September 29, 2025

**The Monetary Committee decides on September 29, 2025 to leave the interest rate unchanged at 4.5 percent.**

* **In view of the intensification of the fighting in Gaza and a deterioration in international sentiment toward Israel, uncertainty in the geopolitical environment is high.**
* **Inflation in the past 12 months declined slightly, to 2.9 percent, which is in the upper part of the target range. In the coming months, inflation is expected to remain around the upper bound of the target range, and even to cross it, and will begin to moderate in early 2026.**
* **Economic activity recovered after the contraction due to the military operation against Iran.**
* **The labor market remains tight, mainly due to labor supply constraints resulting from the mobilization of reserve soldiers and the shortage of non-Israeli workers.**
* **The volume of activity in the construction industry remains significant, and the numbers of building starts and building permits continue to increase and remain high in annual terms. The downward trend in the number of housing transactions continues, and the annual pace of increase in home prices moderated.**
* **According to the Research Department staff forecast’s assessment, under the assumption that the fighting in Gaza continues at varying intensity and ends during the first quarter of 2026, GDP is expected to grow by 2.5 percent in 2025 and by 4.7 percent in 2026, and the inflation rate is expected to be 3 percent in 2025 and 2.2 percent in 2026.**
* **Since the previous interest rate decision, the shekel has appreciated by 1 percent against the US dollar, by 0.8 percent against the euro, and by 1.2 percent in terms of the nominal effective exchange rate.**

**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 Israeli economy continues to function in an environment of high geopolitical uncertainty in view of the intensification of the fighting in Gaza and the worsening international sentiment toward Israel.Economic activity recovered following the military operation against Iran. Annual inflation declined slightly, and is in the upper portion of the target range. During the reviewed period, Israel’s risk premium remained stable at a level that is higher than it was before the Swords of Iron War.

The Consumer Price Index for August increased by 0.7 percent, and the annual inflation rate declined slightly, to 2.9 percent, within the upper portion of the target range (**Figure 1**). However, inflation has been characterized by high volatility since the beginning of the year. Net of energy and fruit and vegetables, the annual inflation rate was 3.4 percent (**Figure 2**). The annual inflation rate of nontradable components was 3.6 percent in August, and the annual pace of inflation of the tradable components declined to 1.7 percent (**Figure 3**). According to forecasters’ projections, inflation will remain close to the upper bound of the target range in the coming months, and even cross above it, and will begin to moderate at the beginning of 2026 (**Figure 5**). Inflation expectations for one year forward from the various sources are around the midpoint of the target range (**Figure 6**). Expectations for the second year onward also remain near the midpoint of the target range (**Figure 7**).

In the Committee’s assessment, there are several risks of a possible acceleration of inflation: geopolitical developments and their impact on economic activity, an increase in demand alongside supply constraints, fiscal developments, and worsening global terms of trade.

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The Bank of Israel Research Department revised its macroeconomic staff forecast. This forecast is characterized by a high level of uncertainty. The forecast was formulated following the broad mobilization of reserve soldiers and the beginning of a significant ground campaign in the Gaza Strip, and under the assumption that the fighting in Gaza will continue at varying intensity and will end during the first quarter of 2026. According to the Research Department’s assessment, under this scenario, GDP is expected to grow by 2.5 percent in 2025 and by 4.7 percent in 2026, compared to 3.3 and 4.6 percent, respectively, in the July forecast (**Figure 11**). The broad unemployment rate among the prime working ages (25–64) is expected to average 3.4 percent in 2025 and 2026. The inflation rate in 2025 is expected to be 3 percent, and inflation in 2026 is expected to be 2.2 percent, compared to 2.6 and 2 percent, respectively, in the July forecast. The deficit in the state budget is expected to be 5.1 percent of GDP in 2025, and 4.3 percent of GDP in 2026. The debt to GDP ratio is expected to be 71 percent in each of 2025 and 2026.

Uncertainty regarding the forecast is reflected in the particularly wide range of security scenarios that pose risks to the forecast in both directions. A downward risk analyzed by the Research Department may come about due to a further prolonging of the fighting, in which the supply constraint and impact to sentiment toward Israel continue. Such a situation will continue to weigh upon investments and on the recovery of activity. As a result, growth will be lower, the budget deficit will expand, and the inflation and interest rate paths will be higher. In contrast, in recent days there have been talks that may lead to a ceasefire agreement and even to the end of the war, which would ease the supply constraints in the economy and support the expansion of activity. The impact on inflation would also depend on the development of demand.

Current indicators of the state of economic activity in August point to a continued moderate recovery of economic activity. Credit card expenditure figures in current prices indicate continued recovery following the sharp decline at the beginning of the military operation against Iran, and the most recent data are slightly higher than the trend line (**Figure 13**). The aggregate balance in the Central Bureau of Statistics Business Tendency Survey for August continued to increase, but has not yet returned to its level from before the Iran operation (**Figure 12**). Capital raised by the high-tech sector in the third quarter is high, and similar to what it was in the previous quarter (**Figure 14**). The surplus in the goods and services account declined sharply in the second quarter due to a decline in goods and services exports and an increase in imports. The most recent data show a recovery in exports as well.

The cumulative deficit in the government budget in the past 12 months totaled 4.8 percent of GDP in August, a slight decline from the previous month, in view of the continued increase in government tax receipts in August (in fixed prices and net of legislative changes and one-off revenues), which are higher than the long-term trend (**Figure 15**). The government approved a further NIS 31.9 billion increase in the defense budget in 2025, mainly to finance defense expenditures due to the increased fighting in Gaza and the operation against Iran.

The labor market remains tight, mainly due to labor supply constraints resulting from the mobilization of reserve soldiers and the shortage of non-Israeli workers.The broad unemployment rate among the prime working ages (25–64) declined to 3.1 percent in August (**Figure 16b**). The job vacancy rate increased slightly, to 4.5 percent, in August (**Figure 17a**). The rate of temporary absentees due to reserve duty was 0.7 percent in August. The employment rate and the participation rate among the prime working ages (25–64) are low (**Figure 16a**). Wage increases continued throughout the economy, with wages in May–July growing by 4.2 percent (in annual terms) relative to the third quarter of 2023, led by wages in the business sector (**Figure 20**).

Activity in the construction industry points to a mixed picture in the second quarter of 2025. The numbers of building starts and building permits (seasonally adjusted) continued to increase and remained high in annual terms, such that the volume of construction in the industry remains significant (**Figure 21**). In contrast, the volume of building completions remains relatively low and the average construction duration remains prolonged—reaching 36 months—partly reflecting the continued shortage of workers in this industry. According to Central Bureau of Statistics data, the stock of unsold homes continued to increase in July, and has been in an upward trend since April 2022. At the same time, the downward trend in the number of housing transactions, particularly, new homes, continues. Since the beginning of the year, home prices have declined by a cumulative 1.4 percent, and the annual pace of increase in home prices moderated to 1.6 percent (**Figure 8**). The owner-occupied housing services component (rents in new and renewing contracts) continued to increase in August, at an annual rate of 4.3 percent, indicating some stickiness. Mortgage borrowing totaled about NIS 9.1 billion in August (**Figure 9**).

Following sharp increases in recent months, the equity indices in Israel continued to increase with high volatility (**Figure 29**). Israel’s risk premium, as measured by the 5-year CDS spread, remained virtually unchanged during the reviewed period, but remains higher than in the prewar period. The spreads on dollar-denominated government bonds remained virtually unchanged (**Figures 30a-b**). Yields on 10-year unindexed Israeli government bonds increased slightly during the reviewed period (**Figure 26**). Business credit expand at a rapid pace, and in July, credit to small and medium businesses also grew. The rate of business credit more than 90 days in arrears remained relatively low. According to the Central Bureau of Statistics Business Tendency Survey for August, the rate of businesses reporting a serious credit constraint was similar to its prewar level (**Figure 28**).

Global economic activity has been characterized by mixed trends. In the US, economic uncertainty due to the government’s tariff have led to signs of a slowdown in the labor market. In the eurozone and in China, there has been a recovery of activity. The global growth forecast was revised slightly upward (**Figure 31**), and the global purchasing managers index for August increased slightly (**Figure 34**). The pace of expansion of world trade continued to slow (**Figure 33**).

Second-quarter growth figures in the US were revised upward to 3.8 percent. US labor market data for August remained weak, as new job figures in August were significantly lower than forecast and data for June and July were revised downward. The unemployment rate continued to increase, reaching about 4.3 percent. In the eurozone, there was a slight improvement in the sentiment indices, with the improvement being most prominent in the leading countries, mainly in Spain. In China, there was some recovery in activity in view of the relaxation of the trade war, and the volume of goods exports remained stable.

In the United States, inflation (CPI) is sticky, and its rate according to the general Consumer Price Index increased to 2.9 percent in August. Core CPI remained unchanged at 3.1 percent. In the eurozone, the services component continues to moderate, supporting a slowdown of inflation. In the final reading for August, inflation remained unchanged at 2 percent and the core index remained unchanged at 2.3 percent. The Federal Reserve lowered its interest rate by 25 basis points (as expected), and the ECB again left its rate unchanged (**Figure 36**).

The minutes of the monetary discussions prior to this interest rate decision will be published on October 12, 2025. The next decision regarding the interest rate will be published on Monday, November 24, 2025.