BANK OF ISRAEL

Office of the Spokesperson and Economic Information

December 8, 2025

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

The discussions took place on November 23, 2025 and November 24, 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, monetary, and financial 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 November 24, 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 reduce the interest rate by 0.25 percentage points, to a level of 4.25 percent. All 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, 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

In view of geopolitical developments, economic activity in Israel recovered sharply during the third quarter. Annual inflation moderated and entered the target range. In the reviewed period, the shekel appreciated and Israel's risk premium continued to decline, reaching a level slightly above its prewar level.

The Committee discussed the inflation environment. The year over year inflation rate moderated, and was 2.5 percent in the past two CPI readings. Forecasters project that there will be some increase in inflation at the end of the year, and it will then decline and stabilize around the midpoint of the target range. Net of energy and fruit and vegetables, the annual inflation rate is 2.7 percent. The annual inflation rate of nontradable components declined to 3.0 percent, and the annual pace of inflation of the tradable components remained stable at 1.5 percent over the past 12 months. Inflation expectations for one year ahead from the various sources declined, and are around the midpoint of the target range. Expectations for the second year forward also continue to be around the midpoint of the target. In the Committee's assessment, there are several risks for a possible renewed increase in inflation—the geopolitical developments and their impacts on economic activity, an increase in demand alongside supply constraints, and fiscal developments.

National Accounts data for the third quarter of 2025 indicate that GDP expanded sharply, at a rate of 12.4 percent in annual terms. Business output grew by 14.9 percent in annual terms in the third quarter. Third quarter growth reflects increases in all GDP components, following contraction in the second quarter due to the military operation against Iran. The deviations of GDP and business output levels from their long-term trends moderated, to 3.4 percent and 4.6 percent, respectively. In the third quarter, there was an increase in uses, which was met with a sharp increase in imports. Private consumption grew by 23 percent, and public consumption (excluding defense imports) grew by 19.1 percent in annual terms.

In view of supply constraints, the labor market remains tight. The ratio between the number of job vacancies and the number of unemployed remains high and the pace of nominal and real wage increases in the business sector continued to rise. The job vacancy rate was stable, at a high level of 4.5 percent in October. The employment rate and the participation rate among the prime working ages (25–64) increased in October. The broad unemployment rate among the prime working ages (25–64) remained relatively stable, and was 3.2 percent in September. The rate of temporary absentees from work due to reserves duty was 0.7 percent in October. Wages in the business sector increased in July–September by 5.2 percent (in annual terms) relative to the third quarter of 2023.

Current indicators of fourth-quarter economic activity that have been published so far show continued notable economic activity. Credit card expenditure data in current prices for October-November are at a slightly higher level than the trend line. The aggregate balance in the Business Tendency Survey conducted by the Central Bureau of Statistics for October increased, but is still at a level lower than its prewar level. In October, there was improvement in the manufacturing, trade, and service industries, while there was a deterioration in the construction and hospitality industries. The Consumer Confidence Index increased sharply in October.

The Committee discussed that in view of the geopolitical uncertainty, the notable activity, and the tight labor market, interest rate decisions have to be measured and cautious.

The Committee discussed developments in the foreign exchange market and in the financial markets in view of the geopolitical developments. Israel’s risk premium—as measured by CDSs and by government bond spreads—continued to decline in the reviewed period—after it declined markedly following Operation Rising Lion. However, it is still only slightly higher than its prewar level. In the reviewed period, rating agency S&P revised its rating outlook for Israel from negative to stable, domestic equity indices increased and were notably positive compared to the world, and the shekel appreciated. Credit to the business sector continued to expand in the reviewed period at a rapid pace, led by credit to large businesses.

Home prices continued to decline for the seventh consecutive month in September, and their annual rate of increase is 0.5 percent. In recent months, the decline in the quantity of housing transactions has continued, and the number is low compared to the corresponding period of the previous year. In parallel, there is continued increase in the stock of unsold new homes. The Owner-Occupied Housing Services component (rent in new and renewing leases) declined by 0.9 percent in October, and the annual rate of increase in this component moderated to 3.1 percent. Mortgage volume was NIS 8.4 billion, seasonally adjusted, in October, (taking into account the Jewish holiday period).

The cumulative deficit in the state budget over the past 12 months stabilized at 4.9 percent of GDP in October. Government revenues from direct taxes in that month (in fixed prices, and net of legislative changes and one-off revenues) are at a high level compared to the long-term trend. The Committee members referred to the impact of the budget on demand and on inflation. The Committee members were of the opinion that formulating a budget for 2026 that implements a declining path of the debt to GDP ratio will assist in maintaining the markets' trust and accordingly will support the stability of bond yields and the anchoring of inflation expectations.

Economic activity worldwide continued to expand at a moderate pace. The global growth forecast for 2025 was revised slightly upward. The global Purchasing Managers Index for October increased to a level indicating continued expansion of global output. The pace of expansion in world trade remains moderate. In the US, various sentiment indices indicate continued expansion of economic activity. In the eurozone, the moderate recovery continues, with current quarter growth at a pace similar to that of the previous quarter. In China, growth was slightly above forecasts, but various indicators point to some weakness in private consumption. In most countries there was stabilization in the level of inflation. In the US, the inflation rate based on the general CPI in September (October data were not published) increased to 3 percent. The rate of increase in the core CPI moderated, and is also at 3 percent. In the eurozone, inflation remains moderate, and in annual terms, inflation for October declined slightly to 2.1 percent, while core inflation remained unchanged at 2.4 percent. Most central banks kept the interest rate unchanged during the period. The Federal Reserve reduced the interest rate by 25 basis points (in line with expectations), and the ECB again kept the interest rate unchanged.

All Monetary Committee members supported the decision to reduce the interest rate by 0.25 percentage points to a level of 4.25 percent.

The Monetary Committee's policy is focusing on price stability, support for economic activity, and stability of the markets. The interest rate path will be determined in accordance with the development of inflation, economic activity, geopolitical uncertainty, and fiscal developments.

The next monetary policy decision will be published on Monday, January 5, 2026.

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. Ori Heffetz

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