



Report of the State Comptroller of Israel | May 2023

Prime Minister's Office

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# The National Economic Council





## The National Economic Council

### Background

The National Economic Council (the Council) began operating in the Prime Minister's Office in 2006 and was headed by the Prime Minister's Economic Advisor. The Council serves as the Prime Minister's economic strategic body, assisting in decision-making based on current data, professional analyses, and long-term systematic planning. The Council's duties, determined by the government resolutions, are to formulate initiative policy measures to encourage economic growth and reduce economic disparities between different populations in Israel; To express an opinion on the proposed state budget and offer alternatives, as needed, regarding the budget framework and certain aspects thereof; To prepare professional opinions regarding resolution proposals in the economic field that are on the agenda of the government and its committees; And to serve as a professional hub to the government's socio-economic strategy.



## Key Figures

**16 years**

since its establishment, the Council's status and powers have not been anchored in legislation as required by the government's resolution

**June 2015**

the last time the government discussed the strategic situation assessment report

**about a year and a half**

the period in which the position of Council Head was not staffed

**3**

of the 11 economist positions in the Council were not staffed

**70%–92%**

the projects rate, the Council carried out in full in 2014–2021

**47%**

the decrease in the projects rate in which the Council was a significant factor in formulating their outcomes (out of all the projects generating a outcomes) in 2018–2021 (from 72% to 38%, respectively). This was preceded by an increase of about 36% in the projects rate in 2014–2018 (53% and 72%, respectively)

**3**

state budget proposals for 2015–2016, 2017–2018, and 2021–2022 on which the Council did not express its opinion as required

**22%**

the decrease rate in the number of projects the Council dealt with from 2014 (46 projects) to 2021 (36 projects)



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## Audit Actions

 In 2014, the State Comptroller's Office audited the working procedures of the National Economic Council, and its findings were published in an audit report in May 2015<sup>1</sup>. From February to July 2022, the State Comptroller's Office examined the Council's work regulation mode; The formulation mode of the government's socio-economic strategy; The Council's contribution to the government work; And the preparation mode of its opinion on the state budget. The examination was conducted at the Prime Minister's Office, and completion examinations were carried out at the Budget Division of the Ministry of Finance.

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## Key Findings

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-  **Regulating the Council's Status in Legislation** – the Council's status is determined by government resolutions. These resolutions did not establish, for example, that the Council is authorized to receive information from the Ministry of Finance, nor is it authorized to summon officials in government bodies or its branches for discussions. Moreover, no regulations were established for appointing the Head of the Council. It was found that although in 2013 a draft bill was prepared in the Prime Minister's Office to regulate the Council's status, its powers, and functions, until December 2022, after this audit completion, the Prime Minister's Office did not promote the bill as required by the government's resolution from 2006.
-  **Staffing the Position of Head of the Council** – in June 2021, the Head of the National Economic Council retired from his post, and at the end of January 2023, a new head was appointed for the Council. For a year and a half, from the retirement of the last Council Head until the appointment of the new Council Head, the Council was directly subordinated to the Director General of the Prime Minister's Office, along with another economic unit at the office – a division dealing with economic issues at the headquarters of the Office's Director General. The position of Head of the Council was unmanned for about a year and a half, making it difficult for the Council to fulfill its mission according to the government's resolution – submitting the results of its activities to the Prime Minister and assimilating them among the relevant circles of decision makers.
-  **The Formulation of the Government's Socio-Economic Strategy** – in 2012, the government decided to institutionalize in-depth, research-based, government-wide

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1 The State Comptroller, **Annual Report 65C** (2015), "The working procedures of the National Economic Council".



processes to deal ahead of time with socio-economic long-term challenges under the responsibility of various ministries and to establish bodies for the institutionalization and implementation of these processes. However, the actions of some of these bodies to complete these processes have gradually diminished over the years: June 2015 was the last time the National Economic Council and the Forum for Strategic Planning submitted a full strategic situation assessment report to the government, and the assessment was discussed in the government; Situation assessment reports were drawn up twice in 2020 and 2022 when the Council did not receive permission from the Prime Minister's Office to present them to the government. Therefore, the last strategic situation assessment report that the government discussed was in June 2015. From 2017 and from July 2018, one of its main functions – monitoring government resolutions adopted regarding the strategic situation assessment – was not carried out.

It was raised that the draft situation assessment report compiled by the Council and the Forum for Strategic Planning in January 2022 detailed the six strategic issues that were included in the government's key policy from September 2021. However, the government's key policies document was not a substitute for a strategic situation assessment report and did not include two elements required, as stated in the strategic situation assessment report under the government resolution from 2012: an analysis of global trends in the socio-economic field, which have a substantial impact on society and the economy in Israel, as well as an analysis of local trends and main characteristics in the economy and society in Israel. It should be noted that the draft situation assessment report did not deal with the concern regarding an inflation surge in Israel, which came up in the Forum for Strategic Planning discussions in 2021.

 **The National Economic Council's Contribution to the Government Work** – for five years (2016–2020), 99 projects were carried out, led by the Council, which even served as a critical factor in formulating their products. In the framework of 36 of these projects (36%), proposals for a resolution were submitted to the government.

It was found that the Council's activity was gradually diminished since 2018: the scope of the projects it dealt with has decreased (from 56 projects in 2018 to 36 projects in 2021). Likewise, the projects rate for which the Council was a significant factor in the formulation of outcomes out of all projects that generated outcomes, such as proposals for government resolutions and legal memoranda, decreased (from 72% in 2018 to 38% in 2021). According to the Prime Minister's Office, the Council's activities scope in 2019–2021 was also affected by frequent government changes and its preoccupation with the Covid-19 pandemic crisis.

 **Preparing an Opinion on the State Budget and Proposing Alternatives** – within the framework of three processes for formulating the state budget (for 2015–2016, 2017–2018, and 2021–2022), the Council did not prepare an opinion, as required, regarding the state budget proposal before submitting it to the government, regarding the budget framework and the critical topics included therein, and did not offer

alternatives on these matters if needed, as required by the government's resolution from 2006. Thus, for example, the Council's opinion on the state budget for 2017–2018 included a general reference to specific income components in the budget proposal (such as provisions for employees with budgetary pensions for retirements – a budget component at about NIS 0.3 billion, and for the increase of property tax – a budget component at about NIS 0.4 billion). However, the Council did not express its opinion on the state budget proposal before submitting it to the government regarding the budget framework and did not offer alternatives. This was brought up in the State Comptroller's report from 2015 and again in the current audit. According to the Council and the Planning and Organization Directorate (AGAT), the reason for this is a tight schedule for the formulation of the budget proposal, and as a result – the allocation of a period that was shorter than required for the Council to examine the proposal. It should be noted that the Council submitted an opinion regarding the state budget proposal for 2023.



Most of the Council's projects in 2014–2021 (70%–92%) were fully implemented.

## Key Recommendations

-  The Prime Minister's Office should complete the bill to strengthen the Council's status and regulate its powers to enable receiving information from government bodies and holding discussions with the participation of their representatives. It is recommended that the Prime Minister hold a periodic discussion in the government or the Ministerial Committee for Economic and Social Strategy under the government's resolution from 2012. Furthermore, the Prime Minister's Office should reestablish the strategy management team and ensure it performs its duties according to the government's resolution, including submitting a comprehensive follow-up report on implementing the strategic situation assessment report. These are necessary to enable the government to cope with the challenges facing it in the socio-economic sphere.
-  It is recommended that the Prime Minister's Office formulate the work plans of the National Economic Council also based on the outcomes required of it, given its roles, powers, and the extent of the resources at its disposal, and that it ensures that the plans exhaust the potential of the Council's possible activity.
-  It is recommended that the Prime Minister's Office determine the scope of the tasks assigned to the Council following the degree of its involvement therein and the outcomes required in the various projects, considering the size of its personnel and that it ensures that these tasks are appropriate to the Council's duties set by the government's resolutions. It is further recommended that the National Economic Council complete the preparation of

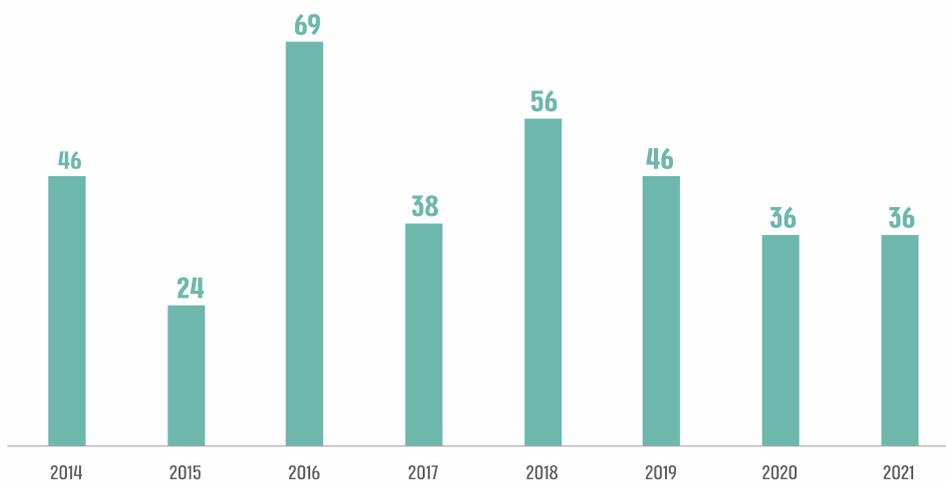


the outcomes of all the projects it was involved in and expand its involvement in the inflation surge in Israel and the energy prices.



The Council should form a comprehensive opinion regarding the budget proposal before submitting it to the government regarding the budget framework and the main topics included therein and offer alternatives on these matters, as needed. It is further recommended that the Prime Minister's Office and the Ministry of Finance formulate a working structure to implement the said government's resolution.

### The Number of Projects Dealt by the National Economic Council, 2014–2021



According to the National Economic Council data processed by the State Comptroller's Office.



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## Summary

The audit raised disparities and deficiencies in the Council's work: the number of projects in which the Council was a central factor in the formulation of the outcomes, out of all the projects generating outcomes, decreased from about 72% in 2018 to about 38% of the projects in 2021. Although in the aforementioned years, there was no change in the scope of its resources, the Council did not prepare a comprehensive opinion regarding the state budget proposal for 2015–2016, 2017–2018, and 2021–2022, even though it is its duty to do so, and thus did not fulfill its mission – to serve as a system balancing that of the Ministry of Finance, presenting independent opinions in economy and society, with an emphasis on strategic and long-term vision. Since 2012, various bodies were established which were required to carry out long-term strategic processes; however, over the years, the actions carried out by some of these bodies to complete the execution of those processes gradually diminished. Continuing the Council's activities to fulfill its mission requires anchoring its functions and powers, including determining its authority to receive information from government ministries and executive units. It further requires regular and ongoing operation of the institutions and processes established in the government's resolution from 2012 to ensure a solid foundation for strategic planning for the government in the economic and social spheres. The responsibility for carrying out the above rests upon the Prime Minister's Office, and it is recommended to anchor the Council's activities in law.

