to 54% of total exports to Asia.
Another major destination in Asia is South Korea, with a 54% increase in exports in 2017 and a further 25% increase in the first half of 2018. The marked increase in exports to Japan and South Korea is attributable to the sharp growth in exports of industrial control and measurement instruments, which mainly consists of process control equipment for the electronics equipment.

In addition to the above, notable increases were recorded in exports to Singapore (+25%), the Philippines (+17%), Vietnam (+20%). In contrast to the generally favorable trend, there was a decrease in exports to Hong Kong (-16%), Taiwan (-46%) and Indonesia (-82%).

**Latin America**

**Further to the 7% growth in 2017, in the first half of 2018 exports to Latin America rose by 9% and totaled USD 990 million (4% of total exports).**

Exports to Latin America were mainly affected by the sharp increase in exports to Brazil - Israel’s biggest export market in South America, which increased by 17% y-o-y in the first half of 2018 (and by 22% in 2017 following several years of contraction). Brazil – the strongest economy in Latin America – continued to recover from a severe economic and political crisis, during which inflation soared and the local currency recorded a sharp depreciation. This, together with the economic slowdown, significantly hurt Brazilian demand for imported goods. In 2017 Brazil’s imports of goods and services rose 5% (following two years of a double-digit decline), while in 2018, amid slowing inflation and growing demand for foreign goods, imports are expected to post a real growth rate of 5%.

In line with the positive trend in Latin America, exports to Argentina grew by 36% while exports to Mexico remained virtually unchanged from the first half of 2017.

**Sub-Saharan Africa**

During 2017, exports to Sub-Saharan Africa rose by 5%, after posting a continued decline over the previous years. In the first half of 2018, exports to the regions totaled USD 340 million – up 2% y-o-y. Exports to the Sub-Saharan account for 1.4% of total exports.\(^{19}\)

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18 Israeli exports to this region have been characterized by a strong negative trend; in fact, since 2012 there has been a steady decline in exports to Africa.

19 It is noted that part of the exports to African countries is considered as "exports to unclassified countries" and is not included in this analysis.
Exports by main trading regions | h1.2017-18

Exports in billions of USD, excluding diamonds

- U.S: 5.9 (H1.2017), 5.2 (H1.2018)
- Asia: 4.3 (H1.2017), 5.6 (H1.2018)
- Unclassified Countries: 2.0 (H1.2017), 1.5 (H1.2018)
- Rest of Europe: 1.4 (H1.2017), 1.7 (H1.2018)
- Latin America: 0.9 (H1.2017), 1.0 (H1.2018)
- Africa: 0.4 (H1.2017), 0.4 (H1.2018)
- Rest of World: 0.6 (H1.2017), 0.8 (H1.2018)

Data analysis: Economic Unit, IEICI

Exports by main trading regions | h1.2018

Weight in % of total goods export, excluding diamonds

- European Union: 33%
- U.S: 22%
- Asia: 23%
- Unclassified Countries: 6%
- Rest of Europe: 7%
- Latin America: 4%
- Africa: 2%
- Rest of World: 3%

Data analysis: Economic Unit, IEICI
Developments and changes in Israel’s key export markets
Analysis of export trends by geographic regions | exports of goods excluding diamonds

Exports to the ten biggest target markets in the first half of 2018 accounted for 64% of total exports (compared to 62% of total exports in 2017 and 60% in 2016). There was an increase in exports to 7 of the 10 major destinations as compared to the first half of 2017 – of which 6 recorded a double-digit growth. Of the 20 key export markets, which account for 80% of total exports (compared to 78% in 2017 and 74% in 2016), exports declined to 6 destinations. Of the 20 destinations, 12 recorded a double-digit increase in Israeli exports and 8 posted an increase above 20%.

The changes and fluctuations in major export industries determined the ranking of Israel’s leading export markets in 2017. For example, the pharmaceutical industry had a significantly negative impact on exports to the US and European countries. The sharp increase in exports of electronic components had a positive impact on exports to different countries in Asia, and chemical exports had a positive effect on sales to Turkey – where this sector is a major component of total exports.

Israel’s main export markets | first half of 2018
Exports of goods excluding diamonds, in billions of dollars, change in % YoY

<table>
<thead>
<tr>
<th>Country</th>
<th>Exports</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>5.2</td>
<td>-11%</td>
</tr>
<tr>
<td>China</td>
<td>2.8</td>
<td>+75%</td>
</tr>
<tr>
<td>U.K.</td>
<td>1.9</td>
<td>-12%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1.2</td>
<td>+5%</td>
</tr>
<tr>
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<tr>
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<tr>
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Data analysis: Economic Unit, IEICI
Israel's 20 top export destinations | first half of 2018
Based on exports of goods excluding diamonds, in billions of dollars, change in % y-o-y

<table>
<thead>
<tr>
<th>Rating in H1.2018</th>
<th>Country</th>
<th>H1/2018 exports (B, USD)</th>
<th>% change</th>
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The weight of countries in exports | h1.2018
In percent of total exports of goods excluding diamonds

Source: Economic Unit, IEICI

First half of 2018, summary report | page 21
Trends in exports to U.S

The US is Israel’s biggest and most important export market. Over the last few years, average exports (goods only, excluding diamonds and services) amounted to USD 11.1 billion annually\(^2\) – which is equal to total exports to the UK, China, the Netherlands and Turkey (the four biggest export targets, after the US).

A long-term analysis of exports to the US in the last two decades points to two major trends: during the first decade, between the dot.com crises to the global credit crunch, there was a sharp increase in exports to the US, mainly between 2002 and 2008. During these years, exports grew by a cumulative rate of 100% with an average 12% growth rate per year.

Over the last decade, however, from 2008, the year of the global credit crunch and until now, exports to the US have been stagnant. In fact, during the last 10 years, exports remained on an average level of USD 11.2 billion. Since 2008 and until 2017, exports declined by a cumulative rate of 3% and by 0.5% annually.

The reason for these changes is mainly attributable to the high volatility of dominant industries: pharmaceuticals, electronic components and chemicals. Their impact and centrality in overall exports is naturally reflected (not only by primarily) in exports to a major market like the US, and also explains the changes in exports during the reported period. The sharp increase in exports to the US in the first decade was driven by accelerated exports of pharmaceuticals and electronic components. The rapid increase in demand and in the prices of goods, also contributed to the rapid growth in revenues from overseas sales of chemicals and minerals. Accordingly, the developments and fluctuations in exports of the dominant industries during the last decade (2008-2017), had a substantial impact on exports to the country.

\(^2\) Average in the years 2014-2017
However, even during the years of rapid growth in exports to the US, their weight in total exports remained unchanged at 29% on average, while the weight of exports to Asia, for example, grew steadily and consistently from one year to the next. Moreover, over the last decade there was a clear contraction in the US' share in exports which, as of year-end 2017 was 24% only\(^\text{21}\).

Export developments in the first half of 2018 continued the trend of the last few years, which peaked in 2018. In view of the continued decline in exports to the US and the sharp increase in exports to Asia, the weight of Israeli exports to Asia is 23%, higher than the weight of exports to the US, which is currently 21.6% only. The weight of exports to the EU remained stable and high at 33%.

Exports to **China**, which grew at an accelerated rate during the last 10 years, is the main contributory factor to the rising weight of Asia in total exports – this trend was supported this year by sharp double-digit growth in exports to other countries in Asia, such as **Japan** (+66%), **South Korea** (+24%) and **India** (+19%). There is no doubt that the expansion in exports to China this year is exceptional, mainly due to exports of electronic components. However, bear in mind that the growth in exports to China has been recorded by all export sectors, and that its share and significance in Israeli exports has been rising steadily during the period. As of mid-2018, China is the second biggest destination for Israeli exports worldwide.

The decline in US' share in overall exports and the rise in the weight of other markets point to the trend of the last few years: exports are more geographically decentralized. The calculation of exports to different destinations as a percentage of total exports to the US is clearly indicative of this trend: exports to China, for example, which accounted for 8.7% only of exports to the US in 2007, grew steadily over the years and as of year-end 2017 accounted for 28%\(^\text{22}\). Exports to the UK accounted for 16.3% of exports to the US in 2007 and grew dramatically to 43% in 2017. Bear in mind that the dominant industries are responsible for this trend and while exports are more decentralized geographically – they remain highly centralized as industrial sectors.

\(^{21}\) Average in the years 2014-2017

\(^{22}\) In the first half of 2018, this rate rose to 52% following the sharp increase in exports to China
Export to leading destinations compare to the US | % Share of export to US (US=100%), 2007-2018

Source: Economic Unit, IEICI

Export to leading destinations compare to the US | % Share of export to US (US=100%), 2007-2018

Source: Economic Unit, IEICI
Analysis of exports to Israel's key destinations
Developments and trends to export market by industries | goods excluding diamonds

United State
The trend of recovery in exports to the US during the years 2014-2016, was curbed in 2017. This negative trend continued and even aggravated during the first half of 2018 – with an 11% decline in exports to the US.

This decline, however, should be qualified, since exports of pharmaceuticals, which posted a sharp double-digit decline, have a crucial impact. Other major industries posted an increase in exports from the first half of 2017.

The development of exports to the US | a gradual recovery followed by a downward decline
Exports of goods excluding diamonds, in billions of USD

![Graph showing export trends from 2011 to H1.2018](image)

Source: Economic Unit, IEICI

As stated, pharmaceutical exports have a crucial weight in the composition of exports to the US and account for one quarter of total goods exported to the US\(^\text{23}\). Pharmaceutical exports fell sharply by 37% y-o-y to USD 935 million (compared to exports of USD 1.5 billion in the first half of 2017).

It is noted that pharmaceuticals are a dominant industry in exports to the US (and overall in Israeli exports), but also highly volatile. These exports are greatly affected by Teva’s production and export activities.

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\(^{23}\) Goods excluding diamonds based on average exports in the period 2014-2017
Development of exports to the US | Exc. of pharmaceuticals
Exports of goods excluding diamonds, in billions of USD

![Bar chart showing export of pharmaceuticals and export to US excluding pharmaceuticals from 2016 to H1 2018]

Source: Economic Unit, IEICI

In addition to pharmaceuticals, a downward trend was recorded by other high-tech related industries – exports of electronic components dropped by 25% to USD 450 million and exports of aircraft fell by 38% to USD 60 million.

In contrast, exports of medical equipment to the US continued to grow at an accelerated pace after posting an increase in 2017 for the fourth consecutive year. In the first half of 2018, exports of medical equipment rose 4% y-o-y to USD 375 million. Exports of electronic and optical equipment\(^{24}\) rose 11% to USD 425 million, exports of telecommunication equipment increased by 5 % to USD 275 million and exports of computer and printing system increased by 24% to USD 250 million.

**Total exports of high-tech products to the US in the first half of 2018 came at USD 2.8 billion, down 18% y-o-y.**

**The US' weight in total exports of high-tech products at mid-2018 was 24%, down from 29%\(^{25}\) in mid-2017.**

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\(^{24}\) Among others, includes advances equipment for measurement and control of production processes – mainly for the electronics industry.

\(^{25}\) Similar to the rate at year-end 2017 (29% of total high-tech exports).
**Exports of hi-tech products to the US** | **Decline in exports of pharmaceuticals, electronic components and aircraft**

H1.2018 vs. h1. 2017, in billions of USD

![Bar chart showing exports of hi-tech products to the US](chart.png)

Source: Economic Unit, IEICI

**Exports of other industries to the US point to a general favorable trend.** Among the major export industries, exports of **chemicals** soared 35% to USD 675 million, exports of **machinery and equipment** rose 7% to $425 million, exports of **rubber and plastic products** rose 7% to $335 million, exports of **engines and electric equipment** rose 12% to USD 165 million and exports of **jewelry** increased by 3% to USD 140 million and exports of **food and beverages** rose 9% to USD 130 million.

On the other hand, exports of **metals** fell 8% to $1.1 billion, exports of **textiles and apparel** fell 8% to USD 150 million and exports of mining and mineral products fell 6% and amounted to USD 125 million.

**China**

In 2017 exports to China remained unchanged, despite the decrease in exports of electronic components and the overall negative trend in exports to Asia’s markets during 2017. **In the first half of 2018, there was a steep and irregular increase in exports of components – this was the main contributory factor to the 80% leap in exports to China compared with the first half of 2017, which amounted to a record USD 2.8 billion – in comparison, in the whole of 2017 exports to China totaled USD 3.2 billion.**

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26 Mainly advanced metal products.
Other key industries posted an increase in exports as well – exports to China excluding electronic components grew by 25% - in line with the trend in 2017.

In line with the clear trend of the past few years, and in particular the steep growth in exports to Asia in 2017, China’s share of exports to the continent continued to grow and by mid-2018 accounted for a record 50% of total goods exported to Asia (compared to 37.5% in 2017, 32% in 2016 and 27.5% in 2015). As we can see, China’s weight over the past decade increased considerably, while India’s share in total exports to Asia has been declining. It should also be noted that exports to China as a percentage of total exports is consistent with its growing weight in regional exports: from 2.4% in 2007 to 7% in 2017 and a record weight of 11.3% in mid-2018.

As stated, the sharp growth in exports of electronic components had a significant impact on exports in the first half of 2018. During the reported period, exports of electronic components soared by 135% to more than USD 1.8 billion – this is an unusually high figure.

Breakdown of Israeli exports to China | countries' share of exports
Weight of exports to major destinations in total exports to Asia, 2007-2018

Source: Economic Unit, IEICI

27 Together with Hong Kong, exports to China rose to 54% of total goods exported to Asia.
28 In comparison, the amount of component exports to China in mid-2018 was equal to total exports to the UK during the same period. In 2017 exports to Germany (one of the biggest export destinations) amounted to USD 1.6 billion.
Electronic components are Israel’s main industrial exports to China and are largely dominated by Intel. As stated, total exports of components in the first half of 2018 amounted to USD 1.8 billion, and accounts for 65% of Israeli exports to China.

**Trends in exports to China | Exports of electronic components and other export industries**

Exports in billions of dollars, h1.2015-2018

Another major industry exporting to China is **Industrial control and measurement instruments**, which consists of equipment for controlling production process in the electronics industry. This is an important sector in Israeli exports to China, and has been growing rapidly in the past few years. In the first half of 2018, exports of control and measurement instruments posted a 60% increase and totalled USD 210 million – 7.5% of total exports, after growing by 28% in 2017 to USD 275 million. Overall, in the period 2014-2017, this industry saw exports grow by a cumulative 140%, an average growth rate of 34% per year.

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29 Global Intel holds assembly and testing facilities in several locations in Asia (mainly in China, Vietnam and Malaysia) to where the chips manufactured in the company’s plants in Israel are sent.

30 Goods excluding diamonds and services
Consistent with the upward trend in chemicals exports (for the reasons listed above), in the first half of 2018 chemicals exports to China grew by 18% and totaled USD 165 million (6% of total exports to China). Exports of medical instruments, another major industry, grew by 22% from the first half of 2017 and totaled USD 140 million, 5% of total exports to China in the reported period.

Other sectors also saw a clear favorable trend in the first half of 2018: exports of machinery and equipment rose 11% to USD 120 million, exports of metals and metal products increased by 13% to USD 65 million, exports of minerals increased by 30% to USD 50 million, exports of rubber and plastic products grew by 53% to USD 35 million and exports of food and beverages rose by 32% to USD 32 million. Exports of telecommunication equipment remained unchanged from the corresponding period of 2017 and totaled USD 35 million.

**Main export industries to China | Excl. electronic components**

Exports in millions of dollars, h1.2017/2018

Source: Economic Unit, IEICI
Britain
In the first half of 2018, exports to Britain, Israel’s biggest market in Europe and third in the world (after the US and China), fell by 12% y-o-y and totaled USD 1.9 billion.

Consistent with the trend of exports to the UK over the past few years, in the first half of 2018 the volatility in exports is attributable to pharmaceuticals. This industry has become a crucial component in exports to the UK and as of year-end 2017 accounts for approx. 74%(!) of total exports to the country. As with the US, exports to the UK are affected by the dominance of the pharmaceutical industry, which is mainly driven by Teva’s operations in the British Isle, a key market for the company. The sharp and rapid increase in pharmaceutical exports to the UK over the past few years has established Britain’s position as Israel’s second export market globally\(^{31}\) and its biggest export destination among European countries.

Trends in exports to Britain | Exports of pharmaceuticals vs. other export industries
Exports in millions of dollars, 2007-2017

As the graph shows, in the years 2010-2017 Israeli exports to the UK more than doubled (X 2.5); from USD 2 billion in 2010 to approx. USD 5 billion in 2017. During that period,

\(^{31}\) Based on the calculation of annual exports in the last few years; In the first half of 2018, exports to China exceeded exports to the UK which currently ranks as Israel’s third biggest market in the world.
pharmaceutical exports soared by a cumulative rate of 320% from USD 870 million in 2010 to USD 3.66 billion in 2017) and was the biggest contributory factor to the sharp increase in exports. Nevertheless, while pharmaceutical exports grew considerably, exports of other sectors remained almost unchanged: when we neutralize the effect of pharmaceuticals, it appears that in the last 10 years exports to the UK remained stagnant at an average level of USD 1.25 billion. Moreover, during the last three years there was further deceleration in the growth rate and exports to the UK fell below average.

In the first half of 2018 the downward trend continued, while in contrast to the last few years, there was a decrease in pharmaceutical exports to Britain (consistent with the overall trend in the industry). Total pharmaceutical exports during the reported period fell by 16% from USD 1.5 billion to USD 1.2 billion, while exports excluding pharmaceuticals posted a 12% decrease (from USD 680 million to USD 600 million). Amid the general negative trend in exports to the UK, pharmaceuticals continue to be a dominant industry and its weight in total exports remains virtually unchanged (68% of exports in mid-2018 compared to 69% in mid-2017).

**Exports to Britain** | Exports of pharmaceuticals vs. other export industries
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Exports in millions of USD, 2014-2017, h1.2017/2018

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<td>H1.2018</td>
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Source: Economic Unit, IEICI

As stated, there was a negative trend in exports of other industries to the UK: exports of chemicals and oil distillates fell by 27% to USD 115 million, agricultural exports declined by
6% to USD 70 million, exports of telecommunication equipment fell by 29% to USD 33 million, exports of aircraft declined by 11% to USD 25 million, exports of machinery and equipment declined by 2% to USD 24 million, exports of industrial control and measurement instruments decreased by 39% to USD 19 million and exports of computer systems fell by 11% to USD 16 million.

Industrial exports that posted an increase were: rubber and plastic products (grew by 22% to USD 85 million), exports of metal products (rose by 7% to USD 60 million), exports of textile and apparel (rose by 16% to USD 30 million) and exports of medical equipment (increased by 18% to USD 20 million).

**Netherlands**

Total exports to the Netherlands in the first half of 2018 came to USD 1.2 billion, up 5% from the corresponding period of 2017 (further to a 7% growth in 2017). Like many countries in the region, exports to the Netherlands were affected by the fluctuations in the dominant industries: pharmaceuticals and chemicals, which account for close to half of total exports to the country. Exports of chemicals and oil distillates, which account for 23% of total exports to the Netherlands, fell by 2% to USD 270 million (in contrast to the upward trend in this industry during the reported period). Exports of pharmaceuticals saw the continuation of the downward trend of the last few years (-16%, -12% and -15% in 2015, 2016 and 2017, respectively32). In the first half of 2018, pharmaceutical exports declined by a further 20% to USD 170 million.

Exports of machinery and equipment, also a dominant industry in exports to the Netherlands which account for 18% of total exports, rose 6% in the first half of 2018 to USD 220 million.

In line with the general trend in exports to EU countries, in the first half of 2018 there was a general upward trend in industrial exports to the Netherlands: agricultural exports rose 2% to USD 100 million, exports of medical equipment rose sharply by 97% to USD 90 million, exports of foods and beverages soared by 67% to USD 55 million exports, exports of rubber and plastic products increased by 10% to USD 43 million, exports of telecommunication equipment increased by 20% to USD 40 million and exports of metal products rose sharply by 53% to USD 25 million. On the other hand, exports of mineral products fell by 14% to USD 33 million, exports of office machinery and computer systems fell by 23% to USD 30 million and exports of textile and apparel declined by 5% to USD 25 million.

Bear in mind that the Netherlands, which is a central intersection in global trade, often serves as a gateway for many export shipments which are not necessarily sold in the Netherlands markets, but rather transported to other European countries33.

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32 A cumulative decline of 38% in the years 2014-2017
33 It should be noted that many Israeli companies have parent companies, subsidiaries or affiliates in the Netherlands, and the country constitutes a gateway for Israeli companies to other European countries and to certain countries outside Europe.
Turkey
Following several years of continued downturn, in 2017 exports to Turkey picked up, rising 10% y-o-y to a total of USD 1.4 billion (similar to the value of exports in 2012). The trend of recovery continued in the first half of 2018: exports to Turkey rose sharply by 57% and totaled USD 1 billion.

The most dominant industry in Israel’s exports to Turkey is chemicals and oil distillates. The steep decline in exports to Turkey over the last few years was naturally part of the downward trend in the exports of this industry. Accordingly, the rise seen in 2017 and in the first half of 2018 in exports of chemicals and distillates accounts for the growth in total exports to Turkey – a key target market.

Trends in exports to Turkey | Exports of chemicals and distillates to Turkey vs. other industries
Exports in millions of USD, 2014-2017, h1.2017/2018

As stated, the recovery in exports to Turkey is mainly attributable to the growth in exports of chemicals and oil distillates. In the first half of 2018, total exports of chemicals and oil distillates soared 73% to a total of USD 780 million – 75% of total exports to Turkey.

In the first half of 2018, there was an overall upward trend in exports to Turkey: exports of metals rose 74% to USD 55 million, exports of engines and electrical equipment soared 96%.

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34 The bulk of these exports is recycled metals and scrap metal for recycling
to USD 50 million, exports of **machinery and equipment** rose by 20% to USD 35 million, exports of **mineral products** fell 34% to $30 million, **agricultural** exports rose by 24% to USD 15 million, exports of **rubber and plastic** increased by 33% to USD 13 million and exports of **paper and printing products** rose by 15% to USD 13 million and exports of **pharmaceuticals** fell 53% to $16 million. On the other hand, exports of **textiles and apparel** rose 26% to $30 million, and.

The unfolding economic crisis in Turkey and the sharp depreciation in the Turkish Lira have a clear negative impact on Turkey's demand for foreign goods in general and Israeli goods in particular. At the same time, the lion's share of export transactions are carried out in US dollars and the majority of contracts between Israeli companies and Turkish importers are denominated in US dollars. Accordingly, exports are not likely to be affected in the short term; looking forward, however, if the crisis develops into an economic downturn, this could hurt demand for imported goods.

**Turkish Lira Vs. the USD | Last 12 months**

*In the last 12 months, the Turkish Lira fell by more than 40% vis-à-vis the dollar.*

Source: Bloomberg
**Germany**

Exports to Germany in the first half of 2018 totaled USD 920 million – up 13% from the corresponding period in 2017, following an 11% increase in exports to the country in 2017 (to USD 1.6 billion). Germany is the 6th biggest market for Israeli exports in the world and the third in Europe.35 Exports to Germany are highly diverse, with no single dominant industry or company that has a marked impact on exports to the country.

An analysis of exports to Germany by industrial sectors points to a clear upward trend almost across key export industries: exports of chemicals and oil distillates – traditionally, the leading export industry to Germany – rose 5% from 2016 to $200 million (13% of total exports), exports of rubber and plastics increased by 8% to USD 85 million (9% of total exports), and exports of metal products rose by 8% to USD 75 million.

Likewise, exports of pharmaceuticals increased by 23% to USD million (in contrast to the general trend in the industry), exports of electronic components rose by 34% to USD 60 million, exports of telecommunication equipment increased by 26% to USD 52 million, exports of medical equipment increased by 30% to USD 45 million, exports of control, measurement and navigation instruments increased by 4% to USD 35 million, exports of textile and apparel rose by 11% to USD 30 million and aircraft exports soared 110% to USD 28 million.

On the other hand, exports of engines and electrical equipment decreased by 3% y-o-y to USD 40 million, exports office machinery and computer systems fell by 19% to USD 35 million and exports of agricultural produce fell by 19% to USD 28 million.

**France**

In the first half of 2018 exports to France fell by 25% compared to the same period in 2017 and amounted to USD 745 million. The exceptional decrease in exports is mainly attributable to the aircraft industry, following the completion of large-scale transaction (this transaction had a significant impact on Israeli exports to France in 2017, which posted a sharp 35% increase). Excluding this industry exports to France in the first half of 2018 posted a 6% growth rate, further to the 16% increase in 2017.

Israel mainly exports metal products, chemicals and agricultural produce to France, which together account for half of total exports to the country. In the first half of 2018, these industries recorded a mixed trend: exports of metal products increased by 19% to USD 205 million while exports of chemicals fell by 8% to USD 100 million and exports of agricultural produce fell by 11% to USD 80 million.

Other exports to France were consistent with the general positive trend of Israeli exports to the EU: exports of machinery and equipment rose by 19% to USD 75 million, exports of rubber and plastic products increased by 12% to USD 55 million, exports of food and beverages rose

35 Since Holland is a passageway for goods to other destinations around the world and that goods exported from Israel to Holland are not intended solely for this market, some consider Germany as the second most important exports market in Europe.
sharply by 73% to USD 50 million, exports of **medical equipment** grew by 17% to USD 30 million, and exports of **electronic components** increased by 53% from the first half of 2017 and totaled USD 15 million.

In contrast, exports of **telecommunication equipment** fell by 7% to USD 25 million, exports of **engines and electric equipment** decreased by 5% to USD 12 million and exports of **pharmaceuticals** fell sharply by 45% to USD 10 million only.

**India**
In the last few years, there has been a continued downturn in exports to India. This trend peaked in 2017 with a further 18% decline in exports (after dropping by 13% in 2016), to their lowest level since 2007.

**Exports to India | 2008-2017, h1.2017/18**
Exports excl. diamonds in billions of USD

Source: Economic Unit, IEICI
Exports to India are volatile and largely impacted by the volume of defense-related transactions, global commodity prices (mainly fertilizers and chemicals for agriculture) and domestic demand, which sometimes varies sharply from one year to the next. However, an analysis of Israeli exports to India as a percentage of Israeli exports to Asia and to the rest of the world, points to a continued negative trend – even during years of growth in exports to India.

For example, in the period 2008-2010, exports to India accounted for 20% of total exports to Asia and 3.5% of exports to the rest of the world (ROW). In the last three years (2015-2017), India’s share in Israeli exports to Asia fell to 11% only, while its share in Israeli exports to ROW fell to 2.5%.

However, India is still considered one of the most important markets for Israeli exports and is traditionally one of the 10 key export destinations. India currently ranks 8th among Israel’s target markets.

An analysis of Israeli exports to India points to several important trends over the past few years: the first is a steady decline in the exports of chemicals and minerals (volatile industries which are significantly affected by the size of transactions for the sale of chemicals and minerals, and which experienced a negative sentiment over the past few years). The second is the high volatility in the exports of defense-related industries, which stems from the nature of the business in the sector (a small number of high-value transactions) and their large weight in total exports which leads to high annual fluctuations. These industries, which are usually classified under exports of telecommunications equipment, metals, industrial equipment for control, optical equipment and photographic instruments, and control, measurement and navigation instruments – recorded substantial changes during the period in question.

The third trend characterizes other industries that are not included within minerals and chemicals or defense-related exports. These industries point to a trend of stability in exports in the last few years. Exports of machinery and equipment, for example, which consist of printing machines, robotics, irrigation and foods – maintained an average volume of USD 85 million in the years 2014-2017. The same applies to exports of electronic components and medical equipment, two major industries in exports to India, which had an average annual volume of USD 30 million.

In the first half of 2018 exports to India slightly recovered. Total exports to India during the reported period rose 19% y-o-y and totaled USD 550 million.

Consistent with this recovery, in the first half of 2018, most of the sectors exporting to India posted an increase: exports of telecommunications equipment rose sharply by 38% to USD 135 million; exports of chemicals and minerals rose by 13% to USD 90 million; exports of minerals increased by 19% to USD 75 million; exports of control, measurement and navigation instruments soared 400% to USD 60 million; exports of metals and metal

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36 The exports that arise from these transactions are recorded based on the method of progress of work in the project and thus tends to be more volatile than those recorded by other ordinary industries.
products rose by 28% to USD 42 million while exports of computer systems and equipment soared 255% in the first half of 2018 to USD 18 million.

On the other hand, machinery and equipment declined by 5% to USD 50 million; exports of industrial control equipment fell 30% to USD 21 million; exports of electronic components also fell by 30% to USD 20 million and exports of medical instruments declined by 7% to USD 15 million.

Japan
Last year (2017) exports to Japan grew by 11% and totaled USD 780 million – a six-year high in exports to the country. In 2018 the positive trend continued and intensified with a 66% increase in export volumes. Total exports to Japan in the first part of 2018 came to USD 615 million – higher than the annual exports recorded in 2010.

Exports to Japan | a gradual increase in the last 7 years, a sharp increase in 2018
Exports excl. diamonds in billion of dollars, 2010-2017 and first half 2018/2017

Source: Economic Unit, IEICI

37 The bulk of metal exports are intended for the upgrade of transportation vehicles and control systems
In the last few years Israeli exports to Japan began to pick up, expressed in the continued rise in Israeli exports to Japan as a percentage of total exports to Asia. As mid-2018, exports to Japan accounted for 11% of total exports to Asia – almost twice its weight in 2015. Accordingly, Japan’s share in total exports grew by approx. 1% - from 1.6% in 2015 to 2.5% in the first half of 2018.

Israel main exports to Japan include control, measurement and navigation instruments\(^{38}\), chemical products, metal products, medical instruments and food and beverages – together these account for more than 75% of total exports to Japan.

The sharp increase in exports to Japan was recorded across the board in every major export industry, which posted a double-digit growth compared with exports volumes in the first half of 2017. Exports of industrial control and measurement instruments (consists of equipment for production process control in the electronics industry) grew by 230% to USD 180 million; exports of metal products grew by 105% to USD 137 million; exports of chemicals increased by 16% y-o-y and totaled USD 65 million; exports of medical instruments increased by 10% to USD 50 million; exports of food and beverages grew by 18% to USD 42 million.

A positive trend was also recorded by other export industries, which posted sharp growth rates as compared to the first half of 2017. For example, exports of machinery and equipment rose by 60% to USD 32 million, exports of telecommunication equipment increased by 95% to USD 25 million, exports of electronic components rose by 46% to USD 17 million, exports of electric equipments and engines grew by 68% to USD 14 million, exports of computer systems and equipment rose by 5% to USD 14 million and exports of agricultural produce increased by 77% to USD 10 million.

Despite the sharp growth in exports to Japan and the positive trend witnessed by all export industries – bear in mind that Israeli exports to Japan are still below their level two decades ago. Average annual exports in the years 2010-2017 was USD 785 million\(^{39}\) – 14% below average annual exports in the 1990s, which amounted to USD 915 million. In the second half of the 1990s, Israeli exports to Japan averaged more than USD 1 billion annually. However, in comparison with the average exports in the period 2000-2009, which stood at USD 750 million, the volume of exports to Japan in the last 7 years has increased.

Compared with the relative stagnation in export growth, imports of goods from Japan have grown by a steady, accelerated pace in the last two decades, which widened Israel's trade deficit – up to a record USD 1.5 billion in 2016.

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\(^{38}\) This is part of the semiconductor industry, and affected by the changing demand for semiconductors. Most of the companies in this industry develop, produce and sell control and processing equipment and systems for the global semiconductor industry.

\(^{39}\) Including export of diamonds, although diamond exports to Japan is relatively negligible
Trade between Israel and Japan | imports are growing and trade deficit is widening
Exports incl. diamonds in billions of USD, 1990-2017

Source: Economic Unit, IEICI

**Italy**
In 2017 Israeli exports to Italy posted a 7% growth to USD 880 million – for the second consecutive year. In the first half of 2018 the positive trend continued with a double-digit growth rate (34%) in exports – compared to the corresponding period in 2017 – which increased to USD 550 million. If the current growth rate is maintained in the second half of 2018, exports to Italy will return to their level in 2013 – USD 1.1 billion.

Over the last decade, Israeli exports to Italy averaged USD 1.1 billion annually. Therefore, based on the current growth rate, these exports are likely to return to their average level (in 2017 exports were 20% below this level). For the sake of comparison, imports from Italy in 2017 totaled USD 2.76 billion, 7% above the average annual level over the past decade USD 2.6 billion in imports). In the first half of 2018, imports from Italy grew substantially (up 13% to more than USD 1.5 billion).

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40 After dropping in 2015 to its lowest level since 2010
**Trends in trade with Italy | a recovery in both exports and imports**

Exports excl. diamonds in billion of dollars, 2008-2017, first half of 2018 y-o-y

![Bar chart showing trends in exports to Italy from 2008 to H1.2018](chart.png)

Source: Economic Unit, IEICI

In line with the composition of exports to many countries in the Mediterranean Basin, exports to Italy are impacted by **chemicals and oil distillates**, a key export industry to the country, which usually accounts for half of total exports\(^\text{41}\). After dropping by 13% in 2016, in 2017 these exports remained virtually unchanged (USD 325 million). In the first half of 2018, exports of chemicals and oil distillates rose sharply by 70% to USD 300 million (55% of total exports during the reported period).

**Excluding exports of chemicals and oil distillates, exports to Italy grew by 5% y-o-y.** A mixed trend was recorded by key export industries: exports of **rubber and plastic products** increased by 16% to USD 48 million, exports of **machinery and equipment** remained unchanged at USD 42 million, exports of **metals and metal products** rose sharply by 56% to USD 27 million, exports of **agricultural produce** fell by 6% to USD 14 million, exports of **minerals** declined by 7% to USD 14 million, exports of **medical equipment** rose by 9% to USD 12 million, exports of **food and beverages** rose by 30% to USD 10 million and exports of **industrial control equipment** fell by 19% to USD 10 million.

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\(^{41}\) Its weight in average exports to Italy during 2014-2017 was 45%
Exports to Israel's 20 top exports markets
% change rate and volume of exports
Exports excl. diamonds in millions of USD, %change rate h1.2018 vs. h1.2017 – excl. the US

Source: Economic Unit, IEICI
Exports to Israel's 20 top exports markets

contribution to exports in dollar terms

Exports excl. diamonds in millions of USD, %change rate h1.2018 vs. h1.2017

Source: Economic Unit, IEICI
Exports of Services

In line with the trend of the past few years, in the first half of 2018 the accelerated growth in services exports continued. In light of the accelerated growth of this sector and especially given the slowdown in goods exports, services exports continued to be the main driver of expansion in Israeli exports. After growing by 13% in 2017 to a record USD 44.7 billion, in the first half of 2018 services exports grew by 12% y-o-y to USD 23.5 billion – and currently accounts for 43% of total Israeli exports. This increase is mainly attributable to exports of high-tech services, and to the continued recovery in exports of tourism services.

The accelerated growth in services exports over the last few years was the main contributor to Israel’s positive trade balance. However, unlike previous years, the rapid increase in goods imports has widened the trade account deficit which, in the first two quarter of 2018, amounted to USD 9.7 billion. While the continued growth in services exports led to a surplus in the services account of USD 8.9 billion, the overall trade balance has a deficit of USD 850 million and the current account surplus dropped considerably to USD 2.3 billion – down 52% from the current account surplus in the first half of 2017.

The surplus in services does not cover the deficit in goods | the trade balance and the current account surplus

Current account taken from the balance of payments, billions of dollars, seasonally adjusted

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42 In the first half of 2018 there was a sharp 23% growth in goods imports, to USD 40 billion. This is mainly attributable to accelerated imports of vehicles, energy materials and machineries for the manufacture of electronic components.
As stated, the growth in the exports of the services industry is mainly attributable to the exports of high-tech services, in line with the trend of the past few years. Total sales of hi-tech services in the first half of 2018 amounted to USD 13.1 billion – up 15% from the record level in the first half of 2017. The high-tech sector currently accounts for 56% of revenues from services exports – compared to 55% in 2017 and 47% of total services exports in 2014.

This trend is indicative of the rising importance and contribution of the software and computer services sector as Israel’s leading export industry. In the first half of 2018 the accelerated growth of these exports continued, with a 22% increase to a record USD 8.3 billion – after growing 15% in 2017 to a record USD 15 billion.

The same favorable trend was recorded by other sectors of high-tech services: exports of R&D services\(^{43}\) grew by 25% to USD 2.8 billion and total exports of services to the high-tech industry amounted to USD 1.3 billion, up 14% y-o-y. In contrast, exports of telecom services which totaled USD 230 million fell by 3% from the first half of 2017 and exports in respect of the sale of start-up companies are estimated at USD 0.5 billion – almost 50% below their level in 2017\(^{44}\).

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**Exports of High-tech Services | Breakdown by Components**
Original data, billions of dollars, 2013-2017 | h1.2017/2018

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Telecom services</td>
<td>0.57</td>
<td>0.51</td>
<td>0.54</td>
<td>0.47</td>
<td>0.48</td>
<td>0.5</td>
</tr>
<tr>
<td>services to high-tech industry</td>
<td>2.2</td>
<td>4.0</td>
<td>4.0</td>
<td>4.1</td>
<td>4.9</td>
<td>2.5</td>
</tr>
<tr>
<td>R&amp;D services</td>
<td>2.4</td>
<td>0.5</td>
<td>1.7</td>
<td>1.0</td>
<td>0.23</td>
<td>1.0</td>
</tr>
<tr>
<td>Computer and Software services</td>
<td>3.3</td>
<td>11.5</td>
<td>12.7</td>
<td>15.0</td>
<td>6.8</td>
<td>8.3</td>
</tr>
</tbody>
</table>

Source: Economic Unit, IEICI

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\(^{43}\) Consists of scientific research & development services only, including technological incubators and start-up companies. Excluding software R&D centers which is classified under "exports of computer and software services".

\(^{44}\) According to the CBS, sales of Israeli start-ups to foreign residents are recorded as export of services in the balance of payments if the sale includes the transfer abroad of intangible assets.
The first half of 2018 continued the impressive recovery in exports of other services sectors, which began in 2017 (services sectors which are not classified as high-tech services) – following a continued stagnation in these exports in previous years. Exports of professional services grew by 10% in the first half of 2018 to USD 1.6 billion (after rising 8% in 2017) and exports of financial services increased by 9% to USD 400 million (after rising 12% in 2017). Exports of services to industrial sectors\(^\text{45}\) totaled USD 390 million, unchanged from their level in the first half of 2017 (after rising 10% in 2017) while exports of wholesale commerce fell by 6% to USD 390 million after rising 8% in 2017.

The analysis further shows that the upward trend in exports of tourism services has gained momentum. Israel’s tourism industry, which in prior years suffered from weak demand and the shekel’s appreciation against the Euro and the Ruble (which significantly hurt tourism from Russia and EU countries), has been highly volatile with an average annual volume of USD 5.75 billion in the period 2013-2016. In 2017, however, exports of tourism services grew by an impressive 16% to USD 6.8 billion – 18% above their average level in 2013-2016. In the first half of 2018 the positive trend continued with an 11% increase in tourism exports to USD 3.6 billion (compared to USD 3.2 billion in the first half of 2017).

Consistent with the growth in global trade (as described in the opening section), in 2017, exports of transportation services increased for the first time in 4 years and posted a 15% increase to USD 4.1 billion. In the first half of 2018, these exports grew by 7% to more than USD 2 billion.

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\(^\text{45}\) Excluding exports of services to the high-tech industry
**Total High-tech Exports | Services and Industry**

Analysis of high-tech exports by sectors

Over the past few years, exports of high-tech services (computer, software and R&D services) as a percentage of total high-tech exports has been rising steadily compared to a continued decline in the weight of exports of high-tech industries (equipment, products and hardware). This trend has been evident during 2017 and more so in the first half of 2018; the accelerated growth in exports of high-tech services continued, reaching a value of USD 13 billion in the reported period – after growing to a record USD 23.7 billion in 2017 (51% of total high-tech exports). For the first time, these exports outpaced the exports of high-tech products, which totaled USD 22.8 billion in 2017 (49% of total high-tech exports).

As stated, in the first half of 2018 exports of high-tech services grew by 15% to USD 13 billion – 54% of total high-tech exports. Exports of high-tech products decreased by 1% from the first half of 2017 and totaled USD 11.3 billion – 46% of total high-tech exports.

**Trends in High-tech Exports**

Weight of exports of software, computer and R&D services compared to exports of products and hardware, 2013-2017

Source: Economic Unit, IEICI
In the first half of 2018, total exports of products and equipment, which comprise pharmaceuticals, electronic components, aircraft, telecommunication equipment, industrial control equipment and medical and scientific equipment, declined by 1% to USD 11.3 billion. The weight of these exports out of total high-tech exports declined to 46% from 49% in 2017, 56% in 2013 and 70% in 2010.

The accelerated growth in exports of high-tech services in the past few years, continued during the first half of 2018. Total exports of high-tech services during the reported period amounted to USD 11.3 billion – up 15% from the corresponding period in 2017. Accordingly, the weight of high-tech services in total high-tech exports rose to 54% - from 51% in 2017, 44% in 2013 and 30% only in 2010.

Exports of high-tech services primarily include computer and support services (IT, information integration, outsourcing, etc.), sale of software, sale of software licensing, sale of patents and knowhow, sale of start-ups' knowhow and services and R&D services to global companies.

As of mid-2018, the high-tech industry accounts for nearly half of total Israeli exports. Total exports of high-tech products and services rose 7% in the first half of 2018 to USD 24.5 billion. According to the economic unit’s estimates, high-tech exports accounts for 45% of total Israeli exports (goods and services), similar to its weight in the first half of 2017. In 2017, high-tech exports grew by 6% to USD 46.5 billion – 46% of total exports. In 2012, for example, the high-tech industry represented 37% of total exports (approx. USD 33.3 billion).

**Composition of High-tech Exports**

<table>
<thead>
<tr>
<th>high-tech industries: goods and services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weight of each industry in total high-tech exports, 2017</td>
</tr>
</tbody>
</table>

Source: Economic Unit, IEICI
The Exchange Rate

Changes in the exchange rate, particularly the dollar against the shekel, have a direct and significant impact on Israeli companies’ revenues from sales abroad. According to the Central Bureau of Statistics, 86% of export transactions are carried out in US dollar, 11% in Euro and 3% in other currencies.

Shekel – US dollar

Overall in 2017, the US dollar depreciated 10% vis-à-vis the shekel and at year-end its average rate was NIS 3.467.

In the first six months of 2018, the dollar gradually picked up, rising 5.3% against the shekel. However, its average rate during the period - NIS 3.52/$, is still 3.8% below its average rate in the first half of 2017 (NIS 3.66)\(^{46}\).

USD vs. ILS | since January 2017

\[\textbf{Data: Bank of Israel; processing and analysis: IEI economic unit}\]

\(^{46}\) During the months July-August, the US$ depreciated by 1% and at 31/8/2018 was NIS 3.60/$ – similar to its average rate in 2017, compared to its rate at June 30 - NIS 3.65/$.
Shekel – Euro

In the first quarter of 2017, the Euro’s rate declined to NIS 3.825 – its lowest level since December 2001. In the following three quarters the trend changed and in line with its global strengthening, the Euro increased vis-à-vis the shekel. At year-end 2017, the Euro closed at NIS 4.153 – 2.7% above its rate at January 2016. The Euro-shekel's average rate in 2017 was NIS 4.06 – 4.4% below its average rate in 2016.

In the first half of 2018 the Euro appreciated further – up 2.5% from January. The Euro’s average rate at mid-2018 was NIS 4.26/EUR, 7.4% above its average rate in the first half of 2017 (NIS 3.96) 47.

Euro vs. NIS | since January 2017

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Effective exchange rate (NIS/basket) index

Following the shekel's recent appreciation against the dollar, at the start of September 201848, the currency basket fell to 77.181 points – its lowest level ever vis-à-vis the shekel! The last time the currency basket hit a low point was July 2017 with 77.254 points; however, the recent rise in the Israeli currency pushed the effective currency basket to a new low.

47 During the months July-August, the Euro slightly depreciated against the shekel and at 31/8/2018 was NIS 4.212 EUR, down 1.3% from its average rate at June 30 - NIS 4.255/EUR.
48 September 5, 2018 – the nominal effective currency basket
At the end of 2017, the currency basket's average rate was 79.33 points – the lowest annual level since the Bank of Israel began measurements in 1999.

The Bank of Israel measures the development of the currency basket’s effective exchange rate, which is composed of the shekel’s exchange rate against the 26 currencies of Israel’s 33 main trading partners.
An analysis conducted by the economic unit, which examined the method for measuring the exchange rate, shows that the selection of the currencies composing the basket, the frequency of updating the weights and indices and the weight set for each currency is flawed. A more accurate method to measure the currencies' impact on Israeli exports is by focusing on the changes and fluctuations in the US dollar, which is the main currency in import and export transactions; based on data published by the CBS, the dollar was the currency used in 86% of export transactions and 71% of import transactions.

Breakdown of Israel's foreign trade transactions | by currency
Average in the years 2014-2016; goods, excluding diamonds and services

In 2017 the trend reversed and the dollar's value declined considerably; however, while in comparison to other currencies, this decline came after two and a half years of appreciation – against the shekel, the dollar actually appreciated, so that during the periods in which the dollar's rate increased, the shekel's value either increased or remained unchanged, while in periods of decline, the dollar depreciated vis-à-vis the shekel to a greater extent than it did versus other currencies. In 2017, the shekel was clearly one of the currencies that recorded the highest increase in value against the shekel, alongside the Euro and the Swedish Corona: for example, while the dollar depreciated by 12% against the Euro and by 10% against the Corona and the shekel, it declined more moderately vis-à-vis other currencies, following a long period of increase in its value: it fell 8.7% against the Pound Sterling, 7.8% against the Australian dollar, 6.5% against the Canadian dollar, 6% against the Indian Rupee, 4.5% against the Swiss Frank and 3.7% against the Japanese Yen.
Forecast for 2018/2019

Despite the winds of war, the global economy is growing at an accelerated rate. After hitting a low rate of 3.2%, in 2017 the growth rate recovered and climbed to 3.8% - the highest in the last 8 years. Despite the growing trade protectionism and higher customs, in 2018 the positive trend is expected to continue, with an estimated economic growth of 3.9%. This growth rate is expected to continue in 2019.

In 2017, global trade recorded substantial recovery, after years of continued stagnation. In 2017 the growth in global trade rose accelerated from 2.4% to 5.1%.

This trend is expected to persist going forward, albeit at more moderate rates. Amid growing concerns about expanding protectionist customs policies and the aggravating trade wars, the growth forecasts published in the July Economic have been revised downward. The IMF predicts that global trade in 2018 will grow by 4.8% and in 2019 by 4.5% - down from its estimates in the April Outlook for 5.1% in 2018 and 4.7% in 2019.

Global trade growth| growth estimates revised downward

The IMF, trade in goods and services, April 2018 vs. July 2018

Source: IMF, Processing: the Economic Unit, IEI
Global trade | growth estimates revised downward
The IMF, trade in goods and services, April 2018 vs. July 2018

<table>
<thead>
<tr>
<th>World Trade Volume</th>
<th>Advanced Economies</th>
<th>Emerging Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apr-17</td>
<td>Jul-17</td>
<td>Apr-18</td>
</tr>
<tr>
<td>2017</td>
<td>5.1</td>
<td>4.2</td>
</tr>
<tr>
<td>2018*</td>
<td>5.1</td>
<td><strong>4.8</strong></td>
</tr>
<tr>
<td>2019*</td>
<td><strong>4.7</strong></td>
<td><strong>4.5</strong></td>
</tr>
</tbody>
</table>

Note that despite the recent estimate revision, current growth rates are still higher than those projected in the IMF’s World Economic Outlook, which was published in January 2018.

Global trade growth estimate revised by the IMF | Change in %

Source: IMF, World Economic Outlook – July 2017; Processing and analysis: the Economic Unit, IEI

Imports by developed countries, which account for more than 60% of Israeli exports, posted an impressive growth rate in the period 2013-2015, which fell to 2% in 2016 but then picked
up to 4.2% in 2017. In 2018, the IMF predicts a 4.3% growth rate in demand, which is expected to decelerate to 4% in 2019.

The rate of growth in imports of developing countries fell during this period, hitting a low point of 0.3% only in 2015 and 1.8% in 2016. In 2017, however, imports picked up considerably with a growth rate of 6.7%. The outlook for 2018-2019 is relatively optimistic, with an estimated growth of 5.7% and 5.4%, respectively, in imports by developing markets, which account for more than one third of Israeli exports.

The IEI’s model takes into account, based on the outlook of leading research firms – the change in the weighted imports of Israel's major target markets. This provides a reliable estimate of the direction to which commodity exports will move in the near future. Our model clearly shows the steep decline in the aggregate weighted imports of these countries over the past few years and the corresponding stagnation in commodity exports, which aggravated in 2015. In 2016, the model predicted that this decline would moderate while for 2017 it predicted that demand for imports will accelerate, consistently with the growth in global trade and in Israeli exports. In 2018, the model projects that the trend of growth in demand will continue, albeit at a slower pace.
Similar outlooks projecting continued recovery in global trade were published by the World Bank, WTO and EIU⁴⁹

**Export growth outlook model**

Our growth outlook model takes into account, based on the outlook of leading research firms – the change in the weighted imports of Israel's major target markets. This provides a reliable estimate of the direction to which commodity exports will move in the near future. Our model clearly shows the steep decline in the aggregate weighted imports of these countries during the past few years and the corresponding stagnation in commodity exports, which aggravated in 2015. In 2016, the model projected a more moderate decline while for 2017 it predicted that demand for imports will accelerate, consistently with the growth in global trade and in Israeli exports. In 2018, the model projects that the trend of growth in demand will continue.

**Trends in Israeli Exports | weighted imports by major markets**

Original data, annual change in %

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.9%</td>
<td>1.7%</td>
<td>-11.1%</td>
<td>-3.1%</td>
<td>10.8%</td>
<td>11.1%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Economic Unit, IEICI

⁴⁹ Economic Intelligence Unit
With regard to exports of services, we estimate that in 2018 the growth will be similar to that recorded in 2017 but will typically outpace the growth in global trade.

At this point, we do not expect the recent developments in global trade to have an adverse effect on exports. The continued rapid growth in the services sector in general, and in high-tech services in particular, coupled with a slight recovery in goods exports and the stability in the dollar’s exchange rate – will result in continued growth in Israeli exports.

Weighing the exports of goods and services, we predict that in 2018 Israeli exports will post a growth rate of 6% in dollar terms - to a total of USD 109 billion.

Exports forecast for 2018 | Exports of Goods and Services
% annual change in dollar terms

Export of Goods and Services | % Annual growth rate

Source: Economic Unit, IEICI
Exports forecast for 2018 | Exports of Goods and Services
In billions of USD

Source: Economic Unit, IEICI
For further information please contact:

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Exports based on Foreign Trade Data, the Balance of Payments and National Accounting: Differences and Adjustments

Export figures based on foreign trade data (deriving from export records) do not include various adjustments in the calculation of goods and services exports in the balance-of-payment:

Most of the adjustments in exports arise from the following:

1. Sales are recorded based on the work-in-progress in large plants: these plants carry out large-scale projects, while a partial execution of the projects is recognized as a sale that can be recorded in the company’s books. The entry in the balance-of-payments is based on the reports of companies that use this method, while the amounts reported by customs for such exports are deducted from foreign trade data.

2. International trade in goods sold overseas, where such goods do not enter or exit the country: pursuant to the new international guidelines for entry in the balance-of-payment, these transactions are recorded as exports of goods (in 2010 such transactions were recorded in the balance-of-services), where the purchase of goods overseas or the cost of production overseas by subcontractors are recorded as negative exports, and the sale of goods overseas to the end customer is recorded as a positive export. The summary of the two transactions will be recorded as net exports of goods.

3. Exports to the Palestinian Authority: these exports are recorded based on VAT invoices rather than customs documents, and are therefore not included in foreign trade data.