

BANK OF ISRAEL

Office of the Spokesperson and Economic Information

Press release

August 20, 2025

**The Monetary Committee decides on August 20, 2025 to leave the interest rate unchanged at 4.5 percent.**

* **Economic activity is recovering following a marked decline during the military operation against Iran. The high level of geopolitical uncertainty continues.**
* **During the reviewed period, Israel’s risk premium stabilized at a level lower than it was prior to the Iran operation, but remained higher than it was before Gaza War.**
* **Inflation in the past 12 months declined to 3.1 percent, which is slightly above the upper bound of the target range.**
* **GDP contracted by 3.5 percent in annual terms in the second quarter. However, this does not reflect the level of activity throughout the second quarter, in view of the significant impact of the Iran operation. Net of this impact, growth was positive but lower than the economy’s long-term potential growth.**
* **Current indicators of economic activity in July point to a rapid return to a level of activity similar to what it was prior to the Iran operation.**
* **In the past four months, home prices have declined, and the pace of the year-over-year increase in home prices continues to moderate, to 2.5 percent in May-June.**
* **Since the previous interest rate decision, the shekel has depreciated by 1.3 percent against the US dollar, by 0.9 percent against the euro, and by 0.8 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.**

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

Economic activity is recovering following a marked decline during the military operation against Iran in June, alongside continued high geopolitical uncertainty. Annual inflation is slightly above the target range. During the reviewed period, Israel’s risk premium stabilized at a level that is lower than it was prior to the Iran operation, but remains higher than it was before the Swords of Iron War.

The Consumer Price Index for June increased by 0.3% and the Index for July increased by 0.4 percent. The annual inflation rate declined to 3.1 percent in July, slightly above the upper bound of the target range (**Figure 1**). However, inflation in recent months has been characterized by high volatility. Net of energy and fruit and vegetables, the annual inflation rate was 3.5 percent (**Figure 2**). The annual inflation rate of nontradable components moderated in July, but remained high, at 3.7 percent. The annual pace of inflation of the tradable components increased in July, to 2.2 percent (**Figure 3**). According to forecasters’ projections, inflation will converge to within the target range in the coming months (**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 for a possible acceleration of inflation or for it not converging to the target range: geopolitical developments and their impact on economic activity, an increase in demand alongside supply constraints, and worsening global terms of trade.

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According to National Accounts data, GDP contracted by 3.5 percent in the second quarter of 2025, and business output contracted by 6.2 percent (**Table 1**). In view of the decline in growth in the second quarter, the level of GDP is about 5.4 percent lower than its long-term trend (**Figure 10**). However, the data do not reflect the level of activity throughout the second quarter, in view of the Iran operation’s significant impact on economic activity. Net of this impact, GDP growth in the second quarter was positive, but lower than the economy’s long-term growth potential.

Current indicators of the state of economic activity in July point to a rapid return to activity levels that were similar to those prior to the Iran operation. Credit card expenditure figures in current prices indicate immediate recovery following the end of the Iran operation, and the most recent data show that they are higher than they were before the Iran operation (**Figure 12**). The aggregate balance in the Central Bureau of Statistics Business Tendency Survey for July increased, but has not yet returned to its level from before the Iran operation (**Figure 11**). In addition, most industries reported expectations of continued recovery in August. Capital raised by the high-tech sector is similar to what it was prior to the onset of the war in Gaza (**Figure 23**). According to foreign trade data, imports and exports increased in July following declines in June due to the Iran operation and the resulting restrictions on air shipping.

The cumulative deficit in the government budget in the past 12 months totaled 4.9 percent of GDP in July, a decline of 0.2 percentage points from the previous month, in view of increased government tax receipts in July (in fixed prices and net of legislative changes and one-off revenues), which are slightly higher than the long-term trend (**Figure 20**). Following a government decision, the deficit ceiling in the state budget will rise to 5.2 percent of GDP. Geopolitical uncertainty is high, and there is a wide variety of possible security developments. As noted in the Research Department’s forecast in July 2025, if the war becomes more intense and more drawn out, there are risks that the supply restrictions may continue to weigh upon the recovery of economic activity, growth may be more moderate, and the budget deficit and inflation may be higher.

The labor market remains tight, and has returned close to the state it was in prior to the Iran operation. The broad unemployment rate among those aged 15 and higher was 3.5 percent in July, similar to its level prior to the Iran operation (**Figure 13b**). The job vacancy rate increased in July, returning to its level from before the Iran operation (**Figure 14**). The rate of temporary absentees due to reserve duty declined significantly to 0.8 percent in July, which is still above its level from prior to the Iran operation. The employment rate and the participation rate among those aged 15 and above in July returned to levels similar to those prior to the Iran operation (**Figure 13a**). Nominal wages in March–­May (in annual terms) were about 4.4 percent higher than they were in the third quarter of 2023 (**Figure 16**), while they were 5 percent higher in the business sector (**Figure 17**). Real wages per employee post remained steady, growing by 1.2 percent in annual terms in March–May relative the third quarter of 2023.

The annual pace of increase in the housing component of the Consumer Price Index increased slightly to 4.2 percent in July. The rents element of the housing component increased by 3.3 percent in annual terms, with renewing contracts increasing by 2.6 percent in annual terms and contracts with new tenants increasing by 5.4 percent. Home price declined in the past four months, and the year-over-year increase in home prices continued to moderate, to 2.5 percent in May–June (**Figure 18**). According to Central Bureau of Statistics data, the decline in the number of transactions continued in June, alongside an increase in the stock of new homes available for sale. Mortgage borrowing totaled about NIS 10.7 billion in July (**Figure 19**). The late repayments rate for mortgages remained stable at a low level.

The equity indices in Israel declined slightly during the reviewed period, in contrast with the upward trend in the global markets. However, since the beginning of the year, the performance of the Israeli markets has been particularly good (**Figure 30**). Israel’s risk premium, as measured by the 5-year CDS spread, declined slightly during the reviewed period, but remains higher than in the prewar period. The spreads on shekel- and dollar-denominated government bonds increased slightly (**Figure 31a-b**). Yields on 10-year unindexed Israeli government bonds also increased slightly during the reviewed period. (**Figure 27**). Business credit continued to expand, and in June, credit to small and medium businesses also grew, at a higher pace. Payment arrears rates remained stable and low. According to the Central Bureau of Statistics Business Tendency Survey for July, the rate of businesses reporting a serious credit constraint remained low (**Figure 29**).

The pace of global economic activity growth remains moderate (**Figure 32**). Economic uncertainty due to the US government’s tariff policy remains high, although the concern of a worsening trade war has subsided slightly as a result of tariff agreements reached with the US’s main trading partners. The global growth forecast increased slightly, to 2.8 percent, and the global purchasing managers index for July increased, for the fourth consecutive month (**Figure 35**). The pace of expansion of world trade slowed during the reviewed period (**Figure 34**).

GDP in the US expanded by 3 percent in annual terms in the second quarter, with private consumption continuing to moderate. US labor market data for July were weak, with an emphasis on significantly fewer new jobs than were previously forecasted and sharp downward revisions in the May and June figures. The unemployment rate increased slightly, while the participation rate continues its downward trend. In the eurozone, GDP grew by 0.5 percent in annual terms in the second quarter. In China, the economy expanded by 5.2 percent in annual terms in the second quarter, which was higher than forecast, as activity was brought forward against the backdrop of the trade war.

In the United States, inflation according to the general Consumer Price Index (CPI) was 2.7 percent in July, and the core CPI increased to 3.1 percent, slightly above expectations. In the eurozone, in the preliminary reading for July, inflation and the core index remained unchanged at 2 and 2.3 percent, respectively. Most of the major central banks in advanced economies left their interest rates unchanged. The Federal Reserve left its rate unchanged, in view of uncertainty in the tariffs policy and the concern of an acceleration of inflation. The ECB left its rate unchanged, for the first time this year (**Figure 36**).

The minutes of the monetary discussions prior to this interest rate decision will be published on September 3, 2025. The next decision regarding the interest rate will be published on Monday, September 29 , 2025.