

## **BANK OF ISRAEL**

Office of the Spokesperson and Economic Information

January 19, 2026

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

**The discussions took place on January 4, 2026 and January 5, 2026.**

#### **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 January 5, 2026, 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 reduce the interest rate by 0.25 percentage points, to a level of 4 percent. All members of the Monetary Committee supported the decision.

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

## **Main points of discussion**

The Committee's discussions focused on an analysis of domestic and global economic processes, among some of which notable developments occurred in the weeks before the decision. The inflation environment moderated, due to, among other things, the impact of the strengthening of the shekel. In the most recent labor market data there was an indication of easing in the supply constraints. This was reflected in an increase in the participation and employment rates, a decrease in the share of those absent due to military reserves service, and a decline in the rate of increase in business sector wages. For several months, Israel's risk premium—of which the changes in its level have been a significant consideration in discussions since the beginning of the war—has been at a level close to what there was just before the war.

The Committee discussed the inflation environment. The CPI for November declined by 0.5 percent and year over year inflation was 2.4 percent. Net of energy and fruit and vegetables, the annual inflation rate was 2.6 percent. The inflation rate among nontradables was unchanged at 3.0 percent, and the inflation rate among tradable goods declined to 1.2 percent over the past 12 months. One-year inflation expectations from the various sources were slightly lower than the midpoint of the target. Inflation expectations for the second year forward remain near the midpoint of the target. In the Committee's assessment there are several risks for a renewed increase in the inflation rate: the geopolitical developments and their impact on economic activity, an increase in demand alongside supply constraints, and fiscal developments.

The Committee dealt with developments in the foreign exchange and financial markets. The shekel has strengthened against the dollar by 3.1 percent since the previous interest rate decision, and in 2025 overall it strengthened by 12.5 percent. During the period reviewed, Israel's risk premium—as measured by CDSs and government bond spreads—remained near its level just before the war. During the period reviewed, domestic equity indices increased and were notably strong relative to the rest of the world. Business credit continued to expand, led by bank credit. Consumer credit to households also expanded, with an increase in credit from all the sources. Rates of arrears in all activity segments remained at a low level. Access to credit, based on the Business Tendency Survey for November, remained relatively high.

The labor market remained tight, but the most recent data indicated an easing in supply constraints. The employment and participation rates among the prime working ages (25–64) increased in November, and the broad unemployment rate among the prime working ages (25–64) remained stable. The share of those temporarily absent from work due to military reserves service in November declined slightly to 0.5 percent. In August–October, business sector wages increased by 5.3 percent relative to the corresponding period of the previous year, compared to 5.9 percent in the months July–September. Alongside that, the ratio between the number of job vacancies and the number of unemployed people is stable at a high level, and the job vacancy rate increased slightly. The Committee members discussed the easings of labor market constraints and the extent to which they represent a prolonged process.

Current indicators of economic activity showed continued expansion. Credit card expenditure data indicated continued growth in the fourth quarter, hovering around the trend line. The aggregate balance in the Business Tendency Survey conducted by the Central Bureau of Statistics (seasonally adjusted) for November was stable, but is still lower than its prewar level. Based on the survey (and based on data on overnight stays and turnover), activity in the hospitality industry recovered in November. In the construction industry, the number of workers continued to increase in the third quarter. The Consumer Confidence Index in November stabilized at a high level after a marked increase in October. Funds raised by the high tech sector in the fourth quarter remained at a high level. In November, goods imports and exports continued to increase, and services exports in October increased by 4.9 percent, further to an increase of 8 percent in September. In the second and third quarters of 2025 there was a sharp decline in the surplus in the goods and services balance. In the third quarter, for the first time since 2013, the Current Account (the balance of payments) switched to a deficit, in view as well of the increase in profits of high tech companies that are foreign owned and that kept their profits in Israel, and therefore were listed as an investment in the Capital Account.

The Committee discussed the Research Department's updated forecast. According to the Department's assessment, GDP grew by 2.8 percent in 2025. The forecast was compiled under the assumption that the ceasefire will be maintained and the number of people called up to military reserve duty will continue to decline. The Department assessed that during the forecast period, the supply side constraints will gradually be reduced, with a measured increase in domestic demand. In such a scenario, GDP is expected to grow by 5.2 percent in 2026, about half a percentage point higher than the September forecast. In 2027, the Committee forecast that GDP will grow by a rate of 4.3 percent, so that at the end of the year, the GDP gap relative to its long term trend is expected to decrease to about 1 percent. Based on the forecast, the year over year inflation rate at the end of 2025 will be 2.5 percent, compared to 3 percent in the previous forecast. In 2026, the inflation rate is expected to be 1.7 percent, compared to

2.2 percent in the previous forecast, and in 2027 it is expected to be 2 percent. The debt to GDP ratio is expected to be 68.5 percent at the end of 2025 and is expected to remain at a similar level in 2026 and 2027. The Department assessed that at the end of 2026 the interest rate will be 3.5 percent.

In the housing market, in September–October, home prices continued to decline for the eighth consecutive month, alongside a low level of transactions compared to recent years and a high level of stock of unsold homes held by developers. The owner-occupied dwelling services component, which was sticky for a long time, moderated in the November CPI. Together with that, the level of activity in the construction industry is high. Over the four quarters that ended in the third quarter, there was an increase of approximately 31 percent in building starts relative to the preceding four quarters, while building completions increased by 4.3 percent relative to the same period. In addition, property purchases by developers in Israel Land Authority tenders stayed at a high level in 2025.

The government approved the proposed 2026 budget, with a deficit ceiling of 3.9 percent of GDP, a level higher than the deficit previously planned, and higher than one in line with a declining debt to GDP ratio. Meeting this deficit target depends on, among other things, there not being geopolitical developments that will require an additional increase in defense expenditures and the assumptions in the revenue path will in fact materialize. The Committee members referred to the impact of the budget on demand and on inflation, and were of the view that it is important to approve the 2026 budget in the Knesset, while taking care that there is no deviation from this deficit target. This is in order to support the markets' trust in the economy and the continued decline in the risk premium.

Economic activity worldwide continued to expand at a moderate pace, and the global growth forecast for 2025 was expected to total 3 percent. Inflation worldwide continued to moderate slowly, mainly due to the decline in energy prices and the relative calm in the trade war. In the US, third quarter GDP surprised and grew by 4.3 percent in annual terms. In the eurozone, there was recovery in activity, while in China, data on economic activity for November indicated a slowing in the growth rate. In the US, the CPI moderated and the year over year rate in November was 2.6 percent. In the eurozone, inflation continues to be moderate, and in annual terms inflation for November remained 2.1 percent. In the most recent interest rate decisions, the Fed reduced the interest rate by 25 basis points, while the ECB kept the interest rate unchanged

**All Monetary Committee members supported the decision to reduce the interest rate by 0.25 percentage points to a level of 4 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.**

**The next monetary policy decision will be published on Monday, February 23, 2026.**

**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. Ori Heffetz

**Other participants in the narrow-forum discussion:**

Dr. Golan Benita, Markets Department Director

Dr. Oded Cohen, Chief of Staff to the Governor

Ms. Nurit Felter-Eitan, Director of the Communications, Public Affairs & Community Relations Department

Ms. Liat Indig, Deputy Spokesperson

Mr. Yehuda Lifshits – Governor's office

Dr. Ziv Naor, Bank of Israel Spokesperson

Ms. Dana Orfaig, Research Department

Ms. Nava Ostrov, Monetary Committee Secretariat