



October 21, 2026

Press Release

The Monetary Committee decides on October 21, 2026 to keep the interest rate unchanged at 3.25 percent.

- Inflation in the past 12 months was 1.6 percent in September, slightly below the midpoint of the target range.
- 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 shekel depreciated.
- Since the previous interest rate decision, the shekel depreciated by 3.1 percent against the US dollar, and appreciated by 0.3 percent against the euro. In terms of the nominal effective exchange rate, the shekel depreciated by 2.2 percent.
- Current indicators of economic activity show continued growth following the rapid second quarter recovery from Operation Roaring Lion.
- According to the Research Department's Staff Forecast, GDP is expected to grow by 5.6 percent in 2026 and by 7.5 percent in 2027. Much of the revision reflects the large expected contribution of production abroad by Israeli firms. The forecast of GDP growth excluding production abroad, which better reflects the domestic activity of the Israeli economy, is 3.4 percent in 2026 and 5.1 percent in 2027.
- The labor market remains tight, and the labor supply constraint remains significant. The pace of the nominal increase in wages in the economy moderated to 4.3 percent in June–August relative to the same period last year, after accelerating due to temporary factors.
- Home prices declined by 0.6 percent in July–August, and by 1.8 percent in annual terms. The annual increase in the housing component of the Consumer Price Index remained unchanged in September, at 3.8 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.

For the file of figures accompanying this notice, [click here](#).

During the reviewed period, inflation has been slightly below the midpoint of the target range. Economic activity continues to grow following the rapid second quarter recovery from the effects of Operation Roaring Lion. Uncertainty remains high in view of continued geopolitical tensions.

However, during the reviewed period, Israel's risk premium remained at levels similar to those prior to October 7, 2023, and the shekel depreciated. Globally, inflationary pressures increased in view of higher energy prices and supply chain disruptions.

The Consumer Price Index increased by 0.7 percent in August and declined by 0.5 percent in September. Inflation in the past 12 months was 1.6 percent in September (**Figure 1**). Net of energy and fruit and vegetables, the annual inflation rate was 1.4 percent in September (**Figure 2**). The annual inflation rate of nontradable components is 2.6 percent, compared with 2.4 percent in August, and the annual pace of inflation of the tradable components was -0.2 percent, compared with 0.05 percent in the previous month (**Figure 3**). According to forecasters' assessments, inflation is expected to remain at its current level in the coming months, to converge toward the midpoint of the target range at the beginning of 2027, and to remain in that vicinity later in the year (**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 depreciated by 3.1 percent against the US dollar and appreciated by 0.3 percent against the euro. In terms of the nominal effective exchange rate the shekel depreciated by 2.2 percent.

In the Monetary Committee's assessment, there are several factors that may influence the development of inflation in opposite directions. The inflation environment will be 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.

The Research Department updated its macroeconomic forecast. The baseline assumption underlying the forecast assumes that the intensity of the fighting will remain low, similar to the current level, which may contribute to some easing of the supply constraints facing the economy, and that the geopolitical environment will remain tense.

According to the Research Department's assessment in this scenario, GDP is expected to grow by 5.6 percent in 2026 and by 7.5 percent in 2027 (**Figure 10**). Much of the revision reflects the large contribution of production abroad by Israeli firms. Since GDP excluding production abroad better reflects domestic activity in the Israeli economy, the forecast also presents estimates of this component. Accordingly, the forecast for GDP excluding production abroad is 3.4 percent in 2026 and 5.1 percent in 2027.

In the labor market, the broad unemployment rate is expected to average 3.1 percent in 2027. Inflation is expected to be 1.5 percent in 2026 and 2.1 percent in 2027. In the Research Department's assessment, if the defense budget does not increase beyond the reserve allocated in the state budget, the government budget deficit is expected to be 4.4 percent in 2026 and 4.6 percent in 2027. The debt to GDP ratio is expected to be about 68 percent at the end of 2026 and about 66.5 percent at the end of 2027. Excluding production abroad, the debt to GDP ratio is expected to be 70 percent at the end of 2026 and 70.5 in 2027.

The forecast is characterized by uncertainty regarding the geopolitical environment and security developments in Israel and across the Middle East; significant fiscal uncertainty, on both the revenue side and the expenditure side; particularly high uncertainty regarding the size of the

defense budget, a further increase in which without counterbalancing adjustments will lead to an increase in the deficit and may lead to an increase in inflation.

The third estimate of National Accounts data for the second quarter shows that exports excluding diamonds and startups increased by 17.7 percent relative to the previous quarter, and by 5 percent excluding production abroad. On the sources side, business output excluding production abroad increased by 11.8 percent relative to the previous quarter, and imports excluding defense, ships, aircraft, and diamonds increased by 24 percent. GDP excluding production abroad is about 3.7 percent lower than its long-term trend, and business output excluding production abroad is about 5.4 percent below the trend (**Figure 11**).

Current indicators of economic activity show continued growth following the rapid second-quarter recovery from the effects of Operation Roaring Lion, alongside continuing supply constraints. Credit card expenditures in current prices are volatile and close to the long-term trend line (**Figure 13**). The aggregate balance in the Central Bureau of Statistics Business Tendency Survey for September increased, and returned to its level from before Operation Roaring Lion. The improvement in the net balance was mainly reflected in the hotels and services industries, while there were slight declines in the construction industry and in most manufacturing industries (**Figure 12**). Capital raised by the high-tech sector in the third quarter stands at about \$4.7 billion, similar to the first and second quarters of the year (**Figure 14**). Foreign trade data for September indicate increases in goods exports and imports in dollar terms (**Figures 21 and 22**).

The cumulative deficit in the government budget in the past 12 months was 3.2 percent of GDP in September, below the government's deficit target for 2026. This was due to the interim budget in the first quarter of the year, which led to a low level of civilian expenditure by the government, and revenues that were higher than the long-term trend. Government receipts from direct taxes in September (in fixed prices and net of legislative changes and one-off revenues) declined to around the long-term trend (**Figure 15**).

The labor market remains tight and the labor supply constraint remains significant. The employment and participation rates among those aged 15 and above were 60.3 and 62.2 percent respectively in September, maintaining their levels with volatility in recent months (**Figure 16a**). In general, these rates are lower than they were before October 7, 2023. The rate of temporary absentees due to reserve mobilization declined slightly in September, to 0.3 percent. The broad unemployment rate among those aged 15 and above was 3.3 percent in September, similar to the level prior to Operation Roaring Lion (**Figure 16b**). The job vacancy rate remained high, at 4.3 percent in September (**Figure 17a**). The pace of the nominal increase in wages in the economy moderated to 4.3 percent in June–August relative to the same period last year, after accelerating due to temporary factors. The pace of wage increases in the business sector was 5.3 percent in May–July, relative to the same period last year (**Figure 18**).

The volume of residential construction remained high. According to Central Bureau of Statistics data, in the second quarter of 2026, the pace of buildings starts declined slightly relative to the same period last year, but its level remains high. Building permits and housing completions are at high levels (**Figure 20**). The seasonally adjusted volume of housing transactions moderated in July–August, after increasing in May–June. However, in general, its level has been relatively stable in the past year. The stock of unsold homes is stable, and remains high. Home prices fell by 0.6 percent in July–August, and by 1.8 percent in the past year (**Figure 8**). In September, new

mortgage borrowing totaled about NIS 10.3 billion in seasonally adjusted terms (**Figure 9**). The pace of increase in the housing component of the Consumer Price Index remained unchanged at an annual rate of 3.8 percent in the September Index. The annual rate of increase in renewing rental contracts was 2.4 percent. The annual rate of increase in rental contracts in which there was a change of tenant increased to 5.3 percent.

Israeli equity indices increased with volatility during the reviewed period (**Figure 28**). Government bond yields increased, similar to the global trend. However, since the beginning of the year, the increase in yields globally is significantly greater than in Israel (**Figure 25**). Israel's risk premium as measured by the CDS spread increased slightly during the reviewed period, but remains close to its level from before October 7, 2023 (**Figures 29a-b**). The yield spread between dollar-denominated government bonds and US Treasury bills increased slightly. Business credit continued to expand rapidly during the reviewed period, led by credit from banks. Consumer credit to households from all sources continued to expand. Delinquency rates in all activity segments remained low.

Globally, energy prices continued to increase during the reviewed period. The price of Brent oil rose by about 15 percent, to around \$110 per barrel. In addition, natural gas prices in Europe continued to increase to new highs since the outbreak of the second round of fighting in Iran (**Figure 31**). World trade grew at a high pace, and the global Purchasing Managers Index increased in August and September, remaining at a level indicating continued expansion of global GDP (**Figure 33**). Government bond yields increased sharply around the world, and are at high levels.

In the US, GDP grew at an annual rate of 2.2 percent in the second quarter, and second quarter growth in the eurozone was 1.2 percent in annual terms.

The pace of overall inflation in the major blocs increased. Annual inflation in the US increased in September, with the Consumer Price Index accelerating to 3.7 percent and Core CPI at 2.6 percent. Annual inflation in the eurozone continued to increase, to 3.8 percent in September, with the core index increasing to 2.5 percent (**Figures 34a-b**).

In their most recent decisions, the Federal Reserve and the ECB raised their rates by 25 basis points, and the interest rate path for these banks priced in by the markets increased during the reviewed period, to include approximately 3 interest rate increases in the coming year. (**Figures 35 and 36a-b**).

The minutes of the monetary discussions prior to this interest rate decision will be published on November 4, 2026. The next decision regarding the interest rate will be published on Monday, November 23, 2026.