



BANK OF ISRAEL
Office of the Spokesperson and Economic Information

July 18, 2022

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

The discussions took place on July 3 and 4, 2022.

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 and financial-monetary 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 of the main considerations that should guide 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.

In parallel with the interest rate decision, the Monetary Committee announced that the Bank has decided to widen the interest rate corridor in the credit window and the commercial bank deposit window from ± 0.1 percent to ± 0.5 percent.

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 July 4, 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 increase the interest rate by 0.5 percentage points, to 1.25 percent.

The discussion focused on the development of inflation in Israel, which crossed the upper bound of the target range, economic activity data, which remain at a high level, the good data on the labor market, wage developments, and the impact of the disruption in production chains. In addition, the Committee discussed developments in the global economy, particularly the ramifications of the continued increase in inflation in many countries, the monetary contraction, the impact of the continued war in Ukraine on prices of oil and other commodities, as well as the downward revision of the growth forecasts for advanced economies. The Committee also discussed the uncertainty at the current time in view of the cyclicity of waves of morbidity, and the political uncertainty in Israel.

Main points of discussion

The Committee discussed the continued increase of inflation in Israel, and its standing above the upper bound of the target range. The inflation rate over the preceding 12 months increased to 4.1 percent. Based on forecasters' projections, inflation is expected to continue to increase in the coming months but to return to the within the target range during 2023. In addition, expectations derived from the capital market for the various terms are within the target range beginning from the second year. The Committee discussed the main forces impacting on inflation in Israel. Its assessment was that there are several factors in the increase in inflation. There are factors on the supply side, such as disruptions in supply chains, the increase in prices of oil and other commodities, imported inflation, the depreciation of the shekel, as well as the increase in domestic demand. In addition, the Committee members noted that despite the increase in inflation in recent months, it remains relatively low, so that it is at the bottom of the distribution among OECD countries. The Committee members were of the view that at the current time, the risks of inflation are contingent on global developments, particularly in Eastern Europe, and on domestic factors such as increases in wages.

The Committee discussed the good data on activity and the tight labor market. The Committee members noted that the Israeli economy is in a full employment environment, with wage pressures in most private-sector industries. The Committee also discussed the high tech industry, and assesses that although there could be a domestic adverse impact, in general the Israeli high tech industry in 2022 is not similar to that of 2000, as today's high tech industry is more dispersed, entrenched, and has access to sources of financing.

The Committee discussed housing market developments. Home prices increased in the past 12 months by 15.4 percent, a markedly high rate compared to the pace of recent years. However, the pace of home price increases moderated slightly in the most recent figure. Mortgage volume remains high. The Committee discussed the rent component in the CPI, which increased relatively moderately, and the gap between it and home prices.

The Monetary Committee discussed the downward revision of growth forecasts in advanced economies, which derives mostly from the monetary tightening that began and that is forecast, as well as the continued expected negative impact on the supply side as a result of the continued war in Ukraine. In addition, the Committee members discussed the slowdown in economic activity in China due to the policy for dealing with COVID-19, which worsens the disruptions in global supply chains, enhances inflation pressures, and leads to some slowdown in the pace of global economic activity. However, recently there have been signs of some easing on the supply side in the form of a prolonged decline in prices of ocean shipping. In regard to domestic risks, the Committee discussed the apparent cyclical nature of waves of COVID-19, and the political uncertainty.

The Committee members discussed extensively the continued process of contractionary monetary policy worldwide against the background of the high inflation environment. The Committee members noted that the US increased the interest rate by 75 basis points alongside a reduction of its balance sheet and a marked upward revision of interest rate forecasts. The ECB announced that it will increase the interest rate by 25 basis points in July, and further increases are expected. In addition, there have been interest rate increases in several additional countries in which the inflation rate is above the central bank target.

All six members of the Monetary Committee were of the opinion that the interest rate should be increased by 0.50 percentage points, to 1.25 percent. The Committee members' assessment was that the Israeli economy is recording strong growth, accompanied by a tight labor market and an increase in the inflation environment in Israel and worldwide. The Committee has therefore decided that conditions support a continued process of increasing the interest rate and assessed that the pace of continued raising of the interest rate will be determined in accordance with activity data and the development of inflation, in order to continue supporting the attainment of the policy goals.

Participants in the narrow-forum discussion:

Members of the Monetary Committee:

Prof. Amir Yaron, Governor of the Bank and Chairperson
Mr. Andrew Abir, Deputy Governor of the Bank of Israel
Prof. Naomi Feldman
Prof. Moshe Hazan
Prof. Zvi Hercowitz
Prof. Michel Strawczynski

Other participants in the narrow-forum discussion:

Mr. Tal Biber, Head of the Markets Division, Markets Department

Dr. Golan Benita, Chief of Staff to the Governor

Mr. Uri Barazani, Spokesperson of the Bank

Mr. Arad May, Monetary Committee Secretariat

Mr. Daniel Shlomiuk, Bank Spokesperson's Office

Mr. Nadav Eshel, Assistant to the Governor