



BANK OF ISRAEL

Office of the Spokesperson and Economic Information

March 7, 2022

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

**The discussions took place on February 20 and 21, 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 February 21, 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 unanimous.

The discussion focused on the development of inflation in Israel, the strong growth data against the background of the ebbing of the Omicron wave, the increase in home prices, the exchange rate, and developments in the global economy.

### **Main points of discussion**

The Committee discussed the increase in inflation in Israel. Inflation over the previous 12 months increased to 3.1 percent, slightly above the upper bound of the inflation target range. Based on forecasters' projections, inflation is expected to remain slightly above the upper bound in the coming months, but is expected to decline toward the middle of the target range in the second half of 2022. The Committee noted that in February, the government announced several steps to reduce the cost of living and based on the Research Department analysis, their direct effect is expected to lead to a decline of 0.2 percentage points in the inflation rate. In addition, Committee members noted that inflation in recent months remained notably low compared to most OECD countries—it is at the bottom of the distribution of OECD countries. However, the Committee members assessed that at the current time, there are risks of inflation remaining around the upper part of the target for a longer time.

The Committee discussed the solid activity data and the tight labor market. The members noted that the Israeli economy continues consistent economic activity at a high level alongside COVID-19 and against the background of the cyclicity of the morbidity waves. The activity is possible, among other things, in view of the adjustment of most industries to activity alongside the coronavirus. Based on the first estimate of fourth-quarter National Accounts data, GDP grew by 8.1 percent in 2021, more than the forecast growth rate, and by 6.3 percent in terms of GDP per capita. Regarding the labor market, the Committee members noted that the employment rate remained stable in January despite the morbidity wave, and it is about 0.9 percentage points lower than the pre-crisis rate.

The Committee noted that the pace of increase in home prices continued to accelerate. Home prices increased in the past 12 months by 11.3 percent, a markedly high rate compared to the average pace of recent years. In addition, mortgage volume continued to be high from a historical perspective. The Committee examined the composition of home buyers in the recent period and it can be seen that investors increased their pace of purchases in October and November, before the purchase tax increase, and reduced their purchases afterward. Alongside this, there was some increase in the most recent data on the pace of increase in rents, but it remains relatively moderate.

The Committee members discussed the forces that worked to weaken the shekel in the period reviewed—among others, the negative interest rate gaps between Israel and the world against the background of more “hawkish” policy in advanced economies worldwide and the geopolitical tensions in the world. In addition, they noted that the relation between financial market declines abroad and the dollar demand of institutional investors also contributed to the weakening of the shekel in the reviewed period.

The Committee members noted the contractionary monetary policy in the world against the background of the high inflation environment. As such, market assessments are that the US Federal Reserve is expected to begin raising the interest rate already in March, and that the ECB is also expected to raise the interest rate this year. In addition, many central banks in countries in which the inflation rate increased markedly beyond the central bank’s target, increased the interest rate or reduced the accommodative policy. The committee members also recalled the uncertainty that was reflected in the increase in oil and commodity prices, in view of the tension in Eastern Europe.

All six members of the Monetary Committee were of the opinion that the interest rate should be kept unchanged at 0.1 percent. Their assessment was that in the coming months, conditions will allow for the start of a gradual process of raising the interest rate in line with the path of inflation and the pace of growth and employment, in order to continue supporting the achievement of the monetary policy goals and to ensure the continued proper 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. 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  
Mr. Daniel Nathan, Research Department  
Mr. Daniel Shlomiuk, Bank Spokesperson’s Office