



## **BANK OF ISRAEL**

Office of the Spokesperson and Economic Information

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**Press release:**

### **Remarks by the Governor of the Bank of Israel at the press briefing on monetary policy held today at the Bank of Israel**

Good afternoon.

The past year was marked by security-related and economic uncertainty, similar to the year before it. Israel's economy displayed impressive robustness and resilience in view of the complex security reality that impacted markedly on the economy. As we head into 2026, and despite the decline in geopolitical uncertainty, we are facing economic challenges that underscore the need for responsible economic policy that will support economic growth in the coming years and will ensure continued financial resilience.

Yesterday and today, the Monetary Committee held discussions in order to reach the policy decision. The Monetary Committee's discussions focused on an analysis of domestic and global economic processes, among some of which,, significant developments have occurred in recent weeks. At the end of the meetings, the Monetary Committee decided to lower the interest rate to 4 percent. I will first refer to the main considerations we took into account when making our decision.

Since the previous interest rate decision, the inflation environment has moderated. According to forecasters, the inflation rate is expected to fall to around the midpoint of the target in the first quarter of 2026, due, among other things, to the strengthening of the shekel. The most recent labor market data indicate an easing of supply constraints. This is reflected in an increase in participation and employment rates, a decrease in the share of those absent due to military reserve duty, and a decline in the growth rate of business sector wages. Israel's risk premium remains at a level close to what it was just before the war.

Let me now elaborate on the main economic developments in Israel and worldwide, and I will refer to the Research Department's updated forecast. The inflation environment has

declined in recent months, and year over year inflation was 2.4 percent in November. This moderation, seen in both tradable and non-tradable components, including the housing item, is reflected in the most recent data for the past 3 months and 6 months. Looking forward, the CPI for December is expected to increase the inflation rate, possibly even close to the upper bound of the target range, and it is then expected to decline to around the midpoint of the target. One-year inflation expectations, from the various sources, are slightly below the midpoint of the target. Expectations for the second year and onward remain near the midpoint of the target.

The current indicators show continued expansion of economic activity. Credit card expenditure data indicate continued growth in the final quarter of the year, and are ranging around the trend line. Third-quarter National Accounts data were revised slightly downward. The aggregate balance in the Business Tendency Survey conducted by the Central Bureau of Statistics for November, seasonally adjusted, is stable but still below its prewar level. Capital raised by the high tech industry in the fourth quarter of the year remains at a high level. In the second and third quarters of 2025 there was a sharp decline in the surplus in the goods and services balance due to the rapid growth of imports. Services exports in October increased by 4.9 percent, following an increase of 8 percent in September, and in November, goods exports and imports continued to grow.

The labor market remains tight, but the most recent data indicate an easing of supply constraints. This is reflected in an increase in the participation and employment rates, a decline in the share of those temporarily absent from work due to military reserves service, and a decline in the pace of wage growth in the business sector. The employment and participation rates among the prime working ages (25–64) increased markedly by about half a percentage point in November. The broad unemployment rate among the prime working ages (25–64) remained stable. The share of those temporarily absent from work due to military reserves service declined slightly in November, to 0.5 percent. In the most recent data, there has been a decline in the growth rate of wages in the business sector. In August–October, business sector wages increased by 5.3 percent relative to the corresponding period in the previous year, compared to 5.9 percent in July–September. Alongside this, the ratio between the number of job vacancies and the number of the unemployed is stable at a high level, and the job vacancy rate increased slightly.

In recent months the downward trend in home prices has continued, alongside low transaction volumes compared to previous years and the high level of stock of unsold homes held by developers. The owner-occupied housing services component, which was sticky for a considerable time, moderated in the CPI for November, with a year over year pace of 2.6 percent. The rate of growth in leases in which there was renter turnover declined from 5.5 percent in the CPI for October to 4.7 percent in the CPI for November. Alongside that, the activity level in the construction industry is high. In the 4 quarters that ended in the third quarter, there was an increase of 31 percent in building starts relative to the

preceding four quarters, while building completions increased by approximately 4.3 percent relative to that period. Likewise, developers' purchases of property in Israel Land Authority tenders stayed at a high level in 2025.

Business credit continued to increase at a pace similar to recent months, with arrears rates staying at a low level. According to the Business Tendency Survey of the Central Bureau of Statistics for November, the share of businesses reporting a credit constraint remains low. In parallel, credit to households continued to grow in October, by 7.2 percent compared to October of the previous year, and there is no major increase seen in the rates of arrears, which are at a low level.

In financial markets, from the previous monetary policy decision until this past Friday, the shekel has continued to strengthen—by 3.1 percent of against the dollar and by 1.5 percent against the euro. Israel's risk premium, as measured by CDS spreads, is similar to its prewar level. Domestic equity indices increased in the reviewed period and were notably positive compared to the rest of the world.

The Research Department updated its macroeconomic forecast. Based on the Department's assessment, GDP grew by 2.8 percent in 2025. For the coming years, the forecast was compiled under the assumption that the ceasefire will be maintained and the number of people called up to military reserve duty will continue to decline. In the Department assessment, during the forecast period, supply side limitations will gradually decline, alongside a measured increase in domestic demand. In this scenario, GDP is expected to grow by 5.2 percent in 2026, about half a percentage point higher than the September forecast. In 2027, the Department expects that GDP will grow by 4.3 percent, so that at the end of the year the GDP gap relative to its long term trend will be expected to have declined to about 1 percent. Based on the forecast, the year over year inflation rate at the end of 2025 is expected to be 2.5 percent, compared to 3 percent in the previous forecast. In 2026, inflation is expected to be 1.7 percent, compared to 2.2 percent in the previous forecast, and in 2027 it is expected to be 2 percent. The estimated budget deficit in 2025 is about 4.8 percent of GDP, and in 2026 it is 3.9 percent. The debt to GDP ratio is estimated to be 68.5 percent at the end of 2025, and is expected to remain at a similar level in 2026 and 2027. The Department forecasts that at the end of 2026 the interest rate will be 3.5 percent.

The government approved the proposed budget for 2026, with a deficit ceiling of 3.9 percent of GDP, a level higher than the deficit originally planned, and one in line with a declining trend of the debt to GDP ratio. Complying with this deficit target depends on, among other things, there not being geopolitical developments that will require an additional increase in defense expenditures and that the assumptions in the revenue path will in fact materialize. Therefore, it is important to approve the 2026 budget in the Knesset, taking care not to deviate from this deficit target. This is in order to support the markets' trust in the economy. .

Economic activity worldwide continues to expand by a moderate rate, and the global growth forecast for 2025 is expected to total about 3 percent. Global inflation continues to moderate slowly, primarily due to a decline in energy prices and the relative calm in the trade war. In the US, third-quarter GDP surprised with growth of 4.3 percent in annual terms. In the eurozone, there was recovery in activity, while in China, data on economic activity for November point to a slowdown in the growth rate. In the US, the CPI moderated to a year over year rate of 2.6 percent in November. In the eurozone, the inflation rate remains moderate, and in annual terms, inflation for November stayed at 2.1 percent. In the Federal Reserve's most recent interest rate decision, the Fed reduced the interest rate by 25 basis points, while the ECB kept the interest rate unchanged.

To conclude, economic activity continues to expand. Alongside that, since the previous interest rate decision there have been several significant developments: First, the inflation environment has declined. Second, there has been a further appreciation in the shekel, which is expected to help reduce inflation pressures, and while the labor market is tight, there are signs of moderation in supply constraints in the labor market.

In view of all these, and despite the next CPI reading being forecasted to increase the inflation rate, possibly even close to the target's upper bound, the Monetary Committee decided to lower the interest rate to 4 percent. This is in view of its assessment that the expected increase in the inflation rate reflects technical elements, while in the CPI readings that follow, the inflation rate is expected to range around the midpoint of the target range. The decision is in line with what I have said in the past—that the Committee acts in accordance with data and the assessment of up to date economic developments. The interest rate path will continue to be determined in line with inflation developments, economic activity, geopolitical uncertainty, and fiscal developments.

In this regard, I will note the Research Department's forecast. According to it, under the baseline scenario, the interest rate will be 3.5 percent at the end of 2026. It is important to emphasize that the Committee continues to assess that in the baseline scenario, the interest rate path in the future will continue to be gradual and cautious. In particular, it will be important to the Committee to examine the effects of the interest rate reductions so far on activity and on inflation, and that it stabilizes around the midpoint of the target range.

Thank you.