



BANK OF ISRAEL
Office of the Spokesperson and Economic Information

June 6, 2022

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

The discussions took place on May 22 and 23, 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 May 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 increase the interest rate by 0.40 percentage points, to 0.75 percent.

The discussion focused on the development of inflation in Israel, which is above the upper bound of the target range, economic growth data, which remain at a high level, the good data on the labor market, wage developments, the shekel depreciation that occurred, and the increase in home prices. In addition, the Committee discussed developments in the global economy, particularly the effects of the war in Ukraine, and the policy in China intended to reduce the COVID-19 pandemic. The Committee also discussed developments in capital markets worldwide and in Israel.

Main points of discussion

The Committee discussed the continued acceleration of inflation in Israel, and its standing above the upper bound of the target range. The inflation rate over the preceding 12 months increased to 4.0 percent. Based on forecasters' projections, inflation is expected to range above the upper bound of the target in the coming months and to moderate toward 2023. The Committee pointed to the role of imported inflation as a significant inflationary factor. However, the Committee members assessed that the increase in domestic demand is also accelerating inflation. The proof of that is the dispersal of the increase in inflation across most CPI components. The Committee was of the view that that wages in the business sector are at a higher level than the path that is in line with its pre-crisis trend, while wages in the public sector have increased at a more moderate pace, among other things due to the deferral of wage agreements in the crisis period and the freeze that was agreed upon in the package deal between the government, the General Federation of Labor (the Histadrut), and employers' organizations. The Committee members emphasized that despite the increase in inflation in recent months, it remains markedly lower than the inflation rate in most advanced economies.

The Committee discussed the good data on economic activity. The members noted that the various indicators point to a level of activity that is close to potential and that the impact of the pandemic on the economy has decreased notably. Regarding the labor market, the Committee members noted that it continues to be tight and close to the full employment that characterized the economy before COVID-19.

The Committee discussed the growth rate of home prices, which continued to accelerate. Home prices increased in the past 12 months by 16.3 percent, a markedly

high rate compared to the pace of recent years. In addition, the Committee discussed mortgage volume, which remains high, and its composition. Alongside these, the Committee noted that the rent component in the CPI (renewed leases) increased at a more moderate annual pace.

The Monetary Committee discussed the global risks that are liable to impact on developments in Israel's economy, particularly the war in Ukraine and the slowdown in economic activity in China, which are reflected in the continuing disruptions in production chains and the high level of energy prices. These factors increase inflation pressures and lead to a slowing of the pace of economic activity worldwide. In view of this, it was noted that investment houses revised growth forecasts downward. The Committee also discussed the risks deriving from the sharp declines in equity markets worldwide, particularly in the high-tech industry in the US. The Committee emphasized that some companies in the industry in Israel may face difficulty, but alongside that, the sector's strength is notable for being diverse and with access to sources of funding.

The Committee members discussed the continuing process of contractionary monetary policy worldwide against the background of inflation indices that are deviating markedly from central banks' targets. The Committee members noted that in the US, the Federal Reserve increased the interest rate by 50 basis points alongside a notice about reducing the balance sheet. In the eurozone, the ECB confirmed its intention to terminate its government bond purchase program in the coming months, and signaled an increase in the interest rate after that. In addition, there have been interest rate increases in several additional countries in which the inflation rate is above the central bank target.

All six members of the Monetary Committee were of the opinion that the interest rate should be increased by 0.40 percentage points, to 0.75 percent. The Committee members' assessment was that the Israeli economy is recording strong growth, accompanied by a tight labor market and a continued increase in the inflation environment. The Committee has therefore decided to continue the gradual process of increasing the interest rate. The members emphasized that 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. 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