

BANK OF ISRAEL

Office of the Spokesperson and Economic Information

Press release

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**The Bank of Israel publishes the Financial Stability Report for the second half of 2023**

The Financial Stability Report for the second half of 2023 reviews the financial developments for the period, and provides an assessment regarding the stability of the system in view of the main development of the period—the murderous terrorist attack of October 7 against southern communities, and the Swords of Iron war that broke out as a result. In view of the circumstances, this report focuses almost entirely on the consequences of the realization of geopolitical risk on the channels of risk exposure, and on the resilience of the financial institutions, and assesses the level of financial stability based on those analyses.

**Main findings of the report:**

* The attack that took place on October 7 and the Swords of Iron war that began as a result are the realization of a geopolitical shock stress scenario. The realization of this scenario did not led to impaired financial stability in the economy. This was partly due to the high standards of prudential regulation prior to the outbreak of the war, and thanks to preventive measures that the Bank of Israel took at the beginning of the war, as well as the government’s assistance programs.
* The war’s impact was felt through all of the main risk exposure channels. However, in view of the policy measures that moderated the transmission of the shock, the risk level increased only in the macroeconomic channel, as reflected in an increase in the country’s risk premium.
* Despite household’s increased difficulties in repayment debt in view of the monetary tightening that continued since the beginning of the year and the real erosion of independent sources, the volume of household credit at risk remains low. This is true even when considering the impact to the income of some households as a result of the war, which may increase their difficulty in servicing their debt.
* The war’s consequences for the activity of construction companies raised the credit risk in this industry, in addition to the increase in financing expenses, which had a negative impact on the financial state of construction companies even before the war—as indicated in the Financial Stability Report for the first half of the year.
* The security buffers that the financial institutions built up prior to the war, and policy measures adopted with the aim of helping households and businesses deal with the implications of the war, continue to moderate the impact of the shocks on the financial system and to maintain its stability.
* Insofar as the war’s duration, severity, and negative economic consequences intensify, the financial system can expect further challenges.

**Background on the Report:**

The Bank of Israel’s Financial Stability Report is published twice a year. In this report, Bank of Israel economists analyze exposure to the main risks to the financial system, and assess potential risk scenarios. The assessments and analyses contained in the Report are based on a survey of developments during the reviewed period, an examination of structural changes, the use of analytical models, and assessments of the background conditions in the global and domestic economies. The report outlines how the realization of risk scenarios may affect the financial system in the short and medium terms, with the aim of increasing awareness among policy makers and the general public and enabling proper preparedness.