



BANK OF ISRAEL

Office of the Spokesperson and Economic Information

Press release

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### **The Monetary Committee decides on February 23, 2026 to leave the interest rate unchanged at 4 percent**

- **Geopolitical uncertainty has resurfaced in recent days in view of a potential confrontation with Iran, and Israel's risk premium increased slightly.**
- **The development of annual inflation is in line with previous assessments. Following the December CPI, annual inflation increased, and following the January CPI, it moderated to around the midpoint of the target range, at 1.8 percent.**
- **Since the previous interest rate decision, the shekel has strengthened by 1.1 percent against the US dollar, and by 0.4 percent against the euro.**
- **The first estimate of National Accounts data for the fourth quarter of 2025 shows that the quarterly growth rate was 4 percent (seasonally adjusted in annual terms)—above the long-term trend.**
- **The labor market remains tight, and the supply constraint remains significant. The ratio of the number of job vacancies to the number of unemployed remains high.**
- **The annual rate of increase in the owner-occupied housing services component (rents in new and renewing contracts) rose from 2.6 percent in the November CPI to 3.8 percent in the January CPI. The annual rate of increase in contracts in which the tenant changed rose from 4.6 percent in December to 6 percent in January. Home prices began increasing again in the past two index readings.**

**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.**

Geopolitical uncertainty has resurfaced in recent days, in view of a potential confrontation with Iran. Inflation continued to moderate, and economic activity continues to expand. The labor market remains tight in view of the supply constraint. Since the last interest rate decision, the shekel strengthened slightly against the US dollar, similar to the global trend, and Israel's risk premium increased slightly. The Consumer Price Index for December remained unchanged, and the Index for

January declined by 0.3 percent. The development of annual inflation is in line with previous assessments: Annual inflation rose following the December CPI, and moderated to around the midpoint of the target range (1.8 percent) following the January CPI (**Figure 1**). Net of energy and fruit and vegetables, the annual inflation rate was 1.9 percent in January (**Figure 2**). The annual inflation rate of nontradable components declined to 2.9 percent, and the annual pace of inflation of the tradable components declined sharply to -0.2 percent (**Figure 3**). According to forecasters' projections, annual inflation will remain slightly below the midpoint of the target range during the year (**Figure 5**). Inflation expectations for one year forward from the various sources are slightly below the midpoint of the target range on average (**Figure 6**). Expectations for the second year onward remain near the midpoint of the target range (**Figure 7**).

In the Committee's assessment, there still remain several risks for a renewed increase 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 strengthened by 1.1 percent against the US dollar, by 0.4 percent against the euro, and by 0.5 percent in terms of the nominal effective exchange rate.

The first estimate of National Accounts data for the fourth quarter of 2025 shows that the quarterly growth rate was 4 percent (seasonally adjusted, in annual terms)—above the long-term trend (**Figure 10**). The increase in GDP during the fourth quarter was influenced by the sharp increase of 25.6 percent in exports. Current consumption grew by 3.6 percent in annual terms—around the trend line. Alongside this, there was a decline in the consumption of durables following exceptional growth in the third quarter (**Table 1**). Public consumption excluding defense imports declined moderately, and business output grew by 7.1 percent (seasonally adjusted, in annual terms). At the same time, GDP growth data for the third quarter of 2025 were revised upward to 12.7 percent (from 11.1 percent). For the year as a whole, and in view of the revision of past data, GDP grew at a rate of 3.1 percent—slightly higher than previous assessments (**Figure 11**).

Current indicators of economic activity point to continued expansion. Credit card expenditure figures indicate a slight increase in January relative to the average of the previous quarter, and range around the trend line (**Figure 13**). The aggregate balance in the Central Bureau of Statistics Business Tendency Survey for January (seasonally adjusted) remained stable, but remains lower than it was prior to the war (**Figure 12**). In the construction industry, the demand constraint tightened after easing in recent months. The consumer confidence index continued to increase in January, and is at a higher level than it was prior to the war. Capital raised by the high-tech sector remains high in the first quarter (**Figure 14**). Goods imports increased moderately in January, led by increases in the imports of consumption goods and investment products, while the import of raw materials remained stable. Goods exports, which are recovering gradually, remained stable in January at a level that is higher than last year. The cumulative deficit in the trade of goods remained high in January.

The cumulative deficit in the government budget in the past 12 months increased to 4.9 percent of GDP in January. The year began with an interim budget, since the State budget for 2026 has not yet been approved by the Knesset. Government receipts from direct taxation in January (in fixed prices and net of legislative changes and one-off revenues) are higher than the long-term trend (**Figure 15**).

The labor market remains tight and supply constraints remain significant. The ratio of the number of job vacancies to the number of unemployed remains high (**Figure 17b**), while the job vacancy rate is stable, at 4.6 percent in December and January (**Figure 17a**). The broad unemployment rate among the prime working ages (25–64) remained low and stable, at 3.2 percent in December (**Figure 16b**). The rate of temporary absentees due to reserve duty declined slightly in December to 0.4 percent. The employment and participation rates among the prime working ages (25–64) declined in December to levels that were similar to the period prior to the ceasefire, at 78.8 percent and 81.1 percent respectively, after increasing by about half a percent in November (**Figure 16a**). Wages in the business sector increased in September–November by 5.1 percent (in annual terms) relative to the same period in the previous year, similar to the rate in August–October (**Figure 19**). The preliminary figure regarding the overall pace of wage increases in October–December relative to the same period in the previous year was 3.4 percent, lower than in previous months, which indicates the possibility that the pace of wage increases in the business sector may also moderate.

Following eight months of price declines, home prices began increasing again. Home prices increased by 0.6 percent in October–November, and by 0.8 percent in November–December. The annual pace of increase rose to 0.4 percent (**Figure 8**). The stock of unsold homes remained high. Mortgage borrowing totaled about NIS 9.8 billion in January (**Figure 9**). The housing component of the Consumer Price Index resumed its increase during the reviewed period, from an annual rate of 3.3 percent in the November CPI to 3.8 percent in the January CPI. The annual pace of increase in the owner-occupied housing services component (rent in new and renewing contracts) increased from 2.6 percent in November to 3.8 percent in January. The pace of increase in contracts in which the tenant changed increased from 4.6 percent in December to 6 percent in January.

During the reviewed period, the Israeli equity indices continued to increase and to outperform the rest of the world (**Figure 29**). Israel's risk premium, as measured by the CDS spread and the spread on dollar-denominated government bonds vis-à-vis US Treasury bonds, increased slightly in recent days due to geopolitical developments close to its prewar level (**Figures 30a-b**). Business credit continued to expand at a very high pace, led by credit from banks. Consumer credit to households continued to grow at a high pace from all sources. Payment arrears (delinquency rates) in all activity segments remained low. According to the Central Bureau of Statistics Business Tendency Survey for January, access to credit remained relatively high for small and large businesses (**Figure 28a-b**).

Global economic activity continues to expand (**Figure 31**). The moderating trend of global inflation continued during the reviewed period, although in a number of advanced economies inflation remains higher than the target. The global Purchasing Managers Index for January increased (**Figure 34**). The volume of world trade in goods increased sharply by 2.2 percent in November, following a decline of 1.4 percent in October (**Figure 33**). However, there is uncertainty regarding the impact of the US Supreme Court's tariff policy decision on world trade. Since the previous interest rate decision, and in view of the tension between the US and Iran, the price of oil increased by about 16 percent, with Brent oil trading around \$72 per barrel.

In the US, fourth quarter GDP data surprised to the downside. Fourth quarter GDP growth totaled 1.4 percent in annual terms, compared with 4.4 percent growth in the third quarter of 2025. Some of the downward surprise is attributed to the US government shutdown during the fourth quarter, while private consumption continues to be resilient and investments made a significant contribution to GDP. US growth for 2025 as a whole was 2.2 percent. Employment reports in the US for December and January indicated recovery in the employment numbers and a decline in the unemployment rate from 4.5 percent in November to 4.3 percent in January.

In the eurozone, the second reading of GDP growth for the fourth quarter showed an annual growth rate of 1.3 percent in quarterly terms, with average growth of 1.5 percent for the year, relative to 2024. In China, fourth quarter GDP growth was 5 percent. Chinese exports are pushing growth upward, while domestic demand is relatively weak.

In the United States, the CPI moderated. Inflation in January was 2.4 percent, and core CPI moderated slightly to 2.5 percent. In the eurozone, inflation also continues to moderate. Inflation in January was 1.7 percent in annual terms, while core inflation declined more moderately to 2.2 percent. During the reviewed period, the main central banks of the advanced economies left their interest rates unchanged. The interest rate path of the Federal Reserve rose, while the ECB's path remained virtually unchanged (**Figure 36**).

The minutes of the monetary discussions prior to this interest rate decision will be published on March 9, 2026. The next decision regarding the interest rate will be published on Monday, March 30, 2026.