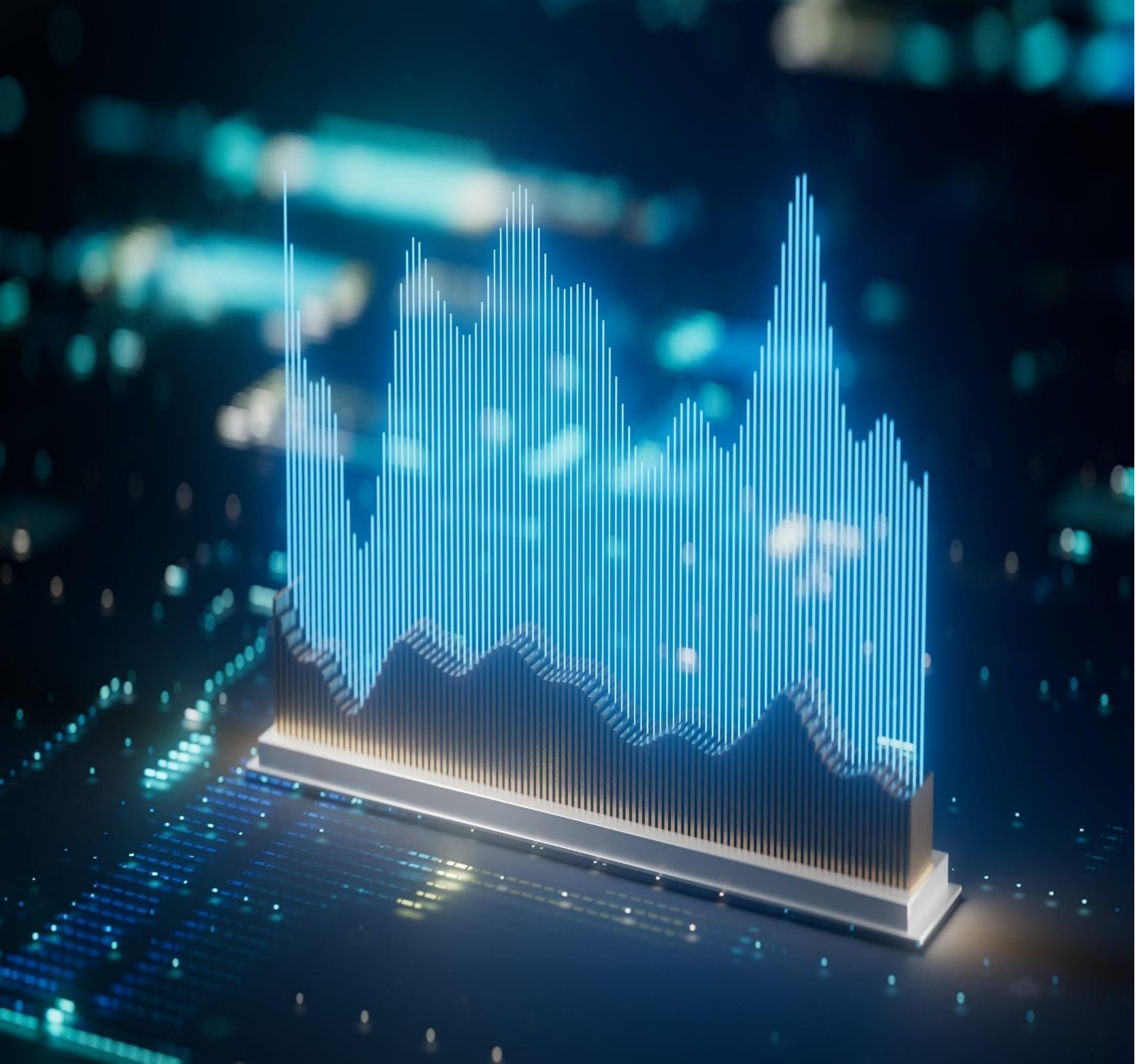
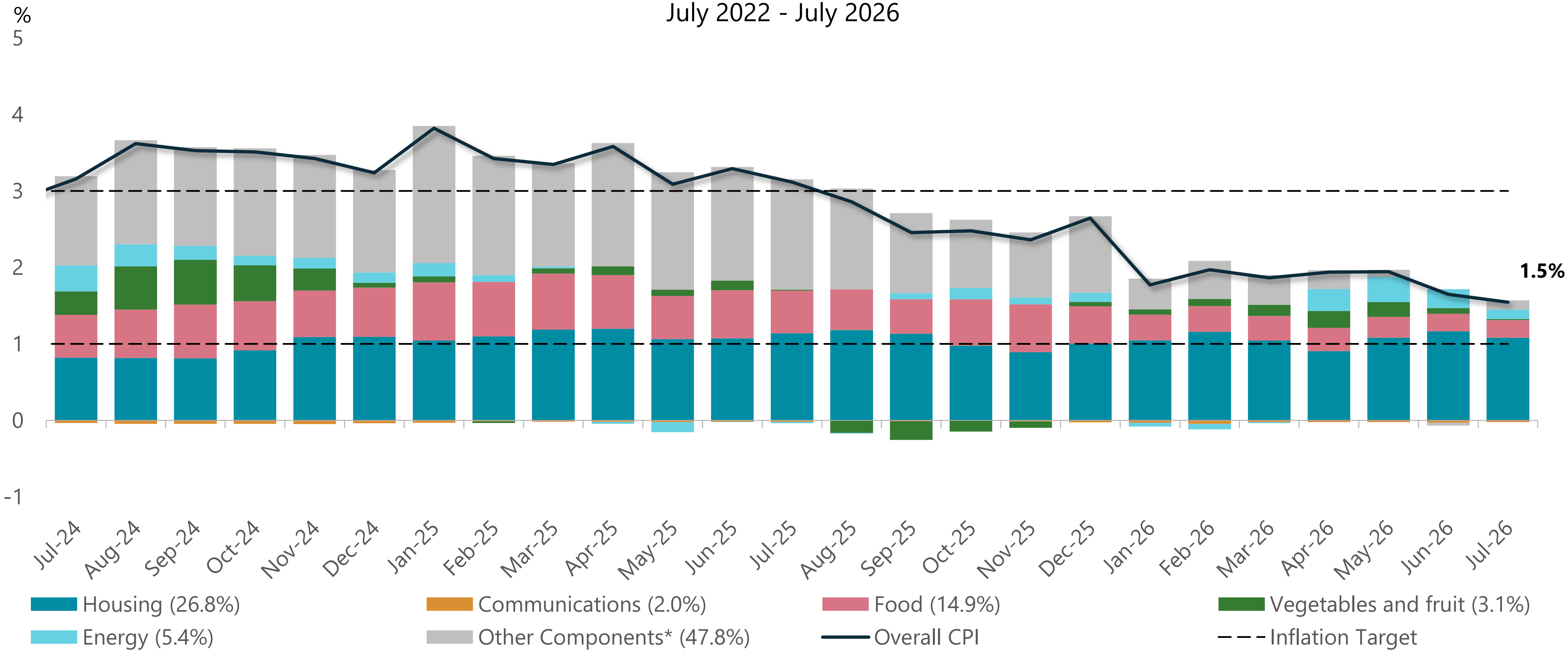
The Main Economic Data Behind the Monetary Committee’s Decision September 1, 2026



The Monetary Environment

Inflation over the past 12 months is 1.5 percent.

Figure 1: The Contribution of Main CPI Components to Annual Inflation
July 2022 - July 2026



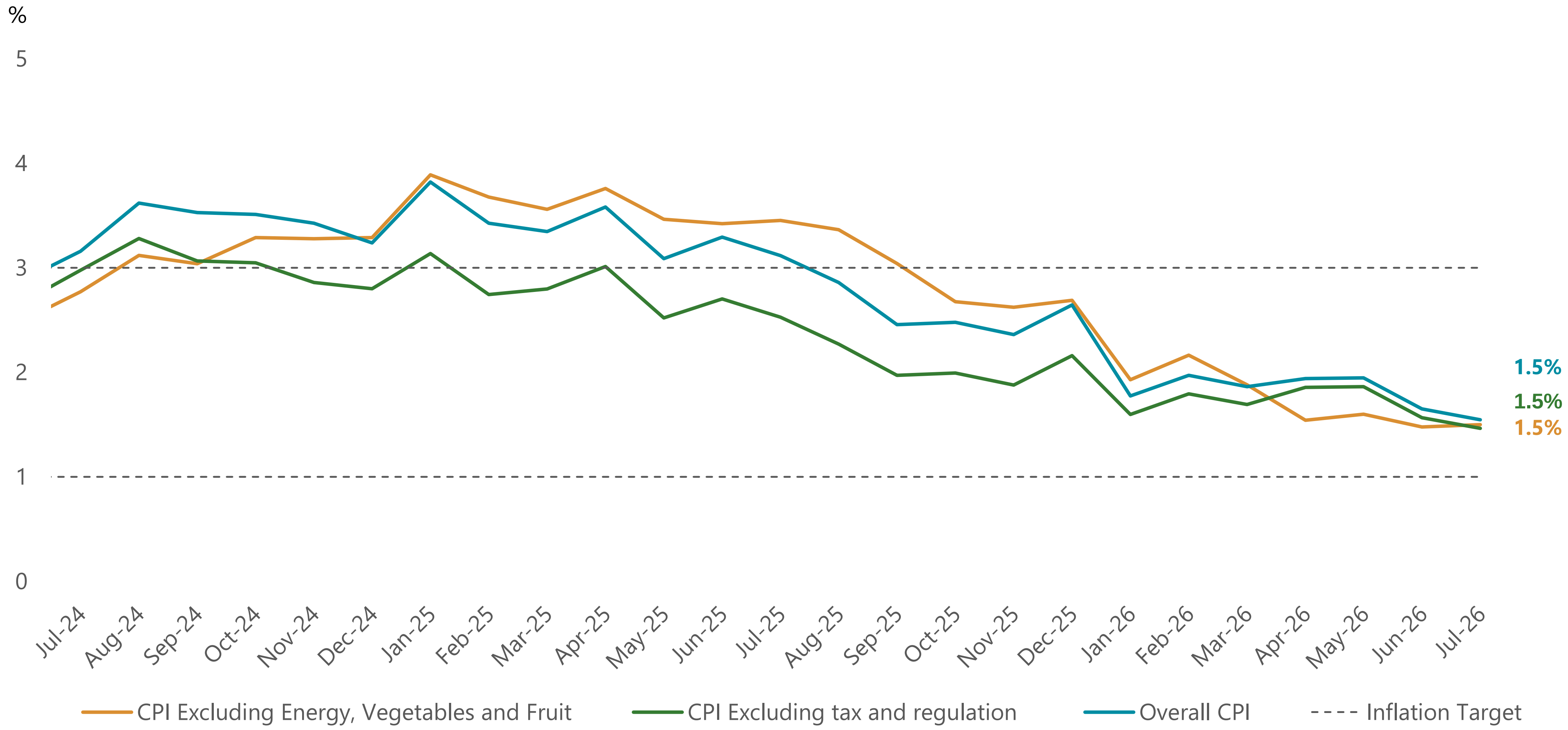
* "Other components" includes Health; Education, Culture and Entertainment; Furniture and Household Equipment; Clothing and Footwear; Miscellaneous; and the Dwellings Maintenance and Transport components minus the sub-components relating to energy prices.

SOURCE: Based on Central Bureau of Statistics.

CPI inflation net of energy and fruit and vegetables is 1.5 percent, and the inflation net of taxes and regulation is 1.5 percent.

Figure 2: The Consumer Price Index - Overall, and Excluding Energy, Vegetables and Fruit

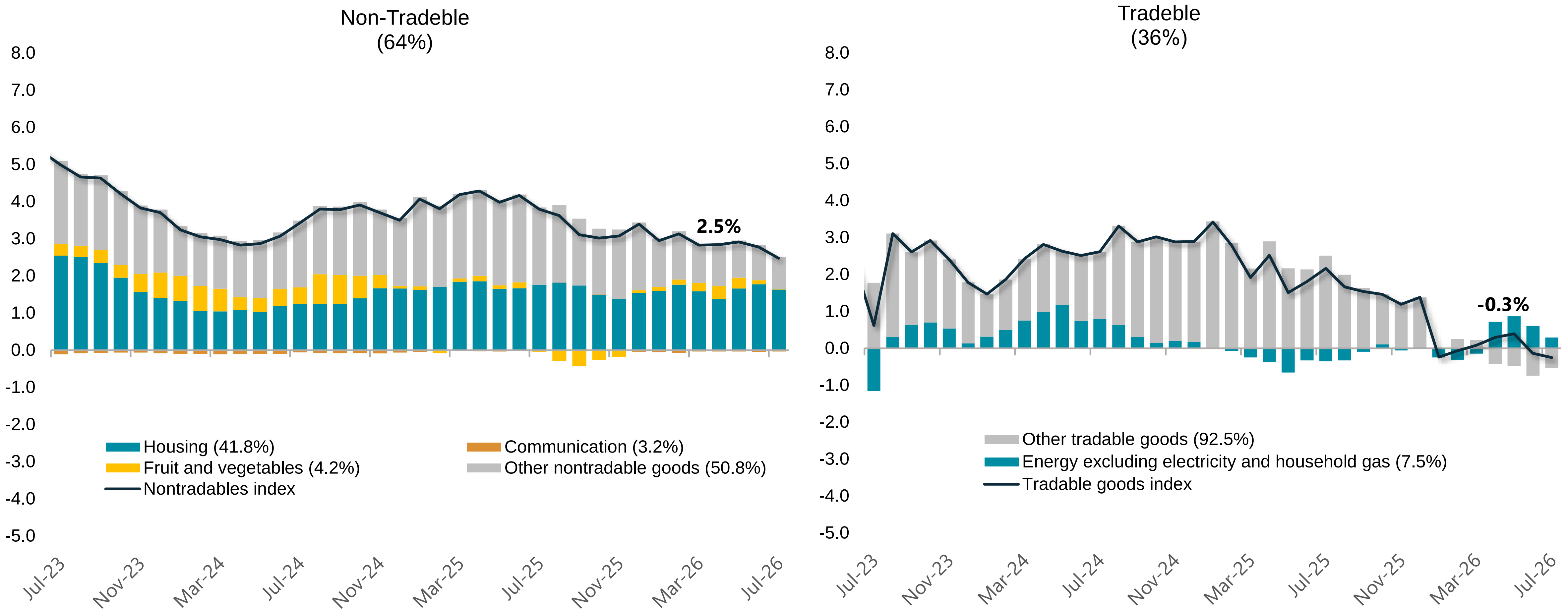
Annual change, July 2022 - July 2026



SOURCE: Based on Central Bureau of Statistics.

Inflation among nontradable components was 2.5 percent, and inflation among tradable components was -0.3 percent.

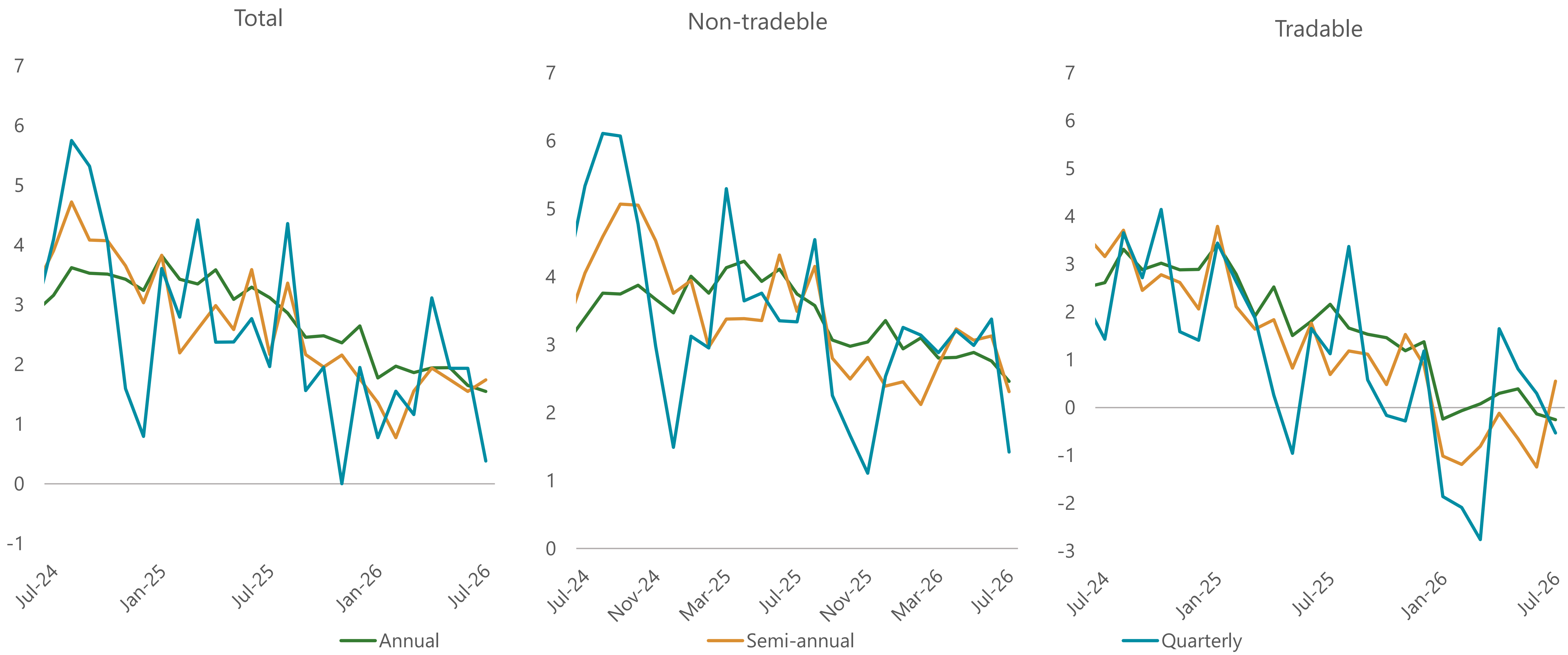
Figure 3: Contribution of the Main CPI Components to Annual Inflation , July 2023–July 2026



SOURCE: Based on Central Bureau of Statistics.

Inflation in both the tradable and nontradable components continued to decline.

Figure 4: Inflation over various ranges
Monthly data, seasonally adjusted, July 2024 – July 2026

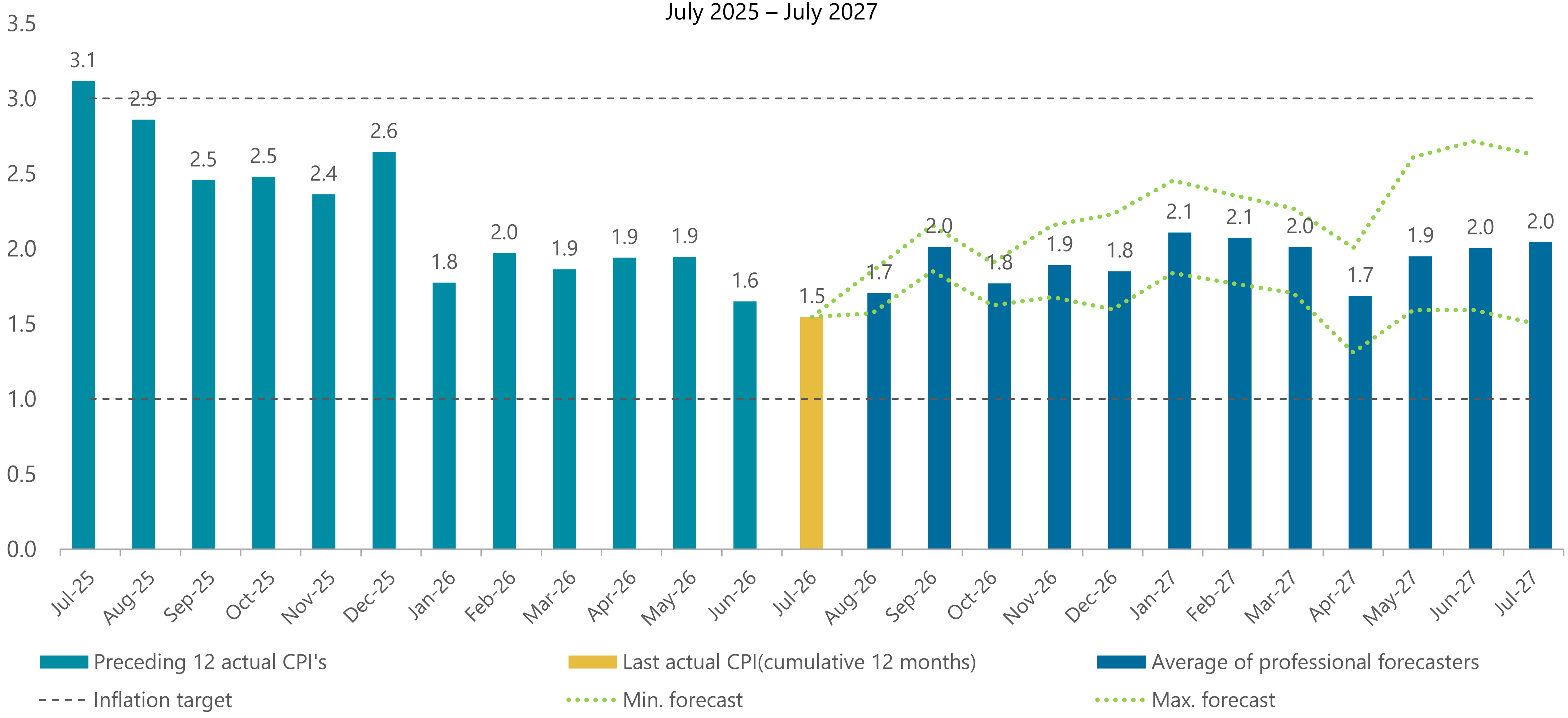


SOURCE: Based on Central Bureau of Statistics.

According to the forecasters, inflation is expected to remain near the midpoint of the target range in the coming months.

Figure 5: Inflation in the past 12 months – actual CPI and its expected development according to forecasters' assessments

July 2025 – July 2027

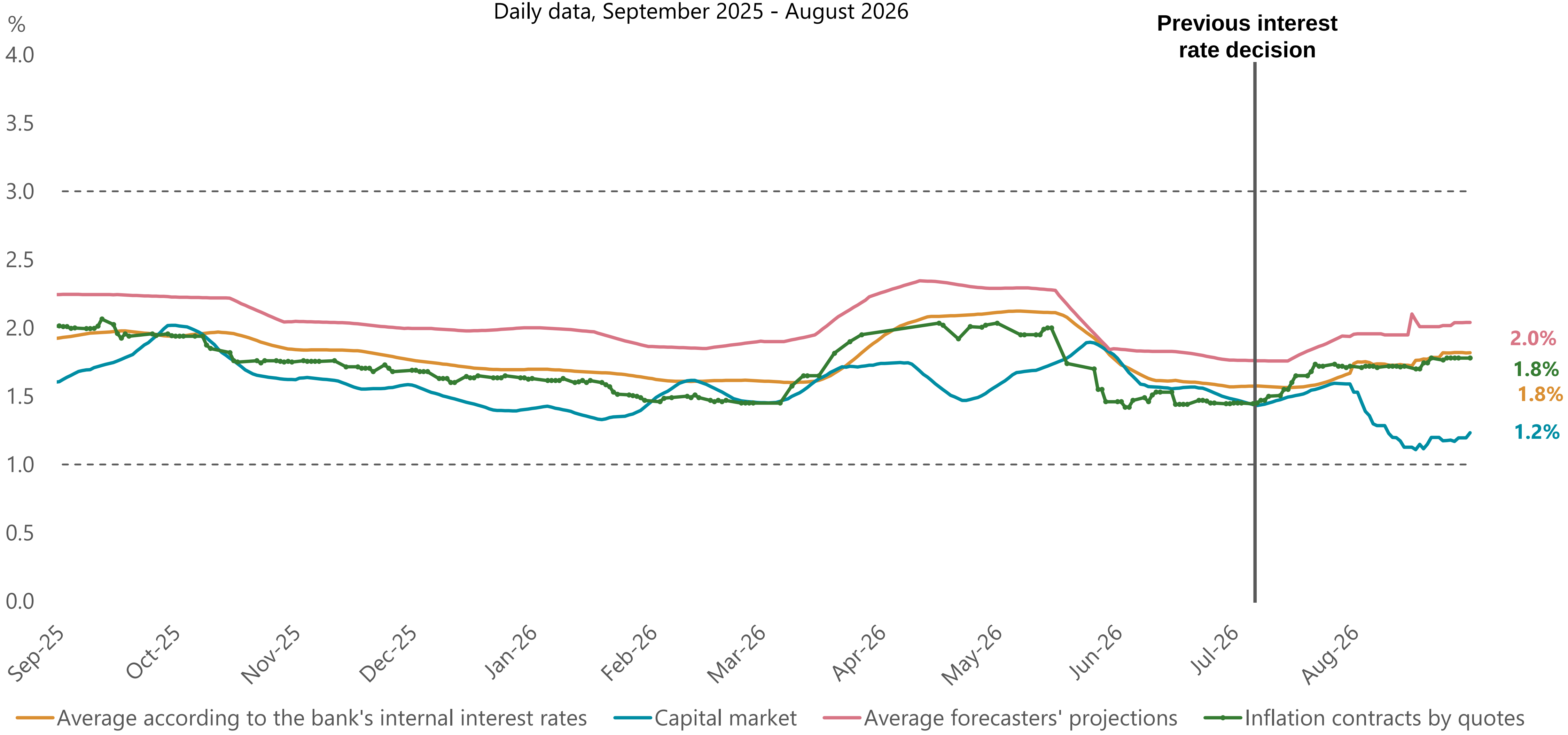


SOURCE: Forecasters reports to the Bank of Israel.

One-year inflation expectations from the various sources are around the midpoint of the target range.

Figure 6: One-Year Inflation Expectations from Various Sources

Daily data, September 2025 - August 2026

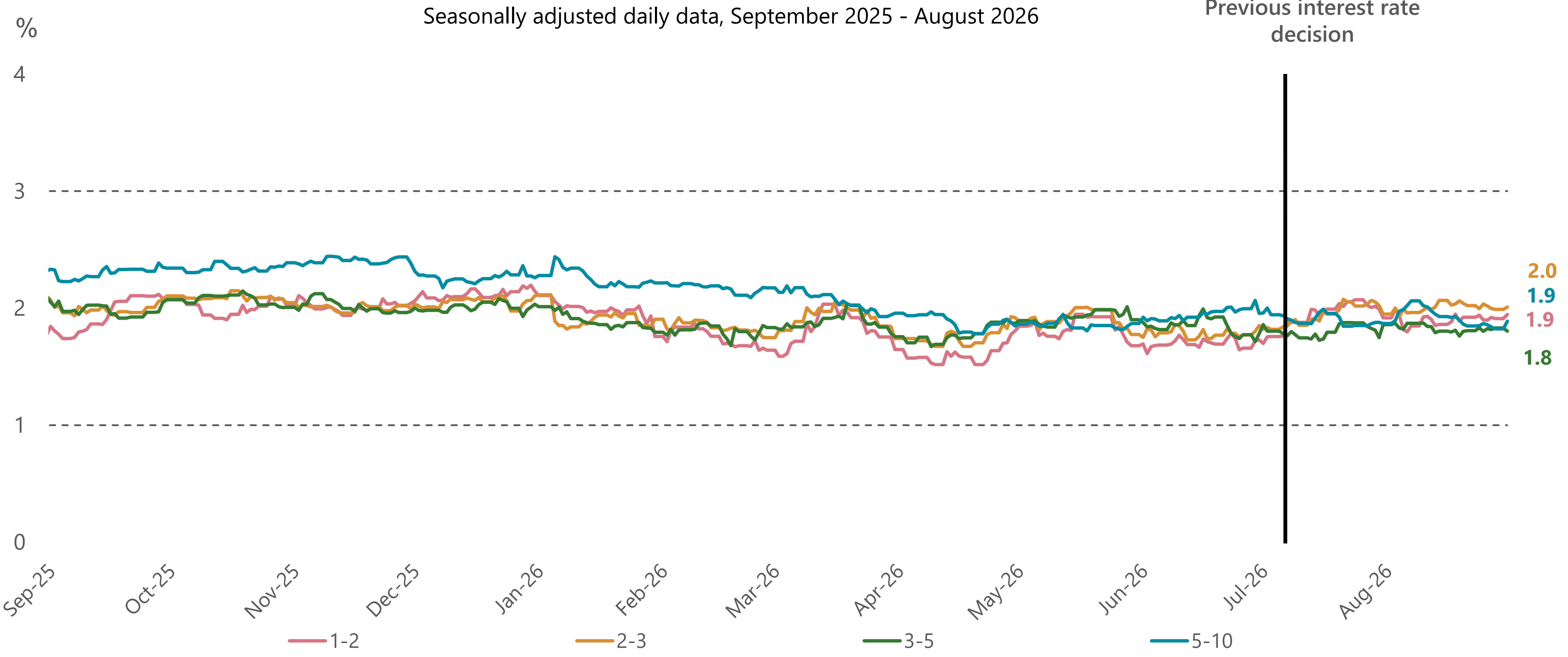


*Up to date as of 31.08.26

SOURCE: Bank Of Israel.

Inflation expectations for ranges exceeding a year continued to hover around the midpoint of the target range.

Figure 7: Forward Inflation Expectations to Various Ranges
Seasonally adjusted daily data, September 2025 - August 2026



* For instance, 3-5 year expectations are the expected yearly inflation from the end of the 3rd year until the end of the 5th year.

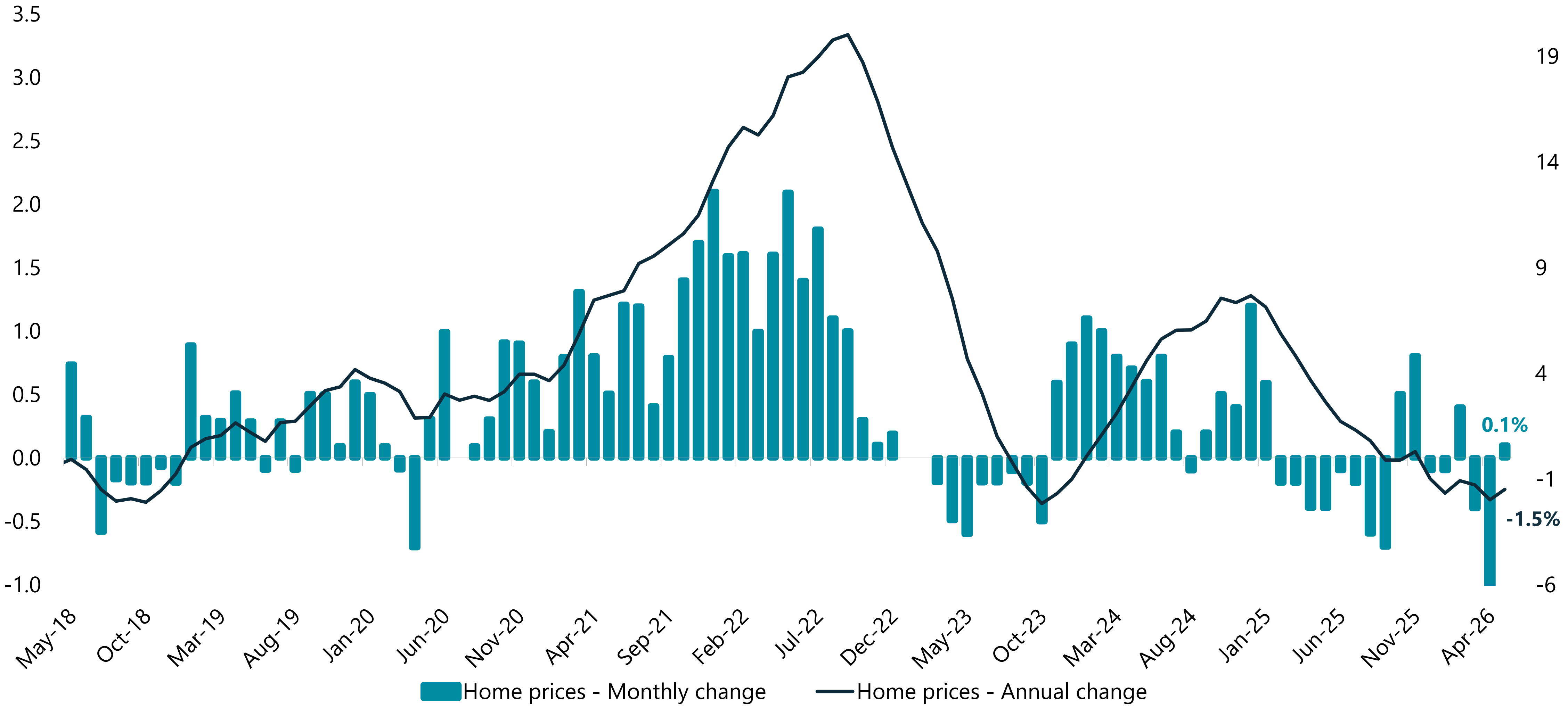
*Up to date as of 02.07.26

SOURCE: Bank Of Israel.

In May-June there was a 0.1 percent increase in home prices, and in annual terms home prices declined by 1.5 percent.

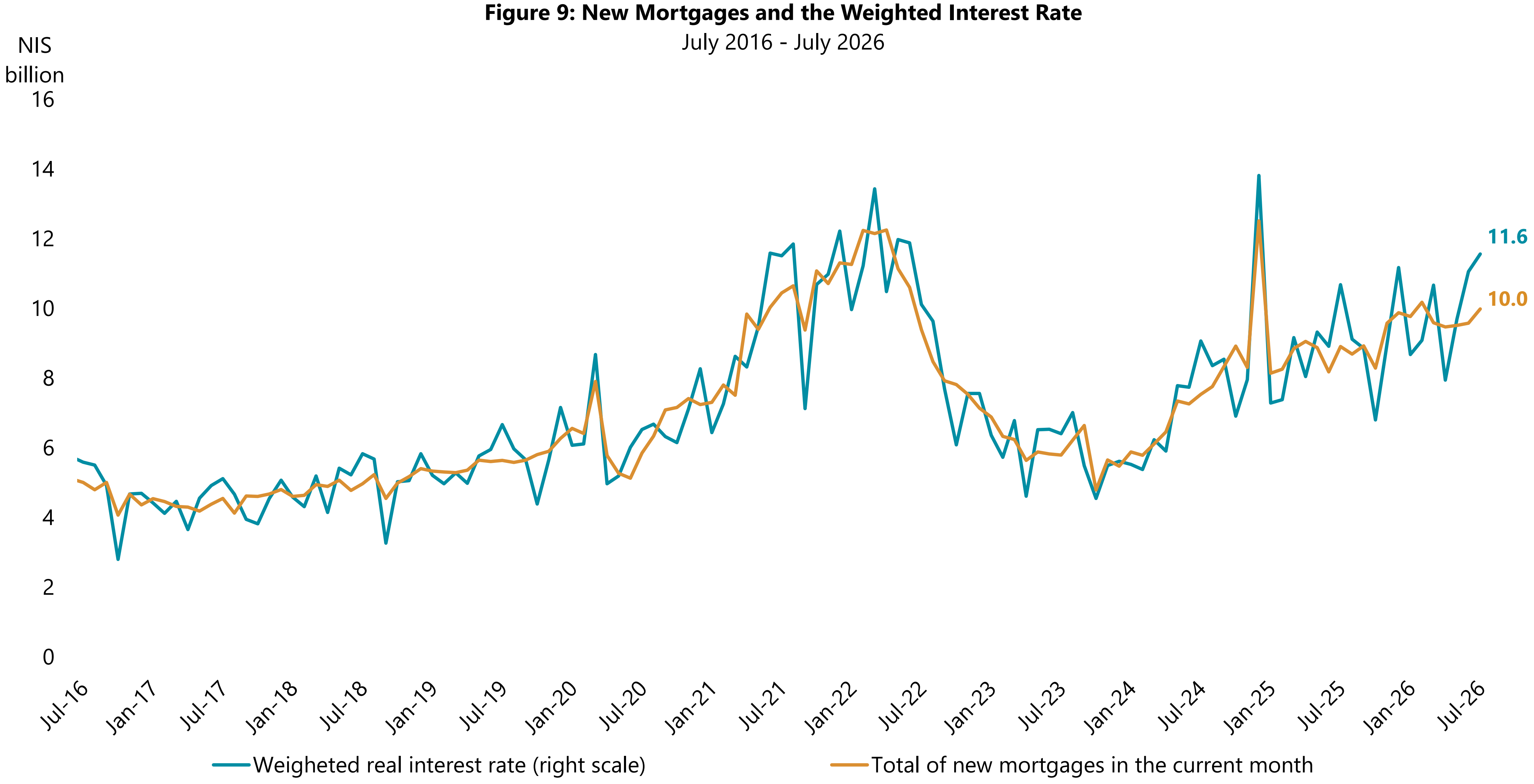
Figure 8: Home Prices

May-June 2018 - May-June 2026



SOURCE: Based on Central Bureau of Statistics.

Mortgage volume in July was NIS 10 billion, seasonally adjusted



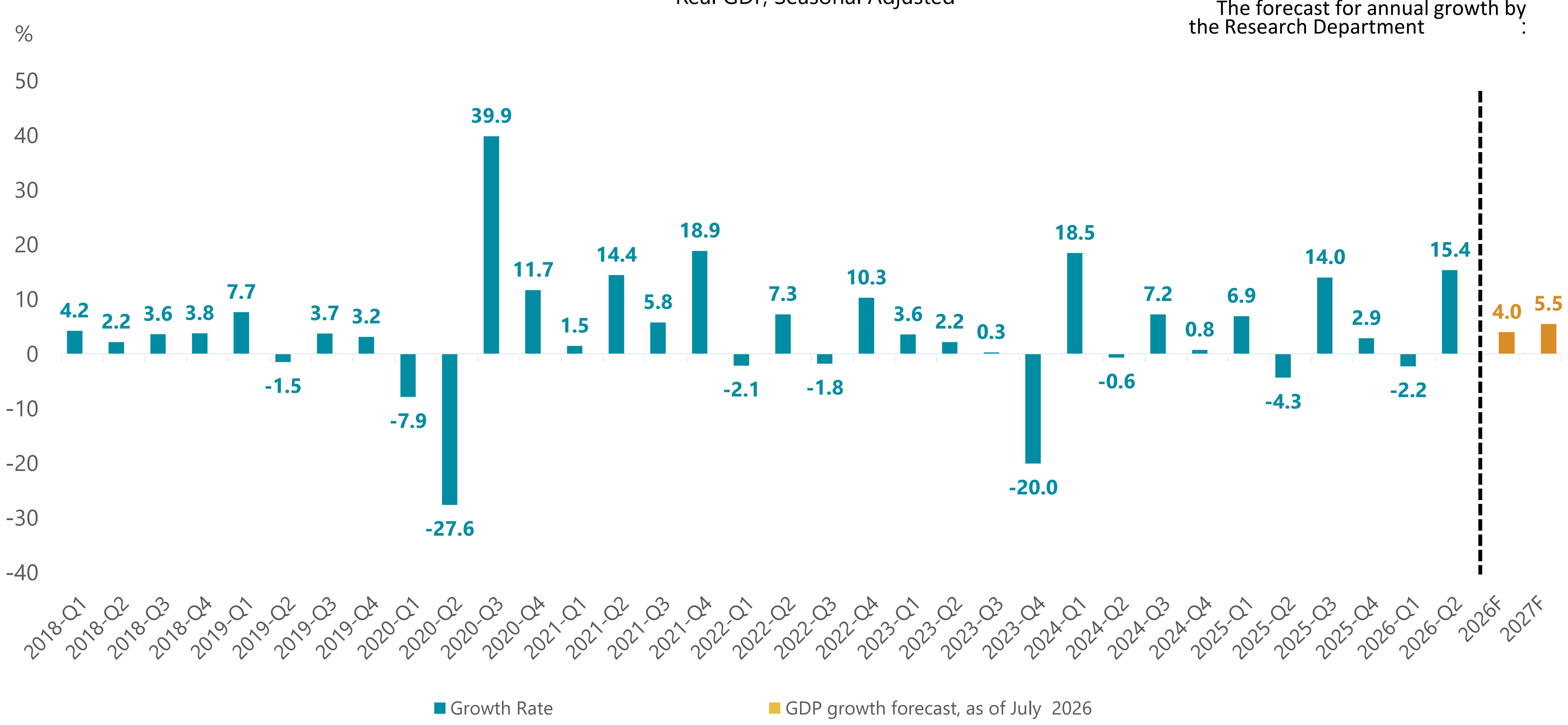
SOURCE: Based on banks' reports to the Banking Supervision Department.

Real Economic Activity

According to National Accounts data, GDP growth in the second quarter was high, at 15.4 percent (in annual terms).

Figure 10: Quarterly Growth Rate (Annual Terms)

Real GDP, Seasonal Adjusted



SOURCE: Based on Central Bureau of Statistics.

GDP growth in the second quarter was influenced by rapid growth in all components. GDP in the second quarter was 6.2 percent higher than in 2025:Q4. Net of production abroad by Israeli companies, GDP was 3.8 percent higher.

Table 1: National Accounts data for the second quarter of 2026

fixed prices, rate of change in annual terms, seasonally adjusted

	2024	2025	2026:Q1	2026:Q2	Rate of change in annual terms relative to 2025:Q4
Gross domestic product	1.7	3.5	2.2-	15.4	6.2
GDP excluding production abroad	1.3	2.1	5.8-	14.4	3.8
Business output	0.7	4	1.1-	16.6	7.4
Business output excluding production abroad	0.1	2.1	7.4-	13.7	2.6
Private consumption	4.2	2.9	4.6-	14.7	4.6
of which: Excluding passenger vehicles	4.3	4	10.5-	13.5	0.8
Public consumption excl. defense imports	9.5	2.2	7.9-	10.2	0.7
Fixed capital formation excluding ships, aircraft, and passenger vehicles	-5.1	8.4	6.6	8.6	7.6
of which: Excluding ships and aircraft	-0.5	5.2	32.5	13	22.4
Investment in residential construction	-16.5	15.9	6.7-	19.4	5.6
Domestic uses excl. changes in inventory	3.1	3.8	1	14	7.3
Exports excluding diamonds and startups	-1.9	8.5	8.4	25.2	16.5
Exports excl. diamonds, startups, and production abroad	-3.6	3.7	2.3	15.5	8.7

SOURCE: Based on Central Bureau of Statistics.

GDP is 0.8 percent lower than its long-term trend

Figure 11a: Total GDP and business sector GDP
(Quarterly, seasonally adjusted, NIS billions, 2020 prices)

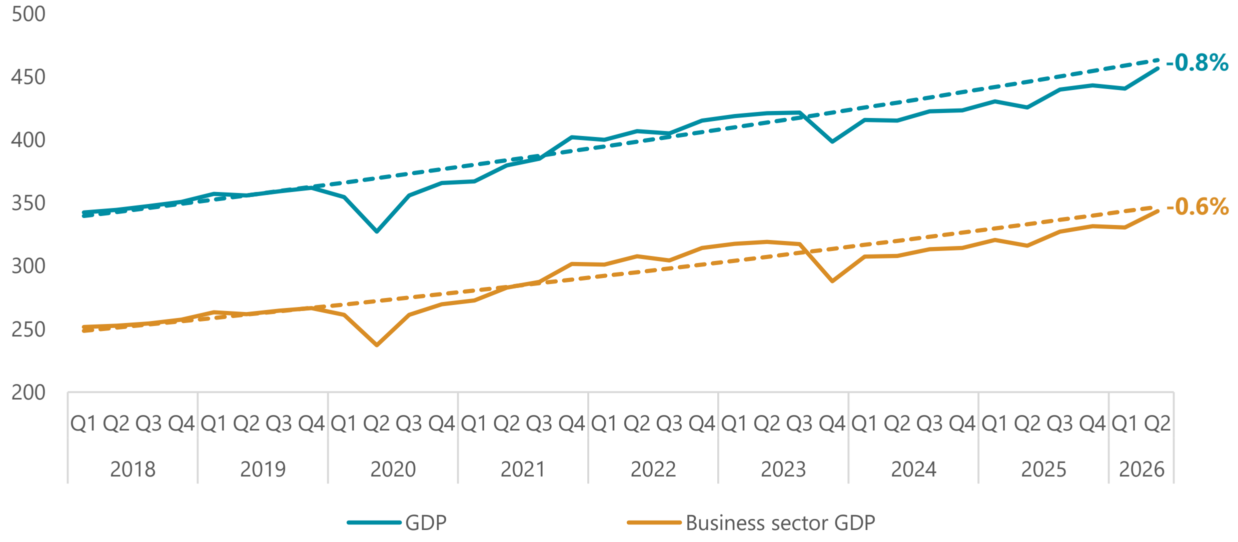


Figure 11b: Investment in fixed assets and in the business sectors

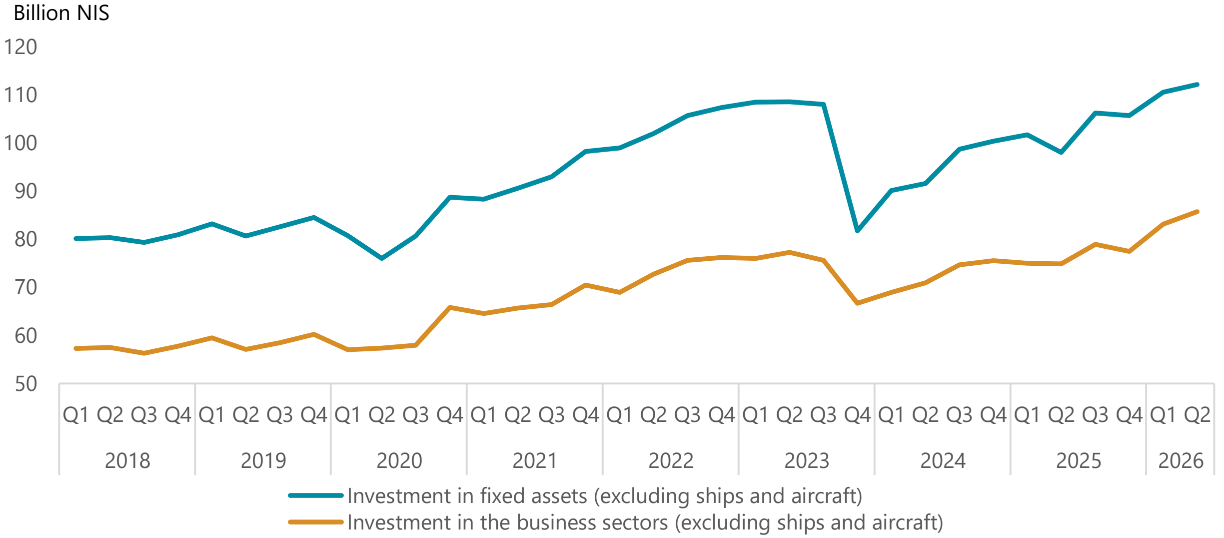


Figure 11c: Total and current private consumption

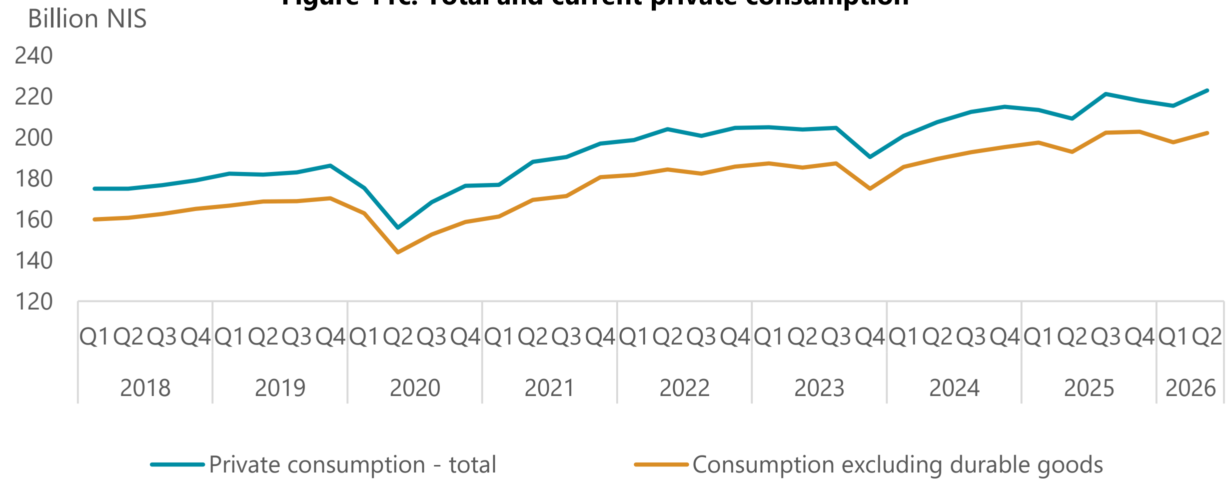
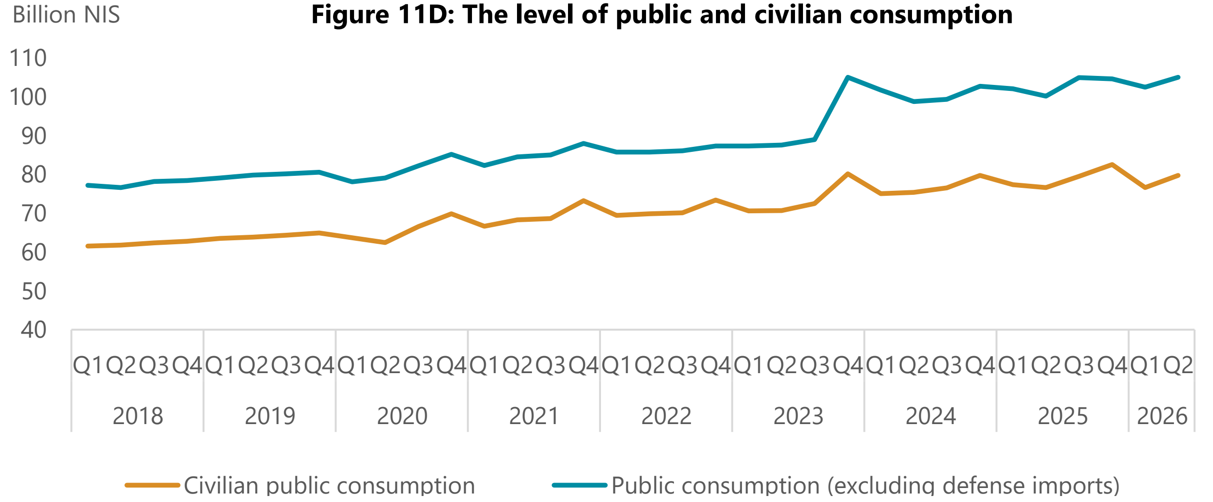


Figure 11D: The level of public and civilian consumption

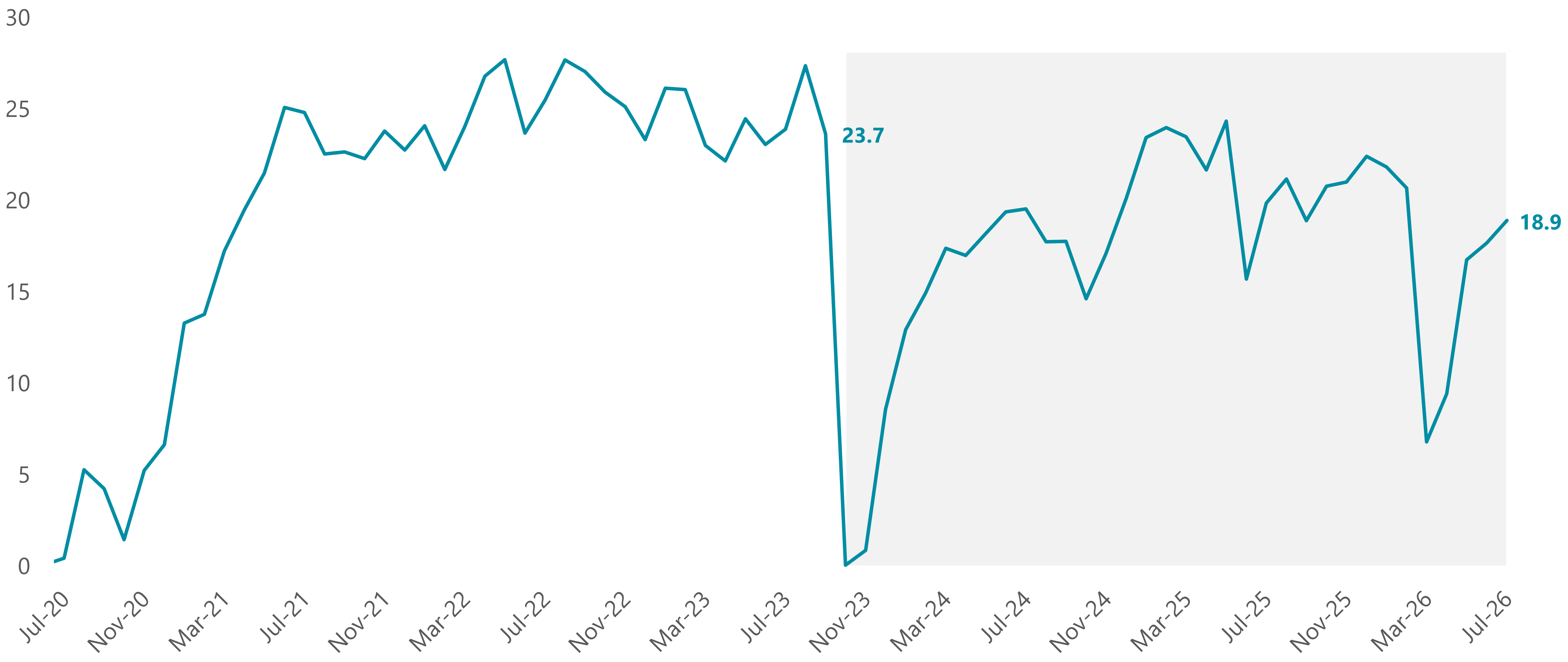


SOURCE: Based on Central Bureau of Statistics.

The aggregate balance in the Business Tendency Survey increased in July, but has not yet returned to its level from before Operation Roaring Lion.

Figure 12: Business Tendency Survey, what is the current economic state of the company

Seasonally Adjusted, Weighted, July 2020 –July 2026

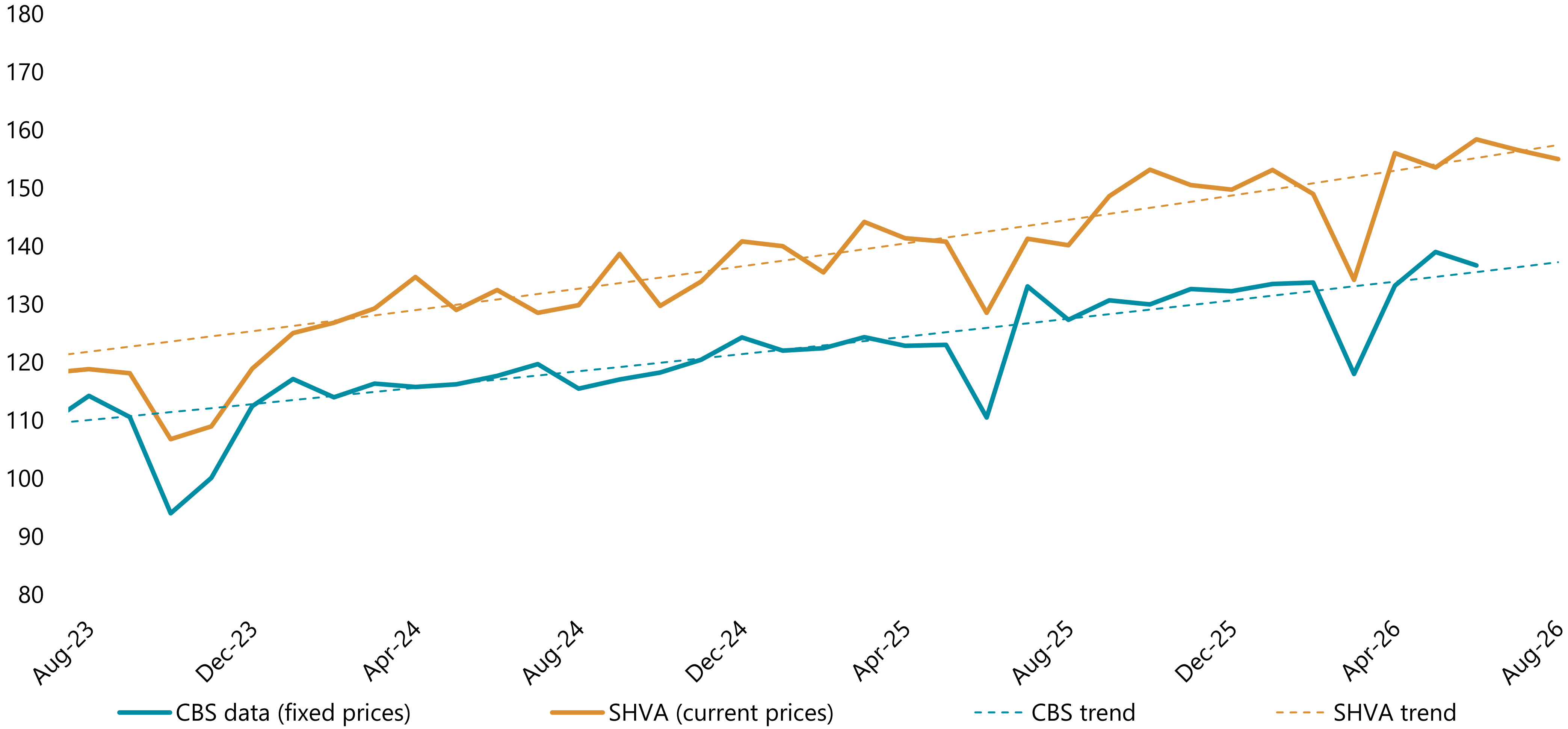


SOURCE: Based on Central Bureau of Statistics.

Credit card expenditures in current prices are volatile and slightly below the long-term trend line.

Figure 13: Index of total credit card expenditures

Monthly, seasonally adjusted, Index 2021=100, August 2023 – August 2026

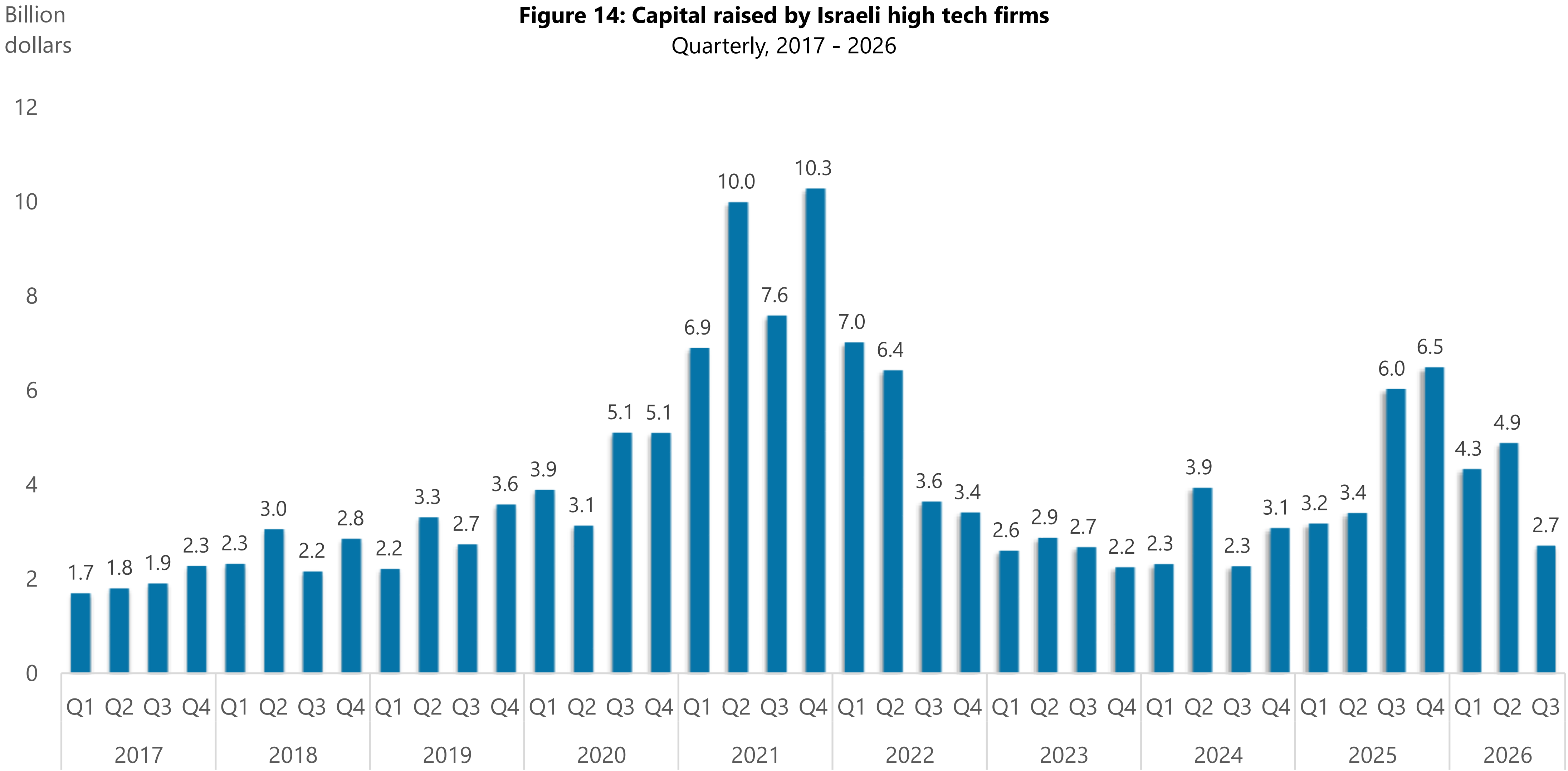


SOURCE: Based on Central Bureau of Statistics, SHVA.

Funds raised by high tech companies in the third quarter are lower than in previous quarters

Figure 14: Capital raised by Israeli high tech firms

Quarterly, 2017 - 2026

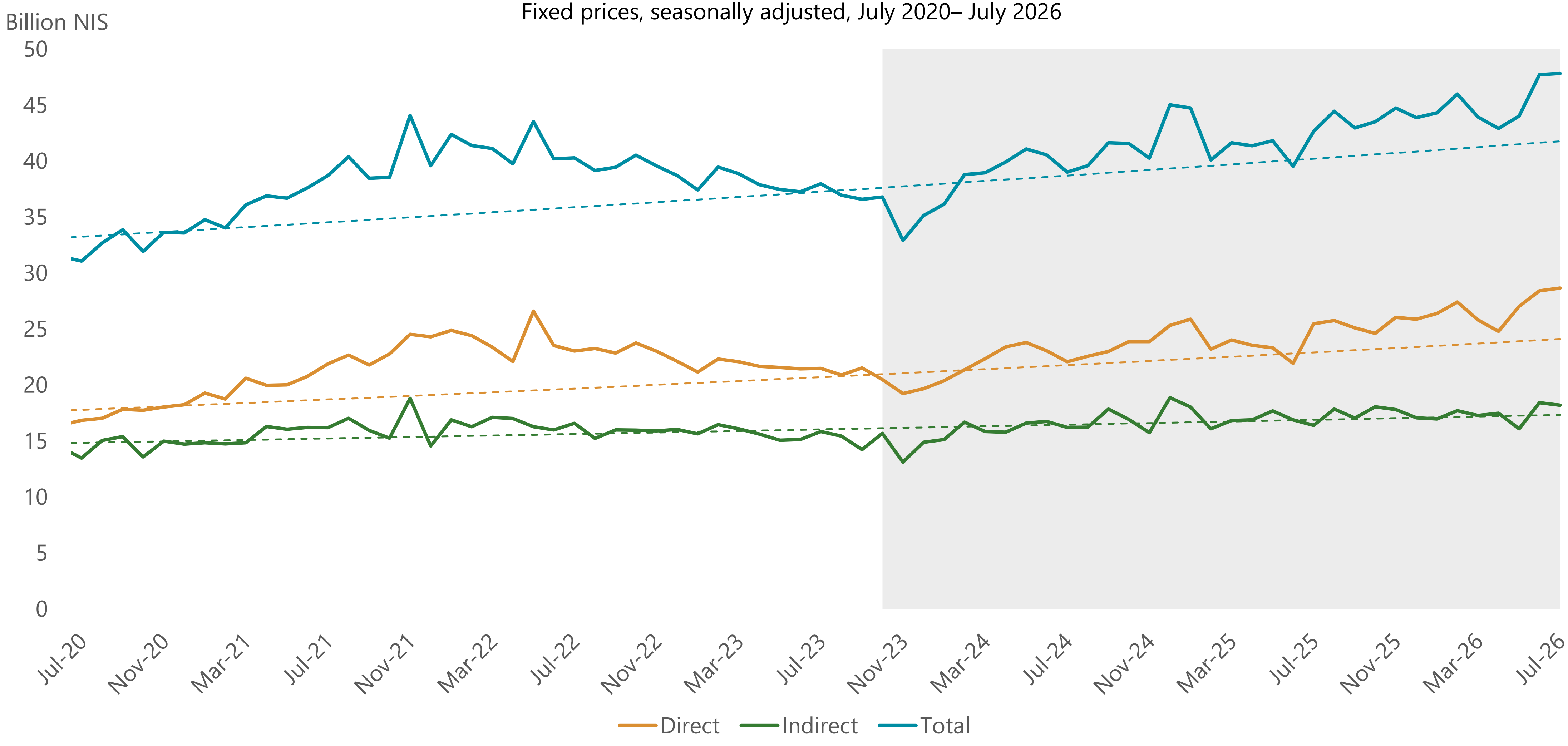


SOURCE: Based on IVC.

Government revenues from direct taxes are above the trend line.

Figure 15: Government direct and indirect tax revenues

Fixed prices, seasonally adjusted, July 2020– July 2026



SOURCE: Based on Ministgry of Finance, National Insurance Institute.

The broad unemployment rate was 3.2 percent. There were slight increases in the employment and participation rates among the prime working ages.

Figure 16a: Employment and participation rates among ages 25-64
seasonally adjusted, July 2020 –July 2026

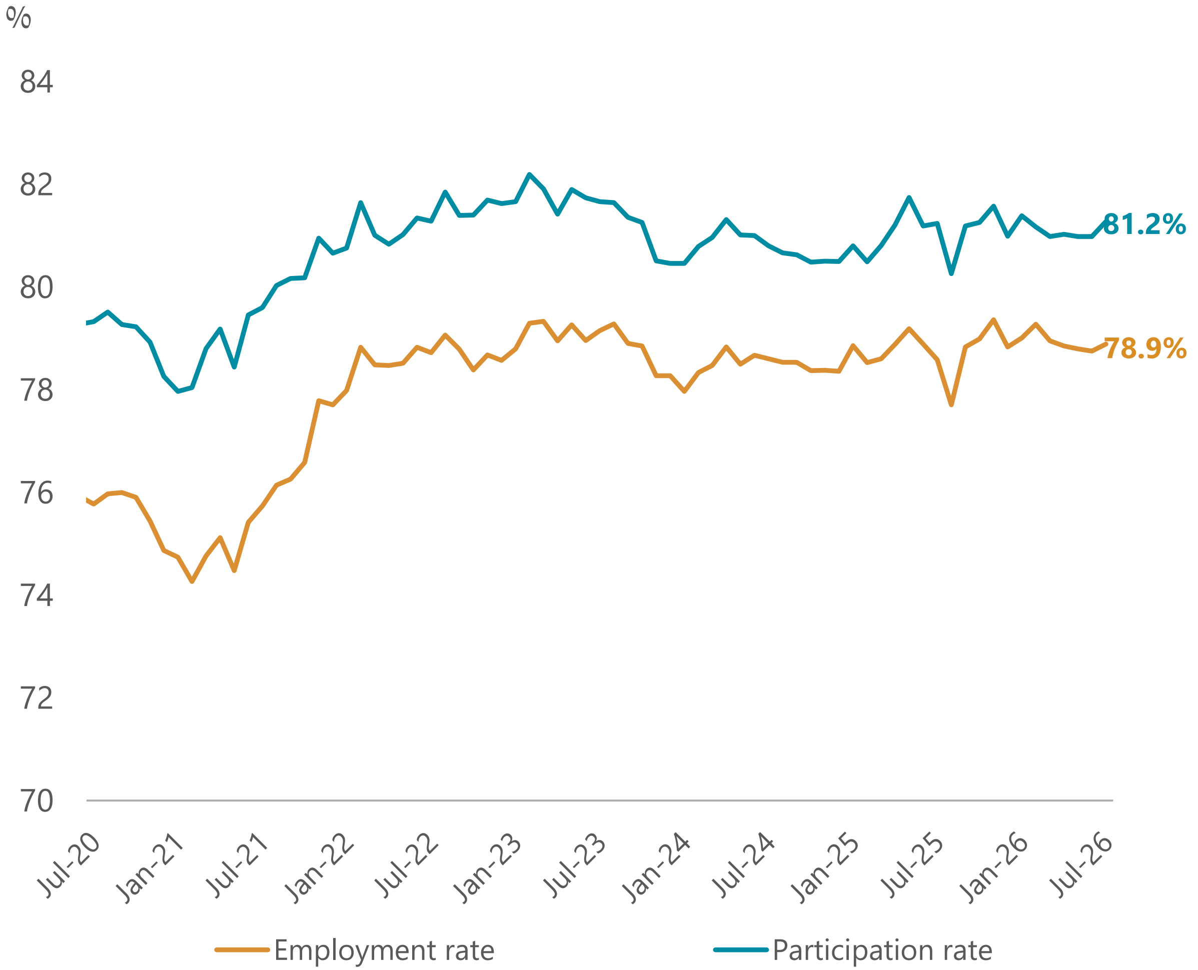
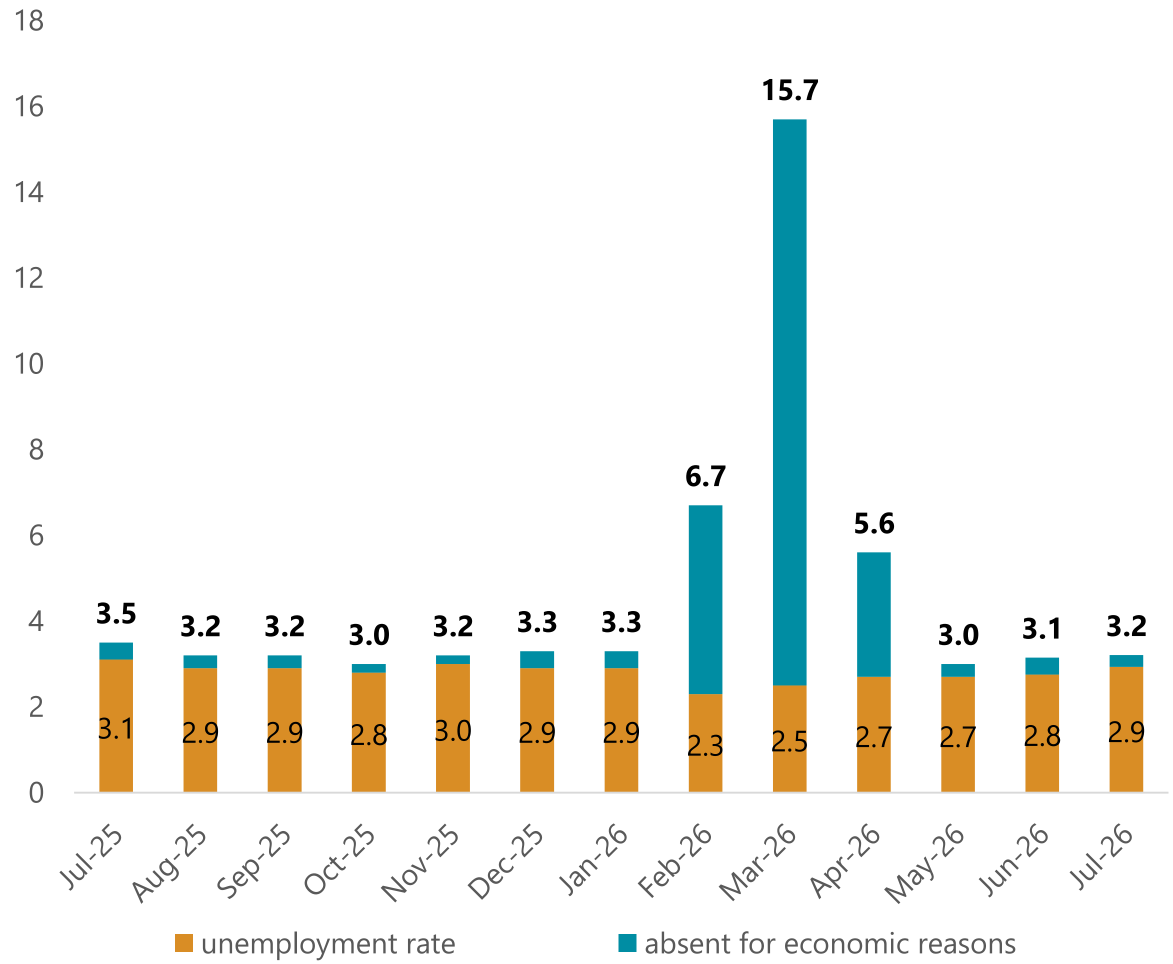


Figure 16b: The broad unemployment rate among ages 25-64
Seasonally adjusted, July 2025 - July 2026



SOURCE: Based on Central Bureau of Statistics.

The job vacancy rate increased slightly, to 4.5 percent in July, while the ratio of job vacancies to the unemployed remains high.

Figure 17a: Job Vacancies
seasonally adjusted, July 2020 - July 2026

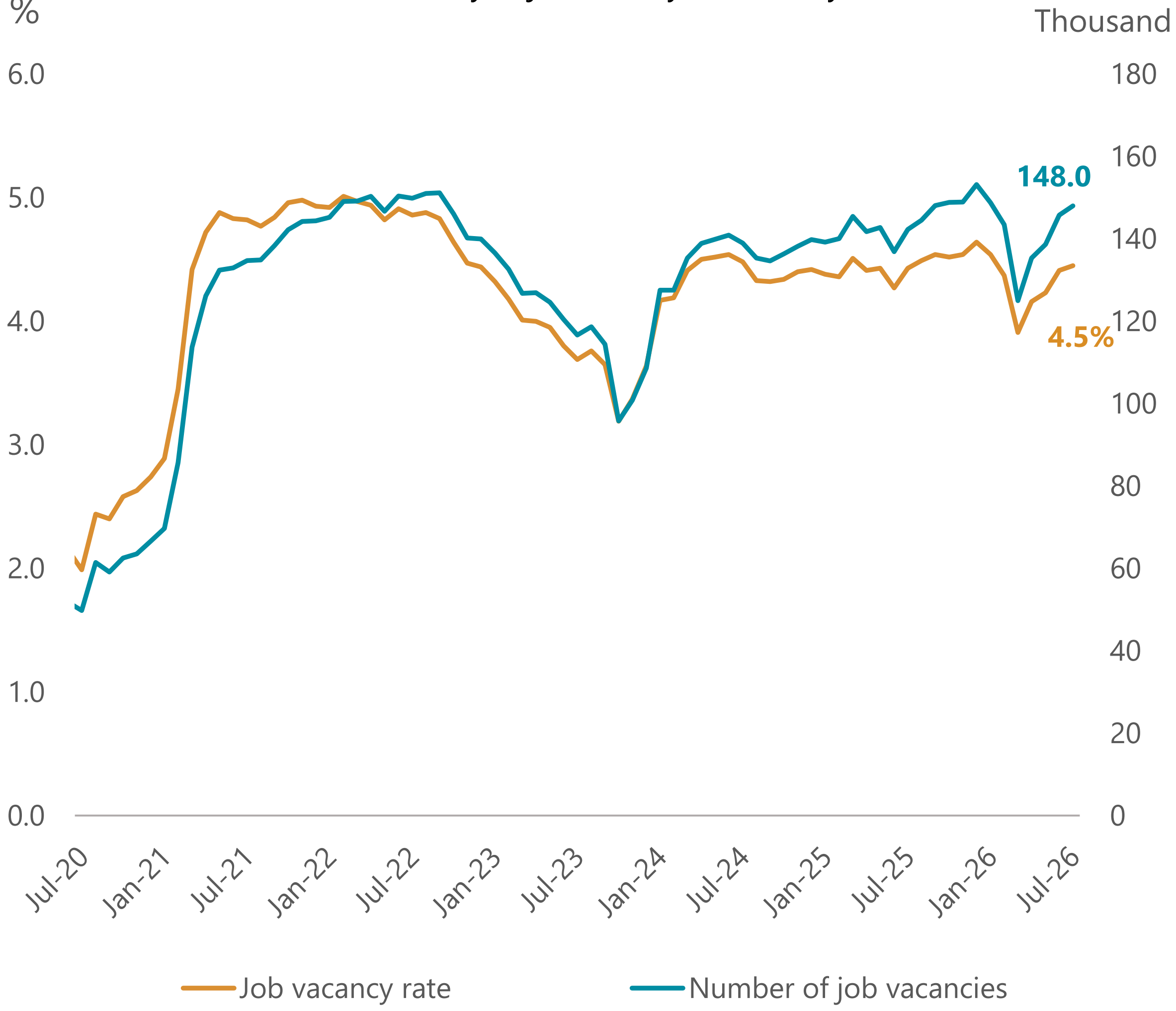


Figure 17b: Ratio of job vacancies to number of people not employed
Seasonally adjusted data, July 2020-July 2026

SOURCE: Based on Central Bureau of Statistics.

The job vacancy rate increased slightly, to 4.5 percent in July, while the ratio of job vacancies to the unemployed remains high.

Figure 18: Pace of Wage Increases, June 2024 – June 2026

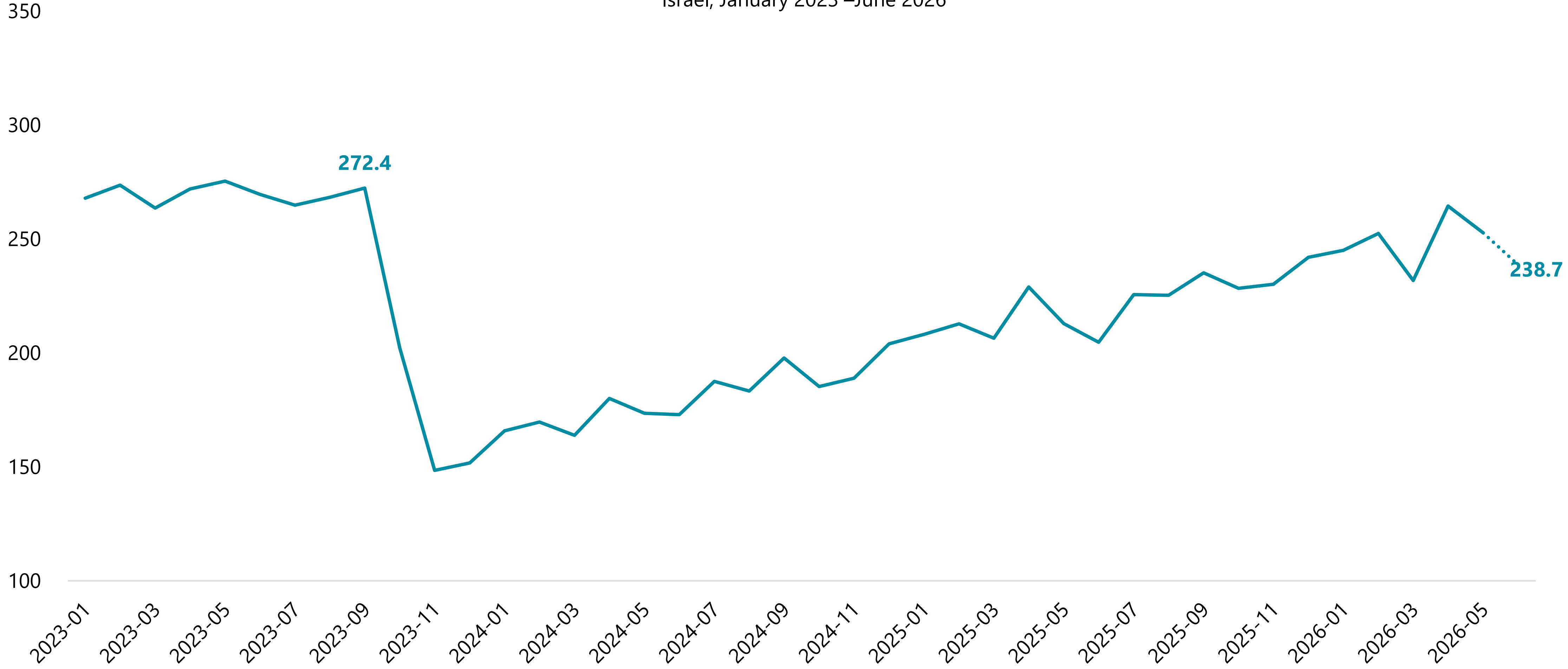
seasonally adjusted, Israelis, 3-month moving average compared with the same period last year, in annual terms

SOURCE: Based on Central Bureau of Statistics.

The number of non-Israeli employees in the economy remains below its pre-October 7 level

Figure 19: Number of non-Israeli workers (employee posts data)

(Workers from the territories and foreigners, seasonally adjusted, does not include Palestinians without a permit who are employed in Israel, January 2023 –June 2026

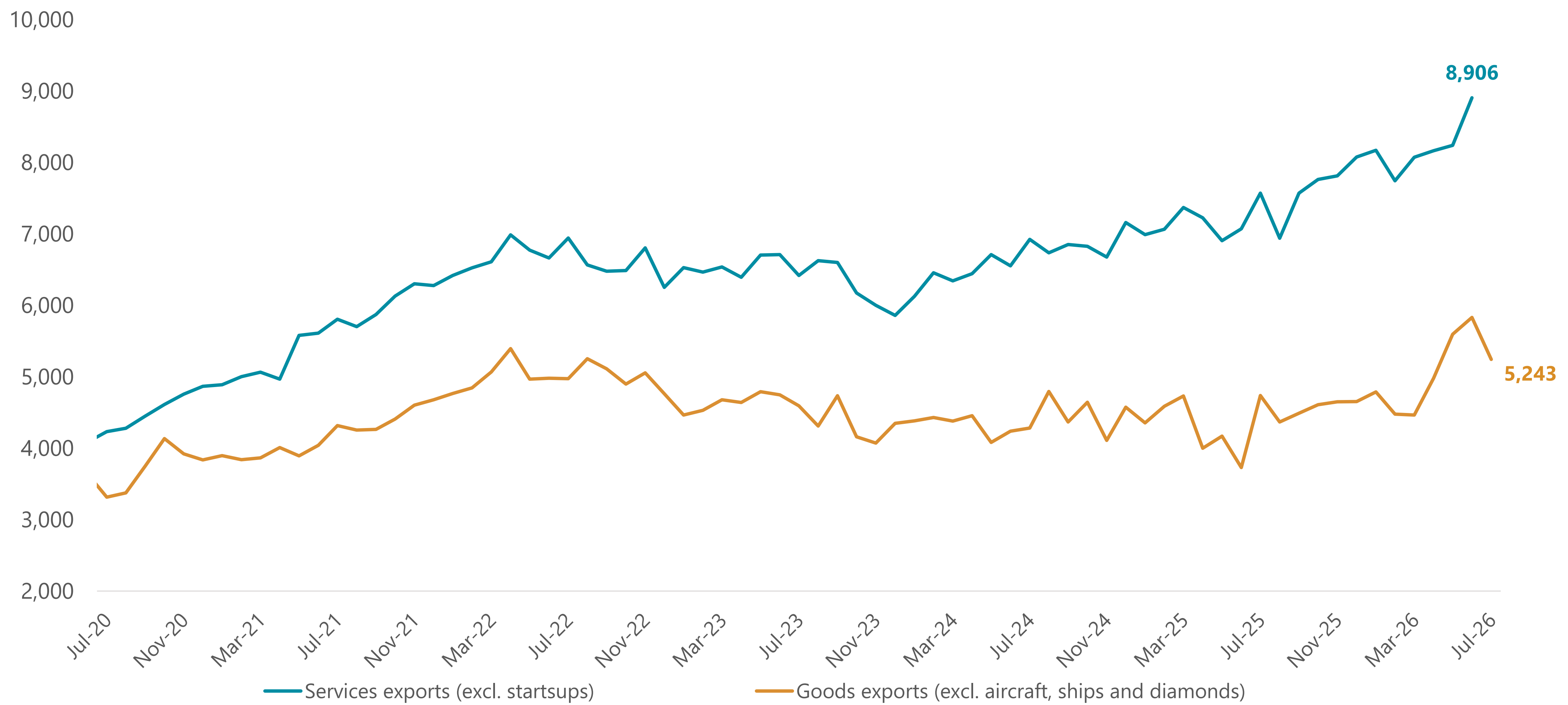


SOURCE: Based on Central Bureau of Statistics.

Goods exports declined in July, while services exports increased and remain at a high level

Figure 20: Goods and Services Exports

$ million, seasonally adjusted, January 2014 - July 2026

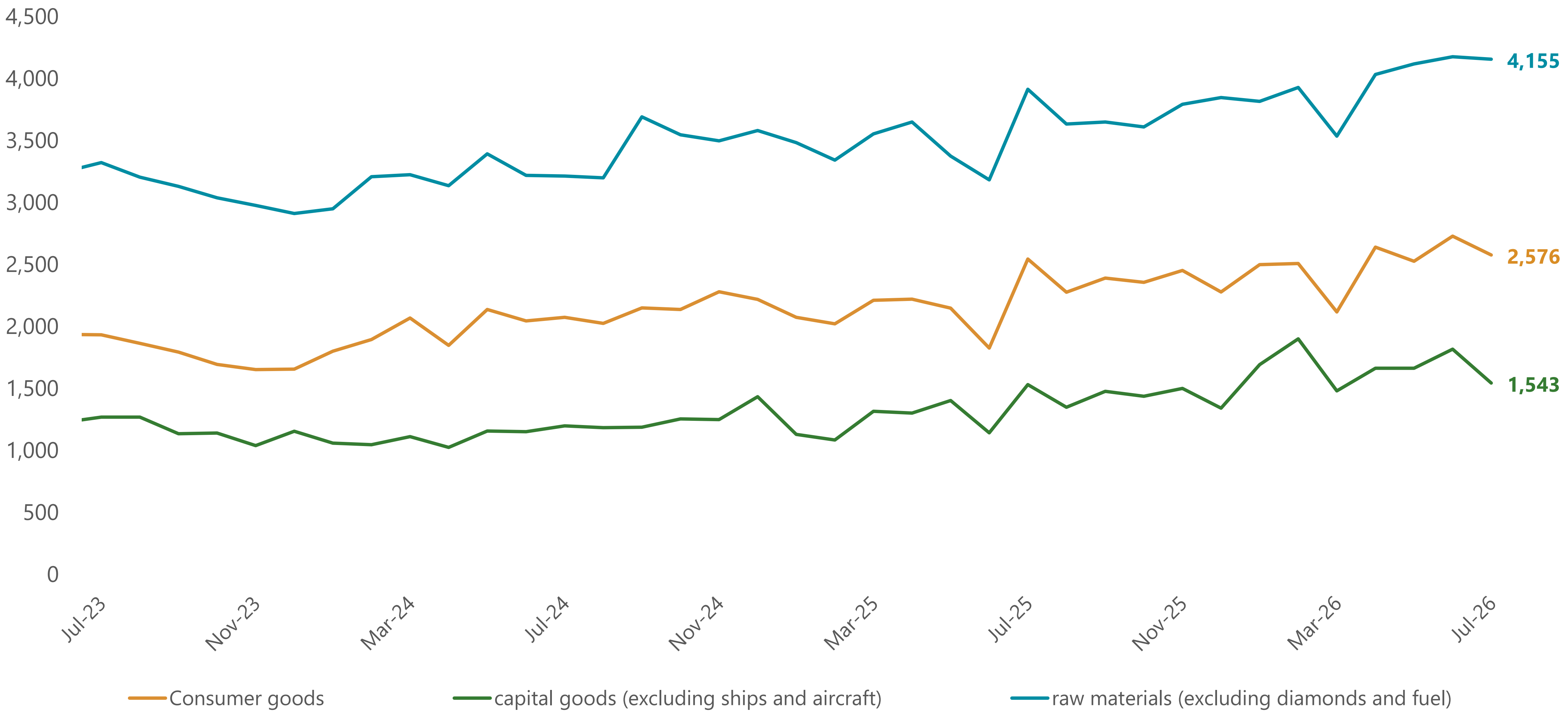


SOURCE: Based on Central Bureau of Statistics.

Goods imports remain stable.

Figure 21: Goods Imports to Israel

$ million, seasonally adjusted, January 2014 - July 2026

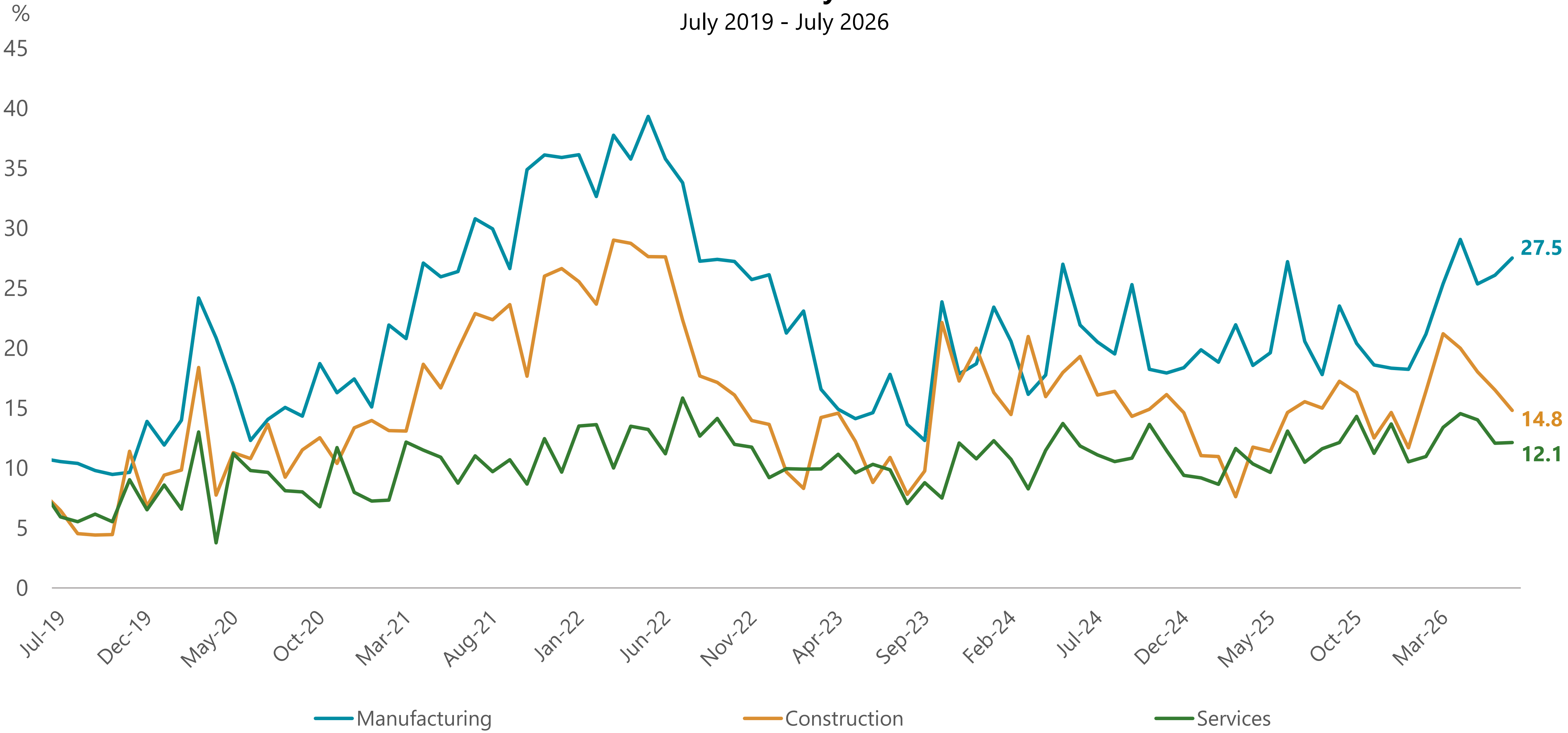


SOURCE: Based on Central Bureau of Statistics.

The number of manufacturing companies reporting equipment and raw materials constraints increased in recent months.

Figure 22: Share of companies that reported a limitation of equipment and raw materials, by industry

July 2019 - July 2026



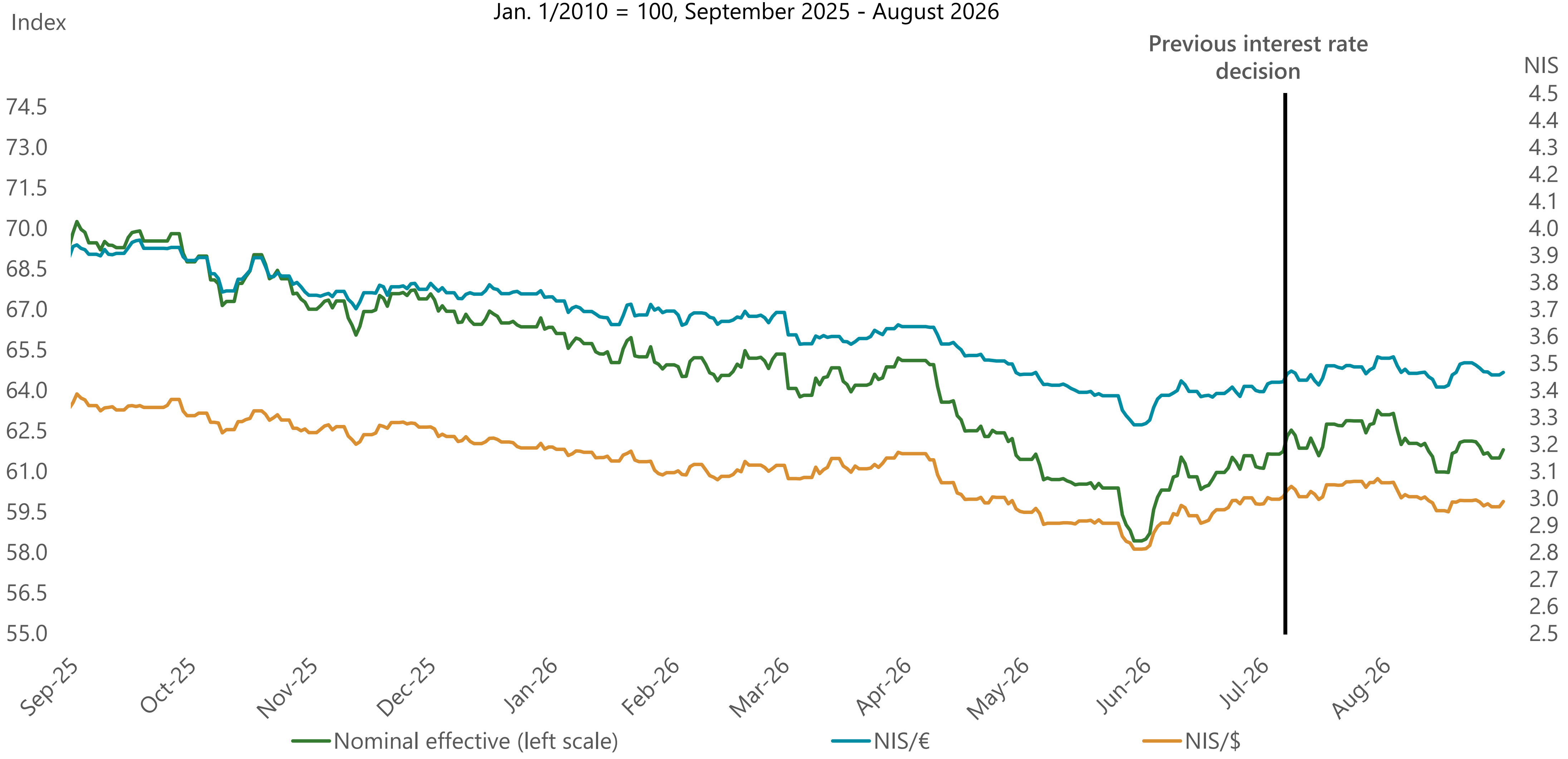
SOURCE: Based on Central Bureau of Statistics.

The Financial Environment

The shekel is at a level similar to the beginning of the reviewed period, though it has been volatile.

Figure 23: The NIS/$, NIS/€, and Nominal Effective Exchange Rates

Jan. 1/2010 = 100, September 2025 - August 2026

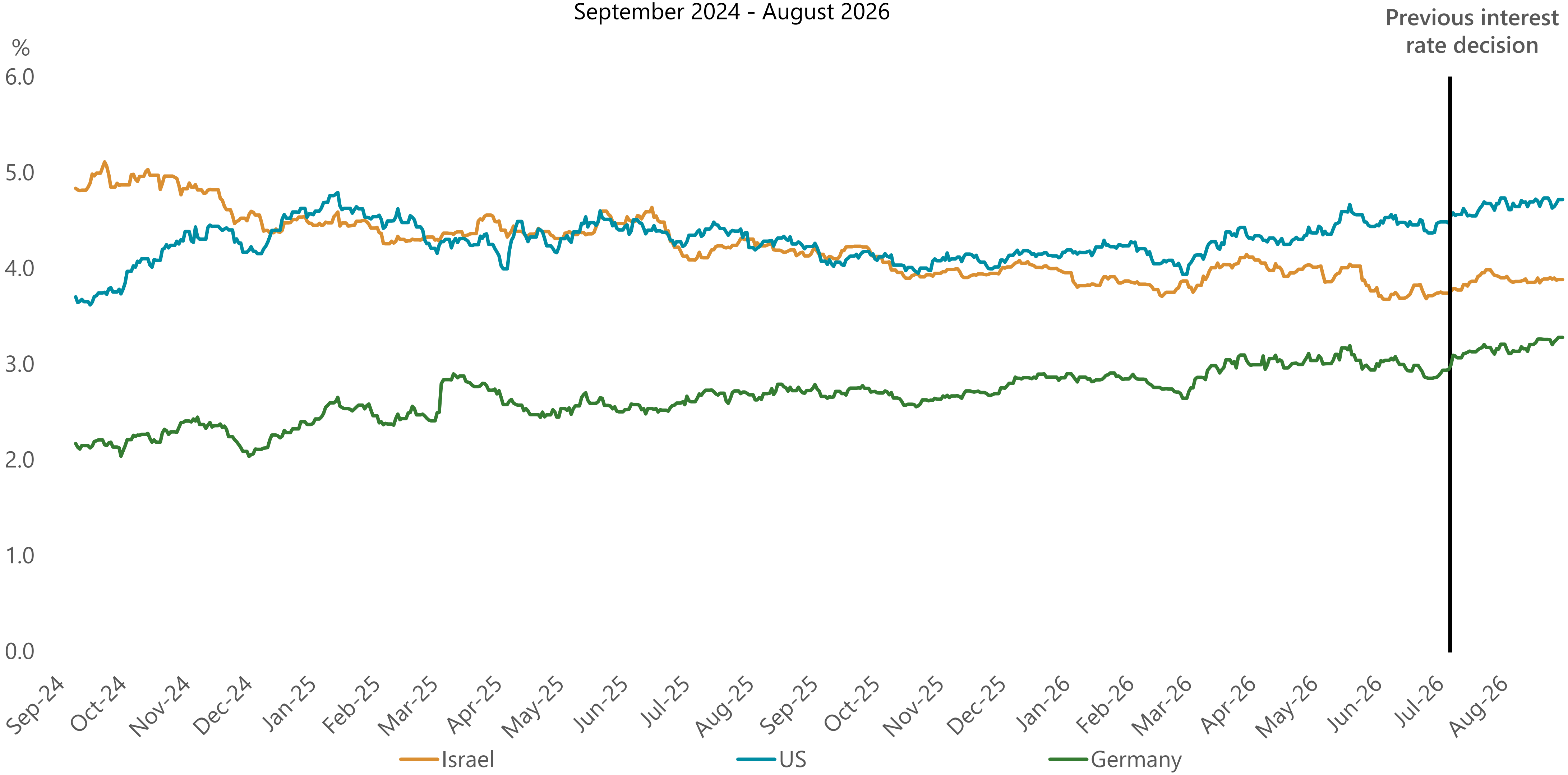


SOURCE: Based on Bloomberg.

Similar to the global trend, the yields on 10-year Israeli government bonds increased.

Figure 24: Nominal Yields on 10-year Sovereign Bonds in Israel, US, and Germany

September 2024 - August 2026

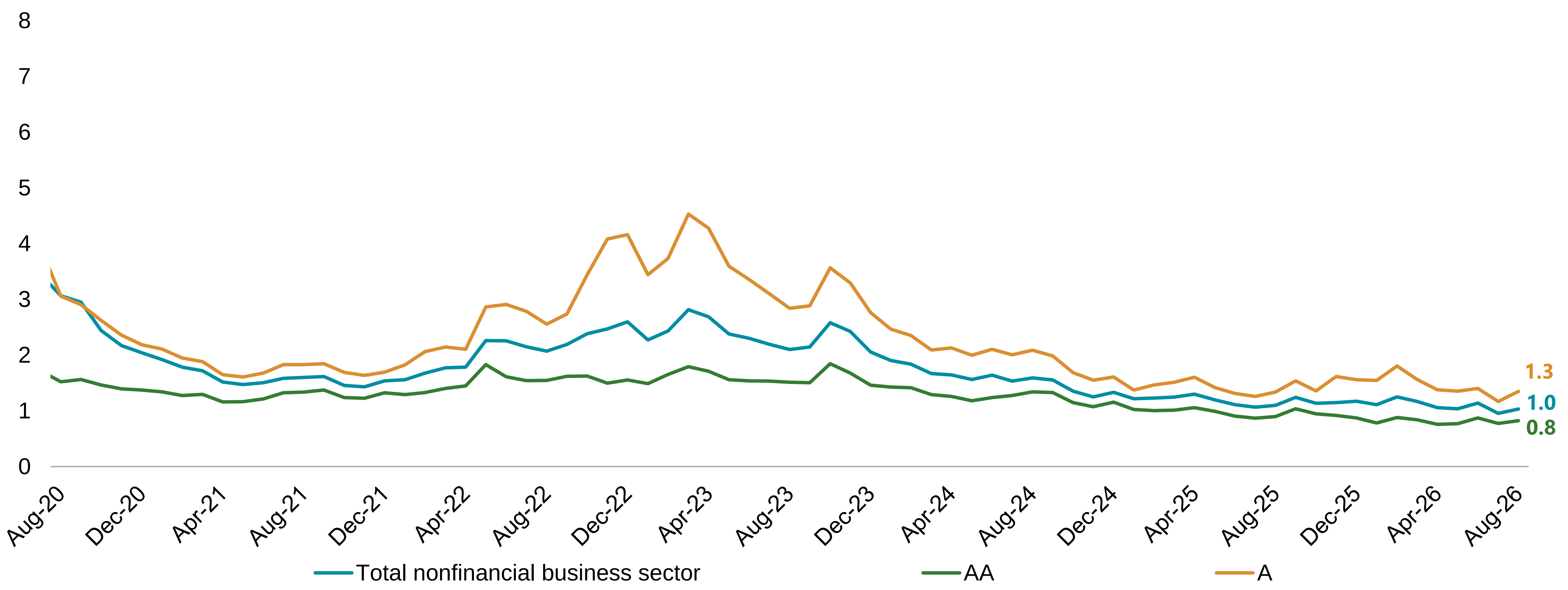


SOURCE: Based on Bloomberg.

Corporate bond spreads remain at low levels.

Figure 25: The Weighted Average of Spreads between CPI-Indexed Corporate Bond Yields (Excluding Structured and Convertible) and the Yields on Parallel Government Bonds, by Rating

Monthly average, percentage points, August 2020 - August 2026



* Excluding structured and convertible.

** The series by rating include all sectors, including financial.

*** The total business sector excluding financial companies includes bonds at all rating levels, including unrated.

SOURCE: Bank Of Israel.

The rates of companies reporting credit constraints are similar to the rates prior to October 7, 2023, though volatile.

Figure 26a: Average difficulty of obtaining bank credit by business size, based on the Trends Survey,
January 2023 to July 2026

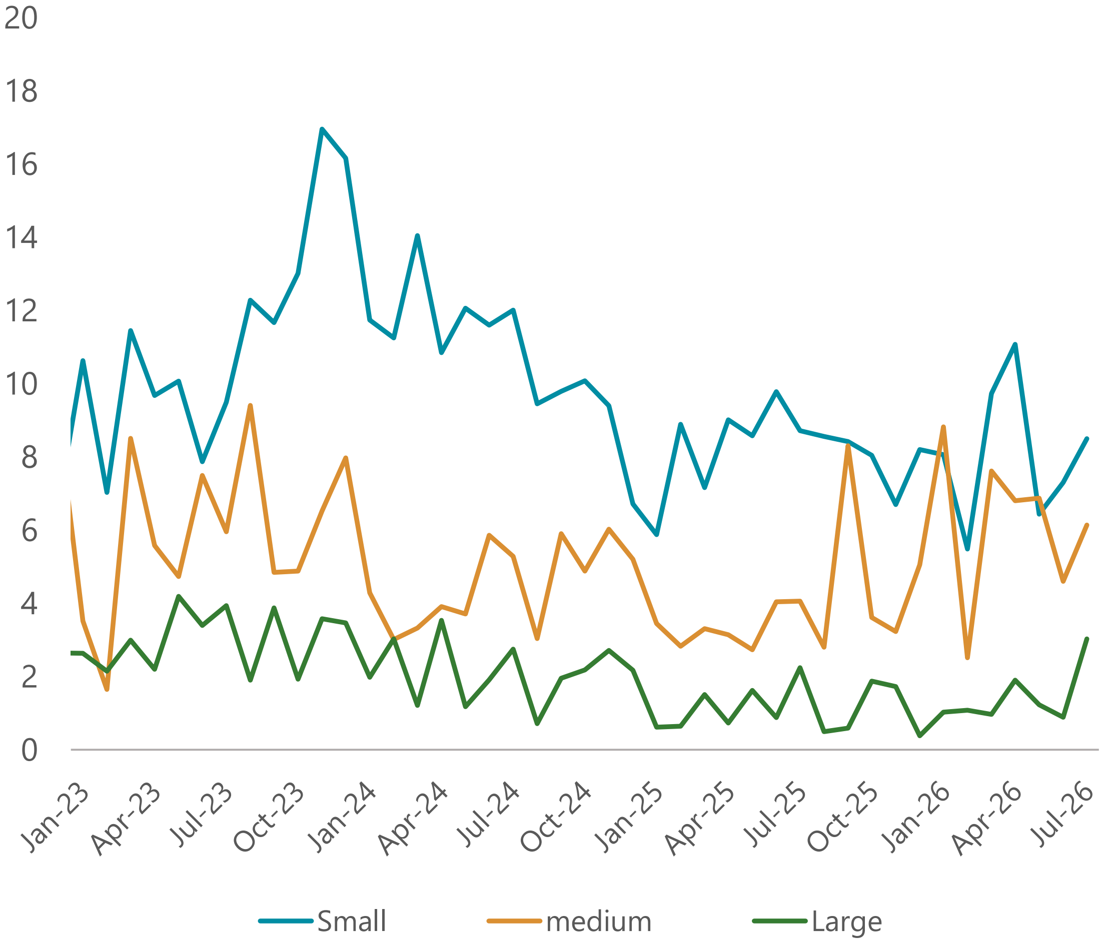
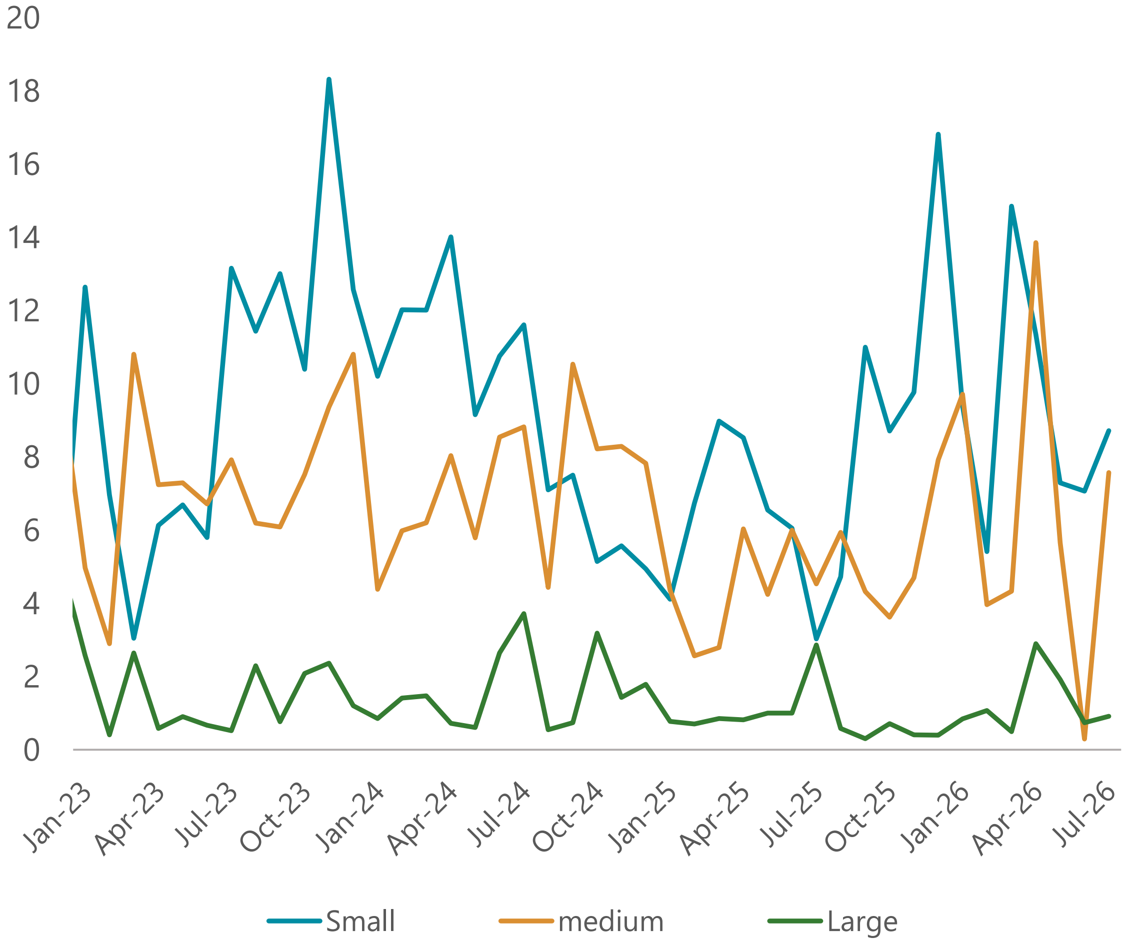


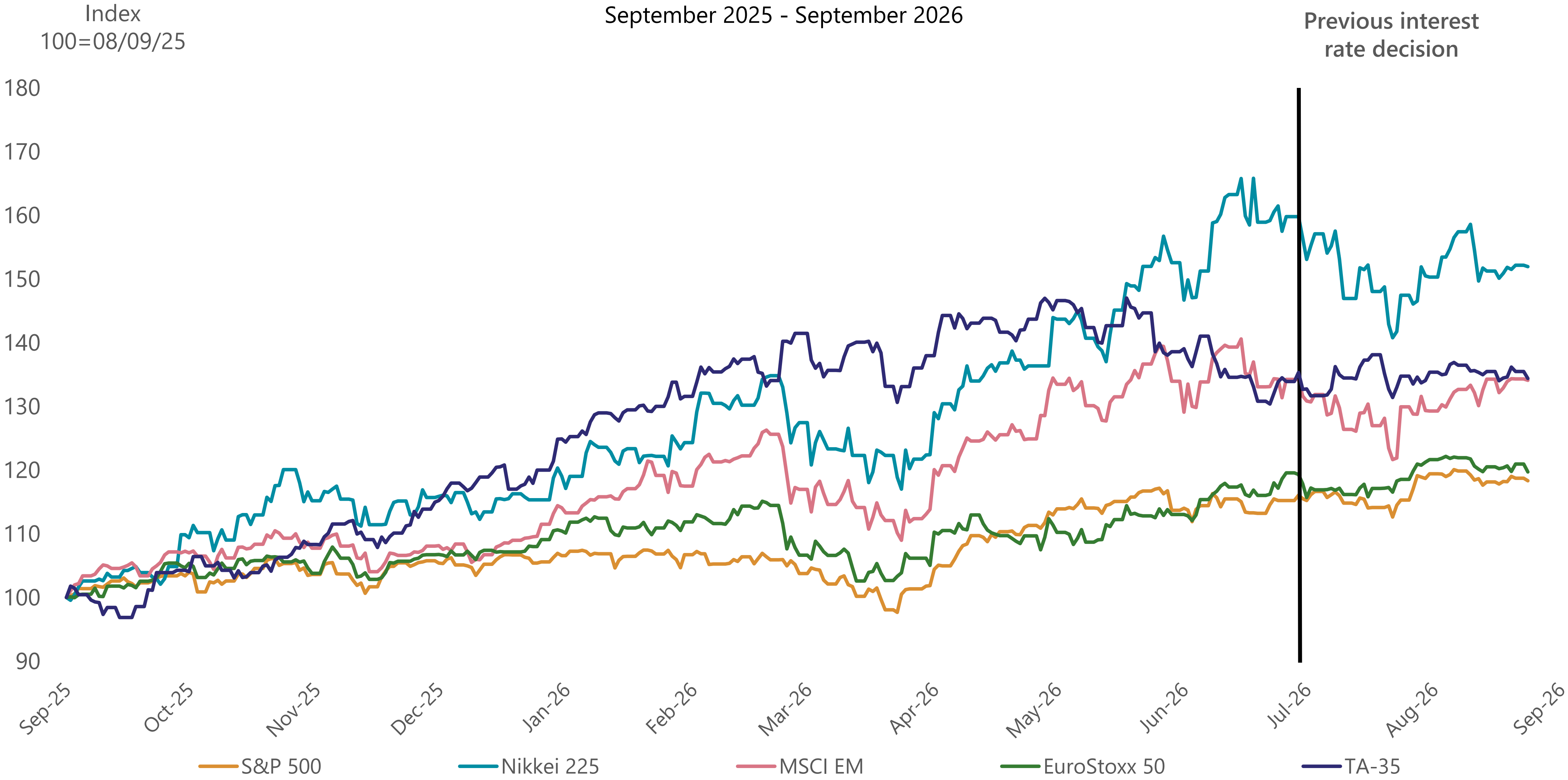
Figure 26b: Average difficulty of obtaining non-bank credit by business size, based on the Trends Survey,
January 2023 to July 2026



SOURCE: Based on Central Bureau of Statistics.

Equity indices showed a mixed trend.

Figure 27: The Major Global Equity Indices
September 2025 - September 2026



SOURCE: Based on Bloomberg.

The risk premium is close to pre-October 7 level.

Figure 28a: Spreads between 10-year Israeli shekel bonds and Treasury notes

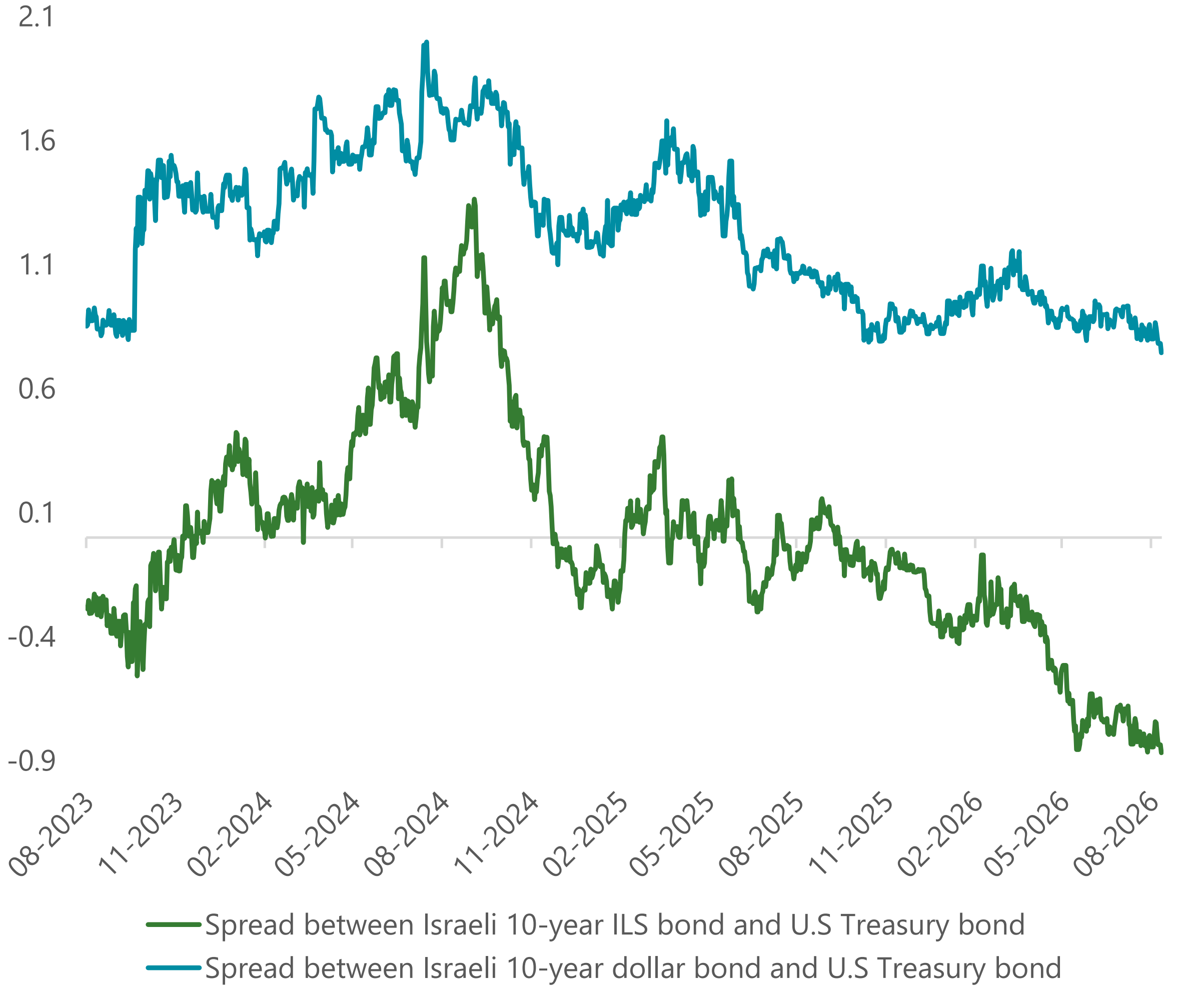
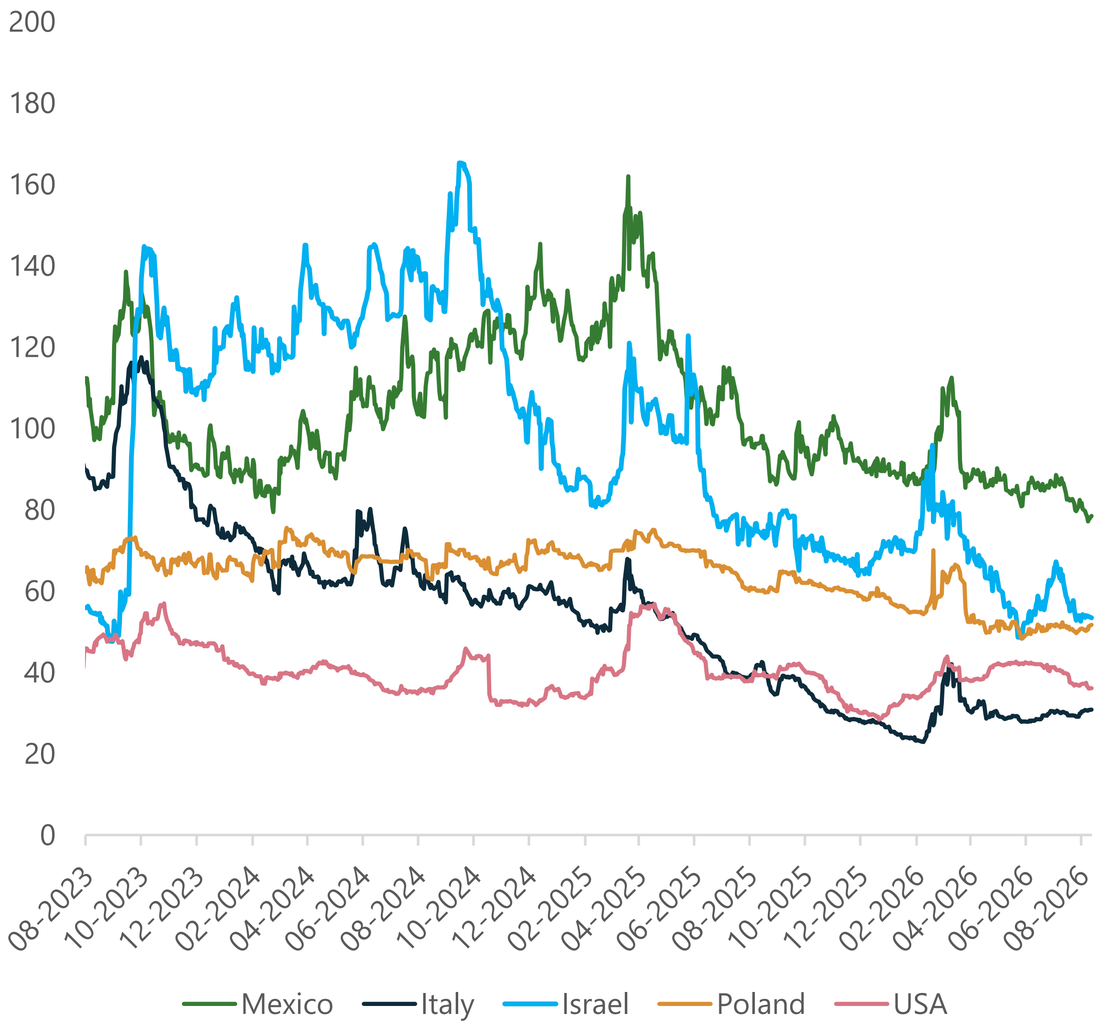


Figure 28b: 5-year CDS premium



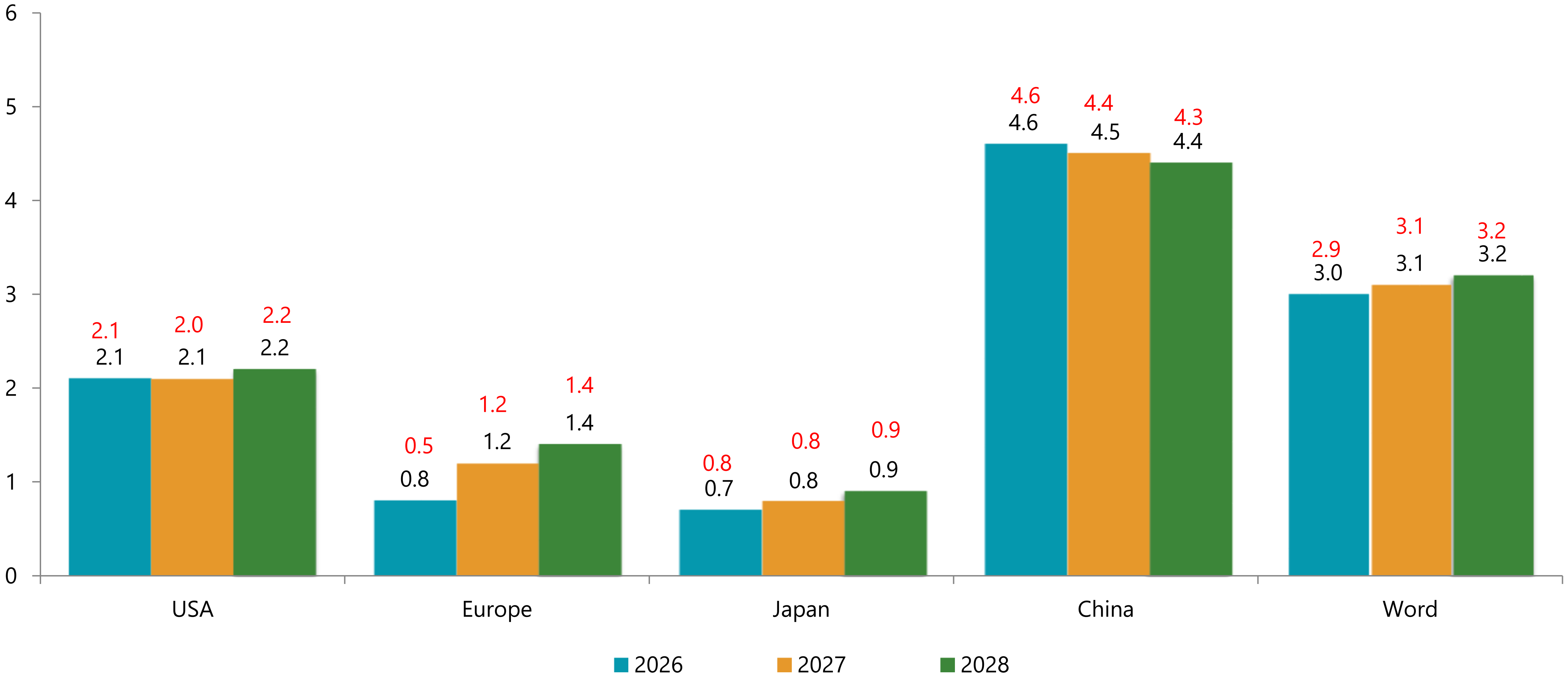
SOURCE: Based on Bloomberg.

BANK OF ISRAEL
בנק ישראל
بنك إسرائيل

The Global Economy

The growth forecasts of the investment houses remain virtually unchanged.

Figure 29: Growth forecasts - Investment houses' median



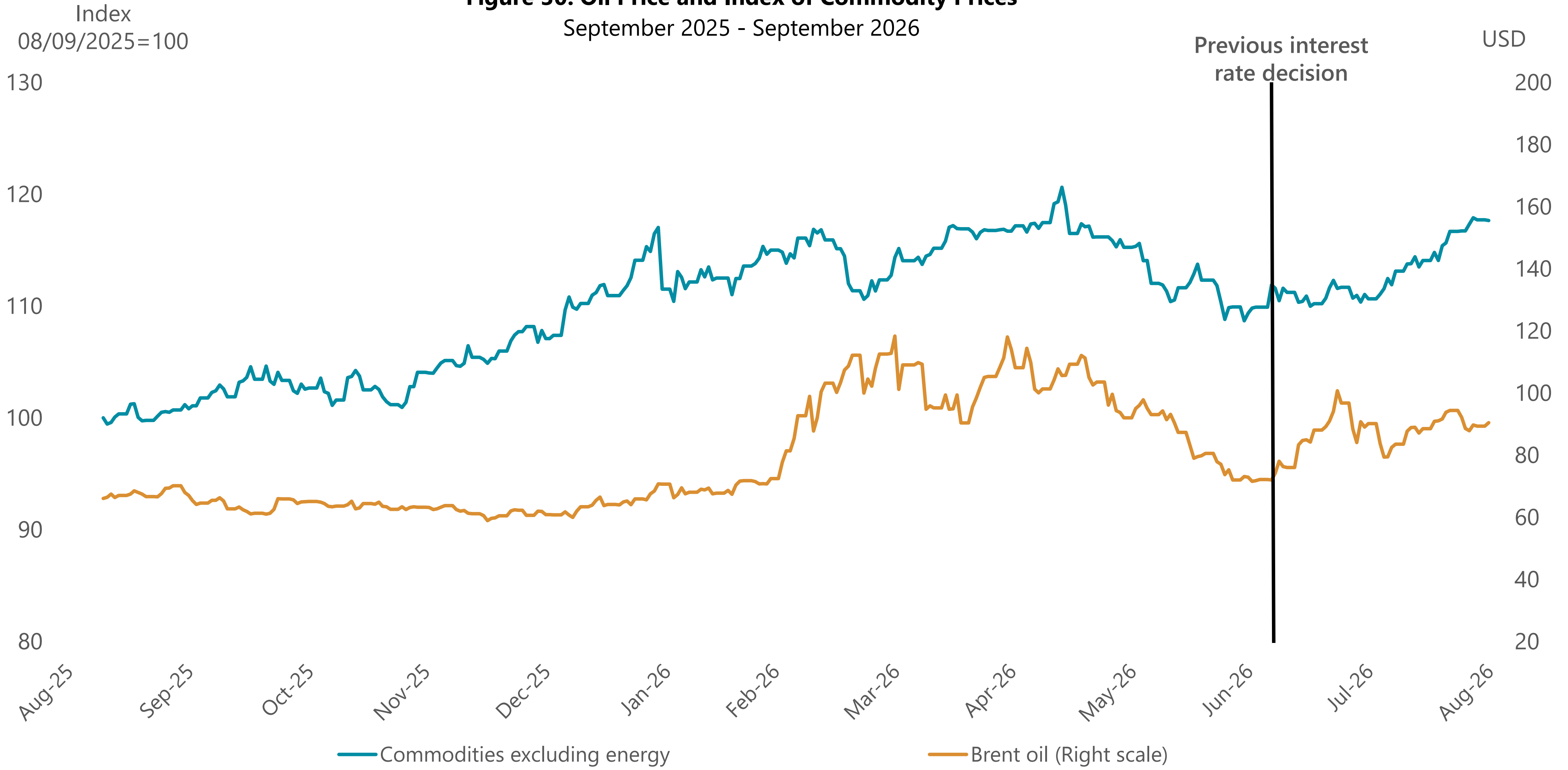
Numbers in **red** represent the previous forecast.

SOURCE: Based on Bloomberg.

Oil and commodity prices rose sharply during the reviewed period.

Figure 30: Oil Price and Index of Commodity Prices

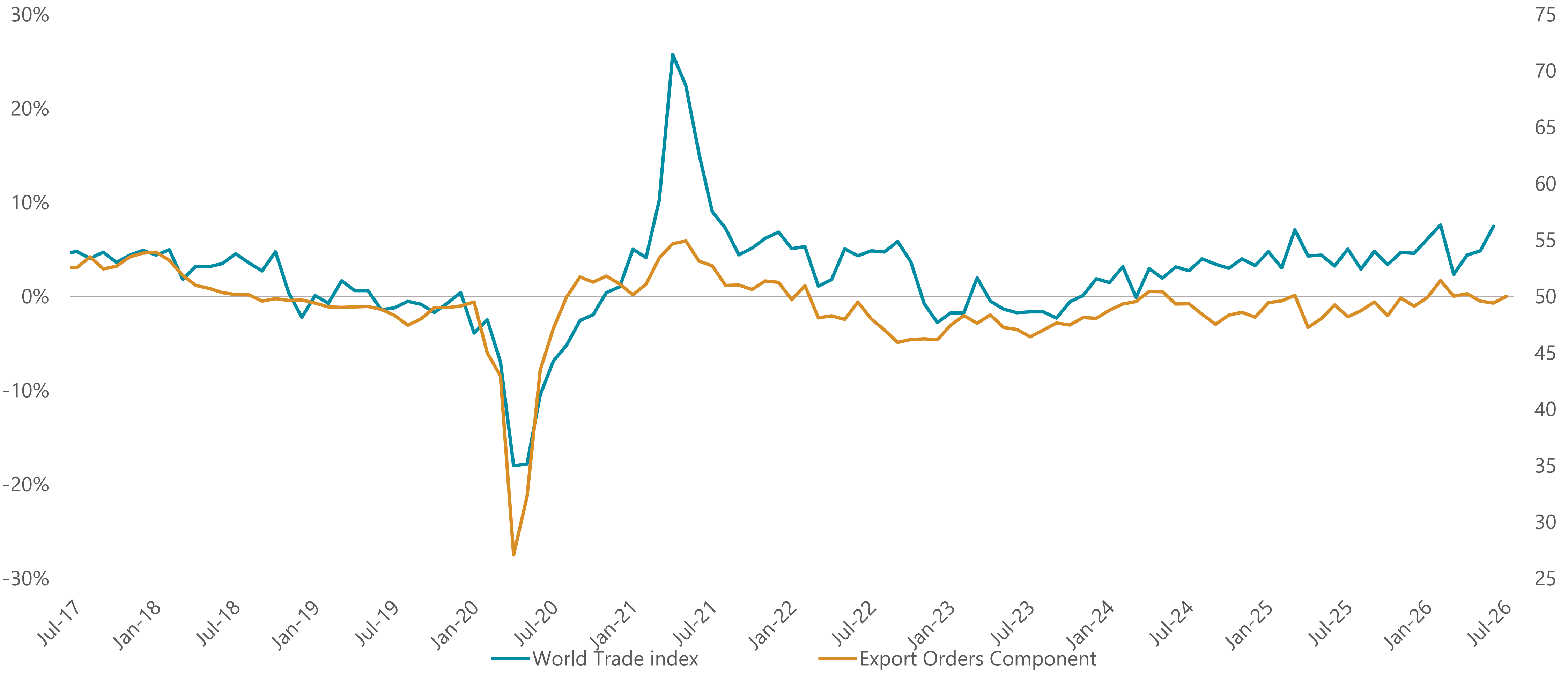
September 2025 - September 2026



SOURCE: Based on Bloomberg.

World trade continues to expand.

Figure 31: World Trade and the Export Orders Component,
July 2017–July 2026, World Trade until June 2026

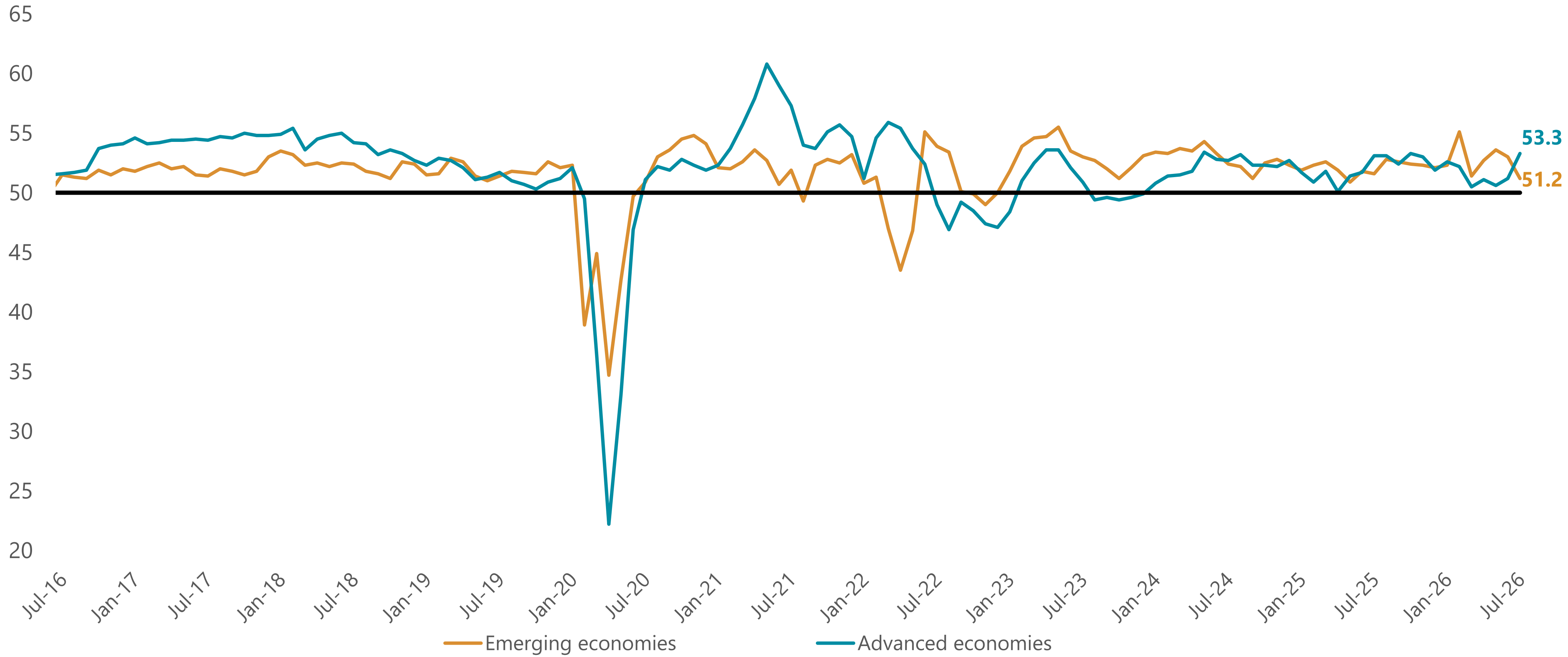


SOURCE: Based on CPB .

The global Purchasing Managers Index is at a level indicating expansion of economic activity.

Figure 32: The Global Purchasing Managers Index

July 2016 - July 2026



* Above 50 points reflects expansion in the industry relative to the long-term trend. Below 50 points reflects contraction in the industry relative to the long-term trend. The significance in terms of GDP differs from country to country.

SOURCE: Based on Bloomberg.

Inflation in Israel is low relative to other OECD countries.

Figure 33a: Inflation in Israel and OECD

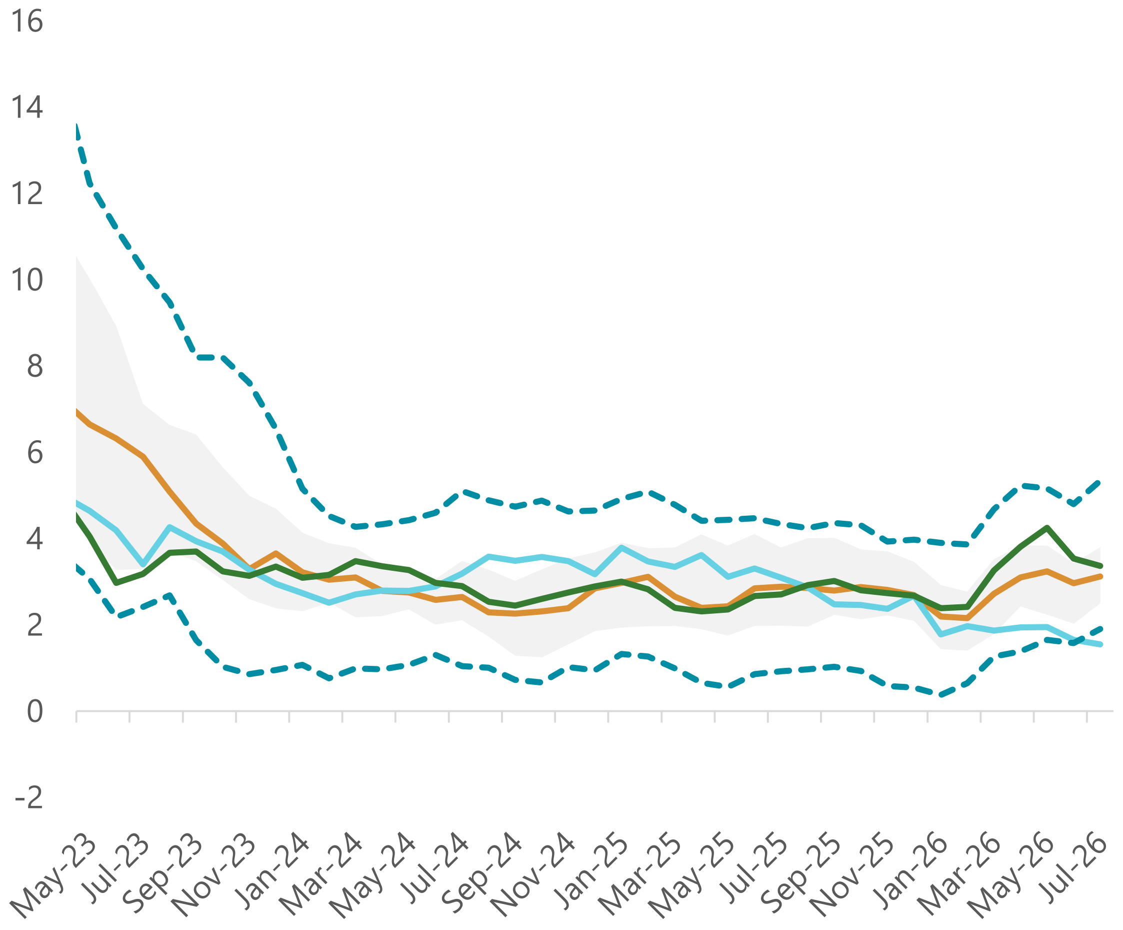
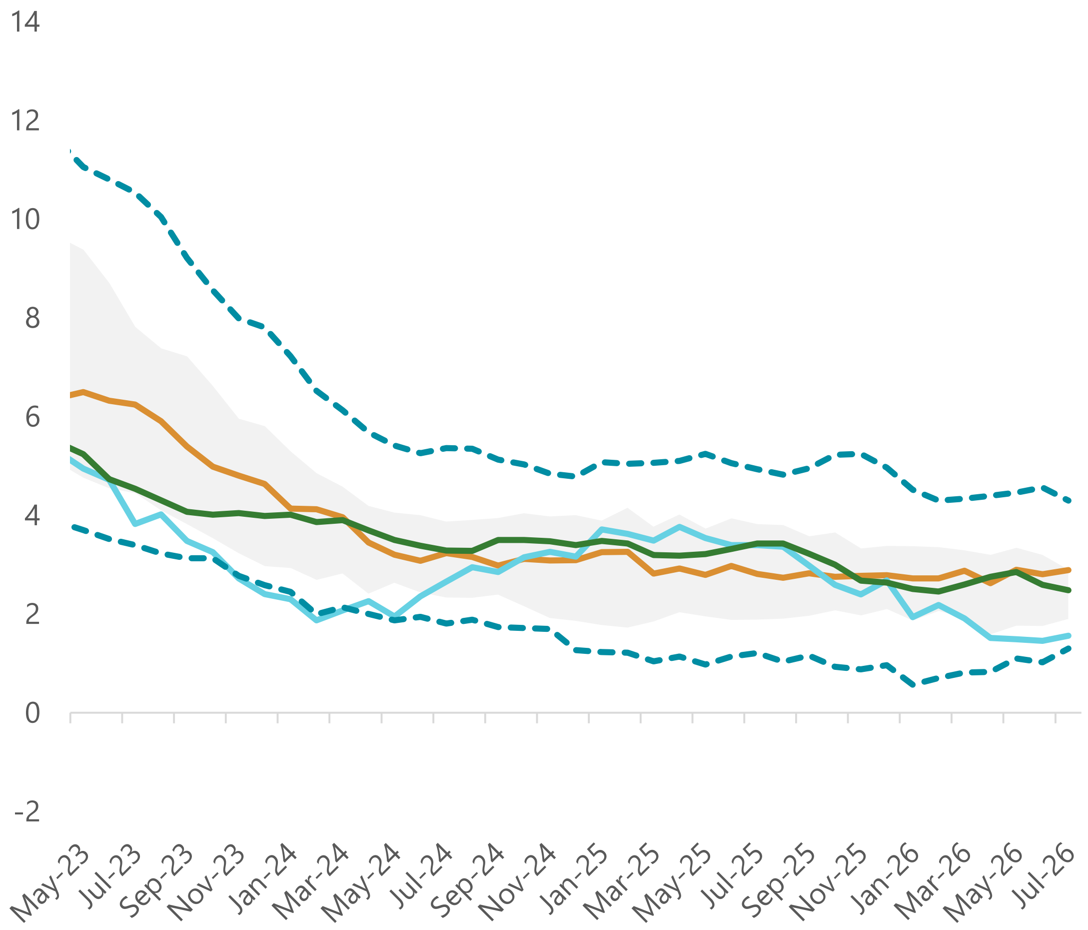


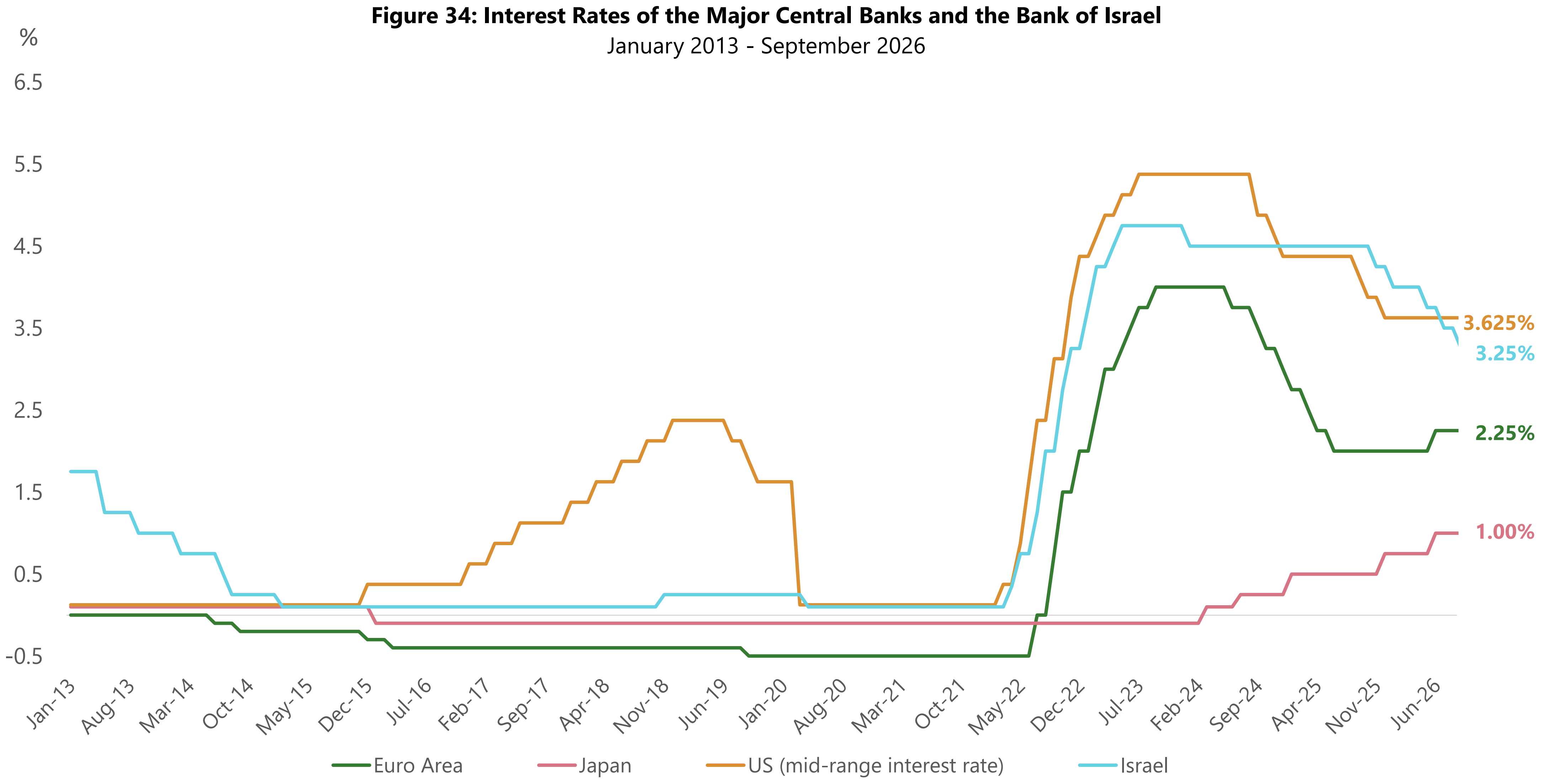
Figure 33b:Inflation less food less energy



75%-25% OECD Median ISRAEL USA 10% 90%

SOURCE: FRED, ECB, Bank of Israel.

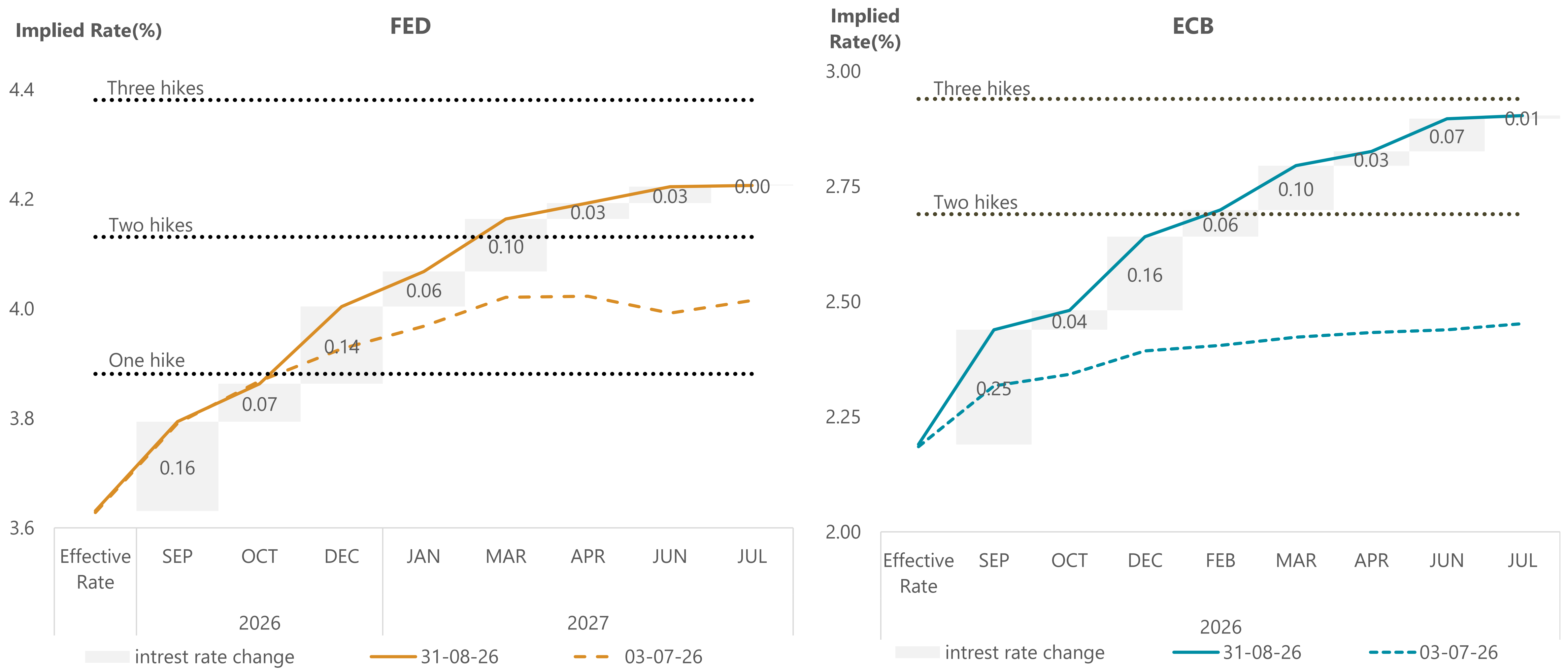
During the reviewed period, the major central banks in advanced economies left their interest rates unchanged.



SOURCE: Based on Bloomberg.

The Fed and ECB interest rate paths priced into the markets increased sharply.

figure 35: interest rate path



SOURCE: Based on Bloomberg.