

**STATE OF ISRAEL
MINISTRY OF FINANCE**

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

**Review of Economic Developments and
Macro-Economic Forecasts**

July 2007

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A. Macro-Economic Review for 2006 and Q1 2007

1. Growth of GDP and Business Product

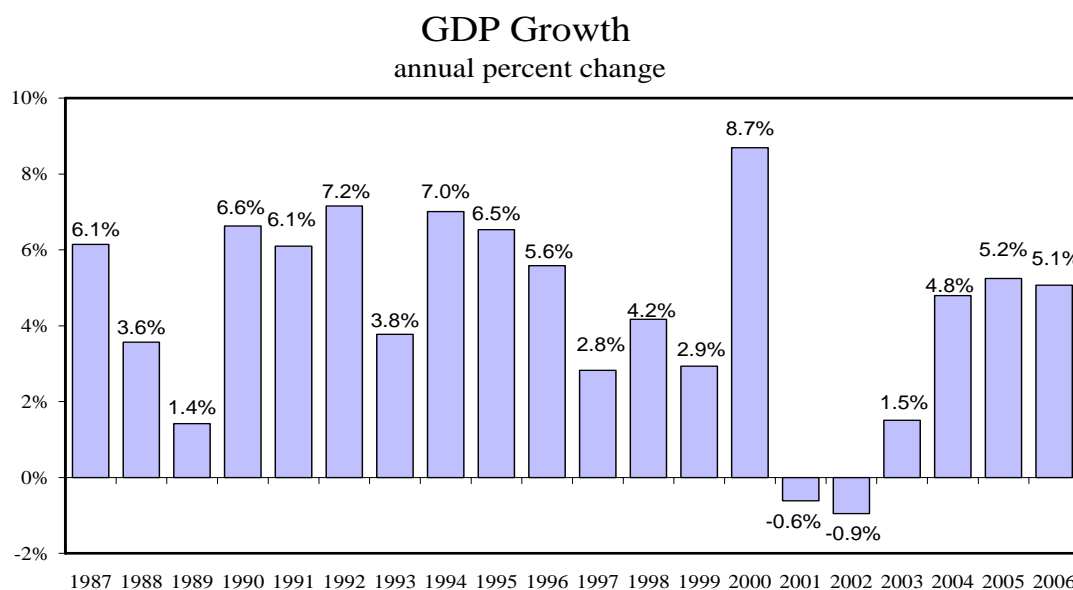
2006 was marked by rapid growth in all components of the GDP, despite the war in northern Israel. This continued the trend, started in mid-2003, of economic recovery from the severe recession that began in late 2000. GDP grew by 5.1 percent in 2006, while the business sector product grew by 6.4 percent. 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 which included a low government deficit, a decline in public debt to GDP ratio and continued reduction in tax rates; 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. A rapid growth rate of 6.3 percent³ was recorded in the first quarter of 2007, with continued growth in most GDP components.

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, as mentioned, 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.

³ This figure was calculated in comparison to the previous quarter, at an annualized rate. All data presented below with regard to the first quarter of 2007 were calculated in the same manner unless otherwise noted.



The effect of the war amounted to approximately 0.7 percent of GDP, in annualized terms (about NIS 4 billion), lower than previous estimates⁴.

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 wages⁵, the continued policy of tax cuts, and the growth in the value of the public's asset portfolio⁶. Private consumption increased by 11.8 percent in the first quarter of 2007.

⁴ 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.

⁵ 1.6 percent in 2006.

⁶ 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

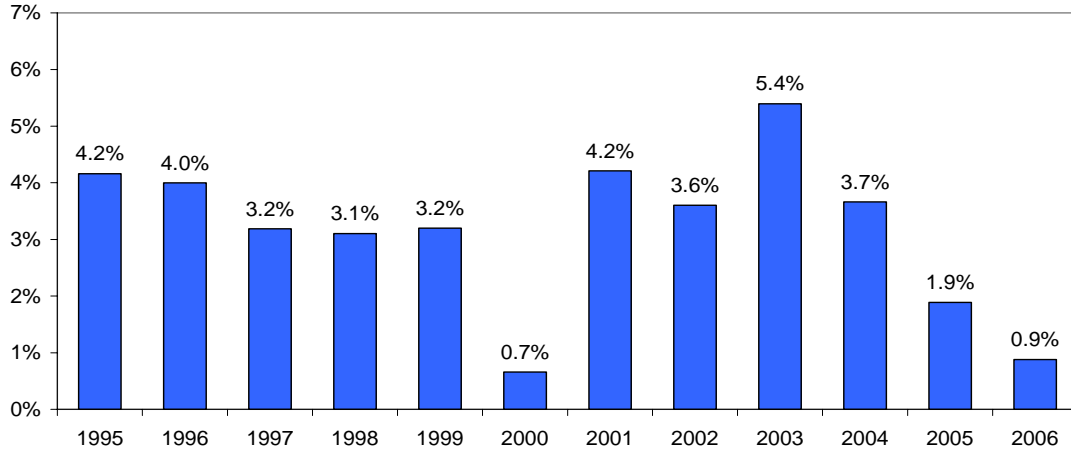
Public consumption grew by 3.3 percent in 2006, following a 2.7 percent increase in 2005, with the increase in 2006 resulting from 2.4 percent growth in civilian consumption and 5.5 percent growth in defense consumption. The increase in defense consumption, mainly due to expenses caused by the war, is 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 GDP⁷ 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 income derives from one-time income items, such as the sale of Iscar, the Bachar reform, the ORL split, and others. Note that privatization revenues are used to reduce government debt, and therefore do not influence the size of the deficit. On the other hand, the increase in government expenditures was almost identical to the original planning – the execution rate of net total expenses was approximately 100 percent of the original budget.

⁷ 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).

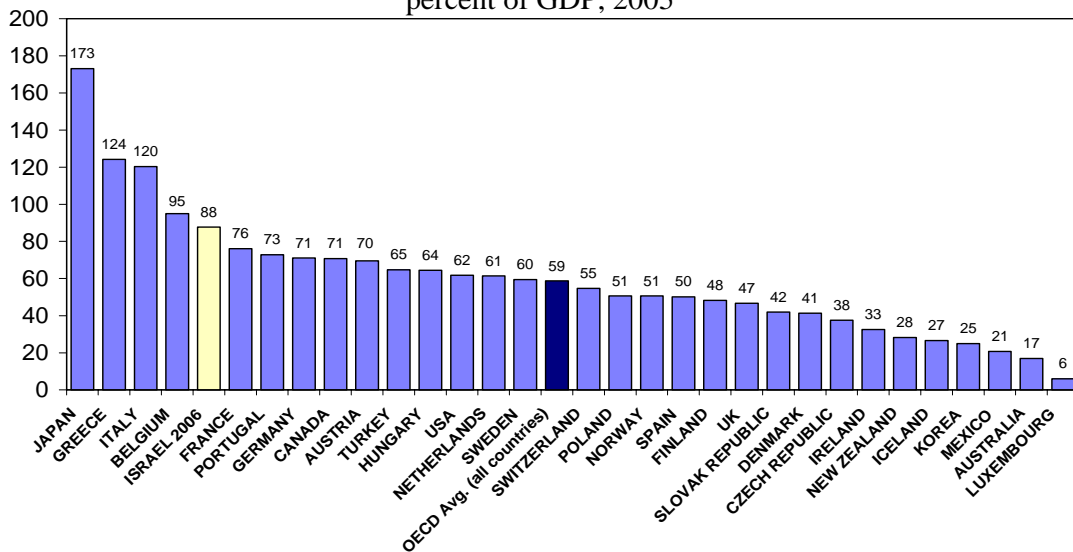
The Central Government Budget Deficit (as percent of GDP)



5. Public Debt

Gross public debt (the decisive majority of which is government debt) decreased substantially, from 97.0 percent in 2005 to 87.7 percent in 2006. This decrease resulted from the low deficit of the broad government (1.8 percent), the high GDP growth rate, and the strengthening of the shekel (the strengthening of the shekel contributed approximately 2.0 percent of GDP to the decrease). However, the level of debt is still high in international terms.

Gross Public Debt percent of GDP, 2005



A simulation performed by the Ministry of Finance indicates that a debt-to-GDP ratio of 60.0 percent⁸ can be achieved in 2021 (in line with the ceiling established in the Maastricht rules), assuming:

- A growth rate of 5.0 percent in 2007, 4.2 percent in 2008, and 4.0 percent from 2009 forward.
- A fiscal deficit of 1.5 percent in 2007⁹, 1.5 percent in 2008, and 1.0 percent as of 2009.
- Average annual inflation of 0.1 percent in 2007, 1.9 percent in 2008, and 2.0 percent as of 2009.

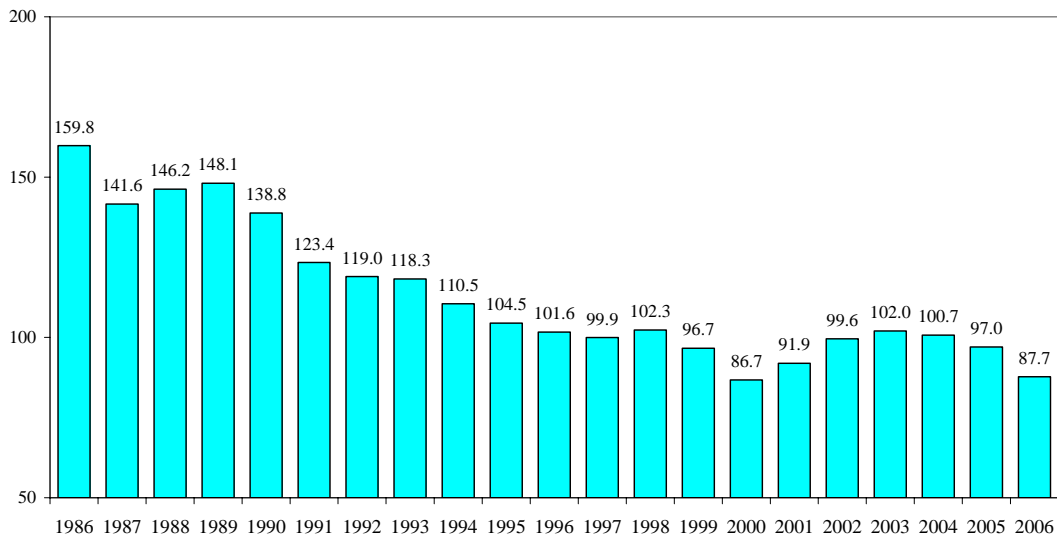
Debt reduction frees greater resources for investments in the business sector, helps lower the long-term interest rate, reduces production costs, improves the Israeli economy's rating from the viewpoint of foreign investors, and allows the application of an anti-cyclical policy; it therefore constitutes an essential component in creating the conditions for sustainable growth and increased employment in the economy. Reduction of the debt will also allow a decrease of interest expenses and redirection of the resources made available to the promotion of the government's priorities, without enlarging the budget framework¹⁰.

⁸ This estimate does not take into account future privatization income and long-term changes in the dollar exchange rate.

⁹ The deficit is likely to be lower than the 2.9 percent target, due to the higher tax revenues than forecast in the budget.

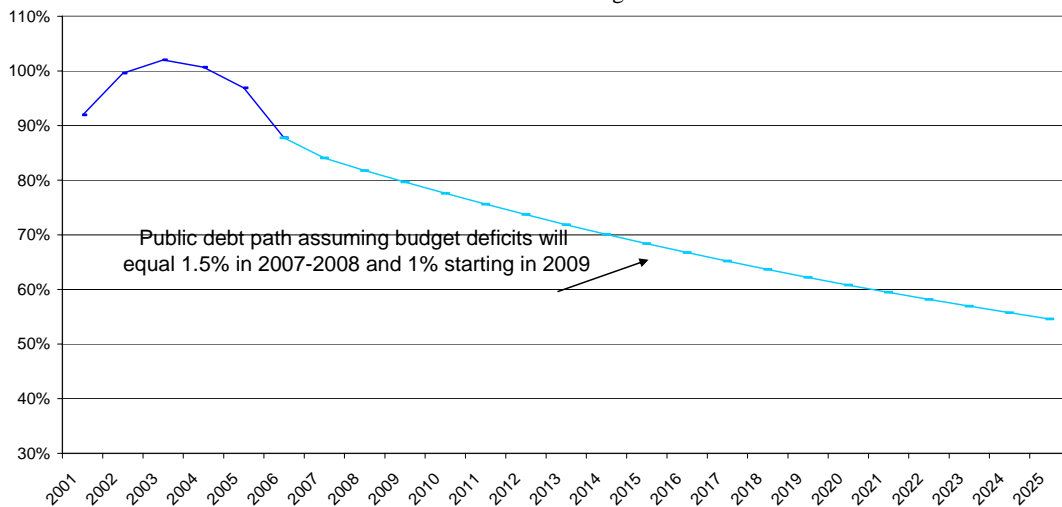
¹⁰ In recent years, the interest component has comprised approximately 12 percent of total government expenditures, at a total of approximately NIS 35 billion (see p. 3, Financial Statements of the Government of Israel as at December 31, 2006, Ministry of Finance, Accountant General). With a debt-to-GDP ratio of 60 percent, according to Maastricht targets, given the GDP for 2006, interest expenses would be proportionately lower. According to calculations by the Debt Management Department, the government would then have additional resources in the amount of approximately NIS 13 billion within the expenditure stipulated by law.

Gross Public Debt (as percent of GDP)



Public Debt (as percent of GDP)

Simulation assumption: GDP growth rate of 5.0% during 2007, 4.2% during 2008 and 4.0% during 2009-2025. Inflation rate of 0.1% during 2007, 2.3% 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.

Investments in fixed assets¹¹ increased at a high rate of 23.7 percent in the first quarter of 2007.

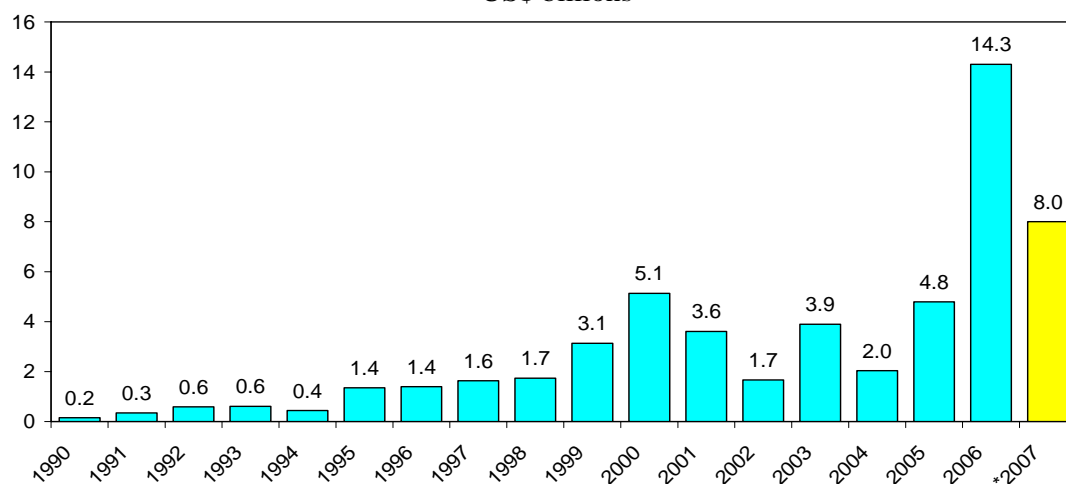
7. Foreign Investments

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 transactions¹², 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. Total foreign investments reached USD 9.8 billion in the first five months of 2007 (in annualized terms), of which USD 8.0 billion were direct investments.

¹¹ One of the explanations for the high growth rate of fixed asset investments is the considerable growth in purchases of passenger vehicles during the first quarter of 2007, versus a large decrease in the fourth quarter of 2006. This change seems to have resulted from the decrease in purchase taxes on January 1, 2007 to 84.0 percent, from the prior rate of 89.0 percent.

¹² 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.

Net Inflows of Foreign Direct Investment in Israel US\$ billions



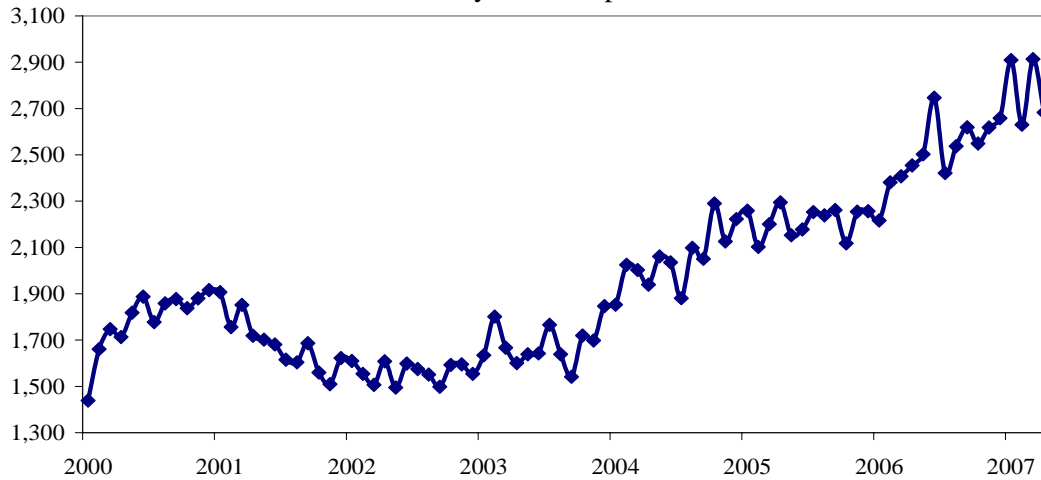
*Jan-May 2007 at annual rate

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 percent¹³. 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 grew by 11.1 percent in the first quarter of 2007, with a significant increase in exports of goods and stability in exports of services.

¹³ 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.

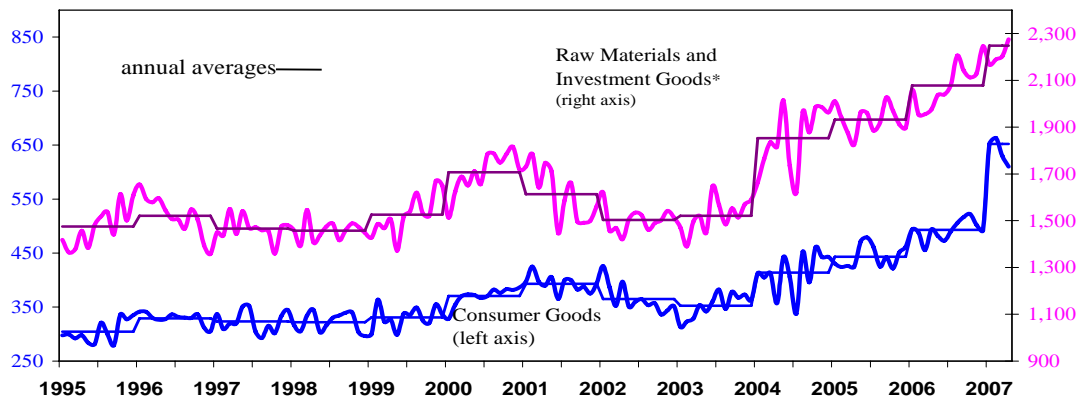
Exports of Goods
(U.S.\$ millions per month, excl. diamonds, ships & airplanes)
January 2000 - April 2007



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). Total exports decreased slightly, by 2.3 percent, in the first quarter of 2007, as a result of the decrease in imports of goods, together with an increase in imports of services.

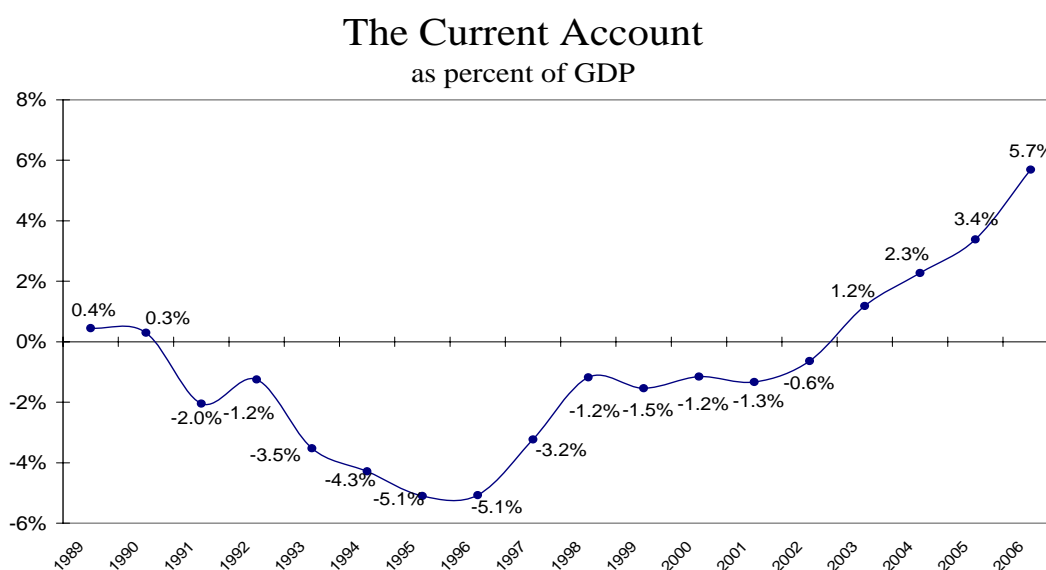
Imports of Goods
U.S.\$ millions per month
January 1995 - April 2007



*Excluding diamonds, ships, aircraft and fuel

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). This amount transitioned to a surplus of USD 8.0 billion in 2006 (5.7 percent of GDP).



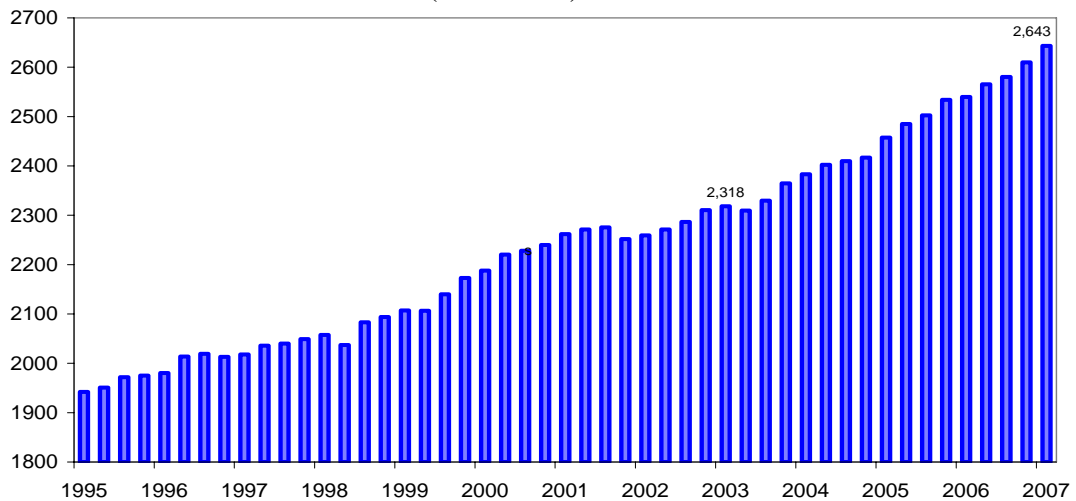
11. Labor Market

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 percent in the second half of 2003, dropped significantly in 2004-2006. Unemployment stood at 8.4 percent in 2006, versus 9.0 percent in 2005. The unemployment rate reached 7.8 percent in the fourth quarter of 2006, and 7.7 percent in the first quarter of 2007, the lowest rate 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). The number of employed persons grew by

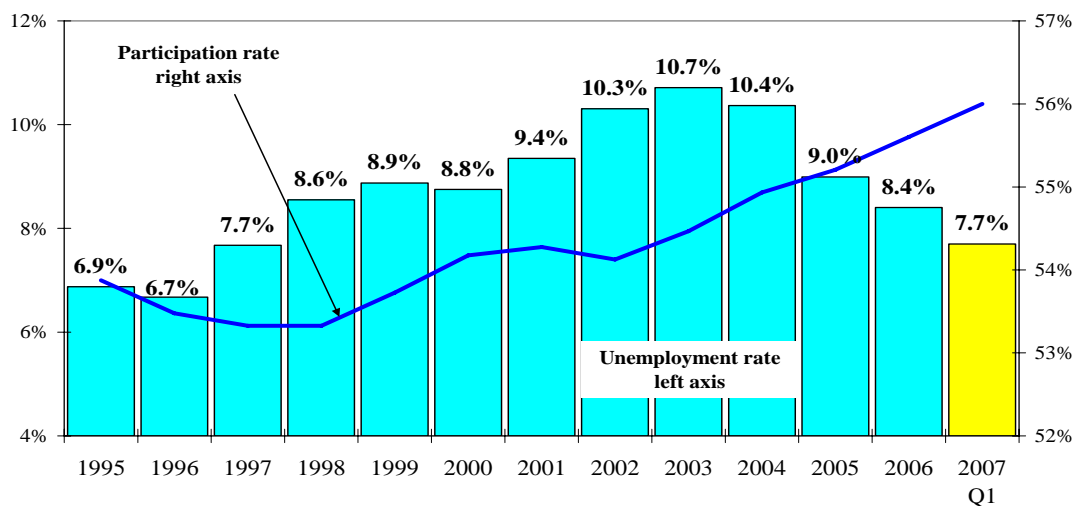
approximately 33,000 in the first quarter of 2007 compared to the fourth quarter of 2006.

Israeli Employees (Thousands)



The workforce participation rate rose to 55.6 percent in 2006, compared to 55.2 percent in 2005. The workforce participation rate rose significantly in the first quarter of 2007, to 56.1 percent.

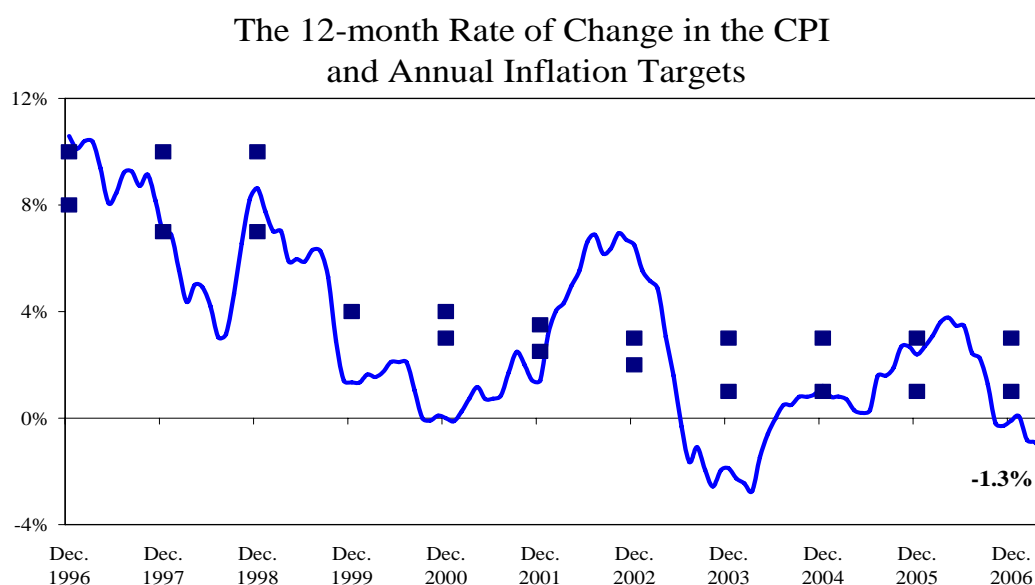
The Unemployment Rate and the Participation Rate



Average real wages rose by 1.6 percent in 2006, following a 1.0 percent increase in 2005.

12. Monetary Policy and Prices

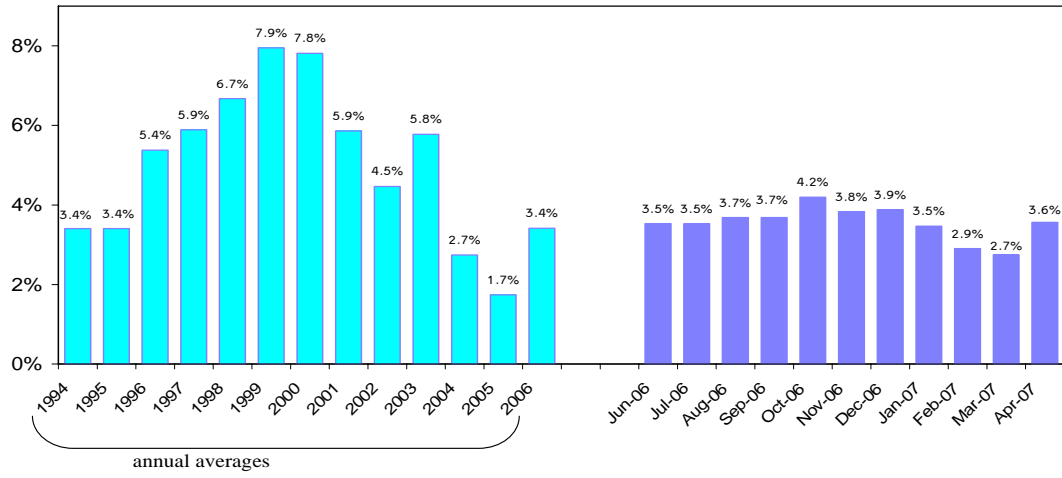
The consumer price index rose by 2.1 percent in 2006 in terms of the annual average¹⁴, and fell by 0.1 percent during the year (December versus December). The consumer price index decreased by 1.3 percent from April 2006 to April 2007. Inflation was below the target range (1.0-3.0 percent) mainly due to the weakening of the dollar, which affects the consumer price index through housing prices, which are usually denominated in dollars.



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, due to the effect of the weakening of the dollar and the decrease in fuel prices which reduced inflationary pressures, the interest rate was lowered in a series of consecutive cuts to 3.5 percent by June 2007.

¹⁴ 2006 average compared to 2005 average.

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



B. Macro-Economic Forecasts for 2007 and 2008

1. General

Data for the fourth quarter of 2006 and figures published for the months of January-April 2007 indicate that the rapid growth trend continued in the first quarter of 2007. We estimate that the global economic environment and domestic demand will allow a growth rate of 5.0 percent to be achieved in 2007. The increase in real wages, the increase in employment, the decrease in unemployment, and the relatively low real interest rate support domestic demand. The expected growth rate in 2007 is similar to the actual growth rate in 2006, but lower than the potential growth rate for 2006 without the effect of the war in northern Israel. This gap mainly reflects the effects of the slowdown in global markets in 2007 compared to 2006.

The forecast growth rate for 2008 stands at 4.2 percent. This rate is higher than the growth rate in most developed countries and higher than the average growth rate in Israel over the last decade, but lower than the rate for 2007, mainly due to:

- The strength of the shekel. The expansive effect of the real depreciation in 2000-2004 has run its course, while the moderating effect of the real appreciation in 2006 will manifest with a one-year delay, so that it will mainly be felt at the end of 2007 and during 2008.
- Reduction of the GDP surplus, reflected in lower unemployment rates, fuller utilization of capital, and other effects. Moreover, the increase in the workforce participation rate is expected to be more moderate, and will also slow GDP growth.

2. Key Assumptions for 2007 and 2008 Growth Forecasts

The economy's growth rate in the short term depends on several factors that will affect both demand for local usages and exports. The following are the main factors:

- The global growth rate and its composition. According to the Consensus Forecast, current expected growth rates for 2007 are 2.0 percent in the United States and 2.6 percent in the euro zone; expected growth rates for 2008 are 2.7 percent in the United States and 2.2 percent in the euro zone. The weighted expected growth rate of the advanced countries, based on their weight in Israeli exports, falls from 3.1 percent in 2006 to 2.5 percent in 2007 and 2.6 percent in 2008. These rates are lower compared to 2006. Furthermore, there are substantial risks to the current forecast for global growth, particularly in the United States, mainly arising from the lack of balance in the American economy (a large budget deficit and negative rate of households' savings), which is reflected in the high deficit in the current account of the balance of payments, among other things. The American economy is also influenced by the weakness in the real estate market, which will affect private consumption. However, most forecasters predict a "soft landing" for the American economy.
- Continued global growth and growth in global trade¹⁵.
- Responsible fiscal policy. One of the key assumptions is that the government will continue the economic policy of attaining spending and deficit targets.
- The degree of restraint of monetary policy.
- The security situation. A key working assumption is that no significant deterioration will occur in the security situation in the course of 2007 and 2008.

The main macro risks to the economy in the coming years are a return to security disturbances and a substantial slowdown of the global economy. Full or partial materialization of these scenarios will obviously harm the Israeli economy.

¹⁵ The International Monetary Fund expects a 7.0 percent increase in global trade in 2007 and a 7.4 percent increase in 2008.

3. Highlights of Forecasts for 2007

A. Inflation

Inflation target to be attained towards the end of the year. The price index has been greatly influenced by the appreciation of the shekel in recent months. Assuming the effect of the shekel's appreciation has mostly run its course, while local demand may contribute to an increase in inflationary pressures later in the year, we estimate inflation at 2.1 percent for the year (December 2007 versus December 2006), and average annual inflation of 0.1 percent.

B. Workforce Participation Rate

Continued increase in the participation rate. The workforce participation rate is expected to rise from 55.6 percent on average in 2006 to 56.2 percent in 2007, as a result of the continued economic growth, the increase in wages, the continued raising of the retirement age, and the change in the composition of the working-age population (the young population entering the labor market is more educated compared to the older population retiring from the labor market).

C. Employment

Increase in employment to continue. Employment will grow by 3.7 percent, while the average unemployment rate will stand at 7.5 percent. The increase in the number of non-Israeli employees is the outcome of a decrease during the course of 2007, but an increase on average due to extreme effects – i.e. relatively high figures in the fourth quarter of 2006. The reduction in the number of foreign workers reflects the government policy aimed at lowering the unemployment rate and improving wages in weak population groups.

D. Public Debt

The ratio of public debt to GDP will continue to decrease. The debt-to-GDP ratio is expected to fall from the current 88 percent of GDP to approximately 84 percent of GDP at the end of 2007 (including revenues from the privatization of ORL)¹⁶. Despite the decrease, Israel's debt-to-GDP ratio remains substantially higher than in most developed countries. The average debt-to-GDP ratio in OECD countries was 58.8 percent in 2005.

E. Private Consumption

Private consumption is expected to grow by 5.1 percent in 2007, as a result of the increase in real wages, the continued tax reform, the increase in employed persons, the decrease in unemployment, and the growth of the public's asset portfolio.

F. Public Consumption

Public consumption is expected to grow by 2.9 percent in 2007. This increase takes into account the 1.7 percent growth trajectory of fixed expenses stipulated by law, as well as a 1.6 percent one-time addition for the Second Lebanon War (3.3 percent in total¹⁷).

G. Investment in Fixed Assets

Fixed asset investments will increase considerably, further to the growth in 2006.

Investment in fixed assets is expected to grow by 8.0 percent. This growth mainly reflects the stabilization of the growth rate, companies' continued profitability, the decrease in long-term real interest rates, and the increase in imports of investment products and raw materials. A continued global growth trend will support this estimate. Investments in residential construction will also increase, though at a

¹⁶ Assuming a 5.0 percent growth rate in 2007, and a 1.5 percent government deficit.

¹⁷ Excluding the financing of Disengagement expenses.

relatively low rate, due to the expected growth in demand (mainly in the Tel Aviv and central regions) and the decrease in the inventory of available homes.

H. Exports

Exports of goods and services will grow by 5.9 percent (6.4 percent excluding exports of diamonds). This growth reflects expectations of continued expansion in global trade, continued global growth, continued growth in high-tech industries, and recovery in the tourism industry, which will lead to improvement in exports of services. However, some offsetting effects are expected due to the real appreciation of the shekel in 2006 and the slow increase in global growth in 2007 in comparison to 2006.

I. Imports

A 5.3 percent increase is expected in imports of goods and services. This increase reflects the expected growth in imports of raw materials and investment products, due to the stabilization of the growth rate and the strengthening of the shekel against other currencies. The strengthening of the shekel will also affect the increase in imports of consumer goods.

4. Highlights of Forecasts for 2008

Estimates for 2008 are mainly based on medium-term forecasts (five years ahead) which predict average annual GDP growth of 4.0 percent (2.3 percent per-capita), with 4.2 percent growth of the business product. These growth rates will be supported by an increase of 6.0 percent in exports each year, in line with the forecast for growth in global trade.

As noted above, the reasons for the estimate of a lower growth rate in 2008 than in 2007 are:

- Contraction of the GDP surplus and subsequent reinforcement of supply limitations. The reduced GDP surplus is reflected in lower unemployment rates in the first quarter of 2007 compared to the average rate in 2004-2006, and in substantial growth in fixed asset investments in 2006 compared to the moderate growth in 2004-2005.
- The reduced growth rate of exports, due to the delayed effects of the real appreciation in the second half of 2006 and in the first months of 2007.

Escalation of the security situation and a worse-than-expected global slowdown are the risk factors for 2008 as well. However, higher growth rates than forecast are possible, provided the risk factors do not materialize and the economy's growth potential is realized. Realization of the growth potential is contingent upon the implementation of a responsible, resolute economic policy, which will have a favorable impact on economic growth in 2008 and in the following years, in several ways:

- **Moderate growth of government spending**, in accordance with the expenditure limit, will allow continued reduction of tax rates for individuals and companies (thereby increasing disposable income and private consumption), as well as continued reduction of public debt as a percentage of GDP.
- **A stable fiscal policy supports price stability**, an expansive monetary policy, and reduction of the economy's risk premium.
- **The continued process of privatization of government companies** will improve the efficiency of their future operations, leading to efficient allocation of resources in the economy.
- **Continued investment in infrastructures, education, research and development, and national projects** will provide the foundation for the continued business development of the economy.

- **Application of an active policy in the labor market** will allow continued reduction of unemployment, an increase of the participation rate, and improved quality of life for weak population groups.
- **Improving the efficiency of the public sector.**

We expect 2008 will be marked by:

- **Continued economic growth.** The GDP growth rate will stand at 4.2 percent.
- 4.3 percent growth in private consumption, influenced by the same factors that shaped the forecast for 2007 (see details above).
- 2.0 percent growth in public consumption. Government expenditures will grow at a real rate of 1.7 percent, in line with the planned trajectory, with a one-time 1.0 percent addition due to the war in northern Israel (in summer 2006).
- 5.5 percent growth in investments in fixed assets, lower than in 2007, when the expected growth in investments will reflect the stabilization of the growth rate and will compensate for the low growth rates of fixed asset investments in 2003-2005.
- 4.7 percent growth in exports. This rate is similar to the growth rate in 2006 but lower than the growth rate in 2007, and mainly reflects the end of the impact of the real depreciation of 2000-2004 and the delayed effect of the real appreciation during 2006 and 2007. Global forecasts for 2008 estimate 2.7 percent growth in the United States, as noted above – higher than the forecast for 2007 (2.0 percent) – whereas the growth forecast for the euro zone is 2.2 percent, lower than the rate expected in 2007 (2.6 percent). The weighted growth forecast for the developed countries based on their weight in Israeli exports stands at 2.6 percent for 2008, almost identical to the rate for 2007 (2.5 percent).

- 4.6 percent growth in imports. This rate is slightly lower than in 2007, due to the slightly lower GDP growth and export growth estimates compared to the growth estimates for 2007.
- **Price stability to be maintained.** Average annual inflation will stand at 2.3 percent (up 2.0 percent from December 2007 to December 2008).
- **A continued positive trend in the labor market.** Unemployment will fall to 7.2 percent. The employment rate will rise by 2.5 percent, with a participation rate of 56.4 percent. The number of foreign workers will decrease by 2.0 percent.
- **Continued decrease in public debt rates.** Public debt will fall to 81.7 percent of GDP.

Tables - Macroeconomic Forecasts

Table 1. Growth Rates of Real GDP and Components, 2003-2008

Real growth rates (percent)	2003	2004	2005	2006	2007 Q1¹⁸	2007	2008
	Actual	Actual	Actual	Actual		Forecast	Forecast
Gross domestic product (GDP)	1.5	4.8	5.2	5.1	6.3	5.0	4.2
Private consumption	0.9	5.5	3.4	4.8	11.8	5.1	4.3
Of which: by Israeli households	0.9	5.7	3.4	4.8	12.6	5.1	4.3
Public consumption	-2.3	-2.3	2.7	3.3	-4.0	2.9	2.0
Gross investment	-9.6	1.2	11.5	4.1	-41.9	6.4	7.1
Of which: investment in fixed assets	-5.5	0.3	2.9	6.4	23.7	8.0	5.5
Of which: investment in fixed assets, excluding residential construction	-5.6	1.4	4.5	8.1	35.0	9.8	5.9
Exports	8.2	18.2	5.1	4.9	11.1	5.9	4.7
Exports excluding diamonds	8.5	19.9	7.5	9.3	14.9	6.4	5.6
Exports of goods	5.5	16.0	3.4	4.7	31.5	5.6	3.8
Industrial exports excluding diamonds	5.0	17.9	6.4	12.1	21.5	6.2	5.0
Exports of services	14.4	23.3	8.9	5.3	2.2	6.5	6.6
Exports of services excluding tourism and consumption by foreigners	16.9	25.0	7.2	7.4	-5.3	6.8	6.0
Exports of tourism services and consumption by foreigners	2.5	14.1	18.7	-4.5	66.7	5.0	10.2
Imports	-1.4	12.1	3.4	3.1	-2.3	5.3	4.6
Imports of goods	-2.5	11.4	2.7	2.6	-11.5	3.8	4.0
Imports of services	1.7	14.3	5.6	4.6	32.5	10.1	6.4
Business sector product	2.2	6.8	6.7	6.4	6.5	5.7	4.9
Per-capita GDP	-0.3	3.0	3.4	3.2	4.6	3.2	2.5

Date of Forecast: June 25, 2007

¹⁸ Real change from last quarter at an annual rate, seasonally adjusted.

Table 2. Price Index and Labor Market, 2003-2008

	2003	2004	2005	2006	2007	2008
	Actual	Actual	Actual	Actual	Forecast	Forecast
Consumer price index						
Index	100.7	100.3	101.6	103.8	103.8	106.2
Annual change (percent)	0.7	-0.4	1.3	2.1	0.1	2.3
Employed persons						
Number of employed persons (thousands)	2,553	2,600	2,679	2,763	2,859	2,923
Annual change (percent)	0.5	1.8	3.1	3.1	3.5	2.2
Israeli employees						
Number of employed persons (thousands)	2,330	2,401	2,494	2,574	2,668	2,735
Annual change (percent)	2.0	3.0	3.9	3.2	3.7	2.5
Non-Israeli employees						
Number of employed persons (thousands)	223	199	186	189	192	188
Annual change (percent)	-12.9	-10.7	-6.6	1.9	1.2	-2.0
Unemployed persons						
Unemployed (thousands)	281	277	246	236	231	227
Percent of workforce	10.8	10.3	9.0	8.4	7.5	7.2
Participation rate (percent)	54.5	55.0	55.2	55.6	56.2	56.4

Date of Forecast: June 25, 2007

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

	2003	2004	2005	2006	2007	2008
	Actual	Actual	Actual	Actual	Forecast	Forecast
GDP in fixed prices (2005 prices)	527,935	553,258	582,291	611,819	642,243	669,328
Rate of change in real GDP (percent)	1.5	4.8	5.2	5.1	5.0	4.2
GDP in current prices (NIS millions)	524,187	548,936	582,291	625,848	659,769	705,354
Rate of change in nominal GDP (percent)	1.2	4.7	6.1	7.5	5.4	6.9

Date of Forecast: June 25, 2007