April 7, 2025

**The Monetary Committee decides on April 7, 2025**

**to leave the interest rate unchanged at 4.5 percent.**

* **The announcement of the US government’s tariff program last week has led to sharp declines in the markets, downward revisions of the global growth forecast and the forecast for world trade, and an increase in inflation expectations in the US.**
* **Economic activity continues to recover moderately in view of geopolitical developments. The labor market remains tight. Activity in the construction industry is recovering.**
* **Inflation in the past 12 months declined, to 3.4 percent, which is above the upper bound of the target range. Inflation is expected to continue moderating toward the target range during the coming months.**
* **Since the previous interest rate decision, the shekel has depreciated sharply by 4.3 percent against the US dollar, by 9.5 percent against the euro, and by 5.8 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, increased sharply during the reviewed period, and is higher than in the prewar period.**
* **In the base scenario of the Research Department’s forecast, GDP is expected to grow by 3.5 percent in 2025 and by 4.0 percent in 2026, both lower than in the January forecast. According to the current forecast, the new tariff policy announced by the US government is expected to moderate the volume of world trade and of Israeli exports.**

**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.**

**For the file of figures accompanying this notice, click here.**

The recovery in economic activity continues at a moderate pace, in view of geopolitical developments. Inflation remains above the upper bound of the target range. It moderated in February, and according to forecasters’ projections it is expected to continue moderating toward the target range in the coming months. The economy’s risk premium increased markedly in recent months. The announcement of the US government’s tariff program last week led to a sharp decline in the markets, downward revisions of the forecasts for global growth and world trade, and an increase in inflation expectations in the US, and possibly also in other countries.

The Consumer Price Index for February remained unchanged, and inflation in the past 12 months declined to 3.4 percent, above the upper bound of the target range (**Figure 1**). Net of energy and fruit and vegetables, the annual inflation rate was 3.7 percent **(Figure 2)**. The decline in annual inflation in February also reflects declines in inflation of the tradable components, to 2.8 percent, and of the nontradable components to 3.8 percent **(Figure 3)**. According to forecasters’ projections, inflation is expected to continue moderating toward the target range in the coming months **(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 moderated slightly and are 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, worsening global terms of trade, and volatility of the shekel.

From the previous interest rate decision (until April 4), the shekel has depreciated by about 4.3 percent against the US dollar, by 9.5 percent against the euro, and by 5.8 percent in terms of the nominal effective exchange rate.

The Research Department revised its macroeconomic forecast. The baseline scenario of the forecast was built under the assumption that the direct economic impact of the moderate intensification of the war will continue for a limited period during the second quarter, and assuming that the fighting will not be reflected in significant limitations on activity on the home front. According to the forecast, the new tariff policy announced by the US government will moderate the volume of world trade and of Israeli exports.

According to the Research Department’s assessment, GDP is expected to grow by 3.5 percent in 2025 and by 4.0 percent in 2026—lower than the January forecast (**Figure 9**). In the Department’s assessment, during the forecast period, supply is expected to recover, which will contribute to the moderation of inflation. The broad unemployment rate among the prime working ages (25–64) is expected to average 2.9 percent in 2025 and 3.2 percent in 2026. The annual inflation rate is expected to be 2.6 percent in 2025 and 2.2 percent in 2026.

In the Research Department’s assessment, the government budget deficit is expected to be 4.2 percent of GDP in 2025 and 2.9 percent of GDP in 2026. The deficit forecast reflects a downward revision for these years relative to the previous forecast, in view of the increase in forecast revenues. The debt to GDP ratio is expected to be 69 percent of GDP in 2025, and then to decline to 68 percent of GDP in 2026.

This forecast is characterized by a high level of uncertainty. The balance of risks to growth is tilted downward, while the balance of risks of inflation tends upward. Beyond the baseline scenario, the forecast examined another scenario that includes an intensification of the fighting along the southern front beginning in the second quarter, lasting about two quarters. According to this scenario, defense expenditures are expected to increase by about 2 percent of GDP, while the deficit and government debt are expected to increase accordingly, with the debt expected to reach 71 percent of GDP. In addition, an increase in the risk premium and a depreciation of the shekel are also expected in such a scenario. The impact to the supply of labor is expected to deepen, and will lead to an increase in excess demand. As such, the growth trajectory will be about 0.5 percent more moderate than in the baseline scenario in 2025, and the inflation and interest rate paths will be higher.

Current indicators of economic activity point to continued moderate improvement. Credit card expenditure data in current prices show an increase in March, following some moderation in January and February (**Figure 11**). The Central Bureau of Statistics Business Tendency Survey shows a continued significant trend of recovery in recent months, and the aggregate balance for February increased to a level similar to its prewar level (**Figure 10**). The trade and services industries showed stability in activity and in expectations, while the construction industry showed recovery in activity and in expectations, as the shortage of professional workers is moderating. The consumer confidence index increased slightly in February. Capital raised in the high-tech sector in the first quarter was similar to its level in the fourth quarter of 2024 (**Figure 21**). The surplus in the current account of the balance of payments declined in the fourth quarter of 2024, due to an increase in goods imports.

The cumulative deficit in the government budget in the past 12 months declined in February to 5.3 percent of GDP (**Figure 18**). From the beginning of the year, government office expenditures declined relative to the same period last year, mainly due to the continued decline in war-related expenses. The increase in government revenue from taxes, which has been trending upward in recent months, partly in view of taxation changes that took effect at the beginning of the year, also contributed to the decline in the deficit.

The labor market remains tight, similar to recent months. The ratio of the number of job vacancies to the number of unemployed declined slightly in the most recent figures, but remains high. The broad unemployment rate was 3 percent in February (seasonally adjusted), which is lower than its prewar level (**Figure 12b**). The rate of temporary absentees due to reserve duty continued to decline, to 0.5 percent in February. The job vacancy rate remained stable at 4.4 percent in February (**Figure 14a**). The employment rate and the participation rate among those aged 25–64 remained high (**Figure 12a**). Nominal wages in annual terms were 4.6 percent higher in December and February, than they were in the three months prior to the war. Real wages remain below the long-term trend line (**Figure 13**).

Activity in the construction industry is recovering, though it is still being affected by labor shortages, (**Figures 15b**). Building starts increased in the fourth quarter of 2024 by about 19 percent (seasonally adjusted) relative to the previous quarter. Building permits increased by about 11 percent, and building completions increased by about 11 percent but remain lower than before the war. (**Figure 17a**). The pace of annual increase in the housing component of the CPI has been stable in recent months, at 4.1 percent. The pace of increase in home prices accelerated to 7.7 percent (**Figure 16**). New mortgage borrowing totaled about NIS 7.4 billion in February (**Figure 17b**).

During the reviewed period, there were sharp declines in the domestic equities indices, but those declines were slightly more moderate than the global trend (**Figure 28**). Israel’s risk premium, as measured by the 5-year CDS and by the dollar-denominated government bond spread, increased markedly during the reviewed period, and its level remains higher than in the prewar period. The spread between yields on unindexed Israeli and American government bonds also widened. (**Figure 25**). Business credit continued to expand, led by bank credit and tradable bonds. Business and household credit risk remain low.

The tariff policy announced by the US, and its expected consequences, led a number of leading investment houses and international financial organizations to revise their growth forecasts and their forecasts of world trade sharply downward. According to initial assessments by a number of international organizations, the economic impact of the measures could amount to about 2 percent of GDP in the US over the coming two years. A significant impact to growth is also expected in the global economy and in the main economic blocs, but it should be more moderate. Yields on US government bonds and the expected interest rate path of the Fed declined sharply. In the eurozone as well, the market’s assessment is that the interest path will be lower. In view of these events, there was a sharp increase in risk in the global markets, and the leading equities indices declined by more than 10 percent, with the declines in the US being even sharper. Contrary to similar previous cases, the US dollar weakened against most of the major currencies. The price of oil increased at the beginning of the reviewed period, but the US tariff measures and reactive measures by other countries led to a sharp decline of about 12 percent in the price of Brent crude oil, to $65 per barrel (**Figure 30**).

In the United States, the Consumer Price Index (CPI) declined to an annual rate of 2.8 percent, and the core CPI declined to 3.1 percent. Inflation expectations for the next two years continued to increase, in view of the government’s tariff policy.

Inflation in the eurozone declined to 2.2 percent, and core inflation declined to 2.4 percent in a preliminary reading for March. The ECB lowered its rate for the sixth time by 25 basis points, while the Federal Reserve left its rate unchanged in March (**Figure 31**).

The minutes of the monetary discussions prior to this interest rate decision will be published on April 21, 2025. The next decision regarding the interest rate will be published on Monday, May 26, 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/