



BANK OF ISRAEL  
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### **Excerpt from the forthcoming Bank of Israel Annual Report: The Fiscal Impulse During the War**

- With the outbreak of the war, the sharp increase in domestic defense consumption led to a marked increase in the fiscal impulse, which reflects the positive impact of fiscal policy on aggregate demand.
- In 2025, the fiscal impulse declined relative to its level at the beginning of the war, mainly due to tax increases decided upon by the government, but it remained positive relative to its prewar level.

The term “fiscal impulse” reflects the direction and intensity of fiscal policy’s impact on aggregate demand. A box in the forthcoming Bank of Israel Annual Report uses the Fiscal Impulse Measure (FIM) of the Brookings Institution (Sheiner et al. 2021), which makes it possible to assess how changes in public consumption, transfer payments, government investments, and taxes impact the change in aggregate demand. The analysis concentrates on the timing of recent crises—COVID-19 and the war that began on October 7—during which the government made fiscal adjustments in accordance with the unique geopolitical and macroeconomic circumstances.

The analysis found that during the years of these crises (2020–2022 and 2023:Q3–2025), there was a high fiscal expansion relative to earlier years. This was made possible partly due to “fiscal buffers” that had accumulated prior to the crises and that provided the government with room to maneuver (IMF, 2026). While the impulse during the COVID-19 crisis was driven mainly through transfer payments and dissipated rapidly once the assistance packages were ended, during the war it relied on public consumption, mainly defense, which has a high multiple but also high volatility. In 2025, the fiscal impulse moderated, mainly due to the activation of adjustment measures on the revenue side, particularly tax increases.

The high fiscal impulse in recent years may help narrow the gap between actual GDP and the GDP trend line, although the intensity of the effect is not certain and depends greatly on the cyclical state of the economy. To the extent that the economy is in full employment or under supply constraints—which is characteristic of the war period—the fiscal impulse may be reflected in a change in the mix of demand, price increases, or increases in exports.

Moreover, a large part of the fiscal impulse during the war was due to expenditures on reserve mobilization. This component is similar to other government expenditures from the standpoint of creating demand, but differs from them in how demand that is not related to market mechanisms (recruiting employees through wage offers) but rather to a binding order is

created. A reservist's employer is obligated to keep his position, which increases the tendency to marginalize other business activity and to narrow supply in the business sector.