



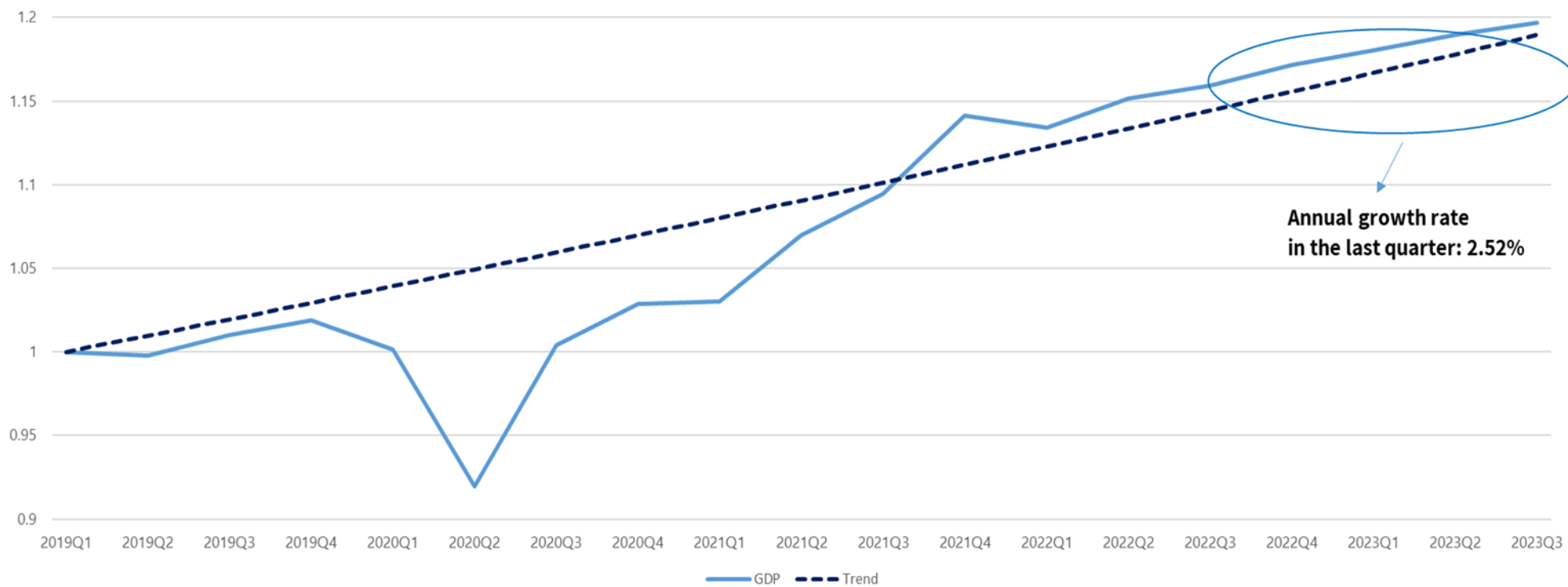
Macroeconomic Developments

January 2024



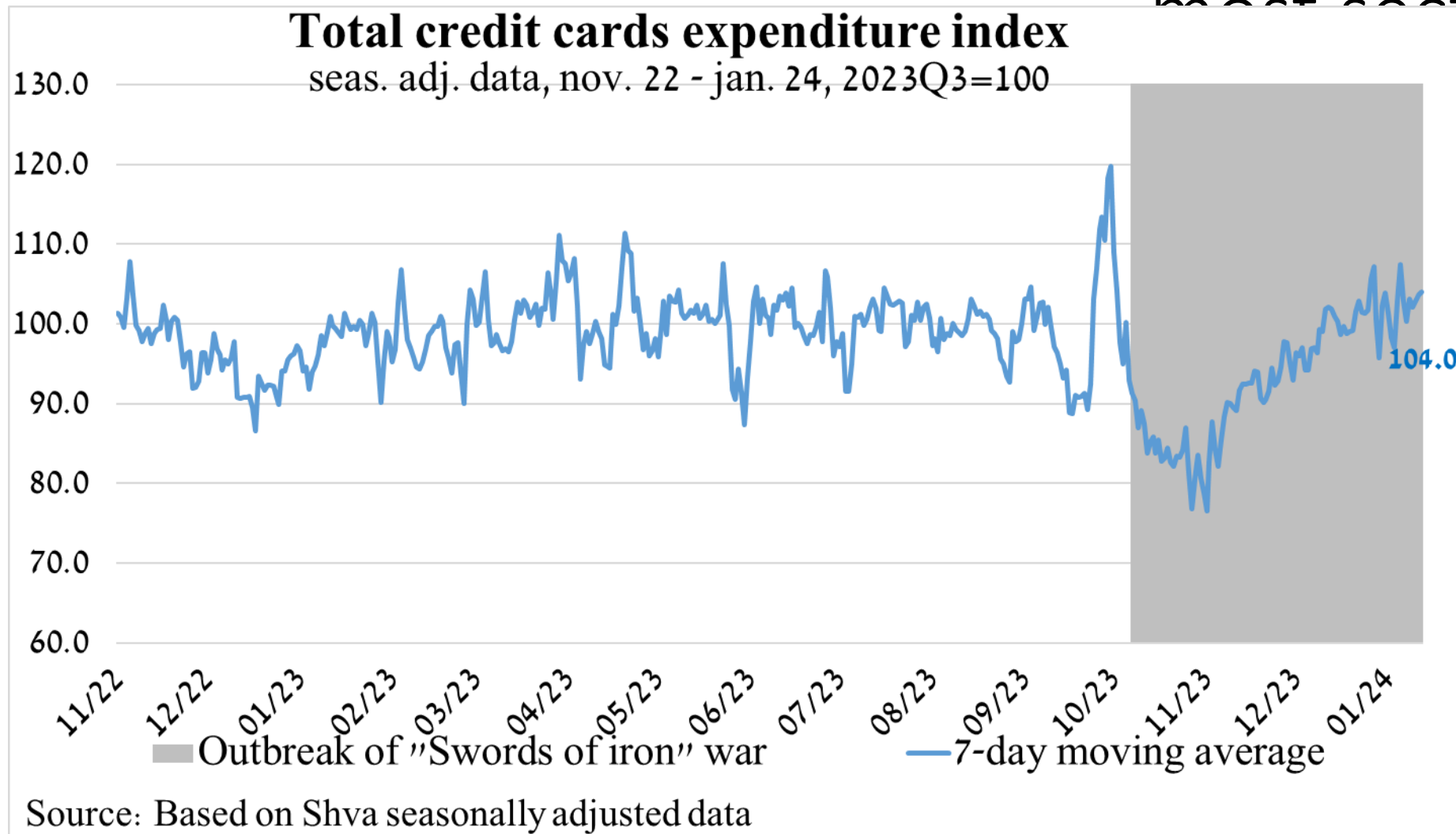
GDP in Israel has been above trend since 2021:Q4, on a path to a soft landing (prior to the war)

GDP in relation to it's trend
quarterly, constant prices, index: Jan 2019=1



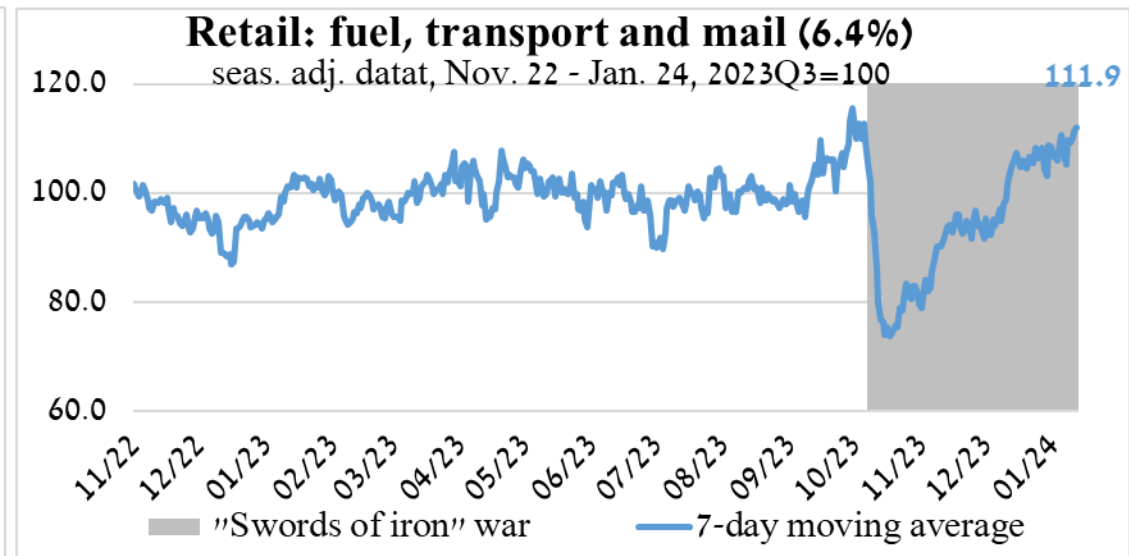
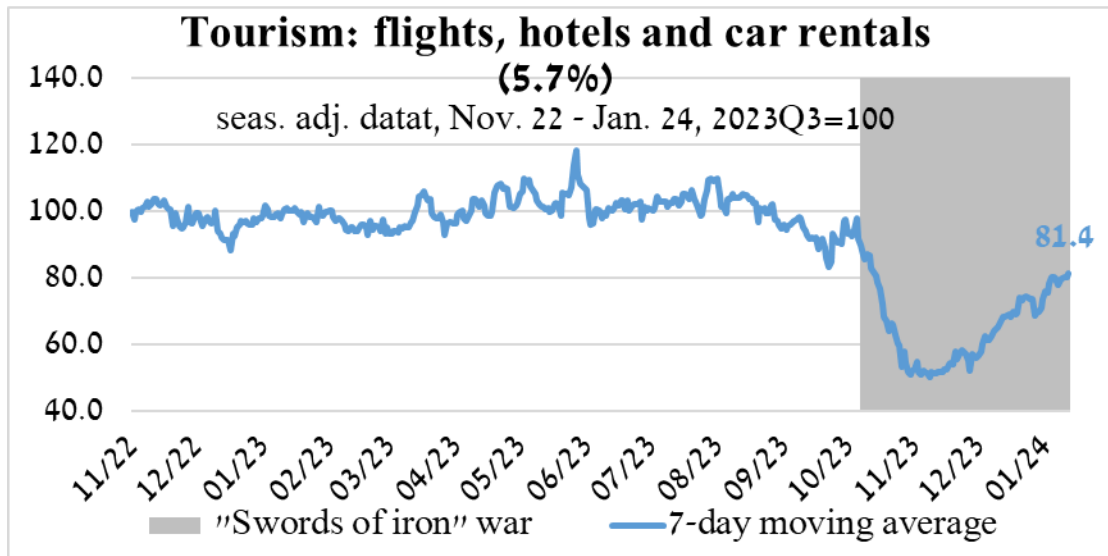
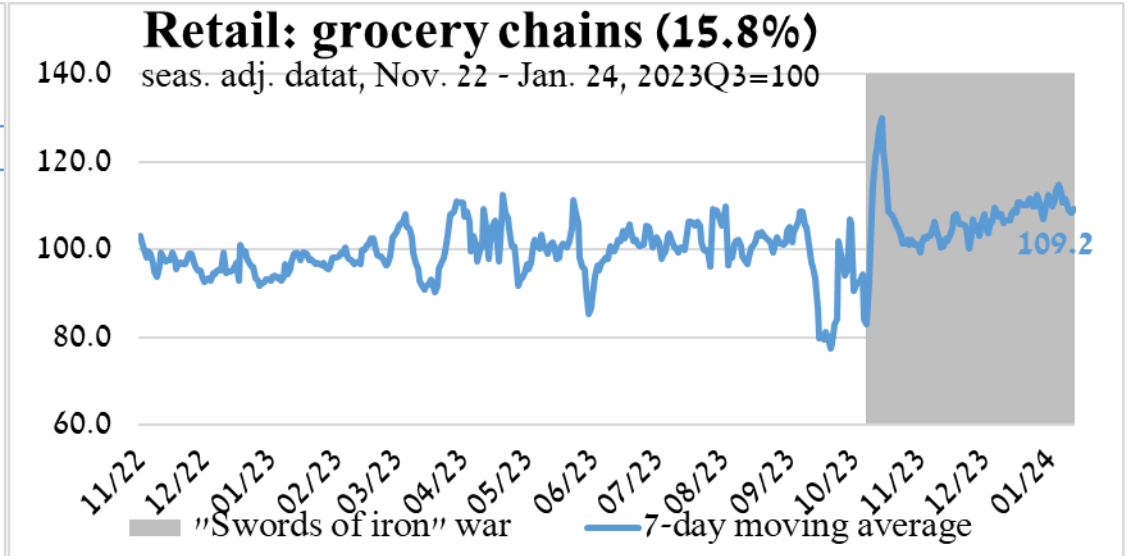
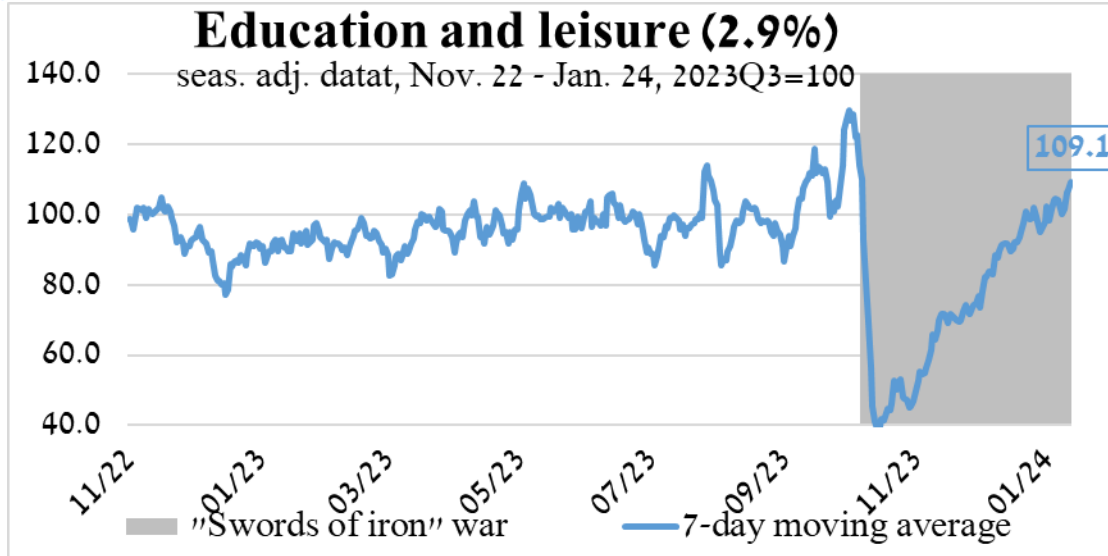


After a major drop in the beginning of the war, credit card expenditure is back to pre-war levels in most sectors





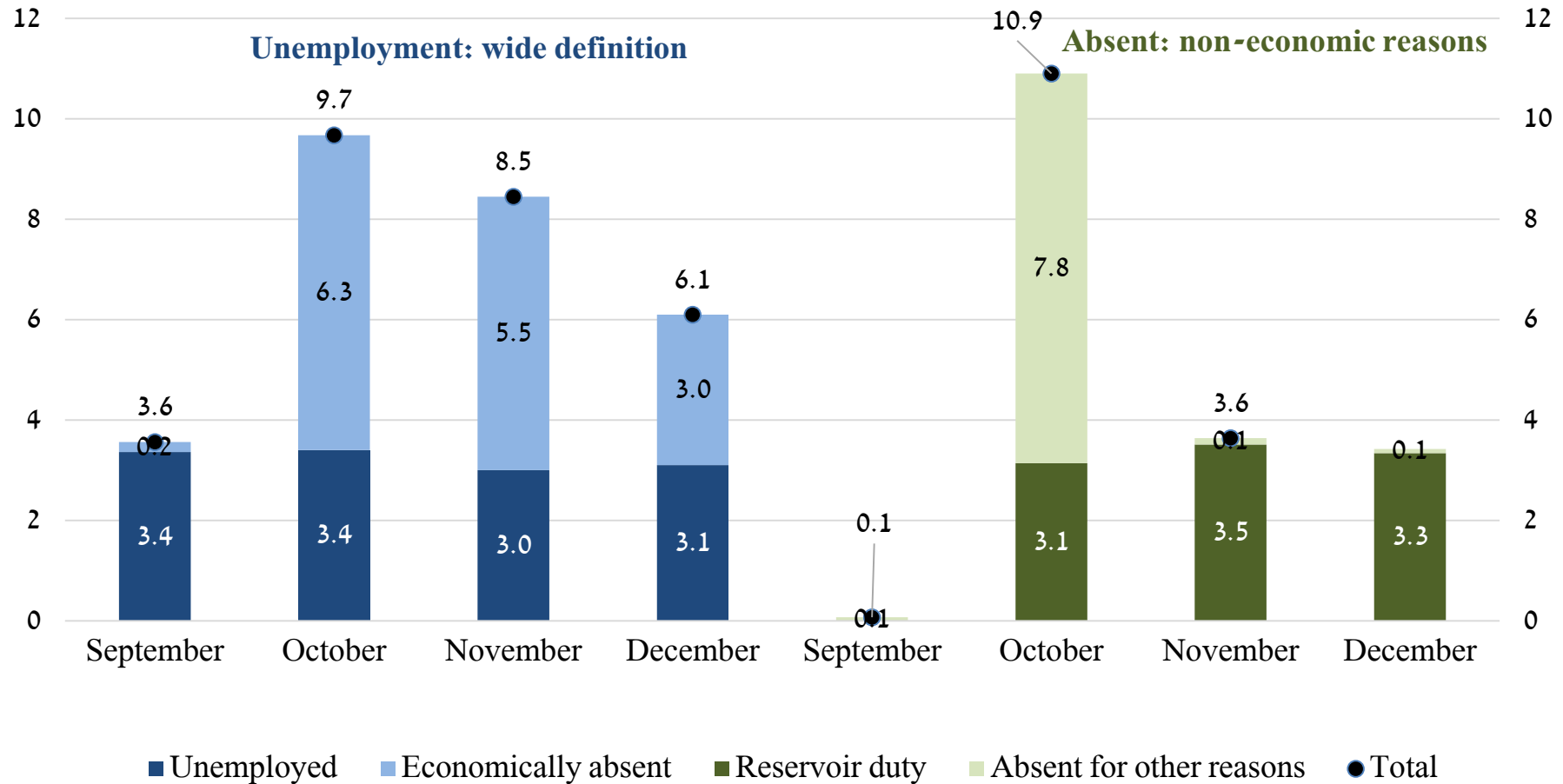
After a major drop in the beginning of the war, credit card expenditure is back to pre-war levels in





A sharp decline in the share of those absent from work in November-December

Unemployed and Absentees
(Ages 15+, percent of workforce, not seasonally adjusted)

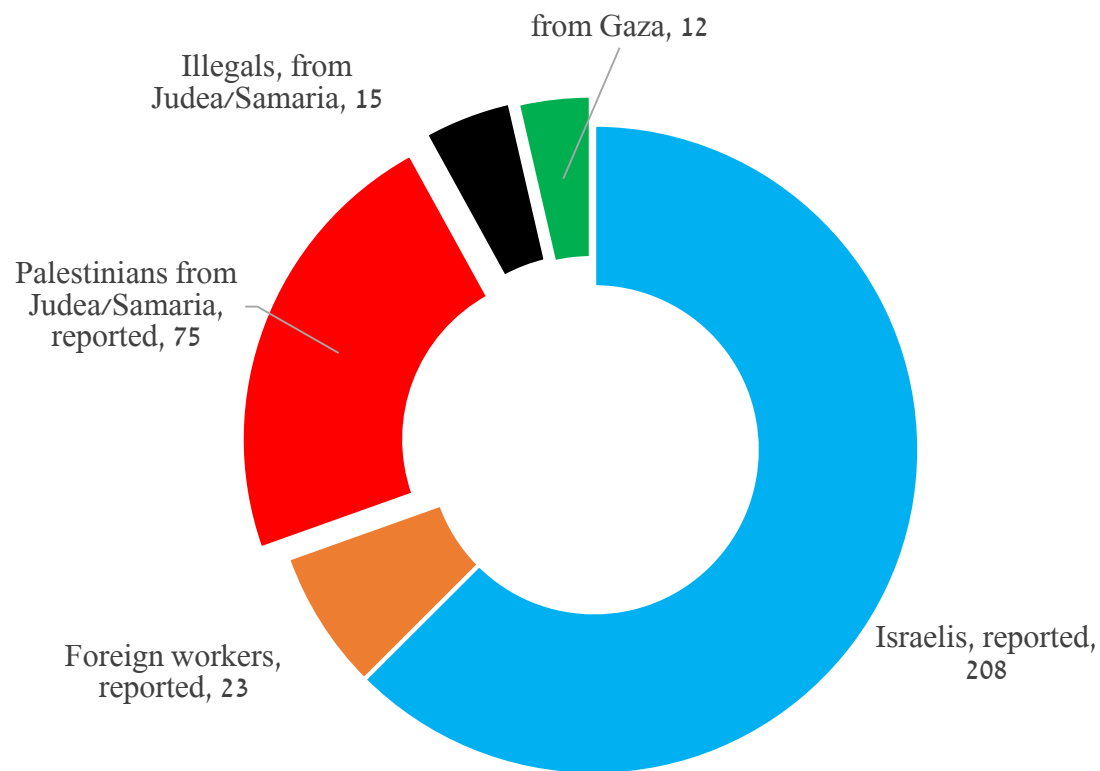




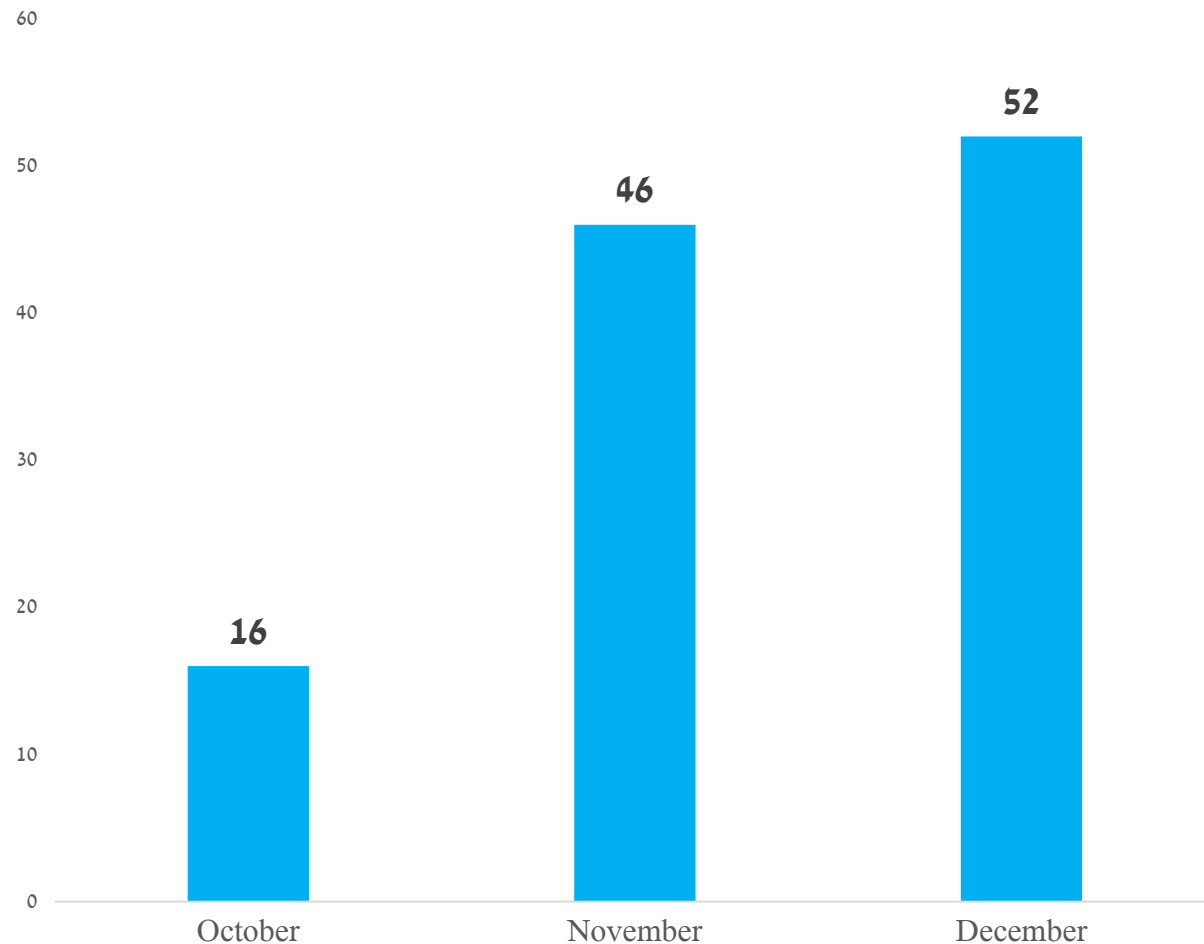
Despite the improvement in construction industry activity, more than 50% of construction sites are still not active

Reported and unreported employment in construction

Thousands of workers, average of 2023: Q1 and 2023: Q2



Share of active construction sites (percent)





Research department updated forecast 2023, 2024, 2025

	2023	2024	2025
GDP growth	2.0%	2.0%	5%
Export growth	0%	0.5%	5%
Wide unemployment rate	4.5%	5.3%	3.2%
Debt to GDP ratio	62%	66%	66%
Inflation	3.3%	2.4%	2%
Interest rate		3.75/4%	



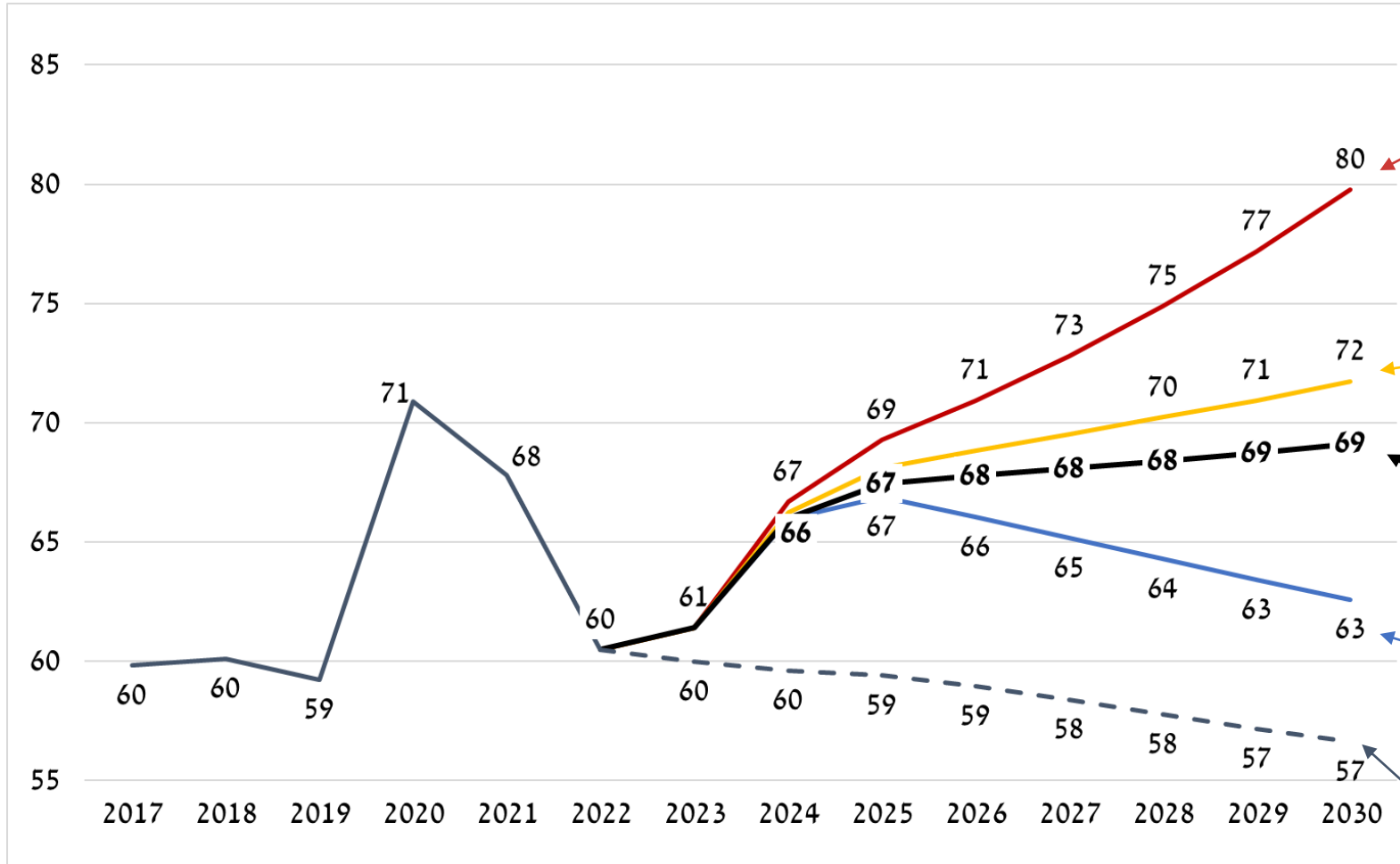
Estimated Fiscal Costs of the War (2023-2025)

	Total 2023-2025
Defense expenditures	156
Compensations on direct and indirect damages	18
Other civilian expenditures	32
Interest payments	9
Total additional expenditures	215
Loss of taxes	40
Total effect of the war	255



Without proper fiscal adjustments, the debt to GDP ratio may be on an upward track

Scenarios for the Public Debt to GDP Ratio (%)



- **Scenario with only ½ of the proposed fiscal adjustments + potential growth scarring (-0.5% per year) and increase in country risk premium (100 basis points as of 2024).**
- **Scenario with only ½ of the proposed fiscal adjustments**
- **Baseline forecast (with proposed adjustments)**
- **Scenario with full adjustments against permanent fiscal costs**



Inflation and Monetary Policy – Recent Developments

Headline Inflation and Major Components

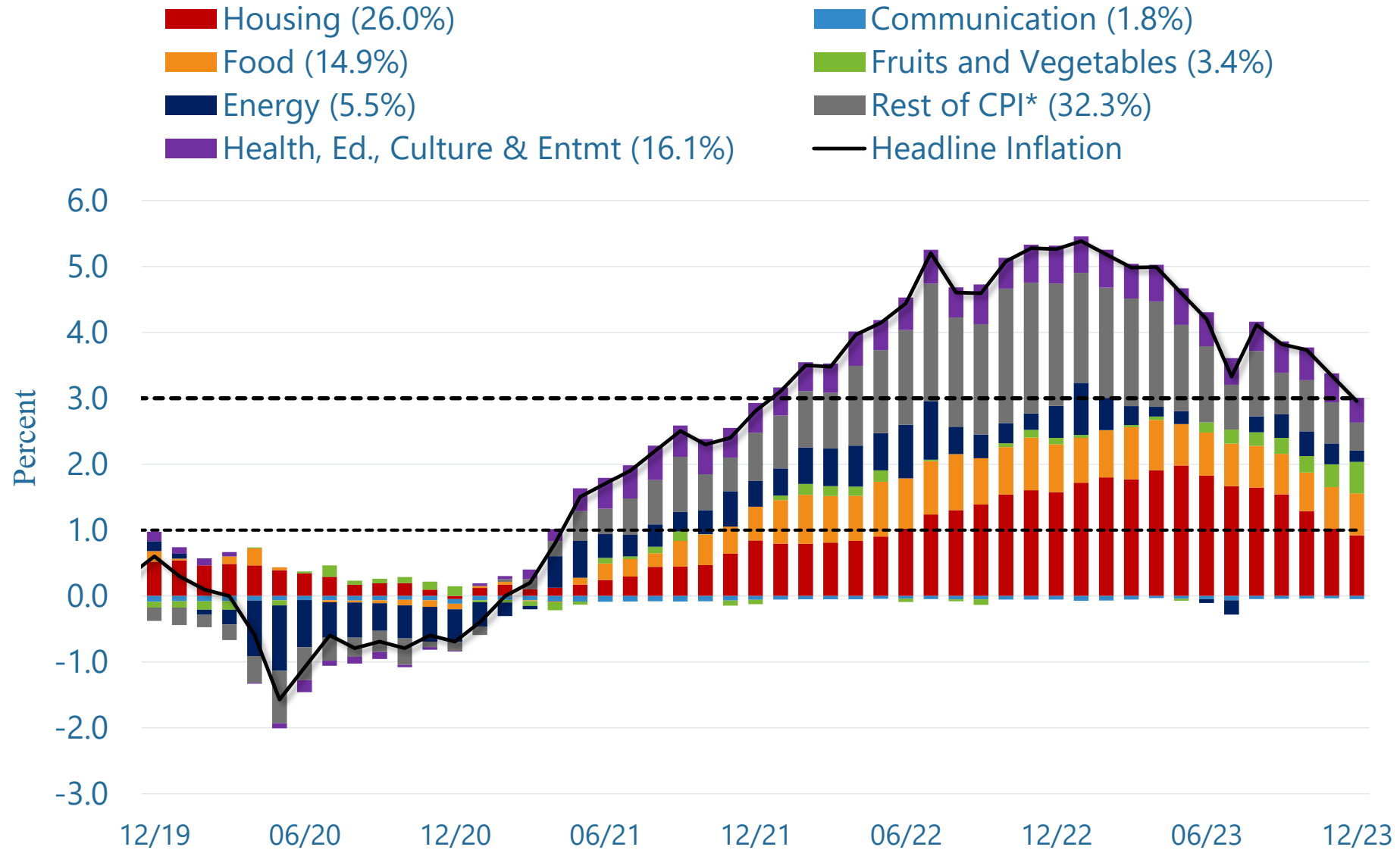
Annual rates

	CPI (1000)*	Energy (55)	Food (149)	Housing (260)	Excl. Housing (740)
Apr-22	4.0	12.1	4.7	3.4	4.2
Aug-22	4.6	8.1	5.8	5.3	4.4
Dec-22	5.3	9.4	4.9	6.3	4.9
Apr-23	5.0	2.8	5.1	7.2	4.3
Aug-23	4.1	4.4	4.2	6.2	3.4
Dec-23	3.0	3.1	4.2	3.5	2.8

* In parenthesis - weight in headline CPI.

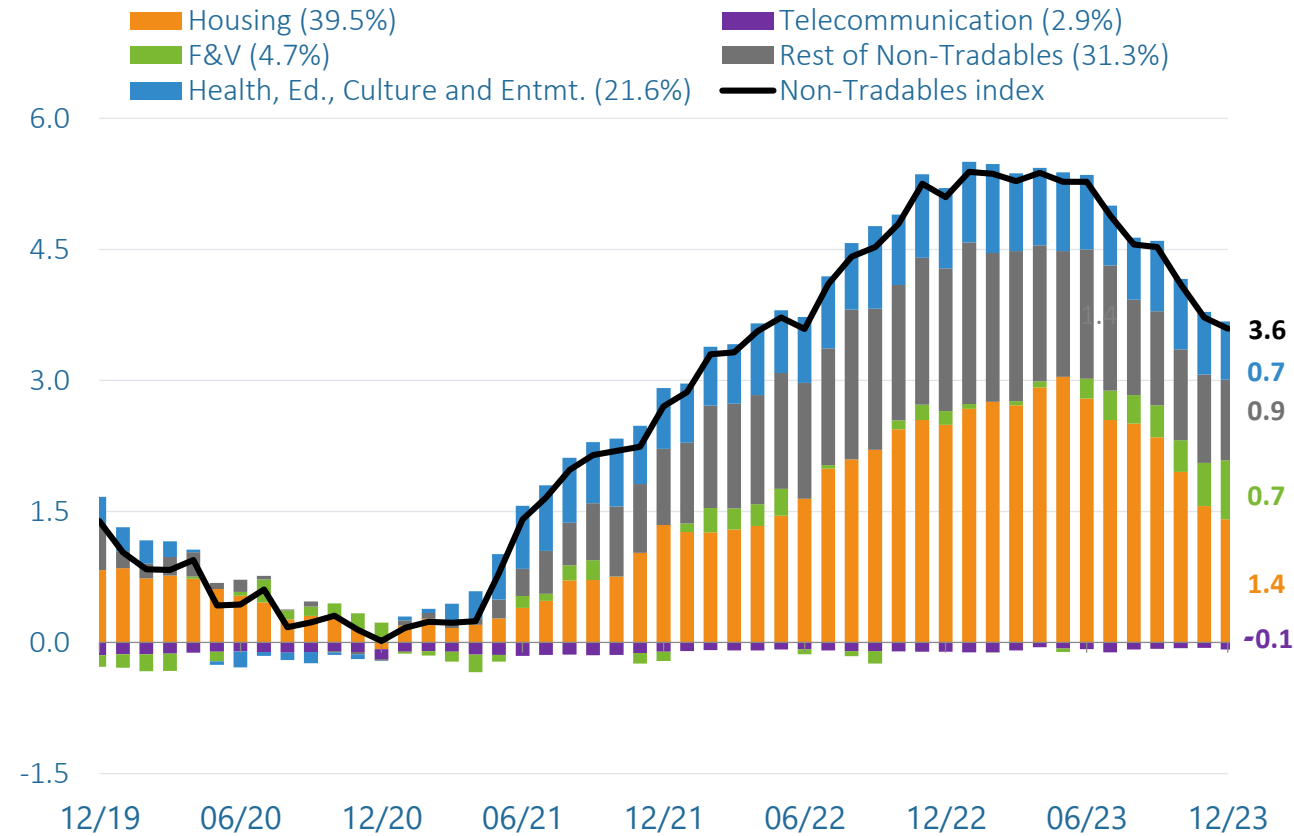
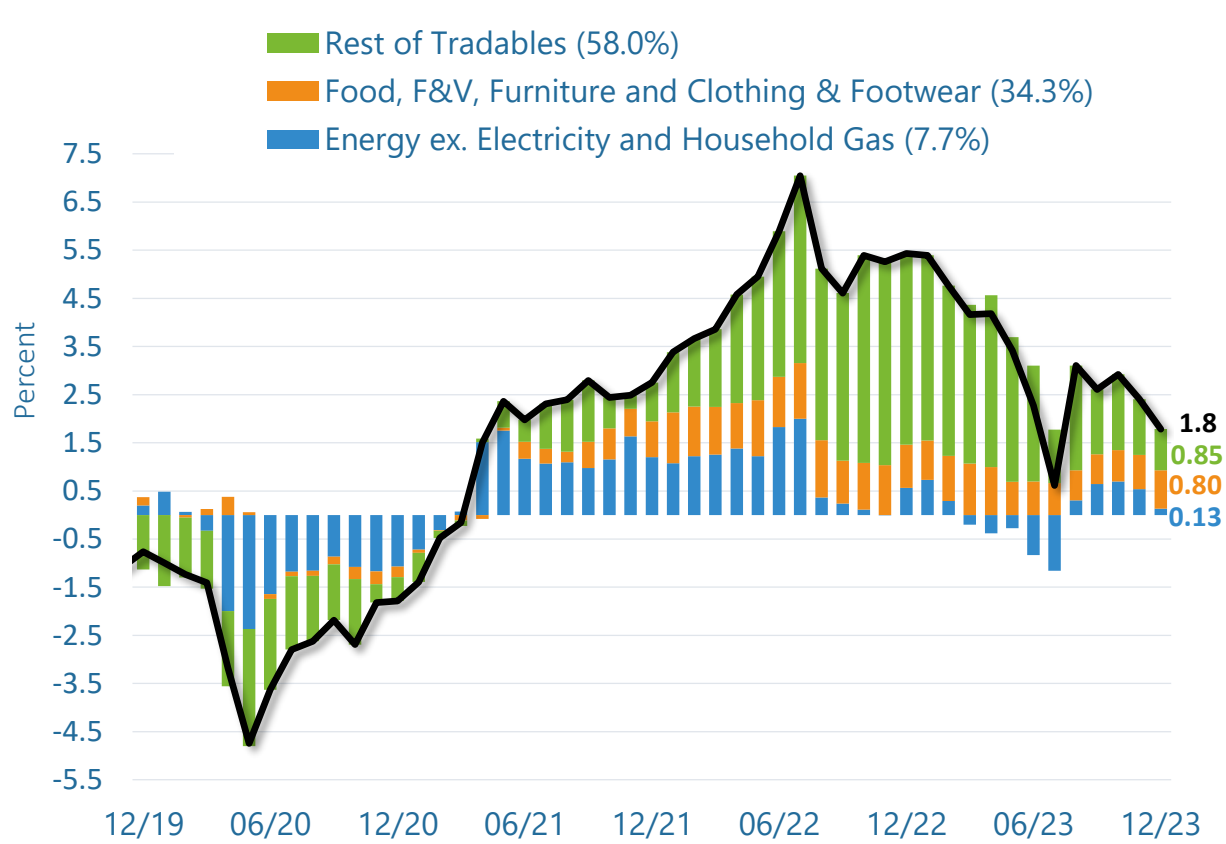
Inflation Rate - Contributions

Annual Rate, December 2019 to December 2023



Tradable Goods and Non-Tradable Goods Inflation - Contributions*

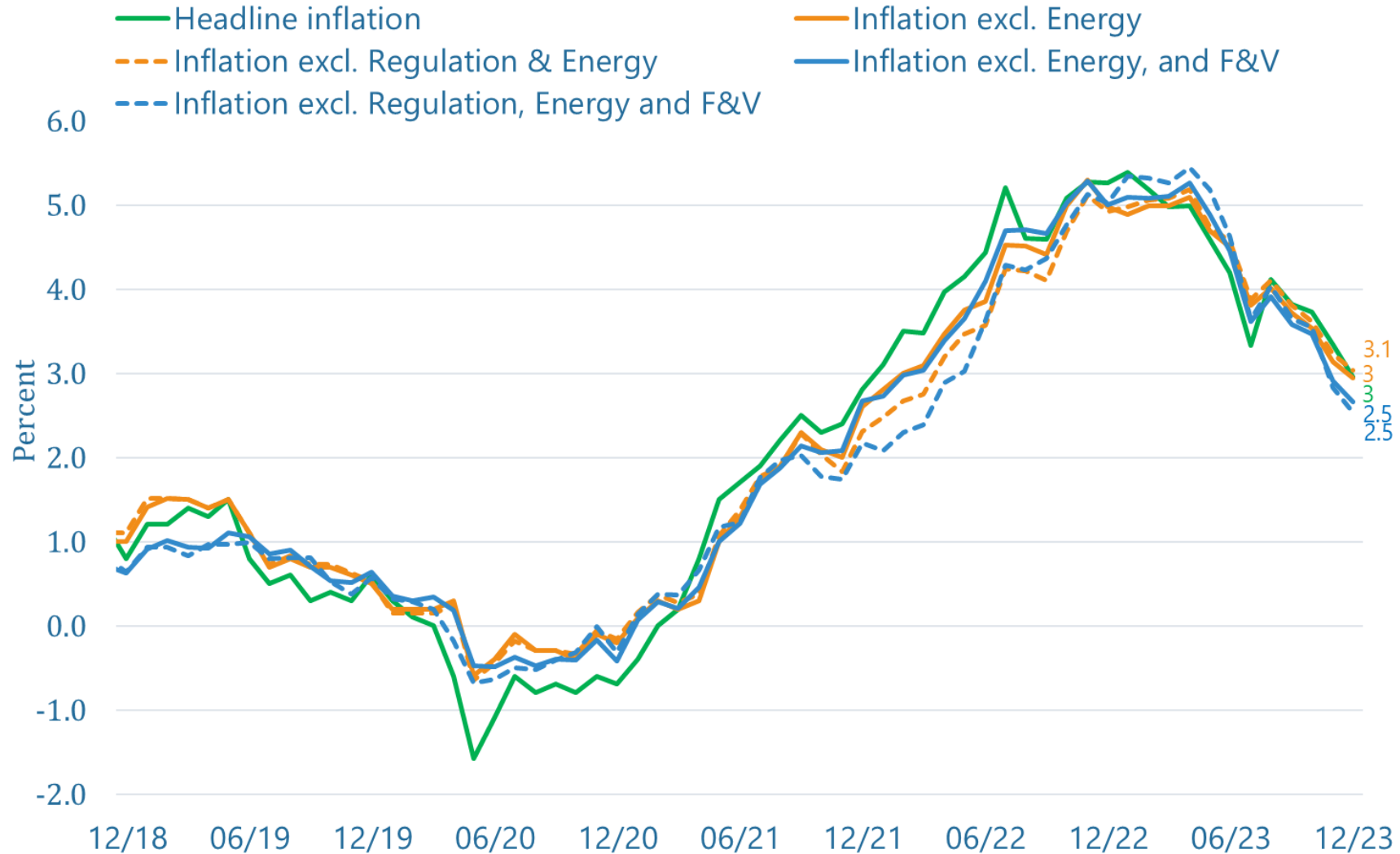
Annual rate, December 2019 to December 2023



*Non-tradables are 64% of the total CPI.

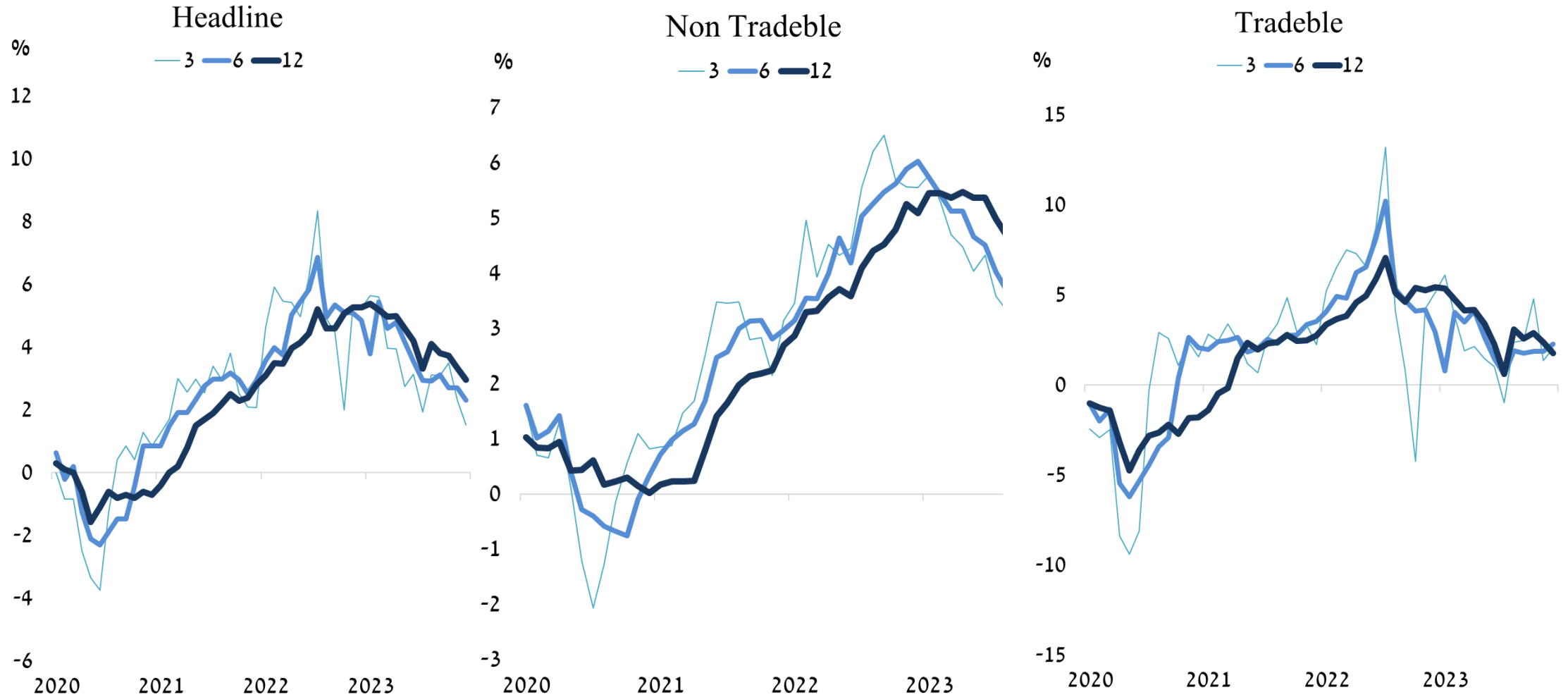
Headline and Core Inflation

December 2018 to December 2023



Instantaneous Inflation

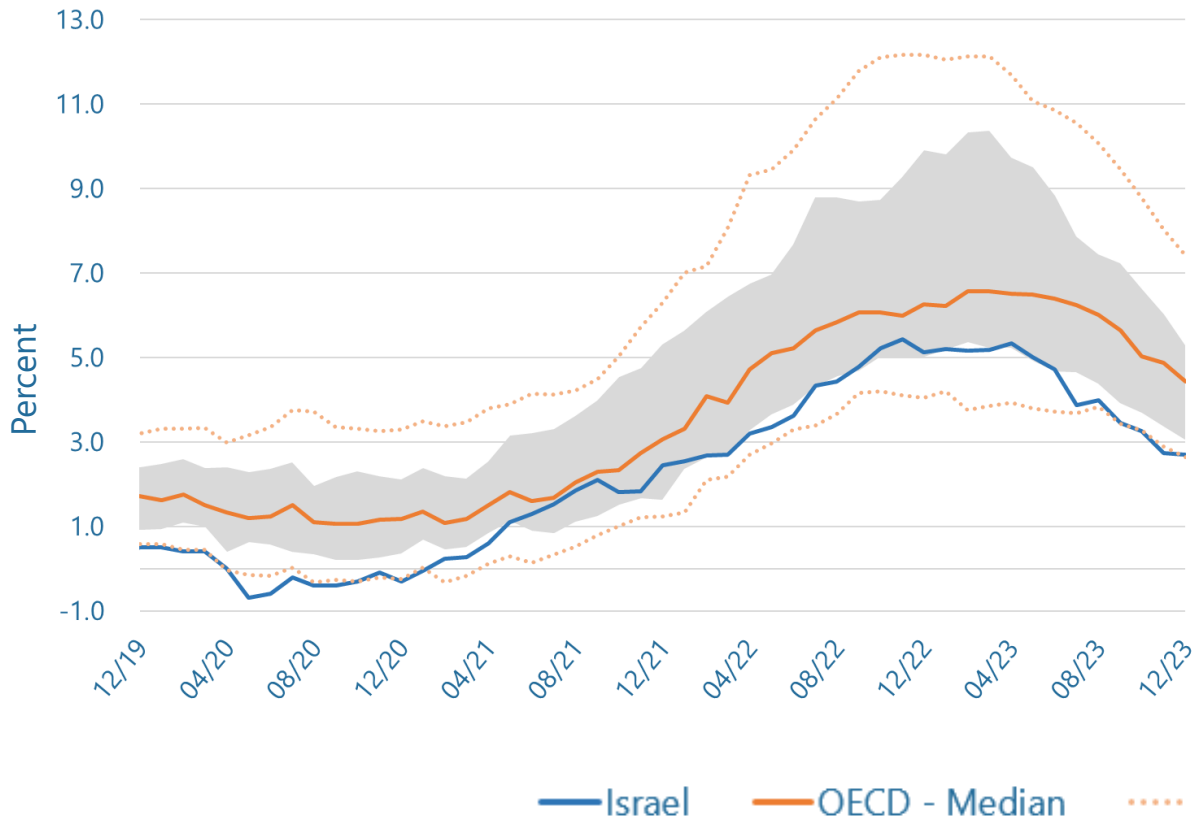
3, 6 month Annualized Rate and 12 month , January 2020 to December 2023



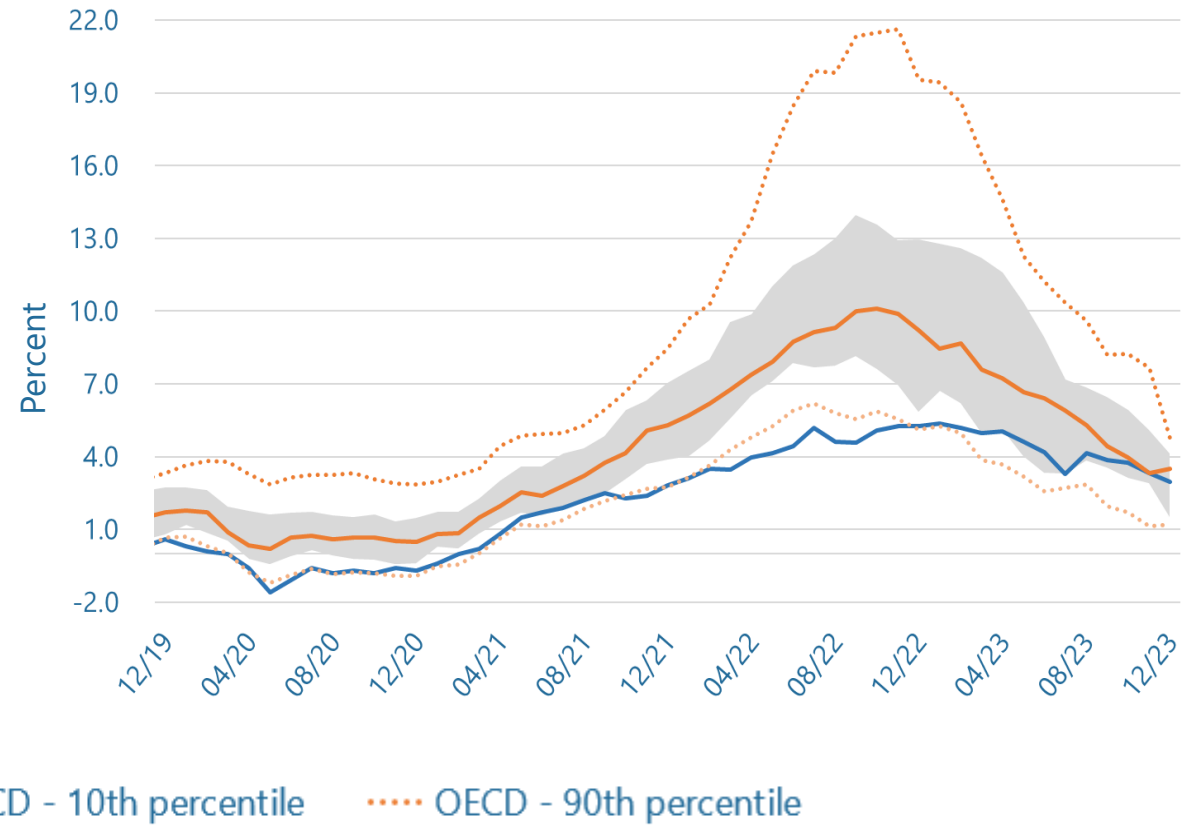
Inflation in Israel and OECD Countries

Annual rate, December 2019 – December 2023

Annual Inflation Non-Food Non-Energy



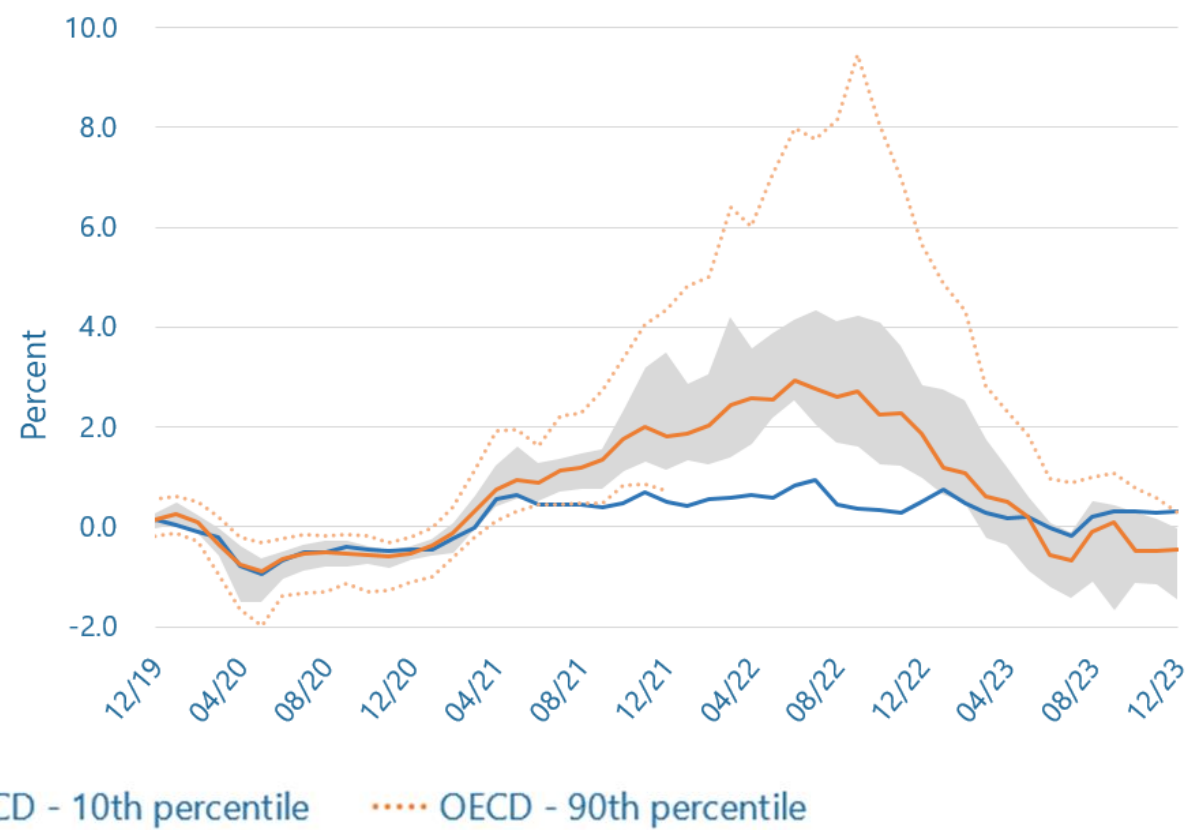
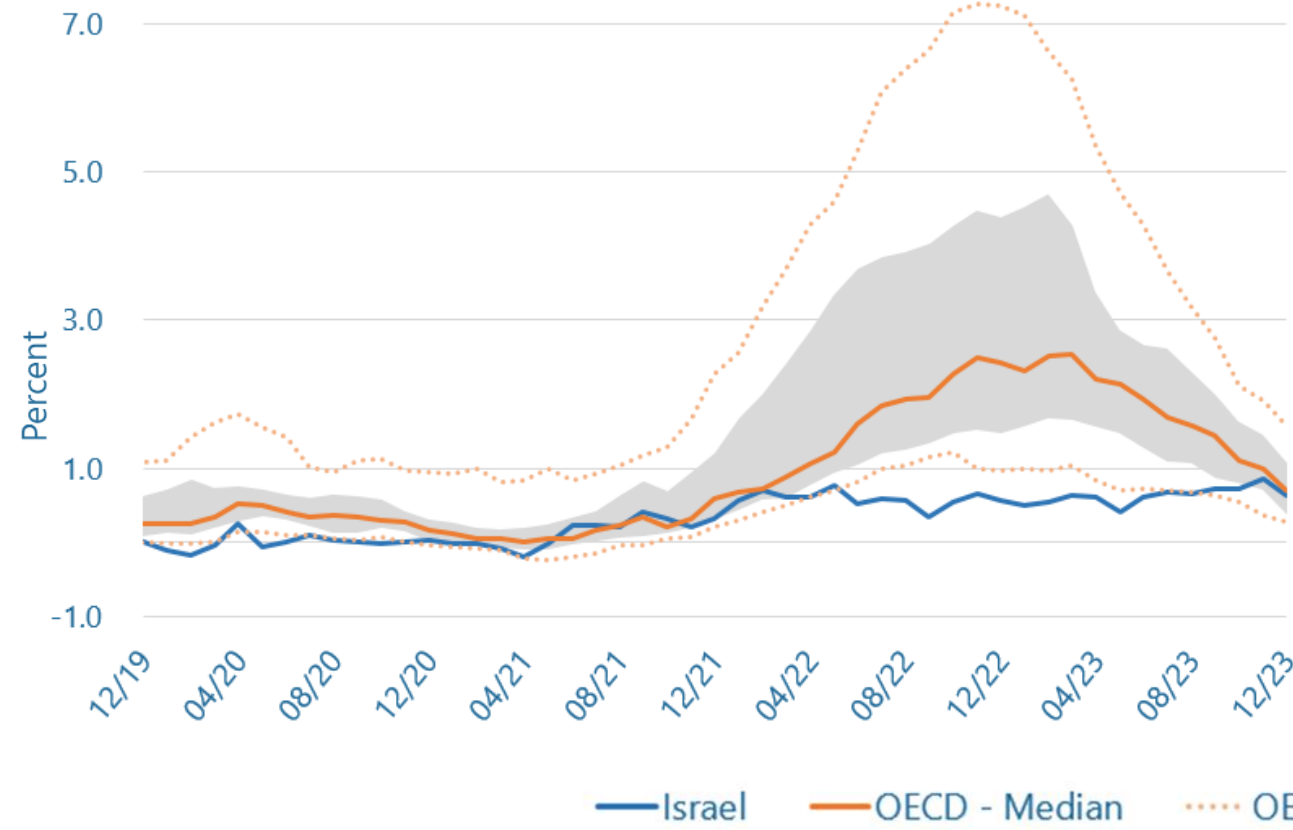
Annual Inflation



OECD Countries: Contribution of Food and Energy

Contribution of Food Component December 2019 – December 2023

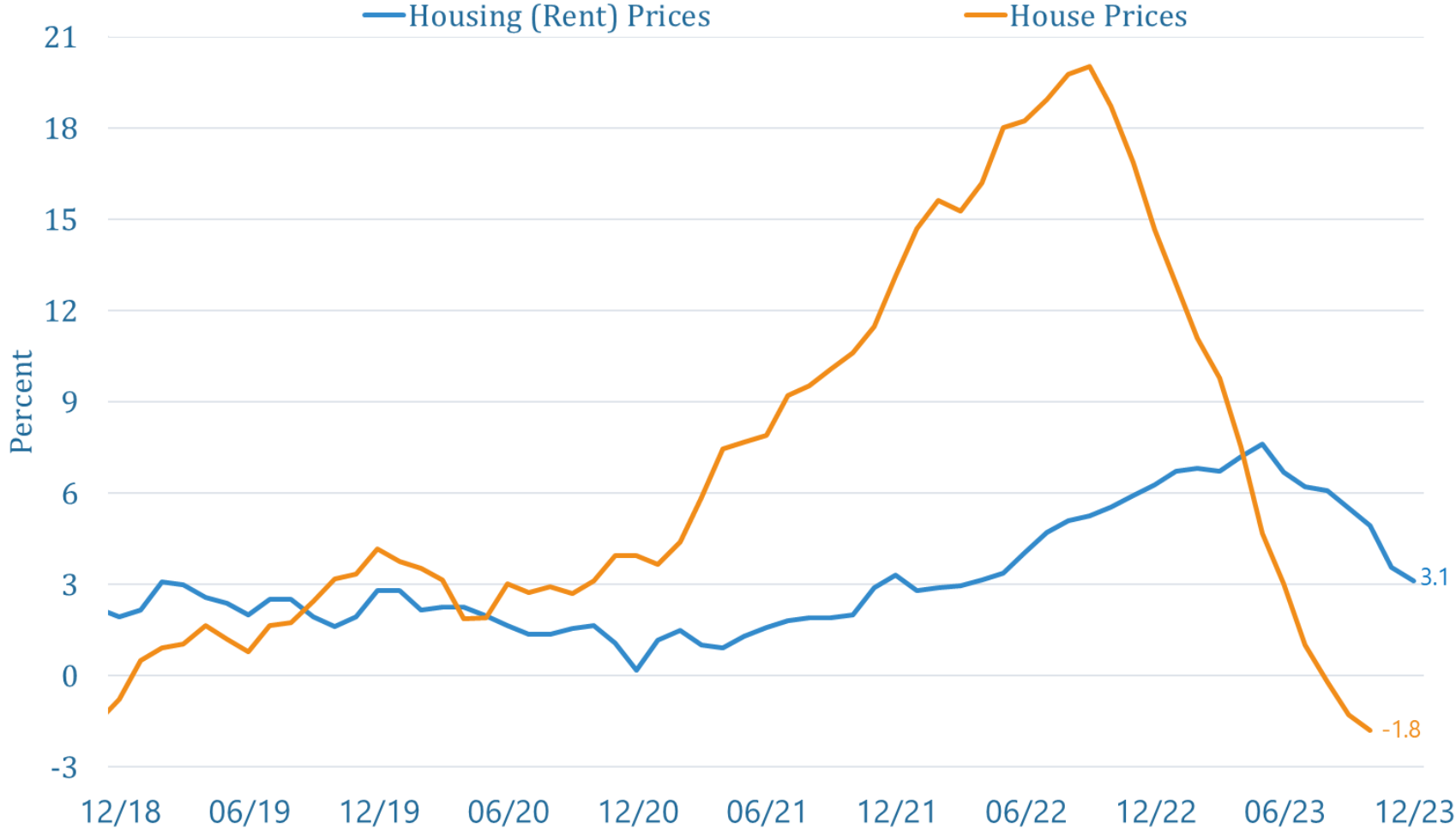
Contribution of Energy Component December 2019 – December 2023



Notes: The contributions are based on COICOP. The weight of the food component in Israel is 149.21 out of 1000. The weight of the Energy component in Israel is 54.63 out of 1000.

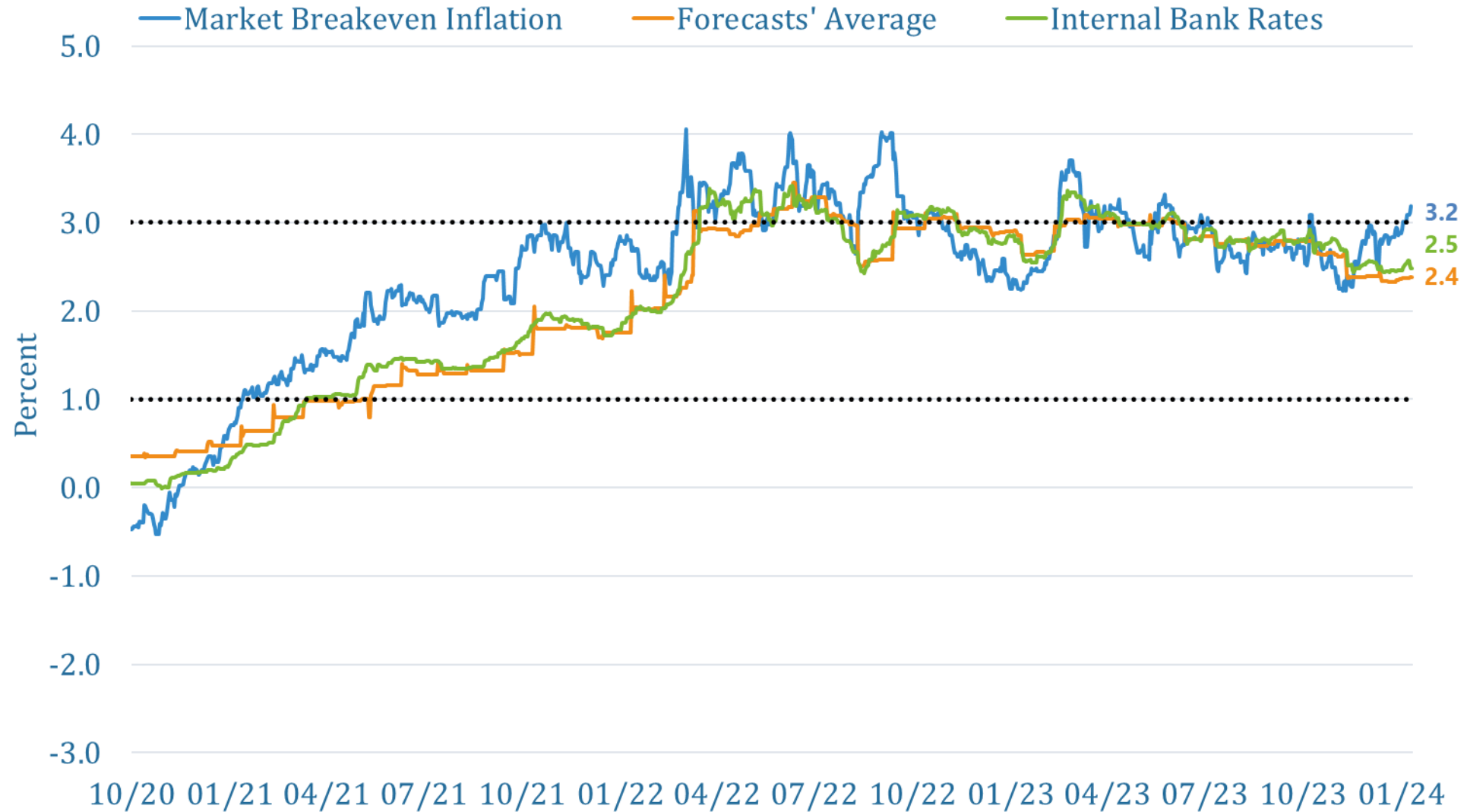
House and Housing Price

Annual Rate, December 2018 to December 2023



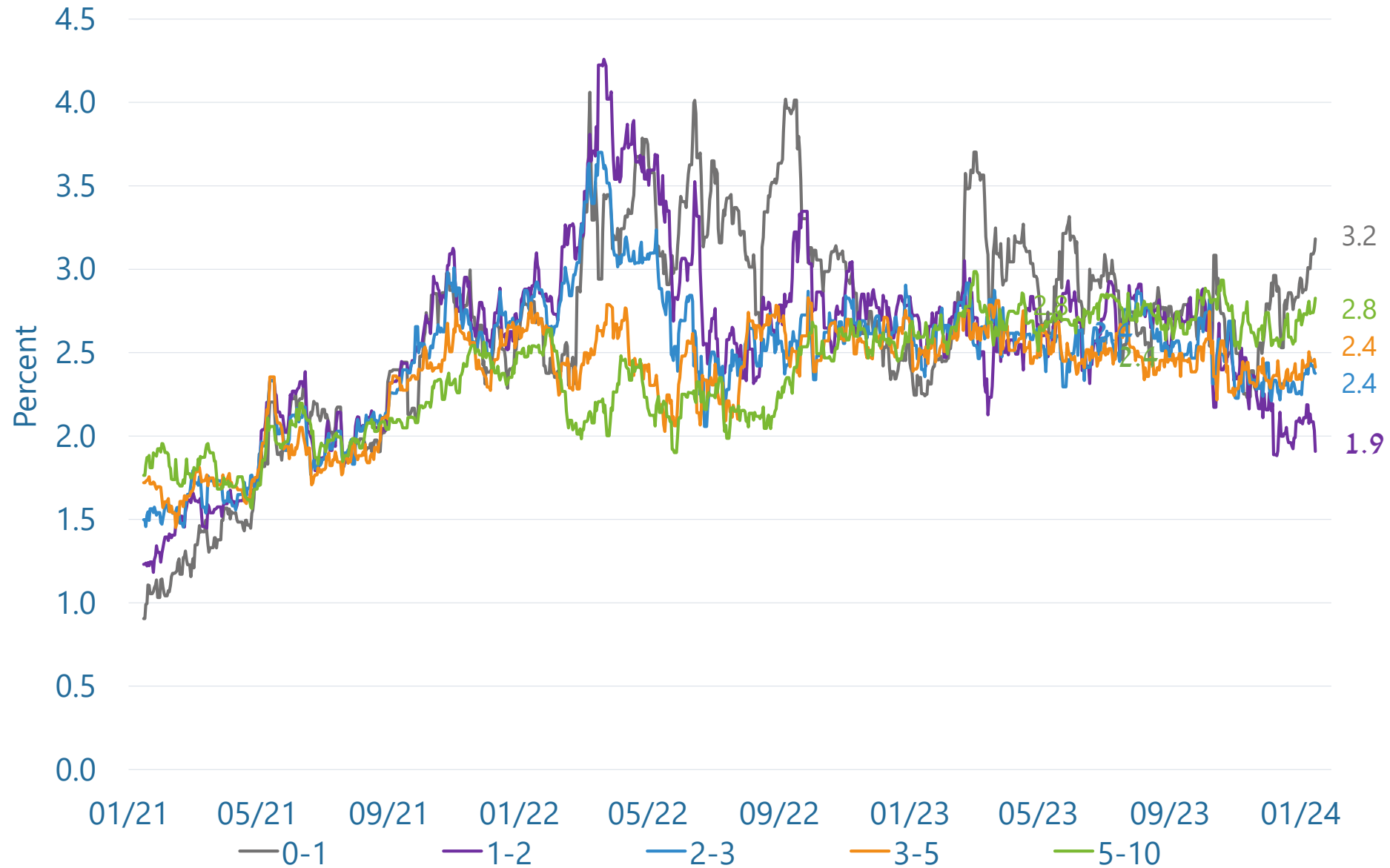
One Year Inflation Expectations

October 2020 to January 2024



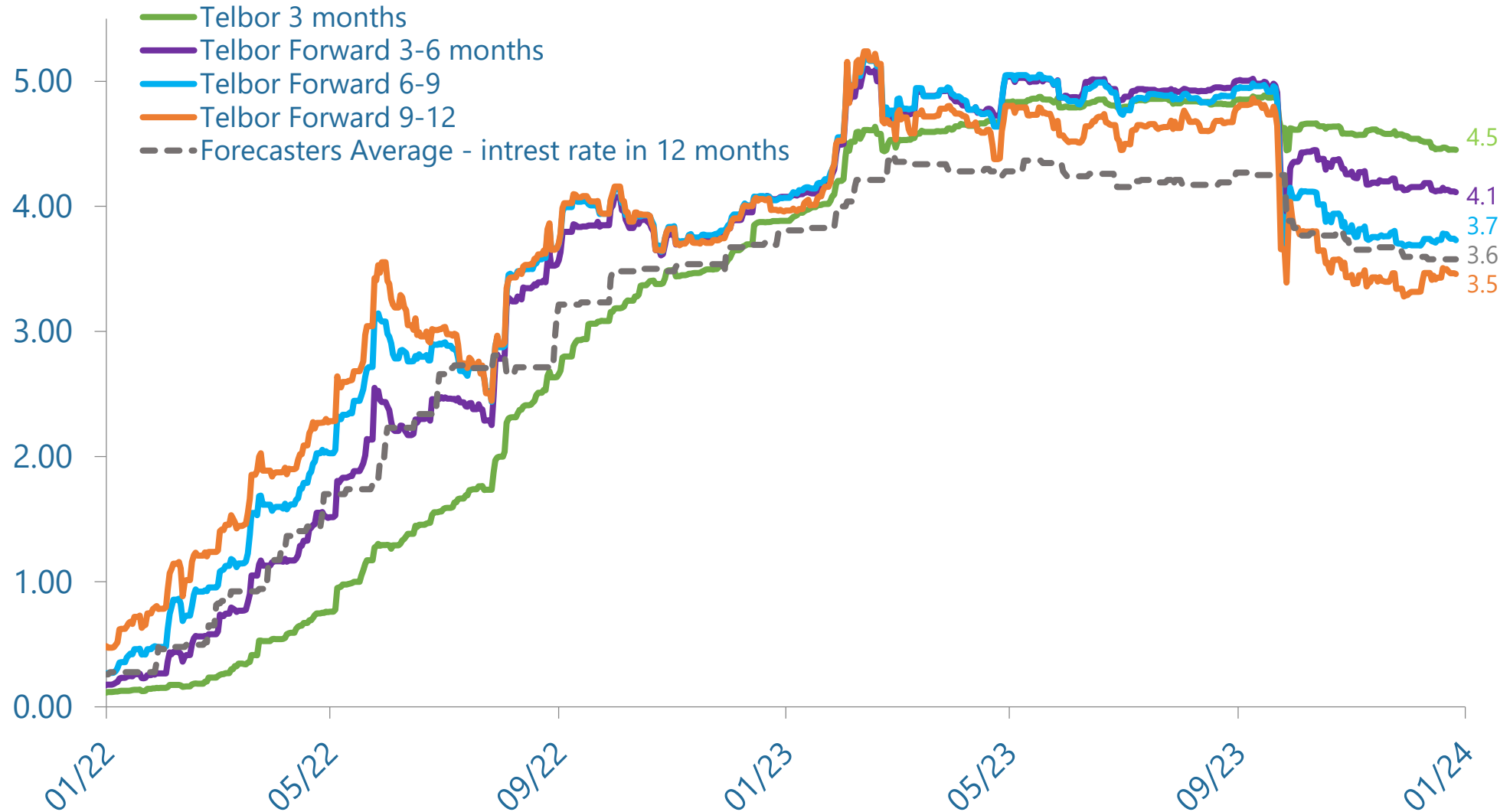
Forward Breakeven Inflation

January 2021 – January 2024



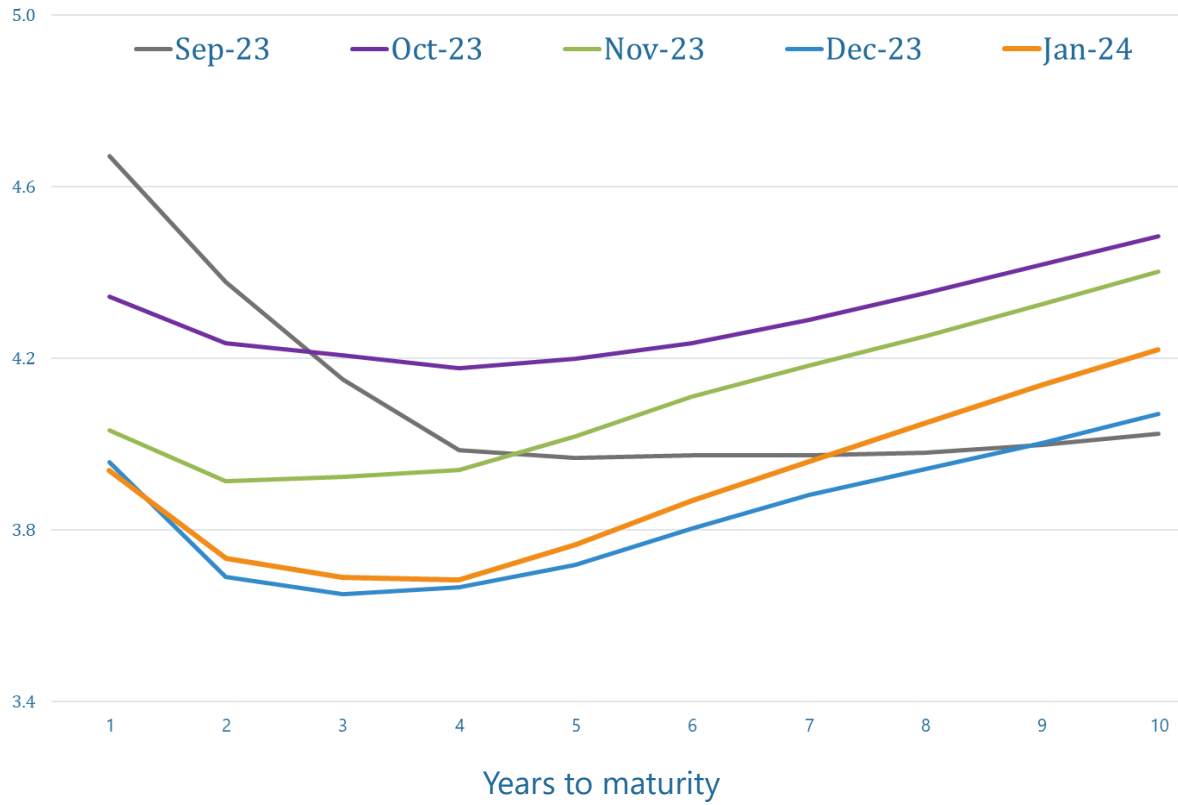
Interest Rate Expectations

January 2022 – January 2024

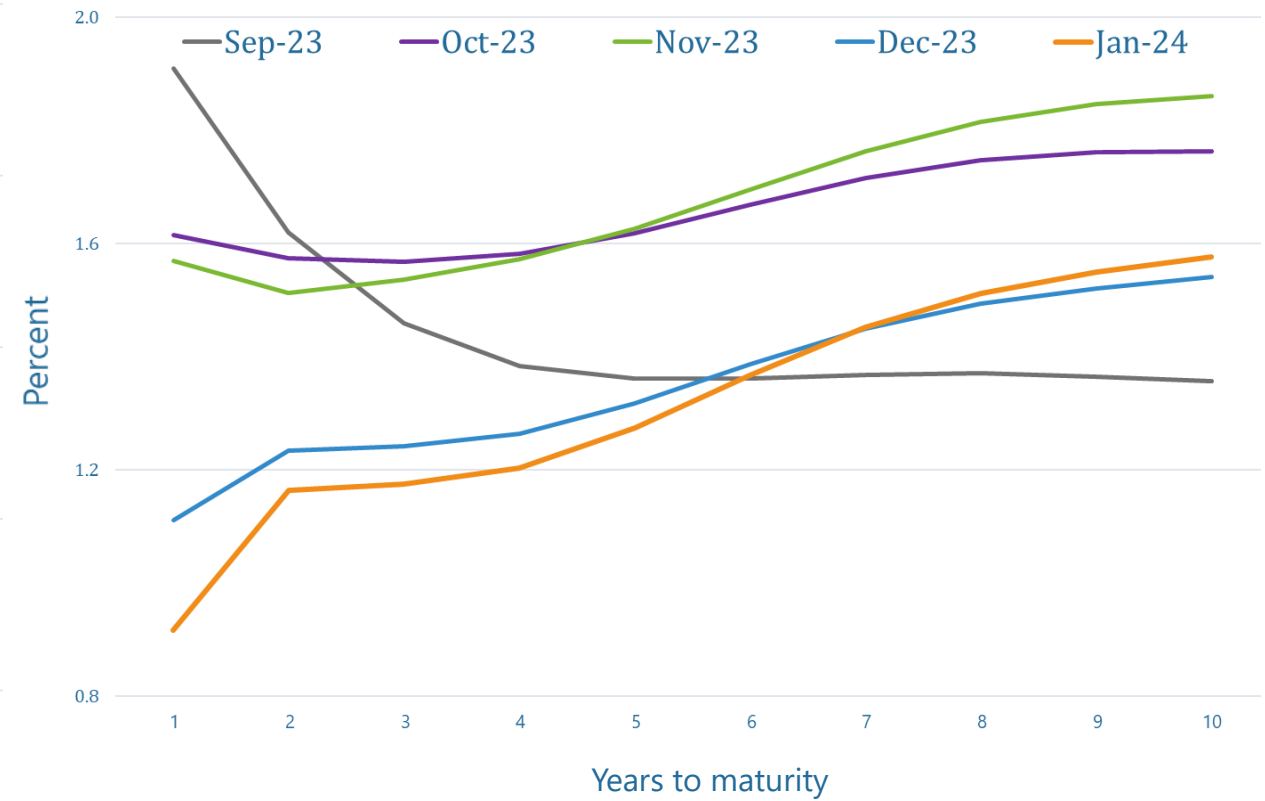


The Yield Curve

Nominal

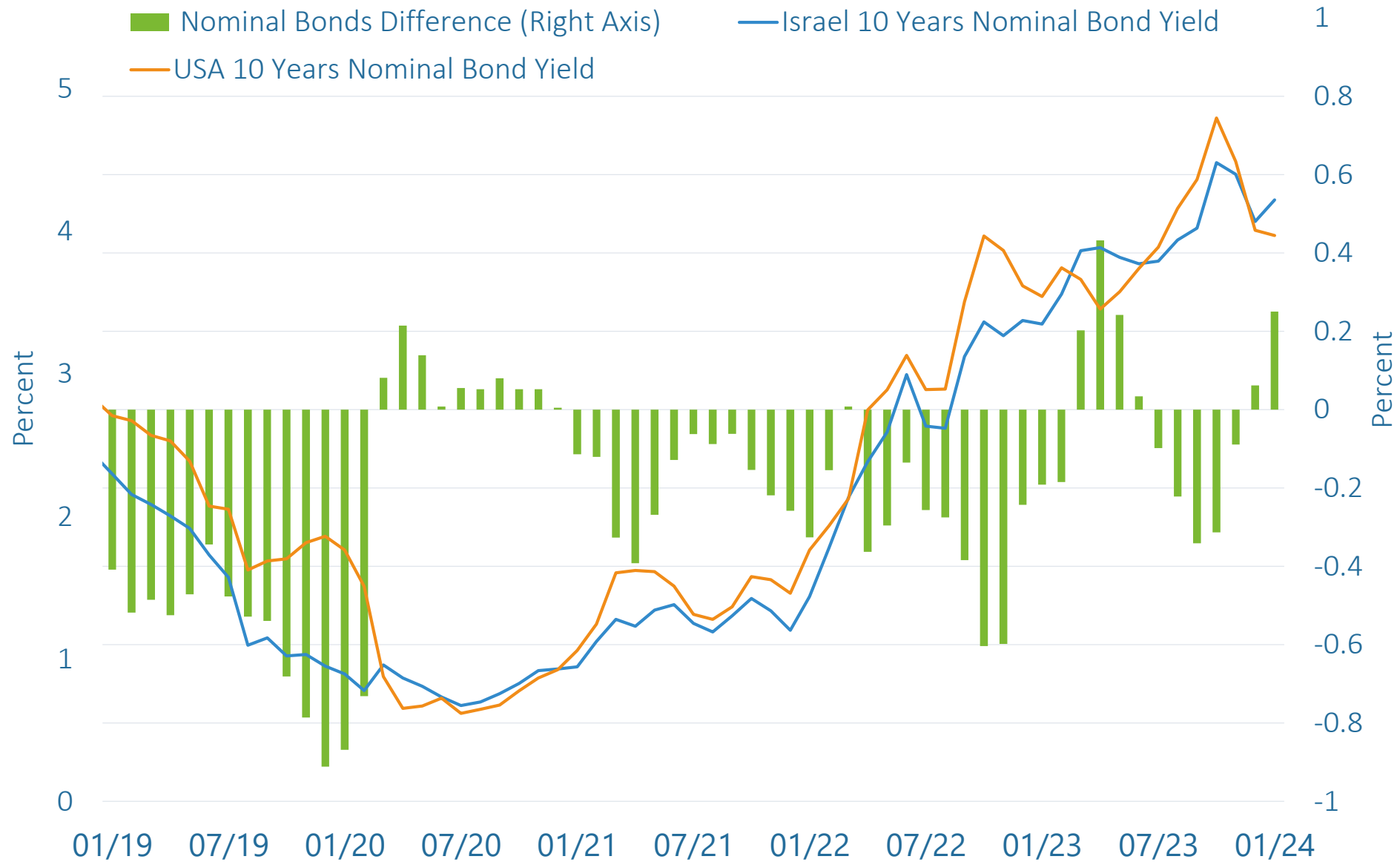


Real



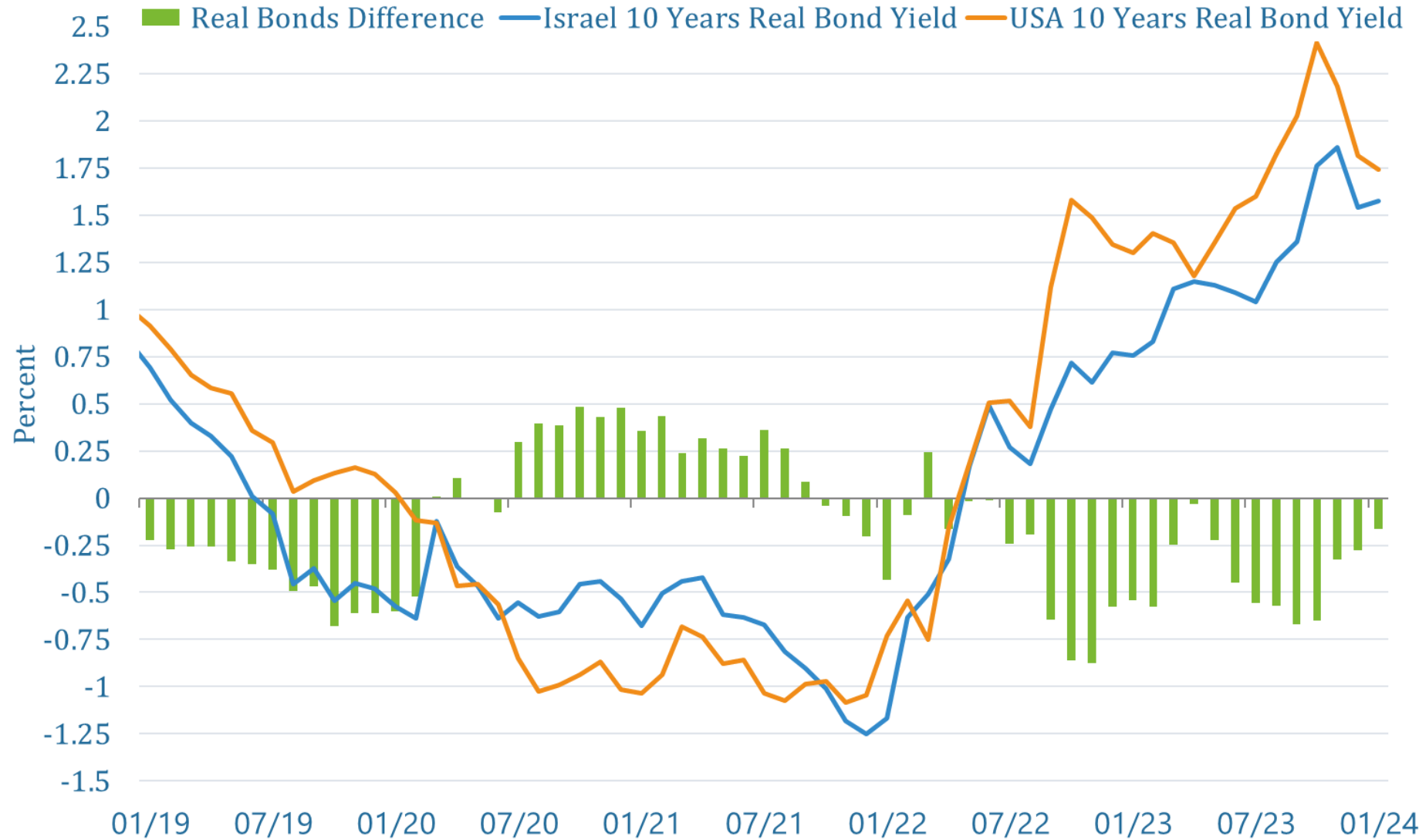
US and Israel 10 Years Nominal Yields

January 2019 to January 2024



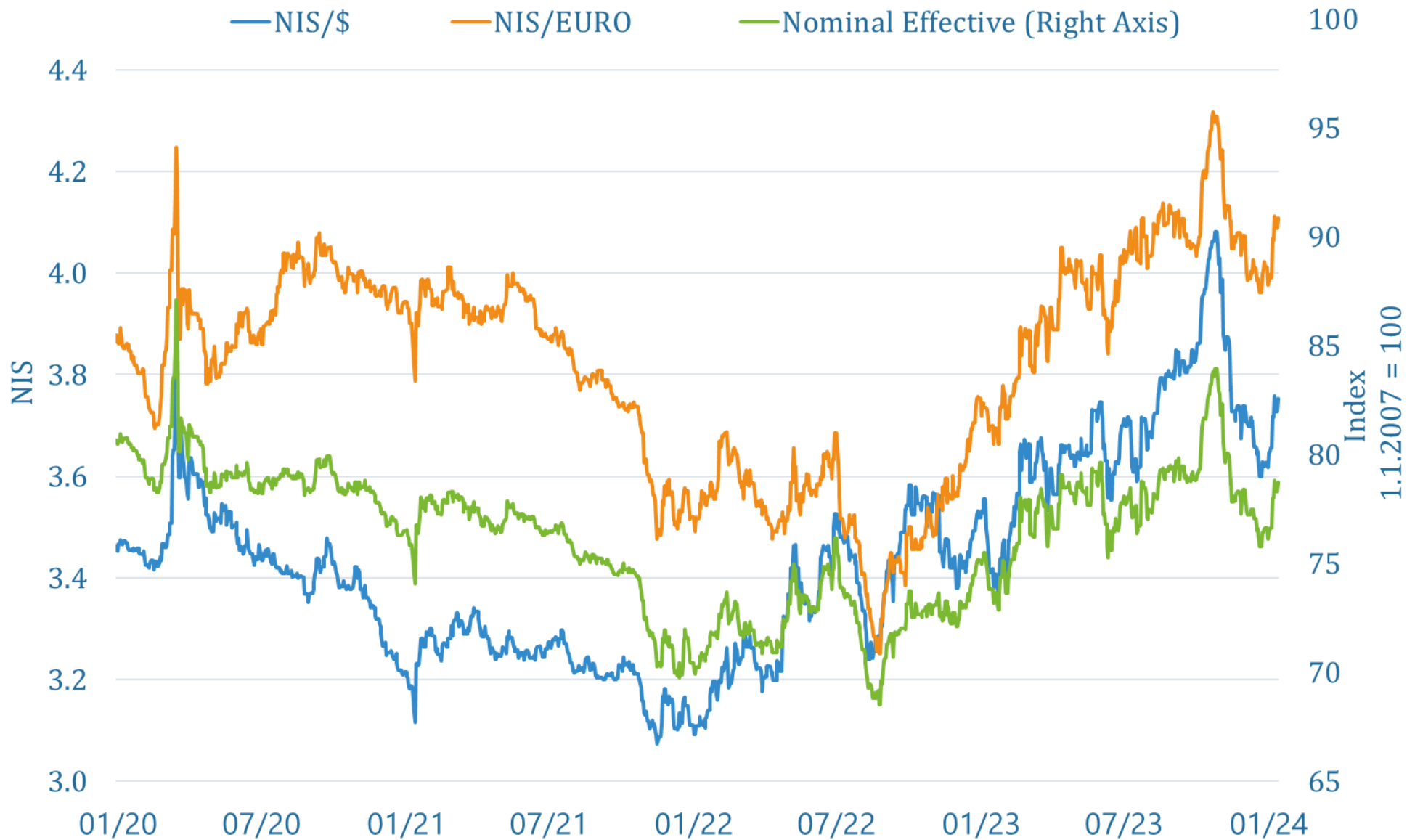
US and Israel 10 Years Real Yields

January 2019 to January 2024



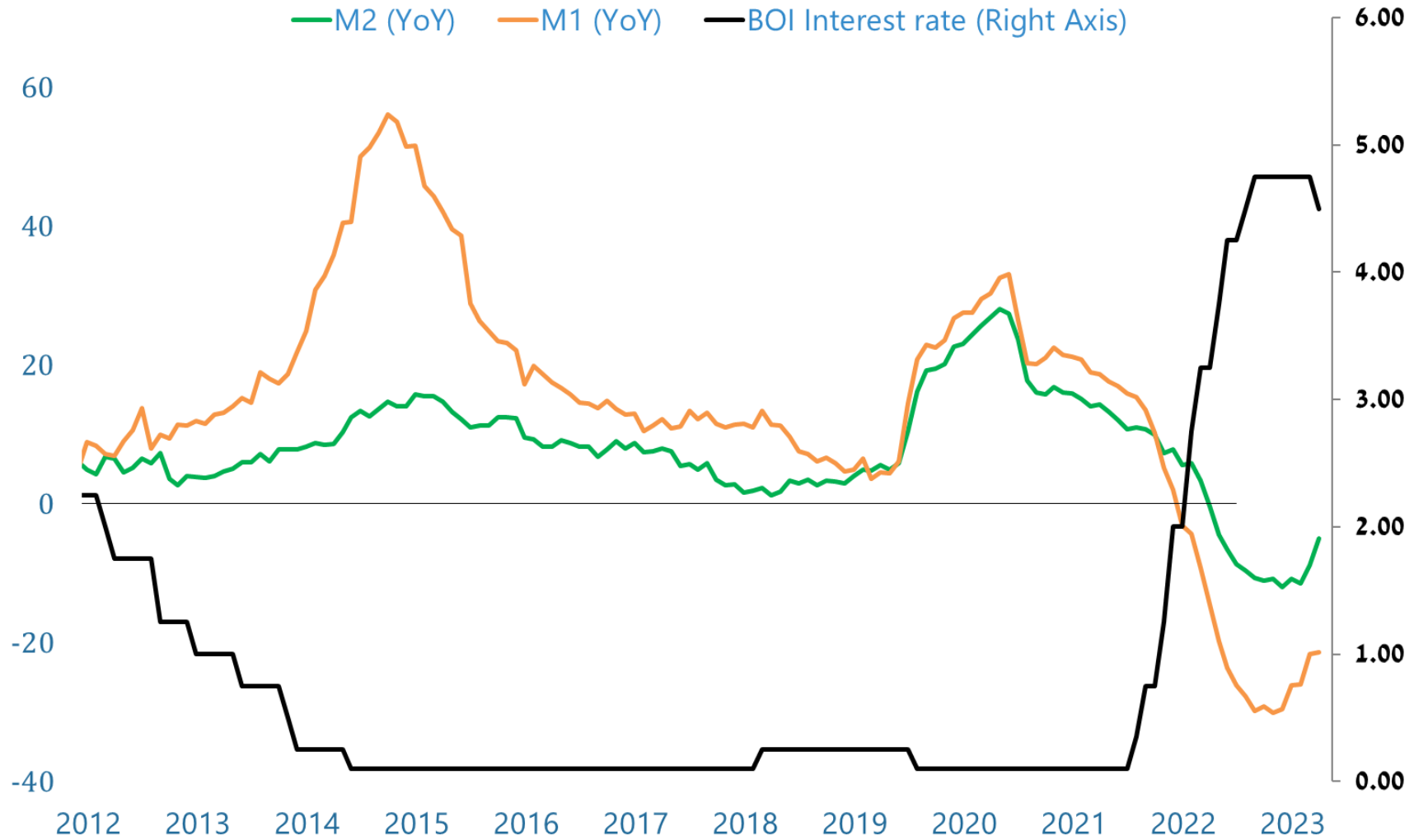
The Nominal Exchange Rate

January 2020 to January 2024



Monetary Aggregates and Interest Rate

September 2012 to January 2024, Annual Growth Rates



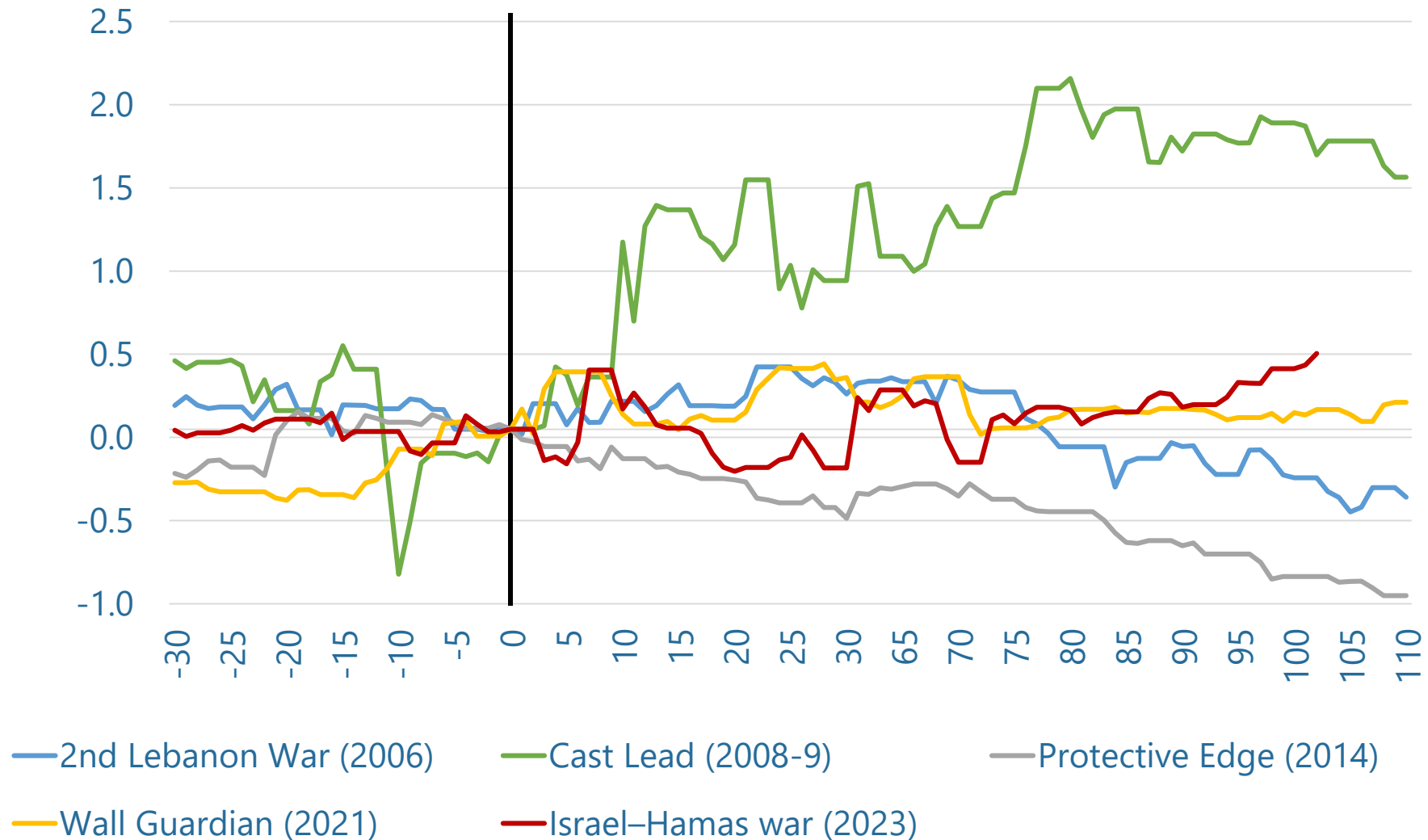


Reaction of Markets to Present and Past Conflicts



One Year Inflation Expectations

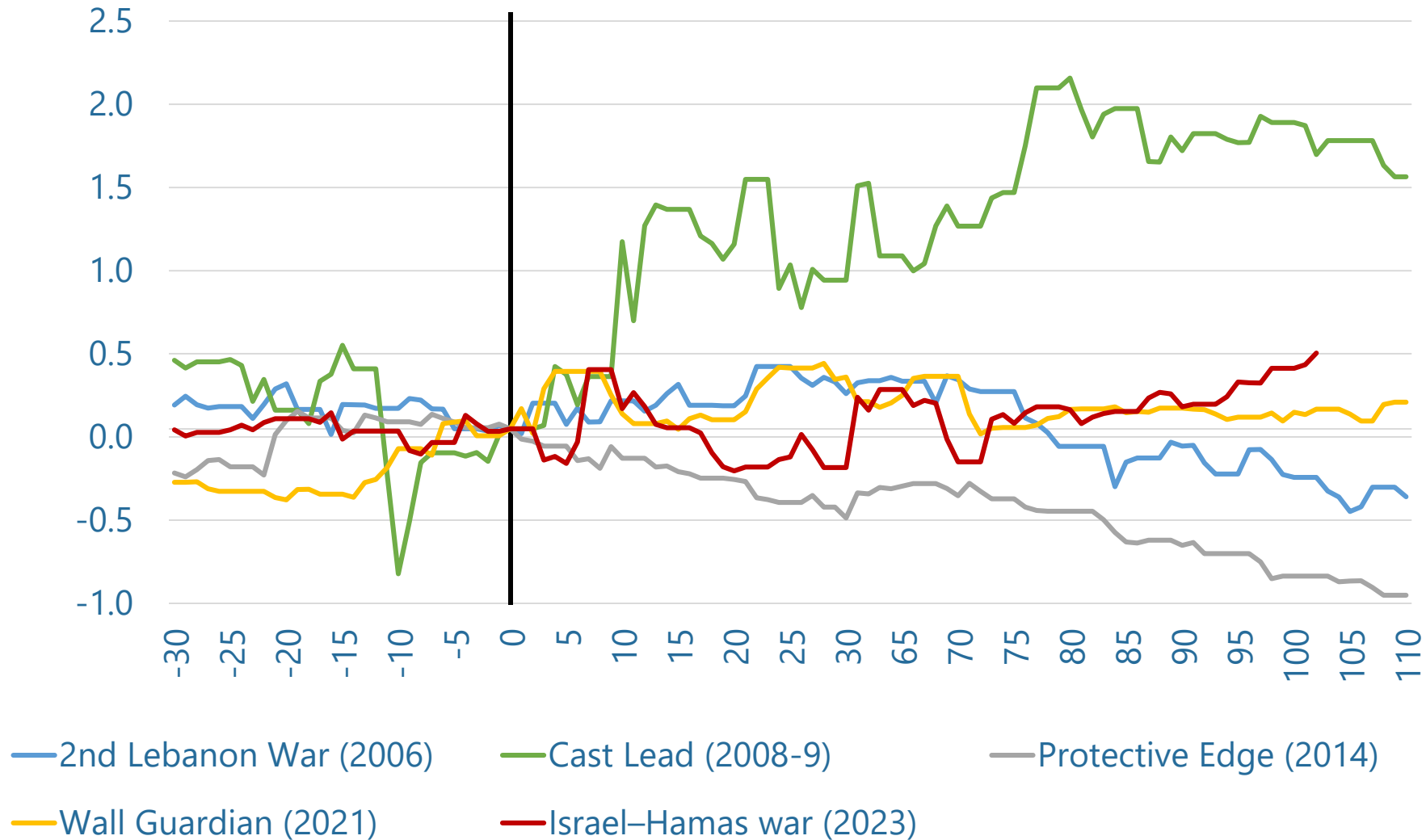
Change from the conflict onset day, in percentage point





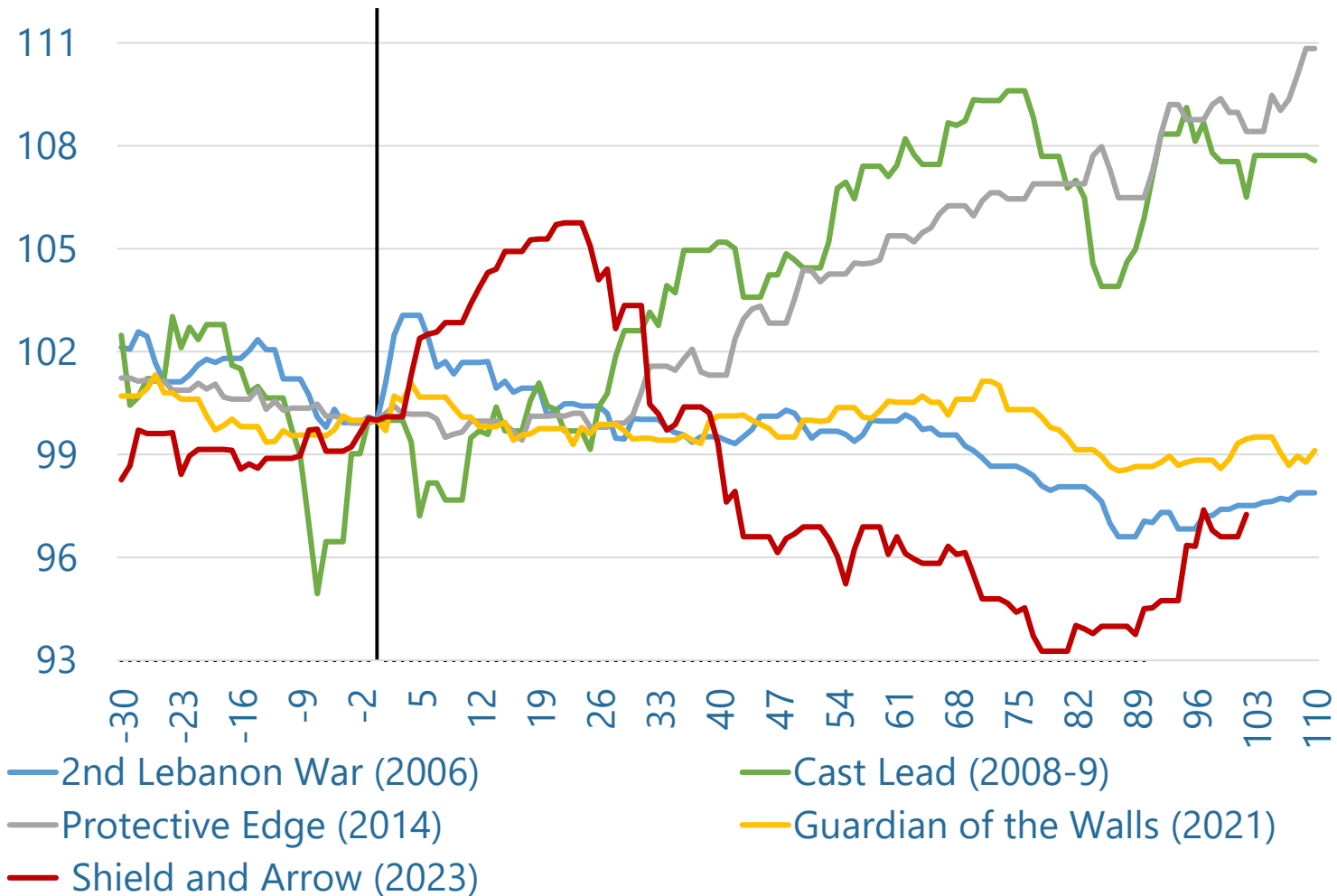
Forward Breakeven 5-10 Year Inflation Expectations

Change from the conflict onset day, in percentage point



The Nominal Exchange Rate – USD-ILS

Index, conflict onset day=100



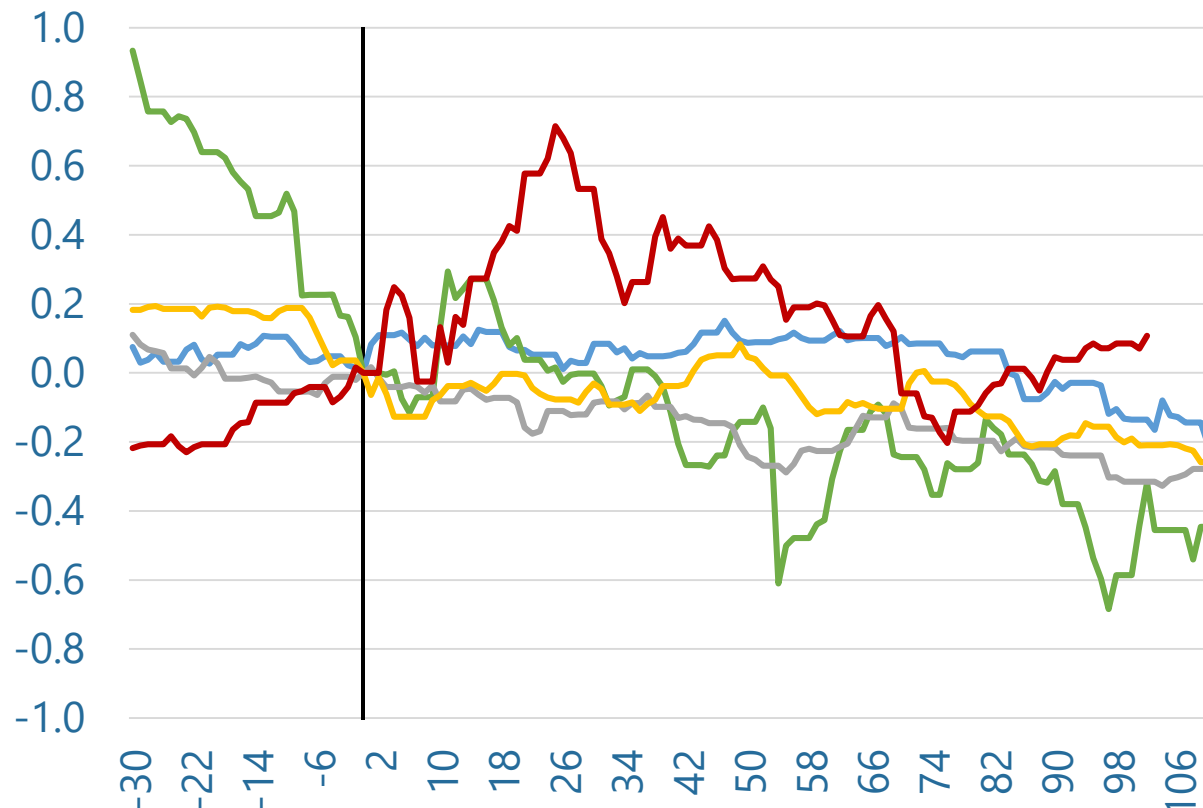
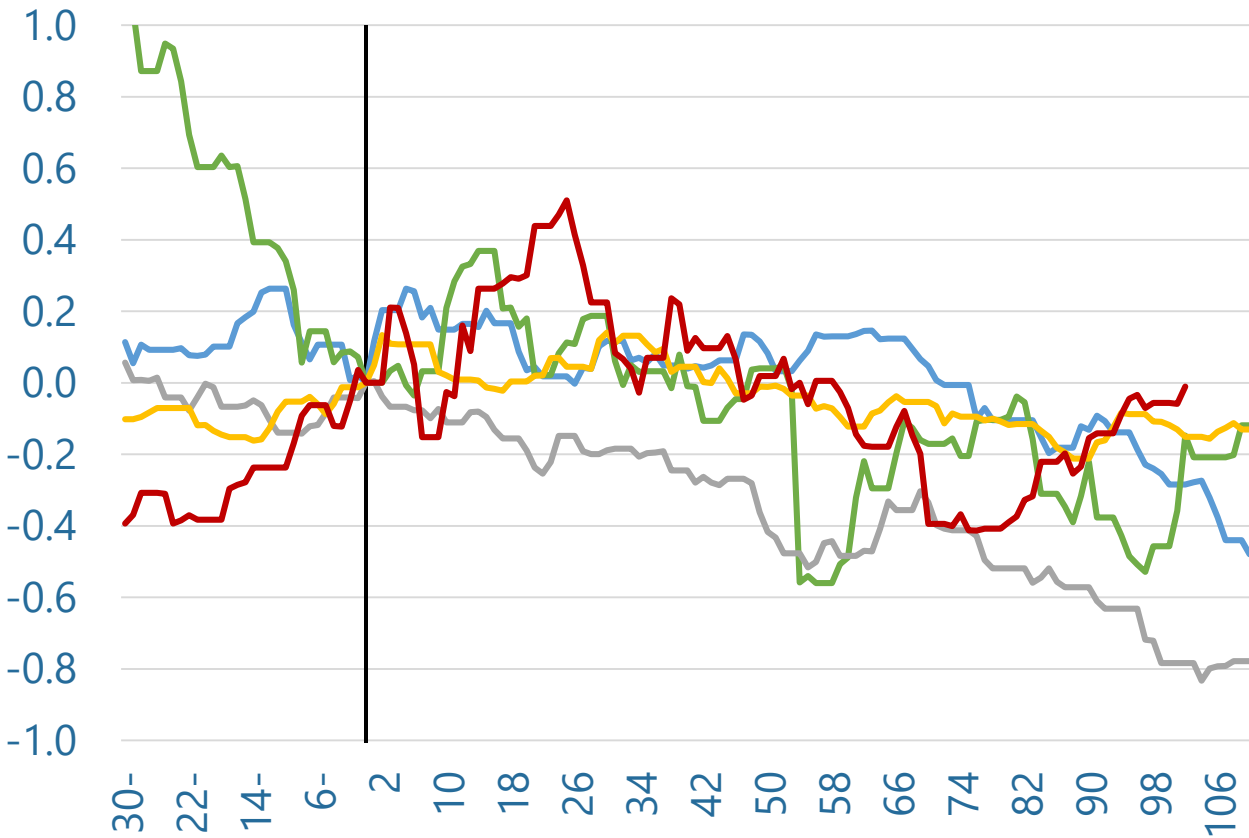


The 10 years Yield (Zero-Coupon Curve)

Change from the conflict onset day, in percentage point

Nominal

Real



- 2nd Lebanon War (2006)
- Protective Edge (2014)
- Israel-Hamas war (2023)

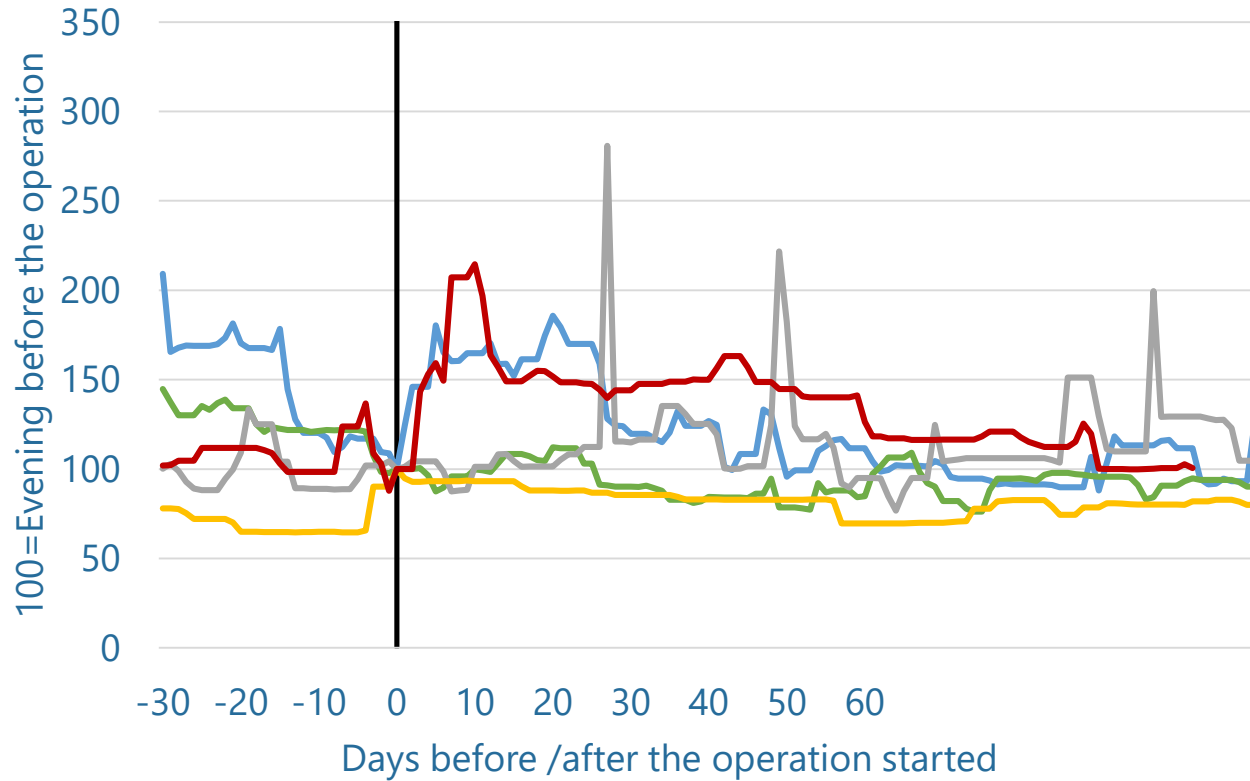
- Cast Lead (2008-9)
- Wall Guardian (2021)



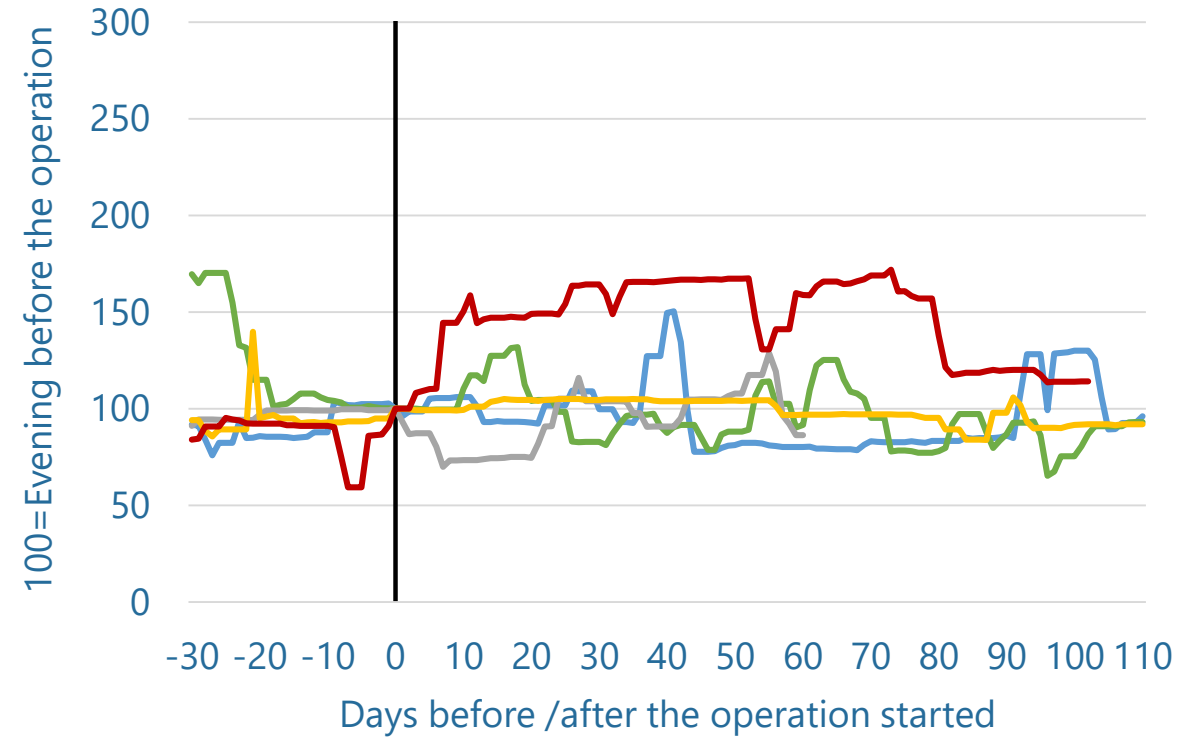
Bid-Ask Spreads Government Bonds Market

Index, conflict onset day=100

Nominal



CPI - Indexed



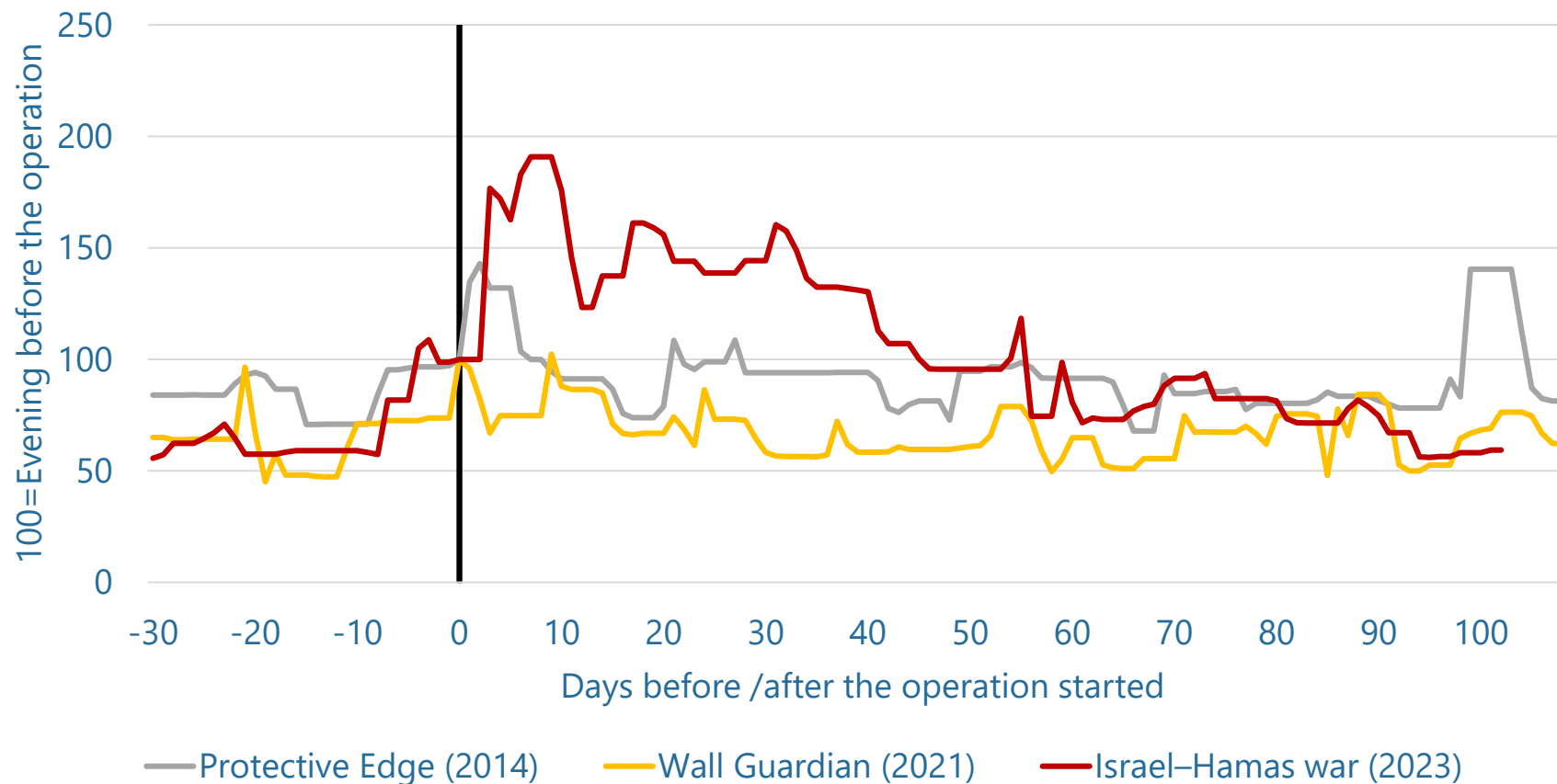
- 2nd Lebanon War (2006)
- Protective Edge (2014)
- Israel-Hamas war (2023)

- Cast Lead (2008-9)
- Wall Guardian (2021)



Bid-Ask Spreads Corporate Bond Market

Index, conflict onset day=100





Staff Forecast

Research Department Staff Forecast, October 2023

(Rates of change, percent, unless stated otherwise)

	2022 Actual	Estimate for 2023	Change from the November forecast	Forecast for 2024	Change from the November forecast	Forecast for 2025
GDP	6.5	2.0	-	2.0	-	5.0
Private consumption	7.7	-0.5	-	3.0	1.0	6.0
Fixed capital formation (excl. ships and aircraft)	11.0	0.5	-1.5	-3.0	-4.0	6.5
Public consumption (excl. defense imports)	1.4	9.5	1.0	6.5	5.0	0.5
Exports (excl. diamonds and startups)	9.6	.0	-1.0	0.5	-1.0	5.0
Civilian imports (excl. diamonds, ships, and aircraft)	12.7	-5.5	-2.5	-4.0	-5.0	9.5
GDP diversion from the pre-COVID trend, average during the year (percent)	2.4	0.7		-1.3		-0.3
Broad unemployment rate (average for the year, ages 25–64) ^b	3.6	4.5	0.2	5.3	0.8	3.2
Adjusted employment rate (average for the year, ages 25–64) ^b	78.3	77.7	-0.4	76.7	-0.9	78.7
Government deficit (percent of GDP)	-0.6	4.0	0.3	5.7	0.7	3.8
Debt to GDP ratio (percent)	60.5	62.0	-1.0	66.0	-	66.0
Inflation (percent) ^c	5.1	3.3	-0.2	2.4	-	2.0

^a In the forecast of National Accounts components, the rate of change is rounded to the nearest half percentage point.

^b According to the Central Bureau of Statistics definition, the broad unemployment rate includes the unemployed under the normal definition (someone who has not worked, wanted to work, was available to work, and searched for work), as well as employees who were temporarily absent from their jobs for economic reasons (including furloughed workers). Accordingly, the adjusted employment rate does not include those temporarily absent from their jobs for economic reasons.

^c The average of the Consumer Price Index in the last quarter of the year compared with the average in the last quarter of the previous year.

Staff Forecast - Forecasts Comparison

Inflation and Interest Rate Forecasts for the Coming Year (Percent)

(percent)

	Bank of Israel Research Department	Capital markets ^a	Private forecasters ^b
Inflation rate ^c (range of forecasts)	2.4	2.8	2.3 (1.9–2.6)
Interest rate ^d (range of forecasts)	3.75/4.00	3.4	3.6 (3.00–4.00)

a) Inflation expectations are seasonally adjusted (as of December 31, 2023).

b) The average of forecasts published following the publication of the Consumer Price Index for November 2023.

c) Research Department: the inflation rate during the four quarters ending in the fourth quarter of 2024.

d) Research Department: the average interest rate in the fourth quarter of 2024. Expectations derived from the capital market are based on the Telbor market (as of December 31, 2023).

SOURCE: Bank of Israel.

Thank You