



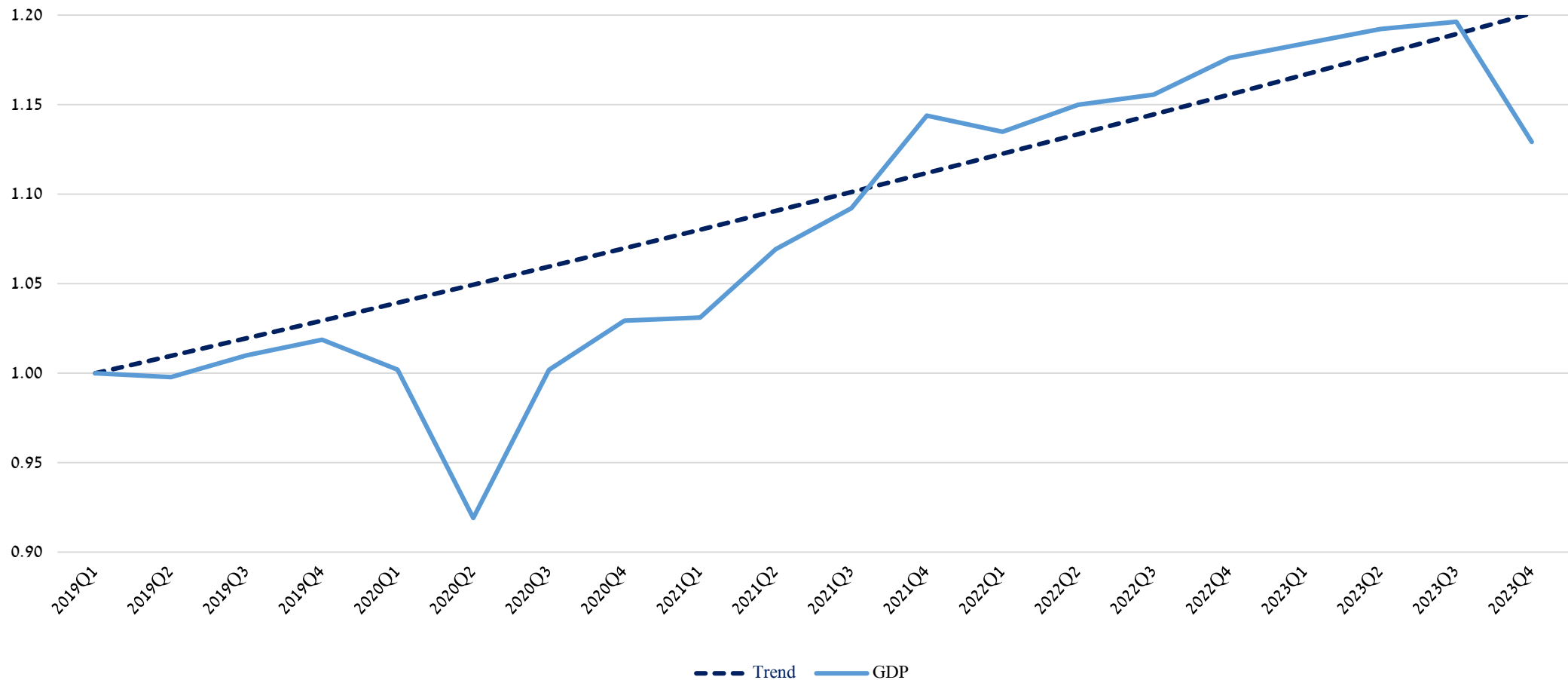
Macroeconomic and Fiscal Developments

April 2024



Up to the war, GDP was above trend for 8-9 quarters and was on a path to a soft landing. In the fourth quarter GDP was approx.. 5% below trend

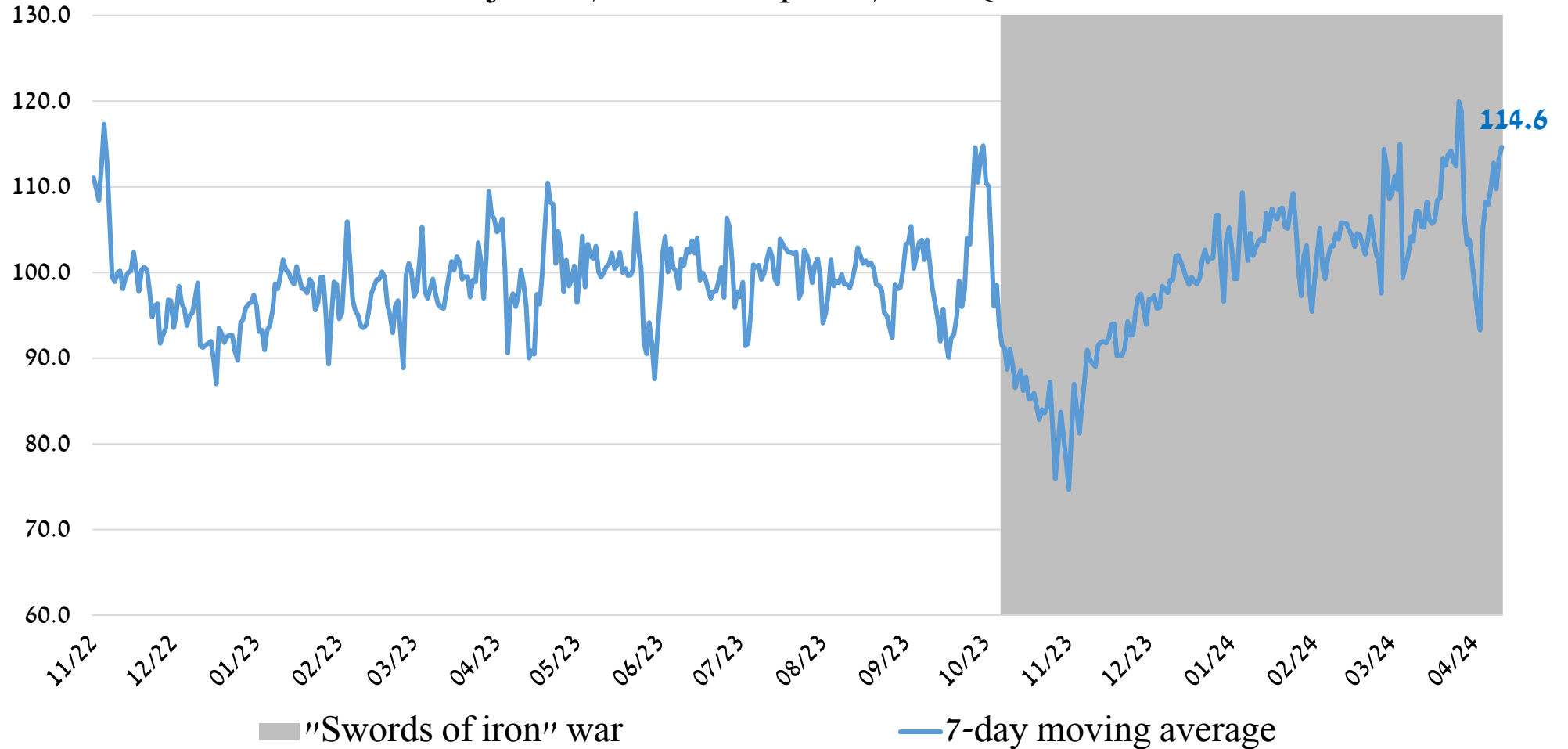
GDP in relation to it's trend
quarterly, constant prices, index: Jan2019=1





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

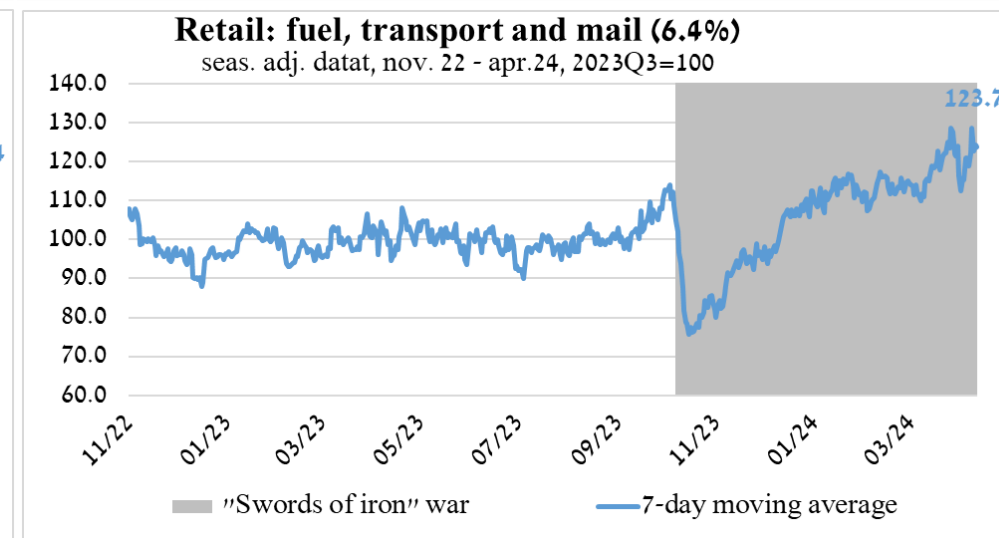
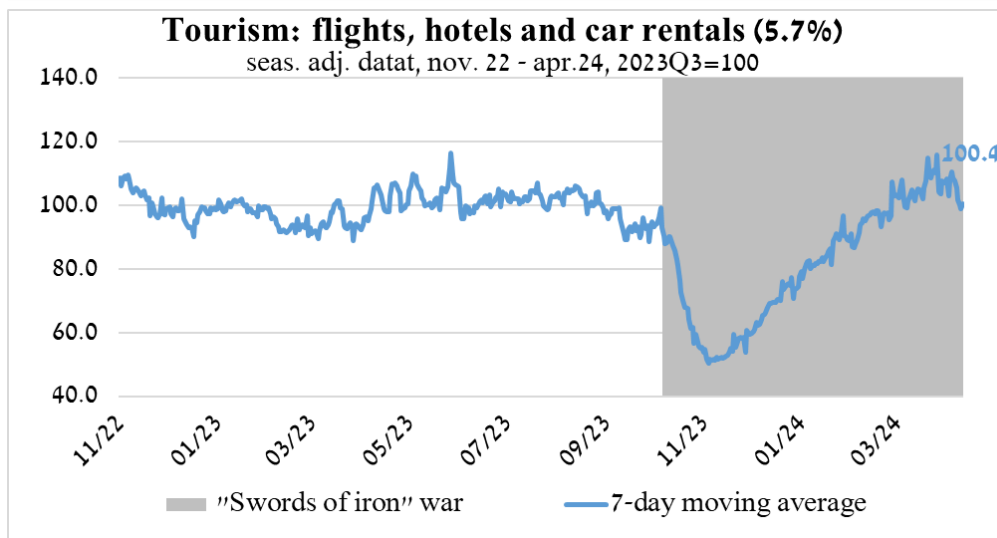
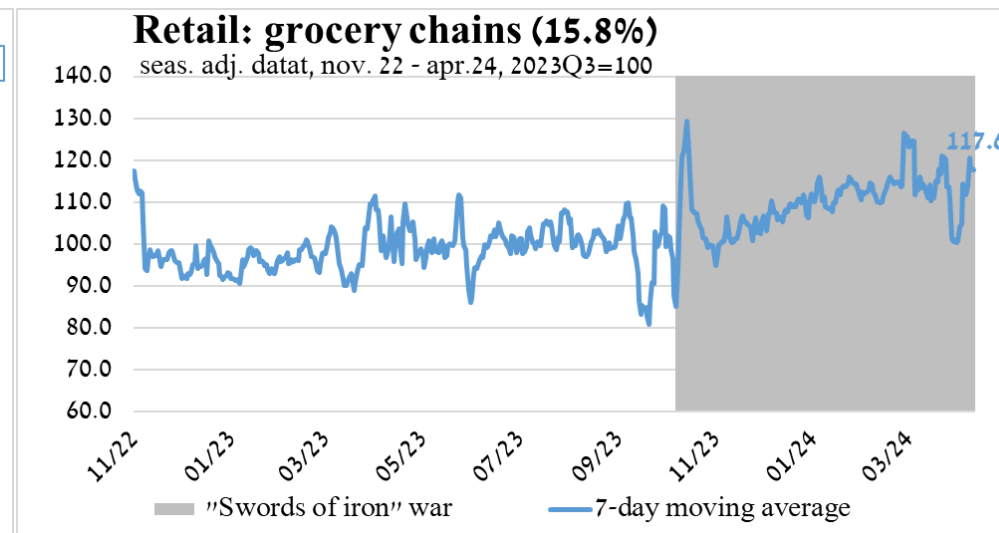
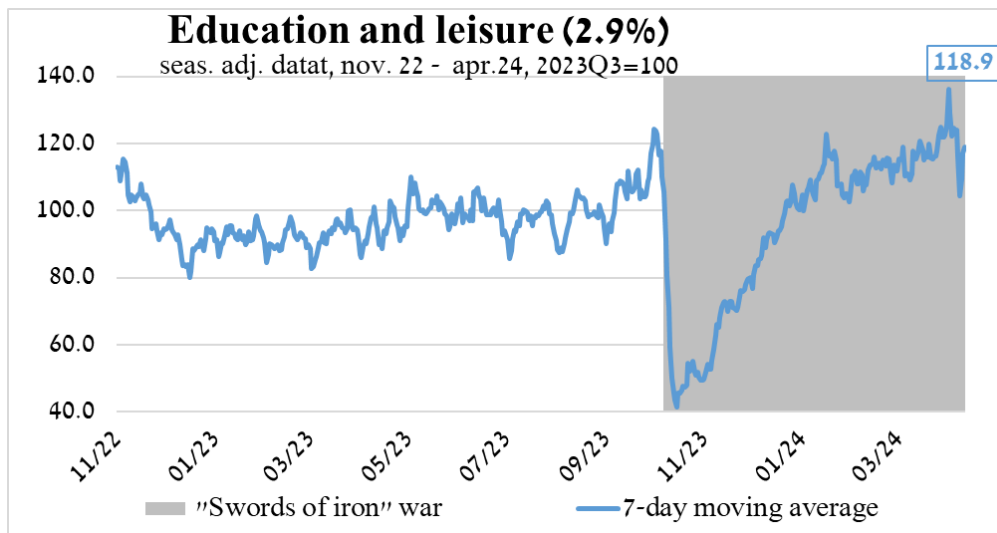
Total credit cards expenditure index seas. adj. data, nov. 22 - apr. 24, 2023Q3=100



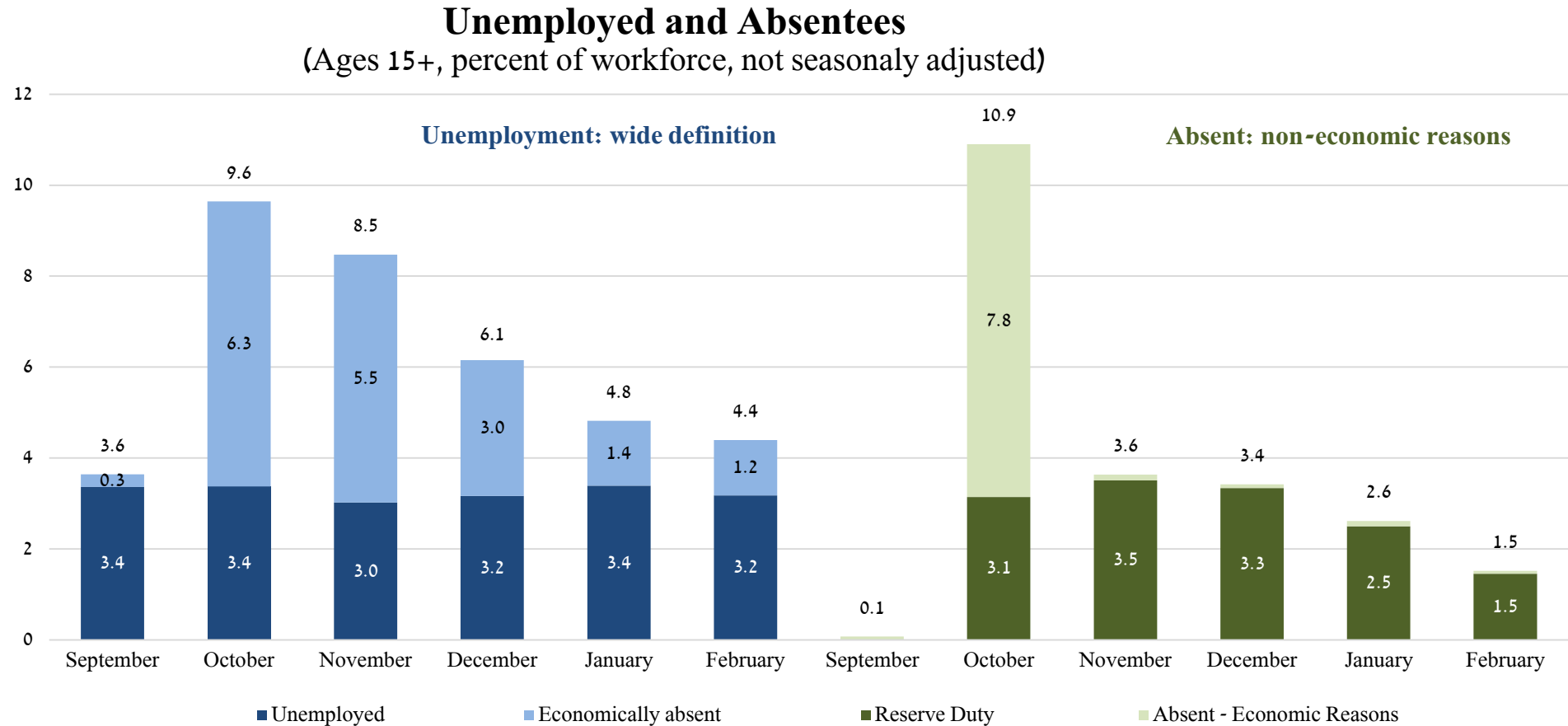
Source: Based on Shva seasonally adjusted data



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A sharp decline in the share of those absent from work due to the war



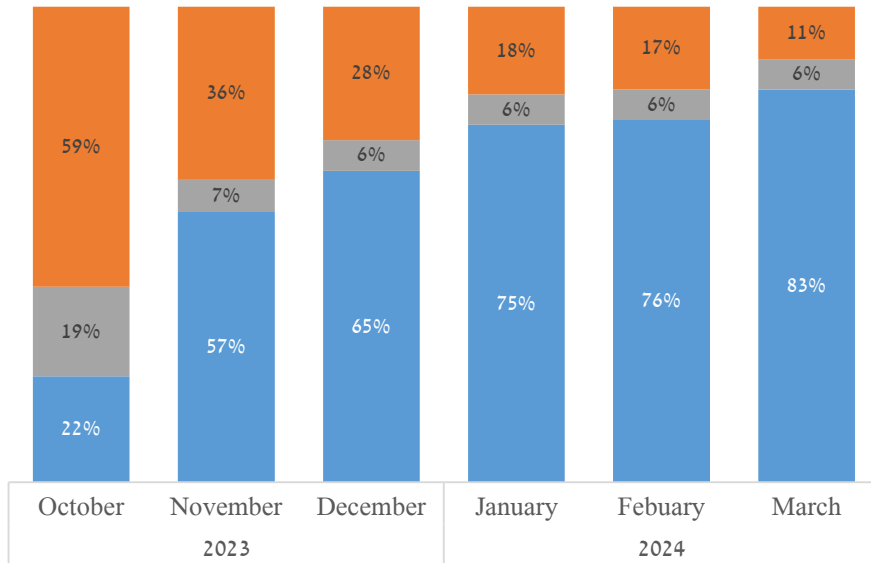


Construction activity is gradually recovering although labor shortage still exists

Construction sites by activity status

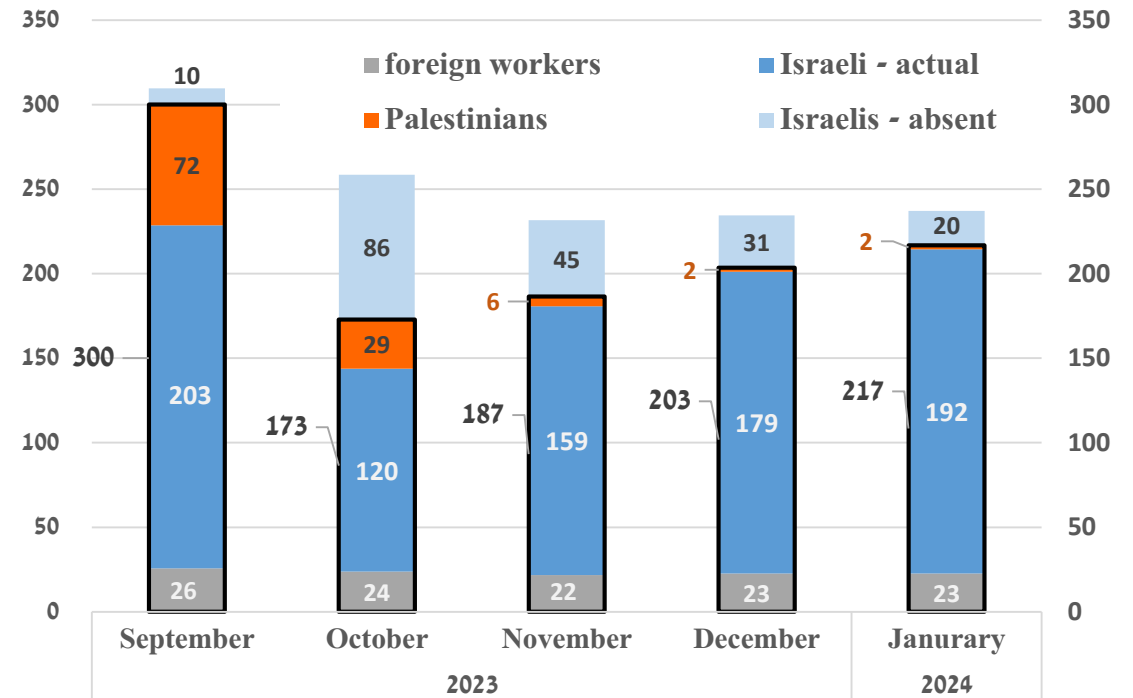
(%, Seasonally unadjusted)

■ Full activity ■ Partial activity ■ No activity



Construction – formal employment

(thousands, Seasonally unadjusted)



Source: CBS



Updated BoI Research department forecast for 2023-2025

| | 2023 | 2024 | 2025 |
|--------------------------------|--------------|--------------|--------------|
| GDP growth | 2.0% | 2.0% | 5.0% |
| Fixed Investment | -3.1% | -3.5% | 10.5% |
| Wide unemployment rate* | 4.4% | 3.7% | 3.3% |
| Debt to GDP ratio | 62% | 67% | 67% |
| Inflation | 3.3% | 2.7% | %2.3 |
| Interest rate | | 3.75% | |

Source: Research Department Staff Forecast, Bank of Israel, Jan. 24. *Wide unemployment includes employees temporarily absent for economic reasons.



The government made budgetary adjustments against most permanent expenditure increases, however some adjustments are temporary in nature

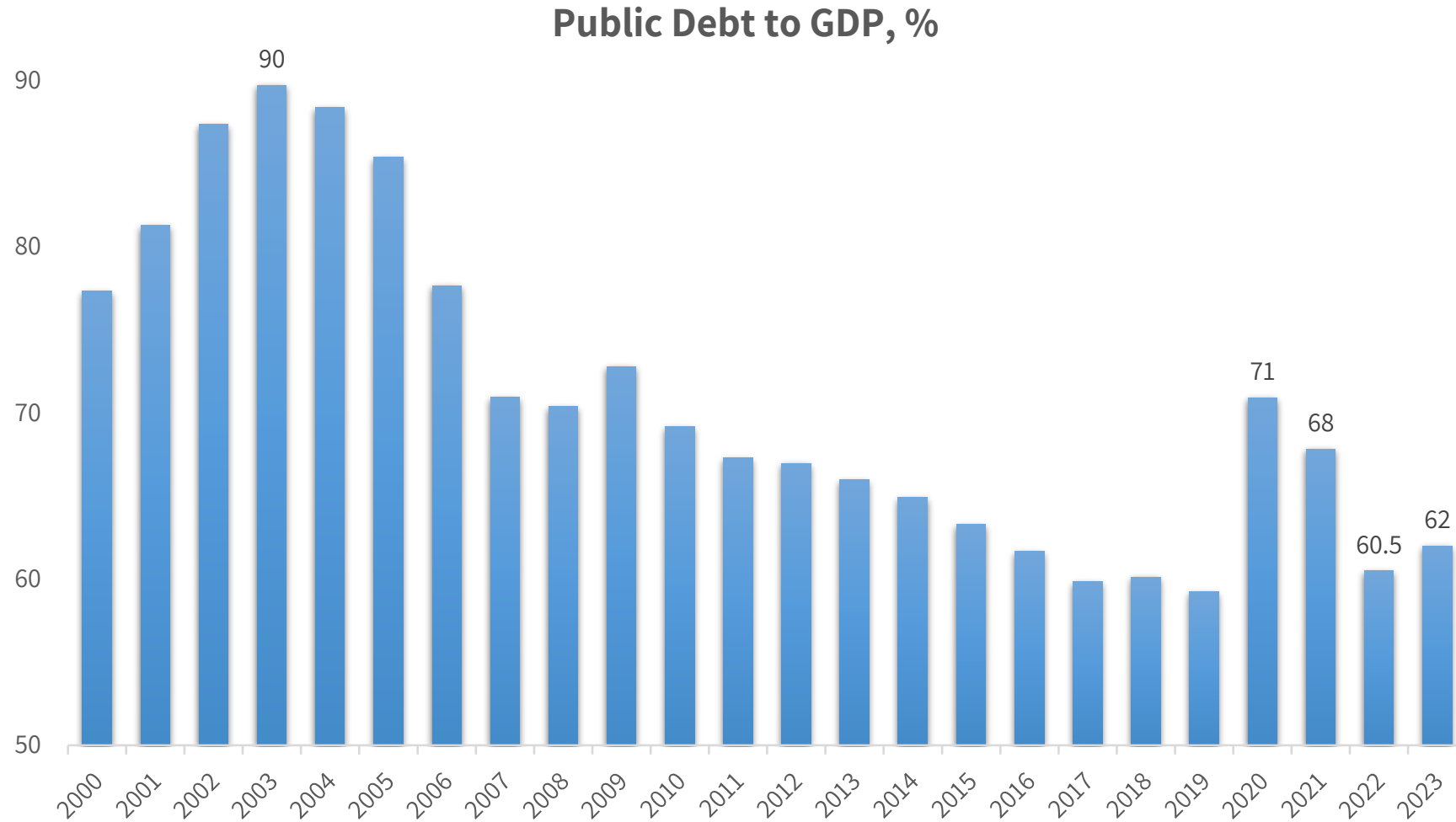
Changes in the Government Budget due to the War, NIS billions

| | 2023 | 2024 | 2025 |
|---|-----------|-----------|-----------|
| Expenditure increase before adj. | 29 | 81 | 51 |
| Temporary increase | 29 | 62 | 29 |
| Permanent increase | | 19 | 22 |
| Expenditure side adj. | 3 | 9 | 9 |
| Temporary decrees | 3 | 5 | 3 |
| Structural decrease | | 4 | 5 |
| Income side adj. | | 5 | 10 |
| Temporary increase | | 5 | 2 |
| Structural increase | | 1 | 8 |

Source: Boi Annual Report 2023, chapter 6

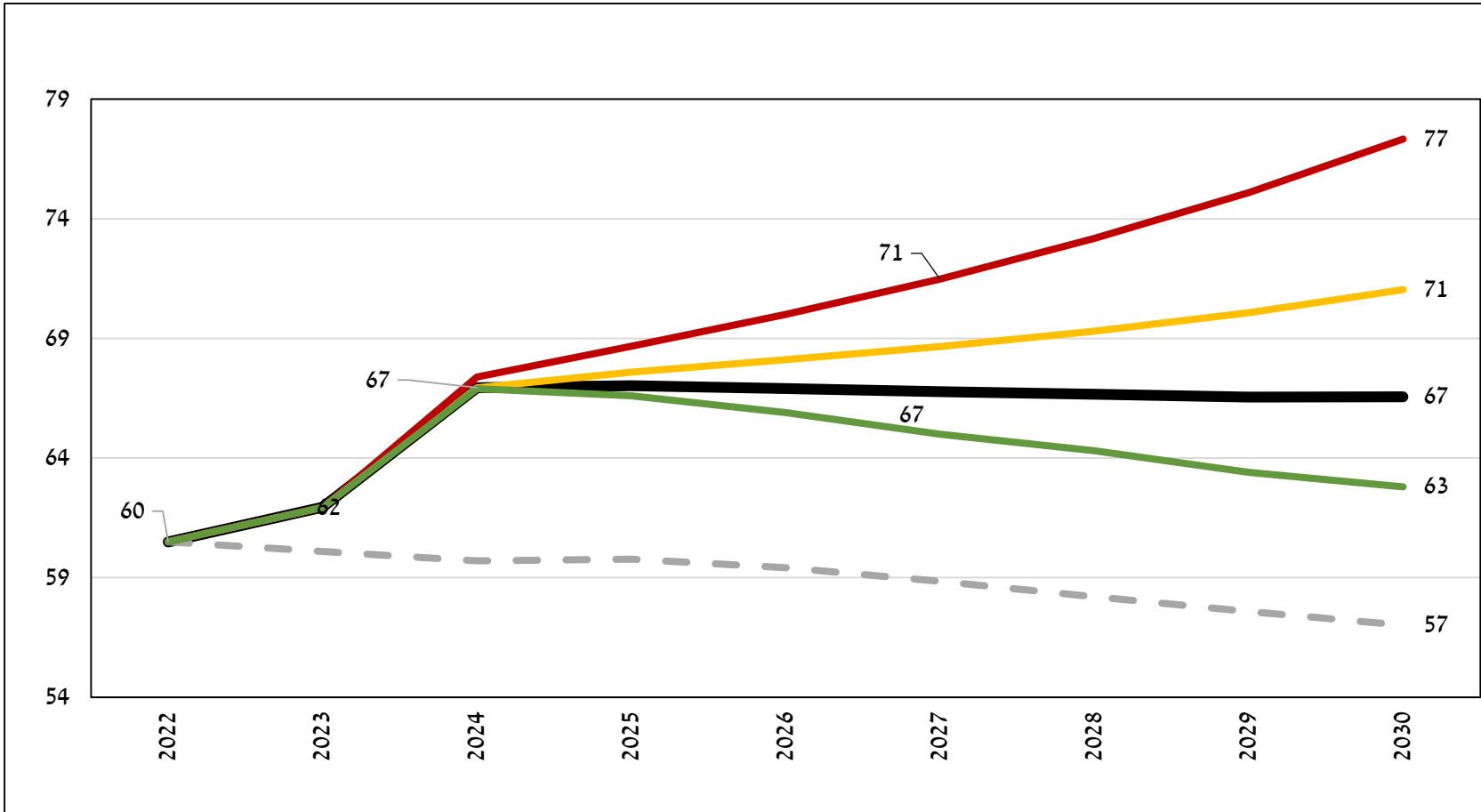


Low public debt at the eve of the war was an asset to fiscal stability following the war.



Current baseline scenario is consistent with stable debt to GDP

Scenarios for the Public Debt to GDP Ratio (%)



- **Extra 1% GDP to defense, decrease in pot. Output, and increase in risk premium**
- **Extra 1% of GDP to defense**
- **Baseline (approved budget and BoI assessments)**
- **Baseline with full adjustments against permanent expenditures**
- **Pre-war forecast**



Thank You