

4. Foreign-Exchange Activity of the Main Sectors

In 2025, the NIS gained a strong 12.5 percent against the USD, 1.3 percent against the EUR, and 8.4 percent against the nominal effective currency basket. The year was typified by acute exchange-rate volatility but on annual balance the standard deviation was lower than in previous years.

The depreciation trend observed at the beginning of the year turned to steep appreciation from Q2 on in view of USD depreciation abroad and expectations of a regional settlement.

Among the activities of main sectors in the foreign-currency market, institutional entities stood out by selling USD 20 billion net in 2025 amid rising equity prices in foreign markets. Contrastingly, the business sector purchased USD 16 billion (net) and the household sector acquired USD 10 billion. Nonresident activity in the financial sector was volatile and came to USD 2 billion in net sales, whereas nonresidents in the nonfinancial segment sold USD 10 billion in foreign currency, as in 2024.

1. Background: Exchange rates and volatility

The NIS gained strongly against the USD and the nominal effective currency basket.

The NIS appreciated in January 2025 by 1.9 percent against the USD and 2.3 against the EUR, breaking the trend that had begun in late 2024.

In February–March, a change occurred: the NIS lost 8.5 percent against the EUR and 3.9 against the USD as the cease-fire in Gaza wobbled and the Fed indicated that no rate-cutting should be expected.

From Q2 on, as the USD lost ground abroad and reports about a cease-fire with Iran arrived, the NIS appreciated steeply. For the year all told, the Israeli currency gained 12.5 percent against the USD, 1.3 percent against the EUR, and 8.4 percent against the nominal effective currency basket¹.

From the end of October 2023 to the end of 2025, the NIS appreciated by about 20.8 percent against the USD, 12.6 percent against the EUR, and 19.3 percent against the nominal effective currency basket.

Figure 4.1a: NIS/\$, NIS/€, and nominal effective exchange rate indices 2025

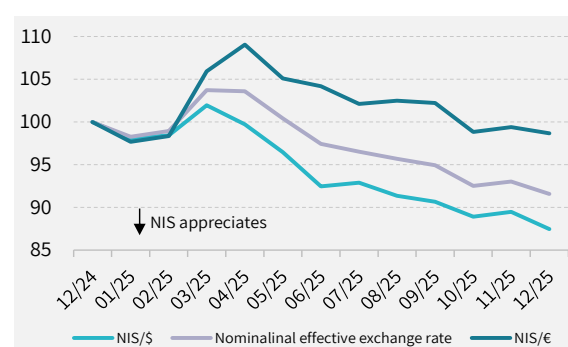
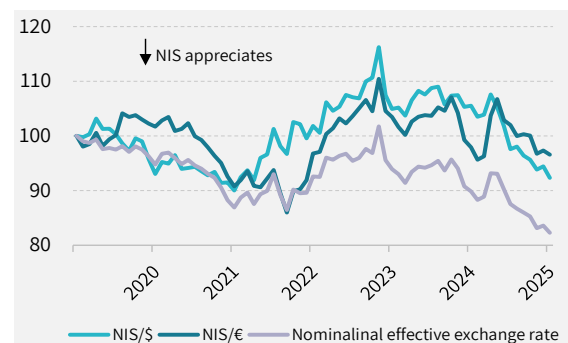


Figure 4.1b: NIS/\$, NIS/€, and nominal effective exchange rate indices 2020-2025



SOURCE: Bank of Israel

¹ For an explanation of the nominal effective exchange rate, see “Sources of Data and Main Terms” at the end of this chapter.

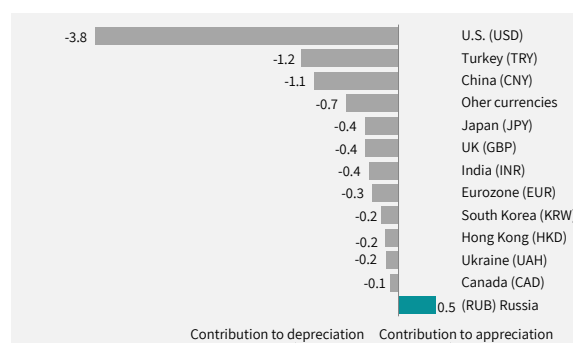
Most NIS appreciation in nominal effective exchange-rate terms occurred against the USD.

The NIS gained against all currencies in the nominal effective exchange-rate basket with the exception of the RUB. Appreciation against the EUR and the TRY² contributed 3.8 and 1.2 percentage points, respectively, to the appreciation in nominal effective exchange-rate terms.

In contrast, depreciation of the NIS against the RUB made a 0.5 percentage point contribution to the change in the nominal effective exchange rate.

Figure 4.2: Contribution of change in various currencies to change in the nominal effective exchange rate (8.4 percent)

Full year 2025, pct.



*The contribution is calculated via the change in the exchange rate of each currency against the NIS, multiplied by that currency's weight in the nominal effective index.

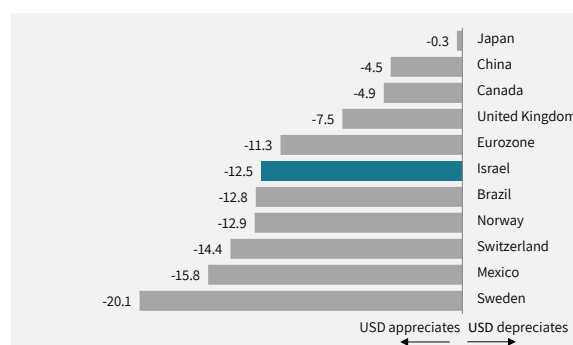
SOURCE: Bank of Israel

Steep NIS appreciation against the USD coincided with major USD depreciation abroad.

The USD lost perceptible ground against the EUR (11.3 percent), the GBP (7.5 percent), and the CHF (14.4 percent) in 2025.

Figure 4.3: USD rate of change against major currencies*

2025, pct.



*The rates are calculated on the basis of end-of-day data. The change in the NIS/USD rate is calculated in accordance with the representative rate.

SOURCE: Bloomberg data, processed by Bank of Israel

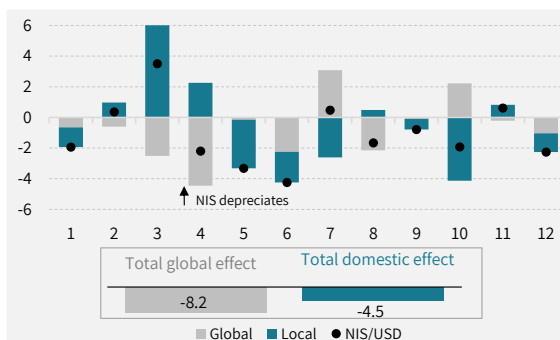
² Israel's weight against the Turkish currency is calculated in accordance with data on bilateral trade in 2020; therefore, it does not reflect recent developments in Israel's relations with Turkey.

Most appreciation of the NIS against the USD is explained by the global effect³; the domestic effect reinforced the trend.

The global effect, reflected in the behavior of the USD against main currencies abroad, contributed 8.2 percentage points to NIS appreciation in 2025, mostly in the first half of the year.

The domestic effect, expressed in the difference between the global effect and the change in the NIS/USD rate, contributed 4.5 percentage points to the NIS appreciation, chiefly in October, in view of reports about the possibility of an end to the war .

Figure 4.4: Change in the NIS/USD exchange rate, divided into domestic and global effects
2025, pct.



* SOURCE: Bloomberg data, processed by Bank of Israel

The implied standard deviation declined in all markets, but the decline was milder in Israel in view of domestic uncertainty

The implied standard deviation (ISD) in NIS/USD exchange-rate options⁴, which reflects expected volatility in the exchange rate, was 8.8 percent at year's end—approximating the rate observed in emerging markets⁵, which narrowed by 2.5 percentage points and came to 8.2 percent at year's end .

In the developed markets⁶, the ISD fell by 1.7 percentage point during the year and ended the year at 6.7 percent.

Figure 4.5: Standard deviation of change in the NIS/USD exchange rate
International comparison, 2021–2025, pct.

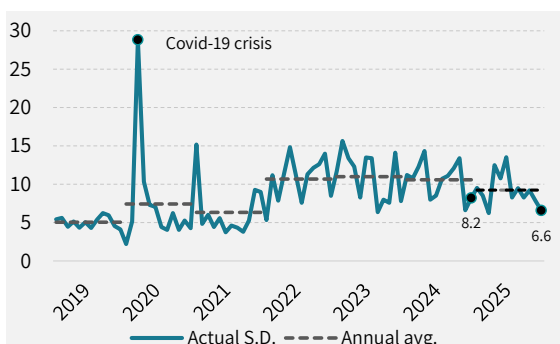


* SOURCE: Bloomberg data, processed by Bank of Israel

The actual standard deviation was uneven during the year but remained lower than in previous years.

The actual standard deviation of change in the NIS/USD exchange rate, representing actual exchange-rate volatility, climbed steeply in Q2/2025 but remained low at 6.6 percent at year's end; its annual average, 9.2 percent, was lower than in the two previous years (10.6 percent in 2024 and 11 percent in 2023) .

Figure 4.6: Actual standard deviation⁷ of change in the NIS/USD exchange rate
pct.



SOURCE: Bank of Israel

³ The global effect reflects the relative change of the USD against nineteen currencies that account for 90 percent of the total volume of trading against the USD; the weight of each currency is determined in accordance with its share in this volume. The domestic effect is the difference between the global effect and the change in the NIS/USD rate.

⁴ For an explanation of implied standard deviation (ISD), see Main Terms at the end of this chapter,

⁵ The emerging markets included here are Mexico, South Korea, the Philippines, Poland, Chile, South Africa, Thailand, Hungary, Turkey, and Singapore.

⁶ The developed markets included here are Australia, Canada, Japan, the UK, Switzerland, and the Euro Bloc.

⁷ The actual standard deviation is calculated for the last twenty trading days on an annualized basis,

2. Activity of the main sectors in the foreign exchange market

Nonresidents and institutional investors were prominent in net foreign-currency sales (purchases of NIS) this year.

Pursuant to 2024, institutional investors continued to sell foreign currency in 2025 and did so in larger sums as they adjusted to the exchange-rate trends: by April, they had bought USD 9 in foreign currency and from May on they switched to sales, resulting in USD 20 billion net sales in so that for the year all told they sold USD 20 billion net. The nonfinancial business sector displayed opposite behavior: up to April it sold USD 5 billion net and from May on it carried out purchases, ending the year with USD 16 billion in net purchases.

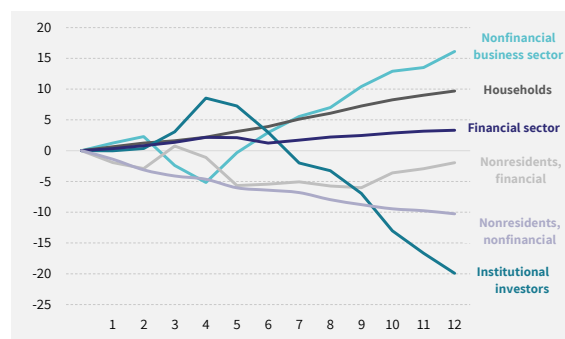
Alongside the nonfinancial business sector, households also stood out in foreign-currency purchases, at USD 10 billion.

Activity of Nonresident activities in the financial sector, which closely tracked changes in the exchange-rate trend in 2024, was volatile in 2025 and ended the year at USD 2 billion in net sales.

Nonresidents outside the financial sector continued to sell foreign-currency net as part of their ongoing activity, at levels similar to those in 2024.

Estimated net cumulative foreign exchange purchases (+) by main sectors USD billion, 2025

Figure 4.7a



* The financial sector does not include domestic banks.

SOURCE: reports to Bank of Israel from financial institutions and corporations, processed by Bank of Israel

Estimated net foreign exchange purchases (+) of the main sectors USD billion

Figure 4.7b

	2023	2024	2025
Nonfinancial business sector	1	4	16
Households	7	7	10
Financial sector	4	6	3
Nonresidents, financial	9	1	-2
Nonresidents, nonfinancial	1	11	-10
Institutional investors	10	-9	-20
Bank of Israel	-9		

SOURCE: reports to Bank of Israel from financial institutions and corporations, processed by Bank of Israel

2.1 Institutional investors

Institutional entities reduced their forex position by selling foreign currency.

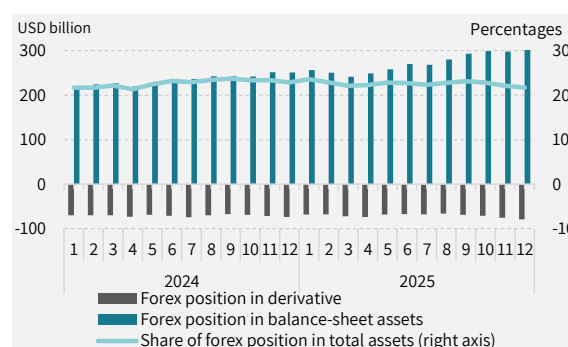
The net foreign-currency position of institutional entities' investors' balance-sheet assets was USD 299 billion at the end of December, up USD 47 billion during the year, largely due to price increases abroad. Contrastingly, the institutional entities investors reduced their hedging of foreign-currency assets by means of USD 3 billion in derivative instruments, bringing it to USD 70 billion.

Despite the increase in net balance-sheet assets in foreign currency, the share of the institutional entities' investors' forex position in total assets of portfolio managed contracted by 1.2 percentage point, to 21.7 percent, largely because net NIS assets grew more steeply than did forex assets.

The decrease in foreign-currency position was typical of all institutional entities.

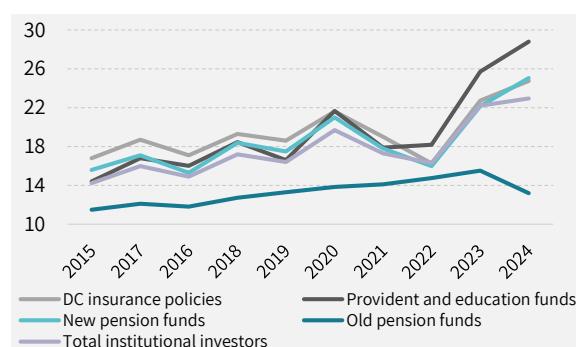
In 2025, all institutional entities reduced the foreign-currency position of the portfolios that they managed. Provident funds, advanced-training funds, and insurance companies stood out among them, each lowering its forex position by 3 percentage points.

Figure 4.8: Balance of institutional investors' exposure to assets in and indexed to foreign currency
USD billion



SOURCE: Bank of Israel

Figure 4.9: Institutional entities' foreign-currency position as share of assets
pct.



SOURCE: Bank of Israel

2.2 Nonresidents

Nonresidents who sold foreign currency (purchased NIS) started investing in NIS capital instruments⁸ again.

Departing from the trend in recent years, nonresidents went back to investing in capital instruments by, buying USD 4.8 billion in equities.

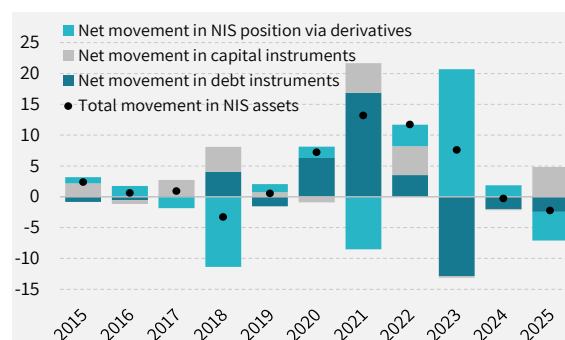
However, they hedged this activity by means of USD 4.6 billion in derivative instruments and took larger NIS credit (debt instruments⁹) from banks and institutional investors, bringing the annual movement in NIS assets to USD 2.3 billion.

Nonresidents' investments in capital instruments, coupled with rising equity prices, caused their net NIS position to increase.¹⁰

Nonresidents' NIS position ended the year at USD 113 billion, up USD 41 billion, mostly due to rising equity prices in Israel.

Figure 4.10: Nonresidents' estimated net transactions in debt, capital, and derivative instruments

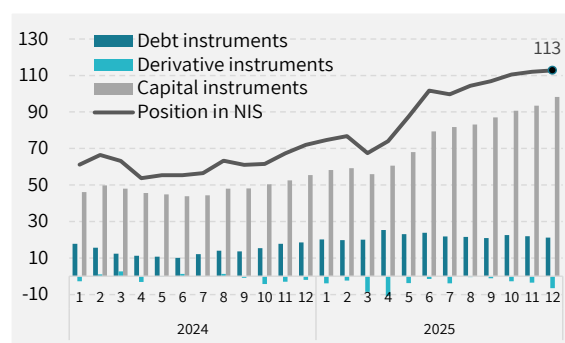
USD billion



SOURCE: Based on reports to the Bank of Israel by financial institutions and corporations

Figure 4.11: Net nonresident NIS exposure via debt instruments, capital instruments, and derivatives

USD billion



SOURCE: Based on reports to the Bank of Israel by financial institutions and corporations

⁸ Equities investment includes direct and portfolio investment.

⁹ Debt instruments: bonds (excluding institutional bonds traded on the institutional Retzef system), Makam, deposits,

¹⁰ See explanation in Sources of Data and Main Terms at the end of this chapter.

2.3 Business sector¹¹

Major export firms continued to reduce their foreign-currency sales in 2025; import companies bought more.

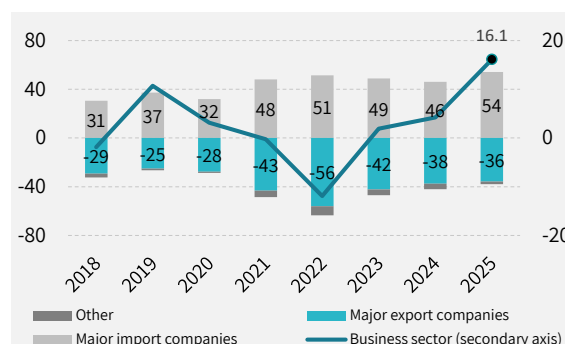
Major export companies sold USD 36 billion (net) in foreign currency after selling USD 38 billion (net) in 2024.

Major import companies continued to buy foreign currency in larger sums than in 2024 (USD 54 billion).

Total net purchases by major import and export companies in 2025 increased by USD 18 billion. The entire business sector, which includes the major import and export companies, bought USD 16 billion net.

Figure 4.12: Net forex purchases of major import and export companies¹²

USD billion



SOURCE: Based on reports to the Bank of Israel by financial institutions and corporations

Note: The importers/exporters group was adjusted ex post using the ML method.

2.4 The banking system

The banking system's foreign-currency position remained negligible. Its net liability in capital and debt instruments decreased, as did its net assets in derivatives.

The banking system's liability surplus in foreign-currency capital and debt instruments declined by USD 5 billion, to USD 42 billion.

Concurrently, the banking system reduced its asset balance in foreign-currency derivatives by USD 5.1 billion, bringing it to USD 41 billion at year's end. The major counterparty of the banking system and the financial-service sector, the institutional-entity investor sector, boosted its liability balance in foreign-currency derivatives to USD 71.7 billion, up USD 11 billion.

Figure 4.13a: Net foreign-currency assets and foreign-currency position of the banking system

USD billion

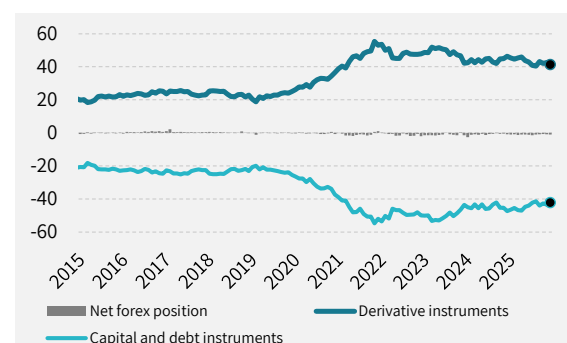
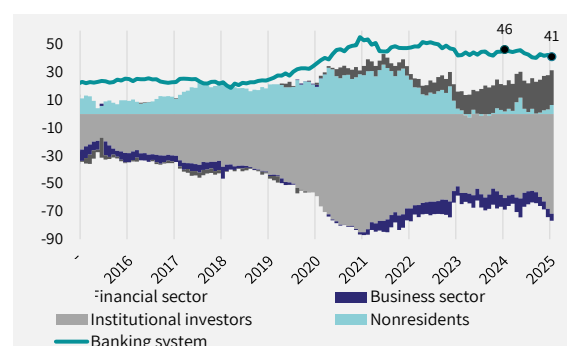


Figure 4.13b: Net foreign-currency derivatives of the banking system vis-à-vis counterparties

USD billion



SOURCE: banking system reports to and processing by the Bank of Israel

¹¹ The business sector is comprised of all nonfinancial companies in Israel, including import and export firms.

¹² The approx. 200 largest import and export companies in Israel.

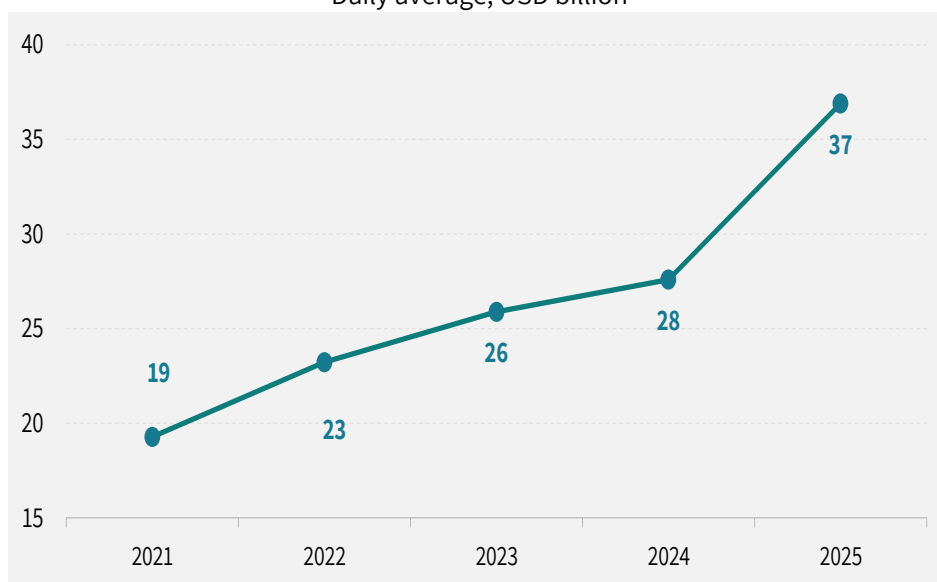
ZOOM IN



Zooming in on Trading Volume in Foreign Currency

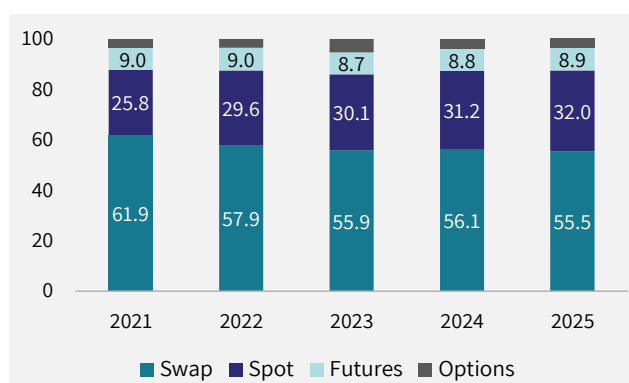
The average daily trading volume in foreign currency in 2025 was USD 37 billion, up 34 percent from 2024—the steepest increase in recent years.

Figure 4.14: Average daily trading volume
Daily average, USD billion



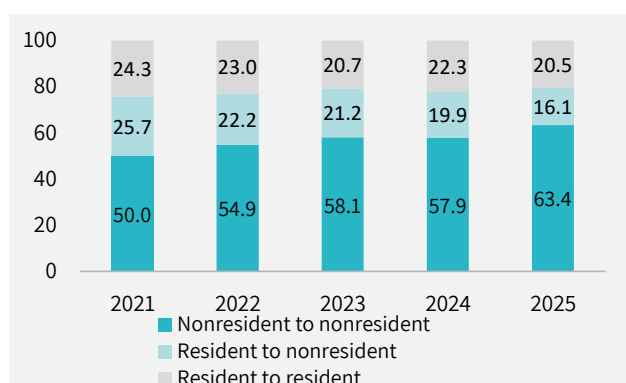
In 2025, the share of spot transactions climbed to 32 percent of total trading volume while that of swap transactions declined.

Figure 4.15: Share of types of instruments in total foreign-currency trading volume, Percent



The share of transactions among nonresidents continued to rise: from 50.0 percent in 2021 to 63.4 percent in 2025, up 13.4 percentage points.

Figure 4.16: Total foreign-currency trading volume, by parties, Percent



SOURCE: reports to Bank of Israel from financial institutions and corporations, processed by Bank of Israel

Main indicators in the foreign exchange market



	level				change			
	2022	2023	2024	2025	2022	2023	2024	2025
Actual volatility of the shekel/dollar exchange rate (moving 20-day average, percent)	8.50%	7.80%	8.20%	6.60%	0.5-	-0.7	0.4	-1.6
Implied volatility of shekel/forex OTC options (percent)	8.50%	10.10%	8.93%	8.80%	0.72	1.54	-1.17	-0.13
Shekel/dollar representative exchange rate	3.52	3.63	3.647	3.19	13.20%	3.10%	0.55%	-12.53%
Shekel/euro exchange rate	3.75	4.01	3.80	3.75	6.60%	6.90%	-5.36%	-1.34%
Dollar/euro exchange rate	1.07	1.11	1.04	1.17	5.80%-	3.70%	-5.88%	12.50%
Yen/dollar exchange rate	131.95	141.48	156.62	156.83	14.60%	7.20%	10.70%	0.13%
Nominal effective exchange rate (01.01/2015 = 100)	74.62	75.74	72.43	66.33	6.52%	1.49%	4.37%-	-8.42%
Average daily trading volume - conversions, swaps and OTC options (\$ million) ¹³	10418	10318	11866	13637	8.51%	-0.96%	15.00%	14.92%
Nonresidents' share of trading volume	41.40%	45.10%	42.82%	39.86 %	5.1-	3.7	-2.2	-2.96
Nonresidents' surplus of shekel assets (\$ billion)	58	62	71	113				
Institutional investors' surplus of foreign exchange assets (\$ billion)	102	149	177	225				
The banking system's surplus of foreign exchange assets (\$ billion)	-2	-1.3	-0.88	-0.92				
Net foreign exchange purchases by institutional investors (\$ billion)					21.5	10	-9	20
Net foreign exchange purchases by main exporters ¹⁴ (\$ billion)					56-	-42	37.5-	-36
Net foreign exchange purchases by main importers ¹⁶ (\$ billion)					51	49	46.1	54

¹⁵ The trading volume of the domestic banking corporations, excluding domestic branches of foreign banks.

¹⁴ Retrospectively restatement of the importer/exporter group based on ML methods.

DATA SOURCES AND MAIN TERMS



The Bank of Israel Information and Statistics Department manages a database of activity in the foreign exchange market. The Department gathers data and information on a daily basis from financial intermediaries in Israel and abroad regarding shekel-forex transactions, and processes them into a detailed high-quality dataset that provides a broad picture of the foreign exchange market. The data are received from domestic banking corporations, domestic financial institutions, and foreign banks. In addition, this section makes use of reports by the institutional investors to the Ministry of Finance and the Bank of Israel, reports from the banking system to the Banking Supervision Department, and reports from banks and other financial intermediaries to the Bank of Israel.

■ **Exposure to the exchange rate (or exposure to foreign exchange)**

Is the monetary amount at risk in a case of changes in the shekel exchange rate vis-à-vis foreign currencies. In terms of Israelis and the various sectors in the Israeli economy, this amount is estimated in this chapter by the surplus of their foreign exchange assets over foreign exchange liabilities (denominated in and indexed to foreign exchange). In terms of nonresidents, this amount is estimated by calculating the surplus of their shekel assets over shekel liabilities. An Israeli is exposed to appreciation of the shekel when he holds a surplus of foreign exchange assets (positive), and is exposed to a depreciation of the shekel when he holds surplus foreign exchange liabilities (negative asset surplus). Nonresidents' exposure works in the opposite direction.

Foreign exchange assets include: **balance-sheet assets** such as cash and deposits in foreign currency and foreign currency government and corporate bonds (generally foreign), and **off-balance-sheet assets**, meaning the open balance in transactions in **derivative financial instruments** (hereinafter: DFIs) for the purchase of foreign exchange against shekels, such as forward transactions and options (tradable and nontradable). Similarly, foreign exchange liabilities include **balance-sheet liabilities** such as foreign exchange loans, **off-balance-sheet liabilities**, meaning the open balance in DFI transactions for the sale of foreign exchange against shekels. Nonresidents' assets and liabilities in shekels are defined similarly.

Many Israelis, led by institutional investors, hold foreign assets as part of an investment policy of diversification of their asset portfolio and its risks. Such holdings, of foreign assets only, expose them to appreciation of the shekel. In order to minimize this exposure, they sell foreign exchange in DFI transactions (referred to as "**hedging**"). Exporters and importers are exposed to changes in the exchange rate due to their commercial activity—in opposite directions—and protect themselves through DFI transactions. Other Israelis, such as financial companies, may manage exposure to the shekel exchange rate with the intention of profiting from changes in the rate, by purchasing and selling foreign exchange against shekels in the present (spot) and in the future through DFI transactions. The nonresidents sector is comprised of various companies and individuals with activity in shekels and a similar variety of motives

■ **Implied volatility in foreign exchange options** represents the expected volatility in the exchange rate. Assuming that the options market is efficient and that actors in the market price the options based on the Black-Scholes model, the implied volatility should include all the relevant information regarding future volatility of the exchange rate. It therefore serves as a market estimate of exchange rate volatility during the period remaining until the options expire.

■ **The nominal effective exchange rate** An index that reflects the relative price of the shekel vis-à-vis a basket of currencies. The weight of each currency in the index reflects its importance in Israel's foreign trade. The index is calculated as the geometric average of the shekel's exchange rate against 26 currencies representing the 33 countries that are Israel's major trading partners.