BANK OF ISRAEL

Office of the Spokesperson and Economic Information

October 12, 2025

Report on the Bank of Israel's discussions prior to deciding on the interest rate

The discussions took place on September 28, 2025 and September 29, 2025.

General

The Monetary Committee sets the interest rate in a process that includes two discussions—the first in a broad forum, and the second in a narrower one.

In the broad-forum discussion, the relevant background economic conditions are presented, including the real, monetary, and financial developments in Israel's economy and developments in the global economy. Participants in this discussion include the members of the Monetary Committee, senior representatives from the various departments of the Bank, and economists from the economic departments (Research and Markets), who prepare and present the material for discussion.

In the narrow forum—which consists of the Monetary Committee and a representative of the Markets Department—the Research and the Markets Departments present their views on the main considerations that are relevant to the setting of the monetary policy. An open discussion on monetary policy follows, which ends with a vote on the level of the interest rate. According to Section 18(c) of the Bank of Israel Law, 5770–2010, the decision on the interest rate is reached by majority vote of the members of the Monetary Committee who participate in the voting.

A summary view of the economic situation available at the time of the Committee's discussion is presented in the notice regarding the interest rate decision, which was published on September 29, 2025, and in the data file that accompanied the notice.

THE NARROW-FORUM DISCUSSION

The members of the Monetary Committee participating in the discussion decide on the appropriate rate of interest.

After the discussion, it was decided to keep the interest rate at 4.5 percent. All six members of the Monetary Committee supported the decision.

The discussion focused on the geopolitical environment's impacts on the economy and on economic developments: inflation and inflation expectations, the level of economic activity, developments in the financial markets and in the foreign exchange market, the labor market, the housing market, fiscal developments, the Research Department's forecast, and global economic developments.

Main points of discussion

The Committee discussed the recovery of economic activity following Operation "Rising Lion" against Iran, and the environment of high geopolitical uncertainty, in view of the increased intensity of fighting in Gaza and the deterioration in international sentiment toward Israel.

The Committee discussed the inflation environment. The year over year rate of inflation declined slightly to 2.9 percent in August, in the upper part of the target range. The inflation rate since the beginning of the year has been characterized by volatility. Forecasters assess that in the coming months the year over year inflation rate will remain close to the upper bound of the target range, and will even cross above the upper bound, and will begin to moderate in the beginning of 2026. Inflation expectations for one year ahead from the various sources are around the midpoint of the target range. Expectations for the second year forward continue to be around the midpoint of the target. In the Committee's assessment, there are several risks for a possible acceleration of inflation—the geopolitical developments and their impacts on economic activity, an increase in demand alongside supply constraints, fiscal developments, and a deterioration in global terms of trade.

Current indicators of economic activity for August point to continued moderate recovery of activity. Credit card expenditure data in current prices show continued recovery, after the sharp decline with the outbreak of Operation Rising Lion, and the most recent data show them at a level slightly higher than the trend line. The aggregate balance in the Business Tendency Survey conducted by the Central Bureau of Statistics for August continued to increase, but has not yet returned to its level before Operation Rising Lion. Funds raised by the high tech industry in the third quarter of the year are high and similar to their level in the previous quarter. The surplus in the goods and services account declined sharply in the second quarter of the year due to a decline in goods and services exports and an increase of goods and services imports. In the most recent data there was a recovery in exports as well.

The Committee discussed developments in the foreign exchange market and in the financial markets. Israel's risk premium—as measured by CDSs and by government bond spreads—remained stable after the notable moderation that occurred due to

Operation Rising Lion. However, it is still high relative to its level just before the Swords of Iron War. Domestic equity indices continued to increase with considerable volatility, after a sharp increase in recent months. Ten-year shekel government bond yields increased slightly in the reviewed period, and the shekel appreciated in the period reviewed.

The labor market remains tight, mainly due to labor supply limitations as a result of the call up of military reserves and a shortage of non-Israeli workers. The broad unemployment rate among the prime working ages (25–64) declined to 3.1 percent in August. The job vacancy rate increased slightly in August to 4.5 percent. The share of those temporarily absent due to military reserve service in August was 0.7 percent. The employment rate and the participation rate among the prime working ages (25–64) are at a low level and even declined in July–August. The increase in wages continued throughout the economy, as in May-July they increased by 4.2 percent (in annual terms) compared to the third quarter of 2023, driven by wages in the business sector.

In recent months the trend of decline in home prices has continued, alongside a low level of transactions compared to recent years, and the growth in stock of unsold homes held by developers continues. In parallel, the Owner-Occupied Housing Services component in the August CPI continued to increase, with an annual rate of 4.3 percent. In the second quarter of the year, there was an increase in building starts and in building permits relative to the first quarter, so that their level is high. In contrast, building completions are still low, with a lengthening in construction time—which reflects, among other things, the continuation of the shortage of workers in the industry. In August, mortgage volume was NIS 9.1 billion.

The cumulative deficit in the state budget over the past 12 months totaled 4.8 percent of GDP in August, a slight decline from the previous month. This is in view of the continued increase in government tax revenues in August (in fixed prices and net of legislative changes and one-off revenues), which are at a high level compared to the long-term trend. The government approved a further increase in the defense budget, by NIS 31.9 billion, in 2025 mainly to finance the security expenditures in respect of Operations Gideon's Chariots and Rising Lion.

The Committee discussed the Research Department's macroeconomic forecast, which is characterized by a high level of uncertainty. The forecast was compiled after a broad mobilization of military reserves and the beginning of a significant ground incursion into Gaza, and with the assumption that the fighting in Gaza will continue with varying intensity and will end in the first quarter of 2026. Based on the Department's assessment, in such a scenario, GDP is expected to increase by 2.5 percent in 2025 and by 4.7 percent in 2026, compared to 3.3 percent and 4.6 percent, respectively, in the July forecast. The inflation rate in 2025 is expected to be 3 percent, and to be 2.2 percent in 2026, compared to 2.6 percent and 2 percent in 2025 and 2026, respectively, in the July forecast. The debt to GDP ratio is expected to be 71 percent at the end of 2025 and in 2026.

The uncertainty in this forecast is reflected in the particularly wide range of security scenarios that make up the risks in both directions. The downside risk to the forecast, as analyzed by the Research Department, can stem from the additional lengthening of the fighting in which the supply limitations and the adverse impact on international sentiment toward Israel continue. Such a situation will continue to weigh on investments and on recovery of activity. As a direct result, growth will be lower, the State budget deficit will widen, and the inflation and interest rate paths will be higher. In contrast, in recent days there have been talks that may develop into a ceasefire agreement, which will ease the supply constraints in the economy. This will support expansion of activity, and the effect on inflation will also depend on the development of demand.

Global economic activity is characterized by a mixed trend, and the global growth forecast was revised slightly upward. In the US, the economic uncertainty due to the administration's tariff policy led to signs of slowing in the labor market, in parallel with growth data published for the second quarter being high. In the eurozone and in China there was a recovery in activity. In the US, inflation is sticky, and the CPI increased in August to an annual rate of 2.9 percent while the core index remained unchanged. In the eurozone, inflation remained unchanged at 2 percent and the core index remained unchanged as well. In its latest interest rate decision, the Fed reduced the interest rate by 25 basis points, as expected, and the ECB kept the interest rate unchanged again.

All 6 Monetary Committee members supported the decision to keep the interest rate unchanged at a level of 4.5 percent.

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 next monetary policy decision will be published on Monday, November 24, 2025.

The dates of interest rate decisions for 2025:
https://www.boi.org.il/en/economic-roles/monetary-policy/interest-rate-announcement-dates-2024/

Participants in the narrow-forum discussion:

Members of the Monetary Committee:
Prof. Amir Yaron, Governor of the Bank and Monetary Committee Chairperson
Mr. Andrew Abir, Deputy Governor
Dr. Adi Brender, Research Department Director
Prof. Naomi Feldman
Prof. Ori Heffetz
Prof. Zvi Hercowitz

Other participants in the narrow-forum discussion:
Dr. Golan Benita, Markets Department Director
Dr. Oded Cohen, Chief of Staff to the Governor
Mr. Nadav Eshel, Assistant to the Governor
Ms. Nurit Felter-Eitan, Director of the Communications, Public Affairs & Community Relations Department
Ms. Liat Indig, Deputy Spokesperson
Dr. Ziv Naor, Bank of Israel Spokesperson
Ms. Dana Orfaig, Research Department
Ms. Nava Ostrov, Monetary Committee Secretariat