



## BANK OF ISRAEL

Office of the Spokesperson and Economic Information

March 30, 2026

### Research Department Staff Forecast, March 2026

#### Abstract

This document presents the macroeconomic staff forecast formulated by the Bank of Israel Research Department in March 2026 concerning the main macroeconomic variables—GDP, inflation, and the interest rate.<sup>1</sup> The forecast was formulated under the assumption that Operation “Roaring Lion” and the fighting in Lebanon will come to an end toward the end of April. Insofar as the fighting continues, the special situation on the home front and the increased mobilization of reserve soldiers will continue to restrict economic activity. According to this scenario, GDP is expected to grow by 3.8 percent in 2026 and by 5.5 percent in 2027. The inflation rate in the coming four quarters (ending in the first quarter of 2027) is expected to be 2.3 percent. Annual inflation in 2026 is expected to be 2.2 percent, and inflation in 2027 is expected to be 1.8 percent. The average interest rate in the first quarter of 2027 is expected to be 3.5/3.75 percent.

The forecast is based on the working assumption that Operation “Roaring Lion” will contribute to reducing the severity of the threat posed by Iran, and that there will not be a further round of fighting during the forecast horizon. However the geopolitical environment will be such that defense expenditures will be required in 2027 and thereafter in order to prepare for the possibility of such further confrontation. In particular, the assumption is that there will be no further changes in the 2026 budget framework later in the year, beyond the NIS 39 billion increase that was approved in view of Operation Roaring Lion.<sup>2</sup> In other words, the forecast assumes that the government will fully utilize the reserve that was allocated for defense needs due to the continuation of the fighting during April, and that it will utilize most of the NIS 5.8 billion general reserve to finance expenses related to the fighting.

A further assumption underlying the forecast is that global energy prices will decline slightly once the fighting is over, but that they will remain higher than they were before the Operation.

The forecast reflects a short-term impairment in economic activity, mainly in view of home front restrictions and the impact to the labor supply in view of the mobilization of reserves, alongside an increase in the inflation environment resulting from these constraints and from higher oil prices.

The forecast is characterized by a particularly high level of uncertainty—both with regard to the duration of the fighting in Iran and in Lebanon, and in relation to the level of geopolitical risk

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<sup>1</sup> The forecast was presented to the Bank of Israel Monetary Committee on March 29, 2026, prior to the decision on the interest rate made on March 30, 2026.

<sup>2</sup> The revised expenditure framework is NIS 699 billion, including a reserve of NIS 12.8 billion set aside for financing expenses that are directly related to the continuation of Operation Roaring Lion.

following the fighting. These risks will be reflected, inter alia, in the supply of labor, the country's risk premium, the exchange rate, oil prices, defense expenditures, and in the ramifications of all these on economic activity.

## **The forecast**

The Bank of Israel Research Department compiles a staff forecast of macroeconomic developments based on several models, various data sources, and assessments based on economists' judgment. The Bank's DSGE (Dynamic Stochastic General Equilibrium) models—structural models developed in the Research Department and based on microeconomic foundations—play a prime role in formulating the macroeconomic forecast. The models provide a framework for analyzing the forces that have an effect on the economy, and allow information from various sources to be combined into a macroeconomic forecast of real and nominal variables, with an internally consistent “economic story”. The models also help analyze scenarios and policy alternatives, and thereby support the formulation of policy under uncertain conditions.

### **a. The global environment**

Our assessments of expected developments in the global economy are based mainly on projections by international financial institutions and foreign investment houses. Accordingly, we assume that GDP in the advanced economies will grow by 1.5 percent in 2026, and by 1.6 percent in 2027 (unchanged from the January forecast), inflation in these economies will be 2.4 percent in 2026 (compared with 2.3 percent in the January forecast) and 2.0 percent in 2027 (compared with 2.2 percent in the January forecast), and the interest rate will be 2.8 percent in 2026 (compared with 2.6 percent in the January forecast) and 2.6 percent in 2027 (unchanged from the January forecast).

The price of Brent crude oil rose from \$61 per barrel at the time of the January forecast to \$115 per barrel currently.

The slight revision to the global environment forecast reflects an assessment regarding a relatively rapid end to the confrontation in the Middle East, with the effect of energy prices on inflation in advanced economies noted mainly in the second quarter of 2026. The working assumption in the forecast is that following the end of the military campaign, oil prices will decline gradually but will remain higher than their level prior to the campaign.

**Table 1****Research Department Staff Forecast for 2026–2027**(rates of change, percent<sup>a</sup>, unless stated otherwise)

	2025 actual figures	Forecast for 2026	Change from the January forecast	Forecast for 2027	Change from the January forecast
<b>GDP</b>	<b>2.9</b>	<b>3.8</b>	<b>-1.4</b>	5.5	<b>1.2</b>
Private consumption	2.6	3.0	-4.5	7.0	2.0
Fixed capital formation (excl. ships and aircraft)	8.5	6.5	-6.5	14.5	6.5
Public consumption (excl. defense imports)	2.0	2.5	1.5	2.5	-1.0
Exports (excl. diamonds and startups)	5.9	5.5	1.0	8.0	3.0
Civilian imports (excl. diamonds, ships, and aircraft)	8.8	10.0	2.0	12.0	5.0
Broad unemployment rate (average for the year, ages 25–64) <sup>b</sup>	3.6	4.5	1.2	3.4	-0.1
Adjusted employment rate (average for the year, ages 25–64) <sup>b</sup>	78.2	77.5	-2.6	78.6	-2.5
Government deficit (percent of GDP)	4.7	5.3	1.4	4.4	0.8
Debt to GDP ratio (percent)	68.5	70.5	2.0	70.5	2.0
Inflation (percent) <sup>c</sup>	2.5	<b>2.2</b>	<b>0.5</b>	<b>1.8</b>	<b>-0.2</b>

<sup>a</sup> The forecasts of the National Accounts components and of public debt are rounded to the nearest half percentage point.<sup>b</sup> Annual average. 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. The revision to the forecast employment rate in 2026 and 2027 relative to the January forecast mainly reflects an error correction in the figure published in the January forecast. The forecast employment rate for 2026 also includes the impact of Operation Roaring Lion.<sup>c</sup> 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.**b. Real activity in Israel**

**GDP is expected to grow by 3.8 percent in 2026, and by 5.5 percent in 2027** (Table 1). The end of the military operation is expected to support a rapid recovery of economic activity during the second quarter of 2026. Economic activity is being negatively affected mainly by restrictions on the home front due to missile fire and threats, absences from work due to the shutdown of the educational system and mobilization of the military reserves. In addition, the forecast assumes that the fighting in Lebanon will continue to have an impact on activity, mainly through continued mobilization of the reserves and restrictions on activity in the north, until the end of the campaign in April.

Accordingly, private consumption is expected to expand by 3.0 percent in 2026 and by 7.0 percent in 2027, and fixed capital formation is expected to increase by 6.5 percent in 2026 and by 14.5 percent in 2027. Exports are expected to grow by 5.5 percent in 2026 and by 8.0 percent in 2027, and civilian imports are expected to grow by 10.0 percent in 2026 and by 12.0 percent in 2027. The broad unemployment rate is expected to average 4.5 percent in 2026, mainly due to the sharp increase during the military campaign, and to decline to 3.4 percent in 2027. The adjusted employment rate is expected to be 77.5 percent in 2026 and 78.6 percent in 2027.

**The state budget deficit is expected to be 5.3 percent of GDP in 2026 and 4.4 percent of GDP in 2027. Public debt is projected to be 70.5 percent of GDP in 2026 and in 2027.** The increase in the deficit rate and in the debt-to-GDP ratio in 2026 relative to 2025, and the upward revision relative to the Research Department's January forecast are due to the high cost of Operation Roaring Lion, which has been reflected in the decision to increase the defense budget by NIS 32 billion. The working assumption in the forecast is that even if the fighting ends toward the end of April and is not renewed before the end of 2027, the mobilization of IDF reserves will be higher than the level in the original budget for several months following the end of intense warfare. The forecast assumes that in such a case, the reserve allocated by the government (NIS 12.8 billion) will be fully utilized, mainly for those defense needs.

In addition, due to the continuation of the fighting, we assume that claims in respect of property damage and assistance for businesses will total about NIS 8 billion, and that they will be financing outside the budget through the Property Tax Fund—an expenditure that requires additional funds to be raised but is not reflected in the deficit. Higher-than-expected temporary revenues in January and February slightly moderated the upward revision of the deficit and debt-to-GDP ratio forecasts.

The upward revision of the deficit forecast for 2027 relative to the January forecast is due to the assumption that the defense budget will increase because of the need to prepare for a potential further military confrontation in the medium term, and is also a result of the delay in discussions regarding permanent measures to increase state revenues, chiefly land purchase tax. The narrowing of the deficit in 2027 relative to 2026 is due to the end of direct expenses for the war, and the fact that some of the revenues in 2026 will be one-off revenues (such as bringing forward payments due to the taxation of undistributed dividends, and income tax on the sale of Wiz).

### **c. Inflation and interest rates**

**The inflation rate over the four quarters ending in the first quarter of 2027 is expected to be 2.3 percent (Table 2).** The increase in the price of oil is contributing to an increase in the short-term inflation environment. In contrast, expectations of a decline in oil prices thereafter, an easing of supply constraints, and a decline in uncertainty with the end of the military campaign in the coming weeks, lead to an assessment that inflation will moderate in the second half of the year.

**The Bank of Israel interest rate is expected to average 3.5/3.75 percent in the first quarter of 2027 (Table 2).** This forecast reflects one or two interest rate reductions in the coming year. The interest rate path will be determined in accordance with the development of inflation, economic activity, and developments in the financial markets and in the geopolitical sphere.

Table 2 shows that the Research Department's forecast for inflation in the next four quarters is higher than the forecast derived from the capital market and similar to the private forecasters' average projections. The Research Department's interest rate forecast for the next four quarters is lower than the forecast derived from the capital market and similar the professional forecasters' average projections.

**Table 2**  
**Inflation forecast for the coming year and interest rate forecast for one year from now**

(percent)

	Bank of Israel Research Department <sup>a</sup>	Capital markets <sup>b</sup>	Private forecasters <sup>c</sup> (range of forecasts)
Inflation rate (range of forecasts)	2.3	1.8	2.3 (2.0–3.0)
Interest rate (range of forecasts)	3.5/3.75	3.9	3.5 (3.0–3.75)

- a) The inflation rate during the four quarters ending in the first quarter of 2027, and the average interest rate in the first quarter of 2027.
- b) As of March 30, 2026. Inflation expectations are seasonally adjusted and relate to one year forward. Interest rate expectations are based on the Bank of Israel's analysis of the average quotes from the SHIR market.
- c) As of March 30, 2026. The forecasters' projections relate to the coming 12 index readings.

SOURCE: Bank of Israel.

#### **d. Main risks to the forecast**

In view of the particularly high level of uncertainty, the Research Department also examined alternative scenarios relating to the duration of the military campaign and how it will end. A continuation of the fighting and the restrictions on activity on the home front may lead to a more prolonged impairment of economic activity, which may worsen and expand to other channels. Furthermore, how the campaign ends may have a material impact on the inflation environment, the risk premium, and the need for fiscal adjustments, particularly through energy prices, the exchange rate, and the defense budget. In this regard, the risks surrounding inflation tend upward, insofar as the prolonged geopolitical uncertainty is reflected in a high risk premium, depreciation of the shekel, and energy prices that are higher than the assumptions underlying the forecast.

In contrast, more positive geopolitical developments may support a more rapid recovery of economic activity and a decline of inflation, or alternatively, an increase in excess demand and an increase in inflation. Accordingly, monetary policy will react to developments in the inflation environment and in activity. If the inflationary pressures turn out to be more prolonged, it would support a more restraining interest rate path, and if inflation moderates more quickly than expected alongside a decline in the risk premium, it would create room for a more rapid interest rate reduction.

Overall, looking at the variety of potential scenarios, the balance of risks tends to point to lower growth than in the baseline scenario, while the risks of inflation tend upward.