



BANK OF ISRAEL
Office of the Spokesperson and Economic Information

April 25, 2022

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

The discussions took place on April 10 and 11, 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.

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 April 11, 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 0.25 percentage points, to 0.35 percent.

The discussion focused on the development of inflation in Israel, which crossed the upper bound of the target range, the strong economic growth data and the closing of the output gap, the good labor market data, and the increase in home prices. In addition, the Committee discussed developments in the global economy, particularly the effects of the war in eastern Europe on oil and other commodity prices and the transmission to domestic inflation, as well as the rapid growth in advanced economies alongside high inflation and the beginning of a contractionary monetary policy process that followed it. The Committee also discussed the uncertainty that characterizes the current period against the background of the cyclicity of the waves of COVID-19 morbidity, the escalation in eastern Europe, the security situation in Israel, and the political uncertainty.

Main points of discussion

The Committee discussed the acceleration of inflation in Israel, and its standing above the upper bound of the target range. Inflation over the preceding 12 months increased to 3.5 percent. Based on forecasters' projections, inflation is expected to continue increasing in the coming months, and to return to within the target range in the beginning of 2023. The Committee discussed the main forces pressuring inflation in Israel upward. It appears that in addition to supply side factors such as the increase in oil and other commodity prices, imported inflation, and supply-chain disruptions, the increase in domestic demand is also accelerating inflation. Proof of this can be seen in the disbursement of the increase in inflation across most CPI components—tradable and non-tradable components as well. In addition, the Committee members noted that despite the increase in inflation in recent months, it remains markedly low, so that it is at the bottom of the distribution of OECD countries. The Committee members assessed that at the current time, the risks of inflation are mostly contingent on global developments, and in particular, in eastern Europe.

The Committee discussed the good data on activity and the labor market. They noted that the Israeli economy continues with ongoing economic activity at a high level alongside the coronavirus pandemic and against the background of the cyclicity of the morbidity waves. The activity is made possible, among other things, in light of the adaptation of most industries to activity alongside the pandemic. In terms of the labor market, the Committee members noted that in March, the adjusted employment rate increased and the broad unemployment rate declined. Despite this, the Committee members emphasized that the average wage in the economy has not increased at a pace that is in line with the strong demand for employees. However, they added that certain

industries can be identified in which there is a rapid pace of wage increases, including the information and communication industries.

The Committee noted that the pace of increase in home prices continued to accelerate. Home prices increased in the past 12 months by 13 percent, a markedly high rate compared to the pace of recent years. In addition, mortgage volume remains high. However, the Committee noted that the rent component in the CPI is increasing at a more moderate pace.

The Monetary Committee discussed the rapid growth in advanced economies worldwide, alongside the global risks that are liable to impact on developments in Israel's economy. The Committee members claimed that the sharp increase in energy and commodity prices due to the escalation in eastern Europe is a risk factor for inflation in Israel. However, it was noted that an adverse impact on domestic demand is not expected as the scope of trade with Ukraine and Russia is not significant. However, there could be an indirect negative impact if Europe's economy, as well as world trade, is notably adversely impacted. The Committee members discussed the slowdown in economic activity in China due to the policy for dealing with COVID-19, which intensifies the disruptions in global production chains, increases inflation pressures, and leads to some slowdown in the pace of economic activity worldwide. In terms of domestic risks, the Committee discussed the possible cyclicity of COVID-19 morbidity waves, the security situation in Israel, and the political uncertainty.

The Committee members held an extensive discussion on the beginning of the process of contractionary monetary policy worldwide against the background of the high inflation environment. The Committee members noted that in the US, the federal funds target rate was increased by 25 basis points alongside signals regarding the expected reduction of the balance sheet and a notable upward revision of interest rate forecasts. The ECB accelerated the pace of contraction of its purchase program and assessments are that it will also begin to increase the interest rate this year. In addition, in several other countries where inflation is above the central bank target, there were interest rate increases.

All six members of the Monetary Committee were of the opinion that the interest rate should be increased by 0.25 percentage points, to 0.35 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. The Committee has therefore decided that conditions allow for the start of a gradual process of increasing the interest rate. The pace of raising 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:

Ms. Dana Orfaig, Research Department

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. Gilad Brand, Research Department

Mr. Arad May, Monetary Committee Secretariat

Ms. Shulamit Nir, Research Department

Mr. Daniel Shlomiuk, Bank Spokesperson's Office