

BANK OF ISRAEL

Office of the Spokesperson and Economic Information

Press release

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**Financial Stability Report for the second half of 2024**

The Financial Stability Report for the second half of 2024 reviews the financial developments during this period and assesses the stability of the system in light of the ongoing Swords of Iron War in Gaza, southern Lebanon, and its expansion to other areas. The report examines the impact of the war on risk exposure channels, given the resilience of the financial institutions. The level of financial stability is evaluated based on these analyses.

Key Points:

* The financial system in Israel is showing high resilience against the security challenges and ongoing geopolitical uncertainty that have persisted for over a year.
* During the reviewed period, macroeconomic risk remained high due to the security situation and its impact on economic activity, which stayed below the long-term trend. Government financing needs and costs increased, Israel's risk premium in financial markets rose, and credit rating agencies downgraded Israel's rating, maintaining a negative outlook for future ratings.
* However, towards the end of the reviewed period, the risk premium and debt financing costs decreased somewhat, reflecting a moderation in geopolitical risk assessments and improved sentiment towards local markets.
* Local stock indices rose in the last quarter, partially offsetting the cumulative underperformance in dollar terms since the beginning of 2023. Despite the increases, stock prices in Israel remain low in dollar terms compared to global stock indices, indicating a relatively high risk assessment for Israel.
* Housing prices continued to rise during the reviewed period, following a renewed increase in the first half of the year, alongside a recovery in transaction volumes. Rent prices also continued to rise, leading to stabilization and even a slight decrease in the price-to-rent ratio.
* Consequently, along with the reduced potential of a negative impact on stock prices due to risk absorption, the financial system's vulnerability from asset price channels declined to a medium-high level compared to the first half of the year.
* Credit repayment delinquency rates remained stable and historically low. During the reviewed period, banks' loan loss provisions also decreased. As a result, the credit risk level moderated to a medium-high level in the second half of 2024.
* The resilience of major financial institutions remained high, with improvements in capital ratios for both banks and insurance companies, which were already high.
* Two risk scenarios for the economy relate to potential further impacts on the macroeconomic channel. The first scenario involves the continuation of the security risk realized with the outbreak of the Swords of Iron War, and relates to a worsening local geopolitical situation. The second scenario addresses high global economic uncertainty, alongside deglobalization processes and a decline in global growth.

Background on the Report:

In this report, Bank of Israel economists express their assessment of the main risk exposures facing the financial system, analyze the primary exposures, and evaluate potential risk scenarios. The assessments and analyses are based on a review of developments during the reviewed period, an examination of structural changes, the use of analytical models, and assessments of background conditions in global and local economies. The report outlines how the realization of risk scenarios may affect the financial system in the short and medium terms, aiming to raise awareness among policymakers and the general public and enable appropriate preparedness.

Starting in 2025, the report will be published annually instead of semiannually.