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To: Members of the Executive Board

From: The Secretary

Subject: **Israel—Staff Report for the 2022 Article IV Consultation—Supplementary Information**

Board Action:	Executive Directors' consideration on a lapse of time basis
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Questions:	Ms. Petrova, EUR (ext. 39641) Mr. Flores Curiel, EUR (ext. 35971) Mr. Hassan, EUR (ext. 30953) Ms. Garcia, EUR (ext. 35366)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration—Asian Infrastructure Investment Bank, European Investment Bank, Food and Agriculture Organization, Organisation for Economic Cooperation and Development, World Trade Organization

***Unless an objection from the authorities is received prior to the conclusion of the Board's consideration, the document will be published.**



ISRAEL

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION— SUPPLEMENTARY INFORMATION

March 14, 2022

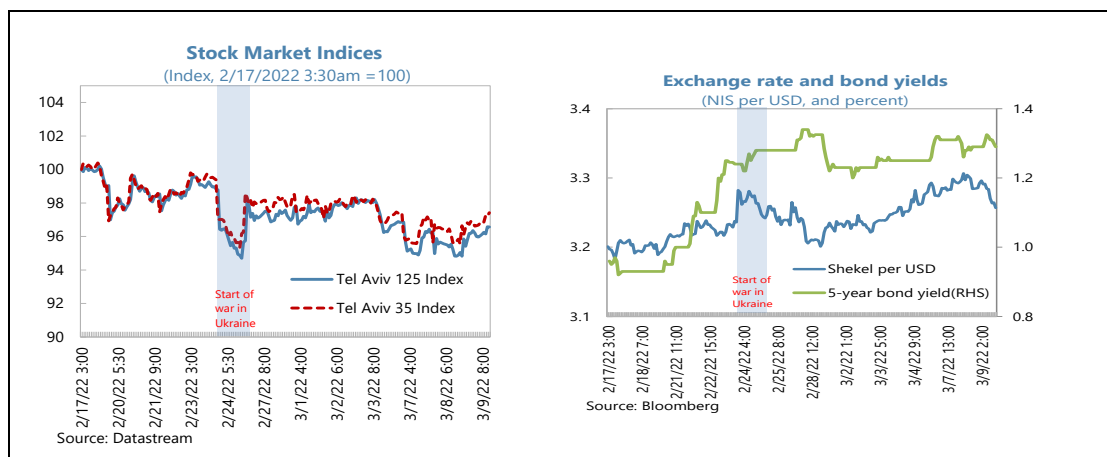
Prepared By

European Department

This statement provides information that has become available since the staff report was issued to the Executive Board on March 4, 2022.

1. Data released in March confirms Israel’s strong performance in 2021 and sustained momentum into the first quarter of 2022. The second estimate of the 2021 national accounts showed a slight upward revision of 2021 growth from 8.1 percent to 8.2 percent. The 17.6-percent annualized qoq growth in the last quarter—with solid performance across all GDP components—implies a significant carry-over of 4.8 percent for 2022. Fiscal revenues for February and the labor force survey for the first half of February suggest the economy has been resilient during the Omicron wave, which has continued to dissipate.

2. The war in Ukraine has had a limited impact on Israeli capital markets thus far. The aggregate value of listed shares in the Tel Aviv Stock Exchange fell by approximately 3 percent on February 24 but subsequently stabilized and recovered the losses. After an initial depreciation, the shekel has also recovered, with no intervention by the Bank of Israel. The war in Ukraine has had no discernable effect on Israeli bond yields.



3. The mild market response so far reflects Israel's low direct exposure to Ukraine and Russia. Exports to Russia (a diversified basket) and Ukraine (mainly pesticides) account for a total of 2 percent of Israel's merchandise exports (less than 0.4 percent of GDP). Imports have a similarly low weight in Israel's merchandise imports, although about half of Israel's imported wheat is supplied by Russia or Ukraine. Israeli banks have no significant cross-border exposures to Russia or Ukraine.

4. Nonetheless, Israel's economic outlook remains subject to significant uncertainty. While the direct exposure to Russia and Ukraine seems limited, spillovers from weaker global outlook could affect the Israeli economy. The impact will likely stem from higher energy and wheat prices and lower external demand. Israel's own production of natural gas would mitigate the energy shock, but higher prices will put additional pressure on headline inflation. They may also have an impact on domestic demand, buffered somewhat by households' savings accumulated during the pandemic. The impact on net exports and the current account is also uncertain, but likely mitigated by the resilience of the high-tech sector.

5. The thrust of the staff appraisal remains unchanged.