

BANK OF ISRAEL

Office of the Spokesperson and Economic Information

July 21, 2025

**Press release:**

**Monetary Policy Report**

**First Half of 2025**

**Abstract**

**Monetary policy:** The Monetary Committee kept the interest rate unchanged at 4.5 percent in all its decisions in the first half of 2025. In view of the geopolitical uncertainty, but global and domestic, and considering the inflation environment, the Monetary Committee’s policy focused on stabilizing the markets and converging inflation to its target, alongside supporting economic activity.

**The inflation environment:** At the end of the first half of 2025, the year over year inflation rate was 3.1 percent (CPI for May), above the target range, compared to 3.4 percent at the end of the previous half year (CPI for November 2024). The inflation rate of nontradable components remained stable at a high level of 3.9 percent (May CPI), reflecting excess demand on view of supply constraints. The year-over-year inflation rate during the period was volatile, ranging from 3.1 to 3.8 percent, in view of tax increases, particularly the increase in VAT in January, and influenced by the travel abroad component. According to forecasters, inflation is expected to converge to the target range in the third quarter of 2025—similar to the assessment at the end of the previous half-year. Expectations and forecasts for a range of 1 year and for longer ranges declined during the reviewed period, and are around the midpoint of the inflation target range.

**Real activity in Israel and the labor market:** Economic activity recovered moderately during the reviewed period, in view of geopolitical developments. The growth rate in annual terms during the first quarter—3.7 percent (3.4 percent in the first reading)—was similar to the growth rates prior to the war and to the long-term economic growth trend. However, the level of GDP remains about 4 percent lower than the rate that is consistent with the long-term trend—similar to the gap at the end of the previous half-year. A considerable part of the gap is explained by supply constraints deriving from a shortage of workers—a shortage of non-Israeli workers and the absence of workers who are serving in the military reserves. During the half-year, the labor market remained tight, with a low unemployment rate. Nominal wages in March–May 2025 reflect an average annual increase of more than 4 percent, compared to their level in the third quarter of 2023, prior to the war. Toward the end of the period, there was some moderation in the tightness of the labor market.

**The exchange rate, the risk premium, and the financial markets:** During the first half of 2025, trading in the financial market remained volatile, influenced mainly by global and domestic geopolitical developments. In June, with the completion of Operation Rising Lion, Israel’s risk premium—as measured by the CDS and dollar-denominated government bond spreads between Israel and the US—declined prominently, but remained higher than its level prior to the Swords of Iron War. Israel’s equity indices increased sharply, shekel-denominated government bond yields declined significantly, and the shekel strengthened markedly. During the reviewed period, business credit continued to expand in line with the trend, while delinquency rates remained stable and low in all activity segments.

**Fiscal policy:** The cumulative deficit in the state budget over the past 12 months totaled 5.0 percent of GDP in June. Total government receipts from taxes in June, excluding legislative changes and one-off revenues, returned to the long-term trend (in fixed prices), after being above the trend line at the end of the previous half-year. The immediate budgetary cost of Operation Rising Lion is estimated at 1 percent of GDP. According to the Research Department’s July 2025 forecast, the debt to GDP ratio is expected to rise from 68 percent in 2024 to 70 percent in 2025 and 71 percent in 2026. It is decisively important to set a policy path in the upcoming budget that will lead the debt ratio to converge to a downward trend in the coming two years.

**The housing market:** Activity in the construction industry slowed somewhat, as the number of home transactions declined and the stock of unsold homes increased. However, the pace of building starts remained relatively high. The pace of home price increases moderated during the period, to 5.1 percent (March–April data) in annual terms, compared with a pace of 7.7 percent in the December–January data. The annual pace of increase in the housing component of the Consumer Price Index was 4.0 percent at the end of the period (May figure), and ranged during the period between 3.9 and 4.4 percent. The damage caused by the Iranian missile attacks, which impaired the supply of available housing units, may lead to an increase in demand for rentals, and as a result to an increase in rental prices in areas that were hit.

**The global economy:** During the reviewed period, equity indices rose with increased volatility in the global markets in view of the US government’s tariff policy and its potential effects on global trade, growth, and inflation. The global growth rate in the first quarter of the year remained moderate, and the global growth forecast for 2025 was relatively low, at 2.6 percent, at the end of the half-year. During the period, the US dollar weakened relative to the other major currencies. Inflation data in the major markets during the reviewed period indicated continued convergence, but at varying paces. While the Federal Reserve did not change its interest rate, the ECB lowered its rate in each decision during the half-year, alongside rate reductions by other central banks.

**The Research Department forecast:** The Research Department forecast that was published in July 2025 was compiled under the assumption that the ceasefire agreement being discussed at the time would lead to a situation in which, within the forecast horizon, starting in July 2025, there would be no intense fighting in Gaza, and under the assumption that the ceasefire with Iran would be maintained. According to this forecast, GDP is expected to grow by 3.3 percent in 2025 and by 4.6 percent in 2026 (compared to 4.0 percent and 4.5 percent respectively in the January 2025 forecast). The inflation rate is expected to be 2.6 percent in 2025, and 2.0 percent in 2026 (compared with 3.4 percent and 2.3 percent respectively in the January 2025 forecast). The broad unemployment rate among the prime working ages (25–64) is expected to average 2.9 percent in 2025 and 3.3 percent in 2026 (compared with 3.1 percent in each year in the January 2025 forecast).