



BANK OF ISRAEL

June 9, 2025

Report on the Bank of Israel's discussions prior to deciding on the interest rate

The discussions took place on May 25, 2025 and May 26, 2025.

General

The Monetary Committee sets the interest rate in a process that includes two discussions—the first in a broad forum, and the second in a narrower one.

In the broad-forum discussion, the relevant background economic conditions are presented, including the real and financial-monetary developments in Israel's economy and developments in the global economy. Participants in this discussion include the members of the Monetary Committee, senior representatives from the various departments of the Bank, and economists from the economic departments (Research and Markets), who prepare and present the material for discussion.

In the narrow forum—which consists of the Monetary Committee and a representative of the Markets Department—the Research and the Markets Departments present their views of the main considerations that should guide the setting of the monetary policy. An open discussion on monetary policy follows, which ends with a vote on the level of the interest rate. According to Section 18(c) of the Bank of Israel Law, 5770–2010, the decision on the interest rate is reached by majority vote of the members of the Monetary Committee who participate in the voting.

A summary view of the economic situation available at the time of the Committee's discussion is presented in the notice regarding the interest rate decision, which was published on May 26, 2025, and in the data file that accompanied the notice.

THE NARROW-FORUM DISCUSSION

The members of the Monetary Committee participating in the discussion decide on the appropriate rate of interest.

After the discussion, it was decided to keep the interest rate at 4.5 percent. All five members of the Monetary Committee who took part in the voting supported the decision.

The discussion focused on the geopolitical environment's impacts on the economy and on economic developments: inflation and inflation expectations, the level of economic activity, developments in the financial markets and in the foreign exchange market, the labor market, the housing market, fiscal developments, and global economic developments.

Main points of discussion

The Committee discussed the economic activity, which continued to recover moderately, against the background of the high domestic and global uncertainty.

The Committee discussed the inflation environment. The year over year inflation rate increased to 3.6 percent, above the upper bound of the target range. Among other reasons, this was due to the impact of the flights abroad component. Forecasters expect that the convergence of the inflation rate to the target range will be later than they assessed before the April CPI reading. Inflation expectations for one year ahead from the various sources remain stable and are around the midpoint of the target range. Expectations for the second year forward continue to be around the midpoint of the target. In the Committee's assessment, there are several risks for a possible acceleration of inflation or for its not entering the target range—the geopolitical developments and their impacts on economic activity, supply constraints, a deterioration in global terms of trade, and shekel volatility.

The Committee discussed developments in the foreign exchange market and in the financial markets. In the reviewed period, the shekel appreciated and the risk premium—as measured by the CDS and by government bond spreads—decreased, but remained high relative to its prewar level. In the reviewed period, equity indices in Israel increased, similar to the global trend.

National Accounts data for the first quarter of 2025 from the Central Bureau of Statistics show that GDP expanded by 3.4 percent in annual terms compared to the fourth quarter of 2024. After updating previous quarters' data, the gap from the long term growth rate remained essentially unchanged, at about 4 percent. First quarter growth was impacted mainly by investment in fixed assets, services exports (led by high tech), and by current consumption. This is alongside a decline in private consumption due to the decrease in durables consumption (mainly vehicles) as

purchases were brought forward at the end of 2024, and a decline in public consumption.

Current indicators of economic activity in April and May show that credit card expenditure data, in current prices, increased in the past month. Funds raised by the high tech sector during the reviewed period increased, and they are higher than their prewar level. According to foreign trade data, in April there was a marked decline in goods exports, totaling approximately 14.5 percent, and an increase of 1.7 percent in goods imports.

The labor market remained tight. However, the most recent data show some moderation. The nominal wage in the 3 months of January–March increased compared to the 3 months preceding the war, by approximately 4.3 percent in annual terms. The real wage increased slightly but is still below the trend line.

There was some slowdown in housing market activity in March. The number of housing transactions (seasonally adjusted) declined in March, and the stock of unsold homes increased. New mortgage volume in April was approximately NIS 8 billion. The rate of increase in home prices moderated, rising by 6.4 percent in February–March, compared to NIS 7.3 percent in the preceding month. The year over year rate of increase in the CPI's housing component continued to increase, to 4.4 percent in April.

The cumulative deficit in the government budget over the preceding 12 months, after taking into account the deferral of tax payments in 2024 from April to May, totaled 5.4 percent of GDP in April. Government tax revenues in the past 3 months returned to approximately the long term trend.

The Committee members discussed global conditions. Data on economic activity in the first quarter indicate a mixed trend. The Global Purchasing Managers Index for April declined but is still at a level indicating moderate expansion. World trade slowed in the reviewed period, though the pace of expansion in the past year remained positive in view of the bringing forward of purchases before the tariffs would go into effect. US GDP contracted in the first quarter of 2025 by 0.3 percent in annual terms, with personal consumption increasing by 1.8 percent. In contrast, the US labor market remained strong. In the eurozone, there was quarterly growth of 0.3 percent in annual terms in the first quarter of 2025. In the US, the inflation rate, based on the CPI, surprised to the downside at 2.3 percent, and the core index was in line with forecasts, at 2.8 percent. Eurozone inflation remained unchanged in April at 2.2 percent, with the core index increasing by 2.7 percent. Many central banks in advanced economies continued the interest rate reduction cycle. The ECB reduced the interest rate by 25 basis points for the seventh consecutive time since the process of reductions began. The Federal Reserve kept the interest rate unchanged, and the interest rate path priced in by the market increased over the period reviewed.

All 5 Monetary Committee members who participated in the voting supported the decision to keep the interest rate unchanged at a level of 4.5 percent.

In view of the continuing war, the Monetary Committee's policy is focusing on stabilizing the markets and reducing uncertainty, alongside price stability and supporting economic activity. The interest rate path will be determined in accordance with the convergence of inflation to its target, continued stability in the financial markets, economic activity, and fiscal policy.

The next monetary policy decision will be published on Monday, July 7, 2025.

The dates of interest rate decisions for 2025:

<https://www.boi.org.il/en/economic-roles/monetary-policy/interest-rate-announcement-dates-2024/>

Participants in the narrow-forum discussion:

Members of the Monetary Committee:

Prof. Amir Yaron, Governor of the Bank and Monetary Committee Chairperson

Mr. Andrew Abir, Deputy Governor

Dr. Adi Brender, Research Department Director

Prof. Naomi Feldman

Prof. Ori Heffetz—joined the Monetary Committee on the first day of the discussions, and in view of that he decided not to participate in the voting

Prof. Zvi Hercowitz

Other participants in the narrow-forum discussion:

Dr. Golan Benita, Markets Department Director

Dr. Oded Cohen, Chief of Staff to the Governor

Mr. Nadav Eshel, Assistant to the Governor

Ms. Nurit Felter-Eitan, Director of the Communications, Public Affairs & Community Relations Department

Ms. Liat Indig, Deputy Spokesperson

Dr. Ziv Naor, Bank of Israel Spokesperson

Ms. Dana Orfaig, Research Department

Ms. Nava Ostrov, Monetary Committee Secretariat