



BANK OF ISRAEL
Office of the Spokesperson and Economic Information

September 5, 2021

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

The discussions took place on August 22 and 23, 2021.

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 23, 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 keep the interest rate unchanged at 0.1 percent. The decision was reached unanimously.

The discussion focused on the increase in morbidity and the risks that derive from it, the state of real activity, the inflation environment, the continued upward trend of housing prices, the exchange rate, and trends in the global economy.

Main points of discussion

The Committee discussed the increase in the number of serious cases of illness and the continued spread of the Delta variant of the coronavirus, alongside the third-vaccination campaign. The Committee noted the considerable uncertainty regarding the continued spread and discussed the possible ramifications on activity should infection continue to spread and the government will be required to tighten the existing limitations. Alongside the ramifications of COVID-19 and the uncertainty looking forward, the Committee noted the positive economic data published since the previous interest rate decision. The Committee discussed the positive labor market data and National Accounts data, which indicated strong growth in the second quarter and included an upward revision of first quarter growth data. Activity returned to its long term trend in most industries, but is below trend in the vulnerable proximity industries, particularly incoming tourism, hospitality, and culture. In addition, the share of job vacancies out of total employee posts remains high.

A Central Bureau of Statistics update to historical GDP data indicates that nominal GDP in 2020 is about one percent higher compared to previous publications, and that the pre-crisis historical growth rates, from which potential GDP is derived, were higher than previous assessments. The Committee discussed the possible ramifications of the growth trend and its effects in coming years.

The Committee discussed the increase in the inflation environment to the middle of the target range and the extent to which inflation is expected to persist. Compared to data at the previous interest rate decision, inflation of nontradable items continues to rise, led by components impacted by the opening of the economy, while the rate of increase in prices of tradable goods was stable. The increase in prices encompasses a greater number of CPI components. The Committee discussed 1-year inflation expectations, which are within the target range—expectations derived from the capital market and from inflation contracts are at the middle of the target range, while forecasters' projections are slightly lower. Medium-term and long-term expectations remained

anchored in the middle of the target range. The Monetary Committee is following these developments closely, and its assessment is that there are no signs of an outbreak of inflation.

The global economic recovery continues, though there is growing concern that the Delta variant will lead to an increase in morbidity and a return of the limitations, and thus lead to a slowdown in activity and increased difficulties in the global production chain. The IMF's global growth forecast for 2021 remained unchanged at 6 percent. However, according to the IMF, a scenario of a significant spread of morbidity in the world would remove 0.8 percent from global growth this year and 0.8 percent in 2022. Monetary policy in major economies remains very accommodative—major central banks kept their interest rates unchanged and did not change purchase programs. However, the US Federal Reserve emphasized the progress in attaining the goals of the accommodative monetary policy, and announced that it will consider its continuation in its coming meetings. Additionally, in several developing economies, in which inflationary pressures are seen, there were interest rate increases.

Since the previous interest rate decision, the shekel strengthened by 0.6 against the dollar, by 1.5 percent in terms of the effective exchange rate, and by 2.2 percent against the euro. It was noted that the intervention this year is not limited to \$30 billion, and at the end of the program the Bank will intervene in the foreign exchange market at its discretion, taking into account the state of the economy.

Home prices increased in the past 12 months by 7.6 percent, a rapid pace compared to that of previous years, against the background of moderation in the number of building starts and building completions in the past year. The increase in housing prices in recent years has also been accompanied by an increase in prices of construction inputs. Total transactions in May remained high. In the past year, investors sold homes at a similar scope to their purchases, after recent years when investors were net sellers of homes. Together with these, the pace of rental price increases remained relatively moderate.

The Committee members assessed that the current extent of monetary accommodation, via a range of policy tools, is appropriate for now. The Committee will formulate its policy so that it will continue to provide macroeconomic support for the process of exiting the economic crisis, and will ensure that the credit market continues to function.

All six members of the Monetary Committee were of the opinion that the interest rate should be kept unchanged at 0.1 percent. They were of the view that that the low level of the interest rate supports the continued recovery of economic activity. One member was of the opinion that the strong National Accounts data and the increase in the inflation environment could have made it possible to begin gradually reducing the

extent of monetary policy accommodation, however in view of the renewed increase in morbidity it is best to be very cautious and at this time to retain the current policy.

The Committee noted that the Israeli economy's process of recovery from the crisis continues. However, there are still challenges to economic activity, in view of the increased health risks in Israel and abroad. Therefore, the Committee will continue to conduct very accommodative monetary policy for a prolonged time, using a range of tools as necessary, including the interest rate tool. This is in order to continue supporting the attainment of the policy targets, the economy's recovery from the crisis, and ensuring the continued orderly functioning of the financial markets.

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. Reuben Gronau
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
Dr. Adi Brender, Head of the Macro Division, Research Department
Mr. Yaakov Chen-Zion, Research Department
Mr. Arad May, Monetary Committee Secretariat
Mr. Yoav Soffer, Advisor to the Governor
Mr. Daniel Shlomiuk, Bank Spokesperson's Office