

BANK OF ISRAEL

Office of the Spokesperson and Economic Information

Press release

February 24, 2025

**The Monetary Committee decides on February 24, 2025 to leave the interest rate unchanged at 4.5 percent**

* **Economic activity continues to recover moderately in view of geopolitical developments. In the fourth quarter of 2024, the growth rate moderated, reflecting a marked increase in most domestic uses, which, combined with supply constraints, was largely fulfilled through increased imports.**
* **At the same time, previous GDP data were revised, such that GDP grew by 1 percent in 2024.**
* **The annual inflation rate increased, to 3.8 percent—above the upper bound of the target range—partly due to tax increases. Inflation is expected to enter into the target range in the second half of the year.**
* **The labor market remains tight, as indicated by unemployment, job vacancy, employment, participation, and wage data.**
* **Since the previous interest rate decision, the shekel has appreciated by 1.9 percent against the US dollar. The shekel also appreciated by 1.3 percent against the euro, and by 1 percent in terms of the nominal effective exchange rate.**
* **Israel’s risk premium, as measured by the 5-year CDS price and by the spreads on dollar-denominated government bonds, continued to decline, but remained higher than in the prewar period.**
* **Home prices rose by 7.3 percent in 2024. Activity in the construction industry continues to be influenced by labor shortages, but the difference between the number of people currently employed in the construction industry and their number prior to the war has narrowed.**

**In view of the continuing war, the Monetary Committee’s policy is focusing on stabilizing the markets and reducing uncertainty, alongside price stability and supporting economic activity. The interest rate path will be determined in accordance with the convergence of inflation to its target, continued stability in the financial markets, economic activity, and fiscal policy.**

The recovery in economic activity continues at a moderate pace, in view of geopolitical developments. In line with expectations, the annual inflation rate increased, partly due to tax increases, and is above the upper bound of the target range. Inflation is expected to converge to within the target range in the second half of the year. In the fourth quarter, the growth rate moderated, which mainly reflected continued supply constraints. The economy’s risk premium continued to decline, but remains higher than in the prewar period.

The Consumer Price Index for December declined by 0.3 percent and the index for January increased by 0.6 percent. The inflation rate in the past 12 months was 3.8 percent, above the upper bound of the target range (**Figure 1**). Net of energy and fruit and vegetables, the annual inflation rate was 3.9 percent **(Figure 2)**. The annual rate of inflation in the nontradable components was 4.1 percent, and the rate of inflation of the tradable components is 3.4 percent in the past 12 months **(Figures 3)**. According to forecasters’ projections, inflation is expected to enter the upper portion of the target range in the second half of the year **(Figure 5)**. According to the various sources, inflation expectations for one year forward are within the target range (**Figure 6**). Expectations for the second year onward remain within the target range (**Figure 7**). In the Committee’s assessment, there are several risks for a possible acceleration of inflation or for it not converging to the target range: geopolitical developments and their impact on economic activity, prolonged supply constraints, volatility of the shekel, and fiscal developments.

Since the previous interest rate decision, the shekel has appreciated by 1.9 percent against the US dollar, by 1.3 percent against the euro, and by 1 percent in terms of the nominal effective exchange rate.

The first estimate of National Accounts data for the fourth quarter of 2024 shows that growth slowed, was lower than expected, at 2.5 percent (seasonally adjusted) (**Figure 9**). Quarterly GDP growth in the fourth quarter was affected by increases in domestic uses: private consumption (9.5 percent), public consumption (11.5 percent), and fixed capital formation (14 percent). Alongside this, there was a decline of 4.4 percent in services exports excluding startup companies (**Table 1**). The marked increase in domestic uses was fulfilled mainly through an increase of 12.5 percent in imports (excluding defense, ships and aircraft, and diamonds), reflecting excess demand against the background of supply constraints. Third quarter GDP growth data were revised upward to 5.3 percent. For the year as a whole, in view of the revision of previous figures, GDP grew at a pace of 1 percent, which was slightly higher than the Research Department’s January 2025 projection. The most recent data show that the gap between actual GDP and its expected level according to the long-term trend was 4.4 percent, and the gap between actual business sector output and its expected level was about 6 percent.

Current indicators of economic activity show continued moderate recovery. While the most recent data for nominal credit card expenditures declined slightly, they are still within the long-term trend environment (**Figure 13**). The aggregate balance of the Central Bureau of Statistics Business Tendency Survey continued to increase in January, and is close to its prewar level (**Figure 11**). In particular, there was a recovery in the northern and southern districts, where the sharpest decline took place due to the war, and the balance is now similar to its prewar level. (**Figure 12**). The Composite State of the Economy Index for January increased by 0.6 percent, and the indices for November and December were revised upward, each by 0.2 percent. Capital raised in the high-tech industry in January–February was similar to 2019 and prewar levels (**Figure 24**). In contrast, consumer confidence continued to decline in 2024, and its level is low. The foreign trade deficit in goods continued to widen in January, in view of the rapid growth of imports while exports remained unchanged (**Figures 22 and 23**).

The cumulative deficit in the government budget in the past 12 months was 5.8 percent of GDP, down from 6.9 percent in December, in view of the sharp growth in tax revenues (**Figure 21**). Accounting for seasonality and anomalous revenues, tax revenues are in line with the nominal GDP growth rate and higher than the long-term real path.

The labor market remains tight. The broad unemployment rate continued to decline, to 2.8 percent in January (seasonally adjusted), which is lower than its prewar level (**Figure 14b**). The rate of temporary absentees due to reserve duty continued to decline, to 0.6 percent in January. The job vacancy rate remained stable at 4.4 percent in January (**Figure 16a**). The employment rate reached its prewar level in January, and the participation rate among those aged 15 and older continued to increase, and is slightly lower than its prewar level (**Figure 14a**). The growth rate of nominal wages accelerated in December, completing an increase of 6.8 percent since September 2023 (5.4 percent in annual terms). Real wages increased, although they remain lower than the long-term trend **(Figure 15)**.

Activity in the construction industry is still being affected by labor shortages, but the difference between the number of people currently employed in the industry and the number prior to the war has narrowed. (**Figures 17a–17b**). Home prices continued to increase, rising 7.3 percent in 2024 (**Figure 19**). The housing component of the CPI remained unchanged in January: Rent prices increased by 0.4 percent in January, while owner-occupied housing services declined by 0.7 percent. New mortgage borrowing totaled about NIS 13.8 billion in December, partly in view of impending taxation increases. New mortgage borrowing in January totaled about NIS 7.3 billion, similar to its level in earlier months (**Figure 20**).

The increases in the domestic equities market continued during the reviewed period (**Figure 30**). Israel’s risk premium, as measured by the 5-year CDS and by the dollar-denominated government bond spread, continued to decline, although its level remains higher than the prewar period. In the government bond market, yields declined beyond the global trend (**Figure 27**). Business credit continued to expand, while interest rates remained stable. Most of the growth in credit was to the construction and real estate industry and the financial services industry.

Globally, economic activity continued to expand in the fourth quarter, though at a more moderate pace. The global composite Purchasing Managers Index for January declined, but continued to indicate moderate expansion of economic activity (**Figure 32**). The global services sector showed a decline, while the manufacturing sector continued to show an increase. World trade continued to expand, increasing by 0.4 percent in November, and by 3.6 percent compared to the same period in the previous year (**Figure 33**). Fourth quarter growth in the United States was 2.3 percent in annual terms, slightly lower than expected. Private consumption remained strong, and is the main component contributing to growth. The labor market remained stable. In Europe, the pace of economic expansion moderated, with GDP growing by 0.4 percent in annual terms in the fourth quarter.

In the United States, the Consumer Price Index (CPI) rose by 3 percent in 2024, and the core CPI rose by 3.3 percent, both above expectations. Inflation expectations for the next two years continued to increase, partly due to concerns about the government’s tariff policy. The interest rate trajectory priced in the markets remained unchanged during the reviewed period (**Figure 37**).

Inflation in the eurozone increased in January beyond expectations, to 2.5 percent, with core inflation remaining unchanged at 2.7 percent. Central banks in many advanced economies continued to lower interest rates. The ECB lowered its rate by 25 basis points. Following three consecutive interest rate reductions, the Federal Reserve left its rate unchanged in January (**Figure 35**).

The minutes of the monetary discussions prior to this interest rate decision will be published on March 10, 2025. The next decision regarding the interest rate will be published on Monday, April 7, 2025.

Interest rate decision dates for 2024 and 2025 are available at:

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