

**STATE OF ISRAEL
MINISTRY OF FINANCE**

**DIRECTOR GENERAL'S OFFICE
ECONOMICS AND RESEARCH DEPARTMENT**

ECONOMIC OUTLOOK

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A. Economic Developments in 2006

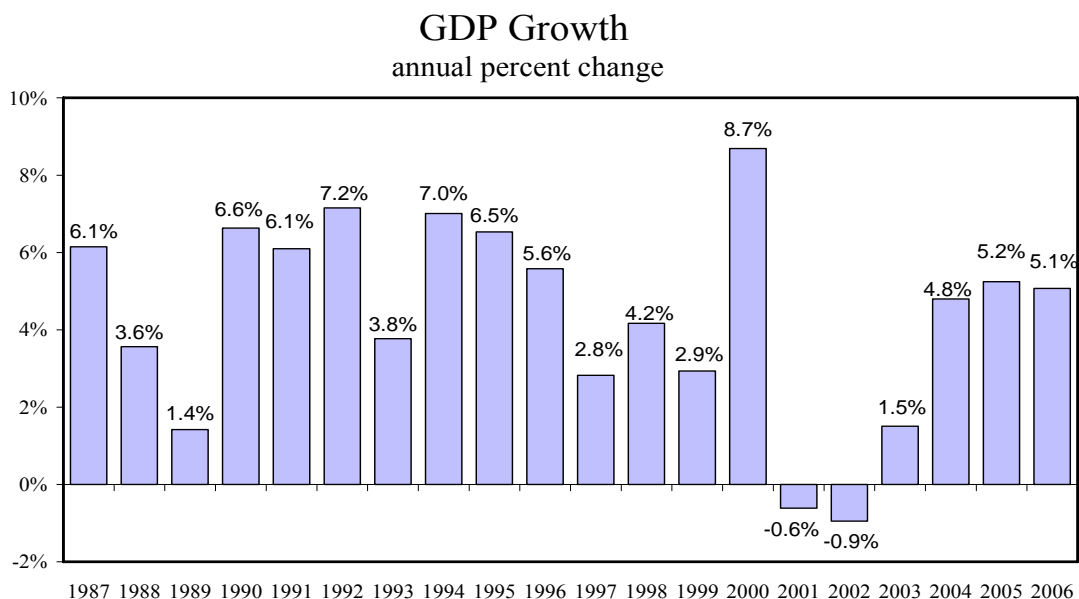
1. GDP and Business Product Growth

2006 was marked by rapid growth in all components of the GDP, despite the hostilities in northern Israel. This continued the trend, started in mid-2003, of economic recovery from the severe recession that began in late 2000. GDP grew by 5.1 percent in 2006, while the business sector product grew by 6.4 percent. These growth rates are quite similar to those of 2005¹. Despite the hostilities in northern Israel, the exchange rate remained impressively stable, supported by a responsible fiscal policy; this reflected foreign investors' confidence in the Israeli economy. The growth of the business sector at a faster rate than the overall economy reflects a positive trend which has continued since 2003². This growth was accompanied by an improvement in the current account of the balance of payments, an increase in employment, a decrease in unemployment, and a high volume of foreign investments.

Various factors contributed to the acceleration of growth in 2006, including the continued positive global trends, expressed in the expansion of global trade and the volume of activity in high technology sectors, as well as the decrease in uncertainty and increased credibility resulting from the continued application of a responsible fiscal policy aimed at reducing the fiscal deficit and the public debt burden.

¹ In 2005, gross domestic product grew by 5.2 percent, while the gross domestic product of the business sector grew by 6.7 percent.

² In the last three years (2004-2006), real per-capita GDP grew by 3.2 percent, while per-capita business product grew by 4.7 percent annually on average.



The effect of the war amounted to approximately 0.7 percent of GDP, in annualized terms (about NIS 4 billion), lower than previous estimates³.

2. Private Consumption

Private consumption grew by 4.8 percent in 2006, further to increases of 3.4 percent in 2005 and 5.5 percent in 2004. This growth was influenced by the economic recovery, the increase in real wages⁴, the continued policy of tax cuts, and the growth in the value of the public's asset portfolio⁵.

³ This estimate is based on the assumption that a higher growth rate (by 2.8 percent of GDP) than the rate actually recorded would have been needed in the fourth quarter in order to achieve in the third and fourth quarter an average growth rate similar to the rate of the first and second quarter.

⁴ 1.6 percent in 2006 (1.8 percent in the business sector and 1.2 percent in the public sector).

⁵ The portfolio of monetary assets held by the public grew by 11.6 percent (NIS 193 billion) in 2006, reaching a total of NIS 1,861 billion at the end of the year. This growth was influenced, among other factors, by the 12.5 percent increase in the TA-25 index during the course of 2006.

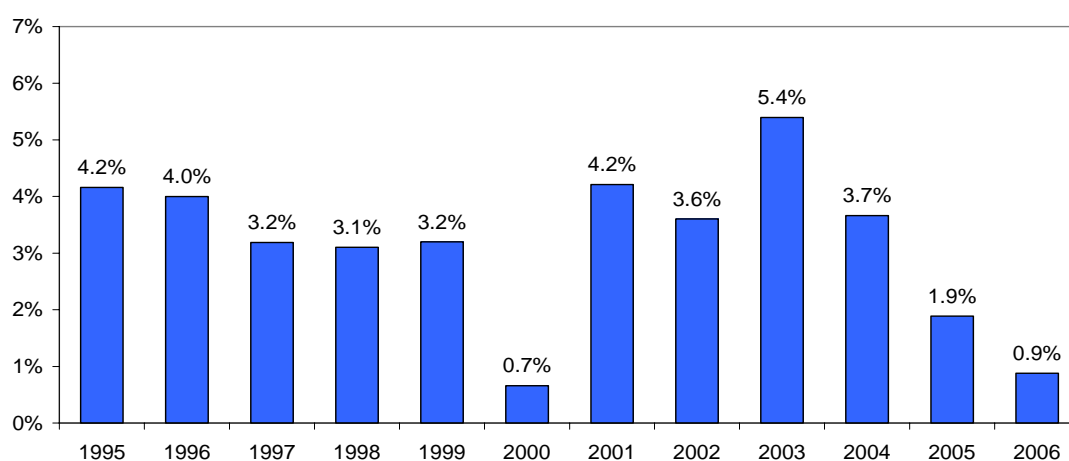
3. Public Consumption

Public consumption grew by 3.3 percent in 2006, following a 2.7 percent increase in 2005, with the increase in 2006 resulting from 2.4 percent growth in civilian consumption and 5.5 percent growth in defense consumption. The increase in defense consumption, mainly due to expenses caused by the war, is reflected both in imports (11.6 percent) and in domestic consumption (3.3 percent, within which purchases were up by 5.9 percent while labor expenses were up by 1.2 percent).

4. Government Deficit

The government deficit decreased to 0.9 percent of GDP⁶ in 2006, versus 1.9 percent in 2005 and 3.7 percent in 2004. The low deficit primarily reflects the effects of economic growth, accompanied by a sharp increase in government revenues, beyond the increase planned in the original budget. Part of the growth in revenues resulted from one-time income items such as the sale of Iscar, the Bachar reform, the ORL split, and others. However, growth in government activity was almost exactly in line with the original planning.

The Central Government Budget Deficit
(as percent of GDP)



⁶ The general government deficit (both the overall deficit and the current deficit) decreased significantly in comparison to previous years, and reached its lowest level in the last ten years (1.8 percent overall deficit and 1.4 percent current deficit).

5. Public Debt

Gross public debt (comprised virtually entirely of government debt) decreased substantially, from 97.0 percent in 2005 to 87.7 percent in 2006. This decrease resulted from a low general government deficit (1.8 percent), a high GDP growth rate, and the strengthening of the NIS (strengthening of NIS contributed 2.0 percent of GDP to the decrease). Our simulation indicates that a debt-to-GDP ratio of 60.0 percent⁷ can be achieved in 2021 (according to the ceiling established in the Maastricht rules), under the following assumptions:

- A growth rate of 5.0 percent in 2007 and 4.0 percent per year as of 2008.
- A fiscal deficit of 1.5 percent in 2007⁸, 2.0 percent in 2008, and 1.0 percent as of 2009.
- Inflation of minus 0.2 percent in 2007, 1.6 percent in 2008, and 2.0 percent as of 2009.

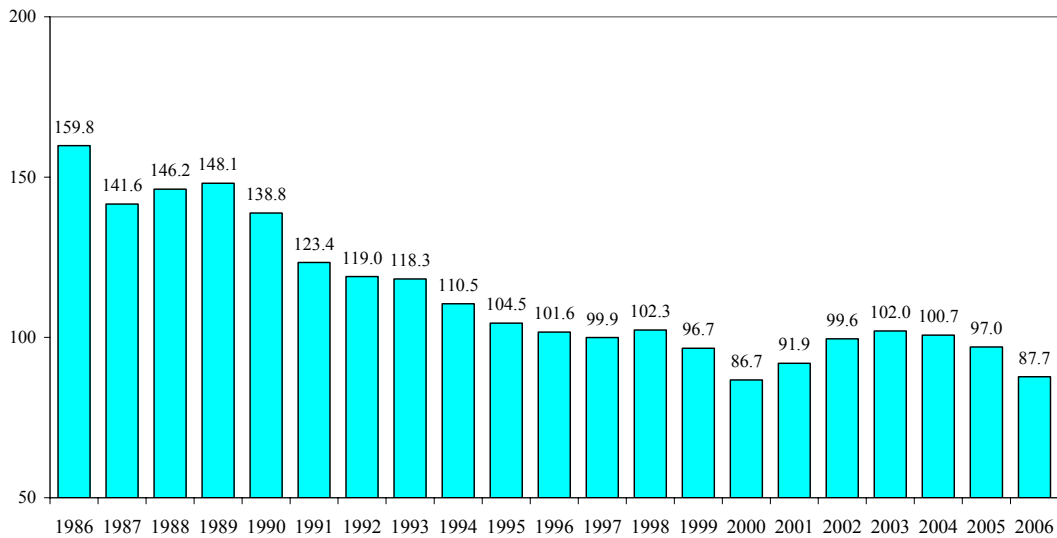
Debt reduction frees greater resources for investments in the business sector, helps lower the long-term interest rate, reduces production costs, improves the Israeli economy's rating from the viewpoint of foreign investors, and allows the application of an anti-cyclical policy; it therefore constitutes an essential component in creating the conditions for sustainable growth and increased employment in the economy. Reduction of the debt will also allow interest expenses to decrease and the resources freed to be redirected in order to promote the government's priorities, without expanding the budget framework⁹.

⁷ This estimate does not take into account future revenues from privatization or long-term changes in the NIS/USD exchange rate.

⁸ The deficit is likely to be lower than the 2.9 percent target, due to tax revenues higher than forecast in the budget.

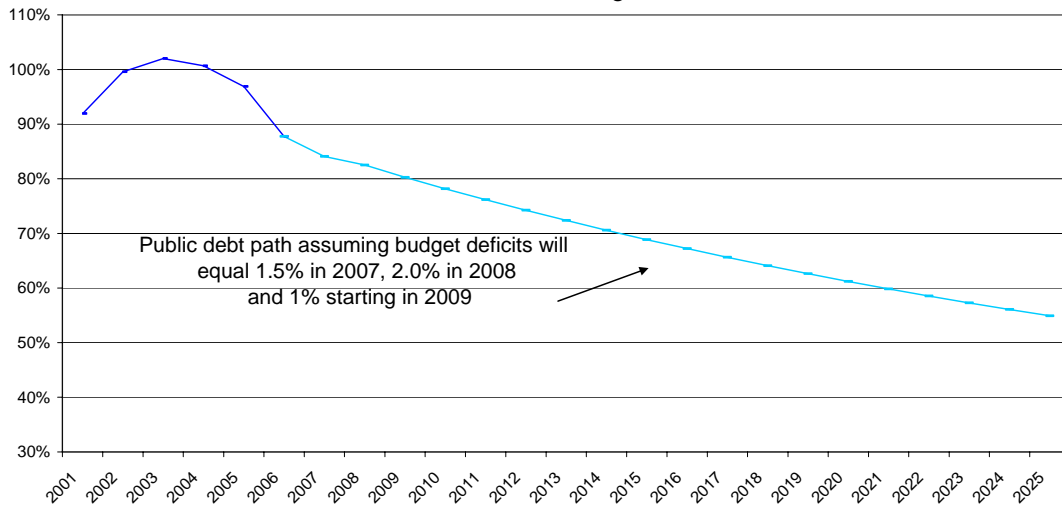
⁹ In recent years, the interest component has comprised approximately 12 percent of total government expenditures, in the amount of NIS 35 billion (see page 3, Financial Statements of the Government of Israel as at December 31, 2006, Ministry of Finance, Accountant General). At a debt-to-GDP ratio of 60 percent (the Maastricht criteria) given the GDP in 2006, interest expenses would decrease accordingly. This would result in additional resources for the government in the amount of over NIS 10 billion, with no change in the deficit target.

Gross Public Debt (as percent of GDP)



Public Debt (as percent of GDP)

Simulation assumption: GDP growth rate of 5.0% during 2007
and 4.0% during 2008-2025. Inflation rate minus 0.2% during 2007, 1.6% during 2008
and 2.0% starting 2009



6. Investments

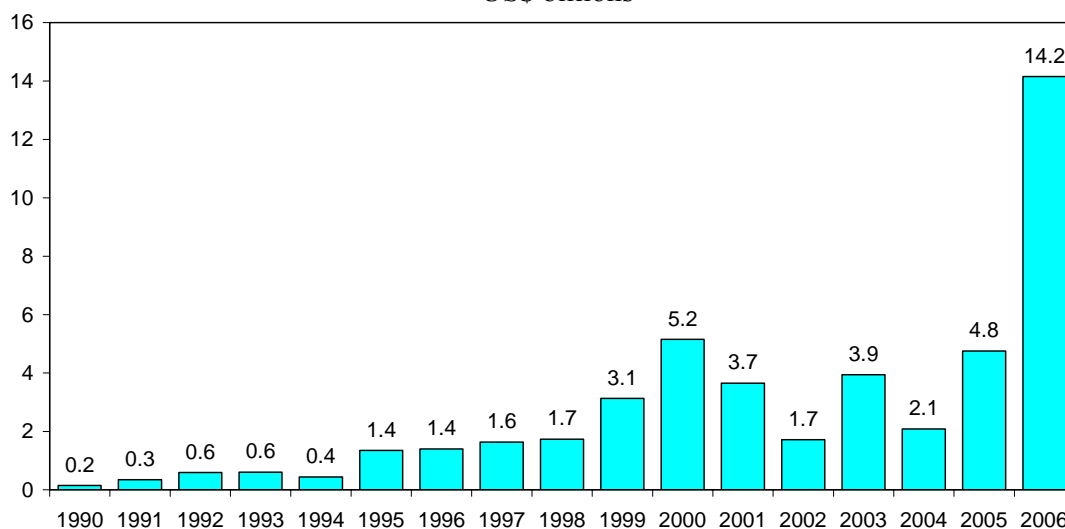
Total investments in fixed assets grew by 6.4 percent in 2006, with investments in machines, equipment, and vehicles up by 10.7 percent, investments in intangible assets up by 13.5 percent, and investments in construction up by 1.4 percent. The growth in fixed asset investments in 2006 represents an improvement compared to 2005 (2.9 percent) and indicates stabilization of the growth rate. The growth in investments for the year reflects, among other things, the success of the policy of reducing the government's share in economic activity and the decrease in the

government's funding needs in the domestic capital market, which frees resources for the business sector to increase its share of investments. The growth in gross investments was lower (4.1 percent), expressing a smaller increase in inventory compared to 2005.

7. Foreign Investments

The volume of foreign investments (direct investments in Israeli factories, in securities, and in other investments, excluding the Teva-Ivax deal) rose from USD 9.9 billion in 2005 to USD 16.6 billion in 2006, of which USD 14.2 billion were direct investments, compared to USD 4.8 billion in direct investments in 2005. 2006 was marked by several large transactions¹⁰, and there were close to one hundred acquisitions of Israeli technology companies. Strategic investments by interested parties from abroad were also made in the banking and financial management sector during the past year, following the implementation of the Bachar Committee's recommendations, which required banks to sell their investment management activities in areas such as provident and mutual funds.

Inflows of Foreign Direct Investment in Israel
US\$ billions



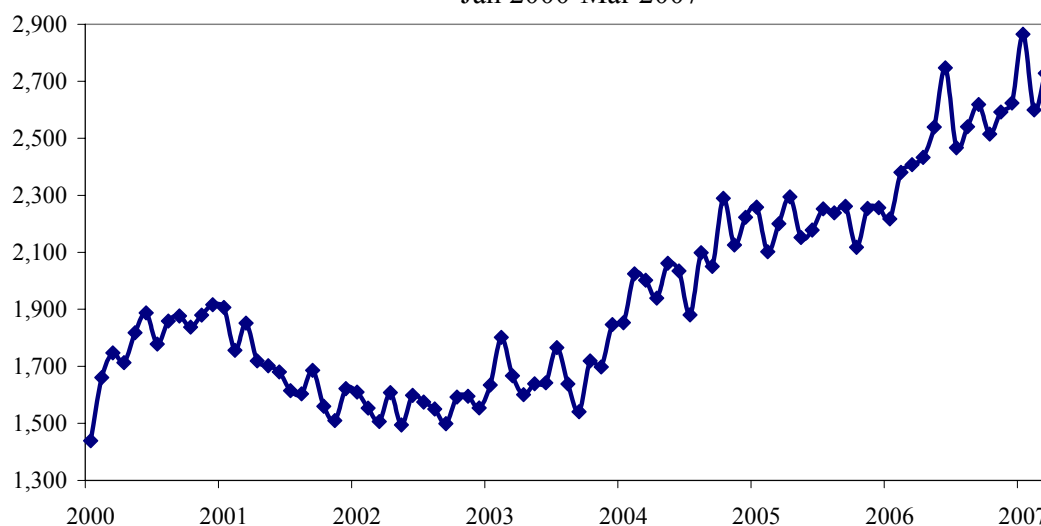
¹⁰ For example, the acquisition of 80 percent of Iscar by Mr. Warren Buffet for USD 4 billion, and the acquisition of Mercury by HP for USD 4.5 billion.

8. Exports

The trend of expansion in exports continued in 2006 (4.9 percent in real terms, including an 8.7 percent increase in exports excluding diamonds and start-up companies), at a similar rate to that of 2005 (a 5.1 percent increase in total exports and an 8.1 percent increase in exports excluding diamonds and start-up companies). The notable increases in 2006 occurred in the area of industrial exports excluding diamonds (12.1 percent). Exports of goods grew by 4.7 percent, while exports of services excluding tourism grew by 6.4 percent¹¹. In contrast, exports of diamonds decreased by 16.2 percent, and agricultural exports remained almost unchanged. Contributing to the growth in exports was the global growth trend, expressed in the expansion of global trade and of the volume of activity in high technology sectors worldwide. Exports of goods (in dollar terms, excluding diamonds, ships, and aircraft) grew by 12.1 percent to European Union countries, 27.3 percent to the United States, and 6.2 percent to other countries.

Exports of Goods

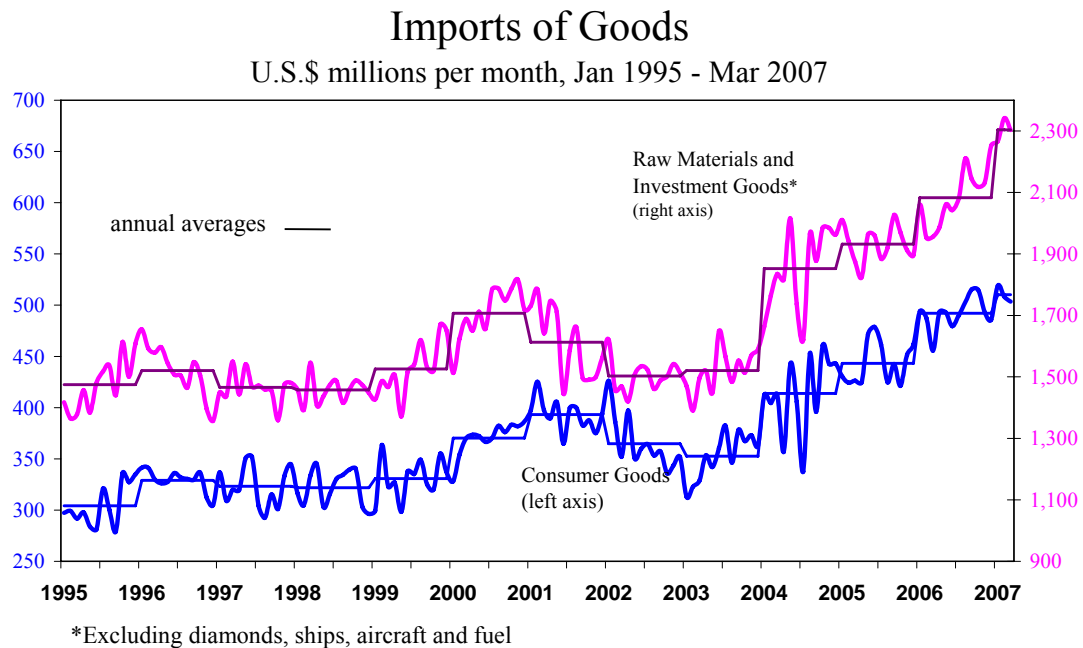
U.S.\$ millions per month, excl. diamonds, ships & airplanes
Jan 2000-Mar 2007



¹¹ In the first half of 2006, the trend of increasing exports of tourism services noted in 2005 continued (tourism service exports were up by 30.3 percent in the first half of the year, compared to the first half of 2005), but as a result of the hostilities during the summer months, tourism service exports decreased by 3.7 percent overall in 2006, compared to 2005.

9. Imports

Imports grew at a moderate rate in 2006 (3.1 percent, versus 3.4 percent in 2005). The increase in imports in 2006 was comprised of an increase in imports of goods (2.6 percent, including 4.9 percent in imports of civilian goods excluding diamonds) and an increase in imports of services (4.6 percent). There was also a relatively large increase in defense imports (11.8 percent).



10. Current Account

The deficit in the current account starting in the early 1990s, reached a peak in the middle of the decade (approximately 5 percent of the GDP). Since the mid-1990s, the current deficit decreased; a surplus has been recorded since 2003 and is on a growth trend. A deficit of USD 692 million was recorded in 2002 (approximately 0.6 percent of GDP), moving to a surplus of USD 6.8 billion (4.9 percent of GDP) in 2006.

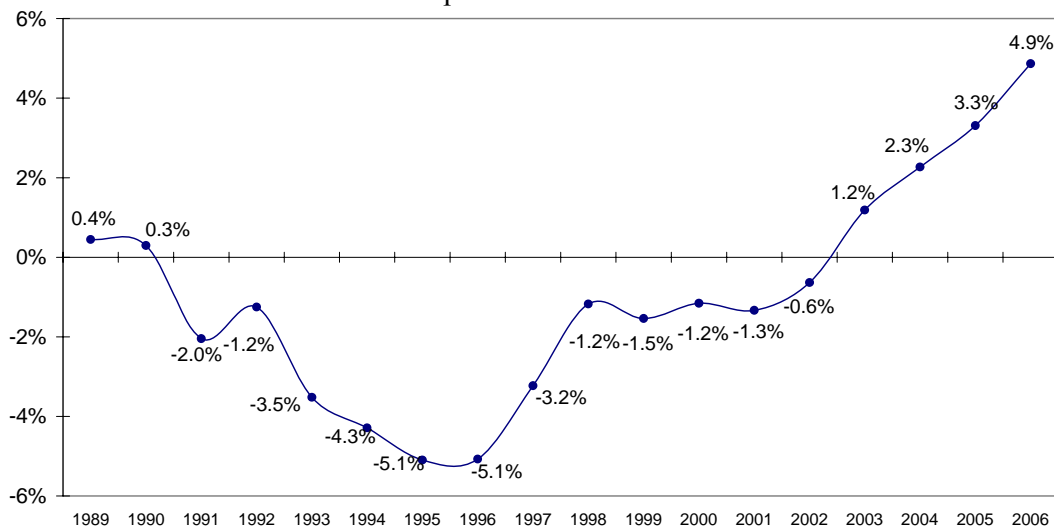
In 2002-2004, the main contribution to the trend reversal came from the expansion of the surplus in the services account (mainly computer and information services). This expansion reflects, among other factors, the following:

- The economy's relative advantage in high technology fields.
- The continued growth in global trade.

- The real depreciation of the NIS during 2002-2004.

Another influencing factor, as of 2005, mainly arises from the income item (interest and dividends). The improvement in this item (a considerable increase in revenues) reflects the significant expansion of financial investments by Israeli residents abroad as well as the increase in interest rates abroad.

The Current Account
as percent of GDP



Additional factors, and elaboration of some of the factors mentioned above, which are influencing the substantial growth in the current account surplus are listed below:

- **Globalization processes and recovery in the high-tech market**, expressed among other effects in an increase in exports of goods and services, (up from USD 39.3 billion in 2002 to USD 62.6 billion in 2006). Most service exports are various business services, including software and R&D services. Exports of these services have comprised approximately 20 percent of total exports of goods and services in recent years. Software and R&D services under this item include the value of intangible assets transferred overseas during the acquisition of start-up companies by residents of foreign countries.

- **Financial globalization** supported investments by Israelis abroad and by foreigners in Israel¹². **The structural changes in the capital market, in particular the equalization of taxation of investments abroad**, accelerated diversification of the investment portfolios of individual and institutional investors¹³.
- **Redirection of Israeli imports to inexpensive sources in Asia**¹⁴.
- **High added value in technology-intensive industries.**
- **The downward trend in domestic investments as a percentage of GDP**, following the substantial increase in the inventory of capital during the 1990s, which was aimed at providing infrastructure for immigration absorption.
- **An improvement in net income, reflecting the increase in investments by Israeli residents abroad.** Israeli residents' income flow from investments abroad (including interest revenues, dividends, and undistributed profits) totaled USD 6.6 billion in 2006. However, the economy's expenses for investments by residents of foreign countries totaled USD 8.1 billion during the same period. Thus, net income totals a negative USD 1.5 billion (an improvement compared to a negative USD 4.0 billion in 2002).

11. Labor Market

The rapid growth of the business product contributed to a decrease in unemployment, an increase in the number of Israeli employed persons, and an increase in the workforce participation rate. The unemployment rate, which reached a record 10.9

¹² Investments by Israeli residents abroad should lead to weakening of the NIS. Conversely, there are stronger offsetting influences of an increase in net income from investments from abroad and of foreign capital flows, leading to appreciation of the NIS.

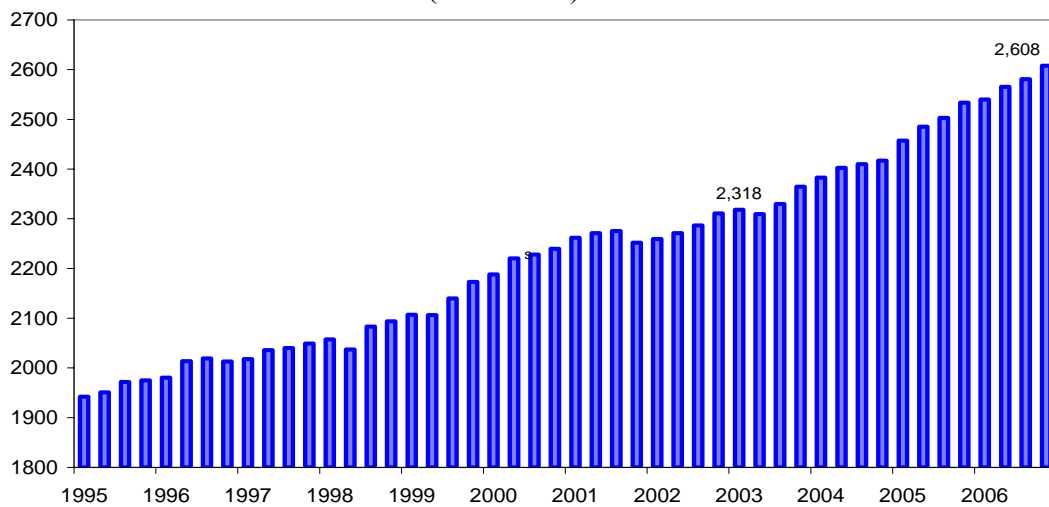
¹³ For example, the share of foreign assets increased from 1.2 percent of total assets in 2002 to 7.2 percent in 2005. Households' reaction to the contraction of interest spreads led to a similar response. As a result, the economy's foreign assets abroad increased from USD 69.9 billion in 2000 to USD 155.5 billion in 2006.

¹⁴ An increase of approximately USD 3.9 billion in 2006, as compared to 2003 (approximately 71 percent).

percent in the second half of 2003, dropped significantly in 2004-2006. In 2006, unemployment stood at 8.4 percent, versus 9.0 percent in 2005; in the fourth quarter of 2006, the unemployment rate reached 7.7 percent – its lowest level since 1997.

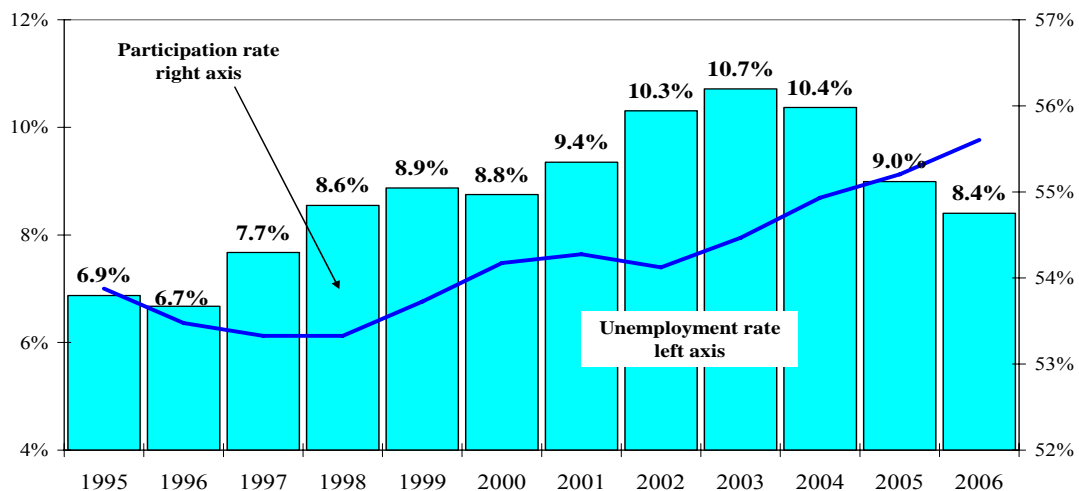
The number of employed Israelis grew by approximately 80,000 in 2006, mostly full-time employees. The increase in the number of employed persons was mostly concentrated in the business sector (an increase of 3.7 percent in the business sector and 2.0 percent in public services).

Israeli Employees
(Thousands)



The workforce participation rate rose to 55.6 percent in 2006, compared to 55.2 percent in 2005.

The Unemployment Rate and the Participation Rate



Average real wages rose by 1.6 percent in 2006 (1.8 percent in the business sector and 1.2 percent in the public sector), following an increase of approximately 1.0 percent in 2005 (1.5 percent in the business sector and no change in the public sector).

12. Productivity

Productivity indices reflect the degree of the economic system's efficiency in generating output through the use of production inputs. The more efficient and developed the economic system, the more output it can generate per unit of input. There are three main productivity indices: labor productivity, capital productivity, and total factor productivity. Labor productivity is defined as GDP per hour of work in the business sector. Similarly, capital productivity is defined as GDP per unit of gross capital. The total factor productivity index¹⁵ is designed to account for changes in productivity that are not accounted for by changes in work hours or in capital inventory, but reflect changes arising from technological improvements, labor force quality, and the efficiency of allocation of production factors in the economy, as well as changes in the level of competition, quality of physical infrastructures, and more.

¹⁵ This index is usually measured based on the Solow residual model, which uses a Cobb-Douglas production function of the type $Y_t = A_t * L_t^\alpha * K_t^\beta$, where Y_t represents the product in year t , L_t represents labor input (total work hours of employees), K_t represents the inventory of physical capital during the period t , and A_t represents overall productivity in the period t . α and β represent the respective elasticities of labor and capital to the product.

Table 1 – Gross business product, labor productivity, capital productivity, and total factor productivity¹⁶

Total factor productivity (percent)	Capital productivity (percent)¹⁸	Labor productivity (percent)¹⁷	Rate of change of gross business product (percent)	
1.2	-1.0	2.2	2.2	2003
5.2	4.4	5.6	6.8	2004
4.1	4.1	4.1	6.7	2005
3.6	3.8	3.5	6.4	2006

Source: CBS data and analysis by the Economics and Research Department.

The diagram and Table 1 show the recovery and growth in the business sector in 2003-2006, which were accompanied by an increase in labor productivity, capital productivity¹⁹, and total factor productivity, following the recession in 2001-2002, which was marked by declines in all productivity indices.

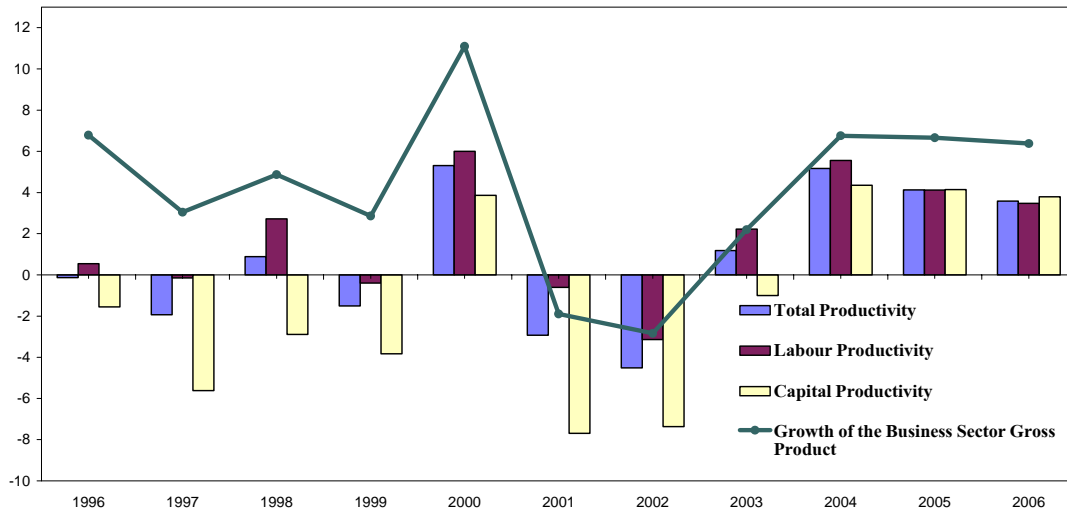
¹⁶ The number of work hours of employees, as an annual figure (source – Central Bureau of Statistics), was used as the labor factor. The inventory of gross capital (according to CBS data, including software) in 2000 prices was used as the capital factor. Output was defined as gross product in the business sector (each year according to prices of the previous year; source – CBS). The weights currently used by the Bank of Israel were used for α and β weighting: $\alpha = 0.68$, $\beta = 0.32$. Note that these weights are highly important to the estimate of the total productivity rate.

¹⁷ Change in percent compared to previous year.

¹⁸ Change in percent compared to previous year.

¹⁹ With the exception of the decrease in capital productivity in 2003.

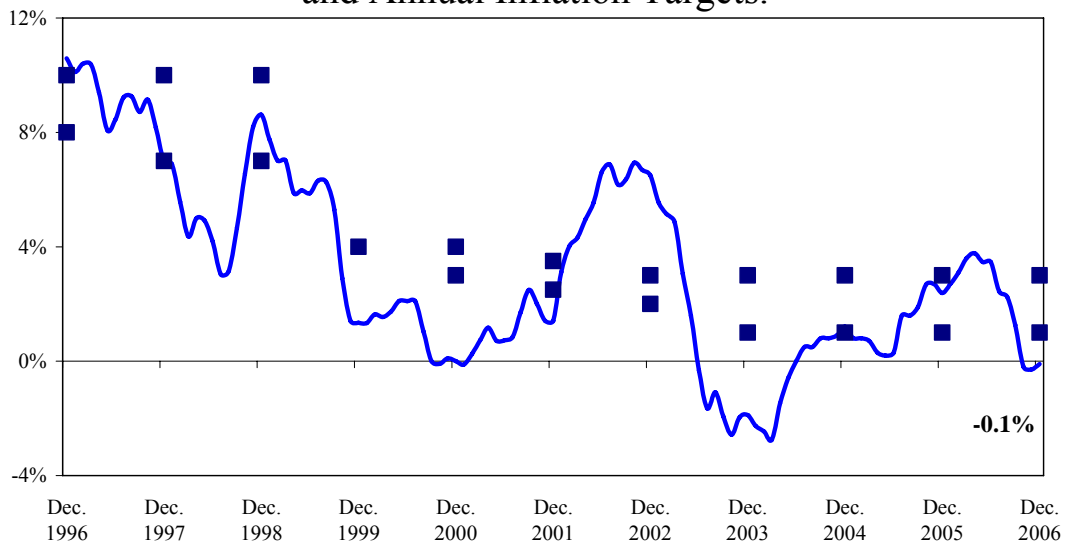
**Growth, Labour Productivity, Capital Productivity
and Total Productivity in the Business Sector
(annual percent change)**



13. Monetary Policy and Prices

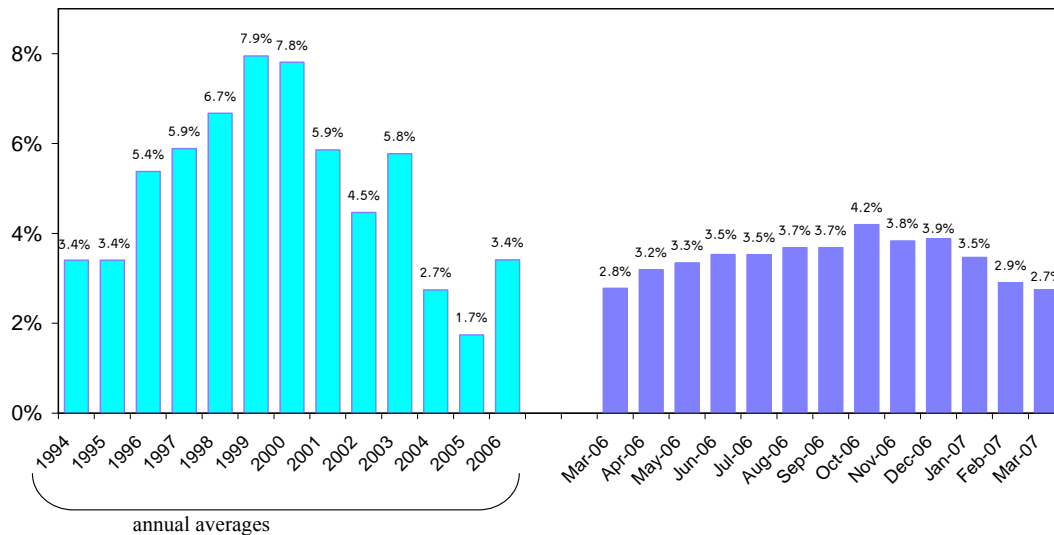
The consumer price index rose by 2.1 percent on annual average in 2006, and fell by 0.1 percent during the course of the year (December versus December). Inflation was lower than the target range (1.0 – 3.0 percent), mainly as a result of the weakening of the USD, which influences the consumer price index through housing prices (which are generally denominated in dollars), as well as the decrease in fuel prices.

**The 12-month Rate of Change in the CPI
and Annual Inflation Targets.**



The Bank of Israel interest rate, which stood at 4.5 percent at the beginning of 2006, was raised gradually to 5.5 percent in September 2006, mainly due to the weakening of the shekel early in the year, the increase in fuel prices in the first half of the year, and the Bank of Israel's concern that the hostilities in northern Israel might weaken financial stability. Starting in November 2006, following the weakening of the USD and the decrease in fuel prices, which had the effect of lessening inflationary pressures, the interest rate was lowered successively, reaching 3.75 percent in May 2007.

Short-Term Real Interest Rate
(Derived from the Bank of Israel's Key Lending Rate)



B. Macro-Economic Forecasts for 2007

1. General

Fourth quarter figures for 2006 and data published regarding the months of January and February 2007 indicate that the rapid growth trend continued in the first quarter of 2007 as well. We estimate that the global economic environment and domestic demand will allow the achievement of 5.0 percent GDP growth and 5.6 percent business product growth. The increase in real wages, the increase in employment, the decrease in unemployment, and the relatively low real interest rate support domestic demand. The growth rate expected in 2007 is similar to the actual growth rate in 2006, but lower than the potential growth rate without the effect of the war in northern Israel during 2006. This gap reflects the impact of the slowdown in global markets in 2007 compared to 2006, as well as the strength of the NIS.

2. Key Assumptions for 2007 Growth Forecast

The economy's short term growth rate depends on several factors, mainly the following:

- Rate and composition of global growth.
- Responsible fiscal policy.
- Degree of restraint of monetary policy.
- Security situation.

These factors will affect both demand for local usages and exports.

A key working assumption is that there will be no significant deterioration in the security situation in 2007.

An additional assumption is continued global growth and growing world trade. The current expected growth rates for 2007 are 2.3 percent in the United States and in the euro zone; these growth rates are lower compared to 2006. Furthermore, the current

global growth forecast, particularly in the United States, holds significant risks, mainly arising from the lack of balance in the American economy (a high budget deficit and a negative rate of households' savings), expressed in the high deficit in the current account of the balance of payments, among other things. The American economy is also influenced by weakness in the real estate market, which will affect private consumption. As noted, forecasters expect a "soft landing" for the American economy (2.3 percent growth). Additional key assumptions are listed in the table below. Some of the indicators have an immediate impact on economic growth, while others affect growth with a certain delay. The table therefore presents indicators of the second type with the appropriate delay, in order to examine their effect on growth in 2007. Some of the indicators include forecasts, rather than actual data only. The forecasts are mainly based on forecasters' surveys (e.g. forecasts of growth in the United States) and on historical trends (e.g. future development of the NASDAQ index).

Summary of selected indicators influencing economic growth (percent)			
	1996-2005 (average)	2006	2007
U.S. growth	3.3	3.3	2.3
Growth in advanced countries (weighted average)	2.8	3.1	2.5
Change in NASDAQ index, at a six-month delay	14.4	10.8	7.1
Change in real exchange rate, at a one-year delay (negative change indicates depreciation)	-1.5	-2.1	-0.1
Short-term real interest rate, at a one-year delay	5.2	2.4	3.7
Long-term real interest rate, at a one-year delay	4.7	3.8	3.8
Change in world trade	6.7	9.2	7.0
Change in imports of countries with which Israel trades	7.1	7.4	5.8
Population growth, at a one-year delay	2.4	1.8	1.8
Change in construction starts, at a one-year delay	-1.1	1.5	-3.3

One key assumption is that the government will maintain the economic policy formulated in 2003, including compliance with expenditure and deficit targets.

In accordance with the assumption of continued compliance with economic targets, the forecast is based on maintenance of the expenditure limit, which restricts the real growth of government spending in 2007 to 3.3 percent relative to the volume of government spending in the preceding budget year²⁰.

3. Main Forecasts for 2007

A. Inflation

The consumer price index decreased in January (0.1 percent) and February (0.3 percent), influenced by fuel prices and seasonal factors. Assuming that the effect of the factors that contributed to the price decline – i.e. the appreciation of the NIS and the decrease in energy prices – has mostly run its course, whereas domestic demand is likely to contribute to heightened inflationary pressures later this year, we estimate 1.0 percent inflation for the year (December 2007 versus December 2006) and average inflation of minus 0.2 percent.

B. Real Wages

An increase of approximately 2.8 percent in real wages is expected, in light of the decrease in unemployment, the increase in productivity in recent years, the increase in minimum wage and the increase in the number of full-time employees. This is slightly higher than the rate of increase in 2006.

²⁰ The expenditure limit is set at 1.7 percent; a one-time supplement of 1.6 percent will be added in 2007 in order to finance the war and subsequent rehabilitation in northern Israel.

C. Participation Rate

A moderate increase in the participation rate is expected, from 55.6 percent on average in 2006 to 55.8 percent in 2007, resulting from the continued economic growth, the increase in wages, the continued process of raising the retirement age, and the change in composition of the working-age population (the young population entering the workforce is more educated than the elderly population leaving the workforce). Conversely, the structural changes that contributed to the increase in the participation rate in previous years (cutbacks of allowances and reduction in the number of foreign workers) are expected to have a lesser impact.

D. Employment

Employment will grow by 3.3 percent, while the average unemployment rate will stand at 7.4 percent. The increase in the number of non-Israeli employed persons reflects a decrease during the course of 2007, but an increase on average, due to relatively high figures in the fourth quarter of 2006. The reduction in the number of foreign workers reflects the government policy aimed at decreasing the unemployment rate and improving the wages of weak population groups.

E. Public Debt

Assuming the deficit this year will be lower than the target of 2.9 percent of GDP and will reach approximately 1.5 percent of GDP, and assuming a 5.0 percent growth rate in 2007, the debt-to-GDP ratio is expected to decrease from the current 88 percent of GDP to 84 percent of GDP at the end of 2007 (including revenues from the privatization of ORL).

F. Private Consumption

Private consumption is expected to grow by 4.9 percent in 2007, due to the increase in real wages, the continued tax reform, the increase in the number of employed persons,

the decrease in unemployment, and the increase in the value of the public's asset portfolio.

G. Public Consumption

Public consumption is expected to grow by 2.9 percent in 2007. This increase takes into consideration the increase in defense expenses following the war, as well as the government's decision to limit the increase in total government spending in 2007 to 3.3 percent (As we already mentioned the expenditure limit is set at 1.7 percent; a one-time supplement of 1.6 percent will be added in 2007 in order to finance the war and subsequent rehabilitation in northern Israel).

H. Investment in Fixed Assets

Investment in fixed assets is expected to grow by 9.5 percent. This increase mainly reflects the solidification of the growth rate, continued corporate profitability, the decrease in long-term real interest rates, and the growth in imports of investment products and raw materials. The continued global growth trend will support this estimate. Investments in residential construction will also grow, though at a relatively low rate, due to the expected increase in demand (mainly in the area of Tel Aviv and central Israel) and the decrease in the inventory of available apartments.

I. Exports

The increase in exports of goods and services will stand at 5.1 percent (7.4 percent growth in exports excluding diamonds). This increase reflects expectations of continued expansion in world trade, continued global growth, continued growth in high-tech industries, and recovery in the tourism sector, which will lead to an improvement in exports of services. However, a certain offsetting effect is expected

due to the real appreciation of the NIS during 2006 and the slow global growth in 2007 compared to 2006²¹.

J. Imports

A 4.9 percent increase is expected in imports of goods and services. This increase expresses an expected increase in imports of raw materials and investment products, due to the solidification of the growth rate, as well as an increase in imports of consumer goods due to the strengthening of the NIS against other currencies.

²¹ According to the Consensus Forecast, the growth rate in the United States will stand at 2.3 percent in 2007 versus 3.3 percent in 2006, while the growth rate in the euro zone will stand at 2.3 percent in 2007 versus 2.7 percent in 2006. The weighted growth rate of the developed countries, based on their weight in Israeli exports, will fall from 3.1 percent in 2006 to 2.5 percent in 2007.

Table 1. Growth Rates of Real GDP and Components, 2003-2007

Real growth rates (percent)	2003	2004	2005	2006	2007
	Actual	Actual	Actual	Actual	Forecast
Gross domestic product (GDP)	1.5	4.8	5.2	5.1	5.0
Private consumption	0.9	5.5	3.4	4.8	4.9
Of which: by Israeli households	0.9	5.7	3.4	4.8	5.0
Public consumption	-2.3	-2.3	2.7	3.3	2.9
Gross investment	-9.6	1.2	11.5	4.1	8.0
Of which: investment in fixed assets	-5.5	0.3	2.9	6.4	9.5
Of which: investment in fixed assets, excluding residential construction	-5.6	1.4	4.5	8.1	10.3
Exports	8.2	18.2	5.1	4.9	5.1
Exports excluding diamonds	8.5	19.9	7.5	9.3	7.4
Exports of goods	5.5	16.0	3.4	4.7	3.9
Industrial exports excluding diamonds	5.0	17.9	6.4	12.1	7.1
Exports of services	14.4	23.3	8.9	5.3	7.7
Exports of services excluding tourism and consumption by foreigners	16.9	25.0	7.2	7.4	8.2
Exports of tourism services and consumption by foreigners	2.5	14.1	18.7	-4.5	5.0
Imports	-1.4	12.1	3.4	3.1	4.9
Imports of goods	-2.5	11.4	2.7	2.6	3.7
Of which: imports of goods excluding diamonds, aircraft, ships, fuel, and defense	-3.5	16.5	4.4	8.2	4.2
Imports of services	1.7	14.3	5.6	4.6	8.4
Business sector product	2.2	6.8	6.7	6.4	5.6
Per-capita GDP	-0.3	3.0	3.4	3.2	3.2

Forecast date: March 26, 2007

Table 2. Price Index and Labor Market, 2003-2007

	2003	2004	2005	2006	2007
	Actual	Actual	Actual	Actual	Forecast
Consumer price index					
Index	100.7	100.3	101.6	103.8	103.6
Annual change (percent)	0.7	-0.4	1.3	2.1	-0.2
Wages					
Average wages	6,908	7,050	7,219	7,491	7,686
Annual change (percent)	-2.3	2.1	2.4	3.8	2.6
Real annual change (percent)	-2.7	1.0	1.5	1.8	2.8
Employed persons					
Number of employed persons (thousands)	2,553	2,600	2,679	2,763	2,834
Annual change (percent)	0.5	1.8	3.1	3.1	2.6
Israeli employees					
Number of employed persons (thousands)	2,330	2,401	2,494	2,574	2,658
Annual change (percent)	2.0	3.0	3.9	3.2	3.3
Non-Israeli employees					
Number of employed persons (thousands)	223	199	186	189	193
Annual change (percent)	-12.9	-10.7	-6.6	1.9	1.8
Unemployed persons					
Unemployed (thousands)	281	277	246	236	212
Percent of workforce	10.8	10.3	9.0	8.4	7.4
Participation rate (percent)	54.5	55.0	55.2	55.6	55.8

Date of forecast: March 26, 2007.

Table 3. Real GDP and Nominal GDP, 2003-2007

	2003	2004	2005	2006	2007
	Actual	Actual	Actual	Actual	Forecast
GDP in fixed prices (2005 prices)	527,935	553,258	582,291	611,819	642,552
Rate of change in real GDP (percent)	1.5	4.8	5.2	5.1	5.0
GDP in current prices (NIS millions)	524,187	548,936	582,291	626,015	659,288
Rate of change in nominal GDP (percent)	1.2	4.7	6.1	7.5	5.3

Date of forecasts: March 26, 2007.