

BANK OF ISRAEL

Office of the Spokesperson and Economic Information

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**Research Department Staff Forecast, April 2025**

**Abstract**

This document presents the macroeconomic staff forecast formulated by the Bank of Israel Research Department in April 2025 concerning the main macroeconomic variables—GDP, inflation, and the interest rate.[[1]](#footnote-1) According to the forecast’s baseline scenario, GDP is expected to grow by 3.5 percent in 2025, and by 4.0 percent in 2026. The inflation rate in the coming four quarters (ending in the first quarter of 2026) is expected to be 2.5 percent, inflation in 2025 is expected to be 2.6 percent, and inflation in 2026 is expected to be 2.2 percent. The average interest rate in the first quarter of 2026 is expected to be 4.0 percent.

This forecast was formulated under the assumption that the resumption of fighting in Gaza will not extend beyond the second quarter of 2025, and that during this period, there will be no serious restrictions on activity on the home front (in contrast with the situation at the beginning of the war). In addition, the forecast contains assessments regarding the impact of the import tariffs announced by the United States on April 2, 2025. The working assumption underlying the forecast is that the increase in tariffs worldwide will lead to a 4 percent decline in the volume of world trade by the end of 2026 (relative to a scenario without tariffs). The forecast is characterized by an exceptionally high level of uncertainty, given the uncertainty regarding the scope and effects of the trade war that is developing globally and the possibility of more severe security scenarios than those reflected in the forecast. In our assessment, the risks to the growth forecast tend downward, while the risks to the inflation, interest rate, and deficit forecasts tend upward.

**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) model—a structural model developed in the Research Department and based on microeconomic foundations—plays a prime role in formulating the macroeconomic forecast.[[2]](#footnote-2) The model provides a framework for analyzing the forces that have an effect on the economy, and allows information from various sources to be combined into a macroeconomic forecast of real and nominal variables, with an internally consistent “economic story”.

1. **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. In particular, we used analyses by these institutions in order to assess the global impact of import tariffs imposed by the United States, and in reaction by other countries as well. Accordingly, we assume that inflation in the advanced economies will be 3.2 percent in 2025 and 3.1 percent in 2026 (compared with 2.3 percent in 2025 and 2.2 percent in 2026 in our January forecast), GDP in the advanced economies will grow by 1.0 percent in 2025 and by 1.2 percent in 2026 (compared with 1.5 percent and 1.6 percent, respectively in the January forecast), and the interest rate will be 3.3 percent in 2025 and 2.9 percent in 2026 (compared with 2.9 percent and 2.8 percent respectively in the January forecast). Our assumption is that imports to advanced economies will grow by just 0.3 percent in 2025, and that they will contract by 0.7 percent in 2026 (compared with growth of 2.4 percent and 2.6 percent respectively in the January forecast)—largely due to the imposition of tariffs.

The price of Brent crude oil declined from about $77 per barrel at the time of the January forecast to around $65 currently.

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| **Table 1****Research Department Staff Forecast for 2025–2026**(rates of change, percenta, unless stated otherwise) |
|  | 2024Actual | Forecast for 2025 | Change from the January forecast | Forecast for 2026 | Change from the January forecast |
| **GDP** | **0.9** | **3.5** | **0.5-** | **4.0** | **-0.5** |
| Private consumption | 3.7 | 6.0 | -1.5 | 3.5 | -2.0 |
| Fixed capital formation (excl. ships and aircraft) | -6.1 | 10.0 | 2.0 | 12.0 | -3.0 |
| Public consumption (excl. defense imports) | 11.4 | -0.5 | 1.0 | -2.5 | -4.5 |
| Exports (excl. diamonds and startups) | -4.6 | 2.5 | -2.0 | 2.5 | 3.0- |
| Civilian imports (excl. diamonds, ships, and aircraft) | -1.9 | 12.5 | 0.5 | 7.5 | -5.5 |
| Broad unemployment rate (average for the year, ages 25–64)b | 3.5 | 2.9 | -0.2 | 3.2 | 0.1 |
| Adjusted employment rate (average for the year, ages 25–64)b | 77.8 | 78.6 | 0.2 | 78.4 | -0.3 |
| Government deficit (percent of GDP) | 6.8 | 4.2 | -0.5 | 2.9 | -0.3 |
| Debt to GDP ratio (percent) | 67.8 | 69 | 0.0 | 68 | 1.0 |
| Inflation (percent)c | **3.4** | **2.6** | **0.0** | **2.2** | **-0.1** |
| a The forecasts of the National Accounts components are rounded to the nearest half percentage point and the forecasts of public debt are rounded to the nearest percentage point.b 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.c 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. |

1. **Real activity in Israel**

**GDP is expected to grow by 3.5 in 2025 and by 4.0 percent in 2026** (Table 1). The forecast is based on the assumption that for most of the forecast period, the war will not have a significant macroeconomic impact on the economy, and particularly that the fighting that was recently resumed on the Gaza front will not extend beyond the second quarter and will not expand to other fronts. The forecast includes our assessment regarding the expected impact of the tariffs announced by the American government on April 2, 2025, and the increased tariffs in other countries that are expected in response. Our assessment is that the impact of these measures on the Israeli economy will moderate GDP growth by about 0.5 percentage points in each of the years 2025 and 2026.

One of the factors limiting GDP growth since the beginning of the war is the shortage of workers due to both the decline in the number of non-Israeli workers relative to before the war and the mobilization of reserve soldiers. Throughout 2024, the number of non-Israelis employed in the economy grew moderately, and our assessment is that this trend will continue during the forecast period. In addition, our assumption regarding the intensity of the war within the forecast period is consistent with a lower mobilization of reserve soldiers than in 2024, which will enable an increase in the supply of civilian labor. Our assessment is that the increase in the supply of labor will contribute to an expansion of potential growth in the economy relative to 2024.

On the demand side, our assessment is that the global import tariffs will moderate global demand for Israeli exports, such that GDP will grow at a lower-than-potential pace, and that it will remain below the trend that it showed in the past.

At the beginning of the conflict, the shortage of non-Israeli workers was felt primarily in the construction industry, leading to a slowdown in investments in the industry. However, throughout 2024, the number of non-Israeli workers increased slightly, and additionally, Israeli workers integrated into the industry, largely compensating for the shortage of non-Israeli workers relative to their numbers before the war. We estimate that the easing of supply constraints in the construction industry will enable a better response to the high demand within the forecast period, particularly following a period of labor shortage and the need for rehabilitating structures and infrastructure in conflict areas. Consequently, we anticipate that investment, particularly in construction, will grow at a relatively high rate in 2025.

Private consumption grew rapidly during 2024 (an average growth rate of 4.3 percent from the third quarter of 2023 to the fourth quarter of 2024 in annual terms), and we estimate that it will grow at a more moderate pace within the forecast period (approximately 3.5 percent growth from the fourth quarter of 2024 to the fourth quarter of 2025, and about 4 percent growth from the fourth quarter of 2025 to the fourth quarter of 2026). The demand for private consumption is expected to moderate due to the tax increases approved by the government and the Knesset. Additionally, it is expected to moderate in light of the decline in the value of the public’s asset portfolio following the intensification of the trade war, although this decline came after a significant increase in the portfolio’s value, including housing prices.

Regarding exports, we estimate that goods exports to the United States, which constitute about 13 percent of total goods and services exports, will be significantly affected by the tariffs imposed by the US administration. Additionally, other export components will be adversely affected by the impact on global trade. These negative effects are expected to be somewhat offset by a gradual improvement we anticipate in the tourism industry and an increase in demand for defense exports.

Public consumption is expected to converge from above to its long-term trend, given the expected decline in war-related expenditures. The unemployment rate is expected to rise slightly from its current level due to the anticipated recovery in the labor supply and the moderation in demand for private consumption and exports.

**The state budget deficit is expected to be 4.2 percent of GDP in 2025 and 2.9 percent of GDP in 2026. Public debt is projected to be 69 percent of GDP in 2025 and 68 percent of GDP in 2026.** This forecast includes the convergence measures approved by the Knesset as part of the 2025 budget and the Economic Arrangements Law, and it also takes into account the additional defense budget allocations recommended by the Nagel Committee for examination of the defense budget and force building.

Similar to the January forecast, the current forecast reflects a decrease in defense spending with the conclusion of the temporary war expenditures required in 2025 to replenish stocks and restore military readiness, alongside an increase in the baseline defense budget for the new force building plan. Concurrently, we estimate that the burden of interest payments will continue to rise and that civilian expenditure in GDP terms will remain stable within the forecast period.

The forecast reflects higher revenues following the implementation of the accrued profits tax at the beginning of 2025, exceeding what was incorporated in the previous forecast. Additionally, the 2026 forecast includes one-off revenues expected from the sale of Wiz.

1. **Inflation and interest rates**

**The inflation rate over the four quarters ending in the first quarter of 2026 is expected to be 2.5 percent (Table 2). For the year 2025, it is projected to be 2.6 percent, and for 2026, it is expected to be 2.2 percent** (Table 1). During the forecast period, we anticipate an easing of supply-side constraints in the domestic economy alongside a moderation in demand for private and public consumption, which will lead to a continued moderation of inflation. The forecast has been influenced by price indices received since the previous forecast was published in January, which were cumulatively lower than our estimates. The decline in oil prices also contributed to a downward revision of the forecast, although this effect was offset by the rise in inflation forecasts in advanced economies. Since the previous forecast was published, the exchange rate has been volatile, with the shekel appreciating at the beginning of the period and subsequently depreciating. This contributed to a slight upward revision of the forecast overall.

**The interest rate is expected to average 4.0 percent in the first quarter of 2026** (Table 2). This forecast reflects a gradual reduction in the interest rate from its current level to support the convergence of inflation to the target, while adjusting aggregate demand to supply, which is expected to recover gradually.

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

| **Table 2** |
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| **Inflation forecast for the coming year and interest rate forecast for one year from now** |
| (percent) |
|  | Bank of Israel Research Departmenta | Capital marketsb | Private forecastersc (range of forecasts) |
| Inflation rate | 2.5 | 1.7 | 2.4 |
| (range of forecasts) |  |  | (2.0–3.2) |
| Interest rate | 4.0 | 3.9 | 3.8 |
| (range of forecasts) |  |  | (3.3–4.1) |
| 1. The inflation rate during the four quarters ending in the first quarter of 2026, and the average interest rate in the first quarter of 2026.
2. As of April 6, 2025. Inflation expectations are seasonally adjusted and the interest rate expectations are based on the Telbor market.
3. As of April 6, 2025.
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| SOURCE: Bank of Israel. |

1. **Main risks to the forecast**

Uncertainty during the current period is higher than normal. Our assessment is that the risks taken as a whole reflect the possibility of a deepening impact to activity and a depreciation of the shekel. As such, the balance of inflation risks tends upward, while the balance of risks to growth tends downward.

First, there is a risk of the conflict expanding beyond what is incorporated in the baseline scenario. The range of possible security developments is broad, but to assess the baseline scenario’s sensitivity to these developments, we examined an alternative scenario that includes an expansion of the conflict in the Gaza front and extensive reserve mobilization for about two quarters. In our assessment, such a scenario would lead to a 0.5 percent reduction in GDP in 2025, mainly due to the impact on labor supply, and an increase of 2 percent of GDP in the deficit, resulting in public debt amounting to 71 percent of GDP by the end of the year. These developments are also expected to be accompanied by an increase in the risk premium and depreciation of the shekel. Alongside the impact on the supply side, these developments will drive inflation higher than in the baseline scenario, necessitating a higher interest rate path.

Second, there is considerable uncertainty regarding the scope and effects of the trade war that is developing globally. The actual scope of tariffs imposed may differ from what we assumed in the baseline forecast because additional countries may impose tariffs in response to US measures, and conversely, bilateral or multilateral negotiations may mitigate some of the tariffs. The effects of tariffs on the global and Israeli economies are also uncertain. While the diversion of trade may mitigate the impact of tariffs globally and in Israel, global investments may be adversely affected by the uncertainty imposed by the trade war. In the medium-to-long term, global productivity may be impaired due to a decline in the global trade-to-GDP ratio. In Israel, productivity and potential GDP may also be affected due to the diversion of activity from high-productivity export industries to domestic industries, as well as a decline in investments if exporting companies prefer to relocate their activities to other countries. However, Israel has several relative strengths in the trade war, primarily its reliance on advanced service exports, which are less exposed to tariffs.

Finally, there is a risk of economic impact from political and social tensions in Israel. In 2023, similar tensions surrounding legislative measures promoted by the government contributed to the depreciation of the shekel. In addition to this potential impact, if internal tensions are perceived by the markets as increasing Israel’s risk premium, they may result in a decline in investments and exports, as well as a reduction in private consumption, as discussed in the risk scenarios presented in the Research Department’s forecast from April 2023.

1. The forecast was presented to the Bank of Israel Monetary Committee on April 6, 2025, prior to the decision on the interest rate made on April 7, 2025. [↑](#footnote-ref-1)
2. An explanation of the macroeconomic forecasts formulated by the bank of Israel Research Department, as well as a review of the models on which they are based, appear in the Bank of Israel’s Inflation Report 31 (second quarter of 2010), Section 3c. A Discussion Paper on the DSGE model is available on the Bank of Israel website, under the title: “MOISE: A DSGE Model for the Israeli Economy,” Discussion Paper No. 2012.06. [↑](#footnote-ref-2)