



BANK OF ISRAEL
Office of the Spokesperson and Economic Information

January 17, 2022

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

The discussions took place on January 2 and 3, 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 January 3, 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 state of morbidity and the risks to activity deriving from it, inflation in Israel, which is low in international comparison, the improvement in employment indices, the increase in home prices, and the exchange rate.

Main points of discussion

The Committee discussed the spread of the Omicron variant of COVID-19 in Israel and worldwide. The Committee members noted the high infection coefficient and the sharp increase in the rate of morbidity in Israel. They discussed the uncertainty regarding the fifth wave of infection, and in particular its impact on activity. The Committee members assessed that the fifth wave is expected to be different than the previous waves, in terms of both the number of infected and the extent of severe illness. The Committee members were of the view that even if additional limitations are not imposed in Israel, there could be a slowdown in economic activity due to the sharp increase in the number of confirmed cases and people in isolation. With that, their assessment was that compared to previous waves, the economy has learned to adjust and to continue carrying out activity alongside the coronavirus—which is expected to assist the economy in dealing with the current wave of infection.

There was a discussion dealing with inflation. In many countries, inflation rates increased to a level higher than the central bank's targets, and assessments were revised regarding how transitory the inflation is. Therefore, central banks continued with the monetary tightening process. Inflation in Israel stabilized in recent months and remained low compared to most OECD countries. It is in the bottom decile of the OECD country distribution. In the past 12 months, the inflation rate in Israel was 2.4 percent, and net of energy, fruit and vegetables it is near the midpoint of the target range (2.1 percent). The Committee discussed the main forces impacting on inflation in Israel, including the development of global prices of commodities and energy, the exchange rate, wages and rents, as well as assessments regarding their development in the future, and in particular regarding the continued difficulties in production and supply chains. In accordance with the various forecasts, in 2022 the inflation rate is expected to moderate. As far as the coming years, the expectations and forecasts are all within the price stability target range, and they do not reflect expectations of an acceleration. The Committee's assessment was that the current situation allows it more patience in conducting monetary policy while continuing to examine and analyze all the developments. The Committee continued to assess that in this stage there is no concern of an outbreak of inflation.

The Committee discussed data on activity and the labor market. The Committee noted that economic activity continues to function adequately and that labor market data continue to indicate an improving trend: a decline in the broad unemployment rate and an increase in the adjusted employment rate. Alongside this, the number of job vacancies continues to be at a high level. The Committee assessed that the data from the labor market point to tightening. However, it emphasized that there is a need to continue to examine and accompany the recovery process, particularly against the background of the outbreak of the fifth wave. One of the Committee members noted that a more severe negative impact is liable to occur in the proximity industries. The Committee noted that net of the effects of the composition of employees, in most industries wage increases did not deviate from the trend that characterized them before the crisis, but there is some acceleration in the pace of wage increases in some industries seen in the most recent data. The aggregate balance of the Business Tendency Survey is at a positive and high level and continued to increase in November. At the same time, there was an increase in the share of companies in the manufacturing and construction industries that reported constraints on equipment and raw materials. These developments occurred against the background of continued difficulties in production and supply chains worldwide. The Committee discussed the assessments that the supply chain difficulties will remain for a longer time than previously assessed. In addition, they discussed analyses presented to them regarding the differential impact of the shekel appreciation on activity and employment, in the various industries.

The Committee noted that the pace of home price increases continued to accelerate, and discussed the relation between home prices and rents. Home prices increased in the past 12 months by 10.3 percent, a considerably high rate compared to the average pace in recent years. Mortgage volume continued to be high. Alongside these there was some increase in the most recent data on the pace of rent price increases, but it remained relatively moderate. The Committee was of the view that the solution to home price increases is expanding supply and providing certainty that the scope of construction will be high for a prolonged time.

Since the previous interest rate decision, the exchange rate has been volatile. Compared with the beginning of the period, the shekel weakened by 0.7 percent against the dollar, by 0.2 percent in terms of the effective exchange rate, and by 1 percent against the euro. The Committee members noted that the most recent data showed an increase in the implied volatility of the shekel-dollar options. In addition, they referred to the various forces that acted in the past year and led to the appreciation of the shekel. The Committee members discussed the assessments regarding the future development of those forces. The Committee noted that the program to purchase \$30 billion that was operated in 2021 was a plan that was appropriate for special times, and that the Bank will continue to act in the foreign exchange market as needed and taking economic activity into account.

All six members of the Monetary Committee were of the opinion that the interest rate should be kept unchanged at 0.1 percent. They claimed that the low level of the interest rate supports the continued recovery of economic activity. The Committee noted that

the Israeli economy's process of recovery from the crisis continues. However, there are still challenges to economic activity. Therefore, the Committee decided to continue to conduct accommodative monetary policy for a prolonged time, in accordance with the pace of growth and employment and in the path of inflation. This is all in order to continue to support the attaining of the policy targets and the economy's recovery from the crisis, and to ensure 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. Naomi Feldman

Prof. Moshe Hazan

Prof. Zvi Hercowitz

Prof. Michel Strawczynski

Other participants in the narrow-forum discussion:

Mr. Uri Barazani, Spokesperson of the Bank

Dr. Golan Benita, Chief of Staff to the Governor

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

Mr. Gilad Brand, Research Department

Mr. Ari Kutai, Research Department

Mr. Arad May, Monetary Committee Secretariat

Ms. Dana Orfaig, Research Department

Mr. Daniel Shlomiuk, Bank Spokesperson's Office