



BANK OF ISRAEL
Office of the Spokesperson and Economic Information
Press release

March 30, 2026

**The Monetary Committee decides on March 30, 2026
to leave the interest rate unchanged at 4.00 percent.**

- Since the beginning of Operation "Roaring Lion", geopolitical uncertainty has grown both domestically and globally, particularly with regard to the expected duration and intensity of the fighting and how it will end.
- Since the previous interest rate decision, there has been an increase in the inflation environment, mainly due to a marked increase in global energy prices.
- The response of the financial variables, including the risk premium, the exchange rate, and equity prices, to the conflict has so far been relatively moderate. Over the reviewed period, the shekel weakened by 0.8 percent against the US dollar and strengthened by 1.4 percent against the euro.
- The military operation has broad economic implications for real economic activity. Credit card purchase data in current prices indicate that, similar to the previous campaign against Iran, there was a sharp decline of about 20 percent in activity at the beginning of the campaign. The data show a partial recovery after the first two weeks of the campaign.
- The labor market remains tight and the pace of wage increases in the business sector rose to 4.7 percent in November–January.
- According to the Research Department forecast, which was formulated under the assumption that Operation Roaring Lion and the fighting in Lebanon will end toward the end of April, GDP is expected to grow by 3.8 percent in 2026 and by 5.5 percent in 2027, compared with 5.2 percent and 4.3 percent, respectively, in the January forecast. The budget deficit is expected to be 5.3 percent of GDP in 2026 and 4.4 percent of GDP in 2027, and the debt-to-GDP ratio is expected to be about 70.5 percent of GDP in 2026 and at the end of 2027.
- The housing component in the Consumer Price Index began increasing again during the reviewed period, rising to an annual rate of 4.2 percent in the February Index. The annual rate of increase in the owner-occupied housing services component (rent in new and renewing contracts) rose by 4.5 percent in the February Index.

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.

For the file of figures accompanying this notice, click here.

Since the beginning of Operation Roaring Lion, geopolitical uncertainty has grown both domestically and globally. This is particularly true with regard to the expected duration and intensity of the fighting and how it will end. The military operation has broad economic implications for real economic activity, and there was a marked decline in activity with the outbreak of the confrontation. Since the last interest rate decision, there has been an increase in the inflation environment, mainly due to the marked increase in global energy prices. The response of the financial variables, including the risk premium, the exchange rate, and equity prices, has so far been relatively moderate.

The Consumer Price Index increased by 0.2 percent in February, and inflation in the past 12 months increased slightly, to 2.0 percent (**Figure 1**). Net of energy and fruit and vegetables, the annual inflation rate is 2.2 percent (**Figure 2**). The annual inflation rate of nontradable components increased to 3.1 percent, compared with 2.9 percent in the previous month, and the annual pace of inflation of the tradable components increased to -0.1 percent (**Figure 3**). Due to Operation Roaring Lion and the increase in global oil prices, forecasters raised their annual inflation projections for the coming months by about 0.5 percent (**Figure 5**). Inflation expectations for one year forward from the various sources increased, and are around the midpoint of the target range (**Figure 6**). Expectations for the second year onward also increased slightly, but remain near the midpoint of the target range (**Figure 7**).

In the Committee's assessment, the risks of a renewed acceleration of inflation include geopolitical developments and their impact on economic activity and on energy prices, an increase in demand alongside supply constraints, and fiscal developments.

Since the previous interest rate decision, the shekel has weakened by 0.8 percent against the US dollar, strengthened by 1.4 percent against the euro, and strengthened by 0.5 percent in terms of the nominal effective exchange rate.

The Bank of Israel Research Department revised its macroeconomic forecast. The forecast's baseline scenario was formulated under the working assumption that Operation Roaring Lion and the fighting in Lebanon will end toward the end of April, and the direct economic impact of the military operation will remain as long as the fighting continues. The forecast is characterized by a particularly high level of uncertainty, both with regard to the duration of the fighting and with regard to the level of geopolitical risk, as will be reflected in part by the risk premium, the exchange rate, energy prices, and the ramifications of these on economic activity.

According to the Research Department's assessment in this scenario, GDP is expected to grow by 3.8 percent in 2026 and by 5.5 percent in 2027, compared with 5.2 percent and 4.3 percent, respectively, in the January forecast (**Figure 10**). The broad unemployment rate among the prime working ages (25–64) is expected to average 4.5 percent in 2026 and 3.4 percent in 2027. The inflation rate during 2026 is expected to be 2.2 percent, and it is expected to be 1.8 percent in 2027. In the Department's estimation, the budget deficit is expected to be 5.3 percent of GDP in 2026 and 4.4 percent of GDP in 2027. Public debt is expected to be about 70.5 percent of GDP in 2026 and at the end of 2027.

In view of the particularly high level of uncertainty, the Research Department also examined alternative scenarios in relation to the duration of the military campaign and how it will end and its

impacts on economic activity and inflation. The risks surrounding inflation tend upward. A continuation of the geopolitical uncertainty that is reflected in the risk premium, depreciation of the shekel, and energy prices that are higher than the assumptions underlying the forecast will lead to an increase in inflation. In contrast, more positive geopolitical developments could support a more rapid recovery of activity and a decline of inflation, or alternatively, an increase in excess demand and a rise in inflation.

Current indicators of economic activity include data from prior to Operation Roaring Lion, as well as data that already reflect the campaign's effects on activity. Credit card purchase data in current prices indicate that, similar to the previous campaign against Iran, there was a sharp decline of about 20 percent in activity at the beginning of the campaign. The data show a partial recovery following the first two weeks of the campaign, and remain lower than their level before it started (**Figure 12**).

The aggregate balance in the Central Bureau of Statistics Business Tendency Survey for February (seasonally adjusted), which was conducted before the military campaign, declined back to its level prior to the previous campaign. (**Figure 11**). A flash survey conducted by the Central Bureau of Statistics after the start of the current campaign shows that the impact factors are similar to those of the previous campaign. Most businesses note that the impact to activity is largely due to the absence of workers and the closure of educational institutions (**Figure 18**). The consumer confidence index remained stable in February, and is higher than in the period prior to October 7, 2023. Capital raised by the high-tech sector in the first quarter of the year declined relative to previous quarters (**Figure 13**). In the fourth quarter of 2025, there was a surplus in the balance of goods and services, in view of an increase in goods and services exports. In February, there was a decline in goods exports, and the increase in imports continued (**Figure 22**). The increase in imports was led by growth in the import of investment products, alongside a moderate increase in the import of raw materials (**Figure 23**).

The cumulative deficit in the government budget in the past 12 months was 4.7 percent of GDP in February. Government receipts from direct taxation in February (in fixed prices and net of legislative changes and one-off revenues) remain above the long-term trend (**Figure 14**). The government raised the deficit target in the 2026 budget approved by the Knesset to 4.9 percent of GDP due to the update of the budget framework following the start of Operation Roaring Lion.

The labor market remains tight, and the labor supply constraint remains the dominant constraint in the economy. The ratio of job vacancies to the number of unemployed remains high (**Figure 16b**), as the job vacancy rate remained stable at 4.5 percent in February (**Figure 16a**). The broad unemployment rate among the prime working ages (25–64) was 3 percent in January (**Figure 15b**). Unemployment data in February are not comparable to previous months due to sampling difficulties as a result of the war. The employment rate among the prime working ages (25–64) increased to 79.1 percent in January, and the participation rate increased to 81.5 percent (**Figure 15a**). The pace of wage increases in the business sector began rising again. Wages increased by 4.7 percent in November–January relative to the same period last year (**Figure 19**). The flash figure regarding the pace of general wage increases in December–February relative to the same period last year was 4.1 percent, higher than in previous months, which indicates the possibility of a continued increase in the pace of wage increases in the business sector.

There was a slight decline of 0.1 percent in home prices in December–January, following two consecutive readings of increases, totaling a combined 1.4 percent (**Figure 8**). The annual rate of change in home prices was -0.9 percent. In February, mortgage borrowing totaled about NIS 10.3

billion in seasonally adjusted terms (**Figure 9**). According to Central Bureau of Statistics data, there was strong activity in the construction market in the fourth quarter. Building starts totaled about 80,000 housing units in 2025, an increase of about 15 percent relative to 2024, with an increase of about 9 percent in the fourth quarter. Building completions increased by about 10 percent in 2025 compared with 2024, and remained stable in the fourth quarter (**Figure 21**). The housing component in the Consumer Price Index began increasing again during the reviewed period, rising to an annual rate of 4.2 percent in the February Index. The annual rate of increase in the owner-occupied housing services component (rent in new and renewing contracts) rose by 4.5 percent in the February Index. The annual rate of increase in contracts in which there was a change of tenant remained relatively high, at 5.8 percent in February.

Israel equity indices declined during the reviewed period, but more moderately than the global trend (**Figure 30**). Israel's risk premium, as measured by the CDS spread and by the spreads on dollar-denominated and shekel-denominated government bonds vis-à-vis US Treasuries increased slightly (**Figures 31a-b**). Business credit continued to expand rapidly in January, led by credit from banks. Consumer credit to households continued to expand at a high pace from all sources. Payments in arrears in all activity segments remained low. According to the Central Bureau of Statistics Business Tendency Survey, credit constraints, both bank and nonbank, were low in February for all types of businesses and in all industries (**Figures 28 a-b**).

Globally, as reflected in the markets and in central bank announcements, there is a high level of uncertainty in regard to the expected impacts of the military confrontation with Iran. The forecasts of the war's effect on the decline in growth and the increase in inflation depend on the depth of the impact to infrastructure, the extension of the war, and the impact to supply chains. In view of the confrontation, the price of Brent oil increased sharply, with volatility, to \$113 per barrel at the end of the period (an increase of about 60 percent), and the price of natural gas in Europe increased to €55/MWh (an increase of about 70 percent) (**Figure 33**). Futures contracts reflect market assessments that energy prices are expected to fall, with oil prices at about \$84 per barrel by the end of 2026.

Prior to the military campaign, the global Purchasing Managers Index for February increased to its highest level in the past two years, indicated continued expansion of global GDP (**Figure 35**). World goods trade continues to grow strongly, increasing by about 5 percent in December in annual terms (**Figure 34**).

In the US, data on economic activity during the reviewed period were mixed. Fourth quarter growth was revised downward to about 0.7 percent. Employment reports for February indicated weakness, with a decline in the number of jobs and an increase in the unemployment rate to 4.4 percent. In the eurozone, the gradual recovery of growth continued, with the rate in the fourth quarter totaling 0.8 percent in annual terms. In China, GDP grew by 4.5 percent in the fourth quarter.

Annual inflation in the United States remained unchanged relative to the previous month, in line with forecasts. The CPI showed was 2.4 percent in February, and Core CPI was 2.5 percent. In the eurozone, annual inflation surprised slightly to the upside, at 1.9 percent in February, while core inflation increased to 2.4 percent.

During the reviewed period, the major central banks left the interest rates unchanged (**Figure 38**). Uncertainty and the confrontation with Iran led to a sharp increase in inflation expectations, and in the interest rate paths of many central banks as priced into the markets (**Figure 38**).

The minutes of the monetary discussions prior to this interest rate decision will be published on April 13, 2026. The next decision regarding the interest rate will be published on Monday, May 25, 2026.