BANK OF ISRAEL

July 21, 2025

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

The discussions took place on July 6, 2025 and July 7, 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, financial, and 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 on the main considerations that are relevant to 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 July 7, 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 six members of the Monetary Committee supported the decision.

The discussion focused on the geopolitical environment's impacts on the economy and on economic developments: inflation and inflation expectations, developments in the financial markets and in the foreign exchange market, the Research Department's forecast, the level of economic activity, 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, and in particular in view of the impact of Operation Rising Lion in Iran in June.

The Committee discussed the inflation environment. The CPI declined by 0.3 percent in May, and the year over year inflation rate decreased to 3.1 percent, slightly above the upper bound of the target range. The inflation rate in recent months has been characterized by high volatility and uncertainty, among other reasons due to the impact of the flights abroad component. Inflation expectations for one year ahead from the various sources are around the midpoint of the target range. Expectations for the second year forward and onward 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 it not converging to the target—the geopolitical developments and their impacts on economic activity, an increase in demand alongside supply constraints, and a deterioration in global terms of trade.

The Committee discussed developments in the foreign exchange market and in the financial markets. Due to Operation Rising Lion, the risk premium—as measured by Israel's CDS and by government bond spreads—decreased markedly, but remained high relative to its level just before the Swords of Iron War, domestic equity indices increased notably, government bond yields declined sharply, and the shekel appreciated markedly.

The Research Department updated its macroeconomic forecast. The revised forecast incorporates the developments due to Operation Rising Lion as well. Regarding the combat in Gaza, the forecast was compiled under the assumption that the agreement currently being discussed regarding a ceasefire will lead to a situation in which within the forecast horizon, beginning from July, there will not be intense fighting in Gaza. The forecast also assumes that the ceasefire with Iran will be maintained. In the Department's assessment, during the course of the forecast period the moderation in the economy's supply limitations is expected to continue, with an increase in demand for private consumption and for investments. In addition, the moderation in the impact of the global trade war is expected to remain. Based on the Department's assessment, GDP will grow by 3.3 percent in 2025 and by 4.6 percent in 2026. Annual inflation will be 2.6 percent at the end of 2025 and will be 2.0 percent in 2026. The government budget deficit will increase in comparison to the previous forecast, and is expected to total 4.9 percent of GDP in 2025 and 4.2 percent in 2026. The debt to GDP ratio is expected to be approximately 70 percent at the end of 2025 and to increase to around 71 percent in 2026, slightly higher in comparison to the previous forecast. The forecast is characterized by high uncertainty. In contrast to previous forecasts, in this forecast, the uncertainty is in two directions—with forecast risks to the upside and to the downside. The risks derive mainly from the uncertainty deriving from the geopolitical developments regarding the fronts against Gaza and Iran. The developments will impact the rate of economic recovery, the development of the inflation path, the budget deficit, and on the debt to GDP ratio.

Revised National Accounts data for the first quarter of 2025 from the Central Bureau of Statistics show that GDP expanded by 3.7 percent in annual terms compared to the fourth quarter of 2024. The gap from the long term growth rate remained essentially unchanged, at about 4 percent. Current economic indicators point to a moderate recovery in activity. The aggregate balance of the Business Tendency Survey for June declined sharply, against the background of Operation Rising Lion and after several months in which it was stable. Credit card expenditures in the reviewed period declined sharply during the course of Operation Rising Lion, but rebounded rapidly with the end of the campaign. Funds raised by the high tech sector increased markedly in recent months, and the level is similar to that in the beginning of 2022.

The labor market remains tight. The ratio of job vacancies to the number of unemployed people is at a high level. This is despite some decline in the most recent data against the background of a slight increase in the unemployment rate. The nominal wage in the economy increased by an annual rate of 4.5 percent. During the past few months the rate of wage increase in the business sector has been relatively high. The wage in the business sector excluding high tech is increasing by an even higher rate, while in the public sector the pace is more moderate.

In the housing market, there was some continued slowdown in activity. The number of housing transactions (seasonally adjusted) declined, and the stock of unsold homes increased. However, in May, new mortgage volume was approximately NIS 9.3 billion and there was an increase of 6.5 percent in building starts in the first quarter compared with the corresponding period of the previous year. The rate of increase in home prices continued to moderate, rising by 5.1 percent in March–April. The year over year rate of increase in the CPI’s housing component was 4 percent in May.

The cumulative deficit in the government budget over the preceding 12 months totaled 5.1 percent of GDP in May. Government tax revenues in May, net of changes in legislation and one-off revenues, returned to their long-term trend in fixed prices.

The Committee members discussed global conditions. The pace of economic activity worldwide remained moderate and there was a slight downward revision in the global growth forecast. Compared to this forecast from April, there was in fact some decline in the expected impacts from the trade war, but the uncertainty regarding the trade agreements and their impact remains high. Due to the campaign against Iran, there was particularly high volatility in oil prices worldwide, but with the announcement of the ceasefire, the price of oil declined and stabilized. In the US, the CPI increased in May to an annual rate of 2.4 percent, and in the eurozone, a preliminary reading for June shows that the inflation rate increased slightly to 2.0 percent. In their most recent interest rate decisions, the Fed kept the interest rate unchanged and the ECB continued on its path of interest rate reductions, reducing the interest rate by 25 basis points.

All 6 Monetary Committee members supported the decision to keep the interest rate unchanged at a level of 4.5 percent.

In view of the geopolitical uncertainty, the interest rate path will be determined in accordance with the convergence of inflation to its target range, stability in the financial markets, economic activity, and fiscal policy.

The next monetary policy decision will be published on Monday, August 20, 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
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
Ms. Liat Indig, Deputy Spokesperson
Mr. Yehuda Lifshits, Governor’s office
Dr. Ziv Naor, Bank of Israel Spokesperson
Ms. Dana Orfaig, Research Department
Ms. Nava Ostrov, Monetary Committee Secretariat