Nov 23, 2025

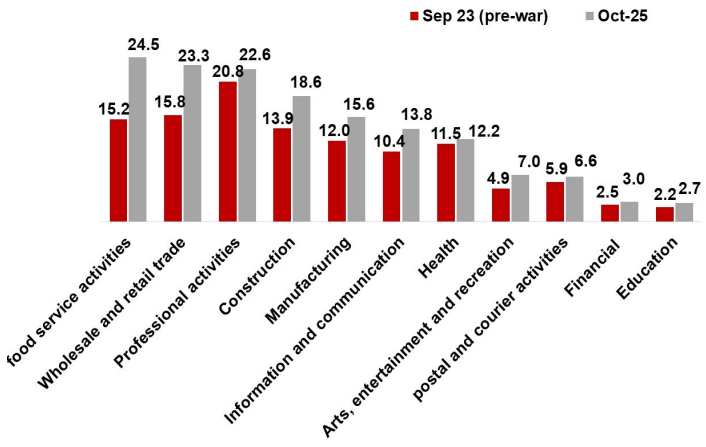
Will markets push central banks to act?

- **The public's financial asset portfolio has grown by about 1.7 trillion shekels since the end of 2022, which is roughly 170,000 shekels per citizen. Not all of it is liquid, and the distribution is highly unequal, but this wealth effect still provided strong tailwinds for the Israeli consumer during years of high inflation and during the war.**
- **After the surge in economic activity in the third quarter, following the end of the war with Iran, we are expected to see growth rates closer to the economy's long-term potential of around 3.5%–4.0%.**
- **It is likely that we will see a greater share of private consumption directed toward purchases abroad at the expense of spending in Israel, especially now that the shekel has appreciated significantly.**
- **We estimate that the developments seen in recent weeks in the global capital markets will also have implications for interest-rate policy in Israel. In the United States, we already witnessed a more dovish message from Federal Reserve members last week, following declines in equity prices and cryptocurrency prices. This message is expected to reach Israel assuming the market trend does not reverse.**

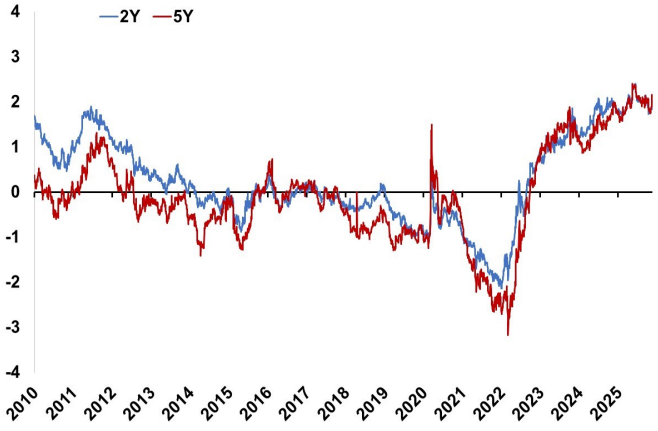
The public's financial asset portfolio has grown by about 1.7 trillion shekels since the end of 2022, which is roughly 170,000 shekels per citizen. Not all of it is liquid, and the distribution is highly unequal, but this wealth effect still provided strong tailwinds for the Israeli consumer during years of high inflation and during the war. It is difficult to predict whether lower equity valuations of the past month indicate a trend reversal, but even stagnation in the markets would be enough for consumption to feel a positive impulse. The prolonged increase in asset prices has fueled demand for consumption for real estate as well, but at the same time has made inflation more stubborn and less responsive to monetary policy.

After the surge in economic activity in the third quarter, following the end of the war with Iran, we are expected to see growth rates closer to the economy's long-term potential of around 3.5%–4.0%. One of the constraints on higher growth will be the labor market; currently the number of job vacancies is higher than it was before the war in most sectors. The construction sector is expected to drive growth next year, but this depends largely on increasing the supply of workers. Currently, according to the Central Bureau of Statistics survey there are 18.6 thousand open positions in construction; and in industry the situation is similar, with 15.6 thousand vacancies. We do not believe that a reduction in reserve-duty burden will significantly ease labor shortages in these sectors, which generally attract fewer young people. On the demand side for local

Job vacancies are currently above pre-war levels
Job vacancies by economic sector, in thousands
Source: CBS



Real bond yields are expected to decline modestly
Generic index-linked bond yield
Source: Terminal



consumption, a slowdown is also expected; the credit card purchase data for October reflect a slight decline, and **it is likely that we will see a greater share of private consumption directed toward purchases abroad at the expense of domestic spending, particularly now that the shekel is strong**.

The interest rate will be cut tomorrow with a very high probability. The message may be even more important, and it will likely be rather cautious. **We estimate that the developments seen in recent weeks in the capital markets will also have implications for interest-rate policy. In the United States, we already saw a more dovish message from Federal Reserve members last week, after the decline in equity and crypto prices. This message is expected to trickle down to Israel as well if market trends do not reverse**. Markets currently are pricing in lower rates by one percentage point to 3.5% in the coming year. One can see it as a kind of compromise that balances the assessment that inflation is expected to converge to the target with the ongoing pressures from a tight labor market. This figure also has some economic logic as it represents a real interest rate of about 1.5% above the midpoint of the inflation target. This constitutes monetary easing relative to the current situation, but still reflects a high real interest rate compared to the past, which is necessary due to structural factors such as labor shortages and an expansionary fiscal policy.

BOI Rate and CPI Forecast			
BOI Rate		CPI	
December 2025	4.25%	Nov 2025	-0.4%
12M Forecast	3.50%	Dec 2025	0.0%
		12M Forecast	1.7%

Disclaimer:

© 2022. All rights reserved to Bank Hapoalim. This review is not to be distributed, copied or used in any other way without prior written approval from the Bank. The Bank and/or its employees and/or the writers of the report are not responsible for the completeness or the accuracy of the data and calculations in the review or for any inaccuracy, error, omission or other deficiency in the review or the forecast contained in it, including immediate and/or continuing changes that may change and/or affect the forecast. The Bank and/or its subsidiaries and/or companies that are related to it (hereinafter: the corporations) and/or the owners of control and/or interested parties in any of them are likely to hold on their own behalf and/or on behalf of customers of the aforementioned corporations shares and/or bonds and/or any other security or financial instrument mentioned in this review, and/or are likely to be owners of control and/or interested parties in any of the companies mentioned in this review. In addition, any of the aforementioned is likely to operate in the securities and/or financial instruments that were mentioned in this review on a daily or other basis, to engage from time to time in their sale and/or purchase, despite the said in this report. The said in this review should not be construed as personal and specific investment advice or substitute for advice for the customer with account taken of his data, special and other requirements, financial position, circumstances and the special investment objectives of any person, is not a substitute for them and action should not be taken in accordance therewith, unless after the receipt of personal advice that takes into account each investor's personal requirements and data. This review is intended to serve as an auxiliary tool for the authorized investment advice within the framework of the provision of advice to customers who are signed on an advice agreement, and for that purpose alone. The said in this review does not constitute tax advice and does not presume to be the interpretation accepted by the tax authorities and/or other bodies.