BANK OF ISRAEL
Office of the Spokesperson and
Economic Information

November 4, 2026

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

The discussions took place on October 20, 2026 and October 21, 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 October 21, 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 leave the interest rate unchanged at 3.25 percent. All of the Committee members supported the decision.

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, the Research Department's staff forecast, and global economic developments.

Main points of discussion

The Committee's discussions focused on an analysis of domestic and global economic developments. Inflation in Israel is currently slightly below the midpoint of the target range. Economic activity continued to expand following the rapid recovery in the second quarter from the effects of Operation Roaring Lion (the joint Israeli and American campaign against Iran launched on February 28, 2026). Uncertainty remained high against the backdrop of ongoing geopolitical tensions. Nevertheless, during the reviewed period, Israel's risk premium remained at levels similar to those prevailing prior to October 7, 2023, while the shekel depreciated. Globally, inflationary pressures increased amid rising energy prices and supply chain disruptions.

The Committee discussed the inflation environment. In recent months, inflation in Israel has moderated, and in September inflation over the previous twelve months stood at 1.6 percent. According to forecasters' projections, inflation is expected to remain at its current level, return to around the midpoint of the target range at the beginning of 2027, and remain around that level over the course of the year. Inflation expectations for one year ahead from most sources are around the midpoint of the target range. Expectations for the second year onward are likewise near the midpoint of the target range. In the Committee's assessment, several factors may affect inflation in opposing directions. The inflation environment will be influenced to a significant extent by geopolitical developments and their effects on economic activity and energy prices, by the risk premium and the exchange rate, by developments in demand alongside supply constraints, and by fiscal developments.

The Committee discussed developments in the foreign exchange market and in the financial markets. During the reviewed period (through October 20), the shekel depreciated by 3.1 percent against the US dollar and appreciated by 0.3 percent against the euro. In terms of the nominal effective exchange rate, the shekel depreciated by 2.2 percent. During the reviewed period, Israel's risk premium, as measured by CDS spreads, increased slightly, though it remained close to its prewar level. Domestic equity indices rose during the reviewed period, albeit with volatility, after outperforming over the past two years. Government bond yields increased during the reviewed period, in line with the global trend. However, since the beginning of the year, the increase in yields worldwide has been significantly greater than in Israel. Business credit continued to grow at a rapid pace, alongside a decline in interest rates on new business credit. Household consumer credit from all sources also continued to expand. Delinquency rates across all activity segments remained low.

The Committee discussed developments in the labor market. The labor market remained tight, and labor supply constraints continued to be significant. The unemployment rate was low and the job vacancy rate was high, while participation and employment rates remained below their prewar levels. The pace of nominal wage growth in the economy moderated following a temporary acceleration and stood at 4.3 percent in June–August compared with the

corresponding period last year. Wage growth in the business sector stood at 5.3 percent in May–July relative to the corresponding period last year.

The Committee discussed the various indicators of economic activity. Current indicators pointed to continued expansion of economic activity in the third quarter alongside supply constraints. This followed the rapid recovery in the second quarter from the sharp decline during Operation Roaring Lion. Credit card expenditure data were volatile but remained close to the long-term trend line. The aggregate balance in the Central Bureau of Statistics Business Tendency Survey for September increased and returned to its level from prior to Operation Roaring Lion. Capital raising in the high-tech sector in the third quarter of the year was at a level similar to that of the previous quarters.

The Committee discussed developments in the housing market. Residential construction volumes remained high. In the second quarter of 2026, the pace of housing starts declined slightly compared with the corresponding quarter a year earlier, though the level remained high. Building permits and housing completions were also at high levels. The seasonally adjusted volume of housing transactions moderated in July–August following an increase in May–June. However, the level has remained relatively stable over the past year. The inventory of unsold homes remained stable at a high level. In July–August, home prices declined by 0.6 percent, and in annual terms home prices fell by 1.8 percent. New mortgage borrowing in September totaled approximately NIS 10.3 billion, seasonally adjusted. The annual rate of increase in the housing component of the Consumer Price Index remained unchanged, at 3.8 percent in September. The rate of increase in renewed lease contracts was 2.4 percent, and the annual rate of increase in contracts involving a change of tenant rose, to 5.3 percent in the September index.

The Committee discussed developments in the state budget. The government's cumulative deficit over the previous twelve months was 3.2 percent of GDP in September, below the government's deficit target for 2026. This reflected two factors: (1) the interim budget in the first quarter of the year, which led to under-execution of the government's civilian expenditures; and (2) revenues that were above the long-term trend. Government revenues from direct taxes in September (at constant prices and net of legislative changes and one-off revenues) declined and returned to near the long-term trend line.

The Committee discussed the Research Department's macroeconomic forecast. The working assumption underlying the forecast is that the intensity of the fighting will remain low, similar to the current level, thereby contributing to some easing of supply constraints in the economy, while the geopolitical environment is expected to remain tense.

According to the Department's assessment, GDP is expected to grow by 5.6 percent in 2026 and by 7.5 percent in 2027. The main revision reflects the substantial contribution of overseas production by Israeli companies. GDP excluding production abroad better reflects the domestic activity of the Israeli economy. As such, the forecast also presents estimates for this measure: 3.4 percent in 2026 and 5.1 percent in 2027. The broad unemployment rate is expected to average 3 percent in 2027. Inflation during 2026 is expected to be 1.5 percent, and inflation in 2027 is expected to be 2.1 percent. In the Department's assessment, provided that the defense budget is not increased further beyond the reserves allocated in the state

budget, the government budget deficit is expected to be 4.4 percent of GDP in 2026 and 4.6 percent in 2027. The debt-to-GDP ratio is expected to be about 68 percent at the end of 2026 and about 66.5 percent at the end of 2027. The debt-to-GDP ratio excluding production abroad is expected to be about 70 percent at the end of 2026 and 70.5 percent in 2027. The Department projects that the policy interest rate will be 3 percent in about one year.

The Committee discussed global economic developments. Energy prices continued to rise during the reviewed period, with natural gas prices in Europe climbing further to their highest levels since the outbreak of Roaring Lion. Global trade expanded at a rapid pace, and the global Purchasing Managers' Index increased in August and September, remaining at a level indicative of continued expansion in global output. Government bond yields worldwide rose sharply and remained at elevated levels. In the United States, GDP grew at an annual rate of 2.2 percent in the second quarter, while growth in the eurozone was 1.2 percent. Headline inflation in the major blocs increased. In the United States, annual inflation rose in September, with the Consumer Price Index (CPI) accelerating to 3.7 percent and Core CPI at 2.6 percent. In the eurozone, annual inflation continued to rise, reaching 3.8 percent in September, while core inflation increased to 2.5 percent. In their most recent decisions, the Federal Reserve and the ECB raised interest rates by 25 basis points, and the interest rate path priced in by the markets for these central banks rose during the reviewed period, incorporating approximately three rate hikes over the coming year.

All members of the Monetary Committee supported leaving the interest rate unchanged at 3.25 percent.

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 Monday, November 23, 2026.

The dates of interest rate decisions for 2026:
https://www.boi.org.il/en/economic-roles/monetary-policy/interest-rate-announcement-dates-2026/

The dates of the interest rate decisions for 2027 through April 2028:
https://www.boi.org.il/en/bank-of-israel/interest-rate-announcement-dates-2027-2028/

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, Head of the Research Department
Prof. Ori Heffetz
Prof. Naomi Feldman

Other participants in the narrow-forum discussion:
Dr. Golan Benita, Head of the Markets Department
Dr. Oded Cohen, Chief of Staff to the Governor
Ms. Nurit Felter, Head of the Communications, Public Affairs & Community Relations Department
Ms. Liat Indig, Deputy Spokesperson
Mr. Yehuda Lifshits, Governor's Office
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