

INTRODUCTION

ASSAF RAZIN¹, MICHEL STRAWCZYNSKI² AND JOSEPH ZEIRA³

In mid-March 2020, the economic scenario in Israel suddenly changed. As a consequence of the spread of Covid-19, most economies—including Israel's—were forced to close their borders to avoid contagion from abroad, and to suspend economic activities in many sectors. The Israeli government adopted various decisions aimed at coping with the spread of the virus, with serious economic effects. Its main two policies were severe lockdown and giving compensation for those who lost their jobs or business.

The government created loan funds to allow small firms to deal with the situation, and required the majority of public sector workers to remain at home on compulsory vacation, while at the same time allowing the implementation of government-financed vacation payments for workers in private firms. It also acted to enable as many workers as possible to work from home. In subsequent decisions, the government gradually opened some of the closed sectors, while maintaining closure in sectors with high contagion risk in order to respect the health directives.

Health policy was led by the Ministry of Health, with the aid of pandemic scenarios that were run by the National Security Council, the Gartner Institute, and others. The economic plans were supported from the beginning by three macroeconomic professional teams in Israel—the Ministry of Finance, the National Economic Council and the Research Department at the Bank of Israel, as well as by plans drawn up by the Ministry of the Economy. The plans were implemented through activities carried out by the National Insurance Institute, several ministries and public agencies; while the Central Bureau of Statistics and the Israel Employment Service played a key role in providing the data that was crucial for understanding the labor market situation.

This volume contains various contributions that were presented at the Israel Economic Association's Annual Conference, held on June 14, 2020, covering the economic aspects of the Covid-19 crisis in Israel and in general. The first contribution is the address by Amir Yaron, the Governor of the Bank of Israel. Yaron describes the unprecedented steps taken by the Bank of Israel, which were aimed at easing the financial conditions and supporting low real interest rates, which help the

¹ Co-Editor, Israel Economic Review.

² Co-Editor, Israel Economic Review.

³ President of the Israel Economic Association.

real sector to cope with the crisis. Kobi Glazer analyzes the difficulties of coping with the health aspects of the pandemic and depicts some first thoughts about the expected impact on the health industry in the post-Covid-19 era. Eckstein, Bental and Sumkin compare Israel's health and economic achievements with those of similar countries on the basis of population size and human capital; they claim that while the reaction against the first wave of the pandemic was characterized by lower mortality, the economic support to firms and individuals increased uncertainty as it was defined over shorter time spans, which were then extended from time to time. Ori Heffetz analyzes the link from information to beliefs and expectations, and stresses the importance of transparency in government policy. Leah Achdut describes the increase in unemployment, which differs across sectors – raising some thoughts on the incentives related to government's policy tools that were implemented during the first wave of the coronavirus. Finally, this volume includes the contents of the traditional Don Patinkin Lecture, which was dedicated this time to the challenges faced by policy-makers in the Covid-19 era. This lecture was given by Martin Eichenbaum, who stresses that the crisis implies a constant evaluation of the tradeoff between economic activity and health outcomes, and the need for policy designed to reduce the long-run damage that the induced recession inflicts on the economy.

We believe that the material included in this volume will serve as testimony to the difficult challenge that the economy is facing. According to existing forecasts, Israel's GDP will be 5 percent below its expected value at the end of 2021, and unemployment is expected to remain high at that time, without reaching the level that prevailed before the crisis. The government deficit is expected to reach 13 percent of GDP at the end of 2020, and government debt is expected to remain close to 80 percent of GDP by the end of 2021.

We all hope that the health crisis will be resolved soon and that we will be able to return to our normal way of life. In the meantime, we use this opportunity to call on the economic community to continue providing high quality research, creative ideas and recommendations, which will contribute to an economic recovery that respects health restrictions.