BANK OF ISRAEL
Office of the Spokesperson and Economic Information

July 20, 2026

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

The discussions took place on July 5 and 6, 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 July 6, 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 reduce the interest rate by 0.25 percentage points, to a level of 3.5 percent. All members of the Monetary Committee 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 foreign exchange market and in the financial markets, 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 the domestic and global economic processes. The memorandum of understanding signed between the United States and Iran led to a decline in energy prices and moderation of the global geopolitical tension, but the level of uncertainty remains high. Economic activity continued to recover moderately. The annual inflation rate in May remained stable around the midpoint of the target range, and the risk premium is similar to its level prior to October 7, 2023. Overall during the reviewed period, the shekel depreciated with a high level of volatility.

The Committee discussed the inflation environment. The CPI declined by 0.3 percent in May, and the inflation rate over the past 12 months remained at 1.9 percent, near the midpoint of the target range. Net of energy and fruit and vegetables, the annual inflation rate in May was 1.6 percent. The annual inflation rate of nontradable components was 2.9 percent in May, and the pace of inflation of the tradable components was 0.4 percent. According to forecasters' assessments, inflation is expected to decline in the coming months, and later on to stay slightly below the midpoint of the target range. One-year inflation expectations from the various sources are below the midpoint of the target range. Expectations for the second year onward are slightly below the midpoint of the target range.

In the Committee's assessment, there are several factors that may influence the development of inflation in opposite directions. The inflation environment will be greatly influenced by geopolitical developments and their effects on economic activity and on energy prices, by the risk premium and the exchange rate, by the development of demand alongside supply constraints, and by fiscal developments.

The Committee discussed developments in the foreign exchange market. Since the previous interest rate decision (according to the representative exchange rates set on May 21, 2026), the shekel depreciated by 3.1 percent against the US dollar and by 1.5 percent against the euro, with volatility during the period and after having appreciated considerably at the beginning of the period. The shekel weakened by 2.1 percent in terms of the nominal effective exchange rate.

The Committee discussed developments in the financial markets. Israeli equity indices declined during the reviewed period, underperforming global indices following outperformance in the past two years. Israel's risk premium—as reflected by the CDS spread and in the dollar spread against US government debt—is at a level close to its pre-October 7 level. Business credit continued to expand rapidly during the reviewed period, led by credit from banks. Consumer credit to households from all sources continued to increase as well. The rates of arrears in all activity segments remain low.

According to the Business Tendency Survey for May, credit constraints—bank and nonbank—declined slightly for most business types and in most industries.

The Committee discussed labor market developments. The labor market remains tight. The rate of absentees due to reserve mobilization declined to 0.5 percent in May. The broad unemployment rate among the prime working ages (25–64) declined to a low level of 3 percent in May. The job vacancy rate increased slightly to 4.2 percent in May, but remains lower than it was prior to Operation Roaring Lion and prior to October 7, 2023. Similar to previous months, the employment and participation rates among those aged 15+ declined in May, led by the younger ages. Among the prime working ages (25–64), the employment and participation rates remained stable in May. Wages are increasing rapidly, reflecting a tight labor market. Wages increased by 6.8 percent in March–May relative to the same period last year. The increase in wages partly reflects increases in the minimum wage and in public sector wages. However, the data are still influenced by changes in the composition of labor due to the effects of Operation Roaring Lion.

The Committee discussed real economic activity. Current indicators of economic activity point to continued recovery following the sharp decline of activity with the beginning of Operation Roaring Lion. Credit card expenditures in current prices are slightly above the long-term trend line. The aggregate balance in the Central Bureau of Statistics Business Tendency Survey for May increased following the sharp decline due to Operation Roaring Lion, but has not yet returned to its level from before the Operation. In the second estimate of National Accounts data for the first quarter (seasonally adjusted in annual terms), which reflects the impact of Operation Roaring Lion on economic activity, GDP growth was revised downward to minus-3.8 percent. This decline in GDP is more moderate than previously forecast. A Research Department analysis indicates that a significant portion of the recent economic growth reflects foreign production by global firms operating in Israel, and that net of the activity of these firms, growth was lower in view of the supply constraints. As the supply constraints ease, growth will be based on a broader mix of industries and firms in the economy, and GDP will converge toward the long-term trend line.

Capital raised in the high-tech sector during the second quarter totaled about $4 billion, similar to the first quarter of the year but lower than the last two quarters of 2025. Foreign trade data for May indicate an increase in goods imports and a sharper increase in goods exports, which led to a narrowing of the trade deficit.

The Committee discussed housing market developments. In March–April, home prices declined by 0.3 percent, and in annual terms they declined by 1.3 percent. In May, mortgage borrowing totaled about NIS 9.5 billion in seasonally adjusted terms. According to Central Bureau of Statistics data, in the first quarter of 2026, the annual pace of building starts was about 76,000, building completions continue to increase, and building permits remained stable at a high volume. The stock of unsold dwellings remains high. The pace of increase in the housing component of the Consumer Price Index rose to an annual rate of 4 percent in the May Index. The annual rate of increase in renewing rental contracts was 2.5 percent, and the annual rate of increase in rental contracts in which there was a change of tenant accelerated to 6.8 percent in the May Index.

The Bank of Israel Research Department revised its macroeconomic forecast. The working assumption underpinning the forecast is that in view of the memorandum of understanding signed between the United States and Iran, there will be no additional fighting with Iran during the forecast horizon. Another assumption on which the forecast is based is that global energy prices, which have fallen due to the agreement, will remain in the current low environment. In addition, the forecast assumes that the intensity of the fighting in Lebanon will decline in a way that contributes to somewhat easing the supply constraints in the economy.

According to the Research Department's assessment in this scenario, GDP is expected to grow by 4 percent in 2026, compared with 3.8 percent in the March forecast, and by 5.5 percent in 2027, similar to the March forecast. The inflation rate is expected to be 1.8 percent in 2026 and in 2027. In the Department's estimation, if the defense budget is not increased beyond the reserves allocated in the State budget, the government's budget deficit is expected to be 4.9 percent of GDP in 2026 and 4.2 percent of GDP in 2027. The debt to GDP ratio is expected to be about 69 percent at the end of 2026 and at the end of 2027. The government is examining the possibility of increasing the defense budget for 2026 later this year by up to NIS 25 billion, to NIS 183 billion. If this takes place, the deficit is expected to be higher than the forecast, at about 5.5 percent of GDP, and inflation one year from now will be about 0.3 percentage points higher than forecast, in accordance with the composition of expenditures and its impact on the supply constraints in the economy.

The Committee discussed global economic developments. The memorandum of understanding signed between the United States and Iran led to a sharp decline in inflation expectations around the world, and in oil prices, which returned to levels similar to those prior to the confrontation that began in late February. During the reviewed period, the price of Brent oil declined by about 30 percent, to around $72 per barrel. The global Purchasing Managers Index for May remained unchanged at a level indicating continued expansion of global GDP.

In the US, GDP grew at an annual rate of 2.1 percent in the first quarter. Despite the weakness in the number of new jobs added in the US employment market in June, the average over recent months has remained high. In the eurozone, first quarter data indicate a slowdown in the growth rate.

Annual inflation in the US increased sharply in May, with the Consumer Price Index at 4.2 percent and Core CPI at 2.9 percent. Annual inflation in the eurozone moderated to 2.8 percent in June, with the core index moderating to 2.4 percent.

During the reviewed period, the Federal Reserve left the interest rate unchanged, and the European Central Bank (ECB) increased its rate by 25 basis points—the first increase since September 2023. In the US, the interest rate path implies one increase and a 50% probability of a second increase within one year, and in Europe the path implies one rate increase within one year.

All Monetary Committee members supported the decision to reduce the interest rate by 0.25 percentage points to 3.5 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 Tuesday, September 1, 2026.

The dates of interest rate decisions for 2026:

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

Participants in the narrow-forum discussion:

Members of the Monetary Committee:

Prof. Amir Yaron, Governor of the Bank and Chairperson of the Monetary Committee
Mr. Andrew Abir, Deputy Governor
Dr. Adi Brender, Research Department Director
Prof. Ori Heffetz
Prof. Naomi Feldman

Other participants in the narrow-forum discussion:

Dr. Golan Benita, Markets Department Director
Dr. Oded Cohen, Chief of Staff to the Governor
Ms. Nurit Felter, Director of the Communications, Public Affairs & Community Relations Department
Ms. Liat Indig, Deputy Spokesperson
Dr. Ziv Naor, Bank of Israel Spokesperson
Ms. Dana Orfaig, Research Department
Ms. Nava Ostrov, Monetary Committee Secretariat