



**BANK OF ISRAEL**  
Office of the Spokesperson and Economic Information

September 5, 2022

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

**The discussions took place on August 21 and 22, 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 August 22, 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 0.75 percentage points, to 2 percent. The decision was unanimous.

The discussion focused on inflation in Israel, its deviation above the upper bound of the target range, the robust economic activity, the tight labor market, wage developments, and the housing market. In addition, the Committee discussed developments in the global economy, including the ramifications of the continued increase in inflation in many countries, the monetary contraction, the slight easing in supply and production chains, commodity prices, and a downward revision of global growth forecasts.

### **Main points of discussion**

The Committee discussed the continued increase of the inflation rate in Israel, and its standing above the upper bound of the target range. The inflation rate over the preceding 12 months increased to 5.2 percent. Alongside this, there was a decline in 1-year inflation expectations among the various sources, and all of them, except for expectations derived from the capital market, are within the target range. In addition, expectations derived from the capital market beginning from the second year and onward remain within the target range, and expectations for longer terms are anchored around the midpoint of the target range. The Committee members noted that despite the increase in the inflation rate in recent months, it remains relatively low, as it is in the lowest decile of OECD countries.

The Committee discussed the good data on activity. The Committee members noted that National Accounts data indicate that for three quarters, the level of output in the economy has been higher than the pre-COVID-19 crisis trend line. The labor market is tight. The unemployment rate and employment rate are similar to, and even partly better than, their level of 2019, before the COVID-19 crisis. However, there are signs of a shortage of workers in a manner that limits the ongoing activity of businesses in certain industries. The Committee members noted that the tight labor market is reflected in wage pressures in industries characterized by high wages and professional workers.

The Committee discussed housing market developments. Home prices increased in the past 12 months by 17.8 percent, a markedly high rate compared to the pace of recent years. There was also an acceleration in the rate of monthly increase in rents, which increased in July by 0.7 percent. Alongside that, in recent months, the number of

transactions declined and the extent of mortgages granted in July contracted, but it remains high from a historical perspective.

The Monetary Committee discussed global activity, which continues to moderate. The IMF revised its global growth forecast downward, as did various investment houses. Alongside that, equity markets posted sharp gains, the price of oil declined, and the commodity prices index returned to its level of the beginning of the year.

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 in the US, the interest rate was increased by 75 basis points as the Federal Reserve emphasized its commitment to reducing the inflation rate. The ECB accelerated the monetary tightening process and increased the interest rate by 50 basis points. There were interest rate increases in several additional countries in which the inflation rate is above the central bank's target.

**All six members of the Monetary Committee were of the opinion that the interest rate should be increased by 0.75 percentage points, to 2 percent. The Committee members noted 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 to continue the 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:**

Mr. Nadav Eshel, Assistant to the Governor  
Mr. Tal Biber, Head of the Markets Division, Markets Department  
Dr. Golan Benita, Director of the Markets Department  
Mr. Uri Barazani, Spokesperson of the Bank  
Mr. Gilad Brand, Research Department  
Mr. Ari Kutai, Research Department  
Dr. Sigal Ribon, Head of the Monetary Division, Research Department  
Ms. Esti Schwartz, Secretary of the Monetary Committee

Mr. Daniel Shlomiuk, Bank Spokesperson's Office