

ISRAEL

Positive growth in the second quarter of 2009, albeit slight, has marked the start of recovery. Economic activity is expected to pick up throughout the projection period. Underlying inflationary pressures are likely to remain muted, but the risks are on the upside.

The latest government budget limited the rise in the deficit but relied excessively on short-term measures to achieve deficit and spending goals, and scheduled cuts in corporate and personal taxation for 2010 are untimely. The Bank of Israel has moved early towards a less expansionary stance, but its continued foreign-exchange interventions risk bringing additional inflationary pressures and damaging policy credibility and coherence.

Israel: Demand, output and prices

	2006	2007	2008	2009	2010	2011
	Current prices ILS billion	Percentage changes, volume (2005 prices)				
Private consumption	359.9	6.4	3.6	0.1	2.6	3.3
Government consumption	165.0	3.4	1.9	3.0	1.7	0.4
Gross fixed capital formation	111.7	15.0	4.5	-6.3	3.7	5.5
Final domestic demand	636.6	7.1	3.3	-0.4	2.6	2.9
Stockbuilding ¹	10.4	-0.8	-0.6	-0.4	0.6	0.0
Total domestic demand	647.0	6.2	2.8	-0.7	3.1	2.9
Exports of goods and services	277.0	9.3	5.2	-12.8	6.8	8.8
Imports of goods and services	274.0	11.8	2.3	-14.9	10.0	7.8
Net exports ¹	3.1	-1.0	1.2	1.0	-0.9	0.4
GDP at market prices	650.0	5.2	4.0	0.0	2.2	3.3
GDP deflator	–	0.4	1.8	5.0	1.9	1.9
<i>Memorandum items</i>						
Inflation (CPI), Average increase		0.5	4.6	3.4	3.3	1.7
Inflation (CPI), December-to-December increase		3.4	3.8	4.3	2.0	1.7
Private consumption deflator		1.5	4.7	2.4	2.9	1.8
Unemployment rate		7.3	6.1	8.5	9.2	7.0
General government financial balance ^{2,3}		-0.2	-2.4	-5.9	-4.9	-3.9
Current account balance ²		2.4	1.2	2.9	1.9	2.0

Note: National accounts are based on official chain-linked data. This introduces a discrepancy in the identity between real demand components and GDP. For further details see *OECD Economic Outlook Sources and Methods* (<http://www.oecd.org/eco/sources-and-methods>). For technical reasons this table uses Israel's official statistics, which include data relating to the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.

2. As a percentage of GDP.

3. Excluding Bank of Israel profits and the implicit costs of CPI-indexed government bonds.

Source: OECD Economic Outlook 86 database and Israel's Central Bureau of Statistics.