



BANK OF ISRAEL
Office of the Spokesperson and Economic Information

Press release

January 5, 2026

**The Monetary Committee decides on January 5, 2026
to lower the interest rate unchanged at 4 percent.**

- The inflation environment has moderated. The Consumer Price Index for November declined by 0.5 percent, and annual inflation is 2.4 percent. Forecasters project that there will be an increase in annual inflation in the December CPI reading, and that it will then decline to around the midpoint of the target range.
- Since the previous interest rate decision, the shekel has strengthened by 3.1 percent against the US dollar, by 1.5 percent against the euro, and by 2.2 percent in terms of the nominal effective exchange rate.
- The labor market remains tight, but the most recent data indicate an easing of the supply restrictions. This is reflected in an increase in the participation and employment rates, a decline in the absentee rate due to reserve duty, and a decline in the pace of wage increases in the business sector.
- Current indicators of economic activity point to continued expansion. Credit card expenditure figures indicate continued growth in the fourth quarter, and range around the trend line.
- The level of activity in the construction industry is high, and the annual pace of building starts continues to increase. Home prices continued to decline in October, and the downward trend in the number of home purchase transactions continues.
- The domestic equity indices increased, and outperformed indices abroad. Israel's risk premium, as measured by the CDS spread, is near its prewar level.
- According to the Research Department forecast, which was formulated under the assumption that the ceasefire will continue, GDP grew by 2.8 percent in 2025, and is expected to grow by 5.2 percent in 2026 and by 4.3 percent in 2027. The inflation rate is expected to be 1.7 percent in 2026 and 2 percent in 2027.

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](#).

Economic activity continues to expand, with a slight easing of labor supply constraints, and a decline in the inflation environment. During the reviewed period the shekel continued to strengthen, and Israel's risk premium is close to its prewar level.

The Consumer Price Index declined by 0.5 percent in November, resulting in an annual inflation rate of 2.4 percent (**Figure 1**). Net of energy and fruit and vegetables, the annual inflation rate is 2.6 percent (**Figure 2**). The annual inflation rate of nontradable components remained unchanged at 3.0 percent, and the annual pace of inflation of the tradable components declined to 1.2 percent (**Figure 3**). According to forecasters' projections, there will be a slight temporary increase in inflation, and it will then decline to around the midpoint of the target range (**Figure 5**). Inflation expectations for one year forward from the various sources are slightly below the midpoint of the target range (**Figure 6**). Expectations for the second year onward remain near the midpoint of the target range (**Figure 7**).

In the Committee's assessment, there are several risks of renewed acceleration of inflation: geopolitical developments and their impact on economic activity, an increase in demand alongside supply constraints, and fiscal developments.

Since the previous interest rate decision, the shekel has strengthened by 3.1 percent against the US dollar, by 1.5 percent against the euro, and by 2.2 percent in terms of the nominal effective exchange rate. During 2025, the shekel strengthened by 12.5 percent against the US dollar and by 1.3 percent against the euro.

The Bank of Israel Research Department revised its macroeconomic forecast. The forecast was formulated under the assumption that the ceasefire will be maintained and that the volume of reserve military service will continue to decline. In the Department's assessment, supply constraints will dissipate gradually during the forecast period, with a measured increase in domestic demand, such that in balance excess demand will moderate. According to the Department's assessment, GDP grew by 2.8 percent in 2025, and according to this scenario, GDP is expected to grow by 5.2 percent in 2026 and by 4.3 percent in 2027 (**Figure 10**).

The broad unemployment rate among the prime working ages (25–64) is expected to average 3.3 percent in 2026 and 3.5 percent in 2027. The inflation rate during 2025 is expected to be 2.5 percent, compared with 3 percent in the September forecast, and it is expected to be 1.7 percent in 2026 and 2 percent in 2027. The estimate of the budget deficit in 2025 is 4.8 percent of GDP, and the deficit is expected to be 3.9 percent of GDP in 2026. Public debt is expected to be about 68.5 percent of GDP in each of 2025, 2026, and 2027. Despite the fact that this forecast is characterized by a lower level of uncertainty due to the ceasefire, the risks to the forecast remain significant.

Current indicators of economic activity point to continued expansion. Credit card expenditure figures indicated continued growth in the fourth quarter, and range around the trend line (**Figure 12**). The aggregate balance in the Central Bureau of Statistics Business Tendency Survey for November (seasonally adjusted) is stable, but remains lower than it was prior to the war (**Figure 11**). According to the Survey (and according to overnight stay and revenue data), activity in the hotels industry recovered. In the construction industry, the number of workers continued to increase in the third quarter. The consumer confidence index stabilized at a high level in November following a significant increase in October. Capital raised by the high-tech sector remains high in the fourth quarter (**Figure 13**). Goods imports and exports continued to increase in November. Services exports increased by

4.9 percent in October, further to an increase of 8 percent in September (**Figure 20**). In the second and third quarters of 2025, there was a sharp decline in the surplus in the balance of goods and services. In the third quarter, for the first time since 2013, the current account of the balance of payments shifted to a deficit, even in view of the increase in profits of foreign-owned high-tech companies that kept their profits in Israel, which were therefore recorded as investments in the capital account.

The cumulative deficit in the government budget in the past 12 months was 4.5 percent of GDP in November. The government approved the proposed budget for 2026 with a deficit ceiling of 3.9 percent of GDP. Government receipts from direct taxation in November (in fixed prices and net of legislative changes and one-off revenues) are higher than the long-term trend (**Figure 14**).

The labor market remains tight, but the most recent data indicate an easing of the supply constraints. This is reflected in an increase in the participation and employment rates, a decline in the absentee rate due to reserve duty, and a decline in the pace of wage increases in the business sector. The employment rate among the prime working ages (25–64) increased to 79.4 percent in November, and the participation rate increased to 81.7 percent (**Figure 15a**). The broad unemployment rate among the prime working ages (25–64) was stable at 3.1 percent in November (**Figure 15b**). The rate of temporary absentees due to reserve duty declined slightly to 0.5 percent in November. Wages in the business sector increased in August–October by 5.3 percent (in annual terms) relative to the same period in the previous year, compared with 5.9 percent in July–September (**Figure 17**). Alongside this, the ratio between the number of job vacancies and the number of unemployed is stable at a high level (**Figure 16b**). The job vacancy rate increased slightly to 4.6 percent in November (**Figure 16a**).

In the housing market, the downward trend in home prices continued. Home prices declined by 0.5 percent in September–October, and the annual pace of increase in home prices slowed to 0.1 percent (**Figure 8**). The number of housing transactions declined in October, and the stock of unsold new homes remains high. Mortgage borrowing totaled about NIS 9 billion in November (**Figure 9**). The annual pace of increase in the owner-occupied housing services component (rent in new and renewing contracts) declined to 2.6 percent in November, from 3.1 percent in October. The pace of increase in contracts where the tenant changed declined from 5.5 percent in October to 4.7 percent in November.

Alongside this, the level of activity in the construction industry is high. According to Central Bureau of Statistics data, the annual pace of building starts continued to increase in the third quarter, to about 81,000 residential units—an increase of about 31 percent relative to the previous four quarters. Land purchases by contractors in Israel Land Authority tenders continued at high levels in 2025, particularly toward the end of the year. In contrast, building completions totaled about 58,000 residential units, an increase of about 4.3 percent relative to the previous four quarters. (**Figure 19**). The gap between building starts and building completions is mainly due to the increase in the average construction time, which reached 37 months. In part, this reflects the shortage of workers in this industry during the war.

Israel equity indices increased during the reviewed period, and outperformed the rest of the world (**Figure 28**). Israel's risk premium, as measured by the CDS spread, is close to its prewar level. The spreads on dollar-denominated and shekel-denominated government bonds vis-à-vis US Treasuries were virtually unchanged (**Figures 29a-b**). Business credit continued to expand, led by credit from banks. Consumer credit to households expanded, with an increase in credit from all sources. Late

payment rates in all activity segments remained low. According to the Central Bureau of Statistics Business Tendency Survey for November, access to credit remained relatively high (**Figure 27a-b**).

Global economic activity continues to expand moderately. The global growth forecast projects growth of about 3.0 percent for 2025 and 2.9 percent for 2026 (**Figure 30**). Global inflation continues to moderate slowly, mainly thanks to a decline in energy prices and relative calm in the trade war. The global Purchasing Managers Index for November pointed to a slight slowdown in the pace of growth, but remains at a level that indicates expansion in the pace of activity (**Figure 33**). The pace of expansion of world trade slowed during the reviewed period (**Figure 32**).

In the US, third quarter GDP rose at an annualized rate of 4.3% , surprising to the upside . Private consumption grew by 3.5 percent, as service consumption, goods consumption, and net exports were strong, comprising most of the contribution to growth. In the eurozone, the growth rate was revised to about 1.4 percent in annual terms in the third quarter, mainly led by domestic demand and investments. In China, economic activity data for November indicate a slowdown in the pace of growth. Growth of public consumption declined to 1.3 percent in annual terms—the lowest level since the COVID-19 period.

In the United States, the CPI showed clear moderation. Inflation in November was 2.7 percent, compared with 3 percent in September. Core CPI moderated to 2.6 percent. In the eurozone, inflation remains moderate. Inflation in November remained at 2.1 percent in annual terms, while core inflation remained unchanged at 2.4 percent. During the reviewed period, the ECB left its interest rate unchanged, and the interest rate path derived from market pricing rose slightly. The Federal Reserve lowered its interest rate by 25 basis points (**Figure 34**), and the expected interest rate path was almost unchanged the reviewed period (**Figure 35**).

The minutes of the monetary discussions prior to this interest rate decision will be published on January 19, 2026. The next decision regarding the interest rate will be published on Monday, February 23, 2026.