

Israel's coming election will give the winner control over a booming economy

KEY POINTS

- Polls show Benjamin Netanyahu's Likud holds a narrow lead over Benny Gantz's Blue and White party.
- While security is the biggest issue, handling a host of economic challenges is a main campaign theme.
- Growth, housing and tech are key issues for investors inside and outside of Israel.



A ultra-Orthodox Jewish man stands behind a voting booth in Jerusalem. Ronen Zvulun | Reuters

In every Israeli election since 1948, the top issue has been security. That won't

change on Tuesday when Israelis cast ballots to see who will become prime minister.

But the economy has become a major factor influencing voters as they head to the polls.

Year-to-date, Israel's vaunted technology index is one of the best performing areas in the world. One way to get exposure is through the BlueStar Israel Technology ETF, which is up almost 20 percent this year, outpacing even red hot U.S. tech stocks.

"Israel's trade world has expanded well beyond Europe and North America under Prime Minister (Benjamin) Netanyahu," said Steven Schoenfeld, BlueStar's founder and chief investment officer. Specifically, Israel has made inroads with Africa and India, opening avenues for exports.



A large digital ticker shows financial information outside the entrance to the Tel Aviv Stock Exchange (TASE) in Tel Aviv, Israel on August 4, 2016. Rina Castelnovo | Bloomberg via Getty Images

Last week, Brazil's new President Jair Bolsonaro visited Jerusalem to set up a trade office. Israeli energy executives have made progress on a pipeline that it's hoped will transport natural gas from Israel's recently discovered fields in the Mediterranean to Europe, by way of Cyprus and Greece.

Global reach for Israeli trade is critical, because Israel has no trade with neighbors Syria and Lebanon to the north and only minimal trade with Jordan and Egypt, despite having peace agreements with the latter two countries.

Netanyahu has been Israel's prime minister since 2009. Since then, Israel's gross domestic product has increased by 70 percent. That's despite that Israel has very little trade with its contiguous neighbors.

He's made his economic policies and what he calls a lack of experience by his chief election rival, Benny Gantz, a main point of his campaign.

Tuesday's vote: The latest poll numbers

The first of the two most likely election scenarios Tuesday would be for Netanyahu's Likud party to win the most seats in the Knesset, Israel's parliament.

The second most realistic scenario is for a new party — known in English as Blue and White — to score enough votes to take the top spot. Blue and White is led by Gantz, a former top Israeli general and one-time military chief of staff under Netanyahu. The party hopes to benefit from corruption allegations swirling around Netanyahu.

Here's how recent poll numbers break down:

Likud: 29 seats

Blue and White: 28 seats

Labor: 14 seats

Union of Right Wing Parties: 7 seats

Hadash-Ta'al: 6 seats

United Torah Judaism: 6 seats

Shas: 5 seats

New Right: 5 seats

Meretz: 5 seats

Ra'am-Balad: 5 seats

Kulanu: 4 seats

Poll dated April 2, Courtesy of Israel Channel 13 Polling

Either Likud or Blue and White will need help from multiple, smaller parties to get the 61 seats needed to form a government. And there could be uncertainty in markets, at least in the near term, if Likud is pushed from power.

“Short term uncertainty is a concern if Netanyahu’s Likud loses to Blue and White,” said Ori Greenfield, chief economist and strategist at Psagot Investment House, one of Israel’s largest financials firms.

But Greenfield doubts any impact would last. He said that “because the Federal Reserve in the United States is signaling no more hikes and global Central Banks aren’t moving, it’s unlikely the Bank of Israel will be able to make a move, unless inflation starts to become more of a concern, then they’d be forced to act. ”

One area ripe for change after the election is Israel’s once sky-high housing market. Reforms went into place under Finance Minister Moshe Kahlon designed to help new home buyers, through a lottery system where winners won large subsidies.

That appears to have created a chilling effect on housing, as young families who haven’t won subsidies wait rather than buying a home. Kahlon is not expected to return as head of finance, meaning a new finance minister is likely to come in and shake up Israel’s housing market, a crucial part of the economy.

Greenfield said that “if Blue and White wins, they have a plan to build new projects and focus on long term rents rather than home purchases. That could chill the housing market further.”

BlueStar’s Schoenfeld agreed the Israeli housing market presents uncertainties to investors. But he worries more about one area of Israel’s economic expansion: China.

“Israel is under some pressure to limit its ties with China by the U.S.,” he said.

Schoenfeld said that if Netanyahu wins re-election, he’s already experienced enough to convince the United States to give Israel’s growing economic ties with China room to grow. A new prime minister may have to take a wait-and-see

approach before expanding trade with a country that has drawn the ire of Washington.

Another area that has boomed under the leadership of Netanyahu is the jobs market. The labor force has seen significant gains from the ultra-Orthodox sector of Israel's population, which now counts 53 percent of its men as employed.

Much of the male part of Israel's fast-growing, ultra-Orthodox community doesn't engage in paid work and enjoys government assistance. Employment for ultra-Orthodox women has leaped in the last decade, from 50 percent up to 80 percent.

Arab Israelis have also seen significantly improving labor participation rates, up to the 80 percent mark.

The ultra-Orthodox and Arab communities in Israel have both experienced low workforce participation levels traditionally.

Source:

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