

BANK OF ISRAEL

Office of the Spokesperson and Economic Information

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Press release:

**Financial Stability Report for the first half of 2023**

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.

The main findings in the report are as follows:

* Looking at all of the developments in the first half of 2023, the domestic financial system remained stable. The strength and stability of the banking system and the insurance companies contributed to this, as did the proper functioning of the financial infrastructure—the payment and settlement systems. The security buffers built up by households and corporations—partly due to fiscal incentives and monetary easing during the COVID-19 period—increased their resilience to potential shocks.
* During the reviewed period, the financial system was affected by two main factors. The first was a combination of the tightening of monetary policy and the slowdown of economic growth in Israel and abroad, alongside difficulties in the global banking system. The second was a lack of certainty surrounding the implications of legislative changes with regard to the judicial system in Israel on the functioning of the economy and on the financial system in general. If these processes—in Israel and abroad—intensify, they may pose a challenge to the system in the medium term.
* The monetary tightening, which was required due to the prolonged inflation, and the moderation of growth were reflected in an increase in risks in both the real estate and financial markets, and in an increase in credit costs. In view of this, households and businesses are dealing with a heavier debt servicing burden.
* The repayment capacity of both households and the business sector remains strong. However, with regard to credit to the business sector, companies in the real estate and construction industry—a major industry in terms of the financial system’s exposures—posed increased risk.
* Uncertainty surrounding legislative changes raised the economy’s risk premium, and was accompanied by a depreciation of the shekel that contributed to the increase in inflation, a decline in equity prices, and increased volatility in the foreign exchange market and in the financial markets.