



Presentation of the Research Department's Staff Forecast

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The process of formulating the staff forecast

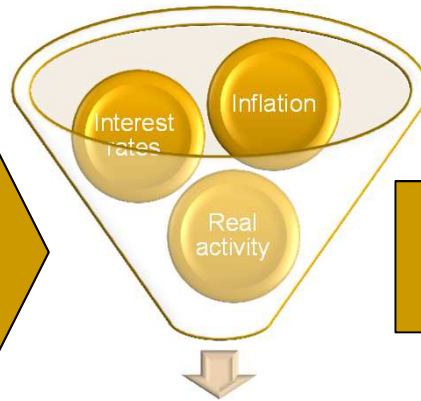


Stages of formulating the staff forecast

Gathering of data from Israel and abroad



Creating a preliminary forecast using economic models



Economic forecasts

Research Department's examination of the forecast

Review committee



Departmental discussion



Presentation of the forecast to the Monetary Committee





Stages of formulating the staff forecast

Data

Global:

- Inflation
- Interest rates
- Real economic activity
- Oil and commodity prices

Israel:

- Fiscal policy
- Tax measures
- Minimum wage

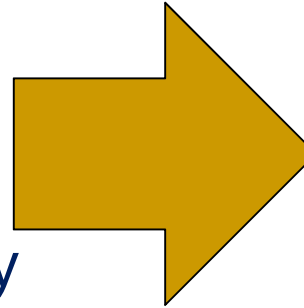


Stages of formulating the staff forecast

Data

Global:

- Inflation
- Interest rates
- Real economic activity
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Forecasts

- Labor market
- GDP growth rate
- Inflation
- Interest rate path

Israel:

- Fiscal policy
- Tax measures
- Minimum wage



Assumptions regarding the global environment

- **Real activity:** There is optimism regarding activity, particularly regarding Europe and the US, and there is less likelihood of a worsening in the state of the real economy.
- **Growth of GDP in the G4 economies*** in 2015: 2.0 percent and in 2016: 2.4%.
- **Growth of exports in the OECD** in 2015: 4.6 percent and in 2016: 5.3 percent.
- **Inflation (G4)** in 2015: 0.8 percent and in 2016: 1.8 percent.
- **Interest rates (G4):** An increase is expected in the interest rate in the US during 2015, to 0.9 percent (derived from capital market) – 1.2 percent (forecasters). In contrast, the interest rate in Europe is expected to remain at zero.
- **Oil, food and commodity prices:** In view of the increases in oil prices during the second quarter, we are assuming a price of about \$63 per barrel by the end of 2016.

* *G4 economies—US, Eurozone, UK and Japan.*



Forecast: Main results

Table 1: The Israeli Economy
Research Department Staff Forecast, 2014–16
 (rates of change, percent, unless otherwise noted)

	2014	Forecast for 2015	Forecast for 2016
GDP	2.8	3.0	3.7
Civilian imports (excluding diamonds, ships and aircraft)	2.4	6.0	7.2
Private consumption	4.0	5.3	3.5
Fixed capital formation (excluding ships and aircraft)	-1.7	-1.0	7.0
Public sector consumption (excluding defense imports)	3.9	2.2	3.2
Exports (excluding diamonds and startups)	4.7	3.5	5.3
Unemployment rate ^a	6.0	5.4	5.4
Inflation rate ^b	-0.2	0.1	2.0
Bank of Israel interest rate ^c	0.25	0.10	1.25
Inflation (G4) ^b	0.9	0.8	1.8
Federal Funds Rate ^c	0.25	0.625	1.625

^a Yearly average.

^b The average of the CPI in the final quarter of the year compared with the final quarter average in the previous year.

^c At the end of the year. Federal Funds Rate according to the Federal Reserve forecast.



Main factors in the development of inflation in the next year

- **Imported inflation of about 2 percent:** Inflation around the world is expected to increase to around 2 percent, with stability in the effective exchange rate.
- **Domestic inflation:** Expansionary forces are expected:
 - An increase in the minimum wage
 - An increase in government consumption and private consumption (due to increased transfer payments).
 - Increased trade by OECD countries.
 - The moderating effect of recent electricity, water and oil price declines has weakened.



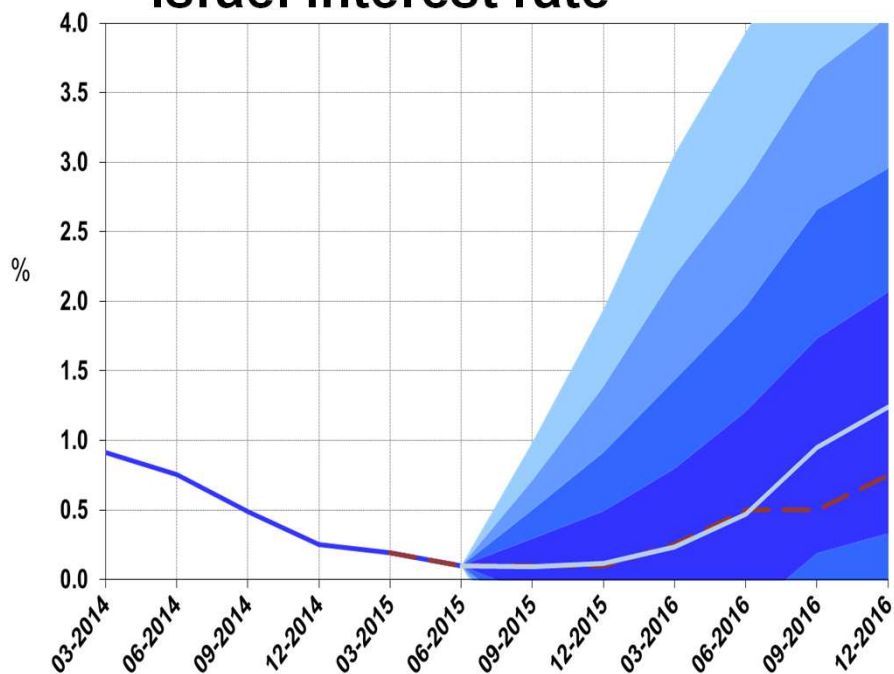
Main causes of uncertainty regarding the Israeli economy

- The state of the real economy, mainly in Europe. There is concern that optimistic assessments will not be realized. The crisis in Greece.
- Decision regarding VAT on price-controlled items.
- Reform in the housing market.
- Geopolitical developments.

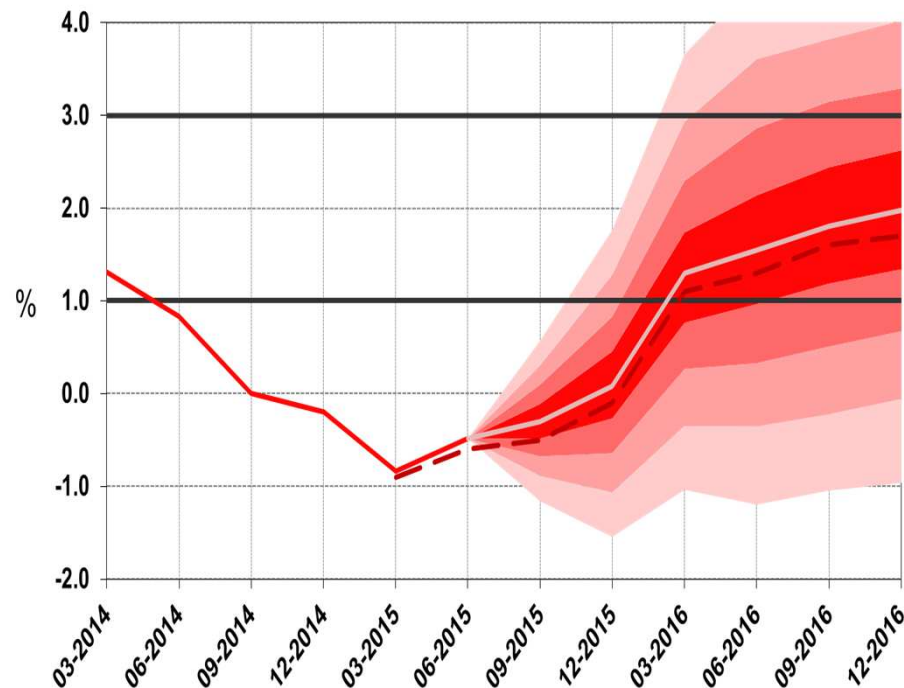


Interest rate and inflation forecasts

Fan chart for the Bank of Israel interest rate



Fan chart for inflation



The center of the fan charts is based on the Bank of Israel Research Department assessment. The width of the fan is based on the Department's medium-scale DSGE (dynamic stochastic general equilibrium) model. The full fan covers 66 percent of the expected distributions. The dotted line corresponds to the previous staff forecast (published in March 2015).



Thank you