BANK OF ISRAEL

Office of the Spokesperson and Economic Information

September 15, 2026

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

The discussions took place on August 31, 2026 and September 1, 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 September 1, 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 3.25 percent. Four Committee members supported the decision, while one member voted to keep the interest rate unchanged at 3.5 percent.

The discussion focused on the geopolitical environment's impacts on the economy, and 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 housing market, fiscal developments, and global economic developments.

Main points of discussion

The Committee's discussions focused on an analysis of the domestic and global economic processes. In recent months, inflation has moderated, and its level in the reviewed period is below the midpoint of the target range. GDP grew at a pace faster than that in the first half of the year, but net of overseas production, activity seems more moderate. The uncertainty remains high against the background of the geopolitical tension, however in the period reviewed Israel's risk premium remained at levels similar to those before October 7th and the shekel exchange rate with other economies stayed essentially unchanged.

The Committee discussed the inflation environment. The CPI remained unchanged in June and increased by 0.3 percent in July. Inflation in the past 12 months was 1.5 percent in July, below the midpoint of the target range. Net of energy and fruit and vegetables, the year over year inflation rate was 1.5 percent in July. The annual inflation rate of nontradable components moderated to 2.5 percent in the past 12 months, compared with 2.8 percent in June, and the annual rate of inflation of the tradable components declined to -0.3 percent, compared with -0.1 percent in the previous month. According to forecasters' assessments, inflation is expected to remain near the midpoint of the target range in the coming months. Inflation expectations for one year ahead from most sources are around the midpoint of the target range. Expectations for the second year onward are also near the midpoint of the target range.

The Committee's assessment is that there are several factors that can impact in contrasting directions on the development of inflation. The inflation environment will be considerably impacted by geopolitical developments and their effect on economic activity and on energy prices, the risk premium and exchange rate, the development of demand alongside supply constraints, and by fiscal developments.

The Committee discussed developments in the foreign exchange market and in financial markets. Since the previous interest rate decision, the shekel has appreciated by 0.6 percent against the dollar and depreciated by 1 percent against the euro, and depreciated by 0.1 percent in terms of the nominal effective exchange rate. During the reviewed period, domestic equity indices traded with a mixed trend. Likewise, there was an increase in government bond yields, similar to the global trend. Israel's risk premium, as measured by the CDS spread, remained essentially unchanged in the reviewed period, and is at a level close to its pre-October 7 level. The spread between yields on government bonds denominated in dollars and US government bonds declined. In the reviewed period, business credit continued to increase at a rapid pace, led by bank credit. A marked portion of the increase is attributed to financing capital market activities, Consumer credit to households from all sources continued to grow moderately. The rates of arrears in all economic segments remain at a low level.

The Committee discussed developments in the labor market, which remains tight. The latest data indicate a slight increase in both the participation rate and the broad unemployment rate. In July, the employment and participation rates among ages 25–64 stood at 78.9 percent and 81.3 percent, respectively. The share of workers temporarily absent from work due to military reserve service remained stable in June and July, at 0.5 percent. The broad unemployment rate among the prime working-age population (ages 25–64) stood at 3.2 percent in July, similar to the level prevailing on the eve of Operation Roaring Lion. The job vacancy rate increased slightly, reaching 4.5 percent in July. The year over year rate of nominal wage growth in the economy during April–June was 6.2 percent, compared with the corresponding period a year earlier. The increase in wages reflects, among other factors, increases in the minimum wage and in public-sector wages. Wage growth in the business sector excluding high-tech accelerated during March–May, reaching 5.4 percent year-on-year. At the same time, the data remain affected by changes in the composition of the workforce resulting from Operation Roaring Lion.

The Committee discussed various indicators of economic activity. The indicators show that credit card expenditures at current prices have been volatile and are slightly below their long-term trend. The aggregate balance in the Central Bureau of Statistics' Business Tendency Survey for July indicates continued improvement as part of the recovery following the disruption to economic activity during Operation Roaring Lion.

However, net balances in most sectors remain below the levels recorded in the months preceding March 2026. High-tech capital raising in the third quarter of the year amounted to approximately $3 billion, below the levels recorded in the first and second quarters of the year. Foreign trade data for July indicate a moderation in goods exports following sharp increases in May and June. In June, services exports increased sharply.

The Committee discussed National Accounts data for the second quarter of 2026. The data show that GDP grew at a high rate of 15.4 percent in annual terms, compared with the first quarter of the year, and was 6.2 percent higher than in the fourth quarter of 2025. Business-sector product was 7.4 percent higher than in the fourth quarter of 2025. In light of the strong growth recorded in the second quarter, and following the CBS's revision of GDP data for previous years, the gap between GDP and its long-term growth trend narrowed significantly, standing at approximately 0.8 percent. GDP growth in the second quarter was driven by rapid increases across all of its components. The second-quarter growth figures partly reflect the economy's recovery from the disruption to activity during the first quarter in view of Operation Roaring Lion. However, excluding the activity of Israeli companies abroad, growth during the first half of the year was more moderate: GDP in the second quarter of 2026 was 3.8 percent higher than in the final quarter of 2025 (on an annualized basis).

The Committee discussed housing market developments. The stock of homes that remain available for sale is stable and remains at a high level, while in May and June there was a moderate increase in transaction volume, mainly among new homes. In May–June there was an increase of 0.1 percent in home prices, and in annual terms home prices declined by 1.5 percent in July, and mortgage volume was NIS 10 billion (seasonally adjusted). The year over year rate of increase in the CPI's housing component declined to 3.9 percent in July, and the pace of price increases in renewing leases stabilized at 2.6 percent. The year over year rate of increase in leases with renter turnover declined to 4.7 in the July CPI, compared to 6.6 percent in June.

The Committee discussed developments in the state budget. The cumulative government deficit in the past 12 months was 3.4 percent of GDP in June and July, below the government's target deficit for 2026. This is due to the in the first quarter, which led to a low level of civilian expenditures by the government, which likely will be increased later in the year. Likewise, direct government tax revenues in July (constant prices, net of changes in regulation and one-off revenues) continue to be above the long term trend line. There is uncertainty regarding an increase in the defense budget for 2026 and future years, the volume and timing of adjustment steps that the government will carry out in order to fund it, and its impact on the increase in expected deficits.

The Committee discussed developments in the global economy. Geopolitical tension in the Middle East has led to a sharp increase in energy prices and disruptions to global supply chains. During the reviewed period, the price of Brent crude oil rose by approximately 25 percent, trading at around $90 per barrel. In addition, natural gas prices in Europe climbed to their highest levels since the outbreak of Operation Roaring Lion.

The Global Purchasing Managers Index (PMI) increased in June and July and remains at a level indicating continued expansion in global economic activity. The reviewed period was also characterized by a sharp rise in government bond yields worldwide, with long-term yields remaining elevated.

In the US, GDP grew at an annualized rate of 1.5 percent in the second quarter, while the eurozone recorded annualized growth of 1.8 percent during the same period. In the US, year over year inflation for July declined slightly, with the Consumer Price

Index standing at 3.4 percent and core CPI at 2.5 percent. In the eurozone, annual inflation resumed its upward trend, reaching 2.9 percent in July, while core inflation rose to 2.5 percent.

During the reviewed period, the major central banks in advanced economies left policy interest rates unchanged. In the United States, the projected interest rate path moved higher following remarks by the Federal Reserve Chair, while in the eurozone the expected interest rate path increased sharply over the reviewed period.

Four Monetary Committee members supported the decision to reduce the interest rate by 0.25 percentage points, to 3.25 percent, while one Committee member voted to keep the interest rate unchanged at 3.5 percent, taking the position that in view of global developments regarding interest rates and the inflation environment, it is preferable to wait and examine the effect of the most recent interest rates.

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 Wednesday, October 21, 2026.

The dates of interest rate decisions for 2026:
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

Prof. Naomi Feldman

Other participants in the narrow-forum discussion:

Inbar Bahat, Research Department

Dr. Golan Benita, Markets Department Director

Dr. Oded Cohen, Chief of Staff to the Governor

Ms. Nurit Felter, 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. Nava Ostrov, Monetary Committee Secretariat