BANK OF ISRAEL
Office of the Spokesperson and Economic Information

Press release

September 1, 2026

The Monetary Committee decides on September 1, 2026 to lower the interest rate to 3.25 percent.

- Inflation has moderated in recent months, and its rate during the reviewed period was lower than the midpoint of the target range.
- National Accounts data for the second quarter of 2026 show that GDP was 6.2 percent higher than in the fourth quarter of 2025 (in annual terms). The figures partly reflect recovery of the economy from the impact to activity during the first quarter in view of Operation Roaring Lion (the military operation against Iran). However, net of production abroad by Israeli companies, GDP in the second quarter was 3.8 percent higher than in the fourth quarter of 2025 (in annual terms).
- Uncertainty remains high in view of the geopolitical tensions. However, during the reviewed period, Israel's risk premium remained at levels similar to those prior to October 7, 2023, and the exchange rate remained virtually unchanged.
- The labor market remains tight. Wages in the business sector excluding high-tech increased by 5.4 percent in March–May relative to the same period last year. The most recent data show slight increases in the participation rate and in the broad unemployment rate.
- In the housing market, the stock of unsold homes is stable, and remains high, while there was a moderate increase in the volume of transactions in May and June, mainly with regard to new homes.

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.

For the file of figures accompanying this notice, click here.

Inflation has moderated in recent months, and its rate during the reviewed period was lower than the midpoint of the target range. GDP grew rapidly in the first half of the year, but net of production abroad by Israeli firms, activity appears more moderate. Uncertainty remains high in view of the geopolitical tensions. However, during the reviewed period, Israel's risk premium remained at levels similar to those prior to October 7, 2023, and the exchange rate remained virtually unchanged.

The Consumer Price Index remained unchanged in June and increased by 0.3 percent in July. Inflation in the past 12 months was 1.5 percent in July, below the midpoint of the target range (**Figure 1**). Net of energy and fruit and vegetables, the annual inflation rate was 1.5 percent in July (**Figure 2**). The annual inflation rate of nontradable components moderated to 2.5 percent, compared with 2.8 percent in June, and the annual pace of inflation of the tradable components was 0.3 percent, compared with -0.1 percent in the previous month (**Figure 3**). According to forecasters' assessments, inflation is expected to remain near the midpoint of the target range in the coming months (**Figure 5**). Inflation expectations for one year forward from most sources are around the midpoint of the target range (**Figure 6**). Expectations for the second year onward are also near the midpoint of the target range (**Figure 7**).

Since the previous interest rate decision, the shekel appreciated by 0.6 percent against the US dollar and depreciated by 1 percent against the euro. In terms of the nominal effective exchange rate the shekel depreciated by 0.1 percent.

In the Monetary Committee's assessment, there are several factors that may influence the development of inflation in opposite directions. The inflation environment is greatly influenced by geopolitical developments and their effects on economic activity and on energy prices, by the risk premium and the exchange rate, by the development of demand alongside supply constraints, and by fiscal developments.

National Accounts data from the Central Bureau of Statistics for the second quarter of 2026 show that GDP grew by a high rate of 15.4 percent in annual terms compared to the first quarter of the year, and that it was 6.2 percent higher than in the fourth quarter of 2025 (**Figure 10**). Business output was 7.4 percent higher than in the fourth quarter of 2025. In view of the high growth figures in the second quarter, and against the background of CBS updates to GDP figures for previous years, the gap from the long-term GDP growth trend contracted significantly, to 0.8 percent (**Figure 11**). GDP growth in the second quarter was influenced by the rapid growth of all components (**Table 1**). Second quarter growth figures partly reflect recovery of the economy from the impact to activity during the first quarter in view of Operation Roaring Lion (the military campaign against Iran). However, net of activity abroad by Israeli firms, growth in the first half of the year was more moderate, with second quarter growth 3.8 percent higher than in the fourth quarter of 2025 (in annual terms).

Current indicators of economic activity show that credit card expenditures in current prices are volatile and slightly below the long-term trend line (**Figure 13**). The aggregate balance in the Central Bureau of Statistics Business Tendency Survey for July shows continued improvement as part of the recovery following the impact to activity due to Operation Roaring Lion. However, the net balances in most industries remain lower than their level in the months preceding March 2026 (**Figure 12**). Capital raised by the high-tech sector in the third quarter stands at about $3 billion, lower than in the first and second quarters of the year (**Figure 14**). Foreign trade data for July indicate a moderation of goods imports following a sharp increase in May and June. Services exports increased sharply in June (**Figure 20**).

The cumulative deficit in the government budget in the past 12 months was 3.4 percent of GDP in June–July, below the government's deficit target for 2026. This was in view of the interim budget in the first quarter of the year, which led to a low level of civilian expenditure by the government—

expenditure that may increase later in the year. Government receipts from direct taxation in July (in fixed prices and net of legislative changes and one-off revenues) remain above the long-term trend (**Figure 15**). There is uncertainty regarding an increase in the defense budget for 2026 and the following years, the volume and timing of adjustment measures the government may carry out to finance it, and its impact on the increase in expected deficits.

The labor market remains tight, while the most recent data show slight increases in the participation and broad unemployment rates. The employment and participation rates among the prime working ages (25–64) were 78.9 percent and 81.3 percent respectively (**Figure 16a**). The rate of absentees due to reserve mobilization remained stable in June and July, at 0.5 percent. The broad unemployment rate among the prime working ages (25–64) was 3.2 percent in July, similar to the level prior to Operation Roaring Lion (**Figure 16b**). The job vacancy rate increased slightly to 4.5 percent in July (**Figure 17a**). Nominal wages increased by 6.2 percent in April–June relative to the same period last year. The increase in wages partly reflects increases in the minimum wage and in public sector wages. The pace of wage increases in the business sector excluding high-tech rose to 5.4 percent in March–May, relative to the same period last year (**Figure 18**). However, the data are still influenced by changes in the composition of labor due to the effects of Operation Roaring Lion.

In the housing market, the stock of unsold homes is stable, and remains high, while there was a moderate increase in the volume of transactions in May and June, mainly with regard to new homes. Home prices rose by 0.1 percent in May–June, and in the past year they declined by 1.5 percent (**Figure 8**). In July, mortgage borrowing totaled about NIS 10 billion in seasonally adjusted terms (**Figure 9**). The pace of increase in the housing component of the Consumer Price Index fell to an annual rate of 3.9 percent in the July Index. The annual rate of increase in renewing rental contracts was stable at 2.6 percent. The annual rate of increase in rental contracts in which there was a change of tenant declined to 4.7 percent in the July Index, compared with 6.6 percent in June.

Israeli equity indices were mixed during the reviewed period (**Figure 27**). Government bond yields increased, similar to the global trend (**Figure 24**). Israel's risk premium as measured by the CDS spread remained virtually unchanged during the reviewed period, close to its level from before October 7, 2023 (**Figures 28a-b**). The yield spread between dollar-denominated government bonds and US Treasury bills declined. Business credit continued to expand rapidly during the reviewed period, led by credit from banks. A large part of the increase is attributed to the financing of capital market activity. Consumer credit to households from all sources continued to expand moderately. Payments in arrears in all activity segments remained low.

Geopolitical tensions in the Middle East led to a sharp increase in energy prices and to interruptions in the global supply chains. During the reviewed period, the price of Brent oil rose by about 25 percent, to around $90 per barrel. In addition, natural gas prices in Europe increased to record highs since the outbreak of Operation Roaring Lion (**Figure 30**). The global Purchasing Managers Index increased in June and July, remaining at a level indicating continued expansion of global GDP (**Figure 32**). The reviewed period was characterized by a sharp increase in government bond yields globally, with long-term yields at high levels.

In the US, GDP grew at an annual rate of 1.5 percent in the second quarter, and second quarter growth in the eurozone was 1.8 percent in annual terms.

Annual inflation in the US declined slightly in May, with the Consumer Price Index at 3.4 percent and Core CPI at 2.5 percent. Annual inflation in the eurozone increased to 2.9 percent in July, with the core index increasing to 2.5 percent (**Figures 33a-b**).

During the reviewed period, the major central banks in the advanced economies left their interest rates unchanged (**Figure 34**). In the US, the interest rate path increased following the speech by the FED Chairman, and in Europe the path increased sharply during the reviewed period (**Figures 35a-b**).

The minutes of the monetary discussions prior to this interest rate decision will be published on September 15, 2026. The next decision regarding the interest rate, which was scheduled for August 31, 2026, will now be published on Wednesday, October 21, 2026.