

**BANK OF ISRAEL**

Office of the Spokesperson and Economic Information

September 29, 2025

**Press release:**

**Remarks by the Governor of the Bank of Israel at the press briefing on monetary policy held today at the Bank of Israel**

Good afternoon.

Yesterday and today, the Monetary Committee held discussions in order to reach the policy decision. The Monetary Committee’s discussions focused on the state of the economy, an analysis of domestic and global economic developments, and the effects of the geopolitical uncertainty on the economy. At the end of the meetings, the Monetary Committee decided to leave the interest rate unchanged, at 4.5 percent.

Next week will mark two years since the massacre of October 7th, and the beginning of the Swords of Iron War that erupted as a result. The Israeli economy is based on robust fundamentals, and throughout the period of the war it has displayed impressive resilience and stability. However, the war has broad economic ramifications that continue to leave a considerable mark on economic activity. As we start the Jewish New Year, we are facing notable economic challenges. Dealing with them will require responsible economic policy that will ensure continued financial resilience and support economic growth in the coming years.

The decision reached today to keep the interest rate unchanged is consistent with the monetary policy that we have adopted since the outbreak of the Swords of Iron War, with the goal of entrenching the inflation rate within the target range. The most recent data indicate some decline in year over year inflation, which decreased slightly to below the upper bound of the target and is at 2.9 percent. However, the CPI for August was high, and some components—including the housing and additional services components—remained sticky. According to forecasters’ assessments, inflation will remain around the upper bound of the target in coming months, and will even move above the upper bound, and will moderate in the beginning of 2026.

High inflation adversely impacts economic activity, particularly among the weaker population groups. Therefore, and in view of the considerable uncertainty and volatility, we are not relying on one or another data point. It is important to remember that the inflation environment is determined in an equilibrium with the interest rate path, and the policy that we have adopted to date has led to moderation of inflation toward the target range.

Israel’s economy continues to act in an environment of high geopolitical uncertainty. In the period reviewed, Israel’s risk premium remained relatively stable at a level higher than just before the Swords of Iron War, after the notable moderation that occurred following Operation Rising Lion against Iran.

Current indicators of economic activity show continued moderate recovery. Credit card expenditures in current prices increased after their sharp decline with the outbreak of Operation Rising Lion, and in the most recent data they are at a level slightly higher than the trend line. The aggregate balance in the Business Tendency Survey conducted by the Central Bureau of Statistics for August increased, but its level has still not returned to that preceding Operation Rising Lion. Funds raised by the high tech industry in the third quarter of the year are maintaining a high level. Based on foreign trade data, the surplus in the goods and services account declined sharply in the second quarter, due to a decline in exports and an increase in imports; however, in July-August there was a recovery in exports.

The labor market remains tight mainly as a result of the labor supply constraint due to military reserves called up and a shortage of non-Israeli workers. The ratio of job vacancies to the number of unemployed people is at high level. The unemployment rate in August declined slightly, the job vacancy rate continued to increase, while the participation and employment rates declined. The number of non-Israeli workers has been recovering gradually, but the level is still lower than that of before the war. The tight labor market was also reflected in wage increases in the business sector, mainly in industries characterized by high demand for workers, which is liable to weigh on the moderation of inflation.

In recent months the trend of declining home prices has continued, alongside a low level of transactions compared to recent years and continued growth in the stock of unsold homes held by developers. In parallel, the owner-occupied housing services component of the CPI for August continued to increase, with the annual rate at 4.3 percent. In the second quarter of the year there was an increase in building starts and in building permits compared to the first quarter, and their level is high. In contrast, building completions are still at a low level with continued lengthening of construction time—which reflects, among other things, the shortage of workers in that industry. In August, mortgage volume totaled NIS 9.1 billion.

Business credit continued to increase at a pace similar to that of recent months, with a continued downward trend in the rate of loan arrears in all activity segments. In parallel, household credit continued to increase in July, by 4 percent compared to the previous year, and no notable increase is apparent in the rate of loan arrears, which is at a low level. Based on the Business Tendency Survey of the Central Bureau of Statistics for August, the share of businesses reporting a credit constraint is low and stable.

From the previous monetary policy decision through last Friday, the shekel appreciated by 1 percent again the dollar and by 0.8 percent against the euro. Israel’s risk premium, as measured by CDS spreads, remains stable, but is still higher than its level just before the Swords of Iron War. After a sharp increase in recent months, domestic equity indices continued to increase in the reviewed period with high volatility.

The Research Department updated its macroeconomic forecast. This forecast is characterized by a high level of uncertainty. The forecast was compiled after a broad mobilization of military reserves and the beginning of a significant ground incursion into Gaza, under the assumption that the fighting in Gaza will continue with varying intensity and will end in the course of the first quarter of 2026. Based on this scenario, GDP will grow by 2.5 percent in 2025 and by 4.7 percent in 2026. Year over year inflation at the end of 2025 is expected to be 3 percent and in 2026 to be 2.2 percent, compared to 2.6 percent in 2025 and 2 percent in 2026 in the July forecast. The government budget deficit is expected to be 5.1 percent of GDP in 2025 and 4.3 percent in 2026. The debt to GDP ratio is expected to be 71 percent at the end of 2025 and to remain at a similar level in 2026.

The uncertainty in this forecast is reflected in the particularly wide range of security scenarios that serve as risks to the forecast in both directions. The downside risk, as analyzed by the Research Department, stems from the potential of prolonging the fighting, and as a result the supply constraints and adverse impact on sentiment toward Israel would continue. Such a situation would continue to weigh on investments and on the recovery of activity. As a direct result, growth would be lower, the budget deficit would expand, and the paths of inflation and the interest rate would be higher. In contrast, in recent days there have been talks that could result in a cease fire agreement and even the end of the war, which would ease the supply constraints in the economy. This would support the expansion of activity; the impact on inflation would depend on the development of demand. Naturally, in such a case it would be necessary to re-examine the forecast’s assumptions in accordance with the new developments.

The budget frameworks approved in 2024 and 2025, and the notable fiscal adjustment steps, contributed to the markets’ trust in the Israeli economy and to the moderation of the risk premium. To build on this, the 2026 budget process should be advanced, in view of the considerable uncertainty and the wide range of scenarios, alongside providing a response to security needs. This should be done through a responsible framework that will ensure that the path of the debt to GDP ratio does not get out of hand, and preferably will start to converge to a downward trend. Such a path will support the level of bond yields, and the reduction of financing costs for the economy overall.

Global economic activity is characterized by a mixed trend, and the global growth forecast was revised slightly upward. In the US, the economic uncertainty due to the administration’s tariff policy led to signs of slowing in the labor market, in parallel with growth data published for the second quarter being high. In the eurozone and in China there was a recovery in activity. In the US, inflation is sticky, and the CPI increased in August to an annual rate of 2.9 percent while the core index remained unchanged. In the eurozone, inflation remained unchanged at 2 percent and the core index remained unchanged. In its latest interest rate decision, the Fed reduced the interest rate by 25 basis points, as expected, and the ECB kept the interest rate unchanged again.

International sentiment towards Israel has recently deteriorated. As a small and open economy, Israel depends to a considerable extent on its participation in the global economy—in terms of international trade, foreign investment in the economy, and various collaborations. Therefore, Israel must do all that it can to strengthen its international standing, and thus ensure that the economy is open, entrepreneurial, and robust.

In conclusion, I would like to emphasize that price stability is a condition for an orderly and growing economy, and that inflation adversely impacts the weaker population groups first and foremost. It is important to remember that the geopolitical and economic uncertainty in Israel is still at a very high level. In such an environment, it is necessary to have a clearer picture of the economic trends and of the convergence of inflation to within the target range.

The Bank of Israel and the Monetary Committee continue to express our support and appreciation for the soldiers and other security forces who are fighting bravely for us on the various fronts, and we continue to hope for the speedy return of all the captives and the missing, and a rapid and complete recovery for the injured, in body and spirit.

At this time, I would like to wish you all a Happy New Year.

Thank you.