



BANK OF ISRAEL
Office of the Spokesperson and Economic Information

June 8, 2026

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

The discussions took place on May 24, 2026 and May 25, 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 May 25, 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 3.75 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, and global economic developments.

Main points of discussion

The Committee's discussions focused on an analysis of the domestic and global economic processes, while domestic and global geopolitical uncertainty is still notable. Data presented to the Committee showed that Operation Roaring Lion against Iran has impacts on real economic activity, and recovery was seen in the most recent data. Inflation in Israel remains around the midpoint of the target; however, since the interest rate decision in March, there has been a sharp increase in the inflation environment worldwide. In the reviewed period, the shekel strengthened relative to the dollar, and was notable in regard to the global trend. Israel's risk premium, reflected in the CDS spread and in the dollar spread against US government bonds, after rising in the beginning of Operation Roaring Lion, continued to decline to a level close to its pre-October 7 level. The labor market was impacted markedly by Operation Roaring Lion and the labor supply constraint remains significant.

The Committee discussed the inflation environment. The CPI for March increased by 0.4 percent and for April it increased by 1.2 percent. The inflation rate over the past 12 months was 1.9 percent. Net of energy and fruit and vegetables, the annual inflation rate in April was 1.5 percent. The year over year rate of increase among nontradable components remained steady at 2.8 percent in March and April, and the year over year inflation rate among tradable components increased to 0.3 percent, mainly due to the increase in global energy prices. At the time of the discussions,

according to forecasters' assessments, the inflation rate was expected to increase slightly and to remain around the midpoint of the target range in the coming months. One-year inflation expectations from the various sources are around the midpoint of the target range. Expectations for the second year onward remain near the midpoint of the target range.

In the Committee's assessment, there are risks of a renewed acceleration of inflation—including geopolitical developments and their impact on economic activity and on energy prices, an increase in demand alongside supply constraints, and fiscal developments—while the shekel's appreciation may act to moderate inflation.

The Committee discussed developments in the foreign exchange market. Since the previous interest rate decision, the shekel has appreciated by 8.3 percent against the US dollar and by 7.2 percent against the euro, and by 7.4 percent in terms of the nominal effective exchange rate. The appreciation over the past 2 years was impacted considerably by three factors: the geopolitical developments and the decline in Israel's risk premium, increases on US equity markets, and the weakness of the dollar worldwide. In view of the stabilization of the inflation rate around the midpoint of the target and the resilience shown by the economy, the Committee examined the proper balance between two significant geopolitical risks that are liable to impact on inflation in opposite directions—upward in a case of increased intensity of the fighting, and downward in the scenario of an agreement that will lead to a continued decline in the risk premium and further appreciation of the shekel.

The Committee discussed developments in the financial markets. During the reviewed period, domestic equity indices continued to increase. Israel's risk premium—as reflected by the CDS spread and in the dollar spread against US government debt—after increasing in the beginning of Operation Roaring Lion, continued to decline, and is at a level close to its pre-October 7 level. In the reviewed period business credit continued to increase at a rapid pace, led by bank credit. Consumer credit to households from all sources continued to increase as well. The rates of arrears in all activity segments are maintaining a low level. Based on data from the Business Tendency Survey for March-April, credit constraints—bank and nonbank credit—increased slightly in all business types and in most industries.

The Committee discussed labor market developments. The labor market was greatly impacted by Operation Roaring Lion, and the labor supply constraint remains significant. The share of temporary absentees due to military reserve service increased sharply in March, and declined slightly in April to 1.2 percent. The broad unemployment rate among those aged 15+ declined sharply from 15.9 percent in March to 5.9 percent in April, despite the fighting continuing into April. Before "Operation Roaring Lion", the pace of wage increase in the business sector remained stable at a high level, and in December–February was 4.6 percent compared to the

corresponding period in the previous year. The pace of wage increase in the business sector in March was 5.9 percent, but this figure was impacted by the changes in employee composition, in view of Operation Roaring Lion.

The Committee discussed the National Accounts data for the first quarter of 2026. The data reflected the impact of Operation Roaring Lion on economic activity. In the first quarter of the year, GDP contracted by an annual rate of 3.3 percent, and business output contracted by 3.1 percent (in annual terms, seasonally adjusted). These contractions were more moderate than previous forecasts and than during Operation Rising Lion in June 2025. In view of the decline in first quarter growth, the level of GDP is about 4.5 percent lower than its long-term trend would indicate. The contraction of GDP was led by a decline of 4.7 percent in private consumption, and a decline of 5.7 percent in public consumption (excluding defense imports). Alongside these, there was an increase of 33.1 percent in civilian imports (excluding ships, aircraft, and diamonds) and growth of 5.6 percent in exports (excluding diamonds and startups).

The Committee discussed housing market developments. In February-March, home prices increased by 0.3 percent, and in annual terms declined by 1.2 percent. In April, mortgage volume was NIS 9.5 billion, seasonally adjusted. Based on Central Bureau of Statistics data, the stock of new homes for sale in March 2026 remained at a high level, at 85,000 homes. The housing component in the CPI moderated during the reviewed period, and in the April CPI increased at an annual pace of 3.3 percent.

The Committee discussed developments in the state budget. The cumulative deficit over the past 12 months (May 2025–April 2026) declined to 3.8 percent of GDP, mainly due to a low level of government expenditures in view of the interim budget conducted in the first quarter of the year. Government revenues from direct taxes in April (fixed prices, net of legislative change and one-off revenues) remains above the long-term trend line. There is uncertainty regarding an increase in the defense budget, and with it an increase in the deficit target.

The Committee discussed global economic developments. Despite elevated geopolitical uncertainty, disruptions to supply chains, and the increase in commodity prices, growth remained positive across most major blocs. During the reviewed period, the price of Brent crude oil declined by approximately 8 percent, while natural gas prices in Europe fell by around 11 percent.

The global Purchasing Managers' Index (PMI) for April continued to rise and remained at a level indicating ongoing expansion in global output for the ninth consecutive month. The IMF revised its global growth forecast downward and revised its global inflation forecast upward, with the main impact stemming from the shock to energy markets and the high level of uncertainty.

In the US, GDP grew at an annualized rate of 2 percent in the first quarter, markedly higher than in the previous quarter. Employment reports for March and April were stronger than expected.

In the eurozone, first-quarter 2026 data point to a slowdown in growth, with GDP increasing by only 0.1 percent quarter-on-quarter, below market expectations.

In the US, year over year inflation accelerated in April, with the Consumer Price Index (CPI) reaching 3.8 percent and Core CPI standing at 2.8 percent. In the eurozone, annual inflation also accelerated, reaching 3 percent in April, while core inflation stood at 2.2 percent.

During the reviewed period, the major central banks in advanced economies kept interest rates unchanged. However, since the onset of the conflict with Iran, the interest rate paths priced in to the markets for many central banks have risen significantly.

All Monetary Committee members supported the decision to reduce the interest rate to 3.75 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, July 6, 2026.

The dates of interest rate decisions for 2026:

<https://www.boi.org.il/en/economic-roles/monetary-policy/interest-rate-announcement-dates-2024/>

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, Research Department Director

Prof. Ori Heffetz

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

Mr. Yehuda Lifshits, Governor' office

Dr. Ziv Naor, Bank of Israel Spokesperson

Ms. Dana Orfaig, Research Department

Ms. Nava Ostrov, Monetary Committee Secretariat