

BANK OF ISRAEL

Office of the Spokesperson and Economic Information

**The Monetary Committee decides on July 7, 2025 to leave the interest rate unchanged at 4.5 percent**

* **Economic activity continues to recover moderately against the background of high domestic and global uncertainty. The economy grew by 3.7 percent in the first quarter, close to the long-term growth trend. However, the level of economic activity is about 4 percent lower than this trend line.**
* **Inflation in the past 12 months declined to 3.1 percent, which is above the upper bound of the target range.**
* **The labor market remains tight. The ratio between the number of job vacancies and the unemployed remains high.**
* **Activity in the construction industry moderated in the first quarter of the year, but remains at a high level.**
* **Since the previous interest rate decision, the shekel has appreciated sharply, by about 7.3 percent against the US dollar, by 3.8 percent against the euro, and by 6.1 percent in terms of the nominal effective exchange rate.**
* **Israel’s risk premium, as measured by the 5-year CDS price and by the spreads on dollar-denominated government bonds, declined significantly, but remains higher than in the prewar period.**
* **According to the baseline scenario in the Research Department’s revised staff forecast, GDP is expected to grow by 3.3 percent in 2025, and by 4.6 percent in 2026. The debt to GDP ratio is expected to be about 70 percent at the end of 2025, and about 71 percent in 2026.**

**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 continues to recover at a moderate pace, against the background of high domestic and global uncertainty. The pace of annual inflation moderated, but is still above the target range. Following Operation Rising Lion (the military operation against Iran), Israel’s risk premium declined significantly, but it remains higher than it was before the October 7, 2023 massacre. Local equity indices increased strongly, government bond yields declined sharply, and the shekel strengthened markedly.

The Consumer Price Index for May declined by 0.3%, and the annual inflation rate declined to 3.1 percent, slightly above the upper bound of the target range (**Figure 1**). Inflation in recent months has been characterized by volatility and a high level of uncertainty. Net of energy and fruit and vegetables, the annual inflation rate was 3.5 percent (**Figure 2**). The annual inflation rate in May reflects a decline in the inflation rate of tradable components to 1.5 percent, and relative stability at a high level of 3.9 percent in the inflation rate of nontradable components (**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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The Bank of Israel Research Department revised its macroeconomic staff forecast. With regard to the fighting in Gaza, the forecast was formulated under the assumption that the ceasefire agreement currently being discussed will lead to a situation in which during the forecast horizon, beginning in July 2025, the fighting in Gaza will not be intense. The forecast also assumes that the ceasefire with Iran will be maintained. Compared to the April forecast, the current forecast includes some moderation of the impact of the tariffs announced by the United States in April.

According to the Research Department’s assessment, GDP is expected to grow by 3.3 percent in 2025 and by 4.6 percent in 2026 (**Figure 9**). The broad unemployment rate among the primary working ages (25–64) is expected to be 2.9 percent on average in 2025 and 3.3 percent on average in 2026. The inflation rate is expected to be 2.6 percent in 2025 and 2.0 percent in 2026. The government budget deficit is expected to be 4.9 percent of GDP in 2025, and to decline to 4.2 percent in 2026. The deficit forecast reflect an increase for these years relative to the previous forecast. The debt to GDP ratio is expected to be about 70 percent in 2025 and about 71 percent in 2026. This forecast is characterized by a high level of uncertainty, with significant risks in both directions.

According to National Accounts data, GDP grew by 3.7 percent in the first quarter of 2025, close to the economy’s long-term growth trend. However, the level of economic activity is about 4 percent below this trend line, a gap that has been maintained since the second quarter of 2024. The aggregate balance of the Central Bureau of Statistics Business Tendency Survey for June declined, following stability in recent months (**Figure 10**). In addition, there was an increase in June in companies reporting hiring constraints in most industries and in companies requiring equipment and raw materials constraints in the manufacturing industry. These figures have apparently been significantly influenced by Operation Rising Lion. Capital raised in the high-tech sector increased significantly during the reviewed period, to a level similar to that at the beginning of 2022 (**Figure 22**). According to foreign trade data, there was a decline in imports and an increase in exports in May, and the current account surplus in the balance of payments increased in the first quarter. Credit card expenditure data in current prices indicate a sharp decline in activity at the beginning of Operation Rising Lion, and rapid recovery at the end of the campaign (**Figure 11**).

The cumulative deficit in the government budget in the past 12 months totaled 5.1 percent of GDP in May. Government tax receipts in May, minus legislative changes and one-off revenues, returned to the long-term trend in fixed prices (**Figure 19**).

The labor market remains tight. The ratio of the number of job vacancies to the number of unemployed remains high. The broad unemployment rate among the primary working ages (25–64) remained stabled at 2.9 percent (seasonally adjusted) (among those aged 15 and above, it increased to 3.4 percent) (**Figure 12b**). The job vacancy rate increased slightly, to 4.4 percent in May, and has been stable over the past year at a level higher than it was before the Swords of Iron War (**Figure 15a**). The rate of temporary absentees due to reserve duty remained unchanged at 0.5 percent in May. The employment rate and the participation rate among those aged 25–64 in May were 79.2 percent and 81.3 percent respectively, and are slightly lower than their level prior to the Swords of Iron War (**Figure 12a**). Nominal wages in the past three months (in annual terms) were about 4.5 percent higher than they were in the third quarter of 2023 (**Figure 13**). In recent months, the pace of wage increases in the business sector was relatively high—5.2 percent relative to the same period in the previous year (in annual terms) (**Figure 14**). Business sector wages excluding high-tech increased by an even higher pace, while the pace in the public sector moderated. Real wages per employee post remained steady in recent months, growing by 1.1 percent in annual terms relative to the same period in the previous year.

Activity in the construction industry moderated in the first quarter of the year, but remained high. Central Bureau of Statistics figures show that there was an increase of 6.5 percent in building starts and of 14.2 percent in building permits, relative to the same quarter last year. However, there was a decline of 8.8 percent in building completions, and their level remains lower than before the war (**Figure 18a**). The volume of transactions is slightly lower than in previous years. The annual pace of increase in the housing component of the Consumer Price Index moderated slightly to 4 percent. The pace of home price increases continued to decline, to 5.1 percent, compared to 6.1 percent in February–March (**Figure 17**). Mortgage borrowing totaled about NIS 9.3 billion in May, similar to recent months (**Figure 18b**). The late repayments rate for mortgages remains stable and a low level.

During the reviewed period, there were sharp increases in the equity indices in Israel, which were prominent relative to the global trend (**Figure 28**). Israel’s risk premium, as measured by the 5-year CDS spread and by the dollar-denominated government bond spread, declined significantly during the reviewed period, but remains higher than in the prewar period (**Figure 29**). Yields on 10-year unindexed Israeli government bonds declined markedly during the reviewed period, even compared to other countries. (**Figure 25**). Business and household credit continued to expand, with April data showing a 7.3 percent increased in the past year, with an emphasis on bank credit and bonds. Late payment rates remained stable and low. According to the Central Bureau of Statistics Business Tendency Survey for June, the rate of businesses reporting a serious credit constraint remained low (**Figure 27**).

The pace of global economic activity remains moderate, and there was a slight upward revision in the global growth forecasts, to a low level of 2.6 percent.. The global purchasing managers index for May increased, but the data for recent months remain volatile (**Figure 33**). During the reviewed period, oil prices were particularly volatile in view of the conflict with Iran. Following the ceasefire, the price of oil declined and stabilized at $68 per barrel of Brent crude. In total, the price of oil increased by about 5.5 percent during the reviewed period.

The pace of expansion of world trade in the past year remained high (**Figure 32**). GDP figures in the US were revised downward, and contracted by 0.5 percent in annual terms in the first quarter of the year, while private consumption grew by just 0.5 percent—the lowest figure since the COVID-19 pandemic. In contrast, US labor market data for May–June continue to indicate a tight labor market, alongside some weakening in some of the parameters, with an emphasis on the continuing decline in the participation rate. In the eurozone, GDP growth for the first quarter was revised from 0.3 percent to 0.6 percent in annual terms. In China, in view of discussions on tariffs with the US, the growth forecast for 2025 was revised upward from 4.2 percent to 4.5 percent, and the forecast for 2026 was revised from 4 percent to 4.2 percent.

In the United States, inflation according to the general Consumer Price Index (CPI) increased to 2.4 percent in May, and the core CPI was 2.8 percent. In the eurozone, in the preliminary reading for June, inflation increased slightly to 2 percent, and core inflation remained unchanged at 2.3 percent. Many central banks in advanced economies continued to lower interest rates. The ECB lowered its rate by 25 basis points, and the Federal Reserve left its rate unchanged (**Figure 34**).

The minutes of the monetary discussions prior to this interest rate decision will be published on July 21, 2025. The next decision regarding the interest rate will be published on Wednesday, August 20, 2025.