

BANK OF ISRAEL

Office of the Spokesperson and Economic Information



September 3, 2025

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

The discussions took place on August 19, 2025 and August 20, 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 August 20, 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, and global economic developments.

Main points of discussion

The Committee discussed the recovery of economic activity in the economy against the background of the high uncertainty, particularly in view of the impact of Operation Rising Lion in June.

The Committee discussed the inflation environment. The year over year rate of inflation declined to 3.1 percent in July, slightly above the upper bound of the target range. The inflation rate in recent months has been characterized by high volatility. Inflation expectations for one year ahead from the various sources are around the midpoint of the target range. Expectations for the second year forward and onward continue to be around the midpoint of the target. In the Committee's assessment, there are several risks for a possible acceleration of inflation or for it not converging to the target—the geopolitical developments and their impacts on economic activity, an increase in demand alongside supply constraints, and a deterioration in global terms of trade.

National Accounts data indicate that GDP contracted in the second quarter by 3.5 percent in annual terms, and business sector product contracted by 6.2 percent. However, the data don't reflect the level of activity over the entire second quarter, in view of the material impact of Operation Rising Lion (against Iran) on economic activity. Net of these impacts, second quarter GDP growth was positive but lower than the economy's long-term growth potential.

Current indicators of economic activity for July point to the economy's rapid return to an activity level similar to that of before Operation Rising Lion—credit card expenditure data in current prices indicate an immediate recovery with the end of Operation Rising Lion, and the most recent data are at a level higher than before the operation; based on foreign trade data, imports and exports increased in July after a

decline in June, impacted by the operation and the limits on air transport that followed as a result; the aggregate balance in the Business Tendency Survey conducted by the Central Bureau of Statistics for July increased, but has not yet returned to its level before Operation Rising Lion, and most industries reported expectations for continued recovery in August.

The Committee discussed developments in the foreign exchange market and in the financial markets. Due to Operation Rising Lion, Israel's risk premium—as measured by CDSs and by government bond spreads—decreased markedly after Operation Rising Lion, and continued to decline slightly in the reviewed period as well, but remained high relative to its level just before the Swords of Iron War. Domestic equity indices decreased slightly in the reviewed period, in contrast to the upward trend in global markets, though from the beginning of the year domestic equity indices are notably good. Ten-year shekel government bond yields increased slightly in the reviewed period, and the shekel depreciated in the period reviewed.

The labor market remains tight and has nearly returned to its state before Operation Rising Lion. The broad unemployment rate in July for ages 15+ was 3.5 percent, similar to its level before the Operation. The job vacancy rate increased in July and also returned to its pre-Operation level. The share of those temporarily absent due to reserves service duty declined markedly in July to 0.8 percent, but remains higher than its level before the Operation. The employment and participation rates for ages 15+ in July returned to a level similar to their level in the months before the Operation. The nominal wage in March–May increased by 4.4 percent (in annual terms) compared to the third quarter of 2023, while in the business sector it increased by 5 percent compared to the same period (in annual terms).

The number of housing transactions remained at a low level, and the stock of unsold homes is still high. New mortgage volume in July was approximately NIS 10.7 billion. In the past four months home prices declined, and the annual rate of increase in home prices continued to moderate, to 2.5 percent in May–June. The annual rate of increase in the housing component of the CPI was 4.2 percent in July. The rent component in the housing item increased in July by 3.3 percent in annual terms, in renewing leases there was an annual increase of 2.6 percent, and in contracts with a new renter there was an increase of 5.4 percent.

The cumulative deficit in the government budget over the preceding 12 months totaled 4.9 percent of GDP in July, a decline of 0.2 percentage points from the previous month. This is against the background of an increase in government tax revenues in July (in fixed prices and net of legislative changes and one-off revenues), which are at a level slightly higher than their long term trend. Based on the government's decision, the deficit ceiling in the government budget will increase to 5.2 percent of GDP.

Geopolitical uncertainty is high, and the range of possible security developments is broad. As noted in the Research Department forecast from July 2025, the more the war increases in intensity and lengthens, there is a risk that supply limits will continue to weigh on the recovery in activity, that growth will be more moderate, and that the budget deficit and inflation will be higher.

The Committee members discussed global conditions. The growth rate of the global economy remains moderate. The economic uncertainty due to the US administration's tariff policy remains high, though the concern of increased intensity of the trade war declined slightly, as a result of agreements regarding tariff levels achieved by the US with its major trade partners. US GDP expanded in the second quarter of the year by 3 percent in annual terms, as private consumption continued to moderate. In the eurozone, GDP grew by 0.5 percent in annual terms in the second quarter

In China, the economy expanded in the second quarter by an annual rate of 5.2 percent, higher than forecast, in view of the bringing forward of activity in view of the trade war. In the US, the general CPI increased by 2.7 percent in July and the rate of increase of the core CPI increased to 3.1 percent, slightly above expectations. In the eurozone, in a preliminary reading for July, inflation remained unchanged at 2 percent and core CPI remained unchanged at 2.3 percent. Most major central banks in advanced economies kept the interest rate unchanged. The Fed kept the interest rate unchanged in view of the uncertainty regarding tariff policy and the concern of an acceleration in inflation. The probability of an interest rate reduction in September as reflected in the market remained high. The ECB kept the interest rate unchanged for the first time this year.

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, September 29, 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

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